From: Benco, Ruslan (TBS)
To: John Psinas
Cc: Alicia Sun (MOF); Ken Kandeepan; George Sakura; Kevin Hwang
Subject: 2016-17 FSD&A (OFA"s section)
Date: Wednesday, July 26, 2017 11:55:28 AM
Attachments: 2016-17 FSD&A Input from OFA (July 26).docx
BPS debt for OFA 2016-17.xlsx

Good day John,

Attached you will find an e-copy of OFA's section, from 2016-17 FSD&A that was distributed yesterday. (password protected).

Additionally, School Boards (SB) discovered an error in their 2016 Budget (Interest and Investment Income Line). Attached you will find the updated "BPS Debt to OFA" spreadsheet.

As a result of this change, SB revised their Q&A to reflect the changes in the Interest and Investment Income (please see below).

Please let us know if there is any additional information that you require.

Best regards,

Ruslan

Q1. Why is net interest expense (net of interest and investment income) in 2016-17 $17 million (or 4.4%) lower than projected in the 2016 Budget?

A10. The decrease is mainly due to:
- $15 million higher investment income than expected;
- $2 million lower interest expense than expected.

CHANGE TO BROADER PUBLIC SECTOR PRESENTATION
RESTATED 2016-17 BUDGET

2016 (Budget) Interest on Debt Restatement Adjustment

Sectors ($ Millions)	Health (Hospitals)	Education (School Boards)	Post-Secondary Education and Training (Colleges)	Reclassed to Interest on Debt Expense
Interest Expense	368	428	39	835
Interest and Investment Income	(111)	(44)	(24)	(179)
Interest Expense Net of Interest and Investment Income*	257	384	16	656
Interest expense due to OFA	-	243	7	250
Net interest expense due to third party	257	141	9	406

*May not add due to rounding

An error was discovered in SB Interest and Investment Income Budget value. The correct amount is 44.354. (The old number was -121.260527)

Statement of Operations

Ruslan Benco
Financial Analyst, Broader Public Sector Reporting
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7 Queen's Park Crescent, Frost South, 2nd Floor
Toronto, ON, M7A 1Z5
Email: ruslan.benco@ontario.ca
Tel: (416) 325-9617

From: John Psinas [mailto:John.Psinas@ofina.on.ca]

Sent: July-25-17 1:00 PM
To: Benco, Ruslan (TBS)
Cc: Sun, Alicia (TBS); Kandeepan, Ken (OFA); Sakura, George (OFA); Hwang, Kevin (OFA)
Subject: RE: Action required: FSD&A - OPCD ADMO Comments

Ruslan,

Some of the text is general and still valid, so we'd like to keep it as it is. For other updates, we'd rather wait for the final net debt and revenue numbers before making the update.

We do have small edits in the attached though.

Thanks.

John

From: Benco, Ruslan (TBS) [mailto:Ruslan.Benco@ontario.ca]
Sent: Monday, July 24, 2017 4:46 PM
To: John Psinas <John.Psinas@ofina.on.ca>
Cc: Alicia Sun (MOF) <Alicia.Sun@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: Action required: FSD&A - OPCD ADMO Comments

Good day John,

Hope that you are doing well.

Attached you will find Cindy Veinot's comments on the Key Financial Ratio section (FSD&A). Internal password is used.

Can you please share the updated document by noon tomorrow? We would like to incorporate your latest version in our next distribution (July 25th).

Thank you, and have a good day.

Ruslan

Ruslan Benco
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2016–17 Financial Highlights — Table 1
($ Billions)

Consolidated Statement of Operations
For the fiscal year ended March 31

	2016 Reclassified Budget[1]	2016–17 Actual	2015–16 Restated Actual[2]	Change from 2016 Reclassified Budget	Change from 2015–16 Restated Actual
Total Revenue (Actual TBD)	138.4	XX	136.2	XX	XX
Expense					
Programs	129.4	130.0	128.1	0.6	1.9
Interest on debt	12.4	11.7	11.6	(0.7)	0.1
Total Expense	141.8	141.7	139.7	(0.1)	2.0
Reserve	1.0	–	–	(1.0)	-
Annual Deficit	(4.3)	XX	(3.5)	XX	XX
Consolidated Statement of Financial Position As at March 31					
Financial Assets		XX	69.9		XX
Liabilities		XX	388.8		XX
Net Debt		XX	(318.9)		xx
Non-Financial Assets		xx	0.8		xx
Accumulated Deficit		xx	(318.1)		xx

Notes:

[1] Presentation of amounts reported as "Plan" in the 2016 approved Budget have been reclassified to reflect a presentation change for hospitals, school boards and colleges. These BPS organizations are now consolidated on a line-by-line basis, as described in "Accounting Changes."

[2] Actual results for 2015–16 have been restated to reflect both the presentation change as described in footnote 1 as well as the impact of reversing regulated accounting for net pension assets of jointly sponsored pension plans, as described in "Accounting Changes."

Numbers may not add due to rounding.

Comparison to the 2016 Budget plan

Total spending for 2016–17 came in at $141.7 billion, which was $0.1 billion lower than the forecast in the 2016 Budget plan. Program spending was $130.0 billion, up $0.6 billion from the budget of $129.4 billion. Spending in the health, justice, children's and social services and other programs was higher than planned, offset by lower spending in postsecondary and training. Interest on debt expense was $0.7 billion below plan in 2016–17, due mainly to lower-than-forecast interest rates, and cost-effective borrowing and debt management. [OFA to update, including reference to deficit]

Comparison to the 2015–16 fiscal year

Year-over-year, total spending rose by $2.0 billion, or 1.5 per cent, going from $139.7 billion to $141.7 billion. Increases in the health care, education, postsecondary and education, and children's and social services sectors accounted for most of the increase. Interest on debt rose by 1.0 per cent, from $11.6 billion to $11.7 billion, reflecting the increase in total debt from 2015–16 to 2016–17. [OFA]

Comparison to prior year and earlier years [OFA/OEP-To be updated]

Total revenues were up/down $XX billion, or XX per cent, from the previous year.

- Taxation revenues grew/fell by $XX billion, or XX per cent, reflecting […].
- Net income from GBEs [higher/lower] in 2016–17 by $XX billion, mainly due to […].

[Higher/lower] transfers under the […] transfer programs accounted for most of the $XX billion year-over-year increase in Government of Canada transfers. [explanation to be updated]

Change in ownership of energy sector government business enterprises [OFA]

Hydro One secondary offering

In April 2016, the Province completed a secondary offering of Hydro One common shares. The Province sold 14.0 per cent of Hydro One's common shares at a price of $23.65 per share, generating gross proceeds of $2.0 billion. The Province reported a gain of $0.5 billion from the offering and, in March 2017, the government credited the Trillium Trust with $0.5 billion. As of March 31, 2017, the Province owned approximately 70 per cent of Hydro One's common shares.

An additional gain of $70 million was deferred in connection with the purchase by Ontario Power Generation (OPG) of nine million Hydro One common shares through the secondary offering. OPG purchased these shares to distribute to eligible employees as part of future share delivery obligations under collective agreements.

Hydro One Brampton sale

In February 2017, the Province sold its interest in Hydro One Brampton through a sale of shares to Alectra Utilities. As a result of sale, the Province reported a gain of $XX million. The government has committed to crediting the net proceeds from the sale to the Trillium Trust.

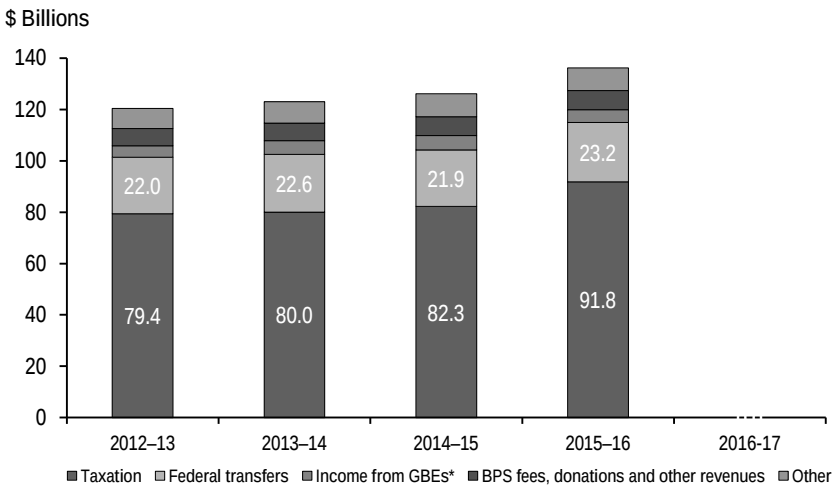
The sale of Hydro One Brampton also triggered a one-time payment-in-lieu of taxes (PILs) from Alectra Utilities to the Ontario Electricity Financial Corporation (OEFC), in connection to a step-up in the basis of Hydro One Brampton's assets.

Revenue trend [Chart to be updated]

Chart 2 shows the recent trends in revenue for the Province's major revenue sources.

Revenue by source — 5-year comparison

Chart 2



* Government business enterprises (Liquor Control Board of Ontario, Ontario Lottery and Gaming Corporation, Ontario Power Generation Inc., Hydro One Limited and Brampton Distribution Holdco Inc.).

Interest costs [OFA]

Under line-by-line consolidation of BPS organizations, net interest expense on the debt of hospitals, school boards and colleges previously reported as an expense in their respective sector is now included in the interest on debt expense.

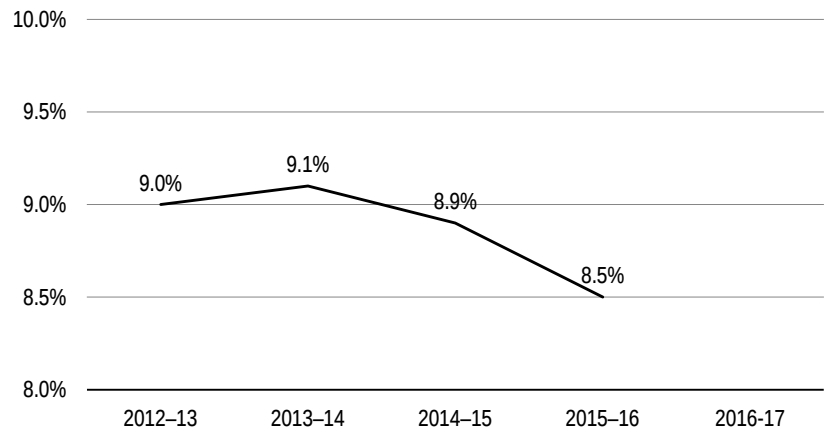
Interest on debt expense was $0.7billion below plan in 2016–17, mainly as a result of lower-than-forecast interest rates, the lower-than-planned deficit and cost-effective borrowing and debt management.

Interest expense grew from $11.6 billion in 2015–16 to $11.7 billion in 2016–17 (see Table 2).

Between 2012–13 and 2016–17, interest expense has trended upwards, reflecting higher borrowings required to fund the deficit and investments in infrastructure. Chart 6 shows that although interest costs have grown in absolute terms, they have steadily fallen as a percentage of the Province's revenues. The interest on debt-to-revenue ratio is now at its lowest level since 1990–91 [OFA to confirm]. This is mainly due to historically low interest rates, coupled with cost-effective debt management.

Debt servicing costs to total revenue — 5-year trend

Chart 6



[Chart to be updated]

Liabilities

Debt [OFA]

Debt and other long-term financing make up the largest share of liabilities. Debt increased by $XX billion in 2016–17 to $XX billion by year-end, primarily to finance the operating deficit and investments in infrastructure.

Net debt as at March 31, 2017, was $XX billion, $XX billion lower/higher than forecast in the 2016 Budget. Table 6 summarizes how the Province used its net new financing in 2016–17.

Use of new financing by the Province, 2016–17 ($ Billions)	Table 6
Operating deficit and other transactions[1]	XX
Cash invested in capital assets owned by the Province and its consolidated organizations, including hospitals, school boards and colleges[2]	XX
Increase in the Province's cash and investments	XX
	XX
Increase in other long-term financing[3]	XX
Net new financing	XX

Notes:

1 The Province's operating deficit of $XX billion was offset by a net $XX billion in changes to assets and liabilities that provided cash for operating purposes. See the Consolidated Statement of Cash Flow.

2 New investments of $XX billion less proceeds of $XX billion from the sale of tangible capital assets.

3 Including net increase in financing of capital projects through AFP. See Note 4 to the Consolidated Financial Statements.

The government completed an annual borrowing program of $27.0 billion in 2016–17. This yielded net new financing of $12.4 billion after adjustments and repayment of $21.9 billion in existing debt that matured. [To be updated]

Key Financial Ratios [OFA]

The use of key measures of financial position helps readers of the Annual Report assess the financial position of the Province. Through the levels and trends of these measures, readers are able to gauge the impacts of economic and other events on the Province's finances, as well as how the government has responded. The ratio, and the level of each, over the past five years are outlined in Table 7.

Key Financial Ratios — Table 7

as at the end of the fiscal period

		Restated 2012–13	Restated 2013–14	Restated 2014–15	Restated 2015–16	2016–17
Sustainability	Net Debt to GDP (%)	37.2%	38.6%	39.5%	XX%	XX
	Net Debt to Total Revenue (%)	210.1%	217.9%	226.1%	XX%	XX
	Net Debt per Capita ($)	$ 18,718	$ 19,644	$ 20,746	$ XX	$ XX
Flexibility	Debt Charges to Total Revenue (%)	9.0%	9.1%	8.9%	XX%	XX
	Own-Source Revenue to GDP (%)	14.5%	14.5%	14.4%	XX%	XX
Vulnerability	Federal Transfers to Total Revenue (%)	18.3%	18.4%	17.4%	XX%	XX
	Foreign Currency Debt to Total Debt (%)	24.3%	22.9%	20.9%	18.8%	XX
	Unhedged Foreign Currency Debt (%)	0.7%	0.5%	0.3%	0.3%	XX

Notes:

Actual results for 2012–13 to 2015–16 have been restated to reflect 1) the presentation change for hospitals, school boards and colleges. These BPS organizations are now consolidated on a line-by-line basis, as described in "Accounting Changes"; 2) the impact of reversing regulated accounting for net pension assets of jointly sponsored pension plans, as described in "Accounting Changes".

Measures of sustainability

Net debt provides a measure of the future government revenues that will be required to pay for the government's past transactions. Net debt as a percentage of the Province's GDP shows the financial demands on the economy resulting from the government's spending and taxation policies. A lower ratio of net debt-to-GDP indicates higher sustainability.

The Province's net debt-to-GDP ratio was XX per cent at the end of fiscal year 2016–17. Between 2012–13 and 2016–17, because net debt grew more quickly than GDP, the ratio increased from 37.2 per cent to XX per cent.

The government continues to maintain a target of returning net debt to GDP to the pre-recession level of 27 per cent. An important component in achieving this is to balance the budget. Debt is incurred for two main reasons: to finance deficits and to invest in capital assets. The government plans to invest $156 billion in capital over 10 years. These capital investments will be amortized over a period of time that corresponds to the useful life of the assets. After balancing the budget, increases in debt will be limited to the difference between the cash investment to build the assets and the amortization, which is a non-cash expense. [OFA – to update]

The government's plan to reduce the ratio of net debt to GDP therefore hinges on both balancing the budget and investing in capital assets to help the economy grow, both of which will help achieve the 27 per cent target.

The ratio of net debt to total revenue is another measure of sustainability, since it shows the future revenue that is required to pay for past transactions and events. A lower net debt-to-revenue ratio indicates higher sustainability. In 2012–13, the ratio was 210.1 per cent. It rose to 226.1 per cent in 2014–15, as net debt grew more quickly than revenue. Even with the change in the accounting treatment for pension assets, the ratio fell to XX per cent in 2016–17, indicating that total revenues increased at a greater rate than did net debt.

Measures of flexibility

The ratio of interest on debt to total revenue shows the share of provincial revenue that is being used to pay borrowing costs and is thus not available for programs. A lower ratio indicates that a government has more flexibility to direct its revenues to programs. The ratio has steadily fallen for Ontario over the past five years, from a high of 9.0 per cent in 2012–13 to the current level of XX per cent. Lower interest rates, as well as the Province's strategy of extending the term of its borrowing program and locking in low interest rates for a longer period has also contributed to lower interest costs. This strategy has extended the weighted average term to maturity of provincially issued debt from approximately 9 years in 2009–10 to 14 years in 2016–17. [OFA]

Own-source revenue as a share of the provincial GDP shows the extent to which the government is using funds from the provincial economy collected through taxation, user fees and other revenue sources it controls. Too high a taxation burden makes a jurisdiction uncompetitive, so increases in the ratio can reduce future revenue flexibility. Ontario's ratio was stable between 2011–12 and 2014–15. The increase from 15.1 per cent in 2015–16 to XX per cent in 2016–17 was largely due to the strong growth in tax and other revenues. This caused own-source revenues to increase more sharply than GDP.

Measures of vulnerability

Transfers from the federal government as a percentage of total revenue are an indicator of the degree to which the Province relies on the federal government for revenue. A very high ratio shows that a provincial government is very reliant on federal transfers, a source of revenue over which it has limited or no control, and is therefore vulnerable to shifts in federal policy on transfers. Ontario's highest share of revenue from federal transfers in the past five years was XX per cent, in 201X–1X. The lowest was XX per cent, in 201X–1X. The gradual decline largely represents the expiration of time-limited federal transfers, including the HST transition payment, and the maturing of federal stimulus programs put in place following the global economic crisis in 2008. [to be updated]

Foreign currency debt to total debt is a measure of vulnerability to changes in foreign currency exchange rates. Accessing borrowing opportunities in foreign currencies allows Ontario to diversify its investor base and take advantage of lower borrowing costs. It also ensures that the Province will continue to have access to capital in the event that domestic market conditions become more challenging. Ontario manages foreign currency risk by hedging its exposure to Canadian dollars through the use of financial instruments, which is called hedging. Effective hedging has allowed the Province to consistently limit its exposure to foreign currency fluctuations to 0.6 per cent of debt issued for provincial purposes in 2013–14, declining to 0.2 per cent in 2016–17. [to be updated]

Managing interest on debt

In addition, the interest on debt expense of $11.7 billion reported for 2016–17 was an improvement of $0.7 billion over the forecast of the 2016 Budget. Through a combination of lower-than-forecast deficits and borrowing requirements, lower-than-forecast interest rates and cost-effective debt management, interest on debt has consistently come in below forecast in each year since the 2010 Budget. [OFA]

2016-17 Public Accounts
Other Long-Term Financing

CHANGE TO BROADER PUBLIC SECTOR PRESENTATION
RESTATED 2016-17 BUDGET

2016 (Budget) Interest on Debt Restatement Adjustment

Sectors ($ Millions)	Health (Hospitals)	Education (School Boards)	Post-Secondary Education and Training (Colleges)	Reclassed to Interest on Debt Expense	
Interest Expense	368	428	39	835	
Interest and Investment Income	(111)	(44)	(24)	(179)	An error was discovered in SB Interest and Investment Income Budget value. The correct amount is 44.354. (The old number was -121.260527)
Interest Expense Net of Interest and Investment Income*	257	384	16	656	**Statement of Operations**
Interest expense due to OFA	-	243	7	250	
Net interest expense due to third party	257	141	9	406	

*May not add due to rounding

CHANGE TO BROADER PUBLIC SECTOR PRESENTATION
RESTATED 2016-17 INTERIM

2017 (Interim) Interest on Debt Restatement Adjustment

Sectors ($ Millions)	Health (Hospitals)	Education (School Boards)	Post-Secondary Education and Training (Colleges)	Reclassed to Interest on Debt Expense	
Interest Expense	352	423	42	817	
Interest and Investment Income	(86)	(51)	(22)	(159)	
Interest Expense Net of Interest and Investment Income*	266	372	20	658	**Statement of Operations**
Interest expense due to OFA	-	242	5	247	
Net interest expense due to third party	266	130	14	410	

*May not add due to rounding

CHANGE TO BROADER PUBLIC SECTOR PRESENTATION
2016-17 ACTUAL

2017 (Actual) Interest on Debt Restatement Adjustment

Sectors ($ Millions)	Health (Hospitals)	Education (School Boards)	Post-Secondary Education and Training (Colleges)	Reclassed to Interest on Debt Expense	
Interest Expense	310	426	43	779	
Interest and Investment Income	(100)	(59)	(29)	(188)	
Interest Expense Net of Interest and Investment Income*	210	367	14	591	**Statement of Operations**
Interest expense due to OFA	-	242	10	252	
Net interest expense due to third party	210	125	4	339	

*May not add due to rounding

CHANGE TO BROADER PUBLIC SECTOR PRESENTATION
VARIANCE, BUDGET VS ACTUAL 2016-17

2017 (Budget Vs. Actual) Interest on Debt Restatement Adjustment

Sectors ($ Millions)	Health (Hospitals)	Education (School Boards)	Post-Secondary Education and Training (Colleges)	Reclassed to Interest on Debt Expense
Interest Expense	58	2	(4)	56
Interest and Investment Income	(11)	15	5	9
Interest Expense Net of Interest and Investment Income*	47	17	1	65
Interest expense due to OFA	-	1	(4)	(2)
Net interest expense due to third party	47	16	5	68

*May not add due to rounding

CHANGE TO BROADER PUBLIC SECTOR PRESENTATION
VARIANCE, INTERIM VS ACTUAL 2016-17

2017 (Interim Vs. Actual) Interest on Debt Restatement Adjustment

Sectors ($ Millions)	Health (Hospitals)	Education (School Boards)	Post-Secondary Education and Training (Colleges)	Reclassed to Interest on Debt Expense

Interest Expense	43	(3)	(2)	38
Interest and Investment Income	14	8	7	29
Interest Expense Net of Interest and Investment Income*	56	5	5	67
Interest expense due to OFA	-	-	(5)	(5)
Net interest expense due to third party	56	5	10	72

*May not add due to rounding

From: Shemin Meralli
To: Ken Kandeepan
Subject: 3. Net debt analysis -Document 2017-18
Date: Friday, March 09, 2018 1:12:18 PM
Attachments: 3. Net debt analysis -Document 2017-18 (March 9, 2018)).xlsx

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Please see attached.

Analysis of Net Debt

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total 2009-10 to 2020-21	2009-10 to 2017-18 (col D -L)	2008-09 to 2017-18 (col C - L)	2008-09 to 2016-17 (col C -K)	2007-08 to 2016-17 (col B -K)
Opening balance	**(153,742)**	(156,616)	(169,585)	(193,589)	(214,511)	(236,230)	(252,823)	(267,968)	(285,403)	(295,372)	(301,648)	(308,203)	(325,041)	(342,752)	(169,585)				
Surplus/(Deficit)	600	(6,409)	(19,262)	(14,011)	(12,969)	(9,220)	(10,453)	(10,315)	(3,515)	(991)	642	(6,704)	(6,624)	(6,475)	(99,897)	(80,094)	(86,503)	(87,145)	(86,545)
IFRS Transitional Impact					(758)					(683)					(1,441)	(1,441)	(1,441)	(1,441)	(1,441)
PSAB Transitional Impact					(107)	(141)		(1,683)							(1,931)	(1,931)	(1,931)	(1,931)	(1,931)
Pension Adjustment (prior years)									0						0	0	0	0	0
Prepaids/Inv adj/gain/(loss)					(648)	(87)	(43)	(49)	20	(43)	0	0	0	0	(850)	(850)	(850)	(850)	(850)
Other Adjustments									0	(901)					(901)	(901)	(901)	(901)	(901)
	600	(6,409)	(19,262)	(14,011)	(14,482)	(9,448)	(10,496)	(12,047)	(3,495)	(2,618)	642	(6,704)	(6,624)	(6,475)	(105,020)	(85,217)	(91,626)	(92,268)	(91,668)
Ontario Nuclear Fund- gain/(loss)	559	(1,212)	1,090	395	(3)	639	951	1,121	(1,003)	1,094	419				4,703	4,703	3,491	3,072	3,631
Total Deficit	1,159	(7,621)	(18,172)	(13,616)	(14,485)	(8,809)	(9,545)	(10,926)	(4,498)	(1,524)	1,061	(6,704)	(6,624)	(6,475)	(100,317)	(80,514)	(88,135)	(89,196)	(88,037)
Tangible Capital Assets	(4,033)	(5,348)	(5,832)	(7,306)	(7,234)	(7,784)	(5,600)	(6,509)	(5,471)	(4,752)	(7,616)	(10,134)	(11,087)	(10,896)	(90,221)	(58,104)	(63,452)	(55,836)	(59,869)
	(2,874)	(12,969)	(24,004)	(20,922)	(21,719)	(16,593)	(15,145)	(17,435)	(9,969)	(6,276)	(6,555)	(16,838)	(17,711)	(17,371)	(190,538)	(138,618)	(151,587)	(145,032)	(147,906)
Ending balance	**(156,616)**	**(169,585)**	**(193,589)**	**(214,511)**	**(236,230)**	**(252,823)**	**(267,968)**	**(285,403)**	**(295,372)**	**(301,648)**	**(308,203)**	**(325,041)**	**(342,752)**	**(360,123)**	**(360,123)**				

% INCREASE IN NET DEBT

Percentage %

Deficit	(20.88)	49.42	80.24	66.97	66.68	56.94	69.30	69.10	35.06	41.71	(9.79)	39.81	37.40	37.27		61.48	60.44	63.62	61.98
Other	(19.45)	9.35	(4.54)	(1.89)	0.01	(3.85)	(6.28)	(6.43)	10.06	(17.43)	(6.39)	0.00	0.00	0.00		(3.39)	(2.30)	(2.12)	(2.45)
Total Deficit	**(40.33)**	**58.76**	**75.70**	**65.08**	**66.69**	**53.09**	**63.02**	**62.67**	**45.12**	**24.28**	**(16.19)**	**39.81**	**37.40**	**37.27**		**58.08**	**58.14**	**61.50**	**59.52**
Tangible Capital Assets	**140.33**	**41.24**	**24.30**	**34.92**	**33.31**	**46.91**	**36.98**	**37.33**	**54.88**	**75.72**	**116.19**	**60.19**	**62.60**	**62.73**		**41.92**	**41.86**	**38.50**	**40.48**
	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00		100.00	100.00	100.00	100.00

Note: Pension adjustments incorporated in the 2015-16 Public Accounts and extended in the 2016 FES have been reversed.

For use with slide 2

In year approvals added to TCA for 2016-17 only, but not any risks. Deprecation in out years for in year approvals not taken.

From: Daniel Hengeveld
To: Ken Kandeepan
Subject: 3C ND.docx
Date: Wednesday, October 26, 2016 5:32:40 PM
Attachments: 3C ND.docx

Hi Ken, I've attached much of the debt content contained in our chapter if you'd like to have a look in advance of tomorrow's sign-off (particularly the material covering the legislated pension adjustment as it is new this year).

The order is not quite the same as seen in the actual document

Thanks,
Daniel

Intro

The Province, adopting a prudent and risk averse approach, has included the pension adjustment in its expense projections in accordance with the legislated basis of accounting adopted for the 2015-16 Public Accounts. The projected pension adjustment of $2.2 billion for 2016-17 is entirely non-cash and does not impact the Province's projected borrowings as well as its total debt.

The pension adjustment increases non-cash adjustments, allowing the Province to reduce both short – term and long- term borrowings from what was projected in the 2016 Budget

Net Debt-to-GDP

Total debt, which represents all borrowing without offsetting financial assets, is projected to be $328.6 billion for March 31, 2017 (March 31, 2016, $327.4 billion).

Ontario's net debt is the difference between total liabilities and total financial assets. It is projected to be $317.9 billion for March 31, 2017 (March 31, 2016, $305.2 billion). The net debt projection for March 31, 2017, was forecasted to be $308.3 billion in the *2016 Budget,* $311.5 billion in the *2015 Budget* and $317.2 billion in the *2014 Budget.*

The legislated pension adjustment for the 2015-16 Public Accounts resulted in the net debt-to-GDP ratio increasing to 40.9 per cent as of March 31, 2016 and is projected to be 41.1 percent as at March 31, 2017. If not for this adjustment, the ratio at the end of the 2015-16 fiscal year would have remained level with the 2014-15 ratio at 39.4 percent. Likewise, the ratio for March 31, 2017 would have increased slightly to 39.8 per cent and begin to decline from 2017-18 onwards.

The legislated pension adjustment that increased net debt by $10.7 billion in 2015–16 has no impact on the Province's total debt or current and future borrowings.

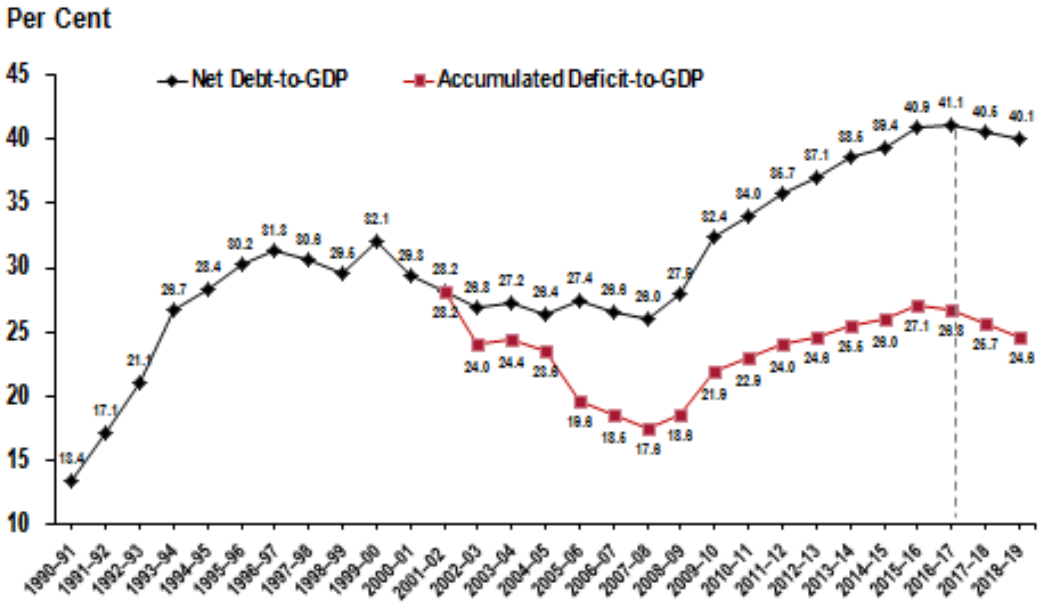
The Province is forming an independent expert panel to deliver advice and recommendations to the government as to the application of public sector accounting standards to Ontario's pension assets. The report is expected later this year.

Including the legislated pension adjustment of $10.7 billion, accumulated deficit is projected to be $207.0 billion as at March 31, 2017. The projected difference of $110.9 billion between net debt and accumulated deficit is due to the Province's consistent level of investment in infrastructure, as shown by the increase in tangible capital assets.

About 64 per cent of the increase in net debt from 2008–09 to 2015–16 is due to the deficit, with investments in capital assets responsible for most of the balance. Once a balanced budget is reached, the increase in net debt will be limited to the difference between cash investments in capital assets and amortization.

These investments will work to increase economic growth and will result in GDP growing more quickly than debt, thereby helping to lower the net debt-to-GDP ratio to its pre-recession level.

CHART 3.XX **Net Debt-to-GDP and Accumulated Deficit-to-GDP**



Notes: Historical net Debt-to-GDP was revised to reflect historical GDP released by Statistics Canada in November 2015. Net Debt has been restated to include Broader Public Sector Net Debt, starting in 2005–06.
Source: Ontario Ministry of Finance.

Cost of Debt

The interest rate that Ontario pays on its debt has been steadily declining since 1990–91, when the effective interest rate (on a weighted-average basis) on total debt was 10.9 per cent. It was 3.6 per cent as at March 31, 2016 and 3.7 per cent as at March 31, 2015.

The global decline in interest rates over the last 25 years cannot continue indefinitely. To protect itself from an increase in interest rates, the Province has continued to extend the term of its debt. Going back to the beginning of fiscal 2010–11, Ontario has issued $59.9 billion of bonds longer than 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008–09 to 14.2 years in 2015–16 and 15.1 years as at October 25, 2016.

For 2016–17, the impact of a one percentage point change in interest rates on IOD is approximately $350 million for the Province.

From:	Ken Kandeepan
To:	Anna Strathy
Cc:	John Psinas; Alexander Kraas
Subject:	A Shadow Budget for Ontario 2018-2019 - external review.docx
Date:	Thursday, February 01, 2018 4:14:47 PM
Attachments:	A Shadow Budget for Ontario 2018-2019 - external review.docx

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Hi Anna

Pls find attached my comments, not many since the references to net debt to GDP and IOD are minimal, also cc 'ing to Alex and John in case they have additional comments.

Thanks and Alex and John, if you do have comments pls provide to Anna before eod tomorrow.

Thanks

Ken k

Ken k

A Shadow Budget for Ontario, 2018-2019

*Draft not for circulation

January 24, 2018

As Ontario enters an election year, the policy debate will likely involve the difficult choices the province faces regarding the fiscal outlook and long-term sustainability of a number of government programs. The budget the provincial government puts in place for the 2018-19 fiscal year will lay out a framework for the debate in the coming months.

To aid this debate, the C.D. Howe Institute has launched its inaugural Shadow Budget for Ontario, following similar Shadow Budgets at the federal level (see last year's edition from Robson, Laurin, and Wyonch 2017). This Shadow Budget shows that the fiscal course the province is currently on is unsustainable. This Shadow Budget would act to bring the long-term cost of government in line with the revenue-raising capacity of the province. It would balance increases in spending and cuts to poorly designed taxes with new ways to generate revenues and reducing spending on ineffective programs.

Although providing specific costing of programs is outside of the scope of this Shadow Budget, it presents an overview of policy directions that balance increases in spending with generating new revenues and cost-savings measures. This Shadow Budget proposes to:

- Restate the province's books to reflect the Auditor General's concerns about incorrect treatment of pension assets and electricity-sector debt;
- Reduce future expense growth to reach a balanced budget as soon as possible;
- Adopt long-term fiscal policy – which requires surpluses, not just balanced budgets – that meets the government's debt-to-GDP target ratio of 27 percent;
- Contain healthcare costs by extending capitated payments to family doctors and revising contractual arrangements with healthcare providers;
- Slow the increase in the minimum wage and focus on improving education and to create economic opportunities for Ontarians;
- Adopt an indigenous identifier in standardized test and oversample indigenous students to permit reliable rural-urban and district-level analysis;
- Modernize funding formulas for post-secondary education by taking outcomes into consideration;
- Reform the school curriculum with an emphasis on improving math performance;
- Open retailing for alcohol and marijuana and revising the tax scheme for both products;
- Adopt personal income tax reforms that reflect the cost of raising children, while reforming personal income taxes to lower high marginal rates, which occur even at low incomes;
- Replace targeted business tax breaks with lower provincial business property taxes to create a level playing field across the province and across different types of businesses;
- Rethink the fiscal relationship between municipal government and the province by retooling grants and transit governance while modernizing municipal financial reporting to match that of the province;
- Reduce the cost that governments impose on building new housing;
- Retain the plan to price greenhouse gas emissions, but re-focus the government plans to spend money raised by such a price away from cost-inefficient programs; and
- Seek out long-term cost savings in the electricity sector, as opposed to short-term fixes that only add to the long-term cost of energy.

Commented [KK1]: Incorrect is not an appropriate term, replace with "Government's"

The Fiscal Outlook

This Shadow Budget adopts the consensus view of the independent officers of the Ontario legislature – the Auditor General and Financial Accountability Office – as the authoritative outlook of the short-, medium-, and long-term fiscal outlook. While the government may claim to have balanced the budget for 2017-18,

that declaration is in the eye of the beholder and the medium- and long-term fiscal outlook for Ontario is dire.

Cleaning up Ontario's Books – The Short Term Deficit Debate

The government has made the argument that it has reached a balanced budget. However, the Auditor General has two specific objections related to this claim because of the government's accounting treatment of pensions and whether the recent Fair Hydro Plan amounts to new spending.

The pension dispute centres on the government's treatment of the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP). The province has decided to report the full asset value of the plan on the province's balance sheet, which neglects the fact that future retirees already have a claim on these assets. Doing so reduces the deficit and the Auditor General (2016) objects to this. Further, as Robson and Laurin (2016) argue, the government discounts OTPP and OPSEUPP liabilities by more than the plans do themselves. This understates the liabilities provincial taxpayers face.

However, the view of the Auditor General is not universally shared. The Ontario government appointed a Pension Asset Expert Advisory Panel to advise on the difference of opinion between the government and Auditor General. The Panel's Report (2017) argued that an asset does exist for the government, saying that the government does have sufficient access to the plan's assets, if even just through reducing contributions to the plans, to merit including it. However, given that we have taken the Financial Accountability Office's presentation of financial data, which is independent of both the government and the Auditor General, we have decided to use the presentation of provincial finances as recommended by the Auditor General.

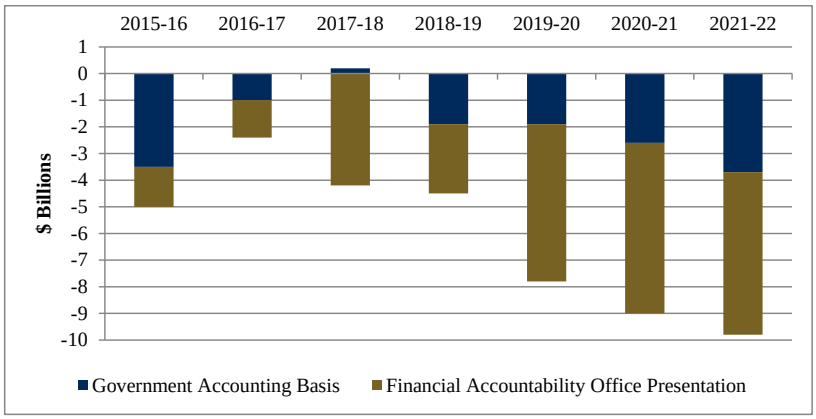
Commented [KK2]: My understanding was that the FAO presented both the Government's accounting treatment as well as the AG on the pension assets, leaving the decision to the reader. This is however, an OPCD issue

The second dispute hinges on the Fair Hydro Plan. As the Auditor General (2017a) points out, the government "is making up its own accounting rules" by creating an accounting asset for a government-controlled entity to offset the debt the province placed on another government-controlled entity. The asset the government created only exists because of legislation that gives a government entity the authority to collect higher prices in the future. The true value of this asset should be zero, or highly discounted, because of great uncertainty of the ability to collect higher prices in the future. For example, electricity markets may change because of technology, making it impossible for a central government agency to collect future revenues to pay this debt. As such, this debt should be reflected in the province's financial statements now. Incorporating the debt amount in today's books means that the proper accounting treatment would increase the deficit by $2.5 billion per year through to 2027.

Commented [KK3]: Likewise OPCD should comment since this is an accounting issue

This Shadow Budget would restate the province's books to reflect the Auditor General's concerns. It would restate the province's finances to show a deficit in the upcoming 2018-2019 fiscal year to be about $7 billion (Figure 1).

Figure 1: Ontario Budget Balance



Source: Financial Accountability Office of Ontario. Does not include reserve fund. 2017-18 and beyond are projections by the Financial Accountability Office.

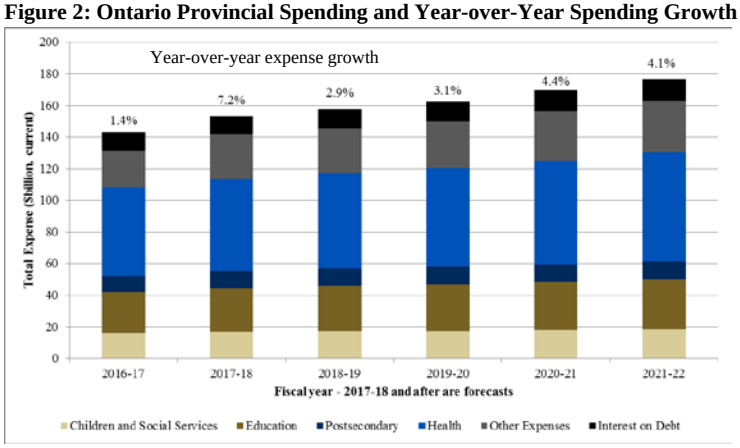
Medium-term Fiscal Sustainability

The question of whether there is a deficit for the 2017-18 fiscal year is far less important, from the point of view of the sustainability of public finances, than future trends. Under current trends, the deficit would rise to nearly $10 billion by 2021-22 (Figure 1), according to the Financial Accountability Office (2017a). These long-term deficits will return because of two main causes: the deficits the government should account for under the Fair Hydro Plan, as discussed above, and fast-rising expenses. Future revenues are not likely to grow as fast in the future as in previous years because of a number of factors, such as one-time revenues that have come in recently and economic growth that is likely to slow. Further, the Financial Accountability Office (2017a) argues that the government has made overly optimistic revenue forecasts that rely on above-trend income growth in the province and corporate income tax receipts.

The province can look to balance its budget in the near future in a number of ways. First, it can look to increase revenues. It can do so through short-term revenue gains such as sales of provincial assets – as this Shadow Budget will suggest in more detail below. Alternatively, it can raise tax rates, such as the provincial component of the HST. Or, it may seek more grants from the federal government. However, aside from hiking tax rates, none of these steps to increase revenues are directly within the control of the province or offer more than a single year's worth of solutions.

The province must address fast-growing spending to reduce future deficits. The first trend that this Shadow Budget would address is the projected pattern of total spending growth. 2017-18 spending is forecast to grow at over 7 percent over the previous year's spending. This kind of spending growth is unsustainable. Future expenses beyond 2020 of over 4 percent are also likely unsustainable. This Shadow Budget would aim to reduce future expense growth to reach a balanced budget as soon as possible.

Figure 2: Ontario Provincial Spending and Year-over-Year Spending Growth Rates



Source: Financial Accountability Office of Ontario

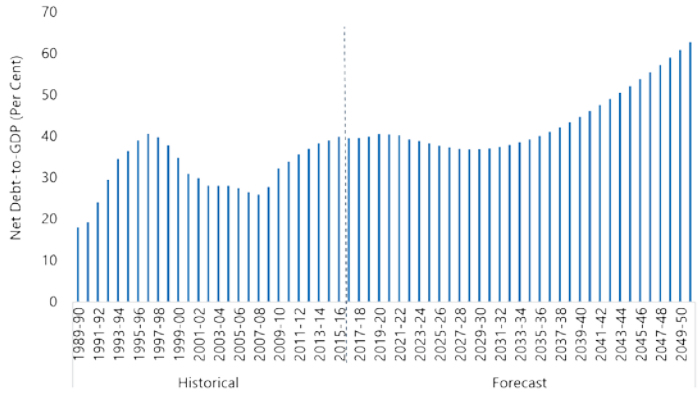
Long-term Fiscal Sustainability

Balanced budgets will not be enough for Ontario to be fiscally sustainable. The government has targeted a net debt-to-GDP ratio of 27 percent, a sensible target that is similar to that of the federal government of 25 percent of GDP. This Shadow Budget would continue pursuing such a target and take the necessary action to achieve it within 15 years. As the Financial Accountability Office (2017b) projects, achieving 27 per cent requires the province to run budget surpluses until 2033-34. If the province continues on the current trend, and not run first balanced budgets and then surpluses, the net debt-to-GDP ratio will reach 63 percent by 2050-51 (Figure 3).

Commented [KK4]: While this is no doubt a sensible target, the basis of the 27% is the reversion to the pre-recession net debt to GDP ratio.

Commented [KK5]: Without knowing the basis of this calculation we cannot comment

Figure 3: Net-Debt-to-GDP, Under Current Fiscal Trajectory



Source: Financial Accountability Office of Ontario

Figure 4: Interest Expense as a Share of Revenue



Source: Financial Accountability Office of Ontario

If the government doesn't tackle the long-term fiscal challenges, the cost of debt will take up an enormous share of total government revenues. Interest costs currently sit at 9 percent of revenues; at current trends, interest costs will increase to 22 percent in 2050-51 (Figure 4). If debt costs take up a large share of total revenues, that will leave less for other needs.

Commented [KK6]: This is incorrect interest is only 8.3% of revenues in 2016-17 and projected to increase to 8.4% in 2019-20

Health Policy

Given that Ontario spends roughly half of its own-source revenues (which excludes transfers from the federal government) on health, getting good value for money in healthcare will be critical for the financial and societal well-being of Ontarians. Although the province has successfully contained the annual growth of healthcare spending from 2010 to 2015 to 2.4 percent, on average, the rate of health spending is starting to tick upwards again alongside worries about emergency room overcrowding, long waits for long-term care beds as well as overburdened caregivers . Progress on addressing these issues – in addition to limiting public and private gaps in coverage for prescription drugs, dental services and mental health – while allocating reasonable increases for health spending, is a critical challenge.

Efforts to enable self-directed homecare services – such as recent moves to increase the number of hours nurses, personal support workers, and therapists will provide care in homes – should help alleviate the emergency room pressures for elderly patients, and these programs should continue to expand on their current trajectory. Relative to providers, patients with mild to modest physical disabilities are more likely to know the abilities of family and informal caregivers to offer care and their schedules, and which services they would prefer to have delivered by other health professionals. Although there are some legitimate concerns about patient's ability to choose among groups of healthcare professionals to meet their needs, there should still be enough flexibility around the use of self-directed home care budgets to ensure appropriate innovation from those delivering services. This means sufficient flexibility in how patients select and schedule professional help.

Ensuring that people without private insurance for dental, drug and mental health services get access to services is also a priority for healthcare policy. On this score, there are a number of avenues to ensure appropriate coverage and do so at minimal public cost, including the expansion of these services among the most vulnerable (Blomqvist and Busby 2016, Busby and Pedde 2014). This Shadow Budget would look at new ways to revise contractual arrangements with providers – pharmacists, dentists and dental hygienists, and phycologists – to improve the efficiency of spending in these areas.

Although government needs to spend more money to improve access to mental health services, more money alone will not ensure that all illnesses get treated in appropriate timeframes. It may be more advantageous to give a greater share of the overall budgetary spending on physiologists to hospitals and primary care doctors for outpatient needs.

The way in which the province pays for the delivery of health services matters. Paying hospitals, hospital-based doctors and necessary outpatient services for a needed intervention often results in silos of poorly coordinated care. This Shadow Budget would instead look at more bundled payments by procedure for hospital-based services (Sutherland and Hellsten 2017). And in primary care, this Shadow Budget would extend capitated payments to family doctors to include budgets for enrolled patient drugs, lab and diagnostic imaging budgets as part of the evolution in payment reforms for family doctors (Blomqvist and Busby 2011).

Labour and Education Policy

Many governments are struggling to respond to the challenges of precarious work – employment that is often more insecure and uncertain than traditional full-time employment, with greater prevalence for part-time work. Further, as wage gaps exist between temporary or part-time vis-à-vis full-time workers, policymakers have recently passed legislation intended to bridge these differences. While there are no ideal policy levers for addressing these issues, it should be recognized that, in general, increases to the minimum wage are a reasonable option available to policymakers. However, gradual and evaluated increases to the minimum wage are the best way to increase minimum wages over time. Ontario's recent, large increase in the minimum wage means that the right response for government should be to pause and evaluate. One particular concern is the impact on smaller municipalities that risk being most negatively affected.

This Shadow Budget would amend the current minimum wage in two ways, as recommended by Marchand (2017). First, it would allow for regional variation in minimum wages. This Shadow Budget would allow upper-tier and single-tier municipalities across the province the option to return to a lower minimum wage for a five-year period. New York has a similar policy, in which the minimum wage is highest in New York City than in other parts of the states. Second, this Shadow Budget would build a provision into the minimum wage legislation to reduce it in the case of a recession, as California has recently done.

As trade, technology and worker preferences continue to change the dynamic for skills desired by employers, a competitive labour force will need an abundance of core numeracy and literacy skills. For Ontario, the news on these scores is mixed. On literacy, the results are strong (EQAO 2015). In terms of numeracy, however, the results are alarming – only half of all grade 6 students in the province meet the provincial standard for numeracy and its OECD Programme for International Student Assessment (PISA) scores have plummeted over time, from 530 in 2003 to 509 in 2015, one of the largest drops among Canadian provinces, putting Ontario statistically below the average in Canada(Richards 2017). This needs

fixing. This Shadow Budget would continue the province's re-examination of the math curriculum and pedagogy, where the effectiveness of different pedagogies should be explored as potential causes (Stokke 2015). This Shadow Budget would also look at teacher preparedness and consider evaluating teacher knowledge in subject matter with the administration of student exams to teachers prior to the academic year. Insufficient results should require immediate intervention.

Furthermore, collecting, analysing, and reporting educational outcomes are essential to closing the achievement gap between more and less advantaged students. Including a question that identifies indigenous student in PISA tests is a great way to track educational achievement of indigenous students and help educators and policymakers to design more effective strategies to improve outcomes. The province should also oversample to ensure sufficiently large sample of indigenous student to produce reliable estimates at the district level and to perform urban/rural analysis (Richards and Mahboubi, forthcoming).

Many OECD countries consider Performance-Based Funding (PBF) systems for their post-secondary education, but Canadian provinces, including Ontario, lag behind in adopting this innovating way of financing. Usher (forthcoming) shows the benefits associated with PBF include less burden of funding negotiations, higher accountability of the post-secondary institutions, and greater competition between institutions, leading to a greater focus on results. A similar approach to competition in grants for research has been effective at improving the performance within universities, and should apply to universities themselves. The government needs to review its funding formula and learn from the experience of other developed countries.

Tax Policy

Commodity Taxation

Alcohol

In 2015-16, the Liquor Control Board of Ontario (LCBO) paid the provincial government a dividend of $1.9 billion. It also remitted $867 million to the federal and provincial governments in Harmonized Sales Tax, excise taxes and customs duties (LCBO 2016). In addition to the LCBO, there is a system of beer and off-winery stores, which operate as a quasi-monopoly thanks to government regulation. Masson and Sen (2014) find that freeing up alcoholic beverage retailing would result in increased government revenue, lower prices, and more convenience. They find that, other factors being equal, Western Canadian provinces with more beverage alcohol retail competition had 7 percent more per capita provincial alcohol profits than provinces with government-run monopolies. The province has begun to introduce beer sales at grocery stores. However, it has done so slowly with limits on the amount of sales by the store. This Shadow Budget would go further by auctioning licenses for other retail outlets. It would also auction licences for off-winery stores to other wineries and also to new wine retailers. The result would be increased provincial revenues and more choice for Ontario consumers.

This Shadow Budget would also revise taxation of alcoholic beverages. Currently, tax rates are fixed by type of beverage, currently ranging from 52 cents per litre to $1.06 per litre, depending on the type of manufacture, not alcohol strength. Wine is taxed as a percent of sale value and sprits are taxed at up to 38 cents per litre plus a percentage of the retail price. This Shadow Budget would graduate the tax on alcohol

to relate to alcohol content. This reform would target the health problems caused by alcohol, which is directly in line with the alcohol content of any drink (The Economist 2013).

Marijuana

The federal government has legalized marijuana for recreational consumption with legal sales scheduled to begin in July. The main policy objectives driving marijuana legalization are the improvement of public health and the minimization of the black market and its associated criminal activity. Ending the prohibition of marijuana involves coordination between all levels of government. Provinces must determine the structure, distribution, and regulation of the retail market and jointly determine taxation levels of marijuana with the federal and municipal governments.

Ontario has announced that it will restrict retailing of recreational marijuana to LCBO-run stores. Only 40 of these locations will be in place by next July 1, the federal target date for legalization, with a total of 150 locations expected by 2020. The province missed the opportunity to have a competitive market for retail marijuana. Independent businesses have an incentive to locate where market demand isn't being met and competition between businesses constrains operating costs and keeps prices low. Lower prices in the legal market make it more likely to be competitive with the existing black market.

The province's decision to enter the market also implies considerable resources will be expended in the construction and maintenance of stores, higher salary expenditures and other overhead costs. These will be met at the expense of other sectors, which will receive lower government funding.

Having few retail locations means that access to recreational marijuana will be inconvenient for a significant number of Ontarians. Recreational consumers are highly unlikely to switch their dollars to the regulated market if there isn't easy access. This means that there will be significant opportunity for the black market to continue operating in all the areas without enough legal stores to meet market demand or that are convenient to access. (By contrast, there are more than 650 LCBO outlets in the province.) Further, to levy penalties against illicit businesses will require significant justice and police resources. And since there won't be enough regulated retail outlets to meet market demand, it is likely that at least some of these businesses will still find it profitable to operate. This Shadow Budget would make retailing of marijuana competitive and allow for the licensing of privately-run retail stores. This could take the form of entirely private retail, as in Alberta. Alternately, licensed establishments could operate alongside government retail stores and deliver better market coverage faster than the crown corporation on its own.

Ontario has joined the federal government’s proposed coordinated excise tax framework for recreational marijuana. While Crown-corporation retail isn’t particularly competitive in terms of convenience, keeping taxes low will help ensure that the legal market will be price competitive with the illicit market. The tax rate on dried cannabis flowers will be $1 per gram or 10 percent, whichever is higher, with 75 percent of the revenue going to the provincial government. The revenue from this excise tax will initially be modest, bringing in $50 to $95 million in 2018 and $175 to $200 million annually by 2021.

Gasoline and Fuel

The government should be concerned about the prospect of declining revenues from fuel and gasoline taxes, which will intensify as vehicles become more fuel efficient and become increasingly electric. This Shadow Budget would begin a study of the potential to replace fuel taxes with tolls for use. Further, the best solution for traffic congestion is a road toll. Road pricing could also bring the price that drivers pay for

infrastructure they use closer to the actual cost of it. Gas taxes (which are about 75 to 80 per cent of road-related revenues), vehicle licences and other revenues from drivers have covered less than two-thirds of roadway expenses across Canada since 2008. Taxpayers should only subsidize transportation to the extent that it encourages broader access to all in society and the government should review whether a one-third subsidy is the appropriate amount of taxpayer subsidy for roads.

Personal Taxation

Income taxes affect individual and business incentives to earn income, save, invest, and take risks. Excessively high taxes at the margin can also drive tax avoidance behaviour.

At the personal level, the impact of income tax variations on work participation decisions is particularly acute for the secondary earner in families with children and lower-skilled workers. In general, lower income, less educated people have a greater tendency to adjust their paid work behaviour through workforce participation decisions, while more-educated workers and high-income earners tend to adjust through the number of hours they work (Duclos et al. 2015).

High income earners' taxable income has been shown to be particularly responsive to high marginal tax rates – through both tax planning avoidance behaviour and earnings decisions (Laurin 2015). And the sensitivity to rate changes is higher at the provincial level in response to provincial rate changes than at the federal level in response to federal changes. This is because high-income earners can take advantage of provincial tax rate differences by shifting their income tax attributes and work locations to the most tax-advantageous province (Milligan and Smart 2014).

Provinces like Ontario with one of the highest top combined federal and provincial marginal tax rates of over 53 percent on high-income earners should aim to reduce that rate to a level at or below 50 percent. The responsiveness to the change would have a beneficial impact on the tax base that would ensure a very low fiscal cost for the policy. Furthermore, the income tax system should be clear and transparent. Ontario has a surtax notionally in place for health care expenses. However, this tax is treated as general revenue. The province should replace this surtax and set income tax rates and brackets that transparently show the marginal tax rate people are paying.

Other tax changes should aim to lower the burden of taxes on secondary earners in family with children. This Shadow Budget would reform the tax recognition of child care expenses through the replacement of the child care expense deduction with the introduction of a new refundable tax credit for child care expenses. It would encourage stay-at-home parents to join the workforce, producing extra tax revenues, considerably limiting the net fiscal cost of its implementation (Laurin and Milligan 2017).

Also, typical labour arrangements are changing with technological change. Workers are becoming less attached to a single employer and move around more freely between projects and contracts. Their incomes are also more prone to be fluctuating from year to year – a period of low earnings followed by a year of higher earnings, or vice versa. But a worker with fluctuating income may end up paying more tax (and losing more income-tested government benefits) than another worker with a flat income profile but earning the same amount over a period of years. Wen and Gordon (2017) find that Canada's "fluctuation tax penalty" is most severe for individuals who earn lower incomes or are self-employed. This Shadow Budget would lessen the impact of fluctuating incomes on tax liability by allowing workers to average their

income over many years, so that any single large earning year would not lead to a disproportionate loss of fiscal benefits and higher tax payments.

Business Taxation

A properly designed business tax regime would provide for a common provincial tax rate for all businesses operating across the province, regardless of their location or sector. However, Ontario's tax regime selectively rewards a number of sectors, such as manufacturing, through the income tax system while punishing companies with overly high provincial property tax rates. The province of Ontario can simplify its tax regime, create a more level playing field across sectors and the province, and reduce the effective tax rate on new business investment all without reducing overall provincial revenues.

Eliminating Wasteful Business Tax Expenditures

The largest tax expenditure in the corporate income tax system, by far, is the Small Business Deduction, which costs Ontario over $2 billion in foregone revenue. A better alternative to the Small Business Deduction is a lower general corporate income tax rate. That is because the net impact of the Small Business Deduction is an expansion of the small business sector at the expense of large businesses. Since small firms are less productive than large firms, the Small Business Deduction lowers overall economic performance (Dachis and Lester 2015). This Shadow Budget would not proceed with any further cuts geared to small business.

Most Canadian provinces provide a tax incentive for innovation. They mimic the federal tax system which provides eligible businesses with a Scientific Research and Experimental Development (SR&ED) credit. Ontario provides a non-refundable tax-credit worth 3.5 percent of the value of eligible expenses for firms to deduct from their taxes. The total innovation tax incentive for Canadian businesses is one of the highest in the world, but Canada consistently lags behind international peers on measures of business innovation (Parsons 2011). The Ontario SR&ED credit comes at a large fiscal cost: a tax expenditure of $150 million in the 2017 calendar year (Ontario 2017). Instead of targeting up-front tax credits for innovation, a better solution to encouraging innovation is with a low overall income-tax rate (McKenzie 2006). In addition, the province provides manufacturing and processing businesses a preferential lower tax rate than those in the rest of the economy: 10 percent instead of the usual 11.5 percent. This lower rate cost taxpayers $290 million in the 2017 calendar year.

This Shadow Budget would eliminate the Ontario SR&ED credit and the lower rate for manufacturing and processing, and use that revenue to cut high provincial property tax rates that choke investment, as discussed below. It would also initiate a comprehensive review of tax expenditures to determine whether the existing tax expenditures are still appropriate or whether they should be redesigned as deductions or credits (see Robson and Laurin 2017). Tax expenditures can be removed when shown to be no longer effective, as the government has already committed to eliminating ineffective tuition and education tax credits, as recommended by Neill (2013).

Cutting Provincial Business Property Taxes – A Revenue Neutral Cut in Investment Taxes

Ontario took over the local education property tax from local school boards in 1998. School boards had widely varying tax rates across the province and by property type when the province took over. The province immediately made its residential tax rate the same for all residents across the province. It's a different story for businesses. Each year since 2007, the province has set a maximum tax rate, called

the ceiling rate, and a lower target rate designed to be revenue-neutral for the province. The province committed in its 2007 budget to lower higher rates down to the target rate over time, but the province has stalled on tax cuts since 2013.

The provincial property tax still varies wildly across cities and for different buildings within cities (See Figure 5a and 5b, which shows provincial rates for commercial and industrial properties). Provincial commercial property tax rates in some Ontario municipalities are more than three times those in others. The provincial tax is highest on industrial property across much of Southern Ontario. As Found (2017) shows, the average provincial business property tax rate is more than 6 times its residential counterpart.

Figure 5a: Provincial Commercial Property Taxes in Southern Ontario

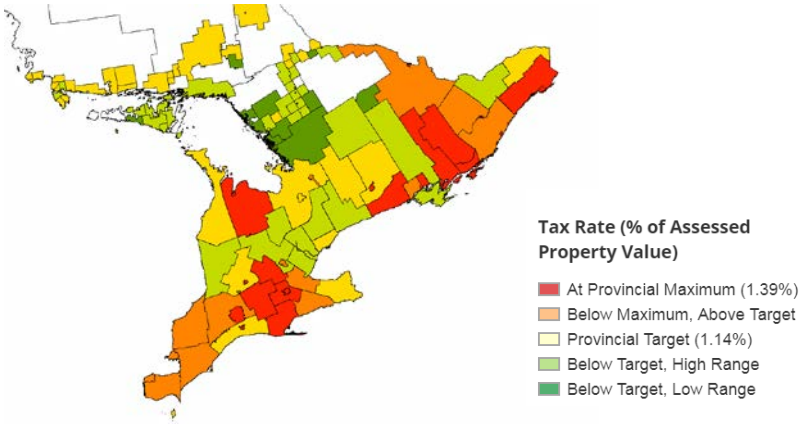
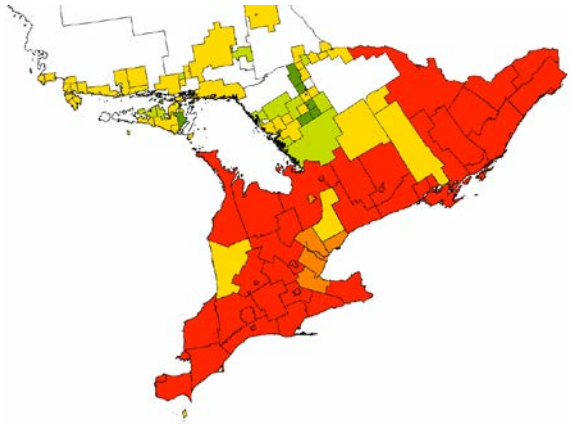


Figure 5b: Provincial Industrial Property Taxes in Southern Ontario



Source: Jacobs, Dachis and Found (2017). Results include Northern Ontario. Hollow areas not subject to provincial property tax.

Cities collect the money on behalf of the province after receiving a regulation from the province of how much to collect. In the 2017-18 fiscal year, the province will collect $6 billion in property taxes, which it reports as general revenue. Since different education tax rates by region have nothing to do with local school spending, each school board now gets a provincial top-up grant in order to level the playing field. Each school board`s total revenue is based on its enrolment and the needs of students, not the value of buildings in the area. That means the provincial property tax now has no bearing on school boards' spending. Yet, the province still uses the misleading name "education property tax" to describe it on tax bills.

These high property taxes have a large economic cost. Property taxes act like a tax on capital, specifically building capital. A tax on capital reduces the incentive to invest, resulting in lower investment which leads to lower productivity and therefore income and standards of living of Canadians. A 10 percent increase in commercial property tax rates decreases the long-run value of the business property assessment base by 8.2 percent. At the average level of business property taxation in Ontario, a $1.00 business property tax hike costs the Ontario economy $5.56 (Found 2017). Higher taxes shrink the tax base, which makes it harder for governments to raise revenues. The total business tax rates in some cities across Ontario – such as London, Windsor and Brantford – are so high that cities and the province might see revenues increase if they cut their taxes to attract more business investment.

This Shadow Budget proposes to complete the harmonization of business property tax rates. To make such a tax reform revenue-neutral, it proposes to eliminate the SR&ED credit and the lower manufacturing and processing corporate income tax rate and reduce provincial business property taxes that would reduce revenues by the same amount saved. Such a change would have a number of benefits. First, it would create a more level playing field across different types of businesses that currently face different tax rates. Secondly, it would improve fairness in the provincial property tax regime across the province. Third, a revenue-neutral property tax reduction would lower the marginal effective tax rate on new investment in most parts of the province – and almost all of Southern Ontario – by more than any increase in provincial income taxes would increase the effective rate. Property taxes have an especially large effect on tax costs on investment because they are insensitive to profit and are akin to a direct tax on capital (Found and Tomlinson 2017). Such a reduction in provincial property taxes would be largest for the same sectors that would see a removal of their special, lower income tax rate, across most of Southern Ontario.

Housing, Municipal, and Infrastructure Policy

This Shadow Budget would seek to lower the cost of housing across the province by taking steps to reduce barriers to construction and eliminating economically costly rent controls and transfer taxes. It would also fundamentally change the relationship between municipalities and the province by granting cities the ability to put their budgets on a sound financial footing and allow them more flexibility in financing infrastructure.

A Smart Housing Plan

The cost of housing in Ontario has increased dramatically in recent years. According to data from Brookfield's Real Property Solutions, home prices the Greater Toronto Area increased by more than 250 percent between January 2005 and the end of the 2017. In response, the province has taken steps such as introducing taxes on foreign buyers and rent controls. The government's policies have focused mostly on curtailing the demand of housing.

On April 20, 2017, the province introduced a 15 percent Non-Resident Speculation Tax in the Greater Toronto Area. This transfer tax is substantially higher than the existing provincial land transfer tax that has a maximum rate of 2.5 percent. Land transfer taxes such as these have a high economic cost of reducing the mobility of households (see Dachis 2012 and Dachis, Duranton, Turner 2008). In addition, land transfer taxes are highly volatile and present a large fiscal risk to the province if the housing market has a serious downturn (Ngo, Angastiniotis, and West 2017). This Shadow Budget would immediately eliminate the additional 15 percent tax and look to begin reductions in the general land transfer tax in future fiscal years.

On the same day, the province expanded rent control to all rental units in the province, rather than only those built before 1991, as was the case prior. Rent control is one of the few economic policies around which there is a solid, evidence-based consensus about its long-term effect on the cost of housing: it does not lower it in the long-run (Kronick 2017). The likely result of rent control is that housing developers will not build rental housing knowing they face a cap on potential returns, while facing no commensurate cap on their investment risk. The result will be fewer units available, leading to housing shortages. This Shadow Budget would phase out rent control on all rental units. It would start by reducing the extent to which rent control binds the market by increasing the allowable increase, doing so annually until eventual repeal. Rather than rely on rent control, this Shadow Budget would embrace the recent federal decision to create a Canada Housing Benefit that provides low-income renters with the funds to seek a wide range of market-priced rental units (Canada 2017). This Shadow Budget would re-orient financial support for housing construction, which is often part of transfers to local governments, as discussed below, to match the federal contribution in creating the Canada Housing Benefit.

Reducing the Cost of Housing

There is strong evidence that restrictions and extra costs on building new housing – such as zoning regulations, delays on permit approvals, development charges, and limits on greenfield housing development – are dramatically increasing the price of housing. Dachis and Thivierge (forthcoming) find that a limited lowering of these restrictions can reduce house prices in some municipalities in the Greater Toronto Area by around $100,000.

What can the province do to reduce supply barriers? Toronto heavily uses a clause in the provincial *Planning Act* – the legislation governing municipal zoning policy – that allows it to require additional payments from developers in exchange for a site-specific variance from zoning bylaws (Moore forthcoming). These additional payments, known as section 37 payments for the relevant part of the *Act*, increase uncertainty for developers and therefore increase the cost of housing. In addition, municipalities have an incentive to keep zoning bylaws out of date because updating them would take away the future section 37 payments. This Shadow Budget would place greater restrictions on the use of section 37 of the *Planning Act*, which would result in municipalities having a greater incentive to set more appropriate zoning regulations.

Developers pay development charges to compensate municipalities for the cost of building municipal infrastructure that services homes and commercial properties in a newly developed area. The largest single component of these charges is for water and wastewater construction (Dachis forthcoming). This Shadow Budget would require that cities replace development charges for water and wastewater infrastructure with volumetric uses fees that reflect capital costs. Such a move would reflect a change to a utility-based model and encourage conservation of water.

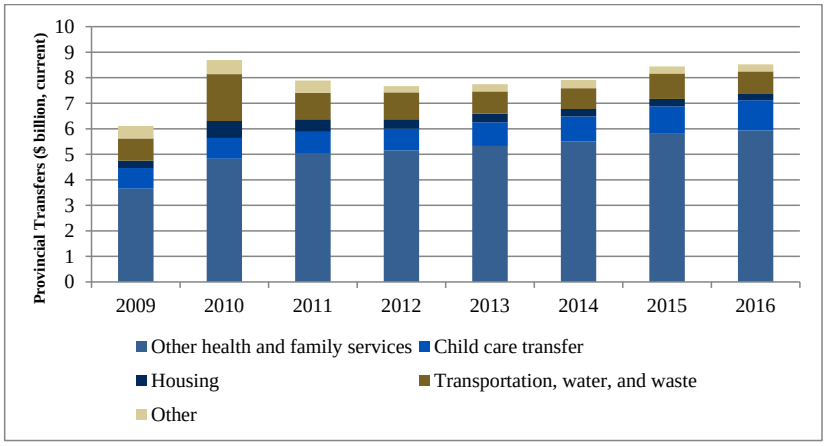
Finally, housing developers in GTA cities are facing a shortage of land available for new housing development (Clayton 2015). The primary cause is not because of the Greenbelt, a policy that forbids development on certain agricultural and parkland. Dachis and Thivierge (forthcoming) find that the main land-supply driven cause of higher house prices is not the Greenbelt, but the Growth Plan for the Greater Golden Horseshoe, a policy that requires cities in the GTA to approve a certain share of their homes within existing urban development boundaries and at a certain density. This Shadow Budget would relax the density and intensity targets that may not be appropriate across all cities subject to the Growth Plan while preserving the Greenbelt.

Rethinking Relative Municipal and Provincial Fiscal Health

One of the province's largest expenditures is on grants to municipalities. Transfers to municipalities have increased since 2009, including a large spike in 2010 to support infrastructure stimulus projects. Transfers to municipal governments from the province are now over $7 billion (Figure 6). Indeed, this trend is set to accelerate. In January of 2017, the province committed to double the amount of the fuel tax it transfers to municipal governments for transportation investment (Jones 2017). Ontario transferred $335 million in provincial gas tax revenue to municipal governments in 2017, and made a commitment to double the funding to bring the total transfer to $642 million by 2021-22.

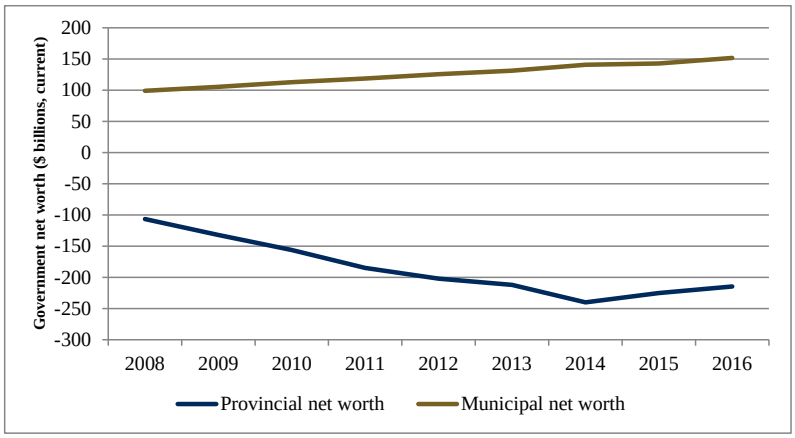
The largest share of transfers is for health services – such as public health – and for childcare benefits. The latter, in particular, are dispersed to municipalities under a complex set of qualification criteria. These programs are ripe for review and evaluation, as their impact on workforce participation and the ability for single-parent and underrepresented families to engage in the labour force are critical. The child care transfer has increased by nearly 50 percent since 2008 reaching $1.2 billion in 2016, suggesting that a review of the program is in order

Figure 6: Ontario Provincial Transfers to Municipalities, 2009-2016



Source: Authors' calculations from Ontario Financial Information Return. Note: Some small cities have not yet submitted their 2016 financial information.

Figure 7: Ontario Provincial and Municipal Net Worth, 2008-2016



Source: Authors' calculations from Cansim Tables 385-0034 and 385-0037.

Does it make sense for the province to send such grants to municipal governments? Ontario's municipalities are, on average, in better fiscal shape than the provincial government. They are major investors in capital assets, but unlike the province, whose chronic deficits have resulted in financial liabilities that vastly exceeds its financial and non-financial assets, Ontario municipalities have positive net worth. They have borrowed to finance some capital assets, but the value of their assets exceeds their debt by a substantial margin. In the nine years from 2008 to 2016, Ontario municipal governments have increased their net worth by more than 50 percent, registering an increase of over $50 billion (Figure 7). In contrast, provincial net indebtedness has approximately doubled over that time, even after a slight improvement in net asset values over the last two years.

The Important Difference between Municipal and Provincial Accounting

How did such a fiscal health imbalance come about? Transfers are often the result of cities claiming they are struggling to meet their service or infrastructure demands and then calling on the province for support. However, the way that cities present their budgets, especially relative to the way the province reports its finances, makes municipal finances appear more precarious than they actually are. Ontario municipalities typically use cash accounting in their budget.[1] However, the province – as well as municipal end-of-year financial statements – uses the accrual accounting standard. Accrual-based budgets appropriately do not record the entire cost of capital items as expenses in the year of the cash outlay, but apply annual amortization over their useful live. Figure 7 presents municipal and provincial finances on the equivalent accrual financial basis.

Presenting councillors with budgets that show outlays on such assets as in-year expenses (as cash budgeting does), rather than amortizing them as they deliver their services (as accrual accounting does),

[1] A common practice is to show expected cash outlays in a "capital" budget alongside an "operating" budget for items to be consumed and expensed during the year.

likely leads municipalities to delay or reject some capital projects they would otherwise approve. It also likely leads them to finance the projects they do approve by raising revenues up front, rather than by borrowing and servicing the debt over the period the project yields its benefits. The result is that today's taxpayers – whether through property taxes, grants to cities, or development charges on houses – are paying disproportionately more than they are receiving in municipal services.

Reframing the Municipal-Provincial Financial Relationship

This Shadow Budget would cancel the proposed doubling of the amount of provincial fuel taxes that the province transfers to municipal governments. In fact, it would go further to limit transfers to cities. As above, this Shadow Budget would begin a long-term commitment to reducing property taxes levied by the province. Every dollar of provincial property tax reduction creates tax room that municipalities can decide to take up. Cities would have the freedom to choose how best to finance local services or whether to increase or reduces taxes and services.

The province's commitment to double gasoline tax transfers to municipalities emerged as a response to the City of Toronto's request for the province to enact an enabling regulation permitting it to introduce a toll on municipally owned highways. The province forbade Toronto from the move, offering all cities the gasoline tax transfer instead. This Shadow Budget would allow cities the ability to introduce road pricing without requiring a provincial regulation, as long as the intention and design of the toll is to reduce congestion, not as a purely revenue-raising option.

In addition, instead of allowing cities to have parcel-by-parcel zoning amendments, as discussed above, this Shadow Budget would expand the ability of cities to put in place a tax-increment financing plan for major infrastructure. This would allow cities to capture some of the increase in property values that result from a new transportation or other municipal investment that increases the value of nearby properties (Found 2016).

Finally, this Shadow Budget would require municipal governments to produce their beginning-of-year budgets on an accrual basis. Importantly, it would not require that cities produce a balanced budget every calendar year and would instead enact a review of the appropriate fiscal and economic benchmarks that cities should adhere to under an accrual accounting system. A revised budget process would allow cities the flexibility they need to finance long-term infrastructure without relying on provincial grants or upfront revenues.

Transit Governance

Originally created in 2007, Metrolinx started with the intent of creating a regional transit plan for the Greater Toronto and Hamilton area with a board made up of local government officials. Two years later, Metrolinx expanded to become the GO Transit operator. The province then removed the local government officials from the Metrolinx board, which is now made up of people appointed by the province.

How can the region overcome local opposition to changes while finding a way to act in the regional interest? Right now, it's easy for local politicians to pass blame around, especially to an unelected transit board. One proposal is to create a single, amalgamated transit operator for the whole Greater Toronto Area

(Gill, Kelcey, Parker, 2017). But rather than amalgamation, which has shown to not result in significant savings (Bish, 2001, Found 2012), another approach is to restore the role of municipal governments on the board of Metrolinx.

Toronto should follow the Vancouver model, in which provincial legislation tasks a Mayor's Council made up of representatives from each of the region's 21 municipalities to appoint a board of Translink, the regional transit coordinating body. Translink has many subsidiary companies that operate transit services under contract (Translink 2017). The regional transit body is the regional coordinator, less than it is a regional authority and another new layer of government (Spicer and Found 2016). The reformed Metrolinx can contract with subsidiary transit operators, private contractors, or municipal governments that can supplement Metrolinx-supported routes.

Greenhouse Gas and Energy Policy

Greenhouse Gas Policy

This Shadow Budget would continue to increase the price on greenhouse gas emissions. This Shadow Budget does not take a position of the merits of a cap-and-trade program as opposed to a carbon tax. A carbon tax would be simpler to administer than a cap-and-trade program and would also generate more revenue for the province of Ontario. On the other hand, a cap-and-trade program that allows Ontario to link with the emissions permit market in California and Quebec allows for a lower cost on emissions to meet the same reduction target. Trading emissions permits across borders and between markets allows emissions reductions to occur wherever it is cheapest to do so, reducing the overall cost (Thivierge 2017).

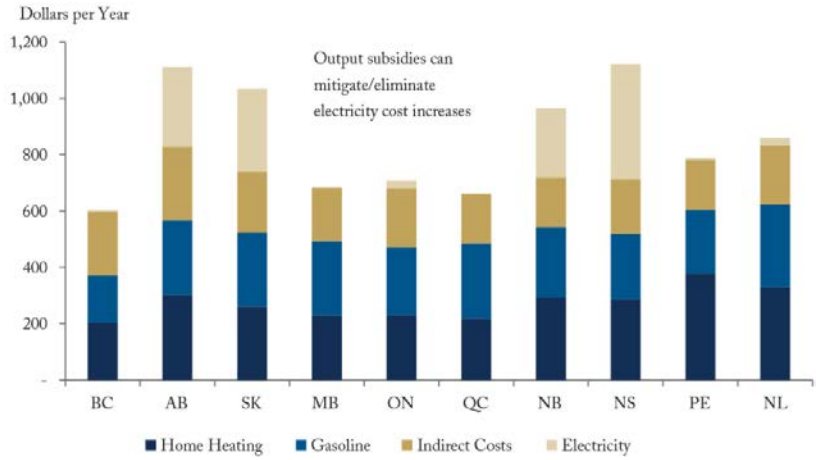
If prices on emissions rise to $50 per tonne, which they are set to with federal government policy, the upfront cost to the average Ontario household would be around $700 per year (Figure 8). However, the final cost to consumers will depend on how governments recycle that revenue back to households. It is on how the government plans to use the revenues from a carbon price that this Shadow Budget proposes a change of direction for the province of Ontario.

Eliminate Energy Efficiency Programs and Consumer Subsidies

The current plan for the government of Ontario is to spend between $6 and $8.3 billion over five years on projects intended to further emissions reductions beyond that planned to occur using the existing cap-and-trade policy (Ontario 2016). The government plans to finance the subsidies with revenues from an auction for permits that greenhouse-gas-emitting companies must buy. Many of the proposed spending programs are exceptionally costly. For example, subsidies to retrofit apartments will cost as much as $900 million over five years. They will cost taxpayers $425 per tonne of GHG emissions reduced, much higher than any reasonable estimate of future carbon prices. Another example of a wasteful subsidy is the Electric Vehicle Incentive Program, which provides incentives of up to $14,000 per electric vehicle.[2] These kinds of subsidies are regressive and economically costly ways to further reduce emissions (Rivers and Shiell 2015). Other announced programs will not have a direct cost to taxpayers, but will be costly to drivers, homeowners and businesses. The government is planning to boost the amount of renewable content in gasoline and natural gas. Renewable-fuel mandates push the cost onto consumers and are an economically expensive way to reduce emissions (Auld 2008).

[2] See http://www.mto.gov.on.ca/english/vehicles/electric/electric-vehicle-incentive-program.shtml

Figure 8: Cost of a $50/tonne of CO_2 price on typical household



Source: Dachis and Tombe (2017) from Jennifer Winter.

This Shadow Budget would eliminate nearly all of these existing subsidies and mandates and instead use the revenue to reduce taxation on households and businesses. The exact design of the tax cuts is outside of the scope of this Shadow Budget, but such a tax cut should promote two principles. First, it should reduce the average cost to businesses of emissions pricing while still providing a marginal incentive for them to reduce emissions. Second, households should receive tax cuts broadly in proportion to the cost of emissions pricing as a share of their income. This would mean tax cuts and enriching renewable tax credits geared to low-income families, for whom energy costs are a large share of total income.

To ensure industrial competitiveness, this Shadow Budget would adopt one of two paths. This Shadow Budget would prefer to adopt Alberta's emissions pricing policy, which is similar to the federal system. Producers in Alberta face little competitive disadvantage under this model. Although emitters pay the full cost of their own emissions, they receive a credit per unit of output, with the amount of the credit based on a provincial average emissions benchmark. Companies still have a strong incentive to reduce their emissions while having a minimal net impact on the competitiveness of industrial emitters. Indeed, companies with below-average emissions are better off in this system. This Shadow Budget would adopt a similar system if the cap-and-trade program is no longer the most effective means of putting a price on emissions. If, on balance, removing the apparatus of a cap-and-trade program for industrial emitters is too costly, it would preserve the system of allocating some permits for free to industrial producers.

Promote Long-term Energy Research

As research from Popp (2016) shows, a carbon price will drive 95 percent of the lowest-cost emissions reductions to meet reduction targets. Subsidies for energy adoption, as has been common in Ontario with electricity polices, encourages firms to use technology that is closest to market. Subsidies for adoption don't solve a market failure and don't encourage innovation. However, there is a market failure for longer-term energy research. The benefits of such research are broad, but the returns to firms of doing such research are relatively smaller, uncertain, and if they materialize at all will be far in the future. On their

own, research subsidies would achieve about 10 percent of economically efficient emissions reductions (Popp 2016). As such, this Shadow Budget would devote around 10 percent of revenues from an emissions price to long-term research.

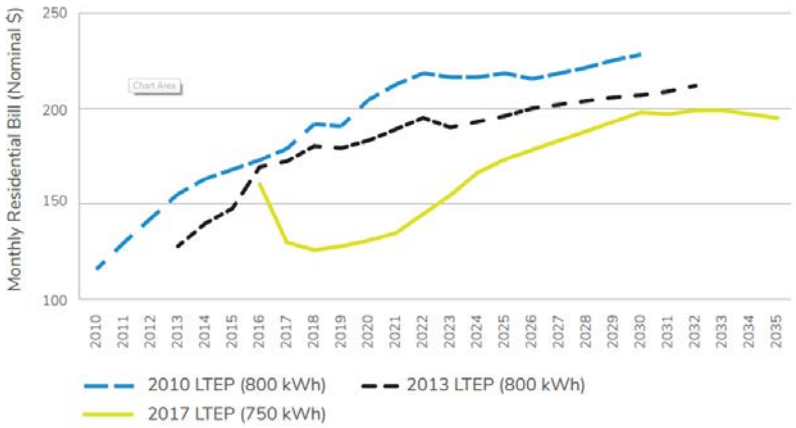
Electricity Policy

Few topics have generated as much controversy in Ontario as electricity policy, with a number of previous policies resulting in a dramatic increase in electricity prices (Trebilcock 2017). The government has taken a series of measures that will immediately reduce electricity prices for residential customers. However, within five years, prices are forecast to increase dramatically as the current policy does not address the actual cost of generating and delivering electricity, and relies on taxpayers and future ratepayers to subsidize electricity use today (Figure 9). Further, many industrial consumers are receiving no reduction to their bills. This Shadow Budget would take actions now that will begin to reduce system cost and reduce prices for businesses and consumers in the future.

Market Design and Regulation

The Independent Electricity System Operator (IESO), which manages the electricity market for Ontario, is undertaking a major market reform. The IESO projects that the market reform will reduce the cost of purchasing electricity by billions of dollars, eventually resulting in savings for consumers. The single-largest cost savings for consumers is set to come from the IESO adopting what is called a capacity market. A capacity market provides electricity generators with a revenue stream for being available to produce electricity, in addition to their revenues from selling electricity. Such a market is a major improvement to the government's previous approach of signing 20-year contracts with generators that effectively covers both. The government's plan is a sensible one that has been shown to be effective in a number of other jurisdictions, and this Shadow Budget would continue to proceed with it (see Goulding 2013 and Wyman 2014).

Figure 9: Electricity Price Outlook – Residential Consumers



Source: Ontario (2017b).

This Shadow Budget would propose the government look to take the market reform one step further by reforming the purchasing role of the IESO. The current proposal for the capacity market is to make the IESO the only buyer of generation contracts. The downside of that plan is that it does not create competition among potential electricity buyers. This Shadow Budget would delegate the purchasing power in the capacity market to local buying groups across the province. These local buying groups, known as load-serving entities, would have the ability to purchase electricity that suits local needs. Large business, currently limited to buying electricity from the IESO and paying a share of the Global Adjustment, which pays for capacity investments, could form their own load-serving entities and contract directly with generators. Further, these local buying groups would encourage consolidation of local distribution companies, to which we will return to below.

However, as Goulding (2013) argues, to be effective, the government must pair a capacity market with changes to improve the independence of Ontario's electricity regulatory bodies. Ontario governments of all political stripes haved directed various government agencies to take specific action in the electricity sector while circumventing regulators (Vegh 2016). This Shadow Budget would end the cycle of government price interventions, specific directives, and decisions on procurement by requiring the Ontario Energy Board to review all major decisions in the energy market with a mandate to approve actions only if they increase economic efficiency (see Church 2017 for a discussion of economic efficiency in regulatory hearings).

Economic efficiency means having an electricity market that has decisions determined by prices, and not arbitrary government rules. One of the most intrusive arbitrary government electricity market rules is the Industrial Conservation Initiative. In this program, eligible industrial consumers save money if they slash electricity use during the five highest Ontario-wide demand hours of the year. It's an arbitrary and expensive way to cut electricity costs for some (Sen 2015). Small businesses and residents pay higher bills because of the policy. Instead, this Shadow Budget would eliminate this program and let large consumers pay only for what they buy in a capacity market and the hourly electricity market.

Similarly, a portion of the electricity bills of Ontario households support subsidies for residential consumers to purchase smart thermostats and other energy-efficiency devices. These programs cost ratepayers $600 million in 2016 (Auditor General 2017b). As with direct government spending on such programs these programs often do not pass a cost-benefit test for the use of government fund. Many households would make such investments if energy prices were sufficiently high and they were sufficiently informed. This Shadow Budget would remove any directives requiring such energy efficiency measures, and grant the Ontario Energy Board the authority to approve or reject energy efficiency programs, such as the Industrial Conservation Initiative, based solely on whether they improve economic efficiency.

Encouraging Private Investment in the Ontario Energy Sector

As of 2017, municipal governments in the province owned local electricity distribution companies that had a value of $11 to $15 billion (Robins 2017a). Cities could sell these companies to finance infrastructure investment. Sales would have no negative effect on ratepayers, since the Ontario Energy Board keeps a close regulatory eye on all price changes regardless of who owns the companies. Furthermore, private investors are usually best placed to make the decisions about the appropriate boundaries of companies, geographically and across distribution, transmission and even generation investment. Private investors would bear the consequences of poor choices, but reap some of the rewards of good mergers (Fyfe, Garner,

and Vegh 2013). The incentives for these private-sector companies to keep costs down are often better aligned with ratepayers than those facing publicly owned electricity companies.

However, cities have not been able to take advantage of the value of these assets because of provincial taxes on such sales.[3] The province would collect $1.8 to $2.5 billion in such taxes (Robins 2017a). These overly high taxes pose a significant barrier to any sale. This year will be the last year of a three-year partial tax holiday on provincial transfer taxes in Ontario on the sales of municipally owned local electricity distribution companies. The intent of this tax change was to encourage mergers using private investors, rather than only encouraging merger with other government-owned companies. However, there have been few sales so far, partly because the tax holiday was limited largely to sales of very small companies. Private investor showed little appetite for such assets. This Shadow Budget would exempt municipalities entirely from all taxes on sales, as long as the proceeds of a sale are reinvested in qualifying infrastructure projects.

Private investment in provincially owned electricity assets has been a controversial topic, but a wise policy move. As Robins (2017b) argues, it is not necessary for the province to continue to own its minority share in Hydro One, the transmission utility, or Ontario Power Generation (OPG), a major power generator, if its policy objective is to keep electricity prices down. As with municipal companies, a strong Ontario Energy Board can protect consumers no matter the owner. A sale of the remaining government stake in Hydro One would net the province somewhere in the order of $7 billion and a sale of OPG could also generate substantial revenue.

The upfront revenue is not necessarily the best reason for the province to sell electricity assets. The main reason to sell is reduced risks. The sale would reduce dividends in the future, such as the $250 million from Hydro One. However, using such a sale to eliminate debt could result in cost-savings and reduced fiscal risks if interest rates increase. Second, the electricity sector is undergoing fundamental change. OPG and Hydro One deliver electricity in a traditional long-distance network. However, the electricity system of the future may look very different, with the emergence of small-scale renewable electricity generation. The result could be a decline in value of, and therefore dividends flowing to the treasury from, Hydro One and OPG. The best way for the province to mitigate that risk is to continue selling stakes in Hydro One and begin to include private investors in OPG.

Conclusion

A fiscally sustainable Ontario will mean higher standards of living for Canadians through better government services and faster economic growth. The province should take action to correct a fiscal course that is unsustainable. The government must act to bring the long-term cost of government in line with the revenue-raising capacity of the province. This Shadow Budget shows that there are a number of policy directions the government can and intends to take in areas as diverse as electricity, greenhouse gas, municipal, health, social and tax policy that can balance increases in spending with generating new revenues and cost-savings measures, and generally enhancing the well-being of Ontarians.

[3] See Fyfe, Garner, and Vegh (2013) for more details on the complex system of transfer and departure taxes in the Ontario local electricity distribution sector.

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From: George Sakura
To: Ken Kandeepan
Subject: Budget net debt file
Date: Monday, July 24, 2017 3:36:28 PM
Attachments: Net Debt - 2016-17 - (April 7, 2017) Budget.xlsx

2017 Document

Scenario: $1.5 B deficit in 2016-17, balanced budget afterwards.

Narrative: The government is setting an interim net debt-to-GDP ratio target of 35 per cent by 2023–24 and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent by 2029–30.

Assumptions

1 Pension is reversed and deficit for 2016-17 is $1,524
2 GDP - per latest information rec'd March 28, 2017
3 Net TCA BV - per info rec'd April 7, 2017
4 Net Debt not adjusted for prepaids and inventory. Such adjustment will be done for the 2016-17 Public Accounts onwards.
5 Balanced budget continues through to 2030-31
6 Net TCA BV is the same from 2026-27 to 2030-31, i.e. no change
7 GDP annual growth is 4% from 2021-22 to 2030-31

Based on the assumptions above, the net debt to GDP threshold of 27% is achieved in 2029-30
The 35% threshold will be achieved in 2023-24

	2017 Doc Net Debt ($M)	2017 Doc Net Debt to GDP %	2016 Budget Net Debt to GDP %	Q3 Net Debt to GDP %	FES Net Debt to GDP %	2017 Doc Accum Def ($M)	2017 Doc Accum Def to GDP %	2016 Budget Accum Def to GDP %
2016-17	301,916	37.82	39.61	38.26	38.26	193,544	24.25	25.40
2017-18	311,921	37.46	38.94	37.80	37.80	193,544	23.24	24.29
2018-19	323,271	37.30	38.53	37.46	37.46	193,544	22.33	23.31
2019-20	335,857	37.20	38.18	37.16	37.16	193,544	21.44	22.42
2020-21	346,545	36.93				193,544	20.62	
2021-22	354,529	36.33				193,544	19.83	
2022-23	359,492	35.42				193,544	19.07	
2023-24	359,432	34.05				193,544	18.34	
2024-25	360,649	32.85				193,544	17.63	
2025-26	358,920	31.44				193,544	16.95	
2026-27	358,525	30.19				193,544	16.30	
2027-28	358,525	29.03				193,544	15.67	
2028-29	358,525	27.92				193,544	15.07	
2029-30	358,525	26.84				193,544	14.49	
2030-31	358,525	25.81				193,544	13.93	

	April 7-TCA	April 5-TCA	April 4-TCA	April 3-TCA	Mar 30-TCA						
	Net Debt As % to GDP	Net Debt As % to GDP	Net Debt As % to GDP	Net Debt As % to GDP	Net Debt As % to GDP		Apr 7- TCA	Apr 5- TCA	April 4-TCA	April 3-TCA	Mar 30-TCA
2016-17 Outlook	37.82	37.82	37.82	37.82	37.82		108,372	108,372	108,372	108,372	108,372
2017-18 Outlook	37.46	37.45	37.46	37.46	37.42		118,377	118,317	118,357	118,357	118,060
2018-19 Outlook	37.30	37.29	37.29	37.29	37.11		129,727	129,646	129,600	129,600	128,069
2019-20 Outlook	37.20	37.19	37.21	37.21	36.94		142,313	142,201	142,403	142,403	139,985
2020-21 Outlook	36.93	36.90	37.05	37.05	36.62		153,001	152,757	154,127	154,127	150,096
2021-22 Outlook	36.33	36.28	36.73	36.59	35.95		160,985	160,545	164,899	163,583	157,300
2022-23 Outlook	35.42	35.35	36.21	35.82	35.00		165,948	165,261	173,981	170,031	161,650
2023-24 Outlook	34.05	33.96	34.91	34.42	33.47		165,888	164,951	174,936	169,805	159,804
2024-25 Outlook	32.85	32.74	33.47	33.02	32.02		167,105	165,918	173,895	168,900	158,007
2025-26 Outlook	31.44	31.31	31.95	31.52	30.53		165,376	163,939	171,240	166,380	155,067
2026-27 Outlook	30.19	30.05	30.40	30.00	29.03		164,981	163,294	167,377	162,652	151,193
2027-28 Outlook	29.03	28.90	29.23	28.84	27.92		164,981	163,294	167,377	162,652	151,193
2028-29 Outlook	27.92	27.79	28.10	27.74	**26.84**		164,981	163,294	167,377	162,652	151,193
2029-30 Outlook	**26.84**	**26.72**	**27.02**	**26.67**	25.81		164,981	163,294	167,377	162,652	151,193
2030-31 Outlook	25.81	25.69	25.98	25.64	24.82		164,981	163,294	167,377	162,652	151,193

Assumptions

Balanced budget continues through to 2030-31
TCA is the same from 2026-27 to 2030-31, i.e. no change
GDP annual growth is 4% from 2021-22 to 2030-31

Based on the assumptions above, the net debt to GDP threshold of 27% is achieved in **2029-30**

Net Debt to Revenue and GDP Ratios													
Ontario		2017 Document with pension reversal											
					Net Debt As	Net Debt As	Accumulated	Acc Deficit		Prepds/inv.	ONFA	Other Adj	Deficit/
	Fiscal Year	GDP	Net Debt	Revenue	% to GDP	% to Revenue	Deficit	to GDP	TCA	Adj.(gain)/los	(gain)/loss	(gain)/loss	(Surplus)
Actual	1989-90	282,766	35,409	46,500	12.52	76.1	35,409	12.52	-				(90)
Actual	1990-91	287,334	38,438	49,002	13.38	78.4	38,438	13.38	-				3,029
Actual	1991-92	288,217	49,368	47,527	17.13	103.9	49,368	17.13	-				10,930
Actual	1992-93	293,068	61,796	49,122	21.09	125.8	61,796	21.09	-				12,428
Actual	1993-94	302,245	80,599	51,410	26.67	156.8	80,599	26.67	-				11,202
Actual	1994-95	319,986	90,728	53,962	28.35	168.1	90,728	28.35	-				10,129
Actual	1995-96	337,400	101,864	57,898	30.19	175.9	101,864	30.19	-				8,800
Actual	1996-97	347,842	108,769	58,060	31.27	187.3	108,769	31.27	-				6,905
Actual	1997-98	368,960	112,735	61,362	30.55	183.7	112,735	30.55	-				3,966
Actual	1998-99	389,250	114,737	63,044	29.48	182.0	114,737	29.48	-				2,002
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3	134,398	32.13	-				(668)
Actual	2000-01	452,238	132,496	72,258	29.30	183.4	132,496	29.30	-				(1,902)
Actual	2001-02	469,084	132,121	72,550	28.17	182.1	132,121	28.17	-				(375)
Actual	2002-03	494,815	132,647	74,938	26.81	177.0	118,705	23.99	13,942				(117)
Actual	2003-04	509,511	138,816	74,549	27.24	186.2	124,188	24.37	14,628				5,483
Actual	2004-05	533,365	140,921	84,192	26.42	167.4	125,743	23.58	15,178				1,555
Actual	2005-06	556,635	152,702	90,738	27.43	168.3	109,155	19.61	43,547				(298)
Actual	2006-07	578,241	153,742	97,120	26.59	158.3	106,776	18.47	46,966			(110)	(2,269)
Actual	2007-08	601,735	156,616	104,115	26.03	150.4	105,617	17.55	50,999		(559)		(600)
Actual	2008-09	608,446	169,585	97,532	27.87	173.9	113,238	18.61	56,347		1,212		6,409
Actual	2009-10	597,882	193,589	96,313	32.38	201.0	130,957	21.90	62,632		1,090	-	19,262
Actual	2010-11	630,989	214,511	107,175	34.00	200.2	144,573	22.91	69,938		(395)	-	14,011
Actual	2011-12	659,743	235,582	109,773	35.71	214.6	158,410	24.01	77,172		3	865	12,969
Actual	2012-13	680,084	252,088	113,369	37.07	222.4	167,132	24.58	84,956		(639)	141	9,220
Actual	2013-14	695,349	267,190	115,911	38.43	230.5	176,634	25.40	90,556		(951)	-	10,453
Actual	2014-15	727,962	284,576	118,546	39.09	240.1	187,511	25.76	97,065		(1,121)	1,683	10,315
Actual	2015-16	763,276	294,564	128,377	38.59	229.5	192,028	25.16	102,536		1,003	-	3,514
	2016-17 Outloo	798,218	301,916	133,228	37.82	226.6	193,544	24.25	108,372		(8)		1,524
	2017-18 Outloo	832,652	311,921	141,650	37.46	220.2	193,544	23.24	118,377				-
	2018-19 Outloo	866,612	323,271	144,906	37.30	223.1	193,544	22.33	129,727				-
	2019-20 Outloo	902,778	335,857	149,335	37.20	224.9	193,544	21.44	142,313				-
	2020-21 Outloo	938,411	346,545		36.93		193,544	20.62	153,001				-
	2021-22 Outloo	975,947	354,529		36.33		193,544	19.83	160,985				-
	2022-23 Outloo	1,014,985	359,492		35.42		193,544	19.07	165,948				-
	2023-24 Outloo	1,055,585	359,432		34.05		193,544	18.34	165,888				-
	2024-25 Outloo	1,097,808	360,649		32.85		193,544	17.63	167,105				-
	2025-26 Outloo	1,141,720	358,920		31.44		193,544	16.95	165,376				-
	2026-27 Outloo	1,187,389	358,525		30.19		193,544	16.30	164,981				-
	2027-28 Outloo	1,234,885	358,525		29.03		193,544	15.67	164,981				-
	2028-29 Outloo	1,284,280	358,525		27.92		193,544	15.07	164,981				-
	2029-30 Outloo	1,335,651	358,525		26.84		193,544	14.49	164,981				-
	2030-31 Outloo	1,389,078	358,525		25.81		193,544	13.93	164,981				-

Assumptions

1. Pension is reversed and deficit for 2016-17 is $ 1,524 m
2. GDP - per latest information rec'd March 28, 2017 (see GDP tab)
3. TCA - per info rec'd April 7, 2017 (see TCA tab)
4. Net Debt not adjusted for prepaids

Other Assumptions

- Balanced budget continues through to 2030-31
- TCA is the same from 2026-27 to 2030-31, i.e. no change
- GDP annual growth is 4% from 2021-22 to 2030-31

Prepared by OFA, FTD

7-Apr-17

2016 Document

GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA	Prepds/inv. Adj.(gain)/loss	ONFA (gain)/loss	Other (gain)/loss	Deficit/ (Surplus)
282,766	35,409	46,500	12.52	76.1	35,409	12.52	-				(90)
287,334	38,438	49,002	13.38	78.4	38,438	13.38	-				3,029
288,217	49,368	47,527	17.13	103.9	49,368	17.13	-				10,930
293,068	61,796	49,122	21.09	125.8	61,796	21.09	-				12,428
302,245	80,599	51,410	26.67	156.8	80,599	26.67	-				11,202
319,986	90,728	53,962	28.35	168.1	90,728	28.35	-				10,129
337,400	101,864	57,898	30.19	175.9	101,864	30.19	-				8,800
347,842	108,769	58,060	31.27	187.3	108,769	31.27	-				6,905
368,960	112,735	61,362	30.55	183.7	112,735	30.55	-				3,966
389,250	114,737	63,044	29.48	182.0	114,737	29.48	-				2,002
418,245	134,398	70,983	32.13	189.3	134,398	32.13	-				(668)
452,238	132,496	72,258	29.30	183.4	132,496	29.30	-				(1,902)
469,084	132,121	72,550	28.17	182.1	132,121	28.17	-				(375)
494,815	132,647	74,938	26.81	177.0	118,705	23.99	13,942				(117)
509,511	138,816	74,549	27.24	186.2	124,188	24.37	14,628				5,483
533,365	140,921	84,192	26.42	167.4	125,743	23.58	15,178				1,555
556,635	152,702	90,738	27.43	168.3	109,155	19.61	43,547				(298)
578,241	153,742	97,120	26.59	158.3	106,776	18.47	46,966			(110)	(2,269)
601,735	156,616	104,115	26.03	150.4	105,617	17.55	50,999		(559)		(600)
608,446	169,585	97,532	27.87	173.9	113,238	18.61	56,347		1,212		6,409
597,882	193,589	96,313	32.38	201.0	130,957	21.90	62,632		1,090	-	19,262
630,989	214,511	107,175	34.00	200.2	144,573	22.91	69,938		(395)	-	14,011
659,743	235,582	109,773	35.71	214.6	158,410	24.01	77,172		3	865	12,969
680,084	252,088	113,369	37.07	222.4	167,132	24.58	84,956		(639)	141	9,220
693,210	267,190	115,911	38.54	230.5	176,634	25.48	90,556		(951)	-	10,453
721,970	284,576	118,546	39.42	240.1	187,511	25.97	97,065		(1,121)	1,683	10,315
748,207	296,109	126,547	39.58	234.0	193,447	25.85	102,662		250	-	5,686
778,417	308,315	130,589	39.61	236.1	197,753	25.40	110,562				4,306
813,924	316,945	137,729	38.94	230.1	197,740	24.29	119,205				(13)
848,237	326,827	141,920	38.53	230.3	197,717	23.31	129,110				(23)
882,062	336,798		38.18	#DIV/0!	197,717	22.42	139,081				-
	344,907			#DIV/0!	197,717		147,190				-

Note: 2015-16 Accumulated Deficit includes a projected ONFA unrealized loss of $250 million for 2015/16 (Budget).

Note: For 2019-20 and 2020-21, we are assuming a zero deficit.

Note: 2015-16 PA Accumulated Deficit includes the ONFA unrealized loss of $1,003 million and the pension adjustment of $9,154 million.

Comparison: 2016 Budget vs. Scenario March 23, 2017

GDP	Net Debt	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA	Prepds/inv. Adj.	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-

Net Debt to Revenue and GDP Ratios

Ontario

2017 Document wit

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit
Actual	1989-90	282,766	35,409	46,500	12.52	76.1	35,409
Actual	1990-91	287,334	38,438	49,002	13.38	78.4	38,438
Actual	1991-92	288,217	49,368	47,527	17.13	103.9	49,368
Actual	1992-93	293,068	61,796	49,122	21.09	125.8	61,796
Actual	1993-94	302,245	80,599	51,410	26.67	156.8	80,599
Actual	1994-95	319,986	90,728	53,962	28.35	168.1	90,728
Actual	1995-96	337,400	101,864	57,898	30.19	175.9	101,864
Actual	1996-97	347,842	108,769	58,060	31.27	187.3	108,769
Actual	1997-98	368,960	112,735	61,362	30.55	183.7	112,735
Actual	1998-99	389,250	114,737	63,044	29.48	182.0	114,737
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3	134,398
Actual	2000-01	452,238	132,496	72,258	29.30	183.4	132,496
Actual	2001-02	469,084	132,121	72,550	28.17	182.1	132,121
Actual	2002-03	494,815	132,647	74,938	26.81	177.0	118,705
Actual	2003-04	509,511	138,816	74,549	27.24	186.2	124,188
Actual	2004-05	533,365	140,921	84,192	26.42	167.4	125,743
Actual	2005-06	556,635	152,702	90,738	27.43	168.3	109,155
Actual	2006-07	578,241	153,742	97,120	26.59	158.3	106,776
Actual	2007-08	601,735	156,616	104,115	26.03	150.4	105,617
Actual	2008-09	608,446	169,585	97,532	27.87	173.9	113,238
Actual	2009-10	597,882	193,589	96,313	32.38	201.0	130,957
Actual	2010-11	630,989	214,511	107,175	34.00	200.2	144,573
Actual	2011-12	659,743	235,582	109,773	35.71	214.6	158,410
Actual	2012-13	680,084	252,088	113,369	37.07	222.4	167,132
Actual	2013-14	695,349	267,190	115,911	38.43	230.5	176,634
Actual	2014-15	727,962	284,576	118,546	39.09	240.1	187,511
Actual	2015-16	763,276	294,564	128,377	38.59	229.5	192,028
	2016-17 Outloo	798,218	301,916	133,228	37.82	226.6	193,544
	2017-18 Outloo	832,652	311,921	141,650	37.46	220.2	193,544
	2018-19 Outloo	866,612	323,271	144,906	37.30	223.1	193,544
	2019-20 Outloo	902,778	335,857	149,335	37.20	224.9	193,544
	2020-21 Outloo	938,411	346,545		36.93		193,544
	2021-22 Outloo	-					

Assumptions

1 Pension is reversed and deficit for 2016-17 is $ 1,524

2 GDP - per latest information rec'd March 28, 2017 (see GDP tab)

3 TCA - per info rec'd Mar 30, 2017 (see TCA tab)

4 Net Debt not adjusted for prepaids

Prepared by OFA, FTD

7-Apr-17

h pension reversal

Acc Deficit to GDP	TCA	Prepds/inv. Adj.(gain)/loss	ONFA (gain)/loss	Other (gain)/loss	Deficit/ (Surplus)	GDP	Net Debt
12.52	-				(90)	282,766	35,409
13.38	-				3,029	287,334	38,438
17.13	-				10,930	288,217	49,368
21.09	-				12,428	293,068	61,796
26.67	-				11,202	302,245	80,599
28.35	-				10,129	319,986	90,728
30.19	-				8,800	337,400	101,864
31.27	-				6,905	347,842	108,769
30.55	-				3,966	368,960	112,735
29.48	-				2,002	389,250	114,737
32.13	-				(668)	418,245	134,398
29.30	-				(1,902)	452,238	132,496
28.17	-				(375)	469,084	132,121
23.99	13,942				(117)	494,815	132,647
24.37	14,628				5,483	509,511	138,816
23.58	15,178				1,555	533,365	140,921
19.61	43,547				(298)	556,635	152,702
18.47	46,966			(110)	(2,269)	578,241	153,742
17.55	50,999		(559)		(600)	601,735	156,616
18.61	56,347		1,212		6,409	608,446	169,585
21.90	62,632		1,090	-	19,262	597,882	193,589
22.91	69,938		(395)	-	14,011	630,989	214,511
24.01	77,172		3	865	12,969	659,743	235,582
24.58	84,956		(639)	141	9,220	680,084	252,088
25.40	90,556		(951)	-	10,453	695,349	267,190
25.76	97,065		(1,121)	1,683	10,315	727,962	284,576
25.16	102,536		1,003	-	3,514	763,276	294,564
24.25	108,372		(8)		1,524	796,860	304,875
23.24	118,377				-	829,384	313,496
22.33	129,727				-	863,312	323,376
21.44	142,313				-	897,001	333,323
20.62	153,001				-	932,882	341,408

m

Assumptions - FES with P

1 Pension is re
2 GDP - per lat
3 TCA - per FES
4 Using Optio

2016-17 FES - with pension adjustment reversed & option 4 for 2016-17 - Q3

Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA	Prepds/inv. Adj.(gain)/los
46,500	12.52	76.1	35,409	12.52	-	
49,002	13.38	78.4	38,438	13.38	-	
47,527	17.13	103.9	49,368	17.13	-	
49,122	21.09	125.8	61,796	21.09	-	
51,410	26.67	156.8	80,599	26.67	-	
53,962	28.35	168.1	90,728	28.35	-	
57,898	30.19	175.9	101,864	30.19	-	
58,060	31.27	187.3	108,769	31.27	-	
61,362	30.55	183.7	112,735	30.55	-	
63,044	29.48	182.0	114,737	29.48	-	
70,983	32.13	189.3	134,398	32.13	-	
72,258	29.30	183.4	132,496	29.30	-	
72,550	28.17	182.1	132,121	28.17	-	
74,938	26.81	177.0	118,705	23.99	13,942	
74,549	27.24	186.2	124,188	24.37	14,628	
84,192	26.42	167.4	125,743	23.58	15,178	
90,738	27.43	168.3	109,155	19.61	43,547	
97,120	26.59	158.3	106,776	18.47	46,966	
104,115	26.03	150.4	105,617	17.55	50,999	
97,532	27.87	173.9	113,238	18.61	56,347	
96,313	32.38	201.0	130,957	21.90	62,632	
107,175	34.00	200.2	144,573	22.91	69,938	
109,773	35.71	214.6	158,410	24.01	77,172	
113,369	37.07	222.4	167,132	24.58	84,956	
115,911	38.43	230.5	176,634	25.40	90,556	
118,546	39.09	240.1	187,511	25.76	97,065	
128,377	38.59	229.5	192,028	25.16	102,536	
	38.26	233.5	193,948	24.34	110,927	
	37.80	227.6	193,948	23.38	119,548	
	37.46	227.9	193,948	22.47	129,428	
	37.16		193,948	21.62	139,375	
	36.60		193,948		147,460	

ension reversal & Net Debt to GDP ratio of 38.3% going forward:

versed and deficit for 2016-17 is $2,171

est information rec'd Jan 25, 2017 (see GDP tab)

s - rec'd Oct 4, 2016 (see TCA tab)

n 4 scenario for 2016-17

							Comparison: Q3 201
ONFA (gain)/loss	Other (gain)/loss	Deficit/ (Surplus)	GDP	Net Debt	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit
		(90)	-	-	-	-	-
		3,029	-	-	-	-	-
		10,930	-	-	-	-	-
		12,428	-	-	-	-	-
		11,202	-	-	-	-	-
		10,129	-	-	-	-	-
		8,800	-	-	-	-	-
		6,905	-	-	-	-	-
		3,966	-	-	-	-	-
		2,002	-	-	-	-	-
		(668)	-	-	-	-	-
		(1,902)	-	-	-	-	-
		(375)	-	-	-	-	-
		(117)	-	-	-	-	-
		5,483	-	-	-	-	-
		1,555	-	-	-	-	-
		(298)	-	-	-	-	-
	(110)	(2,269)	-	-	-	-	-
(559)		(600)	-	-	-	-	-
1,212		6,409	-	-	-	-	-
1,090	-	19,262	-	-	-	-	-
(395)	-	14,011	-	-	-	-	-
3	865	12,969	-	-	-	-	-
(639)	141	9,220	-	-	-	-	-
(951)	-	10,453	-	-	-	-	-
(1,121)	1,683	10,315	-	-	-	-	-
1,003	-	3,514	-	-	-	-	-
		1,920	(1,358)	2,959	0.4	6.8	404
		-	(3,268)	1,575	0.3	7.4	404
		-	(3,300)	105	0.2	4.8	404
		-	(5,777)	(2,534)	(0.0)	(224.9)	404
		-	(5,529)	(5,137)	(0.3)	-	404

16-17 vs. Scenario March 23, 2017

Acc Deficit to GDP	TCA	Prepds/inv. Adj.(gain)/loss	ONFA (gain)/loss	Other (gain)/loss	Deficit/ (Surplus)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-

Net Debt to Revenue and GDP Ratios

Ontario

2017 Document wit

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit
Actual	1989-90	282,766	35,409	46,500	12.52	76.1	35,409
Actual	1990-91	287,334	38,438	49,002	13.38	78.4	38,438
Actual	1991-92	288,217	49,368	47,527	17.13	103.9	49,368
Actual	1992-93	293,068	61,796	49,122	21.09	125.8	61,796
Actual	1993-94	302,245	80,599	51,410	26.67	156.8	80,599
Actual	1994-95	319,986	90,728	53,962	28.35	168.1	90,728
Actual	1995-96	337,400	101,864	57,898	30.19	175.9	101,864
Actual	1996-97	347,842	108,769	58,060	31.27	187.3	108,769
Actual	1997-98	368,960	112,735	61,362	30.55	183.7	112,735
Actual	1998-99	389,250	114,737	63,044	29.48	182.0	114,737
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3	134,398
Actual	2000-01	452,238	132,496	72,258	29.30	183.4	132,496
Actual	2001-02	469,084	132,121	72,550	28.17	182.1	132,121
Actual	2002-03	494,815	132,647	74,938	26.81	177.0	118,705
Actual	2003-04	509,511	138,816	74,549	27.24	186.2	124,188
Actual	2004-05	533,365	140,921	84,192	26.42	167.4	125,743
Actual	2005-06	556,635	152,702	90,738	27.43	168.3	109,155
Actual	2006-07	578,241	153,742	97,120	26.59	158.3	106,776
Actual	2007-08	601,735	156,616	104,115	26.03	150.4	105,617
Actual	2008-09	608,446	169,585	97,532	27.87	173.9	113,238
Actual	2009-10	597,882	193,589	96,313	32.38	201.0	130,957
Actual	2010-11	630,989	214,511	107,175	34.00	200.2	144,573
Actual	2011-12	659,743	235,582	109,773	35.71	214.6	158,410
Actual	2012-13	680,084	252,088	113,369	37.07	222.4	167,132
Actual	2013-14	695,349	267,190	115,911	38.43	230.5	176,634
Actual	2014-15	727,962	284,576	118,546	39.09	240.1	187,511
Actual	2015-16	763,276	294,564	128,377	38.59	229.5	192,028
	2016-17 Outloo	798,218	301,916	133,228	37.82	226.6	193,544
	2017-18 Outloo	832,652	311,921	141,650	37.46	220.2	193,544
	2018-19 Outloo	866,612	323,271	144,906	37.30	223.1	193,544
	2019-20 Outloo	902,778	335,857	149,335	37.20	224.9	193,544
	2020-21 Outloo	938,411	346,545		36.93		193,544
	2021-22 Outloo	-					

Assumptions

1 Pension is reversed and deficit for 2016-17 is $ 1,524

2 GDP - per latest information rec'd March 28, 2017 (see GDP tab)

3 TCA - per info rec'd Mar 30, 2017 (see TCA tab)

4 Net Debt not adjusted for prepaids

Prepared by OFA, FTD

7-Apr-17

h pension reversal

Acc Deficit to GDP	TCA	Prepds/inv. Adj.(gain)/loss	ONFA (gain)/loss	Other (gain)/loss	Deficit/ (Surplus)	GDP	Net Debt
12.52	-				(90)	282,766	35,409
13.38	-				3,029	287,334	38,438
17.13	-				10,930	288,217	49,368
21.09	-				12,428	293,068	61,796
26.67	-				11,202	302,245	80,599
28.35	-				10,129	319,986	90,728
30.19	-				8,800	337,400	101,864
31.27	-				6,905	347,842	108,769
30.55	-				3,966	368,960	112,735
29.48	-				2,002	389,250	114,737
32.13	-				(668)	418,245	134,398
29.30	-				(1,902)	452,238	132,496
28.17	-				(375)	469,084	132,121
23.99	13,942				(117)	494,815	132,647
24.37	14,628				5,483	509,511	138,816
23.58	15,178				1,555	533,365	140,921
19.61	43,547				(298)	556,635	152,702
18.47	46,966			(110)	(2,269)	578,241	153,742
17.55	50,999		(559)		(600)	601,735	156,616
18.61	56,347		1,212		6,409	608,446	169,585
21.90	62,632		1,090	-	19,262	597,882	193,589
22.91	69,938		(395)	-	14,011	630,989	214,511
24.01	77,172		3	865	12,969	659,743	235,582
24.58	84,956		(639)	141	9,220	680,084	252,088
25.40	90,556		(951)	-	10,453	695,349	267,190
25.76	97,065		(1,121)	1,683	10,315	727,962	284,576
25.16	102,536		1,003	-	3,514	763,276	294,564
24.25	108,372		(8)		1,524	796,860	304,875
23.24	118,377				-	829,384	313,496
22.33	129,727				-	863,312	323,376
21.44	142,313				-	897,001	333,323
20.62	153,001				-	932,882	341,408

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Assumptions - FES with P

1 Pension is re
2 GDP - per lat
3 TCA - per FES
4 Using Optio

2016-17 FES - with pension adjustment reversed & option 4 for 2016-17 - Q3

Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA	Prepds/inv. Adj.(gain)/los
46,500	12.52	76.1	35,409	12.52	-	
49,002	13.38	78.4	38,438	13.38	-	
47,527	17.13	103.9	49,368	17.13	-	
49,122	21.09	125.8	61,796	21.09	-	
51,410	26.67	156.8	80,599	26.67	-	
53,962	28.35	168.1	90,728	28.35	-	
57,898	30.19	175.9	101,864	30.19	-	
58,060	31.27	187.3	108,769	31.27	-	
61,362	30.55	183.7	112,735	30.55	-	
63,044	29.48	182.0	114,737	29.48	-	
70,983	32.13	189.3	134,398	32.13	-	
72,258	29.30	183.4	132,496	29.30	-	
72,550	28.17	182.1	132,121	28.17	-	
74,938	26.81	177.0	118,705	23.99	13,942	
74,549	27.24	186.2	124,188	24.37	14,628	
84,192	26.42	167.4	125,743	23.58	15,178	
90,738	27.43	168.3	109,155	19.61	43,547	
97,120	26.59	158.3	106,776	18.47	46,966	
104,115	26.03	150.4	105,617	17.55	50,999	
97,532	27.87	173.9	113,238	18.61	56,347	
96,313	32.38	201.0	130,957	21.90	62,632	
107,175	34.00	200.2	144,573	22.91	69,938	
109,773	35.71	214.6	158,410	24.01	77,172	
113,369	37.07	222.4	167,132	24.58	84,956	
115,911	38.43	230.5	176,634	25.40	90,556	
118,546	39.09	240.1	187,511	25.76	97,065	
128,377	38.59	229.5	192,028	25.16	102,536	
130,589	38.26	233.5	193,948	24.34	110,927	
137,729	37.80	227.6	193,948	23.38	119,548	
141,920	37.46	227.9	193,948	22.47	129,428	
	37.16		193,948	21.62	139,375	
	36.60		193,948		147,460	

ension reversal & Net Debt to GDP ratio of 38.3% going forward:

versed and deficit for 2016-17 is $2,171

est information rec'd Jan 25, 2017 (see GDP tab)

s - rec'd Oct 4, 2016 (see TCA tab)

n 4 scenario for 2016-17

			Comparison: FES 2016-17 with				
ONFA (gain)/loss	Other (gain)/loss	Deficit/ (Surplus)	GDP	Net Debt	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit
		(90)	-	-	-	-	-
		3,029	-	-	-	-	-
		10,930	-	-	-	-	-
		12,428	-	-	-	-	-
		11,202	-	-	-	-	-
		10,129	-	-	-	-	-
		8,800	-	-	-	-	-
		6,905	-	-	-	-	-
		3,966	-	-	-	-	-
		2,002	-	-	-	-	-
		(668)	-	-	-	-	-
		(1,902)	-	-	-	-	-
		(375)	-	-	-	-	-
		(117)	-	-	-	-	-
		5,483	-	-	-	-	-
		1,555	-	-	-	-	-
		(298)	-	-	-	-	-
	(110)	(2,269)	-	-	-	-	-
(559)		(600)	-	-	-	-	-
1,212		6,409	-	-	-	-	-
1,090	-	19,262	-	-	-	-	-
(395)	-	14,011	-	-	-	-	-
3	865	12,969	-	-	-	-	-
(639)	141	9,220	-	-	-	-	-
(951)	-	10,453	-	-	-	-	-
(1,121)	1,683	10,315	-	-	-	-	-
1,003	-	3,514	-	-	-	-	-
		1,920	(1,358)	2,959	0.4	6.8	404
		-	(3,268)	1,575	0.3	7.4	404
		-	(3,301)	105	0.2	4.8	404
		-	(5,777)	(2,534)	(0.0)	(224.9)	404
		-	(5,530)	(5,137)	(0.3)	-	404

Pension Reversal vs. with Pension adjustment

Acc Deficit to GDP	TCA	Prepds/inv. Adj.	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-

Ontario Nominal GDP

FES

	Ontario Nominal GDP	
2000	452,238	
2001	469,084	
2002	494,815	
2003	509,511	
2004	533,365	
2005	556,635	
2006	578,241	
2007	601,735	
2008	608,446	
2009	597,882	
2010	630,989	5.5
2011	659,743	4.6
2012	680,084	3.1
2013	695,349	2.2
2014	727,962	4.7
2015	763,276	4.9
2016p	797362	4.5
2017p	831653	4.3
2018p	866305	4.2
2019p	902008	4.1
2020p	937232	3.9

p = projection

Updated GDP - rec'd March 21, 2017

Rec'd from: Mark Williams
28-Mar-17

	Ontario No
2000	452,238
2001	469,084
2002	494,815
2003	509,511
2004	533,365
2005	556,635
2006	578,241
2007	601,735
2008	608,446
2009	597,882
2010	630,989
2011	659,743
2012	680,084
2013	695,349
2014	727,962
2015	763,276
2016	798218
2017p	832652
2018p	866612
2019p	902778
2020p	938411

p = projection

minal GDP

5.5
4.6
3.1
2.2
4.7
4.9
4.6
4.3
4.1
4.2
3.9

DRAFT PROVINCIAL TCA as of April 7-2017 Net Book Value ($ Millions)	2016-17 Interim	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Opening Net Book Value	**102,536**	**108,372**	**118,377**	**129,727**	**142,313**	**153,001**	**160,985**	**165,948**	**165,888**	**167,105**	**165,376**
Annual Acquisitions	11,092	15,566	17,274	18,851	17,433	15,352	12,919	8,314	9,932	7,194	8,612
Gross Amortization Expense	(5,256)	(5,562)	(5,924)	(6,265)	(6,745)	(7,369)	(7,956)	(8,374)	(8,715)	(8,923)	(9,008)
Closing Net Book Value	**108,372**	**118,377**	**129,727**	**142,313**	**153,001**	**160,985**	**165,948**	**165,888**	**167,105**	**165,376**	**164,981**
Amortization Expense	(4,768)	(5,054)	(5,392)	(5,708)	(6,164)	(6,764)	(7,339)	(7,750)	(8,080)	(8,276)	(8,356)
Amortization of DCC:											
Hospitals	(438)	(456)	(474)	(493)	(517)	(540)	(554)	(563)	(575)	(587)	(593)
School Boards	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
Colleges	(45)	(47)	(53)	(59)	(59)	(59)	(58)	(56)	(54)	(54)	(54)
Gross Amortization Expense	(5,256)	(5,562)	(5,924)	(6,265)	(6,745)	(7,369)	(7,956)	(8,374)	(8,715)	(8,923)	(9,008)

Notes:

Opening NBV for 2016-17 from public accounts

Annual Acquisitions include other partner funding and federal flowthroughs

From: David Hodes

7-Apr-17

Net Book Value of TCA ($ Millions)	2015-16 (Actual)	2016-17	2017-18	2018-19	2019-20
2016 Budget					
Opening Net Book Value		102,536	110,437	119,079	128,985
Annual Acquisitions	N/A	13,037	14,059	15,605	15,979
Gross Amortization Expense	N/A	(5,137)	(5,416)	(5,700)	(6,008)
Closing Net Book Value	102,536	110,437	119,079	128,985	138,956
In Year Approvals					
Annual Acquisitions	-	502	0	-	-
School Renewal (16-17 Only)	0	478	0	0	0
Chapleau Cree Stage 2B	0	0	0	0	0
Child and Youth Mental Health BI Solution	0	5	0	0	0
School Boards Funding For Child Care	0	19	0	0	0
Annual Amortization	-	(11)	(22)	(25)	(24)
School Renewal (16-17 Only)	0	(11)	(22)	(22)	(22)
Chapleau Cree Stage 2B	0	0	(0)	(0)	(0)
Child and Youth Mental Health BI Solution	0	0	(0)	(1)	(1)
School Boards Funding For Child Care	0	0	0	(2)	(1)
2016 Budget + In Year Approvals					
Opening Net Book Value		102,536	110,927	119,548	129,428
Annual Acquisitions		13,539	14,059	15,605	15,979
Gross Amortization Expense		(5,148)	(5,438)	(5,725)	(6,032)
Closing Net Book Value	102,536	110,927	119,548	129,428	139,375

Receeived Oct 4/2016

Source: David Hodes.

2020-21	2021-22
138,956	147,064
14,536	11,823
(6,428)	(6,939)
147,064	151,949
-	-
0	0
0	0
0	0
0	0
(24)	(23)
(22)	(22)
(0)	(0)
(1)	(1)
(1)	0
139,375	147,460
14,536	11,823
(6,451)	(6,962)
147,460	152,321

From:	Ken Kandeepan
To:	Gadi Mayman
Cc:	Shemin Meralli; George Sakura; Christina Zhang
Subject:	Copy of Net Debt - 2016-17 -FES-subseq scenarios (Dec 5 2016).xlsx
Date:	Monday, December 05, 2016 3:15:25 PM
Attachments:	Copy of Net Debt - 2016-17 -FES-subseq scenarios (Dec 5 2016).xlsx

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Hi gai

As requested pls find attached the net debt for the two out years under the two scenarios summarized in the tab marked “Leadsheet”:

- Maintain the ratio at the 2016-17 level of 40.3%
- Allow the ratio to increase by 0.2% each year.

Pls note that the Net Flexibility line essentially provides the flexibility available in 2018-19 assuming all of the flexibility in 2017-18 is fully utilized.

Pls let us know if you have any questions or require further analysis.

Thanks

Ken k

Scenarios vs. FES 2016-17 - Summary

	Scenario 1			FES 2016-17	
	2016-17	2017-18	2018-19	2016-17	2017-18
Deficit/ (Surplus) ($m)	4,324	(18)	(12)	4,324	(18)
Net Debt/GDP %	40.3	40.3	40.3	40.3	39.8
Net Debt - Net flexibility	317,948	330,938	344,472	317,948	326,551
GDP	789,176	821,389	854,990	789,176	821,389

	Scenario 2			FES 2016-17	
	2016-17	2017-18	2018-19	2016-17	2017-18
Deficit/ (Surplus) ($m)	4,324	(18)	(12)	4,324	(18)
Net Debt/GDP %	40.3	40.5	40.7	40.3	39.8
Net Debt - Net flexibility	317,948	332,580	347,896	317,948	326,551
GDP	789,176	821,389	854,990	789,176	821,389

Scenario 1:
What is the flexibility over the out years for increasing net debt while keeping the ratio

Scenario 2:
How much can net debt increase over the out years assuming that the corresponding ir
(i.e. increases in NetDebt to GDP ratio of 0.2% per year)?

Note: Net flexibility indicates the flexibility available in 2018-19 assuming that

Variance Scenario vs. FES2016-17

2018-19	2016-17	2017-18	2018-19
(12)	-	-	-
39.3	0.0	0.5	0.9
336,419	-	4,387	8,053
		4,387	3,666
854,990	-	-	-

Variance Scenario vs. FES2016-17

2018-19	2016-17	2017-18	2018-19
(12)	-	-	-
39.3	0.0	0.7	1.3
336,419	-	6,029	11,477
		6,029	5,447
854,990	-	-	-

consistent at the 2016-17 Net Debt to GDP Ratio?

ncrease in the ratio is limited to 0.2% from the FES 2016-17 number,

all of the flexibility in 2017-18 has been utilized.

Net Debt to Revenue and GDP Ratios

Ontario

2016-17 FES - with pension adjustment - scenario 1

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	IOD	Revenue	IOD to Revenue	GDP	Net Debt	Revenue	Net Debt As % to GDP
Actual	1989-90	282,766	35,409	46,500	12.52	76.1	35,409	12.52	-			(90)				282,766	35,409	46,500	12.52
Actual	1990-91	287,334	38,438	49,002	13.38	78.4	38,438	13.38	-			3,029				287,334	38,438	49,002	13.38
Actual	1991-92	288,217	49,368	47,527	17.13	103.9	49,368	17.13	-			10,930				288,217	49,368	47,527	17.13
Actual	1992-93	293,068	61,796	49,122	21.09	125.8	61,796	21.09	-			12,428				293,068	61,796	49,122	21.09
Actual	1993-94	302,245	80,599	51,410	26.67	156.8	80,599	26.67	-			11,202				302,245	80,599	51,410	26.67
Actual	1994-95	319,986	90,728	53,962	28.35	168.1	90,728	28.35	-			10,129				319,986	90,728	53,962	28.35
Actual	1995-96	337,400	101,864	57,898	30.19	175.9	101,864	30.19	-			8,800				337,400	101,864	57,898	30.19
Actual	1996-97	347,842	108,769	58,060	31.27	187.3	108,769	31.27	-			6,905				347,842	108,769	58,060	31.27
Actual	1997-98	368,960	112,735	61,362	30.55	183.7	112,735	30.55	-			3,966				368,960	112,735	61,362	30.55
Actual	1998-99	389,250	114,737	63,044	29.48	182.0	114,737	29.48	-			2,002				389,250	114,737	63,044	29.48
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3	134,398	32.13	-			(668)				418,245	134,398	70,983	32.13
Actual	2000-01	452,238	132,496	72,258	29.30	183.4	132,496	29.30	-			(1,902)				452,238	132,496	72,258	29.30
Actual	2001-02	469,084	132,121	72,550	28.17	182.1	132,121	28.17	-			(375)				469,084	132,121	72,550	28.17
Actual	2002-03	494,815	132,647	74,938	26.81	177.0	118,705	23.99	13,942			(117)				494,815	132,647	74,938	26.81
Actual	2003-04	509,511	138,816	74,549	27.24	186.2	124,188	24.37	14,628			5,483				509,511	138,816	74,549	27.24
Actual	2004-05	533,365	140,921	84,192	26.42	167.4	125,743	23.58	15,178			1,555				533,365	140,921	84,192	26.42
Actual	2005-06	556,635	152,702	90,738	27.43	168.3	109,155	19.61	43,547			(298)				556,635	152,702	90,738	27.43
Actual	2006-07	578,241	153,742	97,120	26.59	158.3	106,776	18.47	46,966		(110)	(2,269)				578,241	153,742	97,120	26.59
Actual	2007-08	601,735	156,616	104,115	26.03	150.4	105,617	17.55	50,999	(559)		(600)				601,735	156,616	104,115	26.03
Actual	2008-09	608,446	169,585	97,532	27.87	173.9	113,238	18.61	56,347	1,212		6,409				608,446	169,585	97,532	27.87
Actual	2009-10	597,882	193,589	96,313	32.38	201.0	130,957	21.90	62,632	1,090	-	19,262	8,719	96,313	9.05	597,882	193,589	96,313	32.38
Actual	2010-11	630,989	214,511	107,175	34.00	200.2	144,573	22.91	69,938	(395)	-	14,011	9,480	107,175	8.85	630,989	214,511	107,175	34.00
Actual	2011-12	659,743	235,582	109,773	35.71	214.6	158,410	24.01	77,172	3	865	12,969	10,082	109,773	9.18	659,743	235,582	109,773	35.71
Actual	2012-13	680,084	252,088	113,369	37.07	222.4	167,132	24.58	84,956	(639)	141	9,220	10,341	113,369	9.12	680,084	252,088	113,369	37.07
Actual	2013-14	695,349	267,190	115,911	38.43	230.5	176,634	25.40	90,556	(951)	-	10,453	10,572	115,911	9.12	695,349	267,190	115,911	38.43
Actual	2014-15	727,962	284,576	118,546	39.09	240.1	187,511	25.76	97,065	(1,121)	1,683	10,315	10,635	118,546	8.97	727,962	284,576	118,546	39.09
Actual	2015-16	763,276	305,233	128,377	39.99	237.8	202,697	26.56	102,536	1,003	9,154	5,029	10,967	128,377	8.54	763,276	305,233	128,377	39.99
	2016-17 Outloo	789176	317,948	130,589	40.29	243.5	207,021	26.23	110,927			4,324	11,375	132,720	8.57	789176	317,948	130,589	40.29
	2017-18 Outloo	821389	330,938	137,729	40.29	240.3	211,390	25.74	119,548		4,387	(18)	11,700	140,125	8.35	821389	326,551	137,729	39.76
	2018-19 Outloo	854990	344,472	141,920	40.29	242.7	215,044	25.15	129,428		3,666	(12)	12,400	144,899	8.56	854990	336,419	141,920	39.35
	2019-20 Outlook		354,419		#DIV/0!		215,044	#DIV/0!	139,375			-					346,366		#DIV/0!
	2020-21 Outlook		362,504				215,044		147,460			-					354,451		

Scenario 1:

What is the flexibility over the out years for increasing net debt while keeping the ratio consistent at the 2016-17 Net Debt to GDP Ratio?

Flexibility available - highlighted in yellow above.

Scenario Assumptions:

1. Net Debt to GDP ratio for 2017-18 and 2018-19 remains at the 2016-17 level at 40.29%

Prepared by OFA, FTD

5-Dec-16

Net Debt to Revenue an

Ontario

		2016-17 FES - with pension adjustment							Comparison: 2016 Public Accounts vs FES 2016-17							
	Fiscal Year	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
Actual	1989-90	76.1	35,409	12.52	-			(90)	-	-	-	-	-	-	-	-
Actual	1990-91	78.4	38,438	13.38	-			3,029	-	-	-	-	-	-	-	-
Actual	1991-92	103.9	49,368	17.13	-			10,930	-	-	-	-	-	-	-	-
Actual	1992-93	125.8	61,796	21.09	-			12,428	-	-	-	-	-	-	-	-
Actual	1993-94	156.8	80,599	26.67	-			11,202	-	-	-	-	-	-	-	-
Actual	1994-95	168.1	90,728	28.35	-			10,129	-	-	-	-	-	-	-	-
Actual	1995-96	175.9	101,864	30.19	-			8,800	-	-	-	-	-	-	-	-
Actual	1996-97	187.3	108,769	31.27	-			6,905	-	-	-	-	-	-	-	-
Actual	1997-98	183.7	112,735	30.55	-			3,966	-	-	-	-	-	-	-	-
Actual	1998-99	182.0	114,737	29.48	-			2,002	-	-	-	-	-	-	-	-
Actual	1999-2000	189.3	134,398	32.13	-			(668)	-	-	-	-	-	-	-	-
Actual	2000-01	183.4	132,496	29.30	-			(1,902)	-	-	-	-	-	-	-	-
Actual	2001-02	182.1	132,121	28.17	-			(375)	-	-	-	-	-	-	-	-
Actual	2002-03	177.0	118,705	23.99	13,942			(117)	-	-	-	-	-	-	-	-
Actual	2003-04	186.2	124,188	24.37	14,628			5,483	-	-	-	-	-	-	-	-
Actual	2004-05	167.4	125,743	23.58	15,178			1,555	-	-	-	-	-	-	-	-
Actual	2005-06	168.3	109,155	19.61	43,547			(298)	-	-	-	-	-	-	-	-
Actual	2006-07	158.3	106,776	18.47	46,966		(110)	(2,269)	-	-	-	-	-	-	-	-
Actual	2007-08	150.4	105,617	17.55	50,999	(559)		(600)	-	-	-	-	-	-	-	-
Actual	2008-09	173.9	113,238	18.61	56,347	1,212		6,409	-	-	-	-	-	-	-	-
Actual	2009-10	201.0	130,957	21.90	62,632	1,090	-	19,262	-	-	-	-	-	-	-	-
Actual	2010-11	200.2	144,573	22.91	69,938	(395)	-	14,011	-	-	-	-	-	-	-	-
Actual	2011-12	214.6	158,410	24.01	77,172	3	865	12,969	-	-	-	-	-	-	-	-
Actual	2012-13	222.4	167,132	24.58	84,956	(639)	141	9,220	-	-	-	-	-	-	-	-
Actual	2013-14	230.5	176,634	25.40	90,556	(951)	-	10,453	-	-	-	-	-	-	-	-
Actual	2014-15	240.1	187,511	25.76	97,065	(1,121)	1,683	10,315	-	-	-	-	-	-	-	-
Actual	2015-16	237.8	202,697	26.56	102,536	1,003	9,154	5,029	-	-	-	-	-	-	-	-
	2016-17 Outlo	243.5	207,021	26.23	110,927			4,324	-	-	-	-	-	-	-	-
	2017-18 Outlo	237.1	207,003	25.20	119,548			(18)	-	(4,387)	(4,387)	(0.5)	-	-	(4,387)	-
	2018-19 Outlo	237.0	206,991	24.21	129,428			(12)	-	(8,053)	(8,053)	(0.9)	-	-	(3,666)	-
	2019-20 Outlo		206,991	#DIV/0!	139,375			-	-	(8,053)	(8,053)	#DIV/0!	-	-	-	-
	2020-21 Outlo		206,991		147,460			-	-	(8,053)	(8,053)	-	-	-	-	-

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5-Dec-16

Net Debt to Revenue and GDP Ratios

Ontario

2016-17 FES - wi

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit
Actual	1989-90	282,766	35,409	46,500	12.52	76.1	35,409
Actual	1990-91	287,334	38,438	49,002	13.38	78.4	38,438
Actual	1991-92	288,217	49,368	47,527	17.13	103.9	49,368
Actual	1992-93	293,068	61,796	49,122	21.09	125.8	61,796
Actual	1993-94	302,245	80,599	51,410	26.67	156.8	80,599
Actual	1994-95	319,986	90,728	53,962	28.35	168.1	90,728
Actual	1995-96	337,400	101,864	57,898	30.19	175.9	101,864
Actual	1996-97	347,842	108,769	58,060	31.27	187.3	108,769
Actual	1997-98	368,960	112,735	61,362	30.55	183.7	112,735
Actual	1998-99	389,250	114,737	63,044	29.48	182.0	114,737
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3	134,398
Actual	2000-01	452,238	132,496	72,258	29.30	183.4	132,496
Actual	2001-02	469,084	132,121	72,550	28.17	182.1	132,121
Actual	2002-03	494,815	132,647	74,938	26.81	177.0	118,705
Actual	2003-04	509,511	138,816	74,549	27.24	186.2	124,188
Actual	2004-05	533,365	140,921	84,192	26.42	167.4	125,743
Actual	2005-06	556,635	152,702	90,738	27.43	168.3	109,155
Actual	2006-07	578,241	153,742	97,120	26.59	158.3	106,776
Actual	2007-08	601,735	156,616	104,115	26.03	150.4	105,617
Actual	2008-09	608,446	169,585	97,532	27.87	173.9	113,238
Actual	2009-10	597,882	193,589	96,313	32.38	201.0	130,957
Actual	2010-11	630,989	214,511	107,175	34.00	200.2	144,573
Actual	2011-12	659,743	235,582	109,773	35.71	214.6	158,410
Actual	2012-13	680,084	252,088	113,369	37.07	222.4	167,132
Actual	2013-14	695,349	267,190	115,911	38.43	230.5	176,634
Actual	2014-15	727,962	284,576	118,546	39.09	240.1	187,511
Actual	2015-16	763,276	305,233	128,377	39.99	237.8	202,697
	2016-17 Outloo	789176	317,948	130,589	40.29	243.5	207,021
	2017-18 Outloo	821389	332,580	137,729	40.49	241.5	213,032
	2018-19 Outloo	854990	347,896	141,920	40.69	245.1	218,468
	2019-20 Outlook		357,843		#DIV/0!		218,468
	2020-21 Outlook		365,928				218,468

Scenario 2:

How much can net debt increase over the out years assuming that the corresponding in

Flexibility available - highlighted in yellow above.

Scenario Assumptions:

1. Net Debt to GDP ratio increases by 0.2% per year after 2016-17.

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5-Dec-16

ith pension adjustment - scenario 2

Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	IOD	Revenue	IOD to Revenue
12.52	-			(90)			
13.38	-			3,029			
17.13	-			10,930			
21.09	-			12,428			
26.67	-			11,202			
28.35	-			10,129			
30.19	-			8,800			
31.27	-			6,905			
30.55	-			3,966			
29.48	-			2,002			
32.13	-			(668)			
29.30	-			(1,902)			
28.17	-			(375)			
23.99	13,942			(117)			
24.37	14,628			5,483			
23.58	15,178			1,555			
19.61	43,547			(298)			
18.47	46,966		(110)	(2,269)			
17.55	50,999	(559)		(600)			
18.61	56,347	1,212		6,409			
21.90	62,632	1,090	-	19,262	8,719	96,313	9.05
22.91	69,938	(395)	-	14,011	9,480	107,175	8.85
24.01	77,172	3	865	12,969	10,082	109,773	9.18
24.58	84,956	(639)	141	9,220	10,341	113,369	9.12
25.40	90,556	(951)	-	10,453	10,572	115,911	9.12
25.76	97,065	(1,121)	1,683	10,315	10,635	118,546	8.97
26.56	102,536	1,003	9,154	5,029	10,967	128,377	8.54
26.23	110,927			4,324	11,375	132,720	8.57
25.94	119,548		6,029	(18)	11,700	140,125	8.35
25.55	129,428		5,447	(12)	12,400	144,899	8.56
#DIV/0!	139,375			-			
	147,460			-			

crease in the ratio is limited to 0.2% from the FES 2016-17 number?

2016-17 FES - with pension adjustment

GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP
282,766	35,409	46,500	12.52	76.1	35,409	12.52
287,334	38,438	49,002	13.38	78.4	38,438	13.38
288,217	49,368	47,527	17.13	103.9	49,368	17.13
293,068	61,796	49,122	21.09	125.8	61,796	21.09
302,245	80,599	51,410	26.67	156.8	80,599	26.67
319,986	90,728	53,962	28.35	168.1	90,728	28.35
337,400	101,864	57,898	30.19	175.9	101,864	30.19
347,842	108,769	58,060	31.27	187.3	108,769	31.27
368,960	112,735	61,362	30.55	183.7	112,735	30.55
389,250	114,737	63,044	29.48	182.0	114,737	29.48
418,245	134,398	70,983	32.13	189.3	134,398	32.13
452,238	132,496	72,258	29.30	183.4	132,496	29.30
469,084	132,121	72,550	28.17	182.1	132,121	28.17
494,815	132,647	74,938	26.81	177.0	118,705	23.99
509,511	138,816	74,549	27.24	186.2	124,188	24.37
533,365	140,921	84,192	26.42	167.4	125,743	23.58
556,635	152,702	90,738	27.43	168.3	109,155	19.61
578,241	153,742	97,120	26.59	158.3	106,776	18.47
601,735	156,616	104,115	26.03	150.4	105,617	17.55
608,446	169,585	97,532	27.87	173.9	113,238	18.61
597,882	193,589	96,313	32.38	201.0	130,957	21.90
630,989	214,511	107,175	34.00	200.2	144,573	22.91
659,743	235,582	109,773	35.71	214.6	158,410	24.01
680,084	252,088	113,369	37.07	222.4	167,132	24.58
695,349	267,190	115,911	38.43	230.5	176,634	25.40
727,962	284,576	118,546	39.09	240.1	187,511	25.76
763,276	305,233	128,377	39.99	237.8	202,697	26.56
789176	317,948	130,589	40.29	243.5	207,021	26.23
821389	326,551	137,729	39.76	237.1	207,003	25.20
854990	336,419	141,920	39.35	237.0	206,991	24.21
	346,366		#DIV/0!		206,991	#DIV/0!
	354,451				206,991	

TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt	Accumulated Deficit	Acc Deficit to GDP
							Comparison: 2016 Public Ac
-			(90)	-	-	-	-
-			3,029	-	-	-	-
-			10,930	-	-	-	-
-			12,428	-	-	-	-
-			11,202	-	-	-	-
-			10,129	-	-	-	-
-			8,800	-	-	-	-
-			6,905	-	-	-	-
-			3,966	-	-	-	-
-			2,002	-	-	-	-
-			(668)	-	-	-	-
-			(1,902)	-	-	-	-
-			(375)	-	-	-	-
13,942			(117)	-	-	-	-
14,628			5,483	-	-	-	-
15,178			1,555	-	-	-	-
43,547			(298)	-	-	-	-
46,966		(110)	(2,269)	-	-	-	-
50,999	(559)		(600)	-	-	-	-
56,347	1,212		6,409	-	-	-	-
62,632	1,090	-	19,262	-	-	-	-
69,938	(395)	-	14,011	-	-	-	-
77,172	3	865	12,969	-	-	-	-
84,956	(639)	141	9,220	-	-	-	-
90,556	(951)	-	10,453	-	-	-	-
97,065	(1,121)	1,683	10,315	-	-	-	-
102,536	1,003	9,154	5,029	-	-	-	-
110,927			4,324	-	-	-	-
119,548			(18)	-	(6,029)	(6,029)	(0.7)
129,428			(12)	-	(11,477)	(11,477)	(1.3)
139,375			-	-	(11,477)	(11,477)	#DIV/0!
147,460			-	-	(11,477)	(11,477)	-

:counts vs FES 2016-17

TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
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-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	(6,029)	-
-	-	(5,447)	-
-	-	-	-
-	-	-	-

Net Debt to Revenue and GDP Ratios

Ontario

20

	Fiscal Year		GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue
Actual	1989-90		282,766	35,409	46,500	12.5	76.1
Actual	1990-91		287,334	38,438	49,002	13.4	78.4
Actual	1991-92		288,217	49,368	47,527	17.1	103.9
Actual	1992-93		293,068	61,796	49,122	21.1	125.8
Actual	1993-94		302,245	80,599	51,410	26.7	156.8
Actual	1994-95		319,986	90,728	53,962	28.4	168.1
Actual	1995-96		337,400	101,864	57,898	30.2	175.9
Actual	1996-97		347,842	108,769	58,060	31.3	187.3
Actual	1997-98		368,960	112,735	61,362	30.6	183.7
Actual	1998-99		389,250	114,737	63,044	29.5	182.0
Actual	1999-2000		418,245	134,398	70,983	32.1	189.3
Actual	2000-01		452,238	132,496	72,258	29.3	183.4
Actual	2001-02		469,084	132,121	72,550	28.2	182.1
Actual	2002-03		494,815	132,647	74,938	26.8	177.0
Actual	2003-04		509,511	138,816	74,549	27.2	186.2
Actual	2004-05		533,365	140,921	84,192	26.4	167.4
Actual	2005-06		556,635	152,702	90,738	27.4	168.3
Actual	2006-07		578,241	153,742	97,120	26.6	158.3
Actual	2007-08		601,735	156,616	104,115	26.0	150.4
Actual	2008-09		608,446	169,585	97,532	27.9	173.9
Actual	2009-10		597,882	193,589	96,313	32.4	201.0
Actual	2010-11		630,989	214,511	107,175	34.0	200.2
Actual	2011-12		659,743	235,582	109,773	35.7	214.6
Actual	2012-13		680,084	252,088	113,369	37.1	222.4
Actual	2013-14		693,210	267,190	115,911	38.5	230.5
Actual	2014-15		721,970	284,576	118,546	39.4	240.1
Actual	2015-16	3.6%	748,207	296,109	126,547	39.6	234.0
	2016-17 Outlo	4.0%	778,417	308,315	130,589	39.6	236.1
	2017-18 Outlo	4.6%	813,924	316,945	137,729	38.9	230.1
	2018-19 Outlo	4.2%	848,237	326,827	141,920	38.5	230.3
	2019-20 Outlo	4.0%	882,062	336,798		38.2	#DIV/0!
	2020-21 Outlo	#####		344,907			#DIV/0!

Note: 2015-16 Accumulated Deficit includes a projected ONFA unrealized

Note: For 2019-20 and 2020-21, we are assuming a zero deficit.

Note: 2015-16 PA Accumulated Deficit includes the ONFA unrealized loss

Prepared by OFA, FTD

29-Sep-16

16 Document

Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)		GDP
35,409	12.5	-			(90)		282,766
38,438	13.4	-			3,029		287,334
49,368	17.1	-			10,930		288,217
61,796	21.1	-			12,428		293,068
80,599	26.7	-			11,202		302,245
90,728	28.4	-			10,129		319,986
101,864	30.2	-			8,800		337,400
108,769	31.3	-			6,905		347,842
112,735	30.6	-			3,966		368,960
114,737	29.5	-			2,002		389,250
134,398	32.1	-			(668)		418,245
132,496	29.3	-			(1,902)		452,238
132,121	28.2	-			(375)		469,084
118,705	24.0	13,942			(117)		494,815
124,188	24.4	14,628			5,483		509,511
125,743	23.6	15,178			1,555		533,365
109,155	19.6	43,547			(298)		556,635
106,776	18.5	46,966		(110)	(2,269)		578,241
105,617	17.6	50,999	(559)		(600)		601,735
113,238	18.6	56,347	1,212		6,409		608,446
130,957	21.9	62,632	1,090	-	19,262		597,882
144,573	22.9	69,938	(395)	-	14,011		630,989
158,410	24.0	77,172	3	865	12,969		659,743
167,132	24.6	84,956	(639)	141	9,220		680,084
176,634	25.5	90,556	(951)	-	10,453		695,349
187,511	26.0	97,065	(1,121)	1,683	10,315	4.7%	727,962
193,447	25.9	102,662	250	-	5,686	4.9%	763,276
197,753	25.4	110,562			4,306		789,176
197,740	24.3	119,205			(13)		821,389
197,717	23.3	129,110			(23)		854,990
197,717	22.4	139,081			-		
197,717		147,190			-		

d loss of $250 million for 2015/16 (Budget).

s of $1,003 million and the pension adjustment of $9,154 million.

2016-17 FES - with pension adjustment

Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
35,409	12.5	35,409	12.5	-	-	-	(90)
38,438	13.4	38,438	13.4	-	-	-	3,029
49,368	17.1	49,368	17.1	-	-	-	10,930
61,796	21.1	61,796	21.1	-	-	-	12,428
80,599	26.7	80,599	26.7	-	-	-	11,202
90,728	28.4	90,728	28.4	-	-	-	10,129
101,864	30.2	101,864	30.2	-	-	-	8,800
108,769	31.3	108,769	31.3	-	-	-	6,905
112,735	30.6	112,735	30.6	-	-	-	3,966
114,737	29.5	114,737	29.5	-	-	-	2,002
134,398	32.1	134,398	32.1	-	-	-	(668)
132,496	29.3	132,496	29.3	-	-	-	(1,902)
132,121	28.2	132,121	28.2	-	-	-	(375)
132,647	26.8	118,705	24.0	13,942	-	-	(117)
138,816	27.2	124,188	24.4	14,628	-	-	5,483
140,921	26.4	125,743	23.6	15,178	-	-	1,555
152,702	27.4	109,155	19.6	43,547	-	-	(298)
153,742	26.6	106,776	18.5	46,966	-	(110)	(2,269)
156,616	26.0	105,617	17.6	50,999	(559)	-	(600)
169,585	27.9	113,238	18.6	56,347	1,212	-	6,409
193,589	32.4	130,957	21.9	62,632	1,090	-	19,262
214,511	34.0	144,573	22.9	69,938	(395)	-	14,011
235,582	35.7	158,410	24.0	77,172	3	865	12,969
252,088	37.1	167,132	24.6	84,956	(639)	141	9,220
267,190	38.4	176,634	25.4	90,556	(951)	-	10,453
284,576	39.1	187,511	25.8	97,065	(1,121)	1,683	10,315
305,233	40.0	202,697	26.6	102,536	1,003	9,154	5,029
317,948	40.3	207,021	26.2	110,927	-	-	4,324
326,551	39.8	207,003	25.2	119,548	-	-	(18)
336,419	39.3	206,991	24.2	129,428	-	-	(12)

Comparison: 2016 Public Accounts vs. 2015 Budget

GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
2,139	-	(0.1)	-	(0.1)	-	-	-
5,992	-	(0.3)	-	(0.2)	-	-	-
15,069	9,124	0.4	9,250	0.7	(126)	753	9,154
10,759	9,633	0.7	9,268	0.8	365	-	-
7,465	9,606	0.8	9,263	0.9	343	-	-
6,753	9,592	0.8	9,274	0.9	318	-	-

Deficit/ (Surplus)
-
-
-
-
-
-
-
-
-
-
-
-
-
-
-
-
-
-
-
-
-
-
-
-
-
(657)
18
(5)
11

	Ontario Nominal GDP (Rec'd Oct 27, 2016 - GS)		**For FES - revised** Ontario Nominal GDP (Rec'd Nov 9, 2016 - GS)	Difference
2000	452238		452238	0.003125
2001	469084		469084	(0)
2002	494815		494815	0
2003	509511		509511	-
2004	533365		533365	0
2005	556635		556635	-
2006	578241		578241	0
2007	601735		601735	-
2008	608446		608446	(0)
2009	597882		597882	(0)
2010	630989	5.5	630989	0
2011	659743	4.6	659743	0
2012	680084	3.1	680084	(0)
2013	693210	1.9	695349	2,139
2014	721970	4.1	727962	5,992
2015	747101	3.5	763276	16,175
2016p	772451	3.4	789176	16,725
2017p	803982	4.1	821389	17,407
2018p	836871	4.1	854990	18,119
2019p	873260	4.3		

p = projection

Ontario Nominal GDP per 2016 Budget	Difference FES vs Budget	
778,417	10,759	1.4%
813,924	7,465	0.9%
848,237	6,753	0.8%
882,062		

Net Book Value of TCA ($ Millions)	2015-16 (Actual)	2016-17	2017-18	2018-19	2019-20
2016 Budget					
Opening Net Book Value		102,536	110,437	119,079	128,985
Annual Acquisitions	N/A	13,037	14,059	15,605	15,979
Gross Amortization Expense	N/A	(5,137)	(5,416)	(5,700)	(6,008)
Closing Net Book Value	102,536	110,437	119,079	128,985	138,956
In Year Approvals					
Annual Acquisitions	-	502	0	-	-
School Renewal (16-17 Only)	0	478	0	0	0
Chapleau Cree Stage 2B	0	0	0	0	0
Child and Youth Mental Health BI Solution	0	5	0	0	0
School Boards Funding For Child Care	0	19	0	0	0
Annual Amortization	-	(11)	(22)	(25)	(24)
School Renewal (16-17 Only)	0	(11)	(22)	(22)	(22)
Chapleau Cree Stage 2B	0	0	(0)	(0)	(0)
Child and Youth Mental Health BI Solution	0	0	(0)	(1)	(1)
School Boards Funding For Child Care	0	0	0	(2)	(1)
2016 Budget + In Year Approvals					
Opening Net Book Value		102,536	110,927	119,548	129,428
Annual Acquisitions		13,539	14,059	15,605	15,979
Gross Amortization Expense		(5,148)	(5,438)	(5,725)	(6,032)
Closing Net Book Value	102,536	110,927	119,548	129,428	139,375

Receeived Oct 4/2016

Source: David Hodes.

2020-21	2021-22
138,956	147,064
14,536	11,823
(6,428)	(6,939)
147,064	151,949
-	-
0	0
0	0
0	0
0	0
(24)	(23)
(22)	(22)
(0)	(0)
(1)	(1)
(1)	0
139,375	147,460
14,536	11,823
(6,451)	(6,962)
147,460	152,321

From:	Serena Ly
To:	Ken Kandeepan; IOD_RPA; Shemin Meralli; John Psinas; George Sakura; Kevin Hwang; Bonnie Lemcke; David Cross
Cc:	Erica Wieder; Nathan Yuen; Anna Strathy
Subject:	DOC2017 - Briefing Notes + Q&A
Date:	Wednesday, April 12, 2017 10:53:10 AM
Attachments:	OFA FES Q and As_2016 short version clean.docx

Hello Everyone,

The briefing notes and Q&A's for the budget have been posted, please start reviewing and updating:

Borrowing & Debt and Credit Rating Briefing Note:
http://portal.ofina.on.ca/sites/cmd/ir/Document%202017/OFA%20DOC2017%20BN.docx

Q&A: (Currently using 2016 Budget Q&A as template, but I have also attached the FES 2016 Q&A's for reference)
http://portal.ofina.on.ca/sites/cmd/ir/Document%202017/Q%20and%20As%20DOC2017.docx

Thank you!
Serena

ONTARIO FINANCING AUTHORITY

Chapter 3C - Borrowing and Debt Management

General

Q: Why was total long-term public borrowing $23.8 billion in 2016–17 when the deficit is projected to be $4.3 billion?

A: In addition to financing the deficit, long-term public borrowing refinances debt maturities and debt redemptions, funds the Province's investments in capital assets, and loans to agencies. Total borrowing for 2016-17 is now forecast to be $3.6 billion less than the forecast in the 2016 Budget as a result of the overall changes in non-cash adjustments and the pre-borrowing in 2015-16.

Q: Why does the Net Debt-to-GDP ratio increase to 40.3 per cent at the end of fiscal 2016–17, compared to the 39.6 per cent forecast in the 2016 Budget?

A: The increase in the Net Debt-to-GDP ratio to 40.3% is mainly as a result of the change in accounting treatment for pension assets of jointly sponsored pension plans in 2015-16 which increased the accumulated deficit by $10.7 billion.

Q. The 2016 Budget forecast that the net debt to GDP ratio will decline from 2016-17 onwards, if so why does the ratio increase to 40.3 in 2016-17 from 40.0 percent in 2015-16

A. The slight increase in 2016-17 is primarily due to the forecast GDP rate of growth being less than what was forecast in the 2016 Budget. Over the two out years however, the net debt to GDP ratio is forecast to decline.

Q: The Province is projected to borrow $23.8 billion in 2016-17. That's approximately $1,703 for every person in Ontario. When will the Province eventually run into a debt wall like Greece, Portugal and Ireland and be forced to raise taxes and cut services?

A: There is strong demand for Ontario bonds in both the domestic and international markets. Last fiscal year Ontario was able to borrow $32.1 billion in long-term debt while our spread, or the margin that we have to pay over the equivalent Government of Canada bond, tightened, indicating ongoing strong demand for Ontario bonds. We expect that the liquidity of Ontario benchmark bonds and continuing confidence in the value of Ontario debt will allow us to cost-effectively complete the 2016-17

borrowing program. As at November 4th, 2016, the Province has completed $16.1 billion of its $23.8 billion borrowing requirement for 2016-17.

Q: Has it been difficult to complete the Province's borrowing program?

A: The Province continues to have steady access to both domestic and international bond markets. As at November 4th, 2016, the Province has completed $16.1 billion of its $23.8 billion borrowing requirement for 2016-17.

Q: The Government has adopted the accounting treatment recommended by the Auditor General resulting in a pension adjustment expense over the medium term outlook. How has this impacted borrowing?

A: The pension adjustment is a non-cash amount, as such both borrowings and total debt remain unchanged. There is also no impact on net debt over the medium term outlook given that the forecast defcits over the period remain unchanged from the 2016 Budget. .

Q: What does non-cash adjustments of $7.4 billion in 2016–17 represent?

A: Non-cash adjustments convert accounting accruals into cash requirements. Cash and accruals differ primarily because of $2.6 billion in Alternative Financing Procurements (AFPs) funded by third parties plus the reserve of $0.4 billion, partly offset by payments to be made in 2016–17 upon substantial completion of prior AFP projects. The total non-cash adjustment also reflects the impact of the pension adjustment. . Another significant adjustment is amortization that is currently over $5 billion but is, partly offset by general timing adjustments that always arise between the Province's inflows and outflows on a cash versus accrual basis. A notable example of the latter is the variance between the net incomes of the Government Business Enterprises and the dividends they pay to the Province.

Q: Is the Province planning to issue any more Green Bonds in the future?

A: The Green Bond program is an ongoing program of the Province of Ontario. To date, Ontario has issued two Canadian dollar Green Bonds. The Province plans to issue its third Green Bond before the end of fiscal 2016-17.

On October 2, 2014, Ontario successfully launched a Green Bond program, with an inaugural global Canadian dollar bond of $500 million. On January 22, 2016, Ontario launched a second global Canadian dollar bond of $750 million.

Interest on Debt (IOD)

Q: What is the impact on IOD of a $1.0 billion change in deficit?

A: The 2016-17 impact is forecast to be approximately $24 million.

Q: What is the impact on IOD of a one percentage point change in interest rates?

A: The 2016-17 impact is forecast to be approximately $350 million over a full year.

Q: What are your assumed interest rates in the IOD forecast for the FES in comparison to the forecast in the 2016 Budget?

A: The assumed ten-year interest rates are 2.4 per cent for 2016-17 and 2.9 per cent for 2017-18, which is 60 and 91 bps lower, respectively, than the forecast in the 2016 Budget. For 2018-19, the interest rate forecast is 3.6 per cent which is 106 bps lower than the forecast in the 2016 Budget, which was based on the average Ontario interest rates over the past 15 years.

Q: Will IOD costs crowd out other expenditures as interest rates rise and debt continues to climb? How can you address this problem?

A: Ontario has a realistic plan to balance its budget while investments are made in the priorities of Ontario families – health care, education, the environment and infrastructure.

After eliminating the deficit by 2017–18, overall spending increases will be restricted to one per cent below GDP growth until the Province's net debt-to-GDP ratio returns to the pre-recession level of 27 per cent.

Investor demand has allowed the Province to extend the term of its debt in recent years and lock in historically low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs. The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 27 per cent lower, at 8.6 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992–93 to 2005–06, and is forecast to remain lower through the period to balance in 2017–18.

Credit Ratings

Q: What are the Province's current credit ratings?

The Province is rated:

	Long-Term	Short-Term
Moody's Investors Service:	Aa2	P-1
Standard & Poor's:	A+	A-1+
DBRS:	AA (low)	R-1 (mid)
Fitch	AA-	F1+

Q: How will the credit rating agencies respond to the 2016 Fall Statement?

A: Ontario currently maintains a double-A rating with three of its four credit rating agencies. Ontario is on track to a balanced budget by 2017–18.

We continue to update the rating agencies on a regular basis on economic and fiscal developments.

Q: What impact did Moody's upgrade have on your borrowing costs?

A: Credit ratings are one of a number of factors that contribute to borrowing costs.

Since the 2016 Ontario Budget was released, Ontario's credit spreads have narrowed modestly. This in part reflects the fact that all four credit rating agencies have affirmed Ontario's ratings reflecting their confidence in our plan to eliminate the deficit, with Moody's improving their outlook for Ontario's credit rating.

From:	Serena Ly
To:	Gadi Mayman
Cc:	Lynsey Wynberg; Ken Kandeepan; Mike Manning; Opal Kandelas; Erica Wieder
Subject:	Debt Decks
Date:	Tuesday, January 17, 2017 11:56:47 AM
Attachments:	Province Comparisons (QC, BC) January 2017.pptx Debt Scenarios - January 2017.pptx

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Hi Gadi,

Please find attached the debt deck and the provincial comparison deck for this afternoon's meeting.

Thanks,
Serena

Comparison of Ontario, Quebec and British Columbia

January 2017

Overview

Comparison of Ontario, Quebec and British Columbia in:

- Budgetary Balance
- Net Debt and Net Debt-to-GDP
- Net Debt-to-Revenue

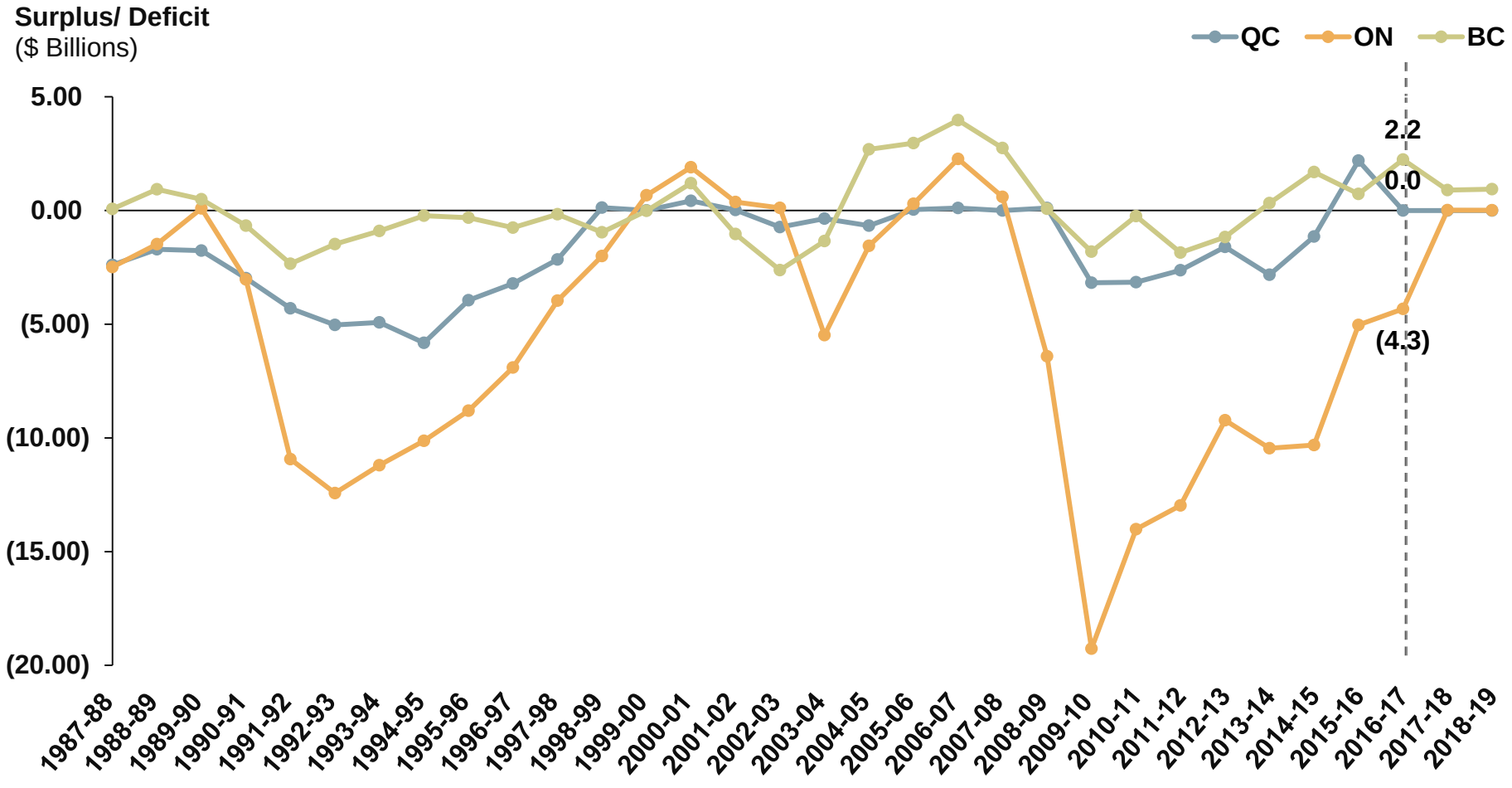
Quebec: Keys to Success

British Columbia: Keys to Success

Credit Rating Agencies

Budgetary Balance for Ontario, Quebec and British Columbia

- Quebec and BC are two of the three provinces projecting a balanced budget for fiscal 2016–17
- Ontario is projecting a deficit of $4.3 billion in 2016–17 and a return to balance in 2017–18

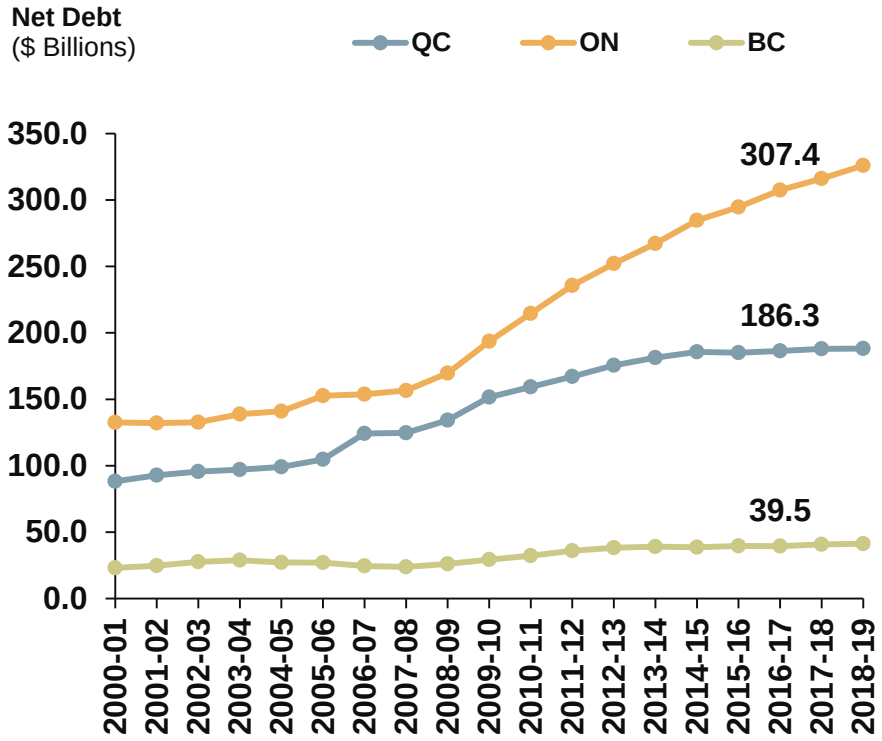


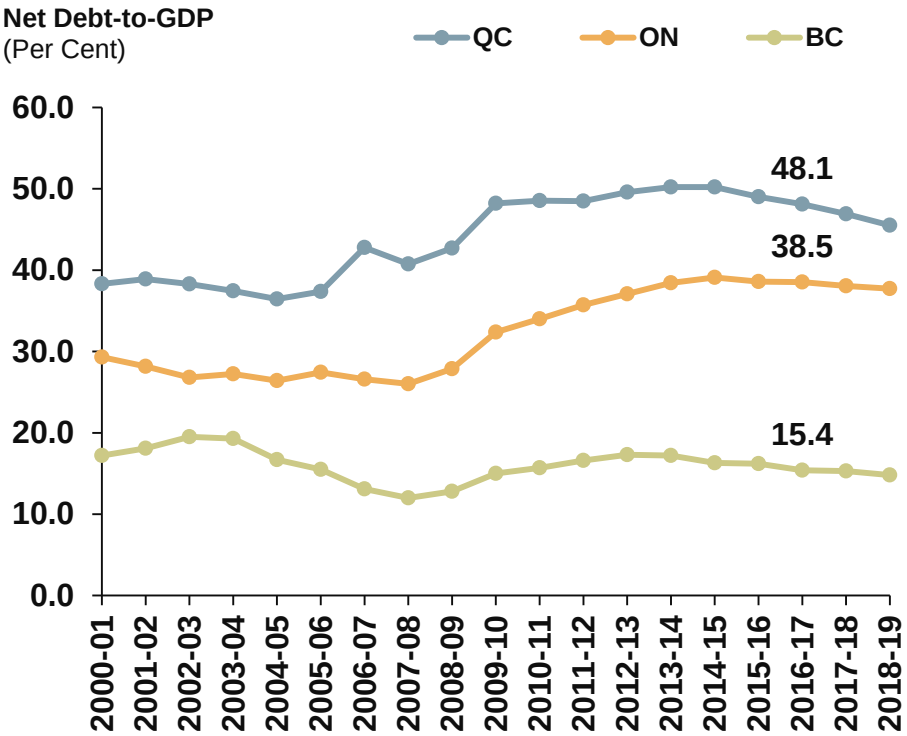
Source: RBC Economics (December 2016), Provincial Budgets, Budget updates.

Ontario

Net Debt and Net Debt-to-GDP for Ontario, Quebec and British Columbia

- Excluding the pension adjustment, Ontario's net debt would be $294.6 billion as of March 31, 2016 and is projected to be $307.4 billion in 2016–17, the highest out of all the provinces in Canada
- Excluding the pension adjustment, Ontario has the fourth highest net-debt-to-GDP ratio out of all the provinces, after New Brunswick, Newfoundland and Quebec. Ontario's net debt–to–GDP ratio would be 38.6% in 2015–16 and 38.5% in 2016–17

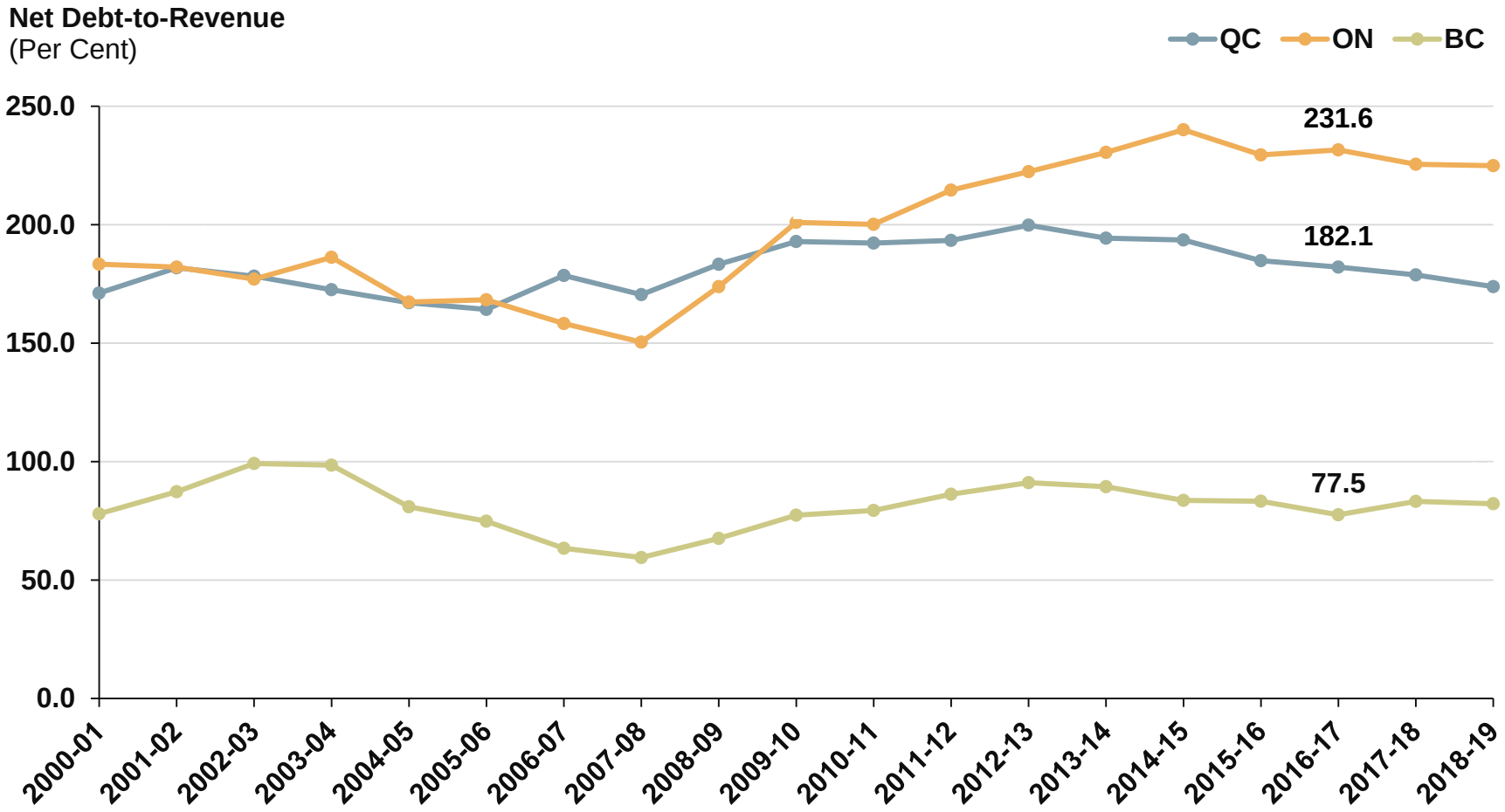




Source: RBC Economics (December 2016), Provincial Budgets, Budget updates.
Note: The Pension Adjustments incorporated in the Ontario 2015–16 Public Accounts and extended in the 2016 FES have been reversed.

Net Debt-to-Revenue for Ontario, Quebec and British Columbia

- Ontario has the highest net debt-to-revenue ratio out of all the provinces in Canada at approximately 232% for fiscal 2016–17, compared to Quebec's 182% and BC's 78%



Source: RBC Economics (December 2016), Provincial Budgets, Budget updates.
Note: The Pension Adjustments incorporated in the Ontario 2015–16 Public Accounts and extended in the 2016 FES have been reversed.

Quebec Overview

- Before deposits into a debt retirement fund, Quebec is forecasting a surplus of $2.0 billion in 2016–17, growing to a surplus of $2.8 billion by 2018–19
  - This would be the second year in a row that Quebec would be achieving a balanced budget
- As of March 31, 2016, Quebec's gross debt stands at $203.3 billion compared to Ontario's forecast of $327.4 billion

Sources: The Quebec Economic Plan, October 2016.

Quebec Debt

Quebec uses the following as its main debt indicators:

Gross Debt represents the amount of debt issued on financial markets and the net liabilities in respect of the retirement plans and future benefits of public and public sector employees, minus the balance of the Generations Fund. It does not take assets into account.

Net Debt is equal to the government's liabilities less its financial assets. It represents the debt that has funded capital investments and current expenditures.

Debt Representing Accumulated Deficits corresponds to the difference between the government's liabilities and its financial and non-financial assets as a whole.

As of March 31, 2016	($ billion)	% of GDP
Gross Debt	**203.3**	**53.8**
Less: Financial, assets, net of other liabilities	(18.3)	
Net Debt	**185.0**	**49.0**
Less: Non-financial assets	(67.1)	
Debt Representing Accumulated Deficits	**120.1**	**31.8**

Sources: The Quebec Economic Plan, October 2016.

Quebec: Keys to Success

- In 2006, the Quebec government established an *Act to reduce the debt and establish the Generations Fund.* The Generations Fund is a debt retirement fund that would solely be used to repay debt

- The Province had also set debt reduction objectives that were included in the Act. For fiscal 2025–2026:

  - Gross debt cannot exceed 45% of GDP

  - Debt representing accumulated deficits cannot exceed 17% GDP

- Quebec commenced a bulk of their infrastructure investments prior to 2009, allowing them to avoid major adjustments to the budgetary plan as well as large debt accumulation

- To help achieve a balanced budget, Quebec relied on tight spending controls and limited their consolidated expenditure growth in the past two years between 1.4% to 2.5%

- In 2016–17, Quebec will receive $10.0 billion in Equalization payments from the federal government, compared to Ontario's $2.3 billion. Quebec's net contribution to the Equalization program is the lowest out of all the provinces at -$6.5 billion, while Ontario's is the highest at $4.6 billion.

Sources: The Quebec Economic Plan, October 2016; S&P 2016.

Flexibility Arising from Balanced Budgets

- In October 2016, Quebec tabled it's 2015–16 Public Accounts posting a $2.2 billion surplus. The last time Quebec had a balanced budget was before the crisis in 2007–08.
- The $2.2 billion surplus allowed the Quebec government to make the following announcements:
  - $300 million more per year for health
  - $110 million more per year for education and higher education
  - $100 million more per year to support regional economic development
  - Additional investments of $400 million in public infrastructure
  - The complete elimination of the health contribution as of January 1, 2017—two years ahead of schedule, benefiting 4.5 million taxpayers, and representing an annual reduction of the tax burden of almost $760 million.

Additional investments
(millions of dollars)

	2016-2017	2017-2018	Cumulative [1]
Strengthening the funding of public services			
– Health and social services	100	300	1 000
– Education and higher education	35	110	365
– Regional economic development	100	100	400
Increase in the Québec Infrastructure Plan	-	400	400
Subtotal: new services	***235***	***910***	***2 165***
Complete elimination of the health contribution as of January 1, 2017	53	179	253
TOTAL	**288**	**1 089**	**2 418**

(1) From 2016-2017 to 2019-2020.

- Additionally, Quebec's debt decreased by $610 million due to the return to balance and deposits made into the Generations Fund.

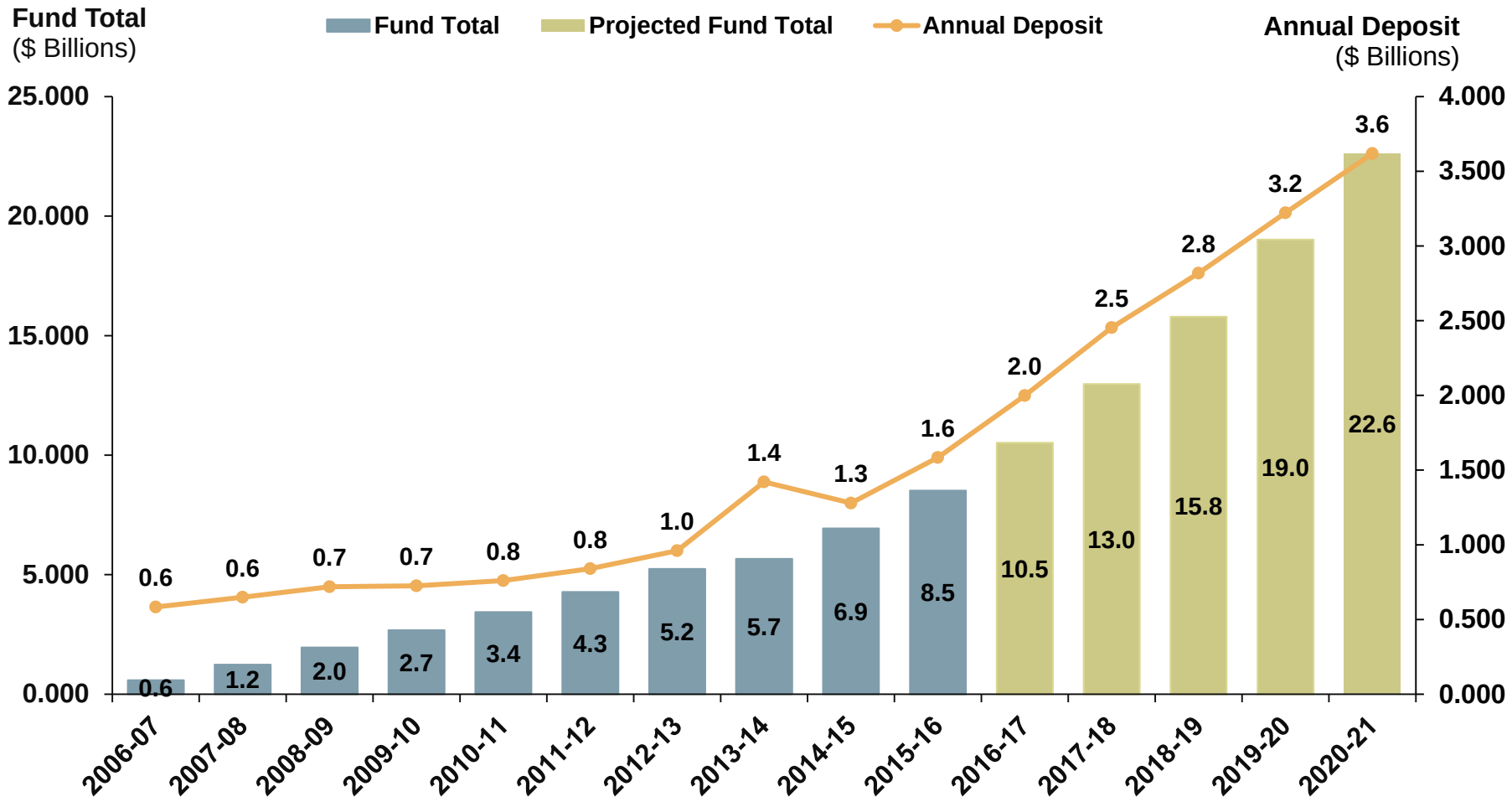
Quebec: Generations Fund

- Quebec implemented the Generations Fund in 2006 and makes annual deposits into the fund to reduce gross debt
- The fund is managed by Caisse de depot et placement du Quebec and achieved a return of 8.13 per cent in 2015
- Sources of funding include dedicated revenues from water-power royalties obtained from Hydro-Quebec and other private hydro-electricity producers, revenue generated by the indexation of the price of heritage electricity, specific taxes on alcoholic beverages, all mining revenues, and investment income
- As of March 31, 2016, the projected fund total is approximately $8.5 billion

Sources: The Quebec Economic Plan, October 2016.

Quebec: Generations Fund

- The fund is estimated to save Quebec approximately $23.6 billion in gross debt from 2006 to 2021

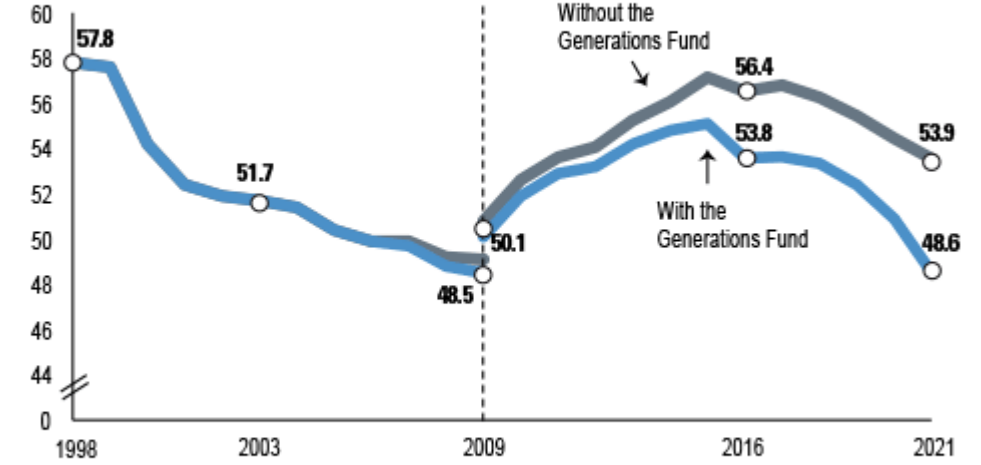


Sources: The Quebec Economic Plan, October 2016.

Quebec: Impact of Generations Fund

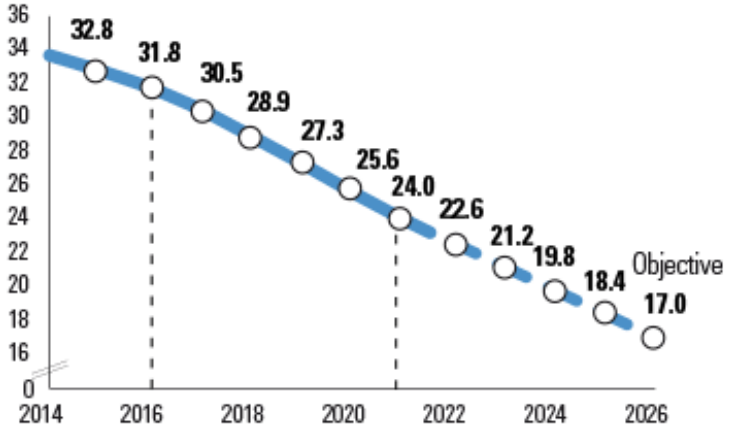
- As at March 31, 2021, the gross debt burden should stand at 48.6%. Without deposits made in the Generations Fund, the gross-debt-to-GDP forecast would be 5.3% higher, at 53.9% of GDP
- As a proportion of GDP, the debt representing accumulated deficits began to decrease in 2013–2014 and is projected to continue falling over the coming years to reach its long term debt objective of 17% by 2025–26

Gross debt as at March 31(1)
(as a percentage of GDP)



(1) The gross debt takes into account the debt that the health and social services and education networks have issued in their own name. The data as of 2009 are not comparable with those for prior years, which do not include this debt.

Debt representing accumulated deficits
(as at March 31, as a percentage of GDP)



Source: The Quebec Economic Plan, October 2016

British Columbia Overview

- British Columbia is forecasting a balanced budget for fiscal 2016–17 with a projected surplus of $2.2 billion
  - This would be the fourth year in a row that the province would be operating on a surplus
- Since B.C. has started balancing the budget, they have reduced their direct operating debt (money borrowed in the past to fund programs and services) by over $2.2 billion
  - B.C. expects to eliminate direct operating debt by 2020
  - The province now borrows only to build capital projects
- As of March 31, 2016, British Columbia's total debt was $65.7 billion versus Ontario's $327.4 billion

Sources: Province of British Columbia, Budget Plan 2016; Budget Speech 2016.

British Columbia Debt

For debt management purposes, B.C. classifies its debt into two main categories:

Taxpayer-supported debt is debt owed by or borrowed on behalf of core government and its organizations, such as school districts and health authorities, which are dependent on government funding for some or all of their revenues.

- **Direct Operating Debt** is a portion of taxpayer-supported debt, borrowed to finance the past day to day operations of core government. Direct operating debt in any year is mainly equivalent to the accumulated past operating results of core government.

Self-supported debt is debt owed by or borrowed on behalf of government enterprises, such as B.C. Hydro, whose revenues come from their commercial operations.

As of March 31, 2016	($ billion)	% of GDP
Direct Operating debt	8.0	3.3
Total Taxpayer-supported debt	**42.7**	**17.4**
Self-supported debt	**22.6**	**9.2**
Total Debt	**65.3**	**26.7**

Sources: Province of British Columbia, Public Accounts 2015–2016.

British Columbia: Keys to Success

- In the 2016 Budget, British Columbia proposed to establish the *BC Prosperity Fund* to help eliminate the Province's debt over time and make investments in government priorities
  - British Columbia will be allocating $400 million to the fund in 2016–17
  - A minimum of 50% of each year's allocation to the fund will be dedicated to debt retirement
- The province increased its own-source revenues through taxes and fee increases by:
  - Implementing a carbon tax in 2008
  - Introducing a 15% property transfer tax on foreign real estate buyers

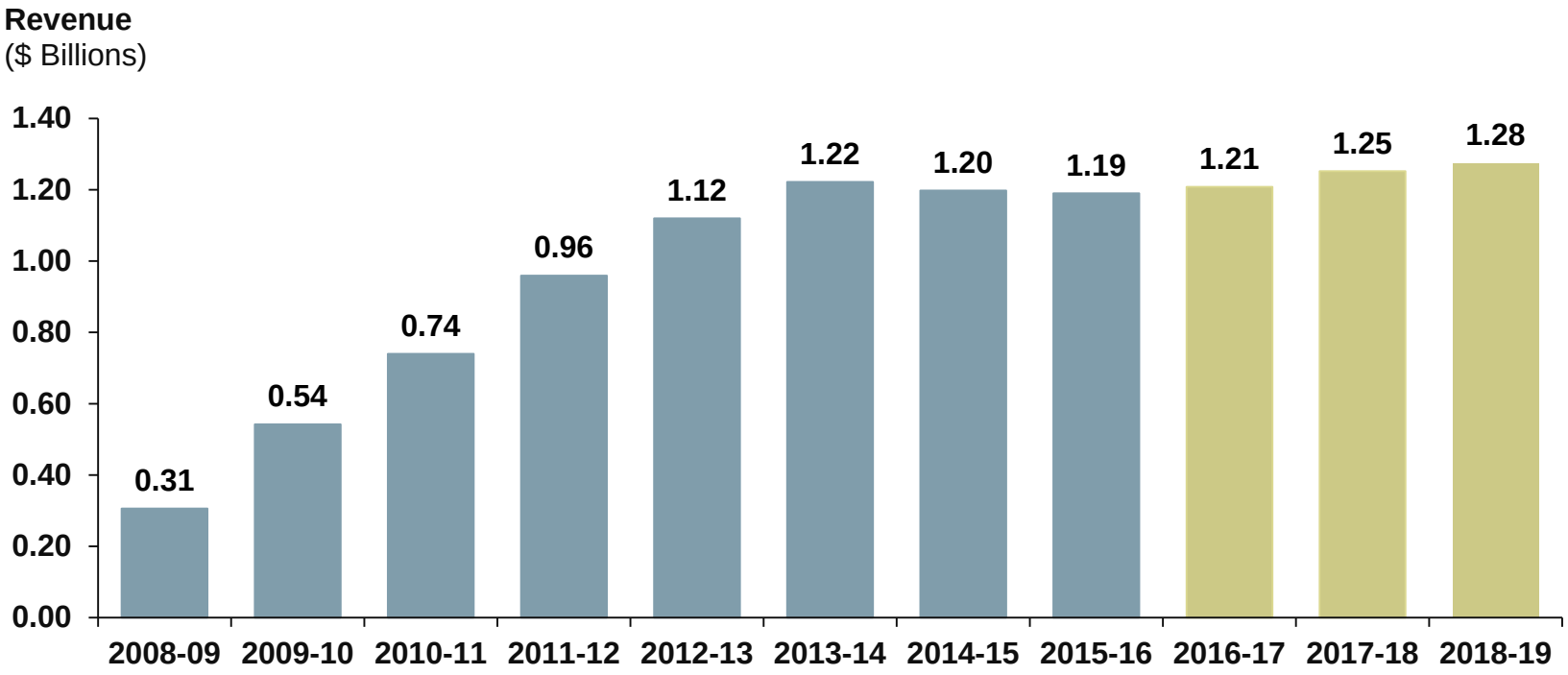
Sources: Province of British Columbia, Quarterly Reports 2016.

Flexibility Arising from Balanced Budgets

- British Columbia started posting surpluses in 2013–14
- When the province tabled its 2016 Budget it called for a surplus of $264 million in 2016–17, however, stronger than expected revenues has pushed that number to $2.24 billion
- Previously, British Columbia had posted surpluses of :
  - $327 million in 2013–14
  - $1.7 billion in 2014–15
  - $730 million in 2015–16
- In the Fall of 2016, the government announced that they were cancelling the 4% increase to Medical Service Plan (MSP) premiums as previously announced.
- Also, the government announced that those that are eligible for Regular Premium Assistance would see a 4% reduction of their premium, beyond what was originally announced in Budget 2016.
- Finance Minister Micheal De Jong said that these changes could be made because the government is in a better fiscal situation than what was said in Budget 2016.
- The 2016 Budget had announced investments of $1.6 billion in new and increased spending over three years on core services in addition to annual 3% increases in the health ministry budget, almost $500 million of which was funded by lower interest costs due to the retirement of operating debt.

British Columbia: Carbon Tax

- British Columbia enacted a revenue-neutral carbon tax in 2008 on the purchase or use of fuels, revenue obtained from the tax is returned to British Columbians through reductions in other taxes
- Tax rates commenced at $10 per tonne of CO2 emissions in 2008, increasing by $5 per tonne annually until 2012 at $30 per tonne



Sources: Province of British Columbia, Second Quarterly Report, November 2016.

Ontario: Rating Agency Update

Confirmed Ontario's A+ rating and maintained its Stable Outlook (June 2016)

- The stable outlook reflects expectations that the province's liquidity will continue to be average in the next two years, real GDP growth will be above 2% and operating revenue growth will lead to operating surpluses beginning in fiscal 2017.
- According to S&P, the debt burden should continue to decline, reaching below 240% of projected consolidated operating revenues by fiscal 2019.

Confirmed Ontario's AA (low) rating with a Stable Outlook (May 2016)

- The trend remains Stable, supported by the Province's continued progress towards restoring fiscal balance and a large, well-diversified economy with an improving, growth outlook.

Upgraded Ontario's rating to Aa2 with a Stable Outlook (April 2016)

- The stable outlook reflects Moody's view that the province's debt burden will continue to modestly improve as the province moves towards balanced budgets and therefore reduces its annual financing requirements.

Confirmed Ontario's AA- rating with a Stable Outlook (June 2016)

- Fitch noted that the province has demonstrated the ability to exert considerable expenditure restraint while instituting revenue changes as necessary to achieve its deficit reduction objectives.
- Fitch believes the Province remains on track to achieve its target assuming continued economic growth.

Quebec: Rating Agency Update

Confirmed Quebec's A+ rating and raised Outlook from Stable to Positive (June 2016)

- Quebec's improved fiscal picture primarily stems from strong financial management.
- S&P assumes in its base case scenario that Quebec will generate operating surpluses of 6.4% of adjusted operating revenues, and modest after capital account deficits of 1.3% of total adjusted revenues, on average, from fiscal years 2015-2019. This puts Quebec ahead of its closest peer, Ontario, in terms of fiscal recovery.

Confirmed Québec's rating at A (high) and maintained its Stable Outlook (July 2016)

- All trends are Stable, supported by the continuation of sound fiscal performance, a gradually improving albeit still modest economic growth outlook, and expectations that Québec's debt burden is now on a downward trend.

Confirmed Quebec's Aa2 rating and maintained its Stable Outlook (June 2016)

- Although Québec's stock of debt has risen in recent years, the province's debt burden has remained relatively stable due to growth in the economy and in provincial revenues.
- Québec's debt burden is aided by the annual contributions to the Generations Fund.

Confirmed Quebec's rating at 'AA-'; Outlook Revised to Stable (June 2016)

- Fitch noted that a return to consistently balanced operations provides the Province with a window of opportunity to resume debt reduction.
- The Province has been very successful in recent years in curbing spending growth as part of its consolidation program.

British Columbia: Rating Agency Update

Confirmed B.C.'s AAA rating and maintained its Stable Outlook (April 2016)

- B.C's ratings reflects its outperformance in financial management, budgetary flexibility, liquidity and contingent liabilities, compared to its peers.
- S&P assumes in its base case scenario that B.C. will generate operating surpluses of less than 5% of consolidated operating revenues and average after-capital deficits to remain between 5 to 10% of total adjusted revenues from 2015–2019.
- The stable outlook reflects the expectation that B.C.'s economy will continue expanding moderately over the next two years, contributing to relatively stable budgetary performance and slowing growth in tax-supported debt.

Confirmed B.C.'s rating at AA (high) and maintained its Stable Outlook (April 2016)

- All trends are Stable, supported by the Province's track record of strong fiscal discipline, which has helped to place the debt-to-GDP ratio firmly on a downward trend.
- However, debt burden remains above pre-recession lows, which limits near-term upward pressure on ratings.

Confirmed B.C.'s Aaa rating and maintained its Stable Outlook (April 2016)

- B.C.'s rating reflects its track record in prudent fiscal planning, strong economic growth, ability to record surpluses in periods of natural resource price weakness and its flexibility in fiscal policy
- The outlook is stable reflecting the assumption of continued surpluses across the medium-term and expected slight improvement of both the debt burden and interest expense.

Confirmed B.C's rating at 'AAA' and maintained its Stable Outlook (April 2016)

- B.C.'s rating primarily reflects conservative financial management practices resulting in stable fiscal performance and a well-managed liability profile. Key rating drivers include B.C.'s growing economy, commitment to fiscal balance and manageable debt burden.
- Fitch considers British Columbia's financial planning and controls to be strong and views them as key reasons for the timely return to fiscal balance following recession-driven operating deficits.



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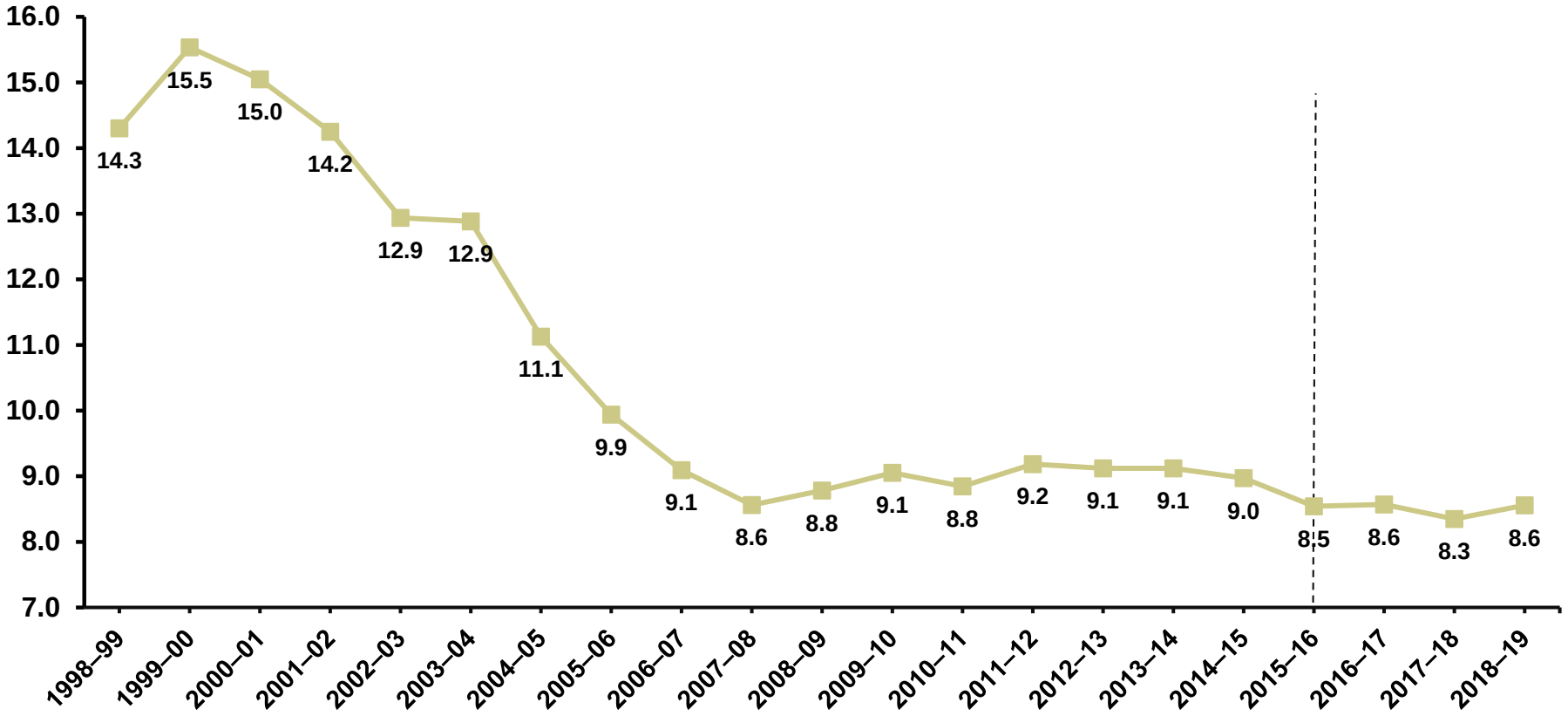
Borrowing & Debt Management Discussion

January 2017

Interest on Debt-to-Revenue

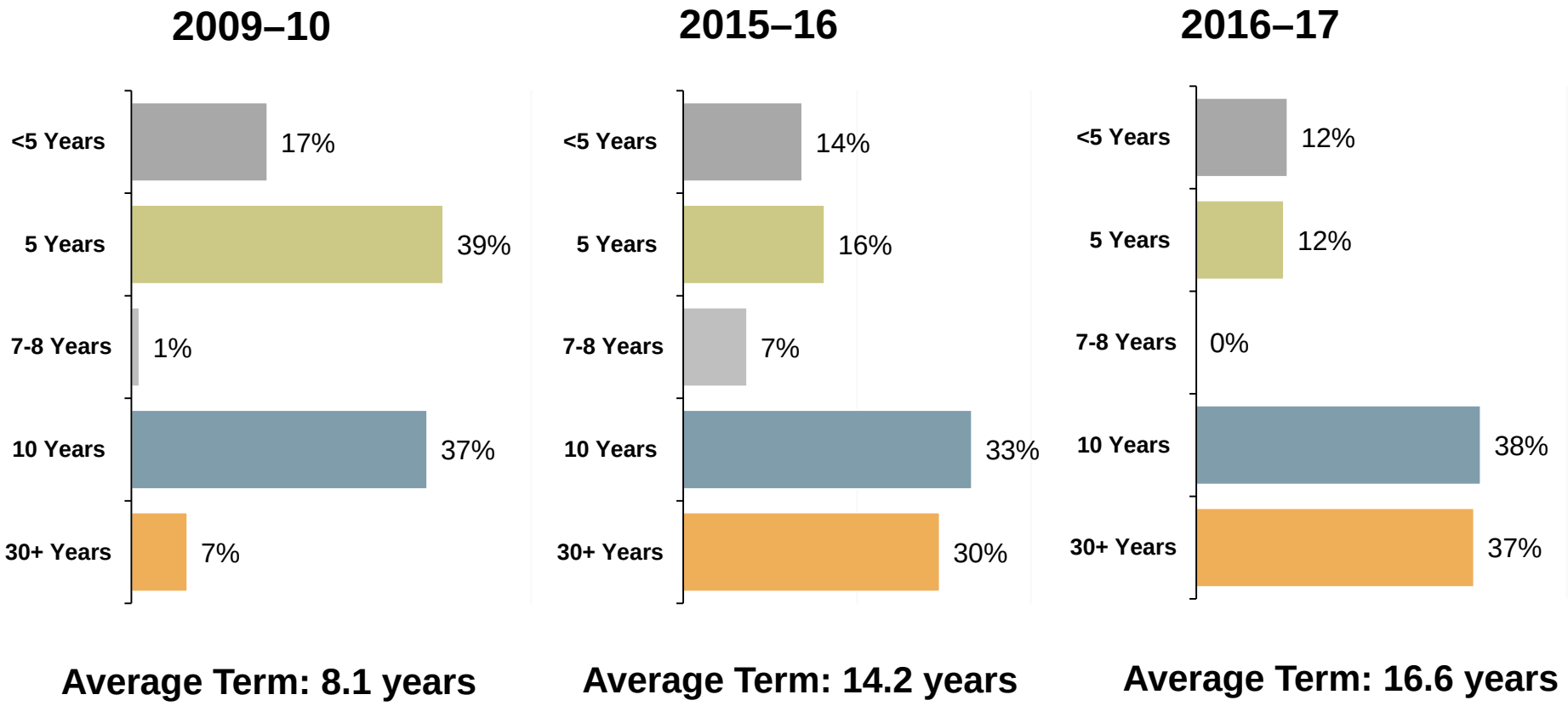
Interest on Debt-to-Revenue
(Per Cent)



Note: Chart dates represent fiscal years ending March 31st.
Source: Ontario Financing Authority.

Long-Term Borrowing Maturity Profile

- The Province has less refinancing risk and less interest rate risk than it had in 2009–10



Note: Numbers may not add due to rounding. As of January 12, 2016. Actual average term for 2016–17 is expected to be much lower, with the most recent forecast being 14.2 years.
Source: Ontario Financing Authority.

Net Debt-to-GDP: Canadian Comparisons

2001–02	
Nfld. & Labrador	61.9
Nova Scotia	45.4
Canada	44.9
Quebec	38.9
New Brunswick	31.5
PEI	30.5
Ontario	28.2
Manitoba	27.7
Saskatchewan	25.8
British Columbia	18.1
Alberta	(6.4)

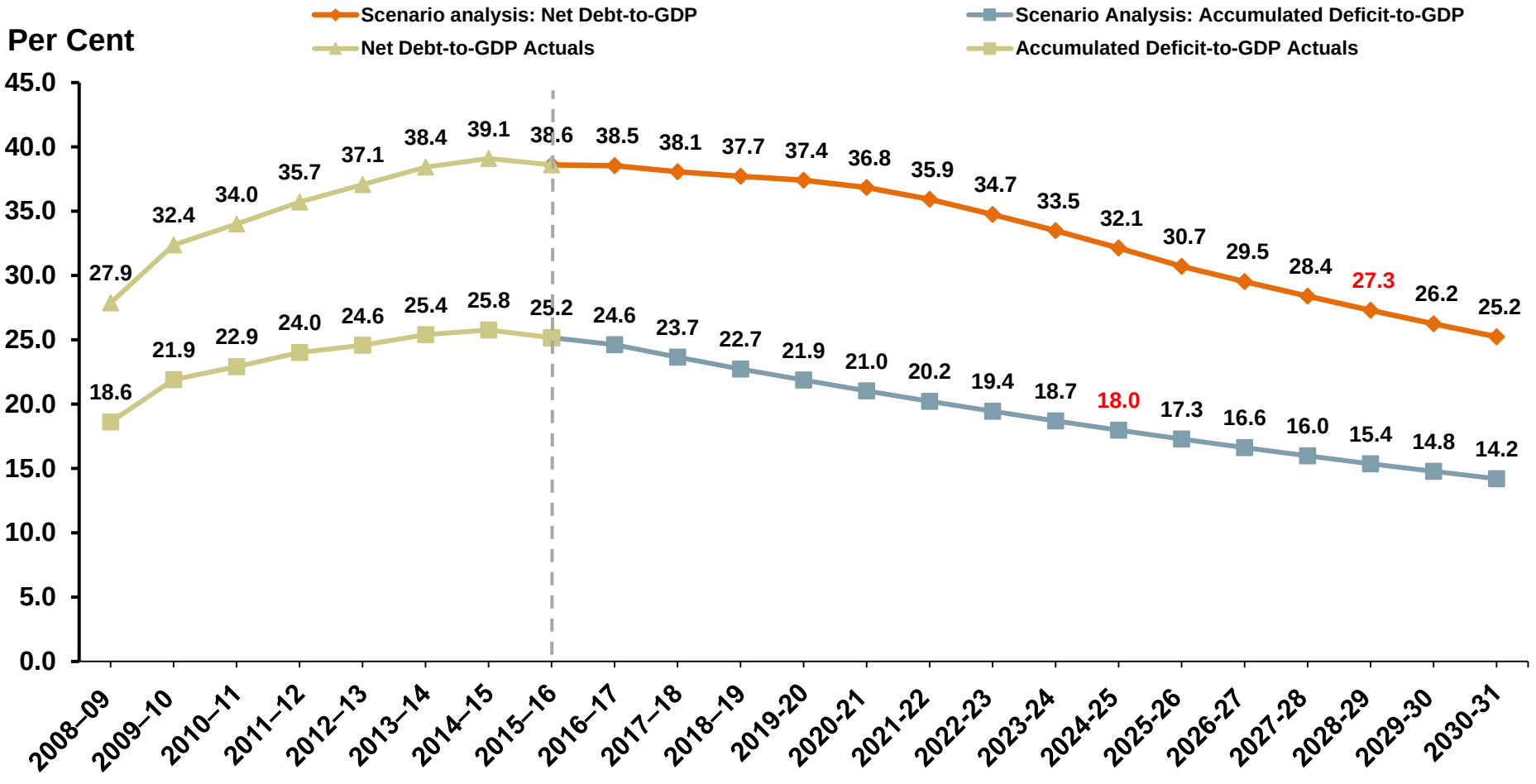
2011–12	
Quebec	48.5
Ontario	35.7
Nova Scotia	35.5
PEI	35.2
Canada	33.0
New Brunswick	32.0
Manitoba	25.7
Nfld. & Labrador	23.4
British Columbia	16.6
Saskatchewan	6.1
Alberta	(8.9)

2016–17	
Nfld. & Labrador	49.5
Quebec	48.1
New Brunswick	41.8
Ontario	38.5
Nova Scotia	37.1
PEI	34.6
Manitoba	34.2
Canada	31.8
British Columbia	15.4
Saskatchewan	11.6
Alberta	3.3

Sources: RBC Economics (December 2016), various Provincial Budgets and Updates.
Note: The Pension Adjustments incorporated in the 2015–16 Public Accounts and extended in the 2016 FES have been reversed.

Net Debt-to-GDP and Accumulated Deficit-to-GDP

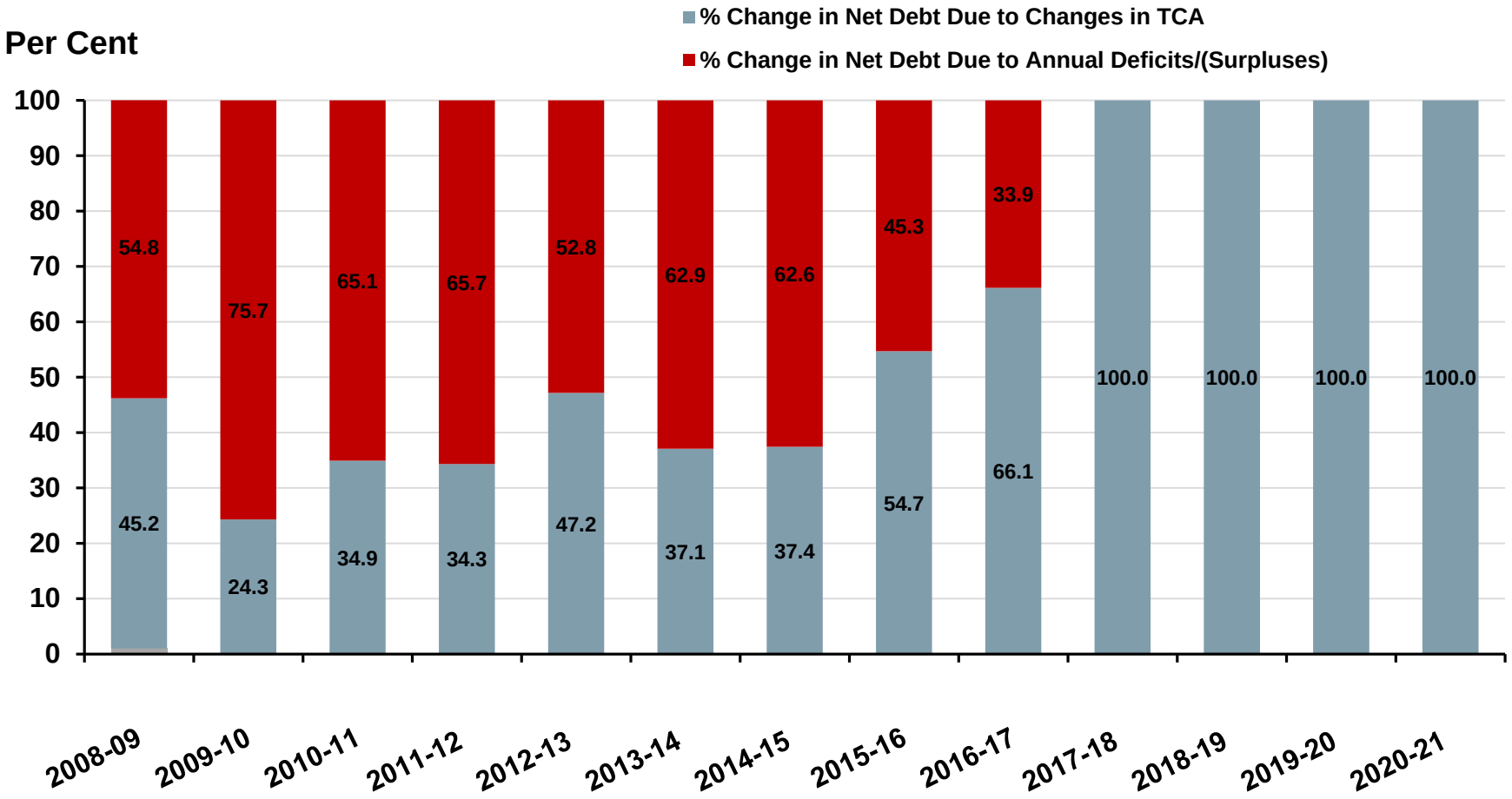
- Assuming a balanced budget from 2017–18 onwards and investments in capital as per the Province's 10 year Capital Plan, accumulated deficit-to-GDP and net debt-to-GDP would reach pre-recession levels by 2024–25 and 2028–29 respectively



Note: The Pension Adjustments incorporated in the 2015–16 Public Accounts and extended in the 2016 FES have been reversed.

Factors for Historical Growth in Net Debt

- Approximately 63% of the increase in net debt from 2008–09 to 2015–16 is due to the deficit, with investments in capital assets responsible for most of the balance

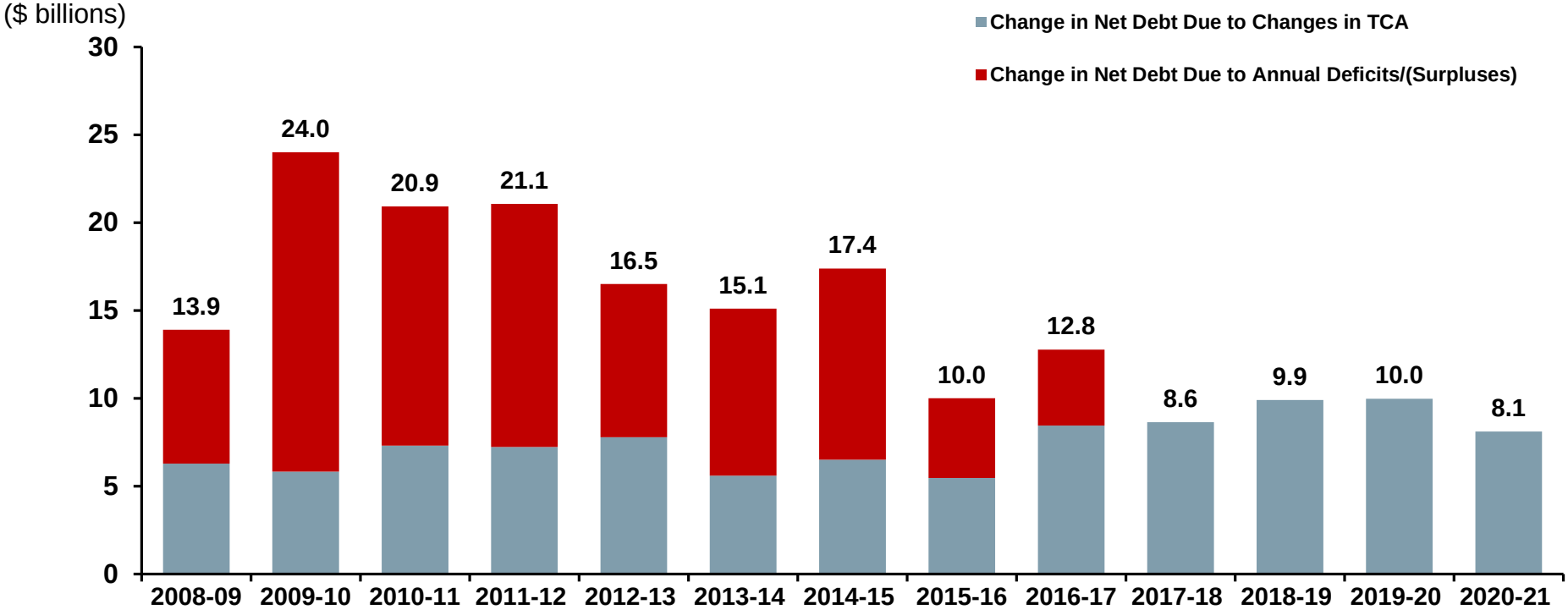


Note: The Pension Adjustments incorporated in the 2015–16 Public Accounts and extended in the 2016 FES have been reversed.

Factors for Historical Growth in Net Debt

- Approximately 63% of the increase in net debt from 2008–09 to 2015–16 is due to the deficit, with investments in capital assets responsible for most of the balance

Change in Net Debt from previous year
($ billions)



	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Net Debt ($ billions)	169.6	193.6	214.5	235.6	252.1	267.2	284.6	294.6	307.4	316.0	325.9	335.9	344.0
% Change due to Deficit	54.8	75.7	65.1	65.7	52.8	62.9	62.6	45.3	33.9	–	–	–	–
% Change due to TCA	45.2	24.3	34.9	34.3	47.2	37.1	37.4	54.7	66.1	100.0	100.0	100.0	100.0

Note: The Pension Adjustments incorporated in the 2015–16 Public Accounts and extended in the 2016 FES have been reversed.

Factors for historical % change in Net Debt-to-GDP

- Net debt-to-GDP increases when:
  - Net debt increases due to the deficit, changes to TCA, and miscellaneous factors
  - GDP decreases (a negative number in the table below illustrates an increase in GDP as it results in a decline in the net debt-to-GDP ratio)
- To illustrate the table below, between 2008–09 and 2009–10, the net debt-to-GDP ratio was 27.9% and 32.4% respectively. The 4.5 percent point increase in 2009–10 can be attributed to the deficit by 2.91%, changes in TCA by 1.03%, and a decrease in nominal GDP which has a positive effect on the ratio of 0.56%
- Once the Budget is balanced, the ratio is only affected by TCA and changes to the GDP

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Due to Annual Deficit	1.27%	2.91%	2.28%	2.19%	1.32%	1.40%	1.56%	0.62%	0.57%	–	–
Due to Changes in TCA	0.89%	1.03%	1.22%	1.15%	1.18%	0.82%	0.94%	0.75%	1.11%	1.08%	1.19%
Due to Decreases/ (Increases) in GDP	-0.31%	0.56%	-1.88%	-1.63%	-1.14%	-0.86%	-1.83%	-1.87%	-1.73%	-1.55%	-1.54%
Year over year % change in Net Debt-to-GDP	**1.84%**	**4.51%**	**1.62%**	**1.71%**	**1.36%**	**1.36%**	**0.67%**	**-0.50%**	**-0.06%**	**-0.47%**	**-0.35%**

Note: The Pension Adjustments incorporated in the 2015–16 Public Accounts and extended in the 2016 FES have been reversed.

Net Debt-to-GDP sensitivity analysis

- For 2016–17 the net debt-to-GDP ratio is 38.53%.
  - An increase of $769 million to net debt or a decrease of $1,990 million in nominal GDP would increase the net debt-to-GDP ratio to 38.63%.
  - A decrease of $826 million to net debt or an increase of $2,151 million in nominal GDP would decrease the net debt-to-GDP ratio to 38.43%.
- Since the 2016–17 net debt-to-GDP ratio was 38.53%, smaller changes to net debt or nominal GDP resulted in changing the net debt-to-GDP ratio to 38.63% versus the larger changes required to lower the ratio to 38.43%.



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From:	Serena Ly
To:	IOD_RPA; John Psinas; George Sakura; Shemin Meralli; Kevin Hwang
Cc:	Ken Kandeepan; Erica Wieder
Subject:	Debt Management CIN
Date:	Monday, January 23, 2017 10:28:01 AM

Good morning,

There has been a request to update our Debt Management CIN.

I don't think there have been any changes to the debt/IOD numbers (current numbers as of FES 2016), but please review and confirm by end of day **Thursday**.

The bullet referencing the independent expert panel on Ontario's pension assets may need a refresh.

http://portal.ofina.on.ca/sites/ceo/CIN%20Central/Debt%20Management%20CIN%20-%20January%2019,%202017.docx

Thanks!
Serena

From:	Anna Strathy
To:	Ken Kandeepan
Cc:	Gadi Mayman; Alexander Kraas; IOD_RPA
Subject:	Deputy"s question on our C.D. Howe Paper edits
Date:	Friday, February 09, 2018 11:14:04 AM
Attachments:	A Shadow Budget for Ontario 2018-2019 - external review (006).docx

Hi Ken,

I'm copying Alex and IOD_RPA because I know you're going to be held up in the ARMC meeting until 1:30pm.

You may recall that we provided comments on a draft of a C.D. Howe paper last week (our tracked comments attached). The Deputy had a question about one of our comments. Page 6 reads:

> *If the government doesn't tackle the long-term fiscal challenges, the cost of debt will take up an enormous share of total government revenues. Interest costs currently sit at 9 percent of revenues; at current trends, interest costs will increase to 22 percent in 2050-51 (Figure 4). If debt costs take up a large share of total revenues, that will leave less for other needs.*

Ken's comment was → *This is incorrect interest is only 8.3% of revenues in 2016-17 and projected to increase to 8.4% in 2019-20.*

The Deputy's question is two-fold: first, how do we know it is incorrect? And second, do we have our own projection for 2050-51?

If Ken or Alex could get back to me as soon as you are able that would be much appreciated.

Thanks, Anna

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A Shadow Budget for Ontario, 2018-2019

*Draft not for circulation

January 24, 2018

As Ontario enters an election year, the policy debate will likely involve the difficult choices the province faces regarding the fiscal outlook and long-term sustainability of a number of government programs. The budget the provincial government puts in place for the 2018-19 fiscal year will lay out a framework for the debate in the coming months.

To aid this debate, the C.D. Howe Institute has launched its inaugural Shadow Budget for Ontario, following similar Shadow Budgets at the federal level (see last year's edition from Robson, Laurin, and Wyonch 2017). This Shadow Budget shows that the fiscal course the province is currently on is unsustainable. This Shadow Budget would act to bring the long-term cost of government in line with the revenue-raising capacity of the province. It would balance increases in spending and cuts to poorly designed taxes with new ways to generate revenues and reducing spending on ineffective programs.

Although providing specific costing of programs is outside of the scope of this Shadow Budget, it presents an overview of policy directions that balance increases in spending with generating new revenues and cost-savings measures. This Shadow Budget proposes to:

- Restate the province's books to reflect the Auditor General's concerns about ~~incorrect~~ the Government's treatment of pension assets and electricity-sector debt;
- Reduce future expense growth to reach a balanced budget as soon as possible;
- Adopt long-term fiscal policy – which requires surpluses, not just balanced budgets – that meets the government's debt-to-GDP target ratio of 27 percent;
- Contain healthcare costs by extending capitated payments to family doctors and revising contractual arrangements with healthcare providers;
- Slow the increase in the minimum wage and focus on improving education and to create economic opportunities for Ontarians;
- Adopt an indigenous identifier in standardized test and oversample indigenous students to permit reliable rural-urban and district-level analysis;
- Modernize funding formulas for post-secondary education by taking outcomes into consideration;
- Reform the school curriculum with an emphasis on improving math performance;
- Open retailing for alcohol and marijuana and revising the tax scheme for both products;
- Adopt personal income tax reforms that reflect the cost of raising children, while reforming personal income taxes to lower high marginal rates, which occur even at low incomes;
- Replace targeted business tax breaks with lower provincial business property taxes to create a level playing field across the province and across different types of businesses;
- Rethink the fiscal relationship between municipal government and the province by retooling grants and transit governance while modernizing municipal financial reporting to match that of the province;
- Reduce the cost that governments impose on building new housing;
- Retain the plan to price greenhouse gas emissions, but re-focus the government plans to spend money raised by such a price away from cost-inefficient programs; and
- Seek out long-term cost savings in the electricity sector, as opposed to short-term fixes that only add to the long-term cost of energy.

Commented [KK1]: Incorrect is not an appropriate term, replace with "Government's"

The Fiscal Outlook

This Shadow Budget adopts the consensus view of the independent officers of the Ontario legislature – the Auditor General and Financial Accountability Office – as the authoritative outlook of the short-, medium-, and long-term fiscal outlook. While the government may claim to have balanced the budget for 2017-18,

Commented [AK2]: What is the rationale for adopting this perspective, especially without discussing their hidden assumption that the government cannot/does not respond to fiscal pressures (e.g. last FAO review)?

that declaration is in the eye of the beholder and the medium- and long-term fiscal outlook for Ontario is dire.

Cleaning up Ontario's Books – The Short Term Deficit Debate

The government has made the argument that it has reached a balanced budget. However, the Auditor General has two specific objections related to this claim because of the government's accounting treatment of pensions and whether the recent Fair Hydro Plan amounts to new spending.

The pension dispute centres on the government's treatment of the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP). The province has decided to report the full asset value of the plan on the province's balance sheet, which neglects the fact that future retirees already have a claim on these assets. Doing so reduces the deficit and the Auditor General (2016) objects to this. Further, as Robson and Laurin (2016) argue, the government discounts OTPP and OPSEUPP liabilities by more than the plans do themselves. This understates the liabilities provincial taxpayers face.

However, the view of the Auditor General is not universally shared. The Ontario government appointed a Pension Asset Expert Advisory Panel to advise on the difference of opinion between the government and Auditor General. The Panel's Report (2017) argued that an asset does exist for the government, saying that the government does have sufficient access to the plan's assets, if even just through reducing contributions to the plans, to merit including it. However, given that we have taken the Financial Accountability Office's presentation of financial data, which is independent of both the government and the Auditor General, we have decided to use the presentation of provincial finances as recommended by the Auditor General.

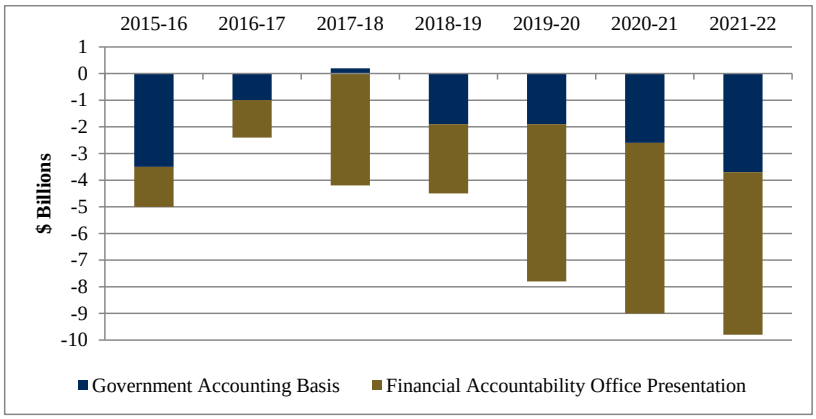
Commented [KK3]: My understanding was that the FAO presented both the Government's accounting treatment as well as the AG on the pension assets, leaving the decision to the reader. This is however, an OPCD issue

The second dispute hinges on the Fair Hydro Plan. As the Auditor General (2017a) points out, the government "is making up its own accounting rules" by creating an accounting asset for a government-controlled entity to offset the debt the province placed on another government-controlled entity. The asset the government created only exists because of legislation that gives a government entity the authority to collect higher prices in the future. The true value of this asset should be zero, or highly discounted, because of great uncertainty of the ability to collect higher prices in the future. For example, electricity markets may change because of technology, making it impossible for a central government agency to collect future revenues to pay this debt. As such, this debt should be reflected in the province's financial statements now. Incorporating the debt amount in today's books means that the proper accounting treatment would increase the deficit by $2.5 billion per year through to 2027.

Commented [KK4]: Likewise OPCD should comment since this is an accounting issue

This Shadow Budget would restate the province's books to reflect the Auditor General's concerns. It would restate the province's finances to show a deficit in the upcoming 2018-2019 fiscal year to be about $7 billion (Figure 1).

Figure 1: Ontario Budget Balance



Source: Financial Accountability Office of Ontario. Does not include reserve fund. 2017-18 and beyond are projections by the Financial Accountability Office.

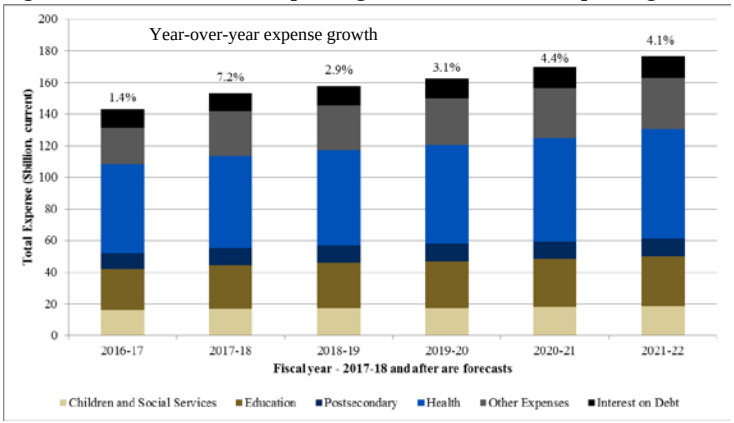
Medium-term Fiscal Sustainability

The question of whether there is a deficit for the 2017-18 fiscal year is far less important, from the point of view of the sustainability of public finances, than future trends. Under current trends, the deficit would rise to nearly $10 billion by 2021-22 (Figure 1), according to the Financial Accountability Office (2017a). These long-term deficits will return because of two main causes: the deficits the government should account for under the Fair Hydro Plan, as discussed above, and fast-rising expenses. Future revenues are not likely to grow as fast in the future as in previous years because of a number of factors, such as one-time revenues that have come in recently and economic growth that is likely to slow. Further, the Financial Accountability Office (2017a) argues that the government has made overly optimistic revenue forecasts that rely on above-trend income growth in the province and corporate income tax receipts.

The province can look to balance its budget in the near future in a number of ways. First, it can look to increase revenues. It can do so through short-term revenue gains such as sales of provincial assets – as this Shadow Budget will suggest in more detail below. Alternatively, it can raise tax rates, such as the provincial component of the HST. Or, it may seek more grants from the federal government. However, aside from hiking tax rates, none of these steps to increase revenues are directly within the control of the province or offer more than a single year's worth of solutions.

The province must address fast-growing spending to reduce future deficits. The first trend that this Shadow Budget would address is the projected pattern of total spending growth. 2017-18 spending is forecast to grow at over 7 percent over the previous year's spending. This kind of spending growth is unsustainable. Future expenses beyond 2020 of over 4 percent are also likely unsustainable. This Shadow Budget would aim to reduce future expense growth to reach a balanced budget as soon as possible.

Figure 2: Ontario Provincial Spending and Year-over-Year Spending Growth Rates



Source: Financial Accountability Office of Ontario

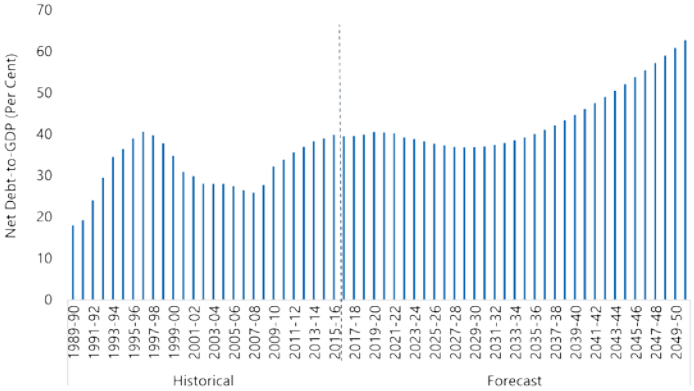
Long-term Fiscal Sustainability

Balanced budgets will not be enough for Ontario to be fiscally sustainable. The government has targeted a net debt-to-GDP ratio of 27 percent, a sensible target that is similar to that of the federal government of 25 percent of GDP. This Shadow Budget would continue pursuing such a target and take the necessary action to achieve it within 15 years. As the Financial Accountability Office (2017b) projects, achieving 27 per cent requires the province to run budget surpluses until 2033-34. If the province continues on the current trend, and not run first balanced budgets and then surpluses, the net debt-to-GDP ratio will reach 63 percent by 2050-51 (Figure 3).

Commented [KK5]: While this is no doubt a sensible target, the basis of the 27% is the reversion to the pre-recession net debt to GDP ratio.

Commented [KK6]: Without knowing the basis of this calculation we cannot comment

Figure 3: Net-Debt-to-GDP, Under Current Fiscal Trajectory



Source: Financial Accountability Office of Ontario

Figure 4: Interest Expense as a Share of Revenue



Source: Financial Accountability Office of Ontario

If the government doesn't tackle the long-term fiscal challenges, the cost of debt will take up an enormous share of total government revenues. Interest costs currently sit at 9 percent of revenues; at current trends, interest costs will increase to 22 percent in 2050-51 (Figure 4). If debt costs take up a large share of total revenues, that will leave less for other needs.

Commented [KK7]: This is incorrect interest is only 8.3% of revenues in 2016-17 and projected to increase to 8.4% in 2019-20

Health Policy

Given that Ontario spends roughly half of its own-source revenues (which excludes transfers from the federal government) on health, getting good value for money in healthcare will be critical for the financial and societal well-being of Ontarians. Although the province has successfully contained the annual growth of healthcare spending from 2010 to 2015 to 2.4 percent, on average, the rate of health spending is starting to tick upwards again alongside worries about emergency room overcrowding, long waits for long-term care beds as well as overburdened caregivers . Progress on addressing these issues – in addition to limiting public and private gaps in coverage for prescription drugs, dental services and mental health – while allocating reasonable increases for health spending, is a critical challenge.

Efforts to enable self-directed homecare services – such as recent moves to increase the number of hours nurses, personal support workers, and therapists will provide care in homes – should help alleviate the emergency room pressures for elderly patients, and these programs should continue to expand on their current trajectory. Relative to providers, patients with mild to modest physical disabilities are more likely to know the abilities of family and informal caregivers to offer care and their schedules, and which services they would prefer to have delivered by other health professionals. Although there are some legitimate concerns about patient's ability to choose among groups of healthcare professionals to meet their needs, there should still be enough flexibility around the use of self-directed home care budgets to ensure appropriate innovation from those delivering services. This means sufficient flexibility in how patients select and schedule professional help.

Ensuring that people without private insurance for dental, drug and mental health services get access to services is also a priority for healthcare policy. On this score, there are a number of avenues to ensure appropriate coverage and do so at minimal public cost, including the expansion of these services among the most vulnerable (Blomqvist and Busby 2016, Busby and Pedde 2014). This Shadow Budget would look at new ways to revise contractual arrangements with providers – pharmacists, dentists and dental hygienists, and phycologists – to improve the efficiency of spending in these areas.

Although government needs to spend more money to improve access to mental health services, more money alone will not ensure that all illnesses get treated in appropriate timeframes. It may be more advantageous to give a greater share of the overall budgetary spending on physiologists to hospitals and primary care doctors for outpatient needs.

The way in which the province pays for the delivery of health services matters. Paying hospitals, hospital-based doctors and necessary outpatient services for a needed intervention often results in silos of poorly coordinated care. This Shadow Budget would instead look at more bundled payments by procedure for hospital-based services (Sutherland and Hellsten 2017). And in primary care, this Shadow Budget would extend capitated payments to family doctors to include budgets for enrolled patient drugs, lab and diagnostic imaging budgets as part of the evolution in payment reforms for family doctors (Blomqvist and Busby 2011).

Labour and Education Policy

Many governments are struggling to respond to the challenges of precarious work – employment that is often more insecure and uncertain than traditional full-time employment, with greater prevalence for part-time work. Further, as wage gaps exist between temporary or part-time vis-à-vis full-time workers, policymakers have recently passed legislation intended to bridge these differences. While there are no ideal policy levers for addressing these issues, it should be recognized that, in general, increases to the minimum wage are a reasonable option available to policymakers. However, gradual and evaluated increases to the minimum wage are the best way to increase minimum wages over time. Ontario's recent, large increase in the minimum wage means that the right response for government should be to pause and evaluate. One particular concern is the impact on smaller municipalities that risk being most negatively affected.

This Shadow Budget would amend the current minimum wage in two ways, as recommended by Marchand (2017). First, it would allow for regional variation in minimum wages. This Shadow Budget would allow upper-tier and single-tier municipalities across the province the option to return to a lower minimum wage for a five-year period. New York has a similar policy, in which the minimum wage is highest in New York City than in other parts of the states. Second, this Shadow Budget would build a provision into the minimum wage legislation to reduce it in the case of a recession, as California has recently done.

As trade, technology and worker preferences continue to change the dynamic for skills desired by employers, a competitive labour force will need an abundance of core numeracy and literacy skills. For Ontario, the news on these scores is mixed. On literacy, the results are strong (EQAO 2015). In terms of numeracy, however, the results are alarming – only half of all grade 6 students in the province meet the provincial standard for numeracy and its OECD Programme for International Student Assessment (PISA) scores have plummeted over time, from 530 in 2003 to 509 in 2015, one of the largest drops among Canadian provinces, putting Ontario statistically below the average in Canada(Richards 2017). This needs

fixing. This Shadow Budget would continue the province's re-examination of the math curriculum and pedagogy, where the effectiveness of different pedagogies should be explored as potential causes (Stokke 2015). This Shadow Budget would also look at teacher preparedness and consider evaluating teacher knowledge in subject matter with the administration of student exams to teachers prior to the academic year. Insufficient results should require immediate intervention.

Furthermore, collecting, analysing, and reporting educational outcomes are essential to closing the achievement gap between more and less advantaged students. Including a question that identifies indigenous student in PISA tests is a great way to track educational achievement of indigenous students and help educators and policymakers to design more effective strategies to improve outcomes. The province should also oversample to ensure sufficiently large sample of indigenous student to produce reliable estimates at the district level and to perform urban/rural analysis (Richards and Mahboubi, forthcoming).

Many OECD countries consider Performance-Based Funding (PBF) systems for their post-secondary education, but Canadian provinces, including Ontario, lag behind in adopting this innovating way of financing. Usher (forthcoming) shows the benefits associated with PBF include less burden of funding negotiations, higher accountability of the post-secondary institutions, and greater competition between institutions, leading to a greater focus on results. A similar approach to competition in grants for research has been effective at improving the performance within universities, and should apply to universities themselves. The government needs to review its funding formula and learn from the experience of other developed countries.

Tax Policy

Commodity Taxation

Alcohol

In 2015-16, the Liquor Control Board of Ontario (LCBO) paid the provincial government a dividend of $1.9 billion. It also remitted $867 million to the federal and provincial governments in Harmonized Sales Tax, excise taxes and customs duties (LCBO 2016). In addition to the LCBO, there is a system of beer and off-winery stores, which operate as a quasi-monopoly thanks to government regulation. Masson and Sen (2014) find that freeing up alcoholic beverage retailing would result in increased government revenue, lower prices, and more convenience. They find that, other factors being equal, Western Canadian provinces with more beverage alcohol retail competition had 7 percent more per capita provincial alcohol profits than provinces with government-run monopolies. The province has begun to introduce beer sales at grocery stores. However, it has done so slowly with limits on the amount of sales by the store. This Shadow Budget would go further by auctioning licenses for other retail outlets. It would also auction licences for off-winery stores to other wineries and also to new wine retailers. The result would be increased provincial revenues and more choice for Ontario consumers.

This Shadow Budget would also revise taxation of alcoholic beverages. Currently, tax rates are fixed by type of beverage, currently ranging from 52 cents per litre to $1.06 per litre, depending on the type of manufacture, not alcohol strength. Wine is taxed as a percent of sale value and sprits are taxed at up to 38 cents per litre plus a percentage of the retail price. This Shadow Budget would graduate the tax on alcohol

to relate to alcohol content. This reform would target the health problems caused by alcohol, which is directly in line with the alcohol content of any drink (The Economist 2013).

Marijuana

The federal government has legalized marijuana for recreational consumption with legal sales scheduled to begin in July. The main policy objectives driving marijuana legalization are the improvement of public health and the minimization of the black market and its associated criminal activity. Ending the prohibition of marijuana involves coordination between all levels of government. Provinces must determine the structure, distribution, and regulation of the retail market and jointly determine taxation levels of marijuana with the federal and municipal governments.

Ontario has announced that it will restrict retailing of recreational marijuana to LCBO-run stores. Only 40 of these locations will be in place by next July 1, the federal target date for legalization, with a total of 150 locations expected by 2020. The province missed the opportunity to have a competitive market for retail marijuana. Independent businesses have an incentive to locate where market demand isn't being met and competition between businesses constrains operating costs and keeps prices low. Lower prices in the legal market make it more likely to be competitive with the existing black market.

The province's decision to enter the market also implies considerable resources will be expended in the construction and maintenance of stores, higher salary expenditures and other overhead costs. These will be met at the expense of other sectors, which will receive lower government funding.

Having few retail locations means that access to recreational marijuana will be inconvenient for a significant number of Ontarians. Recreational consumers are highly unlikely to switch their dollars to the regulated market if there isn't easy access. This means that there will be significant opportunity for the black market to continue operating in all the areas without enough legal stores to meet market demand or that are convenient to access. (By contrast, there are more than 650 LCBO outlets in the province.) Further, to levy penalties against illicit businesses will require significant justice and police resources. And since there won't be enough regulated retail outlets to meet market demand, it is likely that at least some of these businesses will still find it profitable to operate. This Shadow Budget would make retailing of marijuana competitive and allow for the licensing of privately-run retail stores. This could take the form of entirely private retail, as in Alberta. Alternately, licensed establishments could operate alongside government retail stores and deliver better market coverage faster than the crown corporation on its own.

Ontario has joined the federal government’s proposed coordinated excise tax framework for recreational marijuana. While Crown-corporation retail isn’t particularly competitive in terms of convenience, keeping taxes low will help ensure that the legal market will be price competitive with the illicit market. The tax rate on dried cannabis flowers will be $1 per gram or 10 percent, whichever is higher, with 75 percent of the revenue going to the provincial government. The revenue from this excise tax will initially be modest, bringing in $50 to $95 million in 2018 and $175 to $200 million annually by 2021.

Gasoline and Fuel

The government should be concerned about the prospect of declining revenues from fuel and gasoline taxes, which will intensify as vehicles become more fuel efficient and become increasingly electric. This Shadow Budget would begin a study of the potential to replace fuel taxes with tolls for use. Further, the best solution for traffic congestion is a road toll. Road pricing could also bring the price that drivers pay for

infrastructure they use closer to the actual cost of it. Gas taxes (which are about 75 to 80 per cent of road-related revenues), vehicle licences and other revenues from drivers have covered less than two-thirds of roadway expenses across Canada since 2008. Taxpayers should only subsidize transportation to the extent that it encourages broader access to all in society and the government should review whether a one-third subsidy is the appropriate amount of taxpayer subsidy for roads.

Personal Taxation

Income taxes affect individual and business incentives to earn income, save, invest, and take risks. Excessively high taxes at the margin can also drive tax avoidance behaviour.

At the personal level, the impact of income tax variations on work participation decisions is particularly acute for the secondary earner in families with children and lower-skilled workers. In general, lower income, less educated people have a greater tendency to adjust their paid work behaviour through workforce participation decisions, while more-educated workers and high-income earners tend to adjust through the number of hours they work (Duclos et al. 2015).

High income earners' taxable income has been shown to be particularly responsive to high marginal tax rates – through both tax planning avoidance behaviour and earnings decisions (Laurin 2015). And the sensitivity to rate changes is higher at the provincial level in response to provincial rate changes than at the federal level in response to federal changes. This is because high-income earners can take advantage of provincial tax rate differences by shifting their income tax attributes and work locations to the most tax-advantageous province (Milligan and Smart 2014).

Provinces like Ontario with one of the highest top combined federal and provincial marginal tax rates of over 53 percent on high-income earners should aim to reduce that rate to a level at or below 50 percent. The responsiveness to the change would have a beneficial impact on the tax base that would ensure a very low fiscal cost for the policy. Furthermore, the income tax system should be clear and transparent. Ontario has a surtax notionally in place for health care expenses. However, this tax is treated as general revenue. The province should replace this surtax and set income tax rates and brackets that transparently show the marginal tax rate people are paying.

Other tax changes should aim to lower the burden of taxes on secondary earners in family with children. This Shadow Budget would reform the tax recognition of child care expenses through the replacement of the child care expense deduction with the introduction of a new refundable tax credit for child care expenses. It would encourage stay-at-home parents to join the workforce, producing extra tax revenues, considerably limiting the net fiscal cost of its implementation (Laurin and Milligan 2017).

Also, typical labour arrangements are changing with technological change. Workers are becoming less attached to a single employer and move around more freely between projects and contracts. Their incomes are also more prone to be fluctuating from year to year – a period of low earnings followed by a year of higher earnings, or vice versa. But a worker with fluctuating income may end up paying more tax (and losing more income-tested government benefits) than another worker with a flat income profile but earning the same amount over a period of years. Wen and Gordon (2017) find that Canada's "fluctuation tax penalty" is most severe for individuals who earn lower incomes or are self-employed. This Shadow Budget would lessen the impact of fluctuating incomes on tax liability by allowing workers to average their

income over many years, so that any single large earning year would not lead to a disproportionate loss of fiscal benefits and higher tax payments.

Business Taxation

A properly designed business tax regime would provide for a common provincial tax rate for all businesses operating across the province, regardless of their location or sector. However, Ontario's tax regime selectively rewards a number of sectors, such as manufacturing, through the income tax system while punishing companies with overly high provincial property tax rates. The province of Ontario can simplify its tax regime, create a more level playing field across sectors and the province, and reduce the effective tax rate on new business investment all without reducing overall provincial revenues.

Eliminating Wasteful Business Tax Expenditures

The largest tax expenditure in the corporate income tax system, by far, is the Small Business Deduction, which costs Ontario over $2 billion in foregone revenue. A better alternative to the Small Business Deduction is a lower general corporate income tax rate. That is because the net impact of the Small Business Deduction is an expansion of the small business sector at the expense of large businesses. Since small firms are less productive than large firms, the Small Business Deduction lowers overall economic performance (Dachis and Lester 2015). This Shadow Budget would not proceed with any further cuts geared to small business.

Most Canadian provinces provide a tax incentive for innovation. They mimic the federal tax system which provides eligible businesses with a Scientific Research and Experimental Development (SR&ED) credit. Ontario provides a non-refundable tax-credit worth 3.5 percent of the value of eligible expenses for firms to deduct from their taxes. The total innovation tax incentive for Canadian businesses is one of the highest in the world, but Canada consistently lags behind international peers on measures of business innovation (Parsons 2011). The Ontario SR&ED credit comes at a large fiscal cost: a tax expenditure of $150 million in the 2017 calendar year (Ontario 2017). Instead of targeting up-front tax credits for innovation, a better solution to encouraging innovation is with a low overall income-tax rate (McKenzie 2006). In addition, the province provides manufacturing and processing businesses a preferential lower tax rate than those in the rest of the economy: 10 percent instead of the usual 11.5 percent. This lower rate cost taxpayers $290 million in the 2017 calendar year.

This Shadow Budget would eliminate the Ontario SR&ED credit and the lower rate for manufacturing and processing, and use that revenue to cut high provincial property tax rates that choke investment, as discussed below. It would also initiate a comprehensive review of tax expenditures to determine whether the existing tax expenditures are still appropriate or whether they should be redesigned as deductions or credits (see Robson and Laurin 2017). Tax expenditures can be removed when shown to be no longer effective, as the government has already committed to eliminating ineffective tuition and education tax credits, as recommended by Neill (2013).

Cutting Provincial Business Property Taxes – A Revenue Neutral Cut in Investment Taxes

Ontario took over the local education property tax from local school boards in 1998. School boards had widely varying tax rates across the province and by property type when the province took over. The province immediately made its residential tax rate the same for all residents across the province. It's a different story for businesses. Each year since 2007, the province has set a maximum tax rate, called

the ceiling rate, and a lower target rate designed to be revenue-neutral for the province. The province committed in its 2007 budget to lower higher rates down to the target rate over time, but the province has stalled on tax cuts since 2013.

The provincial property tax still varies wildly across cities and for different buildings within cities (See Figure 5a and 5b, which shows provincial rates for commercial and industrial properties). Provincial commercial property tax rates in some Ontario municipalities are more than three times those in others. The provincial tax is highest on industrial property across much of Southern Ontario. As Found (2017) shows, the average provincial business property tax rate is more than 6 times its residential counterpart.

Figure 5a: Provincial Commercial Property Taxes in Southern Ontario

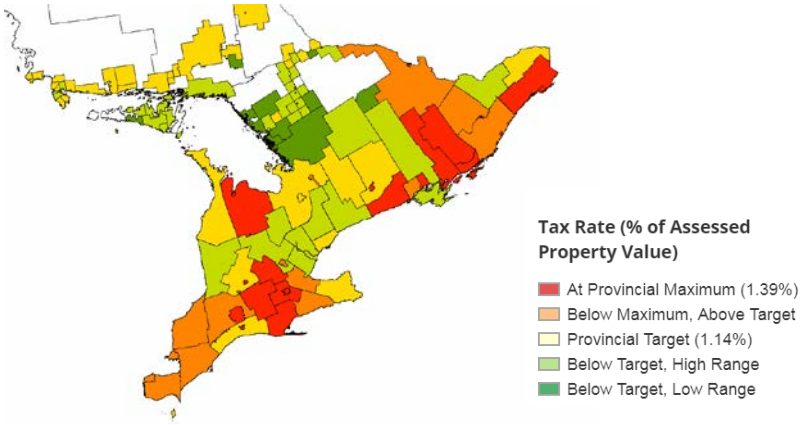
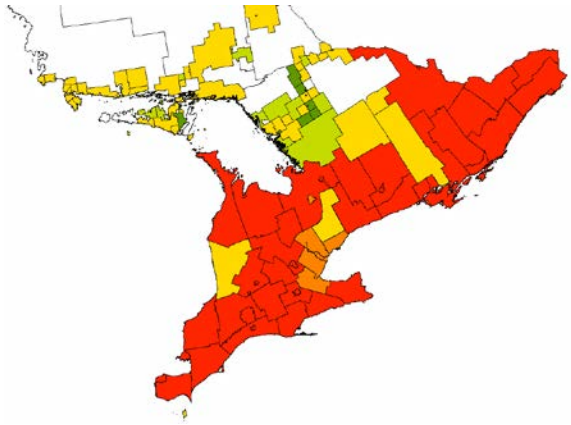


Figure 5b: Provincial Industrial Property Taxes in Southern Ontario



Source: Jacobs, Dachis and Found (2017). Results include Northern Ontario. Hollow areas not subject to provincial property tax.

Cities collect the money on behalf of the province after receiving a regulation from the province of how much to collect. In the 2017-18 fiscal year, the province will collect $6 billion in property taxes, which it reports as general revenue. Since different education tax rates by region have nothing to do with local school spending, each school board now gets a provincial top-up grant in order to level the playing field. Each school board`s total revenue is based on its enrolment and the needs of students, not the value of buildings in the area. That means the provincial property tax now has no bearing on school boards' spending. Yet, the province still uses the misleading name "education property tax" to describe it on tax bills.

These high property taxes have a large economic cost. Property taxes act like a tax on capital, specifically building capital. A tax on capital reduces the incentive to invest, resulting in lower investment which leads to lower productivity and therefore income and standards of living of Canadians. A 10 percent increase in commercial property tax rates decreases the long-run value of the business property assessment base by 8.2 percent. At the average level of business property taxation in Ontario, a $1.00 business property tax hike costs the Ontario economy $5.56 (Found 2017). Higher taxes shrink the tax base, which makes it harder for governments to raise revenues. The total business tax rates in some cities across Ontario – such as London, Windsor and Brantford – are so high that cities and the province might see revenues increase if they cut their taxes to attract more business investment.

This Shadow Budget proposes to complete the harmonization of business property tax rates. To make such a tax reform revenue-neutral, it proposes to eliminate the SR&ED credit and the lower manufacturing and processing corporate income tax rate and reduce provincial business property taxes that would reduce revenues by the same amount saved. Such a change would have a number of benefits. First, it would create a more level playing field across different types of businesses that currently face different tax rates. Secondly, it would improve fairness in the provincial property tax regime across the province. Third, a revenue-neutral property tax reduction would lower the marginal effective tax rate on new investment in most parts of the province – and almost all of Southern Ontario – by more than any increase in provincial income taxes would increase the effective rate. Property taxes have an especially large effect on tax costs on investment because they are insensitive to profit and are akin to a direct tax on capital (Found and Tomlinson 2017). Such a reduction in provincial property taxes would be largest for the same sectors that would see a removal of their special, lower income tax rate, across most of Southern Ontario.

Housing, Municipal, and Infrastructure Policy

This Shadow Budget would seek to lower the cost of housing across the province by taking steps to reduce barriers to construction and eliminating economically costly rent controls and transfer taxes. It would also fundamentally change the relationship between municipalities and the province by granting cities the ability to put their budgets on a sound financial footing and allow them more flexibility in financing infrastructure.

A Smart Housing Plan

The cost of housing in Ontario has increased dramatically in recent years. According to data from Brookfield's Real Property Solutions, home prices the Greater Toronto Area increased by more than 250 percent between January 2005 and the end of the 2017. In response, the province has taken steps such as introducing taxes on foreign buyers and rent controls. The government's policies have focused mostly on curtailing the demand of housing.

On April 20, 2017, the province introduced a 15 percent Non-Resident Speculation Tax in the Greater Toronto Area. This transfer tax is substantially higher than the existing provincial land transfer tax that has a maximum rate of 2.5 percent. Land transfer taxes such as these have a high economic cost of reducing the mobility of households (see Dachis 2012 and Dachis, Duranton, Turner 2008). In addition, land transfer taxes are highly volatile and present a large fiscal risk to the province if the housing market has a serious downturn (Ngo, Angastiniotis, and West 2017). This Shadow Budget would immediately eliminate the additional 15 percent tax and look to begin reductions in the general land transfer tax in future fiscal years.

On the same day, the province expanded rent control to all rental units in the province, rather than only those built before 1991, as was the case prior. Rent control is one of the few economic policies around which there is a solid, evidence-based consensus about its long-term effect on the cost of housing: it does not lower it in the long-run (Kronick 2017). The likely result of rent control is that housing developers will not build rental housing knowing they face a cap on potential returns, while facing no commensurate cap on their investment risk. The result will be fewer units available, leading to housing shortages. This Shadow Budget would phase out rent control on all rental units. It would start by reducing the extent to which rent control binds the market by increasing the allowable increase, doing so annually until eventual repeal. Rather than rely on rent control, this Shadow Budget would embrace the recent federal decision to create a Canada Housing Benefit that provides low-income renters with the funds to seek a wide range of market-priced rental units (Canada 2017). This Shadow Budget would re-orient financial support for housing construction, which is often part of transfers to local governments, as discussed below, to match the federal contribution in creating the Canada Housing Benefit.

Reducing the Cost of Housing

There is strong evidence that restrictions and extra costs on building new housing – such as zoning regulations, delays on permit approvals, development charges, and limits on greenfield housing development – are dramatically increasing the price of housing. Dachis and Thivierge (forthcoming) find that a limited lowering of these restrictions can reduce house prices in some municipalities in the Greater Toronto Area by around $100,000.

What can the province do to reduce supply barriers? Toronto heavily uses a clause in the provincial *Planning Act* – the legislation governing municipal zoning policy – that allows it to require additional payments from developers in exchange for a site-specific variance from zoning bylaws (Moore forthcoming). These additional payments, known as section 37 payments for the relevant part of the *Act*, increase uncertainty for developers and therefore increase the cost of housing. In addition, municipalities have an incentive to keep zoning bylaws out of date because updating them would take away the future section 37 payments. This Shadow Budget would place greater restrictions on the use of section 37 of the *Planning Act*, which would result in municipalities having a greater incentive to set more appropriate zoning regulations.

Developers pay development charges to compensate municipalities for the cost of building municipal infrastructure that services homes and commercial properties in a newly developed area. The largest single component of these charges is for water and wastewater construction (Dachis forthcoming). This Shadow Budget would require that cities replace development charges for water and wastewater infrastructure with volumetric uses fees that reflect capital costs. Such a move would reflect a change to a utility-based model and encourage conservation of water.

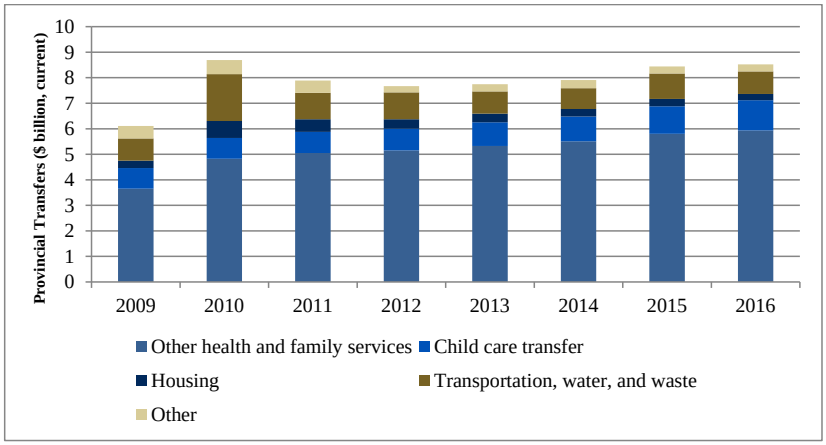
Finally, housing developers in GTA cities are facing a shortage of land available for new housing development (Clayton 2015). The primary cause is not because of the Greenbelt, a policy that forbids development on certain agricultural and parkland. Dachis and Thivierge (forthcoming) find that the main land-supply driven cause of higher house prices is not the Greenbelt, but the Growth Plan for the Greater Golden Horseshoe, a policy that requires cities in the GTA to approve a certain share of their homes within existing urban development boundaries and at a certain density. This Shadow Budget would relax the density and intensity targets that may not be appropriate across all cities subject to the Growth Plan while preserving the Greenbelt.

Rethinking Relative Municipal and Provincial Fiscal Health

One of the province's largest expenditures is on grants to municipalities. Transfers to municipalities have increased since 2009, including a large spike in 2010 to support infrastructure stimulus projects. Transfers to municipal governments from the province are now over $7 billion (Figure 6). Indeed, this trend is set to accelerate. In January of 2017, the province committed to double the amount of the fuel tax it transfers to municipal governments for transportation investment (Jones 2017). Ontario transferred $335 million in provincial gas tax revenue to municipal governments in 2017, and made a commitment to double the funding to bring the total transfer to $642 million by 2021-22.

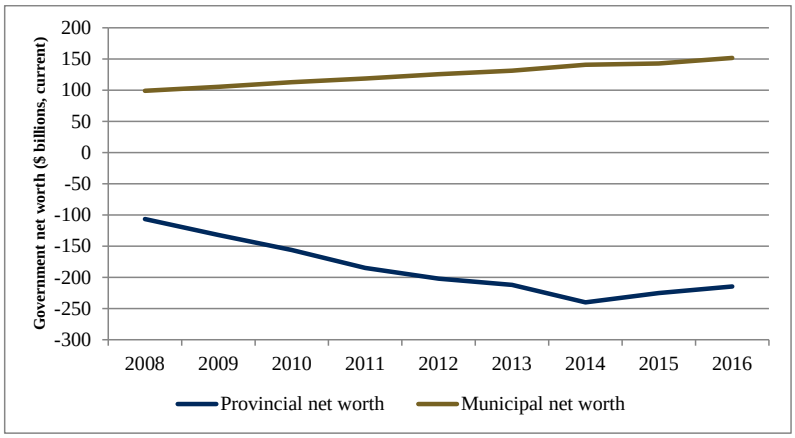
The largest share of transfers is for health services – such as public health – and for childcare benefits. The latter, in particular, are dispersed to municipalities under a complex set of qualification criteria. These programs are ripe for review and evaluation, as their impact on workforce participation and the ability for single-parent and underrepresented families to engage in the labour force are critical. The child care transfer has increased by nearly 50 percent since 2008 reaching $1.2 billion in 2016, suggesting that a review of the program is in order

Figure 6: Ontario Provincial Transfers to Municipalities, 2009-2016



Source: Authors' calculations from Ontario Financial Information Return. Note: Some small cities have not yet submitted their 2016 financial information.

Figure 7: Ontario Provincial and Municipal Net Worth, 2008-2016



Source: Authors' calculations from Cansim Tables 385-0034 and 385-0037.

Does it make sense for the province to send such grants to municipal governments? Ontario's municipalities are, on average, in better fiscal shape than the provincial government. They are major investors in capital assets, but unlike the province, whose chronic deficits have resulted in financial liabilities that vastly exceeds its financial and non-financial assets, Ontario municipalities have positive net worth. They have borrowed to finance some capital assets, but the value of their assets exceeds their debt by a substantial margin. In the nine years from 2008 to 2016, Ontario municipal governments have increased their net worth by more than 50 percent, registering an increase of over $50 billion (Figure 7). In contrast, provincial net indebtedness has approximately doubled over that time, even after a slight improvement in net asset values over the last two years.

The Important Difference between Municipal and Provincial Accounting

How did such a fiscal health imbalance come about? Transfers are often the result of cities claiming they are struggling to meet their service or infrastructure demands and then calling on the province for support. However, the way that cities present their budgets, especially relative to the way the province reports its finances, makes municipal finances appear more precarious than they actually are. Ontario municipalities typically use cash accounting in their budget.[1] However, the province – as well as municipal end-of-year financial statements – uses the accrual accounting standard. Accrual-based budgets appropriately do not record the entire cost of capital items as expenses in the year of the cash outlay, but apply annual amortization over their useful live. Figure 7 presents municipal and provincial finances on the equivalent accrual financial basis.

Presenting councillors with budgets that show outlays on such assets as in-year expenses (as cash budgeting does), rather than amortizing them as they deliver their services (as accrual accounting does),

[1] A common practice is to show expected cash outlays in a "capital" budget alongside an "operating" budget for items to be consumed and expensed during the year.

likely leads municipalities to delay or reject some capital projects they would otherwise approve. It also likely leads them to finance the projects they do approve by raising revenues up front, rather than by borrowing and servicing the debt over the period the project yields its benefits. The result is that today's taxpayers – whether through property taxes, grants to cities, or development charges on houses – are paying disproportionately more than they are receiving in municipal services.

Reframing the Municipal-Provincial Financial Relationship

This Shadow Budget would cancel the proposed doubling of the amount of provincial fuel taxes that the province transfers to municipal governments. In fact, it would go further to limit transfers to cities. As above, this Shadow Budget would begin a long-term commitment to reducing property taxes levied by the province. Every dollar of provincial property tax reduction creates tax room that municipalities can decide to take up. Cities would have the freedom to choose how best to finance local services or whether to increase or reduces taxes and services.

The province's commitment to double gasoline tax transfers to municipalities emerged as a response to the City of Toronto's request for the province to enact an enabling regulation permitting it to introduce a toll on municipally owned highways. The province forbade Toronto from the move, offering all cities the gasoline tax transfer instead. This Shadow Budget would allow cities the ability to introduce road pricing without requiring a provincial regulation, as long as the intention and design of the toll is to reduce congestion, not as a purely revenue-raising option.

In addition, instead of allowing cities to have parcel-by-parcel zoning amendments, as discussed above, this Shadow Budget would expand the ability of cities to put in place a tax-increment financing plan for major infrastructure. This would allow cities to capture some of the increase in property values that result from a new transportation or other municipal investment that increases the value of nearby properties (Found 2016).

Finally, this Shadow Budget would require municipal governments to produce their beginning-of-year budgets on an accrual basis. Importantly, it would not require that cities produce a balanced budget every calendar year and would instead enact a review of the appropriate fiscal and economic benchmarks that cities should adhere to under an accrual accounting system. A revised budget process would allow cities the flexibility they need to finance long-term infrastructure without relying on provincial grants or upfront revenues.

Transit Governance

Originally created in 2007, Metrolinx started with the intent of creating a regional transit plan for the Greater Toronto and Hamilton area with a board made up of local government officials. Two years later, Metrolinx expanded to become the GO Transit operator. The province then removed the local government officials from the Metrolinx board, which is now made up of people appointed by the province.

How can the region overcome local opposition to changes while finding a way to act in the regional interest? Right now, it's easy for local politicians to pass blame around, especially to an unelected transit board. One proposal is to create a single, amalgamated transit operator for the whole Greater Toronto Area

(Gill, Kelcey, Parker, 2017). But rather than amalgamation, which has shown to not result in significant savings (Bish, 2001, Found 2012), another approach is to restore the role of municipal governments on the board of Metrolinx.

Toronto should follow the Vancouver model, in which provincial legislation tasks a Mayor's Council made up of representatives from each of the region's 21 municipalities to appoint a board of Translink, the regional transit coordinating body. Translink has many subsidiary companies that operate transit services under contract (Translink 2017). The regional transit body is the regional coordinator, less than it is a regional authority and another new layer of government (Spicer and Found 2016). The reformed Metrolinx can contract with subsidiary transit operators, private contractors, or municipal governments that can supplement Metrolinx-supported routes.

Greenhouse Gas and Energy Policy

Greenhouse Gas Policy

This Shadow Budget would continue to increase the price on greenhouse gas emissions. This Shadow Budget does not take a position of the merits of a cap-and-trade program as opposed to a carbon tax. A carbon tax would be simpler to administer than a cap-and-trade program and would also generate more revenue for the province of Ontario. On the other hand, a cap-and-trade program that allows Ontario to link with the emissions permit market in California and Quebec allows for a lower cost on emissions to meet the same reduction target. Trading emissions permits across borders and between markets allows emissions reductions to occur wherever it is cheapest to do so, reducing the overall cost (Thivierge 2017).

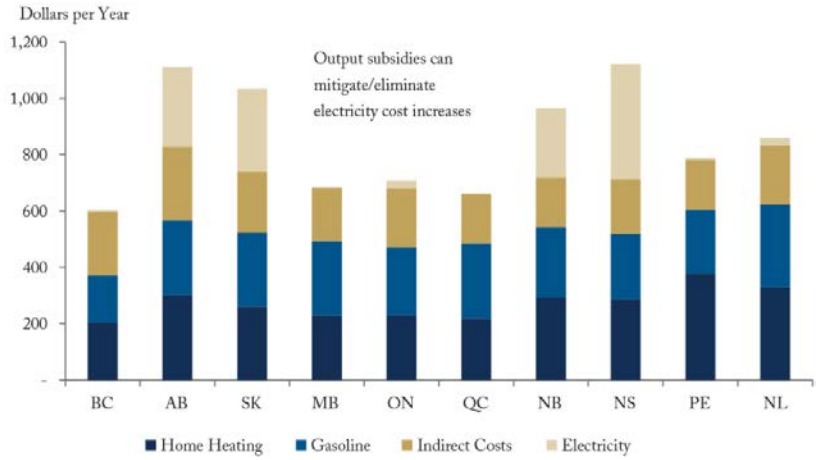
If prices on emissions rise to $50 per tonne, which they are set to with federal government policy, the upfront cost to the average Ontario household would be around $700 per year (Figure 8). However, the final cost to consumers will depend on how governments recycle that revenue back to households. It is on how the government plans to use the revenues from a carbon price that this Shadow Budget proposes a change of direction for the province of Ontario.

Eliminate Energy Efficiency Programs and Consumer Subsidies

The current plan for the government of Ontario is to spend between $6 and $8.3 billion over five years on projects intended to further emissions reductions beyond that planned to occur using the existing cap-and-trade policy (Ontario 2016). The government plans to finance the subsidies with revenues from an auction for permits that greenhouse-gas-emitting companies must buy. Many of the proposed spending programs are exceptionally costly. For example, subsidies to retrofit apartments will cost as much as $900 million over five years. They will cost taxpayers $425 per tonne of GHG emissions reduced, much higher than any reasonable estimate of future carbon prices. Another example of a wasteful subsidy is the Electric Vehicle Incentive Program, which provides incentives of up to $14,000 per electric vehicle.[2] These kinds of subsidies are regressive and economically costly ways to further reduce emissions (Rivers and Shiell 2015). Other announced programs will not have a direct cost to taxpayers, but will be costly to drivers, homeowners and businesses. The government is planning to boost the amount of renewable content in gasoline and natural gas. Renewable-fuel mandates push the cost onto consumers and are an economically expensive way to reduce emissions (Auld 2008).

[2] See http://www.mto.gov.on.ca/english/vehicles/electric/electric-vehicle-incentive-program.shtml

Figure 8: Cost of a $50/tonne of CO_2 price on typical household



Source: Dachis and Tombe (2017) from Jennifer Winter.

This Shadow Budget would eliminate nearly all of these existing subsidies and mandates and instead use the revenue to reduce taxation on households and businesses. The exact design of the tax cuts is outside of the scope of this Shadow Budget, but such a tax cut should promote two principles. First, it should reduce the average cost to businesses of emissions pricing while still providing a marginal incentive for them to reduce emissions. Second, households should receive tax cuts broadly in proportion to the cost of emissions pricing as a share of their income. This would mean tax cuts and enriching renewable tax credits geared to low-income families, for whom energy costs are a large share of total income.

To ensure industrial competitiveness, this Shadow Budget would adopt one of two paths. This Shadow Budget would prefer to adopt Alberta's emissions pricing policy, which is similar to the federal system. Producers in Alberta face little competitive disadvantage under this model. Although emitters pay the full cost of their own emissions, they receive a credit per unit of output, with the amount of the credit based on a provincial average emissions benchmark. Companies still have a strong incentive to reduce their emissions while having a minimal net impact on the competitiveness of industrial emitters. Indeed, companies with below-average emissions are better off in this system. This Shadow Budget would adopt a similar system if the cap-and-trade program is no longer the most effective means of putting a price on emissions. If, on balance, removing the apparatus of a cap-and-trade program for industrial emitters is too costly, it would preserve the system of allocating some permits for free to industrial producers.

Promote Long-term Energy Research

As research from Popp (2016) shows, a carbon price will drive 95 percent of the lowest-cost emissions reductions to meet reduction targets. Subsidies for energy adoption, as has been common in Ontario with electricity polices, encourages firms to use technology that is closest to market. Subsidies for adoption don't solve a market failure and don't encourage innovation. However, there is a market failure for longer-term energy research. The benefits of such research are broad, but the returns to firms of doing such research are relatively smaller, uncertain, and if they materialize at all will be far in the future. On their

own, research subsidies would achieve about 10 percent of economically efficient emissions reductions (Popp 2016). As such, this Shadow Budget would devote around 10 percent of revenues from an emissions price to long-term research.

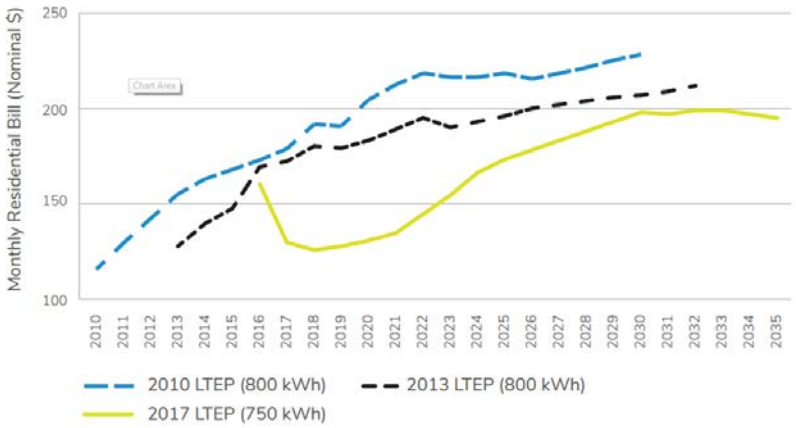
Electricity Policy

Few topics have generated as much controversy in Ontario as electricity policy, with a number of previous policies resulting in a dramatic increase in electricity prices (Trebilcock 2017). The government has taken a series of measures that will immediately reduce electricity prices for residential customers. However, within five years, prices are forecast to increase dramatically as the current policy does not address the actual cost of generating and delivering electricity, and relies on taxpayers and future ratepayers to subsidize electricity use today (Figure 9). Further, many industrial consumers are receiving no reduction to their bills. This Shadow Budget would take actions now that will begin to reduce system cost and reduce prices for businesses and consumers in the future.

Market Design and Regulation

The Independent Electricity System Operator (IESO), which manages the electricity market for Ontario, is undertaking a major market reform. The IESO projects that the market reform will reduce the cost of purchasing electricity by billions of dollars, eventually resulting in savings for consumers. The single-largest cost savings for consumers is set to come from the IESO adopting what is called a capacity market. A capacity market provides electricity generators with a revenue stream for being available to produce electricity, in addition to their revenues from selling electricity. Such a market is a major improvement to the government's previous approach of signing 20-year contracts with generators that effectively covers both. The government's plan is a sensible one that has been shown to be effective in a number of other jurisdictions, and this Shadow Budget would continue to proceed with it (see Goulding 2013 and Wyman 2014).

Figure 9: Electricity Price Outlook – Residential Consumers



Source: Ontario (2017b).

This Shadow Budget would propose the government look to take the market reform one step further by reforming the purchasing role of the IESO. The current proposal for the capacity market is to make the IESO the only buyer of generation contracts. The downside of that plan is that it does not create competition among potential electricity buyers. This Shadow Budget would delegate the purchasing power in the capacity market to local buying groups across the province. These local buying groups, known as load-serving entities, would have the ability to purchase electricity that suits local needs. Large business, currently limited to buying electricity from the IESO and paying a share of the Global Adjustment, which pays for capacity investments, could form their own load-serving entities and contract directly with generators. Further, these local buying groups would encourage consolidation of local distribution companies, to which we will return to below.

However, as Goulding (2013) argues, to be effective, the government must pair a capacity market with changes to improve the independence of Ontario's electricity regulatory bodies. Ontario governments of all political stripes haved directed various government agencies to take specific action in the electricity sector while circumventing regulators (Vegh 2016). This Shadow Budget would end the cycle of government price interventions, specific directives, and decisions on procurement by requiring the Ontario Energy Board to review all major decisions in the energy market with a mandate to approve actions only if they increase economic efficiency (see Church 2017 for a discussion of economic efficiency in regulatory hearings).

Economic efficiency means having an electricity market that has decisions determined by prices, and not arbitrary government rules. One of the most intrusive arbitrary government electricity market rules is the Industrial Conservation Initiative. In this program, eligible industrial consumers save money if they slash electricity use during the five highest Ontario-wide demand hours of the year. It's an arbitrary and expensive way to cut electricity costs for some (Sen 2015). Small businesses and residents pay higher bills because of the policy. Instead, this Shadow Budget would eliminate this program and let large consumers pay only for what they buy in a capacity market and the hourly electricity market.

Similarly, a portion of the electricity bills of Ontario households support subsidies for residential consumers to purchase smart thermostats and other energy-efficiency devices. These programs cost ratepayers $600 million in 2016 (Auditor General 2017b). As with direct government spending on such programs these programs often do not pass a cost-benefit test for the use of government fund. Many households would make such investments if energy prices were sufficiently high and they were sufficiently informed. This Shadow Budget would remove any directives requiring such energy efficiency measures, and grant the Ontario Energy Board the authority to approve or reject energy efficiency programs, such as the Industrial Conservation Initiative, based solely on whether they improve economic efficiency.

Encouraging Private Investment in the Ontario Energy Sector

As of 2017, municipal governments in the province owned local electricity distribution companies that had a value of $11 to $15 billion (Robins 2017a). Cities could sell these companies to finance infrastructure investment. Sales would have no negative effect on ratepayers, since the Ontario Energy Board keeps a close regulatory eye on all price changes regardless of who owns the companies. Furthermore, private investors are usually best placed to make the decisions about the appropriate boundaries of companies, geographically and across distribution, transmission and even generation investment. Private investors would bear the consequences of poor choices, but reap some of the rewards of good mergers (Fyfe, Garner,

and Vegh 2013). The incentives for these private-sector companies to keep costs down are often better aligned with ratepayers than those facing publicly owned electricity companies.

However, cities have not been able to take advantage of the value of these assets because of provincial taxes on such sales.[3] The province would collect $1.8 to $2.5 billion in such taxes (Robins 2017a). These overly high taxes pose a significant barrier to any sale. This year will be the last year of a three-year partial tax holiday on provincial transfer taxes in Ontario on the sales of municipally owned local electricity distribution companies. The intent of this tax change was to encourage mergers using private investors, rather than only encouraging merger with other government-owned companies. However, there have been few sales so far, partly because the tax holiday was limited largely to sales of very small companies. Private investor showed little appetite for such assets. This Shadow Budget would exempt municipalities entirely from all taxes on sales, as long as the proceeds of a sale are reinvested in qualifying infrastructure projects.

Private investment in provincially owned electricity assets has been a controversial topic, but a wise policy move. As Robins (2017b) argues, it is not necessary for the province to continue to own its minority share in Hydro One, the transmission utility, or Ontario Power Generation (OPG), a major power generator, if its policy objective is to keep electricity prices down. As with municipal companies, a strong Ontario Energy Board can protect consumers no matter the owner. A sale of the remaining government stake in Hydro One would net the province somewhere in the order of $7 billion and a sale of OPG could also generate substantial revenue.

The upfront revenue is not necessarily the best reason for the province to sell electricity assets. The main reason to sell is reduced risks. The sale would reduce dividends in the future, such as the $250 million from Hydro One. However, using such a sale to eliminate debt could result in cost-savings and reduced fiscal risks if interest rates increase. Second, the electricity sector is undergoing fundamental change. OPG and Hydro One deliver electricity in a traditional long-distance network. However, the electricity system of the future may look very different, with the emergence of small-scale renewable electricity generation. The result could be a decline in value of, and therefore dividends flowing to the treasury from, Hydro One and OPG. The best way for the province to mitigate that risk is to continue selling stakes in Hydro One and begin to include private investors in OPG.

Conclusion

A fiscally sustainable Ontario will mean higher standards of living for Canadians through better government services and faster economic growth. The province should take action to correct a fiscal course that is unsustainable. The government must act to bring the long-term cost of government in line with the revenue-raising capacity of the province. This Shadow Budget shows that there are a number of policy directions the government can and intends to take in areas as diverse as electricity, greenhouse gas, municipal, health, social and tax policy that can balance increases in spending with generating new revenues and cost-savings measures, and generally enhancing the well-being of Ontarians.

[3] See Fyfe, Garner, and Vegh (2013) for more details on the complex system of transfer and departure taxes in the Ontario local electricity distribution sector.

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Subject:	Estimates Briefing Book (EBB) - FYI and advise of any concerns by no later than Monday May 29 at noon
Date:	Thursday, May 25, 2017 5:04:04 PM
Attachments:	EBB V7 post CSB Review May 25, 2017.pdf
Importance:	High

Hi Folks

I enclose a revised version of the Estimates Briefing Book. Communications Services Branch provided their editing expertise on the document making it less technical/more plain language, at a higher level/less detailed and tighter/less wordy.

Please let me or Leah Young know **by no later than Monday noon** if you have any concerns with the revised content, particularly with any critical messaging.

Please be advised this timeline is critical in order for us to meet the deadlines to get the book printed and delivered to the Clerk of the Standing Committee on Estimates.

Regards

Stephanie

From: Zilinski, Stephanie (MOF)
Sent: Friday, May 12, 2017 12:39 PM
To: Dupuis, Paul (MOF); Laughlin, Debbie (MOF); Mattiussi, Nancy (MOF); Baldino, Rick (MOF); Luc, Rebecca (TBS); Rastinehad, Neda (MOF); Buckland Foster, Jamie (MOF); Patel, Lesley (MOF); Mikhailova, Olga (MOF); Tarin, Ghufran (MOF); Kang, Lucy (MOF); Boa, Krista (MOF); Wallace, Julia (MOF); Birks, Ryan (MOF); Bianchi, Angela (MOF); Scanlan, Darren (OFA); He, Gavin (OFA); Chinchon, Francisco (OFA); Ciavatta, Marco (FSCO); Hamilton, Carolyn (FSCO) (Carolyn.Hamilton@fsco.gov.on.ca); Kancharla, Sagar (MOF); Gobeil, Diana (MOF); Reynolds, Samantha (MOF); Harten, Jayne (MOF); Kandeepan, Ken (OFA) (Ken.Kandeepan@ofina.on.ca); Jeanes, Bridget (MOF); Portelance, Lynn (MOF); Wong, Mimi (MOF); Kim, John (OFA); Amara, Bruno (MOF); Meralli, Shemin (OFA) (Shemin.Meralli@ofina.on.ca); Sakura, George (OFA); 'john.psinas@ofina.ca'; Vavlekis, Penny (MOF); Skoberne, Vivienne (MOF); Chan, Sybille (MOF); Strathy, Anna (OFA)
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Waterston, Michael (MOF); Plange, Naomi (MOF); Howard, Joan (MOF); Nowlan, Gordon (TBS); Blackwood, Craig (MOF); Salman, Sadruddin (MOF); Bilar, Justin (MOF); Villagra, Jhenny (FSCO) (Jhenny.Villagra@fsco.gov.on.ca); Policelli, Maria (FSCO) (Maria.Policelli@fsco.gov.on.ca); Troiani, Robert (FSCO) (Robert.Troiani@fsco.gov.on.ca); Grant, Kathy (MOF); 'Young, Leah (FIN)'; Chow, Fred (MOF) (Fred.Chow@ontario.ca); Misener, Barry (MOF)
Subject: Confidential Draft Estimates Briefing Book (EBB)

Hi Folks

The enclosed Estimates Briefing Book has all program area inputs (Part I) and financials (Part II) inserted. Please limit distribution internally and note that financials contained are based on expected PRRT approvals to date, notwithstanding the Estimates will be tabled later this month.

Please review the document and provide further comments, questions or material changes to me **by noon on Wednesday May 17th**. I can be reached at 905-433-5664 to discuss.

Executive level briefings will commence next week.

Regards

Stephanie

Estimates Briefing Book

2017-18

Ministry of Finance

Ce document est disponible en français

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Part I: 2017–18 Published Plan

Ministry of Finance

MINISTRY OF FINANCE OVERVIEW

MANDATE

The Ministry of Finance's mandate is to create an environment that fosters a dynamic, innovative and growing provincial economy and to manage the government's fiscal responsibilities as well as financial and related regulatory affairs.

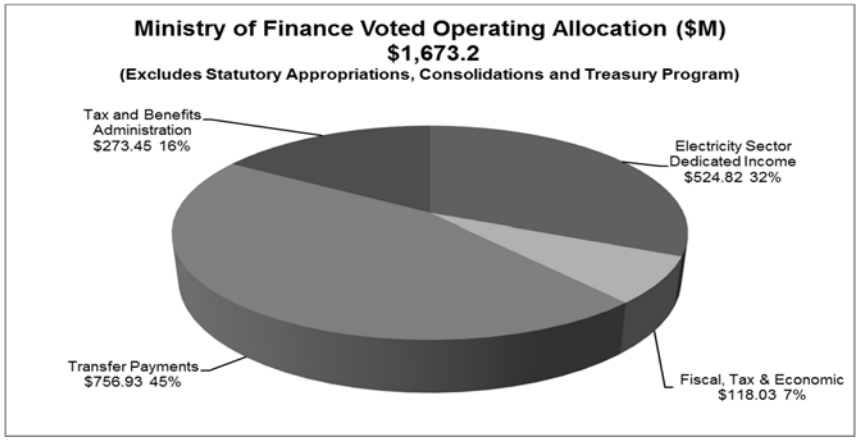
MINISTRY CONTRIBUTION TO PRIORITIES AND RESULTS

Through its mandate, the ministry works to achieve the government's priorities which include investing in people's talents and skills, building retirement security, building modern infrastructure and transportation networks, and supporting a dynamic and innovative business climate.

The ministry works with the Treasury Board Secretariat to manage the Province's $141.1 billion[1] annual spending and oversees $141.7 billion[2] of revenues raised through taxation, Government of Canada transfers and provincial business enterprises. It also manages the Province's $26.4 billion[3] borrowing program.

In addition, the ministry supports government-wide initiatives and provides key fiscal, taxation, statistical and economic policy advice to the Minister of Finance, Cabinet committees and the Premier. It also regulates the financial services sector through its agencies.

The ministry provides leadership in transforming Ontario's public services — helping to develop new strategies, policies and processes designed to drive government-wide efficiencies and enable modernization initiatives — while also remaining focused on implementing measures that meet annual budget targets.



[1] 2017 Ontario Budget
[2] 2017 Ontario Budget
[3] 2017 Ontario Budget

MINISTRY OF FINANCE PLAN: LOOKING FORWARD

The ministry is leading transformational activities across government to strengthen Ontario's economy and is also reviewing its own structure, processes and resources to effectively support the implementation of government priorities.

Its responsibilities and activities are aligned to provide financial and economic stewardship, and policy and program delivery leadership.

Meeting Fiscal Targets and Effective Financing

The 2017 Budget plan delivers on the government's 2010 Budget commitment to restore fiscal balance in 2017–18. The Province is also projecting balanced budgets in both 2018–19 and 2019–20.

The balanced budgets from 2017–18 onwards will limit the increase in the provincial net debt to net investments in capital assets. These investments will contribute to the Ontario economy growing at a faster rate than the provincial net debt. This will, in turn, allow the government to set an interim net debt-to-GDP target of 35 per cent in 2023–24 and reduce the net debt-to-GDP ratio to its pre-recession level of 27 per cent (projected to be achieved by 2029–30).

Ontario's net debt-to-GDP ratio peaked in 2014–15 at 39.1 per cent and is now trending downwards. The ratio is forecast to continue to decline to 37.5 per cent in 2017–18, 37.3 per cent in 2018–19 and 37.2 per cent in 2019–20.

Interest on Ontario's debt expense is forecast to be $11.6 billion in 2017–18 and $12.0 billion in 2018–19 — $872 million and $1,072 million lower than forecast in the 2016 Budget, respectively.

These savings continue a trend apparent since 2010, driven by lower deficits and borrowing requirements, and lower-than-forecast interest rates. The savings on Ontario's interest on debt over the period to balance now total $24.0 billion, relative to the 2010 Budget forecast.

Going forward the ministry will continue to review its programs to deliver the best possible results at the lowest cost, using evidence to improve outcomes and ensure the long-term sustainability of provincial programs and services.

Strong Economy and Dynamic Business Climate

The ministry's activities include delivering economic analysis and advice to support the development and implementation of government policy that fosters economic growth and job creation on a regional, sectorial and business level.

To ensure Ontario's economy is strong and its business climate dynamic, the ministry is dedicated to administering a fair and competitive corporate tax system — one that balances the benefits of an internationally competitive tax system with the need to raise revenue to fund essential provincial programs and services.

To help ensure the best possible programs and services for Ontarians, the ministry is also supporting the Program Review, Renewal and Transformation, the government's evidenced-based decision-making process that is modernizing services, finding savings and improving outcomes.

Additionally, the ministry is supporting the Financial Accountability Office of Ontario in its work conducting independent analysis on Ontario's finances, trends in the economy and related matters important to the Legislative Assembly.

In 2017–18 the ministry will produce the Ontario Economic Accounts, quarterly reports on the status of the provincial economy that include information on its GDP, labour market, financial markets and key external factors such as U.S. economic growth and oil prices.

It will also continue to support the implementation the province's asset optimization strategy, which is helping to fund further investments in transit, transportation and other priority infrastructure through the Trillium Trust.

Maximizing Revenues

Maximizing revenues due to the province is within the mandate of Ontario's treasury. Key to that work is developing the revenue forecast found in the 2017 Budget (updated in the fall Ontario Economic Outlook and Fiscal Review), including identifying risks to each major revenue component — and working to ensure the forecast is met. The ministry's work in 2017–18 and ongoing includes:

- Creating a new tax avoidance unit to identify and close tax planning loopholes.
- Maximizing the performance of government business enterprises by implementing the Premier's Advisory Council on Government Assets' beverage alcohol retail and distribution recommendations and adapting the Liquor Control Board of Ontario to changes to the retail marketplace as well as its new roles in wholesaling and e-commerce.
- Working with the Ontario Lottery and Gaming Corporation as it continues to implement its modernization plan for slots, casinos and lottery, as well as integrating horse racing into its gaming strategy.
- Launching an underground economy communication campaign to inform the public on the risks of participating in the underground economy.
- Developing a comprehensive strategy to address the sharing economy.
- Renewing or replacing the Aggressive International Tax Planning and Underground Economy fee-for-service agreement with the Canada Revenue Agency.

- Launching a pilot project in the hospitality and retail sectors to test the feasibility of the sales integrity program.
- Leading tobacco tax policy with an aim to support public health objectives under the Smoke-Free Ontario Strategy, while also considering impacts on the untaxed tobacco market.
- Using third-party service providers to aid collecting debts owing to the Province.
- Strengthening tools to enhance collection of non-tax revenue.

Effective Regulation and Innovative Policy

The Ministry of Finance has an instrumental role to play ensuring effective regulations and innovative policies. Its actions in 2017–18 and ongoing include:

- Simplifying personal income tax credits for caregivers by creating a new consolidated Canada Caregiver Credit.
- Introducing a new Ontario Seniors' Public Transit Tax Credit for all Ontarians aged 65 or older.
- Proposing a 15 per cent Non-Resident Speculation Tax to help address unsustainable demand for housing, discourage speculative behaviour and increase housing affordability.
- Working to stop practices that may be contributing to tax avoidance and excessive speculation in the housing market, such as requiring more information about assignments of agreements and similar arrangements through the Land Transfer Tax system.
- Exploring more comprehensive reporting requirements with the Canada Revenue Agency to ensure the correct federal and provincial taxes, including income and sales taxes, are paid on purchases and sales of real estate in Ontario.
- Consulting municipalities, tenants and apartment building owners and others on the potential implications of multi-residential property taxation on rent affordability (Based on early feedback received during this review, the Ministry of Finance is ensuring property tax for new multi-residential apartment buildings is charged at a similar rate as other residential properties. This will encourage developers to build more new purpose-built rental housing).
- Providing advice on — and advancing policy initiatives focused on — capital markets, securities and derivatives such as legislative and Ontario Securities Commission rule proposals as well as regulatory changes to respond to G20 financial regulatory reform commitments.
- Representing Ontario and advancing Ontario's interests in implementing a Cooperative Capital Markets Regulatory System, such as developing uniform capital market laws and establishing the new cooperative regulator in partnership with participating jurisdictions.
- Establishing a regulatory framework for the oversight of individuals who offer financial planning services in Ontario.
- Increasing the representation of women on boards of directors and in executive positions.
- Developing an Ontario financial technology strategy.

- Developing, with the federal government and other provinces and territories, regulations to ensure the Canada Pension Plan enhancement is financially sustainable.
- Providing central-agency support to line ministries on Ontario's Basic Income Pilot.
- Developing a regulatory policy for new retirement savings models such as target benefit plans and defined contribution pension plans.
- Strengthening the regulation of registered pension plans through measures to improve disclosure and transparency for members.
- Changing the regulatory framework for pension plans — including funding frameworks for single employer and target benefit pension plans — and changing the Ontario Pension Benefits Act and regulations that govern the conversion or merger of single-employer pension plans into jointly-sponsored pension plans.
- Strengthening the protection for investors in syndicated mortgages by developing amendments to regulations and planning for the transfer of regulatory oversight of these products from the Financial Services Commission of Ontario (FSCO) to the securities regulator.
- Transferring the responsibility for incorporating co-operative corporations from FSCO to the Ministry of Government and Consumer Services, consolidating the incorporation of co-operatives with the processes in place for other types of businesses.
- Modernizing auto insurance, including enabling all insurers to provide insurance coverage for ride-sharing as well as consulting on the recommendations by Ontario's advisor on auto insurance David Marshall aimed at delivering better outcomes for accident victims while creating a more efficient and cost-effective system.
- Engaging with the initial board of the Financial Services Regulatory Authority of Ontario and making progress toward establishing this new regulatory body.
- Analyzing and tracking changes in major areas of the underground economy focusing on unregulated tobacco and construction, retail and hospitality sectors.
- Identifying other high-risk industries in the underground economy through advanced analytics and the application of innovative tools, including cognitive computing.
- Completing the automation of the tax compliance verification process to modernize the means for ensuring that vendors awarded provincial contracts valued at $25,000 or more are tax compliant.
- Addressing the unregulated tobacco market by enhancing regulatory oversight of tobacco products.

Modern Transfer Payment Programs and Effective Partnerships

The Province's vision for an effective, efficient and equitable system of fiscal federalism in Canada emphasizes strong partnerships in key areas. As the branch of government most responsible for those partnerships, the ministry maintains contact with the ministries of Finance at the federal level and in other provinces and territories as well as First Nation communities and municipalities.

The following initiatives that support these partnerships are underway:

- Supporting the Ministry of Energy in respect of an agreement-in-principle with First Nations in Ontario, as represented by the Chiefs-in-Assembly, for ownership of Hydro One shares.
- Representing Ontario's position in inter-governmental negotiations on the retirement income security system, including the CPP.
- Providing funding support to municipalities through a number of transfer payments including the Ontario Municipal Partnership Fund, the Province's main unconditional transfer payment to municipalities, which is being redesigned to better target funding to northern and rural municipalities with more challenging fiscal circumstances.
- Establishing information- and data-sharing partnerships to enhance advanced underground economy data analytics.
- To address the unregulated tobacco sector, building partnerships with federal and provincial partners, including police agencies, the Canada Revenue Agency, Canada Border Services Agency, public health units and the Alcohol and Gaming Commission of Ontario.
- Supporting the integration of the delivery of Ministry of Community and Social Services social assistance programs to achieve cost efficiencies and improve client experience.
- Working with First Nation communities toward agreements on tobacco regulation and revenue sharing.

HIGHLIGHTS OF 2016–17 ACHIEVEMENTS

The Ministry of Finance performs a variety of critical roles, focused on supporting effective economic, fiscal and financial management for a stronger Ontario. Its 2016–17 achievements include:

Delivering on the Balanced Budget Plan
The ministry was active in a variety of sectors that enabled the government to restore balance to the Province's finances in 2017–18. Through targeted, measured and fiscally responsible decisions, the government has restored the province's fiscal and economic strength.

Supporting a Dynamic Business Climate
To improve the province's overall business climate, the ministry supported a variety of initiatives that make Ontario an attractive environment for business investment.

Strengthening the Financial Services Sector
The ministry led a variety of initiatives focused on enhancing the province's financial services sector.

Building Retirement Security
The ministry led the implementation of a variety of pension reform measures aimed at improving the adequacy and coverage of pensions in Ontario.

Addressing the Underground Economy
The ministry led several innovative pilots and projects aimed at ensuring all citizens pay their fair share of taxes as well as enhancing the competitiveness of legitimate businesses.

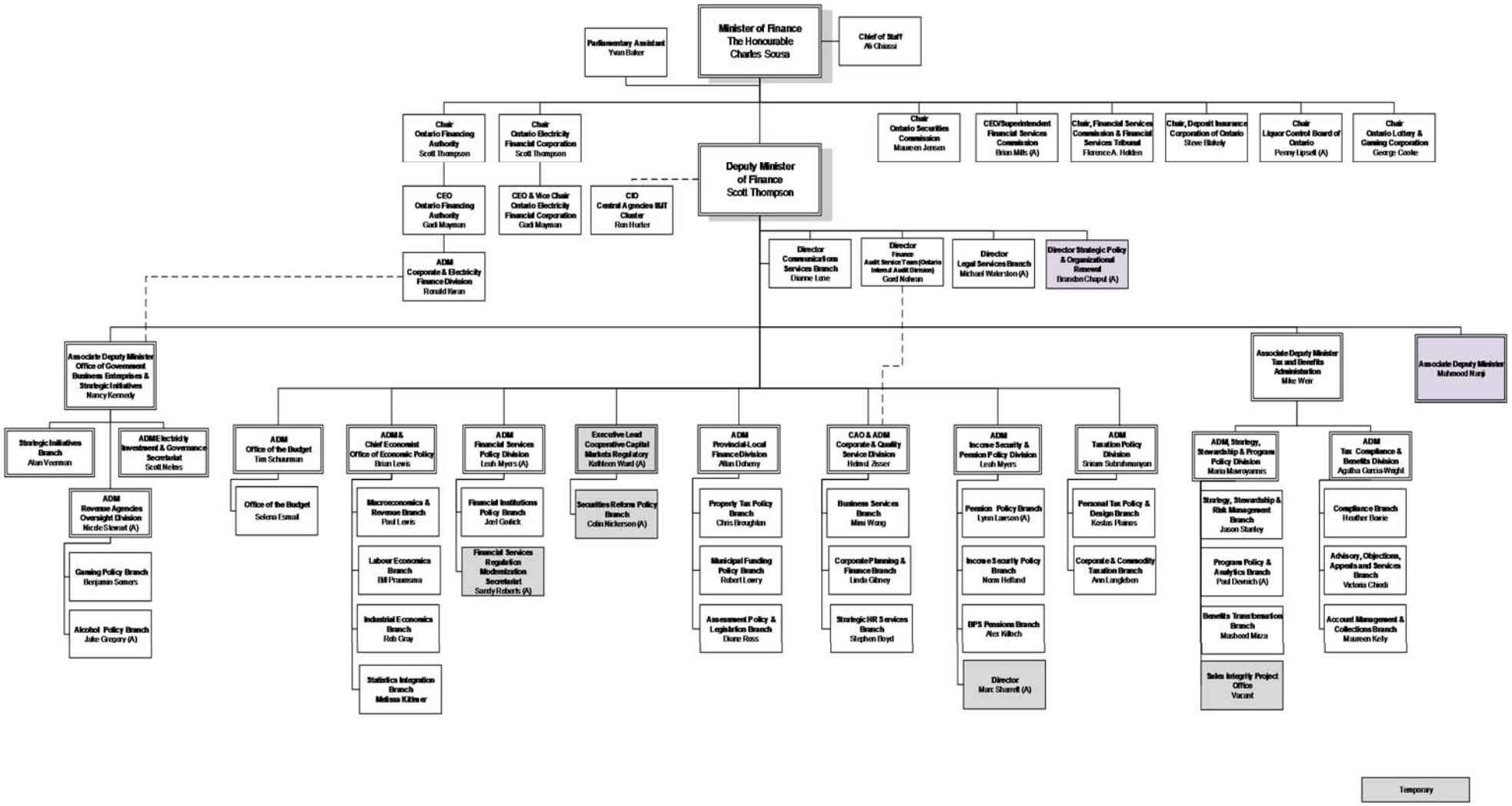
Working with Indigenous Partners
The ministry continued to take the lead in government dialogue with First Nation communities and leaders on tobacco, gasoline and the energy sector for mutually beneficial outcomes for the province and First Nation communities.

Facilitating Openness and Accountability
The ministry continued to further strengthen transparency, financial management and fiscal accountability to ensure Ontarians receive the best value for their tax dollars.

Further detail of the ministry's achievements can be found in the Appendix: 2016–17 Annual Report.

MINISTRY OF FINANCE ORGANIZATIONAL STRUCTURE

As of May 8, 2017



AGENCIES, BOARDS AND COMMISSIONS

Deposit Insurance Corporation of Ontario (DICO): promotes the safety and soundness of Ontario's credit unions and caisses populaires by undertaking regulatory oversight activities, establishing standards for sound business and financial practices, and providing deposit insurance coverage within statutory limits.

Financial Services Commission of Ontario (FSCO): an integrated regulator of Ontario's insurance industry; pension plans; loan and trust companies; credit unions and caisses populaires; the mortgage brokering sector; health service providers and co-operative corporations.

Financial Services Tribunal: an independent, adjudicative body that conducts hearings arising from regulatory and proposed regulatory decisions of the Superintendent of Financial Services.

Liquor Control Board of Ontario (LCBO): responsible for the importation, distribution and sale of beverage alcohol in the province in an efficient and socially responsible manner.

Ontario Electricity Financial Corporation (OEFC): the legal continuation of the former Ontario Hydro responsible for managing that organization's legacy debt and other liabilities.

Ontario Financing Authority (OFA): conducts borrowing, investment and financial risk-management activities for the Province; manages the provincial debt; advises on financial policies and projects; provides financial and centralized banking and cash management services and advice to the Ontario Electricity Financial Corporation.

Ontario Lottery and Gaming Corporation of Ontario (OLG): responsible for the conduct, management and operation of slots and casinos, lottery operations, internet gaming and electronic games at charitable bingo halls across Ontario.

Ontario Securities Commission (OSC): the regulatory body responsible for overseeing Ontario's capital markets, which includes the equities, fixed-income and derivatives markets.

DETAILED FINANCIAL INFORMATION

Table 1: Ministry Planned Expenditures 2017-18 ($M)

($M)	Ministry Planned Expenditures 2017-18
Operating	**13,304.7**
Capital	**6.6**
TOTAL	**13,311.3**

Table 2: Combined Operating and Capital Summary by Vote

VOTES / PROGRAMS	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Estimates * 2016-17 $	Interim Actuals * 2016-17 $	Actual * 2015-16 $
OPERATING EXPENSE						
Ministry Administration	40,552,700	940,400	2.4	39,612,300	39,587,100	44,383,354
Government Business Enterprises, Income Security and Pension Policy	106,976,000	82,900	0.1	106,893,100	113,996,700	106,662,025
Economic, Fiscal and Financial Policy	1,112,182,100	391,168,800	54.3	721,013,300	996,684,800	613,266,482
Financial Services Industry Regulation	2,438,600	(51,000)	(2.0)	2,489,600	4,474,600	1,298,270
Tax and Benefits Administration	411,082,400	(24,545,200)	(5.6)	435,627,600	347,060,300	333,269,394
Ontario Retirement Pension Plan	-	(1,531,000)	(100.0)	1,531,000	2,504,600	17,723,110
Total Operating Expense to be Voted	**1,673,231,800**	**366,064,900**	**28.0**	**1,307,166,900**	**1,504,308,100**	**1,116,602,635**
Statutory Appropriations:						
Treasury Program	11,298,251,700	(9,176,900)	(0.1)	11,307,428,600	10,725,962,600	10,395,378,070
Other Statutory Appropriations	50,785,914	(19,715)	(0.0)	50,805,629	79,383,193	384,495,405
Total Operating Expense	**13,022,269,414**	**356,868,285**	**2.8**	**12,665,401,129**	**12,309,653,893**	**11,896,476,110**
Consolidation Adjustment - Ontario Financing Authority	26,711,000	524,000	2.0	26,187,000	26,187,000	23,020,996
Consolidation Adjustment - Ontario Securities Commission	112,303,000	7,046,900	6.7	105,256,100	106,841,000	94,762,900
Consolidation Adjustment - Ontario Electricity Financial Corporation	(216,818,300)	(737,897,700)	(141.6)	521,079,400	337,442,000	713,717,735
Other Adjustments - Financial Services Commission of Ontario	77,134,600	(20,447,200)	(21.0)	97,581,800	84,724,000	97,215,107
Consolidation Adjustment - Treasury Program	523,498,500	(62,181,800)	(10.6)	585,680,300	600,060,700	505,312,679
Consolidation Adjustment - Treasury Program - Interest Capitalization for Other Sectors	(240,430,200)	(103,321,300)	75.4	(137,108,900)	(76,023,300)	66,108,336
Total Operating Expense Including Consolidation & Other Adjustments	**13,304,668,014**	**(559,408,815)**	**(4.0)**	**13,864,076,829**	**13,388,885,293**	**13,396,613,863**
OPERATING ASSETS						
Economic, Fiscal and Financial Policy	275,000,000	275,000,000		-	-	109,964,191
Financial Services Industry Regulation	1,000	-		1,000	-	-
Tax and Benefits Administration	400,000	-		400,000	400,000	280,537
Total Operating Assets to be Voted	**275,401,000**	**275,000,000**	**-**	**401,000**	**400,000**	**110,244,728**
Statutory Appropriations	29,000,000	(239,200,000)	(89.2)	268,200,000	28,719,000	47,709,111
Total Operating Assets	**304,401,000**	**35,800,000**	**13.3**	**268,601,000**	**29,119,000**	**157,953,839**

Table 2: Combined Operating and Capital Summary by Vote (Cont'd)

VOTES / PROGRAMS	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates * 2016-17 $	Interim Actuals * 2016-17 $	Actual * 2015-16 $
CAPITAL EXPENSE						
Ministry Administration	-	(1,000)	(100.0)	1,000	-	-
Economic, Fiscal, and Financial Policy	1,000	-		1,000	-	-
Financial Services Industry Regulation	1,000	-		1,000	-	-
Investing In Ontario	1,000	-		1,000	-	-
Tax and Benefits Administration	1,000	-		1,000	-	-
Ministry Total Capital Expense to be Voted	**4,000**	**(1,000)**	**(20.0)**	**5,000**	**-**	**-**
Statutory Appropriations						
Trillium Trust Program	288,790,600	288,789,600	-	1,000	266,781,000	-
Other Statutory Appropriations	2,639,600	(1,000)	(0.0)	2,640,600	2,638,600	2,637,609
Total Capital Expense	**291,434,200**	**288,787,600**	**-**	**2,646,600**	**269,419,600**	**2,637,609**
Capital Expense Adjustment - Trillium Trust Reclassification	(288,790,600)	(288,790,600)		-	(266,780,000)	-
Consolidation Adjustment - Ontario Financing Authority	789,000	(92,000)	(10.4)	881,000	863,000	782,000
Consolidation Adjustment - Ontario Securities Commission	3,150,000	91,300	3.0	3,058,700	3,000,000	2,761,000
Total Capital Expense Including Consolidation & Other Adjustments	**6,582,600**	**(3,700)**	**(0.1)**	**6,586,300**	**6,502,600**	**6,180,609**
CAPITAL ASSETS						
Ministry Administration	-	(1,000)	(100.0)	1,000	-	-
Economic, Fiscal, and Financial Policy	1,000	-		1,000	-	-
Financial Services Industry Regulation	7,708,600	2,839,900	58.3	4,868,700	872,900	212,085
Tax and Benefits Administration	1,000	-		1,000	-	-
Ministry Total Capital Assets to be Voted	**7,710,600**	**2,838,900**	**58.3**	**4,871,700**	**872,900**	**212,085**
Statutory Appropriations						
Trillium Trust Program	118,850,000	118,849,000	-	1,000	13,691,000	-
Total Capital Assets	**126,560,600**	**121,687,900**	**-**	**4,872,700**	**14,563,900**	**212,085**
Capital Asset Adjustment - Trillium Trust Reclassification	(118,850,000)	(118,850,000)	-	-	(13,690,000)	-
Total Capital Asset Including Adjustments	**7,710,600**	**2,837,900**	**-**	**4,872,700**	**873,900**	**212,085**
Ministry Total Operating & Capital Including Consolidation and Other Adjustments (not including assets)	**13,311,250,614**	**(559,412,515)**	**(4.0)**	**13,870,663,129**	**13,395,387,893**	**13,402,794,472**

* Estimates, Interim Actuals and Actuals for prior fiscal years are re-stated to reflect any changes in ministry organization and/or program structure. Interim Actuals reflect the numbers presented in the 2017 Ontario Budget.

CONTACT US

If you have questions about the programs and/or services of the Ministry of Finance, visit www.ontario.ca/finance or contact the ministry by:

- **Phone**: 1-866-ONT-TAXS (668-8297) or 1-800-263-7776 for teletypewriter (TTY)
- **Email**: financecommunications.fin@ontario.ca
- **Mail**:
  Ministry of Finance
  33 King Street West
  PO Box 627
  Oshawa ON
  L1H 8H5

You can also visit a ServiceOntario location in person, or call 1-866-ONT-TAXS (668-8297) to schedule an appointment if you wish to meet with a representative at one of our tax offices.

Appendix: 2016-17 Annual Report

Ministry of Finance

2016-17 ACHIEVEMENTS

In 2016–17, the Ministry of Finance engaged in a number of activities to achieve its key priorities. These highlights of the ministry's achievements include:

1. Delivering on the Balanced Budget Plan

Fiscal Framework

- Led the development, and provided strategic oversight of, the fiscal plan including tracking the government's progress in meeting fiscal targets with key partners at the Treasury Board Secretariat and Cabinet Office. Reported on the fiscal plan through the Budget, Quarterly Finances, Economic Outlook, and Fiscal Review and Public Accounts.
- Delivered the 2016 Ontario Economic Outlook and Fiscal Review, the 2017 Long-Term Report on the Economy, the 2016–17 First and Third Quarter Finances and the 2017 Budget that supports the government's plan to balance the budget and maintain balance to 2019–20.
- Advised on Ontario's fiscal relations with the federal government and maintained contact with federal, provincial and territorial finance partners to advance Ontario's fiscal priorities.

Transforming Government and Managing Costs

- In cooperation with several ministries, delivered benefit programs and continued to explore opportunities for benefits transformation to achieve better client service, streamlined administration and enhanced policy development and coordination.
- Passed new framework legislation, the *Benefits Administration Integration Act* that will allow information-sharing across benefit programs.
- Partnered with the Canada Revenue Agency to provide Automated Income Verification for applicants to a growing number of programs.
- Supported the Basic Income Pilot being implemented in early 2017–18.
- Continued working with line ministries and municipalities to expand services for benefits delivery.
- Launched the Vector Institute, a new artificial intelligence (AI) lab mandated to advance research and drive the adoption and commercialization of AI technologies across Canada.

Taxation Policy

- With other provinces, territories and the federal government, improved the Tax Collection Agreement to ensure it reflects Ontario's interests.
- As part of modernizing Ontario's Land Transfer Tax (LTT) system, doubled the refund for eligible first-time homebuyers; updated rates and brackets; restricted the refund for first-time homebuyers to Canadian citizens and permanent residents; and launched a transformational initiative collecting additional

information about Ontario's real estate market to be used for LTT enforcement and support evidence-based policy development.

Borrowing and Debt Management

- Through the Ontario Financing Authority (OFA), continued to efficiently manage the Province's borrowing program.
- Completed the government's annual borrowing program in 2016–17, borrowing $27.0 billion. (This is up from the $26.4-billion forecast in the 2016 Budget, as the OFA capitalized on low interest rates and a strong demand for Ontario bonds to prefund $3.2 billion of the 2017–18 requirement. Through prudent and cost-effective debt management, the OFA continues to keep interest on debt costs below budget projections).
- Through prudent and cost-effective debt management, continued to keep interest on debt costs below budget projections. (Interest on debt expense is projected to be $11,250 million for 2016–17 — $506 million lower than forecast in the 2016 Budget — reflecting lower-than-forecast interest rates, the lower forecast deficit for 2016–17 and cost-effective debt management).

2. Supporting a dynamic business climate

Policy/Taxation Measures

- Partnered with the Canada Revenue Agency and Airbnb on a pilot project to increase awareness of tax obligations for Ontarians sharing their homes.
- Worked with the Ministry of Economic Development and Growth to identify potential opportunities for small business, through the Small Business Innovation Challenge.
- Worked with the insurance industry to develop the legislative and regulatory changes necessary to fully integrate the sharing economy into Ontario's auto-insurance system, such as the interim fleet insurance policy for the Uber ridesharing program.
- Implemented the Trillium Trust and related asset optimization initiatives to help fund infrastructure investments, including crediting to the trust $3.7 billion from the sale of Hydro One shares.
- Continued to upload social assistance benefit programs off the property tax base to ensure that municipalities have more property tax dollars to invest in local priorities.
- Made tax supports for business and people more efficient and better focused on objectives and outcomes, such as lowering business electricity costs with the end of the debt retirement charge effective April 1, 2018, nine months earlier than previously estimated.
- Implemented changes to the Ontario Innovation Tax Credit and the Ontario Research and Development Tax Credit.
- Implemented legislative and regulatory changes to cultural media tax credits, e.g., introducing an application deadline for the Ontario Interactive Digital Media

Tax Credit and clarifying the excluded productions for Ontario's film and television tax credits.
- Provided the Auditor General and the Financial Accountability Office with information on tax credits to support their reviews of business support programs.
- Recovered over $450 million in debts owing to the province and over $2 million for employees owed money under the *Employment Standards Act*.
- Consulted with industry and raw leaf tobacco producers on amendments to the *Tobacco Tax Act* and supporting regulation.
- Completed the online Notice of Objection project, allowing taxpayers to submit their notices online, saving them time, effort and money.

Alcohol and Gaming (Ministry, LCBO and OLG)
- Continued the modernization of the alcohol and gaming sectors and increased provincial revenues within a framework of social responsibility.
- Continued to introduce the sale of beer, cider and wine into grocery stores, giving consumers more choice and convenience while creating a more dynamic and competitive business environment for producers: up to 130 grocery stores were authorized to sell beer and cider, of which 70 can also sell wine; and launched an allocation for up to 80 more beer and cider authorizations.
- The LCBO launched its e-commerce platform, which features almost 5,000 different products from across Ontario, Canada and 85 other countries for pick-up at local stores and home delivery.
- Announced the Ontario Small Cidery and Small Distillery Support Program, which will invest $4.9 million over three years to support small cider and small spirits producers to scale up into medium and large businesses.
- Closed the sale of LCBO's head office, with the net proceeds of $246 million credited to Trillium Trust.
- Awarded three of eight gaming bundles to private sector service providers (four more bundle procurements are in progress) and opened a new casino in Belleville, major strides in OLG's modernization plan.
- Continued OLG's modernization of lottery, charitable and internet gaming lines of business as well as integrating horse racing into its gaming strategy.

Economic Analysis, Reporting and Policy Advice
- Provided analytical, policy and research support to the Premier's Office, Cabinet Office and ministries on a number of priorities, including the Business Growth Initiative, the Highly Skilled Workforce Expert Panel Report, the Poverty Reduction Strategy and the Changing Workplace Review Panel.
- Renewed a three-year agreement with the Toronto Financial Services Alliance to support the organization's strategic objective to grow the Toronto region as a global financial hub and cluster.
- Reviewed investment proposals under the government's Jobs and Prosperity Fund and regional programs.

3. Strengthening the financial services sector

- Introduced and passed legislation that sets out the initial parameters for the new Financial Services Regulatory Authority of Ontario following the June 2016 final report of the expert advisory panel that recommended establishing a new regulator.
- Amended regulations under the *Credit Unions and Caisses Populaires Act, 1994* to improve the regulatory framework for credit unions.
- Continued to make auto insurance more affordable for Ontario's almost 10 million drivers, such as requiring insurers to offer a discount for the use of winter tires and creating a new dispute resolution system to help Ontario claimants get faster access to the benefits they need.
- Amended the *Insurance Act* to improve life insurance and accident and sickness insurance disclosure requirements and improve industry efficiencies.
- Continued to play a leadership role in implementing the proposed Co-operative Capital Markets Regulatory System, including the finalization and proposed introduction of the legislative framework that will be set out in a new Capital Markets Act and related legislation in 2018.
- Supported the 2016 review and 2017 report by an independent expert committee of the regulatory framework relating to financial planning and financial advisory services.
- Worked with partner ministries and stakeholders on developing a new women's economic empowerment strategy that addresses the gender wage gap and accelerates greater representation of women on boards.

4. Building retirement security

- Enhanced the Canada Pension Plan with the federal government, other provinces and territories.
- Created the Investment Management Corporation of Ontario to provide lower-cost and improved pension investment returns to Ontario's broader public sector pension plans.
- Reviewed the *Pension Benefits Act* solvency funding framework for defined benefit plans that included issuing a consultation paper on changes to the solvency funding framework.
- Extended temporary solvency funding relief measures first introduced in 2009 and 2012.
- Finalized the legislative and regulatory frameworks for Pooled Registered Pension Plans (PRPPs).
- Helped develop a multilateral agreement for PRPPs to facilitate the regulation and supervision of multi-jurisdictional PRPPs that Ontario signed in March 2017.

5. Addressing the underground economy

- Enhanced oversight of raw-leaf tobacco-growing: addressed the links between organized crime and tobacco through a partnership with the Ontario Provincial Police's Contraband Tobacco Enforcement Team, and enhanced retail inspections with public health units.
- Negotiated new fee-for-service agreements with the Canada Revenue Agency to protect Ontario revenue including enhanced compliance measures (e.g., auditing) and a service level agreement for underground economy specialist teams.
- Addressed underground economic activity through a public awareness campaign targeting multiple high-risk sectors, including home renovation, and partnered with the Ministry of Transportation on a pilot project to determine the tax compliance of construction subcontractors the ministry procured.

6. Working with Indigenous partners

- Engaged with First Nations and industry in modernizing the Ontario Gas Card Program, resulting in increasing card security for tax-exempt gasoline sales transactions in First Nation communities.
- Supported the Ministry of Energy on an agreement-in-principle with First Nations in Ontario, as represented by the Chiefs-in-Assembly, for ownership of Hydro One shares and by engaging with the Métis Nation of Ontario.
- Continued to implement the Aboriginal Loan Guarantee Program, which loan guarantees to support equity investment by Indigenous groups in renewable wind, hydro, and solar electricity generation and transmission projects.

7. Facilitating openness and accountability

- Provided advice and support to other ministries to ensure an open and productive relationship with the Financial Accountability Office.
- Developed new ways to deliver data and statistical services that are efficient, cost-effective and transparent in support of evidenced-based decision-making and advancing the government's commitments to Open Government and collaboration with external experts and academic institutions on difficult policy challenges.
- Capitalized on new methods of public and stakeholder participation in the Ontario pre-budget consultation and budget development processes.
- Implemented the recommendations of the Special Purpose Business Property Assessment Review report for the 2016 reassessment (2017 tax year) in collaboration with the Municipal Property Assessment Corporation, municipalities and other stakeholders. These are expected to increase the transparency, accuracy and predictability of property assessments, reducing the number and impact of appeals, and promoting greater revenue stability from the $27-billion shared property tax base.

- Provided additional property tax flexibility to enable municipalities to better tailor programs to reflect their local needs and circumstances, while ensuring the property tax system continues to remain fair and competitive.
- Reported on the Trillium Trust to help support public transit, transportation and other priority infrastructure projects.

Table 3: Ministry Interim Actual Expenditures 2016-17

	Ministry Interim Actual Expenditures* 2016-17 ($M except Staff Strength)
Operating and Capital	901.5
Ontario Municipal Partnership Fund	505.0
Power Supply Contract Costs	739.0
Interest on Debt	11,250.0
Staff Strength as of March 31**	1,888.9

*Refer to page(s) 240-241 of the 2017 Ontario Budget
**Ontario Public Service Full-Time Equivalent positions

Part II: 2017-18 Detailed Financials

Ministry of Finance

12 – MINISTRY OF FINANCE

The Ministry of Finance supports the economic, fiscal, financial, and taxation policies and strategies of the Government of Ontario, and oversees the Province's borrowing and debt management program. The ministry administers a number of tax statutes, tax credits and benefit programs, and produces the provincial budget. In conjunction with Treasury Board Secretariat, the ministry also manages the Consolidated Revenue Fund and fiscal and financial policies of the Government of Ontario, and reports on financial matters. The ministry also develops policies for Ontario's financial services sector and supports the regulation of financial services institutions and intermediaries carrying on business in the province. In addition, the ministry manages Ontario's fiscal relationship with the federal government, other provinces and Ontario's municipalities, reports on the Trillium Trust, and oversees agencies accountable to the Minister of Finance. The Ministry also reports on economic and demographic developments in the province and provides analytical support and policy advice on these topics as well as statistical issues and trends that affect Ontario's economic growth and job creation.

Table 1: Operating and Capital Summary by Vote

VOTES / PROGRAMS	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates * 2016-17 $	Interim Actuals * 2016-17 $	Actual * 2015-16 $
OPERATING EXPENSE						
Ministry Administration	40,552,700	940,400	2.4	39,612,300	39,587,100	44,383,354
Government Business Enterprises, Income Security and Pension Policy	106,976,000	82,900	0.1	106,893,100	113,996,700	106,662,025
Economic, Fiscal and Financial Policy	1,112,182,100	391,168,800	54.3	721,013,300	996,684,800	613,266,482
Financial Services Industry Regulation	2,438,600	(51,000)	(2.0)	2,489,600	4,474,600	1,298,270
Tax and Benefits Administration	411,082,400	(24,545,200)	(5.6)	435,627,600	347,060,300	333,269,394
Ontario Retirement Pension Plan	-	(1,531,000)	(100.0)	1,531,000	2,504,600	17,723,110
Total Operating Expense to be Voted	**1,673,231,800**	**366,064,900**	**28.0**	**1,307,166,900**	**1,504,308,100**	**1,116,602,635**
Statutory Appropriations:						
Treasury Program	11,298,251,700	(9,176,900)	(0.1)	11,307,428,600	10,725,962,600	10,395,378,070
Other Statutory Appropriations	50,785,914	(19,715)	(0.0)	50,805,629	79,383,193	384,495,405
Total Operating Expense	**13,022,269,414**	**356,868,285**	**2.8**	**12,665,401,129**	**12,309,653,893**	**11,896,476,110**
Consolidation Adjustment - Ontario Financing Authority	26,711,000	524,000	2.0	26,187,000	26,187,000	23,020,996
Consolidation Adjustment - Ontario Securities Commission	112,303,000	7,046,900	6.7	105,256,100	106,841,000	94,762,900
Consolidation Adjustment - Ontario Electricity Financial Corporation	(216,818,300)	(737,897,700)	(141.6)	521,079,400	337,442,000	713,717,735
Other Adjustments - Financial Services Commission of Ontario	77,134,600	(20,447,200)	(21.0)	97,581,800	84,724,000	97,215,107
Consolidation Adjustment - Treasury Program	523,498,500	(62,181,800)	(10.6)	585,680,300	600,060,700	505,312,679
Consolidation Adjustment - Treasury Program - Interest Capitalization for Other Sectors	(240,430,200)	(103,321,300)	75.4	(137,108,900)	(76,023,300)	66,108,336
Total Operating Expense Including Consolidation & Other Adjustments	**13,304,668,014**	**(559,408,815)**	**(4.0)**	**13,864,076,829**	**13,388,885,293**	**13,396,613,863**
OPERATING ASSETS						
Economic, Fiscal and Financial Policy	275,000,000	275,000,000		-	-	109,964,191
Financial Services Industry Regulation	1,000	-		1,000	-	-
Tax and Benefits Administration	400,000	-		400,000	400,000	280,537
Total Operating Assets to be Voted	**275,401,000**	**275,000,000**	**-**	**401,000**	**400,000**	**110,244,728**
Statutory Appropriations	29,000,000	(239,200,000)	(89.2)	268,200,000	28,719,000	47,709,111
Total Operating Assets	**304,401,000**	**35,800,000**	**13.3**	**268,601,000**	**29,119,000**	**157,953,839**

Table 1: Operating and Capital Summary by Vote (cont'd)

VOTES / PROGRAMS	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates * 2016-17 $	Interim Actuals * 2016-17 $	Actual * 2015-16 $
CAPITAL EXPENSE						
Ministry Administration	-	(1,000)	(100.0)	1,000	-	-
Economic, Fiscal, and Financial Policy	1,000	-		1,000	-	-
Financial Services Industry Regulation	1,000	-		1,000	-	-
Investing In Ontario	1,000	-		1,000	-	-
Tax and Benefits Administration	1,000	-		1,000	-	-
Ministry Total Capital Expense to be Voted	**4,000**	**(1,000)**	**(20.0)**	**5,000**	**-**	**-**
Statutory Appropriations						
Trillium Trust Program	288,790,600	288,789,600	-	1,000	266,781,000	-
Other Statutory Appropriations	2,639,600	(1,000)	(0.0)	2,640,600	2,638,600	2,637,609
Total Capital Expense	**291,434,200**	**288,787,600**	**-**	**2,646,600**	**269,419,600**	**2,637,609**
Capital Expense Adjustment - Trillium Trust Reclassification	(288,790,600)	(288,790,600)		-	(266,780,000)	-
Consolidation Adjustment - Ontario Financing Authority	789,000	(92,000)	(10.4)	881,000	863,000	782,000
Consolidation Adjustment - Ontario Securities Commission	3,150,000	91,300	3.0	3,058,700	3,000,000	2,761,000
Total Capital Expense Including Consolidation & Other Adjustments	**6,582,600**	**(3,700)**	**(0.1)**	**6,586,300**	**6,502,600**	**6,180,609**
CAPITAL ASSETS						
Ministry Administration	-	(1,000)	(100.0)	1,000	-	-
Economic, Fiscal, and Financial Policy	1,000	-		1,000	-	-
Financial Services Industry Regulation	7,708,600	2,839,900	58.3	4,868,700	872,900	212,085
Tax and Benefits Administration	1,000	-		1,000	-	-
Ministry Total Capital Assets to be Voted	**7,710,600**	**2,838,900**	**58.3**	**4,871,700**	**872,900**	**212,085**
Statutory Appropriations						
Trillium Trust Program	118,850,000	118,849,000	-	1,000	13,691,000	-
Total Capital Assets	**126,560,600**	**121,687,900**	**-**	**4,872,700**	**14,563,900**	**212,085**
Capital Asset Adjustment - Trillium Trust Reclassification	(118,850,000)	(118,850,000)	-	-	(13,690,000)	-
Total Capital Asset Including Adjustments	**7,710,600**	**2,837,900**	**-**	**4,872,700**	**873,900**	**212,085**
Ministry Total Operating & Capital Including Consolidation and Other Adjustments (not including assets)	**13,311,250,614**	**(559,412,515)**	**(4.0)**	**13,870,663,129**	**13,395,387,893**	**13,402,794,472**

* Estimates, Interim Actuals and Actuals for prior fiscal years are re-stated to reflect any changes in ministry organization and/or program structure. Interim Actuals reflect the numbers presented in the 2017 Ontario Budget.

Table 2: Reconciliation to Previously Published Data

Operating Expense	Estimates 2016-17 $	Actual 2015-16 $
Total Operating Previously Published *	12,661,985,429	11,800,123,952
Government Reorganization		
Transfer of Functions from other Ministries	8,415,700	96,352,158
Transfer of Functions to other Ministries	(5,000,000)	-
Change in Accounting		
Change in Accounting	-	-
Restated Total Operating Expense	12,665,401,129	11,896,476,110

* Total Operating Expense includes Statutory Appropriations, Special Warrants and Total Operating Expense to be Voted.

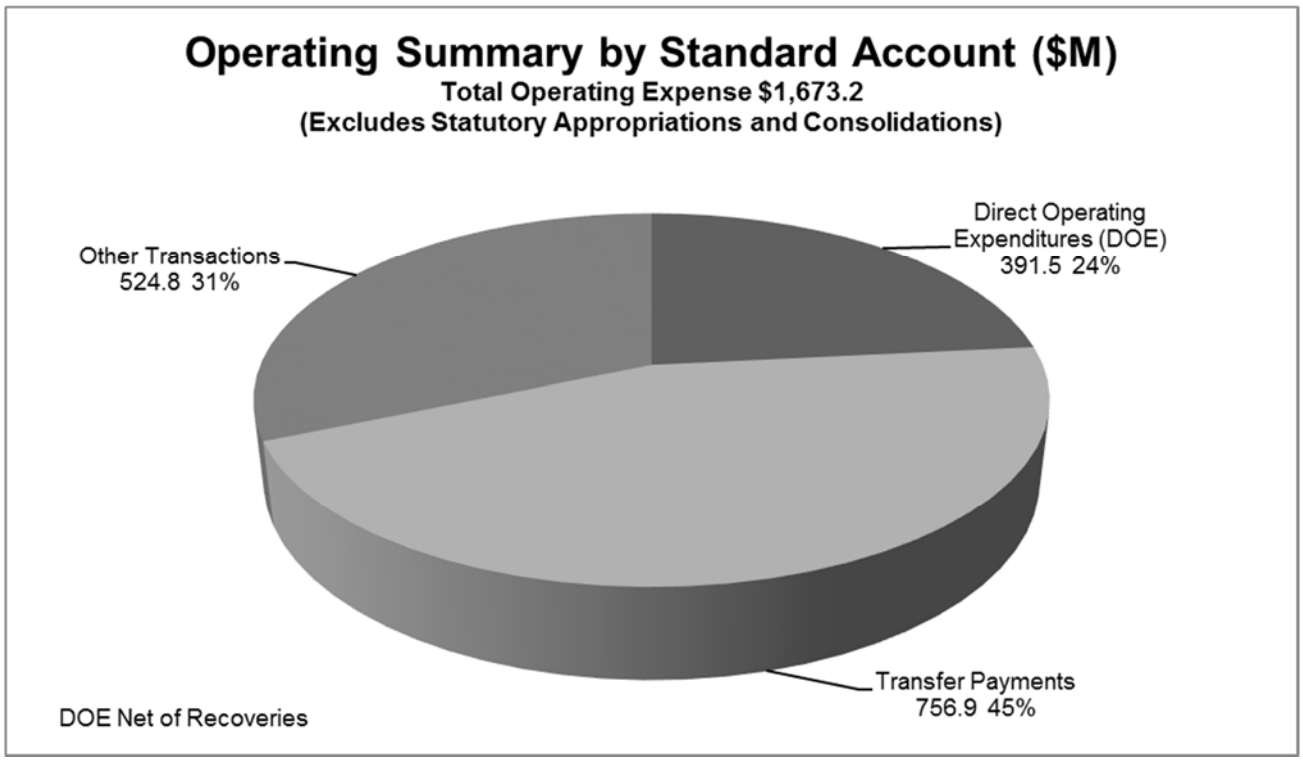
Operating Assets	Estimates 2016-17 $	Actual 2015-16 $
Total Operating Previously Published *	268,601,000	157,953,839
Government Reorganization		
Transfer of Functions from other Ministries	-	-
Transfer of Functions to other Ministries	-	-
Restated Total Operating Assets	268,601,000	157,953,839

* Total Operating Assets includes Statutory Appropriations, Special Warrants and Total Operating Assets to be Voted.

Table 3: 2017-18 Operating Summary by Vote and Standard Account

Standard Account	1201 Ministry Administration	1202 Government Business Enterprises, Income Security and Pension Policy	1203 Economic, Fiscal and Financial Policy	1204 Financial Services Industry Regulation	1208 Investing in Ontario	1209 Tax and Benefits Administration	S Trillium Trust	S Statutory	Total Ministry (Excludes Consolidations)	
	$	$	$	$	$	$	$	$	$	%
OPERATING EXPENSE										
Salaries and Wages	17,642,300	8,907,900	28,356,900	42,829,400	-	86,666,100	-	64,014	184,466,614	1.4
Employee Benefits	2,536,000	1,090,700	3,725,000	10,986,800	-	13,291,700	-		31,630,200	0.2
Transportation and Communication	1,131,300	219,200	694,600	888,400	-	3,936,000	-		6,869,500	0.1
Services	18,392,900	5,152,000	26,246,000	35,553,200	-	170,477,300	-	5,500,000	261,321,400	2.0
Supplies and Equipment	850,200	171,800	685,200	524,200	-	2,107,300	-		4,338,700	0.0
Other Transactions	-	-	524,818,300	-	-	-	-	45,220,900	570,039,200	4.4
Transfer Payments	-	91,646,800	527,656,100	-	-	137,628,600	-	1,000	756,932,500	5.8
Interest On Debt (IOD)	-	-	-	-	-	-	-	11,298,251,700	11,298,251,700	86.8
Recoveries	-	(212,400)	-	(88,343,400)	-	(3,024,600)			(91,580,400)	(0.7)
Total Operating Expense	**40,552,700**	**106,976,000**	**1,112,182,100**	**2,438,600**	**-**	**411,082,400**	**-**	**11,349,037,614**	**13,022,269,414**	**100.0**
PERCENT OF TOTAL MINISTRY	**0.3**	**0.8**	**8.5**	**0.0**	**-**	**3.2**	**-**	**87.2**	**100.0**	
OPERATING ASSETS										
Deposits and Prepaid Expenses				1,000					1,000	0.0
Advances and Recoverable Amounts						400,000		29,000,000	29,400,000	9.7
Loans and Investments			275,000,000				-	-	275,000,000	90.3
Recoveries									-	0.0
Total Operating Assets	**-**	**-**	**275,000,000**	**1,000**	**-**	**400,000**	**-**	**29,000,000**	**304,401,000**	**100.0**
PERCENT OF TOTAL MINISTRY	**-**	**-**	**90.3**	**0.0**	**-**	**0.1**	**-**	**9.5**	**100.0**	

Ministry of Finance



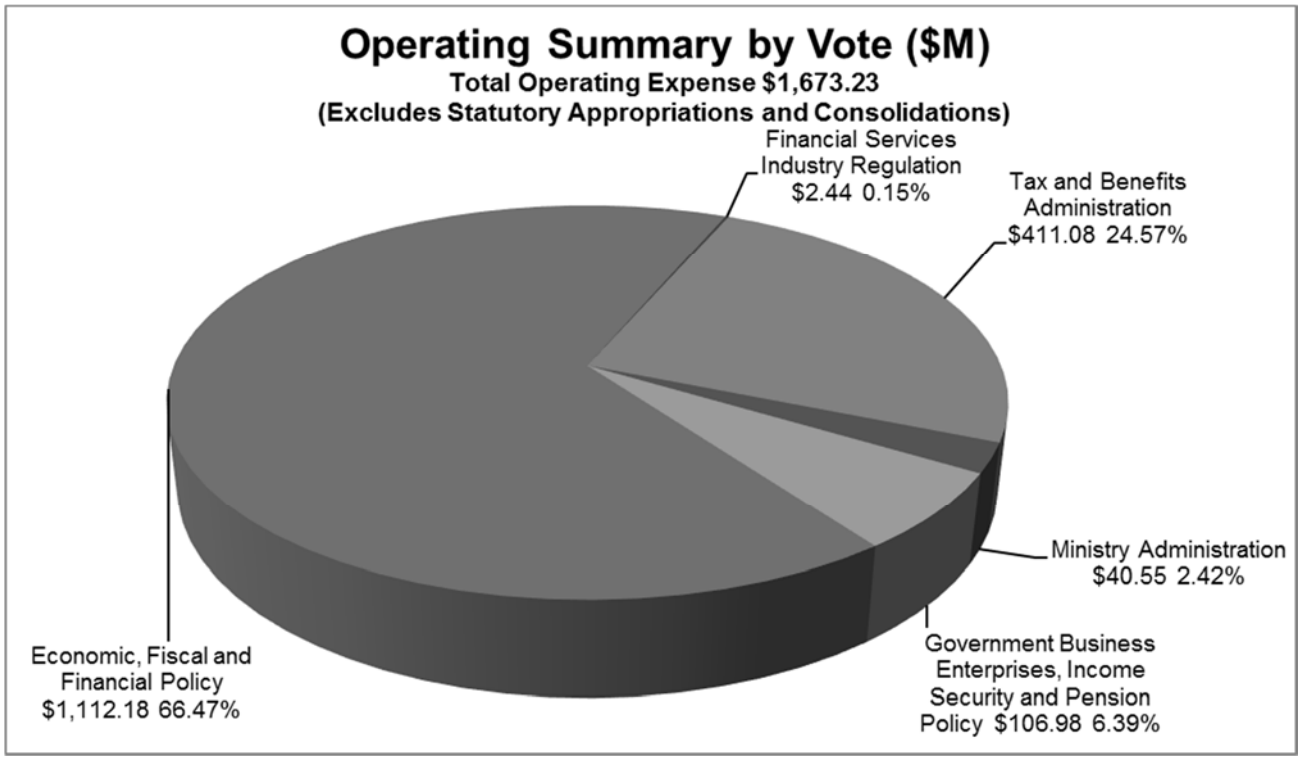


Table 4: 2017-18 Capital Summary by Vote and Standard Account

Standard Account	1201 Ministry Administration	1202 Government Business Enterprises, Income Security and Pension Policy	1203 Economic, Fiscal and Financial Policy	1204 Financial Services Industry Regulation	1208 Investing in Ontario	1209 Tax and Benefits Administration	S Trillium Trust	S Other Statutory	Total Ministry (Excludes Consolidations)	
	$	$	$	$	$	$	$	$	$	%
CAPITAL EXPENSE										
Salaries and Wages									-	0.0
Employee Benefits									-	0.0
Transportation and Communication									-	0.0
Services									-	0.0
Supplies and Equipment									-	0.0
Transfer Payments					1,000				1,000	0.0
Other Transactions	-		1,000	1,000		1,000		3,469,900	3,472,900	1.2
Transfers from Trillium Trust							288,790,600		288,790,600	99.1
Recoveries								(830,300)	(830,300)	(0.3)
Total Capital Expense	**-**	**-**	**1,000**	**1,000**	**1,000**	**1,000**	**288,790,600**	**2,639,600**	**291,434,200**	**100.0**
PERCENT OF TOTAL MINISTRY	**-**	**-**	**0.0**	**0.0**	**0.0**	**0.0**	**99.1**	**0.9**	**100.0**	
CAPITAL ASSETS										
Land									-	0.0
Buildings				-					-	0.0
Transportation Infrastructure									-	0.0
Information Technology Hardware				1,033,000					1,033,000	0.8
Business Application Software - Salaries & Wages				1,645,600					1,645,600	1.3
Business Application Software - Employee Benefits				357,100					357,100	0.3
Business Application Software - Asset Costs				4,672,900					4,672,900	3.7
Land and Marine Fleet	-		1,000			1,000			2,000	0.0
Aircraft									-	0.0
Investments in Tangible Capital Assets							118,850,000		118,850,000	93.9
Recoveries									-	0.0
Total Capital Assets	**-**	**-**	**1,000**	**7,708,600**	**-**	**1,000**	**118,850,000**	**-**	**126,560,600**	**100.0**
PERCENT OF TOTAL MINISTRY	**-**	**-**	**0.0**	**6.1**	**-**	**0.0**	**93.9**	**-**	**100.0**	

MINISTRY ADMINISTRATION PROGRAM

1201-1 – Ministry Administration

Sub-Item 1 – Main Office
Sub-Item 2 – Financial and Administrative Services
Sub-Item 3 – Human Resources
Sub-Item 4 – Communications Services
Sub-Item 5 – Legal Services
Sub-Item 6 – Audit Services

Statutory Appropriations

Minister's Salary, Minister without Portfolio's Salary, Parliamentary Assistant's Salary, the *Executive Council Act*; Bad Debt Expense, the *Financial Administration Act*

Capital Expense

Statutory Appropriations

Amortization, the *Financial Administration Act*

Capital Assets

1201 – MINISTRY ADMINISTRATION

This program, which includes the Offices of the Minister and Deputy Minister delivers planning, advisory, legal, and controllership functions to ensure direction and management of operating programs consistent with Ontario Government policy and legislation. In addition, the program manages the service relationships with Treasury Board Secretariat and the Ministry of Government and Consumer Services, ensures proper levels of support to the ministry and its client groups, and strategically manages the ministry's quality service commitments.

OPERATING AND CAPITAL BY SUB-ITEM

Sub Item	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
OPERATING EXPENSE						
Main Office	4,740,300	-		4,740,300	4,668,900	4,741,438
Financial and Administrative Services	16,830,900	22,700	0.1	16,808,200	13,052,200	10,804,484
Human Resources	1,959,500	-		1,959,500	1,822,900	2,026,008
Communications Services	6,278,900	-		6,278,900	10,391,400	16,334,192
Legal Services	9,075,200	917,700	11.2	8,157,500	8,062,500	9,076,675
Audit Services	1,667,900	-		1,667,900	1,589,200	1,400,557
Total Operating to be Voted	**40,552,700**	**940,400**	**2.4**	**39,612,300**	**39,587,100**	**44,383,354**
Statutory Appropriations	65,014	(21,715)	(25.0)	86,729	74,393	65,968
Total Operating Expense	**40,617,714**	**918,685**	**2.3**	**39,699,029**	**39,661,493**	**44,449,322**
CAPITAL EXPENSE						
Other Transactions	-	(1,000)	(100.0)	1,000	-	-
Total Capital Expense to be Voted	**-**	**(1,000)**	**(100.0)**	**1,000**	**-**	**-**
Statutory Appropriations	-	(1,000)	(100.0)	1,000	-	-
Total Capital Expense	**-**	**(2,000)**	**(100.0)**	**2,000**	**-**	**-**
CAPITAL ASSETS						
Land and Marine Fleet	-	(1,000)	(100.0)	1,000	-	-
Total Capital Assets	**-**	**(1,000)**	**(100.0)**	**1,000**	**-**	**-**

VOTE/ITEM: **1201-1 Sub-Item 1**

VOTE: **Ministry Administration**

ITEM: **Main Office**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

This sub-item includes the offices of the Minister of Finance, the Parliamentary Assistant and the Deputy Minister. The staff provide professional and technical support for the legislative policy making and administrative responsibilities of the Minister and the Deputy Minister.

FUNCTIONS

The Main Office is responsible for:

- overseeing ministry operations and adherence to corporate policies and directives;
- providing a leadership role in supporting broader government priorities including transformational policy changes that would help sustain longer term delivery of core public services;
- coordinating policies developed in the ministry for the approval of the Minister and the Deputy Minister;
- coordinating the preparation of replies to correspondence to the Minister and Deputy Minister;
- the preparation of verbal and written briefings for the Minister's presentations to Cabinet, Committees of Cabinet and other meetings such as pre-budget consultations, federal-provincial conferences and stakeholder/interest groups.

VOTE/ITEM: **1201-1 Sub-Item 1**

VOTE: **Ministry Administration**

ITEM: **Main Office**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	3,614,400	-		3,614,400	3,637,400	3,633,850
Employee Benefits	389,600	-		389,600	441,900	423,428
Transportation and Communication	305,400	-		305,400	159,900	233,920
Services	353,700	-		353,700	384,100	409,659
Supplies and Equipment	77,200	-		77,200	45,600	40,581
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**4,740,300**	**-**		**4,740,300**	**4,668,900**	**4,741,438**

VOTE/ITEM: **1201-1 Sub-Item 2**

VOTE: **Ministry Administration**

ITEM: **Financial and Administrative Services**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

This sub-item provides ministry strategic support for Program Review, Renewal and Transformation and Estimates, executive decision support, financial controllership, risk management, corporate accounting, emergency management and security services, accommodation management, coordination of corporate and ministry-specific modernization programs and administration of the *Freedom of Information and Protection of Privacy Act*. This sub-item represents the ministry's point of contact with central agencies.

FUNCTIONS

These offices are responsible for delivering the ministry's obligations for the following:

- leading the controllership function, including the accountability framework, strategic procurement advice, loan administration, the Trillium Trust framework, and Public Accounts;
- coordinating, preparing and providing strategic support to the Program Review, Renewal and Transformation planning process and the annual Estimates process;
- in-year risk management and planning, monitoring and reporting of financial and other resource management strategies including preparing and/or reviewing all central agency submissions, for example TB/MBC submissions;
- managing the ministry's accommodation portfolio, including development of strategic options analysis and lease management to ensure optimal space utilization;
- administering the *Freedom of Information and Protection of Privacy Act* for the ministry, its agencies, boards and commissions, including processing requests for access to records, and ensuring compliance with the privacy provisions of the Act;
- leading strategic and operational planning to promote compliance with records and information management requirements;
- developing and implementing the ministry's Emergency Management Program and Physical Security Program, including leading, coordinating, testing, updating and maintaining the ministry's Continuity of Operations Plans and Physical Security Plans and providing security services;
- coordinating the ministry's compliance with the *Ontarians with Disabilities Act, 2001* and the *Accessibility for Ontarians with Disabilities Act, 2005*; and
- coordinating corporate and ministry modernization programs including Employee Engagement and Recognition, Inclusion, Mental Health and Wellness, Workplace Violence Prevention, Service Excellence, Summer Experience Opportunities, Greening, and Open Government.

VOTE/ITEM: **1201-1 Sub-Item 2**

VOTE: **Ministry Administration**

ITEM: **Financial and Administrative Services**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	7,275,400	21,700	0.3	7,253,700	5,645,900	5,643,619
Employee Benefits	1,469,100	-		1,469,100	1,109,400	1,000,582
Transportation and Communication	428,200	-		428,200	87,300	63,101
Services	7,304,300	1,000	0.0	7,303,300	6,144,300	3,975,958
Supplies and Equipment	353,900	-		353,900	65,300	121,224
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**16,830,900**	**22,700**	**0.1**	**16,808,200**	**13,052,200**	**10,804,484**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

22,700	Reallocation within/between Ministry(ies)
22,700	**Total**

VOTE/ITEM: **1201-1 Sub-Item 3**

VOTE: **Ministry Administration**

ITEM: **Human Resources**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

This sub-item represents the Strategic Human Resources Services Branch which provides strategic and advisory human resources services to ministry senior executives to ensure they have the right people, in the right place, at the right time to achieve their business objectives.

FUNCTIONS

The Strategic Human Resources Services Branch is responsible for:

- providing senior executives with strategic advice and support in the areas of organization design and effectiveness, strategic labour relations and workforce planning/analysis to ensure the alignment of people strategies and build organizational capacity and engagement;
- implementing and supporting talent, performance and succession management programs and strategies;
- designing and implementing human resources change management and organizational development initiatives that support ministry business commitments;
- liaising with OPS human resources organizations to lead the implementation of corporate HR initiatives at the ministry level; and
- liaising with all operational elements of the OPS HR Service Delivery Model to ensure the delivery of integrated HR services to support the achievement of ministry business goals.

VOTE/ITEM: **1201-1 Sub-Item 3**

VOTE: **Ministry Administration**

ITEM: **Human Resources**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	1,471,800	-		1,471,800	1,239,100	1,346,826
Employee Benefits	208,200	-		208,200	200,100	399,527
Transportation and Communication	35,200	-		35,200	10,100	14,787
Services	179,500	-		179,500	366,300	261,872
Supplies and Equipment	64,800	-		64,800	7,300	2,996
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**1,959,500**	**-**		**1,959,500**	**1,822,900**	**2,026,008**

VOTE/ITEM: **1201-1 Sub-Item 4**

VOTE: **Ministry Administration**

ITEM: **Communications Services**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

This sub-item represents the Communications Services Branch, which provides strategic communications advice and planning to the Minister of Finance, the Deputy Minister, all Ministry of Finance divisions, Premier's Office and Cabinet Office, and where appropriate, other ministries, to support the government's fiscal priorities and ministry's programs.

FUNCTIONS

The Communications Services Branch is responsible for:

- the coordination and the production of the Ontario Budget, Fall Economic Statement, consultations and delegations and other high-profile ministry projects;
- managing and coordinating the Ministry of Finance contentious issues process;
- responding to media inquiries and monitors the media;
- develops advertising strategies and promotional campaigns, and plans events;
- managing and coordinating the Ministers' correspondence;
- writing news releases, backgrounders, fact sheets and other publications;
- writing speeches and statements for the legislature;
- providing reference and research support to staff; and
- maintaining the Ministry of Finance Internet and intranet sites.

VOTE/ITEM: **1201-1 Sub-Item 4**

VOTE: **Ministry Administration**

ITEM: **Communications Services**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	5,280,700	-		5,280,700	4,035,000	4,303,225
Employee Benefits	469,100	-		469,100	690,400	651,519
Transportation and Communication	73,600	-		73,600	153,900	226,258
Services	291,400	-		291,400	5,152,300	10,879,019
Supplies and Equipment	164,100	-		164,100	359,800	274,171
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**6,278,900**	**-**		**6,278,900**	**10,391,400**	**16,334,192**

VOTE/ITEM: **1201-1 Sub-Item 5**

VOTE: **Ministry Administration**

ITEM: **Legal Services**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

This sub-item represents the Legal Services Branch. The branch provides legal services to the Ministry of Finance and the Ontario Financing Authority.

FUNCTIONS

The Legal Services Branch is responsible for:

- advising the ministry and other clients, as required, with regard to legal issues in respect of borrowing and investment of public money, government finance, fiscal, economic and taxation matters, loans and guarantees, insurance, pensions, alcohol and gaming policy and regulation, securities and financial services sector regulation; and procurement;
- providing advice to Office of the Budget;
- advising on agencies for which the Minister has responsibility;
- representing the ministry in tax collection activities, including bankruptcy and insolvency proceedings;
- advising the ministry in respect of the implementation of government policy in the electricity sector and programs;
- preparing legislation, regulations, Orders in Council, contracts, agreements, memoranda of understanding and other instruments;
- providing counsel for provincial tax prosecutions;
- representing the Minister on tax appeals and providing litigation support on other non-tax actions;
- preparing agreements between federal and provincial governments relating to tax collections, transfer payments and other matters; and
- providing advice to the ministry on the interpretation of statutes and regulations, preparation and review of proposed legislation, regulations, and other legal documents.

VOTE/ITEM: **1201-1 Sub-Item 5**

VOTE: **Ministry Administration**

ITEM: **Legal Services**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	-	-		-	-	3,586
Employee Benefits	-	-		-	-	-
Transportation and Communication	255,300	-		255,300	126,700	132,949
Services	8,646,500	917,700	11.9	7,728,800	7,828,400	8,780,812
Supplies and Equipment	173,400	-		173,400	107,400	159,328
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**9,075,200**	**917,700**	**11.2**	**8,157,500**	**8,062,500**	**9,076,675**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

917,700	Reallocation within/between Ministry(ies)
917,700	**Total**

VOTE/ITEM: **1201-1 Sub-Item 6**

VOTE: **Ministry Administration**

ITEM: **Audit Services**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

This sub-item represents the Finance Audit Service Team (FAST) of Treasury Board Secretariat, which provides risk-management and consulting services, as well as independent assurance services to the Ministry of Finance and some of its agencies. FAST's overall objective is to ensure that the ministry's financial and risk management plans and processes meet the highest standards of integrity, accountability and transparency.

The FAST Audit Director reports functionally to the Finance Audit Committee (FAC), which is chaired by the Deputy Minister of Finance. FAC is responsible for ensuring that FAST has sufficient resources to carry out its responsibilities. FAST is primarily funded by the Ministry of Finance based on actual cost recovery basis.

FUNCTIONS

The services provided by FAST include:

- value-for-money, financial and internal control audits;
- compliance reviews;
- risk assessment and control reviews;
- forensic and fraud investigations;
- advice on governance, controllership, accountability and sound business practices, including advice and liaison to ministries related to Office of the Auditor General of Ontario audits;
- training and education on risk and control; and
- specialized audit, risk assessment and advisory services for information management and information technology projects.

VOTE/ITEM: **1201-1 Sub-Item 6**

VOTE: **Ministry Administration**

ITEM: **Audit Services**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	-	-		-	-	-
Employee Benefits	-	-		-	-	-
Transportation and Communication	33,600	-		33,600	-	-
Services	1,617,500	-		1,617,500	1,589,200	1,400,557
Supplies and Equipment	16,800	-		16,800	-	-
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**1,667,900**	**-**		**1,667,900**	**1,589,200**	**1,400,557**

VOTE/ITEM: **S**

VOTE: **Ministry Administration**

ITEM: **Statutory Appropriations**

TYPE: **Operating Expense**

ITEM DESCRIPTION

This item provides for the statutory salaries of the Minister of Finance and the Parliamentary Assistant, as authorized by the *Executive Council Act*.

The item also provides for Bad Debt Expense, which makes provision for any bad debts incurred under the terms of the *Financial Administration Act.*

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Minister's Salary, the *Executive Council Act*	47,841	-		47,841	49,301	49,301
Minister without Portfolio's Salary, the *Executive Council Act*	-	(21,715)	(100.0)	21,715	8,842	-
Parliamentary Assistant's Salary, the *Executive Council Act*	16,173	-		16,173	16,250	16,667
Bad Debt Expense, the *Financial Administration Act*	1,000	-		1,000	-	-
Total	**65,014**	**(21,715)**	**(25.0)**	**86,729**	**74,393**	**65,968**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(21,715)	Reallocation within/between Ministry(ies)
(21,715)	**Total**

VOTE/ITEM:

VOTE: **Ministry Administration**

ITEM: **Capital Expense**

TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is comprised of capital expenses related to future capital loss or write-offs for Moveable/Minor Tangible Capital Assets (mTCA).

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	-	-		-	-	-
Employee Benefits	-	-		-	-	-
Transportation and Communication	-	-		-	-	-
Services	-	-		-	-	-
Supplies and Equipment	-	-		-	-	-
Transfer Payments	-	-		-	-	-
Other Transactions	-	(1,000)	(100.0)	1,000	-	-
Recoveries	-	-		-	-	-
Total	**-**	**(1,000)**	**(100.0)**	**1,000**	**-**	**-**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(1,000)	Change in mTCA Capitalization
(1,000)	**Total**

VOTE/ITEM:

VOTE: **Ministry Administration**

ITEM: **Amortization, the *Financial Administration Act***

TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is the statutory appropriation for amortization of Moveable/Minor Tangible Capital Assets (mTCA).

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	-	-		-	-	-
Employee Benefits	-	-		-	-	-
Transportation and Communication	-	-		-	-	-
Services	-	-		-	-	-
Supplies and Equipment	-	-		-	-	-
Transfer Payments	-	-		-	-	-
Other Transactions	-	(1,000)	(100.0)	1,000	-	-
Recoveries	-	-		-	-	-
Total	**-**	**(1,000)**	**(100.0)**	**1,000**	**-**	**-**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(1,000)	Change in mTCA Capitalization
(1,000)	**Total**

VOTE/ITEM:

VOTE: **Ministry Administration**

ITEM: **Capital Assets**

TYPE: **Capital Assets**

ITEM DESCRIPTION

This item represents the capitalization of Moveable/Minor Tangible Capital Assets (mTCA).

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Tangible Capital Assets	-	-		-	-	-
Land	-	-		-	-	-
Buildings	-	-		-	-	-
Transportation Infrastructure	-	-		-	-	-
Information Technology Hardware	-	-		-	-	-
Business Application Software	-	-		-	-	-
Land and Marine Fleet	-	(1,000)	(100.0)	1,000	-	-
Aircraft	-	-		-	-	-
Machinery and Equipment	-	-		-	-	-
Other Assets	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**-**	**(1,000)**	**(100.0)**	**1,000**	**-**	**-**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(1,000)	Change in mTCA Capitalization
(1,000)	**Total**

GOVERNMENT BUSINESS ENTERPRISES, INCOME SECURITY AND PENSION POLICY PROGRAM

1202-6 – Income Security and Pension Policy

1202-7 – Office of Government Business Enterprises and Strategic Initiatives

Sub-Item 1 – Strategic Initiatives
Sub-Item 2 – Electricity Investment and Governance
Sub-Item 3 – Revenue Agencies Oversight

1202 – GOVERNMENT BUSINESS ENTERPRISES, INCOME SECURITY AND PENSION POLICY

This program includes pension and income security policy analysis, policy development and legislation. This program is responsible for tracking emerging trends and developments and identifying the economic and fiscal implications of pension and income security policies, and for advising and assisting the Deputy Minister of Finance, the Minister and the government in formulating major economic, fiscal and policy documents.

This program also leads the implementation and ongoing oversight of the recommendations of the Premier's Advisory Council on Government Assets. This includes oversight and implementation of the Council's recommendations related to the financial oversight of Hydro One, Ontario Power Generation, and the electricity sector, as well as the modernization of the beverage alcohol sector. In addition, the program supports the coordination of horizontal policy development on a number of transformation initiatives spanning multiple ministries, on an as required basis. This program is also responsible for facilitating the Minister's oversight and accountability of the Liquor Control Board of Ontario, the Ontario Lottery and Gaming Corporation, including the horse-racing sector, and for managing the Ontario Deposit Return Program for beverage alcohol containers.

OPERATING BY ITEM

Item	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
OPERATING EXPENSE						
Income Security and Pension Policy	6,241,100	60,800	1.0	6,180,300	12,892,500	7,245,572
Office of Government Enterprises and Strategic Initiatives	100,734,900	22,100	0.0	100,712,800	101,104,200	99,416,453
Total Operating to be Voted	**106,976,000**	**82,900**	**0.1**	**106,893,100**	**113,996,700**	**106,662,025**
Statutory Appropriations	-	-		-	-	-
Total Operating Expense	**106,976,000**	**82,900**	**0.1**	**106,893,100**	**113,996,700**	**106,662,025**

VOTE/ITEM: **1202-6**

VOTE: **Government Business Enterprises, Income Security and Pension Policy**

ITEM: **Income Security and Pension Policy**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Income Security and Pension Policy Division provides advice and analysis on employment pensions plans, including pension reform and federal and provincial income security programs, as well as providing research and analysis on income security and pensions policy programs.

FUNCTIONS

The Income Security and Pension Policy Division is responsible for:

- consulting with stakeholders on pension policy issues, leading development of Cabinet submissions, legislation and regulations;
- providing advice and analysis on employment pension plans and income security policy including responsibility for Ontario's co-stewardship of the Canada Pension Plan;
- developing strategic policy regarding Ontario's retirement income system, including the development of innovative retirement savings models, such as Pooled Registered Pension Plans and target benefit plans;
- supporting development of the fiscal framework and expenditure planning processes by monitoring developments in federal income security programs and estimating provincial income security program impacts on business and individuals, pension benefits standards policy and public sector pension policy;
- supporting the Budget and Public Accounts processes with estimates of the fiscal expense for pension plans of teachers, Ontario Public Service (OPS) employees and employees of other consolidated entities; supporting the estimate of non-pension, post-retirement benefits of OPS employees for the purposes of provincial expenditures; estimates of income security programs for seniors and families with children;
- coordinating the Fair Society chapter of the Ontario Budget and Fall Economic Statement; and
- conducting research and analysis to support the development of pension, income security and benefits policy.

VOTE/ITEM: **1202-6**

VOTE: **Government Business Enterprises, Income Security and Pension Policy**

ITEM: **Income Security and Pension Policy**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	4,515,400	54,000	1.2	4,461,400	4,383,600	3,871,267
Employee Benefits	535,000	6,800	1.3	528,200	576,200	555,396
Transportation and Communication	37,000	-		37,000	60,400	54,903
Services	1,108,900	1,000	0.1	1,107,900	1,230,400	733,659
Supplies and Equipment	44,800	-		44,800	40,900	30,347
Transfer Payments						
Transition Fund	-	(1,000)	(100.0)	1,000	6,601,000	2,000,000
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**6,241,100**	**60,800**	**1.0**	**6,180,300**	**12,892,500**	**7,245,572**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

60,800	Previous Initiatives
60,800	**Total**

VOTE/ITEM: **1202-7**

VOTE: **Government Business Enterprises, Income Security and Pension Policy**

ITEM: **Office of Government Business Enterprises and Strategic Initiatives**

TYPE: **Operating Expense**

ITEM DESCRIPTION

Office of Government Business Enterprises and Strategic Initiatives leads the implementation and ongoing oversight of the recommendations of the Premier's Advisory Council on Government Assets. This includes oversight and implementation of the Council's recommendations related to the financial oversight of Hydro One, Ontario Power Generation, and the electricity sector, as well as the modernization of the beverage alcohol sector. In addition, the program supports the coordination of horizontal policy development on a number of transformation initiatives spanning multiple ministries, on an as required basis. This program is also responsible for facilitating the Minister's oversight and accountability of the Liquor Control Board of Ontario, the Ontario Lottery and Gaming Corporation, including the horse-racing sector, and for managing the Ontario Deposit Return Program for beverage alcohol containers

FUNCTIONS

The Office of Government Business Enterprises and Strategic Initiatives is responsible for:

- supporting the coordination of horizontal policy development and analysis on transformational initiatives related to government business enterprises and strategic initiatives that span the work of multiple ministries;
- providing advice on investment and governance matters with respect to Hydro One and Ontario Power Generation (OPG) and interfacing with the Expert Investment Advisory Committee (EIAC);
- providing financial and social responsibility oversight of the Liquor Control Board of Ontario (LCBO) and the Ontario Lottery and Gaming Corporation (OLG), and advising on the obligations of these agencies to the Minister under their constituting legislation and the government's directives;
- providing policy advice, analysis and delivery to support the modernization of the beverage alcohol and gaming sectors in Ontario;
- advising the Minister on the integration of provincial horse racing within Ontario's gaming strategy, including a long-term strategy for funding Ontario's horse racing industry; and
- contributing to the development of government policy for the introduction of legalized cannabis in coordination with partner ministries.

VOTE/ITEM: **1202-7**

VOTE: **Government Business Enterprises, Income Security and Pension Policy**

ITEM: **Office of Government Business Enterprises and Strategic Initiatives**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	4,392,500	(420,000)	(8.7)	4,812,500	4,912,500	3,333,482
Employee Benefits	555,700	(60,000)	(9.7)	615,700	615,700	369,804
Transportation and Communication	182,200	(280,000)	(60.6)	462,200	464,300	44,798
Services	4,043,100	2,575,000	175.4	1,468,100	1,768,100	2,446,967
Supplies and Equipment	127,000	(20,000)	(13.6)	147,000	147,000	20,387
Transfer Payments						
Horse Racing Partnership Funding Program	91,646,800	(1,772,900)	(1.9)	93,419,700	93,419,700	93,419,700
Other Transactions	-	-		-	-	-
Recoveries	(212,400)	-		(212,400)	(223,100)	(218,685)
Total	**100,734,900**	**22,100**	**0.0**	**100,712,800**	**101,104,200**	**99,416,453**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

27,100	Previous Initiatives
(5,000)	Reallocation within/between Ministry(ies)
22,100	**Total**

VOTE/ITEM: **1202-7 Sub-Item 1**

VOTE: **Government Business Enterprises, Income Security and Pension Policy**

ITEM: **Strategic Initiatives**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

The Strategic Initiatives Branch fills a policy and analysis function in the Office of Government Business Enterprises and Strategic Initiatives, and the Branch specializes in business development, policy analysis, and initiatives support for files and issues that are typically complex inter-disciplinary and multi-ministry files. In issues and matters that would normally require multiple divisions and specialized resources to address, the Strategic Initiatives Branch plays both a coordination and leadership role as well as an analytical and support function for business efficiency reviews, commercial deal negotiations, and organizational structural support.

FUNCTIONS

The Strategic Initiatives Branch is responsible for:

- leading in business development, policy analysis, and initiatives support for horizontal policy development on a number of transformation initiatives spanning multiple ministries and levels of government, on an as required basis; and
- coordinating, directing, managing, and overseeing external resources and specialized expertise including business analysis, commercial negotiations, external counsel, industry-specific analysis, labour strategy, market sounding, and strategic communications, as required.

VOTE/ITEM: **1202-7 Sub-Item 1**

VOTE: **Government Business Enterprises, Income Security and Pension Policy**

ITEM: **Strategic Initiatives**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	530,000	(790,000)	(59.8)	1,320,000	1,320,000	944,647
Employee Benefits	70,000	(110,000)	(61.1)	180,000	180,000	93,271
Transportation and Communication	50,000	(75,000)	(60.0)	125,000	125,000	19,383
Services	400,000	75,000	23.1	325,000	325,000	1,870,370
Supplies and Equipment	10,000	(40,000)	(80.0)	50,000	50,000	4,787
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**1,060,000**	**(940,000)**	**(47.0)**	**2,000,000**	**2,000,000**	**2,932,458**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(940,000)	Reallocation within/between Ministry(ies)
(940,000)	**Total**

VOTE/ITEM: **1202-7 Sub-Item 2**

VOTE: **Government Business Enterprises, Income Security and Pension Policy**

ITEM: **Electricity Investment and Governance**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

The Electricity Investment and Governance Secretariat provides advice on investment and governance matters with respect to Hydro One and Ontario Power Generation (OPG) and interfaces with the Expert Investment Advisory Committee (EIAC).

FUNCTIONS

The Electricity Investment and Governance Secretariat is responsible for:

- providing financial analysis and advice to support the effective management of holdings;
- advising on commercial implications of potential policy decisions;
- providing advice to the Province relating to shareholder rights and responsibilities, including participation in shareholder meetings and nomination/election of directors;
- analysing the revenue, economic, social and sectoral impacts of the business plans and activities of Ontario Power Generation (OPG), and advising on compliance with legislative and regulatory requirements;
- providing policy advice and analysis on issues affecting the electricity sector and potential fiscal implications for the Province; and
- advising the Province on policy and legislative design affecting the Province's electricity government business enterprises.

VOTE/ITEM: **1202-7 Sub-Item 2**

VOTE: **Government Business Enterprises, Income Security and Pension Policy**

ITEM: **Electricity Investment and Governance**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	580,000	-		580,000	580,000	-
Employee Benefits	75,000	-		75,000	75,000	-
Transportation and Communication	50,000	(225,000)	(81.8)	275,000	275,000	-
Services	1,500,000	1,500,000		-	-	-
Supplies and Equipment	10,000	10,000		-	-	-
Transfer Payments	-	-		-	-	
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**2,215,000**	**1,285,000**	**138.2**	**930,000**	**930,000**	**-**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

1,285,000	Reallocation within/between Ministry(ies)
1,285,000	**Total**

VOTE/ITEM: **1202-7 Sub-Item 3**

VOTE: **Government Business Enterprises, Income Security and Pension Policy**

ITEM: **Revenue Agencies Oversight**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

The Revenue Agencies Oversight Division provides policy advice, analysis and oversight for the ministry's revenue agencies related to beverage alcohol and gaming.

FUNCTIONS

The Revenue Agencies Oversight Division is responsible for:

- analysing the revenue, economic, social and sectorial impacts of the business plans and activities of the Liquor Control Board of Ontario (LCBO) and, the Ontario Lottery and Gaming Corporation (OLG), and advising on the obligations of these agencies to the Minister under their constituting legislation and the government's directives;
- providing policy advice, analysis and delivery on issues affecting the beverage alcohol and gaming industries in Ontario;
- advising the Minister on gaming policy, social responsibility and the integration of provincial horse racing within Ontario's gaming strategy, including a long-term strategy for funding Ontario's horse racing industry;
- managing and evaluates the Ontario Deposit Return Program for beverage alcohol containers to ensure performance goals are met;
- advising the Minister on the policy and legislative design of beer and wine taxes and on strategic policy options related to alcohol mark-ups; and
- contributing to the development of government policy for the introduction of legalized cannabis in coordination with partner ministries.

VOTE/ITEM: **1202-7 Sub-Item 3**

VOTE: **Government Business Enterprises, Income Security and Pension Policy**

ITEM: **Revenue Agencies Oversight**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	3,282,500	370,000	12.7	2,912,500	3,012,500	2,388,835
Employee Benefits	410,700	50,000	13.9	360,700	360,700	276,533
Transportation and Communication	82,200	20,000	32.2	62,200	64,300	25,415
Services	2,143,100	1,000,000	87.5	1,143,100	1,443,100	576,597
Supplies and Equipment	107,000	10,000	10.3	97,000	97,000	15,600
Transfer Payments						
Horse Racing Partnership Funding Program	91,646,800	(1,772,900)	(1.9)	93,419,700	93,419,700	93,419,700
Other Transactions						
Recoveries	(212,400)	-		(212,400)	(223,100)	(218,685)
Total	**97,459,900**	**(322,900)**	**(0.3)**	**97,782,800**	**98,174,200**	**96,483,995**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

27,100	Previous Initiatives
(350,000)	Reallocation within/between Ministry(ies)
(322,900)	**Total**

ECONOMIC, FISCAL AND FINANCIAL POLICY PROGRAM

1203-1 – Economic Policy

1203-4 – Financial Services Policy Division

1203-5 – Provincial-Local Finance

1203-6 – Municipal Support Programs

1203-8 – Office of the Budget

1203-23 – Taxation Policy

1203-12 – Ontario Electricity Financial Corporation Dedicated Electricity Earnings

Statutory Appropriations

Bad Debt Expense, the *Financial Administration Act*
Guarantees and Indemnities, the *Financial Administration Act*
Payments Under the *Tax Increment Financing Act, 2006*
Ontario Electricity Financial Corporation, the *Electricity Act, 1998*

1203-24 – Strategic Assets – Loans and Investments

1203-14 – Capital Expense

Statutory Appropriations

Amortization, the *Financial Administration Act*

1203-13 – Capital Assets

1203 – ECONOMIC, FISCAL AND FINANCIAL POLICY

This program develops and implements sound economic, tax and inter-governmental taxation and fiscal strategies to raise revenue, stimulate economic growth and job creation; forecasts, monitors and reports on the performance of the Ontario economy; provides expertise and advice on sound economic design of and financial and implementation support for government initiatives; develops demographic forecasts for Ontario and its 49 census divisions; develops the policy and legislative framework for Ontario's taxation and benefits systems and the financial services industry; develops and provides strategic oversight of and advice related to the government's fiscal plan; assists the Minister of Finance and the government in formulating Ontario's finance policy and strategies with respect to federal-provincial fiscal arrangements; provides analysis and advice regarding Ontario's interest in, and regulation of, the provincial financial services sector and regulatory agencies, such as insurance, deposit taking and the capital markets, including the proposed Co-operative Capital Markets Regulatory System; and provides policy advice to clients, managers, and decision makers in the areas of fiscal and financial management. The program leads the Statistics Transformation Initiative to enhance how government collects, uses and disseminates data and is responsible for leading statistics policy. The program provides oversight and advice on provincial-municipal issues within the context of the Province's fiscal plan, working closely with other ministries and municipal stakeholders. The program also advises on personal and corporate tax policies affecting Ontarians and provides oversight of the property assessment system and the province's main transfer payment to municipalities. In addition, the program reflects the transfer of dedicated electricity earnings from the province to the Ontario Electricity Financial Corporation.

This program assists the Minister, Deputy Minister of Finance and the government in formulating the fiscal plan and reporting the results of the Province through the Ontario Budget, Ontario Quarterly Finances, Ontario Economic Accounts, Economic Outlook and Fiscal Review, and Ontario's Public Accounts. The program undertakes annual population projections for use in resource allocation and planning, leads preparation of the Long-term Report on the Economy and contributes to the Pre-Election Report on Ontario's Finances required by the *Fiscal Transparency and Accountability Act*.

OPERATING AND CAPITAL BY ITEM

Item	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
OPERATING EXPENSE						
Economic Policy	12,719,300	-		12,719,300	12,072,000	10,979,332
Financial Services Policy Division	5,077,700	500,000	10.9	4,577,700	6,219,600	3,021,014
Provincial-Local Finance	25,409,100	1,701,600	7.2	23,707,500	22,128,400	19,345,311
Municipal Support Programs	527,155,100	(153,000)	(0.0)	527,308,100	526,487,700	568,722,400
Office of the Budget	6,542,600	3,038,300	86.7	3,504,300	2,875,900	2,698,838
Taxation Policy	10,460,000	(917,700)	(8.1)	11,377,700	9,543,600	8,499,587
OEFC Dedicated Electricity Earnings	524,818,300	386,999,600	280.8	137,818,700	417,357,600	-
Total Operating Expense to be Voted	**1,112,182,100**	**391,168,800**	**54.3**	**721,013,300**	**996,684,800**	**613,266,482**
Statutory Appropriations	4,000	2,000	100.0	2,000	-	287,636,963
Total Operating Expense	**1,112,186,100**	**391,170,800**	**54.3**	**721,015,300**	**996,684,800**	**900,903,445**
OPERATING ASSETS						
Strategic Assets - Loans and Investments	275,000,000	275,000,000		-	-	109,964,191
Total Operating Assets to be Voted	**275,000,000**	**275,000,000**		**-**	**-**	**109,964,191**
CAPITAL EXPENSE						
Other Transactions	1,000	-		1,000	-	-
Total Capital Expense to be Voted	**1,000**	**-**		**1,000**	**-**	**-**
Statutory Appropriations	1,000	-		1,000	-	-
Total Capital Expense	**2,000**	**-**		**2,000**	**-**	**-**
CAPITAL ASSETS						
Land and Marine Fleet	1,000	-		1,000	-	-
Total Capital Assets	**1,000**	**-**		**1,000**	**-**	**-**

VOTE/ITEM: **1203-1**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Economic Policy**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Office of Economic Policy (OEP) provides the Minister with:

- forecasts and analysis of the economy and revenues;
- advice and information on economic issues and trends and the development of sound economic strategies that foster economic growth and job creation;
- economic analysis of policy proposals;
- recommendations regarding individual project proposals coming forward through economic development programs;
- leadership advice and analysis on the use of statistics and statistics policy;
- population projections and analysis of demographic issues; and
- research and quantitative analyses to support the development of tax, pension, alcohol fee, income security and benefits policy.

The OEP also represents Ontario in federal-provincial-territorial discussions regarding economic analysis and forecasting, fiscal planning as it relates to revenue forecasting, reporting and federal payments and in discussions with Statistics Canada on matters related to statistical policy.

FUNCTIONS

The Office of Economic Policy:

- develops, researches, monitors, forecasts and reports on economic, financial, demographic, labour market, social issues and risks;
- reviews ministry policy proposals within the context of the economic and fiscal framework;
- supports decisions on project proposals coming forward through economic development programs;
- assesses the economic impacts of policy proposals;
- conducts research and policy analysis on a broad range of issues related to economic performance and growth;
- advances the use and integration of data and statistics in government decision-making;
- conducts research and policy analysis on labour market issues;
- develops long-range population projections; and
- supports the development of tax, pension, income support and benefits, and alcohol policies through: partnerships, research and quantitative analysis; the identification, development and utilization of quantitative models, methodologies and data; and the management of data holdings.

VOTE/ITEM: **1203-1**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Economic Policy**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	8,876,100	-		8,876,100	8,160,800	8,011,690
Employee Benefits	1,093,600	-		1,093,600	1,040,100	975,444
Transportation and Communication	166,100	-		166,100	98,500	79,206
Services	1,774,500	-		1,774,500	1,945,800	1,105,658
Supplies and Equipment	308,000	-		308,000	326,800	307,334
Transfer Payments						
Grants in Support of Economic and Financial Services Policy Research	501,000	-		501,000	500,000	500,000
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**12,719,300**	**-**		**12,719,300**	**12,072,000**	**10,979,332**

VOTE/ITEM: **1203-4**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Financial Services Policy Division**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Financial Services Policy Division (FSPD) provides advice on and advances financial services regulation and policy initiatives, including initiatives related to capital markets, securities and derivatives and initiatives related to the regulation of credit unions, mortgage brokers, co-operative corporations and insurance.

FUNCTIONS

The Financial Services Policy Division:

- represents Ontario in federal-provincial-territorial discussions regarding financial services policy;
- represents Ontario and advances Ontario's interests in the implementation of a cooperative capital markets regulatory system (CCMR) as reflected in the Memorandum of Agreement among the participating jurisdictions, including leading the development of uniform capital market laws underpinning the CCMR and related legislation;
- acts as policy lead in the ongoing work to establish a regulatory framework to oversee the activities of individuals who offer financial planning services in Ontario;
- represents the Ministry of Finance in the ongoing inter-ministerial work to improve the representation of women on boards of directors and in executive positions;
- participates as a regulatory policy lead to support the ongoing work towards developing an Ontario financial technology (FinTech) strategy;
- continues to support the government's work to keep auto insurance affordable for Ontario's over ten million drivers while ensuring that claimants get the treatment they need;
- provides support for the implementation of the recommendations stemming from the five-year review of the *Credit Unions and Caisses Populaires Act, 1994*;
- provides support for the establishment of the new Financial Services Regulatory Authority of Ontario, including the development of necessary legislation and regulations and the establishment of an appropriate oversight and governance framework;
- provides analysis and advice on the regulatory framework for financial institutions and the financial services sector;
- implements initiatives to modernize the *Insurance Act* and its regulations, including work to integrate new sharing economy business models for providing transportation services into Ontario's auto insurance system; and
- works with the Financial Services Commission of Ontario (FSCO) and the Ontario Securities Commission (OSC) on issues relating to regulation of syndicated mortgage investments.

VOTE/ITEM: **1203-4**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Financial Services Policy Division**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	3,052,600	-		3,052,600	3,078,300	2,013,242
Employee Benefits	416,500	-		416,500	346,600	232,409
Transportation and Communication	51,500	-		51,500	38,800	32,893
Services	1,511,500	500,000	49.4	1,011,500	2,709,500	2,968,647
Supplies and Equipment	45,600	-		45,600	46,400	21,386
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	(2,247,563)
Total	**5,077,700**	**500,000**	**10.9**	**4,577,700**	**6,219,600**	**3,021,014**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

500,000	Reallocation within/between Ministry(ies)
500,000	**Total**

VOTE/ITEM: **1203-5**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Provincial-Local Finance**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Provincial-Local Finance Division provides advice to the Minister of Finance and the Government of Ontario on policies, legislation and operational initiatives that support the province's fiscal arrangements with municipalities, including the $27 billion property tax system. The Division administers the Ontario Municipal Partnership Fund (OMPF), the government's main unconditional transfer payment to municipalities.

In support of the government's priority to develop effective policies, legislation and regulation governing the property assessment and taxation system, the Division continues to examine ways to ensure the property tax and assessment system is fair, accurate, and predictable while ensuring municipalities have the financial tools they need to give Ontarians the quality of life they deserve.

FUNCTIONS

The Provincial-Local Finance Division:

- provides analysis, develops options and designs policies that support a property tax and assessment system that is fair, accurate, and predictable;
- designs assessment and property tax legislation and regulations that meet the government's policy objectives;
- maintains a productive working relationship with the Municipal Property Assessment Corporation (MPAC) that preserves access to valuation expertise and information;
- provides analysis and advice related to $7 billion in provincial Education Property Taxes, including support for the Minister of Finance's role in setting Education Property Tax rates;
- maintains an effective liaison with stakeholders to discuss possible enhancements to the property tax and assessment system and to the provincial/municipal financial arrangements;
- assists municipalities and taxpayers to better understand their responsibilities with respect to the property tax and assessment system;
- administers transfer payment programs to municipalities, including the OMPF, and recommends options and refinements to grant and/or program redesign;
- provides advice to the Minister of Finance on fiscal arrangements with municipalities, as well as oversight with respect to provincial-municipal financial strategies and policy priorities; and
- supports the Provincial Land Tax, Education Property Taxes and taxes for local roads and services boards in the Unincorporated Areas where applicable.

VOTE/ITEM: **1203-5**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Provincial-Local Finance**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	6,633,200	(200,000)	(2.9)	6,833,200	5,788,400	5,197,807
Employee Benefits	859,100	(40,000)	(4.4)	899,100	717,500	593,602
Transportation and Communication	223,000	-		223,000	73,000	121,402
Services	17,578,800	1,941,600	12.4	15,637,200	15,454,500	13,357,382
Supplies and Equipment	115,000	-		115,000	95,000	75,118
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**25,409,100**	**1,701,600**	**7.2**	**23,707,500**	**22,128,400**	**19,345,311**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

2,500,000	Previous Initiatives
(400,400)	Savings
(398,000)	New Initiatives
1,701,600	**Total**

VOTE/ITEM: **1203-6**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Municipal Support Programs**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Municipal Support Programs provides funding support to municipalities through the Ontario Municipal Partnership Fund (OMPF), Special Payments to Municipalities, Transitional Mitigation Payment and One-Time Municipal Assistance. The OMPF, the province's main unconditional transfer payment to municipalities, will provide $505 million to Ontario municipalities in 2017. Special Payments to Municipalities is a mitigation program related to property tax on hydro-electric generation facilities. Transitional Mitigation Payment is a mitigation program related to the property tax exemption for non-profit long-term care homes. One-Time Municipal Assistance provides one-time funding to municipalities facing special circumstances.

FUNCTIONS

The Division is responsible for OMPF policy including:

- developing options and refinements to grant or program design;
- supporting the policy announcement of annual OMPF allocations;
- issuing quarterly payments to eligible municipalities; and
- developing supporting materials and providing municipalities with assistance in understanding grant design and calculations.

Special Payments to Municipalities is a program that provides mitigation to municipalities related to the property tax revenue that each municipality received from hydro-electric generating stations (power dams) prior to 2001 when these properties became exempt from taxation.

Transitional Mitigation Payment is a program to provide transitional assistance to municipalities related to the exemption from property taxation of non-profit long-term care homes. The program targets assistance to eligible municipalities where revenue implications of this exemption represent a more significant proportion of the municipality's total revenue base.

VOTE/ITEM: **1203-6**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Municipal Support Programs**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Transfer Payments						
One-Time Municipal Assistance	43,000	43,000		-	-	-
Ontario Municipal Partnership Fund	505,000,000	-		505,000,000	505,000,000	512,500,000
Special Payments to Municipalities	17,036,100	213,700	1.3	16,822,400	16,821,900	18,722,400
Transitional Mitigation Payment	5,076,000	(409,700)	(7.5)	5,485,700	4,665,800	-
Greater Toronto Area Pooling Compsensation	-	-		-	-	37,500,000
Total	**527,155,100**	**(153,000)**	**(0.0)**	**527,308,100**	**526,487,700**	**568,722,400**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(141,300)	Previous Initiatives
(409,700)	Reallocation within/between Ministry(ies)
398,000	New Initiatives
(153,000)	**Total**

VOTE/ITEM: **1203-8**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Office of the Budget**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Office of the Budget provides analysis and support to the Deputy Minister, Minister, and government, particularly with respect to development and coordination of the fiscal plan and federal-provincial arrangements.

FUNCTIONS

The Office of the Budget is responsible for:

- providing strategic fiscal advice and coordinating key government publications including the annual Budget, the Economic Outlook and Fiscal Review and the Quarterly Finances;
- developing fiscal policy and forecasts in the context of the government's policy priorities, as well as monitoring and advising on the fiscal outlook and risks to the fiscal plan;
- monitoring and advising on Ontario's fiscal relations with the federal government and for maintaining ongoing contact with the ministries of Finance at the federal level and in other provinces and territories; and
- monitoring and providing support and advice to the Ministry of Finance as well as other ministries, in responding to requests from the Financial Accountability Officer.

VOTE/ITEM: **1203-8**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Office of the Budget**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	2,797,600	30,300	1.1	2,767,300	2,151,500	1,916,456
Employee Benefits	325,300	3,500	1.1	321,800	304,400	316,681
Transportation and Communication	42,100	500	1.2	41,600	54,200	32,246
Services	3,365,100	3,003,800	-	361,300	318,500	357,676
Supplies and Equipment	12,500	200	1.6	12,300	47,300	75,779
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**6,542,600**	**3,038,300**	**86.7**	**3,504,300**	**2,875,900**	**2,698,838**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

3,000,000	New Initiatives
38,300	Reallocation within/between Ministry(ies)
3,038,300	**Total**

VOTE/ITEM: **1203-23**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Taxation Policy**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Taxation Policy Division provides strategic analysis and advice on personal, corporate, mining, commodity, sales, estate administration and payroll tax policy and design.

FUNCTIONS

The Taxation Policy Division is responsible for:

- providing tax and benefit policy advice and analysis for the annual Ontario Budget, the fall Economic Outlook and Fiscal Review and other major statements;
- providing policy advice and analysis on tax issues (i.e., personal taxation, business taxation, mining, sales and commodity taxation, estate administration taxation, and payroll taxation and negotiating Canada-Ontario tax agreements);
- providing legislative design advice to implement taxation measures and support government bills relating to taxation through the legislative process;
- advising tax administrators on proper implementation of taxation measures in accordance with legislation and policy intent;
- developing and preparing the tax expenditure report, “Transparency in Taxation”; and
- leading negotiation and coordination of tax agreements and initiatives with the federal government and other provinces.

VOTE/ITEM: **1203-23**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Taxation Policy**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	6,997,400	-		6,997,400	5,678,400	5,597,278
Employee Benefits	1,030,500	-		1,030,500	885,100	691,388
Transportation and Communication	211,900	-		211,900	107,000	71,985
Services	2,016,100	(917,700)	(31.3)	2,933,800	2,737,900	2,062,736
Supplies and Equipment	204,100	-		204,100	135,200	76,200
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**10,460,000**	**(917,700)**	**(8.1)**	**11,377,700**	**9,543,600**	**8,499,587**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(917,700)	Reallocation within/between Ministry(ies)
(917,700)	**Total**

VOTE/ITEM: **1203-12**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Ontario Electricity Financial Corporation**
Dedicated Electricity Earnings

TYPE: **Operating Expense**

ITEM DESCRIPTION

Dedicated electricity earnings are transferred from the Province of Ontario to the Ontario Electricity Financial Corporation.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Other Transactions						
Electricity Sector Dedicated Income	524,818,300	386,999,600	280.8	137,818,700	417,357,600	-
Total	**524,818,300**	**386,999,600**	**280.8**	**137,818,700**	**417,357,600**	**-**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

386,999,600	Change in dedicated electricity earnings from the Province to the Ontario Electricity Financial Corporation
386,999,600	**Total**

VOTE/ITEM: **S**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Bad Debt Expense, the *Financial Administration Act***

TYPE: **Operating Expense**

ITEM DESCRIPTION

Bad Debt Expense is a provision for debts that are deemed unrecoverable under the terms of the *Financial Administration Act*.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Other Transactions						
Bad Debt Expense, the *Financial Administration Act*	-	-		-	-	112,500,000
Total	**-**	**-**		**-**	**-**	**112,500,000**

VOTE/ITEM: **S**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Guarantees and Indemnities, the *Financial Administration Act***

TYPE: **Operating Expense**

ITEM DESCRIPTION

This item provides loan guarantees and indemnities that are required to be paid from the Consolidated Revenue Fund in accordance with Section 12 of the *Financial Administration Act*.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Other Transactions						
Guarantees and Indemnities, the *Financial Administration Act*	1,000	-		1,000	-	-
Total	**1,000**	**-**		**1,000**	**-**	**-**

VOTE/ITEM: **S**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Payments under the *Tax Increment Financing Act, 2006***

TYPE: **Operating Expense**

ITEM DESCRIPTION

This item makes provision for any expenses related to funding to municipalities under the *Tax Increment Financing Act, 2006*.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Transfer Payments						
Payments Under the *Tax Increment Financing Act, 2006*	1,000	-		1,000	-	-
Total	**1,000**	**-**		**1,000**	**-**	**-**

VOTE/ITEM: **S**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Ontario Electricity Financial Corporation, the *Electricity Act, 1998***

TYPE: **Operating Expense**

ITEM DESCRIPTION

This item provides payments to the Ontario Electricity Financial Corporation in accordance with requirements of*, the Electricity Act, 1998*. The payments from the Province of Ontario to the OEFC are fully offset by revenue received by the OEFC on the consolidation of the OEFC into the Province's finances in the Public Accounts of Ontario.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Other Transactions						
Ontario Electricity Financial Corporation Financial Benefit - Asset Optimization, the *Electricity Act, 1998*	1,000	1,000		-	-	172,236,963
Hydro One Inc., Provincial Corporate Tax Provision, the *Electricity Act, 1998*	1,000	1,000		-	-	2,900,000
Total	**2,000**	**2,000**	**0.0**	**-**	**-**	**175,136,963**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

2,000	New Initiatives
2,000	**Total**

VOTE/ITEM: **1203-24**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Strategic Assets – Loans and Investments**

TYPE: **Operating Assets**

ITEM DESCRIPTION

This item reflects the provision made for loans to facilitate the purchase of Hydro One shares.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Deposits and Prepaid Expenses	-	-		-	-	-
Advances and Recoverable Amounts	-	-		-	-	-
Loans and Investments	275,000,000	275,000,000		-	-	109,964,191
Total	**275,000,000**	**275,000,000**		**-**	**-**	**109,964,191**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

275,000,000	Change in Operating Assets
275,000,000	**Total**

VOTE/ITEM: **1203-14**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Capital Expense**

TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is comprised of capital expenses related to future capital loss or write-offs for Moveable/Minor Tangible Capital Assets (mTCA).

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	-	-		-	-	-
Employee Benefits	-	-		-	-	-
Transportation and Communication	-	-		-	-	-
Services	-	-		-	-	-
Supplies and Equipment	-	-		-	-	-
Transfer Payments	-	-		-	-	-
Other Transactions	1,000	-		1,000	-	-
Recoveries	-	-		-	-	-
Total	**1,000**	**-**		**1,000**	**-**	**-**

VOTE/ITEM: **S**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Amortization, the *Financial Administration Act***

TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is the statutory appropriation for amortization of Moveable/Minor Tangible Capital Assets (mTCA).

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Other Transactions						
Amortization, the *Financial Administration Act*	1,000	-		1,000	-	-
Total	**1,000**	**-**		**1,000**	**-**	**-**

VOTE/ITEM: **1203-13**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Capital Assets**

TYPE: **Capital Assets**

ITEM DESCRIPTION

This item represents the capitalization of Moveable/Minor Tangible Capital Assets (mTCA).

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Tangible Capital Assets	-	-		-	-	-
Land	-	-		-	-	-
Buildings	-	-		-	-	-
Transportation Infrastructure	-	-		-	-	-
Information Technology Hardware	-	-		-	-	-
Business Application Software	-	-		-	-	-
Land and Marine Fleet	1,000	-		1,000	-	-
Aircraft	-	-		-	-	-
Machinery and Equipment	-	-		-	-	-
Other Assets	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**1,000**	**-**		**1,000**	**-**	**-**

FINANCIAL SERVICES INDUSTRY REGULATION PROGRAM

1204-1 – Financial Services Commission of Ontario

1204-2 – Motor Vehicle Accident Claims Fund

Statutory Appropriations

Bad Debt Expense, the *Financial Administration Act*

1204-5 – Operating Assets

1204-4 – Capital Expense

Statutory Appropriations

Amortization, the *Financial Administration Act*

1204-3 – Capital Assets

1204 – FINANCIAL SERVICES INDUSTRY REGULATION

The Financial Services Commission of Ontario (FSCO) regulates the province's financial services sector, including insurance companies, health service providers for auto insurance, pension plans, credit unions, caisses populaires, mortgage brokers, agents and administrators, loan and trust companies, and co-operatives. FSCO also makes recommendations to the Minister of Finance on matters affecting these sectors. In addition, FSCO is responsible for the administration of the Motor Vehicle Accident Claims Fund (MVACF) which compensates people injured in automobile accidents in Ontario where there is no other insurance available to respond to the claim. FSCO is also responsible for the administration of the Pension Benefits Guarantee Fund (PBGF). The PBGF pays a minimum level of pension benefits if a plan is wound up with insufficient assets.

FSCO works with the Ministry of Finance, consumers and industry stakeholders to protect the public interest and enhance public confidence in the regulated sectors.

OPERATING AND CAPITAL BY ITEM

Item	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
OPERATING EXPENSE						
Financial Services Commission of Ontario	2,437,600	(51,000)	(2.0)	2,488,600	4,473,600	1,298,270
Motor Vehicle Accident Claims Fund	1,000	-		1,000	1,000	-
Total Operating Expense to be Voted	**2,438,600**	**(51,000)**	**(2.0)**	**2,489,600**	**4,474,600**	**1,298,270**
Statutory Appropriations	1,000	-		1,000	-	-
Total Operating Expense	**2,439,600**	**(51,000)**	**(2.0)**	**2,490,600**	**4,474,600**	**1,298,270**
OPERATING ASSETS						
Deposits and Prepaid Expenses	1,000	-		1,000	-	-
Total Operating Assets to be Voted	**1,000**			**1,000**	**-**	**-**
CAPITAL EXPENSE						
Other Transactions	1,000	-		1,000	-	-
Total Capital Expense to be Voted	**1,000**	**-**		**1,000**	**-**	**-**
Statutory Appropriations	1,000	-		1,000	1,000	-
Total Capital Expense	**2,000**	**-**		**2,000**	**1,000**	**-**
CAPITAL ASSETS						
Buildings - Asset Costs	-	-		-	-	-
Information Technology Hardware	1,033,000	273,000	35.9	760,000	760,000	99,218
Business Application Software - Salaries and Wages	1,645,600	255,700	18.4	1,389,900	-	-
Business Application Software - Employee Benefits	357,100	47,800	15.5	309,300	-	-
Business Application Software - Asset Costs	4,672,900	2,263,400	93.9	2,409,500	112,900	112,867
Total Capital Assets to be Voted	**7,708,600**	**2,839,900**	**58.3**	**4,868,700**	**872,900**	**212,085**
Total Capital Assets	**7,708,600**	**2,839,900**	**58.3**	**4,868,700**	**872,900**	**212,085**

VOTE/ITEM: **1204-1**

VOTE: **Financial Services Industry Regulation**

ITEM: **Financial Services Commission of Ontario**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Financial Services Commission of Ontario (FSCO) regulates the province's financial services sector, including insurance companies, health service providers for auto insurance, pension plans, credit unions, caisses populaires, mortgage brokers, agents and administrators, loan and trust companies, and co-operatives. FSCO also makes recommendations to the Minister of Finance on matters affecting these sectors. In addition, FSCO is responsible for the administration of the Motor Vehicle Accident Claims Fund (MVACF) which compensates people injured in automobile accidents in Ontario where there is no other insurance available to respond to the claim. FSCO is also responsible for the administration of the Pension Benefits Guarantee Fund (PBGF). The PBGF pays a minimum level of pension benefits if a defined benefit plan is wound up with insufficient assets.

FSCO works with the Ministry of Finance, consumers and industry stakeholders to protect the public interest and enhance public confidence in the regulated sectors.

FUNCTIONS

FSCO has established the following goals:

- be risk based, proactive, evidence based, balanced, transparent, service orientated, and collaborative in our work;
- further a coordinated national approach to regulatory issues; and
- be a recognized thought leader in regulatory policy.

To achieve its goals, FSCO is guided by its strategic and operational outcomes. These outcomes help FSCO’s to achieve its core regulatory responsibilities to administer the laws and regulations governing the activities of the regulated sectors.

FSCO is also responsible for providing the administrative resources necessary for the proper functioning of the Financial Services Tribunal. The Financial Services Tribunal is an independent, adjudicative body that conducts hearings arising from regulatory and proposed regulatory decisions of the Superintendent of Financial Services.

VOTE/ITEM: **1204-1**

VOTE: **Financial Services Industry Regulation**

ITEM: **Financial Services Commission of Ontario**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	40,292,500	(2,000,000)	(4.7)	42,292,500	33,994,600	39,008,474
Employee Benefits	10,620,200	(629,800)	(5.6)	11,250,000	10,466,200	10,693,750
Transportation and Communication	803,800	(210,400)	(20.7)	1,014,200	623,800	561,073
Services	27,449,300	(17,486,600)	(38.9)	44,935,900	43,642,500	47,225,123
Supplies and Equipment	406,400	(171,400)	(29.7)	577,800	470,500	366,074
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	(77,134,600)	20,447,200	(21.0)	(97,581,800)	(84,724,000)	(96,556,224)
Total	**2,437,600**	**(51,000)**	**(2.0)**	**2,488,600**	**4,473,600**	**1,298,270**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(51,000)	New Initiatives
(51,000)	**Total**

VOTE/ITEM: **1204-2**

VOTE: **Financial Services Industry Regulation**

ITEM: **Motor Vehicle Accident Claims Fund**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Motor Vehicle Accident Claims Fund (MVACF) provides compensation to people injured in automobile accidents in Ontario involving an uninsured or unidentified vehicle where no other automobile or liability insurance is available. MVACF is a business unit within the Automobile Insurance Division of the Financial Services Commission of Ontario.

FUNCTIONS

The Motor Vehicle Accident Claims Fund:

- satisfies judgments and claims for property damage or damages related to injury or death caused by an uninsured or unidentified motorist where the plaintiffs and claimants have no recourse to automotive insurance;
- provides statutory accident benefits to individuals injured in automobile accidents where the individuals have no recourse to automobile insurance;
- recovers from the owners and drivers of uninsured vehicles monies paid out on their behalf in satisfaction of judgments and claims, when it is legally possible; and
- administers the accident benefits claims portfolio of an insolvent insurer should a wind up order be issued.

VOTE/ITEM: 1204-2

VOTE: Financial Services Industry Regulation

ITEM: Motor Vehicle Accident Claims Fund

TYPE: Operating Expense

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	2,536,900	213,600	9.2	2,323,300	2,323,300	1,761,823
Employee Benefits	366,600	18,100	5.2	348,500	348,500	290,523
Transportation and Communication	84,600	(4,000)	(4.5)	88,600	88,600	21,053
Services	8,103,900	463,400	6.1	7,640,500	7,640,500	6,356,311
Supplies and Equipment	117,800	(56,600)	(32.5)	174,400	174,400	19,851
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	(11,208,800)	(634,500)	6.0	(10,574,300)	(10,574,300)	(8,449,561)
Total	**1,000**	**-**		**1,000**	**1,000**	**-**

VOTE/ITEM: **S**

VOTE: **Financial Services Industry Regulation**

ITEM: **Bad Debt Expense, the *Financial Administration Act***

TYPE: **Operating Expense**

ITEM DESCRIPTION

Bad Debt Expense is a provision for debts that are deemed unrecoverable under the terms of the *Financial Administration Act*.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Other Transactions						
Bad Debt Expense, the *Financial Administration Act*	1,000	-		1,000	-	-
Total	**1,000**	**-**		**1,000**	**-**	**-**

VOTE/ITEM: **1204-5**

VOTE: **Financial Services Industry Regulation**

ITEM: **Operating Assets**

TYPE: **Operating Assets**

ITEM DESCRIPTION

This item makes provision for deposits and prepaid expenses resulting from FSCO's operations.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Deposits and Prepaid Expenses	1,000	-		1,000	-	-
Advances and Recoverable Amounts	-	-		-	-	-
Loans and Investments	-	-		-	-	-
Total	**1,000**	**-**		**1,000**	**-**	**-**

VOTE/ITEM: **1204-4**

VOTE: **Financial Services Industry Regulation**

ITEM: **Capital Expense**

TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is comprised of capital expenses related to future capital loss or write-offs for Moveable/Minor Tangible Capital Assets (mTCA).

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	-	-		-	-	-
Employee Benefits	-	-		-	-	-
Transportation and Communication	-	-		-	-	-
Services	-	-		-	-	-
Supplies and Equipment	-	-		-	-	-
Transfer Payments	-	-		-	-	-
Other Transactions	1,000	-		1,000	-	-
Recoveries	-	-		-	-	-
Total	**1,000**	**-**		**1,000**	**-**	**-**

VOTE/ITEM: **S**

VOTE: **Financial Services Industry Regulation**

ITEM: **Amortization, the *Financial Administration Act***

TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is the statutory appropriation for amortization of Moveable/Minor Tangible Capital Assets (mTCA) such as vehicle fleet and IT hardware.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Other Transactions						
Amortization, the *Financial Administration Act*	831,300	(206,500)	(19.9)	1,037,800	649,000	658,883
Recoveries	(830,300)	206,500	(19.9)	(1,036,800)	(648,000)	(658,883)
Total	**1,000**	**-**		**1,000**	**1,000**	**-**

VOTE/ITEM: **1204-3**

VOTE: **Financial Services Industry Regulation**

ITEM: **Capital Assets**

TYPE: **Capital Assets**

ITEM DESCRIPTION

This item represents the capitalization of expenditures on Moveable/Minor Tangible Capital Assets (mTCA) such as vehicle fleet and IT hardware (e.g., desktops, printers and network servers).

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Tangible Capital Assets						
Land	-	-		-	-	-
Buildings - Asset Costs	-	-		-	-	-
Transportation Infrastructure	-	-		-	-	-
Information Technology Hardware	1,033,000	273,000	35.9	760,000	760,000	99,218
Business Application Software - Salaries and Wages	1,645,600	255,700	18.4	1,389,900	-	-
Business Application Software - Employee Benefits	357,100	47,800	15.5	309,300	-	-
Business Application Software - Asset Costs	4,672,900	2,263,400	93.9	2,409,500	112,900	112,867
Land and Marine Fleet	-	-		-	-	-
Aircraft	-	-		-	-	-
Machinery and Equipment	-	-		-	-	-
Other Assets	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**7,708,600**	**2,839,900**	**58.3**	**4,868,700**	**872,900**	**212,085**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

2,839,900	Change in mTCA Capitalization
2,839,900	**Total**

INVESTING IN ONTARIO

1208-1 Investing in Ontario

1208 – INVESTING IN ONTARIO

The Investing in Ontario program has responsibility for the distribution of all or part of the consolidated surplus for a fiscal year (reduced by any allocation to the reduction of the accumulated deficit that may be prescribed by regulation) to eligible recipients for the purposes, and in the manner as may be prescribed by regulation. Eligible recipients must also be prescribed by regulation and may only include entities, other than individuals, that do not carry on their activities for the purposes of gain or profit.

CAPITAL BY ITEM

Item	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
CAPITAL EXPENSE						
Investing in Ontario Program	1,000	-		1,000	-	-
Total Capital to be Voted	**1,000**	**-**		**1,000**	**-**	**-**
Statutory Appropriations	-	-		-	-	-
Total Capital Expense	**1,000**	**-**		**1,000**	**-**	**-**

VOTE/ITEM: **1208-1**

VOTE: **Investing in Ontario**

ITEM: **Investing in Ontario**

TYPE: **Capital Expense**

ITEM DESCRIPTION

The Investing in Ontario program has responsibility for the distribution of all or part of the consolidated surplus for a fiscal year (reduced by any allocation to the reduction of the accumulated deficit that may be prescribed by regulation) to eligible recipients for the purposes, and in the manner as may be prescribed by regulation. Eligible recipients must also be prescribed by regulation and may only include entities, other than individuals, that do not carry on their activities for the purposes of gain or profit.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Transfer Payments						
Investing in Ontario Act, 2008	1,000	-		1,000	-	-
Total	**1,000**	**-**		**1,000**	**-**	**-**

TAX AND BENEFITS ADMINISTRATION

1209-1 – Tax and Benefits Administration

Sub-Item 1 – Strategy, Stewardship and Program Policy
Sub-Item 2 – Tax Compliance and Benefits

Statutory Appropriations

Payments to Private Collection Agencies, the *Financial Administration Act*
Bad Debt Expense, the *Financial Administration Act*

1209-2 – Operating Assets

Statutory Appropriations

Advances and Recoverable Amounts, the *Education Act,* the *Northern Services Boards Act*, the *Local Roads Boards Act*

1209-3 - Capital Expense

Statutory Appropriations

Amortization, the *Financial Administration Act*

1209-4 – Capital Assets

1209 – TAX AND BENEFITS ADMINISTRATION

This program is responsible for the administration of Ontario tax statutes, a number of benefit programs, and for maintaining the integrity of Ontario's tax system. To accomplish this, it conducts tax compliance activities including audit, inspection, investigation and collections and delivers key benefit programs for low-income seniors and families. Central to this role is the provision of high quality services to clients including information and advisory services. Accountability for managing the relationship with the Canada Revenue Agency, which collects the majority of the province's taxes on its behalf, also rests with this program.

In addition to being responsible for Ontario's Tobacco Strategy and tobacco tax policy, the program leads the province's efforts to address the underground economy and supports the development of Ontario's approach to the Sharing Economy. The program is also responsible for a number of cross-government initiatives such as the centralization of collections functions and benefits transformation including the expansion of automated income verification and related administrative services for various government programs. The program also works in partnership with First Nations on a range of issues including tobacco. In limited circumstances, the program provides grants to not-for-profit organizations and selected First Nations communities related to tax administration.

OPERATING AND CAPITAL BY ITEM

Item	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
OPERATING EXPENSE						
Tax and Benefits Administration	411,082,400	(24,545,200)	(5.6)	435,627,600	347,060,300	333,269,394
Total Operating Expense to be Voted	**411,082,400**	**(24,545,200)**	**(5.6)**	**435,627,600**	**347,060,300**	**333,269,394**
Statutory Appropriations	50,715,900	-		50,715,900	50,815,900	76,765,778
Total Operating Expense	**461,798,300**	**(24,545,200)**	**(5.0)**	**486,343,500**	**397,876,200**	**410,035,172**
OPERATING ASSETS						
Advances and Recoverable Amounts	400,000	-		400,000	400,000	280,537
Total Operating Assets to be Voted	**400,000**	**-**		**400,000**	**400,000**	**280,537**
Statutory Appropriations:						
Advances, the *Education Act*	19,300,000	(300,000)	(1.5)	19,600,000	19,281,000	18,832,137
Advances, the *Northern Services Boards Act*	4,500,000	400,000	9.8	4,100,000	4,300,000	4,226,088
Advances, the *Local Roads Boards Act*	5,200,000	700,000	15.6	4,500,000	5,138,000	4,650,886
Total Operating Assets	**29,400,000**	**800,000**	**2.8**	**28,600,000**	**29,119,000**	**27,989,648**
CAPITAL EXPENSE						
Other Transactions	1,000	-		1,000	-	-
Total Capital Expense to be Voted	**1,000**	**-**		**1,000**	**-**	**-**
Statutory Appropriations	2,637,600	-		2,637,600	2,637,600	2,637,609
Total Capital Expense	**2,638,600**	**-**		**2,638,600**	**2,637,600**	**2,637,609**
CAPITAL ASSETS						
Land and Marine Fleet	1,000	-		1,000	-	-
Total Capital Assets	**1,000**	**-**		**1,000**	**-**	**-**

VOTE/ITEM: **1209-1**

VOTE: **Tax and Benefits Administration**

ITEM: **Tax and Benefits Administration**

TYPE: **Operating Expense**

ITEM DESCRIPTION

This program is responsible for the efficient and effective administration of Ontario tax statutes, tax incentive and benefits programs. It strives to support the sharing economy and ensure the integrity of the tax system through measures aimed at reducing participation in the underground economy and maintaining tax fairness. The program is also responsible for examining ways to reduce the taxation burden on participating businesses and citizens. The province encourages compliance through client services and independent objections review, while discouraging non-compliance and tax evasion through collections activities, audits, inspections and investigations. The fairness of tax incentive and benefits programs is protected through systematic eligibility verification and validation reviews.

FUNCTIONS

- encouraging voluntary compliance through client services such as registration, tax roll and account maintenance and processing tax returns, processing application based refunds, client education, and outreach;
- providing remittance, data and image capture and revenue accounting processing services;
- maintaining data integrity in sustaining an efficient tax administration system and collections function for all Ministry of Finance administered tax statutes;
- leading transformation initiatives to streamline the delivery of Ontario benefits, administering ministry benefits programs and providing benefits administration services to partner ministries;
- managing inter-jurisdictional relationships with the Canada Revenue Agency, and monitoring the related service provisions;
- strengthening efforts to address the underground economy, contraband tobacco, and other measures aimed at maintaining tax fairness;
- supporting the sharing economy through coordination and development of key policy initiatives in partnership with the Sharing Economy Advisory Committee;
- providing strategic management services including tracking, analyzing and reporting on TBA’s performance measures, service standards and revenue commitments;
- developing proactive and effective tax administration policy that supports the government’s competitive business environment; and
- directing and executing excellence in the audit, investigations including forensic accounting and forensic data recovery, regulatory inspection and collection functions using risk based techniques, modern technology and best practices.

VOTE/ITEM: **1209-1**

VOTE: **Tax and Benefits Administration**

ITEM: **Tax and Benefits Administration**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	86,666,100	185,700	0.2	86,480,400	64,120,000	63,020,984
Employee Benefits	13,291,700	(71,200)	(0.5)	13,362,900	10,748,500	10,766,252
Transportation and Communication	3,936,000	-		3,936,000	2,780,400	2,499,688
Services	170,477,300	(24,664,700)	(12.6)	195,142,000	140,295,600	129,931,068
Supplies and Equipment	2,107,300	-		2,107,300	1,498,500	1,652,319
Transfer Payments						
Guaranteed Annual Income System	137,607,600	-		137,607,600	129,680,900	126,848,203
Small Business Transition Support	1,000	-		1,000	-	-
Tax Compliance Partnership Agreements	20,000	5,000	33.3	15,000	-	-
Other Transactions	-	-		-	-	-
Recoveries	(3,024,600)	-		(3,024,600)	(2,063,600)	(1,449,120)
Total	**411,082,400**	**(24,545,200)**	**(5.6)**	**435,627,600**	**347,060,300**	**333,269,394**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(20,845,200)	Previous Initiatives
(3,700,000)	Reallocation within/between Ministry(ies)
(24,545,200)	**Total**

VOTE/ITEM: **1209-1 Sub-Item 1**

VOTE: **Tax and Benefits Administration**

ITEM: **Strategy, Stewardship and Program Policy**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

The Strategy, Stewardship and Program Policy Division is responsible for program policy, strategic planning, relationship and risk management, and benefits transformation initiatives.

FUNCTIONS

- providing policy advice and leadership on key government priorities related to tax and benefit administration, including addressing the underground economy, contraband tobacco, and other measures aimed at maintaining tax fairness;
- providing advice and assistance to the Minister of Finance and the government in developing policy options for tobacco taxation and the oversight of raw leaf tobacco, based on analysis of the revenue, economic, health, social impacts of various options, and input from industry and health advocates;
- developing proactive and effective tax administration policy that supports the government's competitive business environment and Open for Business priorities;
- managing relationships, service provisions and fee-for-service arrangements and develops accountability frameworks for tax and benefit administration involving partnerships with other governments (most notably the Canada Revenue Agency) and the broader public sector, and First Nations;
- identifying opportunities to improve client access to Ontario's income-based benefits programs and making their delivery more efficient through efforts such as leveraging MoF's automated income verification and other benefits administration processes;
- providing data analysis to support the transformation of tax and benefits programs;
- providing strategic planning services including tracking, analyzing and reporting on TBA's performance measures, service standards, and revenue commitments;
- evaluating and reporting on TBA's performance including our success in meeting strategic and operational objectives;
- developing TBA's strategic plan, operational business plans and related work activities, including inter-jurisdictional research and analysis, environmental assessments, planning sessions, and benchmarking;
- operationalizing a risk management framework for TBA that proactively identifies and responds to risks; and
- supporting the sharing economy through coordination and development of key policy initiatives in partnership with the Sharing Economy Advisory Committee.

VOTE/ITEM: **1209-1 Sub-Item 1**

VOTE: **Tax and Benefits Administration**

ITEM: **Strategy, Stewardship and Program Policy**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	19,627,600	185,700	1.0	19,441,900	10,233,900	9,049,184
Employee Benefits	3,195,000	(71,200)	(2.2)	3,266,200	1,414,400	1,261,269
Transportation and Communication	635,000	-		635,000	116,900	103,305
Services	150,177,000	(13,525,900)	(8.3)	163,702,900	117,497,200	111,770,714
Supplies and Equipment	637,100	-		637,100	33,300	46,007
Transfer Payments						
Tax Compliance Partnership Agreements	20,000	5,000	33.3	15,000	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**174,291,700**	**(13,406,400)**	**(7.1)**	**187,698,100**	**129,295,700**	**122,230,479**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(10,906,400)	Previous Initiatives
(2,500,000)	Reallocation within/between Ministry(ies)
(13,406,400)	**Total**

VOTE/ITEM: **1209-1 Sub-Item 2**

VOTE: **Tax and Benefits Administration**

ITEM: **Tax Compliance and Benefits**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

The Tax Compliance and Benefits Division plays a key role in promoting public confidence in the fairness and integrity of Ontario's tax system. The division provides a wide range of tax and non-tax enforcement functions to ensure compliance such as auditing, investigations, inspections and collections. The division is responsible for providing registration services, responding to client inquiries, managing tax client accounts and processing benefit payments, processing application refunds, and providing public education and interpretative services, reviewing and resolving objections and appeals, and providing imaging and revenue processing services.

This sub-item focuses on operational and service delivery of tax and benefits programs, revenue administration, and the implementation of current transformational projects to support the ministry’s commitment to continuous improvement and modernization.

FUNCTIONS

- directing and executing excellence in the audit function using risk based techniques, modern technology and best practices;
- conducting effective investigations including forensic accounting and forensic data recovery and regulatory inspections;
- partnering with other ministries, agencies and other jurisdictions to provide technical information, resolve issues and identify opportunities to collaborate;
- strengthening efforts to address contraband tobacco products;
- providing revenue collections functions to manage accounts receivable, collect delinquent tax and non-tax debt, and administer insolvencies;
- providing leadership and expertise in the areas of Centralized Collections;
- administering tax statutes as well as a number of tax incentive, revenue and benefit programs;
- encouraging voluntary compliance through client services such as registration, account maintenance and processing tax returns and application based refunds;
- providing remittance, data and image capture and revenue processing services;
- providing benefits administrative services to partner ministries; and
- providing an inexpensive administrative review of tax assessments and refund disallowances through the objection process.

VOTE/ITEM: **1209-1 Sub-Item 2**

VOTE: **Tax and Benefits Administration**

ITEM: **Tax Compliance and Benefits**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	67,038,500	-		67,038,500	53,886,100	53,971,800
Employee Benefits	10,096,700	-		10,096,700	9,334,100	9,504,983
Transportation and Communication	3,301,000	-		3,301,000	2,663,500	2,396,383
Services	20,300,300	(11,138,800)	(35.4)	31,439,100	22,798,400	18,160,354
Supplies and Equipment	1,470,200	-		1,470,200	1,465,200	1,606,312
Transfer Payments						
Guaranteed Annual Income System	137,607,600	-		137,607,600	129,680,900	126,848,203
Small Business Transition Support	1,000	-		1,000	-	-
Recoveries	(3,024,600)	-		(3,024,600)	(2,063,600)	(1,449,120)
Total	**236,790,700**	**(11,138,800)**	**(4.5)**	**247,929,500**	**217,764,600**	**211,038,915**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(9,938,800)	Previous Initiatives
(1,200,000)	Reallocation within/between Ministry(ies)
(11,138,800)	**Total**

VOTE/ITEM: **1209-S**

VOTE: **Tax and Benefits Administration**

ITEM: **Payments to Private Collection Agencies, the *Financial Administration Act***

TYPE: **Operating Expense**

ITEM DESCRIPTION

This item provides for expenses related to payments for private sector collection agencies which have been contracted to collect provincial debt under the terms of the *Financial Administration Act*.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Services						
Payments to Private Collection Agencies, the *Financial Administration Act*	5,500,000	-		5,500,000	5,600,000	5,054,292
Total	**5,500,000**	**-**		**5,500,000**	**5,600,000**	**5,054,292**

VOTE/ITEM: **1209-S**

VOTE: **Tax and Benefits Administration**

ITEM: **Bad Debt Expense, the *Financial Administration Act***

TYPE: **Operating Expense**

ITEM DESCRIPTION

This item provides for the Tax and Benefits Administration Program's bad debt expense related to the net change in the Allowance for Doubtful Accounts Receivable for taxation revenue under the terms of the *Financial Administration Act*.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Other Transactions						
Bad Debt Expense, the *Financial Administration Act*	45,215,900	-		45,215,900	45,215,900	71,711,486
Total	**45,215,900**	**-**		**45,215,900**	**45,215,900**	**71,711,486**

VOTE/ITEM: **1209-2**

VOTE: **Tax and Benefits Administration**

ITEM: **Operating Assets**

TYPE: **Operating Assets**

ITEM DESCRIPTION

These assets are the transfer payments made in a fiscal year that relate to a future entitlement period or overpayments that need to be recorded as a result of changed circumstances or qualifications. For example:

- The Guaranteed Annual Income System (GAINS) program ensures a guaranteed minimum income for Ontario senior citizens by providing monthly payments to those who qualify. An increase in other income affecting eligibility may result in overpayments and necessitate the recovery of these overpayments.

FUNCTIONS

- recovering GAINS advanced payment recoverable amounts and overpayments.

VOTE/ITEM: **1209-2**

VOTE: **Tax and Benefits Administration**

ITEM: **Operating Assets**

TYPE: **Operating Assets**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Advances and Recoverable Amounts						
Guaranteed Annual Income System	400,000	-		400,000	400,000	280,537
Total	**400,000**	**-**		**400,000**	**400,000**	**280,537**

VOTE/ITEM: **1209-S**

VOTE: **Tax and Benefits Administration**

ITEM: **Advances and Recoverable Amounts**

TYPE: **Operating Assets**

ITEM DESCRIPTION

This item provides for the Advances and Recoverable Amounts for Provincial Land Tax paid under the legislation of the *Education Act*, the *Northern Services Boards Act* and the *Local Roads Boards Act*.

FUNCTIONS

- recovering advanced payment recoverable amounts and overpayments.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Advances and Recoverable Amounts						
Advances, the *Education Act*	19,300,000	(300,000)	(1.5)	19,600,000	19,281,000	18,832,137
Advances, the *Northern Services Boards Act*	4,500,000	400,000	9.8	4,100,000	4,300,000	4,226,088
Advances, the *Local Roads Boards Act*	5,200,000	700,000	15.6	4,500,000	5,138,000	4,650,886
Total	**29,000,000**	**800,000**	**2.8**	**28,200,000**	**28,719,000**	**27,709,111**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

800,000	Change in Operating Assets
800,000	**Total**

VOTE/ITEM: **1209-3**

VOTE: **Tax and Benefits Administration**

ITEM: **Capital Expense**

TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is comprised of capital expense related to future capital loss or write-offs for Moveable/Minor Tangible Capital Assets (mTCA) for example, large information technology (IT) business applications.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	-	-		-	-	-
Employee Benefits	-	-		-	-	-
Transportation and Communication	-	-		-	-	-
Services	-	-		-	-	-
Supplies and Equipment	-	-		-	-	-
Transfer Payments	-	-		-	-	-
Other Transactions	1,000	-		1,000	-	-
Recoveries	-	-		-	-	-
Total	**1,000**	**-**		**1,000**	**-**	**-**

VOTE/ITEM: **1209-S**

VOTE: **Tax and Benefits Administration**

ITEM: **Amortization, the *Financial Administration Act***

TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is the statutory appropriation for amortization of Moveable/Minor Tangible Capital Assets (mTCA) for example, large information technology (IT) business applications.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Other Transactions						
Amortization, the *Financial Administration Act*	2,637,600	-		2,637,600	2,637,600	2,637,609
Total	**2,637,600**	**-**		**2,637,600**	**2,637,600**	**2,637,609**

VOTE/ITEM: **1209-4**

VOTE: **Tax and Benefits Administration**

ITEM: **Capital Assets**

TYPE: **Capital Assets**

ITEM DESCRIPTION

This item is comprised of Moveable/Minor Tangible Capital Assets (mTCA) for example, large information technology (IT) business applications.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Tangible Capital Assets						
Land	-	-		-	-	-
Buildings	-	-		-	-	-
Transportation Infrastructure	-	-		-	-	-
Information Technology Hardware	-	-		-	-	-
Business Application Software	-	-		-	-	-
Land and Marine Fleet	1,000	-		1,000	-	-
Aircraft	-	-		-	-	-
Machinery and Equipment	-	-		-	-	-
Other Assets	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**1,000**	**-**		**1,000**	**-**	**-**

ONTARIO RETIREMENT PENSION PLAN

Ontario Retirement Pension Plan

Statutory Appropriations

Bad Debt Expense, the *Financial Administration Act*

Statutory Appropriations

Loans, the *Ontario Retirement Pension Plan Administration Corporation Act, 2015*

ONTARIO RETIREMENT PENSION PLAN

This program was responsible for supporting implementation of the Ontario Retirement Pension Plan by leading strategic policy and legislative functions related to the Plan. This program was cancelled.

OPERATING BY ITEM

Item	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
OPERATING EXPENSE						
Ontario Retirement Pension Plan	-	(1,531,000)	(100.0)	1,531,000	2,504,600	17,723,110
Total Operating to be Voted	**-**	**(1,531,000)**	**(100.0)**	**1,531,000**	**2,504,600**	**17,723,110**
Statutory Appropriations	-	-		-	28,492,900	20,026,696
Total Operating Expense	**-**	**(1,531,000)**	**(100.0)**	**1,531,000**	**30,997,500**	**37,749,806**
OPERATING ASSETS						
Loans and Investments	-	-		-	-	-
Total Operating Assets to be Voted	**-**	**-**		**-**	**-**	**-**
Statutory Appropriations	-	(240,000,000)	(100.0)	240,000,000	-	20,000,000
Total Operating Assets	**-**	**(240,000,000)**		**240,000,000**	**-**	**20,000,000**

VOTE/ITEM:

VOTE: **Ontario Retirement Pension Plan**

ITEM: **Ontario Retirement Pension Plan**

TYPE: **Operating Expense**

ITEM DESCRIPTION

This program was previously responsible for the implementation of the mandatory provincial pension plan, the Ontario Retirement Pension Plan, to help Ontario working families build a more secure retirement future. The Ontario Retirement Pension Plan Implementation Secretariat (ORPP IS) was responsible for establishing the Ontario Retirement Pension Plan (ORPP) by leading policy, governance and legislative functions to establish the Plan, and supporting set-up of the ORPP Administration Corporation.

FUNCTIONS

- program was cancelled

VOTE/ITEM:

VOTE: **Ontario Retirement Pension Plan**

ITEM: **Ontario Retirement Pension Plan**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	-	(860,000)	(100.0)	860,000	1,329,500	3,014,480
Employee Benefits	-	(141,000)	(100.0)	141,000	147,200	404,177
Transportation and Communication	-	(50,000)	(100.0)	50,000	31,000	347,227
Services	-	(474,000)	(100.0)	474,000	980,500	13,942,134
Supplies and Equipment	-	(5,000)	(100.0)	5,000	16,400	15,092
Transfer Payments						
Ontario Retirement Pension Plan	-	(1,000)	(100.0)	1,000	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**-**	**(1,531,000)**	**(100.0)**	**1,531,000**	**2,504,600**	**17,723,110**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(1,531,000)	Previous Initiatives
(1,531,000)	**Total**

VOTE/ITEM:

VOTE: **Ontario Retirement Pension Plan**

ITEM: **Bad Debt Expense, the *Financial Administration Act***

TYPE: **Operating Expense**

ITEM DESCRIPTION

This item provided for debts that are deemed unrecoverable under the terms of the *Financial Administration Act.*

COMPARITIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Other transactions						
Bad Debt Expense, the *Financial Administration Act*	-	-		-	-	20,026,696
Total	**-**	**-**		**-**	**-**	**20,026,696**

VOTE/ITEM:

VOTE: **Ontario Retirement Pension Plan**

ITEM: **Loans, the *Ontario Retirement Pension Plan Administration Corporation Act, 2015***

TYPE: **Operating Assets**

ITEM DESCRIPTION

This item included set-up expenses for the ORPP Administration Corporation.

COMPARITIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Loans and Investments						
Loans, the *Ontario Retirement Pension Plan Administration Corporation Act, 2015*	-	(240,000,000)	(100.0)	240,000,000	-	-
Advances and Recoverable Amounts						
Advances, the Ontario Retirement Pension Plan *Administration Corporation Act*	-	-		-	-	20,000,000
Total	**-**	**(240,000,000)**	**(100.0)**	**240,000,000**	**-**	**20,000,000**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(240,000,000)	Change in Operating Assets
(240,000,000)	**Total**

TREASURY PROGRAM

S Interest on Debt

Interest on Ontario Securities

For General Purposes

Canada Pension Plan Investment Board

Canada Mortgage and Housing Corporation

Ontario Immigrant Investor Corporation

Other Interest, Exchange, Discount and Commission

Interest Capitalization

Interest on Investments

Interest on Debt Payable to Ontario Electricity Financial Corporation

S – TREASURY

This program is responsible for the development, direction, operation and formulation of policies for the management of the Province's debt, investments, credit rating, investor relations, and related financial administration activities; providing centralized banking and cash management services to the Province; reporting on the financial position of the Province to investors and the public to facilitate borrowing activities; providing electricity sector financial analysis and support for any direct or indirect provincial liabilities and monitoring the fiscal implications; advice to government and broader public sector on financing initiatives and policies; provision of guarantees and loans by the Province and assistance in investments to its Crown Corporations and agencies; and arranging custodial and fiscal agency services for the Province and certain agencies. It is also responsible for the issuance of Ontario Savings Bonds. The Ontario Financing Authority (OFA) provides a broad range of financial services to Ontario Electricity Financial Corporation (OEFC) and Ontario Infrastructure and Lands Corporation (Infrastructure Ontario).

OPERATING BY ITEM

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Statutory Appropriations:						
Interest on Debt, the *Financial Administration Act*	11,298,251,700	(9,176,900)	(0.1)	11,307,428,600	10,725,962,600	10,395,378,070
Total Operating	**11,298,251,700**	**(9,176,900)**	**(0.1)**	**11,307,428,600**	**10,725,962,600**	**10,395,378,070**

VOTE/ITEM: **S**

VOTE: **Treasury**

ITEM: **Interest on Debt, the *Financial Administration Act***

TYPE: **Statutory**

ITEM DESCRIPTION

This program is responsible for the development, direction, operation and formulation of policies for the management of the Province's debt, investments, credit rating, investor relations, and related financial administration activities; providing centralized banking and cash management services to the Province; reporting on the financial position of the Province to investors and the public to facilitate borrowing activities; providing to the electricity sector financial analysis and support for any direct or indirect provincial liabilities and monitoring fiscal implications; advice to government and broader public sector on financing initiatives and policies; provision of guarantees and loans by the Province and assistance in investments to its Crown Corporations and agencies; and arranging custodial and fiscal agency services for the Province and certain agencies. It is also responsible for the issuance of Ontario Savings Bonds. The Ontario Financing Authority (OFA) provides a broad range of financial services to Ontario Electricity Financial Corporation (OEFC) and Ontario Infrastructure and Lands Corporation (Infrastructure Ontario).

FUNCTIONS

The program:

- conducts borrowing in the capital markets in a cost-effective and prudent manner, manages the provincial debt and investments;
- manages financial risks such as interest rates, currency, credit and liquidity to minimize interest on debt (IOD) and variations from the budget target;
- manages and supports the credit rating review of the Province;
- manages relations with the fixed-income community (domestic and foreign);
- provides centralized banking and cash management services for the government;
- provides settlement and payment services, and financial reporting services;
- supports the implementation of the government’s electricity industry policy decisions, and monitors its fiscal implications;
- effectively manages Ontario Electricity Financial Corporation’s debt and derivatives portfolios, providing timely and accurate risk, cash management and financial reporting services;
- provides a broad range of financial services to Infrastructure Ontario;
- advises ministries, crown agencies and other public bodies on financial policies and projects; and
- acts as intermediary for the Province in lending to or investing for certain public bodies.

VOTE/ITEM: **S**

VOTE: **Treasury**

ITEM: **Interest on Debt, the *Financial Administration Act***

TYPE: **Statutory**

COMPARATIVE DETAILS

Item	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Interest on Ontario Securities						
For General Purposes	10,927,682,900	102,522,800	0.9	10,825,160,100	10,292,415,600	10,062,434,788
Canada Pension Plan Investment Board	502,091,000	(1,333,000)	(0.3)	503,424,000	502,384,000	505,708,939
Canada Mortgage and Housing Corporation	2,935,000	(1,472,000)	(33.4)	4,407,000	4,410,000	5,890,095
Ontario Immigrant Investor Corporation	4,211,800	3,323,800	374.3	888,000	6,783,100	5,005,204
Sub-Total	11,436,920,700	103,041,600	0.9	11,333,879,100	10,805,992,700	10,579,039,026
Other Interest, exchange, discount and commission	(101,883,000)	(65,838,000)	182.7	(36,045,000)	(19,115,700)	(101,407,704)
Interest Capitalized in Ministry Appropriations	(51,846,000)	(6,016,500)	13.1	(45,829,500)	(44,823,400)	(50,506,670)
Interest on Investments	(474,940,000)	(10,364,000)	2.2	(464,576,000)	(530,091,000)	(552,592,945)
Sub-Total	10,808,251,700	20,823,100	0.2	10,787,428,600	10,211,962,600	9,874,531,707
Interest on Debt Payable to the Ontario Electricity Financial Corporation	490,000,000	(30,000,000)	(5.8)	520,000,000	514,000,000	520,846,363
Total Operating	**11,298,251,700**	**(9,176,900)**	**(0.1)**	**11,307,428,600**	**10,725,962,600**	**10,395,378,070**

VOTE/ITEM: **S**

VOTE: **Treasury**

ITEM: **Interest on Debt**
Interest on Ontario Securities for General Purposes

TYPE: **Statutory**

SUB-ITEM DESCRIPTION

This item comprises interest on public market borrowings via such instruments as fixed-rate bonds, floating-rate and medium-term notes, Ontario Savings Bonds, short-term Treasury Bills and United States Commercial Paper (USCP).

CHANGE FROM THE 2016-17 ESTIMATES $102,522,800

The increase in interest expense is mainly attributable to new borrowing to fund the investment in capital assets.

STATUS OF ONTARIO DEBT

		$000
Outstanding as at March 31, 2016:		291,906,464
• New debt issues		26,842,948
• Retirements		(18,104,628)
Outstanding as at March 31, 2017	$	300,644,784
In 2017-18:		
• New debt issues planned	$	24,891,000
• Total retirements	$	(15,454,214)

VOTE/ITEM: **S**

VOTE: **Treasury**

ITEM: **Interest on Debt**
Canada Pension Plan Investment Board

TYPE: **Statutory**

SUB-ITEM DESCRIPTION

The Canada Pension Plan Investment Board (CPPIB) invests funds in the Province of Ontario's non-marketable securities. Effective July 1, 2005, under a side-letter agreement signed between the CPPIB and the Province, CPPIB offered the Province upon maturity of the debentures held to the credit of the Canada Pension Plan Investment Fund (CPPIF) that were issued before January 1, 1998, an option of issuing new replacement debentures to the CPPIB with a maximum term of 30 years (minimum term of five years and with subsequent roll over options subject to the 30 years maximum from the date of issue of the first replacement debenture) at a rate based on the capital market rates at the time of roll over. These debentures are not negotiable or transferable and are assignable only to a wholly-owned subsidiary of the Canada Pension Plan Investment Board. On April 1, 2007, all debentures held to the credit of the CPPIF or purchased by the Minister of Finance of Canada in accordance with Section 110 of the Canada Pension Plan were transferred to the CPPIB.

CHANGE FROM THE 2016-17 ESTIMATES $(1,333,000)

The decrease in interest expense is mainly due to lower interest rates for the roll-over of the maturing debts.

STATUS OF ONTARIO DEBT

		$000
Outstanding as at March 31, 2016:		10,002,740
• New debt issues		91,896
• Retirements		(91,896)
Outstanding as at March 31, 2017:	$	10,002,740
In 2017-18:		
• New debt issues planned	$	-
• Total retirements	$	-

VOTE/ITEM: **S**

VOTE: **Treasury**

ITEM: **Interest on Debt**
Canada Mortgage and Housing Corporation

TYPE: **Statutory**

SUB-ITEM DESCRIPTION

Canada Mortgage and Housing Corporation (CMHC) loans support federal-provincial environmental and employment incentive programs.

CHANGE FROM THE 2016-17 ESTIMATES $(1,472,000)

The decrease in interest expense is the result of debt retirement.

STATUS OF LOANS TO ONTARIO

	$000
Outstanding as at March 31, 2016:	51,063
• New loans	-
• Retirements	(14,606)
Outstanding as at March 31, 2017	$ 36,457
In 2017-18:	
• New loan issues planned	$ -
• Total retirements	$ (14,509)

VOTE/ITEM: **S**

VOTE: **Treasury**

ITEM: **Interest on Debt**
Ontario Immigrant Investor Corporation

TYPE: **Statutory**

SUB-ITEM DESCRIPTION

The Ontario Immigrant Investor Corporation (OIIC) is an operational enterprise of the Ontario Government, incorporated on April 30, 1999, under the *Development Corporation Act*. The corporation was established to act as Ontario's receiving vehicle for immigrant investor monies and was accepted as an approved fund under this program by the federal government on June 22, 1999. The OIIC has been investing funds into the Province since 2003.

CHANGE FROM THE 2016-17 ESTIMATES $3,323,800

The increase in interest expense is the result of higher interest expense than forecasted in the 2015-16 Estimates.

STATUS OF ONTARIO DEBT

		$000
Outstanding as at March 31, 2016:		131,924
• New debt issues		1,968
• Retirements		(19,823)
Outstanding as at March 31, 2017:	$	114,069
In 2017-18:		
• New debt issues planned	$	-
• Total retirements	$	(14,277)

VOTE/ITEM: **S**

VOTE: **Treasury**

ITEM: **Interest on Debt**
Other Interest, Exchange, Discount and Commission

TYPE: **Statutory**

SUB-ITEM DESCRIPTION

These items include public debt transactions such as bank charges, foreign exchange gains and losses, debt issue costs, premiums/discounts and underwriting commissions, as well as interest on special purpose accounts.

CHANGE FROM THE 2016-17 ESTIMATES $(65,838,000)

The change is mainly due to lower forecasted expense of $65,000,000 arising from amortization of foreign exchange gains and losses and premiums/discounts related to debt issues.

VOTE/ITEM: **S**

VOTE: **Treasury**

ITEM: **Interest on Debt**
Interest Capitalization

TYPE: **Statutory**

SUB-ITEM DESCRIPTION

This item represents the financing costs incurred to fund the construction or development of a tangible asset. The financing costs are capitalized during the period of construction given that those costs are viewed as part of the cost required to get the asset ready for use. These capitalized financing costs reduce interest on debt.

CHANGE FROM THE 2016-17 ESTIMATES $(6,016,500)

This change reflects the increase in interest capitalization in highway construction.

VOTE/ITEM: **S**

VOTE: **Treasury**

ITEM: **Interest on Debt**
Interest on Investments

TYPE: **Statutory**

SUB-ITEM DESCRIPTION

This item represents investment income earned from the Province's investments, mainly in marketable securities issued or guaranteed by Canadian chartered banks, and provincial and federal governments. It also includes interest from loans to its Crown corporations, agencies and other public bodies.

CHANGE FROM THE 2016-17 ESTIMATES $(10,364,000)

The increase in investment income is mainly attributable to higher projected temporary investments, but partially offset by a decrease in interest income from planned new loans to agencies and other public bodies.

VOTE/ITEM: **S**

VOTE: **Treasury**

ITEM: **Interest on Debt**
Payable to the Ontario Electricity Financial Corporation

TYPE: **Statutory**

SUB-ITEM DESCRIPTION

This item provides for interest on Provincial Purpose Debt issued as part of a debt-for-equity swap with Ontario Power Generation Inc. and Hydro One Inc. effective April 1, 1999. The Province assumed $8,885 million of the debt issued by these two government business enterprises to OEFC in exchange for $5,126 million in equity from Ontario Power Generation Inc. and $3,759 million in equity from Hydro One. In addition, OEFC owed Hydro One for a working capital adjustment in the amount of $122 million, and Hydro One agreed to settle this amount as a reduction of the equity in 2002, and the Province reduced one of its payables to OEFC by $122 million.

CHANGE FROM THE 2016-17 ESTIMATES $(30,000,000)

The decrease is mainly due to partial redemption of the debt.

STATUS OF ONTARIO DEBT

		$000
Outstanding as at March 31, 2016:		8,885,000
• New debt issues		-
• Retirements		(1,122,165)
Outstanding as at March 31, 2017	$	7,762,835
In 2017-18:		
• New debt issues planned	$	-
• Total retirements	$	-

Trillium Trust Program

Statutory Appropriations (Capital Expense)

Infrastructure Expenditures, the *Trillium Trust Act*

Statutory Appropriations (Capital Assets)

Infrastructure Expenditures, the *Trillium Trust Act*

S – TRILLIUM TRUST PROGRAM

The Trillium Trust provides for the dedication of prescribed net revenue gains / fiscal benefits from the sale of designated assets to help support investments in infrastructure, such as roads, bridges, transit and other priority infrastructure.

CAPITAL BY ITEM

Item	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
CAPITAL EXPENSE						
Statutory Appropriations						
Infrastructure Expenditures, the *Trillium Trust Act*	288,790,600	288,789,600	-	1,000	266,781,000	-
Total Capital Expense	**288,790,600**	**288,789,600**	**-**	**1,000**	**266,781,000**	**-**
CAPITAL ASSETS						
Statutory Appropriations						
Infrastructure Expenditures, the *Trillium Trust Act*	118,850,000	118,849,000	-	1,000	13,691,000	-
Total Capital Assets	**118,850,000**	**118,849,000**	**-**	**1,000**	**13,691,000**	**-**

* In accordance with the approved framework, spending is reflected under the project ministries; therefore appropriations are reclassified under Consolidations.

VOTE/ITEM: **S**

VOTE: **Trillium Trust Program**

ITEM: **Infrastructure Expenditures, the *Trillium Trust Act***

TYPE: **Capital Expense**

ITEM DESCRIPTION

The Trillium Trust provides for the dedication of prescribed net revenue gains / fiscal benefits from the sale of designated assets to help support investments in infrastructure, such as roads, bridges, transit and other priority infrastructure.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Other Transactions						
Transfers from Trillium Trust	288,790,600	288,789,600	-	1,000	266,781,000	-
Total	**288,790,600**	**288,789,600**	-	**1,000**	**266,781,000**	**-**

VOTE/ITEM: **S**

VOTE: **Trillium Trust Program**

ITEM: **Infrastructure Expenditures, the *Trillium Trust Act***

TYPE: **Capital Assets**

ITEM DESCRIPTION

The Trillium Trust provides for the dedication of prescribed net revenue gains / fiscal benefits from the sale of designated assets to help support investments in infrastructure, such as roads, bridges, transit and other priority infrastructure.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Investments in Tangible Capital Assets	118,850,000	118,849,000	-	1,000	13,691,000	-
Total	**118,850,000**	**118,849,000**	**-**	**1,000**	**13,691,000**	**-**

From:	Zilinski, Stephanie (MOF)
To:	Paul Dupuis (MOF); Debbie Laughlin (MOF); Nancy Mattiussi (MOF); Rick Baldino (MAG); Rebecca Luc (MOF); Neda Rastinehad (MOF); Jamie Buckland Foster (MCYS); Patel, Lesley (MOF); Olga Mikhailova (MOF); Ghufran Tarin (MOF); Boa, Krista (MOF); Wallace, Julia (MOF); Birks, Ryan (MOF); Angela Bianchi (MOF); Darren Scanlan; Gavin He; Francisco Chinchon; Marco Ciavatta (FSCO); Carolyn Hamilton (FSCO); Kancharla, Sagar (MOF); Gobeil, Diana (MOF); Samantha Reynolds (MGS); Jayne Harten (ENE); Ken Kandeepan; Bridget Jeanes (MGS); Lynn Portelance (MOF); Wong, Mimi (MOF); John Kim; Shemin Meralli; George Sakura; Penny Vavlekis (MOF); Vivienne Skoberne (MOHLTC); Sybille Chan (MOF); Anna Strathy; Bruno Amara; Deena Padamadan; Matthew Sylvain (MOF); Ashley McCall (ENE); Colleen Waddell (ENERGY); Julia Hancock (MNDM)
Cc:	David McLean (MOF); Steve Boyd (MGS); Dianne Lone (MOF); Maria Sapounas (MOF); Michael Waterston (MOF); Gordon Nowlan (MOF); Sadruddin Salman (MOF); Justin Bilar (MOF); Jhenny Villagra (FSCO); Maria Policelli (FSCO); Robert Troiani (FSCO); Kathy Grant (MOF); Leah Young (MOF); Fred Chow (MOF); Barry Misener (MOF); Brenda Newbatt (MOF); Steve Maw (MOF); Long, Anne-Marie (MOF); Ellen Mulrooney (MOF); Anthony Reiss (MGS); Ray Buzza (MOF); Shannon Clarkson (MOF); Linda Gibney (MOF)
Subject:	Estimates Briefing Book (EBB) pdf Electronic Copy
Date:	Thursday, June 15, 2017 10:23:31 AM
Attachments:	EBB (pdf shared) May 31, 2017.pdf

Hi Folks – enclosed is an electronic version of the Estimates Briefing Book that was submitted earlier this month.

Program heads will be getting a hard copy of this document, later in the summer.

If you have any questions, please contact me.

Stephanie Zilinski
Ministry of Finance
Senior Program Analyst
Business Planning & Resource Allocation
Corporate Planning & Finance Branch
905-433-5664

From: Zilinski, Stephanie (MOF)
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Subject: Estimates Briefing Book (EBB) - FYI and advise of any concerns by no later than Monday May 29 at noon
Importance: High

Hi Folks

I enclose a revised version of the Estimates Briefing Book. Communications Services Branch provided their editing expertise on the document making it less technical/more plain language, at a higher level/less detailed and tighter/less wordy.

Please let me or Leah Young know **by no later than Monday noon** if you have any concerns with the revised content, particularly with any critical messaging.

Please be advised this timeline is critical in order for us to meet the deadlines to get the book printed and delivered to the Clerk of the Standing Committee on Estimates.

Regards

Stephanie

Estimates Briefing Book

2017-18

Ministry of Finance

Ce document est disponible en français

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Part I: 2017–18 Published Plan

Ministry of Finance

MINISTRY OF FINANCE OVERVIEW

MANDATE

The Ministry of Finance's mandate is to create an environment that fosters a dynamic, innovative and growing provincial economy and to manage the government's fiscal responsibilities as well as financial and related regulatory affairs.

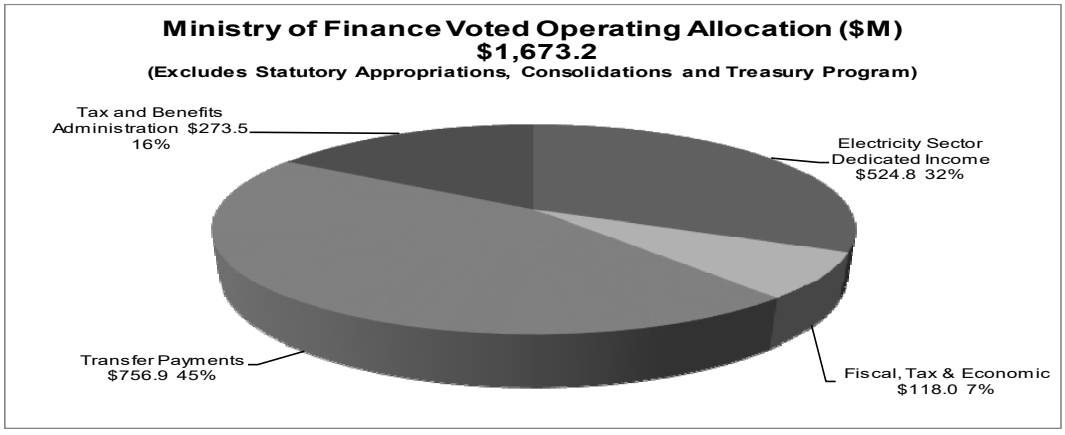
MINISTRY CONTRIBUTION TO PRIORITIES AND RESULTS

Through its mandate, the ministry works to achieve the government's priorities which include investing in people's talents and skills, building retirement security, building modern infrastructure and transportation networks, and supporting a dynamic and innovative business climate.

The ministry works with the Treasury Board Secretariat to manage the Province's $141.1 billion[1] in annual expense and oversees $141.7 billion[2] in revenue raised through taxation, Government of Canada transfers, provincial business enterprises, and other non-tax revenues. It also manages the Province's $26.4 billion[3] borrowing program.

In addition, the ministry supports government-wide initiatives and provides key fiscal, taxation, statistical and economic policy advice to the Minister of Finance, Cabinet committees and the Premier. It also regulates the financial services sector through its agencies.

The ministry provides leadership in transforming Ontario's public services — helping to develop new strategies, policies and processes designed to drive government-wide efficiencies and enable modernization initiatives — while also remaining focused on implementing measures that meet annual budget targets.



[1] 2017 Ontario Budget
[2] 2017 Ontario Budget
[3] 2017 Ontario Budget

MINISTRY OF FINANCE PLAN: LOOKING FORWARD

The ministry is leading transformational activities across government to strengthen Ontario's economy and is also reviewing its own structure, processes and resources to effectively support the implementation of government priorities.

Its responsibilities and activities are aligned to provide financial and economic stewardship, and policy and program delivery leadership.

Meeting Fiscal Targets and Effective Financing

The 2017 Budget plan delivers on the government's 2010 Budget commitment to restore fiscal balance in 2017–18. The Province is also projecting balanced budgets in both 2018–19 and 2019–20.

The balanced budgets from 2017–18 onwards will limit the increase in the provincial net debt to net investments in capital assets. These investments will contribute to Ontario's economy growing at a faster rate than the provincial net debt. This will, in turn, allow the government to set an interim net debt-to-GDP target of 35 per cent in 2023–24 and reduce the net debt-to-GDP ratio to its pre-recession level of 27 per cent (projected to be achieved by 2029–30).

Ontario's net debt-to-GDP ratio peaked in 2014–15 at 39.1 per cent and is now trending downwards. The ratio is forecast to continue to decline to 37.5 per cent in 2017–18, 37.3 per cent in 2018–19 and 37.2 per cent in 2019–20.

Interest on Ontario's debt expense is forecast to be $11.6 billion in 2017–18 and $12.0 billion in 2018–19 — $872 million and $1,072 million lower than forecast in the 2016 Budget, respectively.

These savings continue a trend apparent since 2010, driven by lower deficits and borrowing requirements, and lower-than-forecast interest rates. The savings on Ontario's interest on debt over the period to balance now total $24.0 billion, relative to the 2010 Budget forecast.

Going forward the ministry will continue to review its programs to deliver the best possible results at the lowest cost, using evidence to improve outcomes and ensure the long-term sustainability of provincial programs and services.

Strong Economy and Dynamic Business Climate

The ministry's activities include delivering economic analysis and advice to support the development and implementation of government policy that fosters economic growth and job creation on a regional, sectorial and business level.

To ensure Ontario's economy is strong and its business climate dynamic, the ministry is dedicated to maintaining a fair and competitive corporate tax system — one that balances the benefits of an internationally competitive tax system with the need to raise revenue to fund essential provincial programs and services.

To help ensure the best possible programs and services for Ontarians, the ministry is also supporting Program Review, Renewal and Transformation, the government's evidenced-based decision-making process that is modernizing services, finding savings and improving outcomes.

Additionally, the ministry is supporting the Financial Accountability Office of Ontario in its work conducting independent analysis on Ontario's finances, trends in the economy and related matters important to the Legislative Assembly.

In 2017–18 the ministry will produce the Ontario Economic Accounts, quarterly reports on the status of the provincial economy that include information on its GDP, labour market, financial markets and key external factors such as U.S. economic growth and oil prices.

It will also continue to support the implementation of the province's asset optimization strategy, which is helping to fund further investments in transit, transportation and other priority infrastructure through the Trillium Trust.

Maximizing Revenues

Maximizing revenues due to the province is within the mandate of Ontario's treasury. Key to that work is developing the revenue forecast found in the 2017 Budget (updated in the fall Ontario Economic Outlook and Fiscal Review), including identifying risks to each major revenue component — and working to ensure the forecast is met. The ministry's work in 2017–18 and ongoing includes:

- Creating a new tax avoidance unit to identify and close tax planning loopholes.
- Maximizing the performance of government business enterprises by implementing the Premier's Advisory Council on Government Assets' beverage alcohol retail and distribution recommendations and adapting the Liquor Control Board of Ontario to changes to the retail marketplace as well as its new roles in wholesaling and e-commerce.
- Working with the Ontario Lottery and Gaming Corporation as it continues to implement its modernization plan for slots, casinos and lottery, as well as integrating horse racing into its gaming strategy.
- Launching an underground economy communication campaign to inform the public on the risks of participating in the underground economy.
- Developing a comprehensive strategy to address the sharing economy.
- Renewing or replacing the Aggressive International Tax Planning and Underground Economy fee-for-service agreement with the Canada Revenue Agency.

- Launching a pilot project in the hospitality and retail sectors to test the feasibility of the sales integrity program.
- Leading tobacco tax policy with an aim to support public health objectives under the Smoke-Free Ontario Strategy, while also considering impacts on the untaxed tobacco market.
- Using third-party service providers to aid collecting debts owing to the Province.
- Strengthening tools to enhance collection of non-tax revenue.

Effective Regulation and Innovative Policy

The Ministry of Finance has an instrumental role to play ensuring effective regulations and innovative policies. Its actions in 2017–18 and ongoing include:

- Simplifying personal income tax credits for caregivers by creating a new consolidated Canada Caregiver Credit.
- Introducing a new Ontario Seniors' Public Transit Tax Credit for all Ontarians aged 65 or older.
- Proposing a 15 per cent Non-Resident Speculation Tax to help address unsustainable demand for housing, discourage speculative behaviour and increase housing affordability.
- Working to stop practices that may be contributing to tax avoidance and excessive speculation in the housing market, such as requiring more information about assignments of agreements and similar arrangements through the Land Transfer Tax system.
- Exploring more comprehensive reporting requirements with the Canada Revenue Agency to ensure the correct federal and provincial taxes, including income and sales taxes, are paid on purchases and sales of real estate in Ontario.
- Consulting municipalities, tenants and apartment building owners and others on the potential implications of multi-residential property taxation on rent affordability (Based on early feedback received during this review, the Ministry of Finance is ensuring property tax for new multi-residential apartment buildings is charged at a similar rate as other residential properties. This will encourage developers to build more new purpose-built rental housing).
- Providing advice on — and advancing policy initiatives focused on — capital markets, securities and derivatives such as legislative and Ontario Securities Commission rule proposals as well as regulatory changes to respond to G20 financial regulatory reform commitments.
- Representing Ontario and advancing Ontario's interests in working towards the implementation of the proposed Cooperative Capital Markets Regulatory System, such as developing uniform capital market laws and establishing the new cooperative regulator in partnership with participating jurisdictions.
- Establishing a regulatory framework for the oversight of individuals who offer financial planning services in Ontario.
- Increasing the representation of women on boards of directors and in executive positions.
- Developing an Ontario financial technology strategy.

- Developing, with the federal government and other provinces and territories, regulations to ensure the Canada Pension Plan enhancement is financially sustainable.
- Providing central agency support to line ministries on Ontario's Basic Income Pilot.
- Developing a regulatory policy for new retirement savings models such as target benefit plans and defined contribution pension plans.
- Strengthening the regulation of registered pension plans through measures to improve disclosure and transparency for members.
- Changing the regulatory framework for pension plans — including funding frameworks for single employer and target benefit pension plans — and changing the Ontario *Pension Benefits Act* and regulations that govern the conversion or merger of single-employer pension plans into jointly-sponsored pension plans.
- Strengthening the protection for investors in syndicated mortgages by developing amendments to regulations and planning for the transfer of regulatory oversight of these products from the Financial Services Commission of Ontario (FSCO) to the securities regulator.
- Transferring the responsibility for incorporating co-operative corporations from FSCO to the Ministry of Government and Consumer Services, consolidating the incorporation of co-operatives with the processes in place for other types of businesses.
- Modernizing auto insurance, including enabling all insurers to provide insurance coverage for ride-sharing as well as consulting on the recommendations by Ontario's advisor on auto insurance David Marshall, aimed at delivering better outcomes for accident victims while creating a more efficient and cost-effective system.
- Engaging with the initial board of the Financial Services Regulatory Authority of Ontario and making progress toward establishing this new regulatory body.
- Analyzing and tracking changes in major areas of the underground economy focusing on unregulated tobacco and construction, retail and hospitality sectors.
- Identifying other high-risk industries in the underground economy through advanced analytics and the application of innovative tools, including cognitive computing.
- Completing the automation of the tax compliance verification process to modernize the means for ensuring that vendors awarded provincial contracts valued at $25,000 or more are tax compliant.
- Addressing the unregulated tobacco market by enhancing regulatory oversight of tobacco products.

Modern Transfer Payment Programs and Effective Partnerships

The Province's vision for an effective, efficient and equitable system of fiscal federalism in Canada emphasizes strong partnerships in key areas. As the branch of government most responsible for those partnerships, the ministry maintains contact with the ministries of Finance at the federal level and in other provinces and territories as well as First Nation communities and municipalities.

The following initiatives that support these partnerships are underway:

- Supporting the Ministry of Energy in respect of an agreement-in-principle with First Nations in Ontario, as represented by the Chiefs-in-Assembly, for ownership of Hydro One shares.
- Representing Ontario's position in inter-governmental negotiations on the retirement income security system, including the CPP.
- Providing funding support to municipalities through a number of transfer payments including the Ontario Municipal Partnership Fund, the Province's main unconditional transfer payment to municipalities, which is being redesigned to better target funding to northern and rural municipalities with more challenging fiscal circumstances.
- Establishing information- and data-sharing partnerships to enhance advanced underground economy data analytics.
- To address the unregulated tobacco sector, building partnerships with federal and provincial partners, including police agencies, the Canada Revenue Agency, Canada Border Services Agency, public health units and the Alcohol and Gaming Commission of Ontario.
- Supporting the integration of the delivery of Ministry of Community and Social Services social assistance programs to achieve cost efficiencies and improve client experience.
- Working with First Nation communities toward agreements on tobacco regulation and revenue sharing.

HIGHLIGHTS OF 2016–17 ACHIEVEMENTS

The Ministry of Finance performs a variety of critical roles, focused on supporting effective economic, fiscal and financial management for a stronger Ontario. Its 2016–17 achievements include:

Delivering on the Balanced Budget Plan
The ministry was active in a variety of sectors that enabled the government to restore balance to the Province's finances in 2017–18. Through targeted, measured and fiscally responsible decisions, the government has restored the province's fiscal and economic strength.

Supporting a Dynamic Business Climate
To improve the province's overall business climate, the ministry supported a variety of initiatives that make Ontario an attractive environment for business investment.

Strengthening the Financial Services Sector
The ministry led a variety of initiatives focused on enhancing the province's financial services sector.

Building Retirement Security
The ministry led the implementation of a variety of pension reform measures aimed at improving the adequacy and coverage of pensions in Ontario.

Addressing the Underground Economy
The ministry led several innovative pilots and projects aimed at ensuring all citizens pay their fair share of taxes as well as enhancing the competitiveness of legitimate businesses.

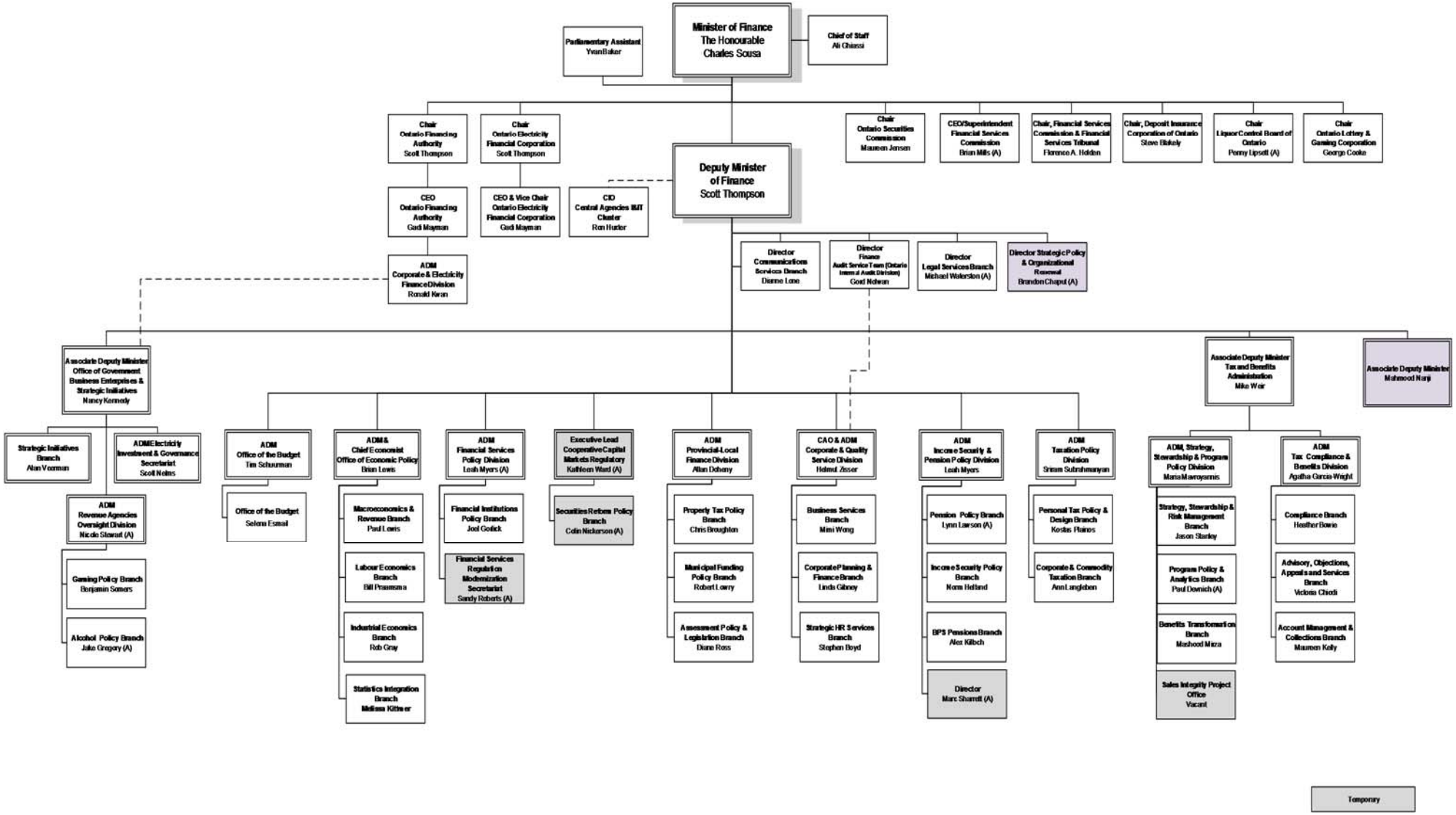
Working with Indigenous Partners
The ministry continued to take the lead in government dialogue with First Nation communities and leaders on tobacco, gasoline and the energy sector for mutually beneficial outcomes for the province and First Nation communities.

Facilitating Openness and Accountability
The ministry continued to further strengthen transparency, financial management and fiscal accountability to ensure Ontarians receive the best value for their tax dollars.

Further detail of the ministry's achievements can be found in the Appendix: 2016–17 Annual Report.

MINISTRY OF FINANCE ORGANIZATIONAL STRUCTURE

As of May 8, 2017



AGENCIES, BOARDS AND COMMISSIONS

Deposit Insurance Corporation of Ontario (DICO): promotes the safety and soundness of Ontario's credit unions and caisses populaires by undertaking regulatory oversight activities, establishing standards for sound business and financial practices, and providing deposit insurance coverage within statutory limits.

Financial Services Commission of Ontario (FSCO): an integrated regulator of Ontario's insurance industry; pension plans; loan and trust companies; credit unions and caisses populaires; the mortgage brokering sector; health service providers and co-operative corporations.

Financial Services Tribunal: an independent, adjudicative body that conducts hearings arising from regulatory and proposed regulatory decisions of the Superintendent of Financial Services.

Liquor Control Board of Ontario (LCBO): responsible for the importation, distribution and sale of beverage alcohol in the province in an efficient and socially responsible manner.

Ontario Electricity Financial Corporation (OEFC): the legal continuation of the former Ontario Hydro responsible for managing that organization's legacy debt and other liabilities.

Ontario Financing Authority (OFA): conducts borrowing, investment and financial risk-management activities for the Province; manages the provincial debt; advises on financial policies and projects; provides financial and centralized banking and cash management services and advice to the Ontario Electricity Financial Corporation.

Ontario Lottery and Gaming Corporation of Ontario (OLG): responsible for the conduct, management and operation of slots and casinos, lottery operations, internet gaming and electronic games at charitable bingo halls across Ontario.

Ontario Securities Commission (OSC): the regulatory body responsible for overseeing Ontario's capital markets, which includes the equities, fixed-income and derivatives markets.

DETAILED FINANCIAL INFORMATION

Table 1: Ministry Planned Expenditures 2017-18 ($M)

($M)	Ministry Planned Expenditures 2017-18
Operating	**13,304.7**
Capital	**6.6**
TOTAL	**13,311.3**

Table 2: Combined Operating and Capital Summary by Vote

VOTES / PROGRAMS	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Estimates * 2016-17 $	Interim Actuals * 2016-17 $	Actual * 2015-16 $
OPERATING EXPENSE						
Ministry Administration	40,552,700	940,400	2.4	39,612,300	39,587,100	44,383,354
Government Business Enterprises, Income Security and Pension Policy	106,976,000	82,900	0.1	106,893,100	113,996,700	106,662,025
Economic, Fiscal and Financial Policy	1,112,182,100	391,168,800	54.3	721,013,300	996,684,800	613,266,482
Financial Services Industry Regulation	2,438,600	(51,000)	(2.0)	2,489,600	4,474,600	1,298,270
Tax and Benefits Administration	411,082,400	(24,545,200)	(5.6)	435,627,600	347,060,300	333,269,394
Ontario Retirement Pension Plan	-	(1,531,000)	(100.0)	1,531,000	2,504,600	17,723,110
Total Operating Expense to be Voted	**1,673,231,800**	**366,064,900**	**28.0**	**1,307,166,900**	**1,504,308,100**	**1,116,602,635**
Statutory Appropriations:						
Treasury Program	11,298,251,700	(9,176,900)	(0.1)	11,307,428,600	10,725,962,600	10,395,378,070
Other Statutory Appropriations	50,785,914	(19,715)	(0.0)	50,805,629	79,383,193	384,495,405
Total Operating Expense	**13,022,269,414**	**356,868,285**	**2.8**	**12,665,401,129**	**12,309,653,893**	**11,896,476,110**
Consolidation Adjustment - Ontario Financing Authority	26,711,000	524,000	2.0	26,187,000	26,187,000	23,020,996
Consolidation Adjustment - Ontario Securities Commission	112,303,000	7,046,900	6.7	105,256,100	106,841,000	94,762,900
Consolidation Adjustment - Ontario Electricity Financial Corporation	(216,818,300)	(737,897,700)	(141.6)	521,079,400	337,442,000	713,717,735
Other Adjustments - Financial Services Commission of Ontario	77,134,600	(20,447,200)	(21.0)	97,581,800	84,724,000	97,215,107
Consolidation Adjustment - Treasury Program	523,498,500	(62,181,800)	(10.6)	585,680,300	600,060,700	505,312,679
Consolidation Adjustment - Treasury Program - Interest Capitalization for Other Sectors	(240,430,200)	(103,321,300)	75.4	(137,108,900)	(76,023,300)	66,108,336
Total Operating Expense Including Consolidation & Other Adjustments	**13,304,668,014**	**(559,408,815)**	**(4.0)**	**13,864,076,829**	**13,388,885,293**	**13,396,613,863**
OPERATING ASSETS						
Economic, Fiscal and Financial Policy	275,000,000	275,000,000		-	-	109,964,191
Financial Services Industry Regulation	1,000	-		1,000	-	-
Tax and Benefits Administration	400,000	-		400,000	400,000	280,537
Total Operating Assets to be Voted	**275,401,000**	**275,000,000**	**-**	**401,000**	**400,000**	**110,244,728**
Statutory Appropriations	29,000,000	(239,200,000)	(89.2)	268,200,000	28,719,000	47,709,111
Total Operating Assets	**304,401,000**	**35,800,000**	**13.3**	**268,601,000**	**29,119,000**	**157,953,839**

Table 2: Combined Operating and Capital Summary by Vote (Cont'd)

VOTES / PROGRAMS	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates * 2016-17 $	Interim Actuals * 2016-17 $	Actual * 2015-16 $
CAPITAL EXPENSE						
Ministry Administration	-	(1,000)	(100.0)	1,000	-	-
Economic, Fiscal, and Financial Policy	1,000	-		1,000	-	-
Financial Services Industry Regulation	1,000	-		1,000	-	-
Investing In Ontario	1,000	-		1,000	-	-
Tax and Benefits Administration	1,000	-		1,000	-	-
Ministry Total Capital Expense to be Voted	**4,000**	**(1,000)**	**(20.0)**	**5,000**	**-**	**-**
Statutory Appropriations						
Trillium Trust Program	288,790,600	288,789,600	-	1,000	266,781,000	-
Other Statutory Appropriations	2,639,600	(1,000)	(0.0)	2,640,600	2,638,600	2,637,609
Total Capital Expense	**291,434,200**	**288,787,600**	**-**	**2,646,600**	**269,419,600**	**2,637,609**
Capital Expense Adjustment - Trillium Trust Reclassification	(288,790,600)	(288,790,600)		-	(266,780,000)	-
Consolidation Adjustment - Ontario Financing Authority	789,000	(92,000)	(10.4)	881,000	863,000	782,000
Consolidation Adjustment - Ontario Securities Commission	3,150,000	91,300	3.0	3,058,700	3,000,000	2,761,000
Total Capital Expense Including Consolidation & Other Adjustments	**6,582,600**	**(3,700)**	**(0.1)**	**6,586,300**	**6,502,600**	**6,180,609**
CAPITAL ASSETS						
Ministry Administration	-	(1,000)	(100.0)	1,000	-	-
Economic, Fiscal, and Financial Policy	1,000	-		1,000	-	-
Financial Services Industry Regulation	7,708,600	2,839,900	58.3	4,868,700	872,900	212,085
Tax and Benefits Administration	1,000	-		1,000	-	-
Ministry Total Capital Assets to be Voted	**7,710,600**	**2,838,900**	**58.3**	**4,871,700**	**872,900**	**212,085**
Statutory Appropriations						
Trillium Trust Program	118,850,000	118,849,000	-	1,000	13,691,000	-
Total Capital Assets	**126,560,600**	**121,687,900**	**-**	**4,872,700**	**14,563,900**	**212,085**
Capital Asset Adjustment - Trillium Trust Reclassification	(118,850,000)	(118,850,000)	-	-	(13,690,000)	-
Total Capital Asset Including Adjustments	**7,710,600**	**2,837,900**	**-**	**4,872,700**	**873,900**	**212,085**
Ministry Total Operating & Capital Including Consolidation and Other Adjustments (not including assets)	**13,311,250,614**	**(559,412,515)**	**(4.0)**	**13,870,663,129**	**13,395,387,893**	**13,402,794,472**

* Estimates, Interim Actuals and Actuals for prior fiscal years are re-stated to reflect any changes in ministry organization and/or program structure. Interim Actuals reflect the numbers presented in the 2017 Ontario Budget.

CONTACT US

If you have questions about the programs and/or services of the Ministry of Finance, visit www.ontario.ca/finance or contact the ministry by:

- **Phone**: 1-866-ONT-TAXS (668-8297) or 1-800-263-7776 for teletypewriter (TTY)
- **Email**: financecommunications.fin@ontario.ca
- **Mail**:
  Ministry of Finance
  33 King Street West
  PO Box 627
  Oshawa ON
  L1H 8H5

You can also visit a ServiceOntario location in person, or call 1-866-ONT-TAXS (668-8297) to schedule an appointment if you wish to meet with a representative at one of our tax offices.

Appendix: 2016-17 Annual Report

Ministry of Finance

2016-17 ACHIEVEMENTS

In 2016–17, the Ministry of Finance engaged in a number of activities to achieve its key priorities. These highlights of the ministry's achievements include:

1. Delivering on the Balanced Budget Plan

Fiscal Framework

- Led the development, and provided strategic oversight of, the fiscal plan including tracking the government's progress in meeting fiscal targets with key partners at the Treasury Board Secretariat and Cabinet Office. Reported on the fiscal plan through the Budget, Quarterly Finances, Economic Outlook, and Fiscal Review and Public Accounts.
- Delivered the 2016 Ontario Economic Outlook and Fiscal Review, the 2017 Long-Term Report on the Economy, the 2016–17 First and Third Quarter Finances and the 2017 Budget that supports the government's plan to balance the budget and maintain balance to 2019–20.
- Advised on Ontario's fiscal relations with the federal government and maintained contact with federal, provincial and territorial finance partners to advance Ontario's fiscal priorities.

Transforming Government and Managing Costs

- In cooperation with several ministries, delivered benefit programs and continued to explore opportunities for benefits transformation to achieve better client service, streamlined administration and enhanced policy development and coordination.
- Passed new framework legislation, the *Benefits Administration Integration Act* that will allow information-sharing across benefit programs.
- Partnered with the Canada Revenue Agency to provide Automated Income Verification for applicants to a growing number of programs.
- Supported the Basic Income Pilot being implemented in early 2017–18.
- Continued working with line ministries and municipalities to expand services for benefits delivery.
- Launched the Vector Institute, a new artificial intelligence (AI) lab mandated to advance research and drive the adoption and commercialization of AI technologies across Canada.

Taxation Policy

- With other provinces, territories and the federal government, improved the Tax Collection Agreement to ensure it reflects Ontario's interests.
- As part of modernizing Ontario's Land Transfer Tax (LTT) system, doubled the refund for eligible first-time homebuyers; updated rates and brackets; restricted the refund for first-time homebuyers to Canadian citizens and permanent residents; and launched a transformational initiative collecting additional

information about Ontario's real estate market to be used for LTT enforcement and support evidence-based policy development.

Borrowing and Debt Management

- Through the Ontario Financing Authority (OFA), continued to efficiently manage the Province's borrowing program.
- Completed the government's annual borrowing program in 2016–17, borrowing $27.0 billion. (This is up from the $26.4 billion forecast in the 2016 Budget, as the OFA capitalized on low interest rates and a strong demand for Ontario bonds to prefund $3.2 billion of the 2017–18 requirement).
- Through prudent and cost-effective debt management, continued to keep interest on debt costs below budget projections. (Interest on debt expense is projected to be $11,250 million for 2016–17 — $506 million lower than forecast in the 2016 Budget — reflecting lower-than-forecast interest rates, the lower forecast deficit for 2016–17 and cost-effective debt management).

2. Supporting a dynamic business climate

Policy/Taxation Measures

- Partnered with the Canada Revenue Agency and Airbnb on a pilot project to increase awareness of tax obligations for Ontarians sharing their homes.
- Worked with the Ministry of Economic Development and Growth to identify potential opportunities for small business, through the Small Business Innovation Challenge.
- Worked with the insurance industry to develop the legislative and regulatory changes necessary to fully integrate the sharing economy into Ontario's auto-insurance system, such as the interim fleet insurance policy for the Uber ridesharing program.
- Implemented the Trillium Trust and related asset optimization initiatives to help fund infrastructure investments, including crediting to the trust $3.7 billion from the sale of Hydro One shares.
- Continued to upload social assistance benefit programs off the property tax base to ensure that municipalities have more property tax dollars to invest in local priorities.
- Planned the lowering of business electricity costs with the end of the debt retirement charge effective April 1, 2018, nine months earlier than previously estimated.
- Implemented changes to the Ontario Innovation Tax Credit and the Ontario Research and Development Tax Credit.
- Implemented legislative and regulatory changes to cultural media tax credits, e.g., introducing an application deadline for the Ontario Interactive Digital Media Tax Credit and clarifying the excluded productions for Ontario's film and television tax credits.

- Provided the Auditor General and the Financial Accountability Office with information on tax credits to support their reviews of business support programs.
- Recovered over $450 million in debts owing to the province and over $2 million for employees owed money under the *Employment Standards Act*.
- Consulted with industry and raw leaf tobacco producers on amendments to the *Tobacco Tax Act* and supporting regulation.
- Completed the online Notice of Objection project, allowing taxpayers to submit their notices online, saving them time, effort and money.

Alcohol and Gaming (Ministry, LCBO and OLG)

- Continued the modernization of the alcohol and gaming sectors and increased provincial revenues within a framework of social responsibility.
- Continued to introduce the sale of beer, cider and wine into grocery stores, giving consumers more choice and convenience while creating a more dynamic and competitive business environment for producers: up to 130 grocery stores were authorized to sell beer and cider, of which 70 can also sell wine; and launched an allocation for up to 80 more beer and cider authorizations.
- The LCBO launched its e-commerce platform, which features almost 5,000 different products from across Ontario, Canada and 85 other countries for pick-up at local stores and home delivery.
- Announced the Ontario Small Cidery and Small Distillery Support Program, which will invest $4.9 million over three years to support small cider and small spirits producers to scale up into medium and large businesses.
- Closed the sale of LCBO's head office, with the net proceeds of $246 million credited to Trillium Trust.
- Awarded three of eight gaming bundles to private sector service providers (four more bundle procurements are in progress) and opened a new casino in Belleville, major strides in OLG's modernization plan.
- Continued OLG's modernization of lottery, charitable and internet gaming lines of business as well as integrating horse racing into its gaming strategy.

Economic Analysis, Reporting and Policy Advice

- Provided analytical, policy and research support to the Premier's Office, Cabinet Office and ministries on a number of priorities, including the Business Growth Initiative, the Highly Skilled Workforce Expert Panel Report, the Poverty Reduction Strategy and the Changing Workplace Review Panel.
- Renewed a three-year agreement with the Toronto Financial Services Alliance to support the organization's strategic objective to grow the Toronto region as a global financial hub and cluster.
- Reviewed investment proposals under the government's Jobs and Prosperity Fund and regional programs.

3. Strengthening the financial services sector

- Introduced and passed legislation that sets out the initial parameters for the new Financial Services Regulatory Authority of Ontario following the June 2016 final report of the expert advisory panel that recommended establishing a new regulator.
- Amended regulations under the *Credit Unions and Caisses Populaires Act, 1994* to improve the regulatory framework for credit unions.
- Continued to make auto insurance more affordable for Ontario's almost 10 million drivers, such as requiring insurers to offer a discount for the use of winter tires and creating a new dispute resolution system to help Ontario claimants get faster access to the benefits they need.
- Amended the *Insurance Act* to improve life insurance and accident and sickness insurance disclosure requirements and improve industry efficiencies.
- Continued to play a leadership role in working towards the implementation of the proposed Co-operative Capital Markets Regulatory System, including the finalization and proposed introduction of the legislative framework that will be set out in a new Capital Markets Act and related legislation.
- Supported the 2015 and 2016 review and 2017 final report by an independent expert committee of the regulatory framework relating to financial planning and financial advisory services.
- Worked with partner ministries and stakeholders on developing a new women's economic empowerment strategy that addresses the gender wage gap and accelerates greater representation of women on boards.

4. Building retirement security

- Enhanced the Canada Pension Plan with the federal government, other provinces and territories.
- Created the Investment Management Corporation of Ontario to provide lower-cost and improved pension investment returns to Ontario's broader public sector pension plans.
- Reviewed the *Pension Benefits Act* solvency funding framework for defined benefit plans that included issuing a consultation paper on changes to the solvency funding framework.
- Extended temporary solvency funding relief measures first introduced in 2009 and 2012.
- Finalized the legislative and regulatory frameworks for Pooled Registered Pension Plans (PRPPs).
- Helped develop a multilateral agreement for PRPPs to facilitate the regulation and supervision of multi-jurisdictional PRPPs that Ontario signed in March 2017.

5. Addressing the underground economy

- Enhanced oversight of raw-leaf tobacco-growing: addressed the links between organized crime and tobacco through a partnership with the Ontario Provincial Police's Contraband Tobacco Enforcement Team, and enhanced retail inspections with public health units.
- Negotiated new fee-for-service agreements with the Canada Revenue Agency to protect Ontario revenue including enhanced compliance measures (e.g., auditing) and a service level agreement for underground economy specialist teams.
- Addressed underground economic activity through a public awareness campaign targeting multiple high-risk sectors, including home renovation, and partnered with the Ministry of Transportation on a pilot project to determine the tax compliance of construction subcontractors the ministry procured.

6. Working with Indigenous partners

- Engaged with First Nations and industry in modernizing the Ontario Gas Card Program, resulting in increasing card security for tax-exempt gasoline sales transactions in First Nation communities.
- Supported the Ministry of Energy on an agreement-in-principle with First Nations in Ontario, as represented by the Chiefs-in-Assembly, for ownership of Hydro One shares and by engaging with the Métis Nation of Ontario.
- Continued to implement the Aboriginal Loan Guarantee Program, which loan guarantees to support equity investment by Indigenous groups in renewable wind, hydro, and solar electricity generation and transmission projects.

7. Facilitating openness and accountability

- Provided advice and support to other ministries to ensure an open and productive relationship with the Financial Accountability Office.
- Initiated the development of new ways to deliver data and statistical services that are efficient, cost-effective and transparent in support of evidenced-based decision-making and advancing the government's commitments to Open Government and collaboration with external experts and academic institutions on difficult policy challenges.
- Capitalized on new methods of public and stakeholder participation in the Ontario pre-budget consultation and budget development processes.
- Implemented the recommendations of the Special Purpose Business Property Assessment Review report for the 2016 reassessment (2017 tax year) in collaboration with the Municipal Property Assessment Corporation, municipalities and other stakeholders. These are expected to increase the transparency, accuracy and predictability of property assessments, reducing the number and impact of appeals, and promoting greater revenue stability from the $27 billion shared property tax base.

- Provided additional property tax flexibility to enable municipalities to better tailor programs to reflect their local needs and circumstances, while ensuring the property tax system continues to remain fair and competitive.
- Reported on the Trillium Trust to help support public transit, transportation and other priority infrastructure projects.

Table 3: Ministry Interim Actual Expenditures 2016-17

	Ministry Interim Actual Expenditures* 2016-17 ($M except Staff Strength)
Operating and Capital	901.5
Ontario Municipal Partnership Fund	505.0
Power Supply Contract Costs	739.0
Interest on Debt	11,250.0
Staff Strength as of March 31**	1,888.9

*Refer to page(s) 240-241 of the 2017 Ontario Budget
**Ontario Public Service Full-Time Equivalent positions

Part II: 2017-18 Detailed Financials

Ministry of Finance

12 – MINISTRY OF FINANCE

The Ministry of Finance supports the economic, fiscal, financial, and taxation policies and strategies of the Government of Ontario, and oversees the Province's borrowing and debt management program. The ministry administers a number of tax statutes, tax credits and benefit programs, and produces the provincial budget. In conjunction with Treasury Board Secretariat, the ministry also manages the Consolidated Revenue Fund and fiscal and financial policies of the Government of Ontario, and reports on financial matters. The ministry also develops policies for Ontario's financial services sector and supports the regulation of financial services institutions and intermediaries carrying on business in the province. In addition, the ministry manages Ontario's fiscal relationship with the federal government, other provinces and Ontario's municipalities, reports on the Trillium Trust, and oversees agencies accountable to the Minister of Finance. The Ministry also reports on economic and demographic developments in the province and provides analytical support and policy advice on these topics as well as statistical issues and trends that affect Ontario's economic growth and job creation.

Table 1: Operating and Capital Summary by Vote

VOTES / PROGRAMS	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates * 2016-17 $	Interim Actuals * 2016-17 $	Actual * 2015-16 $
OPERATING EXPENSE						
Ministry Administration	40,552,700	940,400	2.4	39,612,300	39,587,100	44,383,354
Government Business Enterprises, Income Security and Pension Policy	106,976,000	82,900	0.1	106,893,100	113,996,700	106,662,025
Economic, Fiscal and Financial Policy	1,112,182,100	391,168,800	54.3	721,013,300	996,684,800	613,266,482
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Ontario Retirement Pension Plan	-	(1,531,000)	(100.0)	1,531,000	2,504,600	17,723,110
Total Operating Expense to be Voted	**1,673,231,800**	**366,064,900**	**28.0**	**1,307,166,900**	**1,504,308,100**	**1,116,602,635**
Statutory Appropriations:						
Treasury Program	11,298,251,700	(9,176,900)	(0.1)	11,307,428,600	10,725,962,600	10,395,378,070
Other Statutory Appropriations	50,785,914	(19,715)	(0.0)	50,805,629	79,383,193	384,495,405
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Consolidation Adjustment - Ontario Securities Commission	112,303,000	7,046,900	6.7	105,256,100	106,841,000	94,762,900
Consolidation Adjustment - Ontario Electricity Financial Corporation	(216,818,300)	(737,897,700)	(141.6)	521,079,400	337,442,000	713,717,735
Other Adjustments - Financial Services Commission of Ontario	77,134,600	(20,447,200)	(21.0)	97,581,800	84,724,000	97,215,107
Consolidation Adjustment - Treasury Program	523,498,500	(62,181,800)	(10.6)	585,680,300	600,060,700	505,312,679
Consolidation Adjustment - Treasury Program - Interest Capitalization for Other Sectors	(240,430,200)	(103,321,300)	75.4	(137,108,900)	(76,023,300)	66,108,336
Total Operating Expense Including Consolidation & Other Adjustments	**13,304,668,014**	**(559,408,815)**	**(4.0)**	**13,864,076,829**	**13,388,885,293**	**13,396,613,863**
OPERATING ASSETS						
Economic, Fiscal and Financial Policy	275,000,000	275,000,000		-	-	109,964,191
Financial Services Industry Regulation	1,000	-		1,000	-	-
Tax and Benefits Administration	400,000	-		400,000	400,000	280,537
Total Operating Assets to be Voted	**275,401,000**	**275,000,000**	**-**	**401,000**	**400,000**	**110,244,728**
Statutory Appropriations	29,000,000	(239,200,000)	(89.2)	268,200,000	28,719,000	47,709,111
Total Operating Assets	**304,401,000**	**35,800,000**	**13.3**	**268,601,000**	**29,119,000**	**157,953,839**

Table 1: Operating and Capital Summary by Vote (cont'd)

VOTES / PROGRAMS	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates * 2016-17 $	Interim Actuals * 2016-17 $	Actual * 2015-16 $
CAPITAL EXPENSE						
Ministry Administration	-	(1,000)	(100.0)	1,000	-	-
Economic, Fiscal, and Financial Policy	1,000	-		1,000	-	-
Financial Services Industry Regulation	1,000	-		1,000	-	-
Investing In Ontario	1,000	-		1,000	-	-
Tax and Benefits Administration	1,000	-		1,000	-	-
Ministry Total Capital Expense to be Voted	**4,000**	**(1,000)**	**(20.0)**	**5,000**	**-**	**-**
Statutory Appropriations						
Trillium Trust Program	288,790,600	288,789,600	-	1,000	266,781,000	-
Other Statutory Appropriations	2,639,600	(1,000)	(0.0)	2,640,600	2,638,600	2,637,609
Total Capital Expense	**291,434,200**	**288,787,600**	**-**	**2,646,600**	**269,419,600**	**2,637,609**
Capital Expense Adjustment - Trillium Trust Reclassification	(288,790,600)	(288,790,600)		-	(266,780,000)	-
Consolidation Adjustment - Ontario Financing Authority	789,000	(92,000)	(10.4)	881,000	863,000	782,000
Consolidation Adjustment - Ontario Securities Commission	3,150,000	91,300	3.0	3,058,700	3,000,000	2,761,000
Total Capital Expense Including Consolidation & Other Adjustments	**6,582,600**	**(3,700)**	**(0.1)**	**6,586,300**	**6,502,600**	**6,180,609**
CAPITAL ASSETS						
Ministry Administration	-	(1,000)	(100.0)	1,000	-	-
Economic, Fiscal, and Financial Policy	1,000	-		1,000	-	-
Financial Services Industry Regulation	7,708,600	2,839,900	58.3	4,868,700	872,900	212,085
Tax and Benefits Administration	1,000	-		1,000	-	-
Ministry Total Capital Assets to be Voted	**7,710,600**	**2,838,900**	**58.3**	**4,871,700**	**872,900**	**212,085**
Statutory Appropriations						
Trillium Trust Program	118,850,000	118,849,000	-	1,000	13,691,000	-
Total Capital Assets	**126,560,600**	**121,687,900**	**-**	**4,872,700**	**14,563,900**	**212,085**
Capital Asset Adjustment - Trillium Trust Reclassification	(118,850,000)	(118,850,000)	-	-	(13,690,000)	-
Total Capital Asset Including Adjustments	**7,710,600**	**2,837,900**	**-**	**4,872,700**	**873,900**	**212,085**
Ministry Total Operating & Capital Including Consolidation and Other Adjustments (not including assets)	**13,311,250,614**	**(559,412,515)**	**(4.0)**	**13,870,663,129**	**13,395,387,893**	**13,402,794,472**

* Estimates, Interim Actuals and Actuals for prior fiscal years are re-stated to reflect any changes in ministry organization and/or program structure. Interim Actuals reflect the numbers presented in the 2017 Ontario Budget.

Table 2: Reconciliation to Previously Published Data

Operating Expense	Estimates 2016-17 $	Actual 2015-16 $
Total Operating Previously Published *	12,661,985,429	11,800,123,952
Government Reorganization		
Transfer of Functions from other Ministries	8,415,700	96,352,158
Transfer of Functions to other Ministries	(5,000,000)	-
Change in Accounting		
Change in Accounting	-	-
Restated Total Operating Expense	12,665,401,129	11,896,476,110

* Total Operating Expense includes Statutory Appropriations, Special Warrants and Total Operating Expense to be Voted.

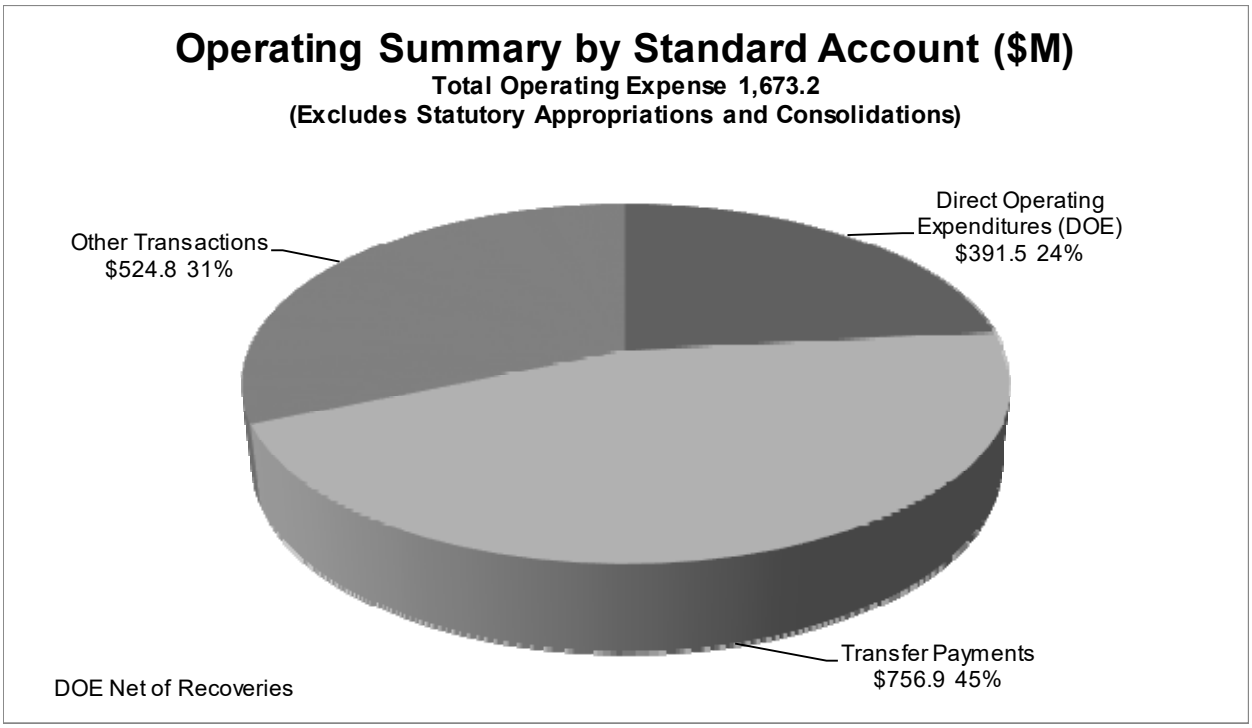
Operating Assets	Estimates 2016-17 $	Actual 2015-16 $
Total Operating Previously Published *	268,601,000	157,953,839
Government Reorganization		
Transfer of Functions from other Ministries	-	-
Transfer of Functions to other Ministries	-	-
Restated Total Operating Assets	268,601,000	157,953,839

* Total Operating Assets includes Statutory Appropriations, Special Warrants and Total Operating Assets to be Voted.

Table 3: 2017-18 Operating Summary by Vote and Standard Account

Standard Account	1201 Ministry Administration	1202 Government Business Enterprises, Income Security and Pension Policy	1203 Economic, Fiscal and Financial Policy	1204 Financial Services Industry Regulation	1208 Investing in Ontario	1209 Tax and Benefits Administration	S Trillium Trust	S Statutory	Total Ministry (Excludes Consolidations)	
	$	$	$	$	$	$	$	$	$	%
OPERATING EXPENSE										
Salaries and Wages	17,642,300	8,907,900	28,356,900	42,829,400	-	86,666,100	-	64,014	184,466,614	1.4
Employee Benefits	2,536,000	1,090,700	3,725,000	10,986,800	-	13,291,700	-		31,630,200	0.2
Transportation and Communication	1,131,300	219,200	694,600	888,400	-	3,936,000	-		6,869,500	0.1
Services	18,392,900	5,152,000	26,246,000	35,553,200	-	170,477,300	-	5,500,000	261,321,400	2.0
Supplies and Equipment	850,200	171,800	685,200	524,200	-	2,107,300	-		4,338,700	0.0
Other Transactions	-	-	524,818,300	-	-	-	-	45,220,900	570,039,200	4.4
Transfer Payments	-	91,646,800	527,656,100	-	-	137,628,600	-	1,000	756,932,500	5.8
Interest On Debt (IOD)	-	-	-	-	-	-	-	11,298,251,700	11,298,251,700	86.8
Recoveries	-	(212,400)	-	(88,343,400)	-	(3,024,600)			(91,580,400)	(0.7)
Total Operating Expense	**40,552,700**	**106,976,000**	**1,112,182,100**	**2,438,600**	**-**	**411,082,400**	**-**	**11,349,037,614**	**13,022,269,414**	**100.0**
PERCENT OF TOTAL MINISTRY	**0.3**	**0.8**	**8.5**	**0.0**	**-**	**3.2**	**-**	**87.2**	**100.0**	
OPERATING ASSETS										
Deposits and Prepaid Expenses				1,000					1,000	0.0
Advances and Recoverable Amounts						400,000		29,000,000	29,400,000	9.7
Loans and Investments			275,000,000				-	-	275,000,000	90.3
Recoveries									-	0.0
Total Operating Assets	**-**	**-**	**275,000,000**	**1,000**	**-**	**400,000**	**-**	**29,000,000**	**304,401,000**	**100.0**
PERCENT OF TOTAL MINISTRY	**-**	**-**	**90.3**	**0.0**	**-**	**0.1**	**-**	**9.5**	**100.0**	

Ministry of Finance



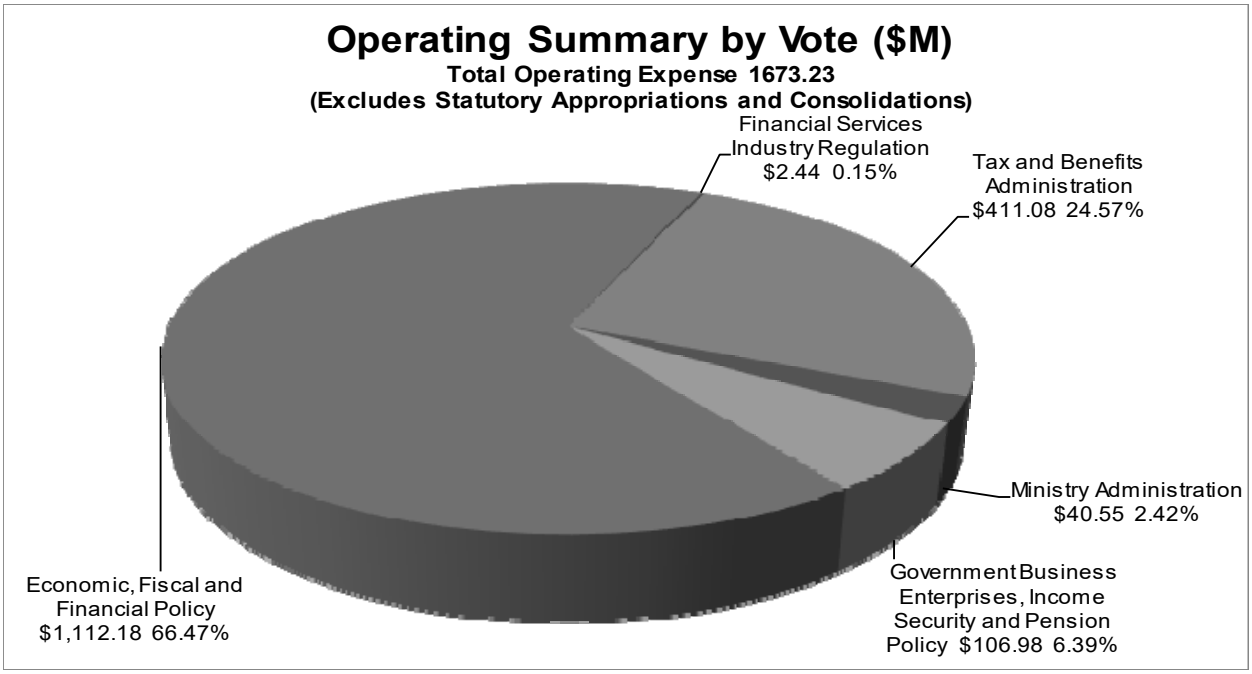


Table 4: 2017-18 Capital Summary by Vote and Standard Account

Standard Account	1201 Ministry Administration	1202 Government Business Enterprises, Income Security and Pension Policy	1203 Economic, Fiscal and Financial Policy	1204 Financial Services Industry Regulation	1208 Investing in Ontario	1209 Tax and Benefits Administration	S Trillium Trust	S Other Statutory	Total Ministry (Excludes Consolidations)	
	$	$	$	$	$	$	$	$	$	%
CAPITAL EXPENSE										
Salaries and Wages									-	0.0
Employee Benefits									-	0.0
Transportation and Communication									-	0.0
Services									-	0.0
Supplies and Equipment									-	0.0
Transfer Payments					1,000				1,000	0.0
Other Transactions	-		1,000	1,000		1,000		3,469,900	3,472,900	1.2
Transfers from Trillium Trust							288,790,600		288,790,600	99.1
Recoveries								(830,300)	(830,300)	(0.3)
Total Capital Expense	**-**	**-**	**1,000**	**1,000**	**1,000**	**1,000**	**288,790,600**	**2,639,600**	**291,434,200**	**100.0**
PERCENT OF TOTAL MINISTRY	**-**	**-**	**0.0**	**0.0**	**0.0**	**0.0**	**99.1**	**0.9**	**100.0**	
CAPITAL ASSETS										
Land									-	0.0
Buildings				-					-	0.0
Transportation Infrastructure									-	0.0
Information Technology Hardware				1,033,000					1,033,000	0.8
Business Application Software - Salaries & Wages				1,645,600					1,645,600	1.3
Business Application Software - Employee Benefits				357,100					357,100	0.3
Business Application Software - Asset Costs				4,672,900					4,672,900	3.7
Land and Marine Fleet	-		1,000			1,000			2,000	0.0
Aircraft									-	0.0
Investments in Tangible Capital Assets							118,850,000		118,850,000	93.9
Recoveries									-	0.0
Total Capital Assets	**-**	**-**	**1,000**	**7,708,600**	**-**	**1,000**	**118,850,000**	**-**	**126,560,600**	**100.0**
PERCENT OF TOTAL MINISTRY	**-**	**-**	**0.0**	**6.1**	**-**	**0.0**	**93.9**	**-**	**100.0**	

MINISTRY ADMINISTRATION PROGRAM

1201-1 – Ministry Administration

Sub-Item 1 – Main Office
Sub-Item 2 – Financial and Administrative Services
Sub-Item 3 – Human Resources
Sub-Item 4 – Communications Services
Sub-Item 5 – Legal Services
Sub-Item 6 – Audit Services

Statutory Appropriations

Minister's Salary, Parliamentary Assistant's Salary, the *Executive Council Act*; Bad Debt Expense, the *Financial Administration Act*

Capital Expense

Statutory Appropriations

Amortization, the *Financial Administration Act*

Capital Assets

1201 – MINISTRY ADMINISTRATION

This program, which includes the Offices of the Minister and Deputy Minister delivers planning, advisory, legal, and controllership functions to ensure direction and management of operating programs consistent with Ontario Government policy and legislation. In addition, the program manages the service relationships with Treasury Board Secretariat and the Ministry of Government and Consumer Services, ensures proper levels of support to the ministry and its client groups, and strategically manages the ministry's quality service commitments.

OPERATING AND CAPITAL BY SUB-ITEM

Sub Item	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
OPERATING EXPENSE						
Main Office	4,740,300	-		4,740,300	4,668,900	4,741,438
Financial and Administrative Services	16,830,900	22,700	0.1	16,808,200	13,052,200	10,804,484
Human Resources	1,959,500	-		1,959,500	1,822,900	2,026,008
Communications Services	6,278,900	-		6,278,900	10,391,400	16,334,192
Legal Services	9,075,200	917,700	11.2	8,157,500	8,062,500	9,076,675
Audit Services	1,667,900	-		1,667,900	1,589,200	1,400,557
Total Operating to be Voted	**40,552,700**	**940,400**	**2.4**	**39,612,300**	**39,587,100**	**44,383,354**
Statutory Appropriations	65,014	(21,715)	(25.0)	86,729	74,393	65,968
Total Operating Expense	**40,617,714**	**918,685**	**2.3**	**39,699,029**	**39,661,493**	**44,449,322**
CAPITAL EXPENSE						
Other Transactions	-	(1,000)	(100.0)	1,000	-	-
Total Capital Expense to be Voted	**-**	**(1,000)**	**(100.0)**	**1,000**	**-**	**-**
Statutory Appropriations	-	(1,000)	(100.0)	1,000	-	-
Total Capital Expense	**-**	**(2,000)**	**(100.0)**	**2,000**	**-**	**-**
CAPITAL ASSETS						
Land and Marine Fleet	-	(1,000)	(100.0)	1,000	-	-
Total Capital Assets	**-**	**(1,000)**	**(100.0)**	**1,000**	**-**	**-**

VOTE/ITEM: **1201-1 Sub-Item 1**

VOTE: **Ministry Administration**

ITEM: **Main Office**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

This sub-item includes the offices of the Minister of Finance, the Parliamentary Assistant and the Deputy Minister. The staff provide professional and technical support for the legislative policy making and administrative responsibilities of the Minister and the Deputy Minister.

FUNCTIONS

The Main Office is responsible for:

- overseeing ministry operations and adherence to corporate policies and directives;
- providing a leadership role in supporting broader government priorities including transformational policy changes that would help sustain longer term delivery of core public services;
- coordinating policies developed in the ministry for the approval of the Minister and the Deputy Minister;
- coordinating the preparation of replies to correspondence to the Minister and Deputy Minister;
- the preparation of verbal and written briefings for the Minister's presentations to Cabinet, Committees of Cabinet and other meetings such as pre-budget consultations, federal-provincial conferences and stakeholder/interest groups.

VOTE/ITEM: **1201-1 Sub-Item 1**

VOTE: **Ministry Administration**

ITEM: **Main Office**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	3,614,400	-		3,614,400	3,637,400	3,633,850
Employee Benefits	389,600	-		389,600	441,900	423,428
Transportation and Communication	305,400	-		305,400	159,900	233,920
Services	353,700	-		353,700	384,100	409,659
Supplies and Equipment	77,200	-		77,200	45,600	40,581
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**4,740,300**	**-**		**4,740,300**	**4,668,900**	**4,741,438**

VOTE/ITEM: **1201-1 Sub-Item 2**

VOTE: **Ministry Administration**

ITEM: **Financial and Administrative Services**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

This sub-item provides ministry strategic support for Program Review, Renewal and Transformation and Estimates, executive decision support, financial controllership, risk management, corporate accounting, emergency management and security services, accommodation management, coordination of corporate and ministry-specific modernization programs and administration of the *Freedom of Information and Protection of Privacy Act*. This sub-item represents the ministry's point of contact with central agencies.

FUNCTIONS

These offices are responsible for delivering the ministry's obligations for the following:

- leading the controllership function, including the accountability framework, strategic procurement advice, loan administration, the Trillium Trust framework, and Public Accounts;
- coordinating, preparing and providing strategic support to the Program Review, Renewal and Transformation planning process and the annual Estimates process;
- in-year risk management and planning, monitoring and reporting of financial and other resource management strategies including preparing and/or reviewing all central agency submissions, for example TB/MBC submissions;
- managing the ministry's accommodation portfolio, including development of strategic options analysis and lease management to ensure optimal space utilization;
- administering the *Freedom of Information and Protection of Privacy Act* for the ministry, its agencies, boards and commissions, including processing requests for access to records, and ensuring compliance with the privacy provisions of the Act;
- leading strategic and operational planning to promote compliance with records and information management requirements;
- developing and implementing the ministry's Emergency Management Program and Physical Security Program, including leading, coordinating, testing, updating and maintaining the ministry's Continuity of Operations Plans and Physical Security Plans and providing security services;
- coordinating the ministry's compliance with the *Ontarians with Disabilities Act, 2001* and the *Accessibility for Ontarians with Disabilities Act, 2005*; and
- coordinating corporate and ministry modernization programs including Employee Engagement and Recognition, Inclusion, Mental Health and Wellness, Workplace Violence Prevention, Service Excellence, Summer Experience Opportunities, Greening, and Open Government.

VOTE/ITEM: **1201-1 Sub-Item 2**

VOTE: **Ministry Administration**

ITEM: **Financial and Administrative Services**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	7,275,400	21,700	0.3	7,253,700	5,645,900	5,643,619
Employee Benefits	1,469,100	-		1,469,100	1,109,400	1,000,582
Transportation and Communication	428,200	-		428,200	87,300	63,101
Services	7,304,300	1,000	0.0	7,303,300	6,144,300	3,975,958
Supplies and Equipment	353,900	-		353,900	65,300	121,224
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**16,830,900**	**22,700**	**0.1**	**16,808,200**	**13,052,200**	**10,804,484**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

22,700	Reallocation within/between Ministry(ies)
22,700	**Total**

VOTE/ITEM: **1201-1 Sub-Item 3**

VOTE: **Ministry Administration**

ITEM: **Human Resources**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

This sub-item represents the Strategic Human Resources Services Branch which provides strategic and advisory human resources services to ministry senior executives to ensure they have the right people, in the right place, at the right time to achieve their business objectives.

FUNCTIONS

The Strategic Human Resources Services Branch is responsible for:

- providing senior executives with strategic advice and support in the areas of organization design and effectiveness, strategic labour relations and workforce planning/analysis to ensure the alignment of people strategies and build organizational capacity and engagement;
- implementing and supporting talent, performance and succession management programs and strategies;
- designing and implementing human resources change management and organizational development initiatives that support ministry business commitments;
- liaising with OPS human resources organizations to lead the implementation of corporate HR initiatives at the ministry level; and
- liaising with all operational elements of the OPS HR Service Delivery Model to ensure the delivery of integrated HR services to support the achievement of ministry business goals.

VOTE/ITEM: **1201-1 Sub-Item 3**

VOTE: **Ministry Administration**

ITEM: **Human Resources**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	1,471,800	-		1,471,800	1,239,100	1,346,826
Employee Benefits	208,200	-		208,200	200,100	399,527
Transportation and Communication	35,200	-		35,200	10,100	14,787
Services	179,500	-		179,500	366,300	261,872
Supplies and Equipment	64,800	-		64,800	7,300	2,996
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**1,959,500**	**-**		**1,959,500**	**1,822,900**	**2,026,008**

VOTE/ITEM: **1201-1 Sub-Item 4**

VOTE: **Ministry Administration**

ITEM: **Communications Services**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

This sub-item represents the Communications Services Branch, which provides strategic communications advice and planning to the Minister of Finance, the Deputy Minister, all Ministry of Finance divisions, Premier's Office and Cabinet Office, and where appropriate, other ministries, to support the government's fiscal priorities and ministry's programs.

FUNCTIONS

The Communications Services Branch is responsible for:

- the coordination and the production of the Ontario Budget, Fall Economic Statement, consultations and delegations and other high-profile ministry projects;
- managing and coordinating the Ministry of Finance contentious issues process;
- responding to media inquiries and monitors the media;
- develops advertising strategies and promotional campaigns, and plans events;
- managing and coordinating the Ministers' correspondence;
- writing news releases, backgrounders, fact sheets and other publications;
- writing speeches and statements for the legislature;
- providing reference and research support to staff; and
- maintaining the Ministry of Finance Internet and intranet sites.

VOTE/ITEM: **1201-1 Sub-Item 4**

VOTE: **Ministry Administration**

ITEM: **Communications Services**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	5,280,700	-		5,280,700	4,035,000	4,303,225
Employee Benefits	469,100	-		469,100	690,400	651,519
Transportation and Communication	73,600	-		73,600	153,900	226,258
Services	291,400	-		291,400	5,152,300	10,879,019
Supplies and Equipment	164,100	-		164,100	359,800	274,171
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**6,278,900**	**-**		**6,278,900**	**10,391,400**	**16,334,192**

VOTE/ITEM: **1201-1 Sub-Item 5**

VOTE: **Ministry Administration**

ITEM: **Legal Services**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

This sub-item represents the Legal Services Branch. The branch provides legal services to the Ministry of Finance and the Ontario Financing Authority.

FUNCTIONS

The Legal Services Branch is responsible for:

- advising the ministry and other clients, as required, with regard to legal issues in respect of borrowing and investment of public money, government finance, fiscal, economic and taxation matters, loans and guarantees, insurance, pensions, alcohol and gaming policy and regulation, securities and financial services sector regulation; and procurement;
- providing advice to Office of the Budget;
- advising on agencies for which the Minister has responsibility;
- representing the ministry in tax collection activities, including bankruptcy and insolvency proceedings;
- advising the ministry in respect of the implementation of government policy in the electricity sector and programs;
- preparing legislation, regulations, Orders in Council, contracts, agreements, memoranda of understanding and other instruments;
- providing counsel for provincial tax prosecutions;
- representing the Minister on tax appeals and providing litigation support on other non-tax actions;
- preparing agreements between federal and provincial governments relating to tax collections, transfer payments and other matters; and
- providing advice to the ministry on the interpretation of statutes and regulations, preparation and review of proposed legislation, regulations, and other legal documents.

VOTE/ITEM: **1201-1 Sub-Item 5**

VOTE: **Ministry Administration**

ITEM: **Legal Services**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	-	-		-	-	3,586
Employee Benefits	-	-		-	-	-
Transportation and Communication	255,300	-		255,300	126,700	132,949
Services	8,646,500	917,700	11.9	7,728,800	7,828,400	8,780,812
Supplies and Equipment	173,400	-		173,400	107,400	159,328
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**9,075,200**	**917,700**	**11.2**	**8,157,500**	**8,062,500**	**9,076,675**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

917,700	Reallocation within/between Ministry(ies)
917,700	**Total**

VOTE/ITEM: **1201-1 Sub-Item 6**

VOTE: **Ministry Administration**

ITEM: **Audit Services**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

This sub-item represents the Finance Audit Service Team (FAST) of Treasury Board Secretariat, which provides risk-management and consulting services, as well as independent assurance services to the Ministry of Finance and some of its agencies. FAST's overall objective is to ensure that the ministry's financial and risk management plans and processes meet the highest standards of integrity, accountability and transparency.

The FAST Audit Director reports functionally to the Finance Audit Committee (FAC), which is chaired by the Deputy Minister of Finance. FAC is responsible for ensuring that FAST has sufficient resources to carry out its responsibilities. FAST is primarily funded by the Ministry of Finance based on actual cost recovery basis.

FUNCTIONS

The services provided by FAST include:

- value-for-money, financial and internal control audits;
- compliance reviews;
- risk assessment and control reviews;
- forensic and fraud investigations;
- advice on governance, controllership, accountability and sound business practices, including advice and liaison to ministries related to Office of the Auditor General of Ontario audits;
- training and education on risk and control; and
- specialized audit, risk assessment and advisory services for information management and information technology projects.

VOTE/ITEM: **1201-1 Sub-Item 6**

VOTE: **Ministry Administration**

ITEM: **Audit Services**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	-	-		-	-	-
Employee Benefits	-	-		-	-	-
Transportation and Communication	33,600	-		33,600	-	-
Services	1,617,500	-		1,617,500	1,589,200	1,400,557
Supplies and Equipment	16,800	-		16,800	-	-
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**1,667,900**	**-**		**1,667,900**	**1,589,200**	**1,400,557**

VOTE/ITEM: **S**

VOTE: **Ministry Administration**

ITEM: **Statutory Appropriations**

TYPE: **Operating Expense**

ITEM DESCRIPTION

This item provides for the statutory salaries of the Minister of Finance and the Parliamentary Assistant, as authorized by the *Executive Council Act*.

The item also provides for Bad Debt Expense, which makes provision for any bad debts incurred under the terms of the *Financial Administration Act.*

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Minister's Salary, the *Executive Council Act*	47,841	-		47,841	49,301	49,301
Minister without Portfolio's Salary, the *Executive Council Act*	-	(21,715)	(100.0)	21,715	8,842	-
Parliamentary Assistant's Salary, the *Executive Council Act*	16,173	-		16,173	16,250	16,667
Bad Debt Expense, the *Financial Administration Act*	1,000	-		1,000	-	-
Total	**65,014**	**(21,715)**	**(25.0)**	**86,729**	**74,393**	**65,968**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(21,715)	Reallocation within/between Ministry(ies)
(21,715)	**Total**

VOTE/ITEM:

VOTE: **Ministry Administration**

ITEM: **Capital Expense**

TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is comprised of capital expenses related to future capital loss or write-offs for Moveable/Minor Tangible Capital Assets (mTCA).

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	-	-		-	-	-
Employee Benefits	-	-		-	-	-
Transportation and Communication	-	-		-	-	-
Services	-	-		-	-	-
Supplies and Equipment	-	-		-	-	-
Transfer Payments	-	-		-	-	-
Other Transactions	-	(1,000)	(100.0)	1,000	-	-
Recoveries	-	-		-	-	-
Total	**-**	**(1,000)**	**(100.0)**	**1,000**	**-**	**-**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(1,000)	Change in mTCA Capitalization
(1,000)	**Total**

VOTE/ITEM:

VOTE: **Ministry Administration**

ITEM: **Amortization, the *Financial Administration Act***

TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is the statutory appropriation for amortization of Moveable/Minor Tangible Capital Assets (mTCA).

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	-	-		-	-	-
Employee Benefits	-	-		-	-	-
Transportation and Communication	-	-		-	-	-
Services	-	-		-	-	-
Supplies and Equipment	-	-		-	-	-
Transfer Payments	-	-		-	-	-
Other Transactions	-	(1,000)	(100.0)	1,000	-	-
Recoveries	-	-		-	-	-
Total	**-**	**(1,000)**	**(100.0)**	**1,000**	**-**	**-**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(1,000)	Change in mTCA Capitalization
(1,000)	**Total**

VOTE/ITEM:

VOTE: **Ministry Administration**

ITEM: **Capital Assets**

TYPE: **Capital Assets**

ITEM DESCRIPTION

This item represents the capitalization of Moveable/Minor Tangible Capital Assets (mTCA).

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Tangible Capital Assets	-	-		-	-	-
Land	-	-		-	-	-
Buildings	-	-		-	-	-
Transportation Infrastructure	-	-		-	-	-
Information Technology Hardware	-	-		-	-	-
Business Application Software	-	-		-	-	-
Land and Marine Fleet	-	(1,000)	(100.0)	1,000	-	-
Aircraft	-	-		-	-	-
Machinery and Equipment	-	-		-	-	-
Other Assets	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**-**	**(1,000)**	**(100.0)**	**1,000**	**-**	**-**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(1,000)	Change in mTCA Capitalization
(1,000)	**Total**

GOVERNMENT BUSINESS ENTERPRISES, INCOME SECURITY AND PENSION POLICY PROGRAM

1202-6 – Income Security and Pension Policy

1202-7 – Office of Government Business Enterprises and Strategic Initiatives

Sub-Item 1 – Strategic Initiatives
Sub-Item 2 – Electricity Investment and Governance
Sub-Item 3 – Revenue Agencies Oversight

1202 – GOVERNMENT BUSINESS ENTERPRISES, INCOME SECURITY AND PENSION POLICY

This program includes pension and income security policy analysis, policy development and legislation. This program is responsible for tracking emerging trends and developments and identifying the economic and fiscal implications of pension and income security policies, and for advising and assisting the Deputy Minister of Finance, the Minister and the government in formulating major economic, fiscal and policy documents.

This program also leads the implementation and ongoing oversight of the recommendations of the Premier's Advisory Council on Government Assets. This includes oversight and implementation of the Council's recommendations related to the financial oversight of Hydro One, Ontario Power Generation, and the electricity sector, as well as the modernization of the beverage alcohol sector. In addition, the program supports the coordination of horizontal policy development on a number of transformation initiatives spanning multiple ministries, on an as required basis. This program is also responsible for facilitating the Minister's oversight and accountability of the Liquor Control Board of Ontario, the Ontario Lottery and Gaming Corporation, including the horse-racing sector, and for managing the Ontario Deposit Return Program for beverage alcohol containers.

OPERATING BY ITEM

Item	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
OPERATING EXPENSE						
Income Security and Pension Policy	6,241,100	60,800	1.0	6,180,300	12,892,500	7,245,572
Office of Government Enterprises and Strategic Initiatives	100,734,900	22,100	0.0	100,712,800	101,104,200	99,416,453
Total Operating to be Voted	**106,976,000**	**82,900**	**0.1**	**106,893,100**	**113,996,700**	**106,662,025**
Statutory Appropriations	-	-		-	-	-
Total Operating Expense	**106,976,000**	**82,900**	**0.1**	**106,893,100**	**113,996,700**	**106,662,025**

VOTE/ITEM: **1202-6**

VOTE: **Government Business Enterprises, Income Security and Pension Policy**

ITEM: **Income Security and Pension Policy**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Income Security and Pension Policy Division provides advice and analysis on employment pensions plans, including pension reform and federal and provincial income security programs, as well as providing research and analysis on income security and pensions policy programs.

FUNCTIONS

The Income Security and Pension Policy Division is responsible for:

- consulting with stakeholders on pension policy issues, leading development of Cabinet submissions, legislation and regulations;
- providing advice and analysis on employment pension plans and income security policy including responsibility for Ontario's co-stewardship of the Canada Pension Plan;
- developing strategic policy regarding Ontario's retirement income system, including the development of innovative retirement savings models, such as Pooled Registered Pension Plans and target benefit plans;
- supporting development of the fiscal framework and expenditure planning processes by monitoring developments in federal income security programs and estimating provincial income security program impacts on business and individuals, pension benefits standards policy and public sector pension policy;
- supporting the Budget and Public Accounts processes with estimates of the fiscal expense for pension plans of teachers, Ontario Public Service (OPS) employees and employees of other consolidated entities; supporting the estimate of non-pension, post-retirement benefits of OPS employees for the purposes of provincial expenditures; estimates of income security programs for seniors and families with children;
- coordinating the Fair Society chapter of the Ontario Budget and Fall Economic Statement; and
- conducting research and analysis to support the development of pension, income security and benefits policy.

VOTE/ITEM: **1202-6**

VOTE: **Government Business Enterprises, Income Security and Pension Policy**

ITEM: **Income Security and Pension Policy**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	4,515,400	54,000	1.2	4,461,400	4,383,600	3,871,267
Employee Benefits	535,000	6,800	1.3	528,200	576,200	555,396
Transportation and Communication	37,000	-		37,000	60,400	54,903
Services	1,108,900	1,000	0.1	1,107,900	1,230,400	733,659
Supplies and Equipment	44,800	-		44,800	40,900	30,347
Transfer Payments						
Transition Fund	-	(1,000)	(100.0)	1,000	6,601,000	2,000,000
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**6,241,100**	**60,800**	**1.0**	**6,180,300**	**12,892,500**	**7,245,572**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

60,800	Previous Initiatives
60,800	**Total**

VOTE/ITEM: **1202-7**

VOTE: **Government Business Enterprises, Income Security and Pension Policy**

ITEM: **Office of Government Business Enterprises and Strategic Initiatives**

TYPE: **Operating Expense**

ITEM DESCRIPTION

Office of Government Business Enterprises and Strategic Initiatives leads the implementation and ongoing oversight of the recommendations of the Premier's Advisory Council on Government Assets. This includes oversight and implementation of the Council's recommendations related to the financial oversight of Hydro One, Ontario Power Generation, and the electricity sector, as well as the modernization of the beverage alcohol sector. In addition, the program supports the coordination of horizontal policy development on a number of transformation initiatives spanning multiple ministries, on an as required basis. This program is also responsible for facilitating the Minister's oversight and accountability of the Liquor Control Board of Ontario, the Ontario Lottery and Gaming Corporation, including the horse-racing sector, and for managing the Ontario Deposit Return Program for beverage alcohol containers

FUNCTIONS

The Office of Government Business Enterprises and Strategic Initiatives is responsible for:

- supporting the coordination of horizontal policy development and analysis on transformational initiatives related to government business enterprises and strategic initiatives that span the work of multiple ministries;
- providing advice on investment and governance matters with respect to Hydro One and Ontario Power Generation (OPG) and interfacing with the Expert Investment Advisory Committee (EIAC);
- providing financial and social responsibility oversight of the Liquor Control Board of Ontario (LCBO) and the Ontario Lottery and Gaming Corporation (OLG), and advising on the obligations of these agencies to the Minister under their constituting legislation and the government's directives;
- providing policy advice, analysis and delivery to support the modernization of the beverage alcohol and gaming sectors in Ontario;
- advising the Minister on the integration of provincial horse racing within Ontario's gaming strategy, including a long-term strategy for funding Ontario's horse racing industry; and
- contributing to the development of government policy for the introduction of legalized cannabis in coordination with partner ministries.

VOTE/ITEM: **1202-7**

VOTE: **Government Business Enterprises, Income Security and Pension Policy**

ITEM: **Office of Government Business Enterprises and Strategic Initiatives**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	4,392,500	(420,000)	(8.7)	4,812,500	4,912,500	3,333,482
Employee Benefits	555,700	(60,000)	(9.7)	615,700	615,700	369,804
Transportation and Communication	182,200	(280,000)	(60.6)	462,200	464,300	44,798
Services	4,043,100	2,575,000	175.4	1,468,100	1,768,100	2,446,967
Supplies and Equipment	127,000	(20,000)	(13.6)	147,000	147,000	20,387
Transfer Payments						
Horse Racing Partnership Funding Program	91,646,800	(1,772,900)	(1.9)	93,419,700	93,419,700	93,419,700
Other Transactions	-	-		-	-	-
Recoveries	(212,400)	-		(212,400)	(223,100)	(218,685)
Total	**100,734,900**	**22,100**	**0.0**	**100,712,800**	**101,104,200**	**99,416,453**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

27,100	Previous Initiatives
(5,000)	Reallocation within/between Ministry(ies)
22,100	**Total**

VOTE/ITEM: **1202-7 Sub-Item 1**

VOTE: **Government Business Enterprises, Income Security and Pension Policy**

ITEM: **Strategic Initiatives**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

The Strategic Initiatives Branch fills a policy and analysis function in the Office of Government Business Enterprises and Strategic Initiatives, and the Branch specializes in business development, policy analysis, and initiatives support for files and issues that are typically complex inter-disciplinary and multi-ministry files. In issues and matters that would normally require multiple divisions and specialized resources to address, the Strategic Initiatives Branch plays both a coordination and leadership role as well as an analytical and support function for business efficiency reviews, commercial deal negotiations, and organizational structural support.

FUNCTIONS

The Strategic Initiatives Branch is responsible for:

- leading in business development, policy analysis, and initiatives support for horizontal policy development on a number of transformation initiatives spanning multiple ministries and levels of government, on an as required basis; and
- coordinating, directing, managing, and overseeing external resources and specialized expertise including business analysis, commercial negotiations, external counsel, industry-specific analysis, labour strategy, market sounding, and strategic communications, as required.

VOTE/ITEM: **1202-7 Sub-Item 1**

VOTE: **Government Business Enterprises, Income Security and Pension Policy**

ITEM: **Strategic Initiatives**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	530,000	(790,000)	(59.8)	1,320,000	1,320,000	944,647
Employee Benefits	70,000	(110,000)	(61.1)	180,000	180,000	93,271
Transportation and Communication	50,000	(75,000)	(60.0)	125,000	125,000	19,383
Services	400,000	75,000	23.1	325,000	325,000	1,870,370
Supplies and Equipment	10,000	(40,000)	(80.0)	50,000	50,000	4,787
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**1,060,000**	**(940,000)**	**(47.0)**	**2,000,000**	**2,000,000**	**2,932,458**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(940,000)	Reallocation within/between Ministry(ies)
(940,000)	**Total**

VOTE/ITEM: **1202-7 Sub-Item 2**

VOTE: **Government Business Enterprises, Income Security and Pension Policy**

ITEM: **Electricity Investment and Governance**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

The Electricity Investment and Governance Secretariat provides advice on investment and governance matters with respect to Hydro One and Ontario Power Generation (OPG) and interfaces with the Expert Investment Advisory Committee (EIAC).

FUNCTIONS

The Electricity Investment and Governance Secretariat is responsible for:

- providing financial analysis and advice to support the effective management of holdings;
- advising on commercial implications of potential policy decisions;
- providing advice to the Province relating to shareholder rights and responsibilities, including participation in shareholder meetings and nomination/election of directors;
- analysing the revenue, economic, social and sectoral impacts of the business plans and activities of Ontario Power Generation (OPG), and advising on compliance with legislative and regulatory requirements;
- providing policy advice and analysis on issues affecting the electricity sector and potential fiscal implications for the Province; and
- advising the Province on policy and legislative design affecting the Province's electricity government business enterprises.

VOTE/ITEM: **1202-7 Sub-Item 2**

VOTE: **Government Business Enterprises, Income Security and Pension Policy**

ITEM: **Electricity Investment and Governance**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	580,000	-		580,000	580,000	-
Employee Benefits	75,000	-		75,000	75,000	-
Transportation and Communication	50,000	(225,000)	(81.8)	275,000	275,000	-
Services	1,500,000	1,500,000		-	-	-
Supplies and Equipment	10,000	10,000		-	-	-
Transfer Payments	-	-		-	-	
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**2,215,000**	**1,285,000**	**138.2**	**930,000**	**930,000**	**-**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

1,285,000	Reallocation within/between Ministry(ies)
1,285,000	**Total**

VOTE/ITEM: **1202-7 Sub-Item 3**

VOTE: **Government Business Enterprises, Income Security and Pension Policy**

ITEM: **Revenue Agencies Oversight**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

The Revenue Agencies Oversight Division provides policy advice, analysis and oversight for the ministry's revenue agencies related to beverage alcohol and gaming.

FUNCTIONS

The Revenue Agencies Oversight Division is responsible for:

- analysing the revenue, economic, social and sectorial impacts of the business plans and activities of the Liquor Control Board of Ontario (LCBO) and, the Ontario Lottery and Gaming Corporation (OLG), and advising on the obligations of these agencies to the Minister under their constituting legislation and the government's directives;
- providing policy advice, analysis and delivery on issues affecting the beverage alcohol and gaming industries in Ontario;
- advising the Minister on gaming policy, social responsibility and the integration of provincial horse racing within Ontario's gaming strategy, including a long-term strategy for funding Ontario's horse racing industry;
- managing and evaluates the Ontario Deposit Return Program for beverage alcohol containers to ensure performance goals are met;
- advising the Minister on the policy and legislative design of beer and wine taxes and on strategic policy options related to alcohol mark-ups; and
- contributing to the development of government policy for the introduction of legalized cannabis in coordination with partner ministries.

VOTE/ITEM: **1202-7 Sub-Item 3**

VOTE: **Government Business Enterprises, Income Security and Pension Policy**

ITEM: **Revenue Agencies Oversight**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	3,282,500	370,000	12.7	2,912,500	3,012,500	2,388,835
Employee Benefits	410,700	50,000	13.9	360,700	360,700	276,533
Transportation and Communication	82,200	20,000	32.2	62,200	64,300	25,415
Services	2,143,100	1,000,000	87.5	1,143,100	1,443,100	576,597
Supplies and Equipment	107,000	10,000	10.3	97,000	97,000	15,600
Transfer Payments						
Horse Racing Partnership Funding Program	91,646,800	(1,772,900)	(1.9)	93,419,700	93,419,700	93,419,700
Other Transactions						
Recoveries	(212,400)	-		(212,400)	(223,100)	(218,685)
Total	**97,459,900**	**(322,900)**	**(0.3)**	**97,782,800**	**98,174,200**	**96,483,995**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

27,100	Previous Initiatives
(350,000)	Reallocation within/between Ministry(ies)
(322,900)	**Total**

ECONOMIC, FISCAL AND FINANCIAL POLICY PROGRAM

1203-1 – Economic Policy

1203-4 – Financial Services Policy Division

1203-5 – Provincial-Local Finance

1203-6 – Municipal Support Programs

1203-8 – Office of the Budget

1203-23 – Taxation Policy

1203-12 – Ontario Electricity Financial Corporation Dedicated Electricity Earnings

Statutory Appropriations

Bad Debt Expense, the *Financial Administration Act*
Guarantees and Indemnities, the *Financial Administration Act*
Payments Under the *Tax Increment Financing Act, 2006*
Ontario Electricity Financial Corporation, the *Electricity Act, 1998*

1203-24 – Strategic Assets – Loans and Investments

1203-14 – Capital Expense

Statutory Appropriations

Amortization, the *Financial Administration Act*

1203-13 – Capital Assets

1203 – ECONOMIC, FISCAL AND FINANCIAL POLICY

This program develops and implements sound economic, tax and inter-governmental taxation and fiscal strategies to raise revenue, stimulate economic growth and job creation; forecasts, monitors and reports on the performance of the Ontario economy; provides expertise and advice on sound economic design of and financial and implementation support for government initiatives; develops demographic forecasts for Ontario and its 49 census divisions; develops the policy and legislative framework for Ontario's taxation and benefits systems and the financial services industry; develops and provides strategic oversight of and advice related to the government's fiscal plan; assists the Minister of Finance and the government in formulating Ontario's finance policy and strategies with respect to federal-provincial fiscal arrangements; provides analysis and advice regarding Ontario's interest in, and regulation of, the provincial financial services sector and regulatory agencies, such as insurance, deposit taking and the capital markets, including the proposed Co-operative Capital Markets Regulatory System; and provides policy advice to clients, managers, and decision makers in the areas of fiscal and financial management. The program leads the Statistics Transformation Initiative to enhance how government collects, uses and disseminates data and is responsible for leading statistics policy. The program provides oversight and advice on provincial-municipal issues within the context of the Province's fiscal plan, working closely with other ministries and municipal stakeholders. The program also advises on personal and corporate tax policies affecting Ontarians and provides oversight of the property assessment system and the province's main transfer payment to municipalities. In addition, the program reflects the transfer of dedicated electricity earnings from the province to the Ontario Electricity Financial Corporation.

This program assists the Minister, Deputy Minister of Finance and the government in formulating the fiscal plan and reporting the results of the Province through the Ontario Budget, Ontario Quarterly Finances, Ontario Economic Accounts, Economic Outlook and Fiscal Review, and Ontario's Public Accounts. The program undertakes annual population projections for use in resource allocation and planning, leads preparation of the Long-term Report on the Economy and contributes to the Pre-Election Report on Ontario's Finances required by the *Fiscal Transparency and Accountability Act*.

OPERATING AND CAPITAL BY ITEM

Item	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
OPERATING EXPENSE						
Economic Policy	12,719,300	-		12,719,300	12,072,000	10,979,332
Financial Services Policy Division	5,077,700	500,000	10.9	4,577,700	6,219,600	3,021,014
Provincial-Local Finance	25,409,100	1,701,600	7.2	23,707,500	22,128,400	19,345,311
Municipal Support Programs	527,155,100	(153,000)	(0.0)	527,308,100	526,487,700	568,722,400
Office of the Budget	6,542,600	3,038,300	86.7	3,504,300	2,875,900	2,698,838
Taxation Policy	10,460,000	(917,700)	(8.1)	11,377,700	9,543,600	8,499,587
OEFC Dedicated Electricity Earnings	524,818,300	386,999,600	280.8	137,818,700	417,357,600	-
Total Operating Expense to be Voted	**1,112,182,100**	**391,168,800**	**54.3**	**721,013,300**	**996,684,800**	**613,266,482**
Statutory Appropriations	4,000	2,000	100.0	2,000	-	287,636,963
Total Operating Expense	**1,112,186,100**	**391,170,800**	**54.3**	**721,015,300**	**996,684,800**	**900,903,445**
OPERATING ASSETS						
Strategic Assets - Loans and Investments	275,000,000	275,000,000		-	-	109,964,191
Total Operating Assets to be Voted	**275,000,000**	**275,000,000**		**-**	**-**	**109,964,191**
CAPITAL EXPENSE						
Other Transactions	1,000	-		1,000	-	-
Total Capital Expense to be Voted	**1,000**	**-**		**1,000**	**-**	**-**
Statutory Appropriations	1,000	-		1,000	-	-
Total Capital Expense	**2,000**	**-**		**2,000**	**-**	**-**
CAPITAL ASSETS						
Land and Marine Fleet	1,000	-		1,000	-	-
Total Capital Assets	**1,000**	**-**		**1,000**	**-**	**-**

VOTE/ITEM: **1203-1**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Economic Policy**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Office of Economic Policy (OEP) provides the Minister with:

- forecasts and analysis of the economy and revenues;
- advice and information on economic issues and trends and the development of sound economic strategies that foster economic growth and job creation;
- economic analysis of policy proposals;
- recommendations regarding individual project proposals coming forward through economic development programs;
- leadership advice and analysis on the use of statistics and statistics policy;
- population projections and analysis of demographic issues; and
- research and quantitative analyses to support the development of tax, pension, alcohol fee, income security and benefits policy.

The OEP also represents Ontario in federal-provincial-territorial discussions regarding economic analysis and forecasting, fiscal planning as it relates to revenue forecasting, reporting and federal payments and in discussions with Statistics Canada on matters related to statistical policy.

FUNCTIONS

The Office of Economic Policy:

- develops, researches, monitors, forecasts and reports on economic, financial, demographic, labour market, social issues and risks;
- reviews ministry policy proposals within the context of the economic and fiscal framework;
- supports decisions on project proposals coming forward through economic development programs;
- assesses the economic impacts of policy proposals;
- conducts research and policy analysis on a broad range of issues related to economic performance and growth;
- advances the use and integration of data and statistics in government decision-making;
- conducts research and policy analysis on labour market issues;
- develops long-range population projections; and
- supports the development of tax, pension, income support and benefits, and alcohol policies through: partnerships, research and quantitative analysis; the identification, development and utilization of quantitative models, methodologies and data; and the management of data holdings.

VOTE/ITEM: **1203-1**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Economic Policy**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	8,876,100	-		8,876,100	8,160,800	8,011,690
Employee Benefits	1,093,600	-		1,093,600	1,040,100	975,444
Transportation and Communication	166,100	-		166,100	98,500	79,206
Services	1,774,500	-		1,774,500	1,945,800	1,105,658
Supplies and Equipment	308,000	-		308,000	326,800	307,334
Transfer Payments						
Grants in Support of Economic and Financial Services Policy Research	501,000	-		501,000	500,000	500,000
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**12,719,300**	**-**		**12,719,300**	**12,072,000**	**10,979,332**

VOTE/ITEM: **1203-4**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Financial Services Policy Division**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Financial Services Policy Division (FSPD) provides advice on and advances financial services regulation and policy initiatives, including initiatives related to capital markets, securities and derivatives and initiatives related to the regulation of credit unions, mortgage brokers, co-operative corporations and insurance.

FUNCTIONS

The Financial Services Policy Division:

- represents Ontario in federal-provincial-territorial discussions regarding financial services policy;
- represents Ontario and advances Ontario's interests in the implementation of a cooperative capital markets regulatory system (CCMR) as reflected in the Memorandum of Agreement among the participating jurisdictions, including leading the development of uniform capital market laws underpinning the CCMR and related legislation;
- acts as policy lead in the ongoing work to establish a regulatory framework to oversee the activities of individuals who offer financial planning services in Ontario;
- represents the Ministry of Finance in the ongoing inter-ministerial work to improve the representation of women on boards of directors and in executive positions;
- participates as a regulatory policy lead to support the ongoing work towards developing an Ontario financial technology (FinTech) strategy;
- continues to support the government's work to keep auto insurance affordable for Ontario's over ten million drivers while ensuring that claimants get the treatment they need;
- provides support for the implementation of the recommendations stemming from the five-year review of the *Credit Unions and Caisses Populaires Act, 1994*;
- provides support for the establishment of the new Financial Services Regulatory Authority of Ontario, including the development of necessary legislation and regulations and the establishment of an appropriate oversight and governance framework;
- provides analysis and advice on the regulatory framework for financial institutions and the financial services sector;
- implements initiatives to modernize the *Insurance Act* and its regulations, including work to integrate new sharing economy business models for providing transportation services into Ontario's auto insurance system; and
- works with the Financial Services Commission of Ontario (FSCO) and the Ontario Securities Commission (OSC) on issues relating to regulation of syndicated mortgage investments.

VOTE/ITEM: **1203-4**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Financial Services Policy Division**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	3,052,600	-		3,052,600	3,078,300	2,013,242
Employee Benefits	416,500	-		416,500	346,600	232,409
Transportation and Communication	51,500	-		51,500	38,800	32,893
Services	1,511,500	500,000	49.4	1,011,500	2,709,500	2,968,647
Supplies and Equipment	45,600	-		45,600	46,400	21,386
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	(2,247,563)
Total	**5,077,700**	**500,000**	**10.9**	**4,577,700**	**6,219,600**	**3,021,014**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

500,000	Reallocation within/between Ministry(ies)
500,000	**Total**

VOTE/ITEM: **1203-5**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Provincial-Local Finance**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Provincial-Local Finance Division provides advice to the Minister of Finance and the Government of Ontario on policies, legislation and operational initiatives that support the province's fiscal arrangements with municipalities, including the $27 billion property tax system. The Division administers the Ontario Municipal Partnership Fund (OMPF), the government's main unconditional transfer payment to municipalities.

In support of the government's priority to develop effective policies, legislation and regulation governing the property assessment and taxation system, the Division continues to examine ways to ensure the property tax and assessment system is fair, accurate, and predictable while ensuring municipalities have the financial tools they need to give Ontarians the quality of life they deserve.

FUNCTIONS

The Provincial-Local Finance Division:

- provides analysis, develops options and designs policies that support a property tax and assessment system that is fair, accurate, and predictable;
- designs assessment and property tax legislation and regulations that meet the government's policy objectives;
- maintains a productive working relationship with the Municipal Property Assessment Corporation (MPAC) that preserves access to valuation expertise and information;
- provides analysis and advice related to $7 billion in provincial Education Property Taxes, including support for the Minister of Finance's role in setting Education Property Tax rates;
- maintains an effective liaison with stakeholders to discuss possible enhancements to the property tax and assessment system and to the provincial/municipal financial arrangements;
- assists municipalities and taxpayers to better understand their responsibilities with respect to the property tax and assessment system;
- administers transfer payment programs to municipalities, including the OMPF, and recommends options and refinements to grant and/or program redesign;
- provides advice to the Minister of Finance on fiscal arrangements with municipalities, as well as oversight with respect to provincial-municipal financial strategies and policy priorities; and
- supports the Provincial Land Tax, Education Property Taxes and taxes for local roads and services boards in the Unincorporated Areas where applicable.

VOTE/ITEM: **1203-5**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Provincial-Local Finance**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	6,633,200	(200,000)	(2.9)	6,833,200	5,788,400	5,197,807
Employee Benefits	859,100	(40,000)	(4.4)	899,100	717,500	593,602
Transportation and Communication	223,000	-		223,000	73,000	121,402
Services	17,578,800	1,941,600	12.4	15,637,200	15,454,500	13,357,382
Supplies and Equipment	115,000	-		115,000	95,000	75,118
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**25,409,100**	**1,701,600**	**7.2**	**23,707,500**	**22,128,400**	**19,345,311**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

2,500,000	Previous Initiatives
(400,400)	Savings
(398,000)	New Initiatives
1,701,600	**Total**

VOTE/ITEM: **1203-6**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Municipal Support Programs**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Municipal Support Programs provides funding support to municipalities through the Ontario Municipal Partnership Fund (OMPF), Special Payments to Municipalities, Transitional Mitigation Payment and One-Time Municipal Assistance. The OMPF, the province's main unconditional transfer payment to municipalities, will provide $505 million to Ontario municipalities in 2017. Special Payments to Municipalities is a mitigation program related to property tax on hydro-electric generation facilities. Transitional Mitigation Payment is a mitigation program related to the property tax exemption for non-profit long-term care homes. One-Time Municipal Assistance provides one-time funding to municipalities facing special circumstances.

FUNCTIONS

The Division is responsible for OMPF policy including:

- developing options and refinements to grant or program design;
- supporting the policy announcement of annual OMPF allocations;
- issuing quarterly payments to eligible municipalities; and
- developing supporting materials and providing municipalities with assistance in understanding grant design and calculations.

Special Payments to Municipalities is a program that provides mitigation to municipalities related to the property tax revenue that each municipality received from hydro-electric generating stations (power dams) prior to 2001 when these properties became exempt from taxation.

Transitional Mitigation Payment is a program to provide transitional assistance to municipalities related to the exemption from property taxation of non-profit long-term care homes. The program targets assistance to eligible municipalities where revenue implications of this exemption represent a more significant proportion of the municipality's total revenue base.

VOTE/ITEM: **1203-6**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Municipal Support Programs**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Transfer Payments						
One-Time Municipal Assistance	43,000	43,000		-	-	-
Ontario Municipal Partnership Fund	505,000,000	-		505,000,000	505,000,000	512,500,000
Special Payments to Municipalities	17,036,100	213,700	1.3	16,822,400	16,821,900	18,722,400
Transitional Mitigation Payment	5,076,000	(409,700)	(7.5)	5,485,700	4,665,800	-
Greater Toronto Area Pooling Compsensation	-	-		-	-	37,500,000
Total	**527,155,100**	**(153,000)**	**(0.0)**	**527,308,100**	**526,487,700**	**568,722,400**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(141,300)	Previous Initiatives
(409,700)	Reallocation within/between Ministry(ies)
398,000	New Initiatives
(153,000)	**Total**

VOTE/ITEM: **1203-8**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Office of the Budget**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Office of the Budget provides analysis and support to the Deputy Minister, Minister, and government, particularly with respect to development and coordination of the fiscal plan and federal-provincial arrangements.

FUNCTIONS

The Office of the Budget is responsible for:

- providing strategic fiscal advice and coordinating key government publications including the annual Budget, the Economic Outlook and Fiscal Review and the Quarterly Finances;
- developing fiscal policy and forecasts in the context of the government's policy priorities, as well as monitoring and advising on the fiscal outlook and risks to the fiscal plan;
- monitoring and advising on Ontario's fiscal relations with the federal government and for maintaining ongoing contact with the ministries of Finance at the federal level and in other provinces and territories; and
- monitoring and providing support and advice to the Ministry of Finance as well as other ministries, in responding to requests from the Financial Accountability Officer.

VOTE/ITEM: **1203-8**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Office of the Budget**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	2,797,600	30,300	1.1	2,767,300	2,151,500	1,916,456
Employee Benefits	325,300	3,500	1.1	321,800	304,400	316,681
Transportation and Communication	42,100	500	1.2	41,600	54,200	32,246
Services	3,365,100	3,003,800	-	361,300	318,500	357,676
Supplies and Equipment	12,500	200	1.6	12,300	47,300	75,779
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**6,542,600**	**3,038,300**	**86.7**	**3,504,300**	**2,875,900**	**2,698,838**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

3,000,000	New Initiatives
38,300	Reallocation within/between Ministry(ies)
3,038,300	**Total**

VOTE/ITEM: **1203-23**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Taxation Policy**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Taxation Policy Division provides strategic analysis and advice on personal, corporate, mining, commodity, sales, estate administration and payroll tax policy and design.

FUNCTIONS

The Taxation Policy Division is responsible for:

- providing tax and benefit policy advice and analysis for the annual Ontario Budget, the fall Economic Outlook and Fiscal Review and other major statements;
- providing policy advice and analysis on tax issues (i.e., personal taxation, business taxation, mining, sales and commodity taxation, estate administration taxation, and payroll taxation and negotiating Canada-Ontario tax agreements);
- providing legislative design advice to implement taxation measures and support government bills relating to taxation through the legislative process;
- advising tax administrators on proper implementation of taxation measures in accordance with legislation and policy intent;
- developing and preparing the tax expenditure report, “Transparency in Taxation”; and
- leading negotiation and coordination of tax agreements and initiatives with the federal government and other provinces.

VOTE/ITEM: **1203-23**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Taxation Policy**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	6,997,400	-		6,997,400	5,678,400	5,597,278
Employee Benefits	1,030,500	-		1,030,500	885,100	691,388
Transportation and Communication	211,900	-		211,900	107,000	71,985
Services	2,016,100	(917,700)	(31.3)	2,933,800	2,737,900	2,062,736
Supplies and Equipment	204,100	-		204,100	135,200	76,200
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**10,460,000**	**(917,700)**	**(8.1)**	**11,377,700**	**9,543,600**	**8,499,587**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(917,700)	Reallocation within/between Ministry(ies)
(917,700)	**Total**

VOTE/ITEM: **1203-12**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Ontario Electricity Financial Corporation**
Dedicated Electricity Earnings

TYPE: **Operating Expense**

ITEM DESCRIPTION

Dedicated electricity earnings are transferred from the Province of Ontario to the Ontario Electricity Financial Corporation.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Other Transactions						
Electricity Sector Dedicated Income	524,818,300	386,999,600	280.8	137,818,700	417,357,600	-
Total	**524,818,300**	**386,999,600**	**280.8**	**137,818,700**	**417,357,600**	**-**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

386,999,600	Change in dedicated electricity earnings from the Province to the Ontario Electricity Financial Corporation
386,999,600	**Total**

VOTE/ITEM: **S**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Bad Debt Expense, the *Financial Administration Act***

TYPE: **Operating Expense**

ITEM DESCRIPTION

Bad Debt Expense is a provision for debts that are deemed unrecoverable under the terms of the *Financial Administration Act*.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Other Transactions						
Bad Debt Expense, the *Financial Administration Act*	-	-		-	-	112,500,000
Total	**-**	**-**		**-**	**-**	**112,500,000**

VOTE/ITEM: **S**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Guarantees and Indemnities, the *Financial Administration Act***

TYPE: **Operating Expense**

ITEM DESCRIPTION

This item provides loan guarantees and indemnities that are required to be paid from the Consolidated Revenue Fund in accordance with Section 12 of the *Financial Administration Act*.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Other Transactions						
Guarantees and Indemnities, the *Financial Administration Act*	1,000	-		1,000	-	-
Total	**1,000**	**-**		**1,000**	**-**	**-**

VOTE/ITEM: **S**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Payments under the *Tax Increment Financing Act, 2006***

TYPE: **Operating Expense**

ITEM DESCRIPTION

This item makes provision for any expenses related to funding to municipalities under the *Tax Increment Financing Act, 2006*.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Transfer Payments						
Payments Under the *Tax Increment Financing Act, 2006*	1,000	-		1,000	-	-
Total	**1,000**	**-**		**1,000**	**-**	**-**

VOTE/ITEM: **S**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Ontario Electricity Financial Corporation, the *Electricity Act, 1998***

TYPE: **Operating Expense**

ITEM DESCRIPTION

This item provides payments to the Ontario Electricity Financial Corporation in accordance with requirements of*, the Electricity Act, 1998*. The payments from the Province of Ontario to the OEFC are fully offset by revenue received by the OEFC on the consolidation of the OEFC into the Province's finances in the Public Accounts of Ontario.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Other Transactions						
Ontario Electricity Financial Corporation Financial Benefit - Asset Optimization, the *Electricity Act, 1998*	1,000	1,000		-	-	172,236,963
Hydro One Inc., Provincial Corporate Tax Provision, the *Electricity Act, 1998*	1,000	1,000		-	-	2,900,000
Total	**2,000**	**2,000**	**0.0**	**-**	**-**	**175,136,963**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

2,000	New Initiatives
2,000	**Total**

VOTE/ITEM: **1203-24**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Strategic Assets – Loans and Investments**

TYPE: **Operating Assets**

ITEM DESCRIPTION

This item reflects the provision made for loans to facilitate the purchase of Hydro One shares.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Deposits and Prepaid Expenses	-	-		-	-	-
Advances and Recoverable Amounts	-	-		-	-	-
Loans and Investments	275,000,000	275,000,000		-	-	109,964,191
Total	**275,000,000**	**275,000,000**		**-**	**-**	**109,964,191**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

275,000,000	Change in Operating Assets
275,000,000	**Total**

VOTE/ITEM: **1203-14**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Capital Expense**

TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is comprised of capital expenses related to future capital loss or write-offs for Moveable/Minor Tangible Capital Assets (mTCA).

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	-	-		-	-	-
Employee Benefits	-	-		-	-	-
Transportation and Communication	-	-		-	-	-
Services	-	-		-	-	-
Supplies and Equipment	-	-		-	-	-
Transfer Payments	-	-		-	-	-
Other Transactions	1,000	-		1,000	-	-
Recoveries	-	-		-	-	-
Total	**1,000**	**-**		**1,000**	**-**	**-**

VOTE/ITEM: **S**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Amortization, the *Financial Administration Act***

TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is the statutory appropriation for amortization of Moveable/Minor Tangible Capital Assets (mTCA).

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Other Transactions						
Amortization, the *Financial Administration Act*	1,000	-		1,000	-	-
Total	**1,000**	**-**		**1,000**	**-**	**-**

VOTE/ITEM: **1203-13**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Capital Assets**

TYPE: **Capital Assets**

ITEM DESCRIPTION

This item represents the capitalization of Moveable/Minor Tangible Capital Assets (mTCA).

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Tangible Capital Assets	-	-		-	-	-
Land	-	-		-	-	-
Buildings	-	-		-	-	-
Transportation Infrastructure	-	-		-	-	-
Information Technology Hardware	-	-		-	-	-
Business Application Software	-	-		-	-	-
Land and Marine Fleet	1,000	-		1,000	-	-
Aircraft	-	-		-	-	-
Machinery and Equipment	-	-		-	-	-
Other Assets	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**1,000**	**-**		**1,000**	**-**	**-**

FINANCIAL SERVICES INDUSTRY REGULATION PROGRAM

1204-1 – Financial Services Commission of Ontario

1204-2 – Motor Vehicle Accident Claims Fund

Statutory Appropriations

Bad Debt Expense, the *Financial Administration Act*

1204-5 – Operating Assets

1204-4 – Capital Expense

Statutory Appropriations

Amortization, the *Financial Administration Act*

1204-3 – Capital Assets

1204 – FINANCIAL SERVICES INDUSTRY REGULATION

The Financial Services Commission of Ontario (FSCO) regulates the province's financial services sector, including insurance companies, health service providers for auto insurance, pension plans, credit unions, caisses populaires, mortgage brokers, agents and administrators, loan and trust companies, and co-operatives. FSCO also makes recommendations to the Minister of Finance on matters affecting these sectors. In addition, FSCO is responsible for the administration of the Motor Vehicle Accident Claims Fund (MVACF) which compensates people injured in automobile accidents in Ontario where there is no other insurance available to respond to the claim. FSCO is also responsible for the administration of the Pension Benefits Guarantee Fund (PBGF). The PBGF pays a minimum level of pension benefits if a plan is wound up with insufficient assets.

FSCO works with the Ministry of Finance, consumers and industry stakeholders to protect the public interest and enhance public confidence in the regulated sectors.

OPERATING AND CAPITAL BY ITEM

Item	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
OPERATING EXPENSE						
Financial Services Commission of Ontario	2,437,600	(51,000)	(2.0)	2,488,600	4,473,600	1,298,270
Motor Vehicle Accident Claims Fund	1,000	-		1,000	1,000	-
Total Operating Expense to be Voted	**2,438,600**	**(51,000)**	**(2.0)**	**2,489,600**	**4,474,600**	**1,298,270**
Statutory Appropriations	1,000	-		1,000	-	-
Total Operating Expense	**2,439,600**	**(51,000)**	**(2.0)**	**2,490,600**	**4,474,600**	**1,298,270**
OPERATING ASSETS						
Deposits and Prepaid Expenses	1,000	-		1,000	-	-
Total Operating Assets to be Voted	**1,000**			**1,000**	**-**	**-**
CAPITAL EXPENSE						
Other Transactions	1,000	-		1,000	-	-
Total Capital Expense to be Voted	**1,000**	**-**		**1,000**	**-**	**-**
Statutory Appropriations	1,000	-		1,000	1,000	-
Total Capital Expense	**2,000**	**-**		**2,000**	**1,000**	**-**
CAPITAL ASSETS						
Buildings - Asset Costs	-	-		-	-	-
Information Technology Hardware	1,033,000	273,000	35.9	760,000	760,000	99,218
Business Application Software - Salaries and Wages	1,645,600	255,700	18.4	1,389,900	-	-
Business Application Software - Employee Benefits	357,100	47,800	15.5	309,300	-	-
Business Application Software - Asset Costs	4,672,900	2,263,400	93.9	2,409,500	112,900	112,867
Total Capital Assets to be Voted	**7,708,600**	**2,839,900**	**58.3**	**4,868,700**	**872,900**	**212,085**
Total Capital Assets	**7,708,600**	**2,839,900**	**58.3**	**4,868,700**	**872,900**	**212,085**

VOTE/ITEM: **1204-1**

VOTE: **Financial Services Industry Regulation**

ITEM: **Financial Services Commission of Ontario**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Financial Services Commission of Ontario (FSCO) regulates the province's financial services sector, including insurance companies, health service providers for auto insurance, pension plans, credit unions, caisses populaires, mortgage brokers, agents and administrators, loan and trust companies, and co-operatives. FSCO also makes recommendations to the Minister of Finance on matters affecting these sectors. In addition, FSCO is responsible for the administration of the Motor Vehicle Accident Claims Fund (MVACF) which compensates people injured in automobile accidents in Ontario where there is no other insurance available to respond to the claim. FSCO is also responsible for the administration of the Pension Benefits Guarantee Fund (PBGF). The PBGF pays a minimum level of pension benefits if a defined benefit plan is wound up with insufficient assets.

FSCO works with the Ministry of Finance, consumers and industry stakeholders to protect the public interest and enhance public confidence in the regulated sectors.

FUNCTIONS

FSCO has established the following goals:

- be risk based, proactive, evidence based, balanced, transparent, service orientated, and collaborative in our work;
- further a coordinated national approach to regulatory issues; and
- be a recognized thought leader in regulatory policy.

To achieve its goals, FSCO is guided by its strategic and operational outcomes. These outcomes help FSCO’s to achieve its core regulatory responsibilities to administer the laws and regulations governing the activities of the regulated sectors.

FSCO is also responsible for providing the administrative resources necessary for the proper functioning of the Financial Services Tribunal. The Financial Services Tribunal is an independent, adjudicative body that conducts hearings arising from regulatory and proposed regulatory decisions of the Superintendent of Financial Services.

VOTE/ITEM: **1204-1**

VOTE: **Financial Services Industry Regulation**

ITEM: **Financial Services Commission of Ontario**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	40,292,500	(2,000,000)	(4.7)	42,292,500	33,994,600	39,008,474
Employee Benefits	10,620,200	(629,800)	(5.6)	11,250,000	10,466,200	10,693,750
Transportation and Communication	803,800	(210,400)	(20.7)	1,014,200	623,800	561,073
Services	27,449,300	(17,486,600)	(38.9)	44,935,900	43,642,500	47,225,123
Supplies and Equipment	406,400	(171,400)	(29.7)	577,800	470,500	366,074
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	(77,134,600)	20,447,200	(21.0)	(97,581,800)	(84,724,000)	(96,556,224)
Total	**2,437,600**	**(51,000)**	**(2.0)**	**2,488,600**	**4,473,600**	**1,298,270**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(51,000)	New Initiatives
(51,000)	**Total**

VOTE/ITEM: **1204-2**

VOTE: **Financial Services Industry Regulation**

ITEM: **Motor Vehicle Accident Claims Fund**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Motor Vehicle Accident Claims Fund (MVACF) provides compensation to people injured in automobile accidents in Ontario involving an uninsured or unidentified vehicle where no other automobile or liability insurance is available. MVACF is a business unit within the Automobile Insurance Division of the Financial Services Commission of Ontario.

FUNCTIONS

The Motor Vehicle Accident Claims Fund:

- satisfies judgments and claims for property damage or damages related to injury or death caused by an uninsured or unidentified motorist where the plaintiffs and claimants have no recourse to automotive insurance;
- provides statutory accident benefits to individuals injured in automobile accidents where the individuals have no recourse to automobile insurance;
- recovers from the owners and drivers of uninsured vehicles monies paid out on their behalf in satisfaction of judgments and claims, when it is legally possible; and
- administers the accident benefits claims portfolio of an insolvent insurer should a wind up order be issued.

VOTE/ITEM: 1204-2

VOTE: Financial Services Industry Regulation

ITEM: Motor Vehicle Accident Claims Fund

TYPE: Operating Expense

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	2,536,900	213,600	9.2	2,323,300	2,323,300	1,761,823
Employee Benefits	366,600	18,100	5.2	348,500	348,500	290,523
Transportation and Communication	84,600	(4,000)	(4.5)	88,600	88,600	21,053
Services	8,103,900	463,400	6.1	7,640,500	7,640,500	6,356,311
Supplies and Equipment	117,800	(56,600)	(32.5)	174,400	174,400	19,851
Transfer Payments	-	-		-	-	-
Other Transactions	-	-		-	-	-
Recoveries	(11,208,800)	(634,500)	6.0	(10,574,300)	(10,574,300)	(8,449,561)
Total	**1,000**	**-**		**1,000**	**1,000**	**-**

VOTE/ITEM: **S**

VOTE: **Financial Services Industry Regulation**

ITEM: **Bad Debt Expense, the *Financial Administration Act***

TYPE: **Operating Expense**

ITEM DESCRIPTION

Bad Debt Expense is a provision for debts that are deemed unrecoverable under the terms of the *Financial Administration Act*.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Other Transactions						
Bad Debt Expense, the *Financial Administration Act*	1,000	-		1,000	-	-
Total	**1,000**	**-**		**1,000**	**-**	**-**

VOTE/ITEM: **1204-5**

VOTE: **Financial Services Industry Regulation**

ITEM: **Operating Assets**

TYPE: **Operating Assets**

ITEM DESCRIPTION

This item makes provision for deposits and prepaid expenses resulting from FSCO's operations.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Deposits and Prepaid Expenses	1,000	-		1,000	-	-
Advances and Recoverable Amounts	-	-		-	-	-
Loans and Investments	-	-		-	-	-
Total	**1,000**	**-**		**1,000**	**-**	**-**

VOTE/ITEM: **1204-4**

VOTE: **Financial Services Industry Regulation**

ITEM: **Capital Expense**

TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is comprised of capital expenses related to future capital loss or write-offs for Moveable/Minor Tangible Capital Assets (mTCA).

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	-	-		-	-	-
Employee Benefits	-	-		-	-	-
Transportation and Communication	-	-		-	-	-
Services	-	-		-	-	-
Supplies and Equipment	-	-		-	-	-
Transfer Payments	-	-		-	-	-
Other Transactions	1,000	-		1,000	-	-
Recoveries	-	-		-	-	-
Total	**1,000**	**-**		**1,000**	**-**	**-**

VOTE/ITEM: **S**

VOTE: **Financial Services Industry Regulation**

ITEM: **Amortization, the *Financial Administration Act***

TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is the statutory appropriation for amortization of Moveable/Minor Tangible Capital Assets (mTCA) such as vehicle fleet and IT hardware.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Other Transactions						
Amortization, the *Financial Administration Act*	831,300	(206,500)	(19.9)	1,037,800	649,000	658,883
Recoveries	(830,300)	206,500	(19.9)	(1,036,800)	(648,000)	(658,883)
Total	**1,000**	**-**		**1,000**	**1,000**	**-**

VOTE/ITEM: **1204-3**

VOTE: **Financial Services Industry Regulation**

ITEM: **Capital Assets**

TYPE: **Capital Assets**

ITEM DESCRIPTION

This item represents the capitalization of expenditures on Moveable/Minor Tangible Capital Assets (mTCA) such as vehicle fleet and IT hardware (e.g., desktops, printers and network servers).

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Tangible Capital Assets						
Land	-	-		-	-	-
Buildings - Asset Costs	-	-		-	-	-
Transportation Infrastructure	-	-		-	-	-
Information Technology Hardware	1,033,000	273,000	35.9	760,000	760,000	99,218
Business Application Software - Salaries and Wages	1,645,600	255,700	18.4	1,389,900	-	-
Business Application Software - Employee Benefits	357,100	47,800	15.5	309,300	-	-
Business Application Software - Asset Costs	4,672,900	2,263,400	93.9	2,409,500	112,900	112,867
Land and Marine Fleet	-	-		-	-	-
Aircraft	-	-		-	-	-
Machinery and Equipment	-	-		-	-	-
Other Assets	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**7,708,600**	**2,839,900**	**58.3**	**4,868,700**	**872,900**	**212,085**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

2,839,900	Change in mTCA Capitalization
2,839,900	**Total**

INVESTING IN ONTARIO

1208-1 Investing in Ontario

1208 – INVESTING IN ONTARIO

The Investing in Ontario program has responsibility for the distribution of all or part of the consolidated surplus for a fiscal year (reduced by any allocation to the reduction of the accumulated deficit that may be prescribed by regulation) to eligible recipients for the purposes, and in the manner as may be prescribed by regulation. Eligible recipients must also be prescribed by regulation and may only include entities, other than individuals, that do not carry on their activities for the purposes of gain or profit.

CAPITAL BY ITEM

Item	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
CAPITAL EXPENSE						
Investing in Ontario Program	1,000	-		1,000	-	-
Total Capital to be Voted	**1,000**	**-**		**1,000**	**-**	**-**
Statutory Appropriations	-	-		-	-	-
Total Capital Expense	**1,000**	**-**		**1,000**	**-**	**-**

VOTE/ITEM: **1208-1**

VOTE: **Investing in Ontario**

ITEM: **Investing in Ontario**

TYPE: **Capital Expense**

ITEM DESCRIPTION

The Investing in Ontario program has responsibility for the distribution of all or part of the consolidated surplus for a fiscal year (reduced by any allocation to the reduction of the accumulated deficit that may be prescribed by regulation) to eligible recipients for the purposes, and in the manner as may be prescribed by regulation. Eligible recipients must also be prescribed by regulation and may only include entities, other than individuals, that do not carry on their activities for the purposes of gain or profit.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Transfer Payments						
Investing in Ontario Act, 2008	1,000	-		1,000	-	-
Total	**1,000**	**-**		**1,000**	**-**	**-**

TAX AND BENEFITS ADMINISTRATION

1209-1 – Tax and Benefits Administration

Sub-Item 1 – Strategy, Stewardship and Program Policy
Sub-Item 2 – Tax Compliance and Benefits

Statutory Appropriations

Payments to Private Collection Agencies, the *Financial Administration Act*
Bad Debt Expense, the *Financial Administration Act*

1209-2 – Operating Assets

Statutory Appropriations

Advances and Recoverable Amounts, the *Education Act,* the *Northern Services Boards Act*, the *Local Roads Boards Act*

1209-3 - Capital Expense

Statutory Appropriations

Amortization, the *Financial Administration Act*

1209-4 – Capital Assets

1209 – TAX AND BENEFITS ADMINISTRATION

This program is responsible for the administration of Ontario tax statutes, a number of benefit programs, and for maintaining the integrity of Ontario's tax system. To accomplish this, it conducts tax compliance activities including audit, inspection, investigation and collections and delivers key benefit programs for low-income seniors and families. Central to this role is the provision of high quality services to clients including information and advisory services. Accountability for managing the relationship with the Canada Revenue Agency, which collects the majority of the province's taxes on its behalf, also rests with this program.

In addition to being responsible for Ontario's Tobacco Strategy and tobacco tax policy, the program leads the province's efforts to address the underground economy and supports the development of Ontario's approach to the Sharing Economy. The program is also responsible for a number of cross-government initiatives such as the centralization of collections functions and benefits transformation including the expansion of automated income verification and related administrative services for various government programs. The program also works in partnership with First Nations on a range of issues including tobacco. In limited circumstances, the program provides grants to not-for-profit organizations and selected First Nations communities related to tax administration.

OPERATING AND CAPITAL BY ITEM

Item	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
OPERATING EXPENSE						
Tax and Benefits Administration	411,082,400	(24,545,200)	(5.6)	435,627,600	347,060,300	333,269,394
Total Operating Expense to be Voted	**411,082,400**	**(24,545,200)**	**(5.6)**	**435,627,600**	**347,060,300**	**333,269,394**
Statutory Appropriations	50,715,900	-		50,715,900	50,815,900	76,765,778
Total Operating Expense	**461,798,300**	**(24,545,200)**	**(5.0)**	**486,343,500**	**397,876,200**	**410,035,172**
OPERATING ASSETS						
Advances and Recoverable Amounts	400,000	-		400,000	400,000	280,537
Total Operating Assets to be Voted	**400,000**	**-**		**400,000**	**400,000**	**280,537**
Statutory Appropriations:						
Advances, the *Education Act*	19,300,000	(300,000)	(1.5)	19,600,000	19,281,000	18,832,137
Advances, the *Northern Services Boards Act*	4,500,000	400,000	9.8	4,100,000	4,300,000	4,226,088
Advances, the *Local Roads Boards Act*	5,200,000	700,000	15.6	4,500,000	5,138,000	4,650,886
Total Operating Assets	**29,400,000**	**800,000**	**2.8**	**28,600,000**	**29,119,000**	**27,989,648**
CAPITAL EXPENSE						
Other Transactions	1,000	-		1,000	-	-
Total Capital Expense to be Voted	**1,000**	**-**		**1,000**	**-**	**-**
Statutory Appropriations	2,637,600	-		2,637,600	2,637,600	2,637,609
Total Capital Expense	**2,638,600**	**-**		**2,638,600**	**2,637,600**	**2,637,609**
CAPITAL ASSETS						
Land and Marine Fleet	1,000	-		1,000	-	-
Total Capital Assets	**1,000**	**-**		**1,000**	**-**	**-**

VOTE/ITEM: **1209-1**

VOTE: **Tax and Benefits Administration**

ITEM: **Tax and Benefits Administration**

TYPE: **Operating Expense**

ITEM DESCRIPTION

This program is responsible for the efficient and effective administration of Ontario tax statutes, tax incentive and benefits programs. It strives to support the sharing economy and ensure the integrity of the tax system through measures aimed at reducing participation in the underground economy and maintaining tax fairness. The program is also responsible for examining ways to reduce the taxation burden on participating businesses and citizens. The province encourages compliance through client services and independent objections review, while discouraging non-compliance and tax evasion through collections activities, audits, inspections and investigations. The fairness of tax incentive and benefits programs is protected through systematic eligibility verification and validation reviews.

FUNCTIONS

- encouraging voluntary compliance through client services such as registration, tax roll and account maintenance and processing tax returns, processing application based refunds, client education, and outreach;
- providing remittance, data and image capture and revenue accounting processing services;
- maintaining data integrity in sustaining an efficient tax administration system and collections function for all Ministry of Finance administered tax statutes;
- leading transformation initiatives to streamline the delivery of Ontario benefits, administering ministry benefits programs and providing benefits administration services to partner ministries;
- managing inter-jurisdictional relationships with the Canada Revenue Agency, and monitoring the related service provisions;
- strengthening efforts to address the underground economy, contraband tobacco, and other measures aimed at maintaining tax fairness;
- supporting the sharing economy through coordination and development of key policy initiatives in partnership with the Sharing Economy Advisory Committee;
- providing strategic management services including tracking, analyzing and reporting on TBA’s performance measures, service standards and revenue commitments;
- developing proactive and effective tax administration policy that supports the government’s competitive business environment; and
- directing and executing excellence in the audit, investigations including forensic accounting and forensic data recovery, regulatory inspection and collection functions using risk based techniques, modern technology and best practices.

VOTE/ITEM: **1209-1**

VOTE: **Tax and Benefits Administration**

ITEM: **Tax and Benefits Administration**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	86,666,100	185,700	0.2	86,480,400	64,120,000	63,020,984
Employee Benefits	13,291,700	(71,200)	(0.5)	13,362,900	10,748,500	10,766,252
Transportation and Communication	3,936,000	-		3,936,000	2,780,400	2,499,688
Services	170,477,300	(24,664,700)	(12.6)	195,142,000	140,295,600	129,931,068
Supplies and Equipment	2,107,300	-		2,107,300	1,498,500	1,652,319
Transfer Payments						
Guaranteed Annual Income System	137,607,600	-		137,607,600	129,680,900	126,848,203
Small Business Transition Support	1,000	-		1,000	-	-
Tax Compliance Partnership Agreements	20,000	5,000	33.3	15,000	-	-
Other Transactions	-	-		-	-	-
Recoveries	(3,024,600)	-		(3,024,600)	(2,063,600)	(1,449,120)
Total	**411,082,400**	**(24,545,200)**	**(5.6)**	**435,627,600**	**347,060,300**	**333,269,394**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(20,845,200)	Previous Initiatives
(3,700,000)	Reallocation within/between Ministry(ies)
(24,545,200)	**Total**

VOTE/ITEM: **1209-1 Sub-Item 1**

VOTE: **Tax and Benefits Administration**

ITEM: **Strategy, Stewardship and Program Policy**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

The Strategy, Stewardship and Program Policy Division is responsible for program policy, strategic planning, relationship and risk management, and benefits transformation initiatives.

FUNCTIONS

- providing policy advice and leadership on key government priorities related to tax and benefit administration, including addressing the underground economy, contraband tobacco, and other measures aimed at maintaining tax fairness;
- providing advice and assistance to the Minister of Finance and the government in developing policy options for tobacco taxation and the oversight of raw leaf tobacco, based on analysis of the revenue, economic, health, social impacts of various options, and input from industry and health advocates;
- developing proactive and effective tax administration policy that supports the government's competitive business environment and Open for Business priorities;
- managing relationships, service provisions and fee-for-service arrangements and develops accountability frameworks for tax and benefit administration involving partnerships with other governments (most notably the Canada Revenue Agency) and the broader public sector, and First Nations;
- identifying opportunities to improve client access to Ontario's income-based benefits programs and making their delivery more efficient through efforts such as leveraging MoF's automated income verification and other benefits administration processes;
- providing data analysis to support the transformation of tax and benefits programs;
- providing strategic planning services including tracking, analyzing and reporting on TBA's performance measures, service standards, and revenue commitments;
- evaluating and reporting on TBA's performance including our success in meeting strategic and operational objectives;
- developing TBA's strategic plan, operational business plans and related work activities, including inter-jurisdictional research and analysis, environmental assessments, planning sessions, and benchmarking;
- operationalizing a risk management framework for TBA that proactively identifies and responds to risks; and
- supporting the sharing economy through coordination and development of key policy initiatives in partnership with the Sharing Economy Advisory Committee.

VOTE/ITEM: **1209-1 Sub-Item 1**

VOTE: **Tax and Benefits Administration**

ITEM: **Strategy, Stewardship and Program Policy**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	19,627,600	185,700	1.0	19,441,900	10,233,900	9,049,184
Employee Benefits	3,195,000	(71,200)	(2.2)	3,266,200	1,414,400	1,261,269
Transportation and Communication	635,000	-		635,000	116,900	103,305
Services	150,177,000	(13,525,900)	(8.3)	163,702,900	117,497,200	111,770,714
Supplies and Equipment	637,100	-		637,100	33,300	46,007
Transfer Payments						
Tax Compliance Partnership Agreements	20,000	5,000	33.3	15,000	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**174,291,700**	**(13,406,400)**	**(7.1)**	**187,698,100**	**129,295,700**	**122,230,479**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(10,906,400)	Previous Initiatives
(2,500,000)	Reallocation within/between Ministry(ies)
(13,406,400)	**Total**

VOTE/ITEM: **1209-1 Sub-Item 2**

VOTE: **Tax and Benefits Administration**

ITEM: **Tax Compliance and Benefits**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

The Tax Compliance and Benefits Division plays a key role in promoting public confidence in the fairness and integrity of Ontario's tax system. The division provides a wide range of tax and non-tax enforcement functions to ensure compliance such as auditing, investigations, inspections and collections. The division is responsible for providing registration services, responding to client inquiries, managing tax client accounts and processing benefit payments, processing application refunds, and providing public education and interpretative services, reviewing and resolving objections and appeals, and providing imaging and revenue processing services.

This sub-item focuses on operational and service delivery of tax and benefits programs, revenue administration, and the implementation of current transformational projects to support the ministry’s commitment to continuous improvement and modernization.

FUNCTIONS

- directing and executing excellence in the audit function using risk based techniques, modern technology and best practices;
- conducting effective investigations including forensic accounting and forensic data recovery and regulatory inspections;
- partnering with other ministries, agencies and other jurisdictions to provide technical information, resolve issues and identify opportunities to collaborate;
- strengthening efforts to address contraband tobacco products;
- providing revenue collections functions to manage accounts receivable, collect delinquent tax and non-tax debt, and administer insolvencies;
- providing leadership and expertise in the areas of Centralized Collections;
- administering tax statutes as well as a number of tax incentive, revenue and benefit programs;
- encouraging voluntary compliance through client services such as registration, account maintenance and processing tax returns and application based refunds;
- providing remittance, data and image capture and revenue processing services;
- providing benefits administrative services to partner ministries; and
- providing an inexpensive administrative review of tax assessments and refund disallowances through the objection process.

VOTE/ITEM: **1209-1 Sub-Item 2**

VOTE: **Tax and Benefits Administration**

ITEM: **Tax Compliance and Benefits**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	67,038,500	-		67,038,500	53,886,100	53,971,800
Employee Benefits	10,096,700	-		10,096,700	9,334,100	9,504,983
Transportation and Communication	3,301,000	-		3,301,000	2,663,500	2,396,383
Services	20,300,300	(11,138,800)	(35.4)	31,439,100	22,798,400	18,160,354
Supplies and Equipment	1,470,200	-		1,470,200	1,465,200	1,606,312
Transfer Payments						
Guaranteed Annual Income System	137,607,600	-		137,607,600	129,680,900	126,848,203
Small Business Transition Support	1,000	-		1,000	-	-
Recoveries	(3,024,600)	-		(3,024,600)	(2,063,600)	(1,449,120)
Total	**236,790,700**	**(11,138,800)**	**(4.5)**	**247,929,500**	**217,764,600**	**211,038,915**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(9,938,800)	Previous Initiatives
(1,200,000)	Reallocation within/between Ministry(ies)
(11,138,800)	**Total**

VOTE/ITEM: **1209-S**

VOTE: **Tax and Benefits Administration**

ITEM: **Payments to Private Collection Agencies, the *Financial Administration Act***

TYPE: **Operating Expense**

ITEM DESCRIPTION

This item provides for expenses related to payments for private sector collection agencies which have been contracted to collect provincial debt under the terms of the *Financial Administration Act*.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Services						
Payments to Private Collection Agencies, the *Financial Administration Act*	5,500,000	-		5,500,000	5,600,000	5,054,292
Total	**5,500,000**	**-**		**5,500,000**	**5,600,000**	**5,054,292**

VOTE/ITEM: **1209-S**

VOTE: **Tax and Benefits Administration**

ITEM: **Bad Debt Expense, the *Financial Administration Act***

TYPE: **Operating Expense**

ITEM DESCRIPTION

This item provides for the Tax and Benefits Administration Program's bad debt expense related to the net change in the Allowance for Doubtful Accounts Receivable for taxation revenue under the terms of the *Financial Administration Act*.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Other Transactions						
Bad Debt Expense, the *Financial Administration Act*	45,215,900	-		45,215,900	45,215,900	71,711,486
Total	**45,215,900**	**-**		**45,215,900**	**45,215,900**	**71,711,486**

VOTE/ITEM: **1209-2**

VOTE: **Tax and Benefits Administration**

ITEM: **Operating Assets**

TYPE: **Operating Assets**

ITEM DESCRIPTION

These assets are the transfer payments made in a fiscal year that relate to a future entitlement period or overpayments that need to be recorded as a result of changed circumstances or qualifications. For example:

- The Guaranteed Annual Income System (GAINS) program ensures a guaranteed minimum income for Ontario senior citizens by providing monthly payments to those who qualify. An increase in other income affecting eligibility may result in overpayments and necessitate the recovery of these overpayments.

FUNCTIONS

- recovering GAINS advanced payment recoverable amounts and overpayments.

VOTE/ITEM: **1209-2**

VOTE: **Tax and Benefits Administration**

ITEM: **Operating Assets**

TYPE: **Operating Assets**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Advances and Recoverable Amounts						
Guaranteed Annual Income System	400,000	-		400,000	400,000	280,537
Total	**400,000**	**-**		**400,000**	**400,000**	**280,537**

VOTE/ITEM: **1209-S**

VOTE: **Tax and Benefits Administration**

ITEM: **Advances and Recoverable Amounts**

TYPE: **Operating Assets**

ITEM DESCRIPTION

This item provides for the Advances and Recoverable Amounts for Provincial Land Tax paid under the legislation of the *Education Act*, the *Northern Services Boards Act* and the *Local Roads Boards Act*.

FUNCTIONS

- recovering advanced payment recoverable amounts and overpayments.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Advances and Recoverable Amounts						
Advances, the *Education Act*	19,300,000	(300,000)	(1.5)	19,600,000	19,281,000	18,832,137
Advances, the *Northern Services Boards Act*	4,500,000	400,000	9.8	4,100,000	4,300,000	4,226,088
Advances, the *Local Roads Boards Act*	5,200,000	700,000	15.6	4,500,000	5,138,000	4,650,886
Total	**29,000,000**	**800,000**	**2.8**	**28,200,000**	**28,719,000**	**27,709,111**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

800,000	Change in Operating Assets
800,000	**Total**

VOTE/ITEM: **1209-3**

VOTE: **Tax and Benefits Administration**

ITEM: **Capital Expense**

TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is comprised of capital expense related to future capital loss or write-offs for Moveable/Minor Tangible Capital Assets (mTCA) for example, large information technology (IT) business applications.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	-	-		-	-	-
Employee Benefits	-	-		-	-	-
Transportation and Communication	-	-		-	-	-
Services	-	-		-	-	-
Supplies and Equipment	-	-		-	-	-
Transfer Payments	-	-		-	-	-
Other Transactions	1,000	-		1,000	-	-
Recoveries	-	-		-	-	-
Total	**1,000**	**-**		**1,000**	**-**	**-**

VOTE/ITEM: **1209-S**

VOTE: **Tax and Benefits Administration**

ITEM: **Amortization, the *Financial Administration Act***

TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is the statutory appropriation for amortization of Moveable/Minor Tangible Capital Assets (mTCA) for example, large information technology (IT) business applications.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Other Transactions						
Amortization, the *Financial Administration Act*	2,637,600	-		2,637,600	2,637,600	2,637,609
Total	**2,637,600**	**-**		**2,637,600**	**2,637,600**	**2,637,609**

VOTE/ITEM: **1209-4**

VOTE: **Tax and Benefits Administration**

ITEM: **Capital Assets**

TYPE: **Capital Assets**

ITEM DESCRIPTION

This item is comprised of Moveable/Minor Tangible Capital Assets (mTCA) for example, large information technology (IT) business applications.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Tangible Capital Assets						
Land	-	-		-	-	-
Buildings	-	-		-	-	-
Transportation Infrastructure	-	-		-	-	-
Information Technology Hardware	-	-		-	-	-
Business Application Software	-	-		-	-	-
Land and Marine Fleet	1,000	-		1,000	-	-
Aircraft	-	-		-	-	-
Machinery and Equipment	-	-		-	-	-
Other Assets	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**1,000**	**-**		**1,000**	**-**	**-**

ONTARIO RETIREMENT PENSION PLAN

Ontario Retirement Pension Plan

Statutory Appropriations

Bad Debt Expense, the *Financial Administration Act*

Statutory Appropriations

Loans, the *Ontario Retirement Pension Plan Administration Corporation Act, 2015*

ONTARIO RETIREMENT PENSION PLAN

This program was responsible for supporting implementation of the Ontario Retirement Pension Plan by leading strategic policy and legislative functions related to the Plan. This program was cancelled.

OPERATING BY ITEM

Item	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
OPERATING EXPENSE						
Ontario Retirement Pension Plan	-	(1,531,000)	(100.0)	1,531,000	2,504,600	17,723,110
Total Operating to be Voted	**-**	**(1,531,000)**	**(100.0)**	**1,531,000**	**2,504,600**	**17,723,110**
Statutory Appropriations	-	-		-	28,492,900	20,026,696
Total Operating Expense	**-**	**(1,531,000)**	**(100.0)**	**1,531,000**	**30,997,500**	**37,749,806**
OPERATING ASSETS						
Loans and Investments	-	-	-	-	-	-
Total Operating Assets to be Voted	**-**	**-**	**-**	**-**	**-**	**-**
Statutory Appropriations	-	(240,000,000)	(100.0)	240,000,000	-	20,000,000
Total Operating Assets	**-**	**(240,000,000)**	(100.0)	**240,000,000**	**-**	**20,000,000**

VOTE/ITEM:

VOTE: **Ontario Retirement Pension Plan**

ITEM: **Ontario Retirement Pension Plan**

TYPE: **Operating Expense**

ITEM DESCRIPTION

This program was previously responsible for the implementation of the mandatory provincial pension plan, the Ontario Retirement Pension Plan, to help Ontario working families build a more secure retirement future. The Ontario Retirement Pension Plan Implementation Secretariat (ORPP IS) was responsible for establishing the Ontario Retirement Pension Plan (ORPP) by leading policy, governance and legislative functions to establish the Plan, and supporting set-up of the ORPP Administration Corporation.

FUNCTIONS

- program was cancelled

VOTE/ITEM:

VOTE: **Ontario Retirement Pension Plan**

ITEM: **Ontario Retirement Pension Plan**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Salaries and Wages	-	(860,000)	(100.0)	860,000	1,329,500	3,014,480
Employee Benefits	-	(141,000)	(100.0)	141,000	147,200	404,177
Transportation and Communication	-	(50,000)	(100.0)	50,000	31,000	347,227
Services	-	(474,000)	(100.0)	474,000	980,500	13,942,134
Supplies and Equipment	-	(5,000)	(100.0)	5,000	16,400	15,092
Transfer Payments						
Ontario Retirement Pension Plan	-	(1,000)	(100.0)	1,000	-	-
Other Transactions	-	-		-	-	-
Recoveries	-	-		-	-	-
Total	**-**	**(1,531,000)**	**(100.0)**	**1,531,000**	**2,504,600**	**17,723,110**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(1,531,000)	Program Cancelled
(1,531,000)	**Total**

VOTE/ITEM:

VOTE: **Ontario Retirement Pension Plan**

ITEM: **Bad Debt Expense, the *Financial Administration Act***

TYPE: **Operating Expense**

ITEM DESCRIPTION

This item provided for debts that are deemed unrecoverable under the terms of the *Financial Administration Act.*

COMPARITIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Other transactions						
Bad Debt Expense, the *Financial Administration Act*	-	-		-	-	20,026,696
Total	**-**	**-**		**-**	**-**	**20,026,696**

VOTE/ITEM:

VOTE: **Ontario Retirement Pension Plan**

ITEM: **Loans, the *Ontario Retirement Pension Plan Administration Corporation Act, 2015***

TYPE: **Operating Assets**

ITEM DESCRIPTION

This item included set-up expenses for the ORPP Administration Corporation.

COMPARITIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Loans and Investments						
Loans, the *Ontario Retirement Pension Plan Administration Corporation Act, 2015*	-	(240,000,000)	(100.0)	240,000,000	-	-
Advances and Recoverable Amounts						
Advances, the Ontario Retirement Pension Plan *Administration Corporation Act*	-	-		-	-	20,000,000
Total	**-**	**(240,000,000)**	**(100.0)**	**240,000,000**	**-**	**20,000,000**

EXPLANATIONS FOR CHANGE FROM 2016-17 ESTIMATES:

(240,000,000)	Change in Operating Assets
(240,000,000)	**Total**

TREASURY PROGRAM

S Interest on Debt

Interest on Ontario Securities

For General Purposes

Canada Pension Plan Investment Board

Canada Mortgage and Housing Corporation

Ontario Immigrant Investor Corporation

Other Interest, Exchange, Discount and Commission

Interest Capitalization

Interest on Investments

Interest on Debt Payable to Ontario Electricity Financial Corporation

S – TREASURY

This program is responsible for the development, direction, operation and formulation of policies for the management of the Province's debt, investments, credit rating, investor relations, and related financial administration activities; providing centralized banking and cash management services to the Province; reporting on the financial position of the Province to investors and the public to facilitate borrowing activities; providing electricity sector financial analysis and support for any direct or indirect provincial liabilities and monitoring the fiscal implications; advice to government and broader public sector on financing initiatives and policies; provision of guarantees and loans by the Province and assistance in investments to its Crown Corporations and agencies; and arranging custodial and fiscal agency services for the Province and certain agencies. It is also responsible for the issuance of Ontario Savings Bonds. The Ontario Financing Authority (OFA) provides a broad range of financial services to Ontario Electricity Financial Corporation (OEFC) and Ontario Infrastructure and Lands Corporation (Infrastructure Ontario).

OPERATING BY ITEM

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Statutory Appropriations:						
Interest on Debt, the *Financial Administration Act*	11,298,251,700	(9,176,900)	(0.1)	11,307,428,600	10,725,962,600	10,395,378,070
Total Operating	**11,298,251,700**	**(9,176,900)**	**(0.1)**	**11,307,428,600**	**10,725,962,600**	**10,395,378,070**

VOTE/ITEM: **S**

VOTE: **Treasury**

ITEM: **Interest on Debt, the *Financial Administration Act***

TYPE: **Statutory**

ITEM DESCRIPTION

This program is responsible for the development, direction, operation and formulation of policies for the management of the Province's debt, investments, credit rating, investor relations, and related financial administration activities; providing centralized banking and cash management services to the Province; reporting on the financial position of the Province to investors and the public to facilitate borrowing activities; providing to the electricity sector financial analysis and support for any direct or indirect provincial liabilities and monitoring fiscal implications; advice to government and broader public sector on financing initiatives and policies; provision of guarantees and loans by the Province and assistance in investments to its Crown Corporations and agencies; and arranging custodial and fiscal agency services for the Province and certain agencies. It is also responsible for the issuance of Ontario Savings Bonds. The Ontario Financing Authority (OFA) provides a broad range of financial services to Ontario Electricity Financial Corporation (OEFC) and Ontario Infrastructure and Lands Corporation (Infrastructure Ontario).

FUNCTIONS

The program:

- conducts borrowing in the capital markets in a cost-effective and prudent manner, manages the provincial debt and investments;
- manages financial risks such as interest rates, currency, credit and liquidity to minimize interest on debt (IOD) and variations from the budget target;
- manages and supports the credit rating review of the Province;
- manages relations with the fixed-income community (domestic and foreign);
- provides centralized banking and cash management services for the government;
- provides settlement and payment services, and financial reporting services;
- supports the implementation of the government’s electricity industry policy decisions, and monitors its fiscal implications;
- effectively manages Ontario Electricity Financial Corporation’s debt and derivatives portfolios, providing timely and accurate risk, cash management and financial reporting services;
- provides a broad range of financial services to Infrastructure Ontario;
- advises ministries, crown agencies and other public bodies on financial policies and projects; and
- acts as intermediary for the Province in lending to or investing for certain public bodies.

VOTE/ITEM: **S**

VOTE: **Treasury**

ITEM: **Interest on Debt, the *Financial Administration Act***

TYPE: **Statutory**

COMPARATIVE DETAILS

Item	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Estimates 2016-17 $	Interim Actuals 2016-17 $	Actual 2015-16 $
Interest on Ontario Securities						
For General Purposes	10,927,682,900	102,522,800	0.9	10,825,160,100	10,292,415,600	10,062,434,788
Canada Pension Plan Investment Board	502,091,000	(1,333,000)	(0.3)	503,424,000	502,384,000	505,708,939
Canada Mortgage and Housing Corporation	2,935,000	(1,472,000)	(33.4)	4,407,000	4,410,000	5,890,095
Ontario Immigrant Investor Corporation	4,211,800	3,323,800	374.3	888,000	6,783,100	5,005,204
Sub-Total	11,436,920,700	103,041,600	0.9	11,333,879,100	10,805,992,700	10,579,039,026
Other Interest, exchange, discount and commission	(101,883,000)	(65,838,000)	182.7	(36,045,000)	(19,115,700)	(101,407,704)
Interest Capitalized in Ministry Appropriations	(51,846,000)	(6,016,500)	13.1	(45,829,500)	(44,823,400)	(50,506,670)
Interest on Investments	(474,940,000)	(10,364,000)	2.2	(464,576,000)	(530,091,000)	(552,592,945)
Sub-Total	10,808,251,700	20,823,100	0.2	10,787,428,600	10,211,962,600	9,874,531,707
Interest on Debt Payable to the Ontario Electricity Financial Corporation	490,000,000	(30,000,000)	(5.8)	520,000,000	514,000,000	520,846,363
Total Operating	**11,298,251,700**	**(9,176,900)**	**(0.1)**	**11,307,428,600**	**10,725,962,600**	**10,395,378,070**

VOTE/ITEM: **S**

VOTE: **Treasury**

ITEM: **Interest on Debt**
Interest on Ontario Securities for General Purposes

TYPE: **Statutory**

SUB-ITEM DESCRIPTION

This item comprises interest on public market borrowings via such instruments as fixed-rate bonds, floating-rate and medium-term notes, Ontario Savings Bonds, short-term Treasury Bills and United States Commercial Paper (USCP).

CHANGE FROM THE 2016-17 ESTIMATES $102,522,800

The increase in interest expense is mainly attributable to new borrowing to fund the investment in capital assets.

STATUS OF ONTARIO DEBT

		$000
Outstanding as at March 31, 2016:		291,906,464
• New debt issues		26,842,948
• Retirements		(18,104,628)
Outstanding as at March 31, 2017	$	300,644,784
In 2017-18:		
• New debt issues planned	$	24,891,000
• Total retirements	$	(15,454,214)

VOTE/ITEM: **S**

VOTE: **Treasury**

ITEM: **Interest on Debt**
Canada Pension Plan Investment Board

TYPE: **Statutory**

SUB-ITEM DESCRIPTION

The Canada Pension Plan Investment Board (CPPIB) invests funds in the Province of Ontario's non-marketable securities. Effective July 1, 2005, under a side-letter agreement signed between the CPPIB and the Province, CPPIB offered the Province upon maturity of the debentures held to the credit of the Canada Pension Plan Investment Fund (CPPIF) that were issued before January 1, 1998, an option of issuing new replacement debentures to the CPPIB with a maximum term of 30 years (minimum term of five years and with subsequent roll over options subject to the 30 years maximum from the date of issue of the first replacement debenture) at a rate based on the capital market rates at the time of roll over. These debentures are not negotiable or transferable and are assignable only to a wholly-owned subsidiary of the Canada Pension Plan Investment Board. On April 1, 2007, all debentures held to the credit of the CPPIF or purchased by the Minister of Finance of Canada in accordance with Section 110 of the Canada Pension Plan were transferred to the CPPIB.

CHANGE FROM THE 2016-17 ESTIMATES $(1,333,000)

The decrease in interest expense is mainly due to lower interest rates for the roll-over of the maturing debts.

STATUS OF ONTARIO DEBT

		$000
Outstanding as at March 31, 2016:		10,002,740
• New debt issues		91,896
• Retirements		(91,896)
Outstanding as at March 31, 2017:	$	10,002,740
In 2017-18:		
• New debt issues planned	$	-
• Total retirements	$	-

VOTE/ITEM: **S**

VOTE: **Treasury**

ITEM: **Interest on Debt**
Canada Mortgage and Housing Corporation

TYPE: **Statutory**

SUB-ITEM DESCRIPTION

Canada Mortgage and Housing Corporation (CMHC) loans support federal-provincial environmental and employment incentive programs.

CHANGE FROM THE 2016-17 ESTIMATES $(1,472,000)

The decrease in interest expense is the result of debt retirement.

STATUS OF LOANS TO ONTARIO

	$000
Outstanding as at March 31, 2016:	51,063
• New loans	-
• Retirements	(14,606)
Outstanding as at March 31, 2017	$ 36,457
In 2017-18:	
• New loan issues planned	$ -
• Total retirements	$ (14,509)

VOTE/ITEM: **S**

VOTE: **Treasury**

ITEM: **Interest on Debt**
Ontario Immigrant Investor Corporation

TYPE: **Statutory**

SUB-ITEM DESCRIPTION

The Ontario Immigrant Investor Corporation (OIIC) is an operational enterprise of the Ontario Government, incorporated on April 30, 1999, under the *Development Corporation Act*. The corporation was established to act as Ontario's receiving vehicle for immigrant investor monies and was accepted as an approved fund under this program by the federal government on June 22, 1999. The OIIC has been investing funds into the Province since 2003.

CHANGE FROM THE 2016-17 ESTIMATES $3,323,800

The increase in interest expense is the result of higher interest expense than forecasted in the 2015-16 Estimates.

STATUS OF ONTARIO DEBT

		$000
Outstanding as at March 31, 2016:		131,924
• New debt issues		1,968
• Retirements		(19,823)
Outstanding as at March 31, 2017:	$	114,069
In 2017-18:		
• New debt issues planned	$	-
• Total retirements	$	(14,277)

VOTE/ITEM: **S**

VOTE: **Treasury**

ITEM: **Interest on Debt**
Other Interest, Exchange, Discount and Commission

TYPE: **Statutory**

SUB-ITEM DESCRIPTION

These items include public debt transactions such as bank charges, foreign exchange gains and losses, debt issue costs, premiums/discounts and underwriting commissions, as well as interest on special purpose accounts.

CHANGE FROM THE 2016-17 ESTIMATES $(65,838,000)

The change is mainly due to lower forecasted expense of $65,000,000 arising from amortization of foreign exchange gains and losses and premiums/discounts related to debt issues.

VOTE/ITEM: **S**

VOTE: **Treasury**

ITEM: **Interest on Debt**
Interest Capitalization

TYPE: **Statutory**

SUB-ITEM DESCRIPTION

This item represents the financing costs incurred to fund the construction or development of a tangible asset. The financing costs are capitalized during the period of construction given that those costs are viewed as part of the cost required to get the asset ready for use. These capitalized financing costs reduce interest on debt.

CHANGE FROM THE 2016-17 ESTIMATES $(6,016,500)

This change reflects the increase in interest capitalization in highway construction.

VOTE/ITEM: **S**

VOTE: **Treasury**

ITEM: **Interest on Debt**
Interest on Investments

TYPE: **Statutory**

SUB-ITEM DESCRIPTION

This item represents investment income earned from the Province's investments, mainly in marketable securities issued or guaranteed by Canadian chartered banks, and provincial and federal governments. It also includes interest from loans to its Crown corporations, agencies and other public bodies.

CHANGE FROM THE 2016-17 ESTIMATES $(10,364,000)

The increase in investment income is mainly attributable to higher projected temporary investments, but partially offset by a decrease in interest income from planned new loans to agencies and other public bodies.

VOTE/ITEM: **S**

VOTE: **Treasury**

ITEM: **Interest on Debt**
Payable to the Ontario Electricity Financial Corporation

TYPE: **Statutory**

SUB-ITEM DESCRIPTION

This item provides for interest on Provincial Purpose Debt issued as part of a debt-for-equity swap with Ontario Power Generation Inc. and Hydro One Inc. effective April 1, 1999. The Province assumed $8,885 million of the debt issued by these two government business enterprises to OEFC in exchange for $5,126 million in equity from Ontario Power Generation Inc. and $3,759 million in equity from Hydro One. In addition, OEFC owed Hydro One for a working capital adjustment in the amount of $122 million, and Hydro One agreed to settle this amount as a reduction of the equity in 2002, and the Province reduced one of its payables to OEFC by $122 million.

CHANGE FROM THE 2016-17 ESTIMATES $(30,000,000)

The decrease is mainly due to partial redemption of the debt.

STATUS OF ONTARIO DEBT

		$000
Outstanding as at March 31, 2016:		8,885,000
• New debt issues		-
• Retirements		(1,122,165)
Outstanding as at March 31, 2017	$	7,762,835
In 2017-18:		
• New debt issues planned	$	-
• Total retirements	$	-

Trillium Trust Program

Statutory Appropriations (Capital Expense)

Infrastructure Expenditures, the *Trillium Trust Act*

Statutory Appropriations (Capital Assets)

Infrastructure Expenditures, the *Trillium Trust Act*

S – TRILLIUM TRUST PROGRAM

The Trillium Trust provides for the dedication of prescribed net revenue gains / fiscal benefits from the sale of designated assets to help support investments in infrastructure, such as roads, bridges, transit and other priority infrastructure.

CAPITAL BY ITEM

Item	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
CAPITAL EXPENSE						
Statutory Appropriations						
Infrastructure Expenditures, the *Trillium Trust Act*	288,790,600	288,789,600	-	1,000	266,781,000	-
Total Capital Expense	**288,790,600**	**288,789,600**	**-**	**1,000**	**266,781,000**	**-**
CAPITAL ASSETS						
Statutory Appropriations						
Infrastructure Expenditures, the *Trillium Trust Act*	118,850,000	118,849,000	-	1,000	13,691,000	-
Total Capital Assets	**118,850,000**	**118,849,000**	**-**	**1,000**	**13,691,000**	**-**

* In accordance with the approved framework, spending is reflected under the project ministries; therefore appropriations are reclassified under Consolidations.

VOTE/ITEM: **S**

VOTE: **Trillium Trust Program**

ITEM: **Infrastructure Expenditures, the *Trillium Trust Act***

TYPE: **Capital Expense**

ITEM DESCRIPTION

The Trillium Trust provides for the dedication of prescribed net revenue gains / fiscal benefits from the sale of designated assets to help support investments in infrastructure, such as roads, bridges, transit and other priority infrastructure.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Other Transactions						
Transfers from Trillium Trust	288,790,600	288,789,600	-	1,000	266,781,000	-
Total	**288,790,600**	**288,789,600**	-	**1,000**	**266,781,000**	**-**

VOTE/ITEM: **S**

VOTE: **Trillium Trust Program**

ITEM: **Infrastructure Expenditures, the *Trillium Trust Act***

TYPE: **Capital Assets**

ITEM DESCRIPTION

The Trillium Trust provides for the dedication of prescribed net revenue gains / fiscal benefits from the sale of designated assets to help support investments in infrastructure, such as roads, bridges, transit and other priority infrastructure.

COMPARATIVE DETAILS

Standard Account	Estimates 2017-18 $	Change from 2016-17 Estimates $	%	Interim Estimates 2016-17 $	Actuals 2016-17 $	Actual 2015-16 $
Investments in Tangible Capital Assets	118,850,000	118,849,000	-	1,000	13,691,000	-
Total	**118,850,000**	**118,849,000**	**-**	**1,000**	**13,691,000**	**-**

From:	Padmore, Pauline (MOF)
To:	Stephanie Zilinski (MOF); Paul Dupuis (MOF); Debbie Laughlin (MOF); Nancy Mattiussi (MOF); Rick Baldino (MAG); Rebecca Luc (MOF); Neda Rastinehad (MOF); Patel, Lesley (MOF); Olga Mikhailova (MOF); Ghufran Tarin (MOF); Boa, Krista (MOF); Wallace, Julia (MOF); Birks, Ryan (MOF); Bianchi, Angela (MOF); Darren Scanlan; Gavin He; Francisco Chinchon; Marco Ciavatta (FSCO); Carolyn Hamilton (FSCO); Kancharla, Sagar (MOF); Gobeil, Diana (MOF); Jayne Harten (ENE); Ken Kandeepan; Bridget Jeanes (MGS); Lynn Portelance (MOF); Wong, Mimi (MOF); John Kim; Shemin Meralli; George Sakura; Sadruddin Salman (MOF); Penny Vavlekis (MOF); Vivienne Skoberne (MOHLTC); Sybille Chan (MOF); Anna Strathy; Bruno Amara; Deena Padamadan; Matthew Sylvain (MOF); Ashley McCall (ENE); Hancock, Julia (MOF); Melissa Ouzas (CAB); Dianne Lone (MOF); Marc Pichette (MOF); Pauline Padmore (MOF); Yanqui, Nicole (MOF); Veralyn Bramble (MOF); Cengarle, John (MOF); Cheryl Donais (MEDTE/MRI)
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Subject:	Estimates Defence Document Submissions
Date:	Thursday, August 31, 2017 4:24:08 PM
Attachments:	2016 TOC_v2.docx Tab 2 Accomplishments_v3.docx Tab 3 Top Facts_v2.docx

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Good afternoon –

Program areas are asked to please submit Top Facts (formerly called Q&As) and update Accomplishments no later than September 11th to Pauline Padmore and cc Nicole Yanqui. Attached for your reference is the table of contents from last years' Estimates Briefing Binder, Accomplishments and Top Facts.

Here is the Minister's Office recommended list of top facts & top issues **by order of importance**:

Tab 3: Top Facts

- Office of the Budget
- Ontario Financing Authority
- Office of Economic Policy
- Corporate Electricity Finance Division
- Taxation Policy Division
- Tax and Benefits Administration
- Provincial Local Division
- Cannabis Retail Implementation Project
- Government Business Enterprise Division
- ORPP Implementation Secretariat / Admin Corporation
- Income Security & Pension Policy Division
- Financial Services Policy Division

Tab 4: Top Issues

- Fiscal Plan (in relation to questions that might come up about balancing)
- Debt (Interest on Debt costs)
- Public Accounts (emphasis on AG Accounting)
- Fair Hydro Plan
- Housing Market
- Cannabis
- Cap & Trade
- Trillium Trust

- OLG Modernization
- LBCO
- ORPP – if needed

In addition to the corporate preparations, program areas should prepare their ADM/Program Head in the event we do appear before the Estimates Committee – for those questions that are of a technical or operational nature. This also includes preparations for your ADM/Program Head to explain any financial variances from the Estimates Briefing Book, should those questions arise at the proceedings. This work should currently be underway.

Please let me know if you have any questions about this process.

Thank you.



Pauline Padmore
Corporate Initiatives and Stakeholder Coordinator (A)
Budget Secretariat | Ministry of Finance
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416-325-0961

MINISTRY OF FINANCE
2016 ESTIMATES
BRIEFING BINDER

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Income Security and Pension Policy Division

Continued to provide the government with policy advice on income security matters, from childhood through to retirement, including: the indexing of the Ontario Child Benefit; policy work for key sections of the 2016 Budget (such as announcements on the Basic Income Pilot and social assistance rate increase); and worked collaboratively and intensively with the federal government and provinces to make progress on enhancing the CPP. The Divisions also provided policy and legislative advice on pension policy issues such as the successful passage of the *Pooled Registered Pension Plans Act, 2015*, initiated a review of solvency funding rules for defined benefit pension plans, proclaimed legislation and passed regulations governing the conversion or merger of single employer defined benefit pension plans to jointly sponsored pension plans, and enacted legislation (to be proclaimed into force by the LGIC) that creates a pooled asset management entity for pension plans in the broader public service.

Revenue Agencies Oversight Division

Moving forward the large scale modernization and transformation of the gaming and alcohol sectors in Ontario that will improve consumer experience and support increased revenues for important public services.

Office of Economic Policy

Supported effective, economic, fiscal and financial management consistent with the government's priorities, and supported various initiatives which continue to make Ontario an attractive environment for business investment.

Financial Services Policy Division

Supported the growth of the financial services sector by advancing a modern and flexible approach to regulation, strengthening consumer and investor protection by implementing regulatory changes to help ensure auto insurance is affordable for Ontario drivers; exploring how Ontario's regulatory framework for auto insurance can fit new insurance products for ride-sharing services; reviewing the legislative framework for Ontario's credit unions to protect consumers and their deposits; supporting an independent review of the mandates of key financial services agencies. Additionally, the Financial Services Policy Division continues to support the independent Expert Committee to Consider Financial Advisory and Financial Planning Policy Alternatives, which released its preliminary policy recommendations in April 2016; and is working with participating jurisdictions to achieve important milestones toward the establishment of the Cooperative Capital Markets Regulatory System (CCMR).

Provincial Local Finance Division

The Ministry is delivering improvements to the property tax and municipal funding system that contributes so much to communities and public services across Ontario. During 2015-16, the government implemented changes to Ontario's property assessment and property tax systems, including implementing recommendations coming out of the Assessment Review in time for the 2016 reassessment of all Ontario properties. These measures improve the transparency, accuracy and predictability of property assessments. The Ministry also worked in close consultation with municipalities to redesign the Ontario Municipal Partnership Fund (OMPF) so that it better targets funding to municipalities with the greatest needs. While the program has been phased down, the government's commitment to the provincial uploads means that overall support to municipalities will continue to increase. Together, these measures have helped ensure that municipalities are on a financially sustainable footing and in a position to invest in local priorities like roads, transit and economic development.

Office of the Budget

Provided strategic fiscal advice and coordinating key government publications including the annual Budget, the Economic Outlook and Fiscal Review and the Quarterly Finances

Taxation Policy Division

The 2016 Student Financial Assistance Budget announcement that Ontario's tuition and education tax credits would end beginning September 2017. Additional revenue from ending the credits is proposed to be redirected to the new Ontario Student Grant or other postsecondary, education, training and youth jobs programs, which fulfills a CROPS recommendation.

Tax and Benefits Administration

Established a Contraband Tobacco Enforcement Team within the OPP to focus on the organized crime linkages

ORPP Implementation Secretariat

The government passed two pieces of ORPP legislation that outlined the framework of the plan and established an arm's length entity, the ORPP Administration Corporation, including appointing the initial Board of Directors and hiring a Chief Executive Officer.

Ontario Financing Authority

Completed the 2015-16 borrowing requirement and pre-borrowed $2 billion for 2016-17 for total borrowing of $32.1 billion, while continuing to extend term to lock in low interest rates, with an average term of borrowing for the year of 14.2 years. Since 2010, borrowed more than $54 billion in terms of 30 years or longer.

Corporate Electricity Finance Division

Provided strong support to the Province's asset optimisation initiative, including the Hydro One IPO, real estate assets and the Trillium Trust to dedicate funds to infrastructure investments; and has moved forward with a legislated, fixed end date of April 1, 2018, to the Debt Retirement Charge (DRC) for commercial, industrial and all other users of electricity. The DRC for residential users ended as of January 1, 2016.

TOP FACTS

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Q: If there is agreement on a CPP enhancement that does not meet Ontario's objectives, what is Ontario's position? 1

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Q: How much money is being loaned? 20

Q: In the 2016/17 estimates, it shows a loan amount of up to $240M. How is that money going to be used? 21

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Q: How much has been spent on the ORPP Implementation Secretariat (ORPPIS) to date? 22

Q: Why does the Ministry's direct spending for ORPP decrease by $12.5M in 2016-17? 22

Q: Why is the government providing the ORPP AC with a $240M loan in 2016-2017? 22

Q: In total, how much is the government loaning the ORPP AC for set-up expenses? 23

Q: In addition to the current costs and the loan to ORPP AC, how much money will it cost to implement the ORPP? Are we talking billions? 23

Q: Isn't the federal government helping to administer the ORPP? 23

Q: Who pays for the ORPP start-up costs if the CPP is enhanced and the plan is never implemented? 24

Q: How much money is being loaned? 24

Q: In the 2016/17 estimates, it shows a loan amount of up to $240M. How is that money going to be used? 25

Q: How much of the loan has been drawn down to date? What has that money been used for? 25

Q: Is this money being spent on high salaries? What is the compensation framework for the ORPP AC? 25

Q: Does the government expect to be repaid? 25

Q: What would be the cost to government if the ORPP is cancelled after it launches? 25

Q: How is the repayment schedule structured? Will it be charged interest? 26

Q: Why doesn't the ORPP AC get a traditional bank loan? 26

Q: Will there be any public reporting or accountability to how the loan is spent? 26

Q: What types of costs will the loan be used to pay? 26

Q: How much money has the ORPP AC spent on the services of consultants? 27

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Q: What is the ORPP Administration Corporation? 27

Q: What are the accountability mechanisms of the ORPP Administration Corporation? To whom does it report? 27

Q: Why is the ORPP IS still in place now that the ORPP AC has been established? 28

Q: Why did the government spend an additional $6 million than was estimated last year? Is this another example of the government overspending on consultants? 29

Q: On one hand you say you are launching the ORPP in 2017, but then indicate that the collection of contributions won't start until 2018…which is it 29

Q: Is the federal government committing to administer your plan if CPP talks fail? 30

Q: Would Ontario support a CPP enhancement that is a universal program to all employers and employees? 30

Q: If the government is going to proceed with measures such as introducing legislation on ORPP plan design, are you even serious about discussing the CPP? 31

Q: What progress has the government made on the ORPP to date? 31

Q: Why introduce legislation now? Didn't you commit to ongoing national discussions on a CPP enhancement? 31

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Q: Why is the ORPP needed? 33

Q: What are the anticipated impacts of the ORPP on Ontario's economy? 33

Q: Why is the Government advertising the Ontario Retirement Pension Plan? 34

Q: In 2015-16, how much did the ministry spend on the ORPP campaign (including advertising, marketing and market research)? 34

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Q: How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent? 35

Q: Ontario's debt has more than doubled since Premier McGuinty was first elected. When interest rates begin to rise, won't interest costs displace spending on the Government's priorities? 35

Q: How will the credit rating agencies respond to the 2016 Budget? 36

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Q: What's the current status of the funds in the Trillium Trust? 37

Q: Since the Hydro One IPO was completed several months ago and now the government has announced a secondary share offering, why haven't you made any regulations to dedicate the fiscal benefits of the Hydro One IPO to the Trillium Trust? When will you make these regulations and when will we see these amounts in the Trillium Trust? 37

Q: Why have no amounts been spent from the Trillium Trust yet, not even from the GM share gain amounts from 2014-15? And why are there only $1,000 in placeholder expenditure numbers for the Trillium Trust lines in Estimates? 37

Q: When will the government actually be able to start using funds from the Trillium Trust to pay for transit and infrastructure? 38

Q: How much was raised from the Hydro One IPO? 38

Q: What amount of proceeds will the Province receive from the secondary offering? 39

Q: What was the process involved in selecting the underwriters involved for the secondary offering 39

Q: Why is the interim Electricity Sector Dedicated Income (ESDI) $0 in 2015-16, and why is the forecast so low for ESDI in the 2016-17 Printed Estimates? Is this because of the Hydro One IPO reducing the Province's future revenues from Hydro One and reducing the amounts to pay for stranded debt? 40

INCOME SECURITY AND PENSION POLICY DIVISON

Q: When and where will the Basic Income pilot be implemented? How much will the Basic Income pilot cost? Your Estimates show $5 million in 2016-17 for the pilot.

A: The pilot in still in the inception stage. A start date and criteria for determining a location for the Basic Income pilot have not yet been determined. The government will be gathering expert advice on the design of the Basic Income pilot over the course of 2016. Once this work has been completed, the government will finalize the costs for the pilot.

Q: If there is an agreement on CPP enhancement within the year, will Ontario still implement the ORPP?

A: While Ontario is pleased that the federal government understands the importance of enhancing retirement security, the process to enhance the CPP is not simple and could take a very long time.

Ontario will continue to be an advocate of the need for enhanced retirement security and will work intensively with its federal, provincial and territorial counterparts to address the needs of future retirees.

To provide more time for discussion among provinces and the federal government, Ontario is phasing-in the launch of the ORPP by starting enrollment one year later than the original start date, and by starting the first phase of contributions in January, 2018.

Q: If there is agreement on a CPP enhancement that does not meet Ontario's objectives, what is Ontario's position?

A: The Province's extensive consultations in developing the ORPP have helped to inform Ontario's view that any CPP enhancement must be timely and provide a level of adequacy and targeted coverage that is consistent with the ORPP.

The government looks forward to collaboration on a CPP enhancement and other innovative approaches at the Federal-Provincial-Territorial Finance Ministers meeting in June 2016.

Ontario's main objective is to look at ways to meet the goals of the ORPP in an enhanced CPP framework, while preserving the ability to implement the ORPP, should that not be possible.

REVENUE AGENCIES OVERSIGHT DIVISION

Alcohol

Q: Why is this so complicated? There will be universal authorizations, existing winery stores operating inside grocery, controls on who sells what, some will be matched with beer but some won't. Why not just open it up?

A: The Council did not start from scratch in making its recommendations. It recognized the benefits of the existing retail channels for wine, including the LCBO and winery retail stores, and how we could build on and improve them for consumers and all producers.

There will be differences in the consumer experience. Just like beer, and just like grocery stores in general.

The bottom line is that we're getting what consumers want done — wine will be sold alongside beer in grocery stores.

Q: Why is the Council recommending only introducing wine into 150 grocery stores? There will be beer in 450 grocery stores.

A: We are expanding access responsibly. The number of new licences in the proposed new model is based on the total number of beer in grocery licences that were established under the beer framework – 450. There are currently 292 "off site" winery retail stores, so we added 150 new authorizations to bring it to about the same as beer.

The exact number of grocery stores selling wine through their own checkouts will depend on the number of WRS outlets that ultimately move inside the check-out at grocery stores. Of the 292 existing WRS outlets, the Council is recommending that up to 150 that are currently located in grocery and outside the grocery store checkout be enabled to operate inside grocery with a shared checkout.

In total, wine could be available in up to 300 grocery stores – including up to 70 locations authorized to sell by this fall.

Q: Why will grocery stores only be able to sell wine that costs $10.95 or more?

A: We believe that, where access is expanded, social responsibility standards should be strengthened. This price restriction is supported by social responsibility groups, including MADD.

This price restriction also supports the competitiveness of Ontario VQA wines in the grocery channel, and promotes the objectives of Ontario's Wine and Grape Strategy.

Gaming

Q: What is the future of the HRPFP?

A: The two year program extension will give confidence to the industry to make investments and business decisions for the coming years.

Beyond this time, the intention would be for OLG to establish a future, longer-term funding arrangement with the industry. The arrangement would be subject to government approvals, and further integrate gaming with horse racing and support industry sustainability.

Q: Why is OLG net profit to the province (NPP) expected to decline slightly from 2015-16 to 2016-17?

A: OLG continues to provide approximately $2 billion to the province, which helps to fund key public services like health care and education.

Delays in the procurement processes for private sector service providers for gaming and lottery have impacted the timelines for increased NPP from modernization.

2015-16 was an exceptional year for OLG NPP with projections of over $150M more than Budget 2015, mainly due to increased sales revenue from national lottery tickets (Lottomax, Lotto 6/49). NPP in 2016-17 is expected to decrease slightly in comparison, as lottery sales and resulting revenues return to more normal levels.

Q: Why is net profit to the province higher in 2015-16 compared with projections in Budget 2015?

A: Revenue from national lotteries (Lottomax and Lotto 6/49) is higher than was projected in Budget 2015, primarily due to a higher number of large jackpots. More large jackpots led to higher sales revenues.

Q: Is funding to hospitals being reduced by $107M in 2016-17 as a result of OLG's projected lower net profit to the province?

A: Revenue generated by OLG is paid into the province's Consolidated Revenue Fund (CRF). Allocations to the Ministry of Health and Long-Term Care (MOHLTC) are made from the CRF. OLG revenues targeted for health care only amount to 3% of MOHLTC's $52B budget.

Fluctuations in OLG's revenues do not impact health care funding levels or projections.

OFFICE OF ECONOMIC POLICY

Q: Will the 30% Off Ontario Tuition grant still be available or has it been eliminated?

A: The government will create a single major upfront grant — the Ontario Student Grant (OSG) starting in the 2017–18 school year by redirecting 100 per cent of the funding from the 30% Off Ontario Tuition grant and other grants offered by OSAP. This will make the student financial assistance system more progressive, effective and transparent for students and their families. The changes will provide students who have the greatest need for financial assistance with better access to grants upfront, when they need them.

The additional revenue from the proposed discontinuation of the tuition and education tax credits would be reinvested to support the OSG or other postsecondary, education, training and youth job programs.

Q: What evidence do you have that Ontario's economy is performing better than Canada's?

A: Ontario became one of the fastest growing provinces in 2014 and 2015, and private-sector economists expect this will continue until at least 2017.

On an annual basis, Ontario's real GDP increased by 2.7 per cent in 2014, strengthening from growth of 1.3 per cent in 2013 and outpacing the national average for the first time since 2002.

After a slow start to 2015 when the economy was affected by a number of temporary factors including unusually harsh winter weather, closure at auto plants for retooling, and a west coast port strike affecting exports, Ontario's economic growth gained pace in the second and third quarters of 2015, with real GDP advancing 0.4 per cent and 0.9 per cent, respectively. Ontario's economy outpaced the Canadian economy in all three quarters in 2015.

Q: Over the last 18-months there has been a significant shift in the global economic environment. Why do you remain positive about Ontario's economic prospects?

A: There have been significant shifts in the external economic environment over the past year and a half. Growth has slowed in emerging economies, commodity prices have fallen dramatically, and the Canadian dollar has weakened. This has shaken business confidence and left Ontario households unsure about the ultimate impact on their budgets and spending plans.

Yet, overall, Ontario is expected to benefit from the shifting global economic environment. Growth in the U.S., our largest trading partner, is expected to remain solid. As well, the more competitive Canadian dollar provides additional lift to our

exporters. Finally, Ontario is an oil-importing province which means consumers and businesses are benefitting from low oil prices. These factors provide an increasingly compelling case for increased business investment and will help support continued solid economic growth in coming years.

FINANCIAL SERVICES POLICY DIVISON

Q: What is the government's reaction to the preliminary policy recommendations released by the Expert Committee to Consider Financial Advisory and Financial Planning Policy Alternatives?

A: It would be premature for the government to comment at this time on the preliminary policy recommendations.

The independent Expert Committee to Consider Financial Advisory and Financial Planning Policy Alternatives released their preliminary policy recommendations in April 2016 as a means of facilitating further input from stakeholders and the public. The expert committee is seeking feedback through written submissions and an across-the-province public consultation process.

The Government expects the expert committee's final report in fall 2016 and will consider their recommendations at that time.

Q: Both the City of Ottawa and City of Toronto staff reports on vehicles for hire recommend minimum insurance requirements for drivers involved in ride-sharing. What are you doing to make sure that insurance is in place?

A: The sharing economy is changing the way transportation services are provided in Ontario. The government is committed to ensuring that Ontario's auto insurance system can help provide peace of mind to those offering and using these new types of transportation services.

Ontario's competitive market for auto insurance is already responding and adapting. FSCO has received filings from different companies proposing new auto insurance products tailored to the sharing economy, and in January FSCO approved one product allowing individual drivers to purchase coverage.

Other proposals are currently being reviewed by FSCO. While this work is proceeding, the reality is that there continues to be a significant insurance coverage gap.

The government is committed to protecting Ontario drivers and consumers by addressing that gap, and FSCO is aware of the importance to the government of achieving this objective as quickly as possible.

Towards that end, the government and FSCO are exploring how Ontario's flexible insurance regulatory system can quickly approve new insurance products. Using such flexible responses would allow new products to be introduced in the market while the government, working with the regulator and the insurance industry, develops the legislative and regulatory changes necessary to fully integrate the sharing economy into Ontario's auto insurance system.

Q: Some media reports have been sceptical about the public timelines for launching the Cooperative Capital Markets Regulatory System (CCMR). When is the CCMR expected to be established and operational?

A: The participating jurisdictions have agreed to target the enactment of legislation by June 30, 2016 and the Capital Markets Regulatory Authority becoming operational in the fall of 2016.

These timelines will be challenging given the need for the enactment of legislation by multiple legislatures. The participating jurisdictions are committed to moving forward with this initiative and market participants should take comfort that we will take the time necessary to ensure a successful launch of the Cooperative System. We will work to ensure a smooth transition to the new system for market participants and their businesses.

PROVINCIAL LOCAL FINANCE DIVISION

Q: What is the government doing to support municipalities?

A: Our government has a strong record of supporting and working with municipalities.

In 2016 alone, municipalities will benefit from over $3.8 billion in ongoing support through the Ontario Municipal Partnership Fund (OMPF), provincial uploads and other provincial initiatives – an increase of $2.7 billion above the support provided in 2003.

The government will continue to fulfill its commitment to upload social assistance benefit programs as well as court security and prisoner transportation costs off the property tax base. This will ensure that municipalities have more property tax dollars to invest in local priorities like roads, transit and economic development.

In partnership with communities, Ontario is making significant investments to revitalize infrastructure and grow the economy. The Province's infrastructure commitments include:

- Transit, transportation and other priority infrastructure through *Moving Ontario Forward* that is supported by $31.5 billion in dedicated funds, with about $16 billion available within the Greater Toronto and Hamilton Area (GTHA) and about $15 billion available outside the GTHA.
    - As part of *Moving Ontario Forward*, the Ontario Community Infrastructure Fund is being expanded to $300 million per year by 2018–19, which will provide ongoing support for critical local infrastructure priorities.
- Introducing a new Connecting Links program that will provide $20 million in 2016-17, up from $15 million announced in the *2015 Budget,* to help municipalities pay for construction and repair costs for municipal roads that connect two ends of a provincial highway through a community or to a border crossing. Funding for this program will increase to $30 million per year by 2018-19.

In addition to implementing the provincial uploads, the Province has worked in partnership with municipalities to introduce measures that support communities. These include:

- Sharing provincial gas tax revenues;
- Unconditional funding through the Ontario Municipal Partnership Fund;
- Long-term funding through the Ontario Community Infrastructure Fund;

- Connecting Links program;
- Developing a fair and equitable Ontario Provincial Police billing model;
- Working with municipalities to enhance the fairness, effectiveness and predictability of the Ontario's property tax and assessment system;
- Consulting with municipal partners through the Memorandum of Understanding with the Association of Municipalities of Ontario, as well as other forums;
- Undertaking an integrated review of the Municipal Act, the City of Toronto Act and the Municipal Conflict of Interest Act.

Q: Will the Ontario Municipal Partnership Fund (OMPF) be further reduced beyond 2016?

A. During our consultations, municipalities have been clear that the OMPF is an important unconditional funding program for many municipalities.

The Ontario Municipal Partnership Fund (OMPF) will continue to provide unconditional support to municipalities in 2016 and beyond. In 2016, the phase-down of the OMPF is complete, and the design of the core grants now reflects the long-term objectives of the program.

At this time, there is no plan to further reduce the OMPF.

It is also important to note that as announced in the *2015 Ontario Budget*, the OMPF has been increased by an additional $5 million in 2016, bringing the total OMPF envelope to $505 million rather than the $500 million previously planned for 2016. This additional funding is being provided through the Northern Communities Grant of the program to further recognize the challenges of northern municipalities.

Q: In the 2014 Budget, the Province announced that payments to municipalities under the Power Dam Special Payment Program would be reduced. What is the status of this phase-down?

A: The 2014 Budget announced a plan to phase down the program over three years, ensuring that more than 75% of the current funding level is maintained.

However, the phase-down reductions for 2015 and 2016 were deferred in light of consultations and analysis that were underway to consider alternative options to the phase-down, including the re-introduction of property taxation for power dams.

As announced in the 2016 Budget, following extensive review and consultations on this program, the Province has confirmed that stable funding to municipalities with respect to currently-eligible hydroelectric generating stations will remain in place for 2017 and future years.

OFFICE OF THE BUDGET

Q: The Ontario budget states that new federal funding has been included in the fiscal outlook based on 'prudent assumptions' about new transfers, but the federal government has not said how much Ontario will receive. What are these prudent assumptions and how much new federal money is counted in this budget?

A: The 2016 budget continues the government's plan to build Ontario up and deliver on its priority of growing the economy and supporting job creation. Ontario's plan includes investing in people's talents and skills, as well as making the largest investment in public infrastructure in the province's history.

Ontario and the federal government share common goals, common values and have the same priorities. The federal government has recognized that coordinated and collaborative action is needed to address the issues facing Ontarians and Canadians. And the Province is ready to work with a federal partner to build on Ontario's investments and welcomes federal support for Ontario's plans in areas that matter to Ontarians and Canadians.

The 2016 Ontario budget included some prudent assumptions about what new revenue Ontario could expect from the federal government based on what was in the federal government's election platform. Even the Financial Accountability Officer (FAO) indicated these assumptions were prudent.

For instance, the federal government has committed to $60 billion in new infrastructure funding over 10 years. The Province welcomes this new commitment to build on existing programs and provide both immediate infrastructure investments and longer-term funding to support shared infrastructure priorities, and is working with the federal government to secure its per capita share.

More information will become available in the coming months as the federal government rolls out the details of its various plans around infrastructure, climate change and skills training.

While in some cases, federal measures have already been included in Ontario's fiscal plan, the full extent of the impact of these measures must be analyzed when more details of federal proposals are released.

This is particularly true of infrastructure, where both levels of government are making significant fiscal commitments.

Q: Will cap-and-trade impact the Province's bottom line?

A: The government is committed to dedicating all proceeds from the auctioning of allowances under the cap and trade program to fund GHG-emissions reduction initiatives – which would help Ontario meet its 2020 and 2030 emissions reduction targets.

The fiscal plan included in the 2016 Budget reflects this commitment.

The medium-term revenue outlook includes projected cap-and-trade proceeds from the auctioning of carbon allowanced beginning in 2017. The current estimate for proceeds is:

$478 million in 2016-17; and

Between $1.8 billion and $1.9 billion annually starting in 2017-18.

The government has already taken an important step towards investing cap-and-trade proceeds with the investment of $325 million in 2015-16 through a new Green Investment Fund.

For spending of cap and trade proceeds in 2016-17 and beyond, the government is still working out the details which is subject to the enabling legislative framework that's currently under review by the Legislature – any changes to the legislation could impact the potential areas of investment that are eligible for funding from cap and trade proceeds.

Moving forward, Ontario's approach to the investment of cap-and-trade proceeds will be both balanced and strategic, focusing on initiatives where the opportunity for emissions reduction and sustainable economic growth is greatest.

The fiscal plan reflects the most recent information available at the time of the Budget, including the impact of new initiatives announced as part of the Budget. The government recognizes that different factors could affect the Province's outlook for revenue and expense. That is why the fiscal plan incorporates prudence – to protect the fiscal outlook against these potential adverse changes.

The fiscal plan incorporates a reserve, set at $1.0 billion in 2016-17, $1.1 billion in 2017-18 and $1.2 billion in 2018-19.

It also includes contingency funds to help mitigate expense risks that may otherwise adversely affect Ontario's fiscal performance.

Q: Is the Government using Asset Optimization Revenues to balance the Budget?

A: The government's plan to eliminate the deficit does not depend on the revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario.

In fact, the government is taking deliberate and responsible steps to achieve its goal of balancing the budget in 2017-18. Ontario's plan to eliminate the deficit is centred on transforming government and managing costs, and ensuring revenue integrity and addressing the underground economy.

Under the *Trillium Trust Act*, *2014,* all net revenue gains from the sale of designated assets are to be credited to the Trillium Trust to help fund further investments in public transit, transportation and other priority infrastructure as part of the Moving Ontario Forward initiatives.

The asset optimization target will help support the largest infrastructure investment in the province's history.

Q: Is the government restricting the ability of the FAO to access Cabinet Confidential documents?

A: No, the government is acting in accordance with the governing legislation that was approved by all three parties.

As per Section 12(2) of the *Financial Accountability Officer Act* (FAOA), a ministry or public entity is prohibited from disclosing to the Financial Accountability Officer (FAO) a record "described in subsection 12(1) of *the Freedom of Information and Protection of Privacy Act*" (FIPPA). Section 12(1) of FIPPA prohibits the release of any record that would reveal the substance of deliberations of the Executive Council or its committees.

In the end, the primary purpose of subsection 12(1) of FIPPA is to protect the deliberations or future deliberations of Cabinet. As a result, the section prohibits the disclosure of both existing records as well as any newly created records that would reveal those deliberations.

Q: What is the government's plan to hold average annual growth in program expense to 1.9% going forward? Given that this is below inflation, what programs are being cut?

A: Program expense is projected to grow at an average annual rate of 1.9 per cent between 2014-15 and 2018-19. This reflects the government's commitment to invest in priority areas to enhance public services, support economic growth and a low-carbon economy, and create jobs. [Ch. 3B, Pg. 29]

A key pillar of Ontario's plan to eliminate the deficit is transforming government and responsibly managing spending. [~Ch. 2A, Pg. 3] The government is achieving this through Program Review, Renewal and Transformation (PRRT) – a new approach to fiscal planning and expenditure management this is designed around four key principles:

- Examining how every government dollar is spent;
- Using evidence to inform better choices and improve outcomes;
- Looking across government to find the best way to deliver services; and
- Taking a multi-year approach to find opportunities to transform programs and achieve savings. [~Ch. 2B, Pg. 3]

PRRT is about more than saving money – it is a continuous planning approach focused on improving outcomes for government programs and services to ensure they are effective, efficient and sustainable. [Ch. 2B, Pg. 3]

Through cross-ministry horizontal collaboration, the government is taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to invest in key priorities, such as health care and education. [Ch. 2B, Pg. 7]

The *2016 Budget* outlines progress on and expected outcomes of these major transformation and efficiency initiatives.

Q: Compared to the 2015 Budget, program spending is higher in each year. How is the government going to balance when spending is up?

A: Compared with the *2015 Budget*, program expense is projected to be $1.6 billion higher in 2016-17 and $4.2 billion higher in 2017-18. [Ch. 3B, Pg. 32]

These changes primarily reflect:

- Projected emissions reduction initiatives offset by cap-and-trade revenue;
- Small changes to Moving Ontario Forward projects;
- Adjustments for changes in demand and demographics across many programs; and
- Other investments in infrastructure. [Ch. 3B, Pg. 32]

These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth to generate revenues on the path to balance. [~Ch. 2A, Pg. 3]

The government remains dedicated to a fiscally sound approach to managing the Province's finances, and to balancing the budget by 2017-18. The government is taking deliberate and responsible steps to achieve that goal. [~Ch. 2A, Pg. 3]

The government is projecting deficits of $5.7 billion in 2015-16 and $4.3 billion in 2016-17 – improvements of $2.8 billion and $0.5 billion compared with the 2015 Budget forecasts. [~Ch. 2A, Pg. 4, 5]

With the economy expected to continue to growth, and the Province's ongoing commitment to transform government programs and services, Ontario is projecting to return to balance in 2017-18 and remain balanced in 2018-19. Achieving balance will put net debt-to-GDP on a declining track. [~Ch. 2A, Pg. 5]

Ontario's plan to eliminate the deficit includes: [2A, Pg. 3]

- Transforming government and responsibly managing spending; and
- Ensuring revenue integrity and addressing the underground economy.

Q: The government is reporting overachievement on its annual deficit target for the 7th year in a row. How is this possible? Is the government purposely setting easy targets?

A: The government is projecting a deficit of $5.7 billion in 2015-16, an improvement of $2.8 billion compared with the *2015 Budget* forecast. It is also a $4.6 billion improvement compared with the 2014-15 deficit of $10.3 billion. This represents the Province's largest year-over-year reduction in the deficit in the last five years. [Ch. 2A, Pg. 4]

The overachievement in 2015-16 is mainly due to total revenue projected to be $2.2 billion above the *2015 Budget* plan, due to higher revenue from asset optimization in 2015-16, higher taxation revenues and stronger overall performance from Government Business Enterprises (GBEs). [~Ch. 3B, Pg. 4]

It is also the result of $0.2 billion in lower interest on debt expense, from lower-than-forecast interest rates, the lower forecast deficit and cost-effective debt management. [~Ch. 3B, Pg. 4]

Ontario's program expense is projected to be $0.4 billion higher than outlined in the *2015 Budget*, but consistent with the forecast laid out in the *2015 Ontario Economic Outlook and Fiscal Review*. This is primarily due to the $325 million down payment through the Green Investment Fund. [~Ch. 3B, Pg. 4]

The *2015 Budget* included a $1.0 billion reserve for 2015-16. In the *2016 Document*, the 2015-16 interim outlook maintains a $150 million reserve to protect the fiscal plan against any potential adverse changes that may occur before year-end. [~Ch. 3B. Pg. 5]

The government's fiscal targets are based on the best available economic and fiscal information at the time. They reflect a realistic and responsible plan to manage the Province's resources, while still protecting the vital services that Ontarians rely on. [Framework]

TAXATION POLICY DIVISION

Q: How many students will be affected when the tuition and education tax credits end?

A: About 1 million students are expected to report that they attended studies in 2015 that qualified them for tuition and education tax credits. About 800,000 attended full time studies, and about 200,000 attended part-time studies.

Q: Will everyone who loses their tax credits get back the money through the new student grant?

A: Currently, tax credits go to a larger group of students than those eligible for OSAP. The grant design has not been finalised. The government will announce details of the new program later this year.

Q: Why are you cutting R&D Tax Credits (i.e. OITC and ORDTC) when you say you want to support innovation?

A: Research and Development remains a key priority for the government. That is why the government is reinvesting savings from the proposed R&D tax credit changes into new targeted investments across key sectors of Ontario's economy.

The government is investing $35 million over five years towards establishing the Advanced Manufacturing Consortium; $20 million over three years to partner with Colleges to tackle industry challenges through innovation projects; and $50 million over five years in world-leading research at the Perimeter Institute.

Through the province's Business Growth Initiative, the government will continue to examine ways to encourage R&D investment in Ontario, increase the commercialization of research and better support export activity.

TAX AND BENEFITS ADMINISTRATION

Q: Why are Bad Debt Expenses increasing from approximately $46.7Million (2014-2015 Actuals) to $90Million (2015-2016 interim actuals)?

A: In recent years, the Ministry of Finance has uncovered several large scale tax evasion schemes while conducting tobacco tax audits. As a result of these audits, there have been a number of large tobacco assessments which have proven to be problematic from a collectability standpoint. The increase of $58M above the 2015-16 Printed Estimates was primarily a result of these large tobacco tax assessments.

Q: Why is the Ministry of Finance seeking an increase of $13.2Million in its Bad Debt Expense allocation in 2016-17 (from $32Million to $45.2Million)?

A: The Ministry of Finance has uncovered several large scale tax evasion schemes while conducting tobacco tax audits. As a result of these audits, there have been a number of large tobacco assessments which have proven to be problematic from a collectability standpoint. It is anticipated that these assessments will continue in the 2016-17 year. These assessments will be uncollectible and as a result the ministry has requested a $13.2M internal ministry re-allocation to increase the Bad Debt Expense allocation in the 2016-17 estimates.

Q: How is Ontario supporting the sharing economy?

A: The government has taken action to begin supporting the development of a robust sharing economy, including announcing the creation of the Sharing Economy Advisory Committee, with representation from key ministries, to oversee the development and coordination of Ontario's approach to the sharing economy.

Further, in the 2016 Budget, the government announced a series of new measures, including:

- Working to ensure the province's auto insurance system can help provide peace of mind to those offering and using new types of transportation services through the sharing economy;
- Commencing consultation with industry and communities in spring 2016 on options to facilitate new and innovative choices for intercity passenger travel. The government will consult on a new regulatory regime to ensure safe and sustainable intercity passenger travel services;
- Piloting a program with Airbnb, a key sharing economy platform, to inform Ontarians who engage in home sharing about their consumer rights and responsibilities, and raise awareness of tax obligations; and

- Committing to consultations led by the Sharing Economy Advisory Committee, and focussed on the sharing economy, to help determine the best approach for Ontario moving forward.

Q: Why has the government introduced more red tape for estate representatives?

A: Following a 2011 Budget commitment to enhance EAT compliance, the Ministry of Finance (MOF) is collecting information needed to perform audits and verify that correct amounts of the tax have been paid. Effective January 1, 2015, estate representatives are required to submit an Estate Information Return with MOF to substantiate the total estate value provided to the courts. This new requirement does not alter the amount of tax payable or how the tax is calculated. An Estate Information Return is only required where an Estate Certificate has been applied for and issued by the courts.

Q: Has the government seen an increase in the Estate Administration Tax collected since January 1, 2015?

A: Tackling tax avoidance remains a key strategy as part of a robust and transparent administration process. The requirement to file an Estate Information Return (EIR) came into effect on January 1, 2015, for all applications made for an Estate Certificate on or after this date. Therefore, the first EIRs did not become due until the spring of 2015. In addition to verifying and auditing selected files, MOF continues to respond to written enquiries, telephone calls, and provide outreach activities to estate representatives and the legal profession to raise their awareness and understanding in meeting their obligations with respect to the Estate Administration Tax Act.

Q: What is the government doing to address Aggressive International Tax Planning?

A: All corporations should pay their fair share of taxes. That is why Ontario, in conjunction with the federal government, has taken substantive actions to help better address aggressive corporate tax avoidance. For example, under a fee-for-service agreement with the Canada Revenue Agency, Ontario invests in audit activities targeting aggressive international tax planning and the underground economy.

With Ontario's significant investment the Canada Revenue Agency was able to increase overall audit coverage rates, further reinforcing the integrity of the tax system. The government's agreement with the federal government to address non-compliance with federally administered provincial taxes through ongoing enhanced compliance-focused measures, including those that address the underground economy and aggressive tax planning has generated over $630M since 2013-14.

Q: What is Ontario doing to address the underground economy?

A: The government has made progress in fighting underground economic activities through:

Ongoing enhanced compliance-focused measures, including those that address the underground economy and aggressive tax planning, the Province has generated over $930 million to date - a $330 million increase over what was reported in the 2015 Budget;

Consultations with high-risk sectors, with a view to partnering with industry and gaining insight into how best to tackle the underground economy;

Requiring corporations to demonstrate federal and provincial tax compliance before receiving government contracts. Since February 2014, the government has verified compliance with tax obligations for more than 2,200 contracts; and

Amending the Taxation Act, 2007, to make the sale, use or distribution of electronic sales suppression devices an offence.

Taking specific actions in response to Parliamentary Assistant Laura Albanese's consultation with the residential construction industry, including:

Extending the residential roofing pilot project for an additional two years and examining opportunities to expand its scope beyond roofing to other areas of residential construction;

Launching a public awareness campaign to educate the public on the risks and potential liabilities associated with participation in the underground economy;

Dispatching specialized audit teams to focus on sectors that are at high risk of underground economy activity, in partnership with the Canada Revenue Agency;

Proposing legislation that would enhance information sharing, enable greater enforcement, and introduce additional penalties for participation in the underground economy; and

Helping home owners hire legitimate contractors when taking advantage of government-funded rebates for enhancing the energy efficiency of their homes.

ORPP ADMINISTRATION CORPORATION

Q: Why is the government providing the ORPP AC with a loan?

A: The ORPP AC is the independent, arms-length organization that will set-up and administer the ORPP.

The government is providing the ORPP AC with a repayable loan for essential work required to develop administrative systems, recruit a skilled team and launch the employer verification and enrolment process in 2017 and begin collection of contributions on January 1, 2018.

Ongoing costs to administer the ORPP would come from the plan, not from government revenues.

The ORPP AC is expected to repay the loan, with interest, from plan assets within a 10-year period.

Q: How much money is being loaned?

A: The government is providing flexibility for the ORPP AC to draw down based on operational requirements, up to $400M over three fiscal years. Costs would cover set-up expenses, including organizational start-up, development of tools/systems required for the verification and enrolment process, and the build/launch of administrative systems.

The government will monitor spending of the ORPP AC, while giving the Corporation the independence and flexibility it requires to administer the ORPP.

Accountability is at the core of the ORPP. Through a strong accountability and transparency framework, the independent Board of Directors and ORPP executives will be fully accountable to the plan's members. This framework has been benchmarked against the best practices of other leading independent pension plans.

Accountability measures include:

- An annual report tabled in the Legislature;
- Annual meetings for members;
- A publicly available Memorandum of Understanding; and,
- External auditing and strong financial controls.

Q: In the 2016/17 estimates, it shows a loan amount of up to $240M. How is that money going to be used?

A: This year (2016) is a critical period for the ORPP AC, with the launch of the employer verification/enrolment process and the building of systems needed to begin collecting contributions on January 1, 2018.

If pressed for more information: Further questions regarding ORPP AC expenditures can be directed towards the Administration Corporation.

ORPP IMPLEMENTATION SECRETARIAT

TOP 5 QAs

Q: How much has been spent on the ORPP Implementation Secretariat (ORPPIS) to date?

A: The Ministry is currently in the process of closing its books. The final expenditures for the ORPP IS will be included in the government's Public Accounts for 2015-16. The current $20M projection addresses costs associated with staffing and other related costs for the ORPP IS.

With regards to Other Direct Operating Expenditures (ODOE), the majority of expenses incurred by ORPP IS relate to the costs of services provided by third party vendors in areas where expertise external to government were required, such as actuarial analysis, legal advice and expert technical advice for the pension administration.

Approximately $5.5 million will be recovered from the Administration Corporation for expenditures directly related to the administration of the plan.

Q: Why does the Ministry's direct spending for ORPP decrease by $12.5M in 2016-17?

A: The Ministry, through the ORPP IS, continues to lead the implementation of the ORPP. Now that the ORPP Administration Corporation has been established, operational work has transferred to the Corporation, thus decreasing funding requirements for the Secretariat.

Funding for the ORPP IS in 2016-17 will support the development of regulations for the ORPP Act, 2016, as well as legislation to create the Office of the Chief Actuary and oversight responsibilities related to the ORPP Administration Corporation.

Q: Why is the government providing the ORPP AC with a $240M loan in 2016-2017?

A: The ORPP AC is the independent, arms-length organization that will set-up and administer the ORPP.

The government is providing the ORPP AC with a repayable loan for essential work required to develop administrative systems, recruit a skilled team and launch the employer verification and enrolment process in 2017 and begin collection of contributions on January 1, 2018.

Ongoing costs to administer the ORPP would come from the plan, not from government revenues.

The ORPP AC is expected to repay the loan, with interest, from plan assets beginning in 2019. The loan will be repaid by 2027.

If pressed about the terms of the loan:

The loan to the ORPP AC has been made on commercial terms. This includes the government's cost of borrowing plus a small margin of additional interest (25 bps).

Q: In total, how much is the government loaning the ORPP AC for set-up expenses?

A: The government is providing flexibility for the ORPP AC to draw down the loan based on operational requirements, up to $400M over three fiscal years. Costs would cover set-up expenses, including organizational start-up, the development of tools/systems required for the verification and enrolment process, and the build/launch of administrative systems.

The government will monitor the ORPP AC's spending, while giving the Corporation the independence and flexibility it requires to administer the ORPP.

Future administrative costs associated with the ORPP would be funded from member contributions and investment returns.

Q: In addition to the current costs and the loan to ORPP AC, how much money will it cost to implement the ORPP? Are we talking billions?

A: From the outset the government has said that it is committed to cost-effective and efficient administration of the ORPP that leverages existing expertise in Ontario's pension and financial services sector.

The ORPP AC will benchmark its administration costs to Canada's leading pension organization.

It would be premature to estimate the cost of implementing all components of the ORPP.

Q: Isn't the federal government helping to administer the ORPP?

A: The government is continuing to have discussions with federal government departments on the possibility of cooperation in administering the plan. This is in addition to the exploring and assessing different options, including leveraging infrastructure that exists within the Government of Ontario and exploring third-party private sector delivery through a procurement that is currently underway.

Running a modern pension plan is not simple and so the government continues to explore multiple options. In fact, it may make sense to work with several partners to support effective administration of the plan.

Q: Who pays for the ORPP start-up costs if the CPP is enhanced and the plan is never implemented?

A: The government's intention is that eligible start-up costs it incurs would be recovered from the plan.

If those circumstances arise, however, it means that there is an agreement on a CPP enhancement that will address the retirement security challenges facing Ontarians. That has always been the government's objective.

By continuing with preparations for the ORPP, the government is ensuring that, if no consensus on CPP enhancement is reached, retirement security can be strengthened in Ontario through the ORPP.

Loan Agreement with the ORPP Administration Corporation

Q: How much money is being loaned?

A: The government is providing flexibility for the ORPP AC to draw down based on operational requirements, up to $400M over three fiscal years. Costs would cover set-up expenses, including organizational start-up, development of tools/systems required for the verification and enrolment process, and the build/launch of administrative systems.

The government will monitor spending of the ORPP AC, while giving the Corporation the independence and flexibility it requires to administer the ORPP.

Accountability is at the core of the ORPP. Through a strong accountability and transparency framework, the independent Board of Directors and ORPP executives will be fully accountable to the plan's members. This framework has been benchmarked against the best practices of other leading independent pension plans.

Accountability measures include:

- An annual report tabled in the Legislature;
- Annual meetings for members;
- A publicly available Memorandum of Understanding; and,
- External auditing and strong financial controls.

Q: In the 2016/17 estimates, it shows a loan amount of up to $240M. How is that money going to be used?

A: This year (2016) is a critical period for the ORPP AC, with the launch of the employer verification/enrolment process and the building of systems needed to begin collecting contributions on January 1, 2018.

Q: How much of the loan has been drawn down to date? What has that money been used for?

A: $26 million has been drawn down to date.

The money has been used to fund essential start-up requirements for the ORPP AC. This includes contracts for expert services required to administer and operationalize the ORPP (e.g. organizational start-up, legal services, technical experts) and initial recruitment of staff.

Q: Is this money being spent on high salaries? What is the compensation framework for the ORPP AC?

A: The independent initial board of directors of the ORPP AC is responsible for establishing the Corporation's compensation framework.

Salaries would be benchmarked to other leading pension plans in Ontario to ensure that the ORPP AC is able to recruit essential talent.

The compensation of the top five executives, including the CEO, will be reported on an annual basis in the ORPP AC's Annual Report. This is in line with the best practices of Ontario's leading pension plans.

If pressed for more information: The ORPP AC has hired external advisors to assist with the compensation framework.

Q: Does the government expect to be repaid?

A: Yes, the repayable loan is structured on commercial terms. This means that it includes repayment obligations, with interest, over an established period of time.

Q: What would be the cost to government if the ORPP is cancelled after it launches?

A: The government is providing flexibility for the ORPP AC to draw down the loan based on operational requirements, up to $400M over three fiscal years. Costs would cover set-up expenses, including organizational start-up, development of tools/systems required for the verification and enrolment process, and the build/launch of administrative systems. Future ORPP administration costs would be funded from member contributions and investment returns.

The government's intention is that all eligible start-up costs it incurs would be recovered from the plan. The level of contributions collected, benefits owed and investment returns at the time of cancellation will determine the net cost of the cancellation.

Q: How is the repayment schedule structured? Will it be charged interest?

A: The ORPP AC has an obligation to repay the loan, principal and interest, within ten years.

This repayment period will help ensure that payments do not negatively impact plan sustainability. It is intended that the ORPP AC repay the loan from investment returns to make sure that contributions and benefits are reserved in trust for members.

Q: Why doesn't the ORPP AC get a traditional bank loan?

A: The repayable loan is structured on commercial terms. This was the appropriate vehicle given the ORPP AC would not have assets until contributions begin in 2018.

Q: Will there be any public reporting or accountability to how the loan is spent?

A: The loan to the ORPP AC is structured on commercial terms and will be repaid with interest. Actual expenditures from the loan will be reported through public accounts.

In addition, the ORPP AC is required to develop and publicly release an annual report, which would include financial statements of the Corporation. The report will also include compensation for the top five executive positions.

Accountability is at the core of the ORPP. Through a strong accountability and transparency framework, the independent Board of Directors and ORPP executives will be fully accountable to the plan's members and to government. This framework has been benchmarked against the best practices of other leading independent pension plans.

Q: What types of costs will the loan be used to pay?

A: The repayable loan will be used to fund set-up expenses, including organizational start-up, development of tools/systems required for the verification and enrolment process (e.g. software licencing, hardware and technical writing), and the build and initial operation of administrative systems.

The loan will not be used to fund ongoing plan operations or investments.

Q: How much money has the ORPP AC spent on the services of consultants?

A: The ORPP AC has obtained expert services required to administer and operationalize the ORPP (e.g. organizational start-up, legal services, technical experts).

The government and the ORPP AC are committed to leveraging the expertise and experience of the industry and the financial sector to deliver a simple, reliable and cost-effective plan.

If pressed for more specifics: The ORPP AC procures goods and services based on a policy that was benchmarked against government and other leading pension plans.

Q: How does the loan relate to administration costs of the ORPP?

A: The ORPP will be one of the largest pension plans in the Canada. At maturity, the ORPP is expected to have over 4 million members, involve nearly 450,000 employers and collect more than $6 billion annually.

The government is committed to a simple, reliable and cost effective administration. This includes leveraging the strong, existing capabilities found in Ontario's pension and financial services sector and benchmarking ORPP administration costs against Canada's leading pension organizations.

We are continuing to have discussions with federal government departments on the possibility of cooperation in registration and administering the plan. This is in addition to the exploring and assessing different options, including leveraging infrastructure that exists within the Government of Ontario and exploring third-party private sector delivery.

Q: What is the ORPP Administration Corporation?

A: The ORPP Administration Corporation is the independent, arm's length organization that will administer the ORPP. Its responsibilities include:

- Enrolling eligible employers and employees;
- Collecting, investing and holding contributions in trust for members;
- Administering benefits; and
- Communicating with employers, members and other beneficiaries.

Q: What are the accountability mechanisms of the ORPP Administration Corporation? To whom does it report?

A: Accountability is at the core of the governance structure of the ORPP Administration Corporation. Through a strong accountability and transparency framework, the independent board of directors and ORPP executives will be fully

accountable to the plan's members. This framework mirrors the best practices of other leading independent pension plans.

Accountability measures include:

- A Memorandum of Understanding being developed between the ORPP Administration Corporation and the Minister of Finance
- An annual report;
- An annual meeting for beneficiaries;
- External auditing and strong financial controls; and
- A review of the governance framework established by legislation within 10 years.

ORPP Implementation Secretariat

Q: Why is the ORPP IS still in place now that the ORPP AC has been established?

A: The Ontario Retirement Pension Plan Implementation Secretariat leads the policy, governance and legislative functions to establish the ORPP and supports the set-up of the ORPP AC.

Specific responsibilities include:

- Finalizing the plan design for the ORPP, including conducting analysis, developing policy options, preparing the plan text, developing a funding policy, conducting actuarial analysis, and drafting legislation.
- Leading discussions between governments with respect to ORPP implementation, including registration of the plan, data sharing agreement, and exploration of options for administration cooperation.
- Establishing and supporting the ORPP AC to ensure successful launch and implementation.
- Providing strategic communications and stakeholder engagement advice and services to support ORPP development and implementation.
- Developing an oversight function related to the ORPP, including monitoring progress of deliverables and achievements.

Q: Why did the government spend an additional $6 million than was estimated last year? Is this another example of the government overspending on consultants?

A: Implementing the ORPP is one of the government's top priorities and involves very aggressive timelines. The government continues to drive forward plan implementation to ensure this priority is delivered in timely manner. Implementation activities include acquiring third party vendors to deliver expert services in the areas of actuarial analysis, legal advice and expert technical advice for the pension administration.

Timely and thoughtful procurement of these services is critical to ensure all milestones are met and registration of employers can begin in 2017. The costs associated with operational procurements will be reimbursed by the ORPP AC.

Approximately $5.5 million will be recovered from the Administration Corporation for expenditures directly related to the administration of the plan.

Federal Collaboration

Q: On one hand you say you are launching the ORPP in 2017, but then indicate that the collection of contributions won't start until 2018…which is it?

A: The ORPP implementation timeline has being modified. Employer verification will begin later in 2016 with enrollment of employers beginning in January 2017. This process will support a seamless transition to the collection of contributions starting on January 1, 2018 for large and medium size employers.

All other implementation dates remain the same. Contribution rates for employers without a registered pension plan will still be phased in as previously announced.

Many employer groups have called on the government to delay the launch of the plan to ensure a successful and smooth implementation, and allow a window to discuss a national solution. The government has modified the ORPP timelines to reflect this advice.

The government is on track to ensure that all eligible Ontario workers are enrolled in a comparable workplace plan or the ORPP by 2020.

ORPP Phase-In and Contribution Schedule (rates reflect contributions to be made by each employer and employee) Employer registration in the ORPP would begin on January 1, 2017.				
Type of Employer	Jan 1, 2018	Jan 1, 2019	Jan 1, 2020	Jan 1, 2021
Wave 1: large employers without registered workplace pension plans	**0.8%**	**1.6%**	**1.9%**	**1.9%**
Wave 2: medium employers without registered workplace pension plans	**0.8%**	**1.6%**	**1.9%**	**1.9%**
Wave 3: small employers without registered workplace pension plans	**0%**	**0.8%**	**1.6%**	**1.9%**
Wave 4: employers with registered pension plans that either do not meet the comparability test or do not cover all classes of employees	**0%**	**0%**	**1.9%**	**1.9%**

Q: Is the federal government committing to administer your plan if CPP talks fail?

A: Ontario is pleased with the cooperation and partnership it has received from the new federal government. They have agreed to facilitate ORPP plan registration and to enter into a data sharing agreement to support implementation. The federal government has also committed to working with Ontario to ensure effective plan administration.

Ontario has always stated that it is committed to a simple, reliable and cost effective administration of the ORPP. Partnering with the federal government on plan registration, data sharing, and exploring models of plan administration supports this objective.

However, running a modern pension plan is not simple and so other options for administration are being explored including within the broader public sector and in partnership with private sector vendors. In fact, it may make sense to work with several partners to support effective administration of the plan.

Q: Would Ontario support a CPP enhancement that is a universal program to all employers and employees?

A: In designing the ORPP it was clear that, even though two thirds of Ontarians are not members of a workplace pension plan, many employers do provide generous workplace pension plans.

With this in mind, the government developed the framework of a comparable plan – so that employers that provide a generous workplace pension plan would not be

required to contribute to the ORPP. This is a central part of the ORPP and reflects the objective of introducing the ORPP in a manner that doesn't adversely impact generous workplace pension plan arrangements that are already working well for employees and employers.

The Province's extensive consultations in developing the ORPP have helped to inform its view that a CPP enhancement must be timely and provide a level of adequacy and targeted coverage that is consistent with the ORPP. Ontario is bringing this insight to the national discussion.

The province is also listening to the federal government and the other provinces and territories, and reflecting on their perspective on a CPP enhancement.

Q: If the government is going to proceed with measures such as introducing legislation on ORPP plan design, are you even serious about discussing the CPP?

A: The government has always said a national solution to enhancing retirement security is the best way forward. It has also said that it is imperative to address the challenge of retirement security ***now***. It is a critical issue for the future well-being of Ontarians and the economy that cannot be delayed.

Minister Morneau has outlined an aggressive timeline to enhance the CPP, including achieving a consensus to move forward by June and a national agreement by the end of 2016. The province looks forward to these discussions.

Legislation

Q: What progress has the government made on the ORPP to date?

A: The government is on track to meet its objective that, by 2020, all eligible Ontario workers are covered by a comparable workplace plan or the ORPP.

The ORPP Administration Corporation is now established and the process to register the plan with the Canada Revenue Agency is well underway. Final elements of plan design will be enshrined in legislation this spring. 6.

Employer verification will begin later in 2016 with enrollment of employers beginning in January 2017. This process will support a seamless transition to the collection of contributions starting on January 1, 2018 for large and medium size employers. The additional time is also enabling national discussion on a CPP enhancement to proceed.

Q: Why introduce legislation now? Didn't you commit to ongoing national discussions on a CPP enhancement?

[Legislation tracking to be introduced April 14, 2016]

A: The government has been clear that about the need to enhance retirement security today. The problem cannot be left to some ambiguous future date. It is critical for the well-being of Ontarians and the economy that we take action now.

Ontario moved to create the ORPP after the previous federal government refused to discuss enhancing the CPP. Today, the circumstances have changed and Ontario is playing a leading role in discussing a national solution.

However, to successfully launch the ORPP plan preparations must continue alongside federal discussions to ensure that, no matter the outcome, Ontario will retire with enhanced security.

Moving forward with legislation will ensure that employers have the time they need to prepare for the ORPP.

Q: What will be included in upcoming legislation?

A: The government intends to introduce further legislation on the ORPP in the spring of 2016. The legislation will set out the comprehensive requirements of the ORPP, plan sustainability and the compliance and enforcement regime.

Further legislation in 2016 would establish an Office of the Chief Actuary to provide independent actuarial advice and valuations of the ORPP to government and the ORPP Administration Corporation.

Plan Sustainability

Q: What accountability mechanisms exist to ensure that plan members' benefits will be there for them when they retire?

A: Through extensive actuarial modelling, the government has designed the plan to be sustainable over the long term. To ensure continued plan sustainability, a formal funding policy would be established that provides for appropriate adjustments to be made to plan benefits and/or contributions.

Background

Q: What is the Ontario Retirement Pension Plan (ORPP)?

A: The ORPP is a mandatory provincial pension plan that is scheduled to launch on January 1, 2017, with employer and employee collections beginning in 2018.

The ORPP would:

- Include eligible employees who are employed in Ontario and not participating in a comparable workplace pension plan;
- Aim to replace 15 per cent of an individual's pre-retirement earnings up to maximum earnings threshold of $90,000 (in proposed 2017 dollars);
- Require eligible employers and employees each to contribute up to 1.9% of employee earnings
- Require benefits to be earned as contributions are made; and
- Be managed by the ORPP Administration Corporation – an independent, arm's length entity, which will be responsible and fully accountable for administration and investment in the best interest of plan members.

Q: Why is the ORPP needed?

A: Experts generally recommend that individuals aim to replace 50-70% of their pre-retirement income to maintain their standard of living in retirement. However, studies show that a significant number of Ontarians are concerned they will not have sufficient income in retirement.

Two-thirds of Ontario's workers do not participate in a workplace pension plan. Moreover, three-quarters of younger workers – aged 25 to 34 – do not participate in a workplace pension plan.

Q: What are the anticipated impacts of the ORPP on Ontario's economy?

A: The government commissioned the Conference Board of Canada to conduct a cost-benefit analysis on the economic impact of the ORPP that was tabled in the legislature in December. The report's conclusion is clear – accounting for all factors and opportunity costs, both consumers and the economy are better off under the ORPP. This is good news for Ontarians.

The report reiterates that in the long-term, the ORPP is expected to add over $39 billion to Ontario's economy by ensuring that future retirees have adequate retirement savings. It also notes the ORPP is a more cost-effective means of helping individuals save than traditional retirement savings vehicles.

The report does acknowledge a small, short-term impact to the economy. However, this impact is partially mitigated by reductions in employment insurance and WSIB premiums. As well, the government remains committed to taking measures today to strengthen the economy.

ORPP Advertising and Market Research Costs

Q: Why is the Government advertising the Ontario Retirement Pension Plan?

A: The ORPP is intended to provide a predictable source of retirement income for life, for millions of Ontarians. By 2020, every employee in Ontario will be part of either the ORPP or a comparable workplace pension plan.

The ORPP is a key pillar of the government's economic plan. It is important that Ontarians know where to get the most up-to-date information on the plan.

There is a lot of work that needs to happen between then and now. To build awareness of the ORPP ahead of its launch in January 2017, we have recently released ads about the ORPP on TV radio and digital platforms.

The government has a responsibility to raise awareness and communicate information about its programs and services.

These ads are meant to increase Ontarian's awareness of the ORPP, drive them to http://www.ontario.ca/orpp for more information and answer questions about the design and implementation of the plan.

Q: In 2015-16, how much did the ministry spend on the ORPP campaign (including advertising, marketing and market research)?

A: In total, $6,614,987 was spent on the ORPP advertising campaign. Of this figure, $1,770,067 was spent on agency fees.

Media buying costs totalled $4,689,080. This amount will be recouped through the Bulk Media Buy. In total, $155,840 was spent on market research to provide benchmarking and tracking data, as well as creative feedback and insights for advertising and marketing purposes.

ONTARIO FINANCING AUTHORITY

Q: How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

A: Debt is incurred primarily for two reasons: to finance deficits and invest in capital assets. Ontario is making public infrastructure investments of more than $137 billion over the next 10 years, or about $160 billion over 12 years, starting in 2014–15.

One of the objectives of investment in capital is to improve the economic growth of the Province, supplementing GDP growth. As a result, the net debt-to-GDP ratio will come down more quickly than it would have without these investments in capital assets.

The government's plan therefore hinges on first balancing the budget, and continuing to make investments in capital assets which will add to economic growth, resulting in GDP growing more quickly than debt, and lowering the net debt-to-GDP ratio to our 27 per cent target.

Q: Ontario's debt has more than doubled since Premier McGuinty was first elected. When interest rates begin to rise, won't interest costs displace spending on the Government's priorities?

A: Ontario has a realistic plan to balance its budget while investments are made in the priorities of Ontario families – health care, education, the environment and infrastructure.

Investor demand has allowed the Province to extend the term of its debt in recent years and lock in low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs. Since 2010, the province has borrowed $53.5 billion in the 30-year term.

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

Q: How will the credit rating agencies respond to the 2016 Budget?

A: Ontario currently maintains a double-A rating with three of its four credit rating agencies. Ontario continues to outperform its deficit projections and is on track to a balanced budget by 2017–18. Moreover, Ontario's net debt-to-GDP ratio is expected to peak in 2015–16 at 39.6 per cent, remain unchanged in 2016–17, decline to 38.9 per cent in 2017–18 and 38.5 per cent in the 2018–19.

We met with the rating agencies following the 2016 Budget and expect to hear back from them over the next few months.

CORPORATE ELECTRICITY FINANCE DIVISION

Trillium Trust

Q: What's the current status of the funds in the Trillium Trust?

A: The Public Accounts of Ontario 2014-2015, published in September 2015, show that $1.35 billion has been dedicated to the Trillium Trust.

These are the net proceeds from the sale of the Province's remaining General Motors common shares in early 2015, combined with net proceeds from a September 2013 GM share sale and the redemption of preferred shares in late 2014.

Under the Trillium Trust Act, Hydro One shares have been designated as assets for which the net revenue gains from a sale are dedicated to the Trillium Trust. Once the Province has received all of the final financial inputs to fully assess and account for the net revenue gains associated with the Hydro One IPO, it will introduce a regulation to designate the net gain amount from the Hydro One IPO to be dedicated to the Trust and prescribe the other net revenue benefits resulting from Hydro One's recognition of a deferred tax benefit, to be dedicated to the trust.

Q: Since the Hydro One IPO was completed several months ago and now the government has announced a secondary share offering, why haven't you made any regulations to dedicate the fiscal benefits of the Hydro One IPO to the Trillium Trust? When will you make these regulations and when will we see these amounts in the Trillium Trust?

A: Under the Trillium Trust Act, Hydro One shares have been designated as assets for which the net revenue gains from a sale are dedicated to the Trillium Trust.

The determination of the net revenue gains related to the Hydro One IPO depends in part on Hydro One's audited, year-end financial statements. Hydro One released its 2015 Annual Financial Statements on February 12, 2016. Once the Province has received the financial information to fully assess and account for the net revenue gains, including the determination of a deferred tax benefit impact on the Province's net revenues, it will introduce regulations to designate the amounts to be dedicated to the trust.

Q: Why have no amounts been spent from the Trillium Trust yet, not even from the GM share gain amounts from 2014-15? And why are there only $1,000 in placeholder expenditure numbers for the Trillium Trust lines in Estimates?

A: The Province is on track to generate $5.7 billion in net revenue benefit from asset optimization to be dedicated to the Trillium Trust to help support investments in transit, transportation and other priority infrastructure projects under the $31.5

billion Moving Ontario Forward initiative over 10 years to create jobs, boost productivity and revitalize communities.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects such as GO Regional Express Rail is focused on planning, design, property acquisition and other activities to get projects construction-ready. The government plans to begin drawing down on the balance in the Trillium Trust starting in 2016-17, as it is expected that spending will ramp up significantly once this preliminary work is completed and construction activity is underway. This will allow for identification for cash flow timing requirements from the Trillium Trust during 2016-17 and subsequent years.

Q: When will the government actually be able to start using funds from the Trillium Trust to pay for transit and infrastructure?

A: The government plans to begin drawing down on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history. As the Moving Ontario Forward initiative was announced prior to Budget 2014, with incremental transit, transportation and other priority infrastructure projects, the expected timeframe for expenditures for these projects and drawdowns from the Trillium Trust are expected to happen over time, starting in 2016-17.

Based on planned expenditures, in 2016-17 the Trillium Trust would support Moving Ontario Forward initiatives, such as

- Regional Express Rail (RER);
- Hurontario Light Rail Transit (LRT); and
- Ontario Community Infrastructure Fund.
- *Asset Optimization*

Q: How much was raised from the Hydro One IPO?

A: From the November 2015 IPO and related share sales, the Province raised about $1.9 billion in gross proceeds before expenses and fees.

- In the November 2015 IPO, the Province sold 89,250,000 common shares at the IPO price of $20.50 per share for total gross proceeds to the Province of approximately $1.83 billion.
- Including other related share sales at the IPO price, the gross proceeds were $1.9 billion, including approximately $116 million in gross proceeds from shares sold to separate trusts established respectively by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP).

The determination of the net revenue gains from the gross proceeds depends on the finalisation of the book value of the shares sold at the time of the IPO and expenses and fees related to the IPO. The net gain from the November 2015 share sales is currently estimated at about $0.8 billion.

There are other associated benefits, aside from the sale of shares.

- An expected revenue benefit to the Province due to the revaluation of its fixed assets as a result of the IPO, resulting in Hydro One recognizing a deferred tax benefit. Based on the Prospectus, the Province communicated that it expected to realize a benefit of about $2.2 billion, which is subject to update and finalisation in Public Accounts.

- The Province also received cash (non-revenue benefits) of $1 billion in special payments from Hydro One, including $800 million in a special dividend paid prior to the IPO, and about $200 million in additional payments in lieu of taxes to the Ontario Electricity Financial Corporation (OEFC).

Q: What amount of proceeds will the Province receive from the secondary offering?

A: In this secondary offering, the Province has offered about 72.4 million common shares, or about 12 per cent of the common shares, at $23.65 per share, for total gross proceeds of approximately $1.7 billion

The Province has granted an option to the underwriters to purchase up to an additional approximately 10.86 million common shares, or just under 2 per cent of the common shares, which if exercised in full, would result in total gross proceeds of approximately $2 billion.

If the overallotment option is exercised in full, the Province will have sold 14% of its shares outstanding in this offering.

The government is committed to dedicating the net revenue gains from the secondary offering to the Trillium Trust. The *Trillium Trust Act, 2014* ensures that all net revenue gains from the sale of Hydro One shares will be credited to the Trillium Trust for investments in priority infrastructure projects.

[Net proceeds are currently estimated at about $0.5 billion based on the about 12% of shares offered in the base amount. If the over-allotment is fully exercised, the net proceeds are estimated at about $0.6 billion.]

Q: What was the process involved in selecting the underwriters involved for the secondary offering

A: RBC and Scotiabank were chosen as the co-lead underwriters for the secondary offering. These same two firms were chosen to lead the IPO underwriting through

a competitive and transparent process, overseen by Denis Desautels, the former Auditor General of Canada.

The price discount offered by the underwriters to purchase shares from the Province through the "firm commitment offering" was also very competitive, representing an approximate 2% discount compared to the closing trading price of Hydro One shares on April 5th. Underwriting fees of 1% for institutional investors and 3% for retail investors is significantly lower than what underwriters have typically earned on firm commitment offerings and consistent with the fees earned in the Initial Public Offering.

- Impact on Electricity Sector Dedicated Income

Q: Why is the interim Electricity Sector Dedicated Income (ESDI) $0 in 2015-16, and why is the forecast so low for ESDI in the 2016-17 Printed Estimates? Is this because of the Hydro One IPO reducing the Province's future revenues from Hydro One and reducing the amounts to pay for stranded debt?

A: The Hydro One IPO resulted in a significant upfront reduction in the stranded debt of the electricity sector.

For the year ended March 31, 2016, the IPO resulted in very large upfront payments to the Ontario Electricity Financial Corporation (OEFC) towards stranded debt. This included a total of $2.8 billion in departure tax and additional payments-in-lieu of taxes (PILs) paid by Hydro One to OEFC.

As these large amounts were expenses to Hydro One, they had a dollar-for-dollar impact on reducing Hydro One's estimated net income for 2015-16, partially offset by the deferred tax benefit impact on the Province's net income from Hydro One.

Because of these large payments to OEFC, this resulted in an estimated zero Electricity Sector Dedicated Income transfer to OEFC, as the combined net income of OPG and Hydro One to the Province was estimated to fall short of the about $520 million in annual interest expense.

Under the Electricity Sector Dedicated Income, the Province has been dedicating the cumulative combined net income of OPG and Hydro One in excess of the Province's interest cost of its investment in these companies (about $520 million annually, prior to the Hydro One IPO) to OEFC.

As the ESDI commitment is calculated on a cumulative basis over time, the estimated shortfall in the combined net incomes of OPG and Hydro One in 2015-16 compared to the about $520 million in the Province's financing costs, reduces the estimated Electricity Sector Dedicated Income in 2016-17 [and potentially in future years], until the past shortfall is offset by the combined net incomes going forward from 2015-16.

The actual ESDI amounts for 2015-16 and 2016-17 is subject to finalisation, including the actual financial performances of OPG and Hydro One in 2015-16 and 2016-17, and will be reported in OEFC's annual financial statements and Public Accounts.

[Note: For the 2015-16 Printed Estimates, the ESDI was positive, as the projected ESDI did not build in the potential impact of the broadening of Hydro One ownership due to the commercial and market sensitivity of the estimated impacts on Hydro One of the expected departure tax. The potential impact of the broadening of Hydro One ownership was built into the asset optimization component of the Sales and Rental revenue line.]

From:	Birks, Ryan (MOF)
To:	Tim Schuurman (MOF); Karen Hughes (MGS); Maria Duran-Schneider (MOF); Arruda, Artur (TBS); Veinot, Cindy (TBS); Brian Lewis (MOL); Gadi Mayman; Ronald Kwan; Patrick Laughton (MOF); Law, Rex (TBS); Nina Arbabzadeh (EDU); Hosick, Sarah (TBS); Christina Zhang; Tomasz Bugajski; Mehanovic, Nermina (TBS); Tara McGrath (MOF); Emma Lindquist (MOF); Ken Kandeepan; Oxana Golovkina (MCSCS); Gladys Miu (MOI); Selena Esmail (MOF); Andrea Dutton (MOF); Martin Schlaepfer (MOF)
Subject:	FAO Economic and Fiscal Outlook Report- Consolidated Edits
Date:	Wednesday, October 12, 2016 4:18:50 PM
Attachments:	Fiscal Outlook - MoF_Comments_v5.docx Economic Outlook - MoF erfab comments.docx

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Hello All,

Ahead of today's FAO pre-meeting, please find attached consolidated edits in track changes for the Fall Fiscal Outlook and Economic Outlook. Subject to this afternoon's discussion, these are the edits we plan to submit to the FAO.

Please use the same FAO password to access the documents.

Thanks,
Ryan

Ryan Birks
Special Policy Advisor and Executive Assistant
ADMO, Office of the Budget
416-327-0074

Draft Fiscal Outlook

October 7, 2016

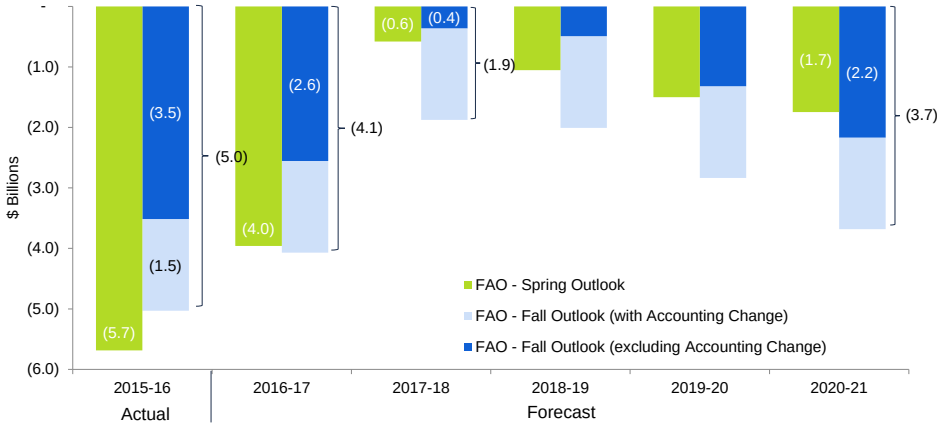
Overview

Ontario's Budget Nears Balance

The FAO is currently projecting Ontario budget deficits of $4.1 billion in 2016-17 and $1.9 billion in 2017-18. This updated fiscal projection is based on new economic[1] and fiscal developments, and reflects the change in the accounting treatment of jointly sponsored pension plans in 2015-16, which is assumed to continue over the outlook. [2] Excluding this accounting change, the FAO projects Ontario's budget deficit would be $2.6 billion in 2016-17 and $0.4 billion in 2017-18, which represent modest improvements from the FAO's spring outlook report.

Beginning in 2018-19, the ~~deficit~~ FAO is still ~~expected~~ expecting the deficit to steadily deteriorate as growth in revenue is outpaced by increases in program spending and interest on debt payments.

Ontario's Budget Balance



Source: FAO

Commented [MoF1]: Please add note that FAO surplus/deficit analysis is presented before reserve.

Commented [MoF2]: Please add note that budget balance is before reserve.
Consider adding note that Ontario's latest fiscal outlook extends only to 2018-19.

[1] See Chapter 2, 'Economic Outlook'.

[2] In the 2015-16 Financial Statements, released October 3, 2016, the government changed the accounting treatment of jointly sponsored pension plans, based on the Auditor General's opinion. This accounting change increased net debt by $9.2 billion and the deficit by $1.5 billion in 2015-16. However, it is unclear how this accounting change will impact the Province's finances going forward. The government plans to form an independent expert panel to provide recommendations on the appropriate accounting treatment of Ontario's pension assets. For this report, the FAO provides a fiscal outlook before and after the accounting change assuming that the new treatment results in a fixed $1.5 billion impact on Ontario's fiscal balance each year. The FAO will adopt the new fiscal presentation incorporating the new accounting standard agreed upon by the Auditor General and the government.

Although the budget balance projection (excluding the accounting change) has improved only modestly since the FAO's spring outlook, a number of significant but largely offsetting factors have impacted Ontario's fiscal position. These include:

- a surprisingly strong 8.3 per cent increase in tax revenues in 2015-16, as reported in the 2015-16 Public Accounts, partially offset by slightly higher than expected program spending;
- new spending commitments, announced in the September ~~9~~12, 2016 Speech from the Throne, to expand child care spaces and provide a rebate on household electricity bills equal to the provincial portion of ~~for~~ the HST ~~paid on household electricity bills~~;
- lower than expected economic growth in 2016 and 2017 which moderately dampens the expected growth in tax revenues; and
- lower interest on debt payments, reflecting a more gradual expected increase in interest rates over the outlook.

Impact of Factors Contributing to the Change in the Budget Balance since the FAO's Spring Outlook

	2016-17	2017-18	2018-19	2019-20	2020-21
FAO's 2016 Spring Outlook - Budget Balance	**-4.0**	**-0.6**	**-1.1**	**-1.5**	**-1.7**
2015-16 Public Accounts and Fiscal Developments*	2.1	2.2	2.1	1.9	1.7
Throne Speech Announcements	-0.6	-1.8	-1.8	-1.8	-1.8
Updated economic and demographic data	-0.4	-0.8	-0.6	-0.6	-0.8
Interest on Debt**	0.4	0.6	0.8	0.7	0.5
Total Impact	**1.4**	**0.2**	**0.6**	**0.2**	**-0.4**
Updated Budget Balance	**-2.6**	**-0.4**	**-0.5**	**-1.3**	**-2.2**
Accounting Change	-1.5	-1.5	-1.5	-1.5	-1.5
Updated Budget Balance with Accounting Change	**-4.1**	**-1.9**	**-2.0**	**-2.8**	**-3.7**

Positive values indicate improvement in budget balance (i.e. lower deficit). Numbers may not add due to rounding. The total impact includes minor changes due to methodological improvements, which total less than $100 million.
* Excludes $1.5 billion in accounting changes.
** Captures impact of lower interest rates as well as changes in borrowing.

Commented [MoF3]: Please add note that this is analysis is before the reserve.

Commented [MoF4]: These totals do not align with the table shown on page 6. Consider adding clarification about how assumptions differ, or potentially update to align estimates.

Revenue Outlook

From 2015-16 to 2020-21, the FAO projects total revenues to increase at an average annual rate of 3.2 per cent, slightly below the 3.3 per cent forecast in the FAO's spring outlook. This incorporates the proceeds

from the government's planned asset sales[3], new revenues from cap and trade, and new federal transfers as announced in the 2016 Budget.

Tax Revenue

Tax revenue is expected to rise by 3.1 per cent over the outlook, slightly weaker than the 3.2 per cent forecast in the spring, consistent with the FAO's revised economic projection.

There were two significant changes to the tax revenue outlook since the spring.

- The 2015-16 Public Accounts reported higher than expected tax revenues. This raised the starting point for the projection, pushing up tax revenues over the outlook.
- At the same time, a somewhat weaker economic forecast, particularly for corporate profits, partially offset some of the positive impact of the higher 2015-16 tax revenue base over the outlook.

When higher 2015-16 revenues are combined with a slightly weaker outlook for revenue growth, tax revenues are projected to be $0.6 billion higher in 2017-18 and $1.0 billion higher in 2020-21 compared to the spring forecast.

2015-16 Public Accounts

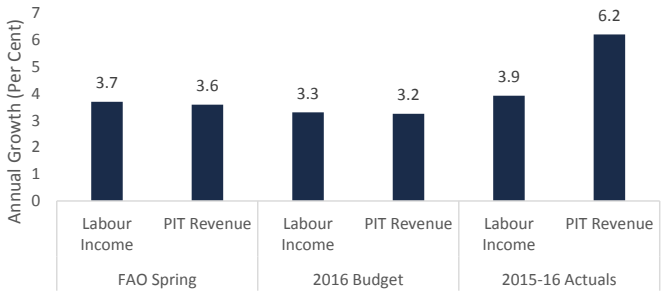
The incorporation of the 2015-16 Public accounts resulted in a much higher starting point for the FAO's tax revenue projection, leading to higher tax revenues over the forecast, compared to the spring outlook. Specifically, the Public Accounts reported a surprisingly strong 8.3 per cent growth in 2015-16 tax revenues, much stronger than the growth in economic drivers would suggest.

In particular, PIT revenue grew by 6.2 per cent in 2015-16, well above the 3.9 per cent growth in household income. This implies an increase of almost $900 million in PIT revenue that cannot be explained by income growth alone.[4] This unusually large increase in PIT was not anticipated in the 2016 Budget projections nor by the FAO in the spring outlook, and was mainly driven by stronger than expected personal income tax returns for 2015.

Commented [MoF5]: Suggest clarifying this last segment of the sentence to the following "and was mainly driven by stronger than expected revenues arising from assessment of PIT returns for 2015"

Ontario's 2015 Personal Income Tax and Labour Income Growth

[3] The increase in 2015-16 revenues includes the sale of the first tranche of Hydro One equity – which increased revenues by $3.2 billion.
[4] The $900 million difference is based on personal income tax revenue sensitivities from the 2015 Ontario Budget, page 273.



Source: 2016 Ontario Budget, Statistics Canada, Ontario Public Accounts and FAO

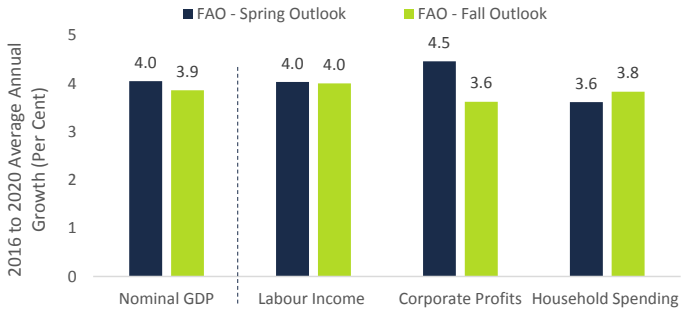
Impact of Revised Economic Outlook on Tax Revenues

A moderately weaker economic forecast dampened the tax revenue outlook, partially offsetting some of the positive impact of the 2015-16 public accounts.

While the FAO outlook for labour income and household spending remains fairly strong, the forecast for nominal GDP has declined since the spring outlook, largely as a result of weaker growth in corporate profits.

Growth in Key Tax Drivers, 2016 – 2020[5]

Commented [MoF6]: Missing a label on the last set of bars.



Source: Statistics Canada, Ontario Economic Accounts and FAO

The forecast for corporate profits has been revised lower, largely reflecting weak corporate profit growth over the first half of 2016. As a result, corporate tax revenue is currently projected to be $0.7 billion lower, on average, in each year.

Non-Tax Revenue

[5] "Labour income", "corporate profits" and "household spending" are defined by Statistics Canada as "compensation of employees", "net operating surplus: corporations", and "household consumption" respectively.

Revenues from federal transfers are expected to rise from $22.9 billion in 2015-16 to $27.0 billion by 2020-21. The current outlook for federal transfers is down modestly from the FAO's spring outlook, reflecting $0.3 billion in lower Equalization payments by 2020-21 due to a relatively weaker economic outlook for the rest of Canada.

In April 2016, non-tax revenues were boosted by the Province's sale of a further ~~15~~ 14 per cent of Hydro One, generating approximately $0.6 billion in one-time proceeds. Consequently, the Province's net income from Hydro One is reduced by a further ~~15~~ 14 per cent (roughly $100 million) beginning in 2016-17.

The recent Public Accounts reported that revenue from government business enterprises (GBEs) was $560 million higher in 2015-16 than forecast in the 2016 Budget, largely reflecting higher net income from the electricity sector. The FAO projection for GBE income is based on the published 2016 Budget forecast adjusted for the higher results reported in the public accounts.

Spending Outlook

Program Spending

Based on the Auditor General's opinion, the Province changed the accounting treatment of jointly sponsored pension plans in the 2015-16 Public Accounts. This resulted in an increase of $1.5 billion in program spending for 2015-16, which ~~is~~ the FAO assume~~sd~~ ~~to extend~~will continue over the outlook. The government plans to form an independent expert panel to provide recommendations on the appropriate accounting treatment of Ontario's pension assets.

From 2015-16 to 2018-19, the FAO projects program spending to grow at an average annual ~~pace~~ rate of 2.2 per cent. This reflects the 2016 Budget program spending projections, with adjustments to incorporate the new spending commitments announced in the September ~~19~~12, 2016 Speech from the Throne.

Specifically, the government proposes to:

- Provide a ~~Rebate~~ rebate equal to the provincial portion of the HST on the electricity bills of residential homes, farms and small businesses, beginning January 1, 2017.[6] This measure is expected to result in new government spending of $1 billion annually in 2017-18 onwards.[7]
- Create 100,000 new child care spaces over five years starting in 2017. This program is expected to result in new capital spending between $1 billion and $3 billion over five years, and between $600 million and $750 million in new annual operating costs, when fully implemented.[8]

Given the limited details, the FAO has incorporated reasonable assumptions about the total cost and roll-out of both measures into its program spending projections. These measures are assumed to be ~~new~~

[6] Government of Ontario News Release, *Ontario Introducing Measures to Reduce Electricity Costs*, September 15, 2016
[7] QP Briefing, *Throne Speech 2016: Premier Wynne pledges hydro bill relief, more child care spaces*, September 12, 2016
[8] QP Briefing, *Throne Speech 2016: 100,000 new licensed child care spaces to cost up to $3.75B*, September 12, 2016

Commented [MoF7]: Note that the Province sold 14 per cent of Hydro One common shares in the secondary offering.

Commented [MoF8]: Note that the Province raised approximately $2 billion in gross proceeds in the offering: https://news.ontario.ca/mei/en/2016/05/ontario-raises-197-billion-for-infrastructure-investments.html

However, an estimated **gain** of $0.6 billion appears to be a reasonable estimate, subject to finalisation in Public Accounts.

Commented [MoF9]: Note that the Province sold 14 per cent of Hydro One common shares in the secondary offering.

Commented [MoF10]: Suggest moving paragraph to right after the "FAO's Assumptions for Newly Announced Programs" table – i.e., update on the spending outlook incorporating new commitments, and then layer on the pension impact.

Commented [MoF11]: Based on paragraph description, assume the 2.2% excludes the impact of pension adjustment – rationale for moving the first paragraph in this section to below the "FAO's Assumptions for Newly Announced Programs" table.

~~expenditures on top of~~incremental to the program ~~spending~~ expense projections published in the 2016 Budget.

FAO's Assumptions for Newly Announced Programs

	2016-17	2017-18	2018-19	2019-20	2020-21
~~HST~~ Rebate equal to the provincial portion of the HST on Electricity Bills	250	1,000	1,000	1,000	1,000
Child Care Spaces Expansion					
Operating		375	750	750	750
Capital*		400	400	400	400
Total Operating	250	1,375	1,750	1,750	1,750
Total Capital	-	400	400	400	400

Source: FAO assumptions
Notes: Since the rebate is effective January 1, 2017, the HST rebate expense is assumed to be one quarter of the annual cost for 2016-17.
Given the need to design and implement the new program, spending on the expansion of child care spaces is assumed to be one-half the estimated total cost in 2017-18.
Capital spending for the day care expansion is assumed to be $2 billion, the mid-point of the announced range, spread evenly over ~~five years~~the 2017-18 to 2021-22 period.
As child care funding is currently dedicated to creating new child care spaces within schools, it is assumed that a portion of the new Child Care Expansion capital funding will be provided to school boards and amortized.

[Insert paragraph from beginning of section]

Even after the inclusion of these new measures and the change in the accounting treatment of the pension assets, Ontario's program spending is still projected to grow at an average annual rate below the 2.7 per cent growth rate necessary to keep pace with population growth and price inflation.[9]

Beyond the government's published fiscal projections to 2018-19, the FAO expects program spending ~~is expected~~ to increase by an average annual rate of 3.6 per cent ~~in~~ between ~~2019~~2018-~~20~~19 and 2020-21, in-line with population growth and price inflation.

Interest on Debt

The 2015-16 Public Accounts reported that interest on debt (IOD) payments grew 3.1 per cent in 2015-16 to $11.0 billion, $0.2 billion below the FAO's spring outlook projection.

Over the next five years, the FAO projects that IOD payments will grow at an average annual rate of 3.8 per cent, rising to $13.3 billion by 2020-21. The FAO's current outlook for IOD is $0.6 billion lower than the spring

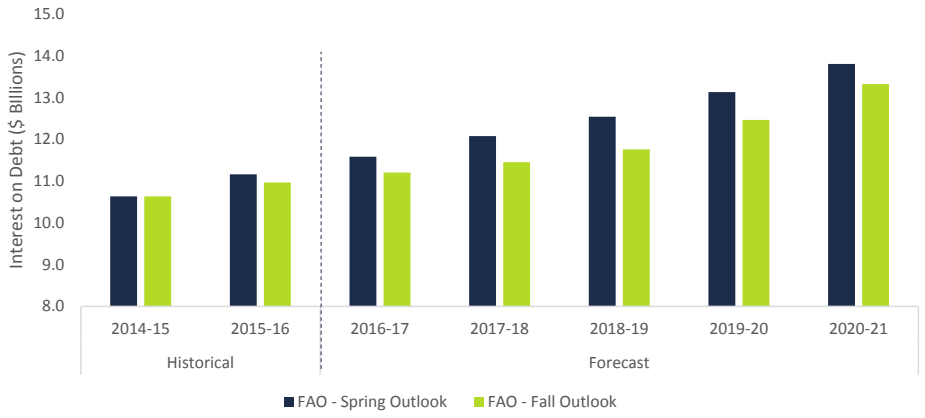
Commented [MoF12]: The capital profile is flat-lined over the 5 years, which doesn't necessarily align with the proposed operating profile. For example, it would be difficult to incur full operating costs in 2018-19 for a capital build that is completed in 2020-21. Finally, the capital assumptions don't factor in that some of the assets would be owned by the province and amortized, which could result in a different potential fiscal impact than assumed.

[9] Economic and demographic factors, such as population growth and inflation, affect the demand and cost of public services. These underlying factors put upward pressure on spending. In the Spring Outlook, the FAO estimated that program spending would be required to grow 2.7 per cent on average annually between 2014-15 and 2018-19 to keep pace with underlying cost factors.

outlook ~~by~~ in 2017-18 and $0.5 billion lower ~~by~~ in 2020-21. The significantly lower projection for interest on debt payments primarily reflects the FAO's revised outlook for lower interest rates over the outlook.

Commented [MoF13]: Language suggests that the $0.6 billion and the $0.5 billion are cumulative changes. Suggest clarifying that changes are for a given year.

Interest on Debt Outlook



Source: FAO

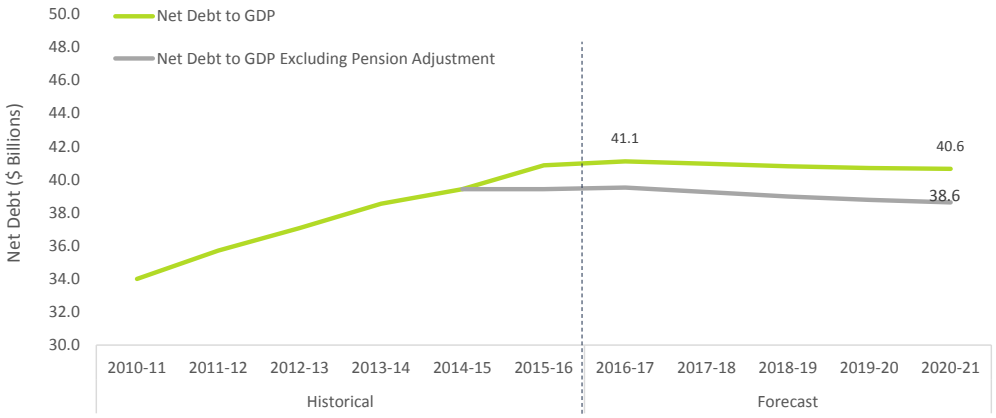
Ontario Net Debt

The 2015-16 Public Accounts reported that the Province's net debt[10] rose 7.3 per cent in 2015-16 to $305.2 billion, $8.9 billion higher than projected in the FAO's spring outlook. The increase in net debt in 2015-16 includes a one-time increase of $10.7 billion as a result of the new accounting treatment for pension assets.[11] Due to this accounting change and FAO projections of Ontario's budget balance before reserve, the FAO expects Ontario's net debt to rise by $61 billion over the next five years to $366 billion by 2020-21, about $16 billion higher than the FAO's spring outlook.

The accounting change, coupled with slightly lower growth in nominal GDP, results in a higher net debt-to-GDP ratio relative to the FAO's spring outlook. Significantly, Ontario's debt-to-GDP ratio is now expected to peak at 41.1 per cent in 2016-17, above the 39.6 per cent projected in the FAO's spring outlook. The ratio is expected to edge down by just 0.5 percentage points to 40.6 per cent by 2020-21.

[10] Net debt is defined as gross debt and other liabilities less financial assets.
[11] Page 10 in the 2015-16 Public Accounts of Ontario.

Ontario's Net Debt to GDP Now Peaks in 2016-17



Source: Ontario Public Accounts and FAO

The Province's borrowing requirement in 2015-16 was $32.1 billion. The change in the accounting treatment of pension assets does not affect the Province's borrowing requirement or gross debt.

Risks to the Fiscal Plan and Policy Options

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

- Actual growth in the economy could be weaker than projected, lowering tax revenues. Growth in nominal GDP over the first half of 2016 is currently tracking well below forecasts published earlier in 2016. If actual growth continues to underperform forecasts, tax revenues would be expected to be lower.
- The 2015-16 Public Accounts reported an unusually strong increase in tax revenues, given the underlying economic statistics. If this unusually strong increase turns out to be the result of one-time factors, the increase would not carry-forward over the forecast, representing a risk to the current projection.
- The FAO adopts the government's own outlook for program spending which assumes that the increase in spending can be restrained below the growth in population and inflation. If program spending grows faster than projected, the fiscal balance would deteriorate. Notably, the government has increased planned spending for 2017-18 in each of the last three budgets.

At the same time, the government has a broad range of policy options that could result in an improved fiscal position, including the sale of additional public assets beyond announced targets, or by applying new revenues (from cap and trade or new federal transfers) to existing program spending commitments.

Commented [MoF14]: Please clarify that the FAO outlook for program spending is the government's 2016 Budget outlook plus FAO assumptions about the expense impact of the Speech from the Throne and the impact of pensions.

Commented [MoF15]: Consider noting that some of the projected increases are associated with offsetting revenue increases (e.g., cap and trade, federal revenue assumptions).

FAO Fiscal Projections

The FAO forecasts provincial finances based on projections of existing and announced revenue and spending policies. The forecast represents the FAO's view of the most likely fiscal outcomes given existing policies, without anticipating any new government policy decisions. The FAO's tax revenue projections are based on an assessment of the outlook for the provincial economy and current tax policies. Given the government's discretion over spending, the FAO adopts the government's announced spending plans from fiscal documents and incorporates policy announcements as appropriate. Beyond the government's published spending projections, the FAO forecasts spending based on the outlook for underlying cost drivers including demographics and price inflation.

Appendix

Table 3: FAO Fiscal Outlook

Commented [MoF16]: Suggest adding an appendix that includes a version of "Table 3: FAO Fiscal Outlook" that excludes the $1.5 billion/year pension adjustment in program expense and the surplus/deficit.

Draft Economic Outlook

October, 2016

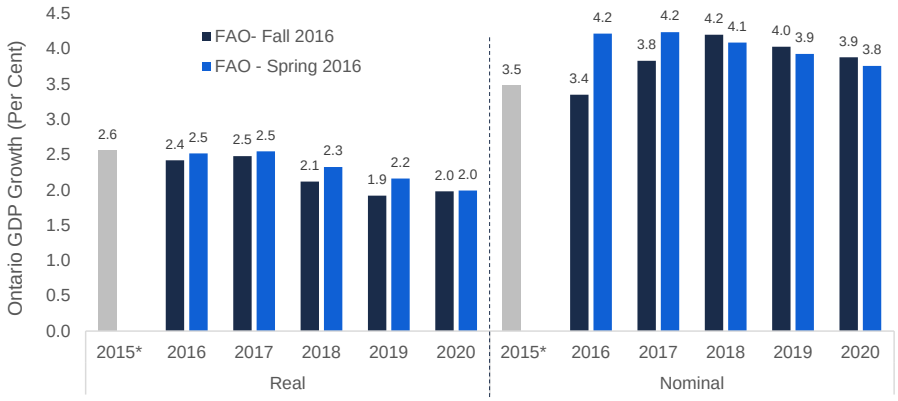
Overview

Ontario Growth Expected to be Lower in 2016 and 2017[1]

Following a solid gain in the first quarter of 2016, economic indicators suggest the pace of economic activity in Ontario moderated noticeably through the second quarter, in particular reflecting a decline in merchandise exports and slower growth in ~~household spending~~retail sales. Based on Ontario's economic performance over the first half of 2016, the FAO has revised down its projection for Ontario real and nominal GDP growth compared to the outlook presented in the FAO's spring outlook report[2]. In particular, nominal GDP – the broadest measure of the tax base - is now projected to increase by 3.4 per cent in 2016 and 3.8 per cent in 2017, below the 4.2 per cent projected in the spring.

Commented [LB(1]: Concerned that this is based on the OEA, which will not be released before the FAO report. Some rewording to make this FAO estimates would be appreciated.

Figure x: The FAO's Revised Economic Outlook



Source: FAO
* 2015 are actuals.

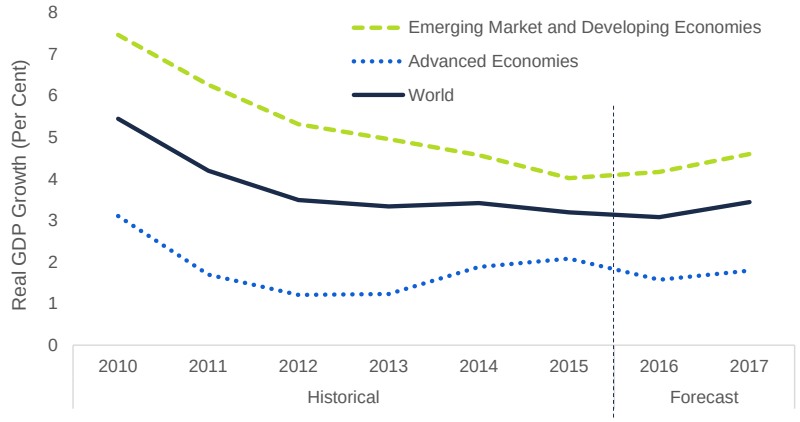
Global Economic Growth Revised Modestly Lower

Global economic growth remains tentative with current forecasts much weaker than expected a few years ago and well below the pace of growth before the 2008-2009 recession. According to the latest forecast

[1] See Appendix for detailed forecast tables.
[2] '*Economic and Fiscal Outlook, Assessing Ontario's Medium Term Prospects, Spring 2016*', Financial Accountability Office of Ontario.

from the International Monetary Fund (IMF)[3], the global outlook for 2016 and 2017 has weakened since the FAO's spring report, largely due to the United Kingdom's decision to withdraw from the European Union (commonly referred to as *Brexit*). The deterioration in the global outlook largely reflects greater political uncertainty across a wide range of institutional and economic arrangements which is negatively affecting business confidence and investment.

Figure x: Global Growth Remains Weak



Source: International Monetary Fund, World Economic Outlook, October 2016

The IMF is projecting global growth of 3.1 per cent in 2016 and 3.4 per cent in 2017, slightly lower than its outlook last spring. The downward revisions to the IMF's global outlook are concentrated in European economies, with minor changes to the forecasts for the United States and China. The IMF has lowered its forecast for Canadian real GDP growth to 1.2 per cent in 2016 and 1.9 per cent in 2017. Most advanced economies continue to experience weak business investment and poor labour market results, which are contributing to a muted inflation outlook. On average, advanced economies are expected to record growth of just 1.6 per cent in 2016 and 1.8 per cent in 2017.

In China, economic growth is expected to gradually moderate as the economy continues to rebalance from investment and manufacturing-led growth to a more service-intensive economy. China's real GDP growth is expected to be 6.6 per cent in 2016 and 6.2 per cent in 2017, down substantially from growth rates of over 9 per cent following the global recession. The short-term outlook for China has improved modestly compared to the spring outlook, largely as a result of stimulus from both monetary and fiscal policy.

[3] "*World Economic Outlook Database*", updated October 4, 2016, International Monetary Fund.

There were only modest changes in the IMF's outlook for the other large emerging market economies since the spring. On average, the IMF is projecting real GDP growth for emerging and developing market economies of 4.2 per cent in 2016, strengthening to 4.6 per cent in 2017.

Significant Risks Remain for the Global Outlook

Economic and political uncertainty remains elevated with a number of significant risks continuing to weigh on global growth prospects.

In Europe, concerns over the solvency of a number of major banks raises the risk of a renewed financial crisis which would impact the already weak pace of European growth. As well, the sharp rise in corporate and household debt in China over the past several years has been identified by the IMF as a key risk for the global economy.

Other political developments, including military conflict in the Middle East and the growing popularity of nationalism and protectionist trade policies in developed nations could also impact global economic growth.

U.S. Economic Growth Weaker than Expected in 2016

In the United States, economic growth over the first half of 2016 was weaker than expected, contributing to downward revisions of recent economic forecasts. Over the first two quarters of 2016, U.S. real GDP increased by just 1.4 per cent, on a year-over-year basis, well below projections last spring for growth of over 2 per cent.

U.S employment gains have also moderated in 2016, with average monthly increases of about 180 thousand jobs, down from average monthly gains of almost 230,000 jobs in 2015 and 250,000 in 2014. However, the moderate but steady job gains have allowed the U.S. unemployment rate to continue tracking lower, reaching 5.0 per cent in September.

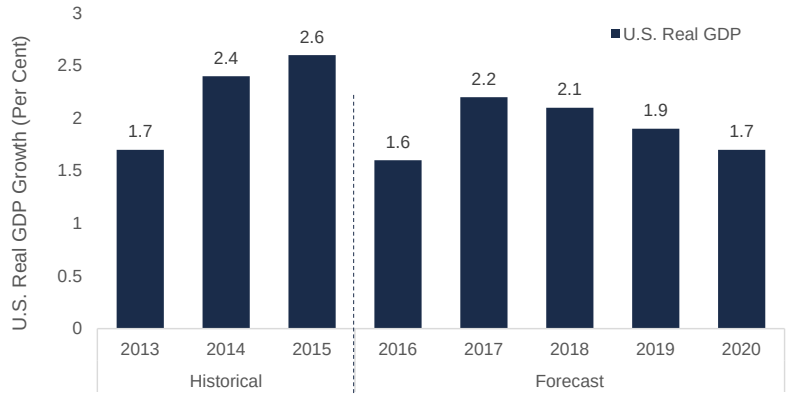
Commented [MW2]: US unemployment rate is largely unchanged over the last 12 months. Story is a bit more complicated and flat unemployment rate largely due to much stronger labour force gains rather than just job gains.

Despite the weaker than projected growth for 2016, economic forecasters continue to expect the U.S. economy will strengthen over the remainder of 2016 and beyond. In particular, household spending and residential construction are expected to contribute to overall economic growth, supported by continued job creation and rising wages. Forecasters also remain confident that business investment, which has disappointed expectations over the past several years, will eventually rebound and help spur overall economic growth.

Based on the latest IMF forecast, U.S. real GDP is expected to grow by 1.6 per cent in 2016 and strengthen to over 2.0 per cent growth in 2017 and 2018. Beyond 2018, growth is expected to moderate, remaining

close to the pace of growth of potential output.[4] This moderate but steady growth in the U.S. economy should lead to a gradual rise in interest rates.

Figure x: U.S. Economic Growth Disappoints in 2016



Source: International Monetary Fund

Canadian Economic Growth Revised Lower

The outlook for the Canadian economy has deteriorated over the past six months. Canadian real GDP is currently projected to grow by 1.2 per cent in 2016, down from a forecast of 1.7 per cent growth at the time of the FAO's spring outlook.[5] The downward revision to the Canadian outlook reflects the impact of the Alberta wildfires, but also weaker than expected non-energy exports and business investment.

After a promising start to 2016, with solid first quarter growth, Canadian real GDP declined at an annualized rate of 1.6 per cent in the second quarter, the weakest quarterly result since the 2008-2009 recession. While the Alberta wildfires were a major contributor to the disappointing outcome, there were also declines in household durable goods spending and business investment. Temporary disruptions in Ontario's auto sector[6] led to a drop in automotive exports, which contributed to an overall decrease in goods exports in the first half of 2016.

[4] The maximum sustainable level of output where the economy's resources such as labour are full utilized.
[5] Based on the FAO consensus forecast which includes the Centre for Spatial Economics, the University of Toronto and the Conference Board of Canada.
[6] General Motors shut four of its North American assembly plants, including the Oshawa plant for 2 weeks in April 2016. This was due to shortage of parts, caused by the earthquakes that struck Japan. '*GM's Oshawa plant halts production for two weeks*' , The Toronto Star, April 22, 2016

The resumption in oil production in Alberta and the end of production difficulties in the auto sector should contribute to a rebound in Canada's goods exports in the third quarter. This, along with an expected boost to consumer spending from the federal child benefit in the third quarter, will contribute to stronger real GDP growth in the second half of 2016. Further, the rebuilding effort in Alberta should bolster Canadian real GDP growth in 2017.

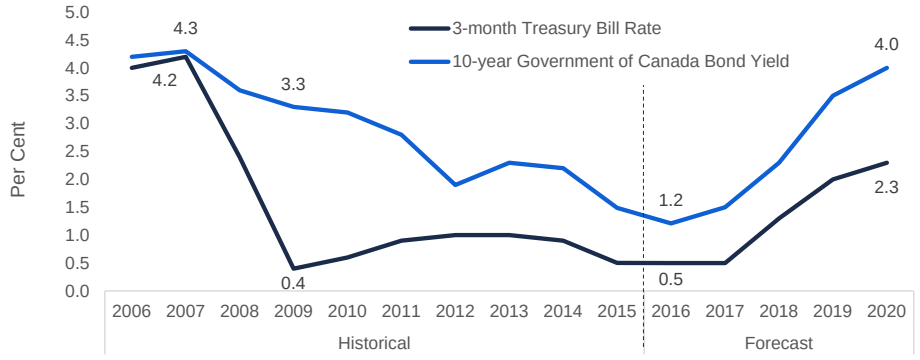
Beyond the temporary factors which buffeted the economy in 2016, the Canadian economy continues to adjust to the longer term structural impact of lower energy prices. While consolidation in the energy sector continues, growth in the rest of the Canadian economy has not significantly improved, leading to slower growth than previously expected. In 2015 and 2016, Canadian real GDP is expected to grow by just over 1.0 per cent on average, well below the 2.5 per cent average rate recorded from 2010 to 2014.

However, forecasters generally expect the Canadian economy to strengthen in 2017, recording growth of 2.4 per cent, as steady gains in non-energy exports, and a rebound in business investment help offset continued slow growth in the oil and gas sector.

Given the relatively slow growth of the Canadian economy, the Bank of Canada appears unlikely to raise its key policy interest rate before 2018. As a result, the FAO has revised down its interest rate outlook from its spring forecast. The current outlook assumes short-term rates remain near current levels until 2018. Beyond 2018, interest rates are expected to gradually normalize with the 10-year Government of Canada bond yield rising to 4.0 per cent by 2020 -- below the FAO's spring projection of 4.5 per cent in 2020.

Commented [MW3]: Long-term rate of 4.0 per cent on 10 year GoC bond is well above current private-sector average of around 3.0%. Some banks are well below 3.0%.

Figure x: Canadian Interest Rates to Rise Gradually



Source: Statistics Canada and FAO

The Canadian dollar is expected to gradually appreciate over the next five years, rising from an average of about 76 cents U.S. in 2016 to about 87 cents U.S. by 2020, supported by steady economic growth and a gradual increase in oil prices.

Commented [MW4]: Most private-sector forecasters are below this level by 2020. Current average is around 83 cents US.

Ontario Economic Outlook

Real GDP Growth Outlook Remains Solid

The Ontario economy posted strong real GDP growth over the second half of 2015 and into the first quarter of 2016. However, merchandise exports, retail trade and employment slowed noticeably in the second quarter of 2016, contributing to a slowdown in overall economic growth.

Commented [LB(5]: Suggest rewording to "However, merchandise exports, retail trade and employment slowed noticeably in the second quarter of 2016, contributing to a slowdown in overall economic growth"

The slower pace of growth in the second quarter was partly the result of the temporary shutdown of some auto production facilities in the province. However, the return to normal production levels should boost third quarter growth. In addition, the introduction of the new federal child benefit in the third quarter is expected to provide a lift to household spending over the second half of 2016. In 2017, new spending initiatives announced in the Ontario government's September throne speech should provide some additional support to household and government spending.[7]

On an annual basis, the FAO is forecasting real GDP growth of 2.4 per cent in 2016 and 2.5 per cent in 2017, slightly below the projection last spring. Beyond 2017, real GDP is expected to gradually moderate, with average annual growth of 2.0 per cent.

The FAO forecast is broadly consistent with the consensus view among economists that stronger international exports and business investment will be key drivers of Ontario's overall growth over the next several years. At the same time, household spending and residential investment are expected to grow more modestly as households begin to reduce borrowing and residential construction activity slows.

Weaker Profit Gains Contribute to Lower Nominal GDP Growth in 2016

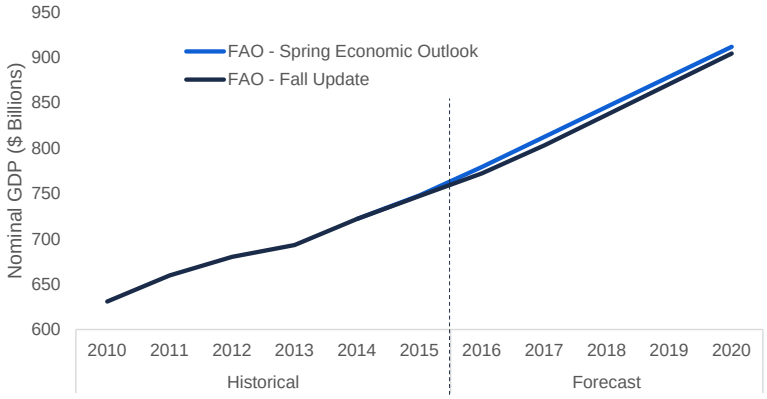
The FAO forecast for nominal GDP over the short-term is largely based on its projections for labour income and net operating surplus (corporate profits), which together account for about 66 per cent of total nominal income.

Labour income remained relatively robust over the first half of 2016, rising by 3.9 per cent compared to the same period in 2015. However, the net operating surplus of corporations declined by 0.3 per cent over the first half of 2016, on a year-over-year basis. The decline in the net operating surplus in Ontario over the first half of 2016 primarily reflected declines in corporate profitability in the manufacturing and the banking sectors[8].

[7] This includes the announced expansion of child care spaces in Ontario and the rebate of the provincial portion of the HST on electricity bills.
[8] 'Quarterly Financial Statistics for Enterprises', Second Quarter 2016, Statistics Canada, August 25, 2016.

Based on the FAO's updated outlook, Ontario nominal GDP is expected to be about 1.0 per cent lower by 2020 than originally projected in the spring forecast. The lower level of nominal GDP over the outlook is largely due to the downward revisions to growth for 2016 and 2017.

Figure x: Ontario Nominal GDP Below FAO's Spring Forecast



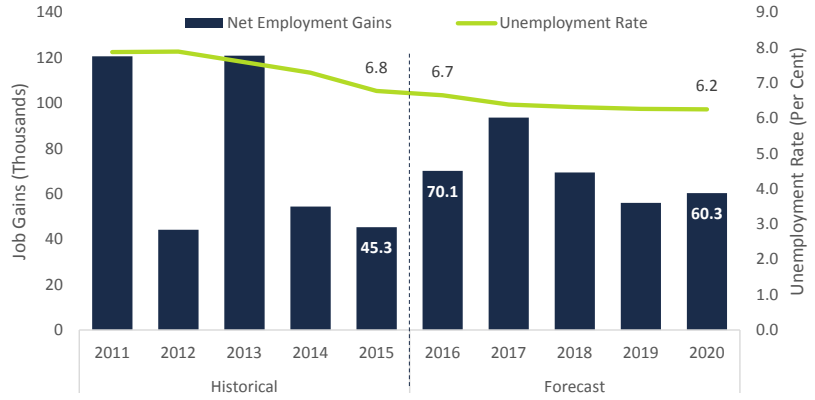
Source: FAO and Ontario Economic Accounts

Steady Employment Gains Result in Gradual Decline in Unemployment Rate

Ontario employment is expected to grow moderately over the outlook, reflecting the outlook for steady economic growth. The FAO is projecting solid job growth of 1.0 per cent (+70,000 net job gains) in 2016, following a more modest gain of 0.7 per cent (+45,000 net jobs) in 2015. The majority of net new jobs are projected to be in full-time, private sector employment. Furthermore, manufacturing sector employment is expected to post a moderate gain in 2016, the first annual increase in four years.

Over the five-year forecast, the FAO is projecting Ontario employment growth to average 1.0 per cent per year, down from an average pace of 1.2 per cent over the past five years. Even so, the steady projected gains in employment, combined with more moderate labour force growth, will result in a gradual decline in Ontario's unemployment rate from 6.8 per cent in 2015 to 6.2 per cent by 2020.

Figure x: Steady Employment Gains and Gradual Decline in Unemployment Rate



Source: Statistics Canada and FAO

Challenges Remain for Ontario's Labour Market

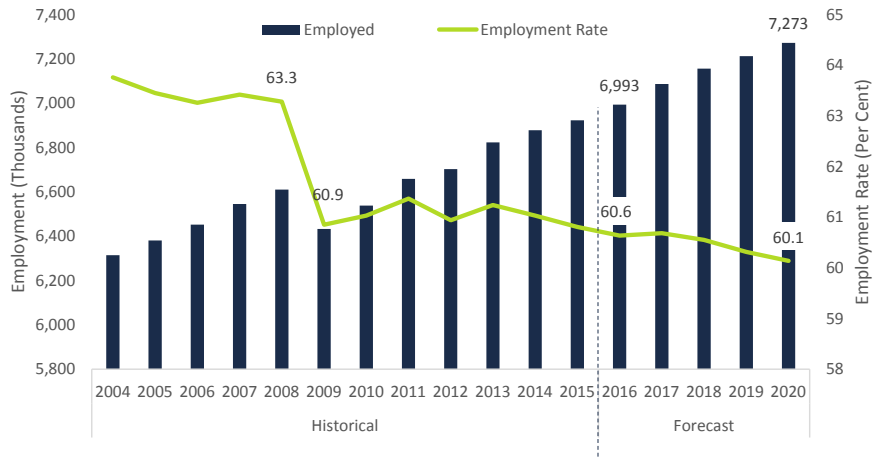
Despite the steady job gains and lower unemployment rate over the outlook, important challenges remain for Ontario's labour market.

Ontario's employment rate – the share of the working age population with a job – currently remains well below the pre-recession rate of over 63 per cent. The employment rate improved somewhat in the years following the recession, but has resumed its downward trend in the past three years. Over the next five years, the FAO projects a continued decline in the employment rate to about 60 per cent by 2020, as employment gains fail to keep pace with population growth.

Commented [MW6]: While true, this is in large part due to population aging, which is having an impact on many advanced economies including Ontario's.

Commented [MW7]: The working-age population can be reported to control for the effects of population aging. This helps highlight the impact of economic trends, independent of demographic influences. On this basis, the employment rate of the working-age population 15 to 64 has been on a modest upward trend since the recession, increasing from 70.4% in 2009 to 71.5% in 2015. The employment rate of core-age workers 25 to 54 increased from 79.5% in 2009 to 80.7% in 2015.

Figure x: Employment Rate Tracks Lower as Job Creation Lags Population Growth



Source: Statistics Canada and FAO

The nature of unemployment in Ontario has also changed since the 2008-2009 recession. Both the long-term unemployment rate (the share of those unemployed for longer than six months) and the average duration of unemployment (the length of time it takes to find a new job) remain well below pre-recession levels.[9] The deterioration in these other measures of unemployment suggests that despite overall job growth, many workers continue to face a challenging labour market.

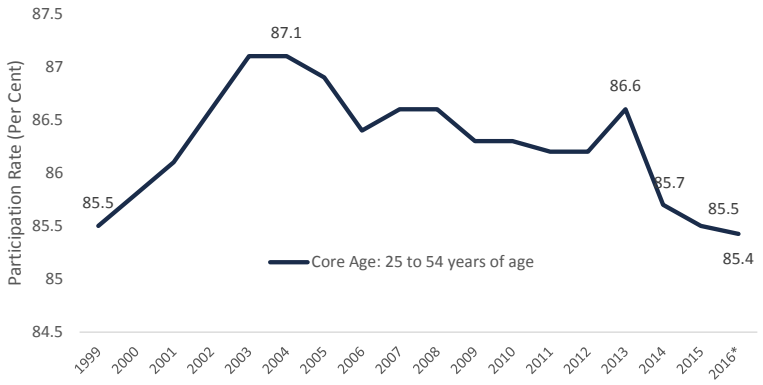
Another indicator pointing to a structural shift in Ontario's labour market is the decline in the proportion of adults, aged 25 to 54, who are currently employed or looking for work - the 'core age participation rate'. Since 2004, the core participation rate decreased from about 87 per cent to just over 85 per cent in 2016 (the lowest rate since the late 1990s).

Commented [MW8]: Ontario's labour market continues to improve following the recession. The number of persons who are long-term unemployed (27 weeks or more) has decreased to 100,600 in 2015, a decline of 35% since peaking at 154,900 persons in 2010. The average number of weeks unemployed has decreased to 20 weeks in 2015, a decline of 9% since peaking at 22 weeks in 2010. As the FAO report notes, these indicators are still above the pre-recession lows, so more progress can be made.

Commented [AJ(9]: Should read 'well above pre-recession levels'?

[9] The long-term unemployment rate – the percentage of those unemployed who have been without a job for longer than six months – increased from 13 per cent in 2007 to 25 per cent in 2010. Since 2010, long-term unemployment has improved moderately, decreasing to 20 per cent in 2015. As well, the average duration of unemployment increased from around 15 weeks in 2007 to almost 22 weeks in 2010. Since 2010 the average time spent unemployed has decreased to 20 weeks in 2015, but remains well above pre-recession levels.

Figure x: Core Age Participation Rate at Lowest Level Since 1999



Source: Statistics Canada
* 2016 is August year-to-date value.

As Ontario's population ages, the overall participation rate (for all workers) will decline since people work less as they move into their senior years. This will lead to slower growth in Ontario's workforce and contribute to a slower pace of economic growth. However, the declining participation rate of core, adult-aged workers is a key concern, since it will exacerbate the effects of an aging workforce on economic growth.

An increase in the core age participation rate back to 87 per cent would represent about 90 thousand additional workers for Ontario's labour force.

Key Risks for Ontario's Economic Outlook

The FAO's current economic projection represents a prudent outlook for the Ontario economy and an appropriate foundation for fiscal planning. However, a number of key risks could lead to weaker than expected economic growth for Ontario.

Commented [MW10]: In the current environment of a competitive Canadian dollar, low oil prices and very low interest rates, the FAO may want to consider mentioning an upside scenario for GDP growth.

The sharp rise in housing prices, particularly in the Greater Toronto Area, continues to represent a key risk for the overall economy. A significant correction in housing prices, exacerbated by elevated levels of household debt, would negatively affect household spending and residential construction activity and could lead to broader, economy-wide impacts on growth and employment.

Ontario's export sector is expected to be a key driver of economic growth over the next five years, as Ontario maintains and regains share in the growing U.S. market. A necessary ingredient of Ontario's export led growth will be a rebound in business investment to allow for the expansion in export volumes. However, growth in business investment has been disappointing over the past four years. If business investment

continues to underperform, export gains would be more limited than expected, holding back overall economic growth.

From:	Inglis, Liane (MOF)
To:	Ken Kandeepan; Alexander Kraas; John Psinas
Cc:	Tara McGrath (MOF)
Subject:	FAO note
Date:	Monday, April 30, 2018 7:47:21 AM
Attachments:	Summary of Draft FAO Spring Economic and Fiscal Outlook_v6a.docx

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Hi Ken, Alex and John,

We're expecting the final version of the FAO spring outlook this morning (tentative release is Wednesday). We've drafted a note and some key messages in anticipation of its release (attached).

Based on their comments on the call the other week, we expect their iod outlook in the version we get today to be different from the draft report. We don't know what else may have been revised, but we'll catch the attached note up with those changes and recirculate later today for your feedback.

Just wanted to give you the heads up for now.

Happy Monday!

Best,

Liane

FAO's 2018 Spring Economic and Fiscal Outlook

ISSUE

On May 2, 2018 the Financial Accountability Office will release its '2018 Spring Economic and Fiscal Outlook' report. The report adopts the AG's accounting treatment of both the Fair Hydro Plan and Pension Assets and indicates that the government is facing persistent budget deficits over the medium-term that will continue to grow well into the government's deficit recovery phase. It also suggests that the deficit cannot be eliminate by economic growth alone, but will require fiscal policy changes to raise revenue or reduce spending.

KEY MESSAGES

- I would like to thank the Financial Accountability Officer (FAO) for releasing his spring economic and fiscal outlook for Ontario. We value the FAO's independent assessment and projections of the province's fiscal plan.
- The government is committed to a responsible fiscal plan that provides the conditions for all Ontarians to thrive.
- As outlined in the *2018 Budget*, the government is projecting a surplus of $600 million for 2017–18, beating its fiscal target for the ninth year in a row.
- While Ontario's economy has been growing steadily, the government knows that more must be done to ensure that the benefits of a solid economy are being shared equally by all Ontarians.
- The government believes that the best way to deliver prosperity to more people is by continuing to invest in the economy, and in public services that promote greater fairness and opportunity across the province.
- As a result, the province is projecting modest deficits over the medium term of $6.7 billion in 2018–19, $6.6 billion in 2019–20 and $6.5 billion in 2020–21, or 0.8 per cent of GDP in 2018–19, declining to 0.7 per cent by 2020–21.

BACKGROUND

Economic Outlook

- The FAO forecast for real GDP growth to average 2.0 percent annually between 2018 and 2021 is 0.1 percentage points faster than the *2018 Budget* forecast of 1.9 percent.
- The FAO forecast is consistent with the private sector economists' view that housing and consumer spending will slow over the next four years while exports and business investment will grow at a faster pace.
- The FAO recognizes similar economic risks identified in the *2018 Budget*. The possibility of stronger U.S. growth could boost Ontario's economy. However,

protectionist trade policies in the U.S., and associated business uncertainty, could place Ontario at a competitive disadvantage. As well, high levels of household debt have left Ontario households vulnerable to rising interest rates.

- Over the extended period 2021 to 2025, FAO's long-term economic outlook is similar to the unpublished Ontario Ministry of Finance projection. In particular, the FAO projects Ontario nominal GDP growth of 3.9 percent annually, on average, between 2021 and 2025, 0.1 percentage points lower than the *2018 Budget* recovery plan projection of 4.0 percent.

Fiscal Outlook

- The FAO is projecting a deficit of $3.6B in 2017-18, rising to $12.5B by 2020-21. The FAO also projects the deficit to further deteriorate over the government's recovery plan period, reaching $15.7B by 2025-26.
- Unlike its Fall report, the FAO is now only presenting projections that include the impact of the Auditor General's (AG) recommended accounting treatment for both the Fair Hydro Plan and the net pension assets of jointly sponsored pensions plans.
    - Therefore, the FAO's projected deficits are between $4B and $6B larger than the government's in each year, all else equal.

Interim and Medium-Term (2017-18 to 2020-21)

- The FAO is projecting a deficit of $3.6B in 2017-18 and deficits of between $11B and $12B over the medium term.
    - The FAO's **revenue forecast** is approximately $1B lower than the government's in each year of the medium-term outlook, mainly due to a lower outlook for personal income tax revenue.
    - Similar to past reports, the FAO adopts the *2018 Budget* **program expense outlook** (other than the accounting treatment differences).
    - Similar to past reports, the FAO also continues to project **interest on debt expense** that is slightly below the government's projection over the medium-term – by between $0.2B and $0.4B per year.

Overall, the difference between the FAO's and government's medium-term fiscal outlook is largely driven by the impact of the AG's recommended accounting treatment for both the Fair Hydro Plan and the net pension assets of jointly sponsored pensions plans.

Differences Between the FAO's Fiscal Outlook and the *2018 Budget* ($ Billions)	2017-18	2018-19	2019-20	2020-21
FAO Projected Deficits (Excl Reserve)	(3.6)	(11.7)	(12.2)	(12.5)
2018 Budget Projected Deficits (Excl Reserve)	0.6	(6.0)	(5.9)	(5.8)
Difference between FAO and 2018 Budget	*(4.2)*	*(5.7)*	*(6.3)*	*(6.7)*
Difference Due to Accounting	*(4.2)*	*(5.0)*	*(5.6)*	*(6.0)*
Difference Due to Other (Lower revenue offset by lower IOD)	-	*(0.7)*	*(0.7)*	*(0.7)*

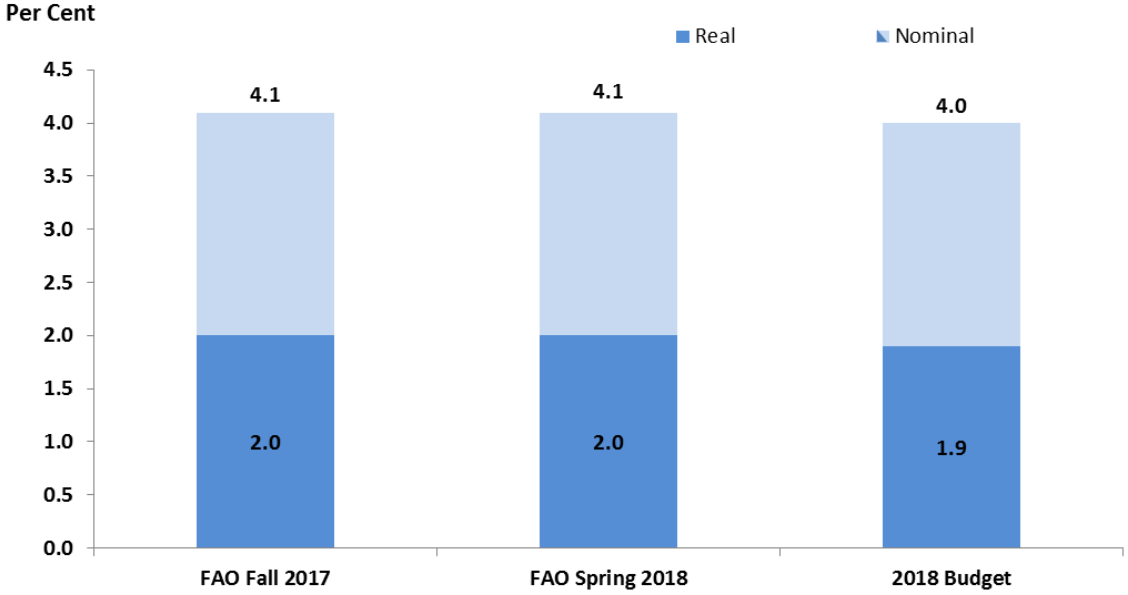
- In addition to its assessment of the government's current fiscal plan, the FAO developed a "baseline" budget projection that excludes the new revenue and spending measures announced in the 2018 Budget. This baseline scenario projects budget deficits of $8.0B in 2018-19, $x.xB in 2019-20, and $5.9B in 2021-21.

Recovery Plan (2021-22 to 2025-26)

- The 2018 Budget projects a return to balance by 2024-25 and a small surplus in 2025-26. This is premised on:
    - Projected average annual growth in revenue of 3.3% over the recovery plan period and managing program expense to an average annual growth rate of 2.1%.
- In contrast, the FAO projects growing deficits beyond 2020-21. Compared with the 2018 Budget projections:
    - The revenue outlook is higher due to a higher outlook for taxes and other revenue (e.g. service fees, and sales and rentals).
    - Given an aging and growing population and price inflation, the FAO projects program spending would need to grow at the rate of these core cost drivers, 3.5% annually over the outlook, in order "to maintain the quality of public services".
    - The IOD outlook is higher due to the FAO's forecast of higher projected net debt leading to larger debt interest payments.
- The FAO is also projecting that net debt-to-GDP ratio will continue to increase over the medium-term and beyond 2020-21 reaching 44.3 per cent by 2023-24. The 2018 Budget projects that the net debt-to-GDP ratio to peak in 2021-22 before beginning a downward trend.

Appendix

Ontario GDP Growth, Average Annual 2018-21
Per Cent



Sources: Financial Accoutability Office, Ontario Ministry of Finance

Comparison: 2018 Ontario Budget to Draft 2018 Spring FAO Fiscal Outlook

$ Billions	Actual 2016-17	Interim 2017-18	Outlook 2018-19	2019-20	2020-21	Extended Outlook 2021-22	2022-23	2023-24	2024-25	2025-26	Avg. Annual Growth 17-18 to 20-21	18-19 to 20-21
2018 Budget												
Taxation Revenue	94.3	99.4	103.6	108.1	112.4						4.2%	4.2%
Transfers from Gov't of Canada	24.5	25.3	26.0	25.7	26.8						1.9%	1.5%
Income from GBEs	5.6	6.1	5.3	6.0	6.6						2.4%	11.6%
Other Non-Tax Revenue	16.3	19.3	17.6	17.7	18.0						-2.3%	1.3%
Total Revenue	140.7	150.1	152.5	157.6	163.8	169.5	174.9	180.4	186.5	192.9	3.0%	3.7%
Expense												
Program Expense	130.0	137.5	145.9	150.4	155.8	159.5	162.7	166.0	169.3	172.7	4.2%	3.3%
Interest on Debt	11.7	12.0	12.5	13.1	13.8	14.9	15.5	16.3	16.5	16.9	5.0%	5.1%
Total Expense	141.7	149.5	158.5	163.5	169.6	174.4	178.2	182.2	185.8	189.6	4.3%	3.5%
Surplus/(Deficit) before Reserve	**(1.0)**	**0.6**	**(6.0)**	**(5.9)**	**(5.8)**	**(4.9)**	**(3.3)**	**(1.8)**	**0.7**	**3.3**		
Net Debt to GDP, per cent	38.0	37.1	37.6	38.2	38.6	38.9	38.6	37.7	36.8	35.5		
Change - 2018 Spring FAO Fiscal Outlook to 2018 Budget												
Taxation Revenue	-	*0.0*	*(0.5)*	*(0.8)*	*(1.0)*							
Transfers from Gov't of Canada	-	-	-	*(0.1)*	*(0.0)*							
Income from GBEs	-	-	*(0.4)*	-	-							
Other Non-Tax Revenue	-	-	-	-	-							
Total Revenue	-	*0.0*	*(0.9)*	*(0.9)*	*(1.1)*	*(0.4)*	*0.3*	*1.1*	*1.6*	*2.1*		
Expense												
Program Expense	-	-	-	-	-	*2.4*	*5.5*	*8.5*	*11.7*	*15.4*		
Interest on Debt	-	-	*(0.2)*	*(0.3)*	*(0.4)*	*(0.6)*	*(0.3)*	*(0.1)*	*0.8*	*1.6*		
Total Expense	-	-	*(0.2)*	*(0.3)*	*(0.4)*	*1.8*	*5.2*	*8.4*	*12.5*	*17.0*		
Surplus/(Deficit) before Reserve, EXC. Adj. for Fair Hydro Plan and Pension Assets	**-**	***0.0***	***(0.7)***	***(0.7)***	***(0.7)***	***(2.3)***	***(4.9)***	***(7.4)***	***(10.9)***	***(14.9)***		
Surplus/(Deficit) before Reserve, INC. Adj. for Fair Hydro Plan and Pension Assets	***(1.4)***	***(4.2)***	***(5.7)***	***(6.3)***	***(6.7)***	***(8.1)***	***(10.4)***	***(12.3)***	***(15.4)***	***(19.0)***		
2018 Spring FAO Outlook												
Taxation Revenue	94.3	99.4	103.1	107.2	111.4	116.0	120.4	124.8	129.5	134.4	3.9%	4.0%
Transfers from Gov't of Canada	24.5	25.3	26.0	25.6	26.7	27.6	28.4	29.2	30.2	31.1	1.8%	1.4%
Income from GBEs	5.6	6.1	4.9	6.0	6.6	6.8	7.1	7.4	7.7	8.0	2.4%	16.1%
Other Non-Tax Revenue	16.3	19.3	17.6	17.7	18.0	18.7	19.4	20.0	20.8	21.5	-2.3%	1.3%
Total Revenue	140.7	150.2	151.5	156.6	162.8	169.1	175.2	181.5	188.1	195.0	2.7%	3.6%
Expense												
Program Expense	130.0	137.5	145.9	150.4	155.8	161.9	168.2	174.5	181.0	188.1	4.2%	3.3%
Interest on Debt	11.7	12.0	12.3	12.8	13.4	14.3	15.2	16.2	17.3	18.5	4.0%	4.6%
Total Expense	141.7	149.5	158.2	163.2	169.2	176.2	183.4	190.6	198.3	206.5	4.2%	3.4%
Surplus/(Deficit) before Reseve, EXC. Adj. for Fair Hydro Plan and Pension Assets	**(1.0)**	**0.7**	**(6.7)**	**(6.6)**	**(6.4)**	**(7.1)**	**(8.2)**	**(9.1)**	**(10.2)**	**(11.6)**		
Accounting Adjustments	1.4	4.2	5.0	5.6	6.0	5.9	5.5	4.9	4.5	4.2		
Surplus/(Deficit) before Reseve, Inc. Adj. for Fair Hydro Plan and Pension Assets	**(2.4)**	**(3.6)**	**(11.7)**	**(12.2)**	**(12.5)**	**(13.0)**	**(13.7)**	**(14.1)**	**(14.7)**	**(15.7)**		
Net Debt to GDP EXC Adjustments, per cent	37.2	36.3	35.8	36.5	37.3	38.0	38.8	39.3	39.6	39.8		
Net Debt to GDP INC Adjustments, per cent	39.5	39.1	40.1	41.1	42.0	43.0	43.8	44.2	44.6	44.8		

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

MEDIUM-TERM REVENUE:

- The FAO projects Personal Income Tax to be significantly lower than the 2018 Budget projections ($0.4 billion in 2018-19, $0.7 billion in 2019-20, and $0.9 billion in 2020-21).
- FAO estimates that Ontario will no longer qualify for Equalization payments after 2018-19, where as the 2018 Budget assumes Equalization ends in 2020-21.
- The FAO reduces H1 net income by $0.4 billion in 2018-19 to reflect the recent decision by the OEB to allocate a portion of tax gain to rate payers.

RECOVERY PLAN REVENUE:

- Over the recovery plan, the FAO projects significantly stronger growth (3.6%) in other non-tax revenues, compared to the 2018 Budget (2.0%).

RECOVERY PLAN PROGRAM EXPENSE:

The FAO assumes program expense to grow at 3.5% over the recovery plan (closer to population and inflation), versus the 2018 Budget projection of 2.0%.

INTEREST ON DEBT EXPENSE:

- Despite projecting larger deficits and potentially larger borrowings, the FAO's IOD grows on average by 4.0% over the medium-term, in contrast to 5.0% in the 2018 Budget. Based on discussions with MOF, it is expected that the FAO may revise its IOD projections upwards.

From:	Ken Kandeepan
To:	George Sakura
Subject:	FES 2016 deck slide 1 2 and 4 - Jan 17 2017 updates (004).xlsx
Date:	Tuesday, January 17, 2017 12:57:27 PM
Attachments:	FES 2016 deck slide 1 2 and 4 - Jan 17 2017 updates (004).xlsx

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Looks great, I just made some changes for your consideration in the wording, pls review if you are ok pls pass on to Serena.

Thanks

Ken k

Net Debt to Revenue and GDP Ratios																				
Ontario		2016-17 FES - Excluding Pension Adjustment (adj 2015/16)												2016-17 FES - with pension adjustment						
					Net Debt As	Net Debt As	Accumulated	Acc Deficit		ONFA	Other	Deficit/					Net Debt As	Net Debt As	Accumulated	Acc Deficit	
	Fiscal Year	GDP	Net Debt	Revenue	% to GDP	% to Revenue	Deficit	to GDP	TCA	Adj.	Adj.	(Surplus)		GDP	Net Debt	Revenue	% to GDP	% to Revenue	Deficit	to GDP	TCA
Actual	1989-90	282,766	35,409	46,500	12.52	76.1	35,409	12.5	-			(90)		282,766	35,409	46,500	12.52	76.1	35,409	12.5	-
Actual	1990-91	287,334	38,438	49,002	13.38	78.4	38,438	13.4	-			3,029		287,334	38,438	49,002	13.38	78.4	38,438	13.4	-
Actual	1991-92	288,217	49,368	47,527	17.13	103.9	49,368	17.1	-			10,930		288,217	49,368	47,527	17.13	103.9	49,368	17.1	-
Actual	1992-93	293,068	61,796	49,122	21.09	125.8	61,796	21.1	-			12,428		293,068	61,796	49,122	21.09	125.8	61,796	21.1	-
Actual	1993-94	302,245	80,599	51,410	26.67	156.8	80,599	26.7	-			11,202		302,245	80,599	51,410	26.67	156.8	80,599	26.7	-
Actual	1994-95	319,986	90,728	53,962	28.35	168.1	90,728	28.4	-			10,129		319,986	90,728	53,962	28.35	168.1	90,728	28.4	-
Actual	1995-96	337,400	101,864	57,898	30.19	175.9	101,864	30.2	-			8,800		337,400	101,864	57,898	30.19	175.9	101,864	30.2	-
Actual	1996-97	347,842	108,769	58,060	31.27	187.3	108,769	31.3	-			6,905		347,842	108,769	58,060	31.27	187.3	108,769	31.3	-
Actual	1997-98	368,960	112,735	61,362	30.55	183.7	112,735	30.6	-			3,966		368,960	112,735	61,362	30.55	183.7	112,735	30.6	-
Actual	1998-99	389,250	114,737	63,044	29.48	182.0	114,737	29.5	-			2,002		389,250	114,737	63,044	29.48	182.0	114,737	29.5	-
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3	134,398	32.1	-			(668)		418,245	134,398	70,983	32.13	189.3	134,398	32.1	-
Actual	2000-01	452,238	132,496	72,258	29.30	183.4	132,496	29.3	-			(1,902)		452,238	132,496	72,258	29.30	183.4	132,496	29.3	-
Actual	2001-02	469,084	132,121	72,550	28.17	182.1	132,121	28.2	-			(375)		469,084	132,121	72,550	28.17	182.1	132,121	28.2	-
Actual	2002-03	494,815	132,647	74,938	26.81	177.0	118,705	24.0	13,942			(117)		494,815	132,647	74,938	26.81	177.0	118,705	24.0	13,942
Actual	2003-04	509,511	138,816	74,549	27.24	186.2	124,188	24.4	14,628			5,483		509,511	138,816	74,549	27.24	186.2	124,188	24.4	14,628
Actual	2004-05	533,365	140,921	84,192	26.42	167.4	125,743	23.6	15,178			1,555		533,365	140,921	84,192	26.42	167.4	125,743	23.6	15,178
Actual	2005-06	556,635	152,702	90,738	27.43	168.3	109,155	19.6	43,547			(298)		556,635	152,702	90,738	27.43	168.3	109,155	19.6	43,547
Actual	2006-07	578,241	153,742	97,120	26.59	158.3	106,776	18.5	46,966		(110)	(2,269)		578,241	153,742	97,120	26.59	158.3	106,776	18.5	46,966
Actual	2007-08	601,735	156,616	104,115	26.03	150.4	105,617	17.6	50,999	(559)		(600)		601,735	156,616	104,115	26.03	150.4	105,617	17.6	50,999
Actual	2008-09	608,446	169,585	97,532	27.87	173.9	113,238	18.6	56,347	1,212		6,409		608,446	169,585	97,532	27.87	173.9	113,238	18.6	56,347
Actual	2009-10	597,882	193,589	96,313	32.38	201.0	130,957	21.9	62,632	1,090	-	19,262		597,882	193,589	96,313	32.38	201.0	130,957	21.9	62,632
Actual	2010-11	630,989	214,511	107,175	34.00	200.2	144,573	22.9	69,938	(395)	-	14,011		630,989	214,511	107,175	34.00	200.2	144,573	22.9	69,938
Actual	2011-12	659,743	235,582	109,773	35.71	214.6	158,410	24.0	77,172	3	865	12,969		659,743	235,582	109,773	35.71	214.6	158,410	24.0	77,172
Actual	2012-13	680,084	252,088	113,369	37.07	222.4	167,132	24.6	84,956	(639)	141	9,220		680,084	252,088	113,369	37.07	222.4	167,132	24.6	84,956
Actual	2013-14	695,349	267,190	115,911	38.43	230.5	176,634	25.4	90,556	(951)	-	10,453		695,349	267,190	115,911	38.43	230.5	176,634	25.4	90,556
Actual	2014-15	727,962	284,576	118,546	39.09	240.1	187,511	25.8	97,065	(1,121)	1,683	10,315		727,962	284,576	118,546	39.09	240.1	187,511	25.8	97,065
Actual	2015-16 (unaudited	763,276	294,579	128,377	38.59	229.5	192,043	25.2	102,536	1,003	-	3,529		763,276	305,233	128,377	39.99	237.8	202,697	26.6	102,536
	2016-17 Outlook	797,623	307,353	132,720	38.53	231.6	196,367	24.6	110,986			4,324		789176	317,948	130,589	40.29	243.5	207,021	26.2	110,927
	2017-18 Outlook	830,182	315,996	140,125	38.06	225.5	196,367	23.7	119,629			-		821389	326,551	137,729	39.76	237.1	207,003	25.2	119,548
	2018-19 Outlook	864,142	325,901	144,899	37.71	224.9	196,367	22.7	129,534			-		854990	336,419	141,920	39.35	237.0	206,991	24.2	129,428
	2019-20 Outlook	897,865	335,872		37.41		196,367	21.9	139,505			-			346,366		#DIV/0!	#DIV/0!	206,991	#DIV/0!	139,375
	2020-21 Outlook	933,780	343,980		36.84		196,367	21.0	147,613			-			354,451			#DIV/0!	206,991		147,460
	2021-22 Outlook	971,131	348,865		35.92		196,367	20.2	152,498			-									
	2022-23 Outlook	1,009,976	350,873		34.74		196,367	19.4	154,506			-									
	2023-24 Outlook	1,050,375	351,725		33.49		196,367	18.7	155,358			-									
	2024-25 Outlook	1,092,390	351,104		32.14		196,367	18.0	154,737			-									
	2025-26 Outlook	1,136,086	348,855		30.71		196,367	17.3	152,488			-									
	2026-27 Outlook	1,181,529	348,855		29.53		196,367	16.6	152,488			-									
	2027-28 Outlook	1,228,790	348,855		28.39		196,367	16.0	152,488			-									
	2028-29 Outlook	1,277,942	348,855		27.30		196,367	15.4	152,488			-									

Net Debt to Revenue and GDI				
Ontario				
		ONFA	Other	Deficit/
	Fiscal Year	Adj.	Adj.	(Surplus)
Actual	1989-90			(90)
Actual	1990-91			3,029
Actual	1991-92			10,930
Actual	1992-93			12,428
Actual	1993-94			11,202
Actual	1994-95			10,129
Actual	1995-96			8,800
Actual	1996-97			6,905
Actual	1997-98			3,966
Actual	1998-99			2,002
Actual	1999-2000			(668)
Actual	2000-01			(1,902)
Actual	2001-02			(375)
Actual	2002-03			(117)
Actual	2003-04			5,483
Actual	2004-05			1,555
Actual	2005-06			(298)
Actual	2006-07		(110)	(2,269)
Actual	2007-08	(559)		(600)
Actual	2008-09	1,212		6,409
Actual	2009-10	1,090	-	19,262
Actual	2010-11	(395)	-	14,011
Actual	2011-12	3	865	12,969
Actual	2012-13	(639)	141	9,220
Actual	2013-14	(951)	-	10,453
Actual	2014-15	(1,121)	1,683	10,315
Actual	2015-16 (unaudited	1,003	9,154	5,029
	2016-17 Outlook			4,324
	2017-18 Outlook			(18)
	2018-19 Outlook			(12)
	2019-20 Outlook			-
	2020-21 Outlook			-
	2021-22 Outlook			
	2022-23 Outlook			
	2023-24 Outlook			
	2024-25 Outlook			
	2025-26 Outlook			
	2026-27 Outlook			
	2027-28 Outlook			
	2028-29 Outlook			

Net Debt to Revenue and GDI										
Ontario		Comparison: 2016 Public Accounts/FES vs Scenario Analysis								
				Net Debt As	Accumulated	Acc Deficit		ONFA	Other	Deficit/
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP	TCA	Adj.	Adj.	(Surplus)
Actual	1989-90	-	-	-	-	-	-	-	-	-
Actual	1990-91	-	-	-	-	-	-	-	-	-
Actual	1991-92	-	-	-	-	-	-	-	-	-
Actual	1992-93	-	-	-	-	-	-	-	-	-
Actual	1993-94	-	-	-	-	-	-	-	-	-
Actual	1994-95	-	-	-	-	-	-	-	-	-
Actual	1995-96	-	-	-	-	-	-	-	-	-
Actual	1996-97	-	-	-	-	-	-	-	-	-
Actual	1997-98	-	-	-	-	-	-	-	-	-
Actual	1998-99	-	-	-	-	-	-	-	-	-
Actual	1999-2000	-	-	-	-	-	-	-	-	-
Actual	2000-01	-	-	-	-	-	-	-	-	-
Actual	2001-02	-	-	-	-	-	-	-	-	-
Actual	2002-03	-	-	-	-	-	-	-	-	-
Actual	2003-04	-	-	-	-	-	-	-	-	-
Actual	2004-05	-	-	-	-	-	-	-	-	-
Actual	2005-06	-	-	-	-	-	-	-	-	-
Actual	2006-07	-	-	-	-	-	-	-	-	-
Actual	2007-08	-	-	-	-	-	-	-	-	-
Actual	2008-09	-	-	-	-	-	-	-	-	-
Actual	2009-10	-	-	-	-	-	-	-	-	-
Actual	2010-11	-	-	-	-	-	-	-	-	-
Actual	2011-12	-	-	-	-	-	-	-	-	-
Actual	2012-13	-	-	-	-	-	-	-	-	-
Actual	2013-14	-	-	-	-	-	-	-	-	-
Actual	2014-15	-	-	-	-	-	-	-	-	-
Actual	2015-16 (unaudited	-	10,654	1.4	10,654	1.4	-	-	9,154	1,500
	2016-17 Outlook	(8,447)	10,595	1.8	10,654	1.6	(59)	-	-	-
	2017-18 Outlook	(8,793)	10,555	1.7	10,636	1.5	(81)	-	-	(18)
	2018-19 Outlook	(9,152)	10,518	1.6	10,624	1.5	(106)	-	-	(12)
	2019-20 Outlook	(897,865)	10,494	#DIV/0!	10,624	#DIV/0!	(130)	-	-	-
	2020-21 Outlook									
	2021-22 Outlook									
	2022-23 Outlook									
	2023-24 Outlook									
	2024-25 Outlook									
	2025-26 Outlook									
	2026-27 Outlook									
	2027-28 Outlook									
	2028-29 Outlook									

Analysis of Net Debt

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Opening balance	(156,616)	(169,585)	(193,589)	(214,511)	(235,582)	(252,088)
Deficit	(6,409)	(19,262)	(14,011)	(12,969)	(9,220)	(10,453)
IFRS Transitional Impact				(758)		
PSAB Transitional Impact				(107)	(141)	
Pension Adjustment (prior years)						
Adjustments						
Deficit	(6,409)	(19,262)	(14,011)	(13,834)	(9,361)	(10,453)
Ontario Nuclear Fund	(1,212)	1,090	395	(3)	639	951
Total Deficit	(7,621)	(18,172)	(13,616)	(13,837)	(8,722)	(9,502)
Tangible Capital Assets	(6,285)	(5,832)	(7,306)	(7,234)	(7,784)	(5,600)
	(13,906)	(24,004)	(20,922)	(21,071)	(16,506)	(15,102)
Ending balance	**(170,522)**	**(193,589)**	**(214,511)**	**(235,582)**	**(252,088)**	**(267,190)**

				Percentage %		
Deficit	46.09	80.24	66.97	65.65	56.71	69.22
Other	8.72	(4.54)	(1.89)	0.01	(3.87)	(6.30)
Total Deficit	**54.80**	**75.70**	**65.08**	**65.67**	**52.84**	**62.92**
Tangible Capital Assets	**45.20**	**24.30**	**34.92**	**34.33**	**47.16**	**37.08**
	100.00	100.00	100.00	100.00	100.00	100.00

Note: Pension adjustments incorporated in the 2015-16 Public Accounts a

For use with slide 2

In year approvals added to TCA for 2016-17 only, but not any

2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total
(267,190)	(284,576)	(294,579)	(307,353)	(315,996)	(325,901)	(335,872)	(169,585)
(10,315)	(3,529)	(4,324)	0	0			(84,083)
							(758)
(1,683)							(1,931)
	0						0
	0						
(11,998)	(3,529)	(4,324)	0	0	0	0	(86,772)
1,121	(1,003)						3,190
(10,877)	(4,532)	(4,324)	0	0	0	0	(83,582)
(6,509)	(5,471)	(8,450)	(8,643)	(9,905)	(9,971)	(8,108)	(90,813)
(17,386)	(10,003)	(12,774)	(8,643)	(9,905)	(9,971)	(8,108)	(174,395)
(284,576)	**(294,579)**	**(307,353)**	**(315,996)**	**(325,901)**	**(335,872)**	**(343,980)**	**(343,980)**

69.01	35.28	33.85	0.00	0.00	0.00	0.00
(6.45)	10.03	0.00	0.00	0.00	0.00	0.00
62.56	**45.31**	**33.85**	**0.00**	**0.00**	**0.00**	**0.00**
37.44	**54.69**	**66.15**	**100.00**	**100.00**	**100.00**	**100.00**
100.00	100.00	100.00	100.00	100.00	100.00	100.00

nd extended in the 2016 FES have been reversed.

risks. Deprecation in out years for in year approvals not taken.

2008-09 to 2015-16
(col C to col J)

(79,759)	
(758)	
(1,931)	
0	
(82,448)	
3,190	
(79,258)	
(45,736)	
(124,994)	(124,994)

65.96
(2.55)
63.41
36.59
100.00

					2016-17 FES - Excluding Pens
			Scenario		What is the change in GDP that wi
2016-17 GDP			797,623		
2016-17 Net Debt to GDP %			0.3853		
2016-17 Net Debt			307,353		
			Net Debt to GDP		Scenario GDP
by up	0.10%		307,353	=	797,284.00
	38.55	0.3855	0.3855000		
by down	0.10%	0.3844	307,353	=	799,482.00
	38.44		0.3844402		

Scenario		What is the change in net debt hol result?
		Change in Net Debt
Projected ND	+	131
Projected ND	-	-715

Draft wording for slide 4:

For 2016-17, the net debt-to-GDP ratio is

An increase of $131 million to net

A decrease of $715 million to net

Since the 2016-17 net debt-to-GDI
38.6% versus the larger changes re

ion Adjustment (adj 2015/16)

ll make the Net Debt ratio change by 0.1%?

Actual Projected GDP	GDP Variance	GDP Variance %
797,623.42	(339.42)	-0.04%
797,623.42	1,858.58	0.23%

lding GDP constant that will yield the same

Scenario Net Debt	Scenario Net Debt to GDP	Rounded	Target
307,484	38.550022%	38.55%	38.55
306,638	38.443956%	38.44%	38.44

38.53%

debt or a decrease of $399 million in nominal GDP would increase the net-debt-to-GDP ratio by one ten

debt or an increase of $1,859 million in nominal GDP would decrease the net-debt-to-GDP ratio by one t

P ratio was 38.53% smaller changes to net debt or nominal GDP are required to increase the net debt-to
equired to lower the ratio to 38.4%.

ıth of a percent to 38.6%.

tenth of a percent to 38.4%.

›-GDP ratio to

From: George Sakura
To: John Psinas
Cc: Ken Kandeepan; Shemin Meralli
Subject: FES scenarios
Date: Tuesday, October 04, 2016 8:06:54 PM
Attachments: FES outlook scenarios.xlsx

Here are the four scenarios.

Net Debt to Revenue and GDP Ratios																				
Ontario		Current outlook without pension adjustment																		
					Net Debt As	Net Debt As	Accumulated	Acc Deficit		ONFA	Other	Deficit/								
	Fiscal Year	GDP	Net Debt	Revenue	% to GDP	% to Revenue	Deficit	to GDP	TCA	Adj.	Adj.	(Surplus)								
Actual	1989-90	282,766	35,409	46,500	12.5	76.1	35,409	12.5	-			(90)								
Actual	1990-91	287,334	38,438	49,002	13.4	78.4	38,438	13.4	-			3,029								
Actual	1991-92	288,217	49,368	47,527	17.1	103.9	49,368	17.1	-			10,930								
Actual	1992-93	293,068	61,796	49,122	21.1	125.8	61,796	21.1	-			12,428								
Actual	1993-94	302,245	80,599	51,410	26.7	156.8	80,599	26.7	-			11,202								
Actual	1994-95	319,986	90,728	53,962	28.4	168.1	90,728	28.4	-			10,129								
Actual	1995-96	337,400	101,864	57,898	30.2	175.9	101,864	30.2	-			8,800								
Actual	1996-97	347,842	108,769	58,060	31.3	187.3	108,769	31.3	-			6,905								
Actual	1997-98	368,960	112,735	61,362	30.6	183.7	112,735	30.6	-			3,966								
Actual	1998-99	389,250	114,737	63,044	29.5	182.0	114,737	29.5	-			2,002								
Actual	1999-2000	418,245	134,398	70,983	32.1	189.3	134,398	32.1	-			(668)								
Actual	2000-01	452,238	132,496	72,258	29.3	183.4	132,496	29.3	-			(1,902)								
Actual	2001-02	469,084	132,121	72,550	28.2	182.1	132,121	28.2	-			(375)								
Actual	2002-03	494,815	132,647	74,938	26.8	177.0	118,705	24.0	13,942			(117)								
Actual	2003-04	509,511	138,816	74,549	27.2	186.2	124,188	24.4	14,628			5,483								
Actual	2004-05	533,365	140,921	84,192	26.4	167.4	125,743	23.6	15,178			1,555								
Actual	2005-06	556,635	152,702	90,738	27.4	168.3	109,155	19.6	43,547			(298)								
Actual	2006-07	578,241	153,742	97,120	26.6	158.3	106,776	18.5	46,966		(110)	(2,269)								
Actual	2007-08	601,735	156,616	104,115	26.0	150.4	105,617	17.6	50,999	(559)		(600)								
Actual	2008-09	608,446	169,585	97,532	27.9	173.9	113,238	18.6	56,347	1,212		6,409								
Actual	2009-10	597,882	193,589	96,313	32.4	201.0	130,957	21.9	62,632	1,090	-	19,262								
Actual	2010-11	630,989	214,511	107,175	34.0	200.2	144,573	22.9	69,938	(395)	-	14,011								
Actual	2011-12	659,743	235,582	109,773	35.7	214.6	158,410	24.0	77,172	3	865	12,969								
Actual	2012-13	680,084	252,088	113,369	37.1	222.4	167,132	24.6	84,956	(639)	141	9,220								
Actual	2013-14	693,210	267,190	115,911	38.5	230.5	176,634	25.5	90,556	(951)	-	10,453								
Actual	2014-15	721,970	284,576	118,546	39.4	240.1	187,511	26.0	97,065	(1,121)	1,683	10,315								
Actual	2015-16 (unaudited	747,101	296,079	128,377	39.6	230.6	193,543	25.9	102,536	1,003		5,029								
	2016-17 Outlook	772,899	308,776	130,589	40.0	236.4	197,849	25.6	110,927			4,306								
	2017-18 Outlook	806,182	317,384	137,729	39.4	230.4	197,836	24.5	119,548			(13)								
	2018-19 Outlook	839,919	327,241	141,920	39.0	230.6	197,813	23.6	129,428			(23)								
	2019-20 Outlook	873,260	337,188		38.6		197,813	22.7	139,375			-								
												-								

Net Debt to Revenue and GDI				
Ontario				
	Fiscal Year			
Actual	1989-90			
Actual	1990-91			
Actual	1991-92			
Actual	1992-93			
Actual	1993-94			
Actual	1994-95			
Actual	1995-96			
Actual	1996-97			
Actual	1997-98			
Actual	1998-99			
Actual	1999-2000			
Actual	2000-01			
Actual	2001-02			
Actual	2002-03			
Actual	2003-04			
Actual	2004-05			
Actual	2005-06			
Actual	2006-07			
Actual	2007-08			
Actual	2008-09			
Actual	2009-10			
Actual	2010-11			
Actual	2011-12			
Actual	2012-13			
Actual	2013-14			
Actual	2014-15			
Actual	2015-16 (unaudited			
	2016-17 Outlook			
	2017-18 Outlook			
	2018-19 Outlook			
	2019-20 Outlook			

Net Debt to Revenue and GDI											
Ontario											
	Fiscal Year										
Actual	1989-90										
Actual	1990-91										
Actual	1991-92										
Actual	1992-93										
Actual	1993-94										
Actual	1994-95										
Actual	1995-96										
Actual	1996-97										
Actual	1997-98										
Actual	1998-99										
Actual	1999-2000										
Actual	2000-01										
Actual	2001-02										
Actual	2002-03										
Actual	2003-04										
Actual	2004-05										
Actual	2005-06										
Actual	2006-07										
Actual	2007-08										
Actual	2008-09										
Actual	2009-10										
Actual	2010-11										
Actual	2011-12										
Actual	2012-13										
Actual	2013-14										
Actual	2014-15										
Actual	2015-16 (unaudited										
	2016-17 Outlook										
	2017-18 Outlook										
	2018-19 Outlook										
	2019-20 Outlook										

Net Debt to Revenue and GDP Ratios

Ontario

FES outlook v

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue
Actual	1989-90	282,766	35,409	46,500	12.5	76.1
Actual	1990-91	287,334	38,438	49,002	13.4	78.4
Actual	1991-92	288,217	49,368	47,527	17.1	103.9
Actual	1992-93	293,068	61,796	49,122	21.1	125.8
Actual	1993-94	302,245	80,599	51,410	26.7	156.8
Actual	1994-95	319,986	90,728	53,962	28.4	168.1
Actual	1995-96	337,400	101,864	57,898	30.2	175.9
Actual	1996-97	347,842	108,769	58,060	31.3	187.3
Actual	1997-98	368,960	112,735	61,362	30.6	183.7
Actual	1998-99	389,250	114,737	63,044	29.5	182.0
Actual	1999-2000	418,245	134,398	70,983	32.1	189.3
Actual	2000-01	452,238	132,496	72,258	29.3	183.4
Actual	2001-02	469,084	132,121	72,550	28.2	182.1
Actual	2002-03	494,815	132,647	74,938	26.8	177.0
Actual	2003-04	509,511	138,816	74,549	27.2	186.2
Actual	2004-05	533,365	140,921	84,192	26.4	167.4
Actual	2005-06	556,635	152,702	90,738	27.4	168.3
Actual	2006-07	578,241	153,742	97,120	26.6	158.3
Actual	2007-08	601,735	156,616	104,115	26.0	150.4
Actual	2008-09	608,446	169,585	97,532	27.9	173.9
Actual	2009-10	597,882	193,589	96,313	32.4	201.0
Actual	2010-11	630,989	214,511	107,175	34.0	200.2
Actual	2011-12	659,743	235,582	109,773	35.7	214.6
Actual	2012-13	680,084	252,088	113,369	37.1	222.4
Actual	2013-14	693,210	267,190	115,911	38.5	230.5
Actual	2014-15	721,970	284,576	118,546	39.4	240.1
Actual	2015-16 (unaudited(	747,101	296,079	128,377	39.6	230.6
	2016-17 Outlook	772,899	308,578	130,589	39.9	236.3
	2017-18 Outlook	806,182	317,192	137,729	39.3	230.3
	2018-19 Outlook	839,919	327,055	141,920	38.9	230.5
	2019-20 Outlook	873,260	337,002		38.6	

without pension adjustment

Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
35,409	12.5	-			(90)
38,438	13.4	-			3,029
49,368	17.1	-			10,930
61,796	21.1	-			12,428
80,599	26.7	-			11,202
90,728	28.4	-			10,129
101,864	30.2	-			8,800
108,769	31.3	-			6,905
112,735	30.6	-			3,966
114,737	29.5	-			2,002
134,398	32.1	-			(668)
132,496	29.3	-			(1,902)
132,121	28.2	-			(375)
118,705	24.0	13,942			(117)
124,188	24.4	14,628			5,483
125,743	23.6	15,178			1,555
109,155	19.6	43,547			(298)
106,776	18.5	46,966		(110)	(2,269)
105,617	17.6	50,999	(559)		(600)
113,238	18.6	56,347	1,212		6,409
130,957	21.9	62,632	1,090	-	19,262
144,573	22.9	69,938	(395)	-	14,011
158,410	24.0	77,172	3	865	12,969
167,132	24.6	84,956	(639)	141	9,220
176,634	25.5	90,556	(951)	-	10,453
187,511	26.0	97,065	(1,121)	1,683	10,315
193,543	25.9	102,536	1,003		5,029
197,651	25.6	110,927			4,108
197,644	24.5	119,548			(7)
197,627	23.5	129,428			(17)
197,627	22.6	139,375			-
					-



Net Debt to Revenue and GDP Ratios

Ontario

Current outlo

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue
Actual	1989-90	282,766	35,409	46,500	12.5	76.1
Actual	1990-91	287,334	38,438	49,002	13.4	78.4
Actual	1991-92	288,217	49,368	47,527	17.1	103.9
Actual	1992-93	293,068	61,796	49,122	21.1	125.8
Actual	1993-94	302,245	80,599	51,410	26.7	156.8
Actual	1994-95	319,986	90,728	53,962	28.4	168.1
Actual	1995-96	337,400	101,864	57,898	30.2	175.9
Actual	1996-97	347,842	108,769	58,060	31.3	187.3
Actual	1997-98	368,960	112,735	61,362	30.6	183.7
Actual	1998-99	389,250	114,737	63,044	29.5	182.0
Actual	1999-2000	418,245	134,398	70,983	32.1	189.3
Actual	2000-01	452,238	132,496	72,258	29.3	183.4
Actual	2001-02	469,084	132,121	72,550	28.2	182.1
Actual	2002-03	494,815	132,647	74,938	26.8	177.0
Actual	2003-04	509,511	138,816	74,549	27.2	186.2
Actual	2004-05	533,365	140,921	84,192	26.4	167.4
Actual	2005-06	556,635	152,702	90,738	27.4	168.3
Actual	2006-07	578,241	153,742	97,120	26.6	158.3
Actual	2007-08	601,735	156,616	104,115	26.0	150.4
Actual	2008-09	608,446	169,585	97,532	27.9	173.9
Actual	2009-10	597,882	193,589	96,313	32.4	201.0
Actual	2010-11	630,989	214,511	107,175	34.0	200.2
Actual	2011-12	659,743	235,582	109,773	35.7	214.6
Actual	2012-13	680,084	252,088	113,369	37.1	222.4
Actual	2013-14	693,210	267,190	115,911	38.5	230.5
Actual	2014-15	721,970	284,576	118,546	39.4	240.1
Actual	2015-16 (unaudited(	747,101	305,233	128,377	40.9	237.8
	2016-17 Outlook	772,899	317,930	130,589	41.1	243.5
	2017-18 Outlook	806,182	326,538	137,729	40.5	237.1
	2018-19 Outlook	839,919	336,395	141,920	40.1	237.0
	2019-20 Outlook	873,260	346,342		39.7	

ok with pension adjustment

Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
35,409	12.5	-			(90)
38,438	13.4	-			3,029
49,368	17.1	-			10,930
61,796	21.1	-			12,428
80,599	26.7	-			11,202
90,728	28.4	-			10,129
101,864	30.2	-			8,800
108,769	31.3	-			6,905
112,735	30.6	-			3,966
114,737	29.5	-			2,002
134,398	32.1	-			(668)
132,496	29.3	-			(1,902)
132,121	28.2	-			(375)
118,705	24.0	13,942			(117)
124,188	24.4	14,628			5,483
125,743	23.6	15,178			1,555
109,155	19.6	43,547			(298)
106,776	18.5	46,966		(110)	(2,269)
105,617	17.6	50,999	(559)		(600)
113,238	18.6	56,347	1,212		6,409
130,957	21.9	62,632	1,090	-	19,262
144,573	22.9	69,938	(395)	-	14,011
158,410	24.0	77,172	3	865	12,969
167,132	24.6	84,956	(639)	141	9,220
176,634	25.5	90,556	(951)	-	10,453
187,511	26.0	97,065	(1,121)	1,683	10,315
202,697	27.1	102,536	1,003	9,154	5,029
207,003	26.8	110,927			4,306
206,990	25.7	119,548			(13)
206,967	24.6	129,428			(23)
206,967	23.7	139,375			-
					-



Net Debt to Revenue and GDP Ratios

Ontario

Current outlo

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue
Actual	1989-90	282,766	35,409	46,500	12.5	76.1
Actual	1990-91	287,334	38,438	49,002	13.4	78.4
Actual	1991-92	288,217	49,368	47,527	17.1	103.9
Actual	1992-93	293,068	61,796	49,122	21.1	125.8
Actual	1993-94	302,245	80,599	51,410	26.7	156.8
Actual	1994-95	319,986	90,728	53,962	28.4	168.1
Actual	1995-96	337,400	101,864	57,898	30.2	175.9
Actual	1996-97	347,842	108,769	58,060	31.3	187.3
Actual	1997-98	368,960	112,735	61,362	30.6	183.7
Actual	1998-99	389,250	114,737	63,044	29.5	182.0
Actual	1999-2000	418,245	134,398	70,983	32.1	189.3
Actual	2000-01	452,238	132,496	72,258	29.3	183.4
Actual	2001-02	469,084	132,121	72,550	28.2	182.1
Actual	2002-03	494,815	132,647	74,938	26.8	177.0
Actual	2003-04	509,511	138,816	74,549	27.2	186.2
Actual	2004-05	533,365	140,921	84,192	26.4	167.4
Actual	2005-06	556,635	152,702	90,738	27.4	168.3
Actual	2006-07	578,241	153,742	97,120	26.6	158.3
Actual	2007-08	601,735	156,616	104,115	26.0	150.4
Actual	2008-09	608,446	169,585	97,532	27.9	173.9
Actual	2009-10	597,882	193,589	96,313	32.4	201.0
Actual	2010-11	630,989	214,511	107,175	34.0	200.2
Actual	2011-12	659,743	235,582	109,773	35.7	214.6
Actual	2012-13	680,084	252,088	113,369	37.1	222.4
Actual	2013-14	693,210	267,190	115,911	38.5	230.5
Actual	2014-15	721,970	284,576	118,546	39.4	240.1
Actual	2015-16 (unaudited(	747,101	305,233	128,377	40.9	237.8
	2016-17 Outlook	772,899	317,732	130,589	41.1	243.3
	2017-18 Outlook	806,182	326,346	137,729	40.5	236.9
	2018-19 Outlook	839,919	336,209	141,920	40.0	236.9
	2019-20 Outlook	873,260	346,156		39.6	

ok with pension adjustment

Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
35,409	12.5	-			(90)
38,438	13.4	-			3,029
49,368	17.1	-			10,930
61,796	21.1	-			12,428
80,599	26.7	-			11,202
90,728	28.4	-			10,129
101,864	30.2	-			8,800
108,769	31.3	-			6,905
112,735	30.6	-			3,966
114,737	29.5	-			2,002
134,398	32.1	-			(668)
132,496	29.3	-			(1,902)
132,121	28.2	-			(375)
118,705	24.0	13,942			(117)
124,188	24.4	14,628			5,483
125,743	23.6	15,178			1,555
109,155	19.6	43,547			(298)
106,776	18.5	46,966		(110)	(2,269)
105,617	17.6	50,999	(559)		(600)
113,238	18.6	56,347	1,212		6,409
130,957	21.9	62,632	1,090	-	19,262
144,573	22.9	69,938	(395)	-	14,011
158,410	24.0	77,172	3	865	12,969
167,132	24.6	84,956	(639)	141	9,220
176,634	25.5	90,556	(951)	-	10,453
187,511	26.0	97,065	(1,121)	1,683	10,315
202,697	27.1	102,536	1,003	9,154	5,029
206,805	26.8	110,927			4,108
206,798	25.7	119,548			(7)
206,781	24.6	129,428			(17)
206,781	23.7	139,375			-
					-



From: John Psinas
To: Francisco Chinchon
Cc: Darren Scanlan; George Sakura; Shemin Meralli; Ken Kandeepan; Kevin Hwang
Subject: FW: 2016-17 FSD&A (OFA"s section)
Date: Wednesday, July 26, 2017 12:02:44 PM
Attachments: 2016-17 FSD&A_Input from OFA (July 26).docx
BPS debt for OFA 2016-17.xlsx

Francisco,

Can you please check the wording under the Energy Sector section. Budget password.

Thanks.

John

From: Benco, Ruslan (TBS) [mailto:Ruslan.Benco@ontario.ca]
Sent: Wednesday, July 26, 2017 11:55 AM
To: John Psinas <John.Psinas@ofina.on.ca>
Cc: Alicia Sun (MOF) <Alicia.Sun@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>
Subject: 2016-17 FSD&A (OFA's section)

Good day John,

Attached you will find an e-copy of OFA's section, from 2016-17 FSD&A that was distributed yesterday. (password protected).

Additionally, School Boards (SB) discovered an error in their 2016 Budget (Interest and Investment Income Line). Attached you will find the updated "BPS Debt to OFA" spreadsheet.

As a result of this change, SB revised their Q&A to reflect the changes in the Interest and Investment Income (please see below).

Please let us know if there is any additional information that you require.

Best regards,

Ruslan

Q1. Why is net interest expense (net of interest and investment income) in 2016-17 $17 million (or 4.4%) lower than projected in the 2016 Budget?

A10. The decrease is mainly due to:

- $15 million higher investment income than expected;
- $2 million lower interest expense than expected.

CHANGE TO BROADER PUBLIC SECTOR PRESENTATION
RESTATED 2016-17 BUDGET

2016 (Budget) Interest on Debt Restatement Adjustment

Sectors ($ Millions)	Health (Hospitals)	Education (School Boards)	Post-Secondary Education and Training (Colleges)	Reclassed to Interest on Debt Expense	
Interest Expense	368	428	39	835	
Interest and Investment Income	(111)	(44)	(24)	(179)	An error was discovered in SB Interest and Investment Income Budget value. The correct amount is 44.354. (The old number was -121.260527)
Interest Expense Net of Interest and Investment Income*	257	384	16	656	**Statement of Operations**
Interest expense due to OFA	-	243	7	250	
Net interest expense due to third party	257	141	9	406	

*May not add due to rounding

Ruslan Benco
Financial Analyst, Broader Public Sector Reporting
Office of the Provincial Controller Division |Treasury Board Secretariat
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Toronto, ON, M7A 1Z5
Email: ruslan.benco@ontario.ca
Tel: (416) 325-9617



From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: July-25-17 1:00 PM
To: Benco, Ruslan (TBS)
Cc: Sun, Alicia (TBS); Kandeepan, Ken (OFA); Sakura, George (OFA); Hwang, Kevin (OFA)
Subject: RE: Action required: FSD&A - OPCD ADMO Comments

Ruslan,

Some of the text is general and still valid, so we'd like to keep it as it is. For other updates, we'd rather wait for the final net debt and revenue numbers before making the update.

We do have small edits in the attached though.

Thanks.

John

From: Benco, Ruslan (TBS) [mailto:Ruslan.Benco@ontario.ca]
Sent: Monday, July 24, 2017 4:46 PM
To: John Psinas <John.Psinas@ofina.on.ca>
Cc: Alicia Sun (MOF) <Alicia.Sun@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: Action required: FSD&A - OPCD ADMO Comments

Good day John,

Hope that you are doing well.

Attached you will find Cindy Veinot's comments on the Key Financial Ratio section (FSD&A). Internal password is used.

Can you please share the updated document by noon tomorrow? We would like to incorporate your latest version in our next distribution (July 25th).

Thank you, and have a good day.

Ruslan

Ruslan Benco
Financial Analyst, Broader Public Sector Reporting
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2016–17 Financial Highlights — Table 1
($ Billions)

Consolidated Statement of Operations
For the fiscal year ended March 31

	2016 Reclassified Budget[1]	2016–17 Actual	2015–16 Restated Actual[2]	Change from 2016 Reclassified Budget	Change from 2015–16 Restated Actual
Total Revenue (Actual TBD)	138.4	XX	136.2	XX	XX
Expense					
Programs	129.4	130.0	128.1	0.6	1.9
Interest on debt	12.4	11.7	11.6	(0.7)	0.1
Total Expense	141.8	141.7	139.7	(0.1)	2.0
Reserve	1.0	–	–	(1.0)	-
Annual Deficit	(4.3)	XX	(3.5)	XX	XX
Consolidated Statement of Financial Position As at March 31					
Financial Assets		XX	69.9		XX
Liabilities		XX	388.8		XX
Net Debt		XX	(318.9)		xx
Non-Financial Assets		xx	0.8		xx
Accumulated Deficit		xx	(318.1)		xx

Notes:

[1] Presentation of amounts reported as "Plan" in the 2016 approved Budget have been reclassified to reflect a presentation change for hospitals, school boards and colleges. These BPS organizations are now consolidated on a line-by-line basis, as described in "Accounting Changes."

[2] Actual results for 2015–16 have been restated to reflect both the presentation change as described in footnote 1 as well as the impact of reversing regulated accounting for net pension assets of jointly sponsored pension plans, as described in "Accounting Changes."

Numbers may not add due to rounding.

Comparison to the 2016 Budget plan

Total spending for 2016–17 came in at $141.7 billion, which was $0.1 billion lower than the forecast in the 2016 Budget plan. Program spending was $130.0 billion, up $0.6 billion from the budget of $129.4 billion. Spending in the health, justice, children's and social services and other programs was higher than planned, offset by lower spending in postsecondary and training. Interest on debt expense was $0.7 billion below plan in 2016–17, due mainly to lower-than-forecast interest rates, and cost-effective borrowing and debt management. [OFA to update, including reference to deficit]

Comparison to the 2015–16 fiscal year

Year-over-year, total spending rose by $2.0 billion, or 1.5 per cent, going from $139.7 billion to $141.7 billion. Increases in the health care, education, postsecondary and education, and children's and social services sectors accounted for most of the increase. Interest on debt rose by 1.0 per cent, from $11.6 billion to $11.7 billion, reflecting the increase in total debt from 2015–16 to 2016–17. [OFA]

Comparison to prior year and earlier years [OFA/OEP-To be updated]

Total revenues were up/down $XX billion, or XX per cent, from the previous year.

- Taxation revenues grew/fell by $XX billion, or XX per cent, reflecting […].
- Net income from GBEs [higher/lower] in 2016–17 by $XX billion, mainly due to […].

[Higher/lower] transfers under the […] transfer programs accounted for most of the $XX billion year-over-year increase in Government of Canada transfers. [explanation to be updated]

Change in ownership of energy sector government business enterprises [OFA]

Hydro One secondary offering

In April 2016, the Province completed a secondary offering of Hydro One common shares. The Province sold 14.0 per cent of Hydro One's common shares at a price of $23.65 per share, generating gross proceeds of $2.0 billion. The Province reported a gain of $0.5 billion from the offering and, in March 2017, the government credited the Trillium Trust with $0.5 billion. As of March 31, 2017, the Province owned approximately 70 per cent of Hydro One's common shares.

An additional gain of $70 million was deferred in connection with the purchase by Ontario Power Generation (OPG) of nine million Hydro One common shares through the secondary offering. OPG purchased these shares to distribute to eligible employees as part of future share delivery obligations under collective agreements.

Hydro One Brampton sale

In February 2017, the Province sold its interest in Hydro One Brampton through a sale of shares to Alectra Utilities. As a result of sale, the Province reported a gain of $XX million. The government has committed to crediting the net proceeds from the sale to the Trillium Trust.

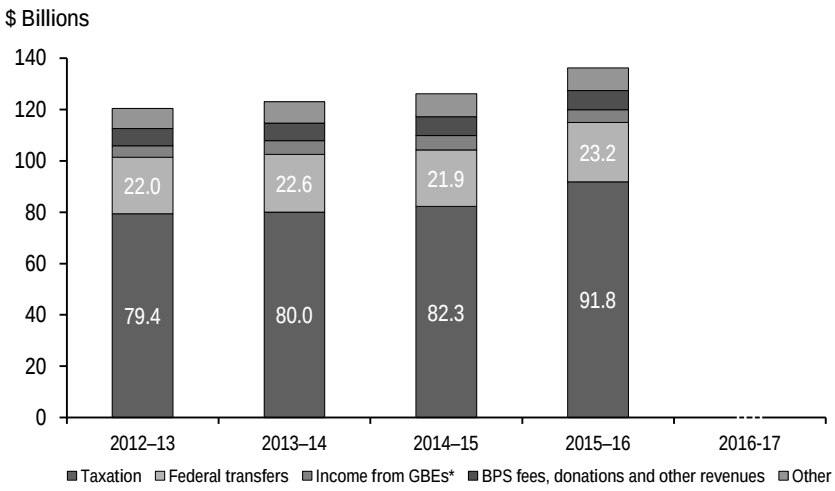
The sale of Hydro One Brampton also triggered a one-time payment-in-lieu of taxes (PILs) from Alectra Utilities to the Ontario Electricity Financial Corporation (OEFC), in connection to a step-up in the basis of Hydro One Brampton's assets.

Revenue trend [Chart to be updated]

Chart 2 shows the recent trends in revenue for the Province's major revenue sources.

Revenue by source — 5-year comparison

Chart 2



* Government business enterprises (Liquor Control Board of Ontario, Ontario Lottery and Gaming Corporation, Ontario Power Generation Inc., Hydro One Limited and Brampton Distribution Holdco Inc.).

Interest costs [OFA]

Under line-by-line consolidation of BPS organizations, net interest expense on the debt of hospitals, school boards and colleges previously reported as an expense in their respective sector is now included in the interest on debt expense.

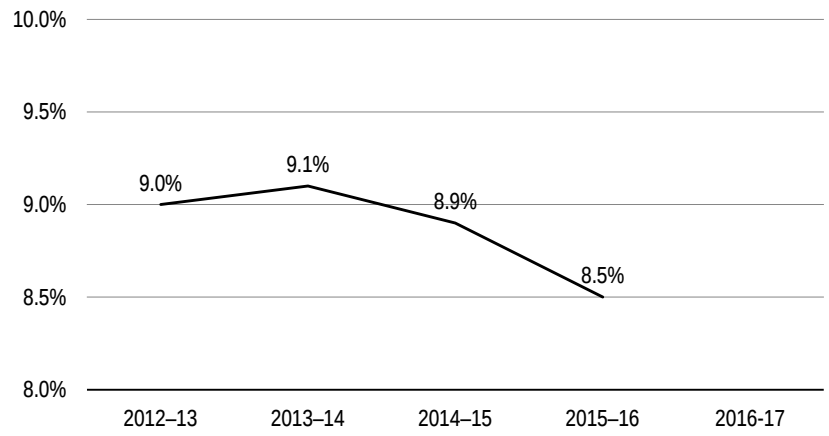
Interest on debt expense was $0.7billion below plan in 2016–17, mainly as a result of lower-than-forecast interest rates, the lower-than-planned deficit and cost-effective borrowing and debt management.

Interest expense grew from $11.6 billion in 2015–16 to $11.7 billion in 2016–17 (see Table 2).

Between 2012–13 and 2016–17, interest expense has trended upwards, reflecting higher borrowings required to fund the deficit and investments in infrastructure. Chart 6 shows that although interest costs have grown in absolute terms, they have steadily fallen as a percentage of the Province's revenues. The interest on debt-to-revenue ratio is now at its lowest level since 1990–91 [OFA to confirm]. This is mainly due to historically low interest rates, coupled with cost-effective debt management.

Debt servicing costs to total revenue — 5-year trend

Chart 6



[Chart to be updated]

Liabilities

Debt [OFA]

Debt and other long-term financing make up the largest share of liabilities. Debt increased by $XX billion in 2016–17 to $XX billion by year-end, primarily to finance the operating deficit and investments in infrastructure.

Net debt as at March 31, 2017, was $XX billion, $XX billion lower/higher than forecast in the 2016 Budget. Table 6 summarizes how the Province used its net new financing in 2016–17.

Use of new financing by the Province, 2016–17 ($ Billions)	Table 6
Operating deficit and other transactions[1]	XX
Cash invested in capital assets owned by the Province and its consolidated organizations, including hospitals, school boards and colleges[2]	XX
Increase in the Province's cash and investments	XX
	XX
Increase in other long-term financing[3]	XX
Net new financing	XX

Notes:

1 The Province's operating deficit of $XX billion was offset by a net $XX billion in changes to assets and liabilities that provided cash for operating purposes. See the Consolidated Statement of Cash Flow.

2 New investments of $XX billion less proceeds of $XX billion from the sale of tangible capital assets.

3 Including net increase in financing of capital projects through AFP. See Note 4 to the Consolidated Financial Statements.

The government completed an annual borrowing program of $27.0 billion in 2016–17. This yielded net new financing of $12.4 billion after adjustments and repayment of $21.9 billion in existing debt that matured. [To be updated]

Key Financial Ratios [OFA]

The use of key measures of financial position helps readers of the Annual Report assess the financial position of the Province. Through the levels and trends of these measures, readers are able to gauge the impacts of economic and other events on the Province's finances, as well as how the government has responded. The ratio, and the level of each, over the past five years are outlined in Table 7.

Key Financial Ratios — Table 7

as at the end of the fiscal period

		Restated 2012–13	Restated 2013–14	Restated 2014–15	Restated 2015–16	2016–17
Sustainability	Net Debt to GDP (%)	37.2%	38.6%	39.5%	XX%	XX
	Net Debt to Total Revenue (%)	210.1%	217.9%	226.1%	XX%	XX
	Net Debt per Capita ($)	$ 18,718	$ 19,644	$ 20,746	$ XX	$ XX
Flexibility	Debt Charges to Total Revenue (%)	9.0%	9.1%	8.9%	XX%	XX
	Own-Source Revenue to GDP (%)	14.5%	14.5%	14.4%	XX%	XX
Vulnerability	Federal Transfers to Total Revenue (%)	18.3%	18.4%	17.4%	XX%	XX
	Foreign Currency Debt to Total Debt (%)	24.3%	22.9%	20.9%	18.8%	XX
	Unhedged Foreign Currency Debt (%)	0.7%	0.5%	0.3%	0.3%	XX

Notes:

Actual results for 2012–13 to 2015–16 have been restated to reflect 1) the presentation change for hospitals, school boards and colleges. These BPS organizations are now consolidated on a line-by-line basis, as described in "Accounting Changes"; 2) the impact of reversing regulated accounting for net pension assets of jointly sponsored pension plans, as described in "Accounting Changes".

Measures of sustainability

Net debt provides a measure of the future government revenues that will be required to pay for the government's past transactions. Net debt as a percentage of the Province's GDP shows the financial demands on the economy resulting from the government's spending and taxation policies. A lower ratio of net debt-to-GDP indicates higher sustainability.

The Province's net debt-to-GDP ratio was XX per cent at the end of fiscal year 2016–17. Between 2012–13 and 2016–17, because net debt grew more quickly than GDP, the ratio increased from 37.2 per cent to XX per cent.

The government continues to maintain a target of returning net debt to GDP to the pre-recession level of 27 per cent. An important component in achieving this is to balance the budget. Debt is incurred for two main reasons: to finance deficits and to invest in capital assets. The government plans to invest $156 billion in capital over 10 years. These capital investments will be amortized over a period of time that corresponds to the useful life of the assets. After balancing the budget, increases in debt will be limited to the difference between the cash investment to build the assets and the amortization, which is a non-cash expense. [OFA – to update]

The government's plan to reduce the ratio of net debt to GDP therefore hinges on both balancing the budget and investing in capital assets to help the economy grow, both of which will help achieve the 27 per cent target.

The ratio of net debt to total revenue is another measure of sustainability, since it shows the future revenue that is required to pay for past transactions and events. A lower net debt-to-revenue ratio indicates higher sustainability. In 2012–13, the ratio was 210.1 per cent. It rose to 226.1 per cent in 2014–15, as net debt grew more quickly than revenue. Even with the change in the accounting treatment for pension assets, the ratio fell to XX per cent in 2016–17, indicating that total revenues increased at a greater rate than did net debt.

Measures of flexibility

The ratio of interest on debt to total revenue shows the share of provincial revenue that is being used to pay borrowing costs and is thus not available for programs. A lower ratio indicates that a government has more flexibility to direct its revenues to programs. The ratio has steadily fallen for Ontario over the past five years, from a high of 9.0 per cent in 2012–13 to the current level of XX per cent. Lower interest rates, as well as the Province's strategy of extending the term of its borrowing program and locking in low interest rates for a longer period has also contributed to lower interest costs. This strategy has extended the weighted average term to maturity of provincially issued debt from approximately 9 years in 2009–10 to 14 years in 2016–17. [OFA]

Own-source revenue as a share of the provincial GDP shows the extent to which the government is using funds from the provincial economy collected through taxation, user fees and other revenue sources it controls. Too high a taxation burden makes a jurisdiction uncompetitive, so increases in the ratio can reduce future revenue flexibility. Ontario's ratio was stable between 2011–12 and 2014–15. The increase from 15.1 per cent in 2015–16 to XX per cent in 2016–17 was largely due to the strong growth in tax and other revenues. This caused own-source revenues to increase more sharply than GDP.

Measures of vulnerability

Transfers from the federal government as a percentage of total revenue are an indicator of the degree to which the Province relies on the federal government for revenue. A very high ratio shows that a provincial government is very reliant on federal transfers, a source of revenue over which it has limited or no control, and is therefore vulnerable to shifts in federal policy on transfers. Ontario's highest share of revenue from federal transfers in the past five years was XX per cent, in 201X–1X. The lowest was XX per cent, in 201X–1X. The gradual decline largely represents the expiration of time-limited federal transfers, including the HST transition payment, and the maturing of federal stimulus programs put in place following the global economic crisis in 2008. [to be updated]

Foreign currency debt to total debt is a measure of vulnerability to changes in foreign currency exchange rates. Accessing borrowing opportunities in foreign currencies allows Ontario to diversify its investor base and take advantage of lower borrowing costs. It also ensures that the Province will continue to have access to capital in the event that domestic market conditions become more challenging. Ontario manages foreign currency risk by hedging its exposure to Canadian dollars through the use of financial instruments, which is called hedging. Effective hedging has allowed the Province to consistently limit its exposure to foreign currency fluctuations to 0.6 per cent of debt issued for provincial purposes in 2013–14, declining to 0.2 per cent in 2016–17. [to be updated]

Managing interest on debt

In addition, the interest on debt expense of $11.7 billion reported for 2016–17 was an improvement of $0.7 billion over the forecast of the 2016 Budget. Through a combination of lower-than-forecast deficits and borrowing requirements, lower-than-forecast interest rates and cost-effective debt management, interest on debt has consistently come in below forecast in each year since the 2010 Budget. [OFA]

2016-17 Public Accounts
Other Long-Term Financing

CHANGE TO BROADER PUBLIC SECTOR PRESENTATION
RESTATED 2016-17 BUDGET

2016 (Budget) Interest on Debt Restatement Adjustment

Sectors ($ Millions)	Health (Hospitals)	Education (School Boards)	Post-Secondary Education and Training (Colleges)	Reclassed to Interest on Debt Expense	
Interest Expense	368	428	39	835	
Interest and Investment Income	(111)	(44)	(24)	(179)	An error was discovered in SB Interest and Investment Income Budget value. The correct amount is 44.354. (The old number was -121.260527)
Interest Expense Net of Interest and Investment Income*	257	384	16	656	**Statement of Operations**
Interest expense due to OFA	-	243	7	250	
Net interest expense due to third party	257	141	9	406	

*May not add due to rounding

CHANGE TO BROADER PUBLIC SECTOR PRESENTATION
RESTATED 2016-17 INTERIM

2017 (Interim) Interest on Debt Restatement Adjustment

Sectors ($ Millions)	Health (Hospitals)	Education (School Boards)	Post-Secondary Education and Training (Colleges)	Reclassed to Interest on Debt Expense	
Interest Expense	352	423	42	817	
Interest and Investment Income	(86)	(51)	(22)	(159)	
Interest Expense Net of Interest and Investment Income*	266	372	20	658	**Statement of Operations**
Interest expense due to OFA	-	242	5	247	
Net interest expense due to third party	266	130	14	410	

*May not add due to rounding

CHANGE TO BROADER PUBLIC SECTOR PRESENTATION
2016-17 ACTUAL

2017 (Actual) Interest on Debt Restatement Adjustment

Sectors ($ Millions)	Health (Hospitals)	Education (School Boards)	Post-Secondary Education and Training (Colleges)	Reclassed to Interest on Debt Expense	
Interest Expense	310	426	43	779	
Interest and Investment Income	(100)	(59)	(29)	(188)	
Interest Expense Net of Interest and Investment Income*	210	367	14	591	**Statement of Operations**
Interest expense due to OFA	-	242	10	252	
Net interest expense due to third party	210	125	4	339	

*May not add due to rounding

CHANGE TO BROADER PUBLIC SECTOR PRESENTATION
VARIANCE, BUDGET VS ACTUAL 2016-17

2017 (Budget Vs. Actual) Interest on Debt Restatement Adjustment

Sectors ($ Millions)	Health (Hospitals)	Education (School Boards)	Post-Secondary Education and Training (Colleges)	Reclassed to Interest on Debt Expense
Interest Expense	58	2	(4)	56
Interest and Investment Income	(11)	15	5	9
Interest Expense Net of Interest and Investment Income*	47	17	1	65
Interest expense due to OFA	-	1	(4)	(2)
Net interest expense due to third party	47	16	5	68

*May not add due to rounding

CHANGE TO BROADER PUBLIC SECTOR PRESENTATION
VARIANCE, INTERIM VS ACTUAL 2016-17

2017 (Interim Vs. Actual) Interest on Debt Restatement Adjustment

Sectors ($ Millions)	Health (Hospitals)	Education (School Boards)	Post-Secondary Education and Training (Colleges)	Reclassed to Interest on Debt Expense

Interest Expense	43	(3)	(2)	38
Interest and Investment Income	14	8	7	29
Interest Expense Net of Interest and Investment Income*	56	5	5	67
Interest expense due to OFA	-	-	(5)	(5)
Net interest expense due to third party	56	5	10	72

*May not add due to rounding

From: John Psinas
To: Ken Kandeepan
Cc: George Sakura; Shemin Meralli; Kevin Hwang
Subject: FW: 2018-19 EBB Part I2 - DRAFT Feb 20 2018 (SM edits).docx
Date: Wednesday, March 07, 2018 2:56:23 PM
Attachments: 2018-19 EBB Part I2 - DRAFT Feb 20 2018 (SM edits).docx

---

Ken,

We have made changes on page 22, and incorporated Gadi's wording on pages 142 and 144. The rest of the document that mentions the OFA is unchanged and boilerplate.

Thanks.

John

Ontario

Draft Feb. 20, 2018

Estimates Briefing Book 2018-19

Ministry of Finance

Ce document est disponible en français

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Part I: 2018–19 Published Plan

Ministry of Finance

MINISTRY OVERVIEW

MANDATE

The Ministry of Finance's mandate is to help foster a dynamic, innovative and growing provincial economy and to manage the government's fiscal responsibilities as well as financial and related regulatory affairs of the province.

MINISTRY CONTRIBUTION TO PRIORITIES AND RESULTS

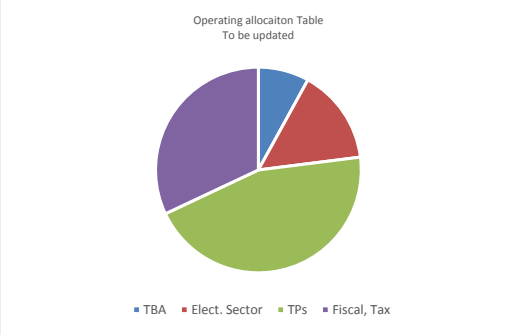
Through its mandate, the ministry works to support government's priorities which include fairness for Ontario families, creating a dynamic and competitive business environment and investing in people's talents and skills.

Commented [MB(1]: FES pgs. Vi, xi.

The ministry works with the Treasury Board Secretariat to manage the Province's $XXX.X billion[1] in annual expense and oversees $XXX.X billion[2] in revenue raised through taxation, Government of Canada transfers, provincial business enterprises, and other non-tax revenues. It also manages the Province's $XX.X billion[3] borrowing program.

In addition, the ministry supports government-wide initiatives and provides key fiscal, taxation, statistical and economic policy advice to the Minister of Finance, Cabinet committees and the Premier. It also regulates the financial services sector through its agencies.

The ministry provides leadership in transforming Ontario's public services, helping to develop new strategies, policies and processes designed to drive government-wide efficiencies and enable modernization initiatives, while also remaining focused on implementing measures that meet annual budget targets.



[1] 2018 Ontario Budget
[2] 2018 Ontario Budget
[3] 2018 Ontario Budget

PROGRAM OUTCOMES SUPPORTING THE MINISTRY'S PLAN

Financial/Economic Stewardship

Office of the Budget

- Works with other program areas and central agency partners to provide analysis and advice to the Deputy Minister, Minister, and government on the development of the fiscal plan, federal-provincial fiscal arrangements, and policy initiatives.
- Supports the development of fiscal assumptions, narratives and underlying initiatives that effectively articulate / balance the government's policy and fiscal priorities in the context of the annual Budget, the Economic Outlook and Fiscal Review, the Quarterly Finances and other key publications.

Office of Economic Policy

- Provides timely advice to government on emerging economic trends and issues.
- Ensures increased access to relevant information, evidence-based analysis, research and advice on matters that impact Ontario's economic and fiscal agenda. This includes providing better economic information available for long-term planning purposes.
- Develops new Ontario level data and datasets to support research. This ensures more effective research, analysis and policy advice on Ontario's economy.
- Works to ensure a sustained "top ten" ranking for the Toronto region's financial services sector among international financial centres.

Ontario Financing Authority

- Initiates the successful execution of the Province's borrowing requirement. This includes managing the Interest on Debt (IOD) expense and in the process consistently generating savings in relation to the budget.
- Issues Green Bonds of approximately $1 billion per annum to fund capital initiatives that are aimed at reducing greenhouse gases.
- Supports the servicing and paydown of OEFC's legacy debt and liabilities related to the former Ontario Hydro, including the reduction of OEFC's unfunded liability ("stranded debt") as reported in OEFC's annual financial statements.
- Dedicates and tracks net revenue gains raised through asset optimization and to track the drawdown of those amounts for allocation to the government's infrastructure investment program.

Policy/Program Delivery Leadership

Office of Tax, Benefits and Local Finance

- Increases the effectiveness of compliance by using a risk-based approach to focus appropriate resources on the right taxpayers.
- Integrates benefits delivery to improve client access and drive administrative efficiencies.
- Increases the overall effectiveness of the collections process at recovering outstanding accounts receivable.
- Ensures the CRA is accountable for administration of Ontario's taxes and benefits including costs recovered for enhanced services.
- Optimizes revenue integrity largely through fee-for-service investments for enhanced compliance activities.
- Ensures broad compliance and compatibility with the Tobacco Tax Act (TTA) while supporting First Nations economic development and diversification.
- Ensures only tax compliant businesses will be able to enter into agreements or receive financial assistance from the provincial government, resulting in greater confidence that public funds are rewarding legitimate operators, and not contributing to underground economic activities.
- Ensures the reduction in underground economy activity, through new avenues of investigation into noncompliance, particularly in high-risk sectors, through partnering with other regulatory / compliance organizations (such as the Ministry of Labour).
- Achieves education property tax gross revenue growth of at least 0.50% annually.
- Provides advice to the Minister of Finance on fiscal arrangements with municipalities, as well as oversight with respect to provincial-municipal financial strategies and policy priorities.
- Ensures that the OMPF grant is responsive to changes in municipal circumstances and continues to target funding in a fair and transparent manner. Targeted funding is provided to support Ontario municipalities facing the most challenging fiscal circumstances.
- Provides informed, evidence-based advice and options on matters that impact Ontario's corporate, commodity and personal tax system.
- Ensures the strengthening of Ontario's tax competitiveness for business investment, while enhancing and modernizing supports for individuals and families.

Office of Regulatory Policy and Agency Relations

- Advise the government on matters related to income security and pension policy so that they can make informed policy decisions.

- Ensures the Province satisfies its investment and governance obligations with respect to Hydro One.
- Provides recommendations and policy and financial analysis with respect to multiple sectors including Steel sector negotiations, affordable housing and artificial intelligence.
- Continues to generate significant revenue through OLG while supporting the government's commitment to create a dynamic business environment and stronger economy while delivering gaming in a socially responsible manner.
- Ensures the selling of beverage alcohol in a socially responsible manner, while providing funds that have been used to support key government priorities such as health care, education and skills training, and infrastructure and transit investments.
- Implements Ontario's cannabis retail and distribution model, ensuring safe and controlled sales that keep cannabis products away from youth, reduce the illegal cannabis economy and control cannabis price in order to advance policy goals.

Other key transformational activities include:

- Providing program areas, line ministries and central agency partners with additional support in priority-setting, policy development and longer-term planning.
- The creation of a new Ontario Statistics Office which provides leadership on data management, modelling and analytics, and statistical policy.
- Innovatively mitigating the risk of debt issued in foreign currencies.
- Initiating administrative improvements to support the ongoing integrity of the $7B in provincial Education Property Taxes (EPT) by further enhancing the tracking and analysis of these revenues.
- Reengineering revenue processing, image capture and data entry business processes that enables e-services and procuring a new system solution to support transformation.
- Establishing the Financial Services Regulatory Authority — a new, flexible and innovative financial services and pension regulator that will strengthen consumer, investor and pension plan beneficiary protection.

HIGHLIGHTS OF 2017-18 ACHIEVEMENTS

The Ministry of Finance performs a variety of critical roles, focused on supporting effective economic, fiscal and financial management for a stronger Ontario. Its 2017–18 achievements include:

Delivering on the Balanced Budget Plan

The ministry was active in a variety of sectors that enabled the government to restore balance to the Province's finances in 2017–18. Through targeted, measured and fiscally responsible decisions, the province's fiscal and economic strength has been restored.

Supporting a Dynamic Business Climate

To improve the province's overall business climate, the ministry supported a variety of initiatives that make Ontario an attractive environment for business investment.

Strengthening the Financial Services Sector

The ministry led a variety of initiatives focused on enhancing the province's financial services sector.

Building Retirement Security

The ministry led the implementation of a variety of pension reform measures aimed at improving the adequacy and coverage of pensions in Ontario.

Addressing the Underground Economy

The ministry led several innovative pilots and projects aimed at ensuring all citizens pay their fair share of taxes as well as enhancing the competitiveness of legitimate businesses.

Working with Indigenous Partners

The ministry continued to take the lead in government dialogue with First Nation communities and leaders on tobacco, gasoline and the energy sector for mutually beneficial outcomes for the province and First Nation communities.

Facilitating Openness and Accountability

The ministry continued to further strengthen transparency, financial management and fiscal accountability to ensure Ontarians receive the best value for their tax dollars.

Further detail of the ministry's achievements can be found in the Appendix: 2017-18 Annual Report.

MINISTRY OF FINANCE ORGANIZATIONAL STRUCTURE

Commented [MB(2]: To be updated by HR.

Reporting to the Minister of Finance

- Parliamentary Assistant – Yvan Baker
- Chief of Staff - Ali Ghiassi
- Chair, Ontario Financing Authority – Scott Thompson
- Chair, Ontario Electricity Financial Corporation - Scott Thompson
- Chair, Ontario Securities Commission – Maureen Jensen
- Chief Executive Officer/Superintendent, Financial Services Commission – Brian Mills (Acting)
- Chair, Financial Services Commission & Financial Services Tribunal – Ian McSweeney
- Chair, Deposit Insurance Corporation of Ontario – Steve Blakely
- Chair, Liquor Control Board of Ontario – Penny Lipsett (Acting)
- Chair, Ontario Lottery & Gaming Corporation – George Cook
- Chair, Financial Services Regulatory Authority of Ontario – Bryan Davies
- Deputy Minister of Finance – Scott Thompson

Reporting to the Chair, Ontario Financing Authority:

- Chief Executive Officer, Ontario Financing Authority – Gadi Mayman
- Assistant Deputy Minister, Corporate & Electricity Finance Division - Ronald Kwan
  (also reports to the Associate Deputy Minister, Office of Government Business Enterprises & Strategic Initiatives)

Reporting to the Chair, Ontario Electricity Financial Corporation:

- Chief Executive Officer & Vice Chair, Ontario Electricity Financial Corporation – Gadi Mayman

Reporting to the Deputy Minister of Finance:

- Chief Information Officer, Central Agencies Information & Information Technology Cluster – Ron Huxter
  (also reports to the Ministry of Government Services)
- Director, Communications Services Branch - Jenna LeBlanc
- Director, Finance Audit Services Team, Ontario Internal Audit Division – Gord Nowlan
  (also reports to Treasury Board Secretariat and to the Chief Administrative Officer & Assistant Deputy Minister, Corporate & Quality Services Division)
- Director, Legal Services Branch – Michael Waterston (Acting)
  (also reports to the Ministry of the Attorney General)
- Associate Deputy Minister, Office of Regulatory Policy & Agency Relations – Nancy Kennedy
- Assistant Deputy Minister, Office of the Budget – Tim Schuurman

- Assistant Deputy Minister & Chief Economist, Office of Economic Policy - Brian Lewis
- Chief Administrative Officer & Assistant Deputy Minister, Corporate & Quality Service Division – Helmut Zisser
- Associate Deputy Minister, Office of Tax, Benefits & Local Finance – Mike Weir

Reporting to the Associate Deputy Minister, Office of Regulatory Policy & Agency Relations:

- Assistant Deputy Minister, Government Business Enterprise Division – Scott Nelms
- Executive Lead, Cannabis Retail Implementation Project – Nicole Stewart (Acting)
- Assistant Deputy Minister, Financial Services Policy Division –David Wai
- Executive Lead, Cooperative Capital Markets Regulatory (Temporary) – Kathleen Ward (Acting)
- Assistant Deputy Minister, Income Security & Pension Policy Division – Elizabeth Doherty

Reporting to the Assistant Deputy Minister, Government Business Enterprise Division:

- Gaming Policy Branch – Tanya Watkins (Acting)
- Alcohol & Cannabis Policy Branch - Jake Gregory (Acting)
- Investment & Governance Branch – Keley Katona (Acting)

Reporting to the Assistant Deputy Minister, Financial Services Policy Division:

- Financial Institutions Policy Branch – Joel Gorlick
- Financial Services Regulation Modernization Secretariat (Temporary) - Sunita Chander

Reporting to the Executive Lead, Cooperative Capital Markets Regulatory:

- Securities Reform Policy Branch (Temporary) - Colin Nickerson (Acting)

Reporting to the Assistant Deputy Minister, Income Security & Pension Policy Division:

- Pension Policy Branch – Lynn Lawson (Acting)
- Income Security Policy Branch – Norm Helfand
- BPS Pensions Branch – Alex Killoch
- Director (Temporary) - Marc Sharrett (Acting)

Reporting to the Assistant Deputy Minister, Office of the Budget:

- Fiscal Policy Branch - Selena Esmail
- Strategic Policy Branch – Brandon Chaput

Reporting to the Assistant Deputy Minister & Chief Economist, Office of Economic Policy:

- Macroeconomics & Revenue Branch – Paul Lewis
- Labour Economics Branch – Bill Praamsma
- Industrial Economics Branch – Rob Gray
- Statistics Integration Branch - Melissa Kitmer

Reporting to the Chief Administrative Officer & Assistant Deputy Minister, Corporate & Quality Services Division:

- Business Services Branch - Mimi Wong
- Corporate Planning & Finance Branch – Linda Gibney
- Strategic Human Resources Services Branch – Stephen Boyd

Reporting to the Associate Deputy Minister, Tax, Benefits & Local Finance:

- Assistant Deputy Minister, Taxation Policy Division - Sriram Subrahmanyan
- Assistant Deputy Minister, Provincial-Local Finance Division – Allan Doheny
- Assistant Deputy Minister, Strategy, Stewardship & Program Policy Division – Alison Drummond (Acting)
- Assistant Deputy Minister, Tax Compliance & Benefits Division - Agatha Garcia-Wright

Reporting to the Assistant Deputy Minister, Taxation Policy Division:

- Personal Tax Policy & Design Branch - Kostas Plainos
- Corporate & Commodity Taxation Branch – Ann Langleben

Reporting to the Assistant Deputy Minister, Provincial-Local Finance Division:

- Property Tax Policy Branch – Chris Broughton
- Municipal Funding Policy Branch – Robert Lowry
- Assessment Policy & Legislation Branch – Diane Ross

Reporting to the Assistant Deputy Minister, Strategy, Stewardship & Program Policy Division:

- Strategy, Stewardship & Risk Management Branch - Jason Stanley
- Program Policy & Analytics Branch - Paul Devnich (Acting)
- Benefits Transformation Branch – Mashood Mirza
- Sales Integrity Project Office (Temporary) - Ben Sopel (A)

Reporting to the Assistant Deputy Minister, Tax Compliance & Benefits Division:

- Compliance Branch – Heather Bowie
- Advisory, Objections, Appeals and Services Branch - Victoria Chiodi
- Account Management & Collections Branch – Maureen Kelly

AGENCIES, BOARDS AND COMMISSIONS

Deposit Insurance Corporation of Ontario (DICO): promotes the safety and soundness of Ontario's credit unions and caisses populaires by undertaking regulatory oversight activities, establishing standards for sound business and financial practices, and providing deposit insurance coverage within statutory limits.

Financial Services Commission of Ontario (FSCO): an integrated regulator of Ontario's insurance industry; pension plans; loan and trust companies; credit unions and caisses populaires; the mortgage brokering sector; health service providers and co-operative corporations.

Financial Services Tribunal: an independent, adjudicative body that conducts hearings arising from regulatory and proposed regulatory decisions of the Superintendent of Financial Services.

Liquor Control Board of Ontario (LCBO): responsible for the importation, distribution and sale of beverage alcohol in the province in an efficient and socially responsible manner.

Ontario Electricity Financial Corporation (OEFC): the legal continuation of the former Ontario Hydro responsible for managing that organization's legacy debt and other liabilities.

Ontario Financing Authority (OFA): conducts borrowing, investment and financial risk-management activities for the Province; manages the provincial debt; advises on financial policies and projects; provides ~~financial and centralized banking and cash management~~a broad range of financial services and advice to the Ontario Electricity Financial Corporation (OEFC) and Ontario Infrastructure and Lands Corporation (Infrastructure Ontario).

Ontario Lottery and Gaming Corporation of Ontario (OLG): responsible for the conduct, management and operation of slots and casinos, lottery operations, internet gaming and electronic games at charitable bingo halls across Ontario.

Ontario Securities Commission (OSC): the regulatory body responsible for overseeing Ontario's capital markets, which includes the -income and derivatives markets.

Commented [MB(3]: ABC section to be reviewed and updated by the program areas.

Financial Services Regulatory Authority of Ontario (FSRA): [To be added]

DETAILED FINANCIAL INFORMATION

Commented [MB(4]: To be updated by CPFB

Table 1: Ministry Planned Expenditures 2018-19 ($M)

($M)	Ministry Planned Expenditures 2017-18
Operating	13,304.7
Capital	6.6
TOTAL	13,311.3

Table 2: Combined Operating and Capital Summary by Vote

VOTES / PROGRAMS	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates * 2016-17 $	Interim Actuals * 2016-17 $	Actual * 2015-16 $
OPERATING EXPENSE						
Ministry Administration	40,552,700	940,400	2.4	39,612,300	39,587,100	44,383,354
Government Business Enterprises, Income Security and Pension Policy	106,976,000	82,900	0.1	106,893,100	113,996,700	106,662,025
Economic, Fiscal and Financial Policy	1,112,182,100	391,168,800	54.3	721,013,300	996,684,800	613,266,482
Financial Services Industry Regulation	2,438,600	(51,000)	(2.0)	2,489,600	4,474,600	1,298,270
Tax and Benefits Administration	411,082,400	(24,545,200)	(5.6)	435,627,600	347,060,300	333,269,394
Ontario Retirement Pension Plan	-	(1,531,000)	(100.0)	1,531,000	2,504,600	17,723,110
Total Operating Expense to be Voted	**1,673,231,800**	**366,064,900**	**28.0**	**1,307,166,900**	**1,504,308,100**	**1,116,602,635**
Statutory Appropriations:						
Treasury Program	11,298,251,700	(9,176,900)	(0.1)	11,307,428,600	10,725,962,600	10,395,378,070
Other Statutory Appropriations	50,785,914	(19,715)	(0.0)	50,805,629	79,383,193	384,495,405
Total Operating Expense	**13,022,269,414**	**356,868,285**	**2.8**	**12,665,401,129**	**12,309,653,893**	**11,896,476,110**
Consolidation Adjustment - Ontario Financing Authority	26,711,000	524,000	2.0	26,187,000	26,187,000	23,020,996
Consolidation Adjustment - Ontario Securities Commission	112,303,000	7,046,900	6.7	105,256,100	106,841,000	94,762,900
Consolidation Adjustment - Ontario Electricity Financial Corporation	(216,818,300)	(737,897,700)	(141.6)	521,079,400	337,442,000	713,717,735
Other Adjustments - Financial Services Commission of Ontario	77,134,600	(20,447,200)	(21.0)	97,581,800	84,724,000	97,215,107
Consolidation Adjustment - Treasury Program	523,498,500	(62,181,800)	(10.6)	585,680,300	600,060,700	505,312,679
Consolidation Adjustment - Treasury Program - Interest Capitalization for Other Sectors	(240,430,200)	(103,321,300)	75.4	(137,108,900)	(76,023,300)	66,108,336
Total Operating Expense Including Consolidation & Other Adjustments	**13,304,668,014**	**(559,408,815)**	**(4.0)**	**13,864,076,829**	**13,388,885,293**	**13,396,613,863**
OPERATING ASSETS						
Economic, Fiscal and Financial Policy	275,000,000	275,000,000		-	-	109,964,191
Financial Services Industry Regulation	1,000	-		1,000	-	-
Tax and Benefits Administration	400,000	-		400,000	400,000	280,537
Total Operating Assets to be Voted	**275,401,000**	**275,000,000**	**-**	**401,000**	**400,000**	**110,244,728**
Statutory Appropriations	29,000,000	(239,200,000)	(89.2)	268,200,000	28,719,000	47,709,111
Total Operating Assets	**304,401,000**	**35,800,000**	**13.3**	**268,601,000**	**29,119,000**	**157,953,839**

Table 2: Combined Operating and Capital Summary by Vote (Cont'd)

VOTES / PROGRAMS	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates * 2016-17 $	Interim Actuals * 2016-17 $	Actual * 2015-16 $
CAPITAL EXPENSE						
Ministry Administration	-	(1,000)	(100.0)	1,000	-	-
Economic, Fiscal, and Financial Policy	1,000	-		1,000	-	-
Financial Services Industry Regulation	1,000	-		1,000	-	-
Investing In Ontario	1,000	-		1,000	-	-
Tax and Benefits Administration	1,000	-		1,000	-	-
Ministry Total Capital Expense to be Voted	**4,000**	**(1,000)**	**(20.0)**	**5,000**	**-**	**-**
Statutory Appropriations						
Trillium Trust Program	288,790,600	288,789,600	-	1,000	266,781,000	-
Other Statutory Appropriations	2,639,600	(1,000)	(0.0)	2,640,600	2,638,600	2,637,609
Total Capital Expense	**291,434,200**	**288,787,600**	**-**	**2,646,600**	**269,419,600**	**2,637,609**
Capital Expense Adjustment - Trillium Trust Reclassification	(288,790,600)	(288,790,600)		-	(266,780,000)	-
Consolidation Adjustment - Ontario Financing Authority	789,000	(92,000)	(10.4)	881,000	863,000	782,000
Consolidation Adjustment - Ontario Securities Commission	3,150,000	91,300	3.0	3,058,700	3,000,000	2,761,000
Total Capital Expense Including Consolidation & Other Adjustments	**6,582,600**	**(3,700)**	**(0.1)**	**6,586,300**	**6,502,600**	**6,180,609**
CAPITAL ASSETS						
Ministry Administration	-	(1,000)	(100.0)	1,000	-	-
Economic, Fiscal, and Financial Policy	1,000	-		1,000	-	-
Financial Services Industry Regulation	7,708,600	2,839,900	58.3	4,868,700	872,900	212,085
Tax and Benefits Administration	1,000	-		1,000	-	-
Ministry Total Capital Assets to be Voted	**7,710,600**	**2,838,900**	**58.3**	**4,871,700**	**872,900**	**212,085**
Statutory Appropriations						
Trillium Trust Program	118,850,000	118,849,000	-	1,000	13,691,000	-
Total Capital Assets	**126,560,600**	**121,687,900**	**-**	**4,872,700**	**14,563,900**	**212,085**
Capital Asset Adjustment - Trillium Trust Reclassification	(118,850,000)	(118,850,000)	-	-	(13,690,000)	-
Total Capital Asset Including Adjustments	**7,710,600**	**2,837,900**	**-**	**4,872,700**	**873,900**	**212,085**
Ministry Total Operating & Capital Including Consolidation and Other Adjustments (not including assets)	**13,311,250,614**	**(559,412,515)**	**(4.0)**	**13,870,663,129**	**13,395,387,893**	**13,402,794,472**

* Estimates, Interim Actuals and Actuals for prior fiscal years are re-stated to reflect any changes in ministry organization and/or program structure. Interim Actuals reflect the numbers presented in the 2017 Ontario Budget.

CONTACT US

If you have questions about the programs and/or services of the Ministry of Finance, visit www.ontario.ca/finance or contact the ministry by:

- **Phone**: 1-866-ONT-TAXS (668-8297) or 1-800-263-7776 for teletypewriter (TTY)
- **Email**: financecommunications.fin@ontario.ca
- **Mail**:

  Ministry of Finance
  33 King Street West
  PO Box 627
  Oshawa ON
  L1H 8H5

You can also visit a ServiceOntario location in person, or call 1-866-ONT-TAXS (668-8297) to schedule an appointment if you wish to meet with a representative at one of our tax offices.

Appendix: 2017-18 Annual Report

Ministry of Finance

2017-18 ACHIEVEMENTS

In 2017-18, the Ministry of Finance engaged in a number of activities to achieve its key priorities. These highlights of the ministry's achievements include:

1. Delivering on the balanced budget plan

Fiscal Framework

- Led the development, and provided strategic oversight of the fiscal plan including tracking the government's progress in meeting fiscal targets with key partners at the Treasury Board Secretariat and Cabinet Office. Reported on the fiscal plan through the Budget, Quarterly Finances, Economic Outlook, and Fiscal Review and Public Accounts.
- Delivered the 2017 Ontario Economic Outlook and Fiscal Review, the 2017-18 First and Third Quarter Finances and the 2018 Budget that supports the government's commitment to a balanced budget.
- Advised on Ontario's fiscal relations with the federal government and maintained contact with federal, provincial and territorial finance partners to advance Ontario's fiscal priorities.
- Completed the final share offering of Hydro One which exceeded its objective to raise $9 billion in gross proceeds and other revenue benefits. This includes $4B in net revenue gains that will be invested in infrastructure and $5B to reduce debt.

Transforming Government and Managing Costs

- Implementation and administration of the Ministry of Community and Social Services Basic Income Pilot program which will assess whether a basic income can better support vulnerable workers, improve health and education outcomes for people on low incomes, and help ensure that everyone shares in Ontario's economic growth.
- Development of a Benefits Finder online tool which is intended to provide streamlined online access to user-specific program and eligibility information for many provincial income-based benefit programs. Client research was initiated Spring 2016, and the results are being used to inform the next steps of the Benefits Finder. Launch is anticipated for Winter 2017-18.

Taxation Policy

- With other provinces, territories and the federal government, improved the Tax Collection Agreement to ensure it reflects Ontario's interests.
- Implemented a Senior's Public Transit Credit to help Ontario's seniors participate in community life, making public transportation more affordable for them.

- To support the ongoing integrity of education property tax revenues, MOF maintained the adjustment to education property tax rates, as announced in the 2016 Budget.
- Provincial Land Tax reform has significantly increased tax fairness and reduced inequities in how services are paid for in the North, and changes to rates have generated a revenue increase of about $15 million by 2017.
- Implemented measures to address unsustainable demand, support housing affordability and modernize the Land Transfer Tax (LTT) including:
  - introduced a 15 per cent Non-Resident Speculation Tax as part of Ontario's Fair Housing Plan.
  - doubled the maximum LTT refund to $4,000 for eligible first-time homebuyers
  - restricted eligibility criteria for the LTT refund for first-time homebuyers to Canadian citizens and permanent residents to better target the refund, and
  - increased certain LTT rates and adjusted parameters to better reflect the real estate market.
- The province has provided Transition Mitigation Payment assistance to eligible municipalities where revenue implications of the tax exemption of all charitable and non-profit long-term care homes represents a more significant proportion of the municipality's total revenue base.

Borrowing and Debt Management

- Through the Ontario Financing Authority (OFA), continued to efficiently manage the Province's borrowing program.
- Completed the government's annual borrowing program, capitalizing on low interest rates and a strong demand for Ontario's bonds in 2017-18, borrowing $33.9 billion, an increase from the $26.4 billion forecast in the 2017 Budget. As of March 5, 2018, the Province had pre-borrowed $8.1 billion for 2018–19.
- ~~Completed the government's annual borrowing program, capitalizing on low interest rates and a strong demand for Ontario bonds in 2017-18, borrowing $XX.X billion, and increase/decrease from the $XX.X billion forecast in the 2017 Budget.~~
- Issues Green Bonds of approximately $1 billion per annum to fund capital initiatives that are aimed at reducing greenhouse gases. To date, total Green Bond issued amounts to $~~1.77~~2.27 billion, of which $~~1.2~~1.6 billion allocated to Metrolinx for clean transportation projects, including ~~$1.77~~2.27 billion allocated to the Eglinton Crosstown LRT project.
- ~~Through prudent and cost-effective debt management and lower than forecast deficits, interest on debt expense savings of $0.X billion was achieved in 2017-18.~~

2. Supporting a dynamic business climate

Policy/Taxation Measures

- The Renewed Advisory Outreach Strategy was developed to help educate the public and to make it easier to understand Ontario's tax laws and benefits programs.
- The current agreement with the CRA for enhanced audit activities to address aggressive tax planning and the underground economy has generated over $1B to date as of Q1 2017-2018 since 2013, a 5.3:1 return on investment.
- Ran a successful, large scale, open competitive procurement to establish new contracts with four private collection agencies which allows MOF to focus on newly delinquent accounts. In fiscal 2017-18 PCAs collected over $XX.XM for the province.
- As a result of collections efforts, $XXX.XM in outstanding tax receivables and $XXX.XM in outstanding non-tax receivables were collected in fiscal 2017-18 on approximately $X.X billion in outstanding receivables and overpayments across the OPS.
- Led implementation of the new Student Loan Rehabilitation Program on behalf of the Ministry of Advanced Education and Skills Development (MAESD) to help student loan debtors bring their loans back into good standing. A total of 2,348 student loan debtors enrolled in the program as of September 2017.
- Operationalized the expansion of the Refund Set-Off (RSO) program to include tax statutes for individuals (e.g. RST, Gas Tax, Tobacco Tax, Land Transfer Tax, etc.) In 2017-18 Ontario recovered $XXM through RSO and has 18 active programs registered including Ontario Student Loans and Ontario Disability Support Program.
- As part of Ontario's Fair Housing Plan, the Province is introducing legislation to empower the City of Toronto, and potentially other interested municipalities, to introduce a vacant homes property tax to encourage property owners to sell unoccupied units or rent them out.
- Initiated a review of the property taxation of multi-residential apartment buildings to improve housing affordability in the rental market. While the review is under way, the Province has frozen the municipal property tax burden for existing multi-residential properties in communities where these taxes are high.
- Conducted a review and consultations on the property tax treatment of small-scale value-added and commercial activities on farm properties.
- Engaged former Cabinet Minister John Wilkinson to lead consultations and develop recommendations on the valuation and tax classification of landfills. The ministry developed complex new regulations and worked with MPAC and municipalities to support the successful implementation of this new approach in time for the 2017 tax year.
- The Ontario Municipal Partnership Fund (OMPF) has been redesigned to target funding to municipalities with the most challenging fiscal circumstances.
- Implementation of the 15% Non-Resident Speculation Tax (NRST) on the purchase or acquisition of an interest in residential property in the Greater

Golden Horseshoe (GGH) by individuals who are not citizens or permanent residents of Canada or by foreign corporations and taxable trustees.
- Partnered with the CRA and Airbnb to educate Ontarians who engage in home-sharing about their rights and responsibilities and raise awareness of tax obligations.
- Support the restructuring of Stelco through 3 loans, providing funding assistance to OPEB, Stelco and Landco.

Alcohol and Gaming (Ministry, LCBO and OLG)

- Continued the modernization of the alcohol and gaming sectors and increased provincial revenues within a framework of social responsibility.
- Continued to introduce the sale of beer, cider and wine into grocery stores, giving consumers more choice and convenience. There are now up to 275 grocery stores authorized to sell beer and cider.
- Announced the Ontario Small Cidery and Small Distillery Support Program, which will invest $7.2 million over three years to support small cider and small spirits producers.
- To balance opportunities for Ontario's domestic wine suppliers, the bag-in-box assortment is being expanded at the LCBO.
- Continue work on legislative amendments to permit the sale of International-Canadian Blends (ICB) wine at all on-site stores.
- Implemented the Spirits Tax which replaces the LCBO's mark-up commission structure for spirits and spirits coolers sales at on-site distillery retail stores.
- The Ministry of Finance is proposing a safe and sensible approach to the retail and distribution of recreational cannabis, overseen by the LCBO through a subsidiary corporation. Ontario`s approach would meet high standards of control and social responsibility, while responding to consumer demand and eliminating the illegal market.
- The modernization of OLG's land-based gaming sector will expect to have assumed control of six (6) bundles, with procurement for other regions in progress.
- Continuing with the integration of horse racing with OLG's gaming strategy by providing policy support and oversight over the Horse Racing Partnership Plan (HRPP), and sectoral consultations regarding a future long-term funding model that will help drive sustainability within the industry.

Economic Analysis, Reporting and Policy Advice

- Provided analytical, policy and research support to the Premier's Office, Cabinet Office and ministries on a number of priorities, including the Business Growth Initiative, the Highly Skilled Workforce Expert Panel Report, the Poverty Reduction Strategy and the Changing Workplace Review Panel.

- Renewed a three-year agreement with the Toronto Financial Services Alliance to support the organization's strategic objective to grow the Toronto region as a global financial hub and cluster.
- Reviewed investment proposals under the government's Jobs and Prosperity Fund and regional programs.

3. Strengthening the financial services sector

- Led support of the multi-phased transition to the Financial Services Regulatory Authority of Ontario (FSRA).
- Led the development of legislative amendments regarding the structure and powers of the Financial Services Tribunal (FST) based on government's commitment in the *2017 Ontario Budget*.
- As part of implementing the recommendations from the review of the Credit Unions and Caisses Populaires Act, 1994 (CUCPA), released a consultation paper on a proposed capital adequacy framework for adopting internationally accepted (Basel III) capital standards for Ontario credit unions.
- Work to implement recommendations to reform the auto insurance system to improve health outcomes and lower costs to achieve more affordable auto insurance for Ontarians.
- Advanced work towards finalizing the Cooperative System legislation and initial regulations, governance structure and accountability framework.
- Consulted with stakeholders and the public on a report by Ontario's advisor on auto insurance, David Marshall, that recommends transformative steps to reduce auto insurance costs and improve health outcomes for those injured in collisions.
- Worked with partner ministries and stakeholders on developing a new women's economic empowerment strategy that addresses the gender wage gap and accelerates greater representation of women on boards.

4. Building retirement security

- Provided analysis and advice on the government's review of federal and provincial income security programs.
- Worked closely with the Ministry of Community and Social Services to support the development and launch of a Basic Income Pilot.
- Developed, managed and phased-out the Transition Fund that provided health benefits to retirees of United States Steel Canada as part of the Stelco Companies' Creditors Arrangement Act process.
- Introduced legislative and regulatory amendments to the rules governing the merger of single employer defined benefit pension plans that provide additional flexibility to plan administrators structuring mergers.

- Announced a comprehensive package of pension reforms to help make workplace pension plans more sustainable, including the Solvency Funding Framework and the Target Benefit Multi-Employer Pension Plan Funding Framework.
- Strengthened the powers of the Superintendent of Financial Services, including making regulatory changes to set out a regime for administrative monetary penalties in the pension sector.
- Brought forward regulatory changes necessary to support the Superintendent in managing the cash flows in the Pension Benefits Guarantee Fund.

5. Addressing the underground economy

- A project office was established to implement a sales integrity pilot project to combat electronic sales suppression.
- Currently working with the Ministry of Health and Long Term Care and Public Health partners on a cross–designation pilot project to take enforcement action under the Tobacco Tax Act and/or the Smoke Free Ontario Act.
- Provincial oversight of Raw Leaf Tobacco (RLT) has also been enhanced to more effectively monitor its movement through the supply chain by implementing raw leaf tobacco baling or packaging and labelling requirements to impede its flow to unlicensed manufacturers. In July 2016, regulations regarding the tagging of RLT bales came into effect.
- Negotiated new fee-for-service agreements with the Canada Revenue Agency to protect Ontario revenue including enhanced compliance measures (e.g., auditing) and a service level agreement for underground economy specialist teams.
- New risk models were developed and implemented in the Flexible and Integrated Risk System (FAIRS) that enhance the risk analysis methodologies used to conduct evidence based decision making for the effective allocation of resources to high risk areas in audit and inspections.
- Addressed underground economic activity through a public awareness campaign targeting multiple high-risk sectors, including home renovation, and partnered with the Ministry of Transportation on a pilot project to determine the tax compliance of construction subcontractors the ministry procured.

6. Working with Indigenous partners

- Continued engagement with First Nations to identify mutually-beneficial solutions to tobacco on-reserve. This includes discussions on self-regulation and revenue-sharing.

- The Ministry continues to work closely with various law enforcement agencies such as the RCMP and the OPP to reduce the presence of unregulated tobacco in Ontario.
- Signed definitive agreements with First Nations in Ontario to sell to First Nations for their collective benefit, shares of Hydro One Limited.

7. Facilitating openness and accountability

- Provided advice and support to other ministries to ensure an open and productive relationship with the Financial Accountability Office.
- Initiated the development of new ways to deliver data and statistical services that are efficient, cost-effective and transparent in support of evidenced-based decision-making and advancing the government's commitments to Open Government and collaboration with external experts and academic institutions on difficult policy challenges.
- Capitalized on new methods of public and stakeholder participation in the Ontario pre-budget consultation and budget development processes.
- Implemented the recommendations of the Special Purpose Business Property Assessment Review report for the 2016 reassessment (2017 tax year) in collaboration with the Municipal Property Assessment Corporation, municipalities and other stakeholders. These are expected to increase the transparency, accuracy and predictability of property assessments, reducing the number and impact of appeals, and promoting greater revenue stability from the $27 billion shared property tax base.
- Provided additional property tax flexibility to enable municipalities to better tailor programs to reflect their local needs and circumstances, while ensuring the property tax system continues to remain fair and competitive.
- Reported on the Trillium Trust to help support public transit, transportation and other priority infrastructure projects.

Table 3: Ministry Interim Actual Expenditures 2017-18

	Ministry Interim Actual Expenditures * 2017-18 ($M except Staff Strength)
Operating and Capital	XXX.X
Ontario Municipal Partnership Fund	XXX.X
Power Supply Contract Costs	XXX.X
Interest on Debt	XX,XXX.X
Staff Strength As of March 31**	1,888.90

* Refer to page(s) XXX-XXX of the 2018 Budget

** Ontario Public Service Full-Time Equivalent positions

Commented [MB(5]: CPFB to update

Part II: 2018-19 Detailed Financials

Ministry of Finance

12 – MINISTRY OF FINANCE

The Ministry of Finance supports the economic, fiscal, financial, and taxation policies and strategies of the Government of Ontario, and oversees the Province's borrowing and debt management program. The ministry administers a number of tax statutes, tax credits and benefit programs, and produces the provincial budget. In conjunction with Treasury Board Secretariat, the ministry also manages the Consolidated Revenue Fund and fiscal and financial policies of the Government of Ontario, and reports on financial matters. The ministry also develops policies for Ontario's financial services sector and supports the regulation of financial services institutions and intermediaries carrying on business in the province. In addition, the ministry manages Ontario's fiscal relationship with the federal government, other provinces and Ontario's municipalities, reports on the Trillium Trust, and oversees agencies accountable to the Minister of Finance. The Ministry also reports on economic and demographic developments in the province and provides analytical support and policy advice on these topics as well as statistical issues and trends that affect Ontario's economic growth and job creation.

Table 1: Operating and Capital Summary by Vote

[Table to be inserted by CPFB]

Table 1: Operating and Capital Summary by Vote (cont'd)

[Table to be inserted by CPFB]

Table 2: Reconciliation to Previously Published Data

[Table to be inserted by CPFB]

Table 3: 2018-19 Operating Summary by Vote and Standard Account

[Table to be inserted by CPFB]

Ministry of Finance

[Graphic to be inserted by CPFB]

Table 4: 2018-19 Capital Summary by Vote and Standard Account

[Table to be inserted by CPFB]

MINISTRY ADMINISTRATION PROGRAM

1201-1 – Ministry Administration

Sub-Item 1 – Main Office
Sub-Item 2 – Financial and Administrative Services
Sub-Item 3 – Human Resources
Sub-Item 4 – Communications Services
Sub-Item 5 – Legal Services
Sub-Item 6 – Audit Services

Statutory Appropriations

Minister's Salary, Parliamentary Assistant's Salary, the *Executive Council Act*; Bad Debt Expense, the *Financial Administration Act*

Statutory Appropriations

Amortization, the *Financial Administration Act*

1201 – MINISTRY ADMINISTRATION

This program, which includes the Offices of the Minister and Deputy Minister delivers planning, advisory, legal, and controllership functions to ensure direction and management of operating programs consistent with Ontario Government policy and legislation. In addition, the program manages the service relationships with Treasury Board Secretariat and the Ministry of Government and Consumer Services, ensures proper levels of support to the ministry and its client groups, and strategically manages the ministry's quality service commitments.

OPERATING BY SUB-ITEM

[Table to be inserted by CPFB]

VOTE/ITEM: **1201-1 Sub-Item 1**

VOTE: **Ministry Administration**

ITEM: **Main Office**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

This sub-item includes the offices of the Minister of Finance, the Parliamentary Assistant and the Deputy Minister. The staff provide professional and technical support for the legislative policy making and administrative responsibilities of the Minister and the Deputy Minister.

FUNCTIONS

The Main Office is responsible for:

- overseeing ministry operations and adherence to corporate policies and directives;
- providing a leadership role in supporting broader government priorities including transformational policy changes that would help sustain longer term delivery of core public services;
- coordinating policies developed in the ministry for the approval of the Minister and the Deputy Minister;
- coordinating the preparation of replies to correspondence to the Minister and Deputy Minister;
- the preparation of verbal and written briefings for the Minister's presentations to Cabinet, Committees of Cabinet and other meetings such as pre-budget consultations, federal-provincial conferences and stakeholder/interest groups.

VOTE/ITEM: **1201-1 Sub-Item 1**
VOTE: **Ministry Administration**
ITEM: **Main Office**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1201-1 Sub-Item 2**

VOTE: **Ministry Administration**

ITEM: **Financial and Administrative Services**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

This sub-item provides ministry strategic support for Program Review, Renewal and Transformation and Estimates, executive decision support, financial controllership, risk management, corporate accounting, emergency management and security services, accommodation management, coordination of corporate and ministry-specific modernization programs and administration of the *Freedom of Information and Protection of Privacy Act*. This sub-item represents the ministry's point of contact with central agencies.

FUNCTIONS

These offices are responsible for delivering the ministry's obligations for the following:

- leading the controllership function, including the accountability framework, strategic procurement advice, loan administration, the Trillium Trust framework, and Public Accounts;
- coordinating, preparing and providing strategic support to the Program Review, Renewal and Transformation planning process and the annual Estimates process;
- in-year risk management and planning, monitoring and reporting of financial and other resource management strategies including preparing and/or reviewing all central agency submissions, for example TB/MBC submissions;
- managing the ministry's accommodation portfolio, including development of strategic options analysis and lease management to ensure optimal space utilization;
- administering the Freedom of Information and Protection of Privacy Act for the ministry, its agencies, boards and commissions, including processing requests for access to records, and ensuring compliance with the privacy provisions of the Act;
- leading strategic and operational planning to promote compliance with records and information management requirements;
- developing and implementing the ministry's Emergency Management Program and Physical Security Program, including leading, coordinating, testing, updating and maintaining the ministry's Continuity of Operations Plans and Physical Security Plans and providing security services;
- coordinating the ministry's compliance with the Ontarians with Disabilities Act, 2001 and the Accessibility for Ontarians with Disabilities Act, 2005; and
- coordinating corporate and ministry modernization programs including Employee Engagement and Recognition, Inclusion, Mental Health and Wellness, Workplace Violence Prevention, Service Excellence, Summer Experience Opportunities, Greening, and Open Government.

VOTE/ITEM: **1201-1 Sub-Item 2**
VOTE: **Ministry Administration**
ITEM: **Financial and Administrative Services**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1201-1 Sub-Item 3**

VOTE: **Ministry Administration**

ITEM: **Human Resources**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

This sub-item represents the Strategic Human Resources Services Branch which provides strategic and advisory human resources services to ministry senior executives to ensure they have the right people, in the right place, at the right time to achieve their business objectives.

FUNCTIONS

The Strategic Human Resources Services Branch is responsible for:

- providing senior executives with strategic advice and support in the areas of organization design and effectiveness, strategic labour relations and workforce planning/analysis to ensure the alignment of people strategies and build organizational capacity and engagement;
- implementing and supporting talent, performance and succession management programs and strategies;
- designing and implementing human resources change management and organizational development initiatives that support ministry business commitments;
- liaising with OPS human resources organizations to lead the implementation of corporate HR initiatives at the ministry level; and
- liaising with all operational elements of the OPS HR Service Delivery Model to ensure the delivery of integrated HR services to support the achievement of ministry business goals.

VOTE/ITEM: **1201-1 Sub-Item 3**
VOTE: **Ministry Administration**
ITEM: **Human Resources**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1201-1 Sub-Item 4**
VOTE: **Ministry Administration**
ITEM: **Communications Services**
TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

This sub-item represents the Communications Services Branch, which provides strategic communications advice and planning to the Minister of Finance, the Deputy Minister, all Ministry of Finance divisions, Premier's Office and Cabinet Office, and where appropriate, other ministries, to support the government's fiscal priorities and ministry's programs.

FUNCTIONS

The Communications Services Branch is responsible for:

- the coordination and the production of the Ontario Budget, Fall Economic Statement, consultations and delegations and other high-profile ministry projects;
- managing and coordinating the Ministry of Finance contentious issues process;
- responding to media inquiries and monitors the media;
- develops advertising strategies and promotional campaigns, and plans events;
- managing and coordinating the Ministers' correspondence;
- writing news releases, backgrounders, fact sheets and other publications;
- writing speeches and statements for the legislature;
- providing reference and research support to staff; and
- maintaining the Ministry of Finance Internet and intranet sites.

VOTE/ITEM: **1201-1 Sub-Item 4**
VOTE: **Ministry Administration**
ITEM: **Communications Services**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1201-1 Sub-Item 5**

VOTE: **Ministry Administration**

ITEM: **Legal Services**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

This sub-item represents the Legal Services Branch. The branch provides legal services to the Ministry of Finance and the Ontario Financing Authority.

FUNCTIONS

The Legal Services Branch is responsible for:

- advising the ministry and other clients, as required, with regard to legal issues in respect of borrowing and investment of public money, government finance, fiscal, economic and taxation matters, loans and guarantees, insurance, pensions, alcohol and gaming policy and regulation, securities and financial services sector regulation; and procurement;
- providing advice to Office of the Budget;
- advising on agencies for which the Minister has responsibility;
- representing the ministry in tax collection activities, including bankruptcy and insolvency proceedings;
- advising the ministry in respect of the implementation of government policy in the electricity sector and programs;
- preparing legislation, regulations, Orders in Council, contracts, agreements, memoranda of understanding and other instruments;
- providing counsel for provincial tax prosecutions;
- representing the Minister on tax appeals and providing litigation support on other non-tax actions;
- preparing agreements between federal and provincial governments relating to tax collections, transfer payments and other matters; and
- providing advice to the ministry on the interpretation of statutes and regulations, preparation and review of proposed legislation, regulations, and other legal documents.

VOTE/ITEM: **1201-1 Sub-Item 5**
VOTE: **Ministry Administration**
ITEM: **Legal Services**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

[Table to be inserted by CPFB]

VOTE/ITEM: **1201-1 Sub-Item 6**
VOTE: **Ministry Administration**
ITEM: **Audit Services**
TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

This sub-item represents the Finance Audit Service Team (FAST) of Treasury Board Secretariat, which provides risk-management and consulting services, as well as independent assurance services to the Ministry of Finance and some of its agencies. FAST's overall objective is to ensure that the ministry's financial and risk management plans and processes meet the highest standards of integrity, accountability and transparency.

The FAST Audit Director reports functionally to the Finance Audit Committee (FAC), which is chaired by the Deputy Minister of Finance. FAC is responsible for ensuring that FAST has sufficient resources to carry out its responsibilities. FAST is primarily funded by the Ministry of Finance based on actual cost recovery basis.

FUNCTIONS

The services provided by FAST include:

- value-for-money, financial and internal control audits;
- compliance reviews;
- risk assessment and control reviews;
- forensic and fraud investigations;
- advice on governance, controllership, accountability and sound business practices, including advice and liaison to ministries related to Office of the Auditor General of Ontario audits;
- training and education on risk and control; and
- specialized audit, risk assessment and advisory services for information management and information technology projects.

VOTE/ITEM: **1201-1 Sub-Item 6**
VOTE: **Ministry Administration**
ITEM: **Audit Services**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **S**
VOTE: **Ministry Administration**
ITEM: **Statutory Appropriations**
TYPE: **Operating Expense**

ITEM DESCRIPTION

This item provides for the statutory salaries of the Minister of Finance and the Parliamentary Assistant, as authorized by the *Executive Council Act*.

The item also provides for Bad Debt Expense, which makes provision for any bad debts incurred under the terms of the *Financial Administration Act.*

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

- **REGULATORY POLICY AND AGENCY RELATIONS PROGRAM**

1202-6 – Income Security and Pension Policy

1202-7 – Government Business Enterprise

Sub-Item 1 – Investment and Governance
Sub-Item 2 – Gaming Policy
Sub-Item 3 – Alcohol and Cannabis Policy

1202-8 – Financial Services Policy

1202-9 – Other Loans – Stelco

1202-10 – Loans and Investments – *Financial Services Regulatory Authority of Ontario Act, 2016*

1202-11- Capital Expense (TO BE CONFIRMED)

1202 – REGULATORY POLICY AND AGENCY RELATIONS

[Vote description to be added by program area and match to Pro Forma]

OPERATING AND CAPITAL BY ITEM

[Table to be inserted by CPFB]

VOTE/ITEM: **1202-6**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Income Security and Pension Policy**
TYPE: **Operating Expense**

ITEM DESCRIPTION

The Income Security and Pension Policy Division provides advice and analysis on employment pensions plans, including pension reform and federal and provincial income security programs, as well as providing research and analysis on income security and pensions policy programs.

FUNCTIONS

The Income Security and Pension Policy Division is responsible for:

- consulting with stakeholders on pension policy issues, leading development of Cabinet submissions, legislation and regulations;
- providing advice and analysis on employment pension plans and income security policy including responsibility for Ontario's co-stewardship of the Canada Pension Plan;
- developing strategic policy regarding Ontario's retirement income system, including the development of innovative retirement savings models, such as Pooled Registered Pension Plans and target benefit plans;
- supporting development of the fiscal framework and expenditure planning processes by monitoring developments in federal income security programs and estimating provincial income security program impacts on business and individuals, pension benefits standards policy and public sector pension policy;
- supporting the Budget and Public Accounts processes with estimates of the fiscal expense for pension plans of teachers, Ontario Public Service (OPS) employees and employees of other consolidated entities; supporting the estimate of non-pension, post-retirement benefits of OPS employees for the purposes of provincial expenditures; estimates of income security programs for seniors and families with children;
- coordinating the Fair Society chapter of the Ontario Budget and Fall Economic Statement; and
- conducting research and analysis to support the development of pension, income security and benefits policy.

VOTE/ITEM: **1202-6**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Income Security and Pension Policy**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1202-7**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Government Business Enterprise**
TYPE: **Operating Expense**

ITEM DESCRIPTION

To be updated by program area.

FUNCTIONS

Insert functions here.

VOTE/ITEM: **1202-7**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Government Business Enterprise**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1202-7 Sub-Item 1**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Investment and Governance**
TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

To be updated by program area.

FUNCTIONS

[Insert functions here]

VOTE/ITEM: **1202-7 Sub-Item 1**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Investment and Governance**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1202-7 Sub-Item 2**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Gaming Policy**
TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

To be updated by program area.

FUNCTIONS

Insert functions here

VOTE/ITEM: **1202-7 Sub-Item 2**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Gaming Policy**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1202-7 Sub-Item 3**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Alcohol and Cannabis Policy**
TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

To be updated by program area.

FUNCTIONS

Insert functions here

VOTE/ITEM: **1202-7 Sub-Item 3**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Alcohol and Cannabis Policy**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1202-8**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Financial Services Policy**
TYPE: **Operating Expense**

ITEM DESCRIPTION

The Financial Services Policy Division (FSPD) provides advice on and advances financial services regulation and policy initiatives, including initiatives related to capital markets, securities and derivatives and initiatives related to the regulation of credit unions, mortgage brokers, co-operative corporations and insurance.

FUNCTIONS

The Financial Services Policy Division:

- represents Ontario in federal-provincial-territorial discussions regarding financial services policy;
- represents Ontario and advances Ontario's interests in the implementation of a cooperative capital markets regulatory system (CCMR), including leading the development of uniform capital market laws underpinning the CCMR and related legislation;
- acts as policy lead in the ongoing work to establish a regulatory framework to oversee the activities of individuals who offer financial planning services in Ontario;
- represents the Ministry of Finance in the ongoing inter-ministerial work to improve the representation of women on boards of directors and in executive positions;
- participates as a regulatory policy lead to support the ongoing work towards developing an Ontario financial technology (FinTech) strategy;
- continues to support the government's work to keep auto insurance affordable for Ontario's over ten million drivers while ensuring that claimants get the treatment they need;
- provides support for the implementation of the recommendations stemming from the five-year review of the Credit Unions and Caisses Populaires Act, 1994;
- provides support for the establishment of the new Financial Services Regulatory Authority of Ontario, including the development of necessary legislation and regulations and the establishment of an appropriate oversight and governance framework;
- provides analysis and advice on the regulatory framework for financial institutions and the financial services sector;
- implements initiatives to modernize the Insurance Act and its regulations, including work to integrate new sharing economy business models for providing transportation services into Ontario's auto insurance system; and

- works with the Financial Services Commission of Ontario (FSCO) and the Ontario Securities Commission (OSC) on issues relating to regulation of syndicated mortgage investments.

VOTE/ITEM: **1202-8**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Financial Services Policy**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1202-9**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Other Loans - Stelco**
TYPE: **Operating Assets**

ITEM DESCRIPTION

To be updated by program area.

VOTE/ITEM:	**1202-10**
VOTE:	**Regulatory Policy and Agency Relations**
ITEM:	**Loans and Investments – *Financial Services Regulatory Authority of Ontario Act, 2016***
TYPE:	**Operating Assets**

ITEM DESCRIPTION

To be updated by program area.

VOTE/ITEM:	**1202-11**
VOTE:	**Regulatory Policy and Agency Relations**
ITEM:	**Regulatory Policy and Agency Relations – Capital Expenses**
TYPE:	**Capital Expense**

ITEM DESCRIPTION

Placeholder page pending confirmation from TBS.

To be updated.

ECONOMIC, FISCAL AND FINANCIAL POLICY PROGRAM

1203-1 – Economic Policy

1203-8 – Office of the Budget

1203-12 – Ontario Electricity Financial Corporation Dedicated Electricity Earnings

Statutory Appropriations

Bad Debt Expense, the Financial Administration Act
Guarantees and Indemnities, the *Financial Administration Act*
Ontario Electricity Financial Corporation, the *Electricity Act, 1998*

1203-24 – Strategic Assets – Loans and Investments

1203-14 – Capital Expense

Statutory Appropriations

Amortization, the Financial Administration Act

1203-13 – Capital Assets

1203 – ECONOMIC, FISCAL AND FINANCIAL POLICY

This program develops and implements sound economic and fiscal strategies to raise revenue and stimulate economic growth and job creation; forecasts, monitors and reports on the performance of the Ontario economy; provides expertise and advice on sound economic design of and financial and implementation support for government initiatives; develops demographic forecasts for Ontario and its 49 census divisions; develops and provides strategic oversight of and advice related to the government's fiscal plan; assists the Minister of Finance and the government in formulating Ontario's finance policy and strategies with respect to federal-provincial fiscal arrangements; and provides policy advice to clients, managers, and decision makers in the areas of fiscal and financial management. The program is also responsible for facilitating engagement with central agency and line ministry partners to provide fiscal and budgetary policy advice and support policy development and prioritization. The program leads the Statistics Transformation Initiative to enhance how government collects, uses, and disseminates data and is responsible for leading statistics policy. In addition, the program reflects the transfer of dedicated electricity earnings from the province to the Ontario Electricity Financial Corporation.

This program assists the Minister, Deputy Minister of Finance and the government in formulating the fiscal plan and reporting the results of the Province through the Ontario Budget, Ontario Quarterly Finances, Ontario Economic Accounts, Economic Outlook and Fiscal Review, and Ontario's Public Accounts. The program undertakes annual population projections for use in resource allocation and planning, leads preparation of the Long-term Report on the Economy and contributes to the Pre-Election Report on Ontario's Finances required by the Fiscal Transparency and Accountability Act.

OPERATING AND CAPITAL BY ITEM

[Table to be inserted by CPFB]

VOTE/ITEM: **1203-1**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Economic Policy**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Office of Economic Policy (OEP) provides the Minister with:

- forecasts and analysis of the economy and revenues;
- advice and information on economic issues and trends and the development of sound economic strategies that foster economic growth and job creation;
- economic analysis of policy proposals;
- recommendations regarding individual project proposals coming forward through economic development programs;
- leadership advice and analysis on the use of statistics and statistics policy;
- population projections and analysis of demographic issues; and
- research and quantitative analyses to support the development of tax, pension, alcohol fee, income security and benefits policy.

The OEP also represents Ontario in federal-provincial-territorial discussions regarding economic analysis and forecasting, fiscal planning as it relates to revenue forecasting, reporting and federal payments and in discussions with Statistics Canada on matters related to statistical policy.

FUNCTIONS

The Office of Economic Policy:

- develops, researches, monitors, forecasts and reports on economic, financial, demographic, labour market, social issues and risks;
- reviews and assesses the economic impacts ministry policy proposals within the context of the economic and fiscal framework;
- supports decisions on project proposals coming forward through economic development programs;
- conducts research and policy analysis on a broad range of issues related to economic performance and growth;
- advances the use and integration of data and statistics in government decision-making;
- conducts research and policy analysis on labour market issues;
- develops long-range population projections; and
- supports the development of tax, pension, income support and benefits, and alcohol policies through: partnerships, research and quantitative analysis; the identification, development and utilization of quantitative models, methodologies and data; and the management of data holdings.

VOTE/ITEM: **1203-1**
VOTE: **Economic, Fiscal and Financial Policy**
ITEM: **Economic Policy**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1203-8**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Office of the Budget**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Office of the Budget provides analysis and support to the Deputy Minister, Minister, and government, particularly with respect to development and coordination of the fiscal plan and federal-provincial arrangements.

FUNCTIONS

The Office of the Budget is responsible for:

- providing strategic fiscal advice and coordinating key government publications including the annual Budget, the Economic Outlook and Fiscal Review and the Quarterly Finances;
- developing fiscal policy and forecasts in the context of the government's policy priorities, as well as monitoring and advising on the fiscal outlook and risks to the fiscal plan;
- monitoring and advising on Ontario's fiscal relations with the federal government and for maintaining ongoing contact with the ministries of Finance at the federal level and in other provinces and territories; and
- monitoring and providing support and advice to the Ministry of Finance as well as other ministries, in responding to requests from the Financial Accountability Officer.

VOTE/ITEM: **1203-8**
VOTE: **Economic, Fiscal and Financial Policy**
ITEM: **Office of the Budget**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1203-12**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Ontario Electricity Financial Corporation Dedicated Electricity Earnings**

TYPE: **Operating Expense**

ITEM DESCRIPTION

Dedicated electricity earnings are transferred from the Province of Ontario to the Ontario Electricity Financial Corporation.

COMPARATIVE DETAILS

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **S**
VOTE: **Economic, Fiscal and Financial Policy**
ITEM: **Bad Debt Expense, the *Financial Administration Act***
TYPE: **Operating Expense**

ITEM DESCRIPTION

Bad Debt Expense is a provision for debts that are deemed unrecoverable under the terms of the *Financial Administration Act*.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM:	**S**
VOTE:	**Economic, Fiscal and Financial Policy**
ITEM:	**Guarantees and Indemnities, the Financial Administration Act**
TYPE:	**Operating Expense**

ITEM DESCRIPTION

This item provides loan guarantees and indemnities that are required to be paid from the Consolidated Revenue Fund in accordance with Section 12 of the *Financial Administration Act*.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM:	**S**
VOTE:	**Economic, Fiscal and Financial Policy**
ITEM:	**Ontario Electricity Financial Corporation, the Electricity Act, 1998**
TYPE:	**Operating Expense**

ITEM DESCRIPTION

This item provides payments to the Ontario Electricity Financial Corporation in accordance with requirements of*, the Electricity Act, 1998*. The payments from the Province of Ontario to the OEFC are fully offset by revenue received by the OEFC on the consolidation of the OEFC into the Province's finances in the Public Accounts of Ontario.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1203-24**
VOTE: **Economic, Fiscal and Financial Policy**
ITEM: **Strategic Assets – Loans and Investments**
TYPE: **Operating Assets**

ITEM DESCRIPTION

This item reflects the provision made for loans to facilitate the purchase of Hydro One shares.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1203-14**
VOTE: **Economic, Fiscal and Financial Policy**
ITEM: **Capital Expense**
TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is comprised of capital expenses related to future capital loss or write-offs for Moveable/Minor Tangible Capital Assets (mTCA).

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **S**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Amortization, the *Financial Administration Act***

TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is the statutory appropriation for amortization of Moveable/Minor Tangible Capital Assets (mTCA).

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1203-13**
VOTE: **Economic, Fiscal and Financial Policy**
ITEM: **Capital Assets**
TYPE: **Capital Assets**

ITEM DESCRIPTION

This item represents the capitalization of Moveable/Minor Tangible Capital Assets (mTCA).

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

FINANCIAL SERVICES INDUSTRY REGULATION PROGRAM

1204-1 – Financial Services Commission of Ontario

1204-2 – Motor Vehicle Accident Claims Fund

1204-6 – Financial Services Tribunal

Statutory Appropriations

Bad Debt Expense, the Financial Administration Act

1204-5 – Operating Assets

1204-4 – Capital Expense

Statutory Appropriations

Amortization, the Financial Administration Act

1204-3 – Capital Assets

-

1204 – FINANCIAL SERVICES INDUSTRY REGULATION

The Financial Services Commission of Ontario (FSCO) regulates the province's financial services sector, including insurance companies, health service providers for auto insurance, pension plans, credit unions, caisses populaires, mortgage brokers, agents and administrators, loan and trust companies, and co-operatives. FSCO makes recommendations to the Minister of Finance on matters affecting these sectors. In addition, FSCO is responsible for the administration of the Motor Vehicle Accident Claims Fund (MVACF) which compensates people injured in automobile accidents in Ontario where there is no other insurance available to respond to the claim. FSCO is also responsible for the administration of the Pension Benefits Guarantee Fund (PBGF). The PBGF pays a minimum level of pension benefits if a plan is wound up with insufficient assets.

FSCO works with the Ministry of Finance, consumers and industry stakeholders to protect the public interest and enhance public confidence in the regulated sectors.

OPERATING AND CAPITAL BY ITEM

[Table to be inserted by CPFB]

VOTE/ITEM: **1204-1**

VOTE: **Financial Services Industry Regulation**

ITEM: **Financial Services Commission of Ontario**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Financial Services Commission of Ontario (FSCO) regulates the province's financial services sector, including insurance companies, health service providers for auto insurance, pension plans, credit unions, caisses populaires, mortgage brokers, agents and administrators, loan and trust companies, and co-operatives. FSCO makes recommendations to the Minister of Finance on matters affecting these sectors. In addition, FSCO is responsible for the administration of the Motor Vehicle Accident Claims Fund (MVACF) which compensates people injured in automobile accidents in Ontario where there is no other insurance available to respond to the claim. FSCO is also responsible for the administration of the Pension Benefits Guarantee Fund (PBGF). The PBGF pays a minimum level of pension benefits if a defined benefit plan is wound up with insufficient assets.

FSCO works with the Ministry of Finance, consumers and industry stakeholders to protect the public interest and enhance public confidence in the regulated sectors.

FUNCTIONS

FSCO has established the following goals:

- be risk based, proactive, evidence based, balanced, transparent, service orientated, and collaborative in our work;
- further a coordinated national approach to regulatory issues; and
- be a recognized thought leader in regulatory policy.

To achieve its goals, FSCO is guided by its strategic and operational outcomes. These outcomes help FSCO's to achieve its core regulatory responsibilities to administer the laws and regulations governing the activities of the regulated sectors.

FSCO is also responsible for providing the administrative resources necessary for the proper functioning of the Financial Services Tribunal. The Financial Services Tribunal is an independent, adjudicative body that conducts hearings arising from regulatory and proposed regulatory decisions of the Superintendent of Financial Services.

VOTE/ITEM: **1204-1**
VOTE: **Financial Services Industry Regulation**
ITEM: **Financial Services Commission of Ontario**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1204-2**

VOTE: **Financial Services Industry Regulation**

ITEM: **Motor Vehicle Accident Claims Fund**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Motor Vehicle Accident Claims Fund (MVACF) provides compensation to people injured in automobile accidents in Ontario involving an uninsured or unidentified vehicle where no other automobile or liability insurance is available. MVACF is a business unit within the Automobile Insurance Division of the Financial Services Commission of Ontario.

FUNCTIONS

The Motor Vehicle Accident Claims Fund:

- satisfies judgments and claims for property damage or damages related to injury or death caused by an uninsured or unidentified motorist where the plaintiffs and claimants have no recourse to automotive insurance;
- provides statutory accident benefits to individuals injured in automobile accidents where the individuals have no recourse to automobile insurance;
- recovers from the owners and drivers of uninsured vehicles monies paid out on their behalf in satisfaction of judgments and claims, when it is legally possible; and
- administers the accident benefits claims portfolio of an insolvent insurer should a wind up order be issued.

VOTE/ITEM: **1204-2**
VOTE: **Financial Services Industry Regulation**
ITEM: **Motor Vehicle Accident Claims Fund**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1204-6**
VOTE: **Financial Services Industry Regulation**
ITEM: **Financial Services Tribunal**
TYPE: **Operating Expense**

ITEM DESCRIPTION

To be updated by program area.

FUNCTIONS

Insert functions here.

VOTE/ITEM: **1204-6**
VOTE: **Financial Services Industry Regulation**
ITEM: **Financial Services Tribunal**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **S**
VOTE: **Financial Services Industry Regulation**
ITEM: **Bad Debt Expense, the *Financial Administration Act***
TYPE: **Operating Expense**

ITEM DESCRIPTION

Bad Debt Expense is a provision for debts that are deemed unrecoverable under the terms of the *Financial Administration Act*.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1204-5**
VOTE: **Financial Services Industry Regulation**
ITEM: **Operating Assets**
TYPE: **Operating Assets**

ITEM DESCRIPTION

This item makes provision for deposits and prepaid expenses resulting from FSCO's operations.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1204-4**
VOTE: **Financial Services Industry Regulation**
ITEM: **Capital Expense**
TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is comprised of capital expenses related to future capital loss or write-offs for Moveable/Minor Tangible Capital Assets (mTCA).

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **S**
VOTE: **Financial Services Industry Regulation**
ITEM: **Amortization, the *Financial Administration Act***
TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is the statutory appropriation for amortization of Moveable/Minor Tangible Capital Assets (mTCA) such as vehicle fleet and IT hardware.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1204-3**
VOTE: **Financial Services Industry Regulation**
ITEM: **Capital Assets**
TYPE: **Capital Assets**

ITEM DESCRIPTION

This item represents the capitalization of expenditures on Moveable/Minor Tangible Capital Assets (mTCA) such as vehicle fleet and IT hardware (e.g., desktops, printers and network servers).

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

INVESTING IN ONTARIO

1208-1 Investing in Ontario

1208 – INVESTING IN ONTARIO

The Investing in Ontario program has responsibility for the distribution of all or part of the consolidated surplus for a fiscal year (reduced by any allocation to the reduction of the accumulated deficit that may be prescribed by regulation) to eligible recipients for the purposes, and in the manner as may be prescribed by regulation. Eligible recipients must also be prescribed by regulation and may only include entities, other than individuals, that do not carry on their activities for the purposes of gain or profit.

CAPITAL BY ITEM

[Table to be inserted by CPFB]

VOTE/ITEM: **1208-1**
VOTE: **Investing in Ontario**
ITEM: **Investing in Ontario**
TYPE: **Capital Expense**

ITEM DESCRIPTION

The Investing in Ontario program has responsibility for the distribution of all or part of the consolidated surplus for a fiscal year (reduced by any allocation to the reduction of the accumulated deficit that may be prescribed by regulation) to eligible recipients for the purposes, and in the manner as may be prescribed by regulation. Eligible recipients must also be prescribed by regulation and may only include entities, other than individuals, that do not carry on their activities for the purposes of gain or profit.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

TAX, BENEFITS AND LOCAL FINANCE PROGRAM

1209-1 – Tax and Benefits Administration

Sub-Item 2 – Strategy, Stewardship and Program Policy
Sub-Item 4 – Tax Compliance and Benefits

1209-5 – Taxation Policy

1209-6 – Provincial-Local Finance

1209-7 – Municipal Support Programs

Statutory Appropriations

Payments to Private Collection Agencies, the *Financial Administration Act*
Bad Debt Expense, the *Financial Administration Act*
Payments Under the *Tax Increment Financing Act, 2006*

1209-2 – Operating Assets

Statutory Appropriations

Advances and Recoverable Amounts, the *Education Act,* the *Northern Services Boards Act*, the *Local Roads Boards Act*

1209-3 - Capital Expense

Statutory Appropriations

Amortization, the *Financial Administration Act*

1209-4 – Capital Assets

1209 – TAX, BENEFITS AND LOCAL FINANCE

This program develops the policy and legislative framework for Ontario's taxation and benefits systems; administers Ontario tax statutes and a number of benefit programs; maintains the integrity of Ontario's tax system; and manages the province's fiscal relationship with municipalities. The program objective is to maintain a tax system that is competitive and transparent for business to support economic growth, while ensuring tax supports and structure are fair and effective for individuals and families in Ontario. As part of this work, it conducts tax compliance activities including audit, inspection, investigation and collection, and delivers key benefit programs for low-income seniors and families, as well as income verification services to other benefit programs. Accountability for managing the relationship with the Canada Revenue Agency, which collects the majority of the province's taxes on its behalf, also rests with this program. The program provides advice on the development of policies and regulations governing municipal property taxation in Ontario, manages education property taxes and provincial land tax, establishes the policy and legislative framework for Ontario's property assessment system, and provides oversight of the Municipal Property Assessment Corporation. It also provides oversight of the Ontario Municipal Partnership Fund, the province's main transfer payment to municipalities. The program provides strategic analysis and advice on personal, corporate, mining, commodity, sales, estate administration and payroll tax policy and design. It also supports a fair and efficient tax system by leading the province's efforts to address the underground economy.

OPERATING AND CAPITAL BY ITEM

[Table to be inserted by CPFB]

VOTE/ITEM: **1209-1**

VOTE: **Tax, Benefits and Local Finance**

ITEM: **Tax and Benefits Administration**

TYPE: **Operating Expense**

ITEM DESCRIPTION

This program is responsible for the efficient and effective administration of Ontario tax statutes, tax incentive and benefits programs. It strives to support the sharing economy and ensure the integrity of the tax system through measures aimed at reducing participation in the underground economy and maintaining tax fairness. The program is also responsible for examining ways to reduce the taxation burden on participating businesses and citizens. The province encourages compliance through client services and independent objections review, while discouraging non-compliance and tax evasion through collections activities, audits, inspections and investigations. The fairness of tax incentive and benefits programs is protected through systematic eligibility verification and validation reviews.

FUNCTIONS

- encouraging voluntary compliance through client services such as registration, tax roll and account maintenance and processing tax returns, processing application based refunds, client education, and outreach;
- providing remittance, data and image capture and revenue accounting processing services;
- maintaining data integrity in sustaining an efficient tax administration system and collections function for all Ministry of Finance administered tax statutes;
- leading transformation initiatives to streamline the delivery of Ontario benefits, administering ministry benefits programs and providing benefits administration services to partner ministries;
- managing inter-jurisdictional relationships with the Canada Revenue Agency, and monitoring the related service provisions;
- strengthening efforts to address the underground economy, contraband tobacco, and other measures aimed at maintaining tax fairness;
- supporting the sharing economy through coordination and development of key policy initiatives in partnership with the Sharing Economy Advisory Committee;
- providing strategic management services including tracking, analyzing and reporting on TBA's performance measures, service standards and revenue commitments;
- developing proactive and effective tax administration policy that supports the government's competitive business environment; and
- directing and executing excellence in the audit, investigations including forensic accounting and forensic data recovery, regulatory inspection and collection functions using risk based techniques, modern technology and best practices.

VOTE/ITEM: **1209-1**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Tax and Benefits Administration**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM:	**1209-1 Sub-Item 2**
VOTE:	**Tax, Benefits and Local Finance**
ITEM:	**Strategy, Stewardship and Program Policy**
TYPE:	**Operating Expense**

SUB-ITEM DESCRIPTION

The Strategy, Stewardship and Program Policy Division is responsible for program policy, strategic planning, relationship and risk management, and benefits transformation initiatives.

FUNCTIONS

- providing policy advice and leadership on key government priorities related to tax and benefit administration, including addressing the underground economy, contraband tobacco, and other measures aimed at maintaining tax fairness;
- providing advice and assistance to the Minister of Finance and the government in developing policy options for tobacco taxation and the oversight of raw leaf tobacco, based on analysis of the revenue, economic, health, social impacts of various options, and input from industry and health advocates;
- developing proactive and effective tax administration policy that supports the government's competitive business environment and Open for Business priorities;
- managing relationships, service provisions and fee-for-service arrangements and develops accountability frameworks for tax and benefit administration involving partnerships with other governments (most notably the Canada Revenue Agency) and the broader public sector, and First Nations;
- identifying opportunities to improve client access to Ontario's income-based benefits programs and making their delivery more efficient through efforts such as leveraging MoF's automated income verification and other benefits administration processes;
- providing data analysis to support the transformation of tax and benefits programs;
- providing strategic planning services including tracking, analyzing and reporting on TBA's performance measures, service standards, and revenue commitments;
- evaluating and reporting on TBA's performance including our success in meeting strategic and operational objectives;
- developing TBA's strategic plan, operational business plans and related work activities, including inter-jurisdictional research and analysis, environmental assessments, planning sessions, and benchmarking;
- operationalizing a risk management framework for TBA that proactively identifies and responds to risks; and
- supporting the sharing economy through coordination and development of key policy initiatives in partnership with the Sharing Economy Advisory Committee.

VOTE/ITEM: **1209-1 Sub-Item 2**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Strategy, Stewardship and Program Policy**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1209-1 Sub-Item 4**

VOTE: **Tax, Benefits and Local Finance**

ITEM: **Tax Compliance and Benefits**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

The Tax Compliance and Benefits Division plays a key role in promoting public confidence in the fairness and integrity of Ontario's tax system. The division provides a wide range of tax and non-tax enforcement functions to ensure compliance such as auditing, investigations, inspections and collections. The division is responsible for providing registration services, responding to client inquiries, managing tax client accounts and processing benefit payments, processing application refunds, and providing public education and interpretative services, reviewing and resolving objections and appeals, and providing imaging and revenue processing services.

This sub-item focuses on operational and service delivery of tax and benefits programs, revenue administration, and the implementation of current transformational projects to support the ministry's commitment to continuous improvement and modernization.

FUNCTIONS

- directing and executing excellence in the audit function using risk based techniques, modern technology and best practices;
- conducting effective investigations including forensic accounting and forensic data recovery and regulatory inspections;
- partnering with other ministries, agencies and other jurisdictions to provide technical information, resolve issues and identify opportunities to collaborate;
- strengthening efforts to address contraband tobacco products;
- providing revenue collections functions to manage accounts receivable, collect delinquent tax and non-tax debt, and administer insolvencies;
- providing leadership and expertise in the areas of Centralized Collections;
- administering tax statutes as well as a number of tax incentive, revenue and benefit programs;
- encouraging voluntary compliance through client services such as registration, account maintenance and processing tax returns and application based refunds;
- providing remittance, data and image capture and revenue processing services;
- providing benefits administrative services to partner ministries; and
- providing an inexpensive administrative review of tax assessments and refund disallowances through the objection process.

VOTE/ITEM: **1209-1 Sub-Item 4**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Tax Compliance and Benefits**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1209-5**

VOTE: **Tax, Benefits and Local Finance**

ITEM: **Taxation Policy**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Taxation Policy Division provides strategic analysis and advice on personal, corporate, mining, commodity, sales, estate administration and payroll tax policy and design.

FUNCTIONS

The Taxation Policy Division is responsible for:

- providing tax and benefit policy advice and analysis for the annual Ontario Budget, the fall Economic Outlook and Fiscal Review and other major statements;
- providing policy advice and analysis on tax issues (i.e., personal taxation, business taxation, mining, sales and commodity taxation, estate administration taxation, and payroll taxation and negotiating Canada-Ontario tax agreements);
- providing legislative design advice to implement taxation measures and support government bills relating to taxation through the legislative process;
- advising tax administrators on proper implementation of taxation measures in accordance with legislation and policy intent;
- developing and preparing the tax expenditure report, “Transparency in Taxation”; and
- leading negotiation and coordination of tax agreements and initiatives with the federal government and other provinces.

VOTE/ITEM: **1209-5**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Taxation Policy**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1209-6**

VOTE: **Tax, Benefits and Local Finance**

ITEM: **Provincial-Local Finance**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Provincial-Local Finance Division provides advice to the Minister of Finance and the Government of Ontario on policies, legislation and operational initiatives that support the province's fiscal arrangements with municipalities, including the $27 billion property tax system. The Division administers the Ontario Municipal Partnership Fund (OMPF), the government's main unconditional transfer payment to municipalities.

In support of the government's priority to develop effective policies, legislation and regulation governing the property assessment and taxation system, the Division continues to examine ways to ensure the property tax and assessment system is fair, accurate, and predictable while ensuring municipalities have the financial tools they need to give Ontarians the quality of life they deserve.

FUNCTIONS

The Provincial-Local Finance Division:

- provides analysis, develops options and designs policies that support a property tax and assessment system that is fair, accurate, and predictable;
- designs assessment and property tax legislation and regulations that meet the government's policy objectives;
- maintains a productive working relationship with the Municipal Property Assessment Corporation (MPAC) that preserves access to valuation expertise and information;
- provides analysis and advice related to $7 billion in provincial Education Property Taxes, including support for the Minister of Finance's role in setting Education Property Tax rates;
- maintains an effective liaison with stakeholders to discuss possible enhancements to the property tax and assessment system and to the provincial/municipal financial arrangements;
- assists municipalities and taxpayers to better understand their responsibilities with respect to the property tax and assessment system;
- administers transfer payment programs to municipalities, including the OMPF, and recommends options and refinements to grant and/or program redesign;
- provides advice to the Minister of Finance on fiscal arrangements with municipalities, as well as oversight with respect to provincial-municipal financial strategies and policy priorities; and
- supports the Provincial Land Tax, Education Property Taxes and taxes for local roads and services boards in the Unincorporated Areas where applicable.

VOTE/ITEM: **1209-6**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Provincial-Local Finance**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1209-7**

VOTE: **Tax, Benefits and Local Finance**

ITEM: **Municipal Support Programs**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Municipal Support Programs provides funding support to municipalities through the Ontario Municipal Partnership Fund (OMPF), Special Payments to Municipalities, Transitional Mitigation Payment and One-Time Municipal Assistance. The OMPF, the province's main unconditional transfer payment to municipalities, will provide $505 million to Ontario municipalities in 2017. Special Payments to Municipalities is a mitigation program related to property tax on hydro-electric generation facilities. Transitional Mitigation Payment is a mitigation program related to the property tax exemption for non-profit long-term care homes. One-Time Municipal Assistance provides one-time funding to municipalities facing special circumstances.

FUNCTIONS

The Division is responsible for OMPF policy including:

- developing options and refinements to grant or program design;
- supporting the policy announcement of annual OMPF allocations;
- issuing quarterly payments to eligible municipalities; and
- developing supporting materials and providing municipalities with assistance in understanding grant design and calculations.

Special Payments to Municipalities is a program that provides mitigation to municipalities related to the property tax revenue that each municipality received from hydro-electric generating stations (power dams) prior to 2001 when these properties became exempt from taxation.

Transitional Mitigation Payment is a program to provide transitional assistance to municipalities related to the exemption from property taxation of non-profit long-term care homes. The program targets assistance to eligible municipalities where revenue implications of this exemption represent a more significant proportion of the municipality's total revenue base.

VOTE/ITEM: **1209-7**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Municipal Support Programs**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM:	**1209-S**
VOTE:	**Tax, Benefits and Local Finance**
ITEM:	**Payments to Private Collection Agencies, the Financial Administration Act**
TYPE:	**Operating Expense**

ITEM DESCRIPTION

This item provides for expenses related to payments for private sector collection agencies which have been contracted to collect provincial debt under the terms of the *Financial Administration Act*.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1209-S**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Bad Debt Expense, the *Financial Administration Act***
TYPE: **Operating Expense**

ITEM DESCRIPTION

This item provides for the Tax and Benefits Administration Program's bad debt expense related to the net change in the Allowance for Doubtful Accounts Receivable for taxation revenue under the terms of the *Financial Administration Act*.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1209-S**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Payments Under the *Tax Increment Financing Act, 2006***
TYPE: **Operating Expense**

ITEM DESCRIPTION

This item makes provision for any expenses related to funding to municipalities under the *Tax Increment Financing Act, 2006*.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1209-2**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Operating Assets**
TYPE: **Operating Assets**

ITEM DESCRIPTION

These assets are the transfer payments made in a fiscal year that relate to a future entitlement period or overpayments that need to be recorded as a result of changed circumstances or qualifications. For example:

The Guaranteed Annual Income System (GAINS) program ensures a guaranteed minimum income for Ontario senior citizens by providing monthly payments to those who qualify. An increase in other income affecting eligibility may result in overpayments and necessitate the recovery of these overpayments.

FUNCTIONS

- recovering GAINS advanced payment recoverable amounts and overpayments.

VOTE/ITEM: **1209-2**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Operating Assets**
TYPE: **Operating Assets**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1209-S**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Advances and Recoverable Amounts**
TYPE: **Operating Assets**

ITEM DESCRIPTION

This item provides for the Advances and Recoverable Amounts for Provincial Land Tax paid under the legislation of the *Education Act*, the *Northern Services Boards Act* and the *Local Roads Boards Act*.

FUNCTIONS

- recovering advanced payment recoverable amounts and overpayments.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1209-3**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Capital Expense**
TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is comprised of capital expense related to future capital loss or write-offs for Moveable/Minor Tangible Capital Assets (mTCA) for example, large information technology (IT) business applications.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1209-S**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Amortization, the *Financial Administration Act***
TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is the statutory appropriation for amortization of Moveable/Minor Tangible Capital Assets (mTCA) for example, large information technology (IT) business applications.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1209-4**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Capital Assets**
TYPE: **Capital Assets**

ITEM DESCRIPTION

This item is comprised of Moveable/Minor Tangible Capital Assets (mTCA) for example, large information technology (IT) business applications.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

ONTARIO RETIREMENT PENSION PLAN

Ontario Retirement Pension Plan

Statutory Appropriations

Bad Debt Expense, the *Financial Administration Act*

Statutory Appropriations

Loans, the *Ontario Retirement Pension Plan Administration Corporation Act, 2015*

ONTARIO RETIREMENT PENSION PLAN

This program was responsible for supporting implementation of the Ontario Retirement Pension Plan by leading strategic policy and legislative functions related to the Plan. This program was cancelled.

OPERATING BY ITEM

[Table to be inserted by CPFB]

VOTE/ITEM:

VOTE: **Ontario Retirement Pension Plan**

ITEM: **Ontario Retirement Pension Plan**

TYPE: **Operating Expense**

ITEM DESCRIPTION

This program was previously responsible for the implementation of the mandatory provincial pension plan, the Ontario Retirement Pension Plan, to help Ontario working families build a more secure retirement future. The Ontario Retirement Pension Plan Implementation Secretariat (ORPP IS) was responsible for establishing the Ontario Retirement Pension Plan (ORPP) by leading policy, governance and legislative functions to establish the Plan, and supporting set-up of the ORPP Administration Corporation.

FUNCTIONS

- program was cancelled

VOTE/ITEM:

VOTE: **Ontario Retirement Pension Plan**

ITEM: **Ontario Retirement Pension Plan**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM:

VOTE:	**Ontario Retirement Pension Plan**
ITEM:	**Bad Debt Expense, the Financial Administration Act**
TYPE:	**Operating Expense**

ITEM DESCRIPTION

This item provided for debts that are deemed unrecoverable under the terms of the *Financial Administration Act.*

COMPARITIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM:

VOTE:	**Ontario Retirement Pension Plan**
ITEM:	**Loans, the Ontario Retirement Pension Plan Administration Corporation Act, 2015**
TYPE:	**Operating Assets**

ITEM DESCRIPTION

This item included set-up expenses for the ORPP Administration Corporation.

COMPARITIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

TREASURY PROGRAM

S **Interest on Debt**

Interest on Ontario Securities

For General Purposes
Canada Pension Plan Investment Board
Canada Mortgage and Housing Corporation
Ontario Immigrant Investor Corporation

Other Interest, Exchange, Discount and Commission

Interest Capitalization

Interest on Investments

Interest on Debt Payable to Ontario Electricity Financial Corporation

S – TREASURY

This program is responsible for the development, direction, operation, execution and formulation of policies for the management of the Province's debt, investments, credit ratings, investor relations, and related financial administration activities. This is accomplished by issuing and managing debt, including Green Bonds and Ontario Savings Bonds, to complete the Province's annual borrowing program; liaising with rating agencies on their determination of the Province's credit rating; providing centralized banking and cash management services to the Province; reporting on the financial position of the Province to investors and the public to facilitate borrowing activities; providing electricity sector financial analysis and support for any direct or indirect provincial liabilities and monitoring the fiscal implications; co-managing, with Ontario Power Generation, the investment activities of the Ontario Nuclear Funds; providing advice to government and broader public sector on financing initiatives and policies; provision of guarantees and loans by the Province and assistance in investments to its Crown Corporations and agencies; assisting Crown agencies and other public bodies on financial policies and projects and investing on behalf of some public bodies; and arranging custodial and fiscal agency services for the Province and certain agencies. ~~It is also responsible for the issuance of Ontario Savings Bonds.~~ The Ontario Financing Authority (OFA) provides a broad range of financial services to Ontario Electricity Financial Corporation (OEFC) and Ontario Infrastructure and Lands Corporation (Infrastructure Ontario).

OPERATING BY ITEM

[Table to be inserted by CPFB]

VOTE/ITEM: **S**
VOTE: **Treasury**
ITEM: **Interest on Debt, the Financial Administration Act**
TYPE: **Statutory**

ITEM DESCRIPTION

This program is responsible for the development, direction, operation, execution and formulation of policies for the management of the Province's debt, investments, credit ratings, investor relations, and related financial administration activities. This is accomplished by issuing and managing debt, including Green Bonds and Ontario Savings Bonds, to complete the Province's annual borrowing program; liaising with rating agencies on their determination of the Province's credit rating; providing centralized banking and cash management services to the Province; reporting on the financial position of the Province to investors and the public to facilitate borrowing activities; providing electricity sector financial analysis and support for any direct or indirect provincial liabilities and monitoring the fiscal implications; co-managing, with Ontario Power Generation, the investment activities of the Ontario Nuclear Funds; providing advice to government and broader public sector on financing initiatives and policies; provision of guarantees and loans by the Province and assistance in investments to its Crown Corporations and agencies; assisting Crown agencies and other public bodies on financial policies and projects and investing on behalf of some public bodies; and arranging custodial and fiscal agency services for the Province and certain agencies. The Ontario Financing Authority (OFA) provides a broad range of financial services to Ontario Electricity Financial Corporation (OEFC) and Ontario Infrastructure and Lands Corporation (Infrastructure Ontario).

~~This program is responsible for the development, direction, operation and formulation of policies for the management of the Province's debt, investments, credit rating, investor relations, and related financial administration activities; providing centralized banking and cash management services to the Province; reporting on the financial position of the Province to investors and the public to facilitate borrowing activities; providing to the electricity sector financial analysis and support for any direct or indirect provincial liabilities and monitoring fiscal implications; advice to government and broader public sector on financing initiatives and policies; provision of guarantees and loans by the Province and assistance in investments to its Crown Corporations and agencies; and arranging custodial and fiscal agency services for the Province and certain agencies. It is also responsible for the issuance of Ontario Savings Bonds. The Ontario Financing Authority (OFA) provides a broad range of financial services to Ontario Electricity Financial Corporation (OEFC) and Ontario Infrastructure and Lands Corporation (Infrastructure Ontario).~~

FUNCTIONS

The program:

- conducts borrowing in the capital markets in a cost-effective and prudent manner, including the issuance of Ontario Savings and Green Bonds;
- manages the provincial debt and investments;
- manages financial risks such as interest rates, currency, credit and liquidity to minimize interest on debt (IOD) and variations from the budget target;
- manages and supports the credit rating review of the Province;
- manages relations with the fixed-income community (domestic and foreign);
- provides centralized banking and cash management services for the government;
- provides settlement and payment services, and financial reporting services;
- supports the implementation of the government's electricity industry policy decisions, and monitors its fiscal implications;
- effectively manages Ontario Electricity Financial Corporation's debt and derivatives portfolios, providing timely and accurate risk, cash management and financial reporting services;
- provides a broad range of financial services to Infrastructure Ontario;
- advises ministries, crown agencies and other public bodies on financial policies and projects; and
- acts as intermediary for the Province in lending to or investing for certain public bodies.

VOTE/ITEM: **S**
VOTE: **Treasury**
ITEM: **Interest on Debt, the *Financial Administration Act***
TYPE: **Statutory**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM:	**S**
VOTE:	**Treasury**
ITEM:	**Interest on Debt**
	Interest on Ontario Securities for General Purposes
TYPE:	**Statutory**

SUB-ITEM DESCRIPTION

This item comprises interest on public market borrowings via such instruments as fixed-rate bonds, floating-rate and medium-term notes, Ontario Savings Bonds, short-term Treasury Bills and United States Commercial Paper (USCP).

CHANGE FROM THE 2017-18 ESTIMATES

Program area to provide explanation.

STATUS OF ONTARIO DEBT

Program area to provide.

VOTE/ITEM:	**S**
VOTE:	**Treasury**
ITEM:	**Interest on Debt**
	Canada Pension Plan Investment Board
TYPE:	**Statutory**

SUB-ITEM DESCRIPTION

The Canada Pension Plan Investment Board (CPPIB) invests funds in the Province of Ontario's non-marketable securities. Effective July 1, 2005, under a side-letter agreement signed between the CPPIB and the Province, CPPIB offered the Province upon maturity of the debentures held to the credit of the Canada Pension Plan Investment Fund (CPPIF) that were issued before January 1, 1998, an option of issuing new replacement debentures to the CPPIB with a maximum term of 30 years (minimum term of five years and with subsequent roll over options subject to the 30 years maximum from the date of issue of the first replacement debenture) at a rate based on the capital market rates at the time of roll over. These debentures are not negotiable or transferable and are assignable only to a wholly-owned subsidiary of the Canada Pension Plan Investment Board. On April 1, 2007, all debentures held to the credit of the CPPIF or purchased by the Minister of Finance of Canada in accordance with Section 110 of the Canada Pension Plan were transferred to the CPPIB.

CHANGE FROM THE 2017-18 ESTIMATES

Program area to provide explanation.

STATUS OF ONTARIO DEBT

Program area to provide.

VOTE/ITEM:	**S**
VOTE:	**Treasury**
ITEM:	**Interest on Debt**
	Canada Mortgage and Housing Corporation
TYPE:	**Statutory**

SUB-ITEM DESCRIPTION

Canada Mortgage and Housing Corporation (CMHC) loans support federal-provincial environmental and employment incentive programs.

CHANGE FROM THE 2017-18 ESTIMATES

Program area to provide explanation.

STATUS OF LOANS TO ONTARIO

Program area to provide.

VOTE/ITEM: **S**
VOTE: **Treasury**
ITEM: **Interest on Debt**
Ontario Immigrant Investor Corporation
TYPE: **Statutory**

SUB-ITEM DESCRIPTION

The Ontario Immigrant Investor Corporation (OIIC) is an operational enterprise of the Ontario Government, incorporated on April 30, 1999, under the *Development Corporation Act*. The corporation was established to act as Ontario's receiving vehicle for immigrant investor monies and was accepted as an approved fund under this program by the federal government on June 22, 1999. The OIIC has been investing funds into the Province since 2003.

CHANGE FROM THE 2017-18 ESTIMATES

Program area to provide explanation.

STATUS OF ONTARIO DEBT

Program area to provide.

VOTE/ITEM: **S**
VOTE: **Treasury**
ITEM: **Interest on Debt**
Other Interest, Exchange, Discount and Commission
TYPE: **Statutory**

SUB-ITEM DESCRIPTION

These items include public debt transactions such as bank charges, foreign exchange gains and losses, debt issue costs, premiums/discounts and underwriting commissions, as well as interest on special purpose accounts.

CHANGE FROM THE 2017-18 ESTIMATES

Program area to provide explanation.

VOTE/ITEM:	**S**
VOTE:	**Treasury**
ITEM:	**Interest on Debt**
	Interest Capitalization
TYPE:	**Statutory**

SUB-ITEM DESCRIPTION

This item represents the financing costs incurred to fund the construction or development of a tangible asset. The financing costs are capitalized during the period of construction given that those costs are viewed as part of the cost required to get the asset ready for use. These capitalized financing costs reduce interest on debt.

CHANGE FROM THE 2017-18 ESTIMATES

Program area to provide explanation.

VOTE/ITEM:	**S**
VOTE:	**Treasury**
ITEM:	**Interest on Debt**
	Interest on Investments
TYPE:	**Statutory**

SUB-ITEM DESCRIPTION

This item represents investment income earned from the Province's investments, mainly in marketable securities issued or guaranteed by Canadian chartered banks, and provincial and federal governments. It also includes interest from loans to its Crown corporations, agencies and other public bodies.

CHANGE FROM THE 2017-18 ESTIMATES

Program area to provide explanation.

VOTE/ITEM: **S**
VOTE: **Treasury**
ITEM: **Interest on Debt**
Payable to the Ontario Electricity Financial Corporation
TYPE: **Statutory**

SUB-ITEM DESCRIPTION

This item provides for interest on Provincial Purpose Debt issued as part of a debt-for-equity swap with Ontario Power Generation Inc. and Hydro One Inc. effective April 1, 1999. The Province assumed $8,885 million of the debt issued by these two government business enterprises to OEFC in exchange for $5,126 million in equity from Ontario Power Generation Inc. and $3,759 million in equity from Hydro One. In addition, OEFC owed Hydro One for a working capital adjustment in the amount of $122 million, and Hydro One agreed to settle this amount as a reduction of the equity in 2002, and the Province reduced one of its payables to OEFC by $122 million.

CHANGE FROM THE 2017-18 ESTIMATES

Program area to provide explanation.

STATUS OF ONTARIO DEBT

Program area to provide.

Trillium Trust Program

Statutory Appropriations (Capital Expense)

Infrastructure Expenditures, the *Trillium Trust Act*

Statutory Appropriations (Capital Assets)

Infrastructure Expenditures, the *Trillium Trust Act*

S – TRILLIUM TRUST PROGRAM

The Trillium Trust provides for the dedication of prescribed net revenue gains / fiscal benefits from the sale of designated assets to help support investments in infrastructure, such as roads, bridges, transit and other priority infrastructure.

CAPITAL BY ITEM

[Table to be provided by CPFB]

VOTE/ITEM: **S**
VOTE: **Trillium Trust Program**
ITEM: **Infrastructure Expenditures, the *Trillium Trust Act***
TYPE: **Capital Expense**

ITEM DESCRIPTION

The Trillium Trust provides for the dedication of prescribed net revenue gains / fiscal benefits from the sale of designated assets to help support investments in infrastructure, such as roads, bridges, transit and other priority infrastructure.

COMPARATIVE DETAILS

[Table to be provided by CPFB]

VOTE/ITEM: **S**
VOTE: **Trillium Trust Program**
ITEM: **Infrastructure Expenditures, the *Trillium Trust Act***
TYPE: **Capital Assets**

ITEM DESCRIPTION

The Trillium Trust provides for the dedication of prescribed net revenue gains / fiscal benefits from the sale of designated assets to help support investments in infrastructure, such as roads, bridges, transit and other priority infrastructure.

COMPARATIVE DETAILS

[Table to be provided by CPFB]

From:	George Sakura
To:	Ken Kandeepan
Subject:	FW: 3. Net debt analysis -Document 2017-18 (March 9, 2018)
Date:	Friday, March 09, 2018 10:50:26 AM
Attachments:	3. Net debt analysis -Document 2017-18 (March 9, 2018)).xlsx

---

From: Shemin Meralli
Sent: Friday, March 09, 2018 9:17 AM
To: George Sakura <George.Sakura@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>
Subject: 3. Net debt analysis -Document 2017-18 (March 9, 2018)

Please see attached and let me know the years we are showing in the Document and I will make the adjustment.

Thanks

Analysis of Net Debt

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total 2009-10 to 2020-21	2009-10 to 2017-18 (col D -L)	2008-09 to 2017-18 (col C - L)	2008-09 to 2016-17 (col C -K)	2007-08 to 2016-17 (col B -K)
Opening balance	**(153,742)**	(156,616)	(169,585)	(193,589)	(214,511)	(236,230)	(252,823)	(267,968)	(285,403)	(295,372)	(301,648)	(308,203)	(325,041)	(342,752)	(169,585)				
Surplus/(Deficit)	600	(6,409)	(19,262)	(14,011)	(12,969)	(9,220)	(10,453)	(10,315)	(3,515)	(991)	642	(6,704)	(6,624)	(6,475)	(99,897)	(80,094)	(86,503)	(87,145)	(86,545)
IFRS Transitional Impact					(758)					(683)					(1,441)	(1,441)	(1,441)	(1,441)	(1,441)
PSAB Transitional Impact					(107)	(141)		(1,683)							(1,931)	(1,931)	(1,931)	(1,931)	(1,931)
Pension Adjustment (prior years)									0						0	0	0	0	0
Prepaids/Inv adj/gain/(loss)					(648)	(87)	(43)	(49)	20	(43)	0	0	0	0	(850)	(850)	(850)	(850)	(850)
Other Adjustments									0	(901)					(901)	(901)	(901)	(901)	(901)
	600	(6,409)	(19,262)	(14,011)	(14,482)	(9,448)	(10,496)	(12,047)	(3,495)	(2,618)	642	(6,704)	(6,624)	(6,475)	(105,020)	(85,217)	(91,626)	(92,268)	(91,668)
Ontario Nuclear Fund- gain/(loss)	559	(1,212)	1,090	395	(3)	639	951	1,121	(1,003)	1,094	419				4,703	4,703	3,491	3,072	3,631
Total Deficit	1,159	(7,621)	(18,172)	(13,616)	(14,485)	(8,809)	(9,545)	(10,926)	(4,498)	(1,524)	1,061	(6,704)	(6,624)	(6,475)	(100,317)	(80,514)	(88,135)	(89,196)	(88,037)
Tangible Capital Assets	(4,033)	(5,348)	(5,832)	(7,306)	(7,234)	(7,784)	(5,600)	(6,509)	(5,471)	(4,752)	(7,616)	(10,134)	(11,087)	(10,896)	(90,221)	(58,104)	(63,452)	(55,836)	(59,869)
	(2,874)	(12,969)	(24,004)	(20,922)	(21,719)	(16,593)	(15,145)	(17,435)	(9,969)	(6,276)	(6,555)	(16,838)	(17,711)	(17,371)	(190,538)	(138,618)	(151,587)	(145,032)	(147,906)
Ending balance	**(156,616)**	**(169,585)**	**(193,589)**	**(214,511)**	**(236,230)**	**(252,823)**	**(267,968)**	**(285,403)**	**(295,372)**	**(301,648)**	**(308,203)**	**(325,041)**	**(342,752)**	**(360,123)**	**(360,123)**				

% INCREASE IN NET DEBT

Percentage %

Deficit	(20.88)	49.42	80.24	66.97	66.68	56.94	69.30	69.10	35.06	41.71	(9.79)	39.81	37.40		61.48	60.44	63.62	61.98
Other	(19.45)	9.35	(4.54)	(1.89)	0.01	(3.85)	(6.28)	(6.43)	10.06	(17.43)	(6.39)	0.00	0.00		(3.39)	(2.30)	(2.12)	(2.45)
Total Deficit	**(40.33)**	**58.76**	**75.70**	**65.08**	**66.69**	**53.09**	**63.02**	**62.67**	**45.12**	**24.28**	**(16.19)**	**39.81**	**37.40**		**58.08**	**58.14**	**61.50**	**59.52**
Tangible Capital Assets	**140.33**	**41.24**	**24.30**	**34.92**	**33.31**	**46.91**	**36.98**	**37.33**	**54.88**	**75.72**	**116.19**	**60.19**	**62.60**		**41.92**	**41.86**	**38.50**	**40.48**
	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00		100.00	100.00	100.00	100.00

Note: Pension adjustments incorporated in the 2015-16 Public Accounts and extended in the 2016 FES have been reversed.

For use with slide 2

In year approvals added to TCA for 2016-17 only, but not any risks. Deprecation in out years for in year approvals not taken.

From: Ken Kandeepan
To: John Psinas; George Sakura; Alexander Kraas; Ricky Lai; Kevin Hwang
Subject: FW: 3C ND.docx
Date: Thursday, October 27, 2016 8:45:56 AM
Attachments: 3C ND.docx

Pls review and let me know if you are ok with your respective sections, I can then sign off.

Thanks

Ken k

From: Daniel Hengeveld
Sent: Wednesday, October 26, 2016 5:33 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: 3C ND.docx

Hi Ken, I've attached much of the debt content contained in our chapter if you'd like to have a look in advance of tomorrow's sign-off (particularly the material covering the legislated pension adjustment as it is new this year).

The order is not quite the same as seen in the actual document

Thanks,
Daniel

Intro

The Province, adopting a prudent and risk averse approach, has included the pension adjustment in its expense projections in accordance with the legislated basis of accounting adopted for the 2015-16 Public Accounts. The projected pension adjustment of $2.2 billion for 2016-17 is entirely non-cash and does not impact the Province's projected borrowings as well as its total debt.

The pension adjustment increases non-cash adjustments, allowing the Province to reduce both short – term and long- term borrowings from what was projected in the 2016 Budget

Net Debt-to-GDP

Total debt, which represents all borrowing without offsetting financial assets, is projected to be $328.6 billion for March 31, 2017 (March 31, 2016, $327.4 billion).

Ontario's net debt is the difference between total liabilities and total financial assets. It is projected to be $317.9 billion for March 31, 2017 (March 31, 2016, $305.2 billion). The net debt projection for March 31, 2017, was forecasted to be $308.3 billion in the *2016 Budget,* $311.5 billion in the *2015 Budget* and $317.2 billion in the *2014 Budget.*

The legislated pension adjustment for the 2015-16 Public Accounts resulted in the net debt-to-GDP ratio increasing to 40.9 per cent as of March 31, 2016 and is projected to be 41.1 percent as at March 31, 2017. If not for this adjustment, the ratio at the end of the 2015-16 fiscal year would have remained level with the 2014-15 ratio at 39.4 percent. Likewise, the ratio for March 31, 2017 would have increased slightly to 39.8 per cent and begin to decline from 2017-18 onwards.

The legislated pension adjustment that increased net debt by $10.7 billion in 2015–16 has no impact on the Province's total debt or current and future borrowings.

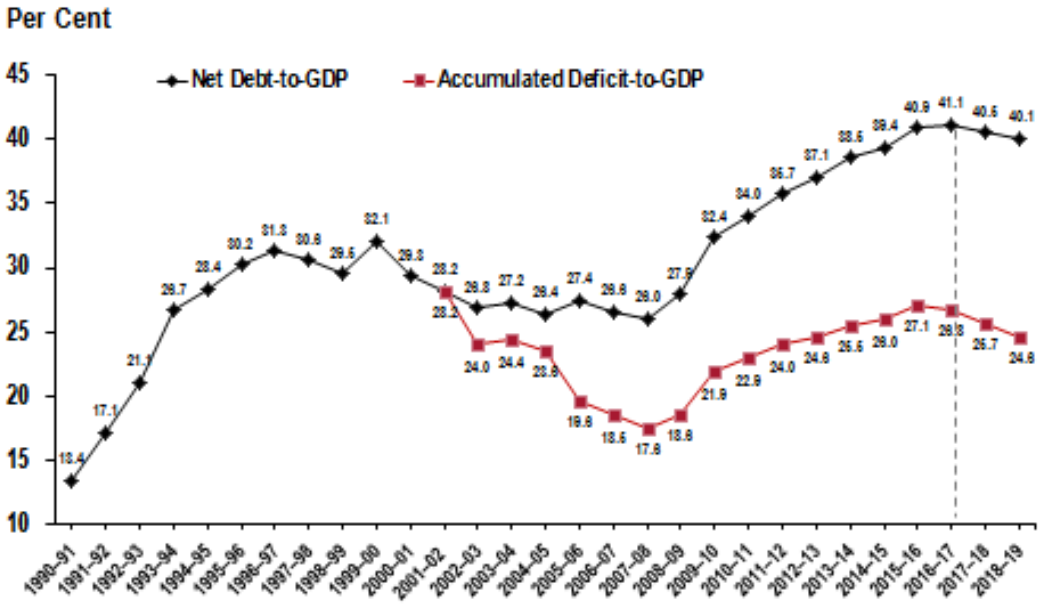
The Province is forming an independent expert panel to deliver advice and recommendations to the government as to the application of public sector accounting standards to Ontario's pension assets. The report is expected later this year.

Including the legislated pension adjustment of $10.7 billion, accumulated deficit is projected to be $207.0 billion as at March 31, 2017. The projected difference of $110.9 billion between net debt and accumulated deficit is due to the Province's consistent level of investment in infrastructure, as shown by the increase in tangible capital assets.

About 64 per cent of the increase in net debt from 2008–09 to 2015–16 is due to the deficit, with investments in capital assets responsible for most of the balance. Once a balanced budget is reached, the increase in net debt will be limited to the difference between cash investments in capital assets and amortization.

These investments will work to increase economic growth and will result in GDP growing more quickly than debt, thereby helping to lower the net debt-to-GDP ratio to its pre-recession level.

CHART 3.XX **Net Debt-to-GDP and Accumulated Deficit-to-GDP**



Notes: Historical net Debt-to-GDP was revised to reflect historical GDP released by Statistics Canada in November 2015. Net Debt has been restated to include Broader Public Sector Net Debt, starting in 2005–06.
Source: Ontario Ministry of Finance.

Cost of Debt

The interest rate that Ontario pays on its debt has been steadily declining since 1990–91, when the effective interest rate (on a weighted-average basis) on total debt was 10.9 per cent. It was 3.6 per cent as at March 31, 2016 and 3.7 per cent as at March 31, 2015.

The global decline in interest rates over the last 25 years cannot continue indefinitely. To protect itself from an increase in interest rates, the Province has continued to extend the term of its debt. Going back to the beginning of fiscal 2010–11, Ontario has issued $59.9 billion of bonds longer than 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008–09 to 14.2 years in 2015–16 and 15.1 years as at October 25, 2016.

For 2016–17, the impact of a one percentage point change in interest rates on IOD is approximately $350 million for the Province.

From:	Alexander Kraas
To:	Anna Strathy
Cc:	Ken Kandeepan; John Psinas
Subject:	FW: A Shadow Budget for Ontario 2018-2019 - external review.docx
Date:	Friday, February 02, 2018 10:23:28 AM
Attachments:	A Shadow Budget for Ontario 2018-2019 - external review.docx

Hello Anna;

In my brief review, I focussed on the introduction/summary and the fiscal outlook. Here are my comments:

- I wonder whether all items they flag would be legitimate budget items (e.g. minimum wage); and
- WRT the fiscal outlook, the authors adopt the views of the AG & FAO w/o discussing their hidden assumptions (e.g. the government does not respond to fiscal pressures to stay within the fiscal plan).

Please find attached my comments. You are welcome to let me know in case you have any questions.

Best regards

Alex

From: Ken Kandeepan
Sent: Thursday, February 01, 2018 4:15 PM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>
Cc: John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Subject: A Shadow Budget for Ontario 2018-2019 - external review.docx

Hi Anna

Pls find attached my comments, not many since the references to net debt to GDP and IOD are minimal, also cc 'ing to Alex and John in case they have additional comments.

Thanks and Alex and John, if you do have comments pls provide to Anna before eod tomorrow.

Thanks

Ken k

Ken k

A Shadow Budget for Ontario, 2018-2019

*Draft not for circulation

January 24, 2018

As Ontario enters an election year, the policy debate will likely involve the difficult choices the province faces regarding the fiscal outlook and long-term sustainability of a number of government programs. The budget the provincial government puts in place for the 2018-19 fiscal year will lay out a framework for the debate in the coming months.

To aid this debate, the C.D. Howe Institute has launched its inaugural Shadow Budget for Ontario, following similar Shadow Budgets at the federal level (see last year's edition from Robson, Laurin, and Wyonch 2017). This Shadow Budget shows that the fiscal course the province is currently on is unsustainable. This Shadow Budget would act to bring the long-term cost of government in line with the revenue-raising capacity of the province. It would balance increases in spending and cuts to poorly designed taxes with new ways to generate revenues and reducing spending on ineffective programs.

Although providing specific costing of programs is outside of the scope of this Shadow Budget, it presents an overview of policy directions that balance increases in spending with generating new revenues and cost-savings measures. This Shadow Budget proposes to:

- Restate the province's books to reflect the Auditor General's concerns about incorrect treatment of pension assets and electricity-sector debt;
- Reduce future expense growth to reach a balanced budget as soon as possible;
- Adopt long-term fiscal policy – which requires surpluses, not just balanced budgets – that meets the government's debt-to-GDP target ratio of 27 percent;
- Contain healthcare costs by extending capitated payments to family doctors and revising contractual arrangements with healthcare providers;
- Slow the increase in the minimum wage and focus on improving education and to create economic opportunities for Ontarians;
- Adopt an indigenous identifier in standardized test and oversample indigenous students to permit reliable rural-urban and district-level analysis;
- Modernize funding formulas for post-secondary education by taking outcomes into consideration;
- Reform the school curriculum with an emphasis on improving math performance;
- Open retailing for alcohol and marijuana and revising the tax scheme for both products;
- Adopt personal income tax reforms that reflect the cost of raising children, while reforming personal income taxes to lower high marginal rates, which occur even at low incomes;
- Replace targeted business tax breaks with lower provincial business property taxes to create a level playing field across the province and across different types of businesses;
- Rethink the fiscal relationship between municipal government and the province by retooling grants and transit governance while modernizing municipal financial reporting to match that of the province;
- Reduce the cost that governments impose on building new housing;
- Retain the plan to price greenhouse gas emissions, but re-focus the government plans to spend money raised by such a price away from cost-inefficient programs; and
- Seek out long-term cost savings in the electricity sector, as opposed to short-term fixes that only add to the long-term cost of energy.

Commented [KK1]: Incorrect is not an appropriate term, replace with "Government's"

Commented [AK2]: Is this really a budget item?

Commented [AK3]: Is this really a budget item?

Commented [AK4]: Is this really a budget item?

The Fiscal Outlook

This Shadow Budget adopts the consensus view of the independent officers of the Ontario legislature – the Auditor General and Financial Accountability Office – as the authoritative outlook of the short-, medium-, and long-term fiscal outlook. While the government may claim to have balanced the budget for 2017-18,

Commented [AK5]: What is the rationale for adopting this perspective, especially without discussing their hidden assumption that the government cannot/does not respond to fiscal pressures (e.g. last FAO review)?

that declaration is in the eye of the beholder and the medium- and long-term fiscal outlook for Ontario is dire.

Cleaning up Ontario's Books – The Short Term Deficit Debate

The government has made the argument that it has reached a balanced budget. However, the Auditor General has two specific objections related to this claim because of the government's accounting treatment of pensions and whether the recent Fair Hydro Plan amounts to new spending.

The pension dispute centres on the government's treatment of the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP). The province has decided to report the full asset value of the plan on the province's balance sheet, which neglects the fact that future retirees already have a claim on these assets. Doing so reduces the deficit and the Auditor General (2016) objects to this. Further, as Robson and Laurin (2016) argue, the government discounts OTPP and OPSEUPP liabilities by more than the plans do themselves. This understates the liabilities provincial taxpayers face.

However, the view of the Auditor General is not universally shared. The Ontario government appointed a Pension Asset Expert Advisory Panel to advise on the difference of opinion between the government and Auditor General. The Panel's Report (2017) argued that an asset does exist for the government, saying that the government does have sufficient access to the plan's assets, if even just through reducing contributions to the plans, to merit including it. However, given that we have taken the Financial Accountability Office's presentation of financial data, which is independent of both the government and the Auditor General, we have decided to use the presentation of provincial finances as recommended by the Auditor General.

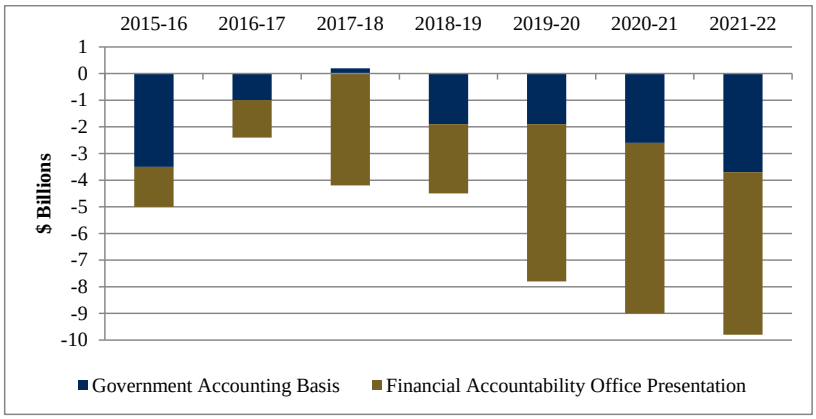
Commented [KK6]: My understanding was that the FAO presented both the Government's accounting treatment as well as the AG on the pension assets, leaving the decision to the reader. This is however, an OPCD issue

The second dispute hinges on the Fair Hydro Plan. As the Auditor General (2017a) points out, the government "is making up its own accounting rules" by creating an accounting asset for a government-controlled entity to offset the debt the province placed on another government-controlled entity. The asset the government created only exists because of legislation that gives a government entity the authority to collect higher prices in the future. The true value of this asset should be zero, or highly discounted, because of great uncertainty of the ability to collect higher prices in the future. For example, electricity markets may change because of technology, making it impossible for a central government agency to collect future revenues to pay this debt. As such, this debt should be reflected in the province's financial statements now. Incorporating the debt amount in today's books means that the proper accounting treatment would increase the deficit by $2.5 billion per year through to 2027.

Commented [KK7]: Likewise OPCD should comment since this is an accounting issue

This Shadow Budget would restate the province's books to reflect the Auditor General's concerns. It would restate the province's finances to show a deficit in the upcoming 2018-2019 fiscal year to be about $7 billion (Figure 1).

Figure 1: Ontario Budget Balance



Source: Financial Accountability Office of Ontario. Does not include reserve fund. 2017-18 and beyond are projections by the Financial Accountability Office.

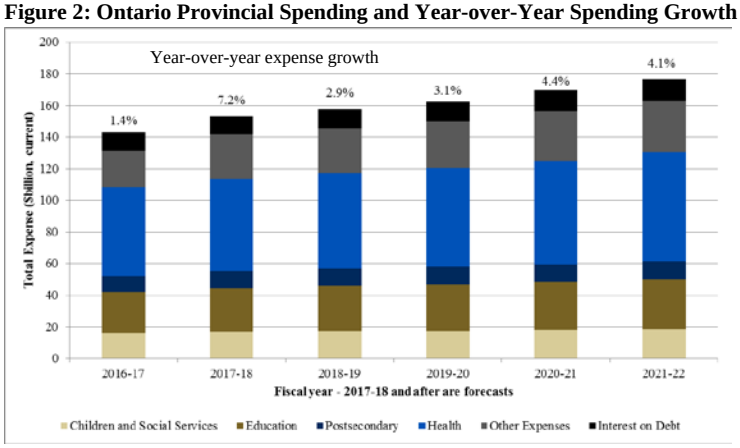
Medium-term Fiscal Sustainability

The question of whether there is a deficit for the 2017-18 fiscal year is far less important, from the point of view of the sustainability of public finances, than future trends. Under current trends, the deficit would rise to nearly $10 billion by 2021-22 (Figure 1), according to the Financial Accountability Office (2017a). These long-term deficits will return because of two main causes: the deficits the government should account for under the Fair Hydro Plan, as discussed above, and fast-rising expenses. Future revenues are not likely to grow as fast in the future as in previous years because of a number of factors, such as one-time revenues that have come in recently and economic growth that is likely to slow. Further, the Financial Accountability Office (2017a) argues that the government has made overly optimistic revenue forecasts that rely on above-trend income growth in the province and corporate income tax receipts.

The province can look to balance its budget in the near future in a number of ways. First, it can look to increase revenues. It can do so through short-term revenue gains such as sales of provincial assets – as this Shadow Budget will suggest in more detail below. Alternatively, it can raise tax rates, such as the provincial component of the HST. Or, it may seek more grants from the federal government. However, aside from hiking tax rates, none of these steps to increase revenues are directly within the control of the province or offer more than a single year's worth of solutions.

The province must address fast-growing spending to reduce future deficits. The first trend that this Shadow Budget would address is the projected pattern of total spending growth. 2017-18 spending is forecast to grow at over 7 percent over the previous year's spending. This kind of spending growth is unsustainable. Future expenses beyond 2020 of over 4 percent are also likely unsustainable. This Shadow Budget would aim to reduce future expense growth to reach a balanced budget as soon as possible.

Figure 2: Ontario Provincial Spending and Year-over-Year Spending Growth Rates



Source: Financial Accountability Office of Ontario

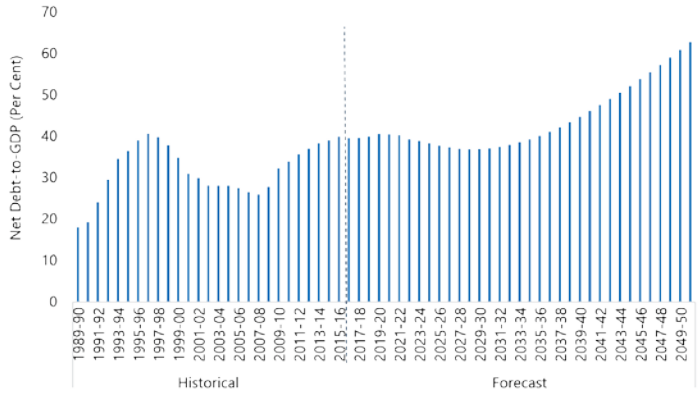
Long-term Fiscal Sustainability

Balanced budgets will not be enough for Ontario to be fiscally sustainable. The government has targeted a net debt-to-GDP ratio of 27 percent, a sensible target that is similar to that of the federal government of 25 percent of GDP. This Shadow Budget would continue pursuing such a target and take the necessary action to achieve it within 15 years. As the Financial Accountability Office (2017b) projects, achieving 27 per cent requires the province to run budget surpluses until 2033-34. If the province continues on the current trend, and not run first balanced budgets and then surpluses, the net debt-to-GDP ratio will reach 63 percent by 2050-51 (Figure 3).

Commented [KK8]: While this is no doubt a sensible target, the basis of the 27% is the reversion to the pre-recession net debt to GDP ratio.

Commented [KK9]: Without knowing the basis of this calculation we cannot comment

Figure 3: Net-Debt-to-GDP, Under Current Fiscal Trajectory



Source: Financial Accountability Office of Ontario

Figure 4: Interest Expense as a Share of Revenue



Source: Financial Accountability Office of Ontario

If the government doesn't tackle the long-term fiscal challenges, the cost of debt will take up an enormous share of total government revenues. Interest costs currently sit at 9 percent of revenues; at current trends, interest costs will increase to 22 percent in 2050-51 (Figure 4). If debt costs take up a large share of total revenues, that will leave less for other needs.

Commented [KK10]: This is incorrect interest is only 8.3% of revenues in 2016-17 and projected to increase to 8.4% in 2019-20

Health Policy

Given that Ontario spends roughly half of its own-source revenues (which excludes transfers from the federal government) on health, getting good value for money in healthcare will be critical for the financial and societal well-being of Ontarians. Although the province has successfully contained the annual growth of healthcare spending from 2010 to 2015 to 2.4 percent, on average, the rate of health spending is starting to tick upwards again alongside worries about emergency room overcrowding, long waits for long-term care beds as well as overburdened caregivers . Progress on addressing these issues – in addition to limiting public and private gaps in coverage for prescription drugs, dental services and mental health – while allocating reasonable increases for health spending, is a critical challenge.

Efforts to enable self-directed homecare services – such as recent moves to increase the number of hours nurses, personal support workers, and therapists will provide care in homes – should help alleviate the emergency room pressures for elderly patients, and these programs should continue to expand on their current trajectory. Relative to providers, patients with mild to modest physical disabilities are more likely to know the abilities of family and informal caregivers to offer care and their schedules, and which services they would prefer to have delivered by other health professionals. Although there are some legitimate concerns about patient's ability to choose among groups of healthcare professionals to meet their needs, there should still be enough flexibility around the use of self-directed home care budgets to ensure appropriate innovation from those delivering services. This means sufficient flexibility in how patients select and schedule professional help.

Ensuring that people without private insurance for dental, drug and mental health services get access to services is also a priority for healthcare policy. On this score, there are a number of avenues to ensure appropriate coverage and do so at minimal public cost, including the expansion of these services among the most vulnerable (Blomqvist and Busby 2016, Busby and Pedde 2014). This Shadow Budget would look at new ways to revise contractual arrangements with providers – pharmacists, dentists and dental hygienists, and phycologists – to improve the efficiency of spending in these areas.

Although government needs to spend more money to improve access to mental health services, more money alone will not ensure that all illnesses get treated in appropriate timeframes. It may be more advantageous to give a greater share of the overall budgetary spending on physiologists to hospitals and primary care doctors for outpatient needs.

The way in which the province pays for the delivery of health services matters. Paying hospitals, hospital-based doctors and necessary outpatient services for a needed intervention often results in silos of poorly coordinated care. This Shadow Budget would instead look at more bundled payments by procedure for hospital-based services (Sutherland and Hellsten 2017). And in primary care, this Shadow Budget would extend capitated payments to family doctors to include budgets for enrolled patient drugs, lab and diagnostic imaging budgets as part of the evolution in payment reforms for family doctors (Blomqvist and Busby 2011).

Labour and Education Policy

Many governments are struggling to respond to the challenges of precarious work – employment that is often more insecure and uncertain than traditional full-time employment, with greater prevalence for part-time work. Further, as wage gaps exist between temporary or part-time vis-à-vis full-time workers, policymakers have recently passed legislation intended to bridge these differences. While there are no ideal policy levers for addressing these issues, it should be recognized that, in general, increases to the minimum wage are a reasonable option available to policymakers. However, gradual and evaluated increases to the minimum wage are the best way to increase minimum wages over time. Ontario's recent, large increase in the minimum wage means that the right response for government should be to pause and evaluate. One particular concern is the impact on smaller municipalities that risk being most negatively affected.

This Shadow Budget would amend the current minimum wage in two ways, as recommended by Marchand (2017). First, it would allow for regional variation in minimum wages. This Shadow Budget would allow upper-tier and single-tier municipalities across the province the option to return to a lower minimum wage for a five-year period. New York has a similar policy, in which the minimum wage is highest in New York City than in other parts of the states. Second, this Shadow Budget would build a provision into the minimum wage legislation to reduce it in the case of a recession, as California has recently done.

As trade, technology and worker preferences continue to change the dynamic for skills desired by employers, a competitive labour force will need an abundance of core numeracy and literacy skills. For Ontario, the news on these scores is mixed. On literacy, the results are strong (EQAO 2015). In terms of numeracy, however, the results are alarming – only half of all grade 6 students in the province meet the provincial standard for numeracy and its OECD Programme for International Student Assessment (PISA) scores have plummeted over time, from 530 in 2003 to 509 in 2015, one of the largest drops among Canadian provinces, putting Ontario statistically below the average in Canada(Richards 2017). This needs

fixing. This Shadow Budget would continue the province's re-examination of the math curriculum and pedagogy, where the effectiveness of different pedagogies should be explored as potential causes (Stokke 2015). This Shadow Budget would also look at teacher preparedness and consider evaluating teacher knowledge in subject matter with the administration of student exams to teachers prior to the academic year. Insufficient results should require immediate intervention.

Furthermore, collecting, analysing, and reporting educational outcomes are essential to closing the achievement gap between more and less advantaged students. Including a question that identifies indigenous student in PISA tests is a great way to track educational achievement of indigenous students and help educators and policymakers to design more effective strategies to improve outcomes. The province should also oversample to ensure sufficiently large sample of indigenous student to produce reliable estimates at the district level and to perform urban/rural analysis (Richards and Mahboubi, forthcoming).

Many OECD countries consider Performance-Based Funding (PBF) systems for their post-secondary education, but Canadian provinces, including Ontario, lag behind in adopting this innovating way of financing. Usher (forthcoming) shows the benefits associated with PBF include less burden of funding negotiations, higher accountability of the post-secondary institutions, and greater competition between institutions, leading to a greater focus on results. A similar approach to competition in grants for research has been effective at improving the performance within universities, and should apply to universities themselves. The government needs to review its funding formula and learn from the experience of other developed countries.

Tax Policy

Commodity Taxation

Alcohol

In 2015-16, the Liquor Control Board of Ontario (LCBO) paid the provincial government a dividend of $1.9 billion. It also remitted $867 million to the federal and provincial governments in Harmonized Sales Tax, excise taxes and customs duties (LCBO 2016). In addition to the LCBO, there is a system of beer and off-winery stores, which operate as a quasi-monopoly thanks to government regulation. Masson and Sen (2014) find that freeing up alcoholic beverage retailing would result in increased government revenue, lower prices, and more convenience. They find that, other factors being equal, Western Canadian provinces with more beverage alcohol retail competition had 7 percent more per capita provincial alcohol profits than provinces with government-run monopolies. The province has begun to introduce beer sales at grocery stores. However, it has done so slowly with limits on the amount of sales by the store. This Shadow Budget would go further by auctioning licenses for other retail outlets. It would also auction licences for off-winery stores to other wineries and also to new wine retailers. The result would be increased provincial revenues and more choice for Ontario consumers.

This Shadow Budget would also revise taxation of alcoholic beverages. Currently, tax rates are fixed by type of beverage, currently ranging from 52 cents per litre to $1.06 per litre, depending on the type of manufacture, not alcohol strength. Wine is taxed as a percent of sale value and sprits are taxed at up to 38 cents per litre plus a percentage of the retail price. This Shadow Budget would graduate the tax on alcohol

to relate to alcohol content. This reform would target the health problems caused by alcohol, which is directly in line with the alcohol content of any drink (The Economist 2013).

Marijuana

The federal government has legalized marijuana for recreational consumption with legal sales scheduled to begin in July. The main policy objectives driving marijuana legalization are the improvement of public health and the minimization of the black market and its associated criminal activity. Ending the prohibition of marijuana involves coordination between all levels of government. Provinces must determine the structure, distribution, and regulation of the retail market and jointly determine taxation levels of marijuana with the federal and municipal governments.

Ontario has announced that it will restrict retailing of recreational marijuana to LCBO-run stores. Only 40 of these locations will be in place by next July 1, the federal target date for legalization, with a total of 150 locations expected by 2020. The province missed the opportunity to have a competitive market for retail marijuana. Independent businesses have an incentive to locate where market demand isn't being met and competition between businesses constrains operating costs and keeps prices low. Lower prices in the legal market make it more likely to be competitive with the existing black market.

The province's decision to enter the market also implies considerable resources will be expended in the construction and maintenance of stores, higher salary expenditures and other overhead costs. These will be met at the expense of other sectors, which will receive lower government funding.

Having few retail locations means that access to recreational marijuana will be inconvenient for a significant number of Ontarians. Recreational consumers are highly unlikely to switch their dollars to the regulated market if there isn't easy access. This means that there will be significant opportunity for the black market to continue operating in all the areas without enough legal stores to meet market demand or that are convenient to access. (By contrast, there are more than 650 LCBO outlets in the province.) Further, to levy penalties against illicit businesses will require significant justice and police resources. And since there won't be enough regulated retail outlets to meet market demand, it is likely that at least some of these businesses will still find it profitable to operate. This Shadow Budget would make retailing of marijuana competitive and allow for the licensing of privately-run retail stores. This could take the form of entirely private retail, as in Alberta. Alternately, licensed establishments could operate alongside government retail stores and deliver better market coverage faster than the crown corporation on its own.

Ontario has joined the federal government’s proposed coordinated excise tax framework for recreational marijuana. While Crown-corporation retail isn’t particularly competitive in terms of convenience, keeping taxes low will help ensure that the legal market will be price competitive with the illicit market. The tax rate on dried cannabis flowers will be $1 per gram or 10 percent, whichever is higher, with 75 percent of the revenue going to the provincial government. The revenue from this excise tax will initially be modest, bringing in $50 to $95 million in 2018 and $175 to $200 million annually by 2021.

Gasoline and Fuel

The government should be concerned about the prospect of declining revenues from fuel and gasoline taxes, which will intensify as vehicles become more fuel efficient and become increasingly electric. This Shadow Budget would begin a study of the potential to replace fuel taxes with tolls for use. Further, the best solution for traffic congestion is a road toll. Road pricing could also bring the price that drivers pay for

infrastructure they use closer to the actual cost of it. Gas taxes (which are about 75 to 80 per cent of road-related revenues), vehicle licences and other revenues from drivers have covered less than two-thirds of roadway expenses across Canada since 2008. Taxpayers should only subsidize transportation to the extent that it encourages broader access to all in society and the government should review whether a one-third subsidy is the appropriate amount of taxpayer subsidy for roads.

Personal Taxation

Income taxes affect individual and business incentives to earn income, save, invest, and take risks. Excessively high taxes at the margin can also drive tax avoidance behaviour.

At the personal level, the impact of income tax variations on work participation decisions is particularly acute for the secondary earner in families with children and lower-skilled workers. In general, lower income, less educated people have a greater tendency to adjust their paid work behaviour through workforce participation decisions, while more-educated workers and high-income earners tend to adjust through the number of hours they work (Duclos et al. 2015).

High income earners' taxable income has been shown to be particularly responsive to high marginal tax rates – through both tax planning avoidance behaviour and earnings decisions (Laurin 2015). And the sensitivity to rate changes is higher at the provincial level in response to provincial rate changes than at the federal level in response to federal changes. This is because high-income earners can take advantage of provincial tax rate differences by shifting their income tax attributes and work locations to the most tax-advantageous province (Milligan and Smart 2014).

Provinces like Ontario with one of the highest top combined federal and provincial marginal tax rates of over 53 percent on high-income earners should aim to reduce that rate to a level at or below 50 percent. The responsiveness to the change would have a beneficial impact on the tax base that would ensure a very low fiscal cost for the policy. Furthermore, the income tax system should be clear and transparent. Ontario has a surtax notionally in place for health care expenses. However, this tax is treated as general revenue. The province should replace this surtax and set income tax rates and brackets that transparently show the marginal tax rate people are paying.

Other tax changes should aim to lower the burden of taxes on secondary earners in family with children. This Shadow Budget would reform the tax recognition of child care expenses through the replacement of the child care expense deduction with the introduction of a new refundable tax credit for child care expenses. It would encourage stay-at-home parents to join the workforce, producing extra tax revenues, considerably limiting the net fiscal cost of its implementation (Laurin and Milligan 2017).

Also, typical labour arrangements are changing with technological change. Workers are becoming less attached to a single employer and move around more freely between projects and contracts. Their incomes are also more prone to be fluctuating from year to year – a period of low earnings followed by a year of higher earnings, or vice versa. But a worker with fluctuating income may end up paying more tax (and losing more income-tested government benefits) than another worker with a flat income profile but earning the same amount over a period of years. Wen and Gordon (2017) find that Canada's "fluctuation tax penalty" is most severe for individuals who earn lower incomes or are self-employed. This Shadow Budget would lessen the impact of fluctuating incomes on tax liability by allowing workers to average their

income over many years, so that any single large earning year would not lead to a disproportionate loss of fiscal benefits and higher tax payments.

Business Taxation

A properly designed business tax regime would provide for a common provincial tax rate for all businesses operating across the province, regardless of their location or sector. However, Ontario's tax regime selectively rewards a number of sectors, such as manufacturing, through the income tax system while punishing companies with overly high provincial property tax rates. The province of Ontario can simplify its tax regime, create a more level playing field across sectors and the province, and reduce the effective tax rate on new business investment all without reducing overall provincial revenues.

Eliminating Wasteful Business Tax Expenditures

The largest tax expenditure in the corporate income tax system, by far, is the Small Business Deduction, which costs Ontario over $2 billion in foregone revenue. A better alternative to the Small Business Deduction is a lower general corporate income tax rate. That is because the net impact of the Small Business Deduction is an expansion of the small business sector at the expense of large businesses. Since small firms are less productive than large firms, the Small Business Deduction lowers overall economic performance (Dachis and Lester 2015). This Shadow Budget would not proceed with any further cuts geared to small business.

Most Canadian provinces provide a tax incentive for innovation. They mimic the federal tax system which provides eligible businesses with a Scientific Research and Experimental Development (SR&ED) credit. Ontario provides a non-refundable tax-credit worth 3.5 percent of the value of eligible expenses for firms to deduct from their taxes. The total innovation tax incentive for Canadian businesses is one of the highest in the world, but Canada consistently lags behind international peers on measures of business innovation (Parsons 2011). The Ontario SR&ED credit comes at a large fiscal cost: a tax expenditure of $150 million in the 2017 calendar year (Ontario 2017). Instead of targeting up-front tax credits for innovation, a better solution to encouraging innovation is with a low overall income-tax rate (McKenzie 2006). In addition, the province provides manufacturing and processing businesses a preferential lower tax rate than those in the rest of the economy: 10 percent instead of the usual 11.5 percent. This lower rate cost taxpayers $290 million in the 2017 calendar year.

This Shadow Budget would eliminate the Ontario SR&ED credit and the lower rate for manufacturing and processing, and use that revenue to cut high provincial property tax rates that choke investment, as discussed below. It would also initiate a comprehensive review of tax expenditures to determine whether the existing tax expenditures are still appropriate or whether they should be redesigned as deductions or credits (see Robson and Laurin 2017). Tax expenditures can be removed when shown to be no longer effective, as the government has already committed to eliminating ineffective tuition and education tax credits, as recommended by Neill (2013).

Cutting Provincial Business Property Taxes – A Revenue Neutral Cut in Investment Taxes

Ontario took over the local education property tax from local school boards in 1998. School boards had widely varying tax rates across the province and by property type when the province took over. The province immediately made its residential tax rate the same for all residents across the province. It's a different story for businesses. Each year since 2007, the province has set a maximum tax rate, called

the ceiling rate, and a lower target rate designed to be revenue-neutral for the province. The province committed in its 2007 budget to lower higher rates down to the target rate over time, but the province has stalled on tax cuts since 2013.

The provincial property tax still varies wildly across cities and for different buildings within cities (See Figure 5a and 5b, which shows provincial rates for commercial and industrial properties). Provincial commercial property tax rates in some Ontario municipalities are more than three times those in others. The provincial tax is highest on industrial property across much of Southern Ontario. As Found (2017) shows, the average provincial business property tax rate is more than 6 times its residential counterpart.

Figure 5a: Provincial Commercial Property Taxes in Southern Ontario

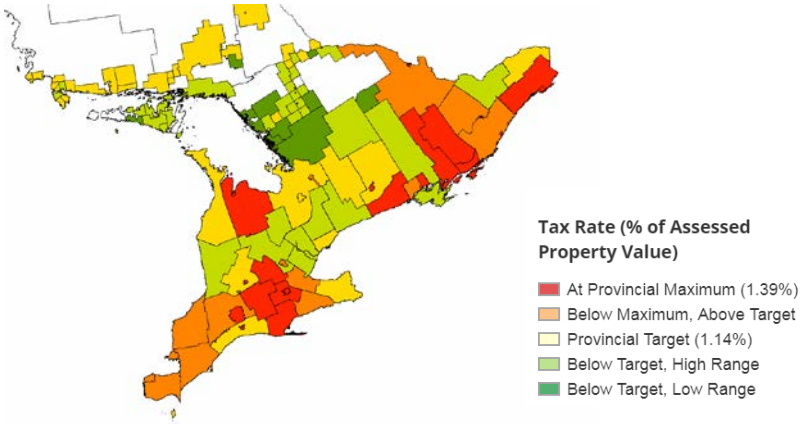
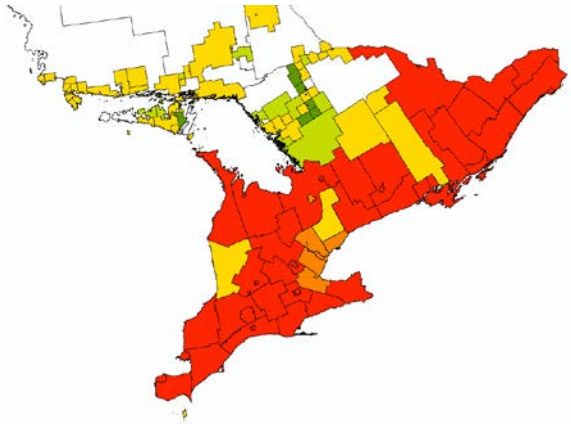


Figure 5b: Provincial Industrial Property Taxes in Southern Ontario



Source: Jacobs, Dachis and Found (2017). Results include Northern Ontario. Hollow areas not subject to provincial property tax.

Cities collect the money on behalf of the province after receiving a regulation from the province of how much to collect. In the 2017-18 fiscal year, the province will collect $6 billion in property taxes, which it reports as general revenue. Since different education tax rates by region have nothing to do with local school spending, each school board now gets a provincial top-up grant in order to level the playing field. Each school board`s total revenue is based on its enrolment and the needs of students, not the value of buildings in the area. That means the provincial property tax now has no bearing on school boards' spending. Yet, the province still uses the misleading name "education property tax" to describe it on tax bills.

These high property taxes have a large economic cost. Property taxes act like a tax on capital, specifically building capital. A tax on capital reduces the incentive to invest, resulting in lower investment which leads to lower productivity and therefore income and standards of living of Canadians. A 10 percent increase in commercial property tax rates decreases the long-run value of the business property assessment base by 8.2 percent. At the average level of business property taxation in Ontario, a $1.00 business property tax hike costs the Ontario economy $5.56 (Found 2017). Higher taxes shrink the tax base, which makes it harder for governments to raise revenues. The total business tax rates in some cities across Ontario – such as London, Windsor and Brantford – are so high that cities and the province might see revenues increase if they cut their taxes to attract more business investment.

This Shadow Budget proposes to complete the harmonization of business property tax rates. To make such a tax reform revenue-neutral, it proposes to eliminate the SR&ED credit and the lower manufacturing and processing corporate income tax rate and reduce provincial business property taxes that would reduce revenues by the same amount saved. Such a change would have a number of benefits. First, it would create a more level playing field across different types of businesses that currently face different tax rates. Secondly, it would improve fairness in the provincial property tax regime across the province. Third, a revenue-neutral property tax reduction would lower the marginal effective tax rate on new investment in most parts of the province – and almost all of Southern Ontario – by more than any increase in provincial income taxes would increase the effective rate. Property taxes have an especially large effect on tax costs on investment because they are insensitive to profit and are akin to a direct tax on capital (Found and Tomlinson 2017). Such a reduction in provincial property taxes would be largest for the same sectors that would see a removal of their special, lower income tax rate, across most of Southern Ontario.

Housing, Municipal, and Infrastructure Policy

This Shadow Budget would seek to lower the cost of housing across the province by taking steps to reduce barriers to construction and eliminating economically costly rent controls and transfer taxes. It would also fundamentally change the relationship between municipalities and the province by granting cities the ability to put their budgets on a sound financial footing and allow them more flexibility in financing infrastructure.

A Smart Housing Plan

The cost of housing in Ontario has increased dramatically in recent years. According to data from Brookfield's Real Property Solutions, home prices the Greater Toronto Area increased by more than 250 percent between January 2005 and the end of the 2017. In response, the province has taken steps such as introducing taxes on foreign buyers and rent controls. The government's policies have focused mostly on curtailing the demand of housing.

On April 20, 2017, the province introduced a 15 percent Non-Resident Speculation Tax in the Greater Toronto Area. This transfer tax is substantially higher than the existing provincial land transfer tax that has a maximum rate of 2.5 percent. Land transfer taxes such as these have a high economic cost of reducing the mobility of households (see Dachis 2012 and Dachis, Duranton, Turner 2008). In addition, land transfer taxes are highly volatile and present a large fiscal risk to the province if the housing market has a serious downturn (Ngo, Angastiniotis, and West 2017). This Shadow Budget would immediately eliminate the additional 15 percent tax and look to begin reductions in the general land transfer tax in future fiscal years.

On the same day, the province expanded rent control to all rental units in the province, rather than only those built before 1991, as was the case prior. Rent control is one of the few economic policies around which there is a solid, evidence-based consensus about its long-term effect on the cost of housing: it does not lower it in the long-run (Kronick 2017). The likely result of rent control is that housing developers will not build rental housing knowing they face a cap on potential returns, while facing no commensurate cap on their investment risk. The result will be fewer units available, leading to housing shortages. This Shadow Budget would phase out rent control on all rental units. It would start by reducing the extent to which rent control binds the market by increasing the allowable increase, doing so annually until eventual repeal. Rather than rely on rent control, this Shadow Budget would embrace the recent federal decision to create a Canada Housing Benefit that provides low-income renters with the funds to seek a wide range of market-priced rental units (Canada 2017). This Shadow Budget would re-orient financial support for housing construction, which is often part of transfers to local governments, as discussed below, to match the federal contribution in creating the Canada Housing Benefit.

Reducing the Cost of Housing

There is strong evidence that restrictions and extra costs on building new housing – such as zoning regulations, delays on permit approvals, development charges, and limits on greenfield housing development – are dramatically increasing the price of housing. Dachis and Thivierge (forthcoming) find that a limited lowering of these restrictions can reduce house prices in some municipalities in the Greater Toronto Area by around $100,000.

What can the province do to reduce supply barriers? Toronto heavily uses a clause in the provincial *Planning Act* – the legislation governing municipal zoning policy – that allows it to require additional payments from developers in exchange for a site-specific variance from zoning bylaws (Moore forthcoming). These additional payments, known as section 37 payments for the relevant part of the *Act*, increase uncertainty for developers and therefore increase the cost of housing. In addition, municipalities have an incentive to keep zoning bylaws out of date because updating them would take away the future section 37 payments. This Shadow Budget would place greater restrictions on the use of section 37 of the *Planning Act*, which would result in municipalities having a greater incentive to set more appropriate zoning regulations.

Developers pay development charges to compensate municipalities for the cost of building municipal infrastructure that services homes and commercial properties in a newly developed area. The largest single component of these charges is for water and wastewater construction (Dachis forthcoming). This Shadow Budget would require that cities replace development charges for water and wastewater infrastructure with volumetric uses fees that reflect capital costs. Such a move would reflect a change to a utility-based model and encourage conservation of water.

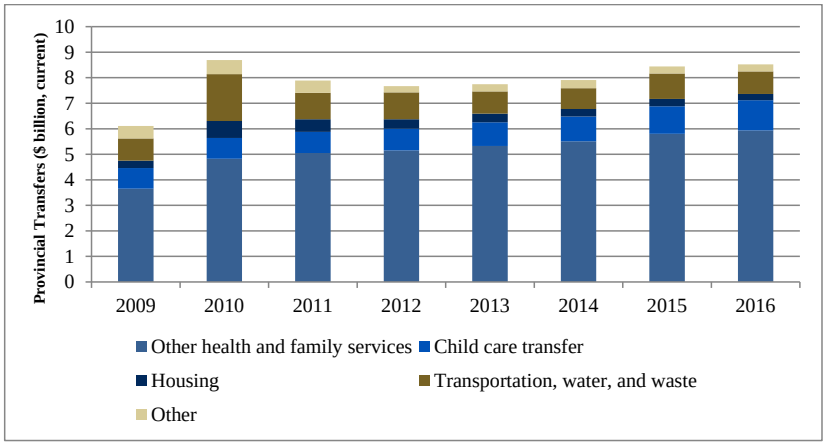
Finally, housing developers in GTA cities are facing a shortage of land available for new housing development (Clayton 2015). The primary cause is not because of the Greenbelt, a policy that forbids development on certain agricultural and parkland. Dachis and Thivierge (forthcoming) find that the main land-supply driven cause of higher house prices is not the Greenbelt, but the Growth Plan for the Greater Golden Horseshoe, a policy that requires cities in the GTA to approve a certain share of their homes within existing urban development boundaries and at a certain density. This Shadow Budget would relax the density and intensity targets that may not be appropriate across all cities subject to the Growth Plan while preserving the Greenbelt.

Rethinking Relative Municipal and Provincial Fiscal Health

One of the province's largest expenditures is on grants to municipalities. Transfers to municipalities have increased since 2009, including a large spike in 2010 to support infrastructure stimulus projects. Transfers to municipal governments from the province are now over $7 billion (Figure 6). Indeed, this trend is set to accelerate. In January of 2017, the province committed to double the amount of the fuel tax it transfers to municipal governments for transportation investment (Jones 2017). Ontario transferred $335 million in provincial gas tax revenue to municipal governments in 2017, and made a commitment to double the funding to bring the total transfer to $642 million by 2021-22.

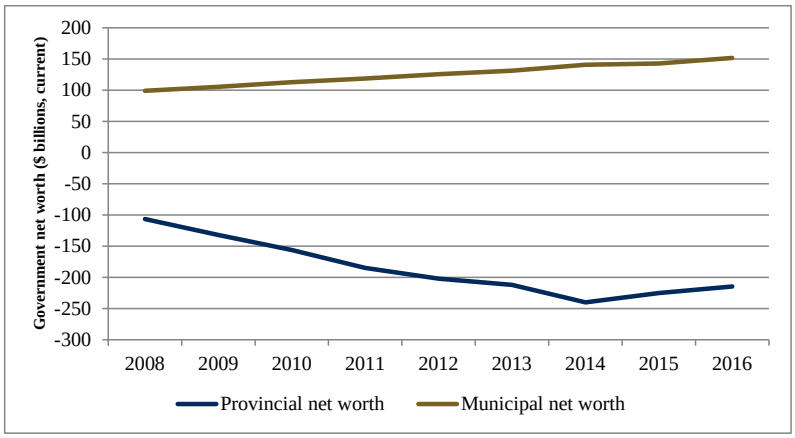
The largest share of transfers is for health services – such as public health – and for childcare benefits. The latter, in particular, are dispersed to municipalities under a complex set of qualification criteria. These programs are ripe for review and evaluation, as their impact on workforce participation and the ability for single-parent and underrepresented families to engage in the labour force are critical. The child care transfer has increased by nearly 50 percent since 2008 reaching $1.2 billion in 2016, suggesting that a review of the program is in order

Figure 6: Ontario Provincial Transfers to Municipalities, 2009-2016



Source: Authors' calculations from Ontario Financial Information Return. Note: Some small cities have not yet submitted their 2016 financial information.

Figure 7: Ontario Provincial and Municipal Net Worth, 2008-2016



Source: Authors' calculations from Cansim Tables 385-0034 and 385-0037.

Does it make sense for the province to send such grants to municipal governments? Ontario's municipalities are, on average, in better fiscal shape than the provincial government. They are major investors in capital assets, but unlike the province, whose chronic deficits have resulted in financial liabilities that vastly exceeds its financial and non-financial assets, Ontario municipalities have positive net worth. They have borrowed to finance some capital assets, but the value of their assets exceeds their debt by a substantial margin. In the nine years from 2008 to 2016, Ontario municipal governments have increased their net worth by more than 50 percent, registering an increase of over $50 billion (Figure 7). In contrast, provincial net indebtedness has approximately doubled over that time, even after a slight improvement in net asset values over the last two years.

The Important Difference between Municipal and Provincial Accounting

How did such a fiscal health imbalance come about? Transfers are often the result of cities claiming they are struggling to meet their service or infrastructure demands and then calling on the province for support. However, the way that cities present their budgets, especially relative to the way the province reports its finances, makes municipal finances appear more precarious than they actually are. Ontario municipalities typically use cash accounting in their budget.[1] However, the province – as well as municipal end-of-year financial statements – uses the accrual accounting standard. Accrual-based budgets appropriately do not record the entire cost of capital items as expenses in the year of the cash outlay, but apply annual amortization over their useful live. Figure 7 presents municipal and provincial finances on the equivalent accrual financial basis.

Presenting councillors with budgets that show outlays on such assets as in-year expenses (as cash budgeting does), rather than amortizing them as they deliver their services (as accrual accounting does),

[1] A common practice is to show expected cash outlays in a "capital" budget alongside an "operating" budget for items to be consumed and expensed during the year.

likely leads municipalities to delay or reject some capital projects they would otherwise approve. It also likely leads them to finance the projects they do approve by raising revenues up front, rather than by borrowing and servicing the debt over the period the project yields its benefits. The result is that today's taxpayers – whether through property taxes, grants to cities, or development charges on houses – are paying disproportionately more than they are receiving in municipal services.

Reframing the Municipal-Provincial Financial Relationship

This Shadow Budget would cancel the proposed doubling of the amount of provincial fuel taxes that the province transfers to municipal governments. In fact, it would go further to limit transfers to cities. As above, this Shadow Budget would begin a long-term commitment to reducing property taxes levied by the province. Every dollar of provincial property tax reduction creates tax room that municipalities can decide to take up. Cities would have the freedom to choose how best to finance local services or whether to increase or reduces taxes and services.

The province's commitment to double gasoline tax transfers to municipalities emerged as a response to the City of Toronto's request for the province to enact an enabling regulation permitting it to introduce a toll on municipally owned highways. The province forbade Toronto from the move, offering all cities the gasoline tax transfer instead. This Shadow Budget would allow cities the ability to introduce road pricing without requiring a provincial regulation, as long as the intention and design of the toll is to reduce congestion, not as a purely revenue-raising option.

In addition, instead of allowing cities to have parcel-by-parcel zoning amendments, as discussed above, this Shadow Budget would expand the ability of cities to put in place a tax-increment financing plan for major infrastructure. This would allow cities to capture some of the increase in property values that result from a new transportation or other municipal investment that increases the value of nearby properties (Found 2016).

Finally, this Shadow Budget would require municipal governments to produce their beginning-of-year budgets on an accrual basis. Importantly, it would not require that cities produce a balanced budget every calendar year and would instead enact a review of the appropriate fiscal and economic benchmarks that cities should adhere to under an accrual accounting system. A revised budget process would allow cities the flexibility they need to finance long-term infrastructure without relying on provincial grants or upfront revenues.

Transit Governance

Originally created in 2007, Metrolinx started with the intent of creating a regional transit plan for the Greater Toronto and Hamilton area with a board made up of local government officials. Two years later, Metrolinx expanded to become the GO Transit operator. The province then removed the local government officials from the Metrolinx board, which is now made up of people appointed by the province.

How can the region overcome local opposition to changes while finding a way to act in the regional interest? Right now, it's easy for local politicians to pass blame around, especially to an unelected transit board. One proposal is to create a single, amalgamated transit operator for the whole Greater Toronto Area

(Gill, Kelcey, Parker, 2017). But rather than amalgamation, which has shown to not result in significant savings (Bish, 2001, Found 2012), another approach is to restore the role of municipal governments on the board of Metrolinx.

Toronto should follow the Vancouver model, in which provincial legislation tasks a Mayor's Council made up of representatives from each of the region's 21 municipalities to appoint a board of Translink, the regional transit coordinating body. Translink has many subsidiary companies that operate transit services under contract (Translink 2017). The regional transit body is the regional coordinator, less than it is a regional authority and another new layer of government (Spicer and Found 2016). The reformed Metrolinx can contract with subsidiary transit operators, private contractors, or municipal governments that can supplement Metrolinx-supported routes.

Greenhouse Gas and Energy Policy

Greenhouse Gas Policy

This Shadow Budget would continue to increase the price on greenhouse gas emissions. This Shadow Budget does not take a position of the merits of a cap-and-trade program as opposed to a carbon tax. A carbon tax would be simpler to administer than a cap-and-trade program and would also generate more revenue for the province of Ontario. On the other hand, a cap-and-trade program that allows Ontario to link with the emissions permit market in California and Quebec allows for a lower cost on emissions to meet the same reduction target. Trading emissions permits across borders and between markets allows emissions reductions to occur wherever it is cheapest to do so, reducing the overall cost (Thivierge 2017).

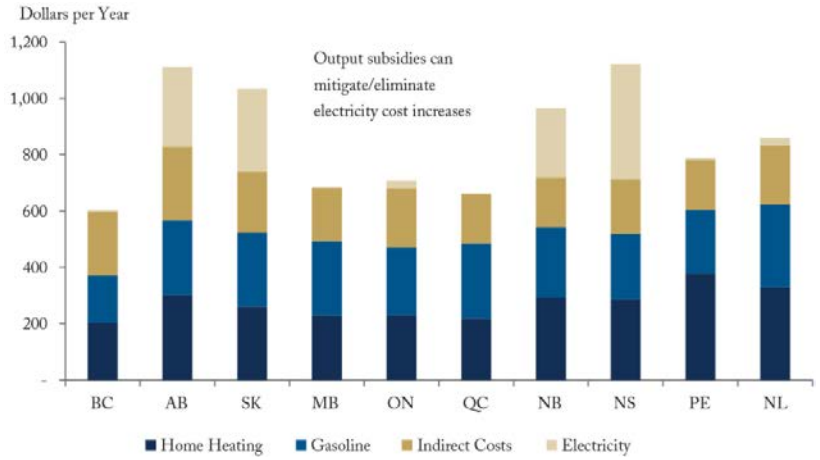
If prices on emissions rise to $50 per tonne, which they are set to with federal government policy, the upfront cost to the average Ontario household would be around $700 per year (Figure 8). However, the final cost to consumers will depend on how governments recycle that revenue back to households. It is on how the government plans to use the revenues from a carbon price that this Shadow Budget proposes a change of direction for the province of Ontario.

Eliminate Energy Efficiency Programs and Consumer Subsidies

The current plan for the government of Ontario is to spend between $6 and $8.3 billion over five years on projects intended to further emissions reductions beyond that planned to occur using the existing cap-and-trade policy (Ontario 2016). The government plans to finance the subsidies with revenues from an auction for permits that greenhouse-gas-emitting companies must buy. Many of the proposed spending programs are exceptionally costly. For example, subsidies to retrofit apartments will cost as much as $900 million over five years. They will cost taxpayers $425 per tonne of GHG emissions reduced, much higher than any reasonable estimate of future carbon prices. Another example of a wasteful subsidy is the Electric Vehicle Incentive Program, which provides incentives of up to $14,000 per electric vehicle.[2] These kinds of subsidies are regressive and economically costly ways to further reduce emissions (Rivers and Shiell 2015). Other announced programs will not have a direct cost to taxpayers, but will be costly to drivers, homeowners and businesses. The government is planning to boost the amount of renewable content in gasoline and natural gas. Renewable-fuel mandates push the cost onto consumers and are an economically expensive way to reduce emissions (Auld 2008).

[2] See http://www.mto.gov.on.ca/english/vehicles/electric/electric-vehicle-incentive-program.shtml

Figure 8: Cost of a $50/tonne of CO_2 price on typical household



Source: Dachis and Tombe (2017) from Jennifer Winter.

This Shadow Budget would eliminate nearly all of these existing subsidies and mandates and instead use the revenue to reduce taxation on households and businesses. The exact design of the tax cuts is outside of the scope of this Shadow Budget, but such a tax cut should promote two principles. First, it should reduce the average cost to businesses of emissions pricing while still providing a marginal incentive for them to reduce emissions. Second, households should receive tax cuts broadly in proportion to the cost of emissions pricing as a share of their income. This would mean tax cuts and enriching renewable tax credits geared to low-income families, for whom energy costs are a large share of total income.

To ensure industrial competitiveness, this Shadow Budget would adopt one of two paths. This Shadow Budget would prefer to adopt Alberta's emissions pricing policy, which is similar to the federal system. Producers in Alberta face little competitive disadvantage under this model. Although emitters pay the full cost of their own emissions, they receive a credit per unit of output, with the amount of the credit based on a provincial average emissions benchmark. Companies still have a strong incentive to reduce their emissions while having a minimal net impact on the competitiveness of industrial emitters. Indeed, companies with below-average emissions are better off in this system. This Shadow Budget would adopt a similar system if the cap-and-trade program is no longer the most effective means of putting a price on emissions. If, on balance, removing the apparatus of a cap-and-trade program for industrial emitters is too costly, it would preserve the system of allocating some permits for free to industrial producers.

Promote Long-term Energy Research

As research from Popp (2016) shows, a carbon price will drive 95 percent of the lowest-cost emissions reductions to meet reduction targets. Subsidies for energy adoption, as has been common in Ontario with electricity polices, encourages firms to use technology that is closest to market. Subsidies for adoption don't solve a market failure and don't encourage innovation. However, there is a market failure for longer-term energy research. The benefits of such research are broad, but the returns to firms of doing such research are relatively smaller, uncertain, and if they materialize at all will be far in the future. On their

own, research subsidies would achieve about 10 percent of economically efficient emissions reductions (Popp 2016). As such, this Shadow Budget would devote around 10 percent of revenues from an emissions price to long-term research.

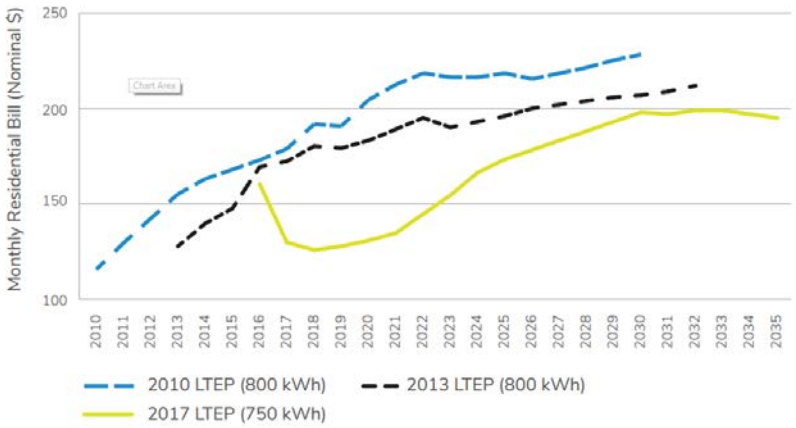
Electricity Policy

Few topics have generated as much controversy in Ontario as electricity policy, with a number of previous policies resulting in a dramatic increase in electricity prices (Trebilcock 2017). The government has taken a series of measures that will immediately reduce electricity prices for residential customers. However, within five years, prices are forecast to increase dramatically as the current policy does not address the actual cost of generating and delivering electricity, and relies on taxpayers and future ratepayers to subsidize electricity use today (Figure 9). Further, many industrial consumers are receiving no reduction to their bills. This Shadow Budget would take actions now that will begin to reduce system cost and reduce prices for businesses and consumers in the future.

Market Design and Regulation

The Independent Electricity System Operator (IESO), which manages the electricity market for Ontario, is undertaking a major market reform. The IESO projects that the market reform will reduce the cost of purchasing electricity by billions of dollars, eventually resulting in savings for consumers. The single-largest cost savings for consumers is set to come from the IESO adopting what is called a capacity market. A capacity market provides electricity generators with a revenue stream for being available to produce electricity, in addition to their revenues from selling electricity. Such a market is a major improvement to the government's previous approach of signing 20-year contracts with generators that effectively covers both. The government's plan is a sensible one that has been shown to be effective in a number of other jurisdictions, and this Shadow Budget would continue to proceed with it (see Goulding 2013 and Wyman 2014).

Figure 9: Electricity Price Outlook – Residential Consumers



Source: Ontario (2017b).

This Shadow Budget would propose the government look to take the market reform one step further by reforming the purchasing role of the IESO. The current proposal for the capacity market is to make the IESO the only buyer of generation contracts. The downside of that plan is that it does not create competition among potential electricity buyers. This Shadow Budget would delegate the purchasing power in the capacity market to local buying groups across the province. These local buying groups, known as load-serving entities, would have the ability to purchase electricity that suits local needs. Large business, currently limited to buying electricity from the IESO and paying a share of the Global Adjustment, which pays for capacity investments, could form their own load-serving entities and contract directly with generators. Further, these local buying groups would encourage consolidation of local distribution companies, to which we will return to below.

However, as Goulding (2013) argues, to be effective, the government must pair a capacity market with changes to improve the independence of Ontario's electricity regulatory bodies. Ontario governments of all political stripes haved directed various government agencies to take specific action in the electricity sector while circumventing regulators (Vegh 2016). This Shadow Budget would end the cycle of government price interventions, specific directives, and decisions on procurement by requiring the Ontario Energy Board to review all major decisions in the energy market with a mandate to approve actions only if they increase economic efficiency (see Church 2017 for a discussion of economic efficiency in regulatory hearings).

Economic efficiency means having an electricity market that has decisions determined by prices, and not arbitrary government rules. One of the most intrusive arbitrary government electricity market rules is the Industrial Conservation Initiative. In this program, eligible industrial consumers save money if they slash electricity use during the five highest Ontario-wide demand hours of the year. It's an arbitrary and expensive way to cut electricity costs for some (Sen 2015). Small businesses and residents pay higher bills because of the policy. Instead, this Shadow Budget would eliminate this program and let large consumers pay only for what they buy in a capacity market and the hourly electricity market.

Similarly, a portion of the electricity bills of Ontario households support subsidies for residential consumers to purchase smart thermostats and other energy-efficiency devices. These programs cost ratepayers $600 million in 2016 (Auditor General 2017b). As with direct government spending on such programs these programs often do not pass a cost-benefit test for the use of government fund. Many households would make such investments if energy prices were sufficiently high and they were sufficiently informed. This Shadow Budget would remove any directives requiring such energy efficiency measures, and grant the Ontario Energy Board the authority to approve or reject energy efficiency programs, such as the Industrial Conservation Initiative, based solely on whether they improve economic efficiency.

Encouraging Private Investment in the Ontario Energy Sector

As of 2017, municipal governments in the province owned local electricity distribution companies that had a value of $11 to $15 billion (Robins 2017a). Cities could sell these companies to finance infrastructure investment. Sales would have no negative effect on ratepayers, since the Ontario Energy Board keeps a close regulatory eye on all price changes regardless of who owns the companies. Furthermore, private investors are usually best placed to make the decisions about the appropriate boundaries of companies, geographically and across distribution, transmission and even generation investment. Private investors would bear the consequences of poor choices, but reap some of the rewards of good mergers (Fyfe, Garner,

and Vegh 2013). The incentives for these private-sector companies to keep costs down are often better aligned with ratepayers than those facing publicly owned electricity companies.

However, cities have not been able to take advantage of the value of these assets because of provincial taxes on such sales.[3] The province would collect $1.8 to $2.5 billion in such taxes (Robins 2017a). These overly high taxes pose a significant barrier to any sale. This year will be the last year of a three-year partial tax holiday on provincial transfer taxes in Ontario on the sales of municipally owned local electricity distribution companies. The intent of this tax change was to encourage mergers using private investors, rather than only encouraging merger with other government-owned companies. However, there have been few sales so far, partly because the tax holiday was limited largely to sales of very small companies. Private investor showed little appetite for such assets. This Shadow Budget would exempt municipalities entirely from all taxes on sales, as long as the proceeds of a sale are reinvested in qualifying infrastructure projects.

Private investment in provincially owned electricity assets has been a controversial topic, but a wise policy move. As Robins (2017b) argues, it is not necessary for the province to continue to own its minority share in Hydro One, the transmission utility, or Ontario Power Generation (OPG), a major power generator, if its policy objective is to keep electricity prices down. As with municipal companies, a strong Ontario Energy Board can protect consumers no matter the owner. A sale of the remaining government stake in Hydro One would net the province somewhere in the order of $7 billion and a sale of OPG could also generate substantial revenue.

The upfront revenue is not necessarily the best reason for the province to sell electricity assets. The main reason to sell is reduced risks. The sale would reduce dividends in the future, such as the $250 million from Hydro One. However, using such a sale to eliminate debt could result in cost-savings and reduced fiscal risks if interest rates increase. Second, the electricity sector is undergoing fundamental change. OPG and Hydro One deliver electricity in a traditional long-distance network. However, the electricity system of the future may look very different, with the emergence of small-scale renewable electricity generation. The result could be a decline in value of, and therefore dividends flowing to the treasury from, Hydro One and OPG. The best way for the province to mitigate that risk is to continue selling stakes in Hydro One and begin to include private investors in OPG.

Conclusion

A fiscally sustainable Ontario will mean higher standards of living for Canadians through better government services and faster economic growth. The province should take action to correct a fiscal course that is unsustainable. The government must act to bring the long-term cost of government in line with the revenue-raising capacity of the province. This Shadow Budget shows that there are a number of policy directions the government can and intends to take in areas as diverse as electricity, greenhouse gas, municipal, health, social and tax policy that can balance increases in spending with generating new revenues and cost-savings measures, and generally enhancing the well-being of Ontarians.

[3] See Fyfe, Garner, and Vegh (2013) for more details on the complex system of transfer and departure taxes in the Ontario local electricity distribution sector.

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From:	Ken Kandeepan
To:	John Psinas
Subject:	FW: ADMs Pre-Meeting Ahead of FAO Discussion (11am-11:30am)
Date:	Tuesday, May 02, 2017 12:24:16 PM
Attachments:	image001.png ATT00001.htm 2017 Budget Qs_FAO specific Qs_Consolidated Responses_MASTER.DOCX ATT00002.htm

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From: Anna Strathy
Sent: Tuesday, May 02, 2017 11:40 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: Fwd: ADMs Pre-Meeting Ahead of FAO Discussion (11am-11:30am)

Hi Ken, attached are the consolidated answers to the FAO questions. Could you please take a look at the chart that CPD added to A9 on p. 6. Do tangible capital assets appear in that chart? And if so, how does that relate to our point number 6 re no change in TCA?

Are you in trillium or have you gone back to 1 Dundas? Gadi is on the 7th floor now. Feel free to come out and chat with him here when you're done in the audit committee or call him when you have a moment.

Sent from my iPhone

Begin forwarded message:

> **From:** "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>
> **Date:** May 2, 2017 at 10:55:27 AM EDT
> **To:** "Patrick Laughton (MOF)" <Patrick.Laughton@ontario.ca>, "Law, Rex (TBS)" <Rex.Law@ontario.ca>, "Nina Arbabzadeh (EDU)" <Nina.Arbabzadeh@ontario.ca>, "Ghufran Tarin (MOF)" <Ghufran.Tarin@ontario.ca>, Anna Strathy <Anna.Strathy@ofina.on.ca>, Gavin He <Gavin.He@ofina.on.ca>, "Hosick, Sarah (TBS)" <Sarah.Hosick@ontario.ca>, "Patel, Lesley (MOF)" <Lesley.Patel@ontario.ca>
> **Subject: RE: ADMs Pre-Meeting Ahead of FAO Discussion (11am-11:30am)**
>
> Hi All,
>
> Ahead of the 11am pre-meeting, please find attached the consolidated responses to the FAO Qs. Can you please circulate to your ADMs/representatives?
>
> Thanks,
> Ryan
>
> ---
>
> **From:** Birks, Ryan (MOF)
> **Sent:** May-01-17 5:51 PM
> **To:** Laughton, Patrick (TBS); Law, Rex (TBS); Arbabzadeh, Nina (TBS); Tarin, Ghufran

(MOF); Strathy, Anna (OFA); He, Gavin (OFA); Hosick, Sarah (TBS); Patel, Lesley (MOF)
Subject: ADMs Pre-Meeting Ahead of FAO Discussion (11am-11:30am)

Hi All,

In order to go over the sequence of events for the FAO discussion, there will be an ADMs pre-meeting between **11:00am-11:30am** tomorrow in the Aquarium Boardroom. There will be a dial in option provided.

Please hold this time in your ADMs/appropriate representative's calendar.

Thanks,
Ryan

From: Birks, Ryan (MOF)
Sent: April-28-17 5:23 PM
To: Laughton, Patrick (TBS); Law, Rex (TBS); Arbabzadeh, Nina (TBS); Tarin, Ghufran (MOF); Strathy, Anna (OFA); He, Gavin (OFA); Hosick, Sarah (TBS)
Subject: RE: Follow-Up on the 2017 Budget / Meeting on Tuesday

Hi All,

FYI, attached are additional Qs for discussion from the FAO. I'll be sending out a meeting invite for between **1pm-2pm on Tuesday** shortly.

Thanks,
Ryan

From: Laughton, Patrick (TBS)
Sent: April-28-17 11:46 AM
To: Law, Rex (TBS); Birks, Ryan (MOF)
Cc: Arbabzadeh, Nina (TBS); Tarin, Ghufran (MOF); Strathy, Anna (OFA); He, Gavin (OFA); Arbabzadeh, Nina (TBS); Hosick, Sarah (TBS)
Subject: RE: Follow-Up on the 2017 Budget / Meeting on Tuesday

That`s correct. If another slot can be arrange it would be preferred – our DM is slated for the recognition event too so would prefer not to move.

From: Law, Rex (TBS)
Sent: April-28-17 11:38 AM
To: Birks, Ryan (MOF)
Cc: Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Tarin, Ghufran (MOF); Strathy, Anna (OFA); He, Gavin (OFA); Arbabzadeh, Nina (TBS); Hosick, Sarah (TBS)
Subject: RE: Follow-Up on the 2017 Budget / Meeting on Tuesday

Hi Ryan,

Artur has a hold in his calendar on May 2 from 2-3pm for a Standing Ovation Ceremony. I believe Maria and Karen are also participating in the

event.

David (for Rex)

From: Birks, Ryan (MOF)
Sent: April-28-17 11:27 AM
To: Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Tarin, Ghufran (MOF); Strathy, Anna (OFA); He, Gavin (OFA); Arbabzadeh, Nina (TBS); Law, Rex (TBS); Hosick, Sarah (TBS)
Subject: FW: Follow-Up on the 2017 Budget / Meeting on Tuesday

Hi All,

As a follow up to these questions on the 2017 Budget, I wanted to hold an hour block of time on Tuesday (May 2) to meet with the FAO.

Would **1:30pm-2:30pm** in the Aquarium on **Tuesday** work for your ADMs? If you could confirm before EOD, it would be appreciated.

Thanks!
Ryan

From: Schuurman, Tim (MOF)
Sent: April-28-17 10:57 AM
To: Hughes, Karen (TBS); Mayman, Gadi (OFA); Duran-Schneider, Maria (TBS); Arruda, Artur (TBS); Veinot, Cindy (TBS); Kwan, Ronald (OFA)
Cc: Esmail, Selena (MOF); Birks, Ryan (MOF); Tiburcio, Daniel (MOF)
Subject: Fw: Follow-Up on the 2017 Budget

Hey everyone - we'll coordinate the response for this, working with your directors and staff. We'll also work with your EA's to find the right time for everyone to meet next tuesday.

Tim

From: David West <dwest@fao-on.org>
Sent: Friday, April 28, 2017 9:32 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Luan Ngo; Edward Crummey; Mario Angastiniotis; Nicolas Rhodes
Subject: Follow-Up on the 2017 Budget

Good Morning!

Congratulations on delivering yesterday's big, black budget!

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

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

1. We would like to obtain the detailed revenue and expense tables (Tables 6.14 and 6.15) extended to 2019-20.
   - Are these detailed tables available to 2020-21? If so, then please include (☺)

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

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

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

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

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

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

Happy to discuss any of these requests.

Thanks again for your support,
David

David West
Chief Economist

FAO
Financial
Accountability
Office of Ontario

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2

t.416.579.1465 | dwest@fao-on.org

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FAO Questions for MOF

April 28, 2017

Economics

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

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

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

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

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

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

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

Revenue

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

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

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

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

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

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

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

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

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

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

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

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

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

Childcare

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

Affordable Housing

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

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

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

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

Infrastructure Funding

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

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

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

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

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

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

A5a) Yes, the annual forecast for Carbon Allowance Proceeds is $1.4 Billion except in 2017-18. The higher amount in 2017-18 reflects the shifting of proceeds from the first auction in 2016-17, as the proceeds from the first auction are being

certified, settled and recorded in the 2017-18 fiscal year. In other words, there will be revenues from five auctions recognized in 2017-18, while going forward there will be four in each fiscal year.

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

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

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

A6.

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

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

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

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

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

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

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

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

Expense

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

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

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

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

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

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

Cost of Announced Programs

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

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

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

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

Debt

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

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

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

Details from CPD-TBS:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Questions from David West – email:

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

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

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

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

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

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

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

Follow-up question from David West:

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

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

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

A15. See additional back pocket pieces.

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

A16. CPD to provide if required

Question from Luan Ngo – email:

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

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

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

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

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

A17.

BACKPOCKET – NEW HEALTH SPENDING BREAKDOWN

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

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

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

Backgrounder: MOHLTC PRRT Funding Breakdown

Overview

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

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

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

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

Methodology

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

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

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

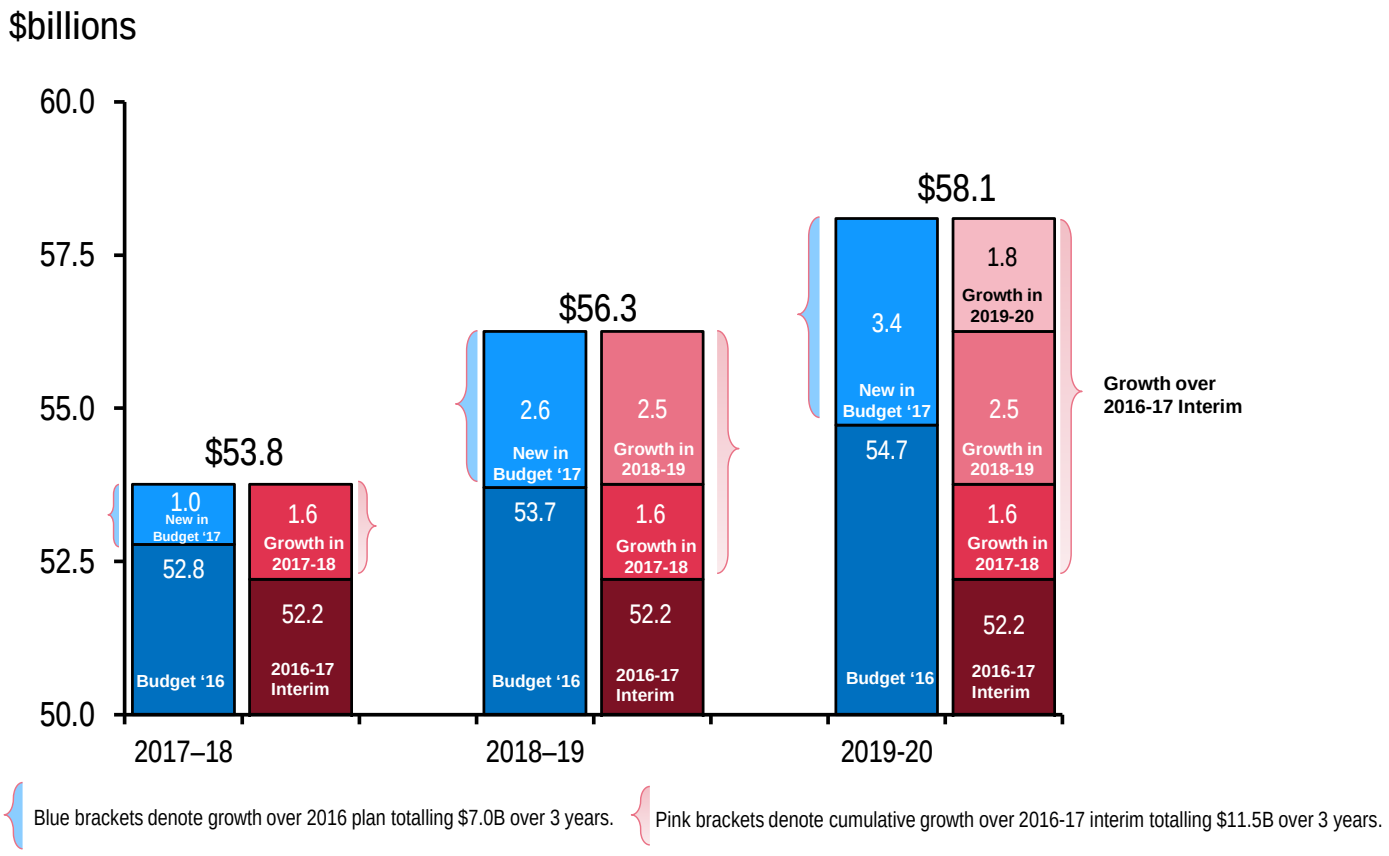
C. **$1.3 billion –** is the incremental new investment that MOHLTC has attributed to supporting wait times. These investments are a subset of the $7 billion and $11.5 billion references. This amount also includes funding referenced in other areas of the document e.g.:

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

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

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

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



Blue brackets denote growth over 2016 plan totalling $7.0B over 3 years.

Pink brackets denote cumulative growth over 2016-17 interim totalling $11.5B over 3 years.

From: John Psinas
To: Ken Kandeepan
Subject: FW: AG Opinion
Date: Tuesday, September 05, 2017 10:20:12 AM
Attachments: Final Audit report signed letterhead.pdf
Importance: High

Ken,

Please see below my suggested wording for CEO's Corner. I have attached the AG's opinon.

This year marks the second time the Auditor General qualified her audit opinion of the Public Accounts over how the net pension assets of the Teacher's Pension Plan and OPSEU are classified and reported. This year also marks a further qualification for the reporting of certain rate regulated assets of the Independent Electricity System Operator agency being consolidated in Public Accounts.

Despite these qualifications, I do not anticipate any discernable impacts to the Province's credit rating. It should be noted that both Quebec and BC had qualified opinion in 2016, with no noticeable impacts as well.

Thanks.

John

From: Li, Wendy (TBS) [mailto:Wendy.Li@ontario.ca]
Sent: Tuesday, September 05, 2017 9:45 AM
To: John Psinas <John.Psinas@ofina.on.ca>
Cc: Bharat Patel (MOF) <Bharat.Patel3@ontario.ca>
Subject: FW: AG Opinion
Importance: High

As requested.

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

INDEPENDENT AUDITOR'S REPORT

To the Legislative Assembly of the Province of Ontario

I have audited the accompanying consolidated financial statements of the Province of Ontario, which comprise the consolidated statement of financial position as at March 31, 2017, and the consolidated statements of operations, change in net debt, change in accumulated deficit and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

The Government of Ontario (Government) is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as the Government determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Government, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

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Basis for Qualified Opinion

Net Pension Asset Overstated, Annual Deficit Understated, Net Debt Understated and Accumulated Deficit Understated

As described in Note 16a to these consolidated financial statements, a net pension asset is recorded on the Consolidated Statement of Financial Position relating to the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan. However, the Government does not have the unilateral legal right to use this asset because its ability to reduce future minimum contributions or withdraw any pension plan surplus is subject to agreement with the respective pension plans' joint sponsors. Canadian public sector accounting standards require the Government to record a valuation allowance against this asset.

The Government did not record a valuation allowance for this net pension asset at March 31, 2017. The Government also retroactively restated the March 31, 2016 comparative figures to exclude the valuation allowance previously included in the prior year's consolidated financial statements. This departure from Canadian public sector accounting standards has led me to express a qualified opinion on the consolidated financial statements for the year ended March 31, 2017 and on the March 31, 2016 comparative figures.

The recommendations of the Government's appointed Pension Asset Advisory Panel are not an authoritative source on the application of Canadian public sector accounting standards as implied in Note 16a to these consolidated financial statements.

Effect on Consolidated Statement of Operations

If the Government had correctly recorded the valuation allowance against the net pension asset for the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan, the effect on the consolidated statement of operations for the years ended March 31, 2017 and 2016 would have been as follows:

	2017 ($ million)	2016 ($ million)
Annual deficit as presented	(991)	(3,515)
Effect of valuation allowance on:		
• Education expense	(1,364)	(1,480)
• General Government and Other expense	(80)	(351)
Annual deficit in accordance with Canadian public sector accounting standards	**(2,435)**	**(5,346)**

Effect on Consolidated Statement of Financial Position

If the Government had correctly recorded the valuation allowance against the net pension asset for the Ontario Teachers' Pension Plan and the Ontario Pubic Service Employees' Union Pension Plan, the effect on the consolidated statement of financial position as at March 31, 2017 and 2016 would have been as follows:

	2017 ($ million)	2016 ($ million)
Net pension asset as presented	11,033	9,312
Effect of valuation allowance	(12,429)	(10,985)
Net pension liability in accordance with Canadian public sector accounting standards	**(1,396)**	**(1,673)**

	2017 ($ million)	2016 ($ million)
Net debt as presented	(301,648)	(295,372)
Effect of valuation allowance	(12,429)	(10,985)
Net debt in accordance with Canadian public sector accounting standards	**(314,077)**	**(306,357)**

	2017 ($ million)	2016 ($ million)
Accumulated deficit as presented	(193,510)	(192,029)
Effect of valuation allowance	(12,429)	(10,985)
Accumulated deficit in accordance with Canadian public sector accounting standards	**(205,939)**	**(203,014)**

Inappropriate Consolidation of Independent Electricity System Operator (IESO) Market Accounts

As described in Note 16c to these consolidated financial statements, the IESO changed its accounting policy and applied it retroactively to recognize market account assets and liabilities. The market accounts track mainly buy and sell transactions between market participants (electricity power generators and power distributors). These market accounts, as recorded on the Province of Ontario's consolidated financial statements are not assets and liabilities of the Province of Ontario. The Government has no access or discretion to use the market account assets for their own benefit, nor does the Government have an obligation to settle the market account liabilities in the event of default by market participants. As a result, Other Assets and Other Liabilities are both overstated by $1.652 billion (2016 – $1.443 billion). There is no effect on the Consolidated Statement of Operations.

Qualified Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Province of Ontario as at March 31, 2017, and the consolidated results of its operations, change in its net debt, change in its accumulated deficit and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other Matters

Use of Rate-regulated Accounting May Cause a Material Misstatement on the Consolidated Financial Statements of the Province of Ontario

I draw attention to Note 16c to these consolidated financial statements, which describes the Independent Electricity System Operator's retroactive adoption of rate-regulated accounting during the year. The recognition of rate regulated assets on the consolidated financial statements of the Province of Ontario is not permitted when applying Canadian public sector accounting standards. This departure does not have a material impact on the Province of Ontario's consolidated financial statements for the year ended March 31, 2017 and my opinion is not modified in respect of this matter. However, the consolidated financial statements may become materially misstated in future periods, as a result of the legislated accounting prescribed under the *Ontario Fair Hydro Plan Act, 2017* (Fair Hydro Plan) and its related regulations as it is not in accordance with Canadian public sector accounting standards.

Financial Statement Discussion and Analysis

I draw attention to the Province of Ontario's Financial Statement Discussion and Analysis that discusses the Province of Ontario's financial results without properly reflecting the valuation allowance required in respect of the net pension asset and the recognition of market accounts, as discussed in the Basis for Qualified Opinion paragraphs above.



Toronto, Ontario
August 18, 2017

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

From: Ken Kandeepan
To: George Sakura; Kevin Hwang
Subject: FW: BPS Debt
Date: Monday, January 16, 2017 3:46:38 PM
Attachments: BPS Debt by Entity_For OFA.xlsx

Hi George and Kevin

As you may be aware consolidation on a true line by line is a distinct possibility and if so the IOD will increase by over $300M per annum. Plus it also puts in the position of having to explain variances where we have little or no knowledge of the underlying debt.

My suggestion is that we persuade ministries to impose a requirement of Hospitals, School Boards and colleges that they only borrow from the Province. Whether the loan is made by IO or the OFA can be determined later. In terms of building case for this fairly significant shift we need to provide evidence of savings, which will primarily be the difference in the interest rate on these loans if they had been issued by the Province.

We can wait until John returns to start this project at which point we can all meet and have brainstorming session. I am only sending this now otherwise, as usual I will forget.

Thanks

Ken k

From: Sun, Alicia (TBS) [mailto:Alicia.Sun@ontario.ca]
Sent: Friday, January 13, 2017 4:22 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>
Subject: RE: BPS Debt

Hi Ken,

As per your request, please find attached the debt information by BPS entity. Since we collect debt continuity in our system, so we can directly retrieve the opening balance information. Therefore, the information provided in the attached is essentially the ending balance of fiscal 2014-15. If you need ending balance of 2015-16 for your purpose, please let me know and we can create a special report based on trial balance.

If you have any further questions, please let me know.

Thanks,
Alicia

From: Veinot, Cindy (TBS)
Sent: January 12, 2017 5:40 PM
To: Sun, Alicia (TBS); Petsche, Nadine (TBS)
Cc: Hosick, Sarah (TBS)
Subject: FW: BPS Debt

Alicia – see below -- do we have schedules that show debt by entity in the BPS?

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: January-12-17 5:31 PM
To: Veinot, Cindy (TBS)
Cc: Psinas, John (TBS)
Subject: BPS Debt

Hi Cindy

As discussed it would be useful to obtain more detailed information on the BPS debt.

The majority of the School Board debt is with the OFA but I understand they do have short term loans with their friendly neighbourhood FI's to fund construction. In the past, as I understand it these short term loans were paid off upon receipt of the loan from the OFA. From 2017-18 the OFA loan program to school boards will be discontinued and replaced with capital grants from the Ministry.

With regard to hospitals and colleges, the Province has not issued any loans to the former, so all debt is either directly sourced from the capital markets (large Toronto hospitals) or from financial institutions. The college debt is pretty minimal so we can ignore same for now.

Once we have these details it may be useful to alert the respective ministries so that these BPS entities can source their future borrowings from the Province. That should yield interest savings on a consolidated basis.

Thanks

Ken k

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BPS Debt with OFA and 3rd Party - FY 2014-15

Entity Name	OFA Debt	3rd Party Debt	Total Debt
School Boards			
District School Board Ontario North East	(21,246,724.00)	(24,735,754.00)	(45,982,478.00)
Algoma District School Board	(89,041,556.00)		(89,041,556.00)
Rainbow District School Board	(46,921,088.00)	(4,028,750.00)	(50,949,838.00)
Near North District School Board	(51,524,130.00)	(819,716.00)	(52,343,846.00)
Keewatin-Patricia District School Board	(20,260,247.00)	(12,480,510.00)	(32,740,757.00)
Lakehead District School Board	(37,434,461.00)	(1.00)	(37,434,462.00)
Bluewater District School Board	(72,275,320.00)	(15,340,588.00)	(87,615,908.00)
Avon Maitland District School Board	(47,961,686.00)		(47,961,686.00)
Greater Essex County District School Board	(161,769,652.00)	(23,431,886.00)	(185,201,538.00)
Lambton Kent District School Board	(38,418,753.00)		(38,418,753.00)
Thames Valley District School Board	(177,199,238.00)		(177,199,238.00)
Toronto District School Board	(421,026,776.00)	(35,675,634.00)	(456,702,410.00)
Durham District School Board	(255,633,894.00)	(51,265,248.00)	(306,899,142.00)
Kawartha Pine Ridge District School Board	(96,891,473.00)	(15,214,473.00)	(112,105,946.00)
Trillium Lakelands District School Board	(24,266,354.00)		(24,266,354.00)
York Region District School Board	(342,818,282.00)	(410,306,779.00)	(753,125,061.00)
Simcoe County District School Board	(163,103,719.00)	(57,597,880.00)	(220,701,599.00)
Upper Grand District School Board	(90,251,724.00)	(46,616,277.00)	(136,868,001.00)
Peel District School Board	(444,630,117.00)	(421,337,159.00)	(865,967,276.00)
Halton District School Board	(232,820,650.00)	(57,062,303.00)	(289,882,953.00)
Hamilton-Wentworth District School Board	(148,908,877.00)	(902,692.00)	(149,811,569.00)
District School Board of Niagara	(104,719,564.00)	(9,585,186.00)	(114,304,750.00)
Grand Erie District School Board	(85,866,954.00)	(16,775,317.00)	(102,642,271.00)
Waterloo Region District School Board	(116,744,144.00)	(49,230,139.00)	(165,974,283.00)
Ottawa-Carleton District School Board	(109,791,425.00)	(38,860,107.00)	(148,651,532.00)
Upper Canada District School Board	(54,661,379.00)	(31,175,156.00)	(85,836,535.00)
Limestone District School Board	(85,268,814.00)	(4,494,656.00)	(89,763,470.00)
Renfrew County District School Board	(50,861,214.00)		(50,861,214.00)
Hastings and Prince Edward District School Board	(35,300,314.00)	(3,049,798.00)	(38,350,112.00)
Northeastern Catholic District School Board	(1,706,136.00)	(3,406,208.00)	(5,112,344.00)
Huron-Superior Catholic District School Board	(14,567,415.00)		(14,567,415.00)
Sudbury Catholic District School Board	(28,022,411.00)	(4,245,069.00)	(32,267,480.00)
Northwest Catholic District School Board	(919,399.00)		(919,399.00)
Thunder Bay Catholic District School Board	(22,030,010.00)		(22,030,010.00)
Bruce-Grey Catholic District School Board	(7,559,524.00)		(7,559,524.00)
Huron Perth Catholic District School Board	(5,379,320.00)	(5,718,494.00)	(11,097,814.00)
Windsor-Essex Catholic District School Board	(63,706,692.00)	(86,509,842.00)	(150,216,534.00)
London District Catholic School Board	(58,315,918.00)	(31,165,966.00)	(89,481,884.00)
St. Clair Catholic District School Board	(19,590,888.00)		(19,590,888.00)
Toronto Catholic District School Board	(241,481,838.00)	(109,518,469.00)	(351,000,307.00)
Peterborough Victoria Northumberland and Clarington Catholic District School Board	(23,966,926.00)	(32,390,658.00)	(56,357,584.00)
York Catholic District School Board	(192,363,175.00)	(181,268,256.00)	(373,631,431.00)
Dufferin-Peel Catholic District School Board	(75,412,618.00)	(363,479,616.00)	(438,892,234.00)
Simcoe Muskoka Catholic District School Board	(64,974,157.00)	(52,956,777.00)	(117,930,934.00)
Durham Catholic District School Board	(43,793,764.00)	(23,275,239.00)	(67,069,003.00)
Halton Catholic District School Board	(115,998,080.00)	(128,305,847.00)	(244,303,927.00)
Hamilton-Wentworth Catholic District School Board	(99,358,452.00)	(62,791,649.00)	(162,150,101.00)
Wellington Catholic District School Board	(23,582,576.00)	(33,651,739.00)	(57,234,315.00)
Waterloo Catholic District School Board	(38,428,875.00)	(39,561,877.00)	(77,990,752.00)

Entity Name	OFA Debt	3rd Party Debt	Total Debt
Niagara Catholic District School Board	(36,961,396.00)	(39,029,803.00)	(75,991,199.00)
Brant Haldimand Norfolk Catholic District School Board	(32,716,535.00)	(19,463,747.00)	(52,180,282.00)
Catholic District School Board of Eastern Ontario	(31,299,619.00)	(32,711,881.00)	(64,011,500.00)
Ottawa Catholic District School Board	(90,871,974.00)	(19,557,988.00)	(110,429,962.00)
Renfrew County Catholic District School Board	(12,219,960.00)	(2,840,456.00)	(15,060,416.00)
Algonquin and Lakeshore Catholic District School Board	(21,232,123.00)	(9,169,847.00)	(30,401,970.00)
Conseil scolaire de district du Nord-Est de l'Ontario	(19,108,089.00)	(5,439,100.00)	(24,547,189.00)
Conseil scolaire de district du Grand Nord de l'Ontario	(22,089,618.00)	(6,088,900.00)	(28,178,518.00)
Conseil Scolaire Viamonde	(94,353,640.00)	(53,498,348.00)	(147,851,988.00)
Conseil des écoles publiques de l'est de l'Ontario	(51,938,679.00)	(55,268,598.00)	(107,207,277.00)
Conseil scolaire de district catholique des Grandes Rivières	(13,271,786.00)	(3,993,167.00)	(17,264,953.00)
Conseil scolaire de district catholique du Nouvel-Ontario	(45,192,522.00)	(4,833,857.00)	(50,026,379.00)
Conseil scolaire de district catholique des Aurores boréales	(1,581,515.00)	(6,560,666.00)	(8,142,181.00)
Conseil Scolaire Catholique Providence	(42,318,993.00)	1.00	(42,318,992.00)
Conseil scolaire de district catholique Centre-Sud	(86,925,017.00)	(31,115,811.00)	(118,040,828.00)
Conseil scolaire de district catholique de l'Est ontarien	(48,032,536.00)	(21,466,259.00)	(69,498,795.00)
Conseil scolaire de district catholique du Centre-Est de l'Ontario	(86,546,751.00)	(88,525,868.00)	(175,072,619.00)
Rainy River District School Board	(21,695,066.00)		(21,695,066.00)
Superior-Greenstone District School Board	(12,604,054.00)	(44,475.00)	(12,648,529.00)
Nipissing-Parry Sound Catholic District School Board	(23,147,167.00)		(23,147,167.00)
Kenora Catholic District School Board	(3,901,524.00)	(7,238,826.00)	(11,140,350.00)
Superior North Catholic District School Board	(1,893,766.00)	(4,930,311.00)	(6,824,077.00)
Conseil scolaire de district catholique Franco-Nord	(43,278,968.00)	(12,894,141.00)	(56,173,109.00)
School Boards Total	**(5,611,958,001.00)**	**(2,912,903,763.00)**	**(8,524,861,764.00)**
Hospitals			
Almonte General Hospital		(11,603,000.00)	(11,603,000.00)
West Park Healthcare Centre		(10,660,493.00)	(10,660,493.00)
Brockville General Hospital		(2,548,468.00)	(2,548,468.00)
Campbellford Memorial Hospital		(1,635,901.00)	(1,635,901.00)
Services de Santé de Chapleau Health Services		(495,145.00)	(495,145.00)
Public General Hospital Campus, Chatham-Kent Health Alliance		(4,743,396.00)	(4,743,396.00)
North York General Hospital		(12,142,000.00)	(12,142,000.00)
Clinton Public Hospital		(583,167.00)	(583,167.00)
Haldimand War Memorial Hospital		(7,214,703.00)	(7,214,703.00)
St. Joseph's General Hospital, Elliott Lake		(3,207,335.00)	(3,207,335.00)
Royal Ottawa Health Care Group		(5,660,972.00)	(5,660,972.00)
Alexandra Marine & General Hospital		(700,454.00)	(700,454.00)
Guelph General Hospital		(2,958,333.00)	(2,958,333.00)
St.Joseph's Health Centre, Guelph		(9,451,033.00)	(9,451,033.00)
St. Joseph's Healthcare Hamilton		(349,793,071.00)	(349,793,071.00)
Hôpital Notre Dame Hospital (Hearst)		(443,357.00)	(443,357.00)
Anson General Hospital		(292,600.00)	(292,600.00)
Religious Hospitallers of St. Joseph of the Hotel Dieu of Kingston		(2,455,000.00)	(2,455,000.00)
Kingston General Hospital		(13,531,260.00)	(13,531,260.00)
Providence Care Centre (Kingston)		(3,436,474.00)	(3,436,474.00)
Kirkland and District Hospital		(397,096.00)	(397,096.00)
St. Mary's General Hospital		(5,212,490.00)	(5,212,490.00)

Entity Name	OFA Debt	3rd Party Debt	Total Debt
Listowel Memorial Hospital		(810,208.00)	(810,208.00)
Georgian Bay General Hospital		(7,701,154.00)	(7,701,154.00)
Kemptville District Hospital		(264,271.00)	(264,271.00)
Southlake Regional Health Centre		(34,423,309.00)	(34,423,309.00)
Nipigon District Memorial Hospital		(1,276,657.00)	(1,276,657.00)
Orillia Soldiers' Memorial Hospital		(5,092,000.00)	(5,092,000.00)
Children's Hospital of Eastern Ontario		(9,013,000.00)	(9,013,000.00)
Pembroke Regional Hospital Inc.		(23,993,429.00)	(23,993,429.00)
Peterborough Regional Health Centre		(31,228,000.00)	(31,228,000.00)
Queensway-Carleton Hospital		(3,190,000.00)	(3,190,000.00)
St. Joseph's Care Group		(46,145,000.00)	(46,145,000.00)
St. Marys Memorial Hospital		(1,004,317.00)	(1,004,317.00)
St. Thomas - Elgin General Hospital		(8,682,412.00)	(8,682,412.00)
Seaforth Community Hospital		(583,167.00)	(583,167.00)
Norfolk General Hospital		(800,000.00)	(800,000.00)
Stratford General Hospital		(4,381,277.00)	(4,381,277.00)
McCausland Hospital		(2,310,527.00)	(2,310,527.00)
Baycrest Centre for Geriatric Care		(28,748,325.00)	(28,748,325.00)
Hospital for Sick Children		(200,109,000.00)	(200,109,000.00)
St. Michael's Hospital		(5,349,000.00)	(5,349,000.00)
Toronto East General Hospital		(8,482,000.00)	(8,482,000.00)
Women's College Hospital		(285,292.00)	(285,292.00)
Markham Stouffville Hospital		(37,944,665.00)	(37,944,665.00)
Timmins and District Hospital		(11,882,053.00)	(11,882,053.00)
Casey House Hospice		(607,217.00)	(607,217.00)
Hotel-Dieu Grace Healthcare		(1,325,000.00)	(1,325,000.00)
Perth and Smiths Falls District Hospital		(10,409,544.00)	(10,409,544.00)
West Parry Sound Health Centre		(12,271,511.00)	(12,271,511.00)
Bruyere Continuing Care Inc.		(55,151,323.00)	(55,151,323.00)
Windsor Regional Hospital		(43,784,000.00)	(43,784,000.00)
Thunder Bay Regional Health Sciences Centre		(42,855,560.00)	(42,855,560.00)
London Health Sciences Centre		(82,664,000.00)	(82,664,000.00)
Haliburton Highlands Health Services Corporation		(1,028,362.00)	(1,028,362.00)
Northumberland Hills Hospital		(183,403.00)	(183,403.00)
Humber River Regional Hospital		(150,240,000.00)	(150,240,000.00)
Hamilton Health Sciences Corporation		(65,665,000.00)	(65,665,000.00)
University Health Network		(192,375,000.00)	(192,375,000.00)
William Osler Health System		(4,000,000.00)	(4,000,000.00)
Lakeridge Health		(49,629,000.00)	(49,629,000.00)
SUNNYBROOK HEALTH SCIENCES CENTRE		(70,257,493.00)	(70,257,493.00)
Rouge Valley Health System		(17,274,000.00)	(17,274,000.00)
Quinte Healthcare Corporation		(180,269.00)	(180,269.00)
Health Sciences North		(12,000,000.00)	(12,000,000.00)
Scarborough Hospital		(17,532,000.00)	(17,532,000.00)
University of Ottawa Heart Institute		(10,000,000.00)	(10,000,000.00)
Niagara Health System		(9,871,050.00)	(9,871,050.00)
Sioux Lookout Meno-Ya-Win Health Centre		(1,670,162.00)	(1,670,162.00)
Sault Area Hospital		(7,829,296.00)	(7,829,296.00)
Bluewater Health		(2,832,667.00)	(2,832,667.00)
Cornwall Community Hospital		(51,235.00)	(51,235.00)
MUSKOKA ALGONQUIN HEALTHCARE		(5,276,015.00)	(5,276,015.00)
BRANT COMMUNITY HEALTHCARE SYSTEM		(2,744,245.00)	(2,744,245.00)
WEENEEBAYKO AREA HEALTH AUTHORITY		(363,983.00)	(363,983.00)
NORTH BAY REGIONAL HEALTH CENTRE		(4,711,000.00)	(4,711,000.00)
Trillium Health Partners		(47,647,000.00)	(47,647,000.00)
SINAI HEALTH SYSTEM		(94,799,179.00)	(94,799,179.00)
Hospital Total	**0.00**	**(1,940,093,325.00)**	**(1,940,093,325.00)**
Colleges			
Algonquin College of Applied Arts and Technology	(20,260,045.00)	(36,298,441.00)	(56,558,486.00)
Cambrian College of Applied Arts and Technology	(11,017,402.00)	(6,599,892.00)	(17,617,294.00)

Entity Name	OFA Debt	3rd Party Debt	Total Debt
Canadore College of Applied Arts and Technology	(4,654,301.00)	(5,680,194.00)	(10,334,495.00)
Centennial College of Applied Arts and Technology	(31,103,263.00)	(11,044,728.00)	(42,147,991.00)
Collège Boréal d'arts appliqués et de technologie	(11,181,198.00)		(11,181,198.00)
Conestoga College Institute of Technology and Advanced Learning	(12,750,566.66)	(2,058,595.15)	(14,809,161.81)
Confederation College of Applied Arts and Technology	(1,232,604.00)	(618,718.00)	(1,851,322.00)
Durham College of Applied Arts and Technology	(8,614,249.00)	(58,080,984.00)	(66,695,233.00)
Fanshawe College of Applied Arts and Technology	(18,483,542.00)	(21,084,080.00)	(39,567,622.00)
Sir Sandford Fleming College of Applied Arts and Technology	(12,982,285.00)	(1,025,000.00)	(14,007,285.00)
George Brown College of Applied Arts and Technology	(26,796,794.00)		(26,796,794.00)
Georgian College of Applied Arts and Technology	(3,547,608.00)	(20,375,000.00)	(23,922,608.00)
Humber College Institute of Technology and Advanced Learning		(32,431,403.00)	(32,431,403.00)
Collège d'arts appliqués et de technologie La Cité collégiale		(8,847,366.00)	(8,847,366.00)
Lambton College of Applied Arts and Technology	(3,380,007.00)	(7,035,854.00)	(10,415,861.00)
Loyalist College of Applied Arts and Technology	(6,578,379.00)	(3,416,460.00)	(9,994,839.00)
Mohawk College of Applied Arts and Technology	(50,293,419.00)	(8,808,915.00)	(59,102,334.00)
Niagara College of Applied Arts and Technology		(7,467,373.00)	(7,467,373.00)
Sault College of Applied Arts and Technology	(5,000,000.00)		(5,000,000.00)
Seneca College of Applied Arts and Technology		(49,884,497.00)	(49,884,497.00)
Sheridan College Institute of Technology and Advanced Learning		(20,446,576.00)	(20,446,576.00)
St. Clair College of Applied Arts and Technology		(13,420,239.00)	(13,420,239.00)
St. Lawrence College of Applied Arts and Technology		(21,777,489.00)	(21,777,489.00)
Colleges Total	**(227,875,662.66)**	**(336,401,804.15)**	**(564,277,466.81)**
BPS Total	**(5,839,833,663.66)**	**(5,189,398,892.15)**	**(11,029,232,555.81)**

From: Veinot, Cindy (TBS)
To: Gadi Mayman; Ken Kandeepan
Subject: FW: CD Howe Notes Apr 25
Date: Wednesday, April 26, 2017 5:27:23 PM
Attachments: CD Howe Notes Apr 25.docx

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

Cindy

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

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

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

Remarks by Ontario's AG:

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

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

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

From: Veinot, Cindy (TBS)
To: Gadi Mayman; Ken Kandeepan
Subject: FW: CD Howe Notes Apr 25
Date: Wednesday, April 26, 2017 5:27:23 PM
Attachments: CD Howe Notes Apr 25.docx

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

Cindy

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

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

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

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- In response to a question by Ian MacDonald (former DM of Finance for ON) as to what has changed in the relationship between the government and the AG, she said that likely motivation for the behavior is to try to achieve a balanced budget.

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

From: Bonnie Lemcke
To: Gadi Mayman
Cc: Christina Zhang; Ken Kandeepan
Subject: FW: DBRS Comments on New Brunswick's 2015-16 Results and Impact of Accounting Changes on Debt
Date: Friday, October 07, 2016 10:17:45 AM

FYI – DBRS released a commentary on New Brunswick's public accounts and commented on the pension adjustments. I will follow up to see if they are planning to do something for Ontario.

Bonnie

From: DBRS [mailto:info.p3@dbrs.info]
Sent: Thursday, October 06, 2016 3:11 PM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: DBRS Comments on New Brunswick's 2015-16 Results and Impact of Accounting Changes on Debt

DBRS® As It Happens
OCTOBER 6, 2016 03:07 PM
Press Releases

[dbrs.com]

DBRS Comments on New Brunswick's 2015-16 Results and Impact of Accounting Changes on Debt

DBRS Limited (DBRS) has today commented on the Province of New Brunswick's (the Province or New Brunswick) recently released 2015-16 Public Accounts, which show a modest improvement in fiscal performance; however, accounting changes related to the recognition of pension plan obligations and the consolidation of not-for-profit nursing homes have led to a higher debt burden. DBRS currently rates the Province at A (high) and R-1 (middle) with Stable trends and notes that these accounting changes do not alter the medium-term outlook for New Brunswick's credit profile.

For the year ended March 31, 2016, final results, including accounting changes noted below, point to a DBRS-adjusted debt burden of 43.9% of gross domestic product (GDP) compared with 41.8% of GDP anticipated at the time of the last review. Despite the step-up in debt, DBRS's medium-term expectations have not changed. DBRS continues to expect a gradual improvement in fiscal results and a stabilization of the debt-to-GDP ratio just above 44% in 2017-18; however, should the economy underperform expectations or fiscal targets prove challenging to achieve, this would present downside risks to the ratings.

The 2015-16 Public Accounts, released on September 30, 2016, show that fiscal performance exceeded expectations. For the year ended March 31, 2016, the Province reported a deficit of $260.5 million compared with an estimated shortfall of $466.4 million at the time of DBRS's last review in April 2016. The bulk of this improvement is the result of a $100 million contingency reserve that was not required. In addition, after accounting for the impact of consolidation changes, revenues were largely on track with plan while spending was lower. After making adjustments to recognize capital spending as incurred rather than as amortized, this equates to a DBRS-adjusted shortfall of approximately $405 million, or 1.2% of GDP.

In recent years, the Province has made substantive changes to its primary public-sector pension plans to address concerns around longer-term sustainability. Most significantly, the Province

converted them to a shared-risk, or target-benefit, model from the traditional defined-benefit model. The effect of these changes has been to provide greater certainty and predictability to annual pension expenses and to reduce the pension-related risks borne by taxpayers. Notwithstanding that the plan structures did not change in 2015-16, the Province has revised its accounting treatment for the plans after receiving a qualified audit opinion in 2014-15. New Brunswick is now using defined-benefit accounting instead of defined-contribution accounting as used in the previous year, resulting in a $220 million increase in pension liabilities and a corresponding increase in DBRS-adjusted debt. As noted in DBRS's April 11, 2016, rating report on the Province, the Public Sector Accounting Board is undertaking a review of pension accounting standards with an emphasis on seeking agreement about how to account for hybrid pension plans. A resolution is not expected for several years.

In addition to the pension plan accouning change, the Province now includes not-for-profit nursing homes in the government reporting entity. The effect of this change has been an increase to both revenues and expenditures as well as the recognition of $448 million in third-party mortgages, which has resulted in a corresponding increase in the DBRS-adjusted debt burden. In practice, third-party nursing home debt was already being serviced through the Province's nursing home funding model. To DBRS's knowledge, other provinces do not consolidate not-for-profit nursing homes, although it does appear that the Province exercises somewhat greater control over this sector relative to peers.

Notes:
All figures are in Canadian dollars unless otherwise noted.

The applicable methodology is Rating Canadian Provincial Governments, which can be found on our website under Methodologies.

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

Click here to Log In for access to the full document.[dbrs.com]
See list of Associated Documents below.

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Issuers in the Press Release

- New Brunswick, Province of[dbrs.com]

Associated Documents

- Rating Canadian Provincial Governments - Methodology[dbrs.com] May 25, 2016

Recently Published Press Releases

- DBRS Confirms Rating on Northland Power Solar Finance One L.P.'s Senior Secured Amortizing Bonds, Series A at BBB (high) with a Stable Trend[dbrs.com] October 6, 2016
- DBRS Confirms Plaza Trust, Series 1 Asset-Backed Commercial Paper Notes at R-1 (high) (sf)[dbrs.com] October 6, 2016
- DBRS Assigns Provisional Ratings to COMM 2016-667M Mortgage Trust[dbrs.com] October 6, 2016
- DBRS Finalizes Provisional Ratings on DT Auto Owner Trust 2016-4[dbrs.com] October 6, 2016
- DBRS Upgrades Class A Notes of Vela RMBS S.r.l.[dbrs.com] October 6, 2016

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From: Kevin Hwang
To: Ken Kandeepan
Subject: FW: DOC2017 - Briefing Notes + Q&A
Date: Wednesday, April 12, 2017 12:34:30 PM
Attachments: OFA FES Q and As_2016 short version clean.docx

Hi Ken,

The non-cash Q&A has been updated for your consideration.

Thanks,
kevin

From: Serena Ly
Sent: Wednesday, April 12, 2017 10:53 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>; Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>; David Cross <David.Cross@ofina.on.ca>
Cc: Erica Wieder <Erica.Wieder@ofina.on.ca>; Nathan Yuen <Nathan.Yuen@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>
Subject: DOC2017 - Briefing Notes + Q&A

Hello Everyone,

The briefing notes and Q&A's for the budget have been posted, please start reviewing and updating:

Borrowing & Debt and Credit Rating Briefing Note:
http://portal.ofina.on.ca/sites/cmd/ir/Document%202017/OFA%20DOC2017%20BN.docx

Q&A: (Currently using 2016 Budget Q&A as template, but I have also attached the FES 2016 Q&A's for reference)
http://portal.ofina.on.ca/sites/cmd/ir/Document%202017/Q%20and%20As%20DOC2017.docx

Thank you!
Serena

ONTARIO FINANCING AUTHORITY

Chapter 3C - Borrowing and Debt Management

General

Q: Why was total long-term public borrowing $23.8 billion in 2016–17 when the deficit is projected to be $4.3 billion?

A: In addition to financing the deficit, long-term public borrowing refinances debt maturities and debt redemptions, funds the Province's investments in capital assets, and loans to agencies. Total borrowing for 2016-17 is now forecast to be $3.6 billion less than the forecast in the 2016 Budget as a result of the overall changes in non-cash adjustments and the pre-borrowing in 2015-16.

Q: Why does the Net Debt-to-GDP ratio increase to 40.3 per cent at the end of fiscal 2016–17, compared to the 39.6 per cent forecast in the 2016 Budget?

A: The increase in the Net Debt-to-GDP ratio to 40.3% is mainly as a result of the change in accounting treatment for pension assets of jointly sponsored pension plans in 2015-16 which increased the accumulated deficit by $10.7 billion.

Q. The 2016 Budget forecast that the net debt to GDP ratio will decline from 2016-17 onwards, if so why does the ratio increase to 40.3 in 2016-17 from 40.0 percent in 2015-16

A. The slight increase in 2016-17 is primarily due to the forecast GDP rate of growth being less than what was forecast in the 2016 Budget. Over the two out years however, the net debt to GDP ratio is forecast to decline.

Q: The Province is projected to borrow $23.8 billion in 2016-17. That's approximately $1,703 for every person in Ontario. When will the Province eventually run into a debt wall like Greece, Portugal and Ireland and be forced to raise taxes and cut services?

A: There is strong demand for Ontario bonds in both the domestic and international markets. Last fiscal year Ontario was able to borrow $32.1 billion in long-term debt while our spread, or the margin that we have to pay over the equivalent Government of Canada bond, tightened, indicating ongoing strong demand for Ontario bonds. We expect that the liquidity of Ontario benchmark bonds and continuing confidence in the value of Ontario debt will allow us to cost-effectively complete the 2016-17

borrowing program. As at November 4th, 2016, the Province has completed $16.1 billion of its $23.8 billion borrowing requirement for 2016-17.

Q: Has it been difficult to complete the Province's borrowing program?

A: The Province continues to have steady access to both domestic and international bond markets. As at November 4th, 2016, the Province has completed $16.1 billion of its $23.8 billion borrowing requirement for 2016-17.

Q: The Government has adopted the accounting treatment recommended by the Auditor General resulting in a pension adjustment expense over the medium term outlook. How has this impacted borrowing?

A: The pension adjustment is a non-cash amount, as such both borrowings and total debt remain unchanged. There is also no impact on net debt over the medium term outlook given that the forecast defcits over the period remain unchanged from the 2016 Budget. .

Q: What does non-cash adjustments of $7.4 billion in 2016–17 represent?

A: Non-cash adjustments convert accounting accruals into cash requirements. Cash and accruals differ primarily because of $2.6 billion in Alternative Financing Procurements (AFPs) funded by third parties plus the reserve of $0.4 billion, partly offset by payments to be made in 2016–17 upon substantial completion of prior AFP projects. The total non-cash adjustment also reflects the impact of the pension adjustment. . Another significant adjustment is amortization that is currently over $5 billion but is, partly offset by general timing adjustments that always arise between the Province's inflows and outflows on a cash versus accrual basis. A notable example of the latter is the variance between the net incomes of the Government Business Enterprises and the dividends they pay to the Province.

Q: Is the Province planning to issue any more Green Bonds in the future?

A: The Green Bond program is an ongoing program of the Province of Ontario. To date, Ontario has issued two Canadian dollar Green Bonds. The Province plans to issue its third Green Bond before the end of fiscal 2016-17.

On October 2, 2014, Ontario successfully launched a Green Bond program, with an inaugural global Canadian dollar bond of $500 million. On January 22, 2016, Ontario launched a second global Canadian dollar bond of $750 million.

Interest on Debt (IOD)

Q: What is the impact on IOD of a $1.0 billion change in deficit?

A: The 2016-17 impact is forecast to be approximately $24 million.

Q: What is the impact on IOD of a one percentage point change in interest rates?

A: The 2016-17 impact is forecast to be approximately $350 million over a full year.

Q: What are your assumed interest rates in the IOD forecast for the FES in comparison to the forecast in the 2016 Budget?

A: The assumed ten-year interest rates are 2.4 per cent for 2016-17 and 2.9 per cent for 2017-18, which is 60 and 91 bps lower, respectively, than the forecast in the 2016 Budget. For 2018-19, the interest rate forecast is 3.6 per cent which is 106 bps lower than the forecast in the 2016 Budget, which was based on the average Ontario interest rates over the past 15 years.

Q: Will IOD costs crowd out other expenditures as interest rates rise and debt continues to climb? How can you address this problem?

A: Ontario has a realistic plan to balance its budget while investments are made in the priorities of Ontario families – health care, education, the environment and infrastructure.

After eliminating the deficit by 2017–18, overall spending increases will be restricted to one per cent below GDP growth until the Province's net debt-to-GDP ratio returns to the pre-recession level of 27 per cent.

Investor demand has allowed the Province to extend the term of its debt in recent years and lock in historically low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs. The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 27 per cent lower, at 8.6 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992–93 to 2005–06, and is forecast to remain lower through the period to balance in 2017–18.

Credit Ratings

Q: What are the Province's current credit ratings?

The Province is rated:

	Long-Term	Short-Term
Moody's Investors Service:	Aa2	P-1
Standard & Poor's:	A+	A-1+
DBRS:	AA (low)	R-1 (mid)
Fitch	AA-	F1+

Q: How will the credit rating agencies respond to the 2016 Fall Statement?

A: Ontario currently maintains a double-A rating with three of its four credit rating agencies. Ontario is on track to a balanced budget by 2017–18.

We continue to update the rating agencies on a regular basis on economic and fiscal developments.

Q: What impact did Moody's upgrade have on your borrowing costs?

A: Credit ratings are one of a number of factors that contribute to borrowing costs.

Since the 2016 Ontario Budget was released, Ontario's credit spreads have narrowed modestly. This in part reflects the fact that all four credit rating agencies have affirmed Ontario's ratings reflecting their confidence in our plan to eliminate the deficit, with Moody's improving their outlook for Ontario's credit rating.

From:	Ken Kandeepan
To:	George Sakura
Subject:	FW: Debt Decks
Date:	Tuesday, January 17, 2017 12:05:46 PM
Attachments:	Province Comparisons (QC, BC) January 2017.pptx Debt Scenarios - January 2017.pptx

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From: Serena Ly
Sent: Tuesday, January 17, 2017 11:57 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; Opal Kandelas <Opal.Kandelas@ofina.on.ca>; Erica Wieder <Erica.Wieder@ofina.on.ca>
Subject: Debt Decks

Hi Gadi,

Please find attached the debt deck and the provincial comparison deck for this afternoon's meeting.

Thanks,
Serena

Comparison of Ontario, Quebec and British Columbia

January 2017

Overview

Comparison of Ontario, Quebec and British Columbia in:

- Budgetary Balance
- Net Debt and Net Debt-to-GDP
- Net Debt-to-Revenue

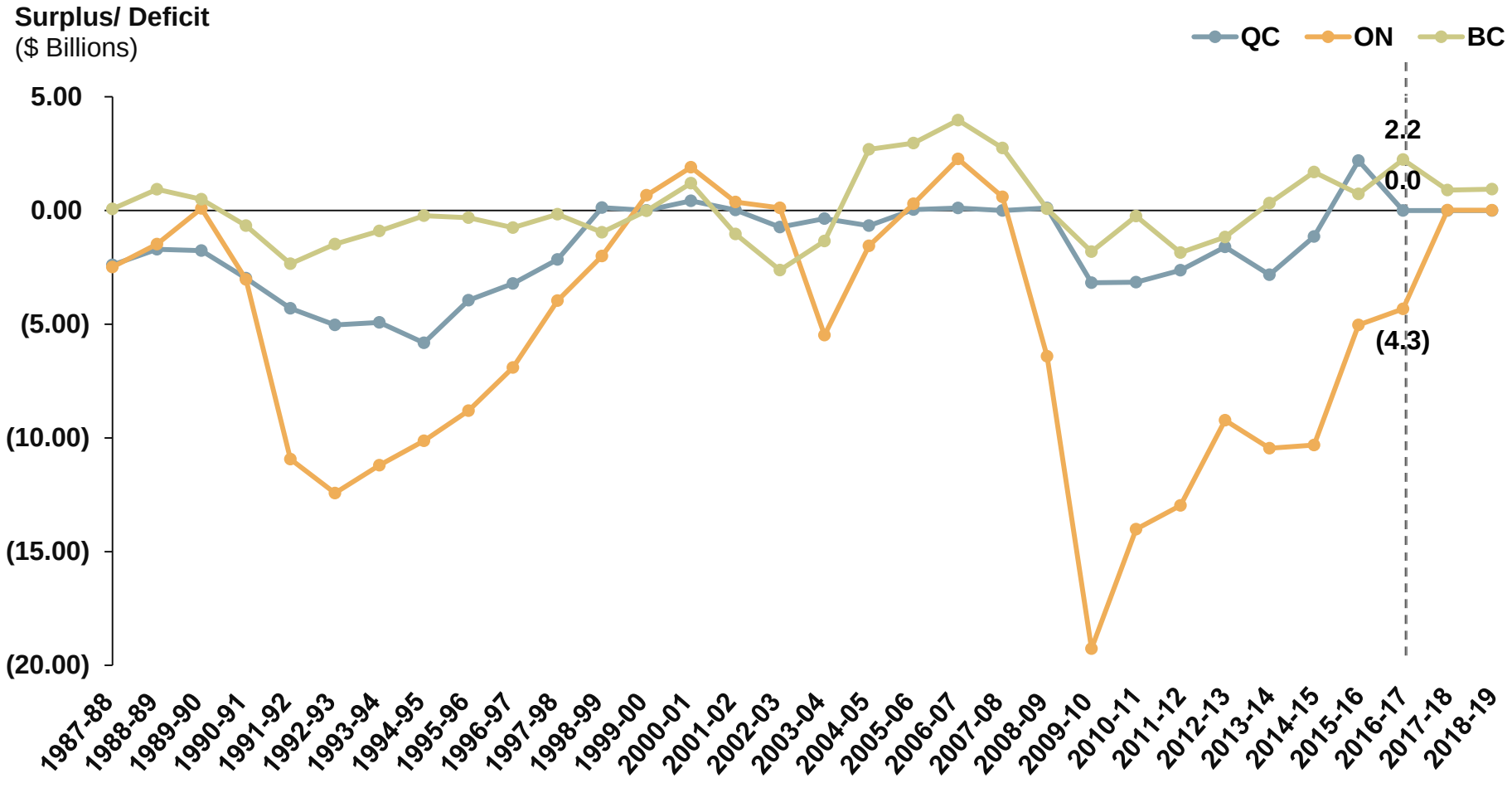
Quebec: Keys to Success

British Columbia: Keys to Success

Credit Rating Agencies

Budgetary Balance for Ontario, Quebec and British Columbia

- Quebec and BC are two of the three provinces projecting a balanced budget for fiscal 2016–17
- Ontario is projecting a deficit of $4.3 billion in 2016–17 and a return to balance in 2017–18

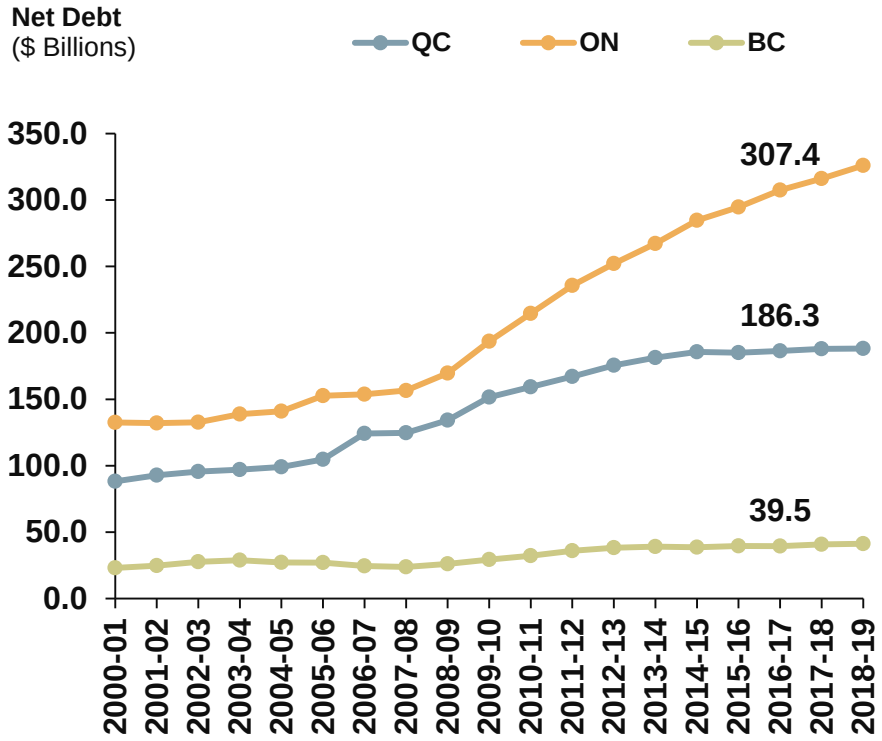


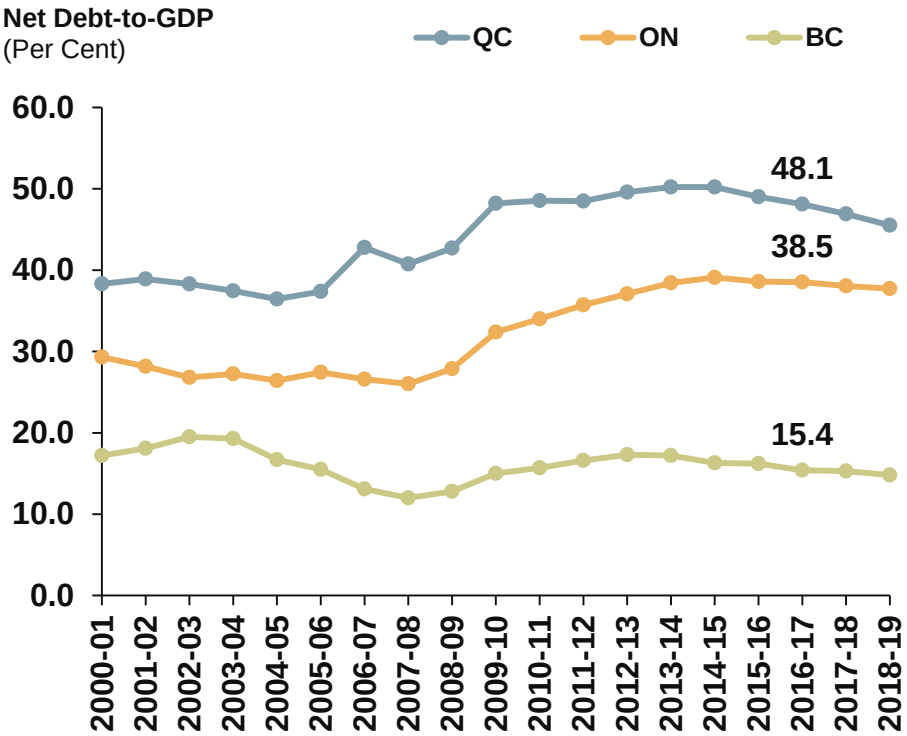
Source: RBC Economics (December 2016), Provincial Budgets, Budget updates.

Ontario

Net Debt and Net Debt-to-GDP for Ontario, Quebec and British Columbia

- Excluding the pension adjustment, Ontario's net debt would be $294.6 billion as of March 31, 2016 and is projected to be $307.4 billion in 2016–17, the highest out of all the provinces in Canada
- Excluding the pension adjustment, Ontario has the fourth highest net-debt-to-GDP ratio out of all the provinces, after New Brunswick, Newfoundland and Quebec. Ontario's net debt–to–GDP ratio would be 38.6% in 2015–16 and 38.5% in 2016–17

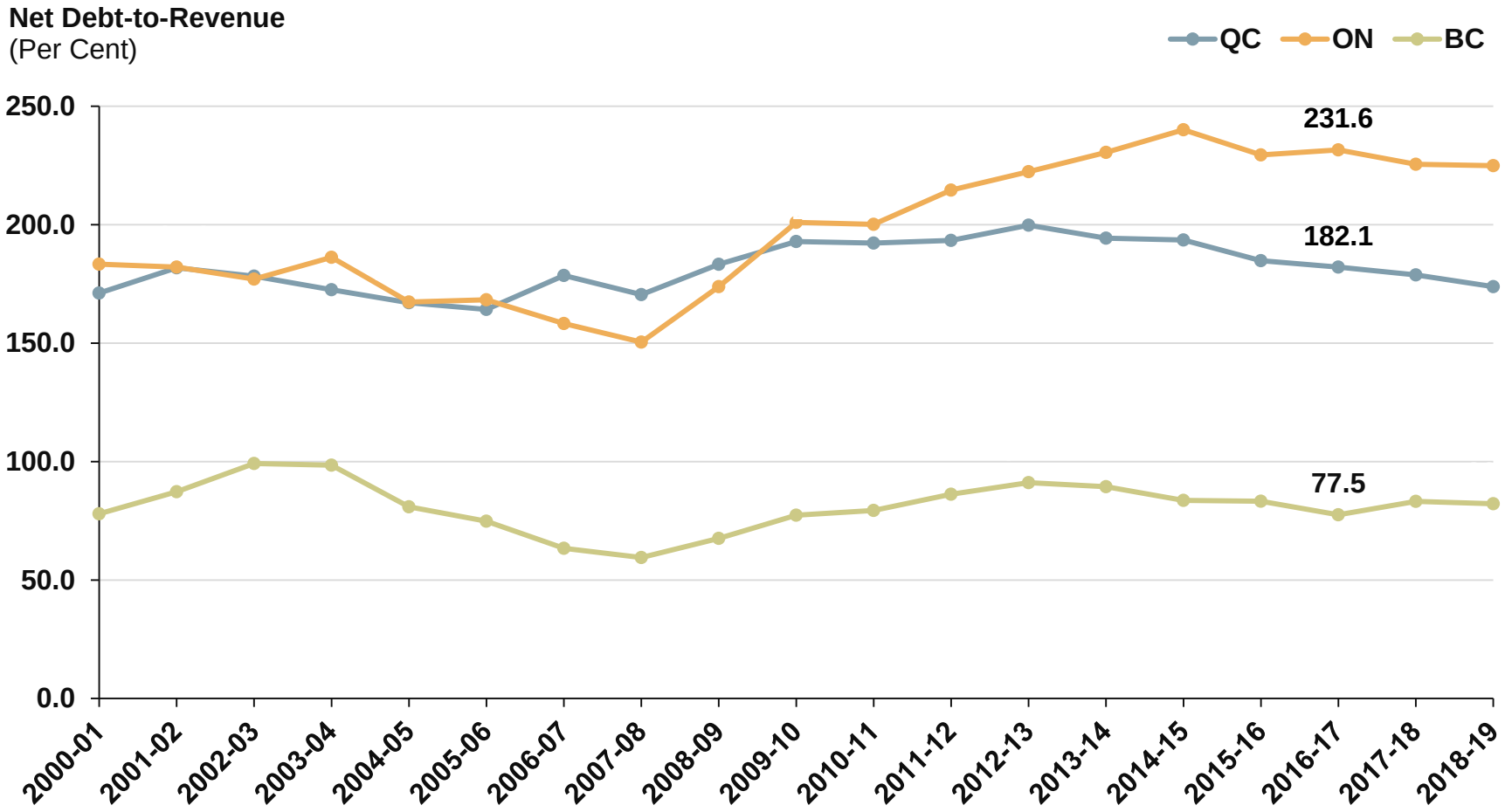




Source: RBC Economics (December 2016), Provincial Budgets, Budget updates.
Note: The Pension Adjustments incorporated in the Ontario 2015–16 Public Accounts and extended in the 2016 FES have been reversed.

Net Debt-to-Revenue for Ontario, Quebec and British Columbia

- Ontario has the highest net debt-to-revenue ratio out of all the provinces in Canada at approximately 232% for fiscal 2016–17, compared to Quebec's 182% and BC's 78%



Source: RBC Economics (December 2016), Provincial Budgets, Budget updates.
Note: The Pension Adjustments incorporated in the Ontario 2015–16 Public Accounts and extended in the 2016 FES have been reversed.

Quebec Overview

- Before deposits into a debt retirement fund, Quebec is forecasting a surplus of $2.0 billion in 2016–17, growing to a surplus of $2.8 billion by 2018–19
  - This would be the second year in a row that Quebec would be achieving a balanced budget
- As of March 31, 2016, Quebec's gross debt stands at $203.3 billion compared to Ontario's forecast of $327.4 billion

Sources: The Quebec Economic Plan, October 2016.

Quebec Debt

Quebec uses the following as its main debt indicators:

Gross Debt represents the amount of debt issued on financial markets and the net liabilities in respect of the retirement plans and future benefits of public and public sector employees, minus the balance of the Generations Fund. It does not take assets into account.

Net Debt is equal to the government's liabilities less its financial assets. It represents the debt that has funded capital investments and current expenditures.

Debt Representing Accumulated Deficits corresponds to the difference between the government's liabilities and its financial and non-financial assets as a whole.

As of March 31, 2016	($ billion)	% of GDP
Gross Debt	**203.3**	**53.8**
Less: Financial, assets, net of other liabilities	(18.3)	
Net Debt	**185.0**	**49.0**
Less: Non-financial assets	(67.1)	
Debt Representing Accumulated Deficits	**120.1**	**31.8**

Sources: The Quebec Economic Plan, October 2016.

Quebec: Keys to Success

- In 2006, the Quebec government established an *Act to reduce the debt and establish the Generations Fund.* The Generations Fund is a debt retirement fund that would solely be used to repay debt

- The Province had also set debt reduction objectives that were included in the Act. For fiscal 2025–2026:

  - Gross debt cannot exceed 45% of GDP

  - Debt representing accumulated deficits cannot exceed 17% GDP

- Quebec commenced a bulk of their infrastructure investments prior to 2009, allowing them to avoid major adjustments to the budgetary plan as well as large debt accumulation

- To help achieve a balanced budget, Quebec relied on tight spending controls and limited their consolidated expenditure growth in the past two years between 1.4% to 2.5%

- In 2016–17, Quebec will receive $10.0 billion in Equalization payments from the federal government, compared to Ontario's $2.3 billion. Quebec's net contribution to the Equalization program is the lowest out of all the provinces at -$6.5 billion, while Ontario's is the highest at $4.6 billion.

Sources: The Quebec Economic Plan, October 2016; S&P 2016.

Flexibility Arising from Balanced Budgets

- In October 2016, Quebec tabled it's 2015–16 Public Accounts posting a $2.2 billion surplus. The last time Quebec had a balanced budget was before the crisis in 2007–08.
- The $2.2 billion surplus allowed the Quebec government to make the following announcements:
  - $300 million more per year for health
  - $110 million more per year for education and higher education
  - $100 million more per year to support regional economic development
  - Additional investments of $400 million in public infrastructure
  - The complete elimination of the health contribution as of January 1, 2017—two years ahead of schedule, benefiting 4.5 million taxpayers, and representing an annual reduction of the tax burden of almost $760 million.

Additional investments
(millions of dollars)

	2016-2017	2017-2018	Cumulative [1]
Strengthening the funding of public services			
– Health and social services	100	300	1 000
– Education and higher education	35	110	365
– Regional economic development	100	100	400
Increase in the Québec Infrastructure Plan	-	400	400
Subtotal: new services	***235***	***910***	***2 165***
Complete elimination of the health contribution as of January 1, 2017	53	179	253
TOTAL	**288**	**1 089**	**2 418**

(1) From 2016-2017 to 2019-2020.

- Additionally, Quebec's debt decreased by $610 million due to the return to balance and deposits made into the Generations Fund.

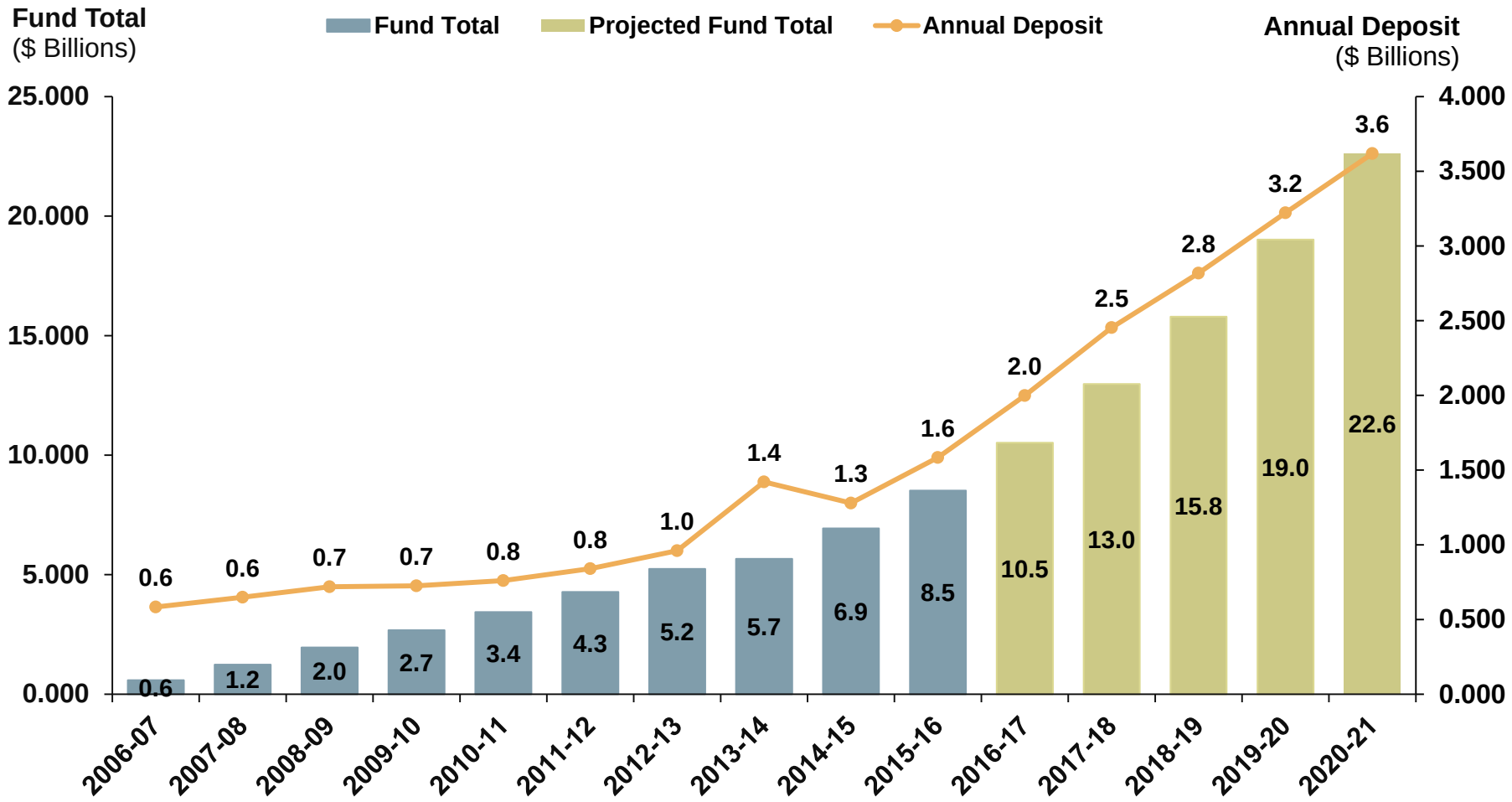
Quebec: Generations Fund

- Quebec implemented the Generations Fund in 2006 and makes annual deposits into the fund to reduce gross debt
- The fund is managed by Caisse de depot et placement du Quebec and achieved a return of 8.13 per cent in 2015
- Sources of funding include dedicated revenues from water-power royalties obtained from Hydro-Quebec and other private hydro-electricity producers, revenue generated by the indexation of the price of heritage electricity, specific taxes on alcoholic beverages, all mining revenues, and investment income
- As of March 31, 2016, the projected fund total is approximately $8.5 billion

Sources: The Quebec Economic Plan, October 2016.

Quebec: Generations Fund

- The fund is estimated to save Quebec approximately $23.6 billion in gross debt from 2006 to 2021

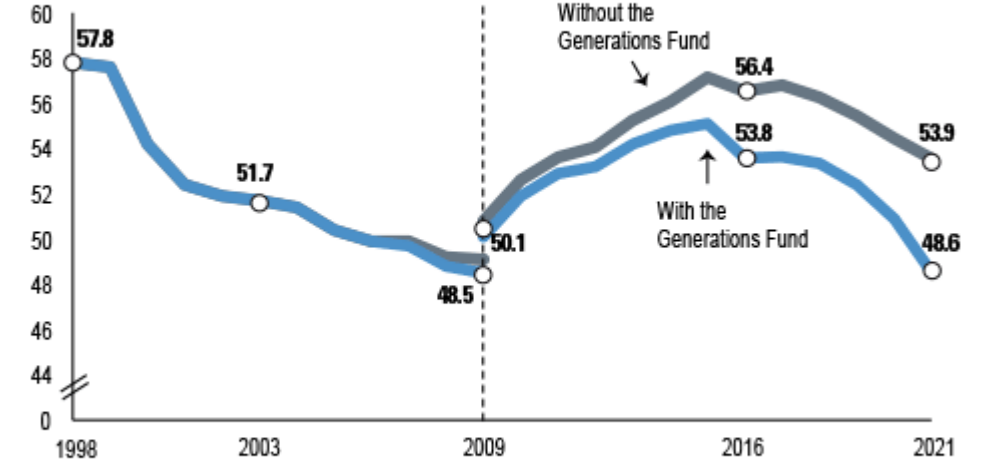


Sources: The Quebec Economic Plan, October 2016.

Quebec: Impact of Generations Fund

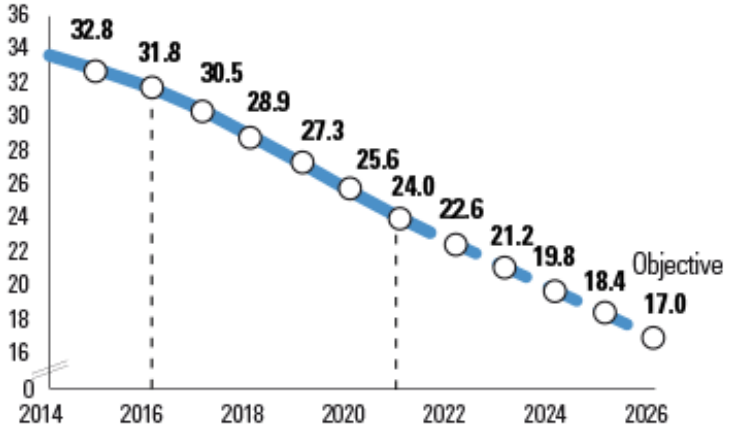
- As at March 31, 2021, the gross debt burden should stand at 48.6%. Without deposits made in the Generations Fund, the gross-debt-to-GDP forecast would be 5.3% higher, at 53.9% of GDP
- As a proportion of GDP, the debt representing accumulated deficits began to decrease in 2013–2014 and is projected to continue falling over the coming years to reach its long term debt objective of 17% by 2025–26

Gross debt as at March 31(1)
(as a percentage of GDP)



(1) The gross debt takes into account the debt that the health and social services and education networks have issued in their own name. The data as of 2009 are not comparable with those for prior years, which do not include this debt.

Debt representing accumulated deficits
(as at March 31, as a percentage of GDP)



Source: The Quebec Economic Plan, October 2016

British Columbia Overview

- British Columbia is forecasting a balanced budget for fiscal 2016–17 with a projected surplus of $2.2 billion
  - This would be the fourth year in a row that the province would be operating on a surplus
- Since B.C. has started balancing the budget, they have reduced their direct operating debt (money borrowed in the past to fund programs and services) by over $2.2 billion
  - B.C. expects to eliminate direct operating debt by 2020
  - The province now borrows only to build capital projects
- As of March 31, 2016, British Columbia's total debt was $65.7 billion versus Ontario's $327.4 billion

Sources: Province of British Columbia, Budget Plan 2016; Budget Speech 2016.

British Columbia Debt

For debt management purposes, B.C. classifies its debt into two main categories:

Taxpayer-supported debt is debt owed by or borrowed on behalf of core government and its organizations, such as school districts and health authorities, which are dependent on government funding for some or all of their revenues.

- **Direct Operating Debt** is a portion of taxpayer-supported debt, borrowed to finance the past day to day operations of core government. Direct operating debt in any year is mainly equivalent to the accumulated past operating results of core government.

Self-supported debt is debt owed by or borrowed on behalf of government enterprises, such as B.C. Hydro, whose revenues come from their commercial operations.

As of March 31, 2016	($ billion)	% of GDP
Direct Operating debt	8.0	3.3
Total Taxpayer-supported debt	**42.7**	**17.4**
Self-supported debt	**22.6**	**9.2**
Total Debt	**65.3**	**26.7**

Sources: Province of British Columbia, Public Accounts 2015–2016.

British Columbia: Keys to Success

- In the 2016 Budget, British Columbia proposed to establish the *BC Prosperity Fund* to help eliminate the Province's debt over time and make investments in government priorities
  - British Columbia will be allocating $400 million to the fund in 2016–17
  - A minimum of 50% of each year's allocation to the fund will be dedicated to debt retirement
- The province increased its own-source revenues through taxes and fee increases by:
  - Implementing a carbon tax in 2008
  - Introducing a 15% property transfer tax on foreign real estate buyers

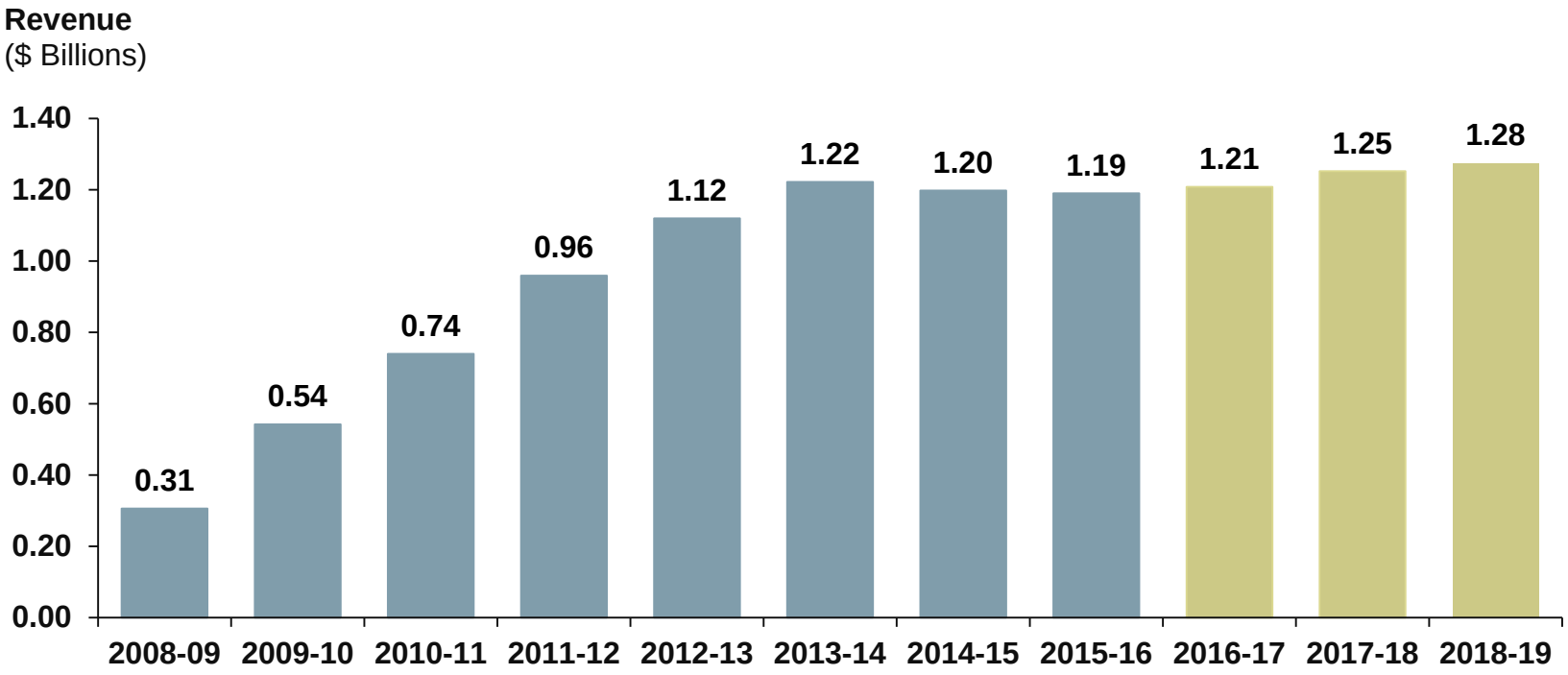
Sources: Province of British Columbia, Quarterly Reports 2016.

Flexibility Arising from Balanced Budgets

- British Columbia started posting surpluses in 2013–14
- When the province tabled its 2016 Budget it called for a surplus of $264 million in 2016–17, however, stronger than expected revenues has pushed that number to $2.24 billion
- Previously, British Columbia had posted surpluses of :
  - $327 million in 2013–14
  - $1.7 billion in 2014–15
  - $730 million in 2015–16
- In the Fall of 2016, the government announced that they were cancelling the 4% increase to Medical Service Plan (MSP) premiums as previously announced.
- Also, the government announced that those that are eligible for Regular Premium Assistance would see a 4% reduction of their premium, beyond what was originally announced in Budget 2016.
- Finance Minister Micheal De Jong said that these changes could be made because the government is in a better fiscal situation than what was said in Budget 2016.
- The 2016 Budget had announced investments of $1.6 billion in new and increased spending over three years on core services in addition to annual 3% increases in the health ministry budget, almost $500 million of which was funded by lower interest costs due to the retirement of operating debt.

British Columbia: Carbon Tax

- British Columbia enacted a revenue-neutral carbon tax in 2008 on the purchase or use of fuels, revenue obtained from the tax is returned to British Columbians through reductions in other taxes
- Tax rates commenced at $10 per tonne of CO2 emissions in 2008, increasing by $5 per tonne annually until 2012 at $30 per tonne



Sources: Province of British Columbia, Second Quarterly Report, November 2016.

Ontario: Rating Agency Update

Confirmed Ontario's A+ rating and maintained its Stable Outlook (June 2016)

- The stable outlook reflects expectations that the province's liquidity will continue to be average in the next two years, real GDP growth will be above 2% and operating revenue growth will lead to operating surpluses beginning in fiscal 2017.
- According to S&P, the debt burden should continue to decline, reaching below 240% of projected consolidated operating revenues by fiscal 2019.

Confirmed Ontario's AA (low) rating with a Stable Outlook (May 2016)

- The trend remains Stable, supported by the Province's continued progress towards restoring fiscal balance and a large, well-diversified economy with an improving, growth outlook.

Upgraded Ontario's rating to Aa2 with a Stable Outlook (April 2016)

- The stable outlook reflects Moody's view that the province's debt burden will continue to modestly improve as the province moves towards balanced budgets and therefore reduces its annual financing requirements.

Confirmed Ontario's AA- rating with a Stable Outlook (June 2016)

- Fitch noted that the province has demonstrated the ability to exert considerable expenditure restraint while instituting revenue changes as necessary to achieve its deficit reduction objectives.
- Fitch believes the Province remains on track to achieve its target assuming continued economic growth.

Quebec: Rating Agency Update

Confirmed Quebec's A+ rating and raised Outlook from Stable to Positive (June 2016)

- Quebec's improved fiscal picture primarily stems from strong financial management.
- S&P assumes in its base case scenario that Quebec will generate operating surpluses of 6.4% of adjusted operating revenues, and modest after capital account deficits of 1.3% of total adjusted revenues, on average, from fiscal years 2015-2019. This puts Quebec ahead of its closest peer, Ontario, in terms of fiscal recovery.

Confirmed Québec's rating at A (high) and maintained its Stable Outlook (July 2016)

- All trends are Stable, supported by the continuation of sound fiscal performance, a gradually improving albeit still modest economic growth outlook, and expectations that Québec's debt burden is now on a downward trend.

Confirmed Quebec's Aa2 rating and maintained its Stable Outlook (June 2016)

- Although Québec's stock of debt has risen in recent years, the province's debt burden has remained relatively stable due to growth in the economy and in provincial revenues.
- Québec's debt burden is aided by the annual contributions to the Generations Fund.

Confirmed Quebec's rating at 'AA-'; Outlook Revised to Stable (June 2016)

- Fitch noted that a return to consistently balanced operations provides the Province with a window of opportunity to resume debt reduction.
- The Province has been very successful in recent years in curbing spending growth as part of its consolidation program.

British Columbia: Rating Agency Update

Confirmed B.C.'s AAA rating and maintained its Stable Outlook (April 2016)

- B.C's ratings reflects its outperformance in financial management, budgetary flexibility, liquidity and contingent liabilities, compared to its peers.
- S&P assumes in its base case scenario that B.C. will generate operating surpluses of less than 5% of consolidated operating revenues and average after-capital deficits to remain between 5 to 10% of total adjusted revenues from 2015–2019.
- The stable outlook reflects the expectation that B.C.'s economy will continue expanding moderately over the next two years, contributing to relatively stable budgetary performance and slowing growth in tax-supported debt.

Confirmed B.C.'s rating at AA (high) and maintained its Stable Outlook (April 2016)

- All trends are Stable, supported by the Province's track record of strong fiscal discipline, which has helped to place the debt-to-GDP ratio firmly on a downward trend.
- However, debt burden remains above pre-recession lows, which limits near-term upward pressure on ratings.

Confirmed B.C.'s Aaa rating and maintained its Stable Outlook (April 2016)

- B.C.'s rating reflects its track record in prudent fiscal planning, strong economic growth, ability to record surpluses in periods of natural resource price weakness and its flexibility in fiscal policy
- The outlook is stable reflecting the assumption of continued surpluses across the medium-term and expected slight improvement of both the debt burden and interest expense.

Confirmed B.C's rating at 'AAA' and maintained its Stable Outlook (April 2016)

- B.C.'s rating primarily reflects conservative financial management practices resulting in stable fiscal performance and a well-managed liability profile. Key rating drivers include B.C.'s growing economy, commitment to fiscal balance and manageable debt burden.
- Fitch considers British Columbia's financial planning and controls to be strong and views them as key reasons for the timely return to fiscal balance following recession-driven operating deficits.



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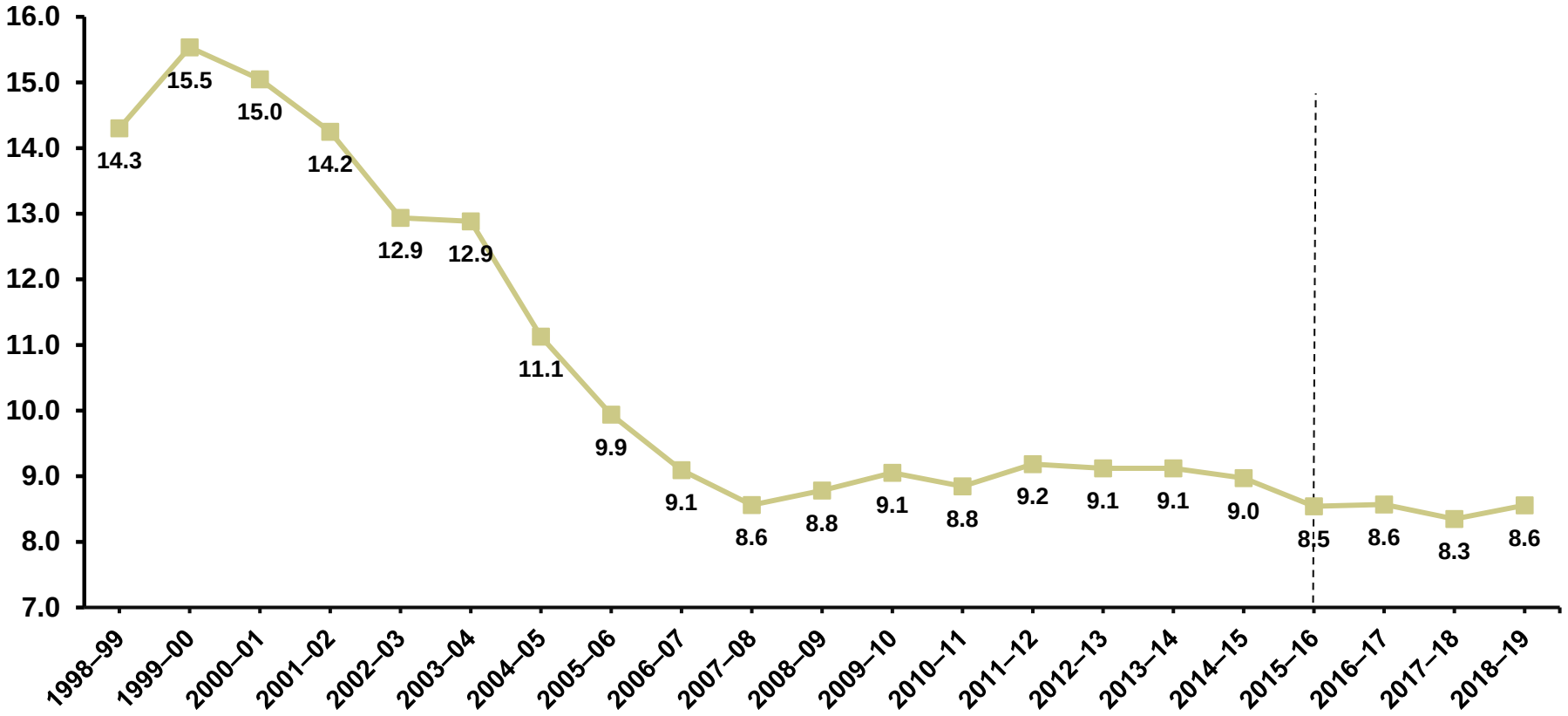
Borrowing & Debt Management Discussion

January 2017

Interest on Debt-to-Revenue

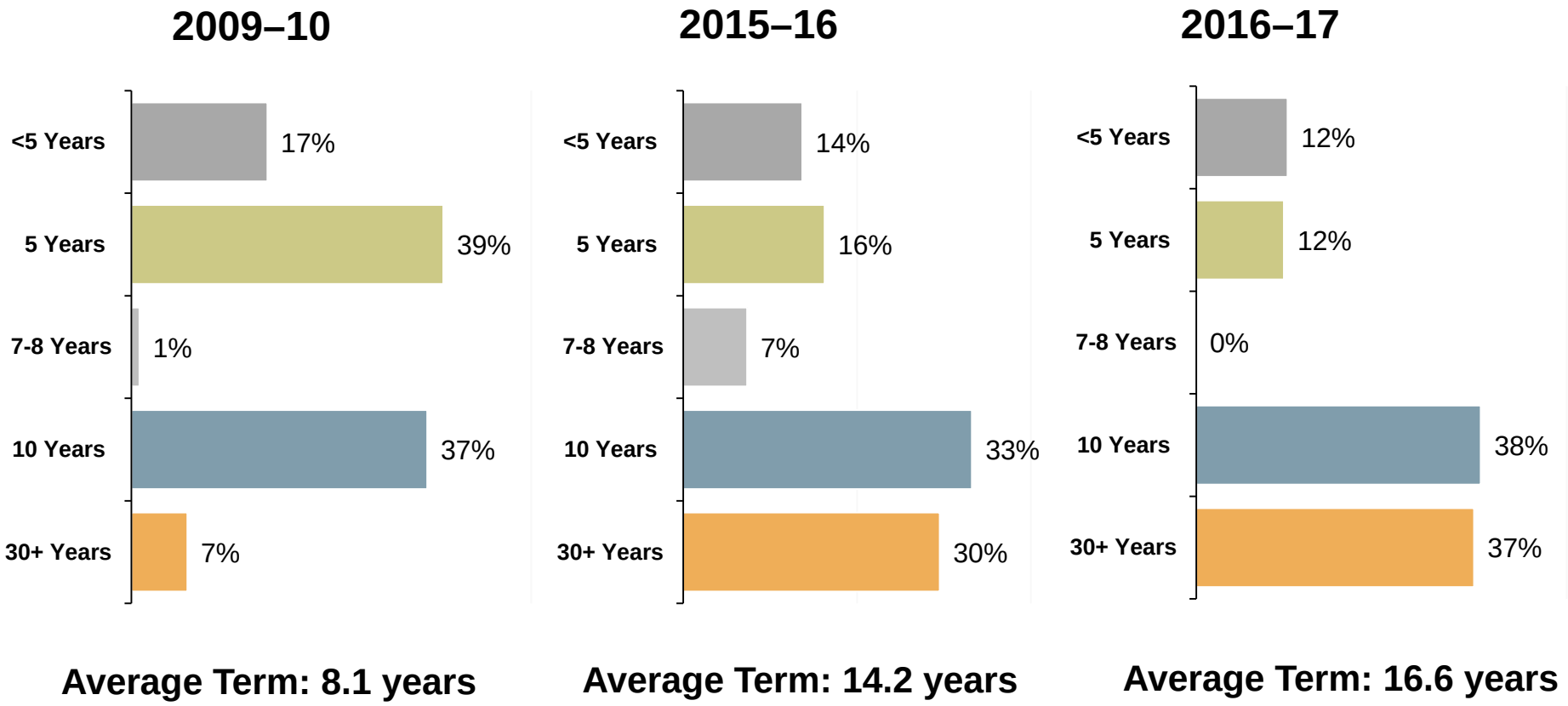
Interest on Debt-to-Revenue
(Per Cent)



Note: Chart dates represent fiscal years ending March 31st.
Source: Ontario Financing Authority.

Long-Term Borrowing Maturity Profile

- The Province has less refinancing risk and less interest rate risk than it had in 2009–10



Note: Numbers may not add due to rounding. As of January 12, 2016. Actual average term for 2016–17 is expected to be much lower, with the most recent forecast being 14.2 years.
Source: Ontario Financing Authority.

Net Debt-to-GDP: Canadian Comparisons

2001–02	
Nfld. & Labrador	61.9
Nova Scotia	45.4
Canada	44.9
Quebec	38.9
New Brunswick	31.5
PEI	30.5
Ontario	28.2
Manitoba	27.7
Saskatchewan	25.8
British Columbia	18.1
Alberta	(6.4)

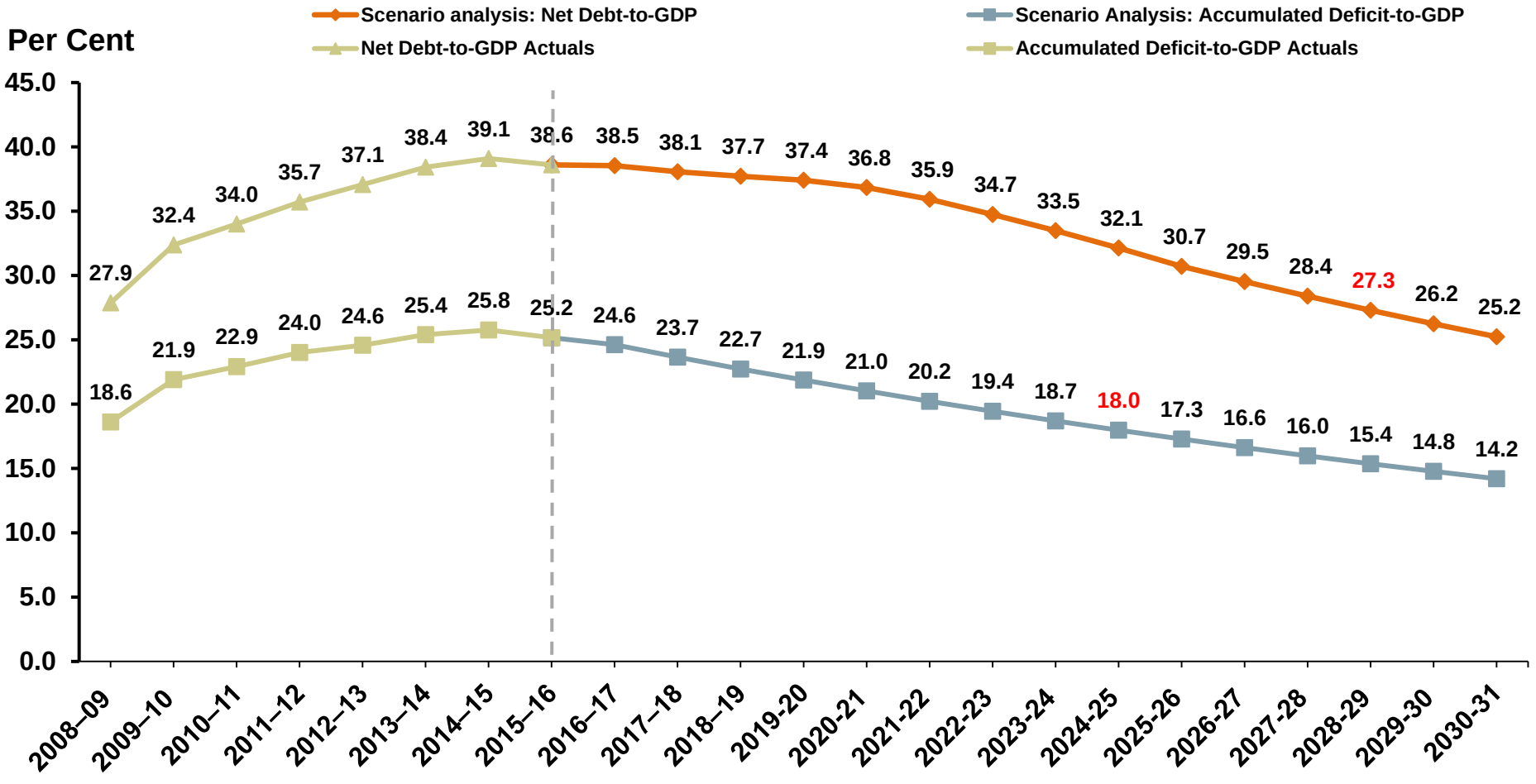
2011–12	
Quebec	48.5
Ontario	35.7
Nova Scotia	35.5
PEI	35.2
Canada	33.0
New Brunswick	32.0
Manitoba	25.7
Nfld. & Labrador	23.4
British Columbia	16.6
Saskatchewan	6.1
Alberta	(8.9)

2016–17	
Nfld. & Labrador	49.5
Quebec	48.1
New Brunswick	41.8
Ontario	38.5
Nova Scotia	37.1
PEI	34.6
Manitoba	34.2
Canada	31.8
British Columbia	15.4
Saskatchewan	11.6
Alberta	3.3

Sources: RBC Economics (December 2016), various Provincial Budgets and Updates.
Note: The Pension Adjustments incorporated in the 2015–16 Public Accounts and extended in the 2016 FES have been reversed.

Net Debt-to-GDP and Accumulated Deficit-to-GDP

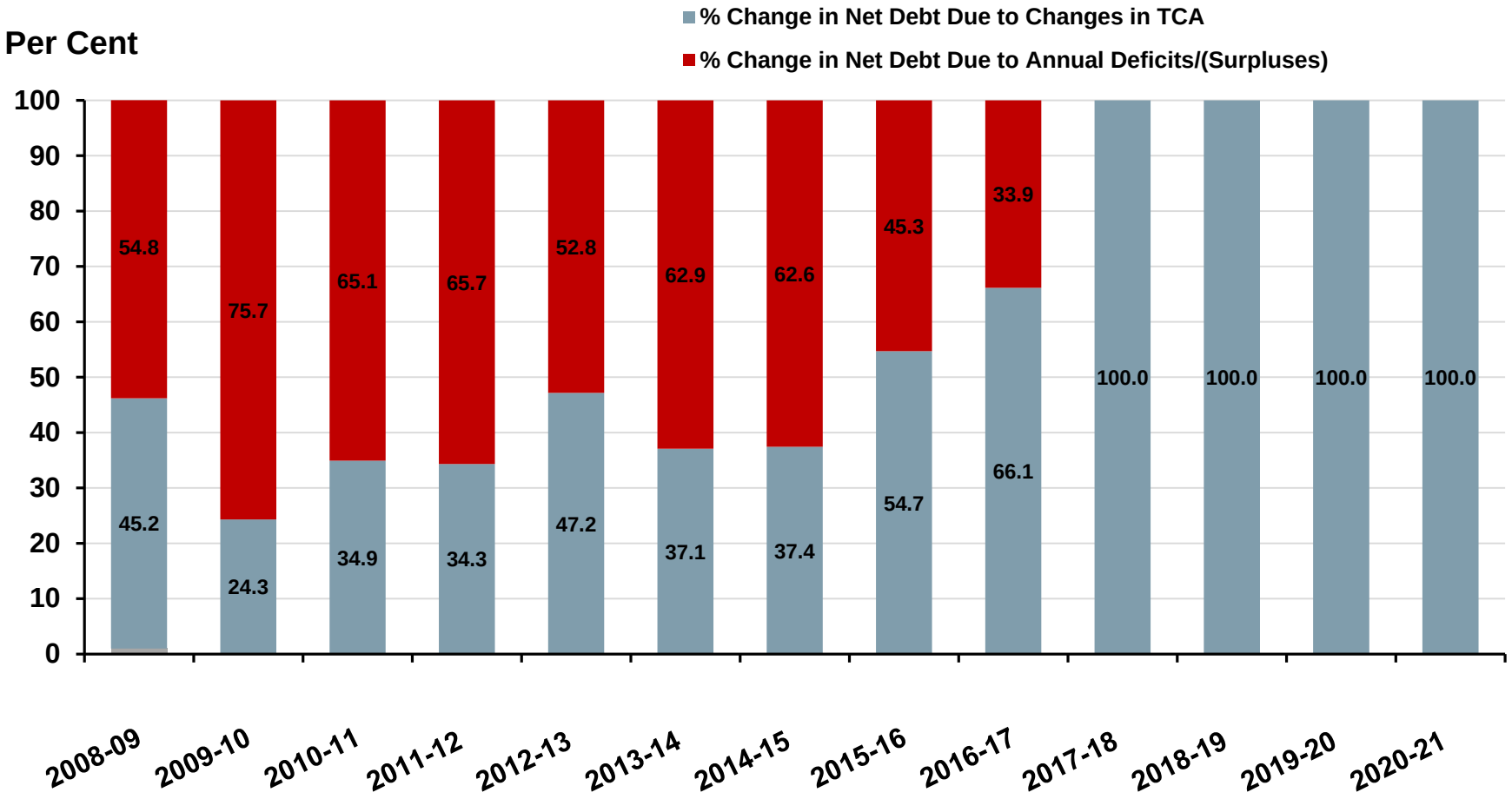
- Assuming a balanced budget from 2017–18 onwards and investments in capital as per the Province's 10 year Capital Plan, accumulated deficit-to-GDP and net debt-to-GDP would reach pre-recession levels by 2024–25 and 2028–29 respectively



Note: The Pension Adjustments incorporated in the 2015–16 Public Accounts and extended in the 2016 FES have been reversed.

Factors for Historical Growth in Net Debt

- Approximately 63% of the increase in net debt from 2008–09 to 2015–16 is due to the deficit, with investments in capital assets responsible for most of the balance

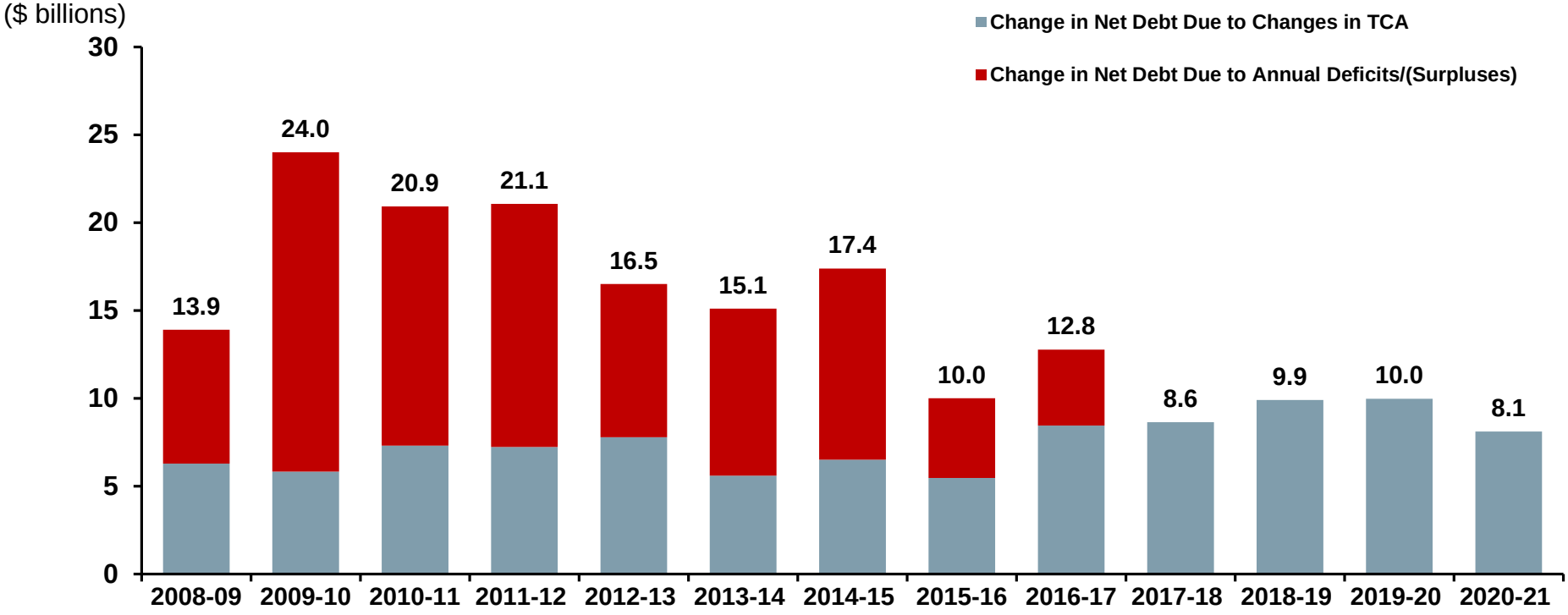


Note: The Pension Adjustments incorporated in the 2015–16 Public Accounts and extended in the 2016 FES have been reversed.

Factors for Historical Growth in Net Debt

- Approximately 63% of the increase in net debt from 2008–09 to 2015–16 is due to the deficit, with investments in capital assets responsible for most of the balance

Change in Net Debt from previous year
($ billions)



	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Net Debt ($ billions)	169.6	193.6	214.5	235.6	252.1	267.2	284.6	294.6	307.4	316.0	325.9	335.9	344.0
% Change due to Deficit	54.8	75.7	65.1	65.7	52.8	62.9	62.6	45.3	33.9	–	–	–	–
% Change due to TCA	45.2	24.3	34.9	34.3	47.2	37.1	37.4	54.7	66.1	100.0	100.0	100.0	100.0

Note: The Pension Adjustments incorporated in the 2015–16 Public Accounts and extended in the 2016 FES have been reversed.

Factors for historical % change in Net Debt-to-GDP

- Net debt-to-GDP increases when:
  - Net debt increases due to the deficit, changes to TCA, and miscellaneous factors
  - GDP decreases (a negative number in the table below illustrates an increase in GDP as it results in a decline in the net debt-to-GDP ratio)
- To illustrate the table below, between 2008–09 and 2009–10, the net debt-to-GDP ratio was 27.9% and 32.4% respectively. The 4.5 percent point increase in 2009–10 can be attributed to the deficit by 2.91%, changes in TCA by 1.03%, and a decrease in nominal GDP which has a positive effect on the ratio of 0.56%
- Once the Budget is balanced, the ratio is only affected by TCA and changes to the GDP

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Due to Annual Deficit	1.27%	2.91%	2.28%	2.19%	1.32%	1.40%	1.56%	0.62%	0.57%	–	–
Due to Changes in TCA	0.89%	1.03%	1.22%	1.15%	1.18%	0.82%	0.94%	0.75%	1.11%	1.08%	1.19%
Due to Decreases/ (Increases) in GDP	-0.31%	0.56%	-1.88%	-1.63%	-1.14%	-0.86%	-1.83%	-1.87%	-1.73%	-1.55%	-1.54%
Year over year % change in Net Debt-to-GDP	**1.84%**	**4.51%**	**1.62%**	**1.71%**	**1.36%**	**1.36%**	**0.67%**	**-0.50%**	**-0.06%**	**-0.47%**	**-0.35%**

Note: The Pension Adjustments incorporated in the 2015–16 Public Accounts and extended in the 2016 FES have been reversed.

Net Debt-to-GDP sensitivity analysis

- For 2016–17 the net debt-to-GDP ratio is 38.53%.
  - An increase of $769 million to net debt or a decrease of $1,990 million in nominal GDP would increase the net debt-to-GDP ratio to 38.63%.
  - A decrease of $826 million to net debt or an increase of $2,151 million in nominal GDP would decrease the net debt-to-GDP ratio to 38.43%.
- Since the 2016–17 net debt-to-GDP ratio was 38.53%, smaller changes to net debt or nominal GDP resulted in changing the net debt-to-GDP ratio to 38.63% versus the larger changes required to lower the ratio to 38.43%.



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From:	Bonnie Lemcke
To:	Ken Kandeepan
Subject:	FW: Draft Research Note on Expert Panel Opinion (Pension Accounting)
Date:	Tuesday, February 14, 2017 11:43:51 AM
Attachments:	Expert advisory panel agrees with Ontario in pension accounting issue (February 14, 2017).docx

Do you have any edits. I sent Maria the article by Martin Regg Cohn on the auditor's response. I'm not sure she should mention that the AG is expected to comment.

BTW- I only received edits from you and Nadine yesterday. John and George checked the numbers.

Bonnie

From: Bonnie Lemcke
Sent: Tuesday, February 14, 2017 10:54 AM
To: 'cindy.veinot@ontario.ca' <cindy.veinot@ontario.ca>
Cc: Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; 'sarah.hosick@ontario.ca' <sarah.hosick@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Subject: FW: Draft Research Note on Expert Panel Opinion (Pension Accounting)

Hi Cindy,

Here is another article on the pension issue that we have been asked to review. They would like to send this out as soon as possible.

Bonnie

From: Berlettano, Maria (Macro Strategy) [mailto:Maria.Berlettano@cibc.com]
Sent: Tuesday, February 14, 2017 10:31 AM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Cc: Bognar, Tom <Tom.Bognar@cibc.com>
Subject: Draft Research Note on Expert Panel Opinion (Pension Accounting)

Hello Bonnie,

Here is the draft research note. Your review for factual accuracy would be much appreciated.

Thank you,

Maria

Maria Berlettano, CFA | Head of Canadian Government Credit Strategy, Macro Strategy Research | CIBC Capital Markets | CIBC World Markets Inc. | Brookfield Place, 161 Bay Street, 5th Floor, Toronto, Ontario M5J 2S8 |

Office: 416 594-8041 | Cell: 647 467-9736 | Fax: 416 956-6719 | maria.berlettano@cibc.com



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Expert advisory panel agrees with Ontario in pension accounting issue (February 14, 2017)

Credit Implications: Potentially positive

Credit Ratings: DBRS AA(Low), Moody's Aa2, S&P A+, Fitch AA-, All outlooks stable

Yesterday, an expert accounting advisory panel engaged by the Province of Ontario to review the province's accounting practices for pension assets released its report. The report sided with the province in concluding that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP) should be recognized as an asset in Ontario's financial statements. The panel concluded that it should be reported for the following reasons:

- Recognizing the asset will provide a faithful representation of the province's financial position
- The accounting surplus in the plan has a future economic benefit
- The government controls access to that accounting surplus
- The accounting surplus exists as the result of past transactions and events
- It would be misleading not to recognize the province's share of the assets in Public Accounts.

For the full report Click Here

The implications of this conclusion is that the province will have more financial flexibility to achieve its financial targets if it chooses to return to the pension accounting treatment it had used in the past. Adopting the Auditor General's treatment has resulted in an upward adjustment to the accumulated deficit as well as higher pension expense in fiscal 2015-16 and in future years. More information about these adjustments is provided below in the "Background" section.

The Auditor General is reviewing the report and is expected to comment in the near future. For the Province of Ontario's fiscal 2015-16 results, the Auditor General issued a qualified opinion because, although the statements adopted the Auditor General's pension accounting treatment for fiscal 2015-16, it did not retroactively restate the comparative 2014-15 public accounts and, therefore, by not correcting the error in accounting treatment, it constituted a departure from Public Sector Accounting Standards (PSAS).

At the same time, the preparer of the financial statements (Treasury Board Secretariat) who felt that they were and have always been in compliance with PSAS, signed off on fiscal 2015-16 results, but only following the adoption by the Province of Ontario of the Auditor General's accounting interpretation for the treatment of net pension assets for 2015–16 through a time-limited regulatory amendment (the "Pension Adjustment").

Background

In our Ontario Talking Points (January 27, 2017) research note we provided the following background information on this issue.

Could you clarify Ontario's course of action given the Auditor General of Ontario's qualified opinion on Pension Accounting?

- Although the pension expense is a non-cash charge, it is still very important to achieving the balanced budget target in Fiscal 2017-18, since Ontario's results are reported based on accrual accounting and not cash.

- The Province has engaged an expert panel of accountants to assess the issue.
- The issue being assessed is whether the Province can record an asset for the jointly sponsored plans under the accounting standards. The Province believes that an asset should be reported.
- The panel will focus on the accounting question, but will also provide advice on how to measure an asset, assuming it concludes that it should be reported. The calculation is sensitive to management's assumptions, including the discount rate which reflects management's best estimate of long-term returns on the assets which is currently at 6.25% and consistent with rates used by most other senior Canadian governments.
- Background – Ontario Public Accounts 2015-16: In Ontario's fall fiscal and economic update, the government adopted the Auditor General's accounting interpretation for the treatment of net pension assets for 2015–16 through a time-limited regulatory amendment (the "Pension Adjustment"). The impact of the change resulted in an additional $10.7bln being added to the net debt and accumulated deficit and an increase of $1.5bln to the annual deficit for 2015–16. Consistent with the accounting treatment adopted in the Public Accounts of Ontario 2015–2016, the medium-term fiscal outlook provided reflects a cautious approach to forecasting the projected annual Pension Adjustment. This cautious approach results in an estimated potential impact of $2.2bln in 2016–17, $2.8bln in 2017–18, and $3.7bln in 2018–19 to the annual Pension Adjustment.

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From:	Bonnie Lemcke
To:	"cindy.veinot@ontario.ca"
Cc:	Nadine Petsche (MOF); "sarah.hosick@ontario.ca"; Ken Kandeepan; John Psinas; Lynsey Wynberg; Gadi Mayman
Subject:	FW: Draft Research Note on Expert Panel Opinion (Pension Accounting)
Date:	Tuesday, February 14, 2017 10:53:53 AM
Attachments:	Expert advisory panel agrees with Ontario in pension accounting issue (February 14, 2017).docx

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Sent: Tuesday, February 14, 2017 10:31 AM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
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Yesterday, an expert accounting advisory panel engaged by the Province of Ontario to review the province's accounting practices for pension assets released its report. The report sided with the province in concluding that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP) should be recognized as an asset in Ontario's financial statements. The panel concluded that it should be reported for the following reasons:

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To:	Ken Kandeepan
Subject:	FW: Draft Research Note on Expert Panel Opinion (Pension Accounting)
Date:	Tuesday, February 14, 2017 11:43:51 AM
Attachments:	Expert advisory panel agrees with Ontario in pension accounting issue (February 14, 2017).docx

Do you have any edits. I sent Maria the article by Martin Regg Cohn on the auditor's response. I'm not sure she should mention that the AG is expected to comment.

BTW- I only received edits from you and Nadine yesterday. John and George checked the numbers.

Bonnie

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Cc: Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; 'sarah.hosick@ontario.ca' <sarah.hosick@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>
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Credit Implications: Potentially positive

Credit Ratings: DBRS AA(Low), Moody's Aa2, S&P A+, Fitch AA-, All outlooks stable

Yesterday, an expert accounting advisory panel engaged by the Province of Ontario to review the province's accounting practices for pension assets released its report. The report sided with the province in concluding that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP) should be recognized as an asset in Ontario's financial statements. The panel concluded that it should be reported for the following reasons:

- Recognizing the asset will provide a faithful representation of the province's financial position
- The accounting surplus in the plan has a future economic benefit
- The government controls access to that accounting surplus
- The accounting surplus exists as the result of past transactions and events
- It would be misleading not to recognize the province's share of the assets in Public Accounts.

For the full report Click Here

The implications of this conclusion is that the province will have more financial flexibility to achieve its financial targets if it chooses to return to the pension accounting treatment it had used in the past. Adopting the Auditor General's treatment has resulted in an upward adjustment to the accumulated deficit as well as higher pension expense in fiscal 2015-16 and in future years. More information about these adjustments is provided below in the "Background" section.

The Auditor General is reviewing the report and is expected to comment in the near future. For the Province of Ontario's fiscal 2015-16 results, the Auditor General issued a qualified opinion because, although the statements adopted the Auditor General's pension accounting treatment for fiscal 2015-16, it did not retroactively restate the comparative 2014-15 public accounts and, therefore, by not correcting the error in accounting treatment, it constituted a departure from Public Sector Accounting Standards (PSAS).

At the same time, the preparer of the financial statements (Treasury Board Secretariat) who felt that they were and have always been in compliance with PSAS, signed off on fiscal 2015-16 results, but only following the adoption by the Province of Ontario of the Auditor General's accounting interpretation for the treatment of net pension assets for 2015–16 through a time-limited regulatory amendment (the "Pension Adjustment").

Background

In our Ontario Talking Points (January 27, 2017) research note we provided the following background information on this issue.

Could you clarify Ontario's course of action given the Auditor General of Ontario's qualified opinion on Pension Accounting?

- Although the pension expense is a non-cash charge, it is still very important to achieving the balanced budget target in Fiscal 2017-18, since Ontario's results are reported based on accrual accounting and not cash.

- The Province has engaged an expert panel of accountants to assess the issue.
- The issue being assessed is whether the Province can record an asset for the jointly sponsored plans under the accounting standards. The Province believes that an asset should be reported.
- The panel will focus on the accounting question, but will also provide advice on how to measure an asset, assuming it concludes that it should be reported. The calculation is sensitive to management's assumptions, including the discount rate which reflects management's best estimate of long-term returns on the assets which is currently at 6.25% and consistent with rates used by most other senior Canadian governments.
- Background – Ontario Public Accounts 2015-16: In Ontario's fall fiscal and economic update, the government adopted the Auditor General's accounting interpretation for the treatment of net pension assets for 2015–16 through a time-limited regulatory amendment (the "Pension Adjustment"). The impact of the change resulted in an additional $10.7bln being added to the net debt and accumulated deficit and an increase of $1.5bln to the annual deficit for 2015–16. Consistent with the accounting treatment adopted in the Public Accounts of Ontario 2015–2016, the medium-term fiscal outlook provided reflects a cautious approach to forecasting the projected annual Pension Adjustment. This cautious approach results in an estimated potential impact of $2.2bln in 2016–17, $2.8bln in 2017–18, and $3.7bln in 2018–19 to the annual Pension Adjustment.

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From:	John Psinas
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Cc:	George Sakura; Ken Kandeepan; Kevin Hwang; Shemin Meralli
Subject:	FW: Estimates Defence Document Submissions
Date:	Friday, September 01, 2017 10:52:55 AM
Attachments:	2016 TOC_v2.docx Tab 2 Accomplishments_v3.docx Tab 3 Top Facts_v2.docx

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Alex,

Can you assist in crafting a response, especially to the last paragraph in this Q&A. I think these are last year's answers, so the dates will have to be roll forward:

Q: Ontario's debt has more than doubled since Premier McGuinty was first elected. When interest rates begin to rise, won't interest costs displace spending on the Government's priorities?

A: Ontario has a realistic plan to balance its budget while investments are made in the priorities of Ontario families – health care, education, the environment and infrastructure.

Investor demand has allowed the Province to extend the term of its debt in recent years and lock in low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs. Since 2010, the province has borrowed $53.5 billion in the 30-year term.

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

Bonnie, I reworded the net debt part, but can you assist with the wording in red.

Q: How will the credit rating agencies respond to the 2016 Budget?

A: Ontario currently maintains a double-A rating with three of its four credit rating agencies. Ontario continues to outperform its deficit projections and is on track to a balanced budget by 2017–18. Moreover, Ontario's net debt-to-GDP ratio is expected to continue its downward trend from its peak in 2014-15 at 39.2 per cent and is forecasted to be 37.2 per cent in 2019–20.

We met with the rating agencies following the 2016 Budget and expect to hear back from them over the next few months.

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Subject: Estimates Defence Document Submissions

Good afternoon –

Program areas are asked to please submit Top Facts (formerly called Q&As) and update Accomplishments no later than September 11th to Pauline Padmore and cc Nicole Yanqui. Attached for your reference is the table of contents from last years' Estimates Briefing Binder, Accomplishments and Top Facts.

Here is the Minister's Office recommended list of top facts & top issues **by order of importance**:

Tab 3: Top Facts
- Office of the Budget
- Ontario Financing Authority
- Office of Economic Policy
- Corporate Electricity Finance Division
- Taxation Policy Division
- Tax and Benefits Administration
- Provincial Local Division
- Cannabis Retail Implementation Project
- Government Business Enterprise Division
- ORPP Implementation Secretariat / Admin Corporation
- Income Security & Pension Policy Division
- Financial Services Policy Division

Tab 4: Top Issues
- Fiscal Plan (in relation to questions that might come up about balancing)
- Debt (Interest on Debt costs)
- Public Accounts (emphasis on AG Accounting)
- Fair Hydro Plan
- Housing Market
- Cannabis
- Cap & Trade
- Trillium Trust
- OLG Modernization
- LBCO
- ORPP – if needed

In addition to the corporate preparations, program areas should prepare their ADM/Program Head in the event we do appear before the Estimates Committee – for those questions that are of a technical or operational nature. This also includes preparations for your ADM/Program Head to explain any financial variances from the Estimates Briefing Book, should those questions arise at the proceedings. This work should currently be underway.

Please let me know if you have any questions about this process.

Thank you.



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MINISTRY OF FINANCE
2016 ESTIMATES
BRIEFING BINDER

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Tax and Benefits Administration 2
ORPP Implementation Secretariat 2
Ontario Financing Authority 3
Corporate Electricity Finance Division 3

Income Security and Pension Policy Division

Continued to provide the government with policy advice on income security matters, from childhood through to retirement, including: the indexing of the Ontario Child Benefit; policy work for key sections of the 2016 Budget (such as announcements on the Basic Income Pilot and social assistance rate increase); and worked collaboratively and intensively with the federal government and provinces to make progress on enhancing the CPP. The Divisions also provided policy and legislative advice on pension policy issues such as the successful passage of the *Pooled Registered Pension Plans Act, 2015*, initiated a review of solvency funding rules for defined benefit pension plans, proclaimed legislation and passed regulations governing the conversion or merger of single employer defined benefit pension plans to jointly sponsored pension plans, and enacted legislation (to be proclaimed into force by the LGIC) that creates a pooled asset management entity for pension plans in the broader public service.

Revenue Agencies Oversight Division

Moving forward the large scale modernization and transformation of the gaming and alcohol sectors in Ontario that will improve consumer experience and support increased revenues for important public services.

Office of Economic Policy

Supported effective, economic, fiscal and financial management consistent with the government's priorities, and supported various initiatives which continue to make Ontario an attractive environment for business investment.

Financial Services Policy Division

Supported the growth of the financial services sector by advancing a modern and flexible approach to regulation, strengthening consumer and investor protection by implementing regulatory changes to help ensure auto insurance is affordable for Ontario drivers; exploring how Ontario's regulatory framework for auto insurance can fit new insurance products for ride-sharing services; reviewing the legislative framework for Ontario's credit unions to protect consumers and their deposits; supporting an independent review of the mandates of key financial services agencies. Additionally, the Financial Services Policy Division continues to support the independent Expert Committee to Consider Financial Advisory and Financial Planning Policy Alternatives, which released its preliminary policy recommendations in April 2016; and is working with participating jurisdictions to achieve important milestones toward the establishment of the Cooperative Capital Markets Regulatory System (CCMR).

Provincial Local Finance Division

The Ministry is delivering improvements to the property tax and municipal funding system that contributes so much to communities and public services across Ontario. During 2015-16, the government implemented changes to Ontario's property assessment and property tax systems, including implementing recommendations coming out of the Assessment Review in time for the 2016 reassessment of all Ontario properties. These measures improve the transparency, accuracy and predictability of property assessments. The Ministry also worked in close consultation with municipalities to redesign the Ontario Municipal Partnership Fund (OMPF) so that it better targets funding to municipalities with the greatest needs. While the program has been phased down, the government's commitment to the provincial uploads means that overall support to municipalities will continue to increase. Together, these measures have helped ensure that municipalities are on a financially sustainable footing and in a position to invest in local priorities like roads, transit and economic development.

Office of the Budget

Provided strategic fiscal advice and coordinating key government publications including the annual Budget, the Economic Outlook and Fiscal Review and the Quarterly Finances

Taxation Policy Division

The 2016 Student Financial Assistance Budget announcement that Ontario's tuition and education tax credits would end beginning September 2017. Additional revenue from ending the credits is proposed to be redirected to the new Ontario Student Grant or other postsecondary, education, training and youth jobs programs, which fulfills a CROPS recommendation.

Tax and Benefits Administration

Established a Contraband Tobacco Enforcement Team within the OPP to focus on the organized crime linkages

ORPP Implementation Secretariat

The government passed two pieces of ORPP legislation that outlined the framework of the plan and established an arm's length entity, the ORPP Administration Corporation, including appointing the initial Board of Directors and hiring a Chief Executive Officer.

Ontario Financing Authority

Completed the 2015-16 borrowing requirement and pre-borrowed $2 billion for 2016-17 for total borrowing of $32.1 billion, while continuing to extend term to lock in low interest rates, with an average term of borrowing for the year of 14.2 years. Since 2010, borrowed more than $54 billion in terms of 30 years or longer.

Corporate Electricity Finance Division

Provided strong support to the Province's asset optimisation initiative, including the Hydro One IPO, real estate assets and the Trillium Trust to dedicate funds to infrastructure investments; and has moved forward with a legislated, fixed end date of April 1, 2018, to the Debt Retirement Charge (DRC) for commercial, industrial and all other users of electricity. The DRC for residential users ended as of January 1, 2016.

TOP FACTS

INCOME SECURITY AND PENSION POLICY DIVISON 1

Q: When and where will the Basic Income pilot be implemented? How much will the Basic Income pilot cost? Your Estimates show $5 million in 2016-17 for the pilot. 1

Q: If there is an agreement on CPP enhancement within the year, will Ontario still implement the ORPP? 1

Q: If there is agreement on a CPP enhancement that does not meet Ontario's objectives, what is Ontario's position? 1

REVENUE AGENCIES OVERSIGHT DIVISION 2

Alcohol 2

Q: Why is this so complicated? There will be universal authorizations, existing winery stores operating inside grocery, controls on who sells what, some will be matched with beer but some won't. Why not just open it up? 2

Q: Why is the Council recommending only introducing wine into 150 grocery stores? There will be beer in 450 grocery stores. 2

Q: Why will grocery stores only be able to sell wine that costs $10.95 or more? 2

Gaming 3

Q: What is the future of the HRPFP? 3

Q: Why is OLG net profit to the province (NPP) expected to decline slightly from 2015-16 to 2016-17? 3

Q: Why is net profit to the province higher in 2015-16 compared with projections in Budget 2015?. 3

Q: Is funding to hospitals being reduced by $107M in 2016-17 as a result of OLG's projected lower net profit to the province? 3

OFFICE OF ECONOMIC POLICY 4

Q: Will the 30% Off Ontario Tuition grant still be available or has it been eliminated? 4

Q: What evidence do you have that Ontario's economy is performing better than Canada's? 4

Q: Over the last 18-months there has been a significant shift in the global economic environment. Why do you remain positive about Ontario's economic prospects? 4

FINANCIAL SERVICES POLICY DIVISON 6

Q: What is the government's reaction to the preliminary policy recommendations released by the Expert Committee to Consider Financial Advisory and Financial Planning Policy Alternatives? 6

Q: Both the City of Ottawa and City of Toronto staff reports on vehicles for hire recommend minimum insurance requirements for drivers involved in ride-sharing. What are you doing to make sure that insurance is in place? 6

PROVINCIAL LOCAL FINANCE DIVISION 8

Q: What is the government doing to support municipalities? 8

Q: Will the Ontario Municipal Partnership Fund (OMPF) be further reduced beyond 2016? 9

Q: In the 2014 Budget, the Province announced that payments to municipalities under the Power Dam Special Payment Program would be reduced. What is the status of this phase-down? 9

OFFICE OF THE BUDGET 10

Q: The Ontario budget states that new federal funding has been included in the fiscal outlook based on 'prudent assumptions' about new transfers, but the federal government has not said how much Ontario will receive. What are these prudent assumptions and how much new federal money is counted in this budget? 10

Q: Will cap-and-trade impact the Province's bottom line? 11

Q: Is the Government using Asset Optimization Revenues to balance the Budget? 12

Q: Is the government restricting the ability of the FAO to access Cabinet Confidential documents? 12

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Q: Why is the government providing the ORPP AC with a loan? 20

Q: How much money is being loaned? 20

Q: In the 2016/17 estimates, it shows a loan amount of up to $240M. How is that money going to be used? 21

ORPP IMPLEMENTATION SECRETARIAT 22

Q: How much has been spent on the ORPP Implementation Secretariat (ORPPIS) to date? 22

Q: Why does the Ministry's direct spending for ORPP decrease by $12.5M in 2016-17? 22

Q: Why is the government providing the ORPP AC with a $240M loan in 2016-2017? 22

Q: In total, how much is the government loaning the ORPP AC for set-up expenses? 23

Q: In addition to the current costs and the loan to ORPP AC, how much money will it cost to implement the ORPP? Are we talking billions? 23

Q: Isn't the federal government helping to administer the ORPP? 23

Q: Who pays for the ORPP start-up costs if the CPP is enhanced and the plan is never implemented? 24

Q: How much money is being loaned? 24

Q: In the 2016/17 estimates, it shows a loan amount of up to $240M. How is that money going to be used? 25

Q: How much of the loan has been drawn down to date? What has that money been used for? 25

Q: Is this money being spent on high salaries? What is the compensation framework for the ORPP AC? 25

Q: Does the government expect to be repaid? 25

Q: What would be the cost to government if the ORPP is cancelled after it launches? 25

Q: How is the repayment schedule structured? Will it be charged interest? 26

Q: Why doesn't the ORPP AC get a traditional bank loan? 26

Q: Will there be any public reporting or accountability to how the loan is spent? 26

Q: What types of costs will the loan be used to pay? 26

Q: How much money has the ORPP AC spent on the services of consultants? 27

Q: How does the loan relate to administration costs of the ORPP? 27

Q: What is the ORPP Administration Corporation? 27

Q: What are the accountability mechanisms of the ORPP Administration Corporation? To whom does it report? 27

Q: Why is the ORPP IS still in place now that the ORPP AC has been established? 28

Q: Why did the government spend an additional $6 million than was estimated last year? Is this another example of the government overspending on consultants? 29

Q: On one hand you say you are launching the ORPP in 2017, but then indicate that the collection of contributions won't start until 2018…which is it 29

Q: Is the federal government committing to administer your plan if CPP talks fail? 30

Q: Would Ontario support a CPP enhancement that is a universal program to all employers and employees? 30

Q: If the government is going to proceed with measures such as introducing legislation on ORPP plan design, are you even serious about discussing the CPP? 31

Q: What progress has the government made on the ORPP to date? 31

Q: Why introduce legislation now? Didn't you commit to ongoing national discussions on a CPP enhancement? 31

[Legislation tracking to be introduced April 14, 2016] 32

Q: What will be included in upcoming legislation? 32

Q: What is the Ontario Retirement Pension Plan (ORPP)? 33

Q: Why is the ORPP needed? 33

Q: What are the anticipated impacts of the ORPP on Ontario's economy? 33

Q: Why is the Government advertising the Ontario Retirement Pension Plan? 34

Q: In 2015-16, how much did the ministry spend on the ORPP campaign (including advertising, marketing and market research)? 34

ONTARIO FINANCING AUTHORITY 35

Q: How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent? 35

Q: Ontario's debt has more than doubled since Premier McGuinty was first elected. When interest rates begin to rise, won't interest costs displace spending on the Government's priorities? 35

Q: How will the credit rating agencies respond to the 2016 Budget? 36

CORPORATE ELECTRICITY FINANCE DIVISION 37

Q: What's the current status of the funds in the Trillium Trust? 37

Q: Since the Hydro One IPO was completed several months ago and now the government has announced a secondary share offering, why haven't you made any regulations to dedicate the fiscal benefits of the Hydro One IPO to the Trillium Trust? When will you make these regulations and when will we see these amounts in the Trillium Trust? 37

Q: Why have no amounts been spent from the Trillium Trust yet, not even from the GM share gain amounts from 2014-15? And why are there only $1,000 in placeholder expenditure numbers for the Trillium Trust lines in Estimates? 37

Q: When will the government actually be able to start using funds from the Trillium Trust to pay for transit and infrastructure? 38

Q: How much was raised from the Hydro One IPO? 38

Q: What amount of proceeds will the Province receive from the secondary offering? 39

Q: What was the process involved in selecting the underwriters involved for the secondary offering 39

Q: Why is the interim Electricity Sector Dedicated Income (ESDI) $0 in 2015-16, and why is the forecast so low for ESDI in the 2016-17 Printed Estimates? Is this because of the Hydro One IPO reducing the Province's future revenues from Hydro One and reducing the amounts to pay for stranded debt? 40

INCOME SECURITY AND PENSION POLICY DIVISON

Q: When and where will the Basic Income pilot be implemented? How much will the Basic Income pilot cost? Your Estimates show $5 million in 2016-17 for the pilot.

A: The pilot in still in the inception stage. A start date and criteria for determining a location for the Basic Income pilot have not yet been determined. The government will be gathering expert advice on the design of the Basic Income pilot over the course of 2016. Once this work has been completed, the government will finalize the costs for the pilot.

Q: If there is an agreement on CPP enhancement within the year, will Ontario still implement the ORPP?

A: While Ontario is pleased that the federal government understands the importance of enhancing retirement security, the process to enhance the CPP is not simple and could take a very long time.

Ontario will continue to be an advocate of the need for enhanced retirement security and will work intensively with its federal, provincial and territorial counterparts to address the needs of future retirees.

To provide more time for discussion among provinces and the federal government, Ontario is phasing-in the launch of the ORPP by starting enrollment one year later than the original start date, and by starting the first phase of contributions in January, 2018.

Q: If there is agreement on a CPP enhancement that does not meet Ontario's objectives, what is Ontario's position?

A: The Province's extensive consultations in developing the ORPP have helped to inform Ontario's view that any CPP enhancement must be timely and provide a level of adequacy and targeted coverage that is consistent with the ORPP.

The government looks forward to collaboration on a CPP enhancement and other innovative approaches at the Federal-Provincial-Territorial Finance Ministers meeting in June 2016.

Ontario's main objective is to look at ways to meet the goals of the ORPP in an enhanced CPP framework, while preserving the ability to implement the ORPP, should that not be possible.

REVENUE AGENCIES OVERSIGHT DIVISION

Alcohol

Q: Why is this so complicated? There will be universal authorizations, existing winery stores operating inside grocery, controls on who sells what, some will be matched with beer but some won't. Why not just open it up?

A: The Council did not start from scratch in making its recommendations. It recognized the benefits of the existing retail channels for wine, including the LCBO and winery retail stores, and how we could build on and improve them for consumers and all producers.

There will be differences in the consumer experience. Just like beer, and just like grocery stores in general.

The bottom line is that we're getting what consumers want done — wine will be sold alongside beer in grocery stores.

Q: Why is the Council recommending only introducing wine into 150 grocery stores? There will be beer in 450 grocery stores.

A: We are expanding access responsibly. The number of new licences in the proposed new model is based on the total number of beer in grocery licences that were established under the beer framework – 450. There are currently 292 "off site" winery retail stores, so we added 150 new authorizations to bring it to about the same as beer.

The exact number of grocery stores selling wine through their own checkouts will depend on the number of WRS outlets that ultimately move inside the check-out at grocery stores. Of the 292 existing WRS outlets, the Council is recommending that up to 150 that are currently located in grocery and outside the grocery store checkout be enabled to operate inside grocery with a shared checkout.

In total, wine could be available in up to 300 grocery stores – including up to 70 locations authorized to sell by this fall.

Q: Why will grocery stores only be able to sell wine that costs $10.95 or more?

A: We believe that, where access is expanded, social responsibility standards should be strengthened. This price restriction is supported by social responsibility groups, including MADD.

This price restriction also supports the competitiveness of Ontario VQA wines in the grocery channel, and promotes the objectives of Ontario's Wine and Grape Strategy.

Gaming

Q: What is the future of the HRPFP?

A: The two year program extension will give confidence to the industry to make investments and business decisions for the coming years.

Beyond this time, the intention would be for OLG to establish a future, longer-term funding arrangement with the industry. The arrangement would be subject to government approvals, and further integrate gaming with horse racing and support industry sustainability.

Q: Why is OLG net profit to the province (NPP) expected to decline slightly from 2015-16 to 2016-17?

A: OLG continues to provide approximately $2 billion to the province, which helps to fund key public services like health care and education.

Delays in the procurement processes for private sector service providers for gaming and lottery have impacted the timelines for increased NPP from modernization.

2015-16 was an exceptional year for OLG NPP with projections of over $150M more than Budget 2015, mainly due to increased sales revenue from national lottery tickets (Lottomax, Lotto 6/49). NPP in 2016-17 is expected to decrease slightly in comparison, as lottery sales and resulting revenues return to more normal levels.

Q: Why is net profit to the province higher in 2015-16 compared with projections in Budget 2015?

A: Revenue from national lotteries (Lottomax and Lotto 6/49) is higher than was projected in Budget 2015, primarily due to a higher number of large jackpots. More large jackpots led to higher sales revenues.

Q: Is funding to hospitals being reduced by $107M in 2016-17 as a result of OLG's projected lower net profit to the province?

A: Revenue generated by OLG is paid into the province's Consolidated Revenue Fund (CRF). Allocations to the Ministry of Health and Long-Term Care (MOHLTC) are made from the CRF. OLG revenues targeted for health care only amount to 3% of MOHLTC's $52B budget.

Fluctuations in OLG's revenues do not impact health care funding levels or projections.

OFFICE OF ECONOMIC POLICY

Q: Will the 30% Off Ontario Tuition grant still be available or has it been eliminated?

A: The government will create a single major upfront grant — the Ontario Student Grant (OSG) starting in the 2017–18 school year by redirecting 100 per cent of the funding from the 30% Off Ontario Tuition grant and other grants offered by OSAP. This will make the student financial assistance system more progressive, effective and transparent for students and their families. The changes will provide students who have the greatest need for financial assistance with better access to grants upfront, when they need them.

The additional revenue from the proposed discontinuation of the tuition and education tax credits would be reinvested to support the OSG or other postsecondary, education, training and youth job programs.

Q: What evidence do you have that Ontario's economy is performing better than Canada's?

A: Ontario became one of the fastest growing provinces in 2014 and 2015, and private-sector economists expect this will continue until at least 2017.

On an annual basis, Ontario's real GDP increased by 2.7 per cent in 2014, strengthening from growth of 1.3 per cent in 2013 and outpacing the national average for the first time since 2002.

After a slow start to 2015 when the economy was affected by a number of temporary factors including unusually harsh winter weather, closure at auto plants for retooling, and a west coast port strike affecting exports, Ontario's economic growth gained pace in the second and third quarters of 2015, with real GDP advancing 0.4 per cent and 0.9 per cent, respectively. Ontario's economy outpaced the Canadian economy in all three quarters in 2015.

Q: Over the last 18-months there has been a significant shift in the global economic environment. Why do you remain positive about Ontario's economic prospects?

A: There have been significant shifts in the external economic environment over the past year and a half. Growth has slowed in emerging economies, commodity prices have fallen dramatically, and the Canadian dollar has weakened. This has shaken business confidence and left Ontario households unsure about the ultimate impact on their budgets and spending plans.

Yet, overall, Ontario is expected to benefit from the shifting global economic environment. Growth in the U.S., our largest trading partner, is expected to remain solid. As well, the more competitive Canadian dollar provides additional lift to our

exporters. Finally, Ontario is an oil-importing province which means consumers and businesses are benefitting from low oil prices. These factors provide an increasingly compelling case for increased business investment and will help support continued solid economic growth in coming years.

FINANCIAL SERVICES POLICY DIVISON

Q: What is the government's reaction to the preliminary policy recommendations released by the Expert Committee to Consider Financial Advisory and Financial Planning Policy Alternatives?

A: It would be premature for the government to comment at this time on the preliminary policy recommendations.

The independent Expert Committee to Consider Financial Advisory and Financial Planning Policy Alternatives released their preliminary policy recommendations in April 2016 as a means of facilitating further input from stakeholders and the public. The expert committee is seeking feedback through written submissions and an across-the-province public consultation process.

The Government expects the expert committee's final report in fall 2016 and will consider their recommendations at that time.

Q: Both the City of Ottawa and City of Toronto staff reports on vehicles for hire recommend minimum insurance requirements for drivers involved in ride-sharing. What are you doing to make sure that insurance is in place?

A: The sharing economy is changing the way transportation services are provided in Ontario. The government is committed to ensuring that Ontario's auto insurance system can help provide peace of mind to those offering and using these new types of transportation services.

Ontario's competitive market for auto insurance is already responding and adapting. FSCO has received filings from different companies proposing new auto insurance products tailored to the sharing economy, and in January FSCO approved one product allowing individual drivers to purchase coverage.

Other proposals are currently being reviewed by FSCO. While this work is proceeding, the reality is that there continues to be a significant insurance coverage gap.

The government is committed to protecting Ontario drivers and consumers by addressing that gap, and FSCO is aware of the importance to the government of achieving this objective as quickly as possible.

Towards that end, the government and FSCO are exploring how Ontario's flexible insurance regulatory system can quickly approve new insurance products. Using such flexible responses would allow new products to be introduced in the market while the government, working with the regulator and the insurance industry, develops the legislative and regulatory changes necessary to fully integrate the sharing economy into Ontario's auto insurance system.

Q: Some media reports have been sceptical about the public timelines for launching the Cooperative Capital Markets Regulatory System (CCMR). When is the CCMR expected to be established and operational?

A: The participating jurisdictions have agreed to target the enactment of legislation by June 30, 2016 and the Capital Markets Regulatory Authority becoming operational in the fall of 2016.

These timelines will be challenging given the need for the enactment of legislation by multiple legislatures. The participating jurisdictions are committed to moving forward with this initiative and market participants should take comfort that we will take the time necessary to ensure a successful launch of the Cooperative System. We will work to ensure a smooth transition to the new system for market participants and their businesses.

PROVINCIAL LOCAL FINANCE DIVISION

Q: What is the government doing to support municipalities?

A: Our government has a strong record of supporting and working with municipalities.

In 2016 alone, municipalities will benefit from over $3.8 billion in ongoing support through the Ontario Municipal Partnership Fund (OMPF), provincial uploads and other provincial initiatives – an increase of $2.7 billion above the support provided in 2003.

The government will continue to fulfill its commitment to upload social assistance benefit programs as well as court security and prisoner transportation costs off the property tax base. This will ensure that municipalities have more property tax dollars to invest in local priorities like roads, transit and economic development.

In partnership with communities, Ontario is making significant investments to revitalize infrastructure and grow the economy. The Province's infrastructure commitments include:

- Transit, transportation and other priority infrastructure through *Moving Ontario Forward* that is supported by $31.5 billion in dedicated funds, with about $16 billion available within the Greater Toronto and Hamilton Area (GTHA) and about $15 billion available outside the GTHA.
    - As part of *Moving Ontario Forward*, the Ontario Community Infrastructure Fund is being expanded to $300 million per year by 2018–19, which will provide ongoing support for critical local infrastructure priorities.
- Introducing a new Connecting Links program that will provide $20 million in 2016-17, up from $15 million announced in the *2015 Budget,* to help municipalities pay for construction and repair costs for municipal roads that connect two ends of a provincial highway through a community or to a border crossing. Funding for this program will increase to $30 million per year by 2018-19.

In addition to implementing the provincial uploads, the Province has worked in partnership with municipalities to introduce measures that support communities. These include:

- Sharing provincial gas tax revenues;
- Unconditional funding through the Ontario Municipal Partnership Fund;
- Long-term funding through the Ontario Community Infrastructure Fund;

- Connecting Links program;
- Developing a fair and equitable Ontario Provincial Police billing model;
- Working with municipalities to enhance the fairness, effectiveness and predictability of the Ontario's property tax and assessment system;
- Consulting with municipal partners through the Memorandum of Understanding with the Association of Municipalities of Ontario, as well as other forums;
- Undertaking an integrated review of the Municipal Act, the City of Toronto Act and the Municipal Conflict of Interest Act.

Q: Will the Ontario Municipal Partnership Fund (OMPF) be further reduced beyond 2016?

A. During our consultations, municipalities have been clear that the OMPF is an important unconditional funding program for many municipalities.

The Ontario Municipal Partnership Fund (OMPF) will continue to provide unconditional support to municipalities in 2016 and beyond. In 2016, the phase-down of the OMPF is complete, and the design of the core grants now reflects the long-term objectives of the program.

At this time, there is no plan to further reduce the OMPF.

It is also important to note that as announced in the *2015 Ontario Budget*, the OMPF has been increased by an additional $5 million in 2016, bringing the total OMPF envelope to $505 million rather than the $500 million previously planned for 2016. This additional funding is being provided through the Northern Communities Grant of the program to further recognize the challenges of northern municipalities.

Q: In the 2014 Budget, the Province announced that payments to municipalities under the Power Dam Special Payment Program would be reduced. What is the status of this phase-down?

A: The 2014 Budget announced a plan to phase down the program over three years, ensuring that more than 75% of the current funding level is maintained.

However, the phase-down reductions for 2015 and 2016 were deferred in light of consultations and analysis that were underway to consider alternative options to the phase-down, including the re-introduction of property taxation for power dams.

As announced in the 2016 Budget, following extensive review and consultations on this program, the Province has confirmed that stable funding to municipalities with respect to currently-eligible hydroelectric generating stations will remain in place for 2017 and future years.

OFFICE OF THE BUDGET

Q: The Ontario budget states that new federal funding has been included in the fiscal outlook based on 'prudent assumptions' about new transfers, but the federal government has not said how much Ontario will receive. What are these prudent assumptions and how much new federal money is counted in this budget?

A: The 2016 budget continues the government's plan to build Ontario up and deliver on its priority of growing the economy and supporting job creation. Ontario's plan includes investing in people's talents and skills, as well as making the largest investment in public infrastructure in the province's history.

Ontario and the federal government share common goals, common values and have the same priorities. The federal government has recognized that coordinated and collaborative action is needed to address the issues facing Ontarians and Canadians. And the Province is ready to work with a federal partner to build on Ontario's investments and welcomes federal support for Ontario's plans in areas that matter to Ontarians and Canadians.

The 2016 Ontario budget included some prudent assumptions about what new revenue Ontario could expect from the federal government based on what was in the federal government's election platform. Even the Financial Accountability Officer (FAO) indicated these assumptions were prudent.

For instance, the federal government has committed to $60 billion in new infrastructure funding over 10 years. The Province welcomes this new commitment to build on existing programs and provide both immediate infrastructure investments and longer-term funding to support shared infrastructure priorities, and is working with the federal government to secure its per capita share.

More information will become available in the coming months as the federal government rolls out the details of its various plans around infrastructure, climate change and skills training.

While in some cases, federal measures have already been included in Ontario's fiscal plan, the full extent of the impact of these measures must be analyzed when more details of federal proposals are released.

This is particularly true of infrastructure, where both levels of government are making significant fiscal commitments.

Q: Will cap-and-trade impact the Province's bottom line?

A: The government is committed to dedicating all proceeds from the auctioning of allowances under the cap and trade program to fund GHG-emissions reduction initiatives – which would help Ontario meet its 2020 and 2030 emissions reduction targets.

The fiscal plan included in the 2016 Budget reflects this commitment.

The medium-term revenue outlook includes projected cap-and-trade proceeds from the auctioning of carbon allowanced beginning in 2017. The current estimate for proceeds is:

$478 million in 2016-17; and

Between $1.8 billion and $1.9 billion annually starting in 2017-18.

The government has already taken an important step towards investing cap-and-trade proceeds with the investment of $325 million in 2015-16 through a new Green Investment Fund.

For spending of cap and trade proceeds in 2016-17 and beyond, the government is still working out the details which is subject to the enabling legislative framework that's currently under review by the Legislature – any changes to the legislation could impact the potential areas of investment that are eligible for funding from cap and trade proceeds.

Moving forward, Ontario's approach to the investment of cap-and-trade proceeds will be both balanced and strategic, focusing on initiatives where the opportunity for emissions reduction and sustainable economic growth is greatest.

The fiscal plan reflects the most recent information available at the time of the Budget, including the impact of new initiatives announced as part of the Budget. The government recognizes that different factors could affect the Province's outlook for revenue and expense. That is why the fiscal plan incorporates prudence – to protect the fiscal outlook against these potential adverse changes.

The fiscal plan incorporates a reserve, set at $1.0 billion in 2016-17, $1.1 billion in 2017-18 and $1.2 billion in 2018-19.

It also includes contingency funds to help mitigate expense risks that may otherwise adversely affect Ontario's fiscal performance.

Q: Is the Government using Asset Optimization Revenues to balance the Budget?

A: The government's plan to eliminate the deficit does not depend on the revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario.

In fact, the government is taking deliberate and responsible steps to achieve its goal of balancing the budget in 2017-18. Ontario's plan to eliminate the deficit is centred on transforming government and managing costs, and ensuring revenue integrity and addressing the underground economy.

Under the *Trillium Trust Act*, *2014,* all net revenue gains from the sale of designated assets are to be credited to the Trillium Trust to help fund further investments in public transit, transportation and other priority infrastructure as part of the Moving Ontario Forward initiatives.

The asset optimization target will help support the largest infrastructure investment in the province's history.

Q: Is the government restricting the ability of the FAO to access Cabinet Confidential documents?

A: No, the government is acting in accordance with the governing legislation that was approved by all three parties.

As per Section 12(2) of the *Financial Accountability Officer Act* (FAOA), a ministry or public entity is prohibited from disclosing to the Financial Accountability Officer (FAO) a record "described in subsection 12(1) of *the Freedom of Information and Protection of Privacy Act*" (FIPPA). Section 12(1) of FIPPA prohibits the release of any record that would reveal the substance of deliberations of the Executive Council or its committees.

In the end, the primary purpose of subsection 12(1) of FIPPA is to protect the deliberations or future deliberations of Cabinet. As a result, the section prohibits the disclosure of both existing records as well as any newly created records that would reveal those deliberations.

Q: What is the government's plan to hold average annual growth in program expense to 1.9% going forward? Given that this is below inflation, what programs are being cut?

A: Program expense is projected to grow at an average annual rate of 1.9 per cent between 2014-15 and 2018-19. This reflects the government's commitment to invest in priority areas to enhance public services, support economic growth and a low-carbon economy, and create jobs. [Ch. 3B, Pg. 29]

A key pillar of Ontario's plan to eliminate the deficit is transforming government and responsibly managing spending. [~Ch. 2A, Pg. 3] The government is achieving this through Program Review, Renewal and Transformation (PRRT) – a new approach to fiscal planning and expenditure management this is designed around four key principles:

- Examining how every government dollar is spent;
- Using evidence to inform better choices and improve outcomes;
- Looking across government to find the best way to deliver services; and
- Taking a multi-year approach to find opportunities to transform programs and achieve savings. [~Ch. 2B, Pg. 3]

PRRT is about more than saving money – it is a continuous planning approach focused on improving outcomes for government programs and services to ensure they are effective, efficient and sustainable. [Ch. 2B, Pg. 3]

Through cross-ministry horizontal collaboration, the government is taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to invest in key priorities, such as health care and education. [Ch. 2B, Pg. 7]

The *2016 Budget* outlines progress on and expected outcomes of these major transformation and efficiency initiatives.

Q: Compared to the 2015 Budget, program spending is higher in each year. How is the government going to balance when spending is up?

A: Compared with the *2015 Budget*, program expense is projected to be $1.6 billion higher in 2016-17 and $4.2 billion higher in 2017-18. [Ch. 3B, Pg. 32]

These changes primarily reflect:

- Projected emissions reduction initiatives offset by cap-and-trade revenue;
- Small changes to Moving Ontario Forward projects;
- Adjustments for changes in demand and demographics across many programs; and
- Other investments in infrastructure. [Ch. 3B, Pg. 32]

These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth to generate revenues on the path to balance. [~Ch. 2A, Pg. 3]

The government remains dedicated to a fiscally sound approach to managing the Province's finances, and to balancing the budget by 2017-18. The government is taking deliberate and responsible steps to achieve that goal. [~Ch. 2A, Pg. 3]

The government is projecting deficits of $5.7 billion in 2015-16 and $4.3 billion in 2016-17 – improvements of $2.8 billion and $0.5 billion compared with the 2015 Budget forecasts. [~Ch. 2A, Pg. 4, 5]

With the economy expected to continue to growth, and the Province's ongoing commitment to transform government programs and services, Ontario is projecting to return to balance in 2017-18 and remain balanced in 2018-19. Achieving balance will put net debt-to-GDP on a declining track. [~Ch. 2A, Pg. 5]

Ontario's plan to eliminate the deficit includes: [2A, Pg. 3]

- Transforming government and responsibly managing spending; and
- Ensuring revenue integrity and addressing the underground economy.

Q: The government is reporting overachievement on its annual deficit target for the 7th year in a row. How is this possible? Is the government purposely setting easy targets?

A: The government is projecting a deficit of $5.7 billion in 2015-16, an improvement of $2.8 billion compared with the *2015 Budget* forecast. It is also a $4.6 billion improvement compared with the 2014-15 deficit of $10.3 billion. This represents the Province's largest year-over-year reduction in the deficit in the last five years. [Ch. 2A, Pg. 4]

The overachievement in 2015-16 is mainly due to total revenue projected to be $2.2 billion above the *2015 Budget* plan, due to higher revenue from asset optimization in 2015-16, higher taxation revenues and stronger overall performance from Government Business Enterprises (GBEs). [~Ch. 3B, Pg. 4]

It is also the result of $0.2 billion in lower interest on debt expense, from lower-than-forecast interest rates, the lower forecast deficit and cost-effective debt management. [~Ch. 3B, Pg. 4]

Ontario's program expense is projected to be $0.4 billion higher than outlined in the *2015 Budget*, but consistent with the forecast laid out in the *2015 Ontario Economic Outlook and Fiscal Review*. This is primarily due to the $325 million down payment through the Green Investment Fund. [~Ch. 3B, Pg. 4]

The *2015 Budget* included a $1.0 billion reserve for 2015-16. In the *2016 Document*, the 2015-16 interim outlook maintains a $150 million reserve to protect the fiscal plan against any potential adverse changes that may occur before year-end. [~Ch. 3B. Pg. 5]

The government's fiscal targets are based on the best available economic and fiscal information at the time. They reflect a realistic and responsible plan to manage the Province's resources, while still protecting the vital services that Ontarians rely on. [Framework]

TAXATION POLICY DIVISION

Q: How many students will be affected when the tuition and education tax credits end?

A: About 1 million students are expected to report that they attended studies in 2015 that qualified them for tuition and education tax credits. About 800,000 attended full time studies, and about 200,000 attended part-time studies.

Q: Will everyone who loses their tax credits get back the money through the new student grant?

A: Currently, tax credits go to a larger group of students than those eligible for OSAP. The grant design has not been finalised. The government will announce details of the new program later this year.

Q: Why are you cutting R&D Tax Credits (i.e. OITC and ORDTC) when you say you want to support innovation?

A: Research and Development remains a key priority for the government. That is why the government is reinvesting savings from the proposed R&D tax credit changes into new targeted investments across key sectors of Ontario's economy.

The government is investing $35 million over five years towards establishing the Advanced Manufacturing Consortium; $20 million over three years to partner with Colleges to tackle industry challenges through innovation projects; and $50 million over five years in world-leading research at the Perimeter Institute.

Through the province's Business Growth Initiative, the government will continue to examine ways to encourage R&D investment in Ontario, increase the commercialization of research and better support export activity.

TAX AND BENEFITS ADMINISTRATION

Q: Why are Bad Debt Expenses increasing from approximately $46.7Million (2014-2015 Actuals) to $90Million (2015-2016 interim actuals)?

A: In recent years, the Ministry of Finance has uncovered several large scale tax evasion schemes while conducting tobacco tax audits. As a result of these audits, there have been a number of large tobacco assessments which have proven to be problematic from a collectability standpoint. The increase of $58M above the 2015-16 Printed Estimates was primarily a result of these large tobacco tax assessments.

Q: Why is the Ministry of Finance seeking an increase of $13.2Million in its Bad Debt Expense allocation in 2016-17 (from $32Million to $45.2Million)?

A: The Ministry of Finance has uncovered several large scale tax evasion schemes while conducting tobacco tax audits. As a result of these audits, there have been a number of large tobacco assessments which have proven to be problematic from a collectability standpoint. It is anticipated that these assessments will continue in the 2016-17 year. These assessments will be uncollectible and as a result the ministry has requested a $13.2M internal ministry re-allocation to increase the Bad Debt Expense allocation in the 2016-17 estimates.

Q: How is Ontario supporting the sharing economy?

A: The government has taken action to begin supporting the development of a robust sharing economy, including announcing the creation of the Sharing Economy Advisory Committee, with representation from key ministries, to oversee the development and coordination of Ontario's approach to the sharing economy.

Further, in the 2016 Budget, the government announced a series of new measures, including:

- Working to ensure the province's auto insurance system can help provide peace of mind to those offering and using new types of transportation services through the sharing economy;
- Commencing consultation with industry and communities in spring 2016 on options to facilitate new and innovative choices for intercity passenger travel. The government will consult on a new regulatory regime to ensure safe and sustainable intercity passenger travel services;
- Piloting a program with Airbnb, a key sharing economy platform, to inform Ontarians who engage in home sharing about their consumer rights and responsibilities, and raise awareness of tax obligations; and

- Committing to consultations led by the Sharing Economy Advisory Committee, and focussed on the sharing economy, to help determine the best approach for Ontario moving forward.

Q: Why has the government introduced more red tape for estate representatives?

A: Following a 2011 Budget commitment to enhance EAT compliance, the Ministry of Finance (MOF) is collecting information needed to perform audits and verify that correct amounts of the tax have been paid. Effective January 1, 2015, estate representatives are required to submit an Estate Information Return with MOF to substantiate the total estate value provided to the courts. This new requirement does not alter the amount of tax payable or how the tax is calculated. An Estate Information Return is only required where an Estate Certificate has been applied for and issued by the courts.

Q: Has the government seen an increase in the Estate Administration Tax collected since January 1, 2015?

A: Tackling tax avoidance remains a key strategy as part of a robust and transparent administration process. The requirement to file an Estate Information Return (EIR) came into effect on January 1, 2015, for all applications made for an Estate Certificate on or after this date. Therefore, the first EIRs did not become due until the spring of 2015. In addition to verifying and auditing selected files, MOF continues to respond to written enquiries, telephone calls, and provide outreach activities to estate representatives and the legal profession to raise their awareness and understanding in meeting their obligations with respect to the Estate Administration Tax Act.

Q: What is the government doing to address Aggressive International Tax Planning?

A: All corporations should pay their fair share of taxes. That is why Ontario, in conjunction with the federal government, has taken substantive actions to help better address aggressive corporate tax avoidance. For example, under a fee-for-service agreement with the Canada Revenue Agency, Ontario invests in audit activities targeting aggressive international tax planning and the underground economy.

With Ontario's significant investment the Canada Revenue Agency was able to increase overall audit coverage rates, further reinforcing the integrity of the tax system. The government's agreement with the federal government to address non-compliance with federally administered provincial taxes through ongoing enhanced compliance-focused measures, including those that address the underground economy and aggressive tax planning has generated over $630M since 2013-14.

Q: What is Ontario doing to address the underground economy?

A: The government has made progress in fighting underground economic activities through:

Ongoing enhanced compliance-focused measures, including those that address the underground economy and aggressive tax planning, the Province has generated over $930 million to date - a $330 million increase over what was reported in the 2015 Budget;

Consultations with high-risk sectors, with a view to partnering with industry and gaining insight into how best to tackle the underground economy;

Requiring corporations to demonstrate federal and provincial tax compliance before receiving government contracts. Since February 2014, the government has verified compliance with tax obligations for more than 2,200 contracts; and

Amending the Taxation Act, 2007, to make the sale, use or distribution of electronic sales suppression devices an offence.

Taking specific actions in response to Parliamentary Assistant Laura Albanese's consultation with the residential construction industry, including:

Extending the residential roofing pilot project for an additional two years and examining opportunities to expand its scope beyond roofing to other areas of residential construction;

Launching a public awareness campaign to educate the public on the risks and potential liabilities associated with participation in the underground economy;

Dispatching specialized audit teams to focus on sectors that are at high risk of underground economy activity, in partnership with the Canada Revenue Agency;

Proposing legislation that would enhance information sharing, enable greater enforcement, and introduce additional penalties for participation in the underground economy; and

Helping home owners hire legitimate contractors when taking advantage of government-funded rebates for enhancing the energy efficiency of their homes.

ORPP ADMINISTRATION CORPORATION

Q: Why is the government providing the ORPP AC with a loan?

A: The ORPP AC is the independent, arms-length organization that will set-up and administer the ORPP.

The government is providing the ORPP AC with a repayable loan for essential work required to develop administrative systems, recruit a skilled team and launch the employer verification and enrolment process in 2017 and begin collection of contributions on January 1, 2018.

Ongoing costs to administer the ORPP would come from the plan, not from government revenues.

The ORPP AC is expected to repay the loan, with interest, from plan assets within a 10-year period.

Q: How much money is being loaned?

A: The government is providing flexibility for the ORPP AC to draw down based on operational requirements, up to $400M over three fiscal years. Costs would cover set-up expenses, including organizational start-up, development of tools/systems required for the verification and enrolment process, and the build/launch of administrative systems.

The government will monitor spending of the ORPP AC, while giving the Corporation the independence and flexibility it requires to administer the ORPP.

Accountability is at the core of the ORPP. Through a strong accountability and transparency framework, the independent Board of Directors and ORPP executives will be fully accountable to the plan's members. This framework has been benchmarked against the best practices of other leading independent pension plans.

Accountability measures include:

- An annual report tabled in the Legislature;
- Annual meetings for members;
- A publicly available Memorandum of Understanding; and,
- External auditing and strong financial controls.

Q: In the 2016/17 estimates, it shows a loan amount of up to $240M. How is that money going to be used?

A: This year (2016) is a critical period for the ORPP AC, with the launch of the employer verification/enrolment process and the building of systems needed to begin collecting contributions on January 1, 2018.

If pressed for more information: Further questions regarding ORPP AC expenditures can be directed towards the Administration Corporation.

ORPP IMPLEMENTATION SECRETARIAT

TOP 5 QAs

Q: How much has been spent on the ORPP Implementation Secretariat (ORPPIS) to date?

A: The Ministry is currently in the process of closing its books. The final expenditures for the ORPP IS will be included in the government's Public Accounts for 2015-16. The current $20M projection addresses costs associated with staffing and other related costs for the ORPP IS.

With regards to Other Direct Operating Expenditures (ODOE), the majority of expenses incurred by ORPP IS relate to the costs of services provided by third party vendors in areas where expertise external to government were required, such as actuarial analysis, legal advice and expert technical advice for the pension administration.

Approximately $5.5 million will be recovered from the Administration Corporation for expenditures directly related to the administration of the plan.

Q: Why does the Ministry's direct spending for ORPP decrease by $12.5M in 2016-17?

A: The Ministry, through the ORPP IS, continues to lead the implementation of the ORPP. Now that the ORPP Administration Corporation has been established, operational work has transferred to the Corporation, thus decreasing funding requirements for the Secretariat.

Funding for the ORPP IS in 2016-17 will support the development of regulations for the ORPP Act, 2016, as well as legislation to create the Office of the Chief Actuary and oversight responsibilities related to the ORPP Administration Corporation.

Q: Why is the government providing the ORPP AC with a $240M loan in 2016-2017?

A: The ORPP AC is the independent, arms-length organization that will set-up and administer the ORPP.

The government is providing the ORPP AC with a repayable loan for essential work required to develop administrative systems, recruit a skilled team and launch the employer verification and enrolment process in 2017 and begin collection of contributions on January 1, 2018.

Ongoing costs to administer the ORPP would come from the plan, not from government revenues.

The ORPP AC is expected to repay the loan, with interest, from plan assets beginning in 2019. The loan will be repaid by 2027.

If pressed about the terms of the loan:

The loan to the ORPP AC has been made on commercial terms. This includes the government's cost of borrowing plus a small margin of additional interest (25 bps).

Q: In total, how much is the government loaning the ORPP AC for set-up expenses?

A: The government is providing flexibility for the ORPP AC to draw down the loan based on operational requirements, up to $400M over three fiscal years. Costs would cover set-up expenses, including organizational start-up, the development of tools/systems required for the verification and enrolment process, and the build/launch of administrative systems.

The government will monitor the ORPP AC's spending, while giving the Corporation the independence and flexibility it requires to administer the ORPP.

Future administrative costs associated with the ORPP would be funded from member contributions and investment returns.

Q: In addition to the current costs and the loan to ORPP AC, how much money will it cost to implement the ORPP? Are we talking billions?

A: From the outset the government has said that it is committed to cost-effective and efficient administration of the ORPP that leverages existing expertise in Ontario's pension and financial services sector.

The ORPP AC will benchmark its administration costs to Canada's leading pension organization.

It would be premature to estimate the cost of implementing all components of the ORPP.

Q: Isn't the federal government helping to administer the ORPP?

A: The government is continuing to have discussions with federal government departments on the possibility of cooperation in administering the plan. This is in addition to the exploring and assessing different options, including leveraging infrastructure that exists within the Government of Ontario and exploring third-party private sector delivery through a procurement that is currently underway.

Running a modern pension plan is not simple and so the government continues to explore multiple options. In fact, it may make sense to work with several partners to support effective administration of the plan.

Q: Who pays for the ORPP start-up costs if the CPP is enhanced and the plan is never implemented?

A: The government's intention is that eligible start-up costs it incurs would be recovered from the plan.

If those circumstances arise, however, it means that there is an agreement on a CPP enhancement that will address the retirement security challenges facing Ontarians. That has always been the government's objective.

By continuing with preparations for the ORPP, the government is ensuring that, if no consensus on CPP enhancement is reached, retirement security can be strengthened in Ontario through the ORPP.

Loan Agreement with the ORPP Administration Corporation

Q: How much money is being loaned?

A: The government is providing flexibility for the ORPP AC to draw down based on operational requirements, up to $400M over three fiscal years. Costs would cover set-up expenses, including organizational start-up, development of tools/systems required for the verification and enrolment process, and the build/launch of administrative systems.

The government will monitor spending of the ORPP AC, while giving the Corporation the independence and flexibility it requires to administer the ORPP.

Accountability is at the core of the ORPP. Through a strong accountability and transparency framework, the independent Board of Directors and ORPP executives will be fully accountable to the plan's members. This framework has been benchmarked against the best practices of other leading independent pension plans.

Accountability measures include:

- An annual report tabled in the Legislature;
- Annual meetings for members;
- A publicly available Memorandum of Understanding; and,
- External auditing and strong financial controls.

Q: In the 2016/17 estimates, it shows a loan amount of up to $240M. How is that money going to be used?

A: This year (2016) is a critical period for the ORPP AC, with the launch of the employer verification/enrolment process and the building of systems needed to begin collecting contributions on January 1, 2018.

Q: How much of the loan has been drawn down to date? What has that money been used for?

A: $26 million has been drawn down to date.

The money has been used to fund essential start-up requirements for the ORPP AC. This includes contracts for expert services required to administer and operationalize the ORPP (e.g. organizational start-up, legal services, technical experts) and initial recruitment of staff.

Q: Is this money being spent on high salaries? What is the compensation framework for the ORPP AC?

A: The independent initial board of directors of the ORPP AC is responsible for establishing the Corporation's compensation framework.

Salaries would be benchmarked to other leading pension plans in Ontario to ensure that the ORPP AC is able to recruit essential talent.

The compensation of the top five executives, including the CEO, will be reported on an annual basis in the ORPP AC's Annual Report. This is in line with the best practices of Ontario's leading pension plans.

If pressed for more information: The ORPP AC has hired external advisors to assist with the compensation framework.

Q: Does the government expect to be repaid?

A: Yes, the repayable loan is structured on commercial terms. This means that it includes repayment obligations, with interest, over an established period of time.

Q: What would be the cost to government if the ORPP is cancelled after it launches?

A: The government is providing flexibility for the ORPP AC to draw down the loan based on operational requirements, up to $400M over three fiscal years. Costs would cover set-up expenses, including organizational start-up, development of tools/systems required for the verification and enrolment process, and the build/launch of administrative systems. Future ORPP administration costs would be funded from member contributions and investment returns.

The government's intention is that all eligible start-up costs it incurs would be recovered from the plan. The level of contributions collected, benefits owed and investment returns at the time of cancellation will determine the net cost of the cancellation.

Q: How is the repayment schedule structured? Will it be charged interest?

A: The ORPP AC has an obligation to repay the loan, principal and interest, within ten years.

This repayment period will help ensure that payments do not negatively impact plan sustainability. It is intended that the ORPP AC repay the loan from investment returns to make sure that contributions and benefits are reserved in trust for members.

Q: Why doesn't the ORPP AC get a traditional bank loan?

A: The repayable loan is structured on commercial terms. This was the appropriate vehicle given the ORPP AC would not have assets until contributions begin in 2018.

Q: Will there be any public reporting or accountability to how the loan is spent?

A: The loan to the ORPP AC is structured on commercial terms and will be repaid with interest. Actual expenditures from the loan will be reported through public accounts.

In addition, the ORPP AC is required to develop and publicly release an annual report, which would include financial statements of the Corporation. The report will also include compensation for the top five executive positions.

Accountability is at the core of the ORPP. Through a strong accountability and transparency framework, the independent Board of Directors and ORPP executives will be fully accountable to the plan's members and to government. This framework has been benchmarked against the best practices of other leading independent pension plans.

Q: What types of costs will the loan be used to pay?

A: The repayable loan will be used to fund set-up expenses, including organizational start-up, development of tools/systems required for the verification and enrolment process (e.g. software licencing, hardware and technical writing), and the build and initial operation of administrative systems.

The loan will not be used to fund ongoing plan operations or investments.

Q: How much money has the ORPP AC spent on the services of consultants?

A: The ORPP AC has obtained expert services required to administer and operationalize the ORPP (e.g. organizational start-up, legal services, technical experts).

The government and the ORPP AC are committed to leveraging the expertise and experience of the industry and the financial sector to deliver a simple, reliable and cost-effective plan.

If pressed for more specifics: The ORPP AC procures goods and services based on a policy that was benchmarked against government and other leading pension plans.

Q: How does the loan relate to administration costs of the ORPP?

A: The ORPP will be one of the largest pension plans in the Canada. At maturity, the ORPP is expected to have over 4 million members, involve nearly 450,000 employers and collect more than $6 billion annually.

The government is committed to a simple, reliable and cost effective administration. This includes leveraging the strong, existing capabilities found in Ontario's pension and financial services sector and benchmarking ORPP administration costs against Canada's leading pension organizations.

We are continuing to have discussions with federal government departments on the possibility of cooperation in registration and administering the plan. This is in addition to the exploring and assessing different options, including leveraging infrastructure that exists within the Government of Ontario and exploring third-party private sector delivery.

Q: What is the ORPP Administration Corporation?

A: The ORPP Administration Corporation is the independent, arm's length organization that will administer the ORPP. Its responsibilities include:

- Enrolling eligible employers and employees;
- Collecting, investing and holding contributions in trust for members;
- Administering benefits; and
- Communicating with employers, members and other beneficiaries.

Q: What are the accountability mechanisms of the ORPP Administration Corporation? To whom does it report?

A: Accountability is at the core of the governance structure of the ORPP Administration Corporation. Through a strong accountability and transparency framework, the independent board of directors and ORPP executives will be fully

accountable to the plan's members. This framework mirrors the best practices of other leading independent pension plans.

Accountability measures include:

- A Memorandum of Understanding being developed between the ORPP Administration Corporation and the Minister of Finance
- An annual report;
- An annual meeting for beneficiaries;
- External auditing and strong financial controls; and
- A review of the governance framework established by legislation within 10 years.

ORPP Implementation Secretariat

Q: Why is the ORPP IS still in place now that the ORPP AC has been established?

A: The Ontario Retirement Pension Plan Implementation Secretariat leads the policy, governance and legislative functions to establish the ORPP and supports the set-up of the ORPP AC.

Specific responsibilities include:

- Finalizing the plan design for the ORPP, including conducting analysis, developing policy options, preparing the plan text, developing a funding policy, conducting actuarial analysis, and drafting legislation.
- Leading discussions between governments with respect to ORPP implementation, including registration of the plan, data sharing agreement, and exploration of options for administration cooperation.
- Establishing and supporting the ORPP AC to ensure successful launch and implementation.
- Providing strategic communications and stakeholder engagement advice and services to support ORPP development and implementation.
- Developing an oversight function related to the ORPP, including monitoring progress of deliverables and achievements.

Q: Why did the government spend an additional $6 million than was estimated last year? Is this another example of the government overspending on consultants?

A: Implementing the ORPP is one of the government's top priorities and involves very aggressive timelines. The government continues to drive forward plan implementation to ensure this priority is delivered in timely manner. Implementation activities include acquiring third party vendors to deliver expert services in the areas of actuarial analysis, legal advice and expert technical advice for the pension administration.

Timely and thoughtful procurement of these services is critical to ensure all milestones are met and registration of employers can begin in 2017. The costs associated with operational procurements will be reimbursed by the ORPP AC.

Approximately $5.5 million will be recovered from the Administration Corporation for expenditures directly related to the administration of the plan.

Federal Collaboration

Q: On one hand you say you are launching the ORPP in 2017, but then indicate that the collection of contributions won't start until 2018…which is it?

A: The ORPP implementation timeline has being modified. Employer verification will begin later in 2016 with enrollment of employers beginning in January 2017. This process will support a seamless transition to the collection of contributions starting on January 1, 2018 for large and medium size employers.

All other implementation dates remain the same. Contribution rates for employers without a registered pension plan will still be phased in as previously announced.

Many employer groups have called on the government to delay the launch of the plan to ensure a successful and smooth implementation, and allow a window to discuss a national solution. The government has modified the ORPP timelines to reflect this advice.

The government is on track to ensure that all eligible Ontario workers are enrolled in a comparable workplace plan or the ORPP by 2020.

ORPP Phase-In and Contribution Schedule (rates reflect contributions to be made by each employer and employee) Employer registration in the ORPP would begin on January 1, 2017.				
Type of Employer	Jan 1, 2018	Jan 1, 2019	Jan 1, 2020	Jan 1, 2021
Wave 1: large employers without registered workplace pension plans	**0.8%**	**1.6%**	**1.9%**	**1.9%**
Wave 2: medium employers without registered workplace pension plans	**0.8%**	**1.6%**	**1.9%**	**1.9%**
Wave 3: small employers without registered workplace pension plans	**0%**	**0.8%**	**1.6%**	**1.9%**
Wave 4: employers with registered pension plans that either do not meet the comparability test or do not cover all classes of employees	**0%**	**0%**	**1.9%**	**1.9%**

Q: Is the federal government committing to administer your plan if CPP talks fail?

A: Ontario is pleased with the cooperation and partnership it has received from the new federal government. They have agreed to facilitate ORPP plan registration and to enter into a data sharing agreement to support implementation. The federal government has also committed to working with Ontario to ensure effective plan administration.

Ontario has always stated that it is committed to a simple, reliable and cost effective administration of the ORPP. Partnering with the federal government on plan registration, data sharing, and exploring models of plan administration supports this objective.

However, running a modern pension plan is not simple and so other options for administration are being explored including within the broader public sector and in partnership with private sector vendors. In fact, it may make sense to work with several partners to support effective administration of the plan.

Q: Would Ontario support a CPP enhancement that is a universal program to all employers and employees?

A: In designing the ORPP it was clear that, even though two thirds of Ontarians are not members of a workplace pension plan, many employers do provide generous workplace pension plans.

With this in mind, the government developed the framework of a comparable plan – so that employers that provide a generous workplace pension plan would not be

required to contribute to the ORPP. This is a central part of the ORPP and reflects the objective of introducing the ORPP in a manner that doesn't adversely impact generous workplace pension plan arrangements that are already working well for employees and employers.

The Province's extensive consultations in developing the ORPP have helped to inform its view that a CPP enhancement must be timely and provide a level of adequacy and targeted coverage that is consistent with the ORPP. Ontario is bringing this insight to the national discussion.

The province is also listening to the federal government and the other provinces and territories, and reflecting on their perspective on a CPP enhancement.

Q: If the government is going to proceed with measures such as introducing legislation on ORPP plan design, are you even serious about discussing the CPP?

A: The government has always said a national solution to enhancing retirement security is the best way forward. It has also said that it is imperative to address the challenge of retirement security ***now***. It is a critical issue for the future well-being of Ontarians and the economy that cannot be delayed.

Minister Morneau has outlined an aggressive timeline to enhance the CPP, including achieving a consensus to move forward by June and a national agreement by the end of 2016. The province looks forward to these discussions.

Legislation

Q: What progress has the government made on the ORPP to date?

A: The government is on track to meet its objective that, by 2020, all eligible Ontario workers are covered by a comparable workplace plan or the ORPP.

The ORPP Administration Corporation is now established and the process to register the plan with the Canada Revenue Agency is well underway. Final elements of plan design will be enshrined in legislation this spring. 6.

Employer verification will begin later in 2016 with enrollment of employers beginning in January 2017. This process will support a seamless transition to the collection of contributions starting on January 1, 2018 for large and medium size employers. The additional time is also enabling national discussion on a CPP enhancement to proceed.

Q: Why introduce legislation now? Didn't you commit to ongoing national discussions on a CPP enhancement?

[Legislation tracking to be introduced April 14, 2016]

A: The government has been clear that about the need to enhance retirement security today. The problem cannot be left to some ambiguous future date. It is critical for the well-being of Ontarians and the economy that we take action now.

Ontario moved to create the ORPP after the previous federal government refused to discuss enhancing the CPP. Today, the circumstances have changed and Ontario is playing a leading role in discussing a national solution.

However, to successfully launch the ORPP plan preparations must continue alongside federal discussions to ensure that, no matter the outcome, Ontario will retire with enhanced security.

Moving forward with legislation will ensure that employers have the time they need to prepare for the ORPP.

Q: What will be included in upcoming legislation?

A: The government intends to introduce further legislation on the ORPP in the spring of 2016. The legislation will set out the comprehensive requirements of the ORPP, plan sustainability and the compliance and enforcement regime.

Further legislation in 2016 would establish an Office of the Chief Actuary to provide independent actuarial advice and valuations of the ORPP to government and the ORPP Administration Corporation.

Plan Sustainability

Q: What accountability mechanisms exist to ensure that plan members' benefits will be there for them when they retire?

A: Through extensive actuarial modelling, the government has designed the plan to be sustainable over the long term. To ensure continued plan sustainability, a formal funding policy would be established that provides for appropriate adjustments to be made to plan benefits and/or contributions.

Background

Q: What is the Ontario Retirement Pension Plan (ORPP)?

A: The ORPP is a mandatory provincial pension plan that is scheduled to launch on January 1, 2017, with employer and employee collections beginning in 2018.

The ORPP would:

- Include eligible employees who are employed in Ontario and not participating in a comparable workplace pension plan;
- Aim to replace 15 per cent of an individual's pre-retirement earnings up to maximum earnings threshold of $90,000 (in proposed 2017 dollars);
- Require eligible employers and employees each to contribute up to 1.9% of employee earnings
- Require benefits to be earned as contributions are made; and
- Be managed by the ORPP Administration Corporation – an independent, arm's length entity, which will be responsible and fully accountable for administration and investment in the best interest of plan members.

Q: Why is the ORPP needed?

A: Experts generally recommend that individuals aim to replace 50-70% of their pre-retirement income to maintain their standard of living in retirement. However, studies show that a significant number of Ontarians are concerned they will not have sufficient income in retirement.

Two-thirds of Ontario's workers do not participate in a workplace pension plan. Moreover, three-quarters of younger workers – aged 25 to 34 – do not participate in a workplace pension plan.

Q: What are the anticipated impacts of the ORPP on Ontario's economy?

A: The government commissioned the Conference Board of Canada to conduct a cost-benefit analysis on the economic impact of the ORPP that was tabled in the legislature in December. The report's conclusion is clear – accounting for all factors and opportunity costs, both consumers and the economy are better off under the ORPP. This is good news for Ontarians.

The report reiterates that in the long-term, the ORPP is expected to add over $39 billion to Ontario's economy by ensuring that future retirees have adequate retirement savings. It also notes the ORPP is a more cost-effective means of helping individuals save than traditional retirement savings vehicles.

The report does acknowledge a small, short-term impact to the economy. However, this impact is partially mitigated by reductions in employment insurance and WSIB premiums. As well, the government remains committed to taking measures today to strengthen the economy.

ORPP Advertising and Market Research Costs

Q: Why is the Government advertising the Ontario Retirement Pension Plan?

A: The ORPP is intended to provide a predictable source of retirement income for life, for millions of Ontarians. By 2020, every employee in Ontario will be part of either the ORPP or a comparable workplace pension plan.

The ORPP is a key pillar of the government's economic plan. It is important that Ontarians know where to get the most up-to-date information on the plan.

There is a lot of work that needs to happen between then and now. To build awareness of the ORPP ahead of its launch in January 2017, we have recently released ads about the ORPP on TV radio and digital platforms.

The government has a responsibility to raise awareness and communicate information about its programs and services.

These ads are meant to increase Ontarian's awareness of the ORPP, drive them to http://www.ontario.ca/orpp for more information and answer questions about the design and implementation of the plan.

Q: In 2015-16, how much did the ministry spend on the ORPP campaign (including advertising, marketing and market research)?

A: In total, $6,614,987 was spent on the ORPP advertising campaign. Of this figure, $1,770,067 was spent on agency fees.

Media buying costs totalled $4,689,080. This amount will be recouped through the Bulk Media Buy. In total, $155,840 was spent on market research to provide benchmarking and tracking data, as well as creative feedback and insights for advertising and marketing purposes.

ONTARIO FINANCING AUTHORITY

Q: How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

A: Debt is incurred primarily for two reasons: to finance deficits and invest in capital assets. Ontario is making public infrastructure investments of more than $137 billion over the next 10 years, or about $160 billion over 12 years, starting in 2014–15.

One of the objectives of investment in capital is to improve the economic growth of the Province, supplementing GDP growth. As a result, the net debt-to-GDP ratio will come down more quickly than it would have without these investments in capital assets.

The government's plan therefore hinges on first balancing the budget, and continuing to make investments in capital assets which will add to economic growth, resulting in GDP growing more quickly than debt, and lowering the net debt-to-GDP ratio to our 27 per cent target.

Q: Ontario's debt has more than doubled since Premier McGuinty was first elected. When interest rates begin to rise, won't interest costs displace spending on the Government's priorities?

A: Ontario has a realistic plan to balance its budget while investments are made in the priorities of Ontario families – health care, education, the environment and infrastructure.

Investor demand has allowed the Province to extend the term of its debt in recent years and lock in low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs. Since 2010, the province has borrowed $53.5 billion in the 30-year term.

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

Q: How will the credit rating agencies respond to the 2016 Budget?

A: Ontario currently maintains a double-A rating with three of its four credit rating agencies. Ontario continues to outperform its deficit projections and is on track to a balanced budget by 2017–18. Moreover, Ontario's net debt-to-GDP ratio is expected to peak in 2015–16 at 39.6 per cent, remain unchanged in 2016–17, decline to 38.9 per cent in 2017–18 and 38.5 per cent in the 2018–19.

We met with the rating agencies following the 2016 Budget and expect to hear back from them over the next few months.

CORPORATE ELECTRICITY FINANCE DIVISION

Trillium Trust

Q: What's the current status of the funds in the Trillium Trust?

A: The Public Accounts of Ontario 2014-2015, published in September 2015, show that $1.35 billion has been dedicated to the Trillium Trust.

These are the net proceeds from the sale of the Province's remaining General Motors common shares in early 2015, combined with net proceeds from a September 2013 GM share sale and the redemption of preferred shares in late 2014.

Under the Trillium Trust Act, Hydro One shares have been designated as assets for which the net revenue gains from a sale are dedicated to the Trillium Trust. Once the Province has received all of the final financial inputs to fully assess and account for the net revenue gains associated with the Hydro One IPO, it will introduce a regulation to designate the net gain amount from the Hydro One IPO to be dedicated to the Trust and prescribe the other net revenue benefits resulting from Hydro One's recognition of a deferred tax benefit, to be dedicated to the trust.

Q: Since the Hydro One IPO was completed several months ago and now the government has announced a secondary share offering, why haven't you made any regulations to dedicate the fiscal benefits of the Hydro One IPO to the Trillium Trust? When will you make these regulations and when will we see these amounts in the Trillium Trust?

A: Under the Trillium Trust Act, Hydro One shares have been designated as assets for which the net revenue gains from a sale are dedicated to the Trillium Trust.

The determination of the net revenue gains related to the Hydro One IPO depends in part on Hydro One's audited, year-end financial statements. Hydro One released its 2015 Annual Financial Statements on February 12, 2016. Once the Province has received the financial information to fully assess and account for the net revenue gains, including the determination of a deferred tax benefit impact on the Province's net revenues, it will introduce regulations to designate the amounts to be dedicated to the trust.

Q: Why have no amounts been spent from the Trillium Trust yet, not even from the GM share gain amounts from 2014-15? And why are there only $1,000 in placeholder expenditure numbers for the Trillium Trust lines in Estimates?

A: The Province is on track to generate $5.7 billion in net revenue benefit from asset optimization to be dedicated to the Trillium Trust to help support investments in transit, transportation and other priority infrastructure projects under the $31.5

billion Moving Ontario Forward initiative over 10 years to create jobs, boost productivity and revitalize communities.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects such as GO Regional Express Rail is focused on planning, design, property acquisition and other activities to get projects construction-ready. The government plans to begin drawing down on the balance in the Trillium Trust starting in 2016-17, as it is expected that spending will ramp up significantly once this preliminary work is completed and construction activity is underway. This will allow for identification for cash flow timing requirements from the Trillium Trust during 2016-17 and subsequent years.

Q: When will the government actually be able to start using funds from the Trillium Trust to pay for transit and infrastructure?

A: The government plans to begin drawing down on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history. As the Moving Ontario Forward initiative was announced prior to Budget 2014, with incremental transit, transportation and other priority infrastructure projects, the expected timeframe for expenditures for these projects and drawdowns from the Trillium Trust are expected to happen over time, starting in 2016-17.

Based on planned expenditures, in 2016-17 the Trillium Trust would support Moving Ontario Forward initiatives, such as

- Regional Express Rail (RER);
- Hurontario Light Rail Transit (LRT); and
- Ontario Community Infrastructure Fund.
- *Asset Optimization*

Q: How much was raised from the Hydro One IPO?

A: From the November 2015 IPO and related share sales, the Province raised about $1.9 billion in gross proceeds before expenses and fees.

- In the November 2015 IPO, the Province sold 89,250,000 common shares at the IPO price of $20.50 per share for total gross proceeds to the Province of approximately $1.83 billion.
- Including other related share sales at the IPO price, the gross proceeds were $1.9 billion, including approximately $116 million in gross proceeds from shares sold to separate trusts established respectively by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP).

The determination of the net revenue gains from the gross proceeds depends on the finalisation of the book value of the shares sold at the time of the IPO and expenses and fees related to the IPO. The net gain from the November 2015 share sales is currently estimated at about $0.8 billion.

There are other associated benefits, aside from the sale of shares.

- An expected revenue benefit to the Province due to the revaluation of its fixed assets as a result of the IPO, resulting in Hydro One recognizing a deferred tax benefit. Based on the Prospectus, the Province communicated that it expected to realize a benefit of about $2.2 billion, which is subject to update and finalisation in Public Accounts.

- The Province also received cash (non-revenue benefits) of $1 billion in special payments from Hydro One, including $800 million in a special dividend paid prior to the IPO, and about $200 million in additional payments in lieu of taxes to the Ontario Electricity Financial Corporation (OEFC).

Q: What amount of proceeds will the Province receive from the secondary offering?

A: In this secondary offering, the Province has offered about 72.4 million common shares, or about 12 per cent of the common shares, at $23.65 per share, for total gross proceeds of approximately $1.7 billion

The Province has granted an option to the underwriters to purchase up to an additional approximately 10.86 million common shares, or just under 2 per cent of the common shares, which if exercised in full, would result in total gross proceeds of approximately $2 billion.

If the overallotment option is exercised in full, the Province will have sold 14% of its shares outstanding in this offering.

The government is committed to dedicating the net revenue gains from the secondary offering to the Trillium Trust. The *Trillium Trust Act, 2014* ensures that all net revenue gains from the sale of Hydro One shares will be credited to the Trillium Trust for investments in priority infrastructure projects.

[Net proceeds are currently estimated at about $0.5 billion based on the about 12% of shares offered in the base amount. If the over-allotment is fully exercised, the net proceeds are estimated at about $0.6 billion.]

Q: What was the process involved in selecting the underwriters involved for the secondary offering

A: RBC and Scotiabank were chosen as the co-lead underwriters for the secondary offering. These same two firms were chosen to lead the IPO underwriting through

a competitive and transparent process, overseen by Denis Desautels, the former Auditor General of Canada.

The price discount offered by the underwriters to purchase shares from the Province through the "firm commitment offering" was also very competitive, representing an approximate 2% discount compared to the closing trading price of Hydro One shares on April 5th. Underwriting fees of 1% for institutional investors and 3% for retail investors is significantly lower than what underwriters have typically earned on firm commitment offerings and consistent with the fees earned in the Initial Public Offering.

- Impact on Electricity Sector Dedicated Income

Q: Why is the interim Electricity Sector Dedicated Income (ESDI) $0 in 2015-16, and why is the forecast so low for ESDI in the 2016-17 Printed Estimates? Is this because of the Hydro One IPO reducing the Province's future revenues from Hydro One and reducing the amounts to pay for stranded debt?

A: The Hydro One IPO resulted in a significant upfront reduction in the stranded debt of the electricity sector.

For the year ended March 31, 2016, the IPO resulted in very large upfront payments to the Ontario Electricity Financial Corporation (OEFC) towards stranded debt. This included a total of $2.8 billion in departure tax and additional payments-in-lieu of taxes (PILs) paid by Hydro One to OEFC.

As these large amounts were expenses to Hydro One, they had a dollar-for-dollar impact on reducing Hydro One's estimated net income for 2015-16, partially offset by the deferred tax benefit impact on the Province's net income from Hydro One.

Because of these large payments to OEFC, this resulted in an estimated zero Electricity Sector Dedicated Income transfer to OEFC, as the combined net income of OPG and Hydro One to the Province was estimated to fall short of the about $520 million in annual interest expense.

Under the Electricity Sector Dedicated Income, the Province has been dedicating the cumulative combined net income of OPG and Hydro One in excess of the Province's interest cost of its investment in these companies (about $520 million annually, prior to the Hydro One IPO) to OEFC.

As the ESDI commitment is calculated on a cumulative basis over time, the estimated shortfall in the combined net incomes of OPG and Hydro One in 2015-16 compared to the about $520 million in the Province's financing costs, reduces the estimated Electricity Sector Dedicated Income in 2016-17 [and potentially in future years], until the past shortfall is offset by the combined net incomes going forward from 2015-16.

The actual ESDI amounts for 2015-16 and 2016-17 is subject to finalisation, including the actual financial performances of OPG and Hydro One in 2015-16 and 2016-17, and will be reported in OEFC's annual financial statements and Public Accounts.

[Note: For the 2015-16 Printed Estimates, the ESDI was positive, as the projected ESDI did not build in the potential impact of the broadening of Hydro One ownership due to the commercial and market sensitivity of the estimated impacts on Hydro One of the expected departure tax. The potential impact of the broadening of Hydro One ownership was built into the asset optimization component of the Sales and Rental revenue line.]

From:	Gadi Mayman
To:	Ronald Kwan; Ken Kandeepan
Cc:	Anna Strathy; Deena Padamadan; Tim Schuurman (MOF); David McLean (MOF)
Subject:	FW: FA1715-02 Information Request
Date:	Tuesday, October 24, 2017 12:48:49 PM
Attachments:	FA1715-02 Cover Letter.pdf FA1715-02 Att 1 Cover spreadsheet.xlsx FA1715-02 Att 2 Guide to Responding to FAO Requests.pdf FA1715-02 Att 3 Backgrounder.docx FA1715-02 Att 4 Info Request.docx image001.png image003.png image005.png

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Please see the attached. All of the questions, at a quick glance, relate to OEFC accounting or the Trillium Trust, so it'll be up to us to provide the initial answers, we are requested with a very tight timeline. I'm copying Tim given that his Division is the point position on FAO requests.

Gadi

From: Samiha Mahtab [mailto:smahtab@fao-on.org]
Sent: Tuesday, October 24, 2017 10:32 AM
To: Scott Thompson (CAB) <Scott.Thompson@ontario.ca>; Helen Angus (MOHLTC) <Helen.Angus@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Tim Schuurman (MOF) <Tim.Schuurman@ontario.ca>; David McLean (MOF) <David.McLean@ontario.ca>; Kyle MacIntyre (MOF) <Kyle.MacIntyre@ontario.ca>; Weam Georgie (MGS) <Weam.Georgie@ontario.ca>; david.wake@oico.on.ca; Catherine Robinson <crobinson@fao-on.org>; Cathryn.Motherwell@oico.on.ca; Matthew Stephenson <mstephenson@fao-on.org>; Matt Gurnham <mgurnham@fao-on.org>; Jeffrey Novak <jnovak@fao-on.org>
Subject: FA1715-02 Information Request

Sent on behalf of The Honourable J. David Wake, Temporary Financial Accountability Officer

Dear Deputies Thompson and Angus, and Mr. Mayman:

Please find attached an information request from The Honourable J. David Wake, Temporary Financial Accountability Officer of Ontario.

Thank you.

Regards,

Samiha Mahtab
Administrative Assistant
FAO | Financial Accountability Office of Ontario [fao-on.org]

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
T. 416-644-0702 x.110 | smahtab@fao-on.org
C. 647-224-6448
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October 24, 2017

Mr. Scott Thompson
Deputy Minister, Ministry of Finance
Frost Bldg, 7th Flr
7 Queen's Park Cres
Toronto, ON M7A 1Y7

Ms. Helen Angus
Deputy Minister, Treasury Board Secretariat
Whitney Block, 5th Flr
99 Wellesley Street West
Toronto ON M7A 1A1

Mr. Gadi Mayman
Chief Executive Officer, Ontario Financing Authority
1 Dundas St W, 14th Flr
Toronto ON M7A 1Y7

RE: FAO Information Request FA1715-02: Follow-up analysis of the Financial Impact of the Partial Sale of Hydro One

Dear Deputies Thompson and Angus, and Mr. Mayman:

Thank you for your response to our initial request for information to support the analysis on the financial impact of the partial sale of Hydro One (please see Attachment 3 for more information on the project). Further to that request, I have identified the Ontario Electricity Financial Corporation (OEFC) and the Trillium Trust for further analysis.

Specifically, I am seeking more information about the impact of certain transactions on OEFC's financial statements. I am also requesting information about future balances of the Trillium Trust.

I request that your ministries and agency provide me with the following information, which I consider necessary to perform my duties under the FAO Act, as required by subsection 12(1) of the FAO Act:

- Please complete the enclosed Excel spreadsheet "Cover spreadsheet" in Attachment 1. Please provide the information specified in the enclosed Word document "Information

request" in Attachment 4.

- If you believe that some or all of the requested information falls under the Cabinet records exception under subsection 12(2) of the FAO Act and that Cabinet has not consented to provide that information to the FAO in the Cabinet records order-in-council (OC 1412/2016, Attachment 2), please describe the information in the Cover spreadsheet (Attachment 1) and explain why you believe the exception prevents you from providing me with the information.

- If you believe that some or all of the information that you are providing in response to this request is subject to the disclosure restrictions under the Cabinet records order-in-council (OC 1412/2016, Attachment 2), please clearly identify the information in question.

- If you believe that some or all of the requested information is personal information and/or personal health information exceptions under subsection 12(3) of the FAO Act, please describe the information in the Cover spreadsheet (Attachment 1), and explain why you believe that exception applies and why you have been unable to redact the information in accordance with subsection 12(4) of the FAO Act.

- If you believe that some or all of the information that you are providing in response to this request is subject to the disclosure restrictions in paragraphs 2, 3 and/or 4 of section 13 of the FAO Act, please clearly identify the information in question and in the Cover spreadsheet (Attachment 1), identify which condition applies, citing the specific provision of the *Freedom of Information and Protection of Privacy Act*.

  If the restriction is intended to protect the interests of other public institutions, governments, third parties and/or legal privilege holders, please specifically identify any institutions, governments, third parties and/or legal privilege holders whose interests would be affected by the disclosure of the information.

I would appreciate if you could provide me access to this information on or before November 1, 2017.

I have enclosed the *Guide to Responding to Information Requests from the FAO,* including the Cabinet records order-in-council, (Attachment 2) to assist you with responding to this information request.

If you fail to comply with this information request, whether by failing to respond in a timely manner or by refusing to provide information without explaining which exception applies or by citing disclosure

restrictions without explaining which restriction applies, I will inform the minister responsible for your ministry or agency.

If the minister is unable to resolve the matter, I may exercise my power under subsection 12(5) of the FAO Act to notify the Speaker of the Legislative Assembly and the chair of the Standing Committee on Finance and Economic Affairs of your failure to comply with this information request.

Please note that the cover letter accompanying your response to this request will be posted on the FAO website, but any attachments will not.

Should you or your staff have any questions about this information request, I would ask that you contact Matthew Stephenson, who can be reached directly at mstephenson@fao-on.org or by phone at 416-550-9430.

I would like to thank you for your assistance in this matter. My primary objective is to provide timely and relevant economic and financial analysis to the Legislative Assembly. My ability to do so depends on your providing me free and timely access to the information held by your ministry that is necessary for me to perform my duties. By providing me with this information, you are assisting me in better serving the needs of all MPPs.

Sincerely,



The Honourable J. David Wake
Temporary Financial Accountability Officer

Enclosures: 4
Attachment 1: FA1715-02 Cover Spreadsheet
Attachment 2: FA1715-02 Guide to Responding to FAO Requests
Attachment 3: FA1715 Backgrounder
Attachment 4: FA1715-02 Information Request

CC:
Mr. Tim Schuurman
Assistant Deputy Minister, Office of the Budget, Ministry of Finance
Frost Building South, 4th Floor
7 Queen's Park Crescent East
Toronto ON M7A1Y7

Mr. Jeffrey Novak
Chief Financial Analyst and Project Director
Financial Accountability Office of Ontario

Financial Accountability Office of Ontario

Informatior

Project Name
Information Request No.
Deadline

Instructions: Please compl
request. Please contact Mat
is required.

ı Request: Cover Spreadsheet

Follow-up analysis of the Financial Impact of the Partial Sale of Hydro One
FA1715-02
November 1, 2017

ete the following worksheet (Cover Spreadsheet) listing all records that respond to this
:thew Stephenson (FAO contact) (mstephenson@fao-on.org or 416-550-9430) if assistance

Cover Spreadsheet: Inventory of Responsive Records for Information Request FA1715-02

*For questions about completing this form, please refer to the attached "Guide to Responding to Information Requests from the Financial Accountability Office of Ontario" and Order in Council 1412/2016. The Guide and Order in Council are also available online at http://www.fao-on.org/en/information_requests.

Name of Record	Responds to Information Request Item #	Provided to FAO (Y/N)?	If not provided, indicate reason (three options are available) and provide explanation in column H -cabinet record not authorized to be released by OC 1412/2016 -personal information (which could not be redacted) -personal health information (which could not be redacted)	If provided, is the information a Cabinet Record (Y/N)?	If provided, is the record public (Y/N)?	If provided and record is not public, does any condition listed in s. 13 (items 2 to 4) of the FAO Act prevent the public disclosure of the information (Y/N)? (see Info Request Guide fo assistance*)	Explanation

Guide to Responding to Information Requests from the Financial Accountability Officer of Ontario

Purpose of this Document

This guide has been developed to aid ministries and public entities in preparing responses to information requests from the Financial Accountability Officer of Ontario (FAO). This guide is not a substitute for the *Financial Accountability Officer Act, 2013* (FAO Act) and the Cabinet records order-in-council (OC 1412/2016 –attached for reference). The FAO Act and the order-in-council should be reviewed before responding to requests from the FAO.

Questions and Answers

1. Under what authority is the FAO making this information request?

Under subsection 12(1) of the FAO Act, ministries and public entities have the duty to provide the FAO with information in their custody or under their control that the FAO believes to be necessary to perform his duties.

2. What information needs to be provided?

You must provide all financial, economic or other information that is in your ministry's or public entity's custody or control that the FAO believes to be necessary to perform his duties. Please review the information request carefully in determining which records are responsive. In responding to the information request please complete the cover spreadsheet provided, listing all the responsive records with a description of each record.

3. What is the deadline?

All information requests have a deadline included in the cover letter and on the attached information request itself.

4. What if our ministry or public entity cannot meet the deadline?

If your ministry or public entity cannot meet the deadline set out in the request, please notify the FAO contact identified in the information request and request an extension. The FAO will not unreasonably withhold extensions.

5. How should the information be transmitted to the FAO?

Non-confidential information may be transmitted to the FAO by e-mail. The FAO contact identified in the information request should be copied.

Confidential information should be transmitted securely. Please speak to the FAO contact to arrange for secure delivery.

6. In what format should I provide information to the FAO?

To the extent possible, information should be provided in machine-readable format such as Microsoft Word or Excel or files readable with this software. PDF is acceptable when machine readable formats are not available.

7. What if I don't understand what is being requested?

If you do not understand what information is being requested or require any clarification, please speak to the FAO contact identified in the information request. The FAO contact would be happy to provide clarification and explanation.

8. What if the information being requested does not exist within my ministry or public entity?

Please indicate in your response that no records exist that would respond to the request. If possible, please provide information on which ministry or public entity has custody or control of, or might have custody or control of, a particular record.

9. What if the information requested requires my ministry or public entity to incur costs?

Under subsection 12(1) of the FAO Act, all information must be provided free of charge.

10. When can/must information be withheld from the FAO?

There are only three limited circumstances in which a ministry or public entity cannot provide information to the FAO:

- the information is contained in a Cabinet record which Cabinet has not consented to provide to the FAO (subsection 12(2) of the FAO Act, section 12 of the *Freedom of Information and Protection of Privacy Act* and OC 1412/2016);

- it is personal information within the meaning of the *Freedom of Information and Protection of Privacy Act* (see subsection 12(3) of the FAO Act); or

- it is personal health information within the meaning of the *Personal Health Information Protection Act, 2004* (see subsection 12(3) of the FAO Act).

Subsection 12(4) of the FAO Act requires that ministries and public entities take reasonable steps to redact personal information and personal health information from their responses to FAO requests in order to maximize the information they can provide.

Cabinet has consented for ministries and public entities to provide the FAO with certain information contained in Cabinet records (OC 1412/2016). The order-in-council has the effect of narrowing the application of the Cabinet records exception in subsection 12(2) of the FAO Act. As a result, you must provide information contained in Cabinet records that is necessary for the performance of the FAO's duties provided that:

- The information is not available from other sources (please indicate the other source where possible);

- The decision to which the information relates has been made by Cabinet or one of its committees and publicly announced, even if Cabinet or one of its committees could engage in further deliberation about the decision;

- The information is not:

    - An agenda of Cabinet or one of its committees;

    - A minute of Cabinet or one of its committees, unless the minute is the only source of the information;

    - Policy or costing options or recommendations, unless the option or recommendation was selected by Cabinet or one of its committees;

    - The substance of deliberations of Cabinet or one of its committees concerning those options and recommendations, other than deliberations related to the option or recommendation selected that would be apparent from its disclosure;

    - Information concerning the individual opinions of Cabinet ministers;

    - A communications plan, stakeholder management plan, key messages or other communications materials;

    - Draft legislation or regulations, unless approved by Cabinet or one of its committees.

Should one of these three circumstances affect a record that is responsive to an FAO information request, please identify which of the three circumstances applies and explain why you believe it applies in the cover spreadsheet provided, listing all the responsive records with a description of each record. In the case of the personal information or personal health information exceptions, please explain why you believe that exception applies and why you have been unable to redact the information in accordance with subsection 12(4) of the FAO Act.

11. Can I withhold from the FAO commercially sensitive information?

No. Commercial sensitivity is not a valid justification for withholding information from the FAO. The only valid justifications for refusing to provide information to the FAO are the Cabinet records, personal information and personal health information exceptions set out in subsections 12(2) and (3) of the FAO Act (see Question 10 for more details).

12. Do I have to provide to the FAO information that has not been publicly released?

Yes. Not having been released publicly is not a valid justification for withholding information from the FAO. The only valid justifications for refusing to provide information to the FAO are the Cabinet records, personal information and personal health information exceptions set out in subsections 12(2) and (3) of the FAO Act (see Question 10 for more details).

13. Do I have to provide information subject to solicitor-client privilege, litigation privilege and/or settlement privilege to the FAO?

Yes. The only valid justifications for refusing to provide information to the FAO are the Cabinet records, personal information and personal health information exceptions set out in subsections 12(2) and (3) of the FAO Act (see Question 10 for more details).

However, please note that the disclosure of information subject to solicitor-client privilege, litigation privilege and/or settlement privilege does not constitute a waiver of those privileges by virtue of subsection 12(6) of the FAO Act.

14. What happens if our ministry/public entity fails to comply with a request?

If the FAO is of the opinion that a ministry or public entity has failed to comply with an information request, the FAO will notify the deputy minister or head of the public entity in writing providing details of the non-compliance. The ministry or public entity will have a second opportunity to comply with the request.

Should the ministry or public entity fail to do so, the FAO may notify the minister responsible and the head of the public entity (if applicable). If the matter is not resolved in a timely manner, the FAO may then notify the Speaker of the Legislative Assembly and the Chair of the Standing Committee on Finance and Economic Affairs under subsection 12(5) of the FAO Act.

15. What happens if our ministry/public entity is not able to provide requested information because some or all of this information falls under the Cabinet records, personal information or personal health information exceptions?

If a ministry or public entity has not provided the requested information because some or all this information falls under one of the exceptions to the ministry or public entity's duty to provide information under subsection 12(1) of the FAO Act, the FAO will evaluate the justification provided by the ministry or public entity.

If the FAO is of the opinion that the ministry or public entity has failed to provide adequate justification, the FAO may notify the minister responsible and the head of the public entity (if applicable). If the matter is not resolved in a timely manner, the FAO may then notify the Speaker of the Legislative Assembly and the Chair of the Standing Committee on Finance and Economic Affairs that he is of the opinion that the ministry or public entity has failed to comply with the request for the purposes of subsection 12(5) of the FAO Act.

16. Will the FAO disclose the information that our ministry/public entity provides?

The FAO does not generally disclose information in raw form. Instead, the FAO provides the Legislative Assembly of Ontario with economic and financial analysis based on that information.

Furthermore, the FAO cannot disclose information unless the disclosure is essential for the performance of the FAO's mandate and four conditions under section 13 of the FAO Act are fulfilled:

- The information is not third party information (section 17 of the *Freedom of Information and Protection of Privacy Act*);
- The information does not involve relations with other governments (section 15 of the *Freedom of Information and Protection of Privacy Act*);
- The information would not affect the economic and other interests of Ontario (subsection 18(1) of the *Freedom of Information and Protection of Privacy Act*); and
- The information is not subject to solicitor-client privilege, litigation privilege or settlement privilege.

Moreover, the FAO cannot disclose information obtained solely from a Cabinet record (OC 1412/2016).

Should one of these five circumstances affect a record that is responsive to an information request, please clearly identify the record in the cover spreadsheet provided and identify which restriction applies, citing the specific provision in the *Freedom of Information and Protection of Privacy Act*.

If the restriction is intended to protect the interests of other public institutions, governments, third parties and/or legal privilege holders, please specifically identify any institutions, governments, third parties and/or legal privilege holders whose interests would be affected by the disclosure of the information.

For greater certainty, ministries and public entities must provide the FAO with requested information even if it is subject to one or more of these categories. The only valid justifications for refusing to provide information to the FAO are the Cabinet records, personal information and personal health information exceptions set out in subsections 12(2) and (3) of the FAO Act (see Question 10 for more details).

Additional Questions

If you have any additional questions or require clarification, please contact the FAO contact identified in the information request.

Executive Council of Ontario/Conseil exécutif de l'Ontario **[Bilingual]**

Ontario

Order in Council
Décret

On the recommendation of the undersigned, the Lieutenant Governor of Ontario, by and with the advice and concurrence of the Executive Council of Ontario, orders that:

Sur la recommandation de la personne soussignée, la lieutenante-gouverneure de l'Ontario, sur l'avis et avec le consentement du Conseil exécutif de l'Ontario, décrète ce qui suit :

WHEREAS the Financial Accountability Officer, an Officer of the Legislative Assembly, was appointed to provide independent analysis to the Assembly about the state of the Province's finances, including the budget, and trends in the provincial and national economies;

AND WHEREAS the Financial Accountability Officer requires access to information in the custody and control of Ministries and public entities in order to fulfill his statutory mandate;

AND WHEREAS certain information in the custody and control of Ministries and public entities is protected by the mandatory Cabinet Records exemption of section 12 of the *Freedom of Information and Protection of Privacy Act*;

AND WHEREAS the Lieutenant Governor in Council considers it advisable to provide the Financial Accountability Officer access to this information;

NOW THEREFORE Pursuant to subsection 12(2) of the *Financial Accountability Officer Act* (the "Act") and subsection12(2) paragraph (b) of the *Freedom of Information and Protection of Privacy Act*:

1. Every Ministry of the Government of Ontario and every public entity is authorized to provide to the Financial Accountability Officer any financial, economic or other information protected by section 12(1) of the *Freedom of Information and Protection of Privacy Act* that relates to:
    - The Province's finances, including the budget, and trends in the provincial and national economies
    - The estimates and supplementary estimates submitted to the Legislature
    - The financial costs or financial benefits to the Province of any public bill before the Assembly, or
    - The financial costs or financial benefits to the Province of any proposal that relates to a matter over which the Legislature has jurisdiction, including any proposal made by the Government or by any member of the Assembly

subject to paragraphs 2 and 3 below.

2. Information outlined in paragraph 1 above shall be provided to the Financial Accountability Officer in accordance with subsection 12(1) of the Act provided that:
    - The information has been requested by the Financial Accountability Officer
    - The information is not available through other sources
    - The policy or financial decision to which the requested information relates has been made by the Executive Council and announced to the public or tabled with or disclosed to the Legislative Assembly, even if the Executive Council or one of its Committees will or could engage in future deliberations with respect to the decision
    - The requested information is provided in a format that does not reveal other information protected by subsection 12(1) of the *Freedom of Information and Protection of Privacy Act,* including
        - an agenda
        - a Minute, unless the Minute is the only source of the requested information
        - policy or costing options or recommendations prepared for or submitted to the Executive Council or its committees other than the policy or costing option selected for implementation
        - the substance of the deliberations of the Executive Council or its committees regarding options or recommendations prepared for or submitted to the Executive Council or its committees, other than deliberations related to the policy option selected for implementation that would be apparent through the disclosure of the requested information
        - information reflecting the individual opinions of members of the Executive Council
        - a communications plan, stakeholder management plan, key messages, or other communications materials
        - draft legislation or regulations other than the particular draft approved by the Executive Council
    - The information would not reveal personal information or personal health information protected from disclosure by subsection 12(3) of the *Financial Accountability Officer Act*
    - The Financial Accountability Officer agrees not to disclose the information without the consent of the Executive Council

3. The provision of the information to the Financial Accountability Officer does not waive or limit the authority of the Head of an institution to apply the mandatory exemption of section 12(1) of the *Freedom of Information and Protection of Privacy Act* should the information be requested by any parties other than the Financial Accountability Officer.

- - - - - - -

ÉTANT DONNÉ que le directeur de la responsabilité financière, qui est un fonctionnaire de l'Assemblée, a reçu pour mission de fournir à l'Assemblée une analyse indépendante de la situation financière de la province, notamment du budget, et des tendances de l'économie provinciale et nationale;

ÉTANT DONNÉ que le directeur de la responsabilité financière a besoin de consulter des renseignements dont les ministères et les organismes publics ont la garde ou le contrôle afin de s'acquitter de la mission que lui confère la loi;

ÉTANT DONNÉ que certains renseignements dont les ministères et organismes publics ont la garde et le contrôle sont protégés par l'exception obligatoire relative aux documents du Conseil exécutif prévue à l'article 12 de la *Loi sur l'accès à l'information et la protection de la vie privée*;

ÉTANT DONNÉ EN OUTRE que le lieutenant-gouverneur en conseil considère qu'il est judicieux de permettre au directeur de la responsabilité financière de consulter ces renseignements;

EN CONSÉQUENCE, en vertu du paragraphe 12(2) de la *Loi sur le directeur de la responsabilité financière* (la « Loi ») et de l'alinéa 12(2)b) de la *Loi sur l'accès à l'information et la protection de la vie privée* :

1. Chaque ministère du gouvernement de l'Ontario et chaque organisme public est autorisé à transmettre au directeur de la responsabilité financière tout renseignement de nature financière, économique ou autre protégé par le paragraphe 12(1) de la *Loi sur l'accès à l'information et la protection de la vie privée* qui porte sur :
    - la situation financière de la province, notamment le budget, et les tendances de l'économie provinciale et nationale,
    - le budget des dépenses et le budget supplémentaire des dépenses présentés à la Législature,
    - les coûts ou avantages financiers pour la province de tout projet de loi d'intérêt public déposé à l'Assemblée,
    - les coûts ou avantages financiers pour la province de toute proposition qui se rapporte à une question relevant de la Législature, y compris une proposition du gouvernement ou d'un député,

    sous réserve des paragraphes 2 et 3 ci-dessous.

2. Les renseignements visés au paragraphe 1 ci-dessus seront transmis au directeur de la responsabilité financière conformément au paragraphe 12(1) de la Loi, pourvu que :
    - ces renseignements aient été demandés par le directeur de la responsabilité financière;
    - ces renseignements ne puissent pas être obtenus d'autres sources;
    - la décision relative aux politiques ou aux finances sur laquelle portent les renseignements ait été prise par le Conseil exécutif et annoncée au public ou présentée ou divulguée à l'Assemblée législative, même si le Conseil exécutif ou un de ses comités tiendra ou peut tenir des délibérations sur cette décision;
    - les renseignements demandés soient transmis sous une forme ne révélant pas d'autres renseignements protégés par le paragraphe 12(1) de la *Loi sur l'accès à l'information et la protection de la vie privée* comme :

- un ordre du jour,
- un procès-verbal, sauf s'il s'agit de la seule source des renseignements demandés,
- des choix ou des recommandations de politiques ou de calcul des coûts présentés au Conseil exécutif ou à ses comités ou formulés à leur intention, autres que le choix retenu aux fins de mise en œuvre,
- l'objet des délibérations du Conseil exécutif ou de ses comités relatives aux choix ou recommandations présentés à eux ou formulés à leur intention, autres que les délibérations relatives au choix retenu aux fins de mise en œuvre, qui ressortiraient de la divulgation des renseignements demandés,
- des renseignements révélant les opinions personnelles des membres du Conseil exécutif,
- un plan de communication, un plan de gestion relatif aux intervenants, des messages clés ou d'autres documents de communication,
- des projets de loi ou de règlement autres que le projet de loi ou de règlement approuvé par le Conseil exécutif;

- ces renseignements ne révèlent pas de renseignements personnels, notamment sur la santé, protégés par le paragraphe 12(3) de la *Loi sur le directeur de la responsabilité financière*;
- le directeur de la responsabilité financière accepte de ne pas divulguer les renseignements sans le consentement du Conseil exécutif.

3. La transmission de ces renseignements au directeur de la responsabilité financière ne supprime ni ne limite le pouvoir du haut responsable d'une institution d'appliquer l'exception obligatoire prévue au paragraphe 12(1) de la *Loi sur l'accès à l'information et la protection de la vie privée* si la demande est présentée par toute partie autre que le directeur de la responsabilité financière.

Recommended: Premier and President of the Council
Recommandé par: Première ministre et Présidente du Conseil

Concurred: Chair of Cabinet
Appuyé par: Le président/la présidente du Conseil des ministres,

Approved and Ordered: OCT 05 2016
Approuvé et décrété le:

Administrator of the Government
L'administratrice du gouvernement

Follow-up analysis of the Financial Impact of the Partial Sale of Hydro One

Objective

The objective of this project is to provide Members of Provincial Parliament with a follow-up analysis to the FAO's report, *An Assessment of the Financial Impact of the Partial Sale of Hydro One*.[1] Specifically, the report would focus on tracking how the sale proceeds were allocated to reduce debt and finance infrastructure. In addition, the report would assess the fiscal impact of Hydro One's acquisition of Avista Corporation, and review key considerations around the potential impact on electricity rates in Ontario.

Key Questions

The report would answer the following key questions:

- **What is the fiscal impact to the Province of the partial sale of Hydro One?**
  - What were the final proceeds generated by the Province?
  - Of the final proceeds, what amount was cash vs. non-cash, and what are the implications for the financial position of the Province?
  - How did the sale impact the Province's surplus/deficit and net debt?
  - How much has OEFC electricity sector debt been reduced as a result of the sale?
  - How did the transactions related to the sale, including the $2.6 billion departure tax and $800 million special dividend, impact the Province's fiscal position?
  - What is the projected long-term effect of the sale compared to what would have happened if the Province generated equivalent funds using traditional borrowing?

- **How will the proceeds from the sale of Hydro One be used to finance infrastructure projects?**
  - What portion of the proceeds (cash and non-cash) was allocated to the Trillium Trust, and what are the implications, if any, of funding infrastructure projects with non-cash proceeds?
  - What infrastructure projects are being financed by the sale proceeds?
  - Are the infrastructure projects being financed by the sale of Hydro One new projects, or existing projects already included in the Province's fiscal plan?

[1] http://www.fao-on.org/en/Blog/Publications/Hydro%20One%20Report

- **How will the sale of Hydro One affect Ontario ratepayers?**
  - How will payment of OEFC debt using the proceeds generated by the sale affect Ontario ratepayers?
  - How could changes in Hydro One's capital structure (debt/equity) resulting from the sale and related transactions affect Ontario ratepayers?

- **What is the expected impact to the Province and Ontario ratepayers from Hydro One's proposed acquisition of Avista Corp.?**
  - How would the acquisition affect the Province's investment in Hydro One?
  - How would changes to Hydro One's business that is not regulated in the Ontario market affect Ontario ratepayers?

Financial Accountability Office of Ontario

Information Request

Project Name	Follow-up analysis of the Financial Impact of the Partial Sale of Hydro One
Information Request No.	FA1715-02
Deadline	November 1, 2017

Please provide the following information by the above deadline:

Ontario Electricity Financial Corporation (OEFC):

1. What is the impact on OEFC's unfunded liability for each of the following transactions?
    a. Departure tax payment
    b. Deferred tax benefit
    c. $800 million special dividend
    d. Allocations as per section 50.3 of the Electricity Act
    e. Allocations in the amount of book value of Hydro One shares sold
2. How would the financial statements of the OEFC be impacted should Hydro One report a net loss for a given fiscal year?
    a. Is there a reduction in the Due from Province receivable asset?
    b. Is there an increase to a liability?
    c. Is future positive ESDI reduced until the negative income, or loss, is recovered?
3. What is the total amount to be allocated to the OEFC, as a result of the sale of Hydro One, as prescribed by section 50.3 of the Electricity Act?
    a. When is this amount to be allocated?

4. Can you please provide the calculations used to determine the amounts that have already been allocated to the OEFC as a result of section 50.3 of the Electricity Act? For example,

    a. The $172 million allocated in 2015-16

    b. The $411 million allocated in 2016-17

5. When will the Province allocate the proceeds related to the book value of Hydro One shares sold in 2017 to the OEFC?

6. In the absence of the sale of Hydro One, how did the Province intend to settle its Due from Province obligation to the OEFC in cash?

    a. How does the Province intend to settle the obligation that will remain after the allocations as a result of the Hydro One sale have been applied?

7. For the fiscal years 2012-13 to 2014-15, can you please provide the following assumptions that were used to estimate the NPV of Hydro One's future ESDI?

    b. Number of future years of ESDI.

    a. Discount rate used to discount Hydro One's future ESDI.

8. Why was O. Reg. 89/12 revoked?

Trillium Trust & Infrastructure Investment:

9. What is the criteria for determining whether a project is funded by the Trillium Trust?

10. When will the net revenue gains from the sale of Hydro One shares in 2017 be allocated to the Trillium Trust?

11. Why have only a portion of the Trillium Trust allocations been spent so far?

12. What are the estimated annual withdrawals from the Trillium Trust, as related to the partial sale of Hydro One, for each fiscal year, beginning in 2016-17, and ending when the balance of the Trillium Trust is zero?

    a. For each fiscal year, which Provincial entities are to receive funding from the Trillium Trust, and for each entity, how much funding is to be allocated?

b. For each fiscal year, what portion of Trillium Trust funding is to be expensed, and what portion is to be capitalized?


FAO
Financial
Accountability
Office of Ontario




in

From: Anna Strathy
To: Ken Kandeepan
Cc: John Psinas; Bonnie Lemcke
Subject: FW: FAO EFO Report Summary Note / Request for Input
Date: Wednesday, December 06, 2017 1:47:59 PM
Attachments: Summary of Draft FAO Fall Fiscal Outlook_v2a.docx
RE FAO"s Fall 2017 EFO.msg

Hi Ken,

Office has prepared the attached summary note of the forthcoming FAO report on the fiscal and economic outlook. Just a few net debt-to-GDP numbers for us to check.

Could you please send any **edits to me by noon tomorrow for Gadi's review**? Note, Office of the Budget is expecting an embargoed copy of the report to be sent over tomorrow which could result in updates to the attached note.

Thanks, Anna

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Wednesday, December 06, 2017 12:30 PM
To: Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Sohaeb Raashid (MOI) <Sohaeb.Raashid@ontario.ca>; Caleb Lance (MTCS) <Caleb.Lance@ontario.ca>; Manning, Catalina (TBS) <Catalina.Manning@ontario.ca>
Cc: Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Jacob Hadwen (MOF) <Jacob.Hadwen@ontario.ca>
Subject: FAO EFO Report Summary Note / Request for Input

Hi All,

Attached is a draft FAO EFO report summary note for review with a few caveats. An embargoed copy of the FAO's final EFO report will be released tomorrow and might result in updates. In addition, OEP will be adding a summary on the economic outlook and related key messages in order to have one consolidated product. For your general reference, I'm re-attaching the final comments that were submitted to the FAO.

Could your areas please review the attached summary note and aim to provide ADM approved edits in tracked changes by **EOD tomorrow**? These edits should align with the final EFO report being released tomorrow.

Please let me know if you have any questions.

Thanks,
Ryan

Ryan Birks
Special Policy Advisor and Executive Assistant
ADMO, Office of the Budget
416-327-0074

FAO's 2017 Fall Fiscal Outlook – OB Summary

ISSUE

The Financial Accountability Office is set to release its 'Fall Economic and Fiscal Outlook' report. This note summarizes the fiscal chapter of the report.

TOP MESSAGES

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

KEY POINTS

Fiscal Outlook

- The FAO is projecting a budget deficit of $3.9 billion in 2017–18 using the **Auditor General's recommended accounting treatment for both the Fair Hydro Plan and the net pension assets of jointly sponsored pension plans.** In the absence of any fiscal policy changes this grows steadily to $9.6 billion in 2021-22.
- Under the **government's accounting presentation (excluding the AG's recommendations)**, the FAO projects a small surplus for 2017–18 of $0.3 billion (excluding the reserve) and a return to deficits beyond 2017–18 driven by revenue factors - loss of temporary revenues combined with more moderate tax revenue growth.
- The FAO suggests that by not adopting the AG's recommended accounting presentation, the 2017 Budget and the 2017 FES reduced transparency and clarity of Ontario's fiscal position and as a result Ontario will continue to receive qualified options from the AG.

Budget Balance - FAO's Fiscal Outlook ($ Billions)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
AG Presentation	-5.0	-2.5	-3.9	-7.2	-7.9	-8.9	-9.6
Government Presentation	-3.5	-1.0	0.3	-1.9	-2.0	-2.6	-3.5
2017 FES -- Excluding Reserve	-3.5	-1.0	0.5	0.5	0.8	N/A	N/A

Revenue Outlook

- Using the AG presentation, the FAO is projecting average annual revenue growth of 2.6 per cent from 2016-17 to 2019-20 as compared with the government's projections of 4.0 per cent. The main drivers are:
    - The FAO projections for taxation revenues are $2.9 billion lower by 2019-20 than the projections in the 2017 FES due to lower projected growth in household spending, labour income and corporate profits.
    - The FAO projects that, based on the AG presentation, the Fair Hydro Plan will lower net income from OPG by $3.4 billion lower by 2019-20.
    - In addition, the FAO continues to highlight a number of one-time 2017-18 revenues, including: increase to sales and rentals from sale of final tranche of H1, higher federal transfers for infrastructure (PTIF), one-time boost from extra Cap and Trade auction. Taken together the FAO estimates that these amount to $4.5 billion in additional one-time revenues in 2017-18.

Expense Outlook

- From 2017–18 to 2019–20 the FAO's outlook adopts the government's 2017 FES projections for program spending, **adjusted to reflect the AG's recommended accounting presentation.** Beyond 2019–20 the FAO projects program spending will grow faster -- at an average annual rate of 4.1 per cent – due to population pressures.

Borrowing and Net Debt

- Using the **government's accounting presentation** net debt-to-GDP is expected to reach 38.4 per cent by 2019–20 and 38.6 per cent by 2021–22. This increases to 41.3 per cent by 2021–22 **under the AG's accounting presentation**.
    - The 2017 FES projected a net debt-to-GDP ratio of 37.0 per cent by 2019–20.

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

	Actual		Outlook					Avg. Annual Growth		
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	16-17 to 19-20	19-20 to 21-22	16-17 to 21-22
2017 Fall Economic Statement										
Revenue*	136.1	140.7	150.1	153.6	158.2			4.0%		
Adjustment for Fair Hydro Plan	-	-	-	-	-					
Total Revenue	136.1	140.7	150.1	153.6	158.2			4.0%		
Expense										
Program Expense**	128.1	130.0	137.4	140.4	144.2			3.5%		
Adjustment for Pension Assets	-	-	-	-	-					
Interest on Debt	11.6	11.7	12.2	12.7	13.3			4.2%		
Total Expense	139.7	141.7	149.6	153.1	157.4			3.6%		
Surplus/(Deficit) Excl. Reserve	(3.5)	(1.0)	0.5	0.5	0.8					
Reserve	-	-	0.5	0.5	0.8					
Surplus/(Deficit)	(3.5)	(1.0)	0.0	0.0	0.0					
Net Debt	295.4	301.6	311.7	323.0	335.6					
Change - 2017 Fall Economic Statement to 2017 Fall FAO Fiscal Outlook										
Revenue	-	-	*(0.8)*	*(3.0)*	*(3.5)*					
Adjustment for Fair Hydro Plan	-	-	*(1.9)*	*(2.7)*	*(2.9)*					
Total Revenue	-	-	(2.7)	(5.7)	(6.4)					
Expense										
Program Expense	-	-	-	-	-					
Adjustment for Pension Assets	1.5	1.5	2.2	2.6	2.9					
Interest on Debt	-	-	*(0.4)*	*(0.6)*	*(0.7)*					
Total Expense	*1.5*	*1.5*	*1.8*	*2.0*	*2.3*					
Surplus/(Deficit) Excl. Reserve	*(1.5)*	*(1.5)*	*(4.4)*	*(7.7)*	*(8.7)*					
Reserve	-	-	*(0.5)*	*(0.5)*	*(0.8)*					
Surplus/(Deficit)	*(1.5)*	*(1.5)*	*(3.9)*	*(7.2)*	*(7.9)*					
Surplus/(Deficit) exc. Adj. for Fair Hydro Plan and Pension Assets	*(0.0)*	*(0.0)*	*0.3*	*(1.9)*	*(2.0)*					
Net Debt	*11.0*	*12.5*	*16.3*	*23.5*	*31.4*					
2017 Fall FAO Fiscal Outlook										
Revenue	136.1	140.7	149.3	150.6	154.7	160.7	166.9	3.2%	3.9%	3.5%
Adjustment for Fair Hydro Plan	-	-	(1.9)	(2.7)	(2.9)	(3.4)	(3.2)			
Total Revenue	136.1	140.7	147.4	147.9	151.8	157.3	163.7	2.6%	3.8%	3.1%
Expense										
Program Expense	128.1	130.0	137.4	140.4	144.2	150.1	156.6	3.5%	4.2%	3.8%
Adjustment for Pension Assets	1.5	1.5	2.2	2.6	2.9	2.9	2.9			
Interest on Debt	11.6	11.7	11.8	12.1	12.6	13.2	13.8	2.5%	4.7%	3.4%
Total Expense	141.2	143.2	151.4	155.1	159.7	166.2	173.3	6.0%	8.9%	7.2%
Surplus/(Deficit) Excl. Reserve	(5.0)	(2.5)	(3.9)	(7.2)	(7.9)	(8.9)	(9.6)			
Reserve	-	-	-	-	-	-	-			
Surplus/(Deficit) (AG Presentation)	(5.0)	(2.5)	(3.9)	(7.2)	(7.9)	(8.9)	(9.6)			
Surplus/(Deficit) exc. Adj. for Fair Hydro Plan and Pension Assets (Gov't presentation)	(3.5)	(1.0)	0.3	(1.9)	(2.0)	(2.6)	(3.5)			
Net Debt	306.4	314.1	328.0	346.5	367.0	385.7	403.1			

Note: Numbers may not align with report due to rounding.

From: Tim Schuurman (MOF) []
To: David West [dwest@fao-on.org]; Brian Lewis (MOL) [Brian.Lewis@ontario.ca]; Karen Hughes (MGS) [Karen.Hughes@ontario.ca]
CC: Ghufran Tarin (MOF) [Ghufran.Tarin@ontario.ca]; Birks, Ryan (MOF) [Ryan.Birks@ontario.ca]; Luan Ngo [lngo@fao-on.org]; Edward Crummey [ecrummey@fao-on.org]; Nicolas Rhodes [nrhodes@fao-on.org]; Patrick Laughton (MOF) [Patrick.Laughton@ontario.ca]; Selena Esmail (MOF) [Selena.Esmail@ontario.ca]
Subject: RE: FAO's Fall 2017 EFO
Date: Friday, November 24, 2017 18:25:49
Attachment 1: 2017 EFO - Econ Chapter MOFTBScomments.docx
Attachment 2: 2017 EFO - Fiscal Chapter_Consolidated CommenntsMOFTBS.docx
Attachment 3: image005.png
Attachment 4: image006.png

David;

Thanks again for the opportunity to review and provide feedback/fact-checks and comments on the draft report. Please find attached a consolidated set of comments from MOF and TBS on the Economic and Fiscal Chapters.

We think there may be some value in having a follow-up call next week to discuss some of these pieces – but let us know what you think once you've reviewed. We're happy to arrange something.

Some of these more significant edits may require a conversations to clarify, including:

· The language and representation of the differences in accounting interpretations. We may have discussed this at the time of the Budget outlook document, but we think its important to get the language right in terms of how this is articulated so that it's a more objective and fact-based representation.

· In addition, it appears that the way the FAO has built in the AG's interpretation of the Fair Hydro Plan accounting treatment is incorrect – as the current presentation in this draft EFO shows it appearing on the revenue side (on OPG's net income) – instead, the AG's recommendation was that is an expense impact on consolidation from IESO and further that the IESO is not a GBE – so it impacts the way the section (and charts under that section) are currently presented. This will require a significant change to your numbers and presentation. This may require additional explanation, so let us know.

· There are also some comments related to FAO projections for the amount of borrowing, as well as references about above trend growth in key tax drivers – these were essentially that the forecast is consistent with historical growth/trends and private sector forecasts, and the importance to note where “one-time” revenues identified as such by the FAO are actually also fiscally neutral – so should not be linked to a fiscal gap contribution by these shorter-term revenues.

Tim Schuurman

Assistant Deputy Minister

Office of the Budget, Ministry of Finance

7 Queen’s Park Cres.

Toronto ON M7A 1Z1
Tel: 416-327-0173

cid:image002.png@01D0E4D5.A25B16F0

From: David West [mailto:dwest@fao-on.org]
Sent: November-22-17 11:42 AM
To: Schuurman, Tim (MOF); Lewis, Brian (MOF); Hughes, Karen (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Luan Ngo; Edward Crummey; Nicolas Rhodes; Hosick, Sarah (TBS); Laughton, Patrick (TBS)
Subject: RE: FAO's Fall 2017 EFO
Importance: High

Tim, Brian Karen

Please find attached drafts of Economic Outlook and Fiscal Outlook chapters from the FAO's upcoming 'Economic and Fiscal Outlook' report.

The chapters are password protected using the same password as in the past.

As in the past, we are on a very tight schedule to enable us to release this report in early December, before the Legislature rises for the holiday break.

However, please note that we are still waiting for the detailed program spending projection consistent with FES (see attached email request from last week). This information is essential to calibrate our models and ensure consistency with the government's projections. If we do not receive that information shortly, we will be forced to proceed with our own estimates which could impact the results and conclusions presented in the report. Please be aware that we will need to be clear with MPPs, during our technical briefing, that we did not receive all the additional background information that we requested. (We did, however, receive the detailed revenue information from FES last week. Thanks)

We are asking for your comments/concerns by end of day Friday (November 24).

Happy to set up a phone call to discuss.

Thanks again for your support and assistance.

----------David West

Chief Economist

cid:image009.png@01D17ECB.966ECE00

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2

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From: David West
Sent: November 20, 2017 10:18 AM
To: Tim Schuurman (Tim.Schuurman@ontario.ca) <Tim.Schuurman@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; ryan.birks@ontario.ca; Luan Ngo (lngo@fao-on.org) <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Nicolas Rhodes (nrhodes@fao-on.org) <nrhodes@fao-on.org>
Subject: FAO's Fall 2017 EFO

Hello Tim, Brian,

As you are aware, we are preparing our Fall EFO for release in early December.

As in the past, we are planning to send you drafts of the 2 core chapters of the report (economic outlook and fiscal outlook) on Wednesday morning, for your comments. We will also provide the supporting data tables, providing additional details on the projection. The current report follows the basic template of our earlier EFOs, and may be a little shorter.

We would greatly appreciate receiving the Ministry's comments by Friday (November 24) end of day.

Thanks, as always, for your assistance.

David

----------David West

Chief Economist

cid:image009.png@01D17ECB.966ECE00

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1. Economic Outlook

Overview

Ontario Economy Exceeding Expectations in 2017

Following a strong performance over the first half of 2017, the Ontario economy is expected to continue on a path of solid growth into 2018.

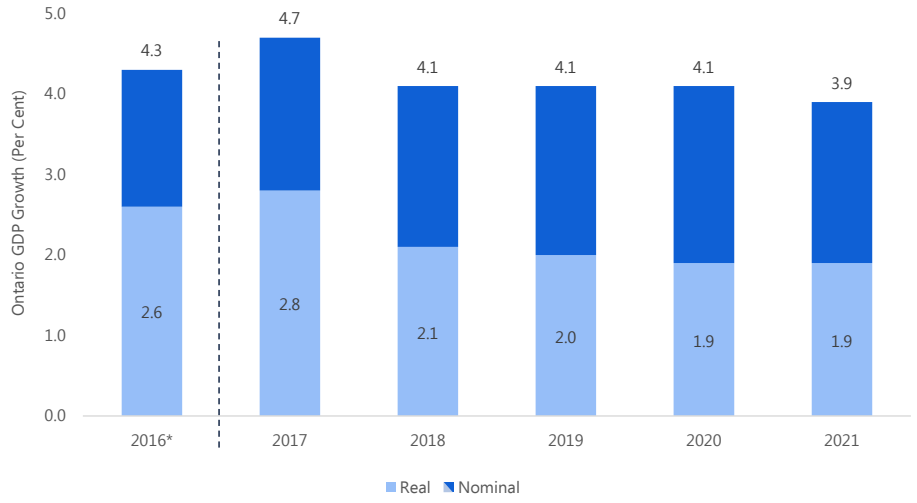
Led by a continued surge in household spending and residential investment, the FAO projects Ontario real GDP growth of 2.8 per cent in 2017, an upward revision from the FAO's spring outlook report.[1] Nominal GDP – the broadest measure of the tax base - is projected to increase by 4.7 per cent in 2017, well above the FAO's spring forecast. The strong growth in nominal GDP in 2017 is supported by significant gains in corporate profits.

Beginning in 2018, most forecasters, including the FAO, expect the Ontario economy to grow at a more measured pace, as growth in the US and Canadian economies is also expected to moderate. At the same time, higher interest rates are expected to contribute to slower growth of household spending and residential investment over the outlook.

Commented [AJ(1]: NGDP growth of 4.7% is the lowest estimate of the 13 forecasters that we track and also below the average of the three forecasters tracked by the FAO.

The FAO may be using a vintage version of the C4SE forecast, which contained an error. If fixed, it could change the average forecast of the three modellers for NGDP growth found in the FAO report.

Solid Economic Performance Expected Over Outlook



* 2016 are actuals.

Source: Ontario Economic Accounts, Statistics Canada and FAO.

1 'Economic and Fiscal Outlook, Assessing Ontario's Medium-term Prospects, Spring 2017', Financial Accountability Office of Ontario.

Global Economic Growth Gaining Traction

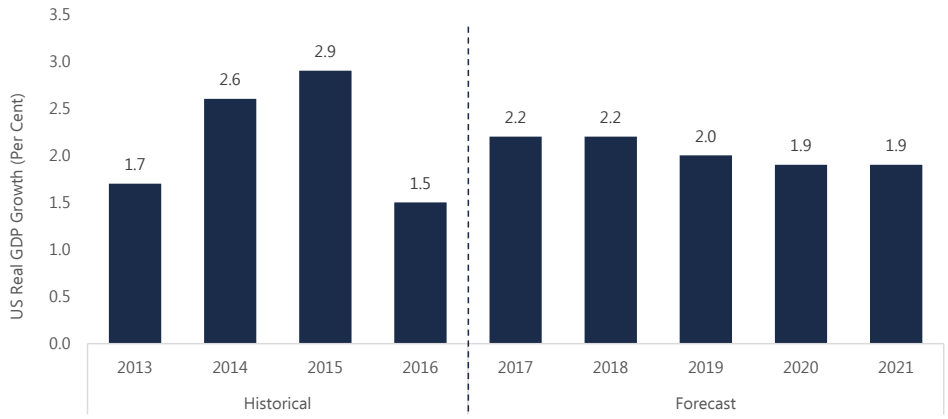
In its latest World Economic Outlook, the International Monetary Fund (IMF) revised up its forecast for global economic growth to 3.6 per cent in 2017 and 3.7 per cent in 2018.[2] A number of key economies reported stronger than expected growth over the first half of 2017, including the euro area and Japan. These upward revisions more than offset weaker than expected growth in the United Kingdom and the United States.

United States

In the US, real GDP is expected to grow by 2.2 per cent in 2017. Following a modest first quarter gain, US consumer spending has shown signs of strengthening while business investment remains strong, particularly in the energy sector. Going forward, the FAO projects US growth to ease slightly to 1.9 per cent by 2021.

Commented [AJ(2]: The Consensus Economics and Blue Chip forecasts currently have 2018 real U.S. GDP growth at 2.5%. These forecasts are likely fresher that the CBO forecast of 2.2% used by the FAO.

US Economic Growth to Moderate



Source: US Bureau of Economic Analysis, Congressional Budget Office and FAO Consensus.

However, the outlook for the US economy depends critically on the uncertain policy direction of the current US administration. Significant tax reform, including sizable tax cuts, have been proposed, although it is unclear if an agreement in Congress will be reached. Likewise, the renegotiation of the North American Free Trade Agreement (NAFTA) is ongoing, and the potential impact of a new trade agreement on North American economies remains highly uncertain (see 'Key Risks' for more details).

Other World Economies

The IMF reports that the euro area economy continues to gain strength, supported by a pick-up in exports and continued strength in domestic demand. In China, the IMF expects economic growth to ease from 6.8 per cent in 2017 to 6.5 per cent in 2018. While the Chinese economy is continuing to rebalance towards

2 International Monetary Fund, World Economic Outlook, October 2017.

more consumption-led growth, debt continues to build among households, government and businesses, which could pose risks to medium-term growth.[3]

While the global economy is expected to perform solidly through 2018, over the medium term, global growth is expected to be limited by modest productivity gains, aging workforces in advanced economies, and tightening financial conditions.

Canadian Economy

The Canadian economy is on track to post the strongest annual growth since 2011. Robust consumer spending, and a pickup in exports and business investment supported solid overall Canadian growth during the first half of 2017. While consumer spending and exports are expected to moderate over the second half of the year, the Canadian economy is on pace for a 3.1 per cent annual gain in 2017. The FAO expects Canadian real GDP to grow by 2.1 per cent in 2018 and by an average of 2.0 per cent through 2021, as higher interest rates contribute to slower growth in consumer spending and residential investment.

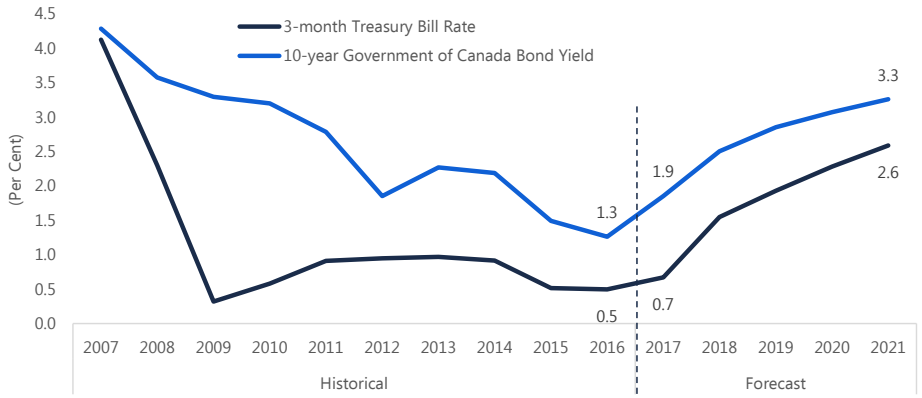
The brisk pace of economic growth over the first half of the year led the Bank of Canada to increase its policy interest rate to 0.75 per cent in July and 1.0 per cent in September. Importantly, the Bank indicated that with the Canadian economy operating near full capacity, it will take a cautious, data-driven approach in determining future rate increases. Given the Bank's measured approach and the subdued rate of consumer price inflation, the FAO expects a gradual but steady rise in interest rates over the medium-term, consistent with the FAO's spring outlook.

Commented [AJ(3]: Worth noting that the BoC held rates steady at its October meeting.

The recent increases in Canadian interest rates contributed to an eight-cent appreciation in the Canadian dollar relative to the US dollar through the summer, before retracing some of this gain more recently. With this appreciation, the FAO projects that the dollar will average 78 cents in 2017, slightly higher than the FAO's spring outlook. Going forward, the FAO expects a gradual appreciation of the dollar to about 81 cents by 2021, supported by a steady rise in Canadian interest rates and a moderate increase in oil prices.

Canadian Interest Rates to Rise over the Outlook

3 International Monetary Fund, China's Economic Outlook in Six Charts, August 2017.



Source: Statistics Canada and FAO.

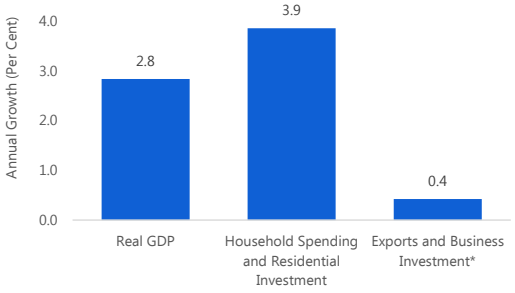
Ontario Economic Outlook

Solid 2017 Growth Expected to Moderate over the Outlook

Ontario posted solid real GDP growth of 2.6 per cent in 2016, the third consecutive year of strong growth for the economy. The FAO expects that the economy's momentum will continue into 2017, with real GDP advancing by 2.8 per cent.

However, despite the projection for relatively strong economic growth in 2017, the drivers of that growth are unbalanced. Household spending and residential construction are providing the main support for the economy's growth in 2017, while exports and business investment have underperformed.

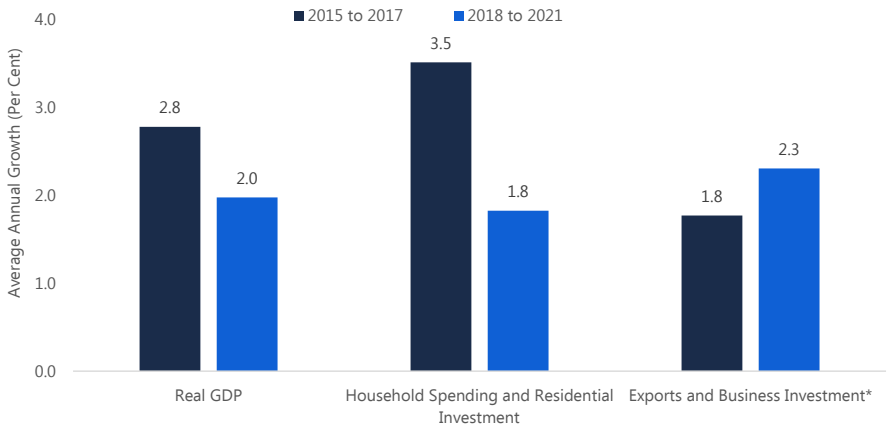
Household Spending Primary Driver of Growth in 2017



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

Going forward, the FAO expects that elevated levels of household debt combined with rising interest rates will hamper household spending and residential investment. At the same time, exports and business investment are expected to contribute more to economic growth, as sustained foreign demand encourages businesses to increase production capacity (discussed further in 'Key Risks' below). Over the outlook, the FAO projects real GDP growth will ease to 2.1 per cent in 2018 and average 1.9 per cent per year from 2019 to 2021.

Exports and Business Investment Expected to Drive Growth over the Outlook



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

Strong Gain in Corporate Profits Projected for 2017

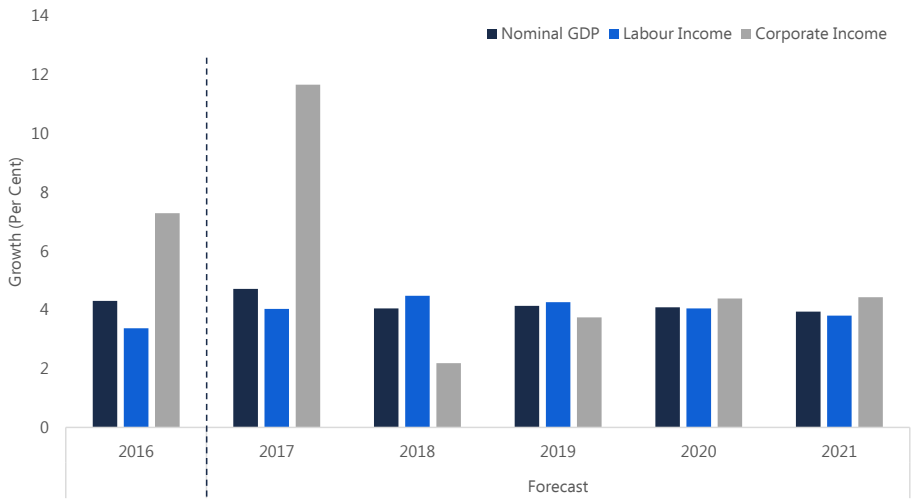
The FAO is forecasting nominal GDP growth of 4.7 per cent in 2017, driven by an 11.7 per cent increase in corporate profits, and a more moderate gain of 4.0 per cent in labour income.

The planned increases to Ontario's minimum wage are expected to raise labour income growth in 2018 and 2019.[4] Beyond 2019, labour income growth is expected to moderate to 3.8 per cent by 2021.

Slower labour income gains will contribute to slightly more moderate nominal GDP growth of 3.9 per cent by 2021.

Corporate Income Leads Nominal GDP Growth in 2017

4 The FAO's forecast incorporates explicit assumptions of higher labour income growth, a small reduction in employment gains and a slight increase in CPI inflation due to the planned increases in Ontario's minimum wage. See the FAO's commentary *Assessing the Economic Impact of Ontario's Proposed Minimum Wage Increase* for details.



Note: Labour and corporate income comprise roughly 70 per cent of nominal GDP. The other categories include mixed income (from proprietorships) and net taxes.

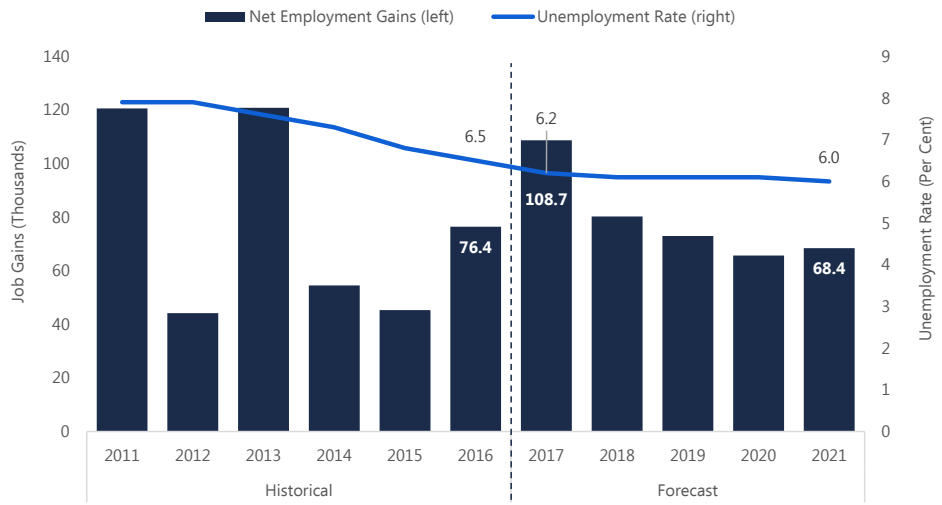
Source: Statistics Canada, Ontario Economic Accounts and FAO.

Steady Job Gains Expected to Continue

The FAO is projecting strong job growth of 1.6 per cent (+109 thousand net new jobs) in 2017, following a gain of 1.1 per cent (+76 thousand net new jobs) in 2016.

Over the outlook, sustained economic growth is expected to support average annual employment growth of 1.1 per cent, just slightly faster than the growth in the labour force. As a result, the unemployment rate is expected to trend lower, falling from 6.2 per cent in 2017 to 6.0 per cent by 2021.

Steady Employment Gains as Unemployment Rate Trends Lower



Source: Statistics Canada and FAO.

Key Risks for Ontario's Economic Outlook

While the FAO expects solid economic growth over the medium-term, there are a number of risks that could negatively affect Ontario's economic performance.

Most economic forecasters, including the FAO, continue to assume that NAFTA will largely be maintained in its current form. However, the US administration is demanding significant concessions from Canada and Mexico, and has threatened to leave NAFTA altogether. Some businesses may already be postponing investment decisions outside of the United States due to the uncertainty surrounding NAFTA. If the renegotiation of NAFTA leads to a deterioration in Ontario's terms of trade or restricts access to the US market, there would be significant negative implications for the province's growth prospects.

In recent years, strong growth in household spending has not been matched by similar gains in household incomes, leading to higher levels of household debt. In 2016, household debt reached 167 per cent of disposable income in Ontario, a significant rise from 149 per cent in 2010.[5] Higher debt burdens expose households to financial risk. With a steady rise in interest rates expected over the next few years, many households will scale back discretionary spending in order to make higher debt interest payments, which in turn could have implications for the pace of overall economic growth.[6]

Commented [AJ(4]: There are also some upside risks to the Ontario economic outlook. For instance, the risk section would benefit from a discussion of potentially stronger Ontario real GDP growth in 2018 because of stronger global growth.

5 Statistics Canada Annual Household Wealth Distribution Tables (Provisional Data).
6 The Bank of Canada describes this risk as elevated, with a low probability of occurrence but a severe impact if it were to materialize. Bank of Canada, Financial System Review, June 2017.

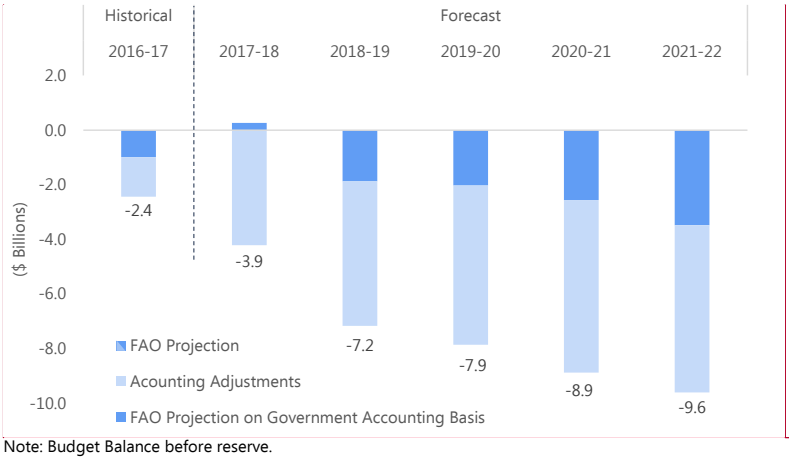
1. Fiscal Outlook

FAO Projects a Return to Significant Budget Deficits

Despite a strong increase in revenues, the FAO is projecting an Ontario budget deficit of $3.9 billion in 2017-18, entirely the result of the Auditor General of Ontario's (AG) recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans.[1]

Beyond 2017-18, the FAO is projecting a significant deterioration in the budget deficit due to the loss of time-limited revenues, a more moderate pace of tax revenue growth, and the growing fiscal impact of the AG's recommended interpretation of public sector [OPCD edit] accounting ~~framework~~standards (PSAS) [OPCD edit]. By 2021-22, the FAO is projecting an Ontario budget deficit of $9.6 billion in the absence of any fiscal policy changes.

Ontario Budget Balance



Note: Budget Balance before reserve.
Source: Ontario Public Accounts, 2017 Ontario Economic Outlook and Fiscal Review, and FAO.

Commented [GNR1]: OPCD: Legend description: FAO Projection using government interpretation of PSAS

In the *2017 Ontario Economic Outlook and Fiscal Review* (also referred to as the Fall Economic Statement or FES), the government projected balanced budgets for 2017-18 through to 2019-20. However, the government's fiscal projection relies on an overly optimistic revenue forecast and does not adopt the AG's recommended accounting interpretations on two issues: 1) accounting for net pension assets of jointly sponsored pension plans, and 2) the global adjustment refinancing component of the Ontario Fair Hydro Plan~~framework~~. [OPCD edit]

For comparison, under the government's accounting presentation, the FAO projects a small budget surplus for 2017-18 – approximately equal to the government's own budget projection. However, there are a

[1] See *The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value For Money; Auditor General of Ontario, October 2017* and *Independent Auditor's Report, 2016-17 Consolidated Financial Statements, Auditor General of Ontario, 2017.*

number of time-limited and one-time revenues in 2017-18. Going forward, the loss of these temporary revenues combined with more moderate tax revenue growth results in a return to deficit in 2018-19 and a steady deterioration in the budget deficit over the outlook.

The Accounting Presentation of Ontario's Financial Statements

The government's fiscal plan, as presented in both the 2017 Ontario Budget and Fall Economic Statement, does not adopt the Auditor General's recommended accounting ~~presentation, reducing the transparency and clarity of Ontario's fiscal position.~~ treatment for which the government received a qualified opinion from the AG in the 2016-17 Public Accounts of Ontario [OPCD edit]

In addition to the existing disagreement over the appropriate accounting treatment for the government's jointly sponsored pension plans, the AG recently reported that the government is not correctly accounting for the full cost of the Fair Hydro Plan in its financial statements.[2] As a result, the government's fiscal presentation is expected to continue to receive qualified opinions from the AG.

Revenue Outlook

The FAO is projecting average annual revenue growth of 3.1 per cent over the forecast. In 2017-18, revenues are supported by strong growth in taxes, as well as a number of time-limited or one-time revenues. Beginning in 2018-19, the FAO is projecting more moderate revenue growth as:

- time-limited revenues end (including the debt retirement charge and federal equalization payments);
- economic growth moderates, following several years of stronger than average growth; and
- the fiscal impact of the Fair Hydro Plan increases, reducing electricity-sector revenues.

Tax Revenue Growth Expected to Moderate

Nominal GDP, the broadest measure of the tax base, is projected to grow by a strong 4.7 per cent in 2017, supporting a 4.6 per cent increase in tax revenues in 2017-18. From 2018 to 2021, annual GDP growth is expected to moderate to 4.1 per cent, leading to similar slowing in tax revenue growth to 4.1 per cent on average over this period.

In the government's Fall Economic Statement, tax revenue is projected to grow by 5.2 per cent on average from 2017-18 to 2019-20, much higher than the FAO's projection of 4.3 per cent over the same period. The government's expectation of higher growth results in an additional $2.9 billion in tax revenues by 2019-20, relative to the FAO projection.

Commented [ES2]: OFA comment: There is no mention of the findings of the independent Pension Asset Expert Advisory Panel. Even if the FAO disagrees with the findings there should be a reference that the Government has followed the Panel's recommendation in accounting for pension assets.

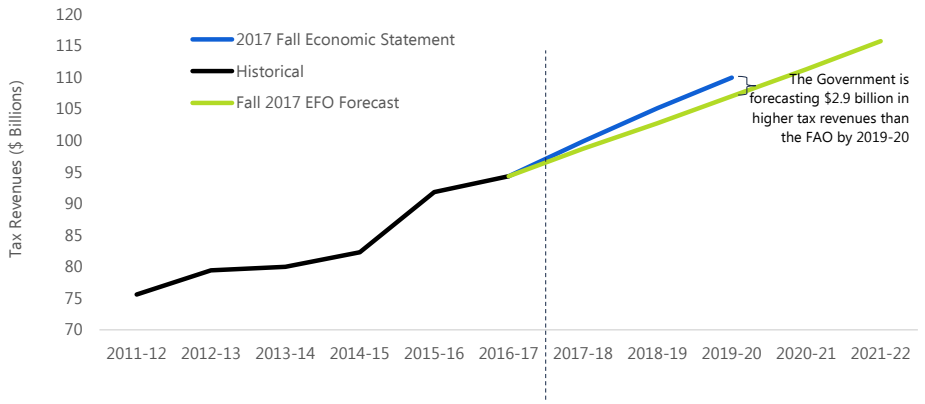
Commented [ES3]: OB: On page 4 states FAO estimates this will end in 2019-20

Commented [GNR4]: OFA: The FHP does not have a net negative revenue impact. See page 4 comments.

Commented [GNR5]: OB: Average annual growth in tax revenue is 5.2 per cent from 2016–17 to 2019–20.

[2] 2016-17 Consolidated Financial Statements, Auditor General of Ontario, 2017

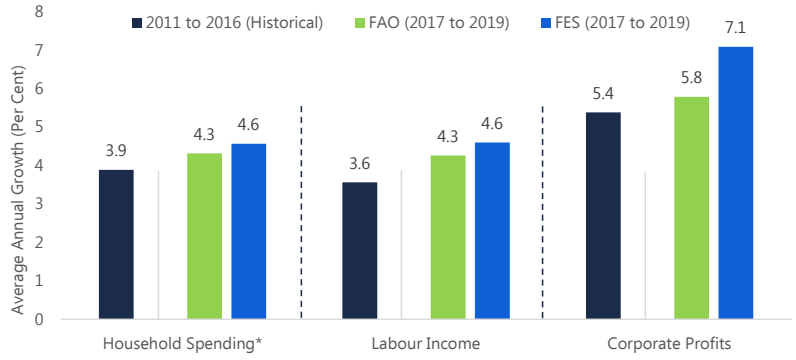
FAO's Taxation Revenue Outlook



Source: Ontario Public Accounts, 2017 Ontario Economic Outlook and Fiscal Review and FAO.

The government's revenue forecast relies on more optimistic projections for many of the key economic drivers of tax revenue, including labour income; corporate profits; and household spending.

Growth in Key Tax Drivers



* The FES forecast for Household Spending is Real Household Spending plus CPI.

Source: Statistics Canada, 2017 Ontario Economic Outlook and Fiscal Review and FAO.

While the FAO expects incomes and household spending to grow somewhat faster than recent historical trends,[3] the government's tax revenue forecast is based on significant and sustained above-trend growth for each of the three key tax drivers.

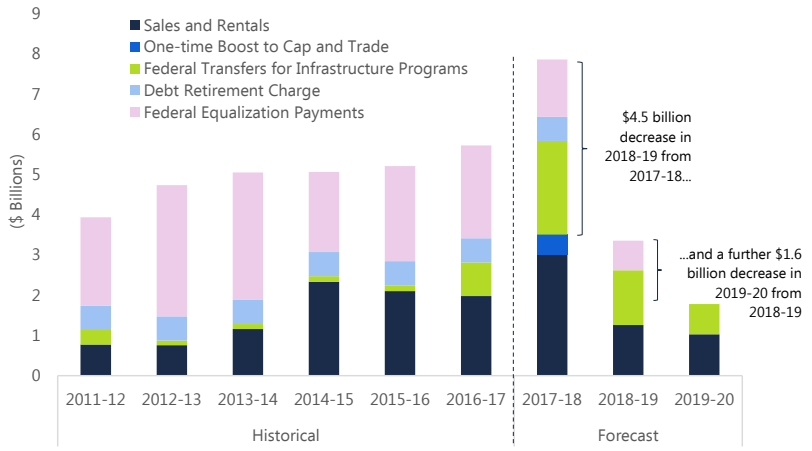
The Loss of Time-limited Revenues

The Province's 2017-18 revenues incorporate a number of one-time or time-limited revenues that are set to expire. These include:

- a temporary increase to sales and rentals revenue, reflecting additional asset sales[4];
- higher federal transfers for infrastructure;
- the final year of the debt retirement charge[5];
- federal Equalization payments, which the FAO estimates will end in 2019-20; and
- revenue from an additional cap-and-trade auction that occurred in March 2017, which will be recognized in the 2017-18 fiscal year.[6]

Taken together, these time-limited revenues will decrease by $4.5 billion in 2018-19, and by an additional $1.6 billion in 2019-20.

Many Time-limited Revenues are Set to Expire Beyond 2017-18



3 Labour income is expected to grow above trend in part due to the increased minimum wage over the outlook (which is also expected to boost household spending). Estimates of Ontario corporate profits over the first half of 2017 imply very strong growth.

4 Asset sales include the Province's ~~22~~ 20 per cent sale of Hydro One equity in a secondary offering in 2017-18, which the FAO estimates ~~would~~ to generate about $0.8 billion in revenue. [OFA edits]

5 The debt retirement charge (DRC) is a charge payable on electricity consumed in Ontario and replaces a portion of debt servicing costs previously included as part of electricity bills before the restructuring of the former Ontario Hydro. The government ended the DRC on residential bills as of January 1, 2016. The DRC will remain on other electricity users' bills for electricity consumed before April 1, 2018. [OFA edits]

6 In fiscal year 2017-18, there were five cap and trade auctions. Going forward the Provinces expects to have four auctions per year.

Commented [GNR6]: OEP: This point and the chart above may not accurately portray the FES forecast for key revenue drivers.

It should be noted that beyond 2017, the FES forecast for revenue drivers are broadly consistent with economic trends and long-term historical growth.

The FES forecast for revenue drivers is tied to private sector forecasts. These have been heavily influenced by strong readings in 2017. For instance, profit growth was very strong in 2017, but is only expected to grow by 3.3% on average between 2018 and 2020 in the FES forecast. Labour income is expected to grow more strongly and average 4.6% over the same period as a tight labour market supports a shift in income growth from profits to wages.

Commented [GNR7]: OFA: Please see changes to footnote below. ~20% of Hydro One shares were sold in May 2017, so we have revised the percentage. However, it may also be noted that the Province has an agreement in principle with First Nations to sell up to 2.5% of Hydro One common shares. News release on both items here.

Commented [GNR8]: OB: This is fiscally neutral as there is a corresponding expense associated with it.

Commented [GNR9]: OPCD: non-capitalized amounts (e.g. supporting municipal (housing) / university infrastructure); capitalized amounts would be amortized

Commented [GNR10]: OPCD: non-residential users.

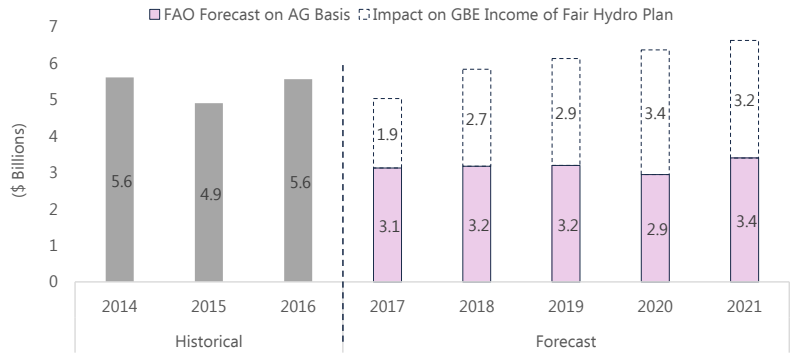
Commented [GNR11]: OB: This is fiscally neutral as there is a corresponding expense associated with it.

Source: Ontario Budgets, Ministry of Finance and FAO.

Government Business Enterprises and the Impact of the Fair Hydro Plan

The government introduced the "Fair Hydro Plan" to reduce electricity bills for residential customers by an average of 25 per cent. The government's plan includes ~~subsidizing~~ refinancing a portion of electricity ~~prices~~ costs for ratepayers through provincial and Ontario Power Generation (OPG) and OPG Trust borrowing. Consistent with the AG's recommendation on the consolidated bottom-line fiscal impact on the Province, the FAO is ~~captured~~ capturing ~~the~~ this fiscal impact of this borrowing by reducing the net income of OPG by $1.9 billion in 2017-18, and by $3.2 billion by 2021-22. [OFA track change edits in this paragraph]

Impact of the Fair Hydro Plan on Ontario's Revenue from Government Business Enterprises



Source: Public Accounts, 2017 Ontario FES and FAO.

FAO Revenue Assumptions and Forecast

Revenue Source	Assumption	Forecast
Taxation Revenue	Grows with key economic drivers including labour income, corporate profits and household spending	Averages 4.2 per cent growth per year from 2017-18 to 2021-22[7]
Federal Transfers	Based on legislated growth rates and economic forecasts for Ontario and Canada	Federal transfers are expected to grow by 1.6 per cent per year from 2017-18 to 2021-22
Government Business Enterprises (GBE)	Based on government projections, and adjusted for the impact of the Fair Hydro Plan as recommended by the Auditor General	Income from GBEs are projected to fall from $5.6 billion in 2016-17 to $3.1 billion in 2017-18 and remain roughly stable at that level to 2021-22

7 The reduction in the Small Business Corporate Income Tax rate is reflected in the FAO's tax revenue projections.

Commented [GNR12]: OFA: The costs are still to be paid by the specified consumers, so not a subsidy.

Commented [GNR13]: OFA: Perhaps a suggested rewording?

Or, would it be more consistent for FAO to show it as an Energy expense line increase, through IESO consolidation? (Noting that the government's position is that there is not an expected net impact from the refinancing.)

Commented [GNR14]: OFA: This may be misleading to show an impact on the revenue side, in that the AG's recommendation was that all interest expense, and annual financing shortfall expense would be an expense to the Province (p. 16).

Commented [GNR15]: OPCD: The IESO incurs the shortfall, not OPG; reported as expense on full consolidation basis (no impact to revenue).

Commented [GNR16]: OB: Should the years presented in the graph be fiscal years? E.g. 2019-20 etc.

Commented [GNR17]: OPCD: IESO is not a GBE.

Commented [GNR18]: OPCD: See note above (IESO would be affected under the AG recommended accounting; not a GBE)

Other Revenue	Based on government projections, and includes asset sales, and proceeds from the sale of cap and trade allowances	These revenues are projected to increase from $16.3 billion in 2016-17 to $19.4 billion in 2017-18, before declining to $18.0 billion by 2021-22

Expense Outlook

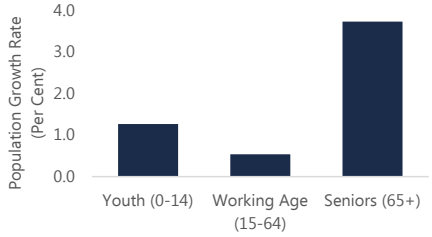
Program Spending

The FAO projects program spending to grow by 3.9 per cent from 2017-18 to 2021-22.[8]

Over the 2017-18 to 2019-20 period, the FAO's outlook adopts the government's 2017 Fall Economic Statement's projections for program spending, adjusted to reflect the Auditor General's recommended accounting presentation.[9] The projection for program spending is largely unchanged from the 2017 Ontario Budget, aside from $200 million of new spending in 2017-18, declining to $100 million by 2019-20.[10]

Beyond 2019-20, the FAO projects program spending will grow at an annual average rate of 4.1 per cent. This stronger pace of growth reflects additional spending to meet two demographic pressures: the aging baby boomer cohort and the growing youth population. The growth in these two population groups will place added spending pressures on Ontario's health care and education systems.

Population Growth by Age (2016-2021)



Source: Statistics Canada and FAO

Interest on Debt

Interest on debt (IOD) payments are expected to increase at an average rate of 3.4 per cent per year over the outlook due to elevated borrowing levels and rising interest rates.

The decline in IOD as a share of revenues over the past three years was due to stronger revenue growth, lower borrowing and maturing debt being refinanced at much lower rates of interest. However, this trend is expected to reverse over the outlook as revenue growth moderates while IOD payments accelerate. By 2021-22, Ontario's debt interest payments will account for 8.4 per cent of total revenue, slightly higher than the 8.1 2 per cent share in 2017-18.

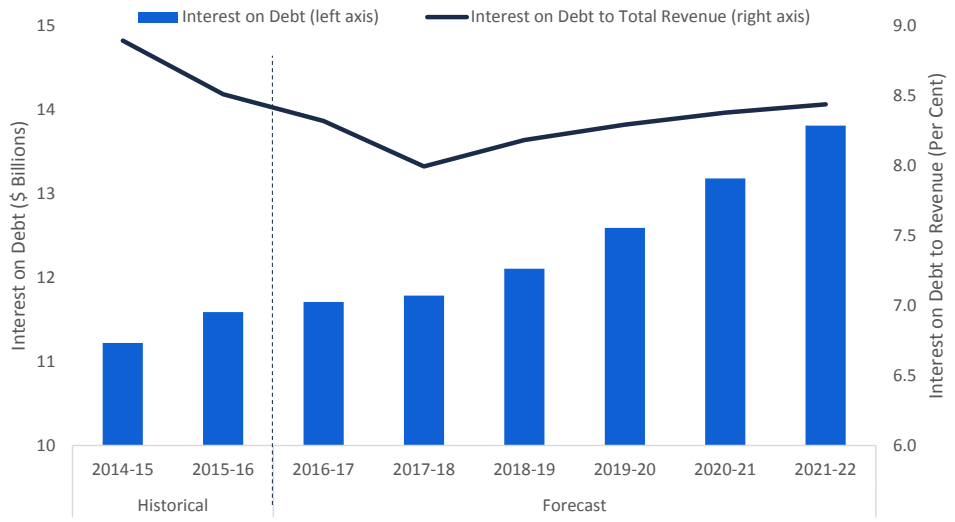
Commented [ES19]: OFA: 2017 FES; it appears that the FAO does not use BPS-consolidated IOD; this choice also affects the IOD chart on page 9.

8 Excluding the pension adjustment, the FAO projects program spending to grow by 3.5 per cent on average from 2017-18 to 2019-20, largely unchanged from the FAO's Spring EFO.

9 Based on information provided by the Ministry of Finance, the FAO's projection for 'Other Spending' includes $2.3 billion in 2017-18 for the valuation allowance on jointly-sponsored pension assets, growing to $2.9 billion by 2021-22.

10 In the 2017 FES, the government announced new funding for additional spending for small businesses, seniors and child care. However, the additional expenses for child care is fiscally neutral since it is funded by a corresponding increase in federal transfer revenue.

Interest on Debt



Source: Ontario Public Accounts and FAO.

Borrowing and Net Debt

Despite higher funding requirements for capital expenditures and the Fair Hydro Plan, Ontario's borrowing is expected to decline to $~~23~~25.8 [OFA]billion in 2017-18, the lowest level of borrowing since ~~2007~~2008-09 [OFA]. The relatively low level of borrowing in 2017-18 is largely the result of debt maturities falling by $~~4.1~~3.5 billion to $17.4 billion.[11]

Beginning 2018-19, borrowing requirements are expected to increase significantly due to higher annual debt maturities, ~~additional funding requirements for the Fair Hydro Plan~~ [OFA]and rising capital expenditures. By 2021-22, the FAO expects borrowing to increase to $42 billion – nearly double the borrowing requirement in 2017-18.

In 2017-18, the FAO projects that Ontario's net debt-to-GDP ratio will edge down, reflecting lower borrowing and strong economic growth. However, over the next five years, the FAO projects that nearly $90 billion will be added to net debt – increasing the net debt-to-GDP ratio to 41 per cent by 2021-22.[12]

11 When debt matures the government must roll over the maturing debt with new borrowing. Declines in maturities result in lower borrowing and vice versa.
12 The FAO's estimate of net debt incorporates the AG's recommended accounting framework.

Commented [GNR20]: In the graph, the bar for 2016–17 can be moved into the historical section.

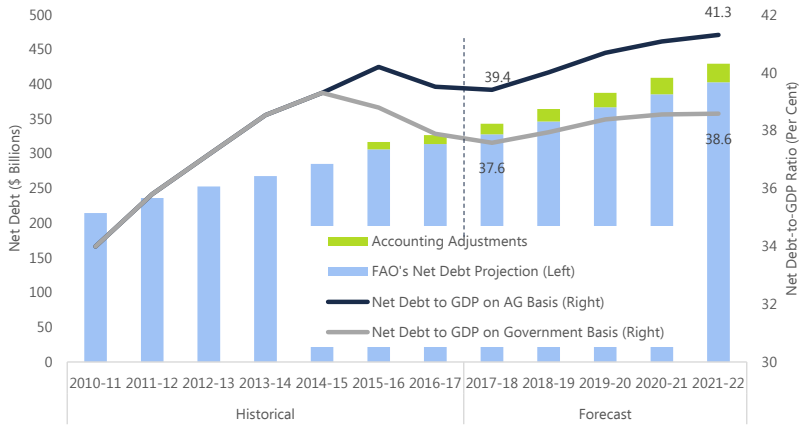
Commented [ES21]: OFA 2016-17 maturities of 20.9 (from Q1 Finances) minus 2017-18 maturities of 17.4 (from FES FT)

Commented [ES22]: OFA: The Province has already factored in all borrowing requirements, including the debt burden projections for the Fair Hydro plan for that year, in consultation with OPG and retained consultants. The $42 billion therefore is in excess of Ontario's projection by a significant amount.

Commented [ES23]: OFA: The change in net debt reflects the change in the deficit and the change in Net Investment in Tangible Capital Assets – it should not be attributed to lower borrowing which is really the outcome

Commented [ES24]: OFA: With regard to the 41% by the FAO in 2021-22, the Province projects it to be 36.1% for that year as published in the Fall Economic Statement. In the Province's opinion, the FAO is likely factoring in a budget deficit that the government does not project for that year given the balanced budget commitment The FAO's projections include the addition of the 2015-16 Pension adjustment despite the pronouncements of the Expert Panel that confirmed the correctness of the Government's accounting treatment of this asset The reversal of the pension adjustment is correct and in line with the recommendations of the Independent Pension Asset Expert Advisory Panel. The FAO also includes additional Fair Hydro Plan debt that is not in line with provincial projections already incorporated in the Province's Borrowing Program for 2017-18 and the two out years. The incremental borrowings for funding the Province's equity injection to OPG over the FES outlook period is a small fraction of the Province's borrowings and have no impact on the Province's net debt.

Net Debt Outlook



Source: FAO and 2017 Ontario Economic Outlook and Fiscal Review, Ontario Public Accounts

The government continues to maintain a net debt-to-GDP target of 35 per cent by 2023-24 and 27 per cent by 2029-30. However, the FAO's net debt-to-GDP projections under both accounting presentations suggest that additional fiscal measures would be required for the government to achieve its net debt-to-GDP targets.


Office of the Budget
MINISTRY of FINANCE

FAO
Financial
Accountability
Office of Ontario

From:	John Psinas
To:	Anna Strathy
Cc:	Alexander Kraas; Ken Kandeepan; George Sakura; Kevin Hwang; Shemin Meralli
Subject:	FW: FAO EFO Report Summary Note / Request for Input
Date:	Thursday, December 07, 2017 10:38:17 AM
Attachments:	Summary of Draft FAO Fall Fiscal Outlook_v2a.docx

Anna,

With regard to the FAO Summary page, most of the document checks out, but as we stated in the comments, we are not sure how the FAO calculated $29 billion in accumulated deficit impacts. We also made a minor edit, replacing the word "option" with "opinion" in the Key Points section.

The FAO Fiscal Outlook document appears to have the comments we sent to Selena a month or so ago.

Thanks.

John

From: Anna Strathy
Sent: Wednesday, December 06, 2017 1:48 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: John Psinas <John.Psinas@ofina.on.ca>; Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: FW: FAO EFO Report Summary Note / Request for Input

Hi Ken,

Office has prepared the attached summary note of the forthcoming FAO report on the fiscal and economic outlook. Just a few net debt-to-GDP numbers for us to check.

Could you please send any **edits to me by noon tomorrow for Gadi's review**? Note, Office of the Budget is expecting an embargoed copy of the report to be sent over tomorrow which could result in updates to the attached note.

Thanks, Anna

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Wednesday, December 06, 2017 12:30 PM
To: Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Sohaeb Raashid (MOI) <Sohaeb.Raashid@ontario.ca>; Caleb Lance (MTCS) <Caleb.Lance@ontario.ca>; Manning, Catalina (TBS) <Catalina.Manning@ontario.ca>
Cc: Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Jacob Hadwen (MOF) <Jacob.Hadwen@ontario.ca>
Subject: FAO EFO Report Summary Note / Request for Input

Hi All,

Attached is a draft FAO EFO report summary note for review with a few caveats. An embargoed copy of the FAO's final EFO report will be released tomorrow and might result in updates. In addition, OEP will be adding a summary on the economic outlook and related key messages in order to have one consolidated product. For your general reference, I'm re-attaching the final comments that were submitted to the FAO.

Could your areas please review the attached summary note and aim to provide ADM approved edits in tracked changes by **EOD tomorrow**? These edits should align with the final EFO report being released tomorrow.

Please let me know if you have any questions.

Thanks,
Ryan

Ryan Birks
Special Policy Advisor and Executive Assistant
ADMO, Office of the Budget
416-327-0074

FAO's 2017 Fall Fiscal Outlook – OB Summary

ISSUE

The Financial Accountability Office is set to release its 'Fall Economic and Fiscal Outlook' report. This note summarizes the fiscal chapter of the report.

TOP MESSAGES

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

Commented [SM1]: Unable to verify how the $29 billion is calculated. The 2010 Budget only goes up to 2012-13.

KEY POINTS

Fiscal Outlook

- The FAO is projecting a budget deficit of $3.9 billion in 2017–18 using the **Auditor General's recommended accounting treatment for both the Fair Hydro Plan and the net pension assets of jointly sponsored pension plans.** In the absence of any fiscal policy changes this grows steadily to $9.6 billion in 2021-22.
- Under the **government's accounting presentation (excluding the AG's recommendations)**, the FAO projects a small surplus for 2017–18 of $0.3 billion (excluding the reserve) and a return to deficits beyond 2017–18 driven by revenue factors - loss of temporary revenues combined with more moderate tax revenue growth.
- The FAO suggests that by not adopting the AG's recommended accounting presentation, the 2017 Budget and the 2017 FES reduced transparency and clarity of Ontario's fiscal position and as a result Ontario will continue to receive qualified ~~options~~ opinions from the AG.

Budget Balance - FAO's Fiscal Outlook ($ Billions)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
AG Presentation	-5.0	-2.5	-3.9	-7.2	-7.9	-8.9	-9.6
Government Presentation	-3.5	-1.0	0.3	-1.9	-2.0	-2.6	-3.5
2017 FES -- Excluding Reserve	-3.5	-1.0	0.5	0.5	0.8	N/A	N/A

Revenue Outlook

- Using the AG presentation, the FAO is projecting average annual revenue growth of 2.6 per cent from 2016-17 to 2019-20 as compared with the government's projections of 4.0 per cent. The main drivers are:
    - The FAO projections for taxation revenues are $2.9 billion lower by 2019-20 than the projections in the 2017 FES due to lower projected growth in household spending, labour income and corporate profits.
    - The FAO projects that, based on the AG presentation, the Fair Hydro Plan will lower net income from OPG by $3.4 billion lower by 2019-20.
    - In addition, the FAO continues to highlight a number of one-time 2017-18 revenues, including: increase to sales and rentals from sale of final tranche of H1, higher federal transfers for infrastructure (PTIF), one-time boost from extra Cap and Trade auction. Taken together the FAO estimates that these amount to $4.5 billion in additional one-time revenues in 2017-18.

Expense Outlook

- From 2017–18 to 2019–20 the FAO's outlook adopts the government's 2017 FES projections for program spending, **adjusted to reflect the AG's recommended accounting presentation.** Beyond 2019–20 the FAO projects program spending will grow faster -- at an average annual rate of 4.1 per cent – due to population pressures.

Borrowing and Net Debt

- Using the **government's accounting presentation** net debt-to-GDP is expected to reach 38.4 per cent by 2019–20 and 38.6 per cent by 2021–22. This increases to 41.3 per cent by 2021–22 **under the AG's accounting presentation**.
    - The 2017 FES projected a net debt-to-GDP ratio of 37.0 per cent by 2019–20.

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

	Actual		Outlook					Avg. Annual Growth		
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	16-17 to 19-20	19-20 to 21-22	16-17 to 21-22
2017 Fall Economic Statement										
Revenue*	136.1	140.7	150.1	153.6	158.2			4.0%		
Adjustment for Fair Hydro Plan	-	-	-	-	-					
Total Revenue	136.1	140.7	150.1	153.6	158.2			4.0%		
Expense										
Program Expense**	128.1	130.0	137.4	140.4	144.2			3.5%		
Adjustment for Pension Assets	-	-	-	-	-					
Interest on Debt	11.6	11.7	12.2	12.7	13.3			4.2%		
Total Expense	139.7	141.7	149.6	153.1	157.4			3.6%		
Surplus/(Deficit) Excl. Reserve	(3.5)	(1.0)	0.5	0.5	0.8					
Reserve	-	-	0.5	0.5	0.8					
Surplus/(Deficit)	(3.5)	(1.0)	0.0	0.0	0.0					
Net Debt	295.4	301.6	311.7	323.0	335.6					
Change - 2017 Fall Economic Statement to 2017 Fall FAO Fiscal Outlook										
Revenue	-	-	*(0.8)*	*(3.0)*	*(3.5)*					
Adjustment for Fair Hydro Plan	-	-	*(1.9)*	*(2.7)*	*(2.9)*					
Total Revenue	-	-	(2.7)	(5.7)	(6.4)					
Expense										
Program Expense	-	-	-	-	-					
Adjustment for Pension Assets	1.5	1.5	2.2	2.6	2.9					
Interest on Debt	-	-	*(0.4)*	*(0.6)*	*(0.7)*					
Total Expense	*1.5*	*1.5*	*1.8*	*2.0*	*2.3*					
Surplus/(Deficit) Excl. Reserve	*(1.5)*	*(1.5)*	*(4.4)*	*(7.7)*	*(8.7)*					
Reserve	-	-	*(0.5)*	*(0.5)*	*(0.8)*					
Surplus/(Deficit)	*(1.5)*	*(1.5)*	*(3.9)*	*(7.2)*	*(7.9)*					
Surplus/(Deficit) exc. Adj. for Fair Hydro Plan and Pension Assets	*(0.0)*	*(0.0)*	*0.3*	*(1.9)*	*(2.0)*					
Net Debt	*11.0*	*12.5*	*16.3*	*23.5*	*31.4*					
2017 Fall FAO Fiscal Outlook										
Revenue	136.1	140.7	149.3	150.6	154.7	160.7	166.9	3.2%	3.9%	3.5%
Adjustment for Fair Hydro Plan	-	-	(1.9)	(2.7)	(2.9)	(3.4)	(3.2)			
Total Revenue	136.1	140.7	147.4	147.9	151.8	157.3	163.7	2.6%	3.8%	3.1%
Expense										
Program Expense	128.1	130.0	137.4	140.4	144.2	150.1	156.6	3.5%	4.2%	3.8%
Adjustment for Pension Assets	1.5	1.5	2.2	2.6	2.9	2.9	2.9			
Interest on Debt	11.6	11.7	11.8	12.1	12.6	13.2	13.8	2.5%	4.7%	3.4%
Total Expense	141.2	143.2	151.4	155.1	159.7	166.2	173.3	6.0%	8.9%	7.2%
Surplus/(Deficit) Excl. Reserve	(5.0)	(2.5)	(3.9)	(7.2)	(7.9)	(8.9)	(9.6)			
Reserve	-	-	-	-	-	-	-			
Surplus/(Deficit) (AG Presentation)	(5.0)	(2.5)	(3.9)	(7.2)	(7.9)	(8.9)	(9.6)			
Surplus/(Deficit) exc. Adj. for Fair Hydro Plan and Pension Assets (Gov't presentation)	(3.5)	(1.0)	0.3	(1.9)	(2.0)	(2.6)	(3.5)			
Net Debt	306.4	314.1	328.0	346.5	367.0	385.7	403.1			

Note: Numbers may not align with report due to rounding.

From:	Anna Strathy
To:	George Sakura; Alexander Kraas
Cc:	Ken Kandeepan
Subject:	FW: FAO Fall EFO Summary Note
Date:	Friday, December 08, 2017 11:54:54 AM
Attachments:	Summary of Draft FAO Fall Economic and Fiscal Outlook_v5.docx

For the 12:30pm meeting. In Trillium Boardroom.

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Friday, December 08, 2017 11:51 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>
Cc: Kobrinsky, Liza (MOF) <Liza.Kobrinsky@ontario.ca>
Subject: FAO Fall EFO Summary Note

Hi Anna and Ghufran,

Ahead of the DM/MO briefing, attached is the latest Fall EFO summary note that we'll be tabling.

Thanks,
Ryan

Ryan Birks
Special Policy Advisor and Executive Assistant
ADMO, Office of the Budget
416-327-0074

FAO's 2017 Fall Economic and Fiscal Outlook

ISSUE

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

TOP MESSAGES

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

KEY POINTS

Economic Outlook

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

Fiscal Outlook

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

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

Revenue Outlook

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

Expense Outlook

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

Borrowing and Net Debt

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

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

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

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

Economic Assumptions: FAO vs FES

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

* Real household consumption plus CPI

From:	Anna Strathy
To:	Ken Kandeepan
Cc:	Bonnie Lemcke; David Cross; Erica Wieder
Subject:	FW: FAO Information Request: 2018 Economic and Fiscal Outlook / Responses by March 13
Date:	Tuesday, March 06, 2018 8:17:54 AM
Attachments:	image001.png EFO-Spring 2018 Info Request - Cover Letter.pdf EFO-Spring 2018 Info Request Cover spreadsheet - Attachment 1.xlsx Guide to Responding to FAO Requests - Attachment 2.pdf EFO-Spring 2018 Info Request Attachment 3.xlsx
Importance:	High

Hi Ken,

I don't see anything here for the OFA to respond to, so just an FYI. The FAO has sent its formal request for information for its Spring Economic and Fiscal Outlook. The information request is broken up into two categories – background information by March 16, and then details immediately following the release of the Budget. I've copied the request below for ease of reference.

March 16

1. The latest estimates from the data tables of the Fourth Quarter 2017 Ontario Economic Accounts, as of March 16, 2018;
2. An updated projection of the annual cost of the refinancing portion of the Fair Hydro Plan to 2048;
3. A projection of annual OHIP+ expense to 2022-23*;
4. Data on tangible capital assets, amortization expense and gross infrastructure expenditure by sector from 2010-11 to 2016-17; and
5. Detailed information on one-time and other adjustments to revenue for 2016-17 and 2017-18.

Post Budget

6. Updated information related to the impact of the Auditor General's recommended accounting treatment for assets in jointly-sponsored pension plans to 2022-23*;
7. Data on tangible capital assets, amortization expense and gross infrastructure expenditure by sector from 2017-18 to 2027-28;
8. Detailed revenue outlook to 2022-23* from the 2018 Budget;
9. Detailed expense outlook to 2022-23* from the 2018 Budget;
10. 10.Details of changes by year to the revenue projection in the 2018 Budget to 2022-23*, since the 2017 Fall Economic Statement, including individual budget measures; and
11. 11.Details of changes by year to the program spending projection in the 2018 Budget to 2022-23*, since the 2017 Fall Economic Statement, including individual budget measures.

** The FAO requests the forecast to 2022-23 or the latest year available.*

If you see anything here that may require input from the OFA, please let me know.

Anna

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Monday, March 05, 2018 9:50 PM
To: Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Usman Zahid <Usman.Zahid@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Hilary Cox (ENE) <Hilary.Cox@ontario.ca>; Sohaeb Raashid (MOI) <Sohaeb.Raashid@ontario.ca>; Caleb Lance (MTCS) <Caleb.Lance@ontario.ca>; Gillian Sailsman (MGS) <Gillian.Sailsman@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>
Cc: Daniel Tiburcio (MOF) <Daniel.Tiburcio@ontario.ca>; Paul Ternamian (MOF) <Paul.Ternamian@ontario.ca>
Subject: FW: FAO Information Request: 2018 Economic and Fiscal Outlook / Responses by March 13
Importance: High

Hi All,

Thanks for your input on the initial scoping of the FAO's spring EFO request. As a follow up to their initial outreach, please find attached the FAO's formal information request. I'm including a breakdown by program area for the pre-budget information below. The FAO will be following up to request items 6-11 immediately following the release of the budget.

1. The latest estimates from the data tables of the Fourth Quarter 2017 Ontario Economic Accounts, as of March 16, 2018; (OEP)
2. An updated projection of the annual cost of the refinancing portion of the Fair Hydro Plan to 2048; (ENE)
3. A projection of annual OHIP+ expense to 2022-23*; (OEMD)
4. Data on tangible capital assets, amortization expense and gross infrastructure expenditure by sector from 2010-11 to 2016-17; (PPD and CEMD) and
5. Detailed information on one-time and other adjustments to revenue for 2016-17 and 2017-18. (OEP)

** The FAO requests the forecast to 2022-23 or the latest year available.*

Could you please send your ADM approved pre-budget information/submissions to myself (with a copy to Daniel Tiburcio and Paul Ternamian) **by noon on Tuesday, March 13**? A consolidated package of information will then need to be shared with the DMOs.

Please let me know if you have any questions.

Thanks,
Ryan

From: Catherine Robinson
Sent: March 5, 2018 4:25 PM
To: helen.angus@ontario.ca; Scott.Thompson@ontario.ca
Cc: karen.hughes@ontario.ca; Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>;

cindy.veinot@ontario.ca; Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>; David West <dwest@fao-on.org>; Luan Ngo <lngo@fao-on.org>
Subject: FAO Information Request: 2018 Economic and Fiscal Outlook
Importance: High

Dear Deputy Angus and Deputy Thompson,

Please find attached the request for information to support our analysis for the upcoming 2018 Spring Economic and Fiscal Outlook.

As indicated in the letter, we are seeking five pieces of information by March 16, 2018, and six pieces of information on Budget day. In addition, we may make an additional request for background information on budget measures following the release of the budget.

Should you or your staff have any questions about this request, I would ask that you contact Luan Ngo at lngo@fao-on.org or by phone at 416-277-1856.

I thank you and your staff for your assistance in this request.

Thank you,

Sent on behalf of
The Honourable J. David Wake
Temporary Financial Accountability Officer of Ontario

Catherine Robinson
Executive Assistant

FAO | Financial Accountability Office of Ontario

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2 | c.416.317.4935 | crobinson@fao-on.org | www.fao-on.org



Financial
Accountability
Office of Ontario

Financial Accountability Office of Ontario
2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2 | 416.644.0702 | fao-on.org | info@fao-on.org

March 5, 2018

Helen Angus
Deputy Minister, Treasury Board Secretariat
Whitney Block Rm 5320, 99 Wellesley St W
Toronto ON M7A 1A1

Scott Thompson
Deputy Minister, Ministry of Finance
Frost Building South, 7th Floor,
7 Queen's Park Crescent
Toronto, ON M7A 1Y7

RE: FAO Information Request (EFO-Spring 2018)

Dear Deputies Angus and Thompson:

My mandate as Temporary Financial Accountability Officer is to provide the Legislative Assembly of Ontario with the economic and financial analysis it needs to perform its constitutional functions.

My staff are currently preparing analysis to support the FAO's bi-annual Economic and Fiscal Outlook (EFO) report. This work is undertaken under paragraph 10(1)(a) of the *Financial Accountability Officer Act, 2013* (the Act), which allows the Officer to "provide, on his or her own initiative, an independent analysis to the Assembly about the state of the Province's finances, including the budget, and trends in the provincial and national economies."

As per subsection 12(1) of the Act, I request that your ministries provide me with information outlined in this letter by completing Attachment 3. Specifically, I am requesting that you direct your staff to provide me with the following background information by March 16, 2018:

1. The latest estimates from the data tables of the Fourth Quarter 2017 Ontario Economic Accounts, as of March 16, 2018;

2. An updated projection of the annual cost of the refinancing portion of the Fair Hydro Plan to 2048;

3. A projection of annual OHIP+ expense to 2022-23*;

4. Data on tangible capital assets, amortization expense and gross infrastructure expenditure by sector from 2010-11 to 2016-17; and

5. Detailed information on one-time and other adjustments to revenue for 2016-17 and 2017-18.

* The FAO requests the forecast to 2022-23 or the latest year available.

2 Rue Bloor Ouest, Bureau 900, Toronto, Ontario M4W 3E2 | 416.644.0702 | fao-on.org | info@fao-on.org
Bureau de la Responsabilité Financière de l'Ontario

In addition, immediately following the release of the 2018 Budget, I request that you provide us with the following Budget-related information:

6. Updated information related to the impact of the Auditor General's recommended accounting treatment for assets in jointly-sponsored pension plans to 2022-23*;

7. Data on tangible capital assets, amortization expense and gross infrastructure expenditure by sector from 2017-18 to 2027-28;

8. Detailed revenue outlook to 2022-23* from the 2018 Budget;

9. Detailed expense outlook to 2022-23* from the 2018 Budget;

10. Details of changes by year to the revenue projection in the 2018 Budget to 2022-23*, since the 2017 Fall Economic Statement, including individual budget measures; and

11. Details of changes by year to the program spending projection in the 2018 Budget to 2022-23*, since the 2017 Fall Economic Statement, including individual budget measures.

* The FAO requests the forecasts for these data to 2022-23 or the latest year available.

Following the release of the Budget, I will be requesting additional background information on specific tax and spending measures announced in the 2018 Budget. My staff will provide you with details on this request for additional background information within 48 hours of the release of the Budget. If possible, I ask that this information be provided within two business days of the request.

In addition, I request that your ministries complete Attachment 1 by outlining any disclosure restrictions related to the information request.

- If you believe that some or all of the requested information falls under the Cabinet records exception under subsection 12(2) of the FAO Act and that Cabinet has not consented to provide that information to the FAO in the Cabinet records order-in-council (see OC 1412/2016, Attachment 2), please describe the information in the Cover spreadsheet (Attachment 1) and explain why you believe the exception prevents you from providing me with the information.

- If you believe that some or all of the information that you are providing in response to this request is subject to the disclosure restrictions under the Cabinet records order-in-council, please clearly identify the information in question.

- If you believe that some or all of the requested information is personal information and/or personal health information exceptions under subsection 12(3) of the FAO Act, please

describe the information in the Cover spreadsheet (Attachment 1), and explain why you believe that exception applies and why you have been unable to redact the information in accordance with subsection 12(4) of the FAO Act.

- If you believe that some or all of the information that you are providing in response to this request is subject to the disclosure restrictions in paragraphs 2, 3 and/or 4 of section 13 of the FAO Act, please identify the information in question and in the Cover spreadsheet (Attachment 1), identify which condition applies, citing the specific provision of the *Freedom of Information and Protection of Privacy Act*.

  If the restriction is intended to protect the interests of other public institutions, governments, third parties and/or legal privilege holders, please specifically identify any institutions, governments, third parties and/or legal privilege holders whose interests would be affected by the disclosure of the information.

I have enclosed the *Guide to Responding to Information Requests from the FAO,* including the Cabinet records order-in-council (Attachment 2) to assist you with this information request.

Please note that any cover letter accompanying your response to this request will be posted publicly on the FAO website, but attachments will not.

Should you or your staff have any questions about this request, I would ask that you contact Luan Ngo at lngo@fao-on.org or by phone at 416-277-1856.

I would like to thank you for your assistance in this matter. My primary objective is to provide timely and relevant analysis to the Legislative Assembly. My ability to do so depends on the timely provision of information held by your ministries, which I believe is necessary for the work of the FAO. By providing me with this information, you are assisting me in better serving all Members of Provincial Parliament.

Sincerely,



The Honourable J. David Wake
Temporary Financial Accountability Officer

Enclosures: 3

Attachment 1: EFO-Spring 2018 Cover Spreadsheet
Attachment 2: Guide to Responding to Information Requests from the FAO
Attachment 3: EFO-Spring 2018 Information Request Spreadsheet

cc.

Karen Hughes
Associate Deputy Minister, Treasury Board Secretariat
Frost Building South, 7th Floor
7 Queen's Park Crescent East
Toronto, ON M7A 1Y7

Tim Schuurman
Assistant Deputy Minister, Ministry of Finance
Frost Building South, 4th Floor
7 Queen's Park Crescent East
Toronto ON M7A 1Y7

Cindy Veinot
Assistant Deputy Minister & Provincial Controller,
Treasury Board Secretariat
Frost Building South, 2nd Floor
7 Queen's Park Crescent East
Toronto, ON M7A 1Y7

David West
Chief Economist,
Financial Accountability Office of Ontario
2 Bloor Street W, Suite 900
Toronto Ontario M4W 3E2

Steen Hume
Assistant Deputy Minister
Ministry of Energy
7th Flr, 77 Grenville St.
Toronto, ON M7A 2C1

Financial Accountability Office of Ontario

Informatior

Project Name
Information Request No.

Instructions: Please complete
contact Luan Ngo (FAO contac

ı Request: Cover Spreadsheet

2018 Sprping Economic and Fiscal Outlook
EFO-Spring 2018

the following worksheet (Cover Spreadsheet) listing all records that respond to this request. Please
t) (lngo@fao-on.org or 416-277-1856) if assistance is required.

Cover Spreadsheet: Inventory of Responsive Records for Information Request EFO-Spring 2018

*For questions about completing this form, please refer to the attached "Guide to Responding to Information Requests from the Financial Accountability Office of Ontario" and Order in Council 1412/2016. The Guide and Order in Council are also available online at http://www.fao-on.org/en/information_requests.

Name of Record	Responds to Information Request Item #	Provided to FAO (Y/N)?	If not provided, indicate reason (three options are available) and provide explanation in column H -cabinet record not authorized to be released by OC 1412/2016 -personal information (which could not be redacted) -personal health information (which could not be redacted)	If provided, is the information a Cabinet Record (Y/N)?	If provided, is the record public (Y/N)?	If provided and record is not public, does any condition listed in s. 13 (items 2 to 4) of the FAO Act prevent the public disclosure of the information (Y/N)? (see Info Request Guide fo assistance*)	Explanation
1. Latest Estimate of Fourth Quarter Ontario Economic Accounts	**EFO-Spring 2018**						
2. Updated projection of the annual cost of the refinancing portion of the Fair Hydro Plan	**EFO-Spring 2018**						
3. OHIP+ Expense	**EFO-Spring 2018**						
4 & 7 Data on tangible capital assets, amortization expense and gross infrastructure expenditure	**EFO-Spring 2018**						
5. One-time and other adjustments to revenue	**EFO-Spring 2018**						
6. Jointly Sponsored Pension Plans	**EFO-Spring 2018**						
8. Detailed revenue outlook	**EFO-Spring 2018**						
9. Detailed expense outlook	**EFO-Spring 2018**						
10. Details of changes to Revenue Projection	**EFO-Spring 2018**						
11. Details of changes to Program Spending Projection	**EFO-Spring 2018**						

Guide to Responding to Information Requests from the Financial Accountability Officer of Ontario

Purpose of this Document

This guide has been developed to aid ministries and public entities in preparing responses to information requests from the Financial Accountability Officer of Ontario (FAO). This guide is not a substitute for the *Financial Accountability Officer Act, 2013* (FAO Act) and the Cabinet records order-in-council (OC 1412/2016 –attached for reference). The FAO Act and the order-in-council should be reviewed before responding to requests from the FAO.

Questions and Answers

1. Under what authority is the FAO making this information request?

Under subsection 12(1) of the FAO Act, ministries and public entities have the duty to provide the FAO with information in their custody or under their control that the FAO believes to be necessary to perform his duties.

2. What information needs to be provided?

You must provide all financial, economic or other information that is in your ministry's or public entity's custody or control that the FAO believes to be necessary to perform his duties. Please review the information request carefully in determining which records are responsive. In responding to the information request please complete the cover spreadsheet provided, listing all the responsive records with a description of each record.

3. What is the deadline?

All information requests have a deadline included in the cover letter and on the attached information request itself.

4. What if our ministry or public entity cannot meet the deadline?

If your ministry or public entity cannot meet the deadline set out in the request, please notify the FAO contact identified in the information request and request an extension. The FAO will not unreasonably withhold extensions.

5. How should the information be transmitted to the FAO?

Non-confidential information may be transmitted to the FAO by e-mail. The FAO contact identified in the information request should be copied.

Confidential information should be transmitted securely. Please speak to the FAO contact to arrange for secure delivery.

6. In what format should I provide information to the FAO?

To the extent possible, information should be provided in machine-readable format such as Microsoft Word or Excel or files readable with this software. PDF is acceptable when machine readable formats are not available.

7. What if I don't understand what is being requested?

If you do not understand what information is being requested or require any clarification, please speak to the FAO contact identified in the information request. The FAO contact would be happy to provide clarification and explanation.

8. What if the information being requested does not exist within my ministry or public entity?

Please indicate in your response that no records exist that would respond to the request. If possible, please provide information on which ministry or public entity has custody or control of, or might have custody or control of, a particular record.

9. What if the information requested requires my ministry or public entity to incur costs?

Under subsection 12(1) of the FAO Act, all information must be provided free of charge.

10. When can/must information be withheld from the FAO?

There are only three limited circumstances in which a ministry or public entity cannot provide information to the FAO:

- the information is contained in a Cabinet record which Cabinet has not consented to provide to the FAO (subsection 12(2) of the FAO Act, section 12 of the *Freedom of Information and Protection of Privacy Act* and OC 1412/2016);

- it is personal information within the meaning of the *Freedom of Information and Protection of Privacy Act* (see subsection 12(3) of the FAO Act); or

- it is personal health information within the meaning of the *Personal Health Information Protection Act, 2004* (see subsection 12(3) of the FAO Act).

Subsection 12(4) of the FAO Act requires that ministries and public entities take reasonable steps to redact personal information and personal health information from their responses to FAO requests in order to maximize the information they can provide.

Cabinet has consented for ministries and public entities to provide the FAO with certain information contained in Cabinet records (OC 1412/2016). The order-in-council has the effect of narrowing the application of the Cabinet records exception in subsection 12(2) of the FAO Act. As a result, you must provide information contained in Cabinet records that is necessary for the performance of the FAO's duties provided that:

- The information is not available from other sources (please indicate the other source where possible);

- The decision to which the information relates has been made by Cabinet or one of its committees and publicly announced, even if Cabinet or one of its committees could engage in further deliberation about the decision;

- The information is not:

    - An agenda of Cabinet or one of its committees;

    - A minute of Cabinet or one of its committees, unless the minute is the only source of the information;

    - Policy or costing options or recommendations, unless the option or recommendation was selected by Cabinet or one of its committees;

    - The substance of deliberations of Cabinet or one of its committees concerning those options and recommendations, other than deliberations related to the option or recommendation selected that would be apparent from its disclosure;

    - Information concerning the individual opinions of Cabinet ministers;

    - A communications plan, stakeholder management plan, key messages or other communications materials;

    - Draft legislation or regulations, unless approved by Cabinet or one of its committees.

Should one of these three circumstances affect a record that is responsive to an FAO information request, please identify which of the three circumstances applies and explain why you believe it applies in the cover spreadsheet provided, listing all the responsive records with a description of each record. In the case of the personal information or personal health information exceptions, please explain why you believe that exception applies and why you have been unable to redact the information in accordance with subsection 12(4) of the FAO Act.

11. Can I withhold from the FAO commercially sensitive information?

No. Commercial sensitivity is not a valid justification for withholding information from the FAO. The only valid justifications for refusing to provide information to the FAO are the Cabinet records, personal information and personal health information exceptions set out in subsections 12(2) and (3) of the FAO Act (see Question 10 for more details).

12. Do I have to provide to the FAO information that has not been publicly released?

Yes. Not having been released publicly is not a valid justification for withholding information from the FAO. The only valid justifications for refusing to provide information to the FAO are the Cabinet records, personal information and personal health information exceptions set out in subsections 12(2) and (3) of the FAO Act (see Question 10 for more details).

13. Do I have to provide information subject to solicitor-client privilege, litigation privilege and/or settlement privilege to the FAO?

Yes. The only valid justifications for refusing to provide information to the FAO are the Cabinet records, personal information and personal health information exceptions set out in subsections 12(2) and (3) of the FAO Act (see Question 10 for more details).

However, please note that the disclosure of information subject to solicitor-client privilege, litigation privilege and/or settlement privilege does not constitute a waiver of those privileges by virtue of subsection 12(6) of the FAO Act.

14. What happens if our ministry/public entity fails to comply with a request?

If the FAO is of the opinion that a ministry or public entity has failed to comply with an information request, the FAO will notify the deputy minister or head of the public entity in writing providing details of the non-compliance. The ministry or public entity will have a second opportunity to comply with the request.

Should the ministry or public entity fail to do so, the FAO may notify the minister responsible and the head of the public entity (if applicable). If the matter is not resolved in a timely manner, the FAO may then notify the Speaker of the Legislative Assembly and the Chair of the Standing Committee on Finance and Economic Affairs under subsection 12(5) of the FAO Act.

15. What happens if our ministry/public entity is not able to provide requested information because some or all of this information falls under the Cabinet records, personal information or personal health information exceptions?

If a ministry or public entity has not provided the requested information because some or all this information falls under one of the exceptions to the ministry or public entity's duty to provide information under subsection 12(1) of the FAO Act, the FAO will evaluate the justification provided by the ministry or public entity.

If the FAO is of the opinion that the ministry or public entity has failed to provide adequate justification, the FAO may notify the minister responsible and the head of the public entity (if applicable). If the matter is not resolved in a timely manner, the FAO may then notify the Speaker of the Legislative Assembly and the Chair of the Standing Committee on Finance and Economic Affairs that he is of the opinion that the ministry or public entity has failed to comply with the request for the purposes of subsection 12(5) of the FAO Act.

16. Will the FAO disclose the information that our ministry/public entity provides?

The FAO does not generally disclose information in raw form. Instead, the FAO provides the Legislative Assembly of Ontario with economic and financial analysis based on that information.

Furthermore, the FAO cannot disclose information unless the disclosure is essential for the performance of the FAO's mandate and four conditions under section 13 of the FAO Act are fulfilled:

- The information is not third party information (section 17 of the *Freedom of Information and Protection of Privacy Act*);
- The information does not involve relations with other governments (section 15 of the *Freedom of Information and Protection of Privacy Act*);
- The information would not affect the economic and other interests of Ontario (subsection 18(1) of the *Freedom of Information and Protection of Privacy Act*); and
- The information is not subject to solicitor-client privilege, litigation privilege or settlement privilege.

Moreover, the FAO cannot disclose information obtained solely from a Cabinet record (OC 1412/2016).

Should one of these five circumstances affect a record that is responsive to an information request, please clearly identify the record in the cover spreadsheet provided and identify which restriction applies, citing the specific provision in the *Freedom of Information and Protection of Privacy Act*.

If the restriction is intended to protect the interests of other public institutions, governments, third parties and/or legal privilege holders, please specifically identify any institutions, governments, third parties and/or legal privilege holders whose interests would be affected by the disclosure of the information.

For greater certainty, ministries and public entities must provide the FAO with requested information even if it is subject to one or more of these categories. The only valid justifications for refusing to provide information to the FAO are the Cabinet records, personal information and personal health information exceptions set out in subsections 12(2) and (3) of the FAO Act (see Question 10 for more details).

Additional Questions

If you have any additional questions or require clarification, please contact the FAO contact identified in the information request.

Executive Council of Ontario/Conseil exécutif de l'Ontario **[Bilingual]**

Ontario

Order in Council
Décret

On the recommendation of the undersigned, the Lieutenant Governor of Ontario, by and with the advice and concurrence of the Executive Council of Ontario, orders that:

Sur la recommandation de la personne soussignée, la lieutenante-gouverneure de l'Ontario, sur l'avis et avec le consentement du Conseil exécutif de l'Ontario, décrète ce qui suit :

WHEREAS the Financial Accountability Officer, an Officer of the Legislative Assembly, was appointed to provide independent analysis to the Assembly about the state of the Province's finances, including the budget, and trends in the provincial and national economies;

AND WHEREAS the Financial Accountability Officer requires access to information in the custody and control of Ministries and public entities in order to fulfill his statutory mandate;

AND WHEREAS certain information in the custody and control of Ministries and public entities is protected by the mandatory Cabinet Records exemption of section 12 of the *Freedom of Information and Protection of Privacy Act*;

AND WHEREAS the Lieutenant Governor in Council considers it advisable to provide the Financial Accountability Officer access to this information;

NOW THEREFORE Pursuant to subsection 12(2) of the *Financial Accountability Officer Act* (the "Act") and subsection12(2) paragraph (b) of the *Freedom of Information and Protection of Privacy Act*:

1. Every Ministry of the Government of Ontario and every public entity is authorized to provide to the Financial Accountability Officer any financial, economic or other information protected by section 12(1) of the *Freedom of Information and Protection of Privacy Act* that relates to:
    - The Province's finances, including the budget, and trends in the provincial and national economies
    - The estimates and supplementary estimates submitted to the Legislature
    - The financial costs or financial benefits to the Province of any public bill before the Assembly, or
    - The financial costs or financial benefits to the Province of any proposal that relates to a matter over which the Legislature has jurisdiction, including any proposal made by the Government or by any member of the Assembly

subject to paragraphs 2 and 3 below.

2. Information outlined in paragraph 1 above shall be provided to the Financial Accountability Officer in accordance with subsection 12(1) of the Act provided that:
    - The information has been requested by the Financial Accountability Officer
    - The information is not available through other sources
    - The policy or financial decision to which the requested information relates has been made by the Executive Council and announced to the public or tabled with or disclosed to the Legislative Assembly, even if the Executive Council or one of its Committees will or could engage in future deliberations with respect to the decision
    - The requested information is provided in a format that does not reveal other information protected by subsection 12(1) of the *Freedom of Information and Protection of Privacy Act,* including
        - an agenda
        - a Minute, unless the Minute is the only source of the requested information
        - policy or costing options or recommendations prepared for or submitted to the Executive Council or its committees other than the policy or costing option selected for implementation
        - the substance of the deliberations of the Executive Council or its committees regarding options or recommendations prepared for or submitted to the Executive Council or its committees, other than deliberations related to the policy option selected for implementation that would be apparent through the disclosure of the requested information
        - information reflecting the individual opinions of members of the Executive Council
        - a communications plan, stakeholder management plan, key messages, or other communications materials
        - draft legislation or regulations other than the particular draft approved by the Executive Council
    - The information would not reveal personal information or personal health information protected from disclosure by subsection 12(3) of the *Financial Accountability Officer Act*
    - The Financial Accountability Officer agrees not to disclose the information without the consent of the Executive Council

3. The provision of the information to the Financial Accountability Officer does not waive or limit the authority of the Head of an institution to apply the mandatory exemption of section 12(1) of the *Freedom of Information and Protection of Privacy Act* should the information be requested by any parties other than the Financial Accountability Officer.

- - - - - - -

ÉTANT DONNÉ que le directeur de la responsabilité financière, qui est un fonctionnaire de l'Assemblée, a reçu pour mission de fournir à l'Assemblée une analyse indépendante de la situation financière de la province, notamment du budget, et des tendances de l'économie provinciale et nationale;

ÉTANT DONNÉ que le directeur de la responsabilité financière a besoin de consulter des renseignements dont les ministères et les organismes publics ont la garde ou le contrôle afin de s'acquitter de la mission que lui confère la loi;

ÉTANT DONNÉ que certains renseignements dont les ministères et organismes publics ont la garde et le contrôle sont protégés par l'exception obligatoire relative aux documents du Conseil exécutif prévue à l'article 12 de la *Loi sur l'accès à l'information et la protection de la vie privée*;

ÉTANT DONNÉ EN OUTRE que le lieutenant-gouverneur en conseil considère qu'il est judicieux de permettre au directeur de la responsabilité financière de consulter ces renseignements;

EN CONSÉQUENCE, en vertu du paragraphe 12(2) de la *Loi sur le directeur de la responsabilité financière* (la « Loi ») et de l'alinéa 12(2)b) de la *Loi sur l'accès à l'information et la protection de la vie privée* :

1. Chaque ministère du gouvernement de l'Ontario et chaque organisme public est autorisé à transmettre au directeur de la responsabilité financière tout renseignement de nature financière, économique ou autre protégé par le paragraphe 12(1) de la *Loi sur l'accès à l'information et la protection de la vie privée* qui porte sur :
    - la situation financière de la province, notamment le budget, et les tendances de l'économie provinciale et nationale,
    - le budget des dépenses et le budget supplémentaire des dépenses présentés à la Législature,
    - les coûts ou avantages financiers pour la province de tout projet de loi d'intérêt public déposé à l'Assemblée,
    - les coûts ou avantages financiers pour la province de toute proposition qui se rapporte à une question relevant de la Législature, y compris une proposition du gouvernement ou d'un député,

    sous réserve des paragraphes 2 et 3 ci-dessous.

2. Les renseignements visés au paragraphe 1 ci-dessus seront transmis au directeur de la responsabilité financière conformément au paragraphe 12(1) de la Loi, pourvu que :
    - ces renseignements aient été demandés par le directeur de la responsabilité financière;
    - ces renseignements ne puissent pas être obtenus d'autres sources;
    - la décision relative aux politiques ou aux finances sur laquelle portent les renseignements ait été prise par le Conseil exécutif et annoncée au public ou présentée ou divulguée à l'Assemblée législative, même si le Conseil exécutif ou un de ses comités tiendra ou peut tenir des délibérations sur cette décision;
    - les renseignements demandés soient transmis sous une forme ne révélant pas d'autres renseignements protégés par le paragraphe 12(1) de la *Loi sur l'accès à l'information et la protection de la vie privée* comme :

- un ordre du jour,
- un procès-verbal, sauf s'il s'agit de la seule source des renseignements demandés,
- des choix ou des recommandations de politiques ou de calcul des coûts présentés au Conseil exécutif ou à ses comités ou formulés à leur intention, autres que le choix retenu aux fins de mise en œuvre,
- l'objet des délibérations du Conseil exécutif ou de ses comités relatives aux choix ou recommandations présentés à eux ou formulés à leur intention, autres que les délibérations relatives au choix retenu aux fins de mise en œuvre, qui ressortiraient de la divulgation des renseignements demandés,
- des renseignements révélant les opinions personnelles des membres du Conseil exécutif,
- un plan de communication, un plan de gestion relatif aux intervenants, des messages clés ou d'autres documents de communication,
- des projets de loi ou de règlement autres que le projet de loi ou de règlement approuvé par le Conseil exécutif;

- ces renseignements ne révèlent pas de renseignements personnels, notamment sur la santé, protégés par le paragraphe 12(3) de la *Loi sur le directeur de la responsabilité financière*;
- le directeur de la responsabilité financière accepte de ne pas divulguer les renseignements sans le consentement du Conseil exécutif.

3. La transmission de ces renseignements au directeur de la responsabilité financière ne supprime ni ne limite le pouvoir du haut responsable d'une institution d'appliquer l'exception obligatoire prévue au paragraphe 12(1) de la *Loi sur l'accès à l'information et la protection de la vie privée* si la demande est présentée par toute partie autre que le directeur de la responsabilité financière.

Recommended: Premier and President of the Council
Recommandé par: Première ministre et Présidente du Conseil

Concurred: Chair of Cabinet
Appuyé par: Le président/la présidente du Conseil des ministres,

Approved and Ordered: OCT 05 2016
Approuvé et décrété le:

Administrator of the Government
L'administratrice du gouvernement

Financial Accountability Office of Ontari

EFO Info

Project Name
Information Request No.

Instructions: Please pr
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2018 Spring Economic and Fiscal Outlook
EFO-Spring 2018

rovide the requested information in each of the worksheets included in this Excel
ntact Luan Ngo (FAO contact) (lngo@fao-on.org or 416-277-1856) if assistance is required.

TABLE 1
OEA Tables - Quarterly Data
ONTARIO GROSS DOMESTIC PRODUCT, INCOME-BASED
Seasonally adjusted data at annual rates, millions of dollars
---

1. Compensation of employees
(domestic basis)

2. Gross operating surplus

3. Net operating surplus: corporations

4. Consumption of fixed capital: corporations

5. Consumption of fixed capital: government
and nonprofit institutions*

6. Gross mixed income

7. Net mixed income

8. Consumption of fixed capital:
unincorporated businesses

9. Taxes less subsidies

10. Statistical discrepancy

11. Gross Domestic Product at
market prices
**

Notes: Per cent change from previous quarter at quarterly rates is given on the second line.
* Non-profit institutions serving households
** Annualized per cent change from previous quarter.
Sources: Office of Economic Policy, Ontario Ministry of Finance and Statistic Canada.

TABLE 2
OEA Tables - Quarterly Data
ONTARIO GROSS DOMESTIC PRODUCT, EXPENDITURE-BASED
Seasonally adjusted data at annual rates, millions of dollars
---

1. Final consumption expenditure on goods and services

2. Household consumption expenditure

3. Durable goods

4. Semi-durable

5. Non-durable

6. Services

7. Nonprofit institutions' final consumption expenditure*

8. Government current expenditure

9. Total gross fixed capital formation

10. Business gross fixed capital formation

11. Residential structures

12. Non-residential structures

13. Machinery and equipment

14. Intellectual property products

15. Nonprofit institutions' gross fixed capital formation*

16. Government capital expenditure

17. Exports of goods and services

18. Imports of goods and services

19. Business investment in inventories

20. Nonfarm

21. Farm

22. Statistical discrepancy

23. Gross Domestic Product at market prices

**

24. Final domestic demand

Notes: Per cent change from previous quarter at quarterly rates is given on the second line.
 Non-profit institutions serving households
** Annualized per cent change from previous quarter.
Sources: Office of Economic Policy, Ontario Ministry of Finance and Statistic Canada.

TABLE 3
OEA Tables - Quarterly Data
ONTARIO REAL GROSS DOMESTIC PRODUCT, EXPENDITURE-BASED
Seasonally adjusted data at annual rates, millions of chained (2007) dollars
---

1. Final consumption expenditure on goods

and services

2. Household consumption expenditure

3. Durable goods

4. Semi-durable

5. Non-durable

6. Services

7. Nonprofit institutions' final consumption expenditure*

8. Government current expenditure

9. Total gross fixed capital formation

10. Business gross fixed capital formation

11. Residential structures

12. Non-residential structures

13. Machinery and equipment

14. Intellectual property products

15. Nonprofit institutions' gross fixed capital formation*

16. Government capital expenditure

17. Exports of goods and services

18. Imports of goods and services

19. Business investment in inventories

20. Nonfarm

21. Farm

22. Statistical discrepancy

23. Gross Domestic Product at market prices

**

24. Final domestic demand

Notes: Per cent change from previous quarter at quarterly rates is given on the second line.
 Non-profit institutions serving households
** Annualized per cent change from previous quarter.
Sources: Office of Economic Policy, Ontario Ministry of Finance and Statistic Canada.

TABLE 4
OEA Tables - Quarterly Data
SOURCES AND DISPOSITION OF ONTARIO HOUSEHOLD INCOME
Seasonally adjusted data at annual rates, millions of dollars
---

1. Compensation of employees (national basis)

2. Plus: net mixed income

3. Non-farm

4. Farm

5. Rental income of households

6. Plus: Net property income

7. Equals: Primary household income

8. Plus: Current transfers received

9. Deduct: Current transfers paid

10. Equals: Household disposable income

11. Deduct: Household final consumption expenditure

12. Plus: Change in pension entitlements

13. Equals: Household net saving

14. Household saving rate (percent)

15. Population (thousands)

16. Household disposable income per capita (dollars)

Notes: Per cent change from previous quarter at quarterly rates is given on the second line.
Sources: Office of Economic Policy, Ontario Ministry of Finance and Statistic Canada.

TABLE 5
OEA Tables - Quarterly Data
ONTARIO TRADE
Seasonally adjusted data at annual rates, millions of dollars
---

1. Exports of goods and services

2. International

3. Interprovincial

4. Imports of goods and services

5. International

6. Interprovincial

7. Trade balance

Note: Per cent change from previous quarter at quarterly rates is given on the second line.
Sources: Office of Economic Policy, Ontario Ministry of Finance and Statistic Canada.

TABLE 6
OEA Tables - Quarterly Data
ONTARIO TRADE
Seasonally adjusted data at annual rates, millions of chained (2007) dollars
---

1. Exports of goods and services

2. International

3. Interprovincial

4. Imports of goods and services

5. International

6. Interprovincial

Note: Per cent change from previous quarter at quarterly rates is given on the second line.
Sources: Office of Economic Policy, Ontario Ministry of Finance and Statistic Canada.

TABLE 7
OEA Tables - Quarterly Data
ONTARIO IMPLICIT PRICE INDEXES, GROSS DOMESTIC PRODUCT
Using seasonally adjusted data, chained (2007) dollars
---

1. Final consumption expenditure on goods and services

2. Household consumption expenditure

3. Durable goods

4. Semi-durable

5. Non-durable

6. Services

7. Nonprofit institutions' final consumption expenditure*

8. Government current expenditure

9. Total gross fixed capital formation

10. Business gross fixed capital formation

11. Residential structures

12. Non-residential structures

13. Machinery and equipment

14. Intellectual property products

15. Nonprofit institutions' gross fixed capital formation*

16. Government capital expenditure

17. Exports of goods and services

18. Imports of goods and services

19. Gross Domestic Product at market prices

*

20. Final domestic demand

Notes: Per cent change from previous quarter at quarterly rates is given on the second line.
* Annualized per cent change from previous quarter.
Sources: Office of Economic Policy, Ontario Ministry of Finance and Statistic Canada.

TABLE 8
OEA Tables - Annual Data
ONTARIO GROSS DOMESTIC PRODUCT, INCOME-BASED
Millions of dollars
---

1. Compensation of employees
(domestic basis)

2. Gross operating surplus

3. Net operating surplus: corporations

4. Consumption of fixed capital: corporations

5. Consumption of fixed capital: government
and nonprofit institutions*

6. Gross mixed income

7. Net mixed income

8. Consumption of fixed capital:
unincorporated businesses

9. Taxes less subsidies

10. Statistical discrepancy

11. Gross Domestic Product at
market prices

Notes: Per cent change from previous year is given on the second line.
* Nonprofit institutions serving households.
Sources: Statistics Canada.

TABLE 9
OEA Tables - Annual Data
ONTARIO GROSS DOMESTIC PRODUCT, EXPENDITURE-BASED
Millions of dollars
---

1. Final consumption expenditure on goods
and services

2. Household consumption expenditure

3. Durable goods

4. Semi-durable

5. Non-durable

6. Services

7. Nonprofit institutions' final consumption expenditure*

8. Government current expenditure

9. Total gross fixed capital formation

10. Business gross fixed capital formation

11. Residential structures

12. Non-residential structures

13. Machinery and equipment

14. Intellectual property products

15. Nonprofit institutions' gross fixed capital formation*

16. Government capital expenditure

17. Exports of goods and services

18. Imports of goods and services

19. Business investment in inventories

20. Nonfarm

21. Farm

22. Statistical discrepancy

23. Gross Domestic Product at market prices

24. Final domestic demand

Note: Per cent change from previous year is given on the second line.
* Nonprofit institutions serving households.
Sources: Statistics Canada.

TABLE 10
OEA Tables - Annual Data
ONTARIO REAL GROSS DOMESTIC PRODUCT, EXPENDITURE-BASED
Millions of chained (2007) dollars
---

1. Final consumption expenditure on goods and services

2. Household consumption expenditure

3. Durable goods

4. Semi-durable

5. Non-durable

6. Services

7. Nonprofit institutions' final consumption expenditure*

8. Government current expenditure

9. Total gross fixed capital formation

10. Business gross fixed capital formation

11. Residential structures

12. Non-residential structures

13. Machinery and equipment

14. Intellectual property products

15. Nonprofit institutions' gross fixed capital formation*

16. Government capital expenditure

17. Exports of goods and services

18. Imports of goods and services

19. Business investment in inventories

20. Nonfarm

21. Farm

22. Statistical discrepancy

23. Gross Domestic Product at market prices

24. Final domestic demand

Note: Per cent change from previous year is given on the second line.
* Nonprofit institutions serving households.
Sources: Statistics Canada.

TABLE 11
OEA Tables - Annual Data
SOURCES AND DISPOSITION OF ONTARIO HOUSEHOLD INCOME
Millions of dollars
---

1. Compensation of employees (national basis)

2. Plus: net mixed income

3. Non-farm

4. Farm

5. Rental income of households

6. Plus: Net property income

7. Equals: Primary household income

8. Plus: Current transfers received

9. Deduct: Current transfers paid

10. Equals: Household disposable income

11. Deduct: Household final consumption expenditure

12. Plus: Change in pension entitlements

13. Equals: Household net saving

14. Household saving rate (percent)

15. Population (thousands)

16. Household disposable income
per capita (dollars)

Notes: Per cent change from previous year is given on the second line.
Sources: Office of Economic Policy, Ontario Ministry of Finance and Statistic Canada.

TABLE 12
OEA Tables - Annual Data
ONTARIO TRADE
Millions of dollars
---

1. Exports of goods and services

2. International

3. Interprovincial

4. Imports of goods and services

5. International

6. Interprovincial

7. Trade balance

Note: Per cent change from previous year is given on the second line.

Sources: Office of Economic Policy, Ontario Ministry of Finance and Statistic Canada.

TABLE 13
OEA Tables - Annual Data
ONTARIO TRADE
Millions of chained (2007) dollars
---

1. Exports of goods and services

2. International

3. Interprovincial

4. Imports of goods and services

5. International

6. Interprovincial

Note: Per cent change from previous year is given on the second line.
Sources: Office of Economic Policy, Ontario Ministry of Finance and Statistic Canada.

TABLE 14
OEA Tables - Annual Data
ONTARIO IMPLICIT PRICE INDEXES, GROSS DOMESTIC PRODUCT
Using chained (2007) dollars
---

1. Final consumption expenditure on goods
and services

2. Household consumption expenditure

3. Durable goods

4. Semi-durable

5. Non-durable

6. Services

7. Nonprofit institutions' final consumption expenditure*

8. Government current expenditure

9. Total gross fixed capital formation

10. Business gross fixed capital formation

11. Residential structures

12. Non-residential structures

13. Machinery and equipment

14. Intellectual property products

15. Nonprofit institutions' gross fixed capital formation*

16. Government capital expenditure

17. Exports of goods and services

18. Imports of goods and services

19. Gross Domestic Product at market prices

20. Final domestic demand

Note: Per cent change from previous year is given on the second line.
* Nonprofit institutions serving households.
Sources: Statistics Canada.

TABLE 15
OEA Tables - Quarterly Data
ONTARIO PRODUCTION BY INDUSTRY AT 2007 PRICES
Seasonally adjusted data at annual rates, millions of chained (2007) dollars
---

1. Goods Producing Industries

2. Primary

3. Agriculture, Forestry, Fishing & Hunting

4. Mining

5. Utilities

6. Electric Power

7. Natural Gas, Water and Other

8. Construction

9. Residential Buildings

10. Non-Residential Buildings and Engineering

11. Manufacturing

12. Food, Beverage, & Tobacco Products

13. Textile, Clothing, & Leather Products

14. Wood Products and Furniture

15. Paper Products and Printing

16. Chemical and Petroleum Products

17. Plastic and Rubber Products

18. Primary Metal & Fabricated Metal Products

19. Machinery

20. Electrical and Electronic Products

21. Transportation Equipment

22. Auto Industry (Vehicles & Parts)

23. Other Transportation Equipment

24. Other Manufacturing

25. Services Producing Industries

26. Wholesale Trade

27. Retail Trade

28. Transportation and Warehousing

29. Information & Culture (including Telecommunications)

30. Finance and Insurance

31. Real Estate, Rental & Leasing

32. Professional and Administrative Services

33. Management of Companies and Enterprises

34. Education

35. Health Care and Social Services

36. Arts, Entertainment & Recreation

37. Accommodation and Food

38. Other Services

39. Public Administration

40. Total Production

*

Notes: Ontario Production is measured as Gross Domestic Product at basic prices.
Per cent change from previous quarter at quarterly rates is given on the second line.
* Annualized per cent change from previous quarter.
Sources: Office of Economic Policy, Ontario Ministry of Finance and Statistics Canada.

TABLE 16
OEA Tables - Annual Data
ONTARIO PRODUCTION BY INDUSTRY AT 2007 PRICES
Millions of chained (2007) dollars
---

1. Goods Producing Industries

2. Primary

3. Agriculture, Forestry, Fishing & Hunting

4. Mining

5. Utilities

6. Electric Power

7. Natural Gas, Water and Other

8. Construction

9. Residential Buildings

10. Non-Residential Buildings and Engineering

11. Manufacturing

12. Food, Beverage, & Tobacco Products

13. Textile, Clothing, & Leather Products

14. Wood Products and Furniture

15. Paper Products and Printing

16. Chemical and Petroleum Products

17. Plastic and Rubber Products

18. Primary Metal & Fabricated Metal Products

19. Machinery

20. Electrical and Electronic Products

21. Transportation Equipment

22. Auto Industry (Vehicles & Parts)

23. Other Transportation Equipment

24. Other Manufacturing

25. Services Producing Industries

26. Wholesale Trade

27. Retail Trade

28. Transportation and Warehousing

29. Information & Culture (including Telecommunications)

30. Finance and Insurance

31. Real Estate, Rental & Leasing

32. Professional and Administrative Services

33. Management of Companies and Enterprises

34. Education

35. Health Care and Social Services

36. Arts, Entertainment & Recreation

37. Accommodation and Food

38. Other Services

39. Public Administration

40. Total Production

Notes: Ontario Production is measured as Gross Domestic Product at basic prices.
Per cent change from previous year is given on the second line.
Sources: Office of Economic Policy, Ontario Ministry of Finance and Statistics Canada.

Instructions: Please provide the latest estimates of the fourth quarter Ontario Economi

Please contact Luan Ngo (lngo@fao-on.org) if assistance is required.

1981 I	1981 II	1981 III	1981 IV	1982 I	1982 II	1982 III	1982 IV	1983 I	1983 II
73,594	74,276	74,047	73,763	77,131	79,459	80,734	83,388	83,532	85,513
-	0.9	-0.3	-0.4	4.6	3	1.6	3.3	0.2	2.4
26,959	27,352	26,584	25,222	24,959	26,011	26,696	27,410	30,258	32,062
-	1.5	-2.8	-5.1	-1	4.2	2.6	2.7	10.4	6
13,348	12,729	10,934	8,473	7,964	9,038	9,768	10,650	13,254	14,642
-	-4.6	-14.1	-22.5	-6	13.5	8.1	9	24.4	10.5
9,863	10,792	11,754	12,827	12,932	12,774	12,597	12,296	12,520	12,911
-	9.4	8.9	9.1	0.8	-1.2	-1.4	-2.4	1.8	3.1
3,747	3,832	3,895	3,922	4,063	4,199	4,331	4,464	4,485	4,509
-	2.2	1.7	0.7	3.6	3.3	3.2	3.1	0.5	0.5
15,549	15,436	15,254	15,265	15,571	16,175	16,852	17,162	17,610	18,052
-	-0.7	-1.2	0.1	2	3.9	4.2	1.8	2.6	2.5
11,604	11,519	11,336	11,345	11,460	11,884	12,393	12,534	13,017	13,419
-	-0.7	-1.6	0.1	1	3.7	4.3	1.1	3.9	3.1
3,944	3,917	3,919	3,920	4,111	4,291	4,459	4,628	4,593	4,633
-	-0.7	0	0	4.9	4.4	3.9	3.8	-0.8	0.9
14,369	15,650	17,004	17,529	16,848	16,369	16,803	17,092	17,461	17,467
-	8.9	8.7	3.1	-3.9	-2.8	2.6	1.7	2.2	0
-2,346	-6	1,228	2,424	3,411	-243	-74	-1,950	814	538
128,124	132,709	134,117	134,203	137,920	137,771	141,011	143,102	149,674	153,632
-	3.6	1.1	0.1	2.8	-0.1	2.4	1.5	4.6	2.6
-	15.1	4.3	0.3	11.5	-0.4	9.7	6.1	19.7	11

1981 I	1981 II	1981 III	1981 IV	1982 I	1982 II	1982 III	1982 IV	1983 I	1983 II
93,262	95,243	97,374	99,236	101,136	103,467	106,357	108,688	111,883	113,888
-	2.1	2.2	1.9	1.9	2.3	2.8	2.2	2.9	1.8
67,122	68,353	68,860	70,033	71,052	72,971	74,633	76,397	79,323	80,853
-	1.8	0.7	1.7	1.5	2.7	2.3	2.4	3.8	1.9
8,871	8,921	8,492	8,607	8,291	8,372	8,386	8,651	9,343	9,954
-	0.6	-4.8	1.4	-3.7	1	0.2	3.2	8	6.5
7,567	7,498	7,485	7,470	7,452	7,707	7,895	8,114	8,458	8,471
-	-0.9	-0.2	-0.2	-0.2	3.4	2.4	2.8	4.2	0.2
20,114	20,721	21,491	22,334	22,908	23,450	23,740	23,763	24,397	24,664
-	3	3.7	3.9	2.6	2.4	1.2	0.1	2.7	1.1
30,570	31,213	31,391	31,621	32,401	33,442	34,612	35,870	37,125	37,763
-	2.1	0.6	0.7	2.5	3.2	3.5	3.6	3.5	1.7
1,796	1,770	1,761	1,761	1,783	1,826	1,896	1,947	1,959	1,949
-	-1.4	-0.5	0	1.3	2.4	3.9	2.7	0.6	-0.5
24,344	25,120	26,754	27,442	28,301	28,671	29,828	30,345	30,601	31,086
-	3.2	6.5	2.6	3.1	1.3	4	1.7	0.8	1.6
26,023	27,709	28,688	29,680	28,296	26,413	25,926	26,660	27,096	28,230
-	6.5	3.5	3.5	-4.7	-6.7	-1.8	2.8	1.6	4.2
22,496	23,819	24,531	25,295	23,735	21,903	21,557	22,217	22,729	23,728
-	5.9	3	3.1	-6.2	-7.7	-1.6	3.1	2.3	4.4
6,769	7,504	7,854	7,409	6,653	6,056	6,290	6,713	7,389	8,184
-	10.9	4.7	-5.7	-10.2	-9	3.8	6.7	10.1	10.8
5,681	5,668	5,711	5,933	5,787	5,524	5,634	5,804	5,348	5,132
-	-0.2	0.8	3.9	-2.5	-4.6	2	3	-7.8	-4
8,764	9,321	9,599	10,544	9,798	8,805	8,127	8,138	8,478	8,856

-	6.4	3	9.9	-7.1	-10.1	-7.7	0.1	4.2	4.5
1,282	1,325	1,368	1,408	1,497	1,518	1,506	1,563	1,513	1,556
-	3.3	3.2	2.9	6.3	1.4	-0.8	3.8	-3.2	2.8
175	185	196	212	218	211	202	209	223	234
-	5.6	6.1	8.1	3	-3.6	-4.3	3.8	6.6	4.8
3,352	3,706	3,961	4,173	4,343	4,300	4,168	4,234	4,145	4,269
-	10.6	6.9	5.4	4.1	-1	-3.1	1.6	-2.1	3
75,641	76,967	77,348	77,620	77,509	77,770	78,367	79,410	81,272	84,491
-	1.8	0.5	0.4	-0.1	0.3	0.8	1.3	2.3	4
70,636	68,724	67,343	66,761	65,527	64,244	64,048	64,677	66,823	70,176
-	-2.7	-2	-0.9	-1.8	-2	-0.3	1	3.3	5
1,953	1,878	-754	-3,949	-1,689	-6,016	-5,235	-7,624	-1,931	-2,547
2,100	2,214	-366	-3,373	-1,633	-5,901	-5,065	-7,417	-1,883	-2,509
-102	-111	-123	-131	-88	-149	-190	-229	-39	-31
1,880	-364	-1,197	-1,623	-1,804	381	-357	645	-1,823	-254
128,124	132,709	134,117	134,203	137,920	137,771	141,011	143,102	149,674	153,632
-	3.6	1.1	0.1	2.8	-0.1	2.4	1.5	4.6	2.6
-	15.1	4.3	0.3	11.5	-0.4	9.7	6.1	19.7	11
119,285	122,952	126,063	128,916	129,432	129,880	132,283	135,348	138,979	142,119
-	3.1	2.5	2.3	0.4	0.3	1.9	2.3	2.7	2.3

1981 I	1981 II	1981 III	1981 IV	1982 I	1982 II	1982 III	1982 IV	1983 I	1983 II
224,671	220,232	216,126	212,798	212,559	214,846	217,552	220,263	219,946	221,917

-		-2	-1.9	-1.5	-0.1	1.1	1.3	1.2	-0.1	0.9
	147,502	149,006	149,481	152,243	148,102	147,273	147,282	144,598	149,658	149,157
-		1	0.3	1.8	-2.7	-0.6	0	-1.8	3.5	-0.3
	12,672	12,598	12,204	12,271	11,613	11,358	11,141	11,392	12,055	12,938
-		-0.6	-3.1	0.5	-5.4	-2.2	-1.9	2.3	5.8	7.3
	11,149	10,888	10,859	10,796	10,367	10,427	10,692	11,034	11,103	11,131
-		-2.3	-0.3	-0.6	-4	0.6	2.5	3.2	0.6	0.3
	50,512	51,094	51,656	53,014	52,740	51,183	50,887	50,226	50,997	51,716
-		1.2	1.1	2.6	-0.5	-3	-0.6	-1.3	1.5	1.4
	77,170	77,162	77,579	77,821	77,381	77,263	77,140	75,951	79,705	76,780
-		0	0.5	0.3	-0.6	-0.2	-0.2	-1.5	4.9	-3.7
	3,330	3,075	2,834	2,590	2,604	2,669	2,781	2,894	2,841	2,751
-		-7.7	-7.8	-8.6	0.5	2.5	4.2	4	-1.8	-3.2
	64,800	65,953	67,852	69,963	69,255	68,546	68,122	67,193	68,042	68,381
-		1.8	2.9	3.1	-1	-1	-0.6	-1.4	1.3	0.5
	45,518	45,101	42,319	40,103	39,870	38,184	37,603	39,367	39,572	40,812
-		-0.9	-6.2	-5.2	-0.6	-4.2	-1.5	4.7	0.5	3.1
	37,874	38,284	36,409	35,197	34,299	32,016	30,736	31,845	32,405	33,950
-		1.1	-4.9	-3.3	-2.6	-6.7	-4	3.6	1.8	4.8
	19,525	21,317	21,819	20,700	18,303	16,455	16,937	18,152	19,724	21,447
-		9.2	2.4	-5.1	-11.6	-10.1	2.9	7.2	8.7	8.7
	12,660	12,571	12,454	12,632	12,094	11,473	11,458	11,483	10,760	10,539
-		-0.7	-0.9	1.4	-4.3	-5.1	-0.1	0.2	-6.3	-2
	6,228	6,405	6,630	7,141	6,134	5,400	5,469	5,333	5,428	5,610
-		2.8	3.5	7.7	-14.1	-12	1.3	-2.5	1.8	3.3
	1,819	2,026	2,218	2,408	2,407	2,240	2,042	1,971	2,016	2,144
-		11.4	9.5	8.5	0	-7	-8.8	-3.5	2.3	6.3
	280	325	369	433	412	388	335	309	346	379
-		15.9	13.7	17.3	-5	-5.7	-13.6	-7.8	12	9.6
	5,287	5,693	6,058	6,254	6,232	6,059	5,871	6,006	5,726	5,888
-		7.7	6.4	3.2	-0.4	-2.8	-3.1	2.3	-4.7	2.8

116,070	116,040	110,807	109,755	108,034	108,626	109,457	104,699	107,670	113,682
-	0	-4.5	-0.9	-1.6	0.5	0.8	-4.3	2.8	5.6
95,059	91,964	88,671	88,026	82,782	79,533	80,104	78,925	82,136	83,779
-	-3.3	-3.6	-0.7	-6	-3.9	0.7	-1.5	4.1	2
376	1,365	78	-1,620	-2,858	-5,913	-8,398	-8,860	-1,713	-1,967
480	1,493	281	-1,474	-2,830	-5,530	-8,551	-8,644	-1,595	-1,732
-104	-128	-203	-145	-27	-383	154	-216	-119	-235
-2,181	-897	-173	75	32	-282	-774	-1,344	-1,959	-2,447
278,031	281,018	283,024	285,279	278,159	273,957	268,354	270,937	274,060	284,212
-	1.1	0.7	0.8	-2.5	-1.5	-2	1	1.2	3.7
-	4.4	2.9	3.2	-9.6	-5.9	-7.9	3.9	4.7	15.7
253,722	258,623	261,957	266,582	256,969	251,658	251,248	248,888	256,268	256,521
-	1.9	1.3	1.8	-3.6	-2.1	-0.2	-0.9	3	0.1

1981 I	1981 II	1981 III	1981 IV	1982 I	1982 II	1982 III	1982 IV	1983 I	1983 II
73,282	74,667	75,141	75,573	78,618	80,590	81,490	83,795	84,516	87,062
-	1.9	0.6	0.6	4	2.5	1.1	2.8	0.9	3
11,604	11,519	11,336	11,345	11,460	11,884	12,393	12,534	13,017	13,419
-	-0.7	-1.6	0.1	1	3.7	4.3	1.1	3.9	3.1
5,610	5,363	5,096	4,996	5,179	5,389	5,690	5,922	5,834	6,050
-	-4.4	-5	-2	3.7	4	5.6	4.1	-1.5	3.7
1,088	1,004	965	903	899	915	852	734	989	984
-	-7.8	-3.9	-6.4	-0.5	1.8	-6.9	-13.9	34.7	-0.5

4,906	5,153	5,275	5,446	5,382	5,581	5,851	5,878	6,195	6,385
-	5	2.4	3.2	-1.2	3.7	4.9	0.5	5.4	3.1
9,049	10,695	12,747	14,297	15,743	15,896	15,276	13,402	14,092	14,640
-	18.2	19.2	12.2	10.1	1	-3.9	-12.3	5.1	3.9
93,935	96,882	99,224	101,215	105,821	108,370	109,158	109,730	111,626	115,122
-	3.1	2.4	2	4.6	2.4	0.7	0.5	1.7	3.1
12,186	11,842	10,737	10,930	12,207	13,292	14,729	15,495	15,676	16,524
-	-2.8	-9.3	1.8	11.7	8.9	10.8	5.2	1.2	5.4
27,294	30,027	31,115	32,936	34,343	35,139	33,650	34,852	36,386	39,781
-	10	3.6	5.9	4.3	2.3	-4.2	3.6	4.4	9.3
78,827	78,697	78,847	79,209	83,685	86,524	90,238	90,374	90,915	91,865
-	-0.2	0.2	0.5	5.7	3.4	4.3	0.2	0.6	1
67,122	68,353	68,860	70,033	71,052	72,971	74,633	76,397	79,323	80,853
-	1.8	0.7	1.7	1.5	2.7	2.3	2.4	3.8	1.9
6,402	6,892	7,136	6,962	7,947	8,411	7,622	8,652	8,228	7,723
-	7.7	3.5	-2.4	14.1	5.8	-9.4	13.5	-4.9	-6.1
18,106	17,236	17,123	16,138	20,580	21,963	23,227	22,629	19,820	18,735
-	-4.8	-0.7	-5.8	27.5	6.7	5.8	-2.6	-12.4	-5.5
23	21.9	21.7	20.4	24.6	25.4	25.7	25	21.8	20.4
8,771	8,787	8,812	8,846	8,866	8,893	8,920	8,957	8,983	9,011
0.2	0.2	0.3	0.4	0.2	0.3	0.3	0.4	0.3	0.3
8,988	8,956	8,947	8,954	9,439	9,730	10,116	10,090	10,121	10,195
-	-0.4	-0.1	0.1	5.4	3.1	4	-0.3	0.3	0.7

1981 I	1981 II	1981 III	1981 IV	1982 I	1982 II	1982 III	1982 IV	1983 I	1983 II

75,641	76,967	77,348	77,620	77,509	77,770	78,367	79,410	81,272	84,491
-	1.8	0.5	0.4	-0.1	0.3	0.8	1.3	2.3	4
35,186	37,819	39,403	40,124	40,223	40,183	40,141	40,393	41,143	43,473
-	7.5	4.2	1.8	0.2	-0.1	-0.1	0.6	1.9	5.7
40,456	39,148	37,944	37,496	37,286	37,587	38,226	39,017	40,129	41,018
-	-3.2	-3.1	-1.2	-0.6	0.8	1.7	2.1	2.8	2.2
70,636	68,724	67,343	66,761	65,527	64,244	64,048	64,677	66,823	70,176
-	-2.7	-2	-0.9	-1.8	-2	-0.3	1	3.3	5
42,399	42,333	42,156	42,236	40,575	38,587	37,500	37,157	38,683	41,554
-	-0.2	-0.4	0.2	-3.9	-4.9	-2.8	-0.9	4.1	7.4
28,237	26,392	25,186	24,525	24,952	25,657	26,548	27,520	28,140	28,622
-	-6.5	-4.6	-2.6	1.7	2.8	3.5	3.7	2.3	1.7
5,006	8,243	10,005	10,858	11,982	13,525	14,320	14,733	14,449	14,315

1981 I	1981 II	1981 III	1981 IV	1982 I	1982 II	1982 III	1982 IV	1983 I	1983 II
116,070	116,040	110,807	109,755	108,034	108,626	109,457	104,699	107,670	113,682
-	0	-4.5	-0.9	-1.6	0.5	0.8	-4.3	2.8	5.6
50,347	50,755	48,608	48,970	48,305	51,305	52,373	47,148	50,353	53,253
-	0.8	-4.2	0.7	-1.4	6.2	2.1	-10	6.8	5.8
72,704	73,468	70,624	65,944	65,330	64,364	63,846	61,712	61,670	65,465
-	1.1	-3.9	-6.6	-0.9	-1.5	-0.8	-3.3	-0.1	6.2
95,059	91,964	88,671	88,026	82,782	79,533	80,104	78,925	82,136	83,779
-	-3.3	-3.6	-0.7	-6	-3.9	0.7	-1.5	4.1	2
51,584	50,100	49,386	49,697	46,653	43,688	41,997	41,229	43,390	46,933
-	-2.9	-1.4	0.6	-6.1	-6.4	-3.9	-1.8	5.2	8.2

55,154	49,700	45,936	43,498	43,367	43,820	44,647	45,663	46,024	46,215
-	-9.9	-7.6	-5.3	-0.3	1	1.9	2.3	0.8	0.4

1981 I	1981 II	1981 III	1981 IV	1982 I	1982 II	1982 III	1982 IV	1983 I	1983 II
41.5	43.2	45.1	46.6	47.6	48.2	48.9	49.3	50.9	51.3
-	4.2	4.2	3.5	2	1.2	1.5	0.9	3.1	0.9
45.5	45.9	46.1	46	48	49.5	50.7	52.8	53	54.2
-	0.8	0.4	-0.1	4.3	3.3	2.3	4.3	0.3	2.3
70	70.8	69.6	70.1	71.4	73.7	75.3	75.9	77.5	76.9
-	1.2	-1.7	0.8	1.8	3.3	2.1	0.9	2.1	-0.7
67.9	68.9	68.9	69.2	71.9	73.9	73.8	73.5	76.2	76.1
-	1.5	0.1	0.4	3.9	2.8	-0.1	-0.4	3.6	-0.1
39.8	40.6	41.6	42.1	43.4	45.8	46.7	47.3	47.8	47.7
-	1.8	2.6	1.3	3.1	5.5	1.8	1.4	1.1	-0.3
39.6	40.5	40.5	40.6	41.9	43.3	44.9	47.2	46.6	49.2
-	2.1	0	0.4	3	3.4	3.7	5.3	-1.4	5.6
53.9	57.6	62.1	68	68.5	68.4	68.2	67.3	69	70.9
-	6.7	7.9	9.4	0.7	-0.1	-0.3	-1.3	2.5	2.7
37.6	38.1	39.4	39.2	40.9	41.8	43.8	45.2	45	45.5
-	1.4	3.5	-0.5	4.2	2.4	4.7	3.1	-0.4	1.1
57.2	61.4	67.8	74	71	69.2	68.9	67.7	68.5	69.2
-	7.5	10.3	9.2	-4.1	-2.5	-0.3	-1.8	1.1	1
59.4	62.2	67.4	71.9	69.2	68.4	70.1	69.8	70.1	69.9
-	4.7	8.3	6.7	-3.7	-1.1	2.5	-0.5	0.5	-0.4
34.7	35.2	36	35.8	36.3	36.8	37.1	37	37.5	38.2
-	1.5	2.3	-0.6	1.5	1.3	0.9	-0.4	1.3	1.9

	44.9	45.1	45.9	47	47.9	48.1	49.2	50.5	49.7	48.7
-		0.5	1.7	2.4	1.9	0.6	2.1	2.8	-1.7	-2
	140.7	145.5	144.8	147.7	159.8	163	148.6	152.6	156.2	157.9
-		3.4	-0.5	2	8.2	2.1	-8.9	2.7	2.3	1.1
	70.5	65.4	61.7	58.5	62.2	67.8	73.8	79.3	75.1	72.6
-		-7.2	-5.7	-5.2	6.3	9	8.8	7.5	-5.3	-3.3
	62.4	56.9	53.1	49	53.1	54.3	60.1	67.7	64.4	61.6
-		-8.9	-6.6	-7.8	8.4	2.3	10.7	12.6	-4.8	-4.4
	63.4	65.1	65.4	66.7	69.7	71	71	70.5	72.4	72.5
-		2.7	0.4	2	4.4	1.8	0	-0.7	2.7	0.2
	65.2	66.3	69.8	70.7	71.7	71.6	71.6	75.8	75.5	74.3
-		1.8	5.2	1.3	1.4	-0.2	0	5.9	-0.5	-1.5
	74.3	74.7	75.9	75.8	79.2	80.8	80	81.9	81.4	83.8
-		0.6	1.6	-0.1	4.4	2.1	-1	2.5	-0.7	3
	46.1	47.2	47.4	47	49.6	50.3	52.5	52.8	54.6	54.1
-		2.5	0.3	-0.7	5.4	1.4	4.5	0.5	3.4	-1
-		10.3	1.4	-2.9	23.4	5.8	19.2	2.1	14.3	-4
	47	47.5	48.1	48.4	50.4	51.6	52.7	54.4	54.2	55.4
-		1.1	1.2	0.5	4.2	2.5	2	3.3	-0.3	2.2

1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
73,920	80,178	85,878	95,050	104,798	114,169	126,356	140,977	153,531	158,476
-	8.5	7.1	10.7	10.3	8.9	10.7	11.6	8.9	3.2
26,529	26,269	33,350	39,521	45,343	48,406	54,900	58,448	60,968	56,789
-	-1	27	18.5	14.7	6.8	13.4	6.5	4.3	-6.9

11,371	9,355	15,655	20,572	24,682	25,904	30,388	31,617	31,394	24,896
-	-17.7	67.3	31.4	20	5	17.3	4	-0.7	-20.7
11,309	12,650	13,184	14,071	15,278	16,835	18,440	20,306	22,548	24,431
-	11.9	4.2	6.7	8.6	10.2	9.5	10.1	11	8.4
3,849	4,264	4,511	4,878	5,383	5,667	6,072	6,525	7,026	7,462
-	10.8	5.8	8.1	10.4	5.3	7.1	7.5	7.7	6.2
15,376	16,440	18,281	20,594	21,830	23,682	25,933	28,693	31,586	33,085
-	6.9	11.2	12.7	6	8.5	9.5	10.6	10.1	4.7
11,451	12,068	13,633	15,553	16,429	17,956	19,489	21,533	23,649	24,626
-	5.4	13	14.1	5.6	9.3	8.5	10.5	9.8	4.1
3,925	4,372	4,648	5,041	5,401	5,726	6,444	7,160	7,937	8,459
-	11.4	6.3	8.5	7.1	6	12.5	11.1	10.9	6.6
16,138	16,778	17,689	19,838	21,869	25,975	28,402	32,491	36,980	39,759
-	4	5.4	12.1	10.2	18.8	9.3	14.4	13.8	7.5
325	286	1,259	640	-381	537	-125	-365	-311	-816
132,288	139,951	156,457	175,643	193,459	212,769	235,466	260,244	282,754	287,293
-	5.8	11.8	12.3	10.1	10	10.7	10.5	8.6	1.6

1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
96,279	104,912	115,604	126,939	139,814	152,349	165,940	181,453	197,969	210,055
-	9	10.2	9.8	10.1	9	8.9	9.3	9.1	6.1
68,592	73,763	82,089	90,385	99,470	109,223	119,314	131,039	142,453	148,755
-	7.5	11.3	10.1	10.1	9.8	9.2	9.8	8.7	4.4
8,723	8,425	10,166	12,130	14,459	16,358	18,083	20,276	21,305	20,296

-		-3.4	20.7	19.3	19.2	13.1	10.5	12.1	5.1	-4.7
	7,505	7,792	8,561	9,349	10,243	11,325	12,277	13,202	14,037	14,222
-		3.8	9.9	9.2	9.6	10.6	8.4	7.5	6.3	1.3
	21,165	23,465	25,150	26,862	28,827	30,283	32,106	34,567	36,946	38,980
-		10.9	7.2	6.8	7.3	5.1	6	7.7	6.9	5.5
	31,199	34,081	38,212	42,044	45,941	51,257	56,848	62,994	70,165	75,257
-		9.2	12.1	10	9.3	11.6	10.9	10.8	11.4	7.3
	1,772	1,863	1,980	2,100	2,287	2,433	2,611	2,841	3,184	3,443
-		5.1	6.3	6.1	8.9	6.4	7.3	8.8	12.1	8.1
	25,915	29,286	31,535	34,454	38,057	40,693	44,015	47,573	52,332	57,857
-		13	7.7	9.3	10.5	6.9	8.2	8.1	10	10.6
	28,025	26,824	28,863	31,947	36,976	43,955	52,550	60,048	65,701	60,177
-		-4.3	7.6	10.7	15.7	18.9	19.6	14.3	9.4	-8.4
	24,035	22,353	24,136	26,564	31,044	37,958	45,662	51,709	56,997	50,323
-		-7	8	10.1	16.9	22.3	20.3	13.2	10.2	-11.7
	7,384	6,428	8,307	9,177	10,587	13,321	17,915	19,930	23,233	18,105
-		-12.9	29.2	10.5	15.4	25.8	34.5	11.2	16.6	-22.1
	5,748	5,687	5,092	6,011	6,893	8,087	9,524	11,066	12,550	11,764
-		-1.1	-10.5	18	14.7	17.3	17.8	16.2	13.4	-6.3
	9,557	8,717	9,143	9,531	11,415	14,059	15,388	17,534	17,899	16,867
-		-8.8	4.9	4.2	19.8	23.2	9.5	13.9	2.1	-5.8
	1,346	1,521	1,594	1,845	2,149	2,491	2,835	3,179	3,315	3,587
-		13	4.8	15.7	16.5	15.9	13.8	12.1	4.3	8.2
	192	210	230	250	265	277	298	324	351	354
-		9.4	9.5	8.7	6	4.5	7.6	8.7	8.3	0.9
	3,798	4,261	4,497	5,133	5,667	5,720	6,590	8,015	8,353	9,500
-		12.2	5.5	14.1	10.4	0.9	15.2	21.6	4.2	13.7
	76,894	78,264	86,493	101,245	110,332	117,380	122,990	134,206	141,526	142,524
-		1.8	10.5	17.1	9	6.4	4.8	9.1	5.5	0.7
	68,366	64,624	72,245	86,593	96,232	100,791	106,094	118,042	124,353	123,033
-		-5.5	11.8	19.9	11.1	4.7	5.3	11.3	5.3	-1.1

-218	-5,141	-1,004	2,747	2,193	414	-46	2,214	1,600	-3,237
144	-5,004	-965	2,797	2,170	967	-1	2,212	1,536	-3,141
-117	-164	-27	-62	39	-547	-38	-25	58	-126
-326	-284	-1,254	-642	376	-538	126	365	311	807
132,288	139,951	156,457	175,643	193,459	212,769	235,466	260,244	282,754	287,293
-	5.8	11.8	12.3	10.1	10	10.7	10.5	8.6	1.6
124,304	131,736	144,467	158,886	176,790	196,304	218,490	241,501	263,670	270,232
-	6	9.7	10	11.3	11	11.3	10.5	9.2	2.5

1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
218,457	216,305	222,294	232,200	244,279	254,418	265,139	277,147	287,367	291,999
-	-1	2.8	4.5	5.2	4.2	4.2	4.5	3.7	1.6
149,558	146,814	152,103	159,060	167,695	176,400	185,119	194,545	201,631	202,154
-	-1.8	3.6	4.6	5.4	5.2	4.9	5.1	3.6	0.3
12,436	11,376	13,301	15,501	18,072	19,491	21,021	22,663	22,707	21,455
-	-8.5	16.9	16.5	16.6	7.9	7.8	7.8	0.2	-5.5
10,923	10,630	11,156	11,882	12,653	13,565	14,087	14,368	14,593	14,426
-	-2.7	4.9	6.5	6.5	7.2	3.8	2	1.6	-1.1
51,569	51,259	51,272	51,270	52,883	54,137	55,023	57,139	58,159	57,988
-	-0.6	0	0	3.1	2.4	1.6	3.8	1.8	-0.3
77,433	76,934	78,888	82,078	84,933	89,735	95,314	100,652	106,901	109,628
-	-0.6	2.5	4	3.5	5.7	6.2	5.6	6.2	2.6
2,957	2,737	2,739	2,714	3,046	3,004	2,959	3,099	3,215	3,864
-	-7.4	0.1	-0.9	12.2	-1.4	-1.5	4.7	3.7	20.2

	67,142	68,279	68,849	71,941	74,963	76,295	78,290	80,635	83,705	87,234
-		1.7	0.8	4.5	4.2	1.8	2.6	3	3.8	4.2
	43,260	38,756	41,090	44,516	50,860	58,420	65,424	71,635	75,601	69,257
-		-10.4	6	8.3	14.3	14.9	12	9.5	5.5	-8.4
	36,941	32,224	34,311	37,065	42,782	50,251	56,401	61,057	64,783	57,254
-		-12.8	6.5	8	15.4	17.5	12.2	8.3	6.1	-11.6
	20,840	17,462	21,425	22,930	25,283	28,275	32,869	33,510	36,590	29,194
-		-16.2	22.7	7	10.3	11.8	16.2	2	9.2	-20.2
	12,579	11,627	10,506	12,001	13,500	15,656	17,123	18,639	20,194	18,333
-		-7.6	-9.6	14.2	12.5	16	9.4	8.9	8.3	-9.2
	6,601	5,584	5,879	6,161	7,599	9,459	10,432	12,031	12,194	11,500
-		-15.4	5.3	4.8	23.3	24.5	10.3	15.3	1.4	-5.7
	2,118	2,165	2,226	2,486	2,763	3,167	3,477	3,813	3,980	4,237
-		2.2	2.8	11.7	11.1	14.6	9.8	9.7	4.4	6.5
	352	361	394	434	449	445	432	445	448	445
-		2.6	9.1	10.2	3.5	-0.9	-2.9	3	0.7	-0.7
	5,823	6,042	6,252	6,872	7,470	7,553	8,388	9,937	10,141	11,486
-		3.8	3.5	9.9	8.7	1.1	11.1	18.5	2.1	13.3
	113,168	107,704	115,103	130,933	138,156	143,812	147,894	159,204	165,339	165,001
-		-4.8	6.9	13.8	5.5	4.1	2.8	7.6	3.9	-0.2
	90,930	80,336	87,750	100,240	109,309	115,601	122,090	137,922	144,755	141,925
-		-11.7	9.2	14.2	9	5.8	5.6	13	5	-2
	50	-6,507	-1,101	3,976	2,976	108	342	2,771	2,024	-3,580
	195	-6,389	-890	3,891	2,770	695	363	2,980	1,750	-3,513
	-145	-118	-211	85	206	-587	-21	-209	274	-67
	-794	-592	-2,462	-1,297	556	-909	133	481	407	1,018
	281,838	272,852	286,796	312,147	328,075	340,057	356,514	372,746	385,120	379,026
-		-3.2	5.1	8.8	5.1	3.7	4.8	4.6	3.3	-1.6
	260,221	252,191	260,807	274,429	293,633	312,374	331,021	349,963	364,468	361,407
-		-3.1	3.4	5.2	7	6.4	6	5.7	4.1	-0.8

1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
74,666	81,123	87,706	96,115	105,063	114,340	125,888	140,077	152,001	156,863
-	8.6	8.1	9.6	9.3	8.8	10.1	11.3	8.5	3.2
11,451	12,068	13,633	15,553	16,429	17,956	19,489	21,533	23,649	24,626
-	5.4	13	14.1	5.6	9.3	8.5	10.5	9.8	4.1
5,266	5,545	6,016	6,917	7,501	8,339	9,317	10,350	11,421	11,439
-	5.3	8.5	15	8.4	11.2	11.7	11.1	10.3	0.2
990	850	1,033	1,024	915	834	880	935	816	759
-	-14.1	21.5	-0.9	-10.6	-8.9	5.5	6.3	-12.7	-7
5,195	5,673	6,584	7,612	8,013	8,783	9,292	10,248	11,412	12,428
-	9.2	16.1	15.6	5.3	9.6	5.8	10.3	11.4	8.9
11,697	15,079	15,343	17,179	18,792	19,288	19,654	21,501	22,516	26,316
-	28.9	1.8	12	9.4	2.6	1.9	9.4	4.7	16.9
97,814	108,270	116,682	128,847	140,284	151,584	165,031	183,111	198,166	207,805
-	10.7	7.8	10.4	8.9	8.1	8.9	11	8.2	4.9
11,424	13,931	16,215	16,865	19,014	20,717	23,265	25,546	28,562	31,734
-	21.9	16.4	4	12.7	9	12.3	9.8	11.8	11.1
30,343	34,496	37,644	41,707	45,312	51,010	57,093	64,654	69,492	77,242
-	13.7	9.1	10.8	8.6	12.6	11.9	13.2	7.5	11.2
78,895	87,705	95,253	104,005	113,986	121,291	131,203	144,003	157,236	162,297
-	11.2	8.6	9.2	9.6	6.4	8.2	9.8	9.2	3.2
68,592	73,763	82,089	90,385	99,470	109,223	119,314	131,039	142,453	148,755
-	7.5	11.3	10.1	10.1	9.8	9.2	9.8	8.7	4.4

6,848	8,158	8,116	9,365	8,487	8,153	8,141	8,742	8,680	11,616
-	19.1	-0.5	15.4	-9.4	-3.9	-0.1	7.4	-0.7	33.8
17,151	22,100	21,280	22,985	23,003	20,221	20,030	21,706	23,463	25,158
-	28.9	-3.7	8	0.1	-12.1	-0.9	8.4	8.1	7.2
21.7	25.2	22.3	22.1	20.2	16.7	15.3	15	14.9	15.5
8,812	8,920	9,040	9,167	9,295	9,437	9,638	9,839	10,103	10,296
0.8	1.2	1.3	1.4	1.4	1.5	2.1	2.1	2.7	1.9
8,953	9,832	10,537	11,345	12,264	12,852	13,613	14,637	15,563	15,763
-	9.8	7.2	7.7	8.1	4.8	5.9	7.5	6.3	1.3

1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
76,894	78,264	86,493	101,245	110,332	117,380	122,990	134,206	141,526	142,524
-	1.8	10.5	17.1	9	6.4	4.8	9.1	5.5	0.7
38,133	40,235	45,400	59,326	64,685	68,909	71,199	76,313	79,335	81,907
-	5.5	12.8	30.7	9	6.5	3.3	7.2	4	3.2
38,761	38,029	41,093	41,919	45,647	48,471	51,791	57,893	62,191	60,617
-	-1.9	8.1	2	8.9	6.2	6.8	11.8	7.4	-2.5
68,366	64,624	72,245	86,593	96,232	100,791	106,094	118,042	124,353	123,033
-	-5.5	11.8	19.9	11.1	4.7	5.3	11.3	5.3	-1.1
42,281	38,455	43,598	56,310	63,571	70,783	72,854	82,651	86,629	85,811
-	-9	13.4	29.2	12.9	11.3	2.9	13.4	4.8	-0.9
26,085	26,169	28,647	30,283	32,661	30,008	33,240	35,391	37,724	37,222
-	0.3	9.5	5.7	7.9	-8.1	10.8	6.5	6.6	-1.3
8,528	13,640	14,248	14,652	14,100	16,589	16,896	16,164	17,173	19,491

1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
113,168	107,704	115,103	130,933	138,156	143,812	147,894	159,204	165,339	165,001
-	-4.8	6.9	13.8	5.5	4.1	2.8	7.6	3.9	-0.2
49,670	49,783	54,574	68,945	72,398	76,072	77,978	84,356	86,962	90,231
-	0.2	9.6	26.3	5	5.1	2.5	8.2	3.1	3.8
70,685	63,813	66,346	66,189	70,321	72,232	74,621	79,796	83,669	79,342
-	-9.7	4	-0.2	6.2	2.7	3.3	6.9	4.9	-5.2
90,930	80,336	87,750	100,240	109,309	115,601	122,090	137,922	144,755	141,925
-	-11.7	9.2	14.2	9	5.8	5.6	13	5	-2
50,192	43,392	49,080	60,199	65,957	71,326	74,697	86,690	91,821	91,034
-	-13.5	13.1	22.7	9.6	8.1	4.7	16.1	5.9	-0.9
48,572	44,374	46,001	46,623	50,387	50,809	54,700	58,138	59,742	57,091
-	-8.6	3.7	1.4	8.1	0.8	7.7	6.3	2.8	-4.4

1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
44.1	48.5	52	54.7	57.2	59.9	62.6	65.5	68.9	71.9
-	9.9	7.2	5.1	4.7	4.6	4.5	4.6	5.2	4.4
45.9	50.3	54	56.8	59.3	61.9	64.4	67.3	70.6	73.6
-	9.6	7.4	5.3	4.4	4.4	4.1	4.5	4.9	4.2

	70.1	74.1	76.5	78.3	80	83.9	86	89.5	93.8	94.6
-		5.6	3.2	2.4	2.1	4.9	2.5	4	4.9	0.8
	68.7	73.3	76.7	78.7	80.9	83.5	87.1	91.9	96.2	98.6
-		6.7	4.7	2.5	2.9	3.1	4.4	5.4	4.7	2.5
	41	45.8	49.1	52.4	54.5	55.9	58.3	60.5	63.5	67.2
-		11.6	7.1	6.8	4	2.6	4.3	3.7	5	5.8
	40.3	44.3	48.4	51.2	54.1	57.1	59.6	62.6	65.6	68.6
-		10	9.3	5.7	5.6	5.6	4.4	4.9	4.9	4.6
	60.4	68.1	72.4	77.4	75.1	81	88.2	91.7	99	89.3
-		12.7	6.3	7	-3	7.9	8.9	3.9	8	-9.8
	38.6	42.9	45.8	47.9	50.8	53.3	56.2	59	62.5	66.3
-		11.2	6.7	4.5	6	5.1	5.4	5	6	6.1
	65.1	69.2	70.2	71.8	72.7	75.2	80.3	83.8	86.9	86.9
-		6.3	1.5	2.2	1.2	3.5	6.7	4.4	3.7	0
	65.2	69.4	70.3	71.7	72.5	75.5	80.9	84.7	88	88
-		6.4	1.4	1.9	1.2	4.1	7.2	4.6	3.9	0
	35.4	36.8	38.7	40	41.9	47	54.4	59.5	63.5	61.8
-		4	5.2	3.3	4.6	12.4	15.7	9.2	6.8	-2.6
	45.7	48.9	48.5	50.1	51.1	51.6	55.6	59.4	62.1	64.2
-		7.1	-1	3.3	2	1.1	7.7	6.8	4.6	3.3
	144.7	156	155.6	154.7	150.5	148.5	147.5	145.7	146.8	146.7
-		7.8	-0.3	-0.6	-2.7	-1.3	-0.7	-1.2	0.7	-0.1
	64	70.8	71.8	74.3	77.8	78.6	81.5	83.4	83.3	84.7
-		10.5	1.5	3.4	4.7	1.1	3.6	2.3	-0.1	1.6
	55.3	58.8	58.8	57.8	59.1	62.3	68.9	72.8	78.3	79.5
-		6.3	0	-1.8	2.4	5.4	10.6	5.6	7.6	1.5
	65.2	70.5	72	74.7	75.9	75.8	78.6	80.6	82.4	82.7
-		8.3	2	3.8	1.6	-0.1	3.6	2.7	2.1	0.4
	68	72.7	75.2	77.3	79.9	81.6	83.2	84.3	85.6	86.5
-		6.9	3.4	2.8	3.3	2.2	1.9	1.4	1.5	1
	75.2	80.5	82.3	86.4	88.1	87.3	86.9	85.6	86.1	86.7
-		7	2.3	4.9	2	-0.9	-0.4	-1.4	0.5	0.7

46.9	51.3	54.5	56.3	59	62.6	66	69.8	73.4	75.8
-	9.3	6.3	3.2	4.8	6.1	5.6	5.7	5.2	3.3
47.8	52.3	55.4	57.9	60.2	62.8	66	69	72.3	74.8
-	9.4	6	4.5	4	4.4	5	4.6	4.8	3.4

1981 I	1981 II	1981 III	1981 IV	1982 I	1982 II	1982 III	1982 IV	1983 I	1983 II
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-

1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-

: Accounts, as of March 16, 2018.

1983 III	1983 IV	1984 I	1984 II	1984 III	1984 IV	1985 I	1985 II	1985 III	1985 IV
86,800	87,667	90,237	93,525	96,677	99,762	101,774	103,715	105,839	107,864
1.5	1	2.9	3.6	3.4	3.2	2	1.9	2	1.9
34,613	36,467	37,863	39,787	39,801	40,633	42,852	44,373	45,754	48,394
8	5.4	3.8	5.1	0	2.1	5.5	3.5	3.1	5.8
16,687	18,037	19,248	20,902	20,718	21,421	22,817	23,840	24,894	27,177
14	8.1	6.7	8.6	-0.9	3.4	6.5	4.5	4.4	9.2
13,406	13,899	13,909	14,072	14,154	14,149	14,823	15,218	15,414	15,657
3.8	3.7	0.1	1.2	0.6	0	4.8	2.7	1.3	1.6
4,520	4,530	4,706	4,813	4,930	5,063	5,212	5,314	5,446	5,561
0.3	0.2	3.9	2.3	2.4	2.7	2.9	2	2.5	2.1
18,531	18,931	19,593	20,356	21,057	21,370	21,364	21,708	21,989	22,259
2.7	2.2	3.5	3.9	3.4	1.5	0	1.6	1.3	1.2
13,872	14,224	14,741	15,369	15,956	16,146	16,067	16,325	16,578	16,746
3.4	2.5	3.6	4.3	3.8	1.2	-0.5	1.6	1.5	1
4,659	4,708	4,852	4,987	5,101	5,224	5,296	5,383	5,412	5,513
0.6	1	3.1	2.8	2.3	2.4	1.4	1.6	0.5	1.9
17,926	17,902	19,350	19,604	20,052	20,347	20,958	21,864	22,034	22,620
2.6	-0.1	8.1	1.3	2.3	1.5	3	4.3	0.8	2.7
1,720	1,964	2,355	1,059	68	-923	-1,151	-1,515	964	177
159,590	162,932	169,398	174,330	177,655	181,189	185,797	190,145	196,581	201,314
3.9	2.1	4	2.9	1.9	2	2.5	2.3	3.4	2.4
16.4	8.6	16.8	12.2	7.8	8.2	10.6	9.7	14.2	10

1983 III	1983 IV	1984 I	1984 II	1984 III	1984 IV	1985 I	1985 II	1985 III	1985 IV
117,361	119,284	123,069	125,584	127,941	131,161	135,780	138,216	141,284	143,976
3	1.6	3.2	2	1.9	2.5	3.5	1.8	2.2	1.9
83,334	84,847	88,036	89,597	90,777	93,130	96,090	98,227	100,951	102,612
3.1	1.8	3.8	1.8	1.3	2.6	3.2	2.2	2.8	1.6
10,468	10,899	11,753	11,940	12,145	12,682	13,454	14,226	14,818	15,338
5.2	4.1	7.8	1.6	1.7	4.4	6.1	5.7	4.2	3.5
8,628	8,687	8,994	9,353	9,414	9,635	9,929	10,094	10,344	10,605
1.8	0.7	3.5	4	0.7	2.4	3.1	1.7	2.5	2.5
25,571	25,968	26,340	26,772	26,876	27,461	28,224	28,336	29,141	29,607
3.7	1.6	1.4	1.6	0.4	2.2	2.8	0.4	2.8	1.6
38,666	39,293	40,949	41,533	42,343	43,352	44,483	45,571	46,649	47,062
2.4	1.6	4.2	1.4	2	2.4	2.6	2.4	2.4	0.9
1,979	2,032	1,999	2,088	2,137	2,176	2,286	2,295	2,251	2,315
1.5	2.6	-1.6	4.5	2.3	1.8	5.1	0.4	-1.9	2.8
32,048	32,405	33,035	33,899	35,028	35,855	37,403	37,694	38,082	39,049
3.1	1.1	1.9	2.6	3.3	2.4	4.3	0.8	1	2.5
29,575	30,550	31,382	31,322	32,213	32,871	34,216	35,673	38,150	39,865
4.8	3.3	2.7	-0.2	2.8	2	4.1	4.3	6.9	4.5
24,735	25,352	26,174	26,036	26,752	27,294	28,541	29,804	32,107	33,724
4.2	2.5	3.2	-0.5	2.7	2	4.6	4.4	7.7	5
8,888	8,767	8,876	8,696	9,483	9,653	9,739	9,810	10,896	11,903
8.6	-1.4	1.2	-2	9.1	1.8	0.9	0.7	11.1	9.2
4,861	5,027	5,544	5,912	6,203	6,385	6,572	6,806	7,035	7,159
-5.3	3.4	10.3	6.7	4.9	2.9	2.9	3.6	3.4	1.8
9,376	9,862	9,956	9,600	9,190	9,379	10,255	11,060	11,935	12,409

5.9	5.2	0.9	-3.6	-4.3	2.1	9.3	7.9	7.9	4
1,611	1,695	1,798	1,829	1,876	1,877	1,974	2,128	2,241	2,252
3.6	5.2	6.1	1.7	2.6	0	5.2	7.8	5.3	0.5
232	231	234	248	258	261	253	260	268	279
-0.6	-0.6	1.1	6.2	4	1	-3.1	3.1	3	4.1
4,607	4,967	4,975	5,038	5,204	5,316	5,423	5,609	5,774	5,862
7.9	7.8	0.1	1.3	3.3	2.2	2	3.4	3	1.5
88,086	92,123	96,383	100,060	103,146	105,390	107,544	109,387	111,211	113,185
4.3	4.6	4.6	3.8	3.1	2.2	2	1.7	1.7	1.8
73,949	78,032	81,905	85,401	88,353	90,713	93,792	95,634	97,152	98,350
5.4	5.5	5	4.3	3.5	2.7	3.4	2	1.6	1.2
56	406	2,474	3,897	3,280	1,338	1,003	1,521	3,424	2,825
96	436	2,503	3,949	3,286	1,451	1,121	1,335	3,304	2,921
-23	-15	-42	-66	-15	-124	-104	199	138	-77
-1,539	-1,400	-2,005	-1,133	-572	1,142	1,046	981	-336	-187
159,590	162,932	169,398	174,330	177,655	181,189	185,797	190,145	196,581	201,314
3.9	2.1	4	2.9	1.9	2	2.5	2.3	3.4	2.4
16.4	8.6	16.8	12.2	7.8	8.2	10.6	9.7	14.2	10
146,936	149,835	154,451	156,906	160,155	164,032	169,996	173,890	179,434	183,840
3.4	2	3.1	1.6	2.1	2.4	3.6	2.3	3.2	2.5

1983 III	1983 IV	1984 I	1984 II	1984 III	1984 IV	1985 I	1985 II	1985 III	1985 IV
223,577	223,736	227,036	230,396	232,859	238,509	241,109	242,852	244,891	248,264

0.7	0.1	1.5	1.5	1.1	2.4	1.1	0.7	0.8	1.4
154,849	154,747	156,054	157,627	160,174	162,386	166,284	166,227	168,406	169,863
3.8	-0.1	0.8	1	1.6	1.4	2.4	0	1.3	0.9
13,799	14,412	14,677	15,132	15,763	16,431	17,056	17,818	18,416	18,998
6.7	4.4	1.8	3.1	4.2	4.2	3.8	4.5	3.4	3.2
11,181	11,209	11,487	11,760	12,029	12,253	12,387	12,561	12,748	12,916
0.4	0.3	2.5	2.4	2.3	1.9	1.1	1.4	1.5	1.3
50,851	51,523	50,725	51,227	51,446	51,682	52,009	52,682	53,500	53,342
-1.7	1.3	-1.5	1	0.4	0.5	0.6	1.3	1.6	-0.3
79,838	79,230	79,666	80,899	83,369	84,378	85,741	84,372	84,997	84,622
4	-0.8	0.6	1.5	3.1	1.2	1.6	-1.6	0.7	-0.4
2,707	2,657	2,569	2,669	2,751	2,867	3,058	3,080	3,002	3,044
-1.6	-1.9	-3.3	3.9	3.1	4.2	6.7	0.7	-2.5	1.4
69,415	69,558	70,429	71,510	72,823	73,002	74,605	74,779	75,005	75,463
1.5	0.2	1.3	1.5	1.8	0.2	2.2	0.2	0.3	0.6
41,612	42,364	43,246	43,935	45,029	45,854	47,553	50,213	52,317	53,356
2	1.8	2.1	1.6	2.5	1.8	3.7	5.6	4.2	2
34,978	35,911	36,400	36,715	37,378	37,767	39,447	42,046	44,160	45,475
3	2.7	1.4	0.9	1.8	1	4.4	6.6	5	3
22,396	22,133	22,581	22,280	23,387	23,472	23,465	23,386	26,249	28,033
4.4	-1.2	2	-1.3	5	0.4	0	-0.3	12.2	6.8
10,189	10,536	11,226	11,910	12,292	12,576	12,858	13,401	13,793	13,949
-3.3	3.4	6.6	6.1	3.2	2.3	2.2	4.2	2.9	1.1
6,110	6,367	6,500	6,212	5,916	6,016	6,613	7,300	7,963	8,520
8.9	4.2	2.1	-4.4	-4.8	1.7	9.9	10.4	9.1	7
2,274	2,471	2,521	2,512	2,508	2,403	2,558	2,732	2,866	2,895
6.1	8.7	2	-0.4	-0.1	-4.2	6.5	6.8	4.9	1
405	446	449	447	432	408	411	431	463	491
6.8	10	0.7	-0.2	-3.4	-5.5	0.7	5	7.4	5.9
6,408	6,987	6,951	6,859	6,915	6,763	6,995	7,341	7,753	7,791
8.8	9	-0.5	-1.3	0.8	-2.2	3.4	5	5.6	0.5

114,791	124,269	128,259	129,216	131,377	134,879	141,016	137,596	137,103	136,909
1	8.3	3.2	0.7	1.7	2.7	4.5	-2.4	-0.4	-0.1
90,100	94,984	97,392	99,429	101,049	103,089	104,028	107,608	112,975	112,625
7.5	5.4	2.5	2.1	1.6	2	0.9	3.4	5	-0.3
-572	-152	3,583	5,477	4,002	2,842	2,608	2,816	4,503	1,977
-342	108	3,580	4,722	4,078	3,184	2,875	2,015	3,777	2,412
-231	-260	4	754	-76	-342	-267	801	726	-435
-2,717	-2,725	-2,347	-1,754	-973	-114	539	874	715	96
293,490	295,422	301,126	309,138	316,015	322,310	323,543	325,015	329,948	333,793
3.3	0.7	1.9	2.7	2.2	2	0.4	0.5	1.5	1.2
13.7	2.7	8	11.1	9.2	8.2	1.5	1.8	6.2	4.7
265,013	265,427	269,143	271,966	276,798	279,809	287,628	289,878	296,406	300,619
3.3	0.2	1.4	1	1.8	1.1	2.8	0.8	2.3	1.4

1983 III	1983 IV	1984 I	1984 II	1984 III	1984 IV	1985 I	1985 II	1985 III	1985 IV
88,912	90,334	92,254	94,909	97,424	99,873	101,938	103,949	106,134	108,231
2.1	1.6	2.1	2.9	2.7	2.5	2.1	2	2.1	2
13,872	14,224	14,741	15,369	15,956	16,146	16,067	16,325	16,578	16,746
3.4	2.5	3.6	4.3	3.8	1.2	-0.5	1.6	1.5	1
6,070	6,109	6,522	6,796	7,060	7,290	7,317	7,382	7,581	7,724
0.3	0.6	6.7	4.2	3.9	3.3	0.4	0.9	2.7	1.9
1,053	1,106	994	1,098	1,077	928	851	913	940	956
7	5	-10.1	10.4	-1.9	-13.9	-8.3	7.3	3	1.7

6,748	7,008	7,225	7,475	7,820	7,928	7,899	8,030	8,057	8,065
5.7	3.9	3.1	3.5	4.6	1.4	-0.4	1.7	0.3	0.1
15,899	16,741	15,934	16,668	17,997	18,117	18,086	18,824	18,981	19,277
8.6	5.3	-4.8	4.6	8	0.7	-0.2	4.1	0.8	1.6
118,682	121,298	122,929	126,946	131,378	134,135	136,091	139,098	141,693	144,254
3.1	2.2	1.3	3.3	3.5	2.1	1.5	2.2	1.9	1.8
16,188	16,473	16,273	16,426	17,165	17,596	17,990	18,067	20,091	19,908
-2	1.8	-1.2	0.9	4.5	2.5	2.2	0.4	11.2	-0.9
35,693	38,716	40,514	39,948	42,653	43,712	44,701	42,853	46,589	47,105
-10.3	8.5	4.6	-1.4	6.8	2.5	2.3	-4.1	8.7	1.1
99,177	99,055	98,687	103,423	105,890	108,019	109,380	114,312	115,195	117,057
8	-0.1	-0.4	4.8	2.4	2	1.3	4.5	0.8	1.6
83,334	84,847	88,036	89,597	90,777	93,130	96,090	98,227	100,951	102,612
3.1	1.8	3.8	1.8	1.3	2.6	3.2	2.2	2.8	1.6
8,473	8,040	8,905	9,339	9,531	9,684	9,153	9,018	7,853	7,924
9.7	-5.1	10.8	4.9	2.1	1.6	-5.5	-1.5	-12.9	0.9
24,317	22,248	19,557	23,165	24,644	24,573	22,443	25,104	22,096	22,370
29.8	-8.5	-12.1	18.5	6.4	-0.3	-8.7	11.9	-12	1.2
24.5	22.5	19.8	22.4	23.3	22.7	20.5	22	19.2	19.1
9,040	9,074	9,101	9,130	9,167	9,210	9,230	9,256	9,295	9,338
0.3	0.4	0.3	0.3	0.4	0.5	0.2	0.3	0.4	0.5
10,971	10,916	10,844	11,328	11,551	11,728	11,850	12,350	12,394	12,535
7.6	-0.5	-0.7	4.5	2	1.5	1	4.2	0.4	1.1

1983 III	1983 IV	1984 I	1984 II	1984 III	1984 IV	1985 I	1985 II	1985 III	1985 IV

88,086	92,123	96,383	100,060	103,146	105,390	107,544	109,387	111,211	113,185
4.3	4.6	4.6	3.8	3.1	2.2	2	1.7	1.7	1.8
46,555	50,428	54,865	58,555	61,242	62,642	63,579	64,182	64,925	66,054
7.1	8.3	8.8	6.7	4.6	2.3	1.5	0.9	1.2	1.7
41,530	41,695	41,518	41,505	41,904	42,749	43,966	45,205	46,286	47,131
1.3	0.4	-0.4	0	1	2	2.8	2.8	2.4	1.8
73,949	78,032	81,905	85,401	88,353	90,713	93,792	95,634	97,152	98,350
5.4	5.5	5	4.3	3.5	2.7	3.4	2	1.6	1.2
45,072	49,083	52,713	55,741	57,813	58,973	61,061	62,395	64,251	66,577
8.5	8.9	7.4	5.7	3.7	2	3.5	2.2	3	3.6
28,877	28,949	29,192	29,660	30,540	31,740	32,731	33,239	32,901	31,773
0.9	0.2	0.8	1.6	3	3.9	3.1	1.6	-1	-3.4
14,137	14,091	14,478	14,660	14,793	14,677	13,752	13,753	14,059	14,835

1983 III	1983 IV	1984 I	1984 II	1984 III	1984 IV	1985 I	1985 II	1985 III	1985 IV
114,791	124,269	128,259	129,216	131,377	134,879	141,016	137,596	137,103	136,909
1	8.3	3.2	0.7	1.7	2.7	4.5	-2.4	-0.4	-0.1
54,648	60,041	66,640	67,446	70,671	71,023	72,110	72,495	71,896	73,091
2.6	9.9	11	1.2	4.8	0.5	1.5	0.5	-0.8	1.7
66,619	71,629	69,130	67,175	64,602	63,849	66,872	69,573	71,238	73,600
1.8	7.5	-3.5	-2.8	-3.8	-1.2	4.7	4	2.4	3.3
90,100	94,984	97,392	99,429	101,049	103,089	104,028	107,608	112,975	112,625
7.5	5.4	2.5	2.1	1.6	2	0.9	3.4	5	-0.3
50,911	55,085	57,881	59,968	61,209	61,737	63,789	65,016	66,588	68,435
8.5	8.2	5.1	3.6	2.1	0.9	3.3	1.9	2.4	2.8

46,080	45,685	45,631	45,910	46,780	48,171	49,464	50,490	50,911	50,684
-0.3	-0.9	-0.1	0.6	1.9	3	2.7	2.1	0.8	-0.4

1983 III	1983 IV	1984 I	1984 II	1984 III	1984 IV	1985 I	1985 II	1985 III	1985 IV
52.5	53.3	54.2	54.5	54.9	55	56.3	56.9	57.7	58
2.3	1.6	1.7	0.6	0.8	0.1	2.4	1.1	1.4	0.5
53.8	54.8	56.4	56.8	56.7	57.4	57.8	59.1	59.9	60.4
-0.7	1.9	2.9	0.8	-0.3	1.2	0.8	2.3	1.4	0.8
75.9	75.6	80.1	78.9	77	77.2	78.9	79.8	80.5	80.7
-1.4	-0.3	5.9	-1.5	-2.4	0.2	2.2	1.2	0.8	0.3
77.2	77.5	78.3	79.5	78.3	78.6	80.2	80.4	81.1	82.1
1.4	0.4	1	1.6	-1.6	0.5	1.9	0.3	1	1.2
50.3	50.4	51.9	52.3	52.2	53.1	54.3	53.8	54.5	55.5
5.4	0.2	3	0.6	0	1.7	2.1	-0.9	1.3	1.9
48.4	49.6	51.4	51.3	50.8	51.4	51.9	54	54.9	55.6
-1.5	2.4	3.6	-0.1	-1.1	1.2	1	4.1	1.6	1.3
73.1	76.5	77.8	78.2	77.7	75.9	74.8	74.5	75	76.1
3.2	4.6	1.7	0.6	-0.7	-2.3	-1.5	-0.3	0.6	1.4
46.2	46.6	46.9	47.4	48.1	49.1	50.1	50.4	50.8	51.7
1.6	0.9	0.7	1.1	1.5	2.1	2.1	0.5	0.7	1.9
71.1	72.1	72.6	71.3	71.5	71.7	72	71	72.9	74.7
2.7	1.5	0.6	-1.8	0.3	0.2	0.4	-1.3	2.6	2.5
70.7	70.6	71.9	70.9	71.6	72.3	72.4	70.9	72.7	74.2
1.2	-0.2	1.9	-1.4	0.9	1	0.1	-2	2.6	2
39.7	39.6	39.3	39	40.5	41.1	41.5	41.9	41.5	42.5
4	-0.2	-0.8	-0.7	3.9	1.4	0.9	1.1	-1	2.3

47.7	47.7	49.4	49.6	50.5	50.8	51.1	50.8	51	51.3
-2	0	3.5	0.5	1.6	0.6	0.7	-0.6	0.4	0.6
153.4	154.9	153.2	154.5	155.3	155.9	155.1	151.5	149.9	145.6
-2.8	0.9	-1.1	0.9	0.5	0.4	-0.5	-2.3	-1.1	-2.8
70.9	68.6	71.3	72.8	74.8	78.1	77.2	77.9	78.2	77.8
-2.3	-3.2	4	2	2.7	4.4	-1.2	0.9	0.4	-0.5
57.3	51.8	52.1	55.4	59.7	63.9	61.5	60.3	57.9	56.9
-6.9	-9.6	0.5	6.5	7.7	6.9	-3.7	-1.8	-4.1	-1.7
71.9	71.1	71.6	73.4	75.3	78.6	77.5	76.4	74.5	75.2
-0.8	-1.1	0.7	2.6	2.5	4.5	-1.4	-1.5	-2.5	1
76.7	74.1	75.1	77.4	78.5	78.1	76.3	79.5	81.1	82.7
3.2	-3.4	1.4	3	1.4	-0.5	-2.4	4.2	2	1.9
82.1	82.2	84.1	85.9	87.4	88	90.2	88.9	86	87.3
-2	0.1	2.4	2.1	1.8	0.6	2.5	-1.4	-3.2	1.5
54.4	55.2	56.3	56.4	56.2	56.2	57.4	58.5	59.6	60.3
0.6	1.4	2	0.2	-0.3	0	2.2	1.9	1.8	1.2
2.4	5.8	8.2	1	-1.2	0	8.9	7.7	7.6	5
55.4	56.5	57.4	57.7	57.9	58.6	59.1	60	60.5	61.2
0.1	1.8	1.7	0.5	0.3	1.3	0.8	1.5	0.9	1

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
161,587	164,747	166,114	169,860	175,670	180,391	191,485	203,541	217,627	238,913
2	2	0.8	2.3	3.4	2.7	6.1	6.3	6.9	9.8
51,482	52,411	57,552	66,403	73,300	76,763	82,463	85,364	95,393	102,881
-9.3	1.8	9.8	15.4	10.4	4.7	7.4	3.5	11.7	7.8

19,509	19,056	23,677	30,677	35,789	37,315	40,130	39,876	47,539	51,456
-21.6	-2.3	24.2	29.6	16.7	4.3	7.5	-0.6	19.2	8.2
24,395	25,350	25,808	27,207	28,675	30,282	32,570	35,528	37,496	40,353
-0.1	3.9	1.8	5.4	5.4	5.6	7.6	9.1	5.5	7.6
7,578	8,005	8,067	8,519	8,836	9,166	9,763	9,960	10,358	11,072
1.6	5.6	0.8	5.6	3.7	3.7	6.5	2	4	6.9
34,609	36,175	37,995	40,283	42,468	43,928	46,058	48,681	50,205	53,504
4.6	4.5	5	6	5.4	3.4	4.8	5.7	3.1	6.6
25,863	27,248	28,754	30,690	32,583	33,689	35,544	37,593	38,839	41,521
5	5.4	5.5	6.7	6.2	3.4	5.5	5.8	3.3	6.9
8,745	8,927	9,241	9,593	9,886	10,239	10,513	11,089	11,366	11,983
3.4	2.1	3.5	3.8	3.1	3.6	2.7	5.5	2.5	5.4
39,345	40,912	41,916	44,283	45,442	46,345	49,735	51,505	55,885	57,944
-1	4	2.5	5.6	2.6	2	7.3	3.6	8.5	3.7
1,167	-1,238	-1,417	-928	457	311	-832	128	-908	-1,056
288,190	293,007	302,160	319,901	337,337	347,738	368,909	389,219	418,202	452,186
0.3	1.7	3.1	5.9	5.5	3.1	6.1	5.5	7.4	8.1

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
219,686	227,305	234,403	241,060	247,916	253,468	266,936	279,540	296,908	319,116
4.6	3.5	3.1	2.8	2.8	2.2	5.3	4.7	6.2	7.5
153,022	157,614	163,583	170,116	176,887	184,073	196,294	206,078	219,824	235,742
2.9	3	3.8	4	4	4.1	6.6	5	6.7	7.2
19,154	19,356	19,623	21,199	21,809	22,589	26,009	27,976	31,342	33,383

-5.6	1.1	1.4	8	2.9	3.6	15.1	7.6	12	6.5
13,900	14,027	14,295	15,009	15,495	15,559	16,509	17,734	18,922	20,131
-2.3	0.9	1.9	5	3.2	0.4	6.1	7.4	6.7	6.4
40,485	40,959	42,037	41,820	43,112	44,311	45,752	47,183	50,239	54,689
3.9	1.2	2.6	-0.5	3.1	2.8	3.3	3.1	6.5	8.9
79,483	83,272	87,628	92,088	96,471	101,614	108,024	113,185	119,321	127,539
5.6	4.8	5.2	5.1	4.8	5.3	6.3	4.8	5.4	6.9
3,618	3,791	3,902	4,006	4,151	4,380	4,787	5,019	5,570	5,832
5.1	4.8	2.9	2.7	3.6	5.5	9.3	4.8	11	4.7
63,046	65,900	66,918	66,938	66,878	65,015	65,855	68,443	71,514	77,542
9	4.5	1.5	0	-0.1	-2.8	1.3	3.9	4.5	8.4
56,060	54,502	50,616	55,021	55,909	60,443	68,510	71,956	78,245	82,566
-6.8	-2.8	-7.1	8.7	1.6	8.1	13.3	5	8.7	5.5
45,583	44,187	40,860	44,206	44,354	49,492	57,704	61,479	66,209	69,489
-9.4	-3.1	-7.5	8.2	0.3	11.6	16.6	6.5	7.7	5
15,462	15,817	14,558	15,289	13,215	14,469	17,004	17,064	19,634	21,619
-14.6	2.3	-8	5	-13.6	9.5	17.5	0.4	15.1	10.1
10,886	9,413	7,699	6,816	6,845	8,487	9,692	10,095	11,515	10,643
-7.5	-13.5	-18.2	-11.5	0.4	24	14.2	4.2	14.1	-7.6
15,543	15,162	14,289	16,980	18,941	20,680	25,019	27,739	28,366	28,957
-7.8	-2.5	-5.8	18.8	11.5	9.2	21	10.9	2.3	2.1
3,692	3,795	4,314	5,121	5,353	5,856	5,989	6,581	6,694	8,270
2.9	2.8	13.7	18.7	4.5	9.4	2.3	9.9	1.7	23.5
336	330	331	400	415	455	421	338	371	433
-5.1	-1.8	0.3	20.8	3.7	9.6	-7.5	-19.7	9.8	16.7
10,141	9,985	9,425	10,415	11,140	10,496	10,385	10,139	11,665	12,644
6.7	-1.5	-5.6	10.5	7	-5.8	-1.1	-2.4	15.1	8.4
137,257	143,556	161,579	185,583	209,888	221,902	239,894	260,914	289,587	318,099
-3.7	4.6	12.6	14.9	13.1	5.7	8.1	8.8	11	9.8
119,280	128,806	143,815	162,799	179,458	186,501	210,789	226,898	246,526	272,131
-3.1	8	11.7	13.2	10.2	3.9	13	7.6	8.7	10.4

-4,368	-4,784	-2,034	112	3,538	-1,262	3,529	3,835	-923	3,477
-4,296	-4,490	-2,126	76	3,490	-1,141	3,571	3,984	-820	3,616
-67	-288	86	29	30	-128	-54	-151	-109	-164
-1,165	1,234	1,411	924	-456	-312	829	-128	911	1,059
288,190	293,007	302,160	319,901	337,337	347,738	368,909	389,219	418,202	452,186
0.3	1.7	3.1	5.9	5.5	3.1	6.1	5.5	7.4	8.1
275,746	281,807	285,019	296,081	303,825	313,911	335,446	351,496	375,153	401,682
2	2.2	1.1	3.9	2.6	3.3	6.9	4.8	6.7	7.1

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
292,062	295,671	298,481	304,247	308,817	311,383	323,484	333,078	347,880	363,665
0	1.2	1	1.9	1.5	0.8	3.9	3	4.4	4.5
198,850	201,354	204,135	209,941	214,436	219,387	230,251	238,525	249,863	261,856
-1.6	1.3	1.4	2.8	2.1	2.3	5	3.6	4.8	4.8
20,441	20,456	20,552	21,611	21,770	22,303	25,446	27,304	30,301	32,467
-4.7	0.1	0.5	5.2	0.7	2.4	14.1	7.3	11	7.1
13,339	13,462	13,680	14,243	14,842	14,858	15,592	16,619	17,414	18,504
-7.5	0.9	1.6	4.1	4.2	0.1	4.9	6.6	4.8	6.3
57,071	57,418	57,820	59,475	60,316	61,112	62,293	63,819	66,077	68,441
-1.6	0.6	0.7	2.9	1.4	1.3	1.9	2.4	3.5	3.6
109,917	112,037	114,147	116,558	119,429	123,094	128,319	131,828	136,738	142,871
0.3	1.9	1.9	2.1	2.5	3.1	4.2	2.7	3.7	4.5
4,388	4,513	4,515	4,734	4,900	5,508	6,479	6,244	7,214	7,651
13.6	2.8	0	4.9	3.5	12.4	17.6	-3.6	15.5	6.1

90,296	91,278	91,248	90,816	90,585	87,157	87,136	88,529	90,939	94,233
3.5	1.1	0	-0.5	-0.3	-3.8	0	1.6	2.7	3.6
65,902	65,741	60,666	63,824	64,640	70,549	78,510	81,014	88,583	92,678
-4.8	-0.2	-7.7	5.2	1.3	9.1	11.3	3.2	9.3	4.6
52,757	52,738	48,215	50,462	50,542	56,958	65,349	68,276	74,074	77,253
-7.9	0	-8.6	4.7	0.2	12.7	14.7	4.5	8.5	4.3
24,515	25,629	23,389	23,853	20,510	22,474	25,630	25,148	28,196	30,160
-16	4.5	-8.7	2	-14	9.6	14	-1.9	12.1	7
17,580	15,303	12,237	10,434	10,311	12,327	13,746	14,048	15,645	13,678
-4.1	-13	-20	-14.7	-1.2	19.6	11.5	2.2	11.4	-12.6
11,073	11,501	10,574	12,128	13,551	15,277	18,583	20,161	21,618	22,857
-3.7	3.9	-8.1	14.7	11.7	12.7	21.6	8.5	7.2	5.7
4,346	4,479	5,348	6,156	6,532	7,269	7,075	7,746	7,730	9,272
2.6	3.1	19.4	15.1	6.1	11.3	-2.7	9.5	-0.2	19.9
443	433	432	513	527	582	527	381	436	495
-0.4	-2.3	-0.2	18.8	2.7	10.4	-9.5	-27.7	14.4	13.5
12,762	12,622	12,100	12,959	13,730	13,040	12,524	12,185	13,927	14,791
11.1	-1.1	-4.1	7.1	5.9	-5	-4	-2.7	14.3	6.2
159,978	165,840	179,334	198,277	214,029	225,797	244,226	261,741	292,756	316,210
-3	3.7	8.1	10.6	7.9	5.5	8.2	7.2	11.8	8
140,876	148,911	157,883	168,811	179,790	188,919	212,588	222,915	241,730	259,653
-0.7	5.7	6	6.9	6.5	5.1	12.5	4.9	8.4	7.4
-5,371	-4,647	-2,263	540	3,838	-559	3,836	4,518	-552	3,800
-5,317	-4,312	-2,333	337	3,825	-623	3,816	4,512	-511	3,946
-54	-335	70	203	13	64	20	6	-41	-146
-1,517	1,486	1,655	1,045	-630	-497	933	-184	1,015	1,180
366,239	371,118	376,397	396,866	409,670	416,327	436,466	456,307	487,892	518,795
-3.4	1.3	1.4	5.4	3.2	1.6	4.8	4.5	6.9	6.3
357,667	361,031	358,443	367,472	372,839	381,586	401,863	413,966	436,476	456,358
-1	0.9	-0.7	2.5	1.5	2.3	5.3	3	5.4	4.6

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
160,076	163,100	164,396	168,194	173,775	178,543	190,052	201,169	215,124	234,849
2	1.9	0.8	2.3	3.3	2.7	6.4	5.8	6.9	9.2
25,863	27,248	28,754	30,690	32,583	33,689	35,544	37,593	38,839	41,521
5	5.4	5.5	6.7	6.2	3.4	5.5	5.8	3.3	6.9
11,598	12,082	12,411	12,866	13,368	13,851	15,314	16,848	17,915	19,184
1.4	4.2	2.7	3.7	3.9	3.6	10.6	10	6.3	7.1
649	582	611	539	555	506	465	462	508	600
-14.5	-10.3	5	-11.8	3	-8.8	-8.1	-0.6	10	18.1
13,617	14,584	15,732	17,285	18,659	19,332	19,766	20,282	20,416	21,737
9.6	7.1	7.9	9.9	7.9	3.6	2.2	2.6	0.7	6.5
23,823	23,417	23,306	23,541	25,736	26,442	27,516	28,311	31,089	30,516
-9.5	-1.7	-0.5	1	9.3	2.7	4.1	2.9	9.8	-1.8
209,762	213,765	216,456	222,425	232,094	238,674	253,112	267,073	285,052	306,886
0.9	1.9	1.3	2.8	4.3	2.8	6	5.5	6.7	7.7
36,792	40,696	43,584	44,464	44,831	45,610	47,121	49,587	49,244	49,166
15.9	10.6	7.1	2	0.8	1.7	3.3	5.2	-0.7	-0.2
78,324	80,052	81,129	84,518	89,042	93,107	98,820	103,095	108,895	114,646
1.4	2.2	1.3	4.2	5.4	4.6	6.1	4.3	5.6	5.3
168,230	174,409	178,911	182,371	187,883	191,177	201,413	213,565	225,401	241,406
3.7	3.7	2.6	1.9	3	1.8	5.4	6	5.5	7.1
153,022	157,614	163,583	170,116	176,887	184,073	196,294	206,078	219,824	235,742
2.9	3	3.8	4	4	4.1	6.6	5	6.7	7.2

11,691	11,842	12,125	11,860	12,435	11,945	11,316	10,808	11,460	13,583
0.6	1.3	2.4	-2.2	4.8	-3.9	-5.3	-4.5	6	18.5
26,899	28,637	27,453	24,115	23,431	19,049	16,435	18,295	17,037	19,247
6.9	6.5	-4.1	-12.2	-2.8	-18.7	-13.7	11.3	-6.9	13
16	16.4	15.3	13.2	12.5	10	8.2	8.6	7.6	8
10,431	10,572	10,690	10,819	10,950	11,083	11,228	11,366	11,505	11,683
1.3	1.4	1.1	1.2	1.2	1.2	1.3	1.2	1.2	1.6
16,127	16,497	16,736	16,856	17,158	17,250	17,939	18,790	19,592	20,663
2.3	2.3	1.5	0.7	1.8	0.5	4	4.7	4.3	5.5

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
137,257	143,556	161,579	185,583	209,888	221,902	239,894	260,914	289,587	318,099
-3.7	4.6	12.6	14.9	13.1	5.7	8.1	8.8	11	9.8
81,823	90,551	107,339	126,095	146,474	156,067	170,492	191,540	214,993	235,932
-0.1	10.7	18.5	17.5	16.2	6.5	9.2	12.3	12.2	9.7
55,434	53,005	54,240	59,488	63,414	65,835	69,402	69,374	74,594	82,167
-8.6	-4.4	2.3	9.7	6.6	3.8	5.4	0	7.5	10.2
119,280	128,806	143,815	162,799	179,458	186,501	210,789	226,898	246,526	272,131
-3.1	8	11.7	13.2	10.2	3.9	13	7.6	8.7	10.4
85,652	95,483	108,944	128,518	142,426	145,567	166,343	182,297	196,930	214,488
-0.2	11.5	14.1	18	10.8	2.2	14.3	9.6	8	8.9
33,628	33,323	34,871	34,281	37,032	40,934	44,446	44,601	49,596	57,643
-9.7	-0.9	4.6	-1.7	8	10.5	8.6	0.3	11.2	16.2
17,977	14,750	17,764	22,784	30,430	35,401	29,105	34,016	43,061	45,968

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
159,978	165,840	179,334	198,277	214,029	225,797	244,226	261,741	292,756	316,210
-3	3.7	8.1	10.6	7.9	5.5	8.2	7.2	11.8	8
91,598	99,095	112,833	126,947	140,890	150,887	164,842	183,009	207,151	224,099
1.5	8.2	13.9	12.5	11	7.1	9.2	11	13.2	8.2
72,089	69,833	68,683	73,271	74,378	75,756	79,986	78,200	84,573	90,936
-9.1	-3.1	-1.6	6.7	1.5	1.9	5.6	-2.2	8.1	7.5
140,876	148,911	157,883	168,811	179,790	188,919	212,588	222,915	241,730	259,653
-0.7	5.7	6	6.9	6.5	5.1	12.5	4.9	8.4	7.4
92,945	100,152	107,362	119,004	127,856	133,597	152,279	160,435	174,808	188,523
2.1	7.8	7.2	10.8	7.4	4.5	14	5.4	9	7.8
52,929	53,118	54,493	51,508	53,066	56,928	61,125	62,918	66,935	70,811
-7.3	0.4	2.6	-5.5	3	7.3	7.4	2.9	6.4	5.8

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
75.2	76.9	78.5	79.2	80.3	81.4	82.5	83.9	85.3	87.7
4.6	2.2	2.1	0.9	1.3	1.4	1.4	1.7	1.7	2.8
77	78.3	80.1	81	82.5	83.9	85.2	86.4	88	90
4.6	1.7	2.4	1.1	1.8	1.7	1.6	1.3	1.8	2.3

93.8	94.6	95.5	98.1	100.2	101.3	102.2	102.5	103.4	102.8
-0.9	0.9	0.9	2.7	2.2	1.1	0.9	0.3	0.9	-0.6
104.2	104.2	104.5	105.4	104.4	104.7	105.9	106.7	108.7	108.8
5.7	0	0.3	0.8	-0.9	0.3	1.1	0.8	1.8	0.1
70.9	71.3	72.7	70.3	71.5	72.5	73.4	73.9	76	79.9
5.5	0.6	1.9	-3.3	1.6	1.4	1.3	0.7	2.8	5.1
72.3	74.3	76.8	79	80.8	82.5	84.2	85.9	87.3	89.3
5.3	2.8	3.3	2.9	2.2	2.2	2	2	1.6	2.3
82.5	84	86.4	84.7	84.7	79.7	73.9	80.4	77.3	76.2
-7.6	1.8	2.9	-2	0	-5.9	-7.3	8.8	-3.8	-1.4
69.8	72.2	73.3	73.7	73.8	74.6	75.6	77.3	78.6	82.3
5.3	3.4	1.6	0.5	0.2	1	1.3	2.3	1.7	4.7
85.1	83.2	83.7	86.3	86.5	85.7	87.3	88.8	88.4	89.1
-2.1	-2.2	0.6	3.2	0.2	-1	1.9	1.7	-0.5	0.8
86.4	84.2	85.1	87.7	87.8	86.9	88.3	90	89.4	90
-1.7	-2.5	1	3.1	0	-1	1.6	1.9	-0.7	0.6
63.1	61.7	62.2	64.1	64.4	64.4	66.4	67.9	69.6	71.7
2	-2.1	0.8	3	0.5	-0.1	3.1	2.3	2.6	3
61.9	61.4	62.9	65.3	66.4	68.8	70.5	71.9	73.6	78
-3.5	-0.8	2.5	3.8	1.6	3.6	2.5	1.9	2.4	6
140.4	131.9	135.3	140.1	139.8	135.4	134.7	137.7	131.3	126.7
-4.3	-6.1	2.6	3.5	-0.2	-3.1	-0.5	2.2	-4.6	-3.5
85	84.7	80.7	83.2	82	80.6	84.7	85	86.6	89.3
0.4	-0.3	-4.7	3.1	-1.4	-1.7	5.1	0.4	1.8	3.1
75.9	76.2	76.6	77.9	78.7	78.1	80.2	88.8	85.2	87.3
-4.6	0.5	0.5	1.7	1	-0.8	2.6	10.7	-4	2.5
79.5	79.1	77.9	80.4	81.2	80.5	82.9	83.3	83.8	85.5
-3.9	-0.4	-1.6	3.2	1	-0.8	3	0.4	0.6	2.1
85.9	86.5	90.1	93.5	98.1	98.3	98.2	99.7	98.9	100.6
-0.7	0.8	4.1	3.8	4.8	0.2	0	1.5	-0.7	1.7
84.7	86.5	91.1	96.4	99.8	98.8	99.1	101.8	102	104.8
-2.3	2.1	5.3	5.8	3.6	-1.1	0.4	2.7	0.2	2.8

78.7	79	80.3	80.6	82.3	83.5	84.5	85.3	85.7	87.2
3.8	0.3	1.7	0.4	2.2	1.4	1.2	0.9	0.5	1.7
77.1	78.1	79.5	80.6	81.5	82.3	83.5	84.9	85.9	88
3.1	1.3	1.9	1.3	1.1	0.9	1.5	1.7	1.2	2.4

1983 III	1983 IV	1984 I	1984 II	1984 III	1984 IV	1985 I	1985 II	1985 III	1985 IV
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
-	-	-	-	-	-	123,709	129,682	140,536	149,437
-	-	-	-	-	-	-	4.8	8.4	6.3
-	-	-	-	-	-	12,337	12,425	13,333	13,617
-	-	-	-	-	-	-	0.7	7.3	2.1
-	-	-	-	-	-	3,641	4,039	4,436	4,239
-	-	-	-	-	-	-	10.9	9.8	-4.4
-	-	-	-	-	-	8,703	8,387	8,894	9,393
-	-	-	-	-	-	-	-3.6	6.1	5.6
-	-	-	-	-	-	10,598	10,319	10,475	10,446
-	-	-	-	-	-	-	-2.6	1.5	-0.3
-	-	-	-	-	-	7,770	7,600	7,629	7,438
-	-	-	-	-	-	-	-2.2	0.4	-2.5
-	-	-	-	-	-	2,833	2,704	2,866	3,117
-	-	-	-	-	-	-	-4.5	6	8.7
-	-	-	-	-	-	21,853	22,097	25,288	26,119
-	-	-	-	-	-	-	1.1	14.4	3.3
-	-	-	-	-	-	8,179	8,222	9,477	10,072
-	-	-	-	-	-	-	0.5	15.3	6.3
-	-	-	-	-	-	13,918	14,193	16,197	16,254
-	-	-	-	-	-	-	2	14.1	0.3
-	-	-	-	-	-	78,765	84,185	91,094	98,592
-	-	-	-	-	-	-	6.9	8.2	8.2

-	-	-	-	-	-	11,472	12,187	12,030	12,151
-	-	-	-	-	-	-	6.2	-1.3	1
-	-	-	-	-	-	2,066	2,252	2,152	2,541
-	-	-	-	-	-	-	9	-4.4	18
-	-	-	-	-	-	3,487	4,149	4,279	5,051
-	-	-	-	-	-	-	19	3.1	18
-	-	-	-	-	-	6,193	6,093	6,023	6,923
-	-	-	-	-	-	-	-1.6	-1.1	14.9
-	-	-	-	-	-	8,250	8,575	8,952	8,881
-	-	-	-	-	-	-	3.9	4.4	-0.8
-	-	-	-	-	-	4,073	4,275	4,743	5,483
-	-	-	-	-	-	-	5	10.9	15.6
-	-	-	-	-	-	11,677	12,343	12,887	14,489
-	-	-	-	-	-	-	5.7	4.4	12.4
-	-	-	-	-	-	6,213	6,593	6,518	7,629
-	-	-	-	-	-	-	6.1	-1.1	17
-	-	-	-	-	-	6,100	6,543	7,788	9,484
-	-	-	-	-	-	-	7.3	19	21.8
-	-	-	-	-	-	17,064	18,470	22,047	21,527
-	-	-	-	-	-	-	8.2	19.4	-2.4
-	-	-	-	-	-	14,327	15,345	18,795	19,001
-	-	-	-	-	-	-	7.1	22.5	1.1
-	-	-	-	-	-	4,197	5,095	5,235	3,851
-	-	-	-	-	-	-	21.4	2.7	-26.4
-	-	-	-	-	-	3,139	3,606	3,689	4,133
-	-	-	-	-	-	-	14.9	2.3	12
-	-	-	-	-	-	281,137	293,756	314,969	333,632
-	-	-	-	-	-	-	4.5	7.2	5.9
-	-	-	-	-	-	20,298	22,179	24,753	26,656
-	-	-	-	-	-	-	9.3	11.6	7.7
-	-	-	-	-	-	18,318	19,766	20,761	22,258
-	-	-	-	-	-	-	7.9	5	7.2

-	-	-	-	-	-	15,970	16,305	17,679	18,241
-	-	-	-	-	-	-	2.1	8.4	3.2
-	-	-	-	-	-	11,374	12,087	14,438	15,762
-	-	-	-	-	-	-	6.3	19.5	9.2
-	-	-	-	-	-	33,483	35,486	36,667	39,640
-	-	-	-	-	-	-	6	3.3	8.1
-	-	-	-	-	-	49,371	50,242	53,733	56,127
-	-	-	-	-	-	-	1.8	6.9	4.5
-	-	-	-	-	-	30,361	33,670	38,448	43,415
-	-	-	-	-	-	-	10.9	14.2	12.9
-	-	-	-	-	-	2,322	2,462	2,600	2,942
-	-	-	-	-	-	-	6.1	5.6	13.2
-	-	-	-	-	-	24,711	25,091	24,957	24,881
-	-	-	-	-	-	-	1.5	-0.5	-0.3
-	-	-	-	-	-	27,757	28,042	29,165	30,248
-	-	-	-	-	-	-	1	4	3.7
-	-	-	-	-	-	3,553	3,536	3,775	3,993
-	-	-	-	-	-	-	-0.5	6.8	5.8
-	-	-	-	-	-	8,249	9,020	10,129	10,247
-	-	-	-	-	-	-	9.4	12.3	1.2
-	-	-	-	-	-	7,410	7,719	8,505	8,980
-	-	-	-	-	-	-	4.2	10.2	5.6
-	-	-	-	-	-	29,427	29,439	29,746	30,430
-	-	-	-	-	-	-	0	1	2.3
-	-	-	-	-	-	404,680	423,598	455,910	483,441
-	-	-	-	-	-	-	4.7	7.6	6

1986 I	1986 II	1986 III	1986 IV	1987 I	1987 II	1987 III	1987 IV	1988 I	1988 II
110,215	112,775	115,284	118,402	121,569	124,984	127,635	131,236	135,757	139,371
2.2	2.3	2.2	2.7	2.7	2.8	2.1	2.8	3.4	2.7
47,234	47,467	48,942	49,981	52,346	54,610	56,003	56,641	57,820	57,784
-2.4	0.5	3.1	2.1	4.7	4.3	2.6	1.1	2.1	-0.1
25,168	25,147	26,264	27,037	28,936	30,529	31,068	31,019	31,690	31,353
-7.4	-0.1	4.4	2.9	7	5.5	1.8	-0.2	2.2	-1.1
16,431	16,654	17,001	17,254	17,594	18,100	18,755	19,311	19,723	19,955
4.9	1.4	2.1	1.5	2	2.9	3.6	3	2.1	1.2
5,635	5,666	5,677	5,690	5,816	5,980	6,181	6,311	6,406	6,476
1.3	0.6	0.2	0.2	2.2	2.8	3.3	2.1	1.5	1.1
22,782	23,454	24,032	24,460	25,308	25,698	26,028	26,699	27,448	28,412
2.4	3	2.5	1.8	3.5	1.5	1.3	2.6	2.8	3.5
17,219	17,785	18,239	18,581	19,200	19,380	19,425	19,952	20,624	21,325
2.8	3.3	2.6	1.9	3.3	0.9	0.2	2.7	3.4	3.4
5,563	5,670	5,793	5,879	6,108	6,318	6,603	6,747	6,824	7,088
0.9	1.9	2.2	1.5	3.9	3.4	4.5	2.2	1.1	3.9
24,161	25,839	26,585	27,315	27,774	27,823	29,001	29,010	30,616	32,238
6.8	6.9	2.9	2.7	1.7	0.2	4.2	0	5.5	5.3
1,245	673	1,077	-847	-145	-797	-352	794	379	-895
205,638	210,207	215,919	219,312	226,852	232,318	238,316	244,379	252,019	256,910
2.1	2.2	2.7	1.6	3.4	2.4	2.6	2.5	3.1	1.9
8.9	9.2	11.3	6.4	14.5	10	10.7	10.6	13.1	8

1986 I	1986 II	1986 III	1986 IV	1987 I	1987 II	1987 III	1987 IV	1988 I	1988 II
148,101	150,515	154,455	156,325	160,615	164,262	167,577	171,307	176,046	179,612
2.9	1.6	2.6	1.2	2.7	2.3	2	2.2	2.8	2
106,131	107,955	110,743	112,063	115,593	118,449	120,339	122,875	126,642	129,885
3.4	1.7	2.6	1.2	3.1	2.5	1.6	2.1	3.1	2.6
15,844	16,069	16,920	16,599	17,282	17,969	18,189	18,892	19,734	20,067
3.3	1.4	5.3	-1.9	4.1	4	1.2	3.9	4.5	1.7
10,870	11,243	11,515	11,672	11,929	12,165	12,343	12,671	12,771	13,057
2.5	3.4	2.4	1.4	2.2	2	1.5	2.7	0.8	2.2
29,882	29,915	30,566	30,768	30,985	32,061	32,576	32,802	33,801	34,216
0.9	0.1	2.2	0.7	0.7	3.5	1.6	0.7	3	1.2
49,535	50,728	51,741	53,024	55,397	56,254	57,231	58,510	60,337	62,545
5.3	2.4	2	2.5	4.5	1.5	1.7	2.2	3.1	3.7
2,379	2,385	2,476	2,492	2,508	2,592	2,591	2,753	2,809	2,796
2.7	0.3	3.8	0.6	0.7	3.3	0	6.3	2	-0.4
39,591	40,175	41,236	41,770	42,513	43,221	44,647	45,678	46,594	46,930
1.4	1.5	2.6	1.3	1.8	1.7	3.3	2.3	2	0.7
41,111	43,014	45,128	46,567	49,130	50,911	54,289	55,870	57,913	58,022
3.1	4.6	4.9	3.2	5.5	3.6	6.6	2.9	3.7	0.2
34,962	36,982	39,234	40,654	42,800	44,262	47,152	48,434	50,014	49,859
3.7	5.8	6.1	3.6	5.3	3.4	6.5	2.7	3.3	-0.3
12,049	12,621	13,965	14,650	16,354	17,105	18,902	19,299	19,298	18,979
1.2	4.8	10.6	4.9	11.6	4.6	10.5	2.1	0	-1.7
7,573	8,040	8,279	8,456	8,910	9,313	9,688	10,184	10,519	10,875
5.8	6.2	3	2.1	5.4	4.5	4	5.1	3.3	3.4
12,929	13,885	14,519	14,904	14,916	15,060	15,643	15,933	17,138	16,852

4.2	7.4	4.6	2.7	0.1	1	3.9	1.9	7.6	-1.7
2,412	2,436	2,472	2,645	2,620	2,783	2,918	3,018	3,059	3,154
7.1	1	1.5	7	-0.9	6.2	4.9	3.4	1.3	3.1
276	279	277	277	276	292	308	316	313	314
-1.2	1.1	-0.6	-0.1	-0.4	6.1	5.2	2.8	-1.2	0.5
5,874	5,753	5,617	5,637	6,055	6,356	6,829	7,120	7,587	7,848
0.2	-2.1	-2.4	0.3	7.4	5	7.4	4.3	6.6	3.4
115,014	116,903	118,601	119,002	120,004	121,480	123,866	126,611	130,604	132,812
1.6	1.6	1.5	0.3	0.8	1.2	2	2.2	3.2	1.7
99,620	100,419	101,134	101,991	102,645	104,515	106,972	110,243	113,679	117,039
1.3	0.8	0.7	0.8	0.6	1.8	2.4	3.1	3.1	3
1,799	812	-486	-469	-240	-308	-828	1,192	1,581	3,308
2,663	1,354	69	-218	-193	-277	-777	1,243	1,664	3,416
-858	-537	-548	-245	-38	-24	-46	-44	-103	-130
-767	-617	-645	-122	-12	489	385	-358	-446	195
205,638	210,207	215,919	219,312	226,852	232,318	238,316	244,379	252,019	256,910
2.1	2.2	2.7	1.6	3.4	2.4	2.6	2.5	3.1	1.9
8.9	9.2	11.3	6.4	14.5	10	10.7	10.6	13.1	8
189,212	193,529	199,583	202,892	209,745	215,173	221,865	227,177	233,959	237,634
2.9	2.3	3.1	1.7	3.4	2.6	3.1	2.4	3	1.6

1986 I	1986 II	1986 III	1986 IV	1987 I	1987 II	1987 III	1987 IV	1988 I	1988 II
249,603	252,421	257,376	258,273	260,582	264,520	265,885	269,569	272,513	276,343

0.5	1.1	2	0.3	0.9	1.5	0.5	1.4	1.1	1.4
173,602	175,251	177,749	178,998	182,416	184,881	185,807	187,372	191,772	193,869
2.2	1	1.4	0.7	1.9	1.4	0.5	0.8	2.3	1.1
19,256	19,282	19,592	19,834	20,274	20,839	21,251	21,720	22,273	22,558
1.4	0.1	1.6	1.2	2.2	2.8	2	2.2	2.5	1.3
13,228	13,471	13,709	13,852	13,952	14,061	14,149	14,186	14,306	14,285
2.4	1.8	1.8	1	0.7	0.8	0.6	0.3	0.8	-0.1
53,182	54,382	54,475	54,509	54,558	54,552	55,075	55,906	56,735	56,898
-0.3	2.3	0.2	0.1	0.1	0	1	1.5	1.5	0.3
88,488	89,375	89,688	91,389	94,114	94,965	95,770	96,408	99,428	100,478
4.6	1	0.4	1.9	3	0.9	0.8	0.7	3.1	1.1
3,071	2,999	3,023	2,924	2,870	2,929	2,915	3,122	3,164	3,099
0.9	-2.3	0.8	-3.3	-1.8	2	-0.5	7.1	1.3	-2.1
75,503	75,374	77,173	77,130	77,811	77,034	78,789	79,526	80,545	79,958
0.1	-0.2	2.4	-0.1	0.9	-1	2.3	0.9	1.3	-0.7
55,814	57,530	59,089	61,247	62,155	64,471	67,320	67,750	69,561	70,738
4.6	3.1	2.7	3.7	1.5	3.7	4.4	0.6	2.7	1.7
47,843	49,418	50,910	52,833	53,448	55,465	58,203	58,488	59,645	60,300
5.2	3.3	3	3.8	1.2	3.8	4.9	0.5	2	1.1
27,075	27,664	29,096	29,264	31,615	31,541	34,268	34,052	33,145	31,803
-3.4	2.2	5.2	0.6	8	-0.2	8.6	-0.6	-2.7	-4.1
14,960	15,562	16,005	16,098	16,784	17,094	17,232	17,382	17,587	18,341
7.2	4	2.8	0.6	4.3	1.8	0.8	0.9	1.2	4.3
8,939	9,370	9,655	9,872	10,044	10,203	10,611	10,870	11,851	11,713
4.9	4.8	3	2.2	1.7	1.6	4	2.4	9	-1.2
3,152	3,095	3,119	3,302	3,280	3,392	3,603	3,633	3,662	3,829
8.9	-1.8	0.8	5.8	-0.7	3.4	6.2	0.8	0.8	4.6
468	454	437	421	407	427	440	454	439	441
-4.7	-2.9	-3.9	-3.5	-3.3	4.7	3.2	3	-3.3	0.6
7,931	7,801	7,414	7,067	7,719	8,102	8,737	8,994	9,481	9,733
1.8	-1.6	-5	-4.7	9.2	5	7.8	2.9	5.4	2.7

143,077	143,016	143,916	145,239	149,060	145,574	144,800	152,141	159,653	161,285
4.5	0	0.6	0.9	2.6	-2.3	-0.5	5.1	4.9	1
110,960	113,811	115,497	122,136	119,199	120,085	123,050	126,026	128,818	139,091
-1.5	2.6	1.5	5.7	-2.4	0.7	2.5	2.4	2.2	8
1,007	511	-662	-424	307	122	166	773	2,711	2,485
1,952	1,060	149	-381	-32	135	354	995	3,464	3,036
-945	-550	-811	-42	339	-13	-188	-222	-753	-551
-528	-1,043	-1,185	-880	-526	-50	397	712	805	712
335,829	339,406	341,870	343,123	347,928	353,797	359,634	364,697	368,245	368,505
0.6	1.1	0.7	0.4	1.4	1.7	1.7	1.4	1	0.1
2.5	4.3	2.9	1.5	5.7	6.9	6.8	5.8	3.9	0.3
306,207	309,654	315,739	317,897	325,046	327,990	334,075	336,973	344,538	346,071
1.9	1.1	2	0.7	2.2	0.9	1.9	0.9	2.2	0.4

1986 I	1986 II	1986 III	1986 IV	1987 I	1987 II	1987 III	1987 IV	1988 I	1988 II
110,502	112,984	115,416	118,457	121,410	124,598	127,082	130,462	134,916	138,498
2.1	2.2	2.2	2.6	2.5	2.6	2	2.7	3.4	2.7
17,219	17,785	18,239	18,581	19,200	19,380	19,425	19,952	20,624	21,325
2.8	3.3	2.6	1.9	3.3	0.9	0.2	2.7	3.4	3.4
8,010	8,270	8,453	8,622	8,933	9,218	9,477	9,640	10,015	10,278
3.7	3.2	2.2	2	3.6	3.2	2.8	1.7	3.9	2.6
836	849	883	768	1,021	957	772	770	802	1,021
-12.6	1.6	3.9	-13	32.9	-6.3	-19.3	-0.2	4.2	27.2

8,373	8,665	8,903	9,191	9,246	9,205	9,176	9,541	9,807	10,026
3.8	3.5	2.7	3.2	0.6	-0.4	-0.3	4	2.8	2.2
19,736	19,704	18,843	18,869	18,944	19,431	19,764	20,477	19,420	20,388
2.4	-0.2	-4.4	0.1	0.4	2.6	1.7	3.6	-5.2	5
147,457	150,473	152,498	155,908	159,553	163,409	166,271	170,890	174,960	180,210
2.2	2	1.3	2.2	2.3	2.4	1.8	2.8	2.4	3
20,742	21,136	20,693	20,297	20,855	21,989	26,037	24,179	25,111	24,821
4.2	1.9	-2.1	-1.9	2.8	5.4	18.4	-7.1	3.9	-1.2
49,689	50,448	51,046	52,857	53,194	57,660	57,934	59,583	64,023	63,857
5.5	1.5	1.2	3.5	0.6	8.4	0.5	2.8	7.5	-0.3
118,509	121,162	122,145	123,348	127,214	127,738	134,373	135,486	136,048	141,174
1.2	2.2	0.8	1	3.1	0.4	5.2	0.8	0.4	3.8
106,131	107,955	110,743	112,063	115,593	118,449	120,339	122,875	126,642	129,885
3.4	1.7	2.6	1.2	3.1	2.5	1.6	2.1	3.1	2.6
8,108	7,855	7,916	8,733	8,275	9,273	6,695	8,321	8,262	9,117
2.3	-3.1	0.8	10.3	-5.2	12.1	-27.8	24.3	-0.7	10.3
20,486	21,062	19,319	20,017	19,896	18,562	20,730	20,932	17,668	20,405
-8.4	2.8	-8.3	3.6	-0.6	-6.7	11.7	1	-15.6	15.5
17.3	17.4	15.8	16.2	15.6	14.5	15.4	15.4	13	14.5
9,362	9,392	9,437	9,493	9,531	9,578	9,638	9,703	9,735	9,775
0.3	0.3	0.5	0.6	0.4	0.5	0.6	0.7	0.3	0.4
12,659	12,901	12,943	12,993	13,347	13,337	13,942	13,964	13,975	14,442
1	1.9	0.3	0.4	2.7	-0.1	4.5	0.2	0.1	3.3

1986 I	1986 II	1986 III	1986 IV	1987 I	1987 II	1987 III	1987 IV	1988 I	1988 II

115,014	116,903	118,601	119,002	120,004	121,480	123,866	126,611	130,604	132,812
1.6	1.6	1.5	0.3	0.8	1.2	2	2.2	3.2	1.7
67,303	68,700	69,903	69,729	69,965	70,465	71,580	72,786	75,126	75,658
1.9	2.1	1.8	-0.2	0.3	0.7	1.6	1.7	3.2	0.7
47,711	48,203	48,698	49,272	50,038	51,016	52,285	53,825	55,478	57,155
1.2	1	1	1.2	1.6	2	2.5	2.9	3.1	3
99,620	100,419	101,134	101,991	102,645	104,515	106,972	110,243	113,679	117,039
1.3	0.8	0.7	0.8	0.6	1.8	2.4	3.1	3.1	3
69,081	70,799	71,608	71,644	71,036	71,580	73,037	75,763	78,891	81,976
3.8	2.5	1.1	0.1	-0.8	0.8	2	3.7	4.1	3.9
30,538	29,620	29,526	30,347	31,609	32,936	33,935	34,480	34,788	35,063
-3.9	-3	-0.3	2.8	4.2	4.2	3	1.6	0.9	0.8
15,394	16,484	17,467	17,011	17,358	16,965	16,893	16,367	16,925	15,773

1986 I	1986 II	1986 III	1986 IV	1987 I	1987 II	1987 III	1987 IV	1988 I	1988 II
143,077	143,016	143,916	145,239	149,060	145,574	144,800	152,141	159,653	161,285
4.5	0	0.6	0.9	2.6	-2.3	-0.5	5.1	4.9	1
77,531	75,830	75,506	75,421	77,776	76,952	75,333	81,851	86,346	86,705
6.1	-2.2	-0.4	-0.1	3.1	-1.1	-2.1	8.7	5.5	0.4
72,765	71,780	72,172	72,212	72,947	73,527	74,468	77,542	78,978	79,043
-1.1	-1.4	0.5	0.1	1	0.8	1.3	4.1	1.9	0.1
110,960	113,811	115,497	122,136	119,199	120,085	123,050	126,026	128,818	139,091
-1.5	2.6	1.5	5.7	-2.4	0.7	2.5	2.4	2.2	8
70,184	71,289	71,832	71,999	71,906	73,094	75,212	78,575	82,217	85,797
2.6	1.6	0.8	0.2	-0.1	1.7	2.9	4.5	4.6	4.4

50,433	50,303	50,722	51,778	53,001	54,259	55,344	56,197	57,008	57,760
-0.5	-0.3	0.8	2.1	2.4	2.4	2	1.5	1.4	1.3

1986 I	1986 II	1986 III	1986 IV	1987 I	1987 II	1987 III	1987 IV	1988 I	1988 II
59.3	59.6	60	60.5	61.6	62.1	63	63.5	64.6	65
2.3	0.5	0.6	0.9	1.8	0.7	1.5	0.8	1.7	0.6
61.1	61.6	62.3	62.6	63.4	64.1	64.8	65.6	66	67
1.2	0.8	1.1	0.5	1.2	1.1	1.1	1.3	0.7	1.5
82.3	83.3	86.4	83.7	85.2	86.2	85.6	87	88.6	89
1.9	1.3	3.6	-3.1	1.9	1.1	-0.7	1.6	1.9	0.4
82.2	83.5	84	84.3	85.5	86.5	87.2	89.3	89.3	91.4
0.1	1.6	0.6	0.3	1.5	1.2	0.8	2.4	-0.1	2.4
56.2	55	56.1	56.4	56.8	58.8	59.1	58.7	59.6	60.1
1.2	-2.1	2	0.6	0.6	3.5	0.6	-0.8	1.5	0.9
56	56.8	57.7	58	58.9	59.2	59.8	60.7	60.7	62.2
0.7	1.4	1.6	0.6	1.5	0.6	0.9	1.6	0	2.6
77.5	79.5	81.9	85.2	87.4	88.5	88.9	88.2	88.8	90.2
1.8	2.7	3	4.1	2.5	1.3	0.4	-0.8	0.7	1.6
52.4	53.3	53.4	54.2	54.6	56.1	56.7	57.4	57.8	58.7
1.3	1.6	0.2	1.4	0.9	2.7	1	1.4	0.7	1.5
73.7	74.8	76.4	76	79	79	80.6	82.5	83.3	82
-1.4	1.5	2.1	-0.4	4	-0.1	2.1	2.3	1	-1.5
73.1	74.8	77.1	76.9	80.1	79.8	81	82.8	83.9	82.7
-1.5	2.4	3	-0.2	4.1	-0.3	1.5	2.2	1.3	-1.4
44.5	45.6	48	50.1	51.7	54.2	55.2	56.7	58.2	59.7
4.8	2.5	5.2	4.3	3.3	4.8	1.7	2.7	2.7	2.5

50.6	51.7	51.7	52.5	53.1	54.5	56.2	58.6	59.8	59.3
-1.4	2.1	0.1	1.6	1.1	2.6	3.2	4.2	2.1	-0.9
144.6	148.2	150.4	151	148.5	147.6	147.4	146.6	144.6	143.9
-0.7	2.5	1.5	0.4	-1.6	-0.6	-0.1	-0.6	-1.3	-0.5
76.5	78.7	79.2	80.1	79.9	82.1	81	83.1	83.5	82.4
-1.7	2.9	0.7	1.1	-0.3	2.7	-1.3	2.6	0.5	-1.4
58.9	61.3	63.4	65.7	67.6	68.5	69.9	69.7	71.3	71.2
3.6	4.1	3.4	3.6	3	1.4	1.9	-0.2	2.2	-0.1
74.1	73.7	75.8	79.8	78.4	78.5	78.2	79.2	80	80.6
-1.6	-0.4	2.7	5.3	-1.6	0	-0.4	1.3	1.1	0.8
80.4	81.7	82.4	81.9	80.5	83.4	85.5	83.2	81.8	82.3
-2.8	1.7	0.8	-0.6	-1.7	3.7	2.5	-2.7	-1.7	0.7
89.8	88.2	87.6	83.5	86.1	87	86.9	87.5	88.2	84.1
2.8	-1.7	-0.8	-4.6	3.1	1.1	-0.1	0.6	0.9	-4.6
61.2	61.9	63.2	63.9	65.2	65.7	66.3	67	68.4	69.7
1.5	1.1	2	1.2	2	0.7	0.9	1.1	2.1	1.9
6.3	4.7	8.1	4.9	8.3	2.9	3.7	4.6	8.8	7.7
61.8	62.5	63.2	63.8	64.5	65.6	66.4	67.4	67.9	68.7
1	1.1	1.1	1	1.1	1.7	1.2	1.5	0.7	1.1

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
245,315	253,444	263,315	276,920	289,608	302,875	319,035	328,168	323,244	333,654
2.7	3.3	3.9	5.2	4.6	4.6	5.3	2.9	-1.5	3.2
108,373	121,432	124,852	128,384	135,130	138,049	140,020	137,370	129,905	146,555
5.3	12.1	2.8	2.8	5.3	2.2	1.4	-1.9	-5.4	12.8

53,889	65,663	68,439	70,479	74,947	74,268	73,257	65,974	55,966	74,368
4.7	21.8	4.2	3	6.3	-0.9	-1.4	-9.9	-15.2	32.9
42,887	43,699	43,874	44,520	45,995	48,473	50,242	53,234	54,745	51,955
6.3	1.9	0.4	1.5	3.3	5.4	3.6	6	2.8	-5.1
11,597	12,070	12,539	13,385	14,188	15,308	16,521	18,162	19,194	20,232
4.7	4.1	3.9	6.7	6	7.9	7.9	9.9	5.7	5.4
55,997	58,861	60,402	62,640	64,417	66,585	69,155	70,428	71,012	73,962
4.7	5.1	2.6	3.7	2.8	3.4	3.9	1.8	0.8	4.2
43,164	45,264	46,636	48,383	49,571	51,460	53,059	53,267	53,098	55,466
4	4.9	3	3.7	2.5	3.8	3.1	0.4	-0.3	4.5
12,834	13,596	13,766	14,257	14,845	15,125	16,096	17,161	17,914	18,496
7.1	5.9	1.3	3.6	4.1	1.9	6.4	6.6	4.4	3.2
59,830	61,871	61,376	65,599	68,445	70,732	73,137	72,575	73,309	76,392
3.3	3.4	-0.8	6.9	4.3	3.3	3.4	-0.8	1	4.2
-470	-804	-473	-209	-993	-12	388	-95	406	420
469,045	494,804	509,472	533,334	556,607	578,229	601,735	608,446	597,876	630,983
3.7	5.5	3	4.7	4.4	3.9	4.1	1.1	-1.7	5.5

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
334,692	354,572	371,905	388,809	409,736	430,671	450,039	473,150	479,175	502,831
4.9	5.9	4.9	4.5	5.4	5.1	4.5	5.1	1.3	4.9
247,006	261,351	272,838	284,233	299,523	312,514	328,212	340,494	339,713	358,185
4.8	5.8	4.4	4.2	5.4	4.3	5	3.7	-0.2	5.4
33,980	36,956	37,743	37,701	39,365	40,519	41,939	42,331	40,702	43,115

1.8	8.8	2.1	-0.1	4.4	2.9	3.5	0.9	-3.8	5.9
20,899	21,826	22,320	22,904	23,394	24,404	25,232	25,616	25,027	26,017
3.8	4.4	2.3	2.6	2.1	4.3	3.4	1.5	-2.3	4
58,202	61,027	65,187	68,517	72,942	75,102	77,869	81,987	80,788	85,440
6.4	4.9	6.8	5.1	6.5	3	3.7	5.3	-1.5	5.8
133,925	141,542	147,588	155,111	163,822	172,489	183,172	190,560	193,196	203,613
5	5.7	4.3	5.1	5.6	5.3	6.2	4	1.4	5.4
6,325	6,972	7,121	7,452	8,136	8,735	9,000	10,022	9,429	9,292
8.5	10.2	2.1	4.6	9.2	7.4	3	11.4	-5.9	-1.5
81,361	86,249	91,946	97,124	102,077	109,422	112,827	122,634	130,033	135,354
4.9	6	6.6	5.6	5.1	7.2	3.1	8.7	6	4.1
86,840	89,585	94,126	101,414	108,397	115,173	120,062	122,855	116,617	127,173
5.2	3.2	5.1	7.7	6.9	6.3	4.2	2.3	-5.1	9.1
72,318	74,055	76,799	83,113	88,292	93,412	97,026	98,597	89,026	94,524
4.1	2.4	3.7	8.2	6.2	5.8	3.9	1.6	-9.7	6.2
24,524	28,196	30,048	33,525	35,519	37,316	40,725	40,160	38,199	42,613
13.4	15	6.6	11.6	5.9	5.1	9.1	-1.4	-4.9	11.6
10,794	11,295	11,373	12,015	12,695	14,648	16,313	16,506	15,570	16,124
1.4	4.6	0.7	5.6	5.7	15.4	11.4	1.2	-5.7	3.6
27,657	25,352	25,333	26,079	27,967	29,228	27,983	28,419	22,968	22,825
-4.5	-8.3	-0.1	2.9	7.2	4.5	-4.3	1.6	-19.2	-0.6
9,343	9,212	10,045	11,494	12,111	12,220	12,005	13,512	12,289	12,962
13	-1.4	9	14.4	5.4	0.9	-1.8	12.6	-9.1	5.5
507	575	515	350	802	900	663	1,121	893	907
17.1	13.4	-10.4	-32	129.1	12.2	-26.3	69.1	-20.3	1.6
14,015	14,955	16,812	17,951	19,303	20,861	22,373	23,137	26,698	31,742
10.8	6.7	12.4	6.8	7.5	8.1	7.2	3.4	15.4	18.9
313,029	320,979	309,108	324,463	329,631	333,015	338,327	329,232	283,967	309,755
-1.6	2.5	-3.7	5	1.6	1	1.6	-2.7	-13.7	9.1
264,936	272,540	268,161	283,956	295,271	304,548	311,229	323,109	282,392	309,975
-2.6	2.9	-1.6	5.9	4	3.1	2.2	3.8	-12.6	9.8

-1,052	1,399	2,020	2,393	3,119	3,906	4,923	6,129	950	1,418
-985	1,183	2,074	2,219	3,124	3,949	5,071	6,212	1,142	1,397
-93	217	-73	162	-20	-38	-159	-99	-198	21
472	809	474	211	995	12	-387	189	-441	-219
469,045	494,804	509,472	533,334	556,607	578,229	601,735	608,446	597,876	630,983
3.7	5.5	3	4.7	4.4	3.9	4.1	1.1	-1.7	5.5
421,532	444,157	466,031	490,223	518,133	545,844	570,101	596,005	595,792	630,004
4.9	5.4	4.9	5.2	5.7	5.3	4.4	4.5	0	5.7

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
373,542	387,604	398,739	410,397	423,243	438,080	450,039	464,401	466,543	482,061
2.7	3.8	2.9	2.9	3.1	3.5	2.7	3.2	0.5	3.3
268,454	279,243	287,440	295,302	306,306	316,066	328,212	336,159	335,946	348,154
2.5	4	2.9	2.7	3.7	3.2	3.8	2.4	-0.1	3.6
33,014	35,768	36,568	36,740	38,519	40,213	41,939	44,360	43,741	45,658
1.7	8.3	2.2	0.5	4.8	4.4	4.3	5.8	-1.4	4.4
19,125	20,087	20,848	21,512	22,424	24,081	25,232	26,179	25,744	27,258
3.4	5	3.8	3.2	4.2	7.4	4.8	3.8	-1.7	5.9
69,483	71,208	73,212	74,531	75,837	75,948	77,869	78,777	78,877	80,601
1.5	2.5	2.8	1.8	1.8	0.1	2.5	1.2	0.1	2.2
147,213	152,284	156,912	162,652	169,596	175,825	183,172	186,905	187,577	194,706
3	3.4	3	3.7	4.3	3.7	4.2	2	0.4	3.8
7,990	8,681	8,145	8,079	8,729	9,189	9,000	9,816	9,303	9,238
4.4	8.6	-6.2	-0.8	8	5.3	-2.1	9.1	-5.2	-0.7

97,234	99,782	103,212	107,110	108,217	112,864	112,827	118,401	121,179	124,583
3.2	2.6	3.4	3.8	1	4.3	0	4.9	2.3	2.8
95,470	96,411	100,790	106,528	113,003	118,289	120,062	118,841	110,853	121,324
3	1	4.5	5.7	6.1	4.7	1.5	-1	-6.7	9.4
78,534	78,799	81,448	86,523	91,428	95,625	97,026	95,744	84,430	90,276
1.7	0.3	3.4	6.2	5.7	4.6	1.5	-1.3	-11.8	6.9
33,141	36,410	36,888	38,749	39,391	39,731	40,725	38,793	36,473	39,441
9.9	9.9	1.3	5	1.7	0.9	2.5	-4.7	-6	8.1
13,549	13,898	13,515	13,356	13,637	15,257	16,313	15,442	14,525	14,762
-0.9	2.6	-2.8	-1.2	2.1	11.9	6.9	-5.3	-5.9	1.6
21,589	19,941	21,344	23,105	26,001	28,217	27,983	28,346	21,710	23,817
-5.5	-7.6	7	8.3	12.5	8.5	-0.8	1.3	-23.4	9.7
10,053	9,623	10,357	11,760	12,492	12,382	12,005	13,192	11,688	12,261
8.4	-4.3	7.6	13.5	6.2	-0.9	-3	9.9	-11.4	4.9
564	631	554	372	855	928	663	1,059	863	885
13.9	11.9	-12.2	-32.9	129.8	8.5	-28.6	59.7	-18.5	2.5
16,290	16,930	18,793	19,622	20,717	21,735	22,373	22,033	25,523	30,125
10.1	3.9	11	4.4	5.6	4.9	2.9	-1.5	15.8	18
305,946	311,315	311,925	327,606	334,944	337,278	338,327	316,636	274,446	296,977
-3.2	1.8	0.2	5	2.2	0.7	0.3	-6.4	-13.3	8.2
247,529	253,170	261,456	279,646	288,444	299,765	311,228	303,717	269,183	300,813
-4.7	2.3	3.3	7	3.1	3.9	3.8	-2.4	-11.4	11.8
-1,077	1,590	1,235	2,697	2,327	3,345	4,912	5,572	551	641
-976	1,426	1,259	2,279	2,301	3,491	5,071	5,619	670	719
-101	164	-24	418	26	-146	-159	-47	-119	-78
517	875	494	202	1,034	-6	-376	203	-426	-214
528,204	546,049	552,189	567,739	586,000	596,942	601,735	601,717	582,941	600,135
1.8	3.4	1.1	2.8	3.2	1.9	0.8	0	-3.1	2.9
469,031	484,003	499,530	516,932	536,250	556,364	570,101	583,213	577,228	603,289
2.8	3.2	3.2	3.5	3.7	3.8	2.5	2.3	-1	4.5

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
242,555	250,101	259,666	272,840	284,999	298,117	314,975	324,175	321,050	330,202
3.3	3.1	3.8	5.1	4.5	4.6	5.7	2.9	-1	2.9
43,164	45,264	46,636	48,383	49,571	51,460	53,059	53,267	53,098	55,466
4	4.9	3	3.7	2.5	3.8	3.1	0.4	-0.3	4.5
20,091	21,015	22,239	23,625	24,487	25,543	26,760	26,406	26,055	27,124
4.7	4.6	5.8	6.2	3.6	4.3	4.8	-1.3	-1.3	4.1
635	684	552	639	611	464	391	469	331	560
5.8	7.7	-19.3	15.8	-4.4	-24.1	-15.7	19.9	-29.4	69.2
22,437	23,566	23,845	24,119	24,474	25,453	25,908	26,392	26,712	27,782
3.2	5	1.2	1.1	1.5	4	1.8	1.9	1.2	4
29,901	27,816	26,595	27,844	30,362	32,313	35,374	37,282	38,699	38,583
-2	-7	-4.4	4.7	9	6.4	9.5	5.4	3.8	-0.3
315,620	323,181	332,897	349,067	364,932	381,890	403,408	414,724	412,847	424,251
2.8	2.4	3	4.9	4.5	4.6	5.6	2.8	-0.5	2.8
54,009	54,538	56,874	60,001	61,858	67,397	75,021	76,838	85,058	91,948
9.9	1	4.3	5.5	3.1	9	11.3	2.4	10.7	8.1
117,276	116,162	119,706	128,372	138,383	142,702	157,261	156,910	150,276	151,114
2.3	-0.9	3.1	7.2	7.8	3.1	10.2	-0.2	-4.2	0.6
252,353	261,557	270,065	280,696	288,407	306,585	321,168	334,652	347,629	365,085
4.5	3.6	3.3	3.9	2.7	6.3	4.8	4.2	3.9	5
247,006	261,351	272,838	284,233	299,523	312,514	328,212	340,494	339,713	358,185
4.8	5.8	4.4	4.2	5.4	4.3	5	3.7	-0.2	5.4

10,190	9,992	11,135	12,255	14,664	13,827	15,312	15,971	13,139	13,392
-25	-1.9	11.4	10.1	19.7	-5.7	10.7	4.3	-17.7	1.9
15,537	10,198	8,362	8,718	3,548	7,898	8,268	10,129	21,055	20,292
-19.3	-34.4	-18	4.3	-59.3	122.6	4.7	22.5	107.9	-3.6
6.1	3.9	3.1	3.1	1.2	2.6	2.5	3	6	5.6
11,897	12,093	12,244	12,390	12,528	12,662	12,764	12,883	12,998	13,135
1.8	1.6	1.2	1.2	1.1	1.1	0.8	0.9	0.9	1.1
21,211	21,628	22,057	22,655	23,021	24,214	25,162	25,977	26,745	27,795
2.7	2	2	2.7	1.6	5.2	3.9	3.2	3	3.9

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
313,029	320,979	309,108	324,463	329,631	333,015	338,327	329,232	283,967	309,755
-1.6	2.5	-3.7	5	1.6	1	1.6	-2.7	-13.7	9.1
228,199	232,422	217,766	228,504	230,664	228,560	229,638	218,704	178,603	197,772
-3.3	1.9	-6.3	4.9	0.9	-0.9	0.5	-4.8	-18.3	10.7
84,830	88,557	91,342	95,959	98,967	104,455	108,689	110,528	105,364	111,983
3.2	4.4	3.1	5.1	3.1	5.5	4.1	1.7	-4.7	6.3
264,936	272,540	268,161	283,956	295,271	304,548	311,229	323,109	282,392	309,975
-2.6	2.9	-1.6	5.9	4	3.1	2.2	3.8	-12.6	9.8
205,211	210,684	202,453	215,339	223,195	227,976	230,181	238,199	201,130	224,184
-4.3	2.7	-3.9	6.4	3.6	2.1	1	3.5	-15.6	11.5
59,725	61,856	65,708	68,617	72,076	76,572	81,048	84,910	81,262	85,791
3.6	3.6	6.2	4.4	5	6.2	5.8	4.8	-4.3	5.6
48,093	48,439	40,947	40,507	34,360	28,467	27,098	6,123	1,575	-220

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
305,946	311,315	311,925	327,606	334,944	337,278	338,327	316,636	274,446	296,977
-3.2	1.8	0.2	5	2.2	0.7	0.3	-6.4	-13.3	8.2
212,935	215,486	213,304	225,437	231,231	229,481	229,638	210,548	173,607	191,704
-5	1.2	-1	5.7	2.6	-0.8	0.1	-8.3	-17.5	10.4
92,525	95,533	98,669	102,089	103,586	107,790	108,689	106,082	100,744	105,250
1.7	3.3	3.3	3.5	1.5	4.1	0.8	-2.4	-5	4.5
247,529	253,170	261,456	279,646	288,444	299,765	311,228	303,717	269,183	300,813
-4.7	2.3	3.3	7	3.1	3.9	3.8	-2.4	-11.4	11.8
175,917	179,493	185,738	203,236	213,382	220,815	230,180	227,063	186,614	216,597
-6.7	2	3.5	9.4	5	3.5	4.2	-1.4	-17.8	16.1
72,866	75,145	77,104	76,832	75,006	78,964	81,048	76,730	82,849	84,074
2.9	3.1	2.6	-0.4	-2.4	5.3	2.6	-5.3	8	1.5

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
89.6	91.5	93.3	94.7	96.8	98.3	100	101.9	102.7	104.3
2.1	2.1	2	1.6	2.2	1.6	1.7	1.9	0.8	1.5
92	93.6	94.9	96.2	97.8	98.9	100	101.3	101.1	102.9
2.2	1.7	1.4	1.4	1.6	1.1	1.1	1.3	-0.2	1.7

102.9	103.3	103.2	102.6	102.2	100.8	100	95.4	93	94.4
0.1	0.4	-0.1	-0.6	-0.4	-1.4	-0.8	-4.6	-2.5	1.5
109.3	108.7	107.1	106.5	104.3	101.4	100	97.9	97.2	95.4
0.5	-0.6	-1.5	-0.5	-2	-2.9	-1.3	-2.2	-0.6	-1.8
83.8	85.7	89	91.9	96.2	98.9	100	104.1	102.4	106
4.8	2.3	3.9	3.2	4.6	2.8	1.1	4.1	-1.6	3.5
91	92.9	94.1	95.4	96.6	98.1	100	102	103	104.6
1.9	2.2	1.2	1.4	1.3	1.6	2	1.9	1	1.5
79.2	80.3	87.5	92.2	93.2	95.1	100	102.1	101.4	100.6
3.8	1.4	9	5.4	1	2	5.2	2.1	-0.7	-0.8
83.7	86.4	89.1	90.7	94.3	96.9	100	103.6	107.3	108.6
1.7	3.3	3.1	1.8	4	2.8	3.2	3.6	3.6	1.2
91	93.3	93.4	95.2	95.9	97.4	100.1	103.6	105.3	104.8
2.1	2.6	0.1	1.9	0.8	1.5	2.8	3.6	1.6	-0.5
92.1	94.6	94.4	96.1	96.6	97.7	100.1	103.2	105.5	104.7
2.4	2.7	-0.2	1.8	0.5	1.2	2.5	3.1	2.2	-0.8
74	77.4	81.4	86.5	90.2	93.9	100	103.5	104.7	108.1
3.2	4.7	5.2	6.2	4.3	4.1	6.4	3.6	1.1	3.2
79.7	81.3	84.2	90	93.1	96	100	107	107.2	109.2
2.1	2	3.6	6.9	3.5	3.1	4.2	7.1	0.2	1.9
128.1	127.1	118.8	112.9	107.6	103.6	99.9	100.1	105.7	96.1
1.1	-0.8	-6.6	-4.9	-4.7	-3.7	-3.6	0.3	5.6	-9.1
93.2	95.8	97	97.7	97	98.7	100	102.4	105.2	105.7
4.3	2.8	1.3	0.7	-0.8	1.8	1.3	2.4	2.7	0.5
89.9	91.3	93	94	93.9	97.1	99.9	106	103.5	102.4
3	1.5	1.8	1.1	-0.2	3.4	3	6.1	-2.3	-1.1
86	88.3	89.5	91.5	93.2	96	100	105.3	104.9	105.4
0.6	2.7	1.3	2.2	1.9	3	4.2	5.2	-0.4	0.5
102.3	103.1	99.1	99	98.4	98.7	100	104.1	103.5	104.3
1.7	0.8	-3.9	-0.1	-0.6	0.3	1.3	4	-0.5	0.8
107	107.6	102.6	101.6	102.4	101.6	100.1	106.7	105.2	103
2.1	0.6	-4.6	-1.1	0.8	-0.8	-1.5	6.6	-1.4	-2

88.8	90.6	92.3	93.9	95	96.9	100	101.1	102.6	105.1
1.9	2	1.8	1.8	1.1	2	3.2	1.1	1.4	2.5
89.9	91.8	93.3	94.8	96.6	98.1	100	102.2	103.2	104.4
2.1	2.1	1.7	1.6	1.9	1.5	1.9	2.2	1	1.2

1986 I	1986 II	1986 III	1986 IV	1987 I	1987 II	1987 III	1987 IV	1988 I	1988 II
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
145,653	149,243	150,071	151,348	153,018	150,896	146,780	139,636	122,847	129,746
-2.5	2.5	0.6	0.9	1.1	-1.4	-2.7	-4.9	-12	5.6
13,615	12,780	12,701	13,069	13,572	12,637	12,108	13,049	10,014	10,950
0	-6.1	-0.6	2.9	3.9	-6.9	-4.2	7.8	-23.3	9.3
4,013	4,036	4,099	4,237	4,461	4,377	4,302	4,434	4,296	4,540
-5.3	0.6	1.6	3.4	5.3	-1.9	-1.7	3.1	-3.1	5.7
9,616	8,756	8,624	8,863	9,137	8,278	7,807	8,613	5,703	6,393
2.4	-8.9	-1.5	2.8	3.1	-9.4	-5.7	10.3	-33.8	12.1
10,173	10,508	10,445	10,753	11,158	11,246	11,513	12,366	12,057	11,835
-2.6	3.3	-0.6	2.9	3.8	0.8	2.4	7.4	-2.5	-1.8
7,450	7,688	7,661	7,995	8,404	8,564	8,745	9,706	9,059	8,860
0.2	3.2	-0.3	4.4	5.1	1.9	2.1	11	-6.7	-2.2
2,808	2,910	2,872	2,808	2,776	2,684	2,768	2,664	2,983	2,955
-9.9	3.6	-1.3	-2.2	-1.1	-3.3	3.1	-3.8	12	-0.9
28,294	29,742	30,708	31,171	31,816	32,645	33,686	32,333	32,003	33,506
8.3	5.1	3.2	1.5	2.1	2.6	3.2	-4	-1	4.7
10,998	11,896	12,425	12,735	13,014	12,788	12,939	12,793	12,056	12,718
9.2	8.2	4.4	2.5	2.2	-1.7	1.2	-1.1	-5.8	5.5
17,673	18,306	18,658	18,782	19,006	19,891	20,747	19,558	20,001	20,811
8.7	3.6	1.9	0.7	1.2	4.7	4.3	-5.7	2.3	4.1
93,647	96,001	96,048	96,303	96,555	94,255	89,473	81,943	68,137	72,846
-5	2.5	0	0.3	0.3	-2.4	-5.1	-8.4	-16.8	6.9

12,323	11,921	11,813	12,065	12,595	12,558	11,657	11,807	11,445	11,580
1.4	-3.3	-0.9	2.1	4.4	-0.3	-7.2	1.3	-3.1	1.2
2,326	2,131	1,950	1,804	1,726	1,486	1,283	1,100	936	937
-8.4	-8.4	-8.5	-7.5	-4.3	-13.9	-13.6	-14.3	-15	0.2
5,146	5,219	4,834	4,980	4,717	4,574	4,209	3,808	2,927	3,000
1.9	1.4	-7.4	3	-5.3	-3	-8	-9.5	-23.1	2.5
7,237	7,133	7,005	6,936	7,064	6,440	6,204	5,975	5,010	4,969
4.5	-1.4	-1.8	-1	1.8	-8.8	-3.7	-3.7	-16.1	-0.8
9,709	10,402	10,559	9,920	8,823	9,001	8,604	8,227	7,638	7,806
9.3	7.1	1.5	-6	-11.1	2	-4.4	-4.4	-7.2	2.2
5,215	5,606	5,603	5,536	5,619	5,338	5,162	4,579	3,599	3,851
-4.9	7.5	-0.1	-1.2	1.5	-5	-3.3	-11.3	-21.4	7
14,055	15,127	15,205	14,748	14,914	14,440	13,687	12,101	8,718	10,284
-3	7.6	0.5	-3	1.1	-3.2	-5.2	-11.6	-28	18
7,046	7,104	6,933	6,880	6,624	6,412	6,376	6,066	4,914	4,791
-7.6	0.8	-2.4	-0.8	-3.7	-3.2	-0.6	-4.9	-19	-2.5
7,363	6,871	6,477	7,314	7,446	7,304	6,721	6,773	6,378	6,376
-22.4	-6.7	-5.7	12.9	1.8	-1.9	-8	0.8	-5.8	0
19,326	20,133	21,039	21,513	22,459	21,969	20,953	17,038	12,552	15,344
-10.2	4.2	4.5	2.3	4.4	-2.2	-4.6	-18.7	-26.3	22.2
17,129	18,199	18,810	19,307	19,863	18,920	17,864	13,661	9,432	12,831
-9.9	6.3	3.4	2.6	2.9	-4.7	-5.6	-23.5	-31	36
2,757	2,087	2,536	2,330	2,748	3,155	3,088	3,340	3,042	2,510
-28.4	-24.3	21.5	-8.1	17.9	14.8	-2.1	8.2	-8.9	-17.5
4,285	4,453	4,505	4,598	4,656	4,766	4,619	4,412	3,822	3,949
3.7	3.9	1.2	2.1	1.3	2.4	-3.1	-4.5	-13.4	3.3
345,123	354,262	362,032	374,377	386,891	400,042	412,632	418,080	416,227	425,866
3.4	2.6	2.2	3.4	3.3	3.4	3.1	1.3	-0.4	2.3
26,911	27,823	29,250	29,990	32,046	33,459	34,934	33,750	32,011	34,829
1	3.4	5.1	2.5	6.9	4.4	4.4	-3.4	-5.2	8.8
23,279	24,896	25,901	26,819	27,349	28,476	29,052	29,850	28,949	29,674
4.6	6.9	4	3.5	2	4.1	2	2.7	-3	2.5

18,853	18,702	18,425	19,281	20,193	20,546	20,797	21,589	20,382	21,240
3.4	-0.8	-1.5	4.6	4.7	1.7	1.2	3.8	-5.6	4.2
17,221	17,490	17,607	19,354	20,024	20,658	20,721	20,890	20,733	21,214
9.3	1.6	0.7	9.9	3.5	3.2	0.3	0.8	-0.8	2.3
41,405	41,509	42,262	44,146	45,499	48,507	50,775	49,688	49,093	49,739
4.5	0.3	1.8	4.5	3.1	6.6	4.7	-2.1	-1.2	1.3
58,870	60,898	61,961	63,533	65,970	67,019	68,807	69,850	71,385	73,251
4.9	3.4	1.7	2.5	3.8	1.6	2.7	1.5	2.2	2.6
44,167	45,591	47,137	48,387	49,993	51,807	53,926	53,932	51,886	52,494
1.7	3.2	3.4	2.7	3.3	3.6	4.1	0	-3.8	1.2
3,381	3,662	3,716	3,695	3,760	3,918	4,303	4,678	4,721	4,450
14.9	8.3	1.5	-0.6	1.8	4.2	9.8	8.7	0.9	-5.7
25,063	25,619	26,164	27,142	28,594	29,827	30,800	32,032	32,541	33,217
0.7	2.2	2.1	3.7	5.4	4.3	3.3	4	1.6	2.1
30,569	31,087	32,192	33,183	33,875	34,847	36,176	37,068	37,965	38,580
1.1	1.7	3.6	3.1	2.1	2.9	3.8	2.5	2.4	1.6
4,232	4,239	4,271	4,429	4,469	4,500	4,602	4,621	4,637	4,392
6	0.2	0.7	3.7	0.9	0.7	2.3	0.4	0.3	-5.3
10,341	10,633	9,805	10,014	10,021	10,056	10,117	10,268	10,306	10,254
0.9	2.8	-7.8	2.1	0.1	0.3	0.6	1.5	0.4	-0.5
9,436	9,826	9,995	10,324	10,482	10,618	11,004	11,305	11,189	10,857
5.1	4.1	1.7	3.3	1.5	1.3	3.6	2.7	-1	-3
31,100	31,912	33,239	33,785	34,283	35,643	36,620	38,576	40,362	41,617
2.2	2.6	4.2	1.6	1.5	4	2.7	5.3	4.6	3.1
490,560	503,510	512,002	525,549	539,740	550,887	559,412	557,804	539,388	555,908
1.5	2.6	1.7	2.6	2.7	2.1	1.5	-0.3	-3.3	3.1

1988 III	1988 IV	1989 I	1989 II	1989 III	1989 IV	1990 I	1990 II	1990 III	1990 IV
142,568	146,213	149,293	152,623	154,758	157,449	158,155	159,054	158,371	158,325
2.3	2.6	2.1	2.2	1.4	1.7	0.4	0.6	-0.4	0
58,439	59,749	61,551	61,277	61,487	59,557	58,617	57,324	55,695	55,521
1.1	2.2	3	-0.4	0.3	-3.1	-1.6	-2.2	-2.8	-0.3
31,390	32,035	33,006	31,935	31,490	29,146	26,990	25,429	23,675	23,490
0.1	2.1	3	-3.2	-1.4	-7.4	-7.4	-5.8	-6.9	-0.8
20,470	21,076	21,749	22,387	22,881	23,175	24,330	24,470	24,475	24,448
2.6	3	3.2	2.9	2.2	1.3	5	0.6	0	-0.1
6,580	6,638	6,796	6,955	7,117	7,236	7,297	7,424	7,545	7,582
1.6	0.9	2.4	2.3	2.3	1.7	0.8	1.7	1.6	0.5
29,056	29,856	30,694	31,223	31,940	32,487	33,085	32,968	33,138	33,149
2.3	2.8	2.8	1.7	2.3	1.7	1.8	-0.4	0.5	0
21,777	22,406	23,033	23,418	23,942	24,203	24,741	24,558	24,643	24,563
2.1	2.9	2.8	1.7	2.2	1.1	2.2	-0.7	0.3	-0.3
7,279	7,450	7,661	7,806	7,997	8,284	8,344	8,410	8,495	8,587
2.7	2.4	2.8	1.9	2.5	3.6	0.7	0.8	1	1.1
32,957	34,153	35,186	37,345	37,392	37,996	41,577	40,639	39,706	37,114
2.2	3.6	3	6.1	0.1	1.6	9.4	-2.3	-2.3	-6.5
89	-1,032	-484	-413	-337	-9	-1,514	-1,123	-759	132
263,109	268,939	276,239	282,056	285,240	287,481	289,920	288,861	286,150	284,241
2.4	2.2	2.7	2.1	1.1	0.8	0.8	-0.4	-0.9	-0.7
10	9.2	11.3	8.7	4.6	3.2	3.4	-1.5	-3.7	-2.6

1988 III	1988 IV	1989 I	1989 II	1989 III	1989 IV	1990 I	1990 II	1990 III	1990 IV
183,187	186,968	191,497	197,139	200,007	203,232	207,036	207,817	211,183	214,184
2	2.1	2.4	2.9	1.5	1.6	1.9	0.4	1.6	1.4
132,253	135,375	138,301	142,404	143,555	145,553	147,813	147,374	149,146	150,688
1.8	2.4	2.2	3	0.8	1.4	1.6	-0.3	1.2	1
20,399	20,904	20,863	21,973	21,093	21,291	21,157	20,225	20,053	19,749
1.7	2.5	-0.2	5.3	-4	0.9	-0.6	-4.4	-0.9	-1.5
13,328	13,653	13,769	14,084	14,179	14,115	14,352	14,152	14,180	14,203
2.1	2.4	0.9	2.3	0.7	-0.4	1.7	-1.4	0.2	0.2
34,911	35,339	35,836	36,715	37,377	37,856	38,117	38,744	39,226	39,833
2	1.2	1.4	2.5	1.8	1.3	0.7	1.6	1.2	1.5
63,615	65,480	67,832	69,631	70,905	72,291	74,187	74,252	75,687	76,902
1.7	2.9	3.6	2.7	1.8	2	2.6	0.1	1.9	1.6
2,811	2,948	3,057	3,177	3,256	3,246	3,350	3,437	3,488	3,496
0.5	4.9	3.7	3.9	2.5	-0.3	3.2	2.6	1.5	0.2
48,123	48,645	50,140	51,558	53,197	54,433	55,873	57,005	58,550	60,000
2.5	1.1	3.1	2.8	3.2	2.3	2.6	2	2.7	2.5
61,708	62,549	66,363	65,248	64,897	66,296	65,382	60,285	59,205	55,835
6.4	1.4	6.1	-1.7	-0.5	2.2	-1.4	-7.8	-1.8	-5.7
53,182	53,781	57,534	56,606	56,277	57,571	55,791	50,641	49,146	45,714
6.7	1.1	7	-1.6	-0.6	2.3	-3.1	-9.2	-3	-7
20,390	21,054	23,769	22,080	23,193	23,890	22,708	18,098	17,055	14,558
7.4	3.3	12.9	-7.1	5	3	-4.9	-20.3	-5.8	-14.6
11,279	11,591	12,023	12,400	12,758	13,020	12,289	12,000	11,604	11,164
3.7	2.8	3.7	3.1	2.9	2	-5.6	-2.4	-3.3	-3.8
18,236	17,910	18,497	18,849	17,042	17,207	17,259	17,073	16,827	16,308

8.2	-1.8	3.3	1.9	-9.6	1	0.3	-1.1	-1.4	-3.1
3,277	3,227	3,245	3,277	3,283	3,454	3,535	3,470	3,660	3,683
3.9	-1.5	0.6	1	0.2	5.2	2.3	-1.8	5.5	0.6
328	341	342	347	348	367	372	367	349	328
4.3	4.2	0.3	1.3	0.3	5.4	1.5	-1.4	-4.9	-6.2
8,198	8,427	8,486	8,295	8,272	8,358	9,219	9,277	9,709	9,794
4.5	2.8	0.7	-2.2	-0.3	1	10.3	0.6	4.7	0.9
135,522	137,886	139,968	141,060	142,149	142,927	143,302	143,641	142,390	140,763
2	1.7	1.5	0.8	0.8	0.5	0.3	0.2	-0.9	-1.1
119,741	121,709	123,414	124,251	124,625	125,122	125,011	123,997	122,563	120,561
2.3	1.6	1.4	0.7	0.3	0.4	-0.1	-0.8	-1.2	-1.6
2,105	1,862	1,189	2,765	2,195	251	-859	17	-6,010	-6,096
2,053	1,716	1,163	2,678	2,141	162	-635	76	-6,147	-5,858
17	116	21	80	45	85	-249	-99	112	-268
328	1,383	636	94	616	-103	68	1,097	1,946	117
263,109	268,939	276,239	282,056	285,240	287,481	289,920	288,861	286,150	284,241
2.4	2.2	2.7	2.1	1.1	0.8	0.8	-0.4	-0.9	-0.7
10	9.2	11.3	8.7	4.6	3.2	3.4	-1.5	-3.7	-2.6
244,895	249,517	257,860	262,387	264,904	269,528	272,418	268,102	270,388	270,020
3.1	1.9	3.3	1.8	1	1.7	1.1	-1.6	0.9	-0.1

1988 III	1988 IV	1989 I	1989 II	1989 III	1989 IV	1990 I	1990 II	1990 III	1990 IV
278,361	281,371	283,315	287,837	288,398	289,919	294,083	290,429	291,992	291,493

0.7	1.1	0.7	1.6	0.2	0.5	1.4	-1.2	0.5	-0.2
195,670	196,869	200,003	201,777	201,223	203,521	202,728	201,339	202,066	202,482
0.9	0.6	1.6	0.9	-0.3	1.1	-0.4	-0.7	0.4	0.2
22,845	22,976	22,846	23,100	22,435	22,447	22,364	21,392	21,109	20,954
1.3	0.6	-0.6	1.1	-2.9	0.1	-0.4	-4.3	-1.3	-0.7
14,409	14,472	14,528	14,671	14,622	14,552	14,609	14,601	14,348	14,146
0.9	0.4	0.4	1	-0.3	-0.5	0.4	-0.1	-1.7	-1.4
57,148	57,775	58,220	57,860	58,114	58,442	58,054	58,172	58,476	57,250
0.4	1.1	0.8	-0.6	0.4	0.6	-0.7	0.2	0.5	-2.1
101,190	101,512	104,535	106,252	107,177	109,640	109,077	109,267	109,678	110,490
0.7	0.3	3	1.6	0.9	2.3	-0.5	0.2	0.4	0.7
3,043	3,089	3,123	3,195	3,265	3,277	3,552	3,794	3,984	4,127
-1.8	1.5	1.1	2.3	2.2	0.4	8.4	6.8	5	3.6
80,971	81,067	82,440	82,599	84,958	84,823	85,957	85,982	87,237	89,759
1.3	0.1	1.7	0.2	2.9	-0.2	1.3	0	1.5	2.9
73,285	72,957	75,831	75,077	74,545	76,950	74,424	71,042	67,788	63,774
3.6	-0.4	3.9	-1	-0.7	3.2	-3.3	-4.5	-4.6	-5.9
62,545	61,738	64,732	64,289	63,876	66,235	63,155	59,415	55,410	51,036
3.7	-1.3	4.8	-0.7	-0.6	3.7	-4.6	-5.9	-6.7	-7.9
34,051	35,042	37,469	34,964	36,349	37,578	35,478	29,099	27,934	24,264
7.1	2.9	6.9	-6.7	4	3.4	-5.6	-18	-4	-13.1
19,182	19,445	19,805	20,061	20,338	20,572	19,021	18,728	18,136	17,446
4.6	1.4	1.9	1.3	1.4	1.2	-7.5	-1.5	-3.2	-3.8
12,504	12,056	12,556	12,941	11,525	11,754	11,627	11,599	11,510	11,264
6.8	-3.6	4.1	3.1	-10.9	2	-1.1	-0.2	-0.8	-2.1
3,877	3,885	3,913	3,939	3,899	4,169	4,205	4,112	4,376	4,255
1.3	0.2	0.7	0.7	-1	6.9	0.9	-2.2	6.4	-2.8
443	458	447	442	439	464	466	461	441	412
0.3	3.4	-2.3	-1.1	-0.6	5.6	0.5	-1.1	-4.2	-6.8
10,182	10,353	10,380	10,101	9,935	10,148	11,133	11,164	11,747	11,901
4.6	1.7	0.3	-2.7	-1.6	2.1	9.7	0.3	5.2	1.3

155,440	160,438	164,712	161,450	165,721	169,472	168,208	171,508	163,173	157,116
-3.6	3.2	2.7	-2	2.6	2.3	-0.7	2	-4.9	-3.7
140,951	142,828	134,974	142,528	148,268	153,251	143,255	144,005	143,048	137,392
1.3	1.3	-5.5	5.6	4	3.4	-6.5	0.5	-0.7	-4
2,847	3,041	1,095	3,185	3,573	242	-880	-2,916	-5,038	-5,485
3,065	2,356	433	2,995	3,361	210	-1,188	-2,410	-5,420	-5,034
-218	685	662	190	212	32	308	-507	382	-451
417	-10	-93	22	482	1,217	1,614	1,645	1,016	-203
373,900	380,334	382,366	384,973	386,014	387,127	385,458	381,941	375,372	373,332
1.5	1.7	0.5	0.7	0.3	0.3	-0.4	-0.9	-1.7	-0.5
6	7.1	2.2	2.8	1.1	1.2	-1.7	-3.6	-6.7	-2.2
353,690	355,553	363,212	363,696	363,409	367,555	365,671	359,462	360,682	359,814
2.2	0.5	2.2	0.1	-0.1	1.1	-0.5	-1.7	0.3	-0.2

1988 III	1988 IV	1989 I	1989 II	1989 III	1989 IV	1990 I	1990 II	1990 III	1990 IV
141,643	145,251	148,098	151,196	153,116	155,594	156,381	157,377	156,814	156,880
2.3	2.5	2	2.1	1.3	1.6	0.5	0.6	-0.4	0
21,777	22,406	23,033	23,418	23,942	24,203	24,741	24,558	24,643	24,563
2.1	2.9	2.8	1.7	2.2	1.1	2.2	-0.7	0.3	-0.3
10,419	10,689	11,118	11,313	11,500	11,753	11,881	11,496	11,304	11,074
1.4	2.6	4	1.7	1.7	2.2	1.1	-3.2	-1.7	-2
979	937	898	817	766	783	803	822	765	646
-4.1	-4.3	-4.2	-9	-6.2	2.2	2.5	2.4	-6.9	-15.6

10,379	10,780	11,017	11,288	11,676	11,667	12,057	12,239	12,574	12,842
3.5	3.9	2.2	2.5	3.4	-0.1	3.3	1.5	2.7	2.1
22,723	23,473	22,810	22,513	21,748	22,993	24,804	26,316	27,084	27,060
11.5	3.3	-2.8	-1.3	-3.4	5.7	7.9	6.1	2.9	-0.1
186,144	191,130	193,941	197,127	198,806	202,790	205,926	208,251	208,541	208,503
3.3	2.7	1.5	1.6	0.9	2	1.5	1.1	0.1	0
25,855	26,398	27,306	29,447	28,147	29,348	30,347	31,026	31,837	33,725
4.2	2.1	3.4	7.8	-4.4	4.3	3.4	2.2	2.6	5.9
64,874	65,862	67,176	67,501	70,188	73,102	73,007	81,118	77,771	77,072
1.6	1.5	2	0.5	4	4.2	-0.1	11.1	-4.1	-0.9
147,125	151,666	154,070	159,073	156,765	159,036	163,266	158,159	162,607	165,156
4.2	3.1	1.6	3.2	-1.5	1.4	2.7	-3.1	2.8	1.6
132,253	135,375	138,301	142,404	143,555	145,553	147,813	147,374	149,146	150,688
1.8	2.4	2.2	3	0.8	1.4	1.6	-0.3	1.2	1
8,849	8,740	8,456	7,443	9,246	9,575	11,036	11,640	11,740	12,048
-2.9	-1.2	-3.2	-12	24.2	3.6	15.3	5.5	0.9	2.6
23,721	25,030	24,225	24,112	22,457	23,058	26,489	22,425	25,201	26,517
16.2	5.5	-3.2	-0.5	-6.9	2.7	14.9	-15.3	12.4	5.2
16.1	16.5	15.7	15.2	14.3	14.5	16.2	14.2	15.5	16.1
9,839	9,917	9,969	10,032	10,103	10,168	10,190	10,239	10,296	10,345
0.7	0.8	0.5	0.6	0.7	0.6	0.2	0.5	0.6	0.5
14,954	15,293	15,454	15,857	15,516	15,641	16,022	15,447	15,793	15,965
3.5	2.3	1.1	2.6	-2.1	0.8	2.4	-3.6	2.2	1.1

1988 III	1988 IV	1989 I	1989 II	1989 III	1989 IV	1990 I	1990 II	1990 III	1990 IV

135,522	137,886	139,968	141,060	142,149	142,927	143,302	143,641	142,390	140,763
2	1.7	1.5	0.8	0.8	0.5	0.3	0.2	-0.9	-1.1
76,765	77,703	78,612	78,873	79,532	80,323	81,134	82,286	82,204	82,003
1.5	1.2	1.2	0.3	0.8	1	1	1.4	-0.1	-0.2
58,756	60,183	61,356	62,188	62,616	62,604	62,168	61,355	60,186	58,759
2.8	2.4	1.9	1.4	0.7	0	-0.7	-1.3	-1.9	-2.4
119,741	121,709	123,414	124,251	124,625	125,122	125,011	123,997	122,563	120,561
2.3	1.6	1.4	0.7	0.3	0.4	-0.1	-0.8	-1.2	-1.6
84,223	85,514	86,476	86,640	86,541	86,859	86,845	86,251	85,570	84,578
2.7	1.5	1.1	0.2	-0.1	0.4	0	-0.7	-0.8	-1.2
35,518	36,195	36,938	37,611	38,084	38,264	38,165	37,747	36,993	35,984
1.3	1.9	2.1	1.8	1.3	0.5	-0.3	-1.1	-2	-2.7
15,781	16,177	16,554	16,809	17,524	17,805	18,292	19,644	19,827	20,201

1988 III	1988 IV	1989 I	1989 II	1989 III	1989 IV	1990 I	1990 II	1990 III	1990 IV
155,440	160,438	164,712	161,450	165,721	169,472	168,208	171,508	163,173	157,116
-3.6	3.2	2.7	-2	2.6	2.3	-0.7	2	-4.9	-3.7
80,295	84,077	89,605	85,984	84,872	87,387	92,352	93,879	89,452	85,241
-7.4	4.7	6.6	-4	-1.3	3	5.7	1.7	-4.7	-4.7
79,876	81,287	82,155	83,229	85,776	83,516	81,077	79,914	78,880	77,497
1.1	1.8	1.1	1.3	3.1	-2.6	-2.9	-1.4	-1.3	-1.8
140,951	142,828	134,974	142,528	148,268	153,251	143,255	144,005	143,048	137,392
1.3	1.3	-5.5	5.6	4	3.4	-6.5	0.5	-0.7	-4
88,516	90,229	91,586	91,944	91,805	91,949	91,724	91,108	90,798	90,506
3.2	1.9	1.5	0.4	-0.2	0.2	-0.2	-0.7	-0.3	-0.3

58,523	59,262	59,751	59,981	59,861	59,374	58,663	57,726	56,601	55,374
1.3	1.3	0.8	0.4	-0.2	-0.8	-1.2	-1.6	-1.9	-2.2

1988 III	1988 IV	1989 I	1989 II	1989 III	1989 IV	1990 I	1990 II	1990 III	1990 IV
65.8	66.4	67.6	68.5	69.4	70.1	70.4	71.6	72.3	73.5
1.3	1	1.7	1.3	1.3	1.1	0.4	1.6	1.1	1.6
67.6	68.8	69.1	70.6	71.3	71.5	72.9	73.2	73.8	74.4
0.9	1.7	0.6	2.1	1.1	0.2	1.9	0.4	0.8	0.8
89.3	91	91.3	95.1	94	94.8	94.6	94.5	95	94.2
0.4	1.9	0.4	4.2	-1.2	0.9	-0.3	-0.1	0.5	-0.8
92.5	94.3	94.8	96	97	97	98.2	96.9	98.8	100.4
1.2	2	0.5	1.3	1	0	1.3	-1.3	2	1.6
61.1	61.2	61.6	63.5	64.3	64.8	65.7	66.6	67.1	69.6
1.6	0.1	0.6	3.1	1.4	0.7	1.4	1.4	0.7	3.7
62.9	64.5	64.9	65.5	66.2	65.9	68	68	69	69.6
1	2.6	0.6	1	1	-0.3	3.2	-0.1	1.5	0.9
92.4	95.4	97.9	99.5	99.7	99	94.3	90.6	87.5	84.7
2.4	3.3	2.6	1.6	0.3	-0.7	-4.8	-3.9	-3.4	-3.2
59.4	60	60.8	62.4	62.6	64.2	65	66.3	67.1	66.8
1.3	1	1.4	2.6	0.3	2.5	1.3	2	1.2	-0.4
84.2	85.7	87.5	86.9	87.1	86.2	87.9	84.9	87.3	87.6
2.7	1.8	2.1	-0.7	0.2	-1	2	-3.4	2.9	0.2
85	87.1	88.9	88	88.1	86.9	88.3	85.2	88.7	89.6
2.8	2.4	2	-0.9	0.1	-1.3	1.6	-3.5	4.1	1
59.9	60.1	63.4	63.2	63.8	63.6	64	62.2	61.1	60
0.3	0.3	5.6	-0.5	1	-0.4	0.7	-2.8	-1.8	-1.7

58.8	59.6	60.7	61.8	62.7	63.3	64.6	64.1	64	64
-0.8	1.4	1.8	1.8	1.5	0.9	2.1	-0.8	-0.1	0
145.8	148.6	147.3	145.7	147.9	146.4	148.4	147.2	146.2	144.8
1.4	1.9	-0.8	-1.1	1.5	-1	1.4	-0.8	-0.7	-1
84.5	83.1	82.9	83.2	84.2	82.9	84.1	84.4	83.6	86.6
2.6	-1.7	-0.1	0.3	1.2	-1.6	1.4	0.4	-0.9	3.5
74.1	74.6	76.6	78.5	79.2	79.1	79.9	79.6	79.1	79.6
4	0.7	2.7	2.5	0.9	-0.2	1	-0.3	-0.7	0.6
80.5	81.4	81.8	82.1	83.3	82.4	82.8	83.1	82.7	82.3
-0.1	1.1	0.4	0.5	1.4	-1.1	0.5	0.4	-0.5	-0.4
87.2	85.9	85	87.4	85.8	84.3	85.2	83.8	87.3	89.6
5.9	-1.4	-1.1	2.8	-1.8	-1.7	1	-1.7	4.2	2.7
85	85.2	91.4	87.2	84.1	81.6	87.3	86.1	85.7	87.8
1	0.3	7.3	-4.7	-3.6	-2.9	6.9	-1.3	-0.5	2.4
70.4	70.7	72.2	73.3	73.9	74.3	75.2	75.6	76.2	76.1
0.9	0.5	2.2	1.4	0.9	0.5	1.3	0.6	0.8	-0.1
3.8	2	9	5.8	3.5	2	5.2	2.2	3.2	-0.5
69.2	70.2	71	72.1	72.9	73.3	74.5	74.6	75	75
0.8	1.4	1.2	1.6	1	0.6	1.6	0.1	0.5	0.1

2011	2012	2013	2014	2015	2016	2017
348,959	360,493	371,959	384,534	402,143	415,719	
4.6	3.3	3.2	3.4	4.6	3.4	
157,478	161,919	162,517	173,737	185,402	195,407	
7.5	2.8	0.4	6.9	6.7	5.4	

83,376	85,900	84,842	94,302	100,993	108,355
12.1	3	-1.2	11.2	7.1	7.3
52,218	53,010	53,654	54,506	58,427	60,507
0.5	1.5	1.2	1.6	7.2	3.6
21,884	23,009	24,021	24,929	25,982	26,545
8.2	5.1	4.4	3.8	4.2	2.2
76,084	78,032	79,651	82,067	85,076	88,515
2.9	2.6	2.1	3	3.7	4
57,048	58,267	59,253	60,962	63,018	65,443
2.9	2.1	1.7	2.9	3.4	3.8
19,036	19,765	20,398	21,105	22,058	23,072
2.9	3.8	3.2	3.5	4.5	4.6
76,954	79,327	80,963	85,345	89,789	94,815
0.7	3.1	2.1	5.4	5.2	5.6
265	315	264	370	-381	379
659,740	680,086	695,354	726,053	762,029	794,835
4.6	3.1	2.2	4.4	5	4.3

2011	2012	2013	2014	2015	2016	2017
524,915	537,329	553,633	576,386	599,233	621,847	
4.4	2.4	3	4.1	4	3.8	
373,071	382,927	396,734	416,099	433,158	451,392	
4.2	2.6	3.6	4.9	4.1	4.2	
43,109	43,779	45,458	49,315	53,338	58,498	

0	1.6	3.8	8.5	8.2	9.7
26,527	26,782	27,465	28,728	30,321	31,367
2	1	2.6	4.6	5.5	3.4
89,977	92,191	95,137	99,017	100,317	103,188
5.3	2.5	3.2	4.1	1.3	2.9
213,458	220,175	228,674	239,039	249,182	258,339
4.8	3.1	3.9	4.5	4.2	3.7
10,192	10,484	10,763	10,936	11,751	12,184
9.7	2.9	2.7	1.6	7.5	3.7
141,652	143,918	146,136	149,351	154,324	158,271
4.7	1.6	1.5	2.2	3.3	2.6
132,007	137,006	133,130	144,004	157,087	162,075
3.8	3.8	-2.8	8.2	9.1	3.2
102,335	108,357	105,215	116,244	129,339	132,635
8.3	5.9	-2.9	10.5	11.3	2.5
45,980	50,100	50,204	52,479	58,629	66,374
7.9	9	0.2	4.5	11.7	13.2
20,262	22,366	21,739	24,960	27,495	24,685
25.7	10.4	-2.8	14.8	10.2	-10.2
22,822	22,760	20,192	24,430	28,739	27,130
0	-0.3	-11.3	21	17.6	-5.6
13,271	13,131	13,080	14,375	14,476	14,446
2.4	-1.1	-0.4	9.9	0.7	-0.2
956	1,094	1,247	1,239	1,190	1,291
5.4	14.4	14	-0.6	-4	8.5
28,716	27,555	26,668	26,521	26,558	28,149
-9.5	-4	-3.2	-0.6	0.1	6
333,169	342,861	357,260	377,072	401,996	415,828
7.6	2.9	4.2	5.5	6.6	3.4
336,008	339,481	350,376	378,338	400,208	403,449
8.4	1	3.2	8	5.8	0.8

5,773	2,324	1,720	7,284	3,577	-1,135
5,488	2,305	2,317	7,137	3,465	-951
286	-5	-603	152	105	-187
-116	47	-13	-355	344	-331
659,740	680,086	695,354	726,053	762,029	794,835
4.6	3.1	2.2	4.4	5	4.3
656,922	674,335	686,763	720,390	756,320	783,922
4.3	2.7	1.8	4.9	5	3.6

2011	2012	2013	2014	2015	2016	2017
489,514	495,041	501,462	512,093	526,160	539,771	
1.5	1.1	1.3	2.1	2.7	2.6	
354,089	359,391	366,916	376,798	387,275	398,709	
1.7	1.5	2.1	2.7	2.8	3	
45,725	46,465	48,065	51,847	54,944	59,010	
0.1	1.6	3.4	7.9	6	7.4	
27,744	28,490	29,607	30,547	31,871	32,978	
1.8	2.7	3.9	3.2	4.3	3.5	
80,775	81,322	82,903	83,934	85,457	87,080	
0.2	0.7	1.9	1.2	1.8	1.9	
199,876	203,219	206,617	211,206	216,129	221,223	
2.7	1.7	1.7	2.2	2.3	2.4	
9,778	10,023	10,061	10,171	10,773	10,777	
5.8	2.5	0.4	1.1	5.9	0	

125,622	125,702	124,762	125,553	128,592	130,849
0.8	0.1	-0.7	0.6	2.4	1.8
123,639	125,153	119,630	124,674	130,504	130,576
1.9	1.2	-4.4	4.2	4.7	0.1
96,104	99,022	94,782	100,712	107,129	106,267
6.5	3	-4.3	6.3	6.4	-0.8
40,861	42,778	41,966	42,165	45,394	48,776
3.6	4.7	-1.9	0.5	7.7	7.5
18,114	19,571	18,713	20,816	22,425	20,149
22.7	8	-4.4	11.2	7.7	-10.1
24,576	24,343	21,638	25,097	26,922	24,832
3.2	-0.9	-11.1	16	7.3	-7.8
12,418	11,974	11,796	12,405	12,124	11,715
1.3	-3.6	-1.5	5.2	-2.3	-3.4
916	1,027	1,157	1,137	1,052	1,105
3.5	12.1	12.7	-1.7	-7.5	5
26,623	25,124	23,717	22,866	22,347	23,252
-11.6	-5.6	-5.6	-3.6	-2.3	4
312,692	320,188	330,747	338,839	350,021	358,878
5.3	2.4	3.3	2.4	3.3	2.5
316,518	319,485	322,171	332,662	343,149	343,107
5.2	0.9	0.8	3.3	3.2	0
5,390	1,643	2,340	6,202	3,519	-1,399
5,470	1,699	2,373	6,086	3,424	-1,327
-80	-56	-33	116	95	-72
-111	69	-5	-317	301	-284
614,590	622,725	631,882	648,763	667,659	685,008
2.4	1.3	1.5	2.7	2.9	2.6
613,055	620,095	620,946	636,653	656,626	670,135
1.6	1.1	0.1	2.5	3.1	2.1

2011	2012	2013	2014	2015	2016	2017
345,308	356,566	367,928	380,572	396,588	409,807	
4.6	3.3	3.2	3.4	4.2	3.3	
57,048	58,267	59,253	60,962	63,018	65,443	
2.9	2.1	1.7	2.9	3.4	3.8	
27,133	27,035	26,892	27,780	28,752	30,153	
0	-0.4	-0.5	3.3	3.5	4.9	
918	941	734	861	932	904	
63.9	2.5	-22	17.3	8.2	-3	
28,997	30,291	31,627	32,321	33,334	34,386	
4.4	4.5	4.4	2.2	3.1	3.2	
41,720	44,278	45,740	47,902	52,960	53,169	
8.1	6.1	3.3	4.7	10.6	0.4	
444,076	459,111	472,921	489,436	512,566	528,419	
4.7	3.4	3	3.5	4.7	3.1	
92,163	93,119	98,425	100,656	108,706	115,155	
0.2	1	5.7	2.3	8	5.9	
161,972	170,346	173,992	181,199	190,875	195,030	
7.2	5.2	2.1	4.1	5.3	2.2	
374,267	381,884	397,354	408,893	430,397	448,544	
2.5	2	4.1	2.9	5.3	4.2	
373,071	382,927	396,734	416,099	433,158	451,392	
4.2	2.6	3.6	4.9	4.1	4.2	

16,897	16,971	16,021	16,074	14,368	13,801
26.2	0.4	-5.6	0.3	-10.6	-3.9
18,093	15,928	16,641	8,868	11,607	10,953
-10.8	-12	4.5	-46.7	30.9	-5.6
4.8	4.2	4.2	2.2	2.7	2.4
13,264	13,414	13,556	13,680	13,790	13,976
1	1.1	1.1	0.9	0.8	1.4
28,218	28,470	29,313	29,889	31,212	32,093
1.5	0.9	3	2	4.4	2.8

2011	2012	2013	2014	2015	2016	2017
333,169	342,861	357,260	377,072	401,996	415,828	
7.6	2.9	4.2	5.5	6.6	3.4	
214,653	223,204	226,981	246,068	271,254	282,792	
8.5	4	1.7	8.4	10.2	4.3	
118,516	119,657	130,279	131,004	130,742	133,036	
5.8	1	8.9	0.6	-0.2	1.8	
336,008	339,481	350,376	378,338	400,208	403,449	
8.4	1	3.2	8	5.8	0.8	
246,136	248,731	253,748	278,585	303,921	304,578	
9.8	1.1	2	9.8	9.1	0.2	
89,872	90,750	96,628	99,753	96,287	98,871	
4.8	1	6.5	3.2	-3.5	2.7	
-2,839	3,380	6,884	-1,266	1,788	12,379	

2011	2012	2013	2014	2015	2016	2017
312,692	320,188	330,747	338,839	350,021	358,878	
5.3	2.4	3.3	2.4	3.3	2.5	
205,245	212,528	214,707	222,916	237,428	244,860	
7.1	3.5	1	3.8	6.5	3.1	
107,561	107,901	116,015	116,018	112,821	114,267	
2.2	0.3	7.5	0	-2.8	1.3	
316,518	319,485	322,171	332,662	343,149	343,107	
5.2	0.9	0.8	3.3	3.2	0	
232,828	233,671	234,326	244,448	255,722	251,214	
7.5	0.4	0.3	4.3	4.6	-1.8	
83,575	85,689	87,710	88,088	87,155	92,062	
-0.6	2.5	2.4	0.4	-1.1	5.6	

2011	2012	2013	2014	2015	2016	2017
107.2	108.5	110.4	112.6	113.9	115.2	
2.8	1.2	1.7	1.9	1.2	1.2	
105.4	106.5	108.1	110.4	111.8	113.2	
2.4	1.1	1.5	2.1	1.3	1.2	

94.3	94.2	94.6	95.1	97.1	99.1
-0.2	-0.1	0.4	0.6	2.1	2.1
95.6	94	92.8	94	95.1	95.1
0.2	-1.7	-1.3	1.4	1.2	0
111.4	113.4	114.8	118	117.4	118.5
5.1	1.8	1.2	2.8	-0.5	0.9
106.8	108.3	110.7	113.2	115.3	116.8
2.1	1.5	2.1	2.3	1.9	1.3
104.2	104.7	107	107.5	109	113.1
3.6	0.4	2.3	0.5	1.4	3.7
112.8	114.5	117.1	119	120	121
3.8	1.5	2.3	1.6	0.9	0.8
106.8	109.5	111.3	115.5	120.4	124.1
1.8	2.5	1.7	3.7	4.3	3.1
106.5	109.4	111	115.4	120.7	124.8
1.7	2.8	1.4	3.9	4.7	3.4
112.5	117.1	119.6	124.4	129.1	136
4	4.2	2.1	4	3.8	5.4
111.8	114.3	116.2	119.9	122.6	122.5
2.3	2.2	1.7	3.2	2.3	-0.1
92.9	93.5	93.4	97.2	106.8	109.2
-3.3	0.7	-0.2	4.2	9.9	2.2
106.9	109.7	110.9	115.8	119.4	123.3
1.1	2.7	1.1	4.5	3.1	3.3
104.4	106.5	107.8	109	113.2	116.8
1.9	2	1.3	1.1	3.8	3.2
107.9	109.7	112.5	116	118.9	121
2.4	1.7	2.5	3.1	2.5	1.8
106.6	107.1	108	111.3	114.8	115.9
2.2	0.5	0.9	3	3.2	0.9
106.1	106.2	108.7	113.7	116.6	117.6
3	0.1	2.3	4.6	2.6	0.8

107.3	109.2	110	111.9	114.1	116
2.1	1.7	0.8	1.7	2	1.7
107.2	108.7	110.6	113.1	115.2	117
2.6	1.5	1.7	2.3	1.8	1.6

1988 III	1988 IV	1989 I	1989 II	1989 III	1989 IV	1990 I	1990 II	1990 III	1990 IV
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-

2011	2012	2013	2014	2015	2016	2017
134,128	136,103	136,622	139,858	142,405	144,581	
3.4	1.5	0.4	2.4	1.8	1.5	
12,775	12,680	13,720	13,279	13,015	12,820	
16.7	-0.7	8.2	-3.2	-2	-1.5	
4,683	4,689	5,037	4,849	5,042	5,007	
3.2	0.1	7.4	-3.7	4	-0.7	
8,071	7,976	8,680	8,423	7,961	7,797	
26.3	-1.2	8.8	-3	-5.5	-2.1	
12,014	11,542	11,510	12,088	11,728	11,918	
1.5	-3.9	-0.3	5	-3	1.6	
8,778	8,256	8,429	8,815	8,571	8,854	
-0.9	-5.9	2.1	4.6	-2.8	3.3	
3,216	3,289	3,053	3,244	3,128	3,012	
8.8	2.3	-7.2	6.3	-3.6	-3.7	
33,891	34,823	35,065	35,848	37,466	38,002	
1.1	2.8	0.7	2.2	4.5	1.4	
12,918	14,034	14,065	14,214	15,266	16,319	
1.6	8.6	0.2	1.1	7.4	6.9	
21,044	20,882	21,234	21,844	22,471	22,042	
1.1	-0.8	1.7	2.9	2.9	-1.9	
74,958	76,494	75,766	78,051	79,390	81,005	
2.9	2	-1	3	1.7	2	

11,358	11,425	11,375	11,932	12,006	12,468
-1.9	0.6	-0.4	4.9	0.6	3.8
944	934	846	886	907	895
0.7	-1	-9.4	4.7	2.4	-1.3
2,881	2,921	3,116	3,171	3,381	3,634
-4	1.4	6.7	1.8	6.6	7.5
4,805	4,820	4,638	4,499	4,637	4,547
-3.3	0.3	-3.8	-3	3.1	-2
7,725	7,917	8,118	7,905	8,103	8,192
-1	2.5	2.5	-2.6	2.5	1.1
4,078	4,239	4,328	4,572	4,770	5,118
5.9	3.9	2.1	5.6	4.3	7.3
10,954	11,127	11,195	11,783	11,247	11,238
6.5	1.6	0.6	5.3	-4.6	-0.1
5,589	5,823	5,792	6,023	6,537	6,521
16.7	4.2	-0.5	4	8.5	-0.3
6,250	5,448	4,929	4,760	4,760	4,722
-2	-12.8	-9.5	-3.4	0	-0.8
16,366	18,058	17,492	19,030	19,376	20,002
6.7	10.3	-3.1	8.8	1.8	3.2
13,447	15,323	14,708	15,886	16,236	16,835
4.8	14	-4	8	2.2	3.7
2,923	2,741	2,729	3,053	3,048	3,034
16.4	-6.2	-0.4	11.9	-0.2	-0.4
4,121	4,018	4,101	3,982	4,058	4,141
4.3	-2.5	2	-2.9	1.9	2
436,209	442,389	449,954	461,136	475,248	489,240
2.4	1.4	1.7	2.5	3.1	2.9
37,338	38,662	40,144	41,077	42,783	43,976
7.2	3.5	3.8	2.3	4.2	2.8
29,738	29,562	31,074	31,059	32,602	34,024
0.2	-0.6	5.1	0	5	4.4

21,979	21,905	22,351	23,826	24,697	25,539
3.5	-0.3	2	6.6	3.7	3.4
21,417	21,567	21,310	22,418	22,402	22,708
1	0.7	-1.2	5.2	-0.1	1.4
51,629	52,786	54,991	57,063	59,943	62,765
3.8	2.2	4.2	3.8	5	4.7
75,366	77,240	78,825	80,068	83,032	85,999
2.9	2.5	2.1	1.6	3.7	3.6
53,297	54,474	54,796	57,341	59,206	60,800
1.5	2.2	0.6	4.6	3.3	2.7
4,570	4,559	4,831	4,494	4,606	4,493
2.7	-0.2	6	-7	2.5	-2.5
33,292	33,975	34,475	35,132	35,673	36,207
0.2	2.1	1.5	1.9	1.5	1.5
39,292	39,631	39,074	39,561	40,451	41,887
1.8	0.9	-1.4	1.2	2.3	3.5
4,369	4,369	4,370	4,628	4,969	5,247
-0.5	0	0	5.9	7.4	5.6
10,589	10,861	11,436	12,123	12,509	12,971
3.3	2.6	5.3	6	3.2	3.7
10,921	11,118	11,521	12,016	12,059	11,941
0.6	1.8	3.6	4.3	0.4	-1
42,411	41,733	41,227	40,816	41,122	41,698
1.9	-1.6	-1.2	-1	0.7	1.4
570,633	578,794	586,913	601,344	618,051	634,258
2.6	1.4	1.4	2.5	2.8	2.6

1991 I	1991 II	1991 III	1991 IV	1992 I	1992 II	1992 III	1992 IV	1993 I	1993 II
159,406	160,678	162,464	163,800	163,785	164,652	165,035	165,517	166,091	166,043
0.7	0.8	1.1	0.8	0	0.5	0.2	0.3	0.3	0
50,780	51,456	52,570	51,123	52,774	53,097	53,719	50,054	52,123	56,392
-8.5	1.3	2.2	-2.8	3.2	0.6	1.2	-6.8	4.1	8.2
18,800	19,662	20,683	18,891	19,727	19,772	20,002	16,723	19,971	23,296
-20	4.6	5.2	-8.7	4.4	0.2	1.2	-16.4	19.4	16.6
24,501	24,263	24,275	24,541	25,234	25,369	25,635	25,162	24,214	25,005
0.2	-1	0	1.1	2.8	0.5	1	-1.8	-3.8	3.3
7,479	7,532	7,611	7,690	7,813	7,956	8,082	8,169	7,937	8,092
-1.4	0.7	1.1	1	1.6	1.8	1.6	1.1	-2.8	1.9
33,632	34,456	35,010	35,338	35,853	36,020	36,236	36,591	36,895	37,899
1.5	2.5	1.6	0.9	1.5	0.5	0.6	1	0.8	2.7
25,031	25,752	26,173	26,496	26,969	27,074	27,340	27,609	27,841	28,724
1.9	2.9	1.6	1.2	1.8	0.4	1	1	0.8	3.2
8,600	8,703	8,836	8,841	8,883	8,946	8,896	8,983	9,054	9,175
0.2	1.2	1.5	0.1	0.5	0.7	-0.5	1	0.8	1.3
36,970	38,856	40,138	41,416	40,154	40,385	41,083	42,025	41,392	41,181
-0.4	5.1	3.3	3.2	-3	0.6	1.7	2.3	-1.5	-0.5
4,471	869	806	-1,477	-1,325	-682	-1,263	-1,682	-1,450	-1,528
285,258	286,314	290,987	290,201	291,241	293,472	294,810	292,506	295,051	299,987
0.4	0.4	1.6	-0.3	0.4	0.8	0.5	-0.8	0.9	1.7
1.4	1.5	6.7	-1.1	1.4	3.1	1.8	-3.1	3.5	6.9

1991 I	1991 II	1991 III	1991 IV	1992 I	1992 II	1992 III	1992 IV	1993 I	1993 II
214,109	218,236	222,625	223,774	226,827	227,010	228,433	226,950	229,793	232,707
0	1.9	2	0.5	1.4	0.1	0.6	-0.6	1.3	1.3
150,063	152,307	154,841	154,877	153,468	155,887	159,631	161,470	162,319	163,059
-0.4	1.5	1.7	0	-0.9	1.6	2.4	1.2	0.5	0.5
18,596	19,771	19,572	18,677	18,656	19,015	19,784	19,969	19,814	19,498
-5.8	6.3	-1	-4.6	-0.1	1.9	4	0.9	-0.8	-1.6
13,688	13,892	14,012	14,007	13,468	13,793	14,311	14,536	14,380	14,329
-3.6	1.5	0.9	0	-3.8	2.4	3.8	1.6	-1.1	-0.4
39,888	40,042	41,226	40,783	40,011	40,445	41,425	41,956	42,267	42,188
0.1	0.4	3	-1.1	-1.9	1.1	2.4	1.3	0.7	-0.2
77,891	78,601	80,031	81,409	81,334	82,634	84,110	85,010	85,858	87,044
1.3	0.9	1.8	1.7	-0.1	1.6	1.8	1.1	1	1.4
3,550	3,598	3,647	3,677	3,706	3,778	3,820	3,860	3,881	3,895
1.5	1.4	1.3	0.8	0.8	1.9	1.1	1.1	0.5	0.4
60,496	62,331	64,137	65,219	69,653	67,345	64,982	61,619	63,593	65,753
0.8	3	2.9	1.7	6.8	-3.3	-3.5	-5.2	3.2	3.4
56,281	55,559	56,455	55,945	54,730	54,639	55,274	53,366	50,850	50,559
0.8	-1.3	1.6	-0.9	-2.2	-0.2	1.2	-3.5	-4.7	-0.6
46,132	45,103	46,029	45,068	44,352	43,929	44,821	43,646	41,007	40,886
0.9	-2.2	2.1	-2.1	-1.6	-1	2	-2.6	-6	-0.3
14,561	15,517	16,360	15,410	14,681	15,305	16,613	16,670	14,739	14,578
0	6.6	5.4	-5.8	-4.7	4.2	8.5	0.3	-11.6	-1.1
11,088	10,981	10,853	10,622	10,655	9,766	9,014	8,217	7,990	7,826
-0.7	-1	-1.2	-2.1	0.3	-8.3	-7.7	-8.8	-2.8	-2
16,730	14,930	15,149	15,362	15,395	15,154	15,319	14,781	14,222	14,248

2.6	-10.8	1.5	1.4	0.2	-1.6	1.1	-3.5	-3.8	0.2
3,753	3,675	3,667	3,674	3,622	3,705	3,875	3,979	4,056	4,234
1.9	-2.1	-0.2	0.2	-1.4	2.3	4.6	2.7	1.9	4.4
319	321	343	361	338	331	325	326	326	329
-2.5	0.5	6.8	5.4	-6.3	-2	-2.1	0.4	0	1
9,829	10,135	10,084	10,516	10,039	10,379	10,128	9,394	9,517	9,344
0.4	3.1	-0.5	4.3	-4.5	3.4	-2.4	-7.2	1.3	-1.8
136,302	137,921	140,581	134,224	137,523	142,218	143,866	150,617	153,854	159,573
-3.2	1.2	1.9	-4.5	2.5	3.4	1.2	4.7	2.1	3.7
117,329	118,617	121,320	119,854	123,091	126,939	129,905	135,290	138,080	143,113
-2.7	1.1	2.3	-1.2	2.7	3.1	2.3	4.1	2.1	3.6
-2,159	-6,708	-5,526	-3,078	-5,470	-3,919	-4,623	-5,124	-3,406	-1,835
-1,944	-6,696	-5,548	-2,997	-4,911	-3,757	-4,328	-4,964	-3,508	-1,988
-209	-6	26	-79	-552	-157	-290	-153	98	145
-1,946	-76	-1,829	-809	723	463	1,764	1,986	2,040	2,098
285,258	286,314	290,987	290,201	291,241	293,472	294,810	292,506	295,051	299,987
0.4	0.4	1.6	-0.3	0.4	0.8	0.5	-0.8	0.9	1.7
1.4	1.5	6.7	-1.1	1.4	3.1	1.8	-3.1	3.5	6.9
270,390	273,795	279,080	279,719	281,557	281,649	283,707	280,316	280,643	283,266
0.1	1.3	1.9	0.2	0.7	0	0.7	-1.2	0.1	0.9

1991 I	1991 II	1991 III	1991 IV	1992 I	1992 II	1992 III	1992 IV	1993 I	1993 II
287,855	292,628	292,810	294,955	294,731	295,319	295,758	296,876	298,287	298,181

-1.2	1.7	0.1	0.7	-0.1	0.2	0.1	0.4	0.5	0
196,306	198,537	199,829	200,728	197,552	199,979	203,107	204,777	204,774	204,248
-3.1	1.1	0.7	0.4	-1.6	1.2	1.6	0.8	0	-0.3
19,937	21,597	20,730	19,500	19,861	19,845	20,781	21,337	21,106	20,581
-4.9	8.3	-4	-5.9	1.9	-0.1	4.7	2.7	-1.1	-2.5
13,271	13,423	13,331	13,331	12,820	13,244	13,729	14,055	13,875	13,819
-6.2	1.1	-0.7	0	-3.8	3.3	3.7	2.4	-1.3	-0.4
57,081	56,379	57,200	57,625	56,509	56,972	57,831	58,361	58,480	58,051
-0.3	-1.2	1.5	0.7	-1.9	0.8	1.5	0.9	0.2	-0.7
108,400	109,093	110,161	112,014	110,586	111,750	112,643	113,169	113,595	113,947
-1.9	0.6	1	1.7	-1.3	1.1	0.8	0.5	0.4	0.3
4,241	4,345	4,446	4,521	4,450	4,516	4,535	4,552	4,555	4,535
2.8	2.5	2.3	1.7	-1.6	1.5	0.4	0.4	0.1	-0.4
89,497	90,362	90,848	90,477	92,266	91,213	91,332	90,301	91,982	91,105
-0.3	1	0.5	-0.4	2	-1.1	0.1	-1.1	1.9	-1
64,985	65,095	65,986	67,542	61,068	63,092	68,456	70,347	65,135	62,303
1.9	0.2	1.4	2.4	-9.6	3.3	8.5	2.8	-7.4	-4.3
52,058	51,882	52,862	54,226	48,053	50,058	55,350	57,492	52,142	49,615
2	-0.3	1.9	2.6	-11.4	4.2	10.6	3.9	-9.3	-4.8
23,280	24,377	25,800	24,604	23,674	24,795	27,016	27,030	23,654	23,472
-4.1	4.7	5.8	-4.6	-3.8	4.7	9	0	-12.5	-0.8
17,557	17,719	17,637	17,407	16,764	15,821	14,794	13,833	12,808	12,467
0.6	0.9	-0.5	-1.3	-3.7	-5.6	-6.5	-6.5	-7.4	-2.7
12,051	10,616	10,682	10,943	11,348	11,390	11,778	11,488	10,968	10,753
7	-11.9	0.6	2.4	3.7	0.4	3.4	-2.5	-4.5	-2
4,503	4,265	4,279	4,336	4,278	4,370	4,629	4,639	4,939	5,276
5.8	-5.3	0.3	1.3	-1.4	2.2	5.9	0.2	6.5	6.8
420	422	445	485	450	436	425	421	426	429
2	0.5	5.5	8.9	-7.3	-3	-2.5	-0.9	1.2	0.7
12,243	12,591	12,774	13,440	12,809	13,187	12,813	11,679	11,959	11,903
2.9	2.8	1.5	5.2	-4.7	3	-2.8	-8.8	2.4	-0.5

151,750	159,345	166,662	162,154	161,141	164,276	164,984	172,959	171,771	177,913
-3.4	5	4.6	-2.7	-0.6	1.9	0.4	4.8	-0.7	3.6
133,149	140,619	143,752	145,984	145,396	145,987	151,526	152,735	154,057	157,816
-3.1	5.6	2.2	1.6	-0.4	0.4	3.8	0.8	0.9	2.4
-4,028	-6,967	-5,092	-5,397	-4,871	-3,684	-3,762	-6,271	-5,174	-3,912
-3,831	-6,980	-5,178	-5,280	-3,992	-3,718	-3,571	-5,967	-5,366	-4,054
-197	13	86	-118	-879	35	-191	-304	191	143
-1,300	-2,009	-1,881	-878	324	1,458	2,082	2,080	1,920	1,645
362,177	365,287	368,650	368,842	369,880	369,339	368,495	376,758	373,375	374,733
-3	0.9	0.9	0.1	0.3	-0.1	-0.2	2.2	-0.9	0.4
-11.4	3.5	3.7	0.2	1.1	-0.6	-0.9	9.3	-3.5	1.5
354,321	356,025	359,555	360,767	360,264	360,450	363,317	360,092	358,657	358,124
-1.5	0.5	1	0.3	-0.1	0.1	0.8	-0.9	-0.4	-0.1

1991 I	1991 II	1991 III	1991 IV	1992 I	1992 II	1992 III	1992 IV	1993 I	1993 II
157,964	159,203	160,930	162,206	162,172	163,029	163,374	163,825	164,414	164,334
0.7	0.8	1.1	0.8	0	0.5	0.2	0.3	0.4	0
25,031	25,752	26,173	26,496	26,969	27,074	27,340	27,609	27,841	28,724
1.9	2.9	1.6	1.2	1.8	0.4	1	1	0.8	3.2
11,106	11,443	11,873	11,970	12,066	12,041	12,038	12,183	12,348	12,474
0.3	3	3.8	0.8	0.8	-0.2	0	1.2	1.4	1
658	753	648	537	526	564	663	575	554	599
1.9	14.4	-14	-17.1	-1.9	7.1	17.6	-13.3	-3.6	8

13,268	13,557	13,654	13,990	14,377	14,469	14,639	14,851	14,938	15,651
3.3	2.2	0.7	2.5	2.8	0.6	1.2	1.5	0.6	4.8
25,673	24,359	23,289	21,971	23,085	23,526	23,597	23,461	24,274	23,514
-5.1	-5.1	-4.4	-5.7	5.1	1.9	0.3	-0.6	3.5	-3.1
208,668	209,314	210,392	210,673	212,226	213,629	214,310	214,895	216,529	216,571
0.1	0.3	0.5	0.1	0.7	0.7	0.3	0.3	0.8	0
34,138	36,748	37,757	38,524	39,203	40,383	41,496	41,702	42,983	43,476
1.2	7.6	2.7	2	1.8	3	2.8	0.5	3.1	1.1
73,962	80,067	79,815	79,451	80,548	80,817	78,009	80,834	83,007	75,973
-4	8.3	-0.3	-0.5	1.4	0.3	-3.5	3.6	2.7	-8.5
168,844	165,996	168,334	169,746	170,880	173,195	177,797	175,763	176,505	184,074
2.2	-1.7	1.4	0.8	0.7	1.4	2.7	-1.1	0.4	4.3
150,063	152,307	154,841	154,877	153,468	155,887	159,631	161,470	162,319	163,059
-0.4	1.5	1.7	0	-0.9	1.6	2.4	1.2	0.5	0.5
11,739	11,768	11,833	11,425	12,011	11,905	11,993	11,459	11,762	12,110
-2.6	0.2	0.6	-3.4	5.1	-0.9	0.7	-4.5	2.6	3
30,519	25,457	25,326	26,294	29,423	29,214	30,160	25,751	25,948	33,125
15.1	-16.6	-0.5	3.8	11.9	-0.7	3.2	-14.6	0.8	27.7
18.1	15.3	15	15.5	17.2	16.9	17	14.7	14.7	18
10,355	10,386	10,431	10,466	10,488	10,528	10,572	10,611	10,630	10,657
0.1	0.3	0.4	0.3	0.2	0.4	0.4	0.4	0.2	0.3
16,305	15,983	16,137	16,220	16,293	16,450	16,817	16,565	16,604	17,273
2.1	-2	1	0.5	0.5	1	2.2	-1.5	0.2	4

1991 I	1991 II	1991 III	1991 IV	1992 I	1992 II	1992 III	1992 IV	1993 I	1993 II

136,302	137,921	140,581	134,224	137,523	142,218	143,866	150,617	153,854	159,573
-3.2	1.2	1.9	-4.5	2.5	3.4	1.2	4.7	2.1	3.7
79,035	82,047	85,862	80,348	84,190	89,213	91,028	97,772	100,795	105,983
-3.6	3.8	4.6	-6.4	4.8	6	2	7.4	3.1	5.1
57,268	55,874	54,719	53,876	53,332	53,005	52,838	52,845	53,059	53,590
-2.5	-2.4	-2.1	-1.5	-1	-0.6	-0.3	0	0.4	1
117,329	118,617	121,320	119,854	123,091	126,939	129,905	135,290	138,080	143,113
-2.7	1.1	2.3	-1.2	2.7	3.1	2.3	4.1	2.1	3.6
82,472	84,774	88,220	87,143	90,387	93,963	96,419	101,163	103,380	108,058
-2.5	2.8	4.1	-1.2	3.7	4	2.6	4.9	2.2	4.5
34,857	33,843	33,100	32,712	32,703	32,976	33,486	34,127	34,700	35,056
-3.1	-2.9	-2.2	-1.2	0	0.8	1.5	1.9	1.7	1
18,973	19,304	19,261	14,369	14,432	15,279	13,962	15,327	15,774	16,459

1991 I	1991 II	1991 III	1991 IV	1992 I	1992 II	1992 III	1992 IV	1993 I	1993 II
151,750	159,345	166,662	162,154	161,141	164,276	164,984	172,959	171,771	177,913
-3.4	5	4.6	-2.7	-0.6	1.9	0.4	4.8	-0.7	3.6
84,481	90,653	97,331	93,926	95,902	99,013	98,317	103,148	106,227	111,517
-0.9	7.3	7.4	-3.5	2.1	3.2	-0.7	4.9	3	5
72,776	71,934	71,665	71,981	71,217	70,462	69,445	68,208	67,858	67,935
-6.1	-1.2	-0.4	0.4	-1.1	-1.1	-1.4	-1.8	-0.5	0.1
133,149	140,619	143,752	145,984	145,396	145,987	151,526	152,735	154,057	157,816
-3.1	5.6	2.2	1.6	-0.4	0.4	3.8	0.8	0.9	2.4
89,095	92,219	96,081	94,385	96,888	99,383	100,491	103,846	104,462	107,449
-1.6	3.5	4.2	-1.8	2.7	2.6	1.1	3.3	0.6	2.9

54,146	53,104	52,388	52,078	52,209	52,664	53,386	54,213	54,836	55,032
-2.2	-1.9	-1.3	-0.6	0.3	0.9	1.4	1.5	1.1	0.4

1991 I	1991 II	1991 III	1991 IV	1992 I	1992 II	1992 III	1992 IV	1993 I	1993 II
74.4	74.6	76	75.9	77	76.9	77.2	76.4	77	78
1.2	0.3	1.9	-0.2	1.4	-0.1	0.5	-1	0.8	1.3
76.4	76.7	77.5	77.2	77.7	78	78.6	78.9	79.3	79.8
2.7	0.4	1	-0.4	0.7	0.3	0.8	0.3	0.5	0.7
93.3	91.5	94.4	95.8	93.9	95.8	95.2	93.6	93.9	94.7
-1	-1.9	3.1	1.4	-1.9	2	-0.6	-1.7	0.3	0.9
103.1	103.5	105.1	105.1	105.1	104.1	104.2	103.4	103.6	103.7
2.7	0.3	1.6	0	0	-0.9	0.1	-0.8	0.2	0.1
69.9	71	72.1	70.8	70.8	71	71.6	71.9	72.3	72.7
0.4	1.6	1.5	-1.8	0	0.3	0.9	0.4	0.5	0.6
71.9	72.1	72.6	72.7	73.5	73.9	74.7	75.1	75.6	76.4
3.2	0.3	0.8	0	1.2	0.5	1	0.6	0.6	1.1
83.7	82.8	82	81.3	83.3	83.7	84.2	84.8	85.2	85.9
-1.2	-1.1	-0.9	-0.8	2.4	0.5	0.7	0.7	0.5	0.8
67.6	69	70.6	72.1	75.5	73.8	71.1	68.2	69.1	72.2
1.1	2	2.3	2.1	4.7	-2.2	-3.6	-4.1	1.3	4.4
86.6	85.4	85.6	82.8	89.6	86.6	80.7	75.9	78.1	81.1
-1.1	-1.5	0.2	-3.2	8.2	-3.4	-6.8	-6	2.9	3.9
88.6	86.9	87.1	83.1	92.3	87.8	81	75.9	78.6	82.4
-1.1	-1.9	0.2	-4.6	11.1	-4.9	-7.7	-6.3	3.6	4.8
62.5	63.7	63.4	62.6	62	61.7	61.5	61.7	62.3	62.1
4.2	1.8	-0.4	-1.2	-1	-0.5	-0.4	0.3	1	-0.3

63.2	62	61.5	61	63.6	61.7	60.9	59.4	62.4	62.8
-1.3	-1.9	-0.7	-0.8	4.2	-2.9	-1.3	-2.5	5	0.6
138.8	140.6	141.8	140.4	135.7	133	130.1	128.7	129.7	132.5
-4.1	1.3	0.8	-1	-3.4	-1.9	-2.2	-1.1	0.8	2.2
83.3	86.2	85.7	84.7	84.7	84.8	83.7	85.8	82.1	80.2
-3.7	3.4	-0.6	-1.1	-0.1	0.1	-1.3	2.5	-4.3	-2.3
76	76.1	77	74.5	75.2	76	76.3	77.4	76.5	76.7
-4.5	0	1.2	-3.2	1	1	0.4	1.3	-1.1	0.3
80.3	80.5	78.9	78.2	78.4	78.7	79	80.4	79.6	78.5
-2.4	0.3	-1.9	-0.9	0.2	0.4	0.4	1.8	-1.1	-1.4
89.8	86.6	84.3	82.8	85.3	86.6	87.2	87.1	89.6	89.7
0.3	-3.6	-2.6	-1.9	3.1	1.4	0.7	-0.1	2.9	0.1
88.1	84.4	84.4	82.1	84.7	86.9	85.7	88.6	89.6	90.7
0.4	-4.3	0	-2.7	3.1	2.7	-1.4	3.3	1.2	1.2
78.8	78.4	78.9	78.7	78.7	79.5	80	77.6	79	80.1
3.4	-0.5	0.7	-0.3	0.1	0.9	0.7	-3	1.8	1.3
14.5	-1.9	2.8	-1.3	0.3	3.7	2.8	-11.3	7.3	5.3
76.3	76.9	77.6	77.5	78.2	78.1	78.1	77.8	78.2	79.1
1.7	0.8	0.9	-0.1	0.8	0	-0.1	-0.3	0.5	1.1

1991 I	1991 II	1991 III	1991 IV	1992 I	1992 II	1992 III	1992 IV	1993 I	1993 II
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-

1993 III	1993 IV	1994 I	1994 II	1994 III	1994 IV	1995 I	1995 II	1995 III	1995 IV
166,333	165,990	166,753	169,378	170,875	172,434	173,892	174,982	176,667	177,139
0.2	-0.2	0.5	1.6	0.9	0.9	0.8	0.6	1	0.3
59,063	62,630	63,966	63,747	67,776	70,123	71,132	72,077	72,328	77,663
4.7	6	2.1	-0.3	6.3	3.5	1.4	1.3	0.3	7.4
24,420	27,021	29,121	28,343	31,709	33,536	34,679	35,028	34,884	38,565
4.8	10.6	7.8	-2.7	11.9	5.8	3.4	1	-0.4	10.6
26,500	27,513	26,627	26,984	27,464	27,754	27,712	28,325	28,673	29,990
6	3.8	-3.2	1.3	1.8	1.1	-0.2	2.2	1.2	4.6
8,142	8,096	8,219	8,420	8,603	8,834	8,741	8,724	8,772	9,107
0.6	-0.6	1.5	2.4	2.2	2.7	-1.1	-0.2	0.6	3.8
38,368	38,818	39,608	39,999	40,458	41,067	41,413	42,153	42,969	43,336
1.2	1.2	2	1	1.1	1.5	0.8	1.8	1.9	0.9
29,080	29,371	30,000	30,446	30,887	31,427	31,698	32,323	33,041	33,270
1.2	1	2.1	1.5	1.4	1.7	0.9	2	2.2	0.7
9,289	9,447	9,608	9,552	9,571	9,640	9,716	9,832	9,929	10,068
1.2	1.7	1.7	-0.6	0.2	0.7	0.8	1.2	1	1.4
41,884	43,207	42,963	43,913	44,918	45,337	45,567	45,416	45,354	45,430
1.7	3.2	-0.6	2.2	2.3	0.9	0.5	-0.3	-0.1	0.2
-1,601	-1,089	-604	-418	-1,627	-1,063	217	97	762	753
304,046	309,556	312,686	316,618	322,400	327,900	332,221	334,724	338,081	344,322
1.4	1.8	1	1.3	1.8	1.7	1.3	0.8	1	1.8
5.5	7.4	4.1	5.1	7.5	7	5.4	3	4.1	7.6

1993 III	1993 IV	1994 I	1994 II	1994 III	1994 IV	1995 I	1995 II	1995 III	1995 IV
235,849	239,263	240,114	240,739	240,773	242,614	245,337	246,966	249,441	249,920
1.4	1.4	0.4	0.3	0	0.8	1.1	0.7	1	0.2
163,816	165,139	167,195	168,931	170,570	173,769	175,221	176,089	178,446	177,793
0.5	0.8	1.2	1	1	1.9	0.8	0.5	1.3	-0.4
19,483	19,698	20,365	20,812	21,014	22,605	22,325	21,478	22,065	21,368
-0.1	1.1	3.4	2.2	1	7.6	-1.2	-3.8	2.7	-3.2
14,289	14,183	14,379	14,900	15,216	15,542	15,775	15,639	15,472	15,094
-0.3	-0.7	1.4	3.6	2.1	2.1	1.5	-0.9	-1.1	-2.4
41,800	41,892	42,054	41,593	41,761	41,872	42,543	43,213	43,594	43,099
-0.9	0.2	0.4	-1.1	0.4	0.3	1.6	1.6	0.9	-1.1
88,244	89,366	90,397	91,626	92,579	93,750	94,579	95,758	97,314	98,233
1.4	1.3	1.2	1.4	1	1.3	0.9	1.2	1.6	0.9
3,913	3,919	3,917	3,984	4,032	4,091	4,084	4,129	4,178	4,213
0.4	0.2	-0.1	1.7	1.2	1.5	-0.2	1.1	1.2	0.9
68,121	70,205	69,003	67,824	66,172	64,753	66,032	66,749	66,817	67,914
3.6	3.1	-1.7	-1.7	-2.4	-2.1	2	1.1	0.1	1.6
50,343	50,713	52,834	55,793	54,940	56,517	55,775	56,352	55,235	56,274
-0.4	0.7	4.2	5.6	-1.5	2.9	-1.3	1	-2	1.9
40,614	40,934	42,335	45,182	43,969	45,338	44,582	45,077	43,679	44,078
-0.7	0.8	3.4	6.7	-2.7	3.1	-1.7	1.1	-3.1	0.9
14,346	14,568	15,152	15,638	15,278	15,088	13,862	13,295	12,919	12,784
-1.6	1.5	4	3.2	-2.3	-1.2	-8.1	-4.1	-2.8	-1
7,548	7,432	6,972	6,849	6,834	6,610	6,814	6,739	6,833	6,994
-3.5	-1.5	-6.2	-1.8	-0.2	-3.3	3.1	-1.1	1.4	2.4
14,377	14,309	15,275	17,597	16,620	18,427	18,637	19,816	18,572	18,739

0.9	-0.5	6.8	15.2	-5.6	10.9	1.1	6.3	-6.3	0.9
4,342	4,624	4,936	5,098	5,237	5,213	5,269	5,226	5,356	5,561
2.6	6.5	6.7	3.3	2.7	-0.5	1.1	-0.8	2.5	3.8
331	338	352	386	419	444	450	427	404	379
0.5	2.3	3.9	9.8	8.6	5.9	1.6	-5.3	-5.2	-6.4
9,398	9,440	10,147	10,225	10,552	10,736	10,743	10,848	11,152	11,817
0.6	0.4	7.5	0.8	3.2	1.7	0.1	1	2.8	6
162,074	170,815	169,896	183,650	187,872	200,914	208,886	203,109	207,418	220,140
1.6	5.4	-0.5	8.1	2.3	6.9	4	-2.8	2.1	6.1
145,253	148,814	150,522	162,202	163,656	174,815	180,404	177,409	178,421	181,598
1.5	2.5	1.1	7.8	0.9	6.8	3.2	-1.7	0.6	1.8
-447	-2,447	-96	-1,398	987	955	2,226	5,553	5,499	875
-494	-2,514	-132	-1,509	925	1,020	2,180	5,502	5,439	839
42	60	32	101	55	-72	25	32	43	21
1,480	26	461	37	1,483	1,715	401	154	-1,090	-1,288
304,046	309,556	312,686	316,618	322,400	327,900	332,221	334,724	338,081	344,322
1.4	1.8	1	1.3	1.8	1.7	1.3	0.8	1	1.8
5.5	7.4	4.1	5.1	7.5	7	5.4	3	4.1	7.6
286,192	289,976	292,947	296,532	295,714	299,131	301,112	303,318	304,676	306,194
1	1.3	1	1.2	-0.3	1.2	0.7	0.7	0.4	0.5

1993 III	1993 IV	1994 I	1994 II	1994 III	1994 IV	1995 I	1995 II	1995 III	1995 IV
298,352	299,104	301,602	303,199	304,869	307,318	307,350	308,498	310,083	309,337

0.1	0.3	0.8	0.5	0.6	0.8	0	0.4	0.5	-0.2
203,673	203,844	207,212	209,155	210,180	213,217	213,886	213,664	215,750	214,444
-0.3	0.1	1.7	0.9	0.5	1.4	0.3	-0.1	1	-0.6
20,315	20,207	20,873	21,253	21,439	22,878	22,437	21,555	21,921	21,167
-1.3	-0.5	3.3	1.8	0.9	6.7	-1.9	-3.9	1.7	-3.4
13,615	13,411	13,597	14,135	14,430	14,810	15,020	15,060	14,856	14,432
-1.5	-1.5	1.4	4	2.1	2.6	1.4	0.3	-1.4	-2.9
57,303	57,447	59,155	59,565	59,634	59,546	59,939	60,183	60,741	60,402
-1.3	0.3	3	0.7	0.1	-0.1	0.7	0.4	0.9	-0.6
114,399	114,647	115,656	116,239	116,705	117,633	118,178	118,745	120,171	120,623
0.4	0.2	0.9	0.5	0.4	0.8	0.5	0.5	1.2	0.4
4,509	4,460	4,503	4,650	4,798	4,985	4,905	4,890	4,905	4,900
-0.6	-1.1	1	3.3	3.2	3.9	-1.6	-0.3	0.3	-0.1
90,619	91,286	91,257	91,214	90,665	90,128	90,586	91,478	90,351	89,925
-0.5	0.7	0	0	-0.6	-0.6	0.5	1	-1.2	-0.5
59,214	56,012	58,982	62,903	65,405	68,005	65,780	64,983	64,008	63,789
-5	-5.4	5.3	6.6	4	4	-3.3	-1.2	-1.5	-0.3
47,016	44,087	46,541	49,994	51,669	53,644	51,778	50,995	49,933	49,461
-5.2	-6.2	5.6	7.4	3.3	3.8	-3.5	-1.5	-2.1	-0.9
23,181	23,248	23,996	24,480	23,758	23,179	21,214	20,562	20,215	20,049
-1.2	0.3	3.2	2	-2.9	-2.4	-8.5	-3.1	-1.7	-0.8
11,977	11,696	10,806	10,495	10,388	10,047	10,312	10,209	10,255	10,467
-3.9	-2.4	-7.6	-2.9	-1	-3.3	2.6	-1	0.4	2.1
10,477	10,099	10,835	12,501	11,874	13,303	13,357	14,021	13,342	13,485
-2.6	-3.6	7.3	15.4	-5	12	0.4	5	-4.8	1.1
5,374	5,803	5,979	6,143	6,309	6,194	6,353	6,353	6,526	6,896
1.8	8	3	2.7	2.7	-1.8	2.6	0	2.7	5.7
431	441	455	496	533	567	569	535	514	489
0.6	2.3	3.2	8.9	7.4	6.5	0.3	-6	-4	-4.8
12,174	12,364	13,013	12,838	13,050	12,935	12,983	13,264	13,902	14,771
2.3	1.6	5.2	-1.3	1.6	-0.9	0.4	2.2	4.8	6.2

179,463	188,189	187,586	194,938	198,050	212,533	216,381	206,742	210,163	222,831
0.9	4.9	-0.3	3.9	1.6	7.3	1.8	-4.5	1.7	6
159,202	160,457	160,903	166,817	167,816	179,708	182,891	177,833	178,387	180,049
0.9	0.8	0.3	3.7	0.6	7.1	1.8	-2.8	0.3	0.9
254	-220	-32	305	845	1,042	2,899	5,434	4,032	2,987
215	-127	-18	27	612	727	2,777	5,354	4,055	3,114
40	-94	-15	278	233	315	122	80	-23	-127
1,501	1,554	1,492	1,346	976	367	-105	-558	-877	-979
377,477	380,004	388,448	392,337	400,143	406,537	406,964	407,854	410,542	413,320
0.7	0.7	2.2	1	2	1.6	0.1	0.2	0.7	0.7
3	2.7	9.2	4.1	8.2	6.5	0.4	0.9	2.7	2.7
357,679	359,312	363,926	368,680	366,750	370,533	370,930	372,844	373,680	373,901
-0.1	0.5	1.3	1.3	-0.5	1	0.1	0.5	0.2	0.1

1993 III	1993 IV	1994 I	1994 II	1994 III	1994 IV	1995 I	1995 II	1995 III	1995 IV
164,600	164,236	165,046	167,689	169,227	170,815	172,166	173,143	174,713	175,078
0.2	-0.2	0.5	1.6	0.9	0.9	0.8	0.6	0.9	0.2
29,080	29,371	30,000	30,446	30,887	31,427	31,698	32,323	33,041	33,270
1.2	1	2.1	1.5	1.4	1.7	0.9	2	2.2	0.7
12,423	12,399	12,611	12,768	12,944	13,141	13,024	13,285	13,595	13,568
-0.4	-0.2	1.7	1.2	1.4	1.5	-0.9	2	2.3	-0.2
660	631	560	555	517	524	555	487	566	612
10.2	-4.5	-11.2	-0.9	-6.9	1.4	6	-12.3	16.3	8

15,997	16,342	16,829	17,124	17,426	17,762	18,118	18,549	18,879	19,089
2.2	2.2	3	1.8	1.8	1.9	2	2.4	1.8	1.1
22,855	22,581	22,241	22,533	24,304	25,085	25,421	26,007	25,590	25,926
-2.8	-1.2	-1.5	1.3	7.9	3.2	1.3	2.3	-1.6	1.3
216,535	216,188	217,287	220,669	224,417	227,327	229,285	231,473	233,345	234,273
0	-0.2	0.5	1.6	1.7	1.3	0.9	1	0.8	0.4
43,969	43,909	44,394	44,401	44,416	44,645	44,732	44,694	44,864	45,034
1.1	-0.1	1.1	0	0	0.5	0.2	-0.1	0.4	0.4
82,106	83,430	81,778	83,250	86,525	86,519	87,523	88,433	90,579	89,633
8.1	1.6	-2	1.8	3.9	0	1.2	1	2.4	-1
178,398	176,667	179,903	181,820	182,308	185,453	186,494	187,734	187,629	189,675
-3.1	-1	1.8	1.1	0.3	1.7	0.6	0.7	-0.1	1.1
163,816	165,139	167,195	168,931	170,570	173,769	175,221	176,089	178,446	177,793
0.5	0.8	1.2	1	1	1.9	0.8	0.5	1.3	-0.4
11,971	12,658	11,659	11,955	11,978	11,848	12,232	12,561	12,646	12,301
-1.1	5.7	-7.9	2.5	0.2	-1.1	3.2	2.7	0.7	-2.7
26,553	24,186	24,368	24,843	23,717	23,532	23,505	24,206	21,830	24,183
-19.8	-8.9	0.8	2	-4.5	-0.8	-0.1	3	-9.8	10.8
14.9	13.7	13.5	13.7	13	12.7	12.6	12.9	11.6	12.7
10,690	10,729	10,745	10,777	10,819	10,860	10,875	10,907	10,950	10,993
0.3	0.4	0.1	0.3	0.4	0.4	0.1	0.3	0.4	0.4
16,688	16,467	16,743	16,871	16,851	17,076	17,148	17,212	17,135	17,253
-3.4	-1.3	1.7	0.8	-0.1	1.3	0.4	0.4	-0.5	0.7

1993 III	1993 IV	1994 I	1994 II	1994 III	1994 IV	1995 I	1995 II	1995 III	1995 IV

162,074	170,815	169,896	183,650	187,872	200,914	208,886	203,109	207,418	220,140
1.6	5.4	-0.5	8.1	2.3	6.9	4	-2.8	2.1	6.1
107,559	115,020	112,589	124,804	127,591	139,396	146,399	139,876	143,649	155,972
1.5	6.9	-2.1	10.8	2.2	9.3	5	-4.5	2.7	8.6
54,515	55,796	57,307	58,845	60,281	61,518	62,487	63,233	63,769	64,168
1.7	2.4	2.7	2.7	2.4	2.1	1.6	1.2	0.8	0.6
145,253	148,814	150,522	162,202	163,656	174,815	180,404	177,409	178,421	181,598
1.5	2.5	1.1	7.8	0.9	6.8	3.2	-1.7	0.6	1.8
110,212	114,127	116,266	128,210	129,521	140,075	144,804	140,828	140,886	143,186
2	3.6	1.9	10.3	1	8.1	3.4	-2.7	0	1.6
35,041	34,687	34,256	33,993	34,135	34,740	35,600	36,581	37,535	38,412
0	-1	-1.2	-0.8	0.4	1.8	2.5	2.8	2.6	2.3
16,822	22,001	19,374	21,448	24,216	26,099	28,481	25,700	28,997	38,541

1993 III	1993 IV	1994 I	1994 II	1994 III	1994 IV	1995 I	1995 II	1995 III	1995 IV
179,463	188,189	187,586	194,938	198,050	212,533	216,381	206,742	210,163	222,831
0.9	4.9	-0.3	3.9	1.6	7.3	1.8	-4.5	1.7	6
113,051	120,537	116,297	126,995	127,574	136,921	142,013	134,465	137,552	149,530
1.4	6.6	-3.5	9.2	0.5	7.3	3.7	-5.3	2.3	8.7
68,727	70,212	71,667	73,047	73,994	74,377	74,517	74,432	74,294	74,269
1.2	2.2	2.1	1.9	1.3	0.5	0.2	-0.1	-0.2	0
159,202	160,457	160,903	166,817	167,816	179,708	182,891	177,833	178,387	180,049
0.9	0.8	0.3	3.7	0.6	7.1	1.8	-2.8	0.3	0.9
107,787	109,750	110,063	119,565	119,116	127,272	130,325	126,087	126,150	128,862
0.3	1.8	0.3	8.6	-0.4	6.8	2.4	-3.3	0	2.2

54,574	53,530	52,360	51,404	51,009	51,259	51,850	52,650	53,481	54,283
-0.8	-1.9	-2.2	-1.8	-0.8	0.5	1.2	1.5	1.6	1.5

1993 III	1993 IV	1994 I	1994 II	1994 III	1994 IV	1995 I	1995 II	1995 III	1995 IV
79.1	80	79.6	79.4	79	78.9	79.8	80.1	80.4	80.8
1.3	1.2	-0.5	-0.3	-0.5	0	1.1	0.3	0.5	0.4
80.4	81	80.7	80.8	81.2	81.5	81.9	82.4	82.7	82.9
0.7	0.7	-0.4	0.1	0.5	0.4	0.5	0.6	0.4	0.2
95.9	97.5	97.6	97.9	98	98.8	99.5	99.6	100.7	100.9
1.2	1.6	0.1	0.4	0.1	0.8	0.7	0.1	1	0.3
105	105.8	105.8	105.4	105.4	104.9	105	103.8	104.1	104.6
1.2	0.8	0	-0.3	0	-0.5	0.1	-1.1	0.3	0.4
72.9	72.9	71.1	69.8	70	70.3	71	71.8	71.8	71.4
0.4	0	-2.5	-1.8	0.3	0.4	0.9	1.2	0	-0.6
77.1	77.9	78.2	78.8	79.3	79.7	80	80.6	81	81.4
1	1.1	0.3	0.9	0.6	0.5	0.4	0.8	0.4	0.6
86.8	87.9	87	85.7	84	82.1	83.3	84.4	85.2	86
1	1.3	-1	-1.5	-1.9	-2.3	1.4	1.4	0.9	1
75.2	76.9	75.6	74.4	73	71.8	72.9	73	74	75.5
4.2	2.3	-1.7	-1.7	-1.8	-1.6	1.5	0.1	1.4	2.1
85	90.5	89.6	88.7	84	83.1	84.8	86.7	86.3	88.2
4.8	6.5	-1.1	-1	-5.3	-1.1	2	2.3	-0.5	2.2
86.4	92.8	91	90.4	85.1	84.5	86.1	88.4	87.5	89.1
4.8	7.5	-2	-0.6	-5.8	-0.7	1.9	2.7	-1	1.9
61.9	62.7	63.1	63.9	64.3	65.1	65.3	64.7	63.9	63.8
-0.4	1.3	0.8	1.2	0.7	1.2	0.4	-1	-1.2	-0.2

63	63.5	64.5	65.3	65.8	65.8	66.1	66	66.6	66.8
0.4	0.8	1.5	1.1	0.8	0	0.4	-0.1	0.9	0.3
137.2	141.7	141	140.8	140	138.5	139.5	141.3	139.2	139
3.6	3.3	-0.5	-0.2	-0.6	-1	0.7	1.3	-1.5	-0.2
80.8	79.7	82.6	83	83	84.2	82.9	82.3	82.1	80.6
0.7	-1.4	3.6	0.5	0	1.4	-1.5	-0.8	-0.2	-1.7
76.6	76.7	77.2	77.8	78.6	78.2	79.1	79.7	78.7	77.4
-0.1	0.1	0.7	0.8	1.1	-0.6	1.2	0.7	-1.2	-1.7
77.2	76.4	78	79.6	80.9	83	82.7	81.8	80.2	80
-1.7	-1.1	2.1	2.1	1.5	2.6	-0.3	-1.2	-1.9	-0.3
90.3	90.8	90.6	94.2	94.9	94.5	96.5	98.2	98.7	98.8
0.7	0.5	-0.2	4	0.7	-0.3	2.1	1.8	0.5	0.1
91.2	92.7	93.5	97.2	97.5	97.3	98.6	99.8	100	100.8
0.6	1.6	0.9	3.9	0.3	-0.2	1.4	1.1	0.3	0.8
80.5	81.5	80.5	80.7	80.6	80.7	81.6	82.1	82.3	83.3
0.6	1.1	-1.2	0.3	-0.2	0.1	1.2	0.5	0.3	1.2
2.5	4.6	-4.7	1	-0.6	0.4	4.9	2.2	1.4	4.7
80	80.7	80.5	80.4	80.6	80.7	81.2	81.4	81.5	81.9
1.2	0.9	-0.3	-0.1	0.2	0.1	0.6	0.2	0.2	0.4

1993 III	1993 IV	1994 I	1994 II	1994 III	1994 IV	1995 I	1995 II	1995 III	1995 IV
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-

1996 I	1996 II	1996 III	1996 IV	1997 I	1997 II	1997 III	1997 IV	1998 I	1998 II
177,535	178,701	180,962	184,367	186,384	189,778	194,231	195,547	198,883	202,270
0.2	0.7	1.3	1.9	1.1	1.8	2.3	0.7	1.7	1.7
73,352	74,916	78,781	80,004	82,168	82,266	82,240	83,178	86,176	84,359
-5.6	2.1	5.2	1.6	2.7	0.1	0	1.1	3.6	-2.1
34,890	35,701	39,080	39,588	41,152	40,408	39,596	39,364	41,579	38,986
-9.5	2.3	9.5	1.3	4	-1.8	-2	-0.6	5.6	-6.2
29,403	30,099	30,516	31,110	31,459	32,172	32,806	33,843	34,670	35,447
-2	2.4	1.4	1.9	1.1	2.3	2	3.2	2.4	2.2
9,058	9,116	9,184	9,306	9,557	9,687	9,838	9,971	9,927	9,926
-0.5	0.6	0.7	1.3	2.7	1.4	1.6	1.4	-0.4	0
43,320	43,775	44,269	44,348	45,010	45,693	46,440	47,089	48,100	48,346
0	1	1.1	0.2	1.5	1.5	1.6	1.4	2.1	0.5
33,186	33,618	33,918	34,035	34,655	35,180	35,906	36,435	36,991	37,344
-0.3	1.3	0.9	0.3	1.8	1.5	2.1	1.5	1.5	1
10,135	10,157	10,351	10,312	10,355	10,512	10,533	10,653	11,109	11,002
0.7	0.2	1.9	-0.4	0.4	1.5	0.2	1.1	4.3	-1
46,296	46,478	45,993	46,613	48,504	49,365	50,058	51,013	52,507	52,136
1.9	0.4	-1	1.3	4.1	1.8	1.4	1.9	2.9	-0.7
-84	447	1,287	-406	-2,395	-1,962	517	511	961	-566
340,419	344,317	351,292	354,925	359,672	365,141	373,485	377,338	386,627	386,545
-1.1	1.1	2	1	1.3	1.5	2.3	1	2.5	0
-4.5	4.7	8.4	4.2	5.5	6.2	9.5	4.2	10.2	-0.1

1996 I	1996 II	1996 III	1996 IV	1997 I	1997 II	1997 III	1997 IV	1998 I	1998 II
250,929	252,890	253,573	256,479	259,670	264,006	269,979	274,089	276,502	280,420
0.4	0.8	0.3	1.1	1.2	1.7	2.3	1.5	0.9	1.4
180,699	182,534	184,935	188,124	190,714	194,221	198,305	201,937	202,449	206,399
1.6	1	1.3	1.7	1.4	1.8	2.1	1.8	0.3	2
21,811	21,988	22,630	23,928	24,228	25,685	26,346	27,777	26,882	28,413
2.1	0.8	2.9	5.7	1.3	6	2.6	5.4	-3.2	5.7
15,221	15,330	15,710	15,975	16,135	16,424	16,736	16,741	17,456	17,588
0.8	0.7	2.5	1.7	1	1.8	1.9	0	4.3	0.8
43,656	44,345	44,277	44,966	45,370	45,461	46,214	45,963	46,171	47,483
1.3	1.6	-0.2	1.6	0.9	0.2	1.7	-0.5	0.5	2.8
100,011	100,871	102,318	103,256	104,981	106,650	109,009	111,456	111,940	112,916
1.8	0.9	1.4	0.9	1.7	1.6	2.2	2.2	0.4	0.9
4,293	4,337	4,400	4,491	4,700	4,773	4,801	4,875	5,031	5,032
1.9	1	1.5	2.1	4.7	1.5	0.6	1.5	3.2	0
65,937	66,020	64,238	63,865	64,257	65,013	66,873	67,277	69,022	68,989
-2.9	0.1	-2.7	-0.6	0.6	1.2	2.9	0.6	2.6	0
57,264	57,604	61,442	65,462	67,090	68,732	69,244	68,974	69,365	70,686
1.8	0.6	6.7	6.5	2.5	2.4	0.7	-0.4	0.6	1.9
45,752	47,108	50,443	54,665	56,452	57,626	58,167	58,570	59,230	60,404
3.8	3	7.1	8.4	3.3	2.1	0.9	0.7	1.1	2
13,038	13,902	14,913	16,023	16,517	16,969	17,104	17,426	17,260	16,942
2	6.6	7.3	7.4	3.1	2.7	0.8	1.9	-1	-1.8
7,626	8,296	8,750	9,276	9,512	9,710	9,767	9,779	9,952	10,088
9	8.8	5.5	6	2.5	2.1	0.6	0.1	1.8	1.4
19,316	19,188	20,940	23,275	24,461	24,958	25,319	25,338	25,720	26,833

3.1	-0.7	9.1	11.2	5.1	2	1.4	0.1	1.5	4.3
5,771	5,722	5,840	6,091	5,963	5,989	5,977	6,027	6,298	6,541
3.8	-0.9	2.1	4.3	-2.1	0.4	-0.2	0.8	4.5	3.9
406	442	477	495	466	442	417	359	334	327
7.2	8.9	7.8	3.9	-5.8	-5.3	-5.6	-13.9	-7.1	-1.9
11,106	10,055	10,522	10,302	10,171	10,664	10,660	10,045	9,801	9,955
-6	-9.5	4.6	-2.1	-1.3	4.8	0	-5.8	-2.4	1.6
219,765	224,303	227,676	215,864	228,978	236,673	246,550	247,375	252,373	254,105
-0.2	2.1	1.5	-5.2	6.1	3.4	4.2	0.3	2	0.7
184,377	182,369	189,249	190,009	199,421	210,729	214,684	218,323	220,584	222,603
1.5	-1.1	3.8	0.4	5	5.7	1.9	1.7	1	0.9
-2,556	-7,339	-1,327	6,175	2,225	5,158	2,349	4,384	10,235	3,468
-2,353	-7,320	-1,320	6,428	2,169	5,200	2,411	4,504	10,494	3,435
-211	-29	-12	-260	48	-54	-78	-132	-262	31
-607	-773	-823	954	1,130	1,301	47	839	-1,264	470
340,419	344,317	351,292	354,925	359,672	365,141	373,485	377,338	386,627	386,545
-1.1	1.1	2	1	1.3	1.5	2.3	1	2.5	0
-4.5	4.7	8.4	4.2	5.5	6.2	9.5	4.2	10.2	-0.1
308,193	310,495	315,014	321,941	326,760	332,738	339,223	343,063	345,867	351,106
0.7	0.7	1.5	2.2	1.5	1.8	1.9	1.1	0.8	1.5

1996 I	1996 II	1996 III	1996 IV	1997 I	1997 II	1997 III	1997 IV	1998 I	1998 II
311,219	310,824	310,051	313,438	316,696	320,563	326,007	330,670	331,680	333,887

0.6	-0.1	-0.2	1.1	1	1.2	1.7	1.4	0.3	0.7
217,013	218,171	220,253	222,111	224,321	228,022	232,844	235,817	235,900	239,768
1.2	0.5	1	0.8	1	1.6	2.1	1.3	0	1.6
21,592	21,753	22,277	23,590	23,812	25,018	25,792	27,162	26,224	27,654
2	0.7	2.4	5.9	0.9	5.1	3.1	5.3	-3.5	5.5
14,600	14,562	14,998	15,271	15,430	15,473	15,767	15,698	16,309	16,633
1.2	-0.3	3	1.8	1	0.3	1.9	-0.4	3.9	2
60,912	61,410	61,083	61,044	61,656	61,926	62,877	62,712	62,768	64,413
0.8	0.8	-0.5	-0.1	1	0.4	1.5	-0.3	0.1	2.6
122,062	122,662	123,857	123,794	125,079	127,051	129,790	131,356	131,780	132,101
1.2	0.5	1	-0.1	1	1.6	2.2	1.2	0.3	0.2
5,099	5,315	5,615	6,004	6,477	6,585	6,502	6,351	6,365	6,248
4.1	4.2	5.6	6.9	7.9	1.7	-1.3	-2.3	0.2	-1.8
88,995	88,450	85,804	85,379	85,274	85,664	88,232	89,374	90,881	89,528
-1	-0.6	-3	-0.5	-0.1	0.5	3	1.3	1.7	-1.5
66,434	67,771	71,579	76,411	76,160	78,046	80,039	79,795	79,832	80,525
4.1	2	5.6	6.8	-0.3	2.5	2.6	-0.3	0	0.9
52,407	54,221	58,113	63,090	63,484	64,970	66,557	66,384	66,712	67,724
6	3.5	7.2	8.6	0.6	2.3	2.4	-0.3	0.5	1.5
20,527	21,547	23,135	24,686	24,669	25,326	26,092	26,433	25,544	25,030
2.4	5	7.4	6.7	-0.1	2.7	3	1.3	-3.4	-2
11,292	12,056	12,621	13,339	13,729	13,734	13,849	13,672	13,801	14,023
7.9	6.8	4.7	5.7	2.9	0	0.8	-1.3	0.9	1.6
14,128	14,246	15,400	17,334	17,886	18,430	19,095	18,920	18,719	19,418
4.8	0.8	8.1	12.6	3.2	3	3.6	-0.9	-1.1	3.7
7,270	7,189	7,156	7,461	7,089	7,073	7,133	7,006	7,233	7,661
5.4	-1.1	-0.5	4.3	-5	-0.2	0.8	-1.8	3.2	5.9
528	577	603	620	611	553	509	436	399	372
7.9	9.3	4.5	2.8	-1.5	-9.5	-7.9	-14.4	-8.4	-6.9
13,884	12,462	13,028	12,786	12,426	12,861	12,787	12,022	11,484	11,826
-6	-10.2	4.5	-1.9	-2.8	3.5	-0.6	-6	-4.5	3

222,208	229,041	231,376	220,563	233,685	239,839	251,148	252,232	257,020	257,171
-0.3	3.1	1	-4.7	5.9	2.6	4.7	0.4	1.9	0.1
183,196	183,770	190,936	197,773	203,374	212,611	216,707	217,660	220,854	222,278
1.7	0.3	3.9	3.6	2.8	4.5	1.9	0.4	1.5	0.6
845	-3,864	-369	1,152	543	2,848	5,292	6,661	10,394	4,269
929	-3,900	-416	895	541	2,666	5,327	6,729	9,583	5,128
-84	36	48	256	1	182	-35	-68	810	-860
-1,043	-846	-376	276	1,274	1,500	15	943	-1,543	509
412,524	415,287	418,108	419,389	423,473	429,277	442,712	450,402	455,500	455,842
-0.2	0.7	0.7	0.3	1	1.4	3.1	1.7	1.1	0.1
-0.8	2.7	2.7	1.2	4	5.6	13.1	7.1	4.6	0.3
377,265	378,094	382,100	388,885	391,878	397,954	407,119	410,501	410,503	414,464
0.9	0.2	1.1	1.8	0.8	1.6	2.3	0.8	0	1

1996 I	1996 II	1996 III	1996 IV	1997 I	1997 II	1997 III	1997 IV	1998 I	1998 II
175,578	176,831	179,160	182,602	184,727	188,267	192,856	194,358	197,231	200,127
0.3	0.7	1.3	1.9	1.2	1.9	2.4	0.8	1.5	1.5
33,186	33,618	33,918	34,035	34,655	35,180	35,906	36,435	36,991	37,344
-0.3	1.3	0.9	0.3	1.8	1.5	2.1	1.5	1.5	1
13,448	13,765	13,956	14,235	14,674	15,134	15,587	15,861	16,316	16,664
-0.9	2.4	1.4	2	3.1	3.1	3	1.8	2.9	2.1
550	529	529	416	508	507	421	424	444	471
-10	-3.9	-0.1	-21.3	22.1	-0.2	-16.9	0.8	4.6	6.2

19,186	19,324	19,433	19,385	19,475	19,540	19,899	20,151	20,232	20,208
0.5	0.7	0.6	-0.2	0.5	0.3	1.8	1.3	0.4	-0.1
26,157	26,107	26,361	27,143	27,637	27,817	27,242	27,368	27,875	28,255
0.9	-0.2	1	3	1.8	0.7	-2.1	0.5	1.9	1.4
234,921	236,556	239,439	243,780	247,019	251,264	256,004	258,161	262,098	265,726
0.3	0.7	1.2	1.8	1.3	1.7	1.9	0.8	1.5	1.4
45,672	45,561	45,653	45,555	46,028	46,357	47,265	48,834	48,892	49,174
1.4	-0.2	0.2	-0.2	1	0.7	2	3.3	0.1	0.6
91,039	92,461	94,161	94,767	96,830	99,516	99,074	99,860	102,298	104,077
1.6	1.6	1.8	0.6	2.2	2.8	-0.4	0.8	2.4	1.7
189,554	189,656	190,931	194,567	196,217	198,106	204,195	207,135	208,692	210,823
-0.1	0.1	0.7	1.9	0.8	1	3.1	1.4	0.8	1
180,699	182,534	184,935	188,124	190,714	194,221	198,305	201,937	202,449	206,399
1.6	1	1.3	1.7	1.4	1.8	2.1	1.8	0.3	2
11,660	12,033	12,222	11,866	11,381	12,424	11,440	10,019	11,420	11,143
-5.2	3.2	1.6	-2.9	-4.1	9.2	-7.9	-12.4	14	-2.4
20,514	19,154	18,218	18,309	16,884	16,309	17,330	15,217	17,663	15,566
-15.2	-6.6	-4.9	0.5	-7.8	-3.4	6.3	-12.2	16.1	-11.9
10.8	10.1	9.5	9.4	8.6	8.2	8.5	7.3	8.5	7.4
11,009	11,037	11,083	11,131	11,146	11,180	11,228	11,279	11,292	11,322
0.1	0.3	0.4	0.4	0.1	0.3	0.4	0.5	0.1	0.3
17,218	17,183	17,228	17,480	17,604	17,720	18,187	18,365	18,481	18,621
-0.2	-0.2	0.3	1.5	0.7	0.7	2.6	1	0.6	0.8

1996 I	1996 II	1996 III	1996 IV	1997 I	1997 II	1997 III	1997 IV	1998 I	1998 II

219,765	224,303	227,676	215,864	228,978	236,673	246,550	247,375	252,373	254,105
-0.2	2.1	1.5	-5.2	6.1	3.4	4.2	0.3	2	0.7
155,169	159,096	161,520	148,483	163,043	169,001	175,728	174,195	180,713	184,390
-0.5	2.5	1.5	-8.1	9.8	3.7	4	-0.9	3.7	2
64,596	65,208	66,156	67,381	65,934	67,672	70,822	73,180	71,660	69,715
0.7	0.9	1.5	1.9	-2.1	2.6	4.7	3.3	-2.1	-2.7
184,377	182,369	189,249	190,009	199,421	210,729	214,684	218,323	220,584	222,603
1.5	-1.1	3.8	0.4	5	5.7	1.9	1.7	1	0.9
145,067	142,080	147,811	147,311	156,029	166,558	169,896	172,889	175,910	178,309
1.3	-2.1	4	-0.3	5.9	6.7	2	1.8	1.7	1.4
39,310	40,289	41,438	42,698	43,392	44,171	44,788	45,433	44,674	44,294
2.3	2.5	2.9	3	1.6	1.8	1.4	1.4	-1.7	-0.9
35,388	41,934	38,427	25,855	29,557	25,944	31,866	29,053	31,789	31,501

1996 I	1996 II	1996 III	1996 IV	1997 I	1997 II	1997 III	1997 IV	1998 I	1998 II
222,208	229,041	231,376	220,563	233,685	239,839	251,148	252,232	257,020	257,171
-0.3	3.1	1	-4.7	5.9	2.6	4.7	0.4	1.9	0.1
149,223	153,665	156,554	144,106	158,291	162,663	169,946	168,468	174,742	177,744
-0.2	3	1.9	-8	9.8	2.8	4.5	-0.9	3.7	1.7
74,377	74,926	76,068	77,653	76,389	77,811	81,573	84,171	82,284	79,111
0.1	0.7	1.5	2.1	-1.6	1.9	4.8	3.2	-2.2	-3.9
183,196	183,770	190,936	197,773	203,374	212,611	216,707	217,660	220,854	222,278
1.7	0.3	3.9	3.6	2.8	4.5	1.9	0.4	1.5	0.6
131,629	130,060	136,297	136,402	142,878	150,641	154,800	160,796	158,576	160,023
2.1	-1.2	4.8	0.1	4.7	5.4	2.8	3.9	-1.4	0.9

55,199	56,232	57,458	58,823	59,324	61,202	61,916	62,059	62,898	62,673
1.7	1.9	2.2	2.4	0.9	3.2	1.2	0.2	1.4	-0.4

1996 I	1996 II	1996 III	1996 IV	1997 I	1997 II	1997 III	1997 IV	1998 I	1998 II
80.6	81.4	81.8	81.8	82	82.4	82.8	82.9	83.4	84
-0.2	0.9	0.5	0.1	0.2	0.4	0.6	0.1	0.6	0.7
83.3	83.7	84	84.7	85	85.2	85.2	85.6	85.8	86.1
0.4	0.5	0.4	0.9	0.4	0.2	0	0.5	0.2	0.3
101	101.1	101.6	101.4	101.7	102.7	102.1	102.3	102.5	102.7
0.1	0.1	0.5	-0.1	0.3	0.9	-0.5	0.1	0.2	0.2
104.3	105.3	104.7	104.6	104.6	106.1	106.1	106.6	107	105.7
-0.3	1	-0.5	-0.1	0	1.5	0	0.5	0.4	-1.2
71.7	72.2	72.5	73.7	73.6	73.4	73.5	73.3	73.6	73.7
0.4	0.8	0.4	1.6	-0.1	-0.2	0.1	-0.3	0.4	0.2
81.9	82.2	82.6	83.4	83.9	83.9	84	84.9	84.9	85.5
0.6	0.4	0.5	1	0.6	0	0.1	1	0.1	0.6
84.2	81.6	78.4	74.8	72.6	72.5	73.8	76.8	79	80.5
-2.1	-3.1	-4	-4.6	-3	-0.1	1.9	4	3	1.9
74.1	74.6	74.9	74.8	75.4	75.9	75.8	75.3	75.9	77.1
-1.9	0.7	0.3	-0.1	0.7	0.7	-0.1	-0.7	0.9	1.5
86.2	85	85.8	85.7	88.1	88.1	86.5	86.4	86.9	87.8
-2.3	-1.4	1	-0.2	2.8	0	-1.8	-0.1	0.5	1
87.3	86.9	86.8	86.6	88.9	88.7	87.4	88.2	88.8	89.2
-2	-0.5	-0.1	-0.2	2.6	-0.3	-1.5	1	0.6	0.5
63.5	64.5	64.5	64.9	67	67	65.6	65.9	67.6	67.7
-0.4	1.6	-0.1	0.7	3.2	0.1	-2.2	0.6	2.5	0.2

67.5	68.8	69.3	69.5	69.3	70.7	70.5	71.5	72.1	71.9
1.1	1.9	0.8	0.3	-0.4	2	-0.3	1.4	0.8	-0.2
136.7	134.7	136	134.3	136.8	135.4	132.6	133.9	137.4	138.2
-1.6	-1.5	1	-1.2	1.8	-1	-2.1	1	2.6	0.6
79.4	79.6	81.6	81.6	84.1	84.7	83.8	86	87.1	85.4
-1.6	0.2	2.5	0	3	0.7	-1	2.7	1.2	-1.9
76.9	76.6	79.1	79.9	76.4	79.9	81.9	82.4	83.6	88
-0.7	-0.3	3.2	1.1	-4.4	4.6	2.5	0.6	1.4	5.4
80	80.7	80.8	80.6	81.9	82.9	83.4	83.6	85.3	84.2
0	0.9	0.1	-0.2	1.6	1.3	0.5	0.2	2.1	-1.4
98.9	97.9	98.4	97.9	98	98.7	98.2	98.1	98.2	98.8
0.1	-1	0.5	-0.5	0.1	0.7	-0.5	-0.1	0.1	0.6
100.6	99.2	99.1	96.1	98.1	99.1	99.1	100.3	99.9	100.1
-0.2	-1.4	-0.1	-3	2.1	1.1	-0.1	1.2	-0.4	0.3
82.5	82.9	84	84.6	84.9	85.1	84.4	83.8	84.9	84.8
-0.9	0.5	1.3	0.7	0.4	0.1	-0.8	-0.7	1.3	-0.1
-3.7	1.9	5.5	2.9	1.4	0.6	-3.2	-2.7	5.4	-0.4
81.7	82.1	82.4	82.8	83.4	83.6	83.3	83.6	84.3	84.7
-0.2	0.5	0.4	0.4	0.7	0.3	-0.3	0.3	0.8	0.5

1996 I	1996 II	1996 III	1996 IV	1997 I	1997 II	1997 III	1997 IV	1998 I	1998 II
-	-	-	-	120,066	122,012	124,895	127,862	128,679	128,405
-	-	-	-	-	1.6	2.4	2.4	0.6	-0.2
-	-	-	-	12,395	12,059	12,362	12,532	12,161	12,222
-	-	-	-	-	-2.7	2.5	1.4	-3	0.5
-	-	-	-	3,587	3,615	3,689	3,672	3,745	3,918
-	-	-	-	-	0.8	2	-0.5	2	4.6
-	-	-	-	8,824	8,453	8,676	8,856	8,413	8,304
-	-	-	-	-	-4.2	2.6	2.1	-5	-1.3
-	-	-	-	10,077	10,620	10,726	10,967	10,545	10,325
-	-	-	-	-	5.4	1	2.2	-3.8	-2.1
-	-	-	-	7,189	7,660	7,917	8,315	7,977	7,944
-	-	-	-	-	6.6	3.4	5	-4.1	-0.4
-	-	-	-	2,898	2,967	2,813	2,653	2,576	2,428
-	-	-	-	-	2.4	-5.2	-5.7	-2.9	-5.8
-	-	-	-	22,316	21,599	21,569	21,926	21,756	21,887
-	-	-	-	-	-3.2	-0.1	1.7	-0.8	0.6
-	-	-	-	8,564	8,133	7,973	8,047	7,988	8,081
-	-	-	-	-	-5	-2	0.9	-0.7	1.2

-	-	-	-	13,885	13,673	13,877	14,236	14,107	14,130
-	-	-	-	-	-1.5	1.5	2.6	-0.9	0.2
-	-	-	-	75,873	77,871	79,814	81,500	86,019	84,064
-	-	-	-	-	2.6	2.5	2.1	5.5	-2.3
-	-	-	-	11,303	11,536	11,343	11,707	12,109	12,212
-	-	-	-	-	2.1	-1.7	3.2	3.4	0.9
-	-	-	-	2,066	2,050	2,088	2,060	2,195	2,226
-	-	-	-	-	-0.8	1.8	-1.4	6.6	1.4
-	-	-	-	3,273	3,419	3,531	3,722	4,067	4,205
-	-	-	-	-	4.5	3.3	5.4	9.3	3.4
-	-	-	-	6,192	6,107	6,211	6,262	6,198	6,267
-	-	-	-	-	-1.4	1.7	0.8	-1	1.1
-	-	-	-	8,164	8,109	8,465	8,261	8,542	8,589
-	-	-	-	-	-0.7	4.4	-2.4	3.4	0.5
-	-	-	-	3,902	4,056	4,145	4,190	4,152	4,213
-	-	-	-	-	3.9	2.2	1.1	-0.9	1.5
-	-	-	-	10,435	11,122	12,090	13,062	12,836	12,375
-	-	-	-	-	6.6	8.7	8	-1.7	-3.6
-	-	-	-	5,926	6,036	6,415	6,475	6,574	6,629
-	-	-	-	-	1.9	6.3	0.9	1.5	0.8
-	-	-	-	5,516	5,919	6,426	6,538	6,410	6,549
-	-	-	-	-	7.3	8.6	1.7	-2	2.2
-	-	-	-	16,132	17,027	17,231	17,866	18,319	17,571
-	-	-	-	-	5.6	1.2	3.7	2.5	-4.1
-	-	-	-	13,993	14,519	14,275	14,523	15,036	14,497
-	-	-	-	-	3.8	-1.7	1.7	3.5	-3.6
-	-	-	-	2,832	3,716	4,671	5,570	5,432	5,001
-	-	-	-	-	31.2	25.7	19.3	-2.5	-7.9
-	-	-	-	3,051	3,161	3,133	3,211	3,404	3,538
-	-	-	-	-	3.6	-0.9	2.5	6	3.9
-	-	-	-	274,812	277,743	285,070	286,924	290,739	293,419
-	-	-	-	-	1.1	2.6	0.7	1.3	0.9

-	-	-	-	19,480	19,691	20,527	21,492	21,289	22,021
-	-	-	-	-	1.1	4.2	4.7	-0.9	3.4
-	-	-	-	17,721	18,081	18,402	19,070	19,240	19,936
-	-	-	-	-	2	1.8	3.6	0.9	3.6
-	-	-	-	15,896	16,113	15,805	16,064	16,475	16,152
-	-	-	-	-	1.4	-1.9	1.6	2.6	-2
-	-	-	-	11,129	11,375	11,440	11,551	11,649	11,624
-	-	-	-	-	2.2	0.6	1	0.8	-0.2
-	-	-	-	31,994	33,188	34,102	34,646	35,098	35,451
-	-	-	-	-	3.7	2.8	1.6	1.3	1
-	-	-	-	50,634	49,282	48,832	48,736	49,052	49,866
-	-	-	-	-	-2.7	-0.9	-0.2	0.6	1.7
-	-	-	-	29,495	30,074	30,763	31,110	32,182	32,901
-	-	-	-	-	2	2.3	1.1	3.4	2.2
-	-	-	-	2,226	2,303	2,359	2,399	2,429	2,452
-	-	-	-	-	3.4	2.4	1.7	1.3	0.9
-	-	-	-	25,124	24,706	24,899	24,113	25,015	25,139
-	-	-	-	-	-1.7	0.8	-3.2	3.7	0.5
-	-	-	-	26,994	27,559	28,052	28,424	28,169	27,940
-	-	-	-	-	2.1	1.8	1.3	-0.9	-0.8
-	-	-	-	3,569	3,538	3,559	3,545	3,478	3,538
-	-	-	-	-	-0.9	0.6	-0.4	-1.9	1.7
-	-	-	-	8,362	8,149	8,055	8,430	8,919	8,914
-	-	-	-	-	-2.6	-1.2	4.7	5.8	0
-	-	-	-	7,554	7,464	7,379	7,245	7,408	7,572
-	-	-	-	-	-1.2	-1.1	-1.8	2.2	2.2
-	-	-	-	29,773	29,421	29,355	29,157	29,458	29,517
-	-	-	-	-	-1.2	-0.2	-0.7	1	0.2
-	-	-	-	394,860	399,544	409,781	414,535	419,321	422,014
-	-	-	-	-	1.2	2.6	1.2	1.2	0.6
-	-	-	-	-	4.8	10.6	4.7	4.7	2.6

1998 III	1998 IV	1999 I	1999 II	1999 III	1999 IV	2000 I	2000 II	2000 III	2000 IV
204,724	208,287	210,629	215,056	219,719	225,104	230,754	238,307	241,941	244,650
1.2	1.7	1.1	2.1	2.2	2.5	2.5	3.3	1.5	1.1
83,477	87,444	91,936	94,275	97,316	98,046	99,696	102,596	105,793	103,438
-1	4.8	5.1	2.5	3.2	0.7	1.7	2.9	3.1	-2.2
37,590	41,349	45,152	46,859	49,046	49,099	49,874	51,634	53,832	50,483
-3.6	10	9.2	3.8	4.7	0.1	1.6	3.5	4.3	-6.2
35,928	36,067	36,655	37,169	37,840	38,321	39,022	39,972	40,786	41,632
1.4	0.4	1.6	1.4	1.8	1.3	1.8	2.4	2	2.1
9,959	10,029	10,129	10,247	10,430	10,626	10,800	10,990	11,175	11,323
0.3	0.7	1	1.2	1.8	1.9	1.6	1.8	1.7	1.3
48,833	49,445	49,396	50,140	50,525	50,760	51,953	52,716	53,969	55,377
1	1.3	-0.1	1.5	0.8	0.5	2.4	1.5	2.4	2.6
37,702	38,335	38,260	38,831	39,092	39,173	40,271	40,871	41,877	43,065
1	1.7	-0.2	1.5	0.7	0.2	2.8	1.5	2.5	2.8
11,132	11,113	11,138	11,309	11,432	11,585	11,681	11,845	12,093	12,313
1.2	-0.2	0.2	1.5	1.1	1.3	0.8	1.4	2.1	1.8
51,219	50,158	53,304	55,072	56,923	58,240	57,701	58,095	58,111	57,869
-1.8	-2.1	6.3	3.3	3.4	2.3	-0.9	0.7	0	-0.4
-439	555	-857	-1,620	7	-1,162	-1,176	-1,696	-1,098	-254
387,814	395,890	404,407	412,923	424,491	430,988	438,928	450,018	458,717	461,081
0.3	2.1	2.2	2.1	2.8	1.5	1.8	2.5	1.9	0.5
1.3	8.6	8.9	8.7	11.7	6.3	7.6	10.5	8	2.1

1998 III	1998 IV	1999 I	1999 II	1999 III	1999 IV	2000 I	2000 II	2000 III	2000 IV
280,596	280,642	287,007	293,570	301,505	305,551	310,084	316,448	324,336	325,596
0.1	0	2.3	2.3	2.7	1.3	1.5	2.1	2.5	0.4
207,224	208,240	212,710	217,629	223,491	225,466	229,411	232,871	239,511	241,175
0.4	0.5	2.1	2.3	2.7	0.9	1.7	1.5	2.9	0.7
28,378	28,231	29,754	30,575	32,464	32,575	33,044	33,118	34,387	32,984
-0.1	-0.5	5.4	2.8	6.2	0.3	1.4	0.2	3.8	-4.1
17,822	18,070	18,609	19,096	19,079	18,903	19,370	19,706	20,502	20,945
1.3	1.4	3	2.6	-0.1	-0.9	2.5	1.7	4	2.2
47,526	47,552	48,325	49,859	51,104	51,669	52,867	53,913	55,344	56,631
0.1	0.1	1.6	3.2	2.5	1.1	2.3	2	2.7	2.3
113,497	114,387	116,023	118,099	120,843	122,320	124,130	126,134	129,278	130,615
0.5	0.8	1.4	1.8	2.3	1.2	1.5	1.6	2.5	1
4,994	5,019	5,068	5,430	5,796	5,986	5,627	5,756	5,930	6,015
-0.8	0.5	1	7.1	6.7	3.3	-6	2.3	3	1.4
68,378	67,382	69,228	70,511	72,218	74,098	75,046	77,822	78,895	78,405
-0.9	-1.5	2.7	1.9	2.4	2.6	1.3	3.7	1.4	-0.6
71,980	75,793	75,950	78,837	78,180	80,014	81,552	81,846	83,004	83,862
1.8	5.3	0.2	3.8	-0.8	2.3	1.9	0.4	1.4	1
61,554	64,727	64,215	66,806	66,120	67,695	68,836	69,204	69,707	70,208
1.9	5.2	-0.8	4	-1	2.4	1.7	0.5	0.7	0.7
16,798	17,256	18,222	19,770	20,213	20,330	20,728	20,732	21,924	23,093
-0.8	2.7	5.6	8.5	2.2	0.6	2	0	5.8	5.3
10,016	10,324	10,772	11,232	11,743	12,313	11,903	11,045	10,083	9,541
-0.7	3.1	4.3	4.3	4.5	4.9	-3.3	-7.2	-8.7	-5.4
28,084	30,319	28,668	29,180	27,376	28,240	28,600	29,431	29,169	28,627

4.7	8	-5.4	1.8	-6.2	3.2	1.3	2.9	-0.9	-1.9
6,656	6,828	6,553	6,624	6,788	6,811	7,606	7,996	8,531	8,947
1.8	2.6	-4	1.1	2.5	0.3	11.7	5.1	6.7	4.9
329	362	366	387	376	355	379	413	451	489
0.6	10.1	1.1	5.6	-2.7	-5.5	6.7	8.9	9.2	8.4
10,097	10,704	11,368	11,644	11,684	11,964	12,336	12,229	12,845	13,165
1.4	6	6.2	2.4	0.3	2.4	3.1	-0.9	5	2.5
259,742	277,436	281,293	281,838	295,506	299,711	311,246	315,442	319,994	325,714
2.2	6.8	1.4	0.2	4.8	1.4	3.8	1.3	1.4	1.8
223,988	240,417	239,027	241,917	249,971	255,189	264,999	268,322	275,199	280,004
0.6	7.3	-0.6	1.2	3.3	2.1	3.8	1.3	2.6	1.7
-903	2,541	-1,122	-838	-1,067	-665	-846	2,611	5,737	6,406
-757	2,764	-1,004	-903	-846	-527	-533	2,658	5,929	6,410
-150	-222	-125	59	-226	-144	-333	-70	-224	-29
388	-105	307	1,433	339	1,565	1,891	1,993	845	-493
387,814	395,890	404,407	412,923	424,491	430,988	438,928	450,018	458,717	461,081
0.3	2.1	2.2	2.1	2.8	1.5	1.8	2.5	1.9	0.5
1.3	8.6	8.9	8.7	11.7	6.3	7.6	10.5	8	2.1
352,576	356,435	362,956	372,406	379,684	385,565	391,636	398,294	407,340	409,458
0.4	1.1	1.8	2.6	2	1.5	1.6	1.7	2.3	0.5

1998 III	1998 IV	1999 I	1999 II	1999 III	1999 IV	2000 I	2000 II	2000 III	2000 IV
333,538	333,207	339,533	344,887	350,952	356,148	358,955	362,167	366,224	367,314

-0.1	-0.1	1.9	1.6	1.8	1.5	0.8	0.9	1.1	0.3
239,275	239,157	244,087	247,582	252,979	254,804	257,591	259,997	265,387	264,449
-0.2	0	2.1	1.4	2.2	0.7	1.1	0.9	2.1	-0.4
27,767	27,571	29,041	29,546	31,210	31,407	31,983	32,232	33,606	32,046
0.4	-0.7	5.3	1.7	5.6	0.6	1.8	0.8	4.3	-4.6
16,725	16,808	17,147	17,438	17,426	17,645	17,812	18,276	18,806	19,122
0.6	0.5	2	1.7	-0.1	1.3	0.9	2.6	2.9	1.7
64,344	63,751	64,801	65,686	66,858	66,964	67,597	68,191	68,815	69,161
-0.1	-0.9	1.6	1.4	1.8	0.2	0.9	0.9	0.9	0.5
131,445	131,986	133,883	135,660	138,085	139,324	140,649	141,751	144,382	144,702
-0.5	0.4	1.4	1.3	1.8	0.9	1	0.8	1.9	0.2
6,150	6,212	6,410	7,003	7,565	7,878	7,395	7,552	7,765	7,893
-1.6	1	3.2	9.2	8	4.1	-6.1	2.1	2.8	1.6
87,710	85,997	88,452	89,679	91,392	94,233	94,720	93,489	93,915	94,808
-2	-2	2.9	1.4	1.9	3.1	0.5	-1.3	0.5	1
81,030	82,670	84,145	87,940	89,732	92,516	92,817	92,115	93,049	92,730
0.6	2	1.8	4.5	2	3.1	0.3	-0.8	1	-0.3
68,539	70,129	70,842	73,543	74,778	77,133	77,571	76,994	77,420	77,027
1.2	2.3	1	3.8	1.7	3.1	0.6	-0.7	0.6	-0.5
24,662	25,356	26,660	28,307	28,806	29,011	29,158	28,882	30,704	31,896
-1.5	2.8	5.1	6.2	1.8	0.7	0.5	-0.9	6.3	3.9
14,039	14,330	14,761	15,241	15,908	16,670	15,760	14,258	12,846	11,848
0.1	2.1	3	3.3	4.4	4.8	-5.5	-9.5	-9.9	-7.8
20,108	22,398	21,078	22,153	21,096	22,145	22,507	23,158	23,124	22,639
3.6	11.4	-5.9	5.1	-4.8	5	1.6	2.9	-0.1	-2.1
7,823	8,267	7,510	7,737	7,893	7,779	8,357	8,826	9,592	10,313
2.1	5.7	-9.2	3	2	-1.4	7.4	5.6	8.7	7.5
366	387	409	448	448	439	456	479	510	535
-1.4	5.6	5.7	9.7	0	-2.2	4	5	6.4	5
12,284	13,146	13,817	14,043	13,864	13,984	14,322	14,366	15,097	15,379
3.9	7	5.1	1.6	-1.3	0.9	2.4	0.3	5.1	1.9

259,123	273,650	281,904	286,263	298,611	304,246	313,772	314,399	317,923	318,746
0.8	5.6	3	1.5	4.3	1.9	3.1	0.2	1.1	0.3
217,343	231,185	233,724	239,878	244,140	249,178	258,664	257,782	262,271	259,895
-2.2	6.4	1.1	2.6	1.8	2.1	3.8	-0.3	1.7	-0.9
-105	3,514	-1,481	-202	-1,071	547	3,671	3,906	5,368	2,256
-418	3,754	-989	-779	-715	439	3,609	3,413	4,887	3,874
314	-240	-492	577	-356	107	62	492	480	-1,618
439	-141	339	1,644	340	1,739	2,098	2,238	956	-570
456,701	457,185	469,409	481,449	494,389	506,321	510,924	517,983	522,892	523,382
0.2	0.1	2.7	2.6	2.7	2.4	0.9	1.4	0.9	0.1
0.8	0.4	11.1	10.7	11.2	10	3.7	5.6	3.8	0.4
413,388	417,509	424,220	433,419	440,344	447,921	451,785	453,226	460,448	459,973
-0.3	1	1.6	2.2	1.6	1.7	0.9	0.3	1.6	-0.1

1998 III	1998 IV	1999 I	1999 II	1999 III	1999 IV	2000 I	2000 II	2000 III	2000 IV
202,107	205,211	207,854	212,464	217,309	222,869	227,746	234,574	237,520	239,556
1	1.5	1.3	2.2	2.3	2.6	2.2	3	1.3	0.9
37,702	38,335	38,260	38,831	39,092	39,173	40,271	40,871	41,877	43,065
1	1.7	-0.2	1.5	0.7	0.2	2.8	1.5	2.5	2.8
17,036	17,376	17,517	18,038	18,035	18,069	18,408	18,743	19,418	20,167
2.2	2	0.8	3	0	0.2	1.9	1.8	3.6	3.9
477	456	424	534	537	538	618	620	577	585
1.3	-4.4	-7	25.9	0.5	0.2	14.9	0.4	-6.8	1.4

20,187	20,501	20,317	20,259	20,521	20,568	21,246	21,508	21,881	22,313
-0.1	1.6	-0.9	-0.3	1.3	0.2	3.3	1.2	1.7	2
28,088	29,025	30,211	31,538	31,503	31,104	30,989	30,030	30,821	30,225
-0.6	3.3	4.1	4.4	-0.1	-1.3	-0.4	-3.1	2.6	-1.9
267,897	272,571	276,325	282,833	287,904	293,146	299,006	305,475	310,218	312,846
0.8	1.7	1.4	2.4	1.8	1.8	2	2.2	1.6	0.8
49,768	50,515	49,283	49,371	49,047	49,275	49,107	48,385	49,312	49,861
1.2	1.5	-2.4	0.2	-0.7	0.5	-0.3	-1.5	1.9	1.1
102,466	103,539	106,611	108,270	109,814	110,885	112,921	114,412	115,769	115,481
-1.5	1	3	1.6	1.4	1	1.8	1.3	1.2	-0.2
215,199	219,546	218,997	223,934	227,137	231,536	235,191	239,448	243,760	247,225
2.1	2	-0.3	2.3	1.4	1.9	1.6	1.8	1.8	1.4
207,224	208,240	212,710	217,629	223,491	225,466	229,411	232,871	239,511	241,175
0.4	0.5	2.1	2.3	2.7	0.9	1.7	1.5	2.9	0.7
10,437	10,232	10,685	11,500	11,749	11,905	13,451	13,200	13,327	14,354
-6.3	-2	4.4	7.6	2.2	1.3	13	-1.9	1	7.7
18,412	21,538	16,972	17,806	15,395	17,975	19,231	19,777	17,576	20,404
18.3	17	-21.2	4.9	-13.5	16.8	7	2.8	-11.1	16.1
8.6	9.8	7.7	8	6.8	7.8	8.2	8.3	7.2	8.3
11,366	11,409	11,420	11,453	11,505	11,559	11,577	11,621	11,683	11,748
0.4	0.4	0.1	0.3	0.5	0.5	0.2	0.4	0.5	0.6
18,934	19,244	19,177	19,553	19,743	20,030	20,315	20,604	20,864	21,043
1.7	1.6	-0.3	2	1	1.5	1.4	1.4	1.3	0.9

1998 III	1998 IV	1999 I	1999 II	1999 III	1999 IV	2000 I	2000 II	2000 III	2000 IV

259,742	277,436	281,293	281,838	295,506	299,711	311,246	315,442	319,994	325,714
2.2	6.8	1.4	0.2	4.8	1.4	3.8	1.3	1.4	1.8
191,587	209,471	210,885	208,990	219,662	220,436	230,531	233,685	237,049	242,464
3.9	9.3	0.7	-0.9	5.1	0.4	4.6	1.4	1.4	2.3
68,156	67,965	70,409	72,848	75,844	79,276	80,715	81,758	82,945	83,250
-2.2	-0.3	3.6	3.5	4.1	4.5	1.8	1.3	1.5	0.4
223,988	240,417	239,027	241,917	249,971	255,189	264,999	268,322	275,199	280,004
0.6	7.3	-0.6	1.2	3.3	2.1	3.8	1.3	2.6	1.7
179,749	195,220	192,293	193,268	199,364	202,795	210,624	211,867	216,184	219,277
0.8	8.6	-1.5	0.5	3.2	1.7	3.9	0.6	2	1.4
44,240	45,197	46,734	48,649	50,608	52,394	54,375	56,455	59,015	60,728
-0.1	2.2	3.4	4.1	4	3.5	3.8	3.8	4.5	2.9
35,754	37,019	42,266	39,921	45,534	44,522	46,247	47,120	44,795	45,710

1998 III	1998 IV	1999 I	1999 II	1999 III	1999 IV	2000 I	2000 II	2000 III	2000 IV
259,123	273,650	281,904	286,263	298,611	304,246	313,772	314,399	317,923	318,746
0.8	5.6	3	1.5	4.3	1.9	3.1	0.2	1.1	0.3
182,209	197,341	201,550	202,707	211,524	212,823	221,924	222,251	225,195	227,027
2.5	8.3	2.1	0.6	4.3	0.6	4.3	0.1	1.3	0.8
76,276	75,129	79,242	82,573	85,895	90,582	90,603	91,025	91,620	90,496
-3.6	-1.5	5.5	4.2	4	5.5	0	0.5	0.7	-1.2
217,343	231,185	233,724	239,878	244,140	249,178	258,664	257,782	262,271	259,895
-2.2	6.4	1.1	2.6	1.8	2.1	3.8	-0.3	1.7	-0.9
155,779	167,362	168,143	173,152	176,904	181,034	189,367	186,828	190,112	187,785
-2.7	7.4	0.5	3	2.2	2.3	4.6	-1.3	1.8	-1.2

62,299	63,803	66,044	66,901	67,074	67,721	68,193	70,787	71,999	72,265
-0.6	2.4	3.5	1.3	0.3	1	0.7	3.8	1.7	0.4

1998 III	1998 IV	1999 I	1999 II	1999 III	1999 IV	2000 I	2000 II	2000 III	2000 IV
84.1	84.2	84.5	85.1	85.9	85.8	86.4	87.4	88.6	88.6
0.2	0.1	0.4	0.7	0.9	-0.1	0.7	1.1	1.4	0.1
86.6	87.1	87.1	87.9	88.3	88.5	89.1	89.6	90.2	91.2
0.6	0.5	0.1	0.9	0.5	0.2	0.6	0.6	0.8	1.1
102.2	102.4	102.5	103.5	104	103.7	103.3	102.7	102.3	102.9
-0.5	0.2	0.1	1	0.5	-0.3	-0.4	-0.6	-0.4	0.6
106.6	107.5	108.5	109.5	109.5	107.1	108.7	107.8	109	109.5
0.8	0.9	0.9	0.9	0	-2.2	1.5	-0.8	1.1	0.5
73.9	74.6	74.6	75.9	76.4	77.2	78.2	79.1	80.4	81.9
0.2	1	0	1.8	0.7	0.9	1.4	1.1	1.7	1.8
86.3	86.7	86.7	87.1	87.5	87.8	88.3	89	89.5	90.3
1	0.4	0	0.5	0.5	0.3	0.5	0.8	0.6	0.8
81.2	80.8	79.1	77.5	76.6	76	76.1	76.2	76.4	76.2
0.8	-0.5	-2.1	-1.9	-1.2	-0.8	0.1	0.2	0.2	-0.2
78	78.4	78.3	78.6	79	78.6	79.2	83.2	84	82.7
1.2	0.5	-0.1	0.5	0.5	-0.5	0.8	5.1	0.9	-1.6
88.8	91.7	90.3	89.6	87.1	86.5	87.9	88.9	89.2	90.4
1.2	3.2	-1.6	-0.7	-2.8	-0.7	1.6	1.1	0.4	1.4
89.8	92.3	90.6	90.8	88.4	87.8	88.7	89.9	90	91.1
0.7	2.8	-1.8	0.2	-2.7	-0.7	1.1	1.3	0.2	1.2
68.1	68.1	68.3	69.8	70.2	70.1	71.1	71.8	71.4	72.4
0.6	-0.1	0.4	2.2	0.5	-0.1	1.4	1	-0.5	1.4

71.3	72	73	73.7	73.8	73.9	75.5	77.5	78.5	80.5
-0.8	1	1.3	1	0.2	0.1	2.3	2.6	1.3	2.6
139.7	135.4	136	131.7	129.8	127.5	127.1	127.1	126.1	126.5
1.1	-3.1	0.5	-3.2	-1.5	-1.7	-0.4	0	-0.7	0.2
85.1	82.6	87.3	85.6	86	87.6	91	90.6	88.9	86.8
-0.3	-2.9	5.7	-1.9	0.4	1.8	4	-0.5	-1.8	-2.4
89.8	93.7	89.6	86.2	83.8	81	83.1	86.2	88.5	91.4
2	4.3	-4.3	-3.8	-2.7	-3.4	2.6	3.7	2.6	3.3
82.2	81.4	82.3	82.9	84.3	85.6	86.1	85.1	85.1	85.6
-2.4	-0.9	1	0.8	1.6	1.5	0.7	-1.2	0	0.6
100.2	101.4	99.8	98.5	99	98.5	99.2	100.3	100.7	102.2
1.4	1.1	-1.6	-1.3	0.5	-0.4	0.7	1.1	0.3	1.5
103.1	104	102.3	100.9	102.4	102.4	102.4	104.1	104.9	107.7
2.9	0.9	-1.7	-1.4	1.5	0	0	1.6	0.8	2.7
84.9	86.6	86.2	85.8	85.9	85.1	85.9	86.9	87.7	88.1
0.1	2	-0.5	-0.4	0.1	-0.9	0.9	1.1	1	0.4
0.6	8.1	-2	-1.8	0.4	-3.4	3.8	4.6	4	1.7
85.3	85.4	85.6	85.9	86.2	86.1	86.7	87.9	88.5	89
0.7	0.1	0.2	0.4	0.4	-0.2	0.7	1.4	0.7	0.6

1998 III	1998 IV	1999 I	1999 II	1999 III	1999 IV	2000 I	2000 II	2000 III	2000 IV
129,615	132,027	135,851	138,783	142,973	144,538	146,939	149,269	150,700	150,840
0.9	1.9	2.9	2.2	3	1.1	1.7	1.6	1	0.1
12,736	12,579	13,259	13,262	13,227	13,584	13,538	13,723	13,635	13,570
4.2	-1.2	5.4	0	-0.3	2.7	-0.3	1.4	-0.6	-0.5
4,200	4,294	4,403	4,441	4,491	4,406	4,289	4,347	4,193	4,127
7.2	2.2	2.6	0.9	1.1	-1.9	-2.7	1.4	-3.5	-1.6
8,539	8,291	8,860	8,819	8,728	9,171	9,253	9,384	9,463	9,472
2.8	-2.9	6.9	-0.5	-1	5.1	0.9	1.4	0.8	0.1
10,457	9,948	10,217	10,254	10,650	10,778	10,608	10,629	10,300	10,245
1.3	-4.9	2.7	0.4	3.9	1.2	-1.6	0.2	-3.1	-0.5
7,618	6,863	7,163	7,423	7,830	8,099	7,760	7,594	7,261	7,136
-4.1	-9.9	4.4	3.6	5.5	3.4	-4.2	-2.1	-4.4	-1.7
2,814	2,999	3,006	2,832	2,861	2,764	2,935	3,131	3,154	3,247
15.9	6.6	0.2	-5.8	1	-3.4	6.2	6.7	0.7	3
22,233	22,513	23,931	24,869	25,864	26,487	26,257	25,793	26,017	26,410
1.6	1.3	6.3	3.9	4	2.4	-0.9	-1.8	0.9	1.5
8,281	8,537	8,977	9,369	9,674	9,888	9,936	9,988	10,094	10,269
2.5	3.1	5.2	4.4	3.3	2.2	0.5	0.5	1.1	1.7

14,263	14,271	15,291	15,870	16,595	17,034	16,663	16,047	16,083	16,223
0.9	0.1	7.1	3.8	4.6	2.6	-2.2	-3.7	0.2	0.9
82,710	83,948	89,550	90,549	92,428	91,849	97,445	98,952	99,532	98,441
-1.6	1.5	6.7	1.1	2.1	-0.6	6.1	1.5	0.6	-1.1
12,284	12,144	12,007	11,926	12,061	12,126	12,057	12,153	12,061	12,332
0.6	-1.1	-1.1	-0.7	1.1	0.5	-0.6	0.8	-0.8	2.3
2,284	2,304	2,267	2,148	2,069	2,125	2,288	2,488	2,606	2,781
2.6	0.9	-1.6	-5.3	-3.6	2.7	7.6	8.8	4.7	6.8
4,142	4,183	4,167	4,226	4,402	4,322	4,557	5,082	5,253	5,310
-1.5	1	-0.4	1.4	4.2	-1.8	5.4	11.5	3.4	1.1
5,930	5,975	5,981	5,954	6,032	6,126	6,330	6,786	7,093	7,484
-5.4	0.8	0.1	-0.4	1.3	1.6	3.3	7.2	4.5	5.5
8,702	8,469	8,625	8,825	9,068	9,289	8,851	8,762	8,926	8,983
1.3	-2.7	1.8	2.3	2.8	2.4	-4.7	-1	1.9	0.6
4,275	4,460	4,514	4,756	4,775	4,927	5,251	5,206	5,641	5,836
1.5	4.3	1.2	5.4	0.4	3.2	6.6	-0.9	8.4	3.5
12,334	11,827	12,389	12,794	12,940	13,426	14,147	14,424	14,637	14,749
-0.3	-4.1	4.8	3.3	1.1	3.8	5.4	2	1.5	0.8
6,476	6,694	6,415	6,551	6,584	6,522	7,191	7,818	7,759	7,746
-2.3	3.4	-4.2	2.1	0.5	-0.9	10.3	8.7	-0.8	-0.2
6,561	6,652	7,033	7,484	8,231	8,404	8,652	9,434	9,973	9,878
0.2	1.4	5.7	6.4	10	2.1	3	9	5.7	-1
17,779	20,208	20,978	21,678	22,981	22,551	22,831	22,128	21,342	19,806
1.2	13.7	3.8	3.3	6	-1.9	1.2	-3.1	-3.6	-7.2
14,467	17,378	18,057	18,432	19,539	19,154	19,661	19,112	19,131	18,100
-0.2	20.1	3.9	2.1	6	-2	2.7	-2.8	0.1	-5.4
5,136	4,812	4,906	5,230	5,481	5,322	4,914	4,498	3,415	2,575
2.7	-6.3	2	6.6	4.8	-2.9	-7.7	-8.5	-24.1	-24.6
3,647	3,835	3,772	3,750	3,713	3,520	3,702	3,921	4,345	4,564
3.1	5.2	-1.6	-0.6	-1	-5.2	5.2	5.9	10.8	5
295,223	295,643	303,553	312,208	318,606	325,506	325,506	331,321	337,115	340,586
0.6	0.1	2.7	2.9	2	2.2	0	1.8	1.7	1

22,370	23,033	23,863	24,431	25,021	25,696	25,628	26,551	27,098	27,347
1.6	3	3.6	2.4	2.4	2.7	-0.3	3.6	2.1	0.9
19,918	19,971	20,393	20,525	21,152	20,973	21,454	22,019	22,725	22,833
-0.1	0.3	2.1	0.6	3.1	-0.8	2.3	2.6	3.2	0.5
15,791	16,803	16,713	17,327	18,086	18,592	18,130	18,260	18,543	18,033
-2.2	6.4	-0.5	3.7	4.4	2.8	-2.5	0.7	1.6	-2.8
12,280	12,794	13,638	14,116	14,820	15,177	15,318	15,553	15,889	16,287
5.6	4.2	6.6	3.5	5	2.4	0.9	1.5	2.2	2.5
35,649	35,747	35,972	36,273	36,821	37,604	38,474	39,344	40,093	40,647
0.6	0.3	0.6	0.8	1.5	2.1	2.3	2.3	1.9	1.4
50,687	51,362	52,500	53,365	54,169	54,900	55,363	55,859	56,385	56,900
1.6	1.3	2.2	1.6	1.5	1.3	0.8	0.9	0.9	0.9
34,207	35,389	36,725	37,940	38,866	40,260	41,231	42,622	44,219	45,587
4	3.5	3.8	3.3	2.4	3.6	2.4	3.4	3.7	3.1
2,473	2,496	2,524	2,564	2,620	2,693	2,782	2,883	2,994	3,111
0.8	0.9	1.1	1.6	2.2	2.8	3.3	3.6	3.8	3.9
25,023	25,189	24,979	24,974	24,966	24,910	24,426	24,840	25,096	25,163
-0.5	0.7	-0.8	0	0	-0.2	-1.9	1.7	1	0.3
28,008	28,051	28,577	29,049	29,281	29,753	29,819	30,097	30,433	30,641
0.2	0.2	1.9	1.7	0.8	1.6	0.2	0.9	1.1	0.7
3,578	3,552	3,589	3,743	3,820	3,949	3,946	3,883	4,020	4,122
1.1	-0.7	1.1	4.3	2.1	3.4	-0.1	-1.6	3.5	2.5
9,108	9,141	9,721	10,071	10,267	10,457	10,168	10,259	10,341	10,219
2.2	0.4	6.3	3.6	1.9	1.8	-2.8	0.9	0.8	-1.2
7,830	8,067	8,278	8,451	8,551	8,741	8,798	8,881	9,012	9,227
3.4	3	2.6	2.1	1.2	2.2	0.7	0.9	1.5	2.4
29,432	29,346	29,526	29,847	29,510	30,101	30,139	30,437	30,449	30,696
-0.3	-0.3	0.6	1.1	-1.1	2	0.1	1	0	0.8
425,166	427,892	439,754	451,341	461,983	470,560	472,888	481,014	488,191	491,671
0.7	0.6	2.8	2.6	2.4	1.9	0.5	1.7	1.5	0.7
3	2.6	11.6	11	9.8	7.6	2	7.1	6.1	2.9

2001 I	2001 II	2001 III	2001 IV	2002 I	2002 II	2002 III	2002 IV	2003 I	2003 II
245,780	245,429	244,916	245,135	248,385	251,166	254,876	259,349	260,875	261,165
0.5	-0.1	-0.2	0.1	1.3	1.1	1.5	1.8	0.6	0.1
105,918	111,187	108,151	108,236	112,380	120,413	125,565	127,369	127,420	124,895
2.4	5	-2.7	0.1	3.8	7.1	4.3	1.4	0	-2
52,171	56,966	53,357	53,062	56,909	64,613	69,651	71,478	71,342	68,746
3.3	9.2	-6.3	-0.6	7.3	13.5	7.8	2.6	-0.2	-3.6
42,312	42,648	43,147	43,441	43,653	43,838	43,778	43,527	43,611	43,604
1.6	0.8	1.2	0.7	0.5	0.4	-0.1	-0.6	0.2	0
11,435	11,573	11,647	11,733	11,818	11,962	12,136	12,364	12,467	12,546
1	1.2	0.6	0.7	0.7	1.2	1.4	1.9	0.8	0.6
56,001	55,806	55,982	56,199	57,402	58,389	59,214	60,438	60,157	60,248
1.1	-0.3	0.3	0.4	2.1	1.7	1.4	2.1	-0.5	0.2
43,261	43,090	43,143	43,161	44,139	44,895	45,477	46,546	46,614	46,517
0.5	-0.4	0.1	0	2.3	1.7	1.3	2.4	0.1	-0.2
12,741	12,716	12,840	13,039	13,264	13,494	13,736	13,890	13,541	13,731
3.5	-0.2	1	1.6	1.7	1.7	1.8	1.1	-2.5	1.4
59,011	59,344	60,065	60,900	59,923	61,848	62,340	63,373	60,055	59,565
2	0.6	1.2	1.4	-1.6	3.2	0.8	1.7	-5.2	-0.8
-2,059	-1,829	1,516	492	1,054	-1,162	-1,144	-1,964	2,123	-896
464,651	469,937	470,630	470,962	479,145	490,654	500,852	508,565	510,630	504,978
0.8	1.1	0.1	0.1	1.7	2.4	2.1	1.5	0.4	-1.1
3.1	4.6	0.6	0.3	7.1	10	8.6	6.3	1.6	-4.4

2001 I	2001 II	2001 III	2001 IV	2002 I	2002 II	2002 III	2002 IV	2003 I	2003 II
328,290	333,400	336,395	340,682	344,014	350,765	357,893	365,616	368,173	368,895
0.8	1.6	0.9	1.3	1	2	2	2.2	0.7	0.2
243,030	246,497	247,695	250,802	254,935	259,205	263,262	268,002	270,798	271,201
0.8	1.4	0.5	1.3	1.6	1.7	1.6	1.8	1	0.1
33,861	33,538	33,159	35,362	36,108	36,592	37,054	38,070	37,835	37,928
2.7	-1	-1.1	6.6	2.1	1.3	1.3	2.7	-0.6	0.2
20,871	21,128	20,596	21,002	21,703	21,792	21,778	22,031	22,232	22,313
-0.4	1.2	-2.5	2	3.3	0.4	-0.1	1.2	0.9	0.4
56,444	58,765	59,060	58,539	59,596	59,768	61,638	63,105	65,292	64,082
-0.3	4.1	0.5	-0.9	1.8	0.3	3.1	2.4	3.5	-1.9
131,854	133,068	134,880	135,898	137,527	141,054	142,792	144,796	145,438	146,877
0.9	0.9	1.4	0.8	1.2	2.6	1.2	1.4	0.4	1
6,130	6,279	6,412	6,479	6,643	6,876	7,084	7,285	7,249	7,092
1.9	2.4	2.1	1.1	2.5	3.5	3	2.8	-0.5	-2.2
79,131	80,624	82,288	83,401	82,437	84,684	87,546	90,329	90,126	90,602
0.9	1.9	2.1	1.4	-1.2	2.7	3.4	3.2	-0.2	0.5
86,674	87,456	86,542	86,688	87,464	88,900	90,397	91,579	92,251	92,197
3.4	0.9	-1	0.2	0.9	1.6	1.7	1.3	0.7	-0.1
72,402	73,055	72,111	71,705	72,419	73,616	74,649	75,537	75,001	74,968
3.1	0.9	-1.3	-0.6	1	1.7	1.4	1.2	-0.7	0
23,683	23,689	24,564	26,160	26,823	27,935	28,607	29,420	28,561	29,090
2.6	0	3.7	6.5	2.5	4.1	2.4	2.8	-2.9	1.9
10,249	10,829	11,044	11,055	11,193	11,273	11,327	11,386	11,573	11,340
7.4	5.7	2	0.1	1.3	0.7	0.5	0.5	1.6	-2
28,809	28,705	27,292	25,822	25,612	25,514	25,369	24,912	24,893	24,623

0.6	-0.4	-4.9	-5.4	-0.8	-0.4	-0.6	-1.8	-0.1	-1.1
9,660	9,832	9,211	8,669	8,790	8,894	9,345	9,819	9,974	9,914
8	1.8	-6.3	-5.9	1.4	1.2	5.1	5.1	1.6	-0.6
493	496	509	531	570	580	579	571	564	550
0.7	0.7	2.6	4.3	7.5	1.8	-0.2	-1.4	-1.1	-2.5
13,780	13,905	13,922	14,453	14,475	14,704	15,169	15,472	16,686	16,679
4.7	0.9	0.1	3.8	0.1	1.6	3.2	2	7.8	0
320,292	318,985	308,441	304,398	314,569	319,406	327,544	322,397	316,787	304,474
-1.7	-0.4	-3.3	-1.3	3.3	1.5	2.5	-1.6	-1.7	-3.9
271,888	271,534	259,092	257,230	263,912	272,787	276,671	276,790	273,317	265,492
-2.9	-0.1	-4.6	-0.7	2.6	3.4	1.4	0	-1.3	-2.9
1,538	29	-1,220	-4,554	-4,289	2,183	1,375	6,327	8,141	3,669
1,511	154	-1,078	-4,527	-4,475	1,892	1,645	5,670	8,452	3,966
-1	-151	-167	-53	187	292	-269	658	-333	-313
-256	1,601	-436	978	1,299	2,188	315	-566	-1,404	1,234
464,651	469,937	470,630	470,962	479,145	490,654	500,852	508,565	510,630	504,978
0.8	1.1	0.1	0.1	1.7	2.4	2.1	1.5	0.4	-1.1
3.1	4.6	0.6	0.3	7.1	10	8.6	6.3	1.6	-4.4
414,965	420,856	422,937	427,370	431,478	439,665	448,289	457,196	460,424	461,092
1.3	1.4	0.5	1	1	1.9	2	2	0.7	0.1

2001 I	2001 II	2001 III	2001 IV	2002 I	2002 II	2002 III	2002 IV	2003 I	2003 II
370,373	372,276	373,889	377,630	378,417	385,353	389,853	396,793	397,354	398,719

0.8	0.5	0.4	1	0.2	1.8	1.2	1.8	0.1	0.3
266,141	267,579	268,294	271,802	275,541	277,810	279,467	284,155	285,054	287,104
0.6	0.5	0.3	1.3	1.4	0.8	0.6	1.7	0.3	0.7
33,183	32,689	32,025	34,159	35,108	35,355	35,629	36,979	36,618	36,672
3.5	-1.5	-2	6.7	2.8	0.7	0.8	3.8	-1	0.1
18,886	19,371	18,969	19,273	20,161	19,989	19,814	20,384	20,687	20,928
-1.2	2.6	-2.1	1.6	4.6	-0.9	-0.9	2.9	1.5	1.2
68,584	69,206	69,947	70,195	71,184	70,393	70,884	72,371	72,911	73,011
-0.8	0.9	1.1	0.4	1.4	-1.1	0.7	2.1	0.7	0.1
145,715	146,595	148,062	148,479	149,142	152,149	153,329	154,515	154,851	156,551
0.7	0.6	1	0.3	0.4	2	0.8	0.8	0.2	1.1
7,804	7,930	8,053	8,173	8,365	8,705	8,780	8,875	8,508	8,232
-1.1	1.6	1.5	1.5	2.3	4.1	0.9	1.1	-4.1	-3.2
95,202	97,217	97,954	98,564	96,576	98,905	100,720	102,928	103,316	103,356
0.4	2.1	0.8	0.6	-2	2.4	1.8	2.2	0.4	0
95,426	96,231	96,394	93,829	86,785	93,008	100,141	105,711	103,239	100,792
2.9	0.8	0.2	-2.7	-7.5	7.2	7.7	5.6	-2.3	-2.4
78,618	79,532	79,627	76,359	69,340	75,564	82,288	88,005	84,767	81,668
2.1	1.2	0.1	-4.1	-9.2	9	8.9	6.9	-3.7	-3.7
32,475	31,949	33,160	34,980	34,651	36,098	37,078	37,813	35,718	36,265
1.8	-1.6	3.8	5.5	-0.9	4.2	2.7	2	-5.5	1.5
12,880	13,532	13,900	13,883	13,889	13,945	13,884	13,874	13,872	13,631
8.7	5.1	2.7	-0.1	0	0.4	-0.4	-0.1	0	-1.7
22,644	22,301	21,225	20,186	19,849	19,790	20,149	19,976	20,246	20,778
0	-1.5	-4.8	-4.9	-1.7	-0.3	1.8	-0.9	1.4	2.6
10,933	10,753	9,543	8,983	9,014	9,276	9,868	10,334	10,498	10,359
6	-1.6	-11.3	-5.9	0.3	2.9	6.4	4.7	1.6	-1.3
544	550	572	590	670	636	621	597	602	594
1.6	1.2	3.9	3.2	13.5	-5.1	-2.4	-3.8	0.7	-1.3
16,110	16,150	16,175	16,725	16,424	16,826	17,071	17,399	18,143	18,674
4.7	0.3	0.2	3.4	-1.8	2.4	1.5	1.9	4.3	2.9

312,137	309,508	301,985	300,154	306,575	311,194	317,659	309,831	307,805	308,964
-2.1	-0.8	-2.4	-0.6	2.1	1.5	2.1	-2.5	-0.7	0.4
252,173	251,763	243,065	243,115	246,448	255,600	256,584	254,047	253,119	259,866
-3	-0.2	-3.5	0	1.4	3.7	0.4	-1	-0.4	2.7
-91	453	-1,398	-3,272	-2,790	1,095	2,378	5,678	3,925	3,464
-317	339	-1,051	-2,875	-2,673	881	2,632	4,864	3,957	3,560
226	114	-347	-397	-117	214	-254	813	-33	-96
-294	1,802	-504	1,063	1,393	2,381	340	-613	-1,505	1,330
524,211	528,143	527,194	533,268	540,389	541,997	550,028	551,782	554,816	552,364
0.2	0.8	-0.2	1.2	1.3	0.3	1.5	0.3	0.5	-0.4
0.6	3	-0.7	4.7	5.4	1.2	6.1	1.3	2.2	-1.8
465,394	468,656	469,112	472,962	479,605	482,447	484,651	489,309	491,327	496,853
1.2	0.7	0.1	0.8	1.4	0.6	0.5	1	0.4	1.1

2001 I	2001 II	2001 III	2001 IV	2002 I	2002 II	2002 III	2002 IV	2003 I	2003 II
241,622	242,204	242,626	243,767	246,272	248,236	251,127	254,769	256,627	257,340
0.9	0.2	0.2	0.5	1	0.8	1.2	1.5	0.7	0.3
43,261	43,090	43,143	43,161	44,139	44,895	45,477	46,546	46,614	46,517
0.5	-0.4	0.1	0	2.3	1.7	1.3	2.4	0.1	-0.2
20,274	20,019	20,046	20,025	20,440	20,839	21,080	21,701	22,053	22,058
0.5	-1.3	0.1	-0.1	2.1	1.9	1.2	2.9	1.6	0
630	636	659	614	688	650	685	712	584	512
7.6	1.1	3.6	-6.8	12	-5.5	5.4	3.9	-18	-12.3

22,357	22,434	22,436	22,520	23,010	23,407	23,712	24,135	23,978	23,947
0.2	0.3	0	0.4	2.2	1.7	1.3	1.8	-0.6	-0.1
29,367	30,180	29,674	30,383	29,406	27,630	27,277	26,951	26,227	26,617
-2.8	2.8	-1.7	2.4	-3.2	-6	-1.3	-1.2	-2.7	1.5
314,251	315,475	315,443	317,311	319,817	320,761	323,881	328,265	329,468	330,473
0.4	0.4	0	0.6	0.8	0.3	1	1.4	0.4	0.3
54,510	53,652	54,238	53,636	53,808	54,061	54,738	55,546	56,616	56,418
9.3	-1.6	1.1	-1.1	0.3	0.5	1.3	1.5	1.9	-0.3
115,092	121,023	116,857	116,132	114,387	115,397	115,616	119,249	116,942	118,171
-0.3	5.2	-3.4	-0.6	-1.5	0.9	0.2	3.1	-1.9	1.1
253,669	248,104	252,824	254,815	259,238	259,425	263,003	264,563	269,143	268,720
2.6	-2.2	1.9	0.8	1.7	0.1	1.4	0.6	1.7	-0.2
243,030	246,497	247,695	250,802	254,935	259,205	263,262	268,002	270,798	271,201
0.8	1.4	0.5	1.3	1.6	1.7	1.6	1.8	1	0.1
10,991	9,981	9,412	10,376	11,216	9,518	9,100	10,133	9,004	13,123
-23.4	-9.2	-5.7	10.2	8.1	-15.1	-4.4	11.4	-11.1	45.7
21,630	11,588	14,541	14,389	15,519	9,738	8,841	6,694	7,348	10,642
6	-46.4	25.5	-1	7.9	-37.3	-9.2	-24.3	9.8	44.8
8.5	4.7	5.8	5.6	6	3.8	3.4	2.5	2.7	4
11,772	11,827	11,897	11,962	11,981	12,031	12,093	12,145	12,156	12,195
0.2	0.5	0.6	0.5	0.2	0.4	0.5	0.4	0.1	0.3
21,549	20,977	21,250	21,302	21,637	21,564	21,748	21,783	22,140	22,035
2.4	-2.7	1.3	0.2	1.6	-0.3	0.9	0.2	1.6	-0.5

2001 I	2001 II	2001 III	2001 IV	2002 I	2002 II	2002 III	2002 IV	2003 I	2003 II

320,292	318,985	308,441	304,398	314,569	319,406	327,544	322,397	316,787	304,474
-1.7	-0.4	-3.3	-1.3	3.3	1.5	2.5	-1.6	-1.7	-3.9
236,035	234,125	223,371	219,265	227,924	231,174	238,413	232,178	226,249	213,911
-2.7	-0.8	-4.6	-1.8	3.9	1.4	3.1	-2.6	-2.6	-5.5
84,256	84,861	85,071	85,132	86,645	88,232	89,132	90,219	90,539	90,562
1.2	0.7	0.2	0.1	1.8	1.8	1	1.2	0.4	0
271,888	271,534	259,092	257,230	263,912	272,787	276,671	276,790	273,317	265,492
-2.9	-0.1	-4.6	-0.7	2.6	3.4	1.4	0	-1.3	-2.9
211,575	210,693	199,643	198,933	203,684	211,339	214,125	213,588	209,049	200,706
-3.5	-0.4	-5.2	-0.4	2.4	3.8	1.3	-0.3	-2.1	-4
60,313	60,841	59,449	58,297	60,228	61,448	62,547	63,202	64,268	64,786
-0.7	0.9	-2.3	-1.9	3.3	2	1.8	1	1.7	0.8
48,403	47,451	49,350	47,168	50,657	46,619	50,873	45,607	43,470	38,982

2001 I	2001 II	2001 III	2001 IV	2002 I	2002 II	2002 III	2002 IV	2003 I	2003 II
312,137	309,508	301,985	300,154	306,575	311,194	317,659	309,831	307,805	308,964
-2.1	-0.8	-2.4	-0.6	2.1	1.5	2.1	-2.5	-0.7	0.4
219,503	216,645	209,098	206,493	212,024	215,346	221,235	213,339	211,696	210,531
-3.3	-1.3	-3.5	-1.2	2.7	1.6	2.7	-3.6	-0.8	-0.5
91,845	92,190	92,555	93,509	94,246	95,546	95,888	96,452	96,004	98,595
1.5	0.4	0.4	1	0.8	1.4	0.4	0.6	-0.5	2.7
252,173	251,763	243,065	243,115	246,448	255,600	256,584	254,047	253,119	259,866
-3	-0.2	-3.5	0	1.4	3.7	0.4	-1	-0.4	2.7
181,119	180,121	171,982	170,445	172,854	181,826	182,400	180,892	181,269	184,426
-3.5	-0.6	-4.5	-0.9	1.4	5.2	0.3	-0.8	0.2	1.7

71,598	72,403	72,604	74,860	75,824	74,937	75,469	74,350	72,584	76,876
-0.9	1.1	0.3	3.1	1.3	-1.2	0.7	-1.5	-2.4	5.9

2001 I	2001 II	2001 III	2001 IV	2002 I	2002 II	2002 III	2002 IV	2003 I	2003 II
88.6	89.6	90	90.2	90.9	91	91.8	92.1	92.7	92.5
0	1	0.5	0.3	0.8	0.1	0.9	0.4	0.6	-0.1
91.3	92.1	92.3	92.3	92.5	93.3	94.2	94.3	95	94.5
0.1	0.9	0.2	-0.1	0.3	0.8	1	0.1	0.7	-0.6
102	102.6	103.5	103.5	102.8	103.5	104	102.9	103.3	103.4
-0.9	0.5	0.9	0	-0.7	0.6	0.5	-1	0.4	0.1
110.5	109.1	108.6	109	107.6	109	109.9	108.1	107.5	106.6
0.9	-1.3	-0.5	0.4	-1.2	1.3	0.8	-1.7	-0.6	-0.8
82.3	84.9	84.4	83.4	83.7	84.9	87	87.2	89.6	87.8
0.5	3.2	-0.6	-1.2	0.4	1.4	2.4	0.3	2.7	-2
90.5	90.8	91.1	91.5	92.2	92.7	93.1	93.7	93.9	93.8
0.2	0.3	0.4	0.5	0.7	0.5	0.5	0.6	0.2	-0.1
78.5	79.2	79.6	79.3	79.4	79	80.7	82.1	85.2	86.2
3.1	0.8	0.6	-0.4	0.2	-0.5	2.2	1.7	3.8	1.1
83.1	82.9	84	84.6	85.4	85.6	86.9	87.8	87.2	87.7
0.5	-0.2	1.3	0.7	0.9	0.3	1.5	1	-0.6	0.5
90.8	90.9	89.8	92.4	100.8	95.6	90.3	86.6	89.4	91.5
0.4	0.1	-1.2	2.9	9.1	-5.2	-5.6	-4	3.1	2.4
92.1	91.9	90.6	93.9	104.4	97.4	90.7	85.8	88.5	91.8
1	-0.3	-1.4	3.7	11.2	-6.7	-6.9	-5.4	3.1	3.7
72.9	74.1	74.1	74.8	77.4	77.4	77.2	77.8	80	80.2
0.7	1.7	-0.1	1	3.5	0	-0.3	0.8	2.8	0.3

79.6	80	79.5	79.6	80.6	80.8	81.6	82.1	83.4	83.2
-1.2	0.6	-0.7	0.2	1.2	0.3	0.9	0.6	1.7	-0.3
127.2	128.7	128.6	127.9	129	128.9	125.9	124.7	123	118.5
0.6	1.2	-0.1	-0.5	0.9	-0.1	-2.3	-1	-1.4	-3.6
88.4	91.4	96.5	96.5	97.5	95.9	94.7	95	95	95.7
1.8	3.5	5.6	0	1.1	-1.7	-1.2	0.3	0	0.7
90.6	90.1	89	89.9	85.1	91.3	93.2	95.5	93.8	92.7
-0.9	-0.5	-1.3	1	-5.3	7.2	2.2	2.5	-1.8	-1.2
85.5	86.1	86.1	86.4	88.1	87.4	88.9	88.9	92	89.3
-0.1	0.7	0	0.4	2	-0.8	1.7	0.1	3.4	-2.9
102.6	103.1	102.1	101.4	102.6	102.6	103.1	104.1	102.9	98.6
0.4	0.4	-0.9	-0.7	1.2	0	0.5	0.9	-1.1	-4.2
107.8	107.9	106.6	105.8	107.1	106.7	107.8	109	108	102.2
0.1	0	-1.2	-0.8	1.2	-0.3	1	1.1	-0.9	-5.4
88.6	89	89.3	88.3	88.7	90.5	91.1	92.2	92	91.4
0.6	0.4	0.3	-1.1	0.4	2.1	0.6	1.2	-0.1	-0.7
2.5	1.5	1.3	-4.2	1.6	8.7	2.4	5	-0.6	-2.6
89.2	89.8	90.2	90.4	90	91.1	92.5	93.4	93.7	92.8
0.2	0.7	0.4	0.2	-0.4	1.3	1.5	1	0.3	-1

2001 I	2001 II	2001 III	2001 IV	2002 I	2002 II	2002 III	2002 IV	2003 I	2003 II
147,684	147,881	144,054	142,992	147,365	149,173	150,147	150,289	150,460	149,095
-2.1	0.1	-2.6	-0.7	3.1	1.2	0.7	0.1	0.1	-0.9
13,664	13,595	13,506	13,695	13,172	12,860	12,566	12,520	12,676	12,311
0.7	-0.5	-0.7	1.4	-3.8	-2.4	-2.3	-0.4	1.2	-2.9
4,081	4,074	3,961	3,936	3,840	3,964	4,087	4,252	4,164	4,111
-1.1	-0.2	-2.8	-0.6	-2.4	3.2	3.1	4	-2.1	-1.3
9,606	9,536	9,555	9,764	9,344	8,909	8,492	8,281	8,531	8,217
1.4	-0.7	0.2	2.2	-4.3	-4.7	-4.7	-2.5	3	-3.7
10,050	10,296	10,052	10,293	10,278	10,618	10,407	10,730	11,235	10,391
-1.9	2.4	-2.4	2.4	-0.1	3.3	-2	3.1	4.7	-7.5
7,118	7,499	7,442	7,741	7,661	7,741	7,657	7,691	7,970	7,547
-0.3	5.4	-0.8	4	-1	1	-1.1	0.5	3.6	-5.3
3,044	2,898	2,683	2,606	2,687	2,950	2,859	3,146	3,351	2,928
-6.3	-4.8	-7.4	-2.9	3.1	9.8	-3.1	10	6.5	-12.6
27,252	28,156	28,721	29,047	29,396	29,588	29,832	30,153	30,353	30,621
3.2	3.3	2	1.1	1.2	0.7	0.8	1.1	0.7	0.9
10,554	10,856	11,153	11,431	11,640	11,825	11,989	12,130	12,272	12,388
2.8	2.9	2.7	2.5	1.8	1.6	1.4	1.2	1.2	0.9

16,899	17,622	18,005	18,166	18,271	18,239	18,283	18,429	18,474	18,614
4.2	4.3	2.2	0.9	0.6	-0.2	0.2	0.8	0.2	0.8
96,808	95,919	91,852	90,007	95,666	96,496	96,544	95,299	95,820	95,538
-1.7	-0.9	-4.2	-2	6.3	0.9	0.1	-1.3	0.5	-0.3
12,494	12,394	12,251	12,151	12,158	11,943	11,879	11,705	11,877	11,699
1.3	-0.8	-1.2	-0.8	0.1	-1.8	-0.5	-1.5	1.5	-1.5
2,566	2,425	2,210	2,105	2,256	2,161	2,115	1,990	1,829	1,890
-7.8	-5.5	-8.9	-4.7	7.2	-4.2	-2.2	-5.9	-8.1	3.3
5,303	5,197	5,029	5,054	5,408	5,207	5,258	5,002	4,836	4,891
-0.1	-2	-3.2	0.5	7	-3.7	1	-4.9	-3.3	1.1
7,392	7,128	7,229	7,200	7,257	7,287	7,091	6,896	6,953	6,934
-1.2	-3.6	1.4	-0.4	0.8	0.4	-2.7	-2.7	0.8	-0.3
9,083	9,692	9,774	10,287	10,256	10,376	10,472	10,503	10,247	10,486
1.1	6.7	0.9	5.2	-0.3	1.2	0.9	0.3	-2.4	2.3
5,715	5,403	4,984	4,756	5,322	5,632	5,705	5,766	5,816	5,448
-2.1	-5.5	-7.7	-4.6	11.9	5.8	1.3	1.1	0.9	-6.3
14,134	14,201	14,023	13,862	14,708	15,262	15,243	15,294	15,359	15,204
-4.2	0.5	-1.3	-1.2	6.1	3.8	-0.1	0.3	0.4	-1
7,471	7,251	6,877	6,586	6,809	7,082	7,096	7,427	6,962	6,879
-3.5	-2.9	-5.2	-4.2	3.4	4	0.2	4.7	-6.3	-1.2
8,495	7,943	6,873	6,143	6,732	6,955	6,737	7,061	6,932	6,691
-14	-6.5	-13.5	-10.6	9.6	3.3	-3.1	4.8	-1.8	-3.5
18,964	19,923	19,275	19,142	19,993	20,148	20,668	19,722	20,322	20,674
-4.3	5.1	-3.3	-0.7	4.4	0.8	2.6	-4.6	3	1.7
16,891	17,668	17,126	16,829	17,672	18,191	18,789	18,145	18,449	18,479
-6.7	4.6	-3.1	-1.7	5	2.9	3.3	-3.4	1.7	0.2
2,792	2,899	2,647	2,690	2,618	2,158	1,993	1,577	1,996	2,441
8.4	3.8	-8.7	1.6	-2.7	-17.6	-7.6	-20.9	26.6	22.3
4,596	4,382	4,048	4,112	4,316	4,352	4,547	4,595	4,386	4,560
0.7	-4.7	-7.6	1.6	5	0.8	4.5	1.1	-4.6	4
342,827	344,317	344,602	348,747	349,118	351,504	356,360	360,064	362,692	362,769
0.7	0.4	0.1	1.2	0.1	0.7	1.4	1	0.7	0

26,916	27,237	27,010	26,482	27,148	27,727	27,863	28,553	29,253	29,095
-1.6	1.2	-0.8	-2	2.5	2.1	0.5	2.5	2.4	-0.5
23,039	23,140	23,036	23,901	24,647	24,594	24,849	25,493	25,872	25,891
0.9	0.4	-0.4	3.8	3.1	-0.2	1	2.6	1.5	0.1
18,424	18,625	18,960	19,403	19,106	18,909	18,586	18,205	18,396	18,256
2.2	1.1	1.8	2.3	-1.5	-1	-1.7	-2	1	-0.8
16,528	17,009	17,384	17,963	17,832	17,573	17,389	17,167	17,510	17,674
1.5	2.9	2.2	3.3	-0.7	-1.5	-1	-1.3	2	0.9
41,136	41,404	41,533	41,548	40,491	40,914	42,152	42,480	41,741	42,229
1.2	0.7	0.3	0	-2.5	1	3	0.8	-1.7	1.2
57,844	58,569	59,241	59,827	60,276	61,073	60,433	61,809	61,593	61,258
1.7	1.3	1.1	1	0.7	1.3	-1	2.3	-0.4	-0.5
45,123	44,858	43,895	42,792	43,855	44,768	46,288	47,451	47,741	47,511
-1	-0.6	-2.1	-2.5	2.5	2.1	3.4	2.5	0.6	-0.5
3,227	3,337	3,437	3,524	3,595	3,650	3,689	3,712	3,722	3,722
3.7	3.4	3	2.5	2	1.5	1.1	0.6	0.3	0
25,177	25,056	25,083	24,935	25,119	25,418	25,925	26,013	26,007	26,063
0.1	-0.5	0.1	-0.6	0.7	1.2	2	0.3	0	0.2
30,459	30,485	30,628	30,705	31,002	31,015	31,239	31,090	31,662	31,831
-0.6	0.1	0.5	0.3	1	0	0.7	-0.5	1.8	0.5
4,200	4,195	4,228	4,304	4,235	4,408	4,212	4,103	4,185	4,237
1.9	-0.1	0.8	1.8	-1.6	4.1	-4.5	-2.6	2	1.2
10,513	10,524	10,116	10,211	10,476	10,612	10,705	10,740	10,367	9,589
2.9	0.1	-3.9	0.9	2.6	1.3	0.9	0.3	-3.5	-7.5
9,371	9,497	9,479	9,397	9,542	9,683	9,986	10,094	10,089	9,974
1.6	1.3	-0.2	-0.9	1.5	1.5	3.1	1.1	0	-1.1
30,848	31,174	31,183	31,193	31,213	30,843	32,631	32,960	33,355	33,308
0.5	1.1	0	0	0.1	-1.2	5.8	1	1.2	-0.1
490,678	492,085	488,317	491,160	496,302	500,353	506,800	510,583	513,358	511,890
-0.2	0.3	-0.8	0.6	1	0.8	1.3	0.7	0.5	-0.3
-0.8	1.2	-3	2.3	4.3	3.3	5.3	3	2.2	-1.1

2003 III	2003 IV	2004 I	2004 II	2004 III	2004 IV	2005 I	2005 II	2005 III	2005 IV
264,813	266,407	271,062	275,813	279,354	281,452	283,833	287,585	291,841	295,173
1.4	0.6	1.7	1.8	1.3	0.8	0.8	1.3	1.5	1.1
124,568	122,524	124,066	129,038	130,366	130,067	129,768	132,214	138,252	140,286
-0.3	-1.6	1.3	4	1	-0.2	-0.2	1.9	4.6	1.5
68,048	65,621	66,761	71,324	72,336	71,495	70,680	72,854	77,819	78,436
-1	-3.6	1.7	6.8	1.4	-1.2	-1.1	3.1	6.8	0.8
43,962	44,319	44,424	44,532	44,477	44,648	45,049	45,230	46,175	47,526
0.8	0.8	0.2	0.2	-0.1	0.4	0.9	0.4	2.1	2.9
12,558	12,585	12,882	13,182	13,553	13,924	14,039	14,131	14,258	14,324
0.1	0.2	2.4	2.3	2.8	2.7	0.8	0.7	0.9	0.5
60,554	60,649	61,302	62,365	63,147	63,746	63,574	64,215	64,859	65,020
0.5	0.2	1.1	1.7	1.3	0.9	-0.3	1	1	0.2
46,719	46,694	47,400	48,232	48,743	49,156	49,222	49,448	49,811	49,804
0.4	-0.1	1.5	1.8	1.1	0.8	0.1	0.5	0.7	0
13,835	13,957	13,903	14,133	14,404	14,588	14,351	14,766	15,047	15,215
0.8	0.9	-0.4	1.7	1.9	1.3	-1.6	2.9	1.9	1.1
62,374	63,509	64,969	65,526	65,826	66,074	66,765	68,263	68,836	69,916
4.7	1.8	2.3	0.9	0.5	0.4	1	2.2	0.8	1.6
-2,219	-900	-2,298	-2,162	836	2,788	1,983	-760	-2,342	-2,853
510,091	512,190	519,101	530,581	539,528	544,126	545,923	551,518	561,445	567,542
1	0.4	1.3	2.2	1.7	0.9	0.3	1	1.8	1.1
4.1	1.7	5.5	9.1	6.9	3.5	1.3	4.2	7.4	4.4

2003 III	2003 IV	2004 I	2004 II	2004 III	2004 IV	2005 I	2005 II	2005 III	2005 IV
375,584	374,968	381,927	385,887	391,033	396,390	401,913	407,545	411,669	417,817
1.8	-0.2	1.9	1	1.3	1.4	1.4	1.4	1	1.5
275,002	274,351	279,458	282,077	285,660	289,737	293,585	297,183	301,059	306,266
1.4	-0.2	1.9	0.9	1.3	1.4	1.3	1.2	1.3	1.7
38,778	36,430	37,097	37,048	37,759	38,900	39,090	38,539	39,439	40,392
2.2	-6.1	1.8	-0.1	1.9	3	0.5	-1.4	2.3	2.4
22,598	22,136	22,651	22,755	23,113	23,097	22,930	23,374	23,109	24,164
1.3	-2	2.3	0.5	1.6	-0.1	-0.7	1.9	-1.1	4.6
65,306	66,068	67,327	67,961	68,774	70,006	71,078	72,246	73,711	74,734
1.9	1.2	1.9	0.9	1.2	1.8	1.5	1.6	2	1.4
148,320	149,717	152,383	154,313	156,014	157,735	160,487	163,025	164,801	166,976
1	0.9	1.8	1.3	1.1	1.1	1.7	1.6	1.1	1.3
7,032	7,112	7,173	7,416	7,524	7,695	7,783	8,056	8,260	8,446
-0.9	1.1	0.9	3.4	1.5	2.3	1.1	3.5	2.5	2.2
93,550	93,506	95,295	96,394	97,849	98,958	100,546	102,307	102,350	103,106
3.3	0	1.9	1.2	1.5	1.1	1.6	1.8	0	0.7
94,832	97,224	97,231	100,152	103,428	104,845	105,916	107,754	109,684	110,234
2.9	2.5	0	3	3.3	1.4	1	1.7	1.8	0.5
77,456	79,772	79,842	82,262	84,905	85,443	86,405	87,646	89,402	89,715
3.3	3	0.1	3	3.2	0.6	1.1	1.4	2	0.3
30,385	32,156	31,642	32,937	34,782	34,739	34,900	35,518	36,064	35,594
4.4	5.8	-1.6	4.1	5.6	-0.1	0.5	1.8	1.5	-1.3
11,310	11,269	11,584	11,891	12,167	12,418	12,753	12,597	12,540	12,889
-0.3	-0.4	2.8	2.6	2.3	2.1	2.7	-1.2	-0.5	2.8
25,560	26,256	26,001	26,230	26,131	25,954	26,636	27,373	28,588	29,272

3.8	2.7	-1	0.9	-0.4	-0.7	2.6	2.8	4.4	2.4
10,201	10,091	10,614	11,204	11,825	12,332	12,115	12,158	12,210	11,960
2.9	-1.1	5.2	5.6	5.5	4.3	-1.8	0.4	0.4	-2.1
509	436	320	285	329	466	659	796	864	888
-7.6	-14.2	-26.8	-10.8	15.6	41.5	41.5	20.8	8.5	2.8
16,867	17,016	17,070	17,605	18,193	18,935	18,852	19,312	19,417	19,631
1.1	0.9	0.3	3.1	3.3	4.1	-0.4	2.4	0.5	1.1
305,254	309,917	315,251	332,157	329,498	320,946	321,842	326,476	331,634	338,572
0.3	1.5	1.7	5.4	-0.8	-2.6	0.3	1.4	1.6	2.1
263,227	270,609	274,517	285,137	289,936	286,235	288,728	294,937	296,253	301,166
-0.9	2.8	1.4	3.9	1.7	-1.3	0.9	2.2	0.4	1.7
-4,330	600	-1,968	-4,129	5,805	9,863	6,021	3,723	2,635	97
-4,450	328	-2,036	-4,265	5,635	9,542	5,821	3,640	2,817	219
99	255	57	127	158	306	184	65	-192	-137
1,977	88	1,177	1,650	-301	-1,682	-1,042	957	2,077	1,988
510,091	512,190	519,101	530,581	539,528	544,126	545,923	551,518	561,445	567,542
1	0.4	1.3	2.2	1.7	0.9	0.3	1	1.8	1.1
4.1	1.7	5.5	9.1	6.9	3.5	1.3	4.2	7.4	4.4
470,416	472,192	479,158	486,039	494,461	501,234	507,829	515,299	521,353	528,051
2	0.4	1.5	1.4	1.7	1.4	1.3	1.5	1.2	1.3

2003 III	2003 IV	2004 I	2004 II	2004 III	2004 IV	2005 I	2005 II	2005 III	2005 IV
399,424	399,459	404,873	407,635	412,794	416,286	419,819	422,188	423,965	427,001

0.2	0	1.4	0.7	1.3	0.8	0.8	0.6	0.4	0.7
288,986	288,617	292,201	292,708	296,651	299,648	302,508	304,778	306,846	311,092
0.7	-0.1	1.2	0.2	1.3	1	1	0.8	0.7	1.4
37,611	35,370	36,233	35,930	36,871	37,926	38,162	37,842	38,549	39,523
2.6	-6	2.4	-0.8	2.6	2.9	0.6	-0.8	1.9	2.5
21,174	20,603	21,075	21,290	21,871	21,813	21,973	22,404	22,173	23,146
1.2	-2.7	2.3	1	2.7	-0.3	0.7	2	-1	4.4
72,619	74,307	74,635	74,278	74,540	74,671	74,755	75,506	76,004	77,083
-0.5	2.3	0.4	-0.5	0.4	0.2	0.1	1	0.7	1.4
157,461	158,786	160,572	161,462	163,427	165,147	167,551	169,116	170,272	171,445
0.6	0.8	1.1	0.6	1.2	1.1	1.5	0.9	0.7	0.7
8,007	7,832	7,887	7,980	8,139	8,310	8,417	8,634	8,822	9,043
-2.7	-2.2	0.7	1.2	2	2.1	1.3	2.6	2.2	2.5
102,518	103,658	105,630	107,352	107,830	107,628	107,804	108,281	108,297	108,486
-0.8	1.1	1.9	1.6	0.4	-0.2	0.2	0.4	0	0.2
99,898	99,231	102,361	105,114	107,574	111,064	111,351	112,584	113,890	114,187
-0.9	-0.7	3.2	2.7	2.3	3.2	0.3	1.1	1.2	0.3
80,436	78,922	82,088	84,968	87,900	91,136	90,818	91,155	91,869	91,870
-1.5	-1.9	4	3.5	3.5	3.7	-0.3	0.4	0.8	0
36,625	38,943	37,091	37,877	40,177	39,851	39,900	39,684	39,456	38,524
1	6.3	-4.8	2.1	6.1	-0.8	0.1	-0.5	-0.6	-2.4
13,381	13,176	13,256	13,347	13,399	13,422	13,812	13,603	13,450	13,683
-1.8	-1.5	0.6	0.7	0.4	0.2	2.9	-1.5	-1.1	1.7
21,751	22,601	22,692	22,665	23,198	23,865	24,511	25,100	26,718	27,674
4.7	3.9	0.4	-0.1	2.4	2.9	2.7	2.4	6.4	3.6
10,204	10,367	10,908	11,584	11,994	12,554	12,334	12,613	12,684	12,337
-1.5	1.6	5.2	6.2	3.5	4.7	-1.8	2.3	0.6	-2.7
552	469	344	304	349	492	698	842	929	951
-7.1	-15	-26.6	-11.8	14.9	41.1	42	20.5	10.3	2.3
18,996	19,359	19,249	19,321	19,660	20,257	20,385	20,732	20,775	20,976
1.7	1.9	-0.6	0.4	1.8	3	0.6	1.7	0.2	1

310,371	320,560	321,171	330,477	329,765	329,010	328,315	330,553	338,423	342,484
0.5	3.3	0.2	2.9	-0.2	-0.2	-0.2	0.7	2.4	1.2
259,533	273,305	273,295	275,675	282,685	286,930	283,993	284,475	290,176	295,132
-0.1	5.3	0	0.9	2.5	1.5	-1	0.2	2	1.7
-2,031	-417	-1,776	-3,914	6,039	10,440	4,392	2,194	1,917	804
-1,926	-556	-2,076	-4,151	5,604	9,739	3,635	1,755	2,221	1,593
-106	139	301	237	434	701	757	440	-304	-789
2,115	35	1,194	1,710	-332	-1,765	-1,090	993	2,167	2,067
549,853	551,722	555,089	565,349	574,059	576,459	579,448	583,962	588,161	592,429
-0.5	0.3	0.6	1.8	1.5	0.4	0.5	0.8	0.7	0.7
-1.8	1.4	2.5	7.6	6.3	1.7	2.1	3.2	2.9	2.9
501,524	508,415	510,894	512,961	519,821	524,052	529,790	533,331	537,961	543,918
0.9	1.4	0.5	0.4	1.3	0.8	1.1	0.7	0.9	1.1

2003 III	2003 IV	2004 I	2004 II	2004 III	2004 IV	2005 I	2005 II	2005 III	2005 IV
261,359	263,339	267,610	271,939	275,063	276,747	279,168	282,966	287,243	290,619
1.6	0.8	1.6	1.6	1.1	0.6	0.9	1.4	1.5	1.2
46,719	46,694	47,400	48,232	48,743	49,156	49,222	49,448	49,811	49,804
0.4	-0.1	1.5	1.8	1.1	0.8	0.1	0.5	0.7	0
22,339	22,507	23,020	23,569	23,852	24,060	24,233	24,362	24,590	24,763
1.3	0.8	2.3	2.4	1.2	0.9	0.7	0.5	0.9	0.7
500	611	578	650	680	648	717	636	567	525
-2.4	22.3	-5.5	12.4	4.6	-4.6	10.6	-11.3	-10.9	-7.4

23,880	23,575	23,802	24,014	24,211	24,449	24,273	24,451	24,655	24,517
-0.3	-1.3	1	0.9	0.8	1	-0.7	0.7	0.8	-0.6
26,763	26,774	27,617	27,299	28,131	28,329	29,354	30,485	30,654	30,955
0.5	0	3.1	-1.2	3	0.7	3.6	3.9	0.6	1
334,840	336,807	342,628	347,470	351,937	354,233	357,744	362,899	367,707	371,377
1.3	0.6	1.7	1.4	1.3	0.7	1	1.4	1.3	1
56,731	57,730	59,060	59,672	60,084	61,188	60,493	61,920	62,078	62,941
0.6	1.8	2.3	1	0.7	1.8	-1.1	2.4	0.3	1.4
121,207	122,504	126,464	125,913	129,091	132,020	134,017	138,075	140,740	140,701
2.6	1.1	3.2	-0.4	2.5	2.3	1.5	3	1.9	0
270,364	272,033	275,224	281,229	282,931	283,401	284,221	286,744	289,046	293,618
0.6	0.6	1.2	2.2	0.6	0.2	0.3	0.9	0.8	1.6
275,002	274,351	279,458	282,077	285,660	289,737	293,585	297,183	301,059	306,266
1.4	-0.2	1.9	0.9	1.3	1.4	1.3	1.2	1.3	1.7
11,495	10,918	12,142	12,253	11,495	13,130	13,032	13,507	16,950	15,167
-12.4	-5	11.2	0.9	-6.2	14.2	-0.7	3.6	25.5	-10.5
6,857	8,600	7,908	11,405	8,765	6,794	3,668	3,068	4,937	2,519
-35.6	25.4	-8	44.2	-23.1	-22.5	-46	-16.4	60.9	-49
2.5	3.2	2.9	4.1	3.1	2.4	1.3	1.1	1.7	0.9
12,244	12,290	12,304	12,341	12,390	12,436	12,446	12,478	12,528	12,578
0.4	0.4	0.1	0.3	0.4	0.4	0.1	0.3	0.4	0.4
22,082	22,134	22,368	22,789	22,835	22,788	22,837	22,981	23,072	23,344
0.2	0.2	1.1	1.9	0.2	-0.2	0.2	0.6	0.4	1.2

2003 III	2003 IV	2004 I	2004 II	2004 III	2004 IV	2005 I	2005 II	2005 III	2005 IV

305,254	309,917	315,251	332,157	329,498	320,946	321,842	326,476	331,634	338,572
0.3	1.5	1.7	5.4	-0.8	-2.6	0.3	1.4	1.6	2.1
213,521	217,384	220,974	236,750	232,913	223,380	223,537	227,521	232,391	239,207
-0.2	1.8	1.7	7.1	-1.6	-4.1	0.1	1.8	2.1	2.9
91,733	92,533	94,276	95,408	96,585	97,566	98,306	98,955	99,243	99,365
1.3	0.9	1.9	1.2	1.2	1	0.8	0.7	0.3	0.1
263,227	270,609	274,517	285,137	289,936	286,235	288,728	294,937	296,253	301,166
-0.9	2.8	1.4	3.9	1.7	-1.3	0.9	2.2	0.4	1.7
197,328	202,729	206,667	216,785	220,756	217,148	218,613	223,661	223,454	227,051
-1.7	2.7	1.9	4.9	1.8	-1.6	0.7	2.3	-0.1	1.6
65,899	67,880	67,849	68,353	69,180	69,086	70,114	71,276	72,799	74,114
1.7	3	0	0.7	1.2	-0.1	1.5	1.7	2.1	1.8
42,028	39,308	40,734	47,020	39,563	34,711	33,115	31,539	35,381	37,406

2003 III	2003 IV	2004 I	2004 II	2004 III	2004 IV	2005 I	2005 II	2005 III	2005 IV
310,371	320,560	321,171	330,477	329,765	329,010	328,315	330,553	338,423	342,484
0.5	3.3	0.2	2.9	-0.2	-0.2	-0.2	0.7	2.4	1.2
210,997	219,992	220,069	229,467	227,467	224,744	224,503	226,745	234,741	238,935
0.2	4.3	0	4.3	-0.9	-1.2	-0.1	1	3.5	1.8
99,597	100,481	101,142	100,603	102,143	104,467	103,959	103,875	103,409	103,101
1	0.9	0.7	-0.5	1.5	2.3	-0.5	-0.1	-0.4	-0.3
259,533	273,305	273,295	275,675	282,685	286,930	283,993	284,475	290,176	295,132
-0.1	5.3	0	0.9	2.5	1.5	-1	0.2	2	1.7
183,247	194,009	196,320	199,960	206,422	210,241	207,925	209,176	216,037	220,390
-0.6	5.9	1.2	1.9	3.2	1.8	-1.1	0.6	3.3	2

78,114	80,841	77,875	76,157	76,441	76,855	76,249	75,546	73,744	74,485
1.6	3.5	-3.7	-2.2	0.4	0.5	-0.8	-0.9	-2.4	1

2003 III	2003 IV	2004 I	2004 II	2004 III	2004 IV	2005 I	2005 II	2005 III	2005 IV
94	93.9	94.3	94.7	94.7	95.2	95.7	96.5	97.1	97.8
1.6	-0.2	0.5	0.4	0.1	0.5	0.5	0.8	0.6	0.8
95.2	95.1	95.6	96.4	96.3	96.7	97.1	97.5	98.1	98.4
0.7	-0.1	0.6	0.8	-0.1	0.4	0.4	0.5	0.6	0.3
103.1	103	102.4	103.1	102.4	102.6	102.4	101.8	102.3	102.2
-0.3	-0.1	-0.6	0.7	-0.7	0.2	-0.1	-0.6	0.5	-0.1
106.7	107.4	107.5	106.9	105.7	105.9	104.4	104.3	104.2	104.4
0.1	0.7	0	-0.6	-1.1	0.2	-1.4	0	-0.1	0.2
89.9	88.9	90.2	91.5	92.3	93.8	95.1	95.7	97	97
2.5	-1.1	1.5	1.4	0.8	1.6	1.4	0.6	1.4	0
94.2	94.3	94.9	95.6	95.5	95.5	95.8	96.4	96.8	97.4
0.4	0.1	0.6	0.7	-0.1	0	0.3	0.6	0.4	0.6
87.8	90.8	91	92.9	92.4	92.6	92.5	93.3	93.6	93.4
1.9	3.4	0.2	2.2	-0.5	0.2	-0.1	0.9	0.4	-0.3
91.3	90.2	90.2	89.8	90.7	91.9	93.3	94.5	94.5	95
4.1	-1.1	0	-0.5	1.1	1.3	1.4	1.3	0	0.6
94.9	98	95	95.3	96.1	94.4	95.1	95.7	96.3	96.5
3.8	3.2	-3.1	0.3	0.9	-1.8	0.8	0.6	0.6	0.2
96.3	101.1	97.3	96.8	96.6	93.8	95.1	96.2	97.3	97.7
4.9	5	-3.8	-0.5	-0.2	-2.9	1.5	1.1	1.2	0.3
83	82.6	85.3	87	86.6	87.2	87.5	89.5	91.4	92.4
3.4	-0.5	3.3	1.9	-0.4	0.7	0.3	2.3	2.1	1.1

84.5	85.5	87.4	89.1	90.8	92.5	92.3	92.6	93.2	94.2
1.6	1.2	2.2	1.9	1.9	1.9	-0.2	0.3	0.7	1
117.5	116.2	114.6	115.7	112.6	108.8	108.7	109.1	107	105.8
-0.8	-1.1	-1.4	1	-2.7	-3.4	-0.1	0.4	-1.9	-1.1
100	97.3	97.3	96.7	98.6	98.2	98.2	96.4	96.3	96.9
4.4	-2.6	0	-0.6	1.9	-0.4	0	-1.9	-0.1	0.7
92.2	93.1	92.9	93.9	94.5	94.7	94.4	94.6	93	93.4
-0.5	0.9	-0.2	1.1	0.6	0.3	-0.4	0.2	-1.7	0.5
88.8	87.9	88.7	91.1	92.5	93.5	92.5	93.1	93.5	93.6
-0.6	-1	0.9	2.7	1.6	1	-1.1	0.7	0.3	0.1
98.4	96.7	98.2	100.5	99.9	97.6	98	98.8	98	98.8
-0.2	-1.7	1.5	2.4	-0.6	-2.4	0.5	0.7	-0.8	0.9
101.4	99	100.4	103.4	102.6	99.8	101.7	103.7	102.1	102
-0.7	-2.4	1.5	3	-0.8	-2.7	1.9	2	-1.5	-0.1
92.8	92.8	93.5	93.9	94	94.4	94.2	94.4	95.5	95.8
1.5	0.1	0.7	0.4	0.1	0.4	-0.2	0.2	1.1	0.4
6	0.3	3	1.4	0.6	1.7	-0.7	1	4.4	1.4
93.8	92.9	93.8	94.8	95.1	95.6	95.9	96.6	96.9	97.1
1.1	-1	1	1	0.4	0.6	0.2	0.8	0.3	0.2

2003 III	2003 IV	2004 I	2004 II	2004 III	2004 IV	2005 I	2005 II	2005 III	2005 IV
148,649	152,079	150,557	151,519	152,548	150,768	151,834	152,420	153,898	153,921
-0.3	2.3	-1	0.6	0.7	-1.2	0.7	0.4	1	0
12,501	13,315	13,128	13,238	13,063	12,845	13,167	13,703	13,870	13,549
1.5	6.5	-1.4	0.8	-1.3	-1.7	2.5	4.1	1.2	-2.3
4,011	4,111	4,143	4,227	4,167	4,411	4,400	4,527	4,531	4,386
-2.4	2.5	0.8	2	-1.4	5.8	-0.2	2.9	0.1	-3.2
8,514	9,234	9,015	9,044	8,931	8,461	8,795	9,203	9,365	9,186
3.6	8.5	-2.4	0.3	-1.2	-5.3	3.9	4.6	1.8	-1.9
10,215	9,940	10,352	10,298	10,836	11,526	11,341	10,991	11,189	11,111
-1.7	-2.7	4.1	-0.5	5.2	6.4	-1.6	-3.1	1.8	-0.7
7,606	7,520	7,753	7,607	8,015	8,604	8,495	8,258	8,412	8,452
0.8	-1.1	3.1	-1.9	5.4	7.3	-1.3	-2.8	1.9	0.5
2,700	2,507	2,669	2,736	2,861	2,967	2,881	2,758	2,791	2,673
-7.8	-7.1	6.5	2.5	4.6	3.7	-2.9	-4.3	1.2	-4.2
30,877	30,982	31,123	31,208	31,136	31,218	31,378	31,691	31,956	32,238
0.8	0.3	0.5	0.3	-0.2	0.3	0.5	1	0.8	0.9
12,482	12,558	12,614	12,680	12,770	12,877	12,982	13,046	13,046	12,982
0.8	0.6	0.4	0.5	0.7	0.8	0.8	0.5	0	-0.5

18,766	18,780	18,863	18,878	18,708	18,678	18,677	18,874	19,088	19,385
0.8	0.1	0.4	0.1	-0.9	-0.2	0	1.1	1.1	1.6
94,990	97,845	96,647	96,962	97,132	94,472	96,104	96,120	96,938	97,056
-0.6	3	-1.2	0.3	0.2	-2.7	1.7	0	0.9	0.1
11,697	11,978	11,912	12,128	12,216	12,006	12,202	12,614	12,880	12,682
0	2.4	-0.6	1.8	0.7	-1.7	1.6	3.4	2.1	-1.5
1,934	2,146	2,020	1,883	1,716	1,595	1,714	1,669	1,735	1,786
2.3	11	-5.9	-6.8	-8.9	-7.1	7.5	-2.6	4	2.9
4,761	4,848	4,870	4,874	4,960	5,215	5,074	4,832	4,587	4,375
-2.7	1.8	0.5	0.1	1.8	5.2	-2.7	-4.8	-5.1	-4.6
6,959	7,172	6,951	6,935	7,017	6,842	6,940	7,031	7,181	7,103
0.4	3.1	-3.1	-0.2	1.2	-2.5	1.4	1.3	2.1	-1.1
10,527	10,976	10,542	10,001	9,908	9,229	8,957	8,949	8,790	8,594
0.4	4.3	-4	-5.1	-0.9	-6.9	-2.9	-0.1	-1.8	-2.2
5,469	5,679	5,559	5,611	5,503	5,470	5,461	5,517	5,615	5,882
0.4	3.8	-2.1	0.9	-1.9	-0.6	-0.2	1	1.8	4.8
14,609	15,649	14,636	14,959	14,954	14,441	14,805	15,009	14,744	15,098
-3.9	7.1	-6.5	2.2	0	-3.4	2.5	1.4	-1.8	2.4
6,850	7,041	6,815	6,901	6,995	6,808	6,810	6,735	6,411	6,539
-0.4	2.8	-3.2	1.3	1.4	-2.7	0	-1.1	-4.8	2
6,252	6,033	6,418	6,960	7,718	8,160	8,060	7,693	7,139	6,891
-6.6	-3.5	6.4	8.4	10.9	5.7	-1.2	-4.5	-7.2	-3.5
21,321	21,838	21,874	21,796	21,748	20,634	21,233	21,576	23,248	23,778
3.1	2.4	0.2	-0.4	-0.2	-5.1	2.9	1.6	7.7	2.3
19,017	19,294	19,488	19,460	19,623	18,656	19,092	19,182	20,273	20,904
2.9	1.5	1	-0.1	0.8	-4.9	2.3	0.5	5.7	3.1
2,671	3,036	2,734	2,539	2,181	1,867	2,136	2,496	3,180	3,180
9.4	13.7	-9.9	-7.1	-14.1	-14.4	14.4	16.9	27.4	0
4,549	4,526	4,495	4,715	4,558	4,624	4,695	4,503	4,775	4,650
-0.2	-0.5	-0.7	4.9	-3.3	1.4	1.5	-4.1	6	-2.6
360,879	361,787	367,823	373,421	377,162	379,104	381,461	385,064	389,039	391,999
-0.5	0.3	1.7	1.5	1	0.5	0.6	0.9	1	0.8

28,752	29,898	29,453	30,193	30,146	30,169	30,637	31,756	32,418	33,371
-1.2	4	-1.5	2.5	-0.2	0.1	1.5	3.7	2.1	2.9
26,080	25,761	26,272	26,382	27,085	27,536	27,571	27,489	27,238	27,096
0.7	-1.2	2	0.4	2.7	1.7	0.1	-0.3	-0.9	-0.5
18,354	18,694	18,945	19,197	19,405	19,577	19,769	20,010	20,461	20,532
0.5	1.9	1.3	1.3	1.1	0.9	1	1.2	2.3	0.4
17,585	17,662	18,338	19,197	19,657	20,223	20,070	20,014	20,178	19,834
-0.5	0.4	3.8	4.7	2.4	2.9	-0.8	-0.3	0.8	-1.7
42,457	42,619	43,316	44,125	44,320	44,824	44,740	45,117	45,637	46,502
0.5	0.4	1.6	1.9	0.4	1.1	-0.2	0.8	1.2	1.9
61,850	63,142	62,866	63,264	63,777	64,224	65,413	65,573	66,477	66,417
1	2.1	-0.4	0.6	0.8	0.7	1.9	0.2	1.4	-0.1
46,925	46,372	47,247	48,288	48,756	49,258	49,137	49,984	50,365	50,486
-1.2	-1.2	1.9	2.2	1	1	-0.2	1.7	0.8	0.2
3,715	3,704	3,694	3,688	3,692	3,705	3,724	3,747	3,771	3,797
-0.2	-0.3	-0.3	-0.1	0.1	0.4	0.5	0.6	0.6	0.7
26,078	26,508	26,962	27,629	27,035	26,941	27,814	28,404	28,873	29,283
0.1	1.6	1.7	2.5	-2.1	-0.3	3.2	2.1	1.7	1.4
32,399	32,874	32,884	33,036	33,438	33,376	33,348	33,666	34,135	34,350
1.8	1.5	0	0.5	1.2	-0.2	-0.1	1	1.4	0.6
4,259	4,403	4,415	4,430	4,444	4,428	4,381	4,423	4,481	4,590
0.5	3.4	0.3	0.4	0.3	-0.4	-1	0.9	1.3	2.4
9,562	9,702	9,827	9,887	10,091	10,252	10,154	10,070	9,946	9,915
-0.3	1.5	1.3	0.6	2.1	1.6	-1	-0.8	-1.2	-0.3
9,883	10,034	10,219	10,300	10,295	10,481	10,506	10,485	10,497	10,439
-0.9	1.5	1.9	0.8	0	1.8	0.2	-0.2	0.1	-0.6
32,902	33,392	33,869	33,643	34,068	33,560	33,776	33,967	34,258	35,132
-1.2	1.5	1.4	-0.7	1.3	-1.5	0.6	0.6	0.9	2.6
509,343	513,417	517,848	524,598	529,770	529,981	533,199	537,343	542,736	545,681
-0.5	0.8	0.9	1.3	1	0	0.6	0.8	1	0.5
-2	3.2	3.5	5.3	4	0.2	2.5	3.1	4.1	2.2

2006 I	2006 II	2006 III	2006 IV	2007 I	2007 II	2007 III	2007 IV	2008 I	2008 II
300,846	301,141	303,742	305,771	312,584	317,497	321,249	324,810	326,872	329,351
1.9	0.1	0.9	0.7	2.2	1.6	1.2	1.1	0.6	0.8
137,901	138,043	137,695	138,558	139,413	141,378	140,024	139,265	137,842	139,832
-1.7	0.1	-0.3	0.6	0.6	1.4	-1	-0.5	-1	1.4
75,528	74,820	73,541	73,183	75,039	75,636	72,415	69,938	68,107	69,303
-3.7	-0.9	-1.7	-0.5	2.5	0.8	-4.3	-3.4	-2.6	1.8
47,573	48,078	48,696	49,545	48,347	49,448	50,923	52,251	52,204	52,566
0.1	1.1	1.3	1.7	-2.4	2.3	3	2.6	-0.1	0.7
14,799	15,145	15,458	15,830	16,027	16,294	16,687	17,077	17,531	17,964
3.3	2.3	2.1	2.4	1.2	1.7	2.4	2.3	2.7	2.5
64,999	66,294	67,105	67,942	68,035	68,849	69,464	70,272	70,624	70,853
0	2	1.2	1.2	0.1	1.2	0.9	1.2	0.5	0.3
50,193	51,345	51,816	52,486	52,726	53,015	53,115	53,380	53,737	53,685
0.8	2.3	0.9	1.3	0.5	0.5	0.2	0.5	0.7	-0.1
14,805	14,949	15,289	15,457	15,309	15,834	16,349	16,892	16,887	17,167
-2.7	1	2.3	1.1	-1	3.4	3.3	3.3	0	1.7
71,417	71,693	69,787	70,031	70,515	72,839	74,048	75,146	72,651	73,247
2.1	0.4	-2.7	0.4	0.7	3.3	1.7	1.5	-3.3	0.8
-1,327	146	216	918	1,143	1,250	-475	-365	-366	735
573,836	577,317	578,544	583,220	591,690	601,812	604,309	609,129	607,623	614,017
1.1	0.6	0.2	0.8	1.5	1.7	0.4	0.8	-0.2	1.1
4.5	2.4	0.9	3.3	5.9	7	1.7	3.2	-1	4.3

2006 I	2006 II	2006 III	2006 IV	2007 I	2007 II	2007 III	2007 IV	2008 I	2008 II
422,630	428,505	432,536	439,013	445,514	449,201	449,372	456,069	463,951	472,517
1.2	1.4	0.9	1.5	1.5	0.8	0	1.5	1.7	1.8
308,818	311,604	313,401	316,233	326,442	327,844	326,920	331,643	335,656	340,124
0.8	0.9	0.6	0.9	3.2	0.4	-0.3	1.4	1.2	1.3
41,262	40,227	40,366	40,221	41,000	41,515	41,610	43,631	44,107	43,030
2.2	-2.5	0.3	-0.4	1.9	1.3	0.2	4.9	1.1	-2.4
24,101	24,343	24,375	24,797	25,497	25,202	24,838	25,391	25,427	25,934
-0.3	1	0.1	1.7	2.8	-1.2	-1.4	2.2	0.1	2
74,640	76,194	75,574	74,000	75,492	78,329	77,494	80,162	80,613	81,898
-0.1	2.1	-0.8	-2.1	2	3.8	-1.1	3.4	0.6	1.6
168,816	170,840	173,085	177,216	184,453	182,799	182,978	182,459	185,508	189,262
1.1	1.2	1.3	2.4	4.1	-0.9	0.1	-0.3	1.7	2
8,528	8,678	8,793	8,942	8,903	8,899	9,054	9,144	9,637	9,865
1	1.8	1.3	1.7	-0.4	0	1.7	1	5.4	2.4
105,284	108,223	110,343	113,838	110,169	112,459	113,398	115,283	118,658	122,528
2.1	2.8	2	3.2	-3.2	2.1	0.8	1.7	2.9	3.3
113,974	114,133	114,985	117,599	118,925	119,527	121,307	120,490	122,249	124,370
3.4	0.1	0.7	2.3	1.1	0.5	1.5	-0.7	1.5	1.7
92,721	92,450	93,094	95,383	96,709	96,994	98,168	96,233	97,515	99,459
3.3	-0.3	0.7	2.5	1.4	0.3	1.2	-2	1.3	2
37,765	37,087	36,856	37,556	39,303	39,693	41,001	42,902	41,351	41,844
6.1	-1.8	-0.6	1.9	4.7	1	3.3	4.6	-3.6	1.2
13,666	14,341	14,991	15,595	15,585	16,148	16,731	16,788	17,286	17,093
6	4.9	4.5	4	-0.1	3.6	3.6	0.3	3	-1.1
29,308	28,974	29,040	29,589	30,198	29,299	28,198	24,237	25,510	27,111

0.1	-1.1	0.2	1.9	2.1	-3	-3.8	-14	5.3	6.3
11,982	12,048	12,207	12,643	11,623	11,854	12,237	12,306	13,367	13,412
0.2	0.5	1.3	3.6	-8.1	2	3.2	0.6	8.6	0.3
940	934	892	834	625	606	652	769	981	1,098
5.8	-0.7	-4.4	-6.5	-25.1	-3.1	7.6	18	27.5	12
20,314	20,749	20,999	21,382	21,591	21,927	22,486	23,488	23,754	23,814
3.5	2.1	1.2	1.8	1	1.6	2.6	4.5	1.1	0.3
334,438	328,120	329,073	340,430	348,163	344,862	332,762	327,521	329,644	335,072
-1.2	-1.9	0.3	3.5	2.3	-0.9	-3.5	-1.6	0.6	1.6
299,685	299,953	304,003	314,552	320,339	309,698	309,239	305,641	310,974	324,737
-0.5	0.1	1.4	3.5	1.8	-3.3	-0.1	-1.2	1.7	4.4
1,468	7,129	5,916	1,110	760	-592	9,590	9,934	2,122	7,106
1,557	7,305	5,808	1,127	968	-428	9,707	10,038	2,169	7,134
-86	-168	115	-12	-216	-173	-130	-117	-58	-48
1,011	-619	36	-380	-1,332	-1,488	517	755	630	-311
573,836	577,317	578,544	583,220	591,690	601,812	604,309	609,129	607,623	614,017
1.1	0.6	0.2	0.8	1.5	1.7	0.4	0.8	-0.2	1.1
4.5	2.4	0.9	3.3	5.9	7	1.7	3.2	-1	4.3
536,604	542,638	547,521	556,612	564,438	568,728	570,678	576,559	586,200	596,887
1.6	1.1	0.9	1.7	1.4	0.8	0.3	1	1.7	1.8

2006 I	2006 II	2006 III	2006 IV	2007 I	2007 II	2007 III	2007 IV	2008 I	2008 II
432,331	436,257	440,053	443,678	439,710	446,004	452,692	461,751	465,012	467,339

1.2	0.9	0.9	0.8	-0.9	1.4	1.5	2	0.7	0.5
312,358	313,614	316,523	321,769	325,685	327,897	328,381	330,885	334,020	336,945
0.4	0.4	0.9	1.7	1.2	0.7	0.1	0.8	0.9	0.9
39,914	39,416	40,433	41,089	40,854	41,346	41,714	43,841	45,266	44,713
1	-1.2	2.6	1.6	-0.6	1.2	0.9	5.1	3.3	-1.2
23,577	23,911	24,259	24,577	24,926	24,932	25,295	25,776	25,961	26,697
1.9	1.4	1.5	1.3	1.4	0	1.5	1.9	0.7	2.8
75,357	76,161	76,347	75,927	76,127	77,957	77,912	79,480	79,367	79,049
-2.2	1.1	0.2	-0.6	0.3	2.4	-0.1	2	-0.1	-0.4
173,694	174,589	176,035	178,982	179,944	182,170	184,292	186,281	186,881	187,634
1.3	0.5	0.8	1.7	0.5	1.2	1.2	1.1	0.3	0.4
9,108	9,177	9,179	9,292	9,173	8,933	8,941	8,954	9,406	9,637
0.7	0.8	0	1.2	-1.3	-2.6	0.1	0.1	5.1	2.5
110,810	112,472	113,833	114,340	112,840	112,715	112,680	113,072	115,484	118,306
2.1	1.5	1.2	0.4	-1.3	-0.1	0	0.3	2.1	2.4
117,022	118,005	118,311	119,818	116,441	117,105	121,846	124,857	126,081	122,434
2.5	0.8	0.3	1.3	-2.8	0.6	4	2.5	1	-2.9
94,505	95,582	95,729	96,684	94,432	92,920	100,311	100,442	101,160	98,744
2.9	1.1	0.2	1	-2.3	-1.6	8	0.1	0.7	-2.4
40,634	39,539	39,117	39,633	40,509	40,177	40,640	41,574	40,119	40,616
5.5	-2.7	-1.1	1.3	2.2	-0.8	1.2	2.3	-3.5	1.2
14,380	15,025	15,549	16,074	16,035	16,159	16,338	16,720	16,804	15,913
5.1	4.5	3.5	3.4	-0.2	0.8	1.1	2.3	0.5	-5.3
27,759	28,099	28,275	28,735	29,541	28,752	28,338	25,301	27,309	27,728
0.3	1.2	0.6	1.6	2.8	-2.7	-1.4	-10.7	7.9	1.5
12,358	12,209	12,167	12,794	11,696	11,909	12,227	12,188	13,272	13,239
0.2	-1.2	-0.3	5.1	-8.6	1.8	2.7	-0.3	8.9	-0.2
987	965	914	845	635	610	650	758	912	1,028
3.9	-2.2	-5.3	-7.5	-24.9	-4	6.6	16.7	20.3	12.7
21,300	21,686	21,847	22,106	21,337	22,154	22,641	23,360	23,857	22,727
1.5	1.8	0.7	1.2	-3.5	3.8	2.2	3.2	2.1	-4.7

341,195	336,418	333,656	337,843	333,550	338,405	342,568	338,785	329,320	325,347
-0.4	-1.4	-0.8	1.3	-1.3	1.5	1.2	-1.1	-2.8	-1.2
298,219	298,840	300,226	301,775	307,116	302,126	312,286	323,385	317,802	312,086
1	0.2	0.5	0.5	1.8	-1.6	3.4	3.6	-1.7	-1.8
2,370	6,524	4,464	22	1,594	-1,004	7,758	11,300	7,304	5,769
2,627	6,767	4,510	60	1,791	-810	7,973	11,329	7,321	5,662
-257	-244	-45	-38	-198	-194	-215	-29	-18	107
1,005	-656	35	-408	-1,417	-1,510	554	871	640	-298
597,362	597,710	595,560	597,137	600,365	602,047	602,303	602,225	603,561	606,309
0.8	0.1	-0.4	0.3	0.5	0.3	0	0	0.2	0.5
3.4	0.2	-1.4	1.1	2.2	1.1	0.2	-0.1	0.9	1.8
550,366	553,133	557,000	564,957	564,631	565,368	571,944	578,461	586,621	588,225
1.2	0.5	0.7	1.4	-0.1	0.1	1.2	1.1	1.4	0.3

2006 I	2006 II	2006 III	2006 IV	2007 I	2007 II	2007 III	2007 IV	2008 I	2008 II
296,200	296,436	298,941	300,891	308,255	313,327	317,273	321,045	323,087	325,451
1.9	0.1	0.8	0.7	2.4	1.6	1.3	1.2	0.6	0.7
50,193	51,345	51,816	52,486	52,726	53,015	53,115	53,380	53,737	53,685
0.8	2.3	0.9	1.3	0.5	0.5	0.2	0.5	0.7	-0.1
25,085	25,457	25,669	25,961	26,311	26,820	26,996	26,913	26,907	26,649
1.3	1.5	0.8	1.1	1.3	1.9	0.7	-0.3	0	-1
407	425	488	537	379	398	404	383	458	519
-22.5	4.5	14.8	10	-29.4	5.1	1.4	-5	19.6	13.1

24,702	25,464	25,658	25,988	26,035	25,797	25,715	26,085	26,372	26,518
0.8	3.1	0.8	1.3	0.2	-0.9	-0.3	1.4	1.1	0.6
33,049	30,545	32,104	33,554	33,540	36,512	35,349	36,095	36,904	37,264
6.8	-7.6	5.1	4.5	0	8.9	-3.2	2.1	2.2	1
379,443	378,326	382,861	386,931	394,521	402,855	405,736	410,521	413,728	416,400
2.2	-0.3	1.2	1.1	2	2.1	0.7	1.2	0.8	0.6
68,166	65,609	67,676	68,138	72,036	73,649	76,738	77,660	78,667	75,964
8.3	-3.8	3.2	0.7	5.7	2.2	4.2	1.2	1.3	-3.4
140,551	141,757	143,884	144,617	153,172	160,766	157,307	157,799	159,454	158,286
-0.1	0.9	1.5	0.5	5.9	5	-2.2	0.3	1	-0.7
307,058	302,178	306,653	310,452	313,385	315,738	325,168	330,382	332,940	334,078
4.6	-1.6	1.5	1.2	0.9	0.8	3	1.6	0.8	0.3
308,818	311,604	313,401	316,233	326,442	327,844	326,920	331,643	335,656	340,124
0.8	0.9	0.6	0.9	3.2	0.4	-0.3	1.4	1.2	1.3
14,692	13,286	13,971	13,358	16,129	14,466	15,089	15,564	17,718	17,060
-3.1	-9.6	5.2	-4.4	20.7	-10.3	4.3	3.2	13.8	-3.7
12,932	3,860	7,223	7,577	3,072	2,360	13,336	14,303	15,002	11,014
413.3	-70.2	87.1	4.9	-59.5	-23.2	465.1	7.3	4.9	-26.6
4.2	1.3	2.4	2.4	1	0.7	4.1	4.3	4.5	3.3
12,587	12,619	12,662	12,700	12,702	12,726	12,764	12,807	12,814	12,840
0.1	0.2	0.3	0.3	0	0.2	0.3	0.3	0.1	0.2
24,394	23,947	24,219	24,444	24,672	24,810	25,475	25,798	25,983	26,019
4.5	-1.8	1.1	0.9	0.9	0.6	2.7	1.3	0.7	0.1

2006 I	2006 II	2006 III	2006 IV	2007 I	2007 II	2007 III	2007 IV	2008 I	2008 II

334,438	328,120	329,073	340,430	348,163	344,862	332,762	327,521	329,644	335,072
-1.2	-1.9	0.3	3.5	2.3	-0.9	-3.5	-1.6	0.6	1.6
232,768	224,350	223,621	233,501	241,727	236,270	223,170	217,385	217,727	222,034
-2.7	-3.6	-0.3	4.4	3.5	-2.3	-5.5	-2.6	0.2	2
101,670	103,770	105,451	106,929	106,436	108,592	109,592	110,136	111,917	113,038
2.3	2.1	1.6	1.4	-0.5	2	0.9	0.5	1.6	1
299,685	299,953	304,003	314,552	320,339	309,698	309,239	305,641	310,974	324,737
-0.5	0.1	1.4	3.5	1.8	-3.3	-0.1	-1.2	1.7	4.4
225,350	224,376	226,860	235,318	240,987	229,399	227,738	222,600	226,979	237,522
-0.7	-0.4	1.1	3.7	2.4	-4.8	-0.7	-2.3	2	4.6
74,335	75,577	77,142	79,234	79,352	80,298	81,501	83,041	83,995	87,215
0.3	1.7	2.1	2.7	0.1	1.2	1.5	1.9	1.1	3.8
34,753	28,167	25,070	25,878	27,824	35,165	23,523	21,880	18,670	10,335

2006 I	2006 II	2006 III	2006 IV	2007 I	2007 II	2007 III	2007 IV	2008 I	2008 II
341,195	336,418	333,656	337,843	333,550	338,405	342,568	338,785	329,320	325,347
-0.4	-1.4	-0.8	1.3	-1.3	1.5	1.2	-1.1	-2.8	-1.2
236,163	229,210	225,492	227,059	225,865	230,987	234,796	226,904	219,971	215,933
-1.2	-2.9	-1.6	0.7	-0.5	2.3	1.6	-3.4	-3.1	-1.8
106,157	108,738	108,474	107,791	105,635	109,176	109,746	110,199	109,343	109,370
3	2.4	-0.2	-0.6	-2	3.4	0.5	0.4	-0.8	0
298,219	298,840	300,226	301,775	307,116	302,126	312,286	323,385	317,802	312,086
1	0.2	0.5	0.5	1.8	-1.6	3.4	3.6	-1.7	-1.8
221,597	221,073	218,777	221,813	225,781	223,044	234,725	237,170	236,792	235,542
0.5	-0.2	-1	1.4	1.8	-1.2	5.2	1	-0.2	-0.5

75,491	76,645	78,929	84,791	83,069	80,708	77,310	83,105	79,478	76,470
1.4	1.5	3	7.4	-2	-2.8	-4.2	7.5	-4.4	-3.8

2006 I	2006 II	2006 III	2006 IV	2007 I	2007 II	2007 III	2007 IV	2008 I	2008 II
97.8	98.2	98.3	98.9	101.3	100.7	99.3	98.8	99.8	101.1
-0.1	0.5	0.1	0.7	2.4	-0.6	-1.4	-0.5	1	1.3
98.9	99.4	99	98.3	100.2	100	99.6	100.2	100.5	100.9
0.4	0.5	-0.3	-0.7	2	-0.2	-0.4	0.7	0.3	0.5
103.4	102.1	99.8	97.9	100.4	100.4	99.8	99.5	97.4	96.2
1.2	-1.3	-2.2	-1.9	2.5	0.1	-0.7	-0.2	-2.1	-1.2
102.2	101.8	100.5	100.9	102.3	101.1	98.2	98.5	97.9	97.1
-2.1	-0.4	-1.3	0.4	1.4	-1.2	-2.9	0.3	-0.6	-0.8
99	100	99	97.5	99.2	100.5	99.5	100.9	101.6	103.6
2.2	1	-1.1	-1.5	1.7	1.3	-1	1.4	0.7	2
97.2	97.9	98.3	99	102.5	100.3	99.3	97.9	99.3	100.9
-0.2	0.7	0.5	0.7	3.5	-2.1	-1.1	-1.3	1.3	1.6
93.6	94.6	95.8	96.2	97.1	99.6	101.3	102.1	102.5	102.4
0.2	1	1.3	0.5	0.9	2.6	1.7	0.8	0.3	-0.1
95	96.2	96.9	99.6	97.6	99.8	100.6	102	102.7	103.6
0	1.3	0.7	2.7	-1.9	2.2	0.9	1.3	0.8	0.8
97.4	96.7	97.2	98.1	102.1	102.1	99.6	96.5	97	101.6
0.9	-0.7	0.5	1	4.1	-0.1	-2.5	-3.1	0.5	4.8
98.1	96.7	97.2	98.7	102.4	104.4	97.9	95.8	96.4	100.7
0.5	-1.4	0.5	1.4	3.8	1.9	-6.2	-2.1	0.6	4.5
92.9	93.8	94.2	94.8	97	98.8	100.9	103.2	103.1	103
0.6	0.9	0.4	0.6	2.4	1.8	2.1	2.3	-0.1	0

95	95.4	96.4	97	97.2	99.9	102.4	100.4	102.9	107.4
0.9	0.4	1	0.6	0.2	2.8	2.5	-2	2.5	4.4
105.6	103.1	102.7	103	102.2	101.9	99.5	95.8	93.4	97.8
-0.2	-2.3	-0.4	0.3	-0.7	-0.3	-2.4	-3.7	-2.5	4.7
97	98.7	100.3	98.8	99.4	99.5	100.1	101	100.7	101.3
0	1.8	1.7	-1.5	0.6	0.2	0.6	0.9	-0.2	0.6
95.2	96.7	97.6	98.7	98.5	99.4	100.4	101.4	107.5	106.8
1.9	1.6	1	1.1	-0.2	0.9	1	1.1	6	-0.6
95.4	95.7	96.1	96.7	101.2	99	99.3	100.5	99.6	104.8
1.9	0.3	0.5	0.6	4.6	-2.2	0.3	1.2	-1	5.2
98	97.5	98.6	100.8	104.4	101.9	97.1	96.7	100.1	103
-0.8	-0.5	1.1	2.2	3.6	-2.4	-4.7	-0.5	3.5	2.9
100.5	100.4	101.3	104.2	104.2	102.5	99	94.6	97.9	104.1
-1.5	-0.1	0.9	2.9	0	-1.7	-3.4	-4.5	3.5	6.3
96.1	96.6	97.1	97.7	98.6	100	100.3	101.1	100.7	101.3
0.3	0.5	0.6	0.5	0.9	1.4	0.4	0.8	-0.5	0.6
1.1	2.2	2.3	2.2	3.7	5.8	1.5	3.3	-1.9	2.4
97.5	98.1	98.3	98.5	100	100.6	99.8	99.7	99.9	101.5
0.4	0.6	0.2	0.2	1.5	0.6	-0.8	-0.1	0.3	1.5

2006 I	2006 II	2006 III	2006 IV	2007 I	2007 II	2007 III	2007 IV	2008 I	2008 II
152,875	150,765	149,970	149,975	148,537	146,453	146,337	145,793	141,662	142,151
-0.7	-1.4	-0.5	0	-1	-1.4	-0.1	-0.4	-2.8	0.3
13,444	12,782	12,262	12,057	11,974	11,729	12,313	12,416	12,742	13,148
-0.8	-4.9	-4.1	-1.7	-0.7	-2.1	5	0.8	2.6	3.2
4,379	4,377	4,365	4,388	4,381	4,219	4,271	4,335	4,501	4,460
-0.2	-0.1	-0.3	0.5	-0.2	-3.7	1.2	1.5	3.8	-0.9
9,091	8,425	7,912	7,683	7,610	7,519	8,049	8,048	8,231	8,691
-1	-7.3	-6.1	-2.9	-1	-1.2	7	0	2.3	5.6
11,106	11,231	11,371	11,276	11,265	11,525	11,678	11,585	12,156	12,493
0	1.1	1.2	-0.8	-0.1	2.3	1.3	-0.8	4.9	2.8
8,441	8,601	8,695	8,517	8,559	8,795	8,830	8,798	9,369	9,861
-0.1	1.9	1.1	-2.1	0.5	2.8	0.4	-0.4	6.5	5.3
2,672	2,640	2,679	2,743	2,715	2,740	2,844	2,772	2,790	2,650
0	-1.2	1.5	2.4	-1	0.9	3.8	-2.6	0.7	-5
32,442	32,467	32,676	32,993	33,340	33,236	33,963	34,206	33,584	33,115
0.6	0.1	0.6	1	1.1	-0.3	2.2	0.7	-1.8	-1.4
12,883	12,791	12,739	12,739	12,686	12,607	13,123	13,340	12,845	13,317
-0.8	-0.7	-0.4	0	-0.4	-0.6	4.1	1.7	-3.7	3.7

19,651	19,728	19,953	20,231	20,726	20,670	20,846	20,748	20,746	19,804
1.4	0.4	1.1	1.4	2.4	-0.3	0.9	-0.5	0	-4.5
96,455	94,387	93,379	92,800	92,808	90,466	88,538	86,078	83,261	83,455
-0.6	-2.1	-1.1	-0.6	0	-2.5	-2.1	-2.8	-3.3	0.2
12,668	12,417	12,652	12,496	11,926	11,652	11,719	11,329	11,569	11,635
-0.1	-2	1.9	-1.2	-4.6	-2.3	0.6	-3.3	2.1	0.6
1,660	1,573	1,407	1,302	1,355	1,276	1,258	1,244	1,132	1,126
-7.1	-5.2	-10.5	-7.5	4	-5.8	-1.4	-1.1	-9	-0.5
4,464	4,621	4,722	4,487	4,550	4,247	4,113	3,928	3,831	3,931
2	3.5	2.2	-5	1.4	-6.6	-3.2	-4.5	-2.5	2.6
6,895	6,597	6,250	6,019	6,099	6,207	6,379	6,129	6,125	6,108
-2.9	-4.3	-5.2	-3.7	1.3	1.8	2.8	-3.9	-0.1	-0.3
8,720	8,980	9,165	9,141	8,804	8,822	8,401	8,387	8,205	8,107
1.5	3	2.1	-0.3	-3.7	0.2	-4.8	-0.2	-2.2	-1.2
5,752	5,324	5,162	5,112	5,026	5,233	5,288	5,102	4,854	4,847
-2.2	-7.4	-3	-1	-1.7	4.1	1.1	-3.5	-4.9	-0.1
14,946	14,509	14,200	14,107	14,436	14,066	12,902	13,343	12,465	12,598
-1	-2.9	-2.1	-0.7	2.3	-2.6	-8.3	3.4	-6.6	1.1
6,809	6,339	6,391	6,111	6,276	6,474	6,436	6,317	6,291	6,283
4.1	-6.9	0.8	-4.4	2.7	3.1	-0.6	-1.9	-0.4	-0.1
7,563	7,357	7,377	6,920	7,606	6,829	6,352	6,096	6,295	6,651
9.7	-2.7	0.3	-6.2	9.9	-10.2	-7	-4	3.3	5.7
22,129	21,962	21,690	22,095	21,841	20,719	20,871	20,380	18,057	17,780
-6.9	-0.8	-1.2	1.9	-1.2	-5.1	0.7	-2.4	-11.4	-1.5
19,821	19,454	18,332	18,071	18,675	17,861	17,887	17,034	14,863	14,694
-5.2	-1.9	-5.8	-1.4	3.3	-4.4	0.1	-4.8	-12.7	-1.1
2,656	2,743	3,413	3,806	3,348	2,951	3,003	3,052	3,181	3,054
-16.5	3.3	24.4	11.5	-12.1	-11.9	1.8	1.6	4.3	-4
4,944	4,827	4,652	4,641	4,759	4,584	4,549	4,584	4,397	4,344
6.3	-2.4	-3.6	-0.2	2.5	-3.7	-0.8	0.8	-4.1	-1.2
395,309	399,638	400,852	404,369	408,564	411,741	414,216	416,009	418,058	419,010
0.8	1.1	0.3	0.9	1	0.8	0.6	0.4	0.5	0.2

33,476	33,437	33,348	33,574	33,682	34,868	35,512	35,673	34,547	34,380
0.3	-0.1	-0.3	0.7	0.3	3.5	1.8	0.5	-3.2	-0.5
27,519	28,118	28,841	29,426	28,880	29,023	28,958	29,349	30,041	30,135
1.6	2.2	2.6	2	-1.9	0.5	-0.2	1.3	2.4	0.3
20,595	20,555	20,589	20,444	20,588	20,811	20,894	20,893	20,715	21,514
0.3	-0.2	0.2	-0.7	0.7	1.1	0.4	0	-0.9	3.9
20,405	20,480	20,771	20,975	20,755	20,791	20,635	20,704	20,776	20,742
2.9	0.4	1.4	1	-1	0.2	-0.8	0.3	0.3	-0.2
47,469	47,921	48,943	49,694	50,447	50,526	51,212	50,912	50,322	49,716
2.1	1	2.1	1.5	1.5	0.2	1.4	-0.6	-1.2	-1.2
66,226	67,620	66,877	67,352	68,517	68,845	68,932	68,935	69,699	69,879
-0.3	2.1	-1.1	0.7	1.7	0.5	0.1	0	1.1	0.3
50,989	51,884	52,067	52,288	53,210	53,752	54,266	54,475	54,460	54,146
1	1.8	0.4	0.4	1.8	1	1	0.4	0	-0.6
3,830	3,876	3,941	4,026	4,255	4,300	4,286	4,371	4,568	4,604
0.9	1.2	1.7	2.2	5.7	1	-0.3	2	4.5	0.8
29,669	29,973	29,549	30,115	30,454	30,665	30,736	31,345	31,683	32,246
1.3	1	-1.4	1.9	1.1	0.7	0.2	2	1.1	1.8
34,479	34,744	34,913	35,252	35,737	35,978	36,323	36,665	36,811	36,955
0.4	0.8	0.5	1	1.4	0.7	1	0.9	0.4	0.4
4,485	4,511	4,421	4,583	4,622	4,560	4,621	4,603	4,511	4,635
-2.3	0.6	-2	3.7	0.9	-1.4	1.3	-0.4	-2	2.7
9,999	9,953	10,040	10,231	10,073	10,059	10,161	10,174	10,146	10,298
0.8	-0.5	0.9	1.9	-1.5	-0.1	1	0.1	-0.3	1.5
10,525	10,554	10,647	10,745	10,772	10,956	11,089	11,201	11,293	11,287
0.8	0.3	0.9	0.9	0.2	1.7	1.2	1	0.8	-0.1
35,350	35,679	35,640	35,902	36,195	36,528	36,700	37,056	38,453	38,483
0.6	0.9	-0.1	0.7	0.8	0.9	0.5	1	3.8	0.1
548,078	550,396	550,688	554,387	557,008	558,169	560,557	561,916	559,937	561,260
0.4	0.4	0.1	0.7	0.5	0.2	0.4	0.2	-0.4	0.2
1.8	1.7	0.2	2.7	1.9	0.8	1.7	1	-1.4	0.9

2008 III	2008 IV	2009 I	2009 II	2009 III	2009 IV	2010 I	2010 II	2010 III	2010 IV
329,127	327,323	323,660	321,397	322,083	325,837	327,740	330,968	335,553	340,355
-0.1	-0.5	-1.1	-0.7	0.2	1.2	0.6	1	1.4	1.4
141,390	130,416	126,669	126,274	129,326	137,352	144,952	144,392	145,122	151,755
1.1	-7.8	-2.9	-0.3	2.4	6.2	5.5	-0.4	0.5	4.6
69,415	57,072	53,141	52,597	55,123	63,003	72,671	72,611	73,042	79,147
0.2	-17.8	-6.9	-1	4.8	14.3	15.3	-0.1	0.6	8.4
53,573	54,593	54,630	54,584	54,924	54,841	52,618	51,755	51,660	51,787
1.9	1.9	0.1	-0.1	0.6	-0.2	-4.1	-1.6	-0.2	0.2
18,402	18,751	18,897	19,093	19,278	19,507	19,662	20,025	20,420	20,821
2.4	1.9	0.8	1	1	1.2	0.8	1.8	2	2
70,620	69,615	69,931	70,668	71,415	72,033	72,459	73,338	74,496	75,554
-0.3	-1.4	0.5	1.1	1.1	0.9	0.6	1.2	1.6	1.4
53,372	52,274	52,386	52,865	53,346	53,795	54,189	54,977	55,926	56,773
-0.6	-2.1	0.2	0.9	0.9	0.8	0.7	1.5	1.7	1.5
17,248	17,342	17,545	17,803	18,070	18,238	18,270	18,361	18,571	18,782
0.5	0.5	1.2	1.5	1.5	0.9	0.2	0.5	1.1	1.1
72,922	71,480	72,533	72,294	73,594	74,815	74,934	76,498	77,091	77,045
-0.4	-2	1.5	-0.3	1.8	1.7	0.2	2.1	0.8	-0.1
1,048	-1,797	569	1,362	-82	-225	199	-976	471	1,985
615,107	597,037	593,362	591,995	596,335	609,811	620,285	624,220	632,733	646,695
0.2	-2.9	-0.6	-0.2	0.7	2.3	1.7	0.6	1.4	2.2
0.7	-11.2	-2.4	-0.9	3	9.4	7	2.6	5.6	9.1

2008 III	2008 IV	2009 I	2009 II	2009 III	2009 IV	2010 I	2010 II	2010 III	2010 IV
479,853	476,280	476,727	476,731	479,550	483,691	491,582	497,297	506,365	516,080
1.6	-0.7	0.1	0	0.6	0.9	1.6	1.2	1.8	1.9
345,286	340,911	338,280	338,087	340,215	342,270	349,035	353,715	360,736	369,254
1.5	-1.3	-0.8	-0.1	0.6	0.6	2	1.3	2	2.4
42,249	39,938	38,849	40,101	41,752	42,106	42,172	42,615	43,229	44,444
-1.8	-5.5	-2.7	3.2	4.1	0.8	0.2	1.1	1.4	2.8
25,858	25,244	25,251	24,956	25,019	24,882	25,785	25,826	25,976	26,481
-0.3	-2.4	0	-1.2	0.3	-0.5	3.6	0.2	0.6	1.9
84,172	81,266	81,188	80,501	80,500	80,963	82,925	84,244	86,068	88,524
2.8	-3.5	-0.1	-0.8	0	0.6	2.4	1.6	2.2	2.9
193,007	194,463	192,992	192,529	192,944	194,319	198,154	201,030	205,464	209,805
2	0.8	-0.8	-0.2	0.2	0.7	2	1.5	2.2	2.1
10,146	10,440	9,817	9,564	9,223	9,112	8,986	9,198	9,355	9,628
2.9	2.9	-6	-2.6	-3.6	-1.2	-1.4	2.4	1.7	2.9
124,421	124,929	128,630	129,081	130,112	132,309	133,561	134,384	136,273	137,198
1.5	0.4	3	0.4	0.8	1.7	0.9	0.6	1.4	0.7
124,405	120,395	113,197	113,007	116,950	123,314	126,194	127,028	127,600	127,870
0	-3.2	-6	-0.2	3.5	5.4	2.3	0.7	0.5	0.2
100,374	97,040	88,643	87,155	88,667	91,639	93,366	94,203	95,116	95,411
0.9	-3.3	-8.7	-1.7	1.7	3.4	1.9	0.9	1	0.3
40,689	36,757	35,601	36,610	38,139	42,446	43,692	43,223	41,873	41,663
-2.8	-9.7	-3.1	2.8	4.2	11.3	2.9	-1.1	-3.1	-0.5
16,342	15,303	15,206	15,033	15,579	16,462	16,386	16,009	16,011	16,091
-4.4	-6.4	-0.6	-1.1	3.6	5.7	-0.5	-2.3	0	0.5
29,722	31,333	25,469	23,384	22,792	20,227	20,478	22,046	24,182	24,594

9.6	5.4	-18.7	-8.2	-2.5	-11.3	1.2	7.7	9.7	1.7
13,621	13,647	12,368	12,128	12,157	12,503	12,810	12,925	13,050	13,063
1.6	0.2	-9.4	-1.9	0.2	2.8	2.5	0.9	1	0.1
1,195	1,211	870	875	864	963	854	885	901	989
8.9	1.3	-28.1	0.5	-1.2	11.4	-11.3	3.7	1.8	9.8
22,836	22,144	23,683	24,978	27,418	30,713	31,974	31,939	31,584	31,470
-4.1	-3	6.9	5.5	9.8	12	4.1	-0.1	-1.1	-0.4
336,597	315,615	285,695	274,035	282,152	293,986	301,440	307,772	309,335	320,474
0.5	-6.2	-9.5	-4.1	3	4.2	2.5	2.1	0.5	3.6
333,462	323,263	282,676	271,522	283,334	292,037	302,326	309,459	314,932	313,183
2.7	-3.1	-12.6	-3.9	4.4	3.1	3.5	2.4	1.8	-0.6
8,403	6,885	971	875	1,027	927	3,386	548	4,765	-3,026
8,422	7,123	1,248	1,159	999	1,161	3,490	579	4,636	-3,117
-35	-256	-284	-288	18	-238	-105	-33	131	91
-688	1,125	-553	-1,132	-9	-70	8	1,034	-400	-1,520
615,107	597,037	593,362	591,995	596,335	609,811	620,285	624,220	632,733	646,695
0.2	-2.9	-0.6	-0.2	0.7	2.3	1.7	0.6	1.4	2.2
0.7	-11.2	-2.4	-0.9	3	9.4	7	2.6	5.6	9.1
604,258	596,675	589,924	589,739	596,500	607,006	617,776	624,325	633,965	643,950
1.2	-1.3	-1.1	0	1.1	1.8	1.8	1.1	1.5	1.6

2008 III	2008 IV	2009 I	2009 II	2009 III	2009 IV	2010 I	2010 II	2010 III	2010 IV
465,693	459,561	461,926	463,753	468,405	472,089	477,373	480,109	482,922	487,841

-0.4	-1.3	0.5	0.4	1	0.8	1.1	0.6	0.6	1
337,243	336,427	334,055	334,815	337,211	337,703	342,950	346,292	349,288	354,086
0.1	-0.2	-0.7	0.2	0.7	0.1	1.6	1	0.9	1.4
44,470	42,990	42,073	42,879	44,745	45,266	44,882	44,987	45,763	47,000
-0.5	-3.3	-2.1	1.9	4.4	1.2	-0.8	0.2	1.7	2.7
26,120	25,938	25,713	25,542	25,830	25,891	27,068	27,026	27,313	27,625
-2.2	-0.7	-0.9	-0.7	1.1	0.2	4.5	-0.2	1.1	1.1
78,497	78,195	78,854	79,151	78,952	78,552	79,810	80,483	80,353	81,759
-0.7	-0.4	0.8	0.4	-0.3	-0.5	1.6	0.8	-0.2	1.7
186,781	186,324	186,400	186,944	188,212	188,752	191,327	193,571	195,626	198,300
-0.5	-0.2	0	0.3	0.7	0.3	1.4	1.2	1.1	1.4
9,945	10,275	9,613	9,517	9,078	9,004	8,930	9,258	9,244	9,520
3.2	3.3	-6.4	-1	-4.6	-0.8	-0.8	3.7	-0.2	3
119,384	120,430	120,234	120,326	121,457	122,699	123,772	124,809	124,803	124,948
0.9	0.9	-0.2	0.1	0.9	1	0.9	0.8	0	0.1
117,592	109,257	103,777	106,819	113,171	119,646	121,816	121,676	121,718	120,086
-4	-7.1	-5	2.9	5.9	5.7	1.8	-0.1	0	-1.3
95,259	87,814	81,091	82,182	85,571	88,876	90,148	90,324	90,451	90,181
-3.5	-7.8	-7.7	1.3	4.1	3.9	1.4	0.2	0.1	-0.3
39,049	35,388	34,190	35,170	36,439	40,093	40,875	40,340	38,743	37,805
-3.9	-9.4	-3.4	2.9	3.6	10	2	-1.3	-4	-2.4
15,053	13,998	13,963	13,976	14,770	15,391	15,152	14,635	14,598	14,663
-5.4	-7	-0.2	0.1	5.7	4.2	-1.6	-3.4	-0.3	0.4
29,240	29,107	23,326	22,200	21,803	19,511	20,589	22,627	25,262	26,790
5.5	-0.5	-19.9	-4.8	-1.8	-10.5	5.5	9.9	11.6	6.1
13,140	13,117	11,689	11,479	11,836	11,748	12,170	12,245	12,315	12,313
-0.7	-0.2	-10.9	-1.8	3.1	-0.7	3.6	0.6	0.6	0
1,135	1,161	822	842	844	944	843	867	878	953
10.5	2.2	-29.2	2.4	0.3	11.8	-10.7	2.8	1.3	8.5
21,482	20,066	21,799	23,761	26,719	29,814	30,284	30,551	30,547	29,118
-5.5	-6.6	8.6	9	12.5	11.6	1.6	0.9	0	-4.7

316,480	295,398	269,221	264,485	276,813	287,265	292,799	297,793	295,072	302,244
-2.7	-6.7	-8.9	-1.8	4.7	3.8	1.9	1.7	-0.9	2.4
303,550	281,430	252,868	254,395	278,249	291,221	297,935	302,230	300,783	302,304
-2.7	-7.3	-10.1	0.6	9.4	4.7	2.3	1.4	-0.5	0.5
6,725	2,490	-824	-2,409	448	4,989	4,857	2,124	2,474	-6,890
6,615	2,877	-326	-2,071	395	4,682	4,626	2,350	2,553	-6,653
110	-387	-498	-338	52	307	231	-226	-79	-237
-659	1,128	-477	-1,087	-28	-112	-46	942	-357	-1,396
604,279	592,718	583,921	578,025	579,148	590,669	597,126	598,935	601,922	602,557
-0.3	-1.9	-1.5	-1	0.2	2	1.1	0.3	0.5	0.1
-1.3	-7.4	-5.8	-4	0.8	8.2	4.4	1.2	2	0.4
584,709	573,297	568,044	571,187	580,574	589,107	597,552	601,168	605,044	609,392
-0.6	-2	-0.9	0.6	1.6	1.5	1.4	0.6	0.6	0.7

2008 III	2008 IV	2009 I	2009 II	2009 III	2009 IV	2010 I	2010 II	2010 III	2010 IV
325,069	323,093	320,270	318,829	320,300	324,800	325,750	328,005	331,612	335,441
-0.1	-0.6	-0.9	-0.4	0.5	1.4	0.3	0.7	1.1	1.2
53,372	52,274	52,386	52,865	53,346	53,795	54,189	54,977	55,926	56,773
-0.6	-2.1	0.2	0.9	0.9	0.8	0.7	1.5	1.7	1.5
26,391	25,677	25,383	25,739	26,236	26,863	26,821	27,051	27,156	27,468
-1	-2.7	-1.1	1.4	1.9	2.4	-0.2	0.9	0.4	1.1
554	345	168	299	370	488	486	494	594	666
6.9	-37.8	-51.4	78.3	23.7	32	-0.4	1.7	20.3	12

26,427	26,251	26,836	26,828	26,740	26,445	26,882	27,432	28,175	28,639
-0.3	-0.7	2.2	0	-0.3	-1.1	1.7	2	2.7	1.6
37,190	37,770	37,993	38,445	38,903	39,455	39,060	38,219	38,015	39,038
-0.2	1.6	0.6	1.2	1.2	1.4	-1	-2.2	-0.5	2.7
415,632	413,136	410,649	410,139	412,549	418,050	418,999	421,201	425,552	431,252
-0.2	-0.6	-0.6	-0.1	0.6	1.3	0.2	0.5	1	1.3
76,000	76,722	82,221	83,194	86,404	88,412	89,810	93,588	90,373	94,021
0	1	7.2	1.2	3.9	2.3	1.6	4.2	-3.4	4
155,890	154,010	150,088	149,285	150,089	151,641	152,456	145,446	152,784	153,769
-1.5	-1.2	-2.5	-0.5	0.5	1	0.5	-4.6	5	0.6
335,742	335,848	342,783	344,048	348,864	354,821	356,352	369,342	363,142	371,504
0.5	0	2.1	0.4	1.4	1.7	0.4	3.6	-1.7	2.3
345,286	340,911	338,280	338,087	340,215	342,270	349,035	353,715	360,736	369,254
1.5	-1.3	-0.8	-0.1	0.6	0.6	2	1.3	2	2.4
14,455	14,651	12,531	14,426	13,289	12,310	12,790	13,694	13,243	13,841
-15.3	1.4	-14.5	15.1	-7.9	-7.4	3.9	7.1	-3.3	4.5
4,911	9,588	17,034	20,387	21,938	24,861	20,107	29,322	15,649	16,091
-55.4	95.2	77.6	19.7	7.6	13.3	-19.1	45.8	-46.6	2.8
1.5	2.9	5	5.9	6.3	7	5.6	7.9	4.3	4.3
12,883	12,927	12,932	12,956	12,998	13,047	13,058	13,088	13,135	13,189
0.3	0.3	0	0.2	0.3	0.4	0.1	0.2	0.4	0.4
26,062	25,981	26,507	26,555	26,840	27,196	27,290	28,221	27,647	28,168
0.2	-0.3	2	0.2	1.1	1.3	0.3	3.4	-2	1.9

2008 III	2008 IV	2009 I	2009 II	2009 III	2009 IV	2010 I	2010 II	2010 III	2010 IV

336,597	315,615	285,695	274,035	282,152	293,986	301,440	307,772	309,335	320,474
0.5	-6.2	-9.5	-4.1	3	4.2	2.5	2.1	0.5	3.6
224,885	210,170	182,824	169,919	176,049	185,621	190,020	195,545	197,439	208,084
1.3	-6.5	-13	-7.1	3.6	5.4	2.4	2.9	1	5.4
111,712	105,445	102,872	104,116	106,103	108,366	111,420	112,227	111,896	112,390
-1.2	-5.6	-2.4	1.2	1.9	2.1	2.8	0.7	-0.3	0.4
333,462	323,263	282,676	271,522	283,334	292,037	302,326	309,459	314,932	313,183
2.7	-3.1	-12.6	-3.9	4.4	3.1	3.5	2.4	1.8	-0.6
244,647	243,649	207,578	193,999	200,196	202,747	214,033	223,033	230,277	229,393
3	-0.4	-14.8	-6.5	3.2	1.3	5.6	4.2	3.2	-0.4
88,816	79,614	75,098	77,523	83,138	89,290	88,293	86,426	84,655	83,790
1.8	-10.4	-5.7	3.2	7.2	7.4	-1.1	-2.1	-2	-1
3,134	-7,648	3,020	2,513	-1,182	1,949	-886	-1,687	-5,597	7,291

2008 III	2008 IV	2009 I	2009 II	2009 III	2009 IV	2010 I	2010 II	2010 III	2010 IV
316,480	295,398	269,221	264,485	276,813	287,265	292,799	297,793	295,072	302,244
-2.7	-6.7	-8.9	-1.8	4.7	3.8	1.9	1.7	-0.9	2.4
212,055	194,234	172,534	165,294	174,209	182,391	186,212	192,303	190,826	197,475
-1.8	-8.4	-11.2	-4.2	5.4	4.7	2.1	3.3	-0.8	3.5
104,485	101,131	96,658	99,026	102,481	104,811	106,467	105,501	104,214	104,818
-4.5	-3.2	-4.4	2.5	3.5	2.3	1.6	-0.9	-1.2	0.6
303,550	281,430	252,868	254,395	278,249	291,221	297,935	302,230	300,783	302,304
-2.7	-7.3	-10.1	0.6	9.4	4.7	2.3	1.4	-0.5	0.5
227,208	208,710	180,059	177,322	190,961	198,114	210,253	216,681	218,968	220,485
-3.5	-8.1	-13.7	-1.5	7.7	3.7	6.1	3.1	1.1	0.7

76,921	74,051	73,791	77,571	87,413	92,621	87,228	85,294	81,753	82,021
0.6	-3.7	-0.4	5.1	12.7	6	-5.8	-2.2	-4.2	0.3

2008 III	2008 IV	2009 I	2009 II	2009 III	2009 IV	2010 I	2010 II	2010 III	2010 IV
103	103.6	103.2	102.8	102.4	102.5	103	103.6	104.9	105.8
1.9	0.6	-0.4	-0.4	-0.4	0.1	0.5	0.6	1.2	0.9
102.4	101.3	101.3	101	100.9	101.4	101.8	102.1	103.3	104.3
1.4	-1	-0.1	-0.3	-0.1	0.5	0.4	0.4	1.1	1
95	92.9	92.3	93.5	93.3	93	94	94.7	94.5	94.6
-1.3	-2.2	-0.6	1.3	-0.2	-0.3	1	0.8	-0.3	0.1
99	97.3	98.2	97.7	96.9	96.1	95.3	95.6	95.1	95.9
1.9	-1.7	0.9	-0.5	-0.9	-0.8	-0.9	0.3	-0.5	0.8
107.2	103.9	103	101.7	102	103.1	103.9	104.7	107.1	108.3
3.5	-3.1	-0.9	-1.2	0.3	1.1	0.8	0.7	2.3	1.1
103.3	104.4	103.5	103	102.5	102.9	103.6	103.9	105	105.8
2.4	1	-0.8	-0.5	-0.5	0.4	0.6	0.3	1.1	0.7
102	101.6	102.1	100.5	101.6	101.2	100.6	99.4	101.2	101.1
-0.3	-0.4	0.5	-1.6	1.1	-0.4	-0.6	-1.3	1.9	-0.1
104.2	103.7	107	107.3	107.1	107.8	107.9	107.7	109.2	109.8
0.6	-0.5	3.1	0.3	-0.1	0.7	0.1	-0.2	1.4	0.6
105.8	110.2	109.1	105.8	103.3	103.1	103.6	104.4	104.8	106.5
4.1	4.2	-1	-3	-2.3	-0.3	0.5	0.8	0.4	1.6
105.4	110.5	109.3	106.1	103.6	103.1	103.6	104.3	105.2	105.8
4.6	4.9	-1.1	-3	-2.3	-0.5	0.4	0.7	0.8	0.6
104.2	103.9	104.1	104.1	104.7	105.9	106.9	107.1	108.1	110.2
1.1	-0.3	0.3	0	0.6	1.1	1	0.2	0.9	2

108.6	109.3	108.9	107.6	105.5	107	108.1	109.4	109.7	109.7
1.1	0.7	-0.4	-1.2	-1.9	1.4	1.1	1.1	0.3	0.1
101.6	107.6	109.2	105.3	104.5	103.7	99.5	97.4	95.7	91.8
4	5.9	1.4	-3.5	-0.8	-0.8	-4.1	-2	-1.7	-4.1
103.7	104	105.8	105.6	102.7	106.4	105.3	105.6	106	106.1
2.3	0.4	1.7	-0.2	-2.8	3.6	-1.1	0.3	0.4	0.1
105.2	104.3	105.9	103.9	102.4	102	101.3	102.1	102.6	103.8
-1.5	-0.9	1.5	-1.8	-1.5	-0.4	-0.7	0.8	0.5	1.1
106.3	110.4	108.6	105.1	102.6	103	105.6	104.5	103.4	108.1
1.5	3.8	-1.5	-3.2	-2.4	0.4	2.5	-1	-1.1	4.5
106.3	106.8	106.1	103.6	101.9	102.3	102.9	103.3	104.8	106
3.3	0.5	-0.7	-2.4	-1.6	0.4	0.6	0.4	1.4	1.1
109.8	114.8	111.8	106.8	101.8	100.2	101.4	102.4	104.7	103.6
5.6	4.6	-2.6	-4.5	-4.6	-1.5	1.2	0.9	2.3	-1
101.8	100.7	101.6	102.4	103	103.2	103.9	104.2	105.1	107.3
0.5	-1	0.9	0.8	0.5	0.3	0.6	0.3	0.9	2.1
2.1	-4.1	3.6	3.2	2.2	1.1	2.5	1.3	3.5	8.7
103.3	104.1	103.9	103.2	102.7	103	103.4	103.9	104.8	105.7
1.8	0.7	-0.2	-0.6	-0.5	0.3	0.3	0.5	0.9	0.9

2008 III	2008 IV	2009 I	2009 II	2009 III	2009 IV	2010 I	2010 II	2010 III	2010 IV
140,093	134,637	125,371	120,263	121,414	124,339	127,638	129,468	130,495	131,386
-1.4	-3.9	-6.9	-4.1	1	2.4	2.7	1.4	0.8	0.7
13,508	12,800	11,774	10,514	8,938	8,831	9,662	10,448	11,531	12,157
2.7	-5.2	-8	-10.7	-15	-1.2	9.4	8.1	10.4	5.4
4,467	4,307	4,238	4,162	4,283	4,499	4,526	4,565	4,558	4,509
0.2	-3.6	-1.6	-1.8	2.9	5	0.6	0.8	-0.1	-1.1
9,049	8,482	7,531	6,347	4,624	4,310	5,115	5,863	6,957	7,634
4.1	-6.3	-11.2	-15.7	-27.1	-6.8	18.7	14.6	18.7	9.7
12,491	12,325	12,237	11,954	11,722	12,316	12,103	11,427	11,924	11,884
0	-1.3	-0.7	-2.3	-1.9	5.1	-1.7	-5.6	4.4	-0.3
9,905	9,687	9,387	8,925	8,724	9,201	9,172	8,503	8,883	8,881
0.4	-2.2	-3.1	-4.9	-2.2	5.5	-0.3	-7.3	4.5	0
2,595	2,619	2,823	2,992	2,987	3,132	2,920	2,916	3,020	2,965
-2.1	0.9	7.8	6	-0.2	4.9	-6.8	-0.1	3.6	-1.8
31,879	30,753	30,918	31,166	32,085	33,842	34,291	33,687	32,894	33,152
-3.7	-3.5	0.5	0.8	2.9	5.5	1.3	-1.8	-2.4	0.8
12,680	12,330	11,978	11,711	11,801	12,733	13,108	12,839	12,332	12,594
-4.8	-2.8	-2.9	-2.2	0.8	7.9	2.9	-2	-4	2.1

19,222	18,458	18,987	19,511	20,346	21,158	21,226	20,878	20,575	20,564
-2.9	-4	2.9	2.8	4.3	4	0.3	-1.6	-1.4	-0.1
82,239	78,816	70,108	66,277	68,010	68,152	70,606	73,188	73,526	74,064
-1.5	-4.2	-11	-5.5	2.6	0.2	3.6	3.7	0.5	0.7
11,722	12,302	11,961	11,494	11,298	11,026	11,327	11,612	11,666	11,714
0.7	4.9	-2.8	-3.9	-1.7	-2.4	2.7	2.5	0.5	0.4
1,107	1,036	922	923	935	963	989	992	894	874
-1.7	-6.4	-11.1	0.1	1.3	3	2.7	0.2	-9.8	-2.2
3,788	3,682	3,172	2,817	2,895	2,823	2,916	3,114	2,954	3,016
-3.6	-2.8	-13.9	-11.2	2.8	-2.5	3.3	6.8	-5.2	2.1
6,012	5,654	5,403	5,009	4,751	4,877	4,894	4,960	4,957	5,066
-1.6	-6	-4.4	-7.3	-5.2	2.6	0.4	1.3	-0.1	2.2
8,081	8,515	7,995	7,735	7,477	7,343	7,771	7,862	7,860	7,729
-0.3	5.4	-6.1	-3.3	-3.3	-1.8	5.8	1.2	0	-1.7
4,595	4,022	3,249	3,435	3,825	3,888	3,820	3,892	3,797	3,893
-5.2	-12.5	-19.2	5.7	11.4	1.7	-1.7	1.9	-2.4	2.5
12,443	10,896	9,547	8,463	8,404	8,458	9,422	10,037	10,612	11,064
-1.2	-12.4	-12.4	-11.4	-0.7	0.6	11.4	6.5	5.7	4.3
5,907	5,784	5,004	4,853	4,852	4,949	4,926	4,817	4,755	4,667
-6	-2.1	-13.5	-3	0	2	-0.5	-2.2	-1.3	-1.9
6,967	7,180	6,610	6,381	6,396	6,126	6,209	6,211	6,410	6,672
4.8	3.1	-7.9	-3.5	0.2	-4.2	1.4	0	3.2	4.1
17,018	15,296	12,042	11,124	13,285	13,758	14,408	15,565	15,763	15,637
-4.3	-10.1	-21.3	-7.6	19.4	3.6	4.7	8	1.3	-0.8
13,619	11,467	7,879	8,089	10,478	11,283	11,956	13,179	13,239	12,951
-7.3	-15.8	-31.3	2.7	29.5	7.7	6	10.2	0.4	-2.2
3,353	3,772	4,130	2,976	2,708	2,354	2,385	2,393	2,548	2,715
9.8	12.5	9.5	-27.9	-9	-13	1.3	0.3	6.5	6.5
4,515	4,393	4,052	3,844	3,663	3,728	3,888	4,136	3,926	3,848
3.9	-2.7	-7.8	-5.1	-4.7	1.8	4.3	6.4	-5.1	-2
419,885	415,366	413,132	413,556	416,298	421,923	422,479	424,368	427,109	429,507
0.2	-1.1	-0.5	0.1	0.7	1.4	0.1	0.4	0.6	0.6

34,202	31,872	29,622	30,876	32,800	34,747	34,417	34,679	34,747	35,472
-0.5	-6.8	-7.1	4.2	6.2	5.9	-1	0.8	0.2	2.1
30,078	29,147	28,952	28,837	29,127	28,880	29,418	29,561	29,673	30,042
-0.2	-3.1	-0.7	-0.4	1	-0.8	1.9	0.5	0.4	1.2
22,049	22,077	20,778	20,477	20,152	20,119	20,583	21,038	21,437	21,903
2.5	0.1	-5.9	-1.4	-1.6	-0.2	2.3	2.2	1.9	2.2
21,083	20,960	20,989	20,563	20,612	20,769	20,911	21,193	21,272	21,480
1.6	-0.6	0.1	-2	0.2	0.8	0.7	1.3	0.4	1
49,265	49,448	49,014	49,328	48,923	49,108	49,048	49,774	49,888	50,246
-0.9	0.4	-0.9	0.6	-0.8	0.4	-0.1	1.5	0.2	0.7
70,313	69,510	70,242	70,793	71,603	72,904	72,896	72,773	73,288	74,045
0.6	-1.1	1.1	0.8	1.1	1.8	0	-0.2	0.7	1
53,939	53,182	52,851	51,882	51,299	51,511	51,353	52,228	52,970	53,426
-0.4	-1.4	-0.6	-1.8	-1.1	0.4	-0.3	1.7	1.4	0.9
4,781	4,759	4,750	4,687	4,665	4,780	4,556	4,470	4,410	4,363
3.8	-0.5	-0.2	-1.3	-0.5	2.5	-4.7	-1.9	-1.3	-1.1
32,005	32,195	32,361	32,376	32,287	33,139	33,199	33,071	33,465	33,134
-0.7	0.6	0.5	0	-0.3	2.6	0.2	-0.4	1.2	-1
37,270	37,237	37,822	37,776	37,912	38,350	38,457	38,476	38,760	38,627
0.9	-0.1	1.6	-0.1	0.4	1.2	0.3	0.1	0.7	-0.3
4,699	4,639	4,628	4,631	4,589	4,700	4,711	4,458	4,269	4,132
1.4	-1.3	-0.2	0.1	-0.9	2.4	0.2	-5.4	-4.2	-3.2
10,336	10,292	10,349	10,177	10,368	10,328	10,416	10,314	10,143	10,143
0.4	-0.4	0.6	-1.7	1.9	-0.4	0.9	-1	-1.7	0
11,337	11,305	11,290	11,135	11,206	11,124	10,998	10,883	10,818	10,727
0.4	-0.3	-0.1	-1.4	0.6	-0.7	-1.1	-1	-0.6	-0.8
38,532	38,835	39,345	40,073	40,799	41,232	41,361	41,420	41,813	41,874
0.1	0.8	1.3	1.9	1.8	1.1	0.3	0.1	0.9	0.1
560,026	549,991	538,859	533,888	537,871	546,934	550,601	554,209	558,100	560,719
-0.2	-1.8	-2	-0.9	0.7	1.7	0.7	0.7	0.7	0.5
-0.9	-7	-7.9	-3.6	3	6.9	2.7	2.6	2.8	1.9

2011 I	2011 II	2011 III	2011 IV	2012 I	2012 II	2012 III	2012 IV	2013 I	2013 II
346,010	347,299	350,038	352,489	356,045	359,964	362,594	363,368	369,271	370,127
1.7	0.4	0.8	0.7	1	1.1	0.7	0.2	1.6	0.2
155,773	154,691	158,649	160,799	161,842	162,638	162,668	160,528	162,364	160,315
2.6	-0.7	2.6	1.4	0.6	0.5	0	-1.3	1.1	-1.3
83,022	81,384	83,892	85,206	86,268	86,602	86,528	84,203	85,626	82,762
4.9	-2	3.1	1.6	1.2	0.4	-0.1	-2.7	1.7	-3.3
51,485	51,603	52,674	53,110	52,890	53,088	53,002	53,061	53,146	53,657
-0.6	0.2	2.1	0.8	-0.4	0.4	-0.2	0.1	0.2	1
21,266	21,705	22,083	22,482	22,684	22,948	23,139	23,265	23,592	23,897
2.1	2.1	1.7	1.8	0.9	1.2	0.8	0.5	1.4	1.3
75,558	75,887	76,240	76,651	77,318	77,521	78,625	78,664	78,726	79,391
0	0.4	0.5	0.5	0.9	0.3	1.4	0	0.1	0.8
56,873	56,926	57,168	57,224	58,090	57,967	58,346	58,665	58,932	58,995
0.2	0.1	0.4	0.1	1.5	-0.2	0.7	0.5	0.5	0.1
18,684	18,961	19,072	19,427	19,228	19,554	20,279	19,999	19,793	20,396
-0.5	1.5	0.6	1.9	-1	1.7	3.7	-1.4	-1	3
76,128	77,394	77,125	77,169	78,658	79,095	79,211	80,344	80,553	80,810
-1.2	1.7	-0.3	0.1	1.9	0.6	0.1	1.4	0.3	0.3
-412	230	1,028	214	180	343	915	-178	49	1,657
653,056	655,501	663,081	667,322	674,043	679,561	684,013	682,726	690,963	692,301
1	0.4	1.2	0.6	1	0.8	0.7	-0.2	1.2	0.2
4	1.5	4.7	2.6	4.1	3.3	2.6	-0.8	4.9	0.8

2011 I	2011 II	2011 III	2011 IV	2012 I	2012 II	2012 III	2012 IV	2013 I	2013 II
521,172	523,478	526,810	528,200	536,181	535,953	537,956	539,225	547,786	551,038
1	0.4	0.6	0.3	1.5	0	0.4	0.2	1.6	0.6
370,339	372,335	374,244	375,366	382,070	381,834	382,964	384,841	389,659	394,665
0.3	0.5	0.5	0.3	1.8	-0.1	0.3	0.5	1.3	1.3
43,456	43,447	42,676	42,857	44,541	43,725	43,399	43,451	43,239	46,007
-2.2	0	-1.8	0.4	3.9	-1.8	-0.7	0.1	-0.5	6.4
26,472	26,475	26,610	26,552	27,167	26,519	26,638	26,805	26,984	27,103
0	0	0.5	-0.2	2.3	-2.4	0.4	0.6	0.7	0.4
89,515	89,702	90,597	90,094	91,839	91,434	92,094	93,397	94,598	94,175
1.1	0.2	1	-0.6	1.9	-0.4	0.7	1.4	1.3	-0.4
210,896	212,711	214,362	215,864	218,522	220,156	220,833	221,189	224,838	227,381
0.5	0.9	0.8	0.7	1.2	0.7	0.3	0.2	1.6	1.1
9,858	10,098	10,291	10,521	10,648	10,426	10,461	10,402	10,700	10,559
2.4	2.4	1.9	2.2	1.2	-2.1	0.3	-0.6	2.9	-1.3
140,974	141,045	142,275	142,313	143,464	143,694	144,532	143,982	147,427	145,814
2.8	0.1	0.9	0	0.8	0.2	0.6	-0.4	2.4	-1.1
127,741	130,271	133,439	136,577	137,934	136,993	135,431	137,667	135,599	133,914
-0.1	2	2.4	2.4	1	-0.7	-1.1	1.7	-1.5	-1.2
96,972	100,518	104,254	107,596	109,149	108,215	106,872	109,193	107,511	106,133
1.6	3.7	3.7	3.2	1.4	-0.9	-1.2	2.2	-1.5	-1.3
42,530	44,571	47,808	49,010	51,211	50,002	49,019	50,168	50,498	50,469
2.1	4.8	7.3	2.5	4.5	-2.4	-2	2.3	0.7	-0.1
18,047	19,206	21,060	22,735	21,658	22,263	22,500	23,043	22,176	21,818
12.2	6.4	9.7	8	-4.7	2.8	1.1	2.4	-3.8	-1.6
23,423	23,578	21,978	22,309	22,327	23,229	22,536	22,948	21,801	20,826

-4.8	0.7	-6.8	1.5	0.1	4	-3	1.8	-5	-4.5
12,972	13,163	13,407	13,542	13,953	12,721	12,816	13,034	13,037	13,021
-0.7	1.5	1.9	1	3	-8.8	0.7	1.7	0	-0.1
987	952	952	933	954	1,052	1,127	1,243	1,270	1,272
-0.2	-3.5	0.1	-2	2.2	10.4	7.1	10.3	2.2	0.2
29,783	28,802	28,233	28,047	27,832	27,725	27,432	27,231	26,817	26,508
-5.4	-3.3	-2	-0.7	-0.8	-0.4	-1.1	-0.7	-1.5	-1.2
324,133	325,119	339,136	344,288	343,284	347,365	342,181	338,614	346,847	357,873
1.1	0.3	4.3	1.5	-0.3	1.2	-1.5	-1	2.4	3.2
323,422	332,915	340,181	347,514	347,792	344,954	334,484	330,694	339,881	348,316
3.3	2.9	2.2	2.2	0.1	-0.8	-3	-1.1	2.8	2.5
2,611	10,005	4,794	5,682	4,227	4,423	3,481	-2,835	114	-1,009
2,337	9,622	4,526	5,467	3,968	4,359	3,417	-2,524	528	-495
278	387	266	213	237	40	38	-335	-440	-512
822	-458	-917	89	210	-219	-552	749	497	-1,200
653,056	655,501	663,081	667,322	674,043	679,561	684,013	682,726	690,963	692,301
1	0.4	1.2	0.6	1	0.8	0.7	-0.2	1.2	0.2
4	1.5	4.7	2.6	4.1	3.3	2.6	-0.8	4.9	0.8
648,913	653,749	660,249	664,777	674,115	672,946	673,387	676,892	683,385	684,952
0.8	0.7	1	0.7	1.4	-0.2	0.1	0.5	1	0.2

2011 I	2011 II	2011 III	2011 IV	2012 I	2012 II	2012 III	2012 IV	2013 I	2013 II
488,370	490,015	489,990	489,681	495,107	494,064	495,062	495,930	497,582	500,823

0.1	0.3	0	-0.1	1.1	-0.2	0.2	0.2	0.3	0.7
354,251	353,887	354,223	353,995	358,063	358,377	359,745	361,379	362,857	366,137
0	-0.1	0.1	-0.1	1.1	0.1	0.4	0.5	0.4	0.9
46,043	46,261	45,250	45,347	46,906	46,461	46,030	46,463	46,013	48,539
-2	0.5	-2.2	0.2	3.4	-0.9	-0.9	0.9	-1	5.5
27,801	27,495	27,678	28,002	28,233	28,058	28,752	28,918	29,109	29,184
0.6	-1.1	0.7	1.2	0.8	-0.6	2.5	0.6	0.7	0.3
81,744	80,461	80,932	79,963	80,861	80,850	81,477	82,101	82,627	82,690
0	-1.6	0.6	-1.2	1.1	0	0.8	0.8	0.6	0.1
198,733	199,956	200,378	200,437	202,122	202,901	203,717	204,136	205,111	206,021
0.2	0.6	0.2	0	0.8	0.4	0.4	0.2	0.5	0.4
9,710	9,880	9,725	9,796	9,761	9,982	10,055	10,293	10,416	10,044
2	1.7	-1.6	0.7	-0.4	2.3	0.7	2.4	1.2	-3.6
124,874	125,664	125,930	126,019	126,724	126,143	125,343	124,598	124,506	124,879
-0.1	0.6	0.2	0.1	0.6	-0.5	-0.6	-0.6	-0.1	0.3
120,557	122,684	125,064	126,251	126,781	125,302	123,615	124,915	122,524	120,943
0.4	1.8	1.9	0.9	0.4	-1.2	-1.3	1.1	-1.9	-1.3
92,032	94,744	97,660	99,980	100,729	98,968	97,546	98,845	97,038	96,049
2.1	2.9	3.1	2.4	0.7	-1.7	-1.4	1.3	-1.8	-1
38,710	39,873	42,242	42,619	44,007	42,820	41,899	42,386	42,387	42,564
2.4	3	5.9	0.9	3.3	-2.7	-2.2	1.2	0	0.4
16,347	17,250	18,738	20,122	18,982	19,677	19,613	20,012	19,250	18,893
11.5	5.5	8.6	7.4	-5.7	3.7	-0.3	2	-3.8	-1.9
25,454	25,554	23,655	23,641	23,884	24,433	24,194	24,861	23,533	22,419
-5	0.4	-7.4	-0.1	1	2.3	-1	2.8	-5.3	-4.7
12,238	12,335	12,498	12,600	12,921	11,556	11,695	11,724	11,650	11,647
-0.6	0.8	1.3	0.8	2.5	-10.6	1.2	0.3	-0.6	0
944	907	917	896	905	991	1,055	1,157	1,181	1,184
-0.9	-3.9	1.1	-2.2	1	9.5	6.5	9.6	2.1	0.3
27,832	26,922	26,011	25,726	25,365	25,428	24,964	24,738	24,223	23,724
-4.4	-3.3	-3.4	-1.1	-1.4	0.2	-1.8	-0.9	-2.1	-2.1

302,167	305,302	318,461	324,838	322,284	323,864	320,249	314,356	320,950	333,208
0	1	4.3	2	-0.8	0.5	-1.1	-1.8	2.1	3.8
307,506	315,446	318,715	324,404	324,779	320,993	318,185	313,982	316,907	322,824
1.7	2.6	1	1.8	0.1	-1.2	-0.9	-1.3	0.9	1.9
3,035	6,070	5,392	7,062	3,987	2,720	2,782	-2,918	780	-379
3,357	6,114	5,283	7,126	4,130	2,810	2,819	-2,963	605	-314
-322	-44	110	-64	-143	-90	-36	45	175	-65
758	-439	-829	65	148	-173	-437	737	504	-1,079
609,228	608,552	618,604	621,976	622,370	622,751	622,882	622,897	625,813	629,598
1.1	-0.1	1.7	0.5	0.1	0.1	0	0	0.5	0.6
4.5	-0.4	6.8	2.2	0.3	0.2	0.1	0	1.9	2.4
609,769	612,913	614,638	614,901	621,224	619,079	618,760	621,317	620,332	621,750
0.1	0.5	0.3	0	1	-0.3	-0.1	0.4	-0.2	0.2

2011 I	2011 II	2011 III	2011 IV	2012 I	2012 II	2012 III	2012 IV	2013 I	2013 II
341,573	343,382	346,640	349,638	352,775	356,176	358,477	358,836	364,969	365,973
1.8	0.5	0.9	0.9	0.9	1	0.6	0.1	1.7	0.3
56,873	56,926	57,168	57,224	58,090	57,967	58,346	58,665	58,932	58,995
0.2	0.1	0.4	0.1	1.5	-0.2	0.7	0.5	0.5	0.1
27,341	27,068	27,127	26,996	27,060	27,052	26,970	27,059	26,958	26,780
-0.5	-1	0.2	-0.5	0.2	0	-0.3	0.3	-0.4	-0.7
717	829	1,001	1,125	1,079	925	930	829	886	766
7.8	15.5	20.7	12.4	-4.1	-14.2	0.5	-10.8	6.8	-13.5

28,815	29,030	29,040	29,103	29,951	29,990	30,446	30,777	31,089	31,449
0.6	0.7	0	0.2	2.9	0.1	1.5	1.1	1	1.2
40,328	40,539	43,266	42,748	44,299	44,542	43,159	45,111	45,378	45,702
3.3	0.5	6.7	-1.2	3.6	0.5	-3.1	4.5	0.6	0.7
438,774	440,847	447,074	449,609	455,164	458,685	459,982	462,613	469,279	470,670
1.7	0.5	1.4	0.6	1.2	0.8	0.3	0.6	1.4	0.3
89,853	93,019	92,700	93,081	93,924	92,982	92,867	92,704	94,890	97,568
-4.4	3.5	-0.3	0.4	0.9	-1	-0.1	-0.2	2.4	2.8
155,791	162,189	164,967	164,941	168,748	170,387	170,908	171,341	171,318	173,087
1.3	4.1	1.7	0	2.3	1	0.3	0.3	0	1
372,836	371,677	374,806	377,750	380,339	381,280	381,941	383,975	392,851	395,151
0.4	-0.3	0.8	0.8	0.7	0.2	0.2	0.5	2.3	0.6
370,339	372,335	374,244	375,366	382,070	381,834	382,964	384,841	389,659	394,665
0.3	0.5	0.5	0.3	1.8	-0.1	0.3	0.5	1.3	1.3
16,246	18,214	17,681	15,447	16,778	17,044	17,095	16,967	15,490	15,126
17.4	12.1	-2.9	-12.6	8.6	1.6	0.3	-0.8	-8.7	-2.3
18,742	17,556	18,243	17,830	15,048	16,491	16,073	16,101	18,682	15,613
16.5	-6.3	3.9	-2.3	-15.6	9.6	-2.5	0.2	16	-16.4
5	4.7	4.9	4.7	4	4.3	4.2	4.2	4.8	4
13,198	13,222	13,264	13,317	13,337	13,367	13,414	13,466	13,480	13,508
0.1	0.2	0.3	0.4	0.1	0.2	0.4	0.4	0.1	0.2
28,249	28,111	28,258	28,366	28,518	28,525	28,474	28,515	29,143	29,253
0.3	-0.5	0.5	0.4	0.5	0	-0.2	0.1	2.2	0.4

2011 I	2011 II	2011 III	2011 IV	2012 I	2012 II	2012 III	2012 IV	2013 I	2013 II

324,133	325,119	339,136	344,288	343,284	347,365	342,181	338,614	346,847	357,873
1.1	0.3	4.3	1.5	-0.3	1.2	-1.5	-1	2.4	3.2
207,218	205,877	220,859	224,658	223,419	227,640	222,830	218,928	222,904	230,497
-0.4	-0.6	7.3	1.7	-0.6	1.9	-2.1	-1.8	1.8	3.4
116,915	119,242	118,277	119,630	119,866	119,725	119,351	119,686	123,943	127,377
4	2	-0.8	1.1	0.2	-0.1	-0.3	0.3	3.6	2.8
323,422	332,915	340,181	347,514	347,792	344,954	334,484	330,694	339,881	348,316
3.3	2.9	2.2	2.2	0.1	-0.8	-3	-1.1	2.8	2.5
236,243	243,078	249,134	256,089	257,517	253,249	243,545	240,613	246,689	252,882
3	2.9	2.5	2.8	0.6	-1.7	-3.8	-1.2	2.5	2.5
87,180	89,837	91,047	91,425	90,276	91,704	90,939	90,081	93,192	95,433
4	3	1.3	0.4	-1.3	1.6	-0.8	-0.9	3.5	2.4
711	-7,796	-1,045	-3,226	-4,508	2,411	7,697	7,920	6,966	9,558

2011 I	2011 II	2011 III	2011 IV	2012 I	2012 II	2012 III	2012 IV	2013 I	2013 II
302,167	305,302	318,461	324,838	322,284	323,864	320,249	314,356	320,950	333,208
0	1	4.3	2	-0.8	0.5	-1.1	-1.8	2.1	3.8
197,247	195,820	211,327	216,586	213,929	216,217	212,981	206,985	209,716	219,363
-0.1	-0.7	7.9	2.5	-1.2	1.1	-1.5	-2.8	1.3	4.6
104,981	109,365	107,348	108,550	108,590	107,987	107,549	107,478	111,262	114,032
0.2	4.2	-1.8	1.1	0	-0.6	-0.4	-0.1	3.5	2.5
307,506	315,446	318,715	324,404	324,779	320,993	318,185	313,982	316,907	322,824
1.7	2.6	1	1.8	0.1	-1.2	-0.9	-1.3	0.9	1.9
226,209	231,051	235,098	238,954	244,350	236,324	229,271	224,739	228,697	234,421
2.6	2.1	1.8	1.6	2.3	-3.3	-3	-2	1.8	2.5

81,419	84,312	83,434	85,135	80,885	84,626	88,423	88,822	87,903	88,209
-0.7	3.6	-1	2	-5	4.6	4.5	0.5	-1	0.3

2011 I	2011 II	2011 III	2011 IV	2012 I	2012 II	2012 III	2012 IV	2013 I	2013 II
106.7	106.8	107.5	107.9	108.3	108.5	108.7	108.7	110.1	110
0.9	0.1	0.6	0.3	0.4	0.2	0.2	0.1	1.3	-0.1
104.5	105.2	105.7	106	106.7	106.5	106.5	106.5	107.4	107.8
0.2	0.6	0.4	0.4	0.6	-0.1	-0.1	0	0.8	0.4
94.4	93.9	94.3	94.5	95	94.1	94.3	93.5	94	94.8
-0.2	-0.5	0.4	0.2	0.5	-0.9	0.2	-0.8	0.5	0.9
95.2	96.3	96.1	94.8	96.2	94.5	92.6	92.7	92.7	92.9
-0.7	1.1	-0.2	-1.4	1.5	-1.8	-2	0	0	0.2
109.5	111.5	111.9	112.7	113.6	113.1	113	113.8	114.5	113.9
1.1	1.8	0.4	0.6	0.8	-0.4	-0.1	0.6	0.6	-0.5
106.1	106.4	107	107.7	108.1	108.5	108.4	108.4	109.6	110.4
0.3	0.2	0.6	0.7	0.4	0.4	-0.1	0	1.2	0.7
101.5	102.2	105.8	107.4	109.1	104.4	104	101.1	102.7	105.1
0.4	0.7	3.5	1.5	1.6	-4.2	-0.4	-2.9	1.7	2.3
112.9	112.2	113	112.9	113.2	113.9	115.3	115.6	118.4	116.8
2.8	-0.6	0.7	0	0.2	0.6	1.2	0.2	2.5	-1.4
106	106.2	106.7	108.2	108.8	109.3	109.6	110.2	110.7	110.7
-0.5	0.2	0.5	1.4	0.6	0.5	0.2	0.6	0.4	0
105.4	106.1	106.8	107.6	108.4	109.3	109.6	110.5	110.8	110.5
-0.4	0.7	0.6	0.8	0.7	0.9	0.2	0.8	0.3	-0.3
109.9	111.8	113.2	115	116.4	116.8	117	118.4	119.1	118.6
-0.3	1.7	1.2	1.6	1.2	0.3	0.2	1.2	0.7	-0.5

110.4	111.3	112.4	113	114.1	113.1	114.7	115.1	115.2	115.5
0.6	0.9	0.9	0.5	1	-0.8	1.4	0.4	0	0.2
92	92.3	92.9	94.4	93.5	95.1	93.1	92.3	92.6	92.9
0.2	0.3	0.7	1.6	-0.9	1.7	-2	-0.9	0.4	0.3
106	106.7	107.3	107.5	108	110.1	109.6	111.2	111.9	111.8
-0.1	0.7	0.5	0.2	0.5	1.9	-0.4	1.4	0.7	-0.1
104.5	105	103.8	104.1	105.3	106.2	106.8	107.5	107.5	107.5
0.7	0.4	-1.1	0.3	1.2	0.8	0.6	0.6	0.1	-0.1
107	107	108.5	109	109.7	109	109.9	110.1	110.7	111.7
-1	0	1.5	0.4	0.6	-0.6	0.8	0.2	0.6	0.9
107.3	106.5	106.5	106	106.5	107.2	106.9	107.7	108.1	107.4
1.2	-0.7	0	-0.5	0.5	0.7	-0.4	0.8	0.3	-0.6
105.2	105.5	106.7	107.1	107	107.5	105.1	105.3	107.3	107.9
1.5	0.3	1.1	0.3	0	0.4	-2.2	0.2	1.8	0.6
107.2	107.7	107.2	107.3	108.3	109.1	109.8	109.6	110.4	110
-0.1	0.5	-0.5	0.1	0.9	0.8	0.6	-0.2	0.7	-0.4
-0.5	2	-1.9	0.4	3.8	3.1	2.6	-0.8	3	-1.6
106.4	106.7	107.4	108.1	108.5	108.7	108.8	108.9	110.2	110.2
0.7	0.2	0.7	0.6	0.4	0.2	0.1	0.1	1.1	0

2011 I	2011 II	2011 III	2011 IV	2012 I	2012 II	2012 III	2012 IV	2013 I	2013 II
131,807	131,971	135,505	137,227	136,928	137,879	135,337	134,269	135,701	136,743
0.3	0.1	2.7	1.3	-0.2	0.7	-1.8	-0.8	1.1	0.8
12,379	12,557	13,112	13,052	12,619	12,988	12,486	12,627	13,430	13,711
1.8	1.4	4.4	-0.5	-3.3	2.9	-3.9	1.1	6.4	2.1
4,561	4,602	4,766	4,805	4,676	4,756	4,671	4,652	4,751	5,045
1.2	0.9	3.6	0.8	-2.7	1.7	-1.8	-0.4	2.1	6.2
7,803	7,938	8,330	8,211	7,916	8,212	7,803	7,972	8,677	8,662
2.2	1.7	4.9	-1.4	-3.6	3.7	-5	2.2	8.8	-0.2
11,811	12,262	12,109	11,876	11,523	11,834	11,189	11,622	11,457	11,528
-0.6	3.8	-1.2	-1.9	-3	2.7	-5.4	3.9	-1.4	0.6
8,615	9,034	8,881	8,583	8,258	8,532	7,849	8,385	8,176	8,462
-3	4.9	-1.7	-3.4	-3.8	3.3	-8	6.8	-2.5	3.5
3,159	3,204	3,215	3,286	3,261	3,303	3,346	3,246	3,274	3,045
6.5	1.4	0.3	2.2	-0.8	1.3	1.3	-3	0.9	-7
32,538	33,565	34,549	34,911	35,442	34,680	34,293	34,878	35,322	35,004
-1.9	3.2	2.9	1	1.5	-2.1	-1.1	1.7	1.3	-0.9
11,662	12,811	13,459	13,742	14,244	13,911	13,791	14,189	14,527	14,200
-7.4	9.9	5.1	2.1	3.7	-2.3	-0.9	2.9	2.4	-2.3

20,894	20,814	21,180	21,288	21,291	20,861	20,594	20,782	20,945	21,010
1.6	-0.4	1.8	0.5	0	-2	-1.3	0.9	0.8	0.3
74,764	73,200	75,208	76,661	76,681	77,773	76,840	74,684	74,992	75,956
0.9	-2.1	2.7	1.9	0	1.4	-1.2	-2.8	0.4	1.3
11,661	11,405	11,307	11,060	11,153	11,348	11,711	11,488	11,695	11,710
-0.5	-2.2	-0.9	-2.2	0.8	1.8	3.2	-1.9	1.8	0.1
886	908	969	1,012	984	976	925	852	819	860
1.4	2.5	6.7	4.5	-2.7	-0.8	-5.2	-7.9	-3.9	5
3,014	2,909	2,785	2,814	2,873	2,953	2,943	2,913	2,975	3,104
-0.1	-3.5	-4.2	1	2.1	2.8	-0.4	-1	2.1	4.4
5,071	4,894	4,719	4,536	4,660	4,785	4,790	5,044	4,842	4,687
0.1	-3.5	-3.6	-3.9	2.7	2.7	0.1	5.3	-4	-3.2
7,640	7,529	7,950	7,782	7,974	8,053	7,823	7,816	7,892	8,110
-1.2	-1.5	5.6	-2.1	2.5	1	-2.9	-0.1	1	2.8
3,991	3,968	4,067	4,286	4,307	4,295	4,294	4,059	4,193	4,303
2.5	-0.6	2.5	5.4	0.5	-0.3	0	-5.5	3.3	2.6
10,859	10,842	10,896	11,218	11,109	11,222	11,307	10,871	11,142	10,861
-1.8	-0.2	0.5	3	-1	1	0.8	-3.9	2.5	-2.5
5,220	5,301	5,706	6,130	6,042	6,155	5,604	5,492	5,632	5,884
11.9	1.5	7.6	7.4	-1.4	1.9	-9	-2	2.6	4.5
6,556	6,345	6,206	5,891	5,512	5,558	5,463	5,259	5,317	5,172
-1.7	-3.2	-2.2	-5.1	-6.4	0.8	-1.7	-3.7	1.1	-2.7
15,898	15,238	16,422	17,906	18,177	18,608	18,219	17,229	16,805	17,208
1.7	-4.2	7.8	9	1.5	2.4	-2.1	-5.4	-2.5	2.4
13,553	12,455	13,256	14,525	15,256	15,705	15,556	14,774	14,202	14,519
4.6	-8.1	6.4	9.6	5	2.9	-0.9	-5	-3.9	2.2
2,479	2,745	3,112	3,356	2,907	2,901	2,674	2,481	2,595	2,649
-8.7	10.7	13.4	7.8	-13.4	-0.2	-7.8	-7.2	4.6	2.1
4,042	3,978	4,285	4,179	4,070	4,038	4,018	3,948	3,917	4,247
5	-1.6	7.7	-2.5	-2.6	-0.8	-0.5	-1.7	-0.8	8.4
433,293	433,234	438,035	440,273	441,115	440,927	443,267	444,250	444,489	447,991
0.9	0	1.1	0.5	0.2	0	0.5	0.2	0.1	0.8

36,617	36,690	38,036	38,011	38,401	38,555	38,790	38,901	38,955	39,663
3.2	0.2	3.7	-0.1	1	0.4	0.6	0.3	0.1	1.8
29,908	29,648	29,607	29,788	29,825	29,431	29,520	29,473	29,833	30,759
-0.4	-0.9	-0.1	0.6	0.1	-1.3	0.3	-0.2	1.2	3.1
22,190	21,873	22,037	21,818	21,733	21,741	22,138	22,007	21,948	22,241
1.3	-1.4	0.7	-1	-0.4	0	1.8	-0.6	-0.3	1.3
21,298	21,080	21,379	21,913	21,732	21,683	21,555	21,296	21,158	21,186
-0.8	-1	1.4	2.5	-0.8	-0.2	-0.6	-1.2	-0.6	0.1
51,093	50,873	51,959	52,591	52,656	52,205	52,912	53,370	53,392	54,246
1.7	-0.4	2.1	1.2	0.1	-0.9	1.4	0.9	0	1.6
74,964	75,157	75,585	75,757	76,138	76,570	77,505	78,747	78,306	78,871
1.2	0.3	0.6	0.2	0.5	0.6	1.2	1.6	-0.6	0.7
53,376	53,205	53,287	53,320	53,951	54,333	54,595	55,014	54,992	54,911
-0.1	-0.3	0.2	0.1	1.2	0.7	0.5	0.8	0	-0.1
4,439	4,550	4,649	4,640	4,619	4,646	4,503	4,466	4,692	4,797
1.8	2.5	2.2	-0.2	-0.5	0.6	-3.1	-0.8	5.1	2.2
33,294	33,085	33,373	33,417	33,555	33,992	34,185	34,169	34,345	34,309
0.5	-0.6	0.9	0.1	0.4	1.3	0.6	0	0.5	-0.1
38,957	39,079	39,402	39,729	39,598	39,548	39,760	39,616	39,247	39,146
0.9	0.3	0.8	0.8	-0.3	-0.1	0.5	-0.4	-0.9	-0.3
4,161	4,310	4,427	4,577	4,563	4,442	4,379	4,091	4,283	4,340
0.7	3.6	2.7	3.4	-0.3	-2.7	-1.4	-6.6	4.7	1.3
10,246	10,535	10,702	10,874	10,906	10,789	10,852	10,895	11,085	11,352
1	2.8	1.6	1.6	0.3	-1.1	0.6	0.4	1.7	2.4
10,775	10,988	10,932	10,989	11,077	11,060	11,124	11,210	11,352	11,497
0.4	2	-0.5	0.5	0.8	-0.1	0.6	0.8	1.3	1.3
41,988	42,142	42,666	42,847	42,380	41,970	41,506	41,074	41,136	41,064
0.3	0.4	1.2	0.4	-1.1	-1	-1.1	-1	0.1	-0.2
565,329	565,480	573,865	577,860	578,380	579,114	578,895	578,787	580,485	585,057
0.8	0	1.5	0.7	0.1	0.1	0	0	0.3	0.8
3.3	0.1	6.1	2.8	0.4	0.5	-0.2	-0.1	1.2	3.2

2013 III	2013 IV	2014 I	2014 II	2014 III	2014 IV	2015 I	2015 II	2015 III	2015 IV
372,495	375,943	378,213	382,523	387,819	389,582	396,257	399,907	403,880	408,526
0.6	0.9	0.6	1.1	1.4	0.5	1.7	0.9	1	1.2
162,722	164,667	168,163	172,611	177,465	176,709	178,323	182,434	188,537	192,314
1.5	1.2	2.1	2.6	2.8	-0.4	0.9	2.3	3.3	2
84,829	86,151	89,211	93,341	97,815	96,841	96,714	99,408	103,044	104,806
2.5	1.6	3.6	4.6	4.8	-1	-0.1	2.8	3.7	1.7
53,724	54,089	54,324	54,460	54,603	54,636	56,211	57,352	59,275	60,870
0.1	0.7	0.4	0.3	0.3	0.1	2.9	2	3.4	2.7
24,169	24,427	24,628	24,810	25,047	25,232	25,397	25,675	26,218	26,638
1.1	1.1	0.8	0.7	1	0.7	0.7	1.1	2.1	1.6
80,260	80,227	80,829	81,686	82,520	83,234	83,715	84,686	85,449	86,454
1.1	0	0.8	1.1	1	0.9	0.6	1.2	0.9	1.2
59,010	60,074	60,036	60,748	61,238	61,827	62,048	62,743	63,311	63,969
0	1.8	-0.1	1.2	0.8	1	0.4	1.1	0.9	1
21,250	20,152	20,793	20,938	21,282	21,407	21,667	21,943	22,138	22,485
4.2	-5.2	3.2	0.7	1.6	0.6	1.2	1.3	0.9	1.6
80,790	81,700	83,412	84,818	86,066	87,084	87,860	89,109	90,559	91,629
0	1.1	2.1	1.7	1.5	1.2	0.9	1.4	1.6	1.2
95	-746	485	-765	621	1,138	-410	-1,690	276	302
696,363	701,790	711,102	720,872	734,491	737,747	745,744	754,446	768,702	779,225
0.6	0.8	1.3	1.4	1.9	0.4	1.1	1.2	1.9	1.4
2.4	3.2	5.4	5.6	7.8	1.8	4.4	4.7	7.8	5.6

2013 III	2013 IV	2014 I	2014 II	2014 III	2014 IV	2015 I	2015 II	2015 III	2015 IV
556,780	558,927	566,316	574,888	580,149	584,191	589,358	595,000	602,307	610,266
1	0.4	1.3	1.5	0.9	0.7	0.9	1	1.2	1.3
399,905	402,707	407,230	415,015	419,508	422,643	425,167	429,528	435,597	442,341
1.3	0.7	1.1	1.9	1.1	0.7	0.6	1	1.4	1.5
46,597	45,989	46,464	48,637	50,610	51,549	51,264	52,449	53,994	55,645
1.3	-1.3	1	4.7	4.1	1.9	-0.6	2.3	2.9	3.1
27,830	27,943	27,878	28,651	29,053	29,330	29,513	29,911	30,381	31,479
2.7	0.4	-0.2	2.8	1.4	1	0.6	1.4	1.6	3.6
95,508	96,267	97,905	99,609	99,375	99,179	99,350	99,203	100,575	102,140
1.4	0.8	1.7	1.7	-0.2	-0.2	0.2	-0.1	1.4	1.6
229,970	232,508	234,982	238,119	240,470	242,585	245,040	247,964	250,647	253,077
1.1	1.1	1.1	1.3	1	0.9	1	1.2	1.1	1
10,802	10,990	11,008	10,926	10,930	10,879	11,132	11,522	11,862	12,488
2.3	1.7	0.2	-0.7	0	-0.5	2.3	3.5	3	5.3
146,074	145,230	148,079	148,947	149,711	150,668	153,060	153,951	154,848	155,438
0.2	-0.6	2	0.6	0.5	0.6	1.6	0.6	0.6	0.4
132,628	130,379	134,789	141,637	147,545	152,045	154,179	155,985	158,518	159,666
-1	-1.7	3.4	5.1	4.2	3	1.4	1.2	1.6	0.7
104,549	102,667	107,060	113,889	119,824	124,203	126,485	128,222	130,699	131,950
-1.5	-1.8	4.3	6.4	5.2	3.7	1.8	1.4	1.9	1
50,026	49,823	49,445	52,173	53,972	54,326	56,183	58,177	59,285	60,871
-0.9	-0.4	-0.8	5.5	3.4	0.7	3.4	3.6	1.9	2.7
21,653	21,309	22,897	24,306	25,671	26,965	27,205	27,540	27,745	27,490
-0.8	-1.6	7.5	6.2	5.6	5	0.9	1.2	0.7	-0.9
19,850	18,292	20,925	23,353	25,695	27,747	28,696	28,022	29,121	29,116

-4.7	-7.9	14.4	11.6	10	8	3.4	-2.3	3.9	0
13,020	13,243	13,792	14,057	14,486	15,164	14,401	14,482	14,547	14,473
0	1.7	4.1	1.9	3.1	4.7	-5	0.6	0.4	-0.5
1,230	1,215	1,229	1,240	1,246	1,240	1,185	1,197	1,200	1,179
-3.3	-1.2	1.2	0.9	0.5	-0.5	-4.4	1	0.2	-1.7
26,849	26,497	26,500	26,507	26,475	26,602	26,509	26,566	26,619	26,538
1.3	-1.3	0	0	-0.1	0.5	-0.4	0.2	0.2	-0.3
358,502	365,818	368,913	374,201	383,196	381,978	385,169	391,132	412,761	418,923
0.2	2	0.8	1.4	2.4	-0.3	0.8	1.5	5.5	1.5
353,031	360,276	366,714	376,457	380,429	389,752	395,474	396,326	404,180	404,853
1.4	2.1	1.8	2.7	1.1	2.5	1.5	0.2	2	0.2
1,579	6,195	8,224	5,838	4,652	10,422	12,101	6,965	-428	-4,330
2,201	7,035	7,940	5,632	4,550	10,424	12,319	6,902	-561	-4,799
-626	-835	292	209	105	2	-223	56	124	463
-95	746	-426	766	-621	-1,138	410	1,690	-276	-448
696,363	701,790	711,102	720,872	734,491	737,747	745,744	754,446	768,702	779,225
0.6	0.8	1.3	1.4	1.9	0.4	1.1	1.2	1.9	1.4
2.4	3.2	5.4	5.6	7.8	1.8	4.4	4.7	7.8	5.6
689,409	689,306	701,105	716,525	727,694	736,236	743,538	750,985	760,825	769,933
0.7	0	1.7	2.2	1.6	1.2	1	1	1.3	1.2

2013 III	2013 IV	2014 I	2014 II	2014 III	2014 IV	2015 I	2015 II	2015 III	2015 IV
503,225	504,219	505,892	511,072	514,166	517,242	521,180	524,305	527,041	532,114

0.5	0.2	0.3	1	0.6	0.6	0.8	0.6	0.5	1
368,664	370,006	371,413	375,466	378,844	381,469	383,386	385,398	387,928	392,388
0.7	0.4	0.4	1.1	0.9	0.7	0.5	0.5	0.7	1.1
48,848	48,860	49,053	51,318	53,169	53,848	53,102	54,078	55,529	57,067
0.6	0	0.4	4.6	3.6	1.3	-1.4	1.8	2.7	2.8
29,859	30,276	29,992	30,455	30,750	30,991	31,223	31,589	31,751	32,921
2.3	1.4	-0.9	1.5	1	0.8	0.7	1.2	0.5	3.7
83,074	83,222	83,901	83,298	83,788	84,749	85,584	84,687	85,343	86,214
0.5	0.2	0.8	-0.7	0.6	1.1	1	-1	0.8	1
207,266	208,071	208,791	211,101	212,080	212,852	214,283	216,044	216,495	217,694
0.6	0.4	0.3	1.1	0.5	0.4	0.7	0.8	0.2	0.6
9,974	9,811	10,043	10,087	10,246	10,308	10,534	10,680	10,825	11,053
-0.7	-1.6	2.4	0.4	1.6	0.6	2.2	1.4	1.4	2.1
124,902	124,761	124,803	125,885	125,559	125,965	127,702	128,659	128,773	129,234
0	-0.1	0	0.9	-0.3	0.3	1.4	0.7	0.1	0.4
118,877	116,176	118,533	123,286	127,125	129,752	130,092	130,754	130,649	130,521
-1.7	-2.3	2	4	3.1	2.1	0.3	0.5	-0.1	-0.1
94,075	91,967	94,399	99,351	103,318	105,780	106,450	107,242	107,300	107,525
-2.1	-2.2	2.6	5.2	4	2.4	0.6	0.7	0.1	0.2
41,634	41,279	40,361	42,222	43,075	43,002	44,073	45,450	45,583	46,470
-2.2	-0.9	-2.2	4.6	2	-0.2	2.5	3.1	0.3	1.9
18,570	18,139	19,306	20,337	21,321	22,300	22,300	22,469	22,624	22,306
-1.7	-2.3	6.4	5.3	4.8	4.6	0	0.8	0.7	-1.4
21,139	19,461	21,786	24,224	26,419	27,958	28,041	26,860	26,661	26,125
-5.7	-7.9	11.9	11.2	9.1	5.8	0.3	-4.2	-0.7	-2
11,929	11,958	12,249	12,171	12,435	12,765	12,136	12,126	12,116	12,118
2.4	0.2	2.4	-0.6	2.2	2.7	-4.9	-0.1	-0.1	0
1,138	1,124	1,135	1,137	1,142	1,134	1,071	1,066	1,053	1,017
-3.9	-1.2	1	0.1	0.5	-0.7	-5.6	-0.5	-1.2	-3.4
23,711	23,209	23,106	22,849	22,675	22,834	22,588	22,472	22,316	22,011
-0.1	-2.1	-0.4	-1.1	-0.8	0.7	-1.1	-0.5	-0.7	-1.4

331,654	337,177	333,231	337,190	343,995	340,941	339,231	343,269	355,701	361,883
-0.5	1.7	-1.2	1.2	2	-0.9	-0.5	1.2	3.6	1.7
321,901	327,052	324,622	332,333	334,701	338,991	340,946	342,637	343,383	345,630
-0.3	1.6	-0.7	2.4	0.7	1.3	0.6	0.5	0.2	0.7
2,023	6,937	7,369	5,211	3,953	8,275	9,445	5,962	715	-2,046
2,106	7,095	7,161	5,110	3,834	8,239	9,744	6,039	477	-2,564
-84	-158	208	102	119	35	-299	-77	238	518
-30	586	397	621	-786	-1,500	397	1,589	-516	-265
633,736	638,381	639,758	645,429	652,435	657,429	659,608	663,470	670,529	677,029
0.7	0.7	0.2	0.9	1.1	0.8	0.3	0.6	1.1	1
2.7	3	0.9	3.6	4.4	3.1	1.3	2.4	4.3	3.9
621,836	619,866	624,077	634,157	641,250	647,128	651,341	655,052	657,615	662,496
0	-0.3	0.7	1.6	1.1	0.9	0.7	0.6	0.4	0.7

2013 III	2013 IV	2014 I	2014 II	2014 III	2014 IV	2015 I	2015 II	2015 III	2015 IV
368,561	372,209	374,472	378,558	383,764	385,493	390,881	394,525	397,743	403,203
0.7	1	0.6	1.1	1.4	0.5	1.4	0.9	0.8	1.4
59,010	60,074	60,036	60,748	61,238	61,827	62,048	62,743	63,311	63,969
0	1.8	-0.1	1.2	0.8	1	0.4	1.1	0.9	1
26,880	26,950	27,136	27,590	28,023	28,371	28,514	28,723	28,781	28,990
0.4	0.3	0.7	1.7	1.6	1.2	0.5	0.7	0.2	0.7
671	613	535	842	940	1,127	818	889	988	1,033
-12.4	-8.7	-12.6	57.3	11.7	19.8	-27.4	8.8	11.1	4.5

31,459	32,512	32,364	32,316	32,275	32,329	32,716	33,131	33,542	33,946
0	3.3	-0.5	-0.1	-0.1	0.2	1.2	1.3	1.2	1.2
45,841	46,039	47,447	47,946	47,659	48,556	47,899	52,731	54,090	57,120
0.3	0.4	3.1	1.1	-0.6	1.9	-1.4	10.1	2.6	5.6
473,412	478,323	481,955	487,252	492,661	495,876	500,828	510,000	515,144	524,292
0.6	1	0.8	1.1	1.1	0.7	1	1.8	1	1.8
99,155	102,087	101,208	100,318	100,717	100,381	104,417	107,585	110,720	112,102
1.6	3	-0.9	-0.9	0.4	-0.3	4	3	2.9	1.2
174,904	176,659	179,533	180,304	181,458	183,501	189,045	187,467	191,777	195,211
1	1	1.6	0.4	0.6	1.1	3	-0.8	2.3	1.8
397,663	403,750	403,629	407,266	411,921	412,756	416,201	430,118	434,086	441,184
0.6	1.5	0	0.9	1.1	0.2	0.8	3.3	0.9	1.6
399,905	402,707	407,230	415,015	419,508	422,643	425,167	429,528	435,597	442,341
1.3	0.7	1.1	1.9	1.1	0.7	0.6	1	1.4	1.5
16,713	16,754	17,736	16,358	15,216	14,985	15,917	13,419	13,947	14,189
10.5	0.2	5.9	-7.8	-7	-1.5	6.2	-15.7	3.9	1.7
14,472	17,797	14,136	8,609	7,629	5,098	6,950	14,009	12,436	13,032
-7.3	23	-20.6	-39.1	-11.4	-33.2	36.3	101.6	-11.2	4.8
3.6	4.4	3.5	2.1	1.9	1.2	1.7	3.3	2.9	3
13,556	13,608	13,617	13,641	13,680	13,729	13,731	13,748	13,790	13,846
0.4	0.4	0.1	0.2	0.3	0.4	0	0.1	0.3	0.4
29,335	29,669	29,642	29,856	30,110	30,064	30,312	31,286	31,479	31,863
0.3	1.1	-0.1	0.7	0.8	-0.2	0.8	3.2	0.6	1.2

2013 III	2013 IV	2014 I	2014 II	2014 III	2014 IV	2015 I	2015 II	2015 III	2015 IV

358,502	365,818	368,913	374,201	383,196	381,978	385,169	391,132	412,761	418,923
0.2	2	0.8	1.4	2.4	-0.3	0.8	1.5	5.5	1.5
225,788	228,736	232,567	240,026	254,296	257,384	258,087	261,260	280,790	284,879
-2	1.3	1.7	3.2	5.9	1.2	0.3	1.2	7.5	1.5
132,714	137,082	136,347	134,175	128,900	124,595	127,082	129,871	131,971	134,044
4.2	3.3	-0.5	-1.6	-3.9	-3.3	2	2.2	1.6	1.6
353,031	360,276	366,714	376,457	380,429	389,752	395,474	396,326	404,180	404,853
1.4	2.1	1.8	2.7	1.1	2.5	1.5	0.2	2	0.2
255,195	260,226	261,776	275,785	281,372	295,406	300,280	300,592	307,616	307,197
0.9	2	0.6	5.4	2	5	1.6	0.1	2.3	-0.1
97,836	100,050	104,937	100,672	99,057	94,346	95,194	95,734	96,564	97,656
2.5	2.3	4.9	-4.1	-1.6	-4.8	0.9	0.6	0.9	1.1
5,471	5,542	2,200	-2,256	2,766	-7,774	-10,305	-5,195	8,581	14,070

2013 III	2013 IV	2014 I	2014 II	2014 III	2014 IV	2015 I	2015 II	2015 III	2015 IV
331,654	337,177	333,231	337,190	343,995	340,941	339,231	343,269	355,701	361,883
-0.5	1.7	-1.2	1.2	2	-0.9	-0.5	1.2	3.6	1.7
213,856	215,893	213,743	219,378	229,654	228,889	226,533	230,630	243,184	249,365
-2.5	1	-1	2.6	4.7	-0.3	-1	1.8	5.4	2.5
117,679	121,086	119,415	117,859	114,453	112,346	112,999	112,942	112,707	112,636
3.2	2.9	-1.4	-1.3	-2.9	-1.8	0.6	-0.1	-0.2	-0.1
321,901	327,052	324,622	332,333	334,701	338,991	340,946	342,637	343,383	345,630
-0.3	1.6	-0.7	2.4	0.7	1.3	0.6	0.5	0.2	0.7
234,853	239,333	232,500	243,511	247,384	254,397	254,874	255,879	255,911	256,224
0.2	1.9	-2.9	4.7	1.6	2.8	0.2	0.4	0	0.1

86,975	87,752	92,136	88,583	87,210	84,424	85,842	86,492	87,174	89,112
-1.4	0.9	5	-3.9	-1.5	-3.2	1.7	0.8	0.8	2.2

2013 III	2013 IV	2014 I	2014 II	2014 III	2014 IV	2015 I	2015 II	2015 III	2015 IV
110.6	110.9	111.9	112.5	112.8	112.9	113.1	113.5	114.3	114.7
0.6	0.2	1	0.5	0.3	0.1	0.1	0.4	0.7	0.4
108.5	108.8	109.6	110.5	110.7	110.8	110.9	111.5	112.3	112.7
0.6	0.3	0.7	0.8	0.2	0.1	0.1	0.5	0.8	0.4
95.4	94.1	94.7	94.8	95.2	95.7	96.5	97	97.2	97.5
0.6	-1.3	0.6	0.1	0.4	0.6	0.8	0.5	0.3	0.3
93.2	92.3	93	94.1	94.5	94.6	94.5	94.7	95.7	95.6
0.4	-1	0.7	1.2	0.4	0.2	-0.1	0.2	1	-0.1
115	115.7	116.7	119.6	118.6	117	116.1	117.1	117.8	118.5
0.9	0.6	0.9	2.5	-0.8	-1.3	-0.8	0.9	0.6	0.5
111	111.7	112.5	112.8	113.4	114	114.4	114.8	115.8	116.3
0.5	0.7	0.7	0.2	0.5	0.5	0.3	0.4	0.9	0.4
108.3	112	109.6	108.3	106.7	105.5	105.7	107.9	109.6	113
3	3.4	-2.2	-1.2	-1.5	-1.1	0.1	2.1	1.6	3.1
117	116.4	118.7	118.3	119.2	119.6	119.9	119.7	120.2	120.3
0.2	-0.5	1.9	-0.3	0.8	0.3	0.2	-0.2	0.5	0
111.6	112.2	113.7	114.9	116.1	117.2	118.5	119.3	121.3	122.3
0.8	0.6	1.3	1	1	1	1.1	0.7	1.7	0.8
111.1	111.6	113.4	114.6	116	117.4	118.8	119.6	121.8	122.7
0.6	0.5	1.6	1.1	1.2	1.2	1.2	0.6	1.9	0.7
120.2	120.7	122.5	123.6	125.3	126.3	127.5	128	130.1	131
1.3	0.5	1.5	0.9	1.4	0.8	0.9	0.4	1.6	0.7

116.6	117.5	118.6	119.5	120.4	120.9	122	122.6	122.6	123.2
1	0.8	1	0.8	0.7	0.4	0.9	0.5	0.1	0.5
93.9	94	96	96.4	97.3	99.2	102.3	104.3	109.2	111.4
1.1	0.1	2.2	0.4	0.9	2	3.1	1.9	4.7	2
109.1	110.7	112.6	115.5	116.5	118.8	118.7	119.4	120.1	119.4
-2.4	1.5	1.7	2.6	0.9	2	-0.1	0.6	0.5	-0.5
108.1	108.1	108.3	109.1	109.2	109.3	110.6	112.2	113.9	115.9
0.6	0	0.2	0.8	0	0.1	1.2	1.4	1.5	1.7
113.2	114.2	114.7	116	116.8	116.5	117.4	118.2	119.3	120.6
1.3	0.8	0.5	1.2	0.6	-0.2	0.7	0.7	0.9	1.1
108.1	108.5	110.7	111	111.4	112	113.5	113.9	116	115.8
0.7	0.4	2	0.2	0.4	0.6	1.3	0.4	1.8	-0.2
109.7	110.1	113	113.3	113.7	115	116	115.7	117.7	117.1
1.6	0.4	2.6	0.3	0.3	1.2	0.9	-0.3	1.8	-0.5
109.9	109.9	111.2	111.7	112.6	112.2	113.1	113.7	114.6	115.1
-0.1	0	1.1	0.5	0.8	-0.3	0.8	0.6	0.8	0.4
-0.3	0.2	4.5	1.9	3.2	-1.3	3	2.3	3.3	1.6
110.9	111.2	112.3	113	113.5	113.8	114.2	114.6	115.7	116.2
0.6	0.3	1	0.6	0.4	0.3	0.3	0.4	0.9	0.5

2013 III	2013 IV	2014 I	2014 II	2014 III	2014 IV	2015 I	2015 II	2015 III	2015 IV
136,317	137,726	137,856	139,765	140,985	140,825	140,881	141,061	143,440	144,239
-0.3	1	0.1	1.4	0.9	-0.1	0	0.1	1.7	0.6
13,794	13,944	13,870	13,289	13,401	12,555	12,677	12,892	13,071	13,419
0.6	1.1	-0.5	-4.2	0.8	-6.3	1	1.7	1.4	2.7
5,206	5,145	4,955	4,793	4,728	4,918	4,972	5,090	5,051	5,055
3.2	-1.2	-3.7	-3.3	-1.3	4	1.1	2.4	-0.8	0.1
8,585	8,796	8,920	8,495	8,676	7,600	7,678	7,784	8,014	8,369
-0.9	2.5	1.4	-4.8	2.1	-12.4	1	1.4	2.9	4.4
11,431	11,623	11,796	12,009	11,965	12,583	12,593	11,933	11,367	11,021
-0.8	1.7	1.5	1.8	-0.4	5.2	0.1	-5.2	-4.7	-3
8,443	8,632	8,430	8,683	8,836	9,312	9,202	8,845	8,222	8,014
-0.2	2.2	-2.3	3	1.8	5.4	-1.2	-3.9	-7	-2.5
2,952	2,941	3,289	3,279	3,125	3,285	3,381	3,077	3,102	2,955
-3.1	-0.4	11.8	-0.3	-4.7	5.1	2.9	-9	0.8	-4.7
34,837	35,098	35,104	35,750	36,237	36,299	36,872	37,377	37,654	37,961
-0.5	0.7	0	1.8	1.4	0.2	1.6	1.4	0.7	0.8
13,641	13,892	13,861	14,205	14,415	14,375	14,952	15,079	15,269	15,764
-3.9	1.8	-0.2	2.5	1.5	-0.3	4	0.8	1.3	3.2

21,457	21,523	21,517	21,775	22,012	22,071	22,117	22,545	22,680	22,542
2.1	0.3	0	1.2	1.1	0.3	0.2	1.9	0.6	-0.6
75,676	76,440	76,484	78,109	78,833	78,777	78,083	78,118	80,482	80,876
-0.4	1	0.1	2.1	0.9	-0.1	-0.9	0	3	0.5
11,043	11,050	11,684	11,982	11,952	12,110	12,195	12,036	12,036	11,758
-5.7	0.1	5.7	2.6	-0.3	1.3	0.7	-1.3	0	-2.3
859	847	860	872	926	886	855	856	959	958
-0.1	-1.5	1.5	1.5	6.2	-4.4	-3.4	0	12.1	-0.1
3,232	3,153	3,057	3,188	3,268	3,172	3,219	3,326	3,481	3,498
4.1	-2.4	-3	4.3	2.5	-2.9	1.5	3.3	4.7	0.5
4,606	4,418	4,539	4,491	4,442	4,523	4,527	4,561	4,651	4,810
-1.7	-4.1	2.7	-1.1	-1.1	1.8	0.1	0.7	2	3.4
8,140	8,329	7,872	8,182	7,976	7,589	8,007	7,887	8,040	8,476
0.4	2.3	-5.5	3.9	-2.5	-4.8	5.5	-1.5	2	5.4
4,413	4,401	4,432	4,525	4,603	4,727	4,720	4,792	4,846	4,720
2.6	-0.3	0.7	2.1	1.7	2.7	-0.1	1.5	1.1	-2.6
11,168	11,607	11,627	11,647	11,957	11,901	11,287	11,145	11,364	11,190
2.8	3.9	0.2	0.2	2.7	-0.5	-5.2	-1.3	2	-1.5
5,876	5,777	5,910	5,954	6,009	6,220	6,409	6,457	6,548	6,736
-0.1	-1.7	2.3	0.7	0.9	3.5	3	0.8	1.4	2.9
4,669	4,558	4,682	4,763	4,982	4,612	4,733	4,805	4,732	4,768
-9.7	-2.4	2.7	1.7	4.6	-7.4	2.6	1.5	-1.5	0.8
17,618	18,338	18,088	18,948	19,299	19,786	18,612	18,787	19,956	20,147
2.4	4.1	-1.4	4.8	1.9	2.5	-5.9	0.9	6.2	1
14,814	15,295	14,981	15,719	16,135	16,707	15,591	15,604	16,814	16,933
2	3.2	-2.1	4.9	2.6	3.5	-6.7	0.1	7.8	0.7
2,733	2,940	3,037	3,149	3,067	2,960	2,926	3,090	3,050	3,126
3.2	7.6	3.3	3.7	-2.6	-3.5	-1.2	5.6	-1.3	2.5
4,187	4,052	3,962	3,969	4,009	3,987	4,053	3,903	4,228	4,048
-1.4	-3.2	-2.2	0.2	1	-0.5	1.6	-3.7	8.3	-4.2
452,474	454,862	454,940	458,862	463,694	467,045	468,663	473,145	476,683	482,499
1	0.5	0	0.9	1.1	0.7	0.3	1	0.7	1.2

40,648	41,310	40,297	41,036	41,559	41,416	40,750	42,873	43,149	44,358
2.5	1.6	-2.5	1.8	1.3	-0.3	-1.6	5.2	0.6	2.8
31,622	32,082	31,256	31,175	31,060	30,743	31,359	32,203	33,003	33,844
2.8	1.5	-2.6	-0.3	-0.4	-1	2	2.7	2.5	2.5
22,401	22,812	23,050	23,705	24,117	24,433	24,556	24,517	24,766	24,949
0.7	1.8	1	2.8	1.7	1.3	0.5	-0.2	1	0.7
21,620	21,276	21,968	22,270	22,602	22,831	22,658	22,551	22,319	22,081
2.1	-1.6	3.3	1.4	1.5	1	-0.8	-0.5	-1	-1.1
55,514	56,811	56,424	56,382	57,417	58,030	58,899	59,325	60,401	61,149
2.3	2.3	-0.7	-0.1	1.8	1.1	1.5	0.7	1.8	1.2
79,091	79,034	79,272	79,860	80,354	80,786	81,084	82,218	83,327	85,497
0.3	-0.1	0.3	0.7	0.6	0.5	0.4	1.4	1.3	2.6
54,829	54,452	55,101	56,601	58,306	59,356	59,431	58,992	59,011	59,393
-0.1	-0.7	1.2	2.7	3	1.8	0.1	-0.7	0	0.6
4,863	4,971	4,837	4,577	4,306	4,255	4,492	4,450	4,642	4,842
1.4	2.2	-2.7	-5.4	-5.9	-1.2	5.6	-0.9	4.3	4.3
34,535	34,709	34,712	34,735	35,220	35,860	36,024	35,900	35,365	35,402
0.7	0.5	0	0.1	1.4	1.8	0.5	-0.3	-1.5	0.1
39,045	38,859	39,121	39,426	39,737	39,959	40,122	40,335	40,590	40,756
-0.3	-0.5	0.7	0.8	0.8	0.6	0.4	0.5	0.6	0.4
4,400	4,458	4,436	4,552	4,701	4,822	4,854	5,034	5,014	4,976
1.4	1.3	-0.5	2.6	3.3	2.6	0.7	3.7	-0.4	-0.8
11,550	11,756	11,872	12,086	12,234	12,299	12,174	12,455	12,654	12,755
1.7	1.8	1	1.8	1.2	0.5	-1	2.3	1.6	0.8
11,557	11,679	11,824	12,021	12,083	12,135	12,083	12,029	12,046	12,076
0.5	1.1	1.2	1.7	0.5	0.4	-0.4	-0.4	0.1	0.2
41,350	41,358	41,324	40,958	40,466	40,517	40,764	40,999	41,280	41,445
0.7	0	-0.1	-0.9	-1.2	0.1	0.6	0.6	0.7	0.4
589,142	592,968	593,161	598,975	605,022	608,217	609,909	614,594	620,532	627,171
0.7	0.6	0	1	1	0.5	0.3	0.8	1	1.1
2.8	2.6	0.1	4	4.1	2.1	1.1	3.1	3.9	4.3

2016 I	2016 II	2016 III	2016 IV	2017 I	2017 II	2017 III	2017 IV
410,795	414,941	415,549	421,589	425,214	427,107	432,026	
0.6	1	0.1	1.5	0.9	0.4	1.2	
193,399	191,759	197,380	199,091	206,872	206,116	205,145	
0.6	-0.8	2.9	0.9	3.9	-0.4	-0.5	
106,338	104,075	110,682	112,324	120,200	118,181	117,753	
1.5	-2.1	6.3	1.5	7	-1.7	-0.4	
60,515	61,221	60,181	60,111	59,808	60,907	60,388	
-0.6	1.2	-1.7	-0.1	-0.5	1.8	-0.9	
26,546	26,463	26,517	26,655	26,864	27,029	27,003	
-0.3	-0.3	0.2	0.5	0.8	0.6	-0.1	
87,662	89,465	88,165	88,768	90,364	91,045	91,640	
1.4	2.1	-1.5	0.7	1.8	0.8	0.7	
64,777	65,548	65,546	65,902	66,998	67,543	68,089	
1.3	1.2	0	0.5	1.7	0.8	0.8	
22,885	23,917	22,620	22,866	23,366	23,502	23,551	
1.8	4.5	-5.4	1.1	2.2	0.6	0.2	
93,174	94,120	95,411	96,555	97,274	101,312	100,972	
1.7	1	1.4	1.2	0.7	4.2	-0.3	
2,225	-1,121	740	-326	2,557	2,385	277	
787,255	789,163	797,246	805,677	822,281	827,965	830,060	
1	0.2	1	1.1	2.1	0.7	0.3	
4.2	1	4.2	4.3	8.5	2.8	1	

2016 I	2016 II	2016 III	2016 IV	2017 I	2017 II	2017 III	2017 IV
614,613	618,900	622,373	631,502	638,307	647,600	653,424	
0.7	0.7	0.6	1.5	1.1	1.5	0.9	
445,751	448,111	452,145	459,561	464,958	470,877	475,796	
0.8	0.5	0.9	1.6	1.2	1.3	1	
57,909	57,337	58,257	60,489	62,155	62,389	62,537	
4.1	-1	1.6	3.8	2.8	0.4	0.2	
31,429	31,202	31,231	31,605	31,703	32,616	32,924	
-0.2	-0.7	0.1	1.2	0.3	2.9	0.9	
101,286	102,874	103,346	105,247	106,458	108,444	109,570	
-0.8	1.6	0.5	1.8	1.2	1.9	1	
255,128	256,698	259,311	262,219	264,641	267,427	270,766	
0.8	0.6	1	1.1	0.9	1.1	1.2	
12,090	12,450	12,189	12,007	12,208	12,445	12,456	
-3.2	3	-2.1	-1.5	1.7	1.9	0.1	
156,771	158,339	158,040	159,934	161,141	164,278	165,172	
0.9	1	-0.2	1.2	0.8	1.9	0.5	
161,751	161,584	161,263	163,701	174,388	169,949	167,958	
1.3	-0.1	-0.2	1.5	6.5	-2.5	-1.2	
133,292	132,785	131,601	132,861	143,560	138,963	136,220	
1	-0.4	-0.9	1	8.1	-3.2	-2	
63,936	65,078	67,081	69,400	78,276	71,654	68,984	
5	1.8	3.1	3.5	12.8	-8.5	-3.7	
25,970	24,707	24,584	23,480	23,930	24,641	25,125	
-5.5	-4.9	-0.5	-4.5	1.9	3	2	
28,839	28,410	25,582	25,689	27,032	28,393	27,630	

-1	-1.5	-10	0.4	5.2	5	-2.7
14,547	14,591	14,354	14,292	14,322	14,274	14,481
0.5	0.3	-1.6	-0.4	0.2	-0.3	1.4
1,205	1,263	1,323	1,373	1,340	1,366	1,374
2.3	4.8	4.7	3.8	-2.4	2	0.6
27,253	27,536	28,339	29,467	29,488	29,620	30,363
2.7	1	2.9	4	0.1	0.4	2.5
425,163	409,545	414,884	413,720	417,907	426,821	404,390
1.5	-3.7	1.3	-0.3	1	2.1	-5.3
408,539	400,985	402,379	401,893	410,941	420,113	405,100
0.9	-1.8	0.3	-0.1	2.3	2.2	-3.6
-3,702	-1,003	1,844	-1,680	5,176	6,094	9,666
-3,678	-1,008	2,027	-1,146	5,205	6,231	9,726
6	-5	-185	-564	-70	-154	-65
-2,032	1,121	-740	326	-2,557	-2,385	-277
787,255	789,163	797,246	805,677	822,281	827,965	830,060
1	0.2	1	1.1	2.1	0.7	0.3
4.2	1	4.2	4.3	8.5	2.8	1
776,514	780,784	784,286	794,103	812,695	817,549	821,382
0.9	0.5	0.4	1.3	2.3	0.6	0.5

2016 I	2016 II	2016 III	2016 IV	2017 I	2017 II	2017 III	2017 IV
534,653	539,144	540,368	544,920	549,068	556,007	561,035	

0.5	0.8	0.2	0.8	0.8	1.3	0.9
394,254	397,224	399,677	403,681	407,558	412,867	417,029
0.5	0.8	0.6	1	1	1.3	1
58,759	57,827	58,805	60,649	62,090	62,836	63,195
3	-1.6	1.7	3.1	2.4	1.2	0.6
33,195	32,711	32,699	33,307	33,667	34,999	35,218
0.8	-1.5	0	1.9	1.1	4	0.6
85,538	86,996	87,839	87,946	88,552	90,970	91,867
-0.8	1.7	1	0.1	0.7	2.7	1
218,540	221,091	221,777	223,484	225,112	226,102	228,738
0.4	1.2	0.3	0.8	0.7	0.4	1.2
10,850	10,961	10,697	10,600	10,608	10,813	10,742
-1.8	1	-2.4	-0.9	0.1	1.9	-0.7
130,083	131,470	130,585	131,258	131,574	133,025	133,990
0.7	1.1	-0.7	0.5	0.2	1.1	0.7
131,112	131,287	130,334	129,571	135,950	133,198	132,996
0.5	0.1	-0.7	-0.6	4.9	-2	-0.2
107,553	107,456	105,815	104,243	110,639	107,893	106,862
0	-0.1	-1.5	-1.5	6.1	-2.5	-1
47,854	48,383	49,058	49,808	54,102	50,577	49,023
3	1.1	1.4	1.5	8.6	-6.5	-3.1
21,194	20,256	19,885	19,261	19,645	20,182	20,450
-5	-4.4	-1.8	-3.1	2	2.7	1.3
25,899	26,081	23,735	23,613	25,000	25,816	26,191
-0.9	0.7	-9	-0.5	5.9	3.3	1.4
11,967	11,938	11,610	11,345	11,468	11,429	11,541
-1.2	-0.2	-2.7	-2.3	1.1	-0.3	1
1,037	1,084	1,134	1,166	1,142	1,155	1,161
1.9	4.5	4.7	2.8	-2	1.1	0.5
22,564	22,812	23,436	24,197	24,134	24,145	25,012
2.5	1.1	2.7	3.2	-0.3	0	3.6

367,780	357,715	357,966	352,052	356,897	358,521	350,146
1.6	-2.7	0.1	-1.7	1.4	0.5	-2.3
348,016	346,045	342,601	335,766	346,463	347,112	346,854
0.7	-0.6	-1	-2	3.2	0.2	-0.1
-3,799	-922	1,316	-2,190	3,953	4,908	8,281
-3,820	-1,088	1,362	-1,762	4,011	5,018	8,336
20	166	-46	-428	-58	-109	-56
-955	1,150	-1,062	-271	-2,168	-2,026	-236
681,467	682,706	686,233	689,625	697,332	703,246	705,014
0.7	0.2	0.5	0.5	1.1	0.8	0.3
2.6	0.7	2.1	2	4.5	3.4	1
665,628	670,257	670,477	674,178	685,114	688,954	693,677
0.5	0.7	0	0.6	1.6	0.6	0.7

2016 I	2016 II	2016 III	2016 IV	2017 I	2017 II	2017 III	2017 IV
405,399	409,190	409,488	415,150	418,720	420,584	425,427	
0.5	0.9	0.1	1.4	0.9	0.4	1.2	
64,777	65,548	65,546	65,902	66,998	67,543	68,089	
1.3	1.2	0	0.5	1.7	0.8	0.8	
29,691	30,175	30,123	30,623	31,510	31,735	31,852	
2.4	1.6	-0.2	1.7	2.9	0.7	0.4	
1,053	966	874	724	777	763	720	
1.9	-8.3	-9.5	-17.2	7.4	-1.8	-5.6	

34,033	34,407	34,549	34,555	34,711	35,045	35,516
0.3	1.1	0.4	0	0.5	1	1.3
53,512	52,927	53,202	53,035	51,040	53,316	51,157
-6.3	-1.1	0.5	-0.3	-3.8	4.5	-4
523,688	527,665	528,236	534,088	536,757	541,442	544,673
-0.1	0.8	0.1	1.1	0.5	0.9	0.6
112,408	114,136	116,893	117,184	117,198	119,303	119,742
0.3	1.5	2.4	0.2	0	1.8	0.4
193,720	196,449	194,787	195,164	197,088	198,984	199,193
-0.8	1.4	-0.8	0.2	1	1	0.1
442,376	445,351	450,341	456,108	456,868	461,760	465,221
0.3	0.7	1.1	1.3	0.2	1.1	0.7
445,751	448,111	452,145	459,561	464,958	470,877	475,796
0.8	0.5	0.9	1.6	1.2	1.3	1
13,430	13,881	13,721	14,173	13,924	13,589	13,390
-5.4	3.4	-1.2	3.3	-1.8	-2.4	-1.5
10,054	11,121	11,917	10,719	5,834	4,473	2,815
-22.8	10.6	7.2	-10.1	-45.6	-23.3	-37.1
2.3	2.5	2.6	2.4	1.3	1	0.6
13,868	13,915	13,976	14,054	14,085	14,124	14,193
0.2	0.3	0.4	0.6	0.2	0.3	0.5
31,899	32,006	32,222	32,455	32,437	32,693	32,777
0.1	0.3	0.7	0.7	-0.1	0.8	0.3

2016 I	2016 II	2016 III	2016 IV	2017 I	2017 II	2017 III	2017 IV

425,163	409,545	414,884	413,720	417,907	426,821	404,390
1.5	-3.7	1.3	-0.3	1	2.1	-5.3
292,008	276,930	281,978	280,251	283,559	291,206	267,645
2.5	-5.2	1.8	-0.6	1.2	2.7	-8.1
133,155	132,615	132,905	133,469	134,348	135,615	136,745
-0.7	-0.4	0.2	0.4	0.7	0.9	0.8
408,539	400,985	402,379	401,893	410,941	420,113	405,100
0.9	-1.8	0.3	-0.1	2.3	2.2	-3.6
310,519	302,253	303,291	302,249	310,933	319,946	305,474
1.1	-2.7	0.3	-0.3	2.9	2.9	-4.5
98,020	98,732	99,088	99,644	100,008	100,166	99,626
0.4	0.7	0.4	0.6	0.4	0.2	-0.5
16,624	8,560	12,504	11,827	6,966	6,708	-711

2016 I	2016 II	2016 III	2016 IV	2017 I	2017 II	2017 III	2017 IV
367,780	357,715	357,966	352,052	356,897	358,521	350,146	
1.6	-2.7	0.1	-1.7	1.4	0.5	-2.3	
254,690	244,034	243,720	236,997	241,729	242,974	232,064	
2.1	-4.2	-0.1	-2.8	2	0.5	-4.5	
113,447	113,854	114,520	115,247	115,342	115,720	118,304	
0.7	0.4	0.6	0.6	0.1	0.3	2.2	
348,016	346,045	342,601	335,766	346,463	347,112	346,854	
0.7	-0.6	-1	-2	3.2	0.2	-0.1	
256,542	253,702	250,369	244,242	253,244	254,383	253,154	
0.1	-1.1	-1.3	-2.4	3.7	0.4	-0.5	

91,376	92,438	92,482	91,952	93,484	92,890	94,020
2.5	1.2	0	-0.6	1.7	-0.6	1.2

2016 I	2016 II	2016 III	2016 IV	2017 I	2017 II	2017 III	2017 IV
115	114.8	115.2	115.9	116.3	116.5	116.5	
0.2	-0.1	0.3	0.6	0.3	0.2	0	
113.1	112.8	113.1	113.8	114.1	114.1	114.1	
0.3	-0.2	0.3	0.6	0.2	0	0	
98.6	99.2	99.1	99.7	100.1	99.3	99	
1.1	0.6	-0.1	0.7	0.4	-0.8	-0.3	
94.7	95.4	95.5	94.9	94.2	93.2	93.5	
-1	0.7	0.1	-0.6	-0.8	-1	0.3	
118.4	118.3	117.7	119.7	120.2	119.2	119.3	
-0.1	-0.1	-0.5	1.7	0.5	-0.8	0.1	
116.7	116.1	116.9	117.3	117.6	118.3	118.4	
0.4	-0.5	0.7	0.3	0.2	0.6	0.1	
111.4	113.6	113.9	113.3	115.1	115.1	116	
-1.4	1.9	0.3	-0.6	1.6	0	0.8	
120.5	120.4	121	121.8	122.5	123.5	123.3	
0.2	-0.1	0.5	0.7	0.5	0.8	-0.2	
123.5	123.3	124.2	125.5	128.3	127.6	126.3	
0.9	-0.1	0.7	1	2.2	-0.5	-1	
124.1	123.9	125	126.4	129.8	128.8	127.5	
1.1	-0.2	0.9	1.1	2.7	-0.7	-1	
133.6	134.5	136.7	139.3	144.7	141.7	140.7	
2	0.7	1.7	1.9	3.8	-2.1	-0.7	

122.5	122	123.6	121.9	121.8	122.1	122.9
-0.6	-0.5	1.4	-1.4	-0.1	0.2	0.6
111.4	108.9	107.8	108.8	108.1	110	105.5
-0.1	-2.2	-1.1	0.9	-0.6	1.7	-4.1
121.6	122.2	123.6	126	124.9	124.9	125.5
1.8	0.5	1.2	1.9	-0.9	0	0.5
116.3	116.6	116.6	117.8	117.3	118.2	118.4
0.4	0.2	0.1	1	-0.4	0.8	0.1
120.8	120.7	120.9	121.8	122.2	122.7	121.4
0.2	-0.1	0.2	0.7	0.3	0.4	-1
115.6	114.5	115.9	117.5	117.1	119.1	115.5
-0.1	-1	1.2	1.4	-0.4	1.7	-3
117.4	115.9	117.4	119.7	118.6	121	116.8
0.2	-1.3	1.4	1.9	-0.9	2	-3.5
115.5	115.6	116.2	116.8	117.9	117.7	117.7
0.4	0.1	0.5	0.6	0.9	-0.2	0
1.5	0.2	2	2.3	3.8	-0.6	0
116.7	116.5	117	117.8	118.6	118.7	118.4
0.4	-0.1	0.4	0.7	0.7	0	-0.2

2016 I	2016 II	2016 III	2016 IV	2017 I	2017 II	2017 III	2017 IV
146,328	144,059	144,602	143,334	146,164	146,634	146,536	
1.4	-1.6	0.4	-0.9	2	0.3	-0.1	
13,327	13,077	12,510	12,365	12,130	12,112	12,322	
-0.7	-1.9	-4.3	-1.2	-1.9	-0.2	1.7	
5,106	5,098	4,959	4,866	4,712	4,743	4,766	
1	-0.2	-2.7	-1.9	-3.2	0.7	0.5	
8,217	7,966	7,530	7,475	7,395	7,345	7,532	
-1.8	-3	-5.5	-0.7	-1.1	-0.7	2.5	
11,773	11,563	12,370	11,966	11,932	11,989	12,281	
6.8	-1.8	7	-3.3	-0.3	0.5	2.4	
8,782	8,521	9,133	8,979	8,944	9,116	9,324	
9.6	-3	7.2	-1.7	-0.4	1.9	2.3	
2,939	2,990	3,183	2,937	2,938	2,823	2,905	
-0.6	1.8	6.4	-7.7	0	-3.9	2.9	
38,480	37,858	37,776	37,892	39,600	39,589	40,473	
1.4	-1.6	-0.2	0.3	4.5	0	2.2	
16,403	16,008	16,413	16,453	17,950	17,568	17,809	
4.1	-2.4	2.5	0.2	9.1	-2.1	1.4	

22,456	22,207	21,721	21,786	21,994	22,365	23,016
-0.4	-1.1	-2.2	0.3	1	1.7	2.9
81,828	80,698	81,145	80,348	81,724	82,165	80,681
1.2	-1.4	0.6	-1	1.7	0.5	-1.8
12,254	12,395	12,652	12,572	13,088	12,914	12,894
4.2	1.2	2.1	-0.6	4.1	-1.3	-0.2
923	872	874	909	904	915	902
-3.6	-5.5	0.2	4	-0.5	1.2	-1.5
3,654	3,598	3,589	3,695	3,758	3,623	3,504
4.4	-1.5	-0.3	3	1.7	-3.6	-3.3
4,684	4,575	4,476	4,451	4,507	4,491	4,575
-2.6	-2.3	-2.2	-0.6	1.3	-0.4	1.9
8,400	8,051	8,316	7,999	7,983	8,117	7,956
-0.9	-4.2	3.3	-3.8	-0.2	1.7	-2
4,823	4,958	5,285	5,405	5,385	5,474	5,442
2.2	2.8	6.6	2.3	-0.4	1.6	-0.6
11,339	11,452	11,259	10,901	11,351	11,509	11,111
1.3	1	-1.7	-3.2	4.1	1.4	-3.5
6,567	6,345	6,632	6,539	6,928	7,179	7,497
-2.5	-3.4	4.5	-1.4	5.9	3.6	4.4
4,829	4,664	4,692	4,703	4,646	4,633	4,648
1.3	-3.4	0.6	0.2	-1.2	-0.3	0.3
20,490	20,126	19,787	19,604	19,731	19,832	18,423
1.7	-1.8	-1.7	-0.9	0.6	0.5	-7.1
17,328	16,988	16,652	16,372	16,603	16,757	15,238
2.3	-2	-2	-1.7	1.4	0.9	-9.1
3,053	3,026	3,000	3,058	2,953	2,899	3,021
-2.3	-0.9	-0.8	1.9	-3.4	-1.8	4.2
4,211	4,094	4,100	4,157	4,046	4,083	4,316
4	-2.8	0.2	1.4	-2.7	0.9	5.7
485,624	487,871	490,293	493,172	498,917	503,923	506,910
0.6	0.5	0.5	0.6	1.2	1	0.6

44,389	44,067	43,788	43,658	45,684	46,350	47,390
0.1	-0.7	-0.6	-0.3	4.6	1.5	2.2
34,086	33,892	33,868	34,249	34,756	35,451	35,512
0.7	-0.6	-0.1	1.1	1.5	2	0.2
25,298	25,227	25,645	25,987	26,439	26,601	26,740
1.4	-0.3	1.7	1.3	1.7	0.6	0.5
22,311	22,611	22,981	22,930	23,362	23,448	23,159
1	1.3	1.6	-0.2	1.9	0.4	-1.2
61,963	62,463	63,154	63,482	63,837	65,054	65,147
1.3	0.8	1.1	0.5	0.6	1.9	0.1
85,568	85,931	85,914	86,583	87,326	87,901	87,964
0.1	0.4	0	0.8	0.9	0.7	0.1
59,636	60,400	61,156	62,008	62,392	62,966	63,562
0.4	1.3	1.3	1.4	0.6	0.9	0.9
4,689	4,618	4,388	4,275	4,322	4,350	4,247
-3.2	-1.5	-5	-2.6	1.1	0.7	-2.4
35,970	36,253	36,204	36,401	36,264	36,525	36,873
1.6	0.8	-0.1	0.5	-0.4	0.7	1
41,358	41,806	42,068	42,315	42,365	42,497	42,667
1.5	1.1	0.6	0.6	0.1	0.3	0.4
5,124	5,164	5,295	5,403	5,419	5,443	5,348
3	0.8	2.5	2.1	0.3	0.4	-1.7
12,852	12,896	13,089	13,046	13,254	13,499	13,707
0.8	0.3	1.5	-0.3	1.6	1.8	1.5
11,903	11,866	11,997	11,999	12,008	12,003	12,092
-1.4	-0.3	1.1	0	0.1	0	0.7
41,485	41,683	41,769	41,855	42,522	42,878	43,560
0.1	0.5	0.2	0.2	1.6	0.8	1.6
632,378	632,368	635,331	636,954	645,543	651,024	653,915
0.8	0	0.5	0.3	1.3	0.8	0.4
3.4	0	1.9	1	5.5	3.4	1.8

Instructions: An updated projection of the annual cost of the refinancing portion of the Fa

Please contact Matt Gurham (mgurham@fao-on.org) if assistance is required.

Actual and Projected Annual Global Adjustment (GA) Deferral and Repayment Amount Cash Flows

IESO forecast Global Adjustment cost
Global Adjustment payment from ratepayer

Provincial Actual and Projected Fair Hydro Plan Debt

$ million
Amount borrowed/paid-back in given year
Interest on accumulated debt from previous year
Accumulated Debt

OPG Actual and Projected Fair Hydro Plan Debt

$ million
Amount borrowed/paid-back in given year
Interest on accumulated debt from previous year
Accumulated Debt

ıir Hydro Plan.

2017	2018	2019	2020	2021	2022	2023	2024	2025	2026

2017	2018	2019	2020	2021	2022	2023	2024	2025	2026

2017	2018	2019	2020	2021	2022	2023	2024	2025	2026

2027	2028	2029	2030	2031	2032	2033	2034	2035	2036

2027	2028	2029	2030	2031	2032	2033	2034	2035	2036

2027	2028	2029	2030	2031	2032	2033	2034	2035	2036

2037	2038	2039	2040	2041	2042	2043	2044	2045	2046

2037	2038	2039	2040	2041	2042	2043	2044	2045	2046

2037	2038	2039	2040	2041	2042	2043	2044	2045	2046

2047	2048

2047	2048

2047	2048

	Actual	Interim		Medium-Term Outlook		
	2016-17	2017–18	2018–19	2019–20	2020-21	2021-22
OHIP+ program expense						

2022-23

Instructions: Please provide expense estimates from the 2018 Budget for each fiscal year to 2022-23 or the latest available year.
Please contact Luan Ngo (lngo@fao-on.org) if assistance is required.

Ontario Capital Assets, Amortization Expenses and Infrastructure Expenditure

($ Millions)	Historical Data (To be provided to FAO by March 16, 2018)						
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Tangible Capital Assets							
Health							
Education							
Children and Social Services							
Postsecondary Education							
Justice							
Other Programs							
Amortization Expense							
Health							
Education							
Children and Social Services							
Postsecondary Education							
Justice							
Other Programs							
Gross Infrastructure Expenditure							
Health							
Education							
Children and Social Services							
Postsecondary Education							
Justice							
Other Programs							

Instructions: Please provide data on tangible capital assets, amortization expense and gross infrastructure expenditure by sector.

The FAO is requesting that historical data be provided by March 16, 2018, and the forecast from the 2018 Budget to be provided upon the release of the Budget.

Please contact Luan Ngo (lngo@fao-on.org) if assistance is required.

Forecast (To be provided to the FAO on Budget Day)

2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27

2027-28

Item	2016-17[1] (Public Accounts)		
	Reported Revenue	Adjustment for all prior years (2015-16 and earlier)	Other One-Time Adjustments[3]
Personal Income Tax			
Sales Tax			
Corporations Tax			
Education Property Tax			
Employer Health Tax			
Ontario Health Premium			
Gasoline Tax			
Fuel Tax			
Tobacco Tax			
Land Transfer Tax			
Beer and Wine Tax			
Electricity Payments-In-Lieu of Taxes			
Miscellaneous Other Taxes			
Total Taxation			
Canada Health Transfer			
Canada Social Transfer			
Equalization Payments			
Labour Market Programs			
Social Housing			
Wait Times Reduction Fund			
Infrastructure			
Indian Welfare Services			
Other Federal Payments			
Total Federal			
Liquor Control Board of Ontario			
Ontario Lottery and Gaming Corporation			
OPG/Hydro One			
OPG - IFRS			
Total Government Enterprises			
Reimbursements			
Electricity Debt Retirement Charge			
Vehicle/Driver Registration Fees			
Power Supply Contract Recoveries			
Other Fees Licences & Permits			
Beer and Wine Fees			
Sales & Rentals			
Cap and Trade - Sales & Rentals			
Royalties			
Net Reduction of PPC Liability			
Miscellaneous Other Revenue			
Other Revenue Total			
Grand Total			

[1] 2016-17 Revenues and estimates of prior year adjustments consistent with published

[2] 2017-18 revenues and estimates of previous & prior year adjustments consistent with

[3] Mainly refers to the one-time revenue impacts arising from policy decisions, and on g

Information Request on Pension Plans Jointly Sponsored by the Province of (

Instructions:

Please provide the data requested below for the two pension plans, jointly sponsored by th

The two pension plans are the **Ontario Teacher's Pension Plan (OTPP)** and the **Ontario**

Please provide data to 2022-23 or the latest available year.

Please contact Luan Ngo (FAO contact) (lngo@fao-on.org or 416-277-1856) if assistance i

Concept	2008-09	2009-10	2010-11
Service Cost			
Amortization of Acturial Gains/Losses			
Interest (Income)/Expense			
Pension Expense (sum of above)			
Employer Contributions			
OTPP & OPSEU Opening Adjustment			
Provincial Contribution to RCA			

Ontario

e Province of Ontario - either separately or combined for both plans.

Public Sector Employees Union Pension Plan (OPSEUPP)

is required.

2011-12	2012-13	2013-14	2014-15	2015-16	2016-17

2017-18	2018-19	2018-19	2019-20	2020-21	2021-22

2022-23

	2018 Budget Outlook			
			Medium-Term	
	Actual 2016-17	Interim 2017-18	2018-19	2019-20
Taxation Revenue				
Personal Income Tax				
Sales Tax				
Corporations Tax				
Education Property Tax				
Employer Health Tax				
Ontario Health Premium				
Gasoline Tax				
Land Transfer Tax				
Tobacco Tax				
Fuel Tax				
Beer and Wine Tax				
Electricity Payments-In-Lieu of Taxes				
Other Taxes				
Total Taxation Revenue				
Government of Canada				
Canada Health Transfer				
Canada Social Transfer				
Equalization				
Infrastructure Programs				
Labour Market Programs				
Social Housing				
Other Federal Payments				
Direct Transfers to Broader Public Sector Organizations				
Total Federal Payments				
Government Business Enterprises				
Ontario Lottery and Gaming Corporation				
Liquor Control Board of Ontario				
Ontario Power Generation Inc./Hydro One Ltd.				
/Brampton Distribution Holdco Inc.				
Total Government Business Enterprises				
Other Non-Tax Revenue				
Reimbursements				
Vehicle/Driver Registration Fees				
Electricity Debt Retirement Charge				
Power Supply Contract Recoveries				
Sales and Rentals				
Carbon Allowance Proceeds				
Other Fees and Licences				
Net Reduction of Power Purchase Contract Liability				
Royalties				
Fees, Donations and Other Revenues from Hospitals, School Boards and Colleges				
Miscellaneous Other Non-Tax Revenue				
Total Other Revenue				

Total Revenue	

	Outlook 2020-21	2021-22
Taxation Revenue		
Personal Income Tax		
Sales Tax		
Corporations Tax		
Education Property Tax		
Employer Health Tax		
Ontario Health Premium		
Gasoline Tax		
Land Transfer Tax		
Tobacco Tax		
Fuel Tax		
Beer and Wine Tax		
Electricity Payments-In-Lieu of Taxes		
Other Taxes		
Total Taxation Revenue		
Government of Canada		
Canada Health Transfer		
Canada Social Transfer		
Equalization		
Infrastructure Programs		
Labour Market Programs		
Social Housing		
Other Federal Payments		
Direct Transfers to Broader Public Sector Organizations		
Total Federal Payments		
Government Business Enterprises		
Ontario Lottery and Gaming Corporation		
Liquor Control Board of Ontario		
Ontario Power Generation Inc./Hydro One Ltd. /Brampton Distribution Holdco Inc.		
Total Government Business Enterprises		
Other Non-Tax Revenue		
Reimbursements		
Vehicle/Driver Registration Fees		
Electricity Debt Retirement Charge		
Power Supply Contract Recoveries		
Sales and Rentals		
Carbon Allowance Proceeds		
Other Fees and Licences		
Net Reduction of Power Purchase Contract Liability		
Royalties		
Fees, Donations and Other Revenues from Hospitals, School Boards and Colleges		
Miscellaneous Other Non-Tax Revenue		
Total Other Revenue		

Total Revenue	

Detailed Expenses Outlook
2018 Budget
Summary by Sector

	Actual 2016-17	Interim 2017-18	Budget 2018-19	Budget 2019-20	Budget 2020-21	Budget 2021-22	Budget 2022-23
REPORT IN FALL ECONOMIC STATEMENT							
Health Sector							
Health and Long-Term Care							
Program Expense							
Total Health Sector							
Education Sector							
Education							
Program Expense							
Total Education Sector							
Postsecondary Sector							
Advanced Education and Skills Development							
Program Expense							
Total Postsecondary Sector							

Instructions: Please provide expense estimates from the 2018 Budget for each fiscal year. Please make appropriate changes to the template if there are any new or altered expense line. Please provide data to 2022-23 or the latest available year.

Please contact Luan Ngo (lngo@fao-on.org) if assistance is required.

Detailed Expenses Outlook
2018 Budget
Summary by Sector

	Actual 2016-17	Interim 2017-18	Budget 2018-19	Budget 2019-20	Budget 2020-21	Budget 2021-22	Budget 2022-23
Social Services Sector							
Children and Youth Services							
Program Expense							
Community and Social Services							
Program Expense							
Other Expense							
Time-Limited Investments in Affordable and Supportive Housing							
Total Social Services Sector							
Justice Sector							
Attorney General							
Program Expense							
Community Safety and Correctional Services							
Program Expense							
Total Justice Sector							

Detailed Expenses Outlook
2018 Budget
Summary by Sector

	Actual 2016-17	Interim 2017-18	Budget 2018-19	Budget 2019-20	Budget 2020-21	Budget 2021-22	Budget 2022-23
Other Programs Sector							
Accessibility Directorate of Ontario							
Program Expense							
Agriculture, Food and Rural Affairs							
Program Expense							
Other Expense							
Time-Limited Investments in Infrastructure							
Assembly, Office of the							
Program Expense							
Auditor General, Office of the							
Program Expense							

Detailed Expenses Outlook
2018 Budget
Summary by Sector

	Actual 2016-17	Interim 2017-18	Budget 2018-19	Budget 2019-20	Budget 2020-21	Budget 2021-22	Budget 2022-23
Cabinet Office							
Program Expense							
Other Expense							
Time-Limited Assistance							
Chief Electoral Officer, Office of the							
Program Expense							
Citizenship and Immigration							
Program Expense							
Economic Development and Growth / Research, Innovation and Science							
Program Expense							
Other Expense							
Federal-Provincial Infrastructure Programs							

Detailed Expenses Outlook
2018 Budget
Summary by Sector

	Actual 2016-17	Interim 2017-18	Budget 2018-19	Budget 2019-20	Budget 2020-21	Budget 2021-22	Budget 2022-23
Teachers' Pension Plan							
Other Expense							
Teachers' Pension Plan							
Energy							
Program Expense							
Other Expense							
Strategic Asset Management and Transformation Related to Hydro One							
Ontario Rebate for Electricity Consumers							
Electricity Price Mitigation Support Programs							
Electricity Cost Relief Programs							
Environment and Climate Change							
Program Expense							

Detailed Expenses Outlook
2018 Budget
Summary by Sector

	Actual 2016-17	Interim 2017-18	Budget 2018-19	Budget 2019-20	Budget 2020-21	Budget 2021-22	Budget 2022-23
Finance							
Program Expense							
Other Expense							
Ontario Municipal Partnership Fund							
Power Supply Contract Costs							
Francophone Affairs, Office of							
Program Expense							
Government and Consumer Services							
Program Expense							
Municipal Affairs / Housing							
Program Expense							
Other Expense							
Time-Limited Investments							
Time-Limited Investments in Municipal Social and Affordable Housing							
Indigenous Relations and Reconciliation							
Program Expense							
Other Expense							
One-Time Investments Including Settlements							
Infrastructure							
Program Expense							
Other Expense							
Federal-Provincial Infrastructure Programs							
International Trade							
Program Expense							
Labour							
Program Expense							

Detailed Expenses Outlook
2018 Budget
Summary by Sector

	Actual 2016-17	Interim 2017-18	Budget 2018-19	Budget 2019-20	Budget 2020-21	Budget 2021-22	Budget 2022-23
Lieutenant Governor, Office of the							
Program Expense							
Natural Resources and Forestry							
Program Expense							
Other Expense							
Emergency Forest Firefighting							
Northern Development and Mines							
Program Expense							
Ombudsman Ontario							
Program Expense							
Premier, Office of the							
Program Expense							

Detailed Expenses Outlook
2018 Budget
Summary by Sector

	Actual 2016-17	Interim 2017-18	Budget 2018-19	Budget 2019-20	Budget 2020-21	Budget 2021-22	Budget 2022-23
Seniors Affairs							
Program Expense							
Status of Women							
Program Expense							
Tourism, Culture and Sport							
Program Expense							
Transportation							
Program Expense							
Other Expense							
Time-Limited Investments in Infrastructure							
Treasury Board Secretariat							
Program Expense							

Detailed Expenses Outlook
2018 Budget
Summary by Sector

	Actual 2016-17	Interim 2017-18	Budget 2018-19	Budget 2019-20	Budget 2020-21	Budget 2021-22	Budget 2022-23
TBS Pensions							
Other Expense							
Employee and Pensioner Benefits							
Total Other Programs Sector							
Corporate Sector							
Cap and Trade Envelope							
Program Expense							
Operating Expense C-Fund							
Other Expense							
Capital Expense C-Fund							
Other Expense							
Year-end Savings (Operating)							
Program Expense							
PRRT Savings Target							
Program Expense							
Total Corporate Sector							
Interest on Debt							
TOTAL EXPENSE							

Changes to Revenue Outlook from 2017 FES
($ Millions)

Item	**Interim 2017-18**	**Plan 2018-19**	**Outlook 2019-20**
Personal Income Tax			
Revenue — Total Projected Revenue			
Revenue — Policy Measures (add row for each measure)			
Revenue — Other Adjustments			
Revenue — Base Revenue			
Corporations Tax			
Revenue — Total Projected Revenue			
Revenue — Policy Measures (add row for each measure)			
Revenue — Other Adjustments			
Revenue — Base Revenue			
Sale Tax			
Revenue — Total Projected Revenue			
Revenue — Policy Measures (add row for each measure)			
Revenue — Other Adjustments			
Revenue — Base Revenue			
All Other Taxes			
Revenue — Total Projected Revenue			
Revenue — Policy Measures (add row for each measure)			
Revenue — Other Adjustments			
Revenue — Base Revenue			
Net Income from GBE			
Revenue — Total Projected Revenue			
Revenue — Policy Measures (e.g. CCBO) (add row for each measure)			
Revenue — Other Adjustments			
Revenue — Base Revenue			
Government of Canada			
Revenue — Total Projected Revenue			
Revenue — Policy Measures (e.g. new FPT agreement)			
Revenue — Other Adjustments			
Revenue — Base Revenue			
Other Non-Tax Revenue			
Revenue — Total Projected Revenue			
Revenue — Policy Measures (add row for each measure)			
Revenue — Other Adjustments			
Revenue — Base Revenue			

Outlook 2020-21	Outlook 2021-22	Outlook 2022-23

Instructions: Please provide information detailing the changes in the revenue projection since the 2017 Fall Economic Statement. Please provide data to 2022-23 or the latest available year.

Please contact Luan Ngo (lngo@fao-on.org) if assistance is required.

Changes to Program Expense since the 2017 FES

($ Millions)

2017 FES Program Expense

In-Year Expense Changes

Program Expense Baseline as of March 1, 2018

Impacts of New Investments from 2018 Budget

Impact of New Investment xxxx
Impact of New Investment xxxx
Impact of New Investment xxxx
Total Multi-Year Impacts of New Investments from 2018 Budget

Total Program Expense Changes

Less: Funds Existing in the Fiscal Framework

Net Program Expense Changes since the 2017 FES

In Addition, please provide any changes included in Budget 2018 to the estimate

OHIP+ program expense

Actual	Interim		Medium-Term Outlook			
2016-17	2017–18	2018–19	2019–20	2020-21	2021-22	2022-23

Instructions: Please
changes in the progr
2017 Fall Economic S
the 2017 FES (pg 118
or the latest availabl

Please contact Luan
assistance is require

d impact to program expense of OHIP+

Actual	Interim		Medium-Term Outlook			
2016-17	2017–18	2018–19	2019–20	2020-21	2021-22	2022-23

provide information detailing the
ram spending projection since the
Statement, similar to table 3.9 in
3). Please provide data to 2022-23
le year.

Ngo (lngo@fao-on.org) if
d.

From:	Gadi Mayman
To:	Ken Kandeepan; Mike Manning
Cc:	Anna Strathy
Subject:	FW: FAO Releasing a Commentary on Wednesday, September 6 - "Ontario's Debt Reduction Commitment Based on Unlikely Assumptions"
Date:	Tuesday, September 05, 2017 9:39:07 AM
Attachments:	image002.png image004.png Debt-To_GDP Commentary EN.pdf

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From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: Tuesday, September 05, 2017 9:38 AM
To: Scott Thompson (CAB) <Scott.Thompson@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Nancy Kennedy (MOHLTC) <Nancy.Kennedy@ontario.ca>; Mike Weir (MOHLTC) <Mike.Weir@ontario.ca>
Cc: David McLean (MOF) <David.McLean@ontario.ca>; Brandon Chaput (MOF) <Brandon.Chaput@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
Subject: FW: FAO Releasing a Commentary on Wednesday, September 6 - 'Ontario's Debt Reduction Commitment Based on Unlikely Assumptions'

Please find attached an advanced embargoed copy of the FAO commentary to be released tomorrow morning on the government's plan to reduce net debt to GDP.

Note the FAO has provided this on a confidential basis ahead of tomorrow's release.

We'll work with Gadi's folks to update the CIU Note on debt management to reflect this update. It should also be reflected in upcoming Public Accounts comms materials.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



From: David West [mailto:dwest@fao-on.org]
Sent: September-05-17 9:22 AM
To: Schuurman, Tim (MOF)
Cc: Birks, Ryan (MOF); Mario Angastiniotis
Subject: FAO Releasing a Commentary on Wednesday, September 6 - 'Ontario's Debt Reduction Commitment Based on Unlikely Assumptions'

Good Morning,

Please be aware that the FAO will be releasing a commentary on our website tomorrow morning, assessing the assumptions behind the government's commitment to reduce the net debt-to-GDP ratio to 27% by 2029-30.

I've attached an embargoed copy for your reference. As always, please treat this as confidential until its release tomorrow morning.

Regards,

David West
Chief Economist

FAO | Financial Accountability Office of Ontario

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
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Financial
Accountability
Office of Ontario


Office of the Budget
MINISTRY of FINANCE

Ontario's Debt Reduction Commitment Based on Unlikely Assumptions

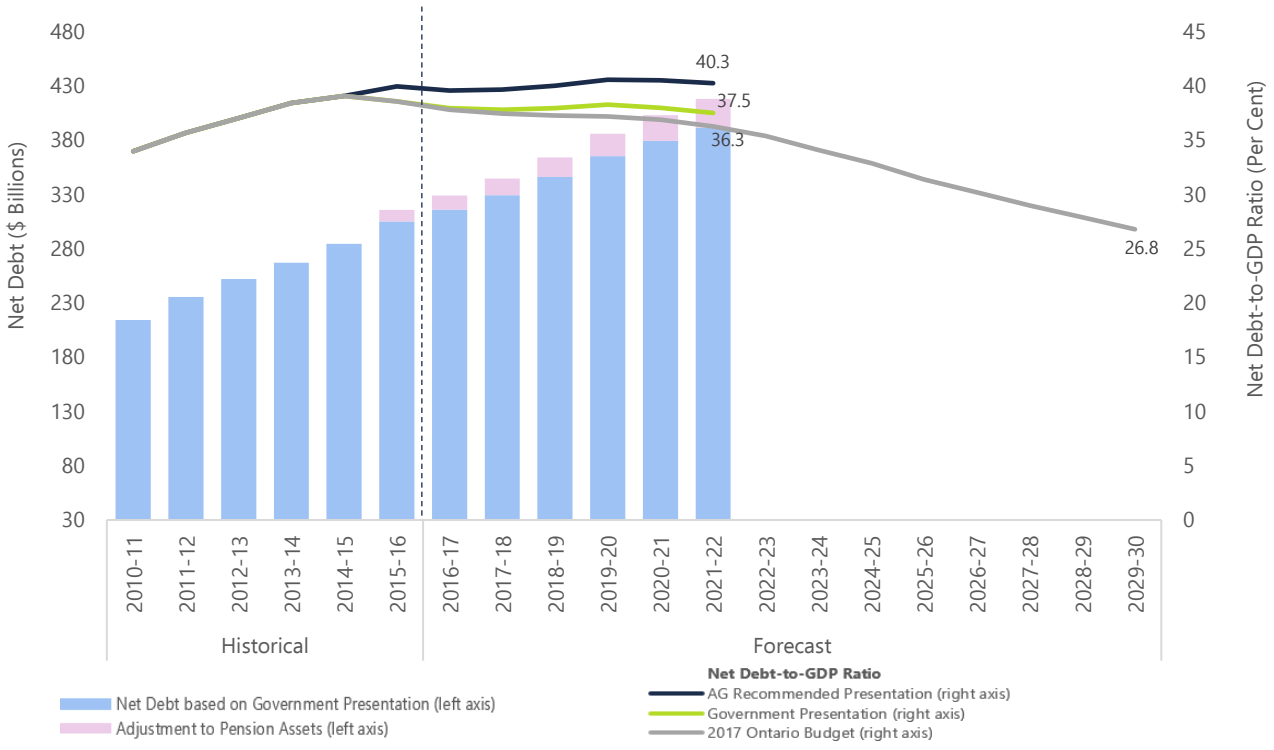
The FAO projects that Ontario's net debt will increase by $76 billion over the next five years to approximately $392 billion in 2021-22, resulting in the net debt-to-GDP ratio rising to 40.3 per cent.[1] In contrast, in the 2017 Budget, the Province projects a small decline in the net debt-GDP ratio to 36.3 per cent by 2021-22.

In the 2017 Budget, the government also restated its commitment to reduce the net debt-to-GDP ratio to its pre-recession level of 27 per cent. The Province projects that this 27 per cent target will be achieved by 2029-30, based on three key assumptions:

- on-going balanced budgets, on average, over the next 12 years[2];
- future capital spending as laid out in the long-term infrastructure plan; and
- a continuation of strong economic growth.

However, if any of these relatively optimistic assumptions fall short of expectations, the government's 27 per cent debt-to-GDP target would not be achieved.

Achievement of 27 Per Cent Debt-To-GDP Target Based on Unlikely Assumptions



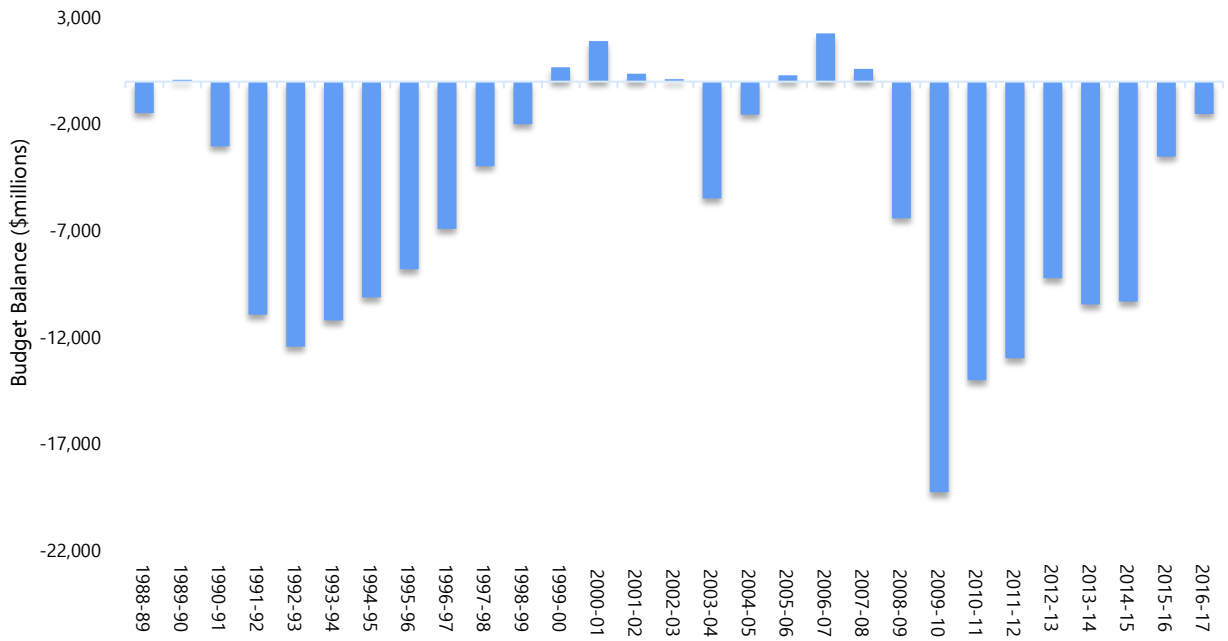
Note: AG recommended presentation based on FAO estimates of the pension adjustment.
Source: Ontario 2017 Budget and FAO

[1] Based on the FAO's application of the Auditor General's recommended accounting treatment for pension assets - see the FAO's 'Economic and Fiscal Outlook, Spring 2017'. By comparison, based on the government's accounting presentation, the FAO projects Ontario's net debt will rise by $62 billion to roughly $365 billion by 2021-22 and that the net debt-to-GDP ratio will fall modestly to 37.5 per cent.

[2] This does not imply that the province necessarily has to achieve balanced budgets in each year. Alternatively, it could post balanced budgets on average, with some years in surplus and some in deficit.

The government's forecast for a gradual decline in the net debt-to-GDP ratio depends critically on achieving a string of balanced budgets on average over the next 12 years. Over the past thirty years, Ontario has rarely achieved successive surpluses or balanced budgets. In contrast to the 2017 Budget, the FAO continues to project a steady deterioration in the budget deficit over the next five years, due to moderating revenue growth combined with higher expenses.

Ontario has Rarely Achieved Balanced Budgets in Consecutive Years



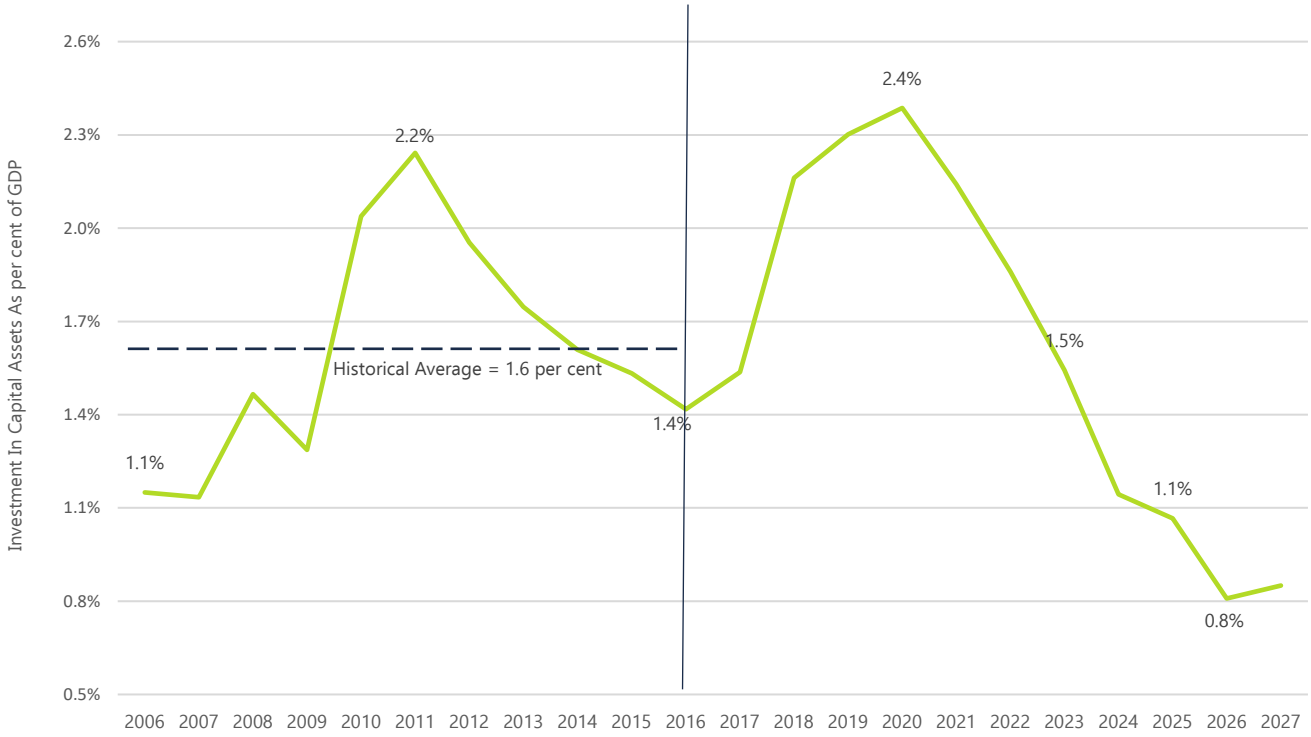
Source: Ontario Budgets 1988-89 to 2017-18

The government's debt reduction commitment is also linked to the Province's 13-year, $190 billion infrastructure plan which includes significant reductions in capital investment in the 2020s. After peaking in 2019-20 at 2.4 per cent of nominal GDP, the Province is projecting capital spending to fall to just 0.8 per cent of GDP by 2027-28 – half of the historical average of 1.6 per cent.

Since the Province has made substantial investments in public sector assets (such as hospitals) over the last 10 years, some pullback is to be expected.[3] However, given the government's focus on new and large transit and highway projects, it is likely that the Province will need to augment its capital plan and increase spending in the latter part of the next decade. Higher than planned capital spending in the future would add to the Province's net debt, increasing the net debt-to-GDP ratio.[4]

[3] See Infrastructure Ontario's list of major projects, http://www.infrastructureontario.ca/Major-Projects/, August 16, 2017.
[4] The government's capital spending projection may also prove to be too conservative given a number of announced but unfunded initiatives including high-speed rail and subway expansion in Toronto.

Investment in Capital Assets as a Share of GDP to Decline Sharply in the 2020s



Source: Investment in Capital Assets, 2017 Infrastructure Update, Ministry of Infrastructure, FAO

Finally, the government's debt-to-GDP projection relies on nominal GDP growing at an average pace of 4 per cent per year over the long-term.[5] However, nominal GDP growth has averaged just 3.6 per cent per year over the past 15 years, and given Ontario's aging population and slower expected growth in its labour force, 4 per cent annual growth may prove to be too optimistic for the next decade.

Given the risks associated with the government's assumptions, a fiscal plan that focuses only on achieving balanced budgets may not be enough to lower Ontario's net debt-to-GDP ratio to 27 per cent by 2029-30.

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[5] Ontario's Long-Term Report on the Economy, Ministry of Finance, 2017

From:	Esmail, Selena (MOF)
To:	Paul Lewis (MOF); Ken Kandeepan; Nadine Petsche (MOF); Teuta Dodbiba (MOF); Tim Cook (MOF); Andrea Dutton (MOF); John Kim
Cc:	Anand, Sareena (MOF); Stephen Taylor (MOF); Felix Fung (MOF); Sandy Luk (MOHLTC); Ruchi Parkash (MOI); Birks, Ryan (MOF); Patrick Laughton (MOF); Nina Arbabzadeh (EDU); Ghufran Tarin (MOF); Anna Strathy; Gavin He; Inglis, Liane (MOF); Hosick, Sarah (TBS)
Subject:	FW: FAO Summary Note (including key messages)
Date:	Tuesday, May 30, 2017 6:56:19 PM
Attachments:	image001.png FAO EFO Report_Summary_v9.docx

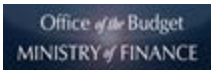
FYI – thanks for all your support and input today! this was shared by Tim with your respective ADMs as well.

From: Schuurman, Tim (MOF)
Sent: May-30-17 6:54 PM
To: Ghiassi, Ali (MOF); Mendes, Elizabeth (MOF); Nguyen, Marianne (MOF); Kennedy, Nancy (MOF); Thompson, Scott (MOF); Lewis, Brian (MOF); Kwan, Ronald (OFA); Mayman, Gadi (OFA)
Cc: McLean, David (MOF); Young, Gwendolynne (MOF); Birks, Ryan (MOF); Esmail, Selena (MOF)
Subject: FAO Summary Note (including key messages)

Please find attached an updated version of the FAO Summary note which we took the Minister through earlier this afternoon. Note this includes key messages the minister can use tomorrow as well.

Happy to address any issues as they arise over the coming day with the release of the report.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173




Office of the Budget
MINISTRY of FINANCE

Financial Accountability Officer Report: Spring Economic and Fiscal Outlook

Draft – May 30, 2017 6:00 PM

ISSUE

- The Financial Accountability Officer (FAO) will be releasing a report on May 31, which assesses Ontario's medium-term economic and fiscal outlook.
- This represents the spring update to the FAO's planned release of semi-annual medium-term outlook reports.
- The spring report incorporates economic and fiscal information released since the FAO's fall 2016 report (released November 3, 2016). This includes:
    - New economic data that impacts their revenue and interest on debt outlooks; and
    - New spending commitments from the 2017 Budget.
- The FAO has presented two fiscal projections in its spring report:
    1. A projection that includes the impact of the net pension assets of jointly sponsored pension plans, based on the Auditor General's recommended accounting treatment, and
    2. A projection that excludes this impact based on the government's fiscal presentation in the 2017 Budget, as recommended by the Pension Asset Expert Advisory Panel.
- Both presentations used by the FAO project deficits in each year over the outlook period (2016–17 to 2021–22).
    - Using the government's fiscal presentation of net pension assets, the FAO has stated that balance is within reach in 2017–18 and that beyond this, staying in balance will likely require additional fiscal policy measures.
    - Similarly, using this presentation, the FAO projects that net debt-to-GDP will decline over the outlook but additional fiscal measures would be required for the government to achieve its interim net debt-to-GDP target of 35 per cent by 2023–24 and 27 per cent by 2029–30.
    - The FAO excludes the reserve from its fiscal outlook.

TOP MESSAGES

- I would like to thank the Financial Accountability Officer (FAO) for releasing his spring economic and fiscal outlook for Ontario. We value the FAO's independent assessment and projections of the province's fiscal plan.
- As outlined in the 2017 Budget, the government is projecting a balanced budget for 2017–18 and to remain balanced in 2018–19 and 2019–20.
- The government has a strong track record of beating its fiscal targets. In fact, for the 2016–17 fiscal year, the government is forecasting a deficit of $1.5 billion, beating our annual deficit target again, for the eighth year in a row.
- This Budget builds on the government's track record of fiscal management that has resulted in $29 billion in accumulated deficits being avoided over the past seven years, relative to the 2010 Budget forecast.
- We are also targeting a net debt-to-GDP ratio of 35 per cent by 2023–24 and reducing Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029–30.
- Ontario has recorded stronger economic growth than Canada and all other G7 countries over the 2014 to 2016 period, with real GDP rising 2.6 per cent a year.
- Private-sector forecasters expect Ontario will remain one of the fastest growing provinces over the next two years. It should be noted that the FAO's real GDP projections are modestly stronger than the 2017 Budget outlook over the 2017 to 2020 period.
- For prudent fiscal planning, the Province's real GDP growth projections are slightly below the average of private-sector forecasts. In fact, three economic experts also reviewed these economic assumptions and found them to be reasonable.
- This shows that our plan to make strategic investments in Ontario to grow the economy is working.
- It is also important to note that the FAO affirmed key aspects of the Budget plan, including projecting that a balanced budget is within reach for Ontario in 2017–18 and that the net debt-to-GDP ratio is on a downward trend.
- A balanced budget is providing the Province the fiscal flexibility to invest more in health care, education and other public services that matter most to Ontario families. It also adds stability to Ontario's finances and positions the government to better respond to demographic challenges and unexpected global economic shocks that the province will face over the next decade.

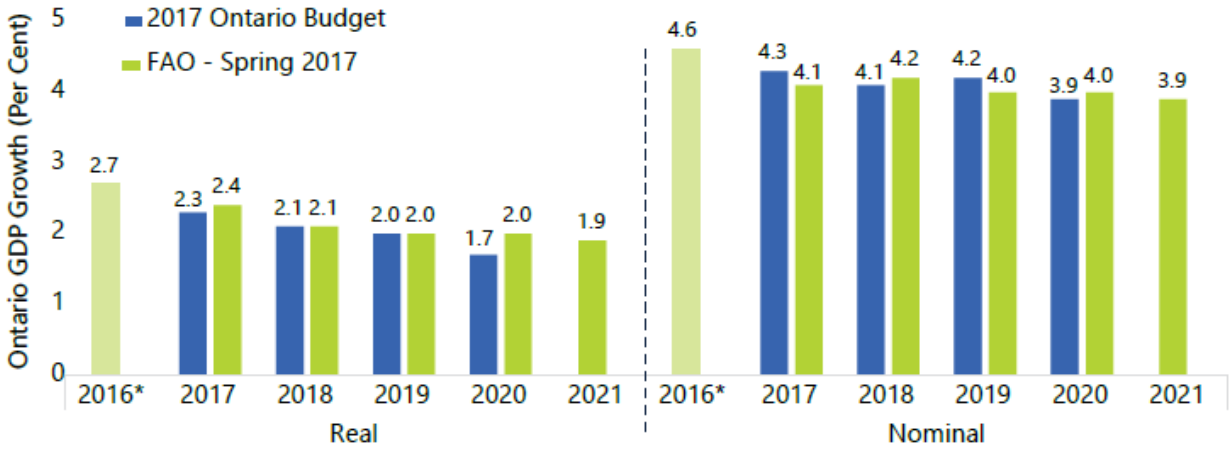
KEY FINDINGS

- The report is divided into two main chapters:
    1) The **Economic Outlook** chapter presents the FAO forecast for Ontario's economy out to 2021, and includes a discussion of potential risks.
    2) The **Fiscal Outlook** chapter presents the FAO forecast for revenue, expense and the surplus/deficit between 2016-17 and 2021-22.

<u>Economic Outlook</u>

- The FAO has left its forecast for Ontario real GDP growth little changed, on average, over the 2017 to 2020 period relative to its fall forecast, though it included a modest downward revision in 2017 and upward revision in 2019.
- The FAO forecast is broadly consistent with the private sector economists' view that stronger international exports and business investment will be key drivers of Ontario's overall economic growth over the next several years.
- The FAO forecast for real GDP growth is 0.1 percentage points stronger annually, on average, than the 2017 Budget forecast between 2017 and 2020.
- The FAO believes the balance of the risks to the economic outlook is tilted to the downside, particularly risks associated with a correction in Ontario's housing market. (p. 13).

Solid Economic Performance Expected Over Outlook



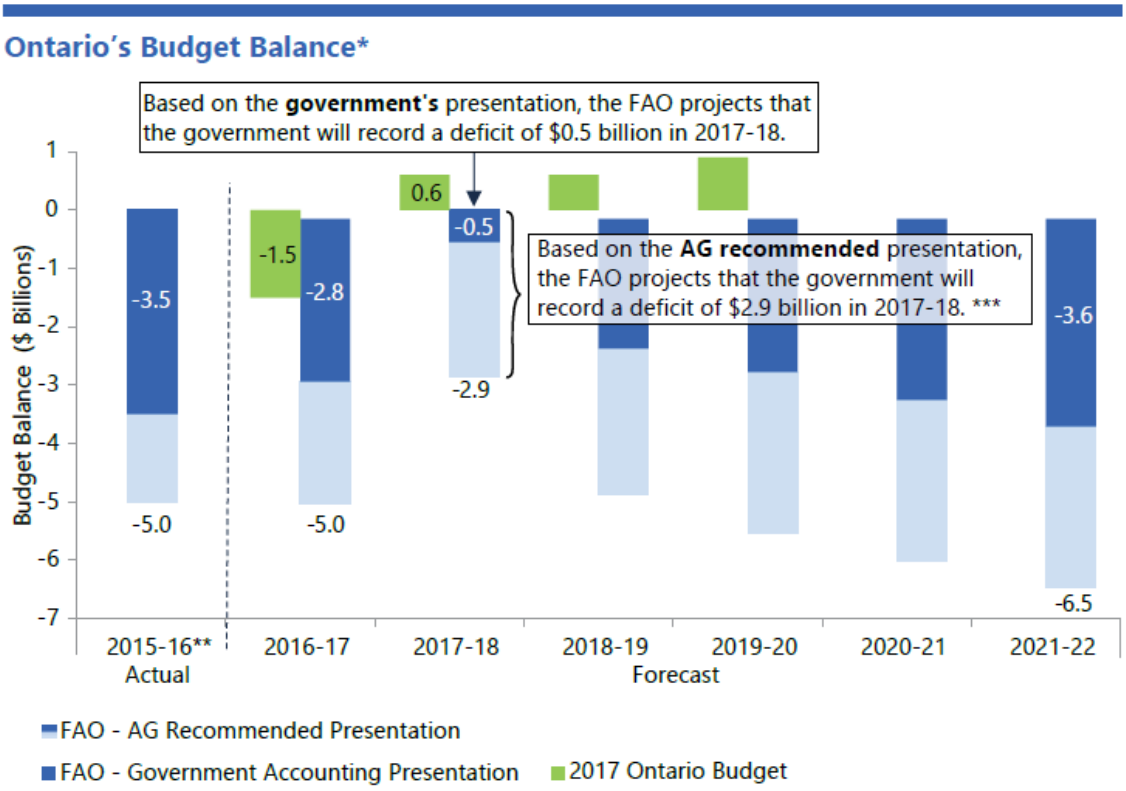
* 2016 are actuals.

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

Fiscal Outlook

- The FAO's current projection of the outlook for budget balance has generally deteriorated relative to the FAO's fall 2016 projection and continues to present a gap against the government's balanced budget projections.
- **Using the government's accounting treatment of net pension assets** the FAO is projecting budget deficits of $2.8 billion in 2016–17, $0.5 billion in 2017–18, $2.2 billion in 2018–19, and $2.6 billion by 2019–20 (excluding the reserve). This represents an improvement in the deficit for 2016–17 and 2017–18, but deterioration over the outlook compared to the FAO's fall report.
    - By comparison, the 2017 Budget projects a $1.5 billion deficit in 2016–17 and surpluses of $0.6 billion in 2017–18 and 2018–19, and a $0.9 billion surplus in 2019–20, excluding the reserve. The FAO also makes projections out to 2021–22 with increasing deficits forecast for those years as well.
    - The FAO suggests that a balanced budget is "within the government's reach in 2017–18" when using the government's accounting method, however "staying in balance after 2017-18 will likely require additional fiscal policy measures"(p.1).
    - The FAO notes that under this accounting presentation, Ontario's Public Accounts would be expected to receive a qualified opinion from the Auditor General.
- The FAO's forecast, **based on the Auditor General's recommended accounting treatment of jointly-sponsored pension plans**, projects deficits of $5.0 billion in 2016–17, $2.9 billion in 2017–18, $4.9 billion in 2018–19, and $5.5 billion by 2019–20 (excluding the reserve). Compared to the FAO's fall report, this represents a slight improvement in the deficit for 2016–17 but deterioration in 2017–18 and over the outlook.
    - The FAO notes that "on this basis, it is unlikely that the government will balance the budget without significant fiscal policy adjustments to raise revenue or lower expense" (p. 1).
- For 2016–17 the FAO is forecasting a deficit of $2.8 billion (or $5.0 billion with the pension adjustment) compared with the government's $1.5 billion interim projection.
- The FAO's asserts that its projection for an improved deficit in 2017–18 is due to robust economic performance and strong tax revenue growth in 2016 and 2017, compared to the FAO's fall estimates, and a one-time revenue increase in 2017–18 from increased federal transfers for infrastructure, additional revenue from asset sales and cap and trade proceeds. (p. 1 &19).

- Beginning in 2018-19, the FAO projects that the deficit will gradually deteriorate due to moderate revenue growth, the absence of one-time non-tax measures, and higher program expenses. (p. 16).



* Budget balance before reserve.

** Ontario's 2015-16 Public Accounts reported a deficit of $5.0 billion. Without the pension adjustment, the deficit would have been $3.5 billion.

*** This includes the FAO's estimate of the pension adjustment.

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

Revenue Assumptions

- Compared to the 2017 Budget, the FAO's projected total revenue is lower mostly because of taxation revenue and, to a lesser extent, Federal Transfers.

FAO less Ontario 2017 Budget Outlook ($ Billions)

	2016-17	2017-18	2018-19	2019-20	Average
Taxation Revenue	-1.2	-1.4	-2.3	-3.0	-2.0
Government of Canada Transfers	-0.1	0.0	-0.8	-0.8	-0.4
Government Business Enterprises	0.0	0.0	0.0	0.0	0.0
Other Non-Tax Revenue	0.0	0.0	0.0	0.0	0.0
Total Revenue	**-1.2**	**-1.4**	**-3.1**	**-3.7**	**-2.4**

    - FAO's projection for the composition of nominal GDP such as compensation of employees, net operating surplus and household consumption, are all lower than the 2017 Budget projection.
    - The 2017 Budget assumed higher yields from CIT and HST compared to recent projections, reflecting recent tax revenue performance. These yields also exceed those assumed by the FAO.
    - The FAO projection for PIT is consistently lower than the 2017 Budget, partly due to their assumptions regarding tax planning that may have occurred in 2015 by high-income earners. Whereas the 2017 Budget only included an allowance for PIT planning in 2016-17, the FAO estimates that roughly $600 million of Ontario's 2015 PIT revenue was due to income shifting, which lowers taxable income in 2016-17 and 2017-18.
- The FAO's federal transfer outlook is lower than assumed in the 2017 Ontario Budget, probably due to FAO's assumption that Ontario will no longer receive Equalization payments starting in 2019-20 as Ontario's fiscal capacity improves relative to other provinces.
- The FAO's government business enterprise net income outlook and other non-tax revenue is the same as reported in the 2017 Budget.

Expense Assumptions

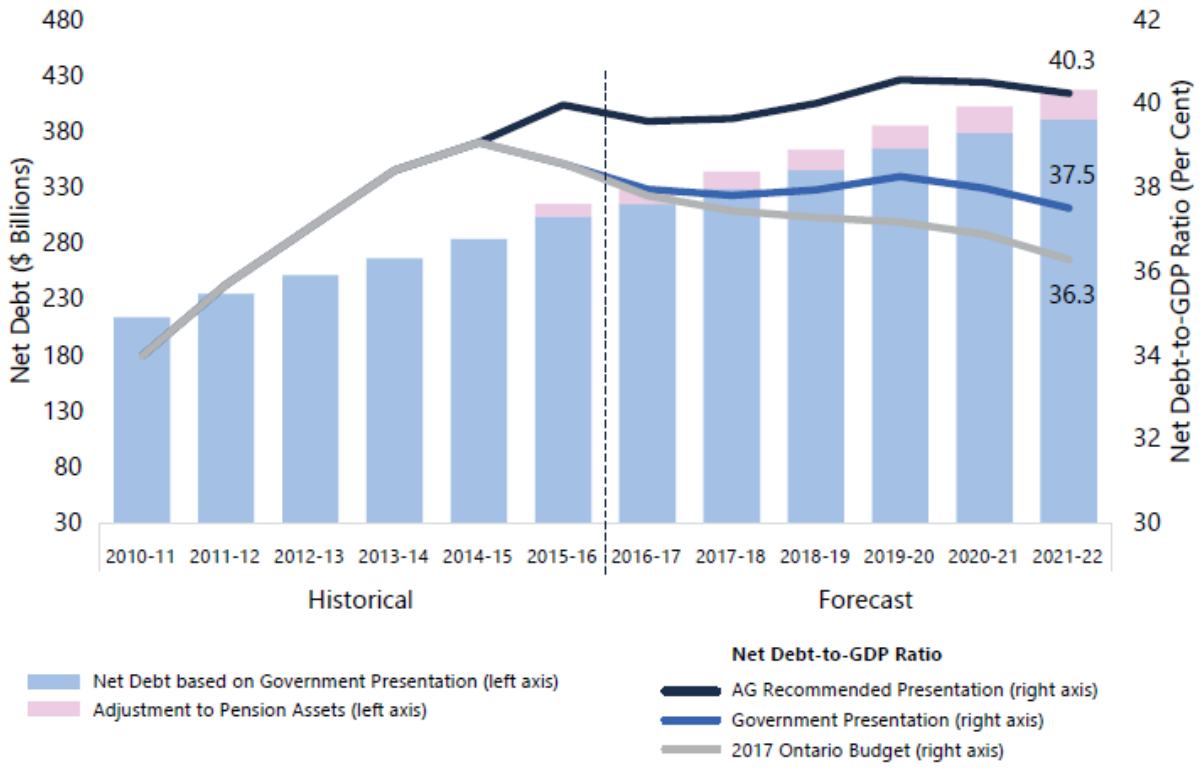
- The FAO assumes the same program expense outlook as the 2017 Budget up to 2019–20, adjusted to reflect the Auditor General's recommended accounting treatment for jointly sponsored pension plans.(p. 20).
- The FAO's expense outlook includes new spending commitments announced in the 2017 Budget including the new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan. This results in average annual growth in program expense of 3.3 per cent between 2016–17 and 2021–22 – slightly below the growth in underlying cost and demographic pressure, which is estimated to be 3.6 per cent on average.
- The FAO projects that Ontario's interest on debt (IOD) payments will grow at an average annual rate of 4.0 per cent from $11.0 billion in 2015–16 to $13.9 billion by 2021–22, reflecting higher debt and rising interest rates over the outlook. The FAO forecasts that IOD will outpace the growth in program expense over the outlook. (p. 21).
- The FAO's projection for IOD expense is lower than the 2017 Budget projections.
- According to the FAO, interest on debt is expected to increase from 8.1per cent of revenues in 2017–18 to 8.9 per cent by 2021–22. Over the past five years IOD as a share of revenues declined steadily, benefitting from declining interest rates. The

FAO argues that this ratio is expected to rise sharply due to projected interest rate increases. (p. 21 – Fiscal Chapter).

Debt Outlook

- Using the government's accounting method, the FAO expects net debt to increase by $62 billion over the next five years to $365 billion by 2021–22 or 37.5 per cent of GDP, above the 2017 Budget projection of 36.3 per cent.
- Under the Auditor General's recommended accounting treatment of jointly-sponsored pension plans, the FAO expects Ontario's net debt to rise by $76 billion to $392 billion by 2021–22 or 40.3 per cent of GDP, this represents a slightly lower net debt-to-GDP ratio over the plan and outlook period when compared to the FAO's fall forecast.
- The FAO's net debt-to-GDP projections under both accounting presentations, suggests that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24. (p. 22).

Ontario's Net Debt-to-GDP Ratio



Source: FAO, Ontario Economic Accounts, and 2017 Ontario Budget.
Note: AG recommended presentation is based on FAO estimates of the pension adjustment.

Accounting Treatment

- The FAO's spring outlook includes a detailed section on the different accounting interpretations for net pension assets of jointly sponsored pension plans (Ontario Teachers' Pension Plan and the Ontario Public Service Employees Union Pension Plan) used by the government and the Auditor General.
- While the FAO presents analysis based on both interpretations of the accounting treatment, the report states that "the Officer looks to the Auditor General as the provincial authority on the appropriate interpretation and application of accounting standards for the Province" (p.27).
- Furthermore, the FAO states that in the absence of a written agreement between the co-sponsors of the pension plans, the Auditor General would be expected to provide a qualified opinion on Ontario's 2016-17 Public Accounts.

Risks and Policy Options

- The FAO notes the following risks to Ontario's fiscal plan (p. 23):
    - A housing market correction could pose a significant risk for both the broader economy and the fiscal plan through lower taxation revenues
    - Reduced prudence built into program spending in the 2017 Budget compared to the previous budget – reducing flexibility for the government to respond to unexpected events
    - Interest on debt payments are expected to increase, exposing the government to fiscal risk should interest rates rise faster than expected
- Although the FAO projects deficits, the report notes that the government has a broad range of policy options that could improve the Province's fiscal position, including selling additional public assets beyond announced targets.

APPENDIX A – Detailed Comparison of Outlooks

Key factors driving change since the 2016 FAO fall report:

- Increases in Provincial tax revenue of $2.8 billion in 2016–17 and $4.2 billion in 2017–18 (stronger than expected PIT revenue) due to improving economic growth in 2017
- Declines in Ontario's equalization entitlement. Beyond 2018–19, the FAO is projecting that Ontario will no longer be entitled to Equalization payments – a reflection of the continued strength of the Ontario economy
- Significant new spending across all sectors, including a new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan
- Revised estimates for net pension asset expense of jointly sponsored pension plans

Developments since Fall 2016 EFO (AG Recommended Presentation)

	2016-17	2017-18	2018-19	2019-20	2020-21
FAO's Fall 2016 Budget Balance Forecast	**-5.2**	**-2.6**	**-2.8**	**-3.3**	**-3.7**
Developments Since Fall 2016					
Revenue					
Stronger Economic Outlook	2.3	4.1	3.9	4.4	4.7
Lower Federal Transfers[1]	-0.3	0.2	-1.3	-2.4	-2.2
Other Revenue Changes[2]	0.1	0.1	-0.5	-0.6	-0.6
Total	2.1	4.4	2.1	1.3	1.8
Expense					
Higher Spending, including Children and Youth Pharmacare, and Fair Hydro Plan	1.2	3.8	3.0	2.2	2.7
Revised Adjustment for Pension Asset[3]	0.7	0.8	1.1	1.4	1.4
Total	2.0	4.6	4.1	3.6	4.1
Total Developments	**0.2**	**-0.3**	**-2.1**	**-2.3**	**-2.3**
FAO's Spring 2017 Budget Balance Forecast	**-5.0**	**-2.9**	**-4.9**	**-5.5**	**-6.0**

Notes:

1. Change in federal transfers forecast mainly due the reduction in Ontario's Equalization payment.
2. Other revenue changes include the $0.5 billion re-profiling of cap-and-trade proceeds from 2016-17 to 2017-18, and an increase in sales and rentals for 2017-18.
3. In the Fall 2016 EFO, the FAO assumed an annual adjustment of $1.5 billion for the net pension assets of jointly sponsored pension plans. The current projection incorporates the FAO's updated estimates for the pension adjustment of $2.2 billion in 2016-17, increasing to $2.9 billion by 2020-21.

Source: FAO.

Revenue Assumptions:

- Compared to the FAO's fall forecast, from 2016-17 to 2019-20, on average, total revenue is projected to be $2.5 billion higher annually mostly because of higher taxation revenue, partially offset by lower Federal Transfers and other Non-Tax revenues.

FAO Revenue Difference (Spring 2017 less Fall 2016)

$ Billions	2016-17	2017-18f	2018-19f	2019-20f	Annual Average
Taxation Revenue	**2.8**	**4.2**	**4.4**	**4.9**	**4.1**
Government of Canada Transfers	-0.4	0.2	-1.3	-2.4	-1.0
Government Business Enterprises	0.3	-0.4	0.0	0.1	0.0
Other Non-Tax Revenue	-0.6	0.4	-1.1	-1.3	-0.7
Total Non-Tax Revenue	**-0.7**	**0.2**	**-2.4**	**-3.6**	**-1.6**
Total Revenue	**2.1**	**4.4**	**2.1**	**1.4**	**2.5**

  - Taxation revenues are projected to be, on average, $4.1 billion higher annually due to stronger economic growth as nominal GDP growth is, on average, projected to be 0.4 percentage points higher annually.
  - More specifically, corporate profits are projected to be 3.3 percentage points higher annually, boosting Corporations Tax revenue. Higher labour income is expected to raise Personal Income Tax revenue while Ontario's strong housing market boosts Sales Tax and Land Transfer Tax revenues.
  - Lower Federal Transfers reflects mostly the FAO's projection that Ontario will no longer be entitled to Equalization payments beyond 2018-19.
  - Non-Tax revenues are lower, mainly because of the revisions to the multi-year asset optimization target to reflect the progress made so far and revised projections for Carbon allowance proceeds.

Comparison: 2017 Budget Fiscal Outlook and the 2017 Spring FAO Outlook

	Actual		Outlook					Avg. Annual Growth		
								16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
2017 Budget										
Revenue	128.4	133.2	141.7	144.9	149.3			3.9%		
Expense										
Program Expense*	120.9	123.5	129.5	132.3	135.8			3.2%		
Adjustment for Pension Assets	-	-	-	-	-					
Interest on Debt	11.0	11.3	11.6	12.0	12.6			3.9%		
Total Expense	131.9	134.8	141.1	144.3	148.4			3.3%		
Surplus/(Deficit) Excl. Reserve	(3.5)	(1.5)	0.6	0.6	0.9					
Reserve	-	-	0.6	0.6	0.9					
Surplus/(Deficit)	(3.5)	(1.5)	0.0	0.0	0.0					
Net Debt	294.6	301.9	311.9	323.3	335.9					
Change - 2017 Budget to FAO Spring 2017 Report										
Revenue	-	*(1.2)*	*(1.4)*	*(3.1)*	*(3.7)*					
Expense										
*Program Expense **	-	-	-	-	-					
Adjustment for Pension Assets	*1.5*	*2.2*	*2.3*	*2.6*	*2.9*					
Interest on Debt	-	-	*(0.3)*	*(0.3)*	*(0.3)*					
Total Expense	*1.5*	*2.2*	*2.0*	*2.3*	*2.7*					
Surplus/(Deficit) Excl. Reserve	*(1.5)*	*(3.5)*	*(3.5)*	*(5.5)*	*(6.4)*					
Reserve	-	-	*n/a*	*n/a*	*n/a*					
Surplus/(Deficit)	*(1.5)*	*(3.5)*	*n/a*	*n/a*	*n/a*					
Net Debt	*10.6*	*14.2*	*17.6*	*23.1*	*29.5*					
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	120.9	123.5	129.5	132.3	135.8	140.9	146.1	3.2%	3.7%	3.4%
Adjustment for Pension Assets	1.5	2.2	2.3	2.6	2.9	2.9	2.9			
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	133.4	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve	(5.0)	(5.0)	(2.9)	(4.9)	(5.5)	(6.0)	(6.5)			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	(5.0)	(5.0)	n/a	n/a	n/a	n/a	n/a			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Adjustment for Pension Assets	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	(3.5)	(2.8)	(0.5)	(2.2)	(2.6)	(3.1)	(3.6)			

Note: Numbers may not align with report due to rounding.

* Program Expense excluding Adjustment for Pension Assets (captured on line below)

Comparison: 2016 Fall FAO Outlook Compared to 2017 Spring FAO Outlook

	Actual		Outlook					Avg. Annual Growth		
								16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
FAO Fall 2016 Report										
Revenue	128.4	129.9	135.9	139.7	144.2	149.1		3.5%		
Expense										
Program Expense*	122.4	123.9	127.2	130.9	135.3	139.9		3.0%		
Interest on Debt	11.0	11.2	11.3	11.6	12.2	12.9		2.9%		
Total Expense	133.4	135.1	138.5	142.5	147.5	152.8		3.0%		
Surplus/(Deficit) Excl. Reserve	(5.0)	(5.2)	(2.6)	(2.8)	(3.3)	(3.7)				
Reserve	-	-	n/a	n/a	n/a	n/a				
Surplus/(Deficit)	(5.0)	(5.2)	n/a	n/a	n/a	n/a				
Net Debt	305.2	318.5	330.5	343.8	356.8	369.7				
Adjustment for Pension Assets	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)				
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	(3.5)	(3.7)	(1.1)	(1.3)	(1.8)	(2.2)				
Change - FAO Fall 2016 Report to Spring 2017 Report										
Revenue	-	*2.1*	*4.4*	*2.1*	*1.3*	*1.8*				
Expense										
Program Expense *	-	*1.9*	*4.6*	*4.0*	*3.5*	*3.9*				
Interest on Debt	-	*0.1*	-	*0.1*	*0.1*	*0.2*				
Total Expense	-	*2.0*	*4.6*	*4.1*	*3.6*	*4.1*				
Surplus/(Deficit) Excl. Reserve	*0.0*	*0.2*	*(0.3)*	*(2.1)*	*(2.3)*	*(2.3)*				
Reserve	-	-	*n/a*	*n/a*	*n/a*	*n/a*				
Surplus/(Deficit)	*0.0*	*0.2*	*n/a*	*n/a*	*n/a*	*n/a*				
Net Debt	*(0.0)*	*(2.4)*	*(1.0)*	*2.6*	*8.6*	*9.7*				
Adjustment for Pension Assets	-	(0.7)	(0.8)	(1.1)	(1.4)	(1.4)				
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	-	0.9	0.6	(0.9)	(0.8)	(0.9)				
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	122.4	125.7	131.8	134.9	138.8	143.8	149.0	3.4%	3.6%	3.5%
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	133.4	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve	(5.0)	(5.0)	(2.9)	(4.9)	(5.5)	(6.0)	(6.5)			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	(5.0)	(5.0)	n/a	n/a	n/a	n/a	n/a			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Adjustment for Pension Assets	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	(3.5)	(2.8)	(0.5)	(2.2)	(2.6)	(3.1)	(3.6)			

Note: Numbers may not align with report due to rounding.

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

From:	Esmail, Selena (MOF)
To:	Paul Lewis (MOF); Ken Kandeepan; Nadine Petsche (MOF); Teuta Dodbiba (MOF); Tim Cook (MOF); Andrea Dutton (MOF); John Kim
Cc:	Anand, Sareena (MOF); Stephen Taylor (MOF); Felix Fung (MOF); Sandy Luk (MOHLTC); Ruchi Parkash (MOI); Birks, Ryan (MOF); Patrick Laughton (MOF); Nina Arbabzadeh (EDU); Ghufran Tarin (MOF); Anna Strathy; Gavin He; Inglis, Liane (MOF); Hosick, Sarah (TBS)
Subject:	FW: FAO Summary Note (including key messages)
Date:	Tuesday, May 30, 2017 6:56:19 PM
Attachments:	image001.png FAO EFO Report_Summary_v9.docx

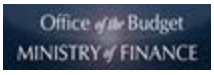
FYI – thanks for all your support and input today! this was shared by Tim with your respective ADMs as well.

From: Schuurman, Tim (MOF)
Sent: May-30-17 6:54 PM
To: Ghiassi, Ali (MOF); Mendes, Elizabeth (MOF); Nguyen, Marianne (MOF); Kennedy, Nancy (MOF); Thompson, Scott (MOF); Lewis, Brian (MOF); Kwan, Ronald (OFA); Mayman, Gadi (OFA)
Cc: McLean, David (MOF); Young, Gwendolynne (MOF); Birks, Ryan (MOF); Esmail, Selena (MOF)
Subject: FAO Summary Note (including key messages)

Please find attached an updated version of the FAO Summary note which we took the Minister through earlier this afternoon. Note this includes key messages the minister can use tomorrow as well.

Happy to address any issues as they arise over the coming day with the release of the report.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173




Office of the Budget
MINISTRY of FINANCE

Financial Accountability Officer Report: Spring Economic and Fiscal Outlook

Draft – May 30, 2017 6:00 PM

ISSUE

- The Financial Accountability Officer (FAO) will be releasing a report on May 31, which assesses Ontario's medium-term economic and fiscal outlook.
- This represents the spring update to the FAO's planned release of semi-annual medium-term outlook reports.
- The spring report incorporates economic and fiscal information released since the FAO's fall 2016 report (released November 3, 2016). This includes:
    - New economic data that impacts their revenue and interest on debt outlooks; and
    - New spending commitments from the 2017 Budget.
- The FAO has presented two fiscal projections in its spring report:
    1. A projection that includes the impact of the net pension assets of jointly sponsored pension plans, based on the Auditor General's recommended accounting treatment, and
    2. A projection that excludes this impact based on the government's fiscal presentation in the 2017 Budget, as recommended by the Pension Asset Expert Advisory Panel.
- Both presentations used by the FAO project deficits in each year over the outlook period (2016–17 to 2021–22).
    - Using the government's fiscal presentation of net pension assets, the FAO has stated that balance is within reach in 2017–18 and that beyond this, staying in balance will likely require additional fiscal policy measures.
    - Similarly, using this presentation, the FAO projects that net debt-to-GDP will decline over the outlook but additional fiscal measures would be required for the government to achieve its interim net debt-to-GDP target of 35 per cent by 2023–24 and 27 per cent by 2029–30.
    - The FAO excludes the reserve from its fiscal outlook.

TOP MESSAGES

- I would like to thank the Financial Accountability Officer (FAO) for releasing his spring economic and fiscal outlook for Ontario. We value the FAO's independent assessment and projections of the province's fiscal plan.
- As outlined in the 2017 Budget, the government is projecting a balanced budget for 2017–18 and to remain balanced in 2018–19 and 2019–20.
- The government has a strong track record of beating its fiscal targets. In fact, for the 2016–17 fiscal year, the government is forecasting a deficit of $1.5 billion, beating our annual deficit target again, for the eighth year in a row.
- This Budget builds on the government's track record of fiscal management that has resulted in $29 billion in accumulated deficits being avoided over the past seven years, relative to the 2010 Budget forecast.
- We are also targeting a net debt-to-GDP ratio of 35 per cent by 2023–24 and reducing Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029–30.
- Ontario has recorded stronger economic growth than Canada and all other G7 countries over the 2014 to 2016 period, with real GDP rising 2.6 per cent a year.
- Private-sector forecasters expect Ontario will remain one of the fastest growing provinces over the next two years. It should be noted that the FAO's real GDP projections are modestly stronger than the 2017 Budget outlook over the 2017 to 2020 period.
- For prudent fiscal planning, the Province's real GDP growth projections are slightly below the average of private-sector forecasts. In fact, three economic experts also reviewed these economic assumptions and found them to be reasonable.
- This shows that our plan to make strategic investments in Ontario to grow the economy is working.
- It is also important to note that the FAO affirmed key aspects of the Budget plan, including projecting that a balanced budget is within reach for Ontario in 2017–18 and that the net debt-to-GDP ratio is on a downward trend.
- A balanced budget is providing the Province the fiscal flexibility to invest more in health care, education and other public services that matter most to Ontario families. It also adds stability to Ontario's finances and positions the government to better respond to demographic challenges and unexpected global economic shocks that the province will face over the next decade.

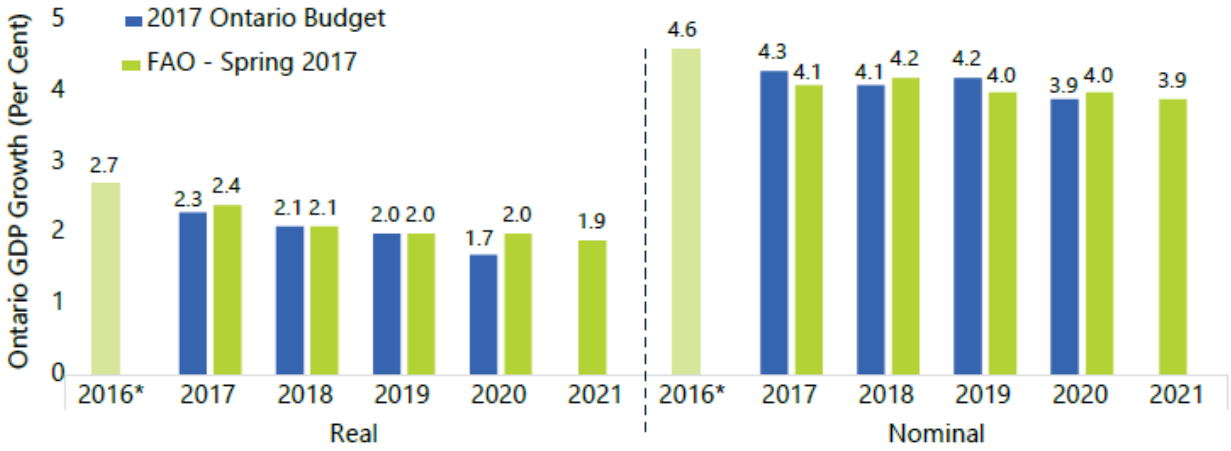
KEY FINDINGS

- The report is divided into two main chapters:
    1) The **Economic Outlook** chapter presents the FAO forecast for Ontario's economy out to 2021, and includes a discussion of potential risks.
    2) The **Fiscal Outlook** chapter presents the FAO forecast for revenue, expense and the surplus/deficit between 2016-17 and 2021-22.

<u>Economic Outlook</u>

- The FAO has left its forecast for Ontario real GDP growth little changed, on average, over the 2017 to 2020 period relative to its fall forecast, though it included a modest downward revision in 2017 and upward revision in 2019.
- The FAO forecast is broadly consistent with the private sector economists' view that stronger international exports and business investment will be key drivers of Ontario's overall economic growth over the next several years.
- The FAO forecast for real GDP growth is 0.1 percentage points stronger annually, on average, than the 2017 Budget forecast between 2017 and 2020.
- The FAO believes the balance of the risks to the economic outlook is tilted to the downside, particularly risks associated with a correction in Ontario's housing market. (p. 13).

Solid Economic Performance Expected Over Outlook



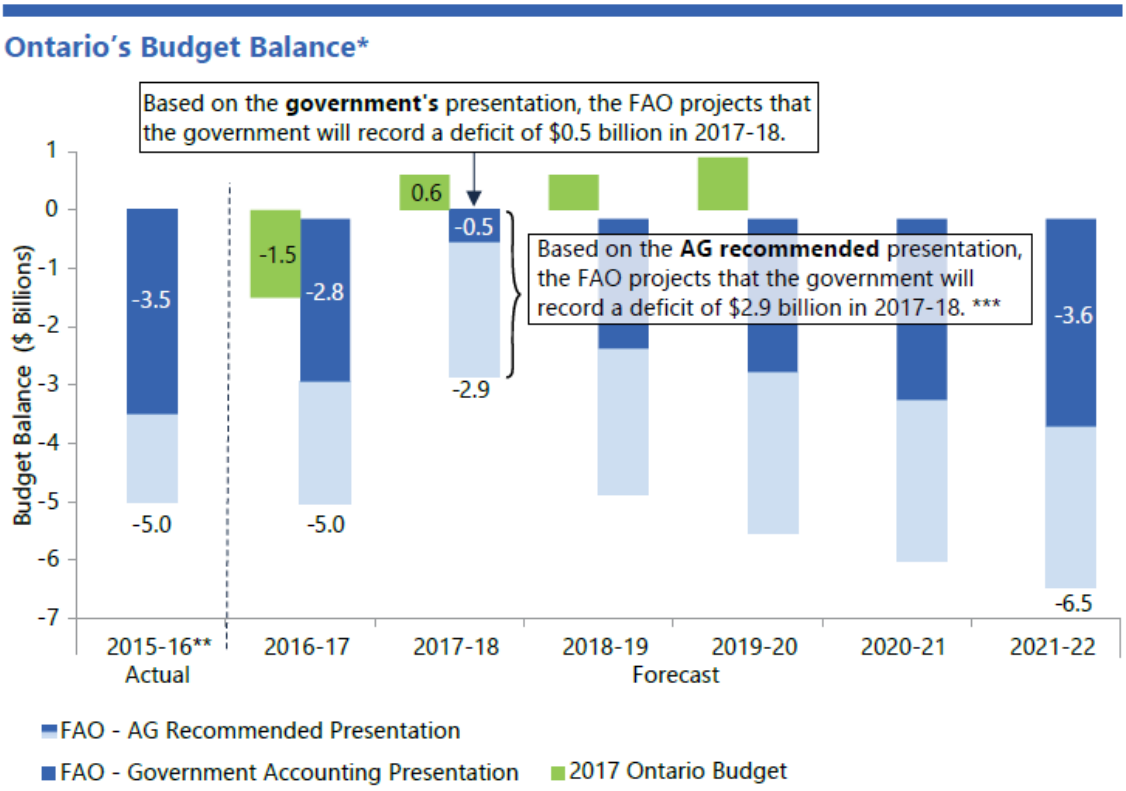
* 2016 are actuals.

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

Fiscal Outlook

- The FAO's current projection of the outlook for budget balance has generally deteriorated relative to the FAO's fall 2016 projection and continues to present a gap against the government's balanced budget projections.
- **Using the government's accounting treatment of net pension assets** the FAO is projecting budget deficits of $2.8 billion in 2016–17, $0.5 billion in 2017–18, $2.2 billion in 2018–19, and $2.6 billion by 2019–20 (excluding the reserve). This represents an improvement in the deficit for 2016–17 and 2017–18, but deterioration over the outlook compared to the FAO's fall report.
    - By comparison, the 2017 Budget projects a $1.5 billion deficit in 2016–17 and surpluses of $0.6 billion in 2017–18 and 2018–19, and a $0.9 billion surplus in 2019–20, excluding the reserve. The FAO also makes projections out to 2021–22 with increasing deficits forecast for those years as well.
    - The FAO suggests that a balanced budget is "within the government's reach in 2017–18" when using the government's accounting method, however "staying in balance after 2017-18 will likely require additional fiscal policy measures"(p.1).
    - The FAO notes that under this accounting presentation, Ontario's Public Accounts would be expected to receive a qualified opinion from the Auditor General.
- The FAO's forecast, **based on the Auditor General's recommended accounting treatment of jointly-sponsored pension plans**, projects deficits of $5.0 billion in 2016–17, $2.9 billion in 2017–18, $4.9 billion in 2018–19, and $5.5 billion by 2019–20 (excluding the reserve). Compared to the FAO's fall report, this represents a slight improvement in the deficit for 2016–17 but deterioration in 2017–18 and over the outlook.
    - The FAO notes that "on this basis, it is unlikely that the government will balance the budget without significant fiscal policy adjustments to raise revenue or lower expense" (p. 1).
- For 2016–17 the FAO is forecasting a deficit of $2.8 billion (or $5.0 billion with the pension adjustment) compared with the government's $1.5 billion interim projection.
- The FAO's asserts that its projection for an improved deficit in 2017–18 is due to robust economic performance and strong tax revenue growth in 2016 and 2017, compared to the FAO's fall estimates, and a one-time revenue increase in 2017–18 from increased federal transfers for infrastructure, additional revenue from asset sales and cap and trade proceeds. (p. 1 &19).

- Beginning in 2018-19, the FAO projects that the deficit will gradually deteriorate due to moderate revenue growth, the absence of one-time non-tax measures, and higher program expenses. (p. 16).



* Budget balance before reserve.

** Ontario's 2015-16 Public Accounts reported a deficit of $5.0 billion. Without the pension adjustment, the deficit would have been $3.5 billion.

*** This includes the FAO's estimate of the pension adjustment.

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

Revenue Assumptions

- Compared to the 2017 Budget, the FAO's projected total revenue is lower mostly because of taxation revenue and, to a lesser extent, Federal Transfers.

FAO less Ontario 2017 Budget Outlook ($ Billions)

	2016-17	2017-18	2018-19	2019-20	Average
Taxation Revenue	-1.2	-1.4	-2.3	-3.0	-2.0
Government of Canada Transfers	-0.1	0.0	-0.8	-0.8	-0.4
Government Business Enterprises	0.0	0.0	0.0	0.0	0.0
Other Non-Tax Revenue	0.0	0.0	0.0	0.0	0.0
Total Revenue	**-1.2**	**-1.4**	**-3.1**	**-3.7**	**-2.4**

    - FAO's projection for the composition of nominal GDP such as compensation of employees, net operating surplus and household consumption, are all lower than the 2017 Budget projection.
    - The 2017 Budget assumed higher yields from CIT and HST compared to recent projections, reflecting recent tax revenue performance. These yields also exceed those assumed by the FAO.
    - The FAO projection for PIT is consistently lower than the 2017 Budget, partly due to their assumptions regarding tax planning that may have occurred in 2015 by high-income earners. Whereas the 2017 Budget only included an allowance for PIT planning in 2016-17, the FAO estimates that roughly $600 million of Ontario's 2015 PIT revenue was due to income shifting, which lowers taxable income in 2016-17 and 2017-18.
- The FAO's federal transfer outlook is lower than assumed in the 2017 Ontario Budget, probably due to FAO's assumption that Ontario will no longer receive Equalization payments starting in 2019-20 as Ontario's fiscal capacity improves relative to other provinces.
- The FAO's government business enterprise net income outlook and other non-tax revenue is the same as reported in the 2017 Budget.

Expense Assumptions

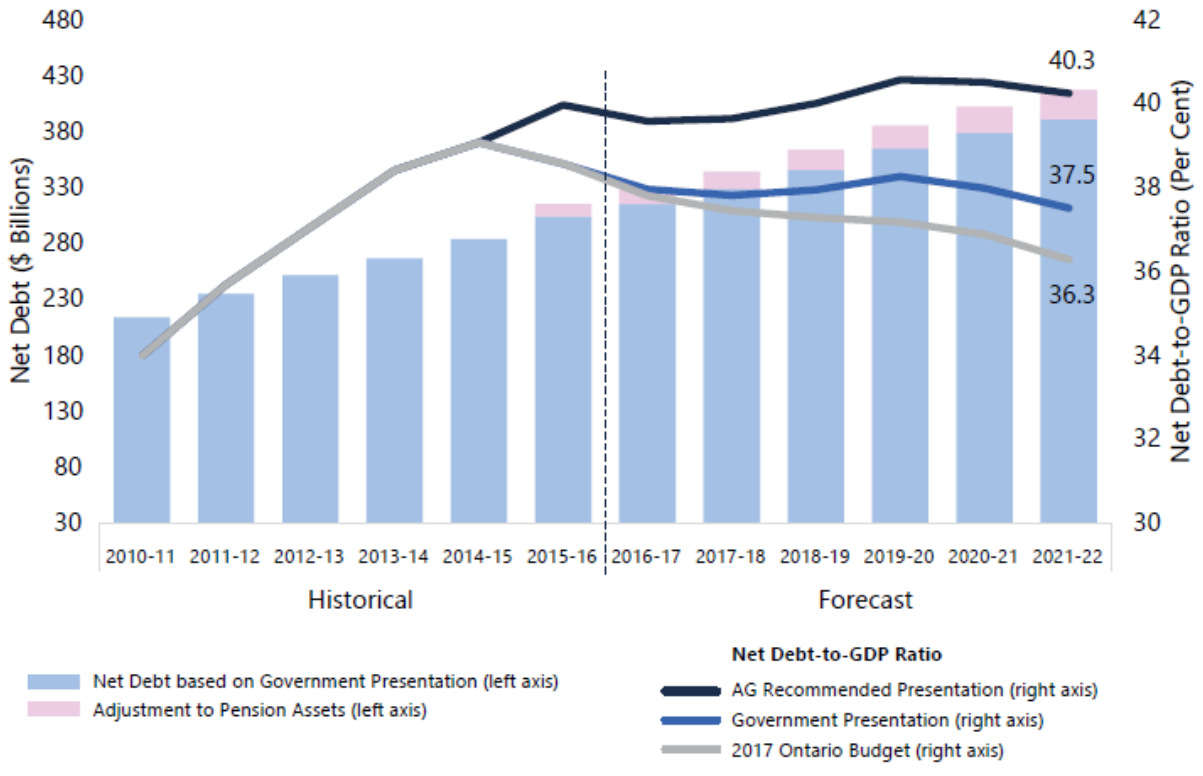
- The FAO assumes the same program expense outlook as the 2017 Budget up to 2019–20, adjusted to reflect the Auditor General's recommended accounting treatment for jointly sponsored pension plans.(p. 20).
- The FAO's expense outlook includes new spending commitments announced in the 2017 Budget including the new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan. This results in average annual growth in program expense of 3.3 per cent between 2016–17 and 2021–22 – slightly below the growth in underlying cost and demographic pressure, which is estimated to be 3.6 per cent on average.
- The FAO projects that Ontario's interest on debt (IOD) payments will grow at an average annual rate of 4.0 per cent from $11.0 billion in 2015–16 to $13.9 billion by 2021–22, reflecting higher debt and rising interest rates over the outlook. The FAO forecasts that IOD will outpace the growth in program expense over the outlook. (p. 21).
- The FAO's projection for IOD expense is lower than the 2017 Budget projections.
- According to the FAO, interest on debt is expected to increase from 8.1per cent of revenues in 2017–18 to 8.9 per cent by 2021–22. Over the past five years IOD as a share of revenues declined steadily, benefitting from declining interest rates. The

FAO argues that this ratio is expected to rise sharply due to projected interest rate increases. (p. 21 – Fiscal Chapter).

Debt Outlook

- Using the government's accounting method, the FAO expects net debt to increase by $62 billion over the next five years to $365 billion by 2021–22 or 37.5 per cent of GDP, above the 2017 Budget projection of 36.3 per cent.
- Under the Auditor General's recommended accounting treatment of jointly-sponsored pension plans, the FAO expects Ontario's net debt to rise by $76 billion to $392 billion by 2021–22 or 40.3 per cent of GDP, this represents a slightly lower net debt-to-GDP ratio over the plan and outlook period when compared to the FAO's fall forecast.
- The FAO's net debt-to-GDP projections under both accounting presentations, suggests that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24. (p. 22).

Ontario's Net Debt-to-GDP Ratio



Source: FAO, Ontario Economic Accounts, and 2017 Ontario Budget.
Note: AG recommended presentation is based on FAO estimates of the pension adjustment.

Accounting Treatment

- The FAO's spring outlook includes a detailed section on the different accounting interpretations for net pension assets of jointly sponsored pension plans (Ontario Teachers' Pension Plan and the Ontario Public Service Employees Union Pension Plan) used by the government and the Auditor General.
- While the FAO presents analysis based on both interpretations of the accounting treatment, the report states that "the Officer looks to the Auditor General as the provincial authority on the appropriate interpretation and application of accounting standards for the Province" (p.27).
- Furthermore, the FAO states that in the absence of a written agreement between the co-sponsors of the pension plans, the Auditor General would be expected to provide a qualified opinion on Ontario's 2016-17 Public Accounts.

Risks and Policy Options

- The FAO notes the following risks to Ontario's fiscal plan (p. 23):
    - A housing market correction could pose a significant risk for both the broader economy and the fiscal plan through lower taxation revenues
    - Reduced prudence built into program spending in the 2017 Budget compared to the previous budget – reducing flexibility for the government to respond to unexpected events
    - Interest on debt payments are expected to increase, exposing the government to fiscal risk should interest rates rise faster than expected
- Although the FAO projects deficits, the report notes that the government has a broad range of policy options that could improve the Province's fiscal position, including selling additional public assets beyond announced targets.

APPENDIX A – Detailed Comparison of Outlooks

Key factors driving change since the 2016 FAO fall report:

- Increases in Provincial tax revenue of $2.8 billion in 2016–17 and $4.2 billion in 2017–18 (stronger than expected PIT revenue) due to improving economic growth in 2017
- Declines in Ontario's equalization entitlement. Beyond 2018–19, the FAO is projecting that Ontario will no longer be entitled to Equalization payments – a reflection of the continued strength of the Ontario economy
- Significant new spending across all sectors, including a new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan
- Revised estimates for net pension asset expense of jointly sponsored pension plans

Developments since Fall 2016 EFO (AG Recommended Presentation)

	2016-17	2017-18	2018-19	2019-20	2020-21
FAO's Fall 2016 Budget Balance Forecast	**-5.2**	**-2.6**	**-2.8**	**-3.3**	**-3.7**
Developments Since Fall 2016					
Revenue					
Stronger Economic Outlook	2.3	4.1	3.9	4.4	4.7
Lower Federal Transfers[1]	-0.3	0.2	-1.3	-2.4	-2.2
Other Revenue Changes[2]	0.1	0.1	-0.5	-0.6	-0.6
Total	2.1	4.4	2.1	1.3	1.8
Expense					
Higher Spending, including Children and Youth Pharmacare, and Fair Hydro Plan	1.2	3.8	3.0	2.2	2.7
Revised Adjustment for Pension Asset[3]	0.7	0.8	1.1	1.4	1.4
Total	2.0	4.6	4.1	3.6	4.1
Total Developments	**0.2**	**-0.3**	**-2.1**	**-2.3**	**-2.3**
FAO's Spring 2017 Budget Balance Forecast	**-5.0**	**-2.9**	**-4.9**	**-5.5**	**-6.0**

Notes:

1. Change in federal transfers forecast mainly due the reduction in Ontario's Equalization payment.
2. Other revenue changes include the $0.5 billion re-profiling of cap-and-trade proceeds from 2016-17 to 2017-18, and an increase in sales and rentals for 2017-18.
3. In the Fall 2016 EFO, the FAO assumed an annual adjustment of $1.5 billion for the net pension assets of jointly sponsored pension plans. The current projection incorporates the FAO's updated estimates for the pension adjustment of $2.2 billion in 2016-17, increasing to $2.9 billion by 2020-21.

Source: FAO.

Revenue Assumptions:

- Compared to the FAO's fall forecast, from 2016-17 to 2019-20, on average, total revenue is projected to be $2.5 billion higher annually mostly because of higher taxation revenue, partially offset by lower Federal Transfers and other Non-Tax revenues.

FAO Revenue Difference (Spring 2017 less Fall 2016)

$ Billions	2016-17	2017-18f	2018-19f	2019-20f	Annual Average
Taxation Revenue	**2.8**	**4.2**	**4.4**	**4.9**	**4.1**
Government of Canada Transfers	-0.4	0.2	-1.3	-2.4	-1.0
Government Business Enterprises	0.3	-0.4	0.0	0.1	0.0
Other Non-Tax Revenue	-0.6	0.4	-1.1	-1.3	-0.7
Total Non-Tax Revenue	**-0.7**	**0.2**	**-2.4**	**-3.6**	**-1.6**
Total Revenue	**2.1**	**4.4**	**2.1**	**1.4**	**2.5**

  - Taxation revenues are projected to be, on average, $4.1 billion higher annually due to stronger economic growth as nominal GDP growth is, on average, projected to be 0.4 percentage points higher annually.
  - More specifically, corporate profits are projected to be 3.3 percentage points higher annually, boosting Corporations Tax revenue. Higher labour income is expected to raise Personal Income Tax revenue while Ontario's strong housing market boosts Sales Tax and Land Transfer Tax revenues.
  - Lower Federal Transfers reflects mostly the FAO's projection that Ontario will no longer be entitled to Equalization payments beyond 2018-19.
  - Non-Tax revenues are lower, mainly because of the revisions to the multi-year asset optimization target to reflect the progress made so far and revised projections for Carbon allowance proceeds.

Comparison: 2017 Budget Fiscal Outlook and the 2017 Spring FAO Outlook

	Actual		Outlook					Avg. Annual Growth		
								16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
2017 Budget										
Revenue	128.4	133.2	141.7	144.9	149.3			3.9%		
Expense										
Program Expense*	120.9	123.5	129.5	132.3	135.8			3.2%		
Adjustment for Pension Assets	-	-	-	-	-					
Interest on Debt	11.0	11.3	11.6	12.0	12.6			3.9%		
Total Expense	131.9	134.8	141.1	144.3	148.4			3.3%		
Surplus/(Deficit) Excl. Reserve	(3.5)	(1.5)	0.6	0.6	0.9					
Reserve	-	-	0.6	0.6	0.9					
Surplus/(Deficit)	(3.5)	(1.5)	0.0	0.0	0.0					
Net Debt	294.6	301.9	311.9	323.3	335.9					
Change - 2017 Budget to FAO Spring 2017 Report										
Revenue	-	*(1.2)*	*(1.4)*	*(3.1)*	*(3.7)*					
Expense										
*Program Expense **	-	-	-	-	-					
Adjustment for Pension Assets	*1.5*	*2.2*	*2.3*	*2.6*	*2.9*					
Interest on Debt	-	-	*(0.3)*	*(0.3)*	*(0.3)*					
Total Expense	*1.5*	*2.2*	*2.0*	*2.3*	*2.7*					
Surplus/(Deficit) Excl. Reserve	*(1.5)*	*(3.5)*	*(3.5)*	*(5.5)*	*(6.4)*					
Reserve	-	-	*n/a*	*n/a*	*n/a*					
Surplus/(Deficit)	*(1.5)*	*(3.5)*	*n/a*	*n/a*	*n/a*					
Net Debt	*10.6*	*14.2*	*17.6*	*23.1*	*29.5*					
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	120.9	123.5	129.5	132.3	135.8	140.9	146.1	3.2%	3.7%	3.4%
Adjustment for Pension Assets	1.5	2.2	2.3	2.6	2.9	2.9	2.9			
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	133.4	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve	(5.0)	(5.0)	(2.9)	(4.9)	(5.5)	(6.0)	(6.5)			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	(5.0)	(5.0)	n/a	n/a	n/a	n/a	n/a			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Adjustment for Pension Assets	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	(3.5)	(2.8)	(0.5)	(2.2)	(2.6)	(3.1)	(3.6)			

Note: Numbers may not align with report due to rounding.

* Program Expense excluding Adjustment for Pension Assets (captured on line below)

Comparison: 2016 Fall FAO Outlook Compared to 2017 Spring FAO Outlook

	Actual		Outlook					Avg. Annual Growth		
								16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
FAO Fall 2016 Report										
Revenue	128.4	129.9	135.9	139.7	144.2	149.1		3.5%		
Expense										
Program Expense*	122.4	123.9	127.2	130.9	135.3	139.9		3.0%		
Interest on Debt	11.0	11.2	11.3	11.6	12.2	12.9		2.9%		
Total Expense	133.4	135.1	138.5	142.5	147.5	152.8		3.0%		
Surplus/(Deficit) Excl. Reserve	(5.0)	(5.2)	(2.6)	(2.8)	(3.3)	(3.7)				
Reserve	-	-	n/a	n/a	n/a	n/a				
Surplus/(Deficit)	(5.0)	(5.2)	n/a	n/a	n/a	n/a				
Net Debt	305.2	318.5	330.5	343.8	356.8	369.7				
Adjustment for Pension Assets	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)				
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	(3.5)	(3.7)	(1.1)	(1.3)	(1.8)	(2.2)				
Change - FAO Fall 2016 Report to Spring 2017 Report										
Revenue	-	*2.1*	*4.4*	*2.1*	*1.3*	*1.8*				
Expense										
Program Expense *	-	*1.9*	*4.6*	*4.0*	*3.5*	*3.9*				
Interest on Debt	-	*0.1*	-	*0.1*	*0.1*	*0.2*				
Total Expense	-	*2.0*	*4.6*	*4.1*	*3.6*	*4.1*				
Surplus/(Deficit) Excl. Reserve	*0.0*	*0.2*	*(0.3)*	*(2.1)*	*(2.3)*	*(2.3)*				
Reserve	-	-	*n/a*	*n/a*	*n/a*	*n/a*				
Surplus/(Deficit)	*0.0*	*0.2*	*n/a*	*n/a*	*n/a*	*n/a*				
Net Debt	*(0.0)*	*(2.4)*	*(1.0)*	*2.6*	*8.6*	*9.7*				
Adjustment for Pension Assets	-	(0.7)	(0.8)	(1.1)	(1.4)	(1.4)				
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	-	0.9	0.6	(0.9)	(0.8)	(0.9)				
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	122.4	125.7	131.8	134.9	138.8	143.8	149.0	3.4%	3.6%	3.5%
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	133.4	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve	(5.0)	(5.0)	(2.9)	(4.9)	(5.5)	(6.0)	(6.5)			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	(5.0)	(5.0)	n/a	n/a	n/a	n/a	n/a			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Adjustment for Pension Assets	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	(3.5)	(2.8)	(0.5)	(2.2)	(2.6)	(3.1)	(3.6)			

Note: Numbers may not align with report due to rounding.

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

From: Ken Kandeepan
To: Bonnie Lemcke
Subject: FW: FAO vs. FES
Date: Tuesday, November 15, 2016 9:26:56 AM
Attachments: FAO EFO - CIN - Fall 2016_FES Crosswalk.pdf
ATT00001.htm

Hi Bonnie

The FAO's IOD forecast is considerably lower than ours, is there any way that they can share their underlying interest rate assumptions.

Thanks

Ken k

From: Gadi Mayman
Sent: Monday, November 14, 2016 11:40 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Fwd: FAO vs. FES

Begin forwarded message:

> **From:** "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
> **To:** "Scott Thompson (CAB)" <Scott.Thompson@ontario.ca>, "Brian Lewis (MOL)" <Brian.Lewis@ontario.ca>, "Karen Hughes (MGS)" <Karen.Hughes@ontario.ca>, "Maria Duran-Schneider (MOF)" <Maria.Duran-Schneider@ontario.ca>, "Arruda, Artur (TBS)" <Artur.Arruda@ontario.ca>, "Gadi Mayman" <Gadi.Mayman@ofina.on.ca>
> **Cc:** "David McLean (MOF)" <David.McLean@ontario.ca>, "Christopher Pearce (MOI)" <Christopher.Pearce@ontario.ca>, "Selena Esmail (MOF)" <Selena.Esmail@ontario.ca>, "Emma Lindquist (MOF)" <Emma.Lindquist@ontario.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>
> **Subject: FAO vs. FES**
>
> As you all know, the FAO will be reviewing the FES and developing questions for us to review and answer when we meet with them on Wednesday.
>
> To help us all prepare for this, we've done a cross-walk from the FAO fiscal plan to the fiscal plan outlined in the FES today. The table is attached for your reference.

In summary, the FAO Outlook shows higher deficits than outlined in the Fall Statement. Key factors include:

- The FAO's revenue forecast is significantly lower than what is outlined in the Fall Statement (more than $5B in 18-19).
- The FAO's estimate of new government initiatives (child care, HST rebate, etc) are higher than what are built into the Fall Statement, particularly in 17-18 and 18-19.
- Combined, these two elements, which result in a deterioration in the fiscal outlook, are partially offset by higher IOD savings assumed by the FAO.

As we already know, the FAO underestimated the Pension Adjustment in each year, which reduced the variance between the FAO's deficit projection and the FES. Presumably their updated forecast in their commentary (to be released next week) will increase the Pension Adjustment, and also, the resulting deficit projection.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



Security settings or invalid file format do not permit using FAO EFO - CIN - Fall 2016_FES Crosswalk.pdf (585500 Bytes).

From:	Anna Strathy
To:	Ken Kandeepan; John Psinas; Bonnie Lemcke; Alexander Kraas
Cc:	Usman Zahid
Subject:	FW: FAO"s Fall 2017 EFO
Date:	Sunday, November 26, 2017 3:09:33 PM
Attachments:	2017 EFO - Econ Chapter MOFTBScomments.docx 2017 EFO - Fiscal Chapter_Consolidated CommenntsMOFTBS.docx image005.png image006.png image001.png

FYI, OFA/MOF/TBS consolidated feedback on the FAO's upcoming Economic and Fiscal Outlook report.

Anna

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Friday, November 24, 2017 5:32 PM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Usman Zahid <Usman.Zahid@ofina.on.ca>
Subject: FW: FAO's Fall 2017 EFO

FYI…

From: Schuurman, Tim (MOF)
Sent: November-24-17 5:27 PM
To: Mayman, Gadi (OFA); Kwan, Ronald (OFA)
Cc: McLean, David (MOF); Esmail, Selena (MOF); Birks, Ryan (MOF)
Subject: FW: FAO's Fall 2017 EFO

FYI – our feedback to the FAO on their report. Thanks for your input.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

From: Schuurman, Tim (MOF)
Sent: November-24-17 5:26 PM
To: 'David West'; Lewis, Brian (MOF); Hughes, Karen (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Luan Ngo; Edward Crummey; Nicolas Rhodes; Laughton, Patrick (TBS); Esmail, Selena (MOF)
Subject: RE: FAO's Fall 2017 EFO

David;

Thanks again for the opportunity to review and provide feedback/fact-checks and comments on the draft report. Please find attached a consolidated set of comments from MOF and TBS on the

Economic and Fiscal Chapters.

We think there may be some value in having a follow-up call next week to discuss some of these pieces – but let us know what you think once you've reviewed. We're happy to arrange something.

Some of these more significant edits may require a conversations to clarify, including:

- The language and representation of the differences in accounting interpretations. We may have discussed this at the time of the Budget outlook document, but we think its important to get the language right in terms of how this is articulated so that it's a more objective and fact-based representation.

- In addition, it appears that the way the FAO has built in the AG's interpretation of the Fair Hydro Plan accounting treatment is incorrect – as the current presentation in this draft EFO shows it appearing on the revenue side (on OPG's net income) – instead, the AG's recommendation was that is an expense impact on consolidation from IESO and further that the IESO is not a GBE – so it impacts the way the section (and charts under that section) are currently presented. This will require a significant change to your numbers and presentation. This may require additional explanation, so let us know.

- There are also some comments related to FAO projections for the amount of borrowing, as well as references about above trend growth in key tax drivers – these were essentially that the forecast is consistent with historical growth/trends and private sector forecasts, and the importance to note where "one-time" revenues identified as such by the FAO are actually also fiscally neutral – so should not be linked to a fiscal gap contribution by these shorter-term revenues.

Tim Schuurman
Assistant Deputy Minister
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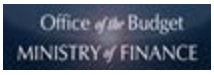
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



From: David West [mailto:dwest@fao-on.org]
Sent: November-22-17 11:42 AM
To: Schuurman, Tim (MOF); Lewis, Brian (MOF); Hughes, Karen (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Luan Ngo; Edward Crummey; Nicolas Rhodes; Hosick, Sarah (TBS); Laughton, Patrick (TBS)
Subject: RE: FAO's Fall 2017 EFO
Importance: High

Tim, Brian Karen

Please find attached drafts of Economic Outlook and Fiscal Outlook chapters from the FAO's upcoming 'Economic and Fiscal Outlook' report.

The chapters are password protected using the same password as in the past.

As in the past, we are on a very tight schedule to enable us to release this report in early December, before the Legislature rises for the holiday break.

However, please note that we are still waiting for the detailed program spending projection consistent with FES (see attached email request from last week). This information is essential to calibrate our models and ensure consistency with the government's projections. If we do not receive that information shortly, we will be forced to proceed with our own estimates which could impact the results and conclusions presented in the report. Please be aware that we will need to be clear with MPPs, during our technical briefing, that we did not receive all the additional background information that we requested. (We did, however, receive the detailed revenue information from FES last week. Thanks)

We are asking for your comments/concerns by end of day Friday (November 24).

Happy to set up a phone call to discuss.

Thanks again for your support and assistance.

David West
Chief Economist
FAO | Financial Accountability Office of Ontario

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

From: David West
Sent: November 20, 2017 10:18 AM
To: Tim Schuurman (Tim.Schuurman@ontario.ca) <Tim.Schuurman@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; ryan.birks@ontario.ca; Luan Ngo (lngo@fao-on.org) <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Nicolas Rhodes (nrhodes@fao-on.org) <nrhodes@fao-on.org>
Subject: FAO's Fall 2017 EFO

Hello Tim, Brian,

As you are aware, we are preparing our Fall EFO for release in early December.

As in the past, we are planning to send you drafts of the 2 core chapters of the report (economic outlook and fiscal outlook) on Wednesday morning, for your comments. We will also provide the supporting data tables, providing additional details on the projection. The current report follows the basic template of our earlier EFOs, and may be a little shorter.

We would greatly appreciate receiving the Ministry's comments by Friday (November 24) end of day.

Thanks, as always, for your assistance.

David

David West
Chief Economist
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1. Economic Outlook

Overview

Ontario Economy Exceeding Expectations in 2017

Following a strong performance over the first half of 2017, the Ontario economy is expected to continue on a path of solid growth into 2018.

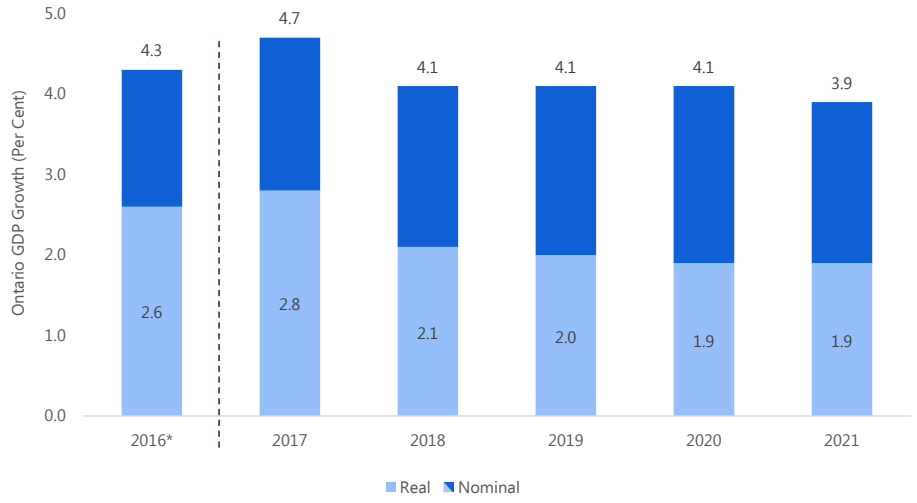
Led by a continued surge in household spending and residential investment, the FAO projects Ontario real GDP growth of 2.8 per cent in 2017, an upward revision from the FAO's spring outlook report.[1] Nominal GDP – the broadest measure of the tax base - is projected to increase by 4.7 per cent in 2017, well above the FAO's spring forecast. The strong growth in nominal GDP in 2017 is supported by significant gains in corporate profits.

Beginning in 2018, most forecasters, including the FAO, expect the Ontario economy to grow at a more measured pace, as growth in the US and Canadian economies is also expected to moderate. At the same time, higher interest rates are expected to contribute to slower growth of household spending and residential investment over the outlook.

Commented [AJ(1]: NGDP growth of 4.7% is the lowest estimate of the 13 forecasters that we track and also below the average of the three forecasters tracked by the FAO.

The FAO may be using a vintage version of the C4SE forecast, which contained an error. If fixed, it could change the average forecast of the three modellers for NGDP growth found in the FAO report.

Solid Economic Performance Expected Over Outlook



* 2016 are actuals.

Source: Ontario Economic Accounts, Statistics Canada and FAO.

1 'Economic and Fiscal Outlook, Assessing Ontario's Medium-term Prospects, Spring 2017', Financial Accountability Office of Ontario.

Global Economic Growth Gaining Traction

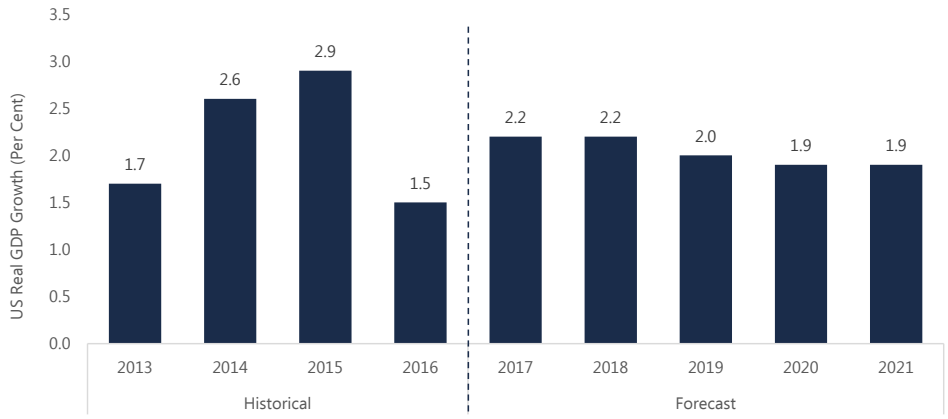
In its latest World Economic Outlook, the International Monetary Fund (IMF) revised up its forecast for global economic growth to 3.6 per cent in 2017 and 3.7 per cent in 2018.[2] A number of key economies reported stronger than expected growth over the first half of 2017, including the euro area and Japan. These upward revisions more than offset weaker than expected growth in the United Kingdom and the United States.

United States

In the US, real GDP is expected to grow by 2.2 per cent in 2017. Following a modest first quarter gain, US consumer spending has shown signs of strengthening while business investment remains strong, particularly in the energy sector. Going forward, the FAO projects US growth to ease slightly to 1.9 per cent by 2021.

Commented [AJ(2]: The Consensus Economics and Blue Chip forecasts currently have 2018 real U.S. GDP growth at 2.5%. These forecasts are likely fresher that the CBO forecast of 2.2% used by the FAO.

US Economic Growth to Moderate



Source: US Bureau of Economic Analysis, Congressional Budget Office and FAO Consensus.

However, the outlook for the US economy depends critically on the uncertain policy direction of the current US administration. Significant tax reform, including sizable tax cuts, have been proposed, although it is unclear if an agreement in Congress will be reached. Likewise, the renegotiation of the North American Free Trade Agreement (NAFTA) is ongoing, and the potential impact of a new trade agreement on North American economies remains highly uncertain (see 'Key Risks' for more details).

Other World Economies

The IMF reports that the euro area economy continues to gain strength, supported by a pick-up in exports and continued strength in domestic demand. In China, the IMF expects economic growth to ease from 6.8 per cent in 2017 to 6.5 per cent in 2018. While the Chinese economy is continuing to rebalance towards

2 International Monetary Fund, World Economic Outlook, October 2017.

more consumption-led growth, debt continues to build among households, government and businesses, which could pose risks to medium-term growth.[3]

While the global economy is expected to perform solidly through 2018, over the medium term, global growth is expected to be limited by modest productivity gains, aging workforces in advanced economies, and tightening financial conditions.

Canadian Economy

The Canadian economy is on track to post the strongest annual growth since 2011. Robust consumer spending, and a pickup in exports and business investment supported solid overall Canadian growth during the first half of 2017. While consumer spending and exports are expected to moderate over the second half of the year, the Canadian economy is on pace for a 3.1 per cent annual gain in 2017. The FAO expects Canadian real GDP to grow by 2.1 per cent in 2018 and by an average of 2.0 per cent through 2021, as higher interest rates contribute to slower growth in consumer spending and residential investment.

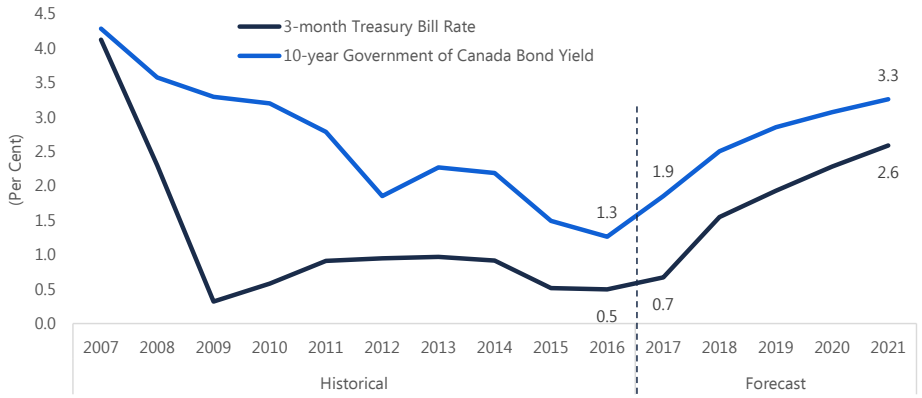
The brisk pace of economic growth over the first half of the year led the Bank of Canada to increase its policy interest rate to 0.75 per cent in July and 1.0 per cent in September. Importantly, the Bank indicated that with the Canadian economy operating near full capacity, it will take a cautious, data-driven approach in determining future rate increases. Given the Bank's measured approach and the subdued rate of consumer price inflation, the FAO expects a gradual but steady rise in interest rates over the medium-term, consistent with the FAO's spring outlook.

Commented [AJ(3]: Worth noting that the BoC held rates steady at its October meeting.

The recent increases in Canadian interest rates contributed to an eight-cent appreciation in the Canadian dollar relative to the US dollar through the summer, before retracing some of this gain more recently. With this appreciation, the FAO projects that the dollar will average 78 cents in 2017, slightly higher than the FAO's spring outlook. Going forward, the FAO expects a gradual appreciation of the dollar to about 81 cents by 2021, supported by a steady rise in Canadian interest rates and a moderate increase in oil prices.

Canadian Interest Rates to Rise over the Outlook

3 International Monetary Fund, China's Economic Outlook in Six Charts, August 2017.



Source: Statistics Canada and FAO.

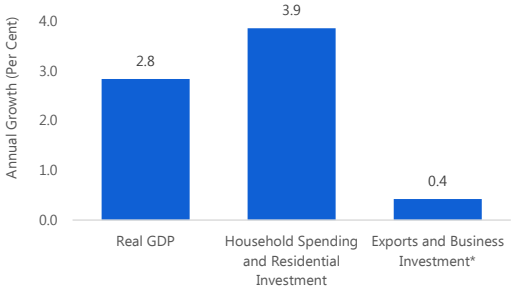
Ontario Economic Outlook

Solid 2017 Growth Expected to Moderate over the Outlook

Ontario posted solid real GDP growth of 2.6 per cent in 2016, the third consecutive year of strong growth for the economy. The FAO expects that the economy's momentum will continue into 2017, with real GDP advancing by 2.8 per cent.

However, despite the projection for relatively strong economic growth in 2017, the drivers of that growth are unbalanced. Household spending and residential construction are providing the main support for the economy's growth in 2017, while exports and business investment have underperformed.

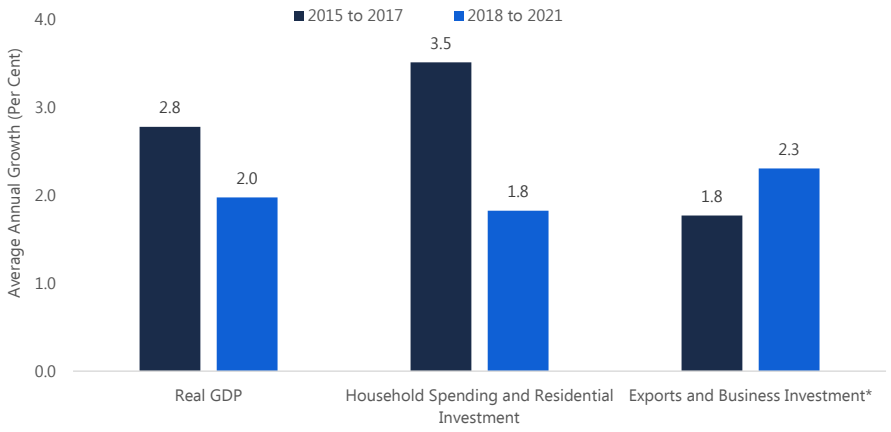
Household Spending Primary Driver of Growth in 2017



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

Going forward, the FAO expects that elevated levels of household debt combined with rising interest rates will hamper household spending and residential investment. At the same time, exports and business investment are expected to contribute more to economic growth, as sustained foreign demand encourages businesses to increase production capacity (discussed further in 'Key Risks' below). Over the outlook, the FAO projects real GDP growth will ease to 2.1 per cent in 2018 and average 1.9 per cent per year from 2019 to 2021.

Exports and Business Investment Expected to Drive Growth over the Outlook



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

Strong Gain in Corporate Profits Projected for 2017

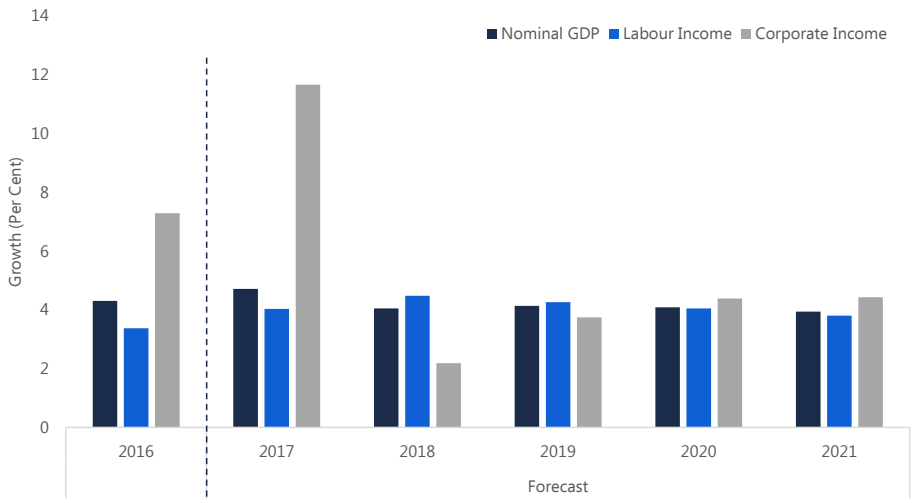
The FAO is forecasting nominal GDP growth of 4.7 per cent in 2017, driven by an 11.7 per cent increase in corporate profits, and a more moderate gain of 4.0 per cent in labour income.

The planned increases to Ontario's minimum wage are expected to raise labour income growth in 2018 and 2019.[4] Beyond 2019, labour income growth is expected to moderate to 3.8 per cent by 2021.

Slower labour income gains will contribute to slightly more moderate nominal GDP growth of 3.9 per cent by 2021.

Corporate Income Leads Nominal GDP Growth in 2017

4 The FAO's forecast incorporates explicit assumptions of higher labour income growth, a small reduction in employment gains and a slight increase in CPI inflation due to the planned increases in Ontario's minimum wage. See the FAO's commentary *Assessing the Economic Impact of Ontario's Proposed Minimum Wage Increase* for details.



Note: Labour and corporate income comprise roughly 70 per cent of nominal GDP. The other categories include mixed income (from proprietorships) and net taxes.

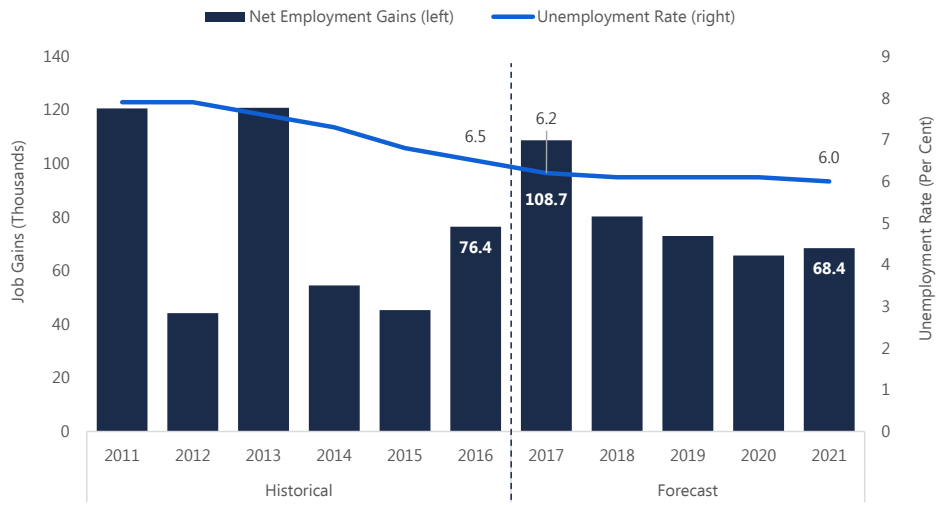
Source: Statistics Canada, Ontario Economic Accounts and FAO.

Steady Job Gains Expected to Continue

The FAO is projecting strong job growth of 1.6 per cent (+109 thousand net new jobs) in 2017, following a gain of 1.1 per cent (+76 thousand net new jobs) in 2016.

Over the outlook, sustained economic growth is expected to support average annual employment growth of 1.1 per cent, just slightly faster than the growth in the labour force. As a result, the unemployment rate is expected to trend lower, falling from 6.2 per cent in 2017 to 6.0 per cent by 2021.

Steady Employment Gains as Unemployment Rate Trends Lower



Source: Statistics Canada and FAO.

Key Risks for Ontario's Economic Outlook

While the FAO expects solid economic growth over the medium-term, there are a number of risks that could negatively affect Ontario's economic performance.

Most economic forecasters, including the FAO, continue to assume that NAFTA will largely be maintained in its current form. However, the US administration is demanding significant concessions from Canada and Mexico, and has threatened to leave NAFTA altogether. Some businesses may already be postponing investment decisions outside of the United States due to the uncertainty surrounding NAFTA. If the renegotiation of NAFTA leads to a deterioration in Ontario's terms of trade or restricts access to the US market, there would be significant negative implications for the province's growth prospects.

In recent years, strong growth in household spending has not been matched by similar gains in household incomes, leading to higher levels of household debt. In 2016, household debt reached 167 per cent of disposable income in Ontario, a significant rise from 149 per cent in 2010.[5] Higher debt burdens expose households to financial risk. With a steady rise in interest rates expected over the next few years, many households will scale back discretionary spending in order to make higher debt interest payments, which in turn could have implications for the pace of overall economic growth.[6]

Commented [AJ(4]: There are also some upside risks to the Ontario economic outlook. For instance, the risk section would benefit from a discussion of potentially stronger Ontario real GDP growth in 2018 because of stronger global growth.

5 Statistics Canada Annual Household Wealth Distribution Tables (Provisional Data).
6 The Bank of Canada describes this risk as elevated, with a low probability of occurrence but a severe impact if it were to materialize. Bank of Canada, Financial System Review, June 2017.

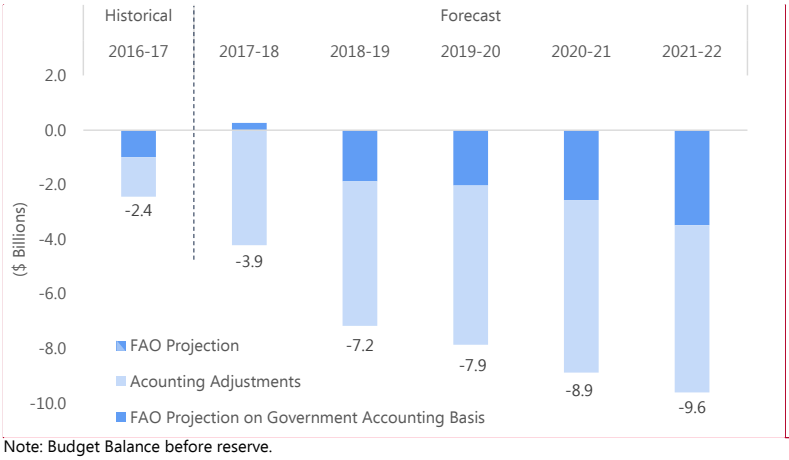
1. Fiscal Outlook

FAO Projects a Return to Significant Budget Deficits

Despite a strong increase in revenues, the FAO is projecting an Ontario budget deficit of $3.9 billion in 2017-18, entirely the result of the Auditor General of Ontario's (AG) recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans.[1]

Beyond 2017-18, the FAO is projecting a significant deterioration in the budget deficit due to the loss of time-limited revenues, a more moderate pace of tax revenue growth, and the growing fiscal impact of the AG's recommended interpretation of public sector [OPCD edit] accounting ~~framework~~standards (PSAS) [OPCD edit]. By 2021-22, the FAO is projecting an Ontario budget deficit of $9.6 billion in the absence of any fiscal policy changes.

Ontario Budget Balance



Note: Budget Balance before reserve.
Source: Ontario Public Accounts, 2017 Ontario Economic Outlook and Fiscal Review, and FAO.

Commented [GNR1]: OPCD: Legend description: FAO Projection using government interpretation of PSAS

In the *2017 Ontario Economic Outlook and Fiscal Review* (also referred to as the Fall Economic Statement or FES), the government projected balanced budgets for 2017-18 through to 2019-20. However, the government's fiscal projection relies on an overly optimistic revenue forecast and does not adopt the AG's recommended accounting interpretations on two issues: 1) accounting for net pension assets of jointly sponsored pension plans, and 2) the global adjustment refinancing component of the Ontario Fair Hydro Plan~~framework~~. [OPCD edit]

For comparison, under the government's accounting presentation, the FAO projects a small budget surplus for 2017-18 – approximately equal to the government's own budget projection. However, there are a

[1] See *The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value For Money; Auditor General of Ontario, October 2017* and *Independent Auditor's Report, 2016-17 Consolidated Financial Statements, Auditor General of Ontario, 2017.*

number of time-limited and one-time revenues in 2017-18. Going forward, the loss of these temporary revenues combined with more moderate tax revenue growth results in a return to deficit in 2018-19 and a steady deterioration in the budget deficit over the outlook.

The Accounting Presentation of Ontario's Financial Statements

The government's fiscal plan, as presented in both the 2017 Ontario Budget and Fall Economic Statement, does not adopt the Auditor General's recommended accounting ~~presentation, reducing the transparency and clarity of Ontario's fiscal position.~~ treatment for which the government received a qualified opinion from the AG in the 2016-17 Public Accounts of Ontario [OPCD edit]

In addition to the existing disagreement over the appropriate accounting treatment for the government's jointly sponsored pension plans, the AG recently reported that the government is not correctly accounting for the full cost of the Fair Hydro Plan in its financial statements.[2] As a result, the government's fiscal presentation is expected to continue to receive qualified opinions from the AG.

Revenue Outlook

The FAO is projecting average annual revenue growth of 3.1 per cent over the forecast. In 2017-18, revenues are supported by strong growth in taxes, as well as a number of time-limited or one-time revenues. Beginning in 2018-19, the FAO is projecting more moderate revenue growth as:

- time-limited revenues end (including the debt retirement charge and federal equalization payments);
- economic growth moderates, following several years of stronger than average growth; and
- the fiscal impact of the Fair Hydro Plan increases, reducing electricity-sector revenues.

Tax Revenue Growth Expected to Moderate

Nominal GDP, the broadest measure of the tax base, is projected to grow by a strong 4.7 per cent in 2017, supporting a 4.6 per cent increase in tax revenues in 2017-18. From 2018 to 2021, annual GDP growth is expected to moderate to 4.1 per cent, leading to similar slowing in tax revenue growth to 4.1 per cent on average over this period.

In the government's Fall Economic Statement, tax revenue is projected to grow by 5.2 per cent on average from 2017-18 to 2019-20, much higher than the FAO's projection of 4.3 per cent over the same period. The government's expectation of higher growth results in an additional $2.9 billion in tax revenues by 2019-20, relative to the FAO projection.

Commented [ES2]: OFA comment: There is no mention of the findings of the independent Pension Asset Expert Advisory Panel. Even if the FAO disagrees with the findings there should be a reference that the Government has followed the Panel's recommendation in accounting for pension assets.

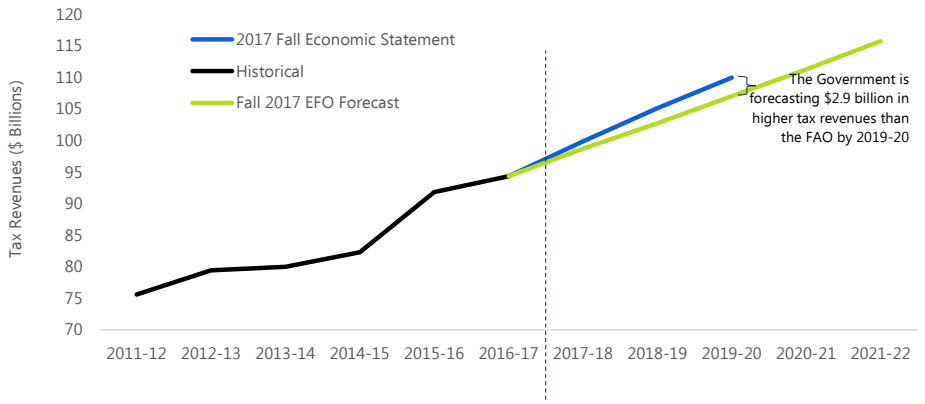
Commented [ES3]: OB: On page 4 states FAO estimates this will end in 2019-20

Commented [GNR4]: OFA: The FHP does not have a net negative revenue impact. See page 4 comments.

Commented [GNR5]: OB: Average annual growth in tax revenue is 5.2 per cent from 2016–17 to 2019–20.

[2] 2016-17 Consolidated Financial Statements, Auditor General of Ontario, 2017

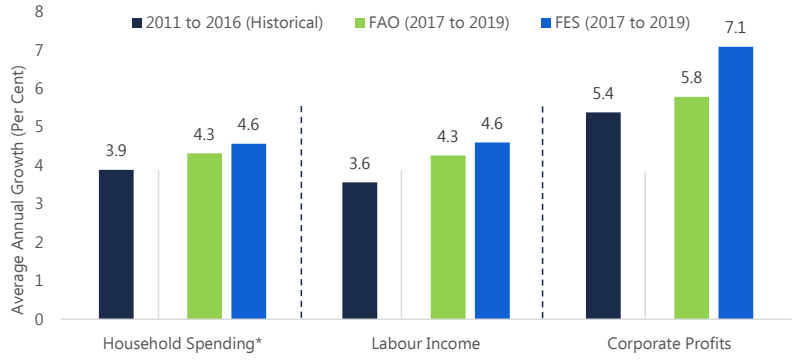
FAO's Taxation Revenue Outlook



Source: Ontario Public Accounts, 2017 Ontario Economic Outlook and Fiscal Review and FAO.

The government's revenue forecast relies on more optimistic projections for many of the key economic drivers of tax revenue, including labour income; corporate profits; and household spending.

Growth in Key Tax Drivers



* The FES forecast for Household Spending is Real Household Spending plus CPI.

Source: Statistics Canada, 2017 Ontario Economic Outlook and Fiscal Review and FAO.

While the FAO expects incomes and household spending to grow somewhat faster than recent historical trends,[3] the government's tax revenue forecast is based on significant and sustained above-trend growth for each of the three key tax drivers.

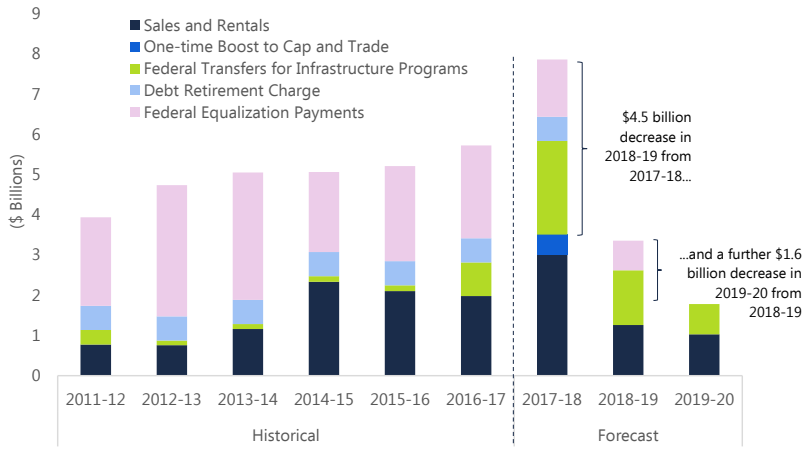
The Loss of Time-limited Revenues

The Province's 2017-18 revenues incorporate a number of one-time or time-limited revenues that are set to expire. These include:

- a temporary increase to sales and rentals revenue, reflecting additional asset sales[4];
- higher federal transfers for infrastructure;
- the final year of the debt retirement charge[5];
- federal Equalization payments, which the FAO estimates will end in 2019-20; and
- revenue from an additional cap-and-trade auction that occurred in March 2017, which will be recognized in the 2017-18 fiscal year.[6]

Taken together, these time-limited revenues will decrease by $4.5 billion in 2018-19, and by an additional $1.6 billion in 2019-20.

Many Time-limited Revenues are Set to Expire Beyond 2017-18



3 Labour income is expected to grow above trend in part due to the increased minimum wage over the outlook (which is also expected to boost household spending). Estimates of Ontario corporate profits over the first half of 2017 imply very strong growth.

4 Asset sales include the Province's ~~22~~ 20 per cent sale of Hydro One equity in a secondary offering in 2017-18, which the FAO estimates ~~would~~ to generate about $0.8 billion in revenue. [OFA edits]

5 The debt retirement charge (DRC) is a charge payable on electricity consumed in Ontario and replaces a portion of debt servicing costs previously included as part of electricity bills before the restructuring of the former Ontario Hydro. The government ended the DRC on residential bills as of January 1, 2016. The DRC will remain on other electricity users' bills for electricity consumed before April 1, 2018. [OFA edits]

6 In fiscal year 2017-18, there were five cap and trade auctions. Going forward the Provinces expects to have four auctions per year.

Commented [GNR6]: OEP: This point and the chart above may not accurately portray the FES forecast for key revenue drivers.

It should be noted that beyond 2017, the FES forecast for revenue drivers are broadly consistent with economic trends and long-term historical growth.

The FES forecast for revenue drivers is tied to private sector forecasts. These have been heavily influenced by strong readings in 2017. For instance, profit growth was very strong in 2017, but is only expected to grow by 3.3% on average between 2018 and 2020 in the FES forecast. Labour income is expected to grow more strongly and average 4.6% over the same period as a tight labour market supports a shift in income growth from profits to wages.

Commented [GNR7]: OFA: Please see changes to footnote below. ~20% of Hydro One shares were sold in May 2017, so we have revised the percentage. However, it may also be noted that the Province has an agreement in principle with First Nations to sell up to 2.5% of Hydro One common shares. News release on both items here.

Commented [GNR8]: OB: This is fiscally neutral as there is a corresponding expense associated with it.

Commented [GNR9]: OPCD: non-capitalized amounts (e.g. supporting municipal (housing) / university infrastructure); capitalized amounts would be amortized

Commented [GNR10]: OPCD: non-residential users.

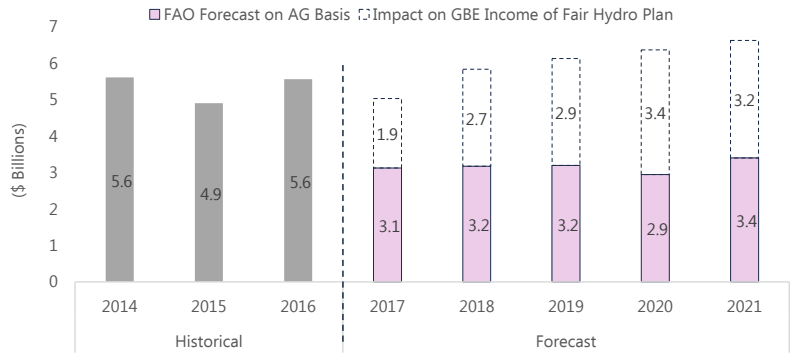
Commented [GNR11]: OB: This is fiscally neutral as there is a corresponding expense associated with it.

Source: Ontario Budgets, Ministry of Finance and FAO.

Government Business Enterprises and the Impact of the Fair Hydro Plan

The government introduced the "Fair Hydro Plan" to reduce electricity bills for residential customers by an average of 25 per cent. The government's plan includes ~~subsidizing~~ refinancing a portion of electricity ~~prices~~ costs for ratepayers through provincial and Ontario Power Generation (OPG) and OPG Trust borrowing. Consistent with the AG's recommendation on the consolidated bottom-line fiscal impact on the Province, the FAO is ~~captured~~ capturing ~~the~~ this fiscal impact of this borrowing by reducing the net income of OPG by $1.9 billion in 2017-18, and by $3.2 billion by 2021-22. [OFA track change edits in this paragraph]

Impact of the Fair Hydro Plan on Ontario's Revenue from Government Business Enterprises



Source: Public Accounts, 2017 Ontario FES and FAO.

FAO Revenue Assumptions and Forecast

Revenue Source	Assumption	Forecast
Taxation Revenue	Grows with key economic drivers including labour income, corporate profits and household spending	Averages 4.2 per cent growth per year from 2017-18 to 2021-22[7]
Federal Transfers	Based on legislated growth rates and economic forecasts for Ontario and Canada	Federal transfers are expected to grow by 1.6 per cent per year from 2017-18 to 2021-22
Government Business Enterprises (GBE)	Based on government projections, and adjusted for the impact of the Fair Hydro Plan as recommended by the Auditor General	Income from GBEs are projected to fall from $5.6 billion in 2016-17 to $3.1 billion in 2017-18 and remain roughly stable at that level to 2021-22

7 The reduction in the Small Business Corporate Income Tax rate is reflected in the FAO's tax revenue projections.

Commented [GNR12]: OFA: The costs are still to be paid by the specified consumers, so not a subsidy.

Commented [GNR13]: OFA: Perhaps a suggested rewording?

Or, would it be more consistent for FAO to show it as an Energy expense line increase, through IESO consolidation? (Noting that the government's position is that there is not an expected net impact from the refinancing.)

Commented [GNR14]: OFA: This may be misleading to show an impact on the revenue side, in that the AG's recommendation was that all interest expense, and annual financing shortfall expense would be an expense to the Province (p. 16).

Commented [GNR15]: OPCD: The IESO incurs the shortfall, not OPG; reported as expense on full consolidation basis (no impact to revenue).

Commented [GNR16]: OB: Should the years presented in the graph be fiscal years? E.g. 2019-20 etc.

Commented [GNR17]: OPCD: IESO is not a GBE.

Commented [GNR18]: OPCD: See note above (IESO would be affected under the AG recommended accounting; not a GBE)

Other Revenue	Based on government projections, and includes asset sales, and proceeds from the sale of cap and trade allowances	These revenues are projected to increase from $16.3 billion in 2016-17 to $19.4 billion in 2017-18, before declining to $18.0 billion by 2021-22

Expense Outlook

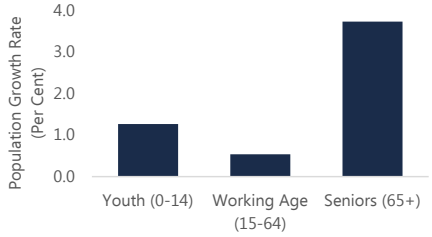
Program Spending

The FAO projects program spending to grow by 3.9 per cent from 2017-18 to 2021-22.[8]

Over the 2017-18 to 2019-20 period, the FAO's outlook adopts the government's 2017 Fall Economic Statement's projections for program spending, adjusted to reflect the Auditor General's recommended accounting presentation.[9] The projection for program spending is largely unchanged from the 2017 Ontario Budget, aside from $200 million of new spending in 2017-18, declining to $100 million by 2019-20.[10]

Beyond 2019-20, the FAO projects program spending will grow at an annual average rate of 4.1 per cent. This stronger pace of growth reflects additional spending to meet two demographic pressures: the aging baby boomer cohort and the growing youth population. The growth in these two population groups will place added spending pressures on Ontario's health care and education systems.

Population Growth by Age (2016-2021)



Source: Statistics Canada and FAO

Interest on Debt

Interest on debt (IOD) payments are expected to increase at an average rate of 3.4 per cent per year over the outlook due to elevated borrowing levels and rising interest rates.

The decline in IOD as a share of revenues over the past three years was due to stronger revenue growth, lower borrowing and maturing debt being refinanced at much lower rates of interest. However, this trend is expected to reverse over the outlook as revenue growth moderates while IOD payments accelerate. By 2021-22, Ontario's debt interest payments will account for 8.4 per cent of total revenue, slightly higher than the 8.1 2 per cent share in 2017-18.

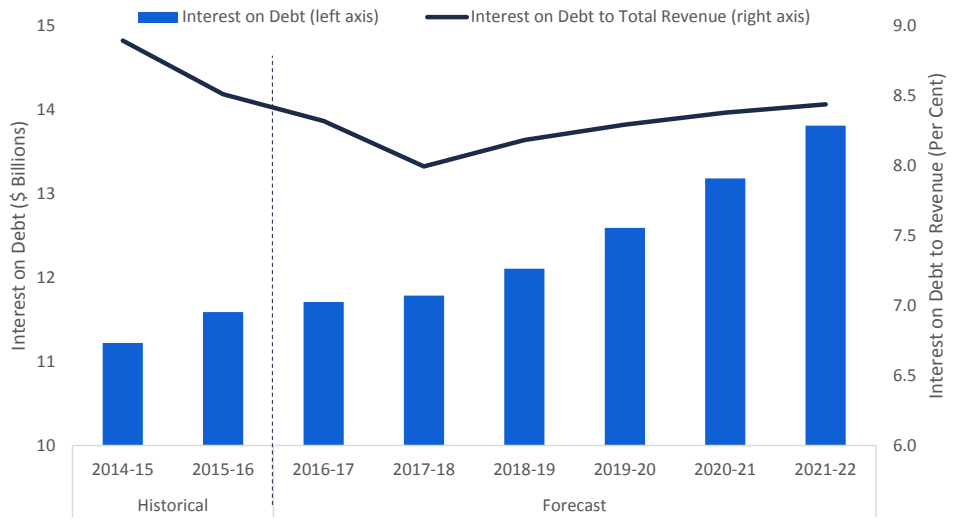
Commented [ES19]: OFA: 2017 FES; it appears that the FAO does not use BPS-consolidated IOD; this choice also affects the IOD chart on page 9.

8 Excluding the pension adjustment, the FAO projects program spending to grow by 3.5 per cent on average from 2017-18 to 2019-20, largely unchanged from the FAO's Spring EFO.

9 Based on information provided by the Ministry of Finance, the FAO's projection for 'Other Spending' includes $2.3 billion in 2017-18 for the valuation allowance on jointly-sponsored pension assets, growing to $2.9 billion by 2021-22.

10 In the 2017 FES, the government announced new funding for additional spending for small businesses, seniors and child care. However, the additional expenses for child care is fiscally neutral since it is funded by a corresponding increase in federal transfer revenue.

Interest on Debt



Source: Ontario Public Accounts and FAO.

Borrowing and Net Debt

Despite higher funding requirements for capital expenditures and the Fair Hydro Plan, Ontario's borrowing is expected to decline to $~~23~~25.8 [OFA]billion in 2017-18, the lowest level of borrowing since ~~2007~~2008-09 [OFA]. The relatively low level of borrowing in 2017-18 is largely the result of debt maturities falling by $~~4.1~~3.5 billion to $17.4 billion.[11]

Beginning 2018-19, borrowing requirements are expected to increase significantly due to higher annual debt maturities, ~~additional funding requirements for the Fair Hydro Plan~~ [OFA]and rising capital expenditures. By 2021-22, the FAO expects borrowing to increase to $42 billion – nearly double the borrowing requirement in 2017-18.

In 2017-18, the FAO projects that Ontario's net debt-to-GDP ratio will edge down, reflecting lower borrowing and strong economic growth. However, over the next five years, the FAO projects that nearly $90 billion will be added to net debt – increasing the net debt-to-GDP ratio to 41 per cent by 2021-22.[12]

11 When debt matures the government must roll over the maturing debt with new borrowing. Declines in maturities result in lower borrowing and vice versa.
12 The FAO's estimate of net debt incorporates the AG's recommended accounting framework.

Commented [GNR20]: In the graph, the bar for 2016–17 can be moved into the historical section.

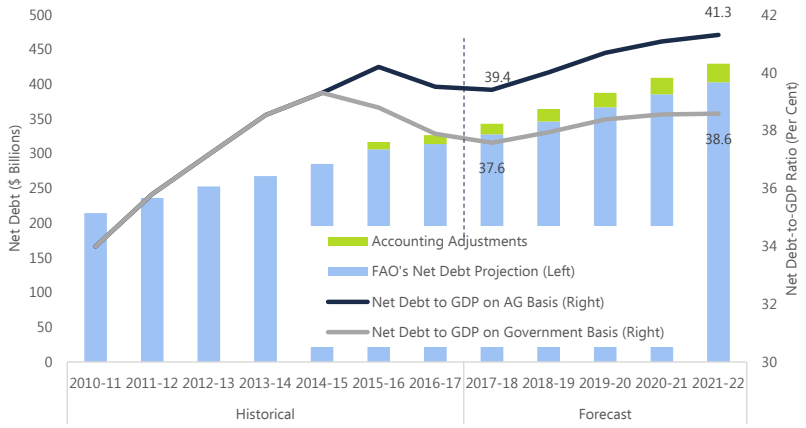
Commented [ES21]: OFA 2016-17 maturities of 20.9 (from Q1 Finances) minus 2017-18 maturities of 17.4 (from FES FT)

Commented [ES22]: OFA: The Province has already factored in all borrowing requirements, including the debt burden projections for the Fair Hydro plan for that year, in consultation with OPG and retained consultants. The $42 billion therefore is in excess of Ontario's projection by a significant amount.

Commented [ES23]: OFA: The change in net debt reflects the change in the deficit and the change in Net Investment in Tangible Capital Assets – it should not be attributed to lower borrowing which is really the outcome

Commented [ES24]: OFA: With regard to the 41% by the FAO in 2021-22, the Province projects it to be 36.1% for that year as published in the Fall Economic Statement. In the Province's opinion, the FAO is likely factoring in a budget deficit that the government does not project for that year given the balanced budget commitment The FAO's projections include the addition of the 2015-16 Pension adjustment despite the pronouncements of the Expert Panel that confirmed the correctness of the Government's accounting treatment of this asset The reversal of the pension adjustment is correct and in line with the recommendations of the Independent Pension Asset Expert Advisory Panel. The FAO also includes additional Fair Hydro Plan debt that is not in line with provincial projections already incorporated in the Province's Borrowing Program for 2017-18 and the two out years. The incremental borrowings for funding the Province's equity injection to OPG over the FES outlook period is a small fraction of the Province's borrowings and have no impact on the Province's net debt.

Net Debt Outlook



Source: FAO and 2017 Ontario Economic Outlook and Fiscal Review, Ontario Public Accounts

The government continues to maintain a net debt-to-GDP target of 35 per cent by 2023-24 and 27 per cent by 2029-30. However, the FAO's net debt-to-GDP projections under both accounting presentations suggest that additional fiscal measures would be required for the government to achieve its net debt-to-GDP targets.


Office of the Budget
MINISTRY of FINANCE

FAO
Financial
Accountability
Office of Ontario


Office of the Budget
MINISTRY of FINANCE

From:	Anna Strathy
To:	Ken Kandeepan
Cc:	Alexander Kraas; George Sakura; Kevin Hwang; Shemin Meralli; John Psinas; Bonnie Lemcke
Subject:	FW: FAO"s Fall 2017 Final EFO Report / Request for Input by EOD
Date:	Thursday, December 07, 2017 12:40:50 PM
Attachments:	image001.png EFO Fall 2017 EN.pdf image002.png FAO EFO Report Summary Note Request for Input.msg
Importance:	High

Hi Ken,

Please see attached, embargoed copy of the FAO's final report. Please let me know if this has any impact on our comment on the summary note.

Thank you, Anna

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Thursday, December 07, 2017 12:01 PM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Vivienne Skoberne (MOHLTC) <Vivienne.Skoberne@ontario.ca>; Jayne Harten (ENE) <Jayne.Harten@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Sohaeb Raashid (MOI) <Sohaeb.Raashid@ontario.ca>; Caleb Lance (MTCS) <Caleb.Lance@ontario.ca>; Manning, Catalina (TBS) <Catalina.Manning@ontario.ca>
Cc: Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Jacob Hadwen (MOF) <Jacob.Hadwen@ontario.ca>
Subject: FAO's Fall 2017 Final EFO Report / Request for Input by EOD
Importance: High

Hi All,

As a follow up to my message yesterday, I'm attaching an embargoed copy of the FAO's final EFO report. Please **limit circulation of the report** as it's not being released officially until Monday.

Can you please ensure that your ADM approved input/edits to the summary note reflect this latest version of the report **by EOD today**?

Please let me know if you have any questions.

Thanks,
Ryan

From: Schuurman, Tim (MOF)
Sent: December-07-17 10:03 AM
To: Thompson, Scott (MOF); Mayman, Gadi (OFA); Kennedy, Nancy (MOF); Weir, Mike (MOF); Lewis,

Brian (MOF)
Cc: McLean, David (MOF); Kobrinsky, Liza (MOF); Birks, Ryan (MOF); Esmail, Selena (MOF)
Subject: The FAO's Fall 2017 Economic and Fiscal Outlook

Please find attached the final FAO Economic and Fiscal Outlook report which is being released on Monday. Copies are being shared with the Ministers this morning as well.

We're working across the system to prepare a summary note and some suggested speaking notes. We should ask the MO if they'd like a briefing for the Minister (who will be in Ottawa when this is released).

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

From: David West [mailto:dwest@fao-on.org]
Sent: December-07-17 9:57 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF)
Cc: Birks, Ryan (MOF); Tarin, Ghufran (MOF); Laughton, Patrick (TBS)
Subject: The FAO's Fall 2017 Economic and Fiscal Outlook

Good morning,

The FAO will be releasing a 'Fall 2017 Economic and Fiscal Outlook' report on Monday, December 11, 2017 at 10:00 am.

We have scheduled technical briefings of the embargoed report for MPPs at 9:00 am on Monday. The Temporary FAO, the Honourable David Wake and I will provide a media statement at 10:00 am.

A pre-release copy of the report is being delivered to Ministers Sousa and Sandals this morning, as required by the FAO Act.

Please find attached a copy of the final report for your reference.

Please treat this document as embargoed until its release on Monday at 10:00 am.

As always, we greatly appreciate your assistance and support for the work of the FAO.

Best regards,
David

David West
Chief Economist

Financial Accountability Office of Ontario

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Economic and Fiscal Outlook

Assessing Ontario's Medium-term Prospects

Fall 2017 Update

About this Document

Established by the *Financial Accountability Officer Act, 2013*, the Financial Accountability Office (FAO) provides independent analysis on the state of the Province's finances, trends in the provincial economy and related matters important to the Legislative Assembly of Ontario. The FAO's Economic and Fiscal Outlook is released each spring and fall, providing an assessment of the province's medium-term economic performance and fiscal position.

This report was prepared by Nicolas Rhodes, Luan Ngo and Edward Crummey under the direction of David West. External reviewers were provided with earlier drafts of this report for their comments. However, the input of external reviewers implies no responsibility for this final report, which rests solely with the FAO.

This report is based on information available to November 15, 2017. Background data used in this report are available upon request.

FAO's Fiscal Projections

The FAO forecasts provincial finances based on projections of existing and announced revenue and spending policies. The forecast represents the FAO's view of the most likely fiscal outcomes given existing policies, without anticipating any new government policy decisions. The FAO's tax revenue projections are based on an assessment of the outlook for the provincial economy and current tax policies. Given the government's discretion over spending, the FAO adopts the government's announced spending plans from fiscal documents and incorporates policy announcements as appropriate. Beyond the government's published spending projections, the FAO forecasts spending based on the outlook for underlying cost drivers including demographics and price inflation.

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1 EXECUTIVE SUMMARY

FAO Projects a Return to Significant Budget Deficits

Despite a strong boost to revenues this year, the FAO is projecting an Ontario budget deficit of $4.0 billion in 2017-18, the result of the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans.[1]

Beyond 2017-18, the FAO is projecting a significant increase in the budget deficit due to the loss of time-limited revenues, a more moderate pace of tax revenue growth, and the growing fiscal impact from the Fair Hydro Plan. By 2021-22, the FAO is projecting a budget deficit of $9.8 billion, in the absence of any fiscal policy changes. This is a significant deterioration since the FAO's spring outlook[2] and is primarily the result of the introduction of the Fair Hydro Plan, which will add $3.2 billion to the budget deficit by 2021-22, under the Auditor General's recommended accounting treatment.

In contrast, under the government's accounting framework, the FAO projects a small budget surplus in 2017-18, and a return to budget deficits beginning in 2018-19 due to the loss of temporary revenues and moderate growth in tax revenues.

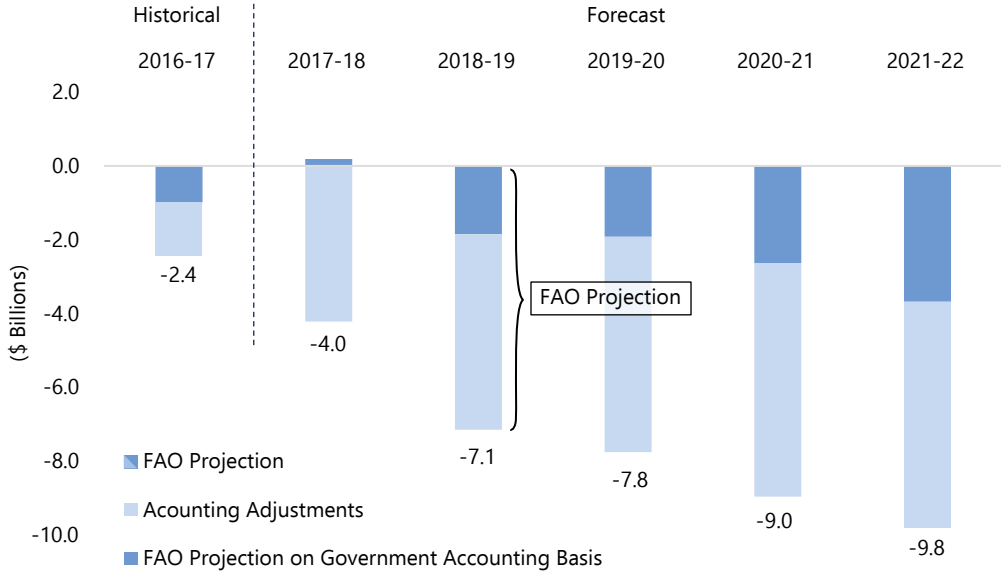
Since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more

1 See 'The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value For Money,' Auditor General of Ontario, October 2017; 'Independent Auditor's Report, 2016-17 Consolidated Financial Statements', Auditor General of Ontario, 2017; and 'An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan,' Financial Accountability Office, 2017.

2 'Economic and Fiscal Outlook, Assessing Ontario's Medium-term Prospects, Spring 2017,' Financial Accountability Office of Ontario.

difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan.

Ontario Budget Balance



Note: Budget Balance before reserve.

Source: Ontario Public Accounts, 2017 Ontario Economic Outlook and Fiscal Review and FAO.

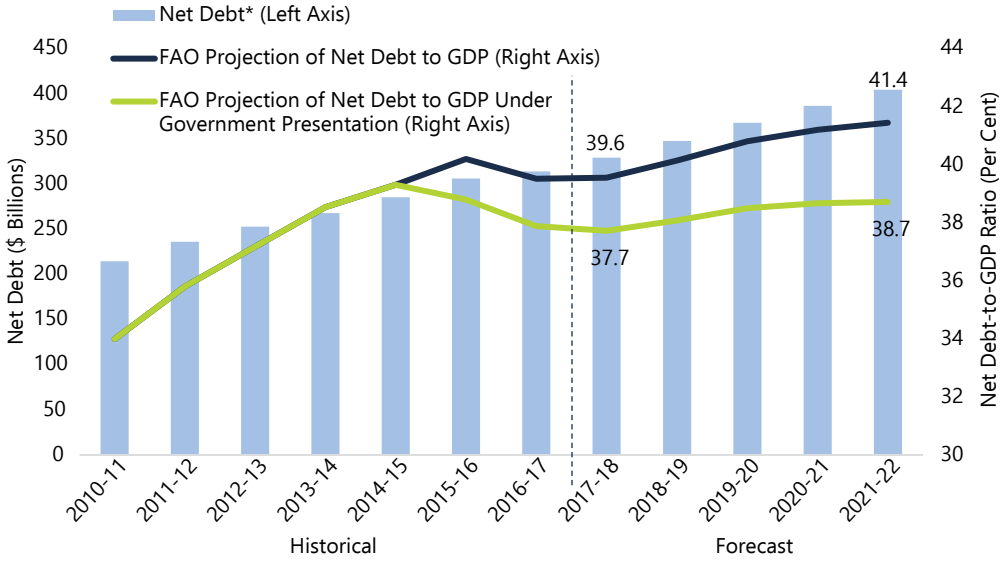
The FAO is projecting very strong growth for the Ontario economy in 2017. Consistent with the outlook of most economic forecasters, the FAO expects the economy will grow at a more measured pace beginning in 2018. However, Ontario's economic performance could worsen if the renegotiation of NAFTA impairs Ontario's access to the US market, or if households reduce discretionary spending due to high debt levels and rising interest rates.

Total revenues are forecast to increase by 3.5 per cent per year on average over the outlook, somewhat slower than the rate of GDP growth. This reflects the loss of time-limited revenues in 2018-19, as well as moderating tax revenue growth over the outlook. By comparison, the FAO projects program spending will grow by 4.4 per cent on average from 2017-18 to 2021-22, when all spending related to the Fair Hydro Plan is included.

The FAO projects Ontario's net debt-to-GDP ratio will remain essentially unchanged in 2017-18 at just under 40 per cent. However, over the next four years, the FAO expects that without any change to current fiscal policies, approximately $75 billion will be added to Ontario's net debt, increasing the net debt-to-GDP ratio to over 41

per cent by 2021-22.[3] In contrast, the government continues to maintain a net debt-to-GDP target of 35 per cent by 2023-24 and 27 per cent by 2029-30.

Net Debt Outlook



* Net debt is presented on the AG's recommended accounting basis, which includes the impact of the Fair Hydro Plan and the pension adjustment.

Source: 2017 Ontario Economic Outlook and Fiscal Review, Ontario Public Accounts and FAO.

Current and future Ontario governments are facing difficult policy choices. Based on the FAO's fiscal projection, additional measures to raise revenue or lower spending will be required if the Province intends to achieve and maintain a balanced budget, and lower Ontario's debt burden.

3 The FAO's estimate of net debt incorporates the AG's recommended accounting framework.



2 ECONOMIC OUTLOOK

Overview

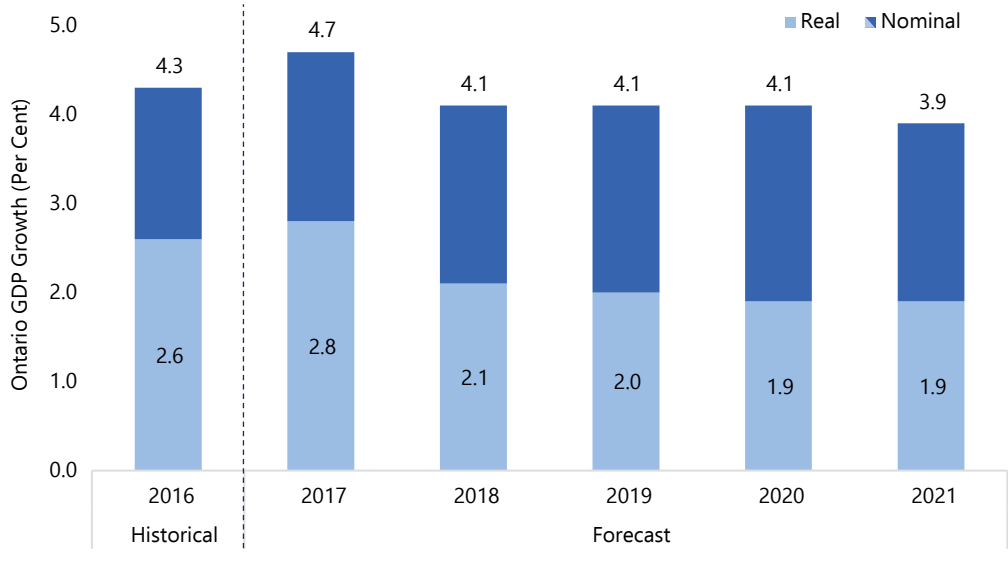
Ontario Economy Exceeding Expectations in 2017

Following a strong performance over the first half of 2017, the Ontario economy is expected to continue on a path of solid growth into 2018.

Led by a continued surge in household spending and residential investment, the FAO projects Ontario real GDP growth of 2.8 per cent in 2017, an upward revision from the FAO's spring outlook report. Nominal GDP – the broadest measure of the tax base - is projected to increase by 4.7 per cent in 2017, well above the FAO's spring forecast. The strong growth in nominal GDP in 2017 is supported by significant gains in corporate profits.

Beginning in 2018, most forecasters, including the FAO, expect the Ontario economy to grow at a more measured pace, as growth in the US and Canadian economies is also expected to moderate. At the same time, higher interest rates are expected to contribute to slower growth of household spending and residential investment over the outlook.

Solid Economic Performance Expected Over Outlook



Source: Ontario Economic Accounts, Statistics Canada and FAO.

Global Economic Growth Gaining Traction

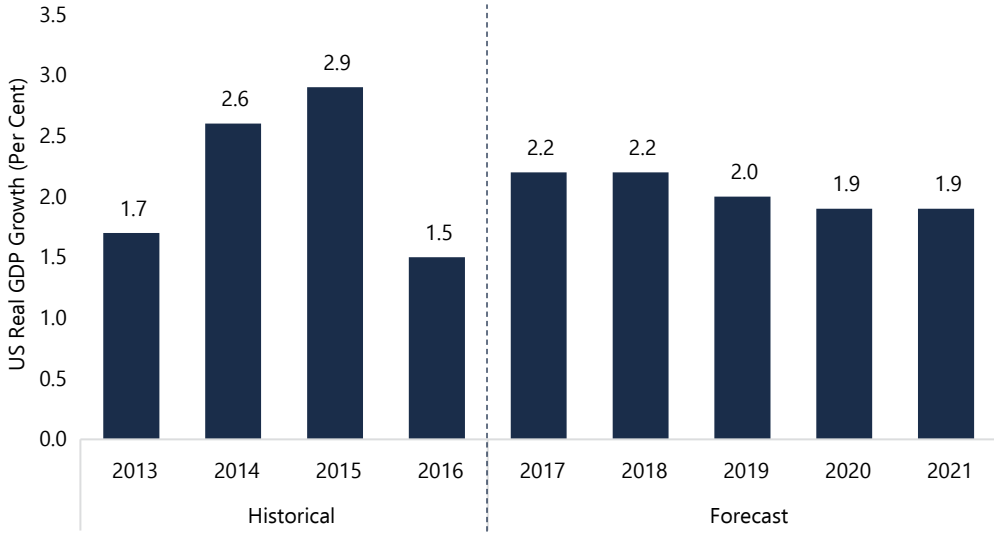
In its latest World Economic Outlook, the International Monetary Fund (IMF) revised up its forecast for global economic growth to 3.6 per cent in 2017 and 3.7 per cent in 2018.[4] A number of key economies reported stronger than expected growth over the first half of 2017, including the euro area and Japan. These upward revisions more than offset weaker than expected growth in the United Kingdom and the United States.

United States

In the US, real GDP is expected to grow by 2.2 per cent in 2017. Following a modest first-quarter gain, US consumer spending has shown signs of strengthening while business investment remains strong, particularly in the energy sector. Going forward, the FAO projects US growth to ease slightly to 1.9 per cent by 2021.

4 International Monetary Fund, World Economic Outlook, October 2017.

US Economic Growth to Moderate



Source: US Bureau of Economic Analysis, Congressional Budget Office and FAO Consensus.

However, the outlook for the US economy depends critically on the uncertain policy direction of the current US administration. Significant tax reform, including sizable tax cuts, have been proposed, although it is unclear if an agreement in Congress will be reached. Likewise, the renegotiation of the North American Free Trade Agreement (NAFTA) is ongoing, and the potential impact of a new trade agreement on North American economies remains highly uncertain (see 'Key Risks' for more details).

Other World Economies

The IMF reports that the euro area economy continues to gain strength, supported by a pick-up in exports and continued strength in domestic demand. In China, the IMF expects economic growth to ease from 6.8 per cent in 2017 to 6.5 per cent in 2018. While the Chinese economy is continuing to rebalance towards more consumption-led growth, debt continues to build among households, government and businesses, which could pose risks to medium-term growth.[5]

While the global economy is expected to perform solidly through 2018, over the medium term, global growth is expected to be limited by modest productivity gains, aging workforces in advanced economies, and tightening financial conditions.

5 International Monetary Fund, China's Economic Outlook in Six Charts, August 2017.

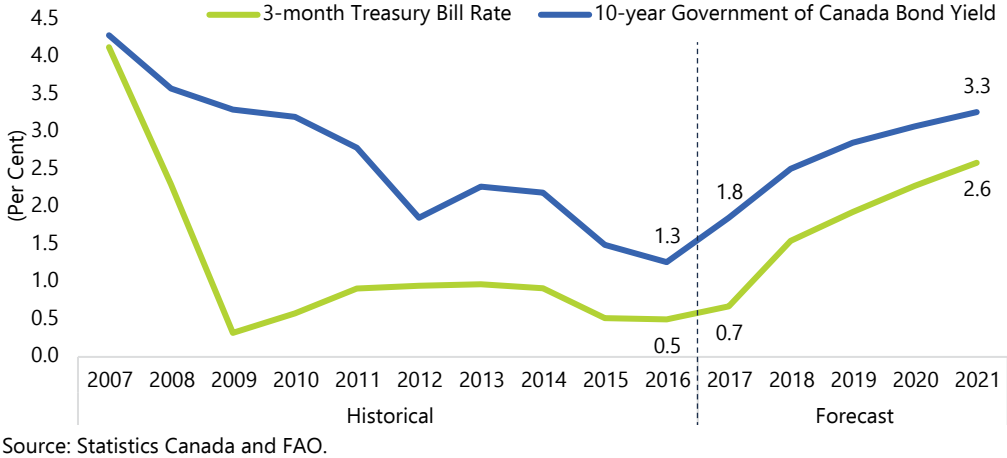
Canadian Economy

The Canadian economy is on track to post the strongest annual growth since 2011. Robust consumer spending, and a pick-up in exports and business investment supported solid overall Canadian growth during the first half of 2017. While consumer spending and exports are expected to moderate over the second half of the year, the Canadian economy is on pace for a 3.1 per cent annual gain in 2017. The FAO expects Canadian real GDP to grow by 2.1 per cent in 2018 and by an average of 2.0 per cent through 2021, as higher interest rates contribute to slower growth in consumer spending and residential investment.

The brisk pace of economic growth over the first half of the year led the Bank of Canada to increase its policy interest rate to 0.75 per cent in July and 1.0 per cent in September. Importantly, the Bank indicated that with the Canadian economy operating near full capacity, it will take a cautious, data-driven approach in determining future rate increases. Given the Bank's measured approach and the subdued rate of consumer price inflation, the FAO expects a gradual but steady rise in interest rates over the medium-term, consistent with the FAO's spring outlook.

The recent increases in Canadian interest rates contributed to an eight-cent appreciation in the Canadian dollar relative to the US dollar through the summer, before reversing some of this gain more recently. With this appreciation, the FAO projects that the dollar will average 78 cents in 2017, slightly higher than the FAO's spring outlook. Going forward, the FAO expects a gradual appreciation of the dollar to about 81 cents by 2021, supported by a steady rise in Canadian interest rates and a moderate increase in oil prices.

Canadian Interest Rates to Rise over the Outlook



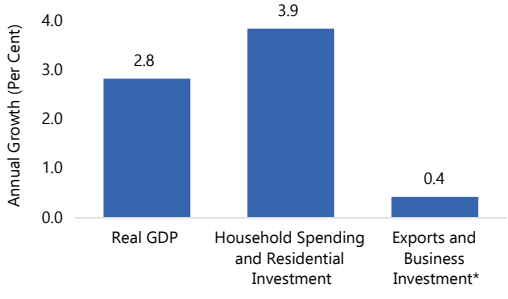
Source: Statistics Canada and FAO.

Ontario Economic Outlook

Solid 2017 Growth Expected to Moderate over the Outlook

Ontario posted solid real GDP growth of 2.6 per cent in 2016, the third consecutive year of strong growth for the economy. The FAO expects that the economy's momentum will continue into 2017, with real GDP advancing by 2.8 per cent.

Household Spending Primary Driver of Growth in 2017



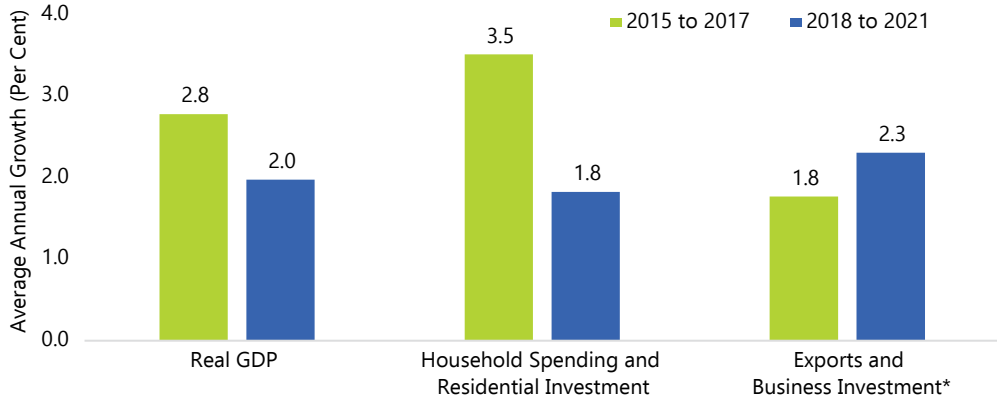
* Business Investment includes both Non-Residential Investment and Machinery & Equipment Investment.

Source: Statistics Canada, Ontario Economic Accounts and FAO.

However, despite the projection for relatively strong economic growth in 2017, the drivers of that growth are unbalanced. Household spending and residential construction are providing the main support for the economy's growth in 2017, while exports and business investment have underperformed.

Going forward, the FAO expects that elevated levels of household debt combined with rising interest rates will hamper household spending and residential investment. At the same time, exports and business investment are expected to contribute more to economic growth, as sustained foreign demand encourages businesses to increase production capacity (discussed further in 'Key Risks' below). Over the outlook, the FAO projects real GDP growth will ease to 2.1 per cent in 2018 and average 1.9 per cent per year from 2019 to 2021.

Exports and Business Investment Expected to Drive Growth over the Outlook



* Business Investment includes both Non-Residential Investment and Machinery & Equipment Investment.

Source: Statistics Canada, Ontario Economic Accounts and FAO.

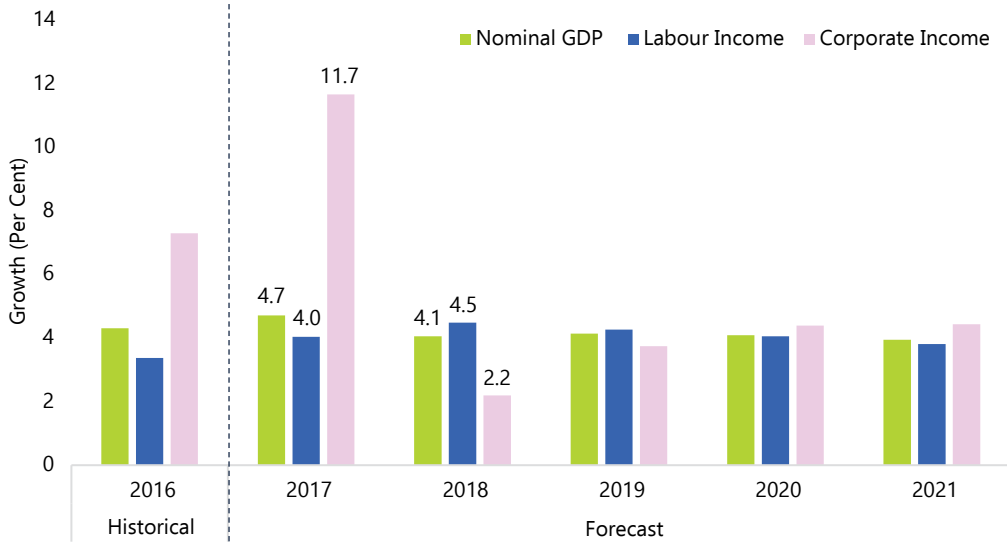
Strong Gain in Corporate Profits Projected for 2017

The FAO is forecasting nominal GDP growth of 4.7 per cent in 2017, driven by an 11.7 per cent increase in corporate profits, and a more moderate gain of 4.0 per cent in labour income.

The planned increases to Ontario's minimum wage are expected to raise labour income growth in 2018 and 2019.[6] Beyond 2019, labour income growth is expected to moderate to 3.8 per cent by 2021.

Slower labour income gains will contribute to slightly more moderate nominal GDP growth of 3.9 per cent by 2021.

Corporate Income Leads Nominal GDP Growth in 2017



Note: Labour and corporate income comprise roughly 70 per cent of nominal GDP. The other categories include mixed income (from proprietorships) and net taxes.

Source: Statistics Canada, Ontario Economic Accounts and FAO.

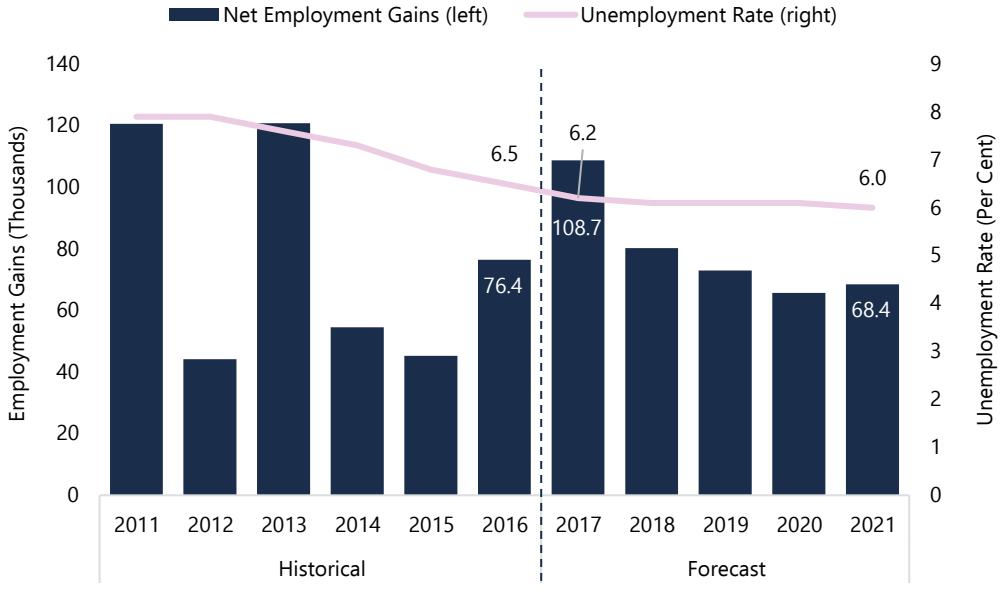
6 The FAO's forecast incorporates explicit assumptions of higher labour income growth, a small reduction in employment gains and a slight increase in CPI inflation due to the planned increases in Ontario's minimum wage. See the FAO's commentary 'Assessing the Economic Impact of Ontario's Proposed Minimum Wage Increase' for details.

Steady Job Gains Expected to Continue

The FAO is projecting strong job growth of 1.6 per cent (+109 thousand net new jobs) in 2017, following a gain of 1.1 per cent (+76 thousand net new jobs) in 2016.

Over the outlook, sustained economic growth is expected to support average annual employment growth of 1.1 per cent, just slightly faster than the growth in the labour force. As a result, the unemployment rate is expected to trend lower, falling from 6.2 per cent in 2017 to 6.0 per cent by 2021.

Steady Employment Gains as Unemployment Rate Trends Lower



Source: Statistics Canada and FAO.

Key Risks for Ontario's Economic Outlook

While the FAO expects solid economic growth over the medium-term, there are a number of risks that could negatively affect Ontario's economic performance.

Most economic forecasters, including the FAO, continue to assume that NAFTA will largely be maintained in its current form. However, the US administration is demanding significant concessions from Canada and Mexico, and has threatened to leave NAFTA altogether. Some businesses may already be postponing investment decisions outside of the United States due to the uncertainty surrounding NAFTA. If the renegotiation of NAFTA leads to a deterioration in Ontario's terms of trade or restricts access to the US market, there would be significant negative implications for the province's growth prospects.

In recent years, strong growth in household spending has not been matched by similar gains in household incomes, leading to higher levels of household debt. In 2016, household debt reached 167 per cent of disposable income in Ontario, a significant rise from 149 per cent in 2010.[7] Higher debt burdens expose households to financial risk. With a steady rise in interest rates expected over the next few years, many households will scale back discretionary spending in order to make higher debt interest payments, which in turn could have implications for the pace of overall economic growth.[8]

There are also upside risks that could lead to a stronger economic performance for Ontario. In particular, some forecasters expect the US economy will grow faster over the medium-term than the FAO projects.[9] Stronger than projected US growth would lift demand for Ontario's exports, raising employment and leading to stronger wage and profit growth for the province.

7 Statistics Canada Annual Household Wealth Distribution Tables (Provisional Data).
8 The Bank of Canada describes this risk as elevated. Bank of Canada, Financial System Review, June 2017.
9 Including the Conference Board of Canada, the Centre for Spatial Economics and the Policy and Economic Analysis Program at the University of Toronto.

3 FISCAL OUTLOOK

FAO Projects a Return to Significant Budget Deficits

Despite a strong increase in revenues, the FAO is projecting an Ontario budget deficit of $4.0 billion in 2017-18, entirely the result of the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan (FHP)[10] and the net pension assets of jointly-sponsored pension plans.[11]

Beyond 2017-18, the FAO is projecting substantial increases in the budget deficit due to the loss of time-limited revenues, a more moderate pace of tax revenue growth, and the growing fiscal impact of the FHP and the pension adjustment. By 2021-22, the FAO is projecting an Ontario budget deficit of $9.8 billion in the absence of any fiscal policy changes.

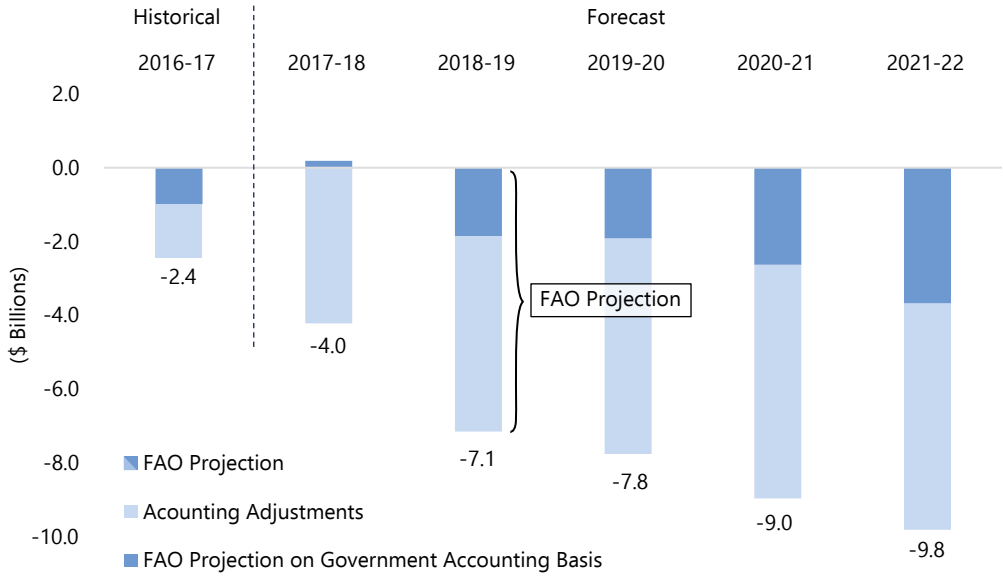
This is a significant deterioration since the FAO's spring outlook, primarily due to the government's introduction of the FHP,[12] which will add $3.2 billion to the budget deficit by 2021-22.

10 See 'The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value For Money,' Auditor General of Ontario, October 2017; 'Independent Auditor's Report, 2016-17 Consolidated Financial Statements', Auditor General of Ontario, 2017; and 'An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan,' Financial Accountability Office, 2017

11 For details, refer to 'The Accounting Treatment of Jointly Sponsored Pension Plans' in the FAO's 'Spring 2017 Economic and Fiscal Outlook.'

12 See 'Developments since the FAO's Spring 2017 Economic and Fiscal Outlook' in this report's Appendix.

Ontario Budget Balance



Note: Budget Balance before reserve.

Source: Ontario Public Accounts, 2017 Ontario Economic Outlook and Fiscal Review and FAO.

In the *2017 Ontario Economic Outlook and Fiscal Review* (also referred to as the Fall Economic Statement or FES), the government projected balanced budgets for 2017-18 through to 2019-20. However, the government's fiscal projection relies on an overly optimistic revenue forecast and does not adopt the Auditor General's recommended accounting for FHP or net pension assets.[13]

For comparison, under the government's accounting presentation, the FAO projects a small budget surplus for 2017-18, approximately equal to the government's projection in the Fall Economic Statement. However, there are a number of time-limited and one-time revenues which contribute to the budget balance in 2017-18. Going forward, the loss of these temporary revenues combined with more moderate tax revenue growth results in a return to deficit in 2018-19 and a steady deterioration in the budget deficit over the outlook.

13 However, the government's accounting treatment of net pension assets is consistent with the recommendations from the government's 'Independent Pension Asset Expert Advisory Panel.' Contrary to the opinion of the Auditor General, the panel's report concluded that the surpluses in the jointly sponsored pension plans should be fully recognized in the Province's financial statements.

The Accounting Presentation of Ontario's Financial Statements

In both the 2017 Ontario Budget and Fall Economic Statement, the government has not adopted the Auditor General's recommended accounting framework, reducing the transparency and reliability of Ontario's fiscal projections.

In addition to the existing disagreement over the appropriate accounting treatment for the government's jointly sponsored pension plans, the Auditor General recently reported that the government is not correctly accounting for the full cost of the Fair Hydro Plan in its fiscal plan. As a result, the government's financial statements are expected to continue to receive qualified opinions from the Auditor General.

Revenue Outlook

The FAO is projecting average annual revenue growth of 3.5 per cent over the forecast. In 2017-18, revenues are supported by strong growth in taxes, as well as a number of time-limited or one-time revenues. Beginning in 2018-19, the FAO is projecting more moderate revenue growth as:

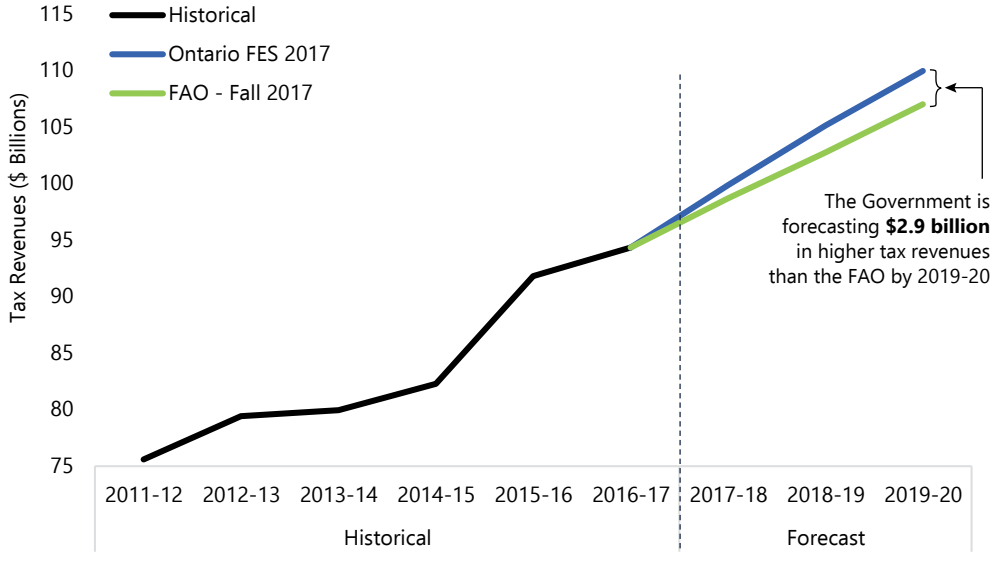
- time-limited revenues end (including asset sales and federal Equalization payments); and
- economic growth moderates, following several years of stronger than average growth.

Tax Revenue Growth Expected to Moderate

Nominal GDP, the broadest measure of the tax base, is projected to grow by a strong 4.7 per cent in 2017, supporting a 4.6 per cent increase in tax revenues in 2017-18. From 2018 to 2021, annual GDP growth is expected to moderate to 4.1 per cent, leading to similar slowing in tax revenue growth to 4.1 per cent on average over this period.

In the government's Fall Economic Statement, tax revenue is projected to grow by 5.2 per cent on average from 2017-18 to 2019-20, much higher than the FAO's projection of 4.3 per cent over the same period. The government's expectation of higher growth results in an additional $2.9 billion in tax revenues by 2019-20, relative to the FAO projection.

FAO's Taxation Revenue Outlook



Source: Ontario Public Accounts, 2017 Ontario Economic Outlook and Fiscal Review and FAO.

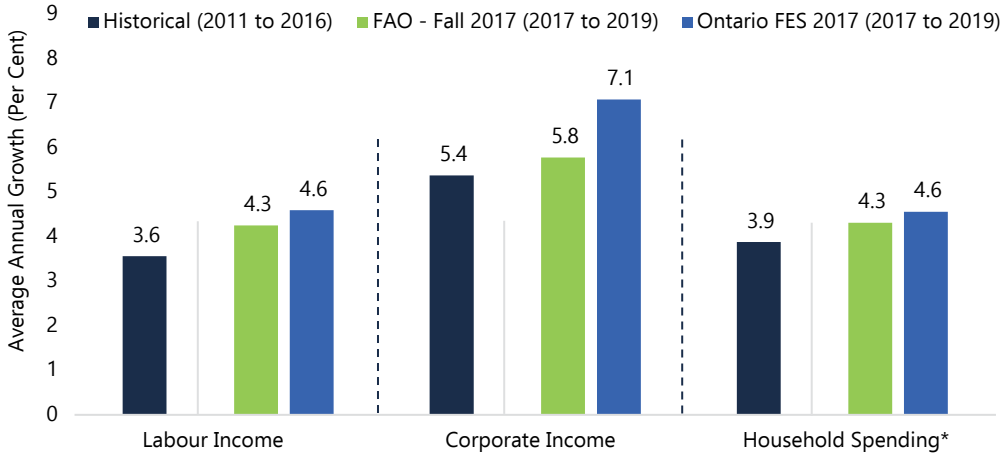
The government's revenue forecast relies on optimistic projections for many of the key economic drivers of tax revenue, including labour income, corporate income, and household spending. In particular, the government is forecasting:

- significant and sustained above-trend growth in labour income;
- a surge in 2017 corporate income growth; and
- continued strength in household spending, despite higher interest rates and elevated levels of household debt.

Taken together, the government's revenue forecast appears to be based on overly optimistic projections for the three main revenue drivers.[14]

14 See Appendix for a detailed comparison of the FAO and the government forecasts.

Growth in Key Tax Drivers



* The FES forecast for Household Spending is calculated as Real Household Spending plus CPI inflation.
Source: Statistics Canada, 2017 Ontario Economic Outlook and Fiscal Review and FAO.

The Loss of Time-limited Revenues

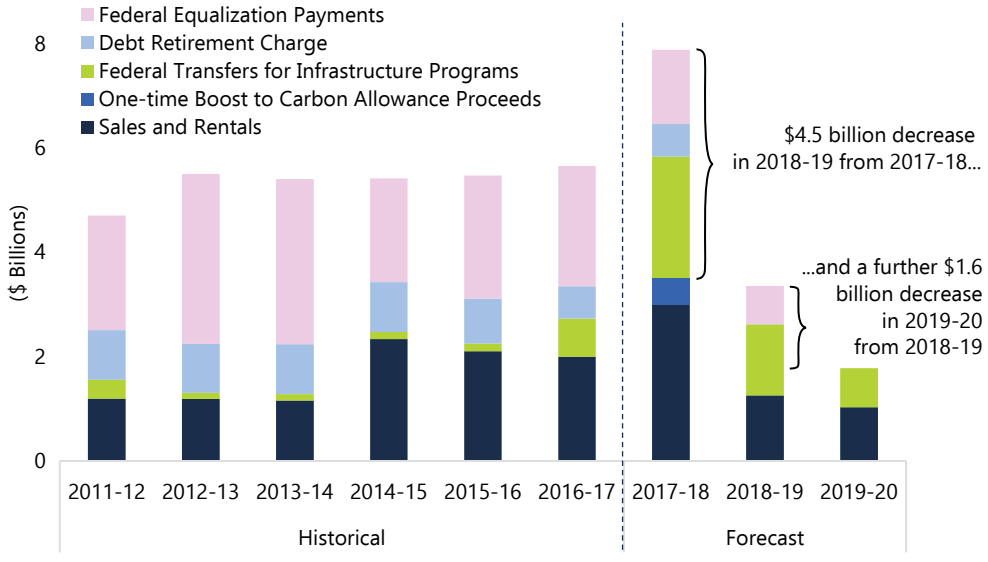
The revenue projection for 2017-18 includes a number of one-time or time-limited revenues that are set to expire.[15] These include:

- a temporary increase to sales and rentals revenue, reflecting additional asset sales[16];
- higher federal transfers for infrastructure;
- the final year of the debt retirement charge[17];
- federal Equalization payments, which the FAO estimates will end in 2019-20; and
- additional, one-time proceeds from Ontario's cap and trade program in 2017-18.[18]

Taken together, these time-limited revenues will decrease by $4.5 billion in 2018-19, and by an additional $1.6 billion in 2019-20.

15 Some of these temporary revenues - notably proceeds from the sale of carbon allowances or federal transfers for infrastructure - are tied to corresponding spending commitments, which would partially offset the reductions in these revenue sources.
16 Asset sales include the Province's 20 per cent sale of Hydro One equity in a secondary offering in 2017-18, which the FAO estimates generated about $0.7 billion in revenue.
17 The debt retirement charge (DRC) is a charge payable on electricity consumed in Ontario and replaces a portion of debt servicing costs previously included as part of electricity bills before the restructuring of the former Ontario Hydro. The government ended the DRC on residential bills as of January 1, 2016. The DRC will remain on non-residential electricity users' bills until March 31, 2018.
18 In the 2017-18 fiscal year, Ontario will hold five carbon market auctions. Going forward, the Province expects to generally hold four auctions each year.

Many Time-limited Revenues are Set to Expire Beyond 2017-18



Source: Ontario Budgets, Ministry of Finance and FAO.

FAO Revenue Assumptions and Forecast

Revenue Source	Assumption	Forecast
Taxation Revenue	Grows with key economic drivers including labour income, corporate income and household spending.	Averages 4.2 per cent growth per year from 2017-18 to 2021-22.*
Federal Transfers	Based on legislated growth rates and economic forecasts for Ontario and Canada.	Federal transfers are expected to grow by 1.6 per cent per year from 2017-18 to 2021-22.
Government Business Enterprises (GBE)	Based on government projections.	Income from GBEs are projected to rise moderately from $5.6 billion in 2016-17 to $6.7 billion in 2021-22.
Other Revenue	Based on government projections, and includes asset sales, and proceeds from the sale of cap and trade allowances.	These revenues are projected to increase from $16.3 billion in 2016-17 to $19.4 billion in 2017-18, before declining to $18.0 billion by 2021-22.

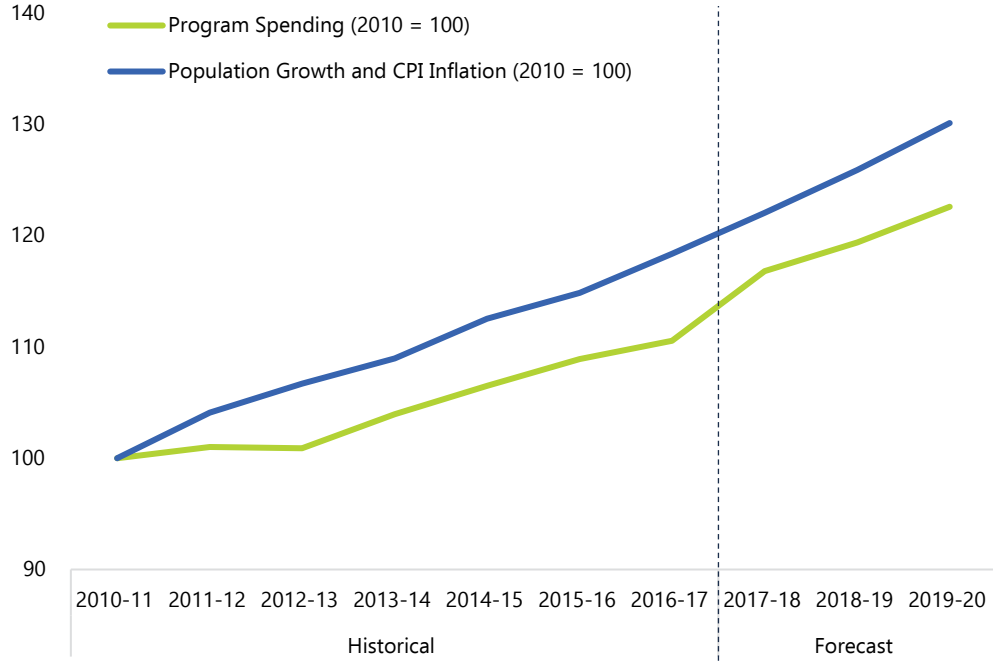
* The reduction in the small business Corporate Income Tax rate is reflected in the FAO's tax revenue projections.

Expense Outlook

Program Spending

In the 2010 Budget, the government introduced a plan to return to balanced budgets by 2017-18. Since then, the government has restrained the average growth of program spending to below the rate of inflation and population growth.

Program Spending and Spending Pressures



Source: Ontario Public Accounts, 2017 Ontario Economic Outlook and Fiscal Review and FAO.

Over the 2017-18 to 2019-20 period, the FAO's outlook adopts the government's 2017 Fall Economic Statement projections for program spending but makes adjustments to reflect the Auditor General's recommended accounting presentation.[19] Excluding these adjustments, the projection for program spending is largely unchanged from the 2017 Ontario Budget, aside from $200 million of new spending beginning in 2017-18.[20]

19 Based on information provided by the Ministry of Finance, the FAO's projection for 'Other Spending' includes $2.3 billion in 2017-18 for a valuation allowance on jointly-sponsored pension assets, growing to $2.9 billion by 2021-22. In addition, the FAO includes expenses related to the electricity cost refinancing portion of the FHP, which average $2.8 billion per year over the outlook.

20 In the 2017 FES, the government announced new funding for additional spending for small businesses, seniors and child care. However, the additional expenses for child care is fiscally neutral since it is funded by a corresponding increase in federal transfer revenue.

In 2017-18, program spending is expected to grow by 5.7 per cent.[21] This spending includes additional funding for health care, education and elements of the Fair Hydro Plan. However, in 2018-19 and 2019-20, the government plans to restrain increases in program spending to an average of 2.4 per cent, below the growth in underlying spending pressures.

Beyond 2019-20, the FAO projects that program spending will grow by an annual average rate of 4.2 per cent. This stronger pace of growth reflects additional spending to meet underlying pressures. In particular, the aging baby boomer cohort and the growing youth population will place added spending pressures on Ontario's health care and education systems in the near future.

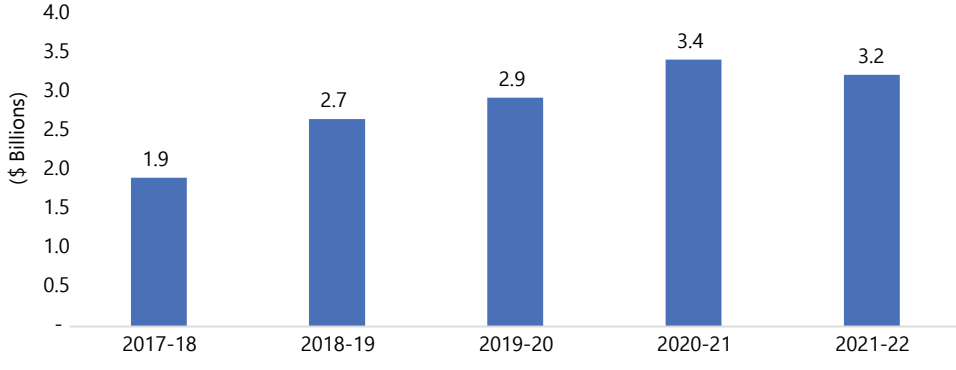
Impact of the Fair Hydro Plan

The government introduced the "Fair Hydro Plan" to reduce electricity bills for residential customers by an average of 25 per cent. The FHP includes refinancing a portion of the reduced electricity costs for ratepayers through borrowing by the Province and Ontario Power Generation (OPG).

The Auditor General has recommended that the cost of this refinancing be fully captured as an expense. However, the government has not included this cost in its fiscal plan.

Consistent with the Auditor General's recommendation, the FAO has included the full fiscal impact of the FHP in its projection by increasing program spending by an average of $2.8 billion per year over the outlook (see the FAO's 'An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan' for further details).

Impact of the Fair Hydro Plan on Ontario's Program Spending



Source: FAO.

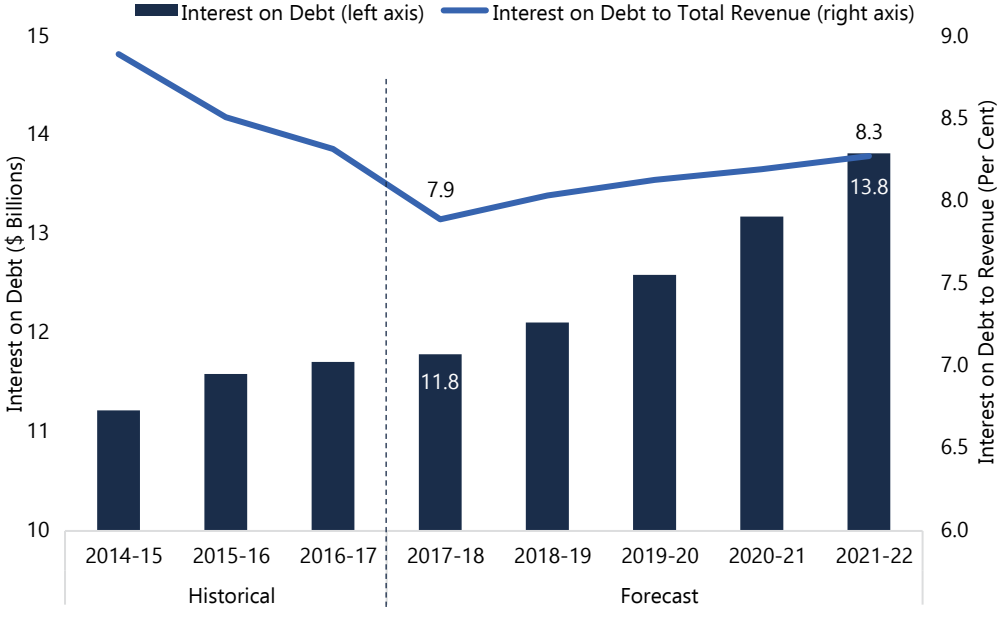
21 On the government's accounting basis, which excludes the impact of the pension adjustment and the electricity cost refinancing portion of the FHP.

Interest on Debt

Interest on debt (IOD) payments are expected to increase at an average rate of 3.4 per cent per year over the outlook due to elevated borrowing levels and rising interest rates.

Over the past three years, IOD as a share of revenues has declined, a reflection of strong revenue growth, lower new borrowing and maturing debt being refinanced at much lower rates of interest. However, this trend is expected to reverse over the outlook as revenue growth moderates while IOD payments accelerate. By 2021-22, Ontario's debt interest payments will account for 8.3 per cent of total revenue, above the 7.9 per cent share in 2017-18.

Interest on Debt



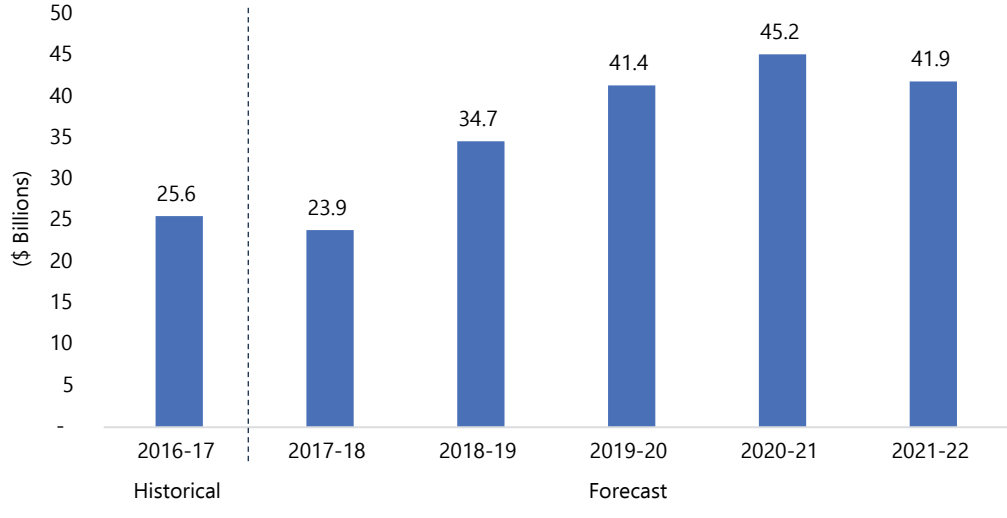
Source: Ontario Public Accounts, 2017 Ontario Economic Outlook and Fiscal Review and FAO.

Borrowing and Net Debt

Despite higher funding requirements for capital expenditures and the Fair Hydro Plan, Ontario's borrowing is expected to decline to $23.9 billion in 2017-18, the lowest level of borrowing since 2007.

However, beginning 2018-19, borrowing requirements are expected to increase significantly due to higher annual debt maturities, additional funding requirements for the Fair Hydro Plan and rising capital expenditures. By 2020-21, the FAO projects borrowing to increase to over $45 billion – nearly double the borrowing requirement in 2017-18.

Borrowing Outlook

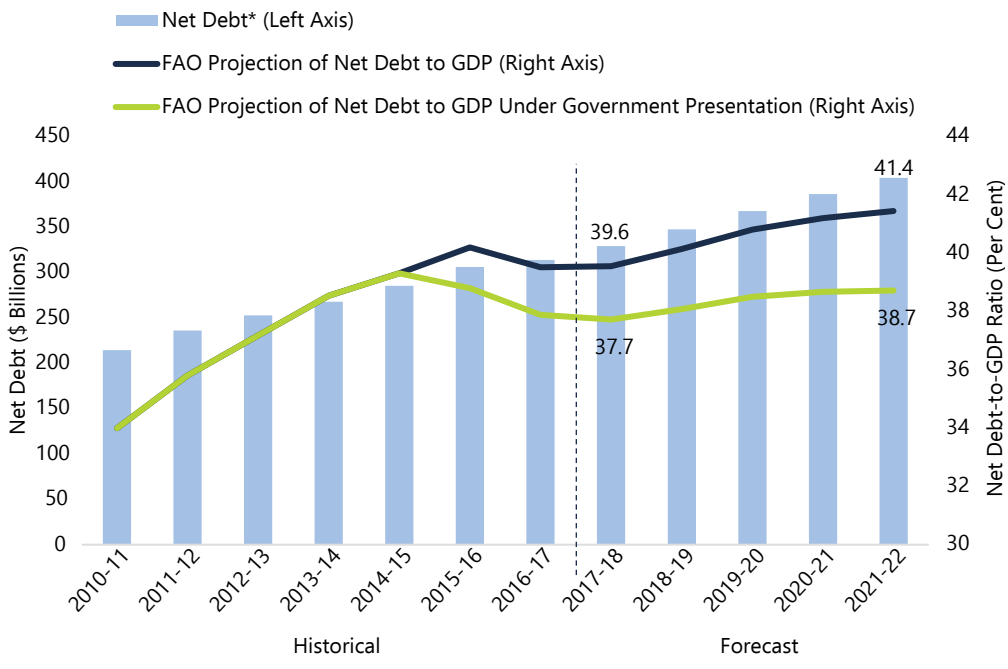


Source: 2017 Ontario Economic Outlook and Fiscal Review and FAO.

The FAO projects Ontario's net debt-to-GDP ratio will remain essentially unchanged in 2017-18 at 39.6 per cent. However, over the next four years, the FAO projects that Ontario's net debt will increase by approximately $75 billion to over $400 billion, increasing the net debt-to-GDP ratio to 41.4 per cent by 2021-22.[22]

22 The FAO's estimate of net debt reflects the Auditor General's recommended accounting framework.

Net Debt Outlook



Note: Net debt is presented on the Auditor General's basis, which includes the fiscal impact of the Fair Hydro Plan and pension adjustment.

Source: 2017 Ontario Economic Outlook and Fiscal Review, Ontario Public Accounts and FAO.

The government continues to maintain a net debt-to-GDP target of 35 per cent by 2023-24 and 27 per cent by 2029-30. However, the FAO's net debt-to-GDP projections under both accounting presentations suggest that additional fiscal measures would be required for the government to achieve its net debt-to-GDP targets.

4 APPENDIX

Developments since the FAO's Spring 2017 Economic and Fiscal Outlook

The FAO's current projection of Ontario's budget balance has deteriorated compared to the spring outlook.

- The Fair Hydro Plan, which boosts expenses by an average of $2.8 billion over the outlook, accounts for the majority of the higher deficit.

- In addition, compared to the spring, the FAO forecasts more moderate growth in revenues from personal income tax and the Land Transfer Tax over the outlook. This is offset by stronger expected growth in federal transfers and GBE income.

Developments Since Spring 2017

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
FAO's 2017 Spring Budget Balance Forecast	**-5.0**	**-2.9**	**-4.9**	**-5.5**	**-6.0**	**-6.5**
Developments Since Spring 2017						
Revenue						
Taxation Revenue	0.4	-0.0	-0.4	-0.3	-0.2	-0.0
Federal Transfers and GBE	-0.0	0.3	0.7	0.7	0.7	0.7
Other Revenue Developments	0.4	0.4	0.0	-0.0	0.1	0.1
Total	0.8	0.7	0.3	0.4	0.5	0.9
Expense						
Fair Hydro Plan	-	1.9	2.7	2.9	3.4	3.2
Net New Spending*	-0.8	0.2	0.1	-0.0	0.4	1.7
Revised Adjustment for Pension Asset	-0.8	-0.0	-0.0	-0.0	-0.0	-0.0
Lower IOD Forecast	-0.2	-0.2	-0.2	-0.3	-0.5	-0.7
Total	-1.8	1.9	2.6	2.6	3.4	4.2
Total Developments	2.6	-1.2	-2.3	-2.2	-2.9	-3.3
FAO's 2017 Fall Budget Balance Forecast	**-2.4**	**-4.0**	**-7.1**	**-7.8**	**-9.0**	**-9.8**

Source: FAO

* This includes new expenses on child care, small businesses and seniors announced in the 2017 FES, and updates to long-term spending.

Forecast Tables

Table 1a: FAO Outlook for Key Revenue Drivers*

(Per Cent Growth)	2015a	2016a	2017f	2018f	2019f	2020f	2021f	Average*
Nominal GDP								
FAO - Fall 2017	5.0	4.3	4.7	4.1	4.1	4.1	3.9	4.2
Ontario FES 2017	5.0	4.3	5.3	4.1	4.1	4.2	-	4.4
Current FAO Consensus **	5.0	4.3	5.5	4.0	4.1	4.5	3.5	4.5
Labour Income								
FAO - Fall 2017	4.6	3.4	4.0	4.5	4.3	4.1	3.8	4.2
Ontario FES 2017 ***	4.6	3.4	4.3	4.7	4.8	4.4	-	4.5
Corporate Profits								
FAO - Fall 2017	7.1	7.3	11.7	2.2	3.7	4.4	4.4	5.4
Ontario FES 2017	7.1	7.3	16.1	2.9	2.8	3.7	-	7.1
Household Consumption								
FAO - Fall 2017	4.1	4.2	4.7	4.2	4.1	3.9	3.8	4.2
Ontario FES 2017 ****	4.1	4.2	5.1	4.3	4.3	4.3	-	4.5

a = Actual f = Forecast

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

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

*** 2017 Ontario Economic Outlook and Fiscal Review Reports Labour Income on a National Basis, whereas FAO reports Labour Income on a Domestic Basis.

**** For 2017 to 2020, Fall Economic Statement Outlook is Real Household Spending plus CPI.

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

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

(Per Cent Growth)	2015a	2016a	2017f	2018f	2019f	2020f	2021f	Average*
Real GDP								
FAO - Fall 2017	2.9	2.6	2.8	2.1	2.0	1.9	1.9	2.2
Ontario FES 2017	2.9	2.6	2.8	2.1	2.0	2.0	-	2.2
Current FAO Consensus **	2.9	2.6	2.9	2.0	2.1	2.3	2.0	2.3
Real GDP Components								
Household Consumption ***	2.9	2.9	3.6	2.4	1.9	1.8	1.8	2.4
Residential Investment	7.7	7.5	5.3	-1.0	0.0	1.8	2.3	1.5
Business Investment ****	7.5	-8.8	2.4	4.6	4.4	4.0	3.5	3.8
Government (Consumption and Investment)	1.7	2.1	1.9	1.9	1.6	1.5	1.3	1.7
Exports	3.3	2.5	0.2	2.2	2.0	2.0	2.0	1.6
Imports	3.2	0.0	2.0	2.0	1.8	1.8	1.8	1.9

a = Actual f = Forecast

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

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

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

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

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

Table 2: FAO Outlook for Selected Economic Indicators

	2015a	2016a	2017f	2018f	2019f	2020f	2021f
Employment (Per Cent Growth)							
FAO - Fall 2017	0.7	1.1	1.6	1.1	1.0	0.9	0.9
Ontario FES 2017	0.7	1.1	1.4	1.1	1.1	1.0	-
Unemployment Rate (Per Cent)							
FAO - Fall 2017	6.8	6.5	6.2	6.1	6.1	6.1	6.0
Ontario FES 2017	6.8	6.5	6.2	6.2	6.1	6.1	-
Labour Force (Per Cent Growth)							
FAO - Fall 2017	0.1	0.9	1.1	1.1	1.0	0.9	0.9
Ontario FES 2017	-	-	-	-	-	-	-
Population Growth (Per Cent)							
FAO - Fall 2017	0.8	1.3	1.5	1.2	1.1	1.1	1.1
Ontario FES 2017	-	-	-	-	-	-	-
CPI Inflation (Per Cent Growth)							
FAO - Fall 2017	1.2	1.8	1.6	2.0	2.2	2.0	2.0
Ontario FES 2017	1.2	1.8	1.7	2.0	2.0	2.0	-
Canada Real GDP (Per Cent Growth)							
FAO - Fall 2017	0.9	1.5	3.1	2.1	2.0	2.0	2.0
Ontario FES 2017	-	-	-	-	-	-	-
U.S. Real GDP (Per Cent Growth)							
FAO - Fall 2017	2.9	1.5	2.2	2.2	2.0	1.9	1.9
Ontario FES 2017	2.9	1.5	2.2	2.4	2.1	2.1	-
Canadian Dollar (Cents US)							
FAO - Fall 2017	78.2	75.4	77.9	78.5	79.2	80.1	80.9
Ontario FES 2017	78.2	75.4	77.5	81.0	81.1	81.1	-
WTI Crude Oil (US$)							
FAO - Fall 2017	49	43	49	52	55	58	61
Ontario FES 2017	49	43	50	52	56	60	-
Three-month Treasury Bill Rate (Per Cent)							
FAO - Fall 2017	0.5	0.5	0.7	1.5	1.9	2.3	2.6
Ontario FES 2017	0.5	0.5	0.7	1.5	2.2	2.5	-
10-year Government Bond Rate (Per Cent)							
FAO - Fall 2017	1.5	1.3	1.8	2.5	2.9	3.1	3.3
Ontario FES 2017	1.5	1.3	1.8	2.5	3.2	3.6	-

a = Actual f = Forecast

Source: 2017 Ontario Budget, Bank of Canada, Congressional Budget Office, Statistics Canada, FAO Consensus and FAO.

Table 3: FAO Fiscal Outlook

($ Billions)	2015-16a	2016-17a	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Revenue							
Personal Income Tax	31.1	30.7	33.6	35.7	37.7	39.6	41.5
Sales Tax	23.5	24.8	25.9	26.7	27.7	28.7	29.8
Corporations Tax	11.4	14.9	14.5	14.8	15.2	15.8	16.3
All Other Taxes	25.8	24.1	24.7	25.5	26.4	27.3	28.2
Total Taxation Revenue	91.8	94.3	98.7	102.7	107.0	111.3	115.8
Transfers from Government of Canada	23.1	24.5	26.2	25.5	25.0	25.8	26.6
Income from Government Business Enterprise	4.9	5.6	5.1	5.9	6.2	6.5	6.7
Other Non-Tax Revenue	16.3	16.3	19.4	16.5	16.6	17.3	18.0
Total Revenue	136.1	140.7	149.4	150.7	154.8	160.8	167.0
Expense							
Health Sector	55.0	56.0	58.0	60.5	62.5	65.4	68.9
Education Sector	26.1	26.2	27.7	28.6	29.2	30.4	31.6
Postsecondary and Training Sector	9.9	10.1	10.9	11.1	11.3	11.4	11.5
Children's and Social Services Sector	15.5	16.0	16.8	17.2	17.4	17.9	18.5
Justice Sector	4.5	4.6	4.7	4.7	4.8	5.0	5.2
Other Programs	18.5	18.5	23.5	23.6	24.9	26.5	27.3
Total Program Expense	129.6	131.5	141.6	145.7	150.0	156.6	163.0
Interest on Debt	11.6	11.7	11.8	12.1	12.6	13.2	13.8
Total Expense	141.2	143.2	153.4	157.8	162.6	169.8	176.8
Budget Balance (AG Presentation)	-5.0	-2.4	-4.0	-7.1	-7.8	-9.0	-9.8
Budget Balance (Government Presentation)	-3.5	-1.0	0.2	-1.9	-1.9	-2.6	-3.7
Budget Balance (Ontario FES 2017)	-3.5	-1.0	0.5	0.5	0.8	-	-

a = Actual f = Forecast

Note: Budget balance is presented without reserve. Historical figures have been restated to the 2017-18 Public Account presentation.

Source: Statistics Canada, 2017 Ontario Economic Outlook and Fiscal Review, Public Accounts of Ontario and FAO.

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

$ Billions	2015-16a	2016-17a	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Budget Balance*	-5.0	-2.4	-4.0	-7.1	-7.8	-9.0	-9.8
Accumulated Deficit	203.0	205.9	210.0	217.1	224.9	233.8	243.6
Net Debt	306.4	314.1	329.2	347.7	368.0	386.8	404.4
Change in Net Debt		7.7	15.1	18.5	20.4	18.8	17.6
Net Debt to GDP (Per Cent)	40.2	39.5	39.6	40.1	40.8	41.2	41.4
FAO Net Debt to GDP (Government Presentation)							
Net Debt to GDP (Per Cent)	38.8	37.9	37.7	38.1	38.5	38.7	38.7

a = Actual f = Forecast

Note: Historical figures have been restated to the 2017-18 Public Account presentation.

* Budget Balance is presented without reserve.

Source: Statistics Canada, 2017 Ontario Economic Outlook and Fiscal Review and FAO.


Office of the Budget
MINISTRY of FINANCE

From: Birks, Ryan (MOF) [Ryan.Birks@ontario.ca]
To: Ghufran Tarin (MOF) [Ghufran.Tarin@ontario.ca]; Anna Strathy [Anna.Strathy@ofina.on.ca]; Patrick Laughton (MOF) [Patrick.Laughton@ontario.ca]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]; Sohaeb Raashid (MOI) [Sohaeb.Raashid@ontario.ca]; Caleb Lance (MTCS) [Caleb.Lance@ontario.ca]; Manning, Catalina (TBS) [Catalina.Manning@ontario.ca]
CC: Selena Esmail (MOF) [Selena.Esmail@ontario.ca]; Inglis, Liane (MOF) [Liane.Inglis@ontario.ca]; Jacob Hadwen (MOF) [Jacob.Hadwen@ontario.ca]
Subject: FAO EFO Report Summary Note / Request for Input
Date: Wednesday, December 06, 2017 13:29:52
Attachment 1: Summary of Draft FAO Fall Fiscal Outlook_v2a.docx
Attachment 2: RE: FAO's Fall 2017 EFO

Hi All,

Attached is a draft FAO EFO report summary note for review with a few caveats. An embargoed copy of the FAO's final EFO report will be released tomorrow and might result in updates. In addition, OEP will be adding a summary on the economic outlook and related key messages in order to have one consolidated product. For your general reference, I'm re-attaching the final comments that were submitted to the FAO.

Could your areas please review the attached summary note and aim to provide ADM approved edits in tracked changes by **EOD tomorrow**? These edits should align with the final EFO report being released tomorrow.

Please let me know if you have any questions.

Thanks,

Ryan

Ryan Birks

Special Policy Advisor and Executive Assistant

ADMO, Office of the Budget

416-327-0074

FAO's 2017 Fall Fiscal Outlook – OB Summary

ISSUE

The Financial Accountability Office is set to release its 'Fall Economic and Fiscal Outlook' report. This note summarizes the fiscal chapter of the report.

TOP MESSAGES

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

KEY POINTS

Fiscal Outlook

- The FAO is projecting a budget deficit of $3.9 billion in 2017–18 using the **Auditor General's recommended accounting treatment for both the Fair Hydro Plan and the net pension assets of jointly sponsored pension plans.** In the absence of any fiscal policy changes this grows steadily to $9.6 billion in 2021-22.
- Under the **government's accounting presentation (excluding the AG's recommendations)**, the FAO projects a small surplus for 2017–18 of $0.3 billion (excluding the reserve) and a return to deficits beyond 2017–18 driven by revenue factors - loss of temporary revenues combined with more moderate tax revenue growth.
- The FAO suggests that by not adopting the AG's recommended accounting presentation, the 2017 Budget and the 2017 FES reduced transparency and clarity of Ontario's fiscal position and as a result Ontario will continue to receive qualified options from the AG.

Budget Balance - FAO's Fiscal Outlook ($ Billions)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
AG Presentation	-5.0	-2.5	-3.9	-7.2	-7.9	-8.9	-9.6
Government Presentation	-3.5	-1.0	0.3	-1.9	-2.0	-2.6	-3.5
2017 FES -- Excluding Reserve	-3.5	-1.0	0.5	0.5	0.8	N/A	N/A

Revenue Outlook

- Using the AG presentation, the FAO is projecting average annual revenue growth of 2.6 per cent from 2016-17 to 2019-20 as compared with the government's projections of 4.0 per cent. The main drivers are:
    - The FAO projections for taxation revenues are $2.9 billion lower by 2019-20 than the projections in the 2017 FES due to lower projected growth in household spending, labour income and corporate profits.
    - The FAO projects that, based on the AG presentation, the Fair Hydro Plan will lower net income from OPG by $3.4 billion lower by 2019-20.
    - In addition, the FAO continues to highlight a number of one-time 2017-18 revenues, including: increase to sales and rentals from sale of final tranche of H1, higher federal transfers for infrastructure (PTIF), one-time boost from extra Cap and Trade auction. Taken together the FAO estimates that these amount to $4.5 billion in additional one-time revenues in 2017-18.

Expense Outlook

- From 2017–18 to 2019–20 the FAO's outlook adopts the government's 2017 FES projections for program spending, **adjusted to reflect the AG's recommended accounting presentation.** Beyond 2019–20 the FAO projects program spending will grow faster -- at an average annual rate of 4.1 per cent – due to population pressures.

Borrowing and Net Debt

- Using the **government's accounting presentation** net debt-to-GDP is expected to reach 38.4 per cent by 2019–20 and 38.6 per cent by 2021–22. This increases to 41.3 per cent by 2021–22 **under the AG's accounting presentation**.
    - The 2017 FES projected a net debt-to-GDP ratio of 37.0 per cent by 2019–20.

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

	Actual		Outlook					Avg. Annual Growth		
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	16-17 to 19-20	19-20 to 21-22	16-17 to 21-22
2017 Fall Economic Statement										
Revenue*	136.1	140.7	150.1	153.6	158.2			4.0%		
Adjustment for Fair Hydro Plan	-	-	-	-	-					
Total Revenue	136.1	140.7	150.1	153.6	158.2			4.0%		
Expense										
Program Expense**	128.1	130.0	137.4	140.4	144.2			3.5%		
Adjustment for Pension Assets	-	-	-	-	-					
Interest on Debt	11.6	11.7	12.2	12.7	13.3			4.2%		
Total Expense	139.7	141.7	149.6	153.1	157.4			3.6%		
Surplus/(Deficit) Excl. Reserve	(3.5)	(1.0)	0.5	0.5	0.8					
Reserve	-	-	0.5	0.5	0.8					
Surplus/(Deficit)	(3.5)	(1.0)	0.0	0.0	0.0					
Net Debt	295.4	301.6	311.7	323.0	335.6					
Change - 2017 Fall Economic Statement to 2017 Fall FAO Fiscal Outlook										
Revenue	-	-	*(0.8)*	*(3.0)*	*(3.5)*					
Adjustment for Fair Hydro Plan	-	-	*(1.9)*	*(2.7)*	*(2.9)*					
Total Revenue	-	-	(2.7)	(5.7)	(6.4)					
Expense										
Program Expense	-	-	-	-	-					
Adjustment for Pension Assets	1.5	1.5	2.2	2.6	2.9					
Interest on Debt	-	-	*(0.4)*	*(0.6)*	*(0.7)*					
Total Expense	*1.5*	*1.5*	*1.8*	*2.0*	*2.3*					
Surplus/(Deficit) Excl. Reserve	*(1.5)*	*(1.5)*	*(4.4)*	*(7.7)*	*(8.7)*					
Reserve	-	-	*(0.5)*	*(0.5)*	*(0.8)*					
Surplus/(Deficit)	*(1.5)*	*(1.5)*	*(3.9)*	*(7.2)*	*(7.9)*					
Surplus/(Deficit) exc. Adj. for Fair Hydro Plan and Pension Assets	*(0.0)*	*(0.0)*	*0.3*	*(1.9)*	*(2.0)*					
Net Debt	*11.0*	*12.5*	*16.3*	*23.5*	*31.4*					
2017 Fall FAO Fiscal Outlook										
Revenue	136.1	140.7	149.3	150.6	154.7	160.7	166.9	3.2%	3.9%	3.5%
Adjustment for Fair Hydro Plan	-	-	(1.9)	(2.7)	(2.9)	(3.4)	(3.2)			
Total Revenue	136.1	140.7	147.4	147.9	151.8	157.3	163.7	2.6%	3.8%	3.1%
Expense										
Program Expense	128.1	130.0	137.4	140.4	144.2	150.1	156.6	3.5%	4.2%	3.8%
Adjustment for Pension Assets	1.5	1.5	2.2	2.6	2.9	2.9	2.9			
Interest on Debt	11.6	11.7	11.8	12.1	12.6	13.2	13.8	2.5%	4.7%	3.4%
Total Expense	141.2	143.2	151.4	155.1	159.7	166.2	173.3	6.0%	8.9%	7.2%
Surplus/(Deficit) Excl. Reserve	(5.0)	(2.5)	(3.9)	(7.2)	(7.9)	(8.9)	(9.6)			
Reserve	-	-	-	-	-	-	-			
Surplus/(Deficit) (AG Presentation)	(5.0)	(2.5)	(3.9)	(7.2)	(7.9)	(8.9)	(9.6)			
Surplus/(Deficit) exc. Adj. for Fair Hydro Plan and Pension Assets (Gov't presentation)	(3.5)	(1.0)	0.3	(1.9)	(2.0)	(2.6)	(3.5)			
Net Debt	306.4	314.1	328.0	346.5	367.0	385.7	403.1			

Note: Numbers may not align with report due to rounding.

From: Tim Schuurman (MOF) []
To: David West [dwest@fao-on.org]; Brian Lewis (MOL) [Brian.Lewis@ontario.ca]; Karen Hughes (MGS) [Karen.Hughes@ontario.ca]
CC: Ghufran Tarin (MOF) [Ghufran.Tarin@ontario.ca]; Birks, Ryan (MOF) [Ryan.Birks@ontario.ca]; Luan Ngo [lngo@fao-on.org]; Edward Crummey [ecrummey@fao-on.org]; Nicolas Rhodes [nrhodes@fao-on.org]; Patrick Laughton (MOF) [Patrick.Laughton@ontario.ca]; Selena Esmail (MOF) [Selena.Esmail@ontario.ca]
Subject: RE: FAO's Fall 2017 EFO
Date: Friday, November 24, 2017 18:25:49
Attachment 1: 2017 EFO - Econ Chapter MOFTBScomments.docx
Attachment 2: 2017 EFO - Fiscal Chapter_Consolidated CommenntsMOFTBS.docx
Attachment 3: image005.png
Attachment 4: image006.png

David;

Thanks again for the opportunity to review and provide feedback/fact-checks and comments on the draft report. Please find attached a consolidated set of comments from MOF and TBS on the Economic and Fiscal Chapters.

We think there may be some value in having a follow-up call next week to discuss some of these pieces – but let us know what you think once you've reviewed. We're happy to arrange something.

Some of these more significant edits may require a conversations to clarify, including:

· The language and representation of the differences in accounting interpretations. We may have discussed this at the time of the Budget outlook document, but we think its important to get the language right in terms of how this is articulated so that it's a more objective and fact-based representation.

· In addition, it appears that the way the FAO has built in the AG's interpretation of the Fair Hydro Plan accounting treatment is incorrect – as the current presentation in this draft EFO shows it appearing on the revenue side (on OPG's net income) – instead, the AG's recommendation was that is an expense impact on consolidation from IESO and further that the IESO is not a GBE – so it impacts the way the section (and charts under that section) are currently presented. This will require a significant change to your numbers and presentation. This may require additional explanation, so let us know.

· There are also some comments related to FAO projections for the amount of borrowing, as well as references about above trend growth in key tax drivers – these were essentially that the forecast is consistent with historical growth/trends and private sector forecasts, and the importance to note where “one-time” revenues identified as such by the FAO are actually also fiscally neutral – so should not be linked to a fiscal gap contribution by these shorter-term revenues.

Tim Schuurman

Assistant Deputy Minister

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From: David West [mailto:dwest@fao-on.org]
Sent: November-22-17 11:42 AM
To: Schuurman, Tim (MOF); Lewis, Brian (MOF); Hughes, Karen (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Luan Ngo; Edward Crummey; Nicolas Rhodes; Hosick, Sarah (TBS); Laughton, Patrick (TBS)
Subject: RE: FAO's Fall 2017 EFO
Importance: High

Tim, Brian Karen

Please find attached drafts of Economic Outlook and Fiscal Outlook chapters from the FAO's upcoming 'Economic and Fiscal Outlook' report.

The chapters are password protected using the same password as in the past.

As in the past, we are on a very tight schedule to enable us to release this report in early December, before the Legislature rises for the holiday break.

However, please note that we are still waiting for the detailed program spending projection consistent with FES (see attached email request from last week). This information is essential to calibrate our models and ensure consistency with the government's projections. If we do not receive that information shortly, we will be forced to proceed with our own estimates which could impact the results and conclusions presented in the report. Please be aware that we will need to be clear with MPPs, during our technical briefing, that we did not receive all the additional background information that we requested. (We did, however, receive the detailed revenue information from FES last week. Thanks)

We are asking for your comments/concerns by end of day Friday (November 24).

Happy to set up a phone call to discuss.

Thanks again for your support and assistance.

----------David West

Chief Economist

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From: David West
Sent: November 20, 2017 10:18 AM
To: Tim Schuurman (Tim.Schuurman@ontario.ca) <Tim.Schuurman@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; ryan.birks@ontario.ca; Luan Ngo (lngo@fao-on.org) <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Nicolas Rhodes (nrhodes@fao-on.org) <nrhodes@fao-on.org>
Subject: FAO's Fall 2017 EFO

Hello Tim, Brian,

As you are aware, we are preparing our Fall EFO for release in early December.

As in the past, we are planning to send you drafts of the 2 core chapters of the report (economic outlook and fiscal outlook) on Wednesday morning, for your comments. We will also provide the supporting data tables, providing additional details on the projection. The current report follows the basic template of our earlier EFOs, and may be a little shorter.

We would greatly appreciate receiving the Ministry's comments by Friday (November 24) end of day.

Thanks, as always, for your assistance.

David

----------David West

Chief Economist

cid:image009.png@01D17ECB.966ECE00

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From:	Anna Strathy
To:	Ken Kandeepan
Cc:	Alexander Kraas; George Sakura; Kevin Hwang; Shemin Meralli; John Psinas; Bonnie Lemcke
Subject:	FW: FAO"s Fall 2017 Final EFO Report / Request for Input by EOD
Date:	Thursday, December 07, 2017 12:40:50 PM
Attachments:	image001.png EFO Fall 2017 EN.pdf image002.png FAO EFO Report Summary Note Request for Input.msg
Importance:	High

Hi Ken,

Please see attached, embargoed copy of the FAO's final report. Please let me know if this has any impact on our comment on the summary note.

Thank you, Anna

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Thursday, December 07, 2017 12:01 PM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Vivienne Skoberne (MOHLTC) <Vivienne.Skoberne@ontario.ca>; Jayne Harten (ENE) <Jayne.Harten@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Sohaeb Raashid (MOI) <Sohaeb.Raashid@ontario.ca>; Caleb Lance (MTCS) <Caleb.Lance@ontario.ca>; Manning, Catalina (TBS) <Catalina.Manning@ontario.ca>
Cc: Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Jacob Hadwen (MOF) <Jacob.Hadwen@ontario.ca>
Subject: FAO's Fall 2017 Final EFO Report / Request for Input by EOD
Importance: High

Hi All,

As a follow up to my message yesterday, I'm attaching an embargoed copy of the FAO's final EFO report. Please **limit circulation of the report** as it's not being released officially until Monday.

Can you please ensure that your ADM approved input/edits to the summary note reflect this latest version of the report **by EOD today**?

Please let me know if you have any questions.

Thanks,
Ryan

From: Schuurman, Tim (MOF)
Sent: December-07-17 10:03 AM
To: Thompson, Scott (MOF); Mayman, Gadi (OFA); Kennedy, Nancy (MOF); Weir, Mike (MOF); Lewis,

Brian (MOF)
Cc: McLean, David (MOF); Kobrinsky, Liza (MOF); Birks, Ryan (MOF); Esmail, Selena (MOF)
Subject: The FAO's Fall 2017 Economic and Fiscal Outlook

Please find attached the final FAO Economic and Fiscal Outlook report which is being released on Monday. Copies are being shared with the Ministers this morning as well.

We're working across the system to prepare a summary note and some suggested speaking notes. We should ask the MO if they'd like a briefing for the Minister (who will be in Ottawa when this is released).

Tim Schuurman
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From: David West [mailto:dwest@fao-on.org]
Sent: December-07-17 9:57 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF)
Cc: Birks, Ryan (MOF); Tarin, Ghufran (MOF); Laughton, Patrick (TBS)
Subject: The FAO's Fall 2017 Economic and Fiscal Outlook

Good morning,

The FAO will be releasing a 'Fall 2017 Economic and Fiscal Outlook' report on Monday, December 11, 2017 at 10:00 am.

We have scheduled technical briefings of the embargoed report for MPPs at 9:00 am on Monday. The Temporary FAO, the Honourable David Wake and I will provide a media statement at 10:00 am.

A pre-release copy of the report is being delivered to Ministers Sousa and Sandals this morning, as required by the FAO Act.

Please find attached a copy of the final report for your reference.

Please treat this document as embargoed until its release on Monday at 10:00 am.

As always, we greatly appreciate your assistance and support for the work of the FAO.

Best regards,
David

David West
Chief Economist

Financial Accountability Office of Ontario

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Financial Accountability Office of Ontario

Economic and Fiscal Outlook

Assessing Ontario's Medium-term Prospects

Fall 2017 Update

About this Document

Established by the *Financial Accountability Officer Act, 2013*, the Financial Accountability Office (FAO) provides independent analysis on the state of the Province's finances, trends in the provincial economy and related matters important to the Legislative Assembly of Ontario. The FAO's Economic and Fiscal Outlook is released each spring and fall, providing an assessment of the province's medium-term economic performance and fiscal position.

This report was prepared by Nicolas Rhodes, Luan Ngo and Edward Crummey under the direction of David West. External reviewers were provided with earlier drafts of this report for their comments. However, the input of external reviewers implies no responsibility for this final report, which rests solely with the FAO.

This report is based on information available to November 15, 2017. Background data used in this report are available upon request.

FAO's Fiscal Projections

The FAO forecasts provincial finances based on projections of existing and announced revenue and spending policies. The forecast represents the FAO's view of the most likely fiscal outcomes given existing policies, without anticipating any new government policy decisions. The FAO's tax revenue projections are based on an assessment of the outlook for the provincial economy and current tax policies. Given the government's discretion over spending, the FAO adopts the government's announced spending plans from fiscal documents and incorporates policy announcements as appropriate. Beyond the government's published spending projections, the FAO forecasts spending based on the outlook for underlying cost drivers including demographics and price inflation.

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1 EXECUTIVE SUMMARY

FAO Projects a Return to Significant Budget Deficits

Despite a strong boost to revenues this year, the FAO is projecting an Ontario budget deficit of $4.0 billion in 2017-18, the result of the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans.[1]

Beyond 2017-18, the FAO is projecting a significant increase in the budget deficit due to the loss of time-limited revenues, a more moderate pace of tax revenue growth, and the growing fiscal impact from the Fair Hydro Plan. By 2021-22, the FAO is projecting a budget deficit of $9.8 billion, in the absence of any fiscal policy changes. This is a significant deterioration since the FAO's spring outlook[2] and is primarily the result of the introduction of the Fair Hydro Plan, which will add $3.2 billion to the budget deficit by 2021-22, under the Auditor General's recommended accounting treatment.

In contrast, under the government's accounting framework, the FAO projects a small budget surplus in 2017-18, and a return to budget deficits beginning in 2018-19 due to the loss of temporary revenues and moderate growth in tax revenues.

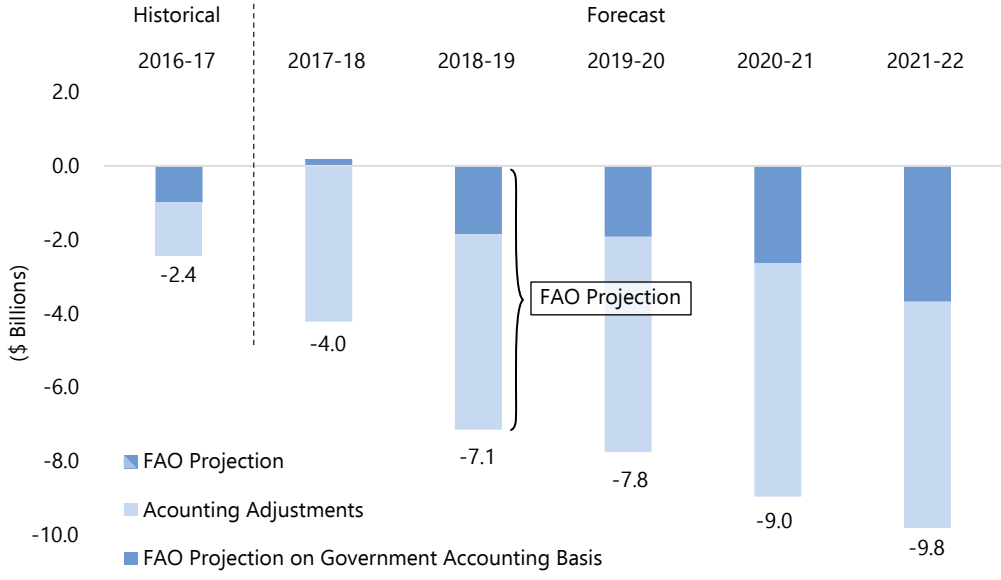
Since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more

1 See 'The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value For Money,' Auditor General of Ontario, October 2017; 'Independent Auditor's Report, 2016-17 Consolidated Financial Statements', Auditor General of Ontario, 2017; and 'An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan,' Financial Accountability Office, 2017.

2 'Economic and Fiscal Outlook, Assessing Ontario's Medium-term Prospects, Spring 2017,' Financial Accountability Office of Ontario.

difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan.

Ontario Budget Balance



Note: Budget Balance before reserve.

Source: Ontario Public Accounts, 2017 Ontario Economic Outlook and Fiscal Review and FAO.

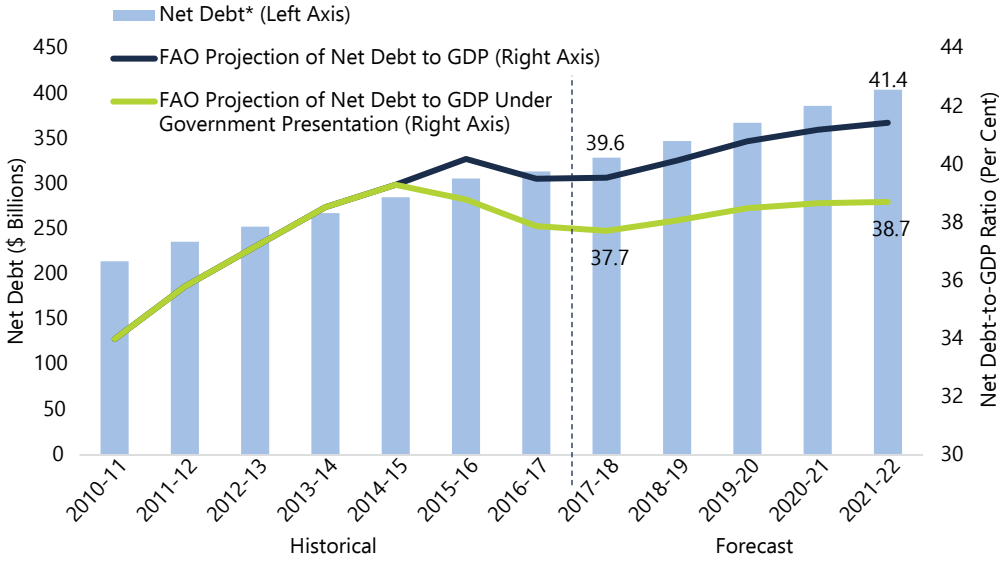
The FAO is projecting very strong growth for the Ontario economy in 2017. Consistent with the outlook of most economic forecasters, the FAO expects the economy will grow at a more measured pace beginning in 2018. However, Ontario's economic performance could worsen if the renegotiation of NAFTA impairs Ontario's access to the US market, or if households reduce discretionary spending due to high debt levels and rising interest rates.

Total revenues are forecast to increase by 3.5 per cent per year on average over the outlook, somewhat slower than the rate of GDP growth. This reflects the loss of time-limited revenues in 2018-19, as well as moderating tax revenue growth over the outlook. By comparison, the FAO projects program spending will grow by 4.4 per cent on average from 2017-18 to 2021-22, when all spending related to the Fair Hydro Plan is included.

The FAO projects Ontario's net debt-to-GDP ratio will remain essentially unchanged in 2017-18 at just under 40 per cent. However, over the next four years, the FAO expects that without any change to current fiscal policies, approximately $75 billion will be added to Ontario's net debt, increasing the net debt-to-GDP ratio to over 41

per cent by 2021-22.[3] In contrast, the government continues to maintain a net debt-to-GDP target of 35 per cent by 2023-24 and 27 per cent by 2029-30.

Net Debt Outlook



* Net debt is presented on the AG's recommended accounting basis, which includes the impact of the Fair Hydro Plan and the pension adjustment.

Source: 2017 Ontario Economic Outlook and Fiscal Review, Ontario Public Accounts and FAO.

Current and future Ontario governments are facing difficult policy choices. Based on the FAO's fiscal projection, additional measures to raise revenue or lower spending will be required if the Province intends to achieve and maintain a balanced budget, and lower Ontario's debt burden.

3 The FAO's estimate of net debt incorporates the AG's recommended accounting framework.



2 ECONOMIC OUTLOOK

Overview

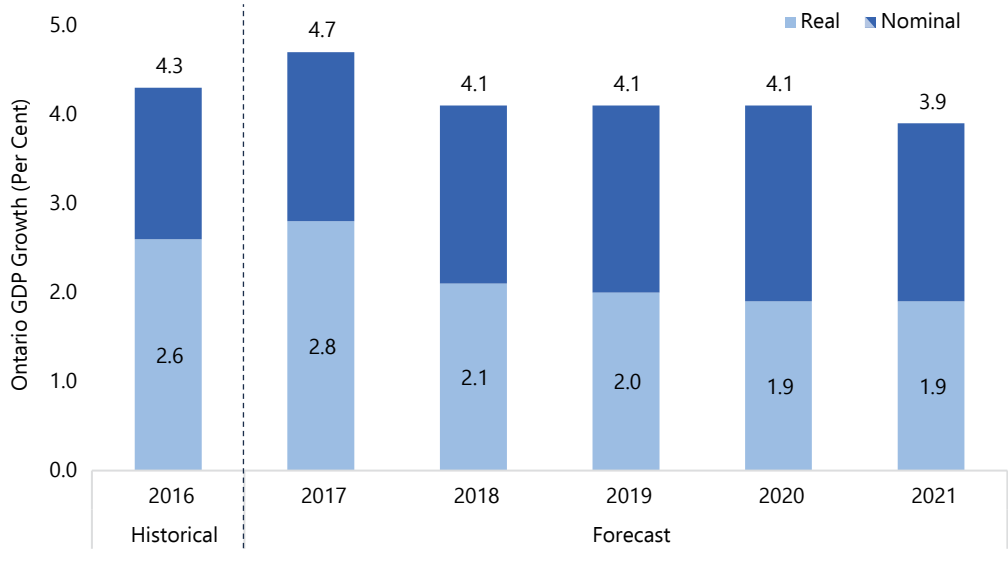
Ontario Economy Exceeding Expectations in 2017

Following a strong performance over the first half of 2017, the Ontario economy is expected to continue on a path of solid growth into 2018.

Led by a continued surge in household spending and residential investment, the FAO projects Ontario real GDP growth of 2.8 per cent in 2017, an upward revision from the FAO's spring outlook report. Nominal GDP – the broadest measure of the tax base - is projected to increase by 4.7 per cent in 2017, well above the FAO's spring forecast. The strong growth in nominal GDP in 2017 is supported by significant gains in corporate profits.

Beginning in 2018, most forecasters, including the FAO, expect the Ontario economy to grow at a more measured pace, as growth in the US and Canadian economies is also expected to moderate. At the same time, higher interest rates are expected to contribute to slower growth of household spending and residential investment over the outlook.

Solid Economic Performance Expected Over Outlook



Source: Ontario Economic Accounts, Statistics Canada and FAO.

Global Economic Growth Gaining Traction

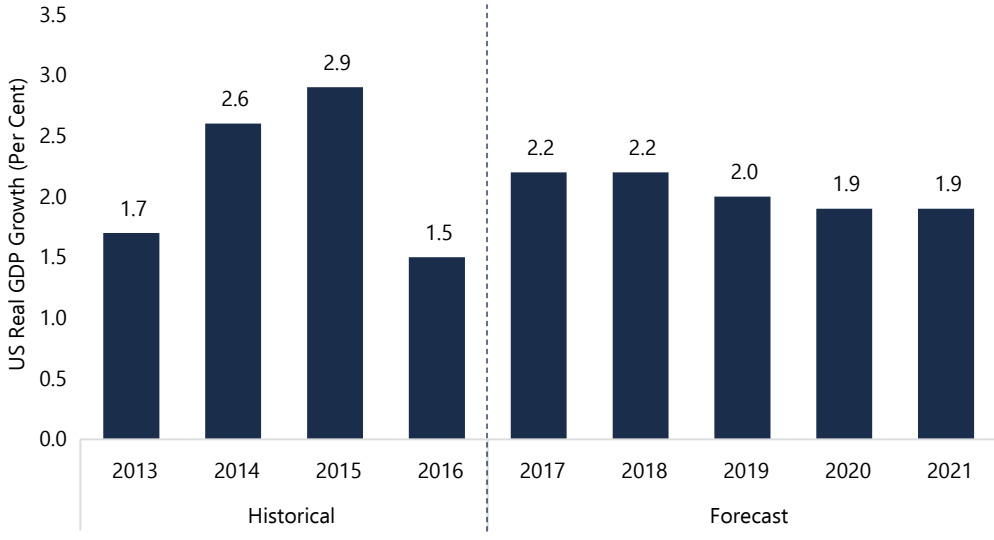
In its latest World Economic Outlook, the International Monetary Fund (IMF) revised up its forecast for global economic growth to 3.6 per cent in 2017 and 3.7 per cent in 2018.[4] A number of key economies reported stronger than expected growth over the first half of 2017, including the euro area and Japan. These upward revisions more than offset weaker than expected growth in the United Kingdom and the United States.

United States

In the US, real GDP is expected to grow by 2.2 per cent in 2017. Following a modest first-quarter gain, US consumer spending has shown signs of strengthening while business investment remains strong, particularly in the energy sector. Going forward, the FAO projects US growth to ease slightly to 1.9 per cent by 2021.

4 International Monetary Fund, World Economic Outlook, October 2017.

US Economic Growth to Moderate



Source: US Bureau of Economic Analysis, Congressional Budget Office and FAO Consensus.

However, the outlook for the US economy depends critically on the uncertain policy direction of the current US administration. Significant tax reform, including sizable tax cuts, have been proposed, although it is unclear if an agreement in Congress will be reached. Likewise, the renegotiation of the North American Free Trade Agreement (NAFTA) is ongoing, and the potential impact of a new trade agreement on North American economies remains highly uncertain (see 'Key Risks' for more details).

Other World Economies

The IMF reports that the euro area economy continues to gain strength, supported by a pick-up in exports and continued strength in domestic demand. In China, the IMF expects economic growth to ease from 6.8 per cent in 2017 to 6.5 per cent in 2018. While the Chinese economy is continuing to rebalance towards more consumption-led growth, debt continues to build among households, government and businesses, which could pose risks to medium-term growth.[5]

While the global economy is expected to perform solidly through 2018, over the medium term, global growth is expected to be limited by modest productivity gains, aging workforces in advanced economies, and tightening financial conditions.

5 International Monetary Fund, China's Economic Outlook in Six Charts, August 2017.

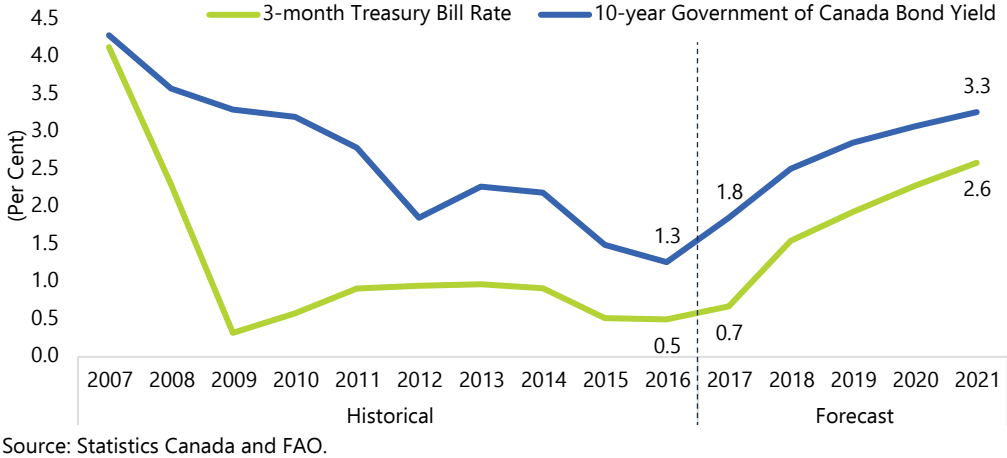
Canadian Economy

The Canadian economy is on track to post the strongest annual growth since 2011. Robust consumer spending, and a pick-up in exports and business investment supported solid overall Canadian growth during the first half of 2017. While consumer spending and exports are expected to moderate over the second half of the year, the Canadian economy is on pace for a 3.1 per cent annual gain in 2017. The FAO expects Canadian real GDP to grow by 2.1 per cent in 2018 and by an average of 2.0 per cent through 2021, as higher interest rates contribute to slower growth in consumer spending and residential investment.

The brisk pace of economic growth over the first half of the year led the Bank of Canada to increase its policy interest rate to 0.75 per cent in July and 1.0 per cent in September. Importantly, the Bank indicated that with the Canadian economy operating near full capacity, it will take a cautious, data-driven approach in determining future rate increases. Given the Bank's measured approach and the subdued rate of consumer price inflation, the FAO expects a gradual but steady rise in interest rates over the medium-term, consistent with the FAO's spring outlook.

The recent increases in Canadian interest rates contributed to an eight-cent appreciation in the Canadian dollar relative to the US dollar through the summer, before reversing some of this gain more recently. With this appreciation, the FAO projects that the dollar will average 78 cents in 2017, slightly higher than the FAO's spring outlook. Going forward, the FAO expects a gradual appreciation of the dollar to about 81 cents by 2021, supported by a steady rise in Canadian interest rates and a moderate increase in oil prices.

Canadian Interest Rates to Rise over the Outlook



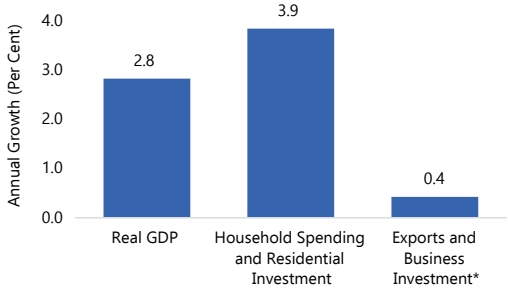
Source: Statistics Canada and FAO.

Ontario Economic Outlook

Solid 2017 Growth Expected to Moderate over the Outlook

Ontario posted solid real GDP growth of 2.6 per cent in 2016, the third consecutive year of strong growth for the economy. The FAO expects that the economy's momentum will continue into 2017, with real GDP advancing by 2.8 per cent.

Household Spending Primary Driver of Growth in 2017



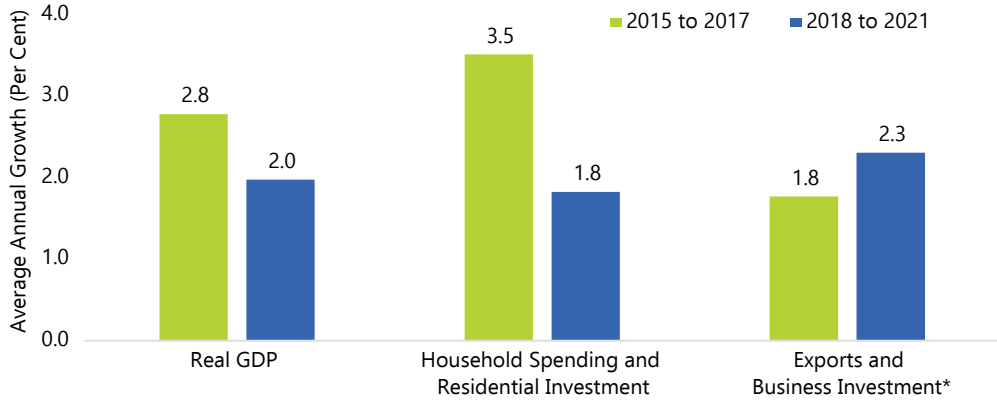
* Business Investment includes both Non-Residential Investment and Machinery & Equipment Investment.

Source: Statistics Canada, Ontario Economic Accounts and FAO.

However, despite the projection for relatively strong economic growth in 2017, the drivers of that growth are unbalanced. Household spending and residential construction are providing the main support for the economy's growth in 2017, while exports and business investment have underperformed.

Going forward, the FAO expects that elevated levels of household debt combined with rising interest rates will hamper household spending and residential investment. At the same time, exports and business investment are expected to contribute more to economic growth, as sustained foreign demand encourages businesses to increase production capacity (discussed further in 'Key Risks' below). Over the outlook, the FAO projects real GDP growth will ease to 2.1 per cent in 2018 and average 1.9 per cent per year from 2019 to 2021.

Exports and Business Investment Expected to Drive Growth over the Outlook



* Business Investment includes both Non-Residential Investment and Machinery & Equipment Investment.

Source: Statistics Canada, Ontario Economic Accounts and FAO.

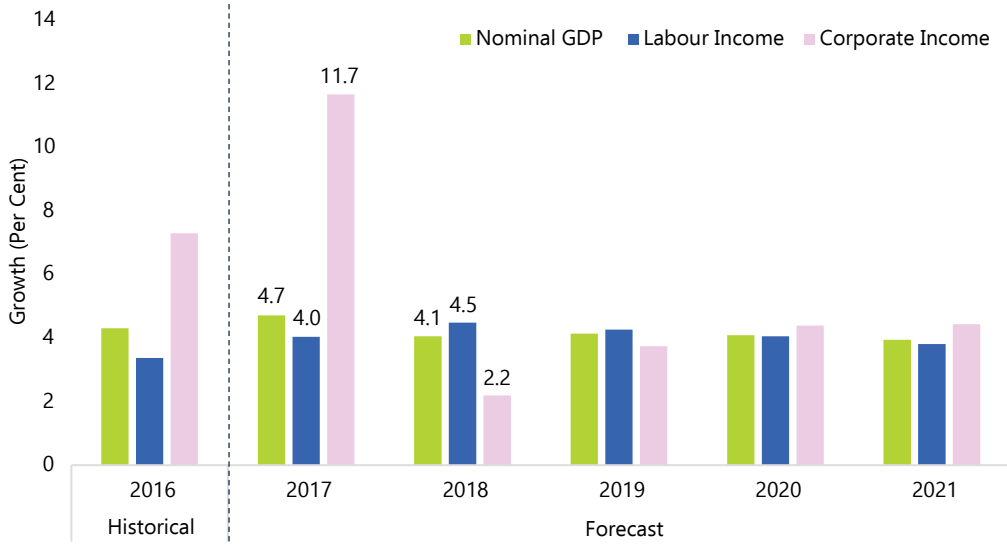
Strong Gain in Corporate Profits Projected for 2017

The FAO is forecasting nominal GDP growth of 4.7 per cent in 2017, driven by an 11.7 per cent increase in corporate profits, and a more moderate gain of 4.0 per cent in labour income.

The planned increases to Ontario's minimum wage are expected to raise labour income growth in 2018 and 2019.[6] Beyond 2019, labour income growth is expected to moderate to 3.8 per cent by 2021.

Slower labour income gains will contribute to slightly more moderate nominal GDP growth of 3.9 per cent by 2021.

Corporate Income Leads Nominal GDP Growth in 2017



Note: Labour and corporate income comprise roughly 70 per cent of nominal GDP. The other categories include mixed income (from proprietorships) and net taxes.

Source: Statistics Canada, Ontario Economic Accounts and FAO.

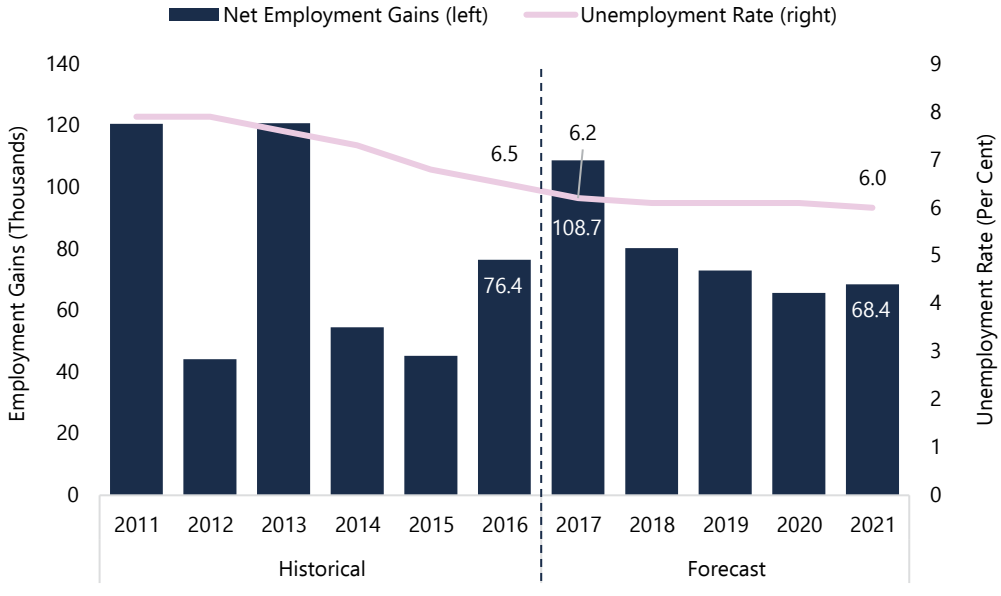
6 The FAO's forecast incorporates explicit assumptions of higher labour income growth, a small reduction in employment gains and a slight increase in CPI inflation due to the planned increases in Ontario's minimum wage. See the FAO's commentary 'Assessing the Economic Impact of Ontario's Proposed Minimum Wage Increase' for details.

Steady Job Gains Expected to Continue

The FAO is projecting strong job growth of 1.6 per cent (+109 thousand net new jobs) in 2017, following a gain of 1.1 per cent (+76 thousand net new jobs) in 2016.

Over the outlook, sustained economic growth is expected to support average annual employment growth of 1.1 per cent, just slightly faster than the growth in the labour force. As a result, the unemployment rate is expected to trend lower, falling from 6.2 per cent in 2017 to 6.0 per cent by 2021.

Steady Employment Gains as Unemployment Rate Trends Lower



Source: Statistics Canada and FAO.

Key Risks for Ontario's Economic Outlook

While the FAO expects solid economic growth over the medium-term, there are a number of risks that could negatively affect Ontario's economic performance.

Most economic forecasters, including the FAO, continue to assume that NAFTA will largely be maintained in its current form. However, the US administration is demanding significant concessions from Canada and Mexico, and has threatened to leave NAFTA altogether. Some businesses may already be postponing investment decisions outside of the United States due to the uncertainty surrounding NAFTA. If the renegotiation of NAFTA leads to a deterioration in Ontario's terms of trade or restricts access to the US market, there would be significant negative implications for the province's growth prospects.

In recent years, strong growth in household spending has not been matched by similar gains in household incomes, leading to higher levels of household debt. In 2016, household debt reached 167 per cent of disposable income in Ontario, a significant rise from 149 per cent in 2010.[7] Higher debt burdens expose households to financial risk. With a steady rise in interest rates expected over the next few years, many households will scale back discretionary spending in order to make higher debt interest payments, which in turn could have implications for the pace of overall economic growth.[8]

There are also upside risks that could lead to a stronger economic performance for Ontario. In particular, some forecasters expect the US economy will grow faster over the medium-term than the FAO projects.[9] Stronger than projected US growth would lift demand for Ontario's exports, raising employment and leading to stronger wage and profit growth for the province.

7 Statistics Canada Annual Household Wealth Distribution Tables (Provisional Data).
8 The Bank of Canada describes this risk as elevated. Bank of Canada, Financial System Review, June 2017.
9 Including the Conference Board of Canada, the Centre for Spatial Economics and the Policy and Economic Analysis Program at the University of Toronto.

3 FISCAL OUTLOOK

FAO Projects a Return to Significant Budget Deficits

Despite a strong increase in revenues, the FAO is projecting an Ontario budget deficit of $4.0 billion in 2017-18, entirely the result of the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan (FHP)[10] and the net pension assets of jointly-sponsored pension plans.[11]

Beyond 2017-18, the FAO is projecting substantial increases in the budget deficit due to the loss of time-limited revenues, a more moderate pace of tax revenue growth, and the growing fiscal impact of the FHP and the pension adjustment. By 2021-22, the FAO is projecting an Ontario budget deficit of $9.8 billion in the absence of any fiscal policy changes.

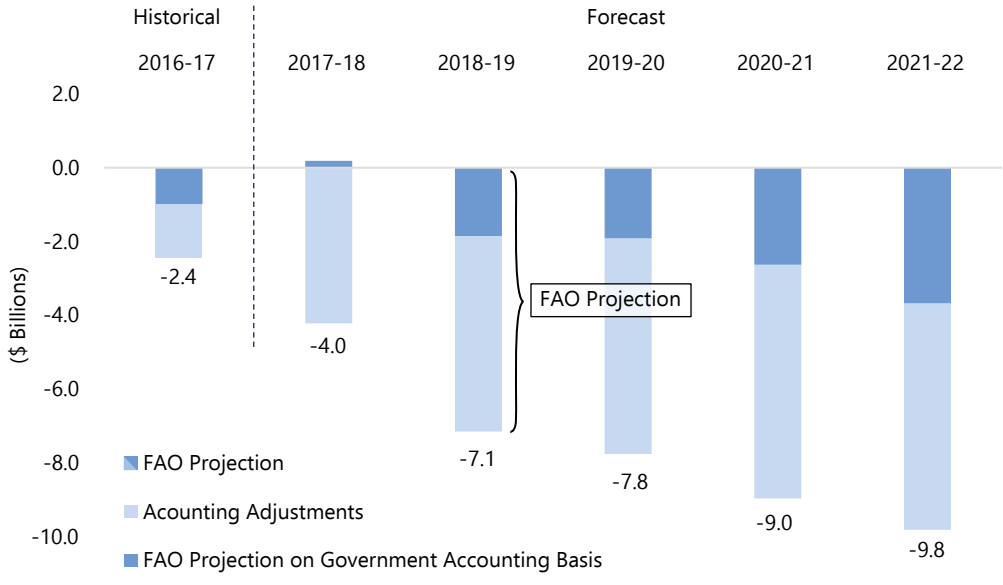
This is a significant deterioration since the FAO's spring outlook, primarily due to the government's introduction of the FHP,[12] which will add $3.2 billion to the budget deficit by 2021-22.

10 See 'The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value For Money,' Auditor General of Ontario, October 2017; 'Independent Auditor's Report, 2016-17 Consolidated Financial Statements', Auditor General of Ontario, 2017; and 'An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan,' Financial Accountability Office, 2017

11 For details, refer to 'The Accounting Treatment of Jointly Sponsored Pension Plans' in the FAO's 'Spring 2017 Economic and Fiscal Outlook.'

12 See 'Developments since the FAO's Spring 2017 Economic and Fiscal Outlook' in this report's Appendix.

Ontario Budget Balance



Note: Budget Balance before reserve.

Source: Ontario Public Accounts, 2017 Ontario Economic Outlook and Fiscal Review and FAO.

In the *2017 Ontario Economic Outlook and Fiscal Review* (also referred to as the Fall Economic Statement or FES), the government projected balanced budgets for 2017-18 through to 2019-20. However, the government's fiscal projection relies on an overly optimistic revenue forecast and does not adopt the Auditor General's recommended accounting for FHP or net pension assets.[13]

For comparison, under the government's accounting presentation, the FAO projects a small budget surplus for 2017-18, approximately equal to the government's projection in the Fall Economic Statement. However, there are a number of time-limited and one-time revenues which contribute to the budget balance in 2017-18. Going forward, the loss of these temporary revenues combined with more moderate tax revenue growth results in a return to deficit in 2018-19 and a steady deterioration in the budget deficit over the outlook.

13 However, the government's accounting treatment of net pension assets is consistent with the recommendations from the government's 'Independent Pension Asset Expert Advisory Panel.' Contrary to the opinion of the Auditor General, the panel's report concluded that the surpluses in the jointly sponsored pension plans should be fully recognized in the Province's financial statements.

The Accounting Presentation of Ontario's Financial Statements

In both the 2017 Ontario Budget and Fall Economic Statement, the government has not adopted the Auditor General's recommended accounting framework, reducing the transparency and reliability of Ontario's fiscal projections.

In addition to the existing disagreement over the appropriate accounting treatment for the government's jointly sponsored pension plans, the Auditor General recently reported that the government is not correctly accounting for the full cost of the Fair Hydro Plan in its fiscal plan. As a result, the government's financial statements are expected to continue to receive qualified opinions from the Auditor General.

Revenue Outlook

The FAO is projecting average annual revenue growth of 3.5 per cent over the forecast. In 2017-18, revenues are supported by strong growth in taxes, as well as a number of time-limited or one-time revenues. Beginning in 2018-19, the FAO is projecting more moderate revenue growth as:

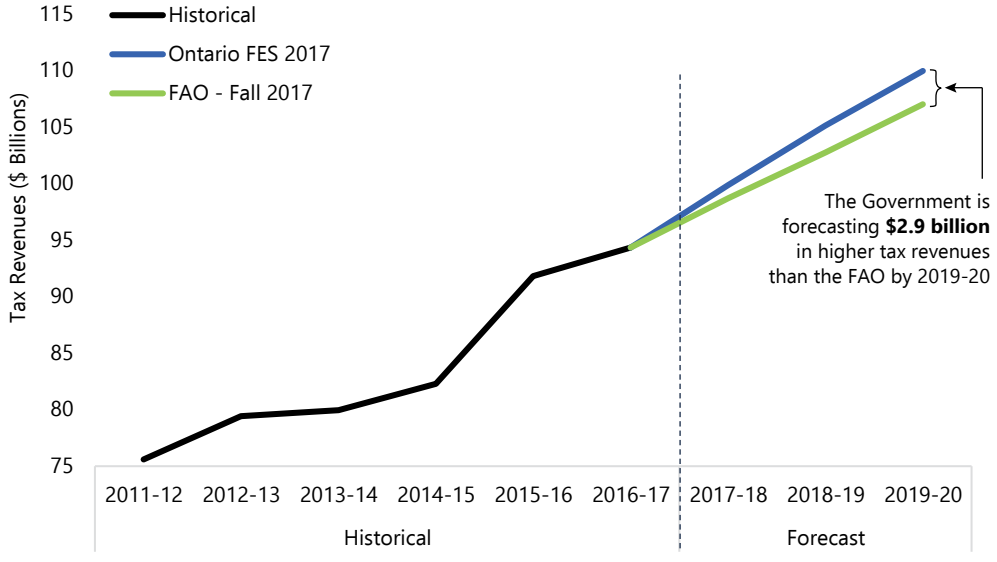
- time-limited revenues end (including asset sales and federal Equalization payments); and
- economic growth moderates, following several years of stronger than average growth.

Tax Revenue Growth Expected to Moderate

Nominal GDP, the broadest measure of the tax base, is projected to grow by a strong 4.7 per cent in 2017, supporting a 4.6 per cent increase in tax revenues in 2017-18. From 2018 to 2021, annual GDP growth is expected to moderate to 4.1 per cent, leading to similar slowing in tax revenue growth to 4.1 per cent on average over this period.

In the government's Fall Economic Statement, tax revenue is projected to grow by 5.2 per cent on average from 2017-18 to 2019-20, much higher than the FAO's projection of 4.3 per cent over the same period. The government's expectation of higher growth results in an additional $2.9 billion in tax revenues by 2019-20, relative to the FAO projection.

FAO's Taxation Revenue Outlook



Source: Ontario Public Accounts, 2017 Ontario Economic Outlook and Fiscal Review and FAO.

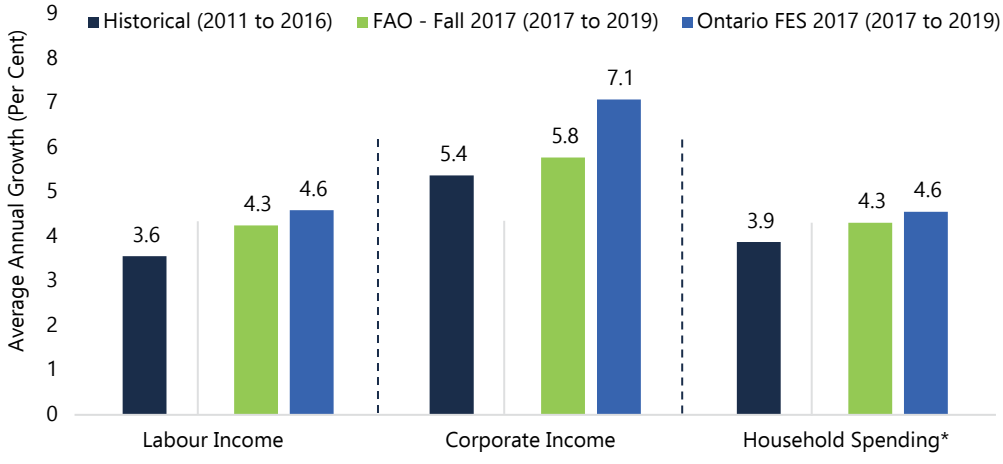
The government's revenue forecast relies on optimistic projections for many of the key economic drivers of tax revenue, including labour income, corporate income, and household spending. In particular, the government is forecasting:

- significant and sustained above-trend growth in labour income;
- a surge in 2017 corporate income growth; and
- continued strength in household spending, despite higher interest rates and elevated levels of household debt.

Taken together, the government's revenue forecast appears to be based on overly optimistic projections for the three main revenue drivers.[14]

14 See Appendix for a detailed comparison of the FAO and the government forecasts.

Growth in Key Tax Drivers



* The FES forecast for Household Spending is calculated as Real Household Spending plus CPI inflation.
Source: Statistics Canada, 2017 Ontario Economic Outlook and Fiscal Review and FAO.

The Loss of Time-limited Revenues

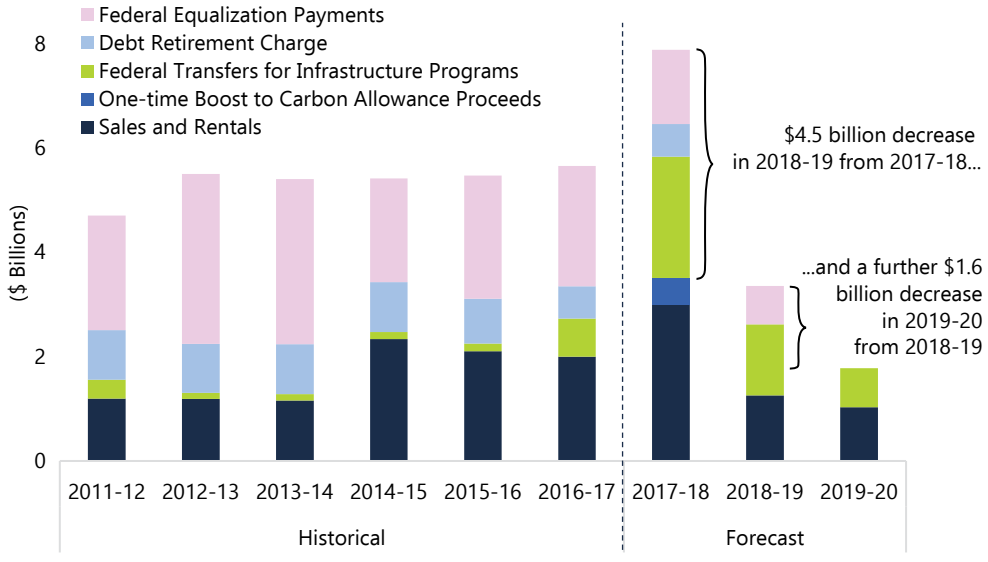
The revenue projection for 2017-18 includes a number of one-time or time-limited revenues that are set to expire.[15] These include:

- a temporary increase to sales and rentals revenue, reflecting additional asset sales[16];
- higher federal transfers for infrastructure;
- the final year of the debt retirement charge[17];
- federal Equalization payments, which the FAO estimates will end in 2019-20; and
- additional, one-time proceeds from Ontario's cap and trade program in 2017-18.[18]

Taken together, these time-limited revenues will decrease by $4.5 billion in 2018-19, and by an additional $1.6 billion in 2019-20.

15 Some of these temporary revenues - notably proceeds from the sale of carbon allowances or federal transfers for infrastructure - are tied to corresponding spending commitments, which would partially offset the reductions in these revenue sources.
16 Asset sales include the Province's 20 per cent sale of Hydro One equity in a secondary offering in 2017-18, which the FAO estimates generated about $0.7 billion in revenue.
17 The debt retirement charge (DRC) is a charge payable on electricity consumed in Ontario and replaces a portion of debt servicing costs previously included as part of electricity bills before the restructuring of the former Ontario Hydro. The government ended the DRC on residential bills as of January 1, 2016. The DRC will remain on non-residential electricity users' bills until March 31, 2018.
18 In the 2017-18 fiscal year, Ontario will hold five carbon market auctions. Going forward, the Province expects to generally hold four auctions each year.

Many Time-limited Revenues are Set to Expire Beyond 2017-18



Source: Ontario Budgets, Ministry of Finance and FAO.

FAO Revenue Assumptions and Forecast

Revenue Source	Assumption	Forecast
Taxation Revenue	Grows with key economic drivers including labour income, corporate income and household spending.	Averages 4.2 per cent growth per year from 2017-18 to 2021-22.*
Federal Transfers	Based on legislated growth rates and economic forecasts for Ontario and Canada.	Federal transfers are expected to grow by 1.6 per cent per year from 2017-18 to 2021-22.
Government Business Enterprises (GBE)	Based on government projections.	Income from GBEs are projected to rise moderately from $5.6 billion in 2016-17 to $6.7 billion in 2021-22.
Other Revenue	Based on government projections, and includes asset sales, and proceeds from the sale of cap and trade allowances.	These revenues are projected to increase from $16.3 billion in 2016-17 to $19.4 billion in 2017-18, before declining to $18.0 billion by 2021-22.

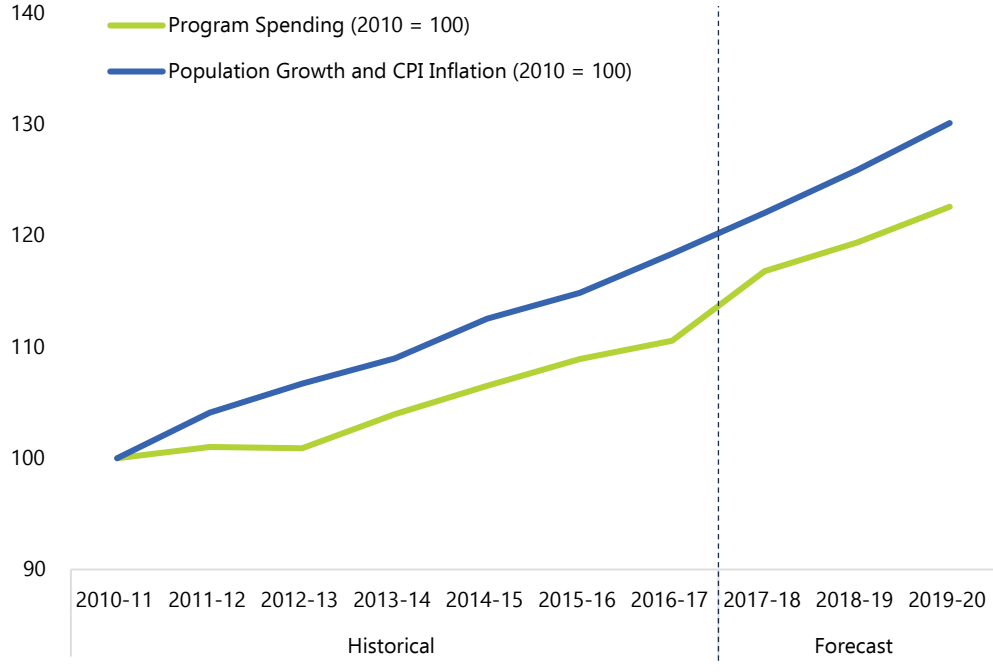
* The reduction in the small business Corporate Income Tax rate is reflected in the FAO's tax revenue projections.

Expense Outlook

Program Spending

In the 2010 Budget, the government introduced a plan to return to balanced budgets by 2017-18. Since then, the government has restrained the average growth of program spending to below the rate of inflation and population growth.

Program Spending and Spending Pressures



Source: Ontario Public Accounts, 2017 Ontario Economic Outlook and Fiscal Review and FAO.

Over the 2017-18 to 2019-20 period, the FAO's outlook adopts the government's 2017 Fall Economic Statement projections for program spending but makes adjustments to reflect the Auditor General's recommended accounting presentation.[19] Excluding these adjustments, the projection for program spending is largely unchanged from the 2017 Ontario Budget, aside from $200 million of new spending beginning in 2017-18.[20]

19 Based on information provided by the Ministry of Finance, the FAO's projection for 'Other Spending' includes $2.3 billion in 2017-18 for a valuation allowance on jointly-sponsored pension assets, growing to $2.9 billion by 2021-22. In addition, the FAO includes expenses related to the electricity cost refinancing portion of the FHP, which average $2.8 billion per year over the outlook.

20 In the 2017 FES, the government announced new funding for additional spending for small businesses, seniors and child care. However, the additional expenses for child care is fiscally neutral since it is funded by a corresponding increase in federal transfer revenue.

In 2017-18, program spending is expected to grow by 5.7 per cent.[21] This spending includes additional funding for health care, education and elements of the Fair Hydro Plan. However, in 2018-19 and 2019-20, the government plans to restrain increases in program spending to an average of 2.4 per cent, below the growth in underlying spending pressures.

Beyond 2019-20, the FAO projects that program spending will grow by an annual average rate of 4.2 per cent. This stronger pace of growth reflects additional spending to meet underlying pressures. In particular, the aging baby boomer cohort and the growing youth population will place added spending pressures on Ontario's health care and education systems in the near future.

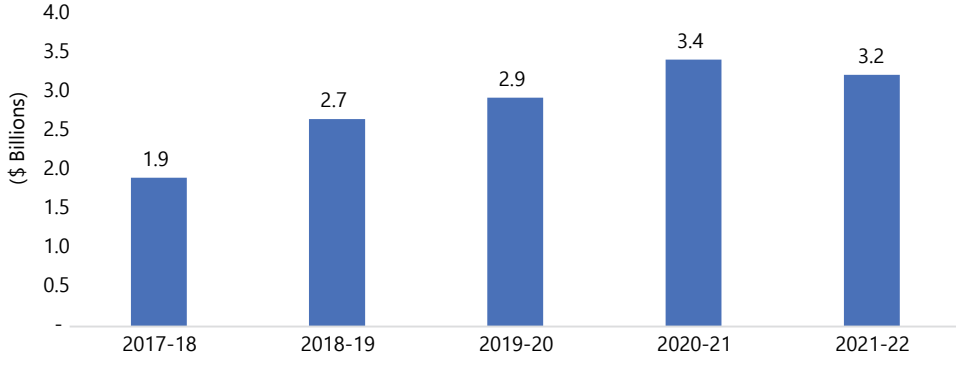
Impact of the Fair Hydro Plan

The government introduced the "Fair Hydro Plan" to reduce electricity bills for residential customers by an average of 25 per cent. The FHP includes refinancing a portion of the reduced electricity costs for ratepayers through borrowing by the Province and Ontario Power Generation (OPG).

The Auditor General has recommended that the cost of this refinancing be fully captured as an expense. However, the government has not included this cost in its fiscal plan.

Consistent with the Auditor General's recommendation, the FAO has included the full fiscal impact of the FHP in its projection by increasing program spending by an average of $2.8 billion per year over the outlook (see the FAO's 'An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan' for further details).

Impact of the Fair Hydro Plan on Ontario's Program Spending



Source: FAO.

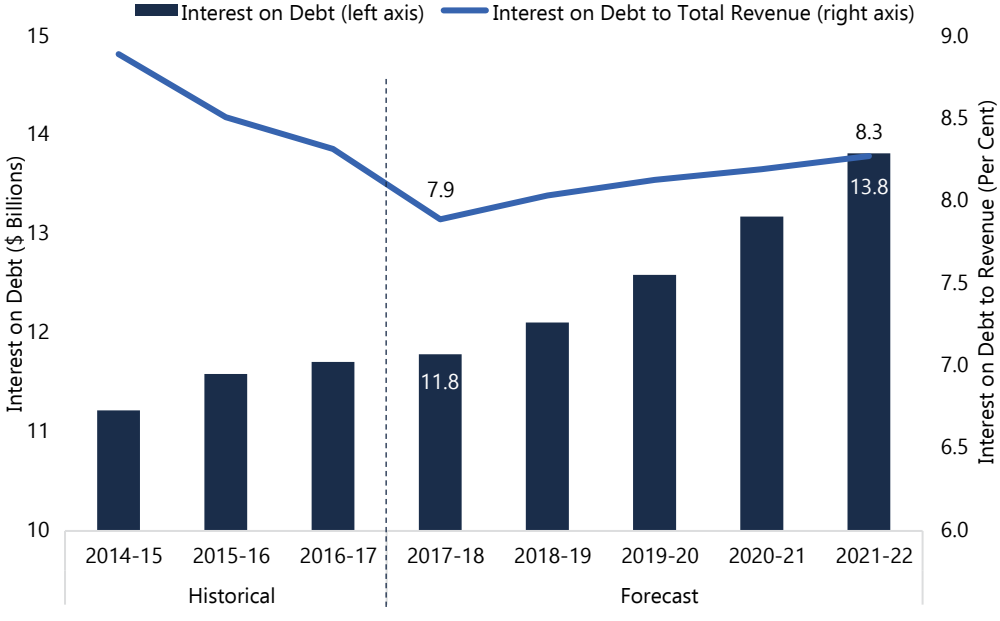
21 On the government's accounting basis, which excludes the impact of the pension adjustment and the electricity cost refinancing portion of the FHP.

Interest on Debt

Interest on debt (IOD) payments are expected to increase at an average rate of 3.4 per cent per year over the outlook due to elevated borrowing levels and rising interest rates.

Over the past three years, IOD as a share of revenues has declined, a reflection of strong revenue growth, lower new borrowing and maturing debt being refinanced at much lower rates of interest. However, this trend is expected to reverse over the outlook as revenue growth moderates while IOD payments accelerate. By 2021-22, Ontario's debt interest payments will account for 8.3 per cent of total revenue, above the 7.9 per cent share in 2017-18.

Interest on Debt



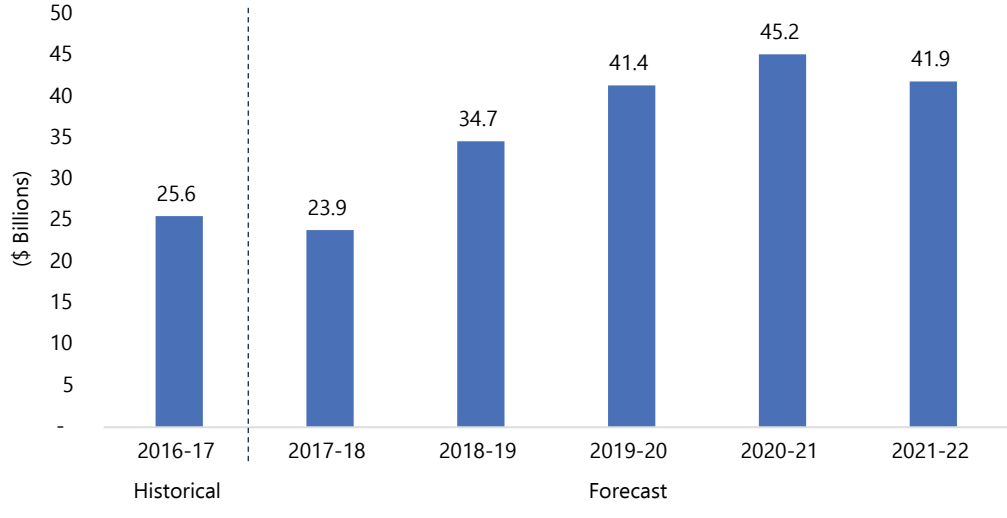
Source: Ontario Public Accounts, 2017 Ontario Economic Outlook and Fiscal Review and FAO.

Borrowing and Net Debt

Despite higher funding requirements for capital expenditures and the Fair Hydro Plan, Ontario's borrowing is expected to decline to $23.9 billion in 2017-18, the lowest level of borrowing since 2007.

However, beginning 2018-19, borrowing requirements are expected to increase significantly due to higher annual debt maturities, additional funding requirements for the Fair Hydro Plan and rising capital expenditures. By 2020-21, the FAO projects borrowing to increase to over $45 billion – nearly double the borrowing requirement in 2017-18.

Borrowing Outlook

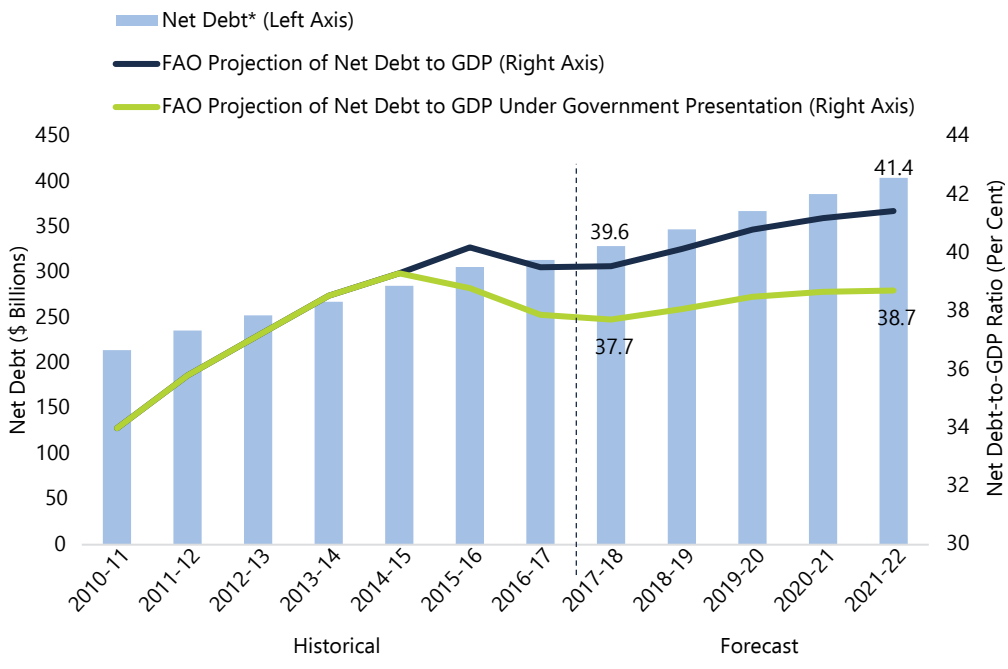


Source: 2017 Ontario Economic Outlook and Fiscal Review and FAO.

The FAO projects Ontario's net debt-to-GDP ratio will remain essentially unchanged in 2017-18 at 39.6 per cent. However, over the next four years, the FAO projects that Ontario's net debt will increase by approximately $75 billion to over $400 billion, increasing the net debt-to-GDP ratio to 41.4 per cent by 2021-22.[22]

22 The FAO's estimate of net debt reflects the Auditor General's recommended accounting framework.

Net Debt Outlook



Note: Net debt is presented on the Auditor General's basis, which includes the fiscal impact of the Fair Hydro Plan and pension adjustment.

Source: 2017 Ontario Economic Outlook and Fiscal Review, Ontario Public Accounts and FAO.

The government continues to maintain a net debt-to-GDP target of 35 per cent by 2023-24 and 27 per cent by 2029-30. However, the FAO's net debt-to-GDP projections under both accounting presentations suggest that additional fiscal measures would be required for the government to achieve its net debt-to-GDP targets.

4 APPENDIX

Developments since the FAO's Spring 2017 Economic and Fiscal Outlook

The FAO's current projection of Ontario's budget balance has deteriorated compared to the spring outlook.

- The Fair Hydro Plan, which boosts expenses by an average of $2.8 billion over the outlook, accounts for the majority of the higher deficit.

- In addition, compared to the spring, the FAO forecasts more moderate growth in revenues from personal income tax and the Land Transfer Tax over the outlook. This is offset by stronger expected growth in federal transfers and GBE income.

Developments Since Spring 2017

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
FAO's 2017 Spring Budget Balance Forecast	**-5.0**	**-2.9**	**-4.9**	**-5.5**	**-6.0**	**-6.5**
Developments Since Spring 2017						
Revenue						
Taxation Revenue	0.4	-0.0	-0.4	-0.3	-0.2	-0.0
Federal Transfers and GBE	-0.0	0.3	0.7	0.7	0.7	0.7
Other Revenue Developments	0.4	0.4	0.0	-0.0	0.1	0.1
Total	0.8	0.7	0.3	0.4	0.5	0.9
Expense						
Fair Hydro Plan	-	1.9	2.7	2.9	3.4	3.2
Net New Spending*	-0.8	0.2	0.1	-0.0	0.4	1.7
Revised Adjustment for Pension Asset	-0.8	-0.0	-0.0	-0.0	-0.0	-0.0
Lower IOD Forecast	-0.2	-0.2	-0.2	-0.3	-0.5	-0.7
Total	-1.8	1.9	2.6	2.6	3.4	4.2
Total Developments	2.6	-1.2	-2.3	-2.2	-2.9	-3.3
FAO's 2017 Fall Budget Balance Forecast	**-2.4**	**-4.0**	**-7.1**	**-7.8**	**-9.0**	**-9.8**

Source: FAO

* This includes new expenses on child care, small businesses and seniors announced in the 2017 FES, and updates to long-term spending.

Forecast Tables

Table 1a: FAO Outlook for Key Revenue Drivers*

(Per Cent Growth)	2015a	2016a	2017f	2018f	2019f	2020f	2021f	Average*
Nominal GDP								
FAO - Fall 2017	5.0	4.3	4.7	4.1	4.1	4.1	3.9	4.2
Ontario FES 2017	5.0	4.3	5.3	4.1	4.1	4.2	-	4.4
Current FAO Consensus **	5.0	4.3	5.5	4.0	4.1	4.5	3.5	4.5
Labour Income								
FAO - Fall 2017	4.6	3.4	4.0	4.5	4.3	4.1	3.8	4.2
Ontario FES 2017 ***	4.6	3.4	4.3	4.7	4.8	4.4	-	4.5
Corporate Profits								
FAO - Fall 2017	7.1	7.3	11.7	2.2	3.7	4.4	4.4	5.4
Ontario FES 2017	7.1	7.3	16.1	2.9	2.8	3.7	-	7.1
Household Consumption								
FAO - Fall 2017	4.1	4.2	4.7	4.2	4.1	3.9	3.8	4.2
Ontario FES 2017 ****	4.1	4.2	5.1	4.3	4.3	4.3	-	4.5

a = Actual f = Forecast

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

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

*** 2017 Ontario Economic Outlook and Fiscal Review Reports Labour Income on a National Basis, whereas FAO reports Labour Income on a Domestic Basis.

**** For 2017 to 2020, Fall Economic Statement Outlook is Real Household Spending plus CPI.

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

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

(Per Cent Growth)	2015a	2016a	2017f	2018f	2019f	2020f	2021f	Average*
Real GDP								
FAO - Fall 2017	2.9	2.6	2.8	2.1	2.0	1.9	1.9	2.2
Ontario FES 2017	2.9	2.6	2.8	2.1	2.0	2.0	-	2.2
Current FAO Consensus **	2.9	2.6	2.9	2.0	2.1	2.3	2.0	2.3
Real GDP Components								
Household Consumption ***	2.9	2.9	3.6	2.4	1.9	1.8	1.8	2.4
Residential Investment	7.7	7.5	5.3	-1.0	0.0	1.8	2.3	1.5
Business Investment ****	7.5	-8.8	2.4	4.6	4.4	4.0	3.5	3.8
Government (Consumption and Investment)	1.7	2.1	1.9	1.9	1.6	1.5	1.3	1.7
Exports	3.3	2.5	0.2	2.2	2.0	2.0	2.0	1.6
Imports	3.2	0.0	2.0	2.0	1.8	1.8	1.8	1.9

a = Actual f = Forecast

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

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

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

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

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

Table 2: FAO Outlook for Selected Economic Indicators

	2015a	2016a	2017f	2018f	2019f	2020f	2021f
Employment (Per Cent Growth)							
FAO - Fall 2017	0.7	1.1	1.6	1.1	1.0	0.9	0.9
Ontario FES 2017	0.7	1.1	1.4	1.1	1.1	1.0	-
Unemployment Rate (Per Cent)							
FAO - Fall 2017	6.8	6.5	6.2	6.1	6.1	6.1	6.0
Ontario FES 2017	6.8	6.5	6.2	6.2	6.1	6.1	-
Labour Force (Per Cent Growth)							
FAO - Fall 2017	0.1	0.9	1.1	1.1	1.0	0.9	0.9
Ontario FES 2017	-	-	-	-	-	-	-
Population Growth (Per Cent)							
FAO - Fall 2017	0.8	1.3	1.5	1.2	1.1	1.1	1.1
Ontario FES 2017	-	-	-	-	-	-	-
CPI Inflation (Per Cent Growth)							
FAO - Fall 2017	1.2	1.8	1.6	2.0	2.2	2.0	2.0
Ontario FES 2017	1.2	1.8	1.7	2.0	2.0	2.0	-
Canada Real GDP (Per Cent Growth)							
FAO - Fall 2017	0.9	1.5	3.1	2.1	2.0	2.0	2.0
Ontario FES 2017	-	-	-	-	-	-	-
U.S. Real GDP (Per Cent Growth)							
FAO - Fall 2017	2.9	1.5	2.2	2.2	2.0	1.9	1.9
Ontario FES 2017	2.9	1.5	2.2	2.4	2.1	2.1	-
Canadian Dollar (Cents US)							
FAO - Fall 2017	78.2	75.4	77.9	78.5	79.2	80.1	80.9
Ontario FES 2017	78.2	75.4	77.5	81.0	81.1	81.1	-
WTI Crude Oil (US$)							
FAO - Fall 2017	49	43	49	52	55	58	61
Ontario FES 2017	49	43	50	52	56	60	-
Three-month Treasury Bill Rate (Per Cent)							
FAO - Fall 2017	0.5	0.5	0.7	1.5	1.9	2.3	2.6
Ontario FES 2017	0.5	0.5	0.7	1.5	2.2	2.5	-
10-year Government Bond Rate (Per Cent)							
FAO - Fall 2017	1.5	1.3	1.8	2.5	2.9	3.1	3.3
Ontario FES 2017	1.5	1.3	1.8	2.5	3.2	3.6	-

a = Actual f = Forecast

Source: 2017 Ontario Budget, Bank of Canada, Congressional Budget Office, Statistics Canada, FAO Consensus and FAO.

Table 3: FAO Fiscal Outlook

($ Billions)	2015-16a	2016-17a	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Revenue							
Personal Income Tax	31.1	30.7	33.6	35.7	37.7	39.6	41.5
Sales Tax	23.5	24.8	25.9	26.7	27.7	28.7	29.8
Corporations Tax	11.4	14.9	14.5	14.8	15.2	15.8	16.3
All Other Taxes	25.8	24.1	24.7	25.5	26.4	27.3	28.2
Total Taxation Revenue	91.8	94.3	98.7	102.7	107.0	111.3	115.8
Transfers from Government of Canada	23.1	24.5	26.2	25.5	25.0	25.8	26.6
Income from Government Business Enterprise	4.9	5.6	5.1	5.9	6.2	6.5	6.7
Other Non-Tax Revenue	16.3	16.3	19.4	16.5	16.6	17.3	18.0
Total Revenue	136.1	140.7	149.4	150.7	154.8	160.8	167.0
Expense							
Health Sector	55.0	56.0	58.0	60.5	62.5	65.4	68.9
Education Sector	26.1	26.2	27.7	28.6	29.2	30.4	31.6
Postsecondary and Training Sector	9.9	10.1	10.9	11.1	11.3	11.4	11.5
Children's and Social Services Sector	15.5	16.0	16.8	17.2	17.4	17.9	18.5
Justice Sector	4.5	4.6	4.7	4.7	4.8	5.0	5.2
Other Programs	18.5	18.5	23.5	23.6	24.9	26.5	27.3
Total Program Expense	129.6	131.5	141.6	145.7	150.0	156.6	163.0
Interest on Debt	11.6	11.7	11.8	12.1	12.6	13.2	13.8
Total Expense	141.2	143.2	153.4	157.8	162.6	169.8	176.8
Budget Balance (AG Presentation)	-5.0	-2.4	-4.0	-7.1	-7.8	-9.0	-9.8
Budget Balance (Government Presentation)	-3.5	-1.0	0.2	-1.9	-1.9	-2.6	-3.7
Budget Balance (Ontario FES 2017)	-3.5	-1.0	0.5	0.5	0.8	-	-

a = Actual f = Forecast

Note: Budget balance is presented without reserve. Historical figures have been restated to the 2017-18 Public Account presentation.

Source: Statistics Canada, 2017 Ontario Economic Outlook and Fiscal Review, Public Accounts of Ontario and FAO.

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

$ Billions	2015-16a	2016-17a	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Budget Balance*	-5.0	-2.4	-4.0	-7.1	-7.8	-9.0	-9.8
Accumulated Deficit	203.0	205.9	210.0	217.1	224.9	233.8	243.6
Net Debt	306.4	314.1	329.2	347.7	368.0	386.8	404.4
Change in Net Debt		7.7	15.1	18.5	20.4	18.8	17.6
Net Debt to GDP (Per Cent)	40.2	39.5	39.6	40.1	40.8	41.2	41.4
FAO Net Debt to GDP (Government Presentation)							
Net Debt to GDP (Per Cent)	38.8	37.9	37.7	38.1	38.5	38.7	38.7

a = Actual f = Forecast

Note: Historical figures have been restated to the 2017-18 Public Account presentation.

* Budget Balance is presented without reserve.

Source: Statistics Canada, 2017 Ontario Economic Outlook and Fiscal Review and FAO.


Office of the Budget
MINISTRY of FINANCE

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Subject: FAO EFO Report Summary Note / Request for Input
Date: Wednesday, December 06, 2017 13:29:52
Attachment 1: Summary of Draft FAO Fall Fiscal Outlook_v2a.docx
Attachment 2: RE: FAO's Fall 2017 EFO

Hi All,

Attached is a draft FAO EFO report summary note for review with a few caveats. An embargoed copy of the FAO's final EFO report will be released tomorrow and might result in updates. In addition, OEP will be adding a summary on the economic outlook and related key messages in order to have one consolidated product. For your general reference, I'm re-attaching the final comments that were submitted to the FAO.

Could your areas please review the attached summary note and aim to provide ADM approved edits in tracked changes by **EOD tomorrow**? These edits should align with the final EFO report being released tomorrow.

Please let me know if you have any questions.

Thanks,

Ryan

Ryan Birks

Special Policy Advisor and Executive Assistant

ADMO, Office of the Budget

416-327-0074

FAO's 2017 Fall Fiscal Outlook – OB Summary

ISSUE

The Financial Accountability Office is set to release its 'Fall Economic and Fiscal Outlook' report. This note summarizes the fiscal chapter of the report.

TOP MESSAGES

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

KEY POINTS

Fiscal Outlook

- The FAO is projecting a budget deficit of $3.9 billion in 2017–18 using the **Auditor General's recommended accounting treatment for both the Fair Hydro Plan and the net pension assets of jointly sponsored pension plans.** In the absence of any fiscal policy changes this grows steadily to $9.6 billion in 2021-22.
- Under the **government's accounting presentation (excluding the AG's recommendations)**, the FAO projects a small surplus for 2017–18 of $0.3 billion (excluding the reserve) and a return to deficits beyond 2017–18 driven by revenue factors - loss of temporary revenues combined with more moderate tax revenue growth.
- The FAO suggests that by not adopting the AG's recommended accounting presentation, the 2017 Budget and the 2017 FES reduced transparency and clarity of Ontario's fiscal position and as a result Ontario will continue to receive qualified options from the AG.

Budget Balance - FAO's Fiscal Outlook ($ Billions)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
AG Presentation	-5.0	-2.5	-3.9	-7.2	-7.9	-8.9	-9.6
Government Presentation	-3.5	-1.0	0.3	-1.9	-2.0	-2.6	-3.5
2017 FES -- Excluding Reserve	-3.5	-1.0	0.5	0.5	0.8	N/A	N/A

Revenue Outlook

- Using the AG presentation, the FAO is projecting average annual revenue growth of 2.6 per cent from 2016-17 to 2019-20 as compared with the government's projections of 4.0 per cent. The main drivers are:
    - The FAO projections for taxation revenues are $2.9 billion lower by 2019-20 than the projections in the 2017 FES due to lower projected growth in household spending, labour income and corporate profits.
    - The FAO projects that, based on the AG presentation, the Fair Hydro Plan will lower net income from OPG by $3.4 billion lower by 2019-20.
    - In addition, the FAO continues to highlight a number of one-time 2017-18 revenues, including: increase to sales and rentals from sale of final tranche of H1, higher federal transfers for infrastructure (PTIF), one-time boost from extra Cap and Trade auction. Taken together the FAO estimates that these amount to $4.5 billion in additional one-time revenues in 2017-18.

Expense Outlook

- From 2017–18 to 2019–20 the FAO's outlook adopts the government's 2017 FES projections for program spending, **adjusted to reflect the AG's recommended accounting presentation.** Beyond 2019–20 the FAO projects program spending will grow faster -- at an average annual rate of 4.1 per cent – due to population pressures.

Borrowing and Net Debt

- Using the **government's accounting presentation** net debt-to-GDP is expected to reach 38.4 per cent by 2019–20 and 38.6 per cent by 2021–22. This increases to 41.3 per cent by 2021–22 **under the AG's accounting presentation**.
    - The 2017 FES projected a net debt-to-GDP ratio of 37.0 per cent by 2019–20.

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

	Actual		Outlook					Avg. Annual Growth		
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	16-17 to 19-20	19-20 to 21-22	16-17 to 21-22
2017 Fall Economic Statement										
Revenue*	136.1	140.7	150.1	153.6	158.2			4.0%		
Adjustment for Fair Hydro Plan	-	-	-	-	-					
Total Revenue	136.1	140.7	150.1	153.6	158.2			4.0%		
Expense										
Program Expense**	128.1	130.0	137.4	140.4	144.2			3.5%		
Adjustment for Pension Assets	-	-	-	-	-					
Interest on Debt	11.6	11.7	12.2	12.7	13.3			4.2%		
Total Expense	139.7	141.7	149.6	153.1	157.4			3.6%		
Surplus/(Deficit) Excl. Reserve	(3.5)	(1.0)	0.5	0.5	0.8					
Reserve	-	-	0.5	0.5	0.8					
Surplus/(Deficit)	(3.5)	(1.0)	0.0	0.0	0.0					
Net Debt	295.4	301.6	311.7	323.0	335.6					
Change - 2017 Fall Economic Statement to 2017 Fall FAO Fiscal Outlook										
Revenue	-	-	*(0.8)*	*(3.0)*	*(3.5)*					
Adjustment for Fair Hydro Plan	-	-	*(1.9)*	*(2.7)*	*(2.9)*					
Total Revenue	-	-	(2.7)	(5.7)	(6.4)					
Expense										
Program Expense	-	-	-	-	-					
Adjustment for Pension Assets	1.5	1.5	2.2	2.6	2.9					
Interest on Debt	-	-	*(0.4)*	*(0.6)*	*(0.7)*					
Total Expense	*1.5*	*1.5*	*1.8*	*2.0*	*2.3*					
Surplus/(Deficit) Excl. Reserve	*(1.5)*	*(1.5)*	*(4.4)*	*(7.7)*	*(8.7)*					
Reserve	-	-	*(0.5)*	*(0.5)*	*(0.8)*					
Surplus/(Deficit)	*(1.5)*	*(1.5)*	*(3.9)*	*(7.2)*	*(7.9)*					
Surplus/(Deficit) exc. Adj. for Fair Hydro Plan and Pension Assets	*(0.0)*	*(0.0)*	*0.3*	*(1.9)*	*(2.0)*					
Net Debt	*11.0*	*12.5*	*16.3*	*23.5*	*31.4*					
2017 Fall FAO Fiscal Outlook										
Revenue	136.1	140.7	149.3	150.6	154.7	160.7	166.9	3.2%	3.9%	3.5%
Adjustment for Fair Hydro Plan	-	-	(1.9)	(2.7)	(2.9)	(3.4)	(3.2)			
Total Revenue	136.1	140.7	147.4	147.9	151.8	157.3	163.7	2.6%	3.8%	3.1%
Expense										
Program Expense	128.1	130.0	137.4	140.4	144.2	150.1	156.6	3.5%	4.2%	3.8%
Adjustment for Pension Assets	1.5	1.5	2.2	2.6	2.9	2.9	2.9			
Interest on Debt	11.6	11.7	11.8	12.1	12.6	13.2	13.8	2.5%	4.7%	3.4%
Total Expense	141.2	143.2	151.4	155.1	159.7	166.2	173.3	6.0%	8.9%	7.2%
Surplus/(Deficit) Excl. Reserve	(5.0)	(2.5)	(3.9)	(7.2)	(7.9)	(8.9)	(9.6)			
Reserve	-	-	-	-	-	-	-			
Surplus/(Deficit) (AG Presentation)	(5.0)	(2.5)	(3.9)	(7.2)	(7.9)	(8.9)	(9.6)			
Surplus/(Deficit) exc. Adj. for Fair Hydro Plan and Pension Assets (Gov't presentation)	(3.5)	(1.0)	0.3	(1.9)	(2.0)	(2.6)	(3.5)			
Net Debt	306.4	314.1	328.0	346.5	367.0	385.7	403.1			

Note: Numbers may not align with report due to rounding.

From: Tim Schuurman (MOF) []
To: David West [dwest@fao-on.org]; Brian Lewis (MOL) [Brian.Lewis@ontario.ca]; Karen Hughes (MGS) [Karen.Hughes@ontario.ca]
CC: Ghufran Tarin (MOF) [Ghufran.Tarin@ontario.ca]; Birks, Ryan (MOF) [Ryan.Birks@ontario.ca]; Luan Ngo [lngo@fao-on.org]; Edward Crummey [ecrummey@fao-on.org]; Nicolas Rhodes [nrhodes@fao-on.org]; Patrick Laughton (MOF) [Patrick.Laughton@ontario.ca]; Selena Esmail (MOF) [Selena.Esmail@ontario.ca]
Subject: RE: FAO's Fall 2017 EFO
Date: Friday, November 24, 2017 18:25:49
Attachment 1: 2017 EFO - Econ Chapter MOFTBScomments.docx
Attachment 2: 2017 EFO - Fiscal Chapter_Consolidated CommenntsMOFTBS.docx
Attachment 3: image005.png
Attachment 4: image006.png

David;

Thanks again for the opportunity to review and provide feedback/fact-checks and comments on the draft report. Please find attached a consolidated set of comments from MOF and TBS on the Economic and Fiscal Chapters.

We think there may be some value in having a follow-up call next week to discuss some of these pieces – but let us know what you think once you've reviewed. We're happy to arrange something.

Some of these more significant edits may require a conversations to clarify, including:

· The language and representation of the differences in accounting interpretations. We may have discussed this at the time of the Budget outlook document, but we think its important to get the language right in terms of how this is articulated so that it's a more objective and fact-based representation.

· In addition, it appears that the way the FAO has built in the AG's interpretation of the Fair Hydro Plan accounting treatment is incorrect – as the current presentation in this draft EFO shows it appearing on the revenue side (on OPG's net income) – instead, the AG's recommendation was that is an expense impact on consolidation from IESO and further that the IESO is not a GBE – so it impacts the way the section (and charts under that section) are currently presented. This will require a significant change to your numbers and presentation. This may require additional explanation, so let us know.

· There are also some comments related to FAO projections for the amount of borrowing, as well as references about above trend growth in key tax drivers – these were essentially that the forecast is consistent with historical growth/trends and private sector forecasts, and the importance to note where “one-time” revenues identified as such by the FAO are actually also fiscally neutral – so should not be linked to a fiscal gap contribution by these shorter-term revenues.

Tim Schuurman

Assistant Deputy Minister

Office of the Budget, Ministry of Finance

7 Queen’s Park Cres.

Toronto ON M7A 1Z1
Tel: 416-327-0173

cid:image002.png@01D0E4D5.A25B16F0

From: David West [mailto:dwest@fao-on.org]
Sent: November-22-17 11:42 AM
To: Schuurman, Tim (MOF); Lewis, Brian (MOF); Hughes, Karen (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Luan Ngo; Edward Crummey; Nicolas Rhodes; Hosick, Sarah (TBS); Laughton, Patrick (TBS)
Subject: RE: FAO's Fall 2017 EFO
Importance: High

Tim, Brian Karen

Please find attached drafts of Economic Outlook and Fiscal Outlook chapters from the FAO's upcoming 'Economic and Fiscal Outlook' report.

The chapters are password protected using the same password as in the past.

As in the past, we are on a very tight schedule to enable us to release this report in early December, before the Legislature rises for the holiday break.

However, please note that we are still waiting for the detailed program spending projection consistent with FES (see attached email request from last week). This information is essential to calibrate our models and ensure consistency with the government's projections. If we do not receive that information shortly, we will be forced to proceed with our own estimates which could impact the results and conclusions presented in the report. Please be aware that we will need to be clear with MPPs, during our technical briefing, that we did not receive all the additional background information that we requested. (We did, however, receive the detailed revenue information from FES last week. Thanks)

We are asking for your comments/concerns by end of day Friday (November 24).

Happy to set up a phone call to discuss.

Thanks again for your support and assistance.

----------David West

Chief Economist

cid:image009.png@01D17ECB.966ECE00

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From: David West
Sent: November 20, 2017 10:18 AM
To: Tim Schuurman (Tim.Schuurman@ontario.ca) <Tim.Schuurman@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; ryan.birks@ontario.ca; Luan Ngo (lngo@fao-on.org) <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Nicolas Rhodes (nrhodes@fao-on.org) <nrhodes@fao-on.org>
Subject: FAO's Fall 2017 EFO

Hello Tim, Brian,

As you are aware, we are preparing our Fall EFO for release in early December.

As in the past, we are planning to send you drafts of the 2 core chapters of the report (economic outlook and fiscal outlook) on Wednesday morning, for your comments. We will also provide the supporting data tables, providing additional details on the projection. The current report follows the basic template of our earlier EFOs, and may be a little shorter.

We would greatly appreciate receiving the Ministry's comments by Friday (November 24) end of day.

Thanks, as always, for your assistance.

David

----------David West

Chief Economist

cid:image009.png@01D17ECB.966ECE00

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From:	Esmail, Selena (MOF)
To:	Tim Cook (MOF); Andrea Dutton (MOF); Teuta Dodbiba (MOF); Raj Sharda (MOHLTC); Dorothy Cheung (MCYS); Gladys Miu (MOI); Paul Lewis (MOF); John Kim; Ken Kandeepan; Nadine Petsche (MOF); Ann Langleben (MOF); Kostas Plainos (MOF); Jeremie Stephenson (MOI); Mark Smith (MOF); Mersad Fard (MOI); Helen Graham (MOF)
Cc:	Daniel Tiburcio (MOF)
Subject:	FW: FAO"s Upcoming EFO Report / ADM Approved Comments/Edits by 11am Tmrw
Date:	Monday, May 08, 2017 12:37:21 PM
Attachments:	EFO - Economic vMOF.docx EFO - Fiscal vMOF.docx
Importance:	High

Hi All - this has likely made its way through you're EA, but we are asking for ADM approved comments by tomorrow at 11am to be sent back through your division's EAs. We will consolidate and send back out to everyone and call a quick meeting if needed.

Also note - pls flag any cabinet confidentiality issues. Thanks again for your help.

-----Original Message-----
From: Birks, Ryan (MOF)
Sent: May-08-17 11:52 AM
To: Tarin, Ghufran (MOF); Strathy, Anna (OFA); He, Gavin (OFA); Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Hosick, Sarah (TBS); Deena.Padamadan@ofina.on.ca
Cc: Esmail, Selena (MOF); Tiburcio, Daniel (MOF)
Subject: FW: FAO's Upcoming EFO Report / ADM Approved Comments/Edits by 11am Tmrw
Importance: High

Hi All,

OB will coordinate consolidating comments/edits for the FAO's request. In order to meet their tight timeline, can you please send your ADM approved edits in track changes to myself (with Selena and Daniel in copy) by 11am tomorrow? If your ADMs have general comments for the cover email to the FAO, please include them as well.

After we've consolidated all of the edits/comments, we'll recirculate them to the group. If needed, we can organize a regroup with ADMs around 1pm tomorrow.

Please let me know if you have any questions.

Thanks,
Ryan

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

Good Morning,

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

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

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

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

Thanks again for your support and assistance.

David West
Chief Economist

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-----Original Message-----
From: David West
Sent: May 5, 2017 10:22 AM

To: 'Schuurman, Tim (MOF)' <Tim.Schuurman@ontario.ca>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Cindy.Veinot@ontario.ca
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Subject: FAO's Upcoming EFO Report

Hello,

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

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

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

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

Thanks,

David West
416.579.1465

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

Thanks David,

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

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

Have a great weekend
Tim

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

As promised, please find attached more detailed questions.

Please confirm when we can meet early next week.

Thanks
dw

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

Good Morning!

Congratulations on delivering yesterday's big, black budget!

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

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

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

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

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

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

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

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

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

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

Happy to discuss any of these requests.

Thanks again for your support,
David

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

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www.fao-on.org<https://urldefense.proofpoint.com/v2/url?u=http-3A__www.fao-2Don.org_&d=DwIFAg&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FtiQ&r=sDTjf9tVmfT9K92u269doOHn6NwIN5Soa0mhVrZmimM&m=-yhhEtmQLPvrrmN2-FKfk7xWrFuuIEdprXAgXZue_vQ&s=fELsvbiDLoUnS49uH82zcddPIopBIrWaO1exQD8kYv8&e= >

Economic and Fiscal Outlook

2017

Draft Report

Confidential Document

May 2017



Economic Outlook

Overview

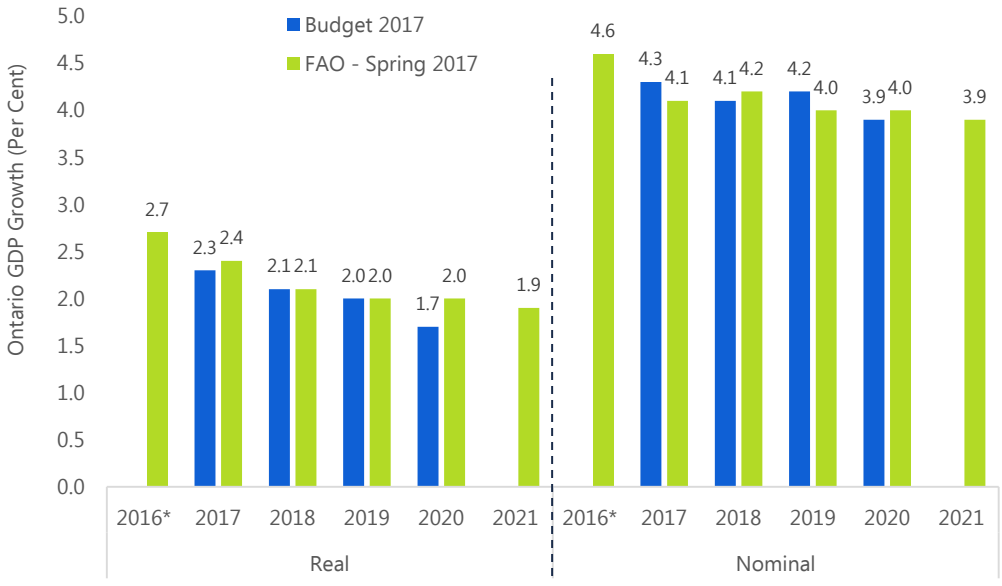
Ontario Economy Expected to Remain Strong in 2017

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

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

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

Solid Economic Performance Expected Over Outlook



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

Global Economy Gaining Momentum

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

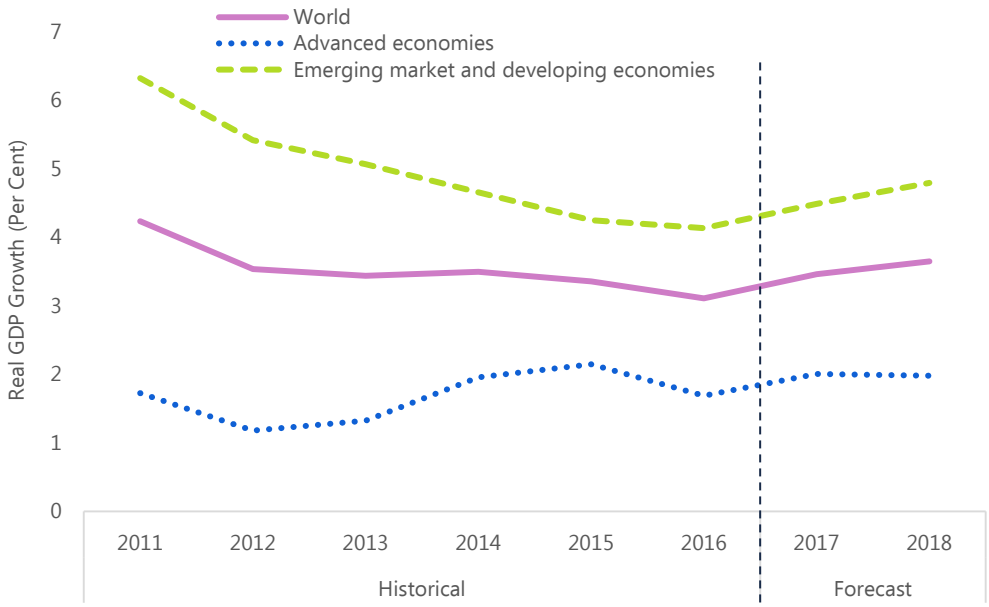
For advanced economies, the IMF's forecast for 2017 and 2018 has improved slightly from its October projection with growth of 2.0 per cent in 2017 and 2018.

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

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

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

Global Growth to Improve in 2017



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

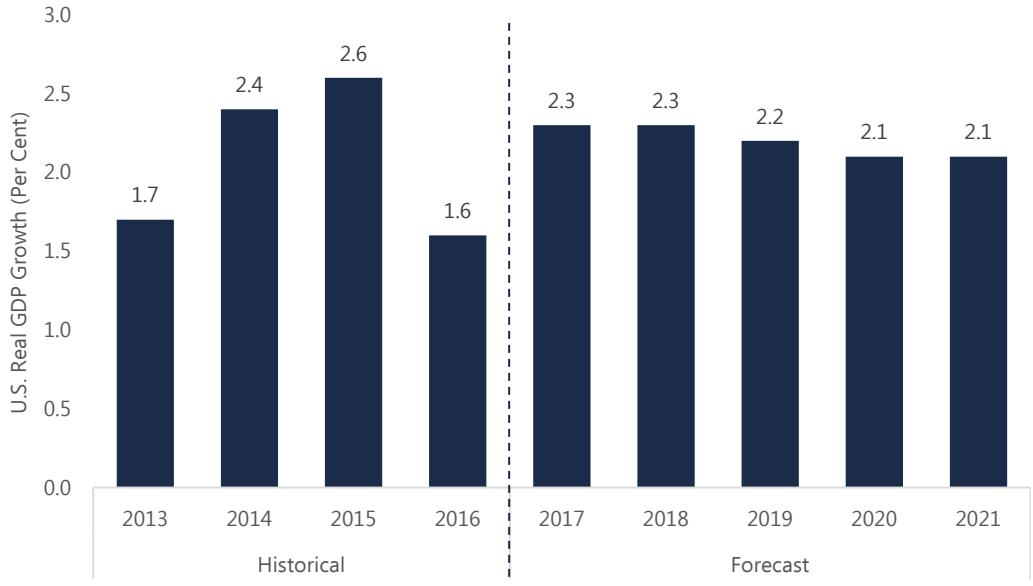
U.S. Economic Growth to Strengthen in 2017

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

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

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

U.S. Economic Growth Moderates Beyond 2017



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

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

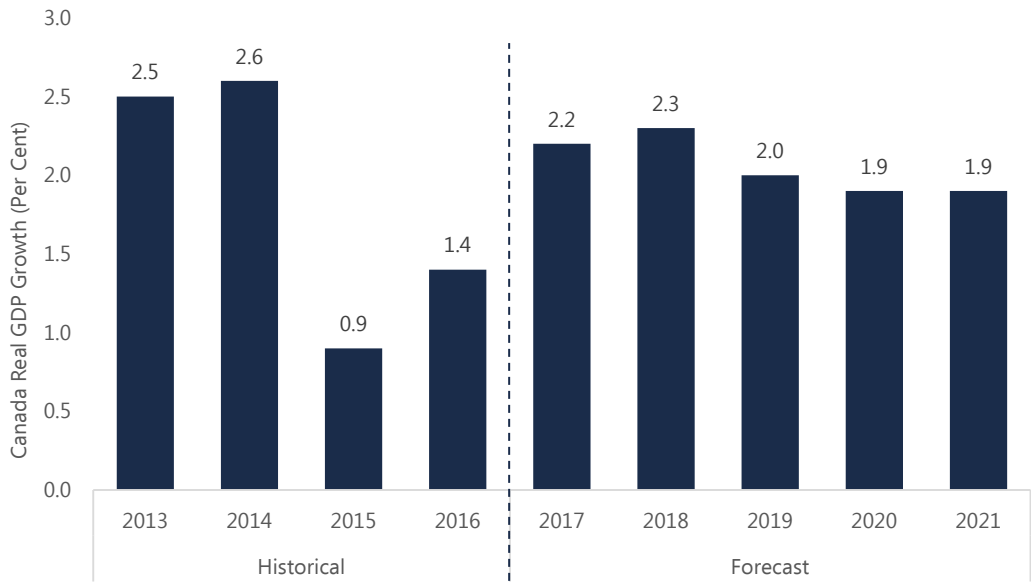
Canadian Economic Growth Expected to Rebound

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

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

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

Canada GDP Growth Expected to Improve in 2017



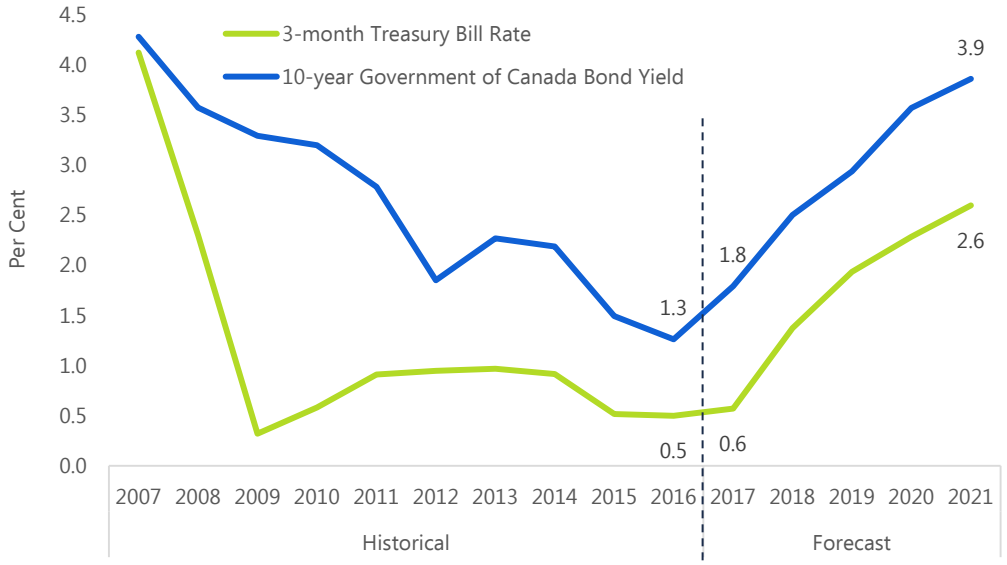
Source: Statistics Canada and FAO Consensus

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

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

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

Canadian Interest Rates to Rise over the Forecast



Source: Statistics Canada and FAO

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

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

Ontario Economic Outlook

Solid Real GDP Growth Expected in 2017

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

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

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

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

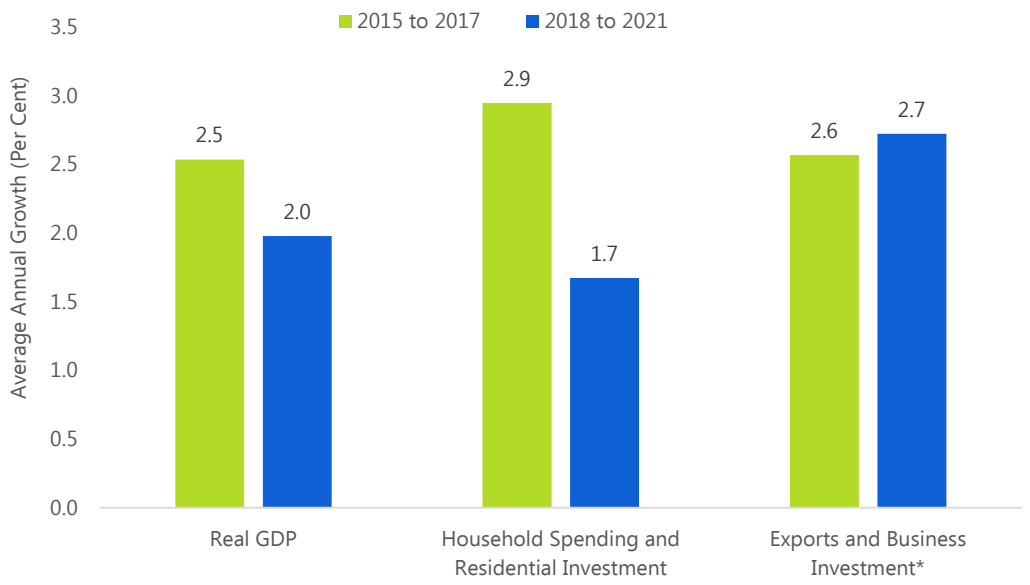
Moderate declines in residential investment in 2018 and 2019 – reflecting elevated household debt and a moderation in housing prices – is expected to contribute to the slower pace of overall economic activity.

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

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

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

Exports and Business Investment Expected to Drive Economic Growth



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

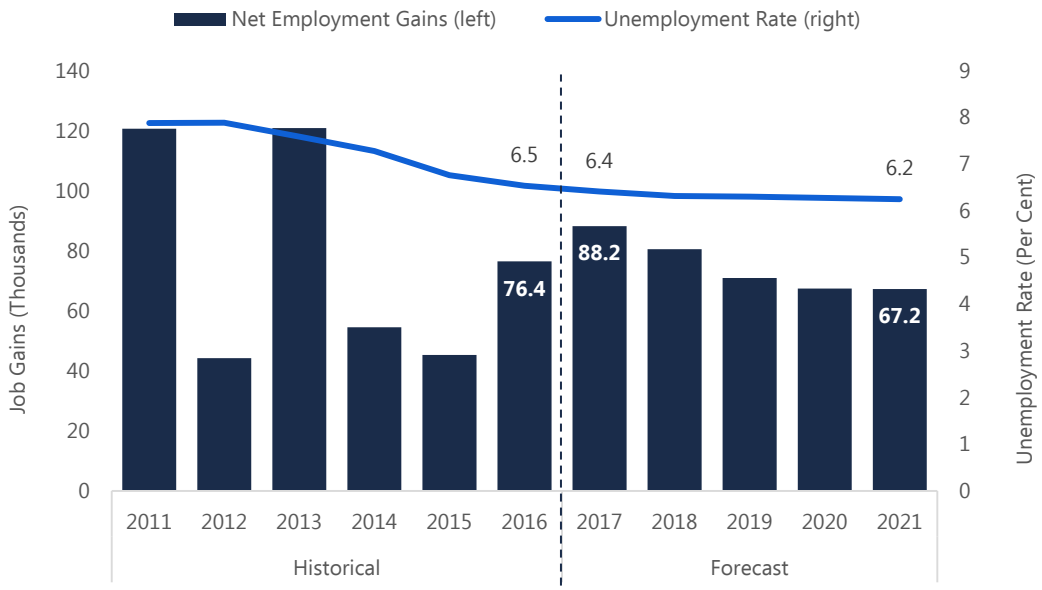
Steady Job Gains Over Outlook

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

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

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

Steady Employment Gains as Unemployment Rate Slowly Trends Lower



Source: Statistics Canada and FAO

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

Strong Gains Expected for Labour Income and Corporate Profits

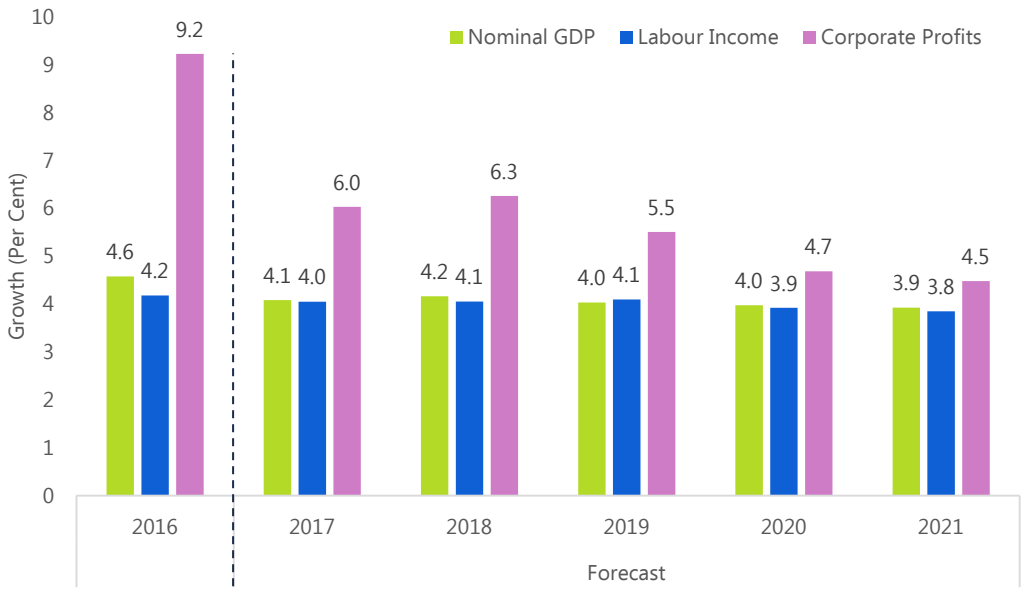
Labour income grew by a robust 4.2 per cent in 2016, above the average annual increase of 3.7 per cent from 2011 to 2015, and a reflection of the strong employment growth last year. The net operating surplus of corporations (largely corporate profits) also increased by a robust 9.2 per cent in 2016 following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

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

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

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

Labour Income and Corporate Profits Support Nominal GDP Growth



Source: Ontario Economic Accounts and FAO

Key Risks for Ontario's Economic Outlook

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

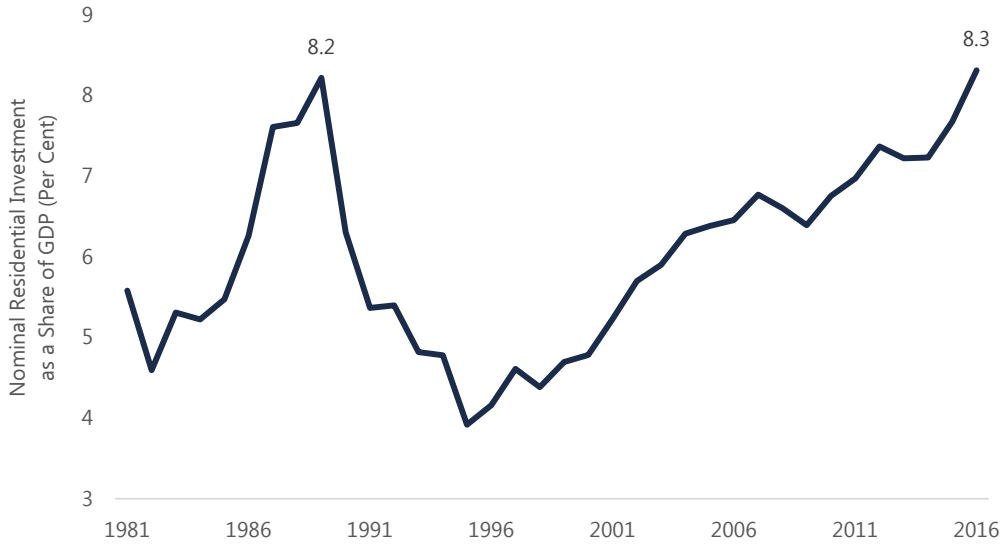
In particular, there are significant risks with respect to the proposed renegotiation of the North American Free Trade Agreement (NAFTA) and the adoption of protectionist trade measures in the United States. As well, other proposed changes to U.S. fiscal and industrial policies, such as lower corporate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

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

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

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

Residential Investment Spending Accounts for a Record Share of GDP



Source: Ontario Economic Accounts and FAO

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

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

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

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

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

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

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

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

Financial Accountability Office of Ontario

Economic and Fiscal Outlook

Fiscal Chapter

May 8, 2017

Confidential Document

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

Spring 2017

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1. Fiscal Outlook

Overview

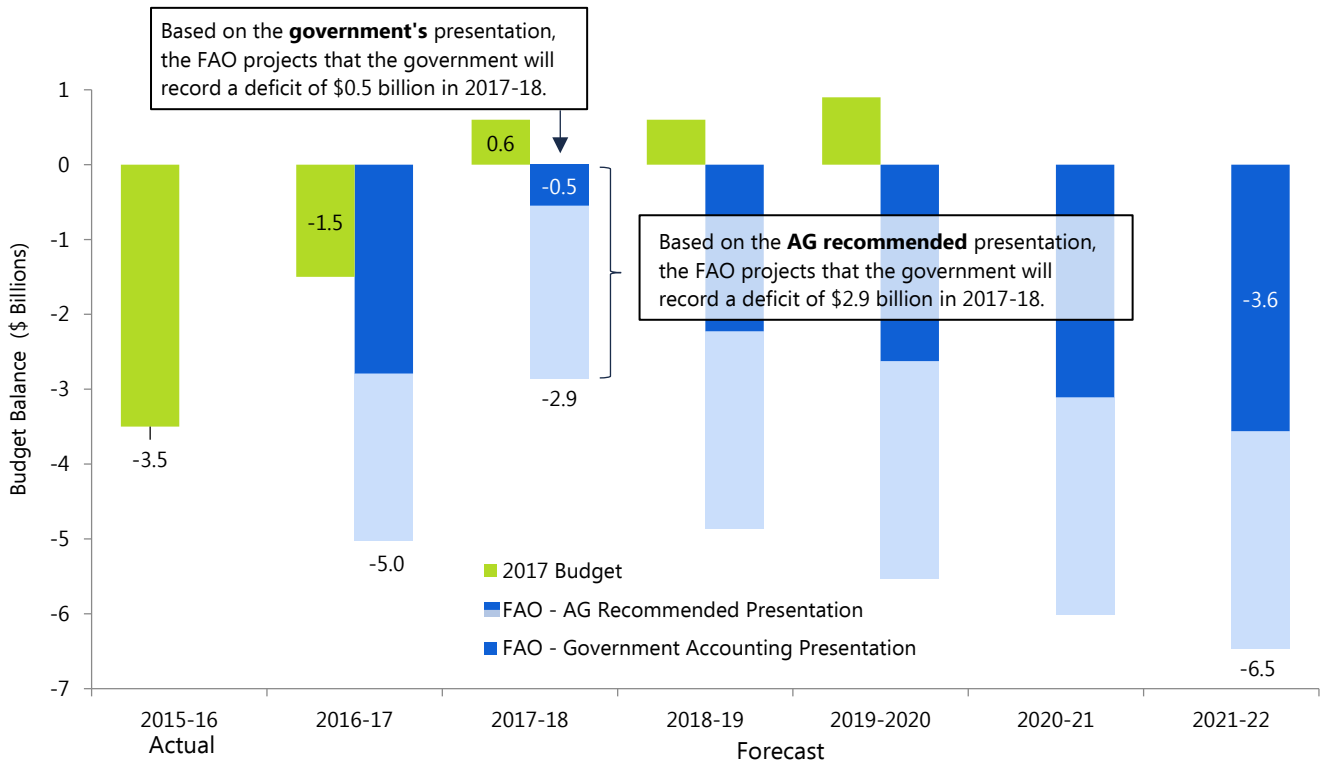
Continued Budget Deficits Projected

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

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

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

Ontario's Budget Balance*



* Budget balance excluding reserve.

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

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

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

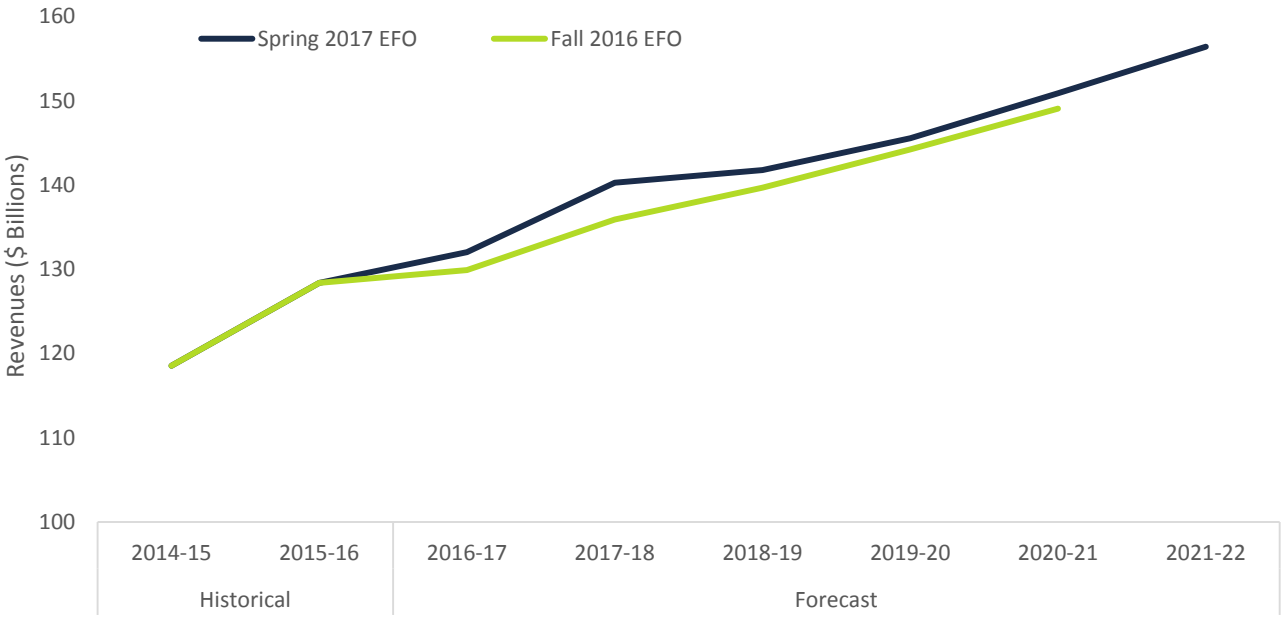
Under the Auditor General's accounting presentation, the FAO is projecting significant budget deficits over the entire outlook. On this basis, it is unlikely that the government will balance the budget in 2017-18 without significant additional fiscal policy measures (that is, higher revenues or lower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

Revenue Outlook

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

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

Revenues Stronger Than Expected in Near Term



Source: FAO and Public Accounts

FAO Revenue Assumptions and Forecast

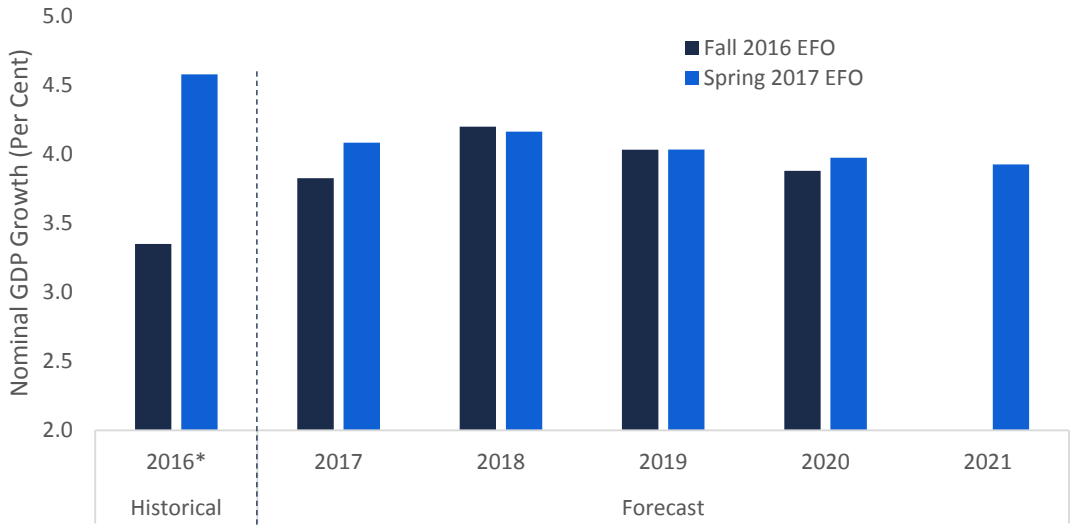
Revenue Source	Assumption	Forecast
Taxation Revenue	Grows with key economic drivers including labour income, corporate profits and household consumption.	Averages 3.9 per cent growth per year from 2016-17 to 2021-22
Federal Transfers	Based on legislated growth rates and economic performance	Federal transfers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

Stronger Economic Growth Expected to Boost Tax Revenue

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

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

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



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

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

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

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

Equalization Entitlement Declines

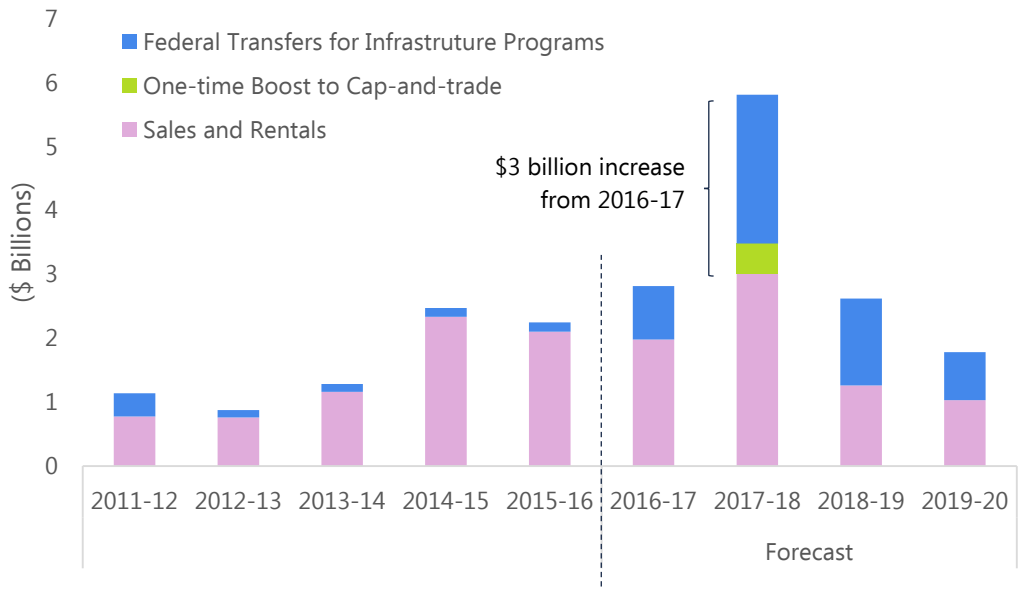
Given Ontario's recent economic strength relative to the rest of Canada, the Province's Equalization entitlement declined $0.8 billion to $1.4 billion in 2017-18, and is projected to drop further to $0.6 billion in 2018-19. Beyond 2018-19, the FAO is projecting that Ontario will no longer be entitled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

2017-18 Revenues to Benefit from One-time Increases

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

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

2017-18 Non-tax Revenue Boost



Source: Ontario Budgets, Ministry of Finance and FAO

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

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

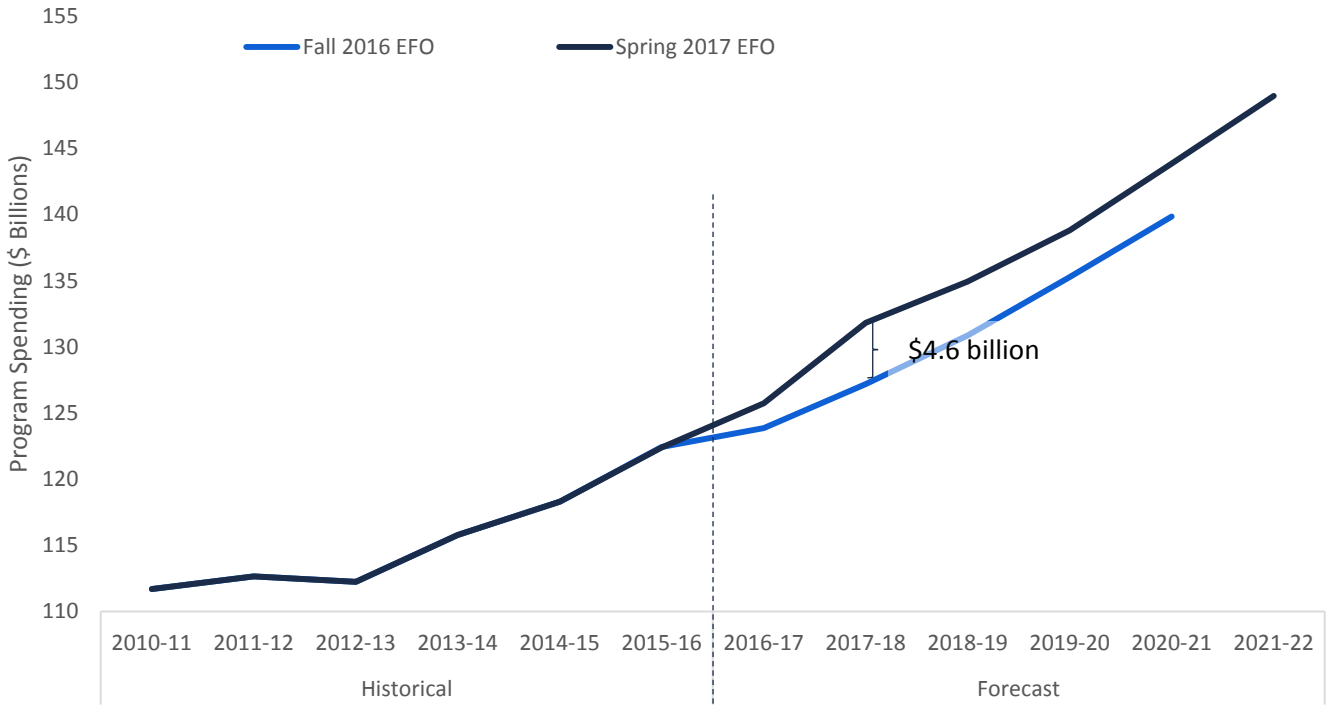
Expense Outlook

Program Expense to Increase Significantly over the Outlook

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

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

Program Expense Higher than Projected in the Fall



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

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

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

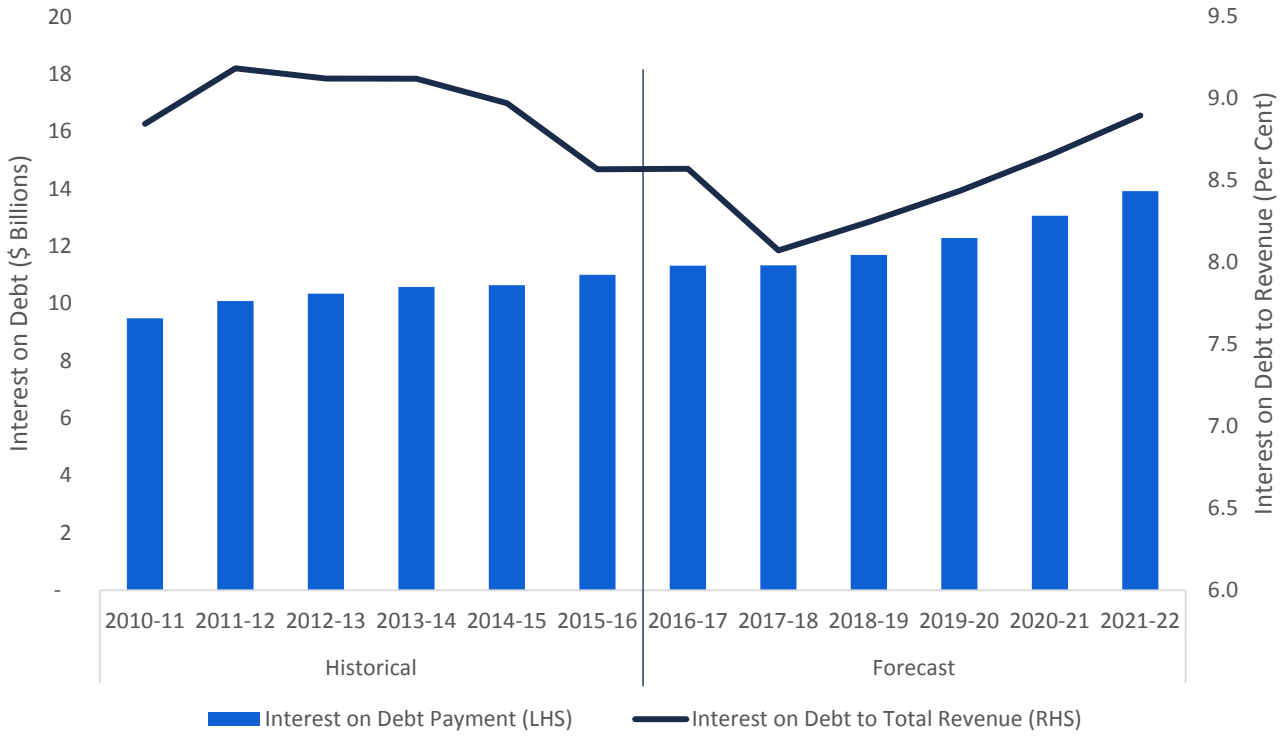
[5] Given the government's discretion over spending, the FAO adopts the government's announced spending plans from fiscal documents and incorporates policy announcements as appropriate.
[6] The adjustment reflects the inclusion of a valuation allowance to offset the value of net pension assets in jointly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

Interest on Debt

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

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

Interest on Debt to Rise Sharply as a Share of Revenues



Source: Ontario Public Accounts and FAO

Ontario Debt Outlook

Ontario Net Debt-to-GDP To Remain Elevated

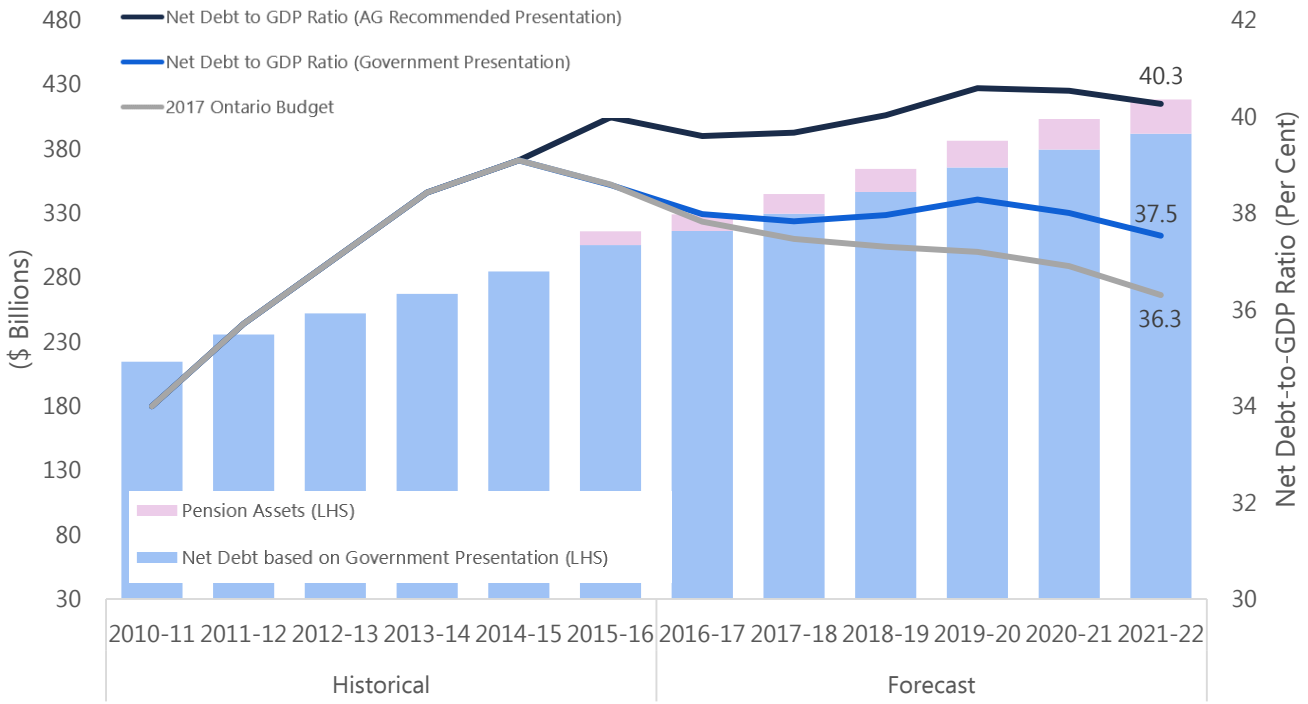
Ontario's total borrowing requirements are expected to remain high over the outlook. To finance the cost of projected capital spending, finance on-going deficits (as projected by the FAO) and refinance maturing debt issues, provincial borrowing is expected to average $37 billion per year over the next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

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

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

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

Ontario's Net Debt to GDP Ratio



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

Risks to the Fiscal Plan and Policy Options

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

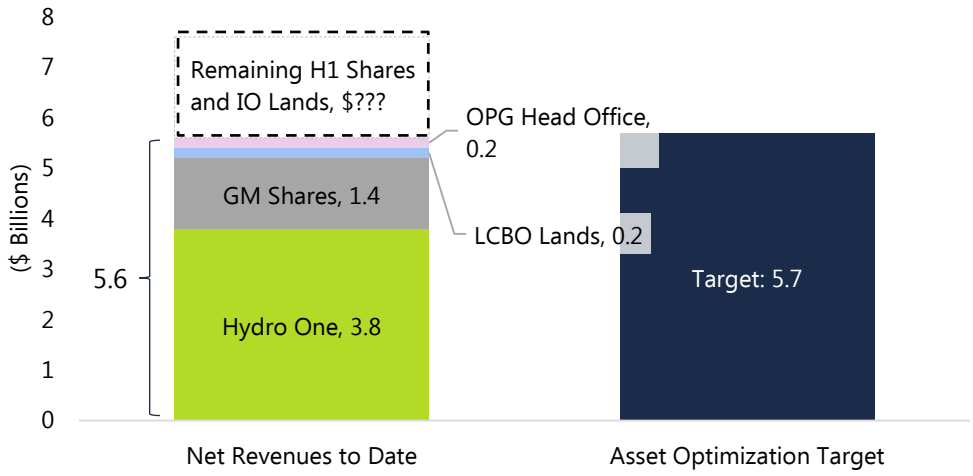
- A sharp correction in the housing market could present a significant risk for both the broader economy and for the Province's fiscal plan. As discussed in the FAO housing commentary[8], a decline in house prices and housing market activity would directly reduce Land Transfer Tax and HST revenues. In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

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

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

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

Asset Optimization Revenues and Target



Source: FAO and Ontario Budgets

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

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

The Accounting Treatment of Jointly Sponsored Pension Plans

Background

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

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

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

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

The Central Issue

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

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

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

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

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

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

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

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

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

Roles and Responsibilities of the Province and the Auditor General

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

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

The FAO's Presentation of Ontario's Fiscal Outlook

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

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

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

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

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

2. Appendix

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

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

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

Developments since 2016 Fall EFO (AG Recommended Presentation)

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

Notes:

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

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

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

4. In the 2016 Fall EFO, the FAO assumed $1.5 billion in adjustments for net pension assets of jointly sponsored pension plans. The government has revised its estimate of the impact to $2.2 billion in 2017-18, increasing to $2.9 billion by 2020-21.

Source: FAO

Forecast Tables

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

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

a = Actual f = Forecast

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

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

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

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

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

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

a = Actual f = Forecast

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

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

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

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

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

Table 2: FAO Outlook for Selected Economic Indicators

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

a = Actual f = Forecast

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

Table 3: FAO Fiscal Outlook

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

a = Actual f = Forecast

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

Note: Budget balance is presented without reserve.

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

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

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

a = Actual f = Forecast

Note: * Budget Balance is presented without reserve.

Source: 2017 Ontario Budget and FAO

Table 4b: FAO Debt Outlook (Government Presentation)

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

a = Actual f = Forecast

Note: * Budget Balance is presented without reserve.

Source: 2017 Ontario Budget and FAO

From: Esmail, Selena (MOF)
To: Tim Cook (MOF); Andrea Dutton (MOF); Teuta Dodbiba (MOF); Raj Sharda (MOHLTC); Dorothy Cheung (MCYS); Gladys Miu (MOI); Paul Lewis (MOF); John Kim; Ken Kandeepan; Nadine Petsche (MOF); Jeremie Stephenson (MOI); Mersad Fard (MOI)
Cc: Daniel Tiburcio (MOF)
Subject: FW: FAO's Upcoming EFO Report
Date: Tuesday, May 09, 2017 7:48:37 PM
Attachments: EFO - Fiscal - Govt comments v3.docx
EFO - Economic - Govt comments.docx

Hi Everyone - here are the consolidated comments sent over by tim a short while ago.

Thanks to everyone for their assistance in enabling us to respond back today.

Have a good evening.

-----Original Message-----
From: Schuurman, Tim (MOF)
Sent: May-09-17 7:20 PM
To: David West; Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Edward Crummey; Luan Ngo; Mario Angastiniotis; Nicolas Rhodes; Esmail, Selena (MOF); Mayman, Gadi (OFA); Duran-Schneider, Maria (TBS); Kwan, Ronald (OFA); Girard, Erik (MOF)
Subject: RE: FAO's Upcoming EFO Report

David (and other FAO colleagues);

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

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

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

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

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

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

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

Thanks again

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

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

Good Morning,

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

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

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

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

Thanks again for your support and assistance.

David West
Chief Economist

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

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

Hello,

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

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

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

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

Thanks,

David West
416.579.1465

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

Thanks David,

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

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

Have a great weekend
Tim

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

As promised, please find attached more detailed questions.

Please confirm when we can meet early next week.

Thanks
dw

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

Good Morning!

Congratulations on delivering yesterday's big, black budget!

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

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

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

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

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

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

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

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

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

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

Happy to discuss any of these requests.

Thanks again for your support,
David

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

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www.fao-on.org<https://urldefense.proofpoint.com/v2/url?u=http-3A__www.fao-2Don.org_&d=DwIFAw&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FriQ&r=sDTjf9tVmfT9K92u269doOHn6NwIN5Soa0mhVrZmimM&m=OnDdN8dLJteGTyWX0PKi5lQ0rKFOHxlqrpRwoRoyJVQ&s=1R0wV4lG8GsRu7ybd6NfMbeVVqt2wd53m1P93Pi6mv8&e=>

Financial Accountability Office of Ontario

Economic and Fiscal Outlook

Fiscal Chapter

May 8, 2017

Confidential Document

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

Spring 2017

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1. Fiscal Outlook

Overview

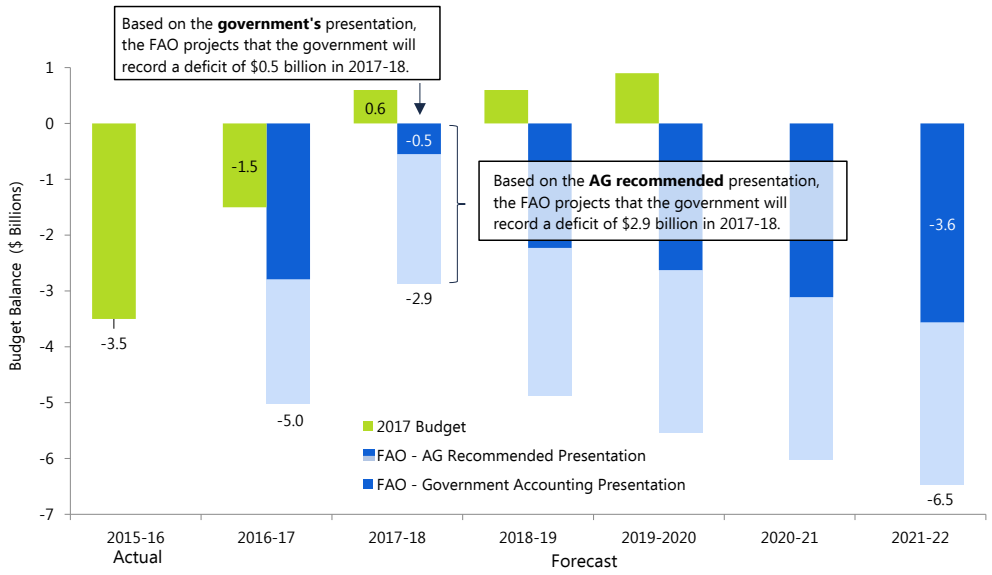
Continued Budget Deficits Projected

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

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

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

Ontario's Budget Balance*



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

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

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

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

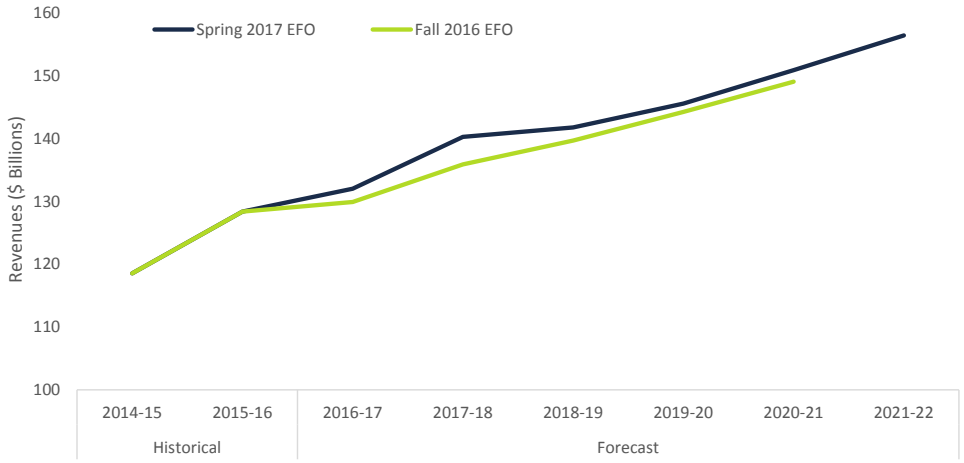
Under the Auditor General's accounting presentation, the FAO is projecting significant budget deficits over the entire outlook. On this basis, it is unlikely that the government will balance the budget in 2017-18 without significant additional fiscal policy measures (that is, higher revenues or lower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

Revenue Outlook

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

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

Revenues Stronger Than Expected in Near Term



Source: FAO and Public Accounts

FAO Revenue Assumptions and Forecast

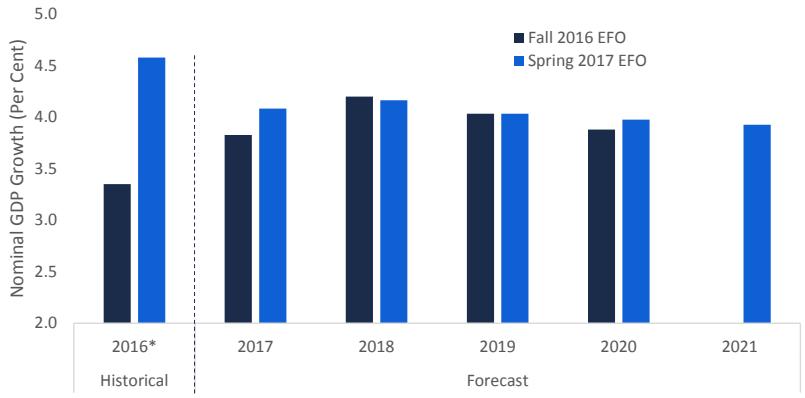
Revenue Source	Assumption	Forecast
Taxation Revenue	Grows with key economic drivers including labour income, corporate profits and household consumption.	Averages 3.9 per cent growth per year from 2016-17 to 2021-22
Federal Transfers	Based on legislated growth rates and economic performance	Federal transfers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

Stronger Economic Growth Expected to Boost Tax Revenue

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

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

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



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

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

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

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

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

Equalization Entitlement Declines

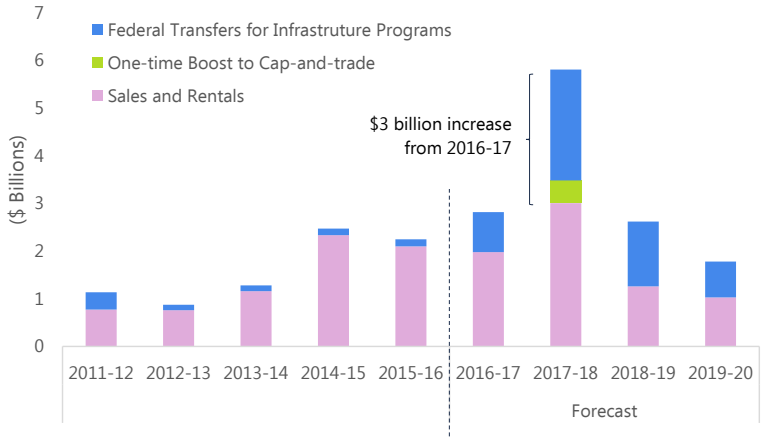
Given Ontario's recent economic strength relative to the rest of Canada, the Province's Equalization entitlement declined $0.8 billion to $1.4 billion in 2017-18, and the FAO projected this to drop further to $0.6 billion in 2018-19. Beyond 2018-19, the FAO is projecting that Ontario will no longer be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

2017-18 Revenues to Benefit from One-time Increases

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

- $1.5 billion in higher revenue from federal transfers for infrastructure;
- $1.0 billion increase in sales and rentals revenue, suggesting significant additional asset sales; and
- $0.5 billion in additional cap and trade proceeds from March 2017, which will be recognized in 2016-172017-18.[4]

2017-18 Non-tax Revenue Boost



Source: Ontario Budgets, Ministry of Finance and FAO

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

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

Expense Outlook

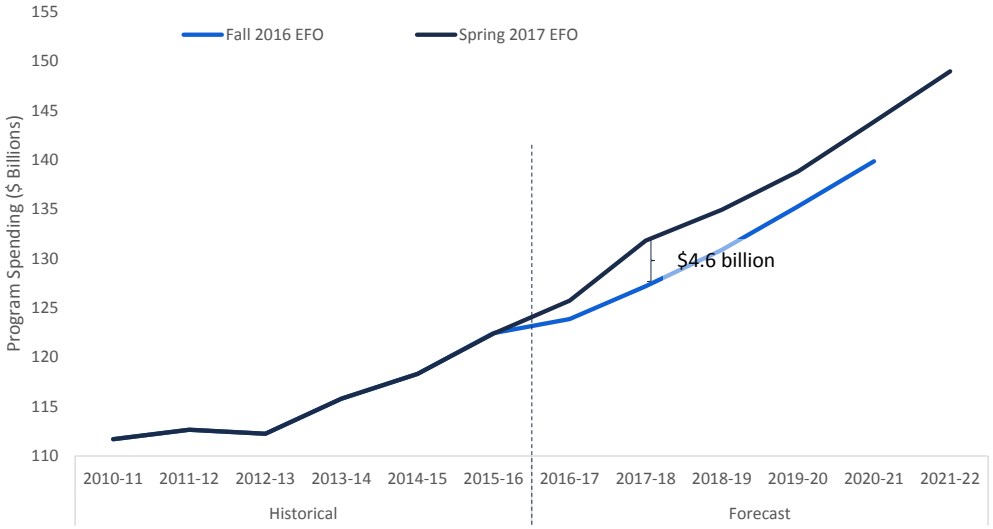
Program Expense to Increase Significantly over the Outlook

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

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

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

Program Expense Higher than Projected in the Fall



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

Source: Ontario Public Accounts and FAO

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

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

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

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

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

Interest on Debt

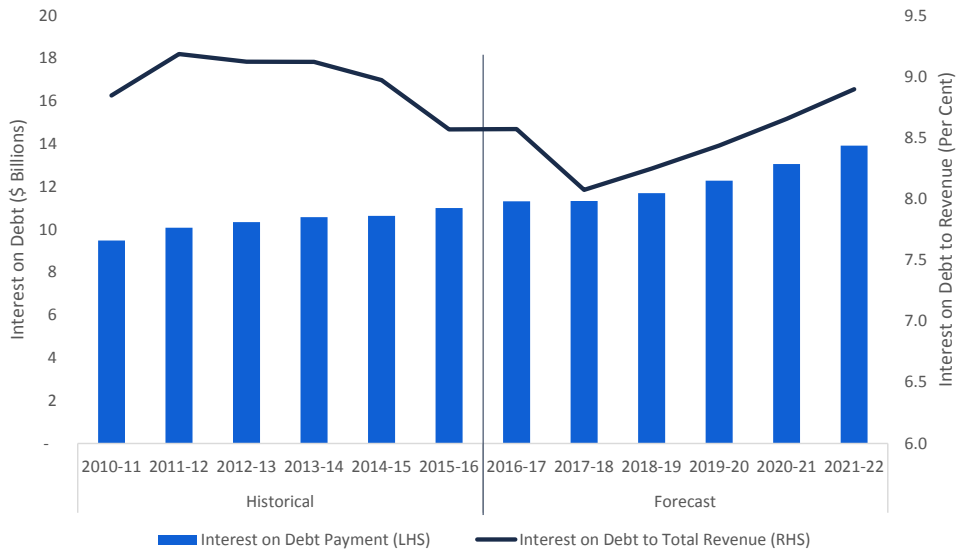
The FAO projects interest on debt (IOD) payments will increase at an average annual rate of 4.0 per cent from $11.0 billion in 2015-16 to $13.9 billion by 2021-22, reflecting higher debt and rising interest rates over the outlook. Interest on debt has become the Province's third largest spending category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

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

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

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

Interest on Debt to Rise Sharply as a Share of Revenues



Source: Ontario Public Accounts and FAO

Ontario Debt Outlook

Ontario Net Debt-to-GDP To Remain Elevated

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

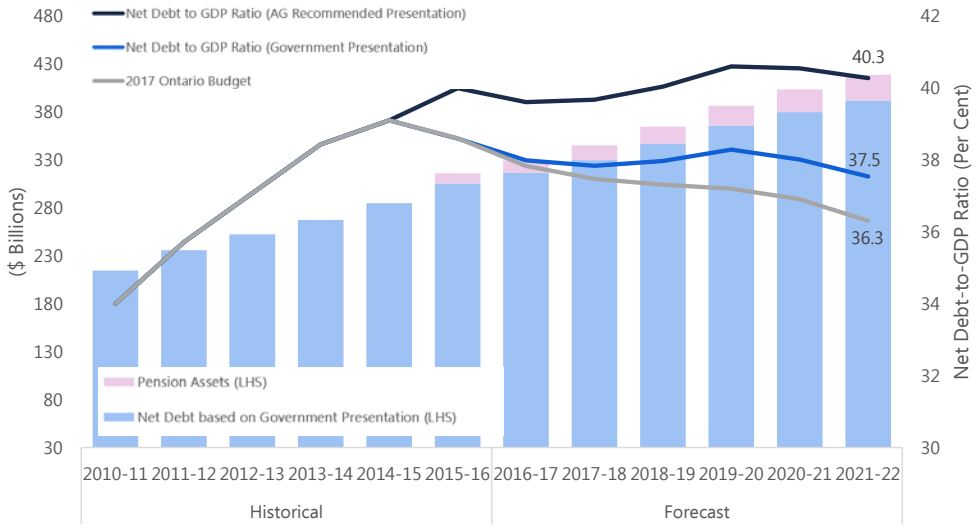
As a result, the FAO projects Ontario's net debt to increase by $87 billion over the next five years to ~~more than~~ $392 billion by 2021-22 based on the AG's recommended accounting presentation. By comparison, using the accounting treatment adopted by the government in the 2017 Budget, the FAO projects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

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

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

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

Ontario's Net Debt to GDP Ratio



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

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

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

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

Risks to the Fiscal Plan and Policy Options

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

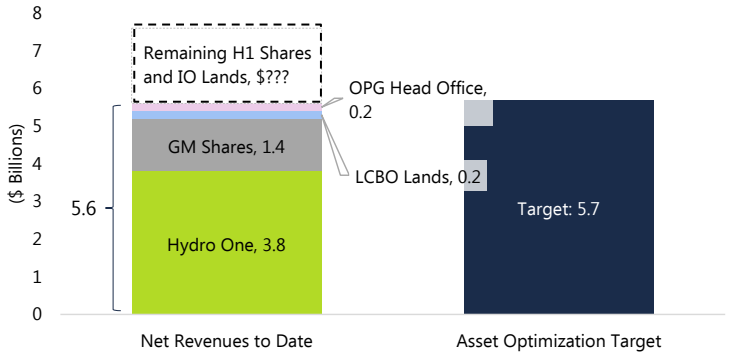
- A sharp correction in the housing market could present a significant risk for both the broader economy and for the Province's fiscal plan. As discussed in the FAO housing commentary[8], a decline in house prices and housing market activity would directly reduce Land Transfer Tax and HST revenues. In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

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

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

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

Asset Optimization Revenues and Target



Source: FAO and Ontario Budgets

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

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

The Accounting Treatment of Jointly Sponsored Pension Plans

Background

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

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

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

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

The Central Issue

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

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

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

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

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

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[10] The government's 2016 Budget reported a negative expense for the OTPP for 2016-17 which led, in part, to the Auditor General conducting an in-depth review of the related pension assets [suggest including a reference to the AG's Annual report instead].

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

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

[13] Of the government's two jointly sponsored pension plans, only the OTPP is currently in a net asset position (This statement is inaccurate: OTPP, OPSEUPP and CAATPPP were all in surplus positions.

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

Roles and Responsibilities of the Province and the Auditor General

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

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

The FAO's Presentation of Ontario's Fiscal Outlook

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

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

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

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

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

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

2. Appendix

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

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

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

Developments since 2016 Fall EFO (AG Recommended Presentation)

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

Notes:

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

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

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

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

Source: FAO

Forecast Tables

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

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

a = Actual f = Forecast

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

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

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

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

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

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

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

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

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

a = Actual f = Forecast

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

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

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

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

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

Table 2: FAO Outlook for Selected Economic Indicators

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

a = Actual f = Forecast

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

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

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

Table 3: FAO Fiscal Outlook

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

a = Actual f = Forecast

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

Note: Budget balance is presented without reserve.

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

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

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

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

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

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

Table 4b: FAO Debt Outlook (Government Presentation)

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

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

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

Economic and Fiscal Outlook

2017

Draft Report

Confidential Document

May 2017



Economic Outlook

Overview

Ontario Economy Expected to Remain Strong in 2017

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

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

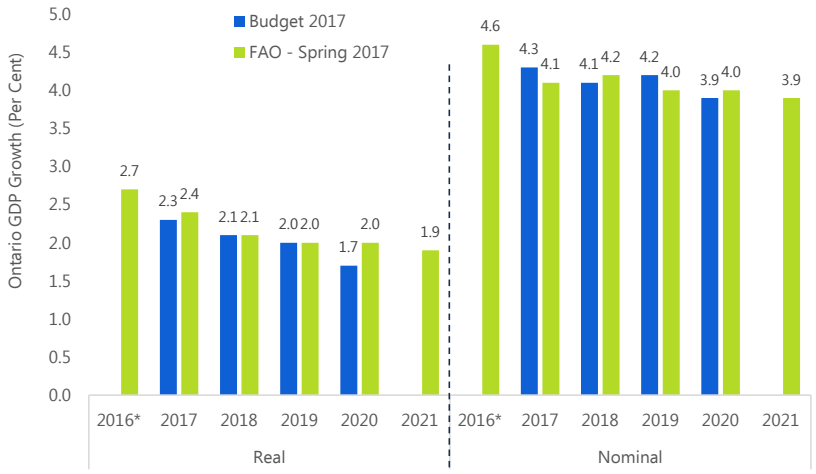
Nominal GDP – the broadest measure of the tax base – increased by a robust 4.6 per cent in 2016. The FAO is projecting nominal GDP to increase by 4.1 per cent in 2017 and 4.2 per cent in 2018, reflecting solid gains in labour income and corporate profits.

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

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

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

Solid Economic Performance Expected Over Outlook



* 2016 are actuals

Source: Ontario Economic Accounts, Budget 2017 and FAO

Global Economy Gaining Momentum

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

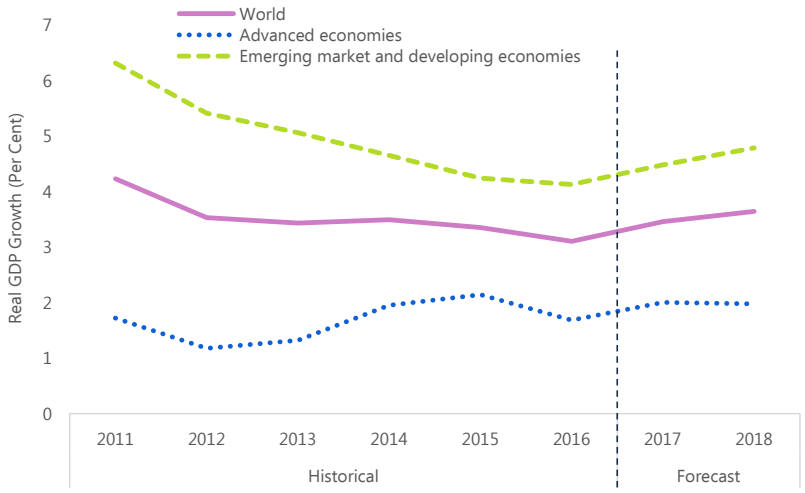
For advanced economies, the IMF's forecast for 2017 and 2018 has improved slightly from its October projection with growth of 2.0 per cent in 2017 and 2018.

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

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

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

Global Growth to Improve in 2017



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

U.S. Economic Growth to Strengthen in 2017

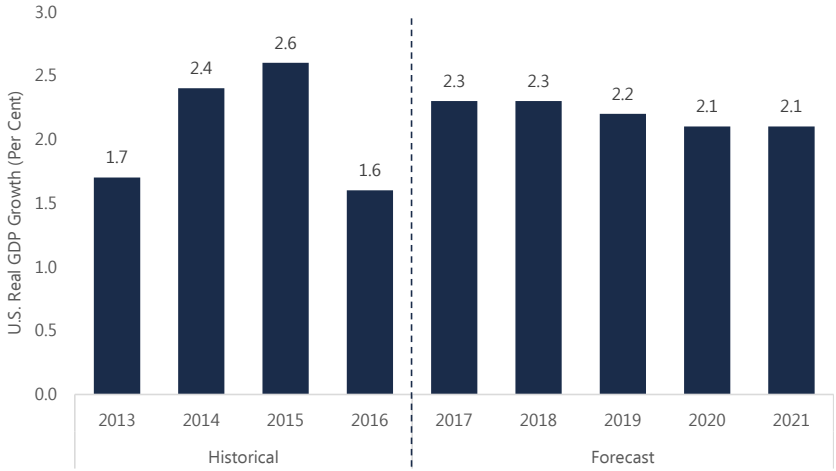
U.S. real GDP advanced by a relatively moderate 1.6 per cent in 2016, the weakest increase in three years. For 2017 and 2018, the FAO projects U.S. growth to improve to 2.3 per cent, with household spending, business investment and residential construction being key contributors to overall growth.[3]

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

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

U.S. Economic Growth Moderates Beyond 2017

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



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

Canadian Economic Growth Expected to Rebound

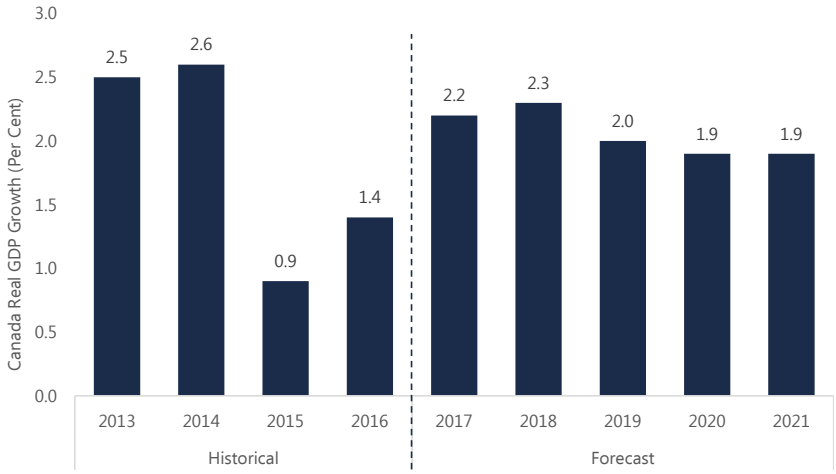
The outlook for the Canadian economy has improved following strong growth over the second half of 2016.

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

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

Canada GDP Growth Expected to Improve in 2017

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



Source: Statistics Canada and FAO Consensus

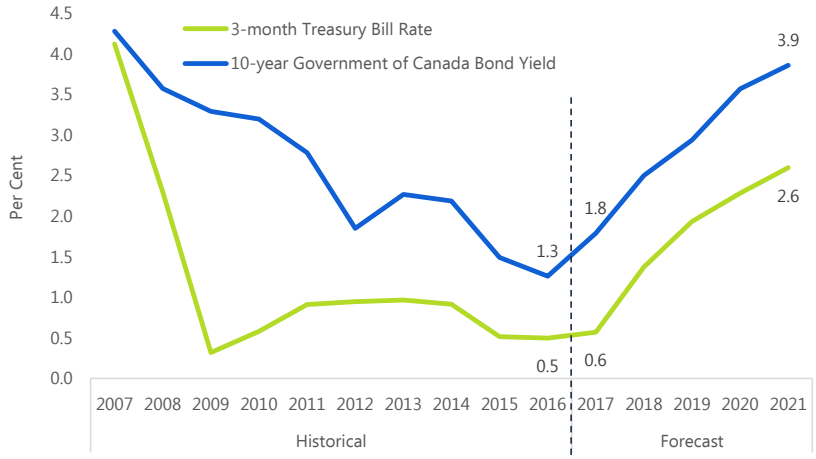
Based on the continuing recovery of the U.S. economy, and in particular the strength of U.S. labour markets, the U.S. Federal Reserve raised its key policy interest rate in March 2017.[6] In contrast, the Bank of Canada has remained more cautious about the underlying strength of the Canadian economy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

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

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

Canadian Interest Rates to Rise over the Forecast

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



Source: Statistics Canada and FAO

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

Ontario Economic Outlook

Solid Real GDP Growth Expected in 2017

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

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

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

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

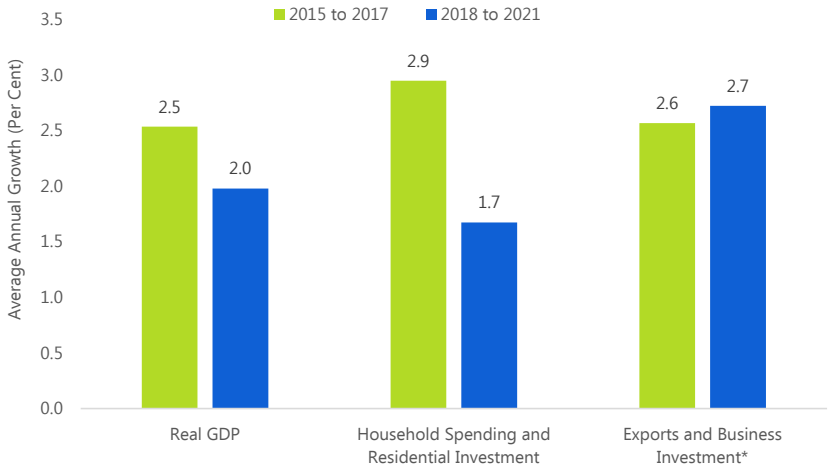
The FAO is forecasting real GDP growth of 2.4 per cent in 2017, supported by strong household spending and residential investment.[11] The pace of Ontario's overall economic growth will moderate to 2.1 per cent in 2018 and to an average of 2.0 per cent over the last three years of the outlook.

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

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

Exports and Business Investment Expected to Drive Economic Growth

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



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

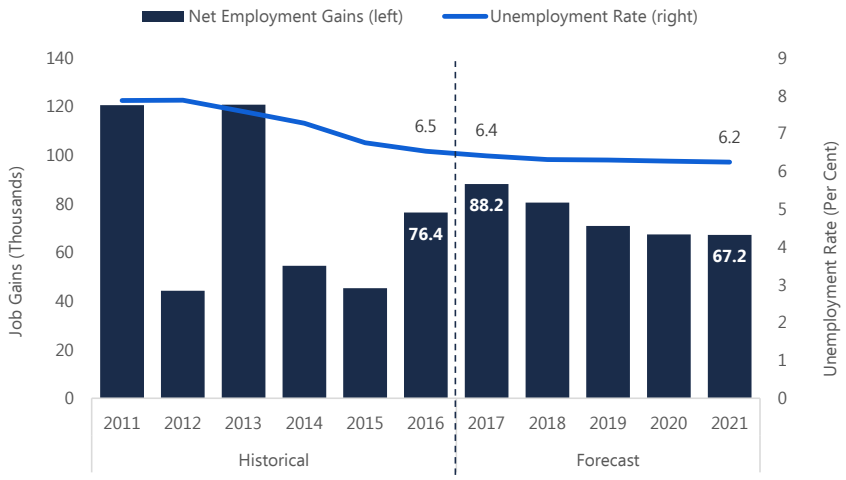
Steady Job Gains Over Outlook

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

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

Steady Employment Gains as Unemployment Rate Slowly Trends Lower

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



Source: Statistics Canada and FAO

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

Strong Gains Expected for Labour Income and Corporate Profits

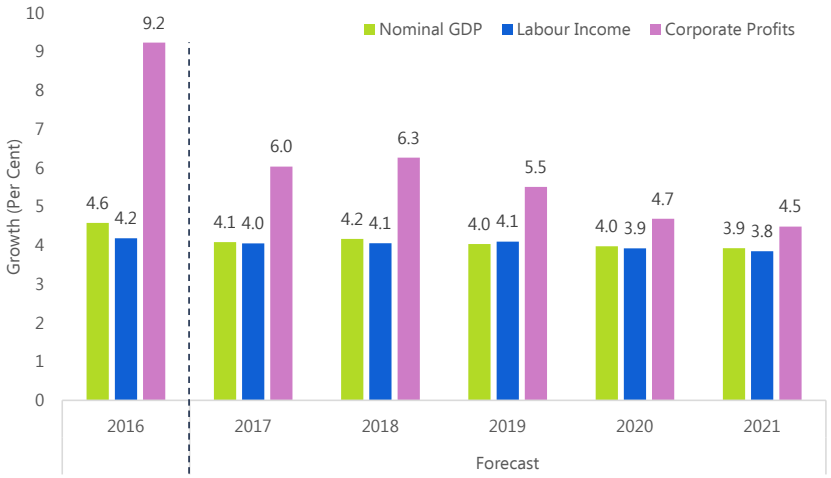
Labour income grew by a robust 4.2 per cent in 2016, above the average annual increase of 3.7 per cent from 2011 to 2015, and a reflection of the strong employment growth last year. The net operating surplus of corporations (largely corporate profits) also increased by a robust 9.2 per cent in 2016 following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

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

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

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

Labour Income and Corporate Profits Support Nominal GDP Growth



Source: Ontario Economic Accounts and FAO

Key Risks for Ontario's Economic Outlook

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

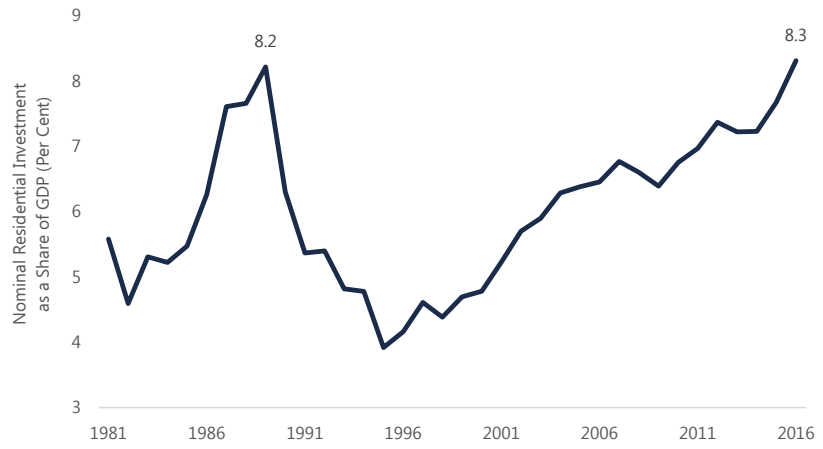
In particular, there are significant risks with respect to the proposed renegotiation of the North American Free Trade Agreement (NAFTA) and the adoption of protectionist trade measures in the United States. As well, other proposed changes to U.S. fiscal and industrial policies, such as lower corporate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

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

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

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

Residential Investment Spending Accounts for a Record Share of GDP



Source: Ontario Economic Accounts and FAO

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

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

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

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

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

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

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

From: John Psinas
To: IOD_Risk
Cc: Ken Kandeepan; George Sakura; Shemin Meralli; Kevin Hwang
Subject: FW: FAO"s Upcoming EFO Report
Date: Monday, May 08, 2017 2:14:02 PM
Attachments: EFO - Economic vMOF.docx
EFO - Fiscal vMOF.docx

Chi-Wa,

As discussed, can you look at the IOD projections throughout the documents. I believe we have to send our edits by end of day, tomorrow at the latest.

Thanks

--John

416-325-8072

-----Original Message-----
From: Ken Kandeepan
Sent: Monday, May 08, 2017 11:36 AM
To: John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>
Subject: FW: FAO's Upcoming EFO Report

We can discuss

Thanks

Ken K

-----Original Message-----
From: Anna Strathy
Sent: Monday, May 08, 2017 11:10 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: FW: FAO's Upcoming EFO Report

Good morning,

The draft Economic and Fiscal chapters from the FAO report are attached. Password is FAO1616.

The FAO is asking for comments by eod tomorrow. I'm happy to consolidate our comments if you'd like to send to me.

Thanks, Anna

-----Original Message-----
From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Monday, May 08, 2017 10:48 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Subject: FW: FAO's Upcoming EFO Report

Hi Anna and Gavin,

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

Thanks,
Ryan

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

Good Morning,

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

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

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

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

Thanks again for your support and assistance.

David West
Chief Economist

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

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

Hello,

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

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

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

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

Thanks,

David West
416.579.1465

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

Thanks David,

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

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

Have a great weekend
Tim

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

As promised, please find attached more detailed questions.

Please confirm when we can meet early next week.

Thanks
dw

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

<nrhodes@fao-on.org>
Subject: Follow-Up on the 2017 Budget

Good Morning!

Congratulations on delivering yesterday's big, black budget!

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

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

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

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

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

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

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

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

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

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

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

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

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

- Additional details/clarification on new infrastructure spending

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

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

Happy to discuss any of these requests.

Thanks again for your support,
David

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

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Economic and Fiscal Outlook

2017

Draft Report

Confidential Document

May 2017



Economic Outlook

Overview

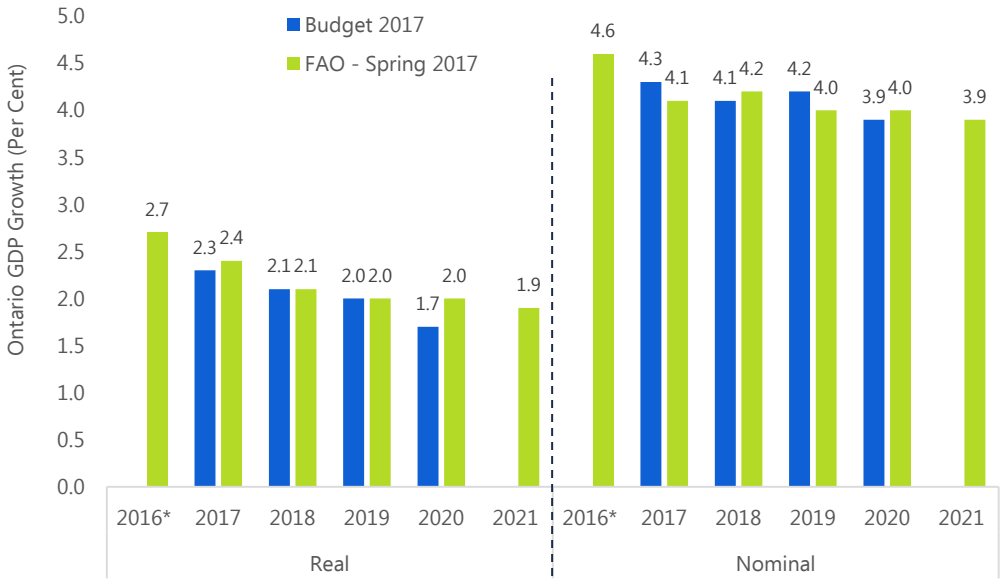
Ontario Economy Expected to Remain Strong in 2017

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

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

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

Solid Economic Performance Expected Over Outlook



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

Global Economy Gaining Momentum

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

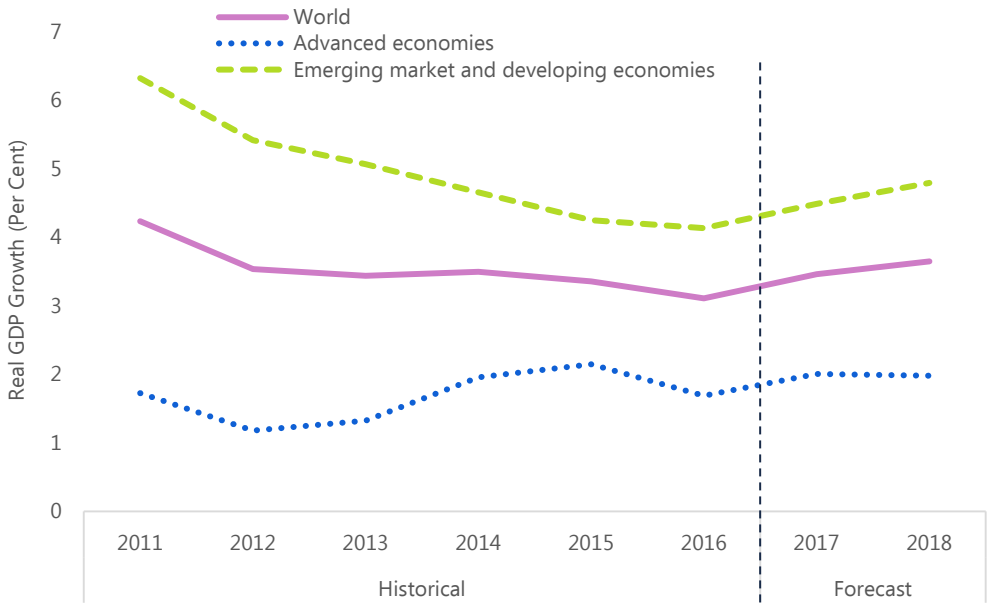
For advanced economies, the IMF's forecast for 2017 and 2018 has improved slightly from its October projection with growth of 2.0 per cent in 2017 and 2018.

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

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

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

Global Growth to Improve in 2017



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

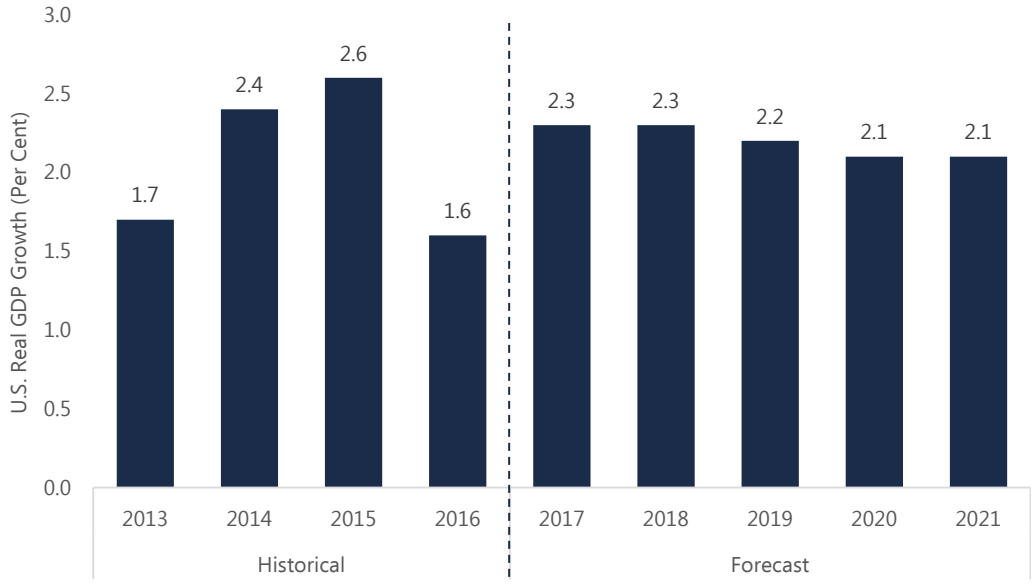
U.S. Economic Growth to Strengthen in 2017

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

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

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

U.S. Economic Growth Moderates Beyond 2017



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

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

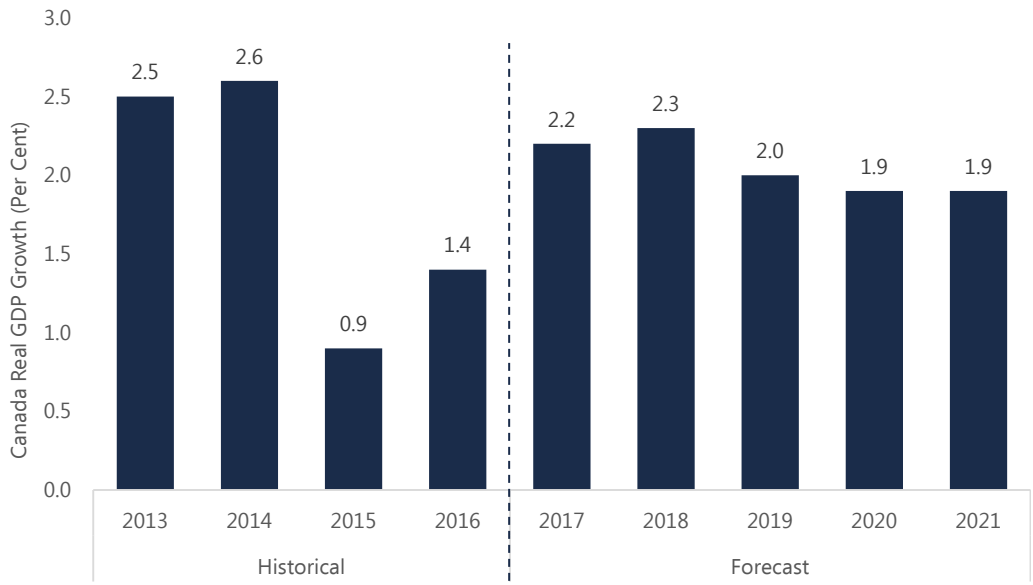
Canadian Economic Growth Expected to Rebound

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

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

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

Canada GDP Growth Expected to Improve in 2017



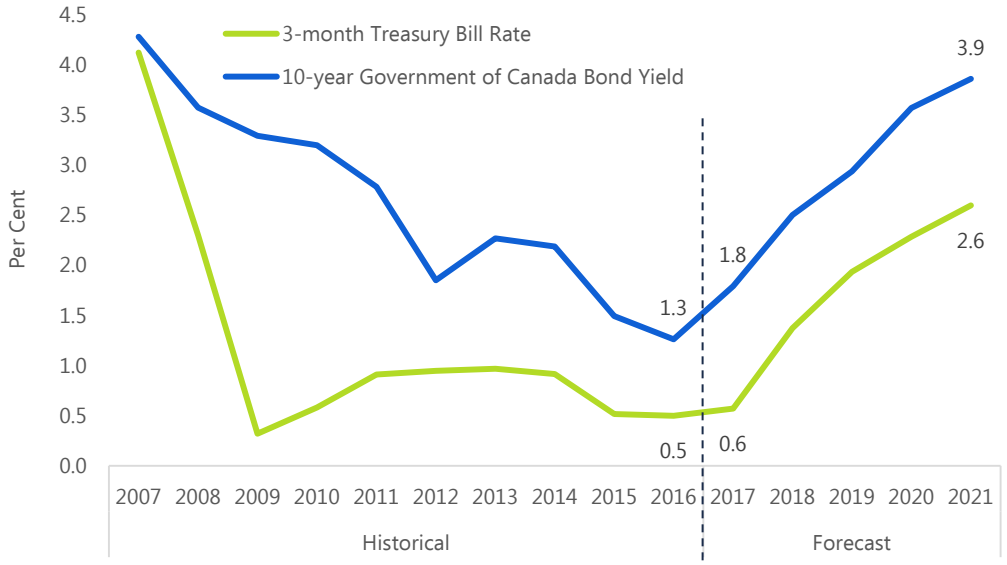
Source: Statistics Canada and FAO Consensus

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

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

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

Canadian Interest Rates to Rise over the Forecast



Source: Statistics Canada and FAO

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

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

Ontario Economic Outlook

Solid Real GDP Growth Expected in 2017

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

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

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

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

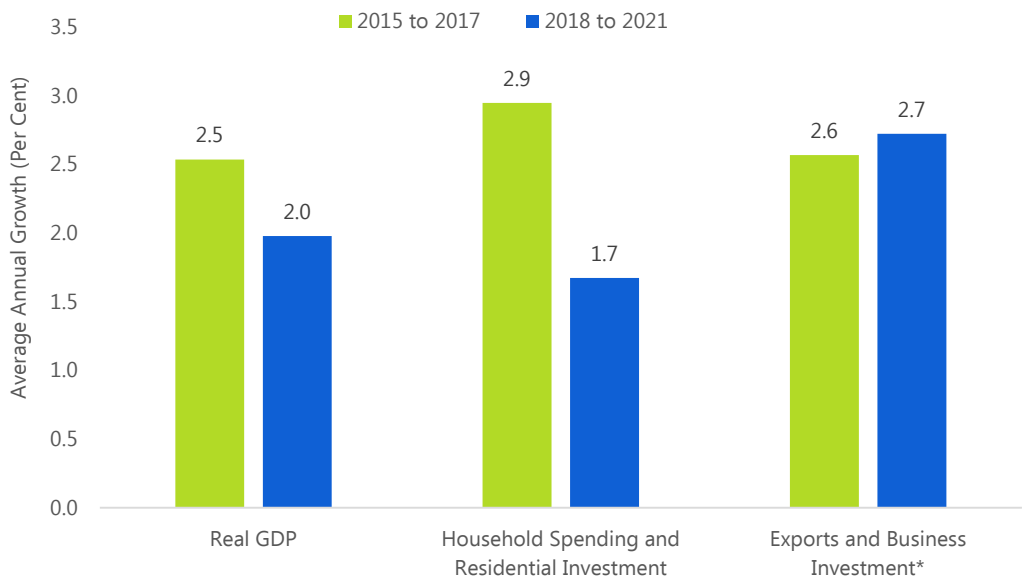
Moderate declines in residential investment in 2018 and 2019 – reflecting elevated household debt and a moderation in housing prices – is expected to contribute to the slower pace of overall economic activity.

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

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

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

Exports and Business Investment Expected to Drive Economic Growth



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

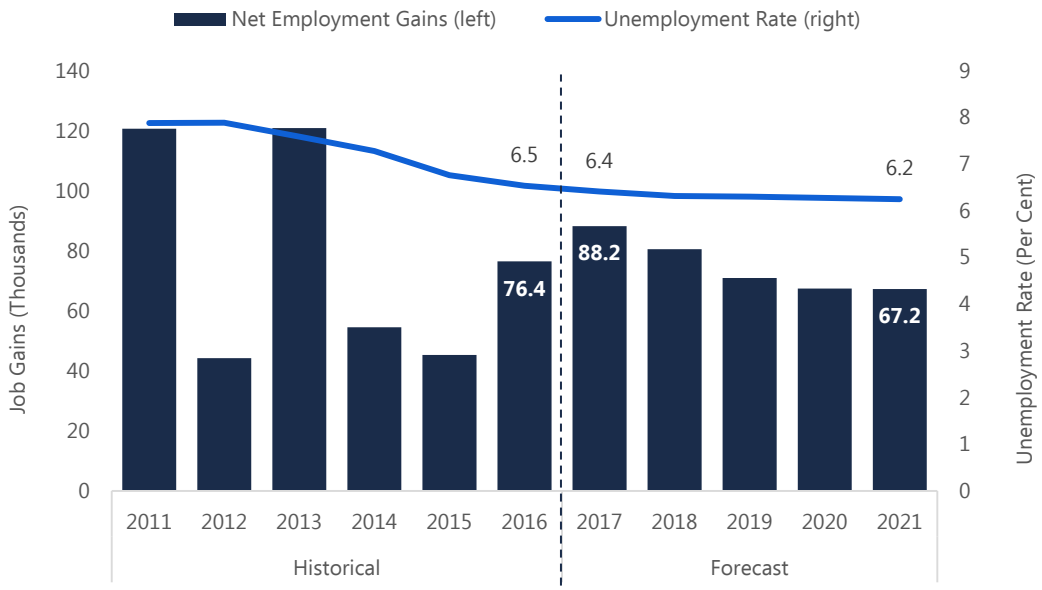
Steady Job Gains Over Outlook

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

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

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

Steady Employment Gains as Unemployment Rate Slowly Trends Lower



Source: Statistics Canada and FAO

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

Strong Gains Expected for Labour Income and Corporate Profits

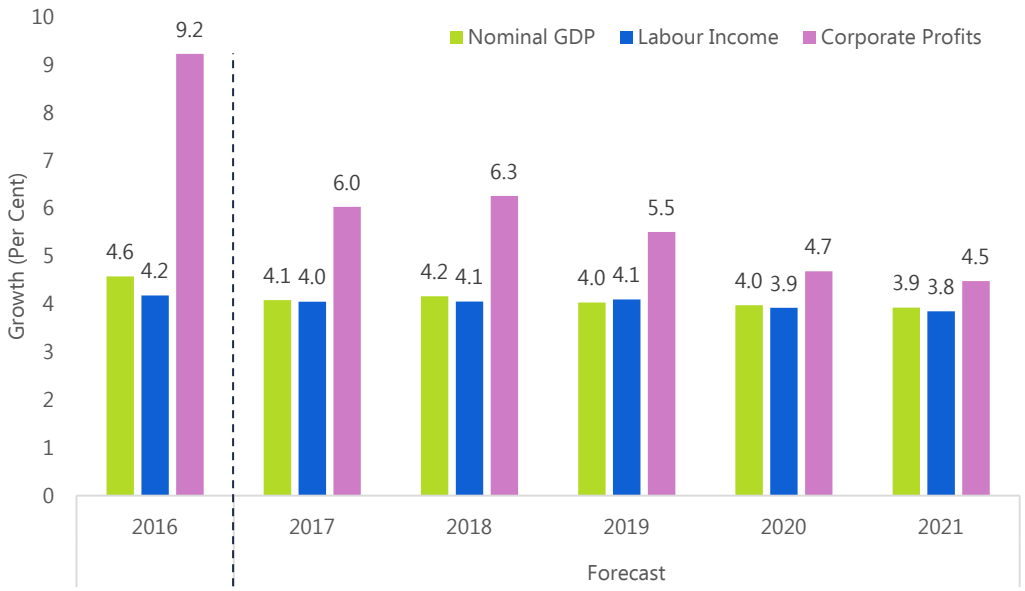
Labour income grew by a robust 4.2 per cent in 2016, above the average annual increase of 3.7 per cent from 2011 to 2015, and a reflection of the strong employment growth last year. The net operating surplus of corporations (largely corporate profits) also increased by a robust 9.2 per cent in 2016 following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

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

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

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

Labour Income and Corporate Profits Support Nominal GDP Growth



Source: Ontario Economic Accounts and FAO

Key Risks for Ontario's Economic Outlook

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

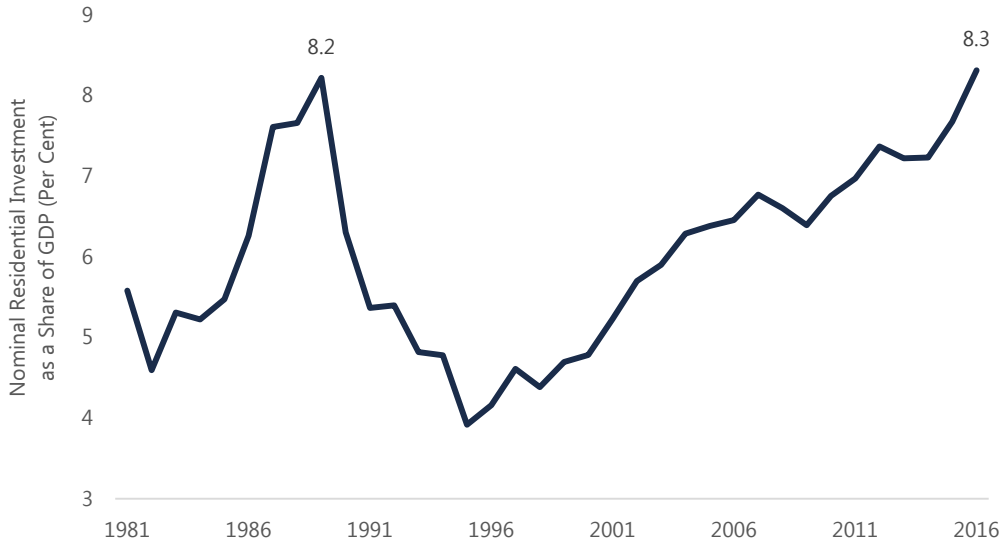
In particular, there are significant risks with respect to the proposed renegotiation of the North American Free Trade Agreement (NAFTA) and the adoption of protectionist trade measures in the United States. As well, other proposed changes to U.S. fiscal and industrial policies, such as lower corporate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

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

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

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

Residential Investment Spending Accounts for a Record Share of GDP



Source: Ontario Economic Accounts and FAO

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

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

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

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

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

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

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

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

Financial Accountability Office of Ontario

Economic and Fiscal Outlook

Fiscal Chapter

May 8, 2017

Confidential Document

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

Spring 2017

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1. Fiscal Outlook

Overview

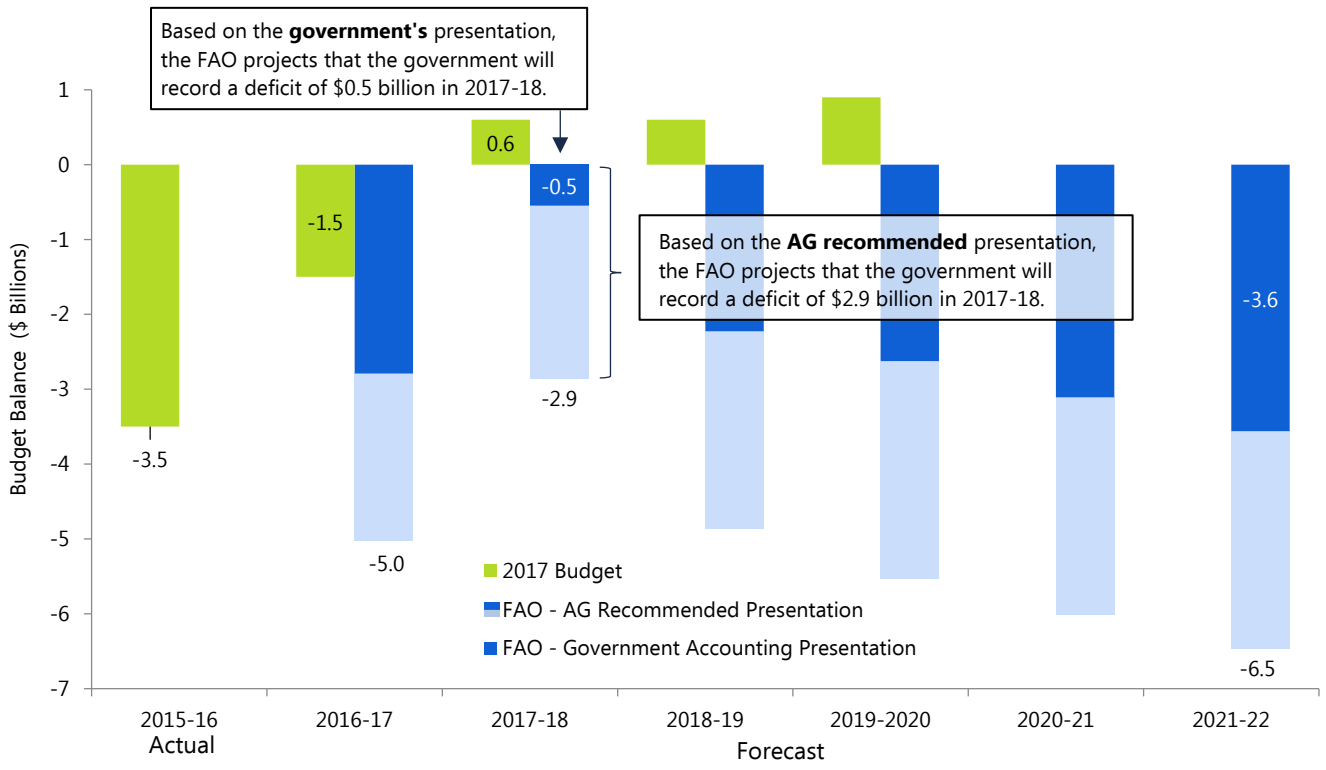
Continued Budget Deficits Projected

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

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

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

Ontario's Budget Balance*



* Budget balance excluding reserve.

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

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

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

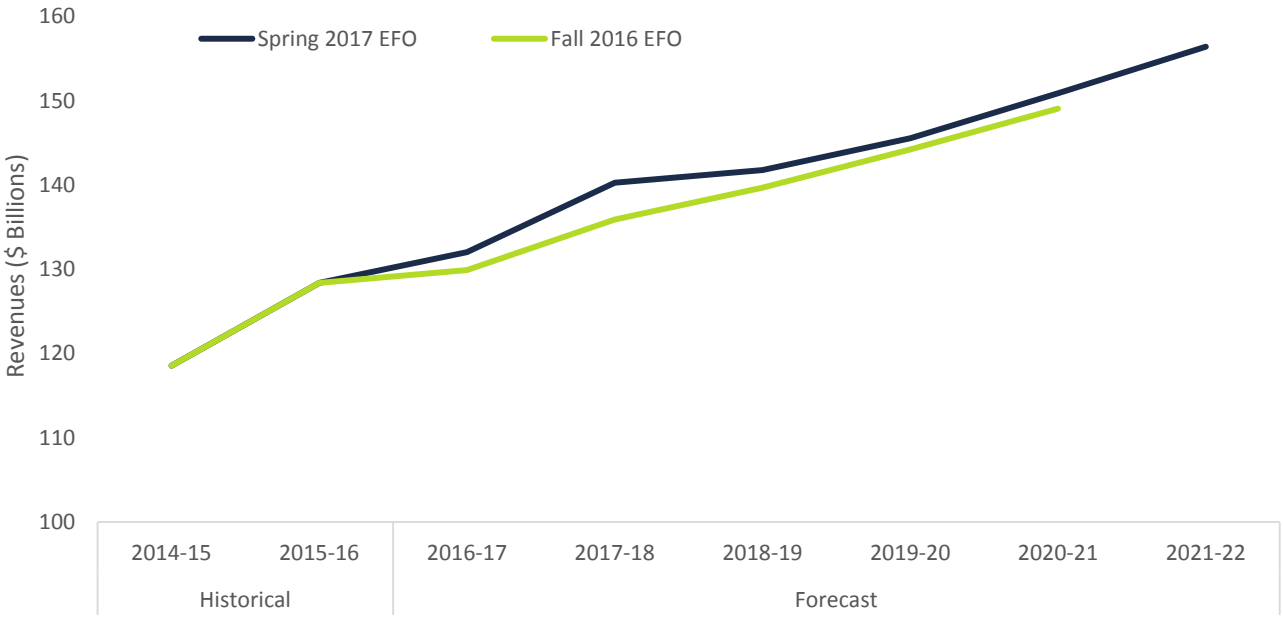
Under the Auditor General's accounting presentation, the FAO is projecting significant budget deficits over the entire outlook. On this basis, it is unlikely that the government will balance the budget in 2017-18 without significant additional fiscal policy measures (that is, higher revenues or lower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

Revenue Outlook

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

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

Revenues Stronger Than Expected in Near Term



Source: FAO and Public Accounts

FAO Revenue Assumptions and Forecast

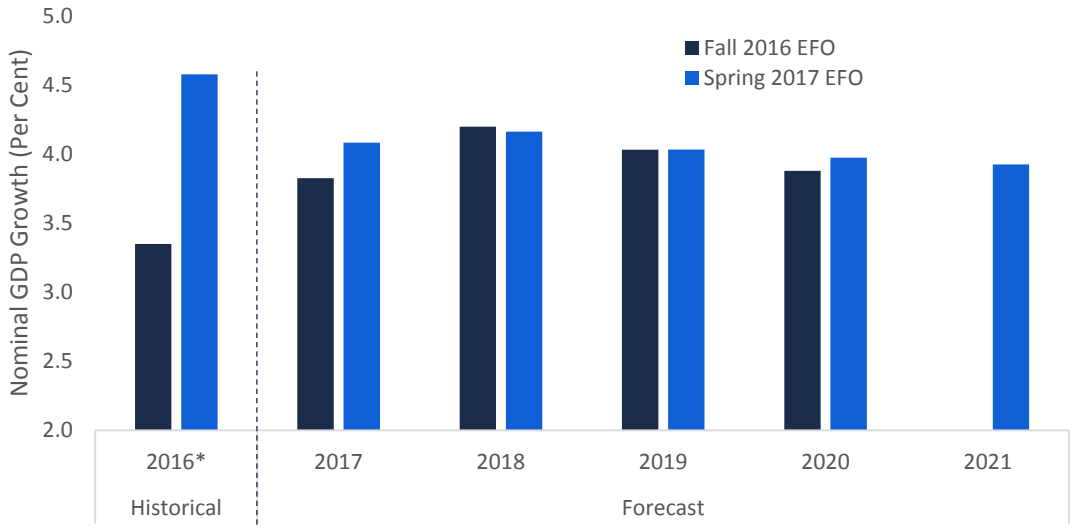
Revenue Source	Assumption	Forecast
Taxation Revenue	Grows with key economic drivers including labour income, corporate profits and household consumption.	Averages 3.9 per cent growth per year from 2016-17 to 2021-22
Federal Transfers	Based on legislated growth rates and economic performance	Federal transfers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

Stronger Economic Growth Expected to Boost Tax Revenue

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

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

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



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

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

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

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

Equalization Entitlement Declines

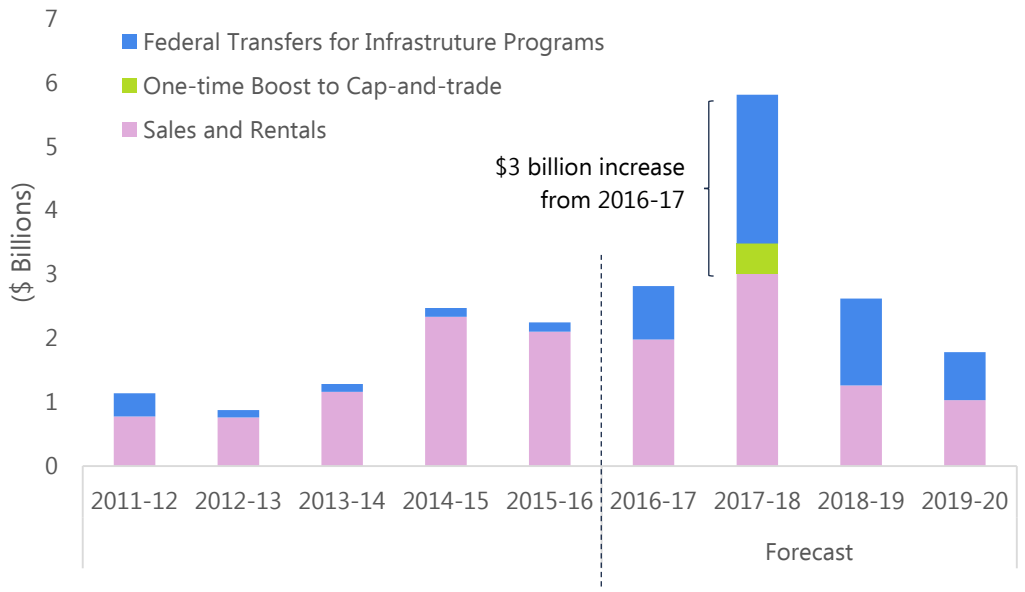
Given Ontario's recent economic strength relative to the rest of Canada, the Province's Equalization entitlement declined $0.8 billion to $1.4 billion in 2017-18, and is projected to drop further to $0.6 billion in 2018-19. Beyond 2018-19, the FAO is projecting that Ontario will no longer be entitled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

2017-18 Revenues to Benefit from One-time Increases

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

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

2017-18 Non-tax Revenue Boost



Source: Ontario Budgets, Ministry of Finance and FAO

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

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

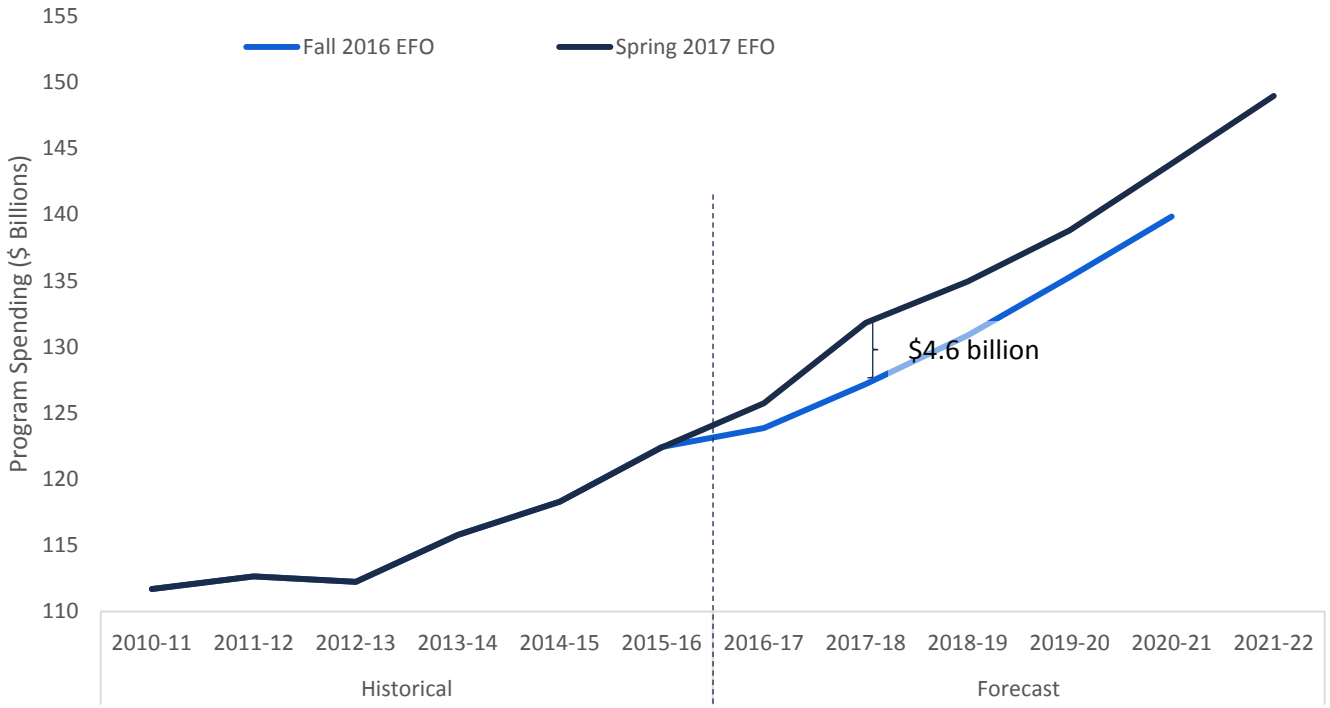
Expense Outlook

Program Expense to Increase Significantly over the Outlook

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

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

Program Expense Higher than Projected in the Fall



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

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

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

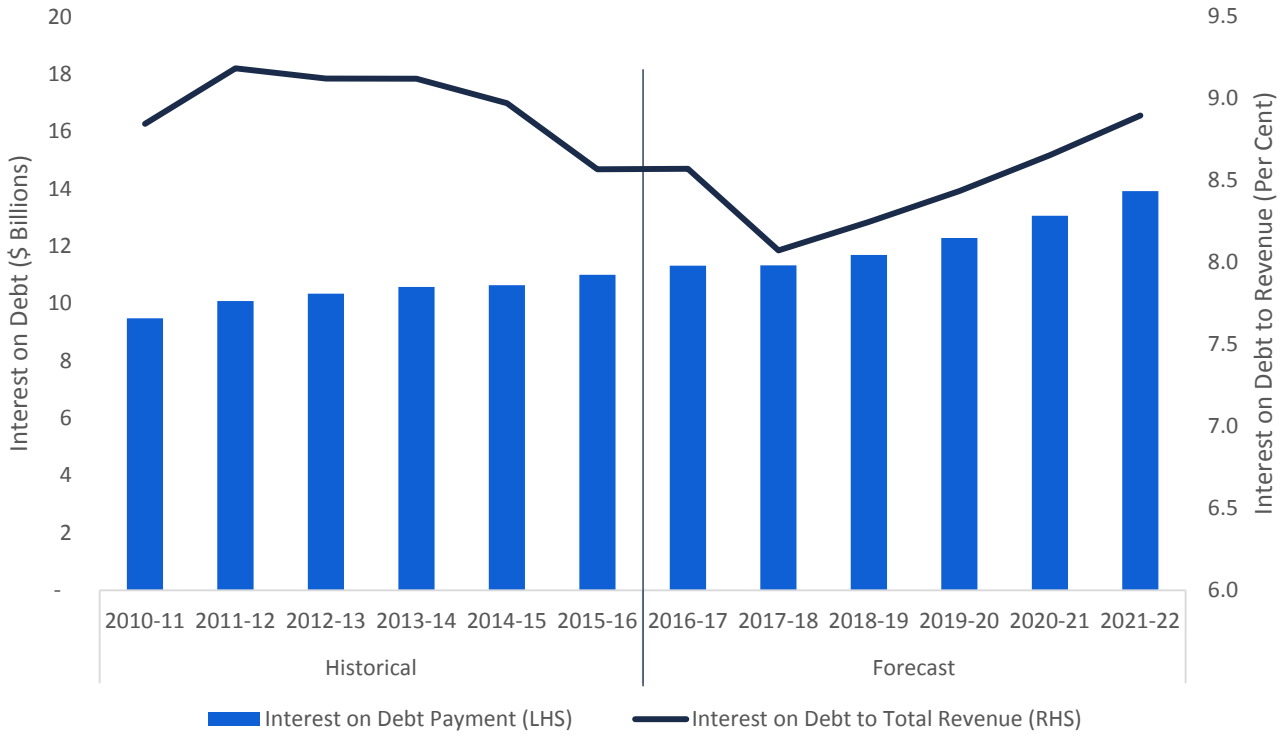
[5] Given the government's discretion over spending, the FAO adopts the government's announced spending plans from fiscal documents and incorporates policy announcements as appropriate.
[6] The adjustment reflects the inclusion of a valuation allowance to offset the value of net pension assets in jointly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

Interest on Debt

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

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

Interest on Debt to Rise Sharply as a Share of Revenues



Source: Ontario Public Accounts and FAO

Ontario Debt Outlook

Ontario Net Debt-to-GDP To Remain Elevated

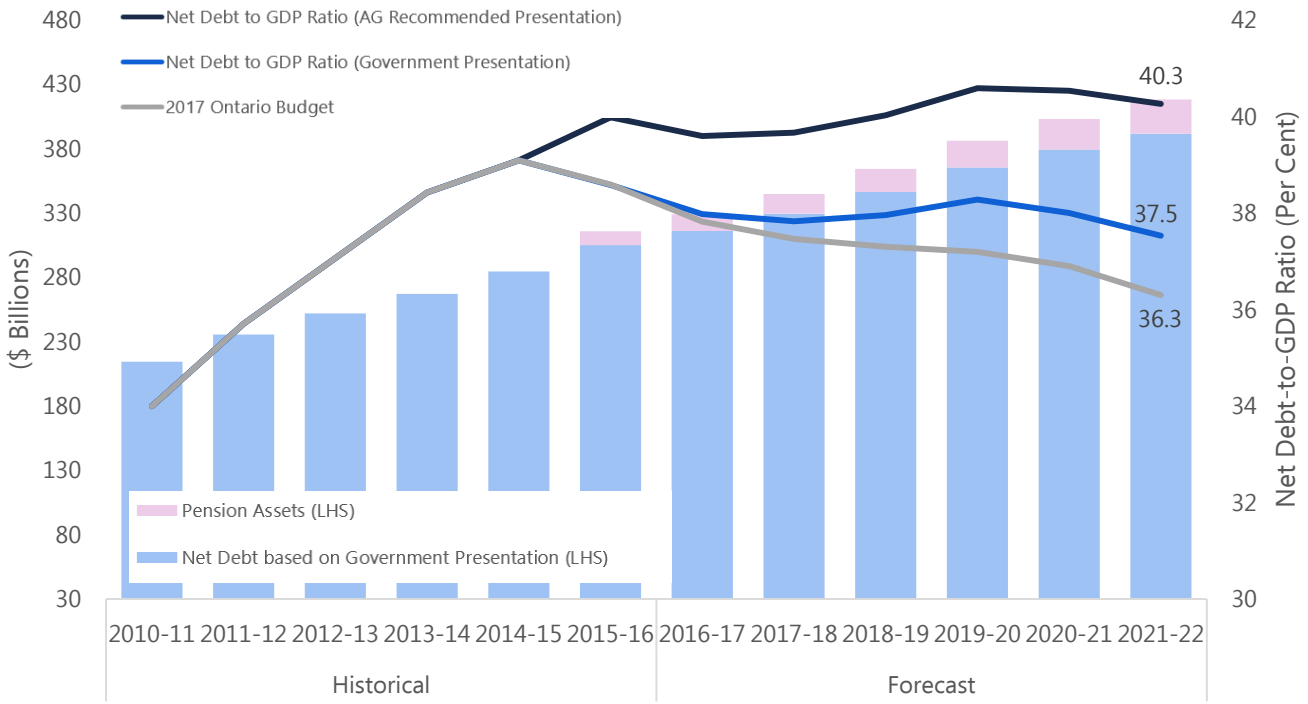
Ontario's total borrowing requirements are expected to remain high over the outlook. To finance the cost of projected capital spending, finance on-going deficits (as projected by the FAO) and refinance maturing debt issues, provincial borrowing is expected to average $37 billion per year over the next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

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

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

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

Ontario's Net Debt to GDP Ratio



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

Risks to the Fiscal Plan and Policy Options

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

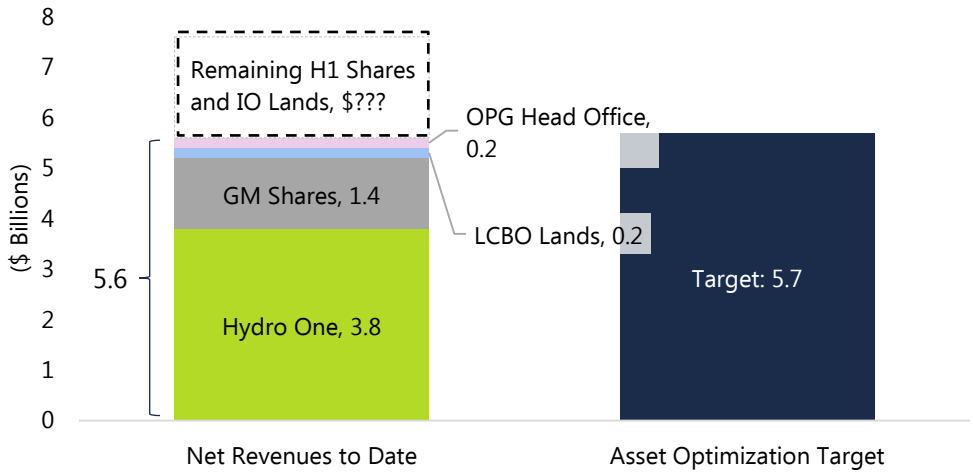
- A sharp correction in the housing market could present a significant risk for both the broader economy and for the Province's fiscal plan. As discussed in the FAO housing commentary[8], a decline in house prices and housing market activity would directly reduce Land Transfer Tax and HST revenues. In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

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

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

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

Asset Optimization Revenues and Target



Source: FAO and Ontario Budgets

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

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

The Accounting Treatment of Jointly Sponsored Pension Plans

Background

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

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

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

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

The Central Issue

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

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

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

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

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

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

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

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

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

Roles and Responsibilities of the Province and the Auditor General

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

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

The FAO's Presentation of Ontario's Fiscal Outlook

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

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

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

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

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

2. Appendix

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

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

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

Developments since 2016 Fall EFO (AG Recommended Presentation)

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

Notes:

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

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

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

4. In the 2016 Fall EFO, the FAO assumed $1.5 billion in adjustments for net pension assets of jointly sponsored pension plans. The government has revised its estimate of the impact to $2.2 billion in 2017-18, increasing to $2.9 billion by 2020-21.

Source: FAO

Forecast Tables

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

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

a = Actual f = Forecast

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

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

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

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

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

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

a = Actual f = Forecast

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

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

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

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

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

Table 2: FAO Outlook for Selected Economic Indicators

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

a = Actual f = Forecast

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

Table 3: FAO Fiscal Outlook

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

a = Actual f = Forecast

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

Note: Budget balance is presented without reserve.

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

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

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

a = Actual f = Forecast

Note: * Budget Balance is presented without reserve.

Source: 2017 Ontario Budget and FAO

Table 4b: FAO Debt Outlook (Government Presentation)

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

a = Actual f = Forecast

Note: * Budget Balance is presented without reserve.

Source: 2017 Ontario Budget and FAO

From: Ken Kandeepan
To: John Psinas; George Sakura
Subject: FW: FAO"s Upcoming EFO Report
Date: Monday, May 08, 2017 11:35:43 AM
Attachments: EFO - Economic vMOF.docx
EFO - Fiscal vMOF.docx

We can discuss

Thanks

Ken K

-----Original Message-----
From: Anna Strathy
Sent: Monday, May 08, 2017 11:10 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: FW: FAO's Upcoming EFO Report

Good morning,

The draft Economic and Fiscal chapters from the FAO report are attached. Password is FAO1616.

The FAO is asking for comments by eod tomorrow. I'm happy to consolidate our comments if you'd like to send to me.

Thanks, Anna

-----Original Message-----
From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Monday, May 08, 2017 10:48 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Subject: FW: FAO's Upcoming EFO Report

Hi Anna and Gavin,

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

Thanks,
Ryan

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

Good Morning,

Please find attached drafts of the Economic Outlook and Fiscal Outlook chapters from the FAO's upcoming 'Economic and Fiscal Outlook' report.

The chapters are password protected using the same password as in the past.

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

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

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

Thanks again for your support and assistance.

David West
Chief Economist

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

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

Hello,

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

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

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

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

Thanks,

David West
416.579.1465

-----Original Message-----
From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: April 28, 2017 5:40 PM
To: David West <dwest@fao-on.org>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton,

Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Luan Ngo <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Mario Angastiniotis <MAngastiniotis@fao-on.org>; Nicolas Rhodes <nrhodes@fao-on.org>
Subject: Re: Follow-Up on the 2017 Budget

Thanks David,

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

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

Have a great weekend
Tim

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

As promised, please find attached more detailed questions.

Please confirm when we can meet early next week.

Thanks
dw

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

Good Morning!

Congratulations on delivering yesterday's big, black budget!

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

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

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

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

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

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

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

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

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

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

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

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

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

- Additional details/clarification on new infrastructure spending

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

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

Happy to discuss any of these requests.

Thanks again for your support,
David

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

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www.fao-on.org<http://www.fao-on.org/>

Economic and Fiscal Outlook

2017

Draft Report

Confidential Document

May 2017



Economic Outlook

Overview

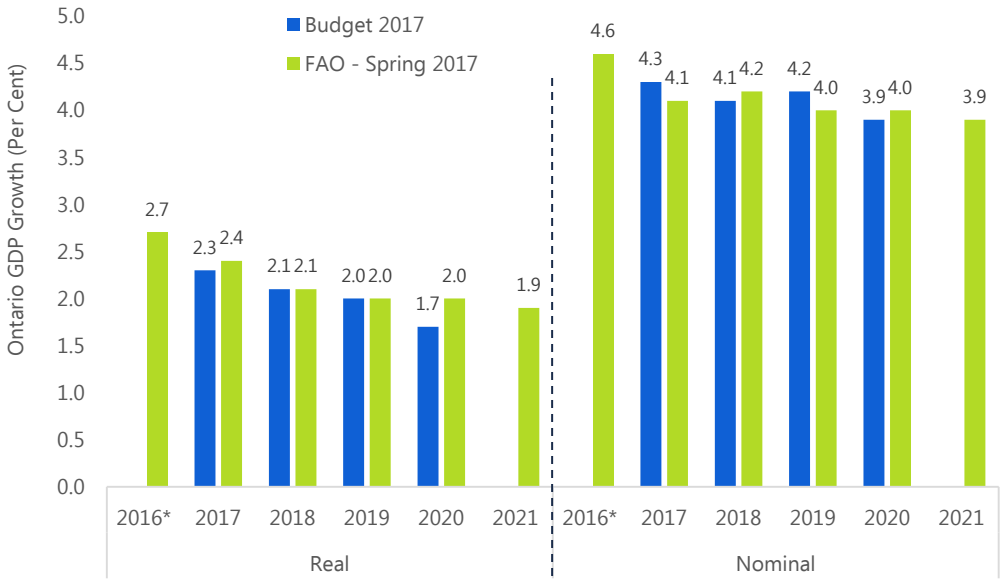
Ontario Economy Expected to Remain Strong in 2017

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

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

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

Solid Economic Performance Expected Over Outlook



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

Global Economy Gaining Momentum

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

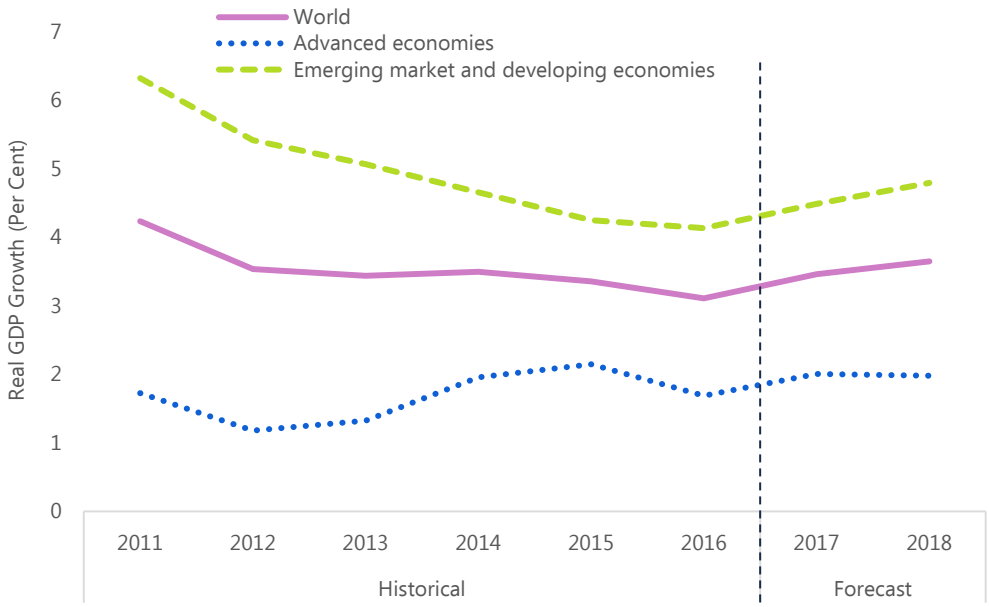
For advanced economies, the IMF's forecast for 2017 and 2018 has improved slightly from its October projection with growth of 2.0 per cent in 2017 and 2018.

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

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

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

Global Growth to Improve in 2017



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

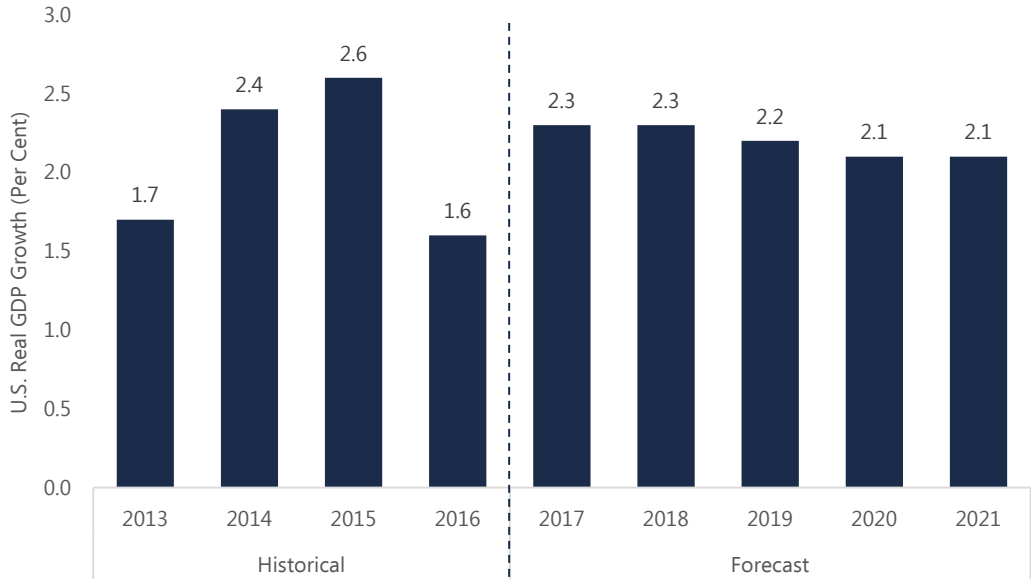
U.S. Economic Growth to Strengthen in 2017

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

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

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

U.S. Economic Growth Moderates Beyond 2017



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

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

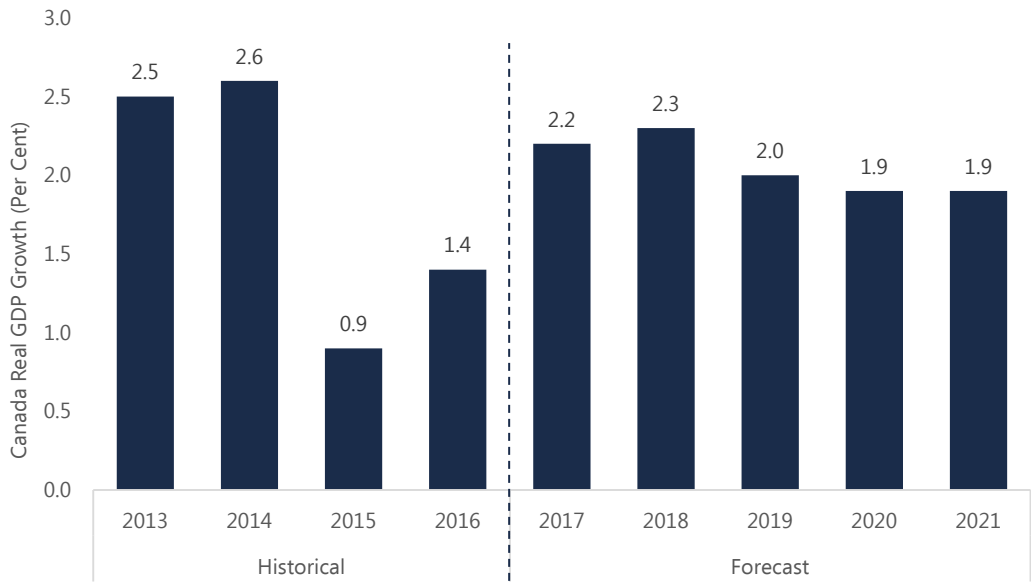
Canadian Economic Growth Expected to Rebound

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

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

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

Canada GDP Growth Expected to Improve in 2017



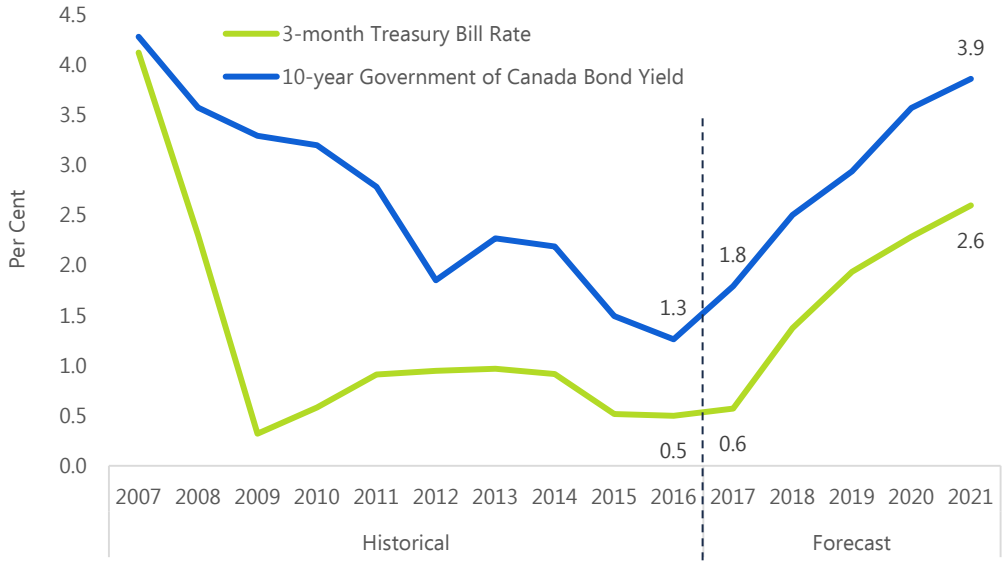
Source: Statistics Canada and FAO Consensus

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

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

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

Canadian Interest Rates to Rise over the Forecast



Source: Statistics Canada and FAO

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

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

Ontario Economic Outlook

Solid Real GDP Growth Expected in 2017

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

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

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

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

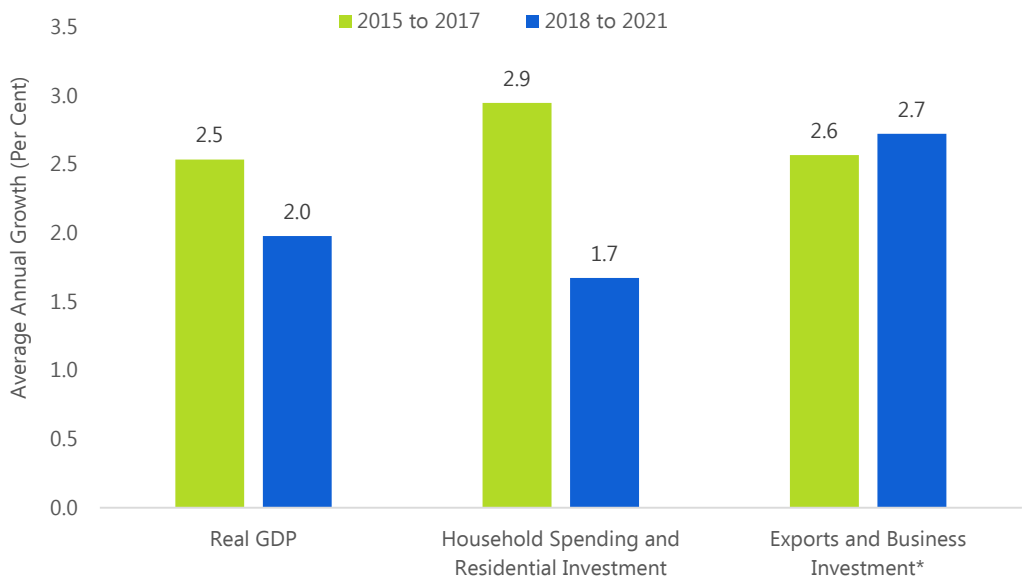
Moderate declines in residential investment in 2018 and 2019 – reflecting elevated household debt and a moderation in housing prices – is expected to contribute to the slower pace of overall economic activity.

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

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

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

Exports and Business Investment Expected to Drive Economic Growth



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

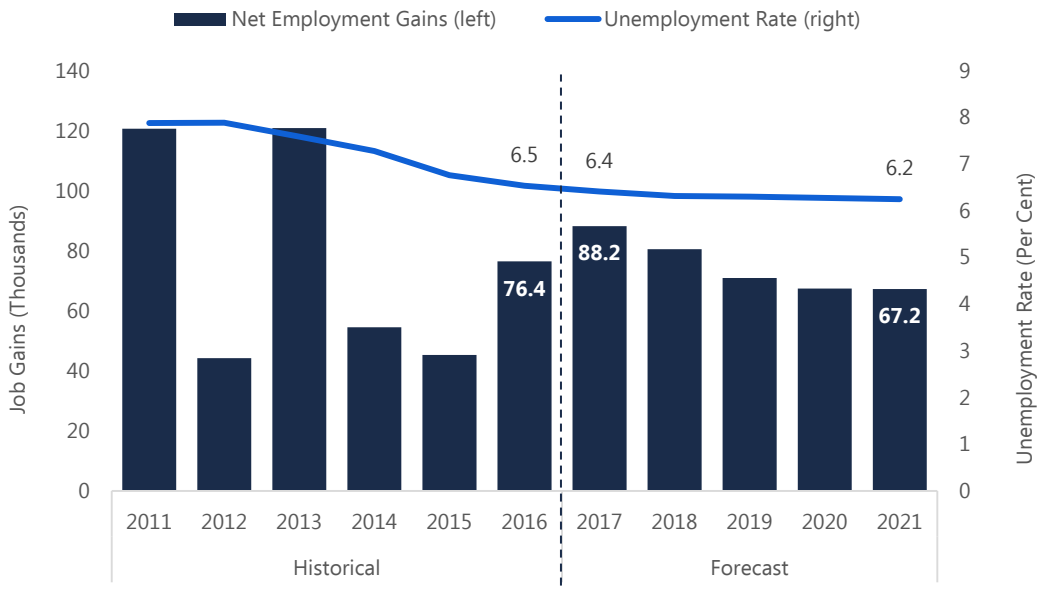
Steady Job Gains Over Outlook

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

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

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

Steady Employment Gains as Unemployment Rate Slowly Trends Lower



Source: Statistics Canada and FAO

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

Strong Gains Expected for Labour Income and Corporate Profits

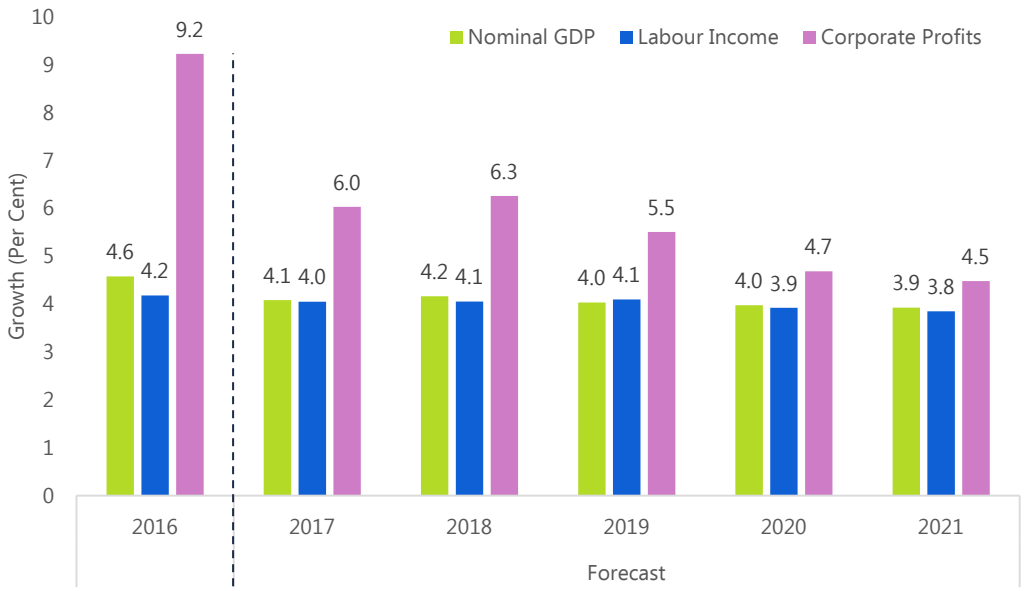
Labour income grew by a robust 4.2 per cent in 2016, above the average annual increase of 3.7 per cent from 2011 to 2015, and a reflection of the strong employment growth last year. The net operating surplus of corporations (largely corporate profits) also increased by a robust 9.2 per cent in 2016 following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

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

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

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

Labour Income and Corporate Profits Support Nominal GDP Growth



Source: Ontario Economic Accounts and FAO

Key Risks for Ontario's Economic Outlook

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

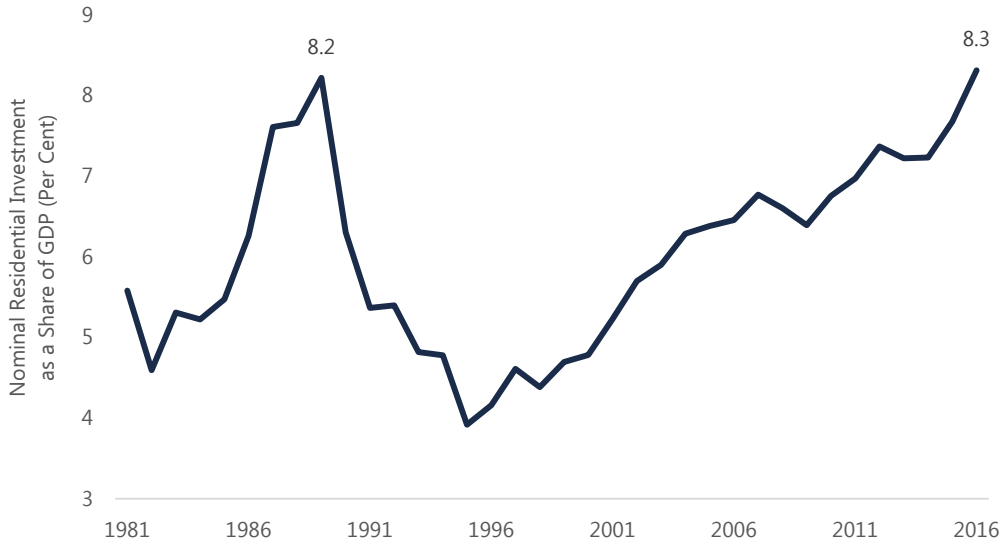
In particular, there are significant risks with respect to the proposed renegotiation of the North American Free Trade Agreement (NAFTA) and the adoption of protectionist trade measures in the United States. As well, other proposed changes to U.S. fiscal and industrial policies, such as lower corporate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

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

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

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

Residential Investment Spending Accounts for a Record Share of GDP



Source: Ontario Economic Accounts and FAO

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

A sharp correction in housing prices, exacerbated by the elevated levels of household debt, would negatively affect household spending and residential investment, and could lead to broader economy-wide impacts on growth and employment.

The Province recently announced a package of measures intended to respond to the underlying factors contributing to the unsustainable rise in housing prices

[14] Almost one-quarter (22 per cent) of the growth in nominal GDP in 2016 was directly attributable to the increase in residential investment spending.

and the rapid growth in housing market activity. However, it is too early to assess whether these measures will adequately address the imbalance between demand and supply pressures in the market.

The FAO's Quarterly Short-term Model of the Ontario Economy

The FAO has developed a short-term forecasting model to produce quarterly five-year projections of the Ontario economy. The model is based on dynamic equations for major sub-categories of real and nominal GDP. The model also includes key labour market components, financial variables and the Canada-U.S. dollar exchange rate. The model is structured around a number of important external or exogenous concepts such as Canada-wide economic growth, U.S. economic growth, U.S. prices, U.S. interest rates and energy prices.

The model is an important tool for the FAO's bi-annual Economic and Fiscal Outlook (EFO), ensuring internal consistency of each projection as well as consistency between EFO forecasts. It also provides the majority of the inputs required by the FAO's Fiscal Outlook Model which provides the FAO's projection of the government's fiscal position.

Financial Accountability Office of Ontario

Economic and Fiscal Outlook

Fiscal Chapter

May 8, 2017

Confidential Document

This document is confidential. It should not be shown or otherwise transmitted to anyone other than those who have been asked by the Financial Accountability Office of Ontario to provide comments.

Spring 2017

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1. Fiscal Outlook

Overview

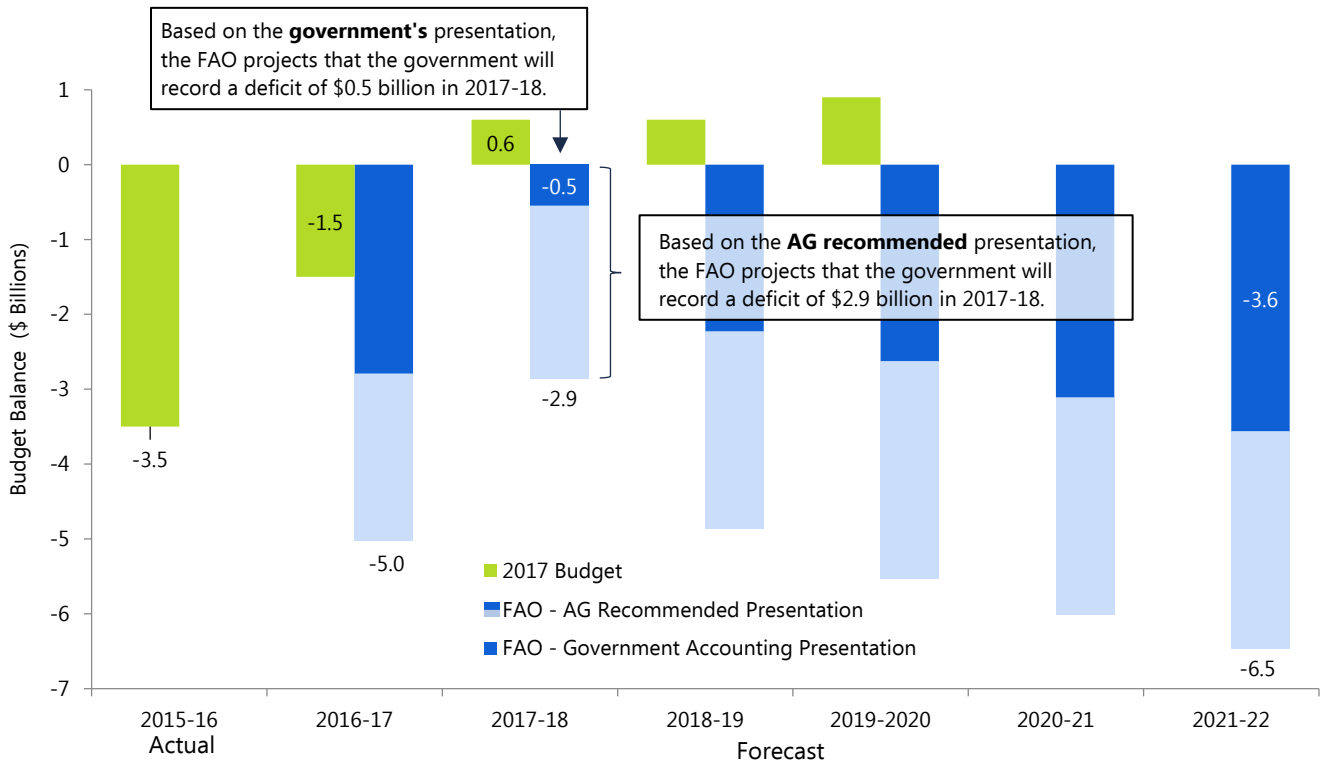
Continued Budget Deficits Projected

Based on the FAO's current economic forecast and updated fiscal information, the FAO is projecting continued Ontario budget deficits over the outlook. In the near term, the deficit improves due to strong tax revenue growth and a temporary boost to non-tax revenue. However, beginning in 2018-19, the deficit is expected to increase as a result of moderating revenue growth combined with higher expenses.

The government and the Auditor General (AG) disagree on the application of public sector accounting standards with respect to jointly-sponsored pension plans. Based on the Auditor General's recommended accounting presentation, the FAO is projecting a budget deficit of $2.9 billion for 2017-18, rising to $6.5 billion by 2021-22. (Please refer to the discussion on page 8 for additional background and context on this issue.)

Based on the government's accounting presentation in the 2017 Budget, the FAO is projecting a budget deficit of $0.5 billion in 2017-18, growing to $3.6 billion by 2021-22.[1] By comparison, the government is projecting a budget surplus (before the reserve) of $0.6 billion in 2017-18, followed by continued small surpluses over the next two years.

Ontario's Budget Balance*



* Budget balance excluding reserve.

Source: 2015-16 Public Accounts, 2017 Budget and FAO

[1] The Auditor General would be expected to provide a qualified opinion on Ontario's 2016-17 Public Accounts if the government continues to report the net pension assets of jointly sponsored pension plans in its financial statements.

On the government's accounting basis, the FAO projects that a balanced budget is within the government's reach in 2017-18. However, the budget deficit is expected to increase after 2017-18, due to moderate revenue growth, the absence of one-time non-tax revenues, and higher program expenses. Staying in balance after 2017-18 will likely require additional fiscal policy measures.

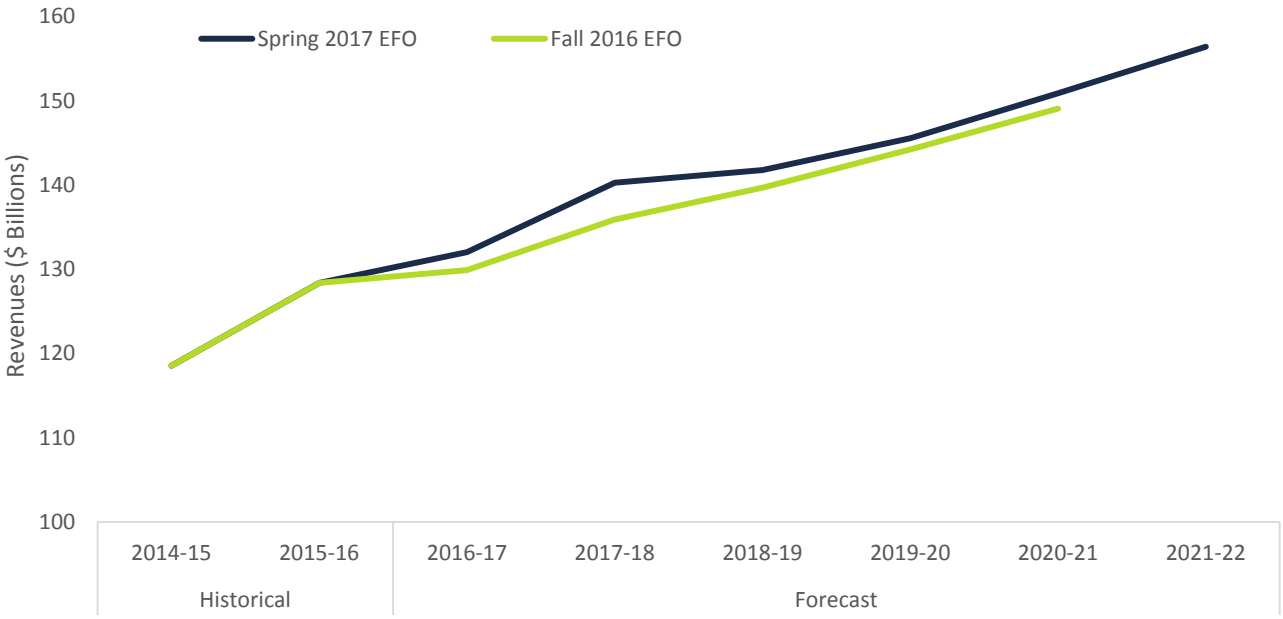
Under the Auditor General's accounting presentation, the FAO is projecting significant budget deficits over the entire outlook. On this basis, it is unlikely that the government will balance the budget in 2017-18 without significant additional fiscal policy measures (that is, higher revenues or lower expense). Beyond 2017-18, significant fiscal adjustments will likely be required to maintain budget balance through the outlook.

Revenue Outlook

The FAO is projecting average annual revenue growth of 3.3 per cent per year from 2016-17 to 2021-22, in-line with the forecast from the FAO's fall outlook.

However, in the near-term, revenue growth is stronger than expected due to robust economic performance in 2016 and 2017, and a boost from one-time revenues in 2017-18. Beyond 2017-18, growth in tax revenues moderates and the benefit of one-time non-tax revenues ends.

Revenues Stronger Than Expected in Near Term



Source: FAO and Public Accounts

FAO Revenue Assumptions and Forecast

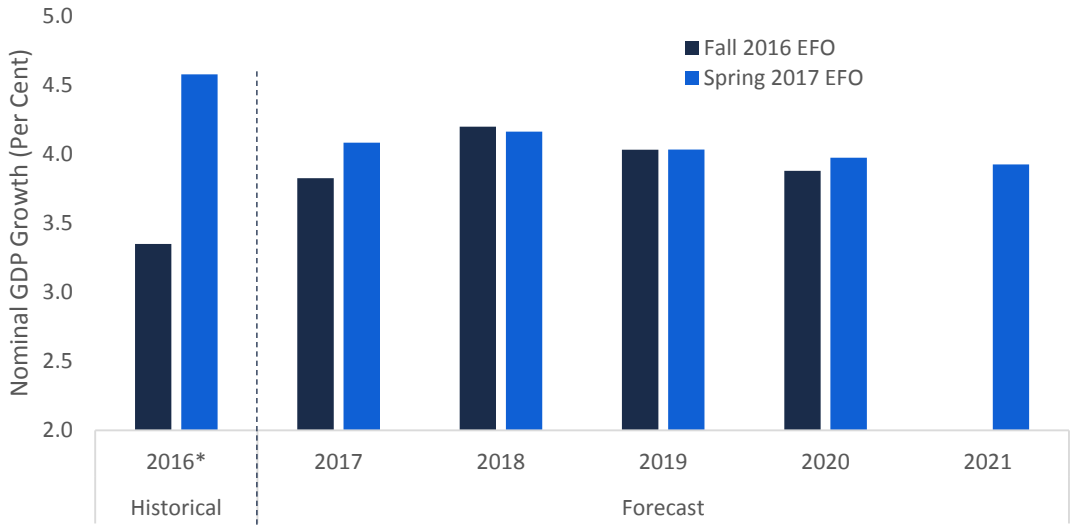
Revenue Source	Assumption	Forecast
Taxation Revenue	Grows with key economic drivers including labour income, corporate profits and household consumption.	Averages 3.9 per cent growth per year from 2016-17 to 2021-22
Federal Transfers	Based on legislated growth rates and economic performance	Federal transfers are expected to grow by 1.9 per cent per year from 2016-17 to 2021-22
Government Business Enterprises	Based on government projections	Income from GBEs are projected to rise moderately from $5.3 billion in 2016-17 to $6.5 billion in 2021-22
Other Revenue	Based on government projections, includes asset sales, and cap and trade	These revenues are projected to increase from $8.5 billion in 2016-17 to $11.0 billion in 2017-18, declining to $8.5 billion by 2021-22

Stronger Economic Growth Expected to Boost Tax Revenue

Consistent with the FAO's economic forecast, the FAO is currently projecting tax revenues to rise at an average of 3.9 per cent from 2016-17 to 2021-22, much stronger than the 3.0 per cent forecast in the FAO's fall outlook.

Since the FAO's fall report, nominal GDP – the broadest measure of the tax base – was revised significantly higher in 2016, improving the forecast for 2017.[2] However, beyond 2017, the outlook for nominal GDP growth is relatively unchanged from the fall forecast.

Nominal GDP up Significantly in the Near-Term Since the Fall



* 2016 value for Fall 2016 EFO was the FAO's forecast at the time of the report's release.
Source: Ontario Economic Accounts and FAO

[2] See economic section, and the footnote on page 11.

Improving economic prospects in 2017 are expected to lift the Province's tax revenue by approximately $2.3 billion in 2016-17 and $4.1 billion in 2017-18, compared to the FAO's fall estimates.

- Personal income tax revenue is forecast to grow stronger than expected in the fall due to the improved forecast for labour income.[3]
- Corporations tax revenue is projected to benefit from the stronger outlook for corporate profits.
- Sales tax and land transfer tax revenues are expected to improve in 2016-17 and 2017-18 due to the on-going strength in Ontario's housing market.

Equalization Entitlement Declines

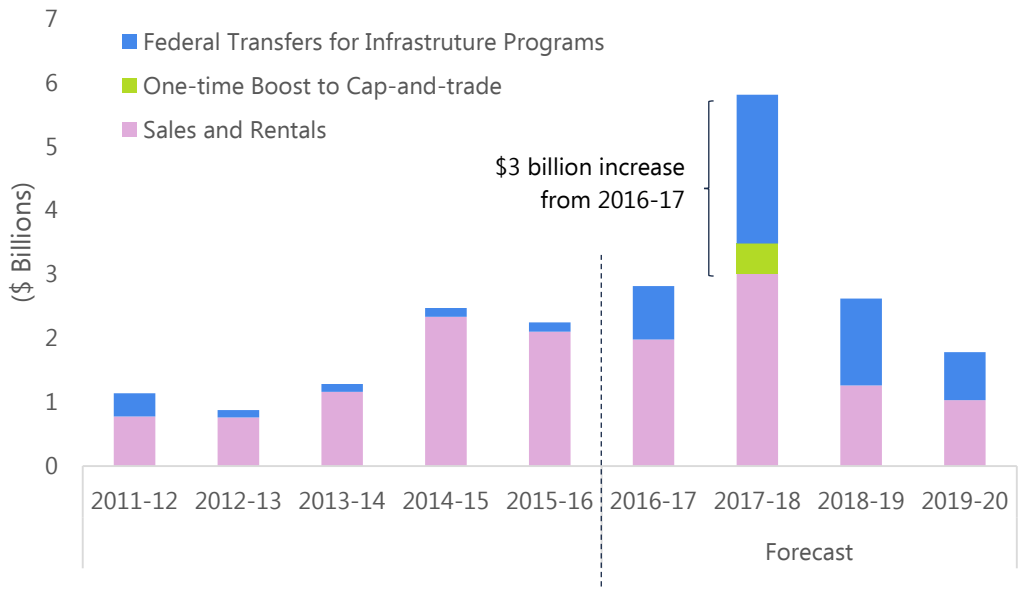
Given Ontario's recent economic strength relative to the rest of Canada, the Province's Equalization entitlement declined $0.8 billion to $1.4 billion in 2017-18, and is projected to drop further to $0.6 billion in 2018-19. Beyond 2018-19, the FAO is projecting that Ontario will no longer be entitled to Equalization payments — a reflection of the continued relative strength of the Ontario economy.

2017-18 Revenues to Benefit from One-time Increases

Based on the 2017 Budget and incorporated into the FAO's projections, Ontario revenues will be boosted by $3.0 billion in one-time increases in 2017-18, including:

- $1.5 billion in higher revenue from federal transfers for infrastructure;
- $1.0 billion increase in sales and rentals revenue, suggesting significant additional asset sales; and
- $0.5 billion in additional cap and trade proceeds from March 2017, which will be recognized in 2016-17.[4]

2017-18 Non-tax Revenue Boost



Source: Ontario Budgets, Ministry of Finance and FAO

[3] However, near-term revenue growth will be somewhat dampened as some high-income earners have shifted earnings into the 2015 tax year to avoid the new higher 33 per cent tax rate introduced by the federal government in 2016 (http://www.fin.gc.ca/afr-rfa/2016/report-rapport-eng.asp#_Toc463249478). The FAO continues to adopt the federal government's estimate of this income shifting, and has adjusted the personal income tax forecast accordingly.

[4] The government indicated that the cap and trade revenues will be recognized in 2017-18 because the allowances were certified and delivered on April 2, 2017.

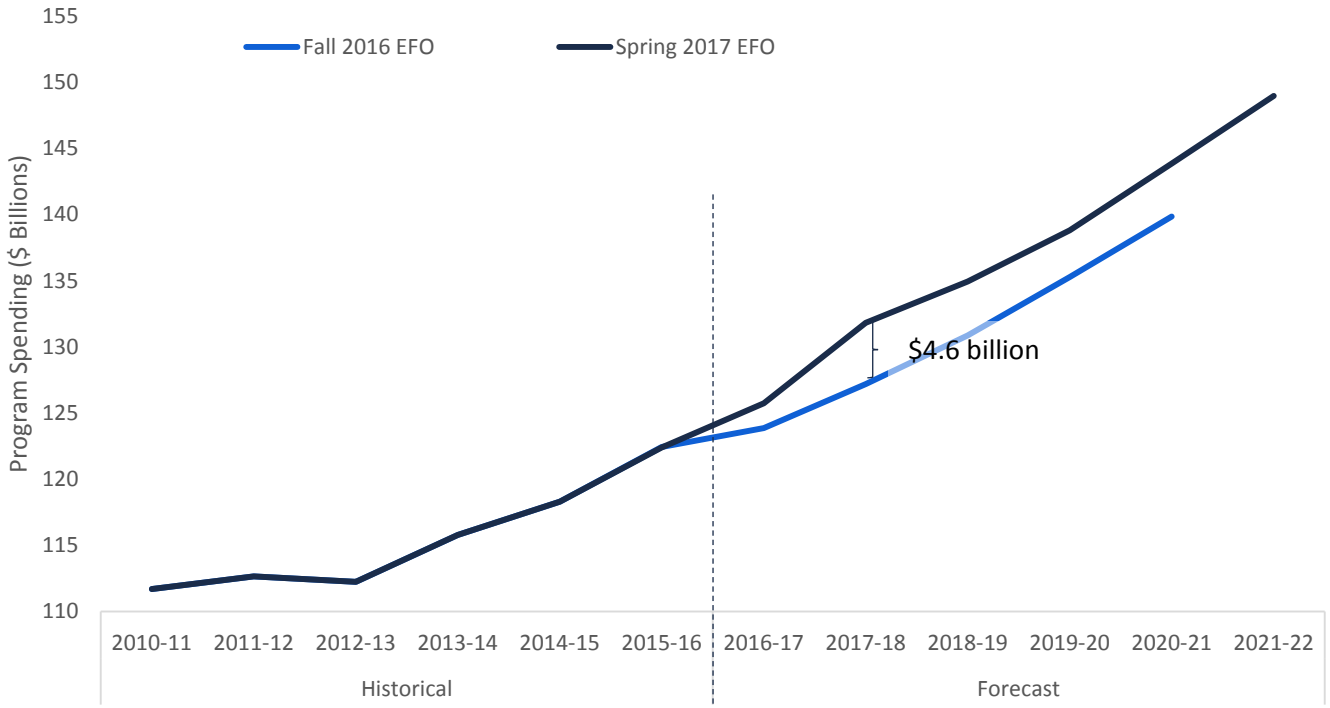
Expense Outlook

Program Expense to Increase Significantly over the Outlook

The FAO projects program spending growth of 3.3 per cent per year over the 2016-17 to 2021-22 period.

Over the 2016-17 to 2019-20 period, the FAO adopts the government's 2017 Budget projections for program spending[5], adjusted to reflect the Auditor General's recommended accounting treatment for jointly sponsored pension plans.[6] The expense outlook includes significant new spending across all sectors, including a new children and youth Pharmacare program, higher operating funding for hospitals, 24,000 new child care spaces[7], and the government's new 'Fair Hydro Plan'. As a result, spending is now forecast to be significantly higher by 2017-18 than assumed in the FAO's fall outlook.

Program Expense Higher than Projected in the Fall



Note: Program spending based on AG recommended presentation.
Source: Ontario Public Accounts and FAO

With these new expenses, program spending is expected to grow 3.3 per cent per year on average over the next five years. This growth rate is in-line with underlying growth in cost - and demographic-related pressures of 3.5 per cent on average.

Beyond 2019-20, the FAO projects program spending to increase by 3.6 per cent annually, consistent with underlying factors including population growth, aging, and price inflation.

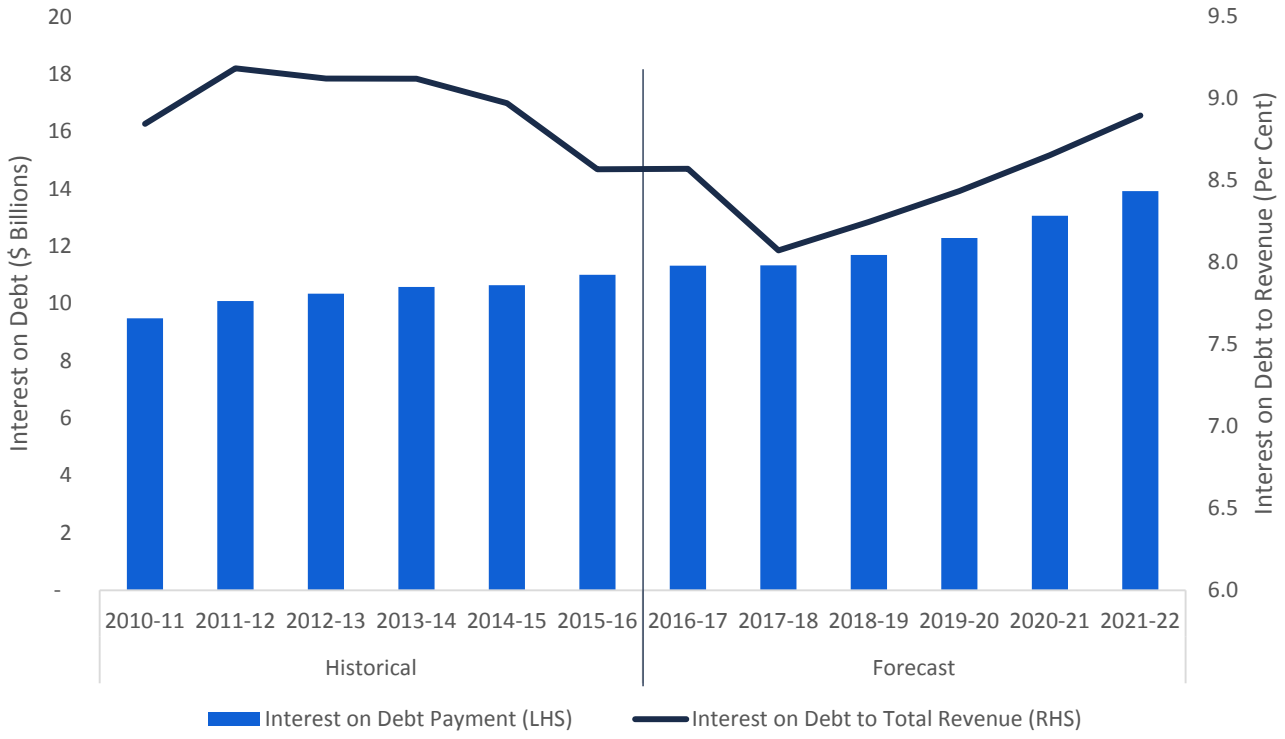
[5] Given the government's discretion over spending, the FAO adopts the government's announced spending plans from fiscal documents and incorporates policy announcements as appropriate.
[6] The adjustment reflects the inclusion of a valuation allowance to offset the value of net pension assets in jointly sponsored pension plans. This adjustment increases 'other program' expense by $2.2 billion in 2016-17, rising to $2.9 billion by 2020-21.
[7] Ministry of Finance officials indicated that the 24,000 in new child care spaces announced in the 2017 Budget is part of the government's September 2017 Throne Speech commitment to create 100,000 spaces. The remaining funding has yet to be included in the fiscal plan.

Interest on Debt

The FAO projects interest on debt (IOD) payments will increase at an average annual rate of 4.0 per cent from $11.0 billion in 2015-16 to $13.9 billion by 2021-22, reflecting higher debt and rising interest rates over the outlook. Interest on debt has become the Province's third largest spending category and will significantly outpace the growth in program expense over the outlook.

As a share of revenues, IOD is projected to increase from 8.1 per cent in 2017-18 to 8.9 per cent by 2021-22, as the rise in interest payments outpaces growth in revenues. Over the past five years, IOD as a share of revenues declined steadily, benefitting from declining interest rates. With interest rates projected to increase significantly over the next five years, the ratio is expected to rise sharply.

Interest on Debt to Rise Sharply as a Share of Revenues



Source: Ontario Public Accounts and FAO

Ontario Debt Outlook

Ontario Net Debt-to-GDP To Remain Elevated

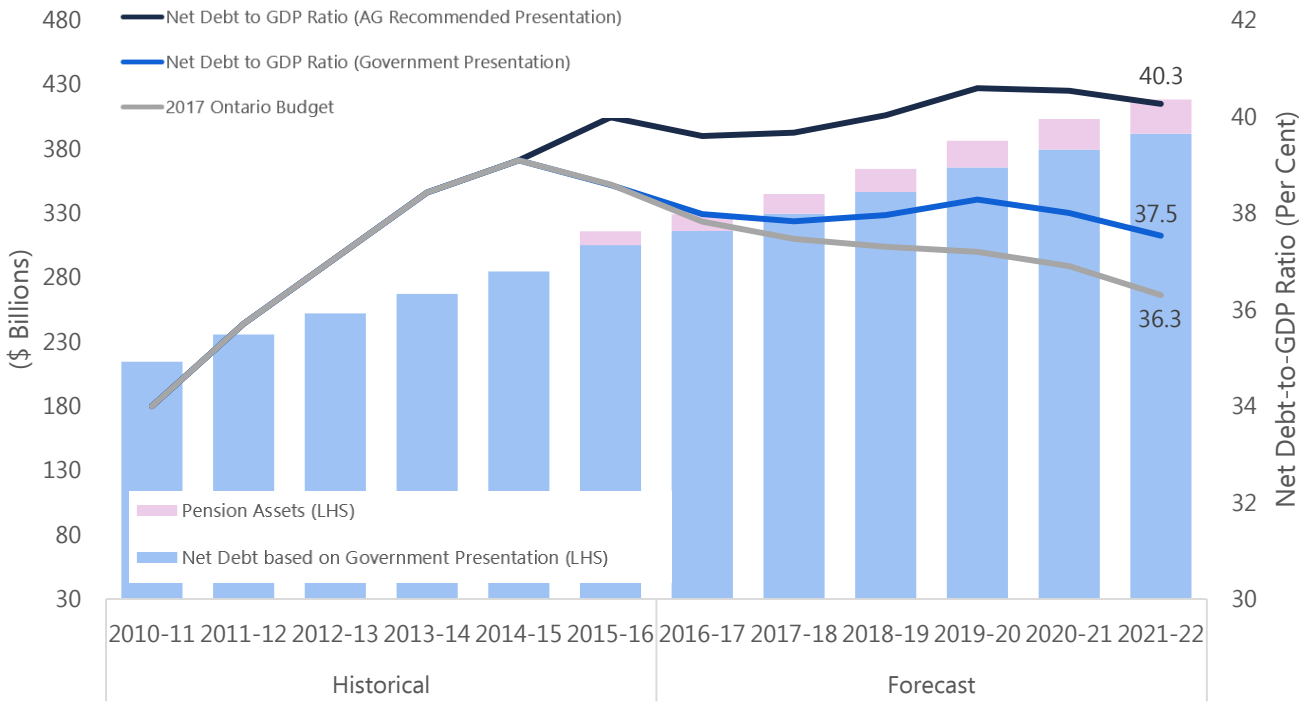
Ontario's total borrowing requirements are expected to remain high over the outlook. To finance the cost of projected capital spending, finance on-going deficits (as projected by the FAO) and refinance maturing debt issues, provincial borrowing is expected to average $37 billion per year over the next five years.

As a result, the FAO projects Ontario's net debt to increase by $87 billion over the next five years to more than $392 billion by 2021-22 based on the AG's recommended accounting presentation. By comparison, using the accounting treatment adopted by the government in the 2017 Budget, the FAO projects Ontario's net debt will rise by $71 billion to $365 billion by 2021-22.

Based on the AG's recommended accounting presentation, the FAO expects Ontario's net debt-to-GDP ratio will edge higher over the outlook, rising to 40.3 per cent by 2021-22, reflecting the projected increase in net debt and the FAO's forecast for nominal GDP growth. In contrast, based on the accounting treatment adopted by the government in the 2017 Budget, net debt-to-GDP is projected to fall slightly from 38.6 per cent in 2015-16 to 37.5 per cent by 2021-22.

In the 2017 Budget, the Province set an interim net debt-to-GDP target of 35 per cent by 2023-24 and committed to achieving 27 per cent by 2029-30. The FAO's net debt-to-GDP projections under both accounting presentations, suggest that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24.

Ontario's Net Debt to GDP Ratio



Source: Ontario Economic Accounts, 2017 Ontario Budget, and FAO

Risks to the Fiscal Plan and Policy Options

There are material risks that could impact Ontario's fiscal position.

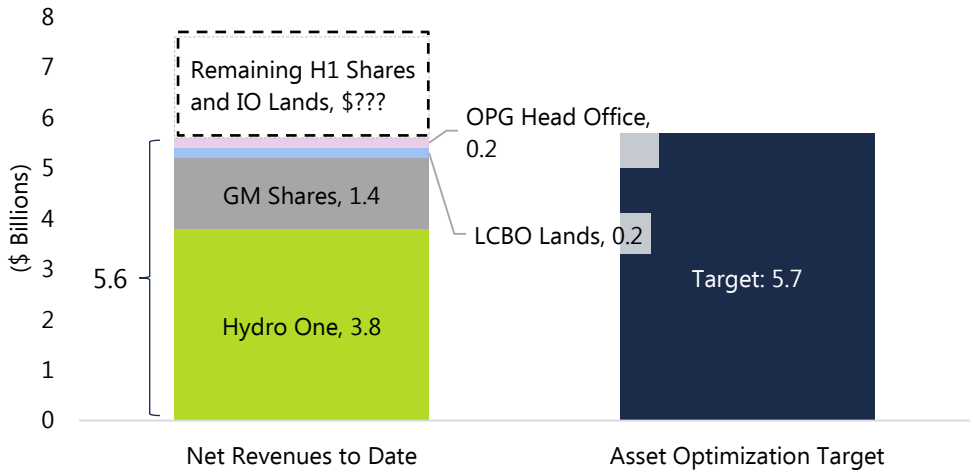
- A sharp correction in the housing market could present a significant risk for both the broader economy and for the Province's fiscal plan. As discussed in the FAO housing commentary[8], a decline in house prices and housing market activity would directly reduce Land Transfer Tax and HST revenues. In addition, the broader economic impacts would impact personal and corporate income tax revenues.
- In the 2017 Budget, the government has significantly reduced the prudence built into its program spending projection compared to the previous budget, leaving less fiscal flexibility for the government to respond to unexpected events.[9] In addition, interest on debt payments as a share of both program spending and revenue are expected to increase significantly, exposing the government to increased fiscal risk should interest rates rise faster than expected.

On the other hand, the government has increased spending growth to a rate in line with underlying spending pressures, which diminishes the expense risk identified in earlier FAO reports.

Additionally, the government has a broad range of policy options that could improve its fiscal position, including the sale of additional public assets beyond announced targets. To date, the government has generated $5.6 billion in revenues from asset sales, close to its target of $5.7 billion over 10 years.

Given that the government has indicated that it still intends to sell an additional 30 per cent of Hydro One, as well as Infrastructure Ontario real estate holdings, it may significantly overachieve its asset sales target.

Asset Optimization Revenues and Target



Source: FAO and Ontario Budgets

[8] Financial Accountability Officer of Ontario, The Impact of a Housing Market Correction on Ontario's Fiscal Position, 2017

[9] In the 2017 Budget, contingency funds total $0.6 billion for the coming fiscal year, half the size built into the 2016 Budget fiscal plan. Similarly, the government's target for year-end savings has increased to $1.2 billion for the coming year, compared to $0.8 billion in Budget 2016.

The Accounting Treatment of Jointly Sponsored Pension Plans

Background

Ontario's 2015-16 Public Accounts noted a disagreement between the Office of the Auditor General and the Province on the appropriate accounting treatment for net pension assets of jointly sponsored pension plans. Specifically, the Province is a joint sponsor of two pension plans, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees Union Pension Plan (OPSEUPP).

The government's position is that these pension assets have been appropriately and consistently reflected on the Province's financial statements since 2001. The Office of the Auditor General, based on a review of these pension assets, determined that a change in the accounting treatment was required. The Auditor General concluded that under current Canadian public sector accounting standards, the government could not unilaterally recognize a pension asset on its financial statements without evidence - in the form of a written agreement - permitting it to realize the asset through reduced contributions.[10]

In response, the Province appointed its own advisory panel to review and provide a recommended interpretation of public sector accounting standards with respect to the assets of jointly sponsored pension plans. The panel's report[11], released in February 2017, concluded that the Province's share of net assets in jointly sponsored pension plans could be fully recognized in the Province's financial statements — contrary to the opinion of the Office of the Auditor General.

In the 2017 Budget, the government adopted the advisory panel's interpretation of public sector accounting standards and recognized the net pension assets of the jointly sponsored pension plans. The 2017 Budget also indicated that the Province's 2016–17 Public Accounts will report the net pension assets for the two jointly sponsored pension plans.

The Central Issue

The government and the Auditor General have put forward different interpretations of the application of public sector accounting standards for jointly sponsored pension plans.[12]

The different interpretations centre on the question of the control of assets in jointly sponsored pension plans. In particular, the issue is focused on whether there needs to be an explicit written agreement between the co-sponsors (the government and the unions representing the employees) on how the sponsors plan to use the pension assets, for example by lowering contributions or increasing benefits to pensioners.

As indicated by the Auditor General, the issue can be resolved if the government presents an agreement with the Ontario Teacher's Federation (OTF) allowing the government to access the OTPP pension assets through reduced contributions.[13] The extent and duration of the reduced contributions would determine the size of the pension asset that the government could recognize in its financial statements

The government, based on the advice of the advisory panel, maintains that the existing agreements governing the pension plans already recognize the sponsors' rights to access assets in the plans and also provide the mechanism to potentially realize a benefit through lower future contribution rates.

[10] The government's 2016 Budget reported a negative expense for the OTPP which led, in part, to the Auditor General conducting an in-depth review of the related pension assets.

[11] https://news.ontario.ca/tbs/en/2017/02/pension-asset-expert-advisory-panel-submits-report.html

[12] In 2015, PSAB created an Employment Benefits Task Force to review the existing accounting standard for post-employment benefits. The work of this task force will include reviewing the appropriate accounting treatment for shared-risk and multi-employer pension plans. However, the work of this task force is not expected to be completed in the near future.

[13] Of the government's two jointly sponsored pension plans, only the OTPP is currently in a net asset position.

In the absence of an agreement, and given the government's decision in the 2017 Budget to accept the advisory panel's recommended approach to accounting for jointly sponsored pension plan assets, the Auditor General would be expected to provide a qualified opinion[14] on Ontario's 2016-17 Public Accounts.

Roles and Responsibilities of the Province and the Auditor General

The Province (through the Treasury Board Secretariat) is responsible for the preparation of Ontario's Public Accounts in accordance with legislation, and based on the standards set out by the Public Sector Accounting Board (PSAB).[15] The PSAB accounting standards serve the public interest by providing an independent, high-quality accounting framework for public sector entities.

The Auditor General reviews the Province's annual Public Accounts and provides an audit opinion to the Legislature on whether the Consolidated Financial Statements for the Province of Ontario present fairly, in all material respects, the Province's financial position, in accordance with the PSAB accounting standards.

The FAO's Presentation of Ontario's Fiscal Outlook

The Financial Accountability Officer supports the Legislative Assembly by providing independent economic and financial analysis intended to improve the transparency of the government's fiscal plan. The Officer also looks to the Auditor General as the provincial authority on the appropriate interpretation and application of accounting standards for the Province.

The FAO has presented two fiscal projections, including and excluding the impact of the net pension assets of jointly sponsored pension plans to help members of the Legislative Assembly better understand the implications of these different interpretations of accounting standards on the Province's fiscal position.

- The projection based on the Auditor General's recommended accounting treatment assumes a valuation allowance that offsets the net pension assets.
- The projection based on the government's fiscal presentation in the 2017 Budget recognizes the net pension assets over the budget outlook.
    - In the absence of an agreement between the co-sponsors, this presentation of Ontario's fiscal position would be expected to receive a qualified opinion from the Auditor General when published in the Province's future Public Accounts.

Based on the Auditor General's recommended accounting treatment for the net assets of jointly sponsored pension plans, the FAO is projecting budget deficits of $2.9 billion in 2017-18, rising to $6.5 billion by 2021-22. Alternatively, based on the pension accounting treatment presented by the Province in the 2017 Budget, the FAO's projection for the budget deficit decreases to $0.5 billion in 2017-18 and $3.6 billion in 2021-22.

[14] An auditor may provide a qualified opinion when financial statements do not conform in a material way to the applicable accounting standards.
[15] https://www.ontario.ca/page/public-accounts-101-guide#section-6

2. Appendix

Developments since the FAO's Fall 2016 Economic and Fiscal Outlook

The FAO's current projection of the Ontario budget balance has generally deteriorated relative to the FAO's fall 2016 projection.

- Stronger than expected economic performance is expected to boost taxation revenues over the forecast, partially offset by lower Equalization revenue.
- Based on new government spending plans, program expense has increased significantly.

Developments since 2016 Fall EFO (AG Recommended Presentation)

	2016-17	2017-18	2018-19	2019-20	2020-21
FAO's Fall 2016 Budget Balance Forecast	-5.2	-2.6	-2.8	-3.3	-3.7
Developments Since Fall 2016					
Revenue					
Stronger Economic Outlook	2.3	4.1	3.9	4.4	4.7
Lower Federal Transfers[1]	-0.3	0.2	-1.3	-2.4	-2.2
Other Revenue Changes	0.1	0.1	-0.5	-0.6	-0.6
Total	2.1	4.4	2.1	1.3	1.8
Expense					
Children and Youth Pharmacare, and Fair Hydro Plan[3]	0.5	1.3	1.3	1.3	1.3
Revised Pension Asset[4]	0.7	0.8	1.1	1.4	1.4
Other Expense Increases	0.7	2.5	1.7	0.9	1.4
Total	2.0	4.6	4.1	3.6	4.1
Total Developments	0.2	-0.3	-2.1	-2.3	-2.3
FAO's 2017 Spring Budget Balance Forecast	-5.0	-2.9	-4.9	-5.5	-6.0

Notes:

1. Change in federal transfers forecast mainly due the reduction in Ontario's Equalization payment.

2. Other revenue changes include the $0.5 billion re-profiling of cap-and-trade proceeds from 2016-17 to 2017-18, and an increase in sales and rentals for 2017-18.

3. In the 2016 Fall EFO, the FAO included $1 billion in expenses from the HST rebate on electricity bills beginning 2017-18, which is now part of the Fair Hydro Plan. As a result, the FAO estimates that the incremental impact of the Fair Hydro Plan is $0.8 billion, compared to the Fall.

4. In the 2016 Fall EFO, the FAO assumed $1.5 billion in adjustments for net pension assets of jointly sponsored pension plans. The government has revised its estimate of the impact to $2.2 billion in 2017-18, increasing to $2.9 billion by 2020-21.

Source: FAO

Forecast Tables

Table 1a: FAO Outlook for Ontario Nominal GDP and Key Revenue Drivers

(Per Cent Growth)	2015a	2016a	2017f	2018f	2019f	2020f	2021f	Average*
Nominal GDP								
Spring 2017 EFO	4.9	4.6	4.1	4.2	4.0	4.0	3.9	4.1
2017 Budget	4.9	4.6	4.3	4.1	4.2	3.9	-	4.1
Current FAO Consensus **	4.9	4.6	3.9	4.3	4.1	3.8	4.0	4.0
Labour Income								
Spring 2017 EFO	4.2	4.2	4.0	4.1	4.1	3.9	3.8	4.0
2017 Budget ***	-	4.4	4.1	4.5	4.6	4.2	-	4.3
Corporate Profits								
Spring 2017 EFO	9.1	9.2	6.0	6.3	5.5	4.7	4.5	5.6
2017 Budget	-	9.2	6.8	7.1	5.4	4.0	-	5.8
Household Spending								
Spring 2017 EFO	3.9	4.2	4.2	3.7	3.4	3.5	3.6	3.8
2017 Budget	-	4.2	4.3	4.2	4.2			4.2

a = Actual f = Forecast

* For comparison purposes, average is calculated from 2017 to 2020 and 2017 to 2019 for Household Spending.

** FAO consensus includes forecasts from the Centre for Spatial Economics, the Conference Board of Canada and Policy and Economic Analysis Program (PEAP) at the University of Toronto.

*** Budget 2017 Reports Labour Income on a National Basis, whereas FAO reports Labour Income on a Domestic Basis

Source: Statistics Canada, Ontario Economic Accounts, FAO Consensus and FAO

Table 1b: FAO Outlook for Ontario Real GDP and Components

(Per Cent Growth)	2015a	2016a	2017f	2018f	2019f	2020f	2021f	Average*
Real GDP								
FAO - 2017 Spring Outlook	2.5	2.7	2.4	2.1	2.0	2.0	1.9	2.1
Budget 2017	2.5	2.7	2.3	2.1	2.0	1.7	-	2.0
Current FAO Consensus **		-	2.1	2.3	2.1	1.9	1.9	2.1
Real GDP Components								
Household Spending ***	2.7	2.7	2.3	1.9	1.9	1.8	1.8	2.0
Residential Investment	7.2	7.9	3.5	-1.3	-2.0	1.9	2.4	0.5
Business Investment ****	8.2	-4.0	0.2	5.6	5.7	4.9	3.9	4.1
Government (Consumption and Investment)	1.9	1.6	1.7	1.3	1.2	1.1	1.0	1.3
Exports	2.8	3.0	2.4	2.7	2.5	2.3	2.2	2.5
Imports	3.7	1.4	2.2	2.2	2.3	2.2	2.1	2.2

a = Actual f = Forecast

* For comparison purposes, average is calculated from 2017 to 2020

** FAO consensus includes forecasts from the Centre for Spatial Economics, the Conference Board of Canada and Policy and Economic Analysis Program (PEAP) at the University of Toronto.

*** Household Spending is Household and Non-Profit Consumption Expenditure.

**** Business Investment is Non-residential Investment and Machinery & Equipment.

Source: Statistics Canada, Ontario Economic Accounts, FAO Consensus and FAO

Table 2: FAO Outlook for Selected Economic Indicators

	2015a	2016a	2017f	2018f	2019f	2020f	2021f
Employment (Per Cent Growth)							
FAO - Spring Outlook	0.7	1.1	1.3	1.1	1.0	0.9	0.9
2017 Budget	0.7	1.1	1.3	1.2	1.1	0.9	-
Unemployment Rate (Per Cent)							
FAO - Spring Outlook	6.8	6.5	6.4	6.3	6.3	6.3	6.2
2017 Budget	6.8	6.5	6.4	6.3	6.2	6.2	-
Labour Force (Per Cent Growth)							
FAO - Spring Outlook	0.1	0.9	1.1	1.0	1.0	0.9	0.9
2017 Budget	-	-	-	-	-	-	-
Population Growth (Per Cent)							
FAO - Spring Outlook	0.8	1.3	1.3	1.1	1.1	1.1	1.1
2017 Budget	-	-	-	-	-	-	-
CPI Inflation (Per Cent Growth)							
FAO - Spring Outlook	1.2	1.8	2.1	2.1	2.0	2.0	2.0
2017 Budget	1.2	1.8	2.0	2.0	2.0	2.0	-
Canada Real GDP (Per Cent Growth)							
FAO - Spring Outlook	0.9	1.4	2.2	2.3	2.0	1.9	1.9
2017 Budget	0.9	1.4	2.1	2.0	1.9	1.7	-
U.S. Real GDP (Per Cent Growth)							
FAO - Spring Outlook	2.6	1.6	2.3	2.3	2.2	2.1	2.1
2017 Budget	2.6	1.6	2.3	2.4	2.1	2.0	-
Canadian Dollar (Cents US)							
FAO - Spring Outlook	78.2	75.4	75.6	78.4	78.8	79.9	81.3
2017 Budget	78.2	75.4	74.5	75.5	78.5	80.0	-
WTI Crude Oil (US$)							
FAO - Spring Outlook	49	43	54	55	56	61	68
2017 Budget	49	43	54	59	62	64	-
Three-month Treasury Bill Rate (Per Cent)							
FAO - Spring Outlook	0.5	0.5	0.6	1.4	1.9	2.3	2.6
2017 Budget	0.5	0.5	0.5	0.8	1.5	1.9	-
10-year Government Bond Rate (Per Cent)							
FAO - Spring Outlook	1.5	1.3	1.8	2.5	2.9	3.6	3.9
2017 Budget	1.5	1.3	1.9	2.4	3.0	3.2	-

a = Actual f = Forecast

Source: Bank of Canada, Congressional Budget Office, Statistics Canada, FAO Consensus and FAO

Table 3: FAO Fiscal Outlook

($ Billions)	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Revenue							
Personal Income Tax	31.1	32.4	34.5	36.7	38.6	40.5	42.5
Sales Tax	23.5	24.7	25.8	26.5	27.3	28.2	29.2
Corporations Tax	11.4	12.7	13.3	14.0	14.6	15.1	15.6
All Other Taxes	25.8	24.0	25.1	25.9	26.9	27.6	28.5
Total Taxation Revenue	91.8	93.9	98.7	103.1	107.3	111.5	115.8
Transfers from Government of Canada	22.9	24.3	25.7	24.6	24.1	24.8	25.6
Income from Government Business Enterprise	4.9	5.3	4.9	5.7	6.0	6.3	6.5
Other Non-Tax Revenue	8.8	8.5	11.0	8.3	8.1	8.3	8.5
Total Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4
Expense							
Health Sector	51.0	52.2	53.8	56.3	58.1	60.6	63.3
Education Sector	25.0	25.7	26.5	27.4	28.0	29.0	29.8
Postsecondary and Training Sector	7.7	7.8	8.4	8.3	8.4	8.5	8.6
Children's and Social Services Sector	15.6	16.2	16.9	17.2	17.4	18.0	18.5
Justice Sector	4.5	4.6	4.7	4.7	4.8	4.9	5.0
Other Programs*	17.1	19.2	21.5	21.0	22.1	22.9	23.7
Total Program Expense*	120.9	125.7	131.8	134.9	138.8	143.8	149.0
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9
Total Expense	131.9	137.0	143.1	146.6	151.1	156.9	162.9
Budget Balance* (AG Presentation)	-3.5	-5.0	-2.9	-4.9	-5.5	-6.0	-6.5
Adjustment for Net Pension Assets	-1.5	-2.2	-2.3	-2.6	-2.9	-2.9	-2.9
Budget Balance (Government Presentation)	-3.5	-2.8	-0.5	-2.2	-2.6	-3.1	-3.6
Budget Balance (2017 Budget)	-3.5	-1.5	0.6	0.6	0.9		

a = Actual f = Forecast

* Based on AG recommended presentation with adjustment for net pension assets.

Note: Budget balance is presented without reserve.

Source: Statistics Canada, Public Accounts of Ontario, Annual Report of Ontario and FAO

Table 4a: FAO Debt Outlook (Auditor General Recommended Presentation)

$ Billions	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Budget Balance*	-3.5	-5.0	-2.9	-4.9	-5.5	-6.0	-6.5
Accumulated Deficit	202.7	207.7	210.6	215.5	221.0	227.0	233.5
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7
Change in Net Debt		10.9	13.5	16.8	19.0	14.0	12.3
Net Debt to GDP (Per Cent)	40.0	39.6	39.7	40.0	40.6	40.5	40.3

a = Actual f = Forecast

Note: * Budget Balance is presented without reserve.

Source: 2017 Ontario Budget and FAO

Table 4b: FAO Debt Outlook (Government Presentation)

$ Billions	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Budget Balance*	-3.5	-2.8	-0.5	-2.2	-2.6	-3.1	-3.6
Accumulated Deficit	192.0	194.8	195.3	197.6	200.2	203.3	206.9
Net Debt	294.5	303.1	314.3	328.5	344.6	355.7	365.1
Change in Net Debt		8.7	11.2	14.2	16.1	11.1	9.4
Net Debt to GDP (Per Cent)	38.6	38.0	37.8	38.0	38.3	38.0	37.5
Net Debt to GDP from 2017 Budget (Per Cent)	38.6	37.8	37.5	37.3	37.2	36.9	36.3

a = Actual f = Forecast

Note: * Budget Balance is presented without reserve.

Source: 2017 Ontario Budget and FAO

From: Anna Strathy
To: Gadi Mayman; Ronald Kwan; Ken Kandeepan
Cc: Deena Padamadan
Subject: FW: FAO"s Upcoming EFO Report
Date: Monday, May 08, 2017 11:09:35 AM
Attachments: EFO - Economic vMOF.docx
EFO - Fiscal vMOF.docx

Good morning,

The draft Economic and Fiscal chapters from the FAO report are attached. Password is FAO1616.

The FAO is asking for comments by eod tomorrow. I'm happy to consolidate our comments if you'd like to send to me.

Thanks, Anna

-----Original Message-----
From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Monday, May 08, 2017 10:48 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Subject: FW: FAO's Upcoming EFO Report

Hi Anna and Gavin,

Forwarding this for your attention/review as well. FAO is looking for commentary by EOD tomorrow. Note, the password is FAO1616.

Thanks,
Ryan

-----Original Message-----
From: David West [mailto:dwest@fao-on.org]
Sent: May-08-17 10:24 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Edward Crummey; Luan Ngo; Mario Angastiniotis; Nicolas Rhodes
Subject: RE: FAO's Upcoming EFO Report

Good Morning,

Please find attached drafts of the Economic Outlook and Fiscal Outlook chapters from the FAO's upcoming 'Economic and Fiscal Outlook' report.
The chapters are password protected using the same password as in the past.

The FAO's fiscal forecast incorporates the tax revenue adjustments that we received on Friday afternoon -- and which brings our short-term forecast much closer the Budget 2017 forecast.

Unfortunately, we are on a very tight schedule to enable us to release this report at the end of the May.

So, we are asking for your comments/concerns including any potential cabinet confidentiality issues by end of day tomorrow (Tuesday, May 9)

Thanks again for your support and assistance.

David West
Chief Economist

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
t.416.579.1465 | dwest@fao-on.org
www.fao-on.org

-----Original Message-----
From: David West
Sent: May 5, 2017 10:22 AM
To: 'Schuurman, Tim (MOF)' <Tim.Schuurman@ontario.ca>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Cindy.Veinot@ontario.ca
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Subject: FAO's Upcoming EFO Report

Hello,

Thanks again for our meeting on Tuesday. We appreciate the information you have provided as well as the responses to our questions at the meeting.

On Monday morning (as early as possible) we plan to provide you with draft copies of the Economic Outlook and Fiscal Outlook chapters (including Forecast Tables) from the FAO's upcoming EFO report.

We would hope you would be able to provide us with any comments or concerns on these chapters by Tuesday (May 9), end of day.

As in the past, the FAO will provide a final copy of the report 48 hours prior to release to both Ministers. I would email you a copy at the same time.

Thanks,

David West
416.579.1465

-----Original Message-----
From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: April 28, 2017 5:40 PM
To: David West <dwest@fao-on.org>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Luan Ngo <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Mario Angastiniotis <MAngastiniotis@fao-on.org>; Nicolas Rhodes <nrhodes@fao-on.org>
Subject: Re: Follow-Up on the 2017 Budget

Thanks David,

We're working on pulling together the various information pieces and people for a meeting Tuesday between 1pm and 2pm, so will be in touch to confirm.

As in past approaches, we won't be able to have everything for you on Tuesday but will be able to provide a downpayment for sure.

Have a great weekend
Tim

From: David West
Sent: Friday, April 28, 2017 5:14 PM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Luan Ngo; Edward Crummey; Mario Angastiniotis; Nicolas Rhodes
Subject: RE: Follow-Up on the 2017 Budget

As promised, please find attached more detailed questions.

Please confirm when we can meet early next week.

Thanks
dw

From: David West
Sent: April 28, 2017 9:32 AM
To: Tim Schuurman (Tim.Schuurman@ontario.ca) <Tim.Schuurman@ontario.ca>; karen.hughes@ontario.ca; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Cindy.Veinot@ontario.ca
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; 'Birks, Ryan (MOF)' <Ryan.Birks@ontario.ca>; 'Laughton, Patrick (TBS)' <Patrick.Laughton@ontario.ca>; 'Hosick, Sarah (TBS)' <Sarah.Hosick@ontario.ca>; Luan Ngo (lngo@fao-on.org) <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Mario Angastiniotis (MAngastiniotis@fao-on.org) <MAngastiniotis@fao-on.org>; Nicolas Rhodes (nrhodes@fao-on.org) <nrhodes@fao-on.org>
Subject: Follow-Up on the 2017 Budget

Good Morning!

Congratulations on delivering yesterday's big, black budget!

I wanted to follow-up on the FAO's requests for some additional information.

First, as we have discussed, we have three requests for specific data/tables:

1. We would like to obtain the detailed revenue and expense tables (Tables 6.14 and 6.15) extended to 2019-20.

- Are these detailed tables available to 2020-21? If so, then please include (:))

2. As staff have been discussing, we would like to obtain more detailed information on the one-time adjustments to taxation revenues beginning in 2015-16 and extending over the forecast. This is basically additional information to that provided in tables 6.7, 6.8 and 6.9.

3. As detailed in the letter and background documents sent to Deputies Thompson and Angus on April 3, we are requesting pension expense and employer contribution details for the OTPP and OPSEUPP.

We would also appreciate a meeting early next week (preferably Tuesday afternoon) to allow you to respond to a number of questions that we have with regard to the 2017 Budget.

We'll provide a list of specific questions later this afternoon, but these questions will cover a number of areas,

including:

- Clarification on where the Fair Hydro Plan appears in the expenses

- Additional details/clarification on new health spending, including the new pharmacare plan

- Clarification on future assumptions for asset sales and any details behind the 'Sales and Rentals' line in the detailed Revenue table.

- Clarification on the assumptions behind new federal funding announced in the 2017 federal budget (e.g. affordable housing, child care, home care)

- Some background on the decision to reduce the estimate of 'Carbon Allowance Proceeds' and assumptions on associated expense

- Additional details/clarification on new infrastructure spending

- Assumptions behind the plan to reduce net debt-to-GDP to 35% and eventually to 27%.

We'll provide a list later this afternoon that expands somewhat on these question topics.

Happy to discuss any of these requests.

Thanks again for your support,
David

David West
Chief Economist
[cid:image009.png@01D17ECB.966ECE00]

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
t.416.579.1465 | dwest@fao-on.org<mailto:dwest@fao-on.org>
www.fao-on.org<http://www.fao-on.org/>

Economic and Fiscal Outlook

2017

Draft Report

Confidential Document

May 2017



Economic Outlook

Overview

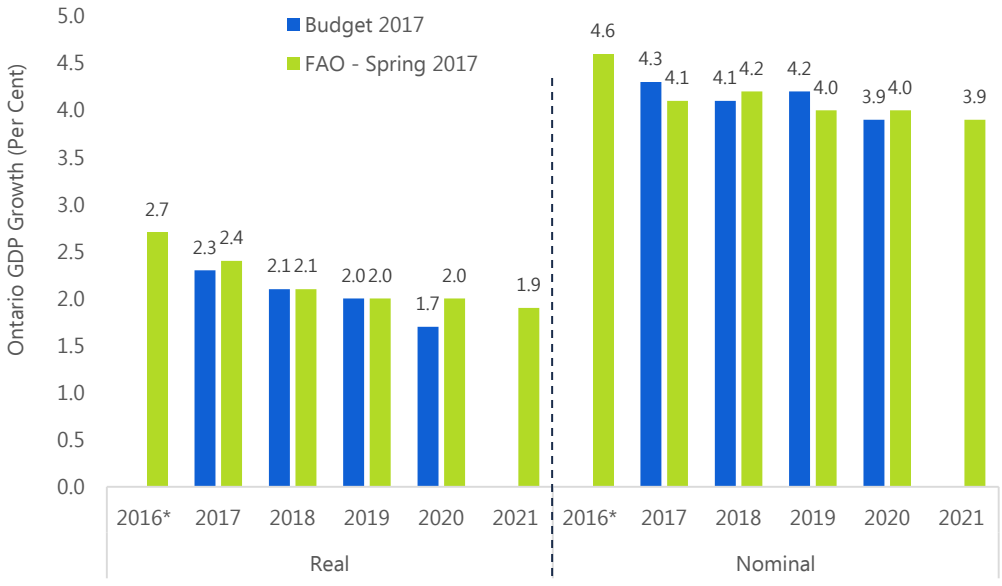
Ontario Economy Expected to Remain Strong in 2017

The Ontario economy finished 2016 with a strong 2.7 per cent increase in real GDP, reflecting solid growth in the second half of the year. Real GDP growth last year was significantly above the 2.1 per cent average gain seen from 2011 to 2015. Strong household spending, residential investment and exports contributed to the increase in real GDP in 2016.

Supported by the strong economic momentum in 2016 and continued improvement in economic indicators in the first quarter of 2017, the FAO is projecting real GDP to rise by 2.4 per cent in 2017 and 2.1 per cent in 2018.

Nominal GDP – the broadest measure of the tax base – increased by a robust 4.6 per cent in 2016. The FAO is projecting nominal GDP to increase by 4.1 per cent in 2017 and 4.2 per cent in 2018, reflecting solid gains in labour income and corporate profits.

Solid Economic Performance Expected Over Outlook



* 2016 are actuals
Source: Ontario Economic Accounts, Budget 2017 and FAO

Global Economy Gaining Momentum

In its latest World Economic Outlook,[1] the International Monetary Fund (IMF) is forecasting global economic growth to strengthen from 3.1 per cent in 2016 to 3.5 per cent in 2017 and 3.6 per cent in 2018. The IMF revised the outlook slightly higher for 2017, but left it unchanged for 2018, compared to its October 2016 outlook.[2]

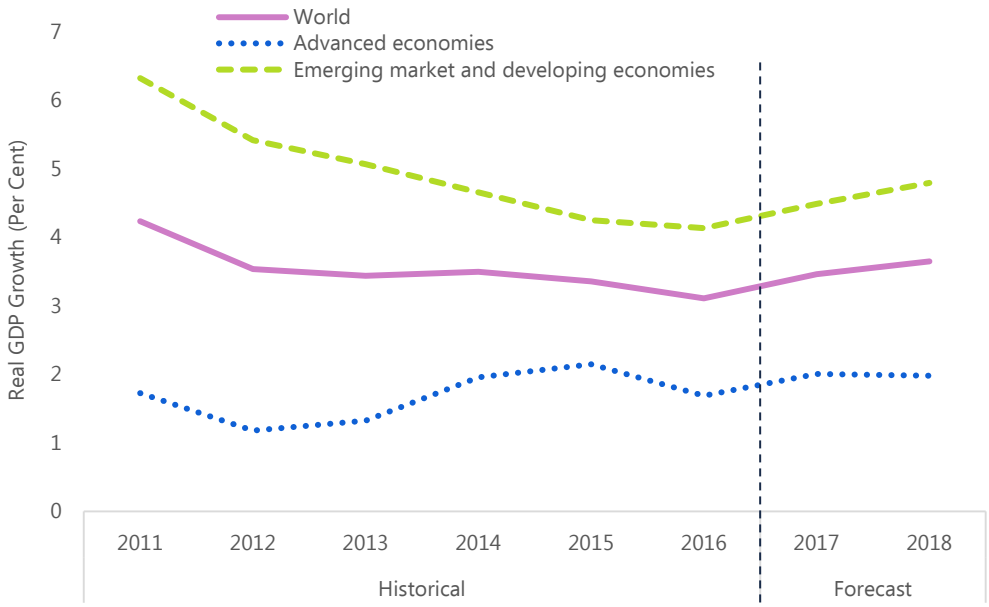
For advanced economies, the IMF's forecast for 2017 and 2018 has improved slightly from its October projection with growth of 2.0 per cent in 2017 and 2018.

Growth prospects for emerging market and developing economies are much more varied, but overall have weakened slightly from the IMF's October outlook, due to weaker economic conditions in key export markets. On average, the IMF has lowered its growth forecast for emerging markets and developing countries to 4.5 per cent in 2017, with 2018's forecast remaining unchanged at 4.8 per cent.

The IMF expects China – the world's second largest economy – to grow by 6.6 per cent in 2017 and 6.2 per cent in 2018, reflecting continued support from government policy. In the medium term, China's economic growth is expected to gradually moderate as its economy rebalances from investment and manufacturing-led growth to a more service-intensive economy.

[1] "World Economic Outlook, Gaining Momentum?", April 2017, International Monetary Fund.
[2] "World Economic Outlook, October 2016: Subdued Demand: Symptoms and Remedies," October 2016, International Monetary Fund.

Global Growth to Improve in 2017



Source: "World Economic Outlook, Gaining Momentum?", April 2017, International Monetary Fund

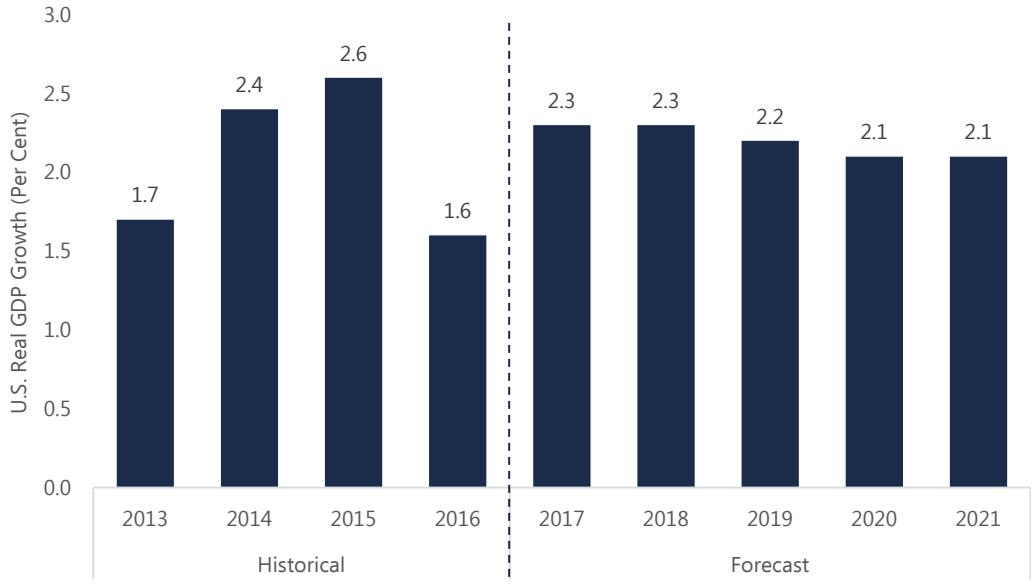
U.S. Economic Growth to Strengthen in 2017

U.S. real GDP advanced by a relatively moderate 1.6 per cent in 2016, the weakest increase in three years. For 2017 and 2018, the FAO projects U.S. growth to improve to 2.3 per cent, with household spending, business investment and residential construction being key contributors to overall growth.[3]

However, the lack of specific details on the new U.S. administration's proposed policies has raised the risks associated with the current U.S. outlook. Many forecasters are cautiously optimistic that some of the proposed fiscal policies, such as expected cuts to corporate tax rates, could boost U.S. economic growth in the short-term.[4] But this optimism is tempered by the potential for large future increases in the U.S. budget deficit, which could weigh on economic growth over the medium-term.

From 2019 to 2021, U.S. real GDP growth is projected to average 2.1 per cent annually, which is in-line with the average rate seen from 2012 to 2016.

U.S. Economic Growth Moderates Beyond 2017



[3] The FAO forecast for the U.S. economy in 2017 is based on the U.S. Congressional Budget Office's (CBO) latest forecast. For 2018 to 2021, the U.S. forecast is based on the average of the CBO outlook and the forecasts of three independent model-based forecasters – the Conference Board of Canada (CBOC), the Centre for Spatial Economics (C4SE) and the Policy and Economic Analysis Program (PEAP) at the University of Toronto.
[4] These forecasters include the IMF, CBO, TD Bank, RBC, BMO Capital Markets and National Bank Economics.

Source: Federal Reserve Bank of St. Louis, Congressional Budget Office and FAO Consensus

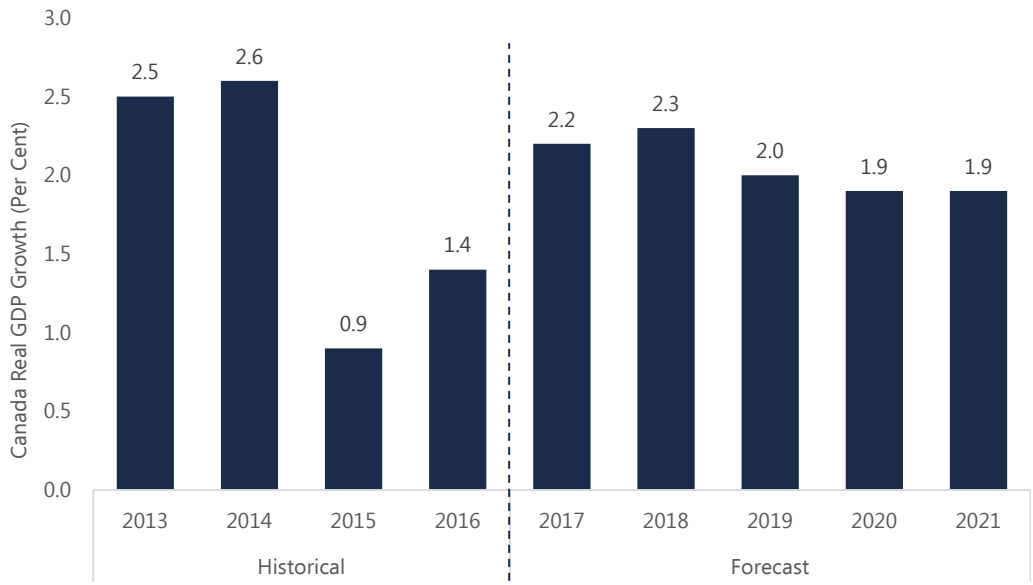
Canadian Economic Growth Expected to Rebound

The outlook for the Canadian economy has improved following strong growth over the second half of 2016.

Continued momentum in recent economic indicators point to a solid start for 2017. Canadian real GDP is currently projected to grow by 2.2 per cent in 2017 and 2.3 per cent in 2018, recovering from more moderate growth in 2015 and 2016.[5] Strength in household spending and non-energy exports are expected to contribute to overall growth in 2017 and 2018.

Beyond 2018, Canadian real GDP is projected to increase at an average annual rate of 2.0 per cent, as the economy continues to adjust to slower growth in the energy sector.

Canada GDP Growth Expected to Improve in 2017



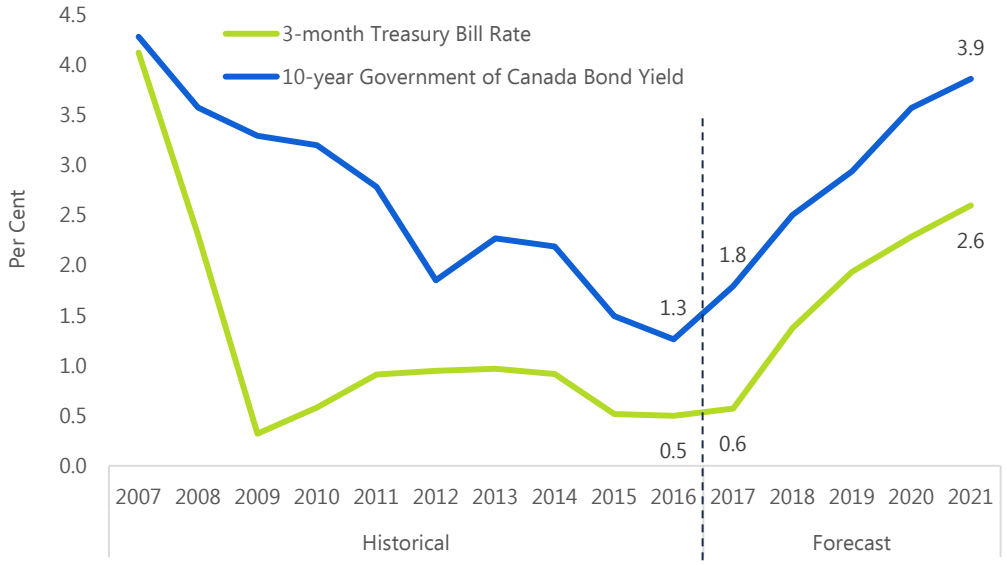
Source: Statistics Canada and FAO Consensus

[5] The FAO forecast for the Canadian economy is based on the average quarterly forecasts of two independent, model-based forecasters – the Conference Board of Canada (CBOC) and the Policy and Economic Analysis Program (PEAP) at the University of Toronto.

Based on the continuing recovery of the U.S. economy, and in particular the strength of U.S. labour markets, the U.S. Federal Reserve raised its key policy interest rate in March 2017.[6] In contrast, the Bank of Canada has remained more cautious about the underlying strength of the Canadian economy and as a result appears unlikely to raise its key policy interest rate before 2018.[7]

The FAO is projecting Canadian short-term interest rates will remain near current levels through 2017 and then begin rising modestly in 2018. Beyond 2018, interest rates are expected to gradually normalize with the 3-month Treasury Bill rate increasing to 2.6 per cent and the 10-year Government of Canada bond yield rising to 3.9 per cent by 2021.

Canadian Interest Rates to Rise over the Forecast



Source: Statistics Canada and FAO

The Canadian dollar is expected to gradually appreciate over the next five years, rising from an average of about 75 cents U.S. in 2016 to about 81 cents U.S. by 2021, supported by the steady increase in short-term interest rates and a gradual rise in oil prices.

[6] The Federal Reserve raised its key policy rate, or the Federal Funds Rate, to 1.0 per cent on March 15, 2017.
[7] In its most recent monetary policy report, the Bank of Canada (BOC) indicated that it expects the output gap to close in early 2018. At the same time, the BOC noted that "there is still considerable uncertainty about the outlook," suggesting caution with regard to future changes in its policy interest rate. Bank of Canada Monetary Policy Report, April, 2017

Ontario Economic Outlook

Solid Real GDP Growth Expected in 2017

Based on the Ontario Ministry of Finance's estimates,[8] Ontario real GDP rose by a strong 2.7 per cent in 2016, following equally strong gains of 2.5 per cent and 2.7 per cent in 2015 and 2014, respectively. Household spending, residential investment and exports were key contributors to overall economic growth last year. Business investment in plant and equipment disappointed expectations, declining by 4.0 per cent.

The performance of a number of economic indicators, including employment, retail sales and home sales remained solid in the first quarter of 2017. However, Ontario's merchandise export performance has been uneven so far in 2017.

Uncertainty over the future direction of U.S. trade and industrial policy could hamper business investment growth in the near term, which would negatively impact Ontario's competitiveness. Without stronger business sector investment to expand production capacity, the growth potential of several key Ontario industries will be limited.[9] As a result, despite the projection for steady growth in the U.S. and a competitively valued Canadian dollar, Ontario's net exports[10] are projected to grow at a relatively moderate pace over the outlook.

The FAO is forecasting real GDP growth of 2.4 per cent in 2017, supported by strong household spending and residential investment.[11] The pace of Ontario's overall economic growth will moderate to 2.1 per cent in 2018 and to an average of 2.0 per cent over the last three years of the outlook.

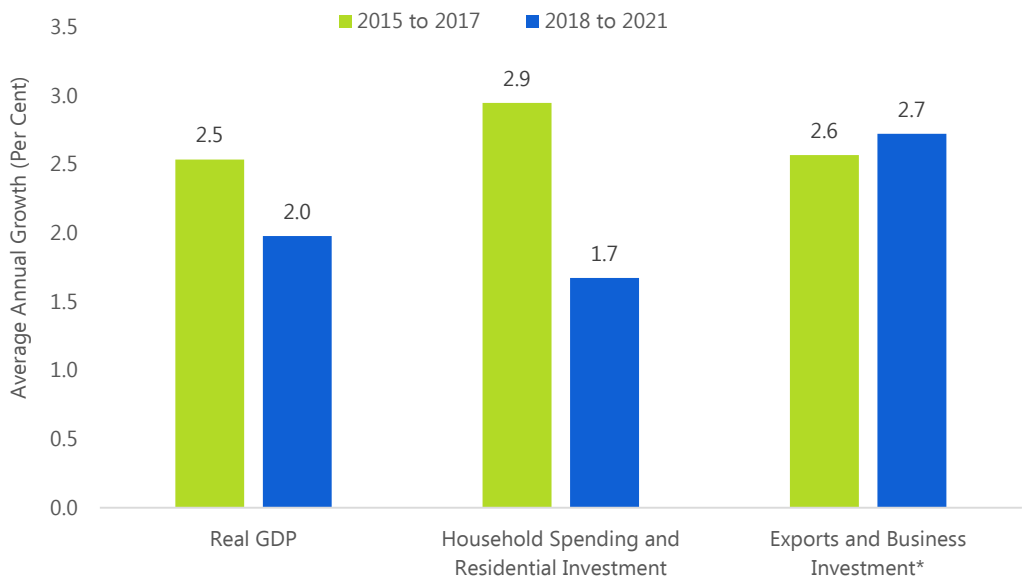
Moderate declines in residential investment in 2018 and 2019 – reflecting elevated household debt and a moderation in housing prices – is expected to contribute to the slower pace of overall economic activity.

The FAO forecast is broadly consistent with the consensus view among economists that exports and business investment will lead Ontario growth over the next several years, while household spending and residential investment will

[8] Ontario Economic Accounts, Fourth Quarter 2016, released April 13, 2017.
[9] As noted in a recent Conference Board of Canada report, nearly half of Ontario businesses are operating near or above capacity, hampering the ability of Ontario businesses to increase production to meet foreign demand. Conference Board of Canada Outlook, Winter 2017.
[10] Net exports are exports less imports of goods and services.
[11] The FAO forecast of the Ontario economy is based on the FAO's short-term quarterly model of the Ontario economy. For a description of the model, please refer to the textbox at the end of the Economic Outlook chapter.

grow at a more moderate pace, as households reduce borrowing to address high debt loads.

Exports and Business Investment Expected to Drive Economic Growth



* Business Investment includes both Non-Residential Investment and Machinery & Equipment Investment
Source: Ontario Economic Accounts and FAO

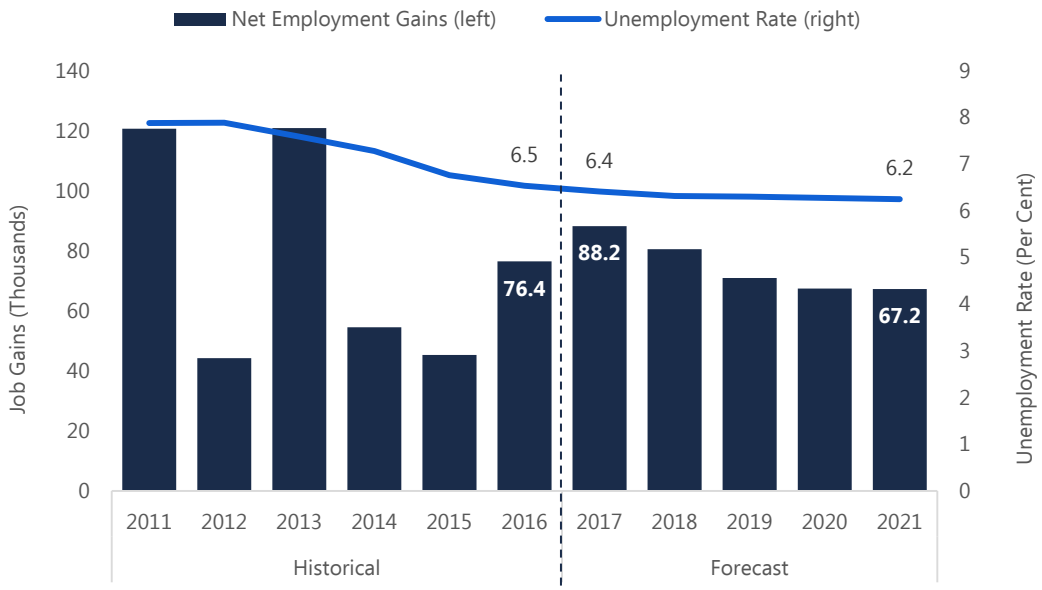
Steady Job Gains Over Outlook

Ontario experienced relatively strong employment growth of 1.1 per cent in 2016 (+76,400 net new jobs), the majority of which were full-time, private sector jobs. There was robust job growth in both goods and service producing industries. The construction industry in particular, posted the highest job growth (+3.4 per cent), followed by healthcare (+3.2 per cent).[12]

The strength in Ontario's labour market continued into 2017 with an increase of 99,600 jobs on a year-over-year basis during the first quarter. For the year, the FAO is projecting a 1.3 per cent gain in employment in 2017. On average, the FAO is forecasting average annual job gains of 1.0 per cent over the next four years, consistent with the outlook for solid economic growth.

[12] For a more detailed discussion on Ontario's labour market, see the FAO's Commentary: "Ontario Posts Solid 2016 Job Gain as the Labour Market Continues to Evolve."

Steady Employment Gains as Unemployment Rate Slowly Trends Lower



Source: Statistics Canada and FAO

Sustained economic growth over the outlook is expected to attract more workers into the labour force, which is forecast to rise at a slightly higher rate than over the last five years. Faster labour force growth from 2017 to 2021, will partially offset relatively strong employment gains, leading to a more moderate decline in the unemployment rate over the outlook.

Strong Gains Expected for Labour Income and Corporate Profits

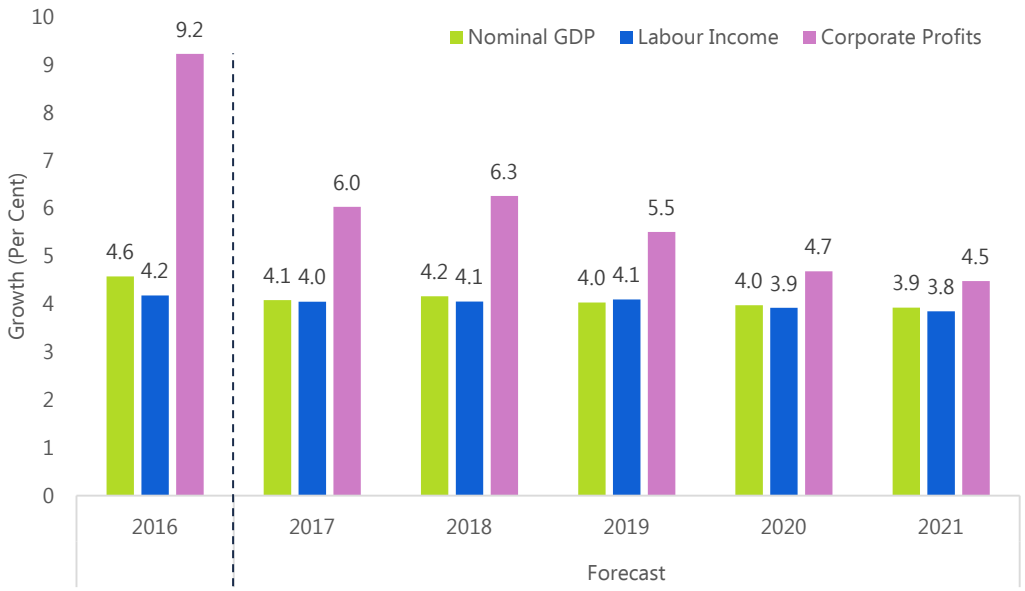
Labour income grew by a robust 4.2 per cent in 2016, above the average annual increase of 3.7 per cent from 2011 to 2015, and a reflection of the strong employment growth last year. The net operating surplus of corporations (largely corporate profits) also increased by a robust 9.2 per cent in 2016 following an equally strong gain of 9.1 per cent in 2015.

As a result of the gains in labour income and corporate profits (which together account for about two-thirds of nominal GDP), nominal GDP grew by a strong 4.6 per cent in 2016.[13]

[13] The robust 2016 increase in nominal GDP was much stronger than the 3.4 per cent increase projected in both the FAO's Economic and Fiscal Outlook, Fall 2016 Update and the government's 2016 Economic Outlook and Fiscal Review. The sharp upward shift in 2016 nominal GDP growth reflects large historical revisions to 2015 and 2016 nominal GDP growth in the Ontario Economic Accounts, consistent with new data from Statistics Canada. In particular, the net operating surplus of corporations is now estimated to have increased by 9.2 per cent in 2016 compared to an original projection of 0.3 per cent last fall.

For 2017, the FAO is projecting a 4.1 per cent rise in nominal GDP, supported by strong gains in labour income (+4.0 per cent) and corporate profits (+6.0 per cent). On average, the FAO is projecting nominal GDP growth of 4.0 per cent over the 2018 to 2021 outlook.

Labour Income and Corporate Profits Support Nominal GDP Growth



Source: Ontario Economic Accounts and FAO

Key Risks for Ontario's Economic Outlook

The FAO's current economic forecast represents a reasonable outlook for the Ontario economy and an appropriate foundation for fiscal projections. However, several key risks could materialize leading to weaker than expected economic growth for the province.

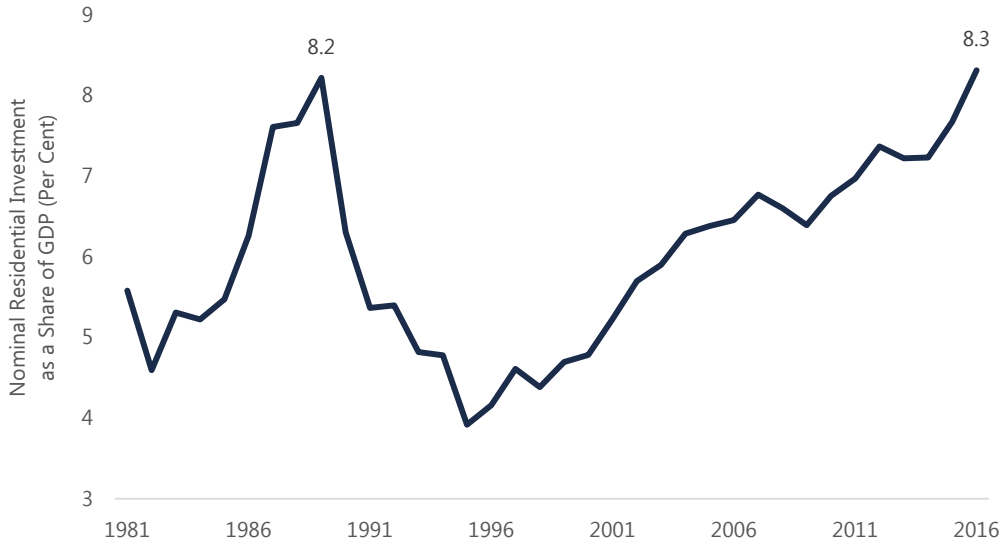
In particular, there are significant risks with respect to the proposed renegotiation of the North American Free Trade Agreement (NAFTA) and the adoption of protectionist trade measures in the United States. As well, other proposed changes to U.S. fiscal and industrial policies, such as lower corporate tax rates and 'Buy America' executive orders, could harm Ontario's relative competitiveness, further discouraging business investment and limiting the contribution of exports to overall growth.

Domestically, the housing market continues to pose a significant risk to the overall economy. The sharp rise in Ontario housing prices – particularly in the

Greater Toronto Area – has contributed to record consumer debt loads and stretched levels of affordability.

At the same time, the relative importance of residential housing investment to the overall economy has increased substantially in recent years, posing a significant risk to the Ontario economy, in the event of a sharp housing market correction. In 2016, investment in residential housing accounted for a record high 8.3 per cent of Ontario's nominal GDP, up from 6.4 per cent in 2009.[14]

Residential Investment Spending Accounts for a Record Share of GDP



Source: Ontario Economic Accounts and FAO

The last time investment in residential housing accounted for a similar proportion of the economy was 1989, just prior to the 1990-1995 housing market correction.

A sharp correction in housing prices, exacerbated by the elevated levels of household debt, would negatively affect household spending and residential investment, and could lead to broader economy-wide impacts on growth and employment.

The Province recently announced a package of measures intended to respond to the underlying factors contributing to the unsustainable rise in housing prices

[14] Almost one-quarter (22 per cent) of the growth in nominal GDP in 2016 was directly attributable to the increase in residential investment spending.

and the rapid growth in housing market activity. However, it is too early to assess whether these measures will adequately address the imbalance between demand and supply pressures in the market.

The FAO's Quarterly Short-term Model of the Ontario Economy

The FAO has developed a short-term forecasting model to produce quarterly five-year projections of the Ontario economy. The model is based on dynamic equations for major sub-categories of real and nominal GDP. The model also includes key labour market components, financial variables and the Canada-U.S. dollar exchange rate. The model is structured around a number of important external or exogenous concepts such as Canada-wide economic growth, U.S. economic growth, U.S. prices, U.S. interest rates and energy prices.

The model is an important tool for the FAO's bi-annual Economic and Fiscal Outlook (EFO), ensuring internal consistency of each projection as well as consistency between EFO forecasts. It also provides the majority of the inputs required by the FAO's Fiscal Outlook Model which provides the FAO's projection of the government's fiscal position.

Financial Accountability Office of Ontario

Economic and Fiscal Outlook

Fiscal Chapter

May 8, 2017

Confidential Document

This document is confidential. It should not be shown or otherwise transmitted to anyone other than those who have been asked by the Financial Accountability Office of Ontario to provide comments.

Spring 2017

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1. Fiscal Outlook

Overview

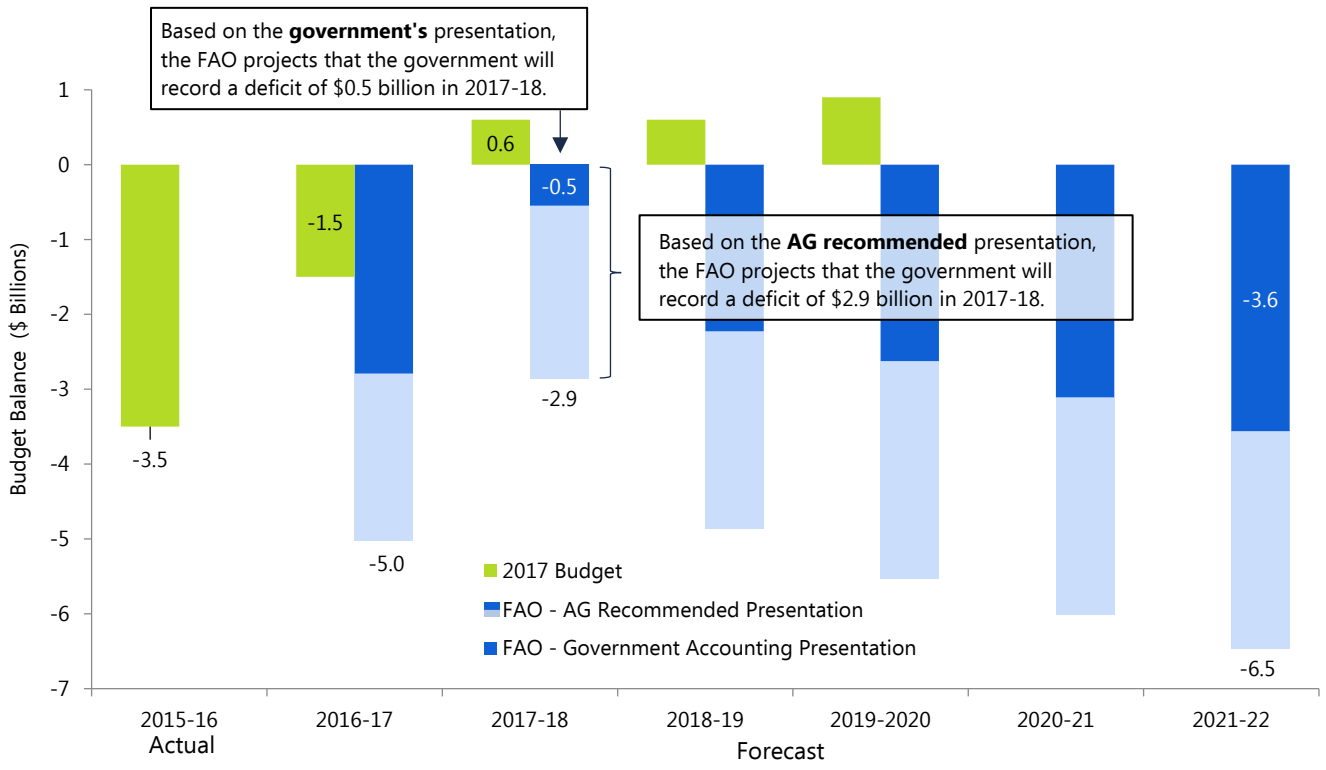
Continued Budget Deficits Projected

Based on the FAO's current economic forecast and updated fiscal information, the FAO is projecting continued Ontario budget deficits over the outlook. In the near term, the deficit improves due to strong tax revenue growth and a temporary boost to non-tax revenue. However, beginning in 2018-19, the deficit is expected to increase as a result of moderating revenue growth combined with higher expenses.

The government and the Auditor General (AG) disagree on the application of public sector accounting standards with respect to jointly-sponsored pension plans. Based on the Auditor General's recommended accounting presentation, the FAO is projecting a budget deficit of $2.9 billion for 2017-18, rising to $6.5 billion by 2021-22. (Please refer to the discussion on page 8 for additional background and context on this issue.)

Based on the government's accounting presentation in the 2017 Budget, the FAO is projecting a budget deficit of $0.5 billion in 2017-18, growing to $3.6 billion by 2021-22.[1] By comparison, the government is projecting a budget surplus (before the reserve) of $0.6 billion in 2017-18, followed by continued small surpluses over the next two years.

Ontario's Budget Balance*



* Budget balance excluding reserve.

Source: 2015-16 Public Accounts, 2017 Budget and FAO

[1] The Auditor General would be expected to provide a qualified opinion on Ontario's 2016-17 Public Accounts if the government continues to report the net pension assets of jointly sponsored pension plans in its financial statements.

On the government's accounting basis, the FAO projects that a balanced budget is within the government's reach in 2017-18. However, the budget deficit is expected to increase after 2017-18, due to moderate revenue growth, the absence of one-time non-tax revenues, and higher program expenses. Staying in balance after 2017-18 will likely require additional fiscal policy measures.

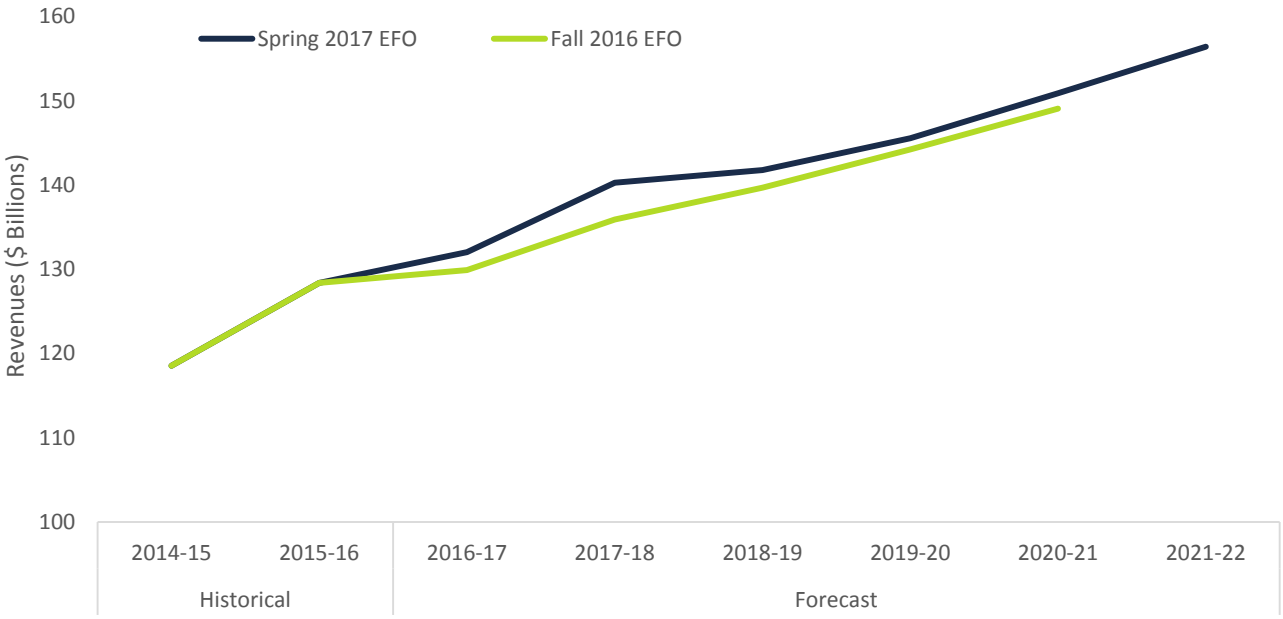
Under the Auditor General's accounting presentation, the FAO is projecting significant budget deficits over the entire outlook. On this basis, it is unlikely that the government will balance the budget in 2017-18 without significant additional fiscal policy measures (that is, higher revenues or lower expense). Beyond 2017-18, significant fiscal adjustments will likely be required to maintain budget balance through the outlook.

Revenue Outlook

The FAO is projecting average annual revenue growth of 3.3 per cent per year from 2016-17 to 2021-22, in-line with the forecast from the FAO's fall outlook.

However, in the near-term, revenue growth is stronger than expected due to robust economic performance in 2016 and 2017, and a boost from one-time revenues in 2017-18. Beyond 2017-18, growth in tax revenues moderates and the benefit of one-time non-tax revenues ends.

Revenues Stronger Than Expected in Near Term



Source: FAO and Public Accounts

FAO Revenue Assumptions and Forecast

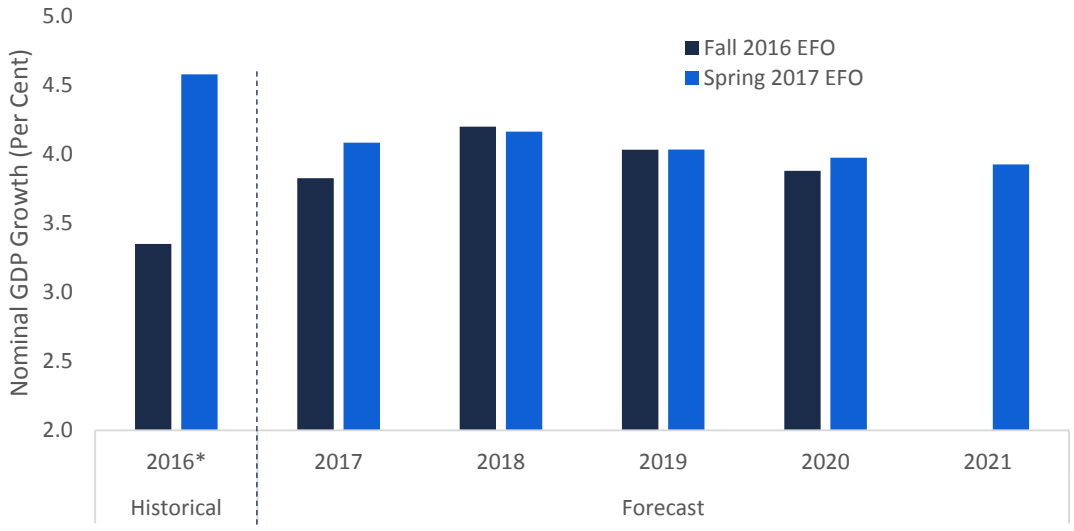
Revenue Source	Assumption	Forecast
Taxation Revenue	Grows with key economic drivers including labour income, corporate profits and household consumption.	Averages 3.9 per cent growth per year from 2016-17 to 2021-22
Federal Transfers	Based on legislated growth rates and economic performance	Federal transfers are expected to grow by 1.9 per cent per year from 2016-17 to 2021-22
Government Business Enterprises	Based on government projections	Income from GBEs are projected to rise moderately from $5.3 billion in 2016-17 to $6.5 billion in 2021-22
Other Revenue	Based on government projections, includes asset sales, and cap and trade	These revenues are projected to increase from $8.5 billion in 2016-17 to $11.0 billion in 2017-18, declining to $8.5 billion by 2021-22

Stronger Economic Growth Expected to Boost Tax Revenue

Consistent with the FAO's economic forecast, the FAO is currently projecting tax revenues to rise at an average of 3.9 per cent from 2016-17 to 2021-22, much stronger than the 3.0 per cent forecast in the FAO's fall outlook.

Since the FAO's fall report, nominal GDP – the broadest measure of the tax base – was revised significantly higher in 2016, improving the forecast for 2017.[2] However, beyond 2017, the outlook for nominal GDP growth is relatively unchanged from the fall forecast.

Nominal GDP up Significantly in the Near-Term Since the Fall



* 2016 value for Fall 2016 EFO was the FAO's forecast at the time of the report's release.
Source: Ontario Economic Accounts and FAO

[2] See economic section, and the footnote on page 11.

Improving economic prospects in 2017 are expected to lift the Province's tax revenue by approximately $2.3 billion in 2016-17 and $4.1 billion in 2017-18, compared to the FAO's fall estimates.

- Personal income tax revenue is forecast to grow stronger than expected in the fall due to the improved forecast for labour income.[3]
- Corporations tax revenue is projected to benefit from the stronger outlook for corporate profits.
- Sales tax and land transfer tax revenues are expected to improve in 2016-17 and 2017-18 due to the on-going strength in Ontario's housing market.

Equalization Entitlement Declines

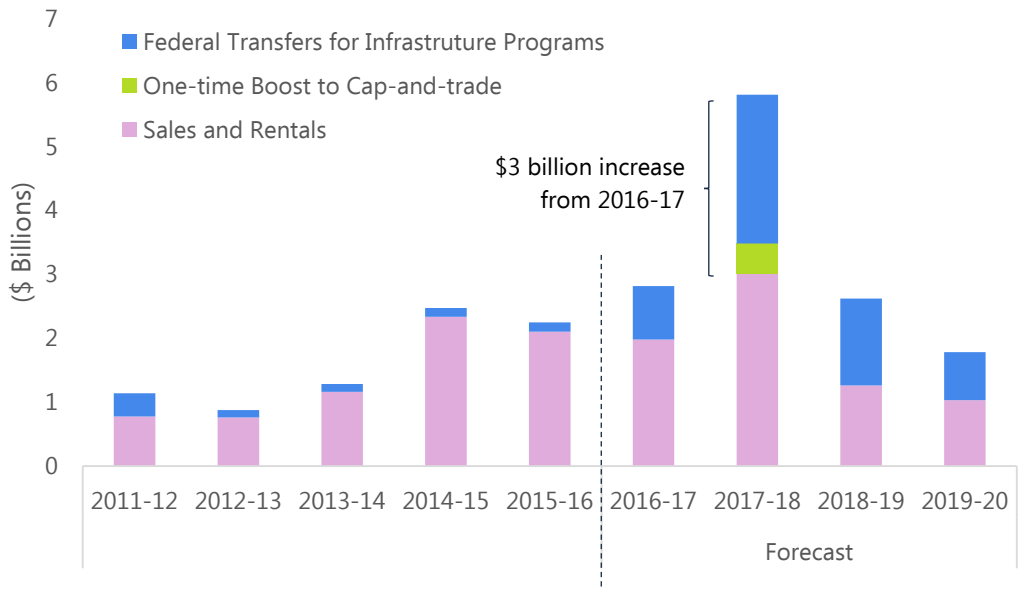
Given Ontario's recent economic strength relative to the rest of Canada, the Province's Equalization entitlement declined $0.8 billion to $1.4 billion in 2017-18, and is projected to drop further to $0.6 billion in 2018-19. Beyond 2018-19, the FAO is projecting that Ontario will no longer be entitled to Equalization payments — a reflection of the continued relative strength of the Ontario economy.

2017-18 Revenues to Benefit from One-time Increases

Based on the 2017 Budget and incorporated into the FAO's projections, Ontario revenues will be boosted by $3.0 billion in one-time increases in 2017-18, including:

- $1.5 billion in higher revenue from federal transfers for infrastructure;
- $1.0 billion increase in sales and rentals revenue, suggesting significant additional asset sales; and
- $0.5 billion in additional cap and trade proceeds from March 2017, which will be recognized in 2016-17.[4]

2017-18 Non-tax Revenue Boost



Source: Ontario Budgets, Ministry of Finance and FAO

[3] However, near-term revenue growth will be somewhat dampened as some high-income earners have shifted earnings into the 2015 tax year to avoid the new higher 33 per cent tax rate introduced by the federal government in 2016 (http://www.fin.gc.ca/afr-rfa/2016/report-rapport-eng.asp#_Toc463249478). The FAO continues to adopt the federal government's estimate of this income shifting, and has adjusted the personal income tax forecast accordingly.

[4] The government indicated that the cap and trade revenues will be recognized in 2017-18 because the allowances were certified and delivered on April 2, 2017.

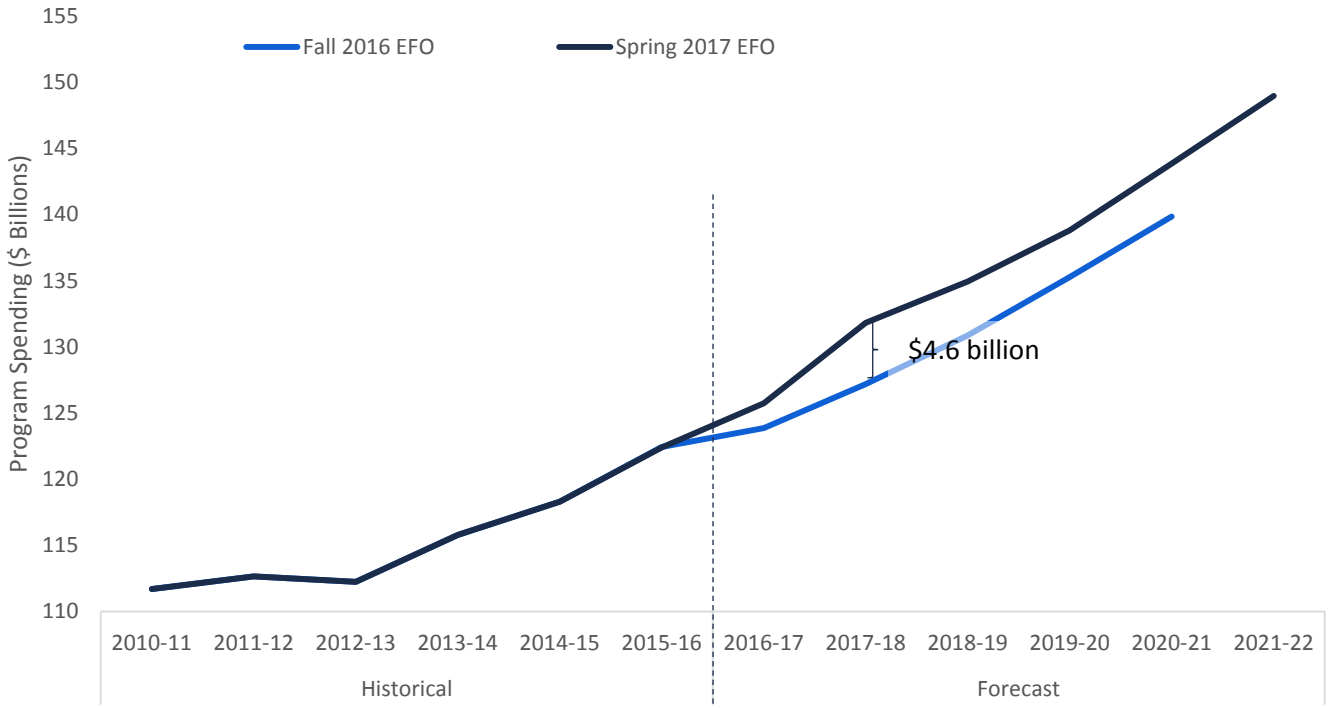
Expense Outlook

Program Expense to Increase Significantly over the Outlook

The FAO projects program spending growth of 3.3 per cent per year over the 2016-17 to 2021-22 period.

Over the 2016-17 to 2019-20 period, the FAO adopts the government's 2017 Budget projections for program spending[5], adjusted to reflect the Auditor General's recommended accounting treatment for jointly sponsored pension plans.[6] The expense outlook includes significant new spending across all sectors, including a new children and youth Pharmacare program, higher operating funding for hospitals, 24,000 new child care spaces[7], and the government's new 'Fair Hydro Plan'. As a result, spending is now forecast to be significantly higher by 2017-18 than assumed in the FAO's fall outlook.

Program Expense Higher than Projected in the Fall



Note: Program spending based on AG recommended presentation.
Source: Ontario Public Accounts and FAO

With these new expenses, program spending is expected to grow 3.3 per cent per year on average over the next five years. This growth rate is in-line with underlying growth in cost - and demographic-related pressures of 3.5 per cent on average.

Beyond 2019-20, the FAO projects program spending to increase by 3.6 per cent annually, consistent with underlying factors including population growth, aging, and price inflation.

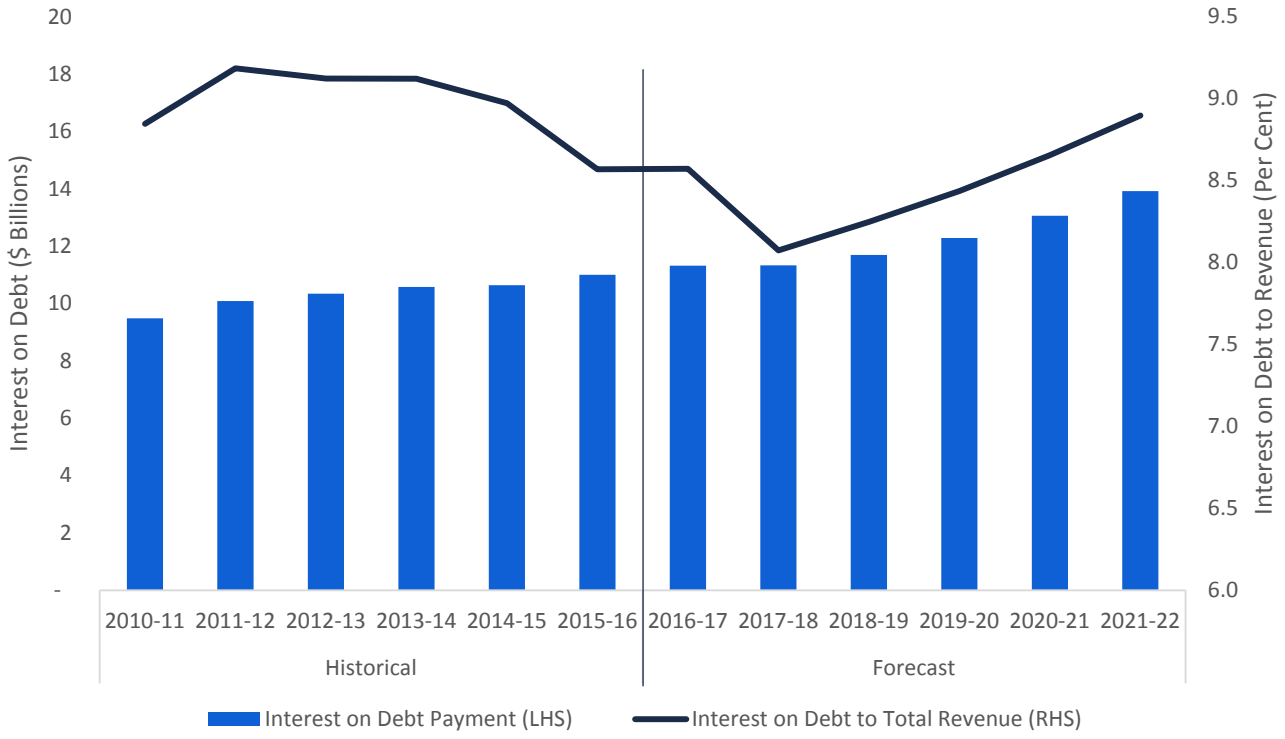
[5] Given the government's discretion over spending, the FAO adopts the government's announced spending plans from fiscal documents and incorporates policy announcements as appropriate.
[6] The adjustment reflects the inclusion of a valuation allowance to offset the value of net pension assets in jointly sponsored pension plans. This adjustment increases 'other program' expense by $2.2 billion in 2016-17, rising to $2.9 billion by 2020-21.
[7] Ministry of Finance officials indicated that the 24,000 in new child care spaces announced in the 2017 Budget is part of the government's September 2017 Throne Speech commitment to create 100,000 spaces. The remaining funding has yet to be included in the fiscal plan.

Interest on Debt

The FAO projects interest on debt (IOD) payments will increase at an average annual rate of 4.0 per cent from $11.0 billion in 2015-16 to $13.9 billion by 2021-22, reflecting higher debt and rising interest rates over the outlook. Interest on debt has become the Province's third largest spending category and will significantly outpace the growth in program expense over the outlook.

As a share of revenues, IOD is projected to increase from 8.1 per cent in 2017-18 to 8.9 per cent by 2021-22, as the rise in interest payments outpaces growth in revenues. Over the past five years, IOD as a share of revenues declined steadily, benefitting from declining interest rates. With interest rates projected to increase significantly over the next five years, the ratio is expected to rise sharply.

Interest on Debt to Rise Sharply as a Share of Revenues



Source: Ontario Public Accounts and FAO

Ontario Debt Outlook

Ontario Net Debt-to-GDP To Remain Elevated

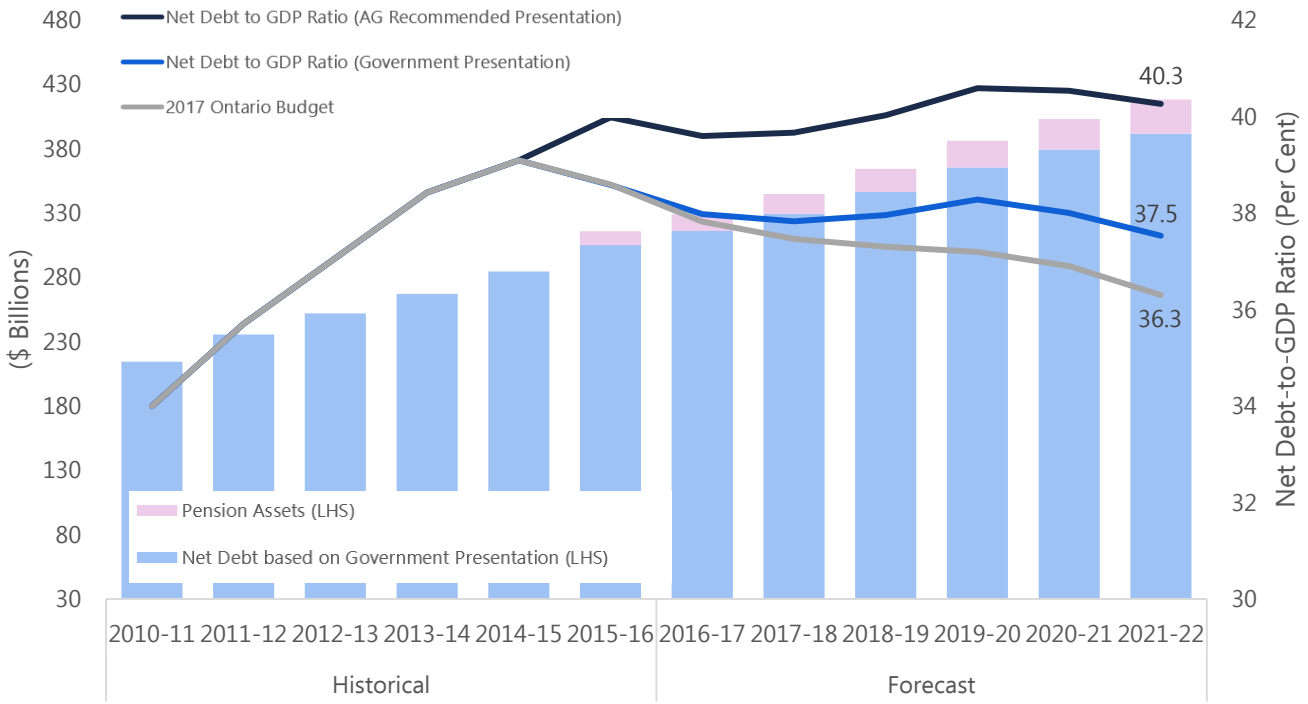
Ontario's total borrowing requirements are expected to remain high over the outlook. To finance the cost of projected capital spending, finance on-going deficits (as projected by the FAO) and refinance maturing debt issues, provincial borrowing is expected to average $37 billion per year over the next five years.

As a result, the FAO projects Ontario's net debt to increase by $87 billion over the next five years to more than $392 billion by 2021-22 based on the AG's recommended accounting presentation. By comparison, using the accounting treatment adopted by the government in the 2017 Budget, the FAO projects Ontario's net debt will rise by $71 billion to $365 billion by 2021-22.

Based on the AG's recommended accounting presentation, the FAO expects Ontario's net debt-to-GDP ratio will edge higher over the outlook, rising to 40.3 per cent by 2021-22, reflecting the projected increase in net debt and the FAO's forecast for nominal GDP growth. In contrast, based on the accounting treatment adopted by the government in the 2017 Budget, net debt-to-GDP is projected to fall slightly from 38.6 per cent in 2015-16 to 37.5 per cent by 2021-22.

In the 2017 Budget, the Province set an interim net debt-to-GDP target of 35 per cent by 2023-24 and committed to achieving 27 per cent by 2029-30. The FAO's net debt-to-GDP projections under both accounting presentations, suggest that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24.

Ontario's Net Debt to GDP Ratio



Source: Ontario Economic Accounts, 2017 Ontario Budget, and FAO

Risks to the Fiscal Plan and Policy Options

There are material risks that could impact Ontario's fiscal position.

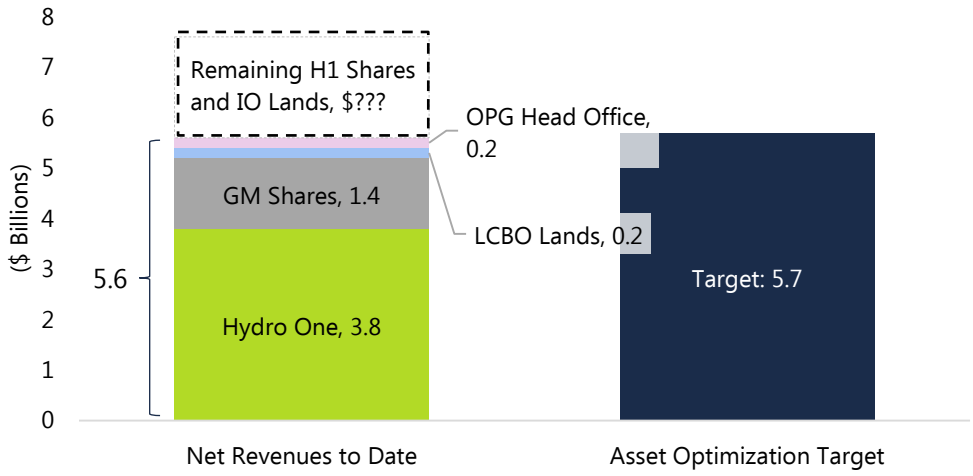
- A sharp correction in the housing market could present a significant risk for both the broader economy and for the Province's fiscal plan. As discussed in the FAO housing commentary[8], a decline in house prices and housing market activity would directly reduce Land Transfer Tax and HST revenues. In addition, the broader economic impacts would impact personal and corporate income tax revenues.
- In the 2017 Budget, the government has significantly reduced the prudence built into its program spending projection compared to the previous budget, leaving less fiscal flexibility for the government to respond to unexpected events.[9] In addition, interest on debt payments as a share of both program spending and revenue are expected to increase significantly, exposing the government to increased fiscal risk should interest rates rise faster than expected.

On the other hand, the government has increased spending growth to a rate in line with underlying spending pressures, which diminishes the expense risk identified in earlier FAO reports.

Additionally, the government has a broad range of policy options that could improve its fiscal position, including the sale of additional public assets beyond announced targets. To date, the government has generated $5.6 billion in revenues from asset sales, close to its target of $5.7 billion over 10 years.

Given that the government has indicated that it still intends to sell an additional 30 per cent of Hydro One, as well as Infrastructure Ontario real estate holdings, it may significantly overachieve its asset sales target.

Asset Optimization Revenues and Target



Source: FAO and Ontario Budgets

[8] Financial Accountability Officer of Ontario, The Impact of a Housing Market Correction on Ontario's Fiscal Position, 2017

[9] In the 2017 Budget, contingency funds total $0.6 billion for the coming fiscal year, half the size built into the 2016 Budget fiscal plan. Similarly, the government's target for year-end savings has increased to $1.2 billion for the coming year, compared to $0.8 billion in Budget 2016.

The Accounting Treatment of Jointly Sponsored Pension Plans

Background

Ontario's 2015-16 Public Accounts noted a disagreement between the Office of the Auditor General and the Province on the appropriate accounting treatment for net pension assets of jointly sponsored pension plans. Specifically, the Province is a joint sponsor of two pension plans, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees Union Pension Plan (OPSEUPP).

The government's position is that these pension assets have been appropriately and consistently reflected on the Province's financial statements since 2001. The Office of the Auditor General, based on a review of these pension assets, determined that a change in the accounting treatment was required. The Auditor General concluded that under current Canadian public sector accounting standards, the government could not unilaterally recognize a pension asset on its financial statements without evidence - in the form of a written agreement - permitting it to realize the asset through reduced contributions.[10]

In response, the Province appointed its own advisory panel to review and provide a recommended interpretation of public sector accounting standards with respect to the assets of jointly sponsored pension plans. The panel's report[11], released in February 2017, concluded that the Province's share of net assets in jointly sponsored pension plans could be fully recognized in the Province's financial statements — contrary to the opinion of the Office of the Auditor General.

In the 2017 Budget, the government adopted the advisory panel's interpretation of public sector accounting standards and recognized the net pension assets of the jointly sponsored pension plans. The 2017 Budget also indicated that the Province's 2016–17 Public Accounts will report the net pension assets for the two jointly sponsored pension plans.

The Central Issue

The government and the Auditor General have put forward different interpretations of the application of public sector accounting standards for jointly sponsored pension plans.[12]

The different interpretations centre on the question of the control of assets in jointly sponsored pension plans. In particular, the issue is focused on whether there needs to be an explicit written agreement between the co-sponsors (the government and the unions representing the employees) on how the sponsors plan to use the pension assets, for example by lowering contributions or increasing benefits to pensioners.

As indicated by the Auditor General, the issue can be resolved if the government presents an agreement with the Ontario Teacher's Federation (OTF) allowing the government to access the OTPP pension assets through reduced contributions.[13] The extent and duration of the reduced contributions would determine the size of the pension asset that the government could recognize in its financial statements

The government, based on the advice of the advisory panel, maintains that the existing agreements governing the pension plans already recognize the sponsors' rights to access assets in the plans and also provide the mechanism to potentially realize a benefit through lower future contribution rates.

[10] The government's 2016 Budget reported a negative expense for the OTPP which led, in part, to the Auditor General conducting an in-depth review of the related pension assets.

[11] https://news.ontario.ca/tbs/en/2017/02/pension-asset-expert-advisory-panel-submits-report.html

[12] In 2015, PSAB created an Employment Benefits Task Force to review the existing accounting standard for post-employment benefits. The work of this task force will include reviewing the appropriate accounting treatment for shared-risk and multi-employer pension plans. However, the work of this task force is not expected to be completed in the near future.

[13] Of the government's two jointly sponsored pension plans, only the OTPP is currently in a net asset position.

In the absence of an agreement, and given the government's decision in the 2017 Budget to accept the advisory panel's recommended approach to accounting for jointly sponsored pension plan assets, the Auditor General would be expected to provide a qualified opinion[14] on Ontario's 2016-17 Public Accounts.

Roles and Responsibilities of the Province and the Auditor General

The Province (through the Treasury Board Secretariat) is responsible for the preparation of Ontario's Public Accounts in accordance with legislation, and based on the standards set out by the Public Sector Accounting Board (PSAB).[15] The PSAB accounting standards serve the public interest by providing an independent, high-quality accounting framework for public sector entities.

The Auditor General reviews the Province's annual Public Accounts and provides an audit opinion to the Legislature on whether the Consolidated Financial Statements for the Province of Ontario present fairly, in all material respects, the Province's financial position, in accordance with the PSAB accounting standards.

The FAO's Presentation of Ontario's Fiscal Outlook

The Financial Accountability Officer supports the Legislative Assembly by providing independent economic and financial analysis intended to improve the transparency of the government's fiscal plan. The Officer also looks to the Auditor General as the provincial authority on the appropriate interpretation and application of accounting standards for the Province.

The FAO has presented two fiscal projections, including and excluding the impact of the net pension assets of jointly sponsored pension plans to help members of the Legislative Assembly better understand the implications of these different interpretations of accounting standards on the Province's fiscal position.

- The projection based on the Auditor General's recommended accounting treatment assumes a valuation allowance that offsets the net pension assets.
- The projection based on the government's fiscal presentation in the 2017 Budget recognizes the net pension assets over the budget outlook.
    - In the absence of an agreement between the co-sponsors, this presentation of Ontario's fiscal position would be expected to receive a qualified opinion from the Auditor General when published in the Province's future Public Accounts.

Based on the Auditor General's recommended accounting treatment for the net assets of jointly sponsored pension plans, the FAO is projecting budget deficits of $2.9 billion in 2017-18, rising to $6.5 billion by 2021-22. Alternatively, based on the pension accounting treatment presented by the Province in the 2017 Budget, the FAO's projection for the budget deficit decreases to $0.5 billion in 2017-18 and $3.6 billion in 2021-22.

[14] An auditor may provide a qualified opinion when financial statements do not conform in a material way to the applicable accounting standards.
[15] https://www.ontario.ca/page/public-accounts-101-guide#section-6

2. Appendix

Developments since the FAO's Fall 2016 Economic and Fiscal Outlook

The FAO's current projection of the Ontario budget balance has generally deteriorated relative to the FAO's fall 2016 projection.

- Stronger than expected economic performance is expected to boost taxation revenues over the forecast, partially offset by lower Equalization revenue.
- Based on new government spending plans, program expense has increased significantly.

Developments since 2016 Fall EFO (AG Recommended Presentation)

	2016-17	2017-18	2018-19	2019-20	2020-21
FAO's Fall 2016 Budget Balance Forecast	-5.2	-2.6	-2.8	-3.3	-3.7
Developments Since Fall 2016					
Revenue					
Stronger Economic Outlook	2.3	4.1	3.9	4.4	4.7
Lower Federal Transfers[1]	-0.3	0.2	-1.3	-2.4	-2.2
Other Revenue Changes	0.1	0.1	-0.5	-0.6	-0.6
Total	2.1	4.4	2.1	1.3	1.8
Expense					
Children and Youth Pharmacare, and Fair Hydro Plan[3]	0.5	1.3	1.3	1.3	1.3
Revised Pension Asset[4]	0.7	0.8	1.1	1.4	1.4
Other Expense Increases	0.7	2.5	1.7	0.9	1.4
Total	2.0	4.6	4.1	3.6	4.1
Total Developments	0.2	-0.3	-2.1	-2.3	-2.3
FAO's 2017 Spring Budget Balance Forecast	-5.0	-2.9	-4.9	-5.5	-6.0

Notes:

1. Change in federal transfers forecast mainly due the reduction in Ontario's Equalization payment.

2. Other revenue changes include the $0.5 billion re-profiling of cap-and-trade proceeds from 2016-17 to 2017-18, and an increase in sales and rentals for 2017-18.

3. In the 2016 Fall EFO, the FAO included $1 billion in expenses from the HST rebate on electricity bills beginning 2017-18, which is now part of the Fair Hydro Plan. As a result, the FAO estimates that the incremental impact of the Fair Hydro Plan is $0.8 billion, compared to the Fall.

4. In the 2016 Fall EFO, the FAO assumed $1.5 billion in adjustments for net pension assets of jointly sponsored pension plans. The government has revised its estimate of the impact to $2.2 billion in 2017-18, increasing to $2.9 billion by 2020-21.

Source: FAO

Forecast Tables

Table 1a: FAO Outlook for Ontario Nominal GDP and Key Revenue Drivers

(Per Cent Growth)	2015a	2016a	2017f	2018f	2019f	2020f	2021f	Average*
Nominal GDP								
Spring 2017 EFO	4.9	4.6	4.1	4.2	4.0	4.0	3.9	4.1
2017 Budget	4.9	4.6	4.3	4.1	4.2	3.9	-	4.1
Current FAO Consensus **	4.9	4.6	3.9	4.3	4.1	3.8	4.0	4.0
Labour Income								
Spring 2017 EFO	4.2	4.2	4.0	4.1	4.1	3.9	3.8	4.0
2017 Budget ***	-	4.4	4.1	4.5	4.6	4.2	-	4.3
Corporate Profits								
Spring 2017 EFO	9.1	9.2	6.0	6.3	5.5	4.7	4.5	5.6
2017 Budget	-	9.2	6.8	7.1	5.4	4.0	-	5.8
Household Spending								
Spring 2017 EFO	3.9	4.2	4.2	3.7	3.4	3.5	3.6	3.8
2017 Budget	-	4.2	4.3	4.2	4.2			4.2

a = Actual f = Forecast

* For comparison purposes, average is calculated from 2017 to 2020 and 2017 to 2019 for Household Spending.

** FAO consensus includes forecasts from the Centre for Spatial Economics, the Conference Board of Canada and Policy and Economic Analysis Program (PEAP) at the University of Toronto.

*** Budget 2017 Reports Labour Income on a National Basis, whereas FAO reports Labour Income on a Domestic Basis

Source: Statistics Canada, Ontario Economic Accounts, FAO Consensus and FAO

Table 1b: FAO Outlook for Ontario Real GDP and Components

(Per Cent Growth)	2015a	2016a	2017f	2018f	2019f	2020f	2021f	Average*
Real GDP								
FAO - 2017 Spring Outlook	2.5	2.7	2.4	2.1	2.0	2.0	1.9	2.1
Budget 2017	2.5	2.7	2.3	2.1	2.0	1.7	-	2.0
Current FAO Consensus **		-	2.1	2.3	2.1	1.9	1.9	2.1
Real GDP Components								
Household Spending ***	2.7	2.7	2.3	1.9	1.9	1.8	1.8	2.0
Residential Investment	7.2	7.9	3.5	-1.3	-2.0	1.9	2.4	0.5
Business Investment ****	8.2	-4.0	0.2	5.6	5.7	4.9	3.9	4.1
Government (Consumption and Investment)	1.9	1.6	1.7	1.3	1.2	1.1	1.0	1.3
Exports	2.8	3.0	2.4	2.7	2.5	2.3	2.2	2.5
Imports	3.7	1.4	2.2	2.2	2.3	2.2	2.1	2.2

a = Actual f = Forecast

* For comparison purposes, average is calculated from 2017 to 2020

** FAO consensus includes forecasts from the Centre for Spatial Economics, the Conference Board of Canada and Policy and Economic Analysis Program (PEAP) at the University of Toronto.

*** Household Spending is Household and Non-Profit Consumption Expenditure.

**** Business Investment is Non-residential Investment and Machinery & Equipment.

Source: Statistics Canada, Ontario Economic Accounts, FAO Consensus and FAO

Table 2: FAO Outlook for Selected Economic Indicators

	2015a	2016a	2017f	2018f	2019f	2020f	2021f
Employment (Per Cent Growth)							
FAO - Spring Outlook	0.7	1.1	1.3	1.1	1.0	0.9	0.9
2017 Budget	0.7	1.1	1.3	1.2	1.1	0.9	-
Unemployment Rate (Per Cent)							
FAO - Spring Outlook	6.8	6.5	6.4	6.3	6.3	6.3	6.2
2017 Budget	6.8	6.5	6.4	6.3	6.2	6.2	-
Labour Force (Per Cent Growth)							
FAO - Spring Outlook	0.1	0.9	1.1	1.0	1.0	0.9	0.9
2017 Budget	-	-	-	-	-	-	-
Population Growth (Per Cent)							
FAO - Spring Outlook	0.8	1.3	1.3	1.1	1.1	1.1	1.1
2017 Budget	-	-	-	-	-	-	-
CPI Inflation (Per Cent Growth)							
FAO - Spring Outlook	1.2	1.8	2.1	2.1	2.0	2.0	2.0
2017 Budget	1.2	1.8	2.0	2.0	2.0	2.0	-
Canada Real GDP (Per Cent Growth)							
FAO - Spring Outlook	0.9	1.4	2.2	2.3	2.0	1.9	1.9
2017 Budget	0.9	1.4	2.1	2.0	1.9	1.7	-
U.S. Real GDP (Per Cent Growth)							
FAO - Spring Outlook	2.6	1.6	2.3	2.3	2.2	2.1	2.1
2017 Budget	2.6	1.6	2.3	2.4	2.1	2.0	-
Canadian Dollar (Cents US)							
FAO - Spring Outlook	78.2	75.4	75.6	78.4	78.8	79.9	81.3
2017 Budget	78.2	75.4	74.5	75.5	78.5	80.0	-
WTI Crude Oil (US$)							
FAO - Spring Outlook	49	43	54	55	56	61	68
2017 Budget	49	43	54	59	62	64	-
Three-month Treasury Bill Rate (Per Cent)							
FAO - Spring Outlook	0.5	0.5	0.6	1.4	1.9	2.3	2.6
2017 Budget	0.5	0.5	0.5	0.8	1.5	1.9	-
10-year Government Bond Rate (Per Cent)							
FAO - Spring Outlook	1.5	1.3	1.8	2.5	2.9	3.6	3.9
2017 Budget	1.5	1.3	1.9	2.4	3.0	3.2	-

a = Actual f = Forecast

Source: Bank of Canada, Congressional Budget Office, Statistics Canada, FAO Consensus and FAO

Table 3: FAO Fiscal Outlook

($ Billions)	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Revenue							
Personal Income Tax	31.1	32.4	34.5	36.7	38.6	40.5	42.5
Sales Tax	23.5	24.7	25.8	26.5	27.3	28.2	29.2
Corporations Tax	11.4	12.7	13.3	14.0	14.6	15.1	15.6
All Other Taxes	25.8	24.0	25.1	25.9	26.9	27.6	28.5
Total Taxation Revenue	91.8	93.9	98.7	103.1	107.3	111.5	115.8
Transfers from Government of Canada	22.9	24.3	25.7	24.6	24.1	24.8	25.6
Income from Government Business Enterprise	4.9	5.3	4.9	5.7	6.0	6.3	6.5
Other Non-Tax Revenue	8.8	8.5	11.0	8.3	8.1	8.3	8.5
Total Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4
Expense							
Health Sector	51.0	52.2	53.8	56.3	58.1	60.6	63.3
Education Sector	25.0	25.7	26.5	27.4	28.0	29.0	29.8
Postsecondary and Training Sector	7.7	7.8	8.4	8.3	8.4	8.5	8.6
Children's and Social Services Sector	15.6	16.2	16.9	17.2	17.4	18.0	18.5
Justice Sector	4.5	4.6	4.7	4.7	4.8	4.9	5.0
Other Programs*	17.1	19.2	21.5	21.0	22.1	22.9	23.7
Total Program Expense*	120.9	125.7	131.8	134.9	138.8	143.8	149.0
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9
Total Expense	131.9	137.0	143.1	146.6	151.1	156.9	162.9
Budget Balance* (AG Presentation)	-3.5	-5.0	-2.9	-4.9	-5.5	-6.0	-6.5
Adjustment for Net Pension Assets	-1.5	-2.2	-2.3	-2.6	-2.9	-2.9	-2.9
Budget Balance (Government Presentation)	-3.5	-2.8	-0.5	-2.2	-2.6	-3.1	-3.6
Budget Balance (2017 Budget)	-3.5	-1.5	0.6	0.6	0.9		

a = Actual f = Forecast

* Based on AG recommended presentation with adjustment for net pension assets.

Note: Budget balance is presented without reserve.

Source: Statistics Canada, Public Accounts of Ontario, Annual Report of Ontario and FAO

Table 4a: FAO Debt Outlook (Auditor General Recommended Presentation)

$ Billions	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Budget Balance*	-3.5	-5.0	-2.9	-4.9	-5.5	-6.0	-6.5
Accumulated Deficit	202.7	207.7	210.6	215.5	221.0	227.0	233.5
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7
Change in Net Debt		10.9	13.5	16.8	19.0	14.0	12.3
Net Debt to GDP (Per Cent)	40.0	39.6	39.7	40.0	40.6	40.5	40.3

a = Actual f = Forecast

Note: * Budget Balance is presented without reserve.

Source: 2017 Ontario Budget and FAO

Table 4b: FAO Debt Outlook (Government Presentation)

$ Billions	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Budget Balance*	-3.5	-2.8	-0.5	-2.2	-2.6	-3.1	-3.6
Accumulated Deficit	192.0	194.8	195.3	197.6	200.2	203.3	206.9
Net Debt	294.5	303.1	314.3	328.5	344.6	355.7	365.1
Change in Net Debt		8.7	11.2	14.2	16.1	11.1	9.4
Net Debt to GDP (Per Cent)	38.6	38.0	37.8	38.0	38.3	38.0	37.5
Net Debt to GDP from 2017 Budget (Per Cent)	38.6	37.8	37.5	37.3	37.2	36.9	36.3

a = Actual f = Forecast

Note: * Budget Balance is presented without reserve.

Source: 2017 Ontario Budget and FAO

From: Anna Strathy
To: Gadi Mayman
Cc: Ken Kandeepan
Subject: FW: FAO"s Upcoming EFO Report
Date: Friday, May 05, 2017 2:30:34 PM

FYI Gadi, excerpts of the FAO draft report expected on Monday.

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Friday, May 05, 2017 2:26 PM
To: Tim Cook (MOF) <Tim.Cook@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca>; Raj Sharda (MOHLTC) <Raj.Sharda@ontario.ca>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca>; Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; John Kim <John.Kim@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Ann Langleben (MOF) <Ann.Langleben@ontario.ca>; Kostas Plainos (MOF) <Kostas.Plainos@ontario.ca>; Jeremie Stephenson (MOI) <Jeremie.Stephenson@ontario.ca>; Mark Smith (MOF) <Mark.G.Smith@ontario.ca>; Mersad Fard (MOI) <Mersad.Fard@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>
Cc: Daniel Tiburcio (MOF) <Daniel.Tiburcio@ontario.ca>; Paul Ternamian (MOF) <Paul.Ternamian@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Patel, Lesley (MOF) <Lesley.Patel@ontario.ca>; Shannon Jack (MTO) <Shannon.Jack@ontario.ca>; David Goodwin (MOI) <David.S.Goodwin@ontario.ca>; Manning, Catalina (TBS) <Catalina.Manning@ontario.ca>
Subject: FW: FAO's Upcoming EFO Report

Hi Everyone - this is a heads up that we expect to receive drafts of the economic and fiscal sections of the FAO's report Monday. I will send it around to folks soon after and the game plan for consolidating comments to meet their Tuesday deadline.

Thanks and have a great weekend everyone!

-----Original Message-----
From: David West [mailto:dwest@fao-on.org]
Sent: May-05-17 10:22 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS)
Subject: FAO's Upcoming EFO Report

Hello,

Thanks again for our meeting on Tuesday. We appreciate the information you have provided as well as the responses to our questions at the meeting.

On Monday morning (as early as possible) we plan to provide you with draft copies of the Economic Outlook and Fiscal Outlook chapters (including Forecast Tables) from the FAO's upcoming EFO report.

We would hope you would be able to provide us with any comments or concerns on these chapters by Tuesday (May 9), end of day.

As in the past, the FAO will provide a final copy of the report 48 hours prior to release to both Ministers. I would email you a copy at the same time.

Thanks,

David West
416.579.1465

-----Original Message-----
From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: April 28, 2017 5:40 PM
To: David West <dwest@fao-on.org>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Luan Ngo <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Mario Angastiniotis <MAngastiniotis@fao-on.org>; Nicolas Rhodes <nrhodes@fao-on.org>
Subject: Re: Follow-Up on the 2017 Budget

Thanks David,

We're working on pulling together the various information pieces and people for a meeting Tuesday between 1pm and 2pm, so will be in touch to confirm.

As in past approaches, we won't be able to have everything for you on Tuesday but will be able to provide a downpayment for sure.

Have a great weekend
Tim

From: David West
Sent: Friday, April 28, 2017 5:14 PM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Luan Ngo; Edward Crummey; Mario Angastiniotis; Nicolas Rhodes
Subject: RE: Follow-Up on the 2017 Budget

As promised, please find attached more detailed questions.

Please confirm when we can meet early next week.

Thanks
dw

From: David West
Sent: April 28, 2017 9:32 AM
To: Tim Schuurman (Tim.Schuurman@ontario.ca) <Tim.Schuurman@ontario.ca>; karen.hughes@ontario.ca; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Cindy.Veinot@ontario.ca
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; 'Birks, Ryan (MOF)' <Ryan.Birks@ontario.ca>; 'Laughton, Patrick (TBS)' <Patrick.Laughton@ontario.ca>; 'Hosick, Sarah (TBS)' <Sarah.Hosick@ontario.ca>; Luan Ngo (lngo@fao-on.org) <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Mario Angastiniotis (MAngastiniotis@fao-on.org) <MAngastiniotis@fao-on.org>; Nicolas Rhodes (nrhodes@fao-on.org) <nrhodes@fao-on.org>
Subject: Follow-Up on the 2017 Budget

Good Morning!

Congratulations on delivering yesterday's big, black budget!

I wanted to follow-up on the FAO's requests for some additional information.

First, as we have discussed, we have three requests for specific data/tables:

1. We would like to obtain the detailed revenue and expense tables (Tables 6.14 and 6.15) extended to 2019-20.

- Are these detailed tables available to 2020-21? If so, then please include (:))

2. As staff have been discussing, we would like to obtain more detailed information on the one-time adjustments to taxation revenues beginning in 2015-16 and extending over the forecast. This is basically additional information to that provided in tables 6.7, 6.8 and 6.9.

3. As detailed in the letter and background documents sent to Deputies Thompson and Angus on April 3, we are requesting pension expense and employer contribution details for the OTPP and OPSEUPP.

We would also appreciate a meeting early next week (preferably Tuesday afternoon) to allow you to respond to a number of questions that we have with regard to the 2017 Budget.

We'll provide a list of specific questions later this afternoon, but these questions will cover a number of areas, including:

- Clarification on where the Fair Hydro Plan appears in the expenses

- Additional details/clarification on new health spending, including the new pharmacare plan

- Clarification on future assumptions for asset sales and any details behind the 'Sales and Rentals' line in the detailed Revenue table.

- Clarification on the assumptions behind new federal funding announced in the 2017 federal budget (e.g. affordable housing, child care, home care)

- Some background on the decision to reduce the estimate of 'Carbon Allowance Proceeds' and assumptions on associated expense

- Additional details/clarification on new infrastructure spending

- Assumptions behind the plan to reduce net debt-to-GDP to 35% and eventually to 27%.

We'll provide a list later this afternoon that expands somewhat on these question topics.

Happy to discuss any of these requests.

Thanks again for your support,
David

David West
Chief Economist
[cid:image009.png@01D17ECB.966ECE00]

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
t.416.579.1465 | dwest@fao-on.org<mailto:dwest@fao-on.org>

www.fao-on.org<http://www.fao-on.org/>

From:	Esmail, Selena (MOF)
To:	Tim Cook (MOF); Andrea Dutton (MOF); Teuta Dodbiba (MOF); Raj Sharda (MOHLTC); Dorothy Cheung (MCYS); Gladys Miu (MOI); Paul Lewis (MOF); John Kim; Ken Kandeepan; Nadine Petsche (MOF); Ann Langleben (MOF); Kostas Plainos (MOF); Jeremie Stephenson (MOI); Mark Smith (MOF); Mersad Fard (MOI); Helen Graham (MOF)
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Subject:	FW: FAO"s Upcoming EFO Report
Date:	Friday, May 05, 2017 2:25:49 PM

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Sent: May-05-17 10:22 AM
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Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS)
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Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Luan Ngo; Edward Crummey; Mario Angastiniotis; Nicolas Rhodes
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<nrhodes@fao-on.org>
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Chief Economist
[cid:image009.png@01D17ECB.966ECE00]

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www.fao-on.org<https://urldefense.proofpoint.com/v2/url?u=http-3A__www.fao-2Don.org_&d=DwIFAg&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FtiQ&r=sDTjf9tVmfT9K92u269doOHn6NwIN5Soa0mhVrZmimM&m=gG5hW-5vRjVlifSoFZ6SWI-M0HyDZbJq0eL0YJk-hVE&s=IEEXRhIV7lJiNlU6ruqXxWxWux7ju1937p6S9m7QObo&e= >

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Cc: Daniel Tiburcio (MOF)
Subject: FW: FAO's Upcoming EFO Report
Date: Tuesday, May 09, 2017 7:48:37 PM
Attachments: EFO - Fiscal - Govt comments v3.docx
EFO - Economic - Govt comments.docx

Hi Everyone - here are the consolidated comments sent over by tim a short while ago.

Thanks to everyone for their assistance in enabling us to respond back today.

Have a good evening.

-----Original Message-----
From: Schuurman, Tim (MOF)
Sent: May-09-17 7:20 PM
To: David West; Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Edward Crummey; Luan Ngo; Mario Angastiniotis; Nicolas Rhodes; Esmail, Selena (MOF); Mayman, Gadi (OFA); Duran-Schneider, Maria (TBS); Kwan, Ronald (OFA); Girard, Erik (MOF)
Subject: RE: FAO's Upcoming EFO Report

David (and other FAO colleagues);

Please find attached our consolidated feedback to the Economic Outlook and Fiscal Outlook draft reports. We have focussed on the factual components of this, and have tried to keep an eye on the cabinet confidentiality issue as well. With that in mind, here are a few high-level points to help guide your review of our comments:

-- As in past reports, it is really important for us that you clearly distinguish what is an FAO projection vs. what is a Budget or government projection. This is applied somewhat inconsistently in the draft report. As such, we've provided some advice on where we think that distinction is important to have clearly articulated.

-- Since the Budget forecast horizon only is provided out to 19-20, we think it is important that you make it more clear that you have provided two additional years beyond what is provided for in the Budget documents.

-- With respect to Cabinet Confidentiality, we think that, overall it has been well-respected -- with two exceptions.

1. In a footnote about the child care spaces, you note that "ministry of finance officials indicated that its not fully funded in the fiscal plan" -- a point that is protected under Cabinet Confidence and cannot be disclosed as such. We've provided the deletion in the comment and some alternative wording.

2. The pension adjustment numbers (ie, the impact of the AG's pension accounting treatment) is not something used for the purposes of building the fiscal plan in the Budget -- and as such, cannot be considered a government projection (even though the government did disclose the potential impact of the pension adjustment in the 2016 FES, it did not do so as part of the 2017 Budget). As such, the underlying multi-year pension numbers provided to you by OPCD should be considered advice to Cabinet and protected. We think that perhaps a further conversation is required on this to make sure we are respecting Cabinet Confidentiality -- but in the interest of giving you feedback today, we thought it was important to provide a potential alternative for consideration. If you consider making it clear that those projections of the pension adjustment are FAO projections -- and not a government projection -- then perhaps we may be able to avoid a breach of Cabinet Confidentiality. We understand from OPCD that they did provide you with the underlying data, and instructions on how to calculate -- but the pension adjustment itself, as presented in the tables, is an FAO estimate of the pension accounting impact and not the government's. As such, you should clearly label it as such and be held accountable for explaining and owning the calculation as well, if asked. If you feel these need additional conversation with us, please let us know....happy to have a follow-up discussion. Hope that makes sense.

Thanks to everyone across MOF/TBS world who worked hard and collaboratively to make sure we could get you something by eod today. We appreciate the opportunity to review and provide feedback. We are happy to have more conversations in the lead-up to the provision of the report to Ministers. If you could also let us know when you expect the release date to be, that would help us plan as well.

Thanks again

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

-----Original Message-----
From: David West [mailto:dwest@fao-on.org]
Sent: May-08-17 10:24 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Edward Crummey; Luan Ngo; Mario Angastiniotis; Nicolas Rhodes
Subject: RE: FAO's Upcoming EFO Report

Good Morning,

Please find attached drafts of the Economic Outlook and Fiscal Outlook chapters from the FAO's upcoming 'Economic and Fiscal Outlook' report.
The chapters are password protected using the same password as in the past.

The FAO's fiscal forecast incorporates the tax revenue adjustments that we received on Friday afternoon -- and which brings our short-term forecast much closer the Budget 2017 forecast.

Unfortunately, we are on a very tight schedule to enable us to release this report at the end of the May.

So, we are asking for your comments/concerns including any potential cabinet confidentiality issues by end of day tomorrow (Tuesday, May 9)

Thanks again for your support and assistance.

David West
Chief Economist

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
t.416.579.1465 | dwest@fao-on.org
www.fao-on.org

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From: David West
Sent: May 5, 2017 10:22 AM
To: 'Schuurman, Tim (MOF)' <Tim.Schuurman@ontario.ca>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Cindy.Veinot@ontario.ca
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
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Thanks,

David West
416.579.1465

-----Original Message-----
From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: April 28, 2017 5:40 PM
To: David West <dwest@fao-on.org>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Luan Ngo <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Mario Angastiniotis <MAngastiniotis@fao-on.org>; Nicolas Rhodes <nrhodes@fao-on.org>
Subject: Re: Follow-Up on the 2017 Budget

Thanks David,

We're working on pulling together the various information pieces and people for a meeting Tuesday between 1pm and 2pm, so will be in touch to confirm.

As in past approaches, we won't be able to have everything for you on Tuesday but will be able to provide a downpayment for sure.

Have a great weekend
Tim

From: David West
Sent: Friday, April 28, 2017 5:14 PM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Luan Ngo; Edward Crummey; Mario Angastiniotis; Nicolas Rhodes
Subject: RE: Follow-Up on the 2017 Budget

As promised, please find attached more detailed questions.

Please confirm when we can meet early next week.

Thanks
dw

From: David West
Sent: April 28, 2017 9:32 AM
To: Tim Schuurman (Tim.Schuurman@ontario.ca) <Tim.Schuurman@ontario.ca>; karen.hughes@ontario.ca; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Cindy.Veinot@ontario.ca
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; 'Birks, Ryan (MOF)' <Ryan.Birks@ontario.ca>; 'Laughton, Patrick (TBS)' <Patrick.Laughton@ontario.ca>; 'Hosick, Sarah (TBS)' <Sarah.Hosick@ontario.ca>; Luan Ngo (lngo@fao-on.org) <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Mario Angastiniotis (MAngastiniotis@fao-on.org) <MAngastiniotis@fao-on.org>; Nicolas Rhodes (nrhodes@fao-on.org) <nrhodes@fao-on.org>
Subject: Follow-Up on the 2017 Budget

Good Morning!

Congratulations on delivering yesterday's big, black budget!

I wanted to follow-up on the FAO's requests for some additional information.

First, as we have discussed, we have three requests for specific data/tables:

1. We would like to obtain the detailed revenue and expense tables (Tables 6.14 and 6.15) extended to 2019-20.

- Are these detailed tables available to 2020-21? If so, then please include (:))

2. As staff have been discussing, we would like to obtain more detailed information on the one-time adjustments to taxation revenues beginning in 2015-16 and extending over the forecast. This is basically additional information to that provided in tables 6.7, 6.8 and 6.9.

3. As detailed in the letter and background documents sent to Deputies Thompson and Angus on April 3, we are requesting pension expense and employer contribution details for the OTPP and OPSEUPP.

We would also appreciate a meeting early next week (preferably Tuesday afternoon) to allow you to respond to a number of questions that we have with regard to the 2017 Budget.

We'll provide a list of specific questions later this afternoon, but these questions will cover a number of areas, including:

- Clarification on where the Fair Hydro Plan appears in the expenses
- Additional details/clarification on new health spending, including the new pharmacare plan
- Clarification on future assumptions for asset sales and any details behind the 'Sales and Rentals' line in the detailed Revenue table.
- Clarification on the assumptions behind new federal funding announced in the 2017 federal budget (e.g. affordable housing, child care, home care)
- Some background on the decision to reduce the estimate of 'Carbon Allowance Proceeds' and assumptions on associated expense
- Additional details/clarification on new infrastructure spending
- Assumptions behind the plan to reduce net debt-to-GDP to 35% and eventually to 27%.

We'll provide a list later this afternoon that expands somewhat on these question topics.

Happy to discuss any of these requests.

Thanks again for your support,
David

David West
Chief Economist
[cid:image009.png@01D17ECB.966ECE00]

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www.fao-on.org<https://urldefense.proofpoint.com/v2/url?u=http-3A__www.fao-2Don.org_&d=DwIFAw&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FriQ&r=sDTjf9tVmfT9K92u269doOHn6NwIN5Soa0mhVrZmimM&m=OnDdN8dLJteGTyWX0PKi5lQ0rKFOHxlqrpRwoRoyJVQ&s=1R0wV4lG8GsRu7ybd6NfMbeVVqt2wd53m1P93Pi6mv8&e=>

Financial Accountability Office of Ontario

Economic and Fiscal Outlook

Fiscal Chapter

May 8, 2017

Confidential Document

This document is confidential. It should not be shown or otherwise transmitted to anyone other than those who have been asked by the Financial Accountability Office of Ontario to provide comments.

Spring 2017

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1. Fiscal Outlook

Overview

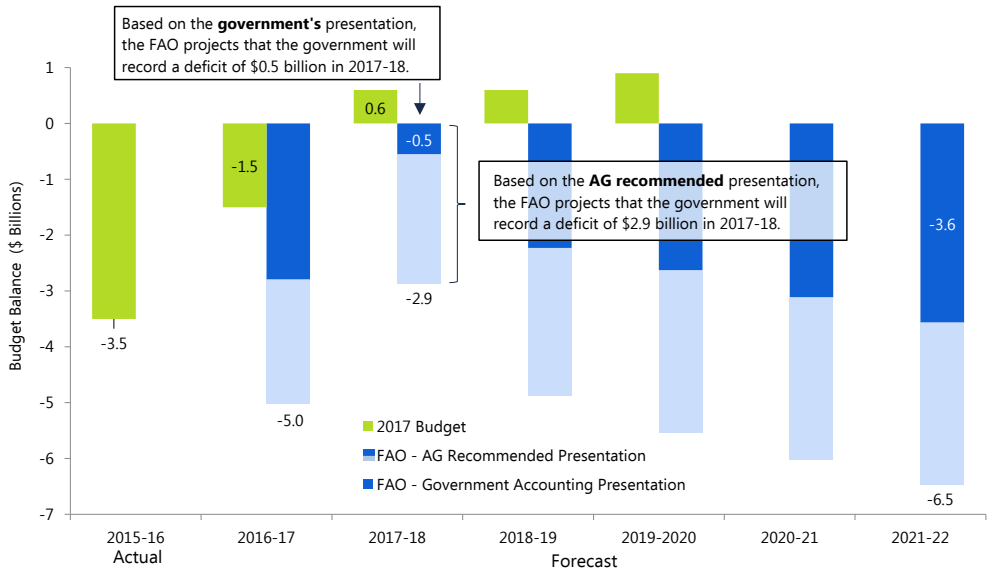
Continued Budget Deficits Projected

Based on the FAO's current economic forecast and updated fiscal information, the FAO is projecting continued Ontario budget deficits over the outlook. In the near term, the deficit improves due to strong tax revenue growth and a temporary boost to non-tax revenue. However, beginning in 2018-19, the deficit is expected to increase as a result of moderating revenue growth combined with higher expenses.

The government and the Auditor General (AG) disagree on the application of public sector accounting standards with respect to jointly-sponsored pension plans. Based on the FAO's projection of the impact of the Auditor General's recommended accounting presentation of pension assets, the FAO is projecting a budget deficit of $2.9 billion for 2017-18, rising to $6.5 billion by 2021-22. (Please refer to the discussion on page 8 for additional background and context on this issue.)

Based on the government's accounting presentation in the 2017 Budget, the FAO is projecting a budget deficit of $0.5 billion in 2017-18, growing to $3.6 billion by 2021-22.[1] By comparison, the government is projecting a budget surplus ~~(before the reserve)~~ of $0.6 billion in 2017-18, followed by continued small surpluses over the next two years (before the reserve).

Ontario's Budget Balance*



* Budget balance ~~excluding~~ ~~before~~ reserve. AG Recommended Presentation includes FAO projection of the ~~pension adjustment.~~AG's recommended presentation of pension assets.

[1] The Auditor General would be expected to provide a qualified opinion on Ontario's 2016-17 Public Accounts if the government continues to report the net pension assets of jointly sponsored pension plans in its financial statements.

Source: 2015-16 Public Accounts, 2017 Budget and FAO

On the government's accounting basis, the FAO projects that a balanced budget is within the government's reach in 2017-18. However, the budget deficit is expected to increase after 2017-18, due to moderate revenue growth, the absence of one-time non-tax revenues, and higher program expenses. Staying in balance after 2017-18 will likely require additional fiscal policy measures.

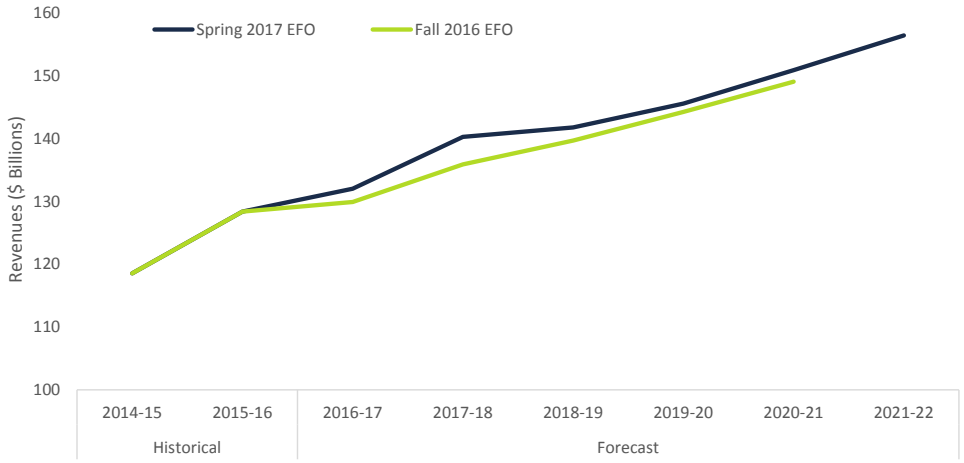
Under the Auditor General's accounting presentation, the FAO is projecting significant budget deficits over the entire outlook. On this basis, it is unlikely that the government will balance the budget in 2017-18 without significant additional fiscal policy measures (that is, higher revenues or lower expense). Beyond 2017-18, significant fiscal adjustments will likely be required to maintain budget balance through the outlook.

Revenue Outlook

The FAO is projecting average annual revenue growth of 3.3 per cent per year from 2016-17 to 2021-22, in-line with the forecast from the FAO's fall outlook.

However, in the near-term, revenue growth is stronger than expected due to robust economic performance in 2016 and 2017, and a boost from one-time revenues in 2017-18. Beyond 2017-18, growth in tax revenues moderates and the benefit of one-time non-tax revenues ends.

Revenues Stronger Than Expected in Near Term



Source: FAO and Public Accounts

FAO Revenue Assumptions and Forecast

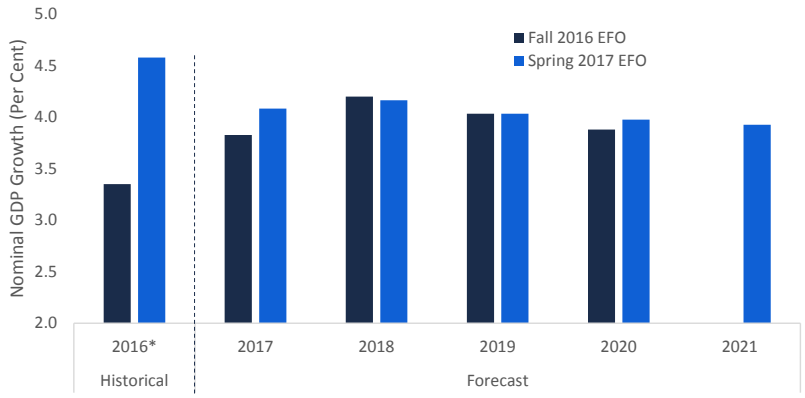
Revenue Source	Assumption	Forecast
Taxation Revenue	Grows with key economic drivers including labour income, corporate profits and household consumption.	Averages 3.9 per cent growth per year from 2016-17 to 2021-22
Federal Transfers	Based on legislated growth rates and economic performance	Federal transfers are expected to grow by 1.9 per cent per year from 2016-17 to 2021-22
Government Business Enterprises	Based on government projections	Income from GBEs are projected to rise moderately from $5.3 billion in 2016-17 to $6.5 billion in 2021-22
Other Revenue	Based on government projections, includes asset sales, and cap and trade	These revenues are projected to increase from $8.5 billion in 2016-17 to $11.0 billion in 2017-18, declining to $8.5 billion by 2021-22

Stronger Economic Growth Expected to Boost Tax Revenue

Consistent with the FAO's economic forecast, the FAO is currently projecting tax revenues to rise at an average of 3.9 per cent from 2016-17 to 2021-22, much stronger than the 3.0 per cent forecast in the FAO's fall outlook.

Since the FAO's fall report, nominal GDP – the broadest measure of the tax base – was revised significantly higher in 2016, improving the forecast for 2017.[2] However, beyond 2017, the outlook for nominal GDP growth is relatively unchanged from the fall forecast.

Nominal GDP up Significantly in the Near-Term Since the Fall



* 2016 value for Fall 2016 EFO was the FAO's forecast at the time of the report's release.
Source: Ontario Economic Accounts and FAO

[2] See economic section, and the footnote on page 11.

Improving economic prospects in 2017 are expected to lift the Province's tax revenue by approximately $2.3 billion in 2016-17 and $4.1 billion in 2017-18, compared to the FAO's fall estimates.

- Personal income tax revenue is forecast to grow stronger than expected in the fall due to the improved forecast for labour income.[3]
- Corporations tax revenue is projected to benefit from the stronger outlook for corporate profits.
- Sales tax and land transfer tax revenues are expected to improve in 2016-17 and 2017-18 due to the on-going strength in Ontario's housing market.

Commented [GE(1]: [OEP comment]
The Public Accounts of Canada reference only provides the overall growth in federal PIT revenue, and that it reflects PIT planning by high-income individuals. It would be helpful if the report note also included the impact to Ontario PIT revenue specifically assumed by the FAO.

Equalization Entitlement Declines

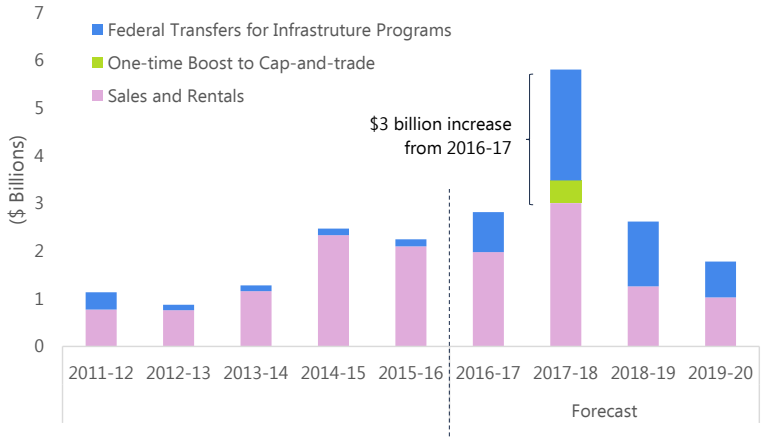
Given Ontario's recent economic strength relative to the rest of Canada, the Province's Equalization entitlement declined $0.8 billion to $1.4 billion in 2017-18, and the FAO projected this to drop further to $0.6 billion in 2018-19. Beyond 2018-19, the FAO is projecting that Ontario will no longer be entitled to Equalization payments — a reflection of the continued relative strength of the Ontario economy.

2017-18 Revenues to Benefit from One-time Increases

Based on the 2017 Budget and incorporated into the FAO's projections, Ontario revenues will be boosted by $3.0 billion in one-time increases in 2017-18, including:

- $1.5 billion in higher revenue from federal transfers for infrastructure;
- $1.0 billion increase in sales and rentals revenue, suggesting significant additional asset sales; and
- $0.5 billion in additional cap and trade proceeds from March 2017, which will be recognized in 2016-172017-18.[4]

2017-18 Non-tax Revenue Boost



Source: Ontario Budgets, Ministry of Finance and FAO

[3] However, near-term revenue growth will be somewhat dampened as some high-income earners have shifted earnings into the 2015 tax year to avoid the new higher 33 per cent tax rate introduced by the federal government in 2016 (http://www.fin.gc.ca/afr-rfa/2016/report-rapport-eng.asp#_Toc463249478). The FAO continues to adopt the federal government's estimate of this income shifting, and has adjusted the personal income tax forecast accordingly.

[4] The government indicated that the cap and trade revenues will be recognized in 2017-18 because the allowances were certified and delivered on April 2, 2017.

Expense Outlook

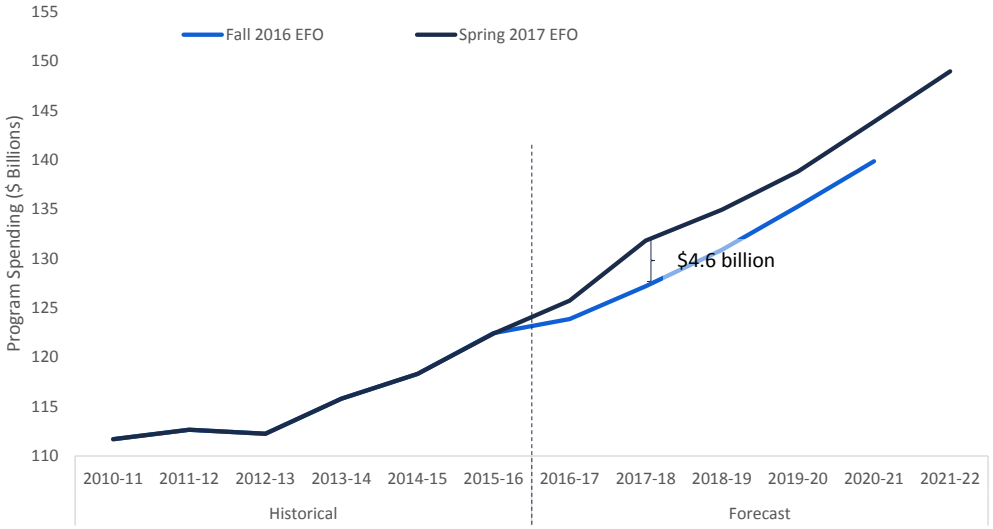
Program Expense to Increase Significantly over the Outlook

The FAO projects program spending growth of 3.3 per cent per year over the 2016-17 to 2021-22 period.

Commented [ST(2]: Might be worth noting that this is two more years worth of forecast horizon than the Budget presents.

Over the 2016-17 to 2019-20 period, the FAO adopts the government's 2017 Budget projections for program spending[5], adjusted to reflect the Auditor General's recommended accounting treatment for jointly sponsored pension plans.[6] The expense outlook includes significant new spending across all sectors, including a new children and youth Pharmacare program, higher operating funding for hospitals, 24,000 new child care spaces[7], and the government's new 'Fair Hydro Plan'. As a result, spending is now forecast to be significantly higher by 2017-18 than assumed in the FAO's fall outlook.

Program Expense Higher than Projected in the Fall



Note: Program spending based on FAO's projection of AG recommended accounting treatment of net assets for jointly sponsored pension plans~~presentation~~.

Source: Ontario Public Accounts and FAO

With these new expenses, program spending is expected to grow 3.3 per cent per year on average over the next five years. This growth rate is in-line with underlying growth in cost - and demographic-related pressures of 3.5 per cent on average.

Beyond 2019-20, the FAO projects program spending to increase by 3.6 per cent annually, consistent with underlying factors including population growth, aging, and price inflation.

[5] Given the government's discretion over spending, the FAO adopts the government's announced spending plans from fiscal documents and incorporates policy announcements as appropriate.

[6] The adjustment reflects the inclusion of a valuation allowance to offset the value of net pension assets in jointly sponsored pension plans. This adjustment increases 'other program' expense by $2.2 billion in 2016-17, rising to $2.9 billion by 2020-21. based on the FAO's projection of the pension adjustment.

[7] The 2017 Budget announced 24,000 new child care spaces for 2017–18, as part of the government's September 2016 Throne Speech commitment to create 100,000 new child care spaces by 2022.~~Ministry of Finance officials indicated that the 24,000 in new child care spaces announced in the 2017 Budget is part of the government's September 2017 Throne Speech commitment to create 100,000 spaces. The remaining funding has yet to be included in the fiscal plan.~~ [Reference to inclusion in the fiscal plan (i.e., highlighted sentence) is Cabinet confidential and should be removed. It should not be disclosed publicly]

Interest on Debt

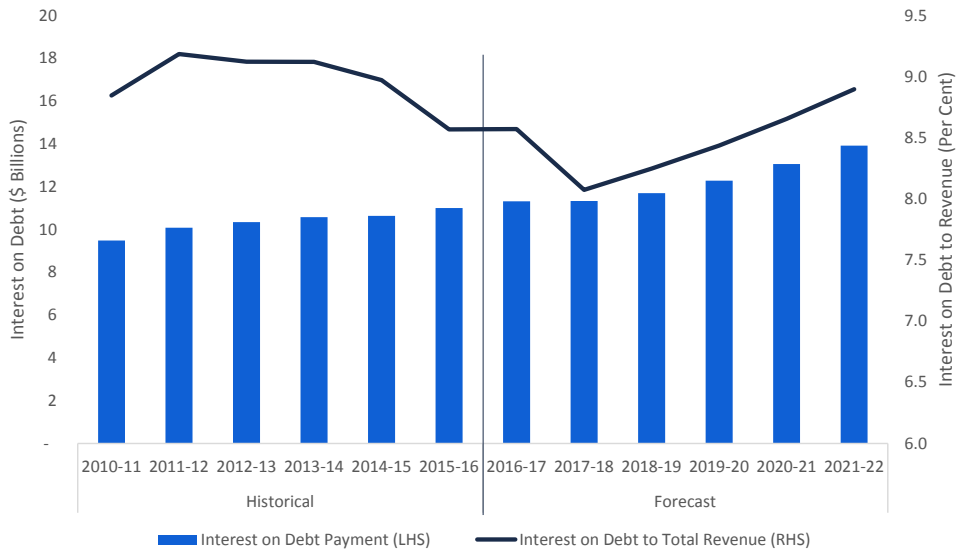
The FAO projects interest on debt (IOD) payments will increase at an average annual rate of 4.0 per cent from $11.0 billion in 2015-16 to $13.9 billion by 2021-22, reflecting higher debt and rising interest rates over the outlook. Interest on debt has become the Province's third largest spending category and will significantly outpace the growth in program expense over the outlook.

As a share of revenues, IOD is projected by the FAO to increase from 8.1 per cent in 2017-18 to 8.9 per cent by 2021-22, as the rise in interest payments outpaces growth in revenues. Over the past five years, IOD as a share of revenues declined steadily, benefitting from declining interest rates. With interest rates projected to increase significantly over the next five years, the ratio is expected to rise sharply.

Commented [GE(3]: [OB comment]
Referring to total expense for 17-18, as published in the 2017 Budget, IOD is the fifth largest spending category.

Commented [GE(4]: [OFA comment}
The basis of the FAO's IOD projections are not provided so we cannot provide any commentary.

Interest on Debt to Rise Sharply as a Share of Revenues



Source: Ontario Public Accounts and FAO

Ontario Debt Outlook

Ontario Net Debt-to-GDP To Remain Elevated

Ontario's total borrowing requirements are expected to remain high over the outlook. To finance the cost of projected capital spending, finance on-going deficits (as projected by the FAO) and refinance maturing debt issues, provincial borrowing is expected to average $37 billion per year over the next five years.

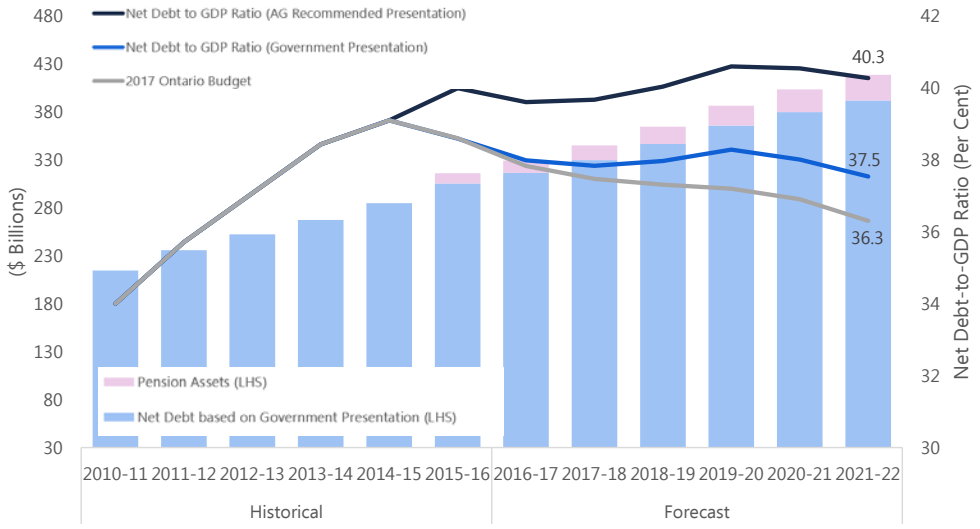
As a result, the FAO projects Ontario's net debt to increase by $87 billion over the next five years to ~~more than~~ $392 billion by 2021-22 based on the AG's recommended accounting presentation. By comparison, using the accounting treatment adopted by the government in the 2017 Budget, the FAO projects Ontario's net debt will rise by $71 billion to $365 billion by 2021-22.

Commented [GE(5]: [OB comment]
Suggest double checking the number of years and the calculations. Based on Table 4a it is $76B over five years; based on Table 4b, $62B over five years.

Based on the FAO's projection of the impact of the AG's recommended accounting presentation, the FAO expects Ontario's net debt-to-GDP ratio will edge higher over the outlook, rising to 40.3 per cent by 2021-22, reflecting the projected increase in net debt and the FAO's forecast for nominal GDP growth. In contrast, based on the accounting treatment adopted by the government in the 2017 Budget, the FAO projects that net debt-to-GDP ~~is projected to~~will fall slightly from 38.6 per cent in 2015-16 to 37.5 per cent by 2021-22.

In the 2017 Budget, the Province set an interim net debt-to-GDP target of 35 per cent by 2023-24 and committed to achieving 27 per cent by 2029-30. The FAO's net debt-to-GDP projections under both accounting presentations, suggest that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24.

Ontario's Net Debt to GDP Ratio



Source: Ontario Economic Accounts, 2017 Ontario Budget, and FAO

Commented [GE(6]: [OB comment]
As per Balanced Budget chart on page 1, Suggested changes to the chart labels as follows:

In the top legend it should read:
- •FAO projection – Net Debt to GDP Ratio (AG Recommended Presentation)
- •FAO projection – Net Debt to GDP Ratio (Government Presentation)
- •Net Debt to GDP Ratio as Published in the 2017 Ontario Budget.

In the bottom legend "Pension Assets (LHS) should be replaced with:
- •FAO projection: Net Debt Based on AG Recommended Presentation.

Risks to the Fiscal Plan and Policy Options

There are material risks that could impact Ontario's fiscal position.

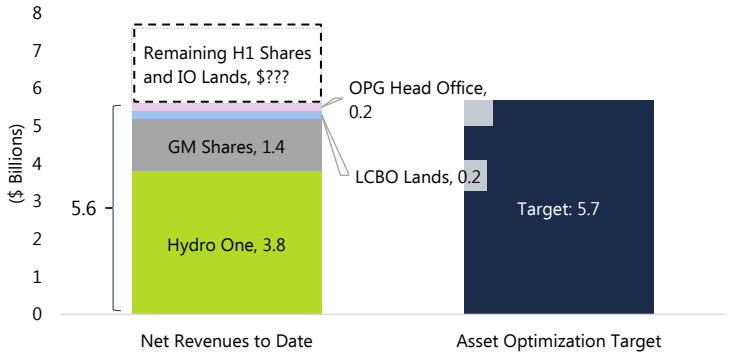
- A sharp correction in the housing market could present a significant risk for both the broader economy and for the Province's fiscal plan. As discussed in the FAO housing commentary[8], a decline in house prices and housing market activity would directly reduce Land Transfer Tax and HST revenues. In addition, the broader economic impacts would impact personal and corporate income tax revenues.
- In the 2017 Budget, the government has significantly reduced the prudence built into its program spending projection compared to the previous budget, leaving less fiscal flexibility for the government to respond to unexpected events.[9] In addition, the FAO projects interest on debt payments as a share of both program spending and revenue ~~are expected~~ to increase significantly, exposing the government to increased fiscal risk should interest rates rise faster than expected.

On the other hand, the government has increased spending growth to a rate in line with underlying spending pressures, which diminishes the expense risk identified in earlier FAO reports.

Additionally, the government has a broad range of policy options that could improve its fiscal position, including the sale of ~~additional~~ non-core public assets beyond announced ~~targets~~initiatives. To date, the government has generated $5.6 billion in net revenues from asset sales, close to its target of $5.7 billion over 10 years.

Given that the government has indicated that it still intends to sell an additional 30 per cent of Hydro One, as well as ~~Infrastructure Ontario~~surplus real estate holdings, it may significantly overachieve its asset sales target.

Asset Optimization Revenues and Target



Source: FAO and Ontario Budgets

[8] Financial Accountability Officer of Ontario, The Impact of a Housing Market Correction on Ontario's Fiscal Position, 2017

[9] In the 2017 Budget, contingency funds total $0.6 billion for the plan year, half the size of what was built into the plan year for the 2016 Budget~~coming fiscal year, half the size built into the 2016 Budget fiscal plan~~. Similarly, the government's target for year-end savings has increased to $1.2 billion for the ~~coming~~ plan year, compared to $0.8 billion ~~in~~ for the plan year in the 2016 Budget ~~2016~~.

The Accounting Treatment of Jointly Sponsored Pension Plans

Background

Ontario's 2015-16 Public Accounts noted a disagreement between the Office of the Auditor General and the Province on the appropriate accounting treatment for net pension assets of jointly sponsored pension plans. Specifically, the Province is a joint sponsor of two pension plans, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees Union Pension Plan (OPSEUPP).

The government's position is that these pension assets have been appropriately and consistently reflected on the Province's financial statements since 2001. The Office of the Auditor General, based on a review of these pension assets, determined that a change in the accounting treatment was required. The Auditor General concluded that under current Canadian public sector accounting standards, the government could not unilaterally recognize a pension asset on its financial statements without evidence - in the form of a written agreement - permitting it to realize the asset through reduced contributions.[10]

In response, the Province adopted regulated accounting for 2015/16 to reflect the results according to the Auditor General's interpretation of public sector accounting standards and subsequently appointed ~~its own~~an expert advisory panel to review and provide a recommended interpretation of public sector accounting standards with respect to the assets of jointly sponsored pension plans. The panel's report[11], released in February 2017, concluded that the Province's share of net assets in jointly sponsored pension plans ~~could~~ should be fully recognized in the Province's financial statements — contrary to the opinion of the Office of the Auditor General.

In the 2017 Budget, the government adopted the expert advisory panel's interpretation of public sector accounting standards and recognized the net pension assets of the jointly sponsored pension plans. The 2017 Budget also indicated that the Province's 2016–17 Public Accounts will report the net pension assets for the two jointly sponsored pension plans.

The Central Issue

The government and the Auditor General have put forward different interpretations of the application of public sector accounting standards for jointly sponsored pension plans.[12]

The different interpretations centre on the question of ~~the~~unilateral control of pension surplus assets in jointly sponsored pension plans. In particular, the issue is focused on whether there needs to be an explicit written agreement between the co-sponsors (the government and the unions representing the employees) on how the sponsors plan to use the pension assets~~, for example by~~ to lower~~ing~~ future contributions ~~or increasing benefits to pensioners~~.

Commented [GE(7]: [OPCD comment]
This latter reference is not relevant to reporting an asset under the AG's interpretation of PSAS.

~~As indicated by~~According to the Auditor General, the issue can be resolved if the government presents an agreement with the Ontario Teacher's Federation (OTF) allowing the government to access the OTPP pension assets through reduced contributions.[13] The extent and duration of the reduced contributions would determine the size of the pension asset that the government could recognize in its financial statements

The government position, ~~based on~~ confirmed by the advice of the expert advisory panel, ~~maintains~~ is that the existing agreements governing the pension plans and past history clearly reflect ~~already recognize~~ the sponsors' rights and intent to benefit from ~~access~~ surplus assets in the plans ~~and also provide the~~through mechanisms reflected in the agreements to potentially realize a benefit through lower future contribution rates.

---

[10] The government's 2016 Budget reported a negative expense for the OTPP for 2016-17 which led, in part, to the Auditor General conducting an in-depth review of the related pension assets [suggest including a reference to the AG's Annual report instead].

[11] https://news.ontario.ca/tbs/en/2017/02/pension-asset-expert-advisory-panel-submits-report.html

[12] In 2015, PSAB created an Employment Benefits Task Force to review the existing accounting standard for post-employment benefits. The work of this task force will include reviewing the appropriate accounting treatment for shared-risk and multi-employer pension plans. However, the work of this task force is not expected to be completed in the near future [suggest deleting this reference. Not relevant].

[13] Of the government's two jointly sponsored pension plans, only the OTPP is currently in a net asset position (This statement is inaccurate: OTPP, OPSEUPP and CAATPPP were all in surplus positions.

In the absence of an agreement, and given the government's decision in the ~~2017 Budget~~Q3 Finances to accept the expert advisory panel's recommended approach to accounting for jointly sponsored pension plan assets, the Auditor General would be expected to provide a qualified opinion[14] on Ontario's 2016-17 Public Accounts.

Roles and Responsibilities of the Province and the Auditor General

The Province (through the Treasury Board Secretariat) is responsible for the preparation of Ontario's Public Accounts in accordance with legislation, and based on the standards set out by the Public Sector Accounting Board (PSAB).[15] The PSAB accounting standards serve the public interest by providing an independent, high-quality accounting framework for public sector entities. Government is responsible to ensure that the financial reports fairly reflect the activities and financial position of the Province.

The Auditor General reviews the Province's annual Public Accounts and provides an audit opinion to the Legislature on whether the Consolidated Financial Statements for the Province of Ontario present fairly, in all material respects, the Province's financial position, in accordance with the PSAB accounting standards.

The FAO's Presentation of Ontario's Fiscal Outlook

The Financial Accountability Officer supports the Legislative Assembly by providing independent economic and financial analysis intended to improve the transparency of the government's fiscal plan. The Officer also looks to the Auditor General as the provincial authority on the appropriate interpretation and application of accounting standards for the Province.

Commented [GE(8]: [OPCD comment]
FAO could choose to take an alternative position which acknowledges the government as having a different interpretation, supported by an external accounting opinion and an publicly available report issued by the Expert Advisory Panel on Pensions.

The FAO has presented two fiscal projections, including and excluding the impact of the net pension assets of jointly sponsored pension plans to help members of the Legislative Assembly better understand the implications of these different interpretations of accounting standards on the Province's fiscal position.

- The projection based on the Auditor General's recommended accounting treatment assumes a valuation allowance that offsets the net pension assets.
- The projection based on the government's fiscal presentation in the 2017 Budget recognizes the net pension assets based on the FAO's projection over the budget outlook.
    - In the absence of an agreement between the co-sponsors, this presentation of Ontario's fiscal position would be expected to receive a qualified opinion from the Auditor General when published in the Province's future Public Accounts.

Based on the Auditor General's recommended accounting treatment for the net assets of jointly sponsored pension plans and the FAO's projection of the pension adjustment, the FAO is projecting budget deficits of $2.9 billion in 2017-18, rising to $6.5 billion by 2021-22. Alternatively, based on the pension accounting treatment presented by the Province in the 2017 Budget, the FAO's projection for the budget deficit decreases to $0.5 billion in 2017-18 and $3.6 billion in 2021-22.

[14] An auditor may provide a qualified opinion when financial statements do not conform in a material way to the applicable accounting standards.
[15] https://www.ontario.ca/page/public-accounts-101-guide#section-6]

2. Appendix

Developments since the FAO's Fall 2016 Economic and Fiscal Outlook

The FAO's current projection of the Ontario budget balance has generally deteriorated relative to the FAO's fall 2016 projection.

- Stronger than expected economic performance is expected to boost taxation revenues over the forecast, partially offset by lower Equalization revenue.
- Based on new government spending plans, program expense has increased significantly.

Developments since 2016 Fall EFO (AG Recommended Presentation)

	2016-17	2017-18	2018-19	2019-20	2020-21
FAO's Fall 2016 Budget Balance Forecast	-5.2	-2.6	-2.8	-3.3	-3.7
Developments Since Fall 2016					
Revenue					
Stronger Economic Outlook	2.3	4.1	3.9	4.4	4.7
Lower Federal Transfers[1]	-0.3	0.2	-1.3	-2.4	-2.2
Other Revenue Changes	0.1	0.1	-0.5	-0.6	-0.6
Total	2.1	4.4	2.1	1.3	1.8
Expense					
Children and Youth Pharmacare, and Fair Hydro Plan[3]	0.5	1.3	1.3	1.3	1.3
Revised Pension Asset[4]	0.7	0.8	1.1	1.4	1.4
Other Expense Increases	0.7	2.5	1.7	0.9	1.4
Total	2.0	4.6	4.1	3.6	4.1
Total Developments	0.2	-0.3	-2.1	-2.3	-2.3
FAO's 2017 Spring Budget Balance Forecast	-5.0	-2.9	-4.9	-5.5	-6.0

Notes:

1. Change in federal transfers forecast mainly due the reduction in Ontario's Equalization payment.

2. Other revenue changes include the $0.5 billion re-profiling of cap-and-trade proceeds from 2016-17 to 2017-18, and an increase in sales and rentals for 2017-18.

3. In the 2016 Fall EFO, the FAO included $1 billion in expenses from the HST rebate on electricity bills beginning 2017-18, which is now part of the Fair Hydro Plan. As a result, the FAO estimates that the incremental impact of the Fair Hydro Plan is $0.8 billion, compared to the Fall.

4. In the 2016 Fall EFO, the FAO assumed $1.5 billion in adjustments for net pension assets of jointly sponsored pension plans. ~~The government has revised its estimate of the impact to $2.2 billion in 2017-18, increasing to $2.9 billion by 2020-21.~~ This adjustment increases to $2.2 billion in 2016-17, rising to $2.9 billion by 2020-21, based on the FAO's revised projection of the pension adjustment.

Source: FAO

Forecast Tables

Table 1a: FAO Outlook for Ontario Nominal GDP and Key Revenue Drivers

(Per Cent Growth)	2015a	2016a	2017f	2018f	2019f	2020f	2021f	Average*
Nominal GDP								
Spring 2017 EFO	4.9	4.6	4.1	4.2	4.0	4.0	3.9	4.1
2017 Budget	4.9	4.6	4.3	4.1	4.2	3.9	-	4.1
Current FAO Consensus **	4.9	4.6	3.9	4.3	4.1	3.8	4.0	4.0
Labour Income								
Spring 2017 EFO	4.2	4.2	4.0	4.1	4.1	3.9	3.8	4.0
2017 Budget ***	-	4.4	4.1	4.5	4.6	4.2	-	4.3
Corporate Profits								
Spring 2017 EFO	9.1	9.2	6.0	6.3	5.5	4.7	4.5	5.6
2017 Budget	-	9.2	6.8	7.1	5.4	4.0	-	5.8
Household Spending								
Spring 2017 EFO	3.9	4.2	4.2	3.7	3.4	3.5	3.6	3.8
2017 Budget	-	4.2	4.3	4.2	4.2			4.2

a = Actual f = Forecast

* For comparison purposes, average is calculated from 2017 to 2020 and 2017 to 2019 for Household Spending.

** FAO consensus includes forecasts from the Centre for Spatial Economics, the Conference Board of Canada and Policy and Economic Analysis Program (PEAP) at the University of Toronto.

*** Budget 2017 Reports Labour Income on a National Basis, whereas FAO reports Labour Income on a Domestic Basis

Source: Statistics Canada, Ontario Economic Accounts, FAO Consensus and FAO

Commented [GE(9]: [OEP comment]
Consistent with the provincial economic accounts and the 2017 Budget
Suggest changing 'labour income' references to 'compensation of employees'.

Commented [GE(10]: [OEP comment]
Consistent with the provincial economic accounts and the 2017 Budget
Suggest changing 'corporate profits' references to 'net operating surplus - corporations'.

Commented [GE(11]: [OEP comment]
Consistent with the provincial economic accounts and the 2017 Budget
Suggest changing 'household spending' references to 'household consumption'.

Table 1b: FAO Outlook for Ontario Real GDP and Components

(Per Cent Growth)	2015a	2016a	2017f	2018f	2019f	2020f	2021f	Average*
Real GDP								
FAO - 2017 Spring Outlook	2.5	2.7	2.4	2.1	2.0	2.0	1.9	2.1
Budget 2017	2.5	2.7	2.3	2.1	2.0	1.7	-	2.0
Current FAO Consensus **		-	2.1	2.3	2.1	1.9	1.9	2.1
Real GDP Components								
Household Spending ***	2.7	2.7	2.3	1.9	1.9	1.8	1.8	2.0
Residential Investment	7.2	7.9	3.5	-1.3	-2.0	1.9	2.4	0.5
Business Investment ****	8.2	-4.0	0.2	5.6	5.7	4.9	3.9	4.1
Government (Consumption and Investment)	1.9	1.6	1.7	1.3	1.2	1.1	1.0	1.3
Exports	2.8	3.0	2.4	2.7	2.5	2.3	2.2	2.5
Imports	3.7	1.4	2.2	2.2	2.3	2.2	2.1	2.2

a = Actual f = Forecast

* For comparison purposes, average is calculated from 2017 to 2020

** FAO consensus includes forecasts from the Centre for Spatial Economics, the Conference Board of Canada and Policy and Economic Analysis Program (PEAP) at the University of Toronto.

*** Household Spending is Household and Non-Profit Consumption Expenditure.

**** Business Investment is Non-residential Investment and Machinery & Equipment.

Source: Statistics Canada, Ontario Economic Accounts, FAO Consensus and FAO

Table 2: FAO Outlook for Selected Economic Indicators

	2015a	2016a	2017f	2018f	2019f	2020f	2021f
Employment (Per Cent Growth)							
FAO - Spring Outlook	0.7	1.1	1.3	1.1	1.0	0.9	0.9
2017 Budget	0.7	1.1	1.3	1.2	1.1	0.9	-
Unemployment Rate (Per Cent)							
FAO - Spring Outlook	6.8	6.5	6.4	6.3	6.3	6.3	6.2
2017 Budget	6.8	6.5	6.4	6.3	6.2	6.2	-
Labour Force (Per Cent Growth)							
FAO - Spring Outlook	0.1	0.9	1.1	1.0	1.0	0.9	0.9
2017 Budget	-	-	-	-	-	-	-
Population Growth (Per Cent)							
FAO - Spring Outlook	0.8	1.3	1.3	1.1	1.1	1.1	1.1
2017 Budget	-	-	-	-	-	-	-
CPI Inflation (Per Cent Growth)							
FAO - Spring Outlook	1.2	1.8	2.1	2.1	2.0	2.0	2.0
2017 Budget	1.2	1.8	2.0	2.0	2.0	2.0	-
Canada Real GDP (Per Cent Growth)							
FAO - Spring Outlook	0.9	1.4	2.2	2.3	2.0	1.9	1.9
2017 Budget	0.9	1.4	2.1	2.0	1.9	1.7	-
U.S. Real GDP (Per Cent Growth)							
FAO - Spring Outlook	2.6	1.6	2.3	2.3	2.2	2.1	2.1
2017 Budget	2.6	1.6	2.3	2.4	2.1	2.0	-
Canadian Dollar (Cents US)							
FAO - Spring Outlook	78.2	75.4	75.6	78.4	78.8	79.9	81.3
2017 Budget	78.2	75.4	74.5	75.5	78.5	80.0	-
WTI Crude Oil (US$)							
FAO - Spring Outlook	49	43	54	55	56	61	68
2017 Budget	49	43	54	59	62	64	-
Three-month Treasury Bill Rate (Per Cent)							
FAO - Spring Outlook	0.5	0.5	0.6	1.4	1.9	2.3	2.6
2017 Budget	0.5	0.5	0.5	0.8	1.5	1.9	-
10-year Government Bond Rate (Per Cent)							
FAO - Spring Outlook	1.5	1.3	1.8	2.5	2.9	3.6	3.9
2017 Budget	1.5	1.3	1.9	2.4	3.0	3.2	-

a = Actual f = Forecast

Source: Bank of Canada, Congressional Budget Office, Statistics Canada, FAO Consensus and FAO

Commented [GE(12]: [OEP comment]
The FAO forecast is for significantly faster Bank of Canada rate increases than financial markets and private-sector economists expect. The current private-sector average has the three-month T-bill rate at 0.9% in 2018, 1.6% in 2019 and 2.0% in 2020.

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Interest rates in 2020 are significantly higher than the 2017 Budget forecast and private-sector consensus. This is likely because some forecasters with low rates are not captured in the FAO consensus view. The current private-sector average is 3.3% in 2020.

Table 3: FAO Fiscal Outlook

($ Billions)	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Revenue							
Personal Income Tax	31.1	32.4	34.5	36.7	38.6	40.5	42.5
Sales Tax	23.5	24.7	25.8	26.5	27.3	28.2	29.2
Corporations Tax	11.4	12.7	13.3	14.0	14.6	15.1	15.6
All Other Taxes	25.8	24.0	25.1	25.9	26.9	27.6	28.5
Total Taxation Revenue	91.8	93.9	98.7	103.1	107.3	111.5	115.8
Transfers from Government of Canada	22.9	24.3	25.7	24.6	24.1	24.8	25.6
Income from Government Business Enterprise	4.9	5.3	4.9	5.7	6.0	6.3	6.5
Other Non-Tax Revenue	8.8	8.5	11.0	8.3	8.1	8.3	8.5
Total Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4
Expense							
Health Sector	51.0	52.2	53.8	56.3	58.1	60.6	63.3
Education Sector	25.0	25.7	26.5	27.4	28.0	29.0	29.8
Postsecondary and Training Sector	7.7	7.8	8.4	8.3	8.4	8.5	8.6
Children's and Social Services Sector	15.6	16.2	16.9	17.2	17.4	18.0	18.5
Justice Sector	4.5	4.6	4.7	4.7	4.8	4.9	5.0
Other Programs*	17.1	19.2	21.5	21.0	22.1	22.9	23.7
Total Program Expense*	120.9	125.7	131.8	134.9	138.8	143.8	149.0
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9
Total Expense	131.9	137.0	143.1	146.6	151.1	156.9	162.9
Budget Balance* (AG Presentation)	-3.5	-5.0	-2.9	-4.9	-5.5	-6.0	-6.5
Adjustment for Net Pension Assets (FAO projection)	-1.5	-2.2	-2.3	-2.6	-2.9	-2.9	-2.9
Budget Balance (Government Presentation)	-3.5	-2.8	-0.5	-2.2	-2.6	-3.1	-3.6
Budget Balance (2017 Budget)	-3.5	-1.5	0.6	0.6	0.9		

a = Actual f = Forecast

* Based on AG recommended presentation with adjustment for net pension assets.

Note: Budget balance is presented without reserve.

Source: Statistics Canada, Public Accounts of Ontario, Annual Report of Ontario and FAO

Commented [ST(14]: This year is being presented inconsistently with the rest of the years. If you are taking on the AG presentation, then you need to add $1.5B here, and then this ripples through to generate higher program spending, higher total expense, and a deficit of $5.0B at the bottom. Alternative is to change footnote to say "For fiscal years after 15-16, based on….."

Table 4a: FAO Debt Outlook (Auditor General Recommended Presentation)

$ Billions	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Budget Balance*	-3.5	-5.0	-2.9	-4.9	-5.5	-6.0	-6.5
Accumulated Deficit	202.7	207.7	210.6	215.5	221.0	227.0	233.5
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7
Change in Net Debt		10.9	13.5	16.8	19.0	14.0	12.3
Net Debt to GDP (Per Cent)	40.0	39.6	39.7	40.0	40.6	40.5	40.3

a = Actual f = Forecast
Note: * Budget Balance is presented without reserve.
Source: 2017 Ontario Budget and FAO

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Table 4b: FAO Debt Outlook (Government Presentation)

$ Billions	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Budget Balance*	-3.5	-2.8	-0.5	-2.2	-2.6	-3.1	-3.6
Accumulated Deficit	192.0	194.8	195.3	197.6	200.2	203.3	206.9
Net Debt	~~294.5~~294.6	303.1	314.3	328.5	344.6	355.7	365.1
Change in Net Debt		8.7	11.2	14.2	16.1	11.1	9.4
Net Debt to GDP (Per Cent)	38.6	38.0	37.8	38.0	38.3	38.0	37.5
Net Debt to GDP from 2017 Budget (Per Cent)	38.6	37.8	37.5	37.3	37.2	36.9	36.3

a = Actual f = Forecast
Note: * Budget Balance is presented without reserve.
Source: 2017 Ontario Budget and FAO

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Should be 294.6 to align with what is published in the 2017 Budget.

Economic and Fiscal Outlook

2017

Draft Report

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May 2017



Economic Outlook

Overview

Ontario Economy Expected to Remain Strong in 2017

The Ontario economy finished 2016 with a strong 2.7 per cent increase in real GDP, reflecting solid growth in the second half of the year. Real GDP growth last year was significantly above the 2.1 per cent average gain seen from 2011 to 2015. Strong household spending, residential investment and exports contributed to the increase in real GDP in 2016.

Supported by the strong economic momentum in 2016 and continued improvement in economic indicators in the first quarter of 2017, the FAO is projecting real GDP to rise by 2.4 per cent in 2017 and 2.1 per cent in 2018.

Nominal GDP – the broadest measure of the tax base – increased by a robust 4.6 per cent in 2016. The FAO is projecting nominal GDP to increase by 4.1 per cent in 2017 and 4.2 per cent in 2018, reflecting solid gains in labour income and corporate profits.

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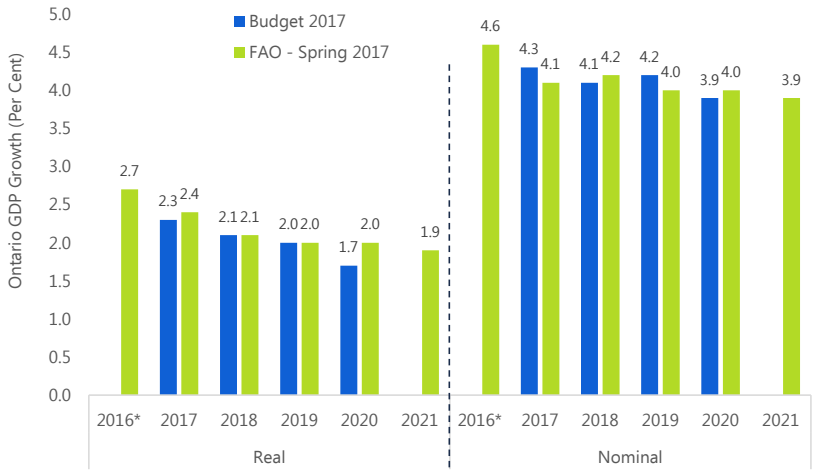
Solid Economic Performance Expected Over Outlook



* 2016 are actuals

Source: Ontario Economic Accounts, Budget 2017 and FAO

Global Economy Gaining Momentum

In its latest World Economic Outlook,[1] the International Monetary Fund (IMF) is forecasting global economic growth to strengthen from 3.1 per cent in 2016 to 3.5 per cent in 2017 and 3.6 per cent in 2018. The IMF revised the outlook slightly higher for 2017, but left it unchanged for 2018, compared to its October 2016 outlook.[2]

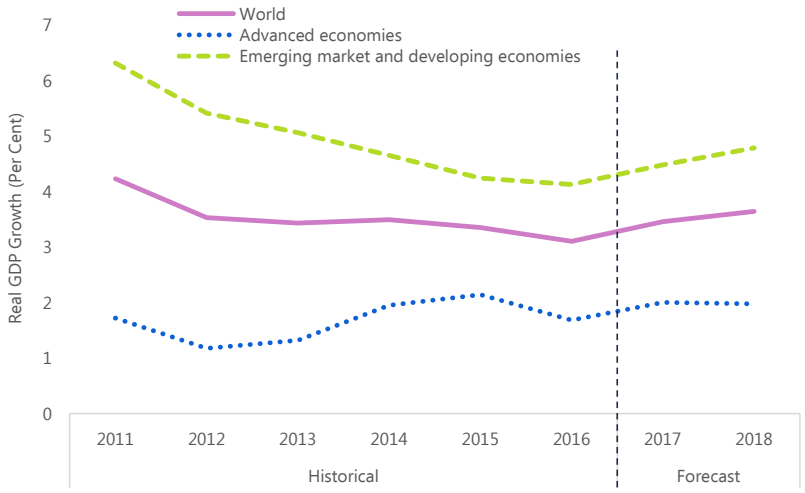
For advanced economies, the IMF's forecast for 2017 and 2018 has improved slightly from its October projection with growth of 2.0 per cent in 2017 and 2018.

Growth prospects for emerging market and developing economies are much more varied, but overall have weakened slightly from the IMF's October outlook, due to weaker economic conditions in key export markets. On average, the IMF has lowered its growth forecast for emerging markets and developing countries to 4.5 per cent in 2017, with 2018's forecast remaining unchanged at 4.8 per cent.

The IMF expects China – the world's second largest economy – to grow by 6.6 per cent in 2017 and 6.2 per cent in 2018, reflecting continued support from government policy. In the medium term, China's economic growth is expected to gradually moderate as its economy rebalances from investment and manufacturing-led growth to a more service-intensive economy.

[1] "World Economic Outlook, Gaining Momentum?", April 2017, International Monetary Fund.
[2] "World Economic Outlook, October 2016: Subdued Demand: Symptoms and Remedies," October 2016, International Monetary Fund.

Global Growth to Improve in 2017



Source: "World Economic Outlook, Gaining Momentum?", April 2017, International Monetary Fund

U.S. Economic Growth to Strengthen in 2017

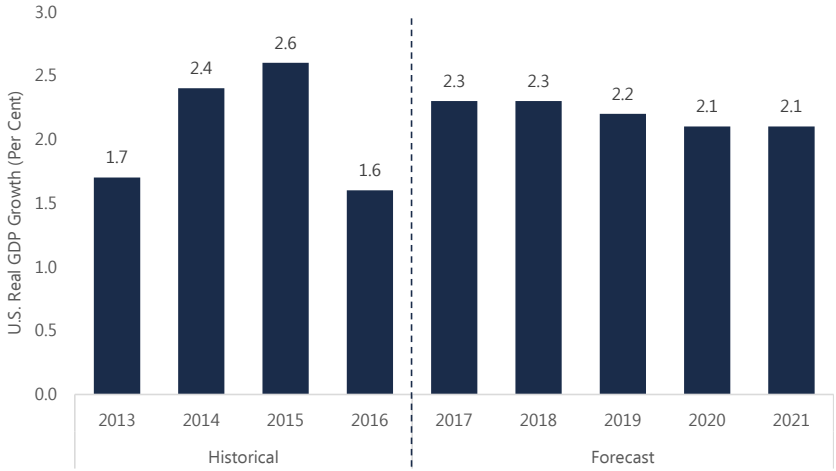
U.S. real GDP advanced by a relatively moderate 1.6 per cent in 2016, the weakest increase in three years. For 2017 and 2018, the FAO projects U.S. growth to improve to 2.3 per cent, with household spending, business investment and residential construction being key contributors to overall growth.[3]

However, the lack of specific details on the new U.S. administration's proposed policies has raised the risks associated with the current U.S. outlook. Many forecasters are cautiously optimistic that some of the proposed fiscal policies, such as expected cuts to corporate tax rates, could boost U.S. economic growth in the short-term.[4] But this optimism is tempered by the potential for large future increases in the U.S. budget deficit, which could weigh on economic growth over the medium-term.

From 2019 to 2021, U.S. real GDP growth is projected to average 2.1 per cent annually, which is in-line with the average rate seen from 2012 to 2016.

U.S. Economic Growth Moderates Beyond 2017

[3] The FAO forecast for the U.S. economy in 2017 is based on the U.S. Congressional Budget Office's (CBO) latest forecast. For 2018 to 2021, the U.S. forecast is based on the average of the CBO outlook and the forecasts of three independent model-based forecasters – the Conference Board of Canada (CBOC), the Centre for Spatial Economics (C4SE) and the Policy and Economic Analysis Program (PEAP) at the University of Toronto.
[4] These forecasters include the IMF, CBO, TD Bank, RBC, BMO Capital Markets and National Bank Economics.



Source: Federal Reserve Bank of St. Louis, Congressional Budget Office and FAO Consensus

Canadian Economic Growth Expected to Rebound

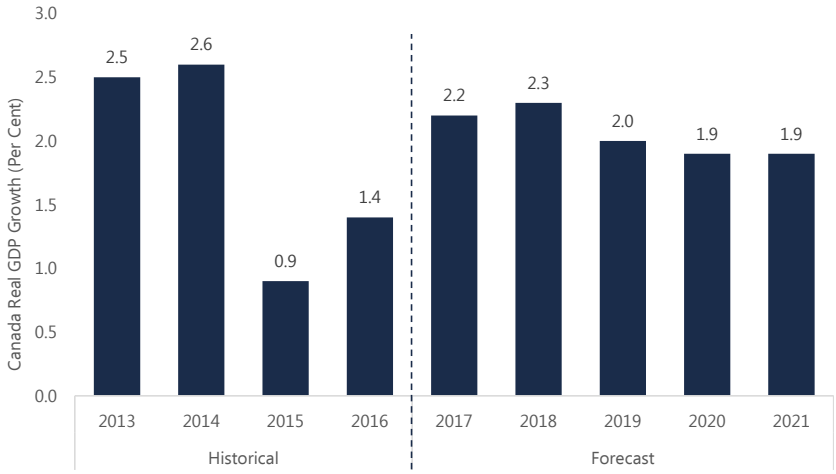
The outlook for the Canadian economy has improved following strong growth over the second half of 2016.

Continued momentum in recent economic indicators point to a solid start for 2017. Canadian real GDP is currently projected to grow by 2.2 per cent in 2017 and 2.3 per cent in 2018, recovering from more moderate growth in 2015 and 2016.[5] Strength in household spending and non-energy exports are expected to contribute to overall growth in 2017 and 2018.

Beyond 2018, Canadian real GDP is projected to increase at an average annual rate of 2.0 per cent, as the economy continues to adjust to slower growth in the energy sector.

Canada GDP Growth Expected to Improve in 2017

[5] The FAO forecast for the Canadian economy is based on the average quarterly forecasts of two independent, model-based forecasters – the Conference Board of Canada (CBOC) and the Policy and Economic Analysis Program (PEAP) at the University of Toronto.



Source: Statistics Canada and FAO Consensus

Based on the continuing recovery of the U.S. economy, and in particular the strength of U.S. labour markets, the U.S. Federal Reserve raised its key policy interest rate in March 2017.[6] In contrast, the Bank of Canada has remained more cautious about the underlying strength of the Canadian economy and as a result appears unlikely to raise its key policy interest rate before 2018.[7]

The FAO is projecting Canadian short-term interest rates will remain near current levels through 2017 and then begin rising modestly in 2018. Beyond 2018, interest rates are expected to gradually normalize with the 3-month Treasury Bill rate increasing to 2.6 per cent and the 10-year Government of Canada bond yield rising to 3.9 per cent by 2021.

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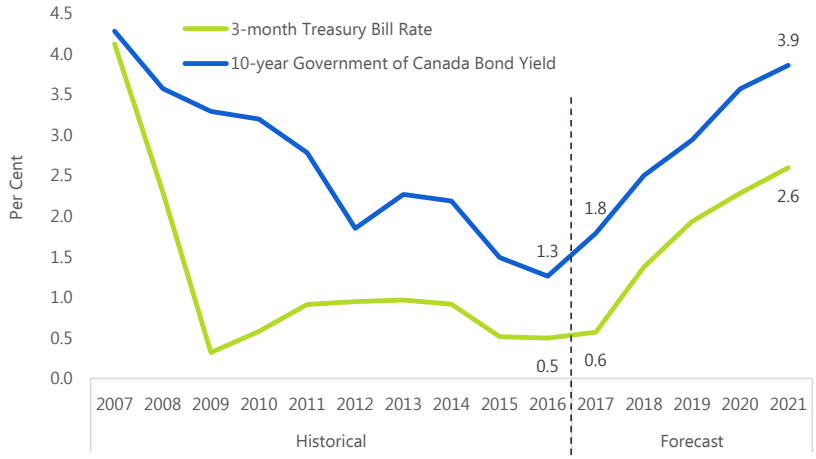
Interest rates in 2020 are significantly higher than 2017 Budget forecast and private-sector consensus. This is likely because some forecasters with low rates are not captured in the FAO consensus view.

Canadian Interest Rates to Rise over the Forecast

[6] The Federal Reserve raised its key policy rate, or the Federal Funds Rate, to 1.0 per cent on March 15, 2017.
[7] In its most recent monetary policy report, the Bank of Canada (BOC) indicated that it expects the output gap to close in early 2018. At the same time, the BOC noted that "there is still considerable uncertainty about the outlook," suggesting caution with regard to future changes in its policy interest rate. Bank of Canada Monetary Policy Report, April, 2017



Source: Statistics Canada and FAO

The Canadian dollar is expected to gradually appreciate over the next five years, rising from an average of about 75 cents U.S. in 2016 to about 81 cents U.S. by 2021, supported by the steady increase in short-term interest rates and a gradual rise in oil prices.

Ontario Economic Outlook

Solid Real GDP Growth Expected in 2017

Based on the Ontario Ministry of Finance's estimates,[8] Ontario real GDP rose by a strong 2.7 per cent in 2016, following equally strong gains of 2.5 per cent and 2.7 per cent in 2015 and 2014, respectively. Household spending, residential investment and exports were key contributors to overall economic growth last year. Business investment in plant and equipment disappointed expectations, declining by 4.0 per cent.

The performance of a number of economic indicators, including employment, retail sales and home sales remained solid in the first quarter of 2017. However, Ontario's merchandise export performance has been uneven so far in 2017.

[8] Ontario Economic Accounts, Fourth Quarter 2016, released April 13, 2017.

Uncertainty over the future direction of U.S. trade and industrial policy could hamper business investment growth in the near term, which would negatively impact Ontario's competitiveness. Without stronger business sector investment to expand production capacity, the growth potential of several key Ontario industries will be limited.[9] As a result, despite the projection for steady growth in the U.S. and a competitively valued Canadian dollar, Ontario's net exports[10] are projected to grow at a relatively moderate pace over the outlook.

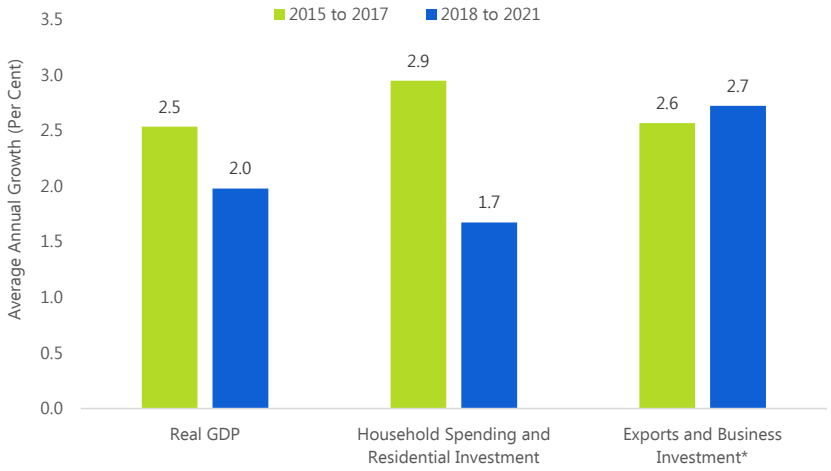
The FAO is forecasting real GDP growth of 2.4 per cent in 2017, supported by strong household spending and residential investment.[11] The pace of Ontario's overall economic growth will moderate to 2.1 per cent in 2018 and to an average of 2.0 per cent over the last three years of the outlook.

Moderate declines in residential investment in 2018 and 2019 – reflecting elevated household debt and a moderation in housing prices – is expected to contribute to the slower pace of overall economic activity.

The FAO forecast is broadly consistent with the consensus view among economists that exports and business investment will lead Ontario growth over the next several years, while household spending and residential investment will grow at a more moderate pace, as households reduce borrowing to address high debt loads.

Exports and Business Investment Expected to Drive Economic Growth

[9] As noted in a recent Conference Board of Canada report, nearly half of Ontario businesses are operating near or above capacity, hampering the ability of Ontario businesses to increase production to meet foreign demand. Conference Board of Canada Outlook, Winter 2017.
[10] Net exports are exports less imports of goods and services.
[11] The FAO forecast of the Ontario economy is based on the FAO's short-term quarterly model of the Ontario economy. For a description of the model, please refer to the textbox at the end of the Economic Outlook chapter.



* Business Investment includes both Non-Residential Investment and Machinery & Equipment Investment
Source: Ontario Economic Accounts and FAO

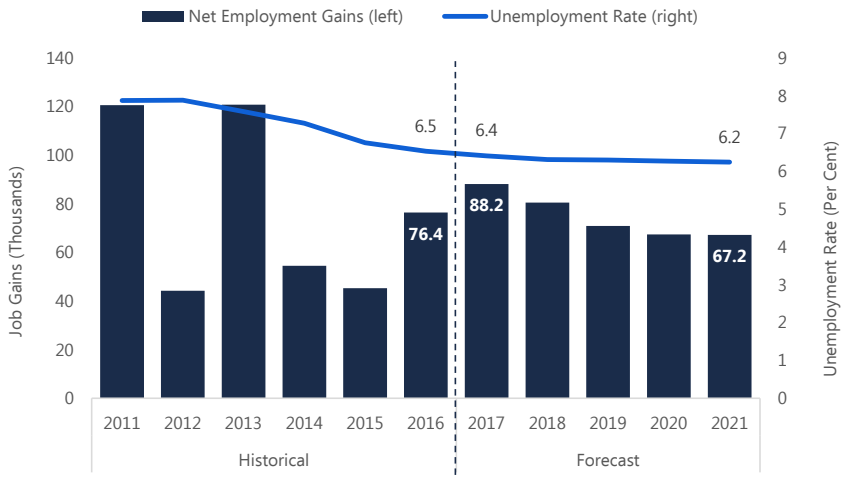
Steady Job Gains Over Outlook

Ontario experienced relatively strong employment growth of 1.1 per cent in 2016 (+76,400 net new jobs), the majority of which were full-time, private sector jobs. There was robust job growth in both goods and service producing industries. The construction industry in particular, posted the highest job growth (+3.4 per cent), followed by healthcare (+3.2 per cent).[12]

The strength in Ontario's labour market continued into 2017 with an increase of 99,600 jobs on a year-over-year basis during the first quarter. For the year, the FAO is projecting a 1.3 per cent gain in employment in 2017. On average, the FAO is forecasting average annual job gains of 1.0 per cent over the next four years, consistent with the outlook for solid economic growth.

Steady Employment Gains as Unemployment Rate Slowly Trends Lower

[12] For a more detailed discussion on Ontario's labour market, see the FAO's Commentary: "Ontario Posts Solid 2016 Job Gain as the Labour Market Continues to Evolve."



Source: Statistics Canada and FAO

Sustained economic growth over the outlook is expected to attract more workers into the labour force, which is forecast to rise at a slightly higher rate than over the last five years. Faster labour force growth from 2017 to 2021, will partially offset relatively strong employment gains, leading to a more moderate decline in the unemployment rate over the outlook.

Strong Gains Expected for Labour Income and Corporate Profits

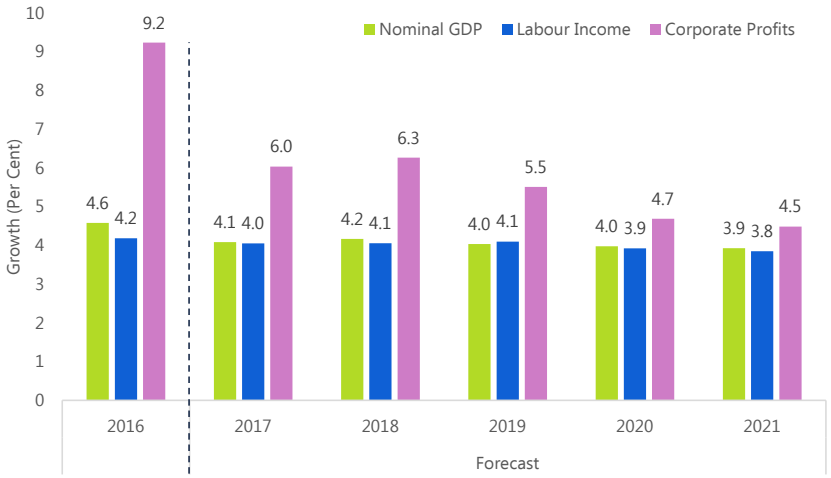
Labour income grew by a robust 4.2 per cent in 2016, above the average annual increase of 3.7 per cent from 2011 to 2015, and a reflection of the strong employment growth last year. The net operating surplus of corporations (largely corporate profits) also increased by a robust 9.2 per cent in 2016 following an equally strong gain of 9.1 per cent in 2015.

As a result of the gains in labour income and corporate profits (which together account for about two-thirds of nominal GDP), nominal GDP grew by a strong 4.6 per cent in 2016.[13]

[13] The robust 2016 increase in nominal GDP was much stronger than the 3.4 per cent increase projected in both the FAO's Economic and Fiscal Outlook, Fall 2016 Update and the government's 2016 Economic Outlook and Fiscal Review. The sharp upward shift in 2016 nominal GDP growth reflects large historical revisions to 2015 and 2016 nominal GDP growth in the Ontario Economic Accounts, consistent with new data from Statistics Canada. In particular, the net operating surplus of corporations is now estimated to have increased by 9.2 per cent in 2016 compared to an original projection of 0.3 per cent last fall.

For 2017, the FAO is projecting a 4.1 per cent rise in nominal GDP, supported by strong gains in labour income (+4.0 per cent) and corporate profits (+6.0 per cent). On average, the FAO is projecting nominal GDP growth of 4.0 per cent over the 2018 to 2021 outlook.

Labour Income and Corporate Profits Support Nominal GDP Growth



Source: Ontario Economic Accounts and FAO

Key Risks for Ontario's Economic Outlook

The FAO's current economic forecast represents a reasonable outlook for the Ontario economy and an appropriate foundation for fiscal projections. However, several key risks could materialize leading to weaker than expected economic growth for the province.

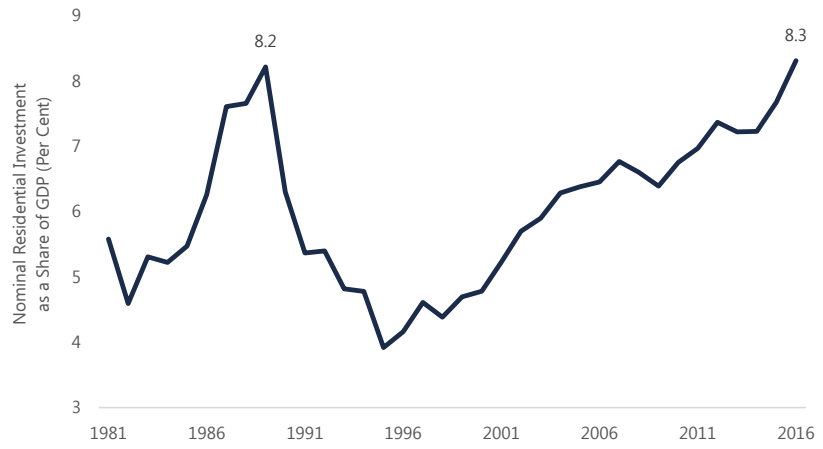
In particular, there are significant risks with respect to the proposed renegotiation of the North American Free Trade Agreement (NAFTA) and the adoption of protectionist trade measures in the United States. As well, other proposed changes to U.S. fiscal and industrial policies, such as lower corporate tax rates and 'Buy America' executive orders, could harm Ontario's relative competitiveness, further discouraging business investment and limiting the contribution of exports to overall growth.

Domestically, the housing market continues to pose a significant risk to the overall economy. The sharp rise in Ontario housing prices – particularly in the

Greater Toronto Area – has contributed to record consumer debt loads and stretched levels of affordability.

At the same time, the relative importance of residential housing investment to the overall economy has increased substantially in recent years, posing a significant risk to the Ontario economy, in the event of a sharp housing market correction. In 2016, investment in residential housing accounted for a record high 8.3 per cent of Ontario's nominal GDP, up from 6.4 per cent in 2009.[14]

Residential Investment Spending Accounts for a Record Share of GDP



Source: Ontario Economic Accounts and FAO

The last time investment in residential housing accounted for a similar proportion of the economy was 1989, just prior to the 1990-1995 housing market correction.

A sharp correction in housing prices, exacerbated by the elevated levels of household debt, would negatively affect household spending and residential investment, and could lead to broader economy-wide impacts on growth and employment.

[14] Almost one-quarter (22 per cent) of the growth in nominal GDP in 2016 was directly attributable to the increase in residential investment spending.

The Province recently announced a package of measures intended to respond to the underlying factors contributing to the unsustainable rise in housing prices and the rapid growth in housing market activity. However, it is too early to assess whether these measures will adequately address the imbalance between demand and supply pressures in the market.

The FAO's Quarterly Short-term Model of the Ontario Economy

The FAO has developed a short-term forecasting model to produce quarterly five-year projections of the Ontario economy. The model is based on dynamic equations for major sub-categories of real and nominal GDP. The model also includes key labour market components, financial variables and the Canada-U.S. dollar exchange rate. The model is structured around a number of important external or exogenous concepts such as Canada-wide economic growth, U.S. economic growth, U.S. prices, U.S. interest rates and energy prices.

The model is an important tool for the FAO's bi-annual Economic and Fiscal Outlook (EFO), ensuring internal consistency of each projection as well as consistency between EFO forecasts. It also provides the majority of the inputs required by the FAO's Fiscal Outlook Model which provides the FAO's projection of the government's fiscal position.

From:	Ken Kandeepan
To:	Ricky Lai
Cc:	Alexander Kraas; George Sakura; John Psinas
Subject:	FW: FES 2016 Q+As
Date:	Monday, November 07, 2016 11:17:59 AM

Hi Ricky

I made a few edits in the Q&A's and deleted all of the comments that were from 2015. Can we pls add one more Q&A on the pension adjustment.

Q: The Government has adopted the accounting treatment recommended by the Auditor General resulting in a pension adjustment expense over the medium term outlook. How has this impacted borrowing?

A: The pension adjustment is a non-cash amount, as such both borrowings and total debt remain unchanged. Given that the forecast deficits in the medium term outlook remain unchanged there is also no impact on net debt as well from the pension adjustment.

From: Daniel Hengeveld
Sent: Thursday, November 03, 2016 9:47 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; Ricky Lai <Ricky.Lai@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: Erica Wieder <Erica.Wieder@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: FES 2016 Q+As

Hello,

The FES 2016 QAs have been placed on the portal (using last year's QAs as a template). Please update, add/remove material by Wednesday November 9th

Do let me know if you have any questions.

Thanks,
Daniel

From:	Ken Kandeepan
To:	Alexander Kraas
Cc:	IOD_RPA; John Psinas; George Sakura; Kevin Hwang
Subject:	FW: FT
Date:	Tuesday, October 25, 2016 2:23:21 PM

My apologies, small change to the previous approach, pls see below.

Thanks

Ken k

From: Ken Kandeepan
Sent: Tuesday, October 25, 2016 2:04 PM
To: Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: IOD_RPA <IOD_RPA@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>
Subject: RE: FT

Hi Alex and Team

I just came back from a meeting with Gadi and we agreed that the FT be developed as follows. Change Non-Cash Adjustments by the net impact of the pension adjustment and the reserve. Kevin will provide you with the revised non-cash spreadsheet shortly. Happy to provide an explanation but would like to do so in person, so pls drop in tomorrow.

You will see that non-cash increases by $1.6 billion, Gadi would like the short term long term borrowing to go to zero (reduce by $1 billion) and long term to reduce by $600 million. No changes to 17-18 and 18-19, as we discussed, Gadi agrees that the prudent course of action is to wait till the 2017 Document.

We will offset cash by $500M to fund the increase in capital investments.

Once you receive the outlook from Tara pls prepare the FT accordingly and pls provide a link for me to review. We can the present same to Gadi.

Thanks

Ken k

From: Alexander Kraas
Sent: Tuesday, October 25, 2016 9:28 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: IOD_RPA <IOD_RPA@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>
Subject: RE: FT

Sure, Ken;

Best regards

Alex

From: Ken Kandeepan
Sent: Tuesday, October 25, 2016 9:25 AM
To: Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: IOD_RPA <IOD_RPA@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>
Subject: FT

Hi

I understand that Tara will be providing you with the FES outlook sometime today. Can we try and have a draft FT for the end of the day for me to review and present it to Gadi sometime tomorrow. I suggest that for now we decrease cash by $1 B offset to some extent by the $500M increase in capital investments with the balance reducing the short term borrowings. There will be no change in the deficit.

For the out years Fiscal is still projecting balance so my suggestion is we don't make any changes in the FT until the 2017 Budget.

Thanks

Ken K

From:	Lynsey Wynberg
To:	Ken Kandeepan; Gadi Mayman
Subject:	FW: FYI: Auditor General to make announcement on pension accounting issue tomorrow at 10 am (Tor Star - twitter)
Date:	Wednesday, February 15, 2017 1:52:00 PM

FYI

From: Patel, Lesley (MOF) [mailto:Lesley.Patel@ontario.ca]
Sent: Wednesday, February 15, 2017 1:45 PM
To: Jamie Buckland Foster (MCYS) <Jamie.Buckland.Foster@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>
Cc: Alex Killoch (MOF) <Alex.Killoch@ontario.ca>
Subject: FW: FYI: Auditor General to make announcement on pension accounting issue tomorrow at 10 am (Tor Star - twitter)

FYI — our issues team will monitor.

 [twitter.com]
Robert Benzie[twitter.com]
@robertbenzie[twitter.com]
.@OntarioAuditor[twitter.com] will answer the $10.7B question tomorrow at 10 a.m.

From:	Lynsey Wynberg
To:	Ken Kandeepan
Subject:	FW: Fact check - PAEAP report Q&A - Tuesday EOD
Date:	Monday, February 06, 2017 1:28:03 PM
Attachments:	PAEAP Report QA_MOF_20170206.docx
Importance:	High

Hi Ken,

Please see below and let me know if you wish to comment.

Thanks,
Lynsey

From: Patel, Lesley (MOF) [mailto:Lesley.Patel@ontario.ca]
Sent: Monday, February 06, 2017 1:08 PM
To: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>; Jamie Buckland Foster (MCYS) <Jamie.Buckland.Foster@ontario.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>
Subject: Fact check - PAEAP report Q&A - Tuesday EOD
Importance: High

Hi all,

Please find attached a draft Q&A from TBS on the release of the Pension Asset Expert Advisory Panel's Report for review. I've looped in a few policy areas to make sure we are covered off but could you please let me know if your area will be reviewing.

Please also track your changes in the attached document to return to me by EOD Tuesday.

This TBS announcement is still up in the air but as of this moment, we are still tracking for February 13. I will share with you as I get information about what the details will look like.

If you have any questions, please let me know.

Thanks,

Lesley Patel
Senior Communications Advisor
Strategic Communications
Communications Services Branch
Ontario Ministry of Finance
lesley.patel@ontario.ca
416-212-1439

Questions and Answers
Pension Asset Expert Advisory Panel Report

KEY MESSAGES:

- We thank the Pension Asset Expert Advisory Panel for their work on this complex issue.

- We are pleased that the independent panel's results are consistent with Ontario's view that net pension assets for jointly-sponsored plans should continue to be recognized in the Province's financial statements, as they have been for the past 14 years.

- Ontario is accepting all of the panel's recommendations and will prepare its future financial statements based on this advice.

- By applying the panel's advice to the Province's 2015-16 finances, Ontario's deficit has been lowered to $3.5B, from the $5B originally reported in the 2015-16 Public Accounts.

- The panel's advice will also help inform discussions with the Auditor General in the hopes of reaching agreement on how the accounting standard is applied to future financial statements.

- Ontario remains committed to balancing the budget by 2017-18, and remaining balanced in 2018-19.

QUESTIONS AND ANSWERS – MOF REVIEW

1. What does this mean for the upcoming Budget?

The 2017 Budget will reflect the appropriate accounting treatment for net pension assets informed by the panel's report, including the Province's updated Interim numbers for 2016-17, as well as forecasts for the fiscal planning period.

We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19. ~~We will have more details to share about the Budget in the coming weeks.~~

In the coming weeks, we will provide an update in Ontario's Third-Quarter Finances of our progress on our plan to grow the economy.

2. What do you say to the credit rating agencies who are watching all of this unfold?

We have been impressed with the level of cooperation and understanding of the credit rating agency community.

I would say we have achieved clarity on this complex accounting issue.

We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

Ontario's Financial Position:

3. Some have said your government has a spending problem, not a revenue problem. What do you say to that?

Even with adopting the Auditor General's view of the 2015-16 Public Accounts, the government still beat its annual deficit target for the seventh year in a row.

The government is projecting a balanced the budget by 2017-18, and remaining balanced in 2018-19.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

Over the past four years the Province has held the average annual growth in program spending to 1.9 per cent, less than the rate of inflation, while investing in services that people rely on.

Key elements of the government's plan to eliminate the deficit are:

- Program Review, Renewal and Transformation
- Managing compensation costs
- Maintaining tax fairness and a level playing field for business

DRAFT

- Strengthening government transparency, financial management and fiscal accountability

4. **The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?**

   The government remains firmly committed to balancing the budget by 2017-18, and remaining balanced in 2018-19.

   Even with adopting the Auditor General's view of the 2015-16 Public Accounts, the government still beat its annual deficit target for the seventh year in a row. This reflects the government's responsible and balanced approach to fiscal management.

   Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

   Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

5. **How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?**

   The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget.

   Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

DRAFT

Legislated Accounting:

6. Is the disagreement over accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its annual deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing the change to the 2015-16 Public Accounts, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years and by three previous Auditor Generals. There has been no change to the relevant accounting standards over the past 14 years.

In fact, Ontario has a strong track record of producing high-quality financial reports on a timely basis. Prior to 2015-16, Ontario had clean audit opinions for 22 years.

DRAFT

From:	Anna Strathy
To:	Bonnie Lemcke; Ken Kandeepan
Subject:	FW: Financial Accountability Office of Ontario Spring Outlook (CIBC Capital Markets)
Date:	Monday, June 05, 2017 8:00:01 AM
Attachments:	Financial Accountability Office of Ontario Spring Outlook (June 1, 2017).pdf

FYI

From: Tarin, Ghufran (MOF) [mailto:Ghufran.Tarin@ontario.ca]
Sent: Friday, June 02, 2017 12:22 PM
To: Gwendolynne Young (ENE) <Gwendolynne.Young@ontario.ca>; Jamille Clarke-Darshanand (MOF) <Jamille.Clarke-Darshanand@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>
Subject: FW: Financial Accountability Office of Ontario Spring Outlook (CIBC Capital Markets)

Just FYI

From: Lewis, Brian (MOF)
Sent: June-02-17 12:08 PM
To: Thompson, Scott (MOF); Schuurman, Tim (MOF); Mayman, Gadi (OFA); Hughes, Karen (TBS)
Cc: Lewis, Paul (MOF); Taylor, Stephen (MOF); Tarin, Ghufran (MOF); Lemcke, Bonnie (OFA)
Subject: FW: Financial Accountability Office of Ontario Spring Outlook (CIBC Capital Markets)

For what it's worth… I think this is the first time I saw one of the banks (financial market side of CIBC in this case) pick up the FAO report and re-broadcast it.

From: CIBC CM Macro Strategy [mailto:Mailbox.CIBCMacroStrategy@cibc.com]
Sent: June 1, 2017 10:14 AM
Subject: Financial Accountability Office of Ontario Spring Outlook (CIBC Capital Markets)

CIBC Capital Markets
Macro Strategy Research

Financial Accountability Office of Ontario Spring Outlook (June 1, 2017)

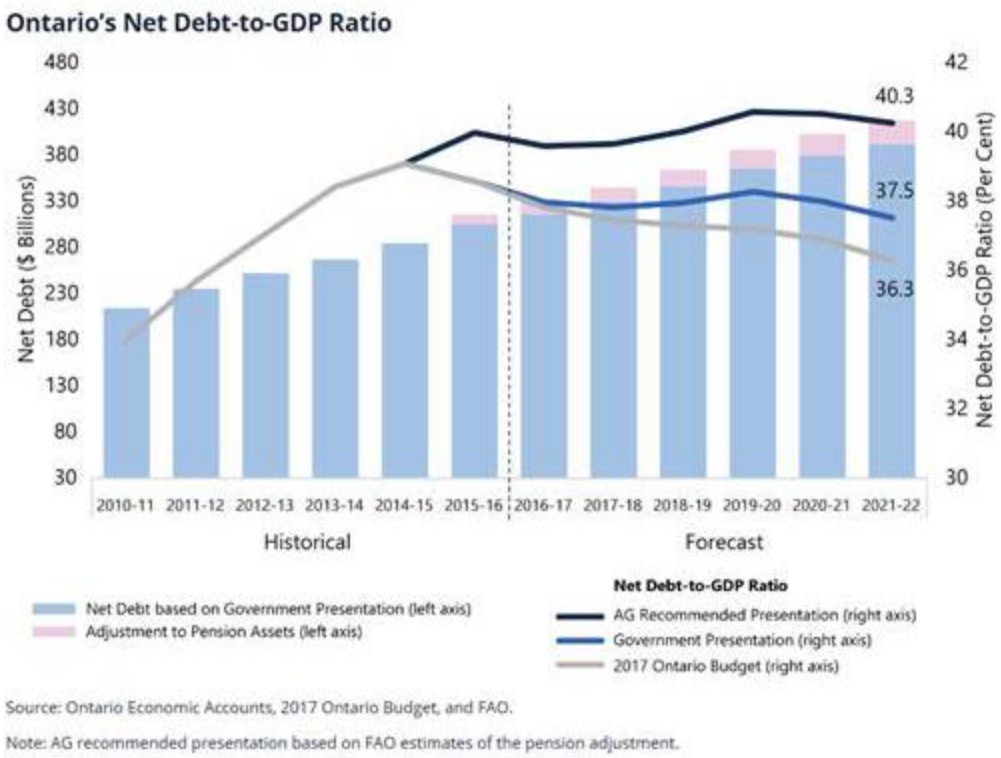
Yesterday, the Financial Accountability Office of Ontario released its Economic and Fiscal Outlook Spring 2017 report which highlights specific risks to Ontario's projected path to balanced budgets and lower debt burden.

Executive Summary excerpt:

- The FAO is projecting continued Ontario budget deficits over the next five years. For 2017-18, the FAO's projection includes an improvement in the deficit, the result of a $3.0bln one-time boost to non-tax revenue and strong tax revenue growth. However, beginning in 2018-19, the FAO is projecting a steady deterioration in the budget deficit due to moderating revenue growth combined with higher expenses.
- The government and the Auditor General continue to disagree on the application of public sector accounting standards for jointly-sponsored pension plans. Based on the FAO's application of the Auditor General's recommended accounting treatment for these pension assets, the FAO is projecting significant budget deficits over the entire outlook. On this basis, it is unlikely that the government will balance without significant fiscal policy adjustments to raise revenue or lower

expense.

- Under the government's accounting presentation, the FAO projects that a balanced budget is within the government's reach in 2017-18. Beyond 2017-18, the deficit is projected to deteriorate steadily due to rising expenses and moderate revenue growth. On this basis, staying in balance after 2017-18 will likely require additional fiscal policy measures. This presentation of Ontario's fiscal position would be expected to receive a qualified opinion from the Auditor General when published in the Province's 2016-17 Public Accounts.



Source: Ontario Economic Accounts, 2017 Ontario Budget, and FAO.

Note: AG recommended presentation based on FAO estimates of the pension adjustment.

For the complete FAO Economic and Fiscal Outlook Spring 2017 Click Here

Maria Berlettano, CFA
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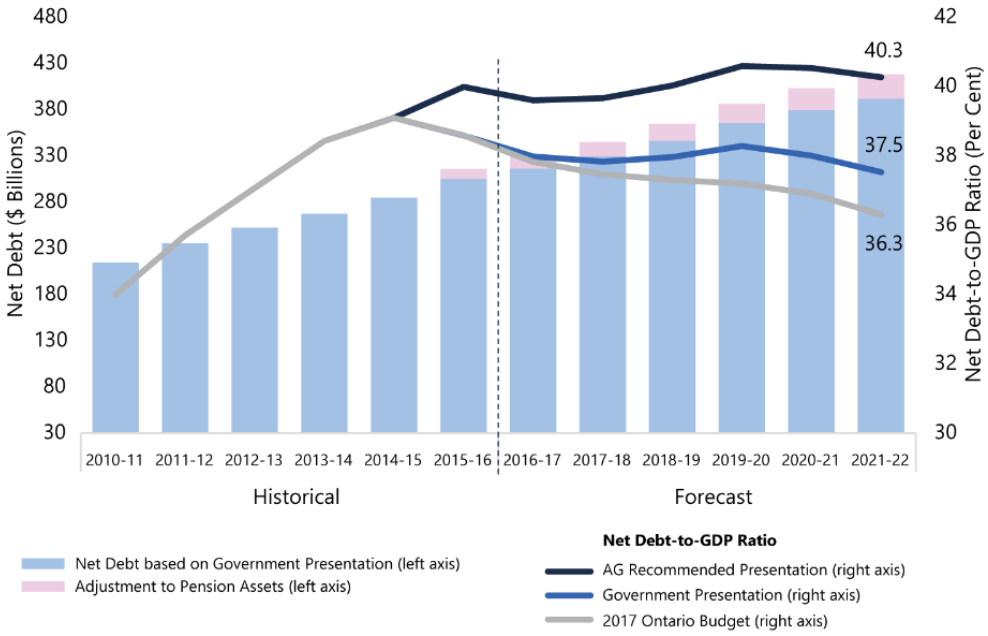
Ontario's Net Debt-to-GDP Ratio



Source: Ontario Economic Accounts, 2017 Ontario Budget, and FAO.

Note: AG recommended presentation based on FAO estimates of the pension adjustment.

For the complete FAO Economic and Fiscal Outlook Spring 2017 Click Here

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From:	Anna Strathy
To:	Bonnie Lemcke; Ken Kandeepan
Subject:	FW: Financial Accountability Office of Ontario Spring Outlook (CIBC Capital Markets)
Date:	Monday, June 05, 2017 8:00:01 AM
Attachments:	Financial Accountability Office of Ontario Spring Outlook (June 1, 2017).pdf

FYI

From: Tarin, Ghufran (MOF) [mailto:Ghufran.Tarin@ontario.ca]
Sent: Friday, June 02, 2017 12:22 PM
To: Gwendolynne Young (ENE) <Gwendolynne.Young@ontario.ca>; Jamille Clarke-Darshanand (MOF) <Jamille.Clarke-Darshanand@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>
Subject: FW: Financial Accountability Office of Ontario Spring Outlook (CIBC Capital Markets)

Just FYI

From: Lewis, Brian (MOF)
Sent: June-02-17 12:08 PM
To: Thompson, Scott (MOF); Schuurman, Tim (MOF); Mayman, Gadi (OFA); Hughes, Karen (TBS)
Cc: Lewis, Paul (MOF); Taylor, Stephen (MOF); Tarin, Ghufran (MOF); Lemcke, Bonnie (OFA)
Subject: FW: Financial Accountability Office of Ontario Spring Outlook (CIBC Capital Markets)

For what it's worth… I think this is the first time I saw one of the banks (financial market side of CIBC in this case) pick up the FAO report and re-broadcast it.

From: CIBC CM Macro Strategy [mailto:Mailbox.CIBCMacroStrategy@cibc.com]
Sent: June 1, 2017 10:14 AM
Subject: Financial Accountability Office of Ontario Spring Outlook (CIBC Capital Markets)

CIBC Capital Markets
Macro Strategy Research

Financial Accountability Office of Ontario Spring Outlook (June 1, 2017)

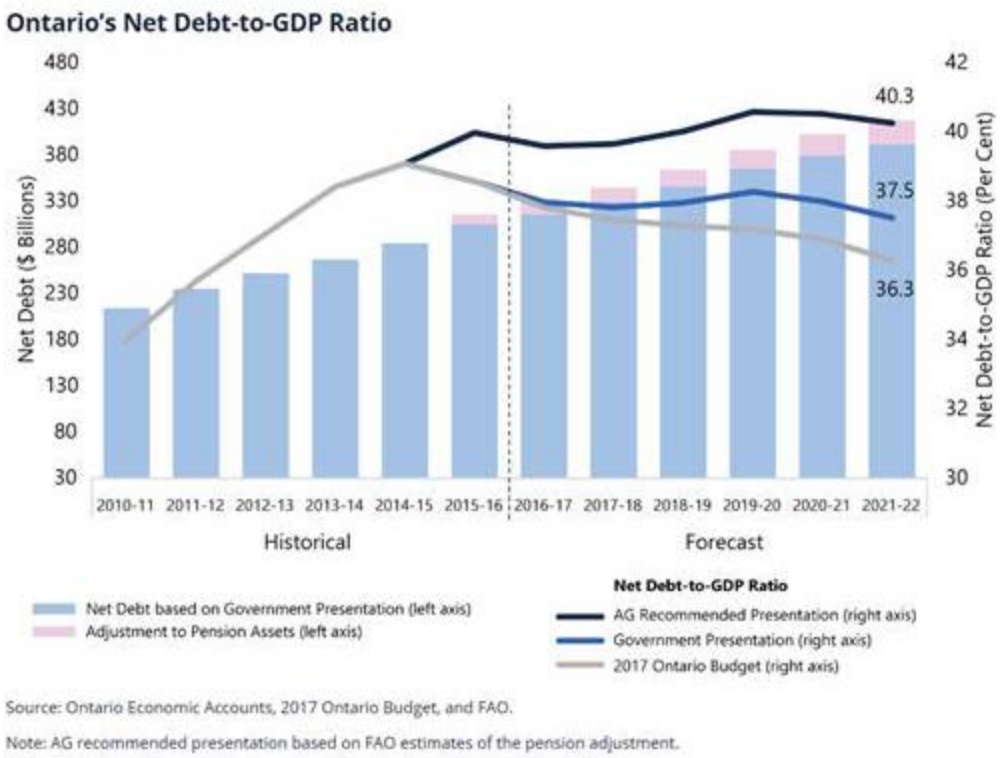
Yesterday, the Financial Accountability Office of Ontario released its Economic and Fiscal Outlook Spring 2017 report which highlights specific risks to Ontario's projected path to balanced budgets and lower debt burden.

Executive Summary excerpt:

- The FAO is projecting continued Ontario budget deficits over the next five years. For 2017-18, the FAO's projection includes an improvement in the deficit, the result of a $3.0bln one-time boost to non-tax revenue and strong tax revenue growth. However, beginning in 2018-19, the FAO is projecting a steady deterioration in the budget deficit due to moderating revenue growth combined with higher expenses.
- The government and the Auditor General continue to disagree on the application of public sector accounting standards for jointly-sponsored pension plans. Based on the FAO's application of the Auditor General's recommended accounting treatment for these pension assets, the FAO is projecting significant budget deficits over the entire outlook. On this basis, it is unlikely that the government will balance without significant fiscal policy adjustments to raise revenue or lower

expense.

- Under the government's accounting presentation, the FAO projects that a balanced budget is within the government's reach in 2017-18. Beyond 2017-18, the deficit is projected to deteriorate steadily due to rising expenses and moderate revenue growth. On this basis, staying in balance after 2017-18 will likely require additional fiscal policy measures. This presentation of Ontario's fiscal position would be expected to receive a qualified opinion from the Auditor General when published in the Province's 2016-17 Public Accounts.



Source: Ontario Economic Accounts, 2017 Ontario Budget, and FAO.

Note: AG recommended presentation based on FAO estimates of the pension adjustment.

For the complete FAO Economic and Fiscal Outlook Spring 2017 Click Here

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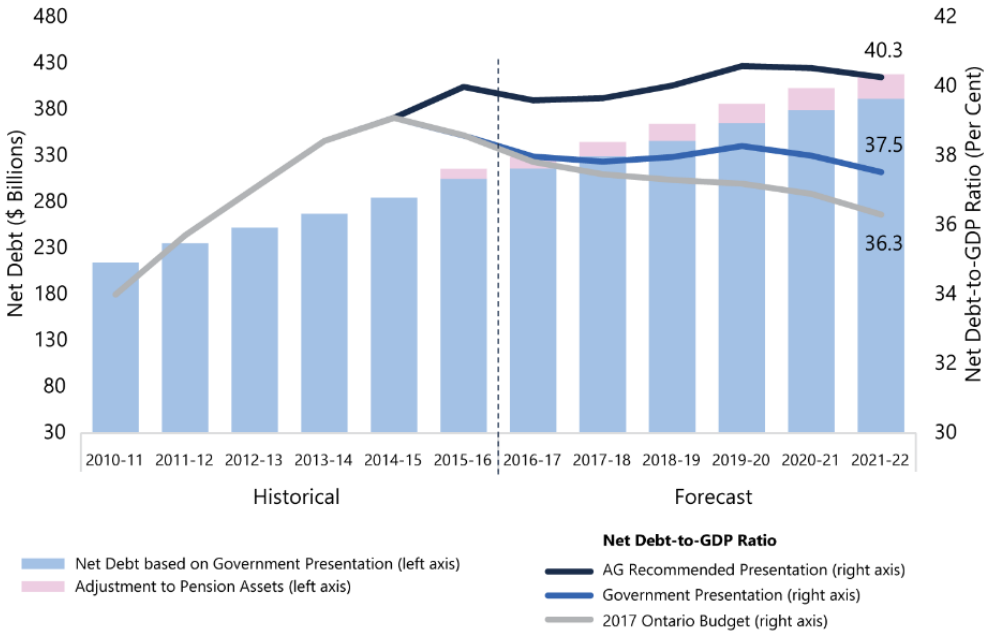
Ontario's Net Debt-to-GDP Ratio



Source: Ontario Economic Accounts, 2017 Ontario Budget, and FAO.

Note: AG recommended presentation based on FAO estimates of the pension adjustment.

For the complete FAO Economic and Fiscal Outlook Spring 2017 Click Here

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From:	Esmail, Selena (MOF)
To:	Tim Cook (MOF); Andrea Dutton (MOF); Teuta Dodbiba (MOF); Raj Sharda (MOHLTC); Dorothy Cheung (MCYS); Gladys Miu (MOI); Paul Lewis (MOF); John Kim; Ken Kandeepan; Nadine Petsche (MOF); Ann Langleben (MOF); Kostas Plainos (MOF)
Cc:	Daniel Tiburcio (MOF); Paul Ternamian (MOF); Birks, Ryan (MOF); Hosick, Sarah (TBS); Anna Strathy; Gavin He; Ghufran Tarin (MOF); Nina Arbabzadeh (EDU); Law, Rex (TBS); Patrick Laughton (MOF); Patel, Lesley (MOF)
Subject:	FW: Follow-Up on the 2017 Budget
Date:	Friday, April 28, 2017 5:43:04 PM
Attachments:	image003.png FAO protocol excerpt.docx 2017 Budget Qs_FAO specific Qs.docx

Hi Everyone.

As you can see below, the FAO has reached out to make a formal request for information in follow up to yesterday's release of the Budget (BTW we are looking to set up a mtg on Tuesday from 1pm to 2pm with the FAO).

You may have already been forwarded this email from your ADMs but we've also just now received the list of specific additional questions (attached). I've attempted to identify in the attached and below which area is responsible for what, and if I have this wrong, please let me know (and sorry!).

I thought we could do a quick touch base Monday, just to check in on what we might have readily available to be in a position to provide at Tuesday's meeting and what we may need to get back to the FAO on (but pls note that we should not be doing any new analysis to provide a response). I will send out an invite/teleconf so we can discuss.

For reference I have attached an excerpt from our protocol for interaction with the FAO in case folks need a refresher on what information can/cannot be shared. We can discuss further on Monday at our call/meeting.

Thanks and pls let me know if you have any questions.

From: David West [mailto:dwest@fao-on.org]
Sent: April-28-17 9:32 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Luan Ngo; Edward Crummey; Mario Angastiniotis; Nicolas Rhodes
Subject: Follow-Up on the 2017 Budget

Good Morning!

Congratulations on delivering yesterday's big, black budget!

I wanted to follow-up on the FAO's requests for some additional information.

First, as we have discussed, we have three requests for specific data/tables:

1. We would like to obtain the detailed revenue and expense tables (Tables 6.14 and 6.15) extended to 2019-20.

- Are these detailed tables available to 2020-21? If so, then please include (☺) **– OEP Table 6.14/TBS – PEMD&CPD 6.15**

2. As staff have been discussing, we would like to obtain more detailed information on the one-time adjustments to taxation revenues beginning in 2015-16 and extending over the forecast. This is basically additional information to that provided in tables 6.7, 6.8 and 6.9. **- OEP**

3. As detailed in the letter and background documents sent to Deputies Thompson and Angus on April 3, we are requesting pension expense and employer contribution details for the OTPP and OPSEUPP.- **TBS-OPCD**

We would also appreciate a meeting early next week (preferably Tuesday afternoon) to allow you to respond to a number of questions that we have with regard to the 2017 Budget.

We'll provide a list of specific questions later this afternoon, but these questions will cover a number of areas, including:

- Clarification on where the Fair Hydro Plan appears in the expenses **– CEFD/ TBS - PEMD**
- Additional details/clarification on new health spending, including the new pharmacare plan **– TBS PEMD**
- Clarification on future assumptions for asset sales and any details behind the 'Sales and Rentals' line in the detailed Revenue table. **OFA CEFD, OEP**
- Clarification on the assumptions behind new federal funding announced in the 2017 federal budget (e.g. affordable housing, child care, home care) **OEP/TBS PEMD & CPD**
- Some background on the decision to reduce the estimate of 'Carbon Allowance Proceeds' and assumptions on associated expense – **OEP, TBS PEMD**
- Additional details/clarification on new infrastructure spending **TBS CPD**
- Assumptions behind the plan to reduce net debt-to-GDP to 35% and eventually to 27%. **OFA**

We'll provide a list later this afternoon that expands somewhat on these question topics.

Happy to discuss any of these requests.

Thanks again for your support,
David

David West
Chief Economist

FAO | Financial Accountability Office of Ontario

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
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Financial
Accountability
Office of Ontario

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    - The estimates and supplementary estimates submitted to the Legislature;
    - The financial costs or benefits of any public bill before the Assembly; and,
    - The financial costs or benefits of any proposal made by the Government or any member of the Assembly.

- This OIC authorizes ministries and public entities to share information contained in Cabinet records when the following conditions are met:
    - The information has been requested by the FAO;
    - The information is not available through other sources;
    - The policy or fiscal decisions to which the requested information relates have been announced to the public or tabled with or disclosed to the Legislative Assembly;
    - The information is provided in a format that does not reveal other information protected by subsection 12(1) of FIPPA;
    - The information would not reveal personal information or personal health information; and,
    - The FAO agrees not to disclose the information further without the consent of the Executive Council.

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- Third party/commercial sensitivity is not a valid justification for withholding information from the FAO.
- The only valid justifications for refusing to provide information to the FAO are the personal information and personal health information exceptions set out in subsections 12(2) and (3) of the FAO Act as well as any terms and conditions laid out in the OIC.
- However, the FAO has limitations on what information he can further disclose and make public.
    - The FAO cannot further disclose third party/commercially sensitive information obtained solely from a record covered by s17 of FIPPA.
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    - The FAO typically consults with ministries/public entities during the development of draft reports on any disclosure restrictions related to any information provided to the FAO.

FAO Questions for MOF

April 28, 2017

Economics

- Why is the growth rate for labour compensation running significantly above the growth for primary household income, particularly in 2018 and 2019? **- OEP**
- Do you use Compensation of Employees on a 'National Basis' (from Table 11 of the OEA) as the principal PIT driver? In 2016, Labour Compensation on a national basis grew at 4.4% while on a domestic basis it grew 4.2%, which is an unusually large gap. **- OEP**

Revenue

- In Table 3.14, sales and rental revenues are projected to increase by $1 billion in 2017-18. Can we can get details about the assumptions behind this increase? **– OFA- CEFD & OEP**
- The 2017 federal budget announced new funding for affordable housing, child care, infrastructure, home care and labour-market training. To what extent are these new revenues (and the associated expense) built into the fiscal plan? **– OEP/TBS – PEMD&CPD**
- Expected revenues from Carbon Allowance Proceeds have been reduced by $0.5 billion beginning 2018-19 (Table 6.10). Any explanation of the lower revenue projection?
    - Is the annual forecast for Carbon Allowance Proceeds $1.4 billion? If so, does the higher amount in 2017-18 of $1.8 billion just reflect the shifting of proceeds from the first auction in 2016-17 (that is there is an extra auction in 2017-18 than in future years)? **– OEP**
    - Are the associated expenses from the Green Initiative Fund being reduced as well, to reflect the lower revenue forecast? **– TBS - PEMD**
- Base revenue growth for Corporations Tax and Sales Tax are noticeably stronger than the growth of their underlying drivers. What are your elasticity assumptions for Personal Income Tax, Corporations Tax and Sales Tax with respect to their drivers? **- OEP**
    - For HST, could you break out the revenues expected from housing and nominal consumption over the forecast? **- OEP**
- The federal government's 2015-16 Annual Financial Report indicated that stronger 2015 federal PIT returns partly reflect "…tax planning by high-income individuals to recognize income in the 2015 tax year before the new 33 per cent tax rate came into effect in 2016". What assumptions were made on the impact of income shifting on Ontario's PIT revenue? **- OEP**

Expense

- The anticipated fiscal impact of the Fair Hydro Plan is approximately $1.8 billion based on information provided to the FAO (roughly $1 billion for HST rebate and $800 million for the electricity social programs). However, the 2017 Budget indicates that the total cost would be around $1.4 billion in 2017-18 (Table 6.15). Can you explain the discrepancy? **– TBS - PEMD**

- A number of new programs were announced in the budget. Can you provide the fiscal impact for these new initiatives (e.g. children and youth pharma-care, child care spaces expansion) by completing the following table? Are these fiscal impacts in the plan? **– TBS PEMD&CPD, TPD**
    - The September Throne Speech announced the expansion of 100,000 new child care spaces. The budget announced 24,000 additional spaces. What is the progress in the rollout plan for the remaining spaces? Is there additional fiscal impact from the Throne Speech that have not been incorporated?

Cost of Announced Programs

	2017-18	2018-19	2019-20	2020-21
Children and Youth Pharmacare				
100,000 Child Care Spaces Expansion				
Fair Hydro Plan				
Caregiver Tax Credit				
Other major programs?				

Debt

- The budget indicated that the government aims to reduce the net debt to GDP target to 35 per cent by 2023-24 and 27 per cent by 2028-29. What assumptions are built into this projection for nominal GDP, the budget balance, and capital expenditure? **- OFA**
- What's the explanation for the increase in cash reserves? Is it related to recent changes in rating criteria requiring more liquid reserves covering the issuance of commercial paper debt? **- OFA**
- What is a Designated Purpose Account? **– TBS OPCD**

From:	Bonnie Lemcke
To:	Ken Kandeepan
Subject:	FW: Here is the reference to the accounting change
Date:	Wednesday, October 05, 2016 10:09:07 AM

I booked a call for 3PM tomorrow. Would you like to be on the call. She said her questions would be more general in nature but they are the one rating agency that uses our net debt number.

Bonnie

From: Marcy Block [mailto:marcy.block@fitchratings.com]
Sent: Wednesday, October 05, 2016 9:54 AM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: RE: Here is the reference to the accounting change

Hi Bonnie. I'm back in the office and would like to set up a time to informally discuss this information with you, along with Doug Offerman (including Doug as he's also our pension expert). We're both fairly booked today so I was going to suggest tomorrow at 1 or 1:30 pm, or after 3 pm. Friday is pretty much open all day, if you had a few minutes available then.

Thanks!
Marcy

Marcy S. Block
Senior Director
Fitch Ratings - Public Finance
33 Whitehall Street
New York, NY 10004
212-908-0239

From: Bonnie Lemcke [mailto:Bonnie.Lemcke@ofina.on.ca]
Sent: Monday, October 03, 2016 5:24 PM
To: Marcy Block <marcy.block@fitchratings.com>
Subject: Here is the reference to the accounting change

18. Change in Accounting for Pension Assets of Jointly Sponsored Pension Plans

For 2015-16 fiscal, the government legislated the accounting treatment for pension assets of its jointly sponsored pension plans. The legislation impacts the accounting for both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan. The legislation requires a full valuation allowance be recorded against the pension assets, therefore writing off the value of the assets. As described in Public Sector Accounting Standards (PSAS), a pension asset arises when the government's total contributions to a plan, including income earned thereon, are greater than the cumulative retirement benefit expense recognized since the start

of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the estimated cost of the pensions earned during the year that will be paid out to retirees in the future. In prior years, the government recorded pension assets to the extent the government expected to benefit from the asset through future reductions in contributions to the plan.

Unaudited Consolidated Financial Statements, 2015–2016 83

These plans are now accounted for in accordance with PSAS and legislation requiring a full valuation allowance be recorded. The change was made to reflect the Auditor General of Ontario's view that a full valuation allowance is required if the government does not have the legally enforceable right to unilaterally access the assets of the jointly sponsored pension plans, or in absence of that right, an irrevocable agreement in place at year-end with the joint sponsors of the plans to reduce contributions.

From: Ken Kandeepan

Bonnie Lemcke
Manager, Credit Analysis and Rating Relations
Ontario Financing Authority
416-325-8170 (w)
416-716-4092 (m)

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From: Gadi Mayman
To: Ken Kandeepan; Bonnie Lemcke
Cc: Anna Strathy
Subject: FW: IOD re FAO
Date: Tuesday, January 09, 2018 10:40:39 AM
Attachments: image001.png
Fall FAO Compared to FES_v8.pdf
Fall FAO Compared to FES_v8.pptx

With the attachments.

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Tuesday, January 09, 2018 10:28 AM
To: Tim Schuurman (MOF) <Tim.Schuurman@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Subject: RE: IOD re FAO

Hi Gadi/Tim – just attaching the deck (in PDF and powerpoint) as I didn't see it attached on Tim's original email.

And happy new year from me!

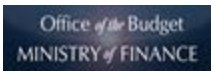
From: Schuurman, Tim (MOF)
Sent: January-09-18 10:16 AM
To: Mayman, Gadi (OFA)
Cc: Esmail, Selena (MOF)
Subject: IOD re FAO

Gadi! Happy new year! Hope you had a nice time skiing and spending time with family over the holiday period. 2018….here we go!

We pulled together a deck on the FAO vs. FES fiscal outlook for Scott to use at a meeting tomorrow (see attached) but one thing we didn't dig into as part of the analysis of the report was the lower IOD outlook the FAO has in their fiscal outlook – some $0.6-0.7B lower than our FES. This is curious at a time when they say we will be running deficits plus interest rates on the rise. Do you have any insights into this? Scott was thinking that this was worth a call to David West to inquire. Would be good to have an understanding of this before Scott's meeting tomorrow morning. Are you able to provide any insights?

Cheers

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173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Comparing the 2017 FAO Fall Outlook with the 2017 FES







January 8, 2018

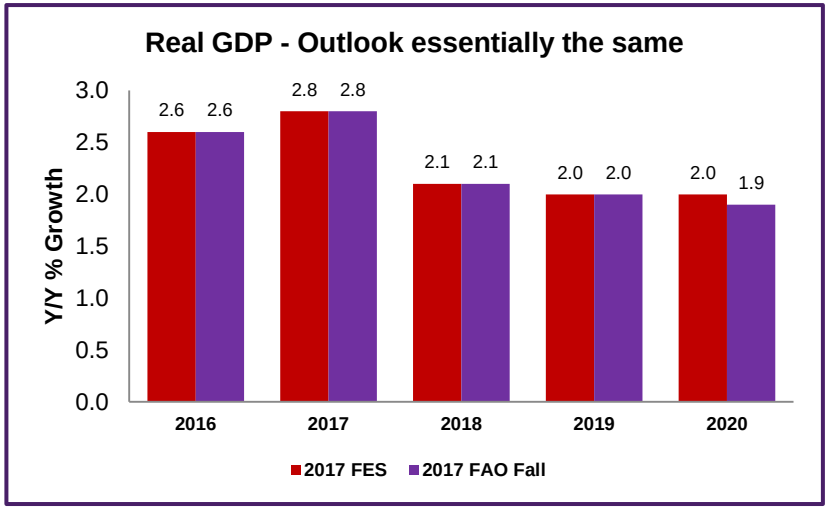
Confidential Advice to Cabinet

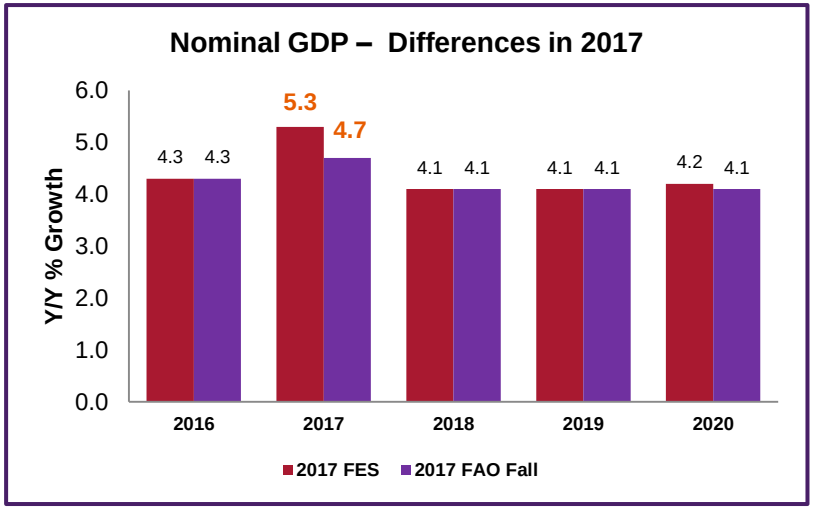
Highlights

- The FAO's 2017 Fall Economic and Fiscal Outlook report was released on Dec. 11, 2017 and included the **FAO's economic outlooks to 2021 and fiscal projections to 2021-22**.
  - This represents **two more fiscal years** than the government's Fall Statement outlook (with fiscal projections out to 2019-20), and **one more year of economic forecasts** (vs. government's 2020 projection).
- **The FAO's economic outlook calls for slower overall growth than the government's forecast** -- particularly for 2017 as a whole, and for components of growth that drive provincial revenues -- which results in a lower revenue outlook over the planning horizon.
- **The FAO presents two program expense outlooks which only differ in whether or not they include the Auditor General's recommended accounting treatment** of the Fair Hydro Plan and net pension assets of jointly sponsored pension plans.
- Using the government's accounting presentation (i.e. excluding the AG's recommended treatment), **the FAO is projecting a small surplus in 2017-18 and subsequent deficits of $1.9B in 2018-19, gradually increasing to $9.8B by 2021-22**.
  - Excluding the AG's recommended accounting framework, the difference between the government's balanced budget projections and the FAO's forecast of deficits over the 2017-18 to 2019-20 period are **entirely due to a lower revenue outlook**.
  - While the FAO **aligns its outlook for program expense** with the government's over the 2017-18 to 2019-20 period, (excluding accounting differences), it does provide for a **lower interest on debt outlook** than the government's projections.

FAO Economic Outlook As Compared to 2017 FES

- The FAO has raised its forecast for Ontario economic growth in 2017 from its spring outlook report. However, despite this upward revision, **the FAO forecast is still at the bottom of the current range of private sector forecasts for both real and nominal GDP growth in 2017**.
  - Beyond 2017, the FAO forecast anticipates growth to moderate as the housing market and consumer spending cool alongside gradually rising interest rates, in line with the government's FES forecast.
  - Over the 2017 to 2020 period, **the FAO's forecast for average annual real GDP growth of 2.2 per cent is the same as the 2017 FES outlook**.
  - However, for nominal GDP growth, the **FAO's average annual forecast of 4.2 per cent over the 2017 to 2020 period is slower than the FES projection of 4.4 per cent growth**. This difference is explained by a much lower FAO nominal GDP forecast in 2017 compared to the FES (4.7 per cent vs 5.3 per cent).
- The FAO forecast takes into account its estimate of the impact of the new minimum wage legislation, which is expected to boost wage growth over the forecast, but temper employment gains. Even with these employment impacts, the FAO predicts a modest decline in the unemployment rate.





FAO Economic Outlook Compared to 2017 FES

- In addition to the differences in expected nominal GDP growth, the composition of growth in the FAO's economic projection has important implications for the fiscal forecast.
- The FAO's projections for key revenue drivers such **as labour income, corporate profits and household spending are significantly lower outlooks than the FES projections**.

Comparison of FES and FAO Outlook for Economic Variables

	2017	2018	2019	2020	2017-20 Average
Labour Income					
FAO Fall 2017	4.0	4.5	4.3	4.1	4.2
2017 FES	4.3	4.7	4.8	4.4	4.6
Diff FAO - FES	*-0.3*	*-0.2*	*-0.5*	*-0.3*	*-0.4*
Corporate Profits					
FAO Fall 2017	11.7	2.2	3.7	4.4	5.5
2017 FES	16.1	2.9	2.8	3.7	6.4
Diff FAO - FES	*-4.4*	*-0.7*	*0.9*	*0.7*	*-0.9*
Housing Income					
FAO Fall 2017	4.7	4.2	4.1	3.9	4.2
2017 FES	5.1	4.3	4.3	4.3	4.5
Diff FAO - FES	*-0.4*	*-0.1*	*-0.2*	*-0.4*	*-0.3*

- The FAO has also consistently underestimated economic growth prospects for the Province – not just for specific components of economic growth, but overall growth itself.

Comparison of FAO Economic Projections to Actual/Current

	2016 % Change			2017 % Change		
	FAO Spring 2016	Actual	Diff FAO - Actual	FAO Spring 2017	FAO Fall 2017	Diff Spring - Fall
Nominal GDP	3.4	4.3	*-0.9*	4.1	4.7	*-0.6*
Real GDP	2.4	2.6	*-0.2*	2.4	2.8	*-0.4*
Corporate Profits	0.3	7.3	*-7.0*	6.0	11.7	*-5.7*
Labour Income	4.0	3.3	*0.7*	4.0	4.0	*0.0*
Nominal Household Spending	4.4	4.2	*0.2*	4.2	4.7	*-0.5*

FAO Revenue Outlook As Compared to 2017 FES

- **The FAO's lower outlook for the economy as a whole in 2017 and key components of growth result in an average annual revenue growth of 3.2 per cent from 2016-17 to 2019-20, compared with the government's Fall Statement projection of 4.0 per cent**.
  - The FAO projections for **taxation revenues are $2.9 billion lower by 2019-20** than the projections in the 2017 FES due to the FAO's lower projected growth for key economic drivers such as household spending, labour income and corporate profits.
  - In addition, the FAO also suggests that revenue growth beyond 2017-18 significantly declines because of a number of **"one-time 2017-18 revenues"** including: an increase to sales and rentals from sale of final tranche of H1, higher federal transfers for infrastructure (PTIF), and a one-time boost from an additional Cap and Trade auction.
    - While revenues such as federal transfers and cap and trade revenues should be considered fiscally neutral (i.e. offset by expense), the FAO estimates that these one-time revenues in 2017-18 will amount to $4.5 billion – a significant amount that that will not continue into the future.
- As the FAO largely aligns with the government on program expense (excluding differences in accounting treatment), **the difference between the 2017 FES Outlook for balanced budgets and the FAO's fiscal projections are essentially due to the FAO's lower revenue outlook**.

Revenue Outlook Comparison ($ Billions)	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	Avg. Annual Growth 16/17 to 19/20	Avg. Annual Growth 16/17 to 21/22
2017 FES Outlook	**140.7**	**150.1**	**153.6**	**158.2**			***4.0%***	
Difference in Taxation Revenue		(1.2)	(2.4)	(2.9)				
Difference in Federal Transfers		-	(0.5)	(0.4)				
Difference in Non-Tax Revenues		0.4	-	-				
2017 Fall FAO Outlook	**140.7**	**149.4**	**150.7**	**154.8**	**160.8**	**167.0**	***3.2%***	***3.5%***

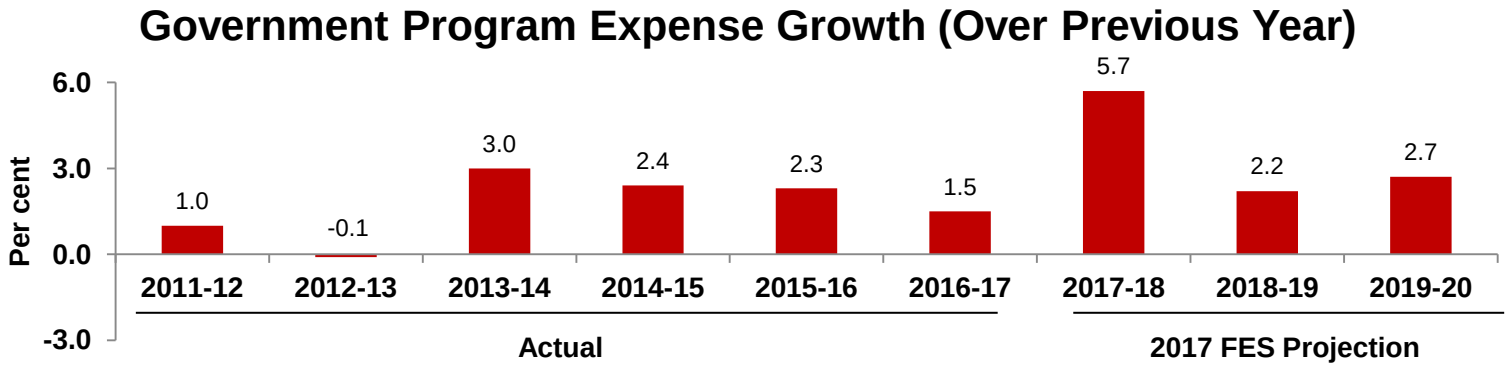
FAO Expense Outlook As Compared to 2017 FES

- From 2017–18 to 2019–20, the **FAO's adopts the government's 2017 FES projections for program spending** (excluding AG's recommended accounting treatment).
  - However, when including the combined impact of the AG's recommended accounting treatment for the Fair Hydro Plan and net pension asset adjustments, program spending is approximately $4.2 billion higher in 2017-18, growing to $5.8 billion more in 2019-20.
- The FAO notes that in 2018-19 and 2019-20, annual increases in program spending will be restrained at an average of 2.4 percent, below the growth in what the FAO suggests is the impact of underlying spending pressures. Beyond 2019–20 the FAO projects program spending will need to grow faster -- at an average annual rate of 4.2 per cent – due to the impact of inflation and population growth, particularly in the health and education sectors.
- The FAO's projections for interest on debt are lower than the government's. This may be due in part to lower interest rate or other forecasting assumptions.

Expense Outlook Comparison ($ Billions)	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	Avg. Annual Growth 16/17 to 19/20	Avg. Annual Growth 16/17 to 21/22
2017 FES Program Expense	**130.0**	**137.4**	**140.4**	**144.2**			***3.5%***	
Adjustment for Pension Assets	1.5	2.3	2.6	2.9				
Adjustment for Fair Hydro Plan	-	1.9	2.7	2.9				
2017 Fall FAO Program Expense	**131.5**	**141.6**	**145.7**	**150.0**	**156.6**	**163.0**	***3.5%***	***3.8%***
2017 FES IOD Expense	**11.7**	**12.2**	**12.7**	**13.3**			***4.2%***	
Difference in Interest on Debt	-	(0.4)	(0.6)	(0.7)				
2017 Fall FAO IOD Expense	**11.7**	**11.8**	**12.1**	**12.6**	**13.2**	**13.8**	***2.5%***	***3.4%***

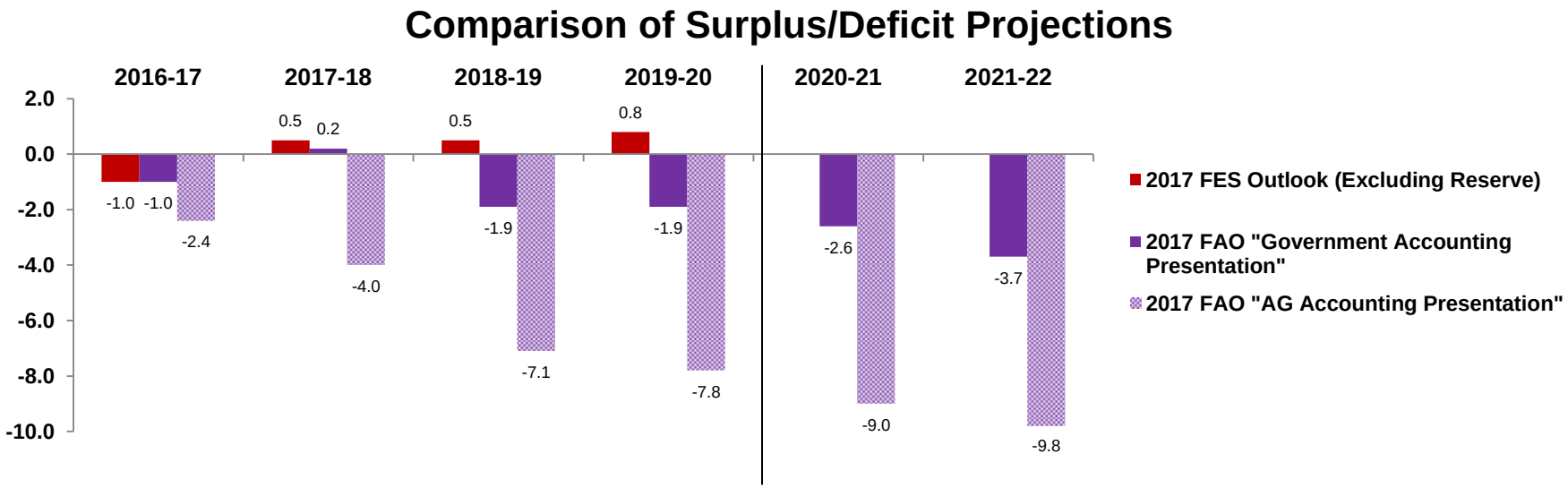
Additional Context on Program Expense

- Consistent with past fiscal reports, the FAO has continued to adopt the government's program expense outlook – which represents 3.5 per cent growth over the period of 2016-17 to 2019-20.
  - However, the FAO notes that the growth rate in some years is below the impact of underlying cost drivers and pressures. As a result, beyond the government's published forecast horizon of 2019-20, the FAO projects 4.2 per cent growth annually, in recognition of factors such as inflation and population growth.
  - Key risks that are currently not funded within the FES fiscal outlook include items such as the impact of **Bill 148, OSAP pressures, Social Assistance caseload risks, and health sector growth of around 3 per cent compared to underlying cost pressures of up to 5 per cent.**
- Between 2016-17 and 2017-18 program expense is projected to grow by 5.7 per cent, driven by:
  - One-time public infrastructure investments as well as the first year of expense related to Ontario's Cap and Trade program – both of which are offset by revenue – as well as implementation of the Fair Hydro plan, OHIP+, and the government's child care investments, all of which have ongoing costs.
  - This is consistent with the FAO's assessment that maintaining the current rate of growth may require further fiscal effort and measures**.**



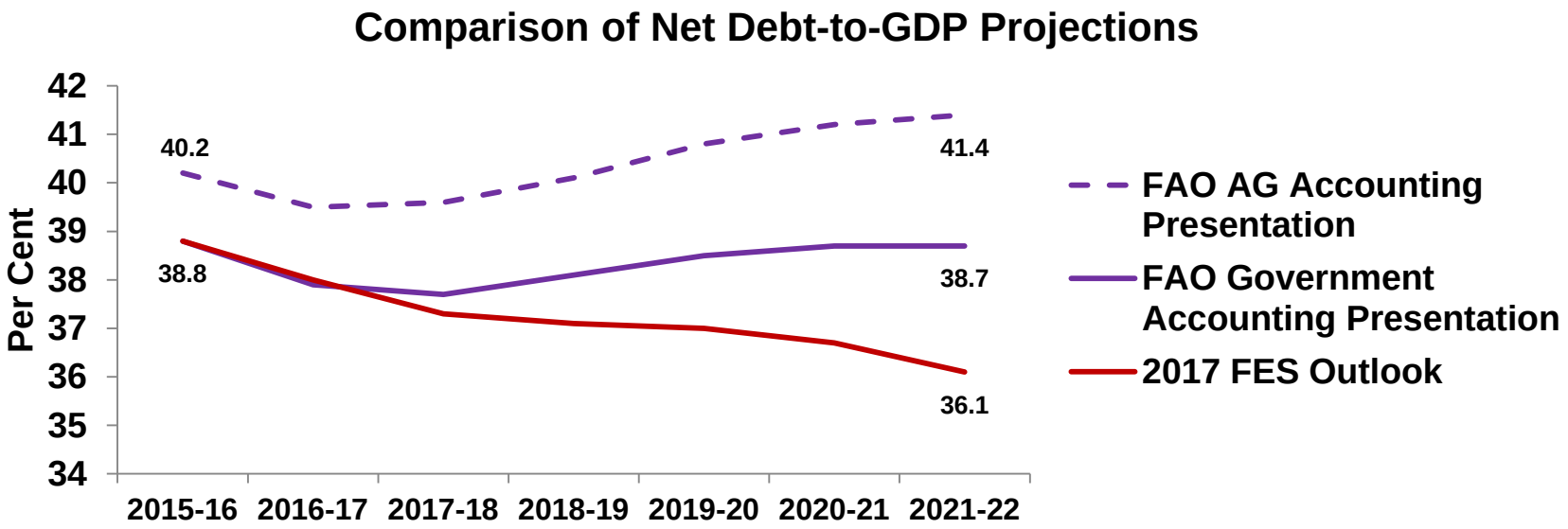
FAO Fiscal Outlook As Compared to 2017 FES

- Taking into account the FAO's differing approach to revenue and expense outlooks, as well as the AG's recommended accounting treatment, **the FAO is projecting a deficit of $4.0 billion in 2017–18.** In the absence of any fiscal policy changes, the deficit would grow steadily to $7.8 billion by 2019-20, and **approach $10 billion by 2020-21.**
  - When excluding **the** AG's recommended accounting treatment, the FAO projects a **small surplus for 2017–18 of $0.2 billion and a return to deficits beyond 2017–18** driven by entirely by the FAO's lower revenue outlook.
- The FAO suggests that by not adopting the AG's recommended accounting presentation, the 2017 Budget and the 2017 FES have **reduced transparency and clarity of Ontario's fiscal position**.



FAO Net Debt to GDP vs. FES Targets

- The differences in net debt-to-GDP are due both to the FAO's lower GDP projection as well as projected deficits rather than balanced budgets.
- The FAO report notes that additional fiscal measures would be required for the government to meet its net debt-to-GDP targets of 35 per cent in 2023-24 and 27 per cent in 2029-30.



- Under the Auditor General's Accounting presentation, the FAO projects that Ontario's net debt will increase by approximately $75 billion to over $400 billion between 2016-17 and 2021-22.

Summary: FAO Fall Report vs. 2017 FES Fiscal Plan

Comparison: 2017 Fall Economic Statement and the 2017 Fall FAO Fiscal Outlook

$ Billions	Actual 2015-16	Actual 2016-17	Outlook 2017-18	Outlook 2018-19	Outlook 2019-20	Outlook 2020-21	Outlook 2021-22	Avg. Annual Growth 16-17 to 19-20	Avg. Annual Growth 19-20 to 21-22	Avg. Annual Growth 16-17 to 21-22
2017 Fall Economic Statement										
Taxation Revenue	91.8	94.3	99.9	105.1	110.0			5.2%		
Transfers from Gov't of Canada	23.1	24.5	26.2	26.0	25.4			1.2%		
Income from GBEs	4.9	5.6	5.1	5.9	6.2			3.7%		
Other Non-Tax Revenue	16.3	16.3	19.0	16.5	16.6			0.7%		
Total Revenue	136.1	140.7	150.1	153.6	158.2			4.0%		
Expense										
Program Expense	128.1	130.0	137.4	140.4	144.2			3.5%		
Adjustment for Pension Assets	-	-	-	-	-					
Adjustment for Fair Hydro Plan	-	-	-	-	-					
Interest on Debt	11.6	11.7	12.2	12.7	13.3			4.2%		
Total Expense	139.7	141.7	149.6	153.1	157.4			3.6%		
Surplus/(Deficit)	**(3.5)**	**(1.0)**	**0.5**	**0.5**	**0.8**					
Net Debt	295.4	301.6	311.7	323.0	335.6			3.6%		
Change - 2017 Fall Economic Statement to 2017 Fall FAO Fiscal Outlook										
Taxation Revenue	-	-	(1.2)	(2.4)	(2.9)					
Transfers from Gov't of Canada	-	-	0.0	(0.5)	(0.4)					
Income from GBEs	-	-	0.0	0.0	0.0					
Other Non-Tax Revenue	-	-	0.4	0.0	0.0					
Total Revenue	-	-	(0.7)	(2.9)	(3.4)					
Expense										
Program Expense	-	-	-	-	-					
Adjustment for Pension Assets	1.5	1.5	2.3	2.6	2.9					
Adjustment for Fair Hydro Plan	-	-	1.9	2.7	2.9					
Interest on Debt	-	-	*(0.4)*	*(0.6)*	*(0.7)*					
Total Expense	*1.5*	*1.5*	*3.8*	*4.7*	*5.2*					
Surplus/(Deficit) AG Presentation	***(1.5)***	***(1.4)***	***(4.5)***	***(7.6)***	***(8.6)***					
Surplus/(Deficit) exc. Adj. for Fair Hydro Plan and Pension Assets	***(0.0)***	***(0.0)***	***(0.3)***	***(2.4)***	***(2.7)***					
Net Debt	*11.0*	*12.5*	*17.5*	*24.7*	*32.4*					
2017 Fall FAO Fiscal Outlook										
Taxation Revenue	91.8	94.3	98.7	102.7	107.0	111.3	115.8	4.3%	4.0%	4.2%
Transfers from Gov't of Canada	23.1	24.5	26.2	25.5	25.0	25.8	26.6	0.7%	3.2%	1.7%
Income from GBEs	4.9	5.6	5.1	5.9	6.2	6.5	6.7	3.5%	4.0%	3.7%
Other Non-Tax Revenue	16.3	16.3	19.4	16.5	16.6	17.3	18.0	0.6%	4.1%	2.0%
Total Revenue	136.1	140.7	149.4	150.7	154.8	160.8	167.0	3.2%	3.9%	3.5%
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Adjustment for Fair Hydro Plan	-	-	1.9	2.7	2.9	3.4	3.2			
Interest on Debt	11.6	11.7	11.8	12.1	12.6	13.2	13.8	2.5%	4.7%	3.4%
Total Expense	141.2	143.2	153.4	157.8	162.6	169.8	176.8	4.3%	4.3%	4.3%
Surplus/(Deficit) AG Presentation	**(5.0)**	**(2.4)**	**(4.0)**	**(7.1)**	**(7.8)**	**(9.0)**	**(9.8)**			
Surplus/(Deficit) exc. Adj. for Fair Hydro Plan and Pension Assets (Gov't presentation)	**(3.5)**	**(1.0)**	**0.2**	**(1.9)**	**(1.9)**	**(2.6)**	**(3.7)**			
Net Debt	306.4	314.1	329.2	347.7	368.0	386.8	404.4	5.4%	4.8%	5.2%

Note: All surplus/deficits exlcude the reserve. Numbers may not add due to rounding.

Comparing the 2017 FAO Fall Outlook with the 2017 FES

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January 8, 2018

Confidential Advice to Cabinet

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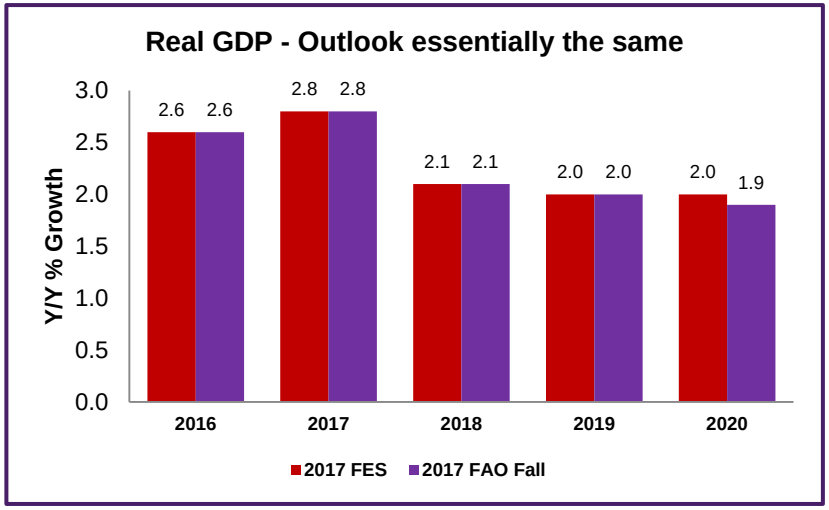
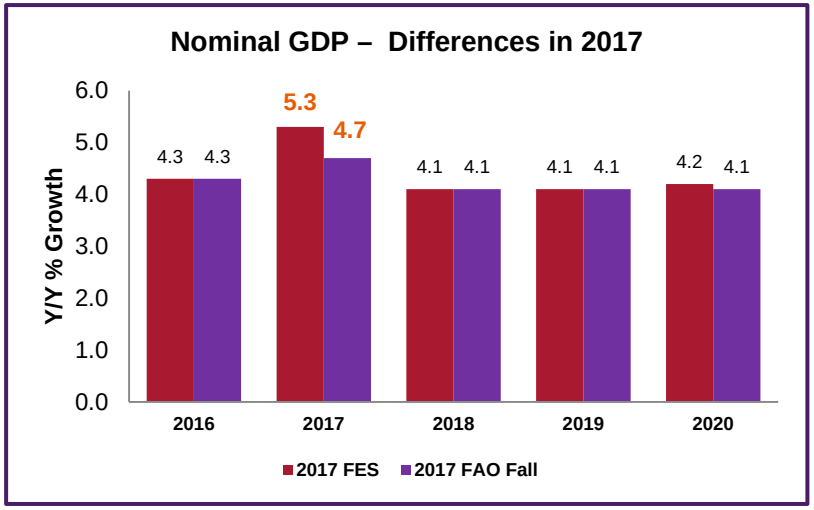




FAO Economic Outlook Compared to 2017 FES

- In addition to the differences in expected nominal GDP growth, the composition of growth in the FAO's economic projection has important implications for the fiscal forecast.
- The FAO's projections for key revenue drivers such **as labour income, corporate profits and household spending are significantly lower outlooks than the FES projections**.

Comparison of FES and FAO Outlook for Economic Variables

	2017	2018	2019	2020	2017-20 Average
Labour Income					
FAO Fall 2017	4.0	4.5	4.3	4.1	4.2
2017 FES	4.3	4.7	4.8	4.4	4.6
Diff FAO - FES	*-0.3*	*-0.2*	*-0.5*	*-0.3*	*-0.4*
Corporate Profits					
FAO Fall 2017	11.7	2.2	3.7	4.4	5.5
2017 FES	16.1	2.9	2.8	3.7	6.4
Diff FAO - FES	*-4.4*	*-0.7*	*0.9*	*0.7*	*-0.9*
Housing Income					
FAO Fall 2017	4.7	4.2	4.1	3.9	4.2
2017 FES	5.1	4.3	4.3	4.3	4.5
Diff FAO - FES	*-0.4*	*-0.1*	*-0.2*	*-0.4*	*-0.3*

- The FAO has also consistently underestimated economic growth prospects for the Province – not just for specific components of economic growth, but overall growth itself.

Comparison of FAO Economic Projections to Actual/Current

	2016 % Change			2017 % Change		
	FAO Spring 2016	Actual	Diff FAO - Actual	FAO Spring 2017	FAO Fall 2017	Diff Spring - Fall
Nominal GDP	3.4	4.3	*-0.9*	4.1	4.7	*-0.6*
Real GDP	2.4	2.6	*-0.2*	2.4	2.8	*-0.4*
Corporate Profits	0.3	7.3	*-7.0*	6.0	11.7	*-5.7*
Labour Income	4.0	3.3	*0.7*	4.0	4.0	*0.0*
Nominal Household Spending	4.4	4.2	*0.2*	4.2	4.7	*-0.5*

FAO Revenue Outlook As Compared to 2017 FES

- **The FAO's lower outlook for the economy as a whole in 2017 and key components of growth result in an average annual revenue growth of 3.2 per cent from 2016-17 to 2019-20, compared with the government's Fall Statement projection of 4.0 per cent**.
  - The FAO projections for **taxation revenues are $2.9 billion lower by 2019-20** than the projections in the 2017 FES due to the FAO's lower projected growth for key economic drivers such as household spending, labour income and corporate profits.
  - In addition, the FAO also suggests that revenue growth beyond 2017-18 significantly declines because of a number of **"one-time 2017-18 revenues"** including: an increase to sales and rentals from sale of final tranche of H1, higher federal transfers for infrastructure (PTIF), and a one-time boost from an additional Cap and Trade auction.
    - While revenues such as federal transfers and cap and trade revenues should be considered fiscally neutral (i.e. offset by expense), the FAO estimates that these one-time revenues in 2017-18 will amount to $4.5 billion – a significant amount that that will not continue into the future.
- As the FAO largely aligns with the government on program expense (excluding differences in accounting treatment), **the difference between the 2017 FES Outlook for balanced budgets and the FAO's fiscal projections are essentially due to the FAO's lower revenue outlook**.

Revenue Outlook Comparison ($ Billions)	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	*Avg. Annual Growth* 16/17 to 19/20	*Avg. Annual Growth* 16/17 to 21/22
2017 FES Outlook	140.7	150.1	153.6	158.2			*4.0%*	
Difference in Taxation Revenue		(1.2)	(2.4)	(2.9)				
Difference in Federal Transfers		-	(0.5)	(0.4)				
Difference in Non-Tax Revenues		0.4	-	-				
2017 Fall FAO Outlook	140.7	149.4	150.7	154.8	160.8	167.0	*3.2%*	*3.5%*

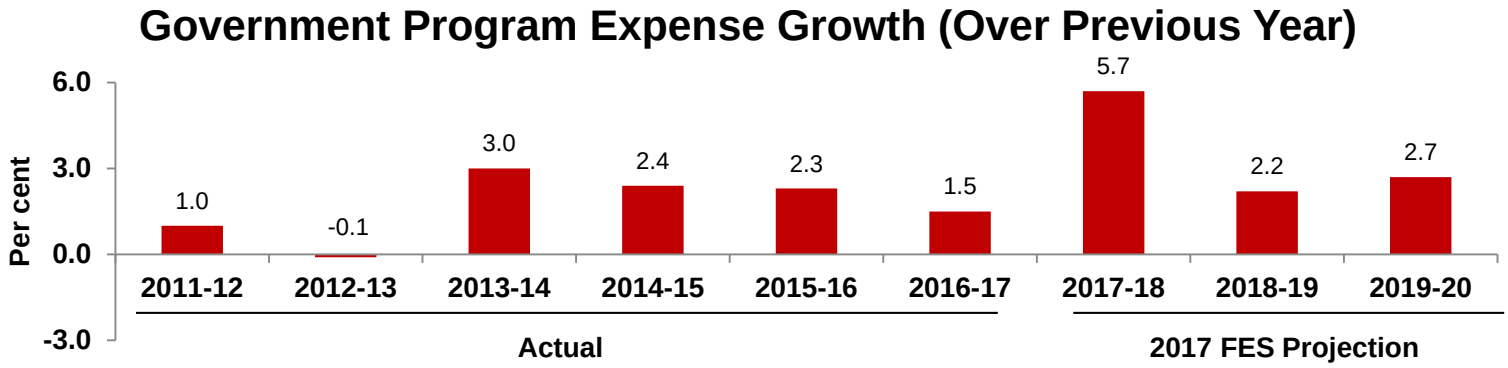
FAO Expense Outlook As Compared to 2017 FES

- From 2017–18 to 2019–20, the **FAO's adopts the government's 2017 FES projections for program spending** (excluding AG's recommended accounting treatment).
  - However, when including the combined impact of the AG's recommended accounting treatment for the Fair Hydro Plan and net pension asset adjustments, program spending is approximately $4.2 billion higher in 2017-18, growing to $5.8 billion more in 2019-20.
- The FAO notes that in 2018-19 and 2019-20, annual increases in program spending will be restrained at an average of 2.4 percent, below the growth in what the FAO suggests is the impact of underlying spending pressures. Beyond 2019–20 the FAO projects program spending will need to grow faster -- at an average annual rate of 4.2 per cent – due to the impact of inflation and population growth, particularly in the health and education sectors.
- The FAO's projections for interest on debt are lower than the government's. This may be due in part to lower interest rate or other forecasting assumptions.

Expense Outlook Comparison ($ Billions)	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	*Avg. Annual Growth* 16/17 to 19/20	*Avg. Annual Growth* 16/17 to 21/22
2017 FES Program Expense	130.0	137.4	140.4	144.2			*3.5%*	
Adjustment for Pension Assets	1.5	2.3	2.6	2.9				
Adjustment for Fair Hydro Plan	-	1.9	2.7	2.9				
2017 Fall FAO Program Expense	131.5	141.6	145.7	150.0	156.6	163.0	*3.5%*	*3.8%*
2017 FES IOD Expense	**11.7**	**12.2**	**12.7**	**13.3**			*4.2%*	
Difference in Interest on Debt	-	(0.4)	(0.6)	(0.7)				
2017 Fall FAO IOD Expense	**11.7**	**11.8**	**12.1**	**12.6**	**13.2**	**13.8**	*2.5%*	*3.4%*

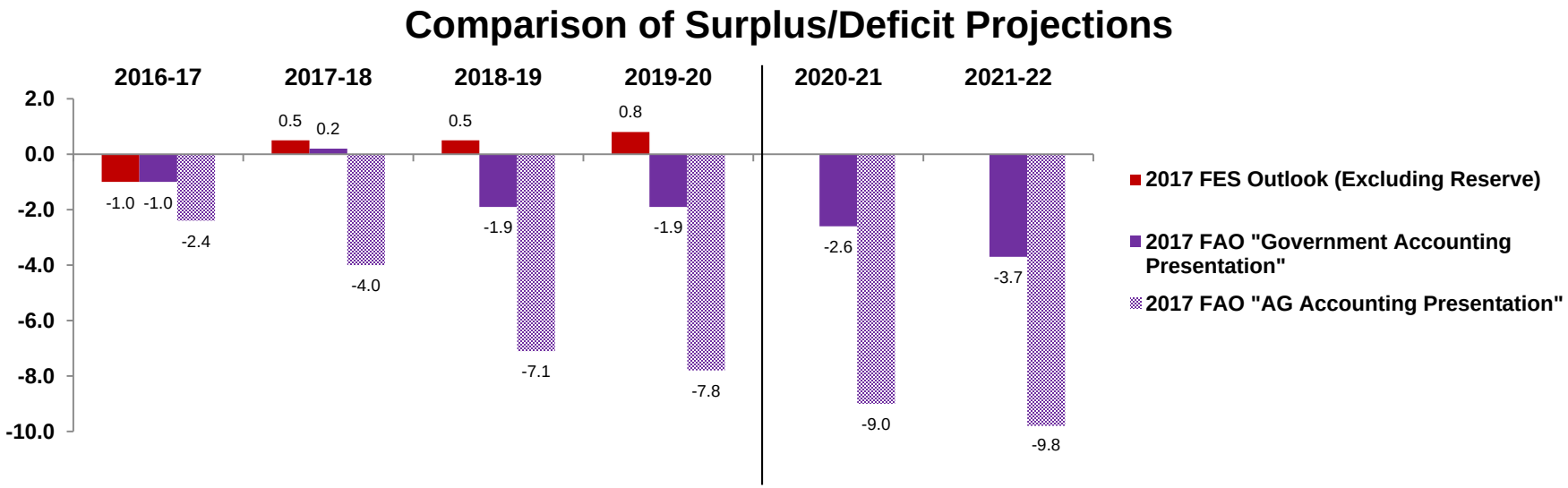
Additional Context on Program Expense

- Consistent with past fiscal reports, the FAO has continued to adopt the government's program expense outlook – which represents 3.5 per cent growth over the period of 2016-17 to 2019-20.
  - However, the FAO notes that the growth rate in some years is below the impact of underlying cost drivers and pressures. As a result, beyond the government's published forecast horizon of 2019-20, the FAO projects 4.2 per cent growth annually, in recognition of factors such as inflation and population growth.
  - Key risks that are currently not funded within the FES fiscal outlook include items such as the impact of **Bill 148, OSAP pressures, Social Assistance caseload risks, and health sector growth of around 3 per cent compared to underlying cost pressures of up to 5 per cent.**
- Between 2016-17 and 2017-18 program expense is projected to grow by 5.7 per cent, driven by:
  - One-time public infrastructure investments as well as the first year of expense related to Ontario's Cap and Trade program – both of which are offset by revenue – as well as implementation of the Fair Hydro plan, OHIP+, and the government's child care investments, all of which have ongoing costs.
  - This is consistent with the FAO's assessment that maintaining the current rate of growth may require further fiscal effort and measures**.**



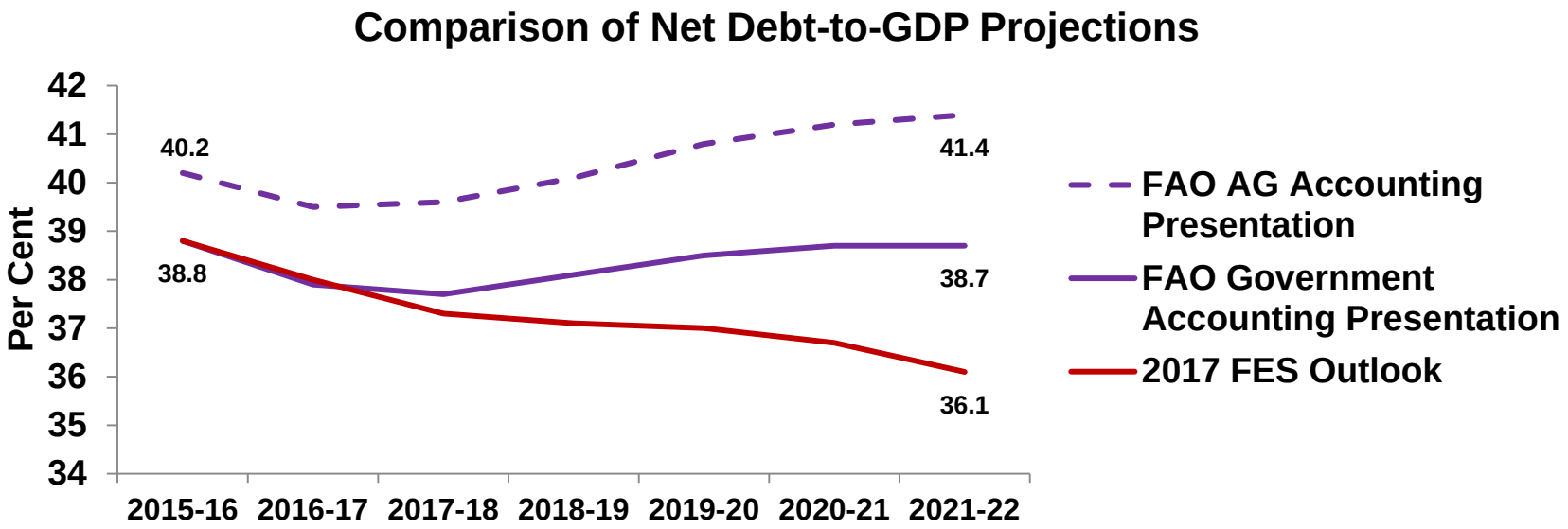
FAO Fiscal Outlook As Compared to 2017 FES

- Taking into account the FAO's differing approach to revenue and expense outlooks, as well as the AG's recommended accounting treatment, **the FAO is projecting a deficit of $4.0 billion in 2017–18.** In the absence of any fiscal policy changes, the deficit would grow steadily to $7.8 billion by 2019-20, and **approach $10 billion by 2020-21.**
  - When excluding **the** AG's recommended accounting treatment, the FAO projects a **small surplus for 2017–18 of $0.2 billion and a return to deficits beyond 2017–18** driven by entirely by the FAO's lower revenue outlook.
- The FAO suggests that by not adopting the AG's recommended accounting presentation, the 2017 Budget and the 2017 FES have **reduced transparency and clarity of Ontario's fiscal position**.



FAO Net Debt to GDP vs. FES Targets

- The differences in net debt-to-GDP are due both to the FAO's lower GDP projection as well as projected deficits rather than balanced budgets.
- The FAO report notes that additional fiscal measures would be required for the government to meet its net debt-to-GDP targets of 35 per cent in 2023-24 and 27 per cent in 2029-30.



- Under the Auditor General's Accounting presentation, the FAO projects that Ontario's net debt will increase by approximately $75 billion to over $400 billion between 2016-17 and 2021-22.

Summary: FAO Fall Report vs. 2017 FES Fiscal Plan

Comparison: 2017 Fall Economic Statement and the 2017 Fall FAO Fiscal Outlook

	Actual		Outlook					Avg. Annual Growth		
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	16-17 to 19-20	19-20 to 21-22	16-17 to 21-22
2017 Fall Economic Statement										
Taxation Revenue	91.8	94.3	99.9	105.1	110.0			5.2%		
Transfers from Gov't of Canada	23.1	24.5	26.2	26.0	25.4			1.2%		
Income from GBEs	4.9	5.6	5.1	5.9	6.2			3.7%		
Other Non-Tax Revenue	16.3	16.3	19.0	16.5	16.6			0.7%		
Total Revenue	136.1	140.7	150.1	153.6	158.2			4.0%		
Expense										
Program Expense	128.1	130.0	137.4	140.4	144.2			3.5%		
Adjustment for Pension Assets	-	-	-	-	-					
Adjustment for Fair Hydro Plan	-	-	-	-	-					
Interest on Debt	11.6	11.7	12.2	12.7	13.3			4.2%		
Total Expense	139.7	141.7	149.6	153.1	157.4			3.6%		
Surplus/(Deficit)	(3.5)	(1.0)	0.5	0.5	0.8					
Net Debt	295.4	301.6	311.7	323.0	335.6			3.6%		
Change - 2017 Fall Economic Statement to 2017 Fall FAO Fiscal Outlook										
Taxation Revenue	-	-	(1.2)	(2.4)	(2.9)					
Transfers from Gov't of Canada	-	-	0.0	(0.5)	(0.4)					
Income from GBEs	-	-	0.0	0.0	0.0					
Other Non-Tax Revenue	-	-	0.4	0.0	0.0					
Total Revenue	-	-	(0.7)	(2.9)	(3.4)					
Expense										
Program Expense	-	-	-	-	-					
Adjustment for Pension Assets	1.5	1.5	2.3	2.6	2.9					
Adjustment for Fair Hydro Plan	-	-	1.9	2.7	2.9					
Interest on Debt	-	-	*(0.4)*	*(0.6)*	*(0.7)*					
Total Expense	*1.5*	*1.5*	*3.8*	*4.7*	*5.2*					
Surplus/(Deficit) AG Presentation	*(1.5)*	*(1.4)*	*(4.5)*	*(7.6)*	*(8.6)*					
Surplus/(Deficit) exc. Adj. for Fair Hydro Plan and Pension Assets	*(0.0)*	*(0.0)*	*(0.3)*	*(2.4)*	*(2.7)*					
Net Debt	*11.0*	*12.5*	*17.5*	*24.7*	*32.4*					
2017 Fall FAO Fiscal Outlook										
Taxation Revenue	91.8	94.3	98.7	102.7	107.0	111.3	115.8	4.3%	4.0%	4.2%
Transfers from Gov't of Canada	23.1	24.5	26.2	25.5	25.0	25.8	26.6	0.7%	3.2%	1.7%
Income from GBEs	4.9	5.6	5.1	5.9	6.2	6.5	6.7	3.5%	4.0%	3.7%
Other Non-Tax Revenue	16.3	16.3	19.4	16.5	16.6	17.3	18.0	0.6%	4.1%	2.0%
Total Revenue	136.1	140.7	149.4	150.7	154.8	160.8	167.0	3.2%	3.9%	3.5%
Expense										
Program Expense	128.1	130.0	137.4	140.4	144.2	150.2	156.9	3.5%	4.3%	3.8%
Adjustment for Pension Assets	1.5	1.5	2.3	2.6	2.9	2.9	2.9			
Adjustment for Fair Hydro Plan	-	-	1.9	2.7	2.9	3.4	3.2			
Interest on Debt	11.6	11.7	11.8	12.1	12.6	13.2	13.8	2.5%	4.7%	3.4%
Total Expense	141.2	143.2	153.4	157.8	162.6	169.8	176.8	4.3%	4.3%	4.3%
Surplus/(Deficit) AG Presentation	(5.0)	(2.4)	(4.0)	(7.1)	(7.8)	(9.0)	(9.8)			
Surplus/(Deficit) exc. Adj. for Fair Hydro Plan and Pension Assets (Gov't presentation)	(3.5)	(1.0)	0.2	(1.9)	(1.9)	(2.6)	(3.7)			
Net Debt	306.4	314.1	329.2	347.7	368.0	386.8	404.4	5.4%	4.8%	5.2%

Note: All surplus/deficits exlcude the reserve. Numbers may not add due to rounding.

From:	John Psinas
To:	Selena Esmail (MOF)
Cc:	Shemin Meralli; George Sakura; Ken Kandeepan
Subject:	FW: Includes 2005-06 - 2006-07
Date:	Wednesday, December 06, 2017 11:50:34 AM
Attachments:	Net debt analysis - FES 2017-18 (Dec 6, 2017).xlsx

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Selena,

Here is the requested table. We strongly suggest not to use the date for 2005-06, as there was a $10.4 B adjustment that year as it was the first year BPS was consolidated. Using the next two years also skews the trend given there were surplus years.

Thanks.

John

Analysis of Net Debt

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Total 2009-10 to 2019-20	2009-10 to 2016-17 (col D -K)	2008-09 to 2016-17 (col C - K)
Opening balance	**(140,921)**	**(152,702)**	**(153,742)**	(156,616)	(169,585)	(193,589)	(214,511)	(236,230)	(252,823)	(267,968)	(285,403)	(295,372)	(301,648)	(311,653)	(323,003)	(169,585)		
Deficit	298	2,269	600	(6,409)	(19,262)	(14,011)	(12,969)	(9,220)	(10,453)	(10,315)	(3,515)	(991)	0	0	0	(80,736)	(80,736)	(87,145)
IFRS Transitional Impact							(758)					683				(1,441)	(1,441)	(1,441)
PSAB Transitional Impact							(107)	(141)		(1,683)						(1,931)	(1,931)	(1,931)
Pension Adjustment (prior years)											0					0	0	0
Prepaids/Inv adj/gain/(loss)							(648)	(87)	(43)	(49)	20	(43)	0	0	0	(850)	(850)	(850)
Other Adjustments	(10,774)	(1,418)									0	(901)				(901)	(901)	(901)
	(10,476)	851	600	(6,409)	(19,262)	(14,011)	(14,482)	(9,448)	(10,496)	(12,047)	(3,495)	(2,618)	0	0	0	(85,859)	(85,859)	(92,268)
Ontario Nuclear Fund	0	0	559	(1,212)	1,090	395	(3)	639	951	1,121	(1,003)	1,094				4,284	4,284	3,072
Total Deficit	(10,476)	851	1,159	(7,621)	(18,172)	(13,616)	(14,485)	(8,809)	(9,545)	(10,926)	(4,498)	(1,524)	0	0	0	(81,575)	(81,575)	(89,196)
Tangible Capital Assets	(1,305)	(1,891)	(4,033)	(5,348)	(5,832)	(7,306)	(7,234)	(7,784)	(5,600)	(6,509)	(5,471)	(4,752)	(10,005)	(11,350)	(12,586)	(84,429)	(50,488)	(55,836)
	(11,781)	(1,040)	(2,874)	(12,969)	(24,004)	(20,922)	(21,719)	(16,593)	(15,145)	(17,435)	(9,969)	(6,276)	(10,005)	(11,350)	(12,586)	(166,004)	(132,063)	(145,032)
Ending balance	**(152,702)**	**(153,742)**	**(156,616)**	**(169,585)**	**(193,589)**	**(214,511)**	**(236,230)**	**(252,823)**	**(267,968)**	**(285,403)**	**(295,372)**	**(301,648)**	**(311,653)**	**(323,003)**	**(335,589)**	**(335,589)**		

% INCREASE IN NET DEBT

Percentage %

Deficit	88.92	(81.83)	(20.88)	49.42	80.24	66.97	66.68	56.94	69.30	69.10	35.06	41.71	0.00	0.00	0.00		65.01	63.62
Other	0.00	0.00	(19.45)	9.35	(4.54)	(1.89)	0.01	(3.85)	(6.28)	(6.43)	10.06	(17.43)	0.00	0.00	0.00		(3.24)	(2.12)
Total Deficit	**88.92**	**(81.83)**	**(40.33)**	**58.76**	**75.70**	**65.08**	**66.69**	**53.09**	**63.02**	**62.67**	**45.12**	**24.28**	**0.00**	**0.00**	**0.00**		**61.77**	**61.50**
Tangible Capital Assets	**11.08**	**181.83**	**140.33**	**41.24**	**24.30**	**34.92**	**33.31**	**46.91**	**36.98**	**37.33**	**54.88**	**75.72**	**100.00**	**100.00**	**100.00**		**38.23**	**38.50**
	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00		100.00	100.00

Note: Pension adjustments incorporated in the 2015-16 Public Accounts and extended in the 2016 FES have been reversed.

Net Debt has been restated in 2005-06 to reflect the value of hydro corridor lands trasferred to the Province from Hydro One Inc.

For use with slide 2

In year approvals added to TCA for 2016-17 only, but not any risks. Deprecation in out years for in year approvals not taken.

2008-09 to 2017-18 (col C -L)	2007-08 to 2016-17 (col B -K)
(87,145)	(61,474)
(1,441)	(1,441)
(1,931)	(1,931)
0	0
(850)	(850)
(901)	(901)
(92,268)	(66,597)
3,072	3,194
(89,196)	(63,403)
(65,841)	(66,011)
(155,037)	(129,414)

59.51	51.46
(1.98)	(2.47)
57.53	**48.99**
42.47	**51.01**
100.00	100.00

From:	Christina Zhang
To:	Mike Manning; Ken Kandeepan; Bonnie Lemcke
Subject:	FW: Latest SCOPA Comms Products
Date:	Tuesday, October 04, 2016 9:57:36 AM
Attachments:	PA2015 - Media Products - No Opinion w Reg (Oct 3, 140pm).docx SCOPA_Remarks_MOF Deputy Thompson_v9.docx SCOPA 2016 Friendly QAs_Oct 4 2016_10am_OFA edits.docx Gadi Maymans Speaking Points CSB edits_Oct 4 2016 9am.docx MOF QAs_Oct 3 2016 6pm.docx

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Good morning,

Here we go again! =)

We've been asked to re-review the SCOPA materials one more time prior to the 12pm briefing.

- DM remarks – Attached are the latest DM remarks. Please review and let me know if you have any concerns. Would it make to reference the new Moody's report instead of the credit outlook upgrade? If so, would you mind amending his speech as appropriate?
- Gadi's remarks – Ken, thanks again for updating the 8.5 cents. I made a small edit to the speech to note that the ratio is the lowest its been since 1990. Is that okay?
- General Q&As – Ken, if you're okay with that change in the speech, I'll amend the general Q&As as well.
- Friendly Q&As – Attached incorporates edits Bonnie just sent. We're also ask to review #1, 2, 3, 8, and 9 as there's quite of overlapping. I think #1 and 2 needs to be removed. As there may not be enough time for Gadi's speech, we've been asked to reformat Gadi's remarks to Friendly Q&A format.
- PA Media package - Please also review the Q&A section and fill in any areas as necessary.

I'm working from today so please give me a call at 416-625-6524 if you have any questions.

Thanks,
Christina

From: Ize-Dukuze, Marilyn (MOF) [mailto:Marilyn.Ize-Dukuze@ontario.ca]
Sent: Monday, October 03, 2016 6:56 PM
To: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Tomasz Bugajski <Tomasz.Bugajski@ofina.on.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; David McLean (MOF) <David.McLean@ontario.ca>; Christopher Pearce (MOI) <Christopher.Pearce@ontario.ca>; Marc Pichette (MOF) <Marc.Pichette@ontario.ca>; Matthew Sylvain (MOF) <Matthew.Sylvain@ontario.ca>
Subject: RE: Latest SCOPA Comms Products

Following up –

Attached are the following items and corresponding actions required from your teams in advance of the 12pm briefing tomorrow:

- DM Remarks as of Sept 30th, 2016 (please review and update your sections, where appropriate, given the recent release of 2015-16 PA)
- MOF General QAs as of Sept 30th, 2016 (no action required for this item at this time)
- Friendly QAs as of October 3rd, 2016, (please review and provide input/edits. Please note #1, 2, 3, 8, 9 and 14 have some overlap we may want to avoid. There will be discussion on what extent we want to make reference to 2015-16 numbers via friendlies at the 12pm meeting).
- TBS Media Package for 2015-16 PA as of October 3rd, 2016 (please review QAs section only and fill in any relevant MOF portions- I have asked TBS for the QA package on its own)

Let me know if there are any questions.

Thanks,

Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

From: Ize-Dukuze, Marilyn (MOF)
Sent: Monday, October 3, 2016 5:12 PM
To: McGrath, Tara (MOF); Birks, Ryan (MOF)
Cc: Zhang, Christina (OFA); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF)
Subject: RE: Latest SCOPA Comms Products

Hi both –

SCOPA is still very much about the 2014-15 PA, thus current QAs do not need updating. However, additional QAs reflecting 2015-16 PA release are also now required. For this, we are asking TBS to share the QA package that was put together (with MOF input) for the 2015-16 PA release. This would be added to the SCOPA binders in addition to the QAs on 2014-15 PA.

Following up on strategy for remarks.

Thanks,
Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

Treasury Board Secretariat

2015-16 Annual Report and Consolidated Financial Statements Regulatory Amendment, No Opinion

Communications products

Monday, October 03, 2016

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Current holding messaging for Minister Sandals

- As you know, Treasury Board and Ministry of Finance staff prepare the Public Accounts which are subject to independent audit by the Auditor General.

- As I announced to the House last week, there are still some ongoing discussions happening around an accounting issue.

- Earlier today I met with the Auditor General and senior ministry officials to discuss the importance of resolving this issue and releasing the 2015-16 Public Accounts.

- Ministry officials will continue to work with the Auditor General and her staff to resolve the outstanding issue over the next several months.

- What I can tell you now is that Ontario is on track to beat its deficit targets and we are committed to balancing the budget in 2017-18.

- Lower than forecast deficit projections confirm that our government's plan to achieve fiscal balance in 2017-18 is working, while we continue to invest in the programs and services that matter to Ontarians.

- Keeping the public informed through transparent financial reporting remains a priority.

- In that spirit, as part of the 2015-16 Annual Report, which includes the unaudited Consolidated Financial Statements, we have built new data visualization tools to help the public understand Ontario's finances. These tools will be available when our financials are released.

Post technical-briefing speaking points

Minister Sandals' Statement – Release of 2015-16 Financial Statements

- Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion.

- This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

- As I assured members of the House last week, this marks the seventh year in a row that Ontario has beaten its deficit target. We are committed to balancing the budget in 2017-18 and remain balanced in 2018-19.

- In preparing the 2015-16 Annual Report and unaudited Consolidated Financial Statements, Treasury Board staff work with their colleagues in ministries across government to assemble financial information for the Annual Report and unaudited Consolidated Financial Statements.

- The Auditor General, who issues an opinion on the government's adherence to independently established accounting standards, then audits this.

- Earlier today, Minister Sousa and I met with the Auditor General to discuss the finalization of the 2015-16 Public Accounts.

- We did so because this year, the Auditor General provided the Province with a new interpretation of public sector accounting standards related to the accounting treatment of jointly-sponsored pension plans, which are subject to a range of interpretations.

- Despite our best efforts to try to resolve concerns raised by the Auditor General, the Province's professional accounting staff and the Auditor General continue to have differences in the interpretation of public sector accounting standards on this issue.

- The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

- In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

- To be clear, Ontario had followed the same pension accounting treatment for the past 14 years. The current Auditor General has accepted this treatment for the last two years, resulting in unqualified – or clean audit opinions.

- Three previous Auditors General have also accepted it. There has been no change to the relevant accounting standards over the past 14 years.

- In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

- To acknowledge the different interpretations and to ensure openness and transparency with respect to province's financial position, the government is releasing its unaudited financial statements.

- The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's consolidated financial statements as soon as possible.

- The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General. The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.

- Although these financial statements are unaudited, it is important to stress that the Province's financial results show that the government has once again beaten its deficit targets, and remains committed to achieving a balanced budget by 2017-18, and remain balanced in 2018-19.

- It is also important to stress that the two pension plans in question – the Ontario Public Service Employee's Union Pension Plan, and the Ontario Teachers' Pension Plan – are both healthy and well funded.

- Based on our respective positions at this time, we believe that this accounting matter would benefit from additional discussions, information and consideration.

- Our officials and professional accounting staff will continue to work with the Auditor General’s office on this accounting issue related to pension assets so that we can table the audited Public Accounts with the Lieutenant Governor in Council as soon as possible.

Minister Sousa's Statement – Ontario's Fiscal Outlook

(TBC input by MOF comms)

The government is dedicated to a fiscally sound approach to managing the Province's finances.

As outlined in the 2016 Budget, the government is committed balancing the budget in 2017-18 and remaining balanced in 2018-19.

The 2016–17 First Quarter Finances also confirmed that the government is projecting a deficit of $4.3 billion in 2016–17, unchanged from the 2016 Budget forecast.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries.

The government's path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

At the same time, the government continues to make investments in the economy, its people, and a healthy, clean and prosperous low-carbon future.

Key messages – post release

- The government has released its 2015-16 Annual Report and unaudited Consolidated Financial Statements to ensure transparency with respect to the province's financial position.

- To align with the Auditor General, a regulation has been filed to prescribe the accounting treatment for pension assets for the 2015-16 financial statements.

- The regulation resolves the outstanding accounting issue for this year in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

- This marks the seventh year in a row that Ontario has beaten its deficit target.

- Ontario remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

If pressed about why a regulation was needed:

- Based on their professional judgement, the Province's professional accounting staff could not agree with the Auditor General's interpretation of Public Sector Accounting Standards as it relates to jointly-sponsored pension plans.

- A regulation was required to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements.

- The Province has applied consistent accounting treatment for these plans for the past 14 years, and has consistently received unqualified, or clean audit opinions from the Auditor General, without exception.

- To remain clear and transparent, we have reflected the Auditor General's view of the issue for this year. In order to do so, the government regulated the treatment of the pension assets for 2015-16.

- This is an accounting issue. However we remain optimistic that by studying the issue further and gathering third-party professional opinions, we will be able to reach an agreement on the treatment with the Auditor General in the coming months.

News Release

Last Year's Ontario Deficit $3.5 Billion Lower Than Projected

Province Remains Committed to Balance the Budget Next Year in 2017-18

News

Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion. This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

This marks the seventh year in a row that Ontario has beaten its deficit target. Ontario remains committed to balancing the budget in 2017-18, and remain balanced in 2018-19.

In preparing the Annual Report and unaudited Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets. Pension accounting requires the application of professional judgment. Despite best efforts to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of opinion about the appropriate application of public sector accounting standards as they relate to pension accounting. This ongoing discussion has delayed the tabling of the Province's financial statements.

A regulation was made to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements. The Province has filed a time-limited regulation, which legislates the accounting for pension assets of two jointly-sponsored pension plans for 2015-16 in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

To ensure openness and transparency, the government is releasing its unaudited financial statements to provide the public with the Province's financial position.

The unaudited statements show the government is beating its deficit targets through sound financial management. The Government of Ontario currently has the lowest program spending per capita among Canadian provinces and ranks the lowest among provinces in terms of public-sector employees per capita. At the same time, Ontario's economy continues to grow. Over the last two years, Ontario's economy has grown by 6.1 per cent. Last year, growth was double the national average. In the first quarter of this year, Ontario's growth was greater than that of the United States and the G7.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation. In addition Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Responsible financial management is part of the government's economic plan to build Ontario up and deliver on its number-one priority to grow the economy and create jobs. The four-part plan includes helping more people get and create the jobs of the future by expanding access to high-quality college and university education. The plan is making the largest infrastructure investment in hospitals, schools, roads, bridges and transit in Ontario's history and is investing in a low-carbon economy driven by innovative, high-growth, export-oriented businesses. The plan is also helping working Ontarians achieve a more secure retirement.

QUOTES

“The Annual Report and unaudited Consolidated Financial Statements for 2015-16 show that our government’s plan to achieve fiscal balance next year in 2017-18 is working. We will continue to build on our track record of responsible fiscal management, while investing in vital government services such as health care, education and infrastructure that are important to the people of Ontario.”

- Liz Sandals, President of the Treasury Board

“Our government is dedicated to a fiscally sound approach to managing the Province’s finances. The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries. The government’s path to a balanced budget next year is being achieved through responsible fiscal management, which involves managing growth in program spending, and maintaining the integrity of Provincial revenues.”

- Charles Sousa, Minister of Finance

QUICK FACTS

- The 2015-16 unaudited Financial Statements compare Ontario's actual performance to what was planned in the 2015 Budget.

- Ontario is a recognized leader in financial reporting. The C.D. Howe Institute, an independent research organization that assesses the fiscal planning and reporting of governments in Canada, has commented positively on the financial reporting practices of Ontario, including Public Accounts, the annual Budget and Estimates.

- The unaudited Financial Statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

LEARN MORE

- Read the Province's 2015-16 unaudited Financial Statements and explore supplementary information available through new data visualization tools
- Explore the more than 400 open data sets in the Open Data Catalogue
- Learn about the government's fiscal cycle
- Learn about how the government is investing in vital programs and services [insert link to backgrounder]

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Newsroom Backgrounder

Release of Ontario's 2015-16 Financial Statements

Public Accounts are part of the Ontario government's annual fiscal cycle and are a legislative requirement under the Financial Administration Act. The President of the Treasury Board submits the Public Accounts for each fiscal year to the Lieutenant Governor in Council on or before the 180th day after the end of the fiscal year. Public Accounts include the Province's annual report and consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The consolidated financial statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB). PSAB independently establishes accounting standards for the public sector in Canada.

These accounting standards are common, nationally recognized standards used by governments across Canada in their financial reporting

PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.

The objective of PSAB standards is to meet the needs of the users of financial statements by providing the information needed for accountability and decision-making.

In preparing the Annual Report and Consolidated Financial Statements for 2015-16, professional public servants and the Auditor General engaged in discussions regarding the accounting treatment of pension assets.

The Ontario Public Service Employees Union Pension Plan (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) are jointly-sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of OPSEUPP and OTPP are held in trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.

During the 2015-16 Public Accounts audit, the Auditor General raised some concerns with regard to Ontario's accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of interpretation of PSAS standards as they relate to accounting for pension assets.

Given the differences in interpretation of the application of PSAB standards for the OTPP and OPSEUPP pension assets, Ontario approved a time-limited regulation which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. This is consistent with the fiscal outcome proposed by the Auditor General on September 13.

The *Financial Administration Act* allows Treasury Board, subject to the approval of the Lieutenant Governor in Council, to make regulations respecting the accounting policies and practices to be followed regarding the preparation of the consolidated financial statements of the Province.

The effect of the regulation is to reflect the fiscal impact of the Auditor General's position pending further review and analysis on this accounting matter. The change in accounting treatment is not a reflection on the funding status of the plans, or the quality of financial reporting by the Province. The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.

Prior to this change, Ontario had followed the same pension accounting treatment for all of the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

The Auditor General has not issued an audit opinion on the province's financial statements for 2015-16. However the government is releasing these unaudited financial statements to ensure openness and transparency with respect to province's financial position, and because it has passed the deadline to table the Public Accounts with the Lieutenant Governor in Council. The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's consolidated financial statements so that it can table the Public Accounts with the Lieutenant Governor in Council.

Openness and Transparency

As part of its commitment to Open Government, digital technology was used for the first time to visualize the province's financial information in an interactive and easy to understand way. This year, Ontario is further increasing the openness and transparency of the Annual Report and unaudited Consolidated Financial Statements by:

- Creating new data visualizations, including interactive bar charts and interactive data tables
- Releasing data sets through Ontario's Open Data Catalogue, including data on government organizations, government business enterprises and Trusts

Improving Outcomes for Ontarians

As the Province's 2015-16 Financial Statements show, the government remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

Health Care

Building on Ontario's Patient's First: Action Plan, the government continued transforming Ontario's health care system in 2015-16 to become more patient-centred and focused on better access to care, quality and value by:

- Increasing investment in home and community care by five per cent annually: $250 million in 2015-16, for a total of $750 million over three years.

- Increasing the hourly wages of publicly funded personal support workers (PSWs) caring for patients at home and in the community by $1.50 per hour in 2015-16 to at least $15.50 per hour, in the second of three annual increases totalling up to at least $16.50 per hour by April 1, 2016. Investments in PSWs, like an increase in the hourly wage are part of the government's effort to attract and retain the best PSWs in the home and community care sector.

- Appointing Ontario's first-ever Patient Ombudsman who will help address needs of patients who have not had their concerns with health care organizations resolved through existing complaint mechanisms.

Advanced Education and Skills Development

In 2015-16, the Ontario government made progress on its plan to help more people get and create the jobs of the future by continuing to invest in student financial assistance

and expand access to high quality college and university education, resulting in 67 per cent of adults in Ontario obtaining a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

Over the past 12 years, government investments have resulted in more than double the number of students qualifying for aid, while enrolment has increased by 38 per cent.

In 2015, 67 per cent of adults in Ontario had a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

The government is also transforming Ontario's student aid system to help thousands of students obtain greater access to advanced education and have lower levels of student debt upon graduation. For students from lower-income and many middle-income families, it would mean free tuition. These changes will start in the 2017-18 academic year.

Childcare, Elementary and Secondary Education

The government has made gains in building and supporting an integrated early-years, elementary and secondary education system. This includes increasing funding for schools and licenced child care, the establishment of the Ontario Early Years Policy Framework and implementation of Full-Day Kindergarten.

In 2015-16, the government built on this success by:

- Increasing wages for early childhood educators and other child care professionals in licensed child care settings by providing a $1 per hour wage increase for eligible child care workers bringing the total wage increase up to $2 per hour, plus benefits.

- Increasing the five-year high school graduation rate to 85.5 per cent – the highest level in the province's history.

- Doubling the funding for school renewal projects to $500 million in 2015-16 to ensure our students are benefitting from safe, modern and efficient learning environments.

Infrastructure

Ontario is making the largest investment in public infrastructure in the province's history – about $160 billion over 12 years, starting in 2014-15. Planned investments are supporting over 110,000 jobs, on average, every year across the province.

In 2015-16, the Province continued to invest in hospitals, schools, roads, bridges and transit, including:

- Completing construction of the $1.4 billion Right Honourable Herb Gray Parkway in Windsor–Essex, which provides an express route to the country's busiest land border crossing.

- Ongoing construction of the Eglinton Crosstown Light Rail Transit line, which will offer fast, efficient service and improve travel for commuters.

- Providing small, rural and northern municipalities with funding to build and repair core infrastructure through the Ontario Community Infrastructure Fund.

- Completing the new Humber River Hospital, which offers a comprehensive range of acute care services and support for inpatient and outpatient hospital programs.

- Ontario is making $575 million investment to repair and renew schools across the province in 2016-2017.

Staying on the Path to Balance

The government is working towards a balanced budget through Program Review, Renewal and Transformation (PRRT), a government-wide approach to multi-year planning and budgeting that puts a heightened focus on evidence and outcomes to inform funding allocations.

But PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care, education and infrastructure.

Examples of successful PRRT initiatives include:

- Improving the sustainability of the Ontario Drug Benefit Program and patients' access to drugs by making the program more efficient and effective. The changes saved approximately $100 million in 2015-16 and will enable over $200 million in savings annually when fully implemented.

- Changing the Second Career program by removing client targets for service providers while ensuring funding support for eligible clients. This change will generate approximately $40 million per year and will allow the government to invest in the Canada-Ontario Jobs Grant and a renewed Ontario Youth Job strategy.

- Reducing the government's office footprint by over 820,000 rentable square feet, which generated approximately $24 million in savings in 2015-16.
- Achieving approximately $56 million in savings through the consolidation of data centres, early vendor payments and lower contract costs – including for software and IT consulting services, laboratory supplies and security services.
- Achieving $7 million in savings from contracts related to government cell phone plans and toll free lines.

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Top Media Qs&As

Releasing Unaudited Financial Statements

1. It sounds to me like the government is yet again fighting with the Auditor General. What do you say to this?

This is not true from the government's perspective. And let me explain why: The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. And in this case for this set of final accounts, while one specific issue is being sorted through, we actually are agreeing with the Auditor General's numbers.

Given these differences of opinion, the Province filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

We believe that this accounting matter would benefit from additional discussions, information and consideration.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

2. Why are you releasing your financial statements without the Auditor approving them?

Earlier today I met with the Auditor General to discuss the 2015-16 Public Accounts. I did so because this year, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to an accounting issue – the treatment of pension assets.

Ontario has followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years, resulting in unqualified – or clean audit opinions. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In preparing the Annual Report and Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have difference intepretations.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

The government is now releasing its financial statements to ensure transparency with respect to province's financial position.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

3. If the Public Sector Accounting Board is studying this issue, are other Canadian jurisdictions dealing with this as well?

No other province has similar governance frameworks for their jointly-sponsored pension plans that are in a surplus position.

<u>British Columbia</u>

Pension assets for BC's jointly sponsored pension plans are not reported on British Columbia's consolidated financial statements. The governance framework in BC is different than Ontario's and would appear to justify different accounting treatment under PSAB standards.

Specifically, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to use ongoing surpluses through the amendment of the Plan rules governing contributions and benefits, so long as the amendment of the Plan rules:

- Does not result in an increased contribution rate for employees or employers
- Does not create or increase an unfunded liability in the Plan, and
- Is otherwise compliant with applicable legislation and the Trustees' fiduciary obligations.

In contrast, the governance arrangements with respect to the Ontario Teachers' Pension (OTPP) provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may use ongoing surpluses as they believe appropriate, subject only to the Ontario *Pension Benefits Act.* The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses.

The OPTrust governing documents also stipulate that it is the Sponsors of the OPTrust, being the Province of Ontario and OPSEU, who have the authority to utilize ongoing Plan surpluses. OPTrust's Board of Trustees, being the OPTrust administrator for purposes of the Ontario PBA, has no authority to utilize ongoing Plan surpluses.

<u>New Brunswick</u>

As we understand it, New Brunswick converted four of its pension plans into what it refers to as target plans.

In the prior year, New Brunswick accounted for these plans as defined contribution plans, meaning it expensed the contributions to the plan and did not reflect its share of the net asset or net liability of the plan in its financial statements. The Auditor General of New Brunswick issued a qualified opinion on those financial statements.

In the 2015-16 fiscal year, New Brunswick changed its accounting for those plans to account for them as defined benefit plans and the Auditor General of New Brunswick issued a clean opinion.

Ontario has always accounted for its share of its jointly sponsored plans as defined benefit plans.

4. What is the professional judgment that exists out there to interpreting jointly-sponsored pensions?

A key consideration in exercising professional judgment is if the resulting financial information is both relevant and reliable and gives a fair presentation of the transaction.

This area of pension accounting is particularly complex, and it is important to consider the specific facts and circumstances when assessing the appropriate accounting treatment.

In this regard, the Province has assessed the appropriate accounting treatments based on the governance frameworks applicable to Ontario's jointly-sponsored pension plans. It would be inappropriate to assume that the governance frameworks of plans in other jurisdictions would necessarily result in the same accounting treatment.

5. Are you saying the Auditor General is misinterpreting Public Sector Accounting Board standards?

The Auditor General's responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment. A difference of opinion on the interpretation of accounting standards is not unique to this situation. Other jurisdictions have also experienced differences of opinion between preparers and auditors on complex accounting matters.

Over the coming months we will undertake activities to further assess the application of PSAB standards to Ontario's accounting for jointly-sponsored pension plans. In the meantime, it remains the professional judgment of the professional staff that the accounting treatment in place since 2001 continues to be appropriate.

6. If the Auditor General had agreed with you, what would the differences have been in the deficit or net debt?

According to the Province's interpretation of PSAB, the annual deficit would be $1.5 billion lower (at $3.5 billion), and net debt would be $10.7 billion lower.

7. **The province has been treating pensions the same way since 2001. When did the Auditor General tell you about this new accounting treatment?**

   We only learned that the Auditor General was challenging the accounting treatment of the past 14 years very late in the audit. On September 13th the Auditor General communicated her position that the Province should write off the entire pension asset amount of $10.7 billion from the balance sheet.

8. **What does this mean for the Fall Economic Statement?**

   We're in the middle of completing the fiscal plan. We need to account for all financial considerations before we can finalize it. These results will be included as part of that process. **(TBC MOF)**

9. **Is this Public Accounts or not?**

   From a content perspective, the unaudited results being released are the same as those which would be reported in the Public Accounts, including the information in the supplementary volumes.

   The only difference is that the Auditor's Opinion is not included in the Annual Report.

10. **Were you aware of this before the Speech from the Throne? Had you known about this, would that have changed the government's commitments announced in the speech?**

    Response TBC

11. **Why are you doing this today, four days after you announced the delay?**

    Despite the outstanding difference in opinion between the Auditor General and the Province's professional accounting staff with regards to pension accounting, it is important to ensure that the public interest is served by timely and transparent reporting of the government's results for 2015-16 compared to Budget.

    Although the results being released are clearly labelled as unaudited, we look forward to tabling the Public Accounts once the Auditor General provides her opinion.

12. On what exactly do you disagree with the Auditor?

Both the Auditor General and the Province agree that the Province's results should reflect PSAB's standard on pension accounting. It is just a difference in interpretation of those standards which is at the heart of the issue.

The nature of the difference in interpretation is disclosed in Note 18 of the unaudited consolidated financial statements.

13. If you think you're right, why would you change the numbers?

To clarify, the 2015-16 results are based on legislation and PSAB. Although they reflect the same fiscal results which would be presented according to the Auditor General's proposed interpretation of the standards, the results as presented do not represent our professional staff's interpretation of PSAB standards for jointly sponsored pension plans.

By adopting the Auditor General's interpretation, the financial statements could be finalized and signed off in order to complete the financial reporting process and enable Public Accounts to be completed. Unfortunately, the Auditor General's audit opinion remains outstanding at this time so the Public Accounts have yet to be finalized**.**

14. Was there something wrong with the accounting rules that the government was using before?

No.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

That said, the Province believes that this complex accounting area would benefit from additional discussion and analysis. Over the coming months, efforts will be made to engage experts to assist with further analysis of the application of PSAB to accounting for jointly-sponsored pension plans on the Province's books.

15. Why hasn't the Auditor General raised this with you in the past two years?

I cannot speak for the Auditor General. Please refer your questions to the Auditor General's Office.

16. What is the government trying to hide by releasing unaudited books?

We are releasing our unaudited financial statements to ensure openness and transparency with respect to the Province's financial position. Our unaudited financial statements reflect the same fiscal outcome that would result from the Auditor General's proposed pension accounting treatment.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

As part of the government's initiative to enhance transparency and accountability, additional disclosure of five-year trends is now provided in the Annual Report. The increased disclosure and discussion on five-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board and enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs.

In addition to the disclosure in the Annual Report, the government is also making available supplementary information through online data visualizations.

17. Are you fudging the books to try and show your finances are better than they really are – is that why the AG won't sign off?

No.

We are releasing our Financial Statements to ensure openness and transparency with respect to the province's financial position. In fact, we have implemented legislation that allows our officials to sign off in a way that is consistent with the fiscal outcome proposed by the Auditor General.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the

last two years. It has also been accepted by three previous Auditor Generals. There has been no change to the relevant accounting standards over the past 14 years.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

18. Is this even legal – are you in contempt of the house by releasing your financial statements before you table them in the Legislature?

We are not releasing Public Accounts, we are releasing our financial statements to ensure openness and transparency with respect to province's financial position.

The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's finances so that we can submit the Public Accounts to the Lieutenant Governor in Council and table them as soon as possible.

19. Has this ever happened before in Ontario? Anywhere else in Canada?

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and meeting its statutory tabling requirements. Ontario has had clean audit opinions for the past 22 years.

That said, differences of opinion between preparers and auditors do occasionally occur, and have occurred in other jurisdictions in Canada.

20. How are we supposed to trust your numbers if the Auditor General hasn't approved them?

Although the financial results being presented are labelled 'unaudited', they reflect the basis of reporting for pensions that the Auditor General proposed.

Once the Auditor General has issued her Audit Opinion, the Public Accounts will be finalized and tabled with the Lieutenant Governor in Council.

21. So what happens next? When will you table the actual Public Accounts?

The government will continue to work with the Auditor General to complete tabling of the 2015-16 Public Accounts.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

22. Does the change in accounting regarding the assets of the Teachers' or OPSEU pensions plans mean those plans might be financially threatened?

Absolutely not. This issue relates solely to the Province's reported financial results and the Province's historical practices of reporting pension assets.

The two pension plans in the Ontario Public Service – which are of the defined benefit type – are healthy and well-funded.

The OPSEU Pension Plan is fully funded with a small reserve of surplus assets standing to the credit of the joint-sponsors, while the Ontario Teachers' Pension Plan has a funding surplus of $13.2 billion.

23. You hired outside experts to give you a third-party accounting opinion, but you paid to get this advice. Didn't they just tell you what you wanted to hear?

The Province pays for services provided by external advisors – an accounting opinion is no different.

In providing an accounting opinion when the auditor has already provided their view, the professional standards require the firm providing the opinion confirm that the facts upon which the opinion is issued are complete so that the firm issuing the opinion is considering the same facts that the auditor is considering.

This process was followed by the Province.

24. The Auditor General has implied your Provincial Controller is in a position of conflict because she used to work for Deloitte. How do you respond?

All employees that are hired into the Ontario Public Service swear two oaths, an Oath of Allegiance and an Oath of Office. These oaths affirm that public servants will faithfully discharge their duties, and comply with all laws and confidentiality obligations.

25. The Auditor General says she raised this issue with you months ago. Why haven't you fixed this problem by now?

Until June, the Auditor General's audit plan for the 2015-16 Public Accounts only included a planned review of economic assumptions for pension plans. There were no significant issues raised by the Auditor's staff following their work on the assumptions.

The Province responded upon receiving the Auditor General's request for an actuarials valuation by procuring resources to complete the AG's request. The results were shared with the Auditor General's staff and only after several discussions did it become apparent that the Auditor General was challenging the accounting treatment that the Province had been following for the past 14 years.

On September 13th, the Auditor General communicated her position that the entire balance of pension assets ($10.7 billion) should be written off the Province's books. Despite our best efforts, the Province's professional accounting staff have not yet been able to reach a common interpretation of PSAB standards for the Province's jointly sponsored pension plans.

In light of the ongoing disagreement on interpretation of accounting standards, and the need to release the Province's financial results on a timely basis, Cabinet approved a regulation to allow for the results of the Province to be reported on a basis which reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension asset in question.

26. If you say you're open and transparent, why didn't you invite the Auditor General to your media technical briefing?

The technical briefing was for the purposes of updating media and members of the Opposition and the third party. However it was held in a public space in a government building, and anyone was free to attend.

27. Is the government still committed to balancing the budget by 2017-18?

Yes.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18 and remaining balanced in 2018-19.

28. The financial results show that the net debt and accumulated deficit has ballooned by $10.7 billion? How did this happen and what are you doing to address it?

This year, the Auditor General presented the province with a new fiscal interpretation of public sector accounting standards as it relates to the treatment of pension assets.

After careful consideration, the Province agreed to adopt the Auditor General's fiscal interpretation. The government made a regulatory amendment to allow us to amend our accounting policies for the 2015-16 Public Accounts in order to comply with the Auditor's fiscal interpretation. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Despite this change, and as our results show, the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Total debt remains unchanged by the pension adjustment.

The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.

29. How can the accumulated deficit and net debt increase by $10.7 billion without causing an increase in total debt?

Total debt is cash based – it is how much money we've borrowed and is owed to our creditors.

Net debt takes into account the difference between our financial assets and liabilities, whether they are cash or not.

The province has changed the valuation of the net pension liability by reducing the pension assets by $10.7 billion, but because there is no cash involved in that valuation, the total debt does not change.

30. Should taxpayers be concerned about the rise in net debt and accumulated deficit?

No.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

The treatment of pension assets is an accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. PSAB will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

31. How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget. Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

32. What is the difference between "Public Accounts" and "Financial Statements"?

Our financial statements include the Province's annual report and unaudited consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The full Public Accounts would also include these components, as well as a report by the Auditor General containing an audit opinion.

The full Public Accounts will be tabled with the house once the Auditor General's audit opinion is available.

33. You say you're releasing your financial results in the public interest. Aren't you creating confusion by having two sets of books – yours and the AG's?

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General. Therefore there is only one set of books.

Our officials continue to work with the Auditor General's office. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

34. How different will the Auditor General's numbers be?

There is no difference in the unaudited financial statements released and the Auditor General's view of the results for the Province for fiscal 2015-16. The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

35. Why didn't you just release Public Accounts last week to meet your legislated timelines?

As stated in the House there was a delay in tabling the Public Accounts because of ongoing discussions with the Auditor General to work through an accounting issue related to pension assets.

Our officials have continued to work with the AG's office to finalize the 2015-16 Public Accounts. In the meantime, we felt it was in the public interest to release our unaudited financial statements in the spirit of transparency and accountability.

36. Clearly the government is in a spat with the Auditor General – releasing unaudited financial statements seems like a slap in the face. What does this say about your relationship with the Auditor General?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

Our officials continue to work with the Auditor General's office to resolve this accounting issue related to pension assets. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

37. The Auditor General claims you have been using creative accounting to overstate your numbers – how do you respond to that?

That is simply not true.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor General's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It has also been accepted by three previous Auditors General.

There has been no change to the relevant accounting standards over the past 14 years.

That said, given the particularly complex area of pension accounting, further analysis of the impact of PSAB standards on the Province's books will be undertaken over the coming months.

38. So at the end of the day if your numbers are the same as the Auditor General's what's the issue?

Professional accounting staff and the Auditor General have a difference of interpretation as it relates to the application of public sector accounting standards to pension assets resulting from jointly-sponsored pension plans.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

The Auditor General has declined to issue an opinion on the financial statements. In the absence of the Auditor's opinion, the Province is not able to table the Public Accounts as required by law.

39. What's the difference between "audited" and "unaudited" financial results?

In practice, there should be no difference between audited and unaudited results.

An independent audit of an organization's financial statements provides independent assurance that the results fairly represent the financial position of the organization, and that those results are in accordance with generally accepted accounting principles.

The Province's unaudited financial statements include a Statement of Responsibility. This statement describes how the financial report is prepared, and attests to the government's responsibility for the objectivity and integrity of the consolidated financial statements.

The government also attests to its responsibility for maintaining appropriate systems of internal control. The systems support the integrity and completeness of the financial information reported.

40. What's the difference between a "qualified" and "unqualified" audit opinion?

Audit reports represent an auditor's professional opinion on whether an organization's financial position and results of its operations are presented fairly in its financial statements.

An unqualified, or clean opinion, is a judgment that an organization's financial records and statements are fairly and appropriately presented.

A qualified opinion indicates an auditor has concerns with the financial information. Those concerns could include things like the availability of sufficient information for users to make an informed decision, or the organization's reporting in accordance with public sector accounting standards.

In this case the Auditor General has chosen not to issue an opinion at all – either unqualified or qualified.

41. Why didn't the Auditor General issue an audit opinion? Is this even legal?

Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. This reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

The government also believes it is in the public interest for the Auditor General to issue and audit opinion on Ontario's consolidated financial statements as soon as possible.

42. What is a jointly-sponsored pension plan?

The Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of both pension plans are held in a trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between both parties.

During the 2015-16 Public Accounts audit, the Auditor General raised some questions about Ontario's past accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

43. How does the Auditor General want you to account for jointly-sponsored pension plans?

During the 2015-16 Public Accounts audit, the Auditor General expressed a different interpretation of the existing PSAB standards which would impact the accounting for pension assets of jointly-sponsored pension plans.

The Auditor General's view is that the government does not have legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the Auditor General believes that the pension asset should be removed from the Province's balance sheet.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. We believe that this reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

General Media Qs&As

44. Is the government artificially balancing the budget through the one-time sale of assets like Hydro One?

The government's plan to eliminate the deficit does not depend on revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The government is committed to dedicating the net revenue gains from asset optimization activities, including the broadening of ownership of Hydro One and real estate sales to the Trillium Trust which will be used to invest in transit, transportation and other priority infrastructure projects under Moving Ontario Forward.

45. According to your numbers the deficit was down $3.5 billion from the $8.5 billion projected in last year's budget. Where did this money come from?

The improvement over plan was largely due to revenues that were $4.0 billion above the forecast of $124.4 billion.

This reflects higher than expected tax revenue and net revenues from the first phase of broadening Hydro One ownership, and stronger overall performance from government business enterprises. Maximizing the value of these assets is part of the government's economic plan for Ontario.

46. Does the fact that your deficit is $3.5 billion lower than projected mean you have more money to bring to the table in labour negotiations (e.g. doctors)?

It is important to point out that through the Public Accounts process, we are reporting on past performance, whereas labour negotiations impact future fiscal pressures.

Our government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19. We know we have difficult choices ahead, but people can be assured that their government will take a fair and balanced approach, one that protects and improves the services that matter to Ontarians.

Managing compensation costs is critical to balancing the budget, as over half of government spending goes to salaries and benefits in the Ontario Public Service (OPS) and the broader public sector (BPS).

Compensation costs must be addressed within Ontario's existing fiscal framework and all public-sector partners must continue to work together to control current and future compensation costs.

While continuing to work to achieve fiscal balance by 2017–18, the government is achieving significant results in priority areas for Ontarians.

We know there is more hard work ahead as we work towards a balanced budget, and we are confident that our partners will work with us to build Ontario up.

47. Will you still be able to balance the budget if Ontario's economy does not perform as strongly as you forecast? Even the FAO has said that your forecast is optimistic.

The government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries.

While uncertainty in the global economy has increased, along with increased volatility in global financial and currency markets, Ontario has a diversified economy – meaning the Province is well positioned to respond to changing global economic conditions.

With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve balance.

48. Are you cutting back on vital services like health care to balance the budget?

No. Through Program Review, Renewal and Transformation (PRRT), we are helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered

efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care.

49. This is the seventh year in a row that you have reported a deficit lower than forecast. Are you purposefully overestimating your deficit projections?

The government remains committed to balancing the budget by 2017-18 and is taking deliberate and responsible steps to achieve this goal.

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

The government's fiscal projections are based on the best economic and fiscal information available at the time. They reflect a realistic and responsible plan to manage the Province's resources, while still protecting the vital services that Ontarians rely on.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

50. You spent $433 million more than you budgeted for programs. How is your government keeping spending in check?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education, and by retaining the lowest per capita program spending in Canada.

51. How would the Ontario Rebate for Electricity Consumers impact Ontario's plans for a balanced budget? How will the province pay for this $1 billion rebate?

We have incorporated that expenditure into our fiscal plan starting in 2017. The government remains committed to balancing the budget by 2017-18 and remaining balanced in 2018-19 by continuing to invest in the economy, our people and a healthy, clean and prosperous low-carbon future. These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth.

Questions related to the Ontario Rebate for Electricity Consumers should be referred to my colleague, the Minister of Energy.

52. How is the money spent on the now defunct Ontario Retirement Pension Plan reflected in Public Accounts? How does the government justify this expense?

TBC OPCD + MOF

53. Was the delay in tabling Public Accounts because you can't afford the childcare commitment and the electricity rebate?

No. Public Accounts is a retrospective document that compares Ontario's actual performance to what was planned in the Budget.

I have directed senior Treasury Board officials to work with the Office of the Auditor General to develop a plan and finalize the Public Accounts as soon as possible.

54. In 2003, your government brought in legislated timelines for Public Accounts, yet you're past the deadline and you still haven't tabled them. Why didn't you adhere to your own legislation?

We have been working with the Office of the Auditor General to try to come to an agreement on the treatment of pension assets.

The Public Sector Accounting Board has initiated a project to review pension accounting standards, and will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

In order to be transparent, and in the public interest, the government is releasing its Financial Statements in order to show the province's financial position.

We believe that this reflects the fiscal outcome proposed by the auditor with respect to the treatment of the pension asset in question.

55. Disagreement with officers of the legislature seems to be a recurring theme – at least with the Auditor General – what's your position on this? Does this government have a problem with officers of the legislature?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

56. Is the fact that you've changed your accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous

Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

For 2015-16 financial statements, the government legislated its accounting treatment for pension assets of its jointly-sponsored pension plans.

57. Are you concerned about how the credit rating agencies will view this issue?

The Province's financial results show that the government has once again beaten its deficit targets and remains on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Our government remains committed to balancing the budget in 2017-18. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

58. Can credit rating agencies adjust their ratings based on this new development? What about bondholders?

The government remains committed to balancing the budget by 2017-18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. The deficit is also a $0.7 billion improvement compared to the interim results for 2015-16 contained in the 2016 Budget, which formed the basis for three rating agencies to confirm the Province's credit rating, and the fourth to improve their assessment of the Province's credit outlook.

This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

The rating agencies and bondholders will understand that the change in the Province's accounting treatment for pension assets of jointly-sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements or total debt outstanding.

Hydro One

59. Why are you selling off Hydro One?

The government is broadening the ownership in Hydro One to improve the company's long-term performance and unlock billions in value for investment in major infrastructure projects that will help grow Ontario's economy for years to come.

This approach will create an improved company that would operate more efficiently and better serve the interests of ratepayers and customers of Hydro One.

The net revenue gains from broadening the ownership of Hydro One shares will provide the government with approximately $4 billion to be credited to the Trillium Trust to invest in key infrastructure and create thousands of jobs, as well as $5 billion to reduce debt.

60. What is the Hydro One deferred tax benefit?

As a result of Hydro One exiting the Payment in Lieu (PILs) regime and the revaluation of its fixed assets upon entering the corporate tax regime, the company recognized a deferred tax benefit in fiscal 2015-16, which positively affected its net income.

At consolidation in Public Accounts of the Province's portion of Hydro One's net income, Hydro One's recognition of a deferred tax benefit increased the Province's revenues by $2.4 billion. The gain associated with Deferred Tax Benefit from the IPO has been allocated to the Trillium Trust.

61. Why did you loan the electricity unions money to buy shares of Hydro One?

In connection with the IPO, the Province sold $116 million worth of Hydro One shares to trusts of the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts. Of the shares sold to the Trusts, about $108 million was purchased using loans provided by the Province. The gains from those share sales will be credited to the Trillium Trust over time as the loans are repaid.

The government is fully committed to dedicating net revenue gains from the sale of designated assets to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of Moving Ontario Forward.

The $3.2 billion being credited to the Trust at this time does not include amounts associated with shares purchased by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts using loans provided by the Province.

62. The government is being sued over the sale of Hydro One. Was the sale worth it to balance you budget now that you're being sued?

I understand Ontario has been served with a notice of claim. As this matter may be subject to litigation, it would be inappropriate to comment further.

63. The FAO has warned that the partial sale of Hydro One will have direct implications on the provinces debt and ability to balance the budget. What do you say to these concerns?

To date, Ontario has sold approximately 30 per cent, or about half of the 60 per cent of shares the government intends to sell, and with this $3.2 billion credited to the Trillium Trust is well on track to meet its multi-year asset optimization target to generate $5.7 billion over time to support investments in infrastructure.

Crediting the $3.2 billion to the Trillium Trust demonstrates Ontario's commitment to investing in infrastructure projects that help stimulate economic growth and create good, well-paying jobs.

The government acknowledges the important role played by the FAO in providing independent analysis to the Assembly on the state of the Province's finances.

Bargaining and Compensation

64. What is the government doing to control executive compensation in the Broader Public Sector?

In March 2015, the government proclaimed the Broader Public Sector Executive Compensation Act, 2014 (BPSECA) into force. This legislation allows the government to establish compensation frameworks for designated senior executives in the broader public sector.

An Executive Compensation Framework came into force on September 6, 2016. The framework reinforces that designated BPS employers are accountable for compensation decisions, sets caps and prohibitions on certain types of

compensation, requires enhanced public transparency and allows impacted employers to balance the need to attract the necessary talent to deliver high quality public services while managing public dollars responsibly.

The framework applies to all designated employers under BPSECA, including hospitals, school boards, colleges and universities, community care access corporations, provincial agencies and named hydro entities.

The framework caps salary and performance-related payments for designated executives at no more than the 50th percentile of appropriate comparators and prohibits elements like signing bonuses and pay in lieu of perquisites.

The framework also requires that each designated employer engage in public consultation on their compensation program before it is finalized and requires final programs to be posted on the designated employer's website. These requirements enhance transparency and give Ontarians the opportunity to provide input on executive compensation in the BPS.

BPSECA includes significant compliance and enforcement measures: employers will be required to complete reports concerning compliance with the framework and individuals could be subject to penalties if they willfully fail to provide a report, provide a false report or obstruct an auditor.

65. How are you managing the costs of public sector compensation?

Managing compensation costs is critical to balancing the budget, as more than half of government spending goes to salaries and benefits, including those of both the Ontario Public Service (OPS) and broader public sector (BPS). All public-sector partners must continue to work together to control current and future compensation costs.

Since July 2012, the average annual negotiated wage increase across Ontario's provincial public sector has been 0.6 per cent. This is lower than:

- Ontario's municipal public sector (1.7 per cent)
- the federal public sector in Ontario (1.7 per cent)
- Ontario's private sector (1.9 per cent)

66. Where is the agreement with OPSEU reported in Public Accounts? Was this truly net-zero?

The agreement reached with OPSEU's Central and Unified bargaining units on October 30, 2015 is net-zero and remains consistent with the fiscal plan outlined in both the 2014 and 2015 Budgets.

To achieve a net-zero outcome, there are no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4% one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4% pay increase. Both are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

This agreement will support the government's ongoing efforts to eliminate the deficit while protecting the valued public services Ontario families rely on.

67. The Premier recently said the era of net zero is over. How will this affect labour negotiations?

As a government, we'll continue to do what we've always done in terms of negotiations. As the time comes to negotiate new contracts, whether it's Treasury Board Secretariat that's negotiating or an individual ministry, they always come to Treasury Board to get an approved mandate. So we'll carry on with that practice of coming to Treasury Board for an approved mandate that will fit within the fiscal plan.

Ontario's Financial Position

68. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?

The government remains firmly committed to balancing the budget by 2017–18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

69. Some have said your government has a spending problem, not a revenue problem. As the largest subnational borrower, what do you say to that?

The government beat its deficit target for the seventh year in a row. Last fiscal year's deficit is $5 billion, down $3.5 billion from the $8.5 billion projected in last year's budget.

The government is projecting a deficit of $4.3 billion in 2016-17 and a return to a balanced budget in 2017-18.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

Over the past four years the Province has held the average annual growth in program spending to 1.9 per cent, less than the rate of inflation, while investing in services that people rely on.

Key elements of the government's plan to eliminate the deficit are:

- Program Review, Renewal and Transformation
- managing compensation costs
- maintaining tax fairness and a level playing field for business
- strengthening government transparency, financial management and fiscal accountability

70. How much did government spend in 2015-16?

TBC OPCD

71. Why was total expense $300 million higher than projected in the 2015 Budget plan?

Total expense in 2015–16 was $133.4 billion, $1.5 billion higher than the 2015 Budget plan. Program spending was $122.4 billion, up by $1.9 billion from a planned spending of $120.5 billion.

The increase largely reflects the government's decision, announced in the 2015 Ontario Economic Outlook and Fiscal Review, to invest $0.3 billion through the new Green Investment Fund. As well, spending in the health, children's and social services, justice sectors and other programs was higher than planned.

Total program spending was $1.9 billion higher than the Budget, resulting in actual program expense of $122.4 billion. The increases were attributable to:

- $1.5 billion pension asset valuation allowance for OTPP and OPSEU.
- Health sector expense was $294 million, or about 0.6 per cent, above plan. Higher spending resulted from increased drug costs as well as higher hospital sector expense, partially offset by underspending in agencies.
- Children's and social services sector expense that was $124 million higher than planned, due mainly to additional spending to address demand for the Ontario Disability Support Program and the cost of prescription drugs for social assistance recipients.
- Justice sector expense increased by $120 million, mainly due to settlements under the Proceedings Against the Crown Act and higher-than expected bad debt provisions related to unpaid fines.
- Other programs expense was $628 million higher than expected. The increase was due to one-time investments through the Green Investment Fund, higher than anticipated expense for the Ontario Production Services Tax Credit and costs related to the Hydro One IPO.

Increases in these sectors and programs were offset by:

- Education sector expense was $233 million lower than expected, due in part to a higher share of funding spent on capital projects that are capitalized and amortized instead of expensed, higher-than-forecasted revenues from education development charges, and slightly lower-than-projected enrolment.

- Post-secondary and training sector expense was $176 million lower than expected, mainly due to lower spending on post-secondary operating grants and lower student financial assistance as a result of lower-than-forecast enrolment. As well, spending on employment and training programs was below plan, partially offset by higher expense on tax credits to employers to support training.

72. What are you going to do if Ontario's economy does not perform as strongly as you forecast?

The Province has included prudence as part of the fiscal plan to help ensure it meets future fiscal targets as it moves towards a balanced budget in 2017–18.

As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan continues to incorporate prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2016–17, and $1.2 billion in each of 2018–19.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

In keeping with sound fiscal practices, the Province's revenue outlook is based on prudent economic assumptions. The Ontario Economic Forecast Council, established under the FTAA, reviewed the Ministry of Finance's economic assumptions in February 2015. All council members found the assumptions to be reasonable.

73. What if interest rates go up? What affect would higher interest rates have on debt?

The Province is operating under a historically low interest rate environment, however, if interest rates did increase, a one percentage point change will result in an impact of approximately $350 million to the Province's interest expense.

74. What is the government's annual borrowing program?

The amount of money the government borrows varies from year to year and is dependent on the deficit, proposed investments in capital and amount of debt that is maturing.

Over the three years 2016-17 to 2018-19 average long term public borrowings are estimated to be $26 billion per annum, considerably lower than what the Government borrowed over the past three years which averaged at $33 billion per annum. The lower borrowings are primarily due to the Government's efforts in reducing the deficit and balancing in 2017-18.

75. Did you use your reserve fund to pad your fiscal results and pay down the debt?

For planning purposes, a reserve is included in the budgeted surplus/deficit each year to guard against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance. The 2015 Budget plan included a $1.0 billion reserve. Without the reserve, the actual deficit result of $5.0 billion would not have been affected.

Budget Surplus and Revenue Increase

76. Can you explain the $4.0 billion increase in revenue since your 2015 Budget?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

77. How did net income from government business enterprises increase by $100 million from your 2015 Budget projection?

This increase was mostly attributable to combined higher net income from the Liquor Board of Ontario (LCBO), Ontario Lottery and Gaming Corporation (OLG) and Ontario Power Generation Inc. (OPG).

Higher net income from these business enterprises, however, was partially offset by lower net income from Hydro One, primarily reflecting impacts from broadening Hydro One ownership.

Contingency Fund / Reserve

78. What is the difference between the contingency fund and the reserve?

The contingency fund is an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover expenses due to unforeseen events (e.g. fighting forest fires). This approved spending limit is allocated during the year to ministries for their programs and activities.

The reserve is an amount included in the forecast each year to protect the plan against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance.

Budget Projections vs. Public Accounts Reporting

79. What accounts for the $4.4 billion increase in taxation revenues from your 2015 Budget projection?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

80. Why did Ontario's net debt increase by $20 billion in 2015-16?

Net debt is the Province's total debt and other liabilities, less its financial assets, including cash and investments. The increase was primarily due to a $10.9 billion

increase in liability and a $10.7 billion pension accounting adjustment, which was primarily offset by a $1.0 billion increase in financial assets.

81. How do you explain the $12.4 billion increase in total debt in 2015-16?

The increase of $12.4 billion in total debt is due to borrowing for the deficit and investments in capital assets for 2015-16. It also includes pre-borrowing of $2 billion to take advantage of low interest rates and continuing demand for the Province's Debt.

82. Why is the government now including 5-year trends in the Public Accounts?

The increased disclosure and discussion on 5-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board. This increased disclosure enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs. In addition to the disclosure in the Annual Report, the government is also making available supplementary information through data visualization.

83. Why is the interest on debt for 2015-16 $400 million lower than forecast in the 2015 Budget?

Interest on debt expense was $0.4 billion below plan in 2015-16, as a result mainly of lower-than-forecast interest rates, the lower-than-planned deficit and cost effective borrowing and debt management.

84. Why is interest on debt for 2015-16 $400 million higher than in 2014-15?

Interest of debt is higher by $332 million from last year, mainly due to the funding of the deficit and investment in capital assets and partly offset by the impact of lower interest rates.

Program, Review, Renewal and Transformation

85. How are you reviewing and transforming government programs?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered

efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

86. Has PRRT achieved any tangible results/savings?

The government has achieved a number of efficiencies to make programs more sustainable, such as negotiating lower prices for goods and services and managing compensation.

But PRRT is about more than saving money — it is a continuous planning approach focused on improving outcomes for government programs and services to ensure they are effective, efficient, relevant and sustainable.

87. What do you have to say to those public sector workers who have lost their jobs or are at risk of losing their jobs because of PRRT?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Government Assets

88. What is the government doing to extract value from any government assets?

With the 2014 Budget, the government began the process of unlocking the economic value of the Province's assets, including setting up the Premier's Advisory Council on Government Assets, chaired by Ed Clark, former Group President and Chief Executive Officer of TD Bank Group.

The council delivered recommendations on the electricity sector to the Province in advance of the 2015 Budget, including broadening the ownership of Hydro One. This would involve an initial public offering of about 15 per cent of the voting securities in Hydro One, with additional share sales in subsequent years. Over time, share offerings would total up to 60 per cent of the voting securities in Hydro One.

The Province is also moving forward with its plans to unlock value from its real estate assets, including OPG's head office building, and the Seaton and Lakeview lands. In June 2016, the Province closed the sale for the Liquor Control Board of Ontario's (LCBO) head office lands, raising $260 million in gross proceeds.

All net revenue gains from the sale of qualifying assets will be dedicated to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of the Moving Ontario Forward initiative.

Trillium Trust

89. Have the net proceeds from the sale of the GM holdings and the partial sale of Hydro One been dedicated to the Trillium Trust, and how is that being reported in Public Accounts?

The Trillium Trust Act, 2014, provides for the dedication of net revenue gains from the sale of qualifying assets to help support key infrastructure priorities, such as roads, bridges and public transit. A schedule in Volume 1 of the Public Accounts reports on the financial activities of the Trillium Trust.

Volume 1 shows that $1.35 billion was available for the Trillium Trust at March 31, 2016, to help fund investments. This reflects the sale and redemption of the Province's shares in General Motors in earlier years.

In August 2016, a regulation was put in place that credited the trust with $3.2 billion from the net revenue gains resulting from the Hydro One IPO, the gain on sale of shares in November 2015 and the share of the deferred tax benefit to Hydro One that has been recognized by Ontario through its share of Hydro One net income as a result of its ownership position in Hydro One.

The net revenue gains from the secondary offering in April 2016 will be reported in the 2016-17 Public Accounts and credited to the Trillium Trust.

90. How have you spent the funds dedicated to the Trillium Trust?

As announced in the 2016 Budget, the government plans to begin drawing on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history.

Based on planned expenditures, in 2016–17 the Trillium Trust would support Moving Ontario Forward initiatives, such as GO Transit Regional Express Rail, Hurontario Light Rail Transit and the Ontario Community Infrastructure Fund.

91. Why are you allocating non-cash items like the deferred tax asset generated in the Hydro One transaction to the Trillium Trust?

TBC OPCD

Moving Ontario Forward

92. In the 2015 Budget, the government stated that $3.5 billion would be dedicated to the Moving Ontario Forward plan. So far, only $1.35 billion has been dedicated to the Trillium Trust. How do you propose to supply the $2.15 billion difference?

Moving Ontario Forward dedicated funds would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.
- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.
- Dedicated proceeds from targeted revenue measures.
- The government's asset optimization strategy, with net revenue gains dedicated to the Trillium Trust to help support investments in public infrastructure.
- Working with the federal government to secure federal funding through the Building Canada Plan.

93. How much did the government spend on Moving Ontario Forward in 2015-16?

Moving Ontario Forward is part of the government's commitment to invest more than $137 billion in public infrastructure over the next 10 years. Investments are underway, including providing $100 million per year to small, rural and northern municipalities through the Ontario Community Infrastructure Fund to build and repair critical infrastructure.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. Spending would ramp up significantly once this preliminary work is completed and construction activity is underway. Over the 10-year Moving Ontario Forward period, all of the dedicated funds are expected to be spent on priority infrastructure projects.

94. Why aren't the additional $2.2 billion in revenues dedicated to the Moving Ontario Forward plan reported in the Public Accounts?

In the 2015 Budget, the government committed to dedicate $31.5B over 10 years to support infrastructure projects under the Moving Ontario Forward plan, which included $5.7B from its asset optimization strategy. In 2014-15, this amounts to about $3.5B in dedicated funds including $1.3B from asset optimization. The remaining $2.2B in 2014-15 would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.

- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.

- Dedicated proceeds from targeted revenue measures.

- Working with the federal government to secure federal funding through the Building Canada Plan.

These additional amounts are largely taxation revenues and are reflected in the total revenue figures in the 2014-15 Public Accounts.

95. How does investing in public infrastructure impact the economy?

A large and growing body of independent research shows that infrastructure investments support jobs, augment personal incomes and produce real growth in the economy. For example, a September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

The Province's planned investments in infrastructure are expected to support over 110,000 jobs, on average, each year.

96. The Public Accounts makes reference that the Province's investment in capital assets is guided by sound asset management planning principles, so why is the education sector facing large renewal needs?

The Province has announced new renewal investment, including: increased investments in GO Transit rehabilitation and renewal; additional annual funding of $50 million to assist hospitals in maintaining their facilities in good repair; and a $1.1 billion investment to repair and renew schools across the province (allocated to school boards in proportion to their renewal needs).

In the education sector, the School Condition Improvement program addresses renewal needs focusing on ensuring that facilities are in good condition, energy efficient and accessible and meet modern service standards. The funding will enable school boards to repair roofs, update HVAC units and modernize electrical and plumbing systems. It will also significantly improve more visible elements of schools that impact students' learning and well-being, including flooring, walls, ceilings, playing fields and more. To support transparency, the government has also released detailed information regarding the condition and renewal needs of each of Ontario's publicly funded schools.

Transparency

97. You say the Province's Annual Report is a central element in demonstrating transparency in reporting financial activities and accountability, yet the FAO continues to criticize your government for withholding information. What do you say to these criticisms?

The relationship between the FAO's office and our government is very important.

Our door is open to meet with the FAO and his staff upon request, and our government has tried to be proactive in reaching out to provide clarification when it could be of use.

We want to be accommodating and helpful, while also respecting the requirements of the 2013 FAO Act. With this in mind, Treasury Board has provided additional information to complement and/or further clarify our responses to the FAO when we've received follow-up requests from his office.

We have also reformatted information into machine-readable charts upon request, when it was possible and consistent with legislation. All requests from the FAO office to the Treasury Board Secretariat have been responded to.

Pan Am Games

98. How much was spent on the games, where does it appear in Public Accounts? And how does your government justify this expense?

These were the largest, most successful Pan/Parapan Am Games ever – creating 26,000 jobs, boosting Ontario's GDP by $3.7B and leaving a lasting legacy that will benefit Ontario for years to come. The economic boost that resulted from the Games acted as a catalyst for economic, social, infrastructure and athletic development and we were proud to host these Games.

Questions related to the Pan Am Games should be referred to my colleague, the Minister of Tourism, Culture and Sport.

Underground Economy

99. How are you ensuring revenue integrity?

A fair and efficient tax system is critical to sustaining public services. The 2014 Budget noted that when businesses aggressively avoid or evade paying taxes, everyone else is left to make up the shortfall, putting the competitiveness of legitimate businesses at risk.

Since 2013–14, the Province has taken concrete measures to help ensure tax fairness and a level playing field for business. These include enhanced auditing and compliance activities, such as a multi-year agreement with the Canada Revenue

Agency to address the underground economy and corporate tax avoidance in Ontario. The Province has also targeted areas at high risk of underground economic activity with pilot initiatives that focus on mitigating unfair and unsafe circumstances for Ontario's workers and consumers.

In total, these efforts have generated an estimated $1.1 billion for Ontario to date. The Province will build on these successful initiatives with new approaches to ensuring revenue integrity.

Remarks by Scott Thompson

Deputy Minister
Ministry of Finance

to the Standing Committee
on Public Accounts

Toronto, Ontario
October 6, 2016

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Thank you, Greg.

Good afternoon everyone.

I'm Scott Thompson, Deputy Minister for the Ministry of Finance.

I'm pleased to be here today, speaking to the Standing Committee on Public Accounts.

[Introduction]

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I welcome the opportunity to discuss how the Province manages its debt through the Ontario Financing Authority.

And to discuss how the government presents its financial information and reports, whether on behalf of the ministry or in co-operation with the Treasury Board Secretariat and others.

The provincial debt and Ontario's financial statements and analysis were two salient points in the Auditor General of Ontario's 2015 annual review of the 2014-15 Public Accounts of Ontario.

Like TBS' deputy minister, I also agree with the Auditor General's recommendations.

Producing high-quality financial reports that meet the needs of the public and legislature is important.

Accurate and accessible information is crucial to accountability and transparency–two priorities for the government and public service.

The Ministry of Finance is proud of its work in these areas, and we will continue to refine and improve our efforts by using best practices.

To add to a point the deputy minister from TBS raised a few minutes ago, the Ministry of Finance takes the requirement to abide by the Fiscal Transparency and Accountability Act, 2004 very seriously.

The act requires the fiscal plan the Ministry develops to include a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense.

The adverse events can include those resulting from changes in Ontario's economic performance.

The reserve has been set at $1.0 billion in 2016–17, $1.1 billion in 2017–18, and $1.2 billion in 2018–19.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve its fiscal plan.

[Deficit Reduction]

I'd like to take a moment to discuss the province's deficit, which plays a role in how Ontario manages the province's debt.

The government has confirmed its commitment to eliminate the deficit by 2017–18.

This includes the 2016 Budget.

The Budget, which was released in February, forecast a deficit of $5.7 billion in 2015–16.

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If that deficit target is achieved, the deficit would be $2.8 billion lower than projected in the 2015 Budget.

It would also mark the seventh year in a row that the province has beaten its deficit target.

And it would represent a $4.6 billion improvement compared to the

2014–15 deficit.

By continuing to beat its fiscal targets, the government's accumulated deficit is $30 billion lower than it otherwise would have been.

The government is achieving these savings by managing program spending growth and by making strategically important financial decisions.

Looking ahead, the government is projecting a deficit of $4.3 billion for 2016-17, a return to balance in 2017–18 and continued balance in

2018–19.

Following the 2016 Budget, the credit rating agency Moody's affirmed its outlook for Ontario's debt and revised the outlook on the ratings to stable from negative.

Moody's said, and I quote, "The stable outlook on the Province of Ontario's ratings reflects our opinion that the province has presented a budget plan with little risk that the debt burden will exceed recent levels." End quote.

Moody’s also forecast Ontario's debt to, and I quote: "fall marginally across the medium-term and, as importantly, for interest expense to remain manageable as well." End quote.

To be sure, while the news from Moody's is positive, it is just one assessment among many third-party analyses.

Indeed, private-sector economists across the board are forecasting Ontario's economy to be among the top two growth leaders in Canada.

[Unlocking Provincial Assets]

The government is using another tool to support growth and create the jobs province wide that strengthen our economy.

That tool is our asset optimization plan—unlocking the value of certain provincial assets.

As you know, in February 2015, the Province sold its remaining shares in General Motors, and in November 2015, the Province completed an initial public offering and related share sales of approximately 16 per cent of the Hydro One common shares.

In April 2016, a secondary offering of 14 per cent of the Hydro One common shares was completed, and the sale of the LCBO head office lands closed in June 2016.

The net revenue gains from these major transactions have been, or will be, credited to the Trillium Trust and will be invested in transit, transportation and other priority infrastructure projects.

As an example, in August 2016, the government filed a regulation crediting the Trillium Trust with $3.2B in connection with the November 2015 initial public offering of Hydro One shares.

These investments will directly create jobs and positive economic spinoffs that further help improve the province's fiscal position.

The ministry is working to be as open and clear as possible when it comes to its management of the public purse.

The government's public communications on the Trillium Trust regulation, the Hydro One public offerings, our Q1 Finances and Ontario Economic Accounts are all concrete examples of these efforts.

Of course, we can do more. And we will.

I'm proud of the efforts being made by the Ministry of Finance and the Treasury Board Secretariat to improve the transparency and accountability reflected in the Public Accounts of Ontario and other financial reports and documents.

We will continue to work with the Auditor General and the Public Sector Accounting Board to support public sector reporting that best serves the needs of the public interest.

I will now turn it over to Gadi Mayman, the CEO of the Ontario Financing Authority.

He will focus on the Auditor General's points about the management of the province's debt.

Thank you.

Gadi….

Friendly Questions

1. Q. Our government has a target for reducing the net-debt-to-GDP ratio. Can you tell us more about the target and how our government is doing in terms of reaching that target?

A. Net debt, as of March 31, 2016, is forecast to be $296.1 billion, $2.8 billion lower than forecasted in the *2015 Budget.* Net debt was $284.6 billion as of March 31, 2015. The net debt-to-GDP ratio is forecast to peak at 39.6 per cent in 2015–16, remain level in 2016–17, and decline to 38.9 per cent in 2017–18 and 38.5 per cent in 2018–19.

Ontario conducts a robust and responsible borrowing program that protects the public interest. The government successfully completed its annual borrowing program in 2015-16, borrowing $32.1 billion. Long-term borrowing for 2016–17 is forecast to be $24.4 billion when factoring in $2.0 billion pre-borrowed in 2015–16. This will be the Province's smallest borrowing program since 2007–08.

As of August 31, 2016, the Province had borrowed $12.5 billion for the fiscal year. Approximately 71per cent of this year's borrowing-to-date has been completed in Canadian dollars. The remainder of the Province's borrowing-to-date has been completed in international currencies primarily through U.S. dollar global bonds, and two small Australian dollar Kangaroo bond issues.

Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The *2010 Budget* forecast that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 2.7 cents lower, at 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through the outlook period in 2018–19.

Term extension has allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

Going back to the beginning of fiscal 2010-11, Ontario has issued $59.1 billion of bonds longer than 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.6 years as of August 31.

2. Q. Noting that a key indicator of the government's ability to carry its debt entails examining the level of debt relative to the size of the economy, can

you please explain further what the forecasted net debt-to-GDP ratio is for Ontario?

What effect does this have on the government's commitment to balancing the budget by 2017-18?

A. The Province's net debt-to-GDP ratio is expected to peak in 2015–16 at 39.6 per cent, remain unchanged in 2016–17 and begin to decline in 2017–18.

The government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level. Net Debt increases primarily for two reasons: to finance deficits and invest in capital assets. In the first few years after the global recession in 2008–09, the increase in net debt was primarily due to the deficit. However, the government is on track to eliminate the deficit and balance the budget by 2017–18. Once a balanced budget is achieved, the increase in net debt will be limited to the net investment in tangible capital assets.

3. Q. Why was the deficit lower than projected? Where does the government stand when it comes to reaching a balanced budget?

A. Since the last time the Office of the Auditor General reviewed these statistics in its 2013 Annual Report, the province's net debt-to GDP ratio has improved from 39.1 per cent to 38.6 per cent for 2013-14 and remained relatively unchanged for 2014-15 at 40.1 per cent. This improvement is a direct result of better than forecast deficits, although the ration for the out years has been impacted, primarily by decreases in the GDP forecast.

With regard to debt management, the government's support for and commitment to economic growth will maintain debt at sustainable levels and achieve its target of reducing the net debt-to GDP ratio to the pre-recession level of 27 per cent.

The province has consistently beaten its annual deficit targets over the last five years, resulting in borrowings and accumulated deficits that are $ 25 billion lower that they would otherwise have been. A major contributor toward beating annual deficit targets has been the focus on annual expenditure management limiting the growth in program spending to an average of 1.5 percent from 2010-11 to 2013-14. The government has also addressed Ontario's infrastructure needs through targeted capital investments.

4. Q. Chapter 2 of the Auditor General's 2015 annual report speaks to the increased vulnerability of Ontario with respect to interest rates. She points to the possible rise in rates related to borrowing.

However, I am also aware that the Province has consistently kept interest on debt costs below budget projections.

What steps has the government taken to reduce borrowing and keep interest on debt costs low?

A. Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents on interest for every revenue dollar received. The current forecast is 23 per cent lower, at 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992–93 to 2005–06, and is forecast to remain lower through the period to balance in 2017–18.

Extending the term of the debt that the Province issues has locked in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

Going back to the beginning of fiscal 2010–11, Ontario has issued $59.1 billion of bonds that do not mature for at least 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.6 years as of August 31.

5. Q. The stranded debt arose under the *Energy Competition Act of 1998*, and its schedule, the *Electricity Act, 1998*. The *Electricity Act, 1998*, also enabled the implementation of the Debt Retirement Charge (DRC) on electricity ratepayers.

Since May 2002, residential and other electricity users have been paying the DRC of 0.7 cents per kilowatt hour (kWh) on their electricity bills. The DRC is paid to the Ontario Electricity Financial Corporation (OEFC) to help service and pay down the stranded debt that arose because of the restructuring of Ontario's electricity sector under the *Energy Competition Act, 1998*.

However, I know that the government eliminated the DRC from residential bills as of January 1, 2016.

This legacy charge from the Harris government was eliminated from residential bills about 2 years earlier than previously estimated – saving the average residential user about $70/year.

Can you please inform the committee of the commitment that the government has to eliminating the debt retirement charge cost for commercial, industrial and all other electricity users by 2018?

A. Thank you for the question.

As part of its commitment to reduce electricity cost pressures, the government has removed the Debt Retirement Charge (DRC) from residential electricity users' bills as of January 1, 2016.

This would save a typical residential user about $70 each year and meant ending the DRC earlier for these users than otherwise provided for in the *Electricity Act,*

1998, as originally enacted. As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act, 2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.

- A large industrial using 3,000 megawatt-hours (MWh) per month could save $21,000 per month, or about seven per cent off its electricity bills;

- For a large northern industrial in the Northern Industrial Electricity Rate program, this could be more than an eight per cent savings; and

- A small business using 20,000 kilowatt-hours (kWh) per month could save $140 per month, or about four per cent.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

I would note the following context. The government's electricity sector reforms in the Electricity Restructuring Act, 2004, and others, have put the stranded debt recovery plan back on track. Based on interim numbers in Budget 2016, this is projected to be the twelfth consecutive year that the stranded debt has been reduced, to under $5 billion as at March 31, 2016, from $20.6 billion as at March 31, 2004. This allowed the government to follow through on its commitment to reduce electricity cost pressures.

6. Q. Deputy Minister Orencsak, you mentioned that the C.D. Howe Institute has given positive feedback about the government's reporting practices. Why is that significant?

A. The C.D. Howe document "By the Numbers: The Fiscal Accountability of Canada Senior Governments, 2015" notes that Ontario along with Ottawa have "long stood out for relatively good financial presentations. " When evaluating the reporting practices and fiscal documents across Canada, the document rated Ontario an "A" grade.

The "A" grade was based on presentation criteria, as well as timeliness in their reporting schedule and timeliness of the public accounts audit. Ontario's public accounts and budget exhibited the following positive qualities per the C.D. Howe institute:

1. PSAB-consistent revenue and spending balances in public accounts
2. Revenue and spending figures that match the earliest budget figures in public accounts
3. Prominent comparison of actual results with budget plans
4. Estimates on the same bases as the budget and public accounts
5. The Province provides interim reports toward Budget targets and

6. No major audit reservations in public accounts.

Ontario and several other provinces were praised for having their budgets prepared on the same accounting basis as their end-of-year public accounts. In having budget and public accounts on the same basis, Ontario and the other such provinces have increased transparency and comparability to their citizens.

7. Q. Everyone has been doing more with less, and that includes the government. For example there are 6% fewer full time employees in the civil service now, compared to 2008. What else is the government doing to ensure its bringing costs down? What results have been achieved so far?

A. The Ontario Economic Outlook and Fiscal Review in fall 2014 announced Program Review, Renewal and Transformation (PRRT) as a key element of the government's plan to achieve a balanced budget.

PRRT is a fundamentally new approach to multi-year planning and budgeting, and is designed around four key principles:

- Examining how every government dollar is spent
- Using evidence to inform better choices and improve outcomes
- Looking across government to find the best way to deliver services, and
- Taking a multi-year approach to find opportunities to transform programs and achieve savings.

At the same time, the government is making tough choices to end programs that are not performing, do not link to key priorities or no longer serve a clear public interest.

The 2014 Budget announced that the government was implementing an annual program review savings target, and set the target at $250 million for 2014-15. The target was met through a number of initiatives that achieved the reductions while continuing to support front-line services.

An additional year-end savings target of $1.1 billion built into the plan was also achieved.

The government met its program review savings target through initiatives such as:

- Negotiating lower prices for goods and services
- Finding internal efficiencies in information technology data centre, desktop and service management operations
- Modernizing the delivery of natural resources management programs

- Restraining compensation growth in line with the government's "net zero" policy

- Finding operational and administrative efficiencies across government, including reducing the government's office footprint and prudent management of discretionary costs, such as supplies and travel.

In the 2015 Budget, the government announced a number of opportunities identified through PRRT to improve outcomes while supporting fiscal objectives. They included:

- Changing business tax credits

- Modernizing programs delivered through ServiceOntario

- Reducing the government's office footprint

- Getting better value for money invested in health care programs and services.

8. Q. Why is it important that the government has consistently beaten its deficit reduction targets in terms of the province's finances?

A. The government is dedicated to a fiscally sound approach to managing the Province's finances, which will provide the foundation for the long-term well-being and prosperity of Ontarians.

The government remains on track to eliminate the deficit by 2017-18. By continuing to beat our fiscal targets, Ontario's accumulated deficit is $30 billion lower than it otherwise would have been.

Through prudent and cost-effective debt management, the Province has also consistently kept interest on debt costs below budget projections.

Term extension has allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

In addition, we have maintained a rigorous approach to control program spending to reduce Ontario's net debt-to-GDP ratio to its pre-recession level.

Our path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

Our plan is to first balance the budget while continuing to make strategic investments in capital assets. These infrastructure investments will stimulate economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio.

9. Q. There's been concern about Ontario's net debt-to-GDP being significant; however the government is making large-scale infrastructure investments. How are these investments helping the people of Ontario?

A. The government's position is that the renewal and expansion of public infrastructure supports Ontario's industries, creates jobs and provides long-term benefits and improves the lives of Ontarians.

Large investments have been announced and made for improvements in the province's infrastructure. The province is making public infrastructure investments of more than $137 billion over the next 10 years. This builds on the 2014 Budget commitment to invest in infrastructure – resulting in about $160 billion of investment over 12 years, starting in 2014-15.

The revenues allocated to the Trillium Trust will be used to support building transit, transportation and other priority infrastructure as part of the Moving Ontario Forward plan.

A September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

Ontario's planned investments in public infrastructure are expected to support over 110,000 jobs per year on average.

Building and revitalizing public infrastructure are essential to strengthening Ontario's economy.

10. Q. Given that compensation accounts for half of government spending, what has the government done to help alleviate the strain on finances as it works toward balancing its budget?

A. The government remains committed to balancing the budget by 2017-18 and managing compensation costs has been a key element of achieving this goal.

The 2016 Budget emphasized that all public-sector partners must continue to work together to control current and future compensation costs.

Since then, collective agreements have been reached in a number of key sectors, including the education sector, Ontario Public Service and provincial energy corporations that are consistent with the government's fiscal plan.

From July 2012to September 2016, the provincial public sector annual wage increases have averaged 0.6%, compared to the municipal sector at 1.7%, the private sector at 1.9% and the federal public sector in Ontario at 1.7%.

The Government has achieved a number of net-zero deals, including:

In August 2014, the Government reached a new net-zero four-year agreement with AMAPCEO, which produced savings of approximately $45 million. The agreement included zero across-the-board increases in the first two years and modest increases in the third and fourth years that were offset by savings elsewhere in the collective agreement.

On Oct. 30, 2015, the Government ratified a new net-zero three-year agreement with the Unified Bargaining Unit in OPSEU.

The Unified agreement includes no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4 per cent one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4 per cent pay increase.

The agreement is consistent with the fiscal plan. The lump-sum payment in 2016 and pay increase in 2017 are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

In May of 2016, the government was able to achieve a net-zero negotiations and arbitration settlement outcome with OPSEU Corrections.

The government has a reached a tentative agreement with the Provincial Engineers Government of Ontario (PEGO) that still needs ratification by members. As such we cannot comment on the details of this deal.

11. Q. There are changes ahead for retiree benefits, how will they help the government's bottom line and how do they compare with what is happening in the private sector? How important are these kinds of changes to our plan to balance the budget?

A. Currently, persons in receipt of a pension from the Public Service Pension Plan (PSPP) or OPSEU Pension plan who have a minimum 10 years of pension credit are entitled to post-retirement group health, dental and life insurance coverage. The Ontario government pays 100% of monthly premium costs.

On Feb. 18, 2014, the government announced that the post-retirement benefits eligibility criteria and cost-sharing terms would be changing in 2017.

PSPP and OPSEU Pension Plan member employees who do not have 10 years of pension credit as of Jan. 1, 2017 would be required to have at least 20 years of pension credit to retire to an immediate unreduced pension in order to be eligible for post-retirement benefits.

Also, eligible persons who have not commenced receiving a pension before Jan. 1, 2017, would be required to pay 50% of the life, health, dental and vision and hearing aid premiums.

Employees who commenced receiving a pension before Jan. 1, 2017 will not be affected by these changes.

Announcement of the changes led to a reduction of the retiree benefit program liability by over $1 billion and brings Ontario Public Service retiree benefits more in line with other public sector organizations.

Some other public sector workers pay 100% of their benefits premiums.

Eligible retirees include former employees of the OPS, as well as former employees of other employers which participate in the OPS pension plans.

Retired judges, justices of the peace and Ontario Provincial Police Association (OPPA) members have independent retiree benefit terms.

By transitioning to a new cost-sharing model for retiree benefits, the government is moving in line with the private sector and other public sector organizations.

12. Q. The Auditor General identifies significant accounting issues related to her audit of the Province's consolidated financial statements. Some of the issues are related to accounting standard changes. Since both Ontario's budget and actual results are based on PSAB accounting standards, such changes could impact the transparency and accountability of the government's financial reports as well as fiscal policy decisions. Can you please describe if these issues are ongoing and what has been done to rectify them?

How long will it be before this is resolved?

A. As your question points out, in addition to adopting PSAB as the basis to present its actual results, Ontario has also made a **policy decision** to adopt PSAB as the basis for the government's fiscal planning process which means that changes in PSAB's accounting standards can implicitly impact fiscal policy decisions.

As has been mentioned already, the **CD Howe Institute** has given Ontario an "A" grade for the quality of our financial reporting, based on a number of factors

including the fact that we present PSAB-consistent revenue and spending balances in public accounts, and the timeliness of our reporting schedule. The fact that the actual results have been independently audited by the AG and that we have received unqualified audit opinions over the past 22 years now, means that the public and legislature can rely upon the results reported by the government.

There is tremendous value in **independently established accounting standards**, and especially for standards which are prepared taking the unique accountability and transparency needs of the public sector in mind. In this regard, Ontario has continued to support the public sector accounting standard setting process. Input to the process by stakeholders is critical to ensure high-quality standards which meet user needs and which serve **the public interest.** And we take this responsibility very seriously.

Ways that we support the standard setting process include:

- **Monitor communications** from the Public Sector Accounting Standards Board related to upcoming projects to identify potential areas of interest/concern
  Similarly, we also monitor accounting standard developments which may impact our **GBEs** (for example, potential changes in standards impacting OLG, LCBO, H1 or OPG).

- Attend as **observers meetings of the Accounting Standards Oversight Council** to hear presentations by the Chair of the Public Sector Accounting Board and the Accounting Standards Board related to current projects and issues that they are dealing with. In the past we have had Deputy Minister representation on the Oversight Council with specific background in fiscal policy (Phil Howell). Such participation helped to ensure a more robust discussion of potential standard changes on governments.

- Participation by past **Provincial Controllers** as members of the Public Sector Accounting Standards Board. For example, our recently retired ADM and Provincial Controller, Murray Lindo, still sits on PSAB, although his 3 year term will be coming to an end next March. Although this position requires that the individual represent himself and his own views (and not represent the views of the government), it is nonetheless valuable to have a voice at the table to ensure that the real impacts of any potential changes on the quality of financial information are identified and discussed. It has been valuable for example to know that the continuing debate about Financial Instruments and Government Transfers is informed by both the accounting and fiscal perspective that Ontario's Provincial Controller would bring to the table.

- Ontario provides **input to PSAB's strategic plan** to help inform decisions on key areas that PSAB should focus.

- We also provide **input on an individual project by project** basis for each standard change that PSAB issues for comment. Occasionally, such projects could require several responses over the course of the project. For example, the PSAB standard on government transfers took 9 years to develop and input continues to date as part of PSAB's on-going review of issues related to the consistency of application related to the standard.

- Occasionally, we **stakeholder with PSAB staff** on specific matters like concerns related to the Financial Instruments standard. In this case staff from both OPCD and the OFA participated in discussions with PSAB.

- We **observe PSAB Accounting Discussion Group** meetings to hear representatives from the Board, audits and preparers discuss specific issues identified by public sector entities.

- Depending on the significance of a particular item, **Ontario has often played the lead in championing inter-jurisdictional dialogue and joint action plans** to support the quality of PSAB's standard setting process. For example, the OFA has collaborated with other members of the Canadian borrowing community to compile analysis and feedback to PSAB on its Financial Instruments standard. A past DM of Finance (Colin Anderson) Co-Chaired an inter-jurisdictional PSAB/Deputy Minister of Finance Joint Working Group which was formed in 2007 in light of key concerns being raised by governments related to PSAB's direction.

- Most recently, Ontario is **Chairing a Fiscal Expert Panel** which will be meeting later this week to discuss PSAB's current project on its Conceptual Framework in an effort to gather views and valuable input to share with PSAB on this foundational and critically important project. The outcome of the project will influence the direction of future public sector accounting standards.

This list is **not exhaustive**, but I hope that it gives you the sense of the significant time and effort that Ontario invests in supporting the quality of public sector reporting. We are committed to meeting user needs for transparency and accountability in public sector reporting. We will continue to invest the time and effort required to provide valuable input to PSAB's standard setting process.

13. Q: Moody's just released a report noting that Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy. Can you explain how your conservative debt management policies are keeping debt service costs manageable?

A: According to Moody's, "low interest rates will keep interest costs in line with current levels." Moody's also states that "Ontario's strategy of issuing debt across a variety of maturities and markets helps ensure good access to funding and low financing costs. To protect against unfavorable market conditions, Ontario has in recent years increased its liquidity reserves. The province has also extended its weighted average debt maturity to take greater advantage of low interest rates."

This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs.

The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. Currently, the Province spends 8.5 cents of every revenue dollar on interest, 3.5 cents lower than what was forecast in 2010.

This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through the outlook period in 2018–19.

14. Q: Moody's just released a report noting that Ontario's policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices has helped to support the province's Aa2 rating. Can you explain how borrowing for infrastructure helps support the province's credit rating?

A: According to Moody's although Ontario's debt will continue to increase over the medium term as it funds its 10-year infrastructure plan "any negative impact on the province's credit strength will be counterbalanced by rising revenues and a return to budgetary balance."

The government plans to invest more than $137-billion in capital over 10 years, and $160 billion over the 12-year period starting in 2014-15.

Investments in capital, supplement GDP growth and the net debt-to-GDP ratio will come down more quickly than it would without these investments. Once a balanced budget is achieved, the increase in net debt will be limited to difference between the cash investment to build the assets and the amortization, which is a non-cash amount.

WSIB QAs from last year – WSIB to review and advise.

15. Q. The Auditor General has discussed the WSIB in her report for a couple of years, suggesting that the government reconsider the exclusion of the WSIB's financial results from the Province's consolidated financial statements. Her suggestion is based on the risk that the province might have to provide funding to ensure the WSIB remains viable. Why hasn't the government consolidated the WSIB on its books?

A. Under public sector accounting standards the province only consolidates those organizations which are assessed as controlled. Where province has the power to govern the financial and operating policies of an entity with expected benefits of risk or loss, it is consolidated on our books. This is not the case with the WSIB, and furthermore the Province doesn't have any legal liability for the debts of the WSIB.

In fact, the WSIB is really a non-controlled trust in nature, and such trusts are not consolidated on the basis that it would distort the Province's books if the trust's assets, liabilities, revenues and expenses were shown on our books. Since the government does not have any legal responsibility for the unfunded liability, and does not control the entity, we feel that it should remain non-consolidated.

The current exclusion of the entity from our books best serves transparency and accountability. Otherwise, the public and legislature would assume that the WSIB debt is taxpayer debt and that any net operating income/loss of the WSIB would somehow impact the taxpayer.

16. Q: What progress has the WSIB made on its target to be fully funded by 2027?

17. Q: Can you please give us an update on the status of the WSIB review of its long term financial viability?

Remarks by Gadi Mayman

CEO

Ontario Financing Authority

to the Standing Committee

on Public Accounts

Toronto, Ontario

~~September 21~~October 5, 2016

Word count: 835~~740~~

Check against Delivery

Thank you, Deputy Minister Thompson and Deputy Minister Orencsak.

Good afternoon.

My name is Gadi Mayman, and I am the Chief Executive Officer of the Ontario Financing Authority.

In this role, I am responsible for overseeing Ontario's:

- borrowing and debt management strategy;
- corporate and electricity finance projects and;
- banking relationships.

I also manage the province's relationships with credit rating agencies, bond underwriters and investors.

Before I continue, I would like to thank the committee for the opportunity to discuss what we have been doing to address the points raised by the Auditor General regarding Ontario's debt.

[Net debt]

The government is committed towards ~~target continues to be to~~ reducinge the net debt-to-GDP ratio to its pre-recession level.

A government's net debt increases primarily for two reasons: to finance its deficits and invest in capital assets.

In the first few years after the global recession in 2008–09, the increase in the province's net debt was primarily due to Ontario's deficit. Over this period the Government continued investing in much needed improvements to the Province's capital infrastructure.

The government plans to invest more than $137-billion in capital over 10 years, and $160 billion over the 12-year period starting in 2014-15.

Investments in capital, supplement GDP growth and the net debt-to-GDP ratio will come down more quickly than it would without these investments.

~~Ontario's deliberate choice to invest in the economy during the recession~~
~~Once balance is achieved, the increase in Ontario's net debt will be limited to its net investment in tangible capital assets.~~
This means that achieving balance will put net debt-to-GDP on a declining track.

Moody's notes in a report issued October 3, 2016 that Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy.

The report also states, "The policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices outlined above, has helped to support the province's Aa2 rating."

[

Ontario conducts a robust and responsible borrowing program that protects the public interest.

In 2015–16 the government successfully completed its annual borrowing program, borrowing $32.1 billion.

As of September 30, ~~August 31,~~ 2016, the province has borrowed $13.3 billion of its
$24.4 billion requirement for fiscal 2016–17.

The recently released 2015-16 unaudited Financial Statements of the Province included a legislated pension adjustment that increased net debt by $10.7 billion.

The pension adjustment was non-cash and does not impact either the Province's total debt or its borrowing requirements.

Through prudent and cost-effective debt management, Ontario has consistently kept interest on debt costs below budget projections.

Employing term extensions has allowed the Province to lock in low interest rates for longer periods, which has reduced Ontario's refinancing risks.

It also helps offset the impact of expected higher interest rates on the interest-on-debt costs.

As of ~~August 31,~~September 30, 2016, the average term to maturity for new borrowing in 2016–17 was 15.~~6~~3 years.

In fact, since 2010 Ontario has issued $59.1 billion of bonds longer than 30 years' duration to lock in low rates.

As a result, we have extended Ontario's weighted-average term to maturity of long-term provincial debt significantly.

In 2009-10 it was 8.1 years; last year it was 14.2 years.

As I mentioned a moment ago, it was 15.~~6~~3 years as of September 30th ~~August 31~~ this year.

The 2010 Ontario Budget forecast that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar on interest.

Currently, the Province spends 8.5 cents of every revenue dollar on interest, ~~The current forecast is~~ ~~2~~3.~~7~~5 cents lower than what was forecast in 2010. ~~We are currently tracking at nine cents of every revenue dollar.~~

This ratio is the lowest~~r than it h~~was been since ~~in the~~ 1990~~s and 2000s~~, and is forecast to remain low~~er~~ through the outlook period in 2018–19.

The Province takes a very prudent approach to managing the risks associated with its borrowing program.

Ontario limits itself to a maximum net interest rate resetting exposure level of 35 per cent of debt issued for provincial purposes.

It also limits itself to a maximum foreign exchange exposure level of five per cent of debt issued for provincial purposes.

As of September 30, ~~July 31,~~ 2016, the actual values for Ontario's net interest rate resetting exposure and~~-~~ foreign exchange exposure were 10.6 ~~9.35~~ per cent and 0.33 per cent, respectively.

As you can see, this is well below the policy limit levels.

The Province will remain flexible in its borrowing approach.

The approach includes monitoring all major markets and seeking the most cost-effective means, over the long term, to finance Ontario's borrowing program.

It also includes reaching out to investors and investment banks, domestically and globally, to ensure that Ontario bond issues remain highly attractive, liquid and sought after, as they have been since Ontario began accessing public markets almost 25 years ago.

I am happy to answer any questions you may have.

Questions and Answers

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OFFICE OF THE BUDGET

Q. Will you still be able to balance if Ontario's economy does not perform as strongly as you forecast? Even the FAO has said that your forecast is optimistic.

A. The government is dedicated to a fiscally sound approach to managing the Province's finances, and remains committed to balancing the budget in 2017-18 and 2018-19.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries.

While uncertainty in the global economy has increased, along with increased volatility in global financial and currency markets, Ontario has a diversified economy – meaning the Province is well positioned to respond to changing global economic conditions.

From a fiscal planning perspective, Ontario incorporates prudence in its projections.

- As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan incorporates includes a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2016–17, $1.1 billion in 2017–18, and $1.2 billion in 2018–19.

- The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

With the economy expected to continue to growth, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve balance.

Q. From your perspective, why is it important that the government has consistently beaten its deficit targets, in terms of the province's finances?

A. The government remains committed to balancing the budget by 2017-18 and is taking deliberate and responsible steps to achieve this goal.

The government recognizes that a fiscally sound approach to managing the Province's finances will:

- Provide the foundation for the long-term well-being and prosperity of Ontarians; and

- Protect the public services that Ontarians rely on.

For 2015-16, Ontario is on track to beat its deficit target for the seventh year in a row. By continuing to beat its fiscal targets, Ontario's accumulated deficit is $30 billion lower than it otherwise would have been.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

OFFICE OF ECONOMIC POLICY

Revenue Questions and Answers

2014-15 Actual Vs. 2015 Budget Interim

	2015 Budget Interim ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	82,654	82,275	-379	-0.5
Government of Canada Transfers	21,713	21,615	-98	-0.5
Income from Government Business Enterprise	5,311	5,615	304	5.7
Other Non-Tax Revenue	8,839	9,041	202	2.3
Total Revenue	**118,517**	**118,546**	**29**	**0.0**

Q. Can you explain the $29 million increase in revenue since your 2015 Budget?

A. The modest $29 million improvement in revenues is largely due to higher net income of Government Enterprises and revenues from Other Non-Tax Revenues mainly offset by lower Taxation Revenues and Federal Payments.

- Net income from Government Enterprises is $304 million higher mainly due to higher revenue from OPG (including favourable nuclear fund financial market performance) and OLG's higher numbers of large jackpots late in the fiscal year.
- Higher Other Non-Tax revenues of $202 million came from a variety of sources, including consolidated agencies and electricity sector.
- Taxation revenues are $379 million lower largely due to lower Corporations Tax revenue (-$591M) partially offset by higher Personal Income Tax revenue (+$285M).
- Lower Federal Payments (-$98M) is largely due to a decline in transfers to consolidated government agencies.

Q. **Why are Taxation revenues $379 million below your Interim estimate?**

A. Most of the weakness in Taxation revenues is due to lower Corporations Tax (-$591M) because 2014 corporate profits turned out to be lower than estimated at the time of the 2015 Budget. This is partially offset by higher Personal Income Tax revenue (+$285M) based on results from the processing of tax returns for 2014 and prior years.

2014-15 Actual Vs. 2014 Budget Plan

	2014 Budget Plan ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	83,365	82,275	-1,090	-1.3
Government of Canada Transfers	21,882	21,615	-267	-1.2
Income from Government Business Enterprise	5,026	5,615	589	11.7
Other Non-Tax Revenue	8,598	9,041	443	5.2
Total Revenue	**118,871**	**118,546**	**-325**	**-0.3**

Q. Why are revenues $325 million lower than your 2014 Budget projection?

A. Revenues were $325 million below the 2014 Budget Plan largely due to lower Taxation revenues and lower Federal Payments partially offset by higher net income from Government Business Enterprises (mainly OPG) and higher Other Non-Tax Revenues.

- Taxation revenues were $1,090 million lower and Federal Payments were $267 million weaker than projected.
- Partially offset came from higher net income from Government Business Enterprises (+$589M) and Other Non-Tax Revenues ($443M).

Q. What accounts for the $1,090 million decrease in Taxation revenues from your 2014 Budget projection?

A. Taxation revenues were $1,090 million lower due mostly to lower Corporations Tax (-$697M) and lower Sales Tax (-$248M).

- The $697 million decrease in Corporations Tax revenue is due mainly to lower 2014 profits, lower 2013 corporate income tax assessments and higher refunds to corporations for years prior to 2009.
- The $248 million decrease in Sales Tax Revenue is due largely to revisions to HST entitlement estimates for 2013 and prior years.

Q. **Why were Federal transfers $267 million lower than your 2014 Budget projection?**

A. Lower Federal transfers were largely due to revised timelines for Building Canada Fund projects and lower transfers to government agencies, including Agricorp and Toronto 2015. These lower transfers are largely offset by lower spending associated with these transfer programs.

Q: How did net income from Government Business Enterprises increase by $589 million from your 2014 Budget projection?

A: This was mostly attributable to Ontario Power Generation Inc., reflecting lower operating costs and better financial market performance of its nuclear funds.

Q: What accounts for the $1.1 billion decrease in taxation revenues from your 2014 Budget projection?

A: Taxation revenues were $1.1 billion lower due largely to lower corporations tax revenue (-$0.7 billion) and lower sales tax revenue (-$0.2 billion).

- Lower 2013 corporate income tax assessments resulted in a higher repayment to the Canada Revenue Agency for amounts already paid to the Province for the 2013 tax year and, refunds to corporations for tax years prior to 2009 were also higher.
- Sales tax revenue was lower due to revisions to harmonized sales tax entitlement estimates for 2013 and prior tax years.

2014-15 Actual Vs. 2013-14 Actual

	2013-14 Actual ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	79,966	82,275	2,309	2.9
Government of Canada Transfers	22,276	21,615	-661	-3.0
Income from Government Business Enterprise	5,337	5,615	278	5.2
Other Non-Tax Revenue	8,331	9,041	710	8.5
Total Revenue	**115,911**	**118,546**	**2,635**	**2.3**

Q: How did revenues perform in 2014-15 compared to 2013-14?

A: In 2014-15, revenues increased by $2.6 billion or, or 2.3 per cent, from 2013-14.

- Taxation revenue increased by $2.3 billion over the previous year. The increase was across most taxation revenue sources, partially offset by a $1.9 billion decrease in Corporations Tax reflecting adjustments in respect of prior years.
- The combined net incomes of Government Business Enterprises were up $0.3 billion from the previous year.
- Federal Payments declined by $0.7 billion mainly because of a reduction in Equalization Payments, partially offset by increased health and social transfers
- Other Non-Tax revenue increased by $0.7 billion largely due to the gain of the sale of the Province's remaining General Motors shares during 2014-15.

Q: **Why is year-over-year growth in Taxation revenue 2.9 per cent when nominal GDP growth was 3.6 per cent?**

A: Growth in Taxation revenue of 2.9 per cent is lower than 2014 nominal GDP growth of 3.6 per cent largely due to a $1.9 billion decrease in Corporations Tax reflecting prior year adjustments. This included:

- a repayment of -$1.3B, due to a Federal government overpayment of 2013 corporate income tax during 2013, and
- a projected repayment to the Federal government of $0.5B for an overpayment to the Province for the 2014 tax year.

Q: **What explains the fairly strong year-over-year growth in Personal Income tax revenues of 8.9 per cent?**

A: The higher Personal Income Tax revenues growth reflects growth in personal incomes as well as the impact of the high-income measure introduced in the 2014 Budget and the net impacts of one-time prior-year adjustments in both 2013-14 and 2014-15.

Q: **Given the recent poor results for Quebec and California allowances auctions, is the Government still expecting to meet revenue targets set out in the 2016 Budget?**

A: The poor auction results suggest a risk to cap and trade revenues. However, it is too early to determine what actual impact on revenues will be.

In three joint WCI auctions held so far in 2016, allowances have gone unsold.

- In February, 94% of the allowances offered by Quebec were sold; California sold 95% of the total allowances it offered.
- In May, both Quebec and California sold about 11% of the total allowances they each offered.
- The August auction performed relatively better though still undersubscribed, selling 35% of offered allowances.

It is possible, however, that emitters are holding off on buying allowances until they get closer to the end of the compliance period (current compliance period from 2015 through 2017).

The uncertainty related to legal challenges to California`s cap and trade program may have contributed to the poor sale of allowances at the May and August auction. In joint auctions prior to 2016, all the allowances that were offered for sales were sold.

Ontario is planning to hold stand-alone auctions starting in March 2017 before linking with California and Quebec in 2018. Initial stand-alone auctions could result in a higher-than-WCI domestic carbon price.

The medium-term revenue outlook includes projected cap-and-trade proceeds from the auctioning of carbon allowanced beginning in 2017. The current estimate for proceeds is:

- $478 million in 2016-17; and
- Between $1.8 billion and $1.9 billion annually starting in 2017-18.

Revenue Forecasting Unit, Economic and Revenue Forecasting and Analysis Branch, OEP

Contact: Bruno Amara (325-0766)

ONTARIO FINANCING AUTHORITY

Friendly Questions

Debt Burden

~~**Q. Our government has a target for reducing the net-debt-to-GDP ratio.**~~

A: Investor demand has allowed the Province to extend the term of its debt in recent years and lock in low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs.

The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 23 per cent lower, at only 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992–93 to 2005–06, and is forecast to remain lower through the period to balance in 2017–18.

Q: Moody's just released a report noting that Ontario's policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices has helped to support the province's Aa2 rating. Can you explain how borrowing for infrastructure helps support the province's credit rating?

A: We are making the biggest investment in public infrastructure in Ontario's history. We have a plan to invest more than $137 billion over the next 10 years, or about $160 billion over 12 years, starting in 2014–15. This is a strategic investment will grow the economy and create jobs.

Our plan is to first balance the budget while continuing to make strategic investments in capital assets. These infrastructure investments will stimulate economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio.

With capital investments, the net debt-to-GDP ratio will come down more quickly than it would have without these investments in capital assets.

Capital investments are amortized over the useful life of the assets. Once a balanced budget is achieved, the increase in debt will be limited to the difference between the cash investment to build assets, and the amortization, which is a non-cash amount.

This historic investment in public infrastructure is critical to Ontario – today and tomorrow. From an economic perspective – these infrastructure investments will certainly pay off. Our investments will support an average of 110,000 jobs per year in Ontario, as well as creating significant GDP growth.

Interest Rates

Q. Chapter 2 of the Auditor General's 2014 annual report speaks to the increased vulnerability of Ontario with respect to interest rates. She points to the possible rise in rates related to borrowing.

However, I am also aware that the Province has consistently kept interest on debt costs below budget projections.

What steps has the government taken to reduce borrowing and keep interest on debt costs low?

A. Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents on interest for every revenue dollar received. The current forecast is 23 per cent lower, at 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992–93 to 2005–06, and is forecast to remain lower through the period to balance in 2017–18.

Extending the term of the debt that the Province issues has locked in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

Going back to the beginning of fiscal 2010–11, Ontario has issued $59.1 billion of bonds that do not mature for at least 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.3~~6~~ years as of ~~August 31.~~September 30.

Financial Instruments Standard

Q. I understand that proposed new standards by the Public Sector Accounting Board on Financial Instruments would affect interest on debt. Would it also affect other financial indicators of the provincial government?

A. The use of financial indicators helps the public and other readers of the Annual Report assess the financial health of the Province. Through the indicators' levels and trends, readers are able to gauge the impacts of economic and other events on the Province's finances, as well as how the government is responding to these.

The Public Sector Accounting Board's (PSAB) new standard on Financial Instruments, if implemented in its current form, would have a significant impact on how the Province uses derivatives to convert its current exposure in foreign currency debt into Canadian-dollar obligations. The proposed standard, which does not allow for hedge accounting, would introduce significant and difficult-to-forecast volatility in the accounting treatment of the Province's IOD, net debt and deficit. This is contrary to the current PSAB standard, comparable international and U.S. accounting standards, and Canadian private-sector accounting standards, all of which allow for hedge accounting.

Update to 2016 Budget, as of July 31, 2016

- The Province used derivatives to hedge approximately 98 per cent of its $61 billion in foreign currency debt into Canadian dollars.
- While $43 billion of this hedging would remain unaffected under the new standards, IOD and the deficit would become subject to significant swings entirely due to the type of derivative used on the remaining $18 billion.
- The derivative instruments used to hedge this $18 billion currently provide savings of up to 35 basis points, or over $60 million annually, relative to the cost of instruments that would otherwise have to be used under the new standard to eliminate volatility.
- From April 1st, 2016 to July 30th, 2016, the Canadian dollar depreciated by 0.7 cents against the U.S. dollar. Under the new standard, this would have resulted in a $1.3 billion accounting impact to the Province's IOD and deficit.

Ontario, supported by the borrowing communities of the majority of the provinces, has communicated its outstanding concerns with the standard to PSAB. It has requested that PSAB consider hedge accounting as an option, in line with comparable international, U.S. and Canadian private-sector accounting standards. This approach would eliminate the potential accounting swings in IOD, the deficit and net debt. This would allow Ontario to continue to use the most economically efficient means of hedging its foreign exchange exposure and also ensure that the Province's financial results reflect the economic substance underlying its use of derivative instruments.

Borrowing and Debt Management – General

Q. Why was total long-term public borrowing $32.1 billion in 2015–16 when the deficit was $5.7 billion?

A. In addition to financing the deficit, long-term public borrowing refinances debt maturities and debt redemptions, funds the Province's investments in capital assets, and loans to agencies. The Province also pre-borrowed $2.0 billion of its 2016-17 requirements.

~~**Q. Why did the Net Debt-to-GDP ratio decline to 39.6 per cent at the end of**~~ **approximately $1,753 for every person in Ontario. When will the Province eventually run into a debt wall like Greece, Portugal and Ireland and be forced to raise taxes and cut services?**

A. There is strong demand for Ontario bonds in both the domestic and international markets. Last fiscal year Ontario was able to borrow $32.1 billion in long-term debt while our spread, or the margin that we have to pay over the equivalent Government of Canada bond, tightened, indicating ongoing strong demand for Ontario bonds.

We expect that the liquidity of Ontario benchmark bonds and continuing confidence in the value of Ontario debt will allow us to cost-effectively complete the 2016–17 borrowing program. As of ~~August 31~~September 30, 2016, $13.3~~2.5~~ billion or 54~~1~~ per cent, of this year's long-term borrowing requirement has been completed.

Q. Has it been difficult to complete the Province's borrowing program?

A. The Province continues to have steady access to both domestic and international bond markets. As of ~~August 31~~September 30, 2016, the Province had borrowed $13.3~~2.5~~ billion for the fiscal year. Approximately 69~~71~~ per cent of this year's borrowing-to-date has been completed in Canadian dollars. The remainder of the Province's borrowing-to-date has been completed in international currencies primarily through U.S. dollar global bonds, and two small Australian dollar Kangaroo bond issues. In 2015–16, the Province borrowed $32.1 billion, with $2.0 billion in pre-borrowing.

Q. What is the difference between total debt, net debt and accumulated deficit?

A. Total debt represents all borrowing.

Net debt is all borrowing plus other liabilities, minus the Province's financial assets.

By analogy, think of a family's finances. A mortgage, car loans and lines of credit represent total debt. Total debt partially offset by money the family has in the bank, in RRSPs and in RESPs represents the family's net debt.

Accumulated deficit is the sum of all past Provincial surpluses and deficits, adjusted for changes in accounting rules.

Q. Is the Province planning to issue any more Green Bonds in the future?

A. On January 22, 2016, the Province of Ontario successfully priced its second Global Canadian Dollar (CAD) Green Bond for $750 million. There was strong demand for Ontario's second Green Bond issue, with 52 investors participating in the trade. Eight projects were selected as eligible and are expected to receive

funding from the second Green Bond, with an emphasis on clean transportation and energy efficiency and conservation.

To date, total Green Bond financing amounts to $1.25 billion, with up to $1.2 billion allocated to Metrolinx for clean transportation projects.

As the first Canadian province to issue Green Bonds, Ontario continues to lead the way in establishing and developing a Canadian dollar Green Bond market with investor participation from around the world.

Q. What are unrestricted liquid reserves, and how do they ensure that Ontario will have sufficient liquidity to meet its financial obligations?

A. The Province maintains liquid reserves in the form of cash and temporary investments, which can immediately be converted to cash.

In the normal course of doing business, the Province enters into transactions that may require it or its counterparties to pledge short term investments. Although the pledged investments are technically owned by the Province, they are deducted from the total liquid reserves figure to arrive at unrestricted liquid reserves. This provides a more conservative measure of the liquidity available to meet the Province's financial obligations.

The Province ensures it always has a prudent level of unrestricted liquid reserves to cover all obligations in the short term.

Interest on Debt (IOD)

Q. What is the impact on IOD of a $1.0 billion change in the deficit?

A. The 2016-17 impact is forecast to be approximately $30 million.

Q. What is the impact on IOD of a one percentage point change in interest rates?

A. The 2016-17 impact is approximately $350 million.

Q. What is your assumed interest rate for the IOD forecast in the 2016 Budget?

A. The assumed ten-year interest rates are 3.1 per cent for 2016-17 and 3.8 per cent for 2017-18, based on the forecast for Government of Canada bonds that OEP collects from the private sector, plus a spread for the Ontario credit. For 2018-19, the forecast is 4.8 per cent and is based on the average Ontario interest rates over the past 15 years. This is the same methodology that we have used

for the last number of years in putting together our IOD forecast. These rates are cautious and prudent, above current market rates.

Q. Will IOD costs crowd out other expenditures as interest rates rise and debt continues to climb? How can you address this problem?

A. Ontario has a realistic plan to balance its budget while investments are made in the priorities of Ontario families – health care, education, the environment and infrastructure.

Investor demand has allowed the Province to extend the term of its debt in recent years and lock in low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs. The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 23 per cent lower, at only 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992–93 to 2005–06, and is forecast to remain lower through the period to balance in 2017–18.

Q. We understand that the proposed new standards by the Public Sector Accounting Board on Financial Instruments would affect IOD. Would it also affect other financial indicators of the provincial government?

A. Yes, Annual Deficit, Net Debt, Accumulated Deficit and their ratios as a percent to GDP would also be affected.

Q. If the proposed accounting change indicates savings, will the government be able to spend them?

A. The proposed accounting change introduces fair value measurement and prohibits hedge accounting. If implemented as planned, the Province's reported financial results would not accurately take into account the value of its derivatives. As a result, substantial accounting gains or losses could occur. These changes in value would be accounting changes only and not real changes in cash. This gain would only have been reflected in the Province's accounting statements, with no actual change in the cash available for program spending.

Credit Ratings

Q. What are the Province's current credit ratings?

A. The Province is rated:

	Long Term	Short Term
Moody's Investors Service:	Aa2	P-1

Standard & Poor's:	A+	A-1+
DBRS:	AA (low)	R-1 (mid)
Fitch	AA-	F1+

Q. What impact did Moody's removal of the negative outlook have on your borrowing costs?

A. Credit ratings are one of a number of factors that contribute to borrowing costs. Since the 2016 Ontario Budget was released, Ontario's credit spreads have narrowed modestly. This in part reflects the fact that all four credit rating agencies have affirmed Ontario's ratings reflecting their confidence in our plan to eliminate the deficit, with Moody's improving their outlook for Ontario's credit rating.

ONTARIO ELECTRICITY FINANCIAL CORPORATION

Friendly Question

Electricity Sector Stranded Debt

Q: The stranded debt arose under the *Energy Competition Act of 1998*, and its schedule, the *Electricity Act, 1998*. The *Electricity Act, 1998*, also enabled the implementation of the Debt Retirement Charge (DRC) on electricity ratepayers.

Since May 2002, residential and other electricity users have been paying the DRC of 0.7 cents per kilowatt hour (kWh) on their electricity bills. The DRC is paid to the Ontario Electricity Financial Corporation (OEFC) to help service and pay down the stranded debt that arose because of the restructuring of Ontario's electricity sector under the *Energy Competition Act, 1998*.

However, I know that the government eliminated the DRC from residential bills as of January 1, 2016.

This legacy charge from the Harris government was eliminated from residential bills about 2 years earlier than previously estimated – saving the average residential user about $70/year.

Can you please inform the committee of the commitment that the government has to eliminating the debt retirement charge cost for commercial, industrial and all other electricity users by 2018?

A. Thank you for the question.

As part of its commitment to reduce electricity cost pressures, the government has removed the Debt Retirement Charge (DRC) from residential electricity users' bills as of January 1, 2016.

This would save a typical residential user about $70 each year and meant ending the DRC earlier for these users than otherwise provided for in the *Electricity Act, 1998*, as originally enacted. As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act, 2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.

- A large industrial using 3,000 megawatt-hours (MWh) per month could save $21,000 per month, or about seven per cent off its electricity bills;

- For a large northern industrial in the Northern Industrial Electricity Rate program, this could be more than an eight per cent savings; and

- A small business using 20,000 kilowatt-hours (kWh) per month could save $140 per month, or about four per cent.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

I would note the following context. The government's electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others, have put the stranded debt recovery plan back on track. Based on interim numbers in *Budget 2016*, this is projected to be the twelfth consecutive year that the stranded debt has been reduced, to under $5 billion as at March 31, 2016, from $20.6 billion as at March 31, 2004. This allowed the government to follow through on its commitment to reduce electricity cost pressures.

Stranded Debt and Residual Stranded Debt Qs&As

Q. What is the impact of broadening ownership of H1 on Stranded Debt?

A. The interim 2015–16 results reflect the upfront benefits to OEFC of broadening the ownership of Hydro One through an initial public offering (IPO). This includes the OEFC receiving in fiscal 2015-16 – that is after March 31, 2015 -- $2.6 billion in departure tax and about $200 million in one-time additional payments in lieu of taxes (PILs), as Hydro One exited the PILs regime and will no longer pay corporate tax PILs to the OEFC.

The upfront impact on OEFC of the departure tax and one-time PILs payments on the OEFC's unfunded liability was partly offset by lower Electricity Sector Dedicated Income. In addition, the one-time departure tax reflects that Hydro One is now a taxable corporation, so it will no longer pay payments-in-lieu of corporate taxes (PILs) to OEFC, which reduces the estimated present value of future dedicated revenues to OEFC.

The government recognizes its commitment to electricity ratepayers under section 50.3 of the *Electricity Act, 1998*, and has taken steps to clarify and ensure that the benefits of selling shares in Hydro One are recognized by OEFC to contribute to the continuing reduction of its unfunded liability.

As part of the government's commitment to using the proceeds from broadening Hydro One ownership for infrastructure investments and paying down debt, proceeds related to the book value of the shares sold and the pre-IPO special dividend payment of $800 million paid by Hydro One to the Province will be used to pay down the Province's electricity sector debt and other payables.

This will allow the OEFC to reduce its overall debt, and contribute towards the Province's targeted $5 billion debt paydown. This debt paydown does not affect OEFC's stranded debt, as OEFC's receivables from the Province will be reduced by an equivalent amount.

[Note, Provincial payables to OEFC are notes payable to OEFC from the Province's acquisition of the equity in Hydro One in 1999, and in respect of cumulative net income since 1999.

Note this portion of the proceeds would have no net impact on OEFC's unfunded liability, as the cash asset would be offset by the reduction in the OEFC's receivable from the Province.]

Additional details

Under a Hydro One disposition, two future dedicated streams are affected:

1. Lower Hydro One earnings: The Province has committed to direct the income it earns from Hydro One (and OPG) in excess of the interest cost of its investment in the company. Upon a divestment, the Province would only be able to dedicate the portion of the net income that reflects its ownership stake. For example, in the case of a 15 per cent divestment, only 85 per cent of Hydro One's earnings less the associated interest cost, would be dedicated to OEFC. Currently, the Province owns about 70 per cent of Hydro One.

Loss of federal portion of Payments in Lieu of Taxes: Prior to the IPO, Hydro One was exempted from regular federal and Ontario income tax and instead made payments in lieu of taxes to OEFC which helped service and paid down the stranded debt of the electricity sector. Payments in lieu of taxes to OEFC were equal to the federal and Ontario income tax Hydro One would pay if it were a taxable corporation. Following the beginning of broadening of ownership in Hydro One in November 2015, the Province's ownership of Hydro One fell below 90 per cent and the company ceased to be exempt from federal and Ontario income taxes and started to pay actual federal and provincial corporate income tax (CIT). As a result, OEFC would no longer receive the PILs from Hydro One equivalent to federal CIT. Under the amendments made to the *Electricity Act, 1998* in the *Budget Measures Act, 2015*, the Minister of Finance will pay the OEFC an amount equal to tax payable under the *Taxation Act, 2007* (i.e., the provincial CIT) by Hydro One Inc. (HOI), to continue to help service and pay down the electricity sector stranded debt. HOI is composed of Hydro One Ltd.'s regulated Ontario distribution, transmission and remotes businesses.

Q. What is the status of the old Ontario Hydro's stranded debt?

A. The government dedicates the revenues it receives from the electricity sector to the Ontario Electricity Financial Corporation (OEFC). All OEFC revenues, including the Debt Retirement Charge (DRC) paid by electricity consumers, are used to service and retire its debt and other obligations, as provided for under the *Electricity Act, 1998*.

For the twelfth consecutive year, the stranded debt is projected to be reduced, based on the interim 2015–16 results for the OEFC showing a projected excess of revenue over expense of more than $3 billion. The OEFC has paid down stranded debt by an estimated total of more than $15 billion from its peak in 2003-04, reducing stranded debt to under $5 billion as at March 31, 2016, based on interim numbers.

- The following table shows the unfunded liability (or "stranded debt") of OEFC since the opening amount of $19,433 million on April 1, 1999.

At March 31 ($M unless noted)	April 1, 1999	2000	2001	2002	2003	2004	2005	2006	2007
Unfunded Liability	$19,433	$20,034	$20,016	$20,085	$20,183	$20,550	$20,363	$19,293	$18,289
Increase / (Decrease)		$601	($18)	$69	$98	$367	($187)	($1,070)	($1,004)
At March 31 ($M unless noted)	2008	2009	2010	2011	2012	2013	2014	2015	Interim 2015-16
Unfunded Liability	$17,225	$16,182	$14,810	$13,448	$12,321	$11,257	$9,781	$8,185	<$5Bn
Increase / (Decrease)	($1,064)	($1,043)	($1,372)	($1,362)	($1,127)	($1,064)	($1,476)	($1,596)	>$3Bn

Residual Stranded Debt

Q. What is the residual stranded debt as at March 31, 2016?

A. The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* (Bill 144) and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt", were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

Q. What is the current status of the residual stranded debt or what was the residual stranded debt the last time it was determined or estimated?

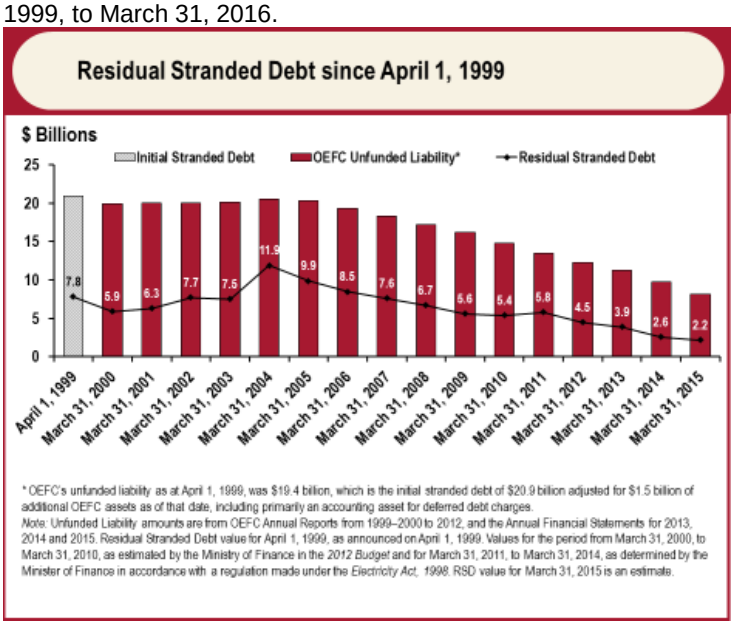
A. Prior to amendments in the *Budget Measures Act, 2015* under the *Electricity Act, 1998* the residual stranded debt was defined as the stranded debt minus the present value of projected future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC.

In the *2015 Ontario Economic Outlook and Fiscal Review*, the residual stranded debt was estimated to be $2.2 billion as at March 31, 2015. This was a decrease of $0.4 billion compared to residual stranded debt of $2.6 billion as at March 31, 2014, and was a total estimated decrease of $9.7 billion from an estimated peak of residual stranded debt of $11.9 billion as at March 31, 2004. Residual stranded debt was initially estimated as $7.8 billion as at April 1, 1999.

Residual stranded debt is estimated to have increased to a peak of $11.9 billion as at March 31, 2004, primarily due to the electricity price freeze, the downward revision in 2004 of the previous overestimation of future financial performance of Ontario Power Generation (OPG) which lowered the estimated future dedicated revenues to OEFC from the sector, and lower tax rates, resulting in lower projected future PILs to OEFC. OPG had significantly underperformed compared to its plans over the previous period of 1999 to 2004.

The estimated residual stranded debt amount and timing for its retirement were subject to uncertainty in forecasting future OEFC results and dedicated revenues to OEFC, which depend on the financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, and other factors such as interest rates and electricity consumption. The changes to the levels of unfunded liability to-date, based in part on the upfront impact on OEFC of the departure tax and one-time PILs payments, also reflect the fact that OEFC will have reduced dedicated revenues as a result of reduced ownership in Hydro One going forward.

The following chart illustrates the path of residual stranded debt from April 1, 1999, to March 31, 2016.



Q. When will the residual stranded debt be retired and the DRC end?

A. The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* (Bill 144) and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt" were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.As originally enacted, the *Electricity Act, 1998*, previously allowed for the Debt Retirement Charge (DRC) to be paid by consumers until the Minister of Finance determines that the residual stranded debt is retired.

The residual stranded debt determination was not a one-time determination. It was based on actual financial performance to-date and forecasting future OEFC results and future dedicated revenues to OEFC, which was subject to uncertainty and depended on the future financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, as well as other factors such as interest rates and electricity consumption.

As part of its commitment to reduce electricity cost pressures, the government has removed the DRC from residential electricity users' bills as of January 1, 2016.

This would save a typical residential user about $70 each year and would mean ending the DRC earlier for these users than otherwise provided for in the *Electricity Act, 1998*.

As a further step to mitigate electricity cost pressures for non-residential users, the government introduced legislation the *Budget Measures Act, 2015*, passed in December 2015, to end the DRC for all other users on April 1, 2018, nine months earlier than previously estimated.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

Even after the end of the DRC, there would still be stranded debt remaining, to be serviced and paid down by OEFC's other dedicated revenues, such as payments in lieu of taxes and the Gross Revenue Charge.

Q. Why did the residual stranded debt only fall from $2.6 billion to $2.2 billion between March 31, 2014, and March 31, 2015, if the Ontario Electricity Financial Corporation's (OEFC) unfunded liability fell by about $1.6 billion and the DRC collected the same year was $0.956 billion?

A. Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998* and the revocation of Ontario Regulation 89/12, the residual stranded debt was defined under the *Electricity Act, 1998* as the stranded debt minus the estimated present value of future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC. The Debt Retirement Charge would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

The residual stranded debt fell by less than the decrease in OEFC's unfunded liability due to a reduction in the estimated present value of future dedicated revenues to OEFC from $7.2 billion as at March 31, 2014, to $6.0 billion as at March 31, 2015, which reflected the uncertainty of and update to the forecast of future dedicated revenues to OEFC. These forecasted revenues depend on the financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, regulatory decisions by the Ontario Energy Board, as well as other factors such as interest rates and electricity consumption.

The residual stranded debt was not a fixed, one-time determination. Under the *Electricity Act, 1998*, and Ontario Regulation 89/12, the estimated amount of residual stranded debt depended on actual OEFC results to-date and a forecast of future revenues to OEFC.

Q. Why has the residual stranded debt only declined by $5.6 billion since April 1, 1999, to March 31, 2015?

A. The residual stranded debt increased from $7.8 billion as at April 1, 1999, to an estimated $11.9 billion as at March 31, 2004, as a result of an increase in stranded debt primarily due to the electricity price freeze, as well as a reduction in the estimated present value of future dedicated revenues to the Ontario Electricity Financial Corporation (OEFC), mainly reflecting the downward revision in 2004 of the previous overestimation of future financial performance of Ontario Power Generation (OPG), and lower tax rates. OPG had significantly underperformed compared to its plans over the previous period of 1999 to 2004.

Since 2004, the government's electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others, have put the stranded debt recovery plan back on track. The residual stranded debt has been reduced by an estimated $9.3 billion, from an estimated peak of $11.9 billion as at March 31, 2004, to $2.2 billion as at March 31, 2015.

Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998* and the revocation of Ontario Regulation 89/12, the residual stranded debt was defined under the *Electricity Act, 1998* as the stranded debt minus the estimated present value of future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC. The Debt Retirement Charge would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt" were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

Q. Since you have collected more than $12.5 billion in Debt Retirement Charge (DRC) revenue to March 31, 2015, why hasn't stranded debt declined by more?

A. Since 2004, the government's electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others, have put the stranded debt recovery plan back on track. The Ontario Electricity Financial Corporation (OEFC) has paid down stranded debt by an estimated total of about $12.3 billion from its peak in 2003-04, reducing stranded debt to $8.2 billion as at March 31, 2015.

- As confirmed in the Auditor General's 2011 Annual Report, the DRC is used exclusively by OEFC to meet its mandate, as provided for under the *Electricity Act, 1998*, which includes servicing and retiring its debt and other liabilities.

- Servicing costs to the OEFC include interest expense, which is currently about $1.4 billion per year and has totalled about $30.5 billion between April 1, 1999 and March 31, 2015.

- Stranded debt increased by over $1 billion between April 1, 1999, and March 31, 2004, primarily as a result of the 4.3 ¢/kilowatt-hour (kWh) price freeze, which cost OEFC about $900 million.

- The Auditor General audits OEFC's annual financial statements and has provided an unqualified opinion every year since the initial 1999–2000 financial statements.

Q. After the removal of the DRC what is the government's plan to pay into the OEFC, to make up for that money? With the lower revenue going into the OEFC, isn't there a danger of it becoming insolvent?

A. The government has removed the Debt Retirement Charge (DRC) from residential users' electricity bills as of January 1, 2016. As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act, 2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.

Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998*, the DRC would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

Even after the end of the DRC, there would still be stranded debt remaining, to be serviced and paid down by OEFC's other dedicated revenues, such as payments in lieu of taxes and the Gross Revenue Charge. The government expects that the stranded debt will continue to decline following the end of the DRC.

Background

Q. What is OEFC?

A. The Ontario Electricity Financial Corporation (OEFC) is an agency of the Province and was established by the *Electricity Act, 1998* as the legal continuation of the former Ontario Hydro.

OEFC's mandate includes servicing and retiring the former Ontario Hydro's debt and certain other liabilities.

- OEFC inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. The debt was accumulated by building Ontario's electricity generation and transmission infrastructure.

- A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets

OEFC receives dedicated revenues to service and retire the stranded debt from a number of sources, including payments in lieu of taxes (PILs) from Ontario Power Generation (OPG), Hydro One and municipal electricity utilities (MEUs); Electricity Sector Dedicated Income from the Province in respect of the net incomes of OPG and Hydro One; and the Debt Retirement Charge paid by electricity users, as provided for by the *Electricity Act, 1998*.

Q. When will the OEFC's 2015-16 Annual Report be released publicly?

A. The 2015-16 Annual Report is currently being prepared. Under the Electricity Act, 1998, the time frame for preparing and submitting the Annual Report may be extended to reflect the timeframe for Public Accounts. Given the changes to the Electricity Act and significant activities during 2015-16 that affected OEFC, it was prudent to take additional time to review the impacts on OEFC in preparing the financial results for 2015-16..

- OEFC’s annual reports contain OEFC’s audited financial statements which are also released as part of the Province’s Public Accounts

    - OEFC's audited 2014-2015 financial statements, including the notes to the financial statements, were released on Sep 28, 2015 in Volume Two of the 2014-15 Public Accounts.

- The Auditor General audits OEFC’s annual financial statements and has provided an unqualified opinion every year since the initial 1999-2000 financial statements.

- Public Accounts may be downloaded from the Ministry of Finance web site (http://www.fin.gov.on.ca/en/budget/paccts/).

- OEFC’s past Annual Reports (1999-2000 to 2014-2015) can be downloaded from the OEFC website. (http://www.oefc.on.ca/publications.html).

- A spreadsheet containing OEFC's historical financial statements can be accessed on OEFC’s website (http://www.oefc.on.ca/pdf/OEFC_financials_historicals_en.xls)

Q. What is the difference between stranded debt and unfunded liability?

A. The Ontario Electricity Financial Corporation (OEFC) inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. The debt was accumulated by building Ontario's electricity generation and transmission infrastructure. This amount included $30.5 billion in total debt.

A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets.

OEFC's initial unfunded liability of $19.4 billion as at April 1, 1999, was the stranded debt adjusted for $1.5 billion of additional assets, including primarily an accounting asset for deferred debt charges.

Q. What was the origin of the residual stranded debt?

A. The Ontario Electricity Financial Corporation (OEFC) is one of five entities established by the *Electricity Act, 1998*, as part of the restructuring of the former Ontario Hydro. OEFC's mandate includes servicing and retiring the debt and other liabilities of the former Ontario Hydro.

- OEFC inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets.

- As of April 1, 1999, the present value of future payments-in-lieu of taxes and electricity sector dedicated income was estimated at $13.1 billion. Subtracting the $13.1 billion from stranded debt of $20.9 billion resulted in a difference of $7.8 billion, the initial estimated residual stranded debt.

The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt", including the regulation-making authority of Ontario Regulation 89/12, were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

Q. How does OEFC provide financial assistance to the successor corporations of Ontario Hydro? Are these loans added to residual stranded debt/outstanding liabilities?

A. Consistent with its mandate, OEFC provides financial assistance to the successor corporations of Ontario Hydro, namely Ontario Power Generation (OPG) and the Independent Electricity System Operator (IESO). For example, financing is provided by OEFC for new generation development projects such as the Niagara tunnel project.

OEFC borrows to provide these loans, thereby increasing its debt portfolio, but with an offsetting asset (Notes and Loan Receivables) from the companies, thereby not affecting the unfunded liability ("stranded debt") on OEFC's balance sheet.

Q. What is the "due from the Province of Ontario" payment?

A. Due from Province

The Due from Province of Ontario that appears in OEFC's financial statements represents the cumulative value of the Electricity Sector Dedicated Income (ESDI) since April 1, 1999.

ESDI reflects the Province's commitment to dedicate its cumulative combined net income of OPG and Hydro One in excess of the Province's interest cost of its investment in its electricity subsidiaries to OEFC.

- For example, the combined net incomes of OPG and Hydro One in 2014-15 was $1,558M, and the Province's interest cost in acquiring the equity in the two companies totals about $520 million annually. This resulted in an ESDI of $1,038 million in 2014-15, so the ESDI Due from Province of Ontario increased from $3,865 million as of March 31, 2014, to $4,903 million as of March 31, 2015.

The ESDI commitment is reflected in Public Accounts as a transfer payment to OEFC from the Province's Consolidated Revenue Fund and is authorized by a voted appropriation.

CORPORATE AND ELECTRICITY FINANCE DIVISION

Asset Optimization and the Trillium Trust

Q: What asset optimization initiatives did the Province move forward with in 2014-15?

A: On February 4, 2015, the Province completed the sale of its remaining 36.7 million GM common shares for total proceeds of $1.55 billion, resulting in a fiscal gain of $1.08 billion.

General Motors also redeemed the Province's preferred shares on December 31, 2014, for total proceeds of $0.16 billion, including a gain of $0.02 billion.

The $1.1 billion gain on the sale of the common and preferred shares exceeded the $900 million asset optimization target included in the 2014 Budget for 2014–15 Net Revenue Gains from Asset Optimization.

The Ontario government directed the gain from the sale, including the additional $200 million generated above the 2014 target, to the Trillium Trust. The Province also directed to the Trillium Trust the $249 million net proceeds from the September 2013 sale of the Province's interest in 10 million shares of GM.

Q: The 2014-15 Public Accounts showed that the sale of GM shares provided revenue benefits to the Province. Is the Province selling assets to improve the path to balance?

A: The government's plan to balance the budget is centred on:

- Responsibly Managing Spending
- Transforming and Modernizing Government
- Addressing the Underground Economic and Tax Compliance
- Investing Strategically to Grow the Economy

The government's plan to eliminate the deficit does not depend on the revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The *Trillium Trust Act, 2014*, provides for the dedication of net revenue gains associated with the sale of designated assets to the Trust to help fund investments in transit, transportation and other priority infrastructure under Moving Ontario Forward.

Q: What's the status of the funds in the Trillium Trust?

A: The Public Accounts of Ontario 2014-2015, published in September 2015, show that $1.35 billion has been dedicated to the Trillium Trust.

These are the net proceeds from the sale of the Province's remaining General Motors common shares in early 2015, combined with net proceeds from a September 2013 GM share sale and the redemption of preferred shares in late 2014.

On August 30, 2016, the Province announced the dedication of $3.2 billion from the sale of Hydro One shares in 2015 to the Trillium Trust.

This brings the total balance of the Trillium Trust to over $4.5 billion, to help fund further investments in transit, transportation and other priority infrastructure as part of Moving Ontario Forward.

- The $3.2 billion credit to the Trillium Trust comes from:
    - About $0.8 billion in gains on sale from the sale of Hydro One shares in November 2015.
    - The net benefit to the Province of about $2.4 billion from Hydro One's recognition of the deferred tax benefit.

Q: When will the government actually start using funds from the Trillium Trust to pay for transit and infrastructure?

A: As outlined in the 2016 Budget, the government plans to begin drawing down on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history. Based on planned expenditures, in 2016-17 the Trillium Trust would support Moving Ontario Forward initiatives, such as

- Regional Express Rail (RER);
- Hurontario Light Rail Transit (LRT); and
- Ontario Community Infrastructure Fund.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. This will allow for identification for expenditures, as this preliminary work is completed and construction activity

becomes underway, and for cash flow timing requirements from the Trillium Trust during 2016-17 and subsequent years.

Q: What is the current status of broadening Hydro One ownership?

A: The Province completed the Hydro One initial public offering (IPO) in November 2015 and raised approximately $1.83 billion in gross proceeds and about $116 million from related share sales. As announced in early May, a secondary offering of Hydro One shares raised approximately $1.97 billion in gross proceeds, and as announced in July, the Province has an agreement in principle to sell to First Nations in Ontario up to 2.5% of Hydro One shares at a price of $18 per share.

There were other associated benefits in connection with the IPO, including a positive impact to the Province's income from Hydro One as a result of a deferred tax benefit recorded by Hydro One. The Province also received cash of $1 billion in special payments from Hydro One, including $800 million in a special dividend paid prior to the IPO, and about $200 million in additional payments in lieu of taxes to the Ontario Electricity Financial Corporation (OEFC).

On August 30, 2016, the Province announced the dedication of $3.2 billion from the sale of Hydro One shares in 2015 to the Trillium Trust, bringing total balance of the Trillium Trust to over $4.5 billion. The net revenue gains from the secondary offering in April 2016 will be credited to the Trillium Trust in the future.

The Province will proceed with future offerings in a staged and prudent manner, over time reducing its stake to 40 per cent while remaining the largest shareholder.

Through this initiative, the Province expects to generate $4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and $5 billion to reduce debt.

Q: In April 2015, the Premier's Advisory Council on Government Assets estimated Hydro One's valuation at between $13.5 billion and $15 billion; using this estimate, the province could realize up to $9 billion from the sale of 60% of Hydro One. Does the Province still expect these benefits?

A: The Province is on track to generate approximately $9 billion in gross proceeds and other revenue benefits from broadening the ownership of Hydro One, while remaining the largest single shareholder.

Through this initiative, the Province expects to generate $4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and $5 billion to reduce debt.

Q: In moving forward with broadening Hydro One ownership, isn't the government giving up future revenues from the company?

A: While broadening ownership in a revenue generating asset means that there may be an impact on revenues over the longer term, the fiscal impact of an asset sale includes upfront gains that the government will reinvest into public infrastructure, improving the lives of Ontarians where they live, work and play. In turn, this will create jobs, generate economic growth and additional revenues for the Province.

- The Province would also retain 40 per cent of Hydro One, following the IPO and subsequent share offerings, which would continue generating revenue for the Province.

Q: Why did the government remove certain oversight powers of the Office of the Auditor General over Hydro One?

A: To support Hydro One's transition from being wholly-owned by the Province to being publicly traded, the government agreed with the Premier Advisory Council's recommendations that the company should operate, to the extent possible, in the same legislative and regulatory environment as other publicly–traded, rate-regulated entities.

However, the Province has ensured Hydro One oversight measures are in place. Hydro One continues to be subject rate regulation by the Ontario Energy Board (OEB) and as a publicly traded company Hydro One is subject to requirements of the Business Corporations Act (Ontario) and the Securities Act (Ontario).

To further ensure the protection of ratepayers, the government required Hydro One to create a dedicated Ombudsperson, similar to those found at other publicly traded companies. The Ombudsperson is able to receive and investigate customer complaints.

The government has also put in place a governance agreement and registration rights agreement with Hydro One to clarify the Province's role as investor, including the process through which the Province nominates 40 per cent of the board of directors and the Province's rights related to future share sales by the Province or Hydro One.

The government will remain, by law, the largest single shareholder in Hydro One – and no other single shareholder or group of shareholders will be permitted to hold more than 10 per cent of the company's shares.

Q: What is the status of the potential merger between Hydro One Brampton and a group of urban local distribution companies (LDCs)?

A: The proposed merger of Hydro One Brampton with PowerStream, Enersource, and Horizon Utilities, continues to move forward.

The municipal councils for the cities of Barrie, Markham, Vaughan, Mississauga, Hamilton and St. Catharines have all voted to proceed with the merger. Ontario has also executed a Share Purchase Agreement with PowerStream, Enersource, and Horizon.

Commercial closing of the transaction would be subject to certain closing conditions, including Ontario Energy Board (OEB) approval. The proposed merger is currently being reviewed by the OEB.

- The proposed merger of these three strong performing utilities with Hydro One Brampton would create the second-largest electricity distributor in Ontario by number of customers. The merged entity would deliver efficiencies and economies of scale while continuing to provide safe, reliable and clean electricity.

Q: Will the Province realize any up-front benefit from the sale / merger of Hydro One Brampton with other local distribution companies (LDCs)? Would these benefits go to the Trillium Trust or to the Ontario Electricity Financial Corporation (OEFC)?

A: The purchasers have agreed to pay $607 million for Hydro One Brampton, subject to post-closing adjustments and regulatory approval from the Ontario Energy Board (OEB).

The *Trillium Trust Act, 2014*, ensures that net revenue gains from the sale of Hydro One Brampton shares would be credited to the Trillium Trust. Under the Act, the net revenue gains would take into account the gross proceeds less the book value of the asset and costs incurred in the disposition of the asset.

The *Electricity Act, 1998*, also allows the Province to meet its obligations to OEFC by, for example, relieving OEFC of certain debt obligations that it currently owes to the Province.

Q: Why is Hydro One Brampton being merged with three other urban local distribution companies – Powerstream, Horizon Utilities, and Enersource? Why wasn't there a competitive process for the sale/merger of Hydro One Brampton?

Together these utilities can take advantage of efficiencies of scale and resources sharing, which in turn could translate into savings for their respective ratepayers.

In the course of its Phase 2 consultations, the Premier's Advisory Council received a strong pre-emptive bid from the consortium of local distribution companies (LDCs) at the higher end of the indicative values identified in the Council's market soundings.

Such a merger will provide a much needed catalyst for wider Local Distribution Company consolidation.

As noted by the Auditor General in her 2015 Annual Report, based on information provided to the Office of the Auditor General (OAG) by Hydro One and the Ministry of Energy, the OAG's estimates that the purchase price is reasonable for Hydro One Brampton Networks, and would provide the province with a fair return on its investment.

From:	Christina Zhang
To:	Ken Kandeepan; Bonnie Lemcke
Subject:	FW: Latest SCOPA Comms Products
Date:	Tuesday, October 04, 2016 11:31:33 AM
Attachments:	PA2015 - Media Products - No Opinion w Reg (Oct 3, 140pm).docx

Hi,

This should be the very last piece. Hopefully.

Please let me know if you have any concerns with the Q&As in the attached media products package that was used for yesterday's announcement. You may want to focus on Qs: 30, 31, 57, 58, 68, 74, 75, 80, 81, 83, and 84.

Thanks,
Christina

From: Christina Zhang
Sent: Tuesday, October 04, 2016 9:58 AM
To: Mike Manning <Mike.Manning@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: FW: Latest SCOPA Comms Products

Good morning,

Here we go again! =)

We've been asked to re-review the SCOPA materials one more time prior to the 12pm briefing.

- DM remarks – Attached are the latest DM remarks. Please review and let me know if you have any concerns. Would it make to reference the new Moody's report instead of the credit outlook upgrade? If so, would you mind amending his speech as appropriate?
- Gadi's remarks – Ken, thanks again for updating the 8.5 cents. I made a small edit to the speech to note that the ratio is the lowest its been since 1990. Is that okay?
- General Q&As – Ken, if you're okay with that change in the speech, I'll amend the general Q&As as well.
- Friendly Q&As – Attached incorporates edits Bonnie just sent. We're also ask to review #1, 2, 3, 8, and 9 as there's quite of overlapping. I think #1 and 2 needs to be removed. As there may not be enough time for Gadi's speech, we've been asked to reformat Gadi's remarks to Friendly Q&A format.
- PA Media package - Please also review the Q&A section and fill in any areas as necessary.

I'm working from today so please give me a call at 416-625-6524 if you have any questions.

Thanks,
Christina

From: Ize-Dukuze, Marilyn (MOF) [mailto:Marilyn.Ize-Dukuze@ontario.ca]
Sent: Monday, October 03, 2016 6:56 PM
To: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Tomasz Bugajski <Tomasz.Bugajski@ofina.on.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; David McLean (MOF) <David.McLean@ontario.ca>; Christopher Pearce (MOI) <Christopher.Pearce@ontario.ca>; Marc Pichette (MOF) <Marc.Pichette@ontario.ca>; Matthew Sylvain (MOF) <Matthew.Sylvain@ontario.ca>
Subject: RE: Latest SCOPA Comms Products

Following up –

Attached are the following items and corresponding actions required from your teams in advance of the 12pm briefing tomorrow:

- DM Remarks as of Sept 30th, 2016 (please review and update your sections, where appropriate, given the recent release of 2015-16 PA)
- MOF General QAs as of Sept 30th, 2016 (no action required for this item at this time)
- Friendly QAs as of October 3rd, 2016, (please review and provide input/edits. Please note #1, 2, 3, 8, 9 and 14 have some overlap we may want to avoid. There will be discussion on what extent we want to make reference to 2015-16 numbers via friendlies at the 12pm meeting).
- TBS Media Package for 2015-16 PA as of October 3rd, 2016 (please review QAs section only and fill in any relevant MOF portions- I have asked TBS for the QA package on its own)

Let me know if there are any questions.

Thanks,

Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

From: Ize-Dukuze, Marilyn (MOF)
Sent: Monday, October 3, 2016 5:12 PM
To: McGrath, Tara (MOF); Birks, Ryan (MOF)
Cc: Zhang, Christina (OFA); Bugajski, Tomasz (OFA); Tarin, Ghufran (MOF)
Subject: RE: Latest SCOPA Comms Products

Hi both –

SCOPA is still very much about the 2014-15 PA, thus current QAs do not need updating. However, additional QAs reflecting 2015-16 PA release are also now required. For this, we are asking TBS to share the QA package that was put together (with MOF input) for the 2015-16 PA release. This would be added to the SCOPA binders in addition to the QAs on 2014-15 PA.

Following up on strategy for remarks.

Thanks,
Marilyn Ize-Dukuze | ph. 416.326.8529 | bb. 416.302.3609

Treasury Board Secretariat

2015-16 Annual Report and Consolidated Financial Statements Regulatory Amendment, No Opinion

Communications products

Monday, October 03, 2016

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Current holding messaging for Minister Sandals

- As you know, Treasury Board and Ministry of Finance staff prepare the Public Accounts which are subject to independent audit by the Auditor General.

- As I announced to the House last week, there are still some ongoing discussions happening around an accounting issue.

- Earlier today I met with the Auditor General and senior ministry officials to discuss the importance of resolving this issue and releasing the 2015-16 Public Accounts.

- Ministry officials will continue to work with the Auditor General and her staff to resolve the outstanding issue over the next several months.

- What I can tell you now is that Ontario is on track to beat its deficit targets and we are committed to balancing the budget in 2017-18.

- Lower than forecast deficit projections confirm that our government's plan to achieve fiscal balance in 2017-18 is working, while we continue to invest in the programs and services that matter to Ontarians.

- Keeping the public informed through transparent financial reporting remains a priority.

- In that spirit, as part of the 2015-16 Annual Report, which includes the unaudited Consolidated Financial Statements, we have built new data visualization tools to help the public understand Ontario's finances. These tools will be available when our financials are released.

Post technical-briefing speaking points

Minister Sandals' Statement – Release of 2015-16 Financial Statements

- Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion.

- This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

- As I assured members of the House last week, this marks the seventh year in a row that Ontario has beaten its deficit target. We are committed to balancing the budget in 2017-18 and remain balanced in 2018-19.

- In preparing the 2015-16 Annual Report and unaudited Consolidated Financial Statements, Treasury Board staff work with their colleagues in ministries across government to assemble financial information for the Annual Report and unaudited Consolidated Financial Statements.

- The Auditor General, who issues an opinion on the government's adherence to independently established accounting standards, then audits this.

- Earlier today, Minister Sousa and I met with the Auditor General to discuss the finalization of the 2015-16 Public Accounts.

- We did so because this year, the Auditor General provided the Province with a new interpretation of public sector accounting standards related to the accounting treatment of jointly-sponsored pension plans, which are subject to a range of interpretations.

- Despite our best efforts to try to resolve concerns raised by the Auditor General, the Province's professional accounting staff and the Auditor General continue to have differences in the interpretation of public sector accounting standards on this issue.

- The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

- In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

- To be clear, Ontario had followed the same pension accounting treatment for the past 14 years. The current Auditor General has accepted this treatment for the last two years, resulting in unqualified – or clean audit opinions.

- Three previous Auditors General have also accepted it. There has been no change to the relevant accounting standards over the past 14 years.

- In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

- To acknowledge the different interpretations and to ensure openness and transparency with respect to province's financial position, the government is releasing its unaudited financial statements.

- The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's consolidated financial statements as soon as possible.

- The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General. The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.

- Although these financial statements are unaudited, it is important to stress that the Province's financial results show that the government has once again beaten its deficit targets, and remains committed to achieving a balanced budget by 2017-18, and remain balanced in 2018-19.

- It is also important to stress that the two pension plans in question – the Ontario Public Service Employee's Union Pension Plan, and the Ontario Teachers' Pension Plan – are both healthy and well funded.

- Based on our respective positions at this time, we believe that this accounting matter would benefit from additional discussions, information and consideration.

- Our officials and professional accounting staff will continue to work with the Auditor General’s office on this accounting issue related to pension assets so that we can table the audited Public Accounts with the Lieutenant Governor in Council as soon as possible.

Minister Sousa's Statement – Ontario's Fiscal Outlook

(TBC input by MOF comms)

The government is dedicated to a fiscally sound approach to managing the Province's finances.

As outlined in the 2016 Budget, the government is committed balancing the budget in 2017-18 and remaining balanced in 2018-19.

The 2016–17 First Quarter Finances also confirmed that the government is projecting a deficit of $4.3 billion in 2016–17, unchanged from the 2016 Budget forecast.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries.

The government's path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

At the same time, the government continues to make investments in the economy, its people, and a healthy, clean and prosperous low-carbon future.

Key messages – post release

- The government has released its 2015-16 Annual Report and unaudited Consolidated Financial Statements to ensure transparency with respect to the province's financial position.

- To align with the Auditor General, a regulation has been filed to prescribe the accounting treatment for pension assets for the 2015-16 financial statements.

- The regulation resolves the outstanding accounting issue for this year in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

- This marks the seventh year in a row that Ontario has beaten its deficit target.

- Ontario remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

If pressed about why a regulation was needed:

- Based on their professional judgement, the Province's professional accounting staff could not agree with the Auditor General's interpretation of Public Sector Accounting Standards as it relates to jointly-sponsored pension plans.

- A regulation was required to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements.

- The Province has applied consistent accounting treatment for these plans for the past 14 years, and has consistently received unqualified, or clean audit opinions from the Auditor General, without exception.

- To remain clear and transparent, we have reflected the Auditor General's view of the issue for this year. In order to do so, the government regulated the treatment of the pension assets for 2015-16.

- This is an accounting issue. However we remain optimistic that by studying the issue further and gathering third-party professional opinions, we will be able to reach an agreement on the treatment with the Auditor General in the coming months.

News Release

Last Year's Ontario Deficit $3.5 Billion Lower Than Projected

Province Remains Committed to Balance the Budget Next Year in 2017-18

News

Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion. This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

This marks the seventh year in a row that Ontario has beaten its deficit target. Ontario remains committed to balancing the budget in 2017-18, and remain balanced in 2018-19.

In preparing the Annual Report and unaudited Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets. Pension accounting requires the application of professional judgment. Despite best efforts to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of opinion about the appropriate application of public sector accounting standards as they relate to pension accounting. This ongoing discussion has delayed the tabling of the Province's financial statements.

A regulation was made to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements. The Province has filed a time-limited regulation, which legislates the accounting for pension assets of two jointly-sponsored pension plans for 2015-16 in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

To ensure openness and transparency, the government is releasing its unaudited financial statements to provide the public with the Province's financial position.

The unaudited statements show the government is beating its deficit targets through sound financial management. The Government of Ontario currently has the lowest program spending per capita among Canadian provinces and ranks the lowest among provinces in terms of public-sector employees per capita. At the same time, Ontario's economy continues to grow. Over the last two years, Ontario's economy has grown by 6.1 per cent. Last year, growth was double the national average. In the first quarter of this year, Ontario's growth was greater than that of the United States and the G7.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation. In addition Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Responsible financial management is part of the government's economic plan to build Ontario up and deliver on its number-one priority to grow the economy and create jobs. The four-part plan includes helping more people get and create the jobs of the future by expanding access to high-quality college and university education. The plan is making the largest infrastructure investment in hospitals, schools, roads, bridges and transit in Ontario's history and is investing in a low-carbon economy driven by innovative, high-growth, export-oriented businesses. The plan is also helping working Ontarians achieve a more secure retirement.

QUOTES

“The Annual Report and unaudited Consolidated Financial Statements for 2015-16 show that our government’s plan to achieve fiscal balance next year in 2017-18 is working. We will continue to build on our track record of responsible fiscal management, while investing in vital government services such as health care, education and infrastructure that are important to the people of Ontario.”

- Liz Sandals, President of the Treasury Board

“Our government is dedicated to a fiscally sound approach to managing the Province’s finances. The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries. The government’s path to a balanced budget next year is being achieved through responsible fiscal management, which involves managing growth in program spending, and maintaining the integrity of Provincial revenues.”

- Charles Sousa, Minister of Finance

QUICK FACTS

- The 2015-16 unaudited Financial Statements compare Ontario's actual performance to what was planned in the 2015 Budget.

- Ontario is a recognized leader in financial reporting. The C.D. Howe Institute, an independent research organization that assesses the fiscal planning and reporting of governments in Canada, has commented positively on the financial reporting practices of Ontario, including Public Accounts, the annual Budget and Estimates.

- The unaudited Financial Statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

LEARN MORE

- Read the Province's 2015-16 unaudited Financial Statements and explore supplementary information available through new data visualization tools
- Explore the more than 400 open data sets in the Open Data Catalogue
- Learn about the government's fiscal cycle
- Learn about how the government is investing in vital programs and services [insert link to backgrounder]

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

www.ontario.ca/treasury-board-secretariat
Disponible en français

Newsroom Backgrounder

Release of Ontario's 2015-16 Financial Statements

Public Accounts are part of the Ontario government's annual fiscal cycle and are a legislative requirement under the Financial Administration Act. The President of the Treasury Board submits the Public Accounts for each fiscal year to the Lieutenant Governor in Council on or before the 180th day after the end of the fiscal year. Public Accounts include the Province's annual report and consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The consolidated financial statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB). PSAB independently establishes accounting standards for the public sector in Canada.

These accounting standards are common, nationally recognized standards used by governments across Canada in their financial reporting

PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.

The objective of PSAB standards is to meet the needs of the users of financial statements by providing the information needed for accountability and decision-making.

In preparing the Annual Report and Consolidated Financial Statements for 2015-16, professional public servants and the Auditor General engaged in discussions regarding the accounting treatment of pension assets.

The Ontario Public Service Employees Union Pension Plan (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) are jointly-sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of OPSEUPP and OTPP are held in trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.

During the 2015-16 Public Accounts audit, the Auditor General raised some concerns with regard to Ontario's accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of interpretation of PSAS standards as they relate to accounting for pension assets.

Given the differences in interpretation of the application of PSAB standards for the OTPP and OPSEUPP pension assets, Ontario approved a time-limited regulation which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. This is consistent with the fiscal outcome proposed by the Auditor General on September 13.

The *Financial Administration Act* allows Treasury Board, subject to the approval of the Lieutenant Governor in Council, to make regulations respecting the accounting policies and practices to be followed regarding the preparation of the consolidated financial statements of the Province.

The effect of the regulation is to reflect the fiscal impact of the Auditor General's position pending further review and analysis on this accounting matter. The change in accounting treatment is not a reflection on the funding status of the plans, or the quality of financial reporting by the Province. The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.

Prior to this change, Ontario had followed the same pension accounting treatment for all of the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

The Auditor General has not issued an audit opinion on the province's financial statements for 2015-16. However the government is releasing these unaudited financial statements to ensure openness and transparency with respect to province's financial position, and because it has passed the deadline to table the Public Accounts with the Lieutenant Governor in Council. The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's consolidated financial statements so that it can table the Public Accounts with the Lieutenant Governor in Council.

Openness and Transparency

As part of its commitment to Open Government, digital technology was used for the first time to visualize the province's financial information in an interactive and easy to understand way. This year, Ontario is further increasing the openness and transparency of the Annual Report and unaudited Consolidated Financial Statements by:

- Creating new data visualizations, including interactive bar charts and interactive data tables
- Releasing data sets through Ontario's Open Data Catalogue, including data on government organizations, government business enterprises and Trusts

Improving Outcomes for Ontarians

As the Province's 2015-16 Financial Statements show, the government remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

Health Care

Building on Ontario's Patient's First: Action Plan, the government continued transforming Ontario's health care system in 2015-16 to become more patient-centred and focused on better access to care, quality and value by:

- Increasing investment in home and community care by five per cent annually: $250 million in 2015-16, for a total of $750 million over three years.

- Increasing the hourly wages of publicly funded personal support workers (PSWs) caring for patients at home and in the community by $1.50 per hour in 2015-16 to at least $15.50 per hour, in the second of three annual increases totalling up to at least $16.50 per hour by April 1, 2016. Investments in PSWs, like an increase in the hourly wage are part of the government's effort to attract and retain the best PSWs in the home and community care sector.

- Appointing Ontario's first-ever Patient Ombudsman who will help address needs of patients who have not had their concerns with health care organizations resolved through existing complaint mechanisms.

Advanced Education and Skills Development

In 2015-16, the Ontario government made progress on its plan to help more people get and create the jobs of the future by continuing to invest in student financial assistance

and expand access to high quality college and university education, resulting in 67 per cent of adults in Ontario obtaining a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

Over the past 12 years, government investments have resulted in more than double the number of students qualifying for aid, while enrolment has increased by 38 per cent.

In 2015, 67 per cent of adults in Ontario had a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

The government is also transforming Ontario's student aid system to help thousands of students obtain greater access to advanced education and have lower levels of student debt upon graduation. For students from lower-income and many middle-income families, it would mean free tuition. These changes will start in the 2017-18 academic year.

Childcare, Elementary and Secondary Education

The government has made gains in building and supporting an integrated early-years, elementary and secondary education system. This includes increasing funding for schools and licenced child care, the establishment of the Ontario Early Years Policy Framework and implementation of Full-Day Kindergarten.

In 2015-16, the government built on this success by:

- Increasing wages for early childhood educators and other child care professionals in licensed child care settings by providing a $1 per hour wage increase for eligible child care workers bringing the total wage increase up to $2 per hour, plus benefits.

- Increasing the five-year high school graduation rate to 85.5 per cent – the highest level in the province's history.

- Doubling the funding for school renewal projects to $500 million in 2015-16 to ensure our students are benefitting from safe, modern and efficient learning environments.

Infrastructure

Ontario is making the largest investment in public infrastructure in the province's history – about $160 billion over 12 years, starting in 2014-15. Planned investments are supporting over 110,000 jobs, on average, every year across the province.

In 2015-16, the Province continued to invest in hospitals, schools, roads, bridges and transit, including:

- Completing construction of the $1.4 billion Right Honourable Herb Gray Parkway in Windsor–Essex, which provides an express route to the country's busiest land border crossing.

- Ongoing construction of the Eglinton Crosstown Light Rail Transit line, which will offer fast, efficient service and improve travel for commuters.

- Providing small, rural and northern municipalities with funding to build and repair core infrastructure through the Ontario Community Infrastructure Fund.

- Completing the new Humber River Hospital, which offers a comprehensive range of acute care services and support for inpatient and outpatient hospital programs.

- Ontario is making $575 million investment to repair and renew schools across the province in 2016-2017.

Staying on the Path to Balance

The government is working towards a balanced budget through Program Review, Renewal and Transformation (PRRT), a government-wide approach to multi-year planning and budgeting that puts a heightened focus on evidence and outcomes to inform funding allocations.

But PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care, education and infrastructure.

Examples of successful PRRT initiatives include:

- Improving the sustainability of the Ontario Drug Benefit Program and patients' access to drugs by making the program more efficient and effective. The changes saved approximately $100 million in 2015-16 and will enable over $200 million in savings annually when fully implemented.

- Changing the Second Career program by removing client targets for service providers while ensuring funding support for eligible clients. This change will generate approximately $40 million per year and will allow the government to invest in the Canada-Ontario Jobs Grant and a renewed Ontario Youth Job strategy.

- Reducing the government's office footprint by over 820,000 rentable square feet, which generated approximately $24 million in savings in 2015-16.
- Achieving approximately $56 million in savings through the consolidation of data centres, early vendor payments and lower contract costs – including for software and IT consulting services, laboratory supplies and security services.
- Achieving $7 million in savings from contracts related to government cell phone plans and toll free lines.

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Top Media Qs&As

Releasing Unaudited Financial Statements

1. It sounds to me like the government is yet again fighting with the Auditor General. What do you say to this?

This is not true from the government's perspective. And let me explain why: The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. And in this case for this set of final accounts, while one specific issue is being sorted through, we actually are agreeing with the Auditor General's numbers.

Given these differences of opinion, the Province filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

We believe that this accounting matter would benefit from additional discussions, information and consideration.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

2. Why are you releasing your financial statements without the Auditor approving them?

Earlier today I met with the Auditor General to discuss the 2015-16 Public Accounts. I did so because this year, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to an accounting issue – the treatment of pension assets.

Ontario has followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years, resulting in unqualified – or clean audit opinions. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In preparing the Annual Report and Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have difference intepretations.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

The government is now releasing its financial statements to ensure transparency with respect to province's financial position.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

3. If the Public Sector Accounting Board is studying this issue, are other Canadian jurisdictions dealing with this as well?

No other province has similar governance frameworks for their jointly-sponsored pension plans that are in a surplus position.

<u>British Columbia</u>

Pension assets for BC's jointly sponsored pension plans are not reported on British Columbia's consolidated financial statements. The governance framework in BC is different than Ontario's and would appear to justify different accounting treatment under PSAB standards.

Specifically, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to use ongoing surpluses through the amendment of the Plan rules governing contributions and benefits, so long as the amendment of the Plan rules:

- Does not result in an increased contribution rate for employees or employers
- Does not create or increase an unfunded liability in the Plan, and
- Is otherwise compliant with applicable legislation and the Trustees' fiduciary obligations.

In contrast, the governance arrangements with respect to the Ontario Teachers' Pension (OTPP) provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may use ongoing surpluses as they believe appropriate, subject only to the Ontario *Pension Benefits Act.* The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses.

The OPTrust governing documents also stipulate that it is the Sponsors of the OPTrust, being the Province of Ontario and OPSEU, who have the authority to utilize ongoing Plan surpluses. OPTrust's Board of Trustees, being the OPTrust administrator for purposes of the Ontario PBA, has no authority to utilize ongoing Plan surpluses.

<u>New Brunswick</u>

As we understand it, New Brunswick converted four of its pension plans into what it refers to as target plans.

In the prior year, New Brunswick accounted for these plans as defined contribution plans, meaning it expensed the contributions to the plan and did not reflect its share of the net asset or net liability of the plan in its financial statements. The Auditor General of New Brunswick issued a qualified opinion on those financial statements.

In the 2015-16 fiscal year, New Brunswick changed its accounting for those plans to account for them as defined benefit plans and the Auditor General of New Brunswick issued a clean opinion.

Ontario has always accounted for its share of its jointly sponsored plans as defined benefit plans.

4. What is the professional judgment that exists out there to interpreting jointly-sponsored pensions?

A key consideration in exercising professional judgment is if the resulting financial information is both relevant and reliable and gives a fair presentation of the transaction.

This area of pension accounting is particularly complex, and it is important to consider the specific facts and circumstances when assessing the appropriate accounting treatment.

In this regard, the Province has assessed the appropriate accounting treatments based on the governance frameworks applicable to Ontario's jointly-sponsored pension plans. It would be inappropriate to assume that the governance frameworks of plans in other jurisdictions would necessarily result in the same accounting treatment.

5. Are you saying the Auditor General is misinterpreting Public Sector Accounting Board standards?

The Auditor General's responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment. A difference of opinion on the interpretation of accounting standards is not unique to this situation. Other jurisdictions have also experienced differences of opinion between preparers and auditors on complex accounting matters.

Over the coming months we will undertake activities to further assess the application of PSAB standards to Ontario's accounting for jointly-sponsored pension plans. In the meantime, it remains the professional judgment of the professional staff that the accounting treatment in place since 2001 continues to be appropriate.

6. If the Auditor General had agreed with you, what would the differences have been in the deficit or net debt?

According to the Province's interpretation of PSAB, the annual deficit would be $1.5 billion lower (at $3.5 billion), and net debt would be $10.7 billion lower.

7. **The province has been treating pensions the same way since 2001. When did the Auditor General tell you about this new accounting treatment?**

   We only learned that the Auditor General was challenging the accounting treatment of the past 14 years very late in the audit. On September 13th the Auditor General communicated her position that the Province should write off the entire pension asset amount of $10.7 billion from the balance sheet.

8. **What does this mean for the Fall Economic Statement?**

   We're in the middle of completing the fiscal plan. We need to account for all financial considerations before we can finalize it. These results will be included as part of that process. **(TBC MOF)**

9. **Is this Public Accounts or not?**

   From a content perspective, the unaudited results being released are the same as those which would be reported in the Public Accounts, including the information in the supplementary volumes.

   The only difference is that the Auditor's Opinion is not included in the Annual Report.

10. **Were you aware of this before the Speech from the Throne? Had you known about this, would that have changed the government's commitments announced in the speech?**

    Response TBC

11. **Why are you doing this today, four days after you announced the delay?**

    Despite the outstanding difference in opinion between the Auditor General and the Province's professional accounting staff with regards to pension accounting, it is important to ensure that the public interest is served by timely and transparent reporting of the government's results for 2015-16 compared to Budget.

    Although the results being released are clearly labelled as unaudited, we look forward to tabling the Public Accounts once the Auditor General provides her opinion.

12. On what exactly do you disagree with the Auditor?

Both the Auditor General and the Province agree that the Province's results should reflect PSAB's standard on pension accounting. It is just a difference in interpretation of those standards which is at the heart of the issue.

The nature of the difference in interpretation is disclosed in Note 18 of the unaudited consolidated financial statements.

13. If you think you're right, why would you change the numbers?

To clarify, the 2015-16 results are based on legislation and PSAB. Although they reflect the same fiscal results which would be presented according to the Auditor General's proposed interpretation of the standards, the results as presented do not represent our professional staff's interpretation of PSAB standards for jointly sponsored pension plans.

By adopting the Auditor General's interpretation, the financial statements could be finalized and signed off in order to complete the financial reporting process and enable Public Accounts to be completed. Unfortunately, the Auditor General's audit opinion remains outstanding at this time so the Public Accounts have yet to be finalized**.**

14. Was there something wrong with the accounting rules that the government was using before?

No.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

That said, the Province believes that this complex accounting area would benefit from additional discussion and analysis. Over the coming months, efforts will be made to engage experts to assist with further analysis of the application of PSAB to accounting for jointly-sponsored pension plans on the Province's books.

15. Why hasn't the Auditor General raised this with you in the past two years?

I cannot speak for the Auditor General. Please refer your questions to the Auditor General's Office.

16. What is the government trying to hide by releasing unaudited books?

We are releasing our unaudited financial statements to ensure openness and transparency with respect to the Province's financial position. Our unaudited financial statements reflect the same fiscal outcome that would result from the Auditor General's proposed pension accounting treatment.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

As part of the government's initiative to enhance transparency and accountability, additional disclosure of five-year trends is now provided in the Annual Report. The increased disclosure and discussion on five-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board and enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs.

In addition to the disclosure in the Annual Report, the government is also making available supplementary information through online data visualizations.

17. Are you fudging the books to try and show your finances are better than they really are – is that why the AG won't sign off?

No.

We are releasing our Financial Statements to ensure openness and transparency with respect to the province's financial position. In fact, we have implemented legislation that allows our officials to sign off in a way that is consistent with the fiscal outcome proposed by the Auditor General.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the

last two years. It has also been accepted by three previous Auditor Generals. There has been no change to the relevant accounting standards over the past 14 years.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

18. Is this even legal – are you in contempt of the house by releasing your financial statements before you table them in the Legislature?

We are not releasing Public Accounts, we are releasing our financial statements to ensure openness and transparency with respect to province's financial position.

The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's finances so that we can submit the Public Accounts to the Lieutenant Governor in Council and table them as soon as possible.

19. Has this ever happened before in Ontario? Anywhere else in Canada?

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and meeting its statutory tabling requirements. Ontario has had clean audit opinions for the past 22 years.

That said, differences of opinion between preparers and auditors do occasionally occur, and have occurred in other jurisdictions in Canada.

20. How are we supposed to trust your numbers if the Auditor General hasn't approved them?

Although the financial results being presented are labelled 'unaudited', they reflect the basis of reporting for pensions that the Auditor General proposed.

Once the Auditor General has issued her Audit Opinion, the Public Accounts will be finalized and tabled with the Lieutenant Governor in Council.

21. So what happens next? When will you table the actual Public Accounts?

The government will continue to work with the Auditor General to complete tabling of the 2015-16 Public Accounts.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

22. Does the change in accounting regarding the assets of the Teachers' or OPSEU pensions plans mean those plans might be financially threatened?

Absolutely not. This issue relates solely to the Province's reported financial results and the Province's historical practices of reporting pension assets.

The two pension plans in the Ontario Public Service – which are of the defined benefit type – are healthy and well-funded.

The OPSEU Pension Plan is fully funded with a small reserve of surplus assets standing to the credit of the joint-sponsors, while the Ontario Teachers' Pension Plan has a funding surplus of $13.2 billion.

23. You hired outside experts to give you a third-party accounting opinion, but you paid to get this advice. Didn't they just tell you what you wanted to hear?

The Province pays for services provided by external advisors – an accounting opinion is no different.

In providing an accounting opinion when the auditor has already provided their view, the professional standards require the firm providing the opinion confirm that the facts upon which the opinion is issued are complete so that the firm issuing the opinion is considering the same facts that the auditor is considering.

This process was followed by the Province.

24. The Auditor General has implied your Provincial Controller is in a position of conflict because she used to work for Deloitte. How do you respond?

All employees that are hired into the Ontario Public Service swear two oaths, an Oath of Allegiance and an Oath of Office. These oaths affirm that public servants will faithfully discharge their duties, and comply with all laws and confidentiality obligations.

25. The Auditor General says she raised this issue with you months ago. Why haven't you fixed this problem by now?

Until June, the Auditor General's audit plan for the 2015-16 Public Accounts only included a planned review of economic assumptions for pension plans. There were no significant issues raised by the Auditor's staff following their work on the assumptions.

The Province responded upon receiving the Auditor General's request for an actuarials valuation by procuring resources to complete the AG's request. The results were shared with the Auditor General's staff and only after several discussions did it become apparent that the Auditor General was challenging the accounting treatment that the Province had been following for the past 14 years.

On September 13th, the Auditor General communicated her position that the entire balance of pension assets ($10.7 billion) should be written off the Province's books. Despite our best efforts, the Province's professional accounting staff have not yet been able to reach a common interpretation of PSAB standards for the Province's jointly sponsored pension plans.

In light of the ongoing disagreement on interpretation of accounting standards, and the need to release the Province's financial results on a timely basis, Cabinet approved a regulation to allow for the results of the Province to be reported on a basis which reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension asset in question.

26. If you say you're open and transparent, why didn't you invite the Auditor General to your media technical briefing?

The technical briefing was for the purposes of updating media and members of the Opposition and the third party. However it was held in a public space in a government building, and anyone was free to attend.

27. Is the government still committed to balancing the budget by 2017-18?

Yes.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18 and remaining balanced in 2018-19.

28. The financial results show that the net debt and accumulated deficit has ballooned by $10.7 billion? How did this happen and what are you doing to address it?

This year, the Auditor General presented the province with a new fiscal interpretation of public sector accounting standards as it relates to the treatment of pension assets.

After careful consideration, the Province agreed to adopt the Auditor General's fiscal interpretation. The government made a regulatory amendment to allow us to amend our accounting policies for the 2015-16 Public Accounts in order to comply with the Auditor's fiscal interpretation. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Despite this change, and as our results show, the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Total debt remains unchanged by the pension adjustment.

The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.

29. How can the accumulated deficit and net debt increase by $10.7 billion without causing an increase in total debt?

Total debt is cash based – it is how much money we've borrowed and is owed to our creditors.

Net debt takes into account the difference between our financial assets and liabilities, whether they are cash or not.

The province has changed the valuation of the net pension liability by reducing the pension assets by $10.7 billion, but because there is no cash involved in that valuation, the total debt does not change.

30. Should taxpayers be concerned about the rise in net debt and accumulated deficit?

No.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

The treatment of pension assets is an accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. PSAB will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

31. How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget. Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

32. What is the difference between "Public Accounts" and "Financial Statements"?

Our financial statements include the Province's annual report and unaudited consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The full Public Accounts would also include these components, as well as a report by the Auditor General containing an audit opinion.

The full Public Accounts will be tabled with the house once the Auditor General's audit opinion is available.

33. You say you're releasing your financial results in the public interest. Aren't you creating confusion by having two sets of books – yours and the AG's?

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General. Therefore there is only one set of books.

Our officials continue to work with the Auditor General's office. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

34. How different will the Auditor General's numbers be?

There is no difference in the unaudited financial statements released and the Auditor General's view of the results for the Province for fiscal 2015-16. The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

35. Why didn't you just release Public Accounts last week to meet your legislated timelines?

As stated in the House there was a delay in tabling the Public Accounts because of ongoing discussions with the Auditor General to work through an accounting issue related to pension assets.

Our officials have continued to work with the AG's office to finalize the 2015-16 Public Accounts. In the meantime, we felt it was in the public interest to release our unaudited financial statements in the spirit of transparency and accountability.

36. Clearly the government is in a spat with the Auditor General – releasing unaudited financial statements seems like a slap in the face. What does this say about your relationship with the Auditor General?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

Our officials continue to work with the Auditor General's office to resolve this accounting issue related to pension assets. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

37. The Auditor General claims you have been using creative accounting to overstate your numbers – how do you respond to that?

That is simply not true.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor General's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It has also been accepted by three previous Auditors General.

There has been no change to the relevant accounting standards over the past 14 years.

That said, given the particularly complex area of pension accounting, further analysis of the impact of PSAB standards on the Province's books will be undertaken over the coming months.

38. So at the end of the day if your numbers are the same as the Auditor General's what's the issue?

Professional accounting staff and the Auditor General have a difference of interpretation as it relates to the application of public sector accounting standards to pension assets resulting from jointly-sponsored pension plans.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

The Auditor General has declined to issue an opinion on the financial statements. In the absence of the Auditor's opinion, the Province is not able to table the Public Accounts as required by law.

39. What's the difference between "audited" and "unaudited" financial results?

In practice, there should be no difference between audited and unaudited results.

An independent audit of an organization's financial statements provides independent assurance that the results fairly represent the financial position of the organization, and that those results are in accordance with generally accepted accounting principles.

The Province's unaudited financial statements include a Statement of Responsibility. This statement describes how the financial report is prepared, and attests to the government's responsibility for the objectivity and integrity of the consolidated financial statements.

The government also attests to its responsibility for maintaining appropriate systems of internal control. The systems support the integrity and completeness of the financial information reported.

40. What's the difference between a "qualified" and "unqualified" audit opinion?

Audit reports represent an auditor's professional opinion on whether an organization's financial position and results of its operations are presented fairly in its financial statements.

An unqualified, or clean opinion, is a judgment that an organization's financial records and statements are fairly and appropriately presented.

A qualified opinion indicates an auditor has concerns with the financial information. Those concerns could include things like the availability of sufficient information for users to make an informed decision, or the organization's reporting in accordance with public sector accounting standards.

In this case the Auditor General has chosen not to issue an opinion at all – either unqualified or qualified.

41. Why didn't the Auditor General issue an audit opinion? Is this even legal?

Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. This reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

The government also believes it is in the public interest for the Auditor General to issue and audit opinion on Ontario's consolidated financial statements as soon as possible.

42. What is a jointly-sponsored pension plan?

The Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of both pension plans are held in a trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between both parties.

During the 2015-16 Public Accounts audit, the Auditor General raised some questions about Ontario's past accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

43. How does the Auditor General want you to account for jointly-sponsored pension plans?

During the 2015-16 Public Accounts audit, the Auditor General expressed a different interpretation of the existing PSAB standards which would impact the accounting for pension assets of jointly-sponsored pension plans.

The Auditor General's view is that the government does not have legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the Auditor General believes that the pension asset should be removed from the Province's balance sheet.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. We believe that this reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

General Media Qs&As

44. Is the government artificially balancing the budget through the one-time sale of assets like Hydro One?

The government's plan to eliminate the deficit does not depend on revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The government is committed to dedicating the net revenue gains from asset optimization activities, including the broadening of ownership of Hydro One and real estate sales to the Trillium Trust which will be used to invest in transit, transportation and other priority infrastructure projects under Moving Ontario Forward.

45. According to your numbers the deficit was down $3.5 billion from the $8.5 billion projected in last year's budget. Where did this money come from?

The improvement over plan was largely due to revenues that were $4.0 billion above the forecast of $124.4 billion.

This reflects higher than expected tax revenue and net revenues from the first phase of broadening Hydro One ownership, and stronger overall performance from government business enterprises. Maximizing the value of these assets is part of the government's economic plan for Ontario.

46. Does the fact that your deficit is $3.5 billion lower than projected mean you have more money to bring to the table in labour negotiations (e.g. doctors)?

It is important to point out that through the Public Accounts process, we are reporting on past performance, whereas labour negotiations impact future fiscal pressures.

Our government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19. We know we have difficult choices ahead, but people can be assured that their government will take a fair and balanced approach, one that protects and improves the services that matter to Ontarians.

Managing compensation costs is critical to balancing the budget, as over half of government spending goes to salaries and benefits in the Ontario Public Service (OPS) and the broader public sector (BPS).

Compensation costs must be addressed within Ontario's existing fiscal framework and all public-sector partners must continue to work together to control current and future compensation costs.

While continuing to work to achieve fiscal balance by 2017–18, the government is achieving significant results in priority areas for Ontarians.

We know there is more hard work ahead as we work towards a balanced budget, and we are confident that our partners will work with us to build Ontario up.

47. Will you still be able to balance the budget if Ontario's economy does not perform as strongly as you forecast? Even the FAO has said that your forecast is optimistic.

The government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries.

While uncertainty in the global economy has increased, along with increased volatility in global financial and currency markets, Ontario has a diversified economy – meaning the Province is well positioned to respond to changing global economic conditions.

With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve balance.

48. Are you cutting back on vital services like health care to balance the budget?

No. Through Program Review, Renewal and Transformation (PRRT), we are helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered

efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care.

49. This is the seventh year in a row that you have reported a deficit lower than forecast. Are you purposefully overestimating your deficit projections?

The government remains committed to balancing the budget by 2017-18 and is taking deliberate and responsible steps to achieve this goal.

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

The government's fiscal projections are based on the best economic and fiscal information available at the time. They reflect a realistic and responsible plan to manage the Province's resources, while still protecting the vital services that Ontarians rely on.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

50. You spent $433 million more than you budgeted for programs. How is your government keeping spending in check?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education, and by retaining the lowest per capita program spending in Canada.

51. How would the Ontario Rebate for Electricity Consumers impact Ontario's plans for a balanced budget? How will the province pay for this $1 billion rebate?

We have incorporated that expenditure into our fiscal plan starting in 2017. The government remains committed to balancing the budget by 2017-18 and remaining balanced in 2018-19 by continuing to invest in the economy, our people and a healthy, clean and prosperous low-carbon future. These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth.

Questions related to the Ontario Rebate for Electricity Consumers should be referred to my colleague, the Minister of Energy.

52. How is the money spent on the now defunct Ontario Retirement Pension Plan reflected in Public Accounts? How does the government justify this expense?

TBC OPCD + MOF

53. Was the delay in tabling Public Accounts because you can't afford the childcare commitment and the electricity rebate?

No. Public Accounts is a retrospective document that compares Ontario's actual performance to what was planned in the Budget.

I have directed senior Treasury Board officials to work with the Office of the Auditor General to develop a plan and finalize the Public Accounts as soon as possible.

54. In 2003, your government brought in legislated timelines for Public Accounts, yet you're past the deadline and you still haven't tabled them. Why didn't you adhere to your own legislation?

We have been working with the Office of the Auditor General to try to come to an agreement on the treatment of pension assets.

The Public Sector Accounting Board has initiated a project to review pension accounting standards, and will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

In order to be transparent, and in the public interest, the government is releasing its Financial Statements in order to show the province's financial position.

We believe that this reflects the fiscal outcome proposed by the auditor with respect to the treatment of the pension asset in question.

55. Disagreement with officers of the legislature seems to be a recurring theme – at least with the Auditor General – what's your position on this? Does this government have a problem with officers of the legislature?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

56. Is the fact that you've changed your accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous

Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

For 2015-16 financial statements, the government legislated its accounting treatment for pension assets of its jointly-sponsored pension plans.

57. Are you concerned about how the credit rating agencies will view this issue?

The Province's financial results show that the government has once again beaten its deficit targets and remains on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Our government remains committed to balancing the budget in 2017-18. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

58. Can credit rating agencies adjust their ratings based on this new development? What about bondholders?

The government remains committed to balancing the budget by 2017-18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. The deficit is also a $0.7 billion improvement compared to the interim results for 2015-16 contained in the 2016 Budget, which formed the basis for three rating agencies to confirm the Province's credit rating, and the fourth to improve their assessment of the Province's credit outlook.

This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

The rating agencies and bondholders will understand that the change in the Province's accounting treatment for pension assets of jointly-sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements or total debt outstanding.

Hydro One

59. Why are you selling off Hydro One?

The government is broadening the ownership in Hydro One to improve the company's long-term performance and unlock billions in value for investment in major infrastructure projects that will help grow Ontario's economy for years to come.

This approach will create an improved company that would operate more efficiently and better serve the interests of ratepayers and customers of Hydro One.

The net revenue gains from broadening the ownership of Hydro One shares will provide the government with approximately $4 billion to be credited to the Trillium Trust to invest in key infrastructure and create thousands of jobs, as well as $5 billion to reduce debt.

60. What is the Hydro One deferred tax benefit?

As a result of Hydro One exiting the Payment in Lieu (PILs) regime and the revaluation of its fixed assets upon entering the corporate tax regime, the company recognized a deferred tax benefit in fiscal 2015-16, which positively affected its net income.

At consolidation in Public Accounts of the Province's portion of Hydro One's net income, Hydro One's recognition of a deferred tax benefit increased the Province's revenues by $2.4 billion. The gain associated with Deferred Tax Benefit from the IPO has been allocated to the Trillium Trust.

61. Why did you loan the electricity unions money to buy shares of Hydro One?

In connection with the IPO, the Province sold $116 million worth of Hydro One shares to trusts of the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts. Of the shares sold to the Trusts, about $108 million was purchased using loans provided by the Province. The gains from those share sales will be credited to the Trillium Trust over time as the loans are repaid.

The government is fully committed to dedicating net revenue gains from the sale of designated assets to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of Moving Ontario Forward.

The $3.2 billion being credited to the Trust at this time does not include amounts associated with shares purchased by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts using loans provided by the Province.

62. The government is being sued over the sale of Hydro One. Was the sale worth it to balance you budget now that you're being sued?

I understand Ontario has been served with a notice of claim. As this matter may be subject to litigation, it would be inappropriate to comment further.

63. The FAO has warned that the partial sale of Hydro One will have direct implications on the provinces debt and ability to balance the budget. What do you say to these concerns?

To date, Ontario has sold approximately 30 per cent, or about half of the 60 per cent of shares the government intends to sell, and with this $3.2 billion credited to the Trillium Trust is well on track to meet its multi-year asset optimization target to generate $5.7 billion over time to support investments in infrastructure.

Crediting the $3.2 billion to the Trillium Trust demonstrates Ontario's commitment to investing in infrastructure projects that help stimulate economic growth and create good, well-paying jobs.

The government acknowledges the important role played by the FAO in providing independent analysis to the Assembly on the state of the Province's finances.

Bargaining and Compensation

64. What is the government doing to control executive compensation in the Broader Public Sector?

In March 2015, the government proclaimed the Broader Public Sector Executive Compensation Act, 2014 (BPSECA) into force. This legislation allows the government to establish compensation frameworks for designated senior executives in the broader public sector.

An Executive Compensation Framework came into force on September 6, 2016. The framework reinforces that designated BPS employers are accountable for compensation decisions, sets caps and prohibitions on certain types of

compensation, requires enhanced public transparency and allows impacted employers to balance the need to attract the necessary talent to deliver high quality public services while managing public dollars responsibly.

The framework applies to all designated employers under BPSECA, including hospitals, school boards, colleges and universities, community care access corporations, provincial agencies and named hydro entities.

The framework caps salary and performance-related payments for designated executives at no more than the 50th percentile of appropriate comparators and prohibits elements like signing bonuses and pay in lieu of perquisites.

The framework also requires that each designated employer engage in public consultation on their compensation program before it is finalized and requires final programs to be posted on the designated employer's website. These requirements enhance transparency and give Ontarians the opportunity to provide input on executive compensation in the BPS.

BPSECA includes significant compliance and enforcement measures: employers will be required to complete reports concerning compliance with the framework and individuals could be subject to penalties if they willfully fail to provide a report, provide a false report or obstruct an auditor.

65. How are you managing the costs of public sector compensation?

Managing compensation costs is critical to balancing the budget, as more than half of government spending goes to salaries and benefits, including those of both the Ontario Public Service (OPS) and broader public sector (BPS). All public-sector partners must continue to work together to control current and future compensation costs.

Since July 2012, the average annual negotiated wage increase across Ontario's provincial public sector has been 0.6 per cent. This is lower than:

- Ontario's municipal public sector (1.7 per cent)
- the federal public sector in Ontario (1.7 per cent)
- Ontario's private sector (1.9 per cent)

66. Where is the agreement with OPSEU reported in Public Accounts? Was this truly net-zero?

The agreement reached with OPSEU's Central and Unified bargaining units on October 30, 2015 is net-zero and remains consistent with the fiscal plan outlined in both the 2014 and 2015 Budgets.

To achieve a net-zero outcome, there are no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4% one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4% pay increase. Both are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

This agreement will support the government's ongoing efforts to eliminate the deficit while protecting the valued public services Ontario families rely on.

67. The Premier recently said the era of net zero is over. How will this affect labour negotiations?

As a government, we'll continue to do what we've always done in terms of negotiations. As the time comes to negotiate new contracts, whether it's Treasury Board Secretariat that's negotiating or an individual ministry, they always come to Treasury Board to get an approved mandate. So we'll carry on with that practice of coming to Treasury Board for an approved mandate that will fit within the fiscal plan.

Ontario's Financial Position

68. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?

The government remains firmly committed to balancing the budget by 2017–18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

69. Some have said your government has a spending problem, not a revenue problem. As the largest subnational borrower, what do you say to that?

The government beat its deficit target for the seventh year in a row. Last fiscal year's deficit is $5 billion, down $3.5 billion from the $8.5 billion projected in last year's budget.

The government is projecting a deficit of $4.3 billion in 2016-17 and a return to a balanced budget in 2017-18.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

Over the past four years the Province has held the average annual growth in program spending to 1.9 per cent, less than the rate of inflation, while investing in services that people rely on.

Key elements of the government's plan to eliminate the deficit are:

- Program Review, Renewal and Transformation
- managing compensation costs
- maintaining tax fairness and a level playing field for business
- strengthening government transparency, financial management and fiscal accountability

70. How much did government spend in 2015-16?

TBC OPCD

71. Why was total expense $300 million higher than projected in the 2015 Budget plan?

Total expense in 2015–16 was $133.4 billion, $1.5 billion higher than the 2015 Budget plan. Program spending was $122.4 billion, up by $1.9 billion from a planned spending of $120.5 billion.

The increase largely reflects the government's decision, announced in the 2015 Ontario Economic Outlook and Fiscal Review, to invest $0.3 billion through the new Green Investment Fund. As well, spending in the health, children's and social services, justice sectors and other programs was higher than planned.

Total program spending was $1.9 billion higher than the Budget, resulting in actual program expense of $122.4 billion. The increases were attributable to:

- $1.5 billion pension asset valuation allowance for OTPP and OPSEU.
- Health sector expense was $294 million, or about 0.6 per cent, above plan. Higher spending resulted from increased drug costs as well as higher hospital sector expense, partially offset by underspending in agencies.
- Children's and social services sector expense that was $124 million higher than planned, due mainly to additional spending to address demand for the Ontario Disability Support Program and the cost of prescription drugs for social assistance recipients.
- Justice sector expense increased by $120 million, mainly due to settlements under the Proceedings Against the Crown Act and higher-than expected bad debt provisions related to unpaid fines.
- Other programs expense was $628 million higher than expected. The increase was due to one-time investments through the Green Investment Fund, higher than anticipated expense for the Ontario Production Services Tax Credit and costs related to the Hydro One IPO.

Increases in these sectors and programs were offset by:

- Education sector expense was $233 million lower than expected, due in part to a higher share of funding spent on capital projects that are capitalized and amortized instead of expensed, higher-than-forecasted revenues from education development charges, and slightly lower-than-projected enrolment.

- Post-secondary and training sector expense was $176 million lower than expected, mainly due to lower spending on post-secondary operating grants and lower student financial assistance as a result of lower-than-forecast enrolment. As well, spending on employment and training programs was below plan, partially offset by higher expense on tax credits to employers to support training.

72. What are you going to do if Ontario's economy does not perform as strongly as you forecast?

The Province has included prudence as part of the fiscal plan to help ensure it meets future fiscal targets as it moves towards a balanced budget in 2017–18.

As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan continues to incorporate prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2016–17, and $1.2 billion in each of 2018–19.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

In keeping with sound fiscal practices, the Province's revenue outlook is based on prudent economic assumptions. The Ontario Economic Forecast Council, established under the FTAA, reviewed the Ministry of Finance's economic assumptions in February 2015. All council members found the assumptions to be reasonable.

73. What if interest rates go up? What affect would higher interest rates have on debt?

The Province is operating under a historically low interest rate environment, however, if interest rates did increase, a one percentage point change will result in an impact of approximately $350 million to the Province's interest expense.

74. What is the government's annual borrowing program?

The amount of money the government borrows varies from year to year and is dependent on the deficit, proposed investments in capital and amount of debt that is maturing.

Over the three years 2016-17 to 2018-19 average long term public borrowings are estimated to be $26 billion per annum, considerably lower than what the Government borrowed over the past three years which averaged at $33 billion per annum. The lower borrowings are primarily due to the Government's efforts in reducing the deficit and balancing in 2017-18.

75. Did you use your reserve fund to pad your fiscal results and pay down the debt?

For planning purposes, a reserve is included in the budgeted surplus/deficit each year to guard against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance. The 2015 Budget plan included a $1.0 billion reserve. Without the reserve, the actual deficit result of $5.0 billion would not have been affected.

Budget Surplus and Revenue Increase

76. Can you explain the $4.0 billion increase in revenue since your 2015 Budget?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

77. How did net income from government business enterprises increase by $100 million from your 2015 Budget projection?

This increase was mostly attributable to combined higher net income from the Liquor Board of Ontario (LCBO), Ontario Lottery and Gaming Corporation (OLG) and Ontario Power Generation Inc. (OPG).

Higher net income from these business enterprises, however, was partially offset by lower net income from Hydro One, primarily reflecting impacts from broadening Hydro One ownership.

Contingency Fund / Reserve

78. What is the difference between the contingency fund and the reserve?

The contingency fund is an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover expenses due to unforeseen events (e.g. fighting forest fires). This approved spending limit is allocated during the year to ministries for their programs and activities.

The reserve is an amount included in the forecast each year to protect the plan against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance.

Budget Projections vs. Public Accounts Reporting

79. What accounts for the $4.4 billion increase in taxation revenues from your 2015 Budget projection?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

80. Why did Ontario's net debt increase by $20 billion in 2015-16?

Net debt is the Province's total debt and other liabilities, less its financial assets, including cash and investments. The increase was primarily due to a $10.9 billion

increase in liability and a $10.7 billion pension accounting adjustment, which was primarily offset by a $1.0 billion increase in financial assets.

81. How do you explain the $12.4 billion increase in total debt in 2015-16?

The increase of $12.4 billion in total debt is due to borrowing for the deficit and investments in capital assets for 2015-16. It also includes pre-borrowing of $2 billion to take advantage of low interest rates and continuing demand for the Province's Debt.

82. Why is the government now including 5-year trends in the Public Accounts?

The increased disclosure and discussion on 5-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board. This increased disclosure enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs. In addition to the disclosure in the Annual Report, the government is also making available supplementary information through data visualization.

83. Why is the interest on debt for 2015-16 $400 million lower than forecast in the 2015 Budget?

Interest on debt expense was $0.4 billion below plan in 2015-16, as a result mainly of lower-than-forecast interest rates, the lower-than-planned deficit and cost effective borrowing and debt management.

84. Why is interest on debt for 2015-16 $400 million higher than in 2014-15?

Interest of debt is higher by $332 million from last year, mainly due to the funding of the deficit and investment in capital assets and partly offset by the impact of lower interest rates.

Program, Review, Renewal and Transformation

85. How are you reviewing and transforming government programs?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered

efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

86. Has PRRT achieved any tangible results/savings?

The government has achieved a number of efficiencies to make programs more sustainable, such as negotiating lower prices for goods and services and managing compensation.

But PRRT is about more than saving money — it is a continuous planning approach focused on improving outcomes for government programs and services to ensure they are effective, efficient, relevant and sustainable.

87. What do you have to say to those public sector workers who have lost their jobs or are at risk of losing their jobs because of PRRT?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Government Assets

88. What is the government doing to extract value from any government assets?

With the 2014 Budget, the government began the process of unlocking the economic value of the Province's assets, including setting up the Premier's Advisory Council on Government Assets, chaired by Ed Clark, former Group President and Chief Executive Officer of TD Bank Group.

The council delivered recommendations on the electricity sector to the Province in advance of the 2015 Budget, including broadening the ownership of Hydro One. This would involve an initial public offering of about 15 per cent of the voting securities in Hydro One, with additional share sales in subsequent years. Over time, share offerings would total up to 60 per cent of the voting securities in Hydro One.

The Province is also moving forward with its plans to unlock value from its real estate assets, including OPG's head office building, and the Seaton and Lakeview lands. In June 2016, the Province closed the sale for the Liquor Control Board of Ontario's (LCBO) head office lands, raising $260 million in gross proceeds.

All net revenue gains from the sale of qualifying assets will be dedicated to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of the Moving Ontario Forward initiative.

Trillium Trust

89. Have the net proceeds from the sale of the GM holdings and the partial sale of Hydro One been dedicated to the Trillium Trust, and how is that being reported in Public Accounts?

The Trillium Trust Act, 2014, provides for the dedication of net revenue gains from the sale of qualifying assets to help support key infrastructure priorities, such as roads, bridges and public transit. A schedule in Volume 1 of the Public Accounts reports on the financial activities of the Trillium Trust.

Volume 1 shows that $1.35 billion was available for the Trillium Trust at March 31, 2016, to help fund investments. This reflects the sale and redemption of the Province's shares in General Motors in earlier years.

In August 2016, a regulation was put in place that credited the trust with $3.2 billion from the net revenue gains resulting from the Hydro One IPO, the gain on sale of shares in November 2015 and the share of the deferred tax benefit to Hydro One that has been recognized by Ontario through its share of Hydro One net income as a result of its ownership position in Hydro One.

The net revenue gains from the secondary offering in April 2016 will be reported in the 2016-17 Public Accounts and credited to the Trillium Trust.

90. How have you spent the funds dedicated to the Trillium Trust?

As announced in the 2016 Budget, the government plans to begin drawing on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history.

Based on planned expenditures, in 2016–17 the Trillium Trust would support Moving Ontario Forward initiatives, such as GO Transit Regional Express Rail, Hurontario Light Rail Transit and the Ontario Community Infrastructure Fund.

91. Why are you allocating non-cash items like the deferred tax asset generated in the Hydro One transaction to the Trillium Trust?

TBC OPCD

Moving Ontario Forward

92. In the 2015 Budget, the government stated that $3.5 billion would be dedicated to the Moving Ontario Forward plan. So far, only $1.35 billion has been dedicated to the Trillium Trust. How do you propose to supply the $2.15 billion difference?

Moving Ontario Forward dedicated funds would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.
- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.
- Dedicated proceeds from targeted revenue measures.
- The government's asset optimization strategy, with net revenue gains dedicated to the Trillium Trust to help support investments in public infrastructure.
- Working with the federal government to secure federal funding through the Building Canada Plan.

93. How much did the government spend on Moving Ontario Forward in 2015-16?

Moving Ontario Forward is part of the government's commitment to invest more than $137 billion in public infrastructure over the next 10 years. Investments are underway, including providing $100 million per year to small, rural and northern municipalities through the Ontario Community Infrastructure Fund to build and repair critical infrastructure.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. Spending would ramp up significantly once this preliminary work is completed and construction activity is underway. Over the 10-year Moving Ontario Forward period, all of the dedicated funds are expected to be spent on priority infrastructure projects.

94. Why aren't the additional $2.2 billion in revenues dedicated to the Moving Ontario Forward plan reported in the Public Accounts?

In the 2015 Budget, the government committed to dedicate $31.5B over 10 years to support infrastructure projects under the Moving Ontario Forward plan, which included $5.7B from its asset optimization strategy. In 2014-15, this amounts to about $3.5B in dedicated funds including $1.3B from asset optimization. The remaining $2.2B in 2014-15 would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.

- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.

- Dedicated proceeds from targeted revenue measures.

- Working with the federal government to secure federal funding through the Building Canada Plan.

These additional amounts are largely taxation revenues and are reflected in the total revenue figures in the 2014-15 Public Accounts.

95. How does investing in public infrastructure impact the economy?

A large and growing body of independent research shows that infrastructure investments support jobs, augment personal incomes and produce real growth in the economy. For example, a September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

The Province's planned investments in infrastructure are expected to support over 110,000 jobs, on average, each year.

96. The Public Accounts makes reference that the Province's investment in capital assets is guided by sound asset management planning principles, so why is the education sector facing large renewal needs?

The Province has announced new renewal investment, including: increased investments in GO Transit rehabilitation and renewal; additional annual funding of $50 million to assist hospitals in maintaining their facilities in good repair; and a $1.1 billion investment to repair and renew schools across the province (allocated to school boards in proportion to their renewal needs).

In the education sector, the School Condition Improvement program addresses renewal needs focusing on ensuring that facilities are in good condition, energy efficient and accessible and meet modern service standards. The funding will enable school boards to repair roofs, update HVAC units and modernize electrical and plumbing systems. It will also significantly improve more visible elements of schools that impact students' learning and well-being, including flooring, walls, ceilings, playing fields and more. To support transparency, the government has also released detailed information regarding the condition and renewal needs of each of Ontario's publicly funded schools.

Transparency

97. You say the Province's Annual Report is a central element in demonstrating transparency in reporting financial activities and accountability, yet the FAO continues to criticize your government for withholding information. What do you say to these criticisms?

The relationship between the FAO's office and our government is very important.

Our door is open to meet with the FAO and his staff upon request, and our government has tried to be proactive in reaching out to provide clarification when it could be of use.

We want to be accommodating and helpful, while also respecting the requirements of the 2013 FAO Act. With this in mind, Treasury Board has provided additional information to complement and/or further clarify our responses to the FAO when we've received follow-up requests from his office.

We have also reformatted information into machine-readable charts upon request, when it was possible and consistent with legislation. All requests from the FAO office to the Treasury Board Secretariat have been responded to.

Pan Am Games

98. How much was spent on the games, where does it appear in Public Accounts? And how does your government justify this expense?

These were the largest, most successful Pan/Parapan Am Games ever – creating 26,000 jobs, boosting Ontario's GDP by $3.7B and leaving a lasting legacy that will benefit Ontario for years to come. The economic boost that resulted from the Games acted as a catalyst for economic, social, infrastructure and athletic development and we were proud to host these Games.

Questions related to the Pan Am Games should be referred to my colleague, the Minister of Tourism, Culture and Sport.

Underground Economy

99. How are you ensuring revenue integrity?

A fair and efficient tax system is critical to sustaining public services. The 2014 Budget noted that when businesses aggressively avoid or evade paying taxes, everyone else is left to make up the shortfall, putting the competitiveness of legitimate businesses at risk.

Since 2013–14, the Province has taken concrete measures to help ensure tax fairness and a level playing field for business. These include enhanced auditing and compliance activities, such as a multi-year agreement with the Canada Revenue

Agency to address the underground economy and corporate tax avoidance in Ontario. The Province has also targeted areas at high risk of underground economic activity with pilot initiatives that focus on mitigating unfair and unsafe circumstances for Ontario's workers and consumers.

In total, these efforts have generated an estimated $1.1 billion for Ontario to date. The Province will build on these successful initiatives with new approaches to ensuring revenue integrity.

From: Anna Strathy
To: Ken Kandeepan
Subject: FW: MOF FOI Request A-17-189 (Economic and Fiscal Outlook FAO Report) - Request Narrowed
Date: Monday, January 15, 2018 11:13:35 AM
Attachments: Summary of Draft FAO Fall Economic and Fiscal Outlook_v6d.docx

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Hi Ken,

Office of the Budget is releasing the attached note in response to an FOI request. The request was for final documents related to the FAO's Fall Economic and Fiscal Outlook. The attached summary note was provided to the DMO and MO. We've been asked to review to determine whether anything needs to be redacted (i.e., advice to Cabinet).

I've reviewed and only see two areas for the OFA to consider:

Borrowing and Net Debt (p. 3-4)

- Using the **government's accounting presentation** net debt-to-GDP is expected to reach 38.5 per cent by 2019–20 and 38.7 per cent by 2021–22. This increases to 41.4 per cent by 2021–22 **under the AG's accounting presentation for jointly sponsored pension plans and the Fair Hydro Plan**.

    - The 2017 FES projected a net debt-to-GDP ratio of 37.0 per cent by 2019–20.

This information is already public – I see no need for redaction.

Chart on page 5 compares the 2017 FES fiscal table with the FAO's outlook

While we have not published the delta, all of the inputs to the table are public – I see no need for redaction.

Could you please have a quick review and let me know if you agree with my assessment?

Thanks, Anna

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Friday, January 12, 2018 2:41 PM
To: Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>
Cc: Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
Subject: FW: MOF FOI Request A-17-189 (Economic and Fiscal Outlook FAO Report) - Request Narrowed

Hi Ghufran, Sarah, and Anna,

We received an FOI request for final documents related to the FAO's Fall Economic and Fiscal Outlook (EFO). OB is planning on providing the attached final summary note to the FOI office. We're just in the process of verifying whether any of our components of the summary note need to be redacted.

Can your areas please review the note and flag whether any of the information should be redacted in line with FIPPA exemptions **by noon on Tuesday, January 16**? Exemptions should be limited to information that is not publically available (e.g. internal analysis/advice for government officials).

Please let me know if you have any questions.

Thanks,
Ryan

From: Bouganim, Dalia (MOF)
Sent: January-05-18 12:21 PM
To: Forrest, Jamie (CAB); Ghiassi, Ali (MOF); Fiore, Jessica (MOF); Park, Ria (MOF); Wong, Mimi (MOF); Zisser, Helmut (MOF); Moore, Brynne (MOF); Clarke-Darshanand, Jamille (MOF); Spadoni, Peter (MOF); Kim, Minzi (MOF); Koukoulas, Sophia (MOF)
Cc: Hwang, Wendy (CAB); Jeanes, Bridget (MOF); Joynt, Lorraine (MOF); Murphy, Jessica (MOF); Williams, Nadia (MOF); Sharda, Ritvik (MOF); Tarin, Ghufran (MOF); Birks, Ryan (MOF)
Subject: MOF FOI Request A-17-189 (Economic and Fiscal Outlook FAO Report) - Request Narrowed

UPDATE: Request narrowed on January 4, 2018 to final documents, excluding emails, related to the substance of the "Economic and Fiscal Outlook, Fall 2017 Update" released by the province's Financial Accountability Office on December 11, 2017 for the time period of December 4, 2017 to December 25, 2017. This request has also been actioned to the Office of the Budget.

Sincerely,

Dalia S. Bouganim
416-325-8370

From: Bouganim, Dalia (MOF)
Sent: January-02-18 1:49 PM
To: Forrest, Jamie (CAB); Ghiassi, Ali (MOF); Fiore, Jessica (MOF); Park, Ria (MOF); Wong, Mimi (MOF); Zisser, Helmut (MOF); Moore, Brynne (MOF); Clarke-Darshanand, Jamille (MOF); Spadoni, Peter (MOF); Kim, Minzi (MOF); Koukoulas, Sophia (MOF)
Cc: Hwang, Wendy (CAB); Jeanes, Bridget (MOF); Joynt, Lorraine (MOF); Murphy, Jessica (MOF); Williams, Nadia (MOF); Sharda, Ritvik (MOF); Tarin, Ghufran (MOF)
Subject: NEW CONTENTIOUS FOI REQUEST - Request A-17-189 (Economic and Fiscal Outlook FAO Report)

UPDATE: New request, clarified on December 29, 2017. Actioned to the Office

of Economic Policy, Deputy Minister's Office, Minister's Office and Communications Services Branch.

REQUEST: Copies of all documents, including e-mails, briefing notes, media lines, text or Instant messages, etc., regarding the Economic and Fiscal Outlook, Fall 2017 Update released by the province's Financial Accountability Office on December 11, 2017. Time Period: December 4, 2017 to December 25, 2017.

SOURCE: Media

DUE DATE: January 28, 2018

Please contact me if you have questions about the request.

Sincerely,

Dalia S. Bouganim
Assistant FOI Coordinator
Freedom of Information and Privacy Office
Ministry of Finance
95 Grosvenor Street
Toronto, Ontario M7A 1Z1
Tel: 416-325-8370

FAO's 2017 Fall Economic and Fiscal Outlook

ISSUE

On Monday Dec 11th, 2017 the Financial Accountability Office will release its 'Fall Economic and Fiscal Outlook' report. This note is a summary.

TOP MESSAGES

- I would like to thank the Financial Accountability Officer (FAO) for releasing his fall economic and fiscal outlook for Ontario. We value the FAO's independent assessment and projections of the province's fiscal plan.
- The government is committed to a responsible fiscal plan that provides the conditions for all Ontarians to thrive.
- As outlined in the 2017 Ontario Economic Outlook and Fiscal Review, the government is projecting a balanced budget for 2017–18 and continued balance in 2018–19 and 2019–20.
- The FAO's deficit projections differ from the government's, but as with any future oriented forecast there is uncertainty.
- What we do know for certain is that this government has a strong track record of beating its fiscal targets. In fact, the Public Accounts of Ontario reported that the 2016–17 deficit was $1.0 billion, beating our annual deficit target again, for the eighth year in a row.
- The 2017 Ontario Economic Outlook and Fiscal Review builds on the government's track record of fiscal management that has resulted in $29 billion in accumulated deficits being avoided over the past seven years, relative to the 2010 Budget forecast.
- We are also targeting a net debt-to-GDP ratio of 35 per cent by 2023–24 and reducing Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029–30.
- Since 2014, Ontario's real GDP growth has strengthened, positioning Ontario as a growth leader, not only in Canada, but among G7 countries. In fact, over the 2014-17 period, Ontario's real GDP growth is on pace to exceed that of all G7 countries.
- Private-sector economists are projecting continued growth for Ontario over the forecast horizon; the FAO's real GDP projections are aligned with the 2017 Fall Economic Statement over the 2017 to 2020 period.
- This shows that our plan to make strategic investments in Ontario to grow the economy is working.
- A balanced budget is providing the Province the fiscal flexibility to invest more in health care, education, support for seniors and small businesses and other public services that matter most to Ontario families. A balanced budget also adds stability to Ontario's finances and positions the government to better respond to demographic challenges and unexpected global economic shocks that the province will face over the next decade.

- We will continue moving forward on our fiscally responsible plan that creates fairness and opportunity for all Ontarians.

KEY POINTS

Economic Outlook

- The FAO has raised its forecast for Ontario economic growth in 2017 from its spring outlook report. However, despite this upward revision, the FAO forecast is at the bottom of the current range of the MOF survey of private sector forecasts for both real and nominal GDP growth in 2017.
- Beyond 2017, the FAO forecast anticipates growth to moderate as the housing market and consumer spending cool alongside gradually rising interest rates, in line with the FES forecast.
- Over the 2017 to 2020 period, the FAO's forecast for average annual real GDP growth of 2.2 per cent is the same as the 2017 FES outlook.
- However, for nominal GDP growth, the FAO's average annual forecast of 4.2 per cent over the 2017 to 2020 period is slower than the FES projection of 4.4 per cent growth. This difference is explained by a much lower FAO nominal GDP forecast in 2017 compared to the FES (4.7 per cent vs 5.3 per cent).
- The FAO forecast takes into account its estimate of the impact of the new minimum wage legislation, which is expected to boost wage growth over the forecast, but temper employment gains. Even with these employment impacts, the FAO predicts a modest decline in the unemployment rate.

Fiscal Outlook

- The FAO is projecting a budget deficit of $4.0 billion in 2017–18 using the **Auditor General's recommended accounting treatment for both the Fair Hydro Plan and the net pension assets of jointly sponsored pension plans.** In the absence of any fiscal policy changes the deficit grows steadily to $9.8 billion in 2021-22.
- Under the **government's accounting presentation (excluding the AG's recommendations)**, the FAO projects a small surplus for 2017–18 of $0.2 billion (excluding the reserve) and a return to deficits beyond 2017–18 driven by revenue factors - loss of temporary revenues combined with more moderate tax revenue growth.
- The FAO suggests that by not adopting the AG's recommended accounting presentation, the 2017 Budget and the 2017 FES have reduced transparency and clarity of Ontario's fiscal position and Ontario will continue to receive qualified opinions from the AG on its Pubic Accounts.

Budget Balance - FAO's Fiscal Outlook ($ Billions)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
AG Presentation	-5.0	-2.4	-4.0	-7.1	-7.8	-9.0	-9.8
Government Presentation	-3.5	-1.0	0.2	-1.9	-1.9	-2.6	-3.7
2017 FES -- Excluding Reserve	-3.5	-1.0	0.5	0.5	0.8	N/A	N/A

Revenue Outlook

- The FAO is projecting average annual revenue growth of 3.2 per cent from 2016-17 to 2019-20 as compared with the government's projections of 4.0 per cent. The main drivers are:
    - The FAO projections for taxation revenues are $2.9 billion lower by 2019-20 than the projections in the 2017 FES due to lower projected growth in household spending, labour income and corporate profits.
    - In addition, the FAO continues to highlight a number of one-time 2017-18 revenues, including: increase to sales and rentals from sale of final tranche of H1, higher federal transfers for infrastructure (PTIF), a one-time boost from extra Cap and Trade auction. Taken together the FAO estimates that these amount to $4.5 billion in additional one-time revenues in 2017-18.

Expense Outlook

- From 2017–18 to 2019–20 the FAO's outlook adopts the government's 2017 FES projections for program spending, **adjusted to reflect the AG's recommended accounting presentation.**
    - Both the Fair Hydro Plan and net pension asset adjustment impact the expense side with a combined impact of approximately $4.2 billion in 2017-18.
- The FAO notes that in 2018-19 and 2019-20, increases in program spending will be restrained to an average of 2.4 percent, below the growth in underlying spending pressures. Beyond 2019–20 the FAO projects program spending will grow faster -- at an average annual rate of 4.2 per cent – due to population pressures.

Borrowing and Net Debt

- Using the **government's accounting presentation** net debt-to-GDP is expected to reach 38.5 per cent by 2019–20 and 38.7 per cent by 2021–22. This increases to 41.4 per cent by 2021–22 **under the AG's accounting presentation for jointly sponsored pension plans and the Fair Hydro Plan**.

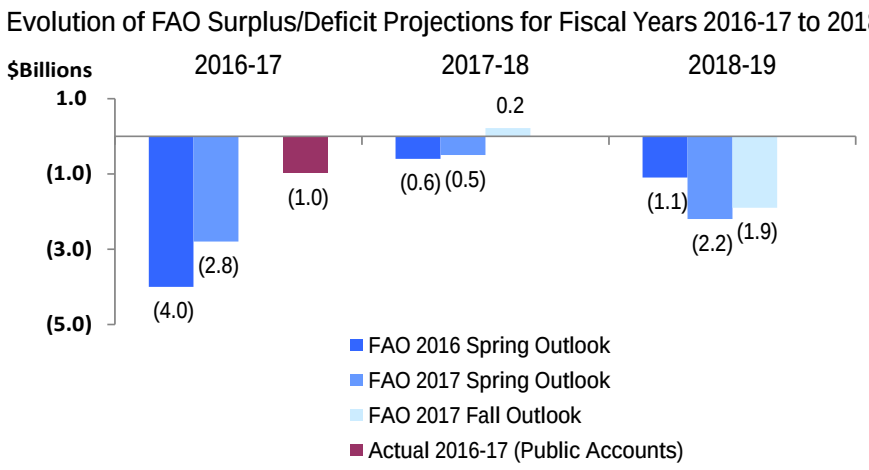
- The 2017 FES projected a net debt-to-GDP ratio of 37.0 per cent by 2019–20.

Comparison: 2017 Fall Economic Statement and the 2017 Fall FAO Fiscal Outlook

	Actual		Outlook					Avg. Annual Growth 16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
2017 Fall Economic Statement										
Taxation Revenue	91.8	94.3	99.9	105.1	110.0			5.2%		
Transfers from Gov't of Canada	23.1	24.5	26.2	26.0	25.4			1.2%		
Income from GBEs	4.9	5.6	5.1	5.9	6.2			3.7%		
Other Non-Tax Revenue	16.3	16.3	19.0	16.5	16.6			0.7%		
Total Revenue	136.1	140.7	150.1	153.6	158.2			4.0%		
Expense										
Program Expense	128.1	130.0	137.4	140.4	144.2			3.5%		
Adjustment for Pension Assets	-	-	-	-	-					
Adjustment for Fair Hydro Plan	-	-	-	-	-					
Interest on Debt	11.6	11.7	12.2	12.7	13.3			4.2%		
Total Expense	139.7	141.7	149.6	153.1	157.4			3.6%		
Surplus/(Deficit)	(3.5)	(1.0)	0.5	0.5	0.8					
Net Debt	295.4	301.6	311.7	323.0	335.6			3.6%		
Change - 2017 Fall Economic Statement to 2017 Fall FAO Fiscal Outlook										
Taxation Revenue	-	-	-1.2	-2.4	-2.9					
Transfers from Gov't of Canada	-	-	0.0	-0.5	-0.4					
Income from GBEs	-	-	0.0	0.0	0.0					
Other Non-Tax Revenue	-	-	0.4	0.0	0.0					
Total Revenue	-	-	(0.7)	(2.9)	(3.4)					
Expense										
Program Expense	-	-	-	-	-					
Adjustment for Pension Assets	1.5	1.5	2.3	2.6	2.9					
Adjustment for Fair Hydro Plan	-	-	1.9	2.7	2.9					
Interest on Debt	-	-	*(0.4)*	*(0.6)*	*(0.7)*					
Total Expense	*1.5*	*1.5*	*3.8*	*4.7*	*5.2*					
Surplus/(Deficit) AG Presentation	*(1.5)*	*(1.4)*	*(4.5)*	*(7.6)*	*(8.6)*					
Surplus/(Deficit) - Gov't Presentation (excl. Fair Hydro Pension Adj.)	*(0.0)*	*(0.0)*	*(0.3)*	*(2.4)*	*(2.7)*					
Net Debt	*11.0*	*12.5*	*17.5*	*24.7*	*32.4*					
2017 Fall FAO Fiscal Outlook										
Taxation Revenue	91.8	94.3	98.7	102.7	107.0	111.3	115.8	4.3%	4.0%	4.2%
Transfers from Gov't of Canada	23.1	24.5	26.2	25.5	25.0	25.8	26.6	0.7%	3.2%	1.7%
Income from GBEs	4.9	5.6	5.1	5.9	6.2	6.5	6.7	3.5%	4.0%	3.7%
Other Non-Tax Revenue	16.3	16.3	19.4	16.5	16.6	17.3	18.0	0.6%	4.1%	2.0%
Total Revenue	136.1	140.7	149.4	150.7	154.8	160.8	167.0	3.2%	3.9%	3.5%
Expense										
Program Expense	128.1	130.0	137.4	140.4	144.2	150.2	156.9	3.5%	4.3%	3.8%
Adjustment for Pension Assets	1.5	1.5	2.3	2.6	2.9	2.9	2.9			
Adjustment for Fair Hydro Plan	-	-	1.9	2.7	2.9	3.4	3.2			
Interest on Debt	11.6	11.7	11.8	12.1	12.6	13.2	13.8	2.5%	4.7%	3.4%
Total Expense	141.2	143.2	153.4	157.8	162.6	169.8	176.8	4.3%	4.3%	4.3%
Surplus/(Deficit) AG Presentation	(5.0)	(2.4)	(4.0)	(7.1)	(7.8)	(9.0)	(9.8)			
Surplus/(Deficit) - Gov't Presentation (excl. Fair Hydro Pension Adj.)	(3.5)	(1.0)	0.2	(1.9)	(1.9)	(2.6)	(3.7)			
Net Debt	306.4	314.1	329.2	347.7	368.0	386.8	404.4	5.4%	4.8%	5.2%

Note: All surplus/deficits exlcude the reserve. Numbers may not add due to rounding.

FAO Projections Compared to Actuals/Current Outlook



Note: Surplus/Deficit excludes the reserve and is calculated based on the government's accounting presentation.

Comparison of FAO Economic Projection to Actual/Current						
	2016 % change			2017 % change		
	FAO Spring 2016	Actual	Diff FAO-Actuals	FAO Spring 2017	FAO Fall 2017	Diff Spring-Fall
Nominal GDP	3.4	4.3	*-0.9*	4.1	4.7	*-0.6*
Real GDP	2.4	2.6	*-0.2*	2.4	2.8	*-0.4*
Corporate Profits	0.3	7.3	*-7.0*	6.0	11.7	*-5.7*
Labour Income	4.0	3.3	*0.7*	4.0	4.0	*0.0*
Nominal Household Spending	4.4	4.2	*0.2*	4.2	4.7	*-0.5*

Comparison of FAO Revenue Projection to Actual/Current						
	2016-17 % change			2017-18 % change		
	FAO Spring 2016	Actual	Diff FAO-Actuals	FAO Spring 2017	FAO Fall 2017	Diff Spring-Fall
Total Revenues	2.6	3.4	*-0.8*	6.3	6.5	*-0.2*
Taxation Revenues	0.6	2.8	*-2.2*	5.1	4.7	*0.4*
Government of Canada Transfers	7.4	6.1	*1.3*	5.8	6.5	*-0.8*
Income from GBEs	14.0	13.4	*0.6*	-7.5	-8.9	*1.4*
Other Non-Tax Revenues	5.8	0.0	*5.8*	29.4	36.9	*-7.5*

Economic Assumptions: FAO vs FES

Real GDP	**2017**	**2018**	**2019**	**2020**	**2017-20 average**
FAO - Fall 2017	2.8	2.1	2.0	1.9	2.2
FES 2017	2.8	2.1	2.0	2.0	2.2
Nominal GDP					
FAO - Fall 2017	4.7	4.1	4.1	4.1	4.2
FES 2017	5.3	4.1	4.1	4.2	4.4
Labour income					
FAO - Fall 2017	4.0	4.5	4.3	4.1	4.2
FES 2017	4.3	4.7	4.8	4.4	4.6
Corporate profits					
FAO - Fall 2017	11.7	2.2	3.7	4.4	5.5
FES 2017	16.1	2.9	2.8	3.7	6.4
Household consumption*					
FAO - Fall 2017	4.7	4.2	4.1	3.9	4.2
FES 2017	5.1	4.3	4.3	4.3	4.5

* Real household consumption plus CPI

From: Christina Zhang
To: Gadi Mayman; Mike Manning; Ken Kandeepan; Erica Wieder; Bonnie Lemcke
Subject: FW: Media Event: FAO Economic and Fiscal Outlook Report
Date: Thursday, November 03, 2016 4:09:26 PM
Attachments: Nov. 3 - FAO Economic and Fiscal Outlook Report.doc

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FYI if you haven't seen this already.

Regards,
Christina

From: CIU, Current Issues (MOF) [mailto:CurrentIssues.CIU@ontario.ca]
Sent: Thursday, November 03, 2016 3:00 PM
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Subject: Media Event: FAO Economic and Fiscal Outlook Report

FAO ECONOMIC AND FISCAL OUTLOOK REPORT
November 3, 2016

Time / Location:
12:15 p.m. / Media Studio, Queen's Park

Speakers:
J. David Wake, acting Financial Accountability Officer; David West, Financial Accountability Office. MPPs Vic Fedeli and Catherine Fife scrummed with reporters afterwards.

Media Attendance:
Print – 5
TV – 6
Radio – 1

Media Outlets:
Jones – CP; Benzie – Star; Jeffords – Sun; Zochodne – QP Briefing; Smith – QP Today; Lamoureux - Radio Canada TV; Unidentified – Newstalk 1010; Rath - CHCH Television (scrums only); Tumelty - City TV; Wong – CP24 (scrums only)

Statements:
David Wake: My name is David Wake. I'm the Ontario Integrity Commissioner but as of last week I was also appointed as the Financial Accountability Officer on a temporary basis while Stephen Leclair's on medical leave. I can also indicate we put this gathering back 15 to 20 minutes to accommodate you because you had questions elsewhere. Unfortunately I have to leave for another engagement so I may have to slip away at some point. But David West can continue with answering any questions you may have. So last week after I agreed to take on the additional duties of the Financial Accountability Officer on a temporary basis, I met with the staff of that office and reviewed its draft fall 2016 update. I decided that this report should be released as originally contemplated by the office. I also decided that that timing of the FAO report's release in fairness to the minister who will soon be issuing his fall economic statement, should be prior to the minister's statement. So accordingly today I delivered to the speaker for tabling, a report providing an updated economic and fiscal outlook for the province of Ontario. The report details the FAO's assessment of the current economic outlook and the province's fiscal position given developments since the FAO's last economic and fiscal outlook released in May. Based on this assessment and in the absence of additional government measures Ontario's budget

would be expected in deficit over the next five years. So at this point I'll ask the Financial Accountability Office's chief economist David West to provide an overview of the report's highlights.

David West: Thank you commissioner Wake. There've been three significant developments since the FAO's Spring report. The release of the 2015-2016 Public Accounts earlier in October; the government's speech from the Throne in September and a revised economic outlook. Each of these developments had a significant impact on the province's fiscal position. The recent Public Accounts reported than expected tax revenues in the fiscal year 2015-16 which translated into higher revenues over the outlook. The Public Accounts also included a legislated change in the accounting treatment for jointly sponsored pension plans, which increased the province's net debt by $10.7 billion in 2015-16 and the annual deficit by $1.5 billion in that same year. However there is significant uncertainty on the impact of this accounting change going forward. In developing this updated projection, the FAO has assumed a program expense would $1.5 billion higher each year over the outlook as a result of the accounting change. The report provides Ontario's fiscal position both including and excluding the accounting change to allow for consistency with the 2015-16 Public Accounts as well comparability with our spring report. The second major development since the FAO's spring report was the government's Throne Speech which included new commitments to expand childcare spaces and provide an HST rebate on electricity bills. When fully phased in these commitments are expected to result in new operating expense of about $1.8 billion per year. Finally the outlook for the economic growth in Ontario has moderated since the spring, reflecting weaker economic conditions in Canada and globally. Slightly slower economic growth leads to modestly lower tax revenues. At the same time, slower growth of the Canadian economy has resulted in a lower interest rate forecast which reduces projection for interest on debt expense. Excluding the change in accounting treatment for pension plans, these developments, the 2015-16 Public Accounts, the Throne Speech commitments and a revised economic outlook were largely offsetting, resulting in a modest deterioration of the budget over the outlook, moderately higher budget deficit over the outlook compared with the FAO's Spring report. Including the assumed impact of the accounting change, the FAO project Ontario budget deficits of $5.2-billion in 2016-17 and $2.6-billion in 2017-18. Beginning of 2018-19 the deficit is forecasted to deteriorate steadily to $3.7-billion by 2020-21 as the growth of revenue is outpaced by increases in program expense and interest on debt. However the government remains committed to balancing the budget in 2017-18 and maintaining balance going forward. Eliminating the deficit by 2017-18 will be more challenging given the assumed impact of the change in accounting treatment. Even so achieving budget balance in 2017-18 may still be within the government's reach through the sale of public assets, the allocation of new revenues to existing spending or through other steps. But maintaining a balanced budget after 2017-18 will likely require additional to raise revenue or lower expense. Based on the FAO's projections Ontario's net debt is expected to rise by $64-billion over the next five years to $370 billion dollars in 2020-21. The result of accumulative deficits, capital spending and a change in accounting treatment. This about $20-billion higher than we forecast in our spring outlook primarily due to the accounting change. As a result of the higher debt, combined with slightly slower growth in nominal GDP Ontario's debt-to-GDP ratio is

expected to plateau at 41%, significantly above the FAO's spring projects. As noted in the FAO spring report, the government has committed to reduce the debt to GDP ratio to 27%, approximately 14 percentage points below the projected value in 2020-21, but has yet to provide any details on how or when it plans to achieve this goal. This report summarizes the FAO's estimates of the most likely outcomes for Ontario's fiscal position, given developments over the past six months. (Inaudible) highlighted in the FAO's spring report, there are significant risks. Economic growth turns out to be even moderately weaker than projected, tax revenues will be lower. At the same, pressures to increase the growth in program spending continue to build, reflecting the growth in population and price inflation. The government has also built into its fiscal plan specific assumptions about revenues from the new cap-and-trade program and from new federal transfers, assumptions which are incorporated in the FAO's projections. These two revenue sources are expected to total over $3 billion in 2017-18. Differences in the timing or net benefit of these new revenues would have a significant impact on the government's fiscal position. To summarize, there have been a number of significant developments since the FAO's spring report on Ontario's economic and fiscal outlook. When taken together, these developments suggest a moderate deterioration in the province's fiscal position compared to our spring report. However, when the assumed impact of the change in the accounting treatment of jointly-sponsored pension plans is included, the projected deficits become more significant, suggesting the need for additional fiscal measures to achieve the government's goal of a balanced budget. Thank you, the commissioner and I are happy to take questions.

Media Questions:

Q. Jones: How difficult is it going to be to lower the net-debt-to-GDP ratio by 14 percentage points?

West: I don't know how to respond to how difficult (inaudible) be. It's certainly going to be a challenge. I mean, for the next five years we see the debt-to-GDP ratio basically plateauing at 41 per cent, and the government hasn't released plans to how it would anticipate to lower that ratio.

Q. Jeffords: It sounds like the accounting squabble that took place earlier with the AG has had a domino effect and is now rolling out and impacting net debt as well (inaudible) probably predictable outcomes. Could you talk about the – just how pronounced that impact is here?

West: So in our spring report, we forecast (inaudible) the net debt to rise to $350 billion by 2020-21. In this current projection, we have net debt rising to $370 billion. As I said, approximately $20 billion higher than what we anticipated in the spring. Deficits are just slightly larger now in this projection. (Inaudible) $18 billion of that $20-billion increase is largely attributable to the accounting change. It's worth noting that the accounting change is not cash, right. This is a non-cash adjustment to the government's books.

Q. Lamoureux: Can you explain as to what the government will have to do if they want to stick to their plan to balance the budget by next year?

West: Well as we point out in the report, it seems likely that the government would have to either raise revenues or lower expense. It's the – the FAO's mandate is to provide an account – you know, a reasonable, independent projections for the economy and the fiscal position of the government. It's not within our mandate to provide policy recommendations or advice on the specific measures that they may choose.

Q. Jones: I couldn't help but notice that in the report, you cite media reports, Queen's Park Briefing specifically, for the – what the government says it will cost – the Throne Speech commitments, the hydro rebate and the child care spaces. Is the office still having trouble getting information from the government, or is there just no information to be had on those spending promises?

West: That's a fair question. So maybe you'll answer the second part of the question. So we based – we did run our report, draft version of our report, by government officials and they agreed – and we lay out our assumptions for the roll-out of those two spending commitments. The government didn't comment on it. I think, you know, they don't have a projection for the roll-out of these (inaudible) one that they weren't going to share with us. I don't see it as a material – they – I don't think it would make a material impact on our projections though the actual timing of the introduction of these programs – and as I said, the government did see what we're preparing to release and we're comfortable with that.

Wake: Just as a follow-up to that, I (inaudible) indicate that maybe past frustrations expressed in the annual report, to which I think you're alluding, may have been addressed by the issuance of the order in council early last month. And I can tell that subsequent to that, we've met with the Secretary of Cabinet and the ministry officials so that at this point we're satisfied that things are in place so that this information can be obtained if it's needed. We'll see, but I think the structure's now in place for the FAO to get all of the material it needs.

Q. Zochodne: Is the FAO going to try and flesh out some more details about the rebate and the child care spaces going forward?

West: So we would be looking forward to the government's own fiscal statement coming in – expected in coming weeks, and would review our assumption (inaudible) in light of that. If necessary, we could make additional requests at that time for additional information if we thought it was necessary.

Q. Zochodne: How big of a swing is that on the government's books that those – the spending promises?

West: $1.8 billion and some. And as I said, you know, the – we looked at a number of developments. That was one of the several developments, and when you include the better-than-expected results from the Public Accounts, savings on interest-on-debt expense, (inaudible) weaker economic growth, which leads to lower tax revenues, all told, all in, there's a moderate deterioration in the deficit. Throw in the accounting

change, and it's a more significant deterioration.

Questions for MPP Fedeli:

Well we've always known there was a trust deficit with this government and now that we have had it proved there's also a financial deficit. We've heard from the FAO that Ontario will plunge into deficit and stay there for at least the very next five years. And that is contrary to what the government says. The FAO also told us today the only way the government can artificially balance the budget for the election year is to continue to sell assets. So these are the one-time sale of assets and he has also said when the assets sales run out that's why our deficits will continue on a downward spiral for the next fears.

Q. Jones: Which scenario do you think we'll see? Do you think we'll see continued deficits or do you think we'll see them raise taxes to cancel those debts?

I think we're going to see both. We're going to see continued deficits, the FAO is fairly clear about that and I think you're going to continue to see raised taxes. They raised taxes 20% in the past five years which oddly makes us the most taxed province in all of Canada and the same time the most indebted subnational on the planet. That just defies logic that you be both.

Q. Jones: They really seem to have gone all in on this promise to balance the budget in 2017-18. You don't think that they'll do anything at all cost to get there?

They will and that's why they'll artificially balance the budget. They will sell the OPG headquarters across the street, they'll continue to sell Hydro One, they'll continue to sell lands such as the LCBO headquarters they will sell anything that isn't nailed down and that's the only way, according to the FAO that they are going to balance, artificially, is by the one-time sale of assets. And of course he also said what happens when you run out of assets to sell? That's why we have the next five years of deficits. We have a structural deficit in the province of Ontario.

Q. Lamoureux: So what will you do if you form the government in 2018? (inaudible) the situation?

The first thing you would do is cut waste, mismanagement and scandal. That's really when you look at some of the things that have happened in the last month we learned we many billions were wasted on the last one. $308 million were wasted on the failed attempt to modernize the OLG. It was $300 million was spent in five different hydro scandals, including the $179 million in the Windstream case, you've got $25 million in another case, $12 million in another case, $300 million alone wasted in two-weeks this month in hydro. So it's waste mismanagement and scandals that have caused this government to continue their deficits.

Q. Zochodne: (inaudible) situation with whoever forms government in 2018 is going to inherit some much worse than expected (inaudible)

It’s interesting you bring that up because in advance, the law states that six months in advance of the next election the Auditor-General must bring out a report that verifies the government’s numbers. Well the government is moving the election to the 7th of June 2018 which would prohibit the Auditor-General from performing that duty. So we are going to into next election on June 7th 2018 without having any audited numbers. That may or may not be one of the reasons the government is moving to that date.

Q. Zochodne: How will that stop (inaudible)

Because it’s six months in advance would be December of 2017 and the year isn’t over then they would be working with a year old set of numbers and the Auditor has confirmed that to us, that she cannot perform an audit by six months in advance, the 7th of June so we’re going to go into the next election absolutely not knowing any audit numbers whatsoever.

Q. Zochodne: Does it give you a good idea based on (inaudible) Fall Economic Statement?

No she has explained that her role would be to use the numbers that are provided at year end only and this would prohibit that so we’re going to go into the next election, only with the government’s word that they’ve balanced and of course we now know they have a trust deficit in Ontario.

Q. Zochodne: She would have to compare an outlook for you based off of the 2017 year end financials?

Which we’re going to get from her anyway about a year in advance.

Q. Jeffords: What’s the solution to that then? What can be done?

That’s something that the Auditor General has to look into and try to decide how on Earth that can be corrected. Here we’re going into an election with a government that is telling us one thing, the Financial Accountability Officer of Ontario is telling us something 180 degrees completely different than the government is telling. You have to decide which one to trust and I think there’s a trust deficit in Ontario, in addition to fiscal (inaudible)

Q. Rath: How can they be so different?

Well they can be different because the government is counting on the one-time sale of assets. They’re literally burning the furniture to heat the house. Selling off Hydro One and instead of putting that in reserves as you would do with one-time sale they’re using that as general revenue, well that revenue does not repeat year after year. Selling OPG headquarters across the street is a desperate move to bring revenue in for one year to artificially balance. They promised us so much yet they cannot contain themselves. Spending has continued to grow faster than the revenue and that’s the problem. They just can’t help themselves.

Questions for MPP Fife:

(joined in progress) desperately trying to rebrand themselves. The gamble they took is to sell off Hydro One. That has proven to not work. And also you've seen other public assets that are on the chopping block, like Ontario Place. This is very much a real possibility here at Queen's Park. So this government is scrambling on almost every file around controlling spending in some areas, and controlling waste. And clearly they are failing. And thankfully we have the Financial Accountability Office to actually prove that to the people of this province.

Q. Tumelty: The officer also said that the long-term—we're going to be struggling with our debt.

Yes. I mean, and the accounting treatment is actually part of that. And that's why when the Auditor General stood her ground against this government, that's the important piece of that independent officer, to actually tell the truth of what's happening here at Queen's Park. Quite honestly, we are—any party going forward is going to have to deal with some very difficult decisions. The selling off of Hydro One, though, needs to stop. It has proven to not be successful. It is a quick cash grab, which they've proven today will not serve the people of the province in the long-term.

Q. Unidentified: (inaudible) FAO saying (inaudible)

Absolutely.

Q. Jeffords: So, how would you explain to Ontarians why that is the case?

Well, I mean, we have Auditor General reports (inaudible) ten years which shows the waste and mismanagement. The increased privatization on almost every portfolio. The Financial Accountability Officer has obviously looked at a downgrade in the deficit reduction, because of lost revenue and because of increased promises around spending. We know going forward that if this government is going to try to reach their targets, they're going to have to start cutting. And it's our job to try to mitigate some of that damage.

Q. Jones: You think they may cut or (inaudible)

This government, I mean, this government has—who knows what this government's going to do. I really do feel, as the finance critic for the NDP, that they are making it up as they go along. And we have the Auditor General and the Financial Accountability Officer to expose what is happening in the province, but as we've said, time and again, the one-time cash grab with the sell-off of Hydro One has proven to be a failure. Kathleen Wynne gambled on that, and now she really is committed to selling off everything, including Ontario Place.

Q. Lamoureux: What do you make of the fact the Minister still said, no, we're in control, even after this report, and he's saying we will balance the books next year?

I know. In the briefing this morning it was interesting. The government did not show

up for the briefing and I asked that very question. There is a disconnect between the spin that is coming right from the Premier's Office, and thankfully we actually have this report to counter that. This is a government that is not actually willing to do the hard work of looking at the waste that's actually here at Queen's Park. And we know going forward that if they are going to try to meet that target, they are going to cut public services and they are going to continue to sell off the assets that belong to the people of this province.

Q. Zochodne: Did you manage to eavesdrop at all on what Vic was saying about the —you're not going to get a financial statement going into the next election?

You know, I—that's speculation on his part. The Auditor General [end of recording]

N.B.: Comments captured are not verbatim quotes

Prepared by:
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Becky Dier-McComb, Senior Media Analyst
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FAO Economic and Fiscal Outlook Report

November 3, 2016

Time / Location:

12:15 p.m. / Media Studio, Queen's Park

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J. David Wake, acting Financial Accountability Officer; David West, Financial Accountability Office. MPPs Vic Fedeli and Catherine Fife scrummed with reporters afterwards.

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David West: Thank you commissioner Wake. There've been three significant developments since the FAO's Spring report. The release of the 2015-2016 Public Accounts earlier in October; the government's speech from the Throne in September and a revised economic outlook. Each of these developments had a significant impact on the province's fiscal position. The recent Public Accounts reported than expected tax revenues in the fiscal year 2015-16 which translated into higher revenues over the outlook. The Public Accounts also included a legislated change in the accounting treatment for jointly sponsored pension plans, which increased the province's net debt by $10.7 billion in 2015-16 and the annual deficit by $1.5 billion in that same year. However there is significant uncertainty on the impact of this accounting change going forward. In developing this updated projection, the FAO has assumed a program expense would $1.5 billion higher each year over the outlook as a result of the accounting change. The report provides Ontario's fiscal position both including and excluding the accounting change to allow for consistency with the 2015-16 Public Accounts as well comparability with our spring report. The second major development since the FAO's spring report was the government's Throne Speech which included new commitments to expand childcare spaces and provide an HST rebate on electricity bills. When fully phased in these commitments are expected to result in new operating expense of about $1.8 billion per year. Finally the outlook for the economic growth in Ontario has moderated since the spring, reflecting weaker economic conditions in Canada and globally. Slightly slower economic growth leads to modestly lower tax revenues.

At the same time, slower growth of the Canadian economy has resulted in a lower interest rate forecast which reduces projection for interest on debt expense. Excluding the change in accounting treatment for pension plans, these developments, the 2015-16 Public Accounts, the Throne Speech commitments and a revised economic outlook were largely offsetting, resulting in a modest deterioration of the budget over the outlook, moderately higher budget deficit over the outlook compared with the FAO's Spring report. Including the assumed impact of the accounting change, the FAO project Ontario budget deficits of $5.2-billion in 2016-17 and $2.6-billion in 2017-18. Beginning of 2018-19 the deficit is forecasted to deteriorate steadily to $3.7-billion by 2020-21 as the growth of revenue is outpaced by increases in program expense and interest on debt. However the government remains committed to balancing the budget in 2017-18 and maintaining balance going forward. Eliminating the deficit by 2017-18 will be more challenging given the assumed impact of the change in accounting treatment. Even so achieving budget balance in 2017-18 may still be within the government's reach through the sale of public assets, the allocation of new revenues to existing spending or through other steps. But maintaining a balanced budget after 2017-18 will likely require additional to raise revenue or lower expense. Based on the FAO's projections Ontario's net debt is expected to rise by $64-billion over the next five years to $370 billion dollars in 2020-21. The result of accumulative deficits, capital spending and a change in accounting treatment. This about $20-billion higher than we forecast in our spring outlook primarily due to the accounting change. As a result of the higher debt, combined with slightly slower growth in nominal GDP Ontario's debt-to-GDP ratio is expected to plateau at 41%, significantly above the FAO's spring projects. As noted in the FAO spring report, the government has committed to reduce the debt to GDP ratio to 27%, approximately 14 percentage points below the projected value in 2020-21, but has yet to provide any details on how or when it plans to achieve this goal. This report summarizes the FAO's estimates of the most likely outcomes for Ontario's fiscal position, given developments over the past six months. (Inaudible) highlighted in the FAO's spring report, there are significant risks. Economic growth turns out to be even moderately weaker than projected, tax revenues will be lower. At the same, pressures to increase the growth in program spending continue to build, reflecting the growth in population and price inflation. The government has also built into its fiscal plan specific assumptions about revenues from the new cap-and-trade program and from new federal transfers, assumptions which are incorporated in the FAO's projections. These two revenue sources are expected to total over $3 billion in 2017-18. Differences in the timing or net benefit of these new revenues would have a significant impact on the government's fiscal position. To summarize, there have been a number of significant developments since the FAO's spring report on Ontario's economic and fiscal outlook. When taken together, these developments suggest a moderate deterioration in the province's fiscal position compared to our spring report. However, when the assumed impact of the change in the accounting treatment of jointly-sponsored pension plans is included, the projected deficits become more significant, suggesting the need for additional fiscal measures to achieve the government's goal of a balanced budget. Thank you, the commissioner and I are happy to take questions.	
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Q. Jeffords: It sounds like the accounting squabble that took place earlier with the AG has had a domino effect and is now rolling out and impacting net debt as well (inaudible) probably predictable outcomes. Could you talk about the – just how pronounced that impact is here?	West: So in our spring report, we forecast (inaudible) the net debt to rise to $350 billion by 2020-21. In this current projection, we have net debt rising to $370 billion. As I said, approximately $20 billion higher than what we anticipated in the spring. Deficits are just slightly larger now in this projection. (Inaudible) $18 billion of that $20-billion increase is largely attributable to the accounting change. It's worth noting that the accounting change is not cash, right. This is a non-cash adjustment to the government's books.

Q. Lamoureux: Can you explain as to what the government will have to do if they want to stick to their plan to balance the budget by next year?	West: Well as we point out in the report, it seems likely that the government would have to either raise revenues or lower expense. It's the – the FAO's mandate is to provide an account – you know, a reasonable, independent projections for the economy and the fiscal position of the government. It's not within our mandate to provide policy recommendations or advice on the specific measures that they may choose.
Q. Jones: I couldn't help but notice that in the report, you cite media reports, Queen's Park Briefing specifically, for the – what the government says it will cost – the Throne Speech commitments, the hydro rebate and the child care spaces. Is the office still having trouble getting information from the government, or is there just no information to be had on those spending promises?	West: That's a fair question. So maybe you'll answer the second part of the question. So we based – we did run our report, draft version of our report, by government officials and they agreed – and we lay out our assumptions for the roll-out of those two spending commitments. The government didn't comment on it. I think, you know, they don't have a projection for the roll-out of these (inaudible) one that they weren't going to share with us. I don't see it as a material – they – I don't think it would make a material impact on our projections though the actual timing of the introduction of these programs – and as I said, the government did see what we're preparing to release and we're comfortable with that. Wake: Just as a follow-up to that, I (inaudible) indicate that maybe past frustrations expressed in the annual report, to which I think you're alluding, may have been addressed by the issuance of the order in council early last month. And I can tell that subsequent to that, we've met with the Secretary of Cabinet and the ministry officials so that at this point we're satisfied that things are in place so that this information can be obtained if it's needed. We'll see, but I think the structure's now in place for the FAO to get all of the material it needs.
Q. Zochodne: Is the FAO going to try and flesh out some more details about the rebate and the child care spaces going forward?	West: So we would be looking forward to the government's own fiscal statement coming in – expected in coming weeks, and would review our assumption (inaudible) in light of that. If necessary, we could make additional requests at that time for additional information if we thought it was necessary.
Q. Zochodne: How big of a swing is that on the government's books that those – the spending promises?	West: $1.8 billion and some. And as I said, you know, the – we looked at a number of developments. That was one of the several developments, and when you include the better-than-expected results from the Public Accounts, savings on interest-on-debt expense, (inaudible) weaker economic growth, which leads to lower tax revenues, all told, all in, there's a moderate deterioration in the deficit. Throw in the accounting change, and it's a more significant deterioration.
Questions for MPP Fedeli:	
Well we've always known there was a trust deficit with this government and now that we have had it proved there's also a financial deficit. We've heard from the FAO that Ontario will plunge into deficit and stay there for at least the very next five years. And that is contrary to what the government says. The FAO also told us today the only way the government can artificially balance the budget for the election year is	

to continue to sell assets. So these are the one-time sale of assets and he has also said when the assets sales run out that's why our deficits will continue on a downward spiral for the next fears.	
Q. Jones: Which scenario do you think we'll see? Do you think we'll see continued deficits or do you think we'll see them raise taxes to cancel those debts?	I think we're going to see both. We're going to see continued deficits, the FAO is fairly clear about that and I think you're going to continue to see raised taxes. They raised taxes 20% in the past five years which oddly makes us the most taxed province in all of Canada and the same time the most indebted subnational on the planet. That just defies logic that you be both.
Q. Jones: They really seem to have gone all in on this promise to balance the budget in 2017-18. You don't think that they'll do anything at all cost to get there?	They will and that's why they'll artificially balance the budget. They will sell the OPG headquarters across the street, they'll continue to sell Hydro One, they'll continue to sell lands such as the LCBO headquarters they will sell anything that isn't nailed down and that's the only way, according to the FAO that they are going to balance, artificially, is by the one-time sale of assets. And of course he also said what happens when you run out of assets to sell? That's why we have the next five years of deficits. We have a structural deficit in the province of Ontario.
Q. Lamoureux: So what will you do if you form the government in 2018? (inaudible) the situation?	The first thing you would do is cut waste, mismanagement and scandal. That's really when you look at some of the things that have happened in the last month we learned we many billions were wasted on the last one. $308 million were wasted on the failed attempt to modernize the OLG. It was $300 million was spent in five different hydro scandals, including the $179 million in the Windstream case, you've got $25 million in another case, $12 million in another case, $300 million alone wasted in two-weeks this month in hydro. So it's waste mismanagement and scandals that have caused this government to continue their deficits.
Q. Zochodne: (inaudible) situation with whoever forms government in 2018 is going to inherit some much worse than expected (inaudible)	It's interesting you bring that up because in advance, the law states that six months in advance of the next election the Auditor-General must bring out a report that verifies the government's numbers. Well the government is moving the election to the 7th of June 2018 which would prohibit the Auditor-General from performing that duty. So we are going to into next election on June 7th 2018 without having any audited numbers. That may or may not be one of the reasons the government is moving to that date.
Q. Zochodne: How will that stop (inaudible)	Because it's six months in advance would be December of 2017 and the year isn't over then they would be working with a year old set of numbers and the Auditor has confirmed that to us, that she cannot perform an audit by six months in advance, the 7th of June so we're going to go into the next election absolutely not knowing any audit numbers whatsoever.
Q. Zochodne: Does it give you a good idea based on (inaudible) Fall Economic Statement?	No she has explained that her role would be to use the numbers that are provided at year end only and this would prohibit that so we're going to go into the next election, only

	with the government's word that they've balanced and of course we now know they have a trust deficit in Ontario.
Q. Zochodne: She would have to compare an outlook for you based off of the 2017 year end financials?	Which we're going to get from her anyway about a year in advance.
Q. Jeffords: What's the solution to that then? What can be done?	That's something that the Auditor General has to look into and try to decide how on Earth that can be corrected. Here we're going into an election with a government that is telling us one thing, the Financial Accountability Officer of Ontario is telling us something 180 degrees completely different than the government is telling. You have to decide which one to trust and I think there's a trust deficit in Ontario, in addition to fiscal (inaudible)
Q. Rath: How can they be so different?	Well they can be different because the government is counting on the one-time sale of assets. They're literally burning the furniture to heat the house. Selling off Hydro One and instead of putting that in reserves as you would do with one-time sale they're using that as general revenue, well that revenue does not repeat year after year. Selling OPG headquarters across the street is a desperate move to bring revenue in for one year to artificially balance. They promised us so much yet they cannot contain themselves. Spending has continued to grow faster than the revenue and that's the problem. They just can't help themselves.
Questions for MPP Fife:	
(joined in progress) desperately trying to rebrand themselves. The gamble they took is to sell off Hydro One. That has proven to not work. And also you've seen other public assets that are on the chopping block, like Ontario Place. This is very much a real possibility here at Queen's Park. So this government is scrambling on almost every file around controlling spending in some areas, and controlling waste. And clearly they are failing. And thankfully we have the Financial Accountability Office to actually prove that to the people of this province.	
Q. Tumelty: The officer also said that the long-term—we're going to be struggling with our debt.	Yes. I mean, and the accounting treatment is actually part of that. And that's why when the Auditor General stood her ground against this government, that's the important piece of that independent officer, to actually tell the truth of what's happening here at Queen's Park. Quite honestly, we are—any party going forward is going to have to deal with some very difficult decisions. The selling off of Hydro One, though, needs to stop. It has proven to not be successful. It is a quick cash grab, which they've proven today will not serve the people of the province in the long-term.
Q. Unidentified: (inaudible) FAO saying (inaudible)	Absolutely.
Q. Jeffords: So, how would you explain to Ontarians why that is the case?	Well, I mean, we have Auditor General reports (inaudible) ten years which shows the waste and mismanagement. The increased privatization on almost every portfolio. The Financial Accountability Officer has obviously looked at a

	downgrade in the deficit reduction, because of lost revenue and because of increased promises around spending. We know going forward that if this government is going to try to reach their targets, they're going to have to start cutting. And it's our job to try to mitigate some of that damage.
Q. Jones: You think they may cut or (inaudible)	This government, I mean, this government has—who knows what this government's going to do. I really do feel, as the finance critic for the NDP, that they are making it up as they go along. And we have the Auditor General and the Financial Accountability Officer to expose what is happening in the province, but as we've said, time and again, the one-time cash grab with the sell-off of Hydro One has proven to be a failure. Kathleen Wynne gambled on that, and now she really is committed to selling off everything, including Ontario Place.
Q. Lamoureux: What do you make of the fact the Minister still said, no, we're in control, even after this report, and he's saying we will balance the books next year?	I know. In the briefing this morning it was interesting. The government did not show up for the briefing and I asked that very question. There is a disconnect between the spin that is coming right from the Premier's Office, and thankfully we actually have this report to counter that. This is a government that is not actually willing to do the hard work of looking at the waste that's actually here at Queen's Park. And we know going forward that if they are going to try to meet that target, they are going to cut public services and they are going to continue to sell off the assets that belong to the people of this province.
Q. Zochodne: Did you manage to eavesdrop at all on what Vic was saying about the—you're not going to get a financial statement going into the next election?	You know, I—that's speculation on his part. The Auditor General [end of recording]
N.B.: Comments captured are not verbatim quotes	

Prepared by:

Jonathan Colford, Senior Issues Analyst
Becky Dier-McComb, Senior Media Analyst
Alan Herman, Issues Assistant

From:	Bonnie Lemcke
To:	Ken Kandeepan
Cc:	John Psinas; George Sakura; Alexander Kraas
Subject:	FW: Meeting on Monday
Date:	Thursday, November 23, 2017 4:16:49 PM
Attachments:	For OFA.xlsx

Here is some additional background information for Monday's meeting.

Bonnie

From: Luan Ngo [mailto:lngo@fao-on.org]
Sent: Thursday, November 23, 2017 4:08 PM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Cc: David West <dwest@fao-on.org>
Subject: FW: Meeting on Monday

Hi Bonnie,

Please see attached for some detail on our projection. The first part of the table shows the FAO's projection for net debt, TCA and accumulated deficit on an AG basis. As you can see, the identity holds pretty well for each year. There's a small, under $1 billion variance, and I think it's due to a small adjustment in public accounts, which I commented in the Excel sheet.

The second table breaks down the net debt variance between the projection in the FES and our projection on an AG basis. As discussed, the difference is due to the pension asset for the jointly sponsored pension plans, the FHP, the differences in the deficit projections and the reserve. The last table will probably be interesting for you. It shows that, on the government accounting basis, we're only $3.6 billion higher than the 2017 FES projection – and this is entirely due to differences in the underlying deficit (abstracting from any accounting differences).

As discussed, for the purposes of the AG presentation, which we adopted based on the recommendation in her recent FHP report, we're assuming that:

- The elimination of the IESO market asset would reduce the net income of OPG;
- This would then reduce the Province's total revenue and increase the deficit by an equivalent amount; and that
- Ontario's net debt would increase by the stock of that market asset (since the elimination of the market asset would reduce OPG's equity, which the Province records as a financial asset)

However, there would be no impact to borrowing and gross debt relative to the government's FES presentation because the government already incorporates the provincial portion of FHP borrowing in its fiscal plan.

Anyway, have a look and we'll be happy to meet on Monday to discuss further.

Luan Ngo

(416) 277-1856

From: Bonnie Lemcke [mailto:Bonnie.Lemcke@ofina.on.ca]
Sent: November 23, 2017 3:00 PM
To: Luan Ngo <lngo@fao-on.org>
Subject: Meeting on Monday

What time would work best 10 to 11 in the am or 2:30 to 3:30 in the afternoon.

Bonnie

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	2014a	2015a	2016a	2017f
FAO's Projection on an AG Basis				
Accumulated Deficit	187.5	203.0	205.9	209.9
Tangible Capital Assets	97.1	102.5	108.4	118.4
Net Debt	285.4	306.4	314.1	328.0
Breakdown of Variances Between Different Projections				
Net Debt (2017 FES)	285.4	295.4	301.6	311.7
Net Debt (FAO Projection on AG Basis)	285.4	306.4	314.1	328.0
Variance	0.0	11.0	12.4	16.4
Of which is the pension asset	0.0	11.0	12.4	14.7
Of which is the FHP	0.0	0.0	0.0	1.9
Of which is cumulative delta in underlying deficits		0.0	0.0	0.2
Of which is due to the stock of the reserve		0.0	0.0	-0.5
Net Debt (FAO Projection on Gov't Basis)	285.4	295.4	301.6	311.4
Net Debt (FAO Projection on AG Basis)	285.4	306.4	314.1	328.0
Variance	0.0	11.0	12.4	16.6
Of which is the pension asset	0.0	11.0	12.4	14.7
Of which is the FHP	0.0	0.0	0.0	1.9
Net Debt (2017 FES)	285.4	295.4	301.6	311.7
Net Debt (FAO Projection on Gov't Basis)	285.4	295.4	301.6	311.4
Variance	0.0	0.0	0.0	-0.3
Of which is cumulative delta in underlying deficits	0.0	0.0	0.0	0.2
Of which is due to the stock of the reserve	0.0	0.0	0.0	-0.5

2018f	2019f
217.1	224.9
129.7	142.3
346.5	367.0
323.0	335.6
346.5	367.0
23.5	31.4
17.4	20.3
4.6	7.5
2.6	5.4
-1.0	-1.8
324.6	339.2
346.5	367.0
21.9	27.8
17.4	20.3
4.6	7.5
323.0	335.6
324.6	339.2
1.6	3.6
2.6	5.4
-1.0	-1.8

From: Ken Kandeepan
To: Gadi Mayman
Cc: Christina Zhang
Subject: FW: Net Debt to GDP statement in 3b
Date: Thursday, October 27, 2016 9:34:18 PM

Hi Gadi

FYI, the issue may come up again when you sign off.

Thanks

Ken k

From: Ken Kandeepan
Sent: Thursday, October 27, 2016 9:33 PM
To: Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
Cc: John Psinas <John.Psinas@ofina.on.ca>
Subject: RE: Net Debt to GDP statement in 3b

Hi Selena

That's a good point, however, in the Debt chapter we have intentionally tried to refrain from any mention of the medium term as it relates to the net debt to GDP. There is a reason for our reticence, if the independent review of the pension adjustment supports the Government's position, there is a strong possibility that the accumulated deficit and the net debt will reduce by at least $10.7 billion with an equally material reduction in the ratio.

However, if you strongly feel that a reference to the medium term is required pls consider the following – I have slightly edited John's version plus added a reference to the medium term.

"The net debt to GDP ratio is projected to increase slightly in 2016-17, primarily as a result of a nominal GDP that is forecast to be marginally lower than what was forecast in the 2016 Budget. Over the medium term the ratio is projected to decline progressively".

Thanks

Ken k

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Thursday, October 27, 2016 7:25 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: Net Debt to GDP statement in 3b

Hi Ken, John, - understand Ken, you couldn't make it to sign-off today and John you came – thank you.

Im signing off on 3b now as the director responsible for the chapter and noticed that John, you inserted language regarding what's happening to net debt to GDP for 2016-17 in the fiscal outlook section. However, because this insertion just refers to 2016-17 it is seems out of context from the remainder of the section and wondering if you could propose a revision that speaks to the trend of declining after balance or what's happening over the medium term.

Here's the insertion per John pen edits:

The net debt to GDP ratio is projected to increase slightly in 2016-17 primarily as a result of marginally lower than forecast nominal GDP when compared to the 2016 Budget forecast.

Let me know. Thanks.

From: Ken Kandeepan
To: Gadi Mayman
Cc: Anna Strathy
Subject: FW: Ontario 2016/17 Public Accounts Beats Budget Projections
Date: Sunday, September 10, 2017 12:30:00 PM
Attachments: Ontario 2016-17 Public Accounts Beats Budget Projections (September 7, 2017).pdf

---

Hi Gadi

I am sure you would have seen this, if not… In any event a reasonable and fair assessment of the pension issue by Maria

Thanks

Ken k

From: CIBC CM Macro Strategy [mailto:Mailbox.CIBCCMMacroStrategy@cibc.com]
Sent: Thursday, September 07, 2017 5:57 PM
Subject: Ontario 2016/17 Public Accounts Beats Budget Projections

CIBC Capital Markets
Macro Strategy

Ontario 2016/17 Public Accounts Beats Budget Projections

September 7, 2017

Credit Implications: Moderately Positive

Credit Ratings: DBRS AA (low), Moody's Aa2, S&P A+, Fitch AA-, All Outlooks Stable

Today Ontario released its 2016/17 Public Accounts showing a deficit of -$991mln, an improvement of $3.3bln when compared to the 2016 Budget and $0.5bln relative to the 2017 Budget.

The year-end results received a qualified opinion from the Auditor General reflecting a difference in opinion regarding the interpretation of accounting for pensions under Canadian Public Sector Accounting Standards. A reconciliation of the statements show that the deficit would have been -$2.435bln if the Province would have applied the Auditor General's interpretation of the standards. As well, Net Debt would have been $12.4bln higher. The Province's professional staff have a different interpretation and, earlier this year, engaged an expert panel of accountants to review the matter. In the end, the panel sided with the Province. For more information on the pension issue, please see our research note "Expert advisory panel agrees with Ontario in pension accounting issue" Click Here[cibcmacro.com]

In addition to the change in accounting for net pension assets of jointly sponsored pension plans, there were other "Accounting Changes to Ontario's Financial Statements" which bring reporting more in line with "PSAB standards and the reporting practices of other senior Canadian governments." For more information on this, please Click Here[news.ontario.ca].

$million	2017	2016
Annual deficit as presented	(991)	(3,515)
Effect of valuation allowance on:	(1,364)	(1,480)
Education expense	(80)	(351)
General Government and other expense	-	-

Annual deficit in accordance with Canadian public sector accounting standards	**(2,435)**	**(5,346)**
Net debt as presented	(301,648)	(295,372)
Effect of valuation allowance	(12,429)	(10,985)
Net debt in accordance with Canadian public sector accounting standards	**(314,077)**	**(306,357)**

Source: Ontario 2016/17 Public Accounts

Although Ontario's improved results reflect in part a change in basis of accounting for pensions, we view these results as constructive towards the end goal of returning to balance in Fiscal 2017/18. The expected return to balance puts the Province on track to eventually getting a positive review from Standard & Poor's who downgraded it in 2015. However, we believe an outlook change to positive is more likely to occur after the election on June 7, 2018. The rating agency will be looking for more comfort that the elected government will remain steadfast in its goal of reducing debt to pre-recession levels.

In the 2017 Budget, the Province set an interim target to reduce debt to 35% by 2023-24. Its long-term target is to reduce this figure to the pre-recession level of 27%, which is currently shown being met by 2029-30.

S&P Ratings Scorecard: Province of Ontario	
Date	Jun-15-2017
Rating	A+
Outlook	Stable
Institutional Framework	Very predictable and well-balanced
Economy	Very strong
Financial Management	Strong
Budgetary Flexibility	Average
Budgetary Performance	Weak
Liquidity	Adequate
Debt Burden	Very high
Contingent Liabilities	Low

Source: S&P

While Ontario appears on track to returning to balance, it has a formidable capital program that will require debt funding. As presented in the 2017 Budget, Ontario's capital program is projected to total $190bln over a 13-year period that started in 2014/15.

Funding for the program will factor in the implications of both the Federal and Provincial climate change plans, Federal funding and infrastructure needs. The latter will need to take into account renewal, replacement and growth. The particulars of all these aforementioned factors continue to evolve.

Earlier this year, the Federal government announced that it will fund 43% of the Province's $4.4bln upgrades to the GO Transit Regional Express Rail. The Province had previously committed to funding 100%.

The Hydro One privatization strategy, which is largely concluded, has been a means to fund part of Ontario's capital program. For more information on the Hydro One privatization, please see our note "Ontario Sells Final Stake in Hydro One" Click Here[cibcmacro.com]

Overall, we consider today's announcement to be moderately positive. The results reflected a combination of stronger revenues from better than projected economic growth and effective cost management.

2016/17 Public Account Highlights:

- Economic growth, with a 2.7 per cent increase in real gross domestic product (GDP), up from 2.2 per cent projected in the 2016 Budget
- Total revenue of $140.7bln, up $2.2bln from the 2016 Budget projection
- Total spending of $141.7bln, down $0.1bln from the 2016 Budget projection
- Interest on debt of $11.7bln, down $0.7bln from the 2016 Budget projection

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Ontario 2016/17 Public Accounts Beats Budget Projections

September 07, 2017

Credit Implications: Moderately Positive

Credit Ratings: DBRS AA (low), Moody's Aa2, S&P A+, Fitch AA-, All Outlooks Stable

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Education expense	(80)	(351)
General Government and other expense	-	-
Annual deficit in accordance with Canadian public sector accounting standards	**(2,435)**	**(5,346)**
Net debt as presented	(301,648)	(295,372)
Effect of valuation allowance	(12,429)	(10,985)
Net debt in accordance with Canadian public sector accounting standards	**(314,077)**	**(306,357)**

Source: Ontario 2016/17 Public Accounts

Although Ontario's improved results reflect in part a change in basis of accounting for pensions, we view these results as constructive towards the end goal of returning to balance in Fiscal 2017/18. The expected return to balance puts the Province on track to eventually getting a positive review from Standard & Poor's who downgraded it in 2015. However, we believe an outlook change to positive is more likely to occur after the election on June 7, 2018. The rating agency will be looking for more comfort that the elected government will remain steadfast in its goal of reducing debt to pre-recession levels.

In the 2017 Budget, the Province set an interim target to reduce debt to 35% by 2023-24. Its long-term target is to reduce this figure to the pre-recession level of 27%, which is currently shown being met by 2029-30.

S&P Ratings Scorecard: Province of Ontario	
Date	Jun-15-2017
Rating	A+
Outlook	Stable
Institutional Framework	Very predictable and well-balanced
Economy	Very strong
Financial Management	Strong
Budgetary Flexibility	Average
Budgetary Performance	Weak
Liquidity	Adequate
Debt Burden	Very high
Contingent Liabilities	Low

Source: S&P

While Ontario appears on track to returning to balance, it has a formidable capital program that will require debt funding. As presented in the 2017 Budget, Ontario's capital program is projected to total $190bln over a 13-year period that started in 2014/15.

Funding for the program will factor in the implications of both the Federal and Provincial climate change plans, Federal funding and infrastructure needs. The latter will need to take into account renewal, replacement and growth. The particulars of all these aforementioned factors continue to evolve.

Earlier this year, the Federal government announced that it will fund 43% of the Province's $4.4bln upgrades to the GO Transit Regional Express Rail. The Province had previously committed to funding 100%.

The Hydro One privatization strategy, which is largely concluded, has been a means to fund part of Ontario's capital program. For more information on the Hydro One privatization, please see our note "Ontario Sells Final Stake in Hydro One" Click Here

Overall, we consider today's announcement to be moderately positive. The results reflected a combination of stronger revenues from better than projected economic growth and effective cost management.

2016/17 Public Account Highlights:

- Economic growth, with a 2.7 per cent increase in real gross domestic product (GDP), up from 2.2 per cent projected in the 2016 Budget
- Total revenue of $140.7bln, up $2.2bln from the 2016 Budget projection
- Total spending of $141.7bln, down $0.1bln from the 2016 Budget projection
- Interest on debt of $11.7bln, down $0.7bln from the 2016 Budget projection

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From:	Ken Kandeepan
To:	Bonnie Lemcke
Subject:	FW: Ontario High Debt and Province"s Financial Statements - press releases
Date:	Tuesday, October 04, 2016 2:15:12 PM

Hi

Can we pls discuss.

Thanks

Ken k

From: Sarah Neville
Sent: Tuesday, October 04, 2016 11:44 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
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Thanks,

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Please let me know if you have any questions.

Thanks very much, and best regards,

Sarah

Sarah Neville
Director (A), Legal Branch

Ontario Financing Authority
1 Dundas Street West, Suite 1200
Toronto ON M7A 1Y7
Phone: (416) 325-8754
Email: Sarah.Neville@ofina.on.ca

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To: Gadi Mayman
Subject: Last Year's Ontario Deficit $3.5 Billion Lower Than Projected

Ontario Newsroom

News Release

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October 3, 2016

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The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation. In addition Ontario willalso be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

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QUICK FACTS

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BACKGROUND INFORMATION

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QUOTES

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— *Charles Sousa, Minister of Finance*

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Jason Wesley
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<Moodys_Ontario_HighDebt_PR.pdf>

From: Sarah Neville
To: Ken Kandeepan; Mike Manning
Cc: Christina Zhang
Subject: FW: Ontario High Debt and Province"s Financial Statements - press releases
Date: Tuesday, October 04, 2016 11:44:24 AM

Hi Ken and Mike - I am hoping one of you can clarify Mario's question below. Any advice as to how I should respond?

Sarah

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Sent: Tuesday, October 04, 2016 11:05 AM
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Sarah Neville
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1 Dundas Street West, Suite 1200
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<Moodys_Ontario_HighDebt_PR.pdf>

From: Bonnie Lemcke
To: Ken Kandeepan
Subject: FW: Ontario High Debt and Province"s Financial Statements - press releases
Date: Tuesday, October 04, 2016 2:16:41 PM

Fyi.

Bonnie

From: Bonnie Lemcke
Sent: Tuesday, October 04, 2016 12:31 PM
To: David Peters <David.Peters@ofina.on.ca>; Sarah Neville <Sarah.Neville@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: James Devine <James.Devine@ofina.on.ca>
Subject: RE: Ontario High Debt and Province's Financial Statements - press releases

They were looking at the current year.

Bonnie

From: David Peters
Sent: Tuesday, October 04, 2016 12:17 PM
To: Sarah Neville <Sarah.Neville@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: James Devine <James.Devine@ofina.on.ca>; Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: RE: Ontario High Debt and Province's Financial Statements - press releases

Hi Sarah,

The average term of debt issued in 2015-16 was approximately 14.0 years, whereas year-to-date for 2016-17 is 15.3 years. So, I would suspect it is the current year.

However, I have copied Bonnie on my reply as she may be able to provide more insight on the Moody's figures.

Bonnie, any feedback would be appreciated.

Thanks,
David

From: Sarah Neville
Sent: Tuesday, October 04, 2016 12:07 PM
To: David Peters <David.Peters@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: James Devine <James.Devine@ofina.on.ca>
Subject: RE: Ontario High Debt and Province's Financial Statements - press releases

Thanks David – this is helpful. Anticipating a follow up question, is the year being referenced by Moody's the most recent fiscal year, 2015-16?

Sarah

From: David Peters
Sent: Tuesday, October 04, 2016 12:04 PM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: Sarah Neville <Sarah.Neville@ofina.on.ca>; James Devine <James.Devine@ofina.on.ca>
Subject: RE: Ontario High Debt and Province's Financial Statements - press releases

Hi Christina,

I think the figures referred to in the Moody's report are for the average term of debt issued in a particular year as opposed to the average term of total outstanding debt. Hope this helps.

David

From: Christina Zhang
Sent: Tuesday, October 04, 2016 11:48 AM
To: James Devine <James.Devine@ofina.on.ca>; David Peters <David.Peters@ofina.on.ca>
Cc: Sarah Neville <Sarah.Neville@ofina.on.ca>
Subject: FW: Ontario High Debt and Province's Financial Statements - press releases

Hi Jim and Dave,

I'm passing along a request from Sarah as it looks like Mike is away today.

Thanks,
Christina

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The unaudited statements show the government is beating its deficit targets through

sound financial management. The Government of Ontario currently has the lowest program spending per capita among Canadian provinces and ranks the lowest among provinces in terms of public-sector employees per capita. At the same time, Ontario's economy continues to grow. Over the last two years, Ontario's economy has grown by 6.1 per cent[news.ontario.ca]. Last year, growth was double the national average[news.ontario.ca]. In the first quarter of this year, Ontario's growth was greater than that of the United States and the G7[fin.gov.on.ca finances/2016/ofin16_1.html].

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation. In addition Ontario willalso be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Responsible financial management is part of the government's economic plan to build Ontario up and deliver on its number-one priority to grow the economy and create jobs. The four-part plan includes helping more people get and create the jobs of the future by expanding access to high-quality college and university education. The plan is making the largest infrastructure investment in hospitals, schools, roads, bridges and transit in Ontario's history and is investing in a low-carbon economy driven by innovative, high-growth, export-oriented businesses. The plan is also helping working Ontarians achieve a more secure retirement.

QUICK FACTS

- The 2015-16 unaudited Financial Statements compare Ontario’s actual performance to what was planned in the 2015 Budget.
- Ontario is a recognized leader in financial reporting. The C.D. Howe Institute, an independent research organization that assesses the fiscal planning and reporting of governments in Canada, has commented positively on the financial reporting practices of Ontario, including Public Accounts, the annual Budget and Estimates.
- The unaudited Financial Statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

BACKGROUND INFORMATION

- Release of Ontario's 2015-16 Financial Statements [news.ontario.ca]

ADDITIONAL RESOURCES

- Read the Province's 2015-16 unaudited Financial Statements[ontario.ca] and explore supplementary information available through new data visualization tools
- Explore the more than 400 open data sets in the Open Data Catalogue[ontario.ca]
- Learn about the government's fiscal cycle[ontario.ca]

QUOTES

"The Annual Report and unaudited Consolidated Financial Statements for 2015-16 show that our government's plan to achieve fiscal balance next year in 2017-18 is working. We will continue to build on our track record of responsible fiscal management, while investing in vital government services such as health care, education and infrastructure that are important to the people of Ontario."
— *Liz Sandals, President of the Treasury Board*

"Our government is dedicated to a fiscally sound approach to managing the Province's finances. The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries. The government's path to a balanced budget next year is being achieved through responsible fiscal management, which involves managing growth in program spending, and maintaining the integrity of Provincial revenues."
— *Charles Sousa, Minister of Finance*

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Communications Branch

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<Moodys_Ontario_HighDebt_PR.pdf>

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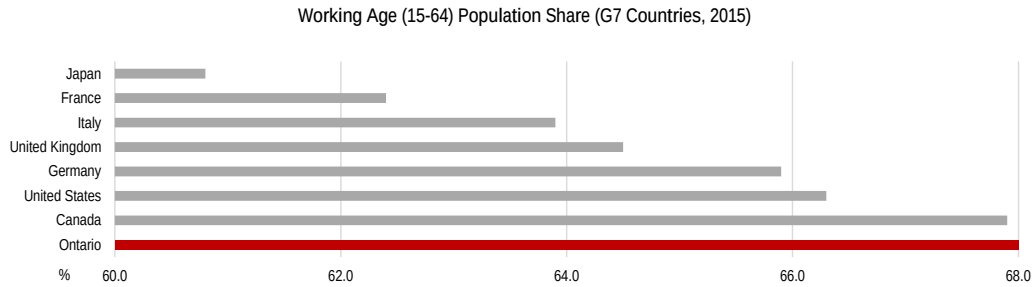

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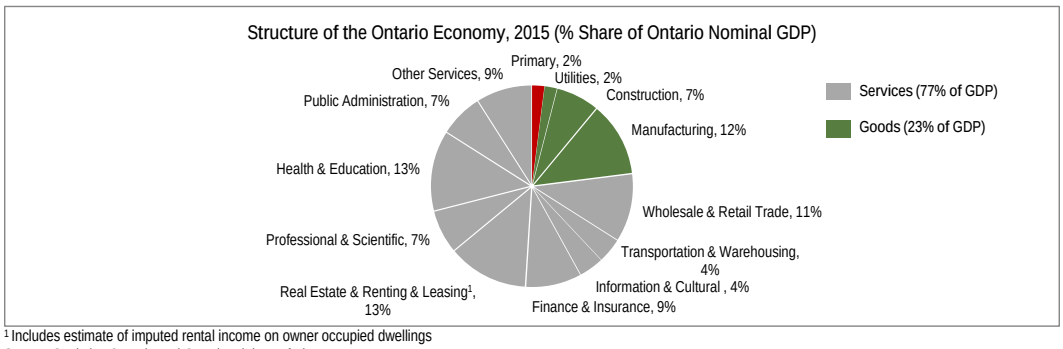

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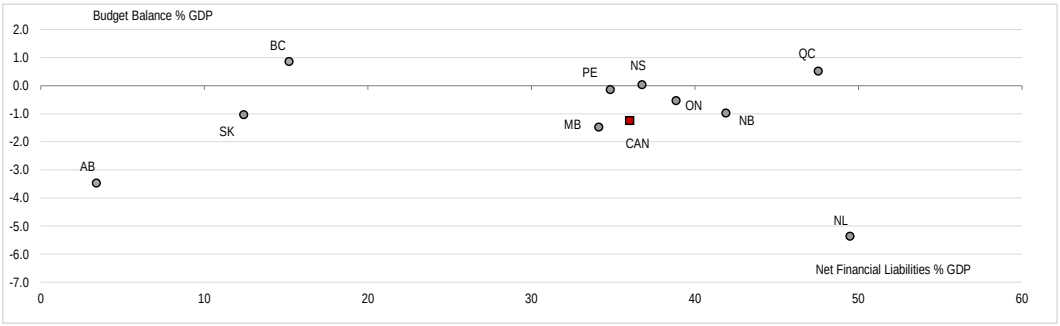

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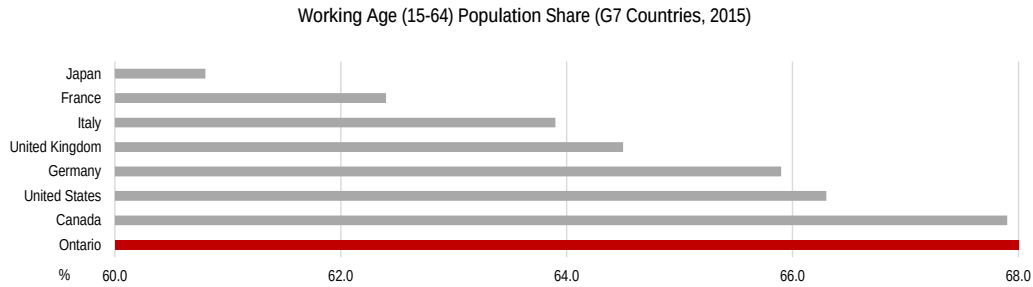

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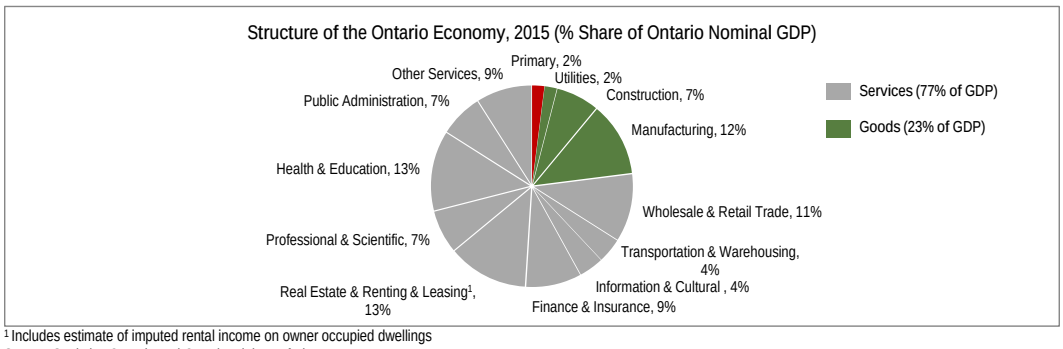

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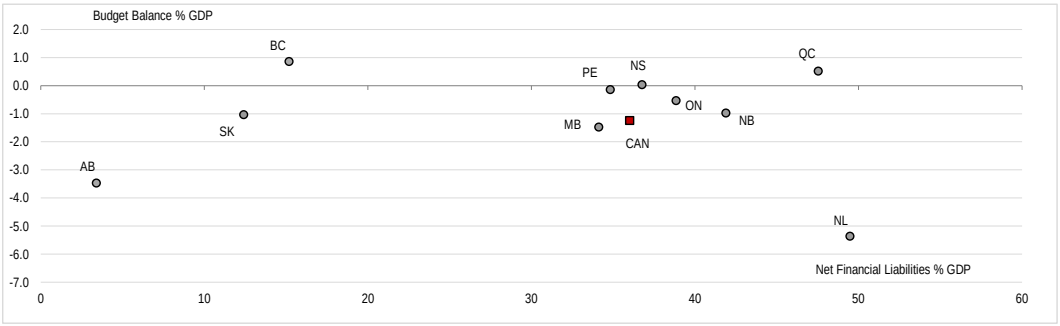

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From: Bonnie Lemcke
To: Ken Kandeepan
Subject: FW: Ontario Talking Points OFA edits 4.docx
Date: Friday, January 06, 2017 12:14:16 PM
Attachments: Ontario Talking Points OFA edits 4.docx

Hi Ken,

We provided feedback to Maria with input from OPCD. Maria is still a bit confused about the accounting treatment on the pension issue. She mentioned that Gadi had said something about B.C. not treating its pension plan in the same way as Ontario which is why the Auditor raised this issue.

I explained that it was not an issue of the positive funding valuation but rather whether we are allowed to recognize the asset of the jointly sponsored plan on our books. I thought it might be a good idea to have her talk to you rather than trying to get someone from OPCD.

Let me know. I am working from home today but if you are available this afternoon, I could set up a conference call.

Bonnie

From: Bonnie Lemcke
Sent: Friday, January 06, 2017 10:31 AM
To: 'Maria.Berlettano@cibc.com' <Maria.Berlettano@cibc.com>
Cc: Daniel Hengeveld <Daniel.Hengeveld@ofina.on.ca>; Erica Wieder <Erica.Wieder@ofina.on.ca>; Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>
Subject: Ontario Talking Points OFA edits 4.docx

Hi Maria,

We have fact checked your document and provided edits.

Let me know if you have any questions.

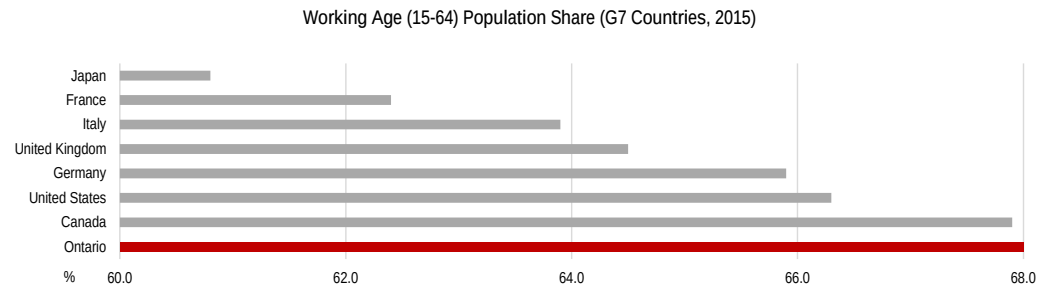
Thanks,

Bonnie Lemcke
Manager, Credit Analysis and Rating Relations
Risk Control Division
Ontario Financing Authority
Phone: 416-325-8170
Cell: 416-716-4092

160

Insights from our meeting last month with officials from the province.

- How is Ontario positioned with respect to the quality and rising cost of healthcare?
  - Ontario is planning, building and/or upgrading 37 hospitals ~~44 hospitals with state-of-the-art facilities~~ across the province.
  - As the population grows and ages, healthcare costs will rise, but the healthcare cost curve is flattening, which is consistent with the experience in advanced economies.
  - Ontario has been successful at containing health care expense growth at less than 5% annually over the past 6 years. In the last three years, the annual average increase was only 2.1%. In Fiscal 2015-16, health care expense growth was only ~~1.1%~~ 2.1%versus overall program spending growth of ~~4.2%~~ 3.6%. [Ontario 2015-16 Annual Report Click Here]
  - The aging population adds about 1% to annual expense growth.
  - Experience has shown that healthcare costs for individuals is the highest in the first two years and last two years of life.
  - While the population is aging and people are living longer, they are "healthier and wealthier". Moreover, since the 2006 amendment to the Ontario Human Rights Code which effectively eliminated the 65 mandatory retirement age, people are working and contributing longer to the economy. In 2006, the Ontario participation rate (55+) was **33.3%. In 2015, it was almost 38%.**
  - Ontario has the largest working-age (15-64) population share compared to the G7 countries and has enjoyed strong employment gains in above-average wage industries since the Global Recession.



Source: Statistics Canada and The World Bank

- What agreement does the province expect with the Federal government under the federal/provincial Health Accord?
  - We don't expect to get back to when the federal government paid for around 50% of provincial health spending. The federal share of health funding is currently between 20-25%.
  - The minimum escalator is set to drop to 3% in 2017 from 6% previously, and this is not acceptable.
  - Background Note: At the December "health talk" meetings between the Federal Government, provinces, and territories, the collective ask of the federal government was for a 5.2% annual escalator. The federal government raised its offer from 3% to 3.5% plus $11bln over 10 years for home care and mental health as well as another $544mln over 5 years for initiatives on prescription drugs and health innovation, which would be provided directly to federal and pan-Canadian health organizations. An agreement was not reached. A few days following the meetings, the Province of New Brunswick announced that it had reached a separate bilateral agreement securing an additional $230mln more for health care which represents a 3.9% average annual growth

rate over the next ten years ~~it assesses is equivalent to an effective 4.1% annual escalator~~. The provinces of Nova Scotia and Newfoundland and Labrador reached similar agreements.

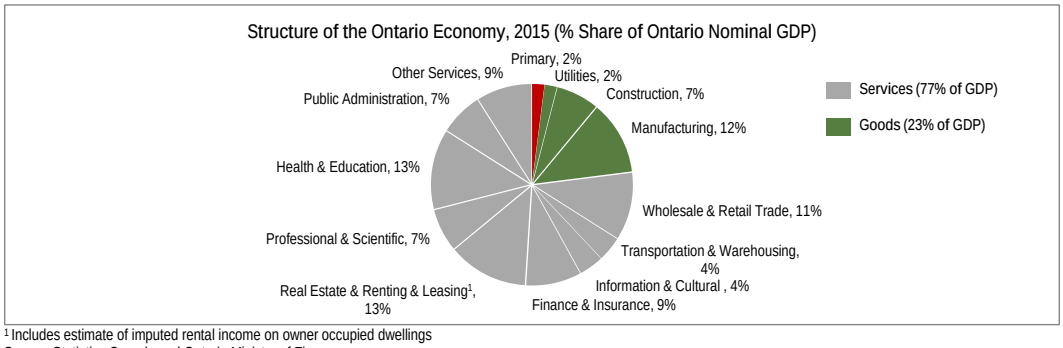
- How will Federal infrastructure funding affect borrowing and capital plans?
  - It is not clear at this stage how the federal infrastructure spending program will work into Ontario's capital investment of $160bln over 12 years ~~$137bln 10-year capital plan~~, but it will be factored into the spring budget along with implications of both federal and provincial climate change plans.

- Will Ontario consider using its fiscal capacity to raise taxes/fees to ensure meeting its balanced budget target in Fiscal 2017-18?
  - Ontario is committed to returning to balance next year and is pursuing several options, some of which were laid-out in the recommendations of the "Commission on the Reform of Ontario's Public Services, Public Services for Ontarians: A Path to Sustainability and Excellence" by Chair Don Drummond, an economist (The Drummond Report is a deficit-reduction report released in February 2012 to advise the Ontario government on how to reduce its debt levels). Click Here
  - Budget 2016 has identified a $500mln Program Review Savings Target for Fiscal 2016-17 that entails Review, Renewal and Transformation. Click Here
  - The 2016 savings target follows the $250mln target that was set and achieved in Fiscal 2015-16.
  - Fiscal capacity is not seen as the best option at this time due to the importance of remaining competitive with the United States and other countries in the competitive global landscape. The United States is articulating plans to reduce both corporate and income taxes. The United States is also potentially changing its stance on environmental issues. These factors must be taken into consideration for Ontario to remain competitive.
  - External factors are supportive of Ontario's growth. These include a recovering US economy, still low energy prices and accommodative financial conditions, and a weak Canadian currency.

- Could you clarify Ontario's course of action given the Auditor General of Ontario's qualified opinion on Pension Accounting?
  - Although the pension expense is a non-cash charge, it is still very important to achieving the balanced budget target in Fiscal 2017-18 since Ontario's results are reported based on accrual accounting and not cash.
  - The Province has engaged an expert panel of accountants to assess the issue.
  - The issue being assessed is whether the Province can record an asset for the jointly sponsored plans under the accounting standards. The Province believes that an asset should be reported.
  - The panel will focus on the accounting question, but will also provide advice on how to measure an asset, assuming it concludes that it should be reported. The calculation is sensitive to management's assumptions, including the discount rate which reflects management's best estimate of long-term returns on the assets which is currently at 6.25% and consistent with rates used by most other senior Canadian governments.
  - ~~The core matter is whether the pension plan is in a positive funding position given the assumptions used, which we believe to be the case.~~
  - ~~Effectively, two fundamental questions need to be answered in the affirmative: "Is there an asset and does the province own it?" The answers will depend on a number of factors related to both the underlying assumptions and the contractual arrangements.~~
  - ~~The calculation is sensitive to the discount rate used which is currently at 6.25%.~~
  - Background – Ontario Public Accounts 2015-16: In Ontario's fall fiscal and economic update, the government adopted the Auditor General's accounting interpretation for the treatment of net pension assets for

2015–16 through a time-limited regulatory amendment (the "Pension Adjustment"). The impact of the change resulted in an additional $10.7bln being added to the net debt and accumulated deficit and an increase of $1.5bln to the annual deficit for 2015–16. Consistent with the accounting treatment adopted in the Public Accounts of Ontario 2015–2016, the medium-term fiscal outlook provided reflects a cautious approach to forecasting the projected annual Pension Adjustment. This cautious approach results in an estimated potential impact of $2.2bln in 2016–17, $2.8bln in 2017–18, and $3.7bln in 2018–19 to the annual Pension Adjustment.

- What is the future of Ontario's automotive sector?
  - Ontario's auto industry is very important, but just one component of Ontario's diversified economy.
  - Overall, the auto industry represents only **2.5%** of GDP, but it is the largest manufacturing sector accounting for **almost 20%** of total manufacturing.
  - Ontario is the largest ~~single~~ sub-national ~~auto~~ jurisdiction for auto assembly in North America, ranking ahead of Michigan.
  - Ontario can compete ~~not compete~~ with low-wage jurisdictions ~~assembly jobs, but needs to remain competitive~~ on the basis of productivity, technological leadership and our highly skilled workforce.



[1] Includes estimate of imputed rental income on owner occupied dwellings
Source: Statistics Canada and Ontario Ministry of Finance

- What trends do you see with respect to immigration?
  - Ontario attracts about 40% of new immigrants to Canada based on long-term averages. This level is above the provincial average.
  - The percentage of new immigrants fluctuates from quarter-to-quarter and has been as low as 30%.
  - Ontario anticipates that its share of immigration will increase to 45-50% in the coming years.
  - Inter-provincial migration has been historically very low, near 0%.

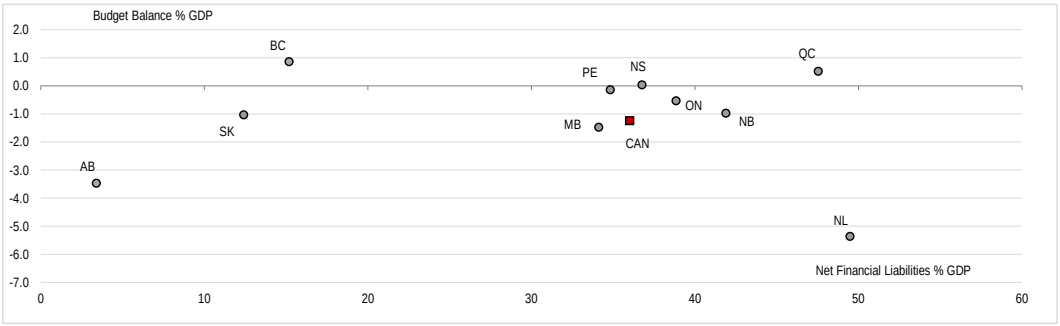
- What is Ontario's housing market outlook?
  - The range of forecasts is quite wide. We expect some moderation, but this will be mitigated by continuing population growth and financial conditions that are still financial stimulative, although borrowing rates and mortgage underwriting conditions have moved tighter.

- Why is the province's debt risk-weighted 20% instead of 0% in some international jurisdictions?
  - Each country has its own financial institutions regulator.
  - We continue to dedicate time and resources to educate international regulators about the creditworthiness of the province and have been successful in many jurisdictions to have the risk-weighting reduced to 0%. This work is ongoing work.
  - In at least 15 countries, including where our major international borrowers are located such as the United States, United Kingdom, and Germany, the risk-weighting is 0%.

- What is the expectation for changes in Equalization payments from the Federal government?
  - Ontario began collecting equalization in 2009-2010. Click Here
  - Given Ontario's leading economic growth, we expect equalization to gradually diminish. This was confirmed in the recent announcement by the federal government in regards to major federal transfers. Ontario's Fiscal 2017-18 Equalization Transfer will be $1,424mln. This is down from $2,304mln **in 2016-17**. The Equalization Framework is a system of a three-year weighted moving average **with a two-year lag** of measured fiscal capacities which takes into account the variation in the revenue generating capacity of the provinces. ~~with a two-year lag.~~ The weightings allocate more weight to the last year (50%) and less weight to the first two years (25% each). ~~There is a two-year lag in the calculation.~~

- When is the next ~~and final~~ IPO planned for Hydro One?
  - **The Province is continuing to move forward with its plan to broaden Hydro One ownership. Ontario successfully completed a secondary offering of 14 per cent of common shares in April [2016] and raised approximately $2.0 billion in total gross proceeds. The Province now holds approximately 70 per cent of Hydro One common shares and will reduce its stake to 40 per cent over time.**

Provincial Fiscal Positioning (Fiscal 2016-17 Forecast)



Source: Government Public Accounts, CIBC Macro Strategy (Quebec budget balance before deposits to the Generations Fund)

Province of Ontario Credit Ratings:

DBRS	AA(low)
Fitch	AA-
Moody's	Aa2
S&P	A+

All Outlooks Stable

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From: Ken Kandeepan
To: Lynsey Wynberg
Subject: FW: PAEAP Report QA_MOF_20170206.docx
Date: Monday, February 06, 2017 2:38:02 PM
Attachments: PAEAP Report QA_MOF_20170206.docx

Hi Lynsey

I have included a bullet on net debt in the key messages, I have refrained from the net debt to GDP ratio since the revised and lower versions will be part of Q3.

Thanks

Ken k

Questions and Answers
Pension Asset Expert Advisory Panel Report

KEY MESSAGES:

- We thank the Pension Asset Expert Advisory Panel for their work on this complex issue.

- We are pleased that the independent panel's results are consistent with Ontario's view that net pension assets for jointly-sponsored plans should continue to be recognized in the Province's financial statements, as they have been for the past 14 years.

- Ontario is accepting all of the panel's recommendations and will prepare its future financial statements based on this advice.

- By applying the panel's advice to the Province's 2015-16 finances, Ontario's deficit has been lowered to $3.5B, from the $5B originally reported in the 2015-16 Public Accounts.

- The application of the Panel's advice has also resulted in Ontario's 2015-16 net debt reducing to $294.6 billion from the $305.2 billion reported in the 2015-16 Public Accounts

- The panel's advice will also help inform discussions with the Auditor General in the hopes of reaching agreement on how the accounting standard is applied to future financial statements.

- Ontario remains committed to balancing the budget by 2017-18, and remaining balanced in 2018-19.

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QUESTIONS AND ANSWERS – MOF REVIEW

1. What does this mean for the upcoming Budget?

The 2017 Budget will reflect the appropriate accounting treatment for net pension assets informed by the panel's report, including the Province's updated Interim numbers for 2016-17, as well as forecasts for the fiscal planning period.

DRAFT

We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19. ~~We will have more details to share about the Budget in the coming weeks.~~

In the coming weeks, we will provide an update in Ontario's Third-Quarter Finances of our progress on our plan to grow the economy.

2. **What do you say to the credit rating agencies who are watching all of this unfold?**

   We have been impressed with the level of cooperation and understanding of the credit rating agency community.

   I would say we have achieved clarity on this complex accounting issue.

   We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

Ontario's Financial Position:

3. **Some have said your government has a spending problem, not a revenue problem. What do you say to that?**

   Even with adopting the Auditor General's view of the 2015-16 Public Accounts, the government still beat its annual deficit target for the seventh year in a row.

   The government is projecting a balanced the budget by 2017-18, and remaining balanced in 2018-19.

   The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

   Over the past four years the Province has held the average annual growth in program spending to 1.9 per cent, less than the rate of inflation, while investing in services that people rely on.

   Key elements of the government's plan to eliminate the deficit are:

DRAFT

- Program Review, Renewal and Transformation
- Managing compensation costs
- Maintaining tax fairness and a level playing field for business
- Strengthening government transparency, financial management and fiscal accountability

4. **The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?**

   The government remains firmly committed to balancing the budget by 2017-18, and remaining balanced in 2018-19.

   Even with adopting the Auditor General's view of the 2015-16 Public Accounts, the government still beat its annual deficit target for the seventh year in a row. This reflects the government's responsible and balanced approach to fiscal management.

   Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

   Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

5. **How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?**

   The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget.

   Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These

investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

Legislated Accounting:

6. Is the disagreement over accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its annual deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing the change to the 2015-16 Public Accounts, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years and by three previous Auditor Generals. There has been no change to the relevant accounting standards over the past 14 years.

In fact, Ontario has a strong track record of producing high-quality financial reports on a timely basis. Prior to 2015-16, Ontario had clean audit opinions for 22 years.

DRAFT

From: Ken Kandeepan
To: Veinot, Cindy (TBS); Nadine Petsche (MOF)
Cc: John Psinas
Subject: FW: Pension Accounting
Date: Friday, October 07, 2016 10:59:52 AM

Hi Cindy and Nadine

As you may expect there is considerable interest on the part of the Rating Agencies in obtaining more detail on the Province's pension adjustment. We had a tele-conference yesterday with Fitch where the questions were very high level and since over the last couple of weeks I had access to most of OPCD's material on this issue I was able to respond, I believe to their satisfaction.

I do have a couple of questions though:

- Looking at the PP presentation from yesterday, based on the Province's interpretation of PSAB, for 2016-17 the TPP Pension Expenses are offset by $452M. My question; is this our share of the surplus with regard to this jointly sponsored plan or simply the PV of the reduction in future contributions because plan assets exceed liabilities, or a combination.

- Again, under the Province's accounting approach, the 2016 Budget on page 284 has a foot note indicating that that the cash payments related to the Province's contribution to the TPP are $1,664 million (revised to $1,672 in yesterday's presentation). What is the debit for this transaction, it is Pension assets?

- Finally, I understand that the AG contends that the Province cannot access surpluses on the TPP in the absence of an MOU. My question; I understand that the Province's contributions to the TPP is already reflected as a pension asset in the Province's Balance Sheet, if the AG is agreeable to these contributions being presented as an asset why distinguish the surplus. This is similar to an individual depositing $1000 in a savings account and at the year of the year seeing it grow to $1,050 and being told that he/she has access to only the original $1,000 and not the growth.

John and I will be happy to come meet with you if that is more useful. If there are any written questions from the Rating Agencies we will be sure to run our responses by you.

Thanks very much

Ken K

From:	Ken Kandeepan
To:	Nadine Petsche (MOF)
Subject:	FW: Pension Accounting
Date:	Friday, October 14, 2016 10:59:03 AM

From: Ken Kandeepan
Sent: Friday, October 07, 2016 11:00 AM
To: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>
Cc: John Psinas <John.Psinas@ofina.on.ca>
Subject: FW: Pension Accounting

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- Looking at the PP presentation from yesterday, based on the Province's interpretation of PSAB, for 2016-17 the TPP Pension Expenses are offset by $452M. My question; is this our share of the surplus with regard to this jointly sponsored plan or simply the PV of the reduction in future contributions because plan assets exceed liabilities, or a combination.

- Again, under the Province's accounting approach, the 2016 Budget on page 284 has a foot note indicating that that the cash payments related to the Province's contribution to the TPP are $1,664 million (revised to $1,672 in yesterday's presentation). What is the debit for this transaction, it is Pension assets?

- Finally, I understand that the AG contends that the Province cannot access surpluses on the TPP in the absence of an MOU. My question; I understand that the Province's contributions to the TPP is already reflected as a pension asset in the Province's Balance Sheet, if the AG is agreeable to these contributions being presented as an asset why distinguish the surplus. This is similar to an individual depositing $1000 in a savings account and at the year of the year seeing it grow to $1,050 and being told that he/she has access to only the original $1,000 and not the growth.

John and I will be happy to come meet with you if that is more useful. If there are any written questions from the Rating Agencies we will be sure to run our responses by you.

Thanks very much

Ken K

From: Ken Kandeepan
To: Mike Manning
Subject: FW: Pension Adjustment
Date: Friday, December 02, 2016 10:00:05 AM

Pls see attached re your question on the pension adjustment. Let me know if you require further clarification.

Thanks

Ken k

From: Ken Kandeepan
Sent: Thursday, December 01, 2016 9:51 PM
To: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Cc: Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; John Psinas <John.Psinas@ofina.on.ca>
Subject: Re: Pension Adjustment

Thanks very much Cindy, as always a very clear and concise explanation. This is adequate for our purposes and we take note of your point that the Province has not mentioned HOOP and CAATT as yet.

As such, if the question is ever asked by investors as to why the expenditure offset and of course it's reversal increases materially from 15-16 to 18-19 we shall respond that in addition to the amortization and the net interest income of the two plans in question other pension plans of the province are also moving in to an asset position.

As they do so the expenditure offset and its reversal increases. All of these are being reviewed by the Independent Panel and we await its report with bated breath. Well perhaps that's an exaggeration but certainly with great interest.

Thanks again

Ken k

Sent from my iPad

On Dec 1, 2016, at 5:39 PM, Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca> wrote:

> Nadine is off sick, so a couple of quick comments, remembering that the estimates from the prior year originally forecast increases in the assets each year and the impact of the $1.5 and $3.7 are to take the assets down to NIL.
>
> 1) As you noted, based on the estimate generated last year for the budget and public accounts for OTPP, the amortization of the unrealized gains is expected to increase (e.g. $400M to $1 Billion between 15-16 and 18-19). In addition,

the excess of the interest income generated on the assets as compared to the interest in the obligation is forecast to continue to increase (e.g. $900M to $1.3 Billion between 15-16 and 18-19)

2) The $3.7 includes 4 plans vs. 2 plans – both HOOPP and CAATT are expected to move into an asset position by 2018-19. The governance structure for these plans differs from OTPP and OPSEU, so the results of the Panel review may differ on the treatment of these plans. We have never disclosed that HOOPP and CAATT may be impacted by name.

Hope that helps,

Cindy

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: December-01-16 4:14 PM
To: Petsche, Nadine (TBS)
Cc: John Psinas; Veinot, Cindy (TBS)
Subject: Pension Adjustment

Hi Nadine

As Mike Manning meets investors including financial institutions the pension adjustment questions does come up on a regular basis. Thanks to the explanations previously provided by you, including the briefing note that you shared we are able to adequately respond to all questions so far.

However, on a pro-active basis I do have one more. The PA increases to $3.7 billion in 2018-19 from $1.5 billion in 2015-16. As I understand it a major component of the PA is the amortization of the gain on the assets over an appropriate period. So our question is; does it mean that the gain on assets has increased to such an extent that the resulting amortization of the gain has also increased by more than two-fold over 3 years.

I am including Cindy as well in this questions since she has provided me with some explanations on other aspects of this issue and she may also be able to shed some clarity.

Thanks and if you believe this can be best answered by a short meeting between you and Mike and myself, we will be happy to schedule one.

Ken k

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From: Ken Kandeepan
To: Gadi Mayman
Cc: Christina Zhang
Subject: FW: Pension Adjustment
Date: Monday, December 05, 2016 3:50:52 PM

Hi Gadi

I was supposed to send this to you on Friday, sorry I forgot. Pls see email exchange between Cindy and I re the Pension Adjustment, her explanation is very good. You will find it interesting.

Thanks

Ken k

From: Ken Kandeepan
Sent: Thursday, December 01, 2016 9:51 PM
To: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Cc: Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; John Psinas <John.Psinas@ofina.on.ca>
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Ken k

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From: Bonnie Lemcke
To: Gadi Mayman
Cc: Ken Kandeepan; Anna Strathy; David Cross
Subject: FW: Pension questions
Date: Wednesday, April 04, 2018 4:25:00 PM
Attachments: 2018-03-22_Fitch_NBFI-Criteria_Report.pdf

Hi Gadi,

Here are the questions – this is **not** directly related to Ontario's rating. They are related to the governance and legislation around public pensions. I think I should send to Elizabeth Doherty (ADM Income Security and Pension Policy) to start.

Please let me know if you think I should send to someone else.

Bonnie

From: Offerman, Douglas [mailto:douglas.offerman@fitchratings.com]
Sent: Wednesday, April 04, 2018 2:48 PM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Cc: Block, Marcy <marcy.block@fitchratings.com>
Subject: RE: Pension questions

Hi Bonnie,

To follow up from Marcy's email, our colleagues in Fitch's non-bank financial institutions group are looking at the credit quality of public pension funds and pension asset managers as it pertains to their own direct debt obligations. As part of that assessment, they review the nature and extent of powers that a sovereign or sub-sovereign sponsor has to affect the performance of a pension. Canada's public pensions are on this list given their global prominence.

We have found a tremendous amount of online data and information on Canadian public pensions (authorizing laws, public accounts, actuarial valuations), but much of it addresses or references the powers and duties of the pension plans themselves, as opposed to what powers the sponsoring governments retain or could exercise in certain circumstances. The questions below are really intended to address that sovereign/provincial perspective. I should also note also that the questions are not necessarily Ontario-specific, but I did modify some of them in view of the many different institutional/governance structures for public pensions in Ontario.

--In the event of a sovereign/provincial default, what is the legal basis by which a public pension fund retains its capacity to pay its own debt obligations?

--In the event of a sovereign/provincial default, what legally prevents the sovereign/province from restricting the ability of a public pension fund to pay its obligations?

--Who owns the assets held by the pension fund—the pension fund itself, the contributing employers, retirees, the pension plan sponsors/sponsors, or the sovereign/province that originally authorized the pension? Do the assets have a legal status that protects them in the event of a bankruptcy by a contributing employer?

--Can the sovereign/province, pension fund sponsor/sponsors, or participating governments make use of pension assets in the event of their own fiscal distress?

--Can the sovereign/province compel a pension fund to buy government debt or take responsibility for public capital investment (separate from the investment choices that the pension fund is authorized to make by itself)?

--Can the sovereign/province restrict or eliminate its own employer contributions to a pension fund if it faces fiscal distress?

--Can a pension plan sponsor or contributing employer remove its assets and sever its relationship with the pension fund without sovereign/provincial approval?

To the extent there are legal/statutory or judicial references, I would welcome them; I've already downloaded the Pension Benefits Act and other available financial, actuarial and legal information for CPP and for several other plans like HOOPP, MERS and OTPP. I've also attached a copy of our published criteria for "non-bank" financial institutions, for your reference. If it makes more sense for you, we would be happy to schedule a phone call to discuss!

Douglas Offerman
Senior Director
Fitch Ratings
33 Whitehall St.
New York, NY 10004

Tel. 212-908-0889

From: Block, Marcy
Sent: Tuesday, April 03, 2018 1:44 PM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Cc: Offerman, Douglas <douglas.offerman@fitchratings.com>
Subject: RE: Pension questions

Thank you!

Marcy S. Block
Senior Director
Fitch Ratings – U.S. Public Finance

33 Whitehall Street
New York, NY 10004
212-908-0239

From: Bonnie Lemcke [mailto:Bonnie.Lemcke@ofina.on.ca]
Sent: Tuesday, April 03, 2018 1:31 PM
To: Block, Marcy <marcy.block@fitchratings.com>
Cc: Offerman, Douglas <douglas.offerman@fitchratings.com>
Subject: RE: Pension questions

Hi Marcy and Doug,

Please send me your questions and we will forward to the correct individual. If you would like to have a conference call to discuss, I can arrange that as well.

Bonnie

From: Block, Marcy [mailto:marcy.block@fitchratings.com]
Sent: Tuesday, April 03, 2018 12:58 PM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Cc: Offerman, Douglas <douglas.offerman@fitchratings.com>
Subject: Pension questions

Bonnie,

Good afternoon. I am reaching out on Doug's behalf to solicit assistance regarding the province's employee pension plans. Separate from our discussions related to Ontario's economy and finances, some colleagues of ours at Fitch who focus on "non-bank" financial institutions are developing a framework for looking at pension funds globally; given the size and scope of Canada's public pensions, Doug would like to ask some general questions to understand Ontario's relationship to its pensions plans. A possible start could be Doug sending you questions directly and asking you to put him in touch with the correct individual after you have had a chance to review them. Please advise and thank you.

Best,
Marcy

Marcy S. Block
Senior Director
Fitch Ratings – U.S. Public Finance
33 Whitehall Street
New York, NY 10004
212-908-0239

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Non-Bank Financial Institutions Rating Criteria

Master Criteria

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This criteria report replaces the master criteria report titled "Global Non-Bank Financial Institutions Rating Criteria" dated March 10, 2017.

Related Criteria

Bank Rating Criteria (March 2018)

For additional related criteria, see Annex 6.

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Scope

This criteria report specifies Fitch Ratings' methodology for assigning new ratings to, and monitoring existing ratings of, non-bank financial institutions globally, including securities firms, investment managers (including investment companies and investment funds), business development companies (BDCs), finance and leasing companies (including mortgage real estate investment trusts [REITs] and non-bank policy institutions) and financial market infrastructure (FMI) companies. With the exception of a limited number of financial institutions with banking licenses, the criteria discussed herein do not apply to banks, the rating criteria for which are outlined in Fitch's "Bank Rating Criteria" or to insurance companies or equity REITs.

Key Rating Drivers

Five Factors in Stand-Alone Assessment: Unless driven by sovereign, subnational or institutional support, a non-bank financial institution's Issuer Default Rating (IDR) is determined by an assessment of its fundamental creditworthiness. In assessing a non-bank financial institution's stand-alone profile, Fitch considers five key factors: the operating environment; company profile; management and strategy; risk appetite; and financial profile.

While the first three factors are relatively common across financial institutions, an assessment of a firm's risk appetite and financial profile is more specific to the subsector in which the company operates.

Balance Sheet Distinction: Within non-bank financial institution subsectors, Fitch also makes distinctions in its analysis for businesses with high balance sheet usage versus businesses with low balance sheet usage. Profitability metrics for balance sheet-intensive businesses are focused on asset and equity yields, while leverage ratios focus on capitalization measures. For asset-light strategies, operating margins are a common indicator of profitability, while cash flow ratios are used to assess leverage.

Support Factors: The most common form of support factored into Fitch's ratings of non-bank financial institutions is institutional support from parent institutions. In assessing potential support, Fitch considers both the ability and propensity of the supporter to provide assistance on a timely basis. For example, the ratings of captive finance subsidiaries often benefit from a high probability of support, because they frequently enhance the firm's franchise, strategic objectives and revenue prospects.

While sovereign support is often a rating factor for non-bank policy institutions, it is not common for other non-bank financial institutions, given their more limited systemic importance.

Default Risks, Recovery Prospects: Issue ratings of non-bank financial institutions, in common with other corporate finance sectors, reflect Fitch's view of the overall level of credit risk attached to specific financial commitments, usually securities. This view incorporates an assessment of both the likelihood of default (or "non-performance" risk) on the specific obligation and of potential recoveries for creditors in case of default/non-performance.

Senior Debt Aligned with IDR: Ratings of a non-bank financial institution's senior unsecured obligations are usually equalized with its Long-Term IDR, although they can be notched downward if there is deep effective subordination or high balance-sheet encumbrance.

Report Summary and Structure

I. Ratings Framework

Fitch assigns both issuer and issue ratings to non-bank financial institutions and their obligations. The two primary issuer ratings are:

- Long-Term IDRs; and
- Short-Term IDRs.

In limited circumstances, Fitch may also assign Support Ratings (SRs), Support Rating Floors (SRFs) and/or Derivative Counterparty Ratings (DCRs) to non-bank financial institutions. For complete rating definitions, click here.

Fitch generally adopts a "higher of" approach in assigning Long-Term IDRs to non-bank financial institutions. Specifically, Fitch first determines what level of Long-Term IDR a non-bank financial institution could attain based solely on its stand-alone financial strength or based solely on support, whether sovereign support from government authorities (as reflected in the SRF) or institutional support, usually from shareholders. Fitch then (almost always) assigns the non-bank financial institution's IDR at the higher of these two levels absent extraordinary constraints represented by the Country Ceiling.

II. Stand-Alone Assessment

An assessment of the stand-alone credit profile of a non-bank financial institution considers five key factors:

- operating environment;
- company profile;
- management and strategy;
- risk appetite; and
- financial profile.

For details on the stand-alone assessment aspect of Fitch's ratings framework, click here.

III. Support

For non-bank financial institutions, the most usual source of support is from the shareholders (institutional support); for example, when a corporate parent has a finance subsidiary. Support from government authorities (sovereign support) is a much less frequent occurrence for non-bank financial institutions than for banks, given the generally relatively smaller size and influence of a non-bank financial institution on a country's financial system. If present, sovereign support is often based on the non-bank financial institution's policy role and less on its systemic importance. Fitch's view of the likelihood of external support being made available in case of need may be reflected in a non-bank financial institution's SR. Where Fitch believes the most likely form of support is sovereign support, this is also reflected in the non-bank financial institution's SRF, which indicates the minimum level to which the entity's Long-Term IDR could fall for the level of extraordinary support assumed.

The key sovereign support rating factors are:

- sovereign's ability to support;
- sovereign's propensity to support a specific non-bank sector; and
- sovereign's propensity to support a specific non-bank financial institution.

The key institutional support rating factors are:

- parent's ability to support;
- parent's propensity to support; and
- legal and regulatory obligations/constraints.

For details on the support framework, click here.

IV. Issue Ratings

Ratings of non-banks financial institutions' senior, subordinated/hybrid and other securities issues incorporate an assessment both of the likelihood of default (or "non-performance" risk) on the specific obligation and (for debt securities assigned long-term ratings) of potential recoveries for creditors in case of default/non-performance. For details, click here.

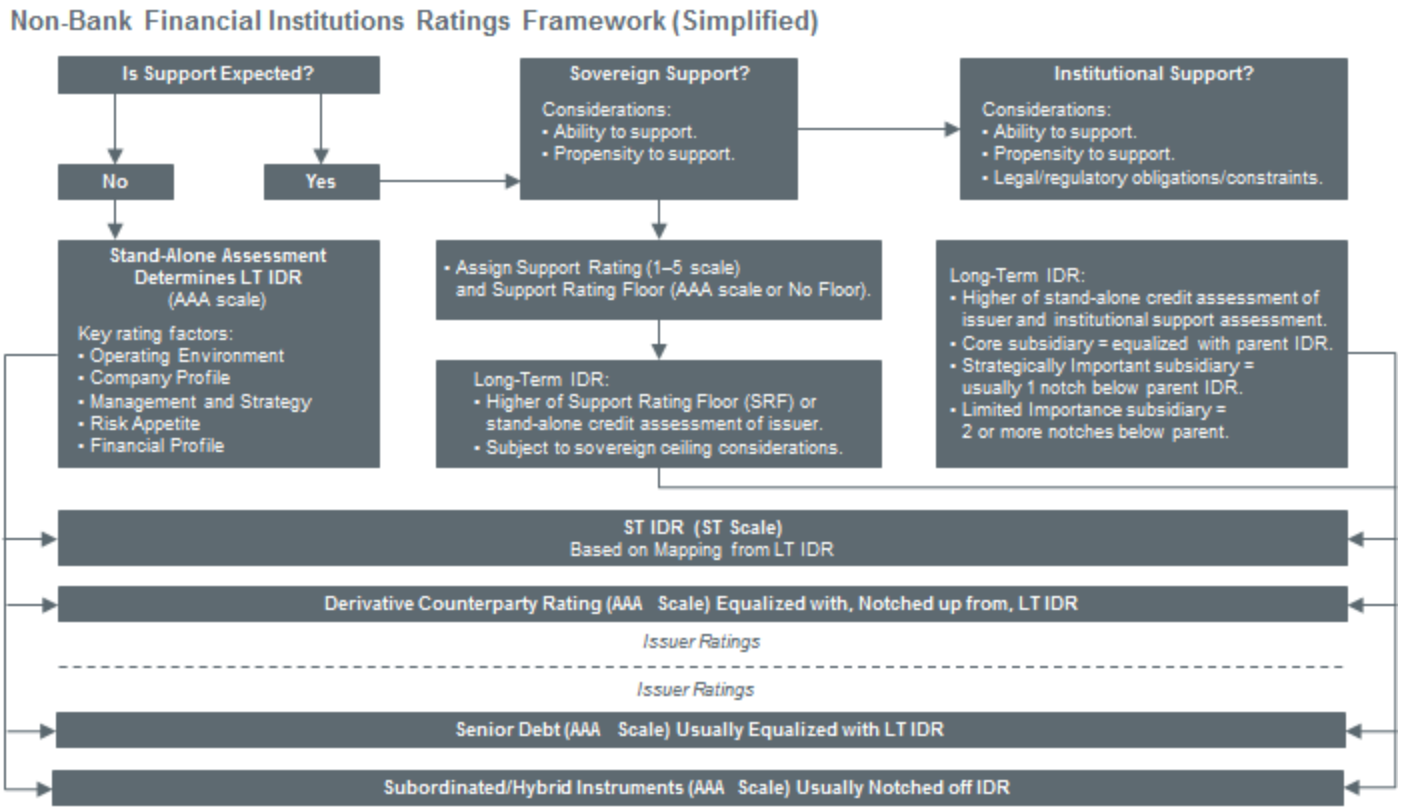
V. Annexes

For additional information on specific aspects of the non-bank financial institutions rating criteria, a summary of non-bank financial institution quantitative benchmarks and metrics by subsector and information on certain rating procedures, click here.

I. Ratings Framework

This section provides an overview of the international and national scale ratings assigned to non-bank financial institutions and their issues, indicating: what the different ratings measure, when they are assigned, the scales on which they are assigned; and how, in broad terms, the rating levels are determined. This section first reviews non-bank financial institution issuer ratings and then issue ratings.

Sections II, III and IV provide more detail on the criteria for assigning IDRs, SRs and SRFs and issue ratings, respectively. Readers who do not wish to review in detail Fitch's rating framework should turn to these sections. A simplified version of the framework is presented in the chart below.



LT IDR – Long-term Issuer Default Rating. ST IDR – Short-term Issuer Default Rating.

I.1. Long-Term Issuer Default Ratings

What They Measure

IDRs for non-bank financial institutions, as for issuers in other sectors, express Fitch's opinion on an entity's relative vulnerability to default on its financial obligations. In accordance with Fitch's rating definitions, the default risk addressed by the IDR is generally that of the financial obligations whose non-payment would "best reflect the uncured failure of that entity."

For a small population of mostly prudentially regulated non-bank financial institutions, Fitch considers that the obligations whose non-payment would best reflect uncured failure are usually senior obligations to third-party, non-government creditors. For the larger universe of other non-bank financial institutions, Fitch generally considers that non-payment of both senior and subordinated obligations to third party, non-government creditors (including by way of a distressed debt exchange) would reflect the uncured failure of the issuer. Therefore, for most non-bank financial institutions, only certain hybrid securities that contractually allow for going concern non-performance (e.g. coupon deferral) are likely to fall outside the scope of the IDR. For more details, see What Non-Bank Financial Institution IDRs Reflect: Definition of Reference Obligations below.

What Non-Bank Financial Institution IDRs Reflect: Definition of Reference Obligations

A non-bank financial institution's IDRs usually express Fitch's opinion on the risk of default on its senior or (with the exception of a small number of prudentially regulated non-bank financial institutions) subordinated obligations to third-party, non-government creditors, as in Fitch's view, these are typically the obligations whose non-performance would best reflect the uncured failure of the entity. In accordance with Fitch's rating definitions, and in common with issuers in other sectors, a non-bank financial institution's default may take a number of forms, including non-payment of obligations beyond the available cure period, bail in, a distressed debt exchange or the issuer entering into bankruptcy proceedings.

When considering whether a debt restructuring or exchange should be classified as a distressed debt exchange, Fitch expects both of the following to apply: i) the restructuring imposes a material reduction in terms compared with the original contractual terms; and ii) the restructuring or exchange is conducted to avoid bankruptcy, similar insolvency or intervention (including resolution) proceedings or a traditional payment default.

A non-bank financial institution's SR and SRF, should they be applicable, also rate to the same reference obligations, i.e. they reflect Fitch's view on whether external support will be sufficient for a non-bank financial institution to avoid default on its relevant obligations to third-party, non-government creditors.

The rationale for Fitch's definition of reference obligations for IDRs is as follows:

Third-Party vs. Intra-Group Obligations

Non-bank financial institution IDRs do not usually rate to default risk on funding from entities under common control (e.g. parent/sister companies or related non-financial corporations) for three main reasons. First, these facilities may not be extended with the same expectations of an unaffiliated creditor, for example the borrower may not always be expected to repay, rather than roll over, the facilities at maturity. Second, Fitch would not usually expect there to be a high level of transparency on whether an entity has "defaulted" on intra-group debt, e.g. whether a roll-over has been "voluntary" or "forced". Third, Fitch would not usually regard entities under common control as the main users of its ratings, as in most cases they would have privileged, direct access to information on the financial condition of the borrower.

Private vs. Government Creditors

Non-banks financial institutions are largely funded in the private sector, as they do not generally have access to central bank funding. However, non-bank financial institutions that, for example, have a policy role or that have a banking license but are viewed by Fitch as more akin to non-bank financial institutions may have access to government funding, particularly during periods of market stress. When this is the case, non-bank financial institution IDRs will not usually rate to default risk on obligations owed to central banks and other national government institutions. This reflects the special relationship between a central bank, as lender of last resort, and issuers that benefit from this form of funding, and the fact that, where facilities due to central banks are rolled over or restructured, there is likely to be considerable ambiguity regarding whether such a restructuring should be regarded as "voluntary" or "forced." In addition, it will often be difficult to ascertain in a timely fashion whether an issuer has performed on debt owed to its central bank.

Different Categories of Obligations

In some cases a non-bank financial institution may default on some categories of third-party, private sector debt, while continuing to perform on others. Where Fitch considers there to be significantly different levels of default risk on different categories of senior liabilities, the IDRs will rate to the (material) category with highest risk. If a non-bank financial institution defaults on a material category of third-party, private sector senior debt, but remains current on other categories, its IDRs will be downgraded to 'RD' (Restricted Default).

When They Are Assigned

Long-Term IDRs are assigned to virtually all non-bank financial institutions with international ratings. The main exceptions are rare cases where an entity issues exclusively short-term debt and may therefore be assigned only a Short-Term IDR.

Where Fitch believes it is useful to separately highlight the level of default risk on foreign-currency and local-currency obligations, it may assign separate Foreign-Currency (FC) and Local-Currency (LC) Long-Term IDRs to a non-bank financial institution. This may be done, for example, when the agency considers there to be a material difference in default risk on obligations in different currencies (for intrinsic or support reasons, or because of a greater risk of legal restrictions on servicing foreign-currency debt), or when the assignment of a LC IDR is undertaken as part of the process to derive a non-bank financial institutions' National Rating *(see Section I.8)*.

On Which Scale

Long-Term IDRs are assigned on the 'AAA' scale *(see table at left)*.

How They Are Determined

Fitch generally adopts a "higher of" approach in assigning Long-Term IDRs to non-bank financial institutions. Specifically, the agency first determines what level of Long-Term IDR a non-bank financial institution could attain based solely on its stand-alone financial strength (*see Section II, 'Stand-Alone Assessment'*) or based solely on support (*see Section III, 'Support'*), whether it is sovereign support from government authorities (as reflected in the SRF) or institutional support, usually from shareholders. Fitch then (almost always) assigns the FI's Long-Term IDR at the higher of these two levels, absent extraordinary constraints represented by the Country Ceiling.

In some instances non-bank financial institution credit profiles may deteriorate relatively rapidly, while in other instances they can remain fundamentally weak for relatively extended periods of time (e.g. in countries where the sovereign is lowly rated, but relatively stable). Use of '+' or '-' modifiers in the 'CCC' range is more likely for the latter than the former.

Should institutional support exist, the Long-Term IDR is based on Fitch's opinion of the strategic importance of the entity to its parent and an assessment of the parent's propensity and ability to support the subsidiary. In many cases, such as for some captive finance companies, Fitch is not able to form a stand-alone rating opinion on the non-bank financial institution subsidiary, when there are high levels of financial, operational and management integration with the parent entity. For example, if the franchise position of the subsidiary is highly correlated with that of the parent and/or the subsidiary's access to funding is heavily dependent upon the parent, these may limit Fitch's ability to assign a stand-alone rating to the subsidiary.

If the subsidiary is small and of a non-material size relative to the parent, this may also limit Fitch's ability to assign a stand-alone rating to the subsidiary. Stand-alone ratings are not usually assigned to development institutions or other non-bank financial institutions whose operations are largely determined by their policy roles (i.e. they have limited commercial operations).

In certain circumstances, a non-bank financial institutions' Long-Term Foreign-Currency IDR can also be constrained at a level below that implied by the "higher of" approach. This occurs when the non-bank financial institution's stand-alone assessment is higher than the Country Ceiling of the jurisdiction in which it is domiciled, and the Country Ceiling constrains the non-bank financial institution's Long-Term IDR. A non-bank financial institution's SR (unlike its stand-alone assessment) already captures the constraints (the risk of transfer and convertibility

Long-Term IDR Scale

Category	Brief Description
AAA	Highest credit quality
AA	Very high credit quality
A	High credit quality
BBB	Good credit quality
BB	Speculative credit quality
B	Highly speculative credit quality
CCC	Substantial credit risk
CC	Very high levels of credit risk
C	Exceptionally high levels of credit risk
RD	Restricted default
D	Default

The modifiers '+' or '-' may be appended to a rating to denote relative status within categories from 'AA' to 'CCC'. Click here for full descriptions of each rating category.

Source: Fitch.

restrictions) reflected in the Country Ceiling, and so would not be assigned at a level implying a higher Long-Term IDR than the Country Ceiling.

On rare occasions, a non-bank financial institution's IDR could be above the level implied by its stand-alone assessment. This could occur if the non-bank financial institution has sufficient buffers of liabilities that rank below the reference liabilities for its IDRs that could be restructured or bailed in to recapitalize the non-bank financial institution without the reference liabilities for its IDRs suffering a default. In determining the sufficiency of the buffers, Fitch will use the same 'qualifying junior debt' principles outlined in the Bank Rating Criteria.

LC IDRs are generally viewed as reflecting the underlying credit quality of the company and incorporate economic/political risk and liquidity and foreign-exchange risks. While LC IDRs measure the likelihood of repayment in the currency of the jurisdiction, they do not account for the possibility that it may not be possible to convert local currency into foreign currency or make transfers between sovereign jurisdictions (i.e. transfer and convertibility risks).

It is important to note that the LC IDR incorporates the probability of default for all of an issuer's debt obligations (local- and foreign currency-denominated) in the absence of transfer and convertibility risks. This takes into account the probability that an issuer under stress will default on all obligations and will not pick and choose specific debt instruments on which to default. Therefore, when the LC IDR is at or below the Country Ceiling, the LC IDR and the FC IDR will be equal virtually all of the time.

Short-Term IDR Scale

Category	Brief Description
F1	Highest short-term credit quality
F2	Good short-term credit quality
F3	Fair short-term credit quality
B	Speculative short-term credit quality
C	High short-term default risk
RD	Restricted default
D	Default

A '+' modifier may be appended to the 'F1' rating to denote exceptionally strong credit quality. Click here for full descriptions of each rating category.

Source: Fitch.

Rating Correspondence

Long-Term Rating	Short-Term Rating
From AAA to AA–	F1+
A+	F1 or F1+
A	F1
A–	F2 or F1
BBB+	F2
BBB	F3 or F2
BBB–	F3
From BB+ to B–	B
From CCC to C	C
RD	RD
D	D

The modifiers '+' or '–' may be appended to a rating to demote relative status within categories from 'AA' to 'CCC'. Click here for full descriptions of each rating category.
Source: Fitch.

I.2. Short-Term Issuer Default Ratings

What They Measure

As with issuers in other sectors, Short-term IDRs reflect the non-bank financial institution's vulnerability to default in the short term. For non-bank financial institutions and most other issuers, the "short-term" typically means up to 13 months.

When They Are Assigned

Short-term IDRs are assigned to all non-bank financial institutions that have Long-Term IDRs, except where an issuer does not have, and is not expected to have, material short-term obligations. The short-term instrument most commonly rated by Fitch in the non-bank financial institution space is commercial paper (CP).

On Which Scale

Short-term IDRs are assigned on a seven-point scale *(see table at left)*.

How Are They Determined

Short-Term IDRs are almost always assigned in accordance with a correspondence table between Long-Term and Short-Term IDRs *(see table at left)*. Where the Long-Term IDR can correspond to either of two Short-Term IDRs (and the Long-Term IDR is driven by the non-bank financial institution's stand-alone profile), the Short-Term IDR will usually be determined based primarily on the strength of the issuer's liquidity profile, for example by considering its level of liquid assets, access to the capital markets or breadth of contingency funding sources *(see Section IV.1)*.

Where the Long-Term IDR is support driven, the higher of the two possible Short-Term IDRs will typically be assigned where the issuer is rated lower than the supporting entity. This is because Fitch generally views the propensity to support as more certain in the near term.

I.3. Viability Ratings

What They Measure

Only in rare circumstances are VRs assigned to non-bank financial institutions. VRs are primarily used to measure the intrinsic creditworthiness of a bank on a stand-alone basis, without the benefit of government or institutional support. Since non-bank financial institutions do not typically have the systemic influence of a bank, they do not generally have the potential to receive sovereign support. As a result, the measure of a non-bank financial institution's stand-alone credit profile is generally encompassed in the LT IDR.

Fitch will assign VRs to non-bank financial institutions, only in limited circumstances, for example to aid transparency when the IDRs are driven by external sovereign support or where the entity has features of a bank (including potentially a banking license and a deposit base), but where Fitch believes that, on balance, the non-bank financial institutions criteria is the main driver for the analysis. If a non-bank financial institution is assigned a VR, it would be in accordance with criteria and standards applicable to determining the stand-alone credit profile of that type of entity, as outlined in this criteria report. For more information on Viability Ratings, refer to the Bank Rating Criteria.

I.4. Support Ratings

What They Measure

Fitch's SRs reflect the agency's view on the likelihood that a non-bank financial institution will receive extraordinary support, in case of need, to prevent it from defaulting. Extraordinary support typically comes from one of two sources: the rated entity's shareholders (institutional support) or the national authorities of the country where it is domiciled (sovereign support). However, in some circumstances SRs may also reflect potential support from other sources, e.g. international financial institutions, regional governments or expected acquirers of the rated entity.

In some cases, Fitch may judge that the likelihood of a non-bank financial institution receiving external support is materially different regarding its foreign- and local-currency obligations. This may happen, for example, when the sovereign that is the potential support provider itself has Foreign- and Local-Currency IDRs assigned at different levels. In such cases, the non-bank financial institution's SR (and SRF) will be assigned based on the obligations less likely to be supported (usually, those in foreign currency), while the non-bank's Foreign-and Local-Currency IDRs may be assigned at different levels to reflect the difference in risk.

SRs do not specifically address transfer and convertibility risk for each and every foreign jurisdiction in which a non-bank financial institution operates, nor do they reflect jurisdiction-specific resolution risks.

When They Are Assigned

SRs may be assigned to non-bank financial institutions that Fitch expects to be beneficiaries of sovereign, subnational, or institutional support.

On Which Scale

SRs are assigned on a five-point scale, with '1' representing an extremely high probability of support, and '5' indicating that support cannot be relied on.

How They Are Determined

Fitch's criteria for assessing the likelihood of external support for a non-bank financial institution is outlined in Section III of this report. Whether considering sovereign or institutional support, Fitch will analyze both the ability and propensity of the supporting entity to provide assistance to the FI concerned and, in the case of institutional support, potential constraints that may be imposed upon the institution as a result of sovereign risk. Once a non-bank financial institution's institutional support-driven IDR or SRF has been determined, its SR is determined in accordance with the 'Support Rating Scale Correspondence Table' below.

I.5. Support Rating Floors

What They Measure

SRFs reflect the agency's view about the likelihood that the rated entity will receive extraordinary support, in case of need, specifically from government authorities. This usually means from the national authorities of the country where the non-bank financial institution is domiciled, although in certain cases, Fitch may also factor potential support from subnational or international government institutions into its assessment depending on factors outlined in Section III.1. Therefore, SRFs do not capture the potential for institutional support from the entity's shareholders. SRFs indicate the minimum level to which the entity's Long-Term IDRs could fall if the agency does not change its view on potential sovereign support.

Support Rating Scale Correspondence Table

IDR/Implied IDR Based on Support (SRF for Sovereign Support) Rating	Probability of Support	Support Rating
'A–' or Above	A non-bank financial institution for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the non-bank financial institution in question.	1
'BBB' Category	A non-bank financial institution for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to support the non-bank financial institution in question.	2
'BB' Category	A non-bank financial institution for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so.	3
'B+' or 'B'	A non-bank financial institution for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so.	4
'B–' or Below	A non-bank financial institution for which there is a possibility of external support, but it cannot be relied on. This may be due to a lack of propensity to provide support or to very weak financial ability to do so.	5

Source: Fitch.

SRFs do not specifically address transfer and convertibility risk for each and every foreign jurisdiction in which a non-bank financial institution operates, nor do they reflect jurisdiction-specific resolution risks.

When They Are Assigned

SRFs are assigned to non-bank financial institutions where Fitch believes the most likely source of potential extraordinary support is government authorities, rather than the non-bank financial institution's shareholders. For example, Fitch may assign a SRF to a non-bank financial institution which exhibits systemic importance or serves as a core component of the financial market infrastructure. They may also be assigned where institutional (shareholder) support is viewed as more reliable, but the agency believes it would be useful to also indicate the level below which the ratings are unlikely to fall due to government support.

On Which Scale

SRFs are assigned on the 'AAA' rating scale. Where there is no reasonable assumption that sovereign support will be forthcoming, an SRF of 'No Floor' is assigned.

How They Are Determined

Fitch's criteria for assessing the likelihood of sovereign support for a non-bank financial institution and assigning its SRF are outlined in Section III.1 of this report. Fitch analyzes the ability of the sovereign to provide support, its propensity to support the specific non-bank sector as a whole and its propensity to support the specific non-bank financial institution in question. The 'Support Rating Scale Correspondence Table' above is used to link a non-bank financial institutions' Support Rating and its institutional support-driven IDR or SRF. The table can be read left to right or right to left, depending on whether the support-driven IDR/SRF or SR is determined first.

I.6. Derivative Counterparty Ratings

What They Measure

In some jurisdictions, developments in resolution frameworks or insolvency frameworks mean the vulnerability to default on a derivative contract could be lower than the vulnerability to default on other senior liabilities, even equally ranking ones. This could be because derivatives enjoy legal preference over, say, senior debt or because of powers granted to resolution authorities to treat equally ranking liabilities differently.

DCRs are issuer-level ratings and express Fitch's opinion on a non-bank financial institution's relative vulnerability to default, due to an inability to pay, on any derivative contract with third-party, non-government counterparties. Short-term 'stays' on derivatives at the outset of a resolution process would not be considered a default.

The vulnerability to default could vary even within this class of exposure (e.g. collateralized derivative exposures or cleared derivatives being less vulnerable to default than uncollateralized). DCRs in effect address the vulnerability to default on the riskiest type of counterparty exposure, which Fitch assumes, either jointly or in isolation, will be an uncollateralized derivative exposure.

Unless Fitch explicitly assigns ratings at the foreign subsidiary level, DCRs apply both to material domestic derivative liabilities and those originated by foreign subsidiaries. However, they do not specifically address transfer and convertibility risk for each and every foreign jurisdiction in which a non-bank financial institution operates, nor do they reflect jurisdiction-specific resolution risks.

When They Are Assigned

Unlike Long-Term IDRs, which are assigned to virtually all non-bank financial institutions with international ratings, Fitch only assigns DCRs to selected non-bank financial institutions that may be subject to resolution in selected jurisdictions where: i) Fitch believes derivative counterparties may be able to avoid default when other senior creditors suffer default (e.g., due to an effective resolution regime and/or clear legal preference for derivative counterparties) and ii) an issuer either acts as a notable derivative counterparty nationally or internationally, acts as derivative counterparty to Fitch-rated transactions (e.g. structured finance) or where Fitch otherwise understands there to be market interest.

Given that non-bank financial institutions rarely benefit from comparably formalized resolution frameworks as banks, Fitch expects the application of DCRs to stand-alone non-bank financial institutions to be limited to a small number of broker-dealers and FMIs.

Derivative Counterparty Rating Scale

Category	Brief Description
AAA(dcr)	Highest credit quality
AA(dcr)	Very high credit quality
A(dcr)	High credit quality
BBB(dcr)	Good credit quality
BB(dcr)	Speculative credit quality
B(dcr)	Highly speculative credit quality
CCC(dcr)	Substantial credit risk
CC(dcr)	Very high levels of credit risk
C(dcr)	Exceptionally high levels of credit risk
RD(dcr)	Restricted default
D(dcr)	Default

The modifiers '+' or '-' may be appended to a rating to denote relative status within categories from 'AA' to 'CCC'. Click here for full descriptions of each rating category. Source: Fitch.

On Which Scale

DCRs are assigned on the 'AAA' scale, but with a '(dcr)' suffix *(see table at left)*.

How They Are Determined

DCRs are anchored to an entity's Long-Term IDR and will be in line with an entity's Long-Term IDR, except in the following circumstances.

A DCR will be above a non-bank financial institution's IDR when: i) a non-bank financial institution's Long-Term IDR is driven by its VR or stand-alone assessment or is aligned with a parent's IDR due to integration. The parent and subsidiary would have to be located in the same jurisdiction and capital/liquidity fungibility would normally be expected to be high; ii) there is clear legal preference for derivative counterparties over senior debt and/or other senior instruments (or this is expected to occur within a typical rating horizon); and iii) Fitch believes these (legally junior) senior liabilities to be of sufficient size to avoid a liquidation and absorb losses, either through statutory means, contractual means or a distressed debt exchange, without triggering a default on any derivative counterparty.

When deciding whether to notch up, Fitch uses the same recapitalization volume principles as are employed when determining whether to notch up an IDR above the level implied by a non-bank financial institution's stand-alone assessment *(see I.1 Long-Term IDRs: How They Are Determined)*. Like IDRs, DCRs are subject to Country Ceilings and other sovereign constraints, for example relating to intervention risk *(as outlined in Annex 2: Rating Non-Bank Financial Institutions Above the Sovereign)*. DCRs are capped one notch above an entity's IDR when IDRs are in the 'BB' range or higher but potential uplift can be greater when IDRs are in the 'B' range or lower.

In some instances non-bank financial institution credit profiles may deteriorate relatively rapidly, while in other instances they can remain fundamentally weak for relatively extended periods of time (e.g. in countries where the sovereign is lowly rated, but relatively stable). Use of '+' or '-' modifiers in the 'CCC' DCR range is more likely for the latter than the former.

I.7 Issue Ratings

What They Measure

Issue ratings of non-bank financial institutions, like those of other corporate finance sectors, reflect Fitch's view of the overall level of credit risk attached to specific financial commitments, usually securities. This view incorporates an assessment of the likelihood of default (or of "non-performance" risk in the case of subordinated/hybrid securities) on the specific obligation, and potential recoveries for creditors in case of default/non-performance. Short-term non-bank financial institution issue ratings, like those of other sectors, incorporate only an assessment of the default risk on the instrument.

Non-performance by a non-bank financial institution on its subordinated/hybrid securities is defined as any of the following:

- the missing (omission or deferral) of a coupon or similar distribution;
- contingent conversion into a more junior instrument to the detriment of the investor (other than at the investor's option);
- the writedown, writeoff, conversion or non-payment of principal; and
- a distressed debt exchange.

Recovery Rating Scale

Rating	Recovery Prospects Given Default	Typical Historical Recoveries (%)	Notching of Issue Rating[a]
RR1	Outstanding	91–100	+3
RR2	Superior	71–90	+2
RR3	Good	51–70	+1
RR4	Average	31–50	0
RR5	Below Average	11–30	(1)
RR6	Poor	0–10	(2)[b]

Click here for full descriptions of each rating. [a]Relative to level of non-performance risk. [b]Fitch's RR definitions allow for minus three notches in case of 'RR6'; however, Fitch does not notch more than twice for FI issues.
Source: Fitch.

When They Are Assigned

Issue ratings may be assigned to individual obligations or debt programs of non-bank financial institutions.

On Which Scale

Non-bank financial institution issues with an initial maturity of more than 13 months are usually rated on the long-term rating scale, whereas issues with an initial maturity of less than 13 months are usually assigned ratings on the short-term rating scale. Whether Fitch rates issues on the short- or long-term rating scale will also depend on market convention and local regulation.

Where a non-bank financial institution (or corporate) has a Long-Term IDR of 'B+' or below, Fitch also usually assigns a Recovery Rating (RR) to the entity's issues rated on the long-term scale. RRs provide greater transparency on the recovery component of Fitch's assessment of the credit risk of lowly rated issuers' securities.

How They Are Determined

For long-term non-bank financial institution issues, Fitch first determines the likelihood of default/non-performance on the specific obligation, which is measured on the long-term 'AAA' rating scale. This is judged to be either in line with, or notched off of, the obligor's Long-Term IDR, which serves as the "anchor rating" for the issue rating.

Having established the level of default/non-performance risk on the issue, Fitch may then adjust this upwards or downwards to arrive at the issue rating if the agency views the instrument as having above- or below-average recovery prospects. Where recovery prospects are viewed as average, the issue rating will be in line with the assessment of default/non-performance risk. The extent of potential upward/downward adjustment of the issue rating based on the instrument's recovery prospects is shown in the table above.

Fitch's approach to assigning issue ratings to different classes of securities issued by non-bank financial institutions is outlined in Section IV of this report.

I.8. National Ratings

What They Measure

National scale ratings are an opinion of creditworthiness relative to the universe of issuers and issues within a single country.

When They Are Assigned

National scale ratings are most commonly used in emerging market countries with sub- or low investment grade sovereign ratings on the international scale.

On Which Scale

National scale ratings are assigned on the long-term ('AAA') and short-term ('F1') rating scales, but with a country suffix to identify them as national scale ratings. Cross border issues carry the suffix of the country into which the debt has been issued, rather than the suffix of the issuer's domicile. In some monetary union countries, a single country suffix may be applied (e.g. the 'zaf' suffix for South Africa and Namibia National Ratings).

How They Are Determined

National scale ratings are assigned on the basis that the "best credits or issuers" in the country are rated 'AAA' on the national scale. National Ratings are then assessed using the full range of the national scale based on a comparative analysis of issuers rated under the same national scale to establish a relative ranking of credit worthiness.

Fitch uses the Non-Bank Financial Institutions Rating Criteria to assign national scale ratings to non-bank financial institutions, as it describes how Fitch assesses the relevant qualitative and quantitative factors that reflect the risk profile of issuers and their financial obligations. The rating assignment process uses the same rating framework as for international ratings, i.e. a combination of intrinsic and external support analysis.

Fitch adopts the following steps to assign national scale ratings:

1) Using either international or domestic peers as a starting point a comparative analysis is undertaken using the qualitative and quantitative factors of the Non-Bank Financial Institutions Rating Criteria. This process facilitates an initial relative positioning and ranking of credit risk both with other peer issuers within a country and/or internationally.
2) Fitch uses equivalence tables, where relevant, to ensure relativities between issuers on the international scale and the more granular, country-specific national long-term rating scale are maintained.
3) Where assigned, national short-term ratings are then determined using the same process and principles outlined in section I.2 of this report. National scale short-term issue ratings are aligned with a non-bank financial institution's national short-term rating issuer unless there are exceptional circumstances (e.g. a specific issue is guaranteed by a third party).
4) National scale long-term debt ratings are aligned with or notched from an issuer's national long-term rating using the same framework as outlined in section IV of this report.

Fitch does not publish rating navigators for national ratings.

II. Stand-Alone Assessment

In assessing a non-bank financial institution's stand-alone profile, Fitch considers five key factors: operating environment; company profile; management and strategy; risk appetite; and financial profile. While the first three factors are relatively common across banks and non-bank financial institutions, an assessment of a firm's risk appetite and financial profile is more specific to the subsector in which the company operates.

There may be instances where the assessment of the credit profile of an entity includes components of the bank and non-bank financial institution's criteria. For example, several non-bank entities have transitioned to bank/financial holding companies and/or acquired bank subsidiaries since the financial crisis in an effort to access more stable deposit funding. Examples include credit card companies, auto finance companies, commercial lenders and broker-dealers. In these instances, Fitch considers how the entity's credit profile compares to banks and non-bank financial institutions that undertake similar activities. In any case, Fitch would expect to designate the primary criteria in the associated Rating Action Commentary and, where relevant, Rating Navigator.

All factors are relevant in determining a non-bank financial institution's stand-alone credit risk profile, but their relative importance varies from institution to institution depending on operating environments and the specifics of individual institutions and can change over time. Hence, Fitch does not assign fixed weightings to each factor but rather assigns the relative importance of each key rating factor in the determination of the stand-alone credit risk profile of a given institution. The relative importance indicator, as well as a trend/outlook indicator for each key rating factor and each financial profile subfactor, is generally published by Fitch in its Rating Navigators.

Key Issuer Default Rating Framework Considerations

	Securities Firms	Investment Managers[a]	BDCs	Finance & Leasing Companies[b]	FMIs
Operating Environment	Sovereign Rating, Economic and Business Environment, Financial Market Development, Regulatory and Legal Framework				
Company Profile	Franchise, Business Model and Organizational Structure				
Management and Strategy	Management Quality, Corporate Governance, Strategic Objectives and Execution				
Risk Appetite	Operational Risk	Operational Risk (IMs, IFs)/ Underwriting Standards (ICs)	Underwriting Standards	Underwriting Standards	Operational, Reputational and Legal Risks
	Risk Controls	Risk Controls	Risk Controls	Risk Controls	N.A.[c]
	Growth				
	Market Risk	Market and Counterparty Risk	Market Risk	Market Risk	Counterparty Risk Management
Financial Profile	Asset Quality	Asset Performance (IMs, ICs, IFs) / Asset Quality (ICs)	Asset Quality	Asset Quality	Counterparty Exposure
	Earnings and Profitability				
	Capitalization and Leverage				
	Funding, Liquidity and Coverage				

[a]Includes traditional and alternative investment managers (IMs), investment companies (ICs) and investment funds (IFs). [b]Includes mortgage real estate investment trusts. [c]Does not imply that risk controls are not considered, but rather, that the assessment is embedded within the "Operational, Reputational and Legal Risks" and "Counterparty Risk Management" sections. N.A. – Not applicable.
Source: Fitch.

Fitch's assessment of a non-bank financial institution's operating environment usually has an influence on its assessment of other credit factors. This is because the operating environment can impact, for example, the vulnerability of a non-bank financial institution's asset quality and capital,

the sustainability of its earnings and the stability of its funding. The operating environment may also affect assessments of non-financial factors, for example, the quality of a non-bank financial institution's franchise (company profile), its ability to execute its strategy (management and strategy) and the risks associated with its underwriting standards (risk appetite).

The operating environment will typically act as a constraint on the stand-alone credit rating, and other key rating factor scores, other than in cases where a non-bank financial institution can demonstrate an ability to insulate itself from the environment(s) in which it operates.

For each rating factor, Fitch has provided subfactor/rating category matrices that provide representative characteristics for that rating category. These characteristics are not necessarily an exhaustive and determinative review of that factor or subfactor. For example, a non-bank financial institution may meet some of the characteristics associated with more than one category, or some characteristics may not apply at all because of the specifics of the non-bank financial institution's profile. In those instances, Fitch will apply the category that best fits.

The stand-alone assessment framework considers five key rating factors:

- operating environment;
- company profile;
- management and strategy;
- risk appetite; and
- financial profile.

The first four key rating factors listed above are predominantly qualitative, although quantitative measures are considered where available and relevant, such as economic data (operating environment), market shares and business footprint (company profile) and limit structures (risk management). These qualitative factors, individually or in combination, provide the context in which quantitative financial metrics are considered. Further detail is provided in the relevant sections that follow.

Page References by Key Rating Factor and NBFI Subsector

	Operating Environment	Company Profile	Management and Strategy	Risk Appetite	Financial Profile
Securities Firms	17–20	21–23	23–26	27–29	46–50
Investment Managers	17–20	21–23	23–26	30–32	51–55
Business Development Companies	17–20	21–23	23–26	33–35	56–60
Finance and Leasing Companies	17–20	21–23	23–26	36–37	61–67
Financial Market Infrastructure Companies	17–20	21–23	23–26	38–39	68–71

Source: Fitch.

Fitch's factor and subfactor assessment framework is based on consideration of 'core' and 'complementary' attributes. Core attributes are present in the analysis of all or most non-bank financial institutions and in most circumstances. Complementary attributes are present in some, but not all, circumstances. All attributes are considered in the application of the criteria, but where an attribute is either not present or immaterial to the credit profile it will make no, or limited, contribution to the analysis. The materiality and influence of each attribute in the analysis of each factor and subfactor varies by institution. A complementary attribute could carry an elevated influence in the stand-alone analysis, particularly if the rating factor that the attribute underlies is a key rating driver.

For the purposes of this criteria report, Fitch splits the non-bank financial institution universe into five subsectors, but recognizes that there may be issuers whose business model straddles various components of these subsectors or falls outside of the five subsectors. In these cases,

Fitch employs a hybrid or bespoke analytical approach, which would be articulated in Fitch's Rating Action Commentary on the issuer.

The five non-bank financial institution subsectors are: securities firms, investment managers, BDCs (which only exist in the U.S.), finance and leasing companies and FMIs. Finance and leasing companies include mortgage REITs, debt purchasers (i.e. companies that buy portfolios of defaulted assets or non-performing loans) and most non-bank policy institutions. FMIs include exchanges, clearing houses and non-bank central securities depositories (CSDs).

The investment manager subsector includes traditional and alternative investment managers, investment companies and investment funds. Traditional and alternative investment managers primarily manage third-party assets and, therefore, typically assume limited balance sheet risk while earning revenue through management fees.

Investment companies typically deploy permanent capital to assume investment/balance sheet risk while seeking to create value through asset appreciation and dividend and interest income. Investment companies that are relatively concentrated (five to 10 investments), have the ability to exert some influence over portfolio companies and exhibit investment holding periods generally extending over several years, may be rated by Fitch's Corporate group under the criteria titled "Investment Holding Companies Rating Criteria." The magnitude of underlying investments in financial institutions may also influence whether Fitch's "Non-Bank Financial Institutions Rating Criteria" or "Rating Investment Holding Companies" criteria is applied.

Investment funds also invest their own capital and assume the associated investment/balance sheet risk but are typically open-ended vehicles subject to redemption risk that seek to achieve returns primarily through trading gains over a shorter investment horizon. In practice, the primary type of investment fund to which this analytical approach is applicable is open-ended hedge funds, but it could also encompass pension funds and profit-oriented sovereign wealth funds, which may have lower relative levels of near- and medium-term financial obligations, and as a result, longer-term investment horizons than other investment funds. This may also contribute to a broader revenue mix for such investment funds, including realized/unrealized asset appreciation, dividends and interest income in addition to trading revenue.

Broadly diversified closed-end investment funds with more defined regulatory/structural frameworks, greater asset liquidity and/or more frequent investment turnover are typically rated by Fitch's Funds & Asset Managers group under the criteria titled "Closed-End Funds and Market Value Structures Rating Criteria," available on Fitch's website at www.fitchratings.com.

The Analytical Frameworks for Investment Managers, Investment Companies and Investment Funds table summarizes the various types of business models for the investment manager subsector and the applicable rating criteria.

Analytical Frameworks for Investment Managers, Investment Funds and Investment Companies

		Closed-End Funds and Market Value Structures	Traditional Investment Managers	Alternative Investment Managers	Investment Funds	Investment Companies	Investment Holding Companies	Government-Related Entities
Analytical Framework	Fitch Analytical Group(s)	Funds and Asset Managers	Financial Institutions	Financial Institutions	Financial Institutions	Financial Institutions	Corporates	International Public Finance and Corporates
	Applicable Criteria	"Closed-End Funds and Market Value Structures Rating Criteria"	"Non-Bank Financial Institutions Rating Criteria"	"Non-Bank Financial Institutions Rating Criteria"	"Non-Bank Financial Institutions Rating Criteria"	"Non-Bank Financial Institutions Rating Criteria"	"Investment Holding Companies Rating Criteria"	"Government-Related Entities Rating Criteria"
Business Model	Primary Objective	For Profit	For Profit	For Profit	For Profit	For Profit	For Profit	Policy Orientation
	Balance Sheet Risk	High	Low	Low to Medium	High	High	High	High
	Primary Revenue Sources	Realized/Unrealized Asset Appreciation, Dividends and Interest Income	Base Management Fees	Base and Performance Management Fees	Trading Gains	Realized/Unrealized Asset Appreciation, Dividends and Interest Income	Realized/Unrealized Asset Appreciation, Dividends and Interest Income	Realized/Unrealized Asset Appreciation, Dividends and Interest Income
	Redemption Risk	Low	High	Low	Full Spectrum	None	None	Limited to None
	Strength of Regulatory Framework	Full Spectrum	Strong	Strong	Modest	Modest to Strong	Modest to Strong	Modest to Strong
Investment Portfolio	Degree of Portfolio Diversification	Full Spectrum	High to Very High	High to Very High	Full Spectrum	Full Spectrum	Low to Medium	High to Very High
	Degree of Asset Liquidity	Full Spectrum	High to Very High	Low to Medium	Full Spectrum	Full Spectrum	Full Spectrum	Full Spectrum
	Typical Investment Horizon	Full Spectrum	Short to Medium	Medium to Long	Full Spectrum	Medium to Long	Long to Permanent	Long to Permanent
	Strategic influence on portfolio companies	Low	Low to Medium	High to Very High	Low to Medium	Full Spectrum	Medium to High	Medium to High

Source: Fitch.

An assessment of the operating environment, company profile and management and strategy is largely common across the various subsectors (as well as banks), although some nuanced considerations are outlined herein. Conversely, assessments of the risk appetite and financial profile of a non-bank financial institution may differ by industry, so these factors are divided into five subcategories.

II.1 Operating Environment Assessment

Fitch's assessment of an institution's operating environment considers the following subfactors:

- sovereign rating;
- economic and business environment;
- financial market development; and
- regulatory and legal framework.

Importance of this Assessment

The first step in Fitch's assessment of stand-alone creditworthiness is a review of the institution's operating environment, as this sets the range for potential IDRs. The operating environment to a large degree serves as a constraining factor for the IDR, as it is rare for the IDR to be assigned significantly above the operating environment assessment, however well the issuer scores on other factors or subfactors.

Sovereign Rating

Attribute	Core Versus Complementary	Description
Sovereign Rating Cap	Core	The sovereign rating often acts as an effective cap on the maximum level of IDRs in a jurisdiction, due to the deterioration in the operating environment that typically accompanies a sovereign default. Sovereign default risk can also directly influence non-bank financial institutions' access to and cost of funding. However, in limited circumstances, where a non-bank financial institution has a very strong (in the context of the domestic market) overall credit profile and, in particular, a robust funding profile, the IDR may exceed the sovereign rating. International geographical diversification of business activities may also support a higher rating than that of the home sovereign. See Annex 2 for more details.
Divergence Between Sovereign Rating and Economic Environment	Complementary	It is also quite possible for the overall operating environment assessment and, hence, the IDRs for non-bank financial institutions in the country to be significantly lower than the sovereign rating. This may occur, for example, where the economic environment for non-bank financial institutions is relatively weak, but the sovereign rating is supported by factors specific to government finances and the sovereign balance sheet.
Divergence Between Domicile and Business Activity	Complementary	For certain non-bank financial institutions, the sovereign rating assessment may be higher or lower than the sovereign rating in their primary jurisdiction. For example, aircraft lessors may be domiciled in certain locations for tax purposes but have a portfolio of aircraft that are dispersed among lessees in a variety of countries around the globe. In these cases, Fitch would consider any geographic concentrations and the portability of the collateral, as determined by local law. The same may apply for diversified investment managers, investment companies and investment funds if the funds they manage, the assets they invest in, or the investors they service are in more favorable operating environments or there are ring-fenced assets or cash flows that strongly support rated obligations.
Business Model Specifics	Complementary (for Financial Market Infrastructure Companies)	The sovereign rating assessment is likely to have less of an influence on FMIs relative to banks or other non-bank financial institutions, given that many FMIs do not typically have significant credit exposure to sovereigns by holding bonds or placements with central banks. In many ways, FMIs may act like financial utilities, which are unlikely to be materially affected by sovereign stress. Indeed, the performance of certain FMI subsectors, such as exchanges, may be countercyclical to the credit profile of the sovereign, as there may be increased trading activity during periods of stress. As a result, a FMI could have a rating above the sovereign rating, with the primary exception being when the FMI holds a majority of its balance sheet or guarantee fund in sovereign securities, in which case the sovereign rating may take on a higher influence.

Source: Fitch.

Fitch's assessment of the operating environment incorporates both sovereign risk and broader country risks related to doing business in a particular jurisdiction; however, it does not capture transfer and convertibility risks, which are reflected separately in Fitch's Country Ceilings. For institutions that operate in multiple geographies, the subfactor and overall operating environment assessments will take a blended view of the different jurisdictions.

An assessment of the economic environment and the regulatory and legal framework for non-bank financial institutions may not align with that of a bank located in the same jurisdiction and it may also differ across the various categories of non-bank financial institutions. Additionally, regulatory scrutiny of banks around the globe is believed to be considerably more robust than regulation of non-bank financial institution subsectors.

The following tables identify those operating environment attributes that Fitch has defined as 'core' versus 'complementary' together with an indication of how each attribute is typically assessed. The accompanying subfactor/rating category matrix provides representative characteristics that aid the determination of the overall factor score assigned in each case.

Economic and Business Environment

Attribute	Core Versus Complementary	Description
Economic Variables, Forecasts and Judgements	Core	Fitch's view of the economic environment reflects its Sovereign Group's economic forecasts and judgments, and reflects Fitch's views on those macro variables that may affect a non-bank financial institution's fundamental credit strengths through their impact on the business environment. These may include, but are not limited to, the stage of economic development, economic growth expectations, private credit growth and employment and demographic prospects. The extent to which specific variables may be relevant and material in each jurisdiction will vary.
Industry or Subsector Specifics	Core	Fitch also considers a specific industry or subsector's sensitivity to changes in the economic climate in which it operates. Some industries will be more influenced by cyclical changes in the broader economic environment (e.g. aircraft leasing), while others may perform well under a variety of market scenarios (e.g. alternative investment management). Still, other businesses may be highly sensitive to specific indicators, like interest rates (e.g. mortgage servicing). Not all non-bank financial institutions within a country may receive the same categorization under this factor, as the various subsectors may respond very differently to economic trends. Still, each assessment will take a blended view of the operating environment for institutions that operate in multiple geographies. The economic environment, which also influences the sovereign rating, is considered separately because it is only one factor influencing the sovereign rating, and it is possible that the two will be assessed at significantly different levels.
Asset, Commodity and Market Price Movements	Complementary	Fitch considers changes in house/real estate prices, equity prices, interest rates and exchange rates in order to aid identification of potential stress arising from buildup of risk. Where a high degree of dollarization of an economy creates foreign exchange imbalances, Fitch will assess the system's ability to manage and mitigate the risk effectively.

Source: Fitch.

Financial Market Development

Attribute	Core Versus Complementary	Description
Size and Structure of the Financial System	Core	Large, healthy and highly developed financial markets, all else being equal, will result in a higher Financial Market Development score as this may underpin a non-bank financial institution's franchise. Conversely, small, developing or highly diffuse financial markets may result in a lower Financial Market Development score, as a non-bank financial institution may be unable to generate any discernible competitive advantage or economies of scale. An oligopolistic market structure may assist in protecting a non-bank financial institution's franchise or market position or create a material obstacle for new participants.
Depth and Liquidity of National Capital Markets	Core	A deep and liquid capital market supports market stability and will typically result in higher Financial Market Development scores. An underdeveloped capital market, in terms of scale and/or market liquidity, would generally result in lower Financial Market Development scores.
Central Bank Market Support	Complementary	The existence of central bank support measures and a reliable, predictable and transparent lender of last resort for a banking system will typically be neutral to the Financial Market Development assessment. Where ordinary support measures or options available to the banking system via the central bank are limited or opaque, or where there is a dependence on the central bank to circulate liquidity within the system throughout the business cycle this would generally result in lower Financial Market Development scores.
Institutional Frameworks to Support Functioning Financial System	Complementary	The existence of institutional frameworks to support the smooth functioning of the financial system, such as a credit bureau or a depositor protection scheme, will be neutral to positive for the Financial Market Development score. The lack of any effective institutional frameworks will generally be commensurate with a lower financial market development score. For example, the extent to which a clearing house or CSD does not have the ability to hold a first priority lien on a counterparty's collateral in the event of the counterparty's default could be viewed as a constraint.

Source: Fitch.

Regulatory and Legal Framework

Attribute	Core Versus Complementary	Description
Robustness and Effectiveness of Framework	Core	The regulatory and legal framework assessment considers how relevant non-bank financial institution legislation, accounting standards and the legal framework compare to international practices as well as the willingness of regulators to intervene and enforce laws and regulations. A jurisdiction's regulatory and legal framework is typically commensurate with its general operating environment and stage of maturity and, therefore, is often neutral to the overall Operating Environment assessment.
National Versus International Standards	Complementary	To the extent that relevant legislation and/or implementation, including the willingness of regulators to intervene and enforce laws and regulations, are materially weaker than international practice, or implementation is relatively slow, this would be considered a weakness.
Audit and Accounting Standards	Complementary	This analysis also considers the general accounting framework employed, such as IFRS or U.S. GAAP, audit effectiveness and the frequency and robustness of required reporting. In cases where audit or accounting standards or their compliance with legal reporting requirements is weaker than international practice this will result in a lower Regulatory & Legal Framework score.
Creditor Rights	Complementary	The regulatory and legal framework assessment considers the extent to which national legislation provides appropriate creditor protection and enforcement of creditor rights as far as they relate to the rights of a non-bank financial institution's creditors. Deficiencies in the legislative framework that could affect a non-bank financial institution's ability to enforce its rights as a creditor are reflected in the Asset Quality assessment.
Governance	Complementary	Corporate governance is assessed on both a systemic and issuer-specific basis. Notable systemic weaknesses, such as the adverse influence of the state in the financial system and the functioning of the private sector, would have a negative impact on the regulatory and legal framework assessment.
Regulatory Restrictions on Operating/Financial Profile	Complementary (for BDCs)	BDCs are subject to a variety of regulatory requirements, as dictated by the Investment Company Act of 1940 (40 Act), and Fitch carefully weighs the impact of each in its assessment of the sector. A 200% asset coverage requirement, which effectively limits balance sheet leverage to 1.0x, is viewed favorably. However, most BDCs elect to be treated as Regulated Investment Companies (RICs) for tax purposes, which limits capital retention, and is viewed more negatively by Fitch.
Tax Legislation	Complementary (for Mortgage REITs)	For finance companies that have elected REIT status under the U.S. Internal Revenue Service tax code (i.e. mortgage REITs including commercial mortgage REITs, residential mortgage REITs and hybrid mortgage REITs), Fitch considers the impact of U.S. federal tax legislation. Namely, U.S. mortgage REITs benefit from favorable tax treatment, as they do not pay income taxes on the portion of taxable income paid as dividends to shareholders. Conversely, required dividend distributions weaken REITs' capital retention capabilities relative to other financial institutions that do not have this requirement.
Business Model Specifics	Complementary	In general, Fitch views the regulatory and legal frameworks of non-bank financial institutions to be weaker than those related to banks, given that banks are subject to a variety of rules and regulations on a local and international scale. While the breadth and depth of bank regulation comes with a cost, it does provide an independent layer of oversight, which covers quantitative metrics, like capital adequacy, in addition to requirements related to risk management and infrastructure sufficiency.

Source: Fitch.

Operating Environment

	aaa	aa	a	bbb	bb	b	ccc and Below
Sovereign Rating	In Line with the Sovereign Rating.						
Economic and Business Environment	Operates mainly in a highly stable industry and major advanced economy or economies with a high degree of transparency. Industry has very high degree of resilience to economic shocks.	Operates mainly in a very stable industry and major advanced economy or economies, with high degree of transparency. Industry has high degree of resilience to economic shocks.	Operates in a stable industry and major advanced economy or economies, with a good degree of transparency. Industry has good degree of resilience to economic shocks.	Operates in a moderately stable industry, economy or economies with a reasonable degree of transparency. Industry could be less advanced but have fair degree of resilience to economic shocks.	Operates mainly in a less stable industry and less advanced economy or economies. Transparency may be limited. Principal industry could be less advanced and/or susceptible to adverse changes in domestic or international shocks.	Operates in a volatile industry and less advanced economy. Transparency is limited. Principal industry is highly susceptible to changes in domestic or international shocks.	Industry and economic environment is unstable. There is minimal transparency. Industry is highly susceptible to even moderate changes in domestic or international economic situation.
Financial Market Development	Financial sector is large, healthy and highly developed. Capital markets are very deep and highly liquid. Barriers to entry are very high.	Financial sector is large, healthy and very developed. Capital markets are deep and very liquid. Barriers to entry are high.	Financial sector is healthy and developed. Capital markets are relatively deep and liquid. Barriers to entry are meaningful.	Financial sector is healthy but less developed. Capital markets are developed, but not deep. Barriers to entry are moderate.	Financial sector is diffuse with only limited barriers to entry. Capital markets are not fully developed. Barriers to entry are limited.	Financial sector is very diffuse with no barriers to entry. Capital markets are less developed. Barriers to entry are low.	Financial sector is highly diffuse with no barriers to entry. Capital markets may be undeveloped.
Regulatory and Legal Framework	Regulatory environment is highly developed and transparent. Legislation and regulation are very effectively enforced.	Regulatory environment is very developed and transparent. Legislation and regulation are effectively enforced.	Regulatory environment is developed and transparent. Legislation and regulation are enforced.	Regulatory environment is less developed, with acceptable level of transparency. Enforcement of legislation and regulation may be less effective or transparent.	Regulatory environment is developing. Financial reporting and regulatory enforcement is relatively less transparent.	Regulatory environment is underdeveloped or developing, with minimal transparency. Difficulties with enforcement of legislation and regulation. Financial reporting and regulatory enforcement lack transparency.	Regulatory environment is undeveloped, with limited transparency.

Source: Fitch.

II.2 – Company Profile Assessment

Fitch's Company Profile assessment considers the following subfactors:

- franchise;
- business model; and
- organizational structure.

Importance of this Assessment

Assessment of a company's franchise, business model, and organizational structure help identify the types of business risks an institution could face together with its ability to safeguard or defend existing businesses and earnings, and gain new business through an analysis of its longer term competitive strengths, weaknesses, opportunities and threats.

The company profile assessment is typically conditioned, and often constrained, by the operating environment assessment, unless Fitch believes the non-bank financial institution's business profile is insulated from the effects of its operating environment(s). Within that operating environment context, the company profile is determined at a level that primarily reflects the strength and quality of its franchise and stability of its business model.

The following tables identify those company profile attributes that Fitch has defined as 'core' versus 'complementary,' together with an indication of how each attribute is typically assessed. The accompanying subfactor/rating category matrix provides representative characteristics that aid the determination of the overall factor score assigned in each case.

Franchise

Attribute	Core Versus Complementary	Description
Market Shares	Core	A non-bank financial institution's franchise is typically reflected in market shares in the entity's core offered product(s). Franchise value is assessed on the most relevant basis - global, national or regional - taking into account both the size of the market in which a non-bank financial institution operates and its position within that market. Small relative market shares, particularly in large markets, are not necessarily negative for the assessment and may be offset by sustainable, competitive advantage and stable performance in core product and client segments. Large market share in a small market can potentially be positive for the assessment, provided it is not constrained by the strength or quality of the market itself or the relevant operating environment assessment.
Competitive Position	Core	A non-bank financial institution's competitive position relative to peers' may be evident in relative product leadership and pricing power as well as reflective of any material barriers to entry. Product leadership will often be a function of scale, where traditional financial products are concerned, and may also reflect technology and efficiency advantages, or deficiencies, relative to peers. In the case of certain niche products or offerings, leadership may be reflected in relevant "league tables."
Critical Mass	Complementary	Size, taken in isolation, is unlikely to be a driver for the company profile assessment, but may affect pricing power and client relationships. Non-bank financial institutions which lack critical mass are likely to be assigned lower scores.
Client Relationships	Complementary	Fitch considers the nature of client relationships and the extent to which product range and/or expertise is the key driver of client retention or business volume growth as opposed to price.
Intragroup Benefits and Risks	Complementary	An institution's franchise may also incorporate any benefits it receives from being part of a larger (typically financial) group. This could include client relationships, funding access, product offering or technical expertise that the institution would not otherwise have access to, as well as potential diversification benefits of other businesses of subsidiaries or related companies. Conversely, a non-bank financial institution's franchise may incorporate contagion risks where a weakness in the broader group's credit profile exists.

Source: Fitch.

Business Model

Attribute	Core Versus Complementary	Description
Business Mix	Core	An institution's business model encompasses the ways in which it generates revenue and profits. This includes an assessment of an institution's business mix, such as by asset/product, service composition and proportion of revenue and earnings generated from core business lines.
Earnings Volatility	Core	Business models that are highly reliant on volatile businesses, such as trading, or where market conditions exert a greater influence on business volumes and revenue generation between reporting periods will typically result in a lower business model score relative to other financial institutions with lower observed volatility. Stability in earnings through credit and interest rate cycles will typically contribute to higher scores.
Geographical Diversification	Complementary	A high concentration of a non-bank financial institution's operations in less developed economies is likely to weigh on Fitch's assessment of its business model. Concentrations from a client and/or investor perspective may also be a limiting factor. Geographic diversification may be a positive rating attribute, but expansion into areas that add little or limited overall synergies may be viewed as neutral or negative to the company profile assessment.
Product Concentration	Complementary	The perceived risk associated with the particular product(s) and the quality of the product franchise can influence the assessment for a business model with a narrow product focus, (e.g. a monoline lender) versus one that provides a broader array of products. Product diversification may be a positive rating attribute, but expansion into business areas that add little or limited overall synergies may be viewed as neutral or negative to the company profile assessment.

Source: Fitch.

Business Model Rating Ranges

				Primary Rating Constraints						
Sector	**Subsectors**	**Balance Sheet Usage**	**Typical Maximum Rating Category[a]**	**Business Cyclicality**	**Monoline Business**	**Wholesale Funding**	**Regulatory Risk**	**Asset Illiquidity**	**Market/ Counter-party Risk**	**Operational Risk**
Securities Firms	Broker-Dealers	High	'BBB'	✓	✓	✓			✓	
	Interdealer Brokers	Low	'BBB'	✓	✓		✓			
	Retail Brokers	Medium	'A'	✓						✓
Investment Managers	Traditional IMs	Low	'A'	✓					✓	✓
	Alternative IMs	Low-Medium	'A'	✓					✓	✓
	Investment Companies	High	'AA'	✓				✓	✓	
	Investment Funds	High	'BBB'	✓				✓	✓	✓
Business Development Companies	N.A.	High	'BBB'	✓	✓	✓		✓		
Finance and Leasing Companies	Consumer Finance	High	'A'	✓	✓	✓	✓			
	Commercial Finance	High	'A'	✓	✓	✓				
	Alternative Financial Services Providers	Low	'BBB'	✓	✓	✓	✓			
	Mortgage Servicers	Low	'BB'	✓	✓	✓	✓			✓
	Debt Purchasers	Medium-High	'BB'		✓	✓				
	Mortgage REITs	High	'BBB'	✓	✓	✓				
Financial Market Infrastructure Companies	Exchanges	Low	'AA'							✓
	Clearing Houses	Low (Aside from Guaranty Funds)							✓	✓
	CSDs Without Bank License	Low								✓

[a]Does not represent a hard cap, but rather, the highest rating category which most entities within given non-bank financial institution subsector normally achieve.
IM – Investment manager. REIT – Real estate investment trust. CSD – Central securities depository. N.A. – Not applicable.
Source: Fitch.

Organizational Structure

Attribute	**Core Versus Complementary**	**Description**
Appropriateness Relative to Business Model	Core	A group's organizational structure is typically commensurate with its business model. Group structure rarely affects Fitch's overall rating assessment, but has the potential to when Fitch considers the group as overly complex (relative to its operations and footprint), opaque or with material risks arising from intragroup transactions. Examples of business model complexity include layers of intermediate holding companies whose locations may be mainly tax-driven, or unnecessarily complex structures that appear inconsistent with the size, scale and footprint of the institution/group.
Opaqueness	Complementary	Unexplained cross-ownership agreements or large minority interests, which are not commensurate with the non-bank financial institution's business model, would typically result in a lower company profile score.
Intragroup Transactions	Complementary	Intragroup transactions may affect risks associated with the rated entity. This is especially important where cash or capital can get trapped in subsidiaries and therefore is not readily available for distribution to the group as a whole.
Ownership Dynamics	Complementary	Fitch also considers ownership dynamics, including whether an issuer is publicly traded privately held or mutually owned, whether there is private equity ownership and/or non-strategic ownership and whether there is significant influence from related parties to understand the impact on strategic decisions, liquidity and/or capitalization. Mutually owned institutions, such as many clearing houses, may be viewed more favorably to the extent they reduce conflicts of interest between risk management and profit maximization.

Source: Fitch.

Company Profile

	aaa	aa	a	bbb	bb	b	ccc and Below
Franchise	Dominant franchise in multiple business segments or geographies. Strong competitive advantages likely to endure. Possesses strong competitive advantages and pricing power in principal operating segments. These strengths maintained through economic cycles.	Leading franchise in multiple business segments or geographies. Solid competitive advantages likely to endure into the long term. Demonstrated competitive advantages and pricing power. These strengths maintained over multiple economic cycles.	Strong franchise in key markets or businesses. Has leading franchise in some key operating segments or geographies. Demonstrated competitive advantages and pricing power in key operating segments.	Adequate franchise in geographies. Operating in somewhat less developed markets or has limited competitive advantages or pricing power in main operating segments.	Moderate franchise in key business segment or geographies. Operating in somewhat less developed markets or has limited competitive advantages and generally a price taker in main operating segment(s). Limited operating history.	May have nominal franchise in a key business segment or geographies. Operating in less developed markets or has no discernible competitive advantage. Very limited operating history.	Operating in undeveloped markets or has no discernible franchise value or competitive advantage. Extremely limited operating history.
Business Model	Highly diverse and stable business model across multiple operating segments or geographies. Critical mass maintained in all business segments and geographies in which it operates. Minimal reliance on volatile businesses.	Very diverse and stable business model across multiple operating segments or geographies. Maintains critical mass in most business segments and geographies in which it operates. Modest reliance on volatile businesses.	Diverse and stable business model. Critical mass maintained in key operating segments or geographies in which it operates. Notable reliance on volatile businesses.	Less stable and/or diverse business model, potentially dominated by a key operating segment or geography. Greater reliance on volatile businesses.	Less diverse and stable business model, potentially with more specialization in a key operating segment or less stable/advanced economies. Significant reliance on volatile businesses.	Limited business model stability. May be wholly reliant on volatile businesses or economies.	Business model rapidly evolving or operating in unstable economic environment.
Organizational Structure	Organizational structure complexity commensurate with 'aaa/aa' business model. Major legal entities exist principally for clear business reasons. High visibility into principal legal entities.		Organizational structure complexity commensurate with 'a/bbb' business model. Potentially increased organizational structure complexity. Good visibility into major legal entities.		Significant organizational structure complexity. Potentially limited visibility into main legal entities.		Highly complex, opaque or materially changing organizational structure.

Source: Fitch.

II.3 – Management and Strategy Assessment

Fitch's assessment of Management and Strategy considers the following subfactors:

- management quality;
- corporate governance;
- strategic objectives; and
- execution.

Importance of this Assessment

An assessment of management, corporate governance, strategic objectives and execution is one of the least tangible aspects of its fundamental analysis but is important in considering how an institution is run, for example through establishing particular business or financial goals, developing a strategy to pursue those goals, and demonstrating an ability to meet these goals, all of which provide insight into motivations and incentives within the institution.

The management and strategy assessment is typically conditioned, and often constrained, by the operating environment and company profile assessments, unless Fitch believes the elements assessed are insulated from the effects of the non-bank financial institution's operating environment(s) and business model. In weaker operating environments, corporate governance issues tend to be more prevalent, strategic objectives may be more likely to shift over time or be more opportunistic, and execution of strategy is often more challenging. It is possible for a management and strategy score to be higher than the operating environment (e.g. a very good management team operating in a weak environment). However, in such cases, it is likely that the

management and strategy score would be of lower influence to the rating if the superior management quality is unable to exert meaningful influence on the overall risk profile.

The quality and effectiveness of management is reflected in individuals and the overall management structure, as well as other factors such as corporate governance and strategy. While this is, on the face of it, a subjective assessment, there will typically be some tangible evidence of management's effectiveness through its impact on financial and/or risk metrics.

The following tables identify those management and strategy attributes that Fitch has defined as 'core' versus 'complementary,' together with an indication of how each attribute is typically assessed. The accompanying subfactor/rating category matrix provides representative characteristics that aid the determination of the overall factor score assigned in each case.

Management Quality

Attribute	Core Versus Complementary	Description
Depth and Stability of Senior Management	Core	A strong management teams will demonstrate a high degree of credibility, experience, and competence and, commensurate with the size and complexity of the institution, reflect those same qualities in an appropriate depth of experienced, capable management. The impact of any turnover is considered in the context of the existence of succession plans (where key person risk is present) and/or the qualities brought by incoming personnel in cases where those individuals have a proven track record with similar institutions or businesses elsewhere.
Corporate Culture	Complementary	An established record of a firmly entrenched cultural identity may help ensure that coherent business philosophies are adopted throughout the organization and remain in place when there are management transitions and across business cycles This can prove beneficial to the management quality score as harmonization and predictability generally instill market confidence.
Key Person Risk	Complementary	Smaller, niche institutions may be reliant on a specific individual or a small group of key individuals, often the institution's founder(s). Fitch expects an institution's senior management structure to be commensurate with its scale and complexity but will usually view any reliance on key individuals as a constraint, regardless of how well-intentioned, as a departure could cause material disruption in the organization's future business prospects and damage its franchise. For certain investment managers, there may also be trigger events in fund governing documents (such as the limited partnership [LP] agreements or articles of incorporation) that would permit early redemptions or withdrawals by LPs or the removal of a general partner if a key person left the firm. If there are significant triggers that are easily triggered and create potentially significant liquidity calls, this is likely to be a constraint.

Corporate Governance

Attribute	Core Versus Complementary	Description
Protection of Creditor Rights	Core	Fitch considers the extent to which a non-bank financial institution's intrinsic governance practices provide reasonable protection of creditors' interests, or whether the latter might suffer at the expense of the interests of other stakeholders, in particular shareholders, management, or due to government influence. Fitch considers the effectiveness of the supervisory board collectively, whether it comprises sufficient expertise, resources, independence and credibility to effectively oversee management.
Quality of Financial Reporting and Audit Processes	Complementary	In cases where there are perceived to be weaknesses in financial reporting (quality, frequency and/or timeliness) compared to international best practice, or where internal or external audit processes appear less robust relative to the operating environment, Fitch may assign a lower corporate governance score.
Related Party Transactions	Complementary	The existence of significant related party transactions may be negative for the corporate governance assessment. Their volume, whether they are conducted on market terms and the internal procedures for their review and approval are key elements of this assessment.
Management of Potential Investment Conflicts of Interest	Complementary (for BDCs and Investment Managers)	Fitch will evaluate the governance structure established by the management company to address potential conflicts of interest. Policies may allow establishing both equity and debt positions in the same company in different investment vehicles. In companies undergoing restructuring or facing potential bankruptcy, the ownership of both debt and equity interests can present material conflicts of interest. Fitch will evaluate allocation policies and procedures and board involvement to limit the risks such conflicts may present.
Internal Versus External Management	Complementary (for BDCs and Mortgage REITs)	For BDCs and mortgage REITs, Fitch focuses on whether the company is internally or externally managed. Externally managed entities are typically managed by affiliated companies that, through a management agreement, provide all managerial and operational services. From a corporate governance perspective, Fitch generally has a more favorable view of internal management teams than external management teams, because internal management teams are dedicated solely to the issuer in question, minimizing conflicts of interest. External management may have several investment vehicles under management, with potentially overlapping investment objectives.
Private/Partnership Structures	Complementary	Some non-bank financial institutions are privately held or structured as partnerships. This can make insight into management more challenging and mean that managers who are also partners in the firm act as agent and principal at the same time, potentially affecting the governance assessment. If partner-managers act prudently in the general interests of the company and take measured actions or personally suffer the economic consequences of excessive risk-taking, the governance assessment could be positively influenced. Conversely, unchecked decision-making by individuals can be negative to the governance assessment.

Source: Fitch.

Strategic Objectives

Attribute	Core Versus Complementary	Description
Quantitative Strategic Targets	Core	An institution's strategic objectives are a reflection of its business and financial goals, which may include business targets for market position/share or financial metrics. Fulfillment of these objectives drives decision-making throughout the organization and often motivates management and employees. Fitch will consider how achievable and sustainable objectives are and will assess underlying assumptions for plausibility, consistency and appropriateness, such as taking account of challenges posed by the non-bank financial institution's operating environment, business model and market position. The strategic objectives score is typically influenced by the extent to which financial and business targets are clearly and consistently articulated, and strategic direction appears appropriate to the non-bank financial institution's operating environment, company profile, competitive position and management expertise.
Qualitative Strategic Framework	Core	The strategic objectives assessment reflects the extent to which medium/long-term strategy is well-construed, cohesive and robust, communicated effectively to stakeholders and balances risks and rewards. Fitch will consider management's key strategic philosophies, for example, acquisition-led versus organic growth and/or regional/international expansion versus concentration on domestic markets, as this may highlight strengths or weaknesses in the strategic plan Fitch's assessment may be negatively affected if a non-bank financial institution's business model changes frequently and significantly over time (whether due to organic development or mergers/acquisitions) or the entity undergoes significant restructuring.
Disclosure	Complementary	Where budgets or forecasts are not available to support management's articulation of strategic direction, Fitch will use judgement in determining the appropriateness and plausibility of the narrative and underlying assumptions.

Source: Fitch.

Execution

Attribute	Core Versus Complementary	Description
Track Record in Meeting Stated Objectives	Core	Fitch considers the non-bank financial institution's track record of execution against its stated goals and objectives over multiple periods, and in the context of how realistic or appropriate financial and business targets are. An inability to meet a strategic objective, including a specific target financial metric) in a single reporting period will not necessarily result in a weaker score provided Fitch believes that the strategic objective is achievable over a medium-term horizon.
M&A Activity	Complementary	Poor or slow execution of a merger, acquisition or restructuring initiative or where Fitch considers there to be an inconsistent track record of executing on such transactions or initiatives will likely result in a lower execution score. Effective execution of a business acquisition in line with plan may positively influence the execution score. If Fitch views future execution risk to be elevated, this will also be factored into Fitch's assessment of a non-bank financial institution's execution. .

Source: Fitch.

Management and Strategy

	aaa	aa	a	bbb	bb	b	ccc and Below
Management Quality	Management has an unparalleled degree of depth, stability and experience. Key person risk is non-existent. Succession planning for all key roles is routinely undertaken. Management maintains a strong degree of credibility among all major constituencies throughout economic cycles. Institution has a strong and consistent corporate culture.	Management has a very high degree of depth, stability and experience. Key person risk is limited. Succession planning for key executive roles is routinely undertaken and turnover is very low. Management has maintained a very high degree of credibility among all major constituencies over a lengthy period. Institution has a solid and consistent corporate culture.	Management has a high degree of depth, stability and experience. Key person risk is modest. Succession planning for key executive roles in place and turnover is low. Management maintains a high degree of credibility among major constituencies. Institution has a good and consistent corporate culture.	Management has a good degree of depth, stability and experience. Key person risk is moderate. Executive turnover is manageable. Management has a good level of credibility among major constituencies. Corporate culture is sound, but may be less consistent than higher rated entities.	Management has an acceptable degree of depth, stability and experience, but noticeably less than higher rated entities. Key person risk is elevated. Management turnover or reliance on key individuals may be more prevalent than higher rated entities.	Management may have noticeable weaknesses, including lack of depth, stability, or experience. Key person risk is high. Management turnover may be considered high.	Management deficiencies may be significant.
Corporate Governance	Very strong corporate governance, providing robust protection of creditors' interests. Very effective board oversight, high quality and frequent financial reporting and very limited related party transactions.		Sound corporate governance, providing reasonable protection of creditors' interests. Effective board oversight, good quality financial reporting and limited related party transactions.		Governance is less developed than for higher rated peers but without presenting clear, significant risks for creditors.	Governance gives rise to significant risks for creditors due to weak board oversight, poor financial reporting or significant related party transactions.	Governance gives rise to major risks for creditors due to very weak board oversight, considerable accounting deficiencies or large related party transactions.
Strategic Objectives	Strategic objectives are clearly articulated and reflect long-term sustainable levels of business and financial performance. Strategic objectives remain highly consistent over a lengthy period.	Strategic objectives are clearly articulated and reflect a long-term sustainable level of business and financial performance. Strategic objectives are very consistent over time.	Strategic objectives are well articulated and reflect a medium-term level of business and financial performance. Strategic objectives may shift modestly over time.	Strategic objectives are documented and reflect a medium-term level of business and financial performance. Strategic objectives may shift over time and may be more opportunistic.	Strategic objectives may not be clearly articulated and/or reflect a short-term level of business and financial performance. Strategic objectives may shift based on market opportunities or less stable economic environment.	Strategic objectives are not articulated and reflect a short-term level of business and financial performance. Strategic objectives frequently shift including due to economic environment volatility.	Strategic objectives are lacking or likely to be highly variable due to an unstable economic or operating environment.
Execution	Institution consistently meets target business and financial objectives throughout economic and/or market cycles.	Institution routinely meets target business and financial objectives with very limited variability over economic and/or market cycles.	Institution generally meets target business and financial objectives, albeit with modest variability over economic and/or market cycles.	Institution generally meets target business and financial objectives. Execution could be more variable with changes in economic and/or market cycles.	Institution often fails to meet target business and financial objectives. Execution could be variable based on changes in economic and/or market cycles.	Institution typically fails to meet target business and financial objectives. Execution could be highly variable based on changes in economic and/or market cycles.	Institution does not meet business or financial objectives.

Source: Fitch.

II.4 Risk Appetite Assessment

Importance of this Assessment

Assessment of a company's underwriting standards, risk controls, growth and market risk are important considerations in determining a non-bank financial institution's stand-alone credit risk profile, as they will eventually feed through to changes in a non-bank financial institution's key financial metrics. Fitch will apply its own judgment as to the degree of risk inherent in a particular business line, product or strategy. Fitch will also consider operational and/or reputational risks where these are material for the institution.

Fitch's analysis of risk appetite is focused on those risks that have a material influence on the overall credit profile. The risk appetite assessment is typically conditioned, and often

constrained, by the operating environment and company profile assessments unless Fitch believes the underlying risks can be isolated from the effects of the non-bank financial institution's operating environment(s) and its chosen business model/strategy. It is possible for a risk appetite score to be higher than the operating environment or company profile (e.g. an 'atypical' very low risk appetite relative to the environment or the operating model). However, a very low risk appetite would be expected to be reflected in consistently better asset quality and less earnings volatility.

Stability of results throughout the cycle may be a useful indicator of risk appetite. A high risk appetite may be somewhat mitigated through the employment of strong risk controls, collateral, and risk-based pricing although the natural rating range for non-bank financial institutions with an inherently higher risk appetite will generally be lower than for those non-bank financial institutions whose risk appetite Fitch considers modest or better managed. In addition, risks can be high at non-bank financial institutions with stated low risk appetites, if controls are viewed to be weak or have been ineffective.

The risk controls assessment includes operational (including cyber) and reputational (including litigation) risks where these are material for the institution or an integral part of the business model or operating jurisdiction(s).

Fitch will analyze those aspects of market risk that are considered material to the overall assessment of risk appetite. The most typical form of market risk is interest-rate risk given many non-bank financial institutions' core maturity transformation function, but the assessment will include other elements such as valuation, derivatives and foreign exchange risks where these are material. Market risks will be higher for institutions with material trading operations or where cross-border activity or balance sheet structure gives rise to foreign-exchange risks, so this factor may take on greater relative importance in those instances.

The following tables identify those risk appetite attributes that Fitch has defined as 'core' versus 'complementary,' together with an indication of how each attribute is typically assessed. The accompanying subfactor/rating category matrix provides representative characteristics that aid the determination of the overall factor score assigned in each case.

II.4.a Securities Firms

Fitch's risk appetite assessment for securities firms considers the following subfactors:

- risk controls;
- growth;
- market risk; and
- operational risk.

Risk Controls — Securities Firms

Attribute	Core Versus Complementary	Description
Risk Management Tools	Core	Fitch's assessment of risk controls considers the breadth and sophistication of risk management systems relative to the risk profile of the business and the types of management reporting used, where these are available. This may help indicate how far risk controls permeate the organization with respect to key risks a typical securities firm may incur, such as market, operational, reputational and credit risks. Fitch may also assess how the launch of material new business activities are vetted in the context of the associated credit, market, operational and reputational risks and their effect on the overall franchise.
Staffing and Culture	Complementary	Fitch attempts to understand the level of risk management engagement across the firm, the variety of committees and membership, as well as the independence and authority carried by risk functions. The backgrounds and experience levels of risk management professionals may also be considered.

Source: Fitch.

Growth — Securities Firms

Attribute	Core Versus Complementary	Description
Absolute and Relative Rates of Growth	Core	Fitch generally measures overall balance-sheet expansion against underlying economic growth, earnings retention, staffing growth, market activity, and peer, sector and industry averages to identify any outliers and assess the build-up of potential risks. Rapid growth can obscure financial analysis, for example making it difficult to form a view of inventory turnover and may be indicative of a lowering of standards or slowing demand.
Accompanying Infrastructure Growth	Complementary	Rapid growth may introduce other challenges such as operational strains, as back-office staff or systems may not be capable of handling increased business volumes and, therefore, would be negative for the assessment of growth.

Source: Fitch.

Market Risk — Securities Firms

Attribute	Core Versus Complementary	Description
Market Risk Exposure	Core (For securities firms with high balance sheet usage) Complementary (For securities firms with low balance sheet usage)	For firms with significant trading activities, Fitch's assessment of market risk focuses on the degree of market risk exposure and the means of measuring and managing it. These usually include value at risk (VaR), stop-loss limits, concentration limits, sensitivity analysis and stress testing.
Sensitivity to Marketwide Dynamics	Core (For securities firms with low balance sheet usage) Complementary (For securities firms with high balance sheet usage)	Although securities firms that do not hold securities on their balance sheets generally have only limited exposure to market risk, their revenue is heavily exposed to the volume of transactions in the market, and therefore, Fitch's assessment of market risk focuses more broadly on the sensitivity of the business model to marketwide dynamics.
Stress Testing and Sensitivity Analysis	Complementary	When available, Fitch evaluates management's reports of specific products' risks, sensitivities and supplemental stress scenarios on a position and consolidated bases. When available, Fitch also reviews reports that include adjusted VaR using liquidity-stressed scenarios or replicate historical periods of stress. Fitch evaluates the use of stress limits, but this is not comparable across peers. When possible, Fitch assesses market risk concentration (by product, issuer/counterparty, industry and country) in trading and investment portfolios and reviews management's oversight of aged inventory. Fitch may also review policies with respect to collateral and margin calls and the reasons for any changes made to these.
Hedging Activity and Effectiveness	Complementary	Collateral and hedging are frequently employed to mitigate market risk, but hedges are imperfect, and so some degree of market and credit exposure generally remains. As a result, both gross and net positions are considered in Fitch's rating evaluation to the extent such information is reported.
Market Development	Complementary	In markets where volatility and liquidity issues can be extreme, greater emphasis may be placed on the level of nominal/cash limits. In emerging markets, credit/settlement risk can still be significant. Fitch assesses the level of "free of payment" deliveries (in contrast to payment on delivery) particularly closely in emerging markets, where payment may not be so readily forthcoming.

Source: Fitch.

Market Risk Metrics — Securities Firms

Average VaR/Fitch Core Capital (FCC)
Fitch Stressed VaR/FCC
Principal Daily Trading Revenue/Average Trading VaR
Principal Transaction Revenue/Total Revenue

Source: Fitch.

Operational Risk — Securities Firms

Attribute	Core Versus Complementary	Description
Operational Infrastructure/Framework	Core	Fitch's assessment of securities firms' operational risk focuses on investment in front-, middle- and back-office systems commensurate with the nature of the business, including new product development/implementation and systems upgrades. Backlogs of settlements, resolutions and customer complaints or a history of problems with the firm's custodian can be indicators of insufficient back-office staff support. These challenges can be exacerbated for institutions that have undertaken material acquisition activity.
Operational Loss Experience	Complementary	If Fitch determines that a firm has a weak operational risk infrastructure or control environment, such as systems failures, inaccurate trade processing or limit breaches (such as rogue trading incidents) this will typically have a negative effect on the operational risk assessment, particularly to the extent failures result in reputational damage, loss of business, and or outsized fines/penalties. Operational risk can potentially have a more pronounced effect on less diversified businesses, where an operational shortfall can result in temporary or permanent damage to the company's core franchise.

Source: Fitch.

Risk Appetite — Securities Firms

	aaa	aa	a	bbb	bb	b	ccc and Below
Risk Controls	Risk and reporting tools are extremely robust. Risk limits are highly conservative and overwhelmingly adhered to. Risk limits are routinely monitored with minimal changes over lengthy periods. Risk controls permeate the organization. Exposure to operational risks is very low. New products are heavily vetted and tested before rollout.	Risk and reporting tools are very robust. Risk limits are very conservative. Risk limits are routinely monitored with nominal changes over lengthy periods. Risk controls permeate the organization. Exposure to operational risks is low. New products are carefully vetted and tested before rollout.	Risk and reporting tools are robust. Risk limits are conservative. Risk limits are monitored but may change based on business conditions. Risk controls are centralized. Exposure to operational risks is modest. New products are carefully tested before rollout.	Risk and reporting tools are good. Risk limits are sound and monitored, although they may fluctuate based on opportunities. Risk controls are less pervasive throughout the organization. Exposure to operational risks is moderate. New products are tested before rollout.	Risk and reporting tools are acceptable, but may lack depth or sophistication. Risk limits are monitored less frequently than higher rated institutions. Risk limits may change based on business opportunities. Exposure to operational risks is heightened. New products may not be thoroughly vetted or tested before rollout.	Risk and reporting tools may be deficient. Risk limits are crude and may not be monitored frequently. Breaches of limits may not trigger heightened management attention. Exposure to operational risks is high. New products are not tested before rollout.	There are significant risk control deficiencies.
Growth	Balance-sheet growth or business growth is unlikely to pressure solvency or outpace the long-term sustainable growth of main business segments. Control environment is systematically adapted to meet higher business volumes.	Balance-sheet growth or business growth seldom pressures solvency or outpaces the long-term sustainable growth of main business segments. Control environment is systematically adapted to meet higher business volumes.	Balance-sheet growth or business growth may at times pressure solvency and exceed the long-term sustainable growth of main business segments. Control environment is usually suitably adapted to meet higher business volumes.	Balance-sheet growth or business growth more often pressures solvency and exceeds the long-term sustainable growth of main business segments. Control environment may lag behind higher business volumes.	Balance-sheet or business growth often pressures solvency and exceeds the long-term sustainable growth of main business segments. Control environment likely to lag behind higher business volumes.	Balance-sheet growth usually pressures solvency and the long-term sustainable growth of business segments. Control environment routinely lags behind higher business volumes.	Growth may be well in excess of sustainable levels. Or unable to sell assets to achieve necessary balance sheet contraction.
Market Risk (Direct and Indirect)	Exposure to market risks is very low. Structural interest rate and foreign exchange risks are very low relative to peers. Proprietary trading is very low.	Exposure to market risks is low. Structural interest rate and foreign exchange risks are low relative to peers and appropriately mitigated through hedging. Proprietary trading is low.	Exposure to market risks is modest. Structural interest rate and foreign exchange risks are modest and appropriately mitigated through hedging. Proprietary trading may be material, but have sound controls.	Exposure to market risks is average. Appropriate hedging techniques are likely to be employed. Proprietary trading may be material. Controls may be satisfactory, but somewhat below industry best practice.	Exposure to market risks is heightened. Market risks may encompass structural interest rate and foreign exchange risks. Basic hedging techniques may be employed or effectiveness somewhat compromised.	Exposure to market risks is high or highly variable. Risks may not be effectively hedged	There may be significant market risk. Controls have not been established.
Operational Risk	Very strong operational risk infrastructure/framework. Demonstrated track record of limited operational losses.	Strong operational risk infrastructure/framework. Demonstrated track record of limited operational losses.	Good operational risk infrastructure/framework. Significant operational losses are corrected promptly.	Adequate operational risk infrastructure, with some processes outsourced to third-party processors. Operational losses may occur but are manageable.	Limited operational risk infrastructure, with heavy reliance on third-party providers. History of operational losses/issues.	Weak operational risk infrastructure. History of operational losses/issues.	Significant operational risk management shortfalls.

Source: Fitch.

II.4.b Investment Managers

Fitch's risk appetite assessment for investment managers, investment companies and investment funds considers the following subfactors:

- risk controls;
- growth;
- market risk and counterparty risk; and
- operational risk (for investment managers and investment funds) or underwriting standards (for investment companies).

Risk Controls — Investment Managers

Attribute	Core Versus Complementary	Description
Risk Management Tools	Core	Fitch assesses investment managers' ability to identify, measure, manage and monitor risk, as supported by its risk and reporting systems and investment in technology. Key areas that Fitch takes into consideration are the independence and effectiveness of the risk management and compliance functions, senior management's understanding and involvement in risk management issues and the reporting lines in place, and whether there is a corporatewide investment risk function that monitors investment risks taken by individual managers to evaluate their potential cumulative impact on the firm's asset performance/asset quality, earnings and franchise. Fitch's assessment of risk controls may consider the types of management reporting used, where these are available. This may help indicate how far risk controls permeate the organization. For investment companies and investment funds, risk management oversight and infrastructure is conducted either by the employees of the investment company or through an affiliated but external investment manager. Therefore, the risk management framework at the investment manager level is considered when relevant. The investment manager may also provide the risk framework and strategy of the fund.
Risk Limits	Complementary	Fitch's assessment of risk controls may also extend to formalized risk limits that are in place, particularly for firms or funds with more complex market risk exposures. Fitch's analysis will tend to focus on a firm's VaR or earnings at risk output, stop-loss limits, concentrations and stress test results where available.
Scenario Testing	Complementary	When available and relevant, Fitch will evaluate scenario tests conducted on current/prospective business activities and, to the extent possible, evaluate the performance against risk measurements. In cases where stress testing results are deemed relevant, but are not available, this may lead to lower stand-alone ratings.

Source: Fitch.

Growth — Investment Managers

Attribute	Core Versus Complementary	Description
Absolute and Relative Rates of Growth	Core	Where growth has been organic, Fitch's growth assessment focuses on whether the firm has the appropriate in-house investment expertise to manage new and/or larger strategies, as underperformance on a relative basis could yield meaningful reputational damage for the firm. Fitch also seeks to understand why (F)AUM growth rates may differ among peer firms.
Impacts of Inorganic Growth	Complementary	For investment managers that have grown rapidly through acquisitions, success of a growth strategy is assessed by evaluating acquisition parameters and price discipline, pre- and post-acquisition performance, client turnover, employee retention statistics and the ability to manage firm culture.
Accompanying Infrastructure Growth	Complementary	Fitch's assessment can be negatively affected in instances when there is not commensurate infrastructure to support growth. On the other hand, successful execution of measured growth with demonstrated discipline in infrastructure and integration management could positively affect Fitch's assessment of growth if accretive to the franchise by building FAUM, earnings power (particularly if it is a stable source), reputation, distribution channels (new client bases) and diversifying product or geographic scope. For investment companies and investment funds, growth can be viewed positively when driven by strong asset appreciation.

Source: Fitch.

Market Risk and Counterparty Risk — Investment Managers

Attribute	Core Versus Complementary	Description
Asset Valuation Risk	Core	Fitch's assessment of market risk considers the extent to which the investment manager relies on net asset value (NAV)-based fees given the impact of valuation movements on management fees. This risk is more prevalent for traditional investment managers because they operate open-end funds with relatively liquid assets. Alternative investment managers generally have a larger portion of fees based on committed capital or invested capital, which will not be affected by underlying valuation movements or redemption activity, although broader market downturns can slow the pace of fund capital calls/investments and, thereby, pressure fund internal rates of return. Market risk is also an important stand-alone credit rating factor for investment companies, investment funds and for investment managers that co-invest, earn performance fees or defer fees into the fund, as earnings and balance sheet leverage will be based on the valuation of underlying fund investments.
Asset Valuation Process	Complementary	The independence of the periodic valuation processes and whether it is done internally or utilizing third parties can be an important consideration, particularly for private investments, which may require modeling techniques or relying upon comparable sales. In such instances, Fitch reviews the reasonableness of the valuation methodology, how management resolves troubled investments and the use of third parties for valuation purposes. Model validation tools to make sure that valuation processes are reasonable and consistent with the seniority of the investment in the underlying company can be critical. Model risk is less relevant for traditional investment managers given that the majority of their assets are considered Level 1 for accounting purposes, meaning they have a readily available market value. Fitch may gain comfort with a firm's valuation process over time by comparing investment exit values to prior-quarter fair values.
Interest Rate and Foreign Exchange Risk	Complementary	Fitch's market risk assessment may also include a review of methods used to measure, monitor and control interest rate risk, which can manifest itself in several forms including its impact on fee generation (such as for cash management products), investment performance (such as for fixed-income funds) and balance sheet sensitivity (such as for co-investment assets or floating-rate liabilities). Where relevant, Fitch also considers earnings sensitivity to movements in interest rates and currencies and whether the exposure is naturally hedged, with offsets within the asset portfolio, or actively hedged with derivatives. Sizable unhedged exposure is more likely to have a negative impact on Fitch's market risk assessment.
Counterparty Quality and Diversification	Complementary	Counterparty quality and diversification are assessed in the context of the placement of an investment manager's own surplus funds, but also on behalf of managed fund assets, given the potential need to move clearing, trading, and/or securities lending activities to other parties should one counterparty face difficulty. Counterparty concentrations could pose increased operational and/or financial risks, which have a negative impact on Fitch's market risk assessment. For investment companies, the reliance on counterparties for hedging and/or funding is typically limited and, as such, counterparty risk is typically a low influence factor. For investment funds, Fitch assesses the diversity of prime brokerage relationships, which are an important source of financing, as well as clearing, settlement and other services. Outsized exposure to a single counterparty that faces financial hardship could result in the fund's inability to withdraw posted collateral or excess funds. Diversification of these counterparties can have a positive influence on the market risk assessment, although this is balanced against the higher cost and potential loss of efficiency when reviewing prime brokerage relationships. Fitch also seeks to understand the extent to which an investment fund requires segregation of its assets, including collateral, or limits on rehypothecation at the broker dealer to ensure access to its securities should its prime broker face difficulties.

Source: Fitch.

Operational Risk — Investment Managers

Attribute	Core Versus Complementary	Description
Operational Infrastructure/ Framework	Core	In assessing operational risk, Fitch considers processes in place relating to compliance, operations, credit and/or investment performance. If Fitch determines that the operational infrastructure is weak or operational risk is not well controlled, this is likely to negatively impact Fitch's operational risk assessment given the potential for reputational risk, legal risk or both. For investment funds, operational risk can be an important consideration, particularly if the fund focuses on trading strategies involving high complexity, volume and/or automation. For investment companies, operational risk is typically a low influence factor given a smaller (relative) number of investments and less frequent (relative) investment turnover. Furthermore, given that value creation is typically premised on asset appreciation, Fitch tends to place more emphasis on investment companies' underwriting standards in terms of sourcing, due diligence, investment committee review, structuring and monitoring.
Operational Outsourcing	Complementary	Many investment managers, investment companies and investment funds outsource key operational functions to outside processors, such as asset custodians, independent pricing services or trade processors. In such cases, operational risk still exists but is controlled by the firm's management and analysis of its vendors. Fitch's operational risk assessment may evaluate how vendor selection and retention are managed.
Operational Loss History	Complementary	Another possible indicator of the quality of operational risk management is past operational loss history, if available. Most publicly traded firms will discuss significant losses in their financial disclosures. For privately held firms, Fitch will seek to review a record of such losses to understand their nature and whether sufficient controls have been put in place to make their recurrence less likely.

Source: Fitch.

Risk Appetite — Investment Managers

	aaa	aa	a	bbb	bb	b	ccc and Below
Risk Controls	Risk and reporting tools are extremely robust. Risk limits are routinely monitored with minimal changes over lengthy periods. New strategies/industry verticals are heavily vetted and tested before rollout.	Risk and reporting tools are very robust. Risk limits are routinely monitored with nominal changes over lengthy periods. New strategies/industry verticals are carefully vetted and tested before rollout.	Risk and reporting tools are robust. Risk limits are monitored, but may change based on business conditions. New strategies/industry verticals are carefully tested before rollout.	Risk and reporting tools are good. Risk limits are sound and monitored, although they may fluctuate based on opportunities. New strategies/industry verticals are tested before rollout.	Risk and reporting tools are acceptable, but may lack depth or sophistication. Risk limits may change based on business opportunities. New strategies/industry verticals may not be thoroughly vetted or tested before rollout.	Risk and reporting tools may be deficient. Risk limits are crude and may not be monitored frequently. New strategies/industry verticals are not tested before rollout.	There are significant risk control deficiencies.
Growth	(F)AUM growth or business growth aligned with market opportunities. Control environment is systematically adapted to meet higher business volumes.	(F)AUM growth or business growth generally aligned with market opportunities. Control environment is systematically adapted to meet higher business volumes.	(F)AUM growth or business growth generally aligned with market opportunities. Control environment is usually suitably adapted to meet higher business volumes.	(F)AUM growth or business growth may modestly outpace market opportunities. Control environment may lag behind higher business volumes.	(F)AUM growth or business growth may meaningfully outpace market opportunities. Control environment likely to lag behind higher business volumes.	(F)AUM growth or business growth may significantly outpace market opportunities. Control environment routinely lags behind higher business volumes.	(F)AUM growth may be well in excess of sustainable levels.
Market Risk and Counterparty Risk	Exposure to market risks is very low. Interest rate and foreign exchange rate risks are very low relative to peers. Portfolio valuation is fully independent. Counterparty risk is extremely well managed and diversified.	Exposure to market risks is low. Interest rate and foreign exchange rate risks are low relative to peers and appropriately mitigated. Portfolio valuation is fully independent. Counterparty risk is well managed and diversified.	Exposure to market risks is modest. Interest rate and foreign exchange rate risks are modest and appropriately mitigated. Portfolio valuation is fully independent. Counterparty risk is reasonably managed and diversified.	Exposure to market risks is average. Interest rate and foreign exchange rate risks are appropriately mitigated. Portfolio valuation involves independent third-parties. Counterparty risk is adequately managed and diversified.	Exposure to market risks is heightened. Basic hedging techniques may be employed or effectiveness somewhat compromised. Portfolio valuation is internal. Counterparty risk management is below average with limited diversification.	Exposure to market risk is high or highly variable. Risks may not be effectively hedged. Weak counterparty risk management with high concentration.	There may be significant market risks related to interest rates or foreign exchange.
Operational Risk	Very strong operational risk infrastructure/ framework. Demonstrated track record of limited operational losses.	Strong operational risk infrastructure/ framework. Demonstrated track record of limited operational losses.	Good operational risk infrastructure/ framework. Significant operational losses are corrected promptly.	Adequate operational risk infrastructure, with some processes outsourced to third-party processors. Operational losses may occur but are manageable.	Limited operational risk infrastructure, with heavy reliance on third-party providers. History of operational losses/issues.	Weak operational risk infrastructure. History of operational losses/issues.	Significant operational and counterparty risk management shortfalls.

Source: Fitch.

II.4.c Business Development Companies

Fitch's risk appetite assessment for BDCs considers the following subfactors:

- underwriting standards;
- risk controls;
- growth; and
- market risk.

Underwriting Standards — Business Development Companies

Attribute	Core Versus Complementary	Description
Portfolio Construct	Core	Fitch attempts to identify a BDC's general risk appetite by reviewing the portfolio construct, yields, industry and issuer concentrations, and underlying portfolio company statistics, including average EBITDA, leverage, interest coverage, and exposure to covenant lite loans. A BDC that is generating outsized portfolio yields relative to peers could indicate an ability to identify and structure unique and complex investments that command a higher yield, which could be a positive factor, or could indicate a higher risk appetite, which would be a negative factor. An observation of portfolio performance over an extended period aids Fitch in its ability to differentiate between these two possibilities.
Underwriting Process	Complementary	Fitch's assessment of a BDC's underwriting standards considers sourcing, due diligence, investment committee review, structuring, funding and monitoring. Fitch may review investment memos and other underwriting documentation, where available, to assesses whether the process is comprehensive, particularly where the BDC does not have a long and established underwriting track record. Fitch also focuses on the development and monitoring of key sponsor relationships to understand concentration risks and the potential for adverse selection.
Performance/ Portfolio Consistency	Complementary	A BDC's credit culture and standards should generally exhibit consistency, although Fitch recognizes that a BDC's origination volume may vary to some extent based on market conditions. An opinion about a BDC's underwriting acumen and consistency is formed over time and best observed based on performance through a full economic cycle. In the absence of that information, Fitch will seek insight into management's prior performance managing similar assets and structures through a variety of market conditions, although a short operating history is generally a limiting rating factor. Evidence of strong and consistent underwriting over an extended period can positively influence Fitch's assessment of underwriting standards.

Source: Fitch.

Risk Controls — Business Development Companies

Attribute	Core Versus Complementary	Description
Risk Management Tools	Core	Fitch's assessment of a BDCs risk controls can be positively influenced by strong and effective risk management tools which allow the BDC to effectively adhere to its risk appetite framework and underwriting standards. These generally include limits pertaining to industry or issuer concentrations, market risks, and operational controls. They may also include tools such as internal ratings, watchlists or other risk monitoring scales.
Risk Reporting	Complementary	Fitch's assessment of a BDC's risk controls may also consider the types of management reporting used, where these are available. This may help indicate how far risk controls permeate the organization with respect to key risks a BDC may incur, such as credit, market and operational risks. A negative driver of Fitch's assessment of a BDC's risk controls would be deficiencies in operational risk management that have already manifested themselves and are uncured.

Source: Fitch.

Growth — Business Development Companies

Attribute	Core Versus Complementary	Description
Absolute and Relative Rates of Growth	Core	A BDC's growth is assessed on an absolute and relative basis based on market opportunities, underwriting conditions and the firm's own experience and track record in the sector. Outsized growth in competitive market conditions, characterized by tighter spreads, higher leverage and looser covenant packages, could increase the risks of vintage concentrations and lead to potential asset quality issues down the road, which would be viewed negatively. Fitch does consider whether the BDC's size and relationships provide it with more deal selectivity and structuring flexibility despite tougher market conditions, but sacrificing quality for growth would have a negative impact on Fitch's assessment.
Accompanying Infrastructure Growth	Complementary	Fitch assessment of growth also considers whether the BDC's infrastructure is expanding appropriately to manage a larger portfolio. Infrastructure growth should span front-line investment professionals, back-office accounting, finance and administrative support and technology resources. Expansion into new industry verticals should also be measured and accompanied by commensurate growth in appropriately skilled staff. Failure to sufficiently invest in the operating platform could lead to credit and/or operational losses, which would have a negative impact on Fitch's assessment.

Source: Fitch.

Market Risk — Business Development Companies

Attribute	Core Versus Complementary	Description
Portfolio Valuation Process	Core	Given the illiquidity of the majority of BDCs' portfolio assets, fair value estimates often require numerous management assumptions. As a result, Fitch views the involvement of independent third-parties in the quarterly valuation process favorably. A BDC that receives independent valuations on its entire portfolio every quarter would be viewed more favorably than a BDC that only has a portion of its portfolio valued by a third party or has its entire portfolio valued by a third party but with less frequency. However, Fitch does expect management and the board to be actively involved in the quarterly process to identify discrepancies or inconsistencies in portfolio company valuation and as a tool to monitor portfolio performance.
Portfolio Valuation Consistency	Complementary	Fitch assesses a BDC's valuation competency over time by reviewing portfolio company exits versus prior-quarter fair value marks. If sale proceeds are consistently below fair value, Fitch would call into question the sufficiency of the valuation process and/or the competency of the third-party provider. Conversely, if exits are consistently above the prior-quarter fair value, Fitch would consider whether the BDC was being too conservative in its valuation process, in an effort to recognize regular realized gains. Fitch expects the above/below marks to generally average out in the long run.
Interest Rate and Foreign Exchange Risks	Complementary	Fitch considers how the BDC's earnings may be affected by a changing rate environment, taking into consideration the fixed/floating asset and funding mix. Where derivatives are employed to manage interest rate exposure, Fitch considers their cost and effectiveness over time, in addition to the counterparty exposure. When applicable, Fitch considers the BDC's exposure to foreign currency movements and the potential impact on profitability and leverage. If derivatives are employed to manage the exposure, Fitch considers their cost and effectiveness over time, in addition to the counterparty exposure.

Source: Fitch.

Risk Appetite — Business Development Companies

	aaa	aa	a	bbb	bb	b	ccc and Below
Underwriting Standards	Underwriting standards are clearly risk-averse and far more conservative than evident elsewhere in the industry. Credit standards are consistent with minimal changes throughout economic cycles. Long-run performance expectations are incorporated. Portfolio construct is solely first lien loans.	Underwriting standards are very low risk and more conservative than evident elsewhere in the industry. Credit standards are consistent with nominal changes over economic cycles. Long-run performance expectations are incorporated. Portfolio construct is solely secured loans.	Underwriting standards are low risk and generally more stringent than industry practice. Credit standards are largely consistent but may vary modestly over economic cycles. Standards reflect medium-term performance expectations. Portfolio construct is solely loans.	Underwriting standards generally in line with the broad industry practice. Credit standards are variable over economic cycles. Standards reflect medium-term performance expectations. Portfolio construct may have minimal exposure to equity positions.	Underwriting standards reflect generally above-average risk appetite. Credit standards may be more aggressive than broad industry averages. Standards are likely to change noticeably over economic cycles. Portfolio construct may have modest exposure to equity positions.	Underwriting standards exhibit heightened risk appetite. Credit standards are typically more aggressive than broad industry averages and likely to change considerably over economic cycles. Portfolio construct may have meaningful exposure to equity positions.	Underwriting standards lead to high risk exposure and are likely to reflect stress within the entity. Credit standards do not have any discernible track record. Standards may fluctuate frequently. Portfolio construct may have significant exposure to equity positions.
Risk Controls	Risk and reporting tools are extremely robust. Risk limits are highly conservative and overwhelmingly adhered to. Risk limits are routinely monitored with minimal changes over lengthy periods. Exposure to operational risks is very low. New strategies/industry verticals are heavily vetted and tested before rollout.	Risk and reporting tools are very robust. Risk limits are very conservative. Risk limits are routinely monitored with nominal changes over lengthy periods. Exposure to operational risks is low. New strategies/industry verticals are carefully vetted and tested before rollout.	Risk and reporting tools are robust. Risk limits are conservative. Risk limits are monitored but may change based on business conditions. Exposure to operational risks is modest. New strategies/industry verticals are tested before widespread rollout.	Risk and reporting tools are good. Risk limits are sound and monitored, although they may fluctuate based on opportunities. Exposure to operational risks is moderate. New strategies/industry verticals are carefully tested before rollout.	Risk and reporting tools are acceptable, but may lack depth or sophistication. Risk limits are monitored less frequently than higher rated institutions. Risk limits may change based on business opportunities. Exposure to operational risks is heightened. New strategies/industry verticals may not be thoroughly vetted or tested before rollout.	Risk and reporting tools may be deficient. Risk limits are crude and may not be monitored frequently. Exposure to operational risks is high. New strategies/industry verticals are not tested before rollout.	There are significant risk control deficiencies.
Growth	Balance-sheet growth or business growth aligned with market opportunities and underwriting conditions. Control environment is systematically adapted to meet higher business volumes.	Balance-sheet growth or business growth seldom outpace market opportunities and underwriting conditions. Control environment is systematically adapted to meet higher business volumes.	Balance-sheet growth or business growth may at times outpace market opportunities and underwriting conditions. Control environment is usually suitably adapted to meet higher business volumes.	Balance-sheet growth or business growth more often outpace market opportunities and underwriting conditions. Control environment may lag behind higher business volumes.	Balance-sheet growth or business growth may modestly outpace market opportunities and underwriting conditions. Control environment likely to lag behind higher business volumes.	Balance-sheet growth or business growth may meaningfully outpace market opportunities and underwriting conditions. Control environment routinely lags behind higher business volumes.	Growth may be well in excess of sustainable levels.
Market Risk	Exposure to market risks is very low. Interest rate and foreign exchange rate risks are very low relative to peers. Portfolio valuation is fully independent. Regulatory cushions are very significant and managed relative to portfolio composition.	Exposure to market risks is low. Interest rate and foreign exchange rate risks are low relative to peers and appropriately mitigated. Portfolio valuation is fully independent. Regulatory cushions are significant and managed relative to portfolio composition.	Exposure to market risks is modest. Interest rate and foreign exchange rate risks are modest and appropriately mitigated. Portfolio valuation is fully independent. Regulatory cushions are meaningful and managed relative to portfolio composition.	Exposure to market risks is average. Interest rate and foreign exchange rate risks are appropriately mitigated. Portfolio valuation involves independent third-parties. Regulatory cushions exist and are managed relative to portfolio composition.	Exposure to market risks is heightened. Basic hedging techniques may be employed or effectiveness somewhat compromised. Portfolio valuation is internal. Regulatory cushions may exist but are not managed relative to portfolio composition.	Exposure to market risk is high or highly variable. Risks may not be effectively hedged. Regulatory cushions are minimal and are not managed relative to portfolio composition.	There may be significant market risks, related to interest rates or foreign exchange. Regulatory cushions do not exist.

Source: Fitch.

II.4.d Finance and Leasing Companies

Fitch's risk appetite assessment for finance and leasing companies considers the following subfactors:

- underwriting standards;
- risk controls;
- growth; and
- market risk.

Underwriting Standards — Finance and Leasing Companies

Attribute	Core Versus Complementary	Description
Policies and Procedures	Core	Fitch's assessment of a finance and leasing company's underwriting standards considers internal management credit reports and variances from policy, if available, how problem loans are reported and forbearance practices, to ensure that an issuer is not delaying the recognition of problem credits, particularly in instances where the issuer does not have a long and established track record of underwriting through the cycle.
Residual Value Risk Management	Complementary	Fitch assesses an issuer's exposure to and management of residual value risk by understanding the company's pricing policies, its ability to monitor the condition of assets under lease, its flexibility to alter lease payments (e.g. additional charges for unfair wear and tear) or amend contracts, the relative market liquidity for used collateral and the leasing company's access to a variety of disposal channels. An ability to control residual value gains/losses effectively through a variety of asset cycles is viewed as the clearest demonstration of residual risk management capabilities.
Business Model Specifics	Complementary	Certain types of finance and leasing companies, such as debt purchasers, do not originate or underwrite the original loans they carry on balance sheet or manage. Their business model means asset quality will be inherently weak and their ability to generate cash flow to service debt will largely be a function of the extent recoveries/collections exceed the price paid for the loans. Consequently, for such companies, Fitch's assessment of underwriting standards will additionally focus on pricing discipline through economic cycles. Industry measures such as 'cash on cash multiples' (i.e. collections to date plus estimated remaining collections divided by purchase price) can be a useful indicator of pricing discipline that Fitch would review, where available.

Source: Fitch.

Risk Controls — Finance and Leasing Companies

Attribute	Core Versus Complementary	Description
Risk Management Tools	Core	Fitch assesses a finance and leasing company's adherence to its risk appetite framework and underwriting standards by considering the strength and effectiveness of its risk management tools and systems. These generally include limits pertaining to credit concentrations, geography, market risks and operational controls. They may also include tools such as custom scorecards, internal ratings or third-party data sources such as national credit bureaus.
Risk Reporting	Complementary	Fitch's assessment of risk controls may consider the types of management reporting used, where these are available. This may help indicate how far risk controls permeate the organization with respect to all risks the finance and leasing company may incur, such as credit, market and operational risks.

Source: Fitch.

Growth — Finance and Leasing Companies

Attribute	Core Versus Complementary	Description
Absolute and Relative Rates of Growth	Core	Fitch generally assesses growth in the context of business and balance sheet expansion relative to underlying economic growth, earnings retention, staffing growth and peer, sector and industry averages. Rapid loan growth can also obscure financial analysis, for example, making it more difficult to form a view of true asset quality because loan portfolios have not had time to mature and may be indicative of a lowering of underwriting standards or growth outstripping risk controls.
Accompanying Infrastructure Growth	Complementary	Fitch's growth assessment may be negatively influenced by rapid growth if it introduces other challenges such as operational strains (as back-office or systems may not be capable of handling increased business volumes) or higher leverage (should growth outstrip earnings retention).
Impacts of Inorganic Growth	Complementary	Where growth has been driven by acquisitions of assets or entire companies, Fitch considers the strategic fit, due diligence process, economic impact and integration success. A track record of dilutive transactions, on-boarding missteps and/or expansion into non-core product categories, may negatively influence Fitch's growth assessment.

Source: Fitch.

Market Risk — Finance and Leasing Companies

Attribute	Core Versus Complementary	Description
Interest Rate and Foreign Exchange Risks	Core	Fitch's assessment of a finance or leasing company's market risk primarily considers interest rate risk, arising from differences in the asset and funding profiles of the firm, but may also include elements such as derivatives use or direct and indirect foreign exchange risks. Market risks will be higher for issuers where cross-border activity gives rise to foreign exchange risks, so this factor may take on greater relative importance in that instance. For mortgage servicers, the valuation of servicing rights will be heavily influenced by the level and direction of interest rates but will also be affected by trends in housing prices, applicable hedges and other portfolio characteristics.
Market Risk Management Tools and Controls	Complementary	Effective mitigation tools and controls, coupled with a robust stress-testing framework, may be strong mitigating factors in reducing market risk. Where market risk is significant, Fitch assesses the appropriateness of controls relative to this risk, hedging practices and other market risk information across the business.

Source: Fitch.

Risk Appetite — Finance and Leasing Companies

	aaa	aa	a	bbb	bb	b	ccc and Below
Underwriting Standards	Underwriting standards are clearly risk-averse and far more conservative than evident elsewhere in the industry. Credit standards are consistent with minimal changes throughout economic cycles. Long-run performance expectations are incorporated. Exposure to residual value risk is very low and very conservatively managed relative to peers.	Underwriting standards are very low risk and more conservative than evident elsewhere in the industry. Credit standards are consistent with nominal changes over economic cycles. Long-run performance expectations are incorporated. Exposure to residual value risk is low and/or risk is more conservatively managed relative to peers.	Underwriting standards are low risk and generally more stringent than industry practice. Credit standards are largely consistent but may vary modestly over economic cycles. Standards reflect medium-term performance expectations. Exposure to residual value risk is modest and/or risk generally more stringently managed relative to peers.	Underwriting standards generally in line with the broad industry practice. Credit standards are variable over economic cycles. Standards reflect medium-term performance expectations. Exposure to residual value risk is average and/or risk is managed generally in line with peers.	Underwriting standards reflect generally above-average risk appetite. Credit standards may be more aggressive than broad industry averages. Standards are likely to change noticeably over economic cycles. Exposure to residual value risk is heightened and/or risk is managed more aggressively relative to peers.	Underwriting standards exhibit heightened risk appetite. Credit standards are typically more aggressive than broad industry averages and likely to change considerably over economic cycles. Exposure to residual value risk is high and/or risk is managed more aggressively relative to peers.	Underwriting standards lead to high risk exposure and are likely to reflect stress within the entity. Credit standards do not have any discernible track record. Standards may fluctuate frequently. Exposure to residual value risk is very high and/or risk is not appropriately managed.
Risk Controls	Risk and reporting tools are extremely robust. Risk limits are highly conservative and overwhelmingly adhered to. Risk limits are routinely monitored with minimal changes over lengthy periods. Exposure to operational risks is very low. Entry into new business/strategies are heavily vetted and tested before rollout.	Risk and reporting tools are very robust. Risk limits are very conservative. Risk limits are routinely monitored with nominal changes over lengthy periods. Exposure to operational risks is low. Entry into new businesses/ strategies are carefully vetted and tested before rollout.	Risk and reporting tools are robust. Risk limits are conservative. Risk limits are monitored, but may change based on business conditions. Exposure to operational risks is modest. Entry into new businesses/ strategies is tested before widespread rollout.	Risk and reporting tools are good. Risk limits are sound and monitored, although they may fluctuate based on opportunities. Exposure to operational risks is moderate. Entry into new businesses/ strategies is carefully tested before rollout.	Risk and reporting tools are acceptable, but may lack depth or sophistication. Risk limits are monitored less frequently than higher rated institutions. Risk limits may change based on business opportunities. Exposure to operational risks is heightened. Entry into new businesses/ strategies may not be thoroughly vetted or tested before rollout.	Risk and reporting tools may be deficient. Risk limits are crude and may not be monitored frequently. Exposure to operational risks is high. Entry into new businesses/ strategies is not tested before rollout.	There are significant risk control deficiencies.
Growth	Balance-sheet growth or business growth is unlikely to pressure solvency or outpace the long-term sustainable growth of main business segments. Control environment is systematically adapted to meet higher business volumes.	Balance-sheet growth or business seldom pressures solvency or outpaces the long-term sustainable growth of main business segments. Control environment is systematically adapted to meet higher business volumes.	Balance-sheet growth or business growth may at times pressure solvency and exceed the long-term sustainable growth of main business segments. Control environment is usually suitably adapted to meet higher business volumes.	Balance-sheet growth or business growth more often pressure solvency and exceeds the long-term sustainable growth of main business segments. Control environment may lag behind higher business volumes.	Balance-sheet growth or business growth often pressures solvency and exceeds the long-term sustainable growth of main business segments. Control environment likely to lag behind higher business volumes.	Balance-sheet growth or business growth usually pressures solvency and the long-term sustainable growth of business segments. Control environment routinely lags behind higher business volumes.	Growth may be well in excess of sustainable levels. Or unable to sell assets to achieve necessary balance sheet contraction.
Market Risk	Exposure to market risks is very low. Interest rate and foreign exchange rate risks are very low relative to peers.	Exposure to market risks is low. Interest rate and foreign exchange rate risks are low relative to peers and appropriately mitigated.	Exposure to market risks is modest. Interest rate and foreign exchange rate risks are modest and appropriately mitigated.	Exposure to market risks is average. Interest rate and foreign exchange rate risks are appropriately mitigated.	Exposure to market risks is heightened. Basic hedging techniques may be employed or effectiveness somewhat compromised.	Exposure to market risk is high or highly variable. Risks may not be effectively hedged.	There may be significant market risks, related to interest rates or foreign exchange.

Source: Fitch.

II.4.e Financial Market Infrastructure Companies

Fitch's risk appetite assessment for FMIs considers the following subfactors:

- operational, reputational and legal risk;
- counterparty risk management; and
- growth.

Operational, Reputational and Legal Risks — Financial Market Infrastructure Companies

Attribute	Core Versus Complementary	Description
Operational Risk Infrastructure	Core	Fitch's assessment of operational, reputational and legal risk centers on the ability to accurately and efficiently process large volumes of transactions as supported by an operational risk infrastructure with robust technological platforms, and appropriate controls and back-office operations. Fitch's assessment will typically be negatively affected if Fitch determines a FMI has a weak or outdated operational risk infrastructure or control environment. In this context, Fitch considers the level of capital expenditures for technology upgrades when assessing operational risk for FMIs. Additionally, legal risk can arise from a FMI processing trades incorrectly or from a breach of applicable laws or regulations (e.g. if it is in breach of sanctions).
Business Continuity and System Availability	Complementary	To ensure business continuity in the event of physical disasters, FMIs must operate effective duplicate and backup computer systems and develop and maintain business continuity plans, including disaster recovery sites that are geographically dispersed. Fitch also considers the system availability ratios (defined as the time a given FMI platform is actually available to operate versus the maximum time a given FMI platform is expected to be available to operate), relative to peers and industry standards as well as frequency and average duration of system outages when activity is interrupted on one or more platforms.

Source: Fitch.

Counterparty Risk Management — Financial Market Infrastructure Companies

Attribute	Core Versus Complementary	Description
Collateral Margining	Core	FMIs seek to minimize counterparty risk by taking significant counterparty collateral that can be utilized in the event of counterparty default. Fitch's counterparty risk management assessment considers the initial sizing and ongoing maintenance of this collateral, along with the predefined counterparty/customer default mechanisms.
Default Processes/ Waterfalls	Core	Fitch's assessment maybe positively influenced by robust and clearly defined default procedures that protect the clearing house and non-defaulting clearing members from a clearing member default. This may include prescribed processes via default waterfalls in place that include using a defaulting clearing member's collateral (margin) and guarantee fund contributions to reduce or eliminate losses. In the event that all losses are not covered, the clearing house can then access clearing house capital contributions, non-defaulting clearing member guarantee fund contributions and potentially further resources of non-defaulting clearing members. Fitch's assessment of counterparty risk management focuses on mechanisms that do not rely upon the imposition of economic losses to clearing participants. Thus, the use of clearing suspension mechanisms, or loss-sharing components at the end of default waterfall, including write-downs of non-defaulting members' contributions to default funds or variation margin gains haircutting would be viewed negatively by Fitch. From a quantitative perspective, Fitch also may assess the level of largest counterparties' exposure in excess of collateral held against the resources allocated by a clearing house for loss mitigation (referred to as "skin in the game") before collective funds can be drawn.
Clearing Member Standards	Complementary	Counterparty risk is managed by stringent clearing member standards, margin requirements, acceptable collateral requirements and guaranty funds. Fitch generally reviews clearing houses' policies and procedures with respect to counterparty risk management to determine the extent to which they capture potential counterparty risks in a comprehensive and forward-looking manner. Fitch considers the factors outlined in the Considerations for FMIs' Counterparty Risk Management Framework table below when assessing the sufficiency of a clearing house's counterparty risk management framework.
Business Model Specifics	Complementary	Pure exchanges and CSDs without banking licenses act simply as a venue for trading activity or securities depository and direct subsequent settlement and clearing to third parties. With the exception of minimal counterparty risk arising from trade invoices and potentially from investments in financial assets, exchanges and CSDs without banking licenses are not materially exposed to counterparty risk. As such, counterparty risk is not a key stand-alone ratings driver for exchanges or CSDs without banking licenses, although both types of organizations typically subject their members to minimum qualitative and quantitative requirements.

Source: Fitch.

Considerations for Financial Market Infrastructure Companies' Counterparty Risk Management Framework

Counterparty Risk Management	Margin Procedures	Guaranty Funds	Dedicated Resources (i.e. "Skin in the Game")
Initial Margin/Variation Margin	Calculation	Size Versus Counterparty Exposure	Size Versus Counterparty Exposure
Financial Requirements	Frequency	Frequency of Resizing	Size Versus Member Contributions
Due Diligence	Posting	Quality	Determination Mechanism (i.e re-sizing based on exposure amounts)
Remediation	Valuation	Diversification	
Membership Rules	Buffers	Custody	
Concentration Management	Haircuts		
	Review		

Source: Fitch.

Growth — Financial Market Infrastructure Companies

Attribute	Core Versus Complementary	Description
Absolute and Relative Rates of Growth	Core	Fitch assesses FMIs' growth in the context of balance sheet and/or business growth relative to underlying market conditions, volatility and peer averages. Generally, clearing houses have significant margin deposit and guaranty fund contribution offsets on both sides of the balance sheet associated with the respective securities cleared. Growth of these balance sheet components are highly correlated to overall market conditions. When assessing the growth of a clearing house, Fitch excludes these balances from its primary analysis, as these funds are for the benefit of clearing member creditors and do not reflect growth of the core balance sheet. That said, the trend in the growth of the consolidated balance can be informative over the longer term.
Accompanying Infrastructure Growth	Complementary	Fitch's growth assessment may be negatively influenced if rapid growth strains the ability of technology platforms and back-office operations to handle increased trading, clearing or depository volumes.
Impacts of Inorganic Growth	Complementary	Non-accretive acquisitions may negatively affect Fitch's growth assessment if they do not complement the long-term strategy of the combined entity. Additionally, acquisitions could negatively affect Fitch's growth assessment if leverage metrics are elevated and/or integration costs are high.

Source: Fitch.

Risk Appetite — Financial Market Infrastructure Companies

	aaa	aa	a	bbb	bb	b	ccc and Below
Operational, Reputational and Legal Risks	Extremely rare occurrence of technical glitches resulting in reputational or legal damage. Very high level of capital expenditure for technology. Continuous development and enhancements to technology platforms. Extremely strong systems, controls, procedures; beta testing of new technology platforms and business continuity.	Rare occurrences of technical glitches that result in reputational or legal damage. High level of capital expenditure for technology. Frequent development and enhancements to technology platforms. Very strong systems, controls, procedures; beta testing of new technology platforms and business continuity.	Limited occurrences of technical glitches that result in reputational or legal damage. High level of capital expenditure for technology. Frequent development and enhancements to technology platforms. Strong systems, controls, procedures; beta testing of new technology platforms and business continuity.	Infrequent occurrences of technical glitches that result in reputational or legal damage. Average level of capital expenditure for technology. Average development and enhancements to technology platforms. Sound systems, controls, procedures; beta testing of new technology platforms and business continuity.	Frequent occurrences of technical glitches that result in reputational or legal damage. Below-average level of capital expenditure for technology. Below-average development and enhancements to technology platforms. Adequate systems, controls, procedures; beta testing of new technology platforms and business continuity.	Very frequent occurrences of technical glitches that result in reputational or legal damage. Below-average level of capital expenditure for technology. Below-average development and enhancements to technology platforms. Weak systems, controls, procedures; beta testing of new technology platforms and business continuity.	Regular occurrences of technical glitches that result in reputational or legal damage. No capital expenditure. Technology platforms under development. Deficiencies in systems, controls, procedures and business continuity.
Counterparty Risk Management	Extremely strong counterparty/ customer oversight both initially and ongoing. Extremely strong financial safeguards for margin calculations and settlements, acceptable collateral and guaranty fund. Extremely strong default procedures. Extremely strong management of customer exposure and collateral.	Very strong counterparty/ customer oversight both initially and ongoing. Very strong financial safeguards for margin calculations and settlements, acceptable collateral and guaranty fund. Very strong default procedures. Very strong management of customer exposure and collateral.	Strong counterparty / customer oversight both initially and ongoing. Strong financial safeguards for margin calculations and settlements, acceptable collateral and guaranty fund. Strong default procedures. Strong management of customer exposure and collateral.	Sound counterparty / customer oversight both initially and ongoing. Sound financial safeguards for margin calculations and settlements, acceptable collateral and guaranty fund. Sound default procedures. Sound management of customer exposure and collateral.	Moderate counterparty / customer oversight both initially and ongoing. Good financial safeguards for margin calculations and settlements, acceptable collateral and guaranty fund. Moderate default procedures. Moderate management of customer exposure and collateral.	Weak counterparty / customer oversight both initially and ongoing. Weak financial safeguards for margin calculations and settlements, acceptable collateral and guaranty fund. Weak default procedures. Weak management of customer exposure and collateral.	Deficiencies in counterparty / customer oversight both initially and ongoing. Limited or evolving financial safeguards for margin calculations and settlements, acceptable collateral and guaranty fund. Lacking default procedures. Deficiencies in management of customer exposure and collateral.
Growth	Balance sheet or business growth unlikely to outpace long-term sustainable growth of main business segments. Control environment is systematically adapted to meet higher business volumes.	Balance sheet or business growth seldom outpaces long-term sustainable growth of main business segments. Control environment is systematically adapted to meet higher business volumes.	Balance sheet or business growth may at times exceed long-term sustainable growth of main business segments. Control environment is usually suitably adapted to meet higher business volumes.	Balance sheet or business growth more often exceeds long-term sustainable growth of main business segments. Control environment may lag behind higher business volumes.	Balance sheet or business growth often exceeds long-term sustainable growth of main business segments. Control environment likely to lag behind higher business volumes.	Balance sheet growth usually exceeds long-term sustainable growth of business segments. Control environment routinely lags behind higher business volumes.	Growth may be well in excess of sustainable levels.

II.5 Financial Profile Assessment

Importance of this Assessment

A non-bank financial institution's financial profile, which can often be measured by analyzing key financial metrics and trends in and stability of those metrics, is relevant because it provides a strong indication of how the firm is performing across key dimensions of creditworthiness. In many respects, financial measures are the outcome of the non-bank financial institution's operating environment, company profile, management and strategy and risk appetite.

Risk measures enable an analysis of how a non-bank financial institution's risk appetite and management compare with those of peers and whether performance is commensurate with business cycles. Asset quality is relevant because weak asset quality can undermine a non-bank financial institution's balance sheet solvency and ultimately its ability to meet obligations to creditors. Leverage and capital adequacy measures are relevant because they determine a non-bank financial institution's ability to grow and absorb unexpected losses. Funding and liquidity are relevant because inadequacies in these two areas often lead to non-bank financial institution failures as a result of asset/liability mismatches or asset illiquidity. Profitability matters as it determines the non-bank financial institution's ability to service debt and/or generate capital internally to act as a first line of defense against rising impairment charges or other sources of risk or loss.

Fitch's starting point is typically audited financial statements, but it will generally also consider unaudited and interim financial statements. Fitch makes adjustments to allow for greater comparability across jurisdictions (IFRS versus U.S. GAAP), such as re-classification of items to fit its standard spreadsheets and ratio calculations. Adjustments could entail exclusion of one-off gains/losses or non-cash earnings and expenses from operating profitability, exclusion of intangible assets from capital or inclusion of restructured loans as part of impaired assets.

Fitch generally employs its own stress tests on various aspects of a non-bank financial institution's financial profile *(See Annex 4)* such as asset quality, capital adequacy or liquidity. These may include various institution-specific, regional or broad industry scenarios to determine an institution's ability to withstand a rapid shift in the operating environment. The results of these stress tests are informative on both an absolute and relative basis but by themselves may not necessarily drive rating decisions. Fitch also considers issuer-generated stress tests to understand how these drive decision-making within the organization.

Quantitative Ranges

For each non-bank financial institution subsector, Fitch uses a set of core metrics and complementary metrics for financial profile factors. Figures in the sections below set out the indicative quantitative ranges for core financial profile metrics. Fitch uses a four-year average (where data are available) to determine the implied factor score for all metrics, other than for capitalization and leverage, for which it uses the latest available data point, as Fitch views this as a more reliable indicator of the level of the metric in the future. Four-year averages represent an average of the metric in question over each of the four individual periods, as opposed to an aggregation of the numerators and denominators for the cumulative time period.

While a single metric cannot explain a factor score in its entirety, the implied factor score is the starting point in the determination of the actual score. For example, the view of a non-bank financial institution's asset quality would incorporate other aspects such as the rate of growth, collateral and reserves and loan writeoffs, which may result in the implied factor score being adjusted before arriving at the final factor score. Some of these other aspects of a non-bank financial institution's financial profile are captured in complementary metrics, but Fitch

combines quantitative analysis with qualitative judgement to determine the assigned factor scores, which are expressed by a three-notch range.

The most common analytical reasons for adjusting the implied factor scores are outlined in the sections below. Adjustments may negatively or positively influence the final factor score. In general terms, the adjustments tend to fall into two broad categories: (1) Fitch adjusts for specific risk elements or business profile features that may not be adequately captured in the core financial ratios; and (2) Fitch adjusts for cyclical and/or structural elements that, in Fitch's opinion, mean that historical ratios may not be reliable predictors of future performance.

Adjustments to Implied Asset Quality/Asset Performance/Counterparty Exposure Factor Score

The most common adjustments to a non-bank financial institution's implied asset quality/asset performance score are as follow:

Growth: High growth relative to peers or the domestic economy(ies) may lead to a significant deterioration in asset quality or asset performance. In addition, high growth rates may reduce asset quality ratios due to the lag effect on the numerator, while deleveraging may inflate it. Significantly lower growth than peers could be viewed as conservative and positive for the assigned factor score, particularly if market conditions are challenging.

Collateral and Reserves: Strong reserve coverage of impaired loans relative to peers, such as reflected in the ratio of reserves for impaired loans to impaired loans for finance and leasing companies with high balance sheet usage, or a high proportion of secured or government lending (e.g. guaranteed student loans) may reduce the risks from the non-bank financial institution's impaired exposures. Conversely, a focus on unsecured lending or weak reserve coverage would likely have the opposite effect. Deficiencies in the legislative framework that could impact a non-bank financial institution's ability to liquidate collateral, or enforce its rights as a creditor generally, may result in a downward adjustment to the implied score.

Loan Writeoffs: The impaired loans/gross loans ratio may not fully capture the non-bank financial institution's underlying asset quality performance where it writes off a high proportion of loans soon after they become impaired or, conversely, retains legacy problem loans on its balance sheet for an extended period after they become delinquent. Therefore, Fitch also considers the loan impairments generated in recent periods, as reflected in the complementary ratio of loan impairment charges to average gross loans.

Loan Classification Policies: If Fitch believes a non-bank financial institution has a relatively large proportion of high-risk assets that are not captured by traditional impaired asset definitions, (e.g. because they have been restructured or are classified in the watch category), this may weigh on Fitch's assessment of asset quality. Conservative asset classification relative to peers may be moderately positive for Fitch's assessment.

Concentrations: The existence of high concentration exposures with respect to single borrowers/counterparties, sectors or asset classes (for example equities, fixed income or alternatives for investment managers) may increase vulnerability to cyclical asset performance fluctuations. Conversely, good portfolio/product diversification may be a moderately positive factor in assessing asset quality or asset performance.

Non-Loan Exposures: Fitch may adjust downward the asset quality score where it believes there are material risks of losses arising from non-loan and lease assets, such as securities, derivative fair values or foreclosed assets or from off-balance sheet exposures, such as managed funds, guarantees and commitments. Conversely, where a relatively high proportion of a non-bank financial institution's risk exposures are outside of the loan book and these are

low risk (e.g. highly rated securities or off-balance sheet trade finance exposures), this may result in a positive adjustment to the implied asset quality score.

Risk Appetite and Business Model: Fitch may adjust the asset quality score downwards where it views the non-bank financial institution as having a relatively high risk appetite, or a business model or asset class specialization which in the agency's view may be more likely to result in future asset quality deterioration or volatility. In such cases, Fitch may take the view that recently reported asset quality metrics are more vulnerable to deterioration as loan and other exposures season. Conversely, a low risk appetite or lower risk business model may result in a moderate positive adjustment to the asset quality score. However, the scope for any positive adjustment is likely to be limited in cases where asset quality metrics are weak due to legacy problem exposures and the non-bank financial institution has only recently reduced its risk appetite.

Historical and Future Metrics: Fitch may view historical asset quality metrics as not being reliable indicators of future metrics, for example, due to changes in a non-bank financial institution's strategy or operations, because mergers, acquisitions or disposals may have a material impact on group risk exposures, Fitch's economic expectations materially deviate from past conditions, or recent asset quality metrics correspond to a particularly favorable or unfavorable part of the credit cycle.

Relative Size: The absolute size of an investment manager's AUM will affect net client flow percentages. Net inflows could outpace peers on a dollar basis but lag as a percentage of AUM. Outsized client flows could be troublesome if investable assets exceed investment opportunities, while below-average flows could be appropriate depending on market conditions.

Adjustments to Implied Earnings and Profitability Factor Score

The most common adjustments to a non-bank financial institution's implied earnings and profitability score are as follow:

Portfolio Risk: For a given business model, earnings may be lower than its peers if a non-bank financial institution is managing a lower risk and, thus, lower yielding portfolio. In such cases, Fitch will also utilize risk-adjusted return measures to assess overall profitability.

Revenue Diversification: Fitch assesses more favorably a non-bank financial institution's performance where operating revenues are more diversified than its peers. Reliance on a single or concentrated set of business lines, client relationships or revenue streams could negatively affect Fitch's assessment.

Earnings Stability: A positive adjustment could be made to a non-bank financial institution's earnings and profitability score where earnings have proved to be stable through a cycle or where recent performance suggests a sustainable improvement compared to the non-bank financial institution's four-year average. Conversely, high earnings volatility or a recent structural weakening of performance could lead to a negative adjustment. Certain business models or asset classes may also be more vulnerable to cyclical performance swings, even if these have not been observed to date; in such cases, recently reported data may not be sustainable or representative of expected performance through a cycle, which could warrant a downward adjustment to the earnings and performance score.

Historical and Future Metrics: Fitch may view historical earnings and profitability metrics as not being reliably indicative of future metrics, for example, due to changes in a non-bank financial institution's strategy or operations, because mergers, acquisitions or disposals may have a material impact on group profitability, because Fitch's economic expectations materially deviate from past conditions, or because recent performance metrics correspond to a particularly favorable or unfavorable part of the credit cycle.

Ownership and Structural Considerations: While non-bank financial institutions with external shareholders will often be focused on consistently maximizing earnings, non-bank financial institutions that are narrowly owned or employee-owned may have more flexibility to sacrifice current earnings in exchange for future growth potential, competitive positioning and/or employee retention. This flexibility will be factored into a non-bank financial institution's earnings assessment.

Adjustments to Implied Capitalization and Leverage Factor Score

The most common adjustments to a non-bank financial institution's implied capitalization and leverage score are as follow:

Reserve Coverage and Asset Valuation: An adjustment to capital may be required to reflect any material under- or over-provisioning of impaired assets, as captured in the ratio of impaired loans less reserves for impaired loans to Fitch core capital. Aggressive or conservative valuations of performing assets or high volumes of other higher risk assets (e.g. foreclosed assets) could also affect Fitch's assessment of capitalization.

Profitability, Payouts and Growth: Fitch may adjust downward the capitalization and leverage score where a non-bank financial institution's earnings retention is weak (e.g. due to weak profitability and/or high pay-out ratios or share repurchase rates) or the non-bank financial institution's expected rate of growth is high, to reflect the likely negative impact this will have on capital metrics. Conversely, strong earnings retention or low growth may result in a positive adjustment to the capitalization and leverage score.

Concentrations: The existence of high concentration to single borrowers/counterparties, sectors or asset classes may increase the vulnerability of capital to asset performance fluctuations. Conversely, good portfolio diversification may be a moderately positive factor in assessing capitalization and leverage.

Size: A small (in absolute terms) capital base can leave an institution more vulnerable to unforeseen events, especially where there are risk concentrations, even if capital ratios are relatively strong. This may result in a downward adjustment of a non-bank financial institution's capitalization and leverage score. A large (in absolute terms) capital base could be moderately positive for the assessment.

Fungibility: Fitch may adjust downward a parent non-bank financial institution's capitalization and leverage score where it has material subsidiaries, in particular regulated or foreign ones, and there are significant restrictions on transfers of capital within the group. Weaker stand-alone capital ratios than for the group on a consolidated basis would increase the likelihood of such an adjustment.

Capital Raising (or Distribution): Fitch may adjust the capitalization and leverage score to reflect capital raising or distribution (or expectations of these) that have occurred subsequent to the last financial reporting date.

Risk Appetite and Business Model: Certain business models or asset class specializations may be more vulnerable to cyclical performance swings, such that a larger capital buffer is required to achieve a given capitalization and leverage score. Conversely, a positive adjustment could be made where performance has proved to be stable through a cycle or if the entity benefits from both balance sheet assets and cash flow generation capability. The capitalization and leverage score for non-bank financial institutions assessed on the basis of cash flow leverage (debt/EBITDA) could also be adjusted to reflect variability in EBITDA generation.

Historical and Future Metrics: Fitch may view the most recent reported capitalization and leverage metrics as not being reliable indicators of future metrics, for example, due to changes in a non-bank financial institution's strategy or operations, because mergers, acquisitions or disposals may have a material impact on the group profile or because of anticipated changes in the bank's asset-quality performance or profitability.

Sustained, Elevated Cash Balances: Although Fitch tends to focus on leverage ratios based on gross debt, the agency may adjust the capitalization and leverage score upward where, for example, a non-bank financial institution has consistently maintained elevated cash balances, in which case Fitch may place greater emphasis on net debt leverage ratios. Consideration of net debt leverage ratios would be supported by the presence of structural features that ensure the ongoing availability of cash to benefit debtholders, demonstration of cash maintenance through periods of stress or public articulation of a strategy to maintain such cash balances. The absence of these features would make such an upward adjustment unlikely.

Adjustments to Implied Funding, Liquidity and Coverage Factor Score

The most common adjustments to a non-bank financial institution's implied funding, liquidity and coverage score are as follow:

Liquidity Coverage: Strong or weak coverage of a non-bank financial institution's short-term liabilities by liquid assets could result in upward or downward adjustment, respectively, to the funding, liquidity and coverage score. Fitch will consider the volume, quality and encumbrance of a non-bank financial institution's liquid assets in making this assessment. The absence of near- and medium-term debt maturities may reduce the need for significant liquidity, particularly if liability maturities extend beyond asset maturities. Similarly, the funding, liquid and coverage score may be adjusted upwards for investment funds with limited near- and medium-term financial obligations.

Cash Flow Generative Business Model: A higher funding, liquidity and coverage score could result if the non-bank financial institution's business model is viewed as highly cash flow generative, particularly during times of stress, economic slowdown and/or reduced capital expenditures. For example, certain business models with contractual cash flows (servicers, rental/leasing companies) have historically demonstrated an ability to generate significant cash flow once discretionary capital expenditures are moderated.

Confidence Sensitivity: Fitch will consider a non-bank financial institution's term structure, diversification by source and reliability of market access in assessing risks associated with its wholesale funding. Stable long-term funding (e.g. due to well-established market access) could result in an upward adjustment to the funding, liquidity and coverage score. Conversely, a non-bank financial institution's implied funding, liquidity and coverage score may be adjusted downward where it has inconsistent or limited access to the capital markets.

Foreign Currency Liquidity: A non-bank financial institution's funding, liquidity and coverage score may be adjusted downward where coverage of foreign currency liabilities by foreign currency liquidity is weak, in particular where it could be difficult for a non-bank financial institution to convert local currency into foreign currency, in case of need.

Fungibility: Fitch may adjust downward a non-bank financial institution's funding, liquidity and coverage score where it has material subsidiaries, in particular foreign or regulated ones, and there are significant restrictions on transfers of liquidity within the group. Weaker stand-alone liquidity and funding ratios than for the group on a consolidated basis would increase the likelihood of such an adjustment.

Contingent Access: A relatively strong ability to access contingent liquidity, for example, as a result of sizable, committed and long-duration credit lines, could result in a positive adjustment to the funding, liquidity and coverage score. Conversely, undue reliance on short-duration or uncommitted funding could result in a negative adjustment.

Historical and Future Metrics: Fitch may view historical funding and liquidity metrics as not being reliable indicators of future metrics, for example, due to changes in a non-bank financial institution's strategy or operations or because mergers, acquisitions or disposals may have a material impact on balance-sheet structure.

Financial measures are usually influenced by the operating environment, and Fitch views them in that context. Therefore, comparisons of financial measures across geographies will reflect the differing operating, legal, and regulatory environments for non-banks. Consequently, comparisons of financial measures of direct or in-market peers will generally take on greater importance in this assessment.

Fitch does not employ pre-set weightings for factors or subfactors, as their relative influence may vary. For example, the relative importance of capitalization and leverage and asset quality for the stand-alone credit profile of a non-bank financial institution suffering from a material capital shortfall as a result of high idiosyncratic loan losses is likely to be high (and the stand-alone credit rating very low), even if the non-bank financial institution fares well or better on other factors or subfactors.

Throughout the remainder of the Financial Profile section of the criteria, reference is periodically made to EBITDA. For the avoidance of doubt, Fitch typically adjusts EBITDA calculations to account for various analytical considerations, including, but not limited to, non-recurring items, performance-related items or other non-cash expenses, such as stock compensation.

Throughout the remainder of the Financial Profile section of the criteria, reference is periodically made to common equity. For the avoidance of doubt, Fitch focuses on tangible equity, excluding goodwill and other intangibles from its calculations.

The following tables identify those financial profile attributes that Fitch has defined as 'core' versus 'complementary,' together with an indication of how each attribute is typically assessed. The accompanying subfactor/rating category matrix provides representative characteristics that aid the determination of the overall factor score assigned in each case.

EBITDA Calculation[a]

Pre-tax income
+ interest expense
+ depreciation
+ amortization
+/- adjustments for non-recurring items
+/- other analytical adjustments (e.g. non-cash items)
= EBITDA

[a]For investment managers, Fitch typically uses a fee-based EBITDA calculation (FEBITDA) as defined on page 52.
Source: Fitch.

II.5.a Securities Firms

Fitch's financial profile assessment for securities firms considers the following subfactors:

- asset quality;
- earnings and profitability;
- capitalization and leverage; and
- funding, liquidity and coverage.

Risk Characteristics of Securities Firms' Primary Business Activities

Activity	Balance Sheet Usage	Risk Level	Level of Profitability	Stability of Profitability
Securities Market Making	High	High	Medium	Cyclical
Prime Brokerage	High	High	Medium	Cyclical
Proprietary Trading	High	High	Medium	Cyclical
Securities Underwriting	High	Medium	High	Cyclical
Lending	High	Medium	Low	Cyclical
Securities Broking	Low	Medium	Low	Cyclical
Financial Advisory	Low	Low	Medium	Cyclical
Post Trade Services	Low	Low	Low	Stable
Investment Management	Low	Low	Medium-to-High	Stable

Source: Fitch.

Asset Quality — Securities Firms

Attribute	Core Versus Complementary	Description
Impaired and Nonperforming Ratio	Core (For Securities Firms with Meaningful Lending Activity)	For securities firms with more meaningful balance sheet exposure to investing and lending activities, the assessment of asset quality is akin to Fitch's analysis for other non-bank financial institution lenders, taking into account loan impairments, related reserving and asset growth. For securities firms with low balance sheet usage, asset quality may be a lower influence consideration or may even by viewed as not applicable.
Coverage, Collateral and Margin	Complementary (For Securities Firms with Meaningful Lending Activity)	Fitch considers reserve coverage ratios, the adequacy of collateral and margin requirements and the ability to enforce security claims. Fitch's focus is to determine whether the firm's capital is likely to be negatively affected due to inadequate reserve coverage levels. For assets held at fair or market value, Fitch assesses measurement methodologies, particularly regarding model-based valuations. Fitch also considers the management of non-performing assets and management's approach to restructuring and rescheduling impaired assets.
Counterparty and Settlement Risks	Complementary	Counterparty risk is a consideration for firms engaged in securities and derivatives transactions. The absence of independent credit functions and scoring or rating policies for securities/derivative counterparty exposures would negatively influence Fitch's asset quality assessment. However, credit risk is not as significant for pure brokerage activity (such as for some interdealer brokers) or for firms that provide advisory services, rather than invest in securities transactions. A credit risk department independent of the sales and trading desks that determines counterparty limits, actively monitors usage and reports violations could positively influence Fitch's asset quality assessment, as could risk parameters with respect to the credit quality of the main custodians used.
Securitization and Other Off Balance Sheet Exposure	Complementary (For Securities Firms with Meaningful Lending Activity)	To the extent that Fitch is able to ascertain and evaluate a securities firm's exposure to securitization risks, first-loss tranches of off-balance-sheet securitizations are deducted from Fitch's Core Capital calculations. The agency may also add these risks to the balance sheet if they are not already reported as such. Fitch considers off-balance sheet risks and commitments where these are large in relation either to capital or risk-weighted assets, or where they pose significant reputational or liquidity risks. This is likely to be an inherent risk faced by firms that have agreed to fund special purpose vehicles or other non-consolidated contingencies but is also important for firms that sponsor investment funds.

Source: Fitch.

Earnings and Profitability — Securities Firms

Attribute	Core Versus Complementary	Description
Operating Profit/Average Equity	Core (For Securities Firms with High Balance Sheet Usage)	Earnings and profitability are important considerations in Fitch's analysis of securities firms with high balance sheet usage because they indicate a securities firm's ability to generate, or conversely erode, its capital. Strong or weak performance may also affect market confidence in the issuer and, hence, its access to funding. The core metric, operating profit/average equity, captures a securities firm's ability to generate recurring profits relative to the risks it assumes.
Adjusted EBITDA/ Revenue	Core (For Securities Firms with Low Balance Sheet Usage)	For securities firms with limited balance sheet-intensive activities, the primary cash flow profitability measure is adjusted EBITDA margin. Given many securities firms with low balance sheet usage have a continual need to invest in technology development, Fitch also considers the amount of operating cash flow generated to support capital expenditures.
Earnings Stability	Complementary	Fitch's earnings and profitability assessment may be negatively influenced by proprietary trading and investment activity due to the significant potential earnings volatility it can introduce. Conversely, if higher risk businesses are supplemented with more stable operating revenue, such as investment management, clearing operations or securities financings, this can positively influence Fitch's earnings and profitability assessment.
Compensation Expenses	Complementary	Compensation expenses are often analyzed as a percentage of net revenue, to determine the costs relative to activity levels, with outsized compensation ratios potentially constraining stand-alone credit ratings. However, business mix is an important consideration in evaluating this ratio as specific business lines may require greater or less infrastructure and personnel support. The stability of the compensation ratio through various revenue cycles is also an important measure of the flexibility of the cost structure. Fitch evaluates the effectiveness of a firm's compensation, mainly its bonus, policy in controlling compensation expenses. This includes the extent to which bonuses are linked to company or individual performance, are spread out over time, or are paid in shares or options rather than cash.
Non-Compensation Expenses	Complementary	Fitch evaluates non-staff costs as a percentage of non-interest expenses in aggregate and, where possible or relevant, by individual line items. The agency may also consider the business mix of the firm in evaluating non-staff cost ratios. Although an abnormally high non-staff costs expense ratio or a rising trend may indicate a lack of management control over expense levels, low ratios may indicate insufficient reinvestment in systems technology and infrastructure to enhance productivity, meet regulatory requirements and sustain the firm's competitiveness or to maintain good oversight of risk development.

Source:

Earnings and Profitability Benchmarks — Securities Firms

	aa and Above	a	bbb	bb	b and Below
Operating Profit/Average Equity (%)[a]	x>20	10<x≤20	5<x≤10	3<x≤5	x≤3
Adjusted EBITDA/Revenue (%)[b]	x>25	20<x≤25	15<x≤20	10<x≤15	x≤10

[a]For securities firms with high balance sheet usage. [b]For securities firms with low balance sheet usage.
Source: Fitch.

Earnings and Profitability Metrics — Securities Firms

High Balance Sheet Usage	Core Versus Complementary
Operating Profit/Average Equity	Core
Net Income/Average Equity	Complementary
Operating Expense/Total Revenue	Complementary
Compensation/Net Revenue	Complementary

Low Balance Sheet Usage	Core Versus Complementary
Adjusted EBITDA/Revenue	Core

Source: Fitch.

Capitalization and Leverage — Securities Firms

Attribute	Core Versus Complementary	Description
Net Adjusted Leverage (tangible assets less reverse repo and securities borrowed over FCC, or its inverse)	Core (For securities firms with high balance sheet usage)	For those securities firms that maintain a substantial volume of assets on balance sheet or commitments that could require financing, Fitch's assessment of leverage more closely reflects a bank analysis. The quality and absolute size of a firm's capital and its capital adequacy (i.e. the size of its capital in relation to its risks) as expressed by the FCC ratio, is the fundamental consideration in assessing balance sheet intensive securities firms' capitalization and leverage.
Gross Debt/ Adjusted EBITDA	Core (For securities firms with low balance sheet usage)	For securities firms carrying relatively few risk assets, the assessment of debt coverage is based more on cash flows. For interdealer brokers and some other securities firms, a large proportion of cash is usually tied up in subsidiaries for regulatory and operational purposes, so leverage is best assessed on a gross debt basis. Fitch also considers net debt/adjusted EBITDA, but recognizes that excess cash can be otherwise consumed or deployed, particularly during periods of stress. For securities firms that have a combination of businesses which have different degrees of balance sheet usage, such a retail brokers, Fitch will typically evaluate both cash flow and balance sheet leverage ratios, with balance sheet ratios taking increasing importance in the analysis in instances where balance sheet usage is more pronounced.
Double Leverage	Complementary	Where relevant, Fitch also looks at double leverage, defined as equity investments in subsidiaries plus holding company intangibles divided by equity, which reflects debt issued at the parent company level that has been downstreamed as equity into subsidiaries. While a small amount of double leverage can be expected, Fitch is concerned when double leverage is high (i.e. above 120% or more of a parent company's common equity) on a sustained basis, unless mitigated by some other means (e.g. subsidiary liquidity support agreement). A high degree of double leverage can result in increased rating differentials between a parent company and its subsidiaries, particularly if regulated subsidiaries are involved, since dividends from these entities may be restricted. When feasible, Fitch will review a regulated subsidiary's dividend capacity relative to the holding company's fixed costs and dividends.
Internal, Regulatory and Covenant-Based Capital	Complementary	In addition to Fitch's capital measures, a firm's capital management plans and an understanding of its economic capital models are important to the ratings. Fitch views economic capital models that positively influence business activities and support stable and robust capital levels over an extended period of time as positive for the ratings. When relevant, Fitch monitors regulatory capital ratios and capital covenant ratios to ensure the firm is not in danger of becoming non-compliant.

Source: Fitch.

Capitalization and Leverage Benchmarks — Securities Firms

	aa and Above	a	bbb	bb	b and Below
(Tangible Assets – Reverse Repo – Securities Borrowed)/FCC (x)[a]	x<5	5≤x<10	10≤x<15	15≤x<20	x≥20
Gross Debt/Adjusted EBITDA (x)[b]	x<0.5	0.5≤x<1.5	1.5≤x<2.5	2.5≤x<3.5	x≥3.5

[a]For securities firms with high balance sheet usage. [b]For securities firms with low balance sheet usage.
Source: Fitch.

Capitalization and Leverage Metrics — Securities Firms

High Balance Sheet Usage	Core Versus Complementary
Net Adjusted Leverage: (Tangible Assets – Reverse Repurchase Agreements – Securities Borrowed)/FCC	Core
Tangible Gross Leverage: (Tangible Assets + Gross Ups for Derivatives, Reverse Repurchase Agreements and Securities Borrowed)/FCC	Complementary
Adjusted Leverage: (Tangible Assets – Reverse Repurchase Agreements)/FCC	Complementary
Total Assets/Equity	Complementary
Tier I Capital Ratio	Complementary
FCC/Risk-Weighted Assets	Complementary

Low Balance Sheet Usage	Core Versus Complementary
Gross Debt/Adjusted EBITDA	Core

Source: Fitch.

Funding, Liquidity and Coverage — Securities Firms

Attribute	Core Versus Complementary	Description
Liquid Assets/ Short-Term Funding	Core (For securities firms with high balance sheet usage)	It is important that securities firms appropriately match the term of their funding to the liquidity of their assets, with particular focus on the amount of liquid assets available to support short-term funding sources, which are subject to refinancing risk. To the extent that short-term repurchase agreements (repos) are used primarily to finance highly liquid assets that can be pledged to an exchange, this is viewed as more appropriate.
Adjusted EBITDA/Interest Expense	Core (For securities Firms with Low Balance Sheet Usage)	For securities firms with low balance sheet usage, funding, liquidity and coverage are primarily evaluated in the context of adjusted EBITDA to interest expense.
Long-Term Funding/ Illiquid Assets	Complementary (For Securities Firms with High Balance Sheet Usage)	Fitch evaluates the funding of illiquid assets, such as merchant banking and high-yield securities, fixed assets, and private equity, and considers the extent to which they are funded by long-term debt and capital. Fitch also evaluates any contingent funding requirements the firm may face, such as liquidity lines or backup facilities extended, or additional collateral calls that may be made on it if market conditions change.
Funding Diversity	Complementary	Fitch assesses a securities firm's funding diversity, debt maturity profile, liquidity status and the proportion of unencumbered liquid assets. Access to central bank liquidity facilities can also a positive factor in the funding, liquidity and coverage assessment, but not all securities firms benefit from this, as such access depends on jurisdiction and legal status within that jurisdiction.
Covenant Compliance	Complementary	Fitch's funding, liquidity and coverage assessment may also include consideration of an issuer's compliance with any funding covenants, the extent to which compliance with such covenants fluctuates and management's ability to operate the business and obtain funding without being unduly constrained by covenant requirements.

Source: Fitch.

Funding, Liquidity and Coverage Benchmarks — Securities Firms

	aa and Above	a	bbb	bb	b and Below
Liquid Assets/Short-Term Funding (%)[a]	x>200	150<x≤200	100<x≤150	85<x≤100	x≤85
Adjusted EBITDA/Interest Expense (x)[b]	x>15	10<x≤15	6<x≤10	3<x≤6	x≤3

[a]For securities firms with high balance sheet usage. [b]For securities firms with low balance sheet usage.
Source: Fitch.

Funding, Liquidity and Coverage Metrics — Securities Firms

High Balance Sheet Usage	Core Versus Complementary
Liquid Assets/Short-Term Funding	Core
Long-Term Funding/Illiquid Assets	Complementary

Low Balance Sheet Usage	Core Versus Complementary
Adjusted EBITDA/Interest Expense	Core
Liquid Assets/Short-Term Funding	Complementary

Source: Fitch.

Financial Profile — Securities Firms

	aaa	aa	a	bbb	bb	b	ccc and Below
Asset Quality	Lending and Investing Activities: Extremely stable throughout market cycles. Asset-quality measures are consistently better than comparable institutions. Concentration risks are very low. Trading Activities: Counterparty risk is extremely well managed and diversified.	Lending and Investing Activities: Very high degree of stability throughout market cycles. Asset-quality measures are better than comparable institutions. Concentration risks are low. Trading Activities: Counterparty risk is well managed and diversified.	Lending and Investing Activities: Has a high degree of stability throughout market cycles. Asset-quality measures are likely to be modestly better than at peer institutions or less vulnerable to economic rate cycles. Concentration risks may be modestly better than peers. Trading Activities: Counterparty risk is reasonably managed and diversified	Lending and Investing Activities: Has a degree of stability throughout market cycles. Asset-quality and/or concentration risk measures are generally in-line with broad industry averages. Trading Activities: Counterparty risk is adequately managed and diversified.	Lending and Investing Activities: Asset quality measures are more volatile in the face of changes in economic/market cycles and generally worse or more vulnerable than broad industry averages. Concentration risks may be above average. Trading Activities: Counterparty risk management is below average with limited diversification	Lending and Investing Activities: Asset quality measures are very volatile based on changes in economic/market cycles and generally significantly worse or more vulnerable than broad industry averages. Concentration risks may be very high. Trading Activities: Weak counterparty risk management with high concentration.	Lending and Investing Activities: Has or is likely to have asset-quality measures that materially deviate from industry benchmarks or historical norms. Trading Activities: Significant counterparty risk management shortfalls.
Earnings and Profitability	Earnings and profitability are highly predictable throughout economic and/or interest rate cycles. Limited reliance on transactional revenue. Highly variable cost structure. Superior returns relative to peer.	Earnings and profitability are very predictable over multiple economic and interest rate cycles. Limited reliance on transactional revenue. Highly variable cost structure. Strong returns relative to peer.	Earnings and profitability are moderately variable over economic and/or interest rate cycles. Modest reliance on transactional revenue. Largely variable cost structure. Solid returns relative to peer.	Earnings and profitability may be variable over economic and/or interest rate cycles. Modest reliance on transactional revenue. Largely variable cost structure. Adequate returns relative to peer.	Earnings and profitability may be highly variable over economic and/or interest rate cycles. Moderate reliance on transactional revenue. Cost structure is less variable than peer firms. Below-average returns relative to peer.	Earnings and profitability are volatile and highly correlated with economic and/or interest rate cycles. Heavy reliance on transactional revenue. Cost structure is largely fixed. Weak returns relative to peer.	May be structurally unprofitable on either a reported or operating basis. Return to break-even or sustainable profitability is highly uncertain.
Capitalization and Leverage	Capitalization and leverage are extremely strong and commensurate with risk. Capitalization and leverage are maintained with very significant buffers over regulatory minimums as well as peer institutions. Capital and leverage targets incorporate ability to withstand severe shocks.	Capitalization and leverage are strong and commensurate with risk. Capitalization and leverage are maintained with comfortable buffers over regulatory minimums as well as peer institutions. Capital and leverage targets incorporate ability to withstand significant shocks.	Capitalization and leverage levels broadly commensurate with risk. Capitalization and leverage are maintained with solid buffers versus regulatory minimums and generally above peer institutions. Capital and leverage levels may be relatively more volatile but likely only modestly affected by severe asset quality and market value shocks.	Capitalization and leverage may not be fully commensurate with risk. Capitalization and leverage are maintained with satisfactory buffers over regulatory minimums and generally in line with peer institutions. Capital and leverage levels may be more vulnerable to severe shocks.	Capitalization and leverage are not fully commensurate with risk. Capitalization and leverage are maintained with moderate buffers over regulatory minimums and may be below peer institutions or are somewhat vulnerable due to significant country risks. Capital and leverage are highly vulnerable to sever shocks, but capable of withstanding moderate shocks.	Capitalization and leverage are not commensurate with risk. Capitalization and leverage are low and buffers over regulatory minimums are small, or capital is vulnerable due to high country risks. Capital and leverage levels may be well below peer institutions and highly vulnerable to shocks.	Capitalization and leverage have clear deficiencies that either have or may require capital injections.
Funding, Liquidity and Coverage	Funding and liquidity are exceptionally stable. Minimal reliance on wholesale funding. Funding is not confidence sensitive. Fund sources are highly diverse. Extremely robust contingency funding plans are in place.	Funding and liquidity are very stable. Minimal reliance on short-term funding. Wholesale funding is predominantly long-term with established investor appetite. Funding is relatively less confidence sensitive. Fund sources are very diverse. Very robust contingency funding plans are in place.	Funding and liquidity are stable. Wholesale funding is predominantly long term. Funding may be modestly confidence sensitive. Funding sources are relatively diverse. Robust contingency funding plans are in place.	Funding and liquidity are generally stable, although there may be moderate funding concentrations or reliance on less stable wholesale funding sources. Funding is confidence sensitive and liquidity may become more expensive or less stable during periods of stress. Reasonable contingency funding plans are in place.	Funding and liquidity are generally stable, although there may be material funding concentrations or meaningful reliance on less stable wholesale funding sources. Access to funding may be uncertain during periods of market stress. Contingency funding plans may not be sufficient.	Funding and liquidity are less stable and may be prone to sudden changes in creditor sentiment. Access to funding during periods of market stress is very uncertain. Contingent funding plans may not be well developed.	Funding and liquidity are unstable absent any formal extraordinary support mechanisms. Contingent funding plans are non-existent.

Source: Fitch.

Investment Manager Earnings Definitions

Base Management Fees
(+) Transaction and Advisory Fees
(-) Non-Incentive Compensation
(-) Equity Compensation
(-) Operating Expenses
(-) Interest Expense
(=) Fee-Related Earnings
(+) Equity Compensation
(+) Interest Expense
(+) Depreciation and Amortization
(-) Non-Cash Revenues
(=) (F)EBITDA

Source: Fitch.

II.5.b Investment Managers

Fitch's financial profile assessment for investment managers, investment companies and investment funds considers the following subfactors:

- asset performance (and asset quality for investment companies);
- earnings and profitability;
- capitalization and leverage; and
- funding, liquidity and coverage.

Asset Performance — Investment Managers

Attribute	Core Versus Complementary	Description
Net Client Flows/ Beginning (F)AUM	Core (for investment managers and investment funds)	Fitch evaluates fund flows on an absolute and relative basis to understand a firm's ability to take advantage of market conditions to invest and/or exit investments and, for liquid funds, to assess net inflows or redemptions over a variety of market cycles. More stable fund flows translate into greater fee stability over time. To the extent that the manager or fund has more predictable inflows and/or an ability to manage the pace of outflows, these could positively influence Fitch's assessment. Examples of more predictable inflows could include an investment manager with a sister insurance company which uses the investment manager to manage all or a portion of its general investment account or a pension fund established to manage the contributions of a defined portion of employees or citizens. Examples of managed outflows could include fund structures where the investment manager can influence the timing or amount of redemption.
Asset Performance and Quality	Complementary (for investment companies)	For investment companies, Fitch considers a combination of asset performance and asset quality factors. Asset performance is intended to indicate how market value appreciation/depreciation has impacted the value of assets collateralizing outstanding debt while also providing an indication as to the asset selection capabilities of the investment company (or its investment manager). Asset quality is intended to indicate the quality of the investments collateralizing outstanding debt and the quality/reliability of the upstream dividend and interest income received from portfolio companies. For investment companies that invest in a finite number (less than 30) of portfolio companies or exhibit material portfolio concentration (individual holding greater than 15%), Fitch considers the credit quality and seniority of the underlying investments to assess the overall asset quality profile. This is typically achieved by looking to Fitch's ratings of such portfolio companies or by considering other external sources of information in the absence of such information. To the extent that a portfolio company comprising a large portion (greater than 15%) of the portfolio is unrated, Fitch may elect to conduct an internal Credit Opinion of such entity to support the rating of the investment company.
Performance Relative to Benchmarks and Peers	Complementary	Fitch considers the stability of investment performance, on an absolute basis and relative to investor expectations. Fitch will consider firm-specific benchmarks when assessing fund performance, but will also look to independent sources for performance data, where available, to understand relative fund performance based on vintage, size, geography, and strategy. However, prolonged periods of unexplained outperformance would also require further analysis and could lead to a negative adjustment to Fitch's asset performance assessment if material weaknesses in risk management and/or style drift were the catalyst.
Management Fee Stability	Complementary	Fitch will also assess management fee stability by looking at earnings contributions by fund, strategy and/or segment. Similarly, outsized exposure to a sector or industry strategy could increase correlations and volatility in fee streams. Fitch reviews average fee rates on individual strategies on a relative basis to assess the investment manager's pricing power and ability to withstand incremental fee pressure.

Source: Fitch.

Asset Performance Benchmark — Investment Managers

	aa and Above	a	bbb	bb	b and Below
Net Client Flows/Beginning (F)AUM (%)[a]	x>10	5<x≤10	5≥x>(5)	(5)≥x>(10)	x≤(10)

[a]For investment managers and investment funds.
Source: Fitch.

Asset Performance/Asset Quality Metrics — Investment Managers

Investment Managers and Investment Funds	Core Versus Complementary
Net Client Flows/Beginning (F)AUM	Core
(F)AUM	Complementary
(F)AUM Growth	Complementary
Management Fees/Average (F)AUM	Complementary
Total Revenue/Average (F)AUM	Complementary
(F)EBITDA/Average (F)AUM	Complementary

Investment Companies	Core Versus Complementary
Weighted Average Credit Quality of Investments/Portfolio Companies	Complementary

Source: Fitch.

Earnings and Profitability — Investment Managers

Attribute	Core Versus Complementary	Description
(F)EBITDA/ Fee Revenue	Core (for Investment Managers)	Fitch assesses investment managers' earnings and profitability primary on the basis of fee-related earnings measures, such as (F)EBITDA margin. (F)EBITDA includes transaction, monitoring and advisory fees, but Fitch may remove them from its recurring cash flow calculation if they are believed to be very volatile over time. Conversely, interest and/or dividend income that an alternative investment manager may earn from balance sheet investments could be added to (F)EBITDA if the revenue is believed to be contractual (e.g. interest coupons and preferred dividends), less correlated with core management fees and relatively stable over time.
Returns on Assets	Core (for Investment Companies and Investment Funds)	For more balance-sheet intensive investment managers, returns on assets (ROA) is the primary earnings and profitability consideration. For investment companies, earnings and profitability is typically a lower influence rating factor given the analytical focus on asset overcollateralization and liquidity relative to debt and that earnings can be periodically influenced by unrealized gains/losses as a result of changes in the market values of underlying investments. On a complementary basis, earnings and profitability may also be assessed on the basis of return on equity (ROE).
Earnings Stability and Diversity	Complementary	Fitch's evaluation of earnings and profitability considers the historical trend of an investment manager's earnings performance, the diversity, stability, and quality of its earnings, and the investment manager's capacity to generate profits through cycles. The product mix and strength of performance by product are key factors in providing earnings stability. An additional component in assessing the stability of earnings and fees is whether there are lock-ups on fund investors.
Incentive Fee Generation	Complementary	While Fitch focuses on recurring cash flow measures when assessing an investment manager's core earnings performance, the agency does not ignore the generation of co-investment income or incentive income (also known as carry income and performance fees), as they can provide an additional cushion for debt service capacity and speak to the success of the fund manager, which aids the company in the raising of future funds and, hence, the generation of future management fees. Carried interest can be material, but has significant variability over time.
Fund Structures and Maturities	Complementary	Fitch views fund structures with lock-ups, particularly longer term ones, more favorably as they provide a more stable base upon which to earn fees. Laddered funds and lock-ups are also generally viewed more favorably from an earnings perspective since they ensure that the closure of one fund does not result in a dramatic drop in fees and consequently earnings.

Source: Fitch.

Earnings and Profitability Benchmark — Investment Managers

	aa and Above	a	bbb	bb	b and Below
(F)EBITDA/Fee Revenue (%)	x>50	30<x≤50	20<x≤30	10<x≤20	x≤10

Source: Fitch.

Earnings and Profitability Metrics — Investment Managers

Investment Managers	Core Versus Complementary
(F)EBITDA/Fee Revenue	Core
Management Fees/Total Fees	Complementary
Management Fees/Total Revenues	Complementary
(Base Compensation + Operating Expenses)/Total Fee Revenue	Complementary
Incentive Compensation/Incentive Revenue	Complementary
Fee-Related Earnings (Net Income)/Fee Revenue	Complementary
Net Income/Average Equity	Complementary

Investment Companies and Investment Funds	Core Versus Complementary
Net Income/Average Assets	Core
Net Income/Average Equity	Complementary

Source: Fitch.

Capitalization and Leverage — Investment Managers

Attribute	Core Versus Complementary	Description
Gross Debt/(F)EBITDA	Core (for Investment Managers)	Leverage, as measured by debt divided by (F)EBITDA, is analyzed from a trend perspective and relative to peer firms and Fitch's general tolerance levels for a given rating. Fitch applies more conservative leverage benchmarks for investment managers with the majority of their fees assessed against NAV, compared ones with the majority of their fees assessed against committed capital.
Gross Debt/ Tangible Equity	Core (for Investment Companies)	For investment companies, investment funds and investment managers that have material co-investment exposure, balance sheet capitalization is a more meaningful consideration. In reviewing the adequacy of capitalization, Fitch considers the size of the capital base in relation to the investment manager, investment company, or investment fund's risks. To the extent capital is a meaningful analytical factor, Fitch takes into account management's policies with regard to minimum capital ratio objectives, share buyback programs, and dividend payouts, as well as the ability to raise new capital and internally generate capital. If subject to regulatory capital requirements, Fitch will also review these, whether at the firm itself or at any regulated subsidiary.
Gross Debt (Long + Short) to NAV	Core (for Investment Funds)	For investment funds, Fitch typically analyzes leverage similarly to securities firms, using NAV as a substitute for equity. High levels of leverage would be viewed as a negative ratings attribute for investment funds given less stable earnings and the fact that repayment on obligations usually comes from asset sales and these assets are often less liquid. That said, leverage for investment funds can vary widely depending on the risk profile, liquidity and duration of assets.
Balance Sheet Size and Composition	Complementary	Fitch notes that investment managers that solely manage assets for external investors often do not have sizable balance sheets that require meaningful loss absorption. In such cases, capitalization could be lower and tangible common equity could be negative, even at an investment-grade capitalization and leverage score level. However, Fitch would expect such investment managers to have enough cash and cash generation capacity to offset unexpected litigation or operational losses as appropriate given the scope of their operations. All things being equal, an investment manager that makes extensive use of its balance sheet and invests in illiquid investments will tend to have a lower capitalization and leverage score than one that makes little use of its balance sheet. However, other factors such as capitalization, access to capital and liquidity may counterbalance these factors.
Goodwill	Complementary	Many investment managers grow by acquisition and, therefore, will carry a significant amount of goodwill and other intangibles on their balance sheet. These assets are also subject to impairment if the viability of the acquired business deteriorates. Fitch will factor the potential for such impairment into its capitalization and leverage analysis as appropriate. Fitch notes that impairment will not have any impact on tangible capital or FCC, as goodwill is excluded from both measures. However, significant impairment would be a negative indicator of the overall health of an investment manager's core earnings.
Consolidated Leverage	Complementary (for Investment Companies)	For investment companies, Fitch tends to focus on unconsolidated debt to equity as the primary leverage metric and considers cash flow leverage metrics to be of a low influence. Consolidated leverage may be considered as a complementary metric to assess the aggregate degree of leverage across underlying portfolio investments. Fitch may also focus more on consolidated leverage metrics in its analysis to the extent that an investment company has a sustained track record of providing financial support to portfolio companies.

Source: Fitch.

Capitalization and Leverage Benchmarks — Investment Managers

	aa and Above	a	bbb	bb	b and Below
Gross Debt/(F)EBITDA (x)[a]	x<0.25	0.25≤x<1.5	1.5≤x<3.0	3.0≤x<5.0	≥5.0
Gross Debt/(F)EBITDA (x)[b]	x<0.50	0.50≤x<2.5	2.5≤x<4.0	4.0≤x<6.0	≥6.0
Gross Debt/Tangible Equity (x)[c]	x<0.15	0.15≤x<0.35	0.35≤x<0.50	0.50≤x<1.0	≥1.0

[a]For investment managers with the majority of their fees assessed against net asset value. [b]For asset managers with the majority of their fees assessed against invested capital or committed capital. [c]For investment companies.
Source: Fitch.

Capitalization and Leverage Metrics — Investment Managers

Investment Managers	Core Versus Complementary
Gross Debt/(F)EBITDA	Core
Net Debt/(F)EBITDA	Complementary
Gross Debt/Tangible Equity	Complementary
Gross Debt/FCC	Complementary
Net Debt/Tangible Equity	Complementary

Investment Companies	Core Versus Complementary
Gross Debt/Tangible Equity	Core

Investment Funds	Core Versus Complementary
(Gross Long Investment Positions + Gross Short Positions)/Net Asset Value	Core

Source: Fitch.

Funding, Liquidity and Coverage — Investment Managers

Attribute	Core Versus Complementary	Description
(F)EBITDA/ Interest Expense	Core (for Investment Managers)	Fitch assesses investment managers' funding, liquidity and coverage primarily on the basis of interest coverage. Fitch applies more conservative interest coverage benchmarks for investment managers with the majority of their fees assessed against NAV relative to investment managers with the majority of their fees assessed against committed capital. For investment managers that pay preferred dividends, Fitch would also calculate (F)EBITDA coverage of both interest expense and preferred dividends.
Upstream Dividend and Interest Income Coverage of Holdco Interest Expense	Core (for Investment Companies)	For investment companies, coverage is evaluated in the context of upstream dividend and interest income from portfolio companies and investments relative to holding company operating expenses, interest expenses and dividends, with greater than two years' coverage being viewed as consistent with an investment-grade funding, liquidity and coverage score. For investment companies that are privately held and do not have stated dividend policies, Fitch will likely remove holding company dividends from the denominator of this ratio reflecting the highly discretionary nature of any such dividends and the absence of similar reputational risk that a publicly traded investment company may face by reducing or cutting its dividend.
(Cash + Unpledged Assets)/Unsecured Debt	Core (for Investment Funds)	For investment funds, Fitch focuses more heavily on the liquidity of the assets rather than their cash flow generation capacity.
Funding Stability and Diversity	Complementary	In assessing the stability of such funding sources, Fitch reviews the maturity profile of the debt, sources of repayment for any near-term maturities, the nature of significant debt covenants and current and recent performance under those covenants. Access to unsecured debt and lack of reliance on any single funding source are viewed as positive factors for the funding, liquidity and coverage score, as is laddering of debt maturities. For investment companies, investment funds and investment managers with more material sheet balance sheet exposure, Fitch also considers the debt maturity profile of the firm's funding sources relative to its asset maturities and asset liquidity.
Liquidity Sources and Terms	Complementary	Fitch considers investment managers' sources of liquidity including committed facilities, cash flow generation capacity, unencumbered balance sheet cash and balance sheet investments. With respect to liability-based sources of liquidity, Fitch considers the terms and maturities of the facilities, associated covenants and the quality of the funding providers. For alternative investment managers, Fitch reviews liquidity levels relative to unfunded commitments, with particular attention to balance sheet cash and liquid securities as a percentage of unfunded commitments. The same considerations apply, albeit to a lesser degree, for investment managers that do not make extensive use of their own balance sheet. Fitch expects such investment managers to have reasonable levels of cash or liability-based liquidity to meet unexpected losses, expected debt maturities, interest service and other outflows.
Distributions	Complementary	Investment managers tend to distribute a significant portion of their earnings on an annual basis. While Fitch believes investment managers have the flexibility to adjust distributions as necessary, liquidity constraints often develop during tougher economic and market environments, when supplementary earnings streams tend to be relatively low. As a result, a high distribution rate can be a constraint on the funding, liquidity and coverage score.
Track Record of Fund Support	Complementary	Fitch assesses the track record of providing financial support to funds, considering both the frequency and magnitude of such support. In conjunction with this review, Fitch will also seek to assess if past support has created a perception among fund investors that future support of funds may be more likely. Material levels of expected future support may negatively affect an issuer's funding, liquidity and coverage score.
Redemption Risk	Complementary (for Investment Funds)	For investment funds, Fitch analyzes the structure of the initial lock-up period, redemption parameters (frequency, notice period, amount, etc.) of the funds thereafter, as well as any gates in its assessment of liquidity management.

Source: Fitch.

Funding, Liquidity and Coverage Benchmarks — Investment Managers

	aa and Above	a	bbb	bb	b and Below
(F)EBITDA/Interest Expense (x)[a]	x>18	12<x≤18	6<x≤12	3<x≤6	x≤3
(F)EBITDA/Interest Expense (x)[b]	x>12	8<x≤12	4<x≤8	2<x≤4	x≤2
Upstream Dividend and Interest Income Coverage of One Years' Holdco Interest Expense (x)[c]	x>10	6<x≤10	3.5<x≤6.0	2.5<x≤3.5	x≤2.5
One Year's Upstream Dividend and Interest Income Coverage of Two Years' Holdco Operating Expenses, Interest Expense and Dividends (x)[c d]	x>1.0	x>1.0	x>1.0	x≤1.0	x≤1.0

[a]For investment managers with the majority of their fees assessed against net asset value. [b]For asset managers with the majority of their fees assessed against invested capital or committed capital. [c]For investment companies. [d]For investment companies that are privately held and do not have stated dividend policies, Fitch will likely remove holding company dividends from the denominator of this ratio.
Source: Fitch.

Funding, Liquidity and Coverage Metrics — Investment Managers

Investment Managers	Core Versus Complementary
(F)EBITDA/Interest Expense	Core
(Cash + Liquid Assets)/ Total Assets	Complementary
(Cash + Liquid Assets)/Debt	Complementary
(Cash + Liquid Assets + Co-Investments)/Debt	Complementary
Liquid Assets/Fund Commitments	Complementary
Dividends/Cash Earnings	Complementary
Investment Companies	**Core Versus Complementary**
Upstream dividend and interest income coverage of holdco interest expense	Core
One year's upstream dividend and interest income coverage of two years' holdco operating expenses, interest expense and dividends	Core
Investment Funds	**Core Versus Complementary**
(Cash + Unpledged Assets)/Unsecured Debt	Core
Total Illiquid Assets/Net Asset Value	Complementary

Source: Fitch.

Financial Profile — Investment Managers

	aaa	aa	a	bbb	bb	b	ccc and Below
Asset Performance	Exceptionally strong track record of (F)AUM inflows/stability through market cycles. Exceptional performance versus benchmarks and/or top quartile fund performance across strategies. Fee rates and incentive structures are significantly above industry standards. Concentration risks (industry, vintage and investor) are very low or effectively mitigated.	Very strong track record of (F)AUM inflows/stability through market cycles. Consistent outperformance vs. benchmarks and/or top quartile fund performance across strategies. Fee rates and incentive structures are well-above industry standards. Concentration risks (industry, vintage and investor) are low or effectively mitigated.	Strong track record of (F)AUM inflows/stability through market cycles, although flows may turn negative in periods of extreme market stress. Investment/fund performance largely meets or beats benchmark; however, certain strategies/funds may underperform following periods of market stress. Fee rates and incentive structures are above industry standards. Concentration risks (industry, vintage and investor) may be modest.	(F)AUM inflows/stability may be more affected by market conditions/trends. Sound investment/fund performance; but may frequently underperform or lag benchmark. Fee rates and incentive structures largely in-line with industry standards. Concentration risks (industry, vintage and investor) are moderate.	(F)AUM flows may be significantly affected by market conditions/trends. Investment/fund performance may be extremely sensitive to market conditions. Fee rates and incentive structures are below industry standards. Concentration risks (industry, vintage and investor) are meaningful.	(F)AUM flows may stay negative after extreme market stress due to concentration in product/fund type. Persistently weak investment/fund performance. Fee rates and incentive structures are well below industry standards. Concentration risks (industry, vintage and investor) are significant.	(F)AUM flows are highly volatile due to significant concentration within funds/asset classes. Very weak investment/fund performance. Fee rates and incentive structures are well below industry standards.
Earnings and Profitability	Earnings and profitability are highly predictable throughout economic and/or interest rate cycles. Limited reliance on transactional revenue. Highly variable cost structure. Superior returns relative to peer.	Earnings and profitability are very predictable over multiple economic and interest rate cycles. Limited reliance on transactional revenue. Highly variable cost structure. Strong returns relative to peer.	Earnings and profitability are moderately variable over economic and/or interest rate cycles. Modest reliance on transactional revenue. Largely variable cost structure. Solid returns relative to peer.	Earnings and profitability may be variable over economic and/or interest rate cycles. Modest reliance on transactional revenue. Largely variable cost structure. Adequate returns relative to peer.	Earnings and profitability may be highly variable over economic and/or interest rate cycles. Moderate reliance on transactional revenue. Cost structure is less variable than peer firms. Below-average returns relative to peer.	Earnings and profitability are volatile and highly correlated with economic and/or interest rate cycles. Heavy reliance on transactional revenue. Cost structure is largely fixed. Weak returns relative to peer.	May be structurally unprofitable on either a reported or operating basis. Return to break-even or sustainable profitability is highly uncertain.
Capitalization and Leverage	Capitalization and leverage are extremely strong and commensurate with balance sheet risk and/or earnings variability. Leverage targets incorporate ability to withstand severe market value shocks.	Capitalization and leverage are strong and commensurate with balance sheet risk and/or earnings variability. Leverage targets incorporate ability to withstand significant asset quality and market value shocks.	Capitalization and leverage levels broadly commensurate with balance sheet risk and/or earnings variability. Leverage levels may be relatively more volatile, but likely only modestly affected by severe asset quality and market value shocks.	Capitalization and leverage levels may not be fully commensurate with balance sheet risk and/or earnings variability. Leverage levels may be more vulnerable to severe asset quality and market value shocks.	Capitalization and leverage are not fully commensurate with balance sheet risk and/or earnings variability. Leverage is above peer but should be capable of withstanding asset quality and market value shocks.	Capitalization and leverage are not commensurate with balance sheet risk and/or earnings variability. Leverage levels may be well above peer institutions and highly vulnerable to asset quality and market value shocks.	Capitalization and leverage have clear deficiencies that have or may require capital injections.
Funding, Liquidity and Coverage	Funding and liquidity are exceptionally stable. Minimal reliance on wholesale funding. Funding is not confidence sensitive. Funding sources are highly diverse. Funding is fully unsecured. Extremely robust contingency funding plans are in place.	Funding and liquidity are very stable. Minimal reliance on short-term funding. Wholesale funding is predominantly long-term with established investor appetite. Funding is relatively less confidence sensitive. Funding sources are very diverse. Funding is fully unsecured. Very robust contingency funding plans are in place.	Funding and liquidity are stable. Wholesale funding is predominantly long-term. Funding may be modestly confidence sensitive. Funding sources are relatively diverse. Funding is largely unsecured. Robust contingency funding plans are in place.	Funding and liquidity are generally stable, although there may be moderate funding concentrations or reliance on less stable wholesale funding sources. Funding is confidence sensitive and liquidity may become more expensive or less stable during periods of stress. Funding sources are moderately diverse. Meaningful unsecured funding component. Reasonable contingency funding plans are in place.	Funding and liquidity are generally stable, although there may be funding concentrations or meaningful reliance on less-stable wholesale sources of funding. Access to funding may be uncertain during periods of market stress. Funding sources are relatively limited. Lack of an unsecured funding component. Contingency funding plans may not be sufficient.	Funding and liquidity are less stable and may be prone to sudden changes in creditor sentiment. Access to funding during periods of market stress is very uncertain. Funding sources are very limited. Lack of an unsecured funding component. Contingent funding plans may not be well developed.	Funding and liquidity are unstable. Lack of an unsecured funding component. Contingent funding plans are non-existent.

Source: Fitch.

BDC Earnings Definitions

Interest Income
(+) Dividend Income
(+) Transaction and Advisory Fees
(-) Base Management and Incentive Fees
(-) Interest Expense
(-) Operating Expenses
(=) Pre-Tax Net Investment Income
(+) Realized Gains
(-) Realized Losses
(=) Taxable Income (approx.)

Source: Fitch.

II.5.c Business Development Companies

Fitch's financial profile assessment for BDCs considers the following subfactors:

- asset quality;
- earnings and profitability;
- capitalization and leverage; and
- funding, liquidity and coverage.

Asset Quality — Business Development Companies

Attribute	Core Versus Complementary	Description
Net Realized Gains/ Average Portfolio, at Value	Core	For BDCs, Fitch assesses asset quality primarily by using net realized gains as a percent of average portfolio value as a proxy for net chargeoffs. The generation of significant cumulative net realized portfolio losses over a cycle may be an indicator of weak underwriting particularly if performance is meaningfully weaker than peer BDCs. Still, realized losses may also be generated due to portfolio optimization strategies, where lower yielding securities are sold so that proceeds may be reinvested into higher earning assets. In all cases, Fitch attempts to understand the source of realized losses.
Unrealized Portfolio Depreciation	Complementary	Trends in unrealized portfolio depreciation can serve as an early warning signal of potential asset quality issues, as BDCs must incorporate the credit profile of the underlying borrower into quarterly valuation decisions. Relative trends can also provide insight into the strength of a BDC's risk assessment and/or valuation processes. For example, an increase in portfolio depreciation which runs counter to peer-trends and the then-current credit environment may indicate weak underwriting and/or flawed valuation procedures. An increase in non-cash interest coupons (also known as payment-in-kind [PIK]) can also signal weaker underlying portfolio credit, as portfolio companies may have insufficient cash flows to service their interest payments and the capitalization of coupon payments may be a precursor to eventual writeoffs.
Portfolio Concentrations	Complementary	**Industry:** Certain industry concentrations may be supported by a successful track record and in-house expertise, but Fitch believes outsized concentrations could increase correlations in portfolio company performance, negatively influencing Fitch's asset quality assessment. **Issuer:** Fitch evaluates the largest portfolio investments, at fair value, as a percentage of assets and equity to gauge a BDC's sensitivity to valuation declines in individual investments. Fitch also considers the magnitude of exposure to equity securities, which may experience more volatile valuation movements. Many BDCs are invested in diversified loan funds or portfolio companies that are themselves large, diversified lenders. This underlying diversification may reduce the sensitivity of the investment to valuation movements, although this may be offset by the subordination of the BDC's investment, which is typically a majority equity stake. Outsized issued concentration may negatively influence Fitch's asset quality assessment. **Vintage:** For vintage concentrations, Fitch considers the underwriting environment. A significant amount of origination activity during highly competitive market conditions could yield asset quality issues down the road, negatively influencing Fitch's asset quality assessment. Fitch considers underlying portfolio company statistics including leverage, interest coverage, and average EBITDA to assess the potential for asset quality weakening in a stressed environment.

Source: Fitch.

Typical Asset Quality Benchmark — Business Development Companies

	aa and Above	a	bbb	bb	b and Below
Net Realized Gains/Average Portfolio, at Value (%)	x>(1.0)	(1)≥x>(3)	(3)≥x>(4)	(4)≥x>(6)	x≤(6)

Source: Fitch.

Asset Quality Metrics — Business Development Companies

Metric	Core Versus Complementary
Net Realized Gains/Average Portfolio, at Value	Core
Non-Accruals/Portfolio, at Cost	Complementary
Non-Accruals/Portfolio, at Value	Complementary
Net Unrealized Appreciation (Depreciation)/Total Portfolio, at Cost	Complementary
Top 10 Portfolio Investments/Equity	Complementary

Source: Fitch.

Earnings and Profitability — Business Development Companies

Attribute	Core Versus Complementary	Description
Net Investment Income/Average Portfolio, at Cost	Core	Earnings and profitability tends to be a lower influence factor for BDCs given they are primarily secured lenders, seeking return of principal at an appropriate risk adjusted return. In this context, outsized investment returns can be as much of a concern as investment returns that are low (or negative), as the former could indicate an elevated risk appetite while the latter could signal weak underwriting and/or pricing power.
Earnings Mix	Complementary	Fitch views earnings profiles comprised primarily of interest income favorably given the relative stability of this income stream. Outsized contributions from transactional fees, driven by originations and/or repayment volume or more episodic equity yields are viewed negatively by Fitch, as these revenue sources are likely to be more volatile over time or provide the wrong motivation for growth. For example, a BDC may be inclined to continue to originate investments in a competitive credit environment if fee income is needed to meet dividend payments.
Realized and Unrealized Gains/Losses	Complementary	When considering unrealized gains and losses arising from the GAAP requirement to mark the portfolio to fair value every quarter, Fitch focuses on what gave rise to the changes and the likelihood these will be realized. Generally speaking, Fitch expects net realized portfolio gains and losses to be relatively modest over time, particularly if underwriting standards are prudent and exposure to equity investments is minimal. However, since BDCs are not allowed to create loan loss reserves, it is realistic to assume that a BDC will have periodic realized credit losses. Therefore, Fitch assesses a firm's net realized loss performance over time and on a relative basis to gain insight into the strength of its underwriting standards.
Cost Structure	Complementary	A BDC's cost structure is analyzed for the amount of flexibility provided when market conditions are less favorable. In this regard, Fitch considers how much of the cost base is variable. Fitch also considers the structure of the management contract for externally managed firms and views total return requirements more favorably. A review of a BDC's expenses as a percentage of the portfolio at cost provides insight into the scalability of the platform and its appropriateness relative to the business model and strategy. If expense ratios are high, it could be an indicator that the BDC has a significant fixed cost burden. Conversely, if expense ratios are too low, it could signal a lack of sufficient infrastructure to manage the portfolio.

Source: Fitch.

Earnings and Profitability Benchmark — Business Development Companies

	aa and Above	a	bbb	bb	b and below
Net Investment Income/Average Portfolio, at Cost (%)	5<x≤10	5<x≤10	5<x≤10	x≤5 or x>10	x≤5 or x>10

Source: Fitch.

Earnings and Profitability Metrics — Business Development Companies

Metric	Core Versus Complementary
Net Investment Income/Average Portfolio, at Cost	Core
Investment Income/Average Portfolio, at Cost	Complementary
Non-Interest and Non-Incentive Expenses/Average Portfolio, at Cost	Complementary
Compensation/Average Portfolio, at Cost	Complementary
Net Income/Average Assets	Complementary

Source: Fitch.

Capitalization and Leverage — Business Development Companies

Attribute	Core Versus Complementary	Description
Debt/Tangible Equity	Core	Regulatory requirements essentially limit the debt/equity ratio of a BDC to 1.0x. A breach of this limit precludes the firm from incurring additional debt and will often result in covenant breaches on a BDC's credit facilities. Fitch considers a BDC's leverage target on an absolute basis but also relative to the portfolio construct and market conditions. The leverage target should provide for adequate cushion relative to the 1.0x limitation to account for potential variability in portfolio valuation on a quarterly basis. Fitch believes the cushion should increase when a BDC's investment portfolio is more heavily weighted to the lower part of the capital structure. For example, a BDC with outsized exposure to subordinated debt and/or equity investments would be expected to have a lower leverage target than a BDC focused on senior secured debt investments, all else equal. The 40 Act allows for the exclusion of Small Business Administration (SBA) borrowings from the calculation of asset coverage compliance. However, Fitch includes SBA borrowings in its leverage calculation and its overall assessment of a BDC's credit risk profile.
Adherence to Leverage Policy	Complementary	Most BDCs articulate a leverage target/range which they are expected to adhere to during the normal course of business operations. In such instances, Fitch evaluates the BDC's historical leverage relative to the target. Frequent and/or sustained breaches of the leverage target (absent a material change in portfolio mix) or periodic changes to the articulated strategy could negatively impact Fitch's capitalization and leverage assessment. Conversely, strict adherence to the target, including instances of actively deleveraging in order to maintain compliance, could positively affect Fitch's capitalization and leverage assessment.

Source: Fitch.

Capitalization and Leverage Benchmark — Business Development Companies

	aa and Above	a	bbb	bb	b and Below
Debt/Tangible Equity (x)	x<0.25	0.25≤x<0.50	0.50≤x<0.80	0.80≤x<1.00	x≥1.00

Source: Fitch.

Capitalization and Leverage Metrics — Business Development Companies

Metric	Core Versus Complementary
Debt/Tangible Equity	Core
(Assets-Current Liabilities)/Long-Term Debt	Complementary
(Equity-Interest-Bearing Liabilities)/ Portfolio, at Value	Complementary

Source: Fitch.

Funding, Liquidity and Coverage — Business Development Companies

Attribute	Core Versus Complementary	Description
Unsecured Debt/ Total Debt	Core	Fitch considers the mix of secured and unsecured funding in the BDC capital structure and views a meaningful unsecured funding component positively given that it provides the BDC with the flexibility to add a security interest in the event of a significant disruption in the capital markets. BDCs often have secured bank revolving credit lines with blanket liens on all investment assets, which does not technically provide for an unencumbered pool of assets for unsecured creditors. However, BDCs are generally able to issue secured term debt, which shares in the revolver's blanket lien, if economic access to unsecured funding is not available.
Funding Diversity	Complementary	A BDC with a diverse set of available funding sources, which could consist of revolving credit facilities, special purpose vehicles, securitizations, SBA funding, private placements, public notes and equity, would be viewed more favorably. Fitch tends to view commitments from a diverse group of banks more favorably than single or concentrated lender relationships, as changing conditions at any one financial institution could result in a reduction in lending to the industry and a cancellation of the existing commitment upon maturity, or before if permissible.
Liquidity	Complementary	Liquidity is evaluated based on unrestricted balance sheet cash, undrawn borrowing capacity on revolving facilities, portfolio cash generation and cash earnings coverage of dividend payments. Fitch expects a BDC to have sufficient cash on hand and undrawn capacity on its credit facilities to, at a minimum, provide for follow-on investments in portfolio companies, as necessary, and to meet near-term debt maturities. However, BDCs which maintain borrowing (and leverage) capacity to take advantage of attractive market opportunities as they arise are viewed more favorably.
Net Interest Income Coverage of Dividends	Complementary	BDCs electing to be considered RICs for tax purposes are required to distribute 90% of their taxable income on an annual basis to shareholders. As a result, Fitch expects NII to fund the majority of dividends over time. For its dividend coverage calculation, Fitch adjusts NII by non-cash income and expenses to match cash earnings with dividend payments. Non-cash earnings are generally in the form of PIK interest, which is capitalized to the principal amount of the loan. PIK interest is included in taxable income and is, therefore, subject to distribution, but it may never be collected in cash if the investment is restructured or written off. Fitch views a BDC with outsized exposure to PIK earnings more negatively given the greater disconnect between cash earnings and taxable income. When realized portfolio gains occur, Fitch views it more favorably when those proceeds are distributed as a special dividend or carried over into the next taxable year, as spillover income, which Fitch believes provides more stability to the dividend over time. Raising the regular quarterly dividend due to the generation of realized gains is likely to pressure dividend coverage in the future, as those gains are generally episodic. Realized gains can also be used to backfill NII dividend shortfalls, particularly when underperforming debt investments have been restructured into equity. Fitch believes a decline in cash NII coverage of dividends below 100% for an extended period of time should be met with a dividend reduction. Any indication that the BDC is borrowing or raising equity capital to fund its distribution would be viewed negatively.

Source: Fitch.

Funding, Liquidity and Coverage Benchmark — Business Development Companies

	aa and Above	a	bbb	bb	b and Below
Unsecured Debt/Total Debt (%)	x>90	50<x≤90	35<x≤50	x≤35	x = 0

Source: Fitch.

Funding, Liquidity and Coverage Metrics — Business Development Companies

Metric	Core Versus Complementary
Unsecured Debt/Total Debt	Core
Adjusted EBITDA/Interest Expense	Complementary
Net Investment Income/Dividends Declared	Complementary
Cash Net Investment Income/Dividends Declared	Complementary
Non-Cash Income/Interest Income	Complementary

Source: Fitch.

Financial Profile — Business Development Companies

	aaa	aa	a	bbb	bb	b	ccc and Below
Asset Quality	Has an unparalleled degree of stability as reflected in very low levels of non-accruals and/or minimal losses throughout economic and/or interest rate cycles. Asset-quality measures are consistently better than comparable institutions. Concentration risks are very low or effectively mitigated. Generation of cumulative net realized portfolio gains over a cycle.	Has a very high degree of stability as reflected in low levels of non-accruals and/or low losses over multiple economic and/or interest rate cycles. Asset-quality measures are better than comparable institutions. Concentration risks are low or effectively mitigated. Absence of cumulative net realized portfolio losses over a cycle.	Has a high degree of stability as may be reflected in modest levels of non-accruals and/or losses. Asset quality is moderately variable over economic or interest rate cycles. Asset-quality measures are likely to be modestly better than at peer institutions or less vulnerable to economic and/or interest rate cycles. Portfolio concentrations are modest. May have minimal cumulative net realized portfolio losses over a cycle.	Has a degree of stability as may be reflected in average levels of non-accruals and/or losses. Asset quality measures are likely to fluctuate over economic and/or interest rate cycles. Asset-quality measures are generally in line with broad industry averages. Portfolio concentrations are moderate. May have modest cumulative net realized portfolio losses over a cycle.	Has above-average levels of non-accrual assets and losses. Asset quality measures are likely to be more volatile in the face of changes in economic and/or interest rate cycles and generally worse or more vulnerable than broad industry averages. Portfolio concentrations are high. May have meaningful cumulative net realized portfolio losses over a cycle or lack of performance through a cycle.	Has significantly above -average non-accruals and losses. Asset quality measures are likely to be very volatile based on changes in economic and/or interest rate cycles and generally significantly worse or more vulnerable than broad industry averages. Portfolio concentrations are very high. May have significant cumulative net realized portfolio losses over a cycle or limited performance track record.	Has or is likely to have asset-quality measures that are considerably weaker than industry benchmarks or historical norms.
Earnings and Profitability	Earnings and profitability are highly predictable throughout economic and/or interest rate cycles. Limited reliance on transactional revenue. Highly variable cost structure. Profitability measures are consistently commensurate with risk-averse nature.	Earnings and profitability are very predictable over multiple economic and interest rate cycles. Limited reliance on transactional revenue. Highly variable cost structure. Profitability measures are commensurate with very low risk but may vary modestly, although they remain generally superior to comparable institutions.	Earnings and profitability are moderately variable over economic and/or interest rate cycles. Modest reliance on transactional revenue. Largely variable cost structure. Profitability measures are commensurate with low risk, but subject to variability. Profitability is generally better than industry averages.	Earnings and profitability may be variable over economic and/or interest rate cycles. Modest reliance on transactional revenue. Largely variable cost structure. Profitability measures reflect inherent risk or a highly competitive environment and can be subject to increased variability. Profitability is average relative to broad industry averages.	Earnings and profitability may be highly variable over economic and/or interest rate cycles. Moderate reliance on transactional revenue. Cost structure is less variable than peer firms. Profitability measures may not fully reflect inherent risk and are subject to variability. Profitability is below average relative to broad industry averages.	Earnings and profitability are volatile and highly correlated with economic and/or interest rate cycles. Heavy reliance on transactional revenue. Cost structure is largely fixed. Profitability measures may not fully reflect inherent risk and are subject to variability. Profitability is well below average relative to broad industry averages.	May be structurally unprofitable on either a reported or operating basis. Return to break-even or sustainable profitability is highly uncertain.
Capitalization and Leverage	Capitalization is extremely strong and commensurate with risk. Capitalization and leverage are maintained with very significant buffers versus regulatory minimums as well as peer institutions.	Capitalization is very strong and commensurate with risk. Capitalization and leverage are maintained with comfortable buffers versus regulatory minimums as well as peer institutions.	Capitalization levels are strong and commensurate with risk. Capitalization and leverage are maintained with solid buffers versus regulatory minimums as generally above peer institutions.	Capital levels broadly commensurate with risk. Capitalization and leverage are maintained with satisfactory buffers versus regulatory minimums and generally in line with peer institutions.	Capital levels may not be fully commensurate with risk. Capitalization and leverage are maintained with moderate buffers versus regulatory minimums and may be below peer institutions.	Capital levels are not commensurate with risk. Capitalization is low and buffers versus regulatory minimums are small.	Capitalization and leverage have clear deficiencies that wither have or may require capital injections.
Funding, Liquidity and Coverage	Funding and liquidity are exceptionally stable. Minimal reliance on wholesale funding. Funding is not confidence sensitive. Funding sources are highly diverse. Funding is fully unsecured. Funding duration significantly exceeds average maturity of portfolio assets. Demonstrated access to equity markets across cycles. Absence of non-cash income. Cash net investment income significantly exceeds dividend payments. Extremely robust contingency funding plans are in place.	Funding and liquidity are very stable. Minimal reliance on short-term funding. Wholesale funding is predominantly long term with established investor appetite. Funding sources are very diverse. Funding is predominantly unsecured. Funding duration exceeds average maturity of portfolio assets. Demonstrated access to equity markets across cycles. Minimal non-cash income. Cash net investment income meaningfully exceeds dividend payments. Very robust contingency funding plans are in place.	Funding and liquidity are stable. Wholesale funding is predominantly long term. Funding may be moderately confidence sensitive. Funding sources are relatively diverse. Funding is largely unsecured. Funding duration is commensurate with average maturity of portfolio assets. Demonstrated access to equity markets across cycles. Minimal non-cash income. Cash net investment income exceeds dividend payments. Robust contingency funding plans are in place.	Funding and liquidity are generally stable, although there may be moderate funding concentrations. Reliance on less stable wholesale funding sources. Funding is confidence sensitive, and liquidity may become more expensive or less stable during periods of stress. Meaningful unsecured funding component. Funding duration is commensurate with average maturity of portfolio assets. Demonstrated access to equity markets but may be more sensitive to market conditions. Modest non-cash income. Cash net investment income meets dividend payments. Reasonable contingency funding plans are in place.	Funding and liquidity are generally stable, although there may be funding concentrations or meaningful reliance on less stable wholesale sources of funding. Access to funding may be uncertain during periods of market stress. Lack of an unsecured funding component. Funding duration may not be commensurate with average maturity of portfolio assets. No proven ability to access the equity markets. Moderate non-cash income. Cash net investment income is below dividend payments. Contingency funding plans may not be sufficient.	Funding and liquidity are less stable and may be prone to sudden changes in creditor sentiment. Access to funding during periods of market stress is very uncertain. Lack of an unsecured funding component. Funding duration may not commensurate with average maturity of portfolio assets. Inability to access the equity markets. Meaningful non-cash income. Cash net investment income is well below dividend payments. Contingent funding plans may not be well developed.	Funding and liquidity are unstable. Funding duration is very short term. Lack of an unsecured funding component. Significant non-cash income. Cash net investment income is significantly below dividend payments. Contingent funding plans are non-existent.

Source: Fitch.

II.5.d Finance and Leasing Companies

Fitch's financial profile assessment for finance and leasing companies considers the following subfactors:

- asset quality;
- earnings and profitability;
- capitalization and leverage; and
- funding, liquidity and coverage.

Risk Characteristics of Finance and Leasing Companies' Primary Business Activities

Activity	Balance Sheet Usage	Primary Funding Source[a]	Residual Value Risk?	Primary Earnings Source	Stability of Profitability
Leasing					
Aircraft Leasing	High	Secured/ABS/Unsecured	Yes	Lease Income	More Cyclical
Container Leasing	High	ABS/Secured Bank Lines	Yes	Lease Income	Cyclical
Fleet Leasing	High	ABS/Unsecured	Generally No	Lease Income	Less Cyclical
Truck Leasing	High	Unsecured/Secured	Yes	Lease Income	Less Cyclical
Railcar Leasing	High	Secured	Yes	Lease Income	Cyclical
Rental					
Rental Car	High	ABS	Yes	Rental Income	More Cyclical
Rental Equipment	High	Secured	Yes	Rental Income	More Cyclical
Consumer and Commercial Finance					
Commercial Lending	High	Deposits/Unsecured	No	Spread Income	Cyclical
Auto Lending	High	ABS/Deposits/Unsecured	Yes	Spread Income	Cyclical
Credit Card	High	ABS/Deposits	No	Spread Income	Cyclical
Student Lending	High	ABS/Deposits	No	Spread Income	Stable
Mortgage Origination	High	Secured	No	Origination Fees/Servicing Revenue	Stable
Factoring	High	Deposits/Unsecured	No	Fee Income	Cyclical
Pawn Brokerage	High	Unsecured	Yes	Fee Income/Merchandise Sales	Cyclical
Payday Lending	High	Secured Bank Lines	No	Spread and Fee Income	Cyclical
Debt Purchasers	Medium-High	Bank Lines/Secured Debt	No	Fees/Excess Collections over Purchase Price	Less Cyclical
Financial Services					
Marketplace Lending	Low	Non-Recourse Retail/Institutional	No	Origination Fees	Cyclical
Mortgage Servicing	Low	Secured	No	Servicing Revenue	Cyclical

Asset Quality — Finance and Leasing Companies

Attribute	Core Versus Complementary	Description
Impaired and Nonperforming Ratio	Core (For finance and leasing companies with high balance sheet usage)	Fitch's assessment of finance and leasing companies' asset quality primarily focuses on loan impairments but also considers delinquencies, non-accruals, net chargeoffs and reserve rates. Fitch considers the performance of these metrics over time and through market cycles, relative to the firm's underwriting criteria and articulated risk appetite and compares measures to peer firms with like products. Consistent with Fitch's asset quality benchmarks for banks, Fitch's asset quality benchmarks for finance and leasing companies with high balance sheet usage are derived by combining the entity's operating environment with the financial metric value. This reflects Fitch's expectation that the operating environment will account for a significant proportion of actual metric differences across countries and regions because of differences in the financial risk profiles that arise directly from the environments in which the entities operate *(see Section II.1, Operating Environment Assessment)*. Tiering by operating environment is not applied to other non-bank financial institution metrics or subsectors given that asset quality is not a primary analytical consideration for certain subsectors (such as for investment managers, where asset performance is more relevant) or operating environment differences are not present (such as for BDCs, which operate in a single operating environment).
Borrower Profile	Complementary	For consumer lenders, Fitch may review data on the loan portfolio, such as the average balance per account and average yield, as well as variations from the mean. This may also involve demographic data on the underlying portfolio or an internal or external credit score. For commercial lenders and lessors, Fitch may review the types of businesses or equipment financed, loan to value ratios, as well as any internal credit rankings or watchlists with respect to lessees. For rental companies, lessee quality may be less relevant depending on the duration of the rental agreement and the type of equipment being rented.
Servicing, Collections and Disposition	Complementary	Fitch believes that a robust servicing and collection platform is an integral part of asset quality, since it can have a significant influence on impairment/delinquency and chargeoff experience. For example, Fitch considers an issuer's collection strategies for impaired/delinquent accounts and the ability to improve upon expected roll rates. For leasing companies, Fitch also considers an issuer's ability to repossess and dispose of collateral in an economic and efficient manner. Fitch considers the issuer's flexibility with regard to disposal channels and seeks to assess an issuer's ability to rapidly de-fleet or re-fleet in response to changing market conditions. Collateral sale proceeds are considered over time relative to residual values to assess the effectiveness of a leasing company's depreciation policies.
Seasonality and Growth Impacts	Complementary	Since asset quality can be distorted by growth, where possible, Fitch may perform analysis on a static-pool basis to measure asset quality of different vintages. Static-pool or vintage analysis can provide an early warning of problems, such as rapid asset-quality deterioration, forcing accelerated chargeoffs, which may highlight loosening of underwriting policies. Fitch recognizes that seasonality can play a role in distorting asset quality and, to complement static-pool analysis, Fitch may analyze other growth-adjusted asset-quality metrics, looking at impairment/delinquency and net chargeoff ratios on both a coincident (current) and lagged basis. In addition, portfolio shrinkage can also skew coincident and lagged credit metrics, so, in these instances, Fitch will also track the relative absolute change in portfolio impairments/delinquencies and losses from one period to another.
Business Model Specifics	Complementary	The key asset quality metrics for finance and leasing companies are less relevant for debt purchasers, whose assets are typically impaired, but acquired at a significant discount. Instead, Fitch will focus on the stability and resilience of cash flow generation from acquired portfolios relative to their purchase price. Fitch will also review industry measures such as gross 'cash on cash' multiples, net cash on cash multiples (net of collection activity costs) and price paid/face value of purchased assets, where available.

Source: Fitch.

Asset Quality Benchmarks by Operating Environment — Finance and Leasing Companies

		Rating Category				
(%)	Impaired and Nonperforming Ratio[a]	aa and Above	a	bbb	bb	b and Below
Operating Environment Score	aa and Above	x≤1	1<x≤3	3<x≤6	6<x≤14	x>14
	a	x≤0.25	0.25<x≤2	2<x≤5	5<x≤12	x>12
	bbb		X≤0.5	0.5<x≤4	4<x≤10	x>10
	bb			x≤0.75	0.75<x≤5	x>5
	b and Below				x≤1	x>1

[a]For countries and/or asset classes where the impaired and non-performing framework is not utilized, delinquency ratios (typically 30-day) may be used as a substitute.
Note: Fitch may exclude or normalize a quarterly data point if it is believed to be unduly influenced by seasonality rather than reflecting a longer term asset quality trend.
Source: Fitch.

Asset Quality Metrics — Finance and Leasing Companies

Metric	Core Versus Complementary
Impaired and Nonperforming Ratio	Core
Reserves for Impaired Loans/Impaired Loans	Complementary
Impaired Loans Less Reserves for Impaired Loans/FCC	Complementary
Net Chargeoffs/Average Loans	Complementary
Residual Value Gains (Losses)/Book Value of Assets	Complementary

Note: Note: Fitch may exclude or normalize a quarterly data point if it is believed to be unduly influenced by seasonality rather than reflecting a longer term asset quality trend.
Source: Fitch.

Earnings and Profitability — Finance and Leasing Companies

Attribute	Core Versus Complementary	Description
Pre-Tax Net Income/ Average Assets	Core (For Finance and Leasing Companies with High Balance Sheet Usage)	For finance and leasing companies with high balance sheet usage, Fitch focuses primarily on portfolio yields and return on assets and return on equity measures, which are more easily comparable across the bank and non-bank universes. Fitch will also consider risk-adjusted margins, which measure the level of profitability for the risk taken, since it deducts provision expense and interest expense from total net operating revenue. A review of earnings quality primarily reflects an assessment of recurring cash-based earnings, principally net interest and lease and fee income, as opposed to nonrecurring gains/losses, noncash gains or mark-to-market gains on derivatives or investments.
Adjusted EBITDA/ Revenues	Core (For Finance and Leasing Companies with Low Balance Sheet Usage)	For finance and leasing companies with low balance sheet usage, Fitch places emphasis on adjusted EBITDA margin analysis. To the extent a good portion of income is from fee-type sources, as is the case with finance and leasing companies with low balance sheet usage, Fitch evaluates the reliability and variability of these fees over a cycle. Additionally, Fitch may also review accruals for fee-type services, such as rewards for credit card usage or fee suppression policies for unearned income, to assess the collectability over time, where applicable. For leasing companies where the average lease term is relatively short, such as rental car companies and small ticket lessors, and for companies with proven stable asset-based cash generation and/or significant non-balance sheet-related earnings, such as debt purchasers, Fitch's analysis of earnings and profitability typically focuses on cash flow metrics and analysis. Fitch may make adjustments to its EBITDA calculation to exclude depreciation expense if it is believed to be a recurring operating expense and no significant change in leased asset levels is expected. However, in that case, Fitch would look to add back proceeds from the sale of leased assets to its calculation of cash flow, as it would likely be deemed a significant source of debt repayment.
Operating Expenses	Complementary	Fitch also looks at operating expenses relative to loans or leases, including the mix of variable and fixed costs. Fitch recognizes that finance and leasing companies may have very different cost structures. For example, a company with a global footprint, like an aircraft lessor, is likely to have a higher level of operating expenses versus one that relies on centralized functions but this may be offset by other factors such as lower credit losses or higher asset yields.
Depreciation and Non-Cash Items	Complementary	Depreciation expense is typically a significant noncash item for leasing companies and Fitch views it as an important cost, since such companies typically need to continually replace equipment involved in operating leases and stay within certain age parameters. To the extent an issuer reports a material amount of noncash income, Fitch may request a reconciliation of reported earnings to operating cash flows. Fitch views significant noncash items as lowering the quality of earnings.
Treatment of Securitizations	Complementary	To the extent that a finance and leasing company securitizes receivables and removes them from its balance sheet or services assets not on its balance sheet, Fitch focuses on managed measures of profitability, which consider reported profits and expenses relative to the company's serviced portfolio of loans or leases. This provides a clearer picture of the underlying profitability of the book of business, since an issuer typically earns a fee for servicing the assets in the securitization vehicle.

Source: Fitch.

Earnings and Profitability Benchmarks — Finance and Leasing Companies

	aa and Above	a	bbb	bb	b and Below
Pre-Tax Income/Average Assets (%)[a]	x>4	3<x≤4	2<x≤3	1<x≤2	x≤1
Adjusted EBITDA/Revenues (%)[b]	x>25	20<x≤25	15<x≤20	10<x≤15	x≤10

[a]For high balance sheet usage finance and leasing companies. [b]For low balance sheet usage finance and leasing companies.
Source: Fitch.

Earnings and Profitability Metrics — Finance and Leasing Companies

High Balance Sheet Usage	Core Versus Complementary
Pre-Tax Net Income/Average Assets	Core
Pre-Tax Net Income/Average Equity	Complementary
Residual Value Gains (Losses)/Net Income	Complementary
Operating Expenses/Total Net Revenues	Complementary
Depreciation Expenses/Total Revenues	Complementary

Low Balance Sheet Usage	Core Versus Complementary
Adjusted EBITDA/Revenues	Core
Pre-Tax Income/Revenues	Complementary

Source: Fitch.

Capitalization and Leverage — Finance and Leasing Companies

Attribute	Core Versus Complementary	Description
Debt/ Tangible Equity	Core (For Finance and Leasing Companies with High Balance Sheet Usage)	Fitch's assessment of a finance and leasing company's capitalization and leverage metrics focuses primarily on traditional leverage measures, such as debt to tangible equity and debt to FCC for finance and leasing companies with high balance sheet usage.
Debt/ Adjusted EBITDA	Core (For Finance and Leasing Companies with Low Balance Sheet Usage)	Fitch's assessment of a finance and leasing company's capitalization and leverage metrics focuses primarily on debt/adjusted EBITDA for finance and leasing companies with low balance sheet usage and for companies with proven stable asset-based cash generation and/or significant non-balance-sheet-related earnings, such as debt purchasers.
Business Model Specifics	Complementary	For leasing companies with longer term leases and material residual value risk, such as large equipment lessors, the primary capitalization and leverage focus is on balance sheet metrics such as debt to equity. For leasing companies where the average lease term is relatively short, such as rental car companies and small ticket lessors, and for companies with proven stable asset-based cash generation and/or significant non-balance sheet-related earnings, such as debt purchasers, Fitch's analysis of leverage and capitalization may take a corporate approach, in which the focus is on cash flow coverage and debt service. Fitch uses adjusted EBITDA as a proxy for cash flow. For debt purchasers, Fitch will also assess gross debt/estimated remaining collections, where available.
Double Leverage	Complementary	Where relevant, Fitch also looks at double leverage, defined as equity investments in subsidiaries plus holding company intangibles divided by equity, which reflects debt issued at the parent company level that has been down streamed as equity into subsidiaries. While a small amount of double leverage can be expected, Fitch is concerned when double leverage is high (i.e. above 120% or more of a parent company's common equity) on a sustained basis, unless mitigated by some other means (e.g. subsidiary liquidity support agreement). A high degree of double leverage can result in increased rating differentials between a parent company and its subsidiaries, particularly if regulated subsidiaries are involved, since dividends from these entities may be restricted. When feasible, Fitch will review a regulated subsidiary's dividend capacity relative to the holding company's fixed costs and dividends.

Source: Fitch.

Capitalization and Leverage Benchmarks — Finance and Leasing Companies

	aa and Above	a	bbb	bb	b and Below
Debt/Tangible Equity (x)[a]	x<1.0	1.0≤x<3.0	3.0≤x<5.0	5.0≤x<7.0	x≥7.0
Debt/Adjusted EBITDA (x)[b]	x<0.5	0.5≤x<1.5	1.5≤x<2.5	2.5≤x<3.5	x≥3.5

[a]For high balance sheet usage finance and leasing companies. [b]For low balance sheet usage finance and leasing companies.
Source: Fitch.

Capitalization and Leverage Metrics — Finance and Leasing Companies

High Balance Sheet Usage	Core Versus Complementary
Debt/Tangible Equity	Core
Debt/FCC	Complementary
FCC/Tangible Assets	Complementary
(Net Income-Dividends-Share Repurchases)/Beginning Equity	Complementary
FCC/Risk-Weighted Assets	Complementary

Low Balance Sheet Usage	Core Versus Complementary
Debt/Adjusted EBITDA	Core

Source: Fitch.

Funding, Liquidity and Coverage — Finance and Leasing Companies

Attribute	Core Versus Complementary	Description
Unsecured Debt/Total Debt	Core (For finance and leasing companies with high balance sheet usage)	Fitch believes an overreliance on secured financing sources such as asset-backed securitization, repurchase agreements, covered bonds, or secured bank loans, may constrain a finance and leasing company's funding, liquidity and coverage assessment, as a high proportion of encumbered assets will reduce financial flexibility. In assessing creditor protections, when information is available, Fitch will focus on unsecured debt as a percent total debt and, by extension, unencumbered assets relative to unsecured debt. This encompasses not only the amount, but also the relative quality of assets supporting unsecured debt obligations. Fitch typically stresses asset values by applying haircuts, depending on the riskiness of the asset class. In considering unencumbered assets, Fitch also makes adjustments based on seniority of liens that may exist in financing agreements and for pledged assets.
Adjusted EBITDA /Interest Expense	Core (For finance and leasing companies with low balance sheet usage)	For finance and leasing companies with low balance sheet usage, Fitch assesses funding, liquidity and coverage, primarily on the basis of interest coverage more so than funding or liquidity. For leasing companies where the average lease term is relatively short, such as rental car companies and small ticket lessors, and for companies with proven stable asset-based cash generation and/or significant non-balance sheet-related earnings, such as debt purchasers, Fitch's analysis of funding, liquidity and coverage typically focuses on cash flow metrics. For finance and leasing companies that pay preferred dividends, Fitch would also calculate EBITDA coverage of both interest expense and preferred dividends.
Reliance on Short-Term Funding	Complementary	Fitch understands that issuers may be motivated to fund themselves with short-term debt, since this is often less costly; however, it is Fitch's view that an overreliance on short-term financing can be very problematic, especially during times of market duress. In thinking about short-term financing, Fitch focuses on asset maturities. For example, an issuer with very short-dated assets (charge card, factoring receivables, auto floorplan loans or certain consumer loans) may be better able to rely upon asset cash flow to support a reasonable component of short-term financing than an issuer with long-dated assets, such as mortgages, student loans or aircraft. Nonetheless, even when asset maturities are very short term, a degree of longer term financing should be in place to finance the book of business.
Contingent Funding	Complementary	Sound contingency plans should be established to cover the potential that short-term assets financed by short-term debt may not produce expected levels of cash flow in all phases of a business or product cycle. This would include coverage for potential extensior of hold periods for assets expected to be sold and that are funded by short-term debt. Contingent funding should be reasonably accessible during times of financial duress and should not rely on an issuer to maintain covenant compliance. Fitch would expect investment-grade finance and leasing companies to be able to demonstrate contingency plans that allow the entity to navigate a prolonged disruption in liquidity and funding markets. This can be demonstrated by an ability to fund core operations over a 12-month period via cash flow generation and committed financing facilities from appropriately rated entities but excluding access to public unsecured markets if that is the primary source of funding in periods of normal market conditions. Additionally, Fitch may evaluate a firm's wind-down or liquidation scenarios to gain an understanding of how effectively and efficiently assets can be liquidated to cover costs, including debt service, on a timely basis.
Order Books	Complementary	Contingency funding plans take on added significance for leasing companies with large order books, particularly given that these obligations must be financed through a variety of economic environments. Order books are more prevalent in the aircraft, railcar and container leasing sectors, and represent commitments to purchase assets from manufacturers, in some cases years before they will be leased. The existence of committed financing, such as warehouse facilities, helps to mitigate some of this risk; however, the maturity of the facilities may pre-date order deliveries, which can yield refinancing risk. Fitch considers a lessor's order book size in relation to the size of its balance sheet, existing fleet, operational and marketing capabilities, the extent to which committed leases are in place at the time of the order, as well as its capital raising track record. However, the existence of significant order books, particularly if they are long-tailed, may be a rating constraint.
Funding Quality and Diversity	Complementary	Fitch views diverse sources of funding, in terms of markets, investors and geography, as well as funding stability, to be positive for the funding, liquidity and coverage score. Fitch looks at the portion of credit facilities that is committed versus uncommitted, the composition of the credit providers and the frequency with which facilities are utilized. Fitch looks at the length of the relationships, as well as other business flows (such as cash management or securities underwriting) that a finance and leasing company maintains with its credit providers, since this may have a material impact on whether lenders accommodate the issuer during periods of financial duress. Fitch may only take account of available liquidity from backup lines of credit from highly rated banks and/or banks rated the same or higher than the issuer itself.
Treatment of Securitizations	Complementary	When there is a significant portion of securitization activity, Fitch may compare the quality of securitized receivables to those remaining unencumbered to ensure that no "cherry picking" or adverse selection has occurred. Fitch believes that securitized receivables should reflect a cross-section of originated loans or leases. As a result, strategies that rely on either selling the weakest or strongest credits may negatively affect the funding, liquidity and coverage score. Moreover, Fitch believes a finance and leasing company should be able to demonstrate liquidity in all the asset types it originates. For example, if an issuer cannot demonstrate secondary market liquidity for a particular asset class, Fitch may view additional capital and/or liquidity to support that particular asset as appropriate. Additionally, Fitch may factor in an increased likelihood of voluntary support for non-recourse obligations for finance and leasing companies that are overly reliant on securitization as a source of funding. Voluntary support could arise as a means for the issuer to limit reputational damage and potential loss of market access to this funding source in the event of underperformance.
Covenant Compliance	Complementary	Fitch may consider covenants in credit agreements to understand covenant and security features, as these can have a bearing on a finance and leasing company's ability to conduct its business. Although technical defaults, such as a financial covenant violation, may often be waived, this usually comes at considerable expense. Therefore, a covenant breach may negatively affect Fitch's funding, liquidity and coverage assessment if it is viewed as an indicator of a material change in the entity's risk profile or financial flexibility.
Payout Ratio	Complementary	Many finance and leasing companies pay out some portion of earnings, either to a parent company or to public/private shareholders, which is a cash use. For payout ratios, Fitch focuses on combined measures, which include both dividends and net share repurchases, in order to assess the impact on liquidity.
Mortgage REIT Specifics	Complementary	Fitch typically views mortgage REITs as having weaker liquidity positions than similar finance companies that have not elected REIT status, as REITs have weaker capital retention flexibility. However, REITs that address required dividend distributions through the issuance of new shares as opposed to cash dividend payments may have stronger liquidity than REITs that pay out the majority of taxable income as cash dividends to stockholders. Based on guidelines established by the National Association of Real Estate Investment Trusts, funds from operations (FFO) for mortgage REITs are defined as net income excluding gains (or losses) from property sales, plus depreciation and amortization, plus adjustments for unconsolidated partnerships and joint ventures. Fitch compares dividends paid to stockholders with FFO for mortgage REITs. Adjustments for unconsolidated partnerships and joint ventures will be calculated to reflect FFO on the same basis. Fitch subtracts capital expenditures and excludes noncash items included in FFO to arrive at adjusted funds from operations (AFFO) for mortgage REITs and compares dividends paid to stockholders with AFFO. Although FFO and AFFO are after-interest expense measures, these measures are relevant to bondholders and preferred stockholders. Namely, if FFO or AFFO payout ratios are close to or exceed 100%, it indicates the REIT is not retaining cash flow for future liquidity to meet its fixed-charge obligations and is accessing other forms of cash flow to pay its dividends, which Fitch views negatively.

Source: Fitch.

Funding, Liquidity and Coverage Benchmarks — Finance and Leasing Companies

	aa and Above	a	bbb	bb	b and Below
Unsecured Debt/Total Debt (%)[a]	x>90	50<x≤90	35<x≤50	x≤35	x = 0
Adjusted EBITDA/Interest Expense (x)[b]	x>15	10<x≤15	6<x≤10	3<x≤6	x≤3

[a]For high balance sheet usage finance and leasing companies. [b]For low balance sheet usage finance and leasing companies.
Source: Fitch.

Funding, Liquidity and Coverage Metrics — Finance and Leasing Companies

High Balance Sheet Usage	Core Versus Complementary
Unsecured Debt/Total Debt	Core
Short-Term Debt/Total Debt	Complementary
Adjusted EBITDA/Interest Expense	Complementary
Unencumbered Assets/Unsecured Debt	Complementary
Dividends/Net Income	Complementary

Low Balance Sheet Usage	Core Versus Complementary
Adjusted EBITDA/Interest Expense	Core

Source: Fitch.

Financial Profile — Finance and Leasing Companies

	aaa	aa	a	bbb	bb	b	ccc and Below
Asset Quality	Has an unparalleled degree of stability as reflected in very low levels of impaired assets and/or minimal losses throughout economic and/or interest rate cycles. Asset-quality measures are consistently better than comparable institutions. Concentration risks are very low or effectively mitigated.	Has a very high degree of stability as reflected in low levels of impaired assets and/or low losses over multiple economic and/or interest rate cycles. Asset-quality measures are better than comparable institutions. Concentration risks are low or effectively mitigated.	Has a high degree of stability as may be reflected in modest levels of impaired assets and/or losses. Asset quality is moderately variable over economic or interest rate cycles. Asset-quality measures are likely to be modestly better than at peer institutions or less vulnerable to economic and/or interest rate cycles. Concentration risks may be modestly better than peers.	Has a degree of stability as may be reflected in average levels of impaired assets and/or losses. Asset quality measures are likely to fluctuate over economic and/or interest rate cycles. Asset-quality and/or concentration risk measures are generally in line with broad industry averages.	Has above-average levels of impaired assets and losses. Asset quality measures are likely to be more volatile in the face of changes in economic and/or interest rate cycles and generally worse or more vulnerable than broad industry averages. Concentration risks may be above average.	Has highly variable or poor asset quality, impaired assets and losses. Asset quality measures are likely to be very volatile based on changes in economic and/or interest rate cycles and generally significantly worse or more vulnerable than broad industry averages. Concentration risks may be very high.	Has or is likely to have asset-quality measures that are considerably weaker than industry benchmarks or historical norms.
Earnings and Profitability	Earnings and profitability are highly predictable throughout economic and/or interest rate cycles. Profitability measures are consistently commensurate with risk-averse nature.	Earnings and profitability are very predictable over multiple economic and interest rate cycles. Profitability measures are commensurate with very low risk but may vary modestly, although they remain generally superior to comparable institutions.	Earnings and profitability are moderately variable over economic and/or interest rate cycles. Profitability measures are commensurate with low risk but subject to variability. Profitability is generally better than industry averages.	Earnings and profitability may be variable over economic and/or interest rate cycles. Profitability measures reflect inherent risk or a highly competitive environment and can be subject to increased variability. Profitability is average relative to broad industry averages.	Earnings and profitability may be highly variable over economic and/or interest rate cycles. Profitability measures may not fully reflect inherent risk and are subject to variability. Profitability is below average relative to broad industry averages.	Earnings and profitability are volatile and highly correlated with economic and/or interest rate cycles. Profitability measures may not fully reflect inherent risk and are subject to variability. Profitability is well below average relative to broad industry averages.	May be structurally unprofitable on either a reported or operating basis. Return to break-even or sustainable profitability is highly uncertain.
Capitalization and Leverage	Capitalization is extremely strong and commensurate with risk. Capital and leverage targets incorporate ability to withstand severe asset quality and market value shocks.	Capitalization is strong and commensurate with risk. Capital and leverage targets incorporate ability to withstand significant asset quality and market value shocks.	Capitalization levels broadly commensurate with risk. Capital and leverage levels may be relatively more volatile but likely only modestly affected by severe asset quality and market value shocks.	Capital levels may not be fully commensurate with risk. Capital and leverage levels may be more vulnerable to severe asset quality and market value shocks.	Capital levels may not be fully commensurate with risk. Capital and leverage can withstand asset quality and market value shocks.	Capital levels are not commensurate with risk. Capital and leverage levels may be well below peer institutions and highly vulnerable to asset quality and market value shocks.	Capitalization and leverage have clear deficiencies that have or may require capital injections.
Funding, Liquidity and Coverage	Funding and liquidity are exceptionally stable. Minimal reliance on wholesale funding. Funding is not confidence sensitive. Funding sources are highly diverse. Funding duration significantly exceeds average maturity of portfolio assets. Funding is fully unsecured, supported by extremely robust pool of unencumbered assets. Extremely robust contingency funding plans are in place.	Funding and liquidity are very stable. Minimal reliance on short-term funding. Wholesale funding is predominantly long term with established investor appetite. Funding is relatively less confidence sensitive. Funding sources are very diverse. Funding duration exceeds average maturity of portfolio assets. Funding is predominantly unsecured, supported by a very robust pool of unencumbered assets. Very robust contingency funding plans are in place.	Funding and liquidity are stable. Wholesale funding is predominantly long term. Funding may be modestly confidence sensitive. Funding sources are relatively diverse. Funding duration is commensurate with average maturity of portfolio assets. Funding is largely unsecured, supported by a robust pool of unencumbered assets. Robust contingency funding plans are in place.	Funding and liquidity are generally stable, although there may be moderate funding concentrations. Reliance on less stable wholesale funding sources. Funding is confidence sensitive. Funding duration is commensurate with average maturity of portfolio assets. Meaningful unsecured funding component, supported by a modest pool of unencumbered assets. Reasonable contingency funding plans are in place.	Funding and liquidity are generally stable, although there may be funding concentrations. Meaningful reliance on less-stable wholesale sources of funding. Access to funding may be uncertain during periods of market stress. Funding duration may not be commensurate with average maturity of portfolio assets. Meaningful secured funding, with some encumbrance of balance sheet assets. Contingency funding plans may not be sufficient.	Funding and liquidity are less stable and may be prone to sudden changes in creditor sentiment. Access to funding during periods of market stress is very uncertain. Funding duration is not commensurate with average maturity of portfolio assets. Largely secured funding, with meaningful encumbrance of balance sheet assets. Contingent funding plans may not be well	Funding and liquidity are unstable. Funding duration is very short term. Fully secured funded and fully encumbered balance sheet. Contingent funding plans are non-existent.

Source: Fitch.

II.5.e Financial Market Infrastructure Companies

Fitch's financial profile assessment for FMIs considers the following subfactors:

- capitalization and leverage;
- funding, liquidity and coverage;
- earnings and profitability; and
- counterparty exposure.

FMI Subsector Typical Characteristics and Analytical Considerations

	Exchanges	Clearing Houses	CSDs Without Banking License	Bank-Licensed CSDs
Primary Activities	Operate marketplace to buy/sell listed financial instruments, disseminate trade info, provide market data.	Clear and settle trades executed on an exchange, perform trade comparison, act as agent, principal or guarantor on settled trades.	Settle trades, provide safekeeping/custody of securities, act as paying and transfer agent, provide recordkeeping services.	In addition to activities similar to those of CSDs without banking licenses, also take deposits from and provide overdraft credit facilities to clients.
Primary Risk(s)	Operational	Counterparty	Operational	Operational, counterparty
Degree of Balance Sheet Risk	Limited	Limited, aside from consolidated guaranty funds	Limited	Present, but often low risk
Degree of Counterparty Risk	Limited	Material	Limited	Modest
Primary Capitalization and Leverage Metric(s)	Debt/EBITDA	Debt/EBITDA, supplemented with sufficiency of guaranty fund	Debt/EBITDA	Fitch core capital to weighted risks; regulatory ratios
Primary Earnings and Profitability Metric(s)	EBITDA margin, capex/revenue	EBITDA margin, capex/revenue	EBITDA margin, capex/revenue	Operating costs relative to fees
Primary Master Rating Criteria	Non-Bank Financial Institutions Rating Criteria	Non-Bank Financial Institutions Rating Criteria	Non-Bank Financial Institutions Rating Criteria	Bank Rating Criteria

Source: Fitch.

Capitalization and Leverage — Financial Market Infrastructure Companies

Attribute	Core Versus Complementary	Description
Gross Debt/ Adjusted EBITDA	Core	Fitch primarily focuses on cash flow leverage metrics when assessing FMIs due to the low balance sheet usage of their businesses. In these cases, debt repayment is likely to be a function of cash flow generated by the business as opposed to liquidation of collateral or monetization of assets on the balance sheet. Fitch defines cash flow leverage as gross debt to adjusted EBITDA. Fitch may focus on net debt/adjusted EBITDA where cash is set aside for near-term debt service. Where applicable, Fitch may additionally assess lease adjusted debt to EBITDAR to account for material operating lease expenses. Under this approach, Fitch adjusts gross debt by adding the net present value of future lease payments, or 8.0x the current rental expense and adjusts EBITDA by adding the current rental expense.
Gross Debt/ Tangible Equity	Complementary	For clearing houses, Fitch considers cash flow leverage metrics, especially in the cases where a clearing house does not take legal ownership of margin deposits but also will review balance sheet leverage metrics, collateral margining and guarantee fund contributions relative to counterparty exposure. With respect to balance sheet leverage metrics, Fitch primarily considers gross debt to tangible equity and gross debt to FCC. As a result of consolidation and mergers and acquisitions, a substantial amount of goodwill is recorded on the balance sheets of many FMIs, which Fitch excludes when calculating balance sheet leverage metrics.
Capital Structure and Capital Expenditures	Complementary	Fitch's assessment of capital adequacy will also take into consideration a FMI's capital structure and regulatory requirements, where applicable. Fitch also considers free cash flow relative to gross debt, in order to assess cash flow leverage net of the amount of capital expenditures FMIs are making to maintain and upgrade technology platforms.
Capital Outside the Default Waterfall	Complementary	As a clearing house bears all losses that are not associated with a clearing member default, Fitch may also assess the capital available outside the waterfall to manage potential losses outside of the clearing mechanism. Such losses could include losses on margin collateral or losses/impairments associated with acquisitions.

Source: Fitch.

Capitalization and Leverage Benchmarks — Financial Market Infrastructure Companies

	aa or Above	a	bbb	bb	b or Below
Gross Debt/Adjusted EBITDA (x)	x<0.5	0.5≤x<1.5	1.5≤x<2.5	2.5≤x<3.5	x≥3.5

Source: Fitch.

Capitalization and Leverage Metrics — Financial Market Infrastructure Companies

Metric	Core Versus Complementary
Gross Debt/EBITDA	Core
Free Cash Flow/Gross Debt	Complementary
Gross Debt/Tangible Equity	Complementary
Gross Debt/Fitch Core Capital	Complementary

Source: Fitch.

Funding, Liquidity and Coverage — Financial Market Infrastructure Companies

Attribute	Core Versus Complementary	Description
Adjusted EBITDA/ Interest Expense	Core	Fitch assesses FMIs' funding, liquidity and coverage primarily on the basis of interest coverage. Where applicable, Fitch additionally assesses lease adjusted EBITDAR to interest expense to account for material operating lease expenses.
Contingent Funding Sources	Complementary	Under normal operating conditions, an exchange or CSD without a banking license has limited liquidity needs and primarily relies on operating cash flows to support capital expenditures and near-term debt maturities. Liquidity needs may be elevated during periods of stress and, as such, Fitch considers contingent funding sources such as lines of credit relative to capital expenditures and general corporate purposes. On the other hand, clearing houses have more distinct liquidity needs related to clearing and settlement functions in the event of a temporary market disruption or a clearing member or custody bank default. As such, Fitch considers the amount of contingent funding available, including access to committed credit facilities, the size of available lines, for which offered products the lines can be utilized and unrestricted cash and investment securities on the balance sheet.
Covenant Compliance	Complementary	Fitch will review a FMI's compliance with covenants (financial and negative) related to lines of credit and debt. Non-compliance with debt covenants is likely to negatively influence Fitch's funding, liquidity and coverage assessment unless the assessment already reflects a high probability of non-compliance.
Payout Ratio	Complementary	Many FMIs pay out some portion of earnings, either to a parent company or to public/private shareholders, which is a cash use. For payout ratios, Fitch focuses on combined measures, which include both dividends and net share repurchases, in order to assess the impact on liquidity.
Business Model Specifics	Complementary	Certain clearing houses take legal ownership of margin deposits. In such instances, Fitch will consider the percentage of liquid assets relative to potential outflows and the historical level and fluctuation of customer deposits when evaluating the liquidity of clearing house.

Source: Fitch.

Funding, Liquidity and Coverage Benchmark — Financial Market Infrastructure Companies

	aa and Above	a	bbb	bb	b and Below
Adjusted EBITDA / Interest Expense (x)	x>15	10<x≤15	6<x≤10	3<x≤6	x≤3

Source: Fitch.

Funding, Liquidity and Coverage Metrics — Financial Market Infrastructure Companies

Metric	Core Versus Complementary
Adjusted EBITDA/Interest Expense	Core
Unrestricted Cash and Marketable (investments) Securities/Short-Term Debt	Complementary

Source: Fitch.

Earnings and Profitability — Financial Market Infrastructure Companies

Attribute	Core Versus Complementary	Description
Adjusted EBITDA/ Total Revenues	Core	A key profitability measure for exchanges, clearing houses and CSDs without banking licenses is adjusted EBITDA margin, defined as adjusted EBITDA divided by total revenues. Fitch evaluates the reliability and variability of these margins over time to assess sensitivity to market conditions.
Earnings Stability and Diversity	Complementary	For FMIs that are not member owned, Fitch evaluates the ability to generate profits through various market cycles. Fitch considers whether revenues are highly dependent on transaction volumes (executed, cleared and/or settled), which are driven by market conditions and looks at trends with a longer term horizon. Fitch also evaluates non-transactional revenue sources such as market data and information services, which can help diversify and stabilize performance over market cycles. Fitch also evaluates revenue contributions by product and geography, revenue by asset class relative to volume (rate per contract), revenue volatility and volume volatility. Cost controls, the flexibility and variability of expenses and performance relative to peers are also reviewed by Fitch. Lastly, for those clearinghouses that take legal ownership of margin deposits, Fitch may also consider the extent to which net interest income contributes to earnings stability and diversity.
Capital Expenditures	Complementary	Fitch will consider trends in capital expenditures as a percentage of depreciation and amortization to ascertain the degree of reinvestment in the business through cycles. The magnitude of the ratio is not necessarily as important as whether it is positive (implying increased investment in the business), neutral (implying balanced reinvestment in the business) or negative (implying reduced investment in the business).
Business Model Specifics	Complementary	In analyzing the profitability of FMIs, it is necessary to ascertain whether the entity is operating as a profit-maximizing entity or not. If it is not a profit-maximizing entity (i.e. it is member-owned), the likely focus is on cost controls (maintaining low execution, clearing and/or settlement costs) and break-even results. Excess profits in the form of dividends or rebates are typically returned to owner-members. In these instances, Fitch will assess the ability of a FMI to limit payouts to its owner-members during stressed marked conditions, which could positively influence the earnings and profitability score.

Source: Fitch.

Earnings and Profitability Benchmark — Financial Market Infrastructure Companies

(%)	aa and Above	a	bbb	bb	b and Below
Adjusted EBITDA/Total Revenues	x>25	20<x≤25	15<x≤20	10<x≤15	x≤10

Source: Fitch.

Earnings and Profitability Metrics — Financial Market Infrastructure Companies

Metric	Core Versus Complementary
Adjusted EBITDA/Total Revenues	Core
Rate per Contract	Complementary
Capital Expenditure/Revenue	Complementary
Capital Expenditure/Depreciation and Amortization	Complementary

Source: Fitch.

Counterparty Exposure — Financial Market Infrastructure Companies

Attribute	Core Versus Complementary	Description
Member Concentration	Core	With respect to clearing houses, Fitch assesses clearing member concentrations and the steps the clearing house takes to monitor and minimize exposure to individual clearing members. Fitch reviews guarantee fund contributions by clearing member, top 10 counterparty exposures, guarantee fund coverage of the largest counterparty exposures and margin deposits (by asset class) compared to respective volumes.
Limits and Remediation	Complementary	Fitch also reviews clearing houses' limits for clearing members and steps taken when limits are breached.

Source: Fitch.

Financial Profile — Financial Market Infrastructure Companies

	aaa	aa	a	bbb	bb	b	ccc and Below
Capitalization and Leverage	Capitalization and leverage are extremely strong and commensurate with risk. Capitalization and leverage are maintained with very significant buffers over regulatory minimums or as compared to peer institutions. Capital and leverage targets incorporate ability to withstand severe shocks.	Capitalization and leverage are strong and commensurate with risk. Capitalization and leverage are maintained with comfortable buffers over regulatory minimums or as compared to peer institutions. Capital and leverage targets incorporate ability to withstand significant shocks.	Capitalization and leverage levels broadly commensurate with risk. Capitalization and leverage are maintained with solid buffers versus regulatory minimums and generally above peer institutions. Capital and leverage levels may be relatively more volatile but likely only modestly affected by significant asset quality and market value shocks.	Capitalization and leverage may not be fully commensurate with risk. Capitalization and leverage are maintained with satisfactory buffers over regulatory minimums and generally in line with peer institutions. Capital and leverage levels may be more vulnerable to significant shocks.	Capitalization and leverage are not fully commensurate with risk. Capitalization and leverage are maintained with moderate buffers over regulatory minimums and may be below peer institutions. Capital and leverage are highly vulnerable to significant shocks but can withstand moderate shocks.	Capitalization and leverage are not commensurate with risk. Capitalization and leverage are low, and buffers over regulatory minimums are small. Capital and leverage levels may be well below peer institutions and highly vulnerable to shocks.	Capitalization and leverage have clear deficiencies that either have or may require capital injections.
Funding, Liquidity and Coverage	Extremely strong operating cash flows and liquidity levels relative to capital expenditures, operational needs and near-term debt maturities. Lines of credit and contingent funding more than sufficient for business model and liquidity needs.	Very strong operating cash flows and liquidity levels relative to capital expenditures, operational needs and near-term debt maturities. Lines of credit and contingent funding consistent with business model and liquidity needs.	Strong operating cash flows and liquidity levels relative to capital expenditures, operational needs and near-term debt maturities. Lines of credit and contingent funding consistent with business model and liquidity needs.	Sound operating cash flows and liquidity levels relative to capital expenditures, operational needs and near-term debt maturities. Lines of credit and contingent funding are generally able to support business model and liquidity needs.	Limited operating cash flows and liquidity levels relative to capital expenditures, operational needs and near-term debt maturities. Lines of credit and contingent funding are adequate to support business model and liquidity needs.	Very limited operating cash flows and liquidity levels relative to capital expenditures, operational needs and near-term debt maturities. Lines of credit and contingent funding are minimal and may not meet liquidity needs.	No operating cash flows and liquidity levels relative to capital expenditures, operational needs and near-term debt maturities. No access to lines of credit and/or contingent funding.
Earnings and Profitability	Earnings and profitability are highly predictable throughout economic cycles. Profitability measures are commensurate with risk-averse nature and consistently superior to comparable peer institutions.	Earnings and profitability are very predictable over multiple economic cycles. Profitability measures are commensurate with very low risk but may vary modestly. Profitability measures generally superior to comparable institutions.	Earnings and profitability are moderately variable over economic cycles. Profitability measures are commensurate with low risk but subject to variability. Profitability is generally better than broad industry averages.	Earnings and profitability may be variable over economic cycles. Profitability measures reflect inherent risk or a highly competitive environment and can be subject to increased variability. Profitability is average relative to broad industry averages.	Earnings and profitability may be highly variable over economic cycles. Profitability measures may not fully reflect inherent risk and are subject to variability. Profitability is below average relative to broad industry averages.	Earnings and profitability are volatile and highly correlated with economic rate cycles. Profitability measures may not fully reflect inherent risk and are subject to variability. Profitability is well below average relative to broad industry averages.	May be structurally unprofitable on either a reported or operating basis. Return to break-even or sustainable profitability is highly uncertain.
Counterparty Exposure	Very limited clearing member concentration. Guarantee fund covers loss from the simultaneous default of at least two of its largest clearing members. Appropriate level of collateral to support margin and guarantee fund requirements. Extremely prudent investment of surplus funds and extension of credit to facilitate settlement.		Limited clearing member concentration. Guarantee fund covers loss from the simultaneous default of at least two of its largest clearing members. Appropriate level of collateral to support margin and guarantee fund requirements. Prudent investment of surplus funds and extension of credit to facilitate settlement.	Average clearing member concentration. Guarantee fund covers loss from the simultaneous default of only two of its largest clearing members. Satisfactory level of collateral to support margin and guarantee fund requirements. Less prudent investment of surplus funds and extension of credit to facilitate settlement.		Above-average clearing member concentration. Guarantee fund covers loss from default of largest clearing member. Sufficient level of collateral to support margin and guarantee fund requirements. Aggressive investment of surplus funds and extension of credit to facilitate settlement.	Significant clearing member concentration. Guarantee fund does not cover loss from the default of largest clearing member. Insufficient level of collateral to support margin and guarantee fund requirements. Very aggressive investment of surplus funds and extension of credit to facilitate settlement.

Source: Fitch.

III. Support

Unlike banks, most non-bank financial institutions do not often receive extraordinary sovereign support that allows them to continue performing on their obligations in case of failure. As indicated in Section I of this report, the most usual source of support for non-bank financial institutions is shareholders (institutional support), with support from government authorities (sovereign support) being much less common. Fitch's view of the likelihood of support being made available in case of need may be reflected in an entity's SR. Where the agency believes the most likely form of support is sovereign support, this is also reflected in the non-bank financial institution's SRF. Where there is no reasonable assumption that extraordinary sovereign support is likely for a given issuer, a SRF will not be assigned. Section III.1 below focuses on sovereign support and section III.2 focuses on institutional support.

III.1. Sovereign Support

In assessing the likelihood of extraordinary government support for a non-bank financial institution, Fitch's primary focus is usually on potential assistance from the national authorities of the country where the non-bank financial institution is domiciled. This is because it is the non-bank financial institution's national authorities that are most likely to have both an incentive to prevent the entity from defaulting and the regulatory and legal powers to intervene. However, in certain cases, Fitch also assesses the possibility of support being made available to a failing non-bank financial institution from a combination of national sovereign authorities, subnational authorities and/or international public institutions.

Sovereign support decisions for non-bank financial institutions may be more often driven by an assessment of the entity's policy role as opposed to its systemic importance, although certain non-bank financial institutions whose activities are more akin to financial utilities may have a higher potential to exhibit systemic importance.

Sovereign Ratings and Support Rating Floors

Sovereign Rating	Typical SRFs in Case of High Support Propensity
AAA, AA+	A+ to A–
AA, AA–	A or A–
A category	1–2 notches below sovereign rating
BBB category	0–2 notches below sovereign rating
BB category	0–1 notch below sovereign rating
B category and below	Equalized with sovereign rating

Source: Fitch.

III.1.1 Ability of Sovereign to Provide Support

Importance of this Assessment: For a non-bank financial institution to receive government support, the sovereign must, by definition, be both able and willing to provide it. Where the ability of the sovereign to provide support is more constrained, support will usually be less likely, resulting in lower SRs and SRFs or the absence of SRs and SRFs.

In assessing a government's ability to provide support, Fitch's starting point is the sovereign's own ratings (or potentially a Fitch Credit Opinion if the opinion is in the single 'B' rating category or lower). The sovereign rating used is almost always the sovereign in which the entity is domiciled, but could sometimes be a subnational and/or third-party sovereign with an interest in supporting the non-bank financial institution.

Key Factors in Assigning Support Rating Floors[a]

	Factor	Positive (Higher SRF)	Neutral	Negative (Lower SRF)
Sovereign Ability to Support	Size of financial system relative to economy	Small	Average	Large
	Size of potential problem	Low vulnerability of financial sector to large losses in downturn	Moderate vulnerability of financial sector to large losses in downturn	High vulnerability of financial sector to large losses in downturn
	Structure of financial system	Low concentration, ownership mainly by strong shareholders	Moderate concentration, some ownership by strong shareholders	High concentration, limited ownership by strong shareholders
	Liability structure of financial system	Predominantly long-term/stable local-currency funding	Moderate funding instability and/or foreign-currency liabilities	Considerable short-term foreign-currency funding
	Sovereign financial flexibility (for rating level)	Superior (e.g. low debt, large FX reserves and/or good market access)	Average (e.g. average debt and reserves and/or reasonable market access)	Weak (e.g. high debt, low FX reserves and/or uncertain market access)
Sovereign Propensity to Support Non-Bank Financial Institution	Systemic importance or policy role	Exceptionally high systemic importance to financial system and contagion risk; dominant market shares or highly strategic policy role	Strong significance to financial system and economy; high contagion risk or meaningful policy role	Moderate or low systemic significance, more limited contagion risk or limited policy role
	Liability structure of financial institutions	Very limited politically acceptable, if any, possibilities to bail in senior creditors	Significant foreign / wholesale funds, which could be politically acceptable to bail-in in some circumstances	High foreign/wholesale funding, which could be politically acceptable to bail-in in many scenarios
	Ownership	Strategic government ownership or private domestic owners with strong government relations.	Non-strategic government ownership or domestic owners with neither close nor difficult government relations	Foreign ownership or domestic owners with poor government relations
	Specifics of non-bank financial institution failure	N.A.	More likely to fail as a result of usual operating activities	Significant risk that failure could result from corporate governance weaknesses

[a]The factors identified in this table determine the levels of SRFs relative to the ranges indicated in the table Sovereign Ratings and Support Rating Floors. For each factor, other relevant considerations may exist that are not explicitly referenced here.
Source: Fitch.

In rare cases where Fitch does not assign a credit rating or Credit Opinion to the sovereign, Fitch will either not assign a sovereign support-driven SR/SRF (no assessment undertaken) or assign them at '5'/'No floor' (e.g., unable to reliably assess sovereign creditworthiness or sovereign ability/propensity support concerns are present). Although the sovereign's ratings reflect Fitch's view only on the likelihood of the government servicing its own debt, in practice this is usually closely correlated with its broader financial flexibility and, therefore, ability to provide support to financial institutions. Typical SRFs at each sovereign rating level are outlined in the Key Factors in Assigning Support Rating Floors table.

III.1.1 Propensity of Sovereign to Provide Support

Non-bank financial institutions are generally less likely to be deemed as systemically important as banks, especially if not integral to a country's financial system. As a result, most non-bank financial institutions are not likely to receive sovereign support. Having a policy role is a more likely reason for a non-bank financial institution to receive sovereign support, although systemic importance and interconnectedness with the financial system are other possible reasons for the sovereign to consider supporting the non-bank financial institution.

III.2. Institutional Support

Fitch's ratings of non-bank financial institution subsidiaries may or may not factor in a high probability of support from parent institutions. On one end of the spectrum, a captive finance subsidiary may be afforded a high probability of support, because its existence enhances the parent's franchise, strategic objectives and revenue growth prospects. The other end of the spectrum could be an entity that is afforded a lower probability of support because it is held primarily as a tax-advantaged investment opportunity, such as an aircraft leasing subsidiary of an insurance company.

In determining potential support for non-bank financial institution subsidiaries from parent institutions, Fitch considers the parent's ability and propensity to provide support and a subsidiary's ability to make use of parental support, as outlined in sections III.2.1 and III.2.2 below and in Annex 2.

III.2.1 Parent's Ability to Support Subsidiary and Subsidiary's Ability to Use Support

Importance of this Assessment: For a non-bank financial institution to receive shareholder support, the owner must, by definition, be both able and willing to provide it and a subsidiary must be able to make use of parental support to avoid default.

Parent IDRs: Fitch's assessment of the parent's ability to support its subsidiary starts by considering the parent's Long-Term IDRs. These ratings cap the ability of the parent to provide support, as Fitch would not expect support for a subsidiary to be forthcoming when the parent is itself in default. In addition, other factors, namely parent/group regulation and relative size, may also affect the ability of the parent to provide support.

Parent VR: In cases where the parent's Long-Term IDR is driven by potential sovereign support, such as if the parent is a bank, Fitch will consider whether this support would be allowed to flow through to subsidiaries, in particular those operating in foreign jurisdictions. In Fitch's view, parent regulators will in many cases have quite strong incentives to allow support to flow through to subsidiaries given the potential negative impact of a subsidiary default on the group's operations and reputation.

However, in cases where Fitch judges there to be significant uncertainty about support flowing through, it may increase the notching between parent and subsidiary Long-Term IDRs compared to what would usually be applied given the propensity of the parent to support. Where the agency considers there to be high uncertainty about support flowing through, it may use the parent's VR or stand-alone credit risk assessment, rather than its Long-Term IDR, as its anchor rating in assessing the parent's ability to support its subsidiary.

Where possible, Fitch may consult with representatives of the parent's regulatory authorities to form a view on whether support would flow through. In addition, many of the factors determining a parent's propensity to support a subsidiary (e.g. strategic importance, integration and ownership) will, in Fitch's view, also be likely to influence a parent regulator's decision on whether to let support flow through to the subsidiary.

Parent/Group Regulation: Aside from the issue of "sovereign support flow through," significant regulatory restrictions at the parent level, if relevant, may more generally reduce the fungibility of capital and liquidity within a group, reducing the ability of the parent to provide support to a subsidiary.

Conversely, regulatory requirements to support subsidiaries can positively influence the levels of IDRs assigned to a subsidiary, resulting in them being closely aligned to those of the parent even where propensity to support might otherwise have been low. Formal or informal agreements between parent and subsidiary regulators could also make it more likely that support would be forthcoming.

Relative Size: In cases where subsidiaries form a relatively large part of the consolidated group, the parent may find it more difficult to provide sufficient and timely extraordinary support, even in cases where its own (stand-alone) balance sheet remains relatively unimpaired. This risk will be greater where Fitch believes that different subsidiaries' needs for support are likely to be quite highly correlated, for example, because they operate in a single region. Where subsidiaries are

large relative to the consolidated group, Fitch may increase the notching between parent and subsidiary Long-Term IDRs, where the latter are driven by parental support.

Common Ratings: In some cases, where a subsidiary is very large (for example, accounting for more than 25% of group assets), the parent may not be able to support the subsidiary because its balance sheet is simply not big enough, it does not generate sufficient operating cash flow, or it does not have meaningful access to the capital markets. Furthermore, such very large subsidiaries tend to be highly integrated with their parents in terms of management, balance sheet fungibility and systems, meaning subsidiary and parent credit profiles are likely to be highly correlated. In such cases, Fitch will not base the subsidiary's ratings on support from the parent, but will instead assign 'common' ratings, to parent and subsidiary, reflecting the fact that their credit profiles cannot be meaningfully disentangled.

Both the size and integration characteristics must be met for common IDRs to be assigned. If a subsidiary is highly integrated, but relatively small and does not make a significant contribution to the group's overall credit profile, then its IDR, if assigned, will be based on either its parent rating (if parental support is believed to be forthcoming) or its own stand-alone profile (if parental support is not believed to be forthcoming). Common VRs and, hence IDRs, may also be applied to sister entities or entities in the same group, for example, under a holding company structure, when their operations are highly integrated or complementary to the functioning of the group or where regulation effectively makes entities within a group liable for each other's losses.

Country Risks: Fitch considers whether country risks in the jurisdiction of the subsidiary may limit its ability to utilize parent support to service its obligations. Where country risks are high, subsidiary ratings may be capped at levels significantly below those which would be possible based on the parent's ability and propensity to provide support. The domestic Country Ceiling, which captures transfer and convertibility risk, will almost always cap the subsidiary's Long-Term Foreign Currency IDR unless there are strong mitigating circumstances (e.g. material assets and cash flows are outside the country and available to service debt.) Broader country risks will usually prevent the subsidiary's Long-Term Foreign and LC IDRs being more than three notches above the sovereign. For more details, see Annex 2: Rating Non-Bank Financial Institutions Above the Sovereign.

III.2.2 Parent's Propensity to Support Subsidiary

Importance of this assessment: Even if a parent has the ability to provide support to a subsidiary, whether it does or not will depend on the parent's propensity to provide support. In general, Fitch believes parents that are prudentially regulated (e.g. banks or insurance companies) or whose non-bank financial institution subsidiaries support the parent's core business (e.g. captive auto lenders or institutions acting as group treasuries) are likely to exhibit a higher propensity to support non-bank financial institution subsidiaries than parents whose subsidiaries are more akin to investments driven by return, tax and/or diversification goals.

In assessing support propensity, Fitch analyzes the factors listed below *(also see the Notching of Subsidiaries table)*. In the absence of ability constraints (including country risk), a subsidiary that Fitch views as "core" will usually have ratings equalized with the parent; a subsidiary viewed as "strategically important" will usually have ratings one notch (but in some cases, two notches) lower than the parent; and a subsidiary viewed as being of "limited importance" will usually be rated at least two notches below the parent or notched up from its stand-alone rating. Where a parent has adopted a resolution plan, Fitch may review this, where possible, for indications as to whether the parent would be likely to support the subsidiary in case of need.

Role in Group: A subsidiary's role in the broader group is often a key factor in determining the parent's propensity to provide support. Where the subsidiary represents a key and integral part of the group's business, providing some of the group's core products/services to customers in core markets, the propensity to support will usually be higher than when the subsidiary has limited synergies with the parent and is not operating in a target market. In some cases, Fitch's view of the strategic importance of the market where a subsidiary operates will take into account the role of a group of subsidiaries. An example may be a small foreign subsidiary which is of limited importance by itself but is one of several subsidiaries operating in a strategically important region for the parent.

Fitch will typically rate foreign subsidiaries operating in non-core markets at least one notch below their parents. This reflects the usually somewhat lower strategic importance and integration of foreign entities, and moderately less severe contagion risk from a foreign subsidiary default, compared to that of a domestic entity. It also reflects the somewhat lower likelihood of pressure from the parent's regulator to provide support to a foreign subsidiary, as opposed to a domestic subsidiary.

On the other hand, Fitch will often equalize the ratings of a foreign subsidiary with its parent institution where the subsidiary operates in a market long regarded as core by the parent.

Potential for Disposal: Where the potential for disposal is very low, for example, because the sale of the subsidiary would significantly alter the overall shape of the group and deprive the group of a key part of its business, subsidiary ratings are more likely to be equalized with those of the parent. Where the subsidiary could be more easily separated from the group and, in particular, where the entity is already up for sale or being prepared for sale, Fitch usually views the support propensity as being less strong.

Country risks can also affect the long-term financial prospects of an overseas subsidiary and thus weaken a parent's commitment to maintaining a presence in a country. This means subsidiary ratings are usually capped no more than two notches (three notches where Fitch views the commitment as being very robust in a high sovereign stress scenario) above a sovereign IDR even if a country ceiling is higher.

Implication of Subsidiary Default: The parent institution's decision on whether to support a subsidiary will in many cases consider the near-term costs and benefits of providing (or not providing) support. Where default would constitute a huge reputational risk to the parent and could undermine its franchise or even viability, the propensity to support will often be higher than when reputational risk is limited and the direct impact on the parent will be containable.

Integration: A high level of management, operational and balance sheet integration between parent and subsidiary would usually be viewed by Fitch as underlining the parent's strategic commitment to the subsidiary and making a default of the subsidiary potentially more onerous and costly for the parent. These factors would typically result in a higher propensity to support, in the agency's view and, therefore, reduced notching or equalization of ratings between parent and subsidiary Long-Term IDRs. In particular, if the parent provides a high proportion of the subsidiary's non-equity funding, this could raise considerably the cost for the parent of the subsidiary's default and potential bankruptcy and increase the incentive to provide support.

Where the degree of integration between parent and subsidiary is very high, such that the latter operates similarly to a branch, or is effectively a booking entity, Fitch may equalize the Long-Term IDRs of parent and subsidiary or assign these within one notch of each other.

Ownership: Fitch does not usually distinguish between full and large majority (over 75%) ownership in assessing a parent's propensity to support a subsidiary. However, if a minority

owner has a relatively large (over 25%) stake, this could moderately reduce the perceived moral obligation of the parent to unilaterally support the subsidiary and might complicate and delay decisions on the provision of joint support. Therefore, Fitch will be less likely to equalize ratings where a large minority shareholder exists. Furthermore, the agency might notch twice or more, rather than once, where the stakes of majority and minority shareholders are close to parity, or where some element of competition or confrontation exists between the shareholders.

Support Track Record: A strong track record of provision of timely extraordinary support to a subsidiary (or to other subsidiaries within the group) under a broad range of stress scenarios can positively influence Fitch's assessment of a parent institution's propensity to provide support, and thus limit the notching of a subsidiary's Long-Term IDR relative to that of its parent. In addition, Fitch views positively a high level of 'ordinary' support, whereby a parent operates a subsidiary with comfortable liquidity and, in particular, capital buffers, rather than simply meeting minimum regulatory requirements. A track record of not providing support, or the absence of a track record altogether given a limited operating history, could constrain the degree of institutional support uplift.

In the event of a default by its home sovereign, the stand-alone profile of a subsidiary will probably have suffered significant impairment. Potential uplift of a subsidiary's rating above the sovereign rating of its domicile will, therefore, usually be limited because of some uncertainty that the owner's commitment to providing continued support will remain in place in a sovereign default scenario. Uplift will be usually be limited to two notches above a sovereign IDR (or three notches if Fitch views support as being very robust in a high sovereign stress scenario) even if a country ceiling is higher.

Subsidiary Performance and Prospects: A strongly performing subsidiary with generally good prospects will usually, in Fitch's view, be somewhat more likely to be supported by its parent than a subsidiary with a track record of moderate or weak performance. At the same time, the agency also takes into account that a subsidiary in need of extraordinary support has by definition suffered a sharp deterioration in its performance, which weakens the relevance of any historically strong profitability in assessing future prospects.

Branding: Where a subsidiary shares branding with its parent institution, this may signal an increased commitment to, or greater integration with, the subsidiary on the part of the parent. Common branding may also increase reputational risk for the parent in case of a subsidiary default, potentially also increasing the propensity to support.

Notching of Subsidiaries

Notching Relative to Parent Rating[a]	Core/Equalized	Strategically Important/One (or in Some Cases Two) Notches	Limited Importance/Two or More Notches[b]
Parent Ability to Support and Subsidiary's Ability to Use Support			
Parent/Group Regulation	Parent regulator and/or regulation would be likely to favor support of subsidiary by parent entity	Parent regulator/regulation is neutral for subsidiary support	Parent not regulated or parent regulator/ regulation may restrict support or capital/tax implications of support may be very onerous
Relative Size	Any required support would be immaterial relative to ability of parent to provide it	Any required support would likely be manageable relative to ability of parent to provide it	Required support could be considerable relative to ability of parent to provide it
Country Risks	N.A.	Country risks (e.g. transfer and convertibility risks) represent moderate constraint on subsidiary's ability to use parent support	Country risks (e.g. transfer and convertibility risks) represent significant constraint on subsidiary's ability to use parent support
Parent Propensity to Support			
Role in Group	Key and integral part of the group's business, provides some of group's core products/services in same jurisdiction as parent or to core market(s)	Strong synergies with parent, providing products/services in jurisdictions or markets identified as strategically important	Limited synergies with parent, not operating in target jurisdictions or markets
Potential for Disposal	Sale is very hard to conceive; disposal would noticeably alter overall shape of group	No plans to sell, although disposal would not fundamentally alter overall group franchise; country risks raise moderate doubts over long-term commitment to the subsidiary	Potential candidate for sale, or might already be up for sale; disposal would not be material for group franchise; country risks raise more material doubts over long-term commitment to the subsidiary
Implication of Subsidiary Default	Default would constitute huge reputational risk to parent, and very materially damage its franchise	High reputational risk for parent, with potential for significant negative impact on other parts of group	Reputational risk would probably be containable for parent
Integration	High level of management and operational integration; capital and funding largely fungible	Significant management independence; some operational/regulatory restrictions on transfers of capital and funding	Considerable management independence; significant operational/regulatory restrictions on transfers of capital and funding
Size of Ownership Stake	Full ownership or large majority stake (typically more than 75%)	Ownership of less than 75%, but limited influence of minority shareholder(s) on subsidiary operations	Ownership of less than 75%, and significant influence of minority shareholder(s) on subsidiary operations
Support Track Record	Support is unquestioned, reflecting high level of integration and fungibility of capital/funding	Timely and sufficient provision of support, when the need has arisen, or no prior cases of support being needed; country risks raise moderate concerns over support in a sovereign default scenario	Support has been provided with some delays, has only been moderate in volume relative to subsidiary needs or has not been observed given a limited operating history; country risks raise more material concerns over support in a sovereign default scenario
Subsidiary Performance and Prospects	Long and successful track record in supporting group objectives, which is likely to continue	Limited track record of successful operation, or moderate long-term prospects	Weak performance track record, or question marks over long-term viability of business
Branding	Shares same brand as parent	Combines parent and own branding	Subsidiary branded independently from parent
Legal Commitments	Parent has made strong legal commitment to support subsidiary	Parent has made non-binding commitment to support subsidiary	Parent has not made any legal commitment to support subsidiary
Cross-Default Clauses	Potential acceleration of parent debt provides strong incentive to prevent subsidiary default	Potential acceleration of parent debt provides moderate incentive to prevent subsidiary default	Subsidiary default would not trigger acceleration of parent debt

[a]Indicates typical differential between support-driven Long-Term IDR of subsidiary and Long-Term IDR of parent. Subsidiary could be rated higher than the level implied by parental support if it has a higher stand-alone profile or SRF. [b]Where Fitch judges support to be unlikely or highly uncertain, the Long-Term IDR of a subsidiary with limited importance may be based solely on its stand-alone strength, or may be notched up from a rating level commensurate with its stand-alone strength.
Source: Fitch.

Legal Commitments: In rare cases, a subsidiary may be incorporated with unlimited liability, creating a clear legal obligation for the parent institution to provide support. In such cases, Fitch would be likely to equalize the Long-Term IDRs of subsidiary and parent, unless there were constraints arising from country risks. An unconditional and irrevocable guarantee, which contains specific third-party beneficiary language, and permits subsidiary creditors to press claims against the guarantor in the event of default by the subsidiary, would also serve to create a floor for the IDR of the subsidiary and/or its guaranteed debt at the same level as the guarantor.

A formal support agreement entered into by the parent entity, for example, to maintain capital and liquidity requirements of a non-bank financial institution subsidiary above a defined threshold, will be regarded as moderately positive for subsidiary ratings. However, although certain support agreements are legally binding while in force, they are usually revocable and can also be withdrawn if the subsidiary is divested, meaning they will typically provide very limited uplift, if any, for a subsidiary's ratings.

Non-binding commitments from parents to support subsidiaries, such as public management comfort letters (for example, in bond prospectuses), strategic statements (for example, in annual reports) or letters lodged with subsidiary regulators, add some value to the rating process by defining management's intent and potentially providing a stronger moral obligation on the part of the parent to provide support to the subsidiary. However, as such non-binding commitments are not enforceable, they generally have limited direct bearing on rating decisions in and of themselves.

Cross-Default Clauses: Cross-default clauses in parent funding agreements may specify that a subsidiary default will constitute an event of default on parent obligations, thereby granting acceleration rights to parent creditors. While this creates no obligation for the parent to support the subsidiary, it may create a significant incentive to do so, raising the propensity to provide support. The strength of this incentive will depend, among other things, on the volume of obligations potentially subject to acceleration, whether the terms of the acceleration would be attractive to creditors and hence be taken up (for example, whether the redemption price would be above or below the current market price) and whether creditors might waive their acceleration rights, perhaps for a fee.

Level of Parent IDRs: Where the parent institution's Long-Term IDR is at a low, speculative-grade level (typically in the 'B' range or below), Fitch is more likely to equalize parent and subsidiary Long-Term IDRs. This reflects the fact at the lower end of the rating scale the difference in default risk between successive rating notches becomes greater and so it may be appropriate to assign a parent and subsidiary with relatively little risk differential the same levels of Long-Term IDRs.

Non-Bank Parent Companies: The propensity and ability of corporate and insurance parents to support non-bank financial institution subsidiaries is assessed using similar principles as for bank parents. The relative size of the parent and subsidiary, the parent's creditworthiness and financial flexibility and the importance of the subsidiary to the core business of the parent will be relevant considerations. In general, Fitch believes parent companies that are prudentially regulated (e.g. insurance companies) or whose non-bank financial institution subsidiaries support the parent's core business (e.g. captive auto lenders or finance subsidiaries acting as group treasuries) are likely to have a higher propensity to support non-bank financial institution subsidiaries than corporate parent companies whose subsidiaries are more akin to investments, driven by return, tax and/or diversification goals.

Support from Sister Entities: Fitch may factor support from sister entities, as well as parent institutions, into non-bank financial institution ratings, where it believes this potential support to be strong. However, in assessing this potential support, Fitch will consider in particular: (i) whether the sister company's propensity to support could be materially weaker because it does not hold a stake and, therefore, would not suffer any direct balance sheet impairment as a result of the rated entity's bankruptcy; and (ii) whether the regulator of the sister institution may seek to restrict support to safeguard the solvency of the former.

Subnational Governments: Sometimes Fitch views potential support from federal, state or other subnational (regional, municipal or local) authorities as sufficiently strong to drive a non-bank financial institution's IDR. Fitch usually treats this as a form of institutional support and, therefore, typically does not assign SRFs based on support from a subnational. However, in exceptional cases, for example, when the subnational itself benefits from a robust and tested framework of integration and support at the national level, Fitch may also assign a SRF based on subnational support.

In Fitch's view, it is very unlikely that a subnational would seek to provide support to a non-bank financial institution subsector in its entirety, and so the agency's assessment of support will focus on the subnational's ability and propensity to support specific institutions. In assessing a subnational's ability to support, the following additional considerations will apply in respect to some of the factors listed in the Notching of Subsidiaries table.

Relative Size: Fitch will consider the overall financial flexibility of the subnational government (to the extent that this may be somewhat greater or lower than suggested by its ratings), including the size of its budget, available liquidity and ability to raise additional debt, if required.

Role in Group: Fitch will consider the existence of any special relationship between the subnational and the non-bank financial institution (e.g. the non-bank financial institution has an important policy role or agency function in the region).

Implication of Subsidiary Default: Fitch will consider the systemic importance of the non-bank financial institution to the regional financial system and economy as a whole (as measured, for example, by its shares of loans in the region).

Domestic Presence: Ratings based on subnational support are more likely where a non-bank financial institution has a strong presence in its home region but limited operations in the rest of the country or internationally.

Changes in Support Propensity and Sale of Subsidiary

Based on changes in circumstances, Fitch may change its view on a parent's propensity to support a given subsidiary. In some cases, for example, if Fitch were to perceive a sharp change in a subsidiary's role in the group, the potential change in a subsidiary's Support Rating and IDR could be significant (e.g. by multiple notches).

Gradual Trend: If Fitch believes that a parent's propensity to support a given subsidiary is gradually changing, whether because of changes in strategic importance or due to other factors listed above, Fitch may change the Rating Outlook on the subsidiary's Long-Term IDR (assuming it is support-driven), and the revised Rating Outlook could be different to that on the parent's Long-Term IDR. For example, if a parent has a Stable Rating Outlook, but Fitch believes a core FI subsidiary is becoming less important to the group, Fitch could change the Rating Outlook on the subsidiary to Negative to indicate the potential change in rating associated with its lessening strategic importance. Conversely, a gradual increase in a subsidiary's strategic importance could result in its Long-Term IDR having a Positive Rating Outlook while the Rating Outlook on the parent's Long-Term IDR is Stable.

Sale Risk: Fitch does not explicitly capture sale risk in its ratings, prior to a formal announcement that a subsidiary is to be sold or is up for sale. However, in the agency's view, there is usually a close correlation between a subsidiary's strategic importance and the likelihood of it being sold. Sale risk should therefore usually be low in cases where a subsidiary's Long-Term IDR is equalized with, or within one notch of, that of its parent.

Sale Announced, Buyer not Identified: If a parent announces that a subsidiary is up for sale without a buyer yet being identified or that management is exploring strategic alternatives with respect to the entity or if, for example, a regulator requires that a parent divest a subsidiary, then Fitch will reassess the parent's propensity to provide support to the entity concerned. If the agency believes the strategic importance of the subsidiary has reduced, such that the parent will have a lower propensity to provide support prior to the sale, or in case a sale does not go through, the Long-Term IDR of the subsidiary may be downgraded. If Fitch believes there is a significant probability a sale will take place, the ratings of the subsidiary are also likely to be placed on Rating Watch.

In taking rating actions following a sale announcement, Fitch will also consider whether a relatively narrow group of highly-rated potential acquirers has already been identified. In such cases, the risk of the subsidiary's Long-Term IDR being downgraded may be limited, and the ratings may therefore be maintained at their former levels even when Fitch believes the subsidiary has become less strategically important for its current parent.

Conversely, if Fitch believes that a subsidiary will most likely be sold to an entity with a much lower rating than the current parent, then the subsidiary's Long-Term IDR may be downgraded immediately following the announcement concerning the potential sale. This may be the case, for example, when a highly rated parent is exiting an emerging market and Fitch believes that local, more lowly rated entities are more likely acquirers than other highly rated foreign entities.

Sale Announced, Buyer Identified: If a parent announces that it has reached an agreement to sell a subsidiary to a specific buyer, and, in Fitch's view the probability of support from the new buyer differs from that of the current owner (with the potential to affect the subsidiary's Long-Term IDR), then Fitch will place the subsidiary's Long-Term IDR on Rating Watch. The Rating Watch may be Positive, Negative or Evolving, depending on the potential impact of support from the new owner on the rating.

If the Long-Term IDR is likely to be downgraded following the sale, and if Fitch believes the current owner would have a materially lower propensity to support the subsidiary should the sale not go through for any reason — i.e. in all likely scenarios the ratings will be downgraded — then it may downgrade the IDR immediately following the announcement. If Fitch believes that the sale could also result in material changes in the subsidiary's stand-alone profile, e.g. because of the loss of 'ordinary support' or because of changes in strategy, then its stand-alone credit profile may also be adversely affected.

Upon completion of the sale, or earlier if appropriate, Fitch will resolve the Rating Watch on the IDR based on its assessment of the probability of support from the new owner.

IV. Issue Ratings

As indicated in section I.6 of this report, issue ratings of non-bank financial institutions, like those of other corporate finance sectors, incorporate an assessment both of the likelihood of default (or of non-performance risk in the case of subordinated/hybrid securities) on the specific obligation and of potential recoveries for creditors in case of default/non-performance. This section outlines how Fitch assesses default/non-performance risks and recovery prospects on different types of non-bank financial institution securities and how this is factored into long-term ratings and RRs assigned to issues.

IV.1 Short-Term Debt

Short-Term IDRs are almost always assigned in accordance with a correspondence table between Long-Term and Short-Term IDRs *(see the Rating Correspondence table)*. Where the Long-Term IDR can correspond to either of two Short-Term IDRs, the Short-Term IDR will usually be determined based primarily on the strength of the issuer's liquidity profile.

Key rating elements regarding a non-bank financial institution's liquidity profile include:

- a review of the non-bank financial institution's liquidity profile, liquidity management and alternative funding sources;
- available liquid assets;
- sources and maturity profiles of backup liquidity;
- credit quality of liquidity providers; and
- conditions precedent to drawing upon liquidity sources.

If a non-bank financial institution's CP funding does not match its normal asset conversion cycle or operational free cash flow, the issuer must seek to refund CP notes already in the market, either with the issuance of new CP notes or long-term bonds or by accessing committed, CP-specific or general corporate purpose bank lines that enable same-day funding. If the issuer does not have such immediate funding, the company may not be able to repay maturing obligations. As such, Fitch considers backup liquidity for outstanding CP and other short-term debt obligations an important element in assigning instrument-level ratings, as well as an element in assessing the LT IDR.

Liquidity backup is either adequate or inadequate. More than adequate liquidity backup does not justify a higher short-term credit rating. On the other hand, when CP is explicitly enhanced, such as if it is backed by a direct-pay line of credit or similar form of guarantee, the ultimate CP rating will be the higher of the direct-pay line of credit or similar credit enhancement or the short-term rating of the issuer itself.

Fitch typically expects investment-grade-rated CP issuers to have full (100%) liquidity backup available for its outstanding CP and other short-term obligations, regardless of the credit rating of the entity. Backup liquidity may not only be in the form of bank commitments but may also include cash or marketable securities, expected operational cash flow sources, tangible parental support or other alternative forms of liquidity support depending on how reliable these sources may be.

If the majority of backup facilities are maturing in one year or less, the CP issuer is exposed to non-renewal risk, since some banks may be unwilling to renew their maturing commitments. For issuers with substantial amounts of CP outstanding, the need for multiyear liquidity backup is even more important. Companies with multiple long-term backup facilities can reduce non-renewal risk by having tiered maturities.

IV.2 Senior Unsecured Obligations

IV.2.1 Overview

Ratings of senior unsecured obligations are usually assigned in line with a non-bank financial institution's Long-Term IDR, because:

- Fitch almost always views the likelihood of default on any given senior unsecured obligation as the same as the likelihood of default of the non-bank financial institution (as reflected by the Long-Term IDR) because default on any material class of senior unsecured obligations would be treated by Fitch as a default of the entity.
- Fitch usually treats senior unsecured obligations of non-bank financial institutions as having average recovery prospects. In view of the high uncertainty regarding what a non-bank financial institution's balance sheet will look like upon default, Fitch requires a high burden of proof to notch senior debt upwards or downwards based on recovery prospects. RRs on non-bank financial institutions' senior unsecured debt, where assigned, are therefore usually 'RR4', consistent with an average recovery rate of 31%–50%.

Nevertheless, in the circumstances outlined below, senior unsecured issue ratings may be assigned at levels below, or above, the non-bank financial institution's Long-Term IDR:

Weak Recovery Prospects, Lower Issue Rating: In some cases in which an issuer has substantial levels of secured borrowings, Fitch may view a senior unsecured issue as having weaker-than-average recovery prospects, resulting in it being assigned an issue rating below the Long-Term IDR. This may be because of general concerns about the quality of a non-bank financial institution's assets, potentially impairing recovery prospects for all creditors in case of default. Or it may be driven by specific concerns related to the non-bank financial institution's funding structure; for example, very high levels of balance sheet encumbrance or very deep subordination of senior unsecured creditors in the liability structure.

Secured funding has historically been a cost efficient method for funding non-bank financial institution assets. Therefore, unsecured debt may be a very small part of the capital structure and may be rated one-notch below the Long-Term IDR until it accounts for a meaningful part of the funding mix.

Strong Recovery Prospects, Higher Issue Rating: Fitch will not usually rate senior unsecured liabilities higher than the non-bank financial institution's Long-Term IDR because of high uncertainty in assessing recovery prospects. An example might be when an entity is closer to default and there is greater visibility on recovery prospects for senior unsecured creditors.

Higher Default Risk, Lower Rating: In rare cases, Fitch may take the view that a non-bank financial institution may selectively default on certain senior unsecured obligations, but that such a default would not indicate the uncured failure of the entity because of the specific circumstances of the default, usually relating to some form of regulatory intervention and/or because the obligations in question do not comprise a significant part of the overall funding base. In such a case, the issue ratings may reflect the specific selective default risk relating to the instruments concerned, while the Long-Term IDR will continue to reflect the risk of default on the bulk of the issuer's senior liabilities.

Lower Default Risk, Higher Rating: In exceptional circumstances Fitch may rate certain senior unsecured obligations higher than the obligor's Long-Term IDR because the agency believes default on the securities is less likely than on other reference obligations to which the IDRs rate.

Substitution and Variation Clauses: Periodically, senior debt securities include clauses that permit the contractual terms of the securities to be varied or the securities themselves to be substituted with new securities. Such clauses may be at an issuer's discretion, subject to approval by a trustee, etc.

Fitch assesses whether such clauses should affect a bond's rating on a case-by-case basis. Where both the probability of variation or substitution is considered high and there is a high degree of clarity over the form of the substitution/variation securities, Fitch will rate to the terms of the likely substitution or variation securities.

IV.2.2 Recovery Rating Analysis

Where a non-bank financial institution has a Long-Term IDR of 'B+' or below, Fitch typically assigns a RR to the entity's issues rated on the long-term scale based on a bespoke recovery analysis. RRs provide greater transparency on the recovery component of Fitch's assessment of the credit risk of lowly rated issuers' securities, based on a scale ranging from 'RR1' for the strongest recovery prospects to 'RR6' for poor recovery prospects, as per the table below. However, when insufficient data are available or the potential recovery outcome is highly variable, Fitch would not assign a RR.

Credit ratings for the obligations of issuers rated between 'AAA' and 'BB–' for the most part take aggregate recoveries on the defaulted bond market as a whole into consideration, as per the Notching Guidance for 'BB–' and Above Rated Issuers table. Instruments of a particular priority and security position will be assigned credit ratings that reflect the average recoveries expected to be received by such an instrument in the event of a default. Fitch does not typically conduct bespoke recovery analysis for such obligations as they are so far from default that assumptions that might be used for the analysis of a default scenario could be too speculative to be of added value.

Recovery Rating Scale

Rating	Recovery Prospects Given Default	Typical Historical Recoveries (%)	Notching of Issue Rating[a]
RR1	Outstanding	91–100	3
RR2	Superior	71–90	2
RR3	Good	51–70	1
RR4	Average	31–50	0
RR5	Below Average	11–30	(1)
RR6	Poor	0–10	(2)

Click here for full descriptions of each rating. [a]Relative to level of non-performance risk. As outlined in the 'Strong Recovery Prospects, Higher Issue Rating' sub-section of IV.2.1, it is exceptionally rare for Fitch to notch up senior unsecured debt for recovery reasons.
Source: Fitch.

At any rating level where the bespoke recovery approach is not used, Fitch can denote contractual or structural subordination that is detrimental to the unsecured debt by rating it lower than the IDR. This can potentially be the case where there are large proportions of secured debt relative to total debt, particularly where leverage is relatively high, or where a portion of debt is structurally removed from the operations and, therefore, relies on dividend flows for debt servicing. Forms of subordination can also include lower levels of guarantees from group entities for a particular tranche of debt.

Where IDRs have transitioned from the 'B' rating category to the 'BB' rating category, at which rating levels RRs are no longer assigned, existing debt instruments previously benefiting from RRs of 'RR2' and 'RR1' under the bespoke analysis may stay at their previous rating levels notwithstanding the IDR being upgraded, if warranted. This may be the case if the capital

structure contains a large component of higher-ranking debt. A 'BB+' rated instrument is unlikely to be upgraded to 'BBB–' until the IDR is 'BB+', unless superior recoveries are expected.

Conversely, should an IDR migrate from 'BB–' or above to the 'B' rating category where bespoke recovery analysis is undertaken, Fitch may position ratings assigned to secured and unsecured tranches of debt by undertaking recovery analysis so that an upgrade of the instrument rating does not occur when the IDR is downgraded.

Instrument Ratings for Combinations of IDRs and RRs

	Long-Term IDR							
Recovery Rating	**B+**	**B**	**B–**	**CCC+**	**CCC**	**CCC-**	**CC**	**C/RD/D**
RR1	BB+	BB	BB–	B+	B	B–	CCC+	CCC
RR2	BB	BB–	B+	B	B–	CCC+	CCC	CCC–
RR3	BB–	B+	B	B–	CCC+	CCC	CCC-	CC
RR4	B+	B	B–	CCC+	CCC	CCC-	CC	C
RR5	B	B–	CCC+	CCC	CCC-	CC	C	C
RR6	B–	CCC+	CCC	CCC–	CC	C	C	C

Note: Assumes no incremental non-performance risk in instrument rating relative to the IDR. As outlined in the 'Strong Recovery Prospects, Higher Issue Rating' sub-section of IV.2.1, it is exceptionally rare for Fitch to notch up senior unsecured debt for recovery reasons.
Source: Fitch.

How Recovery Ratings Are Determined

Fitch first determines the likelihood of default/non-performance by an issuer, which it measures on the long-term 'AAA' rating scale. Fitch then arrives at the issue rating as a function of its recovery prospects in case of default/non-performance. As per the table below, where recovery prospects are viewed as average, the issue rating will be in line with the assessment of default/non-performance risk. If the agency views the instrument as having above- or below-average recovery prospects, for example as a function of leverage, funding mix and stressed valuation, Fitch may adjust upwards or downwards, respectively, from the default/non-performance risk to arrive at the issue rating. The extent of potential upward/downward adjustment of the issue rating based on the instrument's recovery prospects is shown in the table below.

Notching Guidance for 'BB–' and Above Rated Issuers

	Investment Grade		High Speculative Grade 'BB+' to 'BB–'	
Notches from IDR	**Secured Debt**	**Unsecured Debt**	**Secured Debt**	**Unsecured Debt**
3				
2				
1	Notched by +0 to +1	At average recoveries: +0 Notch. At below average recoveries +0 to -1 notches	Notched by +0 and +3, but capped at 'BBB-'	Low levels of secured debt: +0 to +1 Notch
+0				
-1		Subordinated debt: -0 to -2 notches		Unsecured and/or subordinated with secured debt: -0 to -2 notches
-2				

Source: Fitch

Valuation Methods Used

The valuation methods Fitch typically applies for deriving the RR of issuances by non-bank financial institutions include the liquidation value (LV) approach and the going-concern (GC) approach. The choice of valuation techniques employed may be influenced by common practice for specific non-bank financial institution segments, the issuer's ownership status, the

make-up of multi-entity groups and applicable insolvency regimes. If Fitch believes either the LV or GC approach is not applicable in the case of default of a given entity, the agency may opt to only undertake recovery analysis using one valuation method.

For subsectors with high balance sheet usage there tends to be a bias toward the LV approach in Fitch's analysis, possibly supplemented with a stressed NAV or net book value calculation. For subsectors with low balance sheet usage, Fitch will also typically conduct the LV approach, but it is more common for the GC approach to be used.

Where Fitch analyzes both methods, it may opt for the one that results in the higher enterprise value, consistent with the practice of creditors seeking to maximize firm value under bankruptcy proceedings. The table below shows the valuation methods and multiples typically used by Fitch by main subsector.

Valuation Method by Non-Bank Financial Institution Segment

NBFI Subsector	Liquidation Approach Typically Applied?	Going Concern Approach Applied When Relevant (Typical Multiple Range)
Securities Firms		
Cash Flow Business Model	Yes	Stressed Adjusted EBITDA multiple (5.0x–10x)
Balance Sheet Business Model	Yes	Stressed tangible book multiple (0.3x–1.5x)
Investment Managers		
Cash Flow Business Model	Yes	Stressed Adjusted EBITDA multiple (4.0x–10x)
Balance Sheet Business Model	Yes	Stressed NAV (0.5x–1.0x)
Business Development Companies	Yes	Stressed NAV (0.5x–1.0x)
Finance and Leasing Companies		
Cash Flow Business Model	Yes	Stressed Adjusted EBITDA multiple (4.0x–10x)
Balance Sheet Business Model	Yes	Stressed tangible book multiple (0.3x–1.5x)
Financial Market Infrastructure Companies		
Exchanges, CCPs and Non-Bank CSDs	Yes	Stressed Adjusted EBITDA Multiple (5.0x–10.0x)

Source: Fitch.

In deriving a consolidated enterprise value, Fitch may separate an entity's operating units by segment or by region to distinctly apply the most relevant valuation method to the various components.

Liquidation Approach

For non-bank financial institutions rated 'B+' or below that would likely be liquidated upon default, Fitch typically conducts a break-up analysis of their balance sheet to assess potential recoveries for creditors. This may involve an elimination of at least a portion of existing cash balances, reflecting their likely utilization under stress. In most cases, Fitch will deduct common equity from total assets to reflect an expectation that the institution will have exhausted its capital base in the event of a default.

Under the LV approach, Fitch applies haircuts to the remaining assets to reflect Fitch's expectation that these assets would likely be sold for less than book value in a liquidation scenario. Fitch then allocates the cash generated by asset sales to the creditors, based on the expected priority of claims.

Assets consolidated on balance sheets but assigned directly to specific creditors of the institution will generally be excluded from the calculation. Similarly, assets still on balance sheet but pledged to support securitization issues will be excluded from recovery calculations,

to the extent excess collateral is not present and receivers would lack the ability to control related assets. Deferred tax assets are typically not given any credit.

Haircuts applied can vary significantly by business model, asset class and region, among other factors, and Fitch will assess this on a case-by-case basis. By way of guidance, the table below reflects typical discount ranges for a number of broad asset classes that are often found on the balance sheets of asset-heavy non-bank financial institutions.

Asset Haircuts[a]

Asset	Characteristics	Discount (%)
Cash And Equivalents	No risk, adjustment may be made to reflect expected balance at default	0–50
Fixed Income Securities	Variability in risk and liquidity	5–75+
Equities	Variability in liquidity and volatility	15–100
Tangible Fixed Assets	Variability in liquidity and volatility	15–75+
Mortgage Lending	Low risk if first charge, higher risk if second charge; variable liquidity	5–40
Unsecured Personal Lending	High risk	25–50+
Associates and JVs	Illiquid and variable value	20–60
Intangible Assets[b]	Illiquid and questionable value in distress	70–100

[a]For assets purchased at a significant discount (e.g. in the case of debt purchasers), Fitch will typically apply a haircut at the lower end of the indicated range to reflect more limited additional write-down risk in a stressed scenario. [b]For non-bank financial institutions with sizable balance sheet-light subsidiaries (that could be sold as a going concern in their entirety), haircuts on intangibles might be at the lower end of the cited 70% to 100% range.
Source: Fitch.

Going Concern Approach

The GC approach involves a two-step process:

- Estimate the level of post-default earnings, typically adjusted EBITDA, upon which to base the valuation.
- Apply a conservative valuation multiple reflecting a company's relative position within its sector based on actual or expected market and/or distressed multiples. Where no statistically significant sample of market transactions is available, analysts will seek out near-proxy sectors or make assumptions based on general trends for distressed market transactions.

Valuation multiple ranges provided in the Valuation Method by Non-Bank Financial Institution Segment table are purposefully broad for the various subsectors. The actual multiple that is applied in the recovery analysis will be dependent upon a review of then-current market conditions and an assessment of valuation multiples applied to similar market transactions around the time of the analysis.

For some non-bank financial institutions segments, Fitch may apply additional segment-specific valuation approaches. For example, for investment managers Fitch may consider valuation as percentage of stressed AUM in addition to an adjusted EBITDA multiple approach. For mortgage REITs, Fitch considers stressed values based on the criteria reports "U.S. and Canadian Multiborrower CMBS Rating Criteria" and "Structured Finance CDOs Surveillance Rating Criteria," in addition to an adjusted EBITDA multiple approach.

Estimating Creditor Claims

In an effort to estimate creditor claims Fitch's analysis takes into consideration:

- **Revolving Claims:** Fitch assumes that unused portions of committed lines of credit (secured or unsecured), revolving credit facilities and letter of credit commitments are fully drawn to the extent permitted. Greater judgment is exercised for facilities, which can only be drawn for specific uses, such as those designated for use for acquisitions and capital expenditures. Fitch will assess the extent to which such drawings may also give rise to

additional recoverable assets according to the purposes for which these credit lines are typically utilized.

- **Priority Administrative Claims:** These typically range between 2% and 10% of distressed enterprise value, depending on country, institution size and complexity.
- **Lease Rejection Claims:** Where lease rejection claims have been made, Fitch assesses the ability of the issuer to rationalize leases in a default scenario and notes that under the GC approach a certain level must typically be maintained, while under the LV approach 100% of non-residential leases are typically deemed rejected. The value of rejected leases is calculated consistent with the bankruptcy code applicable in each jurisdiction, where such concepts exist.
- **Concession Assumption:** The value distributed to senior unsecured creditors may be reduced by an amount that is redistributed to junior claimants to secure their approval of the plan of reorganization or liquidation. The amount of such concession payments is highly dependent on circumstances.
- **Pension and Other Post-Employment Benefit Obligations:** Underfunded pension plans and other post-employment benefit claims can be significant claims on the bankruptcy estate, although the claims may vary in priority depending on jurisdiction and issuer-specific intercreditor agreements.
- **Other Claims:** Other non-debt and contingent claims, including material lawsuits and contingent liabilities (and guarantees) may be considered, where these are particularly pertinent to an institution.
- **Related-Party Funding:** Where a non-bank financial institution has a large amount of related-party funding, Fitch will consider whether related-party creditors would be likely to effectively become senior to creditors by withdrawing their funds prior to default.

Fitch's recovery analysis typically takes a legal waterfall approach. However, application of value is not only affected by relative priority of instruments for a particular issuer but also by organizational structure. Absent a specific legal or regulatory construct to the contrary, Fitch will assume creditors of specific legal entities have a priority claim on assets of that entity relative to creditors of affiliates and related entities. In instances where there are multiple entities in a group, Fitch may establish valuation and claims at the entity level and consider the residual values available for creditors of parent or affiliated entities.

In this context, Fitch will generally use an entity's unconsolidated balance sheet as the basis for its recovery calculations. Factors that may partially offset the effect of structural subordination include the presence of upstream guarantees and intercompany obligations owed by the subsidiary to the parent. Cross-border complexities may add conservatism to the analysis of recoveries for non-bank financial institutions that operate internationally.

Fitch acknowledges that an analysis based on the LV or GC approach requires a large number of important assumptions concerning the structure of an issuer's financial profile upon default. In view of these assumptions, the agency will not necessarily map expected recoveries to corresponding RRs and long-term issue ratings. Instead, Fitch may increase or reduce the RRs suggested by the valuation and notching approaches, depending on the sensitivities of expected recoveries to small changes in assumptions, pending events, contractual terms within specific instruments, scope of collateral or views about the operating environment of a particular company.

Fitch's recovery analysis does not attempt to capture the full spectrum of possibly conflicting motivations for creditors or the speed with which such motivations can change. Fitch would not assign RRs where it believes available information to be insufficient or the outcome of the analysis to be particularly unpredictable.

Fitch has provided country caps for RRs to encompass the creditor-friendliness (or otherwise) of jurisdictions and enforceability of security in the event of a default (see the criteria report "Exposure Draft: Country-Specific Treatment of Recovery Ratings Criteria"). These caps permit the compression of senior and junior obligations where jurisdictional or other structural features indicate that this is warranted. Fitch will endeavor to explain findings from its issuer-specific recovery analysis in its research.

IV.3 Subordinated and Hybrid Securities

Typically speaking, subordinated and hybrid instruments issued by non-bank financial institutions will follow the ratings approach and potential equity credit methodology outlined in the criteria report "Non-Financial Corporates Hybrids Treatment and Notching Criteria" (for traditional subordinated debt and hybrid securities) or the "Corporate Rating Criteria" (for shareholder loans). In instances in which such instruments are determined not to qualify as debt per the "Non-Financial Corporates Hybrids Treatment and Notching Criteria or Corporate Rating," Fitch will typically afford 100% equity credit for such instruments if balance sheet capitalization metrics are relevant to the analysis of the issuing entity.

If a subordinated or hybrid instrument is issued by a non-bank financial institution prudentially regulated under a similar framework as banks, the ratings approach will follow the rationale outlined in the "Bank Rating Criteria." If a subordinated or hybrid instrument is issued by a policy institution or other entity with some form of government sponsorship, linkage or ownership, the ratings approach will follow the rationale outlined in the "Bank Rating Criteria." If a subordinated or hybrid instrument is issued by a non-bank financial institution prudentially regulated under a similar framework as insurance companies, the ratings approach will follow the rationale outlined in the criteria report "Insurance Rating Criteria."

Determining Ratings and Potential Equity Credit for Subordinated and Hybrid Securities Issued by Non-Bank Financial Institutions

Issuer Type	Applicable Criteria
Traditional non-bank financial institutions (i.e. does not fall under one of the three categories outlined below)	Non-Financial Corporates Hybrids Treatment and Notching Criteria (for traditional subordinated debt and hybrid securities) or Corporate Rating Criteria (for shareholder loans)
Non-bank financial institutions prudentially regulated under a similar framework as banks	Bank Rating Criteria
Non-bank policy institution or other entity with some form of government sponsorship, linkage or ownership	Bank Rating Criteria
Non-bank financial institution prudentially regulated under a similar framework as insurance companies	Insurance Rating Criteria

Source: Fitch.

IV.4 Guaranteed and Secured Debt

Fitch usually rates fully guaranteed debt (or debt that Fitch deems to be exposed to an equivalent degree of credit risk as guaranteed debt) in line with the senior unsecured debt of the guarantor (if this is higher than the unsecured debt rating of the non-bank financial institution issuer). Equalization of the guaranteed debt rating with the senior unsecured rating of the guarantor will depend on the guarantee ranking equally with the guarantor's senior unsecured debt, the jurisdiction of the guarantee being acceptable to Fitch at the rating level, its enforceability, timeliness and/or expectations that the guarantor will honor the guarantee. A non-bank financial institution's debt benefiting from a guarantee that ranks equally with the guarantor's subordinated obligations is usually rated in line with the subordinated debt of the

guarantor. In cases where the above conditions for equalization with the guarantor's rating are not met, Fitch will usually rate such obligations in line with the issuer's debt ratings.

In cases where Fitch has sufficient information to analyze and monitor the underlying collateral, it will rate long-term secured obligations of non-bank financial institutions, particularly those with relatively straightforward structures, using the default risk/recovery prospects approach outlined in the Notching Guidance for 'BB–' and Above Rated Issuers table. Issues with more complex forms of structural enhancement, e.g. securitizations, covered bonds and partially guaranteed obligations, are usually rated by Fitch's Structured Finance, Covered Bonds or Fund and Asset Manager group, respectively, based on separate criteria.

Ratings of non-bank financial institutions' short-term obligations are based solely on the issues' default risk and so do not take account of structural enhancements that may improve recoveries in case of default.

IV.5 Market-Linked Notes

Some non-bank financial institutions issue or guarantee securities that return amounts referenced to a market risk essentially independent of the issuer's/guarantor's own creditworthiness (sometimes referred to as market-linked notes or MLNs). In some cases, only the coupon stream references the market risk (referred to as principal-protected notes) and, in others, both the coupon stream and principal repayment are driven by the reference market risk (referred to as non-principal-protected notes). MLNs may reference a very broad array of risks, most commonly related to equities, currencies and commodities and are often structured in response to reverse inquiries.

MLN ratings are aligned with the ratings of a given issuer or guarantor's traditional debt instruments of an equivalent seniority (senior debt, preferred senior debt, etc.). Ratings are assigned by Fitch only when the principal is protected and solely address the credit risk of the issuer or guarantor. Coupon risk unrelated to the issuer or guarantor's credit risk is thus excluded from MLN ratings. Dual currency notes may be rated provided they can or will be settled in an equivalent amount of a second currency.

Fitch does not rate notes whose risk of principal return is unrelated to the issuer's credit risk. Consequently, for the avoidance of doubt, Fitch will not rate credit-linked notes, which reference the credit risk of a third party or basket of third parties, under this criteria. These notes may be rated by Fitch's Structured Finance Group.

IV.6 Debt Issuance Distinctions Between Holding Companies and Non-Bank-Financial Institution Operating Subsidiaries

When rating debt instruments that are structurally subordinated to other debt instruments within a group structure, for example debt issued by a holding company or debt-issuing vehicle, Fitch will assess the strategic, operational or legal links between the different elements in the structure.

If Fitch's analysis determines that such debt is sufficiently isolated from the remainder of the group, failure to service it may have limited implications for the creditworthiness of the operating subsidiaries. Fitch's analysis will still start with an assessment of the operating subsidiaries' credit profiles. However, this analysis will likely be supplemented by an assessment of the stand-alone profile of the issuing entity. In this case, Fitch's analysis would likely incorporate elements of Fitch's rating approach for investment companies, notably when assessing the issuer's capitalization and leverage as well as its funding, liquidity and coverage profile. Fitch may assign a public rating to the issuing entity, informing investors of its different default probability compared with the operating subsidiaries.

Under certain circumstances, for instance, if there is a strong ring-fencing mechanism in place (as may be the case where operating subsidiaries are prudentially regulated, for example), this could lead Fitch to exclude such holding company or debt-issuing vehicle debt from the analysis of the ring-fenced group.

On the other hand, if Fitch concludes that the strategic, operational or legal links between a holding company or debt-issuing vehicle and an operating entity are relatively significant and there is no or limited ring-fencing in place protecting the operating entity and holders of its debt, the structurally subordinated debt will most likely be consolidated in the analysis of the operating entity and the issue rating of the holding company or debt issuance vehicle's debt instrument will be determined through a notching approach.

In determining the notching relativities between a holding company or debt-issuing vehicle and an operating company and their respective debt instruments, Fitch assesses potential differences in default probabilities. As part of this assessment, Fitch analyzes relevant regulatory and legislative aspects, the operating entity's ability to upstream dividends to the issuing entity in comparison to the debt quantum and interest expenses of the issuing entity. Fitch would also take other potential income streams of the issuing entity into consideration, including, where relevant, interest income on intercompany loans and cash flows from other group entities.

Annex 1: Variations from Criteria

Fitch's criteria are designed to be used in conjunction with experienced analytical judgment exercised through a committee process. The combination of transparent criteria, analytical judgment applied on a transaction-by-transaction or issuer-by-issuer basis and full disclosure via rating commentary strengthens Fitch's rating process while assisting market participants in understanding the analysis behind the ratings.

A rating committee may adjust the application of these criteria to reflect the risks of a specific transaction or entity. Such adjustments are called variations. All variations will be disclosed in the respective rating action commentaries, including their impact on the rating where appropriate.

A variation can be approved by a ratings committee where the risk, feature or other factor relevant to the assignment of a rating and the methodology applied to it are both included within the scope of the criteria, but where the analysis described in the criteria requires modification to address factors specific to the particular transaction or entity.

Annex 2: Rating Non-Bank Financial Institutions Above the Sovereign

Fitch is more likely to rate a non-bank financial institution above the sovereign – i.e. assign a LC Long-Term IDR to the non-bank financial institution above the sovereign LC Long-Term IDR, or a FC Long-Term IDR to the non-bank financial institution above the sovereign FC Long-Term IDR – when both of two conditions hold. First, Fitch must believe that a non-bank financial institution would probably retain the capacity to service its obligations in the relevant currency following a sovereign default in that currency. This capacity may be retained either because the non-bank financial institution receives external support or because the non-bank financial institution's intrinsic strength, as reflected in its stand-alone credit risk profile, is sufficient to enable it to continue servicing its obligations after a sovereign default.

Second, the agency must believe that the sovereign, following its own default in a currency, would probably not impose restrictions on the non-bank financial institution's ability to service its obligations in that currency. Restrictions may be applied to FC or LC obligations. Fitch usually regards restrictions to the former as somewhat more likely than the latter, which tends to result in the non-bank financial institution's LC ratings being less constrained, relative to the sovereign, than FC ratings. However, in some countries where governments have been more interventionist, both FC and LC ratings of non-bank financial institutions may be capped at the level of the sovereign.

Additionally, unlike banks, which often have strong ties to the credit profile of the sovereign in which they reside, non-banks may not experience the same linkage or potential restrictions on their ability to service their own debt. As an example, a global investment manager may have the majority of its capital invested in other countries, with limited exposure to the economy in which it domiciled. Therefore, the credit profile of the investment manager may not be directly affected by the credit profile of the sovereign.

Annex 3: Information Used to Issue and Maintain Ratings

Key Principles

Fitch bases its research and rating analysis on a thorough analysis of all relevant information known and believed to be relevant to the analysis and the rating decision.

This information includes publicly available information, information provided directly by the issuer and information provided by third parties and relevant information gathered by Fitch during its interaction with other issuers.

All rating committees are required to verify that data was sufficient and robust relative to the rating decision. Where there is insufficient information to assign or maintain a rating, no rating shall be assigned or maintained.

Criteria Data Sources

The key rating assumptions for the criteria are informed by discussions with external parties, such as issuers, institutional owners, supervisors and governments and Fitch's analysis of financial and non-financial information, such as issuer financial statements and annual reports, bond documentation and financial market, industry, academic and economic data, research and history.

Information Threshold

The core information relied on in the rating process is publicly available information such as annual and interim financial statements (typically at least three years of audited accounts), transaction documents for public issues, public statements, presentations and other ad hoc disclosure made by issuer management, public regulatory filings and official industry commentary. This public information represents the minimum requirements for investors to form an investment decision and is based on the level and type of information typically presented by a publicly listed company.

Public disclosure is often supplemented by additional information provided directly by issuer management. Such additional information may take the form of more frequent or confidential updates of information typically disclosed publicly and/or specific non-public information considered analytically important. Meetings may be held with members of issuer management to discuss the information provided and to understand any assumptions used in the preparation of the information. Non-financial information used in the rating process would typically include a description of the institution's core products, client base, geographical markets, risk management framework, group structure, ownership and strategy.

Fitch works with the most recent information available. Public disclosure will generally be predictable in its timing; periodic updates of other information will typically be timed to coincide with a scheduled review, or ad hoc, in response to changing conditions. This supplemental information can provide periodic insights, but its provision is subject to the discretion of the rated entity. Historical time series information provides important insight but the most recent information typically has a greater weighting in the prospective rating opinion.

Fitch undertakes a reasonable verification of the factual information relied on in accordance with the relevant rating methodology and criteria as far as is possible from information from independent sources, to the extent such sources are available.

Surveillance

Analysts perform ongoing surveillance of information received and/or requested. Where a factor or trend could have an impact on the rating, Fitch will determine the appropriate course of action, which may be one of the following:

- The non-bank financial institution is taken to rating committee.
- The non-bank financial institution is issued with a request for additional specific information (Fitch may also consider it appropriate to place it on Rating Watch at this point).

Fitch may also conclude that no action is necessary. There are no differences between new rating analysis and surveillance analysis.

Annex 4: Use of Stress Testing and Other Tools in the Rating Process

Key Principles

Where relevant, Fitch will complement its analysis of the relevant information with an assessment of the potential impact of a range of reasonable/plausible stress scenarios or simulations.

Assumptions

Assumptions used in stress or scenario analyses will vary but will typically incorporate macro-economic variables, loss rates and changes in risk parameters (such as probability of default and loss given default), and the impact will typically be framed in the context of impact on earnings, liquidity, interest coverage and/or capital/leverage. The variable(s) selected will be driven by the nature and/or severity of the stress envisaged or being tested and will be established at an issuer-specific, sector, country and/or region level.

Tools Used in the Rating Process

Where relevant, Fitch will use a range of standardized tools to simulate the effect of asset quality/performance, earnings, capital and liquidity stresses. Stress testing may be carried out on an issuer-specific or sector basis and may be supplemented by bespoke simulations in cases where standardized approaches may not be appropriate.

To the extent that regulators in various jurisdictions may conduct stress tests or asset quality reviews across a country or sector, Fitch may use its own similar tools to understand better regulatory stress tests and their sensitivities, recognizing the varying degrees of disclosure regarding factors such as baseline data and stress variables.

Inputs and Outputs

Stress and scenario testing may require standard issuer inputs of a non-public nature, and Fitch will request those that are considered necessary. If such inputs are not provided, Fitch will use conservative estimates based on analytical judgment together with its broader industry and sector knowledge. Alternatively, Fitch may be provided with an issuer's own scenario analyses. In such cases, Fitch will discuss these with issuer management to understand the underlying assumptions used in the analysis and, if appropriate, make further analytical adjustments to management's underlying assumptions.

Outputs may, at Fitch's discretion, be disclosed in full or part where such disclosure adds value to the analysis and/or research. However, the presence of non-public data typically results in disclosure being in aggregate or summarized form. Fitch will use peer comparison, where relevant, to evaluate relative resilience to specific stresses or scenarios.

Annex 5: Rating Sensitivities and Limitations

Rating Sensitivites

Fitch's opinions are forward looking and include the agency's views of future performance. Non-bank financial institution ratings are subject to positive or negative adjustment based on actual or projected financial and operational performance. The list below includes a non-exhaustive list of the primary sensitivities that can influence the ratings and/or Rating Outlook.

- **Operating Environment Risk:** Deterioration in an issuer's operating environment due to weakening of general economic environment, sovereign risks, financial market health, changes in regulatory/legislative requirements or conditions and systemic governance in the countries where the issuer is operating as well as possible imposition of foreign exchange controls.

- **Business Risk:** Developments in an issuer's ability to withstand competitive pressures as shown in its position/franchise in key markets, its business model/diversification, its level of pricing power and its operating efficiency.

- **Financial Risk:** Changes in an issuer's financial profile due to the impact of operational developments, a weakening of an issuer's operating environment, the issuer's financial policy or risk appetite or the availability of funding in case of market disruption.

- **Event Risk:** An unforeseen event, which, until it is explicit and defined, is excluded from existing ratings. Event risks can be externally triggered — a change in law, a natural disaster, a political shock or an ownership change — or internally triggered, such as a change in policy on capitalization, a major acquisition, fraud or a management or strategic restructuring. As most non-bank financial institutions tend to have an asset-liability mismatch (asset duration longer than funding duration), they can be vulnerable to extreme liquidity stress. While funding, liquidity and coverage are core parts of Fitch's rating analysis, sometimes idiosyncratic events can cause a rapid, potentially materially detrimental, deterioration in liquidity.

- **Change in Support Risk:** A change in extraordinary support likely to be available to an issuer, for example, due to a change in ownership or developments in resolution frameworks. Event risk and changes in support can often have more material implications for non-bank financial institution ratings than other risks outlined above.

- **Instrument-Specific Risk:** In the case of issue-level ratings, these may be sensitive to changes in the company's issuer-level ratings, performance risk relative to the risk captured in issuer-level ratings (e.g. hybrid securities) and changes in default risk or recovery prospects for such instrument, for example as a function of the seniority of the instrument, the volume of pari passu liabilities, the volume and relative ranking of other liabilities, the availability of unencumbered assets and/ or the enterprise value of the business.

Limitations

This master criteria identifies factors that are considered by Fitch in assigning ratings to a particular entity or obligation within the scope of the master criteria. Not all factors in these criteria

may apply to each individual rating or rating action. Each specific rating action commentary or rating report will discuss those factors most relevant to the individual rating action.

Ratings, including Rating Watches and Rating Outlooks, assigned by Fitch are subject to the limitations specified in Fitch's Rating Definitions, available at www.fitchratings.com/site/definitions. More specifically to non-bank financial institutions, IDRs, VRs, SRs, SRFs and DCRs do not specifically address transfer and convertibility risk for each and every foreign jurisdiction in which a non-bank financial institution operates, nor do they reflect jurisdiction-specific resolution risks.

Annex 6: Related Criteria

This criteria report has been published together with the following criteria report:

Bank Rating Criteria

The following cross-sector criteria reports remain in force and will be applied to the ratings of non-bank financial institutions and other financial institutions, where appropriate:

Country Ceilings Criteria

Sukuk Rating Criteria

National Scale Ratings Criteria

Non-Financial Corporates Hybrids Treatment and Notching Criteria

Exposure Draft: Country-Specific Treatment of Recovery Ratings

Third-Party Partial Credit Guarantees Rating Criteria

The Distressed Debt Exchange Rating Criteria no longer applies to non-bank financial institutions as the relevant analytical concepts have been incorporated it into this criteria.

Annex 7: Subsector Financial Ratios and Definitions

Summary of Non-Bank Financial Institution Core Ratios and Quantitative Benchmarks

		aa or Above	a	bbb	bb	b or Below
Securities Firms (High Balance Sheet Usage)						
Earnings and Profitability	Operating Income/Average Equity (%)	x>20	10<x≤20	5<x≤10	3<x≤5	x≤3
Capitalization and Leverage	(Tangible Assets – Reverse Repo – Sec. Borrowed)/FCC (x)	x<5	5≤x<10	10≤x<15	15≤x<20	x≥20
Funding, Liquidity and Coverage	Liquid Assets/Short-Term Funding (%)	x>200	150<x≤200	100<x≤150	85<x≤100	x≤85
Securities Firms (Low Balance Sheet Usage)						
Earnings and Profitability	Adjusted EBITDA/Revenue (%)	x>25	20<x≤25	15<x≤20	10<x≤15	x≤10
Capitalization and Leverage	Gross Debt/Adjusted EBITDA (x)	x<0.5	0.5≤x<1.5	1.5≤x<2.5	2.5≤x<3.5	x≥3.5
Funding, Liquidity and Coverage	Adjusted EBITDA/Interest Expense (x)	x>15	10<x≤15	6<x≤10	3<x≤6	x≤3
Investment Managers Primarily Charging Fees Based on Net Asset Value (Traditional Investment Managers and Hedge Fund Managers)						
Asset Performance	Net Client Flows/Beginning (F)AUM (%)	x>10	5<x≤10	5≥x>(5)	(5)≥x>(10)	x≤(10)
Earnings and Profitability	Adjusted (F)EBITDA/Fee Revenue (%)	x>50	30<x≤50	20<x≤30	10<x≤20	x≤10
Capitalization and Leverage	Gross Debt/Adjusted (F)EBITDA (x)	x<0.25	0.25≤x<1.5	1.5≤x<3.0	3.0≤x<5.0	≥5.0
Funding, Liquidity and Coverage	Adjusted (F)EBITDA/Interest Expense (x)	x>18	12<x≤18	6<x≤12	3<x≤6	x≤3
Investment Managers Primarily Charging Fees Based on Invested/Committed Capital (Alternative Investment Managers)						
Asset Performance	Net Client Flows/Beginning (F)AUM (%)	x>10	5<x≤10	5≥x>(5)	(5)≥x>(10)	x≤(10)
Earnings and Profitability	Adjusted (F)EBITDA/Fee Revenue (%)	x>50	30<x≤50	20<x≤30	10<x≤20	x≤10
Capitalization and Leverage	Gross Debt/Adjusted (F)EBITDA (x)	x<0.50	0.50≤x<2.5	2.5≤x<4.0	4.0≤x<6.0	≥6.0
Funding, Liquidity and Coverage	Adjusted (F)EBITDA/Interest Expense (x)	x>12	8<x≤12	4<x≤8	2<x≤4	x≤2
Investment Companies						
Capitalization and Leverage	Gross Debt/Tangible Equity (x)	x<0.15	0.15≤x<0.35	0.35≤x<0.50	0.50≤x<1.0	≥1.0
Funding, Liquidity and Coverage	One year's upstream dividend and interest income coverage of one years' holdco interest expense (x)	x>10	6<x≤10	3.5<x≤6.0	2.5<x≤3.5	x≤2.5
Funding, Liquidity and Coverage	One year's upstream dividend and interest income coverage of two years' holdco operating expenses, interest expense and dividends (x)	x>1.0	x>1.0	x>1.0	x≤1.0	x≤1.0
Business Development Companies						
Asset Quality	Net Realized Gains/Average Portfolio, at Value (%)	x>(1.0)	(1)≥x>(3)	(3)≥x>(4)	(4)≥x>(6)	x≤(6)
Earnings and Profitability	Net Investment Income/Average Portfolio, at Cost (%)	5<x≤10	5<x≤10	5<x≤10	x≤5 or x>10	x≤5 or x>10
Capitalization and Leverage	Debt/Tangible Equity (x)	x<0.25	0.25≤x<0.50	0.50≤x<0.80	0.80≤x<1.00	x≥1.00
Funding, Liquidity and Coverage	Unsecured Debt/Total Debt (%)	x>90	50<x≤90	35<x≤50	x≤35	x = 0
Finance and Leasing Companies (High Balance Sheet Usage)						
Asset Quality[a]	Impaired Loans/Gross Loans ('aa' operating environment) (%)	x≤1	1<x≤3	3<x≤6	6<x≤14	x>14
Asset Quality[a]	Impaired Loans/Gross Loans ('a' operating environment) (%)	x≤0.25	0.25<x≤2	2<x≤5	5<x≤12	x>12
Asset Quality[a]	Impaired Loans/Gross Loans ('bbb' operating environment) (%)		X≤0.5	0.5<x≤4	4<x≤10	x>10
Asset Quality[a]	Impaired Loans/Gross Loans ('bb' operating environment) (%)			x≤0.75	0.75<x≤5	x>5
Asset Quality[a]	Impaired Loans/Gross Loans ('b' operating environment) (%)				x≤1	x>1
Earnings and Profitability	Pre-Tax Income/Average Assets (%)	x>4	3<x≤4	2<x≤3	1<x≤2	x≤1
Capitalization and Leverage	Debt/Tangible Equity (x)	x<1.0	1.0≤x<3.0	3.0≤x<5.0	5.0≤x<7.0	x≥7.0
Funding, Liquidity and Coverage)	Unsecured Debt/Total Debt (%)	x>90	50<x≤90	35<x≤50	x≤35	x = 0

[a]In instances where asset quality metrics exhibit seasonal differences in performance, Fitch may seek to normalize such metrics when assessing asset quality at a given point in time. Fitch may exclude or normalize a quarterly data point if it is believed to be unduly influenced by seasonality rather than reflecting a longer term asset quality trend. Note: If/when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for such issuer. *Continued on next page.*
Source: Fitch.

Summary of Non-Bank Financial Institution Core Ratios and Quantitative Benchmarks (continued)

		aa or Above	a	bbb	bb	b or Below
Finance and Leasing Companies (Low Balance Sheet Usage)						
Earnings and Profitability	Adjusted EBITDA/Revenues (%)	x>25	20<x≤25	15<x≤20	10<x≤15	x≤10
Capitalization and Leverage	Debt/Adjusted EBITDA (x)	x<0.5	0.5≤x<1.5	1.5≤x<2.5	2.5≤x<3.5	x≥3.5
Funding, Liquidity and Coverage	Adjusted EBITDA/Interest Expense (x)	x>15	10<x≤15	6<x≤10	3<x≤6	x≤3
Financial Market Infrastructure Companies (Exchanges, CCPs and Non-Bank CSDs)						
Earnings and Profitability	Adjusted EBITDA/Revenue (%)	x>25	20<x≤25	15<x≤20	10<x≤15	x≤10
Capitalization and Leverage	Gross Debt/Adjusted EBITDA (x)	x<0.5	0.5≤x<1.5	1.5≤x<2.5	2.5≤x<3.5	x≥3.5
Funding, Liquidity and Coverage	Adjusted EBITDA/Interest Expense (x)	x>15	10<x≤15	6<x≤10	3<x≤6	x≤3

Note: If/when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for such issuer.
Source: Fitch.

Securities Firm Ratios

Metric	Definition	Core or Complementary	Firms with High Balance Sheet Usage	Firms with Low Balance Sheet Usage
Asset Quality Ratios				
Impaired and Nonperforming Ratio	Loans where income has stopped accruing, loan has been restructured or the receivable is deemed otherwise impaired/period-end loans.	Complementary.	✓	
Reserves for Impaired Loans/ Impaired Loans	Reserves for Impairments/Impaired Loans	Complementary	✓	
Loan Impairment Charges/Average Gross Loans	Impairment Charges on Loans/Average Gross Loans	Complementary	✓	
Impaired Loans Less Reserves for Impaired Loans/FCC	(Impaired Loans and Leases – Associated Reserves)/FCC	Complementary	✓	
Growth of Gross Loans	Increase in total customer loans at the end of the accounting period less total customer loans at the beginning of the accounting period as a percentage of customer loans at the beginning of the accounting period.	Complementary	✓	
Market Risk Ratios				
Average VaR/FCC	Average period trading VaR considered as reported and adjusted to 99% confidence interval and one-day holding period; data are assessed both including and excluding attributed diversification. FCC equals shareholders' equity, less hybrid capital reported as equity, non-controlling interests reported outside equity, less non-controlling interests not regarded as loss absorbing by Fitch, less goodwill and all other intangibles, less ineligible deferred tax assets, +/- fair value of own credit risk, less first-loss tranches of retained off-balance sheet securitizations, less life assurance/insurance company interests	Complementary	✓	
Fitch Stressed VaR/FCC	Fitch stressed VaR is calculated by multiplying the aggregated 10-day, 99% level maximum VaR by a factor of five; intended to capture market risk under extremely severe market conditions.	Complementary	✓	
Trading Efficiency Ratio	Principal daily trading revenue (annual/252 days) or (quarterly/63 days)/average trading VaR (99%, one day, U.S. dollars)	Complementary	✓	
Earnings and Profitability Ratios				
Operating Profit/Average Equity	Pre-tax profit before non-recurring and non-operating income and expenses as a percentage of average reported equity.	Core	✓	
Adjusted EBITDA/Revenue	EBITDA with adjustments for significant non-cash items, such as non-cash compensation expenses, as a percentage of total revenue.	Core		✓
Adjusted ROAE	Reported net income, excluding discontinued operations and extraordinary one-time items and the effects of CVA/DVA, as a percentage of average reported equity.	Complementary	✓	
Operating Expense/Revenue	Operating expenses, including interest expense, as a percentage of total revenue.	Complementary	✓	
Compensation/Net Revenue	Compensation paid in the period as a percentage of net revenue, isolated for brokers and traders compensation where possible	Complementary	✓	

[a]Applicable only for those entities subject to Basel regulation. Note: If/when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for such issuer. *Continued on next page.*
Source: Fitch.

Securities Firm Ratios (continued)

Metric	Definition	Core or Complementary	Firms with High Balance Sheet Usage	Firms with Low Balance Sheet Usage
Capitalization and Leverage Ratios				
Net Adjusted Leverage	(Tangible Assets - Reverse Repurchase Agreements - Securities Borrowed)/FCC	Core	✓	
Gross Debt/Adjusted EBITDA	Gross debt divided by EBITDA, with adjustments for significant non-cash items such as non-cash compensation expenses	Core		✓
Gross Leverage	Total assets divided by total equity	Complementary	✓	
Tangible Gross Leverage	(Tangible Assets plus Gross ups for Derivatives, Reverse Repurchase Agreements and Securities Borrowed)/FCC Tangible assets equal total assets minus goodwill and intangibles Derivatives, reverse repurchase agreements and securities borrowed are grossed up for any netting amounts that may otherwise be excluded from amounts reported on the balance sheet	Complementary	✓	
Adjusted Leverage	(Tangible Assets - Reverse Repurchase Agreements)/FCC	Complementary	✓	
Tier I Capital Ratio[a]	Ratio as reported to the regulators in the relevant jurisdiction; the calculation is: common equity as defined by local regulators as a percentage of risk weighted assets as defined by local regulators.	Complementary	✓	
FCC/RWA[a]	FCC divided by risk weighted assets as reported to the regulator in the relevant jurisdiction	Complementary	✓	
Funding and Liquidity Ratios				
Liquid Assets/ST Funding	Total assets minus illiquid assets *(defined below)* as a percentage of wholesale funding due within 12 months Illiquid assets typically include high yield debt + merchant bank, private equity investments + emerging market + consumer loans + bank loans + goodwill + intangibles + non-investment-grade derivatives marked to market + other assets + non-investment-grade residual assets	Core	✓	
Adjusted EBITDA/Interest Expense	EBITDA with adjustments for significant noncash items, such as noncash compensation expenses, as a multiple of interest expense	Core		✓
LT Funding/Illiquid Assets	Equity and long-term borrowing as a percentage of illiquid assets *(as defined above)*	Complementary	✓	

[a]Applicable only for those entities subject to Basel regulation. Note: If/when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for such issuer.
Source: Fitch.

Simplified Balance Sheet and Calculation of Capitalization Ratios

Identifier	Description	Value
	Condensed Balance Sheet	
A	Cash	15
B	Securities Borrowed (Net)	15
C	Reverse Repo (Net)	10
D	Derivative Instruments (Net)	5
	Other Securities Inventory	50
E	Goodwill and Intangibles	5
F	Total Assets	100
	Total Liabilities	75
G	Hybrid Capital	5
	Capital	10
	Retained Earnings	10
H	Total Equity	25
	Other Inputs from Notes to the Financial Statements	
I	Securities Borrowed (Gross)	25
J	Reverse Repos (Gross)	20
K	Derivative Instruments (Gross)	15
L	Risk Weighted Assets	40
	Calculations	**Formula**
M	Tangible Assets	95 = F-E
N	FCC	15 = H-G-E
O	Securities Borrowed Gross Up	10 = I-B
P	Reverse Repo Gross Up	10 = J-C
Q	Derivative Instruments Gross Up	10 = K-D
	Gross Leverage	4.0 = F/H
	Tangible Gross Leverage	8.3 = (M+O+P+Q)/N
	Adjusted Leverage	5.7 = (M-C)/N
	Net Adjusted Leverage	4.7 = (M-B-C)/N
	FCC/RWA	37.5% = N/L

Source: Fitch.

Investment Manager Ratios

Metric	Definition	Core or Complementary	Alternative Investment Managers	Traditional Investment Managers
Asset Performance Ratios				
(F)AUM Growth Rate	(Ending (F)AUM/Beginning (F)AUM)-1	Core	✓	✓
Fundraising Success	(Gross Inflows - Gross Redemptions - Gross Distributions)/Beginning (F)AUM	Complementary	✓	✓
Management Fee Yield	Management Fees/Average (F)AUM	Complementary	✓	✓
Revenue Yield	Total Revenue/Average (F)AUM	Complementary	✓	✓
(F)EBITDA Yield	(F)EBITDA/Average (F)AUM	Complementary	✓	✓
Earnings and Profitability Ratios				
(F)EBITDA Margin	(F)EBITDA/Total Fee Revenue	Core	✓	✓
Management Fee Contribution	Management Fees/Total Fees	Complementary	✓	
Total Management Fee Contribution	Management Fees/Total Revenue	Complementary	✓	
Operating Efficiency	(Base Compensation + Operating Expenses)/Total Fee Revenue	Complementary	✓	✓
Incentive Compensation Ratio	Incentive Compensation/Incentive Revenue	Complementary	✓	
Fee-Related Earnings Margin	Fee-Related Earnings (Net Income)/Fee Revenue	Complementary	✓	
Return on Average Equity	(Economic) Net Income/Average Equity	Complementary	✓	✓
Capitalization and Leverage Ratios				
Cash Flow Leverage	Gross Interest-Bearing Liabilities/(F)EBITDA, with adjustments made for significant noncash and nonrecurring items FEBITDA is defined as management, transaction, monitoring, and advisory fees - operating expenses + interest expense + depreciation + amortization + equity compensation. Interest and dividend revenue may be included if deemed recurring in nature.	Core	✓	✓
Net Cash Flow Leverage	(Gross Interest-Bearing Liabilities - Balance Sheet Cash and Equivalents)/(F)EBITDA, with adjustments made for significant noncash and nonrecurring items	Complementary	✓	✓
Balance Sheet Leverage	Gross Interest-Bearing Liabilities/Tangible equity Fitch defines tangible equity as equity less goodwill and other intangibles. In making balance sheet leverage calculations for investment managers, Fitch typically focuses on the unconsolidated balance sheet to exclude the effects of non-recourse assets and liabilities.	Complementary	✓	✓
Net Balance Sheet Leverage	(Gross Interest-Bearing Liabilities - Cash and Equivalents)/Tangible Equity	Complementary	✓	✓
FCC Leverage	Gross Interest-Bearing liabilities/FCC FCC equals shareholders' equity, less hybrid capital reported as equity, non-controlling interests reported outside equity, less non-controlling interests not regarded as loss absorbing by Fitch, less goodwill and all other intangibles, less ineligible deferred tax assets, +/- fair value of own credit risk, less first-loss tranches of retained off-balance sheet securitizations, less life assurance/insurance company interests	Complementary	✓	✓
Liquidity Ratios				
Interest Coverage	(F)EBITDA, with Adjustments for Significant Noncash and/or Nonrecurring Items/Interest Expense	Core	✓	✓
Liquid Asset Debt Coverage	(Cash + liquid investments)/Gross interest-bearing liabilities	Complementary	✓	✓
Asset Debt Coverage	(Cash + Liquid Investments + Balance Sheet Co-Investments)/Gross Interest-Bearing Liabilities	Complementary	✓	✓
Liquid Coverage of Co-Investment Commitments	(Cash + Liquid Securities)/Uncalled Co-Investment Commitments	Complementary	✓	✓
Liquid Assets	(Cash + Liquid Assets)/Total Assets	Complementary		✓
Payout Ratio	Distributions/Cash Earnings	Complementary	✓	✓

Note: If/when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for such issuer.

Source: Fitch.

Investment Company and Investment Fund Ratios

Metric	Definition	Core or Complementary	Investment Companies	Open-End Investment Funds	Other Investment Funds
Asset Quality/Performance Ratios					
Portfolio Credit Risk Profile	Weighted Average Credit Quality of Investments/Portfolio Companies	Complementary	✓		
Earnings and Profitability Ratios					
Return on Average Assets	Net Income/Average Assets	Core	✓	✓	✓
Return on Average Equity	Net Income/Average Equity	Complementary	✓	✓	✓
Capitalization and Leverage Ratios					
Balance Sheet Leverage	Gross Debt/Tangible Equity or Total Interest-Bearing Liabilities/Net Asset Value	Core	✓		✓
Gross Leverage	(Gross Long Investment Positions + Gross Short Positions)/Net Asset Value	Core		✓	
Funding, Liquidity and Coverage Ratios					
Cash and Unencumbered Securities Coverage	(Cash + Unpledged Assets)/Unsecured Debt	Core		✓	✓
Interest Coverage	Upstream dividend and interest income (or EBITDA) coverage of holdco operating interest expense	Core	✓		
Operating Expense Coverage[a]	Upstream dividend and interest income (or EBITDA) coverage of two years' holdco operating expenses, interest expense and dividends	Core	✓		
Illiquid Assets	Total Illiquid Assets/Net Asset Value	Complementary		✓	

[a]For investment companies that are privately held and do not have stated dividend policies, Fitch will likely remove holding company dividends from the denominator of this ratio. Note: If/when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for such issuer.
Source: Fitch.

Business Development Company Ratios

Metric	Definition	Core or Complementary
Asset Quality Ratios		
Net Portfolio Gains (Losses)	Net Realized Gains/Average Portfolio, at Value	Core
Non-Accruals, at Cost	Non-Accruals/Portfolio, at Cost	Complementary
Non-Accruals, at Fair Value	Non-Accruals/Portfolio, at Fair Value	Complementary
Net Portfolio Valuation Marks	Net Unrealized Appreciation (Depreciation)/Total Portfolio, at Cost	Complementary
Portfolio Concentrations	Top 10 Portfolio Investments, at Value/Equity	Complementary
Earnings and Profitability Ratios		
Net Investment Income Yield	Net Investment Income/Average Portfolio, at Cost	Core
Investment Income Yield	Investment Income/Average Portfolio, at Cost	Complementary
Operating Efficiency	Non-Interest and Non-Incentive Expenses/Average Portfolio, at Cost	Complementary
Compensation Ratio	Compensation/Average Portfolio, at Cost	Complementary
Return on Average Assets	Net Income/Average Assets	Complementary
Capitalization and Leverage Ratios		
Leverage	Interest-Bearing Liabilities/Total Equity	Core
Asset Coverage Ratio	(Assets - Current Liabilities)/Long-Term Debt	Complementary
Sensitivity to Leverage Cap	(Equity - Interest Bearing Liabilities)/Portfolio, at Value	Complementary
Funding and Liquidity Ratios		
Cash Earnings Coverage of Dividend	(Net Investment Income - Non-Cash Earnings + Non-Cash Expenses)/Dividends Declared	Core
Interest Coverage	Adjusted EBITDA/Interest Expense	Complementary
Funding Mix	Unsecured Debt/Total Debt	Complementary
Earnings Coverage of Dividend	Net Investment Income/Dividends Declared	Complementary
Non-Cash Income[a]	Non-Cash Income/Interest Income	Complementary

[a]Make adjustments for non-cash earnings received in cash, where available. Note: If/when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for such issuer.
Source: Fitch.

Finance and Leasing Company Ratios

Metric	Definition	Core or Complementary	Consumer and Commercial Finance	Leasing	Financial Services
Asset Quality Ratios					
Impaired and Non-Performing Ratio	Loans or leases Where Income has Either Stopped Accruing, Loan has Been Restructured, or the Receivable is Deemed Otherwise Impaired/Period-End Loans or Leases	Core[a]	✓	✓	✓
Impairment to Capital Ratio	(Impaired Loans and Leases - Associated Reserves)/FCC	Complementary	✓	✓	✓
Net Chargeoff Rate	(Gross Principal Losses - Recoveries)/Average Loans During the Period	Complementary	✓	✓	✓
Reserve Coverage of Impaired Loans	Reserves for Impairments/Impaired Loans and Leases	Complementary	✓	✓	✓
Residual Gain (Loss) Rate	Gain or Loss on Sale of Residual Vehicles and Equipment/Depreciated Value of the Assets Sold	Complementary		✓	
Earnings and Profitability Ratios					
Pre-Tax Return on Average Assets	Reported Pre-Tax Net Income/Average Assets	Core[a]	✓	✓	✓
Adjusted EBITDA Margin	Earnings Before Interest, Taxes, Depreciation and Amortization/Revenues with adjustments for significant non-cash items Fitch may make adjustments to its EBITDA calculation to exclude depreciation expense if it is believed to be a recurring operating expense and no significant change in leased asset levels is expected. However, in that case, Fitch would look to add back proceeds from the sale of leased assets to its calculation of cash flow, as it would likely be deemed a significant source of debt repayment.	Core[b]	✓	✓	✓
Pre-Tax Return on Average Equity	Reported Pre-Tax Net Income/Average Equity	Complementary	✓	✓	✓
Pre-Tax Income Margin	Pre-Tax Operating Income/Total Revenues	Complementary	✓	✓	✓
Operating Expense Ratio[c]	Operating Expenses/Average Loans	Complementary	✓	✓	✓
Depreciation Expense Ratio	Depreciation Expenses/Total Revenues	Complementary		✓	
Residual Value Gain (Loss) Contribution	Gain or Loss on Sale of Residual Vehicles and Equipment/Reported Net Income	Complementary		✓	
Capitalization and Leverage Ratios					
Tangible Balance Sheet Leverage	(Reported Debt + Debt Portion of Hybrid Capital)/(Total Shareholders' Equity - Goodwill – Intangibles – deferred tax assets related to net operating losses brought forward (if available and at a minimum value of zero), otherwise net deferred tax assets in its entirety (at a minimum value of zero) – Non-Controlling Interests + Equity Portion of Hybrid Capital)	Core[a]	✓	✓	✓
Cash Flow Leverage	Total Debt/Earnings Before Interest, Taxes, Depreciation and Amortization (see EBITDA definition above	Core[b]	✓	✓	✓
FCC Leverage[d]	(Reported Debt + Off-Balance Sheet Funding)/FCC FCC equals reported equity less hybrid capital less non-loss-absorbing, noncontrolling interests less net deferred tax assets related to net operating losses brought forward (if available and at a minimum value of zero), otherwise net deferred tax assets in its entirety (at a minimum value of zero), less goodwill and other intangibles (including mortgage servicing rights) less first-loss tranches of securitizations on- and off-balance sheet less the credit component of the fair value changes on an FI's own debt less NAV of insurance companies held less the embedded value of insurance businesses	Complementary	✓	✓	✓
FCC Risk Weighted Ratio[d]	FCC/Risk-Weighted Assets	Complementary	✓	✓	✓
Funding and Liquidity					
Unsecured Debt Usage	Debt Unsecured by Corporate Assets/Total Interest-Bearing Liabilities	Core[a]	✓	✓	✓
Interest Coverage	Earnings Before Interest, Taxes, Depreciation and Amortization/Interest Expense	Core[b]	✓	✓	✓
Total Short-Term Funding Reliance	(Short-Term Debt + Current Portion of Long-Term Debt)/Total Interest-Bearing Liabilities	Complementary	✓	✓	✓
Unencumbered Asset Coverage	Amount of Assets Free and Clear of Any Encumbrance/Unsecured Debt	Complementary	✓	✓	✓
Payout Ratio	Dividends/Reported Net Income	Complementary	✓	✓	✓

[a]Applicable for finance and leasing companies with high balance sheet usage.[b]Applicable for finance and leasing companies with low balance sheet usage. [c]For finance and leasing companies that actively securitize assets that are off-balance sheet, managed loans (reported balance sheet loans plus off-balance sheet loans with recourse) may be used to replace reported balance sheet figures. Additionally, managed debt (reported balance sheet debt plus off-balance sheet debt) may be used to replace reported balance sheet figures. [d]Applicable to bank-licensed finance and leasing companies only. Note: If/when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for such issuer.
Source: Fitch.

Financial Market Infrastructure Company Ratios

Ratio	Definitions	Core or Complementary	Exchanges	Clearing Houses	CSDs Without Banking License
Capitalization and Leverage					
Gross Debt/Adjusted EBITDA	Gross debt divided by EBITDA, with adjustments for significant non-cash items such as non-cash compensation	Core	✓	✓	✓
Free Cash Flow/ Gross Debt	Net cash provided by operations less capital expenditures and dividends divided by gross debt	Complementary	✓	✓	✓
Gross Debt/Tangible Equity	Gross debt divided by tangible equity	Complementary		✓	
Gross Debt/FCC	Gross debt divided by FCC	Complementary		✓	
Funding, Liquidity and Coverage					
Adjusted EBITDA/Interest Expense	EBITDA with adjustments for significant non-cash items as a multiple of interest expense	Core	✓	✓	✓
Unrestricted Cash and Marketable (Investments) Securities/Short-Term Debt	Unrestricted cash and marketable (investment) securities divided by short-term debt	Complementary		✓	
Earnings and Profitability					
Adjusted EBITDA Margin	EBITDA with adjustments for significant non-cash items as a percentage of total revenue	Core	✓	✓	✓
Rate per Contract	Revenue divided by contract volume	Complementary	✓	✓	
Capital Expenditure/Revenues	Capital expenditures divided by total revenues	Complementary	✓	✓	✓
Capital Expenditure/ Depreciation and Amortization	Capital expenditures divided by depreciation and amortization	Complementary	✓	✓	✓

Note: FCC is defined as shareholders' equity, less hybrid capital reported as equity, non-controlling interests reported outside equity, less non-controlling interests not regarded as loss absorbing by Fitch, less goodwill and all other intangibles, less ineligible deferred tax assets, +/- fair value of own credit risk, less first-loss tranches of retained off-balance-sheet securitizations, less life assurance/insurance company interests. If/when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for such issuer.
Source: Fitch.

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From: Bonnie Lemcke
To: Gadi Mayman
Cc: Ken Kandeepan; Anna Strathy; David Cross
Subject: FW: Pension questions
Date: Wednesday, April 04, 2018 4:25:00 PM
Attachments: 2018-03-22_Fitch_NBFI-Criteria_Report.pdf

Hi Gadi,

Here are the questions – this is **not** directly related to Ontario's rating. They are related to the governance and legislation around public pensions. I think I should send to Elizabeth Doherty (ADM Income Security and Pension Policy) to start.

Please let me know if you think I should send to someone else.

Bonnie

From: Offerman, Douglas [mailto:douglas.offerman@fitchratings.com]
Sent: Wednesday, April 04, 2018 2:48 PM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Cc: Block, Marcy <marcy.block@fitchratings.com>
Subject: RE: Pension questions

Hi Bonnie,

To follow up from Marcy's email, our colleagues in Fitch's non-bank financial institutions group are looking at the credit quality of public pension funds and pension asset managers as it pertains to their own direct debt obligations. As part of that assessment, they review the nature and extent of powers that a sovereign or sub-sovereign sponsor has to affect the performance of a pension. Canada's public pensions are on this list given their global prominence.

We have found a tremendous amount of online data and information on Canadian public pensions (authorizing laws, public accounts, actuarial valuations), but much of it addresses or references the powers and duties of the pension plans themselves, as opposed to what powers the sponsoring governments retain or could exercise in certain circumstances. The questions below are really intended to address that sovereign/provincial perspective. I should also note also that the questions are not necessarily Ontario-specific, but I did modify some of them in view of the many different institutional/governance structures for public pensions in Ontario.

--In the event of a sovereign/provincial default, what is the legal basis by which a public pension fund retains its capacity to pay its own debt obligations?

--In the event of a sovereign/provincial default, what legally prevents the sovereign/province from restricting the ability of a public pension fund to pay its obligations?

--Who owns the assets held by the pension fund—the pension fund itself, the contributing employers, retirees, the pension plan sponsors/sponsors, or the sovereign/province that originally authorized the pension? Do the assets have a legal status that protects them in the event of a bankruptcy by a contributing employer?

--Can the sovereign/province, pension fund sponsor/sponsors, or participating governments make use of pension assets in the event of their own fiscal distress?

--Can the sovereign/province compel a pension fund to buy government debt or take responsibility for public capital investment (separate from the investment choices that the pension fund is authorized to make by itself)?

--Can the sovereign/province restrict or eliminate its own employer contributions to a pension fund if it faces fiscal distress?

--Can a pension plan sponsor or contributing employer remove its assets and sever its relationship with the pension fund without sovereign/provincial approval?

To the extent there are legal/statutory or judicial references, I would welcome them; I've already downloaded the Pension Benefits Act and other available financial, actuarial and legal information for CPP and for several other plans like HOOPP, MERS and OTPP. I've also attached a copy of our published criteria for "non-bank" financial institutions, for your reference. If it makes more sense for you, we would be happy to schedule a phone call to discuss!

Douglas Offerman
Senior Director
Fitch Ratings
33 Whitehall St.
New York, NY 10004

Tel. 212-908-0889

From: Block, Marcy
Sent: Tuesday, April 03, 2018 1:44 PM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Cc: Offerman, Douglas <douglas.offerman@fitchratings.com>
Subject: RE: Pension questions

Thank you!

Marcy S. Block
Senior Director
Fitch Ratings – U.S. Public Finance

33 Whitehall Street
New York, NY 10004
212-908-0239

From: Bonnie Lemcke [mailto:Bonnie.Lemcke@ofina.on.ca]
Sent: Tuesday, April 03, 2018 1:31 PM
To: Block, Marcy <marcy.block@fitchratings.com>
Cc: Offerman, Douglas <douglas.offerman@fitchratings.com>
Subject: RE: Pension questions

Hi Marcy and Doug,

Please send me your questions and we will forward to the correct individual. If you would like to have a conference call to discuss, I can arrange that as well.

Bonnie

From: Block, Marcy [mailto:marcy.block@fitchratings.com]
Sent: Tuesday, April 03, 2018 12:58 PM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Cc: Offerman, Douglas <douglas.offerman@fitchratings.com>
Subject: Pension questions

Bonnie,

Good afternoon. I am reaching out on Doug's behalf to solicit assistance regarding the province's employee pension plans. Separate from our discussions related to Ontario's economy and finances, some colleagues of ours at Fitch who focus on "non-bank" financial institutions are developing a framework for looking at pension funds globally; given the size and scope of Canada's public pensions, Doug would like to ask some general questions to understand Ontario's relationship to its pensions plans. A possible start could be Doug sending you questions directly and asking you to put him in touch with the correct individual after you have had a chance to review them. Please advise and thank you.

Best,
Marcy

Marcy S. Block
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Non-Bank Financial Institutions Rating Criteria

Master Criteria

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This criteria report replaces the master criteria report titled "Global Non-Bank Financial Institutions Rating Criteria" dated March 10, 2017.

Related Criteria

Bank Rating Criteria (March 2018)

For additional related criteria, see Annex 6.

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Scope

This criteria report specifies Fitch Ratings' methodology for assigning new ratings to, and monitoring existing ratings of, non-bank financial institutions globally, including securities firms, investment managers (including investment companies and investment funds), business development companies (BDCs), finance and leasing companies (including mortgage real estate investment trusts [REITs] and non-bank policy institutions) and financial market infrastructure (FMI) companies. With the exception of a limited number of financial institutions with banking licenses, the criteria discussed herein do not apply to banks, the rating criteria for which are outlined in Fitch's "Bank Rating Criteria" or to insurance companies or equity REITs.

Key Rating Drivers

Five Factors in Stand-Alone Assessment: Unless driven by sovereign, subnational or institutional support, a non-bank financial institution's Issuer Default Rating (IDR) is determined by an assessment of its fundamental creditworthiness. In assessing a non-bank financial institution's stand-alone profile, Fitch considers five key factors: the operating environment; company profile; management and strategy; risk appetite; and financial profile.

While the first three factors are relatively common across financial institutions, an assessment of a firm's risk appetite and financial profile is more specific to the subsector in which the company operates.

Balance Sheet Distinction: Within non-bank financial institution subsectors, Fitch also makes distinctions in its analysis for businesses with high balance sheet usage versus businesses with low balance sheet usage. Profitability metrics for balance sheet-intensive businesses are focused on asset and equity yields, while leverage ratios focus on capitalization measures. For asset-light strategies, operating margins are a common indicator of profitability, while cash flow ratios are used to assess leverage.

Support Factors: The most common form of support factored into Fitch's ratings of non-bank financial institutions is institutional support from parent institutions. In assessing potential support, Fitch considers both the ability and propensity of the supporter to provide assistance on a timely basis. For example, the ratings of captive finance subsidiaries often benefit from a high probability of support, because they frequently enhance the firm's franchise, strategic objectives and revenue prospects.

While sovereign support is often a rating factor for non-bank policy institutions, it is not common for other non-bank financial institutions, given their more limited systemic importance.

Default Risks, Recovery Prospects: Issue ratings of non-bank financial institutions, in common with other corporate finance sectors, reflect Fitch's view of the overall level of credit risk attached to specific financial commitments, usually securities. This view incorporates an assessment of both the likelihood of default (or "non-performance" risk) on the specific obligation and of potential recoveries for creditors in case of default/non-performance.

Senior Debt Aligned with IDR: Ratings of a non-bank financial institution's senior unsecured obligations are usually equalized with its Long-Term IDR, although they can be notched downward if there is deep effective subordination or high balance-sheet encumbrance.

Report Summary and Structure

I. Ratings Framework

Fitch assigns both issuer and issue ratings to non-bank financial institutions and their obligations. The two primary issuer ratings are:

- Long-Term IDRs; and
- Short-Term IDRs.

In limited circumstances, Fitch may also assign Support Ratings (SRs), Support Rating Floors (SRFs) and/or Derivative Counterparty Ratings (DCRs) to non-bank financial institutions. For complete rating definitions, click here.

Fitch generally adopts a "higher of" approach in assigning Long-Term IDRs to non-bank financial institutions. Specifically, Fitch first determines what level of Long-Term IDR a non-bank financial institution could attain based solely on its stand-alone financial strength or based solely on support, whether sovereign support from government authorities (as reflected in the SRF) or institutional support, usually from shareholders. Fitch then (almost always) assigns the non-bank financial institution's IDR at the higher of these two levels absent extraordinary constraints represented by the Country Ceiling.

II. Stand-Alone Assessment

An assessment of the stand-alone credit profile of a non-bank financial institution considers five key factors:

- operating environment;
- company profile;
- management and strategy;
- risk appetite; and
- financial profile.

For details on the stand-alone assessment aspect of Fitch's ratings framework, click here.

III. Support

For non-bank financial institutions, the most usual source of support is from the shareholders (institutional support); for example, when a corporate parent has a finance subsidiary. Support from government authorities (sovereign support) is a much less frequent occurrence for non-bank financial institutions than for banks, given the generally relatively smaller size and influence of a non-bank financial institution on a country's financial system. If present, sovereign support is often based on the non-bank financial institution's policy role and less on its systemic importance. Fitch's view of the likelihood of external support being made available in case of need may be reflected in a non-bank financial institution's SR. Where Fitch believes the most likely form of support is sovereign support, this is also reflected in the non-bank financial institution's SRF, which indicates the minimum level to which the entity's Long-Term IDR could fall for the level of extraordinary support assumed.

The key sovereign support rating factors are:

- sovereign's ability to support;
- sovereign's propensity to support a specific non-bank sector; and
- sovereign's propensity to support a specific non-bank financial institution.

The key institutional support rating factors are:

- parent's ability to support;
- parent's propensity to support; and
- legal and regulatory obligations/constraints.

For details on the support framework, click here.

IV. Issue Ratings

Ratings of non-banks financial institutions' senior, subordinated/hybrid and other securities issues incorporate an assessment both of the likelihood of default (or "non-performance" risk) on the specific obligation and (for debt securities assigned long-term ratings) of potential recoveries for creditors in case of default/non-performance. For details, click here.

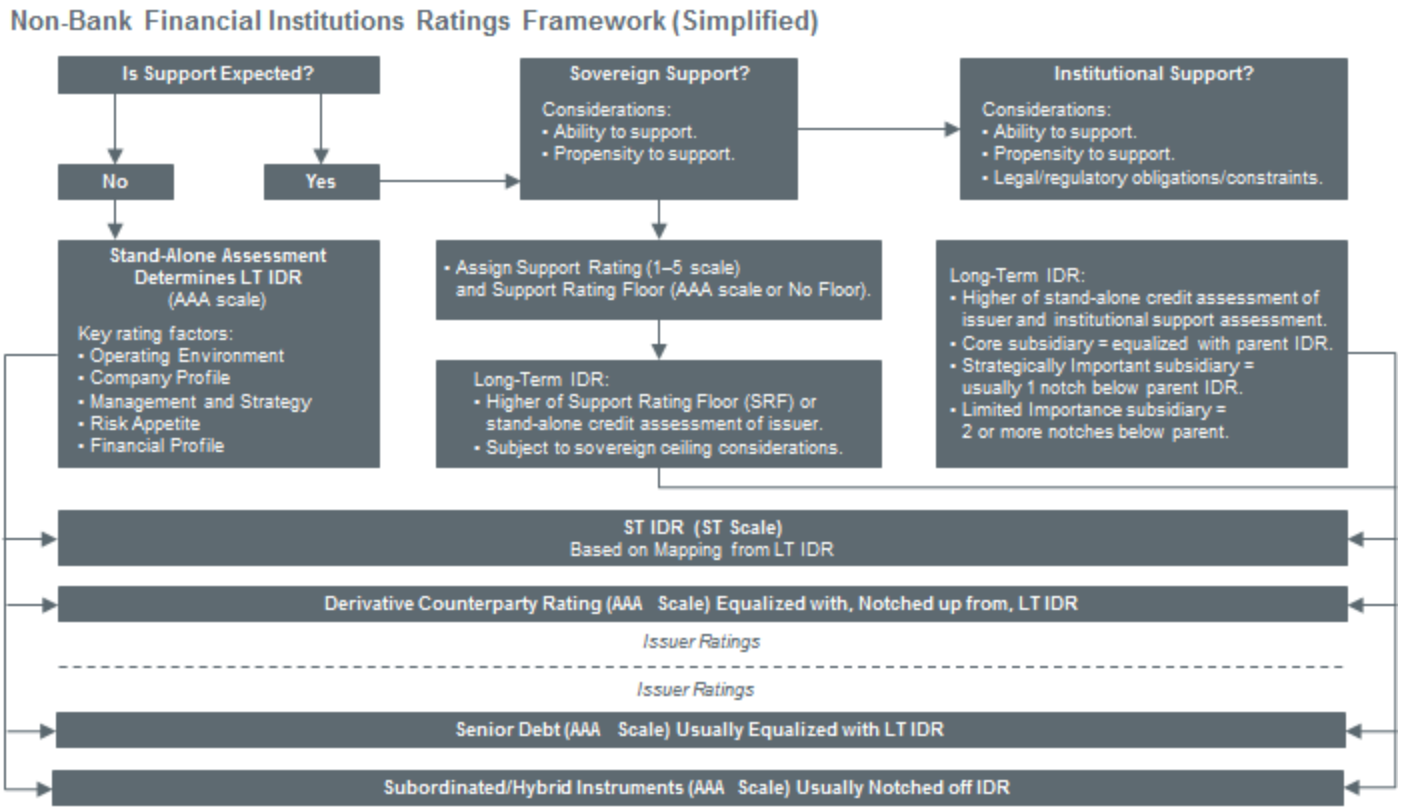
V. Annexes

For additional information on specific aspects of the non-bank financial institutions rating criteria, a summary of non-bank financial institution quantitative benchmarks and metrics by subsector and information on certain rating procedures, click here.

I. Ratings Framework

This section provides an overview of the international and national scale ratings assigned to non-bank financial institutions and their issues, indicating: what the different ratings measure, when they are assigned, the scales on which they are assigned; and how, in broad terms, the rating levels are determined. This section first reviews non-bank financial institution issuer ratings and then issue ratings.

Sections II, III and IV provide more detail on the criteria for assigning IDRs, SRs and SRFs and issue ratings, respectively. Readers who do not wish to review in detail Fitch's rating framework should turn to these sections. A simplified version of the framework is presented in the chart below.



LT IDR – Long-term Issuer Default Rating. ST IDR – Short-term Issuer Default Rating.

I.1. Long-Term Issuer Default Ratings

What They Measure

IDRs for non-bank financial institutions, as for issuers in other sectors, express Fitch's opinion on an entity's relative vulnerability to default on its financial obligations. In accordance with Fitch's rating definitions, the default risk addressed by the IDR is generally that of the financial obligations whose non-payment would "best reflect the uncured failure of that entity."

For a small population of mostly prudentially regulated non-bank financial institutions, Fitch considers that the obligations whose non-payment would best reflect uncured failure are usually senior obligations to third-party, non-government creditors. For the larger universe of other non-bank financial institutions, Fitch generally considers that non-payment of both senior and subordinated obligations to third party, non-government creditors (including by way of a distressed debt exchange) would reflect the uncured failure of the issuer. Therefore, for most non-bank financial institutions, only certain hybrid securities that contractually allow for going concern non-performance (e.g. coupon deferral) are likely to fall outside the scope of the IDR. For more details, see What Non-Bank Financial Institution IDRs Reflect: Definition of Reference Obligations below.

What Non-Bank Financial Institution IDRs Reflect: Definition of Reference Obligations

A non-bank financial institution's IDRs usually express Fitch's opinion on the risk of default on its senior or (with the exception of a small number of prudentially regulated non-bank financial institutions) subordinated obligations to third-party, non-government creditors, as in Fitch's view, these are typically the obligations whose non-performance would best reflect the uncured failure of the entity. In accordance with Fitch's rating definitions, and in common with issuers in other sectors, a non-bank financial institution's default may take a number of forms, including non-payment of obligations beyond the available cure period, bail in, a distressed debt exchange or the issuer entering into bankruptcy proceedings.

When considering whether a debt restructuring or exchange should be classified as a distressed debt exchange, Fitch expects both of the following to apply: i) the restructuring imposes a material reduction in terms compared with the original contractual terms; and ii) the restructuring or exchange is conducted to avoid bankruptcy, similar insolvency or intervention (including resolution) proceedings or a traditional payment default.

A non-bank financial institution's SR and SRF, should they be applicable, also rate to the same reference obligations, i.e. they reflect Fitch's view on whether external support will be sufficient for a non-bank financial institution to avoid default on its relevant obligations to third-party, non-government creditors.

The rationale for Fitch's definition of reference obligations for IDRs is as follows:

Third-Party vs. Intra-Group Obligations

Non-bank financial institution IDRs do not usually rate to default risk on funding from entities under common control (e.g. parent/sister companies or related non-financial corporations) for three main reasons. First, these facilities may not be extended with the same expectations of an unaffiliated creditor, for example the borrower may not always be expected to repay, rather than roll over, the facilities at maturity. Second, Fitch would not usually expect there to be a high level of transparency on whether an entity has "defaulted" on intra-group debt, e.g. whether a roll-over has been "voluntary" or "forced". Third, Fitch would not usually regard entities under common control as the main users of its ratings, as in most cases they would have privileged, direct access to information on the financial condition of the borrower.

Private vs. Government Creditors

Non-banks financial institutions are largely funded in the private sector, as they do not generally have access to central bank funding. However, non-bank financial institutions that, for example, have a policy role or that have a banking license but are viewed by Fitch as more akin to non-bank financial institutions may have access to government funding, particularly during periods of market stress. When this is the case, non-bank financial institution IDRs will not usually rate to default risk on obligations owed to central banks and other national government institutions. This reflects the special relationship between a central bank, as lender of last resort, and issuers that benefit from this form of funding, and the fact that, where facilities due to central banks are rolled over or restructured, there is likely to be considerable ambiguity regarding whether such a restructuring should be regarded as "voluntary" or "forced." In addition, it will often be difficult to ascertain in a timely fashion whether an issuer has performed on debt owed to its central bank.

Different Categories of Obligations

In some cases a non-bank financial institution may default on some categories of third-party, private sector debt, while continuing to perform on others. Where Fitch considers there to be significantly different levels of default risk on different categories of senior liabilities, the IDRs will rate to the (material) category with highest risk. If a non-bank financial institution defaults on a material category of third-party, private sector senior debt, but remains current on other categories, its IDRs will be downgraded to 'RD' (Restricted Default).

When They Are Assigned

Long-Term IDRs are assigned to virtually all non-bank financial institutions with international ratings. The main exceptions are rare cases where an entity issues exclusively short-term debt and may therefore be assigned only a Short-Term IDR.

Where Fitch believes it is useful to separately highlight the level of default risk on foreign-currency and local-currency obligations, it may assign separate Foreign-Currency (FC) and Local-Currency (LC) Long-Term IDRs to a non-bank financial institution. This may be done, for example, when the agency considers there to be a material difference in default risk on obligations in different currencies (for intrinsic or support reasons, or because of a greater risk of legal restrictions on servicing foreign-currency debt), or when the assignment of a LC IDR is undertaken as part of the process to derive a non-bank financial institutions' National Rating *(see Section I.8)*.

On Which Scale

Long-Term IDRs are assigned on the 'AAA' scale *(see table at left)*.

How They Are Determined

Fitch generally adopts a "higher of" approach in assigning Long-Term IDRs to non-bank financial institutions. Specifically, the agency first determines what level of Long-Term IDR a non-bank financial institution could attain based solely on its stand-alone financial strength (*see Section II, 'Stand-Alone Assessment'*) or based solely on support (*see Section III, 'Support'*), whether it is sovereign support from government authorities (as reflected in the SRF) or institutional support, usually from shareholders. Fitch then (almost always) assigns the FI's Long-Term IDR at the higher of these two levels, absent extraordinary constraints represented by the Country Ceiling.

In some instances non-bank financial institution credit profiles may deteriorate relatively rapidly, while in other instances they can remain fundamentally weak for relatively extended periods of time (e.g. in countries where the sovereign is lowly rated, but relatively stable). Use of '+' or '-' modifiers in the 'CCC' range is more likely for the latter than the former.

Should institutional support exist, the Long-Term IDR is based on Fitch's opinion of the strategic importance of the entity to its parent and an assessment of the parent's propensity and ability to support the subsidiary. In many cases, such as for some captive finance companies, Fitch is not able to form a stand-alone rating opinion on the non-bank financial institution subsidiary, when there are high levels of financial, operational and management integration with the parent entity. For example, if the franchise position of the subsidiary is highly correlated with that of the parent and/or the subsidiary's access to funding is heavily dependent upon the parent, these may limit Fitch's ability to assign a stand-alone rating to the subsidiary.

If the subsidiary is small and of a non-material size relative to the parent, this may also limit Fitch's ability to assign a stand-alone rating to the subsidiary. Stand-alone ratings are not usually assigned to development institutions or other non-bank financial institutions whose operations are largely determined by their policy roles (i.e. they have limited commercial operations).

In certain circumstances, a non-bank financial institutions' Long-Term Foreign-Currency IDR can also be constrained at a level below that implied by the "higher of" approach. This occurs when the non-bank financial institution's stand-alone assessment is higher than the Country Ceiling of the jurisdiction in which it is domiciled, and the Country Ceiling constrains the non-bank financial institution's Long-Term IDR. A non-bank financial institution's SR (unlike its stand-alone assessment) already captures the constraints (the risk of transfer and convertibility

Long-Term IDR Scale

Category	Brief Description
AAA	Highest credit quality
AA	Very high credit quality
A	High credit quality
BBB	Good credit quality
BB	Speculative credit quality
B	Highly speculative credit quality
CCC	Substantial credit risk
CC	Very high levels of credit risk
C	Exceptionally high levels of credit risk
RD	Restricted default
D	Default

The modifiers '+' or '-' may be appended to a rating to denote relative status within categories from 'AA' to 'CCC'. Click here for full descriptions of each rating category.

Source: Fitch.

restrictions) reflected in the Country Ceiling, and so would not be assigned at a level implying a higher Long-Term IDR than the Country Ceiling.

On rare occasions, a non-bank financial institution's IDR could be above the level implied by its stand-alone assessment. This could occur if the non-bank financial institution has sufficient buffers of liabilities that rank below the reference liabilities for its IDRs that could be restructured or bailed in to recapitalize the non-bank financial institution without the reference liabilities for its IDRs suffering a default. In determining the sufficiency of the buffers, Fitch will use the same 'qualifying junior debt' principles outlined in the Bank Rating Criteria.

LC IDRs are generally viewed as reflecting the underlying credit quality of the company and incorporate economic/political risk and liquidity and foreign-exchange risks. While LC IDRs measure the likelihood of repayment in the currency of the jurisdiction, they do not account for the possibility that it may not be possible to convert local currency into foreign currency or make transfers between sovereign jurisdictions (i.e. transfer and convertibility risks).

It is important to note that the LC IDR incorporates the probability of default for all of an issuer's debt obligations (local- and foreign currency-denominated) in the absence of transfer and convertibility risks. This takes into account the probability that an issuer under stress will default on all obligations and will not pick and choose specific debt instruments on which to default. Therefore, when the LC IDR is at or below the Country Ceiling, the LC IDR and the FC IDR will be equal virtually all of the time.

Short-Term IDR Scale

Category	Brief Description
F1	Highest short-term credit quality
F2	Good short-term credit quality
F3	Fair short-term credit quality
B	Speculative short-term credit quality
C	High short-term default risk
RD	Restricted default
D	Default

A '+' modifier may be appended to the 'F1' rating to denote exceptionally strong credit quality. Click here for full descriptions of each rating category.

Source: Fitch.

Rating Correspondence

Long-Term Rating	Short-Term Rating
From AAA to AA–	F1+
A+	F1 or F1+
A	F1
A–	F2 or F1
BBB+	F2
BBB	F3 or F2
BBB–	F3
From BB+ to B–	B
From CCC to C	C
RD	RD
D	D

The modifiers '+' or '–' may be appended to a rating to demote relative status within categories from 'AA' to 'CCC'. Click here for full descriptions of each rating category.
Source: Fitch.

I.2. Short-Term Issuer Default Ratings

What They Measure

As with issuers in other sectors, Short-term IDRs reflect the non-bank financial institution's vulnerability to default in the short term. For non-bank financial institutions and most other issuers, the "short-term" typically means up to 13 months.

When They Are Assigned

Short-term IDRs are assigned to all non-bank financial institutions that have Long-Term IDRs, except where an issuer does not have, and is not expected to have, material short-term obligations. The short-term instrument most commonly rated by Fitch in the non-bank financial institution space is commercial paper (CP).

On Which Scale

Short-term IDRs are assigned on a seven-point scale *(see table at left)*.

How Are They Determined

Short-Term IDRs are almost always assigned in accordance with a correspondence table between Long-Term and Short-Term IDRs *(see table at left)*. Where the Long-Term IDR can correspond to either of two Short-Term IDRs (and the Long-Term IDR is driven by the non-bank financial institution's stand-alone profile), the Short-Term IDR will usually be determined based primarily on the strength of the issuer's liquidity profile, for example by considering its level of liquid assets, access to the capital markets or breadth of contingency funding sources *(see Section IV.1)*.

Where the Long-Term IDR is support driven, the higher of the two possible Short-Term IDRs will typically be assigned where the issuer is rated lower than the supporting entity. This is because Fitch generally views the propensity to support as more certain in the near term.

I.3. Viability Ratings

What They Measure

Only in rare circumstances are VRs assigned to non-bank financial institutions. VRs are primarily used to measure the intrinsic creditworthiness of a bank on a stand-alone basis, without the benefit of government or institutional support. Since non-bank financial institutions do not typically have the systemic influence of a bank, they do not generally have the potential to receive sovereign support. As a result, the measure of a non-bank financial institution's stand-alone credit profile is generally encompassed in the LT IDR.

Fitch will assign VRs to non-bank financial institutions, only in limited circumstances, for example to aid transparency when the IDRs are driven by external sovereign support or where the entity has features of a bank (including potentially a banking license and a deposit base), but where Fitch believes that, on balance, the non-bank financial institutions criteria is the main driver for the analysis. If a non-bank financial institution is assigned a VR, it would be in accordance with criteria and standards applicable to determining the stand-alone credit profile of that type of entity, as outlined in this criteria report. For more information on Viability Ratings, refer to the Bank Rating Criteria.

I.4. Support Ratings

What They Measure

Fitch's SRs reflect the agency's view on the likelihood that a non-bank financial institution will receive extraordinary support, in case of need, to prevent it from defaulting. Extraordinary support typically comes from one of two sources: the rated entity's shareholders (institutional support) or the national authorities of the country where it is domiciled (sovereign support). However, in some circumstances SRs may also reflect potential support from other sources, e.g. international financial institutions, regional governments or expected acquirers of the rated entity.

In some cases, Fitch may judge that the likelihood of a non-bank financial institution receiving external support is materially different regarding its foreign- and local-currency obligations. This may happen, for example, when the sovereign that is the potential support provider itself has Foreign- and Local-Currency IDRs assigned at different levels. In such cases, the non-bank financial institution's SR (and SRF) will be assigned based on the obligations less likely to be supported (usually, those in foreign currency), while the non-bank's Foreign-and Local-Currency IDRs may be assigned at different levels to reflect the difference in risk.

SRs do not specifically address transfer and convertibility risk for each and every foreign jurisdiction in which a non-bank financial institution operates, nor do they reflect jurisdiction-specific resolution risks.

When They Are Assigned

SRs may be assigned to non-bank financial institutions that Fitch expects to be beneficiaries of sovereign, subnational, or institutional support.

On Which Scale

SRs are assigned on a five-point scale, with '1' representing an extremely high probability of support, and '5' indicating that support cannot be relied on.

How They Are Determined

Fitch's criteria for assessing the likelihood of external support for a non-bank financial institution is outlined in Section III of this report. Whether considering sovereign or institutional support, Fitch will analyze both the ability and propensity of the supporting entity to provide assistance to the FI concerned and, in the case of institutional support, potential constraints that may be imposed upon the institution as a result of sovereign risk. Once a non-bank financial institution's institutional support-driven IDR or SRF has been determined, its SR is determined in accordance with the 'Support Rating Scale Correspondence Table' below.

I.5. Support Rating Floors

What They Measure

SRFs reflect the agency's view about the likelihood that the rated entity will receive extraordinary support, in case of need, specifically from government authorities. This usually means from the national authorities of the country where the non-bank financial institution is domiciled, although in certain cases, Fitch may also factor potential support from subnational or international government institutions into its assessment depending on factors outlined in Section III.1. Therefore, SRFs do not capture the potential for institutional support from the entity's shareholders. SRFs indicate the minimum level to which the entity's Long-Term IDRs could fall if the agency does not change its view on potential sovereign support.

Support Rating Scale Correspondence Table

IDR/Implied IDR Based on Support (SRF for Sovereign Support) Rating	Probability of Support	Support Rating
'A–' or Above	A non-bank financial institution for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the non-bank financial institution in question.	1
'BBB' Category	A non-bank financial institution for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to support the non-bank financial institution in question.	2
'BB' Category	A non-bank financial institution for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so.	3
'B+' or 'B'	A non-bank financial institution for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so.	4
'B–' or Below	A non-bank financial institution for which there is a possibility of external support, but it cannot be relied on. This may be due to a lack of propensity to provide support or to very weak financial ability to do so.	5

Source: Fitch.

SRFs do not specifically address transfer and convertibility risk for each and every foreign jurisdiction in which a non-bank financial institution operates, nor do they reflect jurisdiction-specific resolution risks.

When They Are Assigned

SRFs are assigned to non-bank financial institutions where Fitch believes the most likely source of potential extraordinary support is government authorities, rather than the non-bank financial institution's shareholders. For example, Fitch may assign a SRF to a non-bank financial institution which exhibits systemic importance or serves as a core component of the financial market infrastructure. They may also be assigned where institutional (shareholder) support is viewed as more reliable, but the agency believes it would be useful to also indicate the level below which the ratings are unlikely to fall due to government support.

On Which Scale

SRFs are assigned on the 'AAA' rating scale. Where there is no reasonable assumption that sovereign support will be forthcoming, an SRF of 'No Floor' is assigned.

How They Are Determined

Fitch's criteria for assessing the likelihood of sovereign support for a non-bank financial institution and assigning its SRF are outlined in Section III.1 of this report. Fitch analyzes the ability of the sovereign to provide support, its propensity to support the specific non-bank sector as a whole and its propensity to support the specific non-bank financial institution in question. The 'Support Rating Scale Correspondence Table' above is used to link a non-bank financial institutions' Support Rating and its institutional support-driven IDR or SRF. The table can be read left to right or right to left, depending on whether the support-driven IDR/SRF or SR is determined first.

I.6. Derivative Counterparty Ratings

What They Measure

In some jurisdictions, developments in resolution frameworks or insolvency frameworks mean the vulnerability to default on a derivative contract could be lower than the vulnerability to default on other senior liabilities, even equally ranking ones. This could be because derivatives enjoy legal preference over, say, senior debt or because of powers granted to resolution authorities to treat equally ranking liabilities differently.

DCRs are issuer-level ratings and express Fitch's opinion on a non-bank financial institution's relative vulnerability to default, due to an inability to pay, on any derivative contract with third-party, non-government counterparties. Short-term 'stays' on derivatives at the outset of a resolution process would not be considered a default.

The vulnerability to default could vary even within this class of exposure (e.g. collateralized derivative exposures or cleared derivatives being less vulnerable to default than uncollateralized). DCRs in effect address the vulnerability to default on the riskiest type of counterparty exposure, which Fitch assumes, either jointly or in isolation, will be an uncollateralized derivative exposure.

Unless Fitch explicitly assigns ratings at the foreign subsidiary level, DCRs apply both to material domestic derivative liabilities and those originated by foreign subsidiaries. However, they do not specifically address transfer and convertibility risk for each and every foreign jurisdiction in which a non-bank financial institution operates, nor do they reflect jurisdiction-specific resolution risks.

When They Are Assigned

Unlike Long-Term IDRs, which are assigned to virtually all non-bank financial institutions with international ratings, Fitch only assigns DCRs to selected non-bank financial institutions that may be subject to resolution in selected jurisdictions where: i) Fitch believes derivative counterparties may be able to avoid default when other senior creditors suffer default (e.g., due to an effective resolution regime and/or clear legal preference for derivative counterparties) and ii) an issuer either acts as a notable derivative counterparty nationally or internationally, acts as derivative counterparty to Fitch-rated transactions (e.g. structured finance) or where Fitch otherwise understands there to be market interest.

Given that non-bank financial institutions rarely benefit from comparably formalized resolution frameworks as banks, Fitch expects the application of DCRs to stand-alone non-bank financial institutions to be limited to a small number of broker-dealers and FMIs.

Derivative Counterparty Rating Scale

Category	Brief Description
AAA(dcr)	Highest credit quality
AA(dcr)	Very high credit quality
A(dcr)	High credit quality
BBB(dcr)	Good credit quality
BB(dcr)	Speculative credit quality
B(dcr)	Highly speculative credit quality
CCC(dcr)	Substantial credit risk
CC(dcr)	Very high levels of credit risk
C(dcr)	Exceptionally high levels of credit risk
RD(dcr)	Restricted default
D(dcr)	Default

The modifiers '+' or '-' may be appended to a rating to denote relative status within categories from 'AA' to 'CCC'. Click here for full descriptions of each rating category. Source: Fitch.

On Which Scale

DCRs are assigned on the 'AAA' scale, but with a '(dcr)' suffix *(see table at left)*.

How They Are Determined

DCRs are anchored to an entity's Long-Term IDR and will be in line with an entity's Long-Term IDR, except in the following circumstances.

A DCR will be above a non-bank financial institution's IDR when: i) a non-bank financial institution's Long-Term IDR is driven by its VR or stand-alone assessment or is aligned with a parent's IDR due to integration. The parent and subsidiary would have to be located in the same jurisdiction and capital/liquidity fungibility would normally be expected to be high; ii) there is clear legal preference for derivative counterparties over senior debt and/or other senior instruments (or this is expected to occur within a typical rating horizon); and iii) Fitch believes these (legally junior) senior liabilities to be of sufficient size to avoid a liquidation and absorb losses, either through statutory means, contractual means or a distressed debt exchange, without triggering a default on any derivative counterparty.

When deciding whether to notch up, Fitch uses the same recapitalization volume principles as are employed when determining whether to notch up an IDR above the level implied by a non-bank financial institution's stand-alone assessment *(see I.1 Long-Term IDRs: How They Are Determined)*. Like IDRs, DCRs are subject to Country Ceilings and other sovereign constraints, for example relating to intervention risk *(as outlined in Annex 2: Rating Non-Bank Financial Institutions Above the Sovereign)*. DCRs are capped one notch above an entity's IDR when IDRs are in the 'BB' range or higher but potential uplift can be greater when IDRs are in the 'B' range or lower.

In some instances non-bank financial institution credit profiles may deteriorate relatively rapidly, while in other instances they can remain fundamentally weak for relatively extended periods of time (e.g. in countries where the sovereign is lowly rated, but relatively stable). Use of '+' or '-' modifiers in the 'CCC' DCR range is more likely for the latter than the former.

I.7 Issue Ratings

What They Measure

Issue ratings of non-bank financial institutions, like those of other corporate finance sectors, reflect Fitch's view of the overall level of credit risk attached to specific financial commitments, usually securities. This view incorporates an assessment of the likelihood of default (or of "non-performance" risk in the case of subordinated/hybrid securities) on the specific obligation, and potential recoveries for creditors in case of default/non-performance. Short-term non-bank financial institution issue ratings, like those of other sectors, incorporate only an assessment of the default risk on the instrument.

Non-performance by a non-bank financial institution on its subordinated/hybrid securities is defined as any of the following:

- the missing (omission or deferral) of a coupon or similar distribution;
- contingent conversion into a more junior instrument to the detriment of the investor (other than at the investor's option);
- the writedown, writeoff, conversion or non-payment of principal; and
- a distressed debt exchange.

Recovery Rating Scale

Rating	Recovery Prospects Given Default	Typical Historical Recoveries (%)	Notching of Issue Rating[a]
RR1	Outstanding	91–100	+3
RR2	Superior	71–90	+2
RR3	Good	51–70	+1
RR4	Average	31–50	0
RR5	Below Average	11–30	(1)
RR6	Poor	0–10	(2)[b]

Click here for full descriptions of each rating. [a]Relative to level of non-performance risk. [b]Fitch's RR definitions allow for minus three notches in case of 'RR6'; however, Fitch does not notch more than twice for FI issues.
Source: Fitch.

When They Are Assigned

Issue ratings may be assigned to individual obligations or debt programs of non-bank financial institutions.

On Which Scale

Non-bank financial institution issues with an initial maturity of more than 13 months are usually rated on the long-term rating scale, whereas issues with an initial maturity of less than 13 months are usually assigned ratings on the short-term rating scale. Whether Fitch rates issues on the short- or long-term rating scale will also depend on market convention and local regulation.

Where a non-bank financial institution (or corporate) has a Long-Term IDR of 'B+' or below, Fitch also usually assigns a Recovery Rating (RR) to the entity's issues rated on the long-term scale. RRs provide greater transparency on the recovery component of Fitch's assessment of the credit risk of lowly rated issuers' securities.

How They Are Determined

For long-term non-bank financial institution issues, Fitch first determines the likelihood of default/non-performance on the specific obligation, which is measured on the long-term 'AAA' rating scale. This is judged to be either in line with, or notched off of, the obligor's Long-Term IDR, which serves as the "anchor rating" for the issue rating.

Having established the level of default/non-performance risk on the issue, Fitch may then adjust this upwards or downwards to arrive at the issue rating if the agency views the instrument as having above- or below-average recovery prospects. Where recovery prospects are viewed as average, the issue rating will be in line with the assessment of default/non-performance risk. The extent of potential upward/downward adjustment of the issue rating based on the instrument's recovery prospects is shown in the table above.

Fitch's approach to assigning issue ratings to different classes of securities issued by non-bank financial institutions is outlined in Section IV of this report.

I.8. National Ratings

What They Measure

National scale ratings are an opinion of creditworthiness relative to the universe of issuers and issues within a single country.

When They Are Assigned

National scale ratings are most commonly used in emerging market countries with sub- or low investment grade sovereign ratings on the international scale.

On Which Scale

National scale ratings are assigned on the long-term ('AAA') and short-term ('F1') rating scales, but with a country suffix to identify them as national scale ratings. Cross border issues carry the suffix of the country into which the debt has been issued, rather than the suffix of the issuer's domicile. In some monetary union countries, a single country suffix may be applied (e.g. the 'zaf' suffix for South Africa and Namibia National Ratings).

How They Are Determined

National scale ratings are assigned on the basis that the "best credits or issuers" in the country are rated 'AAA' on the national scale. National Ratings are then assessed using the full range of the national scale based on a comparative analysis of issuers rated under the same national scale to establish a relative ranking of credit worthiness.

Fitch uses the Non-Bank Financial Institutions Rating Criteria to assign national scale ratings to non-bank financial institutions, as it describes how Fitch assesses the relevant qualitative and quantitative factors that reflect the risk profile of issuers and their financial obligations. The rating assignment process uses the same rating framework as for international ratings, i.e. a combination of intrinsic and external support analysis.

Fitch adopts the following steps to assign national scale ratings:

1) Using either international or domestic peers as a starting point a comparative analysis is undertaken using the qualitative and quantitative factors of the Non-Bank Financial Institutions Rating Criteria. This process facilitates an initial relative positioning and ranking of credit risk both with other peer issuers within a country and/or internationally.
2) Fitch uses equivalence tables, where relevant, to ensure relativities between issuers on the international scale and the more granular, country-specific national long-term rating scale are maintained.
3) Where assigned, national short-term ratings are then determined using the same process and principles outlined in section I.2 of this report. National scale short-term issue ratings are aligned with a non-bank financial institution's national short-term rating issuer unless there are exceptional circumstances (e.g. a specific issue is guaranteed by a third party).
4) National scale long-term debt ratings are aligned with or notched from an issuer's national long-term rating using the same framework as outlined in section IV of this report.

Fitch does not publish rating navigators for national ratings.

II. Stand-Alone Assessment

In assessing a non-bank financial institution's stand-alone profile, Fitch considers five key factors: operating environment; company profile; management and strategy; risk appetite; and financial profile. While the first three factors are relatively common across banks and non-bank financial institutions, an assessment of a firm's risk appetite and financial profile is more specific to the subsector in which the company operates.

There may be instances where the assessment of the credit profile of an entity includes components of the bank and non-bank financial institution's criteria. For example, several non-bank entities have transitioned to bank/financial holding companies and/or acquired bank subsidiaries since the financial crisis in an effort to access more stable deposit funding. Examples include credit card companies, auto finance companies, commercial lenders and broker-dealers. In these instances, Fitch considers how the entity's credit profile compares to banks and non-bank financial institutions that undertake similar activities. In any case, Fitch would expect to designate the primary criteria in the associated Rating Action Commentary and, where relevant, Rating Navigator.

All factors are relevant in determining a non-bank financial institution's stand-alone credit risk profile, but their relative importance varies from institution to institution depending on operating environments and the specifics of individual institutions and can change over time. Hence, Fitch does not assign fixed weightings to each factor but rather assigns the relative importance of each key rating factor in the determination of the stand-alone credit risk profile of a given institution. The relative importance indicator, as well as a trend/outlook indicator for each key rating factor and each financial profile subfactor, is generally published by Fitch in its Rating Navigators.

Key Issuer Default Rating Framework Considerations

	Securities Firms	Investment Managers[a]	BDCs	Finance & Leasing Companies[b]	FMIs
Operating Environment	Sovereign Rating, Economic and Business Environment, Financial Market Development, Regulatory and Legal Framework				
Company Profile	Franchise, Business Model and Organizational Structure				
Management and Strategy	Management Quality, Corporate Governance, Strategic Objectives and Execution				
Risk Appetite	Operational Risk	Operational Risk (IMs, IFs)/ Underwriting Standards (ICs)	Underwriting Standards	Underwriting Standards	Operational, Reputational and Legal Risks
	Risk Controls	Risk Controls	Risk Controls	Risk Controls	N.A.[c]
	Growth				
	Market Risk	Market and Counterparty Risk	Market Risk	Market Risk	Counterparty Risk Management
Financial Profile	Asset Quality	Asset Performance (IMs, ICs, IFs) / Asset Quality (ICs)	Asset Quality	Asset Quality	Counterparty Exposure
	Earnings and Profitability				
	Capitalization and Leverage				
	Funding, Liquidity and Coverage				

[a]Includes traditional and alternative investment managers (IMs), investment companies (ICs) and investment funds (IFs). [b]Includes mortgage real estate investment trusts. [c]Does not imply that risk controls are not considered, but rather, that the assessment is embedded within the "Operational, Reputational and Legal Risks" and "Counterparty Risk Management" sections. N.A. – Not applicable.
Source: Fitch.

Fitch's assessment of a non-bank financial institution's operating environment usually has an influence on its assessment of other credit factors. This is because the operating environment can impact, for example, the vulnerability of a non-bank financial institution's asset quality and capital,

the sustainability of its earnings and the stability of its funding. The operating environment may also affect assessments of non-financial factors, for example, the quality of a non-bank financial institution's franchise (company profile), its ability to execute its strategy (management and strategy) and the risks associated with its underwriting standards (risk appetite).

The operating environment will typically act as a constraint on the stand-alone credit rating, and other key rating factor scores, other than in cases where a non-bank financial institution can demonstrate an ability to insulate itself from the environment(s) in which it operates.

For each rating factor, Fitch has provided subfactor/rating category matrices that provide representative characteristics for that rating category. These characteristics are not necessarily an exhaustive and determinative review of that factor or subfactor. For example, a non-bank financial institution may meet some of the characteristics associated with more than one category, or some characteristics may not apply at all because of the specifics of the non-bank financial institution's profile. In those instances, Fitch will apply the category that best fits.

The stand-alone assessment framework considers five key rating factors:

- operating environment;
- company profile;
- management and strategy;
- risk appetite; and
- financial profile.

The first four key rating factors listed above are predominantly qualitative, although quantitative measures are considered where available and relevant, such as economic data (operating environment), market shares and business footprint (company profile) and limit structures (risk management). These qualitative factors, individually or in combination, provide the context in which quantitative financial metrics are considered. Further detail is provided in the relevant sections that follow.

Page References by Key Rating Factor and NBFI Subsector

	Operating Environment	Company Profile	Management and Strategy	Risk Appetite	Financial Profile
Securities Firms	17–20	21–23	23–26	27–29	46–50
Investment Managers	17–20	21–23	23–26	30–32	51–55
Business Development Companies	17–20	21–23	23–26	33–35	56–60
Finance and Leasing Companies	17–20	21–23	23–26	36–37	61–67
Financial Market Infrastructure Companies	17–20	21–23	23–26	38–39	68–71

Source: Fitch.

Fitch's factor and subfactor assessment framework is based on consideration of 'core' and 'complementary' attributes. Core attributes are present in the analysis of all or most non-bank financial institutions and in most circumstances. Complementary attributes are present in some, but not all, circumstances. All attributes are considered in the application of the criteria, but where an attribute is either not present or immaterial to the credit profile it will make no, or limited, contribution to the analysis. The materiality and influence of each attribute in the analysis of each factor and subfactor varies by institution. A complementary attribute could carry an elevated influence in the stand-alone analysis, particularly if the rating factor that the attribute underlies is a key rating driver.

For the purposes of this criteria report, Fitch splits the non-bank financial institution universe into five subsectors, but recognizes that there may be issuers whose business model straddles various components of these subsectors or falls outside of the five subsectors. In these cases,

Fitch employs a hybrid or bespoke analytical approach, which would be articulated in Fitch's Rating Action Commentary on the issuer.

The five non-bank financial institution subsectors are: securities firms, investment managers, BDCs (which only exist in the U.S.), finance and leasing companies and FMIs. Finance and leasing companies include mortgage REITs, debt purchasers (i.e. companies that buy portfolios of defaulted assets or non-performing loans) and most non-bank policy institutions. FMIs include exchanges, clearing houses and non-bank central securities depositories (CSDs).

The investment manager subsector includes traditional and alternative investment managers, investment companies and investment funds. Traditional and alternative investment managers primarily manage third-party assets and, therefore, typically assume limited balance sheet risk while earning revenue through management fees.

Investment companies typically deploy permanent capital to assume investment/balance sheet risk while seeking to create value through asset appreciation and dividend and interest income. Investment companies that are relatively concentrated (five to 10 investments), have the ability to exert some influence over portfolio companies and exhibit investment holding periods generally extending over several years, may be rated by Fitch's Corporate group under the criteria titled "Investment Holding Companies Rating Criteria." The magnitude of underlying investments in financial institutions may also influence whether Fitch's "Non-Bank Financial Institutions Rating Criteria" or "Rating Investment Holding Companies" criteria is applied.

Investment funds also invest their own capital and assume the associated investment/balance sheet risk but are typically open-ended vehicles subject to redemption risk that seek to achieve returns primarily through trading gains over a shorter investment horizon. In practice, the primary type of investment fund to which this analytical approach is applicable is open-ended hedge funds, but it could also encompass pension funds and profit-oriented sovereign wealth funds, which may have lower relative levels of near- and medium-term financial obligations, and as a result, longer-term investment horizons than other investment funds. This may also contribute to a broader revenue mix for such investment funds, including realized/unrealized asset appreciation, dividends and interest income in addition to trading revenue.

Broadly diversified closed-end investment funds with more defined regulatory/structural frameworks, greater asset liquidity and/or more frequent investment turnover are typically rated by Fitch's Funds & Asset Managers group under the criteria titled "Closed-End Funds and Market Value Structures Rating Criteria," available on Fitch's website at www.fitchratings.com.

The Analytical Frameworks for Investment Managers, Investment Companies and Investment Funds table summarizes the various types of business models for the investment manager subsector and the applicable rating criteria.

Analytical Frameworks for Investment Managers, Investment Funds and Investment Companies

		Closed-End Funds and Market Value Structures	Traditional Investment Managers	Alternative Investment Managers	Investment Funds	Investment Companies	Investment Holding Companies	Government-Related Entities
Analytical Framework	Fitch Analytical Group(s)	Funds and Asset Managers	Financial Institutions	Financial Institutions	Financial Institutions	Financial Institutions	Corporates	International Public Finance and Corporates
	Applicable Criteria	"Closed-End Funds and Market Value Structures Rating Criteria"	"Non-Bank Financial Institutions Rating Criteria"	"Non-Bank Financial Institutions Rating Criteria"	"Non-Bank Financial Institutions Rating Criteria"	"Non-Bank Financial Institutions Rating Criteria"	"Investment Holding Companies Rating Criteria"	"Government-Related Entities Rating Criteria"
Business Model	Primary Objective	For Profit	For Profit	For Profit	For Profit	For Profit	For Profit	Policy Orientation
	Balance Sheet Risk	High	Low	Low to Medium	High	High	High	High
	Primary Revenue Sources	Realized/Unrealized Asset Appreciation, Dividends and Interest Income	Base Management Fees	Base and Performance Management Fees	Trading Gains	Realized/Unrealized Asset Appreciation, Dividends and Interest Income	Realized/Unrealized Asset Appreciation, Dividends and Interest Income	Realized/Unrealized Asset Appreciation, Dividends and Interest Income
	Redemption Risk	Low	High	Low	Full Spectrum	None	None	Limited to None
	Strength of Regulatory Framework	Full Spectrum	Strong	Strong	Modest	Modest to Strong	Modest to Strong	Modest to Strong
Investment Portfolio	Degree of Portfolio Diversification	Full Spectrum	High to Very High	High to Very High	Full Spectrum	Full Spectrum	Low to Medium	High to Very High
	Degree of Asset Liquidity	Full Spectrum	High to Very High	Low to Medium	Full Spectrum	Full Spectrum	Full Spectrum	Full Spectrum
	Typical Investment Horizon	Full Spectrum	Short to Medium	Medium to Long	Full Spectrum	Medium to Long	Long to Permanent	Long to Permanent
	Strategic influence on portfolio companies	Low	Low to Medium	High to Very High	Low to Medium	Full Spectrum	Medium to High	Medium to High

Source: Fitch.

An assessment of the operating environment, company profile and management and strategy is largely common across the various subsectors (as well as banks), although some nuanced considerations are outlined herein. Conversely, assessments of the risk appetite and financial profile of a non-bank financial institution may differ by industry, so these factors are divided into five subcategories.

II.1 Operating Environment Assessment

Fitch's assessment of an institution's operating environment considers the following subfactors:

- sovereign rating;
- economic and business environment;
- financial market development; and
- regulatory and legal framework.

Importance of this Assessment

The first step in Fitch's assessment of stand-alone creditworthiness is a review of the institution's operating environment, as this sets the range for potential IDRs. The operating environment to a large degree serves as a constraining factor for the IDR, as it is rare for the IDR to be assigned significantly above the operating environment assessment, however well the issuer scores on other factors or subfactors.

Sovereign Rating

Attribute	Core Versus Complementary	Description
Sovereign Rating Cap	Core	The sovereign rating often acts as an effective cap on the maximum level of IDRs in a jurisdiction, due to the deterioration in the operating environment that typically accompanies a sovereign default. Sovereign default risk can also directly influence non-bank financial institutions' access to and cost of funding. However, in limited circumstances, where a non-bank financial institution has a very strong (in the context of the domestic market) overall credit profile and, in particular, a robust funding profile, the IDR may exceed the sovereign rating. International geographical diversification of business activities may also support a higher rating than that of the home sovereign. See Annex 2 for more details.
Divergence Between Sovereign Rating and Economic Environment	Complementary	It is also quite possible for the overall operating environment assessment and, hence, the IDRs for non-bank financial institutions in the country to be significantly lower than the sovereign rating. This may occur, for example, where the economic environment for non-bank financial institutions is relatively weak, but the sovereign rating is supported by factors specific to government finances and the sovereign balance sheet.
Divergence Between Domicile and Business Activity	Complementary	For certain non-bank financial institutions, the sovereign rating assessment may be higher or lower than the sovereign rating in their primary jurisdiction. For example, aircraft lessors may be domiciled in certain locations for tax purposes but have a portfolio of aircraft that are dispersed among lessees in a variety of countries around the globe. In these cases, Fitch would consider any geographic concentrations and the portability of the collateral, as determined by local law. The same may apply for diversified investment managers, investment companies and investment funds if the funds they manage, the assets they invest in, or the investors they service are in more favorable operating environments or there are ring-fenced assets or cash flows that strongly support rated obligations.
Business Model Specifics	Complementary (for Financial Market Infrastructure Companies)	The sovereign rating assessment is likely to have less of an influence on FMIs relative to banks or other non-bank financial institutions, given that many FMIs do not typically have significant credit exposure to sovereigns by holding bonds or placements with central banks. In many ways, FMIs may act like financial utilities, which are unlikely to be materially affected by sovereign stress. Indeed, the performance of certain FMI subsectors, such as exchanges, may be countercyclical to the credit profile of the sovereign, as there may be increased trading activity during periods of stress. As a result, a FMI could have a rating above the sovereign rating, with the primary exception being when the FMI holds a majority of its balance sheet or guarantee fund in sovereign securities, in which case the sovereign rating may take on a higher influence.

Source: Fitch.

Fitch's assessment of the operating environment incorporates both sovereign risk and broader country risks related to doing business in a particular jurisdiction; however, it does not capture transfer and convertibility risks, which are reflected separately in Fitch's Country Ceilings. For institutions that operate in multiple geographies, the subfactor and overall operating environment assessments will take a blended view of the different jurisdictions.

An assessment of the economic environment and the regulatory and legal framework for non-bank financial institutions may not align with that of a bank located in the same jurisdiction and it may also differ across the various categories of non-bank financial institutions. Additionally, regulatory scrutiny of banks around the globe is believed to be considerably more robust than regulation of non-bank financial institution subsectors.

The following tables identify those operating environment attributes that Fitch has defined as 'core' versus 'complementary' together with an indication of how each attribute is typically assessed. The accompanying subfactor/rating category matrix provides representative characteristics that aid the determination of the overall factor score assigned in each case.

Economic and Business Environment

Attribute	Core Versus Complementary	Description
Economic Variables, Forecasts and Judgements	Core	Fitch's view of the economic environment reflects its Sovereign Group's economic forecasts and judgments, and reflects Fitch's views on those macro variables that may affect a non-bank financial institution's fundamental credit strengths through their impact on the business environment. These may include, but are not limited to, the stage of economic development, economic growth expectations, private credit growth and employment and demographic prospects. The extent to which specific variables may be relevant and material in each jurisdiction will vary.
Industry or Subsector Specifics	Core	Fitch also considers a specific industry or subsector's sensitivity to changes in the economic climate in which it operates. Some industries will be more influenced by cyclical changes in the broader economic environment (e.g. aircraft leasing), while others may perform well under a variety of market scenarios (e.g. alternative investment management). Still, other businesses may be highly sensitive to specific indicators, like interest rates (e.g. mortgage servicing). Not all non-bank financial institutions within a country may receive the same categorization under this factor, as the various subsectors may respond very differently to economic trends. Still, each assessment will take a blended view of the operating environment for institutions that operate in multiple geographies. The economic environment, which also influences the sovereign rating, is considered separately because it is only one factor influencing the sovereign rating, and it is possible that the two will be assessed at significantly different levels.
Asset, Commodity and Market Price Movements	Complementary	Fitch considers changes in house/real estate prices, equity prices, interest rates and exchange rates in order to aid identification of potential stress arising from buildup of risk. Where a high degree of dollarization of an economy creates foreign exchange imbalances, Fitch will assess the system's ability to manage and mitigate the risk effectively.

Source: Fitch.

Financial Market Development

Attribute	Core Versus Complementary	Description
Size and Structure of the Financial System	Core	Large, healthy and highly developed financial markets, all else being equal, will result in a higher Financial Market Development score as this may underpin a non-bank financial institution's franchise. Conversely, small, developing or highly diffuse financial markets may result in a lower Financial Market Development score, as a non-bank financial institution may be unable to generate any discernible competitive advantage or economies of scale. An oligopolistic market structure may assist in protecting a non-bank financial institution's franchise or market position or create a material obstacle for new participants.
Depth and Liquidity of National Capital Markets	Core	A deep and liquid capital market supports market stability and will typically result in higher Financial Market Development scores. An underdeveloped capital market, in terms of scale and/or market liquidity, would generally result in lower Financial Market Development scores.
Central Bank Market Support	Complementary	The existence of central bank support measures and a reliable, predictable and transparent lender of last resort for a banking system will typically be neutral to the Financial Market Development assessment. Where ordinary support measures or options available to the banking system via the central bank are limited or opaque, or where there is a dependence on the central bank to circulate liquidity within the system throughout the business cycle this would generally result in lower Financial Market Development scores.
Institutional Frameworks to Support Functioning Financial System	Complementary	The existence of institutional frameworks to support the smooth functioning of the financial system, such as a credit bureau or a depositor protection scheme, will be neutral to positive for the Financial Market Development score. The lack of any effective institutional frameworks will generally be commensurate with a lower financial market development score. For example, the extent to which a clearing house or CSD does not have the ability to hold a first priority lien on a counterparty's collateral in the event of the counterparty's default could be viewed as a constraint.

Source: Fitch.

Regulatory and Legal Framework

Attribute	Core Versus Complementary	Description
Robustness and Effectiveness of Framework	Core	The regulatory and legal framework assessment considers how relevant non-bank financial institution legislation, accounting standards and the legal framework compare to international practices as well as the willingness of regulators to intervene and enforce laws and regulations. A jurisdiction's regulatory and legal framework is typically commensurate with its general operating environment and stage of maturity and, therefore, is often neutral to the overall Operating Environment assessment.
National Versus International Standards	Complementary	To the extent that relevant legislation and/or implementation, including the willingness of regulators to intervene and enforce laws and regulations, are materially weaker than international practice, or implementation is relatively slow, this would be considered a weakness.
Audit and Accounting Standards	Complementary	This analysis also considers the general accounting framework employed, such as IFRS or U.S. GAAP, audit effectiveness and the frequency and robustness of required reporting. In cases where audit or accounting standards or their compliance with legal reporting requirements is weaker than international practice this will result in a lower Regulatory & Legal Framework score.
Creditor Rights	Complementary	The regulatory and legal framework assessment considers the extent to which national legislation provides appropriate creditor protection and enforcement of creditor rights as far as they relate to the rights of a non-bank financial institution's creditors. Deficiencies in the legislative framework that could affect a non-bank financial institution's ability to enforce its rights as a creditor are reflected in the Asset Quality assessment.
Governance	Complementary	Corporate governance is assessed on both a systemic and issuer-specific basis. Notable systemic weaknesses, such as the adverse influence of the state in the financial system and the functioning of the private sector, would have a negative impact on the regulatory and legal framework assessment.
Regulatory Restrictions on Operating/Financial Profile	Complementary (for BDCs)	BDCs are subject to a variety of regulatory requirements, as dictated by the Investment Company Act of 1940 (40 Act), and Fitch carefully weighs the impact of each in its assessment of the sector. A 200% asset coverage requirement, which effectively limits balance sheet leverage to 1.0x, is viewed favorably. However, most BDCs elect to be treated as Regulated Investment Companies (RICs) for tax purposes, which limits capital retention, and is viewed more negatively by Fitch.
Tax Legislation	Complementary (for Mortgage REITs)	For finance companies that have elected REIT status under the U.S. Internal Revenue Service tax code (i.e. mortgage REITs including commercial mortgage REITs, residential mortgage REITs and hybrid mortgage REITs), Fitch considers the impact of U.S. federal tax legislation. Namely, U.S. mortgage REITs benefit from favorable tax treatment, as they do not pay income taxes on the portion of taxable income paid as dividends to shareholders. Conversely, required dividend distributions weaken REITs' capital retention capabilities relative to other financial institutions that do not have this requirement.
Business Model Specifics	Complementary	In general, Fitch views the regulatory and legal frameworks of non-bank financial institutions to be weaker than those related to banks, given that banks are subject to a variety of rules and regulations on a local and international scale. While the breadth and depth of bank regulation comes with a cost, it does provide an independent layer of oversight, which covers quantitative metrics, like capital adequacy, in addition to requirements related to risk management and infrastructure sufficiency.

Source: Fitch.

Operating Environment

	aaa	aa	a	bbb	bb	b	ccc and Below
Sovereign Rating	In Line with the Sovereign Rating.						
Economic and Business Environment	Operates mainly in a highly stable industry and major advanced economy or economies with a high degree of transparency. Industry has very high degree of resilience to economic shocks.	Operates mainly in a very stable industry and major advanced economy or economies, with high degree of transparency. Industry has high degree of resilience to economic shocks.	Operates in a stable industry and major advanced economy or economies, with a good degree of transparency. Industry has good degree of resilience to economic shocks.	Operates in a moderately stable industry, economy or economies with a reasonable degree of transparency. Industry could be less advanced but have fair degree of resilience to economic shocks.	Operates mainly in a less stable industry and less advanced economy or economies. Transparency may be limited. Principal industry could be less advanced and/or susceptible to adverse changes in domestic or international shocks.	Operates in a volatile industry and less advanced economy. Transparency is limited. Principal industry is highly susceptible to changes in domestic or international shocks.	Industry and economic environment is unstable. There is minimal transparency. Industry is highly susceptible to even moderate changes in domestic or international economic situation.
Financial Market Development	Financial sector is large, healthy and highly developed. Capital markets are very deep and highly liquid. Barriers to entry are very high.	Financial sector is large, healthy and very developed. Capital markets are deep and very liquid. Barriers to entry are high.	Financial sector is healthy and developed. Capital markets are relatively deep and liquid. Barriers to entry are meaningful.	Financial sector is healthy but less developed. Capital markets are developed, but not deep. Barriers to entry are moderate.	Financial sector is diffuse with only limited barriers to entry. Capital markets are not fully developed. Barriers to entry are limited.	Financial sector is very diffuse with no barriers to entry. Capital markets are less developed. Barriers to entry are low.	Financial sector is highly diffuse with no barriers to entry. Capital markets may be undeveloped.
Regulatory and Legal Framework	Regulatory environment is highly developed and transparent. Legislation and regulation are very effectively enforced.	Regulatory environment is very developed and transparent. Legislation and regulation are effectively enforced.	Regulatory environment is developed and transparent. Legislation and regulation are enforced.	Regulatory environment is less developed, with acceptable level of transparency. Enforcement of legislation and regulation may be less effective or transparent.	Regulatory environment is developing. Financial reporting and regulatory enforcement is relatively less transparent.	Regulatory environment is underdeveloped or developing, with minimal transparency. Difficulties with enforcement of legislation and regulation. Financial reporting and regulatory enforcement lack transparency.	Regulatory environment is undeveloped, with limited transparency.

Source: Fitch.

II.2 – Company Profile Assessment

Fitch's Company Profile assessment considers the following subfactors:

- franchise;
- business model; and
- organizational structure.

Importance of this Assessment

Assessment of a company's franchise, business model, and organizational structure help identify the types of business risks an institution could face together with its ability to safeguard or defend existing businesses and earnings, and gain new business through an analysis of its longer term competitive strengths, weaknesses, opportunities and threats.

The company profile assessment is typically conditioned, and often constrained, by the operating environment assessment, unless Fitch believes the non-bank financial institution's business profile is insulated from the effects of its operating environment(s). Within that operating environment context, the company profile is determined at a level that primarily reflects the strength and quality of its franchise and stability of its business model.

The following tables identify those company profile attributes that Fitch has defined as 'core' versus 'complementary,' together with an indication of how each attribute is typically assessed. The accompanying subfactor/rating category matrix provides representative characteristics that aid the determination of the overall factor score assigned in each case.

Franchise

Attribute	Core Versus Complementary	Description
Market Shares	Core	A non-bank financial institution's franchise is typically reflected in market shares in the entity's core offered product(s). Franchise value is assessed on the most relevant basis - global, national or regional - taking into account both the size of the market in which a non-bank financial institution operates and its position within that market. Small relative market shares, particularly in large markets, are not necessarily negative for the assessment and may be offset by sustainable, competitive advantage and stable performance in core product and client segments. Large market share in a small market can potentially be positive for the assessment, provided it is not constrained by the strength or quality of the market itself or the relevant operating environment assessment.
Competitive Position	Core	A non-bank financial institution's competitive position relative to peers' may be evident in relative product leadership and pricing power as well as reflective of any material barriers to entry. Product leadership will often be a function of scale, where traditional financial products are concerned, and may also reflect technology and efficiency advantages, or deficiencies, relative to peers. In the case of certain niche products or offerings, leadership may be reflected in relevant "league tables."
Critical Mass	Complementary	Size, taken in isolation, is unlikely to be a driver for the company profile assessment, but may affect pricing power and client relationships. Non-bank financial institutions which lack critical mass are likely to be assigned lower scores.
Client Relationships	Complementary	Fitch considers the nature of client relationships and the extent to which product range and/or expertise is the key driver of client retention or business volume growth as opposed to price.
Intragroup Benefits and Risks	Complementary	An institution's franchise may also incorporate any benefits it receives from being part of a larger (typically financial) group. This could include client relationships, funding access, product offering or technical expertise that the institution would not otherwise have access to, as well as potential diversification benefits of other businesses of subsidiaries or related companies. Conversely, a non-bank financial institution's franchise may incorporate contagion risks where a weakness in the broader group's credit profile exists.

Source: Fitch.

Business Model

Attribute	Core Versus Complementary	Description
Business Mix	Core	An institution's business model encompasses the ways in which it generates revenue and profits. This includes an assessment of an institution's business mix, such as by asset/product, service composition and proportion of revenue and earnings generated from core business lines.
Earnings Volatility	Core	Business models that are highly reliant on volatile businesses, such as trading, or where market conditions exert a greater influence on business volumes and revenue generation between reporting periods will typically result in a lower business model score relative to other financial institutions with lower observed volatility. Stability in earnings through credit and interest rate cycles will typically contribute to higher scores.
Geographical Diversification	Complementary	A high concentration of a non-bank financial institution's operations in less developed economies is likely to weigh on Fitch's assessment of its business model. Concentrations from a client and/or investor perspective may also be a limiting factor. Geographic diversification may be a positive rating attribute, but expansion into areas that add little or limited overall synergies may be viewed as neutral or negative to the company profile assessment.
Product Concentration	Complementary	The perceived risk associated with the particular product(s) and the quality of the product franchise can influence the assessment for a business model with a narrow product focus, (e.g. a monoline lender) versus one that provides a broader array of products. Product diversification may be a positive rating attribute, but expansion into business areas that add little or limited overall synergies may be viewed as neutral or negative to the company profile assessment.

Source: Fitch.

Business Model Rating Ranges

				Primary Rating Constraints						
Sector	**Subsectors**	**Balance Sheet Usage**	**Typical Maximum Rating Category[a]**	**Business Cyclicality**	**Monoline Business**	**Wholesale Funding**	**Regulatory Risk**	**Asset Illiquidity**	**Market/ Counter-party Risk**	**Operational Risk**
Securities Firms	Broker-Dealers	High	'BBB'	✓	✓	✓			✓	
	Interdealer Brokers	Low	'BBB'	✓	✓		✓			
	Retail Brokers	Medium	'A'	✓						✓
Investment Managers	Traditional IMs	Low	'A'	✓					✓	✓
	Alternative IMs	Low-Medium	'A'	✓					✓	✓
	Investment Companies	High	'AA'	✓				✓	✓	
	Investment Funds	High	'BBB'	✓				✓	✓	✓
Business Development Companies	N.A.	High	'BBB'	✓	✓	✓		✓		
Finance and Leasing Companies	Consumer Finance	High	'A'	✓	✓	✓	✓			
	Commercial Finance	High	'A'	✓	✓	✓				
	Alternative Financial Services Providers	Low	'BBB'	✓	✓	✓	✓			
	Mortgage Servicers	Low	'BB'	✓	✓	✓	✓			✓
	Debt Purchasers	Medium-High	'BB'		✓	✓				
	Mortgage REITs	High	'BBB'	✓	✓	✓				
Financial Market Infrastructure Companies	Exchanges	Low	'AA'							✓
	Clearing Houses	Low (Aside from Guaranty Funds)							✓	✓
	CSDs Without Bank License	Low								✓

[a]Does not represent a hard cap, but rather, the highest rating category which most entities within given non-bank financial institution subsector normally achieve.
IM – Investment manager. REIT – Real estate investment trust. CSD – Central securities depository. N.A. – Not applicable.
Source: Fitch.

Organizational Structure

Attribute	**Core Versus Complementary**	**Description**
Appropriateness Relative to Business Model	Core	A group's organizational structure is typically commensurate with its business model. Group structure rarely affects Fitch's overall rating assessment, but has the potential to when Fitch considers the group as overly complex (relative to its operations and footprint), opaque or with material risks arising from intragroup transactions. Examples of business model complexity include layers of intermediate holding companies whose locations may be mainly tax-driven, or unnecessarily complex structures that appear inconsistent with the size, scale and footprint of the institution/group.
Opaqueness	Complementary	Unexplained cross-ownership agreements or large minority interests, which are not commensurate with the non-bank financial institution's business model, would typically result in a lower company profile score.
Intragroup Transactions	Complementary	Intragroup transactions may affect risks associated with the rated entity. This is especially important where cash or capital can get trapped in subsidiaries and therefore is not readily available for distribution to the group as a whole.
Ownership Dynamics	Complementary	Fitch also considers ownership dynamics, including whether an issuer is publicly traded privately held or mutually owned, whether there is private equity ownership and/or non-strategic ownership and whether there is significant influence from related parties to understand the impact on strategic decisions, liquidity and/or capitalization. Mutually owned institutions, such as many clearing houses, may be viewed more favorably to the extent they reduce conflicts of interest between risk management and profit maximization.

Source: Fitch.

Company Profile

	aaa	aa	a	bbb	bb	b	ccc and Below
Franchise	Dominant franchise in multiple business segments or geographies. Strong competitive advantages likely to endure. Possesses strong competitive advantages and pricing power in principal operating segments. These strengths maintained through economic cycles.	Leading franchise in multiple business segments or geographies. Solid competitive advantages likely to endure into the long term. Demonstrated competitive advantages and pricing power. These strengths maintained over multiple economic cycles.	Strong franchise in key markets or businesses. Has leading franchise in some key operating segments or geographies. Demonstrated competitive advantages and pricing power in key operating segments.	Adequate franchise in geographies. Operating in somewhat less developed markets or has limited competitive advantages or pricing power in main operating segments.	Moderate franchise in key business segment or geographies. Operating in somewhat less developed markets or has limited competitive advantages and generally a price taker in main operating segment(s). Limited operating history.	May have nominal franchise in a key business segment or geographies. Operating in less developed markets or has no discernible competitive advantage. Very limited operating history.	Operating in undeveloped markets or has no discernible franchise value or competitive advantage. Extremely limited operating history.
Business Model	Highly diverse and stable business model across multiple operating segments or geographies. Critical mass maintained in all business segments and geographies in which it operates. Minimal reliance on volatile businesses.	Very diverse and stable business model across multiple operating segments or geographies. Maintains critical mass in most business segments and geographies in which it operates. Modest reliance on volatile businesses.	Diverse and stable business model. Critical mass maintained in key operating segments or geographies in which it operates. Notable reliance on volatile businesses.	Less stable and/or diverse business model, potentially dominated by a key operating segment or geography. Greater reliance on volatile businesses.	Less diverse and stable business model, potentially with more specialization in a key operating segment or less stable/advanced economies. Significant reliance on volatile businesses.	Limited business model stability. May be wholly reliant on volatile businesses or economies.	Business model rapidly evolving or operating in unstable economic environment.
Organizational Structure	Organizational structure complexity commensurate with 'aaa/aa' business model. Major legal entities exist principally for clear business reasons. High visibility into principal legal entities.		Organizational structure complexity commensurate with 'a/bbb' business model. Potentially increased organizational structure complexity. Good visibility into major legal entities.		Significant organizational structure complexity. Potentially limited visibility into main legal entities.		Highly complex, opaque or materially changing organizational structure.

Source: Fitch.

II.3 – Management and Strategy Assessment

Fitch's assessment of Management and Strategy considers the following subfactors:

- management quality;
- corporate governance;
- strategic objectives; and
- execution.

Importance of this Assessment

An assessment of management, corporate governance, strategic objectives and execution is one of the least tangible aspects of its fundamental analysis but is important in considering how an institution is run, for example through establishing particular business or financial goals, developing a strategy to pursue those goals, and demonstrating an ability to meet these goals, all of which provide insight into motivations and incentives within the institution.

The management and strategy assessment is typically conditioned, and often constrained, by the operating environment and company profile assessments, unless Fitch believes the elements assessed are insulated from the effects of the non-bank financial institution's operating environment(s) and business model. In weaker operating environments, corporate governance issues tend to be more prevalent, strategic objectives may be more likely to shift over time or be more opportunistic, and execution of strategy is often more challenging. It is possible for a management and strategy score to be higher than the operating environment (e.g. a very good management team operating in a weak environment). However, in such cases, it is likely that the

management and strategy score would be of lower influence to the rating if the superior management quality is unable to exert meaningful influence on the overall risk profile.

The quality and effectiveness of management is reflected in individuals and the overall management structure, as well as other factors such as corporate governance and strategy. While this is, on the face of it, a subjective assessment, there will typically be some tangible evidence of management's effectiveness through its impact on financial and/or risk metrics.

The following tables identify those management and strategy attributes that Fitch has defined as 'core' versus 'complementary,' together with an indication of how each attribute is typically assessed. The accompanying subfactor/rating category matrix provides representative characteristics that aid the determination of the overall factor score assigned in each case.

Management Quality

Attribute	Core Versus Complementary	Description
Depth and Stability of Senior Management	Core	A strong management teams will demonstrate a high degree of credibility, experience, and competence and, commensurate with the size and complexity of the institution, reflect those same qualities in an appropriate depth of experienced, capable management. The impact of any turnover is considered in the context of the existence of succession plans (where key person risk is present) and/or the qualities brought by incoming personnel in cases where those individuals have a proven track record with similar institutions or businesses elsewhere.
Corporate Culture	Complementary	An established record of a firmly entrenched cultural identity may help ensure that coherent business philosophies are adopted throughout the organization and remain in place when there are management transitions and across business cycles This can prove beneficial to the management quality score as harmonization and predictability generally instill market confidence.
Key Person Risk	Complementary	Smaller, niche institutions may be reliant on a specific individual or a small group of key individuals, often the institution's founder(s). Fitch expects an institution's senior management structure to be commensurate with its scale and complexity but will usually view any reliance on key individuals as a constraint, regardless of how well-intentioned, as a departure could cause material disruption in the organization's future business prospects and damage its franchise. For certain investment managers, there may also be trigger events in fund governing documents (such as the limited partnership [LP] agreements or articles of incorporation) that would permit early redemptions or withdrawals by LPs or the removal of a general partner if a key person left the firm. If there are significant triggers that are easily triggered and create potentially significant liquidity calls, this is likely to be a constraint.

Corporate Governance

Attribute	Core Versus Complementary	Description
Protection of Creditor Rights	Core	Fitch considers the extent to which a non-bank financial institution's intrinsic governance practices provide reasonable protection of creditors' interests, or whether the latter might suffer at the expense of the interests of other stakeholders, in particular shareholders, management, or due to government influence. Fitch considers the effectiveness of the supervisory board collectively, whether it comprises sufficient expertise, resources, independence and credibility to effectively oversee management.
Quality of Financial Reporting and Audit Processes	Complementary	In cases where there are perceived to be weaknesses in financial reporting (quality, frequency and/or timeliness) compared to international best practice, or where internal or external audit processes appear less robust relative to the operating environment, Fitch may assign a lower corporate governance score.
Related Party Transactions	Complementary	The existence of significant related party transactions may be negative for the corporate governance assessment. Their volume, whether they are conducted on market terms and the internal procedures for their review and approval are key elements of this assessment.
Management of Potential Investment Conflicts of Interest	Complementary (for BDCs and Investment Managers)	Fitch will evaluate the governance structure established by the management company to address potential conflicts of interest. Policies may allow establishing both equity and debt positions in the same company in different investment vehicles. In companies undergoing restructuring or facing potential bankruptcy, the ownership of both debt and equity interests can present material conflicts of interest. Fitch will evaluate allocation policies and procedures and board involvement to limit the risks such conflicts may present.
Internal Versus External Management	Complementary (for BDCs and Mortgage REITs)	For BDCs and mortgage REITs, Fitch focuses on whether the company is internally or externally managed. Externally managed entities are typically managed by affiliated companies that, through a management agreement, provide all managerial and operational services. From a corporate governance perspective, Fitch generally has a more favorable view of internal management teams than external management teams, because internal management teams are dedicated solely to the issuer in question, minimizing conflicts of interest. External management may have several investment vehicles under management, with potentially overlapping investment objectives.
Private/Partnership Structures	Complementary	Some non-bank financial institutions are privately held or structured as partnerships. This can make insight into management more challenging and mean that managers who are also partners in the firm act as agent and principal at the same time, potentially affecting the governance assessment. If partner-managers act prudently in the general interests of the company and take measured actions or personally suffer the economic consequences of excessive risk-taking, the governance assessment could be positively influenced. Conversely, unchecked decision-making by individuals can be negative to the governance assessment.

Source: Fitch.

Strategic Objectives

Attribute	Core Versus Complementary	Description
Quantitative Strategic Targets	Core	An institution's strategic objectives are a reflection of its business and financial goals, which may include business targets for market position/share or financial metrics. Fulfillment of these objectives drives decision-making throughout the organization and often motivates management and employees. Fitch will consider how achievable and sustainable objectives are and will assess underlying assumptions for plausibility, consistency and appropriateness, such as taking account of challenges posed by the non-bank financial institution's operating environment, business model and market position. The strategic objectives score is typically influenced by the extent to which financial and business targets are clearly and consistently articulated, and strategic direction appears appropriate to the non-bank financial institution's operating environment, company profile, competitive position and management expertise.
Qualitative Strategic Framework	Core	The strategic objectives assessment reflects the extent to which medium/long-term strategy is well-construed, cohesive and robust, communicated effectively to stakeholders and balances risks and rewards. Fitch will consider management's key strategic philosophies, for example, acquisition-led versus organic growth and/or regional/international expansion versus concentration on domestic markets, as this may highlight strengths or weaknesses in the strategic plan Fitch's assessment may be negatively affected if a non-bank financial institution's business model changes frequently and significantly over time (whether due to organic development or mergers/acquisitions) or the entity undergoes significant restructuring.
Disclosure	Complementary	Where budgets or forecasts are not available to support management's articulation of strategic direction, Fitch will use judgement in determining the appropriateness and plausibility of the narrative and underlying assumptions.

Source: Fitch.

Execution

Attribute	Core Versus Complementary	Description
Track Record in Meeting Stated Objectives	Core	Fitch considers the non-bank financial institution's track record of execution against its stated goals and objectives over multiple periods, and in the context of how realistic or appropriate financial and business targets are. An inability to meet a strategic objective, including a specific target financial metric) in a single reporting period will not necessarily result in a weaker score provided Fitch believes that the strategic objective is achievable over a medium-term horizon.
M&A Activity	Complementary	Poor or slow execution of a merger, acquisition or restructuring initiative or where Fitch considers there to be an inconsistent track record of executing on such transactions or initiatives will likely result in a lower execution score. Effective execution of a business acquisition in line with plan may positively influence the execution score. If Fitch views future execution risk to be elevated, this will also be factored into Fitch's assessment of a non-bank financial institution's execution. .

Source: Fitch.

Management and Strategy

	aaa	aa	a	bbb	bb	b	ccc and Below
Management Quality	Management has an unparalleled degree of depth, stability and experience. Key person risk is non-existent. Succession planning for all key roles is routinely undertaken. Management maintains a strong degree of credibility among all major constituencies throughout economic cycles. Institution has a strong and consistent corporate culture.	Management has a very high degree of depth, stability and experience. Key person risk is limited. Succession planning for key executive roles is routinely undertaken and turnover is very low. Management has maintained a very high degree of credibility among all major constituencies over a lengthy period. Institution has a solid and consistent corporate culture.	Management has a high degree of depth, stability and experience. Key person risk is modest. Succession planning for key executive roles in place and turnover is low. Management maintains a high degree of credibility among major constituencies. Institution has a good and consistent corporate culture.	Management has a good degree of depth, stability and experience. Key person risk is moderate. Executive turnover is manageable. Management has a good level of credibility among major constituencies. Corporate culture is sound, but may be less consistent than higher rated entities.	Management has an acceptable degree of depth, stability and experience, but noticeably less than higher rated entities. Key person risk is elevated. Management turnover or reliance on key individuals may be more prevalent than higher rated entities.	Management may have noticeable weaknesses, including lack of depth, stability, or experience. Key person risk is high. Management turnover may be considered high.	Management deficiencies may be significant.
Corporate Governance	Very strong corporate governance, providing robust protection of creditors' interests. Very effective board oversight, high quality and frequent financial reporting and very limited related party transactions.		Sound corporate governance, providing reasonable protection of creditors' interests. Effective board oversight, good quality financial reporting and limited related party transactions.		Governance is less developed than for higher rated peers but without presenting clear, significant risks for creditors.	Governance gives rise to significant risks for creditors due to weak board oversight, poor financial reporting or significant related party transactions.	Governance gives rise to major risks for creditors due to very weak board oversight, considerable accounting deficiencies or large related party transactions.
Strategic Objectives	Strategic objectives are clearly articulated and reflect long-term sustainable levels of business and financial performance. Strategic objectives remain highly consistent over a lengthy period.	Strategic objectives are clearly articulated and reflect a long-term sustainable level of business and financial performance. Strategic objectives are very consistent over time.	Strategic objectives are well articulated and reflect a medium-term level of business and financial performance. Strategic objectives may shift modestly over time.	Strategic objectives are documented and reflect a medium-term level of business and financial performance. Strategic objectives may shift over time and may be more opportunistic.	Strategic objectives may not be clearly articulated and/or reflect a short-term level of business and financial performance. Strategic objectives may shift based on market opportunities or less stable economic environment.	Strategic objectives are not articulated and reflect a short-term level of business and financial performance. Strategic objectives frequently shift including due to economic environment volatility.	Strategic objectives are lacking or likely to be highly variable due to an unstable economic or operating environment.
Execution	Institution consistently meets target business and financial objectives throughout economic and/or market cycles.	Institution routinely meets target business and financial objectives with very limited variability over economic and/or market cycles.	Institution generally meets target business and financial objectives, albeit with modest variability over economic and/or market cycles.	Institution generally meets target business and financial objectives. Execution could be more variable with changes in economic and/or market cycles.	Institution often fails to meet target business and financial objectives. Execution could be variable based on changes in economic and/or market cycles.	Institution typically fails to meet target business and financial objectives. Execution could be highly variable based on changes in economic and/or market cycles.	Institution does not meet business or financial objectives.

Source: Fitch.

II.4 Risk Appetite Assessment

Importance of this Assessment

Assessment of a company's underwriting standards, risk controls, growth and market risk are important considerations in determining a non-bank financial institution's stand-alone credit risk profile, as they will eventually feed through to changes in a non-bank financial institution's key financial metrics. Fitch will apply its own judgment as to the degree of risk inherent in a particular business line, product or strategy. Fitch will also consider operational and/or reputational risks where these are material for the institution.

Fitch's analysis of risk appetite is focused on those risks that have a material influence on the overall credit profile. The risk appetite assessment is typically conditioned, and often

constrained, by the operating environment and company profile assessments unless Fitch believes the underlying risks can be isolated from the effects of the non-bank financial institution's operating environment(s) and its chosen business model/strategy. It is possible for a risk appetite score to be higher than the operating environment or company profile (e.g. an 'atypical' very low risk appetite relative to the environment or the operating model). However, a very low risk appetite would be expected to be reflected in consistently better asset quality and less earnings volatility.

Stability of results throughout the cycle may be a useful indicator of risk appetite. A high risk appetite may be somewhat mitigated through the employment of strong risk controls, collateral, and risk-based pricing although the natural rating range for non-bank financial institutions with an inherently higher risk appetite will generally be lower than for those non-bank financial institutions whose risk appetite Fitch considers modest or better managed. In addition, risks can be high at non-bank financial institutions with stated low risk appetites, if controls are viewed to be weak or have been ineffective.

The risk controls assessment includes operational (including cyber) and reputational (including litigation) risks where these are material for the institution or an integral part of the business model or operating jurisdiction(s).

Fitch will analyze those aspects of market risk that are considered material to the overall assessment of risk appetite. The most typical form of market risk is interest-rate risk given many non-bank financial institutions' core maturity transformation function, but the assessment will include other elements such as valuation, derivatives and foreign exchange risks where these are material. Market risks will be higher for institutions with material trading operations or where cross-border activity or balance sheet structure gives rise to foreign-exchange risks, so this factor may take on greater relative importance in those instances.

The following tables identify those risk appetite attributes that Fitch has defined as 'core' versus 'complementary,' together with an indication of how each attribute is typically assessed. The accompanying subfactor/rating category matrix provides representative characteristics that aid the determination of the overall factor score assigned in each case.

II.4.a Securities Firms

Fitch's risk appetite assessment for securities firms considers the following subfactors:

- risk controls;
- growth;
- market risk; and
- operational risk.

Risk Controls — Securities Firms

Attribute	Core Versus Complementary	Description
Risk Management Tools	Core	Fitch's assessment of risk controls considers the breadth and sophistication of risk management systems relative to the risk profile of the business and the types of management reporting used, where these are available. This may help indicate how far risk controls permeate the organization with respect to key risks a typical securities firm may incur, such as market, operational, reputational and credit risks. Fitch may also assess how the launch of material new business activities are vetted in the context of the associated credit, market, operational and reputational risks and their effect on the overall franchise.
Staffing and Culture	Complementary	Fitch attempts to understand the level of risk management engagement across the firm, the variety of committees and membership, as well as the independence and authority carried by risk functions. The backgrounds and experience levels of risk management professionals may also be considered.

Source: Fitch.

Growth — Securities Firms

Attribute	Core Versus Complementary	Description
Absolute and Relative Rates of Growth	Core	Fitch generally measures overall balance-sheet expansion against underlying economic growth, earnings retention, staffing growth, market activity, and peer, sector and industry averages to identify any outliers and assess the build-up of potential risks. Rapid growth can obscure financial analysis, for example making it difficult to form a view of inventory turnover and may be indicative of a lowering of standards or slowing demand.
Accompanying Infrastructure Growth	Complementary	Rapid growth may introduce other challenges such as operational strains, as back-office staff or systems may not be capable of handling increased business volumes and, therefore, would be negative for the assessment of growth.

Source: Fitch.

Market Risk — Securities Firms

Attribute	Core Versus Complementary	Description
Market Risk Exposure	Core (For securities firms with high balance sheet usage) Complementary (For securities firms with low balance sheet usage)	For firms with significant trading activities, Fitch's assessment of market risk focuses on the degree of market risk exposure and the means of measuring and managing it. These usually include value at risk (VaR), stop-loss limits, concentration limits, sensitivity analysis and stress testing.
Sensitivity to Marketwide Dynamics	Core (For securities firms with low balance sheet usage) Complementary (For securities firms with high balance sheet usage)	Although securities firms that do not hold securities on their balance sheets generally have only limited exposure to market risk, their revenue is heavily exposed to the volume of transactions in the market, and therefore, Fitch's assessment of market risk focuses more broadly on the sensitivity of the business model to marketwide dynamics.
Stress Testing and Sensitivity Analysis	Complementary	When available, Fitch evaluates management's reports of specific products' risks, sensitivities and supplemental stress scenarios on a position and consolidated bases. When available, Fitch also reviews reports that include adjusted VaR using liquidity-stressed scenarios or replicate historical periods of stress. Fitch evaluates the use of stress limits, but this is not comparable across peers. When possible, Fitch assesses market risk concentration (by product, issuer/counterparty, industry and country) in trading and investment portfolios and reviews management's oversight of aged inventory. Fitch may also review policies with respect to collateral and margin calls and the reasons for any changes made to these.
Hedging Activity and Effectiveness	Complementary	Collateral and hedging are frequently employed to mitigate market risk, but hedges are imperfect, and so some degree of market and credit exposure generally remains. As a result, both gross and net positions are considered in Fitch's rating evaluation to the extent such information is reported.
Market Development	Complementary	In markets where volatility and liquidity issues can be extreme, greater emphasis may be placed on the level of nominal/cash limits. In emerging markets, credit/settlement risk can still be significant. Fitch assesses the level of "free of payment" deliveries (in contrast to payment on delivery) particularly closely in emerging markets, where payment may not be so readily forthcoming.

Source: Fitch.

Market Risk Metrics — Securities Firms

Average VaR/Fitch Core Capital (FCC)
Fitch Stressed VaR/FCC
Principal Daily Trading Revenue/Average Trading VaR
Principal Transaction Revenue/Total Revenue

Source: Fitch.

Operational Risk — Securities Firms

Attribute	Core Versus Complementary	Description
Operational Infrastructure/Framework	Core	Fitch's assessment of securities firms' operational risk focuses on investment in front-, middle- and back-office systems commensurate with the nature of the business, including new product development/implementation and systems upgrades. Backlogs of settlements, resolutions and customer complaints or a history of problems with the firm's custodian can be indicators of insufficient back-office staff support. These challenges can be exacerbated for institutions that have undertaken material acquisition activity.
Operational Loss Experience	Complementary	If Fitch determines that a firm has a weak operational risk infrastructure or control environment, such as systems failures, inaccurate trade processing or limit breaches (such as rogue trading incidents) this will typically have a negative effect on the operational risk assessment, particularly to the extent failures result in reputational damage, loss of business, and or outsized fines/penalties. Operational risk can potentially have a more pronounced effect on less diversified businesses, where an operational shortfall can result in temporary or permanent damage to the company's core franchise.

Source: Fitch.

Risk Appetite — Securities Firms

	aaa	aa	a	bbb	bb	b	ccc and Below
Risk Controls	Risk and reporting tools are extremely robust. Risk limits are highly conservative and overwhelmingly adhered to. Risk limits are routinely monitored with minimal changes over lengthy periods. Risk controls permeate the organization. Exposure to operational risks is very low. New products are heavily vetted and tested before rollout.	Risk and reporting tools are very robust. Risk limits are very conservative. Risk limits are routinely monitored with nominal changes over lengthy periods. Risk controls permeate the organization. Exposure to operational risks is low. New products are carefully vetted and tested before rollout.	Risk and reporting tools are robust. Risk limits are conservative. Risk limits are monitored but may change based on business conditions. Risk controls are centralized. Exposure to operational risks is modest. New products are carefully tested before rollout.	Risk and reporting tools are good. Risk limits are sound and monitored, although they may fluctuate based on opportunities. Risk controls are less pervasive throughout the organization. Exposure to operational risks is moderate. New products are tested before rollout.	Risk and reporting tools are acceptable, but may lack depth or sophistication. Risk limits are monitored less frequently than higher rated institutions. Risk limits may change based on business opportunities. Exposure to operational risks is heightened. New products may not be thoroughly vetted or tested before rollout.	Risk and reporting tools may be deficient. Risk limits are crude and may not be monitored frequently. Breaches of limits may not trigger heightened management attention. Exposure to operational risks is high. New products are not tested before rollout.	There are significant risk control deficiencies.
Growth	Balance-sheet growth or business growth is unlikely to pressure solvency or outpace the long-term sustainable growth of main business segments. Control environment is systematically adapted to meet higher business volumes.	Balance-sheet growth or business growth seldom pressures solvency or outpaces the long-term sustainable growth of main business segments. Control environment is systematically adapted to meet higher business volumes.	Balance-sheet growth or business growth may at times pressure solvency and exceed the long-term sustainable growth of main business segments. Control environment is usually suitably adapted to meet higher business volumes.	Balance-sheet growth or business growth more often pressures solvency and exceeds the long-term sustainable growth of main business segments. Control environment may lag behind higher business volumes.	Balance-sheet or business growth often pressures solvency and exceeds the long-term sustainable growth of main business segments. Control environment likely to lag behind higher business volumes.	Balance-sheet growth usually pressures solvency and the long-term sustainable growth of business segments. Control environment routinely lags behind higher business volumes.	Growth may be well in excess of sustainable levels. Or unable to sell assets to achieve necessary balance sheet contraction.
Market Risk (Direct and Indirect)	Exposure to market risks is very low. Structural interest rate and foreign exchange risks are very low relative to peers. Proprietary trading is very low.	Exposure to market risks is low. Structural interest rate and foreign exchange risks are low relative to peers and appropriately mitigated through hedging. Proprietary trading is low.	Exposure to market risks is modest. Structural interest rate and foreign exchange risks are modest and appropriately mitigated through hedging. Proprietary trading may be material, but have sound controls.	Exposure to market risks is average. Appropriate hedging techniques are likely to be employed. Proprietary trading may be material. Controls may be satisfactory, but somewhat below industry best practice.	Exposure to market risks is heightened. Market risks may encompass structural interest rate and foreign exchange risks. Basic hedging techniques may be employed or effectiveness somewhat compromised.	Exposure to market risks is high or highly variable. Risks may not be effectively hedged	There may be significant market risk. Controls have not been established.
Operational Risk	Very strong operational risk infrastructure/framework. Demonstrated track record of limited operational losses.	Strong operational risk infrastructure/framework. Demonstrated track record of limited operational losses.	Good operational risk infrastructure/framework. Significant operational losses are corrected promptly.	Adequate operational risk infrastructure, with some processes outsourced to third-party processors. Operational losses may occur but are manageable.	Limited operational risk infrastructure, with heavy reliance on third-party providers. History of operational losses/issues.	Weak operational risk infrastructure. History of operational losses/issues.	Significant operational risk management shortfalls.

Source: Fitch.

II.4.b Investment Managers

Fitch's risk appetite assessment for investment managers, investment companies and investment funds considers the following subfactors:

- risk controls;
- growth;
- market risk and counterparty risk; and
- operational risk (for investment managers and investment funds) or underwriting standards (for investment companies).

Risk Controls — Investment Managers

Attribute	Core Versus Complementary	Description
Risk Management Tools	Core	Fitch assesses investment managers' ability to identify, measure, manage and monitor risk, as supported by its risk and reporting systems and investment in technology. Key areas that Fitch takes into consideration are the independence and effectiveness of the risk management and compliance functions, senior management's understanding and involvement in risk management issues and the reporting lines in place, and whether there is a corporatewide investment risk function that monitors investment risks taken by individual managers to evaluate their potential cumulative impact on the firm's asset performance/asset quality, earnings and franchise. Fitch's assessment of risk controls may consider the types of management reporting used, where these are available. This may help indicate how far risk controls permeate the organization. For investment companies and investment funds, risk management oversight and infrastructure is conducted either by the employees of the investment company or through an affiliated but external investment manager. Therefore, the risk management framework at the investment manager level is considered when relevant. The investment manager may also provide the risk framework and strategy of the fund.
Risk Limits	Complementary	Fitch's assessment of risk controls may also extend to formalized risk limits that are in place, particularly for firms or funds with more complex market risk exposures. Fitch's analysis will tend to focus on a firm's VaR or earnings at risk output, stop-loss limits, concentrations and stress test results where available.
Scenario Testing	Complementary	When available and relevant, Fitch will evaluate scenario tests conducted on current/prospective business activities and, to the extent possible, evaluate the performance against risk measurements. In cases where stress testing results are deemed relevant, but are not available, this may lead to lower stand-alone ratings.

Source: Fitch.

Growth — Investment Managers

Attribute	Core Versus Complementary	Description
Absolute and Relative Rates of Growth	Core	Where growth has been organic, Fitch's growth assessment focuses on whether the firm has the appropriate in-house investment expertise to manage new and/or larger strategies, as underperformance on a relative basis could yield meaningful reputational damage for the firm. Fitch also seeks to understand why (F)AUM growth rates may differ among peer firms.
Impacts of Inorganic Growth	Complementary	For investment managers that have grown rapidly through acquisitions, success of a growth strategy is assessed by evaluating acquisition parameters and price discipline, pre- and post-acquisition performance, client turnover, employee retention statistics and the ability to manage firm culture.
Accompanying Infrastructure Growth	Complementary	Fitch's assessment can be negatively affected in instances when there is not commensurate infrastructure to support growth. On the other hand, successful execution of measured growth with demonstrated discipline in infrastructure and integration management could positively affect Fitch's assessment of growth if accretive to the franchise by building FAUM, earnings power (particularly if it is a stable source), reputation, distribution channels (new client bases) and diversifying product or geographic scope. For investment companies and investment funds, growth can be viewed positively when driven by strong asset appreciation.

Source: Fitch.

Market Risk and Counterparty Risk — Investment Managers

Attribute	Core Versus Complementary	Description
Asset Valuation Risk	Core	Fitch's assessment of market risk considers the extent to which the investment manager relies on net asset value (NAV)-based fees given the impact of valuation movements on management fees. This risk is more prevalent for traditional investment managers because they operate open-end funds with relatively liquid assets. Alternative investment managers generally have a larger portion of fees based on committed capital or invested capital, which will not be affected by underlying valuation movements or redemption activity, although broader market downturns can slow the pace of fund capital calls/investments and, thereby, pressure fund internal rates of return. Market risk is also an important stand-alone credit rating factor for investment companies, investment funds and for investment managers that co-invest, earn performance fees or defer fees into the fund, as earnings and balance sheet leverage will be based on the valuation of underlying fund investments.
Asset Valuation Process	Complementary	The independence of the periodic valuation processes and whether it is done internally or utilizing third parties can be an important consideration, particularly for private investments, which may require modeling techniques or relying upon comparable sales. In such instances, Fitch reviews the reasonableness of the valuation methodology, how management resolves troubled investments and the use of third parties for valuation purposes. Model validation tools to make sure that valuation processes are reasonable and consistent with the seniority of the investment in the underlying company can be critical. Model risk is less relevant for traditional investment managers given that the majority of their assets are considered Level 1 for accounting purposes, meaning they have a readily available market value. Fitch may gain comfort with a firm's valuation process over time by comparing investment exit values to prior-quarter fair values.
Interest Rate and Foreign Exchange Risk	Complementary	Fitch's market risk assessment may also include a review of methods used to measure, monitor and control interest rate risk, which can manifest itself in several forms including its impact on fee generation (such as for cash management products), investment performance (such as for fixed-income funds) and balance sheet sensitivity (such as for co-investment assets or floating-rate liabilities). Where relevant, Fitch also considers earnings sensitivity to movements in interest rates and currencies and whether the exposure is naturally hedged, with offsets within the asset portfolio, or actively hedged with derivatives. Sizable unhedged exposure is more likely to have a negative impact on Fitch's market risk assessment.
Counterparty Quality and Diversification	Complementary	Counterparty quality and diversification are assessed in the context of the placement of an investment manager's own surplus funds, but also on behalf of managed fund assets, given the potential need to move clearing, trading, and/or securities lending activities to other parties should one counterparty face difficulty. Counterparty concentrations could pose increased operational and/or financial risks, which have a negative impact on Fitch's market risk assessment. For investment companies, the reliance on counterparties for hedging and/or funding is typically limited and, as such, counterparty risk is typically a low influence factor. For investment funds, Fitch assesses the diversity of prime brokerage relationships, which are an important source of financing, as well as clearing, settlement and other services. Outsized exposure to a single counterparty that faces financial hardship could result in the fund's inability to withdraw posted collateral or excess funds. Diversification of these counterparties can have a positive influence on the market risk assessment, although this is balanced against the higher cost and potential loss of efficiency when reviewing prime brokerage relationships. Fitch also seeks to understand the extent to which an investment fund requires segregation of its assets, including collateral, or limits on rehypothecation at the broker dealer to ensure access to its securities should its prime broker face difficulties.

Source: Fitch.

Operational Risk — Investment Managers

Attribute	Core Versus Complementary	Description
Operational Infrastructure/ Framework	Core	In assessing operational risk, Fitch considers processes in place relating to compliance, operations, credit and/or investment performance. If Fitch determines that the operational infrastructure is weak or operational risk is not well controlled, this is likely to negatively impact Fitch's operational risk assessment given the potential for reputational risk, legal risk or both. For investment funds, operational risk can be an important consideration, particularly if the fund focuses on trading strategies involving high complexity, volume and/or automation. For investment companies, operational risk is typically a low influence factor given a smaller (relative) number of investments and less frequent (relative) investment turnover. Furthermore, given that value creation is typically premised on asset appreciation, Fitch tends to place more emphasis on investment companies' underwriting standards in terms of sourcing, due diligence, investment committee review, structuring and monitoring.
Operational Outsourcing	Complementary	Many investment managers, investment companies and investment funds outsource key operational functions to outside processors, such as asset custodians, independent pricing services or trade processors. In such cases, operational risk still exists but is controlled by the firm's management and analysis of its vendors. Fitch's operational risk assessment may evaluate how vendor selection and retention are managed.
Operational Loss History	Complementary	Another possible indicator of the quality of operational risk management is past operational loss history, if available. Most publicly traded firms will discuss significant losses in their financial disclosures. For privately held firms, Fitch will seek to review a record of such losses to understand their nature and whether sufficient controls have been put in place to make their recurrence less likely.

Source: Fitch.

Risk Appetite — Investment Managers

	aaa	aa	a	bbb	bb	b	ccc and Below
Risk Controls	Risk and reporting tools are extremely robust. Risk limits are routinely monitored with minimal changes over lengthy periods. New strategies/industry verticals are heavily vetted and tested before rollout.	Risk and reporting tools are very robust. Risk limits are routinely monitored with nominal changes over lengthy periods. New strategies/industry verticals are carefully vetted and tested before rollout.	Risk and reporting tools are robust. Risk limits are monitored, but may change based on business conditions. New strategies/industry verticals are carefully tested before rollout.	Risk and reporting tools are good. Risk limits are sound and monitored, although they may fluctuate based on opportunities. New strategies/industry verticals are tested before rollout.	Risk and reporting tools are acceptable, but may lack depth or sophistication. Risk limits may change based on business opportunities. New strategies/industry verticals may not be thoroughly vetted or tested before rollout.	Risk and reporting tools may be deficient. Risk limits are crude and may not be monitored frequently. New strategies/industry verticals are not tested before rollout.	There are significant risk control deficiencies.
Growth	(F)AUM growth or business growth aligned with market opportunities. Control environment is systematically adapted to meet higher business volumes.	(F)AUM growth or business growth generally aligned with market opportunities. Control environment is systematically adapted to meet higher business volumes.	(F)AUM growth or business growth generally aligned with market opportunities. Control environment is usually suitably adapted to meet higher business volumes.	(F)AUM growth or business growth may modestly outpace market opportunities. Control environment may lag behind higher business volumes.	(F)AUM growth or business growth may meaningfully outpace market opportunities. Control environment likely to lag behind higher business volumes.	(F)AUM growth or business growth may significantly outpace market opportunities. Control environment routinely lags behind higher business volumes.	(F)AUM growth may be well in excess of sustainable levels.
Market Risk and Counterparty Risk	Exposure to market risks is very low. Interest rate and foreign exchange rate risks are very low relative to peers. Portfolio valuation is fully independent. Counterparty risk is extremely well managed and diversified.	Exposure to market risks is low. Interest rate and foreign exchange rate risks are low relative to peers and appropriately mitigated. Portfolio valuation is fully independent. Counterparty risk is well managed and diversified.	Exposure to market risks is modest. Interest rate and foreign exchange rate risks are modest and appropriately mitigated. Portfolio valuation is fully independent. Counterparty risk is reasonably managed and diversified.	Exposure to market risks is average. Interest rate and foreign exchange rate risks are appropriately mitigated. Portfolio valuation involves independent third-parties. Counterparty risk is adequately managed and diversified.	Exposure to market risks is heightened. Basic hedging techniques may be employed or effectiveness somewhat compromised. Portfolio valuation is internal. Counterparty risk management is below average with limited diversification.	Exposure to market risk is high or highly variable. Risks may not be effectively hedged. Weak counterparty risk management with high concentration.	There may be significant market risks related to interest rates or foreign exchange.
Operational Risk	Very strong operational risk infrastructure/ framework. Demonstrated track record of limited operational losses.	Strong operational risk infrastructure/ framework. Demonstrated track record of limited operational losses.	Good operational risk infrastructure/ framework. Significant operational losses are corrected promptly.	Adequate operational risk infrastructure, with some processes outsourced to third-party processors. Operational losses may occur but are manageable.	Limited operational risk infrastructure, with heavy reliance on third-party providers. History of operational losses/issues.	Weak operational risk infrastructure. History of operational losses/issues.	Significant operational and counterparty risk management shortfalls.

Source: Fitch.

II.4.c Business Development Companies

Fitch's risk appetite assessment for BDCs considers the following subfactors:

- underwriting standards;
- risk controls;
- growth; and
- market risk.

Underwriting Standards — Business Development Companies

Attribute	Core Versus Complementary	Description
Portfolio Construct	Core	Fitch attempts to identify a BDC's general risk appetite by reviewing the portfolio construct, yields, industry and issuer concentrations, and underlying portfolio company statistics, including average EBITDA, leverage, interest coverage, and exposure to covenant lite loans. A BDC that is generating outsized portfolio yields relative to peers could indicate an ability to identify and structure unique and complex investments that command a higher yield, which could be a positive factor, or could indicate a higher risk appetite, which would be a negative factor. An observation of portfolio performance over an extended period aids Fitch in its ability to differentiate between these two possibilities.
Underwriting Process	Complementary	Fitch's assessment of a BDC's underwriting standards considers sourcing, due diligence, investment committee review, structuring, funding and monitoring. Fitch may review investment memos and other underwriting documentation, where available, to assesses whether the process is comprehensive, particularly where the BDC does not have a long and established underwriting track record. Fitch also focuses on the development and monitoring of key sponsor relationships to understand concentration risks and the potential for adverse selection.
Performance/ Portfolio Consistency	Complementary	A BDC's credit culture and standards should generally exhibit consistency, although Fitch recognizes that a BDC's origination volume may vary to some extent based on market conditions. An opinion about a BDC's underwriting acumen and consistency is formed over time and best observed based on performance through a full economic cycle. In the absence of that information, Fitch will seek insight into management's prior performance managing similar assets and structures through a variety of market conditions, although a short operating history is generally a limiting rating factor. Evidence of strong and consistent underwriting over an extended period can positively influence Fitch's assessment of underwriting standards.

Source: Fitch.

Risk Controls — Business Development Companies

Attribute	Core Versus Complementary	Description
Risk Management Tools	Core	Fitch's assessment of a BDCs risk controls can be positively influenced by strong and effective risk management tools which allow the BDC to effectively adhere to its risk appetite framework and underwriting standards. These generally include limits pertaining to industry or issuer concentrations, market risks, and operational controls. They may also include tools such as internal ratings, watchlists or other risk monitoring scales.
Risk Reporting	Complementary	Fitch's assessment of a BDC's risk controls may also consider the types of management reporting used, where these are available. This may help indicate how far risk controls permeate the organization with respect to key risks a BDC may incur, such as credit, market and operational risks. A negative driver of Fitch's assessment of a BDC's risk controls would be deficiencies in operational risk management that have already manifested themselves and are uncured.

Source: Fitch.

Growth — Business Development Companies

Attribute	Core Versus Complementary	Description
Absolute and Relative Rates of Growth	Core	A BDC's growth is assessed on an absolute and relative basis based on market opportunities, underwriting conditions and the firm's own experience and track record in the sector. Outsized growth in competitive market conditions, characterized by tighter spreads, higher leverage and looser covenant packages, could increase the risks of vintage concentrations and lead to potential asset quality issues down the road, which would be viewed negatively. Fitch does consider whether the BDC's size and relationships provide it with more deal selectivity and structuring flexibility despite tougher market conditions, but sacrificing quality for growth would have a negative impact on Fitch's assessment.
Accompanying Infrastructure Growth	Complementary	Fitch assessment of growth also considers whether the BDC's infrastructure is expanding appropriately to manage a larger portfolio. Infrastructure growth should span front-line investment professionals, back-office accounting, finance and administrative support and technology resources. Expansion into new industry verticals should also be measured and accompanied by commensurate growth in appropriately skilled staff. Failure to sufficiently invest in the operating platform could lead to credit and/or operational losses, which would have a negative impact on Fitch's assessment.

Source: Fitch.

Market Risk — Business Development Companies

Attribute	Core Versus Complementary	Description
Portfolio Valuation Process	Core	Given the illiquidity of the majority of BDCs' portfolio assets, fair value estimates often require numerous management assumptions. As a result, Fitch views the involvement of independent third-parties in the quarterly valuation process favorably. A BDC that receives independent valuations on its entire portfolio every quarter would be viewed more favorably than a BDC that only has a portion of its portfolio valued by a third party or has its entire portfolio valued by a third party but with less frequency. However, Fitch does expect management and the board to be actively involved in the quarterly process to identify discrepancies or inconsistencies in portfolio company valuation and as a tool to monitor portfolio performance.
Portfolio Valuation Consistency	Complementary	Fitch assesses a BDC's valuation competency over time by reviewing portfolio company exits versus prior-quarter fair value marks. If sale proceeds are consistently below fair value, Fitch would call into question the sufficiency of the valuation process and/or the competency of the third-party provider. Conversely, if exits are consistently above the prior-quarter fair value, Fitch would consider whether the BDC was being too conservative in its valuation process, in an effort to recognize regular realized gains. Fitch expects the above/below marks to generally average out in the long run.
Interest Rate and Foreign Exchange Risks	Complementary	Fitch considers how the BDC's earnings may be affected by a changing rate environment, taking into consideration the fixed/floating asset and funding mix. Where derivatives are employed to manage interest rate exposure, Fitch considers their cost and effectiveness over time, in addition to the counterparty exposure. When applicable, Fitch considers the BDC's exposure to foreign currency movements and the potential impact on profitability and leverage. If derivatives are employed to manage the exposure, Fitch considers their cost and effectiveness over time, in addition to the counterparty exposure.

Source: Fitch.

Risk Appetite — Business Development Companies

	aaa	aa	a	bbb	bb	b	ccc and Below
Underwriting Standards	Underwriting standards are clearly risk-averse and far more conservative than evident elsewhere in the industry. Credit standards are consistent with minimal changes throughout economic cycles. Long-run performance expectations are incorporated. Portfolio construct is solely first lien loans.	Underwriting standards are very low risk and more conservative than evident elsewhere in the industry. Credit standards are consistent with nominal changes over economic cycles. Long-run performance expectations are incorporated. Portfolio construct is solely secured loans.	Underwriting standards are low risk and generally more stringent than industry practice. Credit standards are largely consistent but may vary modestly over economic cycles. Standards reflect medium-term performance expectations. Portfolio construct is solely loans.	Underwriting standards generally in line with the broad industry practice. Credit standards are variable over economic cycles. Standards reflect medium-term performance expectations. Portfolio construct may have minimal exposure to equity positions.	Underwriting standards reflect generally above-average risk appetite. Credit standards may be more aggressive than broad industry averages. Standards are likely to change noticeably over economic cycles. Portfolio construct may have modest exposure to equity positions.	Underwriting standards exhibit heightened risk appetite. Credit standards are typically more aggressive than broad industry averages and likely to change considerably over economic cycles. Portfolio construct may have meaningful exposure to equity positions.	Underwriting standards lead to high risk exposure and are likely to reflect stress within the entity. Credit standards do not have any discernible track record. Standards may fluctuate frequently. Portfolio construct may have significant exposure to equity positions.
Risk Controls	Risk and reporting tools are extremely robust. Risk limits are highly conservative and overwhelmingly adhered to. Risk limits are routinely monitored with minimal changes over lengthy periods. Exposure to operational risks is very low. New strategies/industry verticals are heavily vetted and tested before rollout.	Risk and reporting tools are very robust. Risk limits are very conservative. Risk limits are routinely monitored with nominal changes over lengthy periods. Exposure to operational risks is low. New strategies/industry verticals are carefully vetted and tested before rollout.	Risk and reporting tools are robust. Risk limits are conservative. Risk limits are monitored but may change based on business conditions. Exposure to operational risks is modest. New strategies/industry verticals are tested before widespread rollout.	Risk and reporting tools are good. Risk limits are sound and monitored, although they may fluctuate based on opportunities. Exposure to operational risks is moderate. New strategies/industry verticals are carefully tested before rollout.	Risk and reporting tools are acceptable, but may lack depth or sophistication. Risk limits are monitored less frequently than higher rated institutions. Risk limits may change based on business opportunities. Exposure to operational risks is heightened. New strategies/industry verticals may not be thoroughly vetted or tested before rollout.	Risk and reporting tools may be deficient. Risk limits are crude and may not be monitored frequently. Exposure to operational risks is high. New strategies/industry verticals are not tested before rollout.	There are significant risk control deficiencies.
Growth	Balance-sheet growth or business growth aligned with market opportunities and underwriting conditions. Control environment is systematically adapted to meet higher business volumes.	Balance-sheet growth or business growth seldom outpace market opportunities and underwriting conditions. Control environment is systematically adapted to meet higher business volumes.	Balance-sheet growth or business growth may at times outpace market opportunities and underwriting conditions. Control environment is usually suitably adapted to meet higher business volumes.	Balance-sheet growth or business growth more often outpace market opportunities and underwriting conditions. Control environment may lag behind higher business volumes.	Balance-sheet growth or business growth may modestly outpace market opportunities and underwriting conditions. Control environment likely to lag behind higher business volumes.	Balance-sheet growth or business growth may meaningfully outpace market opportunities and underwriting conditions. Control environment routinely lags behind higher business volumes.	Growth may be well in excess of sustainable levels.
Market Risk	Exposure to market risks is very low. Interest rate and foreign exchange rate risks are very low relative to peers. Portfolio valuation is fully independent. Regulatory cushions are very significant and managed relative to portfolio composition.	Exposure to market risks is low. Interest rate and foreign exchange rate risks are low relative to peers and appropriately mitigated. Portfolio valuation is fully independent. Regulatory cushions are significant and managed relative to portfolio composition.	Exposure to market risks is modest. Interest rate and foreign exchange rate risks are modest and appropriately mitigated. Portfolio valuation is fully independent. Regulatory cushions are meaningful and managed relative to portfolio composition.	Exposure to market risks is average. Interest rate and foreign exchange rate risks are appropriately mitigated. Portfolio valuation involves independent third-parties. Regulatory cushions exist and are managed relative to portfolio composition.	Exposure to market risks is heightened. Basic hedging techniques may be employed or effectiveness somewhat compromised. Portfolio valuation is internal. Regulatory cushions may exist but are not managed relative to portfolio composition.	Exposure to market risk is high or highly variable. Risks may not be effectively hedged. Regulatory cushions are minimal and are not managed relative to portfolio composition.	There may be significant market risks, related to interest rates or foreign exchange. Regulatory cushions do not exist.

Source: Fitch.

II.4.d Finance and Leasing Companies

Fitch's risk appetite assessment for finance and leasing companies considers the following subfactors:

- underwriting standards;
- risk controls;
- growth; and
- market risk.

Underwriting Standards — Finance and Leasing Companies

Attribute	Core Versus Complementary	Description
Policies and Procedures	Core	Fitch's assessment of a finance and leasing company's underwriting standards considers internal management credit reports and variances from policy, if available, how problem loans are reported and forbearance practices, to ensure that an issuer is not delaying the recognition of problem credits, particularly in instances where the issuer does not have a long and established track record of underwriting through the cycle.
Residual Value Risk Management	Complementary	Fitch assesses an issuer's exposure to and management of residual value risk by understanding the company's pricing policies, its ability to monitor the condition of assets under lease, its flexibility to alter lease payments (e.g. additional charges for unfair wear and tear) or amend contracts, the relative market liquidity for used collateral and the leasing company's access to a variety of disposal channels. An ability to control residual value gains/losses effectively through a variety of asset cycles is viewed as the clearest demonstration of residual risk management capabilities.
Business Model Specifics	Complementary	Certain types of finance and leasing companies, such as debt purchasers, do not originate or underwrite the original loans they carry on balance sheet or manage. Their business model means asset quality will be inherently weak and their ability to generate cash flow to service debt will largely be a function of the extent recoveries/collections exceed the price paid for the loans. Consequently, for such companies, Fitch's assessment of underwriting standards will additionally focus on pricing discipline through economic cycles. Industry measures such as 'cash on cash multiples' (i.e. collections to date plus estimated remaining collections divided by purchase price) can be a useful indicator of pricing discipline that Fitch would review, where available.

Source: Fitch.

Risk Controls — Finance and Leasing Companies

Attribute	Core Versus Complementary	Description
Risk Management Tools	Core	Fitch assesses a finance and leasing company's adherence to its risk appetite framework and underwriting standards by considering the strength and effectiveness of its risk management tools and systems. These generally include limits pertaining to credit concentrations, geography, market risks and operational controls. They may also include tools such as custom scorecards, internal ratings or third-party data sources such as national credit bureaus.
Risk Reporting	Complementary	Fitch's assessment of risk controls may consider the types of management reporting used, where these are available. This may help indicate how far risk controls permeate the organization with respect to all risks the finance and leasing company may incur, such as credit, market and operational risks.

Source: Fitch.

Growth — Finance and Leasing Companies

Attribute	Core Versus Complementary	Description
Absolute and Relative Rates of Growth	Core	Fitch generally assesses growth in the context of business and balance sheet expansion relative to underlying economic growth, earnings retention, staffing growth and peer, sector and industry averages. Rapid loan growth can also obscure financial analysis, for example, making it more difficult to form a view of true asset quality because loan portfolios have not had time to mature and may be indicative of a lowering of underwriting standards or growth outstripping risk controls.
Accompanying Infrastructure Growth	Complementary	Fitch's growth assessment may be negatively influenced by rapid growth if it introduces other challenges such as operational strains (as back-office or systems may not be capable of handling increased business volumes) or higher leverage (should growth outstrip earnings retention).
Impacts of Inorganic Growth	Complementary	Where growth has been driven by acquisitions of assets or entire companies, Fitch considers the strategic fit, due diligence process, economic impact and integration success. A track record of dilutive transactions, on-boarding missteps and/or expansion into non-core product categories, may negatively influence Fitch's growth assessment.

Source: Fitch.

Market Risk — Finance and Leasing Companies

Attribute	Core Versus Complementary	Description
Interest Rate and Foreign Exchange Risks	Core	Fitch's assessment of a finance or leasing company's market risk primarily considers interest rate risk, arising from differences in the asset and funding profiles of the firm, but may also include elements such as derivatives use or direct and indirect foreign exchange risks. Market risks will be higher for issuers where cross-border activity gives rise to foreign exchange risks, so this factor may take on greater relative importance in that instance. For mortgage servicers, the valuation of servicing rights will be heavily influenced by the level and direction of interest rates but will also be affected by trends in housing prices, applicable hedges and other portfolio characteristics.
Market Risk Management Tools and Controls	Complementary	Effective mitigation tools and controls, coupled with a robust stress-testing framework, may be strong mitigating factors in reducing market risk. Where market risk is significant, Fitch assesses the appropriateness of controls relative to this risk, hedging practices and other market risk information across the business.

Source: Fitch.

Risk Appetite — Finance and Leasing Companies

	aaa	aa	a	bbb	bb	b	ccc and Below
Underwriting Standards	Underwriting standards are clearly risk-averse and far more conservative than evident elsewhere in the industry. Credit standards are consistent with minimal changes throughout economic cycles. Long-run performance expectations are incorporated. Exposure to residual value risk is very low and very conservatively managed relative to peers.	Underwriting standards are very low risk and more conservative than evident elsewhere in the industry. Credit standards are consistent with nominal changes over economic cycles. Long-run performance expectations are incorporated. Exposure to residual value risk is low and/or risk is more conservatively managed relative to peers.	Underwriting standards are low risk and generally more stringent than industry practice. Credit standards are largely consistent but may vary modestly over economic cycles. Standards reflect medium-term performance expectations. Exposure to residual value risk is modest and/or risk generally more stringently managed relative to peers.	Underwriting standards generally in line with the broad industry practice. Credit standards are variable over economic cycles. Standards reflect medium-term performance expectations. Exposure to residual value risk is average and/or risk is managed generally in line with peers.	Underwriting standards reflect generally above-average risk appetite. Credit standards may be more aggressive than broad industry averages. Standards are likely to change noticeably over economic cycles. Exposure to residual value risk is heightened and/or risk is managed more aggressively relative to peers.	Underwriting standards exhibit heightened risk appetite. Credit standards are typically more aggressive than broad industry averages and likely to change considerably over economic cycles. Exposure to residual value risk is high and/or risk is managed more aggressively relative to peers.	Underwriting standards lead to high risk exposure and are likely to reflect stress within the entity. Credit standards do not have any discernible track record. Standards may fluctuate frequently. Exposure to residual value risk is very high and/or risk is not appropriately managed.
Risk Controls	Risk and reporting tools are extremely robust. Risk limits are highly conservative and overwhelmingly adhered to. Risk limits are routinely monitored with minimal changes over lengthy periods. Exposure to operational risks is very low. Entry into new business/strategies are heavily vetted and tested before rollout.	Risk and reporting tools are very robust. Risk limits are very conservative. Risk limits are routinely monitored with nominal changes over lengthy periods. Exposure to operational risks is low. Entry into new businesses/ strategies are carefully vetted and tested before rollout.	Risk and reporting tools are robust. Risk limits are conservative. Risk limits are monitored, but may change based on business conditions. Exposure to operational risks is modest. Entry into new businesses/ strategies is tested before widespread rollout.	Risk and reporting tools are good. Risk limits are sound and monitored, although they may fluctuate based on opportunities. Exposure to operational risks is moderate. Entry into new businesses/ strategies is carefully tested before rollout.	Risk and reporting tools are acceptable, but may lack depth or sophistication. Risk limits are monitored less frequently than higher rated institutions. Risk limits may change based on business opportunities. Exposure to operational risks is heightened. Entry into new businesses/ strategies may not be thoroughly vetted or tested before rollout.	Risk and reporting tools may be deficient. Risk limits are crude and may not be monitored frequently. Exposure to operational risks is high. Entry into new businesses/ strategies is not tested before rollout.	There are significant risk control deficiencies.
Growth	Balance-sheet growth or business growth is unlikely to pressure solvency or outpace the long-term sustainable growth of main business segments. Control environment is systematically adapted to meet higher business volumes.	Balance-sheet growth or business seldom pressures solvency or outpaces the long-term sustainable growth of main business segments. Control environment is systematically adapted to meet higher business volumes.	Balance-sheet growth or business growth may at times pressure solvency and exceed the long-term sustainable growth of main business segments. Control environment is usually suitably adapted to meet higher business volumes.	Balance-sheet growth or business growth more often pressure solvency and exceeds the long-term sustainable growth of main business segments. Control environment may lag behind higher business volumes.	Balance-sheet growth or business growth often pressures solvency and exceeds the long-term sustainable growth of main business segments. Control environment likely to lag behind higher business volumes.	Balance-sheet growth or business growth usually pressures solvency and the long-term sustainable growth of business segments. Control environment routinely lags behind higher business volumes.	Growth may be well in excess of sustainable levels. Or unable to sell assets to achieve necessary balance sheet contraction.
Market Risk	Exposure to market risks is very low. Interest rate and foreign exchange rate risks are very low relative to peers.	Exposure to market risks is low. Interest rate and foreign exchange rate risks are low relative to peers and appropriately mitigated.	Exposure to market risks is modest. Interest rate and foreign exchange rate risks are modest and appropriately mitigated.	Exposure to market risks is average. Interest rate and foreign exchange rate risks are appropriately mitigated.	Exposure to market risks is heightened. Basic hedging techniques may be employed or effectiveness somewhat compromised.	Exposure to market risk is high or highly variable. Risks may not be effectively hedged.	There may be significant market risks, related to interest rates or foreign exchange.

Source: Fitch.

II.4.e Financial Market Infrastructure Companies

Fitch's risk appetite assessment for FMIs considers the following subfactors:

- operational, reputational and legal risk;
- counterparty risk management; and
- growth.

Operational, Reputational and Legal Risks — Financial Market Infrastructure Companies

Attribute	Core Versus Complementary	Description
Operational Risk Infrastructure	Core	Fitch's assessment of operational, reputational and legal risk centers on the ability to accurately and efficiently process large volumes of transactions as supported by an operational risk infrastructure with robust technological platforms, and appropriate controls and back-office operations. Fitch's assessment will typically be negatively affected if Fitch determines a FMI has a weak or outdated operational risk infrastructure or control environment. In this context, Fitch considers the level of capital expenditures for technology upgrades when assessing operational risk for FMIs. Additionally, legal risk can arise from a FMI processing trades incorrectly or from a breach of applicable laws or regulations (e.g. if it is in breach of sanctions).
Business Continuity and System Availability	Complementary	To ensure business continuity in the event of physical disasters, FMIs must operate effective duplicate and backup computer systems and develop and maintain business continuity plans, including disaster recovery sites that are geographically dispersed. Fitch also considers the system availability ratios (defined as the time a given FMI platform is actually available to operate versus the maximum time a given FMI platform is expected to be available to operate), relative to peers and industry standards as well as frequency and average duration of system outages when activity is interrupted on one or more platforms.

Source: Fitch.

Counterparty Risk Management — Financial Market Infrastructure Companies

Attribute	Core Versus Complementary	Description
Collateral Margining	Core	FMIs seek to minimize counterparty risk by taking significant counterparty collateral that can be utilized in the event of counterparty default. Fitch's counterparty risk management assessment considers the initial sizing and ongoing maintenance of this collateral, along with the predefined counterparty/customer default mechanisms.
Default Processes/ Waterfalls	Core	Fitch's assessment maybe positively influenced by robust and clearly defined default procedures that protect the clearing house and non-defaulting clearing members from a clearing member default. This may include prescribed processes via default waterfalls in place that include using a defaulting clearing member's collateral (margin) and guarantee fund contributions to reduce or eliminate losses. In the event that all losses are not covered, the clearing house can then access clearing house capital contributions, non-defaulting clearing member guarantee fund contributions and potentially further resources of non-defaulting clearing members. Fitch's assessment of counterparty risk management focuses on mechanisms that do not rely upon the imposition of economic losses to clearing participants. Thus, the use of clearing suspension mechanisms, or loss-sharing components at the end of default waterfall, including write-downs of non-defaulting members' contributions to default funds or variation margin gains haircutting would be viewed negatively by Fitch. From a quantitative perspective, Fitch also may assess the level of largest counterparties' exposure in excess of collateral held against the resources allocated by a clearing house for loss mitigation (referred to as "skin in the game") before collective funds can be drawn.
Clearing Member Standards	Complementary	Counterparty risk is managed by stringent clearing member standards, margin requirements, acceptable collateral requirements and guaranty funds. Fitch generally reviews clearing houses' policies and procedures with respect to counterparty risk management to determine the extent to which they capture potential counterparty risks in a comprehensive and forward-looking manner. Fitch considers the factors outlined in the Considerations for FMIs' Counterparty Risk Management Framework table below when assessing the sufficiency of a clearing house's counterparty risk management framework.
Business Model Specifics	Complementary	Pure exchanges and CSDs without banking licenses act simply as a venue for trading activity or securities depository and direct subsequent settlement and clearing to third parties. With the exception of minimal counterparty risk arising from trade invoices and potentially from investments in financial assets, exchanges and CSDs without banking licenses are not materially exposed to counterparty risk. As such, counterparty risk is not a key stand-alone ratings driver for exchanges or CSDs without banking licenses, although both types of organizations typically subject their members to minimum qualitative and quantitative requirements.

Source: Fitch.

Considerations for Financial Market Infrastructure Companies' Counterparty Risk Management Framework

Counterparty Risk Management	Margin Procedures	Guaranty Funds	Dedicated Resources (i.e. "Skin in the Game")
Initial Margin/Variation Margin	Calculation	Size Versus Counterparty Exposure	Size Versus Counterparty Exposure
Financial Requirements	Frequency	Frequency of Resizing	Size Versus Member Contributions
Due Diligence	Posting	Quality	Determination Mechanism (i.e re-sizing based on exposure amounts)
Remediation	Valuation	Diversification	
Membership Rules	Buffers	Custody	
Concentration Management	Haircuts		
	Review		

Source: Fitch.

Growth — Financial Market Infrastructure Companies

Attribute	Core Versus Complementary	Description
Absolute and Relative Rates of Growth	Core	Fitch assesses FMIs' growth in the context of balance sheet and/or business growth relative to underlying market conditions, volatility and peer averages. Generally, clearing houses have significant margin deposit and guaranty fund contribution offsets on both sides of the balance sheet associated with the respective securities cleared. Growth of these balance sheet components are highly correlated to overall market conditions. When assessing the growth of a clearing house, Fitch excludes these balances from its primary analysis, as these funds are for the benefit of clearing member creditors and do not reflect growth of the core balance sheet. That said, the trend in the growth of the consolidated balance can be informative over the longer term.
Accompanying Infrastructure Growth	Complementary	Fitch's growth assessment may be negatively influenced if rapid growth strains the ability of technology platforms and back-office operations to handle increased trading, clearing or depository volumes.
Impacts of Inorganic Growth	Complementary	Non-accretive acquisitions may negatively affect Fitch's growth assessment if they do not complement the long-term strategy of the combined entity. Additionally, acquisitions could negatively affect Fitch's growth assessment if leverage metrics are elevated and/or integration costs are high.

Source: Fitch.

Risk Appetite — Financial Market Infrastructure Companies

	aaa	aa	a	bbb	bb	b	ccc and Below
Operational, Reputational and Legal Risks	Extremely rare occurrence of technical glitches resulting in reputational or legal damage. Very high level of capital expenditure for technology. Continuous development and enhancements to technology platforms. Extremely strong systems, controls, procedures; beta testing of new technology platforms and business continuity.	Rare occurrences of technical glitches that result in reputational or legal damage. High level of capital expenditure for technology. Frequent development and enhancements to technology platforms. Very strong systems, controls, procedures; beta testing of new technology platforms and business continuity.	Limited occurrences of technical glitches that result in reputational or legal damage. High level of capital expenditure for technology. Frequent development and enhancements to technology platforms. Strong systems, controls, procedures; beta testing of new technology platforms and business continuity.	Infrequent occurrences of technical glitches that result in reputational or legal damage. Average level of capital expenditure for technology. Average development and enhancements to technology platforms. Sound systems, controls, procedures; beta testing of new technology platforms and business continuity.	Frequent occurrences of technical glitches that result in reputational or legal damage. Below-average level of capital expenditure for technology. Below-average development and enhancements to technology platforms. Adequate systems, controls, procedures; beta testing of new technology platforms and business continuity.	Very frequent occurrences of technical glitches that result in reputational or legal damage. Below-average level of capital expenditure for technology. Below-average development and enhancements to technology platforms. Weak systems, controls, procedures; beta testing of new technology platforms and business continuity.	Regular occurrences of technical glitches that result in reputational or legal damage. No capital expenditure. Technology platforms under development. Deficiencies in systems, controls, procedures and business continuity.
Counterparty Risk Management	Extremely strong counterparty/ customer oversight both initially and ongoing. Extremely strong financial safeguards for margin calculations and settlements, acceptable collateral and guaranty fund. Extremely strong default procedures. Extremely strong management of customer exposure and collateral.	Very strong counterparty/ customer oversight both initially and ongoing. Very strong financial safeguards for margin calculations and settlements, acceptable collateral and guaranty fund. Very strong default procedures. Very strong management of customer exposure and collateral.	Strong counterparty / customer oversight both initially and ongoing. Strong financial safeguards for margin calculations and settlements, acceptable collateral and guaranty fund. Strong default procedures. Strong management of customer exposure and collateral.	Sound counterparty / customer oversight both initially and ongoing. Sound financial safeguards for margin calculations and settlements, acceptable collateral and guaranty fund. Sound default procedures. Sound management of customer exposure and collateral.	Moderate counterparty / customer oversight both initially and ongoing. Good financial safeguards for margin calculations and settlements, acceptable collateral and guaranty fund. Moderate default procedures. Moderate management of customer exposure and collateral.	Weak counterparty / customer oversight both initially and ongoing. Weak financial safeguards for margin calculations and settlements, acceptable collateral and guaranty fund. Weak default procedures. Weak management of customer exposure and collateral.	Deficiencies in counterparty / customer oversight both initially and ongoing. Limited or evolving financial safeguards for margin calculations and settlements, acceptable collateral and guaranty fund. Lacking default procedures. Deficiencies in management of customer exposure and collateral.
Growth	Balance sheet or business growth unlikely to outpace long-term sustainable growth of main business segments. Control environment is systematically adapted to meet higher business volumes.	Balance sheet or business growth seldom outpaces long-term sustainable growth of main business segments. Control environment is systematically adapted to meet higher business volumes.	Balance sheet or business growth may at times exceed long-term sustainable growth of main business segments. Control environment is usually suitably adapted to meet higher business volumes.	Balance sheet or business growth more often exceeds long-term sustainable growth of main business segments. Control environment may lag behind higher business volumes.	Balance sheet or business growth often exceeds long-term sustainable growth of main business segments. Control environment likely to lag behind higher business volumes.	Balance sheet growth usually exceeds long-term sustainable growth of business segments. Control environment routinely lags behind higher business volumes.	Growth may be well in excess of sustainable levels.

II.5 Financial Profile Assessment

Importance of this Assessment

A non-bank financial institution's financial profile, which can often be measured by analyzing key financial metrics and trends in and stability of those metrics, is relevant because it provides a strong indication of how the firm is performing across key dimensions of creditworthiness. In many respects, financial measures are the outcome of the non-bank financial institution's operating environment, company profile, management and strategy and risk appetite.

Risk measures enable an analysis of how a non-bank financial institution's risk appetite and management compare with those of peers and whether performance is commensurate with business cycles. Asset quality is relevant because weak asset quality can undermine a non-bank financial institution's balance sheet solvency and ultimately its ability to meet obligations to creditors. Leverage and capital adequacy measures are relevant because they determine a non-bank financial institution's ability to grow and absorb unexpected losses. Funding and liquidity are relevant because inadequacies in these two areas often lead to non-bank financial institution failures as a result of asset/liability mismatches or asset illiquidity. Profitability matters as it determines the non-bank financial institution's ability to service debt and/or generate capital internally to act as a first line of defense against rising impairment charges or other sources of risk or loss.

Fitch's starting point is typically audited financial statements, but it will generally also consider unaudited and interim financial statements. Fitch makes adjustments to allow for greater comparability across jurisdictions (IFRS versus U.S. GAAP), such as re-classification of items to fit its standard spreadsheets and ratio calculations. Adjustments could entail exclusion of one-off gains/losses or non-cash earnings and expenses from operating profitability, exclusion of intangible assets from capital or inclusion of restructured loans as part of impaired assets.

Fitch generally employs its own stress tests on various aspects of a non-bank financial institution's financial profile *(See Annex 4)* such as asset quality, capital adequacy or liquidity. These may include various institution-specific, regional or broad industry scenarios to determine an institution's ability to withstand a rapid shift in the operating environment. The results of these stress tests are informative on both an absolute and relative basis but by themselves may not necessarily drive rating decisions. Fitch also considers issuer-generated stress tests to understand how these drive decision-making within the organization.

Quantitative Ranges

For each non-bank financial institution subsector, Fitch uses a set of core metrics and complementary metrics for financial profile factors. Figures in the sections below set out the indicative quantitative ranges for core financial profile metrics. Fitch uses a four-year average (where data are available) to determine the implied factor score for all metrics, other than for capitalization and leverage, for which it uses the latest available data point, as Fitch views this as a more reliable indicator of the level of the metric in the future. Four-year averages represent an average of the metric in question over each of the four individual periods, as opposed to an aggregation of the numerators and denominators for the cumulative time period.

While a single metric cannot explain a factor score in its entirety, the implied factor score is the starting point in the determination of the actual score. For example, the view of a non-bank financial institution's asset quality would incorporate other aspects such as the rate of growth, collateral and reserves and loan writeoffs, which may result in the implied factor score being adjusted before arriving at the final factor score. Some of these other aspects of a non-bank financial institution's financial profile are captured in complementary metrics, but Fitch

combines quantitative analysis with qualitative judgement to determine the assigned factor scores, which are expressed by a three-notch range.

The most common analytical reasons for adjusting the implied factor scores are outlined in the sections below. Adjustments may negatively or positively influence the final factor score. In general terms, the adjustments tend to fall into two broad categories: (1) Fitch adjusts for specific risk elements or business profile features that may not be adequately captured in the core financial ratios; and (2) Fitch adjusts for cyclical and/or structural elements that, in Fitch's opinion, mean that historical ratios may not be reliable predictors of future performance.

Adjustments to Implied Asset Quality/Asset Performance/Counterparty Exposure Factor Score

The most common adjustments to a non-bank financial institution's implied asset quality/asset performance score are as follow:

Growth: High growth relative to peers or the domestic economy(ies) may lead to a significant deterioration in asset quality or asset performance. In addition, high growth rates may reduce asset quality ratios due to the lag effect on the numerator, while deleveraging may inflate it. Significantly lower growth than peers could be viewed as conservative and positive for the assigned factor score, particularly if market conditions are challenging.

Collateral and Reserves: Strong reserve coverage of impaired loans relative to peers, such as reflected in the ratio of reserves for impaired loans to impaired loans for finance and leasing companies with high balance sheet usage, or a high proportion of secured or government lending (e.g. guaranteed student loans) may reduce the risks from the non-bank financial institution's impaired exposures. Conversely, a focus on unsecured lending or weak reserve coverage would likely have the opposite effect. Deficiencies in the legislative framework that could impact a non-bank financial institution's ability to liquidate collateral, or enforce its rights as a creditor generally, may result in a downward adjustment to the implied score.

Loan Writeoffs: The impaired loans/gross loans ratio may not fully capture the non-bank financial institution's underlying asset quality performance where it writes off a high proportion of loans soon after they become impaired or, conversely, retains legacy problem loans on its balance sheet for an extended period after they become delinquent. Therefore, Fitch also considers the loan impairments generated in recent periods, as reflected in the complementary ratio of loan impairment charges to average gross loans.

Loan Classification Policies: If Fitch believes a non-bank financial institution has a relatively large proportion of high-risk assets that are not captured by traditional impaired asset definitions, (e.g. because they have been restructured or are classified in the watch category), this may weigh on Fitch's assessment of asset quality. Conservative asset classification relative to peers may be moderately positive for Fitch's assessment.

Concentrations: The existence of high concentration exposures with respect to single borrowers/counterparties, sectors or asset classes (for example equities, fixed income or alternatives for investment managers) may increase vulnerability to cyclical asset performance fluctuations. Conversely, good portfolio/product diversification may be a moderately positive factor in assessing asset quality or asset performance.

Non-Loan Exposures: Fitch may adjust downward the asset quality score where it believes there are material risks of losses arising from non-loan and lease assets, such as securities, derivative fair values or foreclosed assets or from off-balance sheet exposures, such as managed funds, guarantees and commitments. Conversely, where a relatively high proportion of a non-bank financial institution's risk exposures are outside of the loan book and these are

low risk (e.g. highly rated securities or off-balance sheet trade finance exposures), this may result in a positive adjustment to the implied asset quality score.

Risk Appetite and Business Model: Fitch may adjust the asset quality score downwards where it views the non-bank financial institution as having a relatively high risk appetite, or a business model or asset class specialization which in the agency's view may be more likely to result in future asset quality deterioration or volatility. In such cases, Fitch may take the view that recently reported asset quality metrics are more vulnerable to deterioration as loan and other exposures season. Conversely, a low risk appetite or lower risk business model may result in a moderate positive adjustment to the asset quality score. However, the scope for any positive adjustment is likely to be limited in cases where asset quality metrics are weak due to legacy problem exposures and the non-bank financial institution has only recently reduced its risk appetite.

Historical and Future Metrics: Fitch may view historical asset quality metrics as not being reliable indicators of future metrics, for example, due to changes in a non-bank financial institution's strategy or operations, because mergers, acquisitions or disposals may have a material impact on group risk exposures, Fitch's economic expectations materially deviate from past conditions, or recent asset quality metrics correspond to a particularly favorable or unfavorable part of the credit cycle.

Relative Size: The absolute size of an investment manager's AUM will affect net client flow percentages. Net inflows could outpace peers on a dollar basis but lag as a percentage of AUM. Outsized client flows could be troublesome if investable assets exceed investment opportunities, while below-average flows could be appropriate depending on market conditions.

Adjustments to Implied Earnings and Profitability Factor Score

The most common adjustments to a non-bank financial institution's implied earnings and profitability score are as follow:

Portfolio Risk: For a given business model, earnings may be lower than its peers if a non-bank financial institution is managing a lower risk and, thus, lower yielding portfolio. In such cases, Fitch will also utilize risk-adjusted return measures to assess overall profitability.

Revenue Diversification: Fitch assesses more favorably a non-bank financial institution's performance where operating revenues are more diversified than its peers. Reliance on a single or concentrated set of business lines, client relationships or revenue streams could negatively affect Fitch's assessment.

Earnings Stability: A positive adjustment could be made to a non-bank financial institution's earnings and profitability score where earnings have proved to be stable through a cycle or where recent performance suggests a sustainable improvement compared to the non-bank financial institution's four-year average. Conversely, high earnings volatility or a recent structural weakening of performance could lead to a negative adjustment. Certain business models or asset classes may also be more vulnerable to cyclical performance swings, even if these have not been observed to date; in such cases, recently reported data may not be sustainable or representative of expected performance through a cycle, which could warrant a downward adjustment to the earnings and performance score.

Historical and Future Metrics: Fitch may view historical earnings and profitability metrics as not being reliably indicative of future metrics, for example, due to changes in a non-bank financial institution's strategy or operations, because mergers, acquisitions or disposals may have a material impact on group profitability, because Fitch's economic expectations materially deviate from past conditions, or because recent performance metrics correspond to a particularly favorable or unfavorable part of the credit cycle.

Ownership and Structural Considerations: While non-bank financial institutions with external shareholders will often be focused on consistently maximizing earnings, non-bank financial institutions that are narrowly owned or employee-owned may have more flexibility to sacrifice current earnings in exchange for future growth potential, competitive positioning and/or employee retention. This flexibility will be factored into a non-bank financial institution's earnings assessment.

Adjustments to Implied Capitalization and Leverage Factor Score

The most common adjustments to a non-bank financial institution's implied capitalization and leverage score are as follow:

Reserve Coverage and Asset Valuation: An adjustment to capital may be required to reflect any material under- or over-provisioning of impaired assets, as captured in the ratio of impaired loans less reserves for impaired loans to Fitch core capital. Aggressive or conservative valuations of performing assets or high volumes of other higher risk assets (e.g. foreclosed assets) could also affect Fitch's assessment of capitalization.

Profitability, Payouts and Growth: Fitch may adjust downward the capitalization and leverage score where a non-bank financial institution's earnings retention is weak (e.g. due to weak profitability and/or high pay-out ratios or share repurchase rates) or the non-bank financial institution's expected rate of growth is high, to reflect the likely negative impact this will have on capital metrics. Conversely, strong earnings retention or low growth may result in a positive adjustment to the capitalization and leverage score.

Concentrations: The existence of high concentration to single borrowers/counterparties, sectors or asset classes may increase the vulnerability of capital to asset performance fluctuations. Conversely, good portfolio diversification may be a moderately positive factor in assessing capitalization and leverage.

Size: A small (in absolute terms) capital base can leave an institution more vulnerable to unforeseen events, especially where there are risk concentrations, even if capital ratios are relatively strong. This may result in a downward adjustment of a non-bank financial institution's capitalization and leverage score. A large (in absolute terms) capital base could be moderately positive for the assessment.

Fungibility: Fitch may adjust downward a parent non-bank financial institution's capitalization and leverage score where it has material subsidiaries, in particular regulated or foreign ones, and there are significant restrictions on transfers of capital within the group. Weaker stand-alone capital ratios than for the group on a consolidated basis would increase the likelihood of such an adjustment.

Capital Raising (or Distribution): Fitch may adjust the capitalization and leverage score to reflect capital raising or distribution (or expectations of these) that have occurred subsequent to the last financial reporting date.

Risk Appetite and Business Model: Certain business models or asset class specializations may be more vulnerable to cyclical performance swings, such that a larger capital buffer is required to achieve a given capitalization and leverage score. Conversely, a positive adjustment could be made where performance has proved to be stable through a cycle or if the entity benefits from both balance sheet assets and cash flow generation capability. The capitalization and leverage score for non-bank financial institutions assessed on the basis of cash flow leverage (debt/EBITDA) could also be adjusted to reflect variability in EBITDA generation.

Historical and Future Metrics: Fitch may view the most recent reported capitalization and leverage metrics as not being reliable indicators of future metrics, for example, due to changes in a non-bank financial institution's strategy or operations, because mergers, acquisitions or disposals may have a material impact on the group profile or because of anticipated changes in the bank's asset-quality performance or profitability.

Sustained, Elevated Cash Balances: Although Fitch tends to focus on leverage ratios based on gross debt, the agency may adjust the capitalization and leverage score upward where, for example, a non-bank financial institution has consistently maintained elevated cash balances, in which case Fitch may place greater emphasis on net debt leverage ratios. Consideration of net debt leverage ratios would be supported by the presence of structural features that ensure the ongoing availability of cash to benefit debtholders, demonstration of cash maintenance through periods of stress or public articulation of a strategy to maintain such cash balances. The absence of these features would make such an upward adjustment unlikely.

Adjustments to Implied Funding, Liquidity and Coverage Factor Score

The most common adjustments to a non-bank financial institution's implied funding, liquidity and coverage score are as follow:

Liquidity Coverage: Strong or weak coverage of a non-bank financial institution's short-term liabilities by liquid assets could result in upward or downward adjustment, respectively, to the funding, liquidity and coverage score. Fitch will consider the volume, quality and encumbrance of a non-bank financial institution's liquid assets in making this assessment. The absence of near- and medium-term debt maturities may reduce the need for significant liquidity, particularly if liability maturities extend beyond asset maturities. Similarly, the funding, liquid and coverage score may be adjusted upwards for investment funds with limited near- and medium-term financial obligations.

Cash Flow Generative Business Model: A higher funding, liquidity and coverage score could result if the non-bank financial institution's business model is viewed as highly cash flow generative, particularly during times of stress, economic slowdown and/or reduced capital expenditures. For example, certain business models with contractual cash flows (servicers, rental/leasing companies) have historically demonstrated an ability to generate significant cash flow once discretionary capital expenditures are moderated.

Confidence Sensitivity: Fitch will consider a non-bank financial institution's term structure, diversification by source and reliability of market access in assessing risks associated with its wholesale funding. Stable long-term funding (e.g. due to well-established market access) could result in an upward adjustment to the funding, liquidity and coverage score. Conversely, a non-bank financial institution's implied funding, liquidity and coverage score may be adjusted downward where it has inconsistent or limited access to the capital markets.

Foreign Currency Liquidity: A non-bank financial institution's funding, liquidity and coverage score may be adjusted downward where coverage of foreign currency liabilities by foreign currency liquidity is weak, in particular where it could be difficult for a non-bank financial institution to convert local currency into foreign currency, in case of need.

Fungibility: Fitch may adjust downward a non-bank financial institution's funding, liquidity and coverage score where it has material subsidiaries, in particular foreign or regulated ones, and there are significant restrictions on transfers of liquidity within the group. Weaker stand-alone liquidity and funding ratios than for the group on a consolidated basis would increase the likelihood of such an adjustment.

Contingent Access: A relatively strong ability to access contingent liquidity, for example, as a result of sizable, committed and long-duration credit lines, could result in a positive adjustment to the funding, liquidity and coverage score. Conversely, undue reliance on short-duration or uncommitted funding could result in a negative adjustment.

Historical and Future Metrics: Fitch may view historical funding and liquidity metrics as not being reliable indicators of future metrics, for example, due to changes in a non-bank financial institution's strategy or operations or because mergers, acquisitions or disposals may have a material impact on balance-sheet structure.

Financial measures are usually influenced by the operating environment, and Fitch views them in that context. Therefore, comparisons of financial measures across geographies will reflect the differing operating, legal, and regulatory environments for non-banks. Consequently, comparisons of financial measures of direct or in-market peers will generally take on greater importance in this assessment.

Fitch does not employ pre-set weightings for factors or subfactors, as their relative influence may vary. For example, the relative importance of capitalization and leverage and asset quality for the stand-alone credit profile of a non-bank financial institution suffering from a material capital shortfall as a result of high idiosyncratic loan losses is likely to be high (and the stand-alone credit rating very low), even if the non-bank financial institution fares well or better on other factors or subfactors.

Throughout the remainder of the Financial Profile section of the criteria, reference is periodically made to EBITDA. For the avoidance of doubt, Fitch typically adjusts EBITDA calculations to account for various analytical considerations, including, but not limited to, non-recurring items, performance-related items or other non-cash expenses, such as stock compensation.

Throughout the remainder of the Financial Profile section of the criteria, reference is periodically made to common equity. For the avoidance of doubt, Fitch focuses on tangible equity, excluding goodwill and other intangibles from its calculations.

The following tables identify those financial profile attributes that Fitch has defined as 'core' versus 'complementary,' together with an indication of how each attribute is typically assessed. The accompanying subfactor/rating category matrix provides representative characteristics that aid the determination of the overall factor score assigned in each case.

EBITDA Calculation[a]

Pre-tax income
+ interest expense
+ depreciation
+ amortization
+/- adjustments for non-recurring items
+/- other analytical adjustments (e.g. non-cash items)
= EBITDA

[a]For investment managers, Fitch typically uses a fee-based EBITDA calculation (FEBITDA) as defined on page 52.
Source: Fitch.

II.5.a Securities Firms

Fitch's financial profile assessment for securities firms considers the following subfactors:

- asset quality;
- earnings and profitability;
- capitalization and leverage; and
- funding, liquidity and coverage.

Risk Characteristics of Securities Firms' Primary Business Activities

Activity	Balance Sheet Usage	Risk Level	Level of Profitability	Stability of Profitability
Securities Market Making	High	High	Medium	Cyclical
Prime Brokerage	High	High	Medium	Cyclical
Proprietary Trading	High	High	Medium	Cyclical
Securities Underwriting	High	Medium	High	Cyclical
Lending	High	Medium	Low	Cyclical
Securities Broking	Low	Medium	Low	Cyclical
Financial Advisory	Low	Low	Medium	Cyclical
Post Trade Services	Low	Low	Low	Stable
Investment Management	Low	Low	Medium-to-High	Stable

Source: Fitch.

Asset Quality — Securities Firms

Attribute	Core Versus Complementary	Description
Impaired and Nonperforming Ratio	Core (For Securities Firms with Meaningful Lending Activity)	For securities firms with more meaningful balance sheet exposure to investing and lending activities, the assessment of asset quality is akin to Fitch's analysis for other non-bank financial institution lenders, taking into account loan impairments, related reserving and asset growth. For securities firms with low balance sheet usage, asset quality may be a lower influence consideration or may even by viewed as not applicable.
Coverage, Collateral and Margin	Complementary (For Securities Firms with Meaningful Lending Activity)	Fitch considers reserve coverage ratios, the adequacy of collateral and margin requirements and the ability to enforce security claims. Fitch's focus is to determine whether the firm's capital is likely to be negatively affected due to inadequate reserve coverage levels. For assets held at fair or market value, Fitch assesses measurement methodologies, particularly regarding model-based valuations. Fitch also considers the management of non-performing assets and management's approach to restructuring and rescheduling impaired assets.
Counterparty and Settlement Risks	Complementary	Counterparty risk is a consideration for firms engaged in securities and derivatives transactions. The absence of independent credit functions and scoring or rating policies for securities/derivative counterparty exposures would negatively influence Fitch's asset quality assessment. However, credit risk is not as significant for pure brokerage activity (such as for some interdealer brokers) or for firms that provide advisory services, rather than invest in securities transactions. A credit risk department independent of the sales and trading desks that determines counterparty limits, actively monitors usage and reports violations could positively influence Fitch's asset quality assessment, as could risk parameters with respect to the credit quality of the main custodians used.
Securitization and Other Off Balance Sheet Exposure	Complementary (For Securities Firms with Meaningful Lending Activity)	To the extent that Fitch is able to ascertain and evaluate a securities firm's exposure to securitization risks, first-loss tranches of off-balance-sheet securitizations are deducted from Fitch's Core Capital calculations. The agency may also add these risks to the balance sheet if they are not already reported as such. Fitch considers off-balance sheet risks and commitments where these are large in relation either to capital or risk-weighted assets, or where they pose significant reputational or liquidity risks. This is likely to be an inherent risk faced by firms that have agreed to fund special purpose vehicles or other non-consolidated contingencies but is also important for firms that sponsor investment funds.

Source: Fitch.

Earnings and Profitability — Securities Firms

Attribute	Core Versus Complementary	Description
Operating Profit/Average Equity	Core (For Securities Firms with High Balance Sheet Usage)	Earnings and profitability are important considerations in Fitch's analysis of securities firms with high balance sheet usage because they indicate a securities firm's ability to generate, or conversely erode, its capital. Strong or weak performance may also affect market confidence in the issuer and, hence, its access to funding. The core metric, operating profit/average equity, captures a securities firm's ability to generate recurring profits relative to the risks it assumes.
Adjusted EBITDA/ Revenue	Core (For Securities Firms with Low Balance Sheet Usage)	For securities firms with limited balance sheet-intensive activities, the primary cash flow profitability measure is adjusted EBITDA margin. Given many securities firms with low balance sheet usage have a continual need to invest in technology development, Fitch also considers the amount of operating cash flow generated to support capital expenditures.
Earnings Stability	Complementary	Fitch's earnings and profitability assessment may be negatively influenced by proprietary trading and investment activity due to the significant potential earnings volatility it can introduce. Conversely, if higher risk businesses are supplemented with more stable operating revenue, such as investment management, clearing operations or securities financings, this can positively influence Fitch's earnings and profitability assessment.
Compensation Expenses	Complementary	Compensation expenses are often analyzed as a percentage of net revenue, to determine the costs relative to activity levels, with outsized compensation ratios potentially constraining stand-alone credit ratings. However, business mix is an important consideration in evaluating this ratio as specific business lines may require greater or less infrastructure and personnel support. The stability of the compensation ratio through various revenue cycles is also an important measure of the flexibility of the cost structure. Fitch evaluates the effectiveness of a firm's compensation, mainly its bonus, policy in controlling compensation expenses. This includes the extent to which bonuses are linked to company or individual performance, are spread out over time, or are paid in shares or options rather than cash.
Non-Compensation Expenses	Complementary	Fitch evaluates non-staff costs as a percentage of non-interest expenses in aggregate and, where possible or relevant, by individual line items. The agency may also consider the business mix of the firm in evaluating non-staff cost ratios. Although an abnormally high non-staff costs expense ratio or a rising trend may indicate a lack of management control over expense levels, low ratios may indicate insufficient reinvestment in systems technology and infrastructure to enhance productivity, meet regulatory requirements and sustain the firm's competitiveness or to maintain good oversight of risk development.

Source:

Earnings and Profitability Benchmarks — Securities Firms

	aa and Above	a	bbb	bb	b and Below
Operating Profit/Average Equity (%)[a]	x>20	10<x≤20	5<x≤10	3<x≤5	x≤3
Adjusted EBITDA/Revenue (%)[b]	x>25	20<x≤25	15<x≤20	10<x≤15	x≤10

[a]For securities firms with high balance sheet usage. [b]For securities firms with low balance sheet usage.
Source: Fitch.

Earnings and Profitability Metrics — Securities Firms

High Balance Sheet Usage	Core Versus Complementary
Operating Profit/Average Equity	Core
Net Income/Average Equity	Complementary
Operating Expense/Total Revenue	Complementary
Compensation/Net Revenue	Complementary

Low Balance Sheet Usage	Core Versus Complementary
Adjusted EBITDA/Revenue	Core

Source: Fitch.

Capitalization and Leverage — Securities Firms

Attribute	Core Versus Complementary	Description
Net Adjusted Leverage (tangible assets less reverse repo and securities borrowed over FCC, or its inverse)	Core (For securities firms with high balance sheet usage)	For those securities firms that maintain a substantial volume of assets on balance sheet or commitments that could require financing, Fitch's assessment of leverage more closely reflects a bank analysis. The quality and absolute size of a firm's capital and its capital adequacy (i.e. the size of its capital in relation to its risks) as expressed by the FCC ratio, is the fundamental consideration in assessing balance sheet intensive securities firms' capitalization and leverage.
Gross Debt/ Adjusted EBITDA	Core (For securities firms with low balance sheet usage)	For securities firms carrying relatively few risk assets, the assessment of debt coverage is based more on cash flows. For interdealer brokers and some other securities firms, a large proportion of cash is usually tied up in subsidiaries for regulatory and operational purposes, so leverage is best assessed on a gross debt basis. Fitch also considers net debt/adjusted EBITDA, but recognizes that excess cash can be otherwise consumed or deployed, particularly during periods of stress. For securities firms that have a combination of businesses which have different degrees of balance sheet usage, such a retail brokers, Fitch will typically evaluate both cash flow and balance sheet leverage ratios, with balance sheet ratios taking increasing importance in the analysis in instances where balance sheet usage is more pronounced.
Double Leverage	Complementary	Where relevant, Fitch also looks at double leverage, defined as equity investments in subsidiaries plus holding company intangibles divided by equity, which reflects debt issued at the parent company level that has been downstreamed as equity into subsidiaries. While a small amount of double leverage can be expected, Fitch is concerned when double leverage is high (i.e. above 120% or more of a parent company's common equity) on a sustained basis, unless mitigated by some other means (e.g. subsidiary liquidity support agreement). A high degree of double leverage can result in increased rating differentials between a parent company and its subsidiaries, particularly if regulated subsidiaries are involved, since dividends from these entities may be restricted. When feasible, Fitch will review a regulated subsidiary's dividend capacity relative to the holding company's fixed costs and dividends.
Internal, Regulatory and Covenant-Based Capital	Complementary	In addition to Fitch's capital measures, a firm's capital management plans and an understanding of its economic capital models are important to the ratings. Fitch views economic capital models that positively influence business activities and support stable and robust capital levels over an extended period of time as positive for the ratings. When relevant, Fitch monitors regulatory capital ratios and capital covenant ratios to ensure the firm is not in danger of becoming non-compliant.

Source: Fitch.

Capitalization and Leverage Benchmarks — Securities Firms

	aa and Above	a	bbb	bb	b and Below
(Tangible Assets – Reverse Repo – Securities Borrowed)/FCC (x)[a]	x<5	5≤x<10	10≤x<15	15≤x<20	x≥20
Gross Debt/Adjusted EBITDA (x)[b]	x<0.5	0.5≤x<1.5	1.5≤x<2.5	2.5≤x<3.5	x≥3.5

[a]For securities firms with high balance sheet usage. [b]For securities firms with low balance sheet usage.
Source: Fitch.

Capitalization and Leverage Metrics — Securities Firms

High Balance Sheet Usage	Core Versus Complementary
Net Adjusted Leverage: (Tangible Assets – Reverse Repurchase Agreements – Securities Borrowed)/FCC	Core
Tangible Gross Leverage: (Tangible Assets + Gross Ups for Derivatives, Reverse Repurchase Agreements and Securities Borrowed)/FCC	Complementary
Adjusted Leverage: (Tangible Assets – Reverse Repurchase Agreements)/FCC	Complementary
Total Assets/Equity	Complementary
Tier I Capital Ratio	Complementary
FCC/Risk-Weighted Assets	Complementary

Low Balance Sheet Usage	Core Versus Complementary
Gross Debt/Adjusted EBITDA	Core

Source: Fitch.

Funding, Liquidity and Coverage — Securities Firms

Attribute	Core Versus Complementary	Description
Liquid Assets/ Short-Term Funding	Core (For securities firms with high balance sheet usage)	It is important that securities firms appropriately match the term of their funding to the liquidity of their assets, with particular focus on the amount of liquid assets available to support short-term funding sources, which are subject to refinancing risk. To the extent that short-term repurchase agreements (repos) are used primarily to finance highly liquid assets that can be pledged to an exchange, this is viewed as more appropriate.
Adjusted EBITDA/Interest Expense	Core (For securities Firms with Low Balance Sheet Usage)	For securities firms with low balance sheet usage, funding, liquidity and coverage are primarily evaluated in the context of adjusted EBITDA to interest expense.
Long-Term Funding/ Illiquid Assets	Complementary (For Securities Firms with High Balance Sheet Usage)	Fitch evaluates the funding of illiquid assets, such as merchant banking and high-yield securities, fixed assets, and private equity, and considers the extent to which they are funded by long-term debt and capital. Fitch also evaluates any contingent funding requirements the firm may face, such as liquidity lines or backup facilities extended, or additional collateral calls that may be made on it if market conditions change.
Funding Diversity	Complementary	Fitch assesses a securities firm's funding diversity, debt maturity profile, liquidity status and the proportion of unencumbered liquid assets. Access to central bank liquidity facilities can also a positive factor in the funding, liquidity and coverage assessment, but not all securities firms benefit from this, as such access depends on jurisdiction and legal status within that jurisdiction.
Covenant Compliance	Complementary	Fitch's funding, liquidity and coverage assessment may also include consideration of an issuer's compliance with any funding covenants, the extent to which compliance with such covenants fluctuates and management's ability to operate the business and obtain funding without being unduly constrained by covenant requirements.

Source: Fitch.

Funding, Liquidity and Coverage Benchmarks — Securities Firms

	aa and Above	a	bbb	bb	b and Below
Liquid Assets/Short-Term Funding (%)[a]	x>200	150<x≤200	100<x≤150	85<x≤100	x≤85
Adjusted EBITDA/Interest Expense (x)[b]	x>15	10<x≤15	6<x≤10	3<x≤6	x≤3

[a]For securities firms with high balance sheet usage. [b]For securities firms with low balance sheet usage.
Source: Fitch.

Funding, Liquidity and Coverage Metrics — Securities Firms

High Balance Sheet Usage	Core Versus Complementary
Liquid Assets/Short-Term Funding	Core
Long-Term Funding/Illiquid Assets	Complementary

Low Balance Sheet Usage	Core Versus Complementary
Adjusted EBITDA/Interest Expense	Core
Liquid Assets/Short-Term Funding	Complementary

Source: Fitch.

Financial Profile — Securities Firms

	aaa	aa	a	bbb	bb	b	ccc and Below
Asset Quality	Lending and Investing Activities: Extremely stable throughout market cycles. Asset-quality measures are consistently better than comparable institutions. Concentration risks are very low. Trading Activities: Counterparty risk is extremely well managed and diversified.	Lending and Investing Activities: Very high degree of stability throughout market cycles. Asset-quality measures are better than comparable institutions. Concentration risks are low. Trading Activities: Counterparty risk is well managed and diversified.	Lending and Investing Activities: Has a high degree of stability throughout market cycles. Asset-quality measures are likely to be modestly better than at peer institutions or less vulnerable to economic rate cycles. Concentration risks may be modestly better than peers. Trading Activities: Counterparty risk is reasonably managed and diversified	Lending and Investing Activities: Has a degree of stability throughout market cycles. Asset-quality and/or concentration risk measures are generally in-line with broad industry averages. Trading Activities: Counterparty risk is adequately managed and diversified.	Lending and Investing Activities: Asset quality measures are more volatile in the face of changes in economic/market cycles and generally worse or more vulnerable than broad industry averages. Concentration risks may be above average. Trading Activities: Counterparty risk management is below average with limited diversification	Lending and Investing Activities: Asset quality measures are very volatile based on changes in economic/market cycles and generally significantly worse or more vulnerable than broad industry averages. Concentration risks may be very high. Trading Activities: Weak counterparty risk management with high concentration.	Lending and Investing Activities: Has or is likely to have asset-quality measures that materially deviate from industry benchmarks or historical norms. Trading Activities: Significant counterparty risk management shortfalls.
Earnings and Profitability	Earnings and profitability are highly predictable throughout economic and/or interest rate cycles. Limited reliance on transactional revenue. Highly variable cost structure. Superior returns relative to peer.	Earnings and profitability are very predictable over multiple economic and interest rate cycles. Limited reliance on transactional revenue. Highly variable cost structure. Strong returns relative to peer.	Earnings and profitability are moderately variable over economic and/or interest rate cycles. Modest reliance on transactional revenue. Largely variable cost structure. Solid returns relative to peer.	Earnings and profitability may be variable over economic and/or interest rate cycles. Modest reliance on transactional revenue. Largely variable cost structure. Adequate returns relative to peer.	Earnings and profitability may be highly variable over economic and/or interest rate cycles. Moderate reliance on transactional revenue. Cost structure is less variable than peer firms. Below-average returns relative to peer.	Earnings and profitability are volatile and highly correlated with economic and/or interest rate cycles. Heavy reliance on transactional revenue. Cost structure is largely fixed. Weak returns relative to peer.	May be structurally unprofitable on either a reported or operating basis. Return to break-even or sustainable profitability is highly uncertain.
Capitalization and Leverage	Capitalization and leverage are extremely strong and commensurate with risk. Capitalization and leverage are maintained with very significant buffers over regulatory minimums as well as peer institutions. Capital and leverage targets incorporate ability to withstand severe shocks.	Capitalization and leverage are strong and commensurate with risk. Capitalization and leverage are maintained with comfortable buffers over regulatory minimums as well as peer institutions. Capital and leverage targets incorporate ability to withstand significant shocks.	Capitalization and leverage levels broadly commensurate with risk. Capitalization and leverage are maintained with solid buffers versus regulatory minimums and generally above peer institutions. Capital and leverage levels may be relatively more volatile but likely only modestly affected by severe asset quality and market value shocks.	Capitalization and leverage may not be fully commensurate with risk. Capitalization and leverage are maintained with satisfactory buffers over regulatory minimums and generally in line with peer institutions. Capital and leverage levels may be more vulnerable to severe shocks.	Capitalization and leverage are not fully commensurate with risk. Capitalization and leverage are maintained with moderate buffers over regulatory minimums and may be below peer institutions or are somewhat vulnerable due to significant country risks. Capital and leverage are highly vulnerable to sever shocks, but capable of withstanding moderate shocks.	Capitalization and leverage are not commensurate with risk. Capitalization and leverage are low and buffers over regulatory minimums are small, or capital is vulnerable due to high country risks. Capital and leverage levels may be well below peer institutions and highly vulnerable to shocks.	Capitalization and leverage have clear deficiencies that either have or may require capital injections.
Funding, Liquidity and Coverage	Funding and liquidity are exceptionally stable. Minimal reliance on wholesale funding. Funding is not confidence sensitive. Fund sources are highly diverse. Extremely robust contingency funding plans are in place.	Funding and liquidity are very stable. Minimal reliance on short-term funding. Wholesale funding is predominantly long-term with established investor appetite. Funding is relatively less confidence sensitive. Fund sources are very diverse. Very robust contingency funding plans are in place.	Funding and liquidity are stable. Wholesale funding is predominantly long term. Funding may be modestly confidence sensitive. Funding sources are relatively diverse. Robust contingency funding plans are in place.	Funding and liquidity are generally stable, although there may be moderate funding concentrations or reliance on less stable wholesale funding sources. Funding is confidence sensitive and liquidity may become more expensive or less stable during periods of stress. Reasonable contingency funding plans are in place.	Funding and liquidity are generally stable, although there may be material funding concentrations or meaningful reliance on less stable wholesale funding sources. Access to funding may be uncertain during periods of market stress. Contingency funding plans may not be sufficient.	Funding and liquidity are less stable and may be prone to sudden changes in creditor sentiment. Access to funding during periods of market stress is very uncertain. Contingent funding plans may not be well developed.	Funding and liquidity are unstable absent any formal extraordinary support mechanisms. Contingent funding plans are non-existent.

Source: Fitch.

Investment Manager Earnings Definitions

Base Management Fees
(+) Transaction and Advisory Fees
(-) Non-Incentive Compensation
(-) Equity Compensation
(-) Operating Expenses
(-) Interest Expense
(=) Fee-Related Earnings
(+) Equity Compensation
(+) Interest Expense
(+) Depreciation and Amortization
(-) Non-Cash Revenues
(=) (F)EBITDA

Source: Fitch.

II.5.b Investment Managers

Fitch's financial profile assessment for investment managers, investment companies and investment funds considers the following subfactors:

- asset performance (and asset quality for investment companies);
- earnings and profitability;
- capitalization and leverage; and
- funding, liquidity and coverage.

Asset Performance — Investment Managers

Attribute	Core Versus Complementary	Description
Net Client Flows/ Beginning (F)AUM	Core (for investment managers and investment funds)	Fitch evaluates fund flows on an absolute and relative basis to understand a firm's ability to take advantage of market conditions to invest and/or exit investments and, for liquid funds, to assess net inflows or redemptions over a variety of market cycles. More stable fund flows translate into greater fee stability over time. To the extent that the manager or fund has more predictable inflows and/or an ability to manage the pace of outflows, these could positively influence Fitch's assessment. Examples of more predictable inflows could include an investment manager with a sister insurance company which uses the investment manager to manage all or a portion of its general investment account or a pension fund established to manage the contributions of a defined portion of employees or citizens. Examples of managed outflows could include fund structures where the investment manager can influence the timing or amount of redemption.
Asset Performance and Quality	Complementary (for investment companies)	For investment companies, Fitch considers a combination of asset performance and asset quality factors. Asset performance is intended to indicate how market value appreciation/depreciation has impacted the value of assets collateralizing outstanding debt while also providing an indication as to the asset selection capabilities of the investment company (or its investment manager). Asset quality is intended to indicate the quality of the investments collateralizing outstanding debt and the quality/reliability of the upstream dividend and interest income received from portfolio companies. For investment companies that invest in a finite number (less than 30) of portfolio companies or exhibit material portfolio concentration (individual holding greater than 15%), Fitch considers the credit quality and seniority of the underlying investments to assess the overall asset quality profile. This is typically achieved by looking to Fitch's ratings of such portfolio companies or by considering other external sources of information in the absence of such information. To the extent that a portfolio company comprising a large portion (greater than 15%) of the portfolio is unrated, Fitch may elect to conduct an internal Credit Opinion of such entity to support the rating of the investment company.
Performance Relative to Benchmarks and Peers	Complementary	Fitch considers the stability of investment performance, on an absolute basis and relative to investor expectations. Fitch will consider firm-specific benchmarks when assessing fund performance, but will also look to independent sources for performance data, where available, to understand relative fund performance based on vintage, size, geography, and strategy. However, prolonged periods of unexplained outperformance would also require further analysis and could lead to a negative adjustment to Fitch's asset performance assessment if material weaknesses in risk management and/or style drift were the catalyst.
Management Fee Stability	Complementary	Fitch will also assess management fee stability by looking at earnings contributions by fund, strategy and/or segment. Similarly, outsized exposure to a sector or industry strategy could increase correlations and volatility in fee streams. Fitch reviews average fee rates on individual strategies on a relative basis to assess the investment manager's pricing power and ability to withstand incremental fee pressure.

Source: Fitch.

Asset Performance Benchmark — Investment Managers

	aa and Above	a	bbb	bb	b and Below
Net Client Flows/Beginning (F)AUM (%)[a]	x>10	5<x≤10	5≥x>(5)	(5)≥x>(10)	x≤(10)

[a]For investment managers and investment funds.
Source: Fitch.

Asset Performance/Asset Quality Metrics — Investment Managers

Investment Managers and Investment Funds	Core Versus Complementary
Net Client Flows/Beginning (F)AUM	Core
(F)AUM	Complementary
(F)AUM Growth	Complementary
Management Fees/Average (F)AUM	Complementary
Total Revenue/Average (F)AUM	Complementary
(F)EBITDA/Average (F)AUM	Complementary

Investment Companies	Core Versus Complementary
Weighted Average Credit Quality of Investments/Portfolio Companies	Complementary

Source: Fitch.

Earnings and Profitability — Investment Managers

Attribute	Core Versus Complementary	Description
(F)EBITDA/ Fee Revenue	Core (for Investment Managers)	Fitch assesses investment managers' earnings and profitability primary on the basis of fee-related earnings measures, such as (F)EBITDA margin. (F)EBITDA includes transaction, monitoring and advisory fees, but Fitch may remove them from its recurring cash flow calculation if they are believed to be very volatile over time. Conversely, interest and/or dividend income that an alternative investment manager may earn from balance sheet investments could be added to (F)EBITDA if the revenue is believed to be contractual (e.g. interest coupons and preferred dividends), less correlated with core management fees and relatively stable over time.
Returns on Assets	Core (for Investment Companies and Investment Funds)	For more balance-sheet intensive investment managers, returns on assets (ROA) is the primary earnings and profitability consideration. For investment companies, earnings and profitability is typically a lower influence rating factor given the analytical focus on asset overcollateralization and liquidity relative to debt and that earnings can be periodically influenced by unrealized gains/losses as a result of changes in the market values of underlying investments. On a complementary basis, earnings and profitability may also be assessed on the basis of return on equity (ROE).
Earnings Stability and Diversity	Complementary	Fitch's evaluation of earnings and profitability considers the historical trend of an investment manager's earnings performance, the diversity, stability, and quality of its earnings, and the investment manager's capacity to generate profits through cycles. The product mix and strength of performance by product are key factors in providing earnings stability. An additional component in assessing the stability of earnings and fees is whether there are lock-ups on fund investors.
Incentive Fee Generation	Complementary	While Fitch focuses on recurring cash flow measures when assessing an investment manager's core earnings performance, the agency does not ignore the generation of co-investment income or incentive income (also known as carry income and performance fees), as they can provide an additional cushion for debt service capacity and speak to the success of the fund manager, which aids the company in the raising of future funds and, hence, the generation of future management fees. Carried interest can be material, but has significant variability over time.
Fund Structures and Maturities	Complementary	Fitch views fund structures with lock-ups, particularly longer term ones, more favorably as they provide a more stable base upon which to earn fees. Laddered funds and lock-ups are also generally viewed more favorably from an earnings perspective since they ensure that the closure of one fund does not result in a dramatic drop in fees and consequently earnings.

Source: Fitch.

Earnings and Profitability Benchmark — Investment Managers

	aa and Above	a	bbb	bb	b and Below
(F)EBITDA/Fee Revenue (%)	x>50	30<x≤50	20<x≤30	10<x≤20	x≤10

Source: Fitch.

Earnings and Profitability Metrics — Investment Managers

Investment Managers	Core Versus Complementary
(F)EBITDA/Fee Revenue	Core
Management Fees/Total Fees	Complementary
Management Fees/Total Revenues	Complementary
(Base Compensation + Operating Expenses)/Total Fee Revenue	Complementary
Incentive Compensation/Incentive Revenue	Complementary
Fee-Related Earnings (Net Income)/Fee Revenue	Complementary
Net Income/Average Equity	Complementary

Investment Companies and Investment Funds	Core Versus Complementary
Net Income/Average Assets	Core
Net Income/Average Equity	Complementary

Source: Fitch.

Capitalization and Leverage — Investment Managers

Attribute	Core Versus Complementary	Description
Gross Debt/(F)EBITDA	Core (for Investment Managers)	Leverage, as measured by debt divided by (F)EBITDA, is analyzed from a trend perspective and relative to peer firms and Fitch's general tolerance levels for a given rating. Fitch applies more conservative leverage benchmarks for investment managers with the majority of their fees assessed against NAV, compared ones with the majority of their fees assessed against committed capital.
Gross Debt/ Tangible Equity	Core (for Investment Companies)	For investment companies, investment funds and investment managers that have material co-investment exposure, balance sheet capitalization is a more meaningful consideration. In reviewing the adequacy of capitalization, Fitch considers the size of the capital base in relation to the investment manager, investment company, or investment fund's risks. To the extent capital is a meaningful analytical factor, Fitch takes into account management's policies with regard to minimum capital ratio objectives, share buyback programs, and dividend payouts, as well as the ability to raise new capital and internally generate capital. If subject to regulatory capital requirements, Fitch will also review these, whether at the firm itself or at any regulated subsidiary.
Gross Debt (Long + Short) to NAV	Core (for Investment Funds)	For investment funds, Fitch typically analyzes leverage similarly to securities firms, using NAV as a substitute for equity. High levels of leverage would be viewed as a negative ratings attribute for investment funds given less stable earnings and the fact that repayment on obligations usually comes from asset sales and these assets are often less liquid. That said, leverage for investment funds can vary widely depending on the risk profile, liquidity and duration of assets.
Balance Sheet Size and Composition	Complementary	Fitch notes that investment managers that solely manage assets for external investors often do not have sizable balance sheets that require meaningful loss absorption. In such cases, capitalization could be lower and tangible common equity could be negative, even at an investment-grade capitalization and leverage score level. However, Fitch would expect such investment managers to have enough cash and cash generation capacity to offset unexpected litigation or operational losses as appropriate given the scope of their operations. All things being equal, an investment manager that makes extensive use of its balance sheet and invests in illiquid investments will tend to have a lower capitalization and leverage score than one that makes little use of its balance sheet. However, other factors such as capitalization, access to capital and liquidity may counterbalance these factors.
Goodwill	Complementary	Many investment managers grow by acquisition and, therefore, will carry a significant amount of goodwill and other intangibles on their balance sheet. These assets are also subject to impairment if the viability of the acquired business deteriorates. Fitch will factor the potential for such impairment into its capitalization and leverage analysis as appropriate. Fitch notes that impairment will not have any impact on tangible capital or FCC, as goodwill is excluded from both measures. However, significant impairment would be a negative indicator of the overall health of an investment manager's core earnings.
Consolidated Leverage	Complementary (for Investment Companies)	For investment companies, Fitch tends to focus on unconsolidated debt to equity as the primary leverage metric and considers cash flow leverage metrics to be of a low influence. Consolidated leverage may be considered as a complementary metric to assess the aggregate degree of leverage across underlying portfolio investments. Fitch may also focus more on consolidated leverage metrics in its analysis to the extent that an investment company has a sustained track record of providing financial support to portfolio companies.

Source: Fitch.

Capitalization and Leverage Benchmarks — Investment Managers

	aa and Above	a	bbb	bb	b and Below
Gross Debt/(F)EBITDA (x)[a]	x<0.25	0.25≤x<1.5	1.5≤x<3.0	3.0≤x<5.0	≥5.0
Gross Debt/(F)EBITDA (x)[b]	x<0.50	0.50≤x<2.5	2.5≤x<4.0	4.0≤x<6.0	≥6.0
Gross Debt/Tangible Equity (x)[c]	x<0.15	0.15≤x<0.35	0.35≤x<0.50	0.50≤x<1.0	≥1.0

[a]For investment managers with the majority of their fees assessed against net asset value. [b]For asset managers with the majority of their fees assessed against invested capital or committed capital. [c]For investment companies.
Source: Fitch.

Capitalization and Leverage Metrics — Investment Managers

Investment Managers	Core Versus Complementary
Gross Debt/(F)EBITDA	Core
Net Debt/(F)EBITDA	Complementary
Gross Debt/Tangible Equity	Complementary
Gross Debt/FCC	Complementary
Net Debt/Tangible Equity	Complementary

Investment Companies	Core Versus Complementary
Gross Debt/Tangible Equity	Core

Investment Funds	Core Versus Complementary
(Gross Long Investment Positions + Gross Short Positions)/Net Asset Value	Core

Source: Fitch.

Funding, Liquidity and Coverage — Investment Managers

Attribute	Core Versus Complementary	Description
(F)EBITDA/ Interest Expense	Core (for Investment Managers)	Fitch assesses investment managers' funding, liquidity and coverage primarily on the basis of interest coverage. Fitch applies more conservative interest coverage benchmarks for investment managers with the majority of their fees assessed against NAV relative to investment managers with the majority of their fees assessed against committed capital. For investment managers that pay preferred dividends, Fitch would also calculate (F)EBITDA coverage of both interest expense and preferred dividends.
Upstream Dividend and Interest Income Coverage of Holdco Interest Expense	Core (for Investment Companies)	For investment companies, coverage is evaluated in the context of upstream dividend and interest income from portfolio companies and investments relative to holding company operating expenses, interest expenses and dividends, with greater than two years' coverage being viewed as consistent with an investment-grade funding, liquidity and coverage score. For investment companies that are privately held and do not have stated dividend policies, Fitch will likely remove holding company dividends from the denominator of this ratio reflecting the highly discretionary nature of any such dividends and the absence of similar reputational risk that a publicly traded investment company may face by reducing or cutting its dividend.
(Cash + Unpledged Assets)/Unsecured Debt	Core (for Investment Funds)	For investment funds, Fitch focuses more heavily on the liquidity of the assets rather than their cash flow generation capacity.
Funding Stability and Diversity	Complementary	In assessing the stability of such funding sources, Fitch reviews the maturity profile of the debt, sources of repayment for any near-term maturities, the nature of significant debt covenants and current and recent performance under those covenants. Access to unsecured debt and lack of reliance on any single funding source are viewed as positive factors for the funding, liquidity and coverage score, as is laddering of debt maturities. For investment companies, investment funds and investment managers with more material sheet balance sheet exposure, Fitch also considers the debt maturity profile of the firm's funding sources relative to its asset maturities and asset liquidity.
Liquidity Sources and Terms	Complementary	Fitch considers investment managers' sources of liquidity including committed facilities, cash flow generation capacity, unencumbered balance sheet cash and balance sheet investments. With respect to liability-based sources of liquidity, Fitch considers the terms and maturities of the facilities, associated covenants and the quality of the funding providers. For alternative investment managers, Fitch reviews liquidity levels relative to unfunded commitments, with particular attention to balance sheet cash and liquid securities as a percentage of unfunded commitments. The same considerations apply, albeit to a lesser degree, for investment managers that do not make extensive use of their own balance sheet. Fitch expects such investment managers to have reasonable levels of cash or liability-based liquidity to meet unexpected losses, expected debt maturities, interest service and other outflows.
Distributions	Complementary	Investment managers tend to distribute a significant portion of their earnings on an annual basis. While Fitch believes investment managers have the flexibility to adjust distributions as necessary, liquidity constraints often develop during tougher economic and market environments, when supplementary earnings streams tend to be relatively low. As a result, a high distribution rate can be a constraint on the funding, liquidity and coverage score.
Track Record of Fund Support	Complementary	Fitch assesses the track record of providing financial support to funds, considering both the frequency and magnitude of such support. In conjunction with this review, Fitch will also seek to assess if past support has created a perception among fund investors that future support of funds may be more likely. Material levels of expected future support may negatively affect an issuer's funding, liquidity and coverage score.
Redemption Risk	Complementary (for Investment Funds)	For investment funds, Fitch analyzes the structure of the initial lock-up period, redemption parameters (frequency, notice period, amount, etc.) of the funds thereafter, as well as any gates in its assessment of liquidity management.

Source: Fitch.

Funding, Liquidity and Coverage Benchmarks — Investment Managers

	aa and Above	a	bbb	bb	b and Below
(F)EBITDA/Interest Expense (x)[a]	x>18	12<x≤18	6<x≤12	3<x≤6	x≤3
(F)EBITDA/Interest Expense (x)[b]	x>12	8<x≤12	4<x≤8	2<x≤4	x≤2
Upstream Dividend and Interest Income Coverage of One Years' Holdco Interest Expense (x)[c]	x>10	6<x≤10	3.5<x≤6.0	2.5<x≤3.5	x≤2.5
One Year's Upstream Dividend and Interest Income Coverage of Two Years' Holdco Operating Expenses, Interest Expense and Dividends (x)[c d]	x>1.0	x>1.0	x>1.0	x≤1.0	x≤1.0

[a]For investment managers with the majority of their fees assessed against net asset value. [b]For asset managers with the majority of their fees assessed against invested capital or committed capital. [c]For investment companies. [d]For investment companies that are privately held and do not have stated dividend policies, Fitch will likely remove holding company dividends from the denominator of this ratio.
Source: Fitch.

Funding, Liquidity and Coverage Metrics — Investment Managers

Investment Managers	Core Versus Complementary
(F)EBITDA/Interest Expense	Core
(Cash + Liquid Assets)/ Total Assets	Complementary
(Cash + Liquid Assets)/Debt	Complementary
(Cash + Liquid Assets + Co-Investments)/Debt	Complementary
Liquid Assets/Fund Commitments	Complementary
Dividends/Cash Earnings	Complementary
Investment Companies	**Core Versus Complementary**
Upstream dividend and interest income coverage of holdco interest expense	Core
One year's upstream dividend and interest income coverage of two years' holdco operating expenses, interest expense and dividends	Core
Investment Funds	**Core Versus Complementary**
(Cash + Unpledged Assets)/Unsecured Debt	Core
Total Illiquid Assets/Net Asset Value	Complementary

Source: Fitch.

Financial Profile — Investment Managers

	aaa	aa	a	bbb	bb	b	ccc and Below
Asset Performance	Exceptionally strong track record of (F)AUM inflows/stability through market cycles. Exceptional performance versus benchmarks and/or top quartile fund performance across strategies. Fee rates and incentive structures are significantly above industry standards. Concentration risks (industry, vintage and investor) are very low or effectively mitigated.	Very strong track record of (F)AUM inflows/stability through market cycles. Consistent outperformance vs. benchmarks and/or top quartile fund performance across strategies. Fee rates and incentive structures are well-above industry standards. Concentration risks (industry, vintage and investor) are low or effectively mitigated.	Strong track record of (F)AUM inflows/stability through market cycles, although flows may turn negative in periods of extreme market stress. Investment/fund performance largely meets or beats benchmark; however, certain strategies/funds may underperform following periods of market stress. Fee rates and incentive structures are above industry standards. Concentration risks (industry, vintage and investor) may be modest.	(F)AUM inflows/stability may be more affected by market conditions/trends. Sound investment/fund performance; but may frequently underperform or lag benchmark. Fee rates and incentive structures largely in-line with industry standards. Concentration risks (industry, vintage and investor) are moderate.	(F)AUM flows may be significantly affected by market conditions/trends. Investment/fund performance may be extremely sensitive to market conditions. Fee rates and incentive structures are below industry standards. Concentration risks (industry, vintage and investor) are meaningful.	(F)AUM flows may stay negative after extreme market stress due to concentration in product/fund type. Persistently weak investment/fund performance. Fee rates and incentive structures are well below industry standards. Concentration risks (industry, vintage and investor) are significant.	(F)AUM flows are highly volatile due to significant concentration within funds/asset classes. Very weak investment/fund performance. Fee rates and incentive structures are well below industry standards.
Earnings and Profitability	Earnings and profitability are highly predictable throughout economic and/or interest rate cycles. Limited reliance on transactional revenue. Highly variable cost structure. Superior returns relative to peer.	Earnings and profitability are very predictable over multiple economic and interest rate cycles. Limited reliance on transactional revenue. Highly variable cost structure. Strong returns relative to peer.	Earnings and profitability are moderately variable over economic and/or interest rate cycles. Modest reliance on transactional revenue. Largely variable cost structure. Solid returns relative to peer.	Earnings and profitability may be variable over economic and/or interest rate cycles. Modest reliance on transactional revenue. Largely variable cost structure. Adequate returns relative to peer.	Earnings and profitability may be highly variable over economic and/or interest rate cycles. Moderate reliance on transactional revenue. Cost structure is less variable than peer firms. Below-average returns relative to peer.	Earnings and profitability are volatile and highly correlated with economic and/or interest rate cycles. Heavy reliance on transactional revenue. Cost structure is largely fixed. Weak returns relative to peer.	May be structurally unprofitable on either a reported or operating basis. Return to break-even or sustainable profitability is highly uncertain.
Capitalization and Leverage	Capitalization and leverage are extremely strong and commensurate with balance sheet risk and/or earnings variability. Leverage targets incorporate ability to withstand severe market value shocks.	Capitalization and leverage are strong and commensurate with balance sheet risk and/or earnings variability. Leverage targets incorporate ability to withstand significant asset quality and market value shocks.	Capitalization and leverage levels broadly commensurate with balance sheet risk and/or earnings variability. Leverage levels may be relatively more volatile, but likely only modestly affected by severe asset quality and market value shocks.	Capitalization and leverage levels may not be fully commensurate with balance sheet risk and/or earnings variability. Leverage levels may be more vulnerable to severe asset quality and market value shocks.	Capitalization and leverage are not fully commensurate with balance sheet risk and/or earnings variability. Leverage is above peer but should be capable of withstanding asset quality and market value shocks.	Capitalization and leverage are not commensurate with balance sheet risk and/or earnings variability. Leverage levels may be well above peer institutions and highly vulnerable to asset quality and market value shocks.	Capitalization and leverage have clear deficiencies that have or may require capital injections.
Funding, Liquidity and Coverage	Funding and liquidity are exceptionally stable. Minimal reliance on wholesale funding. Funding is not confidence sensitive. Funding sources are highly diverse. Funding is fully unsecured. Extremely robust contingency funding plans are in place.	Funding and liquidity are very stable. Minimal reliance on short-term funding. Wholesale funding is predominantly long-term with established investor appetite. Funding is relatively less confidence sensitive. Funding sources are very diverse. Funding is fully unsecured. Very robust contingency funding plans are in place.	Funding and liquidity are stable. Wholesale funding is predominantly long-term. Funding may be modestly confidence sensitive. Funding sources are relatively diverse. Funding is largely unsecured. Robust contingency funding plans are in place.	Funding and liquidity are generally stable, although there may be moderate funding concentrations or reliance on less stable wholesale funding sources. Funding is confidence sensitive and liquidity may become more expensive or less stable during periods of stress. Funding sources are moderately diverse. Meaningful unsecured funding component. Reasonable contingency funding plans are in place.	Funding and liquidity are generally stable, although there may be funding concentrations or meaningful reliance on less-stable wholesale sources of funding. Access to funding may be uncertain during periods of market stress. Funding sources are relatively limited. Lack of an unsecured funding component. Contingency funding plans may not be sufficient.	Funding and liquidity are less stable and may be prone to sudden changes in creditor sentiment. Access to funding during periods of market stress is very uncertain. Funding sources are very limited. Lack of an unsecured funding component. Contingent funding plans may not be well developed.	Funding and liquidity are unstable. Lack of an unsecured funding component. Contingent funding plans are non-existent.

Source: Fitch.

BDC Earnings Definitions

Interest Income
(+) Dividend Income
(+) Transaction and Advisory Fees
(-) Base Management and Incentive Fees
(-) Interest Expense
(-) Operating Expenses
(=) Pre-Tax Net Investment Income
(+) Realized Gains
(-) Realized Losses
(=) Taxable Income (approx.)

Source: Fitch.

II.5.c Business Development Companies

Fitch's financial profile assessment for BDCs considers the following subfactors:

- asset quality;
- earnings and profitability;
- capitalization and leverage; and
- funding, liquidity and coverage.

Asset Quality — Business Development Companies

Attribute	Core Versus Complementary	Description
Net Realized Gains/ Average Portfolio, at Value	Core	For BDCs, Fitch assesses asset quality primarily by using net realized gains as a percent of average portfolio value as a proxy for net chargeoffs. The generation of significant cumulative net realized portfolio losses over a cycle may be an indicator of weak underwriting particularly if performance is meaningfully weaker than peer BDCs. Still, realized losses may also be generated due to portfolio optimization strategies, where lower yielding securities are sold so that proceeds may be reinvested into higher earning assets. In all cases, Fitch attempts to understand the source of realized losses.
Unrealized Portfolio Depreciation	Complementary	Trends in unrealized portfolio depreciation can serve as an early warning signal of potential asset quality issues, as BDCs must incorporate the credit profile of the underlying borrower into quarterly valuation decisions. Relative trends can also provide insight into the strength of a BDC's risk assessment and/or valuation processes. For example, an increase in portfolio depreciation which runs counter to peer-trends and the then-current credit environment may indicate weak underwriting and/or flawed valuation procedures. An increase in non-cash interest coupons (also known as payment-in-kind [PIK]) can also signal weaker underlying portfolio credit, as portfolio companies may have insufficient cash flows to service their interest payments and the capitalization of coupon payments may be a precursor to eventual writeoffs.
Portfolio Concentrations	Complementary	**Industry:** Certain industry concentrations may be supported by a successful track record and in-house expertise, but Fitch believes outsized concentrations could increase correlations in portfolio company performance, negatively influencing Fitch's asset quality assessment. **Issuer:** Fitch evaluates the largest portfolio investments, at fair value, as a percentage of assets and equity to gauge a BDC's sensitivity to valuation declines in individual investments. Fitch also considers the magnitude of exposure to equity securities, which may experience more volatile valuation movements. Many BDCs are invested in diversified loan funds or portfolio companies that are themselves large, diversified lenders. This underlying diversification may reduce the sensitivity of the investment to valuation movements, although this may be offset by the subordination of the BDC's investment, which is typically a majority equity stake. Outsized issued concentration may negatively influence Fitch's asset quality assessment. **Vintage:** For vintage concentrations, Fitch considers the underwriting environment. A significant amount of origination activity during highly competitive market conditions could yield asset quality issues down the road, negatively influencing Fitch's asset quality assessment. Fitch considers underlying portfolio company statistics including leverage, interest coverage, and average EBITDA to assess the potential for asset quality weakening in a stressed environment.

Source: Fitch.

Typical Asset Quality Benchmark — Business Development Companies

	aa and Above	a	bbb	bb	b and Below
Net Realized Gains/Average Portfolio, at Value (%)	x>(1.0)	(1)≥x>(3)	(3)≥x>(4)	(4)≥x>(6)	x≤(6)

Source: Fitch.

Asset Quality Metrics — Business Development Companies

Metric	Core Versus Complementary
Net Realized Gains/Average Portfolio, at Value	Core
Non-Accruals/Portfolio, at Cost	Complementary
Non-Accruals/Portfolio, at Value	Complementary
Net Unrealized Appreciation (Depreciation)/Total Portfolio, at Cost	Complementary
Top 10 Portfolio Investments/Equity	Complementary

Source: Fitch.

Earnings and Profitability — Business Development Companies

Attribute	Core Versus Complementary	Description
Net Investment Income/Average Portfolio, at Cost	Core	Earnings and profitability tends to be a lower influence factor for BDCs given they are primarily secured lenders, seeking return of principal at an appropriate risk adjusted return. In this context, outsized investment returns can be as much of a concern as investment returns that are low (or negative), as the former could indicate an elevated risk appetite while the latter could signal weak underwriting and/or pricing power.
Earnings Mix	Complementary	Fitch views earnings profiles comprised primarily of interest income favorably given the relative stability of this income stream. Outsized contributions from transactional fees, driven by originations and/or repayment volume or more episodic equity yields are viewed negatively by Fitch, as these revenue sources are likely to be more volatile over time or provide the wrong motivation for growth. For example, a BDC may be inclined to continue to originate investments in a competitive credit environment if fee income is needed to meet dividend payments.
Realized and Unrealized Gains/Losses	Complementary	When considering unrealized gains and losses arising from the GAAP requirement to mark the portfolio to fair value every quarter, Fitch focuses on what gave rise to the changes and the likelihood these will be realized. Generally speaking, Fitch expects net realized portfolio gains and losses to be relatively modest over time, particularly if underwriting standards are prudent and exposure to equity investments is minimal. However, since BDCs are not allowed to create loan loss reserves, it is realistic to assume that a BDC will have periodic realized credit losses. Therefore, Fitch assesses a firm's net realized loss performance over time and on a relative basis to gain insight into the strength of its underwriting standards.
Cost Structure	Complementary	A BDC's cost structure is analyzed for the amount of flexibility provided when market conditions are less favorable. In this regard, Fitch considers how much of the cost base is variable. Fitch also considers the structure of the management contract for externally managed firms and views total return requirements more favorably. A review of a BDC's expenses as a percentage of the portfolio at cost provides insight into the scalability of the platform and its appropriateness relative to the business model and strategy. If expense ratios are high, it could be an indicator that the BDC has a significant fixed cost burden. Conversely, if expense ratios are too low, it could signal a lack of sufficient infrastructure to manage the portfolio.

Source: Fitch.

Earnings and Profitability Benchmark — Business Development Companies

	aa and Above	a	bbb	bb	b and below
Net Investment Income/Average Portfolio, at Cost (%)	5<x≤10	5<x≤10	5<x≤10	x≤5 or x>10	x≤5 or x>10

Source: Fitch.

Earnings and Profitability Metrics — Business Development Companies

Metric	Core Versus Complementary
Net Investment Income/Average Portfolio, at Cost	Core
Investment Income/Average Portfolio, at Cost	Complementary
Non-Interest and Non-Incentive Expenses/Average Portfolio, at Cost	Complementary
Compensation/Average Portfolio, at Cost	Complementary
Net Income/Average Assets	Complementary

Source: Fitch.

Capitalization and Leverage — Business Development Companies

Attribute	Core Versus Complementary	Description
Debt/Tangible Equity	Core	Regulatory requirements essentially limit the debt/equity ratio of a BDC to 1.0x. A breach of this limit precludes the firm from incurring additional debt and will often result in covenant breaches on a BDC's credit facilities. Fitch considers a BDC's leverage target on an absolute basis but also relative to the portfolio construct and market conditions. The leverage target should provide for adequate cushion relative to the 1.0x limitation to account for potential variability in portfolio valuation on a quarterly basis. Fitch believes the cushion should increase when a BDC's investment portfolio is more heavily weighted to the lower part of the capital structure. For example, a BDC with outsized exposure to subordinated debt and/or equity investments would be expected to have a lower leverage target than a BDC focused on senior secured debt investments, all else equal. The 40 Act allows for the exclusion of Small Business Administration (SBA) borrowings from the calculation of asset coverage compliance. However, Fitch includes SBA borrowings in its leverage calculation and its overall assessment of a BDC's credit risk profile.
Adherence to Leverage Policy	Complementary	Most BDCs articulate a leverage target/range which they are expected to adhere to during the normal course of business operations. In such instances, Fitch evaluates the BDC's historical leverage relative to the target. Frequent and/or sustained breaches of the leverage target (absent a material change in portfolio mix) or periodic changes to the articulated strategy could negatively impact Fitch's capitalization and leverage assessment. Conversely, strict adherence to the target, including instances of actively deleveraging in order to maintain compliance, could positively affect Fitch's capitalization and leverage assessment.

Source: Fitch.

Capitalization and Leverage Benchmark — Business Development Companies

	aa and Above	a	bbb	bb	b and Below
Debt/Tangible Equity (x)	x<0.25	0.25≤x<0.50	0.50≤x<0.80	0.80≤x<1.00	x≥1.00

Source: Fitch.

Capitalization and Leverage Metrics — Business Development Companies

Metric	Core Versus Complementary
Debt/Tangible Equity	Core
(Assets-Current Liabilities)/Long-Term Debt	Complementary
(Equity-Interest-Bearing Liabilities)/ Portfolio, at Value	Complementary

Source: Fitch.

Funding, Liquidity and Coverage — Business Development Companies

Attribute	Core Versus Complementary	Description
Unsecured Debt/ Total Debt	Core	Fitch considers the mix of secured and unsecured funding in the BDC capital structure and views a meaningful unsecured funding component positively given that it provides the BDC with the flexibility to add a security interest in the event of a significant disruption in the capital markets. BDCs often have secured bank revolving credit lines with blanket liens on all investment assets, which does not technically provide for an unencumbered pool of assets for unsecured creditors. However, BDCs are generally able to issue secured term debt, which shares in the revolver's blanket lien, if economic access to unsecured funding is not available.
Funding Diversity	Complementary	A BDC with a diverse set of available funding sources, which could consist of revolving credit facilities, special purpose vehicles, securitizations, SBA funding, private placements, public notes and equity, would be viewed more favorably. Fitch tends to view commitments from a diverse group of banks more favorably than single or concentrated lender relationships, as changing conditions at any one financial institution could result in a reduction in lending to the industry and a cancellation of the existing commitment upon maturity, or before if permissible.
Liquidity	Complementary	Liquidity is evaluated based on unrestricted balance sheet cash, undrawn borrowing capacity on revolving facilities, portfolio cash generation and cash earnings coverage of dividend payments. Fitch expects a BDC to have sufficient cash on hand and undrawn capacity on its credit facilities to, at a minimum, provide for follow-on investments in portfolio companies, as necessary, and to meet near-term debt maturities. However, BDCs which maintain borrowing (and leverage) capacity to take advantage of attractive market opportunities as they arise are viewed more favorably.
Net Interest Income Coverage of Dividends	Complementary	BDCs electing to be considered RICs for tax purposes are required to distribute 90% of their taxable income on an annual basis to shareholders. As a result, Fitch expects NII to fund the majority of dividends over time. For its dividend coverage calculation, Fitch adjusts NII by non-cash income and expenses to match cash earnings with dividend payments. Non-cash earnings are generally in the form of PIK interest, which is capitalized to the principal amount of the loan. PIK interest is included in taxable income and is, therefore, subject to distribution, but it may never be collected in cash if the investment is restructured or written off. Fitch views a BDC with outsized exposure to PIK earnings more negatively given the greater disconnect between cash earnings and taxable income. When realized portfolio gains occur, Fitch views it more favorably when those proceeds are distributed as a special dividend or carried over into the next taxable year, as spillover income, which Fitch believes provides more stability to the dividend over time. Raising the regular quarterly dividend due to the generation of realized gains is likely to pressure dividend coverage in the future, as those gains are generally episodic. Realized gains can also be used to backfill NII dividend shortfalls, particularly when underperforming debt investments have been restructured into equity. Fitch believes a decline in cash NII coverage of dividends below 100% for an extended period of time should be met with a dividend reduction. Any indication that the BDC is borrowing or raising equity capital to fund its distribution would be viewed negatively.

Source: Fitch.

Funding, Liquidity and Coverage Benchmark — Business Development Companies

	aa and Above	a	bbb	bb	b and Below
Unsecured Debt/Total Debt (%)	x>90	50<x≤90	35<x≤50	x≤35	x = 0

Source: Fitch.

Funding, Liquidity and Coverage Metrics — Business Development Companies

Metric	Core Versus Complementary
Unsecured Debt/Total Debt	Core
Adjusted EBITDA/Interest Expense	Complementary
Net Investment Income/Dividends Declared	Complementary
Cash Net Investment Income/Dividends Declared	Complementary
Non-Cash Income/Interest Income	Complementary

Source: Fitch.

Financial Profile — Business Development Companies

	aaa	aa	a	bbb	bb	b	ccc and Below
Asset Quality	Has an unparalleled degree of stability as reflected in very low levels of non-accruals and/or minimal losses throughout economic and/or interest rate cycles. Asset-quality measures are consistently better than comparable institutions. Concentration risks are very low or effectively mitigated. Generation of cumulative net realized portfolio gains over a cycle.	Has a very high degree of stability as reflected in low levels of non-accruals and/or low losses over multiple economic and/or interest rate cycles. Asset-quality measures are better than comparable institutions. Concentration risks are low or effectively mitigated. Absence of cumulative net realized portfolio losses over a cycle.	Has a high degree of stability as may be reflected in modest levels of non-accruals and/or losses. Asset quality is moderately variable over economic or interest rate cycles. Asset-quality measures are likely to be modestly better than at peer institutions or less vulnerable to economic and/or interest rate cycles. Portfolio concentrations are modest. May have minimal cumulative net realized portfolio losses over a cycle.	Has a degree of stability as may be reflected in average levels of non-accruals and/or losses. Asset quality measures are likely to fluctuate over economic and/or interest rate cycles. Asset-quality measures are generally in line with broad industry averages. Portfolio concentrations are moderate. May have modest cumulative net realized portfolio losses over a cycle.	Has above-average levels of non-accrual assets and losses. Asset quality measures are likely to be more volatile in the face of changes in economic and/or interest rate cycles and generally worse or more vulnerable than broad industry averages. Portfolio concentrations are high. May have meaningful cumulative net realized portfolio losses over a cycle or lack of performance through a cycle.	Has significantly above -average non-accruals and losses. Asset quality measures are likely to be very volatile based on changes in economic and/or interest rate cycles and generally significantly worse or more vulnerable than broad industry averages. Portfolio concentrations are very high. May have significant cumulative net realized portfolio losses over a cycle or limited performance track record.	Has or is likely to have asset-quality measures that are considerably weaker than industry benchmarks or historical norms.
Earnings and Profitability	Earnings and profitability are highly predictable throughout economic and/or interest rate cycles. Limited reliance on transactional revenue. Highly variable cost structure. Profitability measures are consistently commensurate with risk-averse nature.	Earnings and profitability are very predictable over multiple economic and interest rate cycles. Limited reliance on transactional revenue. Highly variable cost structure. Profitability measures are commensurate with very low risk but may vary modestly, although they remain generally superior to comparable institutions.	Earnings and profitability are moderately variable over economic and/or interest rate cycles. Modest reliance on transactional revenue. Largely variable cost structure. Profitability measures are commensurate with low risk, but subject to variability. Profitability is generally better than industry averages.	Earnings and profitability may be variable over economic and/or interest rate cycles. Modest reliance on transactional revenue. Largely variable cost structure. Profitability measures reflect inherent risk or a highly competitive environment and can be subject to increased variability. Profitability is average relative to broad industry averages.	Earnings and profitability may be highly variable over economic and/or interest rate cycles. Moderate reliance on transactional revenue. Cost structure is less variable than peer firms. Profitability measures may not fully reflect inherent risk and are subject to variability. Profitability is below average relative to broad industry averages.	Earnings and profitability are volatile and highly correlated with economic and/or interest rate cycles. Heavy reliance on transactional revenue. Cost structure is largely fixed. Profitability measures may not fully reflect inherent risk and are subject to variability. Profitability is well below average relative to broad industry averages.	May be structurally unprofitable on either a reported or operating basis. Return to break-even or sustainable profitability is highly uncertain.
Capitalization and Leverage	Capitalization is extremely strong and commensurate with risk. Capitalization and leverage are maintained with very significant buffers versus regulatory minimums as well as peer institutions.	Capitalization is very strong and commensurate with risk. Capitalization and leverage are maintained with comfortable buffers versus regulatory minimums as well as peer institutions.	Capitalization levels are strong and commensurate with risk. Capitalization and leverage are maintained with solid buffers versus regulatory minimums as generally above peer institutions.	Capital levels broadly commensurate with risk. Capitalization and leverage are maintained with satisfactory buffers versus regulatory minimums and generally in line with peer institutions.	Capital levels may not be fully commensurate with risk. Capitalization and leverage are maintained with moderate buffers versus regulatory minimums and may be below peer institutions.	Capital levels are not commensurate with risk. Capitalization is low and buffers versus regulatory minimums are small.	Capitalization and leverage have clear deficiencies that wither have or may require capital injections.
Funding, Liquidity and Coverage	Funding and liquidity are exceptionally stable. Minimal reliance on wholesale funding. Funding is not confidence sensitive. Funding sources are highly diverse. Funding is fully unsecured. Funding duration significantly exceeds average maturity of portfolio assets. Demonstrated access to equity markets across cycles. Absence of non-cash income. Cash net investment income significantly exceeds dividend payments. Extremely robust contingency funding plans are in place.	Funding and liquidity are very stable. Minimal reliance on short-term funding. Wholesale funding is predominantly long term with established investor appetite. Funding sources are very diverse. Funding is predominantly unsecured. Funding duration exceeds average maturity of portfolio assets. Demonstrated access to equity markets across cycles. Minimal non-cash income. Cash net investment income meaningfully exceeds dividend payments. Very robust contingency funding plans are in place.	Funding and liquidity are stable. Wholesale funding is predominantly long term. Funding may be moderately confidence sensitive. Funding sources are relatively diverse. Funding is largely unsecured. Funding duration is commensurate with average maturity of portfolio assets. Demonstrated access to equity markets across cycles. Minimal non-cash income. Cash net investment income exceeds dividend payments. Robust contingency funding plans are in place.	Funding and liquidity are generally stable, although there may be moderate funding concentrations. Reliance on less stable wholesale funding sources. Funding is confidence sensitive, and liquidity may become more expensive or less stable during periods of stress. Meaningful unsecured funding component. Funding duration is commensurate with average maturity of portfolio assets. Demonstrated access to equity markets but may be more sensitive to market conditions. Modest non-cash income. Cash net investment income meets dividend payments. Reasonable contingency funding plans are in place.	Funding and liquidity are generally stable, although there may be funding concentrations or meaningful reliance on less stable wholesale sources of funding. Access to funding may be uncertain during periods of market stress. Lack of an unsecured funding component. Funding duration may not be commensurate with average maturity of portfolio assets. No proven ability to access the equity markets. Moderate non-cash income. Cash net investment income is below dividend payments. Contingency funding plans may not be sufficient.	Funding and liquidity are less stable and may be prone to sudden changes in creditor sentiment. Access to funding during periods of market stress is very uncertain. Lack of an unsecured funding component. Funding duration may not commensurate with average maturity of portfolio assets. Inability to access the equity markets. Meaningful non-cash income. Cash net investment income is well below dividend payments. Contingent funding plans may not be well developed.	Funding and liquidity are unstable. Funding duration is very short term. Lack of an unsecured funding component. Significant non-cash income. Cash net investment income is significantly below dividend payments. Contingent funding plans are non-existent.

Source: Fitch.

II.5.d Finance and Leasing Companies

Fitch's financial profile assessment for finance and leasing companies considers the following subfactors:

- asset quality;
- earnings and profitability;
- capitalization and leverage; and
- funding, liquidity and coverage.

Risk Characteristics of Finance and Leasing Companies' Primary Business Activities

Activity	Balance Sheet Usage	Primary Funding Source[a]	Residual Value Risk?	Primary Earnings Source	Stability of Profitability
Leasing					
Aircraft Leasing	High	Secured/ABS/Unsecured	Yes	Lease Income	More Cyclical
Container Leasing	High	ABS/Secured Bank Lines	Yes	Lease Income	Cyclical
Fleet Leasing	High	ABS/Unsecured	Generally No	Lease Income	Less Cyclical
Truck Leasing	High	Unsecured/Secured	Yes	Lease Income	Less Cyclical
Railcar Leasing	High	Secured	Yes	Lease Income	Cyclical
Rental					
Rental Car	High	ABS	Yes	Rental Income	More Cyclical
Rental Equipment	High	Secured	Yes	Rental Income	More Cyclical
Consumer and Commercial Finance					
Commercial Lending	High	Deposits/Unsecured	No	Spread Income	Cyclical
Auto Lending	High	ABS/Deposits/Unsecured	Yes	Spread Income	Cyclical
Credit Card	High	ABS/Deposits	No	Spread Income	Cyclical
Student Lending	High	ABS/Deposits	No	Spread Income	Stable
Mortgage Origination	High	Secured	No	Origination Fees/Servicing Revenue	Stable
Factoring	High	Deposits/Unsecured	No	Fee Income	Cyclical
Pawn Brokerage	High	Unsecured	Yes	Fee Income/Merchandise Sales	Cyclical
Payday Lending	High	Secured Bank Lines	No	Spread and Fee Income	Cyclical
Debt Purchasers	Medium-High	Bank Lines/Secured Debt	No	Fees/Excess Collections over Purchase Price	Less Cyclical
Financial Services					
Marketplace Lending	Low	Non-Recourse Retail/Institutional	No	Origination Fees	Cyclical
Mortgage Servicing	Low	Secured	No	Servicing Revenue	Cyclical

Asset Quality — Finance and Leasing Companies

Attribute	Core Versus Complementary	Description
Impaired and Nonperforming Ratio	Core (For finance and leasing companies with high balance sheet usage)	Fitch's assessment of finance and leasing companies' asset quality primarily focuses on loan impairments but also considers delinquencies, non-accruals, net chargeoffs and reserve rates. Fitch considers the performance of these metrics over time and through market cycles, relative to the firm's underwriting criteria and articulated risk appetite and compares measures to peer firms with like products. Consistent with Fitch's asset quality benchmarks for banks, Fitch's asset quality benchmarks for finance and leasing companies with high balance sheet usage are derived by combining the entity's operating environment with the financial metric value. This reflects Fitch's expectation that the operating environment will account for a significant proportion of actual metric differences across countries and regions because of differences in the financial risk profiles that arise directly from the environments in which the entities operate *(see Section II.1, Operating Environment Assessment)*. Tiering by operating environment is not applied to other non-bank financial institution metrics or subsectors given that asset quality is not a primary analytical consideration for certain subsectors (such as for investment managers, where asset performance is more relevant) or operating environment differences are not present (such as for BDCs, which operate in a single operating environment).
Borrower Profile	Complementary	For consumer lenders, Fitch may review data on the loan portfolio, such as the average balance per account and average yield, as well as variations from the mean. This may also involve demographic data on the underlying portfolio or an internal or external credit score. For commercial lenders and lessors, Fitch may review the types of businesses or equipment financed, loan to value ratios, as well as any internal credit rankings or watchlists with respect to lessees. For rental companies, lessee quality may be less relevant depending on the duration of the rental agreement and the type of equipment being rented.
Servicing, Collections and Disposition	Complementary	Fitch believes that a robust servicing and collection platform is an integral part of asset quality, since it can have a significant influence on impairment/delinquency and chargeoff experience. For example, Fitch considers an issuer's collection strategies for impaired/delinquent accounts and the ability to improve upon expected roll rates. For leasing companies, Fitch also considers an issuer's ability to repossess and dispose of collateral in an economic and efficient manner. Fitch considers the issuer's flexibility with regard to disposal channels and seeks to assess an issuer's ability to rapidly de-fleet or re-fleet in response to changing market conditions. Collateral sale proceeds are considered over time relative to residual values to assess the effectiveness of a leasing company's depreciation policies.
Seasonality and Growth Impacts	Complementary	Since asset quality can be distorted by growth, where possible, Fitch may perform analysis on a static-pool basis to measure asset quality of different vintages. Static-pool or vintage analysis can provide an early warning of problems, such as rapid asset-quality deterioration, forcing accelerated chargeoffs, which may highlight loosening of underwriting policies. Fitch recognizes that seasonality can play a role in distorting asset quality and, to complement static-pool analysis, Fitch may analyze other growth-adjusted asset-quality metrics, looking at impairment/delinquency and net chargeoff ratios on both a coincident (current) and lagged basis. In addition, portfolio shrinkage can also skew coincident and lagged credit metrics, so, in these instances, Fitch will also track the relative absolute change in portfolio impairments/delinquencies and losses from one period to another.
Business Model Specifics	Complementary	The key asset quality metrics for finance and leasing companies are less relevant for debt purchasers, whose assets are typically impaired, but acquired at a significant discount. Instead, Fitch will focus on the stability and resilience of cash flow generation from acquired portfolios relative to their purchase price. Fitch will also review industry measures such as gross 'cash on cash' multiples, net cash on cash multiples (net of collection activity costs) and price paid/face value of purchased assets, where available.

Source: Fitch.

Asset Quality Benchmarks by Operating Environment — Finance and Leasing Companies

		Rating Category				
(%)	Impaired and Nonperforming Ratio[a]	aa and Above	a	bbb	bb	b and Below
Operating Environment Score	aa and Above	x≤1	1<x≤3	3<x≤6	6<x≤14	x>14
	a	x≤0.25	0.25<x≤2	2<x≤5	5<x≤12	x>12
	bbb		X≤0.5	0.5<x≤4	4<x≤10	x>10
	bb			x≤0.75	0.75<x≤5	x>5
	b and Below				x≤1	x>1

[a]For countries and/or asset classes where the impaired and non-performing framework is not utilized, delinquency ratios (typically 30-day) may be used as a substitute.
Note: Fitch may exclude or normalize a quarterly data point if it is believed to be unduly influenced by seasonality rather than reflecting a longer term asset quality trend.
Source: Fitch.

Asset Quality Metrics — Finance and Leasing Companies

Metric	Core Versus Complementary
Impaired and Nonperforming Ratio	Core
Reserves for Impaired Loans/Impaired Loans	Complementary
Impaired Loans Less Reserves for Impaired Loans/FCC	Complementary
Net Chargeoffs/Average Loans	Complementary
Residual Value Gains (Losses)/Book Value of Assets	Complementary

Note: Note: Fitch may exclude or normalize a quarterly data point if it is believed to be unduly influenced by seasonality rather than reflecting a longer term asset quality trend.
Source: Fitch.

Earnings and Profitability — Finance and Leasing Companies

Attribute	Core Versus Complementary	Description
Pre-Tax Net Income/ Average Assets	Core (For Finance and Leasing Companies with High Balance Sheet Usage)	For finance and leasing companies with high balance sheet usage, Fitch focuses primarily on portfolio yields and return on assets and return on equity measures, which are more easily comparable across the bank and non-bank universes. Fitch will also consider risk-adjusted margins, which measure the level of profitability for the risk taken, since it deducts provision expense and interest expense from total net operating revenue. A review of earnings quality primarily reflects an assessment of recurring cash-based earnings, principally net interest and lease and fee income, as opposed to nonrecurring gains/losses, noncash gains or mark-to-market gains on derivatives or investments.
Adjusted EBITDA/ Revenues	Core (For Finance and Leasing Companies with Low Balance Sheet Usage)	For finance and leasing companies with low balance sheet usage, Fitch places emphasis on adjusted EBITDA margin analysis. To the extent a good portion of income is from fee-type sources, as is the case with finance and leasing companies with low balance sheet usage, Fitch evaluates the reliability and variability of these fees over a cycle. Additionally, Fitch may also review accruals for fee-type services, such as rewards for credit card usage or fee suppression policies for unearned income, to assess the collectability over time, where applicable. For leasing companies where the average lease term is relatively short, such as rental car companies and small ticket lessors, and for companies with proven stable asset-based cash generation and/or significant non-balance sheet-related earnings, such as debt purchasers, Fitch's analysis of earnings and profitability typically focuses on cash flow metrics and analysis. Fitch may make adjustments to its EBITDA calculation to exclude depreciation expense if it is believed to be a recurring operating expense and no significant change in leased asset levels is expected. However, in that case, Fitch would look to add back proceeds from the sale of leased assets to its calculation of cash flow, as it would likely be deemed a significant source of debt repayment.
Operating Expenses	Complementary	Fitch also looks at operating expenses relative to loans or leases, including the mix of variable and fixed costs. Fitch recognizes that finance and leasing companies may have very different cost structures. For example, a company with a global footprint, like an aircraft lessor, is likely to have a higher level of operating expenses versus one that relies on centralized functions but this may be offset by other factors such as lower credit losses or higher asset yields.
Depreciation and Non-Cash Items	Complementary	Depreciation expense is typically a significant noncash item for leasing companies and Fitch views it as an important cost, since such companies typically need to continually replace equipment involved in operating leases and stay within certain age parameters. To the extent an issuer reports a material amount of noncash income, Fitch may request a reconciliation of reported earnings to operating cash flows. Fitch views significant noncash items as lowering the quality of earnings.
Treatment of Securitizations	Complementary	To the extent that a finance and leasing company securitizes receivables and removes them from its balance sheet or services assets not on its balance sheet, Fitch focuses on managed measures of profitability, which consider reported profits and expenses relative to the company's serviced portfolio of loans or leases. This provides a clearer picture of the underlying profitability of the book of business, since an issuer typically earns a fee for servicing the assets in the securitization vehicle.

Source: Fitch.

Earnings and Profitability Benchmarks — Finance and Leasing Companies

	aa and Above	a	bbb	bb	b and Below
Pre-Tax Income/Average Assets (%)[a]	x>4	3<x≤4	2<x≤3	1<x≤2	x≤1
Adjusted EBITDA/Revenues (%)[b]	x>25	20<x≤25	15<x≤20	10<x≤15	x≤10

[a]For high balance sheet usage finance and leasing companies. [b]For low balance sheet usage finance and leasing companies.
Source: Fitch.

Earnings and Profitability Metrics — Finance and Leasing Companies

High Balance Sheet Usage	Core Versus Complementary
Pre-Tax Net Income/Average Assets	Core
Pre-Tax Net Income/Average Equity	Complementary
Residual Value Gains (Losses)/Net Income	Complementary
Operating Expenses/Total Net Revenues	Complementary
Depreciation Expenses/Total Revenues	Complementary

Low Balance Sheet Usage	Core Versus Complementary
Adjusted EBITDA/Revenues	Core
Pre-Tax Income/Revenues	Complementary

Source: Fitch.

Capitalization and Leverage — Finance and Leasing Companies

Attribute	Core Versus Complementary	Description
Debt/ Tangible Equity	Core (For Finance and Leasing Companies with High Balance Sheet Usage)	Fitch's assessment of a finance and leasing company's capitalization and leverage metrics focuses primarily on traditional leverage measures, such as debt to tangible equity and debt to FCC for finance and leasing companies with high balance sheet usage.
Debt/ Adjusted EBITDA	Core (For Finance and Leasing Companies with Low Balance Sheet Usage)	Fitch's assessment of a finance and leasing company's capitalization and leverage metrics focuses primarily on debt/adjusted EBITDA for finance and leasing companies with low balance sheet usage and for companies with proven stable asset-based cash generation and/or significant non-balance-sheet-related earnings, such as debt purchasers.
Business Model Specifics	Complementary	For leasing companies with longer term leases and material residual value risk, such as large equipment lessors, the primary capitalization and leverage focus is on balance sheet metrics such as debt to equity. For leasing companies where the average lease term is relatively short, such as rental car companies and small ticket lessors, and for companies with proven stable asset-based cash generation and/or significant non-balance sheet-related earnings, such as debt purchasers, Fitch's analysis of leverage and capitalization may take a corporate approach, in which the focus is on cash flow coverage and debt service. Fitch uses adjusted EBITDA as a proxy for cash flow. For debt purchasers, Fitch will also assess gross debt/estimated remaining collections, where available.
Double Leverage	Complementary	Where relevant, Fitch also looks at double leverage, defined as equity investments in subsidiaries plus holding company intangibles divided by equity, which reflects debt issued at the parent company level that has been down streamed as equity into subsidiaries. While a small amount of double leverage can be expected, Fitch is concerned when double leverage is high (i.e. above 120% or more of a parent company's common equity) on a sustained basis, unless mitigated by some other means (e.g. subsidiary liquidity support agreement). A high degree of double leverage can result in increased rating differentials between a parent company and its subsidiaries, particularly if regulated subsidiaries are involved, since dividends from these entities may be restricted. When feasible, Fitch will review a regulated subsidiary's dividend capacity relative to the holding company's fixed costs and dividends.

Source: Fitch.

Capitalization and Leverage Benchmarks — Finance and Leasing Companies

	aa and Above	a	bbb	bb	b and Below
Debt/Tangible Equity (x)[a]	x<1.0	1.0≤x<3.0	3.0≤x<5.0	5.0≤x<7.0	x≥7.0
Debt/Adjusted EBITDA (x)[b]	x<0.5	0.5≤x<1.5	1.5≤x<2.5	2.5≤x<3.5	x≥3.5

[a]For high balance sheet usage finance and leasing companies. [b]For low balance sheet usage finance and leasing companies.
Source: Fitch.

Capitalization and Leverage Metrics — Finance and Leasing Companies

High Balance Sheet Usage	Core Versus Complementary
Debt/Tangible Equity	Core
Debt/FCC	Complementary
FCC/Tangible Assets	Complementary
(Net Income-Dividends-Share Repurchases)/Beginning Equity	Complementary
FCC/Risk-Weighted Assets	Complementary

Low Balance Sheet Usage	Core Versus Complementary
Debt/Adjusted EBITDA	Core

Source: Fitch.

Funding, Liquidity and Coverage — Finance and Leasing Companies

Attribute	Core Versus Complementary	Description
Unsecured Debt/Total Debt	Core (For finance and leasing companies with high balance sheet usage)	Fitch believes an overreliance on secured financing sources such as asset-backed securitization, repurchase agreements, covered bonds, or secured bank loans, may constrain a finance and leasing company's funding, liquidity and coverage assessment, as a high proportion of encumbered assets will reduce financial flexibility. In assessing creditor protections, when information is available, Fitch will focus on unsecured debt as a percent total debt and, by extension, unencumbered assets relative to unsecured debt. This encompasses not only the amount, but also the relative quality of assets supporting unsecured debt obligations. Fitch typically stresses asset values by applying haircuts, depending on the riskiness of the asset class. In considering unencumbered assets, Fitch also makes adjustments based on seniority of liens that may exist in financing agreements and for pledged assets.
Adjusted EBITDA /Interest Expense	Core (For finance and leasing companies with low balance sheet usage)	For finance and leasing companies with low balance sheet usage, Fitch assesses funding, liquidity and coverage, primarily on the basis of interest coverage more so than funding or liquidity. For leasing companies where the average lease term is relatively short, such as rental car companies and small ticket lessors, and for companies with proven stable asset-based cash generation and/or significant non-balance sheet-related earnings, such as debt purchasers, Fitch's analysis of funding, liquidity and coverage typically focuses on cash flow metrics. For finance and leasing companies that pay preferred dividends, Fitch would also calculate EBITDA coverage of both interest expense and preferred dividends.
Reliance on Short-Term Funding	Complementary	Fitch understands that issuers may be motivated to fund themselves with short-term debt, since this is often less costly; however, it is Fitch's view that an overreliance on short-term financing can be very problematic, especially during times of market duress. In thinking about short-term financing, Fitch focuses on asset maturities. For example, an issuer with very short-dated assets (charge card, factoring receivables, auto floorplan loans or certain consumer loans) may be better able to rely upon asset cash flow to support a reasonable component of short-term financing than an issuer with long-dated assets, such as mortgages, student loans or aircraft. Nonetheless, even when asset maturities are very short term, a degree of longer term financing should be in place to finance the book of business.
Contingent Funding	Complementary	Sound contingency plans should be established to cover the potential that short-term assets financed by short-term debt may not produce expected levels of cash flow in all phases of a business or product cycle. This would include coverage for potential extensior of hold periods for assets expected to be sold and that are funded by short-term debt. Contingent funding should be reasonably accessible during times of financial duress and should not rely on an issuer to maintain covenant compliance. Fitch would expect investment-grade finance and leasing companies to be able to demonstrate contingency plans that allow the entity to navigate a prolonged disruption in liquidity and funding markets. This can be demonstrated by an ability to fund core operations over a 12-month period via cash flow generation and committed financing facilities from appropriately rated entities but excluding access to public unsecured markets if that is the primary source of funding in periods of normal market conditions. Additionally, Fitch may evaluate a firm's wind-down or liquidation scenarios to gain an understanding of how effectively and efficiently assets can be liquidated to cover costs, including debt service, on a timely basis.
Order Books	Complementary	Contingency funding plans take on added significance for leasing companies with large order books, particularly given that these obligations must be financed through a variety of economic environments. Order books are more prevalent in the aircraft, railcar and container leasing sectors, and represent commitments to purchase assets from manufacturers, in some cases years before they will be leased. The existence of committed financing, such as warehouse facilities, helps to mitigate some of this risk; however, the maturity of the facilities may pre-date order deliveries, which can yield refinancing risk. Fitch considers a lessor's order book size in relation to the size of its balance sheet, existing fleet, operational and marketing capabilities, the extent to which committed leases are in place at the time of the order, as well as its capital raising track record. However, the existence of significant order books, particularly if they are long-tailed, may be a rating constraint.
Funding Quality and Diversity	Complementary	Fitch views diverse sources of funding, in terms of markets, investors and geography, as well as funding stability, to be positive for the funding, liquidity and coverage score. Fitch looks at the portion of credit facilities that is committed versus uncommitted, the composition of the credit providers and the frequency with which facilities are utilized. Fitch looks at the length of the relationships, as well as other business flows (such as cash management or securities underwriting) that a finance and leasing company maintains with its credit providers, since this may have a material impact on whether lenders accommodate the issuer during periods of financial duress. Fitch may only take account of available liquidity from backup lines of credit from highly rated banks and/or banks rated the same or higher than the issuer itself.
Treatment of Securitizations	Complementary	When there is a significant portion of securitization activity, Fitch may compare the quality of securitized receivables to those remaining unencumbered to ensure that no "cherry picking" or adverse selection has occurred. Fitch believes that securitized receivables should reflect a cross-section of originated loans or leases. As a result, strategies that rely on either selling the weakest or strongest credits may negatively affect the funding, liquidity and coverage score. Moreover, Fitch believes a finance and leasing company should be able to demonstrate liquidity in all the asset types it originates. For example, if an issuer cannot demonstrate secondary market liquidity for a particular asset class, Fitch may view additional capital and/or liquidity to support that particular asset as appropriate. Additionally, Fitch may factor in an increased likelihood of voluntary support for non-recourse obligations for finance and leasing companies that are overly reliant on securitization as a source of funding. Voluntary support could arise as a means for the issuer to limit reputational damage and potential loss of market access to this funding source in the event of underperformance.
Covenant Compliance	Complementary	Fitch may consider covenants in credit agreements to understand covenant and security features, as these can have a bearing on a finance and leasing company's ability to conduct its business. Although technical defaults, such as a financial covenant violation, may often be waived, this usually comes at considerable expense. Therefore, a covenant breach may negatively affect Fitch's funding, liquidity and coverage assessment if it is viewed as an indicator of a material change in the entity's risk profile or financial flexibility.
Payout Ratio	Complementary	Many finance and leasing companies pay out some portion of earnings, either to a parent company or to public/private shareholders, which is a cash use. For payout ratios, Fitch focuses on combined measures, which include both dividends and net share repurchases, in order to assess the impact on liquidity.
Mortgage REIT Specifics	Complementary	Fitch typically views mortgage REITs as having weaker liquidity positions than similar finance companies that have not elected REIT status, as REITs have weaker capital retention flexibility. However, REITs that address required dividend distributions through the issuance of new shares as opposed to cash dividend payments may have stronger liquidity than REITs that pay out the majority of taxable income as cash dividends to stockholders. Based on guidelines established by the National Association of Real Estate Investment Trusts, funds from operations (FFO) for mortgage REITs are defined as net income excluding gains (or losses) from property sales, plus depreciation and amortization, plus adjustments for unconsolidated partnerships and joint ventures. Fitch compares dividends paid to stockholders with FFO for mortgage REITs. Adjustments for unconsolidated partnerships and joint ventures will be calculated to reflect FFO on the same basis. Fitch subtracts capital expenditures and excludes noncash items included in FFO to arrive at adjusted funds from operations (AFFO) for mortgage REITs and compares dividends paid to stockholders with AFFO. Although FFO and AFFO are after-interest expense measures, these measures are relevant to bondholders and preferred stockholders. Namely, if FFO or AFFO payout ratios are close to or exceed 100%, it indicates the REIT is not retaining cash flow for future liquidity to meet its fixed-charge obligations and is accessing other forms of cash flow to pay its dividends, which Fitch views negatively.

Source: Fitch.

Funding, Liquidity and Coverage Benchmarks — Finance and Leasing Companies

	aa and Above	a	bbb	bb	b and Below
Unsecured Debt/Total Debt (%)[a]	x>90	50<x≤90	35<x≤50	x≤35	x = 0
Adjusted EBITDA/Interest Expense (x)[b]	x>15	10<x≤15	6<x≤10	3<x≤6	x≤3

[a]For high balance sheet usage finance and leasing companies. [b]For low balance sheet usage finance and leasing companies.
Source: Fitch.

Funding, Liquidity and Coverage Metrics — Finance and Leasing Companies

High Balance Sheet Usage	Core Versus Complementary
Unsecured Debt/Total Debt	Core
Short-Term Debt/Total Debt	Complementary
Adjusted EBITDA/Interest Expense	Complementary
Unencumbered Assets/Unsecured Debt	Complementary
Dividends/Net Income	Complementary

Low Balance Sheet Usage	Core Versus Complementary
Adjusted EBITDA/Interest Expense	Core

Source: Fitch.

Financial Profile — Finance and Leasing Companies

	aaa	aa	a	bbb	bb	b	ccc and Below
Asset Quality	Has an unparalleled degree of stability as reflected in very low levels of impaired assets and/or minimal losses throughout economic and/or interest rate cycles. Asset-quality measures are consistently better than comparable institutions. Concentration risks are very low or effectively mitigated.	Has a very high degree of stability as reflected in low levels of impaired assets and/or low losses over multiple economic and/or interest rate cycles. Asset-quality measures are better than comparable institutions. Concentration risks are low or effectively mitigated.	Has a high degree of stability as may be reflected in modest levels of impaired assets and/or losses. Asset quality is moderately variable over economic or interest rate cycles. Asset-quality measures are likely to be modestly better than at peer institutions or less vulnerable to economic and/or interest rate cycles. Concentration risks may be modestly better than peers.	Has a degree of stability as may be reflected in average levels of impaired assets and/or losses. Asset quality measures are likely to fluctuate over economic and/or interest rate cycles. Asset-quality and/or concentration risk measures are generally in line with broad industry averages.	Has above-average levels of impaired assets and losses. Asset quality measures are likely to be more volatile in the face of changes in economic and/or interest rate cycles and generally worse or more vulnerable than broad industry averages. Concentration risks may be above average.	Has highly variable or poor asset quality, impaired assets and losses. Asset quality measures are likely to be very volatile based on changes in economic and/or interest rate cycles and generally significantly worse or more vulnerable than broad industry averages. Concentration risks may be very high.	Has or is likely to have asset-quality measures that are considerably weaker than industry benchmarks or historical norms.
Earnings and Profitability	Earnings and profitability are highly predictable throughout economic and/or interest rate cycles. Profitability measures are consistently commensurate with risk-averse nature.	Earnings and profitability are very predictable over multiple economic and interest rate cycles. Profitability measures are commensurate with very low risk but may vary modestly, although they remain generally superior to comparable institutions.	Earnings and profitability are moderately variable over economic and/or interest rate cycles. Profitability measures are commensurate with low risk but subject to variability. Profitability is generally better than industry averages.	Earnings and profitability may be variable over economic and/or interest rate cycles. Profitability measures reflect inherent risk or a highly competitive environment and can be subject to increased variability. Profitability is average relative to broad industry averages.	Earnings and profitability may be highly variable over economic and/or interest rate cycles. Profitability measures may not fully reflect inherent risk and are subject to variability. Profitability is below average relative to broad industry averages.	Earnings and profitability are volatile and highly correlated with economic and/or interest rate cycles. Profitability measures may not fully reflect inherent risk and are subject to variability. Profitability is well below average relative to broad industry averages.	May be structurally unprofitable on either a reported or operating basis. Return to break-even or sustainable profitability is highly uncertain.
Capitalization and Leverage	Capitalization is extremely strong and commensurate with risk. Capital and leverage targets incorporate ability to withstand severe asset quality and market value shocks.	Capitalization is strong and commensurate with risk. Capital and leverage targets incorporate ability to withstand significant asset quality and market value shocks.	Capitalization levels broadly commensurate with risk. Capital and leverage levels may be relatively more volatile but likely only modestly affected by severe asset quality and market value shocks.	Capital levels may not be fully commensurate with risk. Capital and leverage levels may be more vulnerable to severe asset quality and market value shocks.	Capital levels may not be fully commensurate with risk. Capital and leverage can withstand asset quality and market value shocks.	Capital levels are not commensurate with risk. Capital and leverage levels may be well below peer institutions and highly vulnerable to asset quality and market value shocks.	Capitalization and leverage have clear deficiencies that have or may require capital injections.
Funding, Liquidity and Coverage	Funding and liquidity are exceptionally stable. Minimal reliance on wholesale funding. Funding is not confidence sensitive. Funding sources are highly diverse. Funding duration significantly exceeds average maturity of portfolio assets. Funding is fully unsecured, supported by extremely robust pool of unencumbered assets. Extremely robust contingency funding plans are in place.	Funding and liquidity are very stable. Minimal reliance on short-term funding. Wholesale funding is predominantly long term with established investor appetite. Funding is relatively less confidence sensitive. Funding sources are very diverse. Funding duration exceeds average maturity of portfolio assets. Funding is predominantly unsecured, supported by a very robust pool of unencumbered assets. Very robust contingency funding plans are in place.	Funding and liquidity are stable. Wholesale funding is predominantly long term. Funding may be modestly confidence sensitive. Funding sources are relatively diverse. Funding duration is commensurate with average maturity of portfolio assets. Funding is largely unsecured, supported by a robust pool of unencumbered assets. Robust contingency funding plans are in place.	Funding and liquidity are generally stable, although there may be moderate funding concentrations. Reliance on less stable wholesale funding sources. Funding is confidence sensitive. Funding duration is commensurate with average maturity of portfolio assets. Meaningful unsecured funding component, supported by a modest pool of unencumbered assets. Reasonable contingency funding plans are in place.	Funding and liquidity are generally stable, although there may be funding concentrations. Meaningful reliance on less-stable wholesale sources of funding. Access to funding may be uncertain during periods of market stress. Funding duration may not be commensurate with average maturity of portfolio assets. Meaningful secured funding, with some encumbrance of balance sheet assets. Contingency funding plans may not be sufficient.	Funding and liquidity are less stable and may be prone to sudden changes in creditor sentiment. Access to funding during periods of market stress is very uncertain. Funding duration is not commensurate with average maturity of portfolio assets. Largely secured funding, with meaningful encumbrance of balance sheet assets. Contingent funding plans may not be well	Funding and liquidity are unstable. Funding duration is very short term. Fully secured funded and fully encumbered balance sheet. Contingent funding plans are non-existent.

Source: Fitch.

II.5.e Financial Market Infrastructure Companies

Fitch's financial profile assessment for FMIs considers the following subfactors:

- capitalization and leverage;
- funding, liquidity and coverage;
- earnings and profitability; and
- counterparty exposure.

FMI Subsector Typical Characteristics and Analytical Considerations

	Exchanges	Clearing Houses	CSDs Without Banking License	Bank-Licensed CSDs
Primary Activities	Operate marketplace to buy/sell listed financial instruments, disseminate trade info, provide market data.	Clear and settle trades executed on an exchange, perform trade comparison, act as agent, principal or guarantor on settled trades.	Settle trades, provide safekeeping/custody of securities, act as paying and transfer agent, provide recordkeeping services.	In addition to activities similar to those of CSDs without banking licenses, also take deposits from and provide overdraft credit facilities to clients.
Primary Risk(s)	Operational	Counterparty	Operational	Operational, counterparty
Degree of Balance Sheet Risk	Limited	Limited, aside from consolidated guaranty funds	Limited	Present, but often low risk
Degree of Counterparty Risk	Limited	Material	Limited	Modest
Primary Capitalization and Leverage Metric(s)	Debt/EBITDA	Debt/EBITDA, supplemented with sufficiency of guaranty fund	Debt/EBITDA	Fitch core capital to weighted risks; regulatory ratios
Primary Earnings and Profitability Metric(s)	EBITDA margin, capex/revenue	EBITDA margin, capex/revenue	EBITDA margin, capex/revenue	Operating costs relative to fees
Primary Master Rating Criteria	Non-Bank Financial Institutions Rating Criteria	Non-Bank Financial Institutions Rating Criteria	Non-Bank Financial Institutions Rating Criteria	Bank Rating Criteria

Source: Fitch.

Capitalization and Leverage — Financial Market Infrastructure Companies

Attribute	Core Versus Complementary	Description
Gross Debt/ Adjusted EBITDA	Core	Fitch primarily focuses on cash flow leverage metrics when assessing FMIs due to the low balance sheet usage of their businesses. In these cases, debt repayment is likely to be a function of cash flow generated by the business as opposed to liquidation of collateral or monetization of assets on the balance sheet. Fitch defines cash flow leverage as gross debt to adjusted EBITDA. Fitch may focus on net debt/adjusted EBITDA where cash is set aside for near-term debt service. Where applicable, Fitch may additionally assess lease adjusted debt to EBITDAR to account for material operating lease expenses. Under this approach, Fitch adjusts gross debt by adding the net present value of future lease payments, or 8.0x the current rental expense and adjusts EBITDA by adding the current rental expense.
Gross Debt/ Tangible Equity	Complementary	For clearing houses, Fitch considers cash flow leverage metrics, especially in the cases where a clearing house does not take legal ownership of margin deposits but also will review balance sheet leverage metrics, collateral margining and guarantee fund contributions relative to counterparty exposure. With respect to balance sheet leverage metrics, Fitch primarily considers gross debt to tangible equity and gross debt to FCC. As a result of consolidation and mergers and acquisitions, a substantial amount of goodwill is recorded on the balance sheets of many FMIs, which Fitch excludes when calculating balance sheet leverage metrics.
Capital Structure and Capital Expenditures	Complementary	Fitch's assessment of capital adequacy will also take into consideration a FMI's capital structure and regulatory requirements, where applicable. Fitch also considers free cash flow relative to gross debt, in order to assess cash flow leverage net of the amount of capital expenditures FMIs are making to maintain and upgrade technology platforms.
Capital Outside the Default Waterfall	Complementary	As a clearing house bears all losses that are not associated with a clearing member default, Fitch may also assess the capital available outside the waterfall to manage potential losses outside of the clearing mechanism. Such losses could include losses on margin collateral or losses/impairments associated with acquisitions.

Source: Fitch.

Capitalization and Leverage Benchmarks — Financial Market Infrastructure Companies

	aa or Above	a	bbb	bb	b or Below
Gross Debt/Adjusted EBITDA (x)	x<0.5	0.5≤x<1.5	1.5≤x<2.5	2.5≤x<3.5	x≥3.5

Source: Fitch.

Capitalization and Leverage Metrics — Financial Market Infrastructure Companies

Metric	Core Versus Complementary
Gross Debt/EBITDA	Core
Free Cash Flow/Gross Debt	Complementary
Gross Debt/Tangible Equity	Complementary
Gross Debt/Fitch Core Capital	Complementary

Source: Fitch.

Funding, Liquidity and Coverage — Financial Market Infrastructure Companies

Attribute	Core Versus Complementary	Description
Adjusted EBITDA/ Interest Expense	Core	Fitch assesses FMIs' funding, liquidity and coverage primarily on the basis of interest coverage. Where applicable, Fitch additionally assesses lease adjusted EBITDAR to interest expense to account for material operating lease expenses.
Contingent Funding Sources	Complementary	Under normal operating conditions, an exchange or CSD without a banking license has limited liquidity needs and primarily relies on operating cash flows to support capital expenditures and near-term debt maturities. Liquidity needs may be elevated during periods of stress and, as such, Fitch considers contingent funding sources such as lines of credit relative to capital expenditures and general corporate purposes. On the other hand, clearing houses have more distinct liquidity needs related to clearing and settlement functions in the event of a temporary market disruption or a clearing member or custody bank default. As such, Fitch considers the amount of contingent funding available, including access to committed credit facilities, the size of available lines, for which offered products the lines can be utilized and unrestricted cash and investment securities on the balance sheet.
Covenant Compliance	Complementary	Fitch will review a FMI's compliance with covenants (financial and negative) related to lines of credit and debt. Non-compliance with debt covenants is likely to negatively influence Fitch's funding, liquidity and coverage assessment unless the assessment already reflects a high probability of non-compliance.
Payout Ratio	Complementary	Many FMIs pay out some portion of earnings, either to a parent company or to public/private shareholders, which is a cash use. For payout ratios, Fitch focuses on combined measures, which include both dividends and net share repurchases, in order to assess the impact on liquidity.
Business Model Specifics	Complementary	Certain clearing houses take legal ownership of margin deposits. In such instances, Fitch will consider the percentage of liquid assets relative to potential outflows and the historical level and fluctuation of customer deposits when evaluating the liquidity of clearing house.

Source: Fitch.

Funding, Liquidity and Coverage Benchmark — Financial Market Infrastructure Companies

	aa and Above	a	bbb	bb	b and Below
Adjusted EBITDA / Interest Expense (x)	x>15	10<x≤15	6<x≤10	3<x≤6	x≤3

Source: Fitch.

Funding, Liquidity and Coverage Metrics — Financial Market Infrastructure Companies

Metric	Core Versus Complementary
Adjusted EBITDA/Interest Expense	Core
Unrestricted Cash and Marketable (investments) Securities/Short-Term Debt	Complementary

Source: Fitch.

Earnings and Profitability — Financial Market Infrastructure Companies

Attribute	Core Versus Complementary	Description
Adjusted EBITDA/ Total Revenues	Core	A key profitability measure for exchanges, clearing houses and CSDs without banking licenses is adjusted EBITDA margin, defined as adjusted EBITDA divided by total revenues. Fitch evaluates the reliability and variability of these margins over time to assess sensitivity to market conditions.
Earnings Stability and Diversity	Complementary	For FMIs that are not member owned, Fitch evaluates the ability to generate profits through various market cycles. Fitch considers whether revenues are highly dependent on transaction volumes (executed, cleared and/or settled), which are driven by market conditions and looks at trends with a longer term horizon. Fitch also evaluates non-transactional revenue sources such as market data and information services, which can help diversify and stabilize performance over market cycles. Fitch also evaluates revenue contributions by product and geography, revenue by asset class relative to volume (rate per contract), revenue volatility and volume volatility. Cost controls, the flexibility and variability of expenses and performance relative to peers are also reviewed by Fitch. Lastly, for those clearinghouses that take legal ownership of margin deposits, Fitch may also consider the extent to which net interest income contributes to earnings stability and diversity.
Capital Expenditures	Complementary	Fitch will consider trends in capital expenditures as a percentage of depreciation and amortization to ascertain the degree of reinvestment in the business through cycles. The magnitude of the ratio is not necessarily as important as whether it is positive (implying increased investment in the business), neutral (implying balanced reinvestment in the business) or negative (implying reduced investment in the business).
Business Model Specifics	Complementary	In analyzing the profitability of FMIs, it is necessary to ascertain whether the entity is operating as a profit-maximizing entity or not. If it is not a profit-maximizing entity (i.e. it is member-owned), the likely focus is on cost controls (maintaining low execution, clearing and/or settlement costs) and break-even results. Excess profits in the form of dividends or rebates are typically returned to owner-members. In these instances, Fitch will assess the ability of a FMI to limit payouts to its owner-members during stressed marked conditions, which could positively influence the earnings and profitability score.

Source: Fitch.

Earnings and Profitability Benchmark — Financial Market Infrastructure Companies

(%)	aa and Above	a	bbb	bb	b and Below
Adjusted EBITDA/Total Revenues	x>25	20<x≤25	15<x≤20	10<x≤15	x≤10

Source: Fitch.

Earnings and Profitability Metrics — Financial Market Infrastructure Companies

Metric	Core Versus Complementary
Adjusted EBITDA/Total Revenues	Core
Rate per Contract	Complementary
Capital Expenditure/Revenue	Complementary
Capital Expenditure/Depreciation and Amortization	Complementary

Source: Fitch.

Counterparty Exposure — Financial Market Infrastructure Companies

Attribute	Core Versus Complementary	Description
Member Concentration	Core	With respect to clearing houses, Fitch assesses clearing member concentrations and the steps the clearing house takes to monitor and minimize exposure to individual clearing members. Fitch reviews guarantee fund contributions by clearing member, top 10 counterparty exposures, guarantee fund coverage of the largest counterparty exposures and margin deposits (by asset class) compared to respective volumes.
Limits and Remediation	Complementary	Fitch also reviews clearing houses' limits for clearing members and steps taken when limits are breached.

Source: Fitch.

Financial Profile — Financial Market Infrastructure Companies

	aaa	aa	a	bbb	bb	b	ccc and Below
Capitalization and Leverage	Capitalization and leverage are extremely strong and commensurate with risk. Capitalization and leverage are maintained with very significant buffers over regulatory minimums or as compared to peer institutions. Capital and leverage targets incorporate ability to withstand severe shocks.	Capitalization and leverage are strong and commensurate with risk. Capitalization and leverage are maintained with comfortable buffers over regulatory minimums or as compared to peer institutions. Capital and leverage targets incorporate ability to withstand significant shocks.	Capitalization and leverage levels broadly commensurate with risk. Capitalization and leverage are maintained with solid buffers versus regulatory minimums and generally above peer institutions. Capital and leverage levels may be relatively more volatile but likely only modestly affected by significant asset quality and market value shocks.	Capitalization and leverage may not be fully commensurate with risk. Capitalization and leverage are maintained with satisfactory buffers over regulatory minimums and generally in line with peer institutions. Capital and leverage levels may be more vulnerable to significant shocks.	Capitalization and leverage are not fully commensurate with risk. Capitalization and leverage are maintained with moderate buffers over regulatory minimums and may be below peer institutions. Capital and leverage are highly vulnerable to significant shocks but can withstand moderate shocks.	Capitalization and leverage are not commensurate with risk. Capitalization and leverage are low, and buffers over regulatory minimums are small. Capital and leverage levels may be well below peer institutions and highly vulnerable to shocks.	Capitalization and leverage have clear deficiencies that either have or may require capital injections.
Funding, Liquidity and Coverage	Extremely strong operating cash flows and liquidity levels relative to capital expenditures, operational needs and near-term debt maturities. Lines of credit and contingent funding more than sufficient for business model and liquidity needs.	Very strong operating cash flows and liquidity levels relative to capital expenditures, operational needs and near-term debt maturities. Lines of credit and contingent funding consistent with business model and liquidity needs.	Strong operating cash flows and liquidity levels relative to capital expenditures, operational needs and near-term debt maturities. Lines of credit and contingent funding consistent with business model and liquidity needs.	Sound operating cash flows and liquidity levels relative to capital expenditures, operational needs and near-term debt maturities. Lines of credit and contingent funding are generally able to support business model and liquidity needs.	Limited operating cash flows and liquidity levels relative to capital expenditures, operational needs and near-term debt maturities. Lines of credit and contingent funding are adequate to support business model and liquidity needs.	Very limited operating cash flows and liquidity levels relative to capital expenditures, operational needs and near-term debt maturities. Lines of credit and contingent funding are minimal and may not meet liquidity needs.	No operating cash flows and liquidity levels relative to capital expenditures, operational needs and near-term debt maturities. No access to lines of credit and/or contingent funding.
Earnings and Profitability	Earnings and profitability are highly predictable throughout economic cycles. Profitability measures are commensurate with risk-averse nature and consistently superior to comparable peer institutions.	Earnings and profitability are very predictable over multiple economic cycles. Profitability measures are commensurate with very low risk but may vary modestly. Profitability measures generally superior to comparable institutions.	Earnings and profitability are moderately variable over economic cycles. Profitability measures are commensurate with low risk but subject to variability. Profitability is generally better than broad industry averages.	Earnings and profitability may be variable over economic cycles. Profitability measures reflect inherent risk or a highly competitive environment and can be subject to increased variability. Profitability is average relative to broad industry averages.	Earnings and profitability may be highly variable over economic cycles. Profitability measures may not fully reflect inherent risk and are subject to variability. Profitability is below average relative to broad industry averages.	Earnings and profitability are volatile and highly correlated with economic rate cycles. Profitability measures may not fully reflect inherent risk and are subject to variability. Profitability is well below average relative to broad industry averages.	May be structurally unprofitable on either a reported or operating basis. Return to break-even or sustainable profitability is highly uncertain.
Counterparty Exposure	Very limited clearing member concentration. Guarantee fund covers loss from the simultaneous default of at least two of its largest clearing members. Appropriate level of collateral to support margin and guarantee fund requirements. Extremely prudent investment of surplus funds and extension of credit to facilitate settlement.		Limited clearing member concentration. Guarantee fund covers loss from the simultaneous default of at least two of its largest clearing members. Appropriate level of collateral to support margin and guarantee fund requirements. Prudent investment of surplus funds and extension of credit to facilitate settlement.	Average clearing member concentration. Guarantee fund covers loss from the simultaneous default of only two of its largest clearing members. Satisfactory level of collateral to support margin and guarantee fund requirements. Less prudent investment of surplus funds and extension of credit to facilitate settlement.		Above-average clearing member concentration. Guarantee fund covers loss from default of largest clearing member. Sufficient level of collateral to support margin and guarantee fund requirements. Aggressive investment of surplus funds and extension of credit to facilitate settlement.	Significant clearing member concentration. Guarantee fund does not cover loss from the default of largest clearing member. Insufficient level of collateral to support margin and guarantee fund requirements. Very aggressive investment of surplus funds and extension of credit to facilitate settlement.

Source: Fitch.

III. Support

Unlike banks, most non-bank financial institutions do not often receive extraordinary sovereign support that allows them to continue performing on their obligations in case of failure. As indicated in Section I of this report, the most usual source of support for non-bank financial institutions is shareholders (institutional support), with support from government authorities (sovereign support) being much less common. Fitch's view of the likelihood of support being made available in case of need may be reflected in an entity's SR. Where the agency believes the most likely form of support is sovereign support, this is also reflected in the non-bank financial institution's SRF. Where there is no reasonable assumption that extraordinary sovereign support is likely for a given issuer, a SRF will not be assigned. Section III.1 below focuses on sovereign support and section III.2 focuses on institutional support.

III.1. Sovereign Support

In assessing the likelihood of extraordinary government support for a non-bank financial institution, Fitch's primary focus is usually on potential assistance from the national authorities of the country where the non-bank financial institution is domiciled. This is because it is the non-bank financial institution's national authorities that are most likely to have both an incentive to prevent the entity from defaulting and the regulatory and legal powers to intervene. However, in certain cases, Fitch also assesses the possibility of support being made available to a failing non-bank financial institution from a combination of national sovereign authorities, subnational authorities and/or international public institutions.

Sovereign support decisions for non-bank financial institutions may be more often driven by an assessment of the entity's policy role as opposed to its systemic importance, although certain non-bank financial institutions whose activities are more akin to financial utilities may have a higher potential to exhibit systemic importance.

Sovereign Ratings and Support Rating Floors

Sovereign Rating	Typical SRFs in Case of High Support Propensity
AAA, AA+	A+ to A–
AA, AA–	A or A–
A category	1–2 notches below sovereign rating
BBB category	0–2 notches below sovereign rating
BB category	0–1 notch below sovereign rating
B category and below	Equalized with sovereign rating

Source: Fitch.

III.1.1 Ability of Sovereign to Provide Support

Importance of this Assessment: For a non-bank financial institution to receive government support, the sovereign must, by definition, be both able and willing to provide it. Where the ability of the sovereign to provide support is more constrained, support will usually be less likely, resulting in lower SRs and SRFs or the absence of SRs and SRFs.

In assessing a government's ability to provide support, Fitch's starting point is the sovereign's own ratings (or potentially a Fitch Credit Opinion if the opinion is in the single 'B' rating category or lower). The sovereign rating used is almost always the sovereign in which the entity is domiciled, but could sometimes be a subnational and/or third-party sovereign with an interest in supporting the non-bank financial institution.

Key Factors in Assigning Support Rating Floors[a]

	Factor	Positive (Higher SRF)	Neutral	Negative (Lower SRF)
Sovereign Ability to Support	Size of financial system relative to economy	Small	Average	Large
	Size of potential problem	Low vulnerability of financial sector to large losses in downturn	Moderate vulnerability of financial sector to large losses in downturn	High vulnerability of financial sector to large losses in downturn
	Structure of financial system	Low concentration, ownership mainly by strong shareholders	Moderate concentration, some ownership by strong shareholders	High concentration, limited ownership by strong shareholders
	Liability structure of financial system	Predominantly long-term/stable local-currency funding	Moderate funding instability and/or foreign-currency liabilities	Considerable short-term foreign-currency funding
	Sovereign financial flexibility (for rating level)	Superior (e.g. low debt, large FX reserves and/or good market access)	Average (e.g. average debt and reserves and/or reasonable market access)	Weak (e.g. high debt, low FX reserves and/or uncertain market access)
Sovereign Propensity to Support Non-Bank Financial Institution	Systemic importance or policy role	Exceptionally high systemic importance to financial system and contagion risk; dominant market shares or highly strategic policy role	Strong significance to financial system and economy; high contagion risk or meaningful policy role	Moderate or low systemic significance, more limited contagion risk or limited policy role
	Liability structure of financial institutions	Very limited politically acceptable, if any, possibilities to bail in senior creditors	Significant foreign / wholesale funds, which could be politically acceptable to bail-in in some circumstances	High foreign/wholesale funding, which could be politically acceptable to bail-in in many scenarios
	Ownership	Strategic government ownership or private domestic owners with strong government relations.	Non-strategic government ownership or domestic owners with neither close nor difficult government relations	Foreign ownership or domestic owners with poor government relations
	Specifics of non-bank financial institution failure	N.A.	More likely to fail as a result of usual operating activities	Significant risk that failure could result from corporate governance weaknesses

[a]The factors identified in this table determine the levels of SRFs relative to the ranges indicated in the table Sovereign Ratings and Support Rating Floors. For each factor, other relevant considerations may exist that are not explicitly referenced here.
Source: Fitch.

In rare cases where Fitch does not assign a credit rating or Credit Opinion to the sovereign, Fitch will either not assign a sovereign support-driven SR/SRF (no assessment undertaken) or assign them at '5'/'No floor' (e.g., unable to reliably assess sovereign creditworthiness or sovereign ability/propensity support concerns are present). Although the sovereign's ratings reflect Fitch's view only on the likelihood of the government servicing its own debt, in practice this is usually closely correlated with its broader financial flexibility and, therefore, ability to provide support to financial institutions. Typical SRFs at each sovereign rating level are outlined in the Key Factors in Assigning Support Rating Floors table.

III.1.1 Propensity of Sovereign to Provide Support

Non-bank financial institutions are generally less likely to be deemed as systemically important as banks, especially if not integral to a country's financial system. As a result, most non-bank financial institutions are not likely to receive sovereign support. Having a policy role is a more likely reason for a non-bank financial institution to receive sovereign support, although systemic importance and interconnectedness with the financial system are other possible reasons for the sovereign to consider supporting the non-bank financial institution.

III.2. Institutional Support

Fitch's ratings of non-bank financial institution subsidiaries may or may not factor in a high probability of support from parent institutions. On one end of the spectrum, a captive finance subsidiary may be afforded a high probability of support, because its existence enhances the parent's franchise, strategic objectives and revenue growth prospects. The other end of the spectrum could be an entity that is afforded a lower probability of support because it is held primarily as a tax-advantaged investment opportunity, such as an aircraft leasing subsidiary of an insurance company.

In determining potential support for non-bank financial institution subsidiaries from parent institutions, Fitch considers the parent's ability and propensity to provide support and a subsidiary's ability to make use of parental support, as outlined in sections III.2.1 and III.2.2 below and in Annex 2.

III.2.1 Parent's Ability to Support Subsidiary and Subsidiary's Ability to Use Support

Importance of this Assessment: For a non-bank financial institution to receive shareholder support, the owner must, by definition, be both able and willing to provide it and a subsidiary must be able to make use of parental support to avoid default.

Parent IDRs: Fitch's assessment of the parent's ability to support its subsidiary starts by considering the parent's Long-Term IDRs. These ratings cap the ability of the parent to provide support, as Fitch would not expect support for a subsidiary to be forthcoming when the parent is itself in default. In addition, other factors, namely parent/group regulation and relative size, may also affect the ability of the parent to provide support.

Parent VR: In cases where the parent's Long-Term IDR is driven by potential sovereign support, such as if the parent is a bank, Fitch will consider whether this support would be allowed to flow through to subsidiaries, in particular those operating in foreign jurisdictions. In Fitch's view, parent regulators will in many cases have quite strong incentives to allow support to flow through to subsidiaries given the potential negative impact of a subsidiary default on the group's operations and reputation.

However, in cases where Fitch judges there to be significant uncertainty about support flowing through, it may increase the notching between parent and subsidiary Long-Term IDRs compared to what would usually be applied given the propensity of the parent to support. Where the agency considers there to be high uncertainty about support flowing through, it may use the parent's VR or stand-alone credit risk assessment, rather than its Long-Term IDR, as its anchor rating in assessing the parent's ability to support its subsidiary.

Where possible, Fitch may consult with representatives of the parent's regulatory authorities to form a view on whether support would flow through. In addition, many of the factors determining a parent's propensity to support a subsidiary (e.g. strategic importance, integration and ownership) will, in Fitch's view, also be likely to influence a parent regulator's decision on whether to let support flow through to the subsidiary.

Parent/Group Regulation: Aside from the issue of "sovereign support flow through," significant regulatory restrictions at the parent level, if relevant, may more generally reduce the fungibility of capital and liquidity within a group, reducing the ability of the parent to provide support to a subsidiary.

Conversely, regulatory requirements to support subsidiaries can positively influence the levels of IDRs assigned to a subsidiary, resulting in them being closely aligned to those of the parent even where propensity to support might otherwise have been low. Formal or informal agreements between parent and subsidiary regulators could also make it more likely that support would be forthcoming.

Relative Size: In cases where subsidiaries form a relatively large part of the consolidated group, the parent may find it more difficult to provide sufficient and timely extraordinary support, even in cases where its own (stand-alone) balance sheet remains relatively unimpaired. This risk will be greater where Fitch believes that different subsidiaries' needs for support are likely to be quite highly correlated, for example, because they operate in a single region. Where subsidiaries are

large relative to the consolidated group, Fitch may increase the notching between parent and subsidiary Long-Term IDRs, where the latter are driven by parental support.

Common Ratings: In some cases, where a subsidiary is very large (for example, accounting for more than 25% of group assets), the parent may not be able to support the subsidiary because its balance sheet is simply not big enough, it does not generate sufficient operating cash flow, or it does not have meaningful access to the capital markets. Furthermore, such very large subsidiaries tend to be highly integrated with their parents in terms of management, balance sheet fungibility and systems, meaning subsidiary and parent credit profiles are likely to be highly correlated. In such cases, Fitch will not base the subsidiary's ratings on support from the parent, but will instead assign 'common' ratings, to parent and subsidiary, reflecting the fact that their credit profiles cannot be meaningfully disentangled.

Both the size and integration characteristics must be met for common IDRs to be assigned. If a subsidiary is highly integrated, but relatively small and does not make a significant contribution to the group's overall credit profile, then its IDR, if assigned, will be based on either its parent rating (if parental support is believed to be forthcoming) or its own stand-alone profile (if parental support is not believed to be forthcoming). Common VRs and, hence IDRs, may also be applied to sister entities or entities in the same group, for example, under a holding company structure, when their operations are highly integrated or complementary to the functioning of the group or where regulation effectively makes entities within a group liable for each other's losses.

Country Risks: Fitch considers whether country risks in the jurisdiction of the subsidiary may limit its ability to utilize parent support to service its obligations. Where country risks are high, subsidiary ratings may be capped at levels significantly below those which would be possible based on the parent's ability and propensity to provide support. The domestic Country Ceiling, which captures transfer and convertibility risk, will almost always cap the subsidiary's Long-Term Foreign Currency IDR unless there are strong mitigating circumstances (e.g. material assets and cash flows are outside the country and available to service debt.) Broader country risks will usually prevent the subsidiary's Long-Term Foreign and LC IDRs being more than three notches above the sovereign. For more details, see Annex 2: Rating Non-Bank Financial Institutions Above the Sovereign.

III.2.2 Parent's Propensity to Support Subsidiary

Importance of this assessment: Even if a parent has the ability to provide support to a subsidiary, whether it does or not will depend on the parent's propensity to provide support. In general, Fitch believes parents that are prudentially regulated (e.g. banks or insurance companies) or whose non-bank financial institution subsidiaries support the parent's core business (e.g. captive auto lenders or institutions acting as group treasuries) are likely to exhibit a higher propensity to support non-bank financial institution subsidiaries than parents whose subsidiaries are more akin to investments driven by return, tax and/or diversification goals.

In assessing support propensity, Fitch analyzes the factors listed below *(also see the Notching of Subsidiaries table)*. In the absence of ability constraints (including country risk), a subsidiary that Fitch views as "core" will usually have ratings equalized with the parent; a subsidiary viewed as "strategically important" will usually have ratings one notch (but in some cases, two notches) lower than the parent; and a subsidiary viewed as being of "limited importance" will usually be rated at least two notches below the parent or notched up from its stand-alone rating. Where a parent has adopted a resolution plan, Fitch may review this, where possible, for indications as to whether the parent would be likely to support the subsidiary in case of need.

Role in Group: A subsidiary's role in the broader group is often a key factor in determining the parent's propensity to provide support. Where the subsidiary represents a key and integral part of the group's business, providing some of the group's core products/services to customers in core markets, the propensity to support will usually be higher than when the subsidiary has limited synergies with the parent and is not operating in a target market. In some cases, Fitch's view of the strategic importance of the market where a subsidiary operates will take into account the role of a group of subsidiaries. An example may be a small foreign subsidiary which is of limited importance by itself but is one of several subsidiaries operating in a strategically important region for the parent.

Fitch will typically rate foreign subsidiaries operating in non-core markets at least one notch below their parents. This reflects the usually somewhat lower strategic importance and integration of foreign entities, and moderately less severe contagion risk from a foreign subsidiary default, compared to that of a domestic entity. It also reflects the somewhat lower likelihood of pressure from the parent's regulator to provide support to a foreign subsidiary, as opposed to a domestic subsidiary.

On the other hand, Fitch will often equalize the ratings of a foreign subsidiary with its parent institution where the subsidiary operates in a market long regarded as core by the parent.

Potential for Disposal: Where the potential for disposal is very low, for example, because the sale of the subsidiary would significantly alter the overall shape of the group and deprive the group of a key part of its business, subsidiary ratings are more likely to be equalized with those of the parent. Where the subsidiary could be more easily separated from the group and, in particular, where the entity is already up for sale or being prepared for sale, Fitch usually views the support propensity as being less strong.

Country risks can also affect the long-term financial prospects of an overseas subsidiary and thus weaken a parent's commitment to maintaining a presence in a country. This means subsidiary ratings are usually capped no more than two notches (three notches where Fitch views the commitment as being very robust in a high sovereign stress scenario) above a sovereign IDR even if a country ceiling is higher.

Implication of Subsidiary Default: The parent institution's decision on whether to support a subsidiary will in many cases consider the near-term costs and benefits of providing (or not providing) support. Where default would constitute a huge reputational risk to the parent and could undermine its franchise or even viability, the propensity to support will often be higher than when reputational risk is limited and the direct impact on the parent will be containable.

Integration: A high level of management, operational and balance sheet integration between parent and subsidiary would usually be viewed by Fitch as underlining the parent's strategic commitment to the subsidiary and making a default of the subsidiary potentially more onerous and costly for the parent. These factors would typically result in a higher propensity to support, in the agency's view and, therefore, reduced notching or equalization of ratings between parent and subsidiary Long-Term IDRs. In particular, if the parent provides a high proportion of the subsidiary's non-equity funding, this could raise considerably the cost for the parent of the subsidiary's default and potential bankruptcy and increase the incentive to provide support.

Where the degree of integration between parent and subsidiary is very high, such that the latter operates similarly to a branch, or is effectively a booking entity, Fitch may equalize the Long-Term IDRs of parent and subsidiary or assign these within one notch of each other.

Ownership: Fitch does not usually distinguish between full and large majority (over 75%) ownership in assessing a parent's propensity to support a subsidiary. However, if a minority

owner has a relatively large (over 25%) stake, this could moderately reduce the perceived moral obligation of the parent to unilaterally support the subsidiary and might complicate and delay decisions on the provision of joint support. Therefore, Fitch will be less likely to equalize ratings where a large minority shareholder exists. Furthermore, the agency might notch twice or more, rather than once, where the stakes of majority and minority shareholders are close to parity, or where some element of competition or confrontation exists between the shareholders.

Support Track Record: A strong track record of provision of timely extraordinary support to a subsidiary (or to other subsidiaries within the group) under a broad range of stress scenarios can positively influence Fitch's assessment of a parent institution's propensity to provide support, and thus limit the notching of a subsidiary's Long-Term IDR relative to that of its parent. In addition, Fitch views positively a high level of 'ordinary' support, whereby a parent operates a subsidiary with comfortable liquidity and, in particular, capital buffers, rather than simply meeting minimum regulatory requirements. A track record of not providing support, or the absence of a track record altogether given a limited operating history, could constrain the degree of institutional support uplift.

In the event of a default by its home sovereign, the stand-alone profile of a subsidiary will probably have suffered significant impairment. Potential uplift of a subsidiary's rating above the sovereign rating of its domicile will, therefore, usually be limited because of some uncertainty that the owner's commitment to providing continued support will remain in place in a sovereign default scenario. Uplift will be usually be limited to two notches above a sovereign IDR (or three notches if Fitch views support as being very robust in a high sovereign stress scenario) even if a country ceiling is higher.

Subsidiary Performance and Prospects: A strongly performing subsidiary with generally good prospects will usually, in Fitch's view, be somewhat more likely to be supported by its parent than a subsidiary with a track record of moderate or weak performance. At the same time, the agency also takes into account that a subsidiary in need of extraordinary support has by definition suffered a sharp deterioration in its performance, which weakens the relevance of any historically strong profitability in assessing future prospects.

Branding: Where a subsidiary shares branding with its parent institution, this may signal an increased commitment to, or greater integration with, the subsidiary on the part of the parent. Common branding may also increase reputational risk for the parent in case of a subsidiary default, potentially also increasing the propensity to support.

Notching of Subsidiaries

Notching Relative to Parent Rating[a]	Core/Equalized	Strategically Important/One (or in Some Cases Two) Notches	Limited Importance/Two or More Notches[b]
Parent Ability to Support and Subsidiary's Ability to Use Support			
Parent/Group Regulation	Parent regulator and/or regulation would be likely to favor support of subsidiary by parent entity	Parent regulator/regulation is neutral for subsidiary support	Parent not regulated or parent regulator/ regulation may restrict support or capital/tax implications of support may be very onerous
Relative Size	Any required support would be immaterial relative to ability of parent to provide it	Any required support would likely be manageable relative to ability of parent to provide it	Required support could be considerable relative to ability of parent to provide it
Country Risks	N.A.	Country risks (e.g. transfer and convertibility risks) represent moderate constraint on subsidiary's ability to use parent support	Country risks (e.g. transfer and convertibility risks) represent significant constraint on subsidiary's ability to use parent support
Parent Propensity to Support			
Role in Group	Key and integral part of the group's business, provides some of group's core products/services in same jurisdiction as parent or to core market(s)	Strong synergies with parent, providing products/services in jurisdictions or markets identified as strategically important	Limited synergies with parent, not operating in target jurisdictions or markets
Potential for Disposal	Sale is very hard to conceive; disposal would noticeably alter overall shape of group	No plans to sell, although disposal would not fundamentally alter overall group franchise; country risks raise moderate doubts over long-term commitment to the subsidiary	Potential candidate for sale, or might already be up for sale; disposal would not be material for group franchise; country risks raise more material doubts over long-term commitment to the subsidiary
Implication of Subsidiary Default	Default would constitute huge reputational risk to parent, and very materially damage its franchise	High reputational risk for parent, with potential for significant negative impact on other parts of group	Reputational risk would probably be containable for parent
Integration	High level of management and operational integration; capital and funding largely fungible	Significant management independence; some operational/regulatory restrictions on transfers of capital and funding	Considerable management independence; significant operational/regulatory restrictions on transfers of capital and funding
Size of Ownership Stake	Full ownership or large majority stake (typically more than 75%)	Ownership of less than 75%, but limited influence of minority shareholder(s) on subsidiary operations	Ownership of less than 75%, and significant influence of minority shareholder(s) on subsidiary operations
Support Track Record	Support is unquestioned, reflecting high level of integration and fungibility of capital/funding	Timely and sufficient provision of support, when the need has arisen, or no prior cases of support being needed; country risks raise moderate concerns over support in a sovereign default scenario	Support has been provided with some delays, has only been moderate in volume relative to subsidiary needs or has not been observed given a limited operating history; country risks raise more material concerns over support in a sovereign default scenario
Subsidiary Performance and Prospects	Long and successful track record in supporting group objectives, which is likely to continue	Limited track record of successful operation, or moderate long-term prospects	Weak performance track record, or question marks over long-term viability of business
Branding	Shares same brand as parent	Combines parent and own branding	Subsidiary branded independently from parent
Legal Commitments	Parent has made strong legal commitment to support subsidiary	Parent has made non-binding commitment to support subsidiary	Parent has not made any legal commitment to support subsidiary
Cross-Default Clauses	Potential acceleration of parent debt provides strong incentive to prevent subsidiary default	Potential acceleration of parent debt provides moderate incentive to prevent subsidiary default	Subsidiary default would not trigger acceleration of parent debt

[a]Indicates typical differential between support-driven Long-Term IDR of subsidiary and Long-Term IDR of parent. Subsidiary could be rated higher than the level implied by parental support if it has a higher stand-alone profile or SRF. [b]Where Fitch judges support to be unlikely or highly uncertain, the Long-Term IDR of a subsidiary with limited importance may be based solely on its stand-alone strength, or may be notched up from a rating level commensurate with its stand-alone strength.
Source: Fitch.

Legal Commitments: In rare cases, a subsidiary may be incorporated with unlimited liability, creating a clear legal obligation for the parent institution to provide support. In such cases, Fitch would be likely to equalize the Long-Term IDRs of subsidiary and parent, unless there were constraints arising from country risks. An unconditional and irrevocable guarantee, which contains specific third-party beneficiary language, and permits subsidiary creditors to press claims against the guarantor in the event of default by the subsidiary, would also serve to create a floor for the IDR of the subsidiary and/or its guaranteed debt at the same level as the guarantor.

A formal support agreement entered into by the parent entity, for example, to maintain capital and liquidity requirements of a non-bank financial institution subsidiary above a defined threshold, will be regarded as moderately positive for subsidiary ratings. However, although certain support agreements are legally binding while in force, they are usually revocable and can also be withdrawn if the subsidiary is divested, meaning they will typically provide very limited uplift, if any, for a subsidiary's ratings.

Non-binding commitments from parents to support subsidiaries, such as public management comfort letters (for example, in bond prospectuses), strategic statements (for example, in annual reports) or letters lodged with subsidiary regulators, add some value to the rating process by defining management's intent and potentially providing a stronger moral obligation on the part of the parent to provide support to the subsidiary. However, as such non-binding commitments are not enforceable, they generally have limited direct bearing on rating decisions in and of themselves.

Cross-Default Clauses: Cross-default clauses in parent funding agreements may specify that a subsidiary default will constitute an event of default on parent obligations, thereby granting acceleration rights to parent creditors. While this creates no obligation for the parent to support the subsidiary, it may create a significant incentive to do so, raising the propensity to provide support. The strength of this incentive will depend, among other things, on the volume of obligations potentially subject to acceleration, whether the terms of the acceleration would be attractive to creditors and hence be taken up (for example, whether the redemption price would be above or below the current market price) and whether creditors might waive their acceleration rights, perhaps for a fee.

Level of Parent IDRs: Where the parent institution's Long-Term IDR is at a low, speculative-grade level (typically in the 'B' range or below), Fitch is more likely to equalize parent and subsidiary Long-Term IDRs. This reflects the fact at the lower end of the rating scale the difference in default risk between successive rating notches becomes greater and so it may be appropriate to assign a parent and subsidiary with relatively little risk differential the same levels of Long-Term IDRs.

Non-Bank Parent Companies: The propensity and ability of corporate and insurance parents to support non-bank financial institution subsidiaries is assessed using similar principles as for bank parents. The relative size of the parent and subsidiary, the parent's creditworthiness and financial flexibility and the importance of the subsidiary to the core business of the parent will be relevant considerations. In general, Fitch believes parent companies that are prudentially regulated (e.g. insurance companies) or whose non-bank financial institution subsidiaries support the parent's core business (e.g. captive auto lenders or finance subsidiaries acting as group treasuries) are likely to have a higher propensity to support non-bank financial institution subsidiaries than corporate parent companies whose subsidiaries are more akin to investments, driven by return, tax and/or diversification goals.

Support from Sister Entities: Fitch may factor support from sister entities, as well as parent institutions, into non-bank financial institution ratings, where it believes this potential support to be strong. However, in assessing this potential support, Fitch will consider in particular: (i) whether the sister company's propensity to support could be materially weaker because it does not hold a stake and, therefore, would not suffer any direct balance sheet impairment as a result of the rated entity's bankruptcy; and (ii) whether the regulator of the sister institution may seek to restrict support to safeguard the solvency of the former.

Subnational Governments: Sometimes Fitch views potential support from federal, state or other subnational (regional, municipal or local) authorities as sufficiently strong to drive a non-bank financial institution's IDR. Fitch usually treats this as a form of institutional support and, therefore, typically does not assign SRFs based on support from a subnational. However, in exceptional cases, for example, when the subnational itself benefits from a robust and tested framework of integration and support at the national level, Fitch may also assign a SRF based on subnational support.

In Fitch's view, it is very unlikely that a subnational would seek to provide support to a non-bank financial institution subsector in its entirety, and so the agency's assessment of support will focus on the subnational's ability and propensity to support specific institutions. In assessing a subnational's ability to support, the following additional considerations will apply in respect to some of the factors listed in the Notching of Subsidiaries table.

Relative Size: Fitch will consider the overall financial flexibility of the subnational government (to the extent that this may be somewhat greater or lower than suggested by its ratings), including the size of its budget, available liquidity and ability to raise additional debt, if required.

Role in Group: Fitch will consider the existence of any special relationship between the subnational and the non-bank financial institution (e.g. the non-bank financial institution has an important policy role or agency function in the region).

Implication of Subsidiary Default: Fitch will consider the systemic importance of the non-bank financial institution to the regional financial system and economy as a whole (as measured, for example, by its shares of loans in the region).

Domestic Presence: Ratings based on subnational support are more likely where a non-bank financial institution has a strong presence in its home region but limited operations in the rest of the country or internationally.

Changes in Support Propensity and Sale of Subsidiary

Based on changes in circumstances, Fitch may change its view on a parent's propensity to support a given subsidiary. In some cases, for example, if Fitch were to perceive a sharp change in a subsidiary's role in the group, the potential change in a subsidiary's Support Rating and IDR could be significant (e.g. by multiple notches).

Gradual Trend: If Fitch believes that a parent's propensity to support a given subsidiary is gradually changing, whether because of changes in strategic importance or due to other factors listed above, Fitch may change the Rating Outlook on the subsidiary's Long-Term IDR (assuming it is support-driven), and the revised Rating Outlook could be different to that on the parent's Long-Term IDR. For example, if a parent has a Stable Rating Outlook, but Fitch believes a core FI subsidiary is becoming less important to the group, Fitch could change the Rating Outlook on the subsidiary to Negative to indicate the potential change in rating associated with its lessening strategic importance. Conversely, a gradual increase in a subsidiary's strategic importance could result in its Long-Term IDR having a Positive Rating Outlook while the Rating Outlook on the parent's Long-Term IDR is Stable.

Sale Risk: Fitch does not explicitly capture sale risk in its ratings, prior to a formal announcement that a subsidiary is to be sold or is up for sale. However, in the agency's view, there is usually a close correlation between a subsidiary's strategic importance and the likelihood of it being sold. Sale risk should therefore usually be low in cases where a subsidiary's Long-Term IDR is equalized with, or within one notch of, that of its parent.

Sale Announced, Buyer not Identified: If a parent announces that a subsidiary is up for sale without a buyer yet being identified or that management is exploring strategic alternatives with respect to the entity or if, for example, a regulator requires that a parent divest a subsidiary, then Fitch will reassess the parent's propensity to provide support to the entity concerned. If the agency believes the strategic importance of the subsidiary has reduced, such that the parent will have a lower propensity to provide support prior to the sale, or in case a sale does not go through, the Long-Term IDR of the subsidiary may be downgraded. If Fitch believes there is a significant probability a sale will take place, the ratings of the subsidiary are also likely to be placed on Rating Watch.

In taking rating actions following a sale announcement, Fitch will also consider whether a relatively narrow group of highly-rated potential acquirers has already been identified. In such cases, the risk of the subsidiary's Long-Term IDR being downgraded may be limited, and the ratings may therefore be maintained at their former levels even when Fitch believes the subsidiary has become less strategically important for its current parent.

Conversely, if Fitch believes that a subsidiary will most likely be sold to an entity with a much lower rating than the current parent, then the subsidiary's Long-Term IDR may be downgraded immediately following the announcement concerning the potential sale. This may be the case, for example, when a highly rated parent is exiting an emerging market and Fitch believes that local, more lowly rated entities are more likely acquirers than other highly rated foreign entities.

Sale Announced, Buyer Identified: If a parent announces that it has reached an agreement to sell a subsidiary to a specific buyer, and, in Fitch's view the probability of support from the new buyer differs from that of the current owner (with the potential to affect the subsidiary's Long-Term IDR), then Fitch will place the subsidiary's Long-Term IDR on Rating Watch. The Rating Watch may be Positive, Negative or Evolving, depending on the potential impact of support from the new owner on the rating.

If the Long-Term IDR is likely to be downgraded following the sale, and if Fitch believes the current owner would have a materially lower propensity to support the subsidiary should the sale not go through for any reason — i.e. in all likely scenarios the ratings will be downgraded — then it may downgrade the IDR immediately following the announcement. If Fitch believes that the sale could also result in material changes in the subsidiary's stand-alone profile, e.g. because of the loss of 'ordinary support' or because of changes in strategy, then its stand-alone credit profile may also be adversely affected.

Upon completion of the sale, or earlier if appropriate, Fitch will resolve the Rating Watch on the IDR based on its assessment of the probability of support from the new owner.

IV. Issue Ratings

As indicated in section I.6 of this report, issue ratings of non-bank financial institutions, like those of other corporate finance sectors, incorporate an assessment both of the likelihood of default (or of non-performance risk in the case of subordinated/hybrid securities) on the specific obligation and of potential recoveries for creditors in case of default/non-performance. This section outlines how Fitch assesses default/non-performance risks and recovery prospects on different types of non-bank financial institution securities and how this is factored into long-term ratings and RRs assigned to issues.

IV.1 Short-Term Debt

Short-Term IDRs are almost always assigned in accordance with a correspondence table between Long-Term and Short-Term IDRs *(see the Rating Correspondence table)*. Where the Long-Term IDR can correspond to either of two Short-Term IDRs, the Short-Term IDR will usually be determined based primarily on the strength of the issuer's liquidity profile.

Key rating elements regarding a non-bank financial institution's liquidity profile include:

- a review of the non-bank financial institution's liquidity profile, liquidity management and alternative funding sources;
- available liquid assets;
- sources and maturity profiles of backup liquidity;
- credit quality of liquidity providers; and
- conditions precedent to drawing upon liquidity sources.

If a non-bank financial institution's CP funding does not match its normal asset conversion cycle or operational free cash flow, the issuer must seek to refund CP notes already in the market, either with the issuance of new CP notes or long-term bonds or by accessing committed, CP-specific or general corporate purpose bank lines that enable same-day funding. If the issuer does not have such immediate funding, the company may not be able to repay maturing obligations. As such, Fitch considers backup liquidity for outstanding CP and other short-term debt obligations an important element in assigning instrument-level ratings, as well as an element in assessing the LT IDR.

Liquidity backup is either adequate or inadequate. More than adequate liquidity backup does not justify a higher short-term credit rating. On the other hand, when CP is explicitly enhanced, such as if it is backed by a direct-pay line of credit or similar form of guarantee, the ultimate CP rating will be the higher of the direct-pay line of credit or similar credit enhancement or the short-term rating of the issuer itself.

Fitch typically expects investment-grade-rated CP issuers to have full (100%) liquidity backup available for its outstanding CP and other short-term obligations, regardless of the credit rating of the entity. Backup liquidity may not only be in the form of bank commitments but may also include cash or marketable securities, expected operational cash flow sources, tangible parental support or other alternative forms of liquidity support depending on how reliable these sources may be.

If the majority of backup facilities are maturing in one year or less, the CP issuer is exposed to non-renewal risk, since some banks may be unwilling to renew their maturing commitments. For issuers with substantial amounts of CP outstanding, the need for multiyear liquidity backup is even more important. Companies with multiple long-term backup facilities can reduce non-renewal risk by having tiered maturities.

IV.2 Senior Unsecured Obligations

IV.2.1 Overview

Ratings of senior unsecured obligations are usually assigned in line with a non-bank financial institution's Long-Term IDR, because:

- Fitch almost always views the likelihood of default on any given senior unsecured obligation as the same as the likelihood of default of the non-bank financial institution (as reflected by the Long-Term IDR) because default on any material class of senior unsecured obligations would be treated by Fitch as a default of the entity.
- Fitch usually treats senior unsecured obligations of non-bank financial institutions as having average recovery prospects. In view of the high uncertainty regarding what a non-bank financial institution's balance sheet will look like upon default, Fitch requires a high burden of proof to notch senior debt upwards or downwards based on recovery prospects. RRs on non-bank financial institutions' senior unsecured debt, where assigned, are therefore usually 'RR4', consistent with an average recovery rate of 31%–50%.

Nevertheless, in the circumstances outlined below, senior unsecured issue ratings may be assigned at levels below, or above, the non-bank financial institution's Long-Term IDR:

Weak Recovery Prospects, Lower Issue Rating: In some cases in which an issuer has substantial levels of secured borrowings, Fitch may view a senior unsecured issue as having weaker-than-average recovery prospects, resulting in it being assigned an issue rating below the Long-Term IDR. This may be because of general concerns about the quality of a non-bank financial institution's assets, potentially impairing recovery prospects for all creditors in case of default. Or it may be driven by specific concerns related to the non-bank financial institution's funding structure; for example, very high levels of balance sheet encumbrance or very deep subordination of senior unsecured creditors in the liability structure.

Secured funding has historically been a cost efficient method for funding non-bank financial institution assets. Therefore, unsecured debt may be a very small part of the capital structure and may be rated one-notch below the Long-Term IDR until it accounts for a meaningful part of the funding mix.

Strong Recovery Prospects, Higher Issue Rating: Fitch will not usually rate senior unsecured liabilities higher than the non-bank financial institution's Long-Term IDR because of high uncertainty in assessing recovery prospects. An example might be when an entity is closer to default and there is greater visibility on recovery prospects for senior unsecured creditors.

Higher Default Risk, Lower Rating: In rare cases, Fitch may take the view that a non-bank financial institution may selectively default on certain senior unsecured obligations, but that such a default would not indicate the uncured failure of the entity because of the specific circumstances of the default, usually relating to some form of regulatory intervention and/or because the obligations in question do not comprise a significant part of the overall funding base. In such a case, the issue ratings may reflect the specific selective default risk relating to the instruments concerned, while the Long-Term IDR will continue to reflect the risk of default on the bulk of the issuer's senior liabilities.

Lower Default Risk, Higher Rating: In exceptional circumstances Fitch may rate certain senior unsecured obligations higher than the obligor's Long-Term IDR because the agency believes default on the securities is less likely than on other reference obligations to which the IDRs rate.

Substitution and Variation Clauses: Periodically, senior debt securities include clauses that permit the contractual terms of the securities to be varied or the securities themselves to be substituted with new securities. Such clauses may be at an issuer's discretion, subject to approval by a trustee, etc.

Fitch assesses whether such clauses should affect a bond's rating on a case-by-case basis. Where both the probability of variation or substitution is considered high and there is a high degree of clarity over the form of the substitution/variation securities, Fitch will rate to the terms of the likely substitution or variation securities.

IV.2.2 Recovery Rating Analysis

Where a non-bank financial institution has a Long-Term IDR of 'B+' or below, Fitch typically assigns a RR to the entity's issues rated on the long-term scale based on a bespoke recovery analysis. RRs provide greater transparency on the recovery component of Fitch's assessment of the credit risk of lowly rated issuers' securities, based on a scale ranging from 'RR1' for the strongest recovery prospects to 'RR6' for poor recovery prospects, as per the table below. However, when insufficient data are available or the potential recovery outcome is highly variable, Fitch would not assign a RR.

Credit ratings for the obligations of issuers rated between 'AAA' and 'BB–' for the most part take aggregate recoveries on the defaulted bond market as a whole into consideration, as per the Notching Guidance for 'BB–' and Above Rated Issuers table. Instruments of a particular priority and security position will be assigned credit ratings that reflect the average recoveries expected to be received by such an instrument in the event of a default. Fitch does not typically conduct bespoke recovery analysis for such obligations as they are so far from default that assumptions that might be used for the analysis of a default scenario could be too speculative to be of added value.

Recovery Rating Scale

Rating	Recovery Prospects Given Default	Typical Historical Recoveries (%)	Notching of Issue Rating[a]
RR1	Outstanding	91–100	3
RR2	Superior	71–90	2
RR3	Good	51–70	1
RR4	Average	31–50	0
RR5	Below Average	11–30	(1)
RR6	Poor	0–10	(2)

Click here for full descriptions of each rating. [a]Relative to level of non-performance risk. As outlined in the 'Strong Recovery Prospects, Higher Issue Rating' sub-section of IV.2.1, it is exceptionally rare for Fitch to notch up senior unsecured debt for recovery reasons.
Source: Fitch.

At any rating level where the bespoke recovery approach is not used, Fitch can denote contractual or structural subordination that is detrimental to the unsecured debt by rating it lower than the IDR. This can potentially be the case where there are large proportions of secured debt relative to total debt, particularly where leverage is relatively high, or where a portion of debt is structurally removed from the operations and, therefore, relies on dividend flows for debt servicing. Forms of subordination can also include lower levels of guarantees from group entities for a particular tranche of debt.

Where IDRs have transitioned from the 'B' rating category to the 'BB' rating category, at which rating levels RRs are no longer assigned, existing debt instruments previously benefiting from RRs of 'RR2' and 'RR1' under the bespoke analysis may stay at their previous rating levels notwithstanding the IDR being upgraded, if warranted. This may be the case if the capital

structure contains a large component of higher-ranking debt. A 'BB+' rated instrument is unlikely to be upgraded to 'BBB–' until the IDR is 'BB+', unless superior recoveries are expected.

Conversely, should an IDR migrate from 'BB–' or above to the 'B' rating category where bespoke recovery analysis is undertaken, Fitch may position ratings assigned to secured and unsecured tranches of debt by undertaking recovery analysis so that an upgrade of the instrument rating does not occur when the IDR is downgraded.

Instrument Ratings for Combinations of IDRs and RRs

	Long-Term IDR							
Recovery Rating	**B+**	**B**	**B–**	**CCC+**	**CCC**	**CCC-**	**CC**	**C/RD/D**
RR1	BB+	BB	BB–	B+	B	B–	CCC+	CCC
RR2	BB	BB–	B+	B	B–	CCC+	CCC	CCC–
RR3	BB–	B+	B	B–	CCC+	CCC	CCC-	CC
RR4	B+	B	B–	CCC+	CCC	CCC-	CC	C
RR5	B	B–	CCC+	CCC	CCC-	CC	C	C
RR6	B–	CCC+	CCC	CCC–	CC	C	C	C

Note: Assumes no incremental non-performance risk in instrument rating relative to the IDR. As outlined in the 'Strong Recovery Prospects, Higher Issue Rating' sub-section of IV.2.1, it is exceptionally rare for Fitch to notch up senior unsecured debt for recovery reasons.
Source: Fitch.

How Recovery Ratings Are Determined

Fitch first determines the likelihood of default/non-performance by an issuer, which it measures on the long-term 'AAA' rating scale. Fitch then arrives at the issue rating as a function of its recovery prospects in case of default/non-performance. As per the table below, where recovery prospects are viewed as average, the issue rating will be in line with the assessment of default/non-performance risk. If the agency views the instrument as having above- or below-average recovery prospects, for example as a function of leverage, funding mix and stressed valuation, Fitch may adjust upwards or downwards, respectively, from the default/non-performance risk to arrive at the issue rating. The extent of potential upward/downward adjustment of the issue rating based on the instrument's recovery prospects is shown in the table below.

Notching Guidance for 'BB–' and Above Rated Issuers

	Investment Grade		High Speculative Grade 'BB+' to 'BB–'	
Notches from IDR	**Secured Debt**	**Unsecured Debt**	**Secured Debt**	**Unsecured Debt**
3				
2				
1	Notched by +0 to +1	At average recoveries: +0 Notch. At below average recoveries +0 to -1 notches	Notched by +0 and +3, but capped at 'BBB-'	Low levels of secured debt: +0 to +1 Notch
+0				
-1		Subordinated debt: -0 to -2 notches		Unsecured and/or subordinated with secured debt: -0 to -2 notches
-2				

Source: Fitch

Valuation Methods Used

The valuation methods Fitch typically applies for deriving the RR of issuances by non-bank financial institutions include the liquidation value (LV) approach and the going-concern (GC) approach. The choice of valuation techniques employed may be influenced by common practice for specific non-bank financial institution segments, the issuer's ownership status, the

make-up of multi-entity groups and applicable insolvency regimes. If Fitch believes either the LV or GC approach is not applicable in the case of default of a given entity, the agency may opt to only undertake recovery analysis using one valuation method.

For subsectors with high balance sheet usage there tends to be a bias toward the LV approach in Fitch's analysis, possibly supplemented with a stressed NAV or net book value calculation. For subsectors with low balance sheet usage, Fitch will also typically conduct the LV approach, but it is more common for the GC approach to be used.

Where Fitch analyzes both methods, it may opt for the one that results in the higher enterprise value, consistent with the practice of creditors seeking to maximize firm value under bankruptcy proceedings. The table below shows the valuation methods and multiples typically used by Fitch by main subsector.

Valuation Method by Non-Bank Financial Institution Segment

NBFI Subsector	Liquidation Approach Typically Applied?	Going Concern Approach Applied When Relevant (Typical Multiple Range)
Securities Firms		
Cash Flow Business Model	Yes	Stressed Adjusted EBITDA multiple (5.0x–10x)
Balance Sheet Business Model	Yes	Stressed tangible book multiple (0.3x–1.5x)
Investment Managers		
Cash Flow Business Model	Yes	Stressed Adjusted EBITDA multiple (4.0x–10x)
Balance Sheet Business Model	Yes	Stressed NAV (0.5x–1.0x)
Business Development Companies	Yes	Stressed NAV (0.5x–1.0x)
Finance and Leasing Companies		
Cash Flow Business Model	Yes	Stressed Adjusted EBITDA multiple (4.0x–10x)
Balance Sheet Business Model	Yes	Stressed tangible book multiple (0.3x–1.5x)
Financial Market Infrastructure Companies		
Exchanges, CCPs and Non-Bank CSDs	Yes	Stressed Adjusted EBITDA Multiple (5.0x–10.0x)

Source: Fitch.

In deriving a consolidated enterprise value, Fitch may separate an entity's operating units by segment or by region to distinctly apply the most relevant valuation method to the various components.

Liquidation Approach

For non-bank financial institutions rated 'B+' or below that would likely be liquidated upon default, Fitch typically conducts a break-up analysis of their balance sheet to assess potential recoveries for creditors. This may involve an elimination of at least a portion of existing cash balances, reflecting their likely utilization under stress. In most cases, Fitch will deduct common equity from total assets to reflect an expectation that the institution will have exhausted its capital base in the event of a default.

Under the LV approach, Fitch applies haircuts to the remaining assets to reflect Fitch's expectation that these assets would likely be sold for less than book value in a liquidation scenario. Fitch then allocates the cash generated by asset sales to the creditors, based on the expected priority of claims.

Assets consolidated on balance sheets but assigned directly to specific creditors of the institution will generally be excluded from the calculation. Similarly, assets still on balance sheet but pledged to support securitization issues will be excluded from recovery calculations,

to the extent excess collateral is not present and receivers would lack the ability to control related assets. Deferred tax assets are typically not given any credit.

Haircuts applied can vary significantly by business model, asset class and region, among other factors, and Fitch will assess this on a case-by-case basis. By way of guidance, the table below reflects typical discount ranges for a number of broad asset classes that are often found on the balance sheets of asset-heavy non-bank financial institutions.

Asset Haircuts[a]

Asset	Characteristics	Discount (%)
Cash And Equivalents	No risk, adjustment may be made to reflect expected balance at default	0–50
Fixed Income Securities	Variability in risk and liquidity	5–75+
Equities	Variability in liquidity and volatility	15–100
Tangible Fixed Assets	Variability in liquidity and volatility	15–75+
Mortgage Lending	Low risk if first charge, higher risk if second charge; variable liquidity	5–40
Unsecured Personal Lending	High risk	25–50+
Associates and JVs	Illiquid and variable value	20–60
Intangible Assets[b]	Illiquid and questionable value in distress	70–100

[a]For assets purchased at a significant discount (e.g. in the case of debt purchasers), Fitch will typically apply a haircut at the lower end of the indicated range to reflect more limited additional write-down risk in a stressed scenario. [b]For non-bank financial institutions with sizable balance sheet-light subsidiaries (that could be sold as a going concern in their entirety), haircuts on intangibles might be at the lower end of the cited 70% to 100% range.
Source: Fitch.

Going Concern Approach

The GC approach involves a two-step process:

- Estimate the level of post-default earnings, typically adjusted EBITDA, upon which to base the valuation.
- Apply a conservative valuation multiple reflecting a company's relative position within its sector based on actual or expected market and/or distressed multiples. Where no statistically significant sample of market transactions is available, analysts will seek out near-proxy sectors or make assumptions based on general trends for distressed market transactions.

Valuation multiple ranges provided in the Valuation Method by Non-Bank Financial Institution Segment table are purposefully broad for the various subsectors. The actual multiple that is applied in the recovery analysis will be dependent upon a review of then-current market conditions and an assessment of valuation multiples applied to similar market transactions around the time of the analysis.

For some non-bank financial institutions segments, Fitch may apply additional segment-specific valuation approaches. For example, for investment managers Fitch may consider valuation as percentage of stressed AUM in addition to an adjusted EBITDA multiple approach. For mortgage REITs, Fitch considers stressed values based on the criteria reports "U.S. and Canadian Multiborrower CMBS Rating Criteria" and "Structured Finance CDOs Surveillance Rating Criteria," in addition to an adjusted EBITDA multiple approach.

Estimating Creditor Claims

In an effort to estimate creditor claims Fitch's analysis takes into consideration:

- **Revolving Claims:** Fitch assumes that unused portions of committed lines of credit (secured or unsecured), revolving credit facilities and letter of credit commitments are fully drawn to the extent permitted. Greater judgment is exercised for facilities, which can only be drawn for specific uses, such as those designated for use for acquisitions and capital expenditures. Fitch will assess the extent to which such drawings may also give rise to

additional recoverable assets according to the purposes for which these credit lines are typically utilized.

- **Priority Administrative Claims:** These typically range between 2% and 10% of distressed enterprise value, depending on country, institution size and complexity.
- **Lease Rejection Claims:** Where lease rejection claims have been made, Fitch assesses the ability of the issuer to rationalize leases in a default scenario and notes that under the GC approach a certain level must typically be maintained, while under the LV approach 100% of non-residential leases are typically deemed rejected. The value of rejected leases is calculated consistent with the bankruptcy code applicable in each jurisdiction, where such concepts exist.
- **Concession Assumption:** The value distributed to senior unsecured creditors may be reduced by an amount that is redistributed to junior claimants to secure their approval of the plan of reorganization or liquidation. The amount of such concession payments is highly dependent on circumstances.
- **Pension and Other Post-Employment Benefit Obligations:** Underfunded pension plans and other post-employment benefit claims can be significant claims on the bankruptcy estate, although the claims may vary in priority depending on jurisdiction and issuer-specific intercreditor agreements.
- **Other Claims:** Other non-debt and contingent claims, including material lawsuits and contingent liabilities (and guarantees) may be considered, where these are particularly pertinent to an institution.
- **Related-Party Funding:** Where a non-bank financial institution has a large amount of related-party funding, Fitch will consider whether related-party creditors would be likely to effectively become senior to creditors by withdrawing their funds prior to default.

Fitch's recovery analysis typically takes a legal waterfall approach. However, application of value is not only affected by relative priority of instruments for a particular issuer but also by organizational structure. Absent a specific legal or regulatory construct to the contrary, Fitch will assume creditors of specific legal entities have a priority claim on assets of that entity relative to creditors of affiliates and related entities. In instances where there are multiple entities in a group, Fitch may establish valuation and claims at the entity level and consider the residual values available for creditors of parent or affiliated entities.

In this context, Fitch will generally use an entity's unconsolidated balance sheet as the basis for its recovery calculations. Factors that may partially offset the effect of structural subordination include the presence of upstream guarantees and intercompany obligations owed by the subsidiary to the parent. Cross-border complexities may add conservatism to the analysis of recoveries for non-bank financial institutions that operate internationally.

Fitch acknowledges that an analysis based on the LV or GC approach requires a large number of important assumptions concerning the structure of an issuer's financial profile upon default. In view of these assumptions, the agency will not necessarily map expected recoveries to corresponding RRs and long-term issue ratings. Instead, Fitch may increase or reduce the RRs suggested by the valuation and notching approaches, depending on the sensitivities of expected recoveries to small changes in assumptions, pending events, contractual terms within specific instruments, scope of collateral or views about the operating environment of a particular company.

Fitch's recovery analysis does not attempt to capture the full spectrum of possibly conflicting motivations for creditors or the speed with which such motivations can change. Fitch would not assign RRs where it believes available information to be insufficient or the outcome of the analysis to be particularly unpredictable.

Fitch has provided country caps for RRs to encompass the creditor-friendliness (or otherwise) of jurisdictions and enforceability of security in the event of a default (see the criteria report "Exposure Draft: Country-Specific Treatment of Recovery Ratings Criteria"). These caps permit the compression of senior and junior obligations where jurisdictional or other structural features indicate that this is warranted. Fitch will endeavor to explain findings from its issuer-specific recovery analysis in its research.

IV.3 Subordinated and Hybrid Securities

Typically speaking, subordinated and hybrid instruments issued by non-bank financial institutions will follow the ratings approach and potential equity credit methodology outlined in the criteria report "Non-Financial Corporates Hybrids Treatment and Notching Criteria" (for traditional subordinated debt and hybrid securities) or the "Corporate Rating Criteria" (for shareholder loans). In instances in which such instruments are determined not to qualify as debt per the "Non-Financial Corporates Hybrids Treatment and Notching Criteria or Corporate Rating," Fitch will typically afford 100% equity credit for such instruments if balance sheet capitalization metrics are relevant to the analysis of the issuing entity.

If a subordinated or hybrid instrument is issued by a non-bank financial institution prudentially regulated under a similar framework as banks, the ratings approach will follow the rationale outlined in the "Bank Rating Criteria." If a subordinated or hybrid instrument is issued by a policy institution or other entity with some form of government sponsorship, linkage or ownership, the ratings approach will follow the rationale outlined in the "Bank Rating Criteria." If a subordinated or hybrid instrument is issued by a non-bank financial institution prudentially regulated under a similar framework as insurance companies, the ratings approach will follow the rationale outlined in the criteria report "Insurance Rating Criteria."

Determining Ratings and Potential Equity Credit for Subordinated and Hybrid Securities Issued by Non-Bank Financial Institutions

Issuer Type	Applicable Criteria
Traditional non-bank financial institutions (i.e. does not fall under one of the three categories outlined below)	Non-Financial Corporates Hybrids Treatment and Notching Criteria (for traditional subordinated debt and hybrid securities) or Corporate Rating Criteria (for shareholder loans)
Non-bank financial institutions prudentially regulated under a similar framework as banks	Bank Rating Criteria
Non-bank policy institution or other entity with some form of government sponsorship, linkage or ownership	Bank Rating Criteria
Non-bank financial institution prudentially regulated under a similar framework as insurance companies	Insurance Rating Criteria

Source: Fitch.

IV.4 Guaranteed and Secured Debt

Fitch usually rates fully guaranteed debt (or debt that Fitch deems to be exposed to an equivalent degree of credit risk as guaranteed debt) in line with the senior unsecured debt of the guarantor (if this is higher than the unsecured debt rating of the non-bank financial institution issuer). Equalization of the guaranteed debt rating with the senior unsecured rating of the guarantor will depend on the guarantee ranking equally with the guarantor's senior unsecured debt, the jurisdiction of the guarantee being acceptable to Fitch at the rating level, its enforceability, timeliness and/or expectations that the guarantor will honor the guarantee. A non-bank financial institution's debt benefiting from a guarantee that ranks equally with the guarantor's subordinated obligations is usually rated in line with the subordinated debt of the

guarantor. In cases where the above conditions for equalization with the guarantor's rating are not met, Fitch will usually rate such obligations in line with the issuer's debt ratings.

In cases where Fitch has sufficient information to analyze and monitor the underlying collateral, it will rate long-term secured obligations of non-bank financial institutions, particularly those with relatively straightforward structures, using the default risk/recovery prospects approach outlined in the Notching Guidance for 'BB–' and Above Rated Issuers table. Issues with more complex forms of structural enhancement, e.g. securitizations, covered bonds and partially guaranteed obligations, are usually rated by Fitch's Structured Finance, Covered Bonds or Fund and Asset Manager group, respectively, based on separate criteria.

Ratings of non-bank financial institutions' short-term obligations are based solely on the issues' default risk and so do not take account of structural enhancements that may improve recoveries in case of default.

IV.5 Market-Linked Notes

Some non-bank financial institutions issue or guarantee securities that return amounts referenced to a market risk essentially independent of the issuer's/guarantor's own creditworthiness (sometimes referred to as market-linked notes or MLNs). In some cases, only the coupon stream references the market risk (referred to as principal-protected notes) and, in others, both the coupon stream and principal repayment are driven by the reference market risk (referred to as non-principal-protected notes). MLNs may reference a very broad array of risks, most commonly related to equities, currencies and commodities and are often structured in response to reverse inquiries.

MLN ratings are aligned with the ratings of a given issuer or guarantor's traditional debt instruments of an equivalent seniority (senior debt, preferred senior debt, etc.). Ratings are assigned by Fitch only when the principal is protected and solely address the credit risk of the issuer or guarantor. Coupon risk unrelated to the issuer or guarantor's credit risk is thus excluded from MLN ratings. Dual currency notes may be rated provided they can or will be settled in an equivalent amount of a second currency.

Fitch does not rate notes whose risk of principal return is unrelated to the issuer's credit risk. Consequently, for the avoidance of doubt, Fitch will not rate credit-linked notes, which reference the credit risk of a third party or basket of third parties, under this criteria. These notes may be rated by Fitch's Structured Finance Group.

IV.6 Debt Issuance Distinctions Between Holding Companies and Non-Bank-Financial Institution Operating Subsidiaries

When rating debt instruments that are structurally subordinated to other debt instruments within a group structure, for example debt issued by a holding company or debt-issuing vehicle, Fitch will assess the strategic, operational or legal links between the different elements in the structure.

If Fitch's analysis determines that such debt is sufficiently isolated from the remainder of the group, failure to service it may have limited implications for the creditworthiness of the operating subsidiaries. Fitch's analysis will still start with an assessment of the operating subsidiaries' credit profiles. However, this analysis will likely be supplemented by an assessment of the stand-alone profile of the issuing entity. In this case, Fitch's analysis would likely incorporate elements of Fitch's rating approach for investment companies, notably when assessing the issuer's capitalization and leverage as well as its funding, liquidity and coverage profile. Fitch may assign a public rating to the issuing entity, informing investors of its different default probability compared with the operating subsidiaries.

Under certain circumstances, for instance, if there is a strong ring-fencing mechanism in place (as may be the case where operating subsidiaries are prudentially regulated, for example), this could lead Fitch to exclude such holding company or debt-issuing vehicle debt from the analysis of the ring-fenced group.

On the other hand, if Fitch concludes that the strategic, operational or legal links between a holding company or debt-issuing vehicle and an operating entity are relatively significant and there is no or limited ring-fencing in place protecting the operating entity and holders of its debt, the structurally subordinated debt will most likely be consolidated in the analysis of the operating entity and the issue rating of the holding company or debt issuance vehicle's debt instrument will be determined through a notching approach.

In determining the notching relativities between a holding company or debt-issuing vehicle and an operating company and their respective debt instruments, Fitch assesses potential differences in default probabilities. As part of this assessment, Fitch analyzes relevant regulatory and legislative aspects, the operating entity's ability to upstream dividends to the issuing entity in comparison to the debt quantum and interest expenses of the issuing entity. Fitch would also take other potential income streams of the issuing entity into consideration, including, where relevant, interest income on intercompany loans and cash flows from other group entities.

Annex 1: Variations from Criteria

Fitch's criteria are designed to be used in conjunction with experienced analytical judgment exercised through a committee process. The combination of transparent criteria, analytical judgment applied on a transaction-by-transaction or issuer-by-issuer basis and full disclosure via rating commentary strengthens Fitch's rating process while assisting market participants in understanding the analysis behind the ratings.

A rating committee may adjust the application of these criteria to reflect the risks of a specific transaction or entity. Such adjustments are called variations. All variations will be disclosed in the respective rating action commentaries, including their impact on the rating where appropriate.

A variation can be approved by a ratings committee where the risk, feature or other factor relevant to the assignment of a rating and the methodology applied to it are both included within the scope of the criteria, but where the analysis described in the criteria requires modification to address factors specific to the particular transaction or entity.

Annex 2: Rating Non-Bank Financial Institutions Above the Sovereign

Fitch is more likely to rate a non-bank financial institution above the sovereign – i.e. assign a LC Long-Term IDR to the non-bank financial institution above the sovereign LC Long-Term IDR, or a FC Long-Term IDR to the non-bank financial institution above the sovereign FC Long-Term IDR – when both of two conditions hold. First, Fitch must believe that a non-bank financial institution would probably retain the capacity to service its obligations in the relevant currency following a sovereign default in that currency. This capacity may be retained either because the non-bank financial institution receives external support or because the non-bank financial institution's intrinsic strength, as reflected in its stand-alone credit risk profile, is sufficient to enable it to continue servicing its obligations after a sovereign default.

Second, the agency must believe that the sovereign, following its own default in a currency, would probably not impose restrictions on the non-bank financial institution's ability to service its obligations in that currency. Restrictions may be applied to FC or LC obligations. Fitch usually regards restrictions to the former as somewhat more likely than the latter, which tends to result in the non-bank financial institution's LC ratings being less constrained, relative to the sovereign, than FC ratings. However, in some countries where governments have been more interventionist, both FC and LC ratings of non-bank financial institutions may be capped at the level of the sovereign.

Additionally, unlike banks, which often have strong ties to the credit profile of the sovereign in which they reside, non-banks may not experience the same linkage or potential restrictions on their ability to service their own debt. As an example, a global investment manager may have the majority of its capital invested in other countries, with limited exposure to the economy in which it domiciled. Therefore, the credit profile of the investment manager may not be directly affected by the credit profile of the sovereign.

Annex 3: Information Used to Issue and Maintain Ratings

Key Principles

Fitch bases its research and rating analysis on a thorough analysis of all relevant information known and believed to be relevant to the analysis and the rating decision.

This information includes publicly available information, information provided directly by the issuer and information provided by third parties and relevant information gathered by Fitch during its interaction with other issuers.

All rating committees are required to verify that data was sufficient and robust relative to the rating decision. Where there is insufficient information to assign or maintain a rating, no rating shall be assigned or maintained.

Criteria Data Sources

The key rating assumptions for the criteria are informed by discussions with external parties, such as issuers, institutional owners, supervisors and governments and Fitch's analysis of financial and non-financial information, such as issuer financial statements and annual reports, bond documentation and financial market, industry, academic and economic data, research and history.

Information Threshold

The core information relied on in the rating process is publicly available information such as annual and interim financial statements (typically at least three years of audited accounts), transaction documents for public issues, public statements, presentations and other ad hoc disclosure made by issuer management, public regulatory filings and official industry commentary. This public information represents the minimum requirements for investors to form an investment decision and is based on the level and type of information typically presented by a publicly listed company.

Public disclosure is often supplemented by additional information provided directly by issuer management. Such additional information may take the form of more frequent or confidential updates of information typically disclosed publicly and/or specific non-public information considered analytically important. Meetings may be held with members of issuer management to discuss the information provided and to understand any assumptions used in the preparation of the information. Non-financial information used in the rating process would typically include a description of the institution's core products, client base, geographical markets, risk management framework, group structure, ownership and strategy.

Fitch works with the most recent information available. Public disclosure will generally be predictable in its timing; periodic updates of other information will typically be timed to coincide with a scheduled review, or ad hoc, in response to changing conditions. This supplemental information can provide periodic insights, but its provision is subject to the discretion of the rated entity. Historical time series information provides important insight but the most recent information typically has a greater weighting in the prospective rating opinion.

Fitch undertakes a reasonable verification of the factual information relied on in accordance with the relevant rating methodology and criteria as far as is possible from information from independent sources, to the extent such sources are available.

Surveillance

Analysts perform ongoing surveillance of information received and/or requested. Where a factor or trend could have an impact on the rating, Fitch will determine the appropriate course of action, which may be one of the following:

- The non-bank financial institution is taken to rating committee.
- The non-bank financial institution is issued with a request for additional specific information (Fitch may also consider it appropriate to place it on Rating Watch at this point).

Fitch may also conclude that no action is necessary. There are no differences between new rating analysis and surveillance analysis.

Annex 4: Use of Stress Testing and Other Tools in the Rating Process

Key Principles

Where relevant, Fitch will complement its analysis of the relevant information with an assessment of the potential impact of a range of reasonable/plausible stress scenarios or simulations.

Assumptions

Assumptions used in stress or scenario analyses will vary but will typically incorporate macro-economic variables, loss rates and changes in risk parameters (such as probability of default and loss given default), and the impact will typically be framed in the context of impact on earnings, liquidity, interest coverage and/or capital/leverage. The variable(s) selected will be driven by the nature and/or severity of the stress envisaged or being tested and will be established at an issuer-specific, sector, country and/or region level.

Tools Used in the Rating Process

Where relevant, Fitch will use a range of standardized tools to simulate the effect of asset quality/performance, earnings, capital and liquidity stresses. Stress testing may be carried out on an issuer-specific or sector basis and may be supplemented by bespoke simulations in cases where standardized approaches may not be appropriate.

To the extent that regulators in various jurisdictions may conduct stress tests or asset quality reviews across a country or sector, Fitch may use its own similar tools to understand better regulatory stress tests and their sensitivities, recognizing the varying degrees of disclosure regarding factors such as baseline data and stress variables.

Inputs and Outputs

Stress and scenario testing may require standard issuer inputs of a non-public nature, and Fitch will request those that are considered necessary. If such inputs are not provided, Fitch will use conservative estimates based on analytical judgment together with its broader industry and sector knowledge. Alternatively, Fitch may be provided with an issuer's own scenario analyses. In such cases, Fitch will discuss these with issuer management to understand the underlying assumptions used in the analysis and, if appropriate, make further analytical adjustments to management's underlying assumptions.

Outputs may, at Fitch's discretion, be disclosed in full or part where such disclosure adds value to the analysis and/or research. However, the presence of non-public data typically results in disclosure being in aggregate or summarized form. Fitch will use peer comparison, where relevant, to evaluate relative resilience to specific stresses or scenarios.

Annex 5: Rating Sensitivities and Limitations

Rating Sensitivites

Fitch's opinions are forward looking and include the agency's views of future performance. Non-bank financial institution ratings are subject to positive or negative adjustment based on actual or projected financial and operational performance. The list below includes a non-exhaustive list of the primary sensitivities that can influence the ratings and/or Rating Outlook.

- **Operating Environment Risk:** Deterioration in an issuer's operating environment due to weakening of general economic environment, sovereign risks, financial market health, changes in regulatory/legislative requirements or conditions and systemic governance in the countries where the issuer is operating as well as possible imposition of foreign exchange controls.

- **Business Risk:** Developments in an issuer's ability to withstand competitive pressures as shown in its position/franchise in key markets, its business model/diversification, its level of pricing power and its operating efficiency.

- **Financial Risk:** Changes in an issuer's financial profile due to the impact of operational developments, a weakening of an issuer's operating environment, the issuer's financial policy or risk appetite or the availability of funding in case of market disruption.

- **Event Risk:** An unforeseen event, which, until it is explicit and defined, is excluded from existing ratings. Event risks can be externally triggered — a change in law, a natural disaster, a political shock or an ownership change — or internally triggered, such as a change in policy on capitalization, a major acquisition, fraud or a management or strategic restructuring. As most non-bank financial institutions tend to have an asset-liability mismatch (asset duration longer than funding duration), they can be vulnerable to extreme liquidity stress. While funding, liquidity and coverage are core parts of Fitch's rating analysis, sometimes idiosyncratic events can cause a rapid, potentially materially detrimental, deterioration in liquidity.

- **Change in Support Risk:** A change in extraordinary support likely to be available to an issuer, for example, due to a change in ownership or developments in resolution frameworks. Event risk and changes in support can often have more material implications for non-bank financial institution ratings than other risks outlined above.

- **Instrument-Specific Risk:** In the case of issue-level ratings, these may be sensitive to changes in the company's issuer-level ratings, performance risk relative to the risk captured in issuer-level ratings (e.g. hybrid securities) and changes in default risk or recovery prospects for such instrument, for example as a function of the seniority of the instrument, the volume of pari passu liabilities, the volume and relative ranking of other liabilities, the availability of unencumbered assets and/ or the enterprise value of the business.

Limitations

This master criteria identifies factors that are considered by Fitch in assigning ratings to a particular entity or obligation within the scope of the master criteria. Not all factors in these criteria

may apply to each individual rating or rating action. Each specific rating action commentary or rating report will discuss those factors most relevant to the individual rating action.

Ratings, including Rating Watches and Rating Outlooks, assigned by Fitch are subject to the limitations specified in Fitch's Rating Definitions, available at www.fitchratings.com/site/definitions. More specifically to non-bank financial institutions, IDRs, VRs, SRs, SRFs and DCRs do not specifically address transfer and convertibility risk for each and every foreign jurisdiction in which a non-bank financial institution operates, nor do they reflect jurisdiction-specific resolution risks.

Annex 6: Related Criteria

This criteria report has been published together with the following criteria report:

Bank Rating Criteria

The following cross-sector criteria reports remain in force and will be applied to the ratings of non-bank financial institutions and other financial institutions, where appropriate:

Country Ceilings Criteria

Sukuk Rating Criteria

National Scale Ratings Criteria

Non-Financial Corporates Hybrids Treatment and Notching Criteria

Exposure Draft: Country-Specific Treatment of Recovery Ratings

Third-Party Partial Credit Guarantees Rating Criteria

The Distressed Debt Exchange Rating Criteria no longer applies to non-bank financial institutions as the relevant analytical concepts have been incorporated it into this criteria.

Annex 7: Subsector Financial Ratios and Definitions

Summary of Non-Bank Financial Institution Core Ratios and Quantitative Benchmarks

		aa or Above	a	bbb	bb	b or Below
Securities Firms (High Balance Sheet Usage)						
Earnings and Profitability	Operating Income/Average Equity (%)	x>20	10<x≤20	5<x≤10	3<x≤5	x≤3
Capitalization and Leverage	(Tangible Assets – Reverse Repo – Sec. Borrowed)/FCC (x)	x<5	5≤x<10	10≤x<15	15≤x<20	x≥20
Funding, Liquidity and Coverage	Liquid Assets/Short-Term Funding (%)	x>200	150<x≤200	100<x≤150	85<x≤100	x≤85
Securities Firms (Low Balance Sheet Usage)						
Earnings and Profitability	Adjusted EBITDA/Revenue (%)	x>25	20<x≤25	15<x≤20	10<x≤15	x≤10
Capitalization and Leverage	Gross Debt/Adjusted EBITDA (x)	x<0.5	0.5≤x<1.5	1.5≤x<2.5	2.5≤x<3.5	x≥3.5
Funding, Liquidity and Coverage	Adjusted EBITDA/Interest Expense (x)	x>15	10<x≤15	6<x≤10	3<x≤6	x≤3
Investment Managers Primarily Charging Fees Based on Net Asset Value (Traditional Investment Managers and Hedge Fund Managers)						
Asset Performance	Net Client Flows/Beginning (F)AUM (%)	x>10	5<x≤10	5≥x>(5)	(5)≥x>(10)	x≤(10)
Earnings and Profitability	Adjusted (F)EBITDA/Fee Revenue (%)	x>50	30<x≤50	20<x≤30	10<x≤20	x≤10
Capitalization and Leverage	Gross Debt/Adjusted (F)EBITDA (x)	x<0.25	0.25≤x<1.5	1.5≤x<3.0	3.0≤x<5.0	≥5.0
Funding, Liquidity and Coverage	Adjusted (F)EBITDA/Interest Expense (x)	x>18	12<x≤18	6<x≤12	3<x≤6	x≤3
Investment Managers Primarily Charging Fees Based on Invested/Committed Capital (Alternative Investment Managers)						
Asset Performance	Net Client Flows/Beginning (F)AUM (%)	x>10	5<x≤10	5≥x>(5)	(5)≥x>(10)	x≤(10)
Earnings and Profitability	Adjusted (F)EBITDA/Fee Revenue (%)	x>50	30<x≤50	20<x≤30	10<x≤20	x≤10
Capitalization and Leverage	Gross Debt/Adjusted (F)EBITDA (x)	x<0.50	0.50≤x<2.5	2.5≤x<4.0	4.0≤x<6.0	≥6.0
Funding, Liquidity and Coverage	Adjusted (F)EBITDA/Interest Expense (x)	x>12	8<x≤12	4<x≤8	2<x≤4	x≤2
Investment Companies						
Capitalization and Leverage	Gross Debt/Tangible Equity (x)	x<0.15	0.15≤x<0.35	0.35≤x<0.50	0.50≤x<1.0	≥1.0
Funding, Liquidity and Coverage	One year's upstream dividend and interest income coverage of one years' holdco interest expense (x)	x>10	6<x≤10	3.5<x≤6.0	2.5<x≤3.5	x≤2.5
Funding, Liquidity and Coverage	One year's upstream dividend and interest income coverage of two years' holdco operating expenses, interest expense and dividends (x)	x>1.0	x>1.0	x>1.0	x≤1.0	x≤1.0
Business Development Companies						
Asset Quality	Net Realized Gains/Average Portfolio, at Value (%)	x>(1.0)	(1)≥x>(3)	(3)≥x>(4)	(4)≥x>(6)	x≤(6)
Earnings and Profitability	Net Investment Income/Average Portfolio, at Cost (%)	5<x≤10	5<x≤10	5<x≤10	x≤5 or x>10	x≤5 or x>10
Capitalization and Leverage	Debt/Tangible Equity (x)	x<0.25	0.25≤x<0.50	0.50≤x<0.80	0.80≤x<1.00	x≥1.00
Funding, Liquidity and Coverage	Unsecured Debt/Total Debt (%)	x>90	50<x≤90	35<x≤50	x≤35	x = 0
Finance and Leasing Companies (High Balance Sheet Usage)						
Asset Quality[a]	Impaired Loans/Gross Loans ('aa' operating environment) (%)	x≤1	1<x≤3	3<x≤6	6<x≤14	x>14
Asset Quality[a]	Impaired Loans/Gross Loans ('a' operating environment) (%)	x≤0.25	0.25<x≤2	2<x≤5	5<x≤12	x>12
Asset Quality[a]	Impaired Loans/Gross Loans ('bbb' operating environment) (%)		X≤0.5	0.5<x≤4	4<x≤10	x>10
Asset Quality[a]	Impaired Loans/Gross Loans ('bb' operating environment) (%)			x≤0.75	0.75<x≤5	x>5
Asset Quality[a]	Impaired Loans/Gross Loans ('b' operating environment) (%)				x≤1	x>1
Earnings and Profitability	Pre-Tax Income/Average Assets (%)	x>4	3<x≤4	2<x≤3	1<x≤2	x≤1
Capitalization and Leverage	Debt/Tangible Equity (x)	x<1.0	1.0≤x<3.0	3.0≤x<5.0	5.0≤x<7.0	x≥7.0
Funding, Liquidity and Coverage)	Unsecured Debt/Total Debt (%)	x>90	50<x≤90	35<x≤50	x≤35	x = 0

[a]In instances where asset quality metrics exhibit seasonal differences in performance, Fitch may seek to normalize such metrics when assessing asset quality at a given point in time. Fitch may exclude or normalize a quarterly data point if it is believed to be unduly influenced by seasonality rather than reflecting a longer term asset quality trend. Note: If/when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for such issuer. *Continued on next page.*
Source: Fitch.

Summary of Non-Bank Financial Institution Core Ratios and Quantitative Benchmarks (continued)

		aa or Above	a	bbb	bb	b or Below
Finance and Leasing Companies (Low Balance Sheet Usage)						
Earnings and Profitability	Adjusted EBITDA/Revenues (%)	x>25	20<x≤25	15<x≤20	10<x≤15	x≤10
Capitalization and Leverage	Debt/Adjusted EBITDA (x)	x<0.5	0.5≤x<1.5	1.5≤x<2.5	2.5≤x<3.5	x≥3.5
Funding, Liquidity and Coverage	Adjusted EBITDA/Interest Expense (x)	x>15	10<x≤15	6<x≤10	3<x≤6	x≤3
Financial Market Infrastructure Companies (Exchanges, CCPs and Non-Bank CSDs)						
Earnings and Profitability	Adjusted EBITDA/Revenue (%)	x>25	20<x≤25	15<x≤20	10<x≤15	x≤10
Capitalization and Leverage	Gross Debt/Adjusted EBITDA (x)	x<0.5	0.5≤x<1.5	1.5≤x<2.5	2.5≤x<3.5	x≥3.5
Funding, Liquidity and Coverage	Adjusted EBITDA/Interest Expense (x)	x>15	10<x≤15	6<x≤10	3<x≤6	x≤3

Note: If/when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for such issuer.
Source: Fitch.

Securities Firm Ratios

Metric	Definition	Core or Complementary	Firms with High Balance Sheet Usage	Firms with Low Balance Sheet Usage
Asset Quality Ratios				
Impaired and Nonperforming Ratio	Loans where income has stopped accruing, loan has been restructured or the receivable is deemed otherwise impaired/period-end loans.	Complementary.	✓	
Reserves for Impaired Loans/ Impaired Loans	Reserves for Impairments/Impaired Loans	Complementary	✓	
Loan Impairment Charges/Average Gross Loans	Impairment Charges on Loans/Average Gross Loans	Complementary	✓	
Impaired Loans Less Reserves for Impaired Loans/FCC	(Impaired Loans and Leases – Associated Reserves)/FCC	Complementary	✓	
Growth of Gross Loans	Increase in total customer loans at the end of the accounting period less total customer loans at the beginning of the accounting period as a percentage of customer loans at the beginning of the accounting period.	Complementary	✓	
Market Risk Ratios				
Average VaR/FCC	Average period trading VaR considered as reported and adjusted to 99% confidence interval and one-day holding period; data are assessed both including and excluding attributed diversification. FCC equals shareholders' equity, less hybrid capital reported as equity, non-controlling interests reported outside equity, less non-controlling interests not regarded as loss absorbing by Fitch, less goodwill and all other intangibles, less ineligible deferred tax assets, +/- fair value of own credit risk, less first-loss tranches of retained off-balance sheet securitizations, less life assurance/insurance company interests	Complementary	✓	
Fitch Stressed VaR/FCC	Fitch stressed VaR is calculated by multiplying the aggregated 10-day, 99% level maximum VaR by a factor of five; intended to capture market risk under extremely severe market conditions.	Complementary	✓	
Trading Efficiency Ratio	Principal daily trading revenue (annual/252 days) or (quarterly/63 days)/average trading VaR (99%, one day, U.S. dollars)	Complementary	✓	
Earnings and Profitability Ratios				
Operating Profit/Average Equity	Pre-tax profit before non-recurring and non-operating income and expenses as a percentage of average reported equity.	Core	✓	
Adjusted EBITDA/Revenue	EBITDA with adjustments for significant non-cash items, such as non-cash compensation expenses, as a percentage of total revenue.	Core		✓
Adjusted ROAE	Reported net income, excluding discontinued operations and extraordinary one-time items and the effects of CVA/DVA, as a percentage of average reported equity.	Complementary	✓	
Operating Expense/Revenue	Operating expenses, including interest expense, as a percentage of total revenue.	Complementary	✓	
Compensation/Net Revenue	Compensation paid in the period as a percentage of net revenue, isolated for brokers and traders compensation where possible	Complementary	✓	

[a]Applicable only for those entities subject to Basel regulation. Note: If/when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for such issuer. *Continued on next page.*
Source: Fitch.

Securities Firm Ratios (continued)

Metric	Definition	Core or Complementary	Firms with High Balance Sheet Usage	Firms with Low Balance Sheet Usage
Capitalization and Leverage Ratios				
Net Adjusted Leverage	(Tangible Assets - Reverse Repurchase Agreements - Securities Borrowed)/FCC	Core	✓	
Gross Debt/Adjusted EBITDA	Gross debt divided by EBITDA, with adjustments for significant non-cash items such as non-cash compensation expenses	Core		✓
Gross Leverage	Total assets divided by total equity	Complementary	✓	
Tangible Gross Leverage	(Tangible Assets plus Gross ups for Derivatives, Reverse Repurchase Agreements and Securities Borrowed)/FCC Tangible assets equal total assets minus goodwill and intangibles Derivatives, reverse repurchase agreements and securities borrowed are grossed up for any netting amounts that may otherwise be excluded from amounts reported on the balance sheet	Complementary	✓	
Adjusted Leverage	(Tangible Assets - Reverse Repurchase Agreements)/FCC	Complementary	✓	
Tier I Capital Ratio[a]	Ratio as reported to the regulators in the relevant jurisdiction; the calculation is: common equity as defined by local regulators as a percentage of risk weighted assets as defined by local regulators.	Complementary	✓	
FCC/RWA[a]	FCC divided by risk weighted assets as reported to the regulator in the relevant jurisdiction	Complementary	✓	
Funding and Liquidity Ratios				
Liquid Assets/ST Funding	Total assets minus illiquid assets *(defined below)* as a percentage of wholesale funding due within 12 months Illiquid assets typically include high yield debt + merchant bank, private equity investments + emerging market + consumer loans + bank loans + goodwill + intangibles + non-investment-grade derivatives marked to market + other assets + non-investment-grade residual assets	Core	✓	
Adjusted EBITDA/Interest Expense	EBITDA with adjustments for significant noncash items, such as noncash compensation expenses, as a multiple of interest expense	Core		✓
LT Funding/Illiquid Assets	Equity and long-term borrowing as a percentage of illiquid assets *(as defined above)*	Complementary	✓	

[a]Applicable only for those entities subject to Basel regulation. Note: If/when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for such issuer.
Source: Fitch.

Simplified Balance Sheet and Calculation of Capitalization Ratios

Identifier	Description	Value
	Condensed Balance Sheet	
A	Cash	15
B	Securities Borrowed (Net)	15
C	Reverse Repo (Net)	10
D	Derivative Instruments (Net)	5
	Other Securities Inventory	50
E	Goodwill and Intangibles	5
F	Total Assets	100
	Total Liabilities	75
G	Hybrid Capital	5
	Capital	10
	Retained Earnings	10
H	Total Equity	25
	Other Inputs from Notes to the Financial Statements	
I	Securities Borrowed (Gross)	25
J	Reverse Repos (Gross)	20
K	Derivative Instruments (Gross)	15
L	Risk Weighted Assets	40
	Calculations	**Formula**
M	Tangible Assets	95 = F-E
N	FCC	15 = H-G-E
O	Securities Borrowed Gross Up	10 = I-B
P	Reverse Repo Gross Up	10 = J-C
Q	Derivative Instruments Gross Up	10 = K-D
	Gross Leverage	4.0 = F/H
	Tangible Gross Leverage	8.3 = (M+O+P+Q)/N
	Adjusted Leverage	5.7 = (M-C)/N
	Net Adjusted Leverage	4.7 = (M-B-C)/N
	FCC/RWA	37.5% = N/L

Source: Fitch.

Investment Manager Ratios

Metric	Definition	Core or Complementary	Alternative Investment Managers	Traditional Investment Managers
Asset Performance Ratios				
(F)AUM Growth Rate	(Ending (F)AUM/Beginning (F)AUM)-1	Core	✓	✓
Fundraising Success	(Gross Inflows - Gross Redemptions - Gross Distributions)/Beginning (F)AUM	Complementary	✓	✓
Management Fee Yield	Management Fees/Average (F)AUM	Complementary	✓	✓
Revenue Yield	Total Revenue/Average (F)AUM	Complementary	✓	✓
(F)EBITDA Yield	(F)EBITDA/Average (F)AUM	Complementary	✓	✓
Earnings and Profitability Ratios				
(F)EBITDA Margin	(F)EBITDA/Total Fee Revenue	Core	✓	✓
Management Fee Contribution	Management Fees/Total Fees	Complementary	✓	
Total Management Fee Contribution	Management Fees/Total Revenue	Complementary	✓	
Operating Efficiency	(Base Compensation + Operating Expenses)/Total Fee Revenue	Complementary	✓	✓
Incentive Compensation Ratio	Incentive Compensation/Incentive Revenue	Complementary	✓	
Fee-Related Earnings Margin	Fee-Related Earnings (Net Income)/Fee Revenue	Complementary	✓	
Return on Average Equity	(Economic) Net Income/Average Equity	Complementary	✓	✓
Capitalization and Leverage Ratios				
Cash Flow Leverage	Gross Interest-Bearing Liabilities/(F)EBITDA, with adjustments made for significant noncash and nonrecurring items FEBITDA is defined as management, transaction, monitoring, and advisory fees - operating expenses + interest expense + depreciation + amortization + equity compensation. Interest and dividend revenue may be included if deemed recurring in nature.	Core	✓	✓
Net Cash Flow Leverage	(Gross Interest-Bearing Liabilities - Balance Sheet Cash and Equivalents)/(F)EBITDA, with adjustments made for significant noncash and nonrecurring items	Complementary	✓	✓
Balance Sheet Leverage	Gross Interest-Bearing Liabilities/Tangible equity Fitch defines tangible equity as equity less goodwill and other intangibles. In making balance sheet leverage calculations for investment managers, Fitch typically focuses on the unconsolidated balance sheet to exclude the effects of non-recourse assets and liabilities.	Complementary	✓	✓
Net Balance Sheet Leverage	(Gross Interest-Bearing Liabilities - Cash and Equivalents)/Tangible Equity	Complementary	✓	✓
FCC Leverage	Gross Interest-Bearing liabilities/FCC FCC equals shareholders' equity, less hybrid capital reported as equity, non-controlling interests reported outside equity, less non-controlling interests not regarded as loss absorbing by Fitch, less goodwill and all other intangibles, less ineligible deferred tax assets, +/- fair value of own credit risk, less first-loss tranches of retained off-balance sheet securitizations, less life assurance/insurance company interests	Complementary	✓	✓
Liquidity Ratios				
Interest Coverage	(F)EBITDA, with Adjustments for Significant Noncash and/or Nonrecurring Items/Interest Expense	Core	✓	✓
Liquid Asset Debt Coverage	(Cash + liquid investments)/Gross interest-bearing liabilities	Complementary	✓	✓
Asset Debt Coverage	(Cash + Liquid Investments + Balance Sheet Co-Investments)/Gross Interest-Bearing Liabilities	Complementary	✓	✓
Liquid Coverage of Co-Investment Commitments	(Cash + Liquid Securities)/Uncalled Co-Investment Commitments	Complementary	✓	✓
Liquid Assets	(Cash + Liquid Assets)/Total Assets	Complementary		✓
Payout Ratio	Distributions/Cash Earnings	Complementary	✓	✓

Note: If/when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for such issuer.

Source: Fitch.

Investment Company and Investment Fund Ratios

Metric	Definition	Core or Complementary	Investment Companies	Open-End Investment Funds	Other Investment Funds
Asset Quality/Performance Ratios					
Portfolio Credit Risk Profile	Weighted Average Credit Quality of Investments/Portfolio Companies	Complementary	✓		
Earnings and Profitability Ratios					
Return on Average Assets	Net Income/Average Assets	Core	✓	✓	✓
Return on Average Equity	Net Income/Average Equity	Complementary	✓	✓	✓
Capitalization and Leverage Ratios					
Balance Sheet Leverage	Gross Debt/Tangible Equity or Total Interest-Bearing Liabilities/Net Asset Value	Core	✓		✓
Gross Leverage	(Gross Long Investment Positions + Gross Short Positions)/Net Asset Value	Core		✓	
Funding, Liquidity and Coverage Ratios					
Cash and Unencumbered Securities Coverage	(Cash + Unpledged Assets)/Unsecured Debt	Core		✓	✓
Interest Coverage	Upstream dividend and interest income (or EBITDA) coverage of holdco operating interest expense	Core	✓		
Operating Expense Coverage[a]	Upstream dividend and interest income (or EBITDA) coverage of two years' holdco operating expenses, interest expense and dividends	Core	✓		
Illiquid Assets	Total Illiquid Assets/Net Asset Value	Complementary		✓	

[a]For investment companies that are privately held and do not have stated dividend policies, Fitch will likely remove holding company dividends from the denominator of this ratio. Note: If/when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for such issuer.
Source: Fitch.

Business Development Company Ratios

Metric	Definition	Core or Complementary
Asset Quality Ratios		
Net Portfolio Gains (Losses)	Net Realized Gains/Average Portfolio, at Value	Core
Non-Accruals, at Cost	Non-Accruals/Portfolio, at Cost	Complementary
Non-Accruals, at Fair Value	Non-Accruals/Portfolio, at Fair Value	Complementary
Net Portfolio Valuation Marks	Net Unrealized Appreciation (Depreciation)/Total Portfolio, at Cost	Complementary
Portfolio Concentrations	Top 10 Portfolio Investments, at Value/Equity	Complementary
Earnings and Profitability Ratios		
Net Investment Income Yield	Net Investment Income/Average Portfolio, at Cost	Core
Investment Income Yield	Investment Income/Average Portfolio, at Cost	Complementary
Operating Efficiency	Non-Interest and Non-Incentive Expenses/Average Portfolio, at Cost	Complementary
Compensation Ratio	Compensation/Average Portfolio, at Cost	Complementary
Return on Average Assets	Net Income/Average Assets	Complementary
Capitalization and Leverage Ratios		
Leverage	Interest-Bearing Liabilities/Total Equity	Core
Asset Coverage Ratio	(Assets - Current Liabilities)/Long-Term Debt	Complementary
Sensitivity to Leverage Cap	(Equity - Interest Bearing Liabilities)/Portfolio, at Value	Complementary
Funding and Liquidity Ratios		
Cash Earnings Coverage of Dividend	(Net Investment Income - Non-Cash Earnings + Non-Cash Expenses)/Dividends Declared	Core
Interest Coverage	Adjusted EBITDA/Interest Expense	Complementary
Funding Mix	Unsecured Debt/Total Debt	Complementary
Earnings Coverage of Dividend	Net Investment Income/Dividends Declared	Complementary
Non-Cash Income[a]	Non-Cash Income/Interest Income	Complementary

[a]Make adjustments for non-cash earnings received in cash, where available. Note: If/when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for such issuer.
Source: Fitch.

Finance and Leasing Company Ratios

Metric	Definition	Core or Complementary	Consumer and Commercial Finance	Leasing	Financial Services
Asset Quality Ratios					
Impaired and Non-Performing Ratio	Loans or leases Where Income has Either Stopped Accruing, Loan has Been Restructured, or the Receivable is Deemed Otherwise Impaired/Period-End Loans or Leases	Core[a]	✓	✓	✓
Impairment to Capital Ratio	(Impaired Loans and Leases - Associated Reserves)/FCC	Complementary	✓	✓	✓
Net Chargeoff Rate	(Gross Principal Losses - Recoveries)/Average Loans During the Period	Complementary	✓	✓	✓
Reserve Coverage of Impaired Loans	Reserves for Impairments/Impaired Loans and Leases	Complementary	✓	✓	✓
Residual Gain (Loss) Rate	Gain or Loss on Sale of Residual Vehicles and Equipment/Depreciated Value of the Assets Sold	Complementary		✓	
Earnings and Profitability Ratios					
Pre-Tax Return on Average Assets	Reported Pre-Tax Net Income/Average Assets	Core[a]	✓	✓	✓
Adjusted EBITDA Margin	Earnings Before Interest, Taxes, Depreciation and Amortization/Revenues with adjustments for significant non-cash items Fitch may make adjustments to its EBITDA calculation to exclude depreciation expense if it is believed to be a recurring operating expense and no significant change in leased asset levels is expected. However, in that case, Fitch would look to add back proceeds from the sale of leased assets to its calculation of cash flow, as it would likely be deemed a significant source of debt repayment.	Core[b]	✓	✓	✓
Pre-Tax Return on Average Equity	Reported Pre-Tax Net Income/Average Equity	Complementary	✓	✓	✓
Pre-Tax Income Margin	Pre-Tax Operating Income/Total Revenues	Complementary	✓	✓	✓
Operating Expense Ratio[c]	Operating Expenses/Average Loans	Complementary	✓	✓	✓
Depreciation Expense Ratio	Depreciation Expenses/Total Revenues	Complementary		✓	
Residual Value Gain (Loss) Contribution	Gain or Loss on Sale of Residual Vehicles and Equipment/Reported Net Income	Complementary		✓	
Capitalization and Leverage Ratios					
Tangible Balance Sheet Leverage	(Reported Debt + Debt Portion of Hybrid Capital)/(Total Shareholders' Equity - Goodwill – Intangibles – deferred tax assets related to net operating losses brought forward (if available and at a minimum value of zero), otherwise net deferred tax assets in its entirety (at a minimum value of zero) – Non-Controlling Interests + Equity Portion of Hybrid Capital)	Core[a]	✓	✓	✓
Cash Flow Leverage	Total Debt/Earnings Before Interest, Taxes, Depreciation and Amortization (see EBITDA definition above	Core[b]	✓	✓	✓
FCC Leverage[d]	(Reported Debt + Off-Balance Sheet Funding)/FCC FCC equals reported equity less hybrid capital less non-loss-absorbing, noncontrolling interests less net deferred tax assets related to net operating losses brought forward (if available and at a minimum value of zero), otherwise net deferred tax assets in its entirety (at a minimum value of zero), less goodwill and other intangibles (including mortgage servicing rights) less first-loss tranches of securitizations on- and off-balance sheet less the credit component of the fair value changes on an FI's own debt less NAV of insurance companies held less the embedded value of insurance businesses	Complementary	✓	✓	✓
FCC Risk Weighted Ratio[d]	FCC/Risk-Weighted Assets	Complementary	✓	✓	✓
Funding and Liquidity					
Unsecured Debt Usage	Debt Unsecured by Corporate Assets/Total Interest-Bearing Liabilities	Core[a]	✓	✓	✓
Interest Coverage	Earnings Before Interest, Taxes, Depreciation and Amortization/Interest Expense	Core[b]	✓	✓	✓
Total Short-Term Funding Reliance	(Short-Term Debt + Current Portion of Long-Term Debt)/Total Interest-Bearing Liabilities	Complementary	✓	✓	✓
Unencumbered Asset Coverage	Amount of Assets Free and Clear of Any Encumbrance/Unsecured Debt	Complementary	✓	✓	✓
Payout Ratio	Dividends/Reported Net Income	Complementary	✓	✓	✓

[a]Applicable for finance and leasing companies with high balance sheet usage.[b]Applicable for finance and leasing companies with low balance sheet usage. [c]For finance and leasing companies that actively securitize assets that are off-balance sheet, managed loans (reported balance sheet loans plus off-balance sheet loans with recourse) may be used to replace reported balance sheet figures. Additionally, managed debt (reported balance sheet debt plus off-balance sheet debt) may be used to replace reported balance sheet figures. [d]Applicable to bank-licensed finance and leasing companies only. Note: If/when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for such issuer.
Source: Fitch.

Financial Market Infrastructure Company Ratios

Ratio	Definitions	Core or Complementary	Exchanges	Clearing Houses	CSDs Without Banking License
Capitalization and Leverage					
Gross Debt/Adjusted EBITDA	Gross debt divided by EBITDA, with adjustments for significant non-cash items such as non-cash compensation	Core	✓	✓	✓
Free Cash Flow/ Gross Debt	Net cash provided by operations less capital expenditures and dividends divided by gross debt	Complementary	✓	✓	✓
Gross Debt/Tangible Equity	Gross debt divided by tangible equity	Complementary		✓	
Gross Debt/FCC	Gross debt divided by FCC	Complementary		✓	
Funding, Liquidity and Coverage					
Adjusted EBITDA/Interest Expense	EBITDA with adjustments for significant non-cash items as a multiple of interest expense	Core	✓	✓	✓
Unrestricted Cash and Marketable (Investments) Securities/Short-Term Debt	Unrestricted cash and marketable (investment) securities divided by short-term debt	Complementary		✓	
Earnings and Profitability					
Adjusted EBITDA Margin	EBITDA with adjustments for significant non-cash items as a percentage of total revenue	Core	✓	✓	✓
Rate per Contract	Revenue divided by contract volume	Complementary	✓	✓	
Capital Expenditure/Revenues	Capital expenditures divided by total revenues	Complementary	✓	✓	✓
Capital Expenditure/ Depreciation and Amortization	Capital expenditures divided by depreciation and amortization	Complementary	✓	✓	✓

Note: FCC is defined as shareholders' equity, less hybrid capital reported as equity, non-controlling interests reported outside equity, less non-controlling interests not regarded as loss absorbing by Fitch, less goodwill and all other intangibles, less ineligible deferred tax assets, +/- fair value of own credit risk, less first-loss tranches of retained off-balance-sheet securitizations, less life assurance/insurance company interests. If/when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for such issuer.
Source: Fitch.

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From:	Anna Strathy
To:	Ken Kandeepan; Ronald Kwan
Cc:	Usman Zahid; Gadi Mayman; Mike Manning
Subject:	FW: Potential C.D. Howe Institute Commentary, our project code: 18-PUB-0464
Date:	Thursday, February 01, 2018 3:41:23 PM
Attachments:	A Shadow Budget for Ontario 2018-2019 - external review.docx A Shadow Budget for Ontario 2018-2019 - external review.pdf

Hi Ken, Ron,

Apologies for passing this along a little late, but Office of the Budget is looking for our comments on the attached commentary by C.D. Howe which describes a Shadow Budget for Ontario.

There is content related to the fiscal outlook (and our net debt-to-GDP forecast), the Fair Hydro Plan, and Electricity Policy. Could you/your staff please review the content related to your areas of expertise and provide any edits or comments in track-changes? I'm clarifying timelines, but it sounds like Office of the Budget is looking for something before eod tomorrow.

Mike, FYI only, unless you see anything in here that you would like to comment on.

Thanks, Anna

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Thursday, February 01, 2018 10:52 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>
Cc: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>
Subject: FW: Potential C.D. Howe Institute Commentary, our project code: 18-PUB-0464

Hey Anna – do you know who in your shop is looking at this stuff? Tim has asked us to coordinate comments on this from across the Ministry and so I'd like to pass along a point person and timelines – we are looking for track changes or other issues that the DM may want to pass along for EOD tomorrow. Let me know! Thanks.

From: Schuurman, Tim (MOF)
Sent: January-25-18 3:23 PM
To: Esmail, Selena (MOF)
Subject: FW: Potential C.D. Howe Institute Commentary, our project code: 18-PUB-0464

Have a look and see if we have any views. I"ve also circulated to OFA and our friends in Nancy's area.

Tim

From: Thompson, Scott (MOF)
Sent: January 25, 2018 3:16 PM
To: Schuurman, Tim (MOF); Lewis, Brian (MOF)
Cc: McLean, David (MOF)
Subject: FW: Potential C.D. Howe Institute Commentary, our project code: 18-PUB-0464

FYI

From: C.D. Howe Institute Peer Review <peerreview@cdhowe.org>
Date: Thursday, Jan 25, 2018, 2:43 PM
To: Thompson, Scott (MOF) <Scott.Thompson@ontario.ca>
Subject: Potential C.D. Howe Institute Commentary, our project code: 18-PUB-0464

Dear Mr. Thompson,

Re Potential C.D. Howe Institute Commentary, our project code: 18-PUB-0464

I hope you are well, and have the time and inclination to support the C.D. Howe Institute's research on Canadian economic policy by reviewing a potential Institute publication. I enclose a draft provisionally titled "**A Shadow Budget for Ontario, 2018-2019."** The views of experts such as you will be critical in our decision as to whether to publish this paper and what changes would be desirable if we did proceed to publication.

We look forward to receiving any comments you may have. While we will copy-edit the paper thoroughly should it proceed to publication, we welcome comments of all types – on the logic, the facts, the policy recommendations, and matters of exposition.

Because timeliness enhances the value of policy papers, we would appreciate receiving your comments by **Thursday, February 8, 2018**. We have approached you for comment because your thoughts are particularly important to us, in light of your interest and expertise in the issues discussed in this paper. Please let us know if you will be unable to comment by that date.

You are welcome to send your comments by email (**peerreview@cdhowe.org**), regular mail, or fax – whichever is most convenient for you.

For clarity, the attached is a confidential anonymous review draft and we trust that you will not cite or circulate it beyond your office.

We will treat review comments as anonymous throughout the review process. If you wish to be identified as a reviewer in the acknowledgements section of the finished paper, should it proceed to publication, please let us know at the time you provide comments, and we will be happy to acknowledge your contribution in the publication.

Thank you in advance for any views you may wish to share on this paper.

Sincerely,

Daniel Schwanen
Vice-President, Research
C.D. Howe Institute
Phone: 416-865-1904
Fax 416-865-1866

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A Shadow Budget for Ontario, 2018-2019

*Draft not for circulation

January 24, 2018

As Ontario enters an election year, the policy debate will likely involve the difficult choices the province faces regarding the fiscal outlook and long-term sustainability of a number of government programs. The budget the provincial government puts in place for the 2018-19 fiscal year will lay out a framework for the debate in the coming months.

To aid this debate, the C.D. Howe Institute has launched its inaugural Shadow Budget for Ontario, following similar Shadow Budgets at the federal level (see last year's edition from Robson, Laurin, and Wyonch 2017). This Shadow Budget shows that the fiscal course the province is currently on is unsustainable. This Shadow Budget would act to bring the long-term cost of government in line with the revenue-raising capacity of the province. It would balance increases in spending and cuts to poorly designed taxes with new ways to generate revenues and reducing spending on ineffective programs.

Although providing specific costing of programs is outside of the scope of this Shadow Budget, it presents an overview of policy directions that balance increases in spending with generating new revenues and cost-savings measures. This Shadow Budget proposes to:

- Restate the province's books to reflect the Auditor General's concerns about incorrect treatment of pension assets and electricity-sector debt;
- Reduce future expense growth to reach a balanced budget as soon as possible;
- Adopt long-term fiscal policy – which requires surpluses, not just balanced budgets – that meets the government's debt-to-GDP target ratio of 27 percent;
- Contain healthcare costs by extending capitated payments to family doctors and revising contractual arrangements with healthcare providers;
- Slow the increase in the minimum wage and focus on improving education and to create economic opportunities for Ontarians;
- Adopt an indigenous identifier in standardized test and oversample indigenous students to permit reliable rural-urban and district-level analysis;
- Modernize funding formulas for post-secondary education by taking outcomes into consideration;
- Reform the school curriculum with an emphasis on improving math performance;
- Open retailing for alcohol and marijuana and revising the tax scheme for both products;
- Adopt personal income tax reforms that reflect the cost of raising children, while reforming personal income taxes to lower high marginal rates, which occur even at low incomes;
- Replace targeted business tax breaks with lower provincial business property taxes to create a level playing field across the province and across different types of businesses;
- Rethink the fiscal relationship between municipal government and the province by retooling grants and transit governance while modernizing municipal financial reporting to match that of the province;
- Reduce the cost that governments impose on building new housing;
- Retain the plan to price greenhouse gas emissions, but re-focus the government plans to spend money raised by such a price away from cost-inefficient programs; and
- Seek out long-term cost savings in the electricity sector, as opposed to short-term fixes that only add to the long-term cost of energy.

The Fiscal Outlook

This Shadow Budget adopts the consensus view of the independent officers of the Ontario legislature – the Auditor General and Financial Accountability Office – as the authoritative outlook of the short-, medium-, and long-term fiscal outlook. While the government may claim to have balanced the budget for 2017-18,

that declaration is in the eye of the beholder and the medium- and long-term fiscal outlook for Ontario is dire.

Cleaning up Ontario's Books – The Short Term Deficit Debate

The government has made the argument that it has reached a balanced budget. However, the Auditor General has two specific objections related to this claim because of the government's accounting treatment of pensions and whether the recent Fair Hydro Plan amounts to new spending.

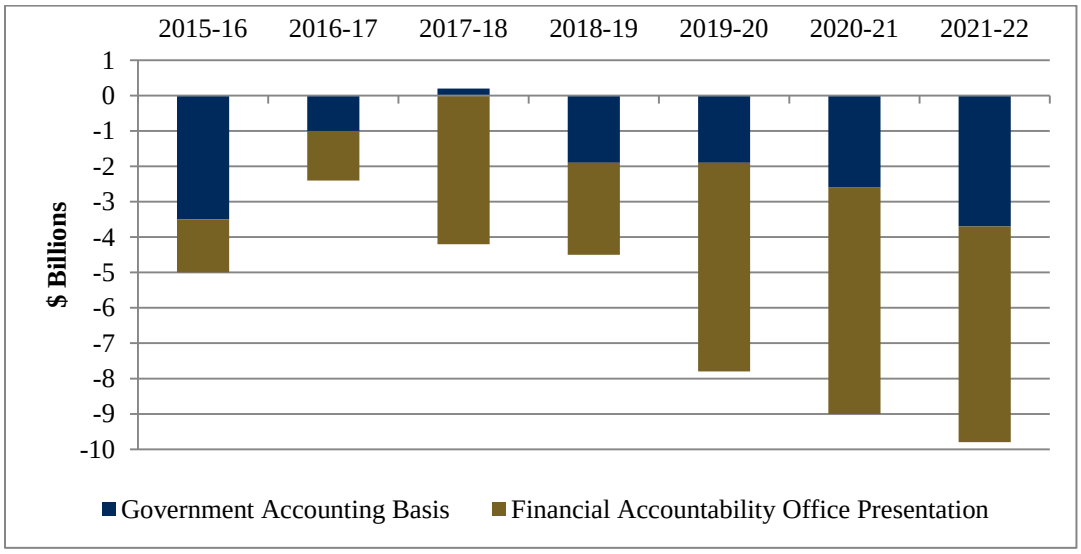
The pension dispute centres on the government's treatment of the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP). The province has decided to report the full asset value of the plan on the province's balance sheet, which neglects the fact that future retirees already have a claim on these assets. Doing so reduces the deficit and the Auditor General (2016) objects to this. Further, as Robson and Laurin (2016) argue, the government discounts OTPP and OPSEUPP liabilities by more than the plans do themselves. This understates the liabilities provincial taxpayers face.

However, the view of the Auditor General is not universally shared. The Ontario government appointed a Pension Asset Expert Advisory Panel to advise on the difference of opinion between the government and Auditor General. The Panel's Report (2017) argued that an asset does exist for the government, saying that the government does have sufficient access to the plan's assets, if even just through reducing contributions to the plans, to merit including it. However, given that we have taken the Financial Accountability Office's presentation of financial data, which is independent of both the government and the Auditor General, we have decided to use the presentation of provincial finances as recommended by the Auditor General.

The second dispute hinges on the Fair Hydro Plan. As the Auditor General (2017a) points out, the government "is making up its own accounting rules" by creating an accounting asset for a government-controlled entity to offset the debt the province placed on another government-controlled entity. The asset the government created only exists because of legislation that gives a government entity the authority to collect higher prices in the future. The true value of this asset should be zero, or highly discounted, because of great uncertainty of the ability to collect higher prices in the future. For example, electricity markets may change because of technology, making it impossible for a central government agency to collect future revenues to pay this debt. As such, this debt should be reflected in the province's financial statements now. Incorporating the debt amount in today's books means that the proper accounting treatment would increase the deficit by $2.5 billion per year through to 2027.

This Shadow Budget would restate the province's books to reflect the Auditor General's concerns. It would restate the province's finances to show a deficit in the upcoming 2018-2019 fiscal year to be about $7 billion (Figure 1).

Figure 1: Ontario Budget Balance



Source: Financial Accountability Office of Ontario. Does not include reserve fund. 2017-18 and beyond are projections by the Financial Accountability Office.

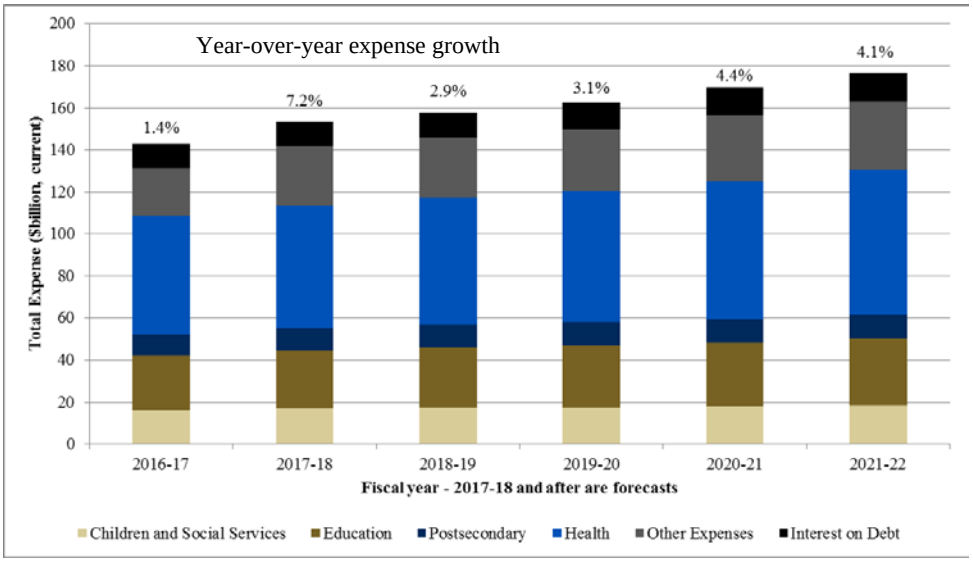
Medium-term Fiscal Sustainability

The question of whether there is a deficit for the 2017-18 fiscal year is far less important, from the point of view of the sustainability of public finances, than future trends. Under current trends, the deficit would rise to nearly $10 billion by 2021-22 (Figure 1), according to the Financial Accountability Office (2017a). These long-term deficits will return because of two main causes: the deficits the government should account for under the Fair Hydro Plan, as discussed above, and fast-rising expenses. Future revenues are not likely to grow as fast in the future as in previous years because of a number of factors, such as one-time revenues that have come in recently and economic growth that is likely to slow. Further, the Financial Accountability Office (2017a) argues that the government has made overly optimistic revenue forecasts that rely on above-trend income growth in the province and corporate income tax receipts.

The province can look to balance its budget in the near future in a number of ways. First, it can look to increase revenues. It can do so through short-term revenue gains such as sales of provincial assets – as this Shadow Budget will suggest in more detail below. Alternatively, it can raise tax rates, such as the provincial component of the HST. Or, it may seek more grants from the federal government. However, aside from hiking tax rates, none of these steps to increase revenues are directly within the control of the province or offer more than a single year's worth of solutions.

The province must address fast-growing spending to reduce future deficits. The first trend that this Shadow Budget would address is the projected pattern of total spending growth. 2017-18 spending is forecast to grow at over 7 percent over the previous year's spending. This kind of spending growth is unsustainable. Future expenses beyond 2020 of over 4 percent are also likely unsustainable. This Shadow Budget would aim to reduce future expense growth to reach a balanced budget as soon as possible.

Figure 2: Ontario Provincial Spending and Year-over-Year Spending Growth Rates

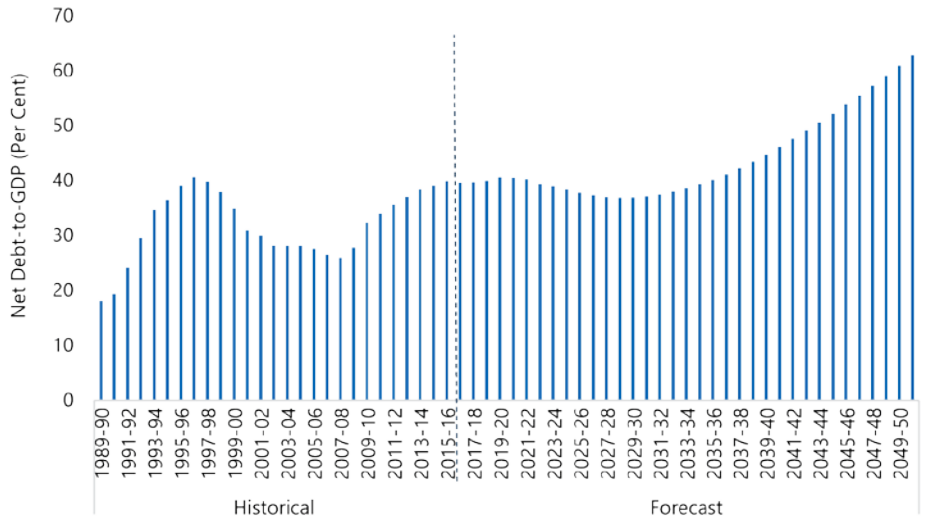


Source: Financial Accountability Office of Ontario

Long-term Fiscal Sustainability

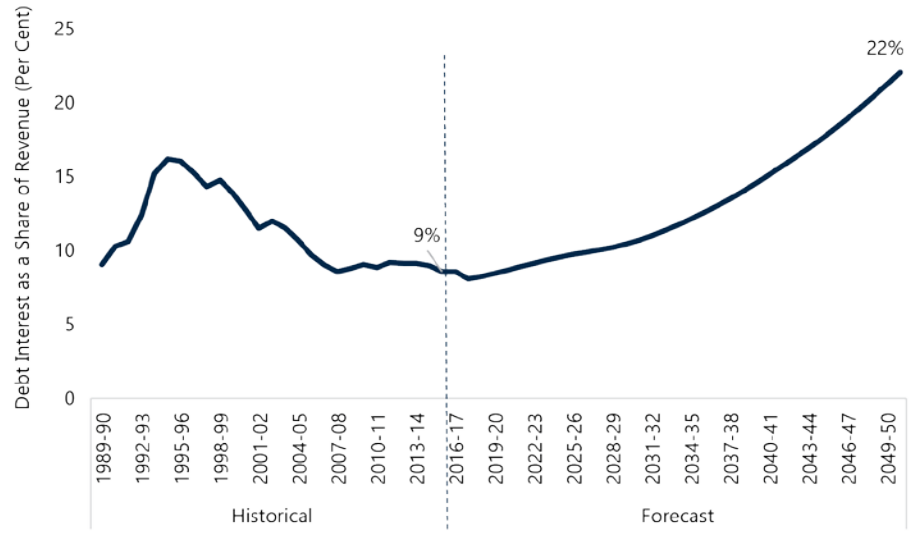
Balanced budgets will not be enough for Ontario to be fiscally sustainable. The government has targeted a net debt-to-GDP ratio of 27 percent, a sensible target that is similar to that of the federal government of 25 percent of GDP. This Shadow Budget would continue pursuing such a target and take the necessary action to achieve it within 15 years. As the Financial Accountability Office (2017b) projects, achieving 27 per cent requires the province to run budget surpluses until 2033-34. If the province continues on the current trend, and not run first balanced budgets and then surpluses, the net debt-to-GDP ratio will reach 63 percent by 2050-51 (Figure 3).

Figure 3: Net-Debt-to-GDP, Under Current Fiscal Trajectory



Source: Financial Accountability Office of Ontario

Figure 4: Interest Expense as a Share of Revenue



Source: Financial Accountability Office of Ontario

If the government doesn't tackle the long-term fiscal challenges, the cost of debt will take up an enormous share of total government revenues. Interest costs currently sit at 9 percent of revenues; at current trends, interest costs will increase to 22 percent in 2050-51 (Figure 4). If debt costs take up a large share of total revenues, that will leave less for other needs.

Health Policy

Given that Ontario spends roughly half of its own-source revenues (which excludes transfers from the federal government) on health, getting good value for money in healthcare will be critical for the financial and societal well-being of Ontarians. Although the province has successfully contained the annual growth of healthcare spending from 2010 to 2015 to 2.4 percent, on average, the rate of health spending is starting to tick upwards again alongside worries about emergency room overcrowding, long waits for long-term care beds as well as overburdened caregivers . Progress on addressing these issues – in addition to limiting public and private gaps in coverage for prescription drugs, dental services and mental health – while allocating reasonable increases for health spending, is a critical challenge.

Efforts to enable self-directed homecare services – such as recent moves to increase the number of hours nurses, personal support workers, and therapists will provide care in homes – should help alleviate the emergency room pressures for elderly patients, and these programs should continue to expand on their current trajectory. Relative to providers, patients with mild to modest physical disabilities are more likely to know the abilities of family and informal caregivers to offer care and their schedules, and which services they would prefer to have delivered by other health professionals. Although there are some legitimate concerns about patient's ability to choose among groups of healthcare professionals to meet their needs, there should still be enough flexibility around the use of self-directed home care budgets to ensure appropriate innovation from those delivering services. This means sufficient flexibility in how patients select and schedule professional help.

Ensuring that people without private insurance for dental, drug and mental health services get access to services is also a priority for healthcare policy. On this score, there are a number of avenues to ensure appropriate coverage and do so at minimal public cost, including the expansion of these services among the most vulnerable (Blomqvist and Busby 2016, Busby and Pedde 2014). This Shadow Budget would look at new ways to revise contractual arrangements with providers – pharmacists, dentists and dental hygienists, and phycologists – to improve the efficiency of spending in these areas.

Although government needs to spend more money to improve access to mental health services, more money alone will not ensure that all illnesses get treated in appropriate timeframes. It may be more advantageous to give a greater share of the overall budgetary spending on physiologists to hospitals and primary care doctors for outpatient needs.

The way in which the province pays for the delivery of health services matters. Paying hospitals, hospital-based doctors and necessary outpatient services for a needed intervention often results in silos of poorly coordinated care. This Shadow Budget would instead look at more bundled payments by procedure for hospital-based services (Sutherland and Hellsten 2017). And in primary care, this Shadow Budget would extend capitated payments to family doctors to include budgets for enrolled patient drugs, lab and diagnostic imaging budgets as part of the evolution in payment reforms for family doctors (Blomqvist and Busby 2011).

Labour and Education Policy

Many governments are struggling to respond to the challenges of precarious work – employment that is often more insecure and uncertain than traditional full-time employment, with greater prevalence for part-time work. Further, as wage gaps exist between temporary or part-time vis-à-vis full-time workers, policymakers have recently passed legislation intended to bridge these differences. While there are no ideal policy levers for addressing these issues, it should be recognized that, in general, increases to the minimum wage are a reasonable option available to policymakers. However, gradual and evaluated increases to the minimum wage are the best way to increase minimum wages over time. Ontario's recent, large increase in the minimum wage means that the right response for government should be to pause and evaluate. One particular concern is the impact on smaller municipalities that risk being most negatively affected.

This Shadow Budget would amend the current minimum wage in two ways, as recommended by Marchand (2017). First, it would allow for regional variation in minimum wages. This Shadow Budget would allow upper-tier and single-tier municipalities across the province the option to return to a lower minimum wage for a five-year period. New York has a similar policy, in which the minimum wage is highest in New York City than in other parts of the states. Second, this Shadow Budget would build a provision into the minimum wage legislation to reduce it in the case of a recession, as California has recently done.

As trade, technology and worker preferences continue to change the dynamic for skills desired by employers, a competitive labour force will need an abundance of core numeracy and literacy skills. For Ontario, the news on these scores is mixed. On literacy, the results are strong (EQAO 2015). In terms of numeracy, however, the results are alarming – only half of all grade 6 students in the province meet the provincial standard for numeracy and its OECD Programme for International Student Assessment (PISA) scores have plummeted over time, from 530 in 2003 to 509 in 2015, one of the largest drops among Canadian provinces, putting Ontario statistically below the average in Canada(Richards 2017). This needs

fixing. This Shadow Budget would continue the province's re-examination of the math curriculum and pedagogy, where the effectiveness of different pedagogies should be explored as potential causes (Stokke 2015). This Shadow Budget would also look at teacher preparedness and consider evaluating teacher knowledge in subject matter with the administration of student exams to teachers prior to the academic year. Insufficient results should require immediate intervention.

Furthermore, collecting, analysing, and reporting educational outcomes are essential to closing the achievement gap between more and less advantaged students. Including a question that identifies indigenous student in PISA tests is a great way to track educational achievement of indigenous students and help educators and policymakers to design more effective strategies to improve outcomes. The province should also oversample to ensure sufficiently large sample of indigenous student to produce reliable estimates at the district level and to perform urban/rural analysis (Richards and Mahboubi, forthcoming).

Many OECD countries consider Performance-Based Funding (PBF) systems for their post-secondary education, but Canadian provinces, including Ontario, lag behind in adopting this innovating way of financing. Usher (forthcoming) shows the benefits associated with PBF include less burden of funding negotiations, higher accountability of the post-secondary institutions, and greater competition between institutions, leading to a greater focus on results. A similar approach to competition in grants for research has been effective at improving the performance within universities, and should apply to universities themselves. The government needs to review its funding formula and learn from the experience of other developed countries.

Tax Policy

Commodity Taxation

Alcohol

In 2015-16, the Liquor Control Board of Ontario (LCBO) paid the provincial government a dividend of $1.9 billion. It also remitted $867 million to the federal and provincial governments in Harmonized Sales Tax, excise taxes and customs duties (LCBO 2016). In addition to the LCBO, there is a system of beer and off-winery stores, which operate as a quasi-monopoly thanks to government regulation. Masson and Sen (2014) find that freeing up alcoholic beverage retailing would result in increased government revenue, lower prices, and more convenience. They find that, other factors being equal, Western Canadian provinces with more beverage alcohol retail competition had 7 percent more per capita provincial alcohol profits than provinces with government-run monopolies. The province has begun to introduce beer sales at grocery stores. However, it has done so slowly with limits on the amount of sales by the store. This Shadow Budget would go further by auctioning licenses for other retail outlets. It would also auction licences for off-winery stores to other wineries and also to new wine retailers. The result would be increased provincial revenues and more choice for Ontario consumers.

This Shadow Budget would also revise taxation of alcoholic beverages. Currently, tax rates are fixed by type of beverage, currently ranging from 52 cents per litre to $1.06 per litre, depending on the type of manufacture, not alcohol strength. Wine is taxed as a percent of sale value and sprits are taxed at up to 38 cents per litre plus a percentage of the retail price. This Shadow Budget would graduate the tax on alcohol

to relate to alcohol content. This reform would target the health problems caused by alcohol, which is directly in line with the alcohol content of any drink (The Economist 2013).

Marijuana

The federal government has legalized marijuana for recreational consumption with legal sales scheduled to begin in July. The main policy objectives driving marijuana legalization are the improvement of public health and the minimization of the black market and its associated criminal activity. Ending the prohibition of marijuana involves coordination between all levels of government. Provinces must determine the structure, distribution, and regulation of the retail market and jointly determine taxation levels of marijuana with the federal and municipal governments.

Ontario has announced that it will restrict retailing of recreational marijuana to LCBO-run stores. Only 40 of these locations will be in place by next July 1, the federal target date for legalization, with a total of 150 locations expected by 2020. The province missed the opportunity to have a competitive market for retail marijuana. Independent businesses have an incentive to locate where market demand isn't being met and competition between businesses constrains operating costs and keeps prices low. Lower prices in the legal market make it more likely to be competitive with the existing black market.

The province's decision to enter the market also implies considerable resources will be expended in the construction and maintenance of stores, higher salary expenditures and other overhead costs. These will be met at the expense of other sectors, which will receive lower government funding.

Having few retail locations means that access to recreational marijuana will be inconvenient for a significant number of Ontarians. Recreational consumers are highly unlikely to switch their dollars to the regulated market if there isn't easy access. This means that there will be significant opportunity for the black market to continue operating in all the areas without enough legal stores to meet market demand or that are convenient to access. (By contrast, there are more than 650 LCBO outlets in the province.) Further, to levy penalties against illicit businesses will require significant justice and police resources. And since there won't be enough regulated retail outlets to meet market demand, it is likely that at least some of these businesses will still find it profitable to operate. This Shadow Budget would make retailing of marijuana competitive and allow for the licensing of privately-run retail stores. This could take the form of entirely private retail, as in Alberta. Alternately, licensed establishments could operate alongside government retail stores and deliver better market coverage faster than the crown corporation on its own.

Ontario has joined the federal government’s proposed coordinated excise tax framework for recreational marijuana. While Crown-corporation retail isn’t particularly competitive in terms of convenience, keeping taxes low will help ensure that the legal market will be price competitive with the illicit market. The tax rate on dried cannabis flowers will be $1 per gram or 10 percent, whichever is higher, with 75 percent of the revenue going to the provincial government. The revenue from this excise tax will initially be modest, bringing in $50 to $95 million in 2018 and $175 to $200 million annually by 2021.

Gasoline and Fuel

The government should be concerned about the prospect of declining revenues from fuel and gasoline taxes, which will intensify as vehicles become more fuel efficient and become increasingly electric. This Shadow Budget would begin a study of the potential to replace fuel taxes with tolls for use. Further, the best solution for traffic congestion is a road toll. Road pricing could also bring the price that drivers pay for

infrastructure they use closer to the actual cost of it. Gas taxes (which are about 75 to 80 per cent of road-related revenues), vehicle licences and other revenues from drivers have covered less than two-thirds of roadway expenses across Canada since 2008. Taxpayers should only subsidize transportation to the extent that it encourages broader access to all in society and the government should review whether a one-third subsidy is the appropriate amount of taxpayer subsidy for roads.

Personal Taxation

Income taxes affect individual and business incentives to earn income, save, invest, and take risks. Excessively high taxes at the margin can also drive tax avoidance behaviour.

At the personal level, the impact of income tax variations on work participation decisions is particularly acute for the secondary earner in families with children and lower-skilled workers. In general, lower income, less educated people have a greater tendency to adjust their paid work behaviour through workforce participation decisions, while more-educated workers and high-income earners tend to adjust through the number of hours they work (Duclos et al. 2015).

High income earners' taxable income has been shown to be particularly responsive to high marginal tax rates – through both tax planning avoidance behaviour and earnings decisions (Laurin 2015). And the sensitivity to rate changes is higher at the provincial level in response to provincial rate changes than at the federal level in response to federal changes. This is because high-income earners can take advantage of provincial tax rate differences by shifting their income tax attributes and work locations to the most tax-advantageous province (Milligan and Smart 2014).

Provinces like Ontario with one of the highest top combined federal and provincial marginal tax rates of over 53 percent on high-income earners should aim to reduce that rate to a level at or below 50 percent. The responsiveness to the change would have a beneficial impact on the tax base that would ensure a very low fiscal cost for the policy. Furthermore, the income tax system should be clear and transparent. Ontario has a surtax notionally in place for health care expenses. However, this tax is treated as general revenue. The province should replace this surtax and set income tax rates and brackets that transparently show the marginal tax rate people are paying.

Other tax changes should aim to lower the burden of taxes on secondary earners in family with children. This Shadow Budget would reform the tax recognition of child care expenses through the replacement of the child care expense deduction with the introduction of a new refundable tax credit for child care expenses. It would encourage stay-at-home parents to join the workforce, producing extra tax revenues, considerably limiting the net fiscal cost of its implementation (Laurin and Milligan 2017).

Also, typical labour arrangements are changing with technological change. Workers are becoming less attached to a single employer and move around more freely between projects and contracts. Their incomes are also more prone to be fluctuating from year to year – a period of low earnings followed by a year of higher earnings, or vice versa. But a worker with fluctuating income may end up paying more tax (and losing more income-tested government benefits) than another worker with a flat income profile but earning the same amount over a period of years. Wen and Gordon (2017) find that Canada's "fluctuation tax penalty" is most severe for individuals who earn lower incomes or are self-employed. This Shadow Budget would lessen the impact of fluctuating incomes on tax liability by allowing workers to average their

income over many years, so that any single large earning year would not lead to a disproportionate loss of fiscal benefits and higher tax payments.

Business Taxation

A properly designed business tax regime would provide for a common provincial tax rate for all businesses operating across the province, regardless of their location or sector. However, Ontario's tax regime selectively rewards a number of sectors, such as manufacturing, through the income tax system while punishing companies with overly high provincial property tax rates. The province of Ontario can simplify its tax regime, create a more level playing field across sectors and the province, and reduce the effective tax rate on new business investment all without reducing overall provincial revenues.

Eliminating Wasteful Business Tax Expenditures

The largest tax expenditure in the corporate income tax system, by far, is the Small Business Deduction, which costs Ontario over $2 billion in foregone revenue. A better alternative to the Small Business Deduction is a lower general corporate income tax rate. That is because the net impact of the Small Business Deduction is an expansion of the small business sector at the expense of large businesses. Since small firms are less productive than large firms, the Small Business Deduction lowers overall economic performance (Dachis and Lester 2015). This Shadow Budget would not proceed with any further cuts geared to small business.

Most Canadian provinces provide a tax incentive for innovation. They mimic the federal tax system which provides eligible businesses with a Scientific Research and Experimental Development (SR&ED) credit. Ontario provides a non-refundable tax-credit worth 3.5 percent of the value of eligible expenses for firms to deduct from their taxes. The total innovation tax incentive for Canadian businesses is one of the highest in the world, but Canada consistently lags behind international peers on measures of business innovation (Parsons 2011). The Ontario SR&ED credit comes at a large fiscal cost: a tax expenditure of $150 million in the 2017 calendar year (Ontario 2017). Instead of targeting up-front tax credits for innovation, a better solution to encouraging innovation is with a low overall income-tax rate (McKenzie 2006). In addition, the province provides manufacturing and processing businesses a preferential lower tax rate than those in the rest of the economy: 10 percent instead of the usual 11.5 percent. This lower rate cost taxpayers $290 million in the 2017 calendar year.

This Shadow Budget would eliminate the Ontario SR&ED credit and the lower rate for manufacturing and processing, and use that revenue to cut high provincial property tax rates that choke investment, as discussed below. It would also initiate a comprehensive review of tax expenditures to determine whether the existing tax expenditures are still appropriate or whether they should be redesigned as deductions or credits (see Robson and Laurin 2017). Tax expenditures can be removed when shown to be no longer effective, as the government has already committed to eliminating ineffective tuition and education tax credits, as recommended by Neill (2013).

Cutting Provincial Business Property Taxes – A Revenue Neutral Cut in Investment Taxes

Ontario took over the local education property tax from local school boards in 1998. School boards had widely varying tax rates across the province and by property type when the province took over. The province immediately made its residential tax rate the same for all residents across the province. It's a different story for businesses. Each year since 2007, the province has set a maximum tax rate, called

the ceiling rate, and a lower target rate designed to be revenue-neutral for the province. The province committed in its 2007 budget to lower higher rates down to the target rate over time, but the province has stalled on tax cuts since 2013.

The provincial property tax still varies wildly across cities and for different buildings within cities (See Figure 5a and 5b, which shows provincial rates for commercial and industrial properties). Provincial commercial property tax rates in some Ontario municipalities are more than three times those in others. The provincial tax is highest on industrial property across much of Southern Ontario. As Found (2017) shows, the average provincial business property tax rate is more than 6 times its residential counterpart.

Figure 5a: Provincial Commercial Property Taxes in Southern Ontario

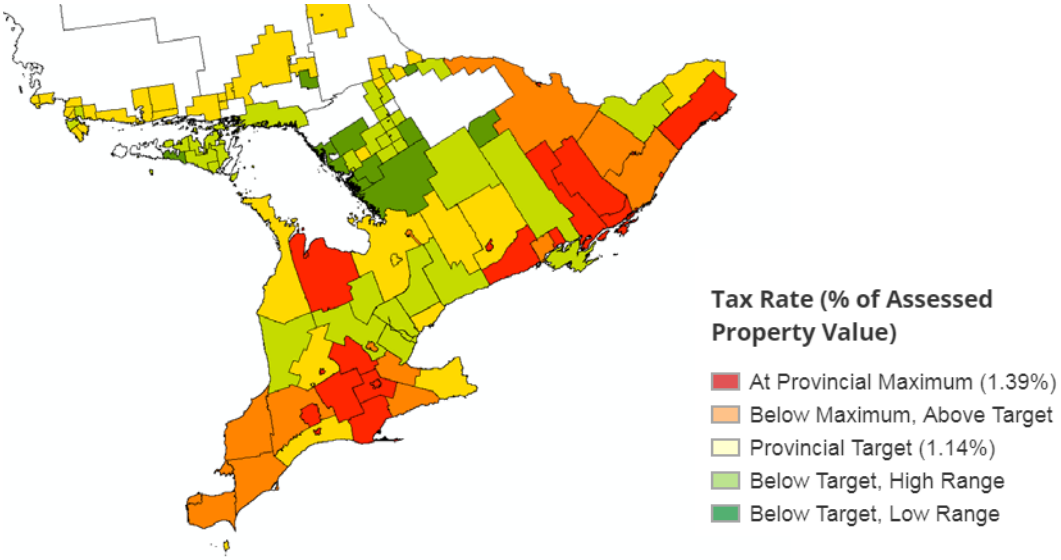
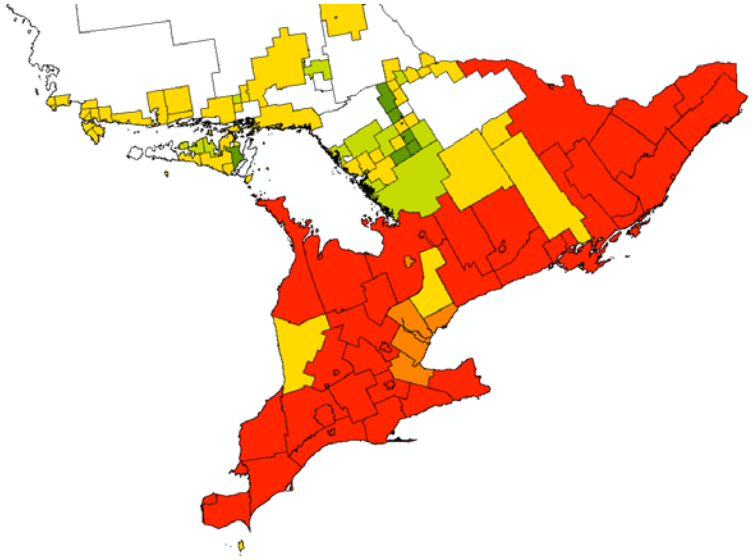


Figure 5b: Provincial Industrial Property Taxes in Southern Ontario



Source: Jacobs, Dachis and Found (2017). Results include Northern Ontario. Hollow areas not subject to provincial property tax.

Cities collect the money on behalf of the province after receiving a regulation from the province of how much to collect. In the 2017-18 fiscal year, the province will collect $6 billion in property taxes, which it reports as general revenue. Since different education tax rates by region have nothing to do with local school spending, each school board now gets a provincial top-up grant in order to level the playing field. Each school board`s total revenue is based on its enrolment and the needs of students, not the value of buildings in the area. That means the provincial property tax now has no bearing on school boards' spending. Yet, the province still uses the misleading name "education property tax" to describe it on tax bills.

These high property taxes have a large economic cost. Property taxes act like a tax on capital, specifically building capital. A tax on capital reduces the incentive to invest, resulting in lower investment which leads to lower productivity and therefore income and standards of living of Canadians. A 10 percent increase in commercial property tax rates decreases the long-run value of the business property assessment base by 8.2 percent. At the average level of business property taxation in Ontario, a $1.00 business property tax hike costs the Ontario economy $5.56 (Found 2017). Higher taxes shrink the tax base, which makes it harder for governments to raise revenues. The total business tax rates in some cities across Ontario – such as London, Windsor and Brantford – are so high that cities and the province might see revenues increase if they cut their taxes to attract more business investment.

This Shadow Budget proposes to complete the harmonization of business property tax rates. To make such a tax reform revenue-neutral, it proposes to eliminate the SR&ED credit and the lower manufacturing and processing corporate income tax rate and reduce provincial business property taxes that would reduce revenues by the same amount saved. Such a change would have a number of benefits. First, it would create a more level playing field across different types of businesses that currently face different tax rates. Secondly, it would improve fairness in the provincial property tax regime across the province. Third, a revenue-neutral property tax reduction would lower the marginal effective tax rate on new investment in most parts of the province – and almost all of Southern Ontario – by more than any increase in provincial income taxes would increase the effective rate. Property taxes have an especially large effect on tax costs on investment because they are insensitive to profit and are akin to a direct tax on capital (Found and Tomlinson 2017). Such a reduction in provincial property taxes would be largest for the same sectors that would see a removal of their special, lower income tax rate, across most of Southern Ontario.

Housing, Municipal, and Infrastructure Policy

This Shadow Budget would seek to lower the cost of housing across the province by taking steps to reduce barriers to construction and eliminating economically costly rent controls and transfer taxes. It would also fundamentally change the relationship between municipalities and the province by granting cities the ability to put their budgets on a sound financial footing and allow them more flexibility in financing infrastructure.

A Smart Housing Plan

The cost of housing in Ontario has increased dramatically in recent years. According to data from Brookfield's Real Property Solutions, home prices the Greater Toronto Area increased by more than 250 percent between January 2005 and the end of the 2017. In response, the province has taken steps such as introducing taxes on foreign buyers and rent controls. The government's policies have focused mostly on curtailing the demand of housing.

On April 20, 2017, the province introduced a 15 percent Non-Resident Speculation Tax in the Greater Toronto Area. This transfer tax is substantially higher than the existing provincial land transfer tax that has a maximum rate of 2.5 percent. Land transfer taxes such as these have a high economic cost of reducing the mobility of households (see Dachis 2012 and Dachis, Duranton, Turner 2008). In addition, land transfer taxes are highly volatile and present a large fiscal risk to the province if the housing market has a serious downturn (Ngo, Angastiniotis, and West 2017). This Shadow Budget would immediately eliminate the additional 15 percent tax and look to begin reductions in the general land transfer tax in future fiscal years.

On the same day, the province expanded rent control to all rental units in the province, rather than only those built before 1991, as was the case prior. Rent control is one of the few economic policies around which there is a solid, evidence-based consensus about its long-term effect on the cost of housing: it does not lower it in the long-run (Kronick 2017). The likely result of rent control is that housing developers will not build rental housing knowing they face a cap on potential returns, while facing no commensurate cap on their investment risk. The result will be fewer units available, leading to housing shortages. This Shadow Budget would phase out rent control on all rental units. It would start by reducing the extent to which rent control binds the market by increasing the allowable increase, doing so annually until eventual repeal. Rather than rely on rent control, this Shadow Budget would embrace the recent federal decision to create a Canada Housing Benefit that provides low-income renters with the funds to seek a wide range of market-priced rental units (Canada 2017). This Shadow Budget would re-orient financial support for housing construction, which is often part of transfers to local governments, as discussed below, to match the federal contribution in creating the Canada Housing Benefit.

Reducing the Cost of Housing

There is strong evidence that restrictions and extra costs on building new housing – such as zoning regulations, delays on permit approvals, development charges, and limits on greenfield housing development – are dramatically increasing the price of housing. Dachis and Thivierge (forthcoming) find that a limited lowering of these restrictions can reduce house prices in some municipalities in the Greater Toronto Area by around $100,000.

What can the province do to reduce supply barriers? Toronto heavily uses a clause in the provincial *Planning Act* – the legislation governing municipal zoning policy – that allows it to require additional payments from developers in exchange for a site-specific variance from zoning bylaws (Moore forthcoming). These additional payments, known as section 37 payments for the relevant part of the *Act*, increase uncertainty for developers and therefore increase the cost of housing. In addition, municipalities have an incentive to keep zoning bylaws out of date because updating them would take away the future section 37 payments. This Shadow Budget would place greater restrictions on the use of section 37 of the *Planning Act*, which would result in municipalities having a greater incentive to set more appropriate zoning regulations.

Developers pay development charges to compensate municipalities for the cost of building municipal infrastructure that services homes and commercial properties in a newly developed area. The largest single component of these charges is for water and wastewater construction (Dachis forthcoming). This Shadow Budget would require that cities replace development charges for water and wastewater infrastructure with volumetric uses fees that reflect capital costs. Such a move would reflect a change to a utility-based model and encourage conservation of water.

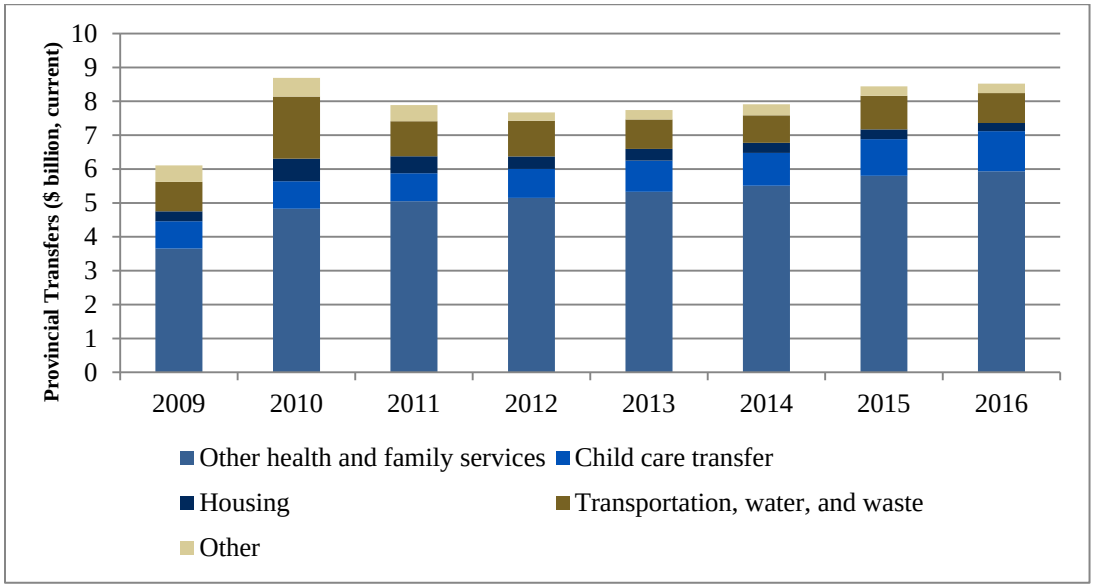
Finally, housing developers in GTA cities are facing a shortage of land available for new housing development (Clayton 2015). The primary cause is not because of the Greenbelt, a policy that forbids development on certain agricultural and parkland. Dachis and Thivierge (forthcoming) find that the main land-supply driven cause of higher house prices is not the Greenbelt, but the Growth Plan for the Greater Golden Horseshoe, a policy that requires cities in the GTA to approve a certain share of their homes within existing urban development boundaries and at a certain density. This Shadow Budget would relax the density and intensity targets that may not be appropriate across all cities subject to the Growth Plan while preserving the Greenbelt.

Rethinking Relative Municipal and Provincial Fiscal Health

One of the province's largest expenditures is on grants to municipalities. Transfers to municipalities have increased since 2009, including a large spike in 2010 to support infrastructure stimulus projects. Transfers to municipal governments from the province are now over $7 billion (Figure 6). Indeed, this trend is set to accelerate. In January of 2017, the province committed to double the amount of the fuel tax it transfers to municipal governments for transportation investment (Jones 2017). Ontario transferred $335 million in provincial gas tax revenue to municipal governments in 2017, and made a commitment to double the funding to bring the total transfer to $642 million by 2021-22.

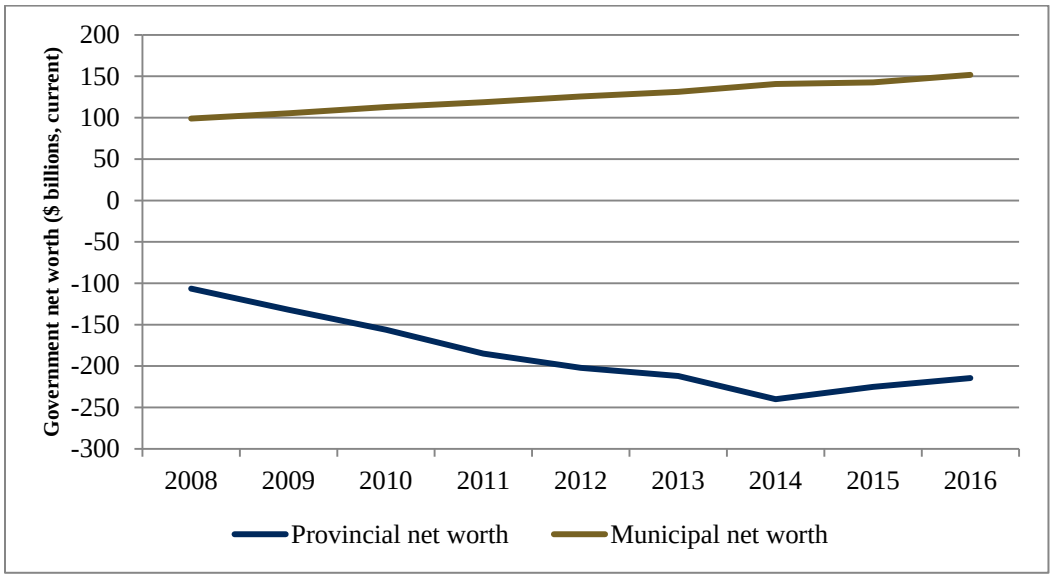
The largest share of transfers is for health services – such as public health – and for childcare benefits. The latter, in particular, are dispersed to municipalities under a complex set of qualification criteria. These programs are ripe for review and evaluation, as their impact on workforce participation and the ability for single-parent and underrepresented families to engage in the labour force are critical. The child care transfer has increased by nearly 50 percent since 2008 reaching $1.2 billion in 2016, suggesting that a review of the program is in order

Figure 6: Ontario Provincial Transfers to Municipalities, 2009-2016



Source: Authors' calculations from Ontario Financial Information Return. Note: Some small cities have not yet submitted their 2016 financial information.

Figure 7: Ontario Provincial and Municipal Net Worth, 2008-2016



Source: Authors' calculations from Cansim Tables 385-0034 and 385-0037.

Does it make sense for the province to send such grants to municipal governments? Ontario's municipalities are, on average, in better fiscal shape than the provincial government. They are major investors in capital assets, but unlike the province, whose chronic deficits have resulted in financial liabilities that vastly exceeds its financial and non-financial assets, Ontario municipalities have positive net worth. They have borrowed to finance some capital assets, but the value of their assets exceeds their debt by a substantial margin. In the nine years from 2008 to 2016, Ontario municipal governments have increased their net worth by more than 50 percent, registering an increase of over $50 billion (Figure 7). In contrast, provincial net indebtedness has approximately doubled over that time, even after a slight improvement in net asset values over the last two years.

The Important Difference between Municipal and Provincial Accounting

How did such a fiscal health imbalance come about? Transfers are often the result of cities claiming they are struggling to meet their service or infrastructure demands and then calling on the province for support. However, the way that cities present their budgets, especially relative to the way the province reports its finances, makes municipal finances appear more precarious than they actually are. Ontario municipalities typically use cash accounting in their budget.[1] However, the province – as well as municipal end-of-year financial statements – uses the accrual accounting standard. Accrual-based budgets appropriately do not record the entire cost of capital items as expenses in the year of the cash outlay, but apply annual amortization over their useful live. Figure 7 presents municipal and provincial finances on the equivalent accrual financial basis.

Presenting councillors with budgets that show outlays on such assets as in-year expenses (as cash budgeting does), rather than amortizing them as they deliver their services (as accrual accounting does),

[1] A common practice is to show expected cash outlays in a "capital" budget alongside an "operating" budget for items to be consumed and expensed during the year.

likely leads municipalities to delay or reject some capital projects they would otherwise approve. It also likely leads them to finance the projects they do approve by raising revenues up front, rather than by borrowing and servicing the debt over the period the project yields its benefits. The result is that today's taxpayers – whether through property taxes, grants to cities, or development charges on houses – are paying disproportionately more than they are receiving in municipal services.

Reframing the Municipal-Provincial Financial Relationship

This Shadow Budget would cancel the proposed doubling of the amount of provincial fuel taxes that the province transfers to municipal governments. In fact, it would go further to limit transfers to cities. As above, this Shadow Budget would begin a long-term commitment to reducing property taxes levied by the province. Every dollar of provincial property tax reduction creates tax room that municipalities can decide to take up. Cities would have the freedom to choose how best to finance local services or whether to increase or reduces taxes and services.

The province's commitment to double gasoline tax transfers to municipalities emerged as a response to the City of Toronto's request for the province to enact an enabling regulation permitting it to introduce a toll on municipally owned highways. The province forbade Toronto from the move, offering all cities the gasoline tax transfer instead. This Shadow Budget would allow cities the ability to introduce road pricing without requiring a provincial regulation, as long as the intention and design of the toll is to reduce congestion, not as a purely revenue-raising option.

In addition, instead of allowing cities to have parcel-by-parcel zoning amendments, as discussed above, this Shadow Budget would expand the ability of cities to put in place a tax-increment financing plan for major infrastructure. This would allow cities to capture some of the increase in property values that result from a new transportation or other municipal investment that increases the value of nearby properties (Found 2016).

Finally, this Shadow Budget would require municipal governments to produce their beginning-of-year budgets on an accrual basis. Importantly, it would not require that cities produce a balanced budget every calendar year and would instead enact a review of the appropriate fiscal and economic benchmarks that cities should adhere to under an accrual accounting system. A revised budget process would allow cities the flexibility they need to finance long-term infrastructure without relying on provincial grants or upfront revenues.

Transit Governance

Originally created in 2007, Metrolinx started with the intent of creating a regional transit plan for the Greater Toronto and Hamilton area with a board made up of local government officials. Two years later, Metrolinx expanded to become the GO Transit operator. The province then removed the local government officials from the Metrolinx board, which is now made up of people appointed by the province.

How can the region overcome local opposition to changes while finding a way to act in the regional interest? Right now, it's easy for local politicians to pass blame around, especially to an unelected transit board. One proposal is to create a single, amalgamated transit operator for the whole Greater Toronto Area

(Gill, Kelcey, Parker, 2017). But rather than amalgamation, which has shown to not result in significant savings (Bish, 2001, Found 2012), another approach is to restore the role of municipal governments on the board of Metrolinx.

Toronto should follow the Vancouver model, in which provincial legislation tasks a Mayor's Council made up of representatives from each of the region's 21 municipalities to appoint a board of Translink, the regional transit coordinating body. Translink has many subsidiary companies that operate transit services under contract (Translink 2017). The regional transit body is the regional coordinator, less than it is a regional authority and another new layer of government (Spicer and Found 2016). The reformed Metrolinx can contract with subsidiary transit operators, private contractors, or municipal governments that can supplement Metrolinx-supported routes.

Greenhouse Gas and Energy Policy

Greenhouse Gas Policy

This Shadow Budget would continue to increase the price on greenhouse gas emissions. This Shadow Budget does not take a position of the merits of a cap-and-trade program as opposed to a carbon tax. A carbon tax would be simpler to administer than a cap-and-trade program and would also generate more revenue for the province of Ontario. On the other hand, a cap-and-trade program that allows Ontario to link with the emissions permit market in California and Quebec allows for a lower cost on emissions to meet the same reduction target. Trading emissions permits across borders and between markets allows emissions reductions to occur wherever it is cheapest to do so, reducing the overall cost (Thivierge 2017).

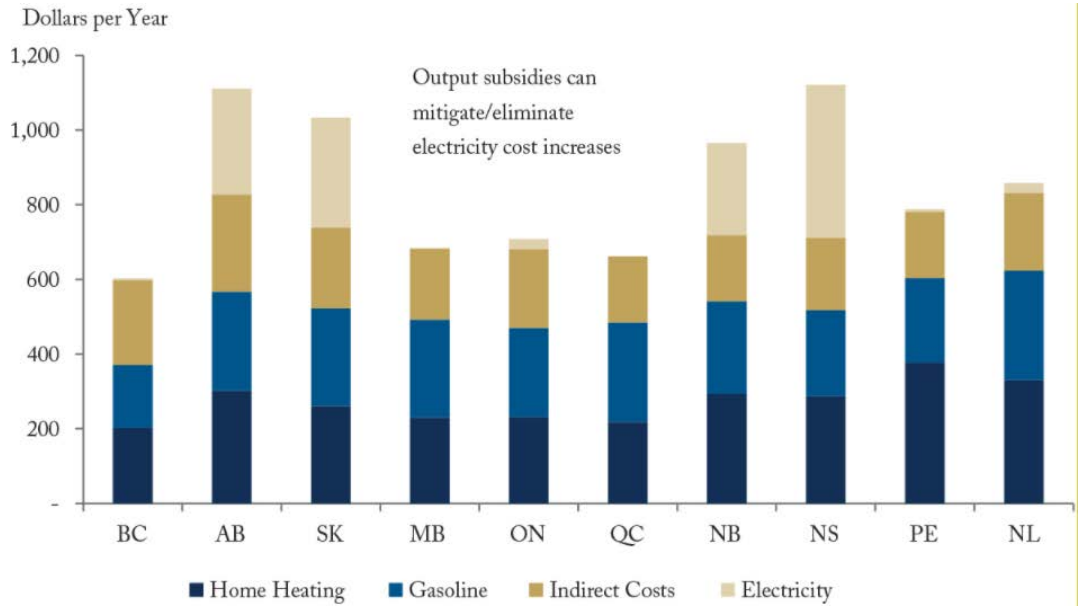
If prices on emissions rise to $50 per tonne, which they are set to with federal government policy, the upfront cost to the average Ontario household would be around $700 per year (Figure 8). However, the final cost to consumers will depend on how governments recycle that revenue back to households. It is on how the government plans to use the revenues from a carbon price that this Shadow Budget proposes a change of direction for the province of Ontario.

Eliminate Energy Efficiency Programs and Consumer Subsidies

The current plan for the government of Ontario is to spend between $6 and $8.3 billion over five years on projects intended to further emissions reductions beyond that planned to occur using the existing cap-and-trade policy (Ontario 2016). The government plans to finance the subsidies with revenues from an auction for permits that greenhouse-gas-emitting companies must buy. Many of the proposed spending programs are exceptionally costly. For example, subsidies to retrofit apartments will cost as much as $900 million over five years. They will cost taxpayers $425 per tonne of GHG emissions reduced, much higher than any reasonable estimate of future carbon prices. Another example of a wasteful subsidy is the Electric Vehicle Incentive Program, which provides incentives of up to $14,000 per electric vehicle.[2] These kinds of subsidies are regressive and economically costly ways to further reduce emissions (Rivers and Shiell 2015). Other announced programs will not have a direct cost to taxpayers, but will be costly to drivers, homeowners and businesses. The government is planning to boost the amount of renewable content in gasoline and natural gas. Renewable-fuel mandates push the cost onto consumers and are an economically expensive way to reduce emissions (Auld 2008).

[2] See http://www.mto.gov.on.ca/english/vehicles/electric/electric-vehicle-incentive-program.shtml

Figure 8: Cost of a $50/tonne of CO_2 price on typical household



Source: Dachis and Tombe (2017) from Jennifer Winter.

This Shadow Budget would eliminate nearly all of these existing subsidies and mandates and instead use the revenue to reduce taxation on households and businesses. The exact design of the tax cuts is outside of the scope of this Shadow Budget, but such a tax cut should promote two principles. First, it should reduce the average cost to businesses of emissions pricing while still providing a marginal incentive for them to reduce emissions. Second, households should receive tax cuts broadly in proportion to the cost of emissions pricing as a share of their income. This would mean tax cuts and enriching renewable tax credits geared to low-income families, for whom energy costs are a large share of total income.

To ensure industrial competitiveness, this Shadow Budget would adopt one of two paths. This Shadow Budget would prefer to adopt Alberta's emissions pricing policy, which is similar to the federal system. Producers in Alberta face little competitive disadvantage under this model. Although emitters pay the full cost of their own emissions, they receive a credit per unit of output, with the amount of the credit based on a provincial average emissions benchmark. Companies still have a strong incentive to reduce their emissions while having a minimal net impact on the competitiveness of industrial emitters. Indeed, companies with below-average emissions are better off in this system. This Shadow Budget would adopt a similar system if the cap-and-trade program is no longer the most effective means of putting a price on emissions. If, on balance, removing the apparatus of a cap-and-trade program for industrial emitters is too costly, it would preserve the system of allocating some permits for free to industrial producers.

Promote Long-term Energy Research

As research from Popp (2016) shows, a carbon price will drive 95 percent of the lowest-cost emissions reductions to meet reduction targets. Subsidies for energy adoption, as has been common in Ontario with electricity polices, encourages firms to use technology that is closest to market. Subsidies for adoption don't solve a market failure and don't encourage innovation. However, there is a market failure for longer-term energy research. The benefits of such research are broad, but the returns to firms of doing such research are relatively smaller, uncertain, and if they materialize at all will be far in the future. On their

own, research subsidies would achieve about 10 percent of economically efficient emissions reductions (Popp 2016). As such, this Shadow Budget would devote around 10 percent of revenues from an emissions price to long-term research.

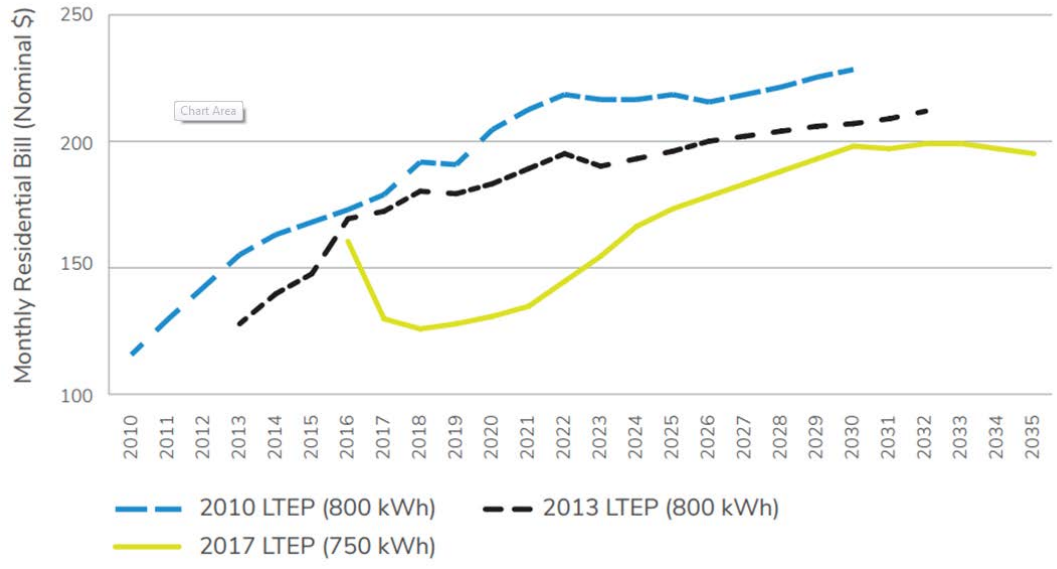
Electricity Policy

Few topics have generated as much controversy in Ontario as electricity policy, with a number of previous policies resulting in a dramatic increase in electricity prices (Trebilcock 2017). The government has taken a series of measures that will immediately reduce electricity prices for residential customers. However, within five years, prices are forecast to increase dramatically as the current policy does not address the actual cost of generating and delivering electricity, and relies on taxpayers and future ratepayers to subsidize electricity use today (Figure 9). Further, many industrial consumers are receiving no reduction to their bills. This Shadow Budget would take actions now that will begin to reduce system cost and reduce prices for businesses and consumers in the future.

Market Design and Regulation

The Independent Electricity System Operator (IESO), which manages the electricity market for Ontario, is undertaking a major market reform. The IESO projects that the market reform will reduce the cost of purchasing electricity by billions of dollars, eventually resulting in savings for consumers. The single-largest cost savings for consumers is set to come from the IESO adopting what is called a capacity market. A capacity market provides electricity generators with a revenue stream for being available to produce electricity, in addition to their revenues from selling electricity. Such a market is a major improvement to the government's previous approach of signing 20-year contracts with generators that effectively covers both. The government's plan is a sensible one that has been shown to be effective in a number of other jurisdictions, and this Shadow Budget would continue to proceed with it (see Goulding 2013 and Wyman 2014).

Figure 9: Electricity Price Outlook – Residential Consumers



Source: Ontario (2017b).

This Shadow Budget would propose the government look to take the market reform one step further by reforming the purchasing role of the IESO. The current proposal for the capacity market is to make the IESO the only buyer of generation contracts. The downside of that plan is that it does not create competition among potential electricity buyers. This Shadow Budget would delegate the purchasing power in the capacity market to local buying groups across the province. These local buying groups, known as load-serving entities, would have the ability to purchase electricity that suits local needs. Large business, currently limited to buying electricity from the IESO and paying a share of the Global Adjustment, which pays for capacity investments, could form their own load-serving entities and contract directly with generators. Further, these local buying groups would encourage consolidation of local distribution companies, to which we will return to below.

However, as Goulding (2013) argues, to be effective, the government must pair a capacity market with changes to improve the independence of Ontario's electricity regulatory bodies. Ontario governments of all political stripes haved directed various government agencies to take specific action in the electricity sector while circumventing regulators (Vegh 2016). This Shadow Budget would end the cycle of government price interventions, specific directives, and decisions on procurement by requiring the Ontario Energy Board to review all major decisions in the energy market with a mandate to approve actions only if they increase economic efficiency (see Church 2017 for a discussion of economic efficiency in regulatory hearings).

Economic efficiency means having an electricity market that has decisions determined by prices, and not arbitrary government rules. One of the most intrusive arbitrary government electricity market rules is the Industrial Conservation Initiative. In this program, eligible industrial consumers save money if they slash electricity use during the five highest Ontario-wide demand hours of the year. It's an arbitrary and expensive way to cut electricity costs for some (Sen 2015). Small businesses and residents pay higher bills because of the policy. Instead, this Shadow Budget would eliminate this program and let large consumers pay only for what they buy in a capacity market and the hourly electricity market.

Similarly, a portion of the electricity bills of Ontario households support subsidies for residential consumers to purchase smart thermostats and other energy-efficiency devices. These programs cost ratepayers $600 million in 2016 (Auditor General 2017b). As with direct government spending on such programs these programs often do not pass a cost-benefit test for the use of government fund. Many households would make such investments if energy prices were sufficiently high and they were sufficiently informed. This Shadow Budget would remove any directives requiring such energy efficiency measures, and grant the Ontario Energy Board the authority to approve or reject energy efficiency programs, such as the Industrial Conservation Initiative, based solely on whether they improve economic efficiency.

Encouraging Private Investment in the Ontario Energy Sector

As of 2017, municipal governments in the province owned local electricity distribution companies that had a value of $11 to $15 billion (Robins 2017a). Cities could sell these companies to finance infrastructure investment. Sales would have no negative effect on ratepayers, since the Ontario Energy Board keeps a close regulatory eye on all price changes regardless of who owns the companies. Furthermore, private investors are usually best placed to make the decisions about the appropriate boundaries of companies, geographically and across distribution, transmission and even generation investment. Private investors would bear the consequences of poor choices, but reap some of the rewards of good mergers (Fyfe, Garner,

and Vegh 2013). The incentives for these private-sector companies to keep costs down are often better aligned with ratepayers than those facing publicly owned electricity companies.

However, cities have not been able to take advantage of the value of these assets because of provincial taxes on such sales.[3] The province would collect $1.8 to $2.5 billion in such taxes (Robins 2017a). These overly high taxes pose a significant barrier to any sale. This year will be the last year of a three-year partial tax holiday on provincial transfer taxes in Ontario on the sales of municipally owned local electricity distribution companies. The intent of this tax change was to encourage mergers using private investors, rather than only encouraging merger with other government-owned companies. However, there have been few sales so far, partly because the tax holiday was limited largely to sales of very small companies. Private investor showed little appetite for such assets. This Shadow Budget would exempt municipalities entirely from all taxes on sales, as long as the proceeds of a sale are reinvested in qualifying infrastructure projects.

Private investment in provincially owned electricity assets has been a controversial topic, but a wise policy move. As Robins (2017b) argues, it is not necessary for the province to continue to own its minority share in Hydro One, the transmission utility, or Ontario Power Generation (OPG), a major power generator, if its policy objective is to keep electricity prices down. As with municipal companies, a strong Ontario Energy Board can protect consumers no matter the owner. A sale of the remaining government stake in Hydro One would net the province somewhere in the order of $7 billion and a sale of OPG could also generate substantial revenue.

The upfront revenue is not necessarily the best reason for the province to sell electricity assets. The main reason to sell is reduced risks. The sale would reduce dividends in the future, such as the $250 million from Hydro One. However, using such a sale to eliminate debt could result in cost-savings and reduced fiscal risks if interest rates increase. Second, the electricity sector is undergoing fundamental change. OPG and Hydro One deliver electricity in a traditional long-distance network. However, the electricity system of the future may look very different, with the emergence of small-scale renewable electricity generation. The result could be a decline in value of, and therefore dividends flowing to the treasury from, Hydro One and OPG. The best way for the province to mitigate that risk is to continue selling stakes in Hydro One and begin to include private investors in OPG.

Conclusion

A fiscally sustainable Ontario will mean higher standards of living for Canadians through better government services and faster economic growth. The province should take action to correct a fiscal course that is unsustainable. The government must act to bring the long-term cost of government in line with the revenue-raising capacity of the province. This Shadow Budget shows that there are a number of policy directions the government can and intends to take in areas as diverse as electricity, greenhouse gas, municipal, health, social and tax policy that can balance increases in spending with generating new revenues and cost-savings measures, and generally enhancing the well-being of Ontarians.

[3] See Fyfe, Garner, and Vegh (2013) for more details on the complex system of transfer and departure taxes in the Ontario local electricity distribution sector.

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A Shadow Budget for Ontario, 2018-2019

*Draft not for circulation

January 24, 2018

As Ontario enters an election year, the policy debate will likely involve the difficult choices the province faces regarding the fiscal outlook and long-term sustainability of a number of government programs. The budget the provincial government puts in place for the 2018-19 fiscal year will lay out a framework for the debate in the coming months.

To aid this debate, the C.D. Howe Institute has launched its inaugural Shadow Budget for Ontario, following similar Shadow Budgets at the federal level (see last year's edition from Robson, Laurin, and Wyonch 2017). This Shadow Budget shows that the fiscal course the province is currently on is unsustainable. This Shadow Budget would act to bring the long-term cost of government in line with the revenue-raising capacity of the province. It would balance increases in spending and cuts to poorly designed taxes with new ways to generate revenues and reducing spending on ineffective programs.

Although providing specific costing of programs is outside of the scope of this Shadow Budget, it presents an overview of policy directions that balance increases in spending with generating new revenues and cost-savings measures. This Shadow Budget proposes to:

- Restate the province's books to reflect the Auditor General's concerns about incorrect treatment of pension assets and electricity-sector debt;
- Reduce future expense growth to reach a balanced budget as soon as possible;
- Adopt long-term fiscal policy – which requires surpluses, not just balanced budgets – that meets the government's debt-to-GDP target ratio of 27 percent;
- Contain healthcare costs by extending capitated payments to family doctors and revising contractual arrangements with healthcare providers;
- Slow the increase in the minimum wage and focus on improving education and to create economic opportunities for Ontarians;
- Adopt an indigenous identifier in standardized test and oversample indigenous students to permit reliable rural-urban and district-level analysis;
- Modernize funding formulas for post-secondary education by taking outcomes into consideration;
- Reform the school curriculum with an emphasis on improving math performance;
- Open retailing for alcohol and marijuana and revising the tax scheme for both products;
- Adopt personal income tax reforms that reflect the cost of raising children, while reforming personal income taxes to lower high marginal rates, which occur even at low incomes;
- Replace targeted business tax breaks with lower provincial business property taxes to create a level playing field across the province and across different types of businesses;
- Rethink the fiscal relationship between municipal government and the province by retooling grants and transit governance while modernizing municipal financial reporting to match that of the province;
- Reduce the cost that governments impose on building new housing;
- Retain the plan to price greenhouse gas emissions, but re-focus the government plans to spend money raised by such a price away from cost-inefficient programs; and
- Seek out long-term cost savings in the electricity sector, as opposed to short-term fixes that only add to the long-term cost of energy.

The Fiscal Outlook

This Shadow Budget adopts the consensus view of the independent officers of the Ontario legislature – the Auditor General and Financial Accountability Office – as the authoritative outlook of the short-, medium-, and long-term fiscal outlook. While the government may claim to have balanced the budget for 2017-18,

that declaration is in the eye of the beholder and the medium- and long-term fiscal outlook for Ontario is dire.

Cleaning up Ontario's Books – The Short Term Deficit Debate

The government has made the argument that it has reached a balanced budget. However, the Auditor General has two specific objections related to this claim because of the government's accounting treatment of pensions and whether the recent Fair Hydro Plan amounts to new spending.

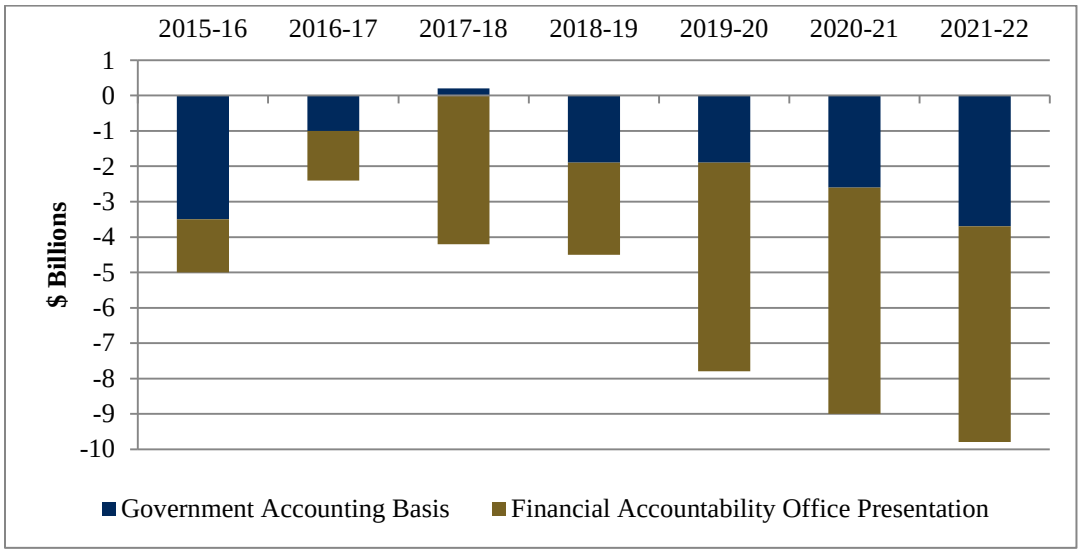
The pension dispute centres on the government's treatment of the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP). The province has decided to report the full asset value of the plan on the province's balance sheet, which neglects the fact that future retirees already have a claim on these assets. Doing so reduces the deficit and the Auditor General (2016) objects to this. Further, as Robson and Laurin (2016) argue, the government discounts OTPP and OPSEUPP liabilities by more than the plans do themselves. This understates the liabilities provincial taxpayers face.

However, the view of the Auditor General is not universally shared. The Ontario government appointed a Pension Asset Expert Advisory Panel to advise on the difference of opinion between the government and Auditor General. The Panel's Report (2017) argued that an asset does exist for the government, saying that the government does have sufficient access to the plan's assets, if even just through reducing contributions to the plans, to merit including it. However, given that we have taken the Financial Accountability Office's presentation of financial data, which is independent of both the government and the Auditor General, we have decided to use the presentation of provincial finances as recommended by the Auditor General.

The second dispute hinges on the Fair Hydro Plan. As the Auditor General (2017a) points out, the government "is making up its own accounting rules" by creating an accounting asset for a government-controlled entity to offset the debt the province placed on another government-controlled entity. The asset the government created only exists because of legislation that gives a government entity the authority to collect higher prices in the future. The true value of this asset should be zero, or highly discounted, because of great uncertainty of the ability to collect higher prices in the future. For example, electricity markets may change because of technology, making it impossible for a central government agency to collect future revenues to pay this debt. As such, this debt should be reflected in the province's financial statements now. Incorporating the debt amount in today's books means that the proper accounting treatment would increase the deficit by $2.5 billion per year through to 2027.

This Shadow Budget would restate the province's books to reflect the Auditor General's concerns. It would restate the province's finances to show a deficit in the upcoming 2018-2019 fiscal year to be about $7 billion (Figure 1).

Figure 1: Ontario Budget Balance



Source: Financial Accountability Office of Ontario. Does not include reserve fund. 2017-18 and beyond are projections by the Financial Accountability Office.

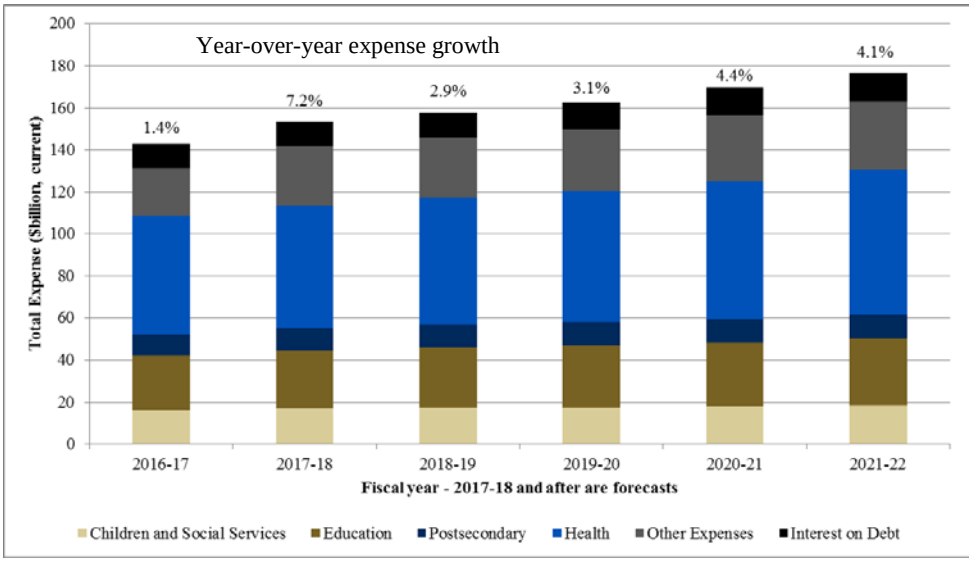
Medium-term Fiscal Sustainability

The question of whether there is a deficit for the 2017-18 fiscal year is far less important, from the point of view of the sustainability of public finances, than future trends. Under current trends, the deficit would rise to nearly $10 billion by 2021-22 (Figure 1), according to the Financial Accountability Office (2017a). These long-term deficits will return because of two main causes: the deficits the government should account for under the Fair Hydro Plan, as discussed above, and fast-rising expenses. Future revenues are not likely to grow as fast in the future as in previous years because of a number of factors, such as one-time revenues that have come in recently and economic growth that is likely to slow. Further, the Financial Accountability Office (2017a) argues that the government has made overly optimistic revenue forecasts that rely on above-trend income growth in the province and corporate income tax receipts.

The province can look to balance its budget in the near future in a number of ways. First, it can look to increase revenues. It can do so through short-term revenue gains such as sales of provincial assets – as this Shadow Budget will suggest in more detail below. Alternatively, it can raise tax rates, such as the provincial component of the HST. Or, it may seek more grants from the federal government. However, aside from hiking tax rates, none of these steps to increase revenues are directly within the control of the province or offer more than a single year's worth of solutions.

The province must address fast-growing spending to reduce future deficits. The first trend that this Shadow Budget would address is the projected pattern of total spending growth. 2017-18 spending is forecast to grow at over 7 percent over the previous year's spending. This kind of spending growth is unsustainable. Future expenses beyond 2020 of over 4 percent are also likely unsustainable. This Shadow Budget would aim to reduce future expense growth to reach a balanced budget as soon as possible.

Figure 2: Ontario Provincial Spending and Year-over-Year Spending Growth Rates

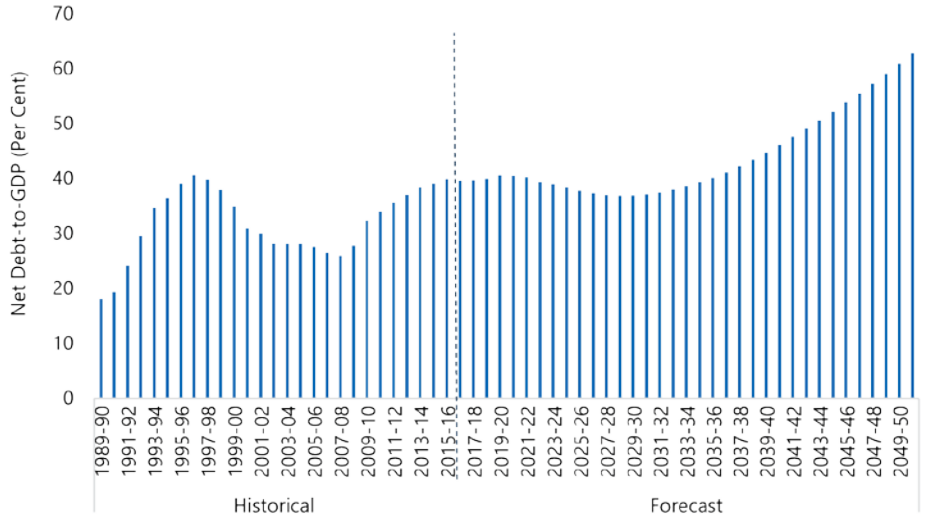


Source: Financial Accountability Office of Ontario

Long-term Fiscal Sustainability

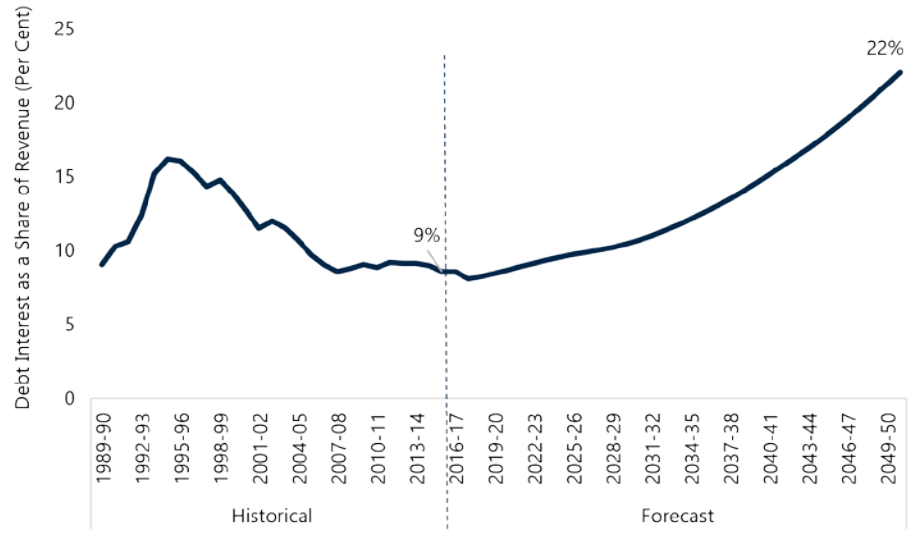
Balanced budgets will not be enough for Ontario to be fiscally sustainable. The government has targeted a net debt-to-GDP ratio of 27 percent, a sensible target that is similar to that of the federal government of 25 percent of GDP. This Shadow Budget would continue pursuing such a target and take the necessary action to achieve it within 15 years. As the Financial Accountability Office (2017b) projects, achieving 27 per cent requires the province to run budget surpluses until 2033-34. If the province continues on the current trend, and not run first balanced budgets and then surpluses, the net debt-to-GDP ratio will reach 63 percent by 2050-51 (Figure 3).

Figure 3: Net-Debt-to-GDP, Under Current Fiscal Trajectory



Source: Financial Accountability Office of Ontario

Figure 4: Interest Expense as a Share of Revenue



Source: Financial Accountability Office of Ontario

If the government doesn't tackle the long-term fiscal challenges, the cost of debt will take up an enormous share of total government revenues. Interest costs currently sit at 9 percent of revenues; at current trends, interest costs will increase to 22 percent in 2050-51 (Figure 4). If debt costs take up a large share of total revenues, that will leave less for other needs.

Health Policy

Given that Ontario spends roughly half of its own-source revenues (which excludes transfers from the federal government) on health, getting good value for money in healthcare will be critical for the financial and societal well-being of Ontarians. Although the province has successfully contained the annual growth of healthcare spending from 2010 to 2015 to 2.4 percent, on average, the rate of health spending is starting to tick upwards again alongside worries about emergency room overcrowding, long waits for long-term care beds as well as overburdened caregivers . Progress on addressing these issues – in addition to limiting public and private gaps in coverage for prescription drugs, dental services and mental health – while allocating reasonable increases for health spending, is a critical challenge.

Efforts to enable self-directed homecare services – such as recent moves to increase the number of hours nurses, personal support workers, and therapists will provide care in homes – should help alleviate the emergency room pressures for elderly patients, and these programs should continue to expand on their current trajectory. Relative to providers, patients with mild to modest physical disabilities are more likely to know the abilities of family and informal caregivers to offer care and their schedules, and which services they would prefer to have delivered by other health professionals. Although there are some legitimate concerns about patient's ability to choose among groups of healthcare professionals to meet their needs, there should still be enough flexibility around the use of self-directed home care budgets to ensure appropriate innovation from those delivering services. This means sufficient flexibility in how patients select and schedule professional help.

Ensuring that people without private insurance for dental, drug and mental health services get access to services is also a priority for healthcare policy. On this score, there are a number of avenues to ensure appropriate coverage and do so at minimal public cost, including the expansion of these services among the most vulnerable (Blomqvist and Busby 2016, Busby and Pedde 2014). This Shadow Budget would look at new ways to revise contractual arrangements with providers – pharmacists, dentists and dental hygienists, and phycologists – to improve the efficiency of spending in these areas.

Although government needs to spend more money to improve access to mental health services, more money alone will not ensure that all illnesses get treated in appropriate timeframes. It may be more advantageous to give a greater share of the overall budgetary spending on physiologists to hospitals and primary care doctors for outpatient needs.

The way in which the province pays for the delivery of health services matters. Paying hospitals, hospital-based doctors and necessary outpatient services for a needed intervention often results in silos of poorly coordinated care. This Shadow Budget would instead look at more bundled payments by procedure for hospital-based services (Sutherland and Hellsten 2017). And in primary care, this Shadow Budget would extend capitated payments to family doctors to include budgets for enrolled patient drugs, lab and diagnostic imaging budgets as part of the evolution in payment reforms for family doctors (Blomqvist and Busby 2011).

Labour and Education Policy

Many governments are struggling to respond to the challenges of precarious work – employment that is often more insecure and uncertain than traditional full-time employment, with greater prevalence for part-time work. Further, as wage gaps exist between temporary or part-time vis-à-vis full-time workers, policymakers have recently passed legislation intended to bridge these differences. While there are no ideal policy levers for addressing these issues, it should be recognized that, in general, increases to the minimum wage are a reasonable option available to policymakers. However, gradual and evaluated increases to the minimum wage are the best way to increase minimum wages over time. Ontario's recent, large increase in the minimum wage means that the right response for government should be to pause and evaluate. One particular concern is the impact on smaller municipalities that risk being most negatively affected.

This Shadow Budget would amend the current minimum wage in two ways, as recommended by Marchand (2017). First, it would allow for regional variation in minimum wages. This Shadow Budget would allow upper-tier and single-tier municipalities across the province the option to return to a lower minimum wage for a five-year period. New York has a similar policy, in which the minimum wage is highest in New York City than in other parts of the states. Second, this Shadow Budget would build a provision into the minimum wage legislation to reduce it in the case of a recession, as California has recently done.

As trade, technology and worker preferences continue to change the dynamic for skills desired by employers, a competitive labour force will need an abundance of core numeracy and literacy skills. For Ontario, the news on these scores is mixed. On literacy, the results are strong (EQAO 2015). In terms of numeracy, however, the results are alarming – only half of all grade 6 students in the province meet the provincial standard for numeracy and its OECD Programme for International Student Assessment (PISA) scores have plummeted over time, from 530 in 2003 to 509 in 2015, one of the largest drops among Canadian provinces, putting Ontario statistically below the average in Canada(Richards 2017). This needs

fixing. This Shadow Budget would continue the province's re-examination of the math curriculum and pedagogy, where the effectiveness of different pedagogies should be explored as potential causes (Stokke 2015). This Shadow Budget would also look at teacher preparedness and consider evaluating teacher knowledge in subject matter with the administration of student exams to teachers prior to the academic year. Insufficient results should require immediate intervention.

Furthermore, collecting, analysing, and reporting educational outcomes are essential to closing the achievement gap between more and less advantaged students. Including a question that identifies indigenous student in PISA tests is a great way to track educational achievement of indigenous students and help educators and policymakers to design more effective strategies to improve outcomes. The province should also oversample to ensure sufficiently large sample of indigenous student to produce reliable estimates at the district level and to perform urban/rural analysis (Richards and Mahboubi, forthcoming).

Many OECD countries consider Performance-Based Funding (PBF) systems for their post-secondary education, but Canadian provinces, including Ontario, lag behind in adopting this innovating way of financing. Usher (forthcoming) shows the benefits associated with PBF include less burden of funding negotiations, higher accountability of the post-secondary institutions, and greater competition between institutions, leading to a greater focus on results. A similar approach to competition in grants for research has been effective at improving the performance within universities, and should apply to universities themselves. The government needs to review its funding formula and learn from the experience of other developed countries.

Tax Policy

Commodity Taxation

Alcohol

In 2015-16, the Liquor Control Board of Ontario (LCBO) paid the provincial government a dividend of $1.9 billion. It also remitted $867 million to the federal and provincial governments in Harmonized Sales Tax, excise taxes and customs duties (LCBO 2016). In addition to the LCBO, there is a system of beer and off-winery stores, which operate as a quasi-monopoly thanks to government regulation. Masson and Sen (2014) find that freeing up alcoholic beverage retailing would result in increased government revenue, lower prices, and more convenience. They find that, other factors being equal, Western Canadian provinces with more beverage alcohol retail competition had 7 percent more per capita provincial alcohol profits than provinces with government-run monopolies. The province has begun to introduce beer sales at grocery stores. However, it has done so slowly with limits on the amount of sales by the store. This Shadow Budget would go further by auctioning licenses for other retail outlets. It would also auction licences for off-winery stores to other wineries and also to new wine retailers. The result would be increased provincial revenues and more choice for Ontario consumers.

This Shadow Budget would also revise taxation of alcoholic beverages. Currently, tax rates are fixed by type of beverage, currently ranging from 52 cents per litre to $1.06 per litre, depending on the type of manufacture, not alcohol strength. Wine is taxed as a percent of sale value and sprits are taxed at up to 38 cents per litre plus a percentage of the retail price. This Shadow Budget would graduate the tax on alcohol

to relate to alcohol content. This reform would target the health problems caused by alcohol, which is directly in line with the alcohol content of any drink (The Economist 2013).

Marijuana

The federal government has legalized marijuana for recreational consumption with legal sales scheduled to begin in July. The main policy objectives driving marijuana legalization are the improvement of public health and the minimization of the black market and its associated criminal activity. Ending the prohibition of marijuana involves coordination between all levels of government. Provinces must determine the structure, distribution, and regulation of the retail market and jointly determine taxation levels of marijuana with the federal and municipal governments.

Ontario has announced that it will restrict retailing of recreational marijuana to LCBO-run stores. Only 40 of these locations will be in place by next July 1, the federal target date for legalization, with a total of 150 locations expected by 2020. The province missed the opportunity to have a competitive market for retail marijuana. Independent businesses have an incentive to locate where market demand isn't being met and competition between businesses constrains operating costs and keeps prices low. Lower prices in the legal market make it more likely to be competitive with the existing black market.

The province's decision to enter the market also implies considerable resources will be expended in the construction and maintenance of stores, higher salary expenditures and other overhead costs. These will be met at the expense of other sectors, which will receive lower government funding.

Having few retail locations means that access to recreational marijuana will be inconvenient for a significant number of Ontarians. Recreational consumers are highly unlikely to switch their dollars to the regulated market if there isn't easy access. This means that there will be significant opportunity for the black market to continue operating in all the areas without enough legal stores to meet market demand or that are convenient to access. (By contrast, there are more than 650 LCBO outlets in the province.) Further, to levy penalties against illicit businesses will require significant justice and police resources. And since there won't be enough regulated retail outlets to meet market demand, it is likely that at least some of these businesses will still find it profitable to operate. This Shadow Budget would make retailing of marijuana competitive and allow for the licensing of privately-run retail stores. This could take the form of entirely private retail, as in Alberta. Alternately, licensed establishments could operate alongside government retail stores and deliver better market coverage faster than the crown corporation on its own.

Ontario has joined the federal government’s proposed coordinated excise tax framework for recreational marijuana. While Crown-corporation retail isn’t particularly competitive in terms of convenience, keeping taxes low will help ensure that the legal market will be price competitive with the illicit market. The tax rate on dried cannabis flowers will be $1 per gram or 10 percent, whichever is higher, with 75 percent of the revenue going to the provincial government. The revenue from this excise tax will initially be modest, bringing in $50 to $95 million in 2018 and $175 to $200 million annually by 2021.

Gasoline and Fuel

The government should be concerned about the prospect of declining revenues from fuel and gasoline taxes, which will intensify as vehicles become more fuel efficient and become increasingly electric. This Shadow Budget would begin a study of the potential to replace fuel taxes with tolls for use. Further, the best solution for traffic congestion is a road toll. Road pricing could also bring the price that drivers pay for

infrastructure they use closer to the actual cost of it. Gas taxes (which are about 75 to 80 per cent of road-related revenues), vehicle licences and other revenues from drivers have covered less than two-thirds of roadway expenses across Canada since 2008. Taxpayers should only subsidize transportation to the extent that it encourages broader access to all in society and the government should review whether a one-third subsidy is the appropriate amount of taxpayer subsidy for roads.

Personal Taxation

Income taxes affect individual and business incentives to earn income, save, invest, and take risks. Excessively high taxes at the margin can also drive tax avoidance behaviour.

At the personal level, the impact of income tax variations on work participation decisions is particularly acute for the secondary earner in families with children and lower-skilled workers. In general, lower income, less educated people have a greater tendency to adjust their paid work behaviour through workforce participation decisions, while more-educated workers and high-income earners tend to adjust through the number of hours they work (Duclos et al. 2015).

High income earners' taxable income has been shown to be particularly responsive to high marginal tax rates – through both tax planning avoidance behaviour and earnings decisions (Laurin 2015). And the sensitivity to rate changes is higher at the provincial level in response to provincial rate changes than at the federal level in response to federal changes. This is because high-income earners can take advantage of provincial tax rate differences by shifting their income tax attributes and work locations to the most tax-advantageous province (Milligan and Smart 2014).

Provinces like Ontario with one of the highest top combined federal and provincial marginal tax rates of over 53 percent on high-income earners should aim to reduce that rate to a level at or below 50 percent. The responsiveness to the change would have a beneficial impact on the tax base that would ensure a very low fiscal cost for the policy. Furthermore, the income tax system should be clear and transparent. Ontario has a surtax notionally in place for health care expenses. However, this tax is treated as general revenue. The province should replace this surtax and set income tax rates and brackets that transparently show the marginal tax rate people are paying.

Other tax changes should aim to lower the burden of taxes on secondary earners in family with children. This Shadow Budget would reform the tax recognition of child care expenses through the replacement of the child care expense deduction with the introduction of a new refundable tax credit for child care expenses. It would encourage stay-at-home parents to join the workforce, producing extra tax revenues, considerably limiting the net fiscal cost of its implementation (Laurin and Milligan 2017).

Also, typical labour arrangements are changing with technological change. Workers are becoming less attached to a single employer and move around more freely between projects and contracts. Their incomes are also more prone to be fluctuating from year to year – a period of low earnings followed by a year of higher earnings, or vice versa. But a worker with fluctuating income may end up paying more tax (and losing more income-tested government benefits) than another worker with a flat income profile but earning the same amount over a period of years. Wen and Gordon (2017) find that Canada's "fluctuation tax penalty" is most severe for individuals who earn lower incomes or are self-employed. This Shadow Budget would lessen the impact of fluctuating incomes on tax liability by allowing workers to average their

income over many years, so that any single large earning year would not lead to a disproportionate loss of fiscal benefits and higher tax payments.

Business Taxation

A properly designed business tax regime would provide for a common provincial tax rate for all businesses operating across the province, regardless of their location or sector. However, Ontario's tax regime selectively rewards a number of sectors, such as manufacturing, through the income tax system while punishing companies with overly high provincial property tax rates. The province of Ontario can simplify its tax regime, create a more level playing field across sectors and the province, and reduce the effective tax rate on new business investment all without reducing overall provincial revenues.

Eliminating Wasteful Business Tax Expenditures

The largest tax expenditure in the corporate income tax system, by far, is the Small Business Deduction, which costs Ontario over $2 billion in foregone revenue. A better alternative to the Small Business Deduction is a lower general corporate income tax rate. That is because the net impact of the Small Business Deduction is an expansion of the small business sector at the expense of large businesses. Since small firms are less productive than large firms, the Small Business Deduction lowers overall economic performance (Dachis and Lester 2015). This Shadow Budget would not proceed with any further cuts geared to small business.

Most Canadian provinces provide a tax incentive for innovation. They mimic the federal tax system which provides eligible businesses with a Scientific Research and Experimental Development (SR&ED) credit. Ontario provides a non-refundable tax-credit worth 3.5 percent of the value of eligible expenses for firms to deduct from their taxes. The total innovation tax incentive for Canadian businesses is one of the highest in the world, but Canada consistently lags behind international peers on measures of business innovation (Parsons 2011). The Ontario SR&ED credit comes at a large fiscal cost: a tax expenditure of $150 million in the 2017 calendar year (Ontario 2017). Instead of targeting up-front tax credits for innovation, a better solution to encouraging innovation is with a low overall income-tax rate (McKenzie 2006). In addition, the province provides manufacturing and processing businesses a preferential lower tax rate than those in the rest of the economy: 10 percent instead of the usual 11.5 percent. This lower rate cost taxpayers $290 million in the 2017 calendar year.

This Shadow Budget would eliminate the Ontario SR&ED credit and the lower rate for manufacturing and processing, and use that revenue to cut high provincial property tax rates that choke investment, as discussed below. It would also initiate a comprehensive review of tax expenditures to determine whether the existing tax expenditures are still appropriate or whether they should be redesigned as deductions or credits (see Robson and Laurin 2017). Tax expenditures can be removed when shown to be no longer effective, as the government has already committed to eliminating ineffective tuition and education tax credits, as recommended by Neill (2013).

Cutting Provincial Business Property Taxes – A Revenue Neutral Cut in Investment Taxes

Ontario took over the local education property tax from local school boards in 1998. School boards had widely varying tax rates across the province and by property type when the province took over. The province immediately made its residential tax rate the same for all residents across the province. It's a different story for businesses. Each year since 2007, the province has set a maximum tax rate, called

the ceiling rate, and a lower target rate designed to be revenue-neutral for the province. The province committed in its 2007 budget to lower higher rates down to the target rate over time, but the province has stalled on tax cuts since 2013.

The provincial property tax still varies wildly across cities and for different buildings within cities (See Figure 5a and 5b, which shows provincial rates for commercial and industrial properties). Provincial commercial property tax rates in some Ontario municipalities are more than three times those in others. The provincial tax is highest on industrial property across much of Southern Ontario. As Found (2017) shows, the average provincial business property tax rate is more than 6 times its residential counterpart.

Figure 5a: Provincial Commercial Property Taxes in Southern Ontario

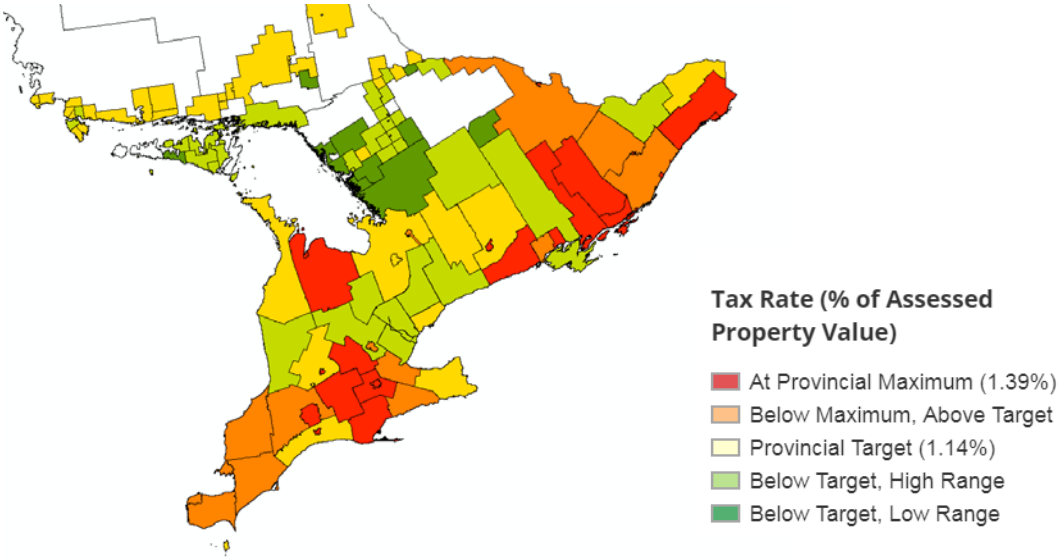
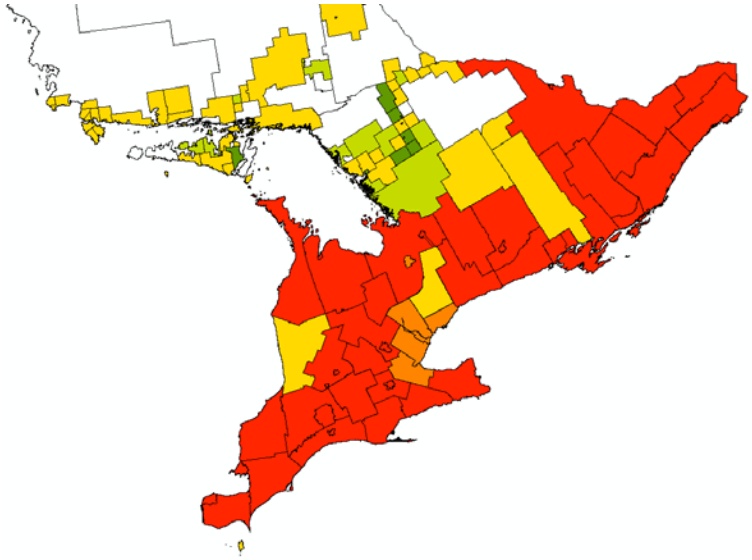


Figure 5b: Provincial Industrial Property Taxes in Southern Ontario



Source: Jacobs, Dachis and Found (2017). Results include Northern Ontario. Hollow areas not subject to provincial property tax.

Cities collect the money on behalf of the province after receiving a regulation from the province of how much to collect. In the 2017-18 fiscal year, the province will collect $6 billion in property taxes, which it reports as general revenue. Since different education tax rates by region have nothing to do with local school spending, each school board now gets a provincial top-up grant in order to level the playing field. Each school board`s total revenue is based on its enrolment and the needs of students, not the value of buildings in the area. That means the provincial property tax now has no bearing on school boards' spending. Yet, the province still uses the misleading name "education property tax" to describe it on tax bills.

These high property taxes have a large economic cost. Property taxes act like a tax on capital, specifically building capital. A tax on capital reduces the incentive to invest, resulting in lower investment which leads to lower productivity and therefore income and standards of living of Canadians. A 10 percent increase in commercial property tax rates decreases the long-run value of the business property assessment base by 8.2 percent. At the average level of business property taxation in Ontario, a $1.00 business property tax hike costs the Ontario economy $5.56 (Found 2017). Higher taxes shrink the tax base, which makes it harder for governments to raise revenues. The total business tax rates in some cities across Ontario – such as London, Windsor and Brantford – are so high that cities and the province might see revenues increase if they cut their taxes to attract more business investment.

This Shadow Budget proposes to complete the harmonization of business property tax rates. To make such a tax reform revenue-neutral, it proposes to eliminate the SR&ED credit and the lower manufacturing and processing corporate income tax rate and reduce provincial business property taxes that would reduce revenues by the same amount saved. Such a change would have a number of benefits. First, it would create a more level playing field across different types of businesses that currently face different tax rates. Secondly, it would improve fairness in the provincial property tax regime across the province. Third, a revenue-neutral property tax reduction would lower the marginal effective tax rate on new investment in most parts of the province – and almost all of Southern Ontario – by more than any increase in provincial income taxes would increase the effective rate. Property taxes have an especially large effect on tax costs on investment because they are insensitive to profit and are akin to a direct tax on capital (Found and Tomlinson 2017). Such a reduction in provincial property taxes would be largest for the same sectors that would see a removal of their special, lower income tax rate, across most of Southern Ontario.

Housing, Municipal, and Infrastructure Policy

This Shadow Budget would seek to lower the cost of housing across the province by taking steps to reduce barriers to construction and eliminating economically costly rent controls and transfer taxes. It would also fundamentally change the relationship between municipalities and the province by granting cities the ability to put their budgets on a sound financial footing and allow them more flexibility in financing infrastructure.

A Smart Housing Plan

The cost of housing in Ontario has increased dramatically in recent years. According to data from Brookfield's Real Property Solutions, home prices the Greater Toronto Area increased by more than 250 percent between January 2005 and the end of the 2017. In response, the province has taken steps such as introducing taxes on foreign buyers and rent controls. The government's policies have focused mostly on curtailing the demand of housing.

On April 20, 2017, the province introduced a 15 percent Non-Resident Speculation Tax in the Greater Toronto Area. This transfer tax is substantially higher than the existing provincial land transfer tax that has a maximum rate of 2.5 percent. Land transfer taxes such as these have a high economic cost of reducing the mobility of households (see Dachis 2012 and Dachis, Duranton, Turner 2008). In addition, land transfer taxes are highly volatile and present a large fiscal risk to the province if the housing market has a serious downturn (Ngo, Angastiniotis, and West 2017). This Shadow Budget would immediately eliminate the additional 15 percent tax and look to begin reductions in the general land transfer tax in future fiscal years.

On the same day, the province expanded rent control to all rental units in the province, rather than only those built before 1991, as was the case prior. Rent control is one of the few economic policies around which there is a solid, evidence-based consensus about its long-term effect on the cost of housing: it does not lower it in the long-run (Kronick 2017). The likely result of rent control is that housing developers will not build rental housing knowing they face a cap on potential returns, while facing no commensurate cap on their investment risk. The result will be fewer units available, leading to housing shortages. This Shadow Budget would phase out rent control on all rental units. It would start by reducing the extent to which rent control binds the market by increasing the allowable increase, doing so annually until eventual repeal. Rather than rely on rent control, this Shadow Budget would embrace the recent federal decision to create a Canada Housing Benefit that provides low-income renters with the funds to seek a wide range of market-priced rental units (Canada 2017). This Shadow Budget would re-orient financial support for housing construction, which is often part of transfers to local governments, as discussed below, to match the federal contribution in creating the Canada Housing Benefit.

Reducing the Cost of Housing

There is strong evidence that restrictions and extra costs on building new housing – such as zoning regulations, delays on permit approvals, development charges, and limits on greenfield housing development – are dramatically increasing the price of housing. Dachis and Thivierge (forthcoming) find that a limited lowering of these restrictions can reduce house prices in some municipalities in the Greater Toronto Area by around $100,000.

What can the province do to reduce supply barriers? Toronto heavily uses a clause in the provincial *Planning Act* – the legislation governing municipal zoning policy – that allows it to require additional payments from developers in exchange for a site-specific variance from zoning bylaws (Moore forthcoming). These additional payments, known as section 37 payments for the relevant part of the *Act*, increase uncertainty for developers and therefore increase the cost of housing. In addition, municipalities have an incentive to keep zoning bylaws out of date because updating them would take away the future section 37 payments. This Shadow Budget would place greater restrictions on the use of section 37 of the *Planning Act*, which would result in municipalities having a greater incentive to set more appropriate zoning regulations.

Developers pay development charges to compensate municipalities for the cost of building municipal infrastructure that services homes and commercial properties in a newly developed area. The largest single component of these charges is for water and wastewater construction (Dachis forthcoming). This Shadow Budget would require that cities replace development charges for water and wastewater infrastructure with volumetric uses fees that reflect capital costs. Such a move would reflect a change to a utility-based model and encourage conservation of water.

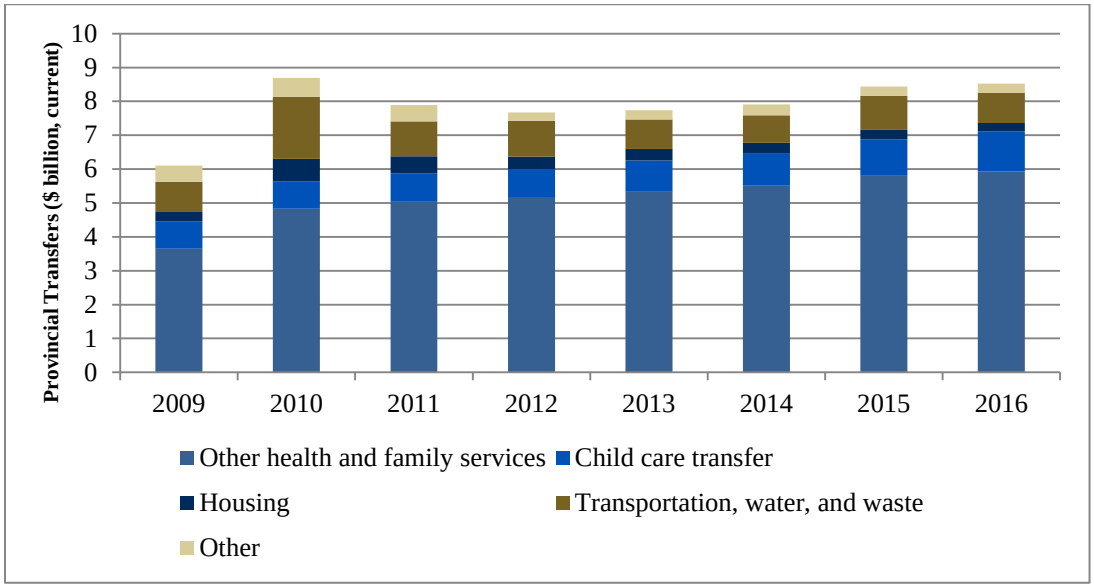
Finally, housing developers in GTA cities are facing a shortage of land available for new housing development (Clayton 2015). The primary cause is not because of the Greenbelt, a policy that forbids development on certain agricultural and parkland. Dachis and Thivierge (forthcoming) find that the main land-supply driven cause of higher house prices is not the Greenbelt, but the Growth Plan for the Greater Golden Horseshoe, a policy that requires cities in the GTA to approve a certain share of their homes within existing urban development boundaries and at a certain density. This Shadow Budget would relax the density and intensity targets that may not be appropriate across all cities subject to the Growth Plan while preserving the Greenbelt.

Rethinking Relative Municipal and Provincial Fiscal Health

One of the province's largest expenditures is on grants to municipalities. Transfers to municipalities have increased since 2009, including a large spike in 2010 to support infrastructure stimulus projects. Transfers to municipal governments from the province are now over $7 billion (Figure 6). Indeed, this trend is set to accelerate. In January of 2017, the province committed to double the amount of the fuel tax it transfers to municipal governments for transportation investment (Jones 2017). Ontario transferred $335 million in provincial gas tax revenue to municipal governments in 2017, and made a commitment to double the funding to bring the total transfer to $642 million by 2021-22.

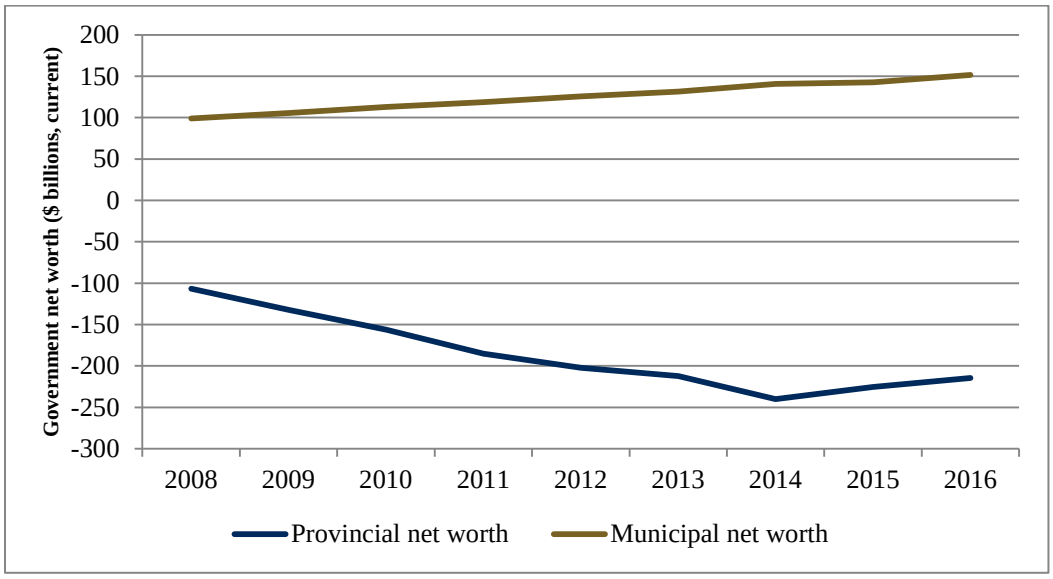
The largest share of transfers is for health services – such as public health – and for childcare benefits. The latter, in particular, are dispersed to municipalities under a complex set of qualification criteria. These programs are ripe for review and evaluation, as their impact on workforce participation and the ability for single-parent and underrepresented families to engage in the labour force are critical. The child care transfer has increased by nearly 50 percent since 2008 reaching $1.2 billion in 2016, suggesting that a review of the program is in order

Figure 6: Ontario Provincial Transfers to Municipalities, 2009-2016



Source: Authors' calculations from Ontario Financial Information Return. Note: Some small cities have not yet submitted their 2016 financial information.

Figure 7: Ontario Provincial and Municipal Net Worth, 2008-2016



Source: Authors' calculations from Cansim Tables 385-0034 and 385-0037.

Does it make sense for the province to send such grants to municipal governments? Ontario's municipalities are, on average, in better fiscal shape than the provincial government. They are major investors in capital assets, but unlike the province, whose chronic deficits have resulted in financial liabilities that vastly exceeds its financial and non-financial assets, Ontario municipalities have positive net worth. They have borrowed to finance some capital assets, but the value of their assets exceeds their debt by a substantial margin. In the nine years from 2008 to 2016, Ontario municipal governments have increased their net worth by more than 50 percent, registering an increase of over $50 billion (Figure 7). In contrast, provincial net indebtedness has approximately doubled over that time, even after a slight improvement in net asset values over the last two years.

The Important Difference between Municipal and Provincial Accounting

How did such a fiscal health imbalance come about? Transfers are often the result of cities claiming they are struggling to meet their service or infrastructure demands and then calling on the province for support. However, the way that cities present their budgets, especially relative to the way the province reports its finances, makes municipal finances appear more precarious than they actually are. Ontario municipalities typically use cash accounting in their budget.[1] However, the province – as well as municipal end-of-year financial statements – uses the accrual accounting standard. Accrual-based budgets appropriately do not record the entire cost of capital items as expenses in the year of the cash outlay, but apply annual amortization over their useful live. Figure 7 presents municipal and provincial finances on the equivalent accrual financial basis.

Presenting councillors with budgets that show outlays on such assets as in-year expenses (as cash budgeting does), rather than amortizing them as they deliver their services (as accrual accounting does),

[1] A common practice is to show expected cash outlays in a "capital" budget alongside an "operating" budget for items to be consumed and expensed during the year.

likely leads municipalities to delay or reject some capital projects they would otherwise approve. It also likely leads them to finance the projects they do approve by raising revenues up front, rather than by borrowing and servicing the debt over the period the project yields its benefits. The result is that today's taxpayers – whether through property taxes, grants to cities, or development charges on houses – are paying disproportionately more than they are receiving in municipal services.

Reframing the Municipal-Provincial Financial Relationship

This Shadow Budget would cancel the proposed doubling of the amount of provincial fuel taxes that the province transfers to municipal governments. In fact, it would go further to limit transfers to cities. As above, this Shadow Budget would begin a long-term commitment to reducing property taxes levied by the province. Every dollar of provincial property tax reduction creates tax room that municipalities can decide to take up. Cities would have the freedom to choose how best to finance local services or whether to increase or reduces taxes and services.

The province's commitment to double gasoline tax transfers to municipalities emerged as a response to the City of Toronto's request for the province to enact an enabling regulation permitting it to introduce a toll on municipally owned highways. The province forbade Toronto from the move, offering all cities the gasoline tax transfer instead. This Shadow Budget would allow cities the ability to introduce road pricing without requiring a provincial regulation, as long as the intention and design of the toll is to reduce congestion, not as a purely revenue-raising option.

In addition, instead of allowing cities to have parcel-by-parcel zoning amendments, as discussed above, this Shadow Budget would expand the ability of cities to put in place a tax-increment financing plan for major infrastructure. This would allow cities to capture some of the increase in property values that result from a new transportation or other municipal investment that increases the value of nearby properties (Found 2016).

Finally, this Shadow Budget would require municipal governments to produce their beginning-of-year budgets on an accrual basis. Importantly, it would not require that cities produce a balanced budget every calendar year and would instead enact a review of the appropriate fiscal and economic benchmarks that cities should adhere to under an accrual accounting system. A revised budget process would allow cities the flexibility they need to finance long-term infrastructure without relying on provincial grants or upfront revenues.

Transit Governance

Originally created in 2007, Metrolinx started with the intent of creating a regional transit plan for the Greater Toronto and Hamilton area with a board made up of local government officials. Two years later, Metrolinx expanded to become the GO Transit operator. The province then removed the local government officials from the Metrolinx board, which is now made up of people appointed by the province.

How can the region overcome local opposition to changes while finding a way to act in the regional interest? Right now, it's easy for local politicians to pass blame around, especially to an unelected transit board. One proposal is to create a single, amalgamated transit operator for the whole Greater Toronto Area

(Gill, Kelcey, Parker, 2017). But rather than amalgamation, which has shown to not result in significant savings (Bish, 2001, Found 2012), another approach is to restore the role of municipal governments on the board of Metrolinx.

Toronto should follow the Vancouver model, in which provincial legislation tasks a Mayor's Council made up of representatives from each of the region's 21 municipalities to appoint a board of Translink, the regional transit coordinating body. Translink has many subsidiary companies that operate transit services under contract (Translink 2017). The regional transit body is the regional coordinator, less than it is a regional authority and another new layer of government (Spicer and Found 2016). The reformed Metrolinx can contract with subsidiary transit operators, private contractors, or municipal governments that can supplement Metrolinx-supported routes.

Greenhouse Gas and Energy Policy

Greenhouse Gas Policy

This Shadow Budget would continue to increase the price on greenhouse gas emissions. This Shadow Budget does not take a position of the merits of a cap-and-trade program as opposed to a carbon tax. A carbon tax would be simpler to administer than a cap-and-trade program and would also generate more revenue for the province of Ontario. On the other hand, a cap-and-trade program that allows Ontario to link with the emissions permit market in California and Quebec allows for a lower cost on emissions to meet the same reduction target. Trading emissions permits across borders and between markets allows emissions reductions to occur wherever it is cheapest to do so, reducing the overall cost (Thivierge 2017).

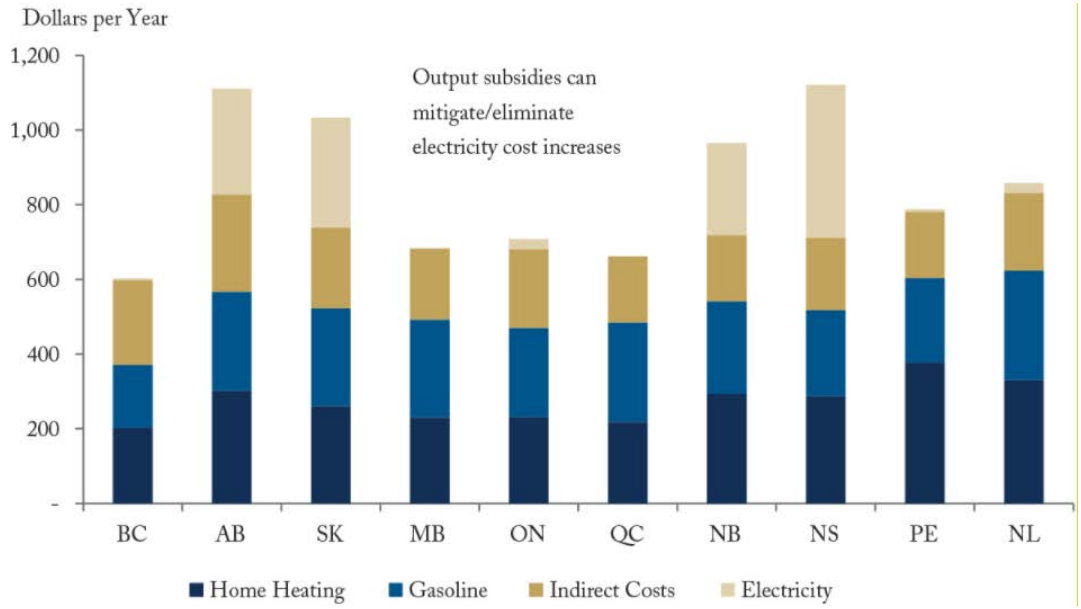
If prices on emissions rise to $50 per tonne, which they are set to with federal government policy, the upfront cost to the average Ontario household would be around $700 per year (Figure 8). However, the final cost to consumers will depend on how governments recycle that revenue back to households. It is on how the government plans to use the revenues from a carbon price that this Shadow Budget proposes a change of direction for the province of Ontario.

Eliminate Energy Efficiency Programs and Consumer Subsidies

The current plan for the government of Ontario is to spend between $6 and $8.3 billion over five years on projects intended to further emissions reductions beyond that planned to occur using the existing cap-and-trade policy (Ontario 2016). The government plans to finance the subsidies with revenues from an auction for permits that greenhouse-gas-emitting companies must buy. Many of the proposed spending programs are exceptionally costly. For example, subsidies to retrofit apartments will cost as much as $900 million over five years. They will cost taxpayers $425 per tonne of GHG emissions reduced, much higher than any reasonable estimate of future carbon prices. Another example of a wasteful subsidy is the Electric Vehicle Incentive Program, which provides incentives of up to $14,000 per electric vehicle.[2] These kinds of subsidies are regressive and economically costly ways to further reduce emissions (Rivers and Shiell 2015). Other announced programs will not have a direct cost to taxpayers, but will be costly to drivers, homeowners and businesses. The government is planning to boost the amount of renewable content in gasoline and natural gas. Renewable-fuel mandates push the cost onto consumers and are an economically expensive way to reduce emissions (Auld 2008).

[2] See http://www.mto.gov.on.ca/english/vehicles/electric/electric-vehicle-incentive-program.shtml

Figure 8: Cost of a $50/tonne of CO_2 price on typical household



Source: Dachis and Tombe (2017) from Jennifer Winter.

This Shadow Budget would eliminate nearly all of these existing subsidies and mandates and instead use the revenue to reduce taxation on households and businesses. The exact design of the tax cuts is outside of the scope of this Shadow Budget, but such a tax cut should promote two principles. First, it should reduce the average cost to businesses of emissions pricing while still providing a marginal incentive for them to reduce emissions. Second, households should receive tax cuts broadly in proportion to the cost of emissions pricing as a share of their income. This would mean tax cuts and enriching renewable tax credits geared to low-income families, for whom energy costs are a large share of total income.

To ensure industrial competitiveness, this Shadow Budget would adopt one of two paths. This Shadow Budget would prefer to adopt Alberta's emissions pricing policy, which is similar to the federal system. Producers in Alberta face little competitive disadvantage under this model. Although emitters pay the full cost of their own emissions, they receive a credit per unit of output, with the amount of the credit based on a provincial average emissions benchmark. Companies still have a strong incentive to reduce their emissions while having a minimal net impact on the competitiveness of industrial emitters. Indeed, companies with below-average emissions are better off in this system. This Shadow Budget would adopt a similar system if the cap-and-trade program is no longer the most effective means of putting a price on emissions. If, on balance, removing the apparatus of a cap-and-trade program for industrial emitters is too costly, it would preserve the system of allocating some permits for free to industrial producers.

Promote Long-term Energy Research

As research from Popp (2016) shows, a carbon price will drive 95 percent of the lowest-cost emissions reductions to meet reduction targets. Subsidies for energy adoption, as has been common in Ontario with electricity polices, encourages firms to use technology that is closest to market. Subsidies for adoption don't solve a market failure and don't encourage innovation. However, there is a market failure for longer-term energy research. The benefits of such research are broad, but the returns to firms of doing such research are relatively smaller, uncertain, and if they materialize at all will be far in the future. On their

own, research subsidies would achieve about 10 percent of economically efficient emissions reductions (Popp 2016). As such, this Shadow Budget would devote around 10 percent of revenues from an emissions price to long-term research.

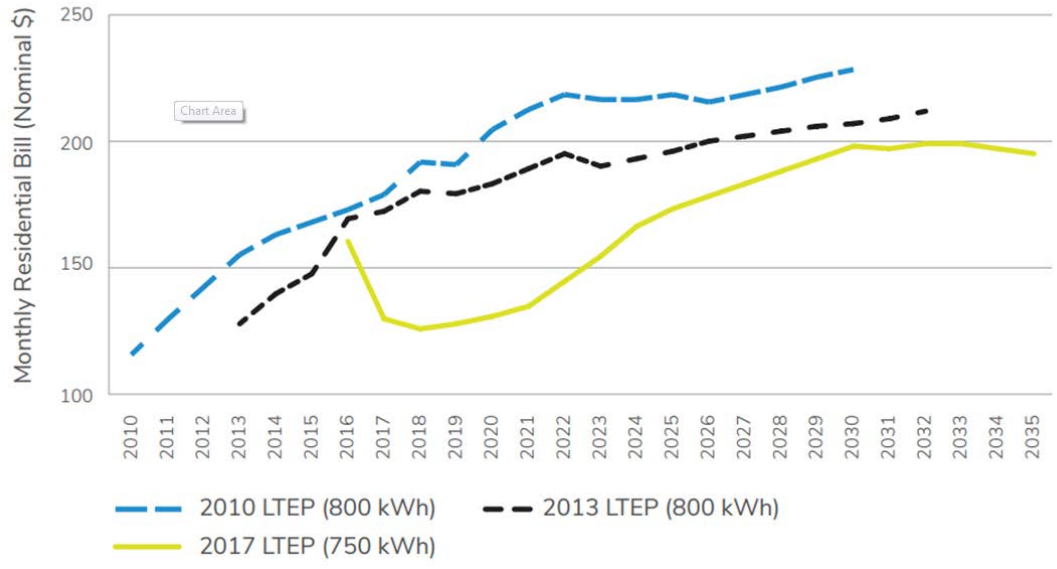
Electricity Policy

Few topics have generated as much controversy in Ontario as electricity policy, with a number of previous policies resulting in a dramatic increase in electricity prices (Trebilcock 2017). The government has taken a series of measures that will immediately reduce electricity prices for residential customers. However, within five years, prices are forecast to increase dramatically as the current policy does not address the actual cost of generating and delivering electricity, and relies on taxpayers and future ratepayers to subsidize electricity use today (Figure 9). Further, many industrial consumers are receiving no reduction to their bills. This Shadow Budget would take actions now that will begin to reduce system cost and reduce prices for businesses and consumers in the future.

Market Design and Regulation

The Independent Electricity System Operator (IESO), which manages the electricity market for Ontario, is undertaking a major market reform. The IESO projects that the market reform will reduce the cost of purchasing electricity by billions of dollars, eventually resulting in savings for consumers. The single-largest cost savings for consumers is set to come from the IESO adopting what is called a capacity market. A capacity market provides electricity generators with a revenue stream for being available to produce electricity, in addition to their revenues from selling electricity. Such a market is a major improvement to the government's previous approach of signing 20-year contracts with generators that effectively covers both. The government's plan is a sensible one that has been shown to be effective in a number of other jurisdictions, and this Shadow Budget would continue to proceed with it (see Goulding 2013 and Wyman 2014).

Figure 9: Electricity Price Outlook – Residential Consumers



Source: Ontario (2017b).

This Shadow Budget would propose the government look to take the market reform one step further by reforming the purchasing role of the IESO. The current proposal for the capacity market is to make the IESO the only buyer of generation contracts. The downside of that plan is that it does not create competition among potential electricity buyers. This Shadow Budget would delegate the purchasing power in the capacity market to local buying groups across the province. These local buying groups, known as load-serving entities, would have the ability to purchase electricity that suits local needs. Large business, currently limited to buying electricity from the IESO and paying a share of the Global Adjustment, which pays for capacity investments, could form their own load-serving entities and contract directly with generators. Further, these local buying groups would encourage consolidation of local distribution companies, to which we will return to below.

However, as Goulding (2013) argues, to be effective, the government must pair a capacity market with changes to improve the independence of Ontario's electricity regulatory bodies. Ontario governments of all political stripes haved directed various government agencies to take specific action in the electricity sector while circumventing regulators (Vegh 2016). This Shadow Budget would end the cycle of government price interventions, specific directives, and decisions on procurement by requiring the Ontario Energy Board to review all major decisions in the energy market with a mandate to approve actions only if they increase economic efficiency (see Church 2017 for a discussion of economic efficiency in regulatory hearings).

Economic efficiency means having an electricity market that has decisions determined by prices, and not arbitrary government rules. One of the most intrusive arbitrary government electricity market rules is the Industrial Conservation Initiative. In this program, eligible industrial consumers save money if they slash electricity use during the five highest Ontario-wide demand hours of the year. It's an arbitrary and expensive way to cut electricity costs for some (Sen 2015). Small businesses and residents pay higher bills because of the policy. Instead, this Shadow Budget would eliminate this program and let large consumers pay only for what they buy in a capacity market and the hourly electricity market.

Similarly, a portion of the electricity bills of Ontario households support subsidies for residential consumers to purchase smart thermostats and other energy-efficiency devices. These programs cost ratepayers $600 million in 2016 (Auditor General 2017b). As with direct government spending on such programs these programs often do not pass a cost-benefit test for the use of government fund. Many households would make such investments if energy prices were sufficiently high and they were sufficiently informed. This Shadow Budget would remove any directives requiring such energy efficiency measures, and grant the Ontario Energy Board the authority to approve or reject energy efficiency programs, such as the Industrial Conservation Initiative, based solely on whether they improve economic efficiency.

Encouraging Private Investment in the Ontario Energy Sector

As of 2017, municipal governments in the province owned local electricity distribution companies that had a value of $11 to $15 billion (Robins 2017a). Cities could sell these companies to finance infrastructure investment. Sales would have no negative effect on ratepayers, since the Ontario Energy Board keeps a close regulatory eye on all price changes regardless of who owns the companies. Furthermore, private investors are usually best placed to make the decisions about the appropriate boundaries of companies, geographically and across distribution, transmission and even generation investment. Private investors would bear the consequences of poor choices, but reap some of the rewards of good mergers (Fyfe, Garner,

and Vegh 2013). The incentives for these private-sector companies to keep costs down are often better aligned with ratepayers than those facing publicly owned electricity companies.

However, cities have not been able to take advantage of the value of these assets because of provincial taxes on such sales.[3] The province would collect $1.8 to $2.5 billion in such taxes (Robins 2017a). These overly high taxes pose a significant barrier to any sale. This year will be the last year of a three-year partial tax holiday on provincial transfer taxes in Ontario on the sales of municipally owned local electricity distribution companies. The intent of this tax change was to encourage mergers using private investors, rather than only encouraging merger with other government-owned companies. However, there have been few sales so far, partly because the tax holiday was limited largely to sales of very small companies. Private investor showed little appetite for such assets. This Shadow Budget would exempt municipalities entirely from all taxes on sales, as long as the proceeds of a sale are reinvested in qualifying infrastructure projects.

Private investment in provincially owned electricity assets has been a controversial topic, but a wise policy move. As Robins (2017b) argues, it is not necessary for the province to continue to own its minority share in Hydro One, the transmission utility, or Ontario Power Generation (OPG), a major power generator, if its policy objective is to keep electricity prices down. As with municipal companies, a strong Ontario Energy Board can protect consumers no matter the owner. A sale of the remaining government stake in Hydro One would net the province somewhere in the order of $7 billion and a sale of OPG could also generate substantial revenue.

The upfront revenue is not necessarily the best reason for the province to sell electricity assets. The main reason to sell is reduced risks. The sale would reduce dividends in the future, such as the $250 million from Hydro One. However, using such a sale to eliminate debt could result in cost-savings and reduced fiscal risks if interest rates increase. Second, the electricity sector is undergoing fundamental change. OPG and Hydro One deliver electricity in a traditional long-distance network. However, the electricity system of the future may look very different, with the emergence of small-scale renewable electricity generation. The result could be a decline in value of, and therefore dividends flowing to the treasury from, Hydro One and OPG. The best way for the province to mitigate that risk is to continue selling stakes in Hydro One and begin to include private investors in OPG.

Conclusion

A fiscally sustainable Ontario will mean higher standards of living for Canadians through better government services and faster economic growth. The province should take action to correct a fiscal course that is unsustainable. The government must act to bring the long-term cost of government in line with the revenue-raising capacity of the province. This Shadow Budget shows that there are a number of policy directions the government can and intends to take in areas as diverse as electricity, greenhouse gas, municipal, health, social and tax policy that can balance increases in spending with generating new revenues and cost-savings measures, and generally enhancing the well-being of Ontarians.

[3] See Fyfe, Garner, and Vegh (2013) for more details on the complex system of transfer and departure taxes in the Ontario local electricity distribution sector.

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From:	Anna Strathy
To:	Ken Kandeepan; John Psinas
Subject:	FW: Public Accounts - Supporting Materials (Consolidated)
Date:	Thursday, September 07, 2017 11:59:00 AM
Attachments:	PA 2016-17_Sousa Briefing 2016-17_Final.pptx QAs - PA v2.docx Sousa PA remarks Sept 5 2017 v1 CSB policy.docx DRAFT-Top Ten QA-Public Accounts-v24_ 20170906_CLEAN.DOCX PA2016-17 Technical Questions & Answers.docx DRAFT_Public Accounts 2016-17 QA_September 6 2017_CLEAN.DOCX PA 2016-17_NR_FINAL.DOCX PA 2016-17_NR_Backgrounder_Acct Changes_FINAL.DOCX PA 2016-17_Media Advisory_FINAL 2_COPO.DOC

FYI

From: Kim, Minzi (MOF) [mailto:Minzi.Kim@ontario.ca]
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To: Giroux Namian, Orli (MOF) <Orli.GirouxNamian@ontario.ca>; Martin, Jessica (MOF) <Jessica.Martin@ontario.ca>; Moore, Brynne (MOF) <Brynne.Moore@ontario.ca>; Koukoulas, Sophia (MOF) <Sophia.Koukoulas@ontario.ca>; Elizabeth Mendes (MOF) <Elizabeth.Mendes@ontario.ca>
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Subject: FW: Public Accounts - Supporting Materials (Consolidated)

Updated:

- *Final - News Release
- *Final - Backgrounder
- TBS – Top Media Q&A
- *Update - TBS – Comprehensive Q&A (Captures MOF items in more details)
- *New – TBS – Technical Q&A
- MOF – Additional Q&A
- Minister's remarks
- Minister's Briefing deck
- *New – Media Advisory

From: Kim, Minzi (MOF)
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Subject: Public Accounts - Supporting Materials (Consolidated)

Hello -

Here's the complete list of all the Public Accounts supporting materials that are being prepared by TBS & MOF

- News Release
- Backgrounder
- TBS – Top Media Q&A
- *TBS – Comprehensive Q&A (Captures MOF items in more details)
- MOF – Additional Q&A
- Minister's remarks
- Minister's Briefing deck

Please note that majority of these Comms products are still moving, we will share the updated versions as they come in.

Thank you,
Minzi



OFFICE OF THE PROVINCIAL CONTROLLER DIVISION

2016-17 Public Accounts

Highlights Deck

September 7, 2017

Confidential – For Internal Discussion Purposes

2016-17 Financial Highlights

- **2016-17 deficit is $1.0 billion**
  - $3.3 billion lower than the projected $4.3 billion deficit in the 2016 Budget.
  - $0.5 billion lower than the $1.5 billion interim forecast presented in the 2017 Budget.
  - $2.5 billion lower than 2015-16 deficit of $3.5 billion*.
- **Revenues are $140.7 billion****
  - $2.2 billion, or 1.6%, higher than the projected $138.5 billion in the 2016 Budget.
  - $0.6 billion, or 0.4%, lower than the projected $141.3 billion interim forecast in the 2017 Budget.
- **Expenses are $141.7 billion****
  - $0.1 billion, or 0.1%, lower than the projected $141.8 billion in the 2016 Budget.
  - $1.1 billion, or 0.8%, lower than the $142.8 billion interim forecast presented in the 2017 Budget.
- **Net debt is $301.6 billion, an increase of $6.2 billion in 2016-17. This increase is due to:**
  - Additional borrowing to finance the operating deficit and investments in infrastructure.
- **The Auditor General has issued a qualified Audit Opinion for the 2016-17 Public Accounts, based on a different interpretation of accounting methods for net pension assets and recognition of Independent Electricity System Operator market accounts.**

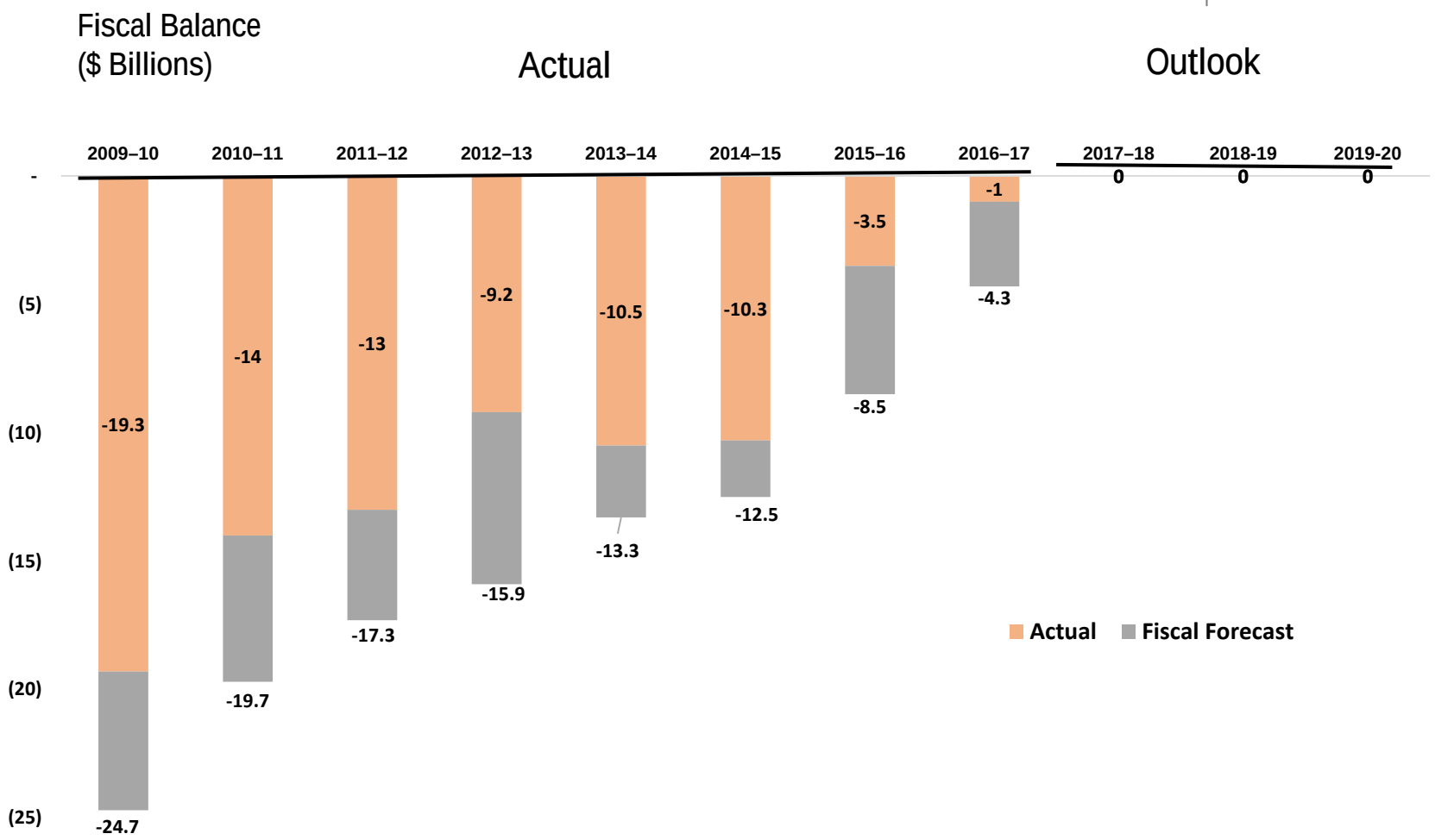
* 2015-16 deficit restated for removal of impact of regulated pension accounting

** Revenues for 2016-17 include third party revenues of hospitals, school boards and colleges. In previous years, these third party revenues were netted against the respective sector expenses. This change in presentation increased revenue and expenses by approximately $8 billion in 2016-17 and $7.5 billion in 2015-16. This change has no impact on the annual deficit. The prior year financial information and the 2016 Budget have been reclassified to reflect this change.

Auditor General Opinion

- Two qualifications in the audit opinion
  - Pension assets ($12.4 billion increase to net debt and accumulated deficit; $1.4 billion increase to deficit →$2.4 billion deficit per AG)
    - Pension Panel identified as a “non-authoritative” source on application of Public Sector Accounting Standards (PSAS)
  - Independent Electricity Systems Operator (IESO) changed its accounting policy to recognize $1.6 billion market accounts assets and the same amount in liabilities (market accounts track mainly buy and sell transactions between electricity power generators and distributors)
    - No impact to annual deficit, net debt or accumulated deficit
  - Other matters paragraphs in opinion
    - Rate-regulated accounting used by IESO in year not permitted under PSAS (used by IESO in year, but impact not material)
    - Future potential material misstatement resulting from “legislated accounting” in Fair Hydro Plan legislation and related regulations;
    - FSD&A does not reflect pension accounting or market accounts appropriately

Ontario's Plan to Eliminate Deficit



[1] Represents the 2017 Budget outlook for 2017–18 to 2019–20. For 2009–10 to 2016–17, actual results are presented. The 2015–16 actuals have been restated to reflect recognizing jointly sponsored net pension assets for the Ontario Public Service Employees' Union Pension Plan and the Ontario Teachers' Pension Plan on the Province's financial statements, consistent with the 2016 Budget and as described in the 2016–17 Third Quarter Finances.

[2] Forecast for 2009–10 is based on the 2009 Ontario Economic Outlook and Fiscal Review, 2010–11 to 2013–14 is based on the 2010 Budget; 2014–15 is based on the 2014 Budget; 2015–16 is based on the 2015 Budget.

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Highlights: Financial Results

2016-17 Results (as of August 25)								
$ Billions	**Budget**	**Interim**	**2016-17 Results**	**2015-16 Actual**	**Change from Budget**	**%**	**Change from Interim**	**%**
Revenues	138.5	141.3	**140.7**	136.1	2.2	1.6%	(0.6)	-0.4%
Expenses								
Programs	129.4	130.9	**130.0**	128.1	0.6	0.5%	(0.9)	-0.7%
Interest on Debt	12.4	11.9	**11.7**	11.6	(0.7)	-5.6%	(0.2)	-1.7%
Total Expenses	141.8	142.8	**141.7**	139.7	(0.1)	-0.1%	(1.1)	-0.8%
Reserve	1.0	-	**-**	-	(1.0)		-	
Deficit Before Outstanding Items	(4.3)	(1.5)	**(1.0)**	(3.5)	3.3	-76.7%	0.5	-33.3%

Notes:

(1) For discussion purposes only. Subject to change pending public release.

(2) Budget and Interim numbers are re-stated for BPS line by line reporting (no fiscal impact). 2015-16 Actual have been restated for the reversal of regulated accounting for pensions (published 2015-16 deficit was $5.0 billion).

(3) Budget/Interim numbers may not add due to rounding.

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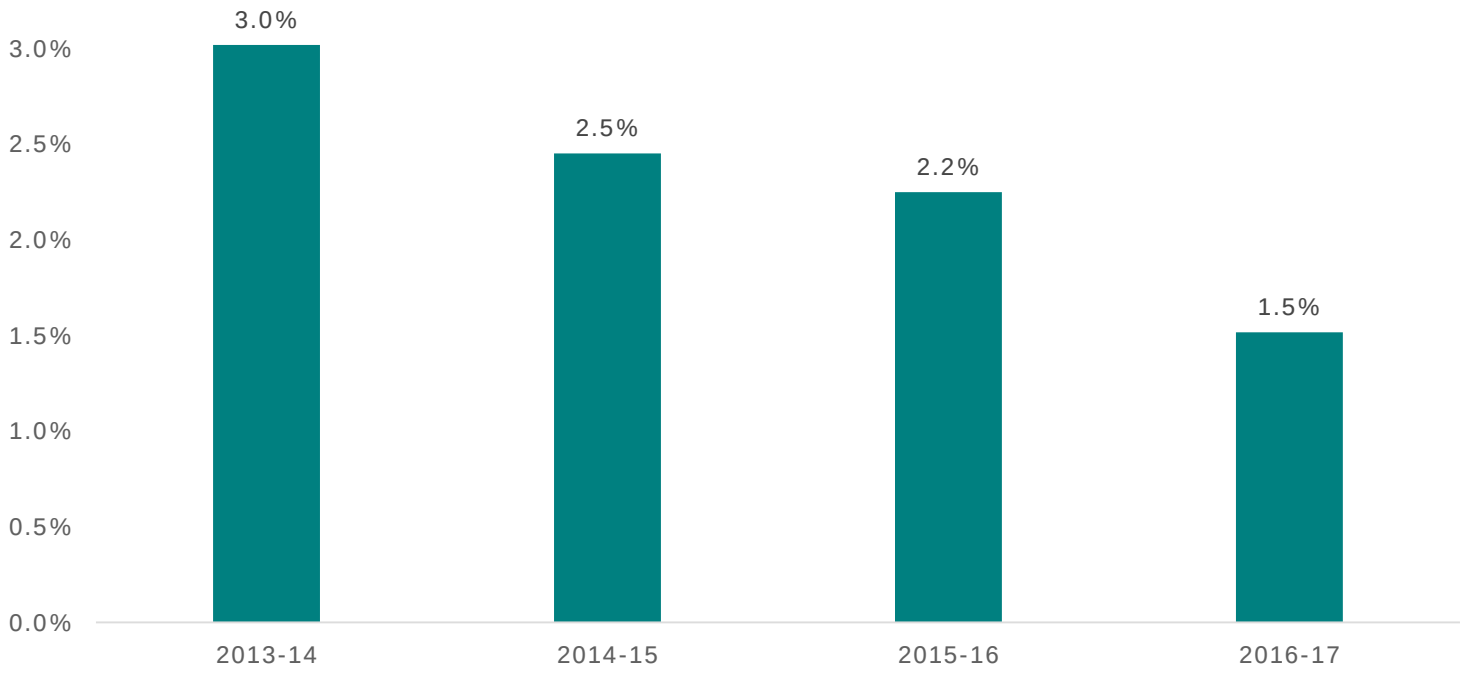
Annual Program Expense Growth Rate: 2013-14 to 2016-17



Note: 2013-14 to 2016-17 program expenses have been restated for BPS line-by-line consolidation.

Communications

Narrative

- The Public Accounts for Ontario show Ontario's **deficit for 2016-17 is $991 million**. This result is **$3.3 billion lower** than the $4.3 billion projected in the 2016 Budget. It is **$0.5 billion lower** than the interim projection in the 2017 Budget of $1.5 billion.
- Ontario has beaten its deficit target eight years in a row.
- Ontario's plan is working. By responsibly managing the Province's finances, Ontario balanced the budget in 2017-18, and will maintain a balanced budget for the future.
- To help Ontarians better understand their government's finances, new digital tools have been developed that present the Public Accounts data in innovative, visual formats. This is part of Ontario's commitment to Open Government.
- The government will continue to build on its track record of responsible fiscal management.

Strategy

- **High profile, proactive, short term** communications approach via traditional, digital and social media.
- Remain **neutral** and **factual**, balancing need for gov't to clearly state its position, while demonstrating respect for all parties involved.
- **Promote** strong financial management, and transparency and accountability.
- **Leverage open data** and other digital components to **profile achievement of 2016 budget commitments.**
- Mitigate potential issues with strong issues management plan.

Communications cont'd

Rollout

- Public release on **September 7** via joint TBS and MOF Ministers' **press conference** and **province-wide news release** with backgrounder.
  - **Technical briefing for media** in advance to present accounting changes, including Ontario's position on accounting for pension assets and IESO in a factual, neutral manner.
- Tactics and messaging will be **reassessed**, as needed, to respond to **AG's position.**

Considerations

- Public Accounts specific:
  - AG's qualified audit opinion (pension asset accounting, IESO accounting treatment of market accounts)
  - AG's criticisms regarding the use of rate-regulated accounting by IESO
  - BPS presentation change
- Other:
  - Questioning balanced budget narrative
  - Growing debt burden
  - Relationship with AG and her criticism of the Fair Hydro Plan

APPENDIX

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Revenues – 2016-17 Interim vs. Actual

2016-17 Results (as of August 25)								
$ Millions	**Budget**	**Interim**	**2016-17 Actual**	**2015-16 Actual**	**Change from Budget**	**%**	**Change from Interim**	**%**
Revenues								
Tax Revenue	91,819	95,063	**94,346**	91,818	2,527	2.8%	(717)	-0.8%
Transfers from Government of Canada	25,138	24,819	**24,544**	23,141	(594)	-2.4%	(275)	-1.1%
Income from Government Business Enterprise	5,027	5,297	**5,567**	4,909	540	10.7%	270	5.1%
Fees, Donations and Other Revenue from Hospitals, School Boards and Colleges	7,404	7,683	**7,957**	7,493	553	7.5%	274	3.6%
Other Revenue	9,094	8,468	**8,320**	8,787	(774)	-8.5%	(148)	-1.7%
Total Revenue	138,482	141,330	**140,734**	136,148	2,252	1.6%	(596)	-0.4%

Consolidated Expense By Ministry Interim vs. Actual ($M)

	Budget	2016-17 Interim	2016-17 Results	Budget Variance	Budget % Change	Interim Variance	Interim % Change
Aboriginal Affairs	77	99	128	51	66.2%	29	29.3%
Agriculture, Food and Rural Affairs	916	1,074	1,031	115	12.6%	(43)	-4.0%
Attorney General	1,868	1,942	1,937	69	3.7%	(5)	-0.3%
Board of Internal Economy	220	226	219	(1)	-0.5%	(7)	-3.1%
Children and Youth Services	4,346	4,392	4,379	33	0.8%	(13)	-0.3%
Citizenship, Immigration and International Trade	221	179	176	(45)	-20.4%	(3)	-1.7%
Community and Social Services	11,470	11,710	11,627	157	1.4%	(83)	-0.7%
Community Safety and Correctional Services	2,648	2,689	2,681	33	1.2%	(8)	-0.3%
Economic Development, Employment and Infrastructure/Research and Innovation	1,796	1,395	1,234	(562)	-31.3%	(161)	-11.5%
Education	26,545	26,726	26,581	36	0.1%	(145)	-0.5%
Teachers' Pension	(452)	(502)	(377)	75	-16.6%	125	-24.9%
Energy	393	926	920	527	134.1%	(6)	-0.6%
Environment and Climate Change	531	531	523	(8)	-1.5%	(8)	-1.5%
Executive Offices	44	49	47	3	6.8%	(2)	-4.1%
Finance	966	899	841	(125)	-12.9%	(58)	-6.5%
Interest on Debt	12,412	11,908	11,709	(703)	-5.7%	(199)	-1.7%
Municipal Partnership Fund	505	505	526	21	4.2%	21	4.2%
Power Supply Contract Costs	643	739	838	195	30.3%	99	13.4%
Government and Consumer Services	607	617	600	(7)	-1.2%	(17)	-2.8%
Health and Long-Term Care	55,786	56,345	56,025	239	0.4%	(320)	-0.6%
Labour	309	310	308	(1)	-0.3%	(2)	-0.6%
Municipal Affairs and Housing	1,060	1,541	1,544	484	45.7%	3	0.2%
Natural Resources and Forestry	819	862	859	40	4.9%	(3)	-0.3%
Northern Development and Mines	791	837	814	23	2.9%	(23)	-2.7%
Office of Francophone Affairs	6	5	5	(1)	-16.7%	-	0.0%
Tourism, Culture and Sport	1,339	1,537	1,540	201	15.0%	3	0.2%
Training, Colleges and Universities	10,198	10,182	10,131	(67)	-0.7%	(51)	-0.5%
Transportation	3,850	3,688	3,637	(213)	-5.5%	(51)	-1.4%
Treasury Board Secretariat	322	251	240	(82)	-25.5%	(11)	-4.4%
Contingency Fund	1,200	30	-	(1,200)	-100.0%	(30)	-100.0%
Employee and Pensioner Benefits	1,152	1,163	1,002	(150)	-13.0%	(161)	-13.8%
Year End Savings	(800)			800	-100.0%		
Total Expense	**141,788**	**142,855**	**141,725**	**(63)**	**0.1%**	**(1,130)**	**-0.8%**

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Ontario Public Accounts
Sept. 7, 2017
Q&As

Key Messages:

- The Ontario economy remains strong and has continued to grow and create jobs in an uncertain global environment.

- This year's Public Accounts show that Ontario's deficit for last year was $991 million — $0.5 billion lower than the interim projection in the 2017 Budget.

- Balancing the budget means the government can invest more in the programs and services that people rely on.

Q&As:

What is Ontario's fiscal outlook? Has it changed since you released the 2017 Budget?

In 2010 we made a commitment to restore balance in 2017–18 and we delivered on that commitment. We are also projecting continued balance in both 2018–19 and 2019–20.

This year's Public Accounts show that Ontario's deficit for last year was $991 million — $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget.

Balancing the budget means the government can invest more in the programs and services that people rely on.

What is the current outlook for the Ontario economy?

Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.

Since 2014, Ontario has been an economic growth leader in Canada and private-sector economists expect Ontario to remain one of the fastest growing provinces over the next two years.

Ontario's economic growth exceeded that of all G7 countries over the 2014 to 2016 period.

How does the Bank of Canada interest rate increase affect economic growth in Ontario?

The increase in the Bank of Canada's policy rate reflects the growing strength of the Canadian and Ontario economy.

An increase in the Bank of Canada's overnight interest rate does not automatically translate into an increase in the Province's borrowing cost. That cost is also impacted by other factors, including revisions to the U.S. Federal Funds Rate.

Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.

Didn't the FAO say that the Province's economic growth and revenue projections are too optimistic?

Over the last several years, the government's investments to strengthen economic growth have paid off. Ontario is a leader in economic growth, with our real GDP growth outpacing all the G7 countries over the last three years.

Since the FAO released their post-Budget analysis most private-sector economists have revised up their forecast for Ontario real GDP growth, reflecting the strength of the Ontario economy.

According to the average of private-sector forecasts, Ontario real GDP growth in 2017 has risen to 2.8% from 2.4% at the time of the Budget. As well, over the next four years Ontario real GDP growth is expected to average 2.3% annually, up from 2.1% annually at the time of the Budget. The outlook for nominal GDP growth has seen a larger improvement.

The government stands by the revenue forecast presented in the 2017 Budget. As recently presented in the 2017-18 First Quarter Finances, revenues are on track and the government is continuing to project a balanced budget in 2017-18.

Taxation revenue growth projected in the 2017 Budget aligns with growth actually experienced in recent years.

Minister Sousa's Speaking Notes

Media Avail Sept. 7, 2017

Public Accounts of Ontario 2016-17

- The release of the 2016-17Public Accounts is an important time for the Government of Ontario.

- The accounts demonstrate how we are improving the everyday lives of the people of Ontario.

- Our plan is working.

- Ontario is projected to balance the budget in 2017-18.

- We are restoring balance through targeted, measured and fiscally responsible decisions — managing growth in program spending and fostering job creation and economic growth.

- Managing spending has been a priority for us, and we are proud to say today Ontario has the lowest per-capita program spending among all Canadian provinces.

- And we are making investments in key services such as health care and education, while at the same time lowering costs for necessities like electricity and child care.

- With a balanced budget we can continue to make investments in these key areas while also responding better to unexpected economic or demographic changes.

- Balancing the budget is not just about the bottom line — it's about helping families and businesses by providing the supports they need to succeed.

- In addition to balancing the budget, we’re also tackling debt. Our continued focus on capital investment is contributing to economic growth — and that means the GDP is growing more quickly than debt.

- Since 2010, Ontario’s economic performance has remained strong.

- This growth will help us lower Ontario’s net debt-to-GDP ratio to the pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.

- Ontario’s recovery from the global recession was driven by sticking to key economic principles and supported by long-term job recovery through our large-scale infrastructure investments.

- We will continue to move forward on our path to balance while building a stronger and more vibrant Ontario we can all be proud of.

- Thank you.

PUBLIC ACCOUNTS 2016-17

Top Media Qs & As

September 6, 2017

1. **The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?**

   We continue to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

   Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the Province.

   The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

   After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

   This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change

also has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

2. The Auditor General is critical of the IESO accounting changes. Are Ontario's accounting changes inappropriate?

No. The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

If pressed on rate-regulated accounting:

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

DRAFT

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

3. Why are you still fighting with the Auditor General over pension accounting?

In preparing last year's Public Accounts, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the Province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the Province on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

4. How were you able to beat your deficit target in 2016-17?

In 2016-17 we maintained our focus on responsible fiscal management and investing in the right priorities. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending.

DRAFT

Average annual growth of total government spending has been held to 2.3 per cent for the past five years. As a result of growth in revenue that exceeded growth in program expense, as well as lower than forecast interest on debt, the deficit is $3.3 billion lower than projected in the 2016 Budget. It is also $0.5 billion lower than the interim projection in the 2017 Budget.

This is the eighth year in a row the government has beaten its deficit target.

5. **The government is claiming the deficit has been reduced to $1B deficit for 2016-17 and that the budget will be balanced over the next three years. However, the AG is saying that the deficit for 2016-17 was more than $2B due to the treatment of pension assets, and the FAO has stated that the government's revenue forecast is more than $1B too "optimistic". Isn't the government really hiding a $3-4B deficit instead of a balanced budget?**

There is no hidden deficit. In the *2010 Budget*, the government committed to eliminating the deficit and returning to a balanced budget by 2017-18. Through targeted, measured and fiscally responsible decisions, Ontario has restored its fiscal and economic strength.

Today we are confirming that the 2016-17 deficit of $1 billion is $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Ontario Budget. This marks the eighth year in a row that Ontario has beaten its deficit target.

The success in eliminating the deficit is supported by a strong track record in managing spending -- having held average growth in spending to 2.3 per cent over the past five years.

In addition, over the last several years, the government's investments to strengthen economic growth have paid off. Ontario is a leader in economic growth, with our real GDP growth having outpaced that of all the G7 countries over the last three years. The strengthened economy has resulted in increased revenue for the Province – in fact, over the past two fiscal years, revenue has come in higher than projected, supporting Ontario's return to a balanced budget.

It is also important to point out that private sector forecasters have revised upward their expectations for the Ontario economy since the 2017 Budget, reflecting the growing strength of the Ontario economy. In fact, the current average private sector forecast for this year and next is also above what the Financial Accountability Office of Ontario projected in their Budget commentary.

DRAFT

The government is also taking steps to improve tax fairness and address the underground economy in order to ensure the integrity of the Province's revenues.

Finally, Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense. The reserve has been set at $0.6 billion in 2017-18, $0.6 billion in 2018-19, and $0.9 billion in 2019-20.

Balancing the budget means that the government can invest more in the programs and services that people rely on.

6. **The FAO's commentary released on September 6, 2017 says that Ontario's debt reduction commitment is based on unrealistic assumptions. How do you respond?**

The government made a commitment in the 2010 Budget to balance and eliminate the deficit by 2017-18. Since then, the government has reduced the deficit from its peak in 2009-10 of $19.3 billion, to a projected $1.5 billion in 2016-17 and a projected balanced Budget in 2017. Furthermore, the government consistently overachieved on its deficit targets and forecasts for net debt-to-GDP. The government's track record therefore provides evidence of fiscal discipline and the likelihood of achieving on-going balanced budgets in the future.

With respect to capital spending, approximately 61 per cent of the increase in net debt from 2008–09 to 2016–17 was due to the deficit, with net investments in capital assets responsible for most of the balance. Infrastructure expenditures do not therefore have as large an impact on net debt as that of a balanced budget.

Moreover, additional capital investment in the latter half of the next decade will stimulate the economy. A recent report from the Centre for Spatial Economics confirms that over the long term, real GDP in Ontario increases by $6 for every dollar of public infrastructure spending. This stimulus in GDP may help to offset the effects of an aging population and slower growth in the labour force and maintain the 4% average GDP growth required to bring net debt to GDP down to 27% in 2029-30.

7. **Interest on debt is still massive and the Bank of Canada is expected to raise interest rates again this fall, and announced it is raising its target for the overnight rate on September 6, 2017. . How is the government preparing for this and will this affect your ability to maintain a balanced**

budget?

The increase in the Bank of Canada's policy rate reflects the growing strength of the Canadian and Ontario economy. Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.

Since 2014, Ontario has been an economic growth leader in Canada and private sector economists expect Ontario to remain one of the fastest growing provinces over the next two years.

Ontario's economic growth exceeded that of all G7 countries over the 2014 to 2016 period.

A quarter-point increase in the policy rate is not likely to have a material impact on the Ontario economic outlook. The 2017 Ontario Budget anticipated that interest rates would rise modestly.

An increase in the Bank of Canada's overnight interest rate does not automatically translate into an increase in the Province's borrowing cost which is also impacted by other factors including revisions to the US Federal Funds Rate.

As noted in the 2017 Budget, the Province's average cost of 10 year borrowing in 2017-18 is forecast to be 3 per cent. The impact of a 100 basis point increase in borrowing rates is forecast to be approximately $300 million. The interest rate forecast used in the Budget was prudent, and anticipated that long-term interest rates would rise as we progressed through the fiscal year.

8. You claim to have balanced the budget yet you keep piling on more debt. How do you plan to pay down the debt?

We maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023–24.

In a balanced budget environment, debt would be incurred primarily to invest in capital assets. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending – including addressing the underground economy and maintaining tax fairness. Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to $6 on average per one dollar of public infrastructure spending.

DRAFT

These strategic investments are creating jobs and contributing to economic growth. Ontario's GDP grew one per cent in the first quarter of 2017, outperforming that of Canada, the U.S. and all other G7 countries.

9. Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?

To increase transparency, this year we have made a simple change to how we are reporting third party revenues for broader public sector organizations.

For the first time, Public Accounts are presenting third party revenues for hospitals, school boards and colleges with provincial revenue. Third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the Province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

10. The Public Accounts show a drawdown of $260 million from the Trillium Trust. What did you spend the money on?

The government began allocating proceeds from the Trillium Trust in 2016-17 to help support infrastructure initiatives such as GO Regional Express Rail (GO RER), the Hurontario Light Rail Transit (LRT) and the Ontario Community Infrastructure Fund (OCIF).

We expect the Trillium Trust to be drawn down by about $400 million in 2017–18.

Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to $6 on average per one dollar of public infrastructure spending.

11. Does a qualified opinion impact the Province's credit rating?

DRAFT

The Province's financial results show that the government has once again beaten its annual deficit targets. In April 2017, we delivered our first balanced budget since the global recession and we are on track to do so again next year and the year after.

The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the Province. However, there were no credit rating implications in 2016 when the Province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

12. The Auditor General has some serious concerns about how you're accounting for Ontario's Fair Hydro Plan. What do you say to this?

The accounting for Ontario's Fair Hydro Plan is a separate and distinct issue to the Public Accounts for 2016-17 that we're here to talk about today.

However, under Ontario's Fair Hydro Plan accounting structure, the Province's net debt and annual surplus/deficit won't be negatively impacted since all costs are to be recovered through future rates.

The Ministry of Energy, Finance and Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO) and external advisors to address the outstanding accounting related considerations.

The Auditor General has also been briefed on the government's refinancing structure.

For further questions, I direct you to contact my colleague at the Ministry of Energy.

13. Program spending increased again this year. Why?

Program spending in 2016-17 was $141.7 billion, down $0.1 billion from the 2016 Budget. Average annual growth of total government spending has been held to 2.3 per cent for the past five years.

Healthcare represents the largest share of government program spending at $56 billion. Transformation efforts continue to make the sector more effective and sustainable while continuing to improve access for patients, especially the increased demands from an aging and growing population. The government has

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invested in new drugs, technologies, community and home care, long term care homes, mental health, physicians' services and specialized cancer treatments.

Other areas of government investment include:

- $26.6 billion in education, mainly due to the introduction of full-day kindergarten;
- $16 billion in children's and social services, due to increased annual social assistance rates as well as investments in developmental services, autism and complex special needs programs, as well as the Ontario Child Benefit;
- $10.1 billion in post-secondary and training, due to enrolment growth in colleges and universities along with increased student financial assistance programs and increases in capital funding for post-secondary institutions;
- $4.6 billion in justice sector expenses due mainly to the upload of court security costs from municipalities, compensation for the Ontario Provincial Police and correctional services programs, as well as improved access to legal aid.

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Public Accounts 2016–17
Technical Questions & Answers

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ACCOUNTING CHANGES

IESO - ACCOUNTING CHANGES

Q. What were the accounting changes made by IESO in its financial statements?

A. As of January 1, 2016, the IESO changed its accounting policy regarding the recognition of assets and liabilities subject to rate regulation. The change was made to better reflect the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

In addition, the IESO changed its accounting policy regarding the recognition of market accounts assets and liabilities on the statement of financial position. The change was made to better reflect the assets and liabilities and amounts due to and from market participants held by the IESO on behalf of the IESO administered market at year end.

Q. What is the impact of IESO's accounting changes to the Province's Consolidated Financial Statements?

A. Given the IESO prepared its financial statements using Public Sector Accounting Standards and its auditor issued an un-qualified audit report for 2016 financials, Province will consolidate IESO using similar accounting as adopted by the IESO and reflected in its 2016 financials. There would be no fiscal impact for market accounts; however, IESO's adoption of rate-regulated accounting resulted in a decrease of $82 million in the 2016–17 opening accumulated deficit, and an increase in the 2016–17 annual deficits by $24 million.

PENSION - ACCOUNTING CHANGES

Q. What were the pension accounting changes made by the Province in its Consolidated Financial Statements?

A. The 2016–17 Consolidated Financial Statements reflect a change in accounting for net pension assets of the Province's jointly sponsored pension plans, as compared to the 2015–16 Consolidated Financial Statements. The change affects the Province's accounting for both the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP).

In the 2015–16 Consolidated Financial Statements, the Province legislated the accounting treatment for pension assets of OTPP and OPSEUPP in order to reflect the Auditor General of Ontario's view that a full valuation allowance was required based on the view that the government does not have a legally enforceable right to unilaterally access the assets of the jointly sponsored pension plans, or, in the absence of that right, an irrevocable agreement in place at year-end with the joint sponsors of the plans to reduce contributions. The legislation required that a full valuation allowance be recorded against the pension assets of OTPP and OPSEUPP, therefore writing down the value of the assets as at March 31, 2016, to nil.

After significant consultation, including consideration of the recommendations of the Pension Asset Expert Advisory Panel, the Province has confirmed that the accounting for its jointly sponsored pension plans prior to 2015–16 was appropriate and in accordance with Public Sector Accounting Standards. The 2016–17 Consolidated Financial Statements reflect the confirmed accounting treatment and record pension assets on the same basis as used by the Province in preparing its Consolidated Financial Statements prior to 2015–16.

HYDRO ONE/OPG CONSOLIDATION - ACCOUNTING CHANGES

Q. What were the accounting changes made by the Province to consolidate Hydro One and Ontario Power Generation in its Consolidated Financial Statements?

A. Commencing April 1, 2016, the Province is accounting for the results for Hydro One Limited and Ontario Power Generation using the modified equity basis and IFRS (including IFRS 14). Previously, the Province had used Generally Accepted Accounting Principles in the United States (US GAAP), the accounting standards used by these entities in preparing their stand-alone financial statements, in applying the modified equity basis. Historically, the difference between IFRS and US GAAP with respect to the annual deficit of the Province was not material.

This change has resulted in an adjustment to the opening accumulated deficit and net debt of $1.6B. The transitional adjustment is predominantly related to the difference in accounting for Asset Retirement Obligation and pension and other post-employment benefits.

PRESENTATION CHANGE TO BPS ORGANIZATIONS

Q. Why is the Province changing its accounting of its BPS organizations (i.e. hospitals, school boards and colleges)?

A. Province changed the presentation of hospitals, school boards and colleges to present third-party revenues of these organizations with revenues of the Province. Previously third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, were netted against the respective sectors' expenses. The change was made to fully comply with Public Sector Accounting Standards. For comparability and consistency purposes, the prior years' results and the 2016 Budget have been reclassified to reflect this change in presentation.

Q. What are the impacts of the change on the deficit / debt of the Province and key financial indicators?

The presentation change increases the total revenues and expenses of the Province, but does not affect the annual deficit, net debt or accumulated deficit of the Province. Therefore, there is no change to key financial indicators related to annual deficit, net debt or accumulated deficit.

The Province's interest on debt expenses will increase marginally since the interest expense of BPS entities previously included in sector expenses will now be presented as part of the Province's interest on debt expense. However, since total revenues will be grossed up, the debt charge to total revenue and net debt to total revenue will be favorably impacted.

Total program spending per capita will be higher due to the gross up of program expense.

DEBT

Q. Why did net debt increase by $6.3 billion, from $295.4 billion as at March 31, 2016 to $301.6 billion as at March 31, 2017?

A. Net debt is the province's total debt and other liabilities, less its financial assets, including cash and investments. The increase of $6.3 billion in net debt is primarily due to the deficit and investments in capital assets.

Q. Why did net debt to GDP decrease from 38.7 percent as at March 31, 2016 to 37.8 percent as at March 31, 2017?

A. The decrease in net debt to GDP is mainly due to GDP growing at a faster rate than net debt. The government is committed to eliminating the deficit by 2017-18 and then reducing the net debt to GDP ratio to the pre-recession level of 27 per cent.

Q. How do you explain the $5.7 billion increase in total debt from $327.4 billion at March 31, 2016 to $333.1 billion at March 31, 2017?

A. The increase in $5.7 billion in total debt is due to borrowing for the deficit ($1.0 billion) and the net change in capital assets ($4.7 billion) for 2016-17.

Q. Why has total debt gone up by $5.7 billion while the accumulated deficit has gone up by only $1.5 billion?

A. Total debt represents all borrowing that is used to fund the deficit, as well as to invest in capital assets and cash reserves. Accumulated deficit is the sum of all deficits less surpluses since Confederation.

Total debt increased by $5.7 billion primarily in order to fund the deficit as well as the Province's investments in capital assets, which are not reflected in the deficit.

Q. What is the difference between total debt and net debt?

A. Total debt represents all borrowings without taking into consideration other liabilities and financial assets. Net debt is the province's total debt and other liabilities, less its financial assets. Net debt is the measurement of debt most commonly used by rating agencies and investors in the Province's bonds.

Q. Why has net debt increased by $0.27 billion from the interim estimate in the 2017 Budget, while total debt has increased by $0.7 billion from the interim estimate?

A. Net debt is the province's total debt and other liabilities, less its financial assets.

Net debt increased by $0.27 billion from the interim estimate primarily due to:

- $0.53 billion decrease from the interim deficit, offset by a $0.26 billion impact relating to various other adjustments as evidenced in the audited Consolidated Statement of Net Debt (Ontario Nuclear Funds, Tangible Capital Assets, IFRS transitional impact for OPG and Hydro 1, pension adjustments and other).

Total debt is all of the Province's borrowings. The total amount borrowed has increased by $0.7 billion from the interim estimate primarily due to the increase in short term borrowing.

Q. How will the 2016-17 Public Accounts affect the borrowing requirement for 2017-18?

A. As in past years, any changes in the borrowing requirement arising from Public Accounts will be determined as part of the 2017 Economic Outlook and Fiscal Review.

Q. How much debt was issued in 2016-17, and how much debt matured during the year under the Province's borrowing program?

A: The Province completed an annual borrowing program of $27.0 billion in 2016-17.

Long-term debt maturities per the 2017 Budget were $20.9 billion.

RISK MANAGEMENT

Q. What is your current policy on foreign currency exposure?

A. The Province limits itself to a maximum foreign exchange exposure of 5 per cent of Debt Issued for Provincial Purposes. The foreign currency exposure as at March 31, 2017 was 0.2 per cent.

Q. What is your current policy on controlling interest rate exposure?

A. The Province limits itself to a maximum net interest rate resetting exposure of 35 per cent of Debt Issued for Provincial Purposes. The interest rate exposure as at March 31, 2017 was 11.2 per cent.

INTEREST ON DEBT (IOD)

Q. Why is the Actual IOD for 2016-17 of $11,709 million lower by $703 million than the 2016 Budget (restated) forecast of $12,412 million?

A. IOD is $703 million lower than the forecast in the 2016 Budget primarily because of lower than forecast deficit, lower than forecast interest rates projected in the 2016 Budget and cost-effective debt management.

Note, the 2016 Budget forecast was restated to include the interest on debt of the broader public sector due to the change in accounting reporting policy this fiscal year.

Q. Why is IOD for 2016-17 of $11,709 million higher by $120 million than IOD for 2015-16 of $11,589 million?

A. IOD is higher by $120 million from last year, mainly due to increased borrowing to the fund of the deficit and investment in capital assets and partly offset by the impact of lower interest rates.

DEBT MANAGEMENT

Q. You talk about balancing the budget, but Ontario's debt continues to grow. How is the government paying down the debt?

A. Investors and rating agencies are focused on relative debt measures such as the net debt-to-GDP. Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

Q. The Auditor General has recommended that the government work toward implementing a long-term debt reduction plan with the target of reducing its net-debt-to-GDP ratio to pre-recession levels of 27%. This year the ratio has risen again. What is the government doing to lower this ratio?

A: The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget. Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

Q. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?

A: There is a strong demand for Ontario bonds. Such investor demand has allowed the Province to extend the term of its debt in recent years and lock in low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs.

The 2010 Budget forecasted that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest. The current forecast per the 2017 Budget is 3.1 cents lower, at 8.2 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 26 fiscal years from 1991–92 to 2016–17, and is projected to remain low over the forecast horizon to 2019–20.

Q. What if interest rates go up? What effect would higher interest rates have on interest-on-debt?

A: As indicated in Note 3 of the audited consolidated financial statements in the Annual Report, a one per cent increase in interest rates above our budget forecast would result in an increase in interest on debt of approximately $300 million.

Q. What's the difference between net debt and accumulated deficit?

A: Total debt represents all borrowing.

Net debt is all borrowing plus other liabilities, minus the Province's financial assets.

By analogy, think of a family's finances. A mortgage, car loans and lines of credit represent total debt. Total debt partially offset by money the family has in the bank, in RRSPs and in RESPs represents the family's net debt.

Accumulated deficit is the sum of all past Provincial surpluses and deficits, adjusted for changes in accounting rules.

Q. Did you use your reserve fund to pay your fiscal results and pay down the debt?

A The Reserve is an amount included in the fiscal plan to protect the plan against unforeseen adverse changes in the economic outlook as reflected through impacts to Provincial revenue and expenses, not typically balance sheet items like Public Debt.

Actual costs incurred by the government which pertain to the Reserve are recorded as expenses. Any portion of the reserve that remains unutilized at the end of the fiscal year is used to reduce the deficit.

Q. What is the government's annual borrowing program?

A: The amount of money the government borrows varies from year to year and is dependent on the deficit, proposed investments in capital and amount of debt that is maturing. Over the three years 2017-18 to 2019-20, average long term public borrowings are estimated to be $32 billion per annum.

REVENUE

2016-17 Actual Vs. 2016 Budget Plan

Q: Why are revenues $2.2 billion higher your 2016 Budget projection?

A: This is mostly because of stronger-than-expected taxation revenues and higher net incomes from Government Business Enterprises, partially offset by lower Government of Canada Transfers and Other non-tax revenues.

Q: What accounts for the $2.5 billion increase in Taxation revenues from your 2016 Budget projection?

A: Largely due to stronger Corporations Tax revenues resulting from higher-than-projected tax assessments and higher HST and LTT revenues arising from stronger economic growth, partially offset by weaker PIT revenues reflecting weaker-than-expected 2016 tax assessments.

Q: What accounts for the $0.6 billion decrease in Government of Canada Transfers?

A: This decrease mainly reflects lower-than-anticipated funding for infrastructure projects and other federal payments, including transfers to government agencies, hospitals, school boards, and colleges. This decline is partially offset by new funding for infrastructure projects under strategic investment fund for affordable housing and post-secondary education.

Q: What accounts for the $0.5 billion increase in net income of Government Business Enterprises?

A: This increase was mostly attributable to combined higher net income from the Liquor Board of Ontario (LCBO) and Ontario Lottery and Gaming Corporation (OLG).

Higher LCBO net income mainly reflects the sale of its head office lands and higher OLG net income is due mainly to higher-than-anticipated revenue from lottery and casinos businesses.

The increase in OLG and LCBO net income, however, was partially offset by lower net income from OPG reflecting the impact of provincial accounting consolidation adjustment (-$75M) using International Financial Reporting Standards (IFRS) rather than US GAAP, as required in Public Accounts under Public Sector Accounting Standards and lower Hydro One net income reflecting, primarily, impacts from broadening Hydro One provincial ownership from 84% to 70% through the secondary offering.

Q: What accounts for the $0.6 billion increase in fees, donations and other revenues from broader public sector organizations?

A: This increase mainly reflects higher-than-expected revenues from non-provincial sources for hospitals, and higher international fee and other revenues from colleges.

Q: What accounts for the $0.8 billion decrease in Other Non-Tax Revenues?

A: Other Non-tax revenue (NTR) comprises several categories; resulting in offsetting movements of different components of Other NTR compared to the budget forecast.

The overall decline of $0.8 billion in Other Non-Tax revenue is due largely to two main causes:

1. Carbon Allowance Proceeds from the first cap-and-trade program auction held in March 2017 to be recognized in 2017-18 instead of 2016-17 as budgeted; and
2. Lower sales and rentals revenue mainly reflecting gains from the sale of LCBO head office lands reported as income from GBEs in 2016-17 instead of sales and rentals revenue in 2016 Budget.

This decrease is partially offset by higher revenue from Power Supply Contract Recoveries.

Q: Budget 2016 reported revenue projections from carbon allowance proceeds and the first cap-and-trade program auction took place in March 2017. Can you explain why the government would not report the Carbon Allowance Proceeds in 2016-17 fiscal year?

A: The carbon allowance proceeds estimated at the time of the 2016 Budget was based on preliminary design of the cap and trade program and a preliminary forecast for emissions allowances.

In Budget 2017, no proceeds are reported for fiscal 2016-17. While Ontario held its first carbon allowance auction in March 2017 and received $472 million in proceeds, the proceeds from the first auction are being certified, settled and recorded in the 2017-18 fiscal year. Therefore, proceeds from the first auction will be reported in 2017-18 fiscal year instead of in 2016-17 as budgeted.

2016-17 Actual Vs. 2015-16 Actual

Q: What accounts for the $4.6 billion year-over-year increase in revenues?

A: The increase is largely due to higher taxation revenues, federal payments and net income of government enterprises, partially offset by lower Other non-tax revenues.

Q: What accounts for the $2.5 billion year-over-year increase in taxation revenues?

A: The increase in taxation revenue is largely due to stronger CT revenues, higher HST and Land Transfer Tax revenues, partially offset by weaker PIT revenues.

- Stronger CT revenue is mainly a result of higher-than-expected growth in 2016 Tax Assessments and stronger-than-expected harmonized tax assessments for tax years prior to 2015.
- Stronger HST revenue reflects higher Ontario share of the overall HST/ GST revenue pool as the provincial economy has performed better than the rest of Canada in 2015 and 2016.
- Stronger LTT revenues reflect a very strong Ontario housing market.
- PIT weakness is mainly due to weaker-than-expected 2016 tax assessments. Some of the PIT weakness is due to the extent to which tax payers may have shifted income from future years into 2015 to avoid increases in federal tax rate applied above $200,000 of taxable income starting from 2016.

Q: What accounts for the $1.4 billion increase in Government of Canada Transfers?

A: Higher transfers in 2016-17 from federal government mainly reflect higher funding for existing major federal funding programs such as Canada Health Transfer, Canada Social Transfer, and new funding for infrastructure projects under strategic investment fund for affordable housing and post-secondary education. Transfers under these programs are based on existing federal-provincial funding arrangements and funding formulas.

Q: What accounts for the $0.7 billion increase in net Income from Government Business Enterprises?

A: This increase manly reflects higher net income from Ontario Lottery and Gaming Corporation (OLG), and Hydro One Ltd (HOL), and Liquor Control Board of Ontario (LCBO), partially offset by lower net income from the Ontario Power Generation (OPG).

The increase in LCBO net income largely reflects a one-time gain related to the sale of its head office lands. OLG's net income increase was due to continued stronger-than-expected revenue from lottery business and casinos. Higher income from Hydro One mainly reflect lower 2015-16 due to a significant one-time PILs expenses of about $2.8B as a result of the IPO in November 2015 which led to lower consolidated net income. This impact on net income was partially offset by the impact of the Province's $2.4 billion proportionate share of Hydro One's recognition of a deferred tax benefit.

The decrease in OPG's net income is primarily due to relatively stronger 2015-16 results of the nuclear funds invested in financial market.

Q: What accounts for the $0.5 billion increase in fees, donations and other revenues from broader public sector organizations?

A: This increase largely reflects higher international tuition fee and other revenues reported by colleges and higher revenues from non-provincial sources reported by hospitals.

Q: What accounts for the $0.5 billion decrease in Other Non-Tax Revenues?

A: Other non-tax revenue comprises several categories; resulting in offsetting movements of different components of Other NTR compared to the prior year.

The overall decline of $0.5 billion in other NTR largely reflects lower revenue from electricity debt retirement charge (DRC) due to the elimination of DRC for residential consumers, effective January 1, 2016. Other NTR is also lower due to lower sales and rentals and miscellaneous revenue from consolidated government agencies.

2016-17 Actual Vs. 2017 Budget Interim

Q: Why did Taxation revenues decrease by $0.7 billion above your Interim estimate?

A: The decrease in Taxation revenues is largely due to a decline in PIT revenues which more than offset an increase in CT revenues. PIT weakness reflects weaker-than-expected 2016 tax assessments while stronger CT revenues is mainly due to stronger tax assessments for 2015 and prior years, as well as stronger performance of 2016 Tax assessments than assumed in the 2016 Budget.

Q: What accounts for the $0.3 billion decrease in government of Canada transfers?

A: This decrease mainly reflects the absence of funding in 20167-17 for Clean Water and Wastewater projects and lower federal transfers to government agencies, including hospitals, school boards and colleges.

Q: What accounts for the $0.3 billion increase in net Income from Government Business Enterprises?

A: The increase was mostly attributable to higher net incomes from the Ontario Lottery and Gaming Corporation (OLG), and slightly higher net income from the Liquor Board of Ontario (LCBO), and the Ontario Power Generation (OPG). This increase is partially offset by lower net income from Hydro One Ltd.

- OLG's net income increase was due to continued stronger-than-expected revenue from lottery business and casinos.

Q: What accounts for the $0.3billion increase in fees, donations and other revenues from broader public sector organizations?

A: The increase is largely due to higher international tuition fees and other revenues reported by colleges and higher revenues from school boards due to third party revenue being report as federal transfers at interim instead of fees, donations and other revenues as presented in public accounts.

Q: What accounts for the $0.1 billion decease in Other Non-Tax revenues?

A: Lower revenues from other Non-Tax revenue largely reflect lower recoveries of prior-year-expenditures and miscellaneous revenues from various government ministries and consolidated government agencies, partially offset by higher Power Supply Contract Recoveries. The latter is fiscally-neutral being offset by higher Power Supply Contract Costs.

EXPENSES BY SECTOR

HEALTH

Summary of 2016-17 Budget to Actual Variance Analysis

Q. Why is the Health Sector Expense in 2016-17 higher by $239 million than in the Budget Plan?

A. Health sector expense that was $239 million above plan, mainly due to higher than planned spending in hospital operations, physician services, complex malignant hematology and hematopoietic cell transplantation.

The higher expense for hospital operations is mainly due to higher-than-expected spending in cancer treatment, Ontario Drug Programs, specialty psychiatric hospital programs, operating costs and amortization expense.

Summary of Five Year Expense Actual Variance Analysis

Q. Why is the Health Sector Expense $4.8 billion higher in 2016-17 than 2012-13?

A. Health sector expense increased from $51.2 billion in 2012–13 to $56.0 billion in 2016–17, or on average by 2.3 per cent per year. These increases are due in part to increasing demands for health care services from an aging and growing population, along with other factors, such as new drugs and technologies. Increased spending included new investments in home and community care, long term care homes and mental health, and physician services; as well as specialized services such as cancer treatment.

EDUCATION

Summary of 2016-17 Budget to Actual Variance Analysis

Q. Why is the Education sector expense in 2016-17 higher by $36 million than in the Budget Plan?

A. Education sector expense that was $36 million higher-than-planned, mainly due to slightly higher than-projected enrolment.

Q. Why is the Post-secondary and training sector expense in 2016-17 lower by $67 million than in the Budget Plan?

A. Postsecondary and training sector expense that was $67 million lower than-expected, mainly due to lower-than-forecast demand for employment and training programs, offset in part by increased capital transfer payments to universities through additional federal postsecondary infrastructure funding.

Summary of Five Year Expense Actual Variance Analysis

Q. Why did Education sector expense increase from $22.6 billion to $26.6 billion from 2012-13 to 2016-17?

A. Education sector expense increased from $22.6 billion in 2012–13 to $26.6 billion in 2016–17, or on average by 4.1 per cent per year. Expense in 2012–13 included a one-time savings of $1.3 billion from reducing liabilities carried by school boards for sick-day banking and retirement gratuities. Excluding this one-time savings in the 2012–13 results, the education sector expense increased on average by 2.7 per cent per year between 2012–13 and 2016–17. The increase is mainly due to the introduction of full-day kindergarten, which has been made available to every four- and five-year-old in Ontario since September 2014; and other investments, including negotiated labour enhancements and increases in school renewal funding.

Q. Why have expenses in the Postsecondary and Training Sector increased from $9.3 billion in 2012-13 to $10.1 billion in 2016-17?

A. Postsecondary and training sector expense increased from $9.3 billion in 2012–13 to $10.1 billion in 2016–17, or on average by 2.2 per cent per year. The increase is mainly due to continued funding to support enrolment growth in postsecondary institutions, growth in student financial assistance programs and increases in postsecondary capital transfer payments.

CHILDREN'S & SOCIAL SERVICES

Summary of 2016-17 Budget to Actual Variance Analysis

Q. Why is the Children's and social services sector expense in 2016-17 higher by $190 million than in the Budget Plan?

A. Children's and social services sector expense that was $190 million higher than planned, mainly due to additional spending to address demand for the Ontario Disability Support Program and for young adults with complex special needs as well as expanding supports for children and youth with autism.

Summary of Five Year Expense Actual Variance Analysis

Q. Why did the Children's and Social Services sector actual expense grow by $2.3 billion from 2012-13 to 2016-17?

A. Children's and social services sector expense increased from $13.7 billion in 2012–13 to $16.0 billion in 2016–17, or on average by 3.9 per cent per year. The increase primarily reflects social assistance rate increases as well as investments in developmental services, autism and complex special needs programs and the Ontario Child Benefit.

JUSTICE

Summary of 2016-17 Budget to Actual Variance Analysis

Q. Why is the Justice sector expense in 2016-17 higher by $102 million than in the Budget Plan?

A. Justice sector expense was $102 million higher than planned, mainly due to settlements under the Proceedings Against the Crown Act and ensuring wage parity for First Nations police officers.

Summary of Five Year Expense Actual Variance Analysis

Q. Why has Justice Sector Expense increased by $652 million from 2012-13 to 2016-17?

A. Justice sector expense increased from $4.0 billion in 2012–13 to $4.6 billion in 2016–17, or on average by 3.9 per cent per year between 2012–13 and 2016–17. The increase is mainly due to the provincial upload of court security costs from municipalities, compensation in the Ontario Provincial Police and correctional services programs, and improved access to legal aid for low-income Ontarians.

OTHER PROGRAMS

Summary of 2016-17 Budget to Actual Variance Analysis

Q. Why is Other programs expense in 2016-17 higher by $140 million than in the Budget Plan?

A. Other programs expense that was $140 million higher than expected, mainly due to federal and provincial investments in social and affordable housing as well as the Ontario Rebate for Electricity Consumers. As well, there was lower-than-forecast spending due to revised timelines for Building Canada Fund projects and municipal transit projects.

Summary of Five Year Expense Actual Variance Analysis

Q. Why did the Other Programs Sector Actual Expense decrease by $1.2 billion from 2012-13 to 2016-17?

A. Other programs expense decreased by $1.2 billion from $17.9 billion in 2012–13 to $16.7 billion in 2016–17. This decrease is mainly due to the end of time-limited funding related to the Ontario Clean Energy Benefit program and the 2015 Pan/Parapan American Games, as well as the redesign of the Ontario Municipal Partnership Fund program.

ONTARIO TEACHERS' PENSION PLAN EXPENSE AND EMPLOYEE AND PENSIONER BENEFITS

($Millions)	2016-17 Budget	2016-17 Actual	2015-16 Restated Actual	Actual Versus Budget Variance	Year Over Year Variance
Ontario Teachers' Pension Plan	(452)	**(377)**	110	75	487

TEACHER'S PENSION PLAN

Q. Why has the 2016-17 Teachers' Pension Plan expense decreased from expense of $110M from 2015-16 to recovery of $377M in 2016-17?

A. The decrease in Teachers' Pension Plan pension expense is primarily due to increase recognition of investment gains in recent years.

Q. Why has the 2016-17 Teachers' Pension Plan recovery of $377M lower than what had been projected in prior year's Budget of $452M?

A. Actual 2016-17 Teachers' Pension Plan recovery of $377M is lower than recovery of $452M projected in 2016 Budget due lower than expected rate of growth in active members and due to additional adjustment was made this year to eliminate timing differences between provincial contributions and pension plan assets.

($ Millions)	2016-17 Budget	2016-17 Actual	2015-16 Restated Actual	Actual Versus Budget Variance	Year Over Year Variance
Employee and Pensioner Benefits	1,152	**1,002**	987	(150)	15

EMPLOYEE AND PENSIONER BENEFITS

Q. Why is the actual 2016-17 Employee and Pensioner Benefits Expense of $1,002M lower by $150M from what had been projected in prior year's Budget of $1,152M?

A. The 2016-17 actual Employee and Pensioner Benefits expense is $151M lower than originally budget is mainly due to lower WSIB expense than originally forecasted. WSIB had change their estimate of forecast claim administration rate in 2016, which resulted in reduction in expense in 2016-17.

Q. Why is the actual 2016-17 Employee and Pensioner Benefits Expense of $1,002M higher than 2015-16 Employee and Pensioner Benefit Expense of $987M?

A. The increase is due to changes made termination pay and long-term protection benefits to OPSEU members in 2015-16 that did not occur in 2016-17. This increase is partially offset by lower WSIB expense due to change in forecast claim administration rate in 2016 and due to lower pension expense as result of increase recognition of investment gains in recent years.

HEALTHCARE OF ONTARIO PENSION PLAN

Q. Why did the Healthcare of Ontario Pension Plan expense decrease by $155M from $747M in 2015-16 to $592M in 2016-17?

A. The Healthcare of Ontario Pension Plan expense decreased compared to prior year's actual mainly due to an increase in amortization of prior years' experience gains and higher interest earnings as a result of an increase in the plan asset base. Decreases in year over year expenses were partially offset by higher current service costs in 2016 as a result of an increase in active membership in 2015-16.

COLLEGES OF APPLIED ARTS AND TECHNOLOGY PENSION PLAN

Q. Why did the Colleges of Applied Arts and Technology Pension Plan expense increase by $3M from $190M in 2015-16 to $193M in 2016-17?

A. The Colleges of Applied Arts and Technology Pension Plan expense increased compared to prior year's actual, mainly due the $14M write-off of CAATPP net pension plan assets in 2016-17. The plan was not in an asset position as of year-end in 2015-16.

INFRASTRUCTURE

Infrastructure Expenditures Table

Q. Why is the 2016-17 total infrastructure expenditure $3.3 billion lower than planned in the 2016 Budget?

A. Infrastructure expenditure forecasts for each fiscal year are subject to change and reflect a continuum of information that begins with the Budget and ends with Public Accounts. The forecast in Budget 2016 was subject to change as new information became available throughout the year. Infrastructure spending of $12.9 billion, reported in the Public Accounts was $3.3 billion lower than the $16.2 billion set out in the 2016 Budget.

Underspending is mainly due to slower than expected construction progress in the transit sector ($2 billion) and health sector (about $0.5 billion).

Q. Why is the 2016-17 total infrastructure expenditure $1.4 billion lower than estimated in the interim forecast in the 2016 Budget?

A. Infrastructure expenditure forecasts for each fiscal year are subject to change and reflect a continuum of information that begins with the Budget and ends with Public Accounts. The interim forecast was subject to change as new information became available throughout the year. Infrastructure spending of $12.9 billion, including other partner funding, reported in the Public Accounts was $1.4 billion lower than the $14.3 billion set out in the interim forecast in the 2016 Budget due to slower than expected construction progress in the transit sector ($0.5B) and education sector ($0.4B).

Q. Actual infrastructure expenditures are $3.3 billion below the budgeted amounts. Doesn't this mean you should adjust your forecasting practices? Does this mean 2016-17 planned expenditures are overstated?

A. Infrastructure expenditures forecast for each fiscal year are subject to change and reflect a continuum of information that begins with the Budget and ends with the Public Accounts. As new information becomes available throughout the year, the forecasts will likely change (for example, due to updates in construction timelines). In this context it is important to note that infrastructure expenditure forecasts presented as part of Budget or other fiscal updates represents a point in time along this continuum and is based on the best available information at that time.

Given the uncertainties inherent in making projections, it is appropriate for the government to remain prudent and cautious in its forecasting.

The 2016-17 budgeted infrastructure expenditures are a reflection of prudent forecasting practices and the government's ongoing commitment to building and renewing the infrastructure the public relies on.

Q. In 2016-17, actual infrastructure expenditures are $3.3 billion below the budgeted amounts. Is the $3.3 billion earmarked for infrastructure in spite of the fact that it hasn't been spent yet, and will it be carried over to another fiscal to be spent on infrastructure? Or does the underspend mean that the $3.3 billion will be spent on other gov't priorities?

A. The $3.3 billion expenditure decrease is not earmarked for infrastructure investments or carried over to future years. Future year infrastructure investment decisions are made as part of the annual budgeting process.

The resulting fiscal savings associated with this expenditure decrease is allocated in the government's total program expense figures.

Q. Why has amortization cost gone up so significantly between 2012-13 and 2016-17?

A. Amortization recognizes consumption of Tangible Capital Assets. Amortization expense is primarily made up of amortization on existing assets. As these assets reach the end of their useful lives, the associated amortization disappears. This decline is offset by new amortization expense as new infrastructure projects come into service. Between 2012-13 and 2016-17, the province invested $53 billion in capital assets. As these assets have come into service, the corresponding consumption cost (amortization) has gone up. As the government continues to invest in infrastructure, amortization expense will continue to grow.

Q. If we invested $10 billion in publically owned infrastructure assets in 2016-17, why does TCA only go up by $4.8 billion?

A. The net book value of tangible capital assets is calculated as the book value (purchase price) less accumulated amortization. As long as assets are being amortized, growth in the stock of the Province's TCA on a yearly basis will always be less than the yearly investment. Estimated historical cost was used to record existing tangible capital assets if actual cost was unknown when the Province first implemented tangible capital assets accounting. Tangible capital assets, except land, are amortized over the estimated useful lives of the assets on a straight-line basis. Amortization expense of TCA in 2016-17 totalled $5.2 billion.

Q. What are some examples of investments made in between 2012-13 and 2016-17?

A. A few examples of the many infrastructure investments Ontario has made over the last five years include:

- The 407 East project will help relieve congestion and support the efficient movement of people and goods through the eastern Greater Toronto Area and beyond. Phase 1, from Brock Road in Pickering to Harmony Road in Oshawa and Highway 412, opened in Spring 2016.
- The Pan/Parapan American Games Athletes' Village, which was home to about 10,000 athletes and officials during the Games. The village will be transformed into a mixed-use neighbourhood with affordable housing, health services and a residence for George Brown College students.
- The Union Pearson (UP) Express, which began service in 2016, provides a dedicated rail link connecting Toronto Pearson International Airport with Union Station in downtown Toronto in 25 minutes.
- The Right Honourable Herb Gray Parkway in Windsor–Essex, provides an express route to the country's busiest land border crossing.
- The Humber College infrastructure project involved the construction of a new Learning Resource Commons and an academic support and student services facility.
- The Elgin County Courthouse brings together existing court facilities within one location in St. Thomas.
- The New Oakville-Trafalgar Memorial Hospital is a state-of-the-art facility accommodating a full range of hospital services including acute care, complex continuing care and rehabilitation.
- The new Humber River Hospital includes a new facility on a new site in north-western Toronto, one of the most culturally diverse and fastest-growing communities in Canada. The Humber River Hospital offers a comprehensive range of services to support inpatient and outpatient programs.

Q. What kind of infrastructure investments does the Province make which do not contribute to the net book value of tangible capital assets?

A. The Province makes transfers to its non-consolidated partners, such as municipalities and universities, for capital purposes. This spending is recorded in the Infrastructure expenditures table (Table 4) as 'Transfers and Other Infrastructure Expenditures.' 'Other Infrastructure Expenditures' includes expenses such as non-capitalized maintenance costs (e.g., window cleaning of provincially owned buildings). These expenses are included as part of overall infrastructure spending, but do not contribute to the net book value of the Province's tangible capital assets.

CORPORATE AND ELECTRICITY FINANCE DIVISION

Asset Optimization and the Trillium Trust

Q: If the Trillium Trust has been credited with $5.3 billion, why did the government only draw down $260 million in 2016-17?

A: Like most large infrastructure investments, initial spending on projects is focused on planning, design, property acquisition and other activities to get projects construction-ready.

As this preliminary work is completed and construction activity gets underway, further project requirements will be identified that will be funded from the Trillium Trust in subsequent years.

The government is committed to investing the full amount from the Trillium Trust to support transit, transportation and other priority infrastructure. The 2017 Budget included an additional $400 million to be drawn down in 2017-18.

Q: What projects are being funded through the Trillium Trust?

A: The Trillium Trust was drawn down by about $260 million in 2016–17 to help support transit, transportation and priority infrastructure across the Province under the Moving Ontario Forward initiative.

As communicated in the 2017 Budget, the Trillium Trust is supporting initiatives such as GO Regional Express Rail, the Hurontario Light Rail Transit, and the Ontario Community Infrastructure Fund.

Q: If the Province raised about $2 billion in the secondary offering of Hydro One shares in 2016, why was only $538 million credited to the Trillium Trust?

A: The *Trillium Trust Act, 2014*, provides for the dedication of net revenue gains to the Trillium Trust associated with the sale of designated assets to support investments in transit, transportation and priority infrastructure across the Province.

The net revenue gains credited to the Trillium Trust from the secondary offering of Hydro One shares are derived from the gross proceeds, less fees/expenses incurred and less the book value of the shares sold, not including the shares purchased by OPG.

The government will move forward with regulations to credit the Trillium Trust with the net revenue gains from the shares purchased by OPG in the future.

The Province also used the $1.3 billion in proceeds related to the book value of the Hydro One shares sold to pay down the Province's debt and other payables with the Ontario Electricity Financial Corporation (OEFC).

Through the broadening of Hydro One ownership, the Province is meeting its target to generate $4 billion in net revenue gains that, through the Trillium Trust, will be

reinvested in infrastructure under Moving Ontario Forward, and $5 billion to reduce debt.

Q: The Public Accounts show that the government credited the Trillium Trust with a non-cash deferred tax benefit resulting from the Hydro One IPO. How can the government use a non-cash amount to invest in infrastructure?

A: The Trillium Trust Act, 2014, provides for the dedication of net revenue gains to the Trillium Trust.

The deferred tax benefit provided an up-front revenue gain to the Province through consolidation of the Province's portion of Hydro One's net income in the Public Accounts. This also increases the book value of Hydro One's shares and reduces the accounting gains for subsequent sales for a given amount of gross sale proceeds. This does not affect the total cash the Province receives.

By dedicating to the Trillium Trust the net revenue gains to the Province from the deferred tax benefit, the government is ensuring that the full benefit of the value created from broadening Hydro One ownership is dedicated to the Trust to support investments in transit and infrastructure.

Q: Why hasn't the government credited the Trillium Trust with the net revenue gains associated with Hydro One shares purchased by OPG and Hydro One shares purchased by trusts of the Power Workers' Union (PWU) and Society of Energy Professionals (SEP) through Provincial loans?

A: The government has made a regulation that will credit the Trillium Trust with the net revenue gains from the sale of shares to the PWU / SEP trusts that were supported by Provincial loans.

The $48M total gain from the sale of these shares was recorded as deferred revenue in the 2015-16 Public Accounts. As payments of the loan are received, the gain on sale will be recognized annually as revenue in proportion to the payments made.

The annual gain will be reported in the Public Accounts, to clearly indicate the amount to be credited to the Trillium Trust. The first annual gain, as reported in Volume 1 of these 2016-17 Public Accounts is approximately $1.5 million.

The government will move forward with regulations to credit the Trillium Trust with the net revenue gains from the shares purchased by OPG in the future.

Q: If the sale of Hydro One Brampton is now complete and the gain is being reported in Public Accounts, why hasn't the Province credited the Trillium Trust from the sale?

A: The government is committed to dedicating the net proceeds from the sale to the Trillium Trust, and will move forward with a regulation under the Trillium Trust Act.

ELECTRICITY SECTOR

2016–17 vs 2016 Budget Plan [Actual vs Initial Forecast]

Q. Why did the combined net incomes of OPG and Hydro One decrease by $193 million compared to Plan? [Excludes Hydro One Brampton net income variance of $3 million]

A. The $193 million decrease in combined OPG and Hydro One net incomes in 2016-17 from Plan reflects:

- lower-than-projected OPG gross margins, and
- lower Hydro One Limited net income largely due to re-categorization of impacts of broadening Hydro One ownership (~84% ownership to ~70% ownership through the secondary offering) that were previously reflected under Sales and Rentals revenue. The re-categorization is fiscally-neutral.

Q. Why are Electricity payments-in-lieu of taxes $151 million lower than Plan?

A. The variance is primarily due to lower income tax PILs from OPG, partially offset by higher PILs from municipal electrical utilities.

Q. Why are Power Supply Contract Recoveries $195 million higher than projected??

A. The actual amount in 2016-17 is higher largely due to the dismissal of the Ontario Electricity Financial Corporation's (OEFC) appeal of a court decision with respect to the calculation of some escalation rates under legacy former Ontario Hydro power purchase contracts with non-utility generators (NUGs), and the subsequent decline of an application for leave to appeal to the Supreme Court of Canada. As a result of the decisions, OEFC recognized higher power supply contract expenses, fully offset by higher power supply contract recoveries.

2016–17 vs Interim 2016-17 [Actual vs Interim Forecast]

Q. Why did the combined net incomes of OPG and Hydro One increase by $14 million compared to the Interim forecast for 2016-17?

A. The variance is mainly due to stronger-than-projected results for OPG's nuclear funds contribution, partially offset by the lower Hydro One net income.

Q. Can you explain the $99 million variance in Power Supply Contract Recoveries between interim numbers in Budget 2017 and actuals [in Public Accounts]?

A. The variance is largely due to retroactive payments that the Ontario Electricity Financial Corporation (OEFC) made to certain non-utility-generators (NUGs) with legacy former Ontario Hydro power purchase agreement (PPA) contracts with OEFC.

OEFC was required to make these payments following the dismissal by the Supreme Court of Canada of OEFC's application for leave to appeal a judgment of the Court of Appeal of Ontario on a 2015 court decision.

- Ontario Hydro entered into these PPAs in the late 80s and early 90s with private sector generators.
- As the legal continuation of the former Ontario Hydro, OEFC is the counterparty to these contracts.
- Some of the PPAs had escalation clauses under which the global adjustment has an impact on the calculation of the contract rates.
- In 2015, a lower court decision found that OEFC had not properly calculated the price paid for electricity under 12 PPAs, following the enactment of Ontario Regulation 398/10, under which the allocation among electricity consumers of the Global Adjustment, one component of the all-in price of electricity, was changed.
- These 12 PPAs were held by entities that participated in the lawsuit, and they received retroactive payments in 2016, following the Ontario Court of Appeal decision to dismiss OEFC's appeal.
- Several PPA counterparties with similar price provisions that did not participate in the lawsuit entered into Standstill Agreements with OEFC in 2015, after the original court decision. After all avenues of appeal were exhausted, following the 2017 Supreme Court decision, OEFC was required to make retroactive payments to these entities.

2016–17 vs 2015-16 [Actual vs Previous Year]

Q. Why did Hydro One's net income to the Province increase by $263 million compared to the previous fiscal year?

A. Hydro One's net income remains relatively unchanged from 2015-16 to 2016-17. The $263 million increase in Hydro One net income to the Province, however, is largely due to the impacts of the November 2015 Hydro One IPO.

Hydro One 2015-16 net income to the Province, was lower due to IPO-related factors including a one-time PILs expense of about $2.8B, partially offset by the $2.4 billion proportionate impact on the Province's net income from Hydro One's recognition of a deferred tax benefit of about $2.8 billion.

[The impact of the 2015-16 IPO-related adjustments were partly offset by the impact of the secondary share offering in 2016-17 on the Province's share of Hydro One net income.]

Q. Why did OPG's net income decline by $121 million compared to the previous fiscal year?

A. The decrease is due largely to stronger 2015-16 earnings on the nuclear funds on a realized basis.

Q. Why did Electricity Debt Retirement Charge decrease by $238 million compared to the previous fiscal year?

A. The DRC trends downwards primarily due to the elimination of the DRC for residential consumers, effective January 1, 2016. The variance reflects the first full year of residential consumer exemption from the DRC in 2016-17.

Q. Why did Electricity payments-in-lieu of taxes decrease by $2.9 billion from last year?

A. The increase is primarily due to significant one-time PILs related to Hydro One's IPO, including $2.6 billion in departure tax under the PILs regime and about $0.2 billion in additional PILs, as Hydro One exited the PILs regime and started paying corporate income taxes following the IPO. Note that these one-time PIL payments did not have a net effect on the Province's annual deficit, as the additional revenue was offset by an equal reduction in Hydro One's net income, which is consolidated in the Province's financial statements.

Electricity Sector Stranded Debt

Q. What is the status of old Ontario Hydro's stranded debt? When is the Debt Retirement Charge (DRC) expected to end based on the latest available information?

A. The government dedicates the revenues it receives from the electricity sector to the Ontario Electricity Financial Corporation (OEFC). All OEFC revenues, including the Debt Retirement Charge (DRC) paid by electricity consumers, are used to service and retire its debt and other obligations, as provided for under the Electricity Act, 1998.

For the thirteenth consecutive year, the stranded debt has been reduced. The 2016–17 results for the OEFC show an excess of revenue over expense of $1.2 billion. The OEFC has paid down stranded debt by a total of about $18.5 billion from its peak in 2003-04, reducing stranded debt to $3.2 billion as at March 31, 2017.

As part of its commitment to reduce electricity cost pressures, the government has removed the Debt Retirement Charge (DRC) from residential electricity users' bills as of January 1, 2016.

This would save a typical residential user about $70 each year and would mean ending the DRC earlier for these users than otherwise provided for in the Electricity Act, 1998.

As a further step to mitigate electricity cost pressures for non-residential users, the government introduced legislation the Budget Measures Act, 2015, passed in December 2015, to end the DRC for all other users on April 1, 2018, nine months earlier than previously estimated.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

Even after the end of the DRC, there would still be stranded debt remaining, to be serviced and paid down by OEFC's other dedicated revenues, such as payments in lieu of taxes and the Gross Revenue Charge.

RESERVE FUND

Q. Why does the government maintain a reserve fund? Last year there were questions raised about the government dipping into its reserve fund to strengthen its results. Did you do that this year?

A. As required under the Fiscal Transparency and Accountability Act, 2004, a reserve is included in the projected surplus/deficit each year to guard against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance.

The 2016 Budget plan included a $1.0 billion reserve for 2016–17. Excluding this reserve, the 2016 Budget projected a deficit of $3.3 billion.

As the reserve is a forecast provision, and the fiscal results for 2016–17 are now finalized, a reserve is no longer included in the Province's financial statements.

The final deficit for the 2016–17 fiscal year is $1.0 billion, a $3.3 billion improvement compared with the 2016 Budget projection of $4.3 billion, which included the reserve.

Q. What is the difference between the contingency fund and the reserve?

A. The contingency fund is an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover higher spending due to unforeseen events (e.g. fighting forest fires). This approved spending limit is allocated during the year to ministries for their programs and activities.

The reserve is an amount included in the forecast each year to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense – for example, changes in Ontario's economic performance.

RESULTS VERSUS 1ST QUARTER REPORT

Q. Was the government being overly optimistic in its revenue forecast in the 2017-18 First Quarter Finances based on the Annual Report results for the 2016-17 fiscal year?

A. The 2017-18 First Quarter Finances was released before the 2016-17 Annual Report and does not take into account the revised 2016-17 revenue. The government will be updating its revenue outlook in the 2017 Ontario Economic Outlook and Fiscal Review in the fall, which will include the latest 2016-17 results as well as all additional information arriving after the Annual Report.

UNCOLLECTIBLE ACCOUNTS RECEIVABLE

Q. Why are we removing uncollectible accounts receivable owed to the province from the accounting records?

A. Removing uncollectible accounts receivable is required under Public Sector Accounting Standards. After ministries have taken progressive collection activity and determined that all the collection efforts have been exhausted, those accounts with little or no prospect of collectability are removed from current accounting records.

Q. How will the write-offs be shown in the Public Accounts?

A. The ministries' uncollectible accounts receivable are required to be published in a table called "Losses Deleted form the Accounts" in Volume 2 of the 2016/17 Public Accounts.

Q. Is removing uncollectible accounts receivable from the records the same as forgiving the debt?

A. No. If debt is forgiven, the province cannot pursue or collect on the debt in the future. However, having an account written-off does not eliminate the debtor's legal obligation to pay the liability. The province may attempt to collect the money owed if the debtor's circumstances change in the future. In 2016/17, $17.3M was collected on accounts previously written off.

Q. How do you determine when a debt is uncollectible?

A. In the vast majority of cases, a debt may become uncollectible when a corporation or individual debtor becomes insolvent or goes bankrupt; or when an individual debtor dies, is imprisoned for a long term or cannot be located for a considerable period of time.

It may take several years of progressive collection actions before an uncollectible account receivable is submitted for removal from the accounting records.

Q. How does this affect the province's bottom line?

A. There is no impact on the deficit/surplus in the year as a result of removing uncollectible accounts from the accounting records.

The fiscal impact incurred in the year when the account was initially identified as being doubtful. At that time, a bad debt expense was recorded.

Q. What is the amount of uncollectible accounts receivable this year?

A. The total uncollectible accounts receivable for 2016/17 is $267.2 million.

Q. What amount of unpaid taxes is included in the Ministry of Finance's total?

A. The total for tax-related amounts is $134.2 million, which represents 97% of MOF's submission of $138.8 million and is attributable to bankrupt or insolvent tax payers.

Q. How does the amount of uncollectible accounts receivable compare with total accounts receivable?

A. This year's uncollectible accounts receivable represent about 2.4% (4.0% in 2015/16) of the province's accounts receivable.

Q. What steps is the government taking to reduce future write-off of accounts receivable?

A. Common progressive collection tools include the use of private collection agencies and the Canada Revenue Agency (CRA) Refund Setoff Program, in addition to any specific legislated tools provided in the appropriate legislation (e.g., clawbacks, liens, director's liability). The centralization of collections within MOF helps ensure a standard, OPS-wide use of such tools.

(AS PRESENTED IN ANNUAL REPORT)

LOSSES DELETED FROM THE ACCOUNTS

(Under the Financial Administration Act)
For the year ended March 31, 2017

	$
	2016-2017
FINANCE……	138,818,406.60
ADVANCED EDUCATION AND SKILLS DEVELOPMENT…….	54,677,124.91
COMMUNITY AND SOCIAL SERVICES……..	45,886,186.45
ATTORNEY GENERAL……	21,642,494.26
TRANSPORTATION……	3,771,415.55
CHILDREN AND YOUTH SERVICES……	898,957.06
NATURAL RESOURCES AND FORESTRY……	847,762.62
HEALTH AND LONG-TERM CARE……..	340,142.56
COMMUNITY SAFETY AND CORRECTIONAL SERVICES…….	98,367.09
TOURISM, CULTURE AND SPORT……..	73,937.72
OFFICE OF THE ASSEMBLY……	30,471.10
EDUCATION……	19,896.26
INFRASTRUCTURE……..	17,548.77
AGRICULTURE, FOOD AND RURAL AFFAIRS……	16,685.11
GOVERNMENT AND CONSUMER SERVICES……..	12,472.33
HOUSING……..	7,038.04
NORTHERN DEVELOPMENT AND MINES……	6,939.84
LABOUR……	5,189.48
TOTAL……	$267,171,035.75

PUBLIC ACCOUNTS 2016-17
Media Qs & As

September 6, 2017

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Key Messages

- The 2016-17 Public Accounts of Ontario show that Ontario's deficit is $991 million.

- Ontario has beaten its deficit target eight years in a row.

- Ontario's plan is working. By responsibly managing the Province's finances, Ontario balanced the budget in 2017-18, and will maintain a balanced budget for the future. A balanced budget means more funding for the programs and services people and families rely on most.

- As promised in the 2016 Budget, Ontario grew its economy while transforming healthcare, building vital infrastructure and investing in people's talents and skills.

- To help Ontarians better understand their government's finances, new digital tools have been developed that present the Public Accounts data in innovative, visual formats. These tools make Ontario's finances easier to understand, access, and use.

- Presenting the Public Accounts data in innovative, visual formats is part of Ontario's commitment to Open Government.

- The government will continue to build on its track record of responsible fiscal management.

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Top Media Qs&As

Top media Qs&As updated September 5, 2017

1. **The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?**

   We continue to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

   Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the Province.

   The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

   After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

   This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

   This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015)

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in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

2. The Auditor General is critical of the IESO accounting changes. Are Ontario's accounting changes inappropriate?

No. The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

If pressed on rate-regulated accounting:

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

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This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

3. Why are you still fighting with the Auditor General over pension accounting?

In preparing last year's Public Accounts, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the Province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the Province on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

4. How were you able to beat your deficit target in 2016-17?

In 2016-17 we maintained our focus on responsible fiscal management and investing in the right priorities. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending.

Average annual growth of total government spending has been held to 2.3 per cent for the past five years. As a result of growth in revenue that exceeded growth in program expense, as well as lower than forecast interest on debt, the deficit is $3.3 billion lower than projected in the 2016 Budget. It is also $0.5 billion lower than the interim projection in the 2017 Budget.

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This is the eighth year in a row the government has beaten its deficit target.

5. The government is claiming the deficit has been reduced to $1B deficit for 2016-17 and that the budget will be balanced over the next three years. However, the AG is saying that the deficit for 2016-17 was more than $2B due to the treatment of pension assets, and the FAO has stated that the government's revenue forecast is more than $1B too "optimistic". Isn't the government really hiding a $3-4B deficit instead of a balanced budget?

There is no hidden deficit. In the *2010 Budget*, the government committed to eliminating the deficit and returning to a balanced budget by 2017-18. Through targeted, measured and fiscally responsible decisions, Ontario has restored its fiscal and economic strength.

Today we are confirming that the 2016-17 deficit of $1 billion is $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Ontario Budget. This marks the eighth year in a row that Ontario has beaten its deficit target.

The success in eliminating the deficit is supported by a strong track record in managing spending -- having held average growth in spending to 2.3 per cent over the past five years.

In addition, over the last several years, the government's investments to strengthen economic growth have paid off. Ontario is a leader in economic growth, with our real GDP growth having outpaced that of all the G7 countries over the last three years. The strengthened economy has resulted in increased revenue for the Province – in fact, over the past two fiscal years, revenue has come in higher than projected, supporting Ontario's return to a balanced budget.

It is also important to point out that private sector forecasters have revised upward their expectations for the Ontario economy since the 2017 Budget, reflecting the growing strength of the Ontario economy. In fact, the current average private sector forecast for this year and next is also above what the Financial Accountability Office of Ontario projected in their Budget commentary. The government is also taking steps to improve tax fairness and address the underground economy in order to ensure the integrity of the Province's revenues.

Finally, Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense. The reserve has been set at $0.6 billion in 2017-18, $0.6 billion in 2018-19, and $0.9 billion in 2019-20.

Balancing the budget means that the government can invest more in the programs and services that people rely on.

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6. The FAO's commentary released on September 6, 2017 says that Ontario's debt reduction commitment is based on unrealistic assumptions. How do you respond?

The government made a commitment in the 2010 Budget to balance and eliminate the deficit by 2017-18. Since then, the government has reduced the deficit from its peak in 2009-10 of $19.3 billion, to a projected $1.5 billion in 2016-17 and a projected balanced Budget in 2017. Furthermore, the government consistently overachieved on its deficit targets and forecasts for net debt-to-GDP. The government's track record therefore provides evidence of fiscal discipline and the likelihood of achieving on-going balanced budgets in the future.

With respect to capital spending, approximately 61 per cent of the increase in net debt from 2008–09 to 2016–17 was due to the deficit, with net investments in capital assets responsible for most of the balance. Infrastructure expenditures do not therefore have as large an impact on net debt as that of a balanced budget.

Moreover, additional capital investment in the latter half of the next decade will stimulate the economy. A recent report from the Centre for Spatial Economics confirms that over the long term, real GDP in Ontario increases by $6 for every dollar of public infrastructure spending. This stimulus in GDP may help to offset the effects of an aging population and slower growth in the labour force and maintain the 4% average GDP growth required to bring net debt to GDP down to 27% in 2029-30.

7. Interest on debt is still massive and the Bank of Canada is expected to raise interest rates again this fall, and announced it is raising its target for the overnight rate on September 6, 2017. How is the government preparing for this and will this affect your ability to maintain a balanced budget?

The increase in the Bank of Canada's policy rate reflects the growing strength of the Canadian and Ontario economy. Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.

Since 2014, Ontario has been an economic growth leader in Canada and private-sector economists expect Ontario to remain one of the fastest growing provinces over the next two years.

Ontario's economic growth exceeded that of all G7 countries over the 2014 to 2016 period.

A quarter-point increase in the policy rate is not likely to have a material impact on the Ontario economic outlook. The 2017 Ontario Budget anticipated that interest rates would rise modestly.

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An increase in the Bank of Canada's overnight interest rate does not automatically translate into an increase in the Province's borrowing cost which is also impacted by other factors including revisions to the US Federal Funds Rate.

As noted in the 2017 Budget, the Province's average cost of 10 year borrowing in 2017-18 is forecast to be 3 per cent. The impact of a 100 basis point increase in borrowing rates is forecast to be approximately $300 million. The interest rate forecast used in the Budget was prudent, and anticipated that long-term interest rates would rise as we progressed through the fiscal year.

8. You claim to have balanced the budget yet you keep piling on more debt. How do you plan to pay down the debt?

We maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023–24.

In a balanced budget environment, debt would be incurred primarily to invest in capital assets. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending – including addressing the underground economy and maintaining tax fairness. Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to $6 on average per one dollar of public infrastructure spending.

These strategic investments are creating jobs and contributing to economic growth. Ontario's GDP grew one per cent in the first quarter of 2017, outperforming that of Canada, the U.S. and all other G7 countries.

9. Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?

To increase transparency, this year we have made a simple change to how we are reporting third party revenues for broader public sector organizations.

For the first time, Public Accounts are presenting third party revenues for hospitals, school boards and colleges with provincial revenue. Third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To

ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the Province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

10. The Public Accounts show a drawdown of $260 million from the Trillium Trust. What did you spend the money on?

The government began allocating proceeds from the Trillium Trust in 2016-17 to help support infrastructure initiatives such as GO Regional Express Rail (GO RER), the Hurontario Light Rail Transit (LRT) and the Ontario Community Infrastructure Fund (OCIF).

We expect the Trillium Trust to be drawn down by about $400 million in 2017–18.

Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to $6 on average per one dollar of public infrastructure spending.

11. Does a qualified opinion impact the Province's credit rating?

The Province's financial results show that the government has once again beaten its annual deficit targets. In April 2017, we delivered our first balanced budget since the global recession and we are on track to do so again next year and the year after.

The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the Province. However, there were no credit rating implications in 2016 when the Province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

12. The Auditor General has some serious concerns about how you're accounting for Ontario's Fair Hydro Plan. What do you say to this?

The accounting for Ontario's Fair Hydro Plan is a separate and distinct issue to the Public Accounts for 2016-17 that we're here to talk about today.

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However, under Ontario's Fair Hydro Plan accounting structure, the Province's net debt and annual surplus/deficit won't be negatively impacted since all costs are to be recovered through future rates.

The Ministry of Energy, Finance and Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO) and external advisors to address the outstanding accounting related considerations.

The Auditor General has also been briefed on the government's refinancing structure.

For further questions, I direct you to contact my colleague at the Ministry of Energy.

13. Program spending increased again this year. Why?

Program spending in 2016-17 was $141.7 billion, down $0.1 billion from the 2016 Budget. Average annual growth of total government spending has been held to 2.3 per cent for the past five years.

Healthcare represents the largest share of government program spending at $56 billion. Transformation efforts continue to make the sector more effective and sustainable while continuing to improve access for patients, especially the increased demands from an aging and growing population. The government has invested in new drugs, technologies, community and home care, long term care homes, mental health, physicians' services and specialized cancer treatments.

Other areas of government investment include:

- $26.6 billion in education, mainly due to the introduction of full-day kindergarten;
- $16 billion in children's and social services, due to increased annual social assistance rates as well as investments in developmental services, autism and complex special needs programs, as well as the Ontario Child Benefit;
- $10.1 billion in post-secondary and training, due to enrolment growth in colleges and universities along with increased student financial assistance programs and increases in capital funding for post-secondary institutions;
- $4.6 billion in justice sector expenses due mainly to the upload of court security costs from municipalities, compensation for the Ontario Provincial Police and correctional services programs, as well as improved access to legal aid.

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Media Qs&As – Comprehensive List

General Public Accounts Information

1. **What is Public Accounts?**

   The Public Accounts of Ontario is a key accountability and transparency document in the government's financial cycle. It's a look back that compares Ontario's actual performance to what was planned in the Budget.

   The Public Accounts present the financial statements of the Province, provide financial highlights of the past fiscal year, and report on performance in priority areas.

   Public Accounts is audited by the Auditor General and is typically released in the fall of the following fiscal year.

2. **Why can't I find some organizations' financial statements in the Public Accounts?**

   Volume 2 contains the individual financial statements of government organizations, business enterprises and other financial statements. At the time of print, some organizations may not have had time to provide their financial statements. When this happens, we post them to Ontario.ca/publicaccounts as soon as they're available. The omission has no impact on the financial results reported in Public Accounts.

Accounting Changes

3. **Why have you restated prior year's financial statements?**

   When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

   These changes include:
   a. **Accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
   b. **Accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.

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c. **Accounting for the Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
d. **Accounting for net pension assets of jointly sponsored pension plans** - the Province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

- ## Broader Public Sector Accounting Presentation Change

4. Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?
(Top Media Question - updated September 5, 2017)

To increase transparency, this year we have made a simple change to how we are reporting third party revenues for broader public sector organizations.

For the first time, Public Accounts are presenting third party revenues for hospitals, school boards and colleges with provincial revenue. Third party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the Province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

5. What is consolidated reporting?

This presentation change may also be referred to as line-by-line consolidated reporting. This type of reporting is a more transparent way of presenting the details in the Broader Public Sector (BPS).

This change means that both expenses and revenues will be shown as separate items (on a gross basis), as opposed to being reported together (on a net basis).This affects what you see in the reporting breakdown of figures for hospitals, school boards, colleges and universities. However this has no impact to the annual deficit, net debt or accumulated deficit.

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Line-by-line consolidated reporting is in keeping with Public Sector Accounting Board standards and will mean that our presentation for Public Accounts is consistent with other governments across Canada. The Auditor General is supportive of this change.

- ## Ontario Power Generation and Hydro One Accounting Change

6. Why is there a change to the accounting for Ontario Power Generation (OPG) and Hydro One?

In the 2016-17 Public Accounts, the financial results of Ontario's investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board requirements and is supported by the Auditor General.

7. What is the impact of this change to the Province's bottom line?

This change has resulted in an adjustment to the opening accumulated deficit and net debt of $1,163 million, of which $683 million relates to transition to IFRS. The impact of this change to the annual deficit is not material to the Province in 2016-17.

- ## Pension Asset Accounting

See section: Auditor General – Qualified Opinion for more information.

- ## Independent Electricity System Operator (IESO) Accounting Changes

8. What accounting changes were made by the Independent Electricity System Operator (IESO)? Why?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

The IESO also made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting

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changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

See section: Auditor General – Qualified Opinion for more information.

Auditor General – Qualified Opinion

9. The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?
(Top Media Question - updated September 5, 2017)

We continue to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the Province.

The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change

also has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

10. This year it's IESO accounting. Last year it was pension assets. Before that it was government advertising. Why are you still fighting with the Auditor General? This seems to be a pattern of behavior where you try and undermine her authority.

Our government has the utmost respect for all independent officers of the legislature, and we value the important perspective they bring.

• Pension Asset Accounting

11. Why are you still fighting with the Auditor General over pension accounting?
(Top Media Question - updated September 5, 2017)

In preparing last year's Public Accounts, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the Province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the Province on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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12. What was the panel's rationale for its decision?

The Pension Asset Expert Advisory Panel recommended that the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees Union Pension Plan (OPSEUPP) should be recognized as an asset in Ontario's financial statements.

The panel said that:

- Recognizing the asset will provide a faithful representation of the Province's financial position.
- The accounting surplus in the plan has a future economic benefit.
- The government controls access to that accounting surplus.
- The accounting surplus exists as the result of past transactions and events.
- It would be misleading not to recognize the Province's share of the assets in Public Accounts.

In addition, the panel concluded that the government will be able to benefit from the full amount of each net pension asset, and as a result, no reduction in the value is necessary.

EY provided additional analysis and concluded that no valuation allowance was required for either plan, confirming the independent panel's recommendation.

13. The Auditor General was critical of the panel's authority and credibility. What's your response to this?

The panel members are all highly-qualified experts in their field. They were carefully chosen for their expertise in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and public sector accounting standards:

- **Patricia O'Malley (panel chair)** is a Chartered Professional Accountant. She has been a member of the Canadian Accounting Standards Oversight Council since 2013, was Chair of the Canadian Accounting Standards Board and was a member of the International Accounting Standards Board from 2001 to 2007.
- **Murray Gold** is a leading legal practitioner and senior pension and benefits partner at Koskie Minsky LLP.

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- **Uros Karadzic** is a senior actuary at Ernst and Young's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting.
- **Paul Martin** is a Chartered Professional Accountant, Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP.

The panel was completely independent from government, and arrived at its advice based on its own analysis of this complex issue.

14. How much did you pay the panel members? Do you think that money was justified?

The total cost of the panel was $221,113. This included compensation and travel expenses for the four panelists, as well as procurement. These rates are consistent with the Agencies and Appointments Directive, which specified up to $2,000 per day for appointees with unique and specialized expertise, or urgent issues affecting government priorities and requiring intense time commitments over a short period of time.

The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards, and provided independent advice on how to move forward with how Public Sector Accounting Board standards should be applied to current and potential future net pension assets.

• IESO Accounting

15. The Auditor General is critical of the IESO accounting changes. Are Ontario's accounting changes inappropriate?
(Top Media Question - updated September 5, 2017)

No. The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting

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changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

If pressed on rate-regulated accounting:

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

16. What is the Auditor General's argument with these changes?

The Auditor General claims that the change to the IESO's accounting policy to recognize market account assets and liabilities is inappropriate, as these market accounts are not assets and liabilities of the Province.

However, the IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

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This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

17. Between IESO and the pension issue from last year it seems like you just make up new rules when you don't like what you hear from the Auditor General. How do you respond to that?

We continue to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

In many cases the application of accounting standards requires professional judgment. The Province's professionally accredited accounting staff are highly qualified practitioners, with a high degree of expertise in their field. A difference of opinion on the interpretation of accounting standards is not unique to this situation.

18. Will you strike an expert panel to study to IESO issue, like you did last year for pension accounting?

We have no plans to establish a panel at this time.

The changes made to the IESO accounting were accepted by the IESO's audit committee, board of directors, and their independent external auditor. These changes were outlined in the IESO's 2016 annual report, which was published in March 2017. The Office of the Provincial Controller supports these changes.

19. Your reasons for change are yet again at odds with the Auditor General. Why should we believe you, when she is an independent officer of the legislature?

The Auditor General's responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment. A difference of opinion on the interpretation of accounting standards is not unique to this situation.

- **Ontario's Fair Hydro Plan Accounting (Other Matters)**

20. The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?

First, I would note that the accounting for Ontario's Fair Hydro Plan is separate and distinct from the Public Accounts we're here to talk about today.

Having said that, we respectfully disagree with the Auditor General's claim that the government withheld information from her or her office.

In March, the Ministry of Energy provided the Auditor General's Office with Cabinet documents from February and March related to Ontario's Fair Hydro Plan. These documents together provided a comprehensive overview of all elements of the plan that were known at that time, including accounting memos from both the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG).

On April 19, 2017, senior ministry officials from Treasury Board Secretariat, Finance and Energy met with the Auditor General and her staff to provide a briefing on Ontario's Fair Hydro Plan.

Since that April 19 briefing, ministry officials from Treasury Board Secretariat have met with the Auditor General several times.

21. The Auditor General has some serious concerns about how you're accounting for Ontario's Fair Hydro Plan. What do you say to this?
(Top Media Question - updated September 5, 2017)

The accounting for Ontario's Fair Hydro Plan is a separate and distinct issue to the Public Accounts for 2016-17 that we're here to talk about today.

However, under Ontario's Fair Hydro Plan accounting structure, the Province's net debt and annual surplus/deficit won't be negatively impacted since all costs are to be recovered through future rates.

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The Ministry of Energy, Finance and Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO) and external advisors to address the outstanding accounting related considerations.

The Auditor General has also been briefed on the government's refinancing structure.

For further questions, I direct you to contact my colleague at the Ministry of Energy.

22. Why did you set up Ontario's Fair Hydro Plan accounting in this way?

Again, I would note that the accounting for Ontario's Fair Hydro Plan is separate and distinct from the Public Accounts we're here to talk about today.

However, in order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

All of the agreements necessary for the Global Adjustment (GA) Refinancing are not yet complete. The final accounting for the GA Refinancing will be completed once all of the elements are complete.

In analyzing the appropriate accounting treatment for the GA refinancing component of Ontario's Fair Hydro Plan on the province's consolidated financial statements in 2017-18 and forward, the province considered authoritative guidance issued by the Public Sector Accounting Board, as well as the accounting assessments of the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) management, including the accounting opinions of their external auditors.

The complexity and unique structure of the GA Refinancing structure requires the use of professional judgment to ensure that key financial reporting objectives of transparency and accountability are best served.

Any further questions about Ontario's Fair Hydro Plan should be directed to my colleague the Minister of Energy.

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Ontario's Fiscal Position

- **Balanced Budget**

23. The government is claiming the deficit has been reduced to $1B deficit for 2016-17 and that the budget will be balanced over the next three years. However, the AG is saying that the deficit for 2016-17 was more than $2B due to the treatment of pension assets, and the FAO has stated that the government's revenue forecast is more than $1B too "optimistic". Isn't the government really hiding a $3-4B deficit instead of a balanced budget? *(Top Media Question - updated September 5, 2017)*

There is no hidden deficit. In the *2010 Budget*, the government committed to eliminating the deficit and returning to a balanced budget by 2017-18. Through targeted, measured and fiscally responsible decisions, Ontario has restored its fiscal and economic strength.

Today we are confirming that the 2016-17 deficit of $1 billion is $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Ontario Budget. This marks the eighth year in a row that Ontario has beaten its deficit target.

The success in eliminating the deficit is supported by a strong track record in managing spending -- having held average growth in spending to 2.3 per cent over the past five years.

In addition, over the last several years, the government's investments to strengthen economic growth have paid off. Ontario is a leader in economic growth, with our real GDP growth having outpaced that of all the G7 countries over the last three years. The strengthened economy has resulted in increased revenue for the Province – in fact, over the past two fiscal years, revenue has come in higher than projected, supporting Ontario's return to a balanced budget.

It is also important to point out that private sector forecasters have revised upward their expectations for the Ontario economy since the 2017 Budget, reflecting the growing strength of the Ontario economy. In fact, the current average private sector forecast for this year and next is also above what the Financial Accountability Office of Ontario projected in their Budget commentary. The government is also taking steps to improve tax fairness and address the underground economy in order to ensure the integrity of the Province's revenues.

Finally, Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense. The reserve has been set at $0.6 billion in 2017-18, $0.6 billion in 2018-19, and $0.9 billion in 2019-20.

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Balancing the budget means that the government can invest more in the programs and services that people rely on.

24. How were you able to beat your deficit target in 2016-17?
(Top Media Question - updated September 5, 2017)

In 2016-17 we maintained our focus on responsible fiscal management and investing in the right priorities. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending.

Average annual growth of total government spending has been held to 2.3 per cent for the past five years. As a result of growth in revenue that exceeded growth in program expense, as well as lower than forecast interest on debt, the deficit is $3.3 billion lower than projected in the 2016 Budget. It is also $0.5 billion lower than the interim projection in the 2017 Budget.

This is the eighth year in a row the government has beaten its deficit target.

25. You beat your deficit targets again. Aren't you just padding your estimates so you can beat them at the end of the day?

No. The government's fiscal projections are based on the best economic and fiscal information available at the time. They reflect a realistic and responsible plan to manage the Province's resources, while still protecting the vital services that Ontarians rely on.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

• Debt

26. You claim to have balanced the budget yet you keep piling on more debt. How do you plan to pay down the debt?
(Top Media Question - updated September 5, 2017)

We maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by

2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023–24.

In a balanced budget environment, debt would be incurred primarily to invest in capital assets. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending – including addressing the underground economy and maintaining tax fairness. Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to $6 on average per one dollar of public infrastructure spending.

These strategic investments are creating jobs and contributing to economic growth. Ontario's GDP grew one per cent in the first quarter of 2017, outperforming that of Canada, the U.S. and all other G7 countries.

27. Interest on debt is still massive and the Bank of Canada is expected to raise interest rates again this fall, and announced it is raising its target for the overnight rate on September 6, 2017. How is the government preparing for this and will this affect your ability to maintain a balanced budget? *(Top Media Question - updated September 6, 2017)*

The increase in the Bank of Canada's policy rate reflects the growing strength of the Canadian and Ontario economy. Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.

Since 2014, Ontario has been an economic growth leader in Canada and private sector economists expect Ontario to remain one of the fastest growing provinces over the next two years.

Ontario's economic growth exceeded that of all G7 countries over the 2014 to 2016 period.

A quarter-point increase in the policy rate is not likely to have a material impact on the Ontario economic outlook. The 2017 Ontario Budget anticipated that interest rates would rise modestly.

An increase in the Bank of Canada's overnight interest rate does not automatically translate into an increase in the Province's borrowing cost which is also impacted by other factors including revisions to the US Federal Funds Rate.

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As noted in the 2017 Budget, the Province's average cost of 10 year borrowing in 2017-18 is forecast to be 3 per cent. The impact of a 100 basis point increase in borrowing rates is forecast to be approximately $300 million. The interest rate forecast used in the Budget was prudent, and anticipated that long-term interest rates would rise as we progressed through the fiscal year.

28. The government is paying an enormous amount of money just paying the interest on its debt. How are you addressing this?

Interest on debt expense was $11.7 billion, which was $0.7 billion below the plan of $12.4 billion, due mainly to lower-than-forecast interest rates, lower-than-forecast deficit and cost-effective borrowing and debt management.

While interest costs have grown in absolute terms, they have steadily fallen as a percentage of Ontario's revenues since 2013-14. The interest on debt-to-revenue ratio is now at its lowest level from the peak of 15.5 per cent in 1999-2000.

Interest on debt-to-revenue is forecast to have been 8.4 per cent for 2016–17. This ratio is the lowest it has been in 25 years. It is forecast to decline to 8.2 per cent in 2017-18.

We incurred increases to Ontario's debt during the recession for two reasons: to finance deficits and invest in capital assets. However we are making progress on our economic plan by making investments to spur growth, and are managing spending responsibly.

These strategic investments are creating jobs and contributing to economic growth. Ontario's GDP grew one per cent in the first quarter of 2017, outperforming that of Canada, the U.S. and all other G7 countries.

Our fiscal plan is working. Ontario is on track to balance the budget this year while making investments in the programs and services people and families rely on most.

29. You are spending more on interest payments for the debt than what you spend on post-secondary education. In fact, the payments equal more than 20 per cent of the health budget. How can you justify this?

Our priority following the 2008-09 recession was to achieve balance. In the first

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few years after the recession, the increase in net debt was primarily due to the deficit.

Approximately 61 per cent of the increase in net debt from 2008–09 to 2016–17 was due to the deficit, with net investments in capital assets responsible for the balance.

With balanced budgets, from 2017-18 onwards, the increase in net debt will be exclusively from investments in capital assets. In addition, the government is investing in public infrastructure which is vital to growing the economy and ensuring a high quality of life, whether people live in large, small, urban, northern or rural Ontario communities. Every $1 spent on public infrastructure can increase GDP by up to $6 in the long term.The balanced budget is giving the government the fiscal flexibility to do more to help people and spur economic growth.

- **Financial Accountability Office of Ontario**

30. The Financial Accountability Office (FAO) just released a commentary saying your balanced budget is in question because it's based on optimistic revenue forecasts. Will you decrease spending or increase taxes to make up for this potential shortfall?

The government stands by the revenue forecast presented in the 2017 Budget. As recently presented in the 2017-18 First Quarter Finances, revenues are on track and the government is continuing to project a balanced budget in 2017-Taxation revenue growth projected in the 2017 Budget aligns with growth actually experienced in recent years.

The government builds prudence into its economic forecast. Since the time of the 2017 Budget, private sector forecasters have revised up their economic growth projections for Ontario over the 2017-20 period, reflecting the strength in the Ontario economy.

31. The FAO's commentary released on September 6, 2017 says that Ontario's debt reduction commitment is based on unrealistic assumptions. How do you respond?
(Top Media Question - updated September 6, 2017)

The government made a commitment in the 2010 Budget to balance and eliminate the deficit by 2017-18. Since then, the government has reduced the deficit from its peak in 2009-10 of $19.3 billion, to a projected $1.5 billion in 2016-17 and a projected balanced Budget in 2017. Furthermore, the government consistently overachieved on its deficit targets and forecasts for net debt-to-GDP.

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The government's track record therefore provides evidence of fiscal discipline and the likelihood of achieving on-going balanced budgets in the future.

With respect to capital spending, approximately 61 per cent of the increase in net debt from 2008–09 to 2016–17 was due to the deficit, with net investments in capital assets responsible for most of the balance. Infrastructure expenditures do not therefore have as large an impact on net debt as that of a balanced budget.

Moreover, additional capital investment in the latter half of the next decade will stimulate the economy. A recent report from the Centre for Spatial Economics confirms that over the long term, real GDP in Ontario increases by $6 for every dollar of public infrastructure spending. This stimulus in GDP may help to offset the effects of an aging population and slower growth in the labour force and maintain the 4% average GDP growth required to bring net debt to GDP down to 27% in 2029-30.

- **The Fraser Institute**

32. How do you respond to the August 3, 2017 Fraser Institute report that criticizes the Province's plan to reduce the debt burden as "wishful thinking"?

The rate of increase of the Province's net debt is anticipated to be below that of its GDP, due to a combination of balanced budgets and appropriate levels of capital investments. These investments also contribute to the Province's GDP growth as affirmed by the Centre for Spatial Economics which reported recently that, over the long term, real GDP in Ontario increases by $6 for every dollar of public infrastructure spending.

In later years, the rate of increase in net debt is expected to be lower than that of GDP due a combination of balanced budgets and investments in capital assets that will contribute to GDP growth, allowing the government to realize its net debt to GDP target of 27 per cent by 2029-30.

- **Most Indebted Subsovereign, Future Generations**

33. This government has a spending problem and Ontario is now the most indebted sub-sovereign borrower in the world. Why should we trust your plan?

With a growing economy and a balanced budget, this is the time to make investments in key services that matter most to people, like health care and education, while at the same time lowering costs for necessities like electricity and child care.

Ontario is on track to balance the budget this year while making investments in the programs and services people and families rely on most. This year and last,

Ontario's debt-to-GDP ratio has improved from 39.6 per cent in the 2016 budget, to a forecasted 37.8 per cent in 2016-17, and it continues to track downward.

Our plan is also helping to grow the economy, with the largest investment in public infrastructure in the Province's history — more than $190 billion over 13 years starting in 2014-15. New schools, hospitals and transit projects are improving quality of life and creating jobs in communities across Ontario.

Supporting ongoing economic growth is a top priority and we are encouraged by the influx of many innovative and dynamic businesses that are investing across the Province, bringing good jobs, higher wages and greater prosperity to our communities. We will continue to implement our balanced plan to build a healthy and sustainable economy for all of Ontario.

34. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan and your failure to address the Province's growing debt. How do you respond?

With a growing economy and a balanced budget, this is the time to make investments in key services that matter most to people, like health care and education, while at the same time lowering costs for necessities like electricity and child care.

Over the last decade the government has rebuilt our electricity transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our electricity system is being transformed – more than $50 billion has been invested to modernize the system.

We have heard from people across the Province that the price of electricity has risen too quickly, which is why our plan will ensure costs are shared more fairly over the years ahead.

As Ontario invested in renewing our electricity system, the government invested in many new generating facilities, most of which operate under 20-year contracts. Some of these generators are expected to provide value to the electricity system beyond their contract lives. There is an opportunity to recognize the long-term benefit of these assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.

To relieve the current burden on ratepayers and share costs more fairly, a portion of the Global Adjustment (GA) is being refinanced. Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

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In the early years, a portion of the costs covered by the GA is being refinanced to reduce pressure on today's electricity ratepayers. In later years, the cost of refinancing will be recovered from ratepayers.

With respect to debt, we remain committed to reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023–24.

- **Revenue**

35. How much money did you bring in in 2016-17?

Provincial revenues increased by $4.6 billion, or 3.4 per cent over the previous year. This increase was due in part to nominal GDP growth of 4.6 per cent in 2016, which contributed to higher taxation revenues. There were also higher transfers from the federal government – including the Canada Health Transfer, Canada Social Transfer and funding for infrastructure projects.

Taxation revenues were $2.5 billion, or 2.8 per cent higher-than-projected in the 2016 budget. Corporate tax revenues were $2.8 billion higher. This was due to stronger-than-expected revenues from tax returns. Sales tax revenues were $0.8 billion higher, due to Ontario's larger share of the HST, and the strong housing market contributed $0.7 billion more in land transfer tax revenues.

Transfers from the Government of Canada were $0.6 billion lower than the 2016 Budget forecast. This was mainly due to lower-than-expected funding for infrastructure projects and other payments for government agencies, hospitals, school boards and colleges. This decline was partially offset by new transfers under the strategic investment fund for affordable housing and post-secondary education and training.

Fees, donations and other revenues from broader public sector organizations were $0.6 billion higher than the budget forecast, mainly due to higher-than-expected revenues from non-provincial sources for hospitals, and higher international tuition fees.

- **Asset Sales**

36. One-time asset sales are a way to bring in money, but isn't this burning the furniture to heat the house when it comes to a long-term revenue strategy?

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We are committed to dedicate net revenue gains from the sale of designated assets to the Trillium Trust, which is helping to fund transit, transportation and other key infrastructure projects across Ontario.

The government has already credited the Trillium Trust with $1.35 billion from the sale of Ontario's shares in General Motors along with $3.96 billion from the sale of Hydro One shares and the sale of the LCBO head office lands. In addition, the sale of the government's interest in Hydro One Brampton Networks Inc. resulted in a gain on sale recognized in 2016-17 of $109 million. The government has committed to crediting the net proceeds from the sale of Hydro One Brampton to the Trillium Trust.

See section: Trillium Trust for more information.

- **Transfers from the Federal Government**

37. Transfers from the federal government were lower than expected. Aren't you banking on another entity to get your fiscal house in order?

The Government of Ontario, like all Provinces in Canada, receives funding from the federal government. These transfers are done on an ongoing basis to help provide programs and services.

Transfers from the Government of Canada were lower than the 2016 Budget forecast by $0.6 billion. This was mainly due to lower-than-expected funding for infrastructure projects and other federal payments including transfers to government agencies, hospitals, school boards and colleges. This decline was partially offset by new transfers under the strategic investment fund for affordable housing and post-secondary education and training.

- **Revenue from International Tuition Fees**

38. International tuition fees helped the Province's bottom line but isn't this on the backs of young people who want to learn here?

Ontario is focused on attracting top talent from around the world that will enhance student learning, increase economic viability, and support growth of a highly skilled workforce.

International education enriches the academic, social and cultural life of our colleges and universities, from classrooms to research laboratories, and creates stronger ties between Ontario and other global jurisdictions.

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Ontario welcomes the talent and energy that international students bring to the province. Many international students are future Canadians, who choose to stay and build on their experiences and education here in Ontario.

Over the past five years, international student enrolment in Ontario grew by 87% overall, 70% in public universities and 118% in public colleges.

In 2016-17, there were 98,685 full-time international students from more than 175 countries studying at publicly-assisted institutions in Ontario. This represented a 16% growth over the last academic year.

The province is developing a comprehensive and sustainable international strategy that builds on the strengths of our postsecondary system, reinforces our reputation for quality, and makes Ontario a welcoming destination and partner of choice.

For further questions, I direct you to contact my colleague at the Ministry of Advanced Education and Skills Development.

- **Program Spending**

39. Program spending increased again this year. Why?
(Top Media Question - updated September 5, 2017)

Program spending in 2016-17 was $141.7 billion, down $0.1 billion from the 2016 Budget. Average annual growth of total government spending has been held to 2.3 per cent for the past five years.

Healthcare represents the largest share of government program spending at $56 billion. Transformation efforts continue to make the sector more effective and sustainable while continuing to improve access for patients, especially the increased demands from an aging and growing population. The government has invested in new drugs, technologies, community and home care, long term care homes, mental health, physicians' services and specialized cancer treatments.

Other areas of government investment include:

- $26.6 billion in education, mainly due to the introduction of full-day kindergarten;
- $16 billion in children's and social services, due to increased annual social assistance rates as well as investments in developmental services, autism and complex special needs programs, as well as the Ontario Child Benefit;

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- $10.1 billion in post-secondary and training, due to enrolment growth in colleges and universities along with increased student financial assistance programs and increases in capital funding for post-secondary institutions;
- $4.6 billion in justice sector expenses due mainly to the upload of court security costs from municipalities, compensation for the Ontario Provincial Police and correctional services programs, as well as improved access to legal aid.

40. You finally balanced the budget and now you're spending more on expensive election promises like free pharmacare for children and youth 24 and younger. Why aren't you paying down debt instead?

With a growing economy and a balanced budget, this is the time to make investments in key services that matter most to people, like health care and education, while at the same time lowering costs for necessities like electricity and child care.

Providing more access to vital services isn't just an investment in our future. It's the right thing to do.

• Credit Rating

41. Does a qualified opinion impact the Province's credit rating?
(Top Media Question - updated September 5, 2017)

The Province's financial results show that the government has once again beaten its annual deficit targets. In April 2017, we delivered our first balanced budget since the global recession and we are on track to do so again next year and the year after.

The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the Province. However, there were no credit rating implications in 2016 when the Province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

42. What do you say to the credit rating agencies that have highlighted provincial debt as an area of credit weakness?

As recently presented in the 2017-18 First Quarter Finances, we continue to project a balanced budget in 2017-18, unchanged from the 2017 Budget.

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With stronger-than-expected first quarter economic growth and the government's responsible approach to fiscal management, we can continue to invest in programs and services that help people across the Province.

Ontario's economy continues to grow at a steady pace despite an uncertain global environment. Most key economic indicators show that growth continues in the second quarter. Our plan is working.

We remain committed to reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023–24.

43. What is your credit rating as it stands today?

Following the release of the 2017 Budget, all four rating agencies have confirmed Ontario's long-term credit ratings. This reflects rating agencies' confidence in our government's plan to grow Ontario's economy and create jobs for Ontarians.

If pressed:
Ontario's ratings are:

	Long-Term	Short-Term
Moody's:	Aa2	P-1
DBRS:	AA (low)	R-1 (mid)
Fitch:	AA-	F1+
Standard and Poor's:	A+	A-1

- **C.D. Howe Institute**

44. Why does the C.D. Howe Institute weigh in on the government's fiscal situation?

The C.D. Howe Institute is an independent not-for-profit research institute that supports economically sound public policies. It is widely considered to be Canada's most influential think tank and is a trusted source of essential policy intelligence, distinguished by research that is nonpartisan, evidence-based and subject to definitive expert review.

Each year the C.D. Howe Institute produces a report on its assessment of the fiscal planning and reporting practices of senior Canadian governments. The institute observes that financial reports are a vital tool for understanding

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governments' plans and activities.

We consider reports like the C.D. Howe's Fiscal Accountability of Canada's Senior Governments important because they are written by independent experts. Studies such as this are essential for governments to continuously assess and improve their financial planning and reporting.

Trillium Trust

45. What is the Trillium Trust?

The Trillium Trust provides for the dedication of prescribed net revenue gains from the sale of designated assets to support key infrastructure priorities, such as roads, bridges and public transit.

The Trillium Trust Act, 2014 requires that all expenditures made under the act to support infrastructure investments are to be reflected in the Public Accounts.

Designated assets include the Province's shares of Hydro One and Hydro One Brampton, as well as the LCBO head office lands, the OPG head office building and the Lakeview lands.

The Trillium Trust was drawn down by about $260 million in 2016-17. We expect the Trillium Trust to be drawn down by about $400 million in 2017–18.

The Ministry of Finance shows spending out of the Trillium Trust, with amounts to ministries delivering projects that have received support from the trust reflected in this year's Public Accounts. These figures are included in Volume 1 of Public Accounts.

The funding will help support initiatives, such as GO Regional Express Rail (GO RER), the Hurontario Light Rail Transit (LRT) and the Ontario Community Infrastructure Fund (OCIF).

46. The Public Accounts show a drawdown of $260 million from the Trillium Trust. What did you spend the money on?
(Top Media Question - updated September 5, 2017)

The government began allocating proceeds from the Trillium Trust in 2016-17 to help support infrastructure initiatives such as GO Regional Express Rail (GO RER), the Hurontario Light Rail Transit (LRT) and the Ontario Community Infrastructure Fund (OCIF).

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We expect the Trillium Trust to be drawn down by about $400 million in 2017–18.

Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to $6 on average per one dollar of public infrastructure spending.

47. How much is currently in the trust?

The balance of the Trillium Trust as of March 31, 2017, was $5.05 billion.

This reflects an opening balance of $1.35 billion; $3.96 billion credited to the Trillium Trust in 2016–17 from the sale of Hydro One Limited shares and the sale of the LCBO head office lands; and $0.26 billion in expenditures from the Trillium Trust in 2016–17 toward investments in infrastructure.

Like most large infrastructure investments, initial spending on projects is focused on planning, design, property acquisition and other activities to get projects construction-ready.

As this preliminary work is completed and construction activity gets underway, further project requirements will be identified that will be funded from the Trillium Trust in subsequent years.

The government is committed to investing the full amount from the Trillium Trust to support transit, transportation and other priority infrastructure.

48. If the Province raised about $2 billion in the secondary offering of Hydro One shares in 2016, why was only $538 million credited to the Trillium Trust?

The *Trillium Trust Act, 2014*, provides for the dedication of net revenue gains to the Trillium Trust associated with the sale of designated assets to support investments in transit, transportation and priority infrastructure across the Province.

The net revenue gains credited to the Trillium Trust from the secondary offering of Hydro One shares are derived from the gross proceeds, less fees/expenses incurred and less the book value of the shares sold, not including the shares purchased by OPG.

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The government will move forward with regulations to credit the Trillium Trust with the net revenue gains from the shares purchased by OPG in the future.

The Province also used the $1.3 billion in proceeds related to the book value of the Hydro One shares sold to pay down the Province's debt and other payables with the Ontario Electricity Financial Corporation (OEFC).

Through the broadening of Hydro One ownership, the Province is meeting its target to generate $4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and $5 billion to reduce debt.

Digital Tools/Open Government

49. What is the government doing to be transparent in regards to Public Accounts?

As part of our commitment to openness and transparency, we are using data visualization tools to help Ontarians better understand the Province's finances.

This year's tools are available at Ontario.ca/publicaccounts and include:

- Interactive data visualization tools that graphically present details on asset and expense information contained in Volume 1;
- Fully sortable data tables that summarize the financial statements from Volume 2, and the detailed scheduled payments from Volume 3; and
- Downloadable open data sets that provide the five-year trend for government revenue by source, revenue by sector, and statement of operations. This year's total number of open data downloads is 11, up from five last year.

These tools help make the Province's finances easier to understand, access and use, and are part of Ontario's commitment to creating a more open and transparent government.

50. How does this help the average Ontarian?

The more information we can provide to Ontarians about where their tax money is going, the better. That is why the government is providing new digital tools online to help Ontarians better understand their government's finances.

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For example, our downloadable data sets provide a more accessible view of the information in Public Accounts. Volume 2 itself is three parts and over 1,200 pages. Instead of having to review those 1,200 pages, now that same information is available in one downloadable and sortable table.

Presenting the Public Accounts data in innovative, visual formats is part of Ontario's commitment to to creating a more open and transparent government.

51. What are Open Data sets?

The Ontario government is committed to leading the most open, transparent, and accountable government in the country. Public access to information and opening up government data supports this commitment. Ontario is the first province in Canada to adopt the International Open Data Charter.

The International Open Data Charter contains a set of six principles that will build on Ontario's open by default data policy to increase civic participation, openness and accountability.

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Ontario

NEWS

Treasury Board Secretariat

Ontario Releases 2016-17 Public Accounts

Province Balancing the Budget This Year, Helping Families Get Ahead

September 7, 2017

NEWS

Today the province released the Public Accounts of Ontario, showing that Ontario's deficit for last year was $991 million—$3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget.

This is a result of growth in revenue that exceeded growth in program expense, and lower than forecast interest on debt.

Ontario is on track to balance the budget this year, in 2017-18, while making investments in the programs and services people and families rely on most.

Other highlights from this year's Public Accounts include:

- Economic growth, with a 2.7 per cent increase in real gross domestic product (GDP), up from 2.2 per cent projected in the 2016 Budget
- Total revenue of $140.7 billion, up $2.2 billion from the 2016 Budget projection
- Total spending of $141.7 billion, down $0.1 billion from the 2016 Budget projection
- Interest on debt of $11.7 billion, down $0.7 billion from the 2016 Budget projection

Once again, the government is providing new digital tools online to help people better understand their government's finances. Presenting the Public Accounts data in innovative visual formats, and releasing more data through Ontario's Open Data Catalogue, is part of Ontario's commitment to Open Government.

Responsibly managing the province's finances is part of our plan to create jobs, grow our economy and help people in their everyday lives.

QUOTES

"For eight years in a row, we have beaten our annual deficit target. We will continue to build on our track record of responsible fiscal management by balancing the budget in 2017-18. At the end of the day, a balanced budget means more funding for the programs and services people and families rely on most."
— Liz Sandals, President of the Treasury Board

"Ontario is on track to balance the budget in 2017-18. We have once again exceeded our fiscal targets by reducing the deficit by $3.3 billion lower than originally projected in the 2016 Budget. Thanks to the hard work of the people of Ontario, we are leading Canada in economic growth while investing in programs like free tuition and free pharmacare for children and youth. With a balanced 2017 Budget, we will continue to build a stronger, healthier Ontario."
— Charles Sousa, Minister of Finance

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QUICK FACTS

- Ontario’s annual deficit fell from a peak of $19.3 billion in 2009-10 to $991 million in 2016-17.
- Average annual growth of total government spending has been held to 2.3 per cent over the past five years.
- Over the last three years, Ontario’s GDP growth has outpaced that of all G7 countries.
- The 2016-17 Public Accounts compare Ontario’s actual financial performance to what was planned in the 2016 Budget.
- Treasury Board Secretariat prepares Public Accounts in accordance with independently established standards set out by the Public Sector Accounting Board. Ontario’s Auditor General reviews the Public Accounts against these standards and provides an opinion on the province’s adherence to them.
- The province's professional accounting staff and the Auditor General's Office use a different interpretation of public sector accounting standards for net pension assets and recognition of market accounts. The province continues to work with the Auditor General to build on the government’s track record of responsible fiscal management and high quality financial reporting.

BACKGROUND INFORMATION

- Accounting Changes to Ontario’s Financial Statements

ADDITIONAL RESOURCES

Watch the “Public Accounts 101” video

Public Accounts of Ontario 2016-17

Understanding Ontario’s Budget cycle

Read the 2016 Budget

Explore the more than 500 open data sets in the Open Data Catalogue

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Ontario

BACKGROUNDER

Treasury Board Secretariat

Accounting Changes to Ontario's Financial Statements

September 7, 2017

Treasury Board Secretariat prepares the Public Accounts according to the accounting principles for governments issued by the Public Sector Accounting Board (PSAB). When preparing this year's Public Accounts, Ontario implemented accounting changes to further enhance accountability and transparency. To ensure consistency in year-to-year comparisons, financial statements from previous years have been restated, as needed, to reflect the following changes:

Accounting for net pension assets of jointly sponsored pension plans

In 2016-17, the province is reporting the net pension assets for two of its jointly sponsored pension plans, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP). Until the 2015-16 Public Accounts, Ontario had recognized pension assets in its financial statements since 2001.

In preparing the 2015-16 Public Accounts, the province's professional accounting staff and the Auditor General's office engaged in discussions on the appropriate application of PSAB pension accounting standards for the province's two jointly sponsored pension plans. An independent Pension Asset Expert Advisory Panel (PAEAP) was subsequently established to deliver advice and recommendations to the province.

After careful study, the independent panel members released their report. It concluded that the province's share of the net pension assets of both OTPP and OPSEUPP should be recognized in Ontario's financial statements.

After significant deliberation, including considering PAEAP's recommendations, Ontario confirmed that the accounting used for these pension plans prior to 2015-16 was appropriate, and in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these net pension assets and the 2015-16 financial statements have been restated to include them.

Accounting for the Independent Electricity System Operator

The Independent Electricity System Operator (IESO), like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. For the 2016-17 reporting year, the IESO began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end.

PSAB standards are silent on the use of market accounts. In such cases, the standards encourage preparers and auditors to consider guidance in other accounting frameworks when accounting for transactions not specifically addressed by the specific standards.

… /2

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. Further, before the Ontario Power Authority (OPA) merged with IESO in 2015, the OPA used the same accounting presentation in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

IESO has also adopted rate-regulated accounting for its year ending December 31, 2016. This decision was made because using rate-regulated accounting better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO highlighted these changes in their recent annual report. These changes are supported by the IESO's independent external auditor, which issued an unqualified audit opinion.

Accounting for hospitals, school boards and colleges

To increase transparency, the 2016-17 Public Accounts are presenting third-party revenues for hospitals, school boards and colleges with provincial revenue. Third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, were netted against the respective sectors' expenses in prior years. This change is fiscally neutral and does not impact the province's annual deficit, net debt, or accumulated deficit. This change is consistent with PSAB standards and the reporting practices of other senior Canadian governments.

Accounting for energy sector government business enterprises

In the 2016-17 Public Accounts, the financial results of Ontario's investments in Hydro One and OPG are reported using International Financial Reporting Standards. Previously, these results were reported using generally accepted accounting principles in the United States. This change was made to meet PSAB requirements. The change does not have a material impact on this year's financial statements.

Matt Ostergard, Minister's Office, 416-326-3839
Bryant Sullivan, Communications, 416-325-1378

Ontario

MEDIA ADVISORY

Treasury Board Secretariat

President of the Treasury Board and Minister of Finance to Release Ontario's 2016-17 Public Accounts

September 6, 2017

Liz Sandals, President of the Treasury Board and Charles Sousa, Minister of Finance will make an announcement regarding Ontario's 2016-17 Public Accounts.

Prior to the announcement, a technical briefing will be held with officials from Treasury Board Secretariat and the Ministry of Finance. They will be joined by Uros Karadzic, former member of the province's Pension Asset Expert Advisory Panel.

Date: Thursday, September 7, 2017

Time: 1:00 p.m. Technical briefing
1:45 p.m. Ministers' media availability

Location: Huron Room
Macdonald Block
900 Bay St.
Toronto

Matt Ostergard, Minister's Office, 416-326-3839
Bryant Sullivan, Communications, 416-325-1378

From:	Anna Strathy
To:	Ken Kandeepan; John Psinas
Subject:	FW: Public Accounts - Supporting Materials (Consolidated)
Date:	Thursday, September 07, 2017 11:59:00 AM
Attachments:	PA 2016-17_Sousa Briefing 2016-17_Final.pptx QAs - PA v2.docx Sousa PA remarks Sept 5 2017 v1 CSB policy.docx DRAFT-Top Ten QA-Public Accounts-v24_ 20170906_CLEAN.DOCX PA2016-17 Technical Questions & Answers.docx DRAFT_Public Accounts 2016-17 QA_September 6 2017_CLEAN.DOCX PA 2016-17_NR_FINAL.DOCX PA 2016-17_NR_Backgrounder_Acct Changes_FINAL.DOCX PA 2016-17_Media Advisory_FINAL 2_COPO.DOC

FYI

From: Kim, Minzi (MOF) [mailto:Minzi.Kim@ontario.ca]
Sent: Thursday, September 07, 2017 11:53 AM
To: Giroux Namian, Orli (MOF) <Orli.GirouxNamian@ontario.ca>; Martin, Jessica (MOF) <Jessica.Martin@ontario.ca>; Moore, Brynne (MOF) <Brynne.Moore@ontario.ca>; Koukoulas, Sophia (MOF) <Sophia.Koukoulas@ontario.ca>; Elizabeth Mendes (MOF) <Elizabeth.Mendes@ontario.ca>
Cc: David McLean (MOF) <David.McLean@ontario.ca>; Jamille Clarke-Darshanand (MOF) <Jamille.Clarke-Darshanand@ontario.ca>; Matthew Sylvain (MOF) <Matthew.Sylvain@ontario.ca>; Martha Maloney (MOL) <Martha.Maloney@ontario.ca>; Tibando, Lindsay (MOF) <Lindsay.Tibando@ontario.ca>; Dianne Lone (MOF) <Dianne.Lone@ontario.ca>; Peter Spadoni (MCYS) <Peter.Spadoni@ontario.ca>; Tim Schuurman (MOF) <Tim.Schuurman@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Rob Gray (MOF) <Rob.Gray@ontario.ca>; Brian Lewis (MOL) <Brian.Lewis@ontario.ca>
Subject: FW: Public Accounts - Supporting Materials (Consolidated)

Updated:

- *Final - News Release
- *Final - Backgrounder
- TBS – Top Media Q&A
- *Update - TBS – Comprehensive Q&A (Captures MOF items in more details)
- *New – TBS – Technical Q&A
- MOF – Additional Q&A
- Minister's remarks
- Minister's Briefing deck
- *New – Media Advisory

From: Kim, Minzi (MOF)
Sent: September 7, 2017 10:58 AM

To: Giroux Namian, Orli (MOF) <Orli.GirouxNamian@ontario.ca>; Martin, Jessica (MOF) <Jessica.Martin@ontario.ca>; Moore, Brynne (MOF) <Brynne.Moore@ontario.ca>; Koukoulas, Sophia (MOF) <Sophia.Koukoulas@ontario.ca>; Mendes, Elizabeth (MOF) <Elizabeth.Mendes@ontario.ca>
Cc: McLean, David (MOF) <David.McLean@ontario.ca>; Clarke-Darshanand, Jamille (MOF) <Jamille.Clarke-Darshanand@ontario.ca>; Sylvain, Matthew (MOF) <Matthew.Sylvain@ontario.ca>; Maloney, Martha (MOF) <Martha.Maloney@ontario.ca>; Lone, Dianne (MOF) <Dianne.Lone@ontario.ca>; Tibando, Lindsay (MOF) <Lindsay.Tibando@ontario.ca>; Spadoni, Peter (MOF) <Peter.Spadoni@ontario.ca>; Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Strathy, Anna (OFA) <Anna.Strathy@ofina.on.ca>; Mayman, Gadi (OFA) <Gadi.Mayman@ofina.on.ca>; Gray, Rob (MOF) <Rob.Gray@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>
Subject: Public Accounts - Supporting Materials (Consolidated)

Hello -

Here's the complete list of all the Public Accounts supporting materials that are being prepared by TBS & MOF

- News Release
- Backgrounder
- TBS – Top Media Q&A
- *TBS – Comprehensive Q&A (Captures MOF items in more details)
- MOF – Additional Q&A
- Minister's remarks
- Minister's Briefing deck

Please note that majority of these Comms products are still moving, we will share the updated versions as they come in.

Thank you,
Minzi



OFFICE OF THE PROVINCIAL CONTROLLER DIVISION

2016-17 Public Accounts

Highlights Deck

September 7, 2017

Confidential – For Internal Discussion Purposes

2016-17 Financial Highlights

- **2016-17 deficit is $1.0 billion**
  - $3.3 billion lower than the projected $4.3 billion deficit in the 2016 Budget.
  - $0.5 billion lower than the $1.5 billion interim forecast presented in the 2017 Budget.
  - $2.5 billion lower than 2015-16 deficit of $3.5 billion*.
- **Revenues are $140.7 billion****
  - $2.2 billion, or 1.6%, higher than the projected $138.5 billion in the 2016 Budget.
  - $0.6 billion, or 0.4%, lower than the projected $141.3 billion interim forecast in the 2017 Budget.
- **Expenses are $141.7 billion****
  - $0.1 billion, or 0.1%, lower than the projected $141.8 billion in the 2016 Budget.
  - $1.1 billion, or 0.8%, lower than the $142.8 billion interim forecast presented in the 2017 Budget.
- **Net debt is $301.6 billion, an increase of $6.2 billion in 2016-17. This increase is due to:**
  - Additional borrowing to finance the operating deficit and investments in infrastructure.
- **The Auditor General has issued a qualified Audit Opinion for the 2016-17 Public Accounts, based on a different interpretation of accounting methods for net pension assets and recognition of Independent Electricity System Operator market accounts.**

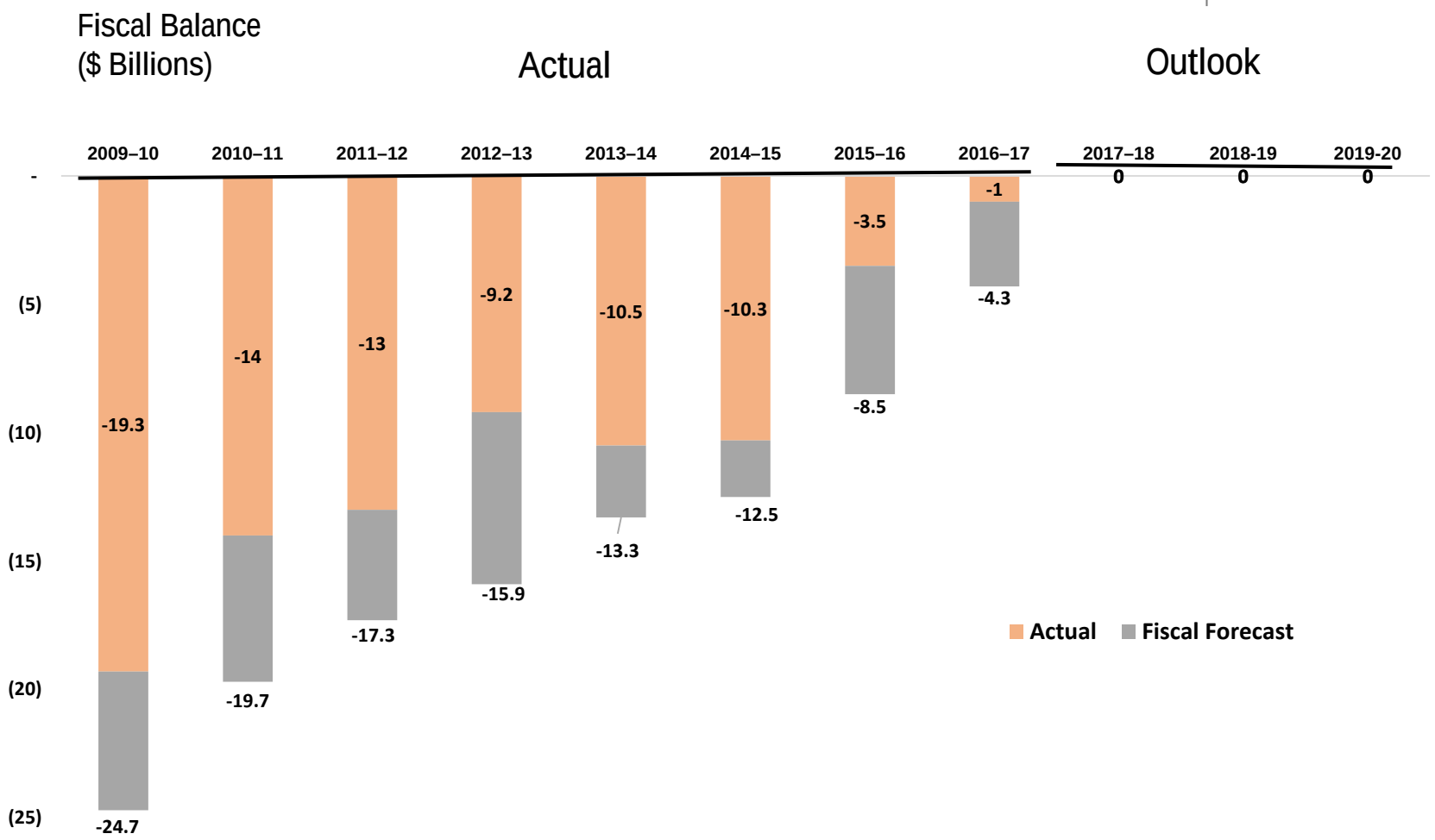
* 2015-16 deficit restated for removal of impact of regulated pension accounting

** Revenues for 2016-17 include third party revenues of hospitals, school boards and colleges. In previous years, these third party revenues were netted against the respective sector expenses. This change in presentation increased revenue and expenses by approximately $8 billion in 2016-17 and $7.5 billion in 2015-16. This change has no impact on the annual deficit. The prior year financial information and the 2016 Budget have been reclassified to reflect this change.

Auditor General Opinion

- Two qualifications in the audit opinion
  - Pension assets ($12.4 billion increase to net debt and accumulated deficit; $1.4 billion increase to deficit →$2.4 billion deficit per AG)
    - Pension Panel identified as a “non-authoritative” source on application of Public Sector Accounting Standards (PSAS)
  - Independent Electricity Systems Operator (IESO) changed its accounting policy to recognize $1.6 billion market accounts assets and the same amount in liabilities (market accounts track mainly buy and sell transactions between electricity power generators and distributors)
    - No impact to annual deficit, net debt or accumulated deficit
  - Other matters paragraphs in opinion
    - Rate-regulated accounting used by IESO in year not permitted under PSAS (used by IESO in year, but impact not material)
    - Future potential material misstatement resulting from “legislated accounting” in Fair Hydro Plan legislation and related regulations;
    - FSD&A does not reflect pension accounting or market accounts appropriately

Ontario's Plan to Eliminate Deficit



[1] Represents the 2017 Budget outlook for 2017–18 to 2019–20. For 2009–10 to 2016–17, actual results are presented. The 2015–16 actuals have been restated to reflect recognizing jointly sponsored net pension assets for the Ontario Public Service Employees' Union Pension Plan and the Ontario Teachers' Pension Plan on the Province's financial statements, consistent with the 2016 Budget and as described in the 2016–17 Third Quarter Finances.

[2] Forecast for 2009–10 is based on the 2009 Ontario Economic Outlook and Fiscal Review, 2010–11 to 2013–14 is based on the 2010 Budget; 2014–15 is based on the 2014 Budget; 2015–16 is based on the 2015 Budget.

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Highlights: Financial Results

2016-17 Results (as of August 25)								
$ Billions	**Budget**	**Interim**	**2016-17 Results**	**2015-16 Actual**	**Change from Budget**	**%**	**Change from Interim**	**%**
Revenues	138.5	141.3	**140.7**	136.1	2.2	1.6%	(0.6)	-0.4%
Expenses								
Programs	129.4	130.9	**130.0**	128.1	0.6	0.5%	(0.9)	-0.7%
Interest on Debt	12.4	11.9	**11.7**	11.6	(0.7)	-5.6%	(0.2)	-1.7%
Total Expenses	141.8	142.8	**141.7**	139.7	(0.1)	-0.1%	(1.1)	-0.8%
Reserve	1.0	-	**-**	-	(1.0)		-	
Deficit Before Outstanding Items	(4.3)	(1.5)	**(1.0)**	(3.5)	3.3	-76.7%	0.5	-33.3%

Notes:

(1) For discussion purposes only. Subject to change pending public release.

(2) Budget and Interim numbers are re-stated for BPS line by line reporting (no fiscal impact). 2015-16 Actual have been restated for the reversal of regulated accounting for pensions (published 2015-16 deficit was $5.0 billion).

(3) Budget/Interim numbers may not add due to rounding.

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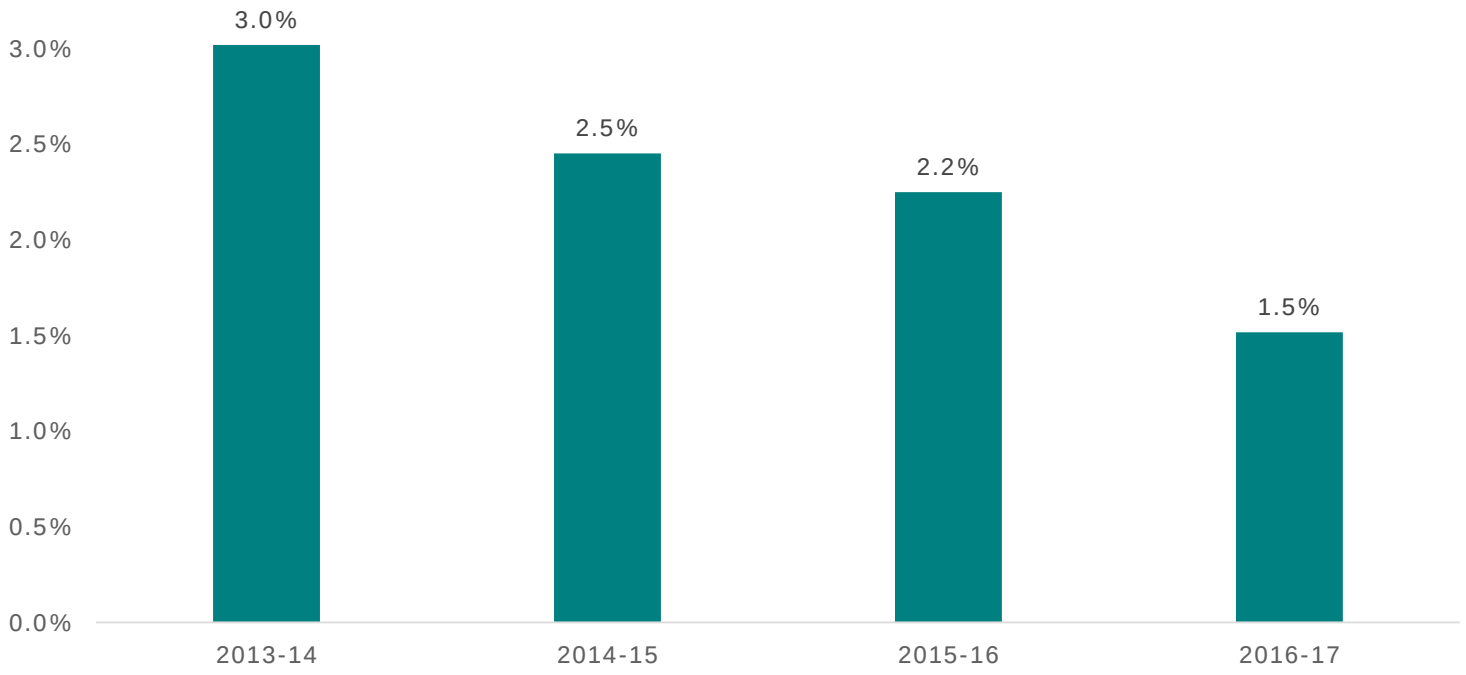
Annual Program Expense Growth Rate: 2013-14 to 2016-17



Note: 2013-14 to 2016-17 program expenses have been restated for BPS line-by-line consolidation.

Communications

Narrative

- The Public Accounts for Ontario show Ontario's **deficit for 2016-17 is $991 million**. This result is **$3.3 billion lower** than the $4.3 billion projected in the 2016 Budget. It is **$0.5 billion lower** than the interim projection in the 2017 Budget of $1.5 billion.
- Ontario has beaten its deficit target eight years in a row.
- Ontario's plan is working. By responsibly managing the Province's finances, Ontario balanced the budget in 2017-18, and will maintain a balanced budget for the future.
- To help Ontarians better understand their government's finances, new digital tools have been developed that present the Public Accounts data in innovative, visual formats. This is part of Ontario's commitment to Open Government.
- The government will continue to build on its track record of responsible fiscal management.

Strategy

- **High profile, proactive, short term** communications approach via traditional, digital and social media.
- Remain **neutral** and **factual**, balancing need for gov't to clearly state its position, while demonstrating respect for all parties involved.
- **Promote** strong financial management, and transparency and accountability.
- **Leverage open data** and other digital components to **profile achievement of 2016 budget commitments.**
- Mitigate potential issues with strong issues management plan.

Communications cont'd

Rollout

- Public release on **September 7** via joint TBS and MOF Ministers' **press conference** and **province-wide news release** with backgrounder.
  - **Technical briefing for media** in advance to present accounting changes, including Ontario's position on accounting for pension assets and IESO in a factual, neutral manner.
- Tactics and messaging will be **reassessed**, as needed, to respond to **AG's position.**

Considerations

- Public Accounts specific:
  - AG's qualified audit opinion (pension asset accounting, IESO accounting treatment of market accounts)
  - AG's criticisms regarding the use of rate-regulated accounting by IESO
  - BPS presentation change
- Other:
  - Questioning balanced budget narrative
  - Growing debt burden
  - Relationship with AG and her criticism of the Fair Hydro Plan

APPENDIX

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Revenues – 2016-17 Interim vs. Actual

2016-17 Results (as of August 25)								
$ Millions	**Budget**	**Interim**	**2016-17 Actual**	**2015-16 Actual**	**Change from Budget**	**%**	**Change from Interim**	**%**
Revenues								
Tax Revenue	91,819	95,063	**94,346**	91,818	2,527	2.8%	(717)	-0.8%
Transfers from Government of Canada	25,138	24,819	**24,544**	23,141	(594)	-2.4%	(275)	-1.1%
Income from Government Business Enterprise	5,027	5,297	**5,567**	4,909	540	10.7%	270	5.1%
Fees, Donations and Other Revenue from Hospitals, School Boards and Colleges	7,404	7,683	**7,957**	7,493	553	7.5%	274	3.6%
Other Revenue	9,094	8,468	**8,320**	8,787	(774)	-8.5%	(148)	-1.7%
Total Revenue	138,482	141,330	**140,734**	136,148	2,252	1.6%	(596)	-0.4%

Consolidated Expense By Ministry Interim vs. Actual ($M)

	Budget	2016-17 Interim	2016-17 Results	Budget Variance	Budget % Change	Interim Variance	Interim % Change
Aboriginal Affairs	77	99	128	51	66.2%	29	29.3%
Agriculture, Food and Rural Affairs	916	1,074	1,031	115	12.6%	(43)	-4.0%
Attorney General	1,868	1,942	1,937	69	3.7%	(5)	-0.3%
Board of Internal Economy	220	226	219	(1)	-0.5%	(7)	-3.1%
Children and Youth Services	4,346	4,392	4,379	33	0.8%	(13)	-0.3%
Citizenship, Immigration and International Trade	221	179	176	(45)	-20.4%	(3)	-1.7%
Community and Social Services	11,470	11,710	11,627	157	1.4%	(83)	-0.7%
Community Safety and Correctional Services	2,648	2,689	2,681	33	1.2%	(8)	-0.3%
Economic Development, Employment and Infrastructure/Research and Innovation	1,796	1,395	1,234	(562)	-31.3%	(161)	-11.5%
Education	26,545	26,726	26,581	36	0.1%	(145)	-0.5%
Teachers' Pension	(452)	(502)	(377)	75	-16.6%	125	-24.9%
Energy	393	926	920	527	134.1%	(6)	-0.6%
Environment and Climate Change	531	531	523	(8)	-1.5%	(8)	-1.5%
Executive Offices	44	49	47	3	6.8%	(2)	-4.1%
Finance	966	899	841	(125)	-12.9%	(58)	-6.5%
Interest on Debt	12,412	11,908	11,709	(703)	-5.7%	(199)	-1.7%
Municipal Partnership Fund	505	505	526	21	4.2%	21	4.2%
Power Supply Contract Costs	643	739	838	195	30.3%	99	13.4%
Government and Consumer Services	607	617	600	(7)	-1.2%	(17)	-2.8%
Health and Long-Term Care	55,786	56,345	56,025	239	0.4%	(320)	-0.6%
Labour	309	310	308	(1)	-0.3%	(2)	-0.6%
Municipal Affairs and Housing	1,060	1,541	1,544	484	45.7%	3	0.2%
Natural Resources and Forestry	819	862	859	40	4.9%	(3)	-0.3%
Northern Development and Mines	791	837	814	23	2.9%	(23)	-2.7%
Office of Francophone Affairs	6	5	5	(1)	-16.7%	-	0.0%
Tourism, Culture and Sport	1,339	1,537	1,540	201	15.0%	3	0.2%
Training, Colleges and Universities	10,198	10,182	10,131	(67)	-0.7%	(51)	-0.5%
Transportation	3,850	3,688	3,637	(213)	-5.5%	(51)	-1.4%
Treasury Board Secretariat	322	251	240	(82)	-25.5%	(11)	-4.4%
Contingency Fund	1,200	30	-	(1,200)	-100.0%	(30)	-100.0%
Employee and Pensioner Benefits	1,152	1,163	1,002	(150)	-13.0%	(161)	-13.8%
Year End Savings	(800)			800	-100.0%		
Total Expense	**141,788**	**142,855**	**141,725**	**(63)**	**0.1%**	**(1,130)**	**-0.8%**

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Ontario Public Accounts
Sept. 7, 2017
Q&As

Key Messages:

- The Ontario economy remains strong and has continued to grow and create jobs in an uncertain global environment.

- This year's Public Accounts show that Ontario's deficit for last year was $991 million — $0.5 billion lower than the interim projection in the 2017 Budget.

- Balancing the budget means the government can invest more in the programs and services that people rely on.

Q&As:

What is Ontario's fiscal outlook? Has it changed since you released the 2017 Budget?

In 2010 we made a commitment to restore balance in 2017–18 and we delivered on that commitment. We are also projecting continued balance in both 2018–19 and 2019–20.

This year's Public Accounts show that Ontario's deficit for last year was $991 million — $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget.

Balancing the budget means the government can invest more in the programs and services that people rely on.

What is the current outlook for the Ontario economy?

Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.

Since 2014, Ontario has been an economic growth leader in Canada and private-sector economists expect Ontario to remain one of the fastest growing provinces over the next two years.

Ontario's economic growth exceeded that of all G7 countries over the 2014 to 2016 period.

How does the Bank of Canada interest rate increase affect economic growth in Ontario?

The increase in the Bank of Canada's policy rate reflects the growing strength of the Canadian and Ontario economy.

An increase in the Bank of Canada's overnight interest rate does not automatically translate into an increase in the Province's borrowing cost. That cost is also impacted by other factors, including revisions to the U.S. Federal Funds Rate.

Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.

Didn't the FAO say that the Province's economic growth and revenue projections are too optimistic?

Over the last several years, the government's investments to strengthen economic growth have paid off. Ontario is a leader in economic growth, with our real GDP growth outpacing all the G7 countries over the last three years.

Since the FAO released their post-Budget analysis most private-sector economists have revised up their forecast for Ontario real GDP growth, reflecting the strength of the Ontario economy.

According to the average of private-sector forecasts, Ontario real GDP growth in 2017 has risen to 2.8% from 2.4% at the time of the Budget. As well, over the next four years Ontario real GDP growth is expected to average 2.3% annually, up from 2.1% annually at the time of the Budget. The outlook for nominal GDP growth has seen a larger improvement.

The government stands by the revenue forecast presented in the 2017 Budget. As recently presented in the 2017-18 First Quarter Finances, revenues are on track and the government is continuing to project a balanced budget in 2017-18.

Taxation revenue growth projected in the 2017 Budget aligns with growth actually experienced in recent years.

Minister Sousa's Speaking Notes

Media Avail Sept. 7, 2017

Public Accounts of Ontario 2016-17

- The release of the 2016-17Public Accounts is an important time for the Government of Ontario.

- The accounts demonstrate how we are improving the everyday lives of the people of Ontario.

- Our plan is working.

- Ontario is projected to balance the budget in 2017-18.

- We are restoring balance through targeted, measured and fiscally responsible decisions — managing growth in program spending and fostering job creation and economic growth.

- Managing spending has been a priority for us, and we are proud to say today Ontario has the lowest per-capita program spending among all Canadian provinces.

- And we are making investments in key services such as health care and education, while at the same time lowering costs for necessities like electricity and child care.

- With a balanced budget we can continue to make investments in these key areas while also responding better to unexpected economic or demographic changes.

- Balancing the budget is not just about the bottom line — it's about helping families and businesses by providing the supports they need to succeed.

- In addition to balancing the budget, we’re also tackling debt. Our continued focus on capital investment is contributing to economic growth — and that means the GDP is growing more quickly than debt.

- Since 2010, Ontario’s economic performance has remained strong.

- This growth will help us lower Ontario’s net debt-to-GDP ratio to the pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.

- Ontario’s recovery from the global recession was driven by sticking to key economic principles and supported by long-term job recovery through our large-scale infrastructure investments.

- We will continue to move forward on our path to balance while building a stronger and more vibrant Ontario we can all be proud of.

- Thank you.

PUBLIC ACCOUNTS 2016-17

Top Media Qs & As

September 6, 2017

1. **The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?**

   We continue to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

   Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the Province.

   The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

   After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

   This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change

also has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

2. The Auditor General is critical of the IESO accounting changes. Are Ontario's accounting changes inappropriate?

No. The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

If pressed on rate-regulated accounting:

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

DRAFT

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

3. Why are you still fighting with the Auditor General over pension accounting?

In preparing last year's Public Accounts, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the Province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the Province on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

4. How were you able to beat your deficit target in 2016-17?

In 2016-17 we maintained our focus on responsible fiscal management and investing in the right priorities. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending.

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Average annual growth of total government spending has been held to 2.3 per cent for the past five years. As a result of growth in revenue that exceeded growth in program expense, as well as lower than forecast interest on debt, the deficit is $3.3 billion lower than projected in the 2016 Budget. It is also $0.5 billion lower than the interim projection in the 2017 Budget.

This is the eighth year in a row the government has beaten its deficit target.

5. **The government is claiming the deficit has been reduced to $1B deficit for 2016-17 and that the budget will be balanced over the next three years. However, the AG is saying that the deficit for 2016-17 was more than $2B due to the treatment of pension assets, and the FAO has stated that the government's revenue forecast is more than $1B too "optimistic". Isn't the government really hiding a $3-4B deficit instead of a balanced budget?**

There is no hidden deficit. In the *2010 Budget*, the government committed to eliminating the deficit and returning to a balanced budget by 2017-18. Through targeted, measured and fiscally responsible decisions, Ontario has restored its fiscal and economic strength.

Today we are confirming that the 2016-17 deficit of $1 billion is $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Ontario Budget. This marks the eighth year in a row that Ontario has beaten its deficit target.

The success in eliminating the deficit is supported by a strong track record in managing spending -- having held average growth in spending to 2.3 per cent over the past five years.

In addition, over the last several years, the government's investments to strengthen economic growth have paid off. Ontario is a leader in economic growth, with our real GDP growth having outpaced that of all the G7 countries over the last three years. The strengthened economy has resulted in increased revenue for the Province – in fact, over the past two fiscal years, revenue has come in higher than projected, supporting Ontario's return to a balanced budget.

It is also important to point out that private sector forecasters have revised upward their expectations for the Ontario economy since the 2017 Budget, reflecting the growing strength of the Ontario economy. In fact, the current average private sector forecast for this year and next is also above what the Financial Accountability Office of Ontario projected in their Budget commentary.

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The government is also taking steps to improve tax fairness and address the underground economy in order to ensure the integrity of the Province's revenues.

Finally, Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense. The reserve has been set at $0.6 billion in 2017-18, $0.6 billion in 2018-19, and $0.9 billion in 2019-20.

Balancing the budget means that the government can invest more in the programs and services that people rely on.

6. **The FAO's commentary released on September 6, 2017 says that Ontario's debt reduction commitment is based on unrealistic assumptions. How do you respond?**

The government made a commitment in the 2010 Budget to balance and eliminate the deficit by 2017-18. Since then, the government has reduced the deficit from its peak in 2009-10 of $19.3 billion, to a projected $1.5 billion in 2016-17 and a projected balanced Budget in 2017. Furthermore, the government consistently overachieved on its deficit targets and forecasts for net debt-to-GDP. The government's track record therefore provides evidence of fiscal discipline and the likelihood of achieving on-going balanced budgets in the future.

With respect to capital spending, approximately 61 per cent of the increase in net debt from 2008–09 to 2016–17 was due to the deficit, with net investments in capital assets responsible for most of the balance. Infrastructure expenditures do not therefore have as large an impact on net debt as that of a balanced budget.

Moreover, additional capital investment in the latter half of the next decade will stimulate the economy. A recent report from the Centre for Spatial Economics confirms that over the long term, real GDP in Ontario increases by $6 for every dollar of public infrastructure spending. This stimulus in GDP may help to offset the effects of an aging population and slower growth in the labour force and maintain the 4% average GDP growth required to bring net debt to GDP down to 27% in 2029-30.

7. **Interest on debt is still massive and the Bank of Canada is expected to raise interest rates again this fall, and announced it is raising its target for the overnight rate on September 6, 2017. . How is the government preparing for this and will this affect your ability to maintain a balanced**

budget?

The increase in the Bank of Canada's policy rate reflects the growing strength of the Canadian and Ontario economy. Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.

Since 2014, Ontario has been an economic growth leader in Canada and private sector economists expect Ontario to remain one of the fastest growing provinces over the next two years.

Ontario's economic growth exceeded that of all G7 countries over the 2014 to 2016 period.

A quarter-point increase in the policy rate is not likely to have a material impact on the Ontario economic outlook. The 2017 Ontario Budget anticipated that interest rates would rise modestly.

An increase in the Bank of Canada's overnight interest rate does not automatically translate into an increase in the Province's borrowing cost which is also impacted by other factors including revisions to the US Federal Funds Rate.

As noted in the 2017 Budget, the Province's average cost of 10 year borrowing in 2017-18 is forecast to be 3 per cent. The impact of a 100 basis point increase in borrowing rates is forecast to be approximately $300 million. The interest rate forecast used in the Budget was prudent, and anticipated that long-term interest rates would rise as we progressed through the fiscal year.

8. You claim to have balanced the budget yet you keep piling on more debt. How do you plan to pay down the debt?

We maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023–24.

In a balanced budget environment, debt would be incurred primarily to invest in capital assets. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending – including addressing the underground economy and maintaining tax fairness. Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to $6 on average per one dollar of public infrastructure spending.

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These strategic investments are creating jobs and contributing to economic growth. Ontario's GDP grew one per cent in the first quarter of 2017, outperforming that of Canada, the U.S. and all other G7 countries.

9. Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?

To increase transparency, this year we have made a simple change to how we are reporting third party revenues for broader public sector organizations.

For the first time, Public Accounts are presenting third party revenues for hospitals, school boards and colleges with provincial revenue. Third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the Province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

10. The Public Accounts show a drawdown of $260 million from the Trillium Trust. What did you spend the money on?

The government began allocating proceeds from the Trillium Trust in 2016-17 to help support infrastructure initiatives such as GO Regional Express Rail (GO RER), the Hurontario Light Rail Transit (LRT) and the Ontario Community Infrastructure Fund (OCIF).

We expect the Trillium Trust to be drawn down by about $400 million in 2017–18.

Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to $6 on average per one dollar of public infrastructure spending.

11. Does a qualified opinion impact the Province's credit rating?

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The Province's financial results show that the government has once again beaten its annual deficit targets. In April 2017, we delivered our first balanced budget since the global recession and we are on track to do so again next year and the year after.

The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the Province. However, there were no credit rating implications in 2016 when the Province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

12. The Auditor General has some serious concerns about how you're accounting for Ontario's Fair Hydro Plan. What do you say to this?

The accounting for Ontario's Fair Hydro Plan is a separate and distinct issue to the Public Accounts for 2016-17 that we're here to talk about today.

However, under Ontario's Fair Hydro Plan accounting structure, the Province's net debt and annual surplus/deficit won't be negatively impacted since all costs are to be recovered through future rates.

The Ministry of Energy, Finance and Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO) and external advisors to address the outstanding accounting related considerations.

The Auditor General has also been briefed on the government's refinancing structure.

For further questions, I direct you to contact my colleague at the Ministry of Energy.

13. Program spending increased again this year. Why?

Program spending in 2016-17 was $141.7 billion, down $0.1 billion from the 2016 Budget. Average annual growth of total government spending has been held to 2.3 per cent for the past five years.

Healthcare represents the largest share of government program spending at $56 billion. Transformation efforts continue to make the sector more effective and sustainable while continuing to improve access for patients, especially the increased demands from an aging and growing population. The government has

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invested in new drugs, technologies, community and home care, long term care homes, mental health, physicians' services and specialized cancer treatments.

Other areas of government investment include:

- $26.6 billion in education, mainly due to the introduction of full-day kindergarten;
- $16 billion in children's and social services, due to increased annual social assistance rates as well as investments in developmental services, autism and complex special needs programs, as well as the Ontario Child Benefit;
- $10.1 billion in post-secondary and training, due to enrolment growth in colleges and universities along with increased student financial assistance programs and increases in capital funding for post-secondary institutions;
- $4.6 billion in justice sector expenses due mainly to the upload of court security costs from municipalities, compensation for the Ontario Provincial Police and correctional services programs, as well as improved access to legal aid.

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ACCOUNTING CHANGES

IESO - ACCOUNTING CHANGES

Q. What were the accounting changes made by IESO in its financial statements?

A. As of January 1, 2016, the IESO changed its accounting policy regarding the recognition of assets and liabilities subject to rate regulation. The change was made to better reflect the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

In addition, the IESO changed its accounting policy regarding the recognition of market accounts assets and liabilities on the statement of financial position. The change was made to better reflect the assets and liabilities and amounts due to and from market participants held by the IESO on behalf of the IESO administered market at year end.

Q. What is the impact of IESO's accounting changes to the Province's Consolidated Financial Statements?

A. Given the IESO prepared its financial statements using Public Sector Accounting Standards and its auditor issued an un-qualified audit report for 2016 financials, Province will consolidate IESO using similar accounting as adopted by the IESO and reflected in its 2016 financials. There would be no fiscal impact for market accounts; however, IESO's adoption of rate-regulated accounting resulted in a decrease of $82 million in the 2016–17 opening accumulated deficit, and an increase in the 2016–17 annual deficits by $24 million.

PENSION - ACCOUNTING CHANGES

Q. What were the pension accounting changes made by the Province in its Consolidated Financial Statements?

A. The 2016–17 Consolidated Financial Statements reflect a change in accounting for net pension assets of the Province's jointly sponsored pension plans, as compared to the 2015–16 Consolidated Financial Statements. The change affects the Province's accounting for both the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP).

In the 2015–16 Consolidated Financial Statements, the Province legislated the accounting treatment for pension assets of OTPP and OPSEUPP in order to reflect the Auditor General of Ontario's view that a full valuation allowance was required based on the view that the government does not have a legally enforceable right to unilaterally access the assets of the jointly sponsored pension plans, or, in the absence of that right, an irrevocable agreement in place at year-end with the joint sponsors of the plans to reduce contributions. The legislation required that a full valuation allowance be recorded against the pension assets of OTPP and OPSEUPP, therefore writing down the value of the assets as at March 31, 2016, to nil.

After significant consultation, including consideration of the recommendations of the Pension Asset Expert Advisory Panel, the Province has confirmed that the accounting for its jointly sponsored pension plans prior to 2015–16 was appropriate and in accordance with Public Sector Accounting Standards. The 2016–17 Consolidated Financial Statements reflect the confirmed accounting treatment and record pension assets on the same basis as used by the Province in preparing its Consolidated Financial Statements prior to 2015–16.

HYDRO ONE/OPG CONSOLIDATION - ACCOUNTING CHANGES

Q. What were the accounting changes made by the Province to consolidate Hydro One and Ontario Power Generation in its Consolidated Financial Statements?

A. Commencing April 1, 2016, the Province is accounting for the results for Hydro One Limited and Ontario Power Generation using the modified equity basis and IFRS (including IFRS 14). Previously, the Province had used Generally Accepted Accounting Principles in the United States (US GAAP), the accounting standards used by these entities in preparing their stand-alone financial statements, in applying the modified equity basis. Historically, the difference between IFRS and US GAAP with respect to the annual deficit of the Province was not material.

This change has resulted in an adjustment to the opening accumulated deficit and net debt of $1.6B. The transitional adjustment is predominantly related to the difference in accounting for Asset Retirement Obligation and pension and other post-employment benefits.

PRESENTATION CHANGE TO BPS ORGANIZATIONS

Q. Why is the Province changing its accounting of its BPS organizations (i.e. hospitals, school boards and colleges)?

A. Province changed the presentation of hospitals, school boards and colleges to present third-party revenues of these organizations with revenues of the Province. Previously third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, were netted against the respective sectors' expenses. The change was made to fully comply with Public Sector Accounting Standards. For comparability and consistency purposes, the prior years' results and the 2016 Budget have been reclassified to reflect this change in presentation.

Q. What are the impacts of the change on the deficit / debt of the Province and key financial indicators?

The presentation change increases the total revenues and expenses of the Province, but does not affect the annual deficit, net debt or accumulated deficit of the Province. Therefore, there is no change to key financial indicators related to annual deficit, net debt or accumulated deficit.

The Province's interest on debt expenses will increase marginally since the interest expense of BPS entities previously included in sector expenses will now be presented as part of the Province's interest on debt expense. However, since total revenues will be grossed up, the debt charge to total revenue and net debt to total revenue will be favorably impacted.

Total program spending per capita will be higher due to the gross up of program expense.

DEBT

Q. Why did net debt increase by $6.3 billion, from $295.4 billion as at March 31, 2016 to $301.6 billion as at March 31, 2017?

A. Net debt is the province's total debt and other liabilities, less its financial assets, including cash and investments. The increase of $6.3 billion in net debt is primarily due to the deficit and investments in capital assets.

Q. Why did net debt to GDP decrease from 38.7 percent as at March 31, 2016 to 37.8 percent as at March 31, 2017?

A. The decrease in net debt to GDP is mainly due to GDP growing at a faster rate than net debt. The government is committed to eliminating the deficit by 2017-18 and then reducing the net debt to GDP ratio to the pre-recession level of 27 per cent.

Q. How do you explain the $5.7 billion increase in total debt from $327.4 billion at March 31, 2016 to $333.1 billion at March 31, 2017?

A. The increase in $5.7 billion in total debt is due to borrowing for the deficit ($1.0 billion) and the net change in capital assets ($4.7 billion) for 2016-17.

Q. Why has total debt gone up by $5.7 billion while the accumulated deficit has gone up by only $1.5 billion?

A. Total debt represents all borrowing that is used to fund the deficit, as well as to invest in capital assets and cash reserves. Accumulated deficit is the sum of all deficits less surpluses since Confederation.

Total debt increased by $5.7 billion primarily in order to fund the deficit as well as the Province's investments in capital assets, which are not reflected in the deficit.

Q. What is the difference between total debt and net debt?

A. Total debt represents all borrowings without taking into consideration other liabilities and financial assets. Net debt is the province's total debt and other liabilities, less its financial assets. Net debt is the measurement of debt most commonly used by rating agencies and investors in the Province's bonds.

Q. Why has net debt increased by $0.27 billion from the interim estimate in the 2017 Budget, while total debt has increased by $0.7 billion from the interim estimate?

A. Net debt is the province's total debt and other liabilities, less its financial assets.

Net debt increased by $0.27 billion from the interim estimate primarily due to:

- $0.53 billion decrease from the interim deficit, offset by a $0.26 billion impact relating to various other adjustments as evidenced in the audited Consolidated Statement of Net Debt (Ontario Nuclear Funds, Tangible Capital Assets, IFRS transitional impact for OPG and Hydro 1, pension adjustments and other).

Total debt is all of the Province's borrowings. The total amount borrowed has increased by $0.7 billion from the interim estimate primarily due to the increase in short term borrowing.

Q. How will the 2016-17 Public Accounts affect the borrowing requirement for 2017-18?

A. As in past years, any changes in the borrowing requirement arising from Public Accounts will be determined as part of the 2017 Economic Outlook and Fiscal Review.

Q. How much debt was issued in 2016-17, and how much debt matured during the year under the Province's borrowing program?

A: The Province completed an annual borrowing program of $27.0 billion in 2016-17.

Long-term debt maturities per the 2017 Budget were $20.9 billion.

RISK MANAGEMENT

Q. What is your current policy on foreign currency exposure?

A. The Province limits itself to a maximum foreign exchange exposure of 5 per cent of Debt Issued for Provincial Purposes. The foreign currency exposure as at March 31, 2017 was 0.2 per cent.

Q. What is your current policy on controlling interest rate exposure?

A. The Province limits itself to a maximum net interest rate resetting exposure of 35 per cent of Debt Issued for Provincial Purposes. The interest rate exposure as at March 31, 2017 was 11.2 per cent.

INTEREST ON DEBT (IOD)

Q. Why is the Actual IOD for 2016-17 of $11,709 million lower by $703 million than the 2016 Budget (restated) forecast of $12,412 million?

A. IOD is $703 million lower than the forecast in the 2016 Budget primarily because of lower than forecast deficit, lower than forecast interest rates projected in the 2016 Budget and cost-effective debt management.

Note, the 2016 Budget forecast was restated to include the interest on debt of the broader public sector due to the change in accounting reporting policy this fiscal year.

Q. Why is IOD for 2016-17 of $11,709 million higher by $120 million than IOD for 2015-16 of $11,589 million?

A. IOD is higher by $120 million from last year, mainly due to increased borrowing to the fund of the deficit and investment in capital assets and partly offset by the impact of lower interest rates.

DEBT MANAGEMENT

Q. You talk about balancing the budget, but Ontario's debt continues to grow. How is the government paying down the debt?

A. Investors and rating agencies are focused on relative debt measures such as the net debt-to-GDP. Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

Q. The Auditor General has recommended that the government work toward implementing a long-term debt reduction plan with the target of reducing its net-debt-to-GDP ratio to pre-recession levels of 27%. This year the ratio has risen again. What is the government doing to lower this ratio?

A: The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget. Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

Q. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?

A: There is a strong demand for Ontario bonds. Such investor demand has allowed the Province to extend the term of its debt in recent years and lock in low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs.

The 2010 Budget forecasted that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest. The current forecast per the 2017 Budget is 3.1 cents lower, at 8.2 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 26 fiscal years from 1991–92 to 2016–17, and is projected to remain low over the forecast horizon to 2019–20.

Q. What if interest rates go up? What effect would higher interest rates have on interest-on-debt?

A: As indicated in Note 3 of the audited consolidated financial statements in the Annual Report, a one per cent increase in interest rates above our budget forecast would result in an increase in interest on debt of approximately $300 million.

Q. What's the difference between net debt and accumulated deficit?

A: Total debt represents all borrowing.

Net debt is all borrowing plus other liabilities, minus the Province's financial assets.

By analogy, think of a family's finances. A mortgage, car loans and lines of credit represent total debt. Total debt partially offset by money the family has in the bank, in RRSPs and in RESPs represents the family's net debt.

Accumulated deficit is the sum of all past Provincial surpluses and deficits, adjusted for changes in accounting rules.

Q. Did you use your reserve fund to pay your fiscal results and pay down the debt?

A The Reserve is an amount included in the fiscal plan to protect the plan against unforeseen adverse changes in the economic outlook as reflected through impacts to Provincial revenue and expenses, not typically balance sheet items like Public Debt.

Actual costs incurred by the government which pertain to the Reserve are recorded as expenses. Any portion of the reserve that remains unutilized at the end of the fiscal year is used to reduce the deficit.

Q. What is the government's annual borrowing program?

A: The amount of money the government borrows varies from year to year and is dependent on the deficit, proposed investments in capital and amount of debt that is maturing. Over the three years 2017-18 to 2019-20, average long term public borrowings are estimated to be $32 billion per annum.

REVENUE

2016-17 Actual Vs. 2016 Budget Plan

Q: Why are revenues $2.2 billion higher your 2016 Budget projection?

A: This is mostly because of stronger-than-expected taxation revenues and higher net incomes from Government Business Enterprises, partially offset by lower Government of Canada Transfers and Other non-tax revenues.

Q: What accounts for the $2.5 billion increase in Taxation revenues from your 2016 Budget projection?

A: Largely due to stronger Corporations Tax revenues resulting from higher-than-projected tax assessments and higher HST and LTT revenues arising from stronger economic growth, partially offset by weaker PIT revenues reflecting weaker-than-expected 2016 tax assessments.

Q: What accounts for the $0.6 billion decrease in Government of Canada Transfers?

A: This decrease mainly reflects lower-than-anticipated funding for infrastructure projects and other federal payments, including transfers to government agencies, hospitals, school boards, and colleges. This decline is partially offset by new funding for infrastructure projects under strategic investment fund for affordable housing and post-secondary education.

Q: What accounts for the $0.5 billion increase in net income of Government Business Enterprises?

A: This increase was mostly attributable to combined higher net income from the Liquor Board of Ontario (LCBO) and Ontario Lottery and Gaming Corporation (OLG).

Higher LCBO net income mainly reflects the sale of its head office lands and higher OLG net income is due mainly to higher-than-anticipated revenue from lottery and casinos businesses.

The increase in OLG and LCBO net income, however, was partially offset by lower net income from OPG reflecting the impact of provincial accounting consolidation adjustment (-$75M) using International Financial Reporting Standards (IFRS) rather than US GAAP, as required in Public Accounts under Public Sector Accounting Standards and lower Hydro One net income reflecting, primarily, impacts from broadening Hydro One provincial ownership from 84% to 70% through the secondary offering.

Q: What accounts for the $0.6 billion increase in fees, donations and other revenues from broader public sector organizations?

A: This increase mainly reflects higher-than-expected revenues from non-provincial sources for hospitals, and higher international fee and other revenues from colleges.

Q: What accounts for the $0.8 billion decrease in Other Non-Tax Revenues?

A: Other Non-tax revenue (NTR) comprises several categories; resulting in offsetting movements of different components of Other NTR compared to the budget forecast.

The overall decline of $0.8 billion in Other Non-Tax revenue is due largely to two main causes:

1. Carbon Allowance Proceeds from the first cap-and-trade program auction held in March 2017 to be recognized in 2017-18 instead of 2016-17 as budgeted; and
2. Lower sales and rentals revenue mainly reflecting gains from the sale of LCBO head office lands reported as income from GBEs in 2016-17 instead of sales and rentals revenue in 2016 Budget.

This decrease is partially offset by higher revenue from Power Supply Contract Recoveries.

Q: Budget 2016 reported revenue projections from carbon allowance proceeds and the first cap-and-trade program auction took place in March 2017. Can you explain why the government would not report the Carbon Allowance Proceeds in 2016-17 fiscal year?

A: The carbon allowance proceeds estimated at the time of the 2016 Budget was based on preliminary design of the cap and trade program and a preliminary forecast for emissions allowances.

In Budget 2017, no proceeds are reported for fiscal 2016-17. While Ontario held its first carbon allowance auction in March 2017 and received $472 million in proceeds, the proceeds from the first auction are being certified, settled and recorded in the 2017-18 fiscal year. Therefore, proceeds from the first auction will be reported in 2017-18 fiscal year instead of in 2016-17 as budgeted.

2016-17 Actual Vs. 2015-16 Actual

Q: What accounts for the $4.6 billion year-over-year increase in revenues?

A: The increase is largely due to higher taxation revenues, federal payments and net income of government enterprises, partially offset by lower Other non-tax revenues.

Q: What accounts for the $2.5 billion year-over-year increase in taxation revenues?

A: The increase in taxation revenue is largely due to stronger CT revenues, higher HST and Land Transfer Tax revenues, partially offset by weaker PIT revenues.

- Stronger CT revenue is mainly a result of higher-than-expected growth in 2016 Tax Assessments and stronger-than-expected harmonized tax assessments for tax years prior to 2015.
- Stronger HST revenue reflects higher Ontario share of the overall HST/ GST revenue pool as the provincial economy has performed better than the rest of Canada in 2015 and 2016.
- Stronger LTT revenues reflect a very strong Ontario housing market.
- PIT weakness is mainly due to weaker-than-expected 2016 tax assessments. Some of the PIT weakness is due to the extent to which tax payers may have shifted income from future years into 2015 to avoid increases in federal tax rate applied above $200,000 of taxable income starting from 2016.

Q: What accounts for the $1.4 billion increase in Government of Canada Transfers?

A: Higher transfers in 2016-17 from federal government mainly reflect higher funding for existing major federal funding programs such as Canada Health Transfer, Canada Social Transfer, and new funding for infrastructure projects under strategic investment fund for affordable housing and post-secondary education. Transfers under these programs are based on existing federal-provincial funding arrangements and funding formulas.

Q: What accounts for the $0.7 billion increase in net Income from Government Business Enterprises?

A: This increase manly reflects higher net income from Ontario Lottery and Gaming Corporation (OLG), and Hydro One Ltd (HOL), and Liquor Control Board of Ontario (LCBO), partially offset by lower net income from the Ontario Power Generation (OPG).

The increase in LCBO net income largely reflects a one-time gain related to the sale of its head office lands. OLG's net income increase was due to continued stronger-than-expected revenue from lottery business and casinos. Higher income from Hydro One mainly reflect lower 2015-16 due to a significant one-time PILs expenses of about $2.8B as a result of the IPO in November 2015 which led to lower consolidated net income. This impact on net income was partially offset by the impact of the Province's $2.4 billion proportionate share of Hydro One's recognition of a deferred tax benefit.

The decrease in OPG's net income is primarily due to relatively stronger 2015-16 results of the nuclear funds invested in financial market.

Q: What accounts for the $0.5 billion increase in fees, donations and other revenues from broader public sector organizations?

A: This increase largely reflects higher international tuition fee and other revenues reported by colleges and higher revenues from non-provincial sources reported by hospitals.

Q: What accounts for the $0.5 billion decrease in Other Non-Tax Revenues?

A: Other non-tax revenue comprises several categories; resulting in offsetting movements of different components of Other NTR compared to the prior year.

The overall decline of $0.5 billion in other NTR largely reflects lower revenue from electricity debt retirement charge (DRC) due to the elimination of DRC for residential consumers, effective January 1, 2016. Other NTR is also lower due to lower sales and rentals and miscellaneous revenue from consolidated government agencies.

2016-17 Actual Vs. 2017 Budget Interim

Q: Why did Taxation revenues decrease by $0.7 billion above your Interim estimate?

A: The decrease in Taxation revenues is largely due to a decline in PIT revenues which more than offset an increase in CT revenues. PIT weakness reflects weaker-than-expected 2016 tax assessments while stronger CT revenues is mainly due to stronger tax assessments for 2015 and prior years, as well as stronger performance of 2016 Tax assessments than assumed in the 2016 Budget.

Q: What accounts for the $0.3 billion decrease in government of Canada transfers?

A: This decrease mainly reflects the absence of funding in 20167-17 for Clean Water and Wastewater projects and lower federal transfers to government agencies, including hospitals, school boards and colleges.

Q: What accounts for the $0.3 billion increase in net Income from Government Business Enterprises?

A: The increase was mostly attributable to higher net incomes from the Ontario Lottery and Gaming Corporation (OLG), and slightly higher net income from the Liquor Board of Ontario (LCBO), and the Ontario Power Generation (OPG). This increase is partially offset by lower net income from Hydro One Ltd.

- OLG's net income increase was due to continued stronger-than-expected revenue from lottery business and casinos.

Q: What accounts for the $0.3billion increase in fees, donations and other revenues from broader public sector organizations?

A: The increase is largely due to higher international tuition fees and other revenues reported by colleges and higher revenues from school boards due to third party revenue being report as federal transfers at interim instead of fees, donations and other revenues as presented in public accounts.

Q: What accounts for the $0.1 billion decease in Other Non-Tax revenues?

A: Lower revenues from other Non-Tax revenue largely reflect lower recoveries of prior-year-expenditures and miscellaneous revenues from various government ministries and consolidated government agencies, partially offset by higher Power Supply Contract Recoveries. The latter is fiscally-neutral being offset by higher Power Supply Contract Costs.

EXPENSES BY SECTOR

HEALTH

Summary of 2016-17 Budget to Actual Variance Analysis

Q. Why is the Health Sector Expense in 2016-17 higher by $239 million than in the Budget Plan?

A. Health sector expense that was $239 million above plan, mainly due to higher than planned spending in hospital operations, physician services, complex malignant hematology and hematopoietic cell transplantation.

The higher expense for hospital operations is mainly due to higher-than-expected spending in cancer treatment, Ontario Drug Programs, specialty psychiatric hospital programs, operating costs and amortization expense.

Summary of Five Year Expense Actual Variance Analysis

Q. Why is the Health Sector Expense $4.8 billion higher in 2016-17 than 2012-13?

A. Health sector expense increased from $51.2 billion in 2012–13 to $56.0 billion in 2016–17, or on average by 2.3 per cent per year. These increases are due in part to increasing demands for health care services from an aging and growing population, along with other factors, such as new drugs and technologies. Increased spending included new investments in home and community care, long term care homes and mental health, and physician services; as well as specialized services such as cancer treatment.

EDUCATION

Summary of 2016-17 Budget to Actual Variance Analysis

Q. Why is the Education sector expense in 2016-17 higher by $36 million than in the Budget Plan?

A. Education sector expense that was $36 million higher-than-planned, mainly due to slightly higher than-projected enrolment.

Q. Why is the Post-secondary and training sector expense in 2016-17 lower by $67 million than in the Budget Plan?

A. Postsecondary and training sector expense that was $67 million lower than-expected, mainly due to lower-than-forecast demand for employment and training programs, offset in part by increased capital transfer payments to universities through additional federal postsecondary infrastructure funding.

Summary of Five Year Expense Actual Variance Analysis

Q. Why did Education sector expense increase from $22.6 billion to $26.6 billion from 2012-13 to 2016-17?

A. Education sector expense increased from $22.6 billion in 2012–13 to $26.6 billion in 2016–17, or on average by 4.1 per cent per year. Expense in 2012–13 included a one-time savings of $1.3 billion from reducing liabilities carried by school boards for sick-day banking and retirement gratuities. Excluding this one-time savings in the 2012–13 results, the education sector expense increased on average by 2.7 per cent per year between 2012–13 and 2016–17. The increase is mainly due to the introduction of full-day kindergarten, which has been made available to every four- and five-year-old in Ontario since September 2014; and other investments, including negotiated labour enhancements and increases in school renewal funding.

Q. Why have expenses in the Postsecondary and Training Sector increased from $9.3 billion in 2012-13 to $10.1 billion in 2016-17?

A. Postsecondary and training sector expense increased from $9.3 billion in 2012–13 to $10.1 billion in 2016–17, or on average by 2.2 per cent per year. The increase is mainly due to continued funding to support enrolment growth in postsecondary institutions, growth in student financial assistance programs and increases in postsecondary capital transfer payments.

CHILDREN'S & SOCIAL SERVICES

Summary of 2016-17 Budget to Actual Variance Analysis

Q. Why is the Children's and social services sector expense in 2016-17 higher by $190 million than in the Budget Plan?

A. Children's and social services sector expense that was $190 million higher than planned, mainly due to additional spending to address demand for the Ontario Disability Support Program and for young adults with complex special needs as well as expanding supports for children and youth with autism.

Summary of Five Year Expense Actual Variance Analysis

Q. Why did the Children's and Social Services sector actual expense grow by $2.3 billion from 2012-13 to 2016-17?

A. Children's and social services sector expense increased from $13.7 billion in 2012–13 to $16.0 billion in 2016–17, or on average by 3.9 per cent per year. The increase primarily reflects social assistance rate increases as well as investments in developmental services, autism and complex special needs programs and the Ontario Child Benefit.

JUSTICE

Summary of 2016-17 Budget to Actual Variance Analysis

Q. Why is the Justice sector expense in 2016-17 higher by $102 million than in the Budget Plan?

A. Justice sector expense was $102 million higher than planned, mainly due to settlements under the Proceedings Against the Crown Act and ensuring wage parity for First Nations police officers.

Summary of Five Year Expense Actual Variance Analysis

Q. Why has Justice Sector Expense increased by $652 million from 2012-13 to 2016-17?

A. Justice sector expense increased from $4.0 billion in 2012–13 to $4.6 billion in 2016–17, or on average by 3.9 per cent per year between 2012–13 and 2016–17. The increase is mainly due to the provincial upload of court security costs from municipalities, compensation in the Ontario Provincial Police and correctional services programs, and improved access to legal aid for low-income Ontarians.

OTHER PROGRAMS

Summary of 2016-17 Budget to Actual Variance Analysis

Q. Why is Other programs expense in 2016-17 higher by $140 million than in the Budget Plan?

A. Other programs expense that was $140 million higher than expected, mainly due to federal and provincial investments in social and affordable housing as well as the Ontario Rebate for Electricity Consumers. As well, there was lower-than-forecast spending due to revised timelines for Building Canada Fund projects and municipal transit projects.

Summary of Five Year Expense Actual Variance Analysis

Q. Why did the Other Programs Sector Actual Expense decrease by $1.2 billion from 2012-13 to 2016-17?

A. Other programs expense decreased by $1.2 billion from $17.9 billion in 2012–13 to $16.7 billion in 2016–17. This decrease is mainly due to the end of time-limited funding related to the Ontario Clean Energy Benefit program and the 2015 Pan/Parapan American Games, as well as the redesign of the Ontario Municipal Partnership Fund program.

ONTARIO TEACHERS' PENSION PLAN EXPENSE AND EMPLOYEE AND PENSIONER BENEFITS

($Millions)	2016-17 Budget	2016-17 Actual	2015-16 Restated Actual	Actual Versus Budget Variance	Year Over Year Variance
Ontario Teachers' Pension Plan	(452)	**(377)**	110	75	487

TEACHER'S PENSION PLAN

Q. Why has the 2016-17 Teachers' Pension Plan expense decreased from expense of $110M from 2015-16 to recovery of $377M in 2016-17?

A. The decrease in Teachers' Pension Plan pension expense is primarily due to increase recognition of investment gains in recent years.

Q. Why has the 2016-17 Teachers' Pension Plan recovery of $377M lower than what had been projected in prior year's Budget of $452M?

A. Actual 2016-17 Teachers' Pension Plan recovery of $377M is lower than recovery of $452M projected in 2016 Budget due lower than expected rate of growth in active members and due to additional adjustment was made this year to eliminate timing differences between provincial contributions and pension plan assets.

($ Millions)	2016-17 Budget	2016-17 Actual	2015-16 Restated Actual	Actual Versus Budget Variance	Year Over Year Variance
Employee and Pensioner Benefits	1,152	**1,002**	987	(150)	15

EMPLOYEE AND PENSIONER BENEFITS

Q. Why is the actual 2016-17 Employee and Pensioner Benefits Expense of $1,002M lower by $150M from what had been projected in prior year's Budget of $1,152M?

A. The 2016-17 actual Employee and Pensioner Benefits expense is $151M lower than originally budget is mainly due to lower WSIB expense than originally forecasted. WSIB had change their estimate of forecast claim administration rate in 2016, which resulted in reduction in expense in 2016-17.

Q. Why is the actual 2016-17 Employee and Pensioner Benefits Expense of $1,002M higher than 2015-16 Employee and Pensioner Benefit Expense of $987M?

A. The increase is due to changes made termination pay and long-term protection benefits to OPSEU members in 2015-16 that did not occur in 2016-17. This increase is partially offset by lower WSIB expense due to change in forecast claim administration rate in 2016 and due to lower pension expense as result of increase recognition of investment gains in recent years.

HEALTHCARE OF ONTARIO PENSION PLAN

Q. Why did the Healthcare of Ontario Pension Plan expense decrease by $155M from $747M in 2015-16 to $592M in 2016-17?

A. The Healthcare of Ontario Pension Plan expense decreased compared to prior year's actual mainly due to an increase in amortization of prior years' experience gains and higher interest earnings as a result of an increase in the plan asset base. Decreases in year over year expenses were partially offset by higher current service costs in 2016 as a result of an increase in active membership in 2015-16.

COLLEGES OF APPLIED ARTS AND TECHNOLOGY PENSION PLAN

Q. Why did the Colleges of Applied Arts and Technology Pension Plan expense increase by $3M from $190M in 2015-16 to $193M in 2016-17?

A. The Colleges of Applied Arts and Technology Pension Plan expense increased compared to prior year's actual, mainly due the $14M write-off of CAATPP net pension plan assets in 2016-17. The plan was not in an asset position as of year-end in 2015-16.

INFRASTRUCTURE

Infrastructure Expenditures Table

Q. Why is the 2016-17 total infrastructure expenditure $3.3 billion lower than planned in the 2016 Budget?

A. Infrastructure expenditure forecasts for each fiscal year are subject to change and reflect a continuum of information that begins with the Budget and ends with Public Accounts. The forecast in Budget 2016 was subject to change as new information became available throughout the year. Infrastructure spending of $12.9 billion, reported in the Public Accounts was $3.3 billion lower than the $16.2 billion set out in the 2016 Budget.

Underspending is mainly due to slower than expected construction progress in the transit sector ($2 billion) and health sector (about $0.5 billion).

Q. Why is the 2016-17 total infrastructure expenditure $1.4 billion lower than estimated in the interim forecast in the 2016 Budget?

A. Infrastructure expenditure forecasts for each fiscal year are subject to change and reflect a continuum of information that begins with the Budget and ends with Public Accounts. The interim forecast was subject to change as new information became available throughout the year. Infrastructure spending of $12.9 billion, including other partner funding, reported in the Public Accounts was $1.4 billion lower than the $14.3 billion set out in the interim forecast in the 2016 Budget due to slower than expected construction progress in the transit sector ($0.5B) and education sector ($0.4B).

Q. Actual infrastructure expenditures are $3.3 billion below the budgeted amounts. Doesn't this mean you should adjust your forecasting practices? Does this mean 2016-17 planned expenditures are overstated?

A. Infrastructure expenditures forecast for each fiscal year are subject to change and reflect a continuum of information that begins with the Budget and ends with the Public Accounts. As new information becomes available throughout the year, the forecasts will likely change (for example, due to updates in construction timelines). In this context it is important to note that infrastructure expenditure forecasts presented as part of Budget or other fiscal updates represents a point in time along this continuum and is based on the best available information at that time.

Given the uncertainties inherent in making projections, it is appropriate for the government to remain prudent and cautious in its forecasting.

The 2016-17 budgeted infrastructure expenditures are a reflection of prudent forecasting practices and the government's ongoing commitment to building and renewing the infrastructure the public relies on.

Q. In 2016-17, actual infrastructure expenditures are $3.3 billion below the budgeted amounts. Is the $3.3 billion earmarked for infrastructure in spite of the fact that it hasn't been spent yet, and will it be carried over to another fiscal to be spent on infrastructure? Or does the underspend mean that the $3.3 billion will be spent on other gov't priorities?

A. The $3.3 billion expenditure decrease is not earmarked for infrastructure investments or carried over to future years. Future year infrastructure investment decisions are made as part of the annual budgeting process.

The resulting fiscal savings associated with this expenditure decrease is allocated in the government's total program expense figures.

Q. Why has amortization cost gone up so significantly between 2012-13 and 2016-17?

A. Amortization recognizes consumption of Tangible Capital Assets. Amortization expense is primarily made up of amortization on existing assets. As these assets reach the end of their useful lives, the associated amortization disappears. This decline is offset by new amortization expense as new infrastructure projects come into service. Between 2012-13 and 2016-17, the province invested $53 billion in capital assets. As these assets have come into service, the corresponding consumption cost (amortization) has gone up. As the government continues to invest in infrastructure, amortization expense will continue to grow.

Q. If we invested $10 billion in publically owned infrastructure assets in 2016-17, why does TCA only go up by $4.8 billion?

A. The net book value of tangible capital assets is calculated as the book value (purchase price) less accumulated amortization. As long as assets are being amortized, growth in the stock of the Province's TCA on a yearly basis will always be less than the yearly investment. Estimated historical cost was used to record existing tangible capital assets if actual cost was unknown when the Province first implemented tangible capital assets accounting. Tangible capital assets, except land, are amortized over the estimated useful lives of the assets on a straight-line basis. Amortization expense of TCA in 2016-17 totalled $5.2 billion.

Q. What are some examples of investments made in between 2012-13 and 2016-17?

A. A few examples of the many infrastructure investments Ontario has made over the last five years include:

- The 407 East project will help relieve congestion and support the efficient movement of people and goods through the eastern Greater Toronto Area and beyond. Phase 1, from Brock Road in Pickering to Harmony Road in Oshawa and Highway 412, opened in Spring 2016.
- The Pan/Parapan American Games Athletes' Village, which was home to about 10,000 athletes and officials during the Games. The village will be transformed into a mixed-use neighbourhood with affordable housing, health services and a residence for George Brown College students.
- The Union Pearson (UP) Express, which began service in 2016, provides a dedicated rail link connecting Toronto Pearson International Airport with Union Station in downtown Toronto in 25 minutes.
- The Right Honourable Herb Gray Parkway in Windsor–Essex, provides an express route to the country's busiest land border crossing.
- The Humber College infrastructure project involved the construction of a new Learning Resource Commons and an academic support and student services facility.
- The Elgin County Courthouse brings together existing court facilities within one location in St. Thomas.
- The New Oakville-Trafalgar Memorial Hospital is a state-of-the-art facility accommodating a full range of hospital services including acute care, complex continuing care and rehabilitation.
- The new Humber River Hospital includes a new facility on a new site in north-western Toronto, one of the most culturally diverse and fastest-growing communities in Canada. The Humber River Hospital offers a comprehensive range of services to support inpatient and outpatient programs.

Q. What kind of infrastructure investments does the Province make which do not contribute to the net book value of tangible capital assets?

A. The Province makes transfers to its non-consolidated partners, such as municipalities and universities, for capital purposes. This spending is recorded in the Infrastructure expenditures table (Table 4) as 'Transfers and Other Infrastructure Expenditures.' 'Other Infrastructure Expenditures' includes expenses such as non-capitalized maintenance costs (e.g., window cleaning of provincially owned buildings). These expenses are included as part of overall infrastructure spending, but do not contribute to the net book value of the Province's tangible capital assets.

CORPORATE AND ELECTRICITY FINANCE DIVISION

Asset Optimization and the Trillium Trust

Q: If the Trillium Trust has been credited with $5.3 billion, why did the government only draw down $260 million in 2016-17?

A: Like most large infrastructure investments, initial spending on projects is focused on planning, design, property acquisition and other activities to get projects construction-ready.

As this preliminary work is completed and construction activity gets underway, further project requirements will be identified that will be funded from the Trillium Trust in subsequent years.

The government is committed to investing the full amount from the Trillium Trust to support transit, transportation and other priority infrastructure. The 2017 Budget included an additional $400 million to be drawn down in 2017-18.

Q: What projects are being funded through the Trillium Trust?

A: The Trillium Trust was drawn down by about $260 million in 2016–17 to help support transit, transportation and priority infrastructure across the Province under the Moving Ontario Forward initiative.

As communicated in the 2017 Budget, the Trillium Trust is supporting initiatives such as GO Regional Express Rail, the Hurontario Light Rail Transit, and the Ontario Community Infrastructure Fund.

Q: If the Province raised about $2 billion in the secondary offering of Hydro One shares in 2016, why was only $538 million credited to the Trillium Trust?

A: The *Trillium Trust Act, 2014*, provides for the dedication of net revenue gains to the Trillium Trust associated with the sale of designated assets to support investments in transit, transportation and priority infrastructure across the Province.

The net revenue gains credited to the Trillium Trust from the secondary offering of Hydro One shares are derived from the gross proceeds, less fees/expenses incurred and less the book value of the shares sold, not including the shares purchased by OPG.

The government will move forward with regulations to credit the Trillium Trust with the net revenue gains from the shares purchased by OPG in the future.

The Province also used the $1.3 billion in proceeds related to the book value of the Hydro One shares sold to pay down the Province's debt and other payables with the Ontario Electricity Financial Corporation (OEFC).

Through the broadening of Hydro One ownership, the Province is meeting its target to generate $4 billion in net revenue gains that, through the Trillium Trust, will be

reinvested in infrastructure under Moving Ontario Forward, and $5 billion to reduce debt.

Q: The Public Accounts show that the government credited the Trillium Trust with a non-cash deferred tax benefit resulting from the Hydro One IPO. How can the government use a non-cash amount to invest in infrastructure?

A: The Trillium Trust Act, 2014, provides for the dedication of net revenue gains to the Trillium Trust.

The deferred tax benefit provided an up-front revenue gain to the Province through consolidation of the Province's portion of Hydro One's net income in the Public Accounts. This also increases the book value of Hydro One's shares and reduces the accounting gains for subsequent sales for a given amount of gross sale proceeds. This does not affect the total cash the Province receives.

By dedicating to the Trillium Trust the net revenue gains to the Province from the deferred tax benefit, the government is ensuring that the full benefit of the value created from broadening Hydro One ownership is dedicated to the Trust to support investments in transit and infrastructure.

Q: Why hasn't the government credited the Trillium Trust with the net revenue gains associated with Hydro One shares purchased by OPG and Hydro One shares purchased by trusts of the Power Workers' Union (PWU) and Society of Energy Professionals (SEP) through Provincial loans?

A: The government has made a regulation that will credit the Trillium Trust with the net revenue gains from the sale of shares to the PWU / SEP trusts that were supported by Provincial loans.

The $48M total gain from the sale of these shares was recorded as deferred revenue in the 2015-16 Public Accounts. As payments of the loan are received, the gain on sale will be recognized annually as revenue in proportion to the payments made.

The annual gain will be reported in the Public Accounts, to clearly indicate the amount to be credited to the Trillium Trust. The first annual gain, as reported in Volume 1 of these 2016-17 Public Accounts is approximately $1.5 million.

The government will move forward with regulations to credit the Trillium Trust with the net revenue gains from the shares purchased by OPG in the future.

Q: If the sale of Hydro One Brampton is now complete and the gain is being reported in Public Accounts, why hasn't the Province credited the Trillium Trust from the sale?

A: The government is committed to dedicating the net proceeds from the sale to the Trillium Trust, and will move forward with a regulation under the Trillium Trust Act.

ELECTRICITY SECTOR

2016–17 vs 2016 Budget Plan [Actual vs Initial Forecast]

Q. Why did the combined net incomes of OPG and Hydro One decrease by $193 million compared to Plan? [Excludes Hydro One Brampton net income variance of $3 million]

A. The $193 million decrease in combined OPG and Hydro One net incomes in 2016-17 from Plan reflects:

- lower-than-projected OPG gross margins, and
- lower Hydro One Limited net income largely due to re-categorization of impacts of broadening Hydro One ownership (~84% ownership to ~70% ownership through the secondary offering) that were previously reflected under Sales and Rentals revenue. The re-categorization is fiscally-neutral.

Q. Why are Electricity payments-in-lieu of taxes $151 million lower than Plan?

A. The variance is primarily due to lower income tax PILs from OPG, partially offset by higher PILs from municipal electrical utilities.

Q. Why are Power Supply Contract Recoveries $195 million higher than projected??

A. The actual amount in 2016-17 is higher largely due to the dismissal of the Ontario Electricity Financial Corporation's (OEFC) appeal of a court decision with respect to the calculation of some escalation rates under legacy former Ontario Hydro power purchase contracts with non-utility generators (NUGs), and the subsequent decline of an application for leave to appeal to the Supreme Court of Canada. As a result of the decisions, OEFC recognized higher power supply contract expenses, fully offset by higher power supply contract recoveries.

2016–17 vs Interim 2016-17 [Actual vs Interim Forecast]

Q. Why did the combined net incomes of OPG and Hydro One increase by $14 million compared to the Interim forecast for 2016-17?

A. The variance is mainly due to stronger-than-projected results for OPG's nuclear funds contribution, partially offset by the lower Hydro One net income.

Q. Can you explain the $99 million variance in Power Supply Contract Recoveries between interim numbers in Budget 2017 and actuals [in Public Accounts]?

A. The variance is largely due to retroactive payments that the Ontario Electricity Financial Corporation (OEFC) made to certain non-utility-generators (NUGs) with legacy former Ontario Hydro power purchase agreement (PPA) contracts with OEFC.

OEFC was required to make these payments following the dismissal by the Supreme Court of Canada of OEFC's application for leave to appeal a judgment of the Court of Appeal of Ontario on a 2015 court decision.

- Ontario Hydro entered into these PPAs in the late 80s and early 90s with private sector generators.
- As the legal continuation of the former Ontario Hydro, OEFC is the counterparty to these contracts.
- Some of the PPAs had escalation clauses under which the global adjustment has an impact on the calculation of the contract rates.
- In 2015, a lower court decision found that OEFC had not properly calculated the price paid for electricity under 12 PPAs, following the enactment of Ontario Regulation 398/10, under which the allocation among electricity consumers of the Global Adjustment, one component of the all-in price of electricity, was changed.
- These 12 PPAs were held by entities that participated in the lawsuit, and they received retroactive payments in 2016, following the Ontario Court of Appeal decision to dismiss OEFC's appeal.
- Several PPA counterparties with similar price provisions that did not participate in the lawsuit entered into Standstill Agreements with OEFC in 2015, after the original court decision. After all avenues of appeal were exhausted, following the 2017 Supreme Court decision, OEFC was required to make retroactive payments to these entities.

2016–17 vs 2015-16 [Actual vs Previous Year]

Q. Why did Hydro One's net income to the Province increase by $263 million compared to the previous fiscal year?

A. Hydro One's net income remains relatively unchanged from 2015-16 to 2016-17. The $263 million increase in Hydro One net income to the Province, however, is largely due to the impacts of the November 2015 Hydro One IPO.

Hydro One 2015-16 net income to the Province, was lower due to IPO-related factors including a one-time PILs expense of about $2.8B, partially offset by the $2.4 billion proportionate impact on the Province's net income from Hydro One's recognition of a deferred tax benefit of about $2.8 billion.

[The impact of the 2015-16 IPO-related adjustments were partly offset by the impact of the secondary share offering in 2016-17 on the Province's share of Hydro One net income.]

Q. Why did OPG's net income decline by $121 million compared to the previous fiscal year?

A. The decrease is due largely to stronger 2015-16 earnings on the nuclear funds on a realized basis.

Q. Why did Electricity Debt Retirement Charge decrease by $238 million compared to the previous fiscal year?

A. The DRC trends downwards primarily due to the elimination of the DRC for residential consumers, effective January 1, 2016. The variance reflects the first full year of residential consumer exemption from the DRC in 2016-17.

Q. Why did Electricity payments-in-lieu of taxes decrease by $2.9 billion from last year?

A. The increase is primarily due to significant one-time PILs related to Hydro One's IPO, including $2.6 billion in departure tax under the PILs regime and about $0.2 billion in additional PILs, as Hydro One exited the PILs regime and started paying corporate income taxes following the IPO. Note that these one-time PIL payments did not have a net effect on the Province's annual deficit, as the additional revenue was offset by an equal reduction in Hydro One's net income, which is consolidated in the Province's financial statements.

Electricity Sector Stranded Debt

Q. What is the status of old Ontario Hydro's stranded debt? When is the Debt Retirement Charge (DRC) expected to end based on the latest available information?

A. The government dedicates the revenues it receives from the electricity sector to the Ontario Electricity Financial Corporation (OEFC). All OEFC revenues, including the Debt Retirement Charge (DRC) paid by electricity consumers, are used to service and retire its debt and other obligations, as provided for under the Electricity Act, 1998.

For the thirteenth consecutive year, the stranded debt has been reduced. The 2016–17 results for the OEFC show an excess of revenue over expense of $1.2 billion. The OEFC has paid down stranded debt by a total of about $18.5 billion from its peak in 2003-04, reducing stranded debt to $3.2 billion as at March 31, 2017.

As part of its commitment to reduce electricity cost pressures, the government has removed the Debt Retirement Charge (DRC) from residential electricity users' bills as of January 1, 2016.

This would save a typical residential user about $70 each year and would mean ending the DRC earlier for these users than otherwise provided for in the Electricity Act, 1998.

As a further step to mitigate electricity cost pressures for non-residential users, the government introduced legislation the Budget Measures Act, 2015, passed in December 2015, to end the DRC for all other users on April 1, 2018, nine months earlier than previously estimated.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

Even after the end of the DRC, there would still be stranded debt remaining, to be serviced and paid down by OEFC's other dedicated revenues, such as payments in lieu of taxes and the Gross Revenue Charge.

RESERVE FUND

Q. Why does the government maintain a reserve fund? Last year there were questions raised about the government dipping into its reserve fund to strengthen its results. Did you do that this year?

A. As required under the Fiscal Transparency and Accountability Act, 2004, a reserve is included in the projected surplus/deficit each year to guard against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance.

The 2016 Budget plan included a $1.0 billion reserve for 2016–17. Excluding this reserve, the 2016 Budget projected a deficit of $3.3 billion.

As the reserve is a forecast provision, and the fiscal results for 2016–17 are now finalized, a reserve is no longer included in the Province's financial statements.

The final deficit for the 2016–17 fiscal year is $1.0 billion, a $3.3 billion improvement compared with the 2016 Budget projection of $4.3 billion, which included the reserve.

Q. What is the difference between the contingency fund and the reserve?

A. The contingency fund is an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover higher spending due to unforeseen events (e.g. fighting forest fires). This approved spending limit is allocated during the year to ministries for their programs and activities.

The reserve is an amount included in the forecast each year to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense – for example, changes in Ontario's economic performance.

RESULTS VERSUS 1ST QUARTER REPORT

Q. Was the government being overly optimistic in its revenue forecast in the 2017-18 First Quarter Finances based on the Annual Report results for the 2016-17 fiscal year?

A. The 2017-18 First Quarter Finances was released before the 2016-17 Annual Report and does not take into account the revised 2016-17 revenue. The government will be updating its revenue outlook in the 2017 Ontario Economic Outlook and Fiscal Review in the fall, which will include the latest 2016-17 results as well as all additional information arriving after the Annual Report.

UNCOLLECTIBLE ACCOUNTS RECEIVABLE

Q. Why are we removing uncollectible accounts receivable owed to the province from the accounting records?

A. Removing uncollectible accounts receivable is required under Public Sector Accounting Standards. After ministries have taken progressive collection activity and determined that all the collection efforts have been exhausted, those accounts with little or no prospect of collectability are removed from current accounting records.

Q. How will the write-offs be shown in the Public Accounts?

A. The ministries' uncollectible accounts receivable are required to be published in a table called "Losses Deleted form the Accounts" in Volume 2 of the 2016/17 Public Accounts.

Q. Is removing uncollectible accounts receivable from the records the same as forgiving the debt?

A. No. If debt is forgiven, the province cannot pursue or collect on the debt in the future. However, having an account written-off does not eliminate the debtor's legal obligation to pay the liability. The province may attempt to collect the money owed if the debtor's circumstances change in the future. In 2016/17, $17.3M was collected on accounts previously written off.

Q. How do you determine when a debt is uncollectible?

A. In the vast majority of cases, a debt may become uncollectible when a corporation or individual debtor becomes insolvent or goes bankrupt; or when an individual debtor dies, is imprisoned for a long term or cannot be located for a considerable period of time.

It may take several years of progressive collection actions before an uncollectible account receivable is submitted for removal from the accounting records.

Q. How does this affect the province's bottom line?

A. There is no impact on the deficit/surplus in the year as a result of removing uncollectible accounts from the accounting records.

The fiscal impact incurred in the year when the account was initially identified as being doubtful. At that time, a bad debt expense was recorded.

Q. What is the amount of uncollectible accounts receivable this year?

A. The total uncollectible accounts receivable for 2016/17 is $267.2 million.

Q. What amount of unpaid taxes is included in the Ministry of Finance's total?

A. The total for tax-related amounts is $134.2 million, which represents 97% of MOF's submission of $138.8 million and is attributable to bankrupt or insolvent tax payers.

Q. How does the amount of uncollectible accounts receivable compare with total accounts receivable?

A. This year's uncollectible accounts receivable represent about 2.4% (4.0% in 2015/16) of the province's accounts receivable.

Q. What steps is the government taking to reduce future write-off of accounts receivable?

A. Common progressive collection tools include the use of private collection agencies and the Canada Revenue Agency (CRA) Refund Setoff Program, in addition to any specific legislated tools provided in the appropriate legislation (e.g., clawbacks, liens, director's liability). The centralization of collections within MOF helps ensure a standard, OPS-wide use of such tools.

(AS PRESENTED IN ANNUAL REPORT)

LOSSES DELETED FROM THE ACCOUNTS

(Under the Financial Administration Act)
For the year ended March 31, 2017

	$
	2016-2017
FINANCE……	138,818,406.60
ADVANCED EDUCATION AND SKILLS DEVELOPMENT…….	54,677,124.91
COMMUNITY AND SOCIAL SERVICES……..	45,886,186.45
ATTORNEY GENERAL……	21,642,494.26
TRANSPORTATION……	3,771,415.55
CHILDREN AND YOUTH SERVICES……	898,957.06
NATURAL RESOURCES AND FORESTRY……	847,762.62
HEALTH AND LONG-TERM CARE……..	340,142.56
COMMUNITY SAFETY AND CORRECTIONAL SERVICES…….	98,367.09
TOURISM, CULTURE AND SPORT……..	73,937.72
OFFICE OF THE ASSEMBLY……	30,471.10
EDUCATION……	19,896.26
INFRASTRUCTURE……..	17,548.77
AGRICULTURE, FOOD AND RURAL AFFAIRS……	16,685.11
GOVERNMENT AND CONSUMER SERVICES……..	12,472.33
HOUSING……..	7,038.04
NORTHERN DEVELOPMENT AND MINES……	6,939.84
LABOUR……	5,189.48
TOTAL……	$267,171,035.75

PUBLIC ACCOUNTS 2016-17
Media Qs & As

September 6, 2017

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Key Messages

- The 2016-17 Public Accounts of Ontario show that Ontario's deficit is $991 million.

- Ontario has beaten its deficit target eight years in a row.

- Ontario's plan is working. By responsibly managing the Province's finances, Ontario balanced the budget in 2017-18, and will maintain a balanced budget for the future. A balanced budget means more funding for the programs and services people and families rely on most.

- As promised in the 2016 Budget, Ontario grew its economy while transforming healthcare, building vital infrastructure and investing in people's talents and skills.

- To help Ontarians better understand their government's finances, new digital tools have been developed that present the Public Accounts data in innovative, visual formats. These tools make Ontario's finances easier to understand, access, and use.

- Presenting the Public Accounts data in innovative, visual formats is part of Ontario's commitment to Open Government.

- The government will continue to build on its track record of responsible fiscal management.

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Top Media Qs&As

Top media Qs&As updated September 5, 2017

1. **The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?**

   We continue to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

   Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the Province.

   The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

   After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

   This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

   This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015)

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in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

2. The Auditor General is critical of the IESO accounting changes. Are Ontario's accounting changes inappropriate?

No. The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

If pressed on rate-regulated accounting:

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

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This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

3. Why are you still fighting with the Auditor General over pension accounting?

In preparing last year's Public Accounts, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the Province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the Province on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

4. How were you able to beat your deficit target in 2016-17?

In 2016-17 we maintained our focus on responsible fiscal management and investing in the right priorities. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending.

Average annual growth of total government spending has been held to 2.3 per cent for the past five years. As a result of growth in revenue that exceeded growth in program expense, as well as lower than forecast interest on debt, the deficit is $3.3 billion lower than projected in the 2016 Budget. It is also $0.5 billion lower than the interim projection in the 2017 Budget.

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This is the eighth year in a row the government has beaten its deficit target.

5. The government is claiming the deficit has been reduced to $1B deficit for 2016-17 and that the budget will be balanced over the next three years. However, the AG is saying that the deficit for 2016-17 was more than $2B due to the treatment of pension assets, and the FAO has stated that the government's revenue forecast is more than $1B too "optimistic". Isn't the government really hiding a $3-4B deficit instead of a balanced budget?

There is no hidden deficit. In the *2010 Budget*, the government committed to eliminating the deficit and returning to a balanced budget by 2017-18. Through targeted, measured and fiscally responsible decisions, Ontario has restored its fiscal and economic strength.

Today we are confirming that the 2016-17 deficit of $1 billion is $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Ontario Budget. This marks the eighth year in a row that Ontario has beaten its deficit target.

The success in eliminating the deficit is supported by a strong track record in managing spending -- having held average growth in spending to 2.3 per cent over the past five years.

In addition, over the last several years, the government's investments to strengthen economic growth have paid off. Ontario is a leader in economic growth, with our real GDP growth having outpaced that of all the G7 countries over the last three years. The strengthened economy has resulted in increased revenue for the Province – in fact, over the past two fiscal years, revenue has come in higher than projected, supporting Ontario's return to a balanced budget.

It is also important to point out that private sector forecasters have revised upward their expectations for the Ontario economy since the 2017 Budget, reflecting the growing strength of the Ontario economy. In fact, the current average private sector forecast for this year and next is also above what the Financial Accountability Office of Ontario projected in their Budget commentary. The government is also taking steps to improve tax fairness and address the underground economy in order to ensure the integrity of the Province's revenues.

Finally, Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense. The reserve has been set at $0.6 billion in 2017-18, $0.6 billion in 2018-19, and $0.9 billion in 2019-20.

Balancing the budget means that the government can invest more in the programs and services that people rely on.

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6. The FAO's commentary released on September 6, 2017 says that Ontario's debt reduction commitment is based on unrealistic assumptions. How do you respond?

The government made a commitment in the 2010 Budget to balance and eliminate the deficit by 2017-18. Since then, the government has reduced the deficit from its peak in 2009-10 of $19.3 billion, to a projected $1.5 billion in 2016-17 and a projected balanced Budget in 2017. Furthermore, the government consistently overachieved on its deficit targets and forecasts for net debt-to-GDP. The government's track record therefore provides evidence of fiscal discipline and the likelihood of achieving on-going balanced budgets in the future.

With respect to capital spending, approximately 61 per cent of the increase in net debt from 2008–09 to 2016–17 was due to the deficit, with net investments in capital assets responsible for most of the balance. Infrastructure expenditures do not therefore have as large an impact on net debt as that of a balanced budget.

Moreover, additional capital investment in the latter half of the next decade will stimulate the economy. A recent report from the Centre for Spatial Economics confirms that over the long term, real GDP in Ontario increases by $6 for every dollar of public infrastructure spending. This stimulus in GDP may help to offset the effects of an aging population and slower growth in the labour force and maintain the 4% average GDP growth required to bring net debt to GDP down to 27% in 2029-30.

7. Interest on debt is still massive and the Bank of Canada is expected to raise interest rates again this fall, and announced it is raising its target for the overnight rate on September 6, 2017. How is the government preparing for this and will this affect your ability to maintain a balanced budget?

The increase in the Bank of Canada's policy rate reflects the growing strength of the Canadian and Ontario economy. Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.

Since 2014, Ontario has been an economic growth leader in Canada and private-sector economists expect Ontario to remain one of the fastest growing provinces over the next two years.

Ontario's economic growth exceeded that of all G7 countries over the 2014 to 2016 period.

A quarter-point increase in the policy rate is not likely to have a material impact on the Ontario economic outlook. The 2017 Ontario Budget anticipated that interest rates would rise modestly.

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An increase in the Bank of Canada's overnight interest rate does not automatically translate into an increase in the Province's borrowing cost which is also impacted by other factors including revisions to the US Federal Funds Rate.

As noted in the 2017 Budget, the Province's average cost of 10 year borrowing in 2017-18 is forecast to be 3 per cent. The impact of a 100 basis point increase in borrowing rates is forecast to be approximately $300 million. The interest rate forecast used in the Budget was prudent, and anticipated that long-term interest rates would rise as we progressed through the fiscal year.

8. You claim to have balanced the budget yet you keep piling on more debt. How do you plan to pay down the debt?

We maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023–24.

In a balanced budget environment, debt would be incurred primarily to invest in capital assets. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending – including addressing the underground economy and maintaining tax fairness. Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to $6 on average per one dollar of public infrastructure spending.

These strategic investments are creating jobs and contributing to economic growth. Ontario's GDP grew one per cent in the first quarter of 2017, outperforming that of Canada, the U.S. and all other G7 countries.

9. Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?

To increase transparency, this year we have made a simple change to how we are reporting third party revenues for broader public sector organizations.

For the first time, Public Accounts are presenting third party revenues for hospitals, school boards and colleges with provincial revenue. Third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To

ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the Province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

10. The Public Accounts show a drawdown of $260 million from the Trillium Trust. What did you spend the money on?

The government began allocating proceeds from the Trillium Trust in 2016-17 to help support infrastructure initiatives such as GO Regional Express Rail (GO RER), the Hurontario Light Rail Transit (LRT) and the Ontario Community Infrastructure Fund (OCIF).

We expect the Trillium Trust to be drawn down by about $400 million in 2017–18.

Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to $6 on average per one dollar of public infrastructure spending.

11. Does a qualified opinion impact the Province's credit rating?

The Province's financial results show that the government has once again beaten its annual deficit targets. In April 2017, we delivered our first balanced budget since the global recession and we are on track to do so again next year and the year after.

The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the Province. However, there were no credit rating implications in 2016 when the Province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

12. The Auditor General has some serious concerns about how you're accounting for Ontario's Fair Hydro Plan. What do you say to this?

The accounting for Ontario's Fair Hydro Plan is a separate and distinct issue to the Public Accounts for 2016-17 that we're here to talk about today.

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However, under Ontario's Fair Hydro Plan accounting structure, the Province's net debt and annual surplus/deficit won't be negatively impacted since all costs are to be recovered through future rates.

The Ministry of Energy, Finance and Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO) and external advisors to address the outstanding accounting related considerations.

The Auditor General has also been briefed on the government's refinancing structure.

For further questions, I direct you to contact my colleague at the Ministry of Energy.

13. Program spending increased again this year. Why?

Program spending in 2016-17 was $141.7 billion, down $0.1 billion from the 2016 Budget. Average annual growth of total government spending has been held to 2.3 per cent for the past five years.

Healthcare represents the largest share of government program spending at $56 billion. Transformation efforts continue to make the sector more effective and sustainable while continuing to improve access for patients, especially the increased demands from an aging and growing population. The government has invested in new drugs, technologies, community and home care, long term care homes, mental health, physicians' services and specialized cancer treatments.

Other areas of government investment include:

- $26.6 billion in education, mainly due to the introduction of full-day kindergarten;
- $16 billion in children's and social services, due to increased annual social assistance rates as well as investments in developmental services, autism and complex special needs programs, as well as the Ontario Child Benefit;
- $10.1 billion in post-secondary and training, due to enrolment growth in colleges and universities along with increased student financial assistance programs and increases in capital funding for post-secondary institutions;
- $4.6 billion in justice sector expenses due mainly to the upload of court security costs from municipalities, compensation for the Ontario Provincial Police and correctional services programs, as well as improved access to legal aid.

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Media Qs&As – Comprehensive List

General Public Accounts Information

1. **What is Public Accounts?**

   The Public Accounts of Ontario is a key accountability and transparency document in the government's financial cycle. It's a look back that compares Ontario's actual performance to what was planned in the Budget.

   The Public Accounts present the financial statements of the Province, provide financial highlights of the past fiscal year, and report on performance in priority areas.

   Public Accounts is audited by the Auditor General and is typically released in the fall of the following fiscal year.

2. **Why can't I find some organizations' financial statements in the Public Accounts?**

   Volume 2 contains the individual financial statements of government organizations, business enterprises and other financial statements. At the time of print, some organizations may not have had time to provide their financial statements. When this happens, we post them to Ontario.ca/publicaccounts as soon as they're available. The omission has no impact on the financial results reported in Public Accounts.

Accounting Changes

3. **Why have you restated prior year's financial statements?**

   When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

   These changes include:
   a. **Accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
   b. **Accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.

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c. **Accounting for the Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
d. **Accounting for net pension assets of jointly sponsored pension plans** - the Province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

- ## Broader Public Sector Accounting Presentation Change

4. Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?
(Top Media Question - updated September 5, 2017)

To increase transparency, this year we have made a simple change to how we are reporting third party revenues for broader public sector organizations.

For the first time, Public Accounts are presenting third party revenues for hospitals, school boards and colleges with provincial revenue. Third party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the Province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

5. What is consolidated reporting?

This presentation change may also be referred to as line-by-line consolidated reporting. This type of reporting is a more transparent way of presenting the details in the Broader Public Sector (BPS).

This change means that both expenses and revenues will be shown as separate items (on a gross basis), as opposed to being reported together (on a net basis).This affects what you see in the reporting breakdown of figures for hospitals, school boards, colleges and universities. However this has no impact to the annual deficit, net debt or accumulated deficit.

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Line-by-line consolidated reporting is in keeping with Public Sector Accounting Board standards and will mean that our presentation for Public Accounts is consistent with other governments across Canada. The Auditor General is supportive of this change.

- ## Ontario Power Generation and Hydro One Accounting Change

6. Why is there a change to the accounting for Ontario Power Generation (OPG) and Hydro One?

In the 2016-17 Public Accounts, the financial results of Ontario's investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board requirements and is supported by the Auditor General.

7. What is the impact of this change to the Province's bottom line?

This change has resulted in an adjustment to the opening accumulated deficit and net debt of $1,163 million, of which $683 million relates to transition to IFRS. The impact of this change to the annual deficit is not material to the Province in 2016-17.

- ## Pension Asset Accounting

See section: Auditor General – Qualified Opinion for more information.

- ## Independent Electricity System Operator (IESO) Accounting Changes

8. What accounting changes were made by the Independent Electricity System Operator (IESO)? Why?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

The IESO also made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting

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changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

See section: Auditor General – Qualified Opinion for more information.

Auditor General – Qualified Opinion

9. The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?
(Top Media Question - updated September 5, 2017)

We continue to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the Province.

The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change

also has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

10. This year it's IESO accounting. Last year it was pension assets. Before that it was government advertising. Why are you still fighting with the Auditor General? This seems to be a pattern of behavior where you try and undermine her authority.

Our government has the utmost respect for all independent officers of the legislature, and we value the important perspective they bring.

• Pension Asset Accounting

11. Why are you still fighting with the Auditor General over pension accounting?
(Top Media Question - updated September 5, 2017)

In preparing last year's Public Accounts, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the Province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the Province on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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12. What was the panel's rationale for its decision?

The Pension Asset Expert Advisory Panel recommended that the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees Union Pension Plan (OPSEUPP) should be recognized as an asset in Ontario's financial statements.

The panel said that:

- Recognizing the asset will provide a faithful representation of the Province's financial position.
- The accounting surplus in the plan has a future economic benefit.
- The government controls access to that accounting surplus.
- The accounting surplus exists as the result of past transactions and events.
- It would be misleading not to recognize the Province's share of the assets in Public Accounts.

In addition, the panel concluded that the government will be able to benefit from the full amount of each net pension asset, and as a result, no reduction in the value is necessary.

EY provided additional analysis and concluded that no valuation allowance was required for either plan, confirming the independent panel's recommendation.

13. The Auditor General was critical of the panel's authority and credibility. What's your response to this?

The panel members are all highly-qualified experts in their field. They were carefully chosen for their expertise in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and public sector accounting standards:

- **Patricia O'Malley (panel chair)** is a Chartered Professional Accountant. She has been a member of the Canadian Accounting Standards Oversight Council since 2013, was Chair of the Canadian Accounting Standards Board and was a member of the International Accounting Standards Board from 2001 to 2007.
- **Murray Gold** is a leading legal practitioner and senior pension and benefits partner at Koskie Minsky LLP.

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- **Uros Karadzic** is a senior actuary at Ernst and Young's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting.
- **Paul Martin** is a Chartered Professional Accountant, Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP.

The panel was completely independent from government, and arrived at its advice based on its own analysis of this complex issue.

14. How much did you pay the panel members? Do you think that money was justified?

The total cost of the panel was $221,113. This included compensation and travel expenses for the four panelists, as well as procurement. These rates are consistent with the Agencies and Appointments Directive, which specified up to $2,000 per day for appointees with unique and specialized expertise, or urgent issues affecting government priorities and requiring intense time commitments over a short period of time.

The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards, and provided independent advice on how to move forward with how Public Sector Accounting Board standards should be applied to current and potential future net pension assets.

• IESO Accounting

15. The Auditor General is critical of the IESO accounting changes. Are Ontario's accounting changes inappropriate?
(Top Media Question - updated September 5, 2017)

No. The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting

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changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

If pressed on rate-regulated accounting:

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

16. What is the Auditor General's argument with these changes?

The Auditor General claims that the change to the IESO's accounting policy to recognize market account assets and liabilities is inappropriate, as these market accounts are not assets and liabilities of the Province.

However, the IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

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This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

17. Between IESO and the pension issue from last year it seems like you just make up new rules when you don't like what you hear from the Auditor General. How do you respond to that?

We continue to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

In many cases the application of accounting standards requires professional judgment. The Province's professionally accredited accounting staff are highly qualified practitioners, with a high degree of expertise in their field. A difference of opinion on the interpretation of accounting standards is not unique to this situation.

18. Will you strike an expert panel to study to IESO issue, like you did last year for pension accounting?

We have no plans to establish a panel at this time.

The changes made to the IESO accounting were accepted by the IESO's audit committee, board of directors, and their independent external auditor. These changes were outlined in the IESO's 2016 annual report, which was published in March 2017. The Office of the Provincial Controller supports these changes.

19. Your reasons for change are yet again at odds with the Auditor General. Why should we believe you, when she is an independent officer of the legislature?

The Auditor General's responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment. A difference of opinion on the interpretation of accounting standards is not unique to this situation.

- **Ontario's Fair Hydro Plan Accounting (Other Matters)**

20. The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?

First, I would note that the accounting for Ontario's Fair Hydro Plan is separate and distinct from the Public Accounts we're here to talk about today.

Having said that, we respectfully disagree with the Auditor General's claim that the government withheld information from her or her office.

In March, the Ministry of Energy provided the Auditor General's Office with Cabinet documents from February and March related to Ontario's Fair Hydro Plan. These documents together provided a comprehensive overview of all elements of the plan that were known at that time, including accounting memos from both the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG).

On April 19, 2017, senior ministry officials from Treasury Board Secretariat, Finance and Energy met with the Auditor General and her staff to provide a briefing on Ontario's Fair Hydro Plan.

Since that April 19 briefing, ministry officials from Treasury Board Secretariat have met with the Auditor General several times.

21. The Auditor General has some serious concerns about how you're accounting for Ontario's Fair Hydro Plan. What do you say to this?
(Top Media Question - updated September 5, 2017)

The accounting for Ontario's Fair Hydro Plan is a separate and distinct issue to the Public Accounts for 2016-17 that we're here to talk about today.

However, under Ontario's Fair Hydro Plan accounting structure, the Province's net debt and annual surplus/deficit won't be negatively impacted since all costs are to be recovered through future rates.

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The Ministry of Energy, Finance and Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO) and external advisors to address the outstanding accounting related considerations.

The Auditor General has also been briefed on the government's refinancing structure.

For further questions, I direct you to contact my colleague at the Ministry of Energy.

22. Why did you set up Ontario's Fair Hydro Plan accounting in this way?

Again, I would note that the accounting for Ontario's Fair Hydro Plan is separate and distinct from the Public Accounts we're here to talk about today.

However, in order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

All of the agreements necessary for the Global Adjustment (GA) Refinancing are not yet complete. The final accounting for the GA Refinancing will be completed once all of the elements are complete.

In analyzing the appropriate accounting treatment for the GA refinancing component of Ontario's Fair Hydro Plan on the province's consolidated financial statements in 2017-18 and forward, the province considered authoritative guidance issued by the Public Sector Accounting Board, as well as the accounting assessments of the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) management, including the accounting opinions of their external auditors.

The complexity and unique structure of the GA Refinancing structure requires the use of professional judgment to ensure that key financial reporting objectives of transparency and accountability are best served.

Any further questions about Ontario's Fair Hydro Plan should be directed to my colleague the Minister of Energy.

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Ontario's Fiscal Position

- **Balanced Budget**

23. The government is claiming the deficit has been reduced to $1B deficit for 2016-17 and that the budget will be balanced over the next three years. However, the AG is saying that the deficit for 2016-17 was more than $2B due to the treatment of pension assets, and the FAO has stated that the government's revenue forecast is more than $1B too "optimistic". Isn't the government really hiding a $3-4B deficit instead of a balanced budget? *(Top Media Question - updated September 5, 2017)*

There is no hidden deficit. In the *2010 Budget*, the government committed to eliminating the deficit and returning to a balanced budget by 2017-18. Through targeted, measured and fiscally responsible decisions, Ontario has restored its fiscal and economic strength.

Today we are confirming that the 2016-17 deficit of $1 billion is $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Ontario Budget. This marks the eighth year in a row that Ontario has beaten its deficit target.

The success in eliminating the deficit is supported by a strong track record in managing spending -- having held average growth in spending to 2.3 per cent over the past five years.

In addition, over the last several years, the government's investments to strengthen economic growth have paid off. Ontario is a leader in economic growth, with our real GDP growth having outpaced that of all the G7 countries over the last three years. The strengthened economy has resulted in increased revenue for the Province – in fact, over the past two fiscal years, revenue has come in higher than projected, supporting Ontario's return to a balanced budget.

It is also important to point out that private sector forecasters have revised upward their expectations for the Ontario economy since the 2017 Budget, reflecting the growing strength of the Ontario economy. In fact, the current average private sector forecast for this year and next is also above what the Financial Accountability Office of Ontario projected in their Budget commentary. The government is also taking steps to improve tax fairness and address the underground economy in order to ensure the integrity of the Province's revenues.

Finally, Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense. The reserve has been set at $0.6 billion in 2017-18, $0.6 billion in 2018-19, and $0.9 billion in 2019-20.

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Balancing the budget means that the government can invest more in the programs and services that people rely on.

24. How were you able to beat your deficit target in 2016-17?
(Top Media Question - updated September 5, 2017)

In 2016-17 we maintained our focus on responsible fiscal management and investing in the right priorities. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending.

Average annual growth of total government spending has been held to 2.3 per cent for the past five years. As a result of growth in revenue that exceeded growth in program expense, as well as lower than forecast interest on debt, the deficit is $3.3 billion lower than projected in the 2016 Budget. It is also $0.5 billion lower than the interim projection in the 2017 Budget.

This is the eighth year in a row the government has beaten its deficit target.

25. You beat your deficit targets again. Aren't you just padding your estimates so you can beat them at the end of the day?

No. The government's fiscal projections are based on the best economic and fiscal information available at the time. They reflect a realistic and responsible plan to manage the Province's resources, while still protecting the vital services that Ontarians rely on.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

• Debt

26. You claim to have balanced the budget yet you keep piling on more debt. How do you plan to pay down the debt?
(Top Media Question - updated September 5, 2017)

We maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by

2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023–24.

In a balanced budget environment, debt would be incurred primarily to invest in capital assets. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending – including addressing the underground economy and maintaining tax fairness. Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to $6 on average per one dollar of public infrastructure spending.

These strategic investments are creating jobs and contributing to economic growth. Ontario's GDP grew one per cent in the first quarter of 2017, outperforming that of Canada, the U.S. and all other G7 countries.

27. Interest on debt is still massive and the Bank of Canada is expected to raise interest rates again this fall, and announced it is raising its target for the overnight rate on September 6, 2017. How is the government preparing for this and will this affect your ability to maintain a balanced budget? *(Top Media Question - updated September 6, 2017)*

The increase in the Bank of Canada's policy rate reflects the growing strength of the Canadian and Ontario economy. Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.

Since 2014, Ontario has been an economic growth leader in Canada and private sector economists expect Ontario to remain one of the fastest growing provinces over the next two years.

Ontario's economic growth exceeded that of all G7 countries over the 2014 to 2016 period.

A quarter-point increase in the policy rate is not likely to have a material impact on the Ontario economic outlook. The 2017 Ontario Budget anticipated that interest rates would rise modestly.

An increase in the Bank of Canada's overnight interest rate does not automatically translate into an increase in the Province's borrowing cost which is also impacted by other factors including revisions to the US Federal Funds Rate.

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As noted in the 2017 Budget, the Province's average cost of 10 year borrowing in 2017-18 is forecast to be 3 per cent. The impact of a 100 basis point increase in borrowing rates is forecast to be approximately $300 million. The interest rate forecast used in the Budget was prudent, and anticipated that long-term interest rates would rise as we progressed through the fiscal year.

28. The government is paying an enormous amount of money just paying the interest on its debt. How are you addressing this?

Interest on debt expense was $11.7 billion, which was $0.7 billion below the plan of $12.4 billion, due mainly to lower-than-forecast interest rates, lower-than-forecast deficit and cost-effective borrowing and debt management.

While interest costs have grown in absolute terms, they have steadily fallen as a percentage of Ontario's revenues since 2013-14. The interest on debt-to-revenue ratio is now at its lowest level from the peak of 15.5 per cent in 1999-2000.

Interest on debt-to-revenue is forecast to have been 8.4 per cent for 2016–17. This ratio is the lowest it has been in 25 years. It is forecast to decline to 8.2 per cent in 2017-18.

We incurred increases to Ontario's debt during the recession for two reasons: to finance deficits and invest in capital assets. However we are making progress on our economic plan by making investments to spur growth, and are managing spending responsibly.

These strategic investments are creating jobs and contributing to economic growth. Ontario's GDP grew one per cent in the first quarter of 2017, outperforming that of Canada, the U.S. and all other G7 countries.

Our fiscal plan is working. Ontario is on track to balance the budget this year while making investments in the programs and services people and families rely on most.

29. You are spending more on interest payments for the debt than what you spend on post-secondary education. In fact, the payments equal more than 20 per cent of the health budget. How can you justify this?

Our priority following the 2008-09 recession was to achieve balance. In the first

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few years after the recession, the increase in net debt was primarily due to the deficit.

Approximately 61 per cent of the increase in net debt from 2008–09 to 2016–17 was due to the deficit, with net investments in capital assets responsible for the balance.

With balanced budgets, from 2017-18 onwards, the increase in net debt will be exclusively from investments in capital assets. In addition, the government is investing in public infrastructure which is vital to growing the economy and ensuring a high quality of life, whether people live in large, small, urban, northern or rural Ontario communities. Every $1 spent on public infrastructure can increase GDP by up to $6 in the long term.The balanced budget is giving the government the fiscal flexibility to do more to help people and spur economic growth.

- **Financial Accountability Office of Ontario**

30. The Financial Accountability Office (FAO) just released a commentary saying your balanced budget is in question because it's based on optimistic revenue forecasts. Will you decrease spending or increase taxes to make up for this potential shortfall?

The government stands by the revenue forecast presented in the 2017 Budget. As recently presented in the 2017-18 First Quarter Finances, revenues are on track and the government is continuing to project a balanced budget in 2017-Taxation revenue growth projected in the 2017 Budget aligns with growth actually experienced in recent years.

The government builds prudence into its economic forecast. Since the time of the 2017 Budget, private sector forecasters have revised up their economic growth projections for Ontario over the 2017-20 period, reflecting the strength in the Ontario economy.

31. The FAO's commentary released on September 6, 2017 says that Ontario's debt reduction commitment is based on unrealistic assumptions. How do you respond?
(Top Media Question - updated September 6, 2017)

The government made a commitment in the 2010 Budget to balance and eliminate the deficit by 2017-18. Since then, the government has reduced the deficit from its peak in 2009-10 of $19.3 billion, to a projected $1.5 billion in 2016-17 and a projected balanced Budget in 2017. Furthermore, the government consistently overachieved on its deficit targets and forecasts for net debt-to-GDP.

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The government's track record therefore provides evidence of fiscal discipline and the likelihood of achieving on-going balanced budgets in the future.

With respect to capital spending, approximately 61 per cent of the increase in net debt from 2008–09 to 2016–17 was due to the deficit, with net investments in capital assets responsible for most of the balance. Infrastructure expenditures do not therefore have as large an impact on net debt as that of a balanced budget.

Moreover, additional capital investment in the latter half of the next decade will stimulate the economy. A recent report from the Centre for Spatial Economics confirms that over the long term, real GDP in Ontario increases by $6 for every dollar of public infrastructure spending. This stimulus in GDP may help to offset the effects of an aging population and slower growth in the labour force and maintain the 4% average GDP growth required to bring net debt to GDP down to 27% in 2029-30.

- **The Fraser Institute**

32. How do you respond to the August 3, 2017 Fraser Institute report that criticizes the Province's plan to reduce the debt burden as "wishful thinking"?

The rate of increase of the Province's net debt is anticipated to be below that of its GDP, due to a combination of balanced budgets and appropriate levels of capital investments. These investments also contribute to the Province's GDP growth as affirmed by the Centre for Spatial Economics which reported recently that, over the long term, real GDP in Ontario increases by $6 for every dollar of public infrastructure spending.

In later years, the rate of increase in net debt is expected to be lower than that of GDP due a combination of balanced budgets and investments in capital assets that will contribute to GDP growth, allowing the government to realize its net debt to GDP target of 27 per cent by 2029-30.

- **Most Indebted Subsovereign, Future Generations**

33. This government has a spending problem and Ontario is now the most indebted sub-sovereign borrower in the world. Why should we trust your plan?

With a growing economy and a balanced budget, this is the time to make investments in key services that matter most to people, like health care and education, while at the same time lowering costs for necessities like electricity and child care.

Ontario is on track to balance the budget this year while making investments in the programs and services people and families rely on most. This year and last,

Ontario's debt-to-GDP ratio has improved from 39.6 per cent in the 2016 budget, to a forecasted 37.8 per cent in 2016-17, and it continues to track downward.

Our plan is also helping to grow the economy, with the largest investment in public infrastructure in the Province's history — more than $190 billion over 13 years starting in 2014-15. New schools, hospitals and transit projects are improving quality of life and creating jobs in communities across Ontario.

Supporting ongoing economic growth is a top priority and we are encouraged by the influx of many innovative and dynamic businesses that are investing across the Province, bringing good jobs, higher wages and greater prosperity to our communities. We will continue to implement our balanced plan to build a healthy and sustainable economy for all of Ontario.

34. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan and your failure to address the Province's growing debt. How do you respond?

With a growing economy and a balanced budget, this is the time to make investments in key services that matter most to people, like health care and education, while at the same time lowering costs for necessities like electricity and child care.

Over the last decade the government has rebuilt our electricity transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our electricity system is being transformed – more than $50 billion has been invested to modernize the system.

We have heard from people across the Province that the price of electricity has risen too quickly, which is why our plan will ensure costs are shared more fairly over the years ahead.

As Ontario invested in renewing our electricity system, the government invested in many new generating facilities, most of which operate under 20-year contracts. Some of these generators are expected to provide value to the electricity system beyond their contract lives. There is an opportunity to recognize the long-term benefit of these assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.

To relieve the current burden on ratepayers and share costs more fairly, a portion of the Global Adjustment (GA) is being refinanced. Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

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In the early years, a portion of the costs covered by the GA is being refinanced to reduce pressure on today's electricity ratepayers. In later years, the cost of refinancing will be recovered from ratepayers.

With respect to debt, we remain committed to reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023–24.

- **Revenue**

35. How much money did you bring in in 2016-17?

Provincial revenues increased by $4.6 billion, or 3.4 per cent over the previous year. This increase was due in part to nominal GDP growth of 4.6 per cent in 2016, which contributed to higher taxation revenues. There were also higher transfers from the federal government – including the Canada Health Transfer, Canada Social Transfer and funding for infrastructure projects.

Taxation revenues were $2.5 billion, or 2.8 per cent higher-than-projected in the 2016 budget. Corporate tax revenues were $2.8 billion higher. This was due to stronger-than-expected revenues from tax returns. Sales tax revenues were $0.8 billion higher, due to Ontario's larger share of the HST, and the strong housing market contributed $0.7 billion more in land transfer tax revenues.

Transfers from the Government of Canada were $0.6 billion lower than the 2016 Budget forecast. This was mainly due to lower-than-expected funding for infrastructure projects and other payments for government agencies, hospitals, school boards and colleges. This decline was partially offset by new transfers under the strategic investment fund for affordable housing and post-secondary education and training.

Fees, donations and other revenues from broader public sector organizations were $0.6 billion higher than the budget forecast, mainly due to higher-than-expected revenues from non-provincial sources for hospitals, and higher international tuition fees.

- **Asset Sales**

36. One-time asset sales are a way to bring in money, but isn't this burning the furniture to heat the house when it comes to a long-term revenue strategy?

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We are committed to dedicate net revenue gains from the sale of designated assets to the Trillium Trust, which is helping to fund transit, transportation and other key infrastructure projects across Ontario.

The government has already credited the Trillium Trust with $1.35 billion from the sale of Ontario's shares in General Motors along with $3.96 billion from the sale of Hydro One shares and the sale of the LCBO head office lands. In addition, the sale of the government's interest in Hydro One Brampton Networks Inc. resulted in a gain on sale recognized in 2016-17 of $109 million. The government has committed to crediting the net proceeds from the sale of Hydro One Brampton to the Trillium Trust.

See section: Trillium Trust for more information.

- **Transfers from the Federal Government**

37. Transfers from the federal government were lower than expected. Aren't you banking on another entity to get your fiscal house in order?

The Government of Ontario, like all Provinces in Canada, receives funding from the federal government. These transfers are done on an ongoing basis to help provide programs and services.

Transfers from the Government of Canada were lower than the 2016 Budget forecast by $0.6 billion. This was mainly due to lower-than-expected funding for infrastructure projects and other federal payments including transfers to government agencies, hospitals, school boards and colleges. This decline was partially offset by new transfers under the strategic investment fund for affordable housing and post-secondary education and training.

- **Revenue from International Tuition Fees**

38. International tuition fees helped the Province's bottom line but isn't this on the backs of young people who want to learn here?

Ontario is focused on attracting top talent from around the world that will enhance student learning, increase economic viability, and support growth of a highly skilled workforce.

International education enriches the academic, social and cultural life of our colleges and universities, from classrooms to research laboratories, and creates stronger ties between Ontario and other global jurisdictions.

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Ontario welcomes the talent and energy that international students bring to the province. Many international students are future Canadians, who choose to stay and build on their experiences and education here in Ontario.

Over the past five years, international student enrolment in Ontario grew by 87% overall, 70% in public universities and 118% in public colleges.

In 2016-17, there were 98,685 full-time international students from more than 175 countries studying at publicly-assisted institutions in Ontario. This represented a 16% growth over the last academic year.

The province is developing a comprehensive and sustainable international strategy that builds on the strengths of our postsecondary system, reinforces our reputation for quality, and makes Ontario a welcoming destination and partner of choice.

For further questions, I direct you to contact my colleague at the Ministry of Advanced Education and Skills Development.

- **Program Spending**

39. Program spending increased again this year. Why?
(Top Media Question - updated September 5, 2017)

Program spending in 2016-17 was $141.7 billion, down $0.1 billion from the 2016 Budget. Average annual growth of total government spending has been held to 2.3 per cent for the past five years.

Healthcare represents the largest share of government program spending at $56 billion. Transformation efforts continue to make the sector more effective and sustainable while continuing to improve access for patients, especially the increased demands from an aging and growing population. The government has invested in new drugs, technologies, community and home care, long term care homes, mental health, physicians' services and specialized cancer treatments.

Other areas of government investment include:

- $26.6 billion in education, mainly due to the introduction of full-day kindergarten;
- $16 billion in children's and social services, due to increased annual social assistance rates as well as investments in developmental services, autism and complex special needs programs, as well as the Ontario Child Benefit;

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- $10.1 billion in post-secondary and training, due to enrolment growth in colleges and universities along with increased student financial assistance programs and increases in capital funding for post-secondary institutions;
- $4.6 billion in justice sector expenses due mainly to the upload of court security costs from municipalities, compensation for the Ontario Provincial Police and correctional services programs, as well as improved access to legal aid.

40. You finally balanced the budget and now you're spending more on expensive election promises like free pharmacare for children and youth 24 and younger. Why aren't you paying down debt instead?

With a growing economy and a balanced budget, this is the time to make investments in key services that matter most to people, like health care and education, while at the same time lowering costs for necessities like electricity and child care.

Providing more access to vital services isn't just an investment in our future. It's the right thing to do.

• Credit Rating

41. Does a qualified opinion impact the Province's credit rating?
(Top Media Question - updated September 5, 2017)

The Province's financial results show that the government has once again beaten its annual deficit targets. In April 2017, we delivered our first balanced budget since the global recession and we are on track to do so again next year and the year after.

The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the Province. However, there were no credit rating implications in 2016 when the Province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

42. What do you say to the credit rating agencies that have highlighted provincial debt as an area of credit weakness?

As recently presented in the 2017-18 First Quarter Finances, we continue to project a balanced budget in 2017-18, unchanged from the 2017 Budget.

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With stronger-than-expected first quarter economic growth and the government's responsible approach to fiscal management, we can continue to invest in programs and services that help people across the Province.

Ontario's economy continues to grow at a steady pace despite an uncertain global environment. Most key economic indicators show that growth continues in the second quarter. Our plan is working.

We remain committed to reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023–24.

43. What is your credit rating as it stands today?

Following the release of the 2017 Budget, all four rating agencies have confirmed Ontario's long-term credit ratings. This reflects rating agencies' confidence in our government's plan to grow Ontario's economy and create jobs for Ontarians.

If pressed:
Ontario's ratings are:

	Long-Term	Short-Term
Moody's:	Aa2	P-1
DBRS:	AA (low)	R-1 (mid)
Fitch:	AA-	F1+
Standard and Poor's:	A+	A-1

- **C.D. Howe Institute**

44. Why does the C.D. Howe Institute weigh in on the government's fiscal situation?

The C.D. Howe Institute is an independent not-for-profit research institute that supports economically sound public policies. It is widely considered to be Canada's most influential think tank and is a trusted source of essential policy intelligence, distinguished by research that is nonpartisan, evidence-based and subject to definitive expert review.

Each year the C.D. Howe Institute produces a report on its assessment of the fiscal planning and reporting practices of senior Canadian governments. The institute observes that financial reports are a vital tool for understanding

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governments' plans and activities.

We consider reports like the C.D. Howe's Fiscal Accountability of Canada's Senior Governments important because they are written by independent experts. Studies such as this are essential for governments to continuously assess and improve their financial planning and reporting.

Trillium Trust

45. What is the Trillium Trust?

The Trillium Trust provides for the dedication of prescribed net revenue gains from the sale of designated assets to support key infrastructure priorities, such as roads, bridges and public transit.

The Trillium Trust Act, 2014 requires that all expenditures made under the act to support infrastructure investments are to be reflected in the Public Accounts.

Designated assets include the Province's shares of Hydro One and Hydro One Brampton, as well as the LCBO head office lands, the OPG head office building and the Lakeview lands.

The Trillium Trust was drawn down by about $260 million in 2016-17. We expect the Trillium Trust to be drawn down by about $400 million in 2017–18.

The Ministry of Finance shows spending out of the Trillium Trust, with amounts to ministries delivering projects that have received support from the trust reflected in this year's Public Accounts. These figures are included in Volume 1 of Public Accounts.

The funding will help support initiatives, such as GO Regional Express Rail (GO RER), the Hurontario Light Rail Transit (LRT) and the Ontario Community Infrastructure Fund (OCIF).

46. The Public Accounts show a drawdown of $260 million from the Trillium Trust. What did you spend the money on?
(Top Media Question - updated September 5, 2017)

The government began allocating proceeds from the Trillium Trust in 2016-17 to help support infrastructure initiatives such as GO Regional Express Rail (GO RER), the Hurontario Light Rail Transit (LRT) and the Ontario Community Infrastructure Fund (OCIF).

DRAFT

We expect the Trillium Trust to be drawn down by about $400 million in 2017–18.

Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to $6 on average per one dollar of public infrastructure spending.

47. How much is currently in the trust?

The balance of the Trillium Trust as of March 31, 2017, was $5.05 billion.

This reflects an opening balance of $1.35 billion; $3.96 billion credited to the Trillium Trust in 2016–17 from the sale of Hydro One Limited shares and the sale of the LCBO head office lands; and $0.26 billion in expenditures from the Trillium Trust in 2016–17 toward investments in infrastructure.

Like most large infrastructure investments, initial spending on projects is focused on planning, design, property acquisition and other activities to get projects construction-ready.

As this preliminary work is completed and construction activity gets underway, further project requirements will be identified that will be funded from the Trillium Trust in subsequent years.

The government is committed to investing the full amount from the Trillium Trust to support transit, transportation and other priority infrastructure.

48. If the Province raised about $2 billion in the secondary offering of Hydro One shares in 2016, why was only $538 million credited to the Trillium Trust?

The *Trillium Trust Act, 2014*, provides for the dedication of net revenue gains to the Trillium Trust associated with the sale of designated assets to support investments in transit, transportation and priority infrastructure across the Province.

The net revenue gains credited to the Trillium Trust from the secondary offering of Hydro One shares are derived from the gross proceeds, less fees/expenses incurred and less the book value of the shares sold, not including the shares purchased by OPG.

DRAFT

The government will move forward with regulations to credit the Trillium Trust with the net revenue gains from the shares purchased by OPG in the future.

The Province also used the $1.3 billion in proceeds related to the book value of the Hydro One shares sold to pay down the Province's debt and other payables with the Ontario Electricity Financial Corporation (OEFC).

Through the broadening of Hydro One ownership, the Province is meeting its target to generate $4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and $5 billion to reduce debt.

Digital Tools/Open Government

49. What is the government doing to be transparent in regards to Public Accounts?

As part of our commitment to openness and transparency, we are using data visualization tools to help Ontarians better understand the Province's finances.

This year's tools are available at Ontario.ca/publicaccounts and include:

- Interactive data visualization tools that graphically present details on asset and expense information contained in Volume 1;
- Fully sortable data tables that summarize the financial statements from Volume 2, and the detailed scheduled payments from Volume 3; and
- Downloadable open data sets that provide the five-year trend for government revenue by source, revenue by sector, and statement of operations. This year's total number of open data downloads is 11, up from five last year.

These tools help make the Province's finances easier to understand, access and use, and are part of Ontario's commitment to creating a more open and transparent government.

50. How does this help the average Ontarian?

The more information we can provide to Ontarians about where their tax money is going, the better. That is why the government is providing new digital tools online to help Ontarians better understand their government's finances.

DRAFT

For example, our downloadable data sets provide a more accessible view of the information in Public Accounts. Volume 2 itself is three parts and over 1,200 pages. Instead of having to review those 1,200 pages, now that same information is available in one downloadable and sortable table.

Presenting the Public Accounts data in innovative, visual formats is part of Ontario's commitment to to creating a more open and transparent government.

51. What are Open Data sets?

The Ontario government is committed to leading the most open, transparent, and accountable government in the country. Public access to information and opening up government data supports this commitment. Ontario is the first province in Canada to adopt the International Open Data Charter.

The International Open Data Charter contains a set of six principles that will build on Ontario's open by default data policy to increase civic participation, openness and accountability.

DRAFT

Ontario

NEWS

Treasury Board Secretariat

Ontario Releases 2016-17 Public Accounts

Province Balancing the Budget This Year, Helping Families Get Ahead

September 7, 2017

NEWS

Today the province released the Public Accounts of Ontario, showing that Ontario's deficit for last year was $991 million—$3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget.

This is a result of growth in revenue that exceeded growth in program expense, and lower than forecast interest on debt.

Ontario is on track to balance the budget this year, in 2017-18, while making investments in the programs and services people and families rely on most.

Other highlights from this year's Public Accounts include:

- Economic growth, with a 2.7 per cent increase in real gross domestic product (GDP), up from 2.2 per cent projected in the 2016 Budget
- Total revenue of $140.7 billion, up $2.2 billion from the 2016 Budget projection
- Total spending of $141.7 billion, down $0.1 billion from the 2016 Budget projection
- Interest on debt of $11.7 billion, down $0.7 billion from the 2016 Budget projection

Once again, the government is providing new digital tools online to help people better understand their government's finances. Presenting the Public Accounts data in innovative visual formats, and releasing more data through Ontario's Open Data Catalogue, is part of Ontario's commitment to Open Government.

Responsibly managing the province's finances is part of our plan to create jobs, grow our economy and help people in their everyday lives.

QUOTES

"For eight years in a row, we have beaten our annual deficit target. We will continue to build on our track record of responsible fiscal management by balancing the budget in 2017-18. At the end of the day, a balanced budget means more funding for the programs and services people and families rely on most."
— Liz Sandals, President of the Treasury Board

"Ontario is on track to balance the budget in 2017-18. We have once again exceeded our fiscal targets by reducing the deficit by $3.3 billion lower than originally projected in the 2016 Budget. Thanks to the hard work of the people of Ontario, we are leading Canada in economic growth while investing in programs like free tuition and free pharmacare for children and youth. With a balanced 2017 Budget, we will continue to build a stronger, healthier Ontario."
— Charles Sousa, Minister of Finance

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QUICK FACTS

- Ontario’s annual deficit fell from a peak of $19.3 billion in 2009-10 to $991 million in 2016-17.
- Average annual growth of total government spending has been held to 2.3 per cent over the past five years.
- Over the last three years, Ontario’s GDP growth has outpaced that of all G7 countries.
- The 2016-17 Public Accounts compare Ontario’s actual financial performance to what was planned in the 2016 Budget.
- Treasury Board Secretariat prepares Public Accounts in accordance with independently established standards set out by the Public Sector Accounting Board. Ontario’s Auditor General reviews the Public Accounts against these standards and provides an opinion on the province’s adherence to them.
- The province's professional accounting staff and the Auditor General's Office use a different interpretation of public sector accounting standards for net pension assets and recognition of market accounts. The province continues to work with the Auditor General to build on the government’s track record of responsible fiscal management and high quality financial reporting.

BACKGROUND INFORMATION

- Accounting Changes to Ontario’s Financial Statements

ADDITIONAL RESOURCES

Watch the “Public Accounts 101” video

Public Accounts of Ontario 2016-17

Understanding Ontario’s Budget cycle

Read the 2016 Budget

Explore the more than 500 open data sets in the Open Data Catalogue

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Matt Ostergard, Minister’s Office, 416-326-3839
Bryant Sullivan, Communications, 416-325-1378

ontario.ca/news
Disponible en français

Ontario

BACKGROUNDER

Treasury Board Secretariat

Accounting Changes to Ontario's Financial Statements

September 7, 2017

Treasury Board Secretariat prepares the Public Accounts according to the accounting principles for governments issued by the Public Sector Accounting Board (PSAB). When preparing this year's Public Accounts, Ontario implemented accounting changes to further enhance accountability and transparency. To ensure consistency in year-to-year comparisons, financial statements from previous years have been restated, as needed, to reflect the following changes:

Accounting for net pension assets of jointly sponsored pension plans

In 2016-17, the province is reporting the net pension assets for two of its jointly sponsored pension plans, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP). Until the 2015-16 Public Accounts, Ontario had recognized pension assets in its financial statements since 2001.

In preparing the 2015-16 Public Accounts, the province's professional accounting staff and the Auditor General's office engaged in discussions on the appropriate application of PSAB pension accounting standards for the province's two jointly sponsored pension plans. An independent Pension Asset Expert Advisory Panel (PAEAP) was subsequently established to deliver advice and recommendations to the province.

After careful study, the independent panel members released their report. It concluded that the province's share of the net pension assets of both OTPP and OPSEUPP should be recognized in Ontario's financial statements.

After significant deliberation, including considering PAEAP's recommendations, Ontario confirmed that the accounting used for these pension plans prior to 2015-16 was appropriate, and in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these net pension assets and the 2015-16 financial statements have been restated to include them.

Accounting for the Independent Electricity System Operator

The Independent Electricity System Operator (IESO), like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. For the 2016-17 reporting year, the IESO began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end.

PSAB standards are silent on the use of market accounts. In such cases, the standards encourage preparers and auditors to consider guidance in other accounting frameworks when accounting for transactions not specifically addressed by the specific standards.

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This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. Further, before the Ontario Power Authority (OPA) merged with IESO in 2015, the OPA used the same accounting presentation in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

IESO has also adopted rate-regulated accounting for its year ending December 31, 2016. This decision was made because using rate-regulated accounting better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO highlighted these changes in their recent annual report. These changes are supported by the IESO's independent external auditor, which issued an unqualified audit opinion.

Accounting for hospitals, school boards and colleges

To increase transparency, the 2016-17 Public Accounts are presenting third-party revenues for hospitals, school boards and colleges with provincial revenue. Third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, were netted against the respective sectors' expenses in prior years. This change is fiscally neutral and does not impact the province's annual deficit, net debt, or accumulated deficit. This change is consistent with PSAB standards and the reporting practices of other senior Canadian governments.

Accounting for energy sector government business enterprises

In the 2016-17 Public Accounts, the financial results of Ontario's investments in Hydro One and OPG are reported using International Financial Reporting Standards. Previously, these results were reported using generally accepted accounting principles in the United States. This change was made to meet PSAB requirements. The change does not have a material impact on this year's financial statements.

Matt Ostergard, Minister's Office, 416-326-3839
Bryant Sullivan, Communications, 416-325-1378

Ontario

MEDIA ADVISORY

Treasury Board Secretariat

President of the Treasury Board and Minister of Finance to Release Ontario's 2016-17 Public Accounts

September 6, 2017

Liz Sandals, President of the Treasury Board and Charles Sousa, Minister of Finance will make an announcement regarding Ontario's 2016-17 Public Accounts.

Prior to the announcement, a technical briefing will be held with officials from Treasury Board Secretariat and the Ministry of Finance. They will be joined by Uros Karadzic, former member of the province's Pension Asset Expert Advisory Panel.

Date: Thursday, September 7, 2017

Time: 1:00 p.m. Technical briefing
1:45 p.m. Ministers' media availability

Location: Huron Room
Macdonald Block
900 Bay St.
Toronto

Matt Ostergard, Minister's Office, 416-326-3839
Bryant Sullivan, Communications, 416-325-1378

From:	Hartog, Erika (TBS)
To:	Boafoa Kwamena (MOI); William Bromm (CAB); Karen Hughes (MGS); Veinot, Cindy (TBS); Mark Donaldson (MOF); Scott Thompson (CAB); Tim Schuurman (MOF); Gadi Mayman; Ken Kandeepan; Serge Imbrogno (ENERGY); Steen Hume (CAB); HARTWICK Ken -FINANCE; john.mauti@opg.com; Kim.Marshall@ieso.ca; "peter.gregg@ieso.ca"
Subject:	FW: Public Accounts Committee: Hearings on Chapter 2, 2017 Annual Report
Date:	Wednesday, February 14, 2018 3:26:46 PM
Attachments:	Response to Clerk_SCOPA_Signed.pdf Status Table_Ch 2 of AG AR_SCOPA_20180213 - final.docx

Good afternoon,

The response to the clerk of the committee for SCOPA has been sent. Please find the email below for your reference.

Thank you,

Erika

From: Hartog, Erika (TBS) **On Behalf Of** Angus, Helen (TBS)
Sent: February-14-18 3:10 PM
To: 'comm-publicaccounts@ola.org'
Cc: 'ernie.hardemanco@pc.ola.org'; bonnie.lysyk@auditor.on.ca; Skoberne, Vivienne (TBS)
Subject: Public Accounts Committee: Hearings on Chapter 2, 2017 Annual Report

Treasury Board Secretariat

Deputy Minister, Treasury Board
Secretary of Treasury Board and
Management Board of Cabinet

Room 5320, Whitney Block
99 Wellesley Street West
Toronto, ON M7A 1A1
Tel.: 416-325-1607
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Secrétariat du Conseil du Trésor

Sous-ministre, Conseil du Trésor
Secrétaire du Conseil du Trésor et du
Conseil de gestion du gouvernement

Édifice Whitney, bureau 5320
99, rue Wellesley Ouest
Toronto (Ontario) M7A 1A1
Tél. : 416 325-1607
Téléc. : 416 325-1612

February 14, 2018

Katch Koch
Clerk of the Committee
Procedural Services Branch
Legislative Assembly of Ontario
99 Wellesley Street West, Room 1405
Toronto, ON M7A 1A2

Dear Mr. Koch,

I am writing in response to your letter dated December 20, 2017, regarding the review of Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario) by the Standing Committee on Public Accounts.

The following individuals will be accompanying me to the hearings scheduled on Wednesday,

February 28, 2018, from 12:30 p.m. to 3:00 p.m.:

Cabinet Office
- Steve Orsini, Secretary of the Cabinet

Treasury Board Secretariat
- Karen Hughes, Associate Deputy Minister, Treasury Board Secretariat
- Cindy Veinot, Assistant Deputy Minister and Provincial Controller, Treasury Board Secretariat
- Mark Donaldson, Director, Office of the Provincial Controller, Treasury Board Secretariat

Ministry of Finance
- Scott Thompson, Deputy Minister, Ministry of Finance
- Tim Schuurman, Assistant Deputy Minister, Ministry of Finance
- Gadi Mayman, Chief Executive Officer, Ontario Financing Authority, Ministry of Finance
- Ken Kandeepan, Chief Financial and Risk Officer, Ontario Financing Authority, Ministry of Finance

Ministry of Energy
- Serge Imbrogno, Deputy Minister, Ministry of Energy
- Steen Hume, Assistant Deputy Minister, Ministry of Energy
- Ken Hartwick, Chief Financial Officer and Senior Vice President Finance, Ontario Power Generation
- John Mauti, Vice President, Chief Controller and Accounting Officer, Ontario Power Generation
- Peter Gregg, President and Chief Executive Officer, Independent Electricity System Operator
- Kimberly Marshall, Vice President, Corporate Services and Chief Financial Officer, Independent Electricity System Operator

In addition, please find enclosed a copy of the summary status table in response to Chapter 2 – 2017 Annual Report of the Office of the Auditor General.

Please feel free to contact me or Vivienne Skoberne, Director of Operations at 416-325-9084 or Vivienne.Skoberne@ontario.ca if you require further information.

Sincerely,

Original signed by

Helen Angus
Deputy Minister, Treasury Board Secretariat and
Secretary of Treasury Board and Management Board of Cabinet

c: Ernie Hardeman, MPP, Chair of the Committee
Bonnie Lysyk, Auditor General
Vivienne Skoberne, Director of Operations, Treasury Board Secretariat

Treasury Board Secretariat

Deputy Minister, Treasury Board
Secretary of Treasury Board and
Management Board of Cabinet

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Sous-ministre, Conseil du Trésor
Secrétaire du Conseil du Trésor et du
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Tél. : 416 325-1607
Téléc. : 416 325-1612

Ontario

February 14, 2018

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Legislative Assembly of Ontario
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- Ken Kandeepan, Chief Financial and Risk Officer, Ontario Financing Authority, Ministry of Finance

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Ministry of Energy

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Sincerely,



Helen Angus
Deputy Minister, Treasury Board Secretariat and
Secretary of Treasury Board and Management Board of Cabinet

c: Ernie Hardeman, MPP, Chair of the Committee
Bonnie Lysyk, Auditor General
Vivienne Skoberne, Director of Operations, Treasury Board Secretariat

Summary Status Table in Response to the Report of the Auditor General of Ontario

Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and (c) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables,	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

	including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Governments have the legal authority to engage external professionals on the wide range of legal, policy and financial issues that fall within their executive authority. It is also widely recognized that a government is entitled to a zone of confidentiality in which to consider this advice before any final decision is made. This is with the full understanding that ultimately the government will be accountable to the public and the Legislature for its decisions. Part of that accountability includes a commitment to full cooperation with any Officer of the Assembly legally authorized to review and comment on the government's actions, including the disclosure of any documents the officer is entitled to receive as part of his or her work. Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*	analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	

their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:* • *Remove market*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

accounts recorded on its financial statements; and • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which states: "The Auditor*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of the legislation, would have been collected from	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

	specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%. The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio. The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining from its 2014-15 peak of 39.3%.	Continue to monitor progress.

	As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and personal income tax*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
AG Recommendation #10 *We recommend that the government determine when it will issue a*	Under the *Fiscal Transparency and Accountability Act*, 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline established by regulation. Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to determine	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.	whether it is reasonable and issue a Statement describing the results of the review. Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General of Ontario to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.	

From:	Ken Kandeepan on behalf of Veinot, Cindy (TBS)
To:	John Psinas; Karen Hughes (MGS); Maria Duran-Schneider (MOF); Arruda, Artur (TBS); Marc Rondeau (MGS); Tim Schuurman (MOF); Sriram Subrahmanyan (MOF); Brian Lewis (MOL); Gadi Mayman; Ken Kandeepan; Bryant Sullivan (MAG); Dianne Lone (MOF); Sofie DiMuzio (MGS); Ronald Kwan; Nadine Petsche (MOF); Bharat Patel (MOF); Alicia Sun (MOF); Nelson Tam (MET)
Cc:	Hilary Considine (MOF); Hosick, Sarah (TBS); Patrick Laughton (MOF); Nina Arbabzadeh (EDU); Birks, Ryan (MOF); Katerina Tsirtsimpis (MGS); Patel, Lesley (MOF); Ghufran Tarin (MOF); Anna Strathy; Gary Wuschnakowski (MOF); Joe Liscio (MOF); Helen Graham (MOF); Bruce Foster (MOF); Inglis, Liane (MOF); Craig Stewart (MTCS)
Subject:	FW: Public Accounts Steering Committee
Attachments:	Agenda - Public Accounts Steering Committee - June 13, 2017.docx PA Production Calendar Jun 5.docx Public Accounts Steering Committee - Meeting 1 - June 13 2017F.PPTX

Hi John

You may want to join me for this if you are available.

Thanks

Ken K

-----Original Appointment-----
From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: Wednesday, May 31, 2017 3:10 PM
To: Veinot, Cindy (TBS); Karen Hughes (MGS); Maria Duran-Schneider (MOF); Arruda, Artur (TBS); Marc Rondeau (MGS); Tim Schuurman (MOF); Sriram Subrahmanyan (MOF); Brian Lewis (MOL); Gadi Mayman; Ken Kandeepan; Bryant Sullivan (MAG); Dianne Lone (MOF); Sofie DiMuzio (MGS); Ronald Kwan; Nadine Petsche (MOF); Bharat Patel (MOF); Alicia Sun (MOF); Nelson Tam (MET)
Cc: Hilary Considine (MOF); Hosick, Sarah (TBS); Patrick Laughton (MOF); Nina Arbabzadeh (EDU); Birks, Ryan (MOF); Katerina Tsirtsimpis (MGS); Patel, Lesley (MOF); Ghufran Tarin (MOF); Anna Strathy; Gary Wuschnakowski (MOF); Joe Liscio (MOF); Helen Graham (MOF); Bruce Foster (MOF); Inglis, Liane (MOF); Craig Stewart (MTCS)
Subject: Public Accounts Steering Committee
When: Tuesday, June 13, 2017 2:00 PM-3:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: Corporate Boardroom, 6th Floor, Frost North, 7 Queen's Park Cres

* Update June 12, 2017: Materials attached.

For guests who do not have access to Frost Complex: Please use the entrance located at 7 Queen’s Park Crescent, Frost South. Upon arrival, please register with the OPP at the security desk to obtain a visitor pass and call Shannon Jack at 416-327-2727 for access to the boardroom.

Agenda

Office of the Provincial Controller Division

Public Accounts Steering Committee

Date: 13/06/2017
From: 2:00 to 3:00 pm
Location: Corporate Boardroom, 6th Floor, Frost North, 7 Queen's Park Cres

Topic	Lead
Welcome	Cindy Veinot
Public Accounts Process	Nadine Petsche
Production Calendar Overview	Nadine Petsche
Next Steps	Cindy Veinot

Additional Information:

For guests who do not have access to Frost Complex: Please use the entrance located at 7 Queen's Park Crescent, Frost South. Upon arrival, please register with the OPP at the security desk to obtain a visitor pass and call Shannon Jack at 416-327-2727 for access to the boardroom.

May 2017

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17 **PA kick off Production planning Meeting @10am**	18	19	20
21	22 **- Holiday -**	23	24	25	26	27
28	29	30	31 **Production Meeting @10am**			

June 2017

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
				1	2	3
4	5 DM Meeting	6	7 DM Briefing (Public Account Planning Process)	8	9 1st Draft to BudSec for formatting (FSD&A)	10
11	12	13 1st Public Accounts Steering Committee (PA Planning)	14 Production Meeting @10am Joint DMO/MO Public Accounts Briefing	15	16	17
18	19 2nd status meeting with DM/AG	20 Ministry Sign-off Vol. 1-Section 2 (APFR) (other than those with late adjustments, post year end TBOs)	21	22	23	24
25	26 Ministry Sign-off Vol. 3 (APFR)	27	28 Production Meeting @10am	29	30	

July 2017

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
						1
2	3 **- Holiday -**	4	5 **Production Meeting @10am** Finalize Covers with MO (TBS Comms)	6 2nd PA Steering Committee (preliminary consolidated expenses)	7	8
		Input from Integrated Team for FSD&A - Variance Analysis				
9	10 Send Vol.1 & 3 Printer's Proof to Ministries for Sign-Off (APFR) Joint DMO/MO Briefing (preliminary consolidated expenses)	11 **1st DISTRIBUTION FSD&A (expenses only)**	12 **Production Meeting @10am** Meeting with AG re: PA Technical issues	13	14	15
16	17 Receive Ministries' Sign-off for Vol. 1 & 3 Printer's Proof (APFR) Share Volume 1, 2 & 3 PDF copies to TBS Comms	18 **2nd DISTRIBUTION (FSD&A)** 3rd Status meeting with DM/AG	19 **Production Meeting @10am**	20	21	22
23	24	25 Vol. 3 to Printer	26 **Production Meeting @10am**	27 Draft Volume 1 to AG Share draft FSD&A & CFS with AG (APFR) Final tax numbers (PIT) to AG	28 Vol. 1 to printer (TBD)	29
30	31					

August 2017

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
		1 Feedback from AG due for FSD&A & CFS (APFR) Associate DM Briefing (TBD) Input from OEP – Revenue Related Variance Analysis	2 **Production Meeting @10am**	3 Joint MO Briefing – TBS & MOF (TBD) 3rd PA Steering Committee (preliminary expense and revenue) Submit 2 letters (for LGIC & Clerk) to MO for Minister's signature (APFR)	4 **3rd DISTRIBUTION FSD&A (both Rev and Expense)**	5
6	7 **- Holiday -**	8 Receive DRAFT Forward from MO (TBC) Distribution of Communications (SC, IMMR)	9 **Production Meeting @10am** **4th DISTRIBUTION FSD&A for Manager/Director Sign-off (Tentative)**	10 Vol. 2 to Printer Provide AG with Prelim Draft AR with actual financial results and Draft Forward Meeting with AG re Technical Accounting issues	11 **Manager/Director sign-off**	12
13	14 **5th DISTRIBUTION FSD&A For ADM Sign-off** Distribution of Communications products (SC, IMMR)	15 **ADM sign-off**	16 **Production Meeting @10am** **FPC (TBC)**	17 **6th DISTRIBUTION FSD&A (post ADM sign-off)**	18 **AG sign-off** **Provide to OAG – English & French (CFS/FSD&A)**	19 DM/MO Review (weekend)
20	21 **DM/MO sign-off (FSD&A)**	22 4th status meeting with DM/AG TBS/CAB	23 **Production Meeting @10am**	24 **LGIC (on or before tabling date)**	25	26
27	28 **Target Release Date (TBD)**	29	30	31	Tracking dates: CAB – Aug 17th and Aug 30th	

September 2017

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
					1	2
3	4 **- Labour Day -**	5	6	7	8	**9**
10	11	12	13	14	15	16
17	18	19	20	21	**22**	23
24	25	26	27 **FAA Deadline to Release Public Accounts-180th day**	28	29	30

TBS

Office of the Provincial Controller Division

Public Accounts Steering Committee
Briefing #1

June 13, 2017

Briefing Outline

- Key Public Accounts deliverables
- Consideration of other financial reporting products
- Impact of BPS line-by-line presentation
- Current accounting issues
- Key dates and considerations
- Planning timelines

Public Accounts Deliverables

1. **2016-17 Annual Financial Report, including**
   - Financial Statement Discussion and Analysis (FSD&A)
     - Discusses the Province's actual results against Budget, prior year and earlier years' actuals
     - Discusses indicators of financial condition and other information
   - Audited consolidated financial statements (CFS)
   - Management's Statement of Responsibility
     - Province's acknowledgement of responsibility for effectiveness of internal controls and the objectivity and integrity of the CFS and related notes
   - Auditor General's Audit Opinion
     - The AG's opinion that the financial statements are fairly stated
     - Expect qualified opinion for recognition of OTTP/OPSEU pension assets and inclusion of IESO regulatory assets/liabilities in the Province's financial statements
2. **Supplementary Volumes 1, 2, 3**
   - **Appendix 1** provides further details
3. **Various Communication Products**
   - News release, Q and As, briefing binders (limited distribution)

Financial Statement Discussion & Analysis

- **Purpose** – To enhance the users' understanding of the government's actual results compared to the approved Budget and prior years' results
- **Process –**
  - Identification of potential themes consistent with other public documents
  - Drafting content of FSD&A with input from stakeholders
  - To circulate drafts/extracts of FSD&A for feedback and suggestions
  - Oversight of the Public Accounts process (compilation, production, audit issues and communications) by the Public Accounts Steering Committee
  - TBS and MOF Ministers approval obtained on final version (shared with PO)
  - Streamlined distribution and sign-off process

Consideration of Other Financial Reporting Products

- Consistency of messaging and results between the Public Accounts and other financial reporting products is important, including:
  - **1st Quarter Economic Accounts (released by July 15)**
    - First public update on economy following Budget release
    - Previews messaging of 1st Quarter Finances (in-year outlook)
  - **1st Quarter Finances (released by August 15th)**
    - Signals governments performance against Budget plan
  - **Other**
    - 2017 Budget
    - Pre-Election Report

Impact of BPS Line-by-Line Presentation

- Presentation change only, which has no fiscal impact, i.e. no impact to annual deficit, net debt or accumulated deficit
- The revenues and expenses will be grossed up by the same amount of BPS third-party revenues
  - BPS direct receipt of federal transfers will be reported as revenue from Government of Canada
  - BPS fees, donations and other revenues will be reported as provincial revenue
  - Program spending of MOHLTC, EDU and MAESD will increase
  - Interest on debt (IOD) expense will increase by reflecting net interest expense on BPS debt

Impact of BPS Line-by-Line Presentation (cont'd)

- Impact to key financial indicators
  - No change to indicators related to the annual deficit, net debt or accumulated deficit
  - Favorable impact to debt charge to total revenue and net debt to total revenue
  - Program spending per capita will increase, but is expected to remain the lowest based on the restated interim results
- 2016 Budget and historical results have been restated reflecting line-by-line consolidation of BPS sectors.
- OPCD is stakeholdering with sector ministries and central agencies on the line-by-line variance analysis
  - See Appendix 2 additional details on line-by-line presentation

Current Accounting Issues

- **Pension:**
  - OPCD currently reviewing and refining adjustments related to pension plans (to impact annual deficit, opening balance sheet and net debt)
  - Awaiting feedback from OAG on pension assumptions.
  - AG has not accepted Province's position on net pension assets for OTPP and OPSEUPP and has advised that she will qualify her audit opinion for 2016-17 Public Accounts
- **Hydro Sector IFRS:**
  - OPG and H1 to be reported on an IFRS basis effective April 1/16 (AG supports)
  - Change from US GAAP to IFRS will have an estimated transitionary impact of $1.1B on the Province's opening accumulated deficit, impacting net debt
  - Change will also impact annual surplus/deficit in current and future years

Current Accounting Issues

- **Remedy:**
  - EDU update for AG planned for early June on status of negotiations
  - OPCD/EDU will monitor and track the status as potential subsequent event item
- **OMA Negotiations:**
  - MOHLTC will submit Arbitration Framework for TB approval indicating that there will be no retroactive adjustment/payout for services prior to April 1, 2017
  - OMA ratification of Arbitration Framework scheduled for mid-June 2017
  - Impact on 2016/17 Public Accounts unlikely – will continue to monitor
- **Contaminated Sites:**
  - AG VFM follow-up audit on-going
  - Grassy Narrows analysis from MOECC outstanding (AG briefing has occurred)

Key Dates & Considerations

- **Public Accounts Planning Meeting**
  - Meeting occurred between AG and Deputy Ministers of TBS and MOF to discuss audit plan and select issues (Mar. 24)
  - Updated Audit Planning Report received May 16

- **Ministers' Offices Briefings on Public Accounts** – Early June
  - To provide overview of Public Accounts process and timelines

- **Public Accounts Steering Committee Meetings** – (Jun-Aug)
  - Kickoff meeting June 13th
  - Results meetings throughout July and early August
  - Refer to Appendix 2 for composition and role of the PAS Committee

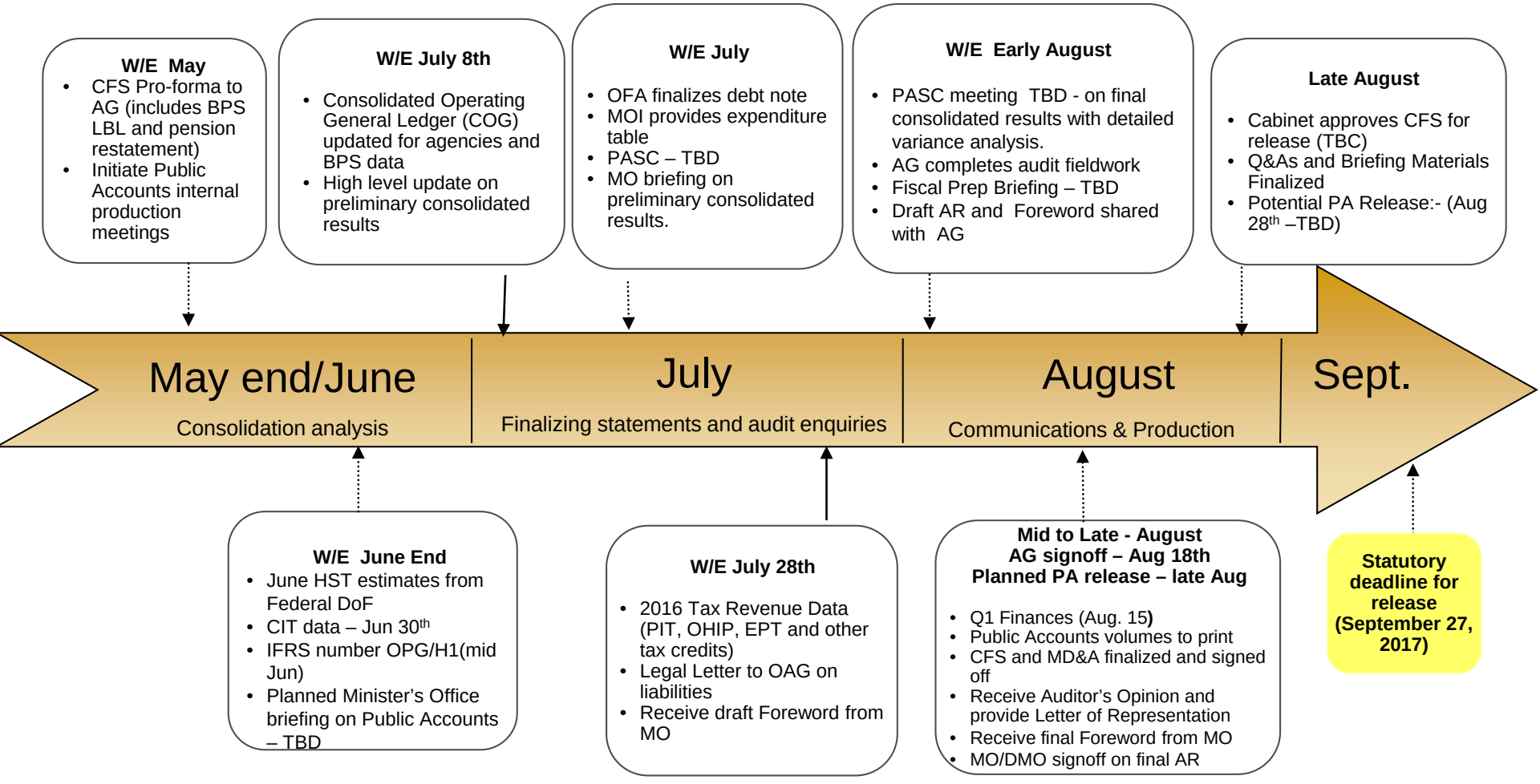
Key Dates & Considerations (cont.)

- **Fiscal Prep Committee Briefing** – mid to late August (TBD)
  - Focus on consolidated results, including variance analysis

- **Expected audit opinion date** – August 18, 2017
  - Management Representation Letter (to be signed by DM)
  - Meeting between AG and Deputy Ministers to discuss audit findings and the AG's error summary (Summary of Unadjusted Differences) after which the signed audit opinion letter will be provided

- **Release date** - Late August
  - FAA legislated release within 180 days after the fiscal year-end (September 27, 2017)
  - 2015/16 release date (Audited version of PA- Oct 6, 2016)
  - 2016/17 - tentative date for planning purposes August 28, 2017

Draft Timeline



Updates on Financial Results

- **Two update points**
  - **Mid July** – Update on preliminary consolidated results, including:
    - Consolidated actuals and preliminary deficit range
    - Actual expense by ministry with placeholders for outstanding or unresolved matters
    - Revenue by source with placeholders for outstanding tax accruals
    - Ranges of variance identified to measure risk of changes in results, including potential impacts from unresolved reporting items
  - **Late July / Early August** – Update on preliminary consolidated results, including:
    - Final 2016-17 fiscal results and associated debt, net debt and accumulated deficit
    - Tax revenue numbers (PIT data Jul 28th)
    - Detailed analysis for significant variances
    - Final error summary (SUDS) for confirmation with OAG

Appendix 1: Supplementary Volumes to the Public Accounts

- **Volume 1:**

  Consolidated Revenue Fund (CRF) schedules and ministry statements on an accrual basis

- **Volume 2:**

  Financial statements of selected Crown Corporations, Boards, Commissions, and other miscellaneous statements

- **Volume 3:**

  Details of transfer payments and vendor payments by ministry (including salary and benefit payments to non-government entities), statutory salaries of Ministers and Parliamentary Assistants, and travel expenses of Ministers, Deputy Ministers as well as specific individual ministry staff where expenses exceed threshold

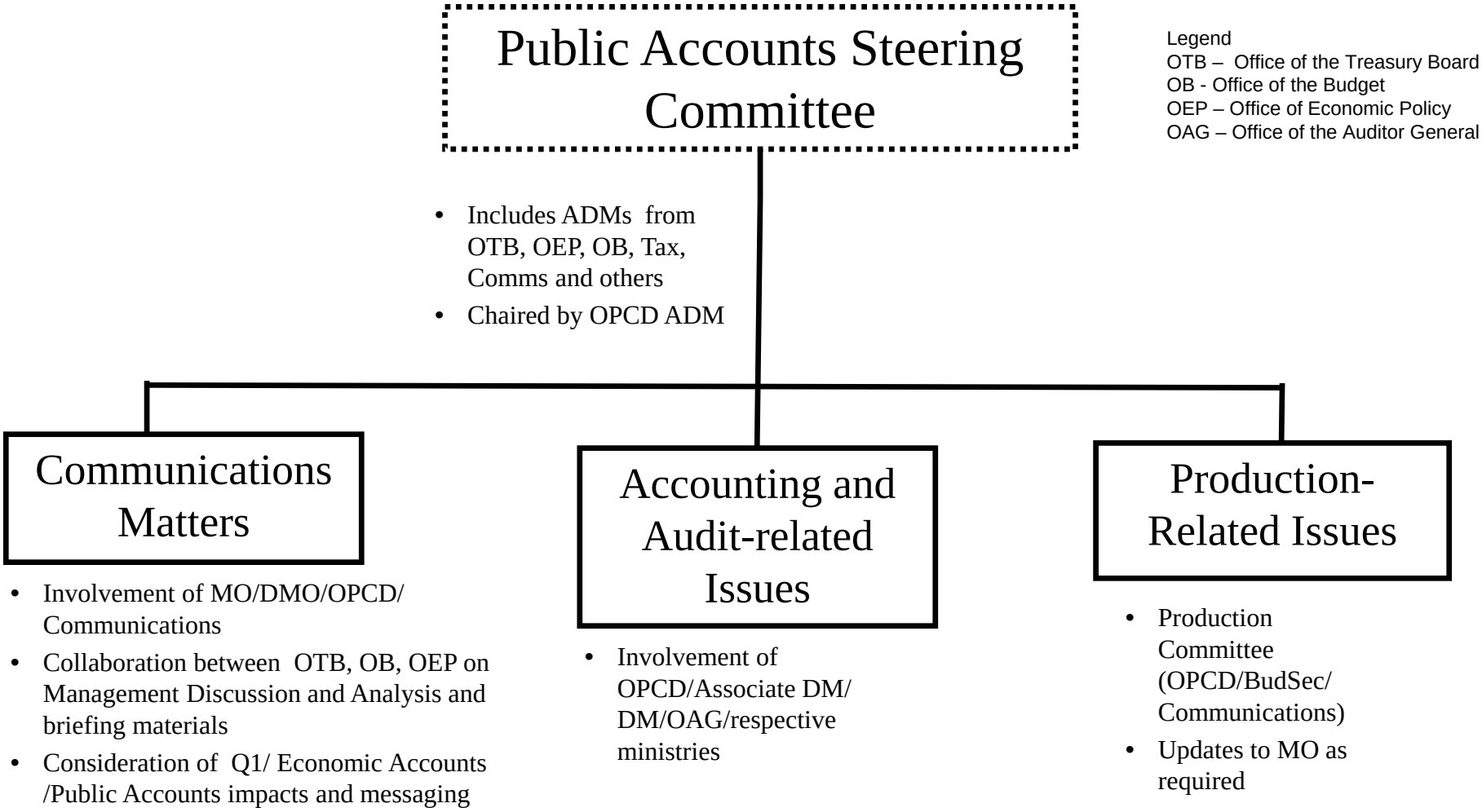
Appendix 2: BPS Line-by-Line Impact

Province of Ontario
Consolidated Statement of Operations

($ Millions)	2015-16 Actual	Restatement Adjustment				Total Restatement Adjustment	Restated 2015-16 Actual[1]
		Hospitals	School Boards	Colleges	Interest on Debt		
Revenue *(Schedules 1 and 2)*							
Total Taxation	91,818						91,818
Transfers from Government of Canada	22,857	242	14	40		296	23,153
Income from Investment in Government Business Enterprises	4,909						4,909
Other	8,793	3,914	1,201	2,220		7,335	16,128
	128,377	4,156	1,215	2,260		7,631	136,008
Expense *(Schedules 3 and 4)*							
Health	51,067	3,934				3,934	55,001
Education	26,588		829			829	27,417
Children's and Social Services	15,555						15,555
Environment, Resources and Economic Development	12,612						12,612
Interest on Debt	10,967				622	622	11,589
Postsecondary Education and Training	7,634			2,246		2,246	9,880
Justice	4,549						4,549
General Government and Other	4,434						4,434
	133,406	3,934	829	2,246	622	7,631	141,037
Reserve	-						
Annual Deficit	(5,029)	222	386	14	(622)	-	(5,029)

[1] Amounts subject to change in 2016-17 Public Accounts due to other restatements.

Appendix 3: Public Accounts Steering Committee



Legend
OTB – Office of the Treasury Board
OB - Office of the Budget
OEP – Office of Economic Policy
OAG – Office of the Auditor General

From: Gadi Mayman
To: Ken Kandeepan
Cc: Lynsey Wynberg
Subject: FW: Q3 Deck for FPC
Date: Tuesday, January 24, 2017 4:55:21 PM
Attachments: image001.png

-----Original Message-----
From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: Tuesday, January 24, 2017 4:55 PM
To: Brian Lewis (MOL) <Brian.Lewis@ontario.ca>; Karen Hughes (MGS) <Karen.Hughes@ontario.ca>; Maria Duran-Schneider (MOF) <Maria.Duran-Schneider@ontario.ca>; Arruda, Artur (TBS) <Artur.Arruda@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>
Subject: Re: Q3 Deck for FPC

We're adding a point on updating 15_16 to the deck, so good catch.

On the other details, we plan on going back next week on the rest of the details and fiscal picture we would print - so we can definitely save that for next week but foreshadowing it this week works too.

From: Lewis, Brian (MOF)
Sent: Tuesday, January 24, 2017 4:50 PM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Duran-Schneider, Maria (TBS); Arruda, Artur (TBS); Veinot, Cindy (TBS); Dutton, Andrea (TBS); Mayman, Gadi (OFA); Kwan, Ronald (OFA)
Cc: Esmail, Selena (MOF); Inglis, Liane (MOF); Lindquist, Emma (MOF); Birks, Ryan (MOF)
Subject: RE: Q3 Deck for FPC

Thanks Tim.

A question… would we update our 15-16 numbers to reflect the pension accounting, or wait until public accounts? Is that a decision point?

A comment… I think I inserted a box for a decision on whether we would report other tax revenue changes beyond HST. These net to zero, but we know about them now, and there won't be any new information on them before the Doc, so it is a bit awkward to not report them now and pick them up in the Doc. So I see that as a decision point.

Glad to discuss.

Brian

From: Schuurman, Tim (MOF)
Sent: January 24, 2017 2:40 PM
To: Hughes, Karen (TBS); Duran-Schneider, Maria (TBS); Arruda, Artur (TBS); Veinot, Cindy (TBS); Dutton, Andrea (TBS); Lewis, Brian (MOF); Mayman, Gadi (OFA); Kwan, Ronald (OFA)
Cc: Esmail, Selena (MOF); Inglis, Liane (MOF); Lindquist, Emma (MOF); Birks, Ryan (MOF)
Subject: Q3 Deck for FPC

Please find attached a deck we're tracking into FPC tomorrow. This will travel together with a piece TBS is preparing on the Pension Panel.

Walked Scott through it a few minutes ago, and he's continuing to review but gave it an initial thumbs up. We'll probably walk this in to FPC tomorrow.

Wanted you all to have a look – this is based on input from many of your areas already, so staff have provided input, let me know if you have any edits or comments.

n Gadi, we'll need to touch on the net debt to gdp piece. You'll see we've included something in the appendix. Folks are working with Ken to see if there are other nuances we should add, but this is an important consideration as part of Q3.

n Cindy – we'll be discussing the pension piece at 4pm, but any suggested edits on this and IFRS are welcome.

n Andrea/Artur – think your folks are pulling together the list of in-year approvals we'd report. Hopefully we can get that list in the next day or so to help populate the details.

n Brian – this should reflect your input as well.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173


Office of the Budget
MINISTRY of FINANCE

From:	Lynsey Wynberg
To:	Ken Kandeepan; Alexander Kraas
Subject:	FW: Q3 Document Template / Request for Input
Date:	Friday, January 27, 2017 1:50:32 PM
Attachments:	Third Quarter Finances_v1a_0127.docx First Quarter Finances_v7_0803_Final.pdf
Importance:	High

Hi,

Ryan is wondering whether we'll be able to get back to him on this request today. Please advise.

Thanks,
Lynsey

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Thursday, January 26, 2017 3:22 PM
To: Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Law, Rex (TBS) <Rex.Law@ontario.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>
Cc: Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: Q3 Document Template / Request for Input
Importance: High

Hi All,

I just wanted to send a reminder that we're seeking initial input from your areas regarding the Q3 Document template **by tomorrow morning (ideally, before noon).** Again, there may be significant outstanding pieces that you're unable to update for Friday. These outstanding pieces can flagged as "to be updated" and addressed as decisions on the fiscal outlook are made over the coming week.

I'm attaching the First Quarter Finances as a general reference.

Thanks,
Ryan

From: Birks, Ryan (MOF)
Sent: January-23-17 10:05 PM
To: Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Hosick, Sarah (TBS); Law, Rex (TBS); Tarin, Ghufran (MOF); Wynberg, Lynsey (OFA)
Cc: Inglis, Liane (MOF); Lindquist, Emma (MOF)
Subject: Q3 FPC Deck and Q3 Document Template / Request for Input
Importance: High

Hi All,

OB is in the process of preparing a draft Q3 deck that will track to FPC this Wednesday. The deck lays out the key 2016-17 building blocks that could be updated as part of the Q3 publication. In addition, we're updating a draft Q3 document template. We'll need input from your areas on both these products this week. I'm including additional information below.

For the **FPC Q3 deck**, it would be appreciated if we could get the following information from TBS by **noon/early afternoon tomorrow (apologies for the tight timelines)**:

- **16-17 post-FES Expense Update (TBS):** We have included placeholder for an expense slide. The intention is for the slide to provide an updated list of initiatives that were not included in the FES expense outlook.
- **Recommended Expense Update/Signature Initiatives (TBS):** We may build in options for what the outlook could look like – it would helpful if you could provide a recommendation for the expense changes that should be taken on/profiled.
- **16-17 C-Fund Update (PEMD):** We have included a c-fund slide that was used in the Q1 finances briefing materials (attached with current PW). We would like to include an updated version of this slide in the appendix of the FPC deck. It would help to have this out to 19-20.
- **Pension Narrative (OPCD):** High level bullets on the pension adjustment.

For the **Q3 Document Template** (attached), we're looking for input from **PEMD, OPCD, OEP and OFA** by **10am on Friday, January 27**:

- Attached is a draft of Q3 finances template that is based heavily off of the 2016 First Quarter Finances. **We've highlighted the sections that we would like your respective areas to update in the enclosed.**
- Note, there will be some highlighted content that is *not possible* to update for Friday, however there will be a formal distribution process where additional information can be incorporated.

Please feel free to send input directly to Liane and Emma (in copy).

Many thanks,
Ryan

MINISTRY OF FINANCE

2016–17 Third Quarter Finances
[Draft – January 23, 11:00 am]

[February 2017]

Contents

A. 2016–17 Fiscal Outlook X

B. Details of In-Year Changes X

C. Ontario's Economic Outlook X

D. Economic Performance X

E. Details of Ontario's Finances X

F. Ontario's 2016–17 Financing Program X

Introduction

The Ontario Quarterly Finances contains updated information about Ontario's 2016–17 fiscal outlook, including updated information about the major components of revenue and expense as set out in the *2016 Budget*.

Section A: 2016–17 Fiscal Outlook (OEP, TBS, OFA, Framework)

The government is projecting a deficit of $[X.X] billion in 2016–17, [an improvement of $X.X billion] compared to the 2016 Budget.

As outlined in the *2016 Budget,* the government is [on track to balance the budget by 2017–18 and is projecting to remain balanced in 2018–19. The government's path to a balanced budget is being achieved through responsible fiscal management, which involves managing growth in program spending and maintaining the integrity of Provincial revenues. The strengthening of the Ontario economy, together with the government's approach to fiscal management, is supporting strategic investments in new child care spaces, hospitals and electricity cost relief for consumers.]

[Placholder for Pension Narrative (OPCD)]

[Placholder for Economic Update (OEP)]

2016–17 In-Year Fiscal Performance

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Revenue	**130,589**	**[X.X]**	**–**
Expense			
Programs	122,139	[X.X]	–
Interest on Debt	11,756	[X.X]	–
Total Expense	**133,895**	**[X.X]**	**–**
Surplus/(Deficit) Before Reserve	**(3,306)**	**[X.X]**	**–**
Reserve	1,000	[X.X]	–
Surplus/(Deficit)	**(4,306)**	**[X.X]**	**–**

Note: Numbers may not add due to rounding.

Total revenue is projected to be $[X.X] billion, [an improvement/deterioration of $X.X billion compared to the 2016 Budget.] — [placeholder for high-level revenue change explanation]

The outlook for Provincial program expense, at $[X.X] billion, is [an improvement/deterioration of $X.X billion compared to the 2016 Budget.] — reflecting [placeholder for high-level program expense change explanation]

The Province's interest on debt expense forecast, at $X.X billion, is [an improvement/deterioration of $X.X billion compared to the 2016 Budget forecast.]

The 2016–17 outlook also maintains a $[X.X] billion reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance or the impact of natural disasters.

Further details on the Province's fiscal plan, will be provided in the upcoming 2017 Budget.

Section B: Details of In-Year Changes (OEP, PEMD, OFA, Framework)

Revenue (OEP)

The 2016–17 revenue outlook, at $[X.X] billion, is [an improvement/deterioration of $X.X billion compared to the 2016 Budget]. Since the *2016 Budget,* the following changes have been made to the revenue outlook for 2016–17:

- [Placholder for revenue changes]

[Placeholder for language on risks to the revenue/economic outlook]

Expense (PEMD, OFA)

The 2016–17 total expense outlook, at $[X.X] billion, is [placholder for expense language]

Key changes to expense projections with offsets from the contingency funds include:

- [Placeholder]

Other key changes to expense projections include:

- [Placeholder]

[Placholder for language on interest on debt changes]

Asset Optimization (OFA)

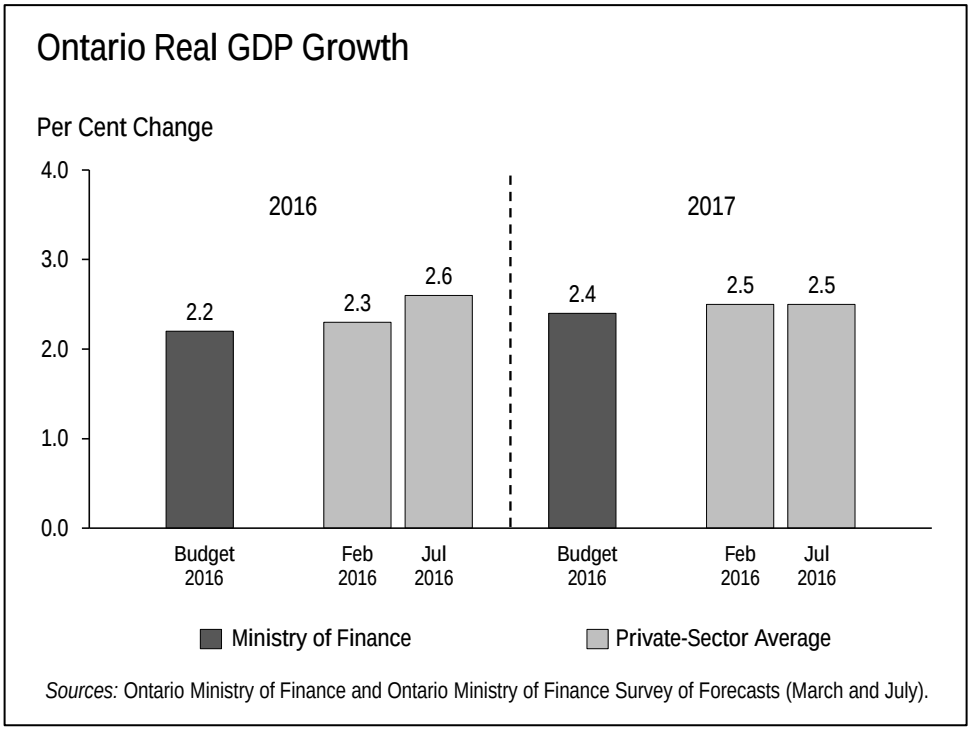
[Placeholder for language on Asset Optimization]

Fiscal Prudence

[Placeholder for language on prudence]

Section C: Ontario's Economic Outlook (OEP)

[Placeholder for language on the economic outlook]



Section D: Economic Performance (OEP)

[Placeholder for language on economic performance]

(Seasonally adjusted per cent change from previous period, unless indicated otherwise)

	Monthly 2016			Quarterly			Annual
	Oct	Nov	Dec	2016Q1	2016Q2	2016Q3	2015
Gross Domestic Product							
Real GDP	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Nominal GDP	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Labour Market							
Labour Force (Change in 000s)	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Employment (Change in 000s)	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Unemployment Rate (%)	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Household Sector							
Retail Sales	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Housing Starts	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
MLS Home Resales	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Manufacturing Sales							
Transportation Equipment	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Consumer Price Index[1]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]

[1] Per cent change from a year earlier, data not seasonally adjusted.

N/A = Data not available.

Sources: Statistics Canada, Ontario Ministry of Finance, Canada Mortgage and Housing Corporation, and Canadian Real Estate Association.

Section E: Details of Ontario's Finances (OEP, TBS, OFA)

Revenue

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Taxation Revenue			
Personal Income Tax	32,167	[X.X]	
Sales Tax[1]	23,976	[X.X]	
Corporations Tax	12,050	[X.X]	
Education Property Tax[2]	5,834	[X.X]	
Employer Health Tax	6,007	[X.X]	
Ontario Health Premium	3,604	[X.X]	
Gasoline Tax	2,522	[X.X]	
Land Transfer Tax	2,051	[X.X]	
Tobacco Tax	1,221	[X.X]	
Fuel Tax	790	[X.X]	
Beer and Wine Tax	611	[X.X]	
Electricity Payments-In-Lieu of Taxes	515	[X.X]	
Other Taxes	471	[X.X]	
	91,819	**[X.X]**	
Government of Canada			
Canada Health Transfer	13,858	[X.X]	
Canada Social Transfer	5,128	[X.X]	
Equalization	2,304	[X.X]	
Infrastructure Programs	1,017	[X.X]	
Labour Market Programs	989	[X.X]	
Social Housing	434	[X.X]	
Other Federal Payments	914	[X.X]	
	24,644	**[X.X]**	
Government Business Enterprises			
Ontario Lottery and Gaming Corporation	1,953	[X.X]	
Liquor Control Board of Ontario	2,025	[X.X]	
Ontario Power Generation Inc./Hydro One Ltd./ Brampton Distribution Holdco Inc.	1,049	[X.X]	
	5,027	**[X.X]**	
Other Non-Tax Revenue			
Reimbursements	983	[X.X]	
Vehicle and Driver Registration Fees	1,751	[X.X]	
Electricity Debt Retirement Charge	625	[X.X]	
Power Supply Contract Recoveries	643	[X.X]	
Sales and Rentals	2,421	[X.X]	
Cap-and-Trade Proceeds	478	[X.X]	
Other Fees and Licences	987	[X.X]	
Net Reduction of Power Purchase Contract Liability	129	[X.X]	
Royalties	287	[X.X]	
Miscellaneous Other Non-Tax Revenue	795	[X.X]	
	9,099	**[X.X]**	
Total Revenue	**130,589**	**[X.X]**	

1 Sales Tax revenue is net of the Ontario Sales Tax Credit and the energy component of the Ontario Energy and Property Tax Credit.

2 Education Property Tax revenue is net of the property tax credit component of the Ontario Energy and Property Tax Credit and the Ontario Senior Homeowners' Property Tax Grant.

Note: Numbers may not add due to rounding.

Total Expense

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Ministry Expense			
Aboriginal Affairs[1]	77.0	[X.X]	
Agriculture, Food and Rural Affairs[1]	915.9	[X.X]	
Attorney General	1,867.8	[X.X]	
Board of Internal Economy	219.9	[X.X]	
Children and Youth Services	4,346.1	[X.X]	
Citizenship, Immigration and International Trade	220.8	[X.X]	
Community and Social Services	11,467.5	[X.X]	
Community Safety and Correctional Services	2,649.5	[X.X]	
Economic Development, Employment and Infrastructure / Research and Innovation[1]	1,177.0	[X.X]	
Education[1]	25,635.8	[X.X]	
Energy[1]	322.1	[X.X]	
Environment and Climate Change	531.4	[X.X]	
Executive Offices	44.0	[X.X]	
Finance[1]	963.1	[X.X]	
Francophone Affairs, Office of	5.7	[X.X]	
Government and Consumer Services	607.6	[X.X]	
Health and Long-Term Care	51,785.2	[X.X]	
Labour	309.5	[X.X]	
Municipal Affairs and Housing[1]	900.0	[X.X]	
Natural Resources and Forestry[1]	750.6	[X.X]	
Northern Development and Mines	790.7	[X.X]	
Tourism, Culture and Sport[1]	1,250.8	[X.X]	
Training, Colleges and Universities	7,876.8	[X.X]	
Transportation	3,850.9	[X.X]	
Treasury Board Secretariat[1]	316.9	[X.X]	
Interest on Debt[2]	11,756.0	[X.X]	
Other Expense[1]	4,056.8	[X.X]	
Year-End Savings[3]	(800.0)	[X.X]	
Total Expense	**133,895.4**	**[X.X]**	

1 Details on other ministry expense can be found in the Details of Other Expense table.

2 Interest on debt is net of interest capitalized during construction of tangible capital assets of $X.X million in 2016–17.

3 As in past years, the Year-End Savings provision reflects efficiencies through in-year expenditure management and underspending due to factors such as program management, and changes in project startups and implementation plans.

Notes: Numbers may not add due to rounding.

The impact of recently announced ministry restructuring will be reflected in future updates.

Details of Other Expense

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Ministry Expense			
Aboriginal Affairs			
One-Time Investments including Settlements	–	[X.X]	
Agriculture, Food and Rural Affairs			
Time-Limited Investments in Infrastructure	–	[X.X]	
Economic Development, Employment and Infrastructure / Research and Innovation			
Federal-Provincial Infrastructure Programs	618.7	[X.X]	
Education			
Teachers' Pension Plan[1]	(452.0)	[X.X]	
Energy			
Strategic Asset Management and Transformation Related to Hydro One	70.9	[X.X]	
Finance			
Ontario Municipal Partnership Fund	505.0	[X.X]	
Power Supply Contract Costs	643.1	[X.X]	
Municipal Affairs and Housing			
Time-Limited Investments in Municipal, Social and Affordable Housing	160.3	[X.X]	
Other Time-Limited Investments	–	[X.X]	
Natural Resources and Forestry			
Emergency Forest Firefighting	69.8	[X.X]	
Tourism, Culture and Sport			
Time-Limited Investments to Support 2015 Pan/Parapan American Games	88.6	[X.X]	
Treasury Board Secretariat			
Capital Contingency Fund	100.0	[X.X]	
Operating Contingency Fund	1,100.0	[X.X]	
Employee and Pensioner Benefits	1,152.5	[X.X]	
Total Other Expense	**4,056.8**	**[X.X]**	

[1] Numbers reflect Public Sector Accounting Board pension expense. Ontario's matching contributions to the plan is $X.X million in 2016–17.

Notes: Numbers may not add due to rounding.

The impact of recently announced ministry restructuring will be reflected in future updates.

2016–17 Infrastructure Expenditures

($ Millions)	2016–17 Current Outlook		
Sector	**Investment in Capital Assets[1]**	**Transfers and Other Infrastructure Expenditures[2]**	**Total Infrastructure Expenditures[3]**
Transportation			
Transit	[X.X]	[X.X]	[X.X]
Provincial Highways	[X.X]	[X.X]	[X.X]
Other Transportation, Property and Planning	[X.X]	[X.X]	[X.X]
Health			
Hospitals	[X.X]	[X.X]	[X.X]
Other Health	[X.X]	[X.X]	[X.X]
Education	[X.X]	[X.X]	[X.X]
Postsecondary			
Colleges and Other	[X.X]	[X.X]	[X.X]
Universities	[X.X]	[X.X]	[X.X]
Social	[X.X]	[X.X]	[X.X]
Justice	[X.X]	[X.X]	[X.X]
Other Sectors[4]	[X.X]	[X.X]	[X.X]
Total	**[X.X]**	**[X.X]**	**[X.X]**

1 Includes $X.X million in interest capitalized during construction.

2 Includes transfers to municipalities, universities and non-consolidated agencies.

3 Includes third party investments in hospitals, colleges and schools; and provisional federal contributions to provincial infrastructure investments.

4 Includes government administration, natural resources, culture and tourism sectors.

Note: Numbers may not add due to rounding.

Review of Selected Financial and Economic Statistics

($ Millions)	2012–13	2013–14	2014–15	Actual 2015–16	Current Outlook 2016–17
Revenue	**113,369**	**115,911**	**118,546**	**128,377**	**[X.X]**
Expense					
Programs	112,248	115,792	118,225	122,439	[X.X]
Interest on Debt[1]	10,341	10,572	10,635	10,967	[X.X]
Total Expense	**122,589**	**126,364**	**128,860**	**133,406**	**[X.X]**
Surplus/(Deficit) Before Reserve	**(9,220)**	**(10,453)**	**(10,314)**	**(5,029)**	**[X.X]**
Reserve	–	–	–	–	[X.X]
Surplus/(Deficit)	**(9,220)**	**(10,453)**	**(10,314)**	**(5,029)**	**[X.X]**
Net Debt	252,088	267,190	284,576	305,233	[X.X]
Accumulated Deficit	167,132	176,634	187,511	202,697	[X.X]
Gross Domestic Product (GDP) at Market Prices	680,084	693,210	721,970	763,276	[X.X]
Primary Household Income	459,111	473,905	490,412	511,781	[X.X]
Population – July (000s)	13,410	13,551	13,678	13,797	[X.X]
Net Debt per Capita (dollars)	18,798	19,717	20,806	22,123	[X.X]
Household Income per Capita (dollars)	34,236	34,972	35,855	37,094	[X.X]
Interest on Debt as a Per Cent of Revenue	9.1	9.1	9.0	8.5	[X.X]
Net Debt as a Per Cent of GDP	37.1	38.5	39.4	40.0	[X.X]
Accumulated Deficit as a Per Cent of GDP	24.6	25.5	26.0	26.6	[X.X]

[1] Interest on debt is net of interest capitalized during construction of tangible capital assets of $134 million in 2013–14, $202 million in 2014–15, $X.X million in 2015–16, and $X.X million in 2016–17.

Sources: Ontario Ministry of Finance and Statistics Canada.

Section F: Ontario's 2016–17 Financing Program (OFA)

Province and Ontario Electricity Financial Corporation

($ Billions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Deficit/(Surplus)	4.3	[X.X]	
Investment in Capital Assets	11.2	[X.X]	
Non-Cash Adjustments	(5.8)	[X.X]	
Other Net Loans/Investments	(0.9)	[X.X]	
Debt Maturities	21.5	[X.X]	
Debt Redemptions	0.1	[X.X]	
Total Funding Requirement	**30.3**	**[X.X]**	
Canada Pension Plan Borrowing	(0.1)	[X.X]	
Decrease/(Increase) in Short-Term Borrowing	(1.0)	[X.X]	
Increase/(Decrease) in Cash and Cash Equivalents	(2.7)	[X.X]	
Preborrowing from 2015–16	–	[X.X]	
Total Long-Term Public Borrowing Requirement	**26.4**	**[X.X]**	

Note: Numbers may not add due to rounding.

Borrowing Program Status (as at [DATE], 2016)

($ Billions)	Completed	Remaining	Total
Province	[X.X]	[X.X]	[X.X]
Ontario Electricity Financial Corporation	[X.X]	[X.X]	[X.X]
Total	**[X.X]**	**[X.X]**	**[X.X]**

Note: Numbers may not add due to rounding.

Long-Term Public Borrowing completed as at [DATE], 2016 totalled $X.X billion, as follows:

	($ Billions)
Domestic Issues	[X.X]
Global/US Dollar/Other Issues	[X.X]
	[X.X]

[As of [DATE], 2016, approximately X.X per cent of this year's borrowing was completed in Canadian dollars. The Province may revise its Canadian dollar borrowing target of 75 per cent published in the *2016 Budget* if international demand for Ontario bonds outpaces domestic demand.]

Ministry of Finance www.fin.gov.on.ca

For general inquiries regarding the 2016–17 First Quarter Finances, please call:

Toll-free English & French inquiries: 1-800-337-7222
Teletypewriter (TTY): 1-800-263-7776

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Chart Descriptions: Alternative Text for Web Accessibility

Chart: Ontario Real GDP Growth (OEP)

[Placeholder for Alt text on the Ontario Real GDP Growth chart]

Ontario

MINISTRY OF FINANCE

2016–17 First Quarter Finances

August 2016

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Introduction

The Ontario Quarterly Finances contains updated information about Ontario's 2016–17 fiscal outlook, including updated information about the major components of revenue and expense as set out in the *2016 Budget*.

Section A: 2016–17 Fiscal Outlook

The government is projecting a deficit of $4.3 billion in 2016–17, unchanged from the 2016 Budget forecast.

As outlined in the *2016 Budget,* the government is on track to balance the budget by 2017–18 and is projecting to remain balanced in 2018–19. The government's path to a balanced budget is being achieved through responsible fiscal management, which involves managing growth in program spending and maintaining the integrity of Provincial revenues. At the same time, the government continues to make investments in the economy, its people, and a healthy, clean and prosperous low-carbon future.

Relatively strong economic growth recorded in Ontario over the second half of 2015 and early 2016 has helped increase private-sector forecasts for real GDP growth in 2016. The Ontario economy is benefiting from steady economic growth in the United States, low oil prices and a more competitive Canadian dollar.

However, weaker-than-expected global growth and low commodity prices have led to increased volatility in global financial and currency markets, and weakened confidence in the overall Canadian economy. Uncertainty in the global economy has increased, reflecting the United Kingdom's recent vote to leave the European Union. As a result, global growth expectations will likely be revised lower over the near term, which would adversely affect Ontario's economic outlook. However, Ontario's diversified economy means the Province is well positioned to respond to changing global economic conditions.

Given the high degree of uncertainty regarding the economic growth outlook and forthcoming revenue information, the government is maintaining the 2016 Budget revenue forecast.

2016–17 In-Year Fiscal Performance

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Revenue	**130,589**	**130,590**	**1**
Expense			
Programs	122,139	122,140	1
Interest on Debt	11,756	11,756	–
Total Expense	**133,895**	**133,896**	**1**
Surplus/(Deficit) Before Reserve	**(3,306)**	**(3,306)**	**–**
Reserve	1,000	1,000	–
Surplus/(Deficit)	**(4,306)**	**(4,306)**	**–**

Note: Numbers may not add due to rounding.

Total revenue is projected to be $130.6 billion, essentially unchanged from the 2016 Budget plan.

The outlook for Provincial program expense, at $122.1 billion, is unchanged from the 2016 Budget plan — reflecting the government's commitment to manage growth in spending.

The Province's interest on debt expense forecast, at $11.8 billion, is unchanged from the 2016 Budget forecast.

The 2016–17 outlook also maintains a $1.0 billion reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance or the impact of natural disasters.

As outlined in the *2016 Budget*, Ontario's net debt-to-GDP ratio is expected to peak at 39.6 per cent in 2015–16, remain level in 2016–17 and begin to decline in 2017–18.

Further details on the Province's fiscal plan, including final results for 2015–16, will be provided in future fiscal updates.

Section B: Details of In-Year Changes

Revenue

The 2016–17 revenue outlook, at $130.6 billion, remains essentially unchanged from the 2016 Budget forecast. Since the *2016 Budget,* there is one change to the revenue outlook for 2016–17:

- An increase of $0.9 million in federal revenue through the **National Disaster Mitigation Program**, to offset the expense increase to support flood mitigation measures across Ontario.

Risks to the 2016–17 revenue outlook are anticipated to be positive, reflecting a moderate improvement in 2016 economic growth. However, economic and revenue information still to be received over the coming months could significantly affect the revenue outlook. This includes personal and corporate income tax assessments for past years, Harmonized Sales Tax entitlements, Ontario-administered tax receipts in 2016–17 and ongoing economic developments. The government will continue to monitor economic and revenue developments and will provide further details in future fiscal updates.

Expense

The 2016–17 total expense outlook, at $133.9 billion, is on track with the projection in the *2016 Budget*. The government continues to manage spending within the fiscal plan. Since the *2016 Budget*, the following expense changes have occurred and have been accommodated within the fiscal plan.

Key changes to expense projections with offsets from the contingency funds include:

- An increase of $91.3 million for more **supports for children and youth with autism**, including an accelerated implementation of the new Ontario Autism Program.
- An increase of $40.4 million to **address urgent health care needs and improve access to care for First Nations peoples** primarily focused in the North.
- An increase of $3.1 million to support the Ontario Cattle Feeders' Association's three-year strategic marketing initiative to **promote Ontario Corn-Fed Beef** to help increase its domestic market share, and grow global exports.
- An increase of $2.9 million to enable the **Anti-Racism Directorate** to deliver on its core mandate and priorities.
- An increase of $2.7 million to build on the government's commitment to support vulnerable families by fully exempting **child support payments** as income received by social assistance clients.

- An increase of $1.8 million to support **Ontario's Indigenous communities**, including funding to the Ontario Native Women's Association.
- An increase of $1.0 million to support disaster relief efforts for both the **Fort McMurray, Alberta wildfires** and the **Ecuador earthquake**. The government also provided emergency management personnel to support local firefighting efforts in Fort McMurray.
- An operating increase of $0.4 million and the transfer of land associated with the **Chapleau Cree First Nation Treaty Land Entitlement Claim Settlement Agreement**.

Other key changes to expense projections include:

- A transfer of $116.4 million in capital funding from the Ministry of Economic Development, Employment and Infrastructure to the Ministry of Agriculture, Food, and Rural Affairs for the delivery of **municipal infrastructure projects** under the 2014 Building Canada Fund.
- A transfer totaling $26.8 million from the Ministry of Citizenship, Immigration and International Trade to the Ministry of Tourism, Culture and Sport, the Ministry of Children and Youth Services, and Treasury Board Secretariat to revitalize communities and celebrate **Ontario's 150th birthday**.
- An increase of $0.9 million, fully offset by increased federal revenue through the **National Disaster Mitigation Program**, to support flood mitigation measures across Ontario.

The outlook for interest on debt expense is unchanged from the 2016 Budget plan. The projected cost of borrowing is consistent with the *2016 Budget*, as interest rates remain in line with the Budget forecast.

Asset Optimization

The Province is making progress on its asset optimization strategy.

Since the release of the *2016 Budget,* the government completed a secondary offering of 14 per cent of Hydro One common shares in April 2016 and closed the sale of the LCBO head office lands in June 2016.

The government remains on track to generate $5.7 billion in net revenue gains over time from its asset optimization initiative. All net revenue gains from the sale of qualifying assets will be dedicated to the Trillium Trust to help fund investments in transit, transportation and other priority infrastructure under Moving Ontario Forward.

This asset optimization target will help support the single largest infrastructure investment program in the province's history.

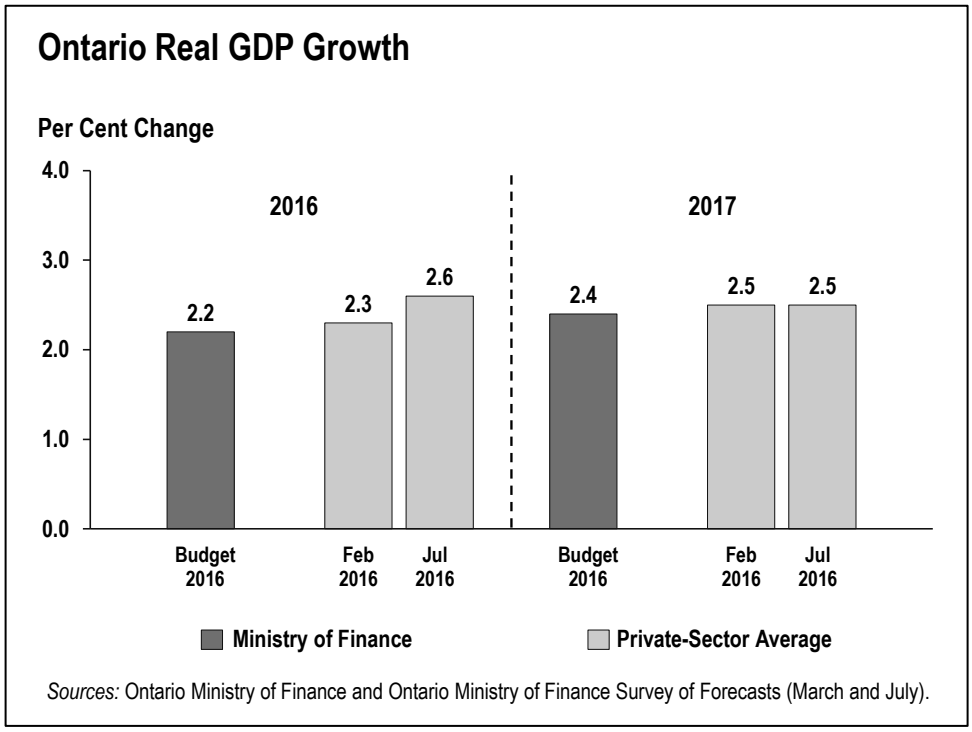
Fiscal Prudence

The *2016 Budget* included a $1.0 billion reserve in 2016–17 to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance or the impact of natural disasters. The current fiscal outlook maintains the full reserve.

The current outlook also maintains contingency funds to help mitigate expense risks — particularly in cases where health and safety may be compromised or services to the most vulnerable are jeopardized — that may otherwise adversely affect Ontario's fiscal performance.

Section C: Ontario's Economic Outlook

As of July 5, 2016, private-sector forecasters, on average, project Ontario real GDP to increase by 2.6 per cent in 2016, up from the 2.3 per cent increase expected at the time of the *2016 Budget*. Growth in 2017 is unchanged at 2.5 per cent.



Sources: Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts (March and July).

Expectations for global economic growth in 2016 have been lowered since the *2016 Budget*. The International Monetary Fund lowered their 2016 global growth forecast from 3.4 per cent at the time of the Budget to 3.1 per cent in July due to weakness in advanced and emerging economies, and the potential impact of United Kingdom's recent vote to leave the European Union. The average forecast for 2016 real GDP growth in the United States, Ontario's largest trading partner, has declined from 2.1 per cent at the time of the *2016 Budget* to 1.9 per cent in July.

Section D: Economic Performance

The Ontario economy continues to grow in a challenging global environment, with real GDP rising by a solid 0.8 per cent (3.0 per cent at annual rates) in the first quarter of 2016. This follows a similar increase in the fourth quarter of 2015. Ontario posted higher real GDP growth in the first quarter than Canada, the U.S. and all other G7 countries.

The strength in Ontario's economy has supported steady employment gains. Ontario's employment increased by 85,100 jobs over the first six months of 2016, compared to the same period in 2015. As of June 2016, employment increased by 625,100 net jobs, or 9.8 per cent, above the recessionary low of June 2009, and the unemployment rate declined to 6.4 per cent, below the national average and the lowest rate since September 2008.

Major economic indicators of business-sector activity have advanced strongly during the first half of 2016. On a year-to-date basis, Ontario's international merchandise exports increased 12.6 per cent, compared to the first five months of 2015. During the same period, manufacturing sales advanced 7.6 per cent, led by the auto sector. Similarly, consumers have recorded strong year-to-date gains in retail sales, home resale activity and housing starts.

(Seasonally adjusted per cent change from previous period, unless indicated otherwise)

	Monthly 2016			Quarterly		Annual
	April	May	June	2016Q1	2016Q2	2015
Gross Domestic Product						
Real GDP	N/A	N/A	N/A	0.8	N/A	2.6
Nominal GDP	N/A	N/A	N/A	0.7	N/A	3.5
Labour Market						
Labour Force (Change in 000s)	13.7	-10.1	-20.1	36.8	7.5	7.5
Employment (Change in 000s)	-3.3	21.6	-4.2	36.1	15.2	45.3
Unemployment Rate (%)	7.0	6.6	6.4	6.8	6.7	6.8
Household Sector						
Retail Sales	0.4	N/A	N/A	1.5	N/A	4.2
Housing Starts	-25.9	5.6	25.8	6.5	-4.7	18.6
MLS Home Resales	2.8	-0.1	0.2	2.3	4.5	9.6
Manufacturing Sales						
Transportation Equipment	0.6	-3.6	N/A	7.1	N/A	8.6
Consumer Price Index[1]	2.1	1.9	N/A	1.7	N/A	1.2

[1] Per cent change from a year earlier, data not seasonally adjusted.

N/A = Data not available.

Sources: Statistics Canada, Ontario Ministry of Finance, Canada Mortgage and Housing Corporation, and Canadian Real Estate Association.

Section E: Details of Ontario's Finances

Revenue

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Taxation Revenue			
Personal Income Tax	32,167	32,167	–
Sales Tax[1]	23,976	23,976	–
Corporations Tax	12,050	12,050	–
Education Property Tax[2]	5,834	5,834	–
Employer Health Tax	6,007	6,007	–
Ontario Health Premium	3,604	3,604	–
Gasoline Tax	2,522	2,522	–
Land Transfer Tax	2,051	2,051	–
Tobacco Tax	1,221	1,221	–
Fuel Tax	790	790	–
Beer and Wine Tax	611	611	–
Electricity Payments-In-Lieu of Taxes	515	515	–
Other Taxes	471	471	–
	91,819	**91,819**	**–**
Government of Canada			
Canada Health Transfer	13,858	13,858	–
Canada Social Transfer	5,128	5,128	–
Equalization	2,304	2,304	–
Infrastructure Programs	1,017	1,017	–
Labour Market Programs	989	989	–
Social Housing	434	434	–
Other Federal Payments	914	915	1
	24,644	**24,645**	**1**
Government Business Enterprises			
Ontario Lottery and Gaming Corporation	1,953	1,953	–
Liquor Control Board of Ontario	2,025	2,025	–
Ontario Power Generation Inc./Hydro One Ltd./ Brampton Distribution Holdco Inc.	1,049	1,049	–
	5,027	**5,027**	**–**
Other Non-Tax Revenue			
Reimbursements	983	983	–
Vehicle and Driver Registration Fees	1,751	1,751	–
Electricity Debt Retirement Charge	625	625	–
Power Supply Contract Recoveries	643	643	–
Sales and Rentals	2,421	2,421	–
Cap-and-Trade Proceeds	478	478	–
Other Fees and Licences	987	987	–
Net Reduction of Power Purchase Contract Liability	129	129	–
Royalties	287	287	–
Miscellaneous Other Non-Tax Revenue	795	795	–
	9,099	**9,099**	**–**
Total Revenue	**130,589**	**130,590**	**1**

1 Sales Tax revenue is net of the Ontario Sales Tax Credit and the energy component of the Ontario Energy and Property Tax Credit.

2 Education Property Tax revenue is net of the property tax credit component of the Ontario Energy and Property Tax Credit and the Ontario Senior Homeowners' Property Tax Grant.

Note: Numbers may not add due to rounding.

Total Expense

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Ministry Expense			
Aboriginal Affairs[1]	77.0	78.8	1.8
Agriculture, Food and Rural Affairs[1]	915.9	919.0	3.1
Attorney General	1,867.8	1,867.8	–
Board of Internal Economy	219.9	219.9	–
Children and Youth Services	4,346.1	4,448.1	102.0
Citizenship, Immigration and International Trade	220.8	194.0	(26.8)
Community and Social Services	11,467.5	11,470.2	2.7
Community Safety and Correctional Services	2,649.5	2,649.5	–
Economic Development, Employment and Infrastructure / Research and Innovation[1]	1,177.0	1,177.0	–
Education[1]	25,635.8	25,635.8	–
Energy[1]	322.1	322.1	–
Environment and Climate Change	531.4	531.4	–
Executive Offices	44.0	47.9	3.9
Finance[1]	963.1	963.1	–
Francophone Affairs, Office of	5.7	5.7	–
Government and Consumer Services	607.6	607.6	–
Health and Long-Term Care	51,785.2	51,815.6	30.4
Labour	309.5	309.5	–
Municipal Affairs and Housing[1]	900.0	900.0	–
Natural Resources and Forestry[1]	750.6	750.6	–
Northern Development and Mines	790.7	790.7	–
Tourism, Culture and Sport[1]	1,250.8	1,273.5	22.7
Training, Colleges and Universities	7,876.8	7,876.8	–
Transportation	3,850.9	3,850.9	–
Treasury Board Secretariat[1]	316.9	320.3	3.4
Interest on Debt[2]	11,756.0	11,756.0	–
Other Expense[1]	4,056.8	3,914.5	(142.3)
Year-End Savings[3]	(800.0)	(800.0)	–
Total Expense	**133,895.4**	**133,896.3**	**0.9**

1 Details on other ministry expense can be found in the Details of Other Expense table.

2 Interest on debt is net of interest capitalized during construction of tangible capital assets of $183 million in 2016–17.

3 As in past years, the Year-End Savings provision reflects efficiencies through in-year expenditure management and underspending due to factors such as program management, and changes in project startups and implementation plans.

Notes: Numbers may not add due to rounding.

The impact of recently announced ministry restructuring will be reflected in future updates.

Details of Other Expense

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Ministry Expense			
Aboriginal Affairs			
One-Time Investments including Settlements	–	0.4	0.4
Agriculture, Food and Rural Affairs			
Time-Limited Investments in Infrastructure	–	116.4	116.4
Economic Development, Employment and Infrastructure / Research and Innovation			
Federal-Provincial Infrastructure Programs	618.7	502.2	(116.4)
Education			
Teachers' Pension Plan[1]	(452.0)	(452.0)	–
Energy			
Strategic Asset Management and Transformation Related to Hydro One	70.9	70.9	–
Finance			
Ontario Municipal Partnership Fund	505.0	505.0	–
Power Supply Contract Costs	643.1	643.1	–
Municipal Affairs and Housing			
Time-Limited Investments in Municipal, Social and Affordable Housing	160.3	160.3	–
Other Time-Limited Investments	–	0.9	0.9
Natural Resources and Forestry			
Emergency Forest Firefighting	69.8	69.8	–
Tourism, Culture and Sport			
Time-Limited Investments to Support 2015 Pan/Parapan American Games	88.6	88.6	–
Treasury Board Secretariat			
Capital Contingency Fund	100.0	100.0	–
Operating Contingency Fund	1,100.0	956.4	(143.6)
Employee and Pensioner Benefits	1,152.5	1,152.5	–
Total Other Expense	**4,056.8**	**3,914.5**	**(142.3)**

[1] Numbers reflect Public Sector Accounting Board pension expense. Ontario's matching contributions to the plan is $1,664 million in 2016–17.

Notes: Numbers may not add due to rounding.

The impact of recently announced ministry restructuring will be reflected in future updates.

2016–17 Infrastructure Expenditures

($ Millions)	2016–17 Current Outlook		
Sector	**Investment in Capital Assets[1]**	**Transfers and Other Infrastructure Expenditures[2]**	**Total Infrastructure Expenditures[3]**
Transportation			
Transit	4,701	688	5,389
Provincial Highways	2,108	43	2,150
Other Transportation, Property and Planning	603	166	768
Health			
Hospitals	2,621	263	2,884
Other Health	60	248	308
Education	1,834	171	2,005
Postsecondary			
Colleges and Other	608	4	613
Universities	–	187	187
Social	8	304	311
Justice	58	197	255
Other Sectors[4]	436	934	1,370
Total	**13,038**	**3,202**	**16,240**

1 Includes $183 million in interest capitalized during construction.

2 Includes transfers to municipalities, universities and non-consolidated agencies.

3 Includes third party investments in hospitals, colleges and schools; and provisional federal contributions to provincial infrastructure investments.

4 Includes government administration, natural resources, culture and tourism sectors.

Note: Numbers may not add due to rounding.

Review of Selected Financial and Economic Statistics

($ Millions)	2012–13	2013–14	2014–15	Interim 2015–16	Current Outlook 2016–17
Revenue	**113,369**	**115,911**	**118,546**	**126,547**	**130,590**
Expense					
Programs	112,248	115,792	118,225	120,883	122,140
Interest on Debt[1]	10,341	10,572	10,635	11,200	11,756
Total Expense	**122,589**	**126,364**	**128,860**	**132,083**	**133,896**
Surplus/(Deficit) Before Reserve	**(9,220)**	**(10,453)**	**(10,314)**	**(5,536)**	**(3,306)**
Reserve	–	–	–	150	1,000
Surplus/(Deficit)	**(9,220)**	**(10,453)**	**(10,314)**	**(5,686)**	**(4,306)**
Net Debt	252,088	267,190	284,576	296,109	308,315
Accumulated Deficit	167,132	176,634	187,511	193,447	197,753
Gross Domestic Product (GDP) at Market Prices	680,084	693,210	721,970	747,101	779,407
Primary Household Income	459,111	473,905	490,412	508,714	531,151
Population – July (000s)	13,410	13,551	13,678	13,792	13,960
Net Debt per Capita (dollars)	18,798	19,717	20,806	21,470	22,086
Household Income per Capita (dollars)	34,236	34,972	35,855	36,885	38,048
Interest on Debt as a Per Cent of Revenue	9.1	9.1	9.0	8.9	9.0
Net Debt as a Per Cent of GDP	37.1	38.5	39.4	39.6	39.6
Accumulated Deficit as a Per Cent of GDP	24.6	25.5	26.0	25.9	25.4

[1] Interest on debt is net of interest capitalized during construction of tangible capital assets of $134 million in 2013–14, $202 million in 2014–15, $131 million in 2015–16, and $183 million in 2016–17.

Sources: Ontario Ministry of Finance and Statistics Canada.

Section F: Ontario's 2016–17 Financing Program

Province and Ontario Electricity Financial Corporation

($ Billions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Deficit/(Surplus)	4.3	4.3	–
Investment in Capital Assets	11.2	11.2	–
Non-Cash Adjustments	(5.8)	(5.8)	–
Other Net Loans/Investments	(0.9)	(1.1)	(0.2)
Debt Maturities	21.5	21.2	(0.2)
Debt Redemptions	0.1	0.1	–
Total Funding Requirement	**30.3**	**29.8**	**(0.4)**
Canada Pension Plan Borrowing	(0.1)	(0.1)	–
Decrease/(Increase) in Short-Term Borrowing	(1.0)	(1.0)	–
Increase/(Decrease) in Cash and Cash Equivalents	(2.7)	(2.3)	0.4
Preborrowing from 2015–16	–	(2.0)	(2.0)
Total Long-Term Public Borrowing Requirement	**26.4**	**24.4**	**(2.0)**

Note: Numbers may not add due to rounding.

Borrowing Program Status (as at June 30, 2016)

($ Billions)	Completed	Remaining	Total
Province	8.1	16.3	24.4
Ontario Electricity Financial Corporation	0.0	0.0	0.0
Total	**8.1**	**16.3**	**24.4**

Note: Numbers may not add due to rounding.

Long-Term Public Borrowing completed as at June 30, 2016 totalled $8.1 billion, as follows:

	($ Billions)
Domestic Issues	4.5
Global/US Dollar/Other Issues	3.6
	8.1

As of June 30, 2016, approximately 55 per cent of this year's borrowing was completed in Canadian dollars. The Province may revise its Canadian dollar borrowing target of 75 per cent published in the *2016 Budget* if international demand for Ontario bonds outpaces domestic demand.

Ministry of Finance www.fin.gov.on.ca

For general inquiries regarding the 2016–17 First Quarter Finances, please call:

Toll-free English & French inquiries: 1-800-337-7222
Teletypewriter (TTY): 1-800-263-7776

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Attachment Press Quality.joboptions (30098 Bytes) cannot be converted to PDF format.

From:	Lynsey Wynberg
To:	Alexander Kraas
Cc:	Erica Wieder; Ken Kandeepan
Subject:	FW: Q3 FPC Deck and Q3 Document Template / Request for Input
Date:	Tuesday, January 24, 2017 9:23:58 AM
Attachments:	June MMP Contingency Fund Outlook and Expense Risks.pptx Third Quarter Finances_v1a_0127.docx
Importance:	High

Hi Alex,

Are you able to provide information to complete the sentence highlighted in blue in the attached Word document?

Thanks,
Lynsey

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Monday, January 23, 2017 10:05 PM
To: Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Law, Rex (TBS) <Rex.Law@ontario.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>
Cc: Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: Q3 FPC Deck and Q3 Document Template / Request for Input
Importance: High

Hi All,

OB is in the process of preparing a draft Q3 deck that will track to FPC this Wednesday. The deck lays out the key 2016-17 building blocks that could be updated as part of the Q3 publication. In addition, we're updating a draft Q3 document template. We'll need input from your areas on both these products this week. I'm including additional information below.

For the **FPC Q3 deck**, it would be appreciated if we could get the following information from TBS by **noon/early afternoon tomorrow (apologies for the tight timelines)**:

- **16-17 post-FES Expense Update (TBS):** We have included placeholder for an expense slide. The intention is for the slide to provide an updated list of initiatives that were not included in the FES expense outlook.
- **Recommended Expense Update/Signature Initiatives (TBS):** We may build in options for what the outlook could look like – it would helpful if you could provide a recommendation for the expense changes that should be taken on/profiled.
- **16-17 C-Fund Update (PEMD):** We have included a c-fund slide that was used in the Q1 finances briefing materials (attached with current PW). We would like to include an updated version of this slide in the appendix of the FPC deck. It would help to have this out to 19-20.
- **Pension Narrative (OPCD):** High level bullets on the pension adjustment.

For the **Q3 Document Template** (attached), we're looking for input from **PEMD, OPCD, OEP and OFA** by **10am on Friday, January 27**:

- Attached is a draft of Q3 finances template that is based heavily off of the 2016 First Quarter Finances. **We've highlighted the sections that we would like your respective areas to update in the enclosed.**
- Note, there will be some highlighted content that is *not possible* to update for Friday, however there will be a formal distribution process where additional information can be incorporated.

Please feel free to send input directly to Liane and Emma (in copy).

Many thanks,
Ryan

Contingency Fund Outlook and Expense Risks

Contingency Fund Outlook

$ Billions	2014-15	2015-16	2016-17	2017-18	2018-19
Opening contingency fund balance	**0.5**	**0.7**	**1.2**	**1.7**	**3.5**
Less: Approvals to date[1]	0.0	0.0	0.3	0.5	0.6
Current contingency fund balance	**0.5**	**0.6**	**0.9**	**1.2**	**2.9**
Less: Compensation Risks set-aside	-	-	0.4	0.9	1.6
Less: Moving Ontario Forward set-aside	-	-	-	0.0	0.4
Contingency fund balance incl. set-asides			**0.5**	**0.3**	**0.9**

Includes Drug Program changes, Child Welfare, Northern Health Action Plan, Action Plan for Reconciliation, School Renewal Funding

Accommodates approximately 1.4% increases in next round of bargaining

[1] For 2014-15 and 2015-16, approvals through Q3 are shown.

- Of the remaining 2016-17 contingency fund, $0.6 billion is encumbered for education capital appropriation, leaving $0.3 billion to cover any contingencies.
- The 2016 Budget included a larger contingency fund, primarily due to funds set aside for future compensation increases and outside the GTHA Moving Ontario Forward projects.
- There have been more draws from the contingency fund in the current fiscal cycle, compared to recent years.
- The remaining contingency fund balance would be used to offset risks.

Expense Risks: Items to be managed

$ Billions	2016-17	2017-18	2018-19
Identified high-likelihood risks	0.4	0.7	1.0
PRRT boulder risks	0.1	0.3	0.3
Cap and trade not applied against in-plan items as assumed	-	0.0	0.6
Other likely funding requests	0.6	0.7	0.7
Total items to be managed*	**1.0**	**1.7**	**2.6**

Pressures such as: Health, Social Assistance caseloads, emergencies, Complex Special needs

Risks include: Business Supports, Benefits Transformation and NTR/full cost recovery

Health, MTO (including UP Express), Business Growth Initiative request, Drive Clean.

* Does not include a remedy for the Bill 115 court decision

$ Billions	2014-15	2015-16	2016-17	2017-18	2018-19
Year-end Savings Target	**1.1**	**1.0**	**0.8**	**1.0**	**1.0**
Total Risks to be managed			**1.8**	**2.7**	**3.6**

- In past years, unspent contingency funds have been used to meet the year-end savings target.
- An initiatives envelope for the 2017 or 2018 Budgets has not yet been incorporated into the fiscal plan.

Note: Numbers may not add due to rounding

MINISTRY OF FINANCE

2016–17 Third Quarter Finances
[Draft – January 23, 11:00 am]

[February 2017]

Contents

A. 2016–17 Fiscal Outlook X

B. Details of In-Year Changes X

C. Ontario's Economic Outlook X

D. Economic Performance X

E. Details of Ontario's Finances X

F. Ontario's 2016–17 Financing Program X

Introduction

The Ontario Quarterly Finances contains updated information about Ontario's 2016–17 fiscal outlook, including updated information about the major components of revenue and expense as set out in the *2016 Budget*.

Section A: 2016–17 Fiscal Outlook (OEP, TBS, OFA, Framework)

The government is projecting a deficit of $[X.X] billion in 2016–17, [an improvement of $X.X billion] compared to the 2016 Budget.

As outlined in the *2016 Budget,* the government is [on track to balance the budget by 2017–18 and is projecting to remain balanced in 2018–19. The government's path to a balanced budget is being achieved through responsible fiscal management, which involves managing growth in program spending and maintaining the integrity of Provincial revenues. The strengthening of the Ontario economy, together with the government's approach to fiscal management, is supporting strategic investments in new child care spaces, hospitals and electricity cost relief for consumers.]

[Placholder for Pension Narrative (OPCD)]

[Placholder for Economic Update (OEP)]

2016–17 In-Year Fiscal Performance

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Revenue	**130,589**	**[X.X]**	**–**
Expense			
Programs	122,139	[X.X]	–
Interest on Debt	11,756	[X.X]	–
Total Expense	**133,895**	**[X.X]**	**–**
Surplus/(Deficit) Before Reserve	**(3,306)**	**[X.X]**	**–**
Reserve	1,000	[X.X]	–
Surplus/(Deficit)	**(4,306)**	**[X.X]**	**–**

Note: Numbers may not add due to rounding.

Total revenue is projected to be $[X.X] billion, [an improvement/deterioration of $X.X billion compared to the 2016 Budget.] — [placeholder for high-level revenue change explanation]

The outlook for Provincial program expense, at $[X.X] billion, is [an improvement/deterioration of $X.X billion compared to the 2016 Budget.] — reflecting [placeholder for high-level program expense change explanation]

The Province's interest on debt expense forecast, at $X.X billion, is [an improvement/deterioration of $X.X billion compared to the 2016 Budget forecast.]

The 2016–17 outlook also maintains a $[X.X] billion reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance or the impact of natural disasters.

Further details on the Province's fiscal plan, will be provided in the upcoming 2017 Budget.

Section B: Details of In-Year Changes (OEP, PEMD, OFA, Framework)

Revenue (OEP)

The 2016–17 revenue outlook, at $[X.X] billion, is [an improvement/deterioration of $X.X billion compared to the 2016 Budget]. Since the *2016 Budget,* the following changes have been made to the revenue outlook for 2016–17:

- [Placholder for revenue changes]

[Placeholder for language on risks to the revenue/economic outlook]

Expense (PEMD, OFA)

The 2016–17 total expense outlook, at $[X.X] billion, is [placholder for expense language]

Key changes to expense projections with offsets from the contingency funds include:

- [Placeholder]

Other key changes to expense projections include:

- [Placeholder]

[Placholder for language on interest on debt changes]

Asset Optimization (OFA)

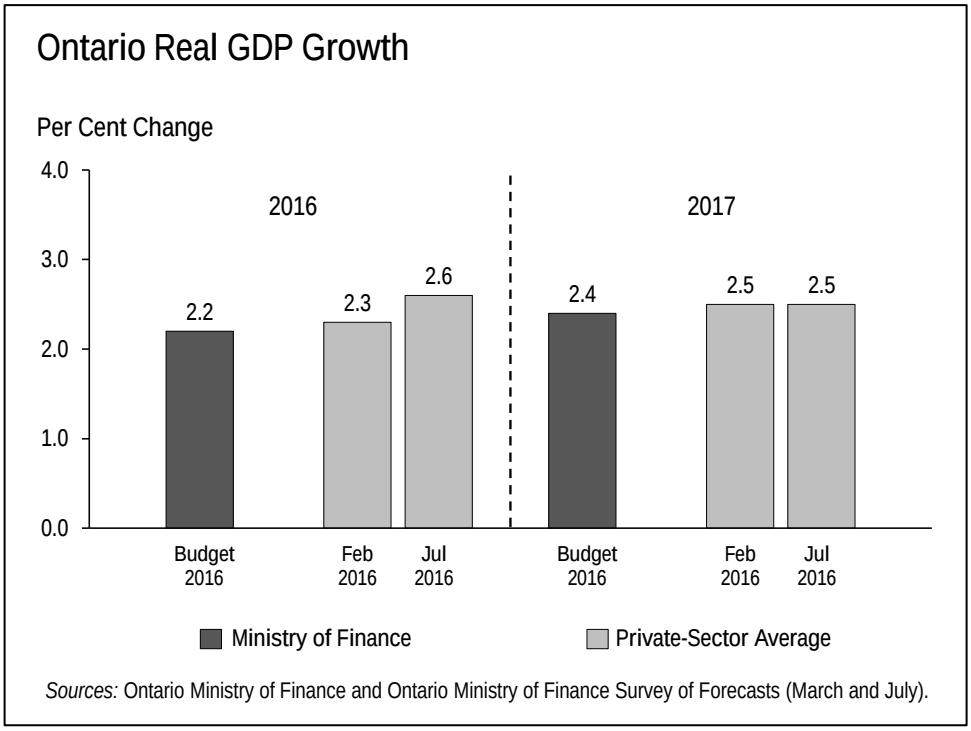
[Placeholder for language on Asset Optimization]

Fiscal Prudence

[Placeholder for language on prudence]

Section C: Ontario's Economic Outlook (OEP)

[Placeholder for language on the economic outlook]



Section D: Economic Performance (OEP)

[Placeholder for language on economic performance]

(Seasonally adjusted per cent change from previous period, unless indicated otherwise)

	Monthly 2016			Quarterly			Annual
	Oct	Nov	Dec	2016Q1	2016Q2	2016Q3	2015
Gross Domestic Product							
Real GDP	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Nominal GDP	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Labour Market							
Labour Force (Change in 000s)	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Employment (Change in 000s)	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Unemployment Rate (%)	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Household Sector							
Retail Sales	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Housing Starts	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
MLS Home Resales	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Manufacturing Sales							
Transportation Equipment	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Consumer Price Index[1]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]

[1] Per cent change from a year earlier, data not seasonally adjusted.

N/A = Data not available.

Sources: Statistics Canada, Ontario Ministry of Finance, Canada Mortgage and Housing Corporation, and Canadian Real Estate Association.

Section E: Details of Ontario's Finances (OEP, TBS, OFA)

Revenue

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Taxation Revenue			
Personal Income Tax	32,167	[X.X]	
Sales Tax[1]	23,976	[X.X]	
Corporations Tax	12,050	[X.X]	
Education Property Tax[2]	5,834	[X.X]	
Employer Health Tax	6,007	[X.X]	
Ontario Health Premium	3,604	[X.X]	
Gasoline Tax	2,522	[X.X]	
Land Transfer Tax	2,051	[X.X]	
Tobacco Tax	1,221	[X.X]	
Fuel Tax	790	[X.X]	
Beer and Wine Tax	611	[X.X]	
Electricity Payments-In-Lieu of Taxes	515	[X.X]	
Other Taxes	471	[X.X]	
	91,819	**[X.X]**	
Government of Canada			
Canada Health Transfer	13,858	[X.X]	
Canada Social Transfer	5,128	[X.X]	
Equalization	2,304	[X.X]	
Infrastructure Programs	1,017	[X.X]	
Labour Market Programs	989	[X.X]	
Social Housing	434	[X.X]	
Other Federal Payments	914	[X.X]	
	24,644	**[X.X]**	
Government Business Enterprises			
Ontario Lottery and Gaming Corporation	1,953	[X.X]	
Liquor Control Board of Ontario	2,025	[X.X]	
Ontario Power Generation Inc./Hydro One Ltd./ Brampton Distribution Holdco Inc.	1,049	[X.X]	
	5,027	**[X.X]**	
Other Non-Tax Revenue			
Reimbursements	983	[X.X]	
Vehicle and Driver Registration Fees	1,751	[X.X]	
Electricity Debt Retirement Charge	625	[X.X]	
Power Supply Contract Recoveries	643	[X.X]	
Sales and Rentals	2,421	[X.X]	
Cap-and-Trade Proceeds	478	[X.X]	
Other Fees and Licences	987	[X.X]	
Net Reduction of Power Purchase Contract Liability	129	[X.X]	
Royalties	287	[X.X]	
Miscellaneous Other Non-Tax Revenue	795	[X.X]	
	9,099	**[X.X]**	
Total Revenue	**130,589**	**[X.X]**	

1 Sales Tax revenue is net of the Ontario Sales Tax Credit and the energy component of the Ontario Energy and Property Tax Credit.

2 Education Property Tax revenue is net of the property tax credit component of the Ontario Energy and Property Tax Credit and the Ontario Senior Homeowners' Property Tax Grant.

Note: Numbers may not add due to rounding.

Total Expense

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Ministry Expense			
Aboriginal Affairs[1]	77.0	[X.X]	
Agriculture, Food and Rural Affairs[1]	915.9	[X.X]	
Attorney General	1,867.8	[X.X]	
Board of Internal Economy	219.9	[X.X]	
Children and Youth Services	4,346.1	[X.X]	
Citizenship, Immigration and International Trade	220.8	[X.X]	
Community and Social Services	11,467.5	[X.X]	
Community Safety and Correctional Services	2,649.5	[X.X]	
Economic Development, Employment and Infrastructure / Research and Innovation[1]	1,177.0	[X.X]	
Education[1]	25,635.8	[X.X]	
Energy[1]	322.1	[X.X]	
Environment and Climate Change	531.4	[X.X]	
Executive Offices	44.0	[X.X]	
Finance[1]	963.1	[X.X]	
Francophone Affairs, Office of	5.7	[X.X]	
Government and Consumer Services	607.6	[X.X]	
Health and Long-Term Care	51,785.2	[X.X]	
Labour	309.5	[X.X]	
Municipal Affairs and Housing[1]	900.0	[X.X]	
Natural Resources and Forestry[1]	750.6	[X.X]	
Northern Development and Mines	790.7	[X.X]	
Tourism, Culture and Sport[1]	1,250.8	[X.X]	
Training, Colleges and Universities	7,876.8	[X.X]	
Transportation	3,850.9	[X.X]	
Treasury Board Secretariat[1]	316.9	[X.X]	
Interest on Debt[2]	11,756.0	[X.X]	
Other Expense[1]	4,056.8	[X.X]	
Year-End Savings[3]	(800.0)	[X.X]	
Total Expense	**133,895.4**	**[X.X]**	

1 Details on other ministry expense can be found in the Details of Other Expense table.

2 Interest on debt is net of interest capitalized during construction of tangible capital assets of $X.X million in 2016–17.

3 As in past years, the Year-End Savings provision reflects efficiencies through in-year expenditure management and underspending due to factors such as program management, and changes in project startups and implementation plans.

Notes: Numbers may not add due to rounding.

The impact of recently announced ministry restructuring will be reflected in future updates.

Details of Other Expense

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Ministry Expense			
Aboriginal Affairs			
One-Time Investments including Settlements	–	[X.X]	
Agriculture, Food and Rural Affairs			
Time-Limited Investments in Infrastructure	–	[X.X]	
Economic Development, Employment and Infrastructure / Research and Innovation			
Federal-Provincial Infrastructure Programs	618.7	[X.X]	
Education			
Teachers' Pension Plan[1]	(452.0)	[X.X]	
Energy			
Strategic Asset Management and Transformation Related to Hydro One	70.9	[X.X]	
Finance			
Ontario Municipal Partnership Fund	505.0	[X.X]	
Power Supply Contract Costs	643.1	[X.X]	
Municipal Affairs and Housing			
Time-Limited Investments in Municipal, Social and Affordable Housing	160.3	[X.X]	
Other Time-Limited Investments	–	[X.X]	
Natural Resources and Forestry			
Emergency Forest Firefighting	69.8	[X.X]	
Tourism, Culture and Sport			
Time-Limited Investments to Support 2015 Pan/Parapan American Games	88.6	[X.X]	
Treasury Board Secretariat			
Capital Contingency Fund	100.0	[X.X]	
Operating Contingency Fund	1,100.0	[X.X]	
Employee and Pensioner Benefits	1,152.5	[X.X]	
Total Other Expense	**4,056.8**	**[X.X]**	

[1] Numbers reflect Public Sector Accounting Board pension expense. Ontario's matching contributions to the plan is $X.X million in 2016–17.

Notes: Numbers may not add due to rounding.

The impact of recently announced ministry restructuring will be reflected in future updates.

2016–17 Infrastructure Expenditures

($ Millions)	2016–17 Current Outlook		
Sector	**Investment in Capital Assets[1]**	**Transfers and Other Infrastructure Expenditures[2]**	**Total Infrastructure Expenditures[3]**
Transportation			
Transit	[X.X]	[X.X]	[X.X]
Provincial Highways	[X.X]	[X.X]	[X.X]
Other Transportation, Property and Planning	[X.X]	[X.X]	[X.X]
Health			
Hospitals	[X.X]	[X.X]	[X.X]
Other Health	[X.X]	[X.X]	[X.X]
Education	[X.X]	[X.X]	[X.X]
Postsecondary			
Colleges and Other	[X.X]	[X.X]	[X.X]
Universities	[X.X]	[X.X]	[X.X]
Social	[X.X]	[X.X]	[X.X]
Justice	[X.X]	[X.X]	[X.X]
Other Sectors[4]	[X.X]	[X.X]	[X.X]
Total	**[X.X]**	**[X.X]**	**[X.X]**

1 Includes $X.X million in interest capitalized during construction.

2 Includes transfers to municipalities, universities and non-consolidated agencies.

3 Includes third party investments in hospitals, colleges and schools; and provisional federal contributions to provincial infrastructure investments.

4 Includes government administration, natural resources, culture and tourism sectors.

Note: Numbers may not add due to rounding.

Review of Selected Financial and Economic Statistics

($ Millions)	2012–13	2013–14	2014–15	Actual 2015–16	Current Outlook 2016–17
Revenue	**113,369**	**115,911**	**118,546**	**128,377**	**[X.X]**
Expense					
Programs	112,248	115,792	118,225	122,439	[X.X]
Interest on Debt[1]	10,341	10,572	10,635	10,967	[X.X]
Total Expense	**122,589**	**126,364**	**128,860**	**133,406**	**[X.X]**
Surplus/(Deficit) Before Reserve	**(9,220)**	**(10,453)**	**(10,314)**	**(5,029)**	**[X.X]**
Reserve	–	–	–	–	[X.X]
Surplus/(Deficit)	**(9,220)**	**(10,453)**	**(10,314)**	**(5,029)**	**[X.X]**
Net Debt	252,088	267,190	284,576	305,233	[X.X]
Accumulated Deficit	167,132	176,634	187,511	202,697	[X.X]
Gross Domestic Product (GDP) at Market Prices	680,084	693,210	721,970	763,276	[X.X]
Primary Household Income	459,111	473,905	490,412	511,781	[X.X]
Population – July (000s)	13,410	13,551	13,678	13,797	[X.X]
Net Debt per Capita (dollars)	18,798	19,717	20,806	22,123	[X.X]
Household Income per Capita (dollars)	34,236	34,972	35,855	37,094	[X.X]
Interest on Debt as a Per Cent of Revenue	9.1	9.1	9.0	8.5	[X.X]
Net Debt as a Per Cent of GDP	37.1	38.5	39.4	40.0	[X.X]
Accumulated Deficit as a Per Cent of GDP	24.6	25.5	26.0	26.6	[X.X]

[1] Interest on debt is net of interest capitalized during construction of tangible capital assets of $134 million in 2013–14, $202 million in 2014–15, $X.X million in 2015–16, and $X.X million in 2016–17.

Sources: Ontario Ministry of Finance and Statistics Canada.

Section F: Ontario's 2016–17 Financing Program (OFA)

Province and Ontario Electricity Financial Corporation

($ Billions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Deficit/(Surplus)	4.3	[X.X]	
Investment in Capital Assets	11.2	[X.X]	
Non-Cash Adjustments	(5.8)	[X.X]	
Other Net Loans/Investments	(0.9)	[X.X]	
Debt Maturities	21.5	[X.X]	
Debt Redemptions	0.1	[X.X]	
Total Funding Requirement	**30.3**	**[X.X]**	
Canada Pension Plan Borrowing	(0.1)	[X.X]	
Decrease/(Increase) in Short-Term Borrowing	(1.0)	[X.X]	
Increase/(Decrease) in Cash and Cash Equivalents	(2.7)	[X.X]	
Preborrowing from 2015–16	–	[X.X]	
Total Long-Term Public Borrowing Requirement	**26.4**	**[X.X]**	

Note: Numbers may not add due to rounding.

Borrowing Program Status (as at [DATE], 2016)

($ Billions)	Completed	Remaining	Total
Province	[X.X]	[X.X]	[X.X]
Ontario Electricity Financial Corporation	[X.X]	[X.X]	[X.X]
Total	**[X.X]**	**[X.X]**	**[X.X]**

Note: Numbers may not add due to rounding.

Long-Term Public Borrowing completed as at [DATE], 2016 totalled $X.X billion, as follows:

	($ Billions)
Domestic Issues	[X.X]
Global/US Dollar/Other Issues	[X.X]
	[X.X]

[As of [DATE], 2016, approximately X.X per cent of this year's borrowing was completed in Canadian dollars. The Province may revise its Canadian dollar borrowing target of 75 per cent published in the *2016 Budget* if international demand for Ontario bonds outpaces domestic demand.]

Ministry of Finance www.fin.gov.on.ca

For general inquiries regarding the 2016–17 First Quarter Finances, please call:

Toll-free English & French inquiries: 1-800-337-7222
Teletypewriter (TTY): 1-800-263-7776

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Chart Descriptions: Alternative Text for Web Accessibility

Chart: Ontario Real GDP Growth (OEP)

[Placeholder for Alt text on the Ontario Real GDP Growth chart]

From:	Ken Kandeepan
To:	Ricky Lai
Subject:	FW: Q3 update
Date:	Wednesday, February 01, 2017 10:58:11 AM
Attachments:	FPC_Q3Finances_Deck v6.pptx FPC_Q3_FiscalStrategyPlacemat_v6.pptx Key Planning and Public Reporting Dates_Feb1.docx MMP Meeting - Agenda - Feb9.docx

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From: Ken Kandeepan
Sent: Wednesday, February 01, 2017 9:58 AM
To: John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>
Subject: FW: Q3 update

Hi All

Pls note preferred option and the proposed Q3 date. Once Gadi confirms today that FPC has indeed approved both we can proceed towards finalizing the Financing Table. Note that option 4 which is the preferred option, projects a deficit that is lower than simply removing the pension adjustment. If I remember correctly the maturities are also lower by $282M.

My preference is to offset the lower maturities through cash and reduce the long term borrowing by the reduction in the deficit that is over and above the removal of the pension adjustment. Having said that, the latter is relatively small so Gadi may choose maintain the long term borrowing at FES levels and adjust this as well through cash. Once I hear back from him we can target say Friday or Monday to present a first cut of the FT and the revised net debt to GDP ratios.

Kevin if you have not yet done so, pls revise the non-cash by the amount of the pension adjustment.

Thanks and happy to discuss.

Ken k

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Tuesday, January 31, 2017 6:18 PM
To: Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Tim Cook (MOF) <Tim.Cook@ontario.ca>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca>; Sharon Stuckless (TCU) <Sharon.Stuckless@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca>; Raj Sharda (MOHLTC) <Raj.Sharda@ontario.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>

Subject: RE: Q3 update

Hi Everyone – I'm attaching for you, the materials for tomorrow's FPC discussion, including:

- Q3 Finances background (updated for new proposed release date, recommended option highlighted, and additional information on letter to Clerk)
- Q3 Finances option placemat (also updated to highlight recommended option)
- One-pager highlighted key dates for various deliverables and confirmation of timing (LTR, Q3, Pensions Panel, letter to clerk, new electricity relief, tentative Document track)
- One-pager with proposed agenda for Feb 9th MMP.

Thanks for your own going support and cooperation.

From: Esmail, Selena (MOF)
Sent: January-27-17 7:07 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: Re: Q3 update

Hi everyone - here are versions we are going to use to brief our minister on monday.

Many thanks for your help.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Esmail, Selena (MOF)
Sent: Friday, January 27, 2017 12:07 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update

Hi Everyone – just wanted to share with you the latest on the strategy for Q3. We are headed back to FPC next week with a further 2 scenarios on the deficit target that could be published. In addition to the ones we took earlier this week – two new options are proposed – one is to reverse the pensions only (option 1 in the materials), and the second is to take on a certain amount of ministry pressures we think will materialize (option 4 in the materials).

In terms of the materials – there is both a deck and a placemat that we are proposing to take forward. The placemat illustrates the 4 options and includes how the revenue/expense change table would appear relative to Budget and some proposed narrative for each scenario.

The deck is very similar to what we took forward last week but has a couple of new slides. Tim has also just circulated to your ADMs

Can I ask that you specifically take a look at slide 8 to ensure you are comfortable with the wording

as well as the **narrative on the placemat** that would be helpful. But happy to hear any comments on the rest of it as well. We are looking for any comments back by 3:30pm today so we can finalize and send up to our DM/MO today.

And – we are continuing to track for a release on Feb 13 and we will be in touch to request your assistance.

Happy to discuss.

Thanks.

From: Esmail, Selena (MOF)
Sent: January-24-17 3:48 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update

Hi Everyone – sending along the most current draft of the deck we are planning to take forward to FPC tomorrow.

Comments welcome – if you could let me know asap if you have them. Heads up that timing of release of the Q3 may be even sooner as noted in this deck

---

From: Esmail, Selena (MOF)
Sent: January-23-17 12:43 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update
Importance: High

Hi All,

Following up on my email from last week, we received relatively recent direction regarding the release of Ontario's Third Quarter Finances – the tentative plan is to publish Q3 finances ahead of the February 15 deadline. We are tentatively tracking a release date of Monday February 13.

As you can imagine, timelines are very compressed, and includes a possible trip to FPC this week. In order to meet this week's deadlines, while also preparing for the release of the actual publication, we're asking for input from you in stages:

EOD Today:
We have prepared the draft of a deck, which we are working towards tabling at this Wednesday's FPC (TBC). The deck lays out the key 2016-17 building blocks that could be updated as part of the Q3 publication. It would help if we could get the

following from you folks by the end of today:
16-17 post-FES expense update: We have included placeholder for an expense slide. The intention is for the slide to provide an updated list of initiatives that were not included in the FES expense outlook.
Recommended expense update/signature initiatives: We may build in options for what the outlook could look like – it would help if you could provide a recommendation for the expense changes that should be taken on/profiled.
16-17 c-fund update: We have included a c-fund slide that was used in the Q1 finances briefing materials (current PW). We would like to include an updated version of this slide in the FPC deck (appendix). It would help to have this out to 19-20.
Pension Narrative: Nadine – I'll connect on the pension adjustment and some high level bullets that we could use.

Noon Friday January 27:
Template: I've attached a draft of 3q finances that is based heavily off of the 2016 First Quarter Finances. We've highlighted in green the sections that we would like you to update. While I'm not 100% certain this structure will be exactly what the Q3 document will look like, I think it's safe to say that the substantive content we'll have to cover is captured here. There will be some highlighted content that is *not possible* to update for Friday, however there will be a formal distribution process where additional information can be incorporated.

Thanks everyone, and please feel free to send your input directly to Liane and Emma. Im hoping to be able to share a draft deck with you late this evening.

From: Esmail, Selena (MOF)
Sent: January-19-17 2:57 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: Q3 heads up

Hi Everyone – Wanted to send a quick message that we are hearing there is a desire to proceed with the release of a Q3 update around the time we are expecting the Pension Panel panel to release their report. We are going to assume mid feb prior to the house coming back for our planning purposes.

My team is going to work together to put together a list of things we need to start working on/think about along with a calendar to determine and get direction on an approach to coincide with this timeframe.

More details to follow tomorrow.

Thanks.

Ontario's Third Quarter Finances: Fiscal Strategy

Office of the Budget
MINISTRY of FINANCE

Presentation to FPC on February 1, 2017

Preliminary Draft

Draft – January 31, 2017 5:00 PM

Context

Under the *Fiscal Transparency and Accountability Act, 2004* (FTAA), the Third Quarter Finances is required to:

- Be released on or before February 15th (publication can be delayed if a letter is sent to the Clerk).
- Include updated information about the major components of revenue and expense **for the current fiscal year only.**

It also provides an **opportunity for the government to reiterate key fiscal messages** from the Budget or pre-condition for future updates.

A Third Quarter Finances has only been published once in the last eight years (in 2012-13).

Key stakeholders like the Financial Accountability Officer, the Auditor General and rating agencies will assess the fiscal outlook and narrative.

Both have acknowledged that balance is within reach in 2017-18, but have also highlighted key risks to the 2016 Budget fiscal plan.

Purpose and Key Decisions

Currently working towards **a release date of February 21, 2017** – need to **confirm the approach to publishing Ontario's Third Quarter Finances**, including:

- The core updates to **the fiscal outlook and supporting revenue and expense details** to be published, as well as the **fiscal narrative and messaging**.
- Positioning the content and the rollout of Third Quarter Finances relative to the release of the **Pension Panel's Report and recommendations**, and other publicly available information.

Publishing after the February 15th deadline will require that a **letter be sent to the Clerk of the Legislature** advising of the delayed release.

- Letter could be sent on **February 13th** to coincide with the release of the Pension Panel's Report.

Evolution of the 2016-17 Outlook

- The Third Quarter Finances will present a fiscal update relative to the 2016 Budget and address changes since FES in narrative only.
- The 2016 FES highlighted Ontario's stronger economy and the government's approach to fiscal management, which supported strategic investments in new child care spaces, hospitals and electricity cost relief for consumers.
- To support these investments while accommodating the Pension Adjustment, the government took on a number of fiscal tools in order to meet its targets.

2016 Budget Fiscal Plan $ Billions	2016-17	Change to FES 2016-17	FES Outlook 2016-17
Revenue	130.6	*2.1*	132.7
Expense			
Programs	122.1	*3.1*	125.3
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*2.7*	136.6
Surplus/(Deficit) Before Reserve	(3.3)	*(0.6)*	(3.9)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*(0.0)*	(4.3)

Total revenue changes of $2.1 billion, consisting of:

- Base Forecast Change $1.0 billion
- Reversal of Homecare $(0.2) billion
- Federal Agreements $0.4 billion
- Higher assumed revenue to accommodate pensions $0.9 billion

Total expense changes of $2.7 billion, consisting of:

- In-Year Approvals $0.2 billion
- Pension Adjustment of $2.2 billion
- Electricity Cost Relief $0.3 billion
- Support for Hospitals $0.1 billion
- Green Investment Fund $0.3 billion
- New Federal Agreements $0.4 billion
- Contingency Fund Offsets $(0.5) billion
- Interest on Debt Savings $(0.4) billion

Change to the Reserve $(0.6) billion

Treatment of Pension Adjustment

Panel Recommendation

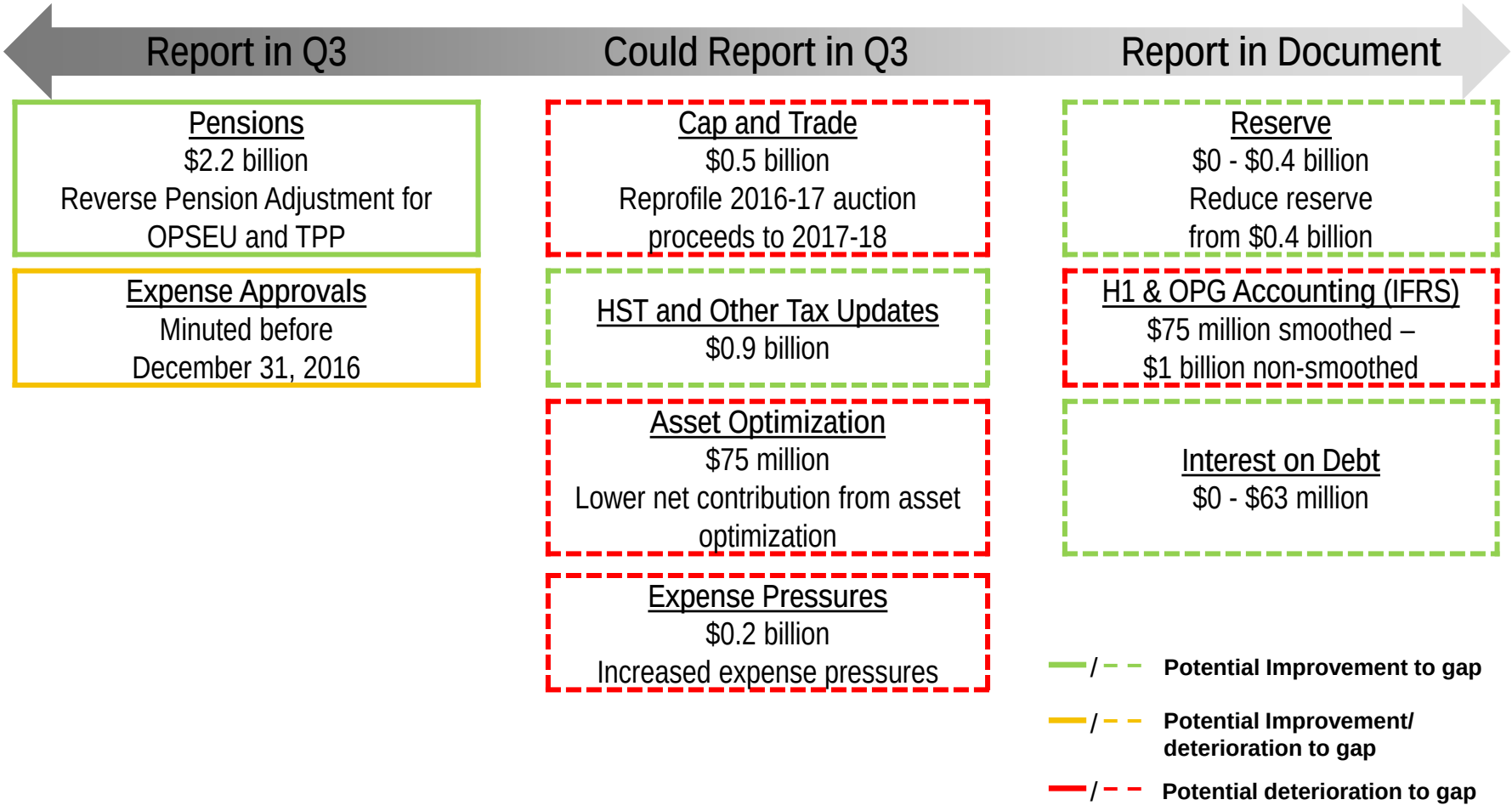
- The Pension Asset Expert Advisory Panel will be releasing its findings in the coming weeks.
  - The report is expected to include advice that the net assets of government jointly sponsored pension plans should be recognized in the Province's financial statements.
  - If taken on, this would result in a positive fiscal impact to the government's outlook in all plan years.

Treatment of Pension Adjustment

- The Third Quarter Finances provides the government with an immediate opportunity to align its fiscal strategy with recommendations of the Panel, and frame the pension narrative in advance of the 2017 Document.
- While the reversal of the pension adjustment to the Ontario Public Service Employees Union Pension Plan (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) will result in an improved 2016-17 deficit, expectations may need to be tempered about how much fiscal room is created in the out-years.
- For consistency and comparability, an adjustment to the 2015-16 actuals will be made to reflect the government's decision to adopt the Panel's recommendations. The adjustment to historical results impacts the previously reported net debt and deficit results as well as the net debt to GDP ratio.

Key Building Blocks

- In addition to the reversal of the Pension Adjustment, other key building blocks will either need to be reported in the Third Quarter Finances or be considered for the 2017 Document.



Building Block Considerations

There are a number of considerations for whether key building blocks should be taken on in the Third Quarter Finances or deferred to the 2017 Document.

Could Report in Third Quarter Finances

Cap and Trade

- The Cap and Trade auction notice that was released on January 20 stating that certification will occur on April 3, 2017, and settlement shortly thereafter.
- Stakeholders (e.g. FAO and Auditor General) may question why the government has not updated its fiscal plan to reflect this change.

HST and Other Tax Updates

- HST updates have been received since the FES, and no further significant updates are expected in advance of the 2017 Document. Other tax information is not as certain and could require additional updates in the 2017 Document.
- Stakeholders are aware of the timing of these information flows and may question if updates are not taken on in Third Quarter Finances.

Asset Optimization

- Updating for revised estimated net contribution from Asset Optimization would build some deterioration into the outlook.
- There are changes / uncertainty on the expected potential gains and/or timing for the H1 Brampton (which has not yet closed), and Seaton Lands sales (still pending), and uncertainty on the final accounting net gains reported for H1 shares purchased by OPG, potentially necessitating additional updates in the 2017 Document.

Expense Pressures

- Ministry risks represent potential pressures in the fiscal plan, and are not typically included in Quarterly updates.
- However, it may be prudent to address expense pressures which may materialize before the 2017 Document.

Report in Document

Reserve

It is recommended that the reserve be maintained at its current level of $0.4 billion, in order to mitigate any pressures that may arise before year-end.

H1 & OPG Accounting (IFRS)

Updated information on the potential fiscal impact of the move from U.S. GAAP to IFRS for Hydro One and OPG, is expected at the end of February.

Interest on Debt

Deferring improvements in the interest on debt forecast allows for upside potential in the 2016-17 interim results of the 2017 Document.

Outstanding Information

- **Outstanding Information** could materially impact the **2016-17 outlook** in advance of the 2017 Document.

Revenue
Revisions to economic outlook
Ongoing provincially-administered tax receipts
Non-tax revenue updates from Ministry PRRT submissions
Net income updates from government business enterprises
Revisions to IFRS - US GAAP impacts for OPG and Hydro One

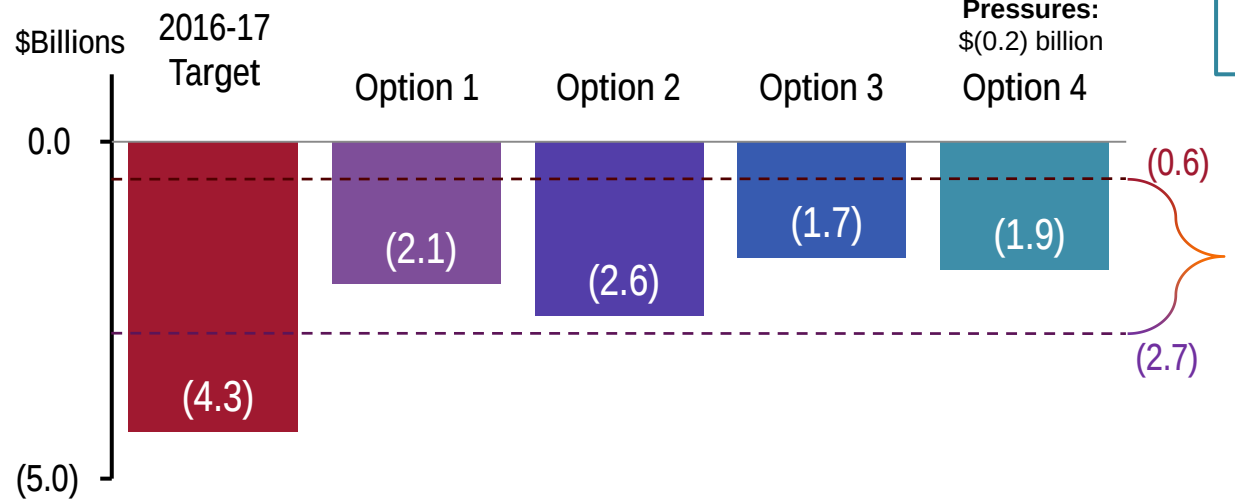
Expense
Ministry Q3/interim submissions
Consolidations and other technical adjustments
Interest on debt forecast updates
Contaminated sites liabilities
Updated pension expense forecast

- Potential improvement to gap
- Potential improvement or deterioration to gap
- Potential deterioration to gap

2016-17 Third Quarter Finances: Deficit Range

Options 1 through 4 build on each other. All options assume the pension reversal and progressively take on additional changes relative to FES .

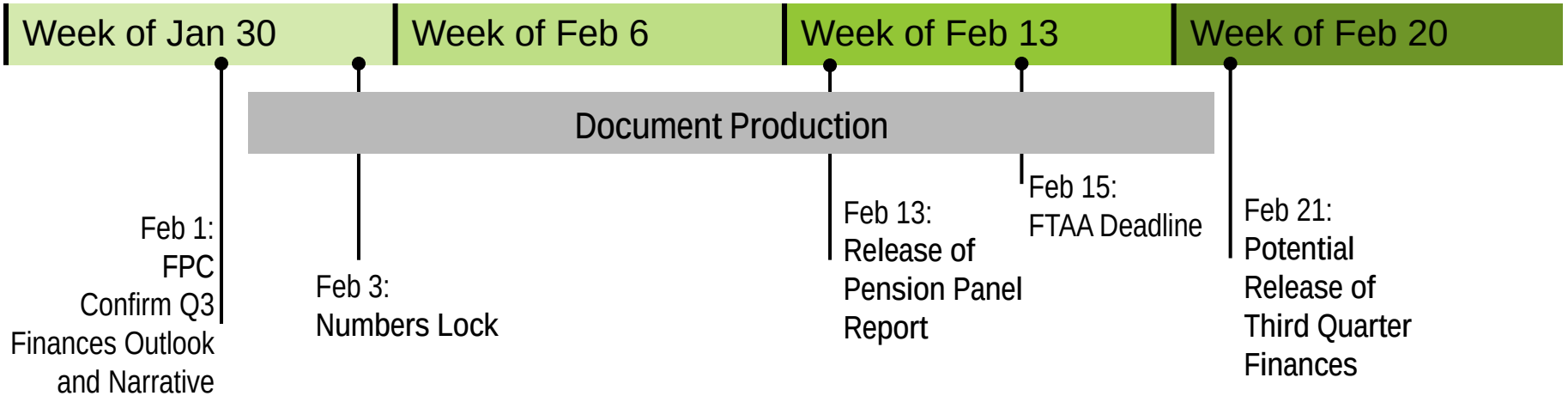
Option 1	Option 2	Option 3	Recommended Option 4
Pensions: $2.2 billion	**Pensions**: $2.2 billion	**Pensions**: $2.2 billion	**Pensions**: $2.2 billion
	Cap and Trade: $(0.5) billion	**Cap and Trade:** $(0.5) billion	**Cap and Trade:** $(0.5) billion
		Asset Optimization: $(0.1) billion	**Asset Optimization:** $(0.1) billion
		HST & Other Taxes: $0.9 billion	**HST & Other Taxes:** $0.9 billion
			Expense Pressures: $(0.2) billion



Range reflects an early-read of the 2016-17 end of year projection.

- Based on an early-read of end of year projections, the government may want to report an outlook that protects against risks or other changes between now and the Budget.
- Based on current information and taking into account key building blocks, there are a number of options for presenting the Q3 deficit, ranging from $2.6 billion to $1.7 billion. These are on the medium-to-low end of what is being tracked for the interim outlook for the 2017 Document.

Next Steps


Week of Jan 30
Week of Feb 6
Week of Feb 13
Week of Feb 20
Document Production
Feb 1:
FPC
Confirm Q3
Finances Outlook
and Narrative
Feb 3:
Numbers Lock
Feb 13:
Release of
Pension Panel
Report
Feb 15:
FTAA Deadline
Feb 21:
Potential
Release of
Third Quarter
Finances

Appendix

End of Year Projection for 2016-17

- An early-read indicates that end of year projections for the 2016-17 deficit could range from $0.6 billion (if there is a significant improvement to the outlook) to $2.7 billion (if there is a moderate improvement to the outlook).

Significant Year-end Improvement

2016 Budget (4.3) billion
+ Pension Adjustment and Tools
2016 FES (4.3) billion
+ Higher Revenue ***1.7 billion***
– Re-profiling Cap and Trade Proceeds ***0.5 billion***
– Lower Net Contribution from Asset Optimization ***75 million***
– Accounting Adjustments: Accounting Framework (IFRS) ***75 million*** Unchanged Contaminated Sites
Unchanged Program Expense
+ Reverse Pension Adjustment ***2.2 billion***
+ Lower Interest on Debt ***0.1 billion***
+ Reduce Reserve ***0.4 billion***
Early-Read (0.6) billion

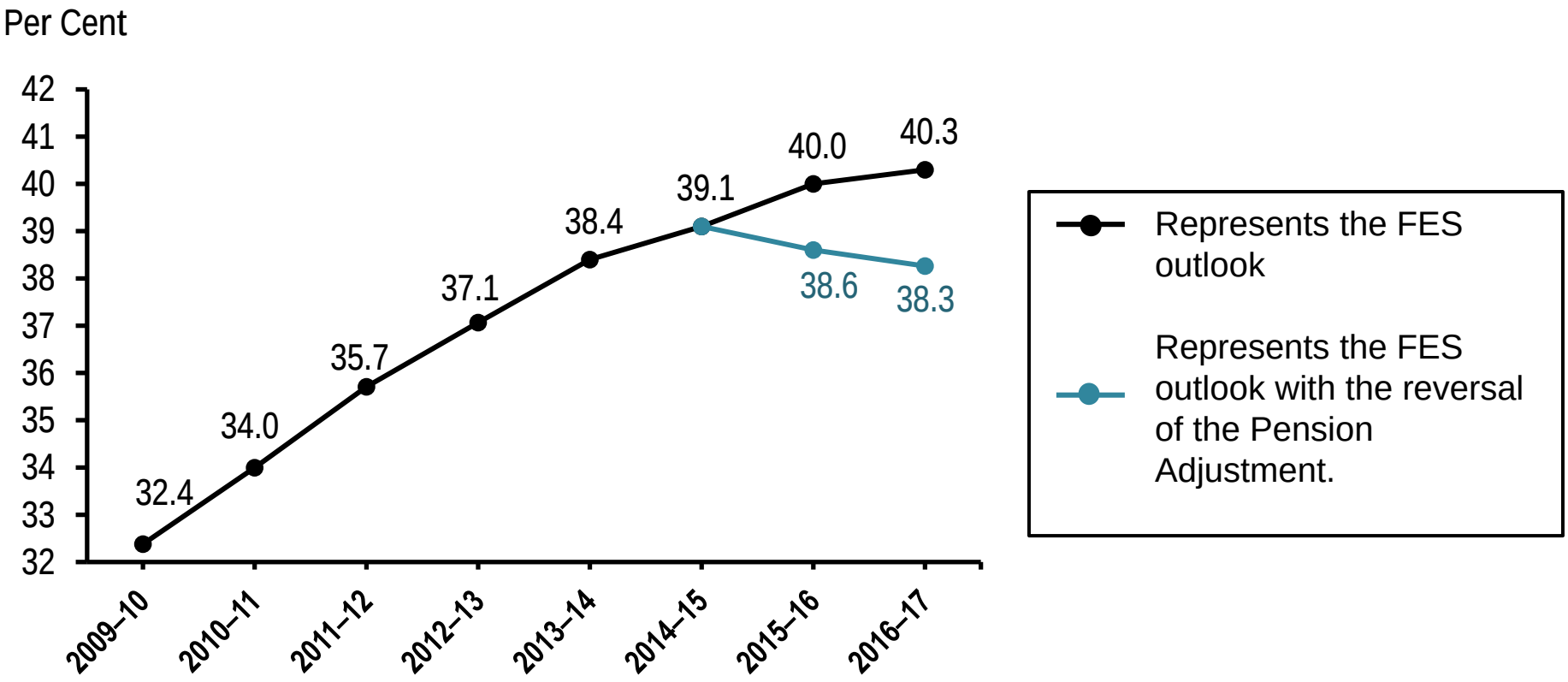
Moderate Year-end Improvement

2016 Budget (4.3) billion
+ Pension Adjustment and Tools
2016 FES (4.3) billion
+ Higher Revenue ***0.7 billion***
– Re-profiling Cap and Trade Proceeds ***0.5 billion***
– Lower Net Contribution from Asset Optimization ***75 million***
– Accounting Adjustments: Accounting Framework (IFRS) ***75 million*** Contaminated Sites ***50 million***
– Higher Program Expense ***1.0 billion***
+ Reverse Pension Adjustment ***2.2 billion***
Unchanged Interest on Debt
+ Reduce Reserve ***0.4 billion***
Early-Read (2.7) billion

Net Debt-to-GDP With Pension Reversal (Option 1)

Narrative: *The impact of the reversal will change the net debt projection for 2016-17 by $12.8 billion. As a result, the government is projecting a net debt-to-GDP ratio of 38.3 per cent, an improvement compared to the 2016 FES projection of 40.3 per cent*

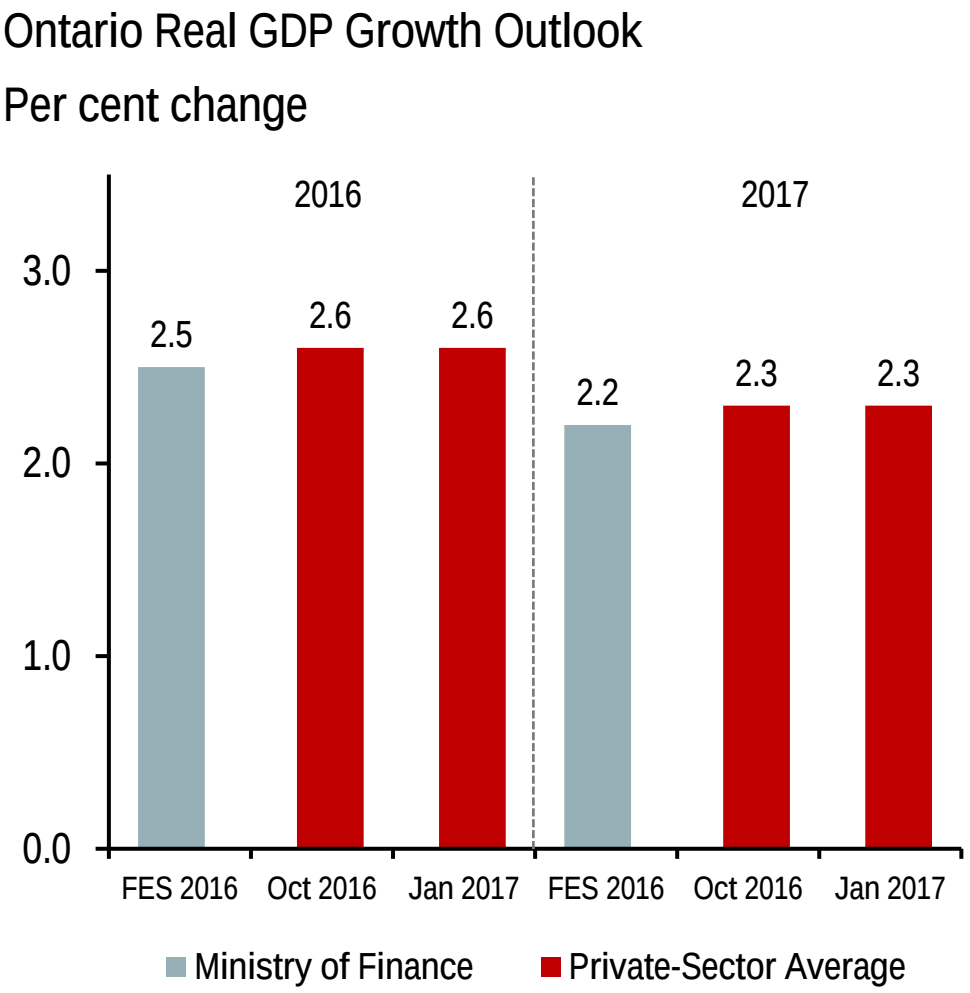
- Reflects the reversal of the Teachers Pension Plan and OPSEU Pension Plan adjustments, including reversal of the $10.7 billion debt adjustment made in the 2015-16 Public Accounts



Recent Economic Developments and Outlook

Economic Update

- Real GDP increased by 0.7% in the third quarter (July to September) of 2016, after rising 0.2% in the second quarter.
  - Higher exports and continued growth in household spending were the primary drivers of growth
- Information available so far for the fourth quarter (October to December) of 2016 suggest growth at a more modest pace.
- Ontario's economic growth outlook remains consistent with the 2016 FES forecast



Other Accounting Issues

Other Accounting Issues

- The move from U.S. GAAP to IFRS for the consolidation of Hydro One and OPG results in a fiscal impact starting in 2016-17, of either:

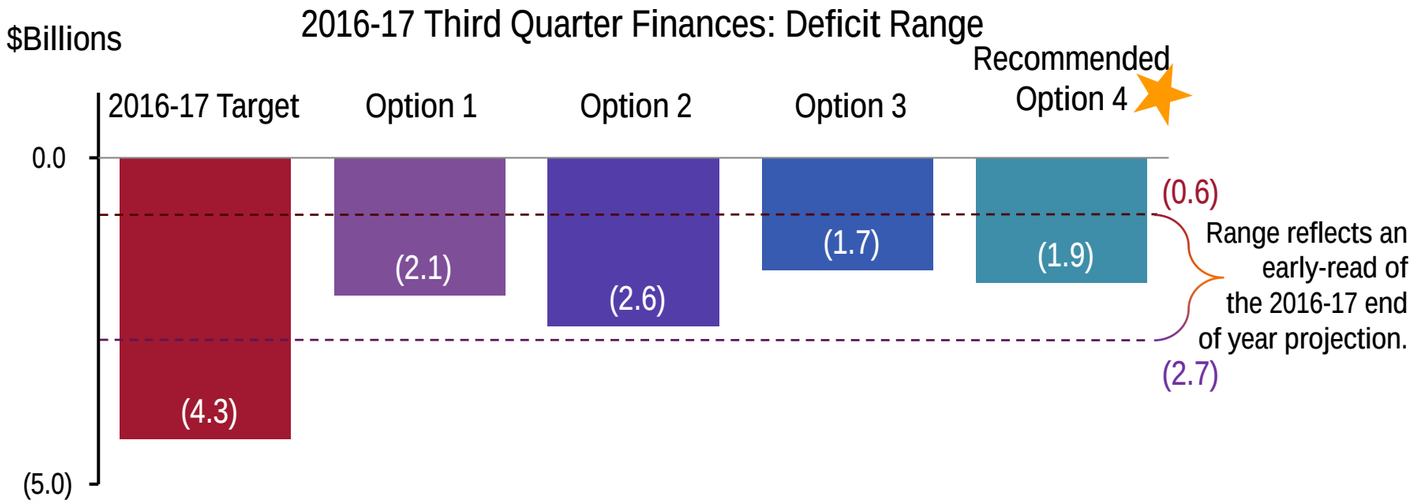
Basis of Consolidation of OPG and H1 (US GAAP vs. IFRS)	Fiscal Impact Relative to FES				
	2016-17	2017-18	2018-19	2019-20	2020-21
Preferred Approach (smoothed IFRS impact)**	**$75M**	**$425M**	**$525M**	**$675M**	**$675M**
High Impact (non-smoothed IFRS impact)**	$1B	$375M	$400M	$400M	$400M

*** OPG's estimate of cumulative impact for 2015-2020 is $2.5B under the preferred approach, and $2.6B under the high impact approach. Note: Amounts are based on estimates currently available, and are subject to updates by OPG. Revised estimates are expected by March 1, 2017.*

Program Expense Changes to Highlight

$ Millions	2016-17	
Program Expense Changes since the 2016 FES		
MOHLTC Pausing planned increases to drug cost contributions*	106.0	*(pressure with no offset)*
MOHLTC Stem Cells and other priorities	95.4	*(pressure with no offset)*
MCYS: First Nations Prevention Services support	5.8	*(federal flow-through)*
MAG/MCSCS: Corrections Reform	10.4	*(offset from contingency fund)*
MCSCS: First Nations Policing Wage Parity	6.5	*(offset from contingency fund)*
Cabinet Office: International Disaster Relief Program – Haiti	0.3	*(offset from contingency fund)*
Contingency fund	(17.2)	
Program Expense Changes since the 2016	**207.2**	

* Alternatively, Social Assistance pressures of similar magnitude could be reported



Options 1 through 4 build on each other. All options assume the pension reversal and progressively take on additional changes.

Option 1	Option 2	Option 3	Recommended Option 4
Pensions: $2.2 billion	**Pensions**: $2.2 billion	**Pensions**: $2.2 billion	**Pensions**: $2.2 billion
	Cap and Trade: $(0.5) billion	**Cap and Trade:** $(0.5) billion	**Cap and Trade:** $(0.5) billion
		HST & Other Taxes: $0.9 billion	**HST & Other Taxes:** $0.9 billion
		Asset Optimization: $(0.1) billion	**Asset Optimization:** $(0.1) billion
			Expense Pressures: $(0.2) billion

Overall Narrative: *The strength of the Ontario economy, together with the government's approach to fiscal management, is supporting strategic investments, while allowing the government to continue to beat its fiscal targets.*

Option 1 — Reversal of Pensions

$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	*2.1*	132.7
Expense			
Programs	122.1	*0.9*	123.1
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*0.5*	134.4
Surplus/(Deficit) Before Reserve	(3.3)	*1.6*	(1.7)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*2.2*	(2.1)
Net Debt-to-GDP (Per Cent)	39.6	*(1.3)*	38.3

- *The government is projecting a **deficit of $2.1 billion in 2016-17**, an improvement of $2.2 billion since the 2016 Budget.*
- *The Pension Asset Expert Advisory Panel recently released its report on the treatment of pension assets, including a recommendation that jointly-sponsored net pension asset be recognized in the Province's financial statements. The government is adopting this recommendation, which aligns with the treatment originally included in the 2016 Budget plan.*
- *With this reversal, together with stronger revenue and lower interest on debt, the government is projected to beat its fiscal target.*

Option 2 — Option 1 + Cap and Trade

$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	*1.7*	132.2
Expense			
Programs	122.1	*0.9*	123.1
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*0.5*	134.4
Surplus/(Deficit) Before Reserve	(3.3)	*1.1*	(2.2)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*1.7*	(2.6)
Net Debt-to-GDP (Per Cent)	39.6	*(1.3)*	38.3

- *The government is projecting a **deficit of $2.6 billion in 2016-17**, an improvement of $1.7 billion since the 2016 Budget.*
- *Cap and Trade is a cornerstone of the Province's fight against climate change. Ontario's first Cap and Trade auction is scheduled for March 22, 2017, and establishes Ontario's partnership in the largest carbon market in North America.*
- *Revenues from Ontario's first auction will be certified and settled at the beginning of the 2017-18 fiscal year. As such, the Third Quarter Finances reflect the re-profiling of auction proceeds from 2016-17 to 2017-18.*

Option 3 — Option 2 + HST & Other Taxes + Assets

$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	*2.5*	133.1
Expense			
Programs	122.1	*0.9*	123.1
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*0.5*	134.4
Surplus/(Deficit) Before Reserve	(3.3)	*2.0*	(1.3)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*2.6*	(1.7)
Net Debt-to-GDP (Per Cent)	39.6	*(1.4)*	38.2

- *The government is projecting a **deficit of $1.7 billion in 2016-17**, an improvement of $2.6 billion since the 2016 Budget.*
- *Ontario's economy continues to grow in an uncertain global environment. Stronger 2015 income tax assessment results and the continued strength of Ontario's economy and housing market resulted in higher than forecasted taxation revenues.*

Option 4 — Option 3 + Expense Pressures

$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	*2.5*	133.1
Expense			
Programs	122.1	*1.1*	123.3
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*0.7*	134.6
Surplus/(Deficit) Before Reserve	(3.3)	*1.8*	(1.5)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*2.4*	(1.9)
Net Debt-to-GDP (Per Cent)	39.6	*(1.3)*	38.3

- *The government is projecting a **deficit of $1.9 billion in 2016-17**, an improvement of $2.4 billion since the 2016 Budget.*
- *The government's fiscally sound approach to managing the Province's finances will help grow the economy, create jobs and ensure the sustainability of programs and services that help Ontarians in their everyday lives.*
- *This includes supporting strategic investments, such as funding for healthcare.*

KEY PUBLIC REPORTING AND PLANNING DATES

The following provides an outline of upcoming planning and publication dates:

- **February 8**: Long-Term Report Release
- **February 13**: Pension Panel Report Release
- **February 13**: Letter to the Clerk for Q3 Finances
- **February 15**: Electricity Relief Announcement (TBD)
- **February 21**: Q3 Finances Release
- **April 11**: Tentative Document Release

MINISTERS & PREMIER MEETING

Date: February 9, 2017 | Time: 3:30PM – 5:00PM
Location: Room 275, Cabinet Room, Main Legislative Building

Proposed Agenda

1. Proposed Agenda for Cabinet Retreat (5 mins)

2. Update on Fiscal Plan for Budget 2017 (20 mins)
    - Challenges
    - Fiscal Anchors
    - Tools/levers

3. Budget Themes/Storyboard and Proposed Investments and Sector Spending (45 mins)

4. Update on Pension Accounting (10 mins)

5. Update on 2016-17 Fiscal Position including Q3 Finances (5 mins)

6. Next Steps in Preparation for Cabinet Retreat (5 mins)

From:	Ken Kandeepan
To:	Alexander Kraas; John Psinas (FIN) (John.Psinas@ontario.ca); George Sakura
Subject:	FW: Q3 update
Date:	Monday, January 23, 2017 1:03:17 PM
Attachments:	June MMP Contingency Fund Outlook and Expense Risks.pptx Third Quarter Finances_v1a_0127.docx
Importance:	High

FYI.

Thanks

Ken K

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Monday, January 23, 2017 12:43 PM
To: Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Tim Cook (MOF) <Tim.Cook@ontario.ca>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca>; Sharon Stuckless (TCU) <Sharon.Stuckless@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca>; Raj Sharda (MOHLTC) <Raj.Sharda@ontario.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
Subject: RE: Q3 update
Importance: High

Hi All,

Following up on my email from last week, we received relatively recent direction regarding the release of Ontario's Third Quarter Finances – the tentative plan is to publish Q3 finances ahead of the February 15 deadline. We are tentatively tracking a release date of Monday February 13.

As you can imagine, timelines are very compressed, and includes a possible trip to FPC this week. In order to meet this week's deadlines, while also preparing for the release of the actual publication, we're asking for input from you in stages:

EOD Today:
We have prepared the draft of a deck, which we are working towards tabling at this Wednesday's FPC (TBC). The deck lays out the key 2016-17 building blocks that could be updated as part of the Q3 publication. It would help if we could get the following from you folks by the end of today:
16-17 post-FES expense update: We have included placeholder for an expense slide. The intention is for the slide to provide an updated list of initiatives that were not included in the FES expense outlook.
Recommended expense update/signature initiatives: We may build in options for what the outlook could look like – it would help if you could provide a recommendation

for the expense changes that should be taken on/profiled.
16-17 c-fund update: We have included a c-fund slide that was used in the Q1 finances briefing materials (current PW). We would like to include an updated version of this slide in the FPC deck (appendix). It would help to have this out to 19-20.
Pension Narrative: Nadine – I'll connect on the pension adjustment and some high level bullets that we could use.

Noon Friday January 27:
Template: I've attached a draft of 3q finances that is based heavily off of the 2016 First Quarter Finances. We've highlighted in green the sections that we would like you to update. While I'm not 100% certain this structure will be exactly what the Q3 document will look like, I think it's safe to say that the substantive content we'll have to cover is captured here. There will be some highlighted content that is *not possible* to update for Friday, however there will be a formal distribution process where additional information can be incorporated.

Thanks everyone, and please feel free to send your input directly to Liane and Emma. Im hoping to be able to share a draft deck with you late this evening.

From: Esmail, Selena (MOF)
Sent: January-19-17 2:57 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: Q3 heads up

Hi Everyone – Wanted to send a quick message that we are hearing there is a desire to proceed with the release of a Q3 update around the time we are expecting the Pension Panel panel to release their report. We are going to assume mid feb prior to the house coming back for our planning purposes.

My team is going to work together to put together a list of things we need to start working on/think about along with a calendar to determine and get direction on an approach to coincide with this timeframe.

More details to follow tomorrow.

Thanks.

Contingency Fund Outlook and Expense Risks

Contingency Fund Outlook

$ Billions	2014-15	2015-16	2016-17	2017-18	2018-19
Opening contingency fund balance	**0.5**	**0.7**	**1.2**	**1.7**	**3.5**
Less: Approvals to date[1]	0.0	0.0	0.3	0.5	0.6
Current contingency fund balance	**0.5**	**0.6**	**0.9**	**1.2**	**2.9**
Less: Compensation Risks set-aside	-	-	0.4	0.9	1.6
Less: Moving Ontario Forward set-aside	-	-	-	0.0	0.4
Contingency fund balance incl. set-asides			**0.5**	**0.3**	**0.9**

Includes Drug Program changes, Child Welfare, Northern Health Action Plan, Action Plan for Reconciliation, School Renewal Funding

Accommodates approximately 1.4% increases in next round of bargaining

[1] For 2014-15 and 2015-16, approvals through Q3 are shown.

- Of the remaining 2016-17 contingency fund, $0.6 billion is encumbered for education capital appropriation, leaving $0.3 billion to cover any contingencies.
- The 2016 Budget included a larger contingency fund, primarily due to funds set aside for future compensation increases and outside the GTHA Moving Ontario Forward projects.
- There have been more draws from the contingency fund in the current fiscal cycle, compared to recent years.
- The remaining contingency fund balance would be used to offset risks.

Expense Risks: Items to be managed

$ Billions	2016-17	2017-18	2018-19
Identified high-likelihood risks	0.4	0.7	1.0
PRRT boulder risks	0.1	0.3	0.3
Cap and trade not applied against in-plan items as assumed	-	0.0	0.6
Other likely funding requests	0.6	0.7	0.7
Total items to be managed*	**1.0**	**1.7**	**2.6**

Pressures such as: Health, Social Assistance caseloads, emergencies, Complex Special needs

Risks include: Business Supports, Benefits Transformation and NTR/full cost recovery

Health, MTO (including UP Express), Business Growth Initiative request, Drive Clean.

* Does not include a remedy for the Bill 115 court decision

$ Billions	2014-15	2015-16	2016-17	2017-18	2018-19
Year-end Savings Target	**1.1**	**1.0**	**0.8**	**1.0**	**1.0**
Total Risks to be managed			**1.8**	**2.7**	**3.6**

- In past years, unspent contingency funds have been used to meet the year-end savings target.
- An initiatives envelope for the 2017 or 2018 Budgets has not yet been incorporated into the fiscal plan.

Note: Numbers may not add due to rounding

MINISTRY OF FINANCE

2016–17 Third Quarter Finances
[Draft – January 23, 11:00 am]

[February 2017]

Contents

A. 2016–17 Fiscal Outlook X

B. Details of In-Year Changes X

C. Ontario's Economic Outlook X

D. Economic Performance X

E. Details of Ontario's Finances X

F. Ontario's 2016–17 Financing Program X

Introduction

The Ontario Quarterly Finances contains updated information about Ontario's 2016–17 fiscal outlook, including updated information about the major components of revenue and expense as set out in the *2016 Budget*.

Section A: 2016–17 Fiscal Outlook (OEP, TBS, OFA, Framework)

The government is projecting a deficit of $[X.X] billion in 2016–17, [an improvement of $X.X billion] compared to the 2016 Budget.

As outlined in the *2016 Budget,* the government is [on track to balance the budget by 2017–18 and is projecting to remain balanced in 2018–19. The government's path to a balanced budget is being achieved through responsible fiscal management, which involves managing growth in program spending and maintaining the integrity of Provincial revenues. The strengthening of the Ontario economy, together with the government's approach to fiscal management, is supporting strategic investments in new child care spaces, hospitals and electricity cost relief for consumers.]

[Placholder for Pension Narrative (OPCD)]

[Placholder for Economic Update (OEP)]

2016–17 In-Year Fiscal Performance

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Revenue	**130,589**	**[X.X]**	**–**
Expense			
Programs	122,139	[X.X]	–
Interest on Debt	11,756	[X.X]	–
Total Expense	**133,895**	**[X.X]**	**–**
Surplus/(Deficit) Before Reserve	**(3,306)**	**[X.X]**	**–**
Reserve	1,000	[X.X]	–
Surplus/(Deficit)	**(4,306)**	**[X.X]**	**–**

Note: Numbers may not add due to rounding.

Total revenue is projected to be $[X.X] billion, [an improvement/deterioration of $X.X billion compared to the 2016 Budget.] — [placeholder for high-level revenue change explanation]

The outlook for Provincial program expense, at $[X.X] billion, is [an improvement/deterioration of $X.X billion compared to the 2016 Budget.] — reflecting [placeholder for high-level program expense change explanation]

The Province's interest on debt expense forecast, at $X.X billion, is [an improvement/deterioration of $X.X billion compared to the 2016 Budget forecast.]

The 2016–17 outlook also maintains a $[X.X] billion reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance or the impact of natural disasters.

Further details on the Province's fiscal plan, will be provided in the upcoming 2017 Budget.

Section B: Details of In-Year Changes (OEP, PEMD, OFA, Framework)

Revenue (OEP)

The 2016–17 revenue outlook, at $[X.X] billion, is [an improvement/deterioration of $X.X billion compared to the 2016 Budget]. Since the *2016 Budget,* the following changes have been made to the revenue outlook for 2016–17:

- [Placholder for revenue changes]

[Placeholder for language on risks to the revenue/economic outlook]

Expense (PEMD, OFA)

The 2016–17 total expense outlook, at $[X.X] billion, is [placholder for expense language]

Key changes to expense projections with offsets from the contingency funds include:

- [Placeholder]

Other key changes to expense projections include:

- [Placeholder]

[Placholder for language on interest on debt changes]

Asset Optimization (OFA)

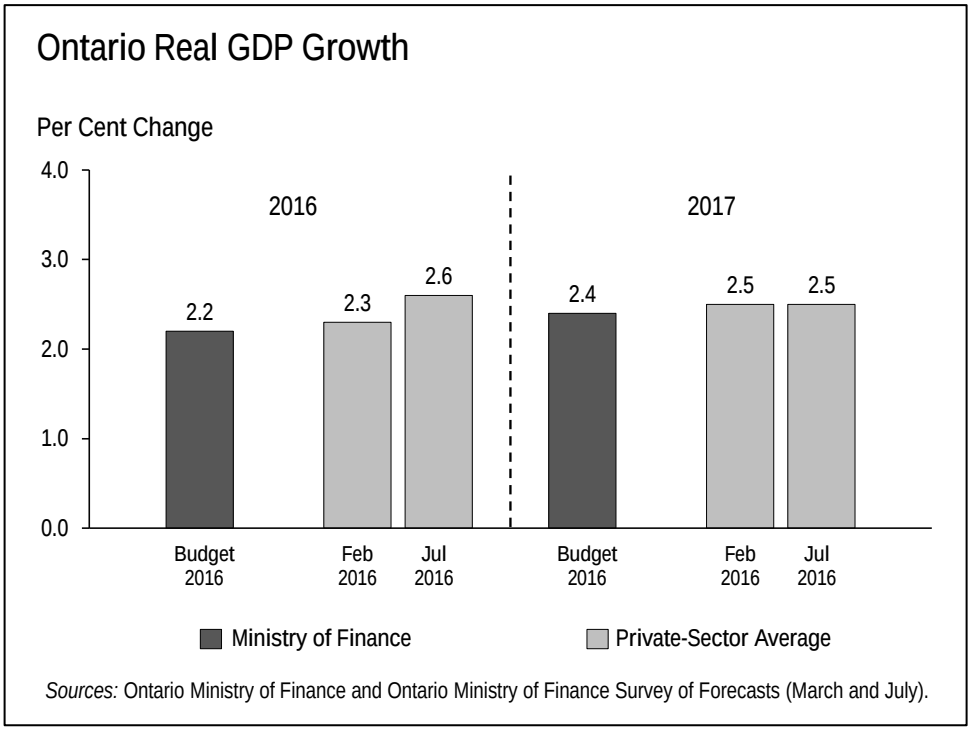
[Placeholder for language on Asset Optimization]

Fiscal Prudence

[Placeholder for language on prudence]

Section C: Ontario's Economic Outlook (OEP)

[Placeholder for language on the economic outlook]



Section D: Economic Performance (OEP)

[Placeholder for language on economic performance]

(Seasonally adjusted per cent change from previous period, unless indicated otherwise)

	Monthly 2016			Quarterly			Annual
	Oct	Nov	Dec	2016Q1	2016Q2	2016Q3	2015
Gross Domestic Product							
Real GDP	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Nominal GDP	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Labour Market							
Labour Force (Change in 000s)	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Employment (Change in 000s)	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Unemployment Rate (%)	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Household Sector							
Retail Sales	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Housing Starts	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
MLS Home Resales	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Manufacturing Sales							
Transportation Equipment	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Consumer Price Index[1]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]

[1] Per cent change from a year earlier, data not seasonally adjusted.

N/A = Data not available.

Sources: Statistics Canada, Ontario Ministry of Finance, Canada Mortgage and Housing Corporation, and Canadian Real Estate Association.

Section E: Details of Ontario's Finances (OEP, TBS, OFA)

Revenue

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Taxation Revenue			
Personal Income Tax	32,167	[X.X]	
Sales Tax[1]	23,976	[X.X]	
Corporations Tax	12,050	[X.X]	
Education Property Tax[2]	5,834	[X.X]	
Employer Health Tax	6,007	[X.X]	
Ontario Health Premium	3,604	[X.X]	
Gasoline Tax	2,522	[X.X]	
Land Transfer Tax	2,051	[X.X]	
Tobacco Tax	1,221	[X.X]	
Fuel Tax	790	[X.X]	
Beer and Wine Tax	611	[X.X]	
Electricity Payments-In-Lieu of Taxes	515	[X.X]	
Other Taxes	471	[X.X]	
	91,819	**[X.X]**	
Government of Canada			
Canada Health Transfer	13,858	[X.X]	
Canada Social Transfer	5,128	[X.X]	
Equalization	2,304	[X.X]	
Infrastructure Programs	1,017	[X.X]	
Labour Market Programs	989	[X.X]	
Social Housing	434	[X.X]	
Other Federal Payments	914	[X.X]	
	24,644	**[X.X]**	
Government Business Enterprises			
Ontario Lottery and Gaming Corporation	1,953	[X.X]	
Liquor Control Board of Ontario	2,025	[X.X]	
Ontario Power Generation Inc./Hydro One Ltd./ Brampton Distribution Holdco Inc.	1,049	[X.X]	
	5,027	**[X.X]**	
Other Non-Tax Revenue			
Reimbursements	983	[X.X]	
Vehicle and Driver Registration Fees	1,751	[X.X]	
Electricity Debt Retirement Charge	625	[X.X]	
Power Supply Contract Recoveries	643	[X.X]	
Sales and Rentals	2,421	[X.X]	
Cap-and-Trade Proceeds	478	[X.X]	
Other Fees and Licences	987	[X.X]	
Net Reduction of Power Purchase Contract Liability	129	[X.X]	
Royalties	287	[X.X]	
Miscellaneous Other Non-Tax Revenue	795	[X.X]	
	9,099	**[X.X]**	
Total Revenue	**130,589**	**[X.X]**	

1 Sales Tax revenue is net of the Ontario Sales Tax Credit and the energy component of the Ontario Energy and Property Tax Credit.

2 Education Property Tax revenue is net of the property tax credit component of the Ontario Energy and Property Tax Credit and the Ontario Senior Homeowners' Property Tax Grant.

Note: Numbers may not add due to rounding.

Total Expense

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Ministry Expense			
Aboriginal Affairs[1]	77.0	[X.X]	
Agriculture, Food and Rural Affairs[1]	915.9	[X.X]	
Attorney General	1,867.8	[X.X]	
Board of Internal Economy	219.9	[X.X]	
Children and Youth Services	4,346.1	[X.X]	
Citizenship, Immigration and International Trade	220.8	[X.X]	
Community and Social Services	11,467.5	[X.X]	
Community Safety and Correctional Services	2,649.5	[X.X]	
Economic Development, Employment and Infrastructure / Research and Innovation[1]	1,177.0	[X.X]	
Education[1]	25,635.8	[X.X]	
Energy[1]	322.1	[X.X]	
Environment and Climate Change	531.4	[X.X]	
Executive Offices	44.0	[X.X]	
Finance[1]	963.1	[X.X]	
Francophone Affairs, Office of	5.7	[X.X]	
Government and Consumer Services	607.6	[X.X]	
Health and Long-Term Care	51,785.2	[X.X]	
Labour	309.5	[X.X]	
Municipal Affairs and Housing[1]	900.0	[X.X]	
Natural Resources and Forestry[1]	750.6	[X.X]	
Northern Development and Mines	790.7	[X.X]	
Tourism, Culture and Sport[1]	1,250.8	[X.X]	
Training, Colleges and Universities	7,876.8	[X.X]	
Transportation	3,850.9	[X.X]	
Treasury Board Secretariat[1]	316.9	[X.X]	
Interest on Debt[2]	11,756.0	[X.X]	
Other Expense[1]	4,056.8	[X.X]	
Year-End Savings[3]	(800.0)	[X.X]	
Total Expense	**133,895.4**	**[X.X]**	

1 Details on other ministry expense can be found in the Details of Other Expense table.

2 Interest on debt is net of interest capitalized during construction of tangible capital assets of $X.X million in 2016–17.

3 As in past years, the Year-End Savings provision reflects efficiencies through in-year expenditure management and underspending due to factors such as program management, and changes in project startups and implementation plans.

Notes: Numbers may not add due to rounding.

The impact of recently announced ministry restructuring will be reflected in future updates.

Details of Other Expense

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Ministry Expense			
Aboriginal Affairs			
One-Time Investments including Settlements	–	[X.X]	
Agriculture, Food and Rural Affairs			
Time-Limited Investments in Infrastructure	–	[X.X]	
Economic Development, Employment and Infrastructure / Research and Innovation			
Federal-Provincial Infrastructure Programs	618.7	[X.X]	
Education			
Teachers' Pension Plan[1]	(452.0)	[X.X]	
Energy			
Strategic Asset Management and Transformation Related to Hydro One	70.9	[X.X]	
Finance			
Ontario Municipal Partnership Fund	505.0	[X.X]	
Power Supply Contract Costs	643.1	[X.X]	
Municipal Affairs and Housing			
Time-Limited Investments in Municipal, Social and Affordable Housing	160.3	[X.X]	
Other Time-Limited Investments	–	[X.X]	
Natural Resources and Forestry			
Emergency Forest Firefighting	69.8	[X.X]	
Tourism, Culture and Sport			
Time-Limited Investments to Support 2015 Pan/Parapan American Games	88.6	[X.X]	
Treasury Board Secretariat			
Capital Contingency Fund	100.0	[X.X]	
Operating Contingency Fund	1,100.0	[X.X]	
Employee and Pensioner Benefits	1,152.5	[X.X]	
Total Other Expense	**4,056.8**	**[X.X]**	

[1] Numbers reflect Public Sector Accounting Board pension expense. Ontario's matching contributions to the plan is $X.X million in 2016–17.

Notes: Numbers may not add due to rounding.

The impact of recently announced ministry restructuring will be reflected in future updates.

2016–17 Infrastructure Expenditures

($ Millions)	2016–17 Current Outlook		
Sector	**Investment in Capital Assets[1]**	**Transfers and Other Infrastructure Expenditures[2]**	**Total Infrastructure Expenditures[3]**
Transportation			
Transit	[X.X]	[X.X]	[X.X]
Provincial Highways	[X.X]	[X.X]	[X.X]
Other Transportation, Property and Planning	[X.X]	[X.X]	[X.X]
Health			
Hospitals	[X.X]	[X.X]	[X.X]
Other Health	[X.X]	[X.X]	[X.X]
Education	[X.X]	[X.X]	[X.X]
Postsecondary			
Colleges and Other	[X.X]	[X.X]	[X.X]
Universities	[X.X]	[X.X]	[X.X]
Social	[X.X]	[X.X]	[X.X]
Justice	[X.X]	[X.X]	[X.X]
Other Sectors[4]	[X.X]	[X.X]	[X.X]
Total	**[X.X]**	**[X.X]**	**[X.X]**

1 Includes $X.X million in interest capitalized during construction.

2 Includes transfers to municipalities, universities and non-consolidated agencies.

3 Includes third party investments in hospitals, colleges and schools; and provisional federal contributions to provincial infrastructure investments.

4 Includes government administration, natural resources, culture and tourism sectors.

Note: Numbers may not add due to rounding.

Review of Selected Financial and Economic Statistics

($ Millions)	2012–13	2013–14	2014–15	Actual 2015–16	Current Outlook 2016–17
Revenue	**113,369**	**115,911**	**118,546**	**128,377**	**[X.X]**
Expense					
Programs	112,248	115,792	118,225	122,439	[X.X]
Interest on Debt[1]	10,341	10,572	10,635	10,967	[X.X]
Total Expense	**122,589**	**126,364**	**128,860**	**133,406**	**[X.X]**
Surplus/(Deficit) Before Reserve	**(9,220)**	**(10,453)**	**(10,314)**	**(5,029)**	**[X.X]**
Reserve	–	–	–	–	[X.X]
Surplus/(Deficit)	**(9,220)**	**(10,453)**	**(10,314)**	**(5,029)**	**[X.X]**
Net Debt	252,088	267,190	284,576	305,233	[X.X]
Accumulated Deficit	167,132	176,634	187,511	202,697	[X.X]
Gross Domestic Product (GDP) at Market Prices	680,084	693,210	721,970	763,276	[X.X]
Primary Household Income	459,111	473,905	490,412	511,781	[X.X]
Population – July (000s)	13,410	13,551	13,678	13,797	[X.X]
Net Debt per Capita (dollars)	18,798	19,717	20,806	22,123	[X.X]
Household Income per Capita (dollars)	34,236	34,972	35,855	37,094	[X.X]
Interest on Debt as a Per Cent of Revenue	9.1	9.1	9.0	8.5	[X.X]
Net Debt as a Per Cent of GDP	37.1	38.5	39.4	40.0	[X.X]
Accumulated Deficit as a Per Cent of GDP	24.6	25.5	26.0	26.6	[X.X]

[1] Interest on debt is net of interest capitalized during construction of tangible capital assets of $134 million in 2013–14, $202 million in 2014–15, $X.X million in 2015–16, and $X.X million in 2016–17.

Sources: Ontario Ministry of Finance and Statistics Canada.

Section F: Ontario's 2016–17 Financing Program (OFA)

Province and Ontario Electricity Financial Corporation

($ Billions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Deficit/(Surplus)	4.3	[X.X]	
Investment in Capital Assets	11.2	[X.X]	
Non-Cash Adjustments	(5.8)	[X.X]	
Other Net Loans/Investments	(0.9)	[X.X]	
Debt Maturities	21.5	[X.X]	
Debt Redemptions	0.1	[X.X]	
Total Funding Requirement	**30.3**	**[X.X]**	
Canada Pension Plan Borrowing	(0.1)	[X.X]	
Decrease/(Increase) in Short-Term Borrowing	(1.0)	[X.X]	
Increase/(Decrease) in Cash and Cash Equivalents	(2.7)	[X.X]	
Preborrowing from 2015–16	–	[X.X]	
Total Long-Term Public Borrowing Requirement	**26.4**	**[X.X]**	

Note: Numbers may not add due to rounding.

Borrowing Program Status (as at [DATE], 2016)

($ Billions)	Completed	Remaining	Total
Province	[X.X]	[X.X]	[X.X]
Ontario Electricity Financial Corporation	[X.X]	[X.X]	[X.X]
Total	**[X.X]**	**[X.X]**	**[X.X]**

Note: Numbers may not add due to rounding.

Long-Term Public Borrowing completed as at [DATE], 2016 totalled $X.X billion, as follows:

	($ Billions)
Domestic Issues	[X.X]
Global/US Dollar/Other Issues	[X.X]
	[X.X]

[As of [DATE], 2016, approximately X.X per cent of this year's borrowing was completed in Canadian dollars. The Province may revise its Canadian dollar borrowing target of 75 per cent published in the *2016 Budget* if international demand for Ontario bonds outpaces domestic demand.]

Ministry of Finance www.fin.gov.on.ca

For general inquiries regarding the 2016–17 First Quarter Finances, please call:

Toll-free English & French inquiries: 1-800-337-7222
Teletypewriter (TTY): 1-800-263-7776

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Chart Descriptions: Alternative Text for Web Accessibility

Chart: Ontario Real GDP Growth (OEP)

[Placeholder for Alt text on the Ontario Real GDP Growth chart]

From:	Ken Kandeepan
To:	John Psinas; George Sakura; Alexander Kraas; Kevin Hwang
Subject:	FW: Q3 update
Date:	Wednesday, February 01, 2017 9:57:42 AM
Attachments:	FPC_Q3Finances_Deck v6.pptx FPC_Q3_FiscalStrategyPlacemat_v6.pptx Key Planning and Public Reporting Dates_Feb1.docx MMP Meeting - Agenda - Feb9.docx

Hi All

Pls note preferred option and the proposed Q3 date. Once Gadi confirms today that FPC has indeed approved both we can proceed towards finalizing the Financing Table. Note that option 4 which is the preferred option, projects a deficit that is lower than simply removing the pension adjustment. If I remember correctly the maturities are also lower by $282M.

My preference is to offset the lower maturities through cash and reduce the long term borrowing by the reduction in the deficit that is over and above the removal of the pension adjustment. Having said that, the latter is relatively small so Gadi may choose maintain the long term borrowing at FES levels and adjust this as well through cash. Once I hear back from him we can target say Friday or Monday to present a first cut of the FT and the revised net debt to GDP ratios.

Kevin if you have not yet done so, pls revise the non-cash by the amount of the pension adjustment.

Thanks and happy to discuss.

Ken k

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Tuesday, January 31, 2017 6:18 PM
To: Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Tim Cook (MOF) <Tim.Cook@ontario.ca>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca>; Sharon Stuckless (TCU) <Sharon.Stuckless@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca>; Raj Sharda (MOHLTC) <Raj.Sharda@ontario.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
Subject: RE: Q3 update

Hi Everyone – I'm attaching for you, the materials for tomorrow's FPC discussion, including:

- Q3 Finances background (updated for new proposed release date, recommended option highlighted, and additional information on letter to Clerk)
- Q3 Finances option placemat (also updated to highlight recommended option)
- One-pager highlighted key dates for various deliverables and confirmation of timing (LTR,

Q3, Pensions Panel, letter to clerk, new electricity relief, tentative Document track)

- One-pager with proposed agenda for Feb 9th MMP.

Thanks for your own going support and cooperation.

From: Esmail, Selena (MOF)
Sent: January-27-17 7:07 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: Re: Q3 update

Hi everyone - here are versions we are going to use to brief our minister on monday.

Many thanks for your help.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Esmail, Selena (MOF)
Sent: Friday, January 27, 2017 12:07 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update

Hi Everyone – just wanted to share with you the latest on the strategy for Q3. We are headed back to FPC next week with a further 2 scenarios on the deficit target that could be published. In addition to the ones we took earlier this week – two new options are proposed – one is to reverse the pensions only (option 1 in the materials), and the second is to take on a certain amount of ministry pressures we think will materialize (option 4 in the materials).

In terms of the materials – there is both a deck and a placemat that we are proposing to take forward. The placemat illustrates the 4 options and includes how the revenue/expense change table would appear relative to Budget and some proposed narrative for each scenario.

The deck is very similar to what we took forward last week but has a couple of new slides. Tim has also just circulated to your ADMs

Can I ask that you specifically take a look at slide 8 to ensure you are comfortable with the wording as well as the **narrative on the placemat** that would be helpful. But happy to hear any comments on the rest of it as well. We are looking for any comments back by 3:30pm today so we can finalize and send up to our DM/MO today.

And – we are continuing to track for a release on Feb 13 and we will be in touch to request your assistance.

Happy to discuss.

Thanks.

From: Esmail, Selena (MOF)
Sent: January-24-17 3:48 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update

Hi Everyone – sending along the most current draft of the deck we are planning to take forward to FPC tomorrow.

Comments welcome – if you could let me know asap if you have them. Heads up that timing of release of the Q3 may be even sooner as noted in this deck

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From: Esmail, Selena (MOF)
Sent: January-23-17 12:43 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update
Importance: High

Hi All,

Following up on my email from last week, we received relatively recent direction regarding the release of Ontario's Third Quarter Finances – the tentative plan is to publish Q3 finances ahead of the February 15 deadline. We are tentatively tracking a release date of Monday February 13.

As you can imagine, timelines are very compressed, and includes a possible trip to FPC this week. In order to meet this week's deadlines, while also preparing for the release of the actual publication, we're asking for input from you in stages:

EOD Today:
We have prepared the draft of a deck, which we are working towards tabling at this Wednesday's FPC (TBC). The deck lays out the key 2016-17 building blocks that could be updated as part of the Q3 publication. It would help if we could get the following from you folks by the end of today:
16-17 post-FES expense update: We have included placeholder for an expense slide. The intention is for the slide to provide an updated list of initiatives that were not included in the FES expense outlook.
Recommended expense update/signature initiatives: We may build in options for what the outlook could look like – it would help if you could provide a recommendation for the expense changes that should be taken on/profiled.
16-17 c-fund update: We have included a c-fund slide that was used in the Q1 finances briefing materials (current PW). We would like to include an updated version

of this slide in the FPC deck (appendix). It would help to have this out to 19-20.
Pension Narrative: Nadine – I'll connect on the pension adjustment and some high level bullets that we could use.

Noon Friday January 27:
Template: I've attached a draft of 3q finances that is based heavily off of the 2016 First Quarter Finances. We've highlighted in green the sections that we would like you to update. While I'm not 100% certain this structure will be exactly what the Q3 document will look like, I think it's safe to say that the substantive content we'll have to cover is captured here. There will be some highlighted content that is *not possible* to update for Friday, however there will be a formal distribution process where additional information can be incorporated.

Thanks everyone, and please feel free to send your input directly to Liane and Emma. Im hoping to be able to share a draft deck with you late this evening.

From: Esmail, Selena (MOF)
Sent: January-19-17 2:57 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: Q3 heads up

Hi Everyone – Wanted to send a quick message that we are hearing there is a desire to proceed with the release of a Q3 update around the time we are expecting the Pension Panel panel to release their report. We are going to assume mid feb prior to the house coming back for our planning purposes.

My team is going to work together to put together a list of things we need to start working on/think about along with a calendar to determine and get direction on an approach to coincide with this timeframe.

More details to follow tomorrow.

Thanks.

Ontario's Third Quarter Finances: Fiscal Strategy

Office of the Budget
MINISTRY of FINANCE

Presentation to FPC on February 1, 2017

Preliminary Draft

Draft – January 31, 2017 5:00 PM

Context

Under the *Fiscal Transparency and Accountability Act, 2004* (FTAA), the Third Quarter Finances is required to:

- Be released on or before February 15th (publication can be delayed if a letter is sent to the Clerk).
- Include updated information about the major components of revenue and expense **for the current fiscal year only.**

It also provides an **opportunity for the government to reiterate key fiscal messages** from the Budget or pre-condition for future updates.

A Third Quarter Finances has only been published once in the last eight years (in 2012-13).

Key stakeholders like the Financial Accountability Officer, the Auditor General and rating agencies will assess the fiscal outlook and narrative.

Both have acknowledged that balance is within reach in 2017-18, but have also highlighted key risks to the 2016 Budget fiscal plan.

Purpose and Key Decisions

Currently working towards **a release date of February 21, 2017** – need to **confirm the approach to publishing Ontario's Third Quarter Finances**, including:

- The core updates to **the fiscal outlook and supporting revenue and expense details** to be published, as well as the **fiscal narrative and messaging**.
- Positioning the content and the rollout of Third Quarter Finances relative to the release of the **Pension Panel's Report and recommendations**, and other publicly available information.

Publishing after the February 15th deadline will require that a **letter be sent to the Clerk of the Legislature** advising of the delayed release.

- Letter could be sent on **February 13th** to coincide with the release of the Pension Panel's Report.

Evolution of the 2016-17 Outlook

- The Third Quarter Finances will present a fiscal update relative to the 2016 Budget and address changes since FES in narrative only.
- The 2016 FES highlighted Ontario's stronger economy and the government's approach to fiscal management, which supported strategic investments in new child care spaces, hospitals and electricity cost relief for consumers.
- To support these investments while accommodating the Pension Adjustment, the government took on a number of fiscal tools in order to meet its targets.

2016 Budget Fiscal Plan $ Billions	2016-17	Change to FES 2016-17	FES Outlook 2016-17
Revenue	130.6	*2.1*	132.7
Expense			
Programs	122.1	*3.1*	125.3
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*2.7*	136.6
Surplus/(Deficit) Before Reserve	(3.3)	*(0.6)*	(3.9)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*(0.0)*	(4.3)

Total revenue changes of $2.1 billion, consisting of:

- Base Forecast Change $1.0 billion
- Reversal of Homecare $(0.2) billion
- Federal Agreements $0.4 billion
- Higher assumed revenue to accommodate pensions $0.9 billion

Total expense changes of $2.7 billion, consisting of:

- In-Year Approvals $0.2 billion
- Pension Adjustment of $2.2 billion
- Electricity Cost Relief $0.3 billion
- Support for Hospitals $0.1 billion
- Green Investment Fund $0.3 billion
- New Federal Agreements $0.4 billion
- Contingency Fund Offsets $(0.5) billion
- Interest on Debt Savings $(0.4) billion

Change to the Reserve $(0.6) billion

Treatment of Pension Adjustment

Panel Recommendation

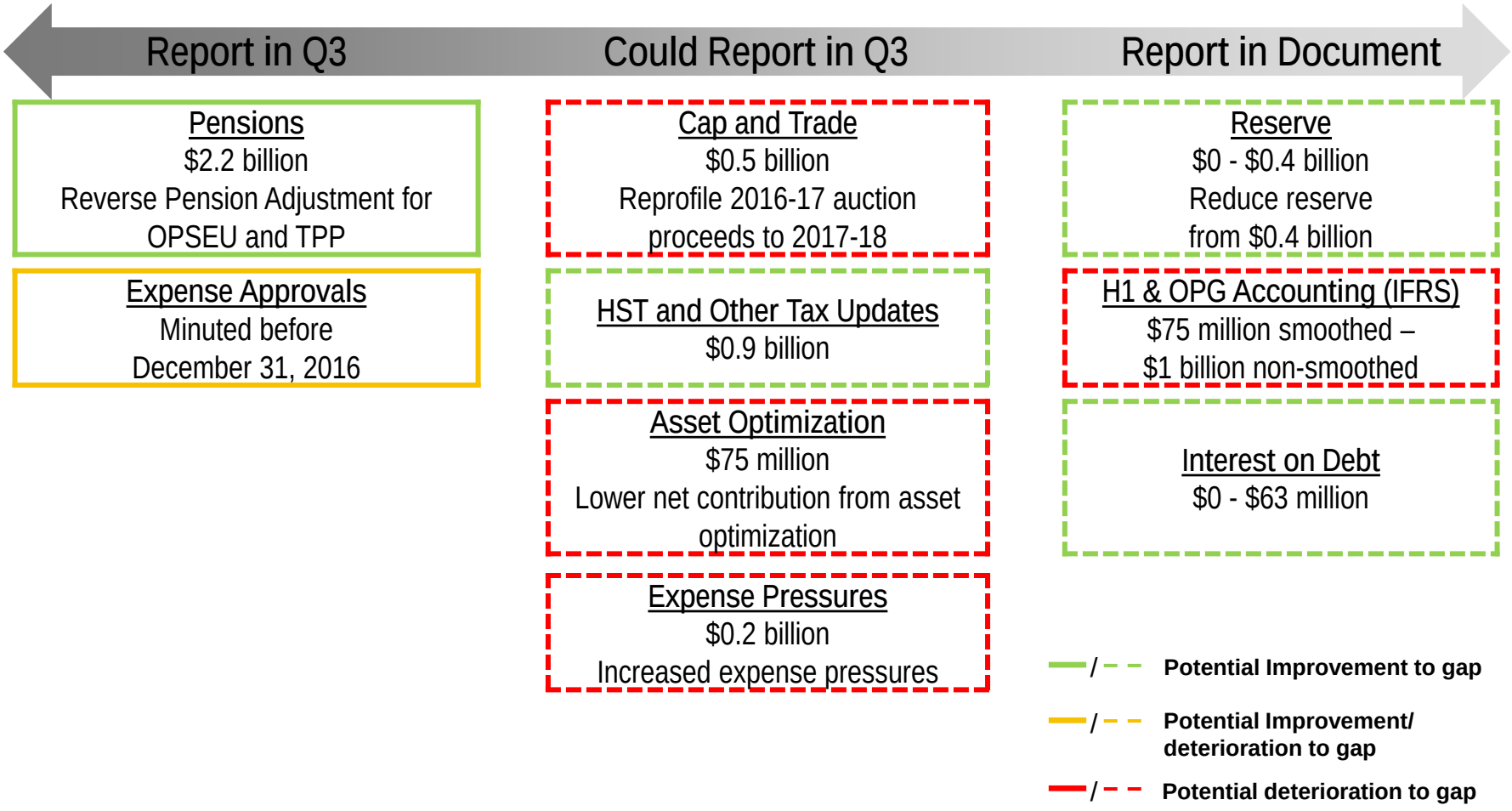
- The Pension Asset Expert Advisory Panel will be releasing its findings in the coming weeks.
  - The report is expected to include advice that the net assets of government jointly sponsored pension plans should be recognized in the Province's financial statements.
  - If taken on, this would result in a positive fiscal impact to the government's outlook in all plan years.

Treatment of Pension Adjustment

- The Third Quarter Finances provides the government with an immediate opportunity to align its fiscal strategy with recommendations of the Panel, and frame the pension narrative in advance of the 2017 Document.
- While the reversal of the pension adjustment to the Ontario Public Service Employees Union Pension Plan (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) will result in an improved 2016-17 deficit, expectations may need to be tempered about how much fiscal room is created in the out-years.
- For consistency and comparability, an adjustment to the 2015-16 actuals will be made to reflect the government's decision to adopt the Panel's recommendations. The adjustment to historical results impacts the previously reported net debt and deficit results as well as the net debt to GDP ratio.

Key Building Blocks

- In addition to the reversal of the Pension Adjustment, other key building blocks will either need to be reported in the Third Quarter Finances or be considered for the 2017 Document.



Building Block Considerations

There are a number of considerations for whether key building blocks should be taken on in the Third Quarter Finances or deferred to the 2017 Document.

Could Report in Third Quarter Finances

Cap and Trade

- The Cap and Trade auction notice that was released on January 20 stating that certification will occur on April 3, 2017, and settlement shortly thereafter.
- Stakeholders (e.g. FAO and Auditor General) may question why the government has not updated its fiscal plan to reflect this change.

HST and Other Tax Updates

- HST updates have been received since the FES, and no further significant updates are expected in advance of the 2017 Document. Other tax information is not as certain and could require additional updates in the 2017 Document.
- Stakeholders are aware of the timing of these information flows and may question if updates are not taken on in Third Quarter Finances.

Asset Optimization

- Updating for revised estimated net contribution from Asset Optimization would build some deterioration into the outlook.
- There are changes / uncertainty on the expected potential gains and/or timing for the H1 Brampton (which has not yet closed), and Seaton Lands sales (still pending), and uncertainty on the final accounting net gains reported for H1 shares purchased by OPG, potentially necessitating additional updates in the 2017 Document.

Expense Pressures

- Ministry risks represent potential pressures in the fiscal plan, and are not typically included in Quarterly updates.
- However, it may be prudent to address expense pressures which may materialize before the 2017 Document.

Report in Document

Reserve

It is recommended that the reserve be maintained at its current level of $0.4 billion, in order to mitigate any pressures that may arise before year-end.

H1 & OPG Accounting (IFRS)

Updated information on the potential fiscal impact of the move from U.S. GAAP to IFRS for Hydro One and OPG, is expected at the end of February.

Interest on Debt

Deferring improvements in the interest on debt forecast allows for upside potential in the 2016-17 interim results of the 2017 Document.

Outstanding Information

- **Outstanding Information** could materially impact the **2016-17 outlook** in advance of the 2017 Document.

Revenue
Revisions to economic outlook
Ongoing provincially-administered tax receipts
Non-tax revenue updates from Ministry PRRT submissions
Net income updates from government business enterprises
Revisions to IFRS - US GAAP impacts for OPG and Hydro One

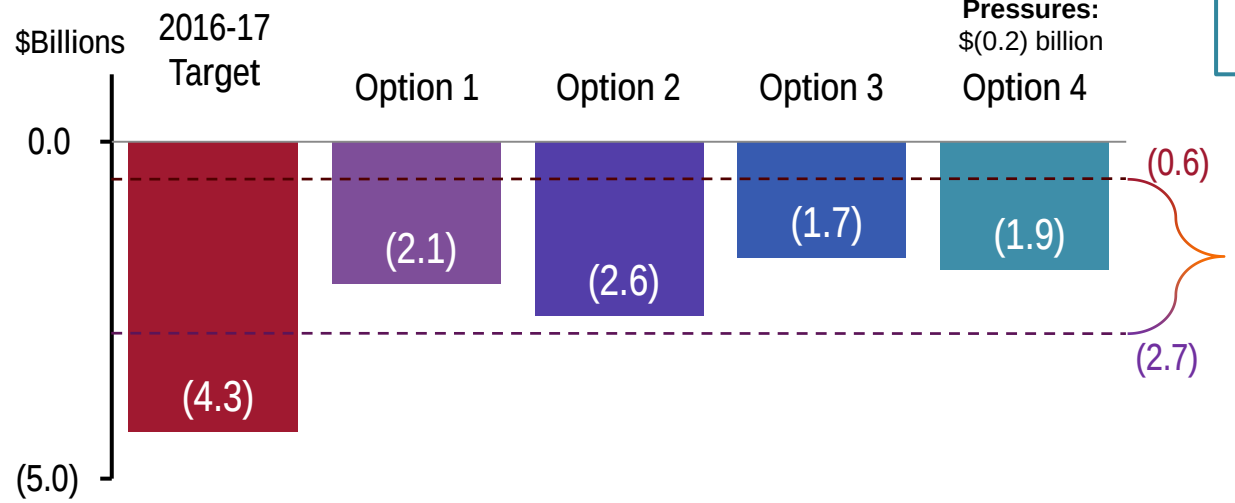
Expense
Ministry Q3/interim submissions
Consolidations and other technical adjustments
Interest on debt forecast updates
Contaminated sites liabilities
Updated pension expense forecast

- Potential improvement to gap
- Potential improvement or deterioration to gap
- Potential deterioration to gap

2016-17 Third Quarter Finances: Deficit Range

Options 1 through 4 build on each other. All options assume the pension reversal and progressively take on additional changes relative to FES .

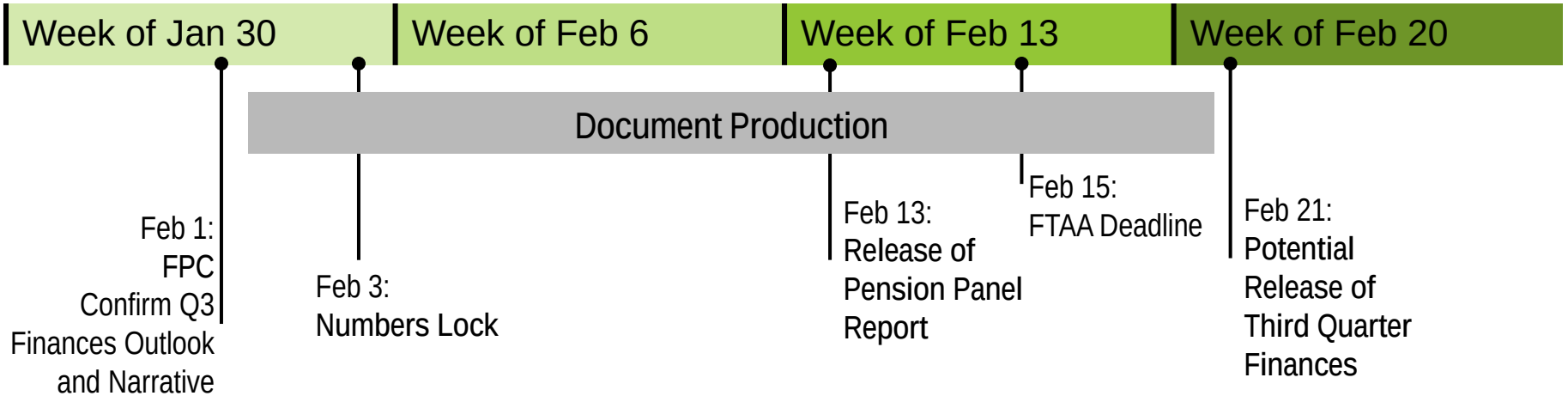
Option 1	Option 2	Option 3	Recommended Option 4
Pensions: $2.2 billion	**Pensions**: $2.2 billion	**Pensions**: $2.2 billion	**Pensions**: $2.2 billion
	Cap and Trade: $(0.5) billion	**Cap and Trade:** $(0.5) billion	**Cap and Trade:** $(0.5) billion
		Asset Optimization: $(0.1) billion	**Asset Optimization:** $(0.1) billion
		HST & Other Taxes: $0.9 billion	**HST & Other Taxes:** $0.9 billion
			Expense Pressures: $(0.2) billion



Range reflects an early-read of the 2016-17 end of year projection.

- Based on an early-read of end of year projections, the government may want to report an outlook that protects against risks or other changes between now and the Budget.
- Based on current information and taking into account key building blocks, there are a number of options for presenting the Q3 deficit, ranging from $2.6 billion to $1.7 billion. These are on the medium-to-low end of what is being tracked for the interim outlook for the 2017 Document.

Next Steps


Week of Jan 30
Week of Feb 6
Week of Feb 13
Week of Feb 20
Document Production
Feb 1:
FPC
Confirm Q3
Finances Outlook
and Narrative
Feb 3:
Numbers Lock
Feb 13:
Release of
Pension Panel
Report
Feb 15:
FTAA Deadline
Feb 21:
Potential
Release of
Third Quarter
Finances

Appendix

End of Year Projection for 2016-17

- An early-read indicates that end of year projections for the 2016-17 deficit could range from $0.6 billion (if there is a significant improvement to the outlook) to $2.7 billion (if there is a moderate improvement to the outlook).

Significant Year-end Improvement

2016 Budget (4.3) billion
+ Pension Adjustment and Tools
2016 FES (4.3) billion
+ Higher Revenue ***1.7 billion***
– Re-profiling Cap and Trade Proceeds ***0.5 billion***
– Lower Net Contribution from Asset Optimization ***75 million***
– Accounting Adjustments: Accounting Framework (IFRS) ***75 million*** Unchanged Contaminated Sites
Unchanged Program Expense
+ Reverse Pension Adjustment ***2.2 billion***
+ Lower Interest on Debt ***0.1 billion***
+ Reduce Reserve ***0.4 billion***
Early-Read (0.6) billion

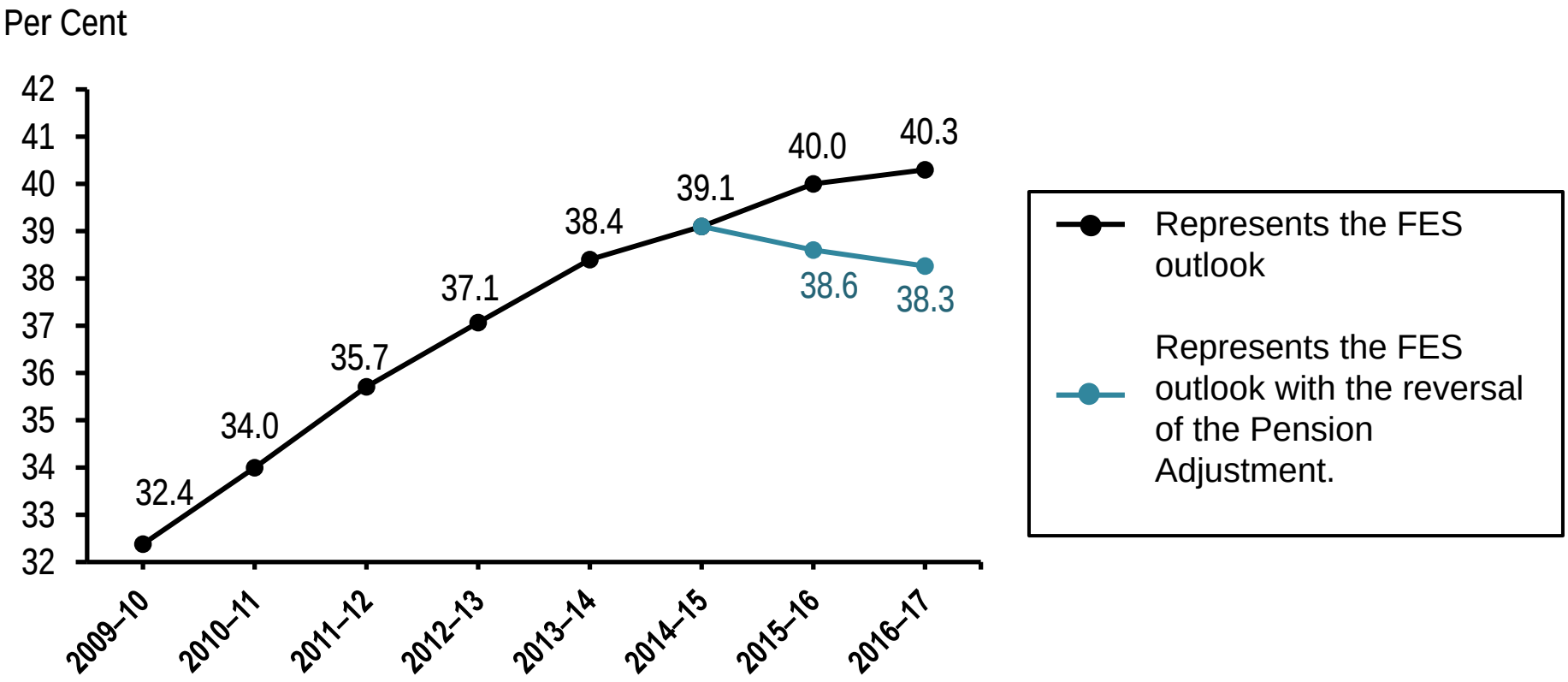
Moderate Year-end Improvement

2016 Budget (4.3) billion
+ Pension Adjustment and Tools
2016 FES (4.3) billion
+ Higher Revenue ***0.7 billion***
– Re-profiling Cap and Trade Proceeds ***0.5 billion***
– Lower Net Contribution from Asset Optimization ***75 million***
– Accounting Adjustments: Accounting Framework (IFRS) ***75 million*** Contaminated Sites ***50 million***
– Higher Program Expense ***1.0 billion***
+ Reverse Pension Adjustment ***2.2 billion***
Unchanged Interest on Debt
+ Reduce Reserve ***0.4 billion***
Early-Read (2.7) billion

Net Debt-to-GDP With Pension Reversal (Option 1)

Narrative: *The impact of the reversal will change the net debt projection for 2016-17 by $12.8 billion. As a result, the government is projecting a net debt-to-GDP ratio of 38.3 per cent, an improvement compared to the 2016 FES projection of 40.3 per cent*

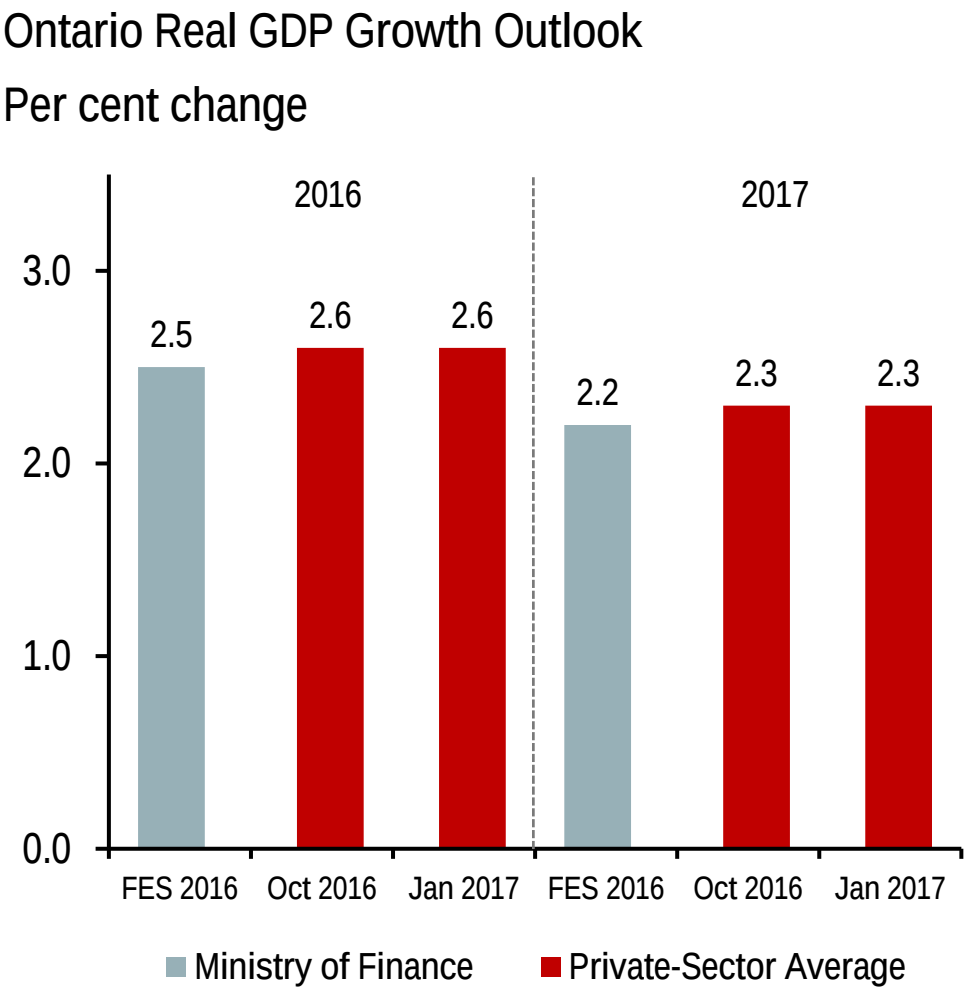
- Reflects the reversal of the Teachers Pension Plan and OPSEU Pension Plan adjustments, including reversal of the $10.7 billion debt adjustment made in the 2015-16 Public Accounts



Recent Economic Developments and Outlook

Economic Update

- Real GDP increased by 0.7% in the third quarter (July to September) of 2016, after rising 0.2% in the second quarter.
  - Higher exports and continued growth in household spending were the primary drivers of growth
- Information available so far for the fourth quarter (October to December) of 2016 suggest growth at a more modest pace.
- Ontario's economic growth outlook remains consistent with the 2016 FES forecast



Other Accounting Issues

Other Accounting Issues

- The move from U.S. GAAP to IFRS for the consolidation of Hydro One and OPG results in a fiscal impact starting in 2016-17, of either:

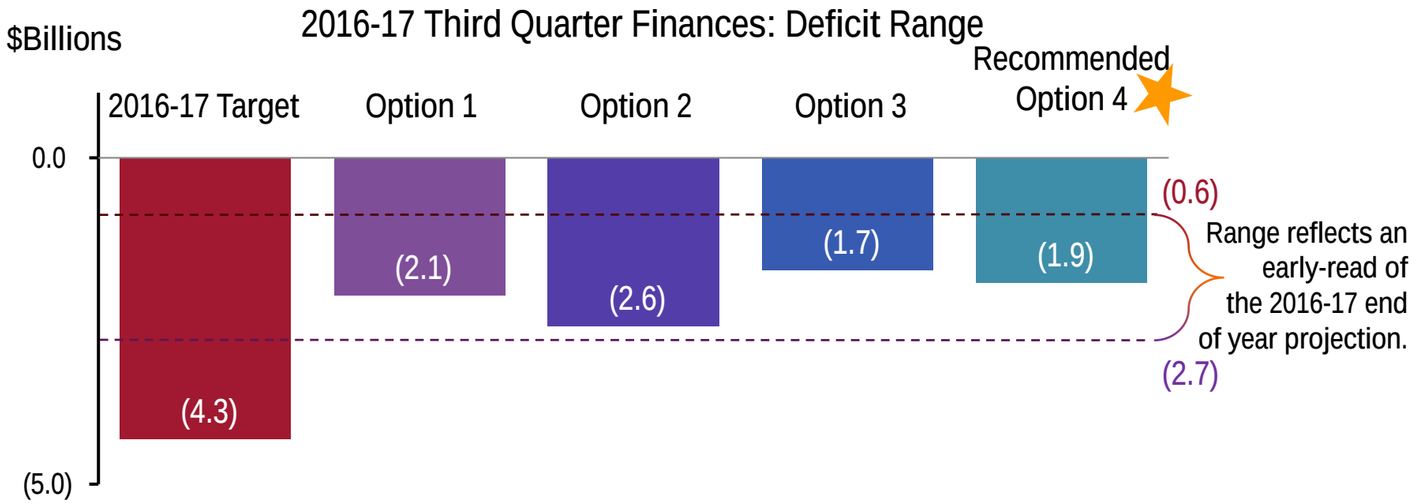
Basis of Consolidation of OPG and H1 (US GAAP vs. IFRS)	Fiscal Impact Relative to FES				
	2016-17	2017-18	2018-19	2019-20	2020-21
Preferred Approach (smoothed IFRS impact)**	**$75M**	**$425M**	**$525M**	**$675M**	**$675M**
High Impact (non-smoothed IFRS impact)**	$1B	$375M	$400M	$400M	$400M

*** OPG's estimate of cumulative impact for 2015-2020 is $2.5B under the preferred approach, and $2.6B under the high impact approach. Note: Amounts are based on estimates currently available, and are subject to updates by OPG. Revised estimates are expected by March 1, 2017.*

Program Expense Changes to Highlight

$ Millions	2016-17	
Program Expense Changes since the 2016 FES		
MOHLTC Pausing planned increases to drug cost contributions*	106.0	*(pressure with no offset)*
MOHLTC Stem Cells and other priorities	95.4	*(pressure with no offset)*
MCYS: First Nations Prevention Services support	5.8	*(federal flow-through)*
MAG/MCSCS: Corrections Reform	10.4	*(offset from contingency fund)*
MCSCS: First Nations Policing Wage Parity	6.5	*(offset from contingency fund)*
Cabinet Office: International Disaster Relief Program – Haiti	0.3	*(offset from contingency fund)*
Contingency fund	(17.2)	
Program Expense Changes since the 2016	**207.2**	

* Alternatively, Social Assistance pressures of similar magnitude could be reported



Options 1 through 4 build on each other. All options assume the pension reversal and progressively take on additional changes.

Option 1	Option 2	Option 3	Recommended Option 4
Pensions: $2.2 billion	**Pensions**: $2.2 billion	**Pensions**: $2.2 billion	**Pensions**: $2.2 billion
	Cap and Trade: $(0.5) billion	**Cap and Trade:** $(0.5) billion	**Cap and Trade:** $(0.5) billion
		HST & Other Taxes: $0.9 billion	**HST & Other Taxes:** $0.9 billion
		Asset Optimization: $(0.1) billion	**Asset Optimization:** $(0.1) billion
			Expense Pressures: $(0.2) billion

Overall Narrative: *The strength of the Ontario economy, together with the government's approach to fiscal management, is supporting strategic investments, while allowing the government to continue to beat its fiscal targets.*

Option 1 — Reversal of Pensions

$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	*2.1*	132.7
Expense			
Programs	122.1	*0.9*	123.1
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*0.5*	134.4
Surplus/(Deficit) Before Reserve	(3.3)	*1.6*	(1.7)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*2.2*	(2.1)
Net Debt-to-GDP (Per Cent)	39.6	*(1.3)*	38.3

- *The government is projecting a **deficit of $2.1 billion in 2016-17**, an improvement of $2.2 billion since the 2016 Budget.*
- *The Pension Asset Expert Advisory Panel recently released its report on the treatment of pension assets, including a recommendation that jointly-sponsored net pension asset be recognized in the Province's financial statements. The government is adopting this recommendation, which aligns with the treatment originally included in the 2016 Budget plan.*
- *With this reversal, together with stronger revenue and lower interest on debt, the government is projected to beat its fiscal target.*

Option 2 — Option 1 + Cap and Trade

$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	*1.7*	132.2
Expense			
Programs	122.1	*0.9*	123.1
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*0.5*	134.4
Surplus/(Deficit) Before Reserve	(3.3)	*1.1*	(2.2)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*1.7*	(2.6)
Net Debt-to-GDP (Per Cent)	39.6	*(1.3)*	38.3

- *The government is projecting a **deficit of $2.6 billion in 2016-17**, an improvement of $1.7 billion since the 2016 Budget.*
- *Cap and Trade is a cornerstone of the Province's fight against climate change. Ontario's first Cap and Trade auction is scheduled for March 22, 2017, and establishes Ontario's partnership in the largest carbon market in North America.*
- *Revenues from Ontario's first auction will be certified and settled at the beginning of the 2017-18 fiscal year. As such, the Third Quarter Finances reflect the re-profiling of auction proceeds from 2016-17 to 2017-18.*

Option 3 — Option 2 + HST & Other Taxes + Assets

$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	*2.5*	133.1
Expense			
Programs	122.1	*0.9*	123.1
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*0.5*	134.4
Surplus/(Deficit) Before Reserve	(3.3)	*2.0*	(1.3)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*2.6*	(1.7)
Net Debt-to-GDP (Per Cent)	39.6	*(1.4)*	38.2

- *The government is projecting a **deficit of $1.7 billion in 2016-17**, an improvement of $2.6 billion since the 2016 Budget.*
- *Ontario's economy continues to grow in an uncertain global environment. Stronger 2015 income tax assessment results and the continued strength of Ontario's economy and housing market resulted in higher than forecasted taxation revenues.*

Option 4 — Option 3 + Expense Pressures

$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	*2.5*	133.1
Expense			
Programs	122.1	*1.1*	123.3
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*0.7*	134.6
Surplus/(Deficit) Before Reserve	(3.3)	*1.8*	(1.5)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*2.4*	(1.9)
Net Debt-to-GDP (Per Cent)	39.6	*(1.3)*	38.3

- *The government is projecting a **deficit of $1.9 billion in 2016-17**, an improvement of $2.4 billion since the 2016 Budget.*
- *The government's fiscally sound approach to managing the Province's finances will help grow the economy, create jobs and ensure the sustainability of programs and services that help Ontarians in their everyday lives.*
- *This includes supporting strategic investments, such as funding for healthcare.*

KEY PUBLIC REPORTING AND PLANNING DATES

The following provides an outline of upcoming planning and publication dates:

- **February 8**: Long-Term Report Release
- **February 13**: Pension Panel Report Release
- **February 13**: Letter to the Clerk for Q3 Finances
- **February 15**: Electricity Relief Announcement (TBD)
- **February 21**: Q3 Finances Release
- **April 11**: Tentative Document Release

MINISTERS & PREMIER MEETING

Date: February 9, 2017 | Time: 3:30PM – 5:00PM
Location: Room 275, Cabinet Room, Main Legislative Building

Proposed Agenda

1. Proposed Agenda for Cabinet Retreat (5 mins)

2. Update on Fiscal Plan for Budget 2017 (20 mins)
    - Challenges
    - Fiscal Anchors
    - Tools/levers

3. Budget Themes/Storyboard and Proposed Investments and Sector Spending (45 mins)

4. Update on Pension Accounting (10 mins)

5. Update on 2016-17 Fiscal Position including Q3 Finances (5 mins)

6. Next Steps in Preparation for Cabinet Retreat (5 mins)

From: Ken Kandeepan
To: Alexander Kraas; John Psinas
Subject: FW: Q3 update
Date: Friday, January 27, 2017 12:12:29 PM
Attachments: FPC_Q3Finances_Deck (Feb 1)_v2.pptx
FPC_Q3_FiscalStrategyPlacemat_v4b.pptx

FYI, pls review the slides and let me know if you have any comments, I am stepping out for lunch but should be back at 1.30 or so

Thanks

Ken k

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Friday, January 27, 2017 12:08 PM
To: Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Tim Cook (MOF) <Tim.Cook@ontario.ca>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca>; Sharon Stuckless (TCU) <Sharon.Stuckless@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca>; Raj Sharda (MOHLTC) <Raj.Sharda@ontario.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
Subject: RE: Q3 update

Hi Everyone – just wanted to share with you the latest on the strategy for Q3. We are headed back to FPC next week with a further 2 scenarios on the deficit target that could be published. In addition to the ones we took earlier this week – two new options are proposed – one is to reverse the pensions only (option 1 in the materials), and the second is to take on a certain amount of ministry pressures we think will materialize (option 4 in the materials).

In terms of the materials – there is both a deck and a placemat that we are proposing to take forward. The placemat illustrates the 4 options and includes how the revenue/expense change table would appear relative to Budget and some proposed narrative for each scenario.

The deck is very similar to what we took forward last week but has a couple of new slides. Tim has also just circulated to your ADMs

Can I ask that you specifically take a look at slide 8 to ensure you are comfortable with the wording as well as the **narrative on the placemat** that would be helpful. But happy to hear any comments on the rest of it as well. We are looking for any comments back by 3:30pm today so we can finalize and send up to our DM/MO today.

And – we are continuing to track for a release on Feb 13 and we will be in touch to request your

assistance.

Happy to discuss.

Thanks.

From: Esmail, Selena (MOF)
Sent: January-24-17 3:48 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update

Hi Everyone – sending along the most current draft of the deck we are planning to take forward to FPC tomorrow.

Comments welcome – if you could let me know asap if you have them. Heads up that timing of release of the Q3 may be even sooner as noted in this deck

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From: Esmail, Selena (MOF)
Sent: January-23-17 12:43 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update
Importance: High

Hi All,

Following up on my email from last week, we received relatively recent direction regarding the release of Ontario's Third Quarter Finances – the tentative plan is to publish Q3 finances ahead of the February 15 deadline. We are tentatively tracking a release date of Monday February 13.

As you can imagine, timelines are very compressed, and includes a possible trip to FPC this week. In order to meet this week's deadlines, while also preparing for the release of the actual publication, we're asking for input from you in stages:

EOD Today:
We have prepared the draft of a deck, which we are working towards tabling at this Wednesday's FPC (TBC). The deck lays out the key 2016-17 building blocks that could be updated as part of the Q3 publication. It would help if we could get the following from you folks by the end of today:
16-17 post-FES expense update: We have included placeholder for an expense slide. The intention is for the slide to provide an updated list of initiatives that were not included in the FES expense outlook.
Recommended expense update/signature initiatives: We may build in options for what the outlook could look like – it would help if you could provide a recommendation

for the expense changes that should be taken on/profiled.
16-17 c-fund update: We have included a c-fund slide that was used in the Q1 finances briefing materials (current PW). We would like to include an updated version of this slide in the FPC deck (appendix). It would help to have this out to 19-20.
Pension Narrative: Nadine – I'll connect on the pension adjustment and some high level bullets that we could use.

Noon Friday January 27:
Template: I've attached a draft of 3q finances that is based heavily off of the 2016 First Quarter Finances. We've highlighted in green the sections that we would like you to update. While I'm not 100% certain this structure will be exactly what the Q3 document will look like, I think it's safe to say that the substantive content we'll have to cover is captured here. There will be some highlighted content that is *not possible* to update for Friday, however there will be a formal distribution process where additional information can be incorporated.

Thanks everyone, and please feel free to send your input directly to Liane and Emma. Im hoping to be able to share a draft deck with you late this evening.

From: Esmail, Selena (MOF)
Sent: January-19-17 2:57 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: Q3 heads up

Hi Everyone – Wanted to send a quick message that we are hearing there is a desire to proceed with the release of a Q3 update around the time we are expecting the Pension Panel panel to release their report. We are going to assume mid feb prior to the house coming back for our planning purposes.

My team is going to work together to put together a list of things we need to start working on/think about along with a calendar to determine and get direction on an approach to coincide with this timeframe.

More details to follow tomorrow.

Thanks.

Ontario's Third Quarter Finances: Fiscal Strategy

Office of the Budget
MINISTRY of FINANCE

Presentation to FPC on February 1, 2017

Preliminary Draft

Draft – January 27, 2017 9:30 AM

Context

Under the *Fiscal Transparency and Accountability Act, 2004* (FTAA), the Third Quarter Finances is required to:

- Be released on or before February 15th (publication can be delayed if a letter is sent to the Clerk).
- Include updated information about the major components of revenue and expense **for the current fiscal year only.**

It also provides an **opportunity for the government to reiterate key fiscal messages** from the Budget or pre-condition for future updates.

A Third Quarter Finances has only been published once in the last eight years (in 2012-13).

Key stakeholders like the Financial Accountability Officer and rating agencies will assess the fiscal outlook and narrative.

- Both have acknowledged that balance is within reach in 2017-18, but have also highlighted key risks to the 2016 Budget fiscal plan.

Purpose and Key Decisions

Currently working towards **a release date of February 13, 2017** – need to **confirm the approach to publishing Ontario's Third Quarter Finances**, including:

- The core updates to **the fiscal outlook and supporting revenue and expense details** to be published, as well as the **fiscal narrative and messaging**.
- Positioning the content and the rollout of Third Quarter Finances relative to the release of the Pension Panel's Report and recommendations, and other publicly available information.

Evolution of the 2016-17 Outlook

- The Third Quarter Finances will present a fiscal update relative to the 2016 Budget and address changes since FES in narrative only.
- The 2016 FES highlighted Ontario's stronger economy and the government's approach to fiscal management, which supported strategic investments in new child care spaces, hospitals and electricity cost relief for consumers.
- To support these investments while accommodating the Pension Adjustment, the government took on a number of fiscal tools in order to meet its targets.

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Surplus/(Deficit) Before Reserve	(3.3)	*(0.6)*	(3.9)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*(0.0)*	(4.3)

Total revenue changes of $2.1 billion, consisting of:

- Base Forecast Change $1.0 billion
- Reversal of Homecare $(0.2) billion
- Federal Agreements $0.4 billion
- Higher assumed revenue to accommodate pensions $0.9 billion

Total expense changes of $2.7 billion, consisting of:

- In-Year Approvals $0.2 billion
- Pension Adjustment of $2.2 billion
- Electricity Cost Relief $0.3 billion
- Support for Hospitals $0.1 billion
- Green Investment Fund $0.3 billion
- New Federal Agreements $0.4 billion
- Contingency Fund Offsets $(0.5) billion
- Interest on Debt Savings $(0.4) billion

Change to the Reserve $(0.6) billion

End of Year Projection for 2016-17

- An early-read indicates that end of year projections for the 2016-17 deficit could range from $0.6 billion (if there is a significant improvement to the outlook) to $2.7 billion (if there is a moderate improvement to the outlook).

Significant Year-end Improvement

2016 Budget (4.3) billion
+ Pension Adjustment and Tools
2016 FES (4.3) billion
+ Higher Revenue ***1.7 billion***
− Re-profiling Cap and Trade Proceeds ***0.5 billion***
− Lower Net Contribution from Assets Optimization ***75 million***
− Accounting Adjustments: Accounting Framework (IFRS) ***75 million*** Unchanged Contaminated Sites
Unchanged Program Expense
+ Reverse Pension Adjustment ***2.2 billion***
+ Lower Interest on Debt ***0.1 billion***
+ Reduce Reserve ***0.4 billion***
Early-Read (0.6) billion

Moderate Year-end Improvement

2016 Budget (4.3) billion
+ Pension Adjustment and Tools
2016 FES (4.3) billion
+ Higher Revenue ***0.7 billion***
− Re-profiling Cap and Trade Proceeds ***0.5 billion***
− Lower Net Contribution from Assets Optimization ***75 million***
− Accounting Adjustments: Accounting Framework (IFRS) ***75 million*** Contaminated Sites ***50 million***
− Higher Program Expense ***1.0 billion***
+ Reverse Pension Adjustment ***2.2 billion***
Unchanged Interest on Debt
+ Reduce Reserve ***0.4 billion***
Early-Read (2.7) billion

Treatment of Pension Adjustment

Panel Recommendation

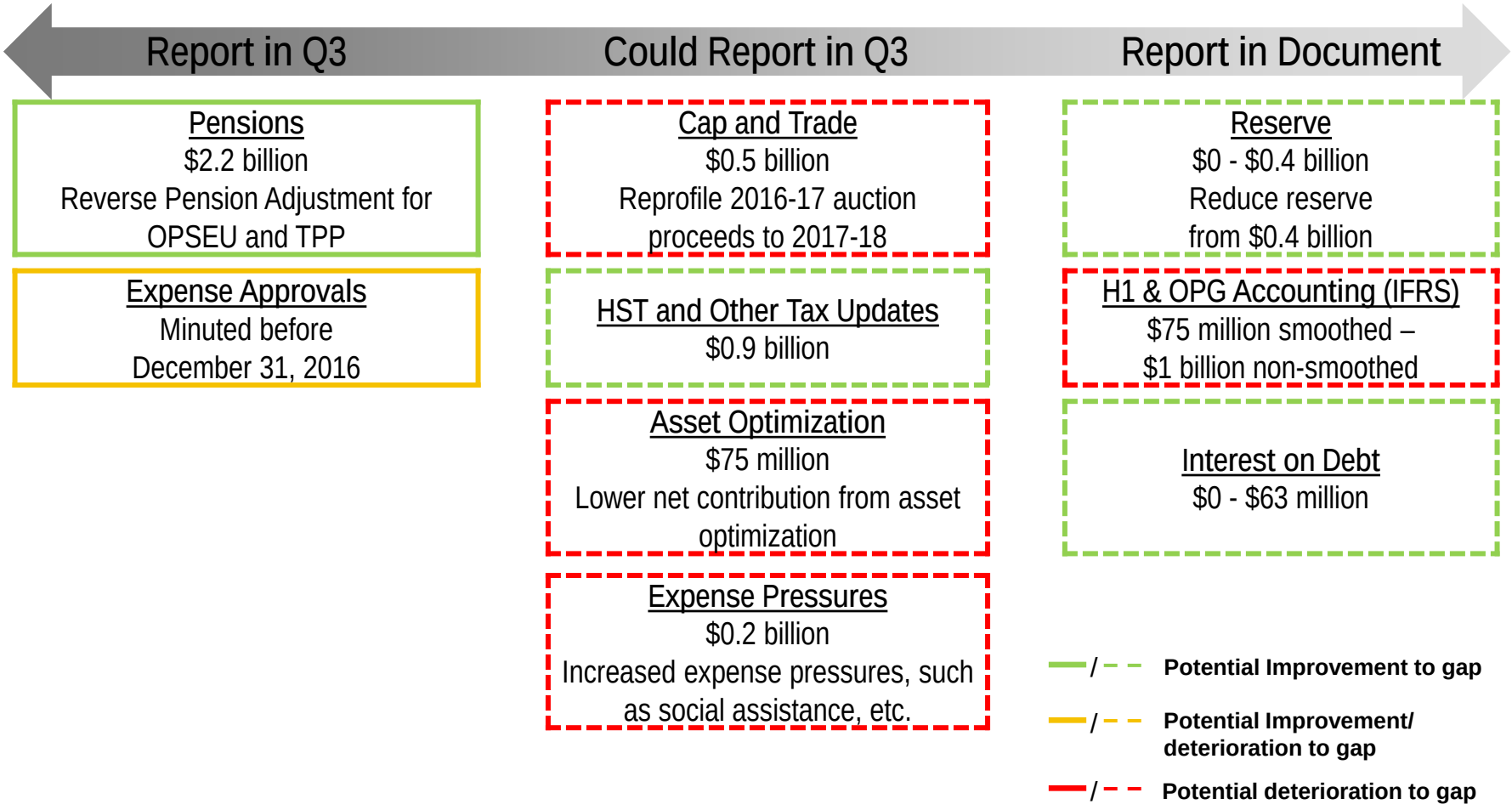
- The Pension Asset Expert Advisory Panel will be releasing its findings in the coming weeks.
  - The report is expected to include advice that government jointly sponsored pension plans be recognized in the Province's financial statements.
  - If taken on, this would result in a positive fiscal impact to the government's outlook in all years.

Treatment of Pension Adjustment

- The Third Quarter Finances provides the government with an immediate opportunity to align its fiscal strategy with recommendations of the panel, and frame the pension narrative in advance of the 2017 Document.
- While the reversal of the pension adjustment to the Ontario Public Service Employees Union Pension Plan (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) will result in an improved 2016-17 deficit, expectations may need to be tempered about how much fiscal room is created in the out-years.
- For consistency and comparability, an adjustment to the 2015-16 actuals may be required to reflect the government's decision to adopt the Panel's recommendations. The adjustment to historical results would impact the previously reported net debt and deficit results.

Key Building Blocks

- In addition to the reversal of the Pension Adjustment, other key building blocks will either need to be reported in the Third Quarter Finances or be considered for the 2017 Document.



Building Block Considerations

There are a number of considerations for whether key building blocks should be taken on in the Third Quarter Finances or deferred to the 2017 Document.

Could Report in Third Quarter Finances

Cap and Trade

- The Cap and Trade auction notice that was released on January 20 stating that certification will occur on April 3, 2017.
- Stakeholders (e.g. FAO and Auditor General) may question why the government has not updated its fiscal plan to reflect this change.

HST and Other Tax Updates

- HST and other tax information has been received since the FES, and no further significant updates are expected in advance of the 2017 Document.
- Stakeholders are aware of the timing of these information flows and may question if updates are not taken on in Third Quarter Finances.

Asset Optimization

- Updating for revised estimated net contribution from Asset Optimization would build some deterioration into the outlook.
- There is uncertainty on the timing and potential gains for the H1 Brampton and Seaton Lands sales, and uncertainty on the final net gains reported H1 shares sold to OPG, potentially necessitating additional updates in the 2017 Document.

Expense Pressures

- Ministry risks represent potential pressures in the fiscal plan, and are not typically included in Quarterly updates.
- However, it may be prudent to address risks which may materialize before the 2017 Document, such as increased expense pressures associated with social assistance etc.

Report in Document

Reserve

It is recommended that the reserve be maintained at its current level of $0.4 billion, in order to mitigate any pressures that may arise before year-end.

H1 & OPG Accounting (IFRS)

Updated information on the potential fiscal impact of the move from U.S. GAAP to IFRS for Hydro One and OPG, is expected in mid-February.

Interest on Debt

Deferring improvements in the interest on debt forecast allows for upside potential in the 2017 Document.

Outstanding Information

- **Outstanding Information** could materially impact the **2016-17 outlook** in advance of the 2017 Document.

Revenue
Revisions to economic outlook
Ongoing provincially-administered tax receipts
Non-tax revenue updates from Ministry PRRT submissions
Net income updates from government business enterprises

Expense
Ministry Q3/interim submissions
Consolidations and other technical adjustments
Interest on debt forecast updates
Contaminated sites liabilities
Updated pension expense forecast

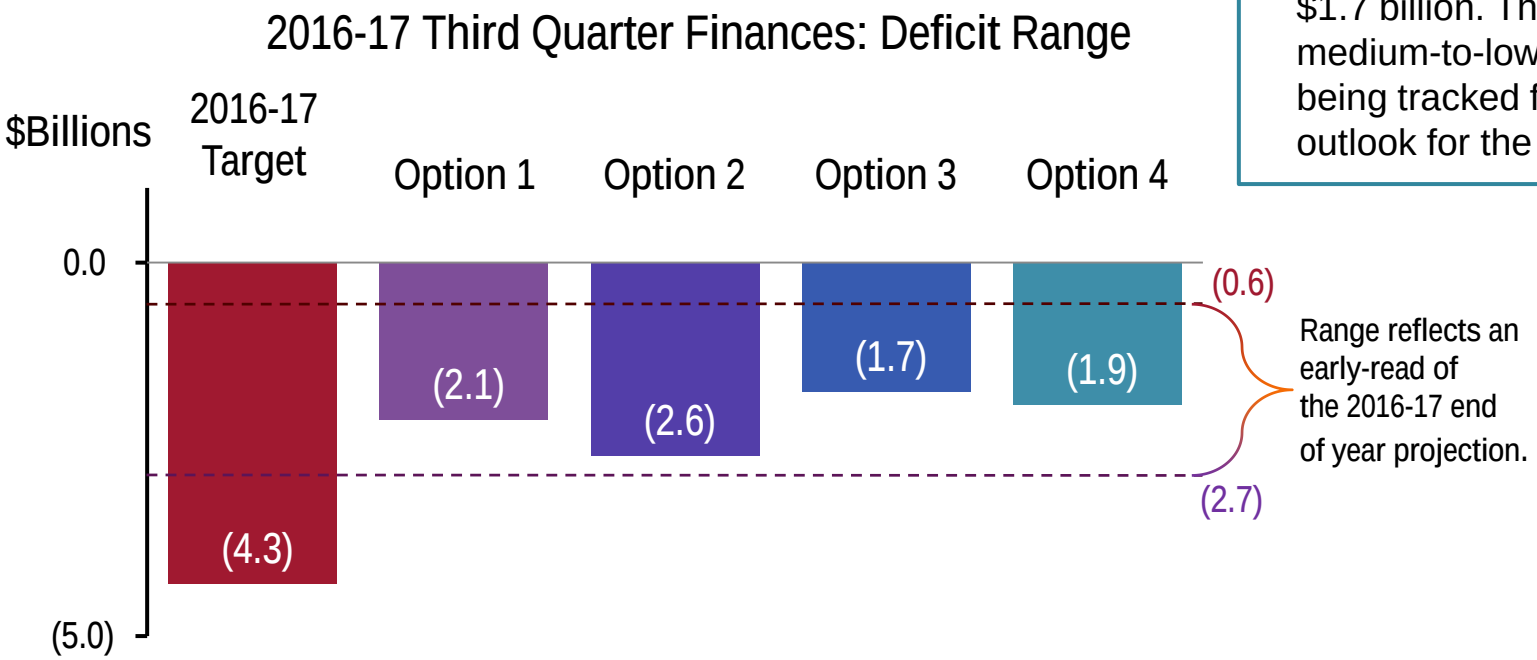
- Potential improvement to gap
- Potential improvement or deterioration to gap
- Potential deterioration to gap

Principles for the 2016-17 Outlook

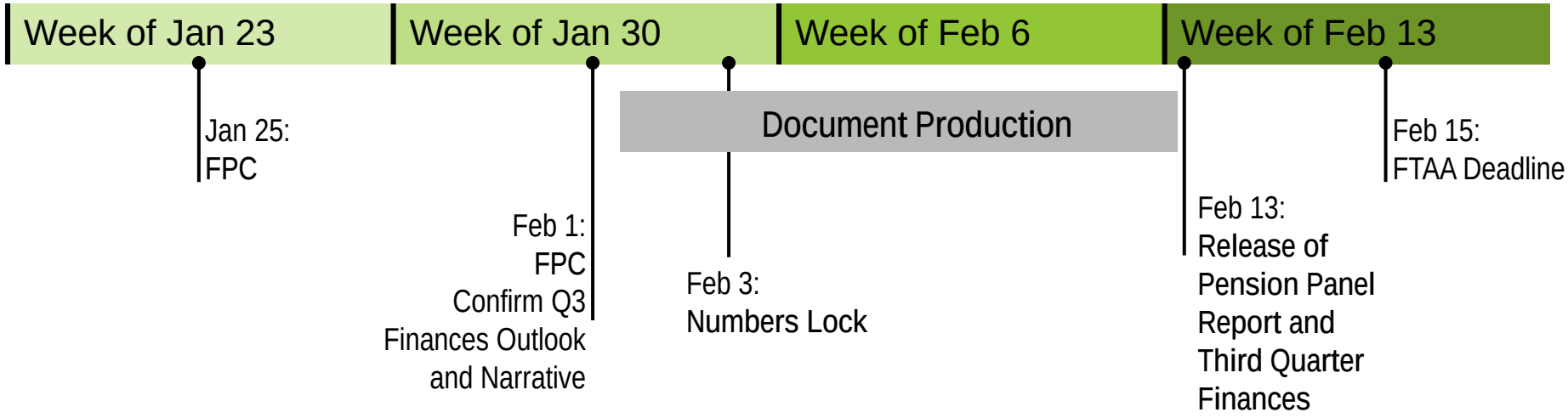
Options 1 through 4 build on each other. All options assume the pension reversal and progressively take on additional changes relative to FES .

Option 1	Option 2	Option 3	Option 4
Pensions: $2.2 billion	**Pensions**: $2.2 billion	**Pensions**: $2.2 billion	**Pensions**: $2.2 billion
	Cap and Trade: $(0.5) billion	**Cap and Trade:** $(0.5) billion	**Cap and Trade:** $(0.5) billion
		Asset Optimization: $(0.1) billion	**Asset Optimization:** $(0.1) billion
		HST & Other Taxes: $0.9 billion	**HST & Other Taxes:** $0.9 billion
			Expense Pressures: $(0.2) billion

- Based on an early-read of end of year projections, the government may want to report an outlook that protects against risks or other changes between now and the Budget.
- Based on current information and taking into account key building blocks, there are a number of options for presenting the Q3 deficit, ranging from $2.6 billion to $1.7 billion. These are on the medium-to-low end of what is being tracked for the interim outlook for the 2017 Document.



Next Steps

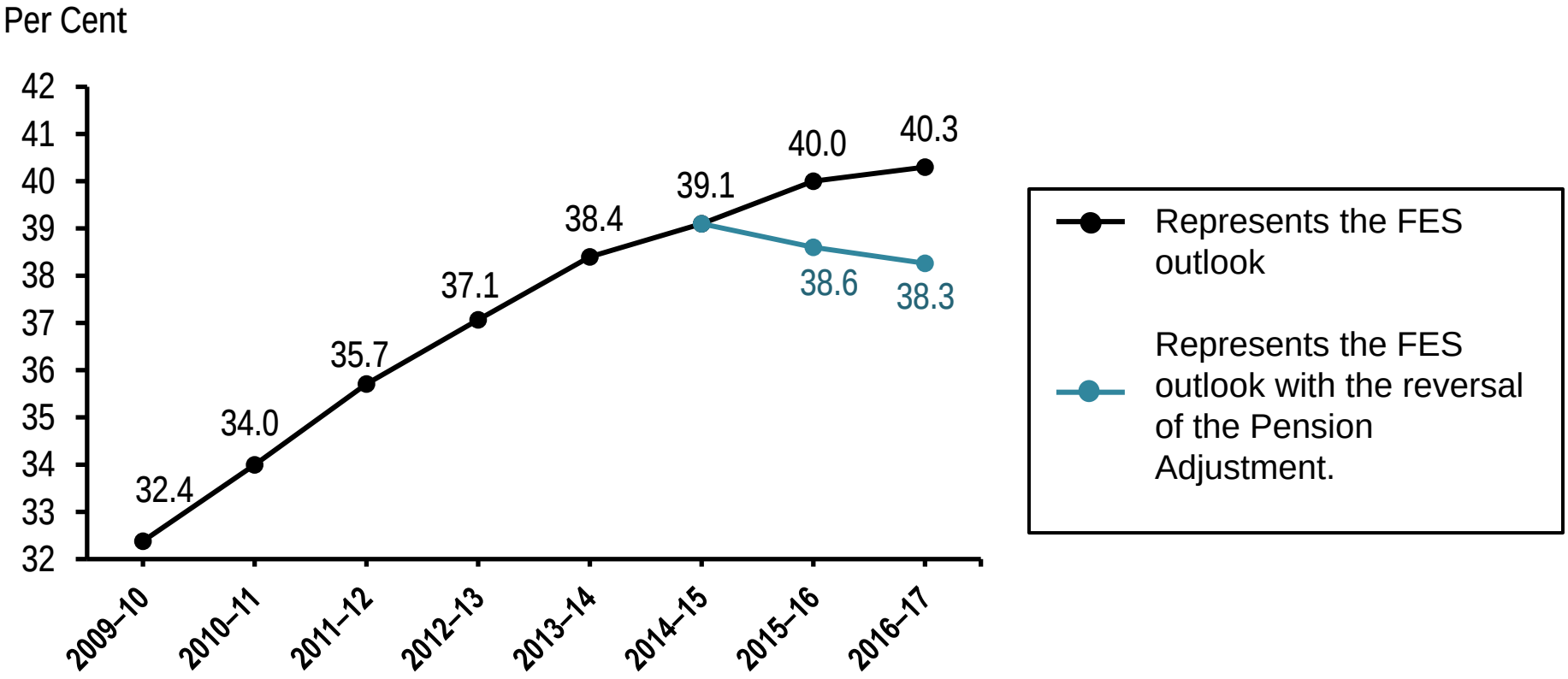

Week of Jan 23
Week of Jan 30
Week of Feb 6
Week of Feb 13
Jan 25:
FPC
Feb 1:
FPC
Confirm Q3
Finances Outlook
and Narrative
Document Production
Feb 3:
Numbers Lock
Feb 13:
Release of
Pension Panel
Report and
Third Quarter
Finances
Feb 15:
FTAA Deadline

Appendix

Net Debt-to-GDP With Pension Reversal

Narrative: *The impact of the reversal will change the net debt projection for 2016-17 by $X.X billion. As a result, the government is projecting a net debt-to-GDP ratio of X.X per cent, an improvement compared to the 2016 FES projection of 40.3 per cent*

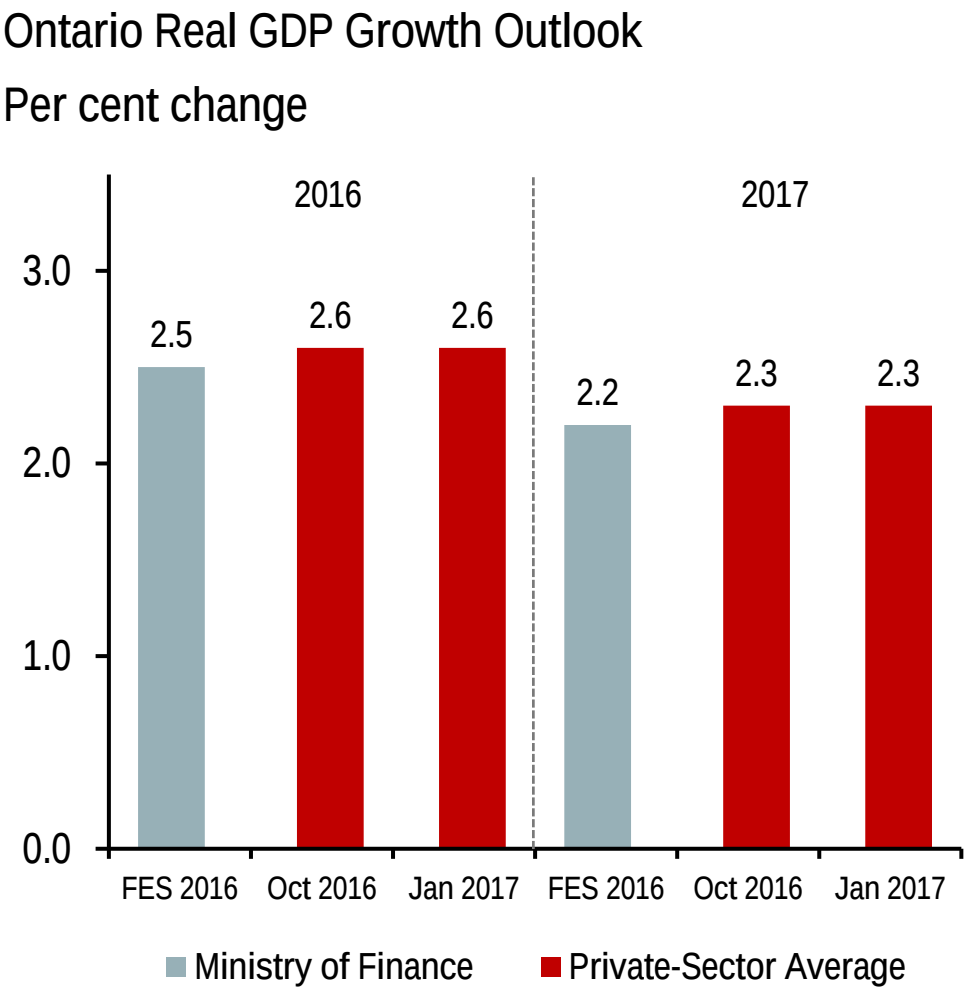
- Reflects the reversal of the Teachers Pension Plan and OPSEU Pension Plan adjustments, including reversal of the $10.7 billion debt adjustment made in the 2015-16 Public Accounts



Potential Third Quarter Economic Outlook

Economic Update

- Real GDP increased by 0.7% in the third quarter (July to September) of 2016, after rising 0.2% in the second quarter.
  - Higher exports and continued growth in household spending were the primary drivers of growth
- Information available so far for the fourth quarter (October to December) of 2016 suggest growth at a more modest pace.
- Ontario's economic growth outlook remains consistent with the 2016 FES forecast



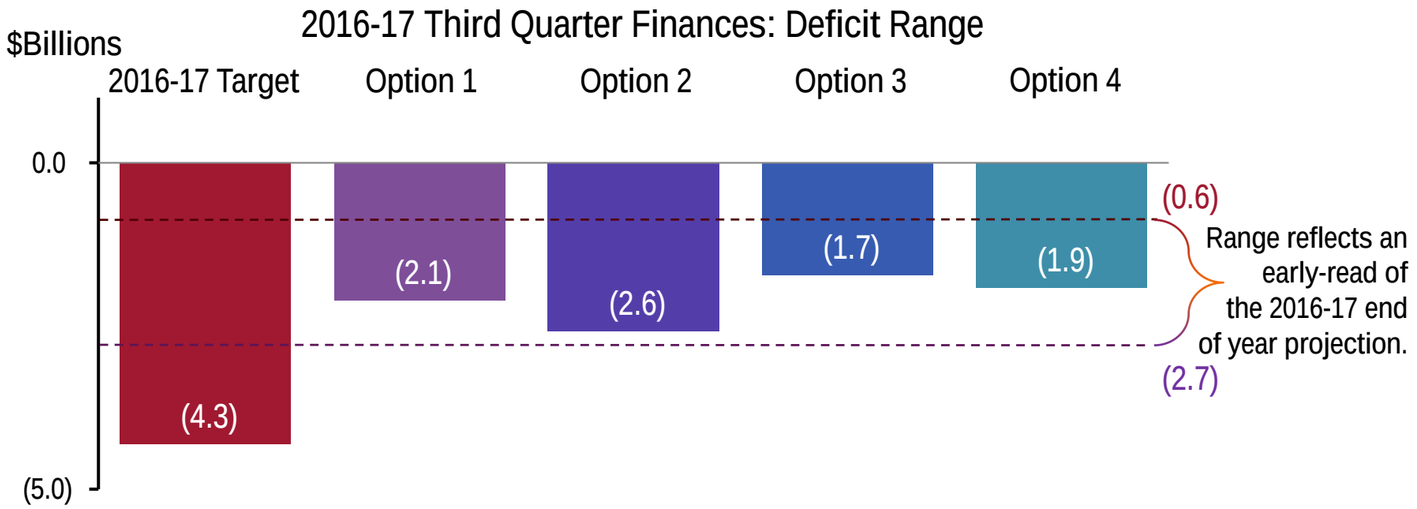
Other Accounting Issues

Other Accounting Issues

- The move from U.S. GAAP to IFRS for the consolidation of Hydro One and OPG results in a fiscal impact starting in 2016-17, of either:

Basis of Consolidation of OPG and H1 (US GAAP vs. IFRS)	Fiscal Impact Relative to FES				
	2016-17	2017-18	2018-19	2019-20	2020-21
Preferred Approach (smoothed IFRS impact)**	**$75M**	**$425M**	**$525M**	**$675M**	**$675M**
High Impact (non-smoothed IFRS impact)**	$1B	$375M	$400M	$400M	$400M

*** OPG's estimate of cumulative impact for 2015-2020 is $2.5B under the preferred approach, and $2.6B under the high impact approach. Note: Amounts are based on estimates currently available, and are subject to updates by OPG. Revised estimates are expected by March 1, 2017.*



Options 1 through 4 build on each other. All options assume the pension reversal and progressively take on additional changes.

Option 1	Option 2	Option 3	Option 4
Pensions: $2.2 billion	**Pensions**: $2.2 billion	**Pensions**: $2.2 billion	**Pensions**: $2.2 billion
	Cap and Trade: $(0.5) billion	**Cap and Trade:** $(0.5) billion	**Cap and Trade:** $(0.5) billion
		Asset Optimization: $(0.1) billion	**Asset Optimization:** $(0.1) billion
		HST & Other Taxes: $0.9 billion	**HST & Other Taxes:** $0.9 billion
			Expense Pressures: $(0.2) billion

Overall Narrative: *The strength of the Ontario economy, together with the government's approach to fiscal management, is supporting strategic investments, while allowing the government to continue to beat its fiscal targets.*

Option 1
Reversal of Pensions

$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	*2.1*	132.7
Expense			
Programs	122.1	*0.9*	123.1
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*0.5*	134.4
Surplus/(Deficit) Before Reserve	(3.3)	*1.6*	(1.7)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*2.2*	(2.1)

- *The government is projecting a **deficit of $2.1 billion in 2016-17**, an improvement of $2.2 billion since the 2016 Budget.*
- *The Pension Asset Expert Advisory Panel recently released its report on the treatment of pension assets, including a recommendation that jointly-sponsored net pension asset be recognized in the Province's financial statements. The government is adopting this recommendation, which aligns with the treatment originally included in the 2016 Budget plan.*
- *With this reversal, together with stronger revenue and lower interest on debt, the government is on track to beat its fiscal target.*

Option 2
Option 1 + Cap and Trade

$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	*1.7*	132.2
Expense			
Programs	122.1	*0.9*	123.1
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*0.5*	134.4
Surplus/(Deficit) Before Reserve	(3.3)	*1.1*	(2.2)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*1.7*	(2.6)

- *The government is projecting a **deficit of $2.6 billion in 2016-17**, an improvement of $1.7 billion since the 2016 Budget.*
- *Cap and Trade is a cornerstone of the Province's fight against climate change. Ontario's first Cap and Trade auction is scheduled for March 22, 2017, and establishes Ontario's partnership in the largest carbon market in North America.*
- *Proceeds from Ontario's first auction will be certified at the beginning of the 2017-18 fiscal year. As such, the Third Quarter Finances reflect the re-profiling of auction proceeds from 2016-17 to 2017-18.*

Option 3
Option 2 + Assets + HST & Other Taxes

$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	*2.5*	133.1
Expense			
Programs	122.1	*0.9*	123.1
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*0.5*	134.4
Surplus/(Deficit) Before Reserve	(3.3)	*2.0*	(1.3)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*2.6*	(1.7)

- *The government is projecting a **deficit of $1.7 billion in 2016-17**, an improvement of $2.6 billion since the 2016 Budget.*
- *Ontario's economy continues to grow in an uncertain global environment. Stronger 2015 income tax assessment results and the continued strength of Ontario's economy and housing market resulted in higher than forecasted taxation revenues.*
- [Suggest not addressing AO downward estimate in narrative.]

Option 4
Option 3 + Expense Pressures

$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	*2.5*	133.1
Expense			
Programs	122.1	*1.1*	123.3
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*0.7*	134.6
Surplus/(Deficit) Before Reserve	(3.3)	*1.8*	(1.5)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*2.4*	(1.9)

- *The government is projecting a **deficit of $1.9 billion in 2016-17**, an improvement of $2.4 billion since the 2016 Budget.*
- *The government's fiscally sound approach to managing the Province's finances will help grow the economy, create jobs and ensure the sustainability of programs and services that help Ontarians in their everyday lives.*
- *[This includes supporting strategic investments, such as funding for social assistance, and increased enrolment in schools.]*

From: Kevin Hwang
To: Ken Kandeepan
Subject: FW: Q3 update
Date: Friday, January 27, 2017 9:05:52 AM

Hi Ken,

When you have a moment may I drop by to briefly discuss the non-cash as requested by Alex below?

Thanks,
kevin

-----Original Message-----
From: Alexander Kraas
Sent: Thursday, January 26, 2017 4:14 PM
To: Kevin Hwang <Kevin.Hwang@ofina.on.ca>
Cc: IOD_RPA <IOD_RPA@ofina.on.ca>
Subject: FW: Q3 update

Hello Kevin;

How will the pension adjustment affect the cash timing adjustments for the FT?

Thank you

Alex

-----Original Message-----
From: Ken Kandeepan
Sent: Thursday, January 26, 2017 3:00 PM
To: Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: Re: Q3 update

Thanks, much appreciate the quick response.

Ken k

> On Jan 26, 2017, at 2:37 PM, Esmail, Selena (MOF) <Selena.Esmail@ontario.ca> wrote:
>
> Hi ken - thank you so much for following up on this. We need to go back to FPC next week for additional scenarios on the deficit we could publish in Q3 and so we haven't landed on anything definitive yet. At minimum it appears at this point we will be reversing the pension adjustment but there may be other variables that impact the deficit figure. Not sure if that helps you get started. So for now, don't worry about the noon deadline and we will be in touch with you/your team as soon as we can on something more definitive.
>
> Thank you again.
>
> -----Original Message-----
> From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
> Sent: January-26-17 1:40 PM
> To: Esmail, Selena (MOF)
> Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma

(MOF)
> Subject: Re: Q3 update
>
> Hi Selena
>
> Any further update on whether the FES numbers will be used for Q3, or will the pension adjustment be reversed resulting in a revised deficit and net debt.
>
> Much appreciated if you can get back to us EOD, since we have to get back to you by tomorrow 12 pm with the financing table and the ratios.
>
> Thanks
>
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>> Thanks again.
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>> Sent from my BlackBerry 10 smartphone on the Rogers network.
>> From: Ken Kandeepan
>> Sent: Monday, January 23, 2017 1:06 PM
>> To: Esmail, Selena (MOF)
>> Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA)
>> Subject: RE: Q3 update
>>
>>
>> Hi Selena
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>> Couple of quick question, the 16-17 IOD forecast was revised downwards from the FES number and provided to Tim. Do you want us to use this revised version or stick with the FES forecast with the revision being presented in the Interim section of the 2017 Budget.
>>
>> Let me know, and in order to complete the Financing Table we need to know the 16-17 deficit that you will be projecting in the Q3, will be the same as the FES?
>>
>> Thanks
>>
>> Ken k
>>
>> From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
>> Sent: Monday, January 23, 2017 12:43 PM
>> To: Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Tim Cook (MOF) <Tim.Cook@ontario.ca>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca>; Sharon Stuckless (TCU) <Sharon.Stuckless@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca>; Raj Sharda (MOHLTC) <Raj.Sharda@ontario.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
>> Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
>> Subject: RE: Q3 update
>> Importance: High
>>
>> Hi All,
>>

>> Following up on my email from last week, we received relatively recent direction regarding the release of Ontario's Third Quarter Finances – the tentative plan is to publish Q3 finances ahead of the February 15 deadline. We are tentatively tracking a release date of Monday February 13.
>>
>> As you can imagine, timelines are very compressed, and includes a possible trip to FPC this week. In order to meet this week's deadlines, while also preparing for the release of the actual publication, we're asking for input from you in stages:
>>
>> EOD Today:
>> We have prepared the draft of a deck, which we are working towards tabling at this Wednesday's FPC (TBC). The deck lays out the key 2016-17 building blocks that could be updated as part of the Q3 publication. It would help if we could get the following from you folks by the end of today:
>> 16-17 post-FES expense update: We have included placeholder for an expense slide. The intention is for the slide to provide an updated list of initiatives that were not included in the FES expense outlook.
>> Recommended expense update/signature initiatives: We may build in options for what the outlook could look like – it would help if you could provide a recommendation for the expense changes that should be taken on/profiled.
>> 16-17 c-fund update: We have included a c-fund slide that was used in the Q1 finances briefing materials (current PW). We would like to include an updated version of this slide in the FPC deck (appendix). It would help to have this out to 19-20.
>> Pension Narrative: Nadine – I'll connect on the pension adjustment and some high level bullets that we could use.
>>
>> Noon Friday January 27:
>> Template: I've attached a draft of 3q finances that is based heavily off of the 2016 First Quarter Finances. We've highlighted in green the sections that we would like you to update. While I'm not 100% certain this structure will be exactly what the Q3 document will look like, I think it's safe to say that the substantive content we'll have to cover is captured here. There will be some highlighted content that is not possible to update for Friday, however there will be a formal distribution process where additional information can be incorporated.
>>
>> Thanks everyone, and please feel free to send your input directly to Liane and Emma. Im hoping to be able to share a draft deck with you late this evening.
>>
>>
>>
>> From: Esmail, Selena (MOF)
>> Sent: January-19-17 2:57 PM
>> To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)
>> Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
>> Subject: Q3 heads up
>>
>> Hi Everyone – Wanted to send a quick message that we are hearing there is a desire to proceed with the release of a Q3 update around the time we are expecting the Pension Panel panel to release their report. We are going to assume mid feb prior to the house coming back for our planning purposes.
>>
>> My team is going to work together to put together a list of things we need to start working on/think about along with a calendar to determine and get direction on an approach to coincide with this timeframe.
>>
>> More details to follow tomorrow.
>>
>> Thanks.
>>
>>
>>
>> _____

>>
>> This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.
>

From: Ken Kandeepan
To: Bonnie Lemcke
Subject: FW: Q3 update
Date: Thursday, January 26, 2017 3:18:01 PM

Looks like its being pushed back.

Thanks

Ken K

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From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Thursday, January 26, 2017 2:37 PM
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Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: RE: Q3 update

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Hi Selena

Any further update on whether the FES numbers will be used for Q3, or will the pension adjustment be reversed resulting in a revised deficit and net debt.

Much appreciated if you can get back to us EOD, since we have to get back to you by tomorrow 12 pm with the financing table and the ratios.

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> From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
> Sent: Monday, January 23, 2017 12:43 PM
> To: Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Tim Cook (MOF) <Tim.Cook@ontario.ca>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca>; Sharon Stuckless (TCU) <Sharon.Stuckless@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca>; Raj Sharda (MOHLTC) <Raj.Sharda@ontario.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
> Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
> Subject: RE: Q3 update
> Importance: High
>
> Hi All,
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> Following up on my email from last week, we received relatively recent direction regarding the release of Ontario's Third Quarter Finances – the tentative plan is to publish Q3 finances ahead of the February 15 deadline. We are tentatively tracking a release date of Monday February 13.
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> We have prepared the draft of a deck, which we are working towards tabling at this Wednesday's FPC (TBC). The deck lays out the key 2016-17 building blocks that could be updated as part of the Q3 publication. It would help if we could get the following from you folks by the end of today:
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>
>
>
> From: Esmail, Selena (MOF)
> Sent: January-19-17 2:57 PM
> To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)
> Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
> Subject: Q3 heads up
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> More details to follow tomorrow.
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> Thanks.
>
>
>
> _____
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> This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

From: Ken Kandeepan
To: John Psinas
Subject: FW: Q3 update
Date: Tuesday, January 24, 2017 1:41:28 PM
Attachments: Q3Finances_Considerations_v4h.pptx

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Tuesday, January 24, 2017 1:25 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: RE: Q3 update

Ken - Im attaching the current version of the Q3 deck -if you could take a look through. In particular - can you have a look at slide 13 and provide a few bullets on the impact of the reversal of the pensions on net debt to GDP?

Happy to discuss. Let me know if you have any other comments as well - happy to take those too. If you could get back to me as soon as possible, that would be much appreciated. Thanks.

Deck has new document psswrd.
-----Original Message-----
From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: January-24-17 10:49 AM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
Subject: RE: Q3 update

NP, I believe we do have Q&A in the FES package that addresses this very issue, so happy to flip it to you later on, do note that Gadi released an additional $63M (in relation to the IOD number in the FES) in IOD savings for 16-17 to Tim a couple of weeks ago.

Thanks

Ken k

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From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Tuesday, January 24, 2017 10:40 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: Re: Q3 update

Ok -. Thanks for confirming. Tim said that may be true and we may need to have a technical Q and A on this as part of Q3 comms prep. So for now we are going to leave it as a decision point about whether to take on the fes outlook or show a more up to date forecast and we may get direction from the dm today or fpc tomorrow. I hope to be able to share a draft deck with you shortly. Thanks for your help.

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message

From: Ken Kandeepan
Sent: Tuesday, January 24, 2017 10:32 AM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
Subject: RE: Q3 update

Hi Selena

The reversal of the pension adjustment does not impact IOD since it's a non-cash adjustment, i.e., it decreases expenses on a PSAB basis not on a cash basis hence the total borrowing does not change which means that IOD also remains unchanged.

Thanks

Ken K

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Tuesday, January 24, 2017 10:29 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: Re: Q3 update

Hey ken - one thing to consider is if the pension adjustment is being reversed there may be a desire to show progress on IOD - assuming it impacts that. Thoughts?

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: Ken Kandeepan
Sent: Monday, January 23, 2017 3:19 PM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
Subject: RE: Q3 update

Thanks agreed, keeping the FES forecast makes sense since we don't want material changes before the interim in the Document, but pls do confirm.

Ken k

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From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Monday, January 23, 2017 2:54 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: Re: Q3 update

Hi ken - thanks. Not sure yet on whether we will keep the fes forecast or update for the latest but I'll speak to tim about it. Tim mentioned earlier that we shld retain the fes forecast but I just want to confirm with him.

Thanks again.

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From: Ken Kandeepan
Sent: Monday, January 23, 2017 1:06 PM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA)
Subject: RE: Q3 update

Hi Selena

Couple of quick question, the 16-17 IOD forecast was revised downwards from the FES number and provided to Tim. Do you want us to use this revised version or stick with the FES forecast with the revision being presented in the Interim section of the 2017 Budget.

Let me know, and in order to complete the Financing Table we need to know the 16-17 deficit that you will be projecting in the Q3, will be the same as the FES?

Thanks

Ken k

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More details to follow tomorrow.

Thanks.

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Fiscal Strategy:
Ontario's Third Quarter Finances

Office of the Budget
MINISTRY of FINANCE

Presentation to FPC on January 25, 2017

Preliminary Draft

Draft – January 24, 2017 12:00 PM

Context

Under the *Fiscal Transparency and Accountability Act, 2004* (FTAA), the Third Quarter Finances is required to:

- Be released on or before February 15th (publication can be delayed if a letter is sent to the Clerk).
- Include updated information about the major components of revenue and expense **for the current fiscal year only.**

It also provides an **opportunity for the government to reiterate key fiscal messages** from the Budget or pre-condition for future updates.

A Third Quarter Finances has only been published once in the last eight years (in 2012-13).

- The infrequent publication provides the government with some flexibility on how to present its fiscal update (i.e., update could be presented relative to the 2016 Budget, 2016 FES or both, as was done in 2012-13).

Key stakeholders like the Financial Accountability Officer and rating agencies will assess the fiscal outlook and narrative.

- Both have acknowledged that balance is within reach in 2017-18, but have also highlighted key risks to the 2016 Budget fiscal plan.

Purpose and Key Decisions

To **confirm the approach to publishing Ontario's Third Quarter Finances, including:**

- The core updates to **the fiscal outlook and supporting revenue and expense details** to be published, as well as the **fiscal narrative and messaging**.
- Positioning the content and the rollout of Third Quarter Finances relative to the release of the Pension Panel's Report and recommendations.
- **Confirm release date** and determine if a letter to the Clerk is required.

Evolution of the 2016-17 Outlook

- The Third Quarter Finances could present a fiscal update relative to the 2016 Budget or FES.
- The 2016 FES highlighted Ontario's stronger economy and the government's approach to fiscal management, which supported strategic investments in new child care spaces, hospitals and electricity cost relief for consumers.
- To support these investments while accommodating the Pension Adjustment, the government took on a number of fiscal tools in order to meet its targets.

2016 Budget Fiscal Plan $ Billions	2016-17	Change to FES 2016-17	FES Outlook 2016-17
Revenue	130.6	*2.1*	132.7
Expense			
Programs	122.1	*3.1*	125.3
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*2.7*	136.6
Surplus/(Deficit) Before Reserve	(3.3)	*(0.6)*	(3.9)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*(0.0)*	(4.3)

Total revenue changes of $2.1 billion, consisting of:

- Base Forecast Change $1.0 billion
- Reversal of Homecare $(0.2) billion
- Federal Agreements $0.4 billion
- Higher assumed revenue to accommodate pensions $0.9 billion

Total expense changes of $2.7 billion, consisting of:

- In-Year Approvals $0.2 billion
- Pension Adjustment of $2.2 billion
- Electricity Cost Relief $0.3 billion
- Support for Hospitals $0.1 billion
- Green Investment Fund $0.3 billion
- New Federal Agreements $0.4 billion
- Contingency Fund Offsets $(0.5) billion
- Interest on Debt Savings $(0.4) billion

Change to the Reserve $(0.6) billion

End of Year Projection for 2016-17

- An early-read indicates that end of year projections for the 2016-17 deficit could range from $0.6 billion (if there is a significant improvement to the outlook) to $2.7 billion (if there is a moderate improvement to the outlook) by year end.

Significant Year-end Improvement

2016 Budget (4.3) billion
+ Pension Adjustment and Tools
2016 FES (4.3) billion
+ Higher Revenue ***1.7 billion***
– Re-profiling Cap and Trade Proceeds ***0.5 billion***
– Lower Revenue from Assets ***75 million***
– Accounting Adjustments: Accounting Framework (IFRS) ***75 million*** Unchanged Contaminated Sites
Unchanged Program Expense
+ Reverse Pension Adjustment ***2.2 billion***
+ Lower Interest on Debt ***0.1 billion***
+ Reduce Reserve ***0.4 billion***
Early-Read (0.6) billion

Moderate Year-end Improvement

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2016 FES (4.3) billion
+ Higher Revenue ***0.7 billion***
– Re-profiling Cap and Trade Proceeds ***0.5 billion***
– Lower Revenue from Assets ***75 million***
– Accounting Adjustments: Accounting Framework (IFRS) ***75 million*** Contaminated Sites ***50 million***
Higher Program Expense ***1.0 billion***
+ Reverse Pension Adjustment ***2.2 billion***
+ Unchanged Interest on Debt
+ Reduce Reserve ***0.4 billion***
Early-Read (2.7) billion

Treatment of Pension Adjustment

Panel Recommendation

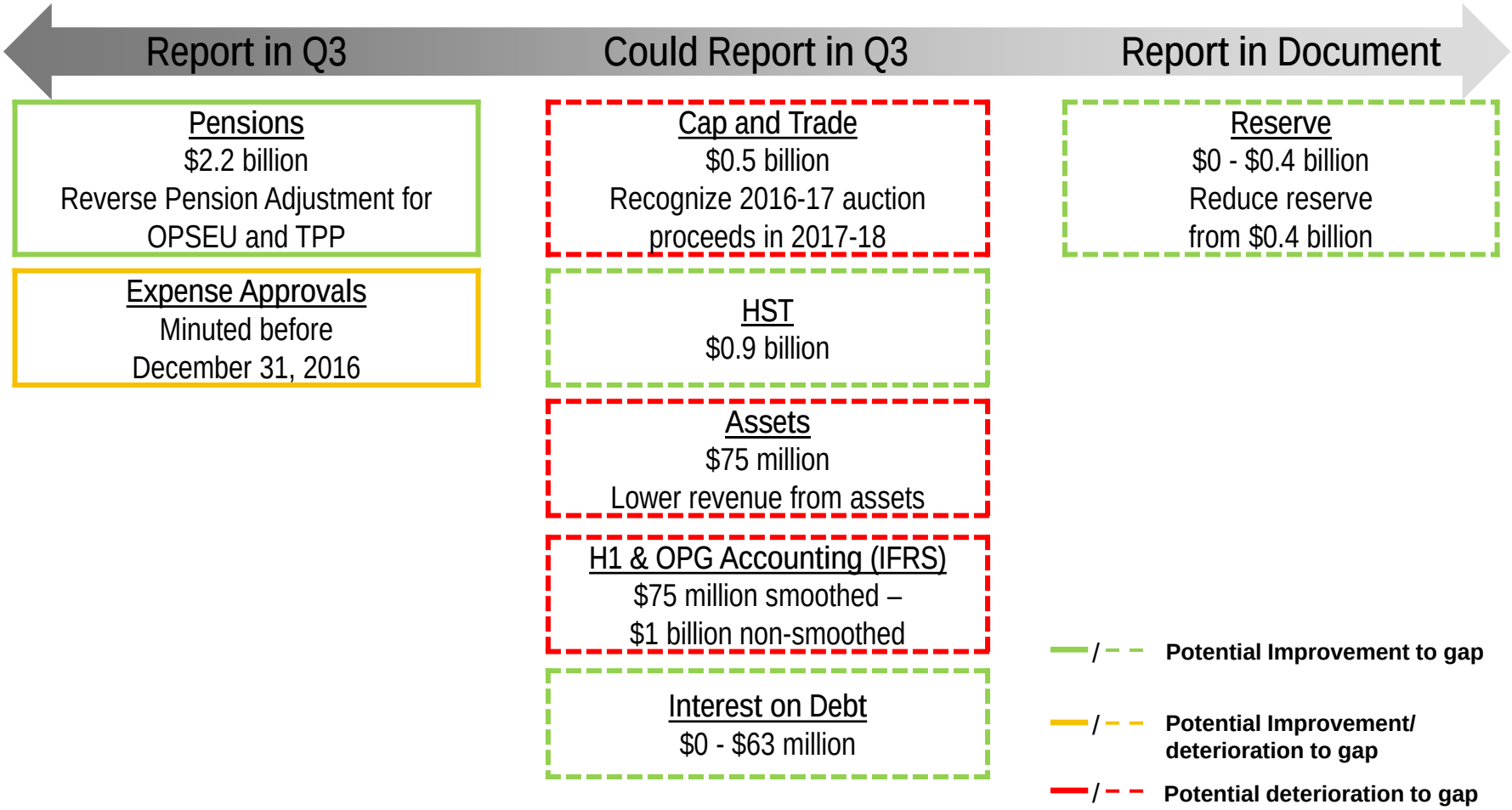
- The Pension Asset Expert Advisory Panel will be releasing its findings in the coming weeks.
  - The report is expected to include advice that the net pension asset be recognized in the Province's financial statements.
  - If taken on, would result in a positive fiscal impact in all years.

Treatment of Pension Adjustment

- The Third Quarter Finances provides the government with an immediate opportunity to align its fiscal strategy with recommendations of the panel, and frame the pension narrative in advance of the 2017 Document.
- While the reversal will result in an improved 2016-17 deficit, expectations may need to be tempered about how much fiscal room is created in the out-years due to growing pressures.

Key Building Blocks

- In addition to the reversal of the Pension Adjustment, other key building blocks will either need to be reported in the Third Quarter Finances or be considered for the 2017 Document.



Outstanding Information

- **Outstanding Information** could materially impact the **2016-17 outlook** in advance of the 2017 Document.

Revenue
Revisions to economic outlook
Ongoing provincially-administered tax receipts
Non-tax revenue updates from Ministry PRRT submissions
Net income updates from government business enterprises

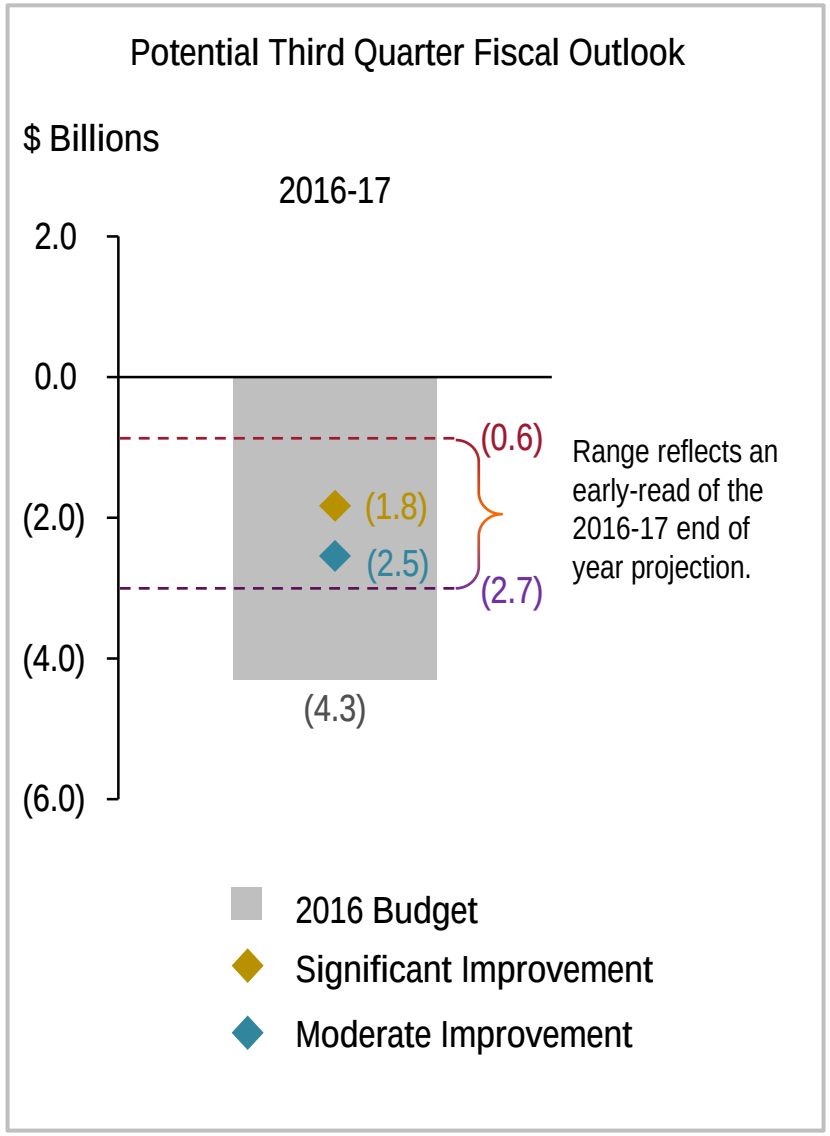
Expense
Ministry Q3/interim submissions
Consolidations and other technical adjustments
Interest on debt forecast updates
Contaminated sites liabilities
Update pension expense forecast

- Potential improvement to gap
- Potential improvement or deterioration to gap
- Potential deterioration to gap

Principles for the 2016-17 Outlook

- Based on an early-read of end of year projections, the government may want to report an outlook that protects against risks or other changes that could adversely impact the Province's fiscal performance between now and the Budget, and ultimately, Public Accounts.
- For example, based on current information and taking into account key building blocks, Q3 could present a deficit ranging from $2.5 billion (moderate improvement) to $1.8 billion (significant improvement).

Moderate Improvement	Significant Improvement
Takes on the following key building blocks: • **Pensions** $2.2 billion • **Cap and Trade** $(0.5) billion	Takes on the following key building blocks: • **Pensions** $2.2 billion • **Cap and Trade** $(0.5) billion • **Interest on Debt** $0.1 billion • **HST** $0.9 billion • **Assets** $(0.1) billion • **H1 & OPG Accounting (IFRS)** $(0.1) billion

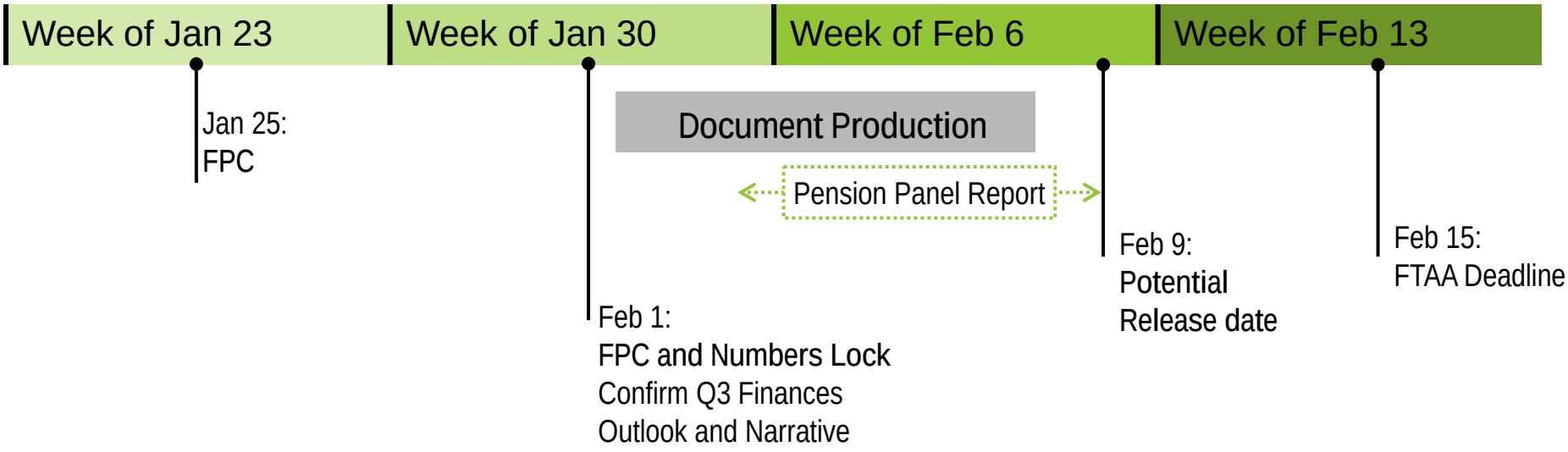


Fiscal Narrative to Support Pension Reversal

The narrative could build on the 2016 FES, focusing on the investments the government is making in priority areas while remaining committed to balance the budget in 2017-18. This narrative would be further supported by highlighting the reversal of the pension adjustment, and could make room for announcements leading up to the release of the 2017 Document.

- *The government is projecting a **deficit of $X.X billion in 2016-17**, an improvement of $X.X billion since the 2016 Ontario Economic Outlook and Fiscal Review forecast.*
- *The Pension Asset Expert Advisory Panel recently released its report on the treatment of pension assets, including a recommendation that the net pension asset be recognized in the Province's financial statements.*
- ***The government is adopting the Panel's recommendation** by reversing the Pension Adjustment included in the 2016 Ontario Economic Outlook and Fiscal Review outlook. The reversal of the Pension Adjustment will result in a significant improvement in the 2016-17 outlook and could support additional investments in 2017-18 and beyond.*
- *The government is projected to beat its deficit target for the **eighth year in a row**.*

Next Steps



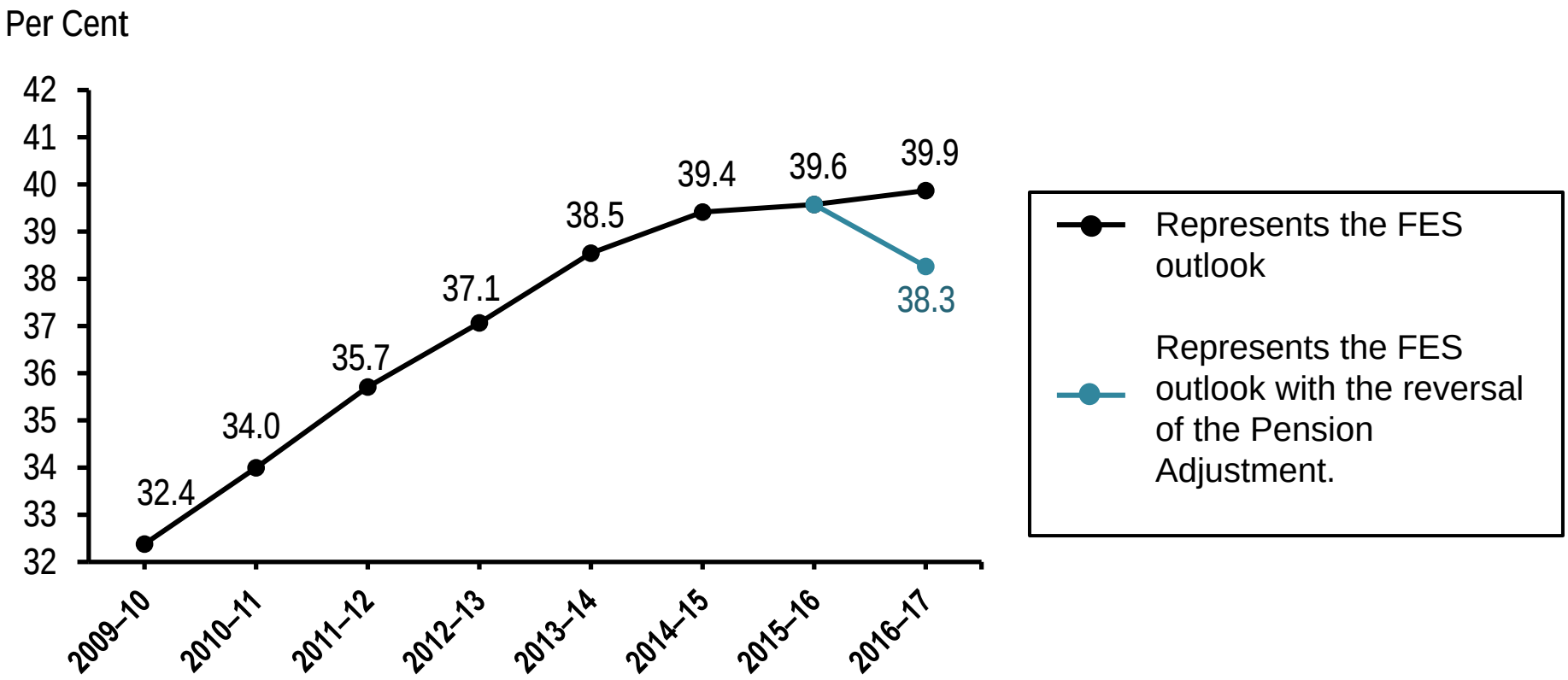
Decision on Third Quarter Finances fiscal strategy:

1. Seeking decision on the fiscal outlook and narrative to publish in the Third Quarter Finances.
2. Confirm **release date** (currently tracking to February 9th) and determine if a letter to the Clerk is required.
3. Communication and rollout approach with regards to the timing of the release of the Pension Panel's report and recommendations.

Appendix

Net Debt-to-GDP With Pension Reversal

- Reflects the reversal of the Teachers Pension Plan and OPSEU Pension Plan adjustments, including reversal of the $10.5 billion debt adjustment made in the 2015-16 Public Accounts



2017 Third Quarter Finances – Draft Production Calendar

Jan - Feb 2017

Monday	Tuesday	Wednesday	Thursday	Friday
23 Receive high-level input on revenue and expense for fiscal strategy deck	**24**	**25** Fiscal Prep Meeting Q3 Building Blocks Preliminary Draft of Third Quarter Finances Under Development	**26**	**27** Detailed input received from key partners
30 Preliminary Draft of Third Quarter Finances Under Development ORBIT Sign-off (AM)	**31** Minister Briefing (TBD) 1st Distribution	**February 1** Fiscal Prep Meeting Confirm Q3 Outlook Numbers Lock	**2** Ministry Q3 submissions due Director Sign-off 2nd Distribution	**3** ADM & Associate DM Sign-off 3rd Distribution
6 DM Sign-off Final Distribution French/HTML Translation	**7** Finalize News Release and other Communication materials	**8**	**9** Potential Third Quarter Finances Release Date	**10**
13	**14**	**15** FTAA Deadline for Third Quarter Finances	**16**	**17**
20 FAMILY DAY HOLIDAY	**21**	**21**	**23**	**24**

Commercially Sensitive and Confidential Advice to Cabinet – PRELIMINARY DRAFT

Other Accounting Issues

Other Accounting Issues

- The move from U.S. GAAP to IFRS for the consolidation of Hydro One and OPG results in a fiscal impact starting in 2016-17, of either:

Basis of Consolidation of OPG and H1 (US GAAP vs. IFRS)	Fiscal Impact Relative to FES				
	2016-17	2017-18	2018-19	2019-20	2020-21
Preferred Approach (smoothed IFRS impact)**	**$75M**	**$425M**	**$525M**	**$675M**	**$675M**
High Impact (non-smoothed IFRS impact)**	$1B	$375M	$400M	$400M	$400M

*** OPG's estimate of cumulative impact for 2015-2020 is $2.5B under the preferred approach, and $2.6B under the high impact approach.*

From: Alexander Kraas
To: IOD_RPA
Cc: Ken Kandeepan
Subject: FW: Q3 update
Date: Tuesday, January 24, 2017 10:56:10 AM

Hello Ricky;

Would you please look into the new Q&A database to see whether we have an existing Q&A for the highlighted issue?

Thank you

Alex

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Ok -. Thanks for confirming. Tim said that may be true and we may need to have a technical Q and A on this as part of Q3 comms prep. So for now we are going to leave it as a decision point about whether to take on the fes outlook or show a more up to date forecast and we may get direction from the dm today or fpc tomorrow. I hope to be able to share a draft deck with you shortly. Thanks for your help.

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: Ken Kandeepan
Sent: Tuesday, January 24, 2017 10:32 AM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
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More details to follow tomorrow.

Thanks.

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From: Ken Kandeepan
To: John Psinas
Subject: FW: Q3 update
Date: Tuesday, January 24, 2017 10:33:22 AM

---

we keep using your prior email.

Ken K

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To: Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
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From:	Alexander Kraas
To:	IOD_RPA
Cc:	Ken Kandeepan
Subject:	FW: Q3 update
Date:	Monday, January 23, 2017 1:55:25 PM
Attachments:	June MMP Contingency Fund Outlook and Expense Risks.pptx Third Quarter Finances_v1a_0127.docx
Importance:	High

Hello Ricky;

Would you please update the Q3 Word template based on FES?

Thank you

Alex

From: Ken Kandeepan
Sent: Monday, January 23, 2017 1:03 PM
To: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; John Psinas (FIN) (John.Psinas@ontario.ca) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>
Subject: FW: Q3 update
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FYI.

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Contingency Fund Outlook and Expense Risks

Contingency Fund Outlook

$ Billions	2014-15	2015-16	2016-17	2017-18	2018-19
Opening contingency fund balance	**0.5**	**0.7**	**1.2**	**1.7**	**3.5**
Less: Approvals to date[1]	0.0	0.0	0.3	0.5	0.6
Current contingency fund balance	**0.5**	**0.6**	**0.9**	**1.2**	**2.9**
Less: Compensation Risks set-aside	-	-	0.4	0.9	1.6
Less: Moving Ontario Forward set-aside	-	-	-	0.0	0.4
Contingency fund balance incl. set-asides			**0.5**	**0.3**	**0.9**

Includes Drug Program changes, Child Welfare, Northern Health Action Plan, Action Plan for Reconciliation, School Renewal Funding

Accommodates approximately 1.4% increases in next round of bargaining

[1] For 2014-15 and 2015-16, approvals through Q3 are shown.

- Of the remaining 2016-17 contingency fund, $0.6 billion is encumbered for education capital appropriation, leaving $0.3 billion to cover any contingencies.
- The 2016 Budget included a larger contingency fund, primarily due to funds set aside for future compensation increases and outside the GTHA Moving Ontario Forward projects.
- There have been more draws from the contingency fund in the current fiscal cycle, compared to recent years.
- The remaining contingency fund balance would be used to offset risks.

Expense Risks: Items to be managed

$ Billions	2016-17	2017-18	2018-19
Identified high-likelihood risks	0.4	0.7	1.0
PRRT boulder risks	0.1	0.3	0.3
Cap and trade not applied against in-plan items as assumed	-	0.0	0.6
Other likely funding requests	0.6	0.7	0.7
Total items to be managed*	**1.0**	**1.7**	**2.6**

Pressures such as: Health, Social Assistance caseloads, emergencies, Complex Special needs

Risks include: Business Supports, Benefits Transformation and NTR/full cost recovery

Health, MTO (including UP Express), Business Growth Initiative request, Drive Clean.

* Does not include a remedy for the Bill 115 court decision

$ Billions	2014-15	2015-16	2016-17	2017-18	2018-19
Year-end Savings Target	**1.1**	**1.0**	**0.8**	**1.0**	**1.0**
Total Risks to be managed			**1.8**	**2.7**	**3.6**

- In past years, unspent contingency funds have been used to meet the year-end savings target.
- An initiatives envelope for the 2017 or 2018 Budgets has not yet been incorporated into the fiscal plan.

Note: Numbers may not add due to rounding

MINISTRY OF FINANCE

2016–17 Third Quarter Finances
[Draft – January 23, 11:00 am]

[February 2017]

Contents

A. 2016–17 Fiscal Outlook X

B. Details of In-Year Changes X

C. Ontario's Economic Outlook X

D. Economic Performance X

E. Details of Ontario's Finances X

F. Ontario's 2016–17 Financing Program X

Introduction

The Ontario Quarterly Finances contains updated information about Ontario's 2016–17 fiscal outlook, including updated information about the major components of revenue and expense as set out in the *2016 Budget*.

Section A: 2016–17 Fiscal Outlook (OEP, TBS, OFA, Framework)

The government is projecting a deficit of $[X.X] billion in 2016–17, [an improvement of $X.X billion] compared to the 2016 Budget.

As outlined in the *2016 Budget,* the government is [on track to balance the budget by 2017–18 and is projecting to remain balanced in 2018–19. The government's path to a balanced budget is being achieved through responsible fiscal management, which involves managing growth in program spending and maintaining the integrity of Provincial revenues. The strengthening of the Ontario economy, together with the government's approach to fiscal management, is supporting strategic investments in new child care spaces, hospitals and electricity cost relief for consumers.]

[Placholder for Pension Narrative (OPCD)]

[Placholder for Economic Update (OEP)]

2016–17 In-Year Fiscal Performance

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Revenue	**130,589**	**[X.X]**	**–**
Expense			
Programs	122,139	[X.X]	–
Interest on Debt	11,756	[X.X]	–
Total Expense	**133,895**	**[X.X]**	**–**
Surplus/(Deficit) Before Reserve	**(3,306)**	**[X.X]**	**–**
Reserve	1,000	[X.X]	–
Surplus/(Deficit)	**(4,306)**	**[X.X]**	**–**

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Total revenue is projected to be $[X.X] billion, [an improvement/deterioration of $X.X billion compared to the 2016 Budget.] — [placeholder for high-level revenue change explanation]

The outlook for Provincial program expense, at $[X.X] billion, is [an improvement/deterioration of $X.X billion compared to the 2016 Budget.] — reflecting [placeholder for high-level program expense change explanation]

The Province's interest on debt expense forecast, at $X.X billion, is [an improvement/deterioration of $X.X billion compared to the 2016 Budget forecast.]

The 2016–17 outlook also maintains a $[X.X] billion reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance or the impact of natural disasters.

Further details on the Province's fiscal plan, will be provided in the upcoming 2017 Budget.

Section B: Details of In-Year Changes (OEP, PEMD, OFA, Framework)

Revenue (OEP)

The 2016–17 revenue outlook, at $[X.X] billion, is [an improvement/deterioration of $X.X billion compared to the 2016 Budget]. Since the *2016 Budget,* the following changes have been made to the revenue outlook for 2016–17:

- [Placholder for revenue changes]

[Placeholder for language on risks to the revenue/economic outlook]

Expense (PEMD, OFA)

The 2016–17 total expense outlook, at $[X.X] billion, is [placholder for expense language]

Key changes to expense projections with offsets from the contingency funds include:

- [Placeholder]

Other key changes to expense projections include:

- [Placeholder]

[Placholder for language on interest on debt changes]

Asset Optimization (OFA)

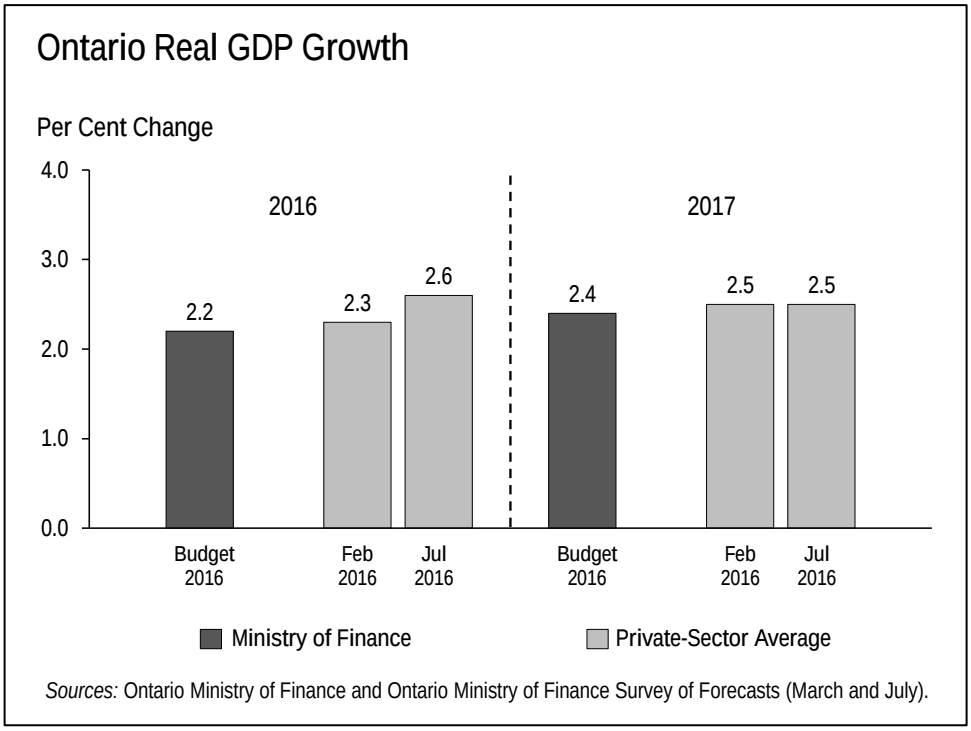
[Placeholder for language on Asset Optimization]

Fiscal Prudence

[Placeholder for language on prudence]

Section C: Ontario's Economic Outlook (OEP)

[Placeholder for language on the economic outlook]



Section D: Economic Performance (OEP)

[Placeholder for language on economic performance]

(Seasonally adjusted per cent change from previous period, unless indicated otherwise)

	Monthly 2016			Quarterly			Annual
	Oct	Nov	Dec	2016Q1	2016Q2	2016Q3	2015
Gross Domestic Product							
Real GDP	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Nominal GDP	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Labour Market							
Labour Force (Change in 000s)	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Employment (Change in 000s)	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Unemployment Rate (%)	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Household Sector							
Retail Sales	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Housing Starts	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
MLS Home Resales	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Manufacturing Sales							
Transportation Equipment	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Consumer Price Index[1]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]

[1] Per cent change from a year earlier, data not seasonally adjusted.

N/A = Data not available.

Sources: Statistics Canada, Ontario Ministry of Finance, Canada Mortgage and Housing Corporation, and Canadian Real Estate Association.

Section E: Details of Ontario's Finances (OEP, TBS, OFA)

Revenue

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Taxation Revenue			
Personal Income Tax	32,167	[X.X]	
Sales Tax[1]	23,976	[X.X]	
Corporations Tax	12,050	[X.X]	
Education Property Tax[2]	5,834	[X.X]	
Employer Health Tax	6,007	[X.X]	
Ontario Health Premium	3,604	[X.X]	
Gasoline Tax	2,522	[X.X]	
Land Transfer Tax	2,051	[X.X]	
Tobacco Tax	1,221	[X.X]	
Fuel Tax	790	[X.X]	
Beer and Wine Tax	611	[X.X]	
Electricity Payments-In-Lieu of Taxes	515	[X.X]	
Other Taxes	471	[X.X]	
	91,819	**[X.X]**	
Government of Canada			
Canada Health Transfer	13,858	[X.X]	
Canada Social Transfer	5,128	[X.X]	
Equalization	2,304	[X.X]	
Infrastructure Programs	1,017	[X.X]	
Labour Market Programs	989	[X.X]	
Social Housing	434	[X.X]	
Other Federal Payments	914	[X.X]	
	24,644	**[X.X]**	
Government Business Enterprises			
Ontario Lottery and Gaming Corporation	1,953	[X.X]	
Liquor Control Board of Ontario	2,025	[X.X]	
Ontario Power Generation Inc./Hydro One Ltd./ Brampton Distribution Holdco Inc.	1,049	[X.X]	
	5,027	**[X.X]**	
Other Non-Tax Revenue			
Reimbursements	983	[X.X]	
Vehicle and Driver Registration Fees	1,751	[X.X]	
Electricity Debt Retirement Charge	625	[X.X]	
Power Supply Contract Recoveries	643	[X.X]	
Sales and Rentals	2,421	[X.X]	
Cap-and-Trade Proceeds	478	[X.X]	
Other Fees and Licences	987	[X.X]	
Net Reduction of Power Purchase Contract Liability	129	[X.X]	
Royalties	287	[X.X]	
Miscellaneous Other Non-Tax Revenue	795	[X.X]	
	9,099	**[X.X]**	
Total Revenue	**130,589**	**[X.X]**	

1 Sales Tax revenue is net of the Ontario Sales Tax Credit and the energy component of the Ontario Energy and Property Tax Credit.

2 Education Property Tax revenue is net of the property tax credit component of the Ontario Energy and Property Tax Credit and the Ontario Senior Homeowners' Property Tax Grant.

Note: Numbers may not add due to rounding.

Total Expense

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Ministry Expense			
Aboriginal Affairs[1]	77.0	[X.X]	
Agriculture, Food and Rural Affairs[1]	915.9	[X.X]	
Attorney General	1,867.8	[X.X]	
Board of Internal Economy	219.9	[X.X]	
Children and Youth Services	4,346.1	[X.X]	
Citizenship, Immigration and International Trade	220.8	[X.X]	
Community and Social Services	11,467.5	[X.X]	
Community Safety and Correctional Services	2,649.5	[X.X]	
Economic Development, Employment and Infrastructure / Research and Innovation[1]	1,177.0	[X.X]	
Education[1]	25,635.8	[X.X]	
Energy[1]	322.1	[X.X]	
Environment and Climate Change	531.4	[X.X]	
Executive Offices	44.0	[X.X]	
Finance[1]	963.1	[X.X]	
Francophone Affairs, Office of	5.7	[X.X]	
Government and Consumer Services	607.6	[X.X]	
Health and Long-Term Care	51,785.2	[X.X]	
Labour	309.5	[X.X]	
Municipal Affairs and Housing[1]	900.0	[X.X]	
Natural Resources and Forestry[1]	750.6	[X.X]	
Northern Development and Mines	790.7	[X.X]	
Tourism, Culture and Sport[1]	1,250.8	[X.X]	
Training, Colleges and Universities	7,876.8	[X.X]	
Transportation	3,850.9	[X.X]	
Treasury Board Secretariat[1]	316.9	[X.X]	
Interest on Debt[2]	11,756.0	[X.X]	
Other Expense[1]	4,056.8	[X.X]	
Year-End Savings[3]	(800.0)	[X.X]	
Total Expense	**133,895.4**	**[X.X]**	

1 Details on other ministry expense can be found in the Details of Other Expense table.

2 Interest on debt is net of interest capitalized during construction of tangible capital assets of $X.X million in 2016–17.

3 As in past years, the Year-End Savings provision reflects efficiencies through in-year expenditure management and underspending due to factors such as program management, and changes in project startups and implementation plans.

Notes: Numbers may not add due to rounding.

The impact of recently announced ministry restructuring will be reflected in future updates.

Details of Other Expense

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Ministry Expense			
Aboriginal Affairs			
One-Time Investments including Settlements	–	[X.X]	
Agriculture, Food and Rural Affairs			
Time-Limited Investments in Infrastructure	–	[X.X]	
Economic Development, Employment and Infrastructure / Research and Innovation			
Federal-Provincial Infrastructure Programs	618.7	[X.X]	
Education			
Teachers' Pension Plan[1]	(452.0)	[X.X]	
Energy			
Strategic Asset Management and Transformation Related to Hydro One	70.9	[X.X]	
Finance			
Ontario Municipal Partnership Fund	505.0	[X.X]	
Power Supply Contract Costs	643.1	[X.X]	
Municipal Affairs and Housing			
Time-Limited Investments in Municipal, Social and Affordable Housing	160.3	[X.X]	
Other Time-Limited Investments	–	[X.X]	
Natural Resources and Forestry			
Emergency Forest Firefighting	69.8	[X.X]	
Tourism, Culture and Sport			
Time-Limited Investments to Support 2015 Pan/Parapan American Games	88.6	[X.X]	
Treasury Board Secretariat			
Capital Contingency Fund	100.0	[X.X]	
Operating Contingency Fund	1,100.0	[X.X]	
Employee and Pensioner Benefits	1,152.5	[X.X]	
Total Other Expense	**4,056.8**	**[X.X]**	

[1] Numbers reflect Public Sector Accounting Board pension expense. Ontario's matching contributions to the plan is $X.X million in 2016–17.

Notes: Numbers may not add due to rounding.

The impact of recently announced ministry restructuring will be reflected in future updates.

2016–17 Infrastructure Expenditures

($ Millions)	2016–17 Current Outlook		
Sector	**Investment in Capital Assets[1]**	**Transfers and Other Infrastructure Expenditures[2]**	**Total Infrastructure Expenditures[3]**
Transportation			
Transit	[X.X]	[X.X]	[X.X]
Provincial Highways	[X.X]	[X.X]	[X.X]
Other Transportation, Property and Planning	[X.X]	[X.X]	[X.X]
Health			
Hospitals	[X.X]	[X.X]	[X.X]
Other Health	[X.X]	[X.X]	[X.X]
Education	[X.X]	[X.X]	[X.X]
Postsecondary			
Colleges and Other	[X.X]	[X.X]	[X.X]
Universities	[X.X]	[X.X]	[X.X]
Social	[X.X]	[X.X]	[X.X]
Justice	[X.X]	[X.X]	[X.X]
Other Sectors[4]	[X.X]	[X.X]	[X.X]
Total	**[X.X]**	**[X.X]**	**[X.X]**

1 Includes $X.X million in interest capitalized during construction.

2 Includes transfers to municipalities, universities and non-consolidated agencies.

3 Includes third party investments in hospitals, colleges and schools; and provisional federal contributions to provincial infrastructure investments.

4 Includes government administration, natural resources, culture and tourism sectors.

Note: Numbers may not add due to rounding.

Review of Selected Financial and Economic Statistics

($ Millions)	2012–13	2013–14	2014–15	Actual 2015–16	Current Outlook 2016–17
Revenue	**113,369**	**115,911**	**118,546**	**128,377**	**[X.X]**
Expense					
Programs	112,248	115,792	118,225	122,439	[X.X]
Interest on Debt[1]	10,341	10,572	10,635	10,967	[X.X]
Total Expense	**122,589**	**126,364**	**128,860**	**133,406**	**[X.X]**
Surplus/(Deficit) Before Reserve	**(9,220)**	**(10,453)**	**(10,314)**	**(5,029)**	**[X.X]**
Reserve	–	–	–	–	[X.X]
Surplus/(Deficit)	**(9,220)**	**(10,453)**	**(10,314)**	**(5,029)**	**[X.X]**
Net Debt	252,088	267,190	284,576	305,233	[X.X]
Accumulated Deficit	167,132	176,634	187,511	202,697	[X.X]
Gross Domestic Product (GDP) at Market Prices	680,084	693,210	721,970	763,276	[X.X]
Primary Household Income	459,111	473,905	490,412	511,781	[X.X]
Population – July (000s)	13,410	13,551	13,678	13,797	[X.X]
Net Debt per Capita (dollars)	18,798	19,717	20,806	22,123	[X.X]
Household Income per Capita (dollars)	34,236	34,972	35,855	37,094	[X.X]
Interest on Debt as a Per Cent of Revenue	9.1	9.1	9.0	8.5	[X.X]
Net Debt as a Per Cent of GDP	37.1	38.5	39.4	40.0	[X.X]
Accumulated Deficit as a Per Cent of GDP	24.6	25.5	26.0	26.6	[X.X]

[1] Interest on debt is net of interest capitalized during construction of tangible capital assets of $134 million in 2013–14, $202 million in 2014–15, $X.X million in 2015–16, and $X.X million in 2016–17.

Sources: Ontario Ministry of Finance and Statistics Canada.

Section F: Ontario's 2016–17 Financing Program (OFA)

Province and Ontario Electricity Financial Corporation

($ Billions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Deficit/(Surplus)	4.3	[X.X]	
Investment in Capital Assets	11.2	[X.X]	
Non-Cash Adjustments	(5.8)	[X.X]	
Other Net Loans/Investments	(0.9)	[X.X]	
Debt Maturities	21.5	[X.X]	
Debt Redemptions	0.1	[X.X]	
Total Funding Requirement	**30.3**	**[X.X]**	
Canada Pension Plan Borrowing	(0.1)	[X.X]	
Decrease/(Increase) in Short-Term Borrowing	(1.0)	[X.X]	
Increase/(Decrease) in Cash and Cash Equivalents	(2.7)	[X.X]	
Preborrowing from 2015–16	–	[X.X]	
Total Long-Term Public Borrowing Requirement	**26.4**	**[X.X]**	

Note: Numbers may not add due to rounding.

Borrowing Program Status (as at [DATE], 2016)

($ Billions)	Completed	Remaining	Total
Province	[X.X]	[X.X]	[X.X]
Ontario Electricity Financial Corporation	[X.X]	[X.X]	[X.X]
Total	**[X.X]**	**[X.X]**	**[X.X]**

Note: Numbers may not add due to rounding.

Long-Term Public Borrowing completed as at [DATE], 2016 totalled $X.X billion, as follows:

	($ Billions)
Domestic Issues	[X.X]
Global/US Dollar/Other Issues	[X.X]
	[X.X]

[As of [DATE], 2016, approximately X.X per cent of this year's borrowing was completed in Canadian dollars. The Province may revise its Canadian dollar borrowing target of 75 per cent published in the *2016 Budget* if international demand for Ontario bonds outpaces domestic demand.]

Ministry of Finance www.fin.gov.on.ca

For general inquiries regarding the 2016–17 First Quarter Finances, please call:

Toll-free English & French inquiries: 1-800-337-7222
Teletypewriter (TTY): 1-800-263-7776

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Chart Descriptions: Alternative Text for Web Accessibility

Chart: Ontario Real GDP Growth (OEP)

[Placeholder for Alt text on the Ontario Real GDP Growth chart]

From:	Ken Kandeepan
To:	John Psinas; Alexander Kraas; George Sakura; Ricky Lai
Subject:	FW: Q3 update
Date:	Thursday, February 02, 2017 9:40:07 AM
Attachments:	June MMP Contingency Fund Outlook and Expense Risks.pptx Third Quarter Finances_v1a_0127.docx
Importance:	High

Suggested note.

As of February 10, 2017 the Province has completed over 99% of the 2016-17 borrowing program. Over the balance of the fiscal year the Province will continue to leverage favourable market conditions and continued demand for its debt issues by engaging in pre-borrowing for 2017-18.

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Monday, January 23, 2017 12:43 PM
To: Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Tim Cook (MOF) <Tim.Cook@ontario.ca>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca>; Sharon Stuckless (TCU) <Sharon.Stuckless@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca>; Raj Sharda (MOHLTC) <Raj.Sharda@ontario.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
Subject: RE: Q3 update
Importance: High

Hi All,

Following up on my email from last week, we received relatively recent direction regarding the release of Ontario's Third Quarter Finances – the tentative plan is to publish Q3 finances ahead of the February 15 deadline. We are tentatively tracking a release date of Monday February 13.

As you can imagine, timelines are very compressed, and includes a possible trip to FPC this week. In order to meet this week's deadlines, while also preparing for the release of the actual publication, we're asking for input from you in stages:

EOD Today:
We have prepared the draft of a deck, which we are working towards tabling at this Wednesday's FPC (TBC). The deck lays out the key 2016-17 building blocks that could be updated as part of the Q3 publication. It would help if we could get the following from you folks by the end of today:
16-17 post-FES expense update: We have included placeholder for an expense slide. The intention is for the slide to provide an updated list of initiatives that were not included in the FES expense outlook.
Recommended expense update/signature initiatives: We may build in options for what the outlook could look like – it would help if you could provide a recommendation

for the expense changes that should be taken on/profiled.
16-17 c-fund update: We have included a c-fund slide that was used in the Q1 finances briefing materials (current PW). We would like to include an updated version of this slide in the FPC deck (appendix). It would help to have this out to 19-20.
Pension Narrative: Nadine – I'll connect on the pension adjustment and some high level bullets that we could use.

Noon Friday January 27:
Template: I've attached a draft of 3q finances that is based heavily off of the 2016 First Quarter Finances. We've highlighted in green the sections that we would like you to update. While I'm not 100% certain this structure will be exactly what the Q3 document will look like, I think it's safe to say that the substantive content we'll have to cover is captured here. There will be some highlighted content that is *not possible* to update for Friday, however there will be a formal distribution process where additional information can be incorporated.

Thanks everyone, and please feel free to send your input directly to Liane and Emma. Im hoping to be able to share a draft deck with you late this evening.

From: Esmail, Selena (MOF)
Sent: January-19-17 2:57 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: Q3 heads up

Hi Everyone – Wanted to send a quick message that we are hearing there is a desire to proceed with the release of a Q3 update around the time we are expecting the Pension Panel panel to release their report. We are going to assume mid feb prior to the house coming back for our planning purposes.

My team is going to work together to put together a list of things we need to start working on/think about along with a calendar to determine and get direction on an approach to coincide with this timeframe.

More details to follow tomorrow.

Thanks.

Contingency Fund Outlook and Expense Risks

Contingency Fund Outlook

$ Billions	2014-15	2015-16	2016-17	2017-18	2018-19
Opening contingency fund balance	**0.5**	**0.7**	**1.2**	**1.7**	**3.5**
Less: Approvals to date[1]	0.0	0.0	0.3	0.5	0.6
Current contingency fund balance	**0.5**	**0.6**	**0.9**	**1.2**	**2.9**
Less: Compensation Risks set-aside	-	-	0.4	0.9	1.6
Less: Moving Ontario Forward set-aside	-	-	-	0.0	0.4
Contingency fund balance incl. set-asides			**0.5**	**0.3**	**0.9**

Includes Drug Program changes, Child Welfare, Northern Health Action Plan, Action Plan for Reconciliation, School Renewal Funding

Accommodates approximately 1.4% increases in next round of bargaining

[1] For 2014-15 and 2015-16, approvals through Q3 are shown.

- Of the remaining 2016-17 contingency fund, $0.6 billion is encumbered for education capital appropriation, leaving $0.3 billion to cover any contingencies.
- The 2016 Budget included a larger contingency fund, primarily due to funds set aside for future compensation increases and outside the GTHA Moving Ontario Forward projects.
- There have been more draws from the contingency fund in the current fiscal cycle, compared to recent years.
- The remaining contingency fund balance would be used to offset risks.

Expense Risks: Items to be managed

$ Billions	2016-17	2017-18	2018-19
Identified high-likelihood risks	0.4	0.7	1.0
PRRT boulder risks	0.1	0.3	0.3
Cap and trade not applied against in-plan items as assumed	-	0.0	0.6
Other likely funding requests	0.6	0.7	0.7
Total items to be managed*	**1.0**	**1.7**	**2.6**

Pressures such as: Health, Social Assistance caseloads, emergencies, Complex Special needs

Risks include: Business Supports, Benefits Transformation and NTR/full cost recovery

Health, MTO (including UP Express), Business Growth Initiative request, Drive Clean.

* Does not include a remedy for the Bill 115 court decision

$ Billions	2014-15	2015-16	2016-17	2017-18	2018-19
Year-end Savings Target	**1.1**	**1.0**	**0.8**	**1.0**	**1.0**
Total Risks to be managed			**1.8**	**2.7**	**3.6**

- In past years, unspent contingency funds have been used to meet the year-end savings target.
- An initiatives envelope for the 2017 or 2018 Budgets has not yet been incorporated into the fiscal plan.

Note: Numbers may not add due to rounding

MINISTRY OF FINANCE

2016–17 Third Quarter Finances
[Draft – January 23, 11:00 am]

[February 2017]

Contents

A. 2016–17 Fiscal Outlook X

B. Details of In-Year Changes X

C. Ontario's Economic Outlook X

D. Economic Performance X

E. Details of Ontario's Finances X

F. Ontario's 2016–17 Financing Program X

Introduction

The Ontario Quarterly Finances contains updated information about Ontario's 2016–17 fiscal outlook, including updated information about the major components of revenue and expense as set out in the *2016 Budget*.

Section A: 2016–17 Fiscal Outlook (OEP, TBS, OFA, Framework)

The government is projecting a deficit of $[X.X] billion in 2016–17, [an improvement of $X.X billion] compared to the 2016 Budget.

As outlined in the *2016 Budget,* the government is [on track to balance the budget by 2017–18 and is projecting to remain balanced in 2018–19. The government's path to a balanced budget is being achieved through responsible fiscal management, which involves managing growth in program spending and maintaining the integrity of Provincial revenues. The strengthening of the Ontario economy, together with the government's approach to fiscal management, is supporting strategic investments in new child care spaces, hospitals and electricity cost relief for consumers.]

[Placholder for Pension Narrative (OPCD)]

[Placholder for Economic Update (OEP)]

2016–17 In-Year Fiscal Performance

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Revenue	**130,589**	**[X.X]**	**–**
Expense			
Programs	122,139	[X.X]	–
Interest on Debt	11,756	[X.X]	–
Total Expense	**133,895**	**[X.X]**	**–**
Surplus/(Deficit) Before Reserve	**(3,306)**	**[X.X]**	**–**
Reserve	1,000	[X.X]	–
Surplus/(Deficit)	**(4,306)**	**[X.X]**	**–**

Note: Numbers may not add due to rounding.

Total revenue is projected to be $[X.X] billion, [an improvement/deterioration of $X.X billion compared to the 2016 Budget.] — [placeholder for high-level revenue change explanation]

The outlook for Provincial program expense, at $[X.X] billion, is [an improvement/deterioration of $X.X billion compared to the 2016 Budget.] — reflecting [placeholder for high-level program expense change explanation]

The Province's interest on debt expense forecast, at $X.X billion, is [an improvement/deterioration of $X.X billion compared to the 2016 Budget forecast.]

The 2016–17 outlook also maintains a $[X.X] billion reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance or the impact of natural disasters.

Further details on the Province's fiscal plan, will be provided in the upcoming 2017 Budget.

Section B: Details of In-Year Changes (OEP, PEMD, OFA, Framework)

Revenue (OEP)

The 2016–17 revenue outlook, at $[X.X] billion, is [an improvement/deterioration of $X.X billion compared to the 2016 Budget]. Since the *2016 Budget,* the following changes have been made to the revenue outlook for 2016–17:

- [Placholder for revenue changes]

[Placeholder for language on risks to the revenue/economic outlook]

Expense (PEMD, OFA)

The 2016–17 total expense outlook, at $[X.X] billion, is [placholder for expense language]

Key changes to expense projections with offsets from the contingency funds include:

- [Placeholder]

Other key changes to expense projections include:

- [Placeholder]

[Placholder for language on interest on debt changes]

Asset Optimization (OFA)

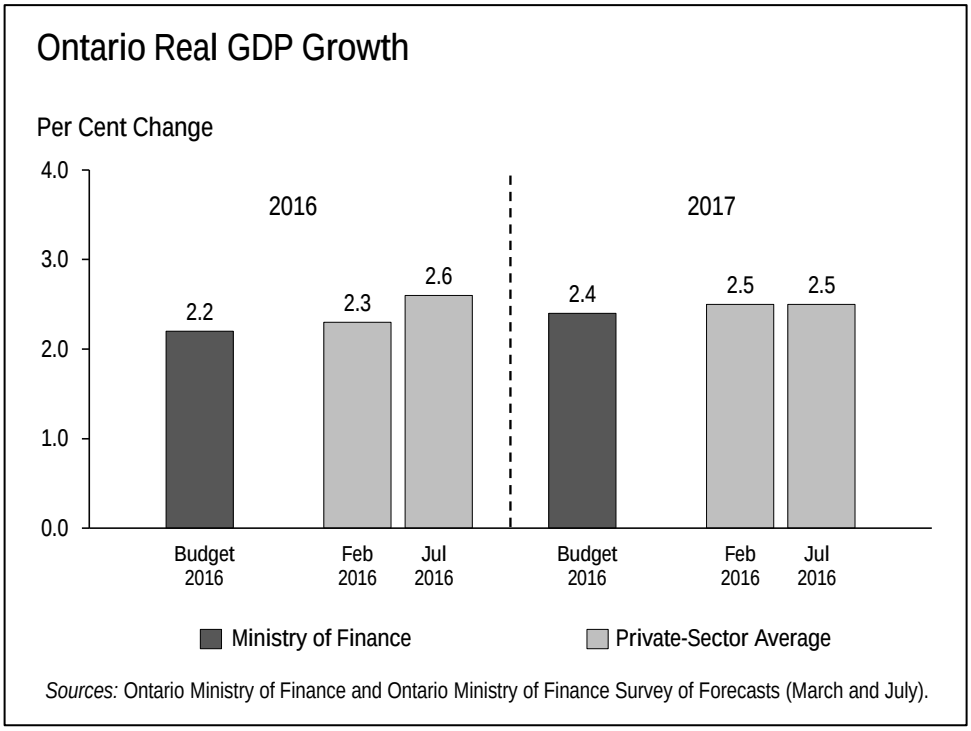
[Placeholder for language on Asset Optimization]

Fiscal Prudence

[Placeholder for language on prudence]

Section C: Ontario's Economic Outlook (OEP)

[Placeholder for language on the economic outlook]



Section D: Economic Performance (OEP)

[Placeholder for language on economic performance]

(Seasonally adjusted per cent change from previous period, unless indicated otherwise)

	Monthly 2016			Quarterly			Annual
	Oct	Nov	Dec	2016Q1	2016Q2	2016Q3	2015
Gross Domestic Product							
Real GDP	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Nominal GDP	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Labour Market							
Labour Force (Change in 000s)	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Employment (Change in 000s)	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Unemployment Rate (%)	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Household Sector							
Retail Sales	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Housing Starts	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
MLS Home Resales	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Manufacturing Sales							
Transportation Equipment	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Consumer Price Index[1]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]

[1] Per cent change from a year earlier, data not seasonally adjusted.

N/A = Data not available.

Sources: Statistics Canada, Ontario Ministry of Finance, Canada Mortgage and Housing Corporation, and Canadian Real Estate Association.

Section E: Details of Ontario's Finances (OEP, TBS, OFA)

Revenue

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Taxation Revenue			
Personal Income Tax	32,167	[X.X]	
Sales Tax[1]	23,976	[X.X]	
Corporations Tax	12,050	[X.X]	
Education Property Tax[2]	5,834	[X.X]	
Employer Health Tax	6,007	[X.X]	
Ontario Health Premium	3,604	[X.X]	
Gasoline Tax	2,522	[X.X]	
Land Transfer Tax	2,051	[X.X]	
Tobacco Tax	1,221	[X.X]	
Fuel Tax	790	[X.X]	
Beer and Wine Tax	611	[X.X]	
Electricity Payments-In-Lieu of Taxes	515	[X.X]	
Other Taxes	471	[X.X]	
	91,819	**[X.X]**	
Government of Canada			
Canada Health Transfer	13,858	[X.X]	
Canada Social Transfer	5,128	[X.X]	
Equalization	2,304	[X.X]	
Infrastructure Programs	1,017	[X.X]	
Labour Market Programs	989	[X.X]	
Social Housing	434	[X.X]	
Other Federal Payments	914	[X.X]	
	24,644	**[X.X]**	
Government Business Enterprises			
Ontario Lottery and Gaming Corporation	1,953	[X.X]	
Liquor Control Board of Ontario	2,025	[X.X]	
Ontario Power Generation Inc./Hydro One Ltd./ Brampton Distribution Holdco Inc.	1,049	[X.X]	
	5,027	**[X.X]**	
Other Non-Tax Revenue			
Reimbursements	983	[X.X]	
Vehicle and Driver Registration Fees	1,751	[X.X]	
Electricity Debt Retirement Charge	625	[X.X]	
Power Supply Contract Recoveries	643	[X.X]	
Sales and Rentals	2,421	[X.X]	
Cap-and-Trade Proceeds	478	[X.X]	
Other Fees and Licences	987	[X.X]	
Net Reduction of Power Purchase Contract Liability	129	[X.X]	
Royalties	287	[X.X]	
Miscellaneous Other Non-Tax Revenue	795	[X.X]	
	9,099	**[X.X]**	
Total Revenue	**130,589**	**[X.X]**	

1 Sales Tax revenue is net of the Ontario Sales Tax Credit and the energy component of the Ontario Energy and Property Tax Credit.

2 Education Property Tax revenue is net of the property tax credit component of the Ontario Energy and Property Tax Credit and the Ontario Senior Homeowners' Property Tax Grant.

Note: Numbers may not add due to rounding.

Total Expense

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Ministry Expense			
Aboriginal Affairs[1]	77.0	[X.X]	
Agriculture, Food and Rural Affairs[1]	915.9	[X.X]	
Attorney General	1,867.8	[X.X]	
Board of Internal Economy	219.9	[X.X]	
Children and Youth Services	4,346.1	[X.X]	
Citizenship, Immigration and International Trade	220.8	[X.X]	
Community and Social Services	11,467.5	[X.X]	
Community Safety and Correctional Services	2,649.5	[X.X]	
Economic Development, Employment and Infrastructure / Research and Innovation[1]	1,177.0	[X.X]	
Education[1]	25,635.8	[X.X]	
Energy[1]	322.1	[X.X]	
Environment and Climate Change	531.4	[X.X]	
Executive Offices	44.0	[X.X]	
Finance[1]	963.1	[X.X]	
Francophone Affairs, Office of	5.7	[X.X]	
Government and Consumer Services	607.6	[X.X]	
Health and Long-Term Care	51,785.2	[X.X]	
Labour	309.5	[X.X]	
Municipal Affairs and Housing[1]	900.0	[X.X]	
Natural Resources and Forestry[1]	750.6	[X.X]	
Northern Development and Mines	790.7	[X.X]	
Tourism, Culture and Sport[1]	1,250.8	[X.X]	
Training, Colleges and Universities	7,876.8	[X.X]	
Transportation	3,850.9	[X.X]	
Treasury Board Secretariat[1]	316.9	[X.X]	
Interest on Debt[2]	11,756.0	[X.X]	
Other Expense[1]	4,056.8	[X.X]	
Year-End Savings[3]	(800.0)	[X.X]	
Total Expense	**133,895.4**	**[X.X]**	

1 Details on other ministry expense can be found in the Details of Other Expense table.

2 Interest on debt is net of interest capitalized during construction of tangible capital assets of $X.X million in 2016–17.

3 As in past years, the Year-End Savings provision reflects efficiencies through in-year expenditure management and underspending due to factors such as program management, and changes in project startups and implementation plans.

Notes: Numbers may not add due to rounding.

The impact of recently announced ministry restructuring will be reflected in future updates.

Details of Other Expense

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Ministry Expense			
Aboriginal Affairs			
One-Time Investments including Settlements	–	[X.X]	
Agriculture, Food and Rural Affairs			
Time-Limited Investments in Infrastructure	–	[X.X]	
Economic Development, Employment and Infrastructure / Research and Innovation			
Federal-Provincial Infrastructure Programs	618.7	[X.X]	
Education			
Teachers' Pension Plan[1]	(452.0)	[X.X]	
Energy			
Strategic Asset Management and Transformation Related to Hydro One	70.9	[X.X]	
Finance			
Ontario Municipal Partnership Fund	505.0	[X.X]	
Power Supply Contract Costs	643.1	[X.X]	
Municipal Affairs and Housing			
Time-Limited Investments in Municipal, Social and Affordable Housing	160.3	[X.X]	
Other Time-Limited Investments	–	[X.X]	
Natural Resources and Forestry			
Emergency Forest Firefighting	69.8	[X.X]	
Tourism, Culture and Sport			
Time-Limited Investments to Support 2015 Pan/Parapan American Games	88.6	[X.X]	
Treasury Board Secretariat			
Capital Contingency Fund	100.0	[X.X]	
Operating Contingency Fund	1,100.0	[X.X]	
Employee and Pensioner Benefits	1,152.5	[X.X]	
Total Other Expense	**4,056.8**	**[X.X]**	

[1] Numbers reflect Public Sector Accounting Board pension expense. Ontario's matching contributions to the plan is $X.X million in 2016–17.

Notes: Numbers may not add due to rounding.

The impact of recently announced ministry restructuring will be reflected in future updates.

2016–17 Infrastructure Expenditures

($ Millions)	2016–17 Current Outlook		
Sector	**Investment in Capital Assets[1]**	**Transfers and Other Infrastructure Expenditures[2]**	**Total Infrastructure Expenditures[3]**
Transportation			
Transit	[X.X]	[X.X]	[X.X]
Provincial Highways	[X.X]	[X.X]	[X.X]
Other Transportation, Property and Planning	[X.X]	[X.X]	[X.X]
Health			
Hospitals	[X.X]	[X.X]	[X.X]
Other Health	[X.X]	[X.X]	[X.X]
Education	[X.X]	[X.X]	[X.X]
Postsecondary			
Colleges and Other	[X.X]	[X.X]	[X.X]
Universities	[X.X]	[X.X]	[X.X]
Social	[X.X]	[X.X]	[X.X]
Justice	[X.X]	[X.X]	[X.X]
Other Sectors[4]	[X.X]	[X.X]	[X.X]
Total	**[X.X]**	**[X.X]**	**[X.X]**

1 Includes $X.X million in interest capitalized during construction.

2 Includes transfers to municipalities, universities and non-consolidated agencies.

3 Includes third party investments in hospitals, colleges and schools; and provisional federal contributions to provincial infrastructure investments.

4 Includes government administration, natural resources, culture and tourism sectors.

Note: Numbers may not add due to rounding.

Review of Selected Financial and Economic Statistics

($ Millions)	2012–13	2013–14	2014–15	Actual 2015–16	Current Outlook 2016–17
Revenue	**113,369**	**115,911**	**118,546**	**128,377**	**[X.X]**
Expense					
Programs	112,248	115,792	118,225	122,439	[X.X]
Interest on Debt[1]	10,341	10,572	10,635	10,967	[X.X]
Total Expense	**122,589**	**126,364**	**128,860**	**133,406**	**[X.X]**
Surplus/(Deficit) Before Reserve	**(9,220)**	**(10,453)**	**(10,314)**	**(5,029)**	**[X.X]**
Reserve	–	–	–	–	[X.X]
Surplus/(Deficit)	**(9,220)**	**(10,453)**	**(10,314)**	**(5,029)**	**[X.X]**
Net Debt	252,088	267,190	284,576	305,233	[X.X]
Accumulated Deficit	167,132	176,634	187,511	202,697	[X.X]
Gross Domestic Product (GDP) at Market Prices	680,084	693,210	721,970	763,276	[X.X]
Primary Household Income	459,111	473,905	490,412	511,781	[X.X]
Population – July (000s)	13,410	13,551	13,678	13,797	[X.X]
Net Debt per Capita (dollars)	18,798	19,717	20,806	22,123	[X.X]
Household Income per Capita (dollars)	34,236	34,972	35,855	37,094	[X.X]
Interest on Debt as a Per Cent of Revenue	9.1	9.1	9.0	8.5	[X.X]
Net Debt as a Per Cent of GDP	37.1	38.5	39.4	40.0	[X.X]
Accumulated Deficit as a Per Cent of GDP	24.6	25.5	26.0	26.6	[X.X]

[1] Interest on debt is net of interest capitalized during construction of tangible capital assets of $134 million in 2013–14, $202 million in 2014–15, $X.X million in 2015–16, and $X.X million in 2016–17.

Sources: Ontario Ministry of Finance and Statistics Canada.

Section F: Ontario's 2016–17 Financing Program (OFA)

Province and Ontario Electricity Financial Corporation

($ Billions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Deficit/(Surplus)	4.3	[X.X]	
Investment in Capital Assets	11.2	[X.X]	
Non-Cash Adjustments	(5.8)	[X.X]	
Other Net Loans/Investments	(0.9)	[X.X]	
Debt Maturities	21.5	[X.X]	
Debt Redemptions	0.1	[X.X]	
Total Funding Requirement	**30.3**	**[X.X]**	
Canada Pension Plan Borrowing	(0.1)	[X.X]	
Decrease/(Increase) in Short-Term Borrowing	(1.0)	[X.X]	
Increase/(Decrease) in Cash and Cash Equivalents	(2.7)	[X.X]	
Preborrowing from 2015–16	–	[X.X]	
Total Long-Term Public Borrowing Requirement	**26.4**	**[X.X]**	

Note: Numbers may not add due to rounding.

Borrowing Program Status (as at [DATE], 2016)

($ Billions)	Completed	Remaining	Total
Province	[X.X]	[X.X]	[X.X]
Ontario Electricity Financial Corporation	[X.X]	[X.X]	[X.X]
Total	**[X.X]**	**[X.X]**	**[X.X]**

Note: Numbers may not add due to rounding.

Long-Term Public Borrowing completed as at [DATE], 2016 totalled $X.X billion, as follows:

	($ Billions)
Domestic Issues	[X.X]
Global/US Dollar/Other Issues	[X.X]
	[X.X]

[As of [DATE], 2016, approximately X.X per cent of this year's borrowing was completed in Canadian dollars. The Province may revise its Canadian dollar borrowing target of 75 per cent published in the *2016 Budget* if international demand for Ontario bonds outpaces domestic demand.]

Ministry of Finance www.fin.gov.on.ca

For general inquiries regarding the 2016–17 First Quarter Finances, please call:

Toll-free English & French inquiries: 1-800-337-7222
Teletypewriter (TTY): 1-800-263-7776

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Chart Descriptions: Alternative Text for Web Accessibility

Chart: Ontario Real GDP Growth (OEP)

[Placeholder for Alt text on the Ontario Real GDP Growth chart]

From:	Petsche, Nadine (TBS)
To:	Ken Kandeepan; Psinas, John (TBS)
Subject:	FW: RUSH MO Question: IESO Accounting Standards
Date:	Tuesday, October 25, 2016 2:36:56 PM

Ken/John,
Just to keep you in the loop. N

From: Fong, Pauline (TBS)
Sent: October 25, 2016 11:04 AM
To: Hosick, Sarah (TBS)
Cc: Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Subject: RE: RUSH MO Question: IESO Accounting Standards

Hi Sarah,

Here is my response below:

During the 2015-16 Public Accounts audit, the Auditor General (AG) raised issues regarding the Province's accounting treatment for pension assets related to jointly sponsored pension plans which challenged the accounting treatment followed by the Province for the past 14 years. The current AG's view is that the government does not have a legally enforceable right to unilaterally access the assets of the pension plans which are jointly sponsored. Given the differences in interpretation of accounting standards, the Province filed a time-limited regulation which changed the accounting treatment for pension assets of OTPP and OPSEUPP for the 2015-16 Public Accounts.

The one-time regulation only applies to provincially jointly sponsored plans, and does not apply to the pension liabilities reported by Independent Electricity System Operator.

Regards,

Pauline

From: Hosick, Sarah (TBS)
Sent: October-25-16 10:42 AM
To: Fong, Pauline (TBS)
Cc: Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Subject: FW: RUSH MO Question: IESO Accounting Standards
Importance: High

Hi Pauline,

Rush MO Question on a change in accounting standards on the calculation of pension liabilities.. Can we provide in basic terms what the change was, and why it would affect the IESO?

Energy will also be providing a response, so ours can focus on the accounting practices piece.

Happy to discuss

Thanks
Sarah

From: Smith, Emilie (TBS)
Sent: October-25-16 10:35 AM
To: Hosick, Sarah (TBS); Laughton, Patrick (TBS)
Cc: Wesley, Jason (TBS); Cairns, Alan (TBS); Bigley, Jane (TBS)
Subject: RUSH MO Question: IESO Accounting Standards
Importance: High

Hi Sarah and Patrick,

We have a rush question from the Minister's Office this morning. There is has been some media and opposition attention on the IESO's reported loss of $80M due to a change in accounting standards. The story below and attached detail the story.

> **>Ontario<**'s energy minister says an $80 million actuarial loss reported by the Independent Electricity System Operator was due to a change in accounting practices on the calculation of pension liabilities.
>
> The IESO, which oversees **>Ontario<**'s electricity market, says the accounting changes were implemented in 2011, and it recovers the loss by increasing fees for its accumulated **>deficit<** by up to $5 million a year.

The Minister is asking for very basic lines to talk about the accounting in the instance she needs to answer a supplementary in Question Period today. We have also reached out to Energy as well for messaging. I apologize for the rush on this.

Many thanks,
Emilie

IESO reports $80M loss from accounting change (Canadian Press)

- **Section**: News/Ontario

- **Ad Value**: $35
- **Tone**: **Neutral**

TORONTO - Ontario’s efforts to ease the upward pressure on electricity rates has been dealt a setback by a change in accounting practices.

In the government’s public accounts for 2015-16, the Independent Electricity System Operator reported a “previously unrecognized actuarial loss and past service costs” of just over $80 million.

The provincial agency which oversees Ontario’s electricity market says it will raise fees it charges the power industry to recover the losses as part of its accumulated deficit charge.

Progressive Conservative researchers discovered the $80 million loss in the public accounts and the Opposition plans to raise the issue in the legislature today.

The Tories point out the loss more than offsets the $70 million the Liberals said would be saved over seven years under Ontario’s new deal to purchase two terawatt hours of electricity annually from Quebec.

The Liberals are also removing the eight per cent provincial portion of the HST from electricity bills, and scrapping plans for more wind and solar power projects, to reduce system costs and ease upward pressure on rates.

The IESO, which combined operations with the now-defunct Ontario Power Authority in January 2015, had an accumulated deficit of $74 million and a net debt of $184 million, with revenues of $187 million.

—

Follow @CPnewsboy on Twitter

By The Canadian Press

- **Length**: 210 words
- **ID**: 259098162

Emilie Smith
Senior Corporate Issues Management Analyst
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From: Anna Strathy
To: Ken Kandeepan
Subject: FW: Response to FOI Request A-17-136 - FAO Projections
Date: Wednesday, October 04, 2017 9:50:33 AM
Attachments: CIN FAO EFO - Spring 2017_Redacted_Oct3.pdf
FAO EFO Report_Summary_Redacted_Oct3.pdf
FIPPA Section 13 Guide November 2016 - Client.pdf

Hi Ken,

Office of the Budget would like us to review the attached CIN and Report Summary that will be released in response to an FOI request for notes prepared for the DM and Minister of Finance on the FAO's 2017 Budget report. There's not a lot here for us, but several mentions of debt and IOD forecasts (see Expense Assumptions, Debt Outlook, and Risks). Let me know if there's any concerns, if anything needs to be redacted in accordance with FIPPA.

Note deadline of 3pm today.

Thanks, Anna

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Wednesday, October 04, 2017 8:56 AM
To: Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>
Cc: Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Jacob Hadwen (MOF) <Jacob.Hadwen@ontario.ca>; Giulio Rubini (MOF) <Giulio.Rubini@ontario.ca>
Subject: Response to FOI Request A-17-136 - FAO Projections

Hi Ghufran and Anna,

The FOI Office sent Office of the Budget an information request related to analysis on FAO projections. The clarified request follows:

> **"…all analysis (Briefing notes and Slide decks) prepared for the Minister of Finance or the Deputy Minister of Finance regarding the Financial Accountability Officer's report on 2017 Ontario Budget".**

To respond to this request, we're planning to share the attached Briefing Note and CIN that our divisions prepared for the Minister and Deputy Minister after the release of the FAO's Spring Economic and Fiscal Outlook back in late May. We chose to **redact *only* sections** of these notes that include any **analysis based on non-public documents & information** (2017 Budget, the Spring 2017 and Fall 2016 FAO reports) as per section 13 exemption under the FIPPA.

Could you please review the attached an advise if you have any concerns with the sections currently marked for redaction or if you suggest including any additional redactions **by 3pm today (if possible)**?

Let me know if you have any questions.

Thanks,
Ryan

From: Sharda, Ritvik (MOF)
Sent: September-15-17 9:38 AM
To: Birks, Ryan (MOF)
Subject: RE: A-17-136 - FAO Projections

Hi Ryan,

Our office has received clarification for the request.

Clarified Request: Please provide all analysis (Briefing notes and Slide decks) prepared for the Minister of Finance or the Deputy Minister of Finance regarding the Financial Accountability Officer's report on 2017 Ontario Budget.

CLARIFICATION
If further clarification is required from the requester, **please contact our office as soon as possible to discuss**

Request received: August 21, 2017

Clarification received: September 14, 2017

Final recommendation due: **September 29, 2017**

If you have any questions, please feel free to contact me.

Best,

Ritvik
5-3849

From: Sharda, Ritvik (MOF)
Sent: August-21-17 5:19 PM
To: Birks, Ryan (MOF)
Subject: A-17-136 - FAO Projections

The Ministry has received an access to information request (attached) under the *Freedom of Information and Protection of Privacy Act* (the *Act*). This request has been classified as **contentious.** Your Division/Program Area has been identified as a potential holder of all, or part of the records that have been requested. Please advise our office if you believe that the

request should be directed to any other Divisions.

CLARIFICATION

If further clarification is required from the requester, **please contact our office as soon as possible to discuss.**

Request received: August 21, 2017

Final recommendation due: **September 5, 2017**

Documentation required:

- Recommendation Memo
- Index of Records *(to be shared with the requester)*
- TWO electronic copies of the records (A clean version and a version with the marked redactions)
- Fee/Cost Administration Form
- Approved Briefing Note

*****PLEASE NOTE – if during the preliminary review for the records you identify the request is voluminous and the fees will be over $100, please provide the initial review memo and fee/cost administration form.***

The FOI forms are available on our intranet site:
http://intra.net.gov.on.ca/fin-cqsd/bsb/foi/resources/

For more information regarding the *Act*, go to:
http://www.e-laws.gov.on.ca/html/statutes/english/elaws_statutes_90f31_e.htm

If you have any questions, please feel free to contact me.

Best,

Ritvik
5-3849

May 31, 2017

FAO's Spring 2017 Economic and Fiscal Outlook

On May 31, 2017, the FAO released its spring 2017 assessment of Ontario's medium-term economic and fiscal outlook. The FAO is projecting budget deficits in all years between 2016–17 and 2021–22. The report states that while balance is within reach in 2017–18, significant fiscal adjustments will likely be required to maintain budget balance through the outlook.

TOP MESSAGES

- I would like to thank the Financial Accountability Officer (FAO) for releasing his spring economic and fiscal outlook for Ontario. We value the FAO's independent assessment and projections of the province's fiscal plan.
- As outlined in the 2017 Budget, the government is projecting a balanced budget for 2017–18 and to remain balanced in 2018–19 and 2019–20.
- The government has a strong track record of beating its fiscal targets. In fact, for the 2016–17 fiscal year, the government is forecasting a deficit of $1.5 billion, beating our annual deficit target again, for the eighth year in a row.
- This Budget builds on the government's track record of fiscal management that has resulted in $29 billion in accumulated deficits being avoided over the past seven years, relative to the 2010 Budget forecast.
- We are also targeting a net debt-to-GDP ratio of 35 per cent by 2023–24 and reducing Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029–30.
- Ontario has recorded stronger economic growth than Canada and all other G7 countries over the 2014 to 2016 period, with real GDP rising 2.6 per cent a year.
- Private-sector forecasters expect Ontario will remain one of the fastest growing provinces over the next two years. It should be noted that the FAO's real GDP projections are modestly stronger than the 2017 Budget outlook over the 2017 to 2020 period.
- For prudent fiscal planning, the Province's real GDP growth projections are slightly below the average of private-sector forecasts. In fact, three economic experts also reviewed these economic assumptions and found them to be reasonable.
- This shows that our plan to make strategic investments in Ontario to grow the economy is working.
- It is also important to note that the FAO affirmed key aspects of the Budget plan, including projecting that a balanced budget is within reach for Ontario in 2017–18 and that the net debt-to-GDP ratio is on a downward trend.

- A balanced budget is providing the Province the fiscal flexibility to invest more in health care, education and other public services that matter most to Ontario families. It also adds stability to Ontario's finances and positions the government to better respond to demographic challenges and unexpected global economic shocks that the province will face over the next decade.

ADDITIONAL MESSAGES

Program Review

- The government is building on the success of recent initiatives to support the Province's fiscal objectives by expanding the review of current programs to identify opportunities for modernization and to ensure that expense growth is managed within the plan laid out in the Budget. Ontario has the lowest program spending per capita of all provinces and territories.

Pensions

- To help inform the future accounting treatment of pension plans the government appointed the Pension Asset Expert Advisory Panel last November. This Panel included experts from the accounting, legal and actuarial professions.
- The panel recommended that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan be recognized as an asset in Ontario's financial statements, and is consistent with how accounting standards have been applied to these plans since 2001.
- This accounting treatment was used to inform the fiscal outlook presented in the 2017 Budget.

Debt

- A DBRS report on the 2017 Budget stated that "The Province will continue borrowing to fund its capital needs, but the debt burden as a share of the economy is projected to track lower over the medium term with economic growth outpacing debt growth."

KEY QUOTES FROM FAO REPORT

Economic Outlook

"The FAO's economic outlook expects the recent strength of the Ontario economy to continue into 2017 … The FAO's economic forecast is broadly in-line with that presented in the government's 2017 Budget." (p. 2)

"Domestically, Ontario's surging housing market continues to be the largest risk for the economy." (p.2)

"Uncertainty over the future direction of U.S. trade and industrial policy could hamper business investment growth in the near term, which would negatively impact Ontario's competitiveness. Without stronger business sector investment to expand production capacity, the growth potential of several key Ontario industries will be limited." (p.10)

Fiscal Outlook

"Beyond 2017-18, the deficit is projected to deteriorate steadily due to rising expenses and moderate revenue growth. On this basis, staying in balance after 2017-18 will likely require additional fiscal policy measures." (p.2)

"The FAO's net debt-to-GDP projections under both accounting presentations, suggest that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24." (p.22)

"In the 2017 Budget, the government significantly reduced the prudence built into its program spending projection compared to the 2016 Budget, leaving less fiscal flexibility for the government to respond to unexpected events." (p.23)

Ontario's Debt Outlook

"Based on the FAO's application of the Auditor General's recommended accounting for these pension assets, the FAO is projecting a budget deficit of $2.9 billion for 2017-18, rising to $6.5 billion by 2021-22 … Under the government's accounting presentation, the FAO is projecting a budget deficit of $0.5 billion in 2017-18, growing to $3.6 billion by 2021-22." (p.15)

"Ontario's total borrowing requirements are expected to remain high over the outlook. To finance the cost of projected capital spending, on-going deficits and maturing debt issues the FAO estimates that provincial borrowing will average $37 billion per year over the next five years." (p.21)

CURRENT STATUS

The Financial Accountability Officer (FAO) released a report on Wednesday, May 31, 2017, that assesses Ontario's medium-term economic and fiscal outlook. The FAO plans to release these medium-term outlook reports each spring and fall.

In compliance with the *Financial Accountability Officer Act, 2013*, the FAO provided a copy of the final report to the Ministers of Finance and Treasury Board prior to the release.

REPORT SUMMARY

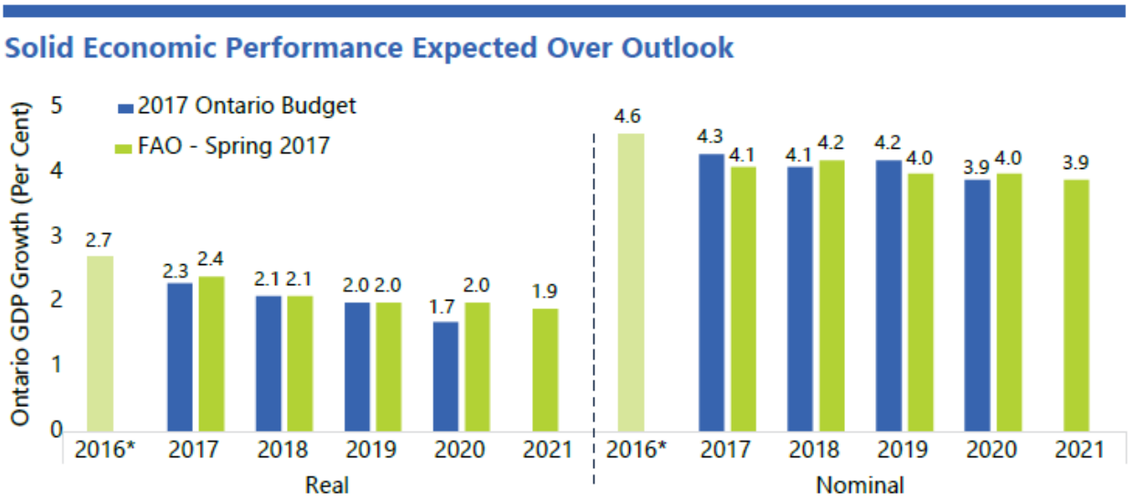
The report is divided into two main chapters:

1) The **Economic Outlook** chapter presents the FAO forecast for Ontario's economy out to 2021, and includes a discussion of potential risks.

2) The **Fiscal Outlook** chapter presents the FAO forecast for revenue, expense and the surplus/deficit between 2016-17 and 2021-22.

Economic Outlook

- The FAO has left its forecast for Ontario real GDP growth little changed, on average, over the 2017 to 2020 period relative to its fall forecast, though it included a modest downward revision in 2017 and upward revision in 2019.
- The FAO forecast is broadly consistent with the private sector economists' view that stronger international exports and business investment will be key drivers of Ontario's overall economic growth over the next several years.
- The FAO forecast for real GDP growth is 0.1 percentage points stronger annually, on average, than the 2017 Budget forecast between 2017 and 2020.
- The FAO believes the balance of the risks to the economic outlook is tilted to the downside, particularly risks associated with a correction in Ontario's housing market. (p. 13).



* 2016 are actuals.

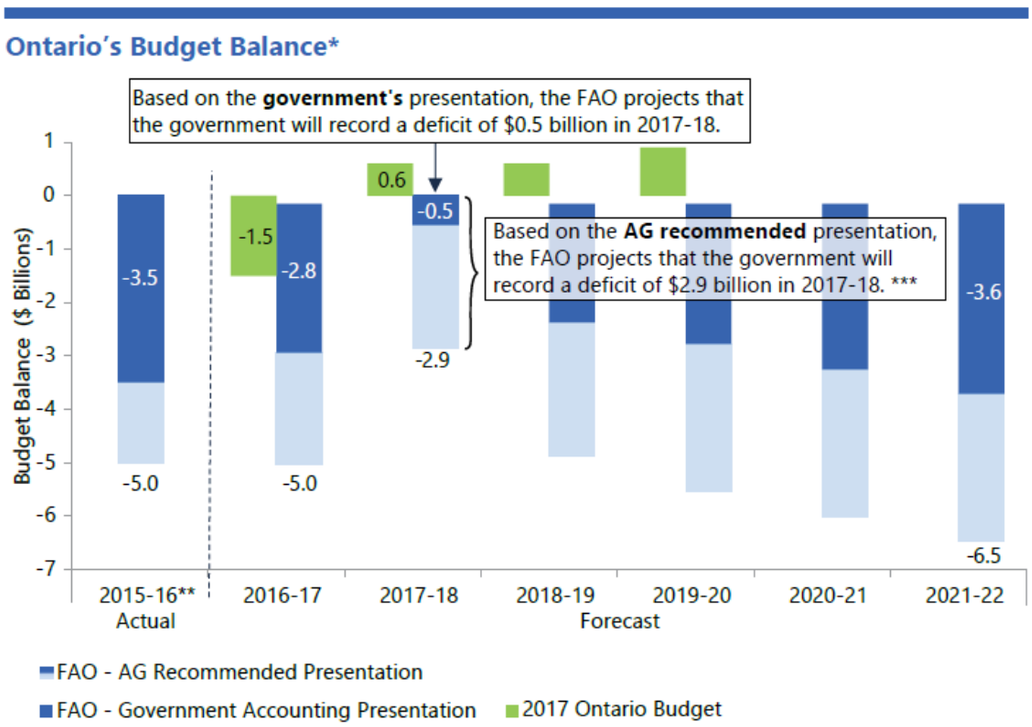
Source: Ontario Economic Accounts, 2017 Ontario Budget and FAO.

Fiscal Outlook

- The FAO's current projection of the outlook for budget balance has generally deteriorated relative to the FAO's fall 2016 projection and continues to present a gap against the government's balanced budget projections.
- **Using the government's accounting treatment of net pension assets** the FAO is projecting budget deficits of $2.8 billion in 2016–17, $0.5 billion in 2017–18, $2.2 billion in 2018–19, and $2.6 billion by 2019–20 (excluding the reserve). This represents an improvement in the deficit for 2016–17 and 2017–18, but deterioration over the outlook compared to the FAO's fall report.
    - By comparison, the 2017 Budget projects a $1.5 billion deficit in 2016–17 and surpluses of $0.6 billion in 2017–18 and 2018–19, and a $0.9 billion surplus in 2019–20, excluding the reserve. The FAO also makes projections out to 2021–22 with increasing deficits forecast for those years as well.
    - The FAO suggests that a balanced budget is "within the government's reach in 2017–18" when using the government's accounting method, however "staying in balance after 2017-18 will likely require additional fiscal policy measures"(p.1).

- The FAO notes that under this accounting presentation, Ontario's Public Accounts would be expected to receive a qualified opinion from the Auditor General.

- The FAO's forecast, **based on the Auditor General's recommended accounting treatment of jointly-sponsored pension plans**, projects deficits of $5.0 billion in 2016–17, $2.9 billion in 2017–18, $4.9 billion in 2018–19, and $5.5 billion by 2019–20 (excluding the reserve). Compared to the FAO's fall report, this represents a slight improvement in the deficit for 2016–17 but deterioration in 2017–18 and over the outlook.
    - The FAO notes that "on this basis, it is unlikely that the government will balance the budget without significant fiscal policy adjustments to raise revenue or lower expense" (p. 1).
- For 2016–17 the FAO is forecasting a deficit of $2.8 billion (or $5.0 billion with the pension adjustment) compared with the government's $1.5 billion interim projection.
- The FAO's asserts that its projection for an improved deficit in 2017–18 is due to robust economic performance and strong tax revenue growth in 2016 and 2017, compared to the FAO's fall estimates, and a one-time revenue increase in 2017–18 from increased federal transfers for infrastructure, additional revenue from asset sales and cap and trade proceeds. (p. 1 &19).
- Beginning in 2018-19, the FAO projects that the deficit will gradually deteriorate due to moderate revenue growth, the absence of one-time non-tax measures, and higher program expenses. (p. 16).



* Budget balance before reserve.

** Ontario's 2015-16 Public Accounts reported a deficit of $5.0 billion. Without the pension adjustment, the deficit would have been $3.5 billion.

*** This includes the FAO's estimate of the pension adjustment.

Source: 2015-16 Public Accounts, 2017 Ontario Budget and FAO.

Revenue Assumptions

- Compared to the 2017 Budget, the FAO's projected total revenue is lower mostly because of taxation revenue and, to a lesser extent, Federal Transfers.

FAO less Ontario 2017 Budget Outlook ($ Billions)					
	2016-17	2017-18	2018-19	2019-20	Average
Taxation Revenue	-1.2	-1.4	-2.3	-3.0	-2.0
Government of Canada Transfers	-0.1	0.0	-0.8	-0.8	-0.4
Government Business Enterprises	0.0	0.0	0.0	0.0	0.0
Other Non-Tax Revenue	0.0	0.0	0.0	0.0	0.0
Total Revenue	**-1.2**	**-1.4**	**-3.1**	**-3.7**	**-2.4**

    - FAO's projection for the composition of nominal GDP such as compensation of employees, net operating surplus and household consumption, are all lower than the 2017 Budget projection.
    - The 2017 Budget assumed higher yields from CIT and HST compared to recent projections, reflecting recent tax revenue performance. These yields also exceed those assumed by the FAO.
    - The FAO projection for PIT is consistently lower than the 2017 Budget, partly due to their assumptions regarding tax planning that may have occurred in 2015 by high-income earners. Whereas the 2017 Budget only included an allowance for PIT planning in 2016-17, the FAO estimates that roughly $600 million of Ontario's 2015 PIT revenue was due to income shifting, which lowers taxable income in 2016-17 and 2017-18.
- The FAO's federal transfer outlook is lower than assumed in the 2017 Ontario Budget, probably due to FAO's assumption that Ontario will no longer receive Equalization payments starting in 2019-20 as Ontario's fiscal capacity improves relative to other provinces.
- The FAO's government business enterprise net income outlook and other non-tax revenue is the same as reported in the 2017 Budget.

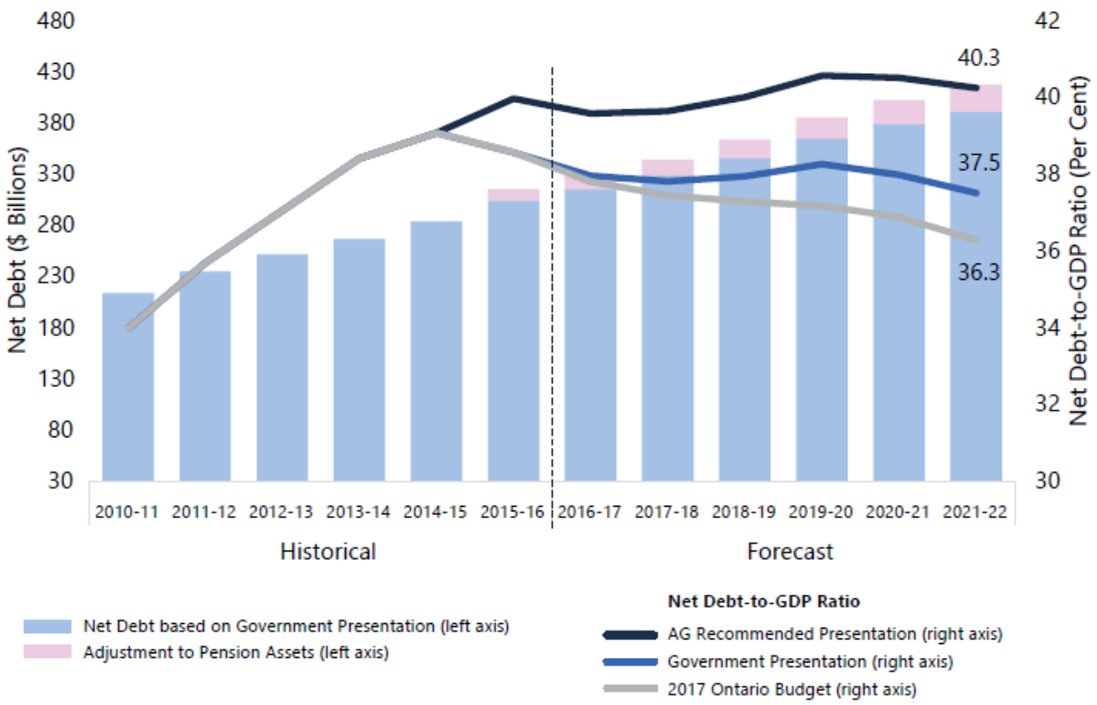
Expense Assumptions

- The FAO assumes the same program expense outlook as the 2017 Budget up to 2019–20, adjusted to reflect the Auditor General's recommended accounting treatment for jointly sponsored pension plans.(p. 20).
- The FAO's expense outlook includes new spending commitments announced in the 2017 Budget including the new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan. This results in average annual growth in program expense of 3.3 per cent between 2016–17 and 2021–22 – slightly below the growth in underlying cost and demographic pressure, which is estimated to be 3.6 per cent on average.
- The FAO projects that Ontario's interest on debt (IOD) payments will grow at an average annual rate of 4.0 per cent from $11.0 billion in 2015–16 to $13.9 billion by 2021–22, reflecting higher debt and rising interest rates over the outlook. The FAO forecasts that IOD will outpace the growth in program expense over the outlook. (p. 21).
- The FAO's projection for IOD expense is lower than the 2017 Budget projections.
- According to the FAO, interest on debt is expected to increase from 8.1per cent of revenues in 2017–18 to 8.9 per cent by 2021–22. Over the past five years IOD as a share of revenues declined steadily, benefitting from declining interest rates. The FAO argues that this ratio is expected to rise sharply due to projected interest rate increases. (p. 21 – Fiscal Chapter).

Debt Outlook

- Using the government's accounting method, the FAO expects net debt to increase by $62 billion over the next five years to $365 billion by 2021–22 or 37.5 per cent of GDP, above the 2017 Budget projection of 36.3 per cent.
- Under the Auditor General's recommended accounting treatment of jointly-sponsored pension plans, the FAO expects Ontario's net debt to rise by $76 billion to $392 billion by 2021–22 or 40.3 per cent of GDP, this represents a slightly lower net debt-to-GDP ratio over the plan and outlook period when compared to the FAO's fall forecast.
- The FAO's net debt-to-GDP projections under both accounting presentations, suggests that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24. (p. 22).

Ontario's Net Debt-to-GDP Ratio



Source: FAO, Ontario Economic Accounts, and 2017 Ontario Budget.
Note: AG recommended presentation is based on FAO estimates of the pension adjustment.

Accounting Treatment

- The FAO's spring outlook includes a detailed section on the different accounting interpretations for net pension assets of jointly sponsored pension plans (Ontario Teachers' Pension Plan and the Ontario Public Service Employees Union Pension Plan) used by the government and the Auditor General.
- While the FAO presents analysis based on both interpretations of the accounting treatment, the report states that "the Officer looks to the Auditor General as the provincial authority on the appropriate interpretation and application of accounting standards for the Province" (p.27).
- Furthermore, the FAO states that in the absence of a written agreement between the co-sponsors of the pension plans, the Auditor General would be expected to provide a qualified opinion on Ontario's 2016-17 Public Accounts.

Risks and Policy Options

- The FAO notes the following risks to Ontario's fiscal plan (p. 23):
    - A housing market correction could pose a significant risk for both the broader economy and the fiscal plan through lower taxation revenues
    - Reduced prudence built into program spending in the 2017 Budget compared to the previous budget – reducing flexibility for the government to respond to unexpected events
    - Interest on debt payments are expected to increase, exposing the government to fiscal risk should interest rates rise faster than expected
- Although the FAO projects deficits, the report notes that the government has a broad range of policy options that could improve the Province's fiscal position, including selling additional public assets beyond announced targets.

APPENDIX A – Detailed Comparison of Outlooks

Key factors driving change since the 2016 FAO fall report:

- Increases in Provincial tax revenue of $2.8 billion in 2016–17 and $4.2 billion in 2017–18 (stronger than expected PIT revenue) due to improving economic growth in 2017
- Declines in Ontario's equalization entitlement. Beyond 2018–19, the FAO is projecting that Ontario will no longer be entitled to Equalization payments – a reflection of the continued strength of the Ontario economy
- Significant new spending across all sectors, including a new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan
- Revised estimates for net pension asset expense of jointly sponsored pension plans

Developments since Fall 2016 EFO (AG Recommended Presentation)

	2016-17	2017-18	2018-19	2019-20	2020-21
FAO's Fall 2016 Budget Balance Forecast	**-5.2**	**-2.6**	**-2.8**	**-3.3**	**-3.7**
Developments Since Fall 2016					
Revenue					
Stronger Economic Outlook	2.3	4.1	3.9	4.4	4.7
Lower Federal Transfers[1]	-0.3	0.2	-1.3	-2.4	-2.2
Other Revenue Changes[2]	0.1	0.1	-0.5	-0.6	-0.6
Total	2.1	4.4	2.1	1.3	1.8
Expense					
Higher Spending, including Children and Youth Pharmacare, and Fair Hydro Plan	1.2	3.8	3.0	2.2	2.7
Revised Adjustment for Pension Asset[3]	0.7	0.8	1.1	1.4	1.4
Total	2.0	4.6	4.1	3.6	4.1
Total Developments	**0.2**	**-0.3**	**-2.1**	**-2.3**	**-2.3**
FAO's Spring 2017 Budget Balance Forecast	**-5.0**	**-2.9**	**-4.9**	**-5.5**	**-6.0**

Notes:

1. Change in federal transfers forecast mainly due the reduction in Ontario's Equalization payment.
2. Other revenue changes include the $0.5 billion re-profiling of cap-and-trade proceeds from 2016-17 to 2017-18, and an increase in sales and rentals for 2017-18.
3. In the Fall 2016 EFO, the FAO assumed an annual adjustment of $1.5 billion for the net pension assets of jointly sponsored pension plans. The current projection incorporates the FAO's updated estimates for the pension adjustment of $2.2 billion in 2016-17, increasing to $2.9 billion by 2020-21.

Source: FAO.

Revenue Assumptions:

- Compared to the FAO's fall forecast, from 2016-17 to 2019-20, on average, total revenue is projected to be $2.5 billion higher annually mostly because of higher taxation revenue, partially offset by lower Federal Transfers and other Non-Tax revenues.

FAO Revenue Difference (Spring 2017 less Fall 2016)					
$ Billions	2016-17	2017-18f	2018-19f	2019-20f	Annual Average
Taxation Revenue	**2.8**	**4.2**	**4.4**	**4.9**	**4.1**
Government of Canada Transfers	-0.4	0.2	-1.3	-2.4	-1.0
Government Business Enterprises	0.3	-0.4	0.0	0.1	0.0
Other Non-Tax Revenue	-0.6	0.4	-1.1	-1.3	-0.7
Total Non-Tax Revenue	**-0.7**	**0.2**	**-2.4**	**-3.6**	**-1.6**
Total Revenue	**2.1**	**4.4**	**2.1**	**1.4**	**2.5**

- Taxation revenues are projected to be, on average, $4.1 billion higher annually due to stronger economic growth as nominal GDP growth is, on average, projected to be 0.4 percentage points higher annually.
- More specifically, corporate profits are projected to be 3.3 percentage points higher annually, boosting Corporations Tax revenue. Higher labour income is expected to raise Personal Income Tax revenue while Ontario's strong housing market boosts Sales Tax and Land Transfer Tax revenues.
- Lower Federal Transfers reflects mostly the FAO's projection that Ontario will no longer be entitled to Equalization payments beyond 2018-19.
- Non-Tax revenues are lower, mainly because of the revisions to the multi-year asset optimization target to reflect the progress made so far and revised projections for Carbon allowance proceeds.

Comparison: 2017 Budget Fiscal Outlook and the 2017 Spring FAO Outlook										
								Avg. Annual Growth		
	Actual		Outlook					16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
2017 Budget										
Revenue	128.4	133.2	141.7	144.9	149.3			3.9%		
Expense										
Program Expense*	120.9	123.5	129.5	132.3	135.8			3.2%		
Adjustment for Pension Assets	-	-	-	-	-					
Interest on Debt	11.0	11.3	11.6	12.0	12.6			3.9%		
Total Expense	131.9	134.8	141.1	144.3	148.4			3.3%		
Surplus/(Deficit) Excl. Reserve	**(3.5)**	**(1.5)**	**0.6**	**0.6**	**0.9**					
Reserve	-	-	0.6	0.6	0.9					
Surplus/(Deficit)	**(3.5)**	**(1.5)**	**0.0**	**0.0**	**0.0**					
Net Debt	294.6	301.9	311.9	323.3	335.9					
Change - 2017 Budget to FAO Spring 2017 Report										
Revenue	-	*(1.2)*	*(1.4)*	*(3.1)*	*(3.7)*					
Expense										
Program Expense *	-	-	-	-	-					
Adjustment for Pension Assets	*1.5*	*2.2*	*2.3*	*2.6*	*2.9*					
Interest on Debt	-	-	*(0.3)*	*(0.3)*	*(0.3)*					
Total Expense	*1.5*	*2.2*	*2.0*	*2.3*	*2.7*					
Surplus/(Deficit) Excl. Reserve	***(1.5)***	***(3.5)***	***(3.5)***	***(5.5)***	***(6.4)***					
Reserve	-	-	*n/a*	*n/a*	*n/a*					
Surplus/(Deficit)	***(1.5)***	***(3.5)***	***n/a***	***n/a***	***n/a***					
Net Debt	*10.6*	*14.2*	*17.6*	*23.1*	*29.5*					
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	120.9	123.5	129.5	132.3	135.8	140.9	146.1	3.2%	3.7%	3.4%
Adjustment for Pension Assets	1.5	2.2	2.3	2.6	2.9	2.9	2.9			
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	133.4	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve	**(5.0)**	**(5.0)**	**(2.9)**	**(4.9)**	**(5.5)**	**(6.0)**	**(6.5)**			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	**(5.0)**	**(5.0)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Adjustment for Pension Assets	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**(3.5)**	**(2.8)**	**(0.5)**	**(2.2)**	**(2.6)**	**(3.1)**	**(3.6)**			
Note: Numbers may not align with report due to rounding.										
*** Program Expense excluding Adjustment for Pension Assets (captured on line below)**										

Comparison: 2016 Fall FAO Outlook Compared to 2017 Spring FAO Outlook										
								Avg. Annual Growth		
	Actual		Outlook					16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
FAO Fall 2016 Report										
Revenue	128.4	129.9	135.9	139.7	144.2	149.1		3.5%		
Expense										
Program Expense*	122.4	123.9	127.2	130.9	135.3	139.9		3.0%		
Interest on Debt	11.0	11.2	11.3	11.6	12.2	12.9		2.9%		
Total Expense	133.4	135.1	138.5	142.5	147.5	152.8		3.0%		
Surplus/(Deficit) Excl. Reserve	**(5.0)**	**(5.2)**	**(2.6)**	**(2.8)**	**(3.3)**	**(3.7)**				
Reserve	-	-	n/a	n/a	n/a	n/a				
Surplus/(Deficit)	**(5.0)**	**(5.2)**	**n/a**	**n/a**	**n/a**	**n/a**				
Net Debt	305.2	318.5	330.5	343.8	356.8	369.7				
Adjustment for Pension Assets	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)				
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**(3.5)**	**(3.7)**	**(1.1)**	**(1.3)**	**(1.8)**	**(2.2)**				
Change - FAO Fall 2016 Report to Spring 2017 Report										
Revenue	-	*2.1*	*4.4*	*2.1*	*1.3*	*1.8*				
Expense										
Program Expense *	-	*1.9*	*4.6*	*4.0*	*3.5*	*3.9*				
Interest on Debt	-	*0.1*	-	*0.1*	*0.1*	*0.2*				
Total Expense	-	*2.0*	*4.6*	*4.1*	*3.6*	*4.1*				
Surplus/(Deficit) Excl. Reserve	***0.0***	***0.2***	***(0.3)***	***(2.1)***	***(2.3)***	***(2.3)***				
Reserve	-	-	*n/a*	*n/a*	*n/a*	*n/a*				
Surplus/(Deficit)	***0.0***	***0.2***	***n/a***	***n/a***	***n/a***	***n/a***				
Net Debt	*(0.0)*	*(2.4)*	*(1.0)*	*2.6*	*8.6*	*9.7*				
Adjustment for Pension Assets	-	(0.7)	(0.8)	(1.1)	(1.4)	(1.4)				
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**-**	**0.9**	**0.6**	**(0.9)**	**(0.8)**	**(0.9)**				
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	122.4	125.7	131.8	134.9	138.8	143.8	149.0	3.4%	3.6%	3.5%
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	133.4	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve	**(5.0)**	**(5.0)**	**(2.9)**	**(4.9)**	**(5.5)**	**(6.0)**	**(6.5)**			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	**(5.0)**	**(5.0)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Adjustment for Pension Assets	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**(3.5)**	**(2.8)**	**(0.5)**	**(2.2)**	**(2.6)**	**(3.1)**	**(3.6)**			
Note: Numbers may not align with report due to rounding.										
*** Based on AG recommended accounting treatment with adjustment for net pension assets.**										

Financial Accountability Officer Report: Spring Economic and Fiscal Outlook

Draft – May 30, 2017 6:00 PM

ISSUE

- The Financial Accountability Officer (FAO) will be releasing a report on May 31, which assesses Ontario's medium-term economic and fiscal outlook.
- This represents the spring update to the FAO's planned release of semi-annual medium-term outlook reports.
- The spring report incorporates economic and fiscal information released since the FAO's fall 2016 report (released November 3, 2016). This includes:
    - New economic data that impacts their revenue and interest on debt outlooks; and
    - New spending commitments from the 2017 Budget.
- The FAO has presented two fiscal projections in its spring report:
    1. A projection that includes the impact of the net pension assets of jointly sponsored pension plans, based on the Auditor General's recommended accounting treatment, and
    2. A projection that excludes this impact based on the government's fiscal presentation in the 2017 Budget, as recommended by the Pension Asset Expert Advisory Panel.
- Both presentations used by the FAO project deficits in each year over the outlook period (2016–17 to 2021–22).
    - Using the government's fiscal presentation of net pension assets, the FAO has stated that balance is within reach in 2017–18 and that beyond this, staying in balance will likely require additional fiscal policy measures.
    - Similarly, using this presentation, the FAO projects that net debt-to-GDP will decline over the outlook but additional fiscal measures would be required for the government to achieve its interim net debt-to-GDP target of 35 per cent by 2023–24 and 27 per cent by 2029–30.
    - The FAO excludes the reserve from its fiscal outlook.

TOP MESSAGES

- I would like to thank the Financial Accountability Officer (FAO) for releasing his spring economic and fiscal outlook for Ontario. We value the FAO's independent assessment and projections of the province's fiscal plan.
- As outlined in the 2017 Budget, the government is projecting a balanced budget for 2017–18 and to remain balanced in 2018–19 and 2019–20.
- The government has a strong track record of beating its fiscal targets. In fact, for the 2016–17 fiscal year, the government is forecasting a deficit of $1.5 billion, beating our annual deficit target again, for the eighth year in a row.
- This Budget builds on the government's track record of fiscal management that has resulted in $29 billion in accumulated deficits being avoided over the past seven years, relative to the 2010 Budget forecast.
- We are also targeting a net debt-to-GDP ratio of 35 per cent by 2023–24 and reducing Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029–30.
- Ontario has recorded stronger economic growth than Canada and all other G7 countries over the 2014 to 2016 period, with real GDP rising 2.6 per cent a year.
- Private-sector forecasters expect Ontario will remain one of the fastest growing provinces over the next two years. It should be noted that the FAO's real GDP projections are modestly stronger than the 2017 Budget outlook over the 2017 to 2020 period.
- For prudent fiscal planning, the Province's real GDP growth projections are slightly below the average of private-sector forecasts. In fact, three economic experts also reviewed these economic assumptions and found them to be reasonable.
- This shows that our plan to make strategic investments in Ontario to grow the economy is working.
- It is also important to note that the FAO affirmed key aspects of the Budget plan, including projecting that a balanced budget is within reach for Ontario in 2017–18 and that the net debt-to-GDP ratio is on a downward trend.
- A balanced budget is providing the Province the fiscal flexibility to invest more in health care, education and other public services that matter most to Ontario families. It also adds stability to Ontario's finances and positions the government to better respond to demographic challenges and unexpected global economic shocks that the province will face over the next decade.

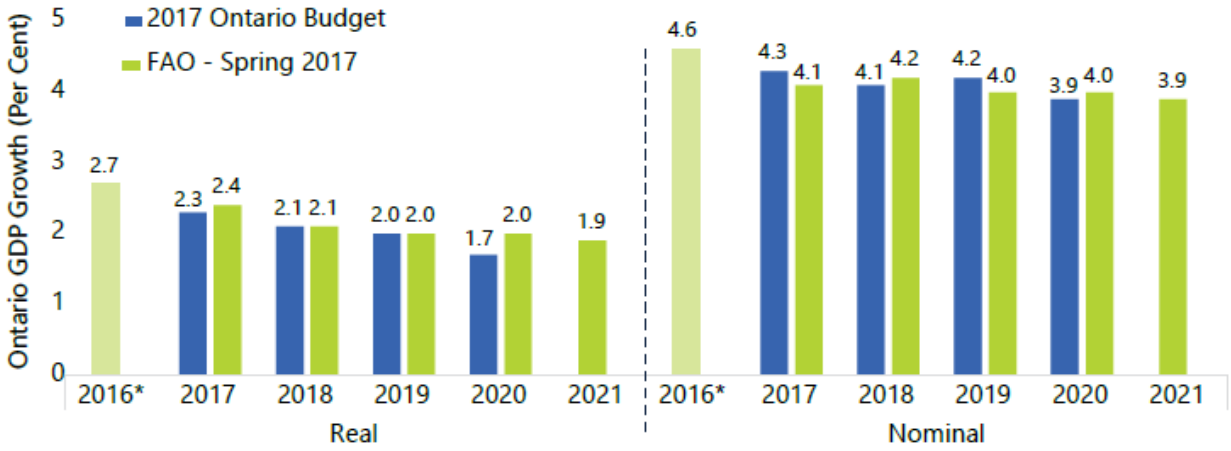
KEY FINDINGS

- The report is divided into two main chapters:
    1) The **Economic Outlook** chapter presents the FAO forecast for Ontario's economy out to 2021, and includes a discussion of potential risks.
    2) The **Fiscal Outlook** chapter presents the FAO forecast for revenue, expense and the surplus/deficit between 2016-17 and 2021-22.

<u>Economic Outlook</u>

- The FAO has left its forecast for Ontario real GDP growth little changed, on average, over the 2017 to 2020 period relative to its fall forecast, though it included a modest downward revision in 2017 and upward revision in 2019.
- The FAO forecast is broadly consistent with the private sector economists' view that stronger international exports and business investment will be key drivers of Ontario's overall economic growth over the next several years.
- The FAO forecast for real GDP growth is 0.1 percentage points stronger annually, on average, than the 2017 Budget forecast between 2017 and 2020.
- The FAO believes the balance of the risks to the economic outlook is tilted to the downside, particularly risks associated with a correction in Ontario's housing market. (p. 13).

Solid Economic Performance Expected Over Outlook



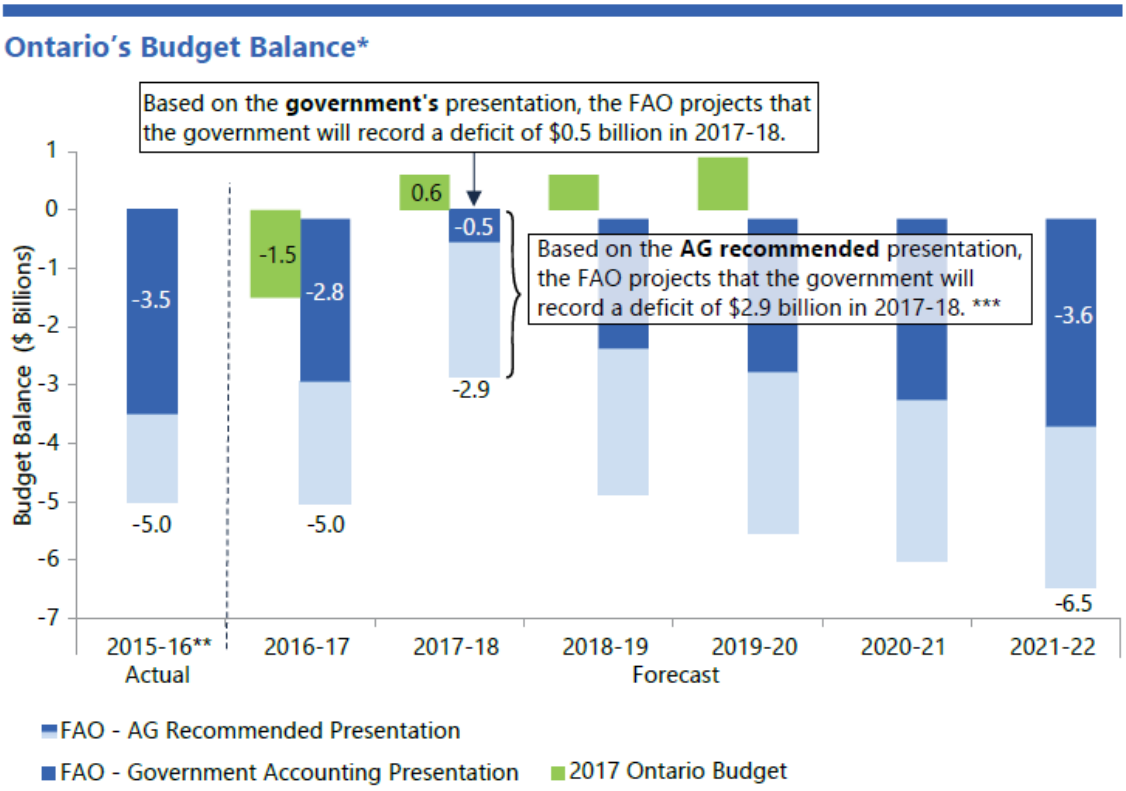
* 2016 are actuals.

Source: Ontario Economic Accounts, 2017 Ontario Budget and FAO.

Fiscal Outlook

- The FAO's current projection of the outlook for budget balance has generally deteriorated relative to the FAO's fall 2016 projection and continues to present a gap against the government's balanced budget projections.
- **Using the government's accounting treatment of net pension assets** the FAO is projecting budget deficits of $2.8 billion in 2016–17, $0.5 billion in 2017–18, $2.2 billion in 2018–19, and $2.6 billion by 2019–20 (excluding the reserve). This represents an improvement in the deficit for 2016–17 and 2017–18, but deterioration over the outlook compared to the FAO's fall report.
    - By comparison, the 2017 Budget projects a $1.5 billion deficit in 2016–17 and surpluses of $0.6 billion in 2017–18 and 2018–19, and a $0.9 billion surplus in 2019–20, excluding the reserve. The FAO also makes projections out to 2021–22 with increasing deficits forecast for those years as well.
    - The FAO suggests that a balanced budget is "within the government's reach in 2017–18" when using the government's accounting method, however "staying in balance after 2017-18 will likely require additional fiscal policy measures"(p.1).
    - The FAO notes that under this accounting presentation, Ontario's Public Accounts would be expected to receive a qualified opinion from the Auditor General.
- The FAO's forecast, **based on the Auditor General's recommended accounting treatment of jointly-sponsored pension plans**, projects deficits of $5.0 billion in 2016–17, $2.9 billion in 2017–18, $4.9 billion in 2018–19, and $5.5 billion by 2019–20 (excluding the reserve). Compared to the FAO's fall report, this represents a slight improvement in the deficit for 2016–17 but deterioration in 2017–18 and over the outlook.
    - The FAO notes that "on this basis, it is unlikely that the government will balance the budget without significant fiscal policy adjustments to raise revenue or lower expense" (p. 1).
- For 2016–17 the FAO is forecasting a deficit of $2.8 billion (or $5.0 billion with the pension adjustment) compared with the government's $1.5 billion interim projection.
- The FAO's asserts that its projection for an improved deficit in 2017–18 is due to robust economic performance and strong tax revenue growth in 2016 and 2017, compared to the FAO's fall estimates, and a one-time revenue increase in 2017–18 from increased federal transfers for infrastructure, additional revenue from asset sales and cap and trade proceeds. (p. 1 &19).

- Beginning in 2018-19, the FAO projects that the deficit will gradually deteriorate due to moderate revenue growth, the absence of one-time non-tax measures, and higher program expenses. (p. 16).



* Budget balance before reserve.

** Ontario's 2015-16 Public Accounts reported a deficit of $5.0 billion. Without the pension adjustment, the deficit would have been $3.5 billion.

*** This includes the FAO's estimate of the pension adjustment.

Source: 2015-16 Public Accounts, 2017 Ontario Budget and FAO.

Revenue Assumptions

- Compared to the 2017 Budget, the FAO's projected total revenue is lower mostly because of taxation revenue and, to a lesser extent, Federal Transfers.

FAO less Ontario 2017 Budget Outlook ($ Billions)

	2016-17	2017-18	2018-19	2019-20	Average
Taxation Revenue	-1.2	-1.4	-2.3	-3.0	-2.0
Government of Canada Transfers	-0.1	0.0	-0.8	-0.8	-0.4
Government Business Enterprises	0.0	0.0	0.0	0.0	0.0
Other Non-Tax Revenue	0.0	0.0	0.0	0.0	0.0
Total Revenue	**-1.2**	**-1.4**	**-3.1**	**-3.7**	**-2.4**

- FAO's projection for the composition of nominal GDP such as compensation of employees, net operating surplus and household consumption, are all lower than the 2017 Budget projection.
- The 2017 Budget assumed higher yields from CIT and HST compared to recent projections, reflecting recent tax revenue performance. These yields also exceed those assumed by the FAO.
- The FAO projection for PIT is consistently lower than the 2017 Budget, partly due to their assumptions regarding tax planning that may have occurred in 2015 by high-income earners. Whereas the 2017 Budget only included an allowance for PIT planning in 2016-17, the FAO estimates that roughly $600 million of Ontario's 2015 PIT revenue was due to income shifting, which lowers taxable income in 2016-17 and 2017-18.

- The FAO's federal transfer outlook is lower than assumed in the 2017 Ontario Budget, probably due to FAO's assumption that Ontario will no longer receive Equalization payments starting in 2019-20 as Ontario's fiscal capacity improves relative to other provinces.
- The FAO's government business enterprise net income outlook and other non-tax revenue is the same as reported in the 2017 Budget.

Expense Assumptions

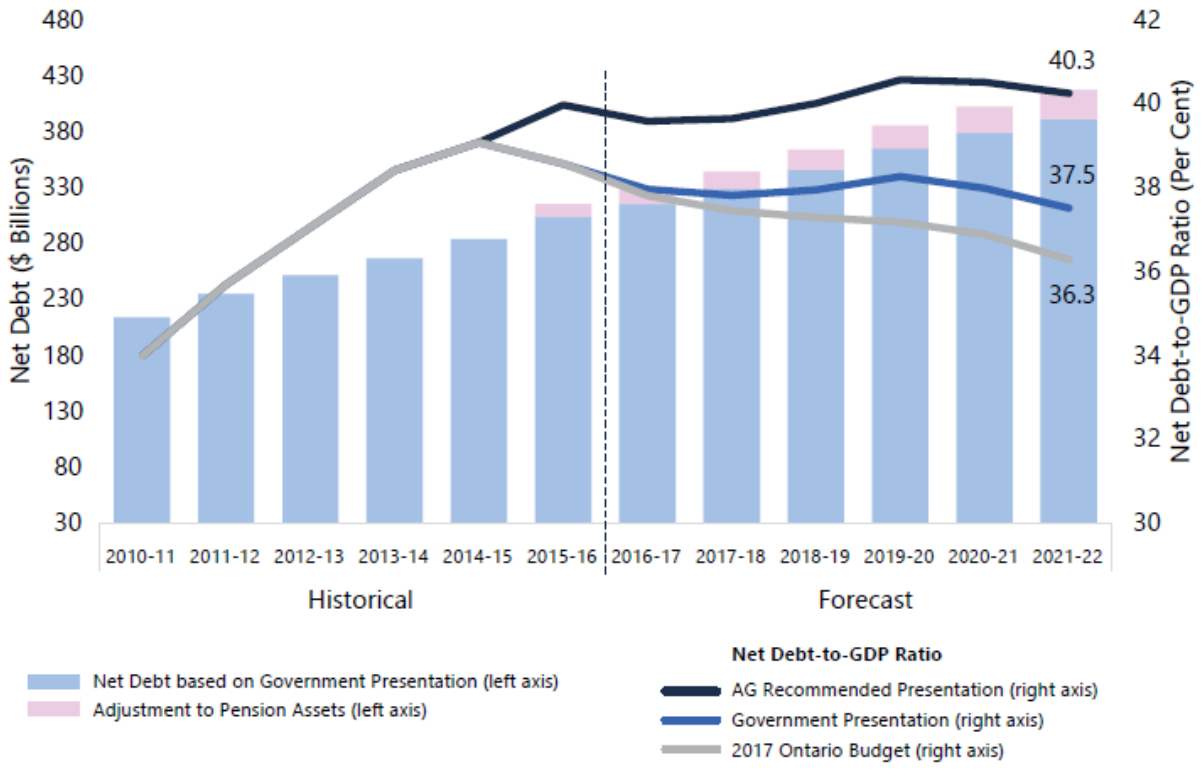
- The FAO assumes the same program expense outlook as the 2017 Budget up to 2019–20, adjusted to reflect the Auditor General's recommended accounting treatment for jointly sponsored pension plans.(p. 20).
- The FAO's expense outlook includes new spending commitments announced in the 2017 Budget including the new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan. This results in average annual growth in program expense of 3.3 per cent between 2016–17 and 2021–22 – slightly below the growth in underlying cost and demographic pressure, which is estimated to be 3.6 per cent on average.
- The FAO projects that Ontario's interest on debt (IOD) payments will grow at an average annual rate of 4.0 per cent from $11.0 billion in 2015–16 to $13.9 billion by 2021–22, reflecting higher debt and rising interest rates over the outlook. The FAO forecasts that IOD will outpace the growth in program expense over the outlook. (p. 21).
- The FAO's projection for IOD expense is lower than the 2017 Budget projections.
- According to the FAO, interest on debt is expected to increase from 8.1per cent of revenues in 2017–18 to 8.9 per cent by 2021–22. Over the past five years IOD as a share of revenues declined steadily, benefitting from declining interest rates. The

FAO argues that this ratio is expected to rise sharply due to projected interest rate increases. (p. 21 – Fiscal Chapter).

Debt Outlook

- Using the government's accounting method, the FAO expects net debt to increase by $62 billion over the next five years to $365 billion by 2021–22 or 37.5 per cent of GDP, above the 2017 Budget projection of 36.3 per cent.
- Under the Auditor General's recommended accounting treatment of jointly-sponsored pension plans, the FAO expects Ontario's net debt to rise by $76 billion to $392 billion by 2021–22 or 40.3 per cent of GDP, this represents a slightly lower net debt-to-GDP ratio over the plan and outlook period when compared to the FAO's fall forecast.
- The FAO's net debt-to-GDP projections under both accounting presentations, suggests that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24. (p. 22).

Ontario's Net Debt-to-GDP Ratio



Source: FAO, Ontario Economic Accounts, and 2017 Ontario Budget.
Note: AG recommended presentation is based on FAO estimates of the pension adjustment.

Accounting Treatment

- The FAO's spring outlook includes a detailed section on the different accounting interpretations for net pension assets of jointly sponsored pension plans (Ontario Teachers' Pension Plan and the Ontario Public Service Employees Union Pension Plan) used by the government and the Auditor General.
- While the FAO presents analysis based on both interpretations of the accounting treatment, the report states that "the Officer looks to the Auditor General as the provincial authority on the appropriate interpretation and application of accounting standards for the Province" (p.27).
- Furthermore, the FAO states that in the absence of a written agreement between the co-sponsors of the pension plans, the Auditor General would be expected to provide a qualified opinion on Ontario's 2016-17 Public Accounts.

Risks and Policy Options

- The FAO notes the following risks to Ontario's fiscal plan (p. 23):
    - A housing market correction could pose a significant risk for both the broader economy and the fiscal plan through lower taxation revenues
    - Reduced prudence built into program spending in the 2017 Budget compared to the previous budget – reducing flexibility for the government to respond to unexpected events
    - Interest on debt payments are expected to increase, exposing the government to fiscal risk should interest rates rise faster than expected
- Although the FAO projects deficits, the report notes that the government has a broad range of policy options that could improve the Province's fiscal position, including selling additional public assets beyond announced targets.

APPENDIX A – Detailed Comparison of Outlooks

Key factors driving change since the 2016 FAO fall report:

- Increases in Provincial tax revenue of $2.8 billion in 2016–17 and $4.2 billion in 2017–18 (stronger than expected PIT revenue) due to improving economic growth in 2017
- Declines in Ontario's equalization entitlement. Beyond 2018–19, the FAO is projecting that Ontario will no longer be entitled to Equalization payments – a reflection of the continued strength of the Ontario economy
- Significant new spending across all sectors, including a new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan
- Revised estimates for net pension asset expense of jointly sponsored pension plans

Developments since Fall 2016 EFO (AG Recommended Presentation)

	2016-17	2017-18	2018-19	2019-20	2020-21
FAO's Fall 2016 Budget Balance Forecast	**-5.2**	**-2.6**	**-2.8**	**-3.3**	**-3.7**
Developments Since Fall 2016					
Revenue					
Stronger Economic Outlook	2.3	4.1	3.9	4.4	4.7
Lower Federal Transfers[1]	-0.3	0.2	-1.3	-2.4	-2.2
Other Revenue Changes[2]	0.1	0.1	-0.5	-0.6	-0.6
Total	2.1	4.4	2.1	1.3	1.8
Expense					
Higher Spending, including Children and Youth Pharmacare, and Fair Hydro Plan	1.2	3.8	3.0	2.2	2.7
Revised Adjustment for Pension Asset[3]	0.7	0.8	1.1	1.4	1.4
Total	2.0	4.6	4.1	3.6	4.1
Total Developments	**0.2**	**-0.3**	**-2.1**	**-2.3**	**-2.3**
FAO's Spring 2017 Budget Balance Forecast	**-5.0**	**-2.9**	**-4.9**	**-5.5**	**-6.0**

Notes:

1. Change in federal transfers forecast mainly due the reduction in Ontario's Equalization payment.
2. Other revenue changes include the $0.5 billion re-profiling of cap-and-trade proceeds from 2016-17 to 2017-18, and an increase in sales and rentals for 2017-18.
3. In the Fall 2016 EFO, the FAO assumed an annual adjustment of $1.5 billion for the net pension assets of jointly sponsored pension plans. The current projection incorporates the FAO's updated estimates for the pension adjustment of $2.2 billion in 2016-17, increasing to $2.9 billion by 2020-21.

Source: FAO.

Revenue Assumptions:

- Compared to the FAO's fall forecast, from 2016-17 to 2019-20, on average, total revenue is projected to be $2.5 billion higher annually mostly because of higher taxation revenue, partially offset by lower Federal Transfers and other Non-Tax revenues.

FAO Revenue Difference (Spring 2017 less Fall 2016)

$ Billions	2016-17	2017-18f	2018-19f	2019-20f	Annual Average
Taxation Revenue	**2.8**	**4.2**	**4.4**	**4.9**	**4.1**
Government of Canada Transfers	-0.4	0.2	-1.3	-2.4	-1.0
Government Business Enterprises	0.3	-0.4	0.0	0.1	0.0
Other Non-Tax Revenue	-0.6	0.4	-1.1	-1.3	-0.7
Total Non-Tax Revenue	**-0.7**	**0.2**	**-2.4**	**-3.6**	**-1.6**
Total Revenue	**2.1**	**4.4**	**2.1**	**1.4**	**2.5**

  - Taxation revenues are projected to be, on average, $4.1 billion higher annually due to stronger economic growth as nominal GDP growth is, on average, projected to be 0.4 percentage points higher annually.
  - More specifically, corporate profits are projected to be 3.3 percentage points higher annually, boosting Corporations Tax revenue. Higher labour income is expected to raise Personal Income Tax revenue while Ontario's strong housing market boosts Sales Tax and Land Transfer Tax revenues.
  - Lower Federal Transfers reflects mostly the FAO's projection that Ontario will no longer be entitled to Equalization payments beyond 2018-19.
  - Non-Tax revenues are lower, mainly because of the revisions to the multi-year asset optimization target to reflect the progress made so far and revised projections for Carbon allowance proceeds.

Comparison: 2017 Budget Fiscal Outlook and the 2017 Spring FAO Outlook										
								Avg. Annual Growth		
	Actual		Outlook					16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
2017 Budget										
Revenue	128.4	133.2	141.7	144.9	149.3			3.9%		
Expense										
Program Expense*	120.9	123.5	129.5	132.3	135.8			3.2%		
Adjustment for Pension Assets	-	-	-	-	-					
Interest on Debt	11.0	11.3	11.6	12.0	12.6			3.9%		
Total Expense	131.9	134.8	141.1	144.3	148.4			3.3%		
Surplus/(Deficit) Excl. Reserve	**(3.5)**	**(1.5)**	**0.6**	**0.6**	**0.9**					
Reserve	-	-	0.6	0.6	0.9					
Surplus/(Deficit)	**(3.5)**	**(1.5)**	**0.0**	**0.0**	**0.0**					
Net Debt	294.6	301.9	311.9	323.3	335.9					
Change - 2017 Budget to FAO Spring 2017 Report										
Revenue	-	*(1.2)*	*(1.4)*	*(3.1)*	*(3.7)*					
Expense										
Program Expense *	-	-	-	-	-					
Adjustment for Pension Assets	*1.5*	*2.2*	*2.3*	*2.6*	*2.9*					
Interest on Debt	-	-	*(0.3)*	*(0.3)*	*(0.3)*					
Total Expense	*1.5*	*2.2*	*2.0*	*2.3*	*2.7*					
Surplus/(Deficit) Excl. Reserve	***(1.5)***	***(3.5)***	***(3.5)***	***(5.5)***	***(6.4)***					
Reserve	-	-	*n/a*	*n/a*	*n/a*					
Surplus/(Deficit)	***(1.5)***	***(3.5)***	***n/a***	***n/a***	***n/a***					
Net Debt	*10.6*	*14.2*	*17.6*	*23.1*	*29.5*					
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	120.9	123.5	129.5	132.3	135.8	140.9	146.1	3.2%	3.7%	3.4%
Adjustment for Pension Assets	1.5	2.2	2.3	2.6	2.9	2.9	2.9			
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	133.4	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve	**(5.0)**	**(5.0)**	**(2.9)**	**(4.9)**	**(5.5)**	**(6.0)**	**(6.5)**			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	**(5.0)**	**(5.0)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Adjustment for Pension Assets	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**(3.5)**	**(2.8)**	**(0.5)**	**(2.2)**	**(2.6)**	**(3.1)**	**(3.6)**			
Note: Numbers may not align with report due to rounding.										
*** Program Expense excluding Adjustment for Pension Assets (captured on line below)**										

Comparison: 2016 Fall FAO Outlook Compared to 2017 Spring FAO Outlook										
								Avg. Annual Growth		
	Actual		Outlook					16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
FAO Fall 2016 Report										
Revenue	128.4	129.9	135.9	139.7	144.2	149.1		3.5%		
Expense										
Program Expense*	122.4	123.9	127.2	130.9	135.3	139.9		3.0%		
Interest on Debt	11.0	11.2	11.3	11.6	12.2	12.9		2.9%		
Total Expense	133.4	135.1	138.5	142.5	147.5	152.8		3.0%		
Surplus/(Deficit) Excl. Reserve	**(5.0)**	**(5.2)**	**(2.6)**	**(2.8)**	**(3.3)**	**(3.7)**				
Reserve	-	-	n/a	n/a	n/a	n/a				
Surplus/(Deficit)	**(5.0)**	**(5.2)**	**n/a**	**n/a**	**n/a**	**n/a**				
Net Debt	305.2	318.5	330.5	343.8	356.8	369.7				
Adjustment for Pension Assets	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)				
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**(3.5)**	**(3.7)**	**(1.1)**	**(1.3)**	**(1.8)**	**(2.2)**				
Change - FAO Fall 2016 Report to Spring 2017 Report										
Revenue	-	*2.1*	*4.4*	*2.1*	*1.3*	*1.8*				
Expense										
Program Expense *	-	*1.9*	*4.6*	*4.0*	*3.5*	*3.9*				
Interest on Debt	-	*0.1*	-	*0.1*	*0.1*	*0.2*				
Total Expense	-	*2.0*	*4.6*	*4.1*	*3.6*	*4.1*				
Surplus/(Deficit) Excl. Reserve	***0.0***	***0.2***	***(0.3)***	***(2.1)***	***(2.3)***	***(2.3)***				
Reserve	-	-	*n/a*	*n/a*	*n/a*	*n/a*				
Surplus/(Deficit)	***0.0***	***0.2***	***n/a***	***n/a***	***n/a***	***n/a***				
Net Debt	*(0.0)*	*(2.4)*	*(1.0)*	*2.6*	*8.6*	*9.7*				
Adjustment for Pension Assets	-	(0.7)	(0.8)	(1.1)	(1.4)	(1.4)				
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**-**	**0.9**	**0.6**	**(0.9)**	**(0.8)**	**(0.9)**				
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	122.4	125.7	131.8	134.9	138.8	143.8	149.0	3.4%	3.6%	3.5%
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	133.4	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve	**(5.0)**	**(5.0)**	**(2.9)**	**(4.9)**	**(5.5)**	**(6.0)**	**(6.5)**			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	**(5.0)**	**(5.0)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Adjustment for Pension Assets	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**(3.5)**	**(2.8)**	**(0.5)**	**(2.2)**	**(2.6)**	**(3.1)**	**(3.6)**			

Note: Numbers may not align with report due to rounding.

*** Based on AG recommended accounting treatment with adjustment for net pension assets.**

Guide to Section 13 of FIPPA

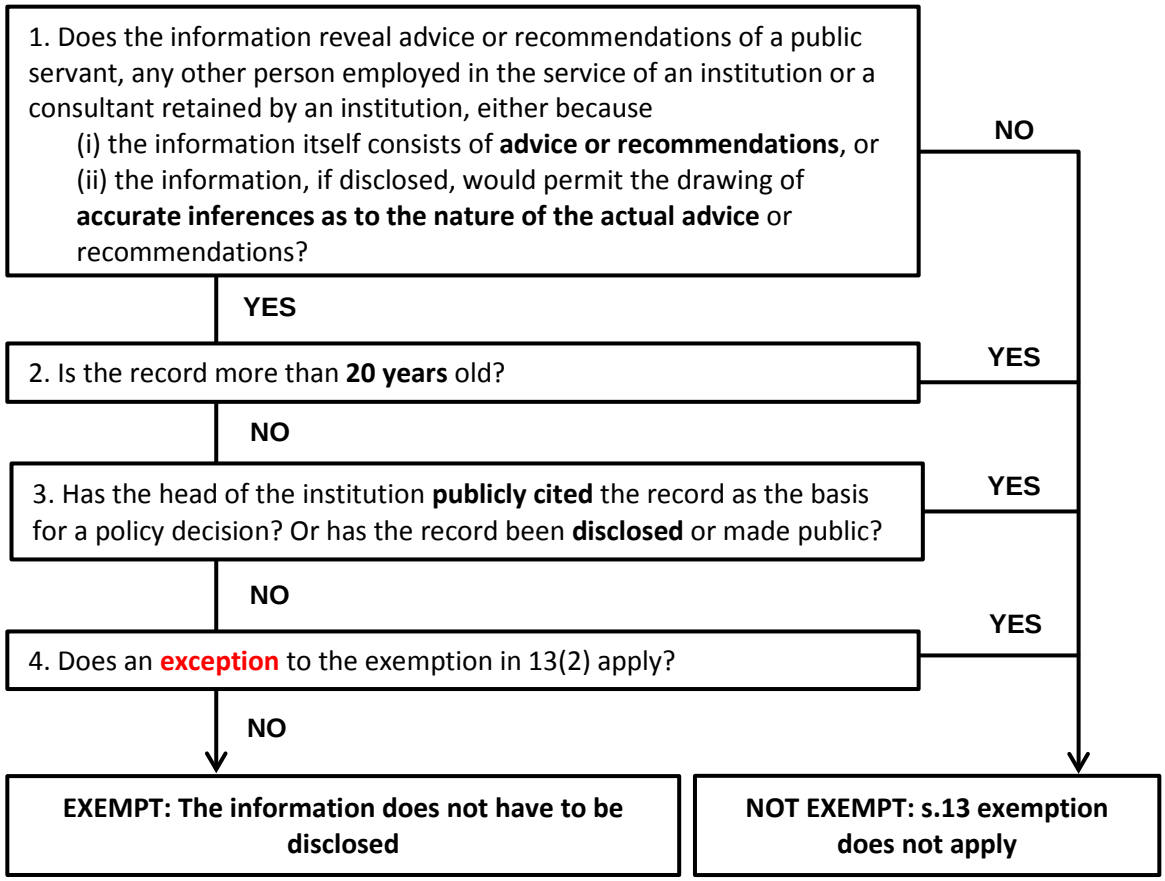
Summary

Subsection 13(1) of FIPPA provides for a **discretionary exemption** permitting an "institution" (i.e. the Ministry of Finance) to refuse to disclose information that "would reveal **advice or recommendations** of a public servant, any other person employed in the service of an institution or a consultant retained by an institution". However, if the information falls into one of the categories listed in subsections (2) or (3), it cannot be withheld under subsection 13(1).

Importantly, if only a portion of the record is exempt from disclosure under section 13, the record may be disclosed with that information be severed and redacted.

This guide applies to the application of the section 13 exemption, not to other possible exemptions in FIPPA.

To determine whether the section 13 exemption applies to a record or part of a record, consider the following flowchart. See the following pages for further details.



This guide is intended for informative purposes only; it is not legal advice. Not to be distributed externally.

1. Does the record reveal <u>advice or recommendations</u> of a <u>public servant, any other person employed in the service of an institution or a consultant retained by an institution</u>, either because

(i) the information itself consists of advice or recommendations, or

(ii) the information, if disclosed, would permit the drawing of accurate inferences as to the nature of the actual advice or recommendations?

"**Recommendations**" refers to material that relates to a suggested course of action that will ultimately be accepted or rejected by the person being advised, and can be express or inferred.

"**Advice**"

- Has a broader meaning than "recommendations".
- Includes "**policy options**", i.e. lists of alternative courses of action relating to a decision to be made even if they do not include a specific recommendation on which option to take.
- An evaluation or analysis of information.
- May include:
  - Advantages/disadvantages of each option;
  - List of all alternatives provided by person awaiting further instructions from the decision maker for which options should be considered in depth; or
  - Advantages/disadvantages perceived as being obvious or have already been canvassed already or in a prior draft, where options may appear without any additional explanation.
- The advice did not have to be communicated to a decision-maker – it only must have been ascertainable at the time the advice/recommendations were prepared that it was in fact advice/recommendations.
- Must be proximate to the decision-maker, for the benefit of the institution, and not for the benefit of third parties.

Notes:

- Drafts/earlier versions can qualify for the section 13 exemption, if the criteria in the flowchart above are satisfied.
- The following information likely does <u>not</u> qualify under section 13: information prepared for public dissemination, factual/background information (see below)

"**Public servant**", "**Person employed in the service of an institution**", or "**Consultant retained by an institution**":

- Includes:
  - Employees of an institution subject to FIPPA, and employees of other Canadian governments and institutions that fall under the umbrella of "the Crown".
- Does <u>not</u> include:
  - Third parties outside government who are not consultants.
  - Third parties in a contractual relationship with an institution not in the nature of a consultant relationship.
  - Consultants with no formal engagement with the institution for professional services (though formal engagement does not require a payment of a fee).

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2. Is the record more than 20 years old?

- If the record is over 20 years old, the section 13 exemption no longer applies.

3. Has the head of the institution cited the record as the basis for a policy decision? Or has the record been disclosed or made public?

- Exemption only applies where the institution, not a third party, claims its reliance on the record. Exemption cannot apply if the advice or recommendations have been publicly disclosed.

4. Does an exception to the exemption in 13(2) apply?

Factual material does not qualify for the section 13 exemption

- Factual material is a coherent body of facts separate and distinct from the advice and recommendations contained in the record.
- However, if the facts are so interwoven with the advice/recommendation that it cannot reasonably be considered a separate and distinct body of fact and cannot reasonably be severed, then it does not have to be disclosed.

A record or part of a record does not qualify for the section 13 exemption if it is:

- a **statistical survey**,
- a **formal valuator report** (i.e. a formal statement or account of the results of the collation and consideration of information, and generally would not include mere observations or recordings of fact),
- an **environmental impact statement** or similar record,
- a **product test report** for government equipment testing or consumer test,
- a **performance or efficiency report** or study of an institution,
- a government policy or **project feasibility** or other technical study (incl. a cost estimate),
- a **results report of field research** undertaken before the formulation of a policy proposal,
- a **final plan or proposal to change a program** or establish a new program (incl. a budgetary estimate), whether or not it is subject to approval, unless it is to be submitted to the Executive Council or its committees,
- a report of an interdepartmental committee task force or similar body, or of a committee or task force within an institution, which has been established for the purpose of preparing a **report on a particular topic**, unless the report is to be submitted to the Executive Council or its committees,
- a **report of a committee**, council or other body attached to an institution, which has been established for the purpose of undertaking inquiries and making reports/recommendations to the institution,
- the **reasons for a final decision of the institution** made during/at the end of the exercise of discretionary power conferred by/under an enactment/scheme administered by the institution, whether or not the enactment/scheme allows an appeal to be taken against the decision, whether or not the reasons (i) are contained in an internal memo of the institution or in a letter addressed to a named person, or (ii) were given by the decision-maker or were incorporated by reference into the decision.

From: Anna Strathy
To: Ken Kandeepan
Subject: FW: Response to FOI Request A-17-136 - FAO Projections
Date: Wednesday, October 04, 2017 9:50:33 AM
Attachments: CIN FAO EFO - Spring 2017_Redacted_Oct3.pdf
FAO EFO Report_Summary_Redacted_Oct3.pdf
FIPPA Section 13 Guide November 2016 - Client.pdf

Hi Ken,

Office of the Budget would like us to review the attached CIN and Report Summary that will be released in response to an FOI request for notes prepared for the DM and Minister of Finance on the FAO's 2017 Budget report. There's not a lot here for us, but several mentions of debt and IOD forecasts (see Expense Assumptions, Debt Outlook, and Risks). Let me know if there's any concerns, if anything needs to be redacted in accordance with FIPPA.

Note deadline of 3pm today.

Thanks, Anna

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Wednesday, October 04, 2017 8:56 AM
To: Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>
Cc: Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Jacob Hadwen (MOF) <Jacob.Hadwen@ontario.ca>; Giulio Rubini (MOF) <Giulio.Rubini@ontario.ca>
Subject: Response to FOI Request A-17-136 - FAO Projections

Hi Ghufran and Anna,

The FOI Office sent Office of the Budget an information request related to analysis on FAO projections. The clarified request follows:

> **"…all analysis (Briefing notes and Slide decks) prepared for the Minister of Finance or the Deputy Minister of Finance regarding the Financial Accountability Officer's report on 2017 Ontario Budget".**

To respond to this request, we're planning to share the attached Briefing Note and CIN that our divisions prepared for the Minister and Deputy Minister after the release of the FAO's Spring Economic and Fiscal Outlook back in late May. We chose to **redact *only* sections** of these notes that include any **analysis based on non-public documents & information** (2017 Budget, the Spring 2017 and Fall 2016 FAO reports) as per section 13 exemption under the FIPPA.

Could you please review the attached an advise if you have any concerns with the sections currently marked for redaction or if you suggest including any additional redactions **by 3pm today (if possible)**?

Let me know if you have any questions.

Thanks,
Ryan

From: Sharda, Ritvik (MOF)
Sent: September-15-17 9:38 AM
To: Birks, Ryan (MOF)
Subject: RE: A-17-136 - FAO Projections

Hi Ryan,

Our office has received clarification for the request.

Clarified Request: Please provide all analysis (Briefing notes and Slide decks) prepared for the Minister of Finance or the Deputy Minister of Finance regarding the Financial Accountability Officer's report on 2017 Ontario Budget.

CLARIFICATION
If further clarification is required from the requester, **please contact our office as soon as possible to discuss**

Request received: August 21, 2017

Clarification received: September 14, 2017

Final recommendation due: **September 29, 2017**

If you have any questions, please feel free to contact me.

Best,

Ritvik
5-3849

From: Sharda, Ritvik (MOF)
Sent: August-21-17 5:19 PM
To: Birks, Ryan (MOF)
Subject: A-17-136 - FAO Projections

The Ministry has received an access to information request (attached) under the *Freedom of Information and Protection of Privacy Act* (the *Act*). This request has been classified as **contentious.** Your Division/Program Area has been identified as a potential holder of all, or part of the records that have been requested. Please advise our office if you believe that the

request should be directed to any other Divisions.

CLARIFICATION

If further clarification is required from the requester, **please contact our office as soon as possible to discuss.**

Request received: August 21, 2017

Final recommendation due: **September 5, 2017**

Documentation required:

- Recommendation Memo
- Index of Records *(to be shared with the requester)*
- TWO electronic copies of the records (A clean version and a version with the marked redactions)
- Fee/Cost Administration Form
- Approved Briefing Note

*****PLEASE NOTE – if during the preliminary review for the records you identify the request is voluminous and the fees will be over $100, please provide the initial review memo and fee/cost administration form.***

The FOI forms are available on our intranet site:
http://intra.net.gov.on.ca/fin-cqsd/bsb/foi/resources/

For more information regarding the *Act*, go to:
http://www.e-laws.gov.on.ca/html/statutes/english/elaws_statutes_90f31_e.htm

If you have any questions, please feel free to contact me.

Best,

Ritvik
5-3849

May 31, 2017

FAO's Spring 2017 Economic and Fiscal Outlook

On May 31, 2017, the FAO released its spring 2017 assessment of Ontario's medium-term economic and fiscal outlook. The FAO is projecting budget deficits in all years between 2016–17 and 2021–22. The report states that while balance is within reach in 2017–18, significant fiscal adjustments will likely be required to maintain budget balance through the outlook.

TOP MESSAGES

- I would like to thank the Financial Accountability Officer (FAO) for releasing his spring economic and fiscal outlook for Ontario. We value the FAO's independent assessment and projections of the province's fiscal plan.
- As outlined in the 2017 Budget, the government is projecting a balanced budget for 2017–18 and to remain balanced in 2018–19 and 2019–20.
- The government has a strong track record of beating its fiscal targets. In fact, for the 2016–17 fiscal year, the government is forecasting a deficit of $1.5 billion, beating our annual deficit target again, for the eighth year in a row.
- This Budget builds on the government's track record of fiscal management that has resulted in $29 billion in accumulated deficits being avoided over the past seven years, relative to the 2010 Budget forecast.
- We are also targeting a net debt-to-GDP ratio of 35 per cent by 2023–24 and reducing Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029–30.
- Ontario has recorded stronger economic growth than Canada and all other G7 countries over the 2014 to 2016 period, with real GDP rising 2.6 per cent a year.
- Private-sector forecasters expect Ontario will remain one of the fastest growing provinces over the next two years. It should be noted that the FAO's real GDP projections are modestly stronger than the 2017 Budget outlook over the 2017 to 2020 period.
- For prudent fiscal planning, the Province's real GDP growth projections are slightly below the average of private-sector forecasts. In fact, three economic experts also reviewed these economic assumptions and found them to be reasonable.
- This shows that our plan to make strategic investments in Ontario to grow the economy is working.
- It is also important to note that the FAO affirmed key aspects of the Budget plan, including projecting that a balanced budget is within reach for Ontario in 2017–18 and that the net debt-to-GDP ratio is on a downward trend.

- A balanced budget is providing the Province the fiscal flexibility to invest more in health care, education and other public services that matter most to Ontario families. It also adds stability to Ontario's finances and positions the government to better respond to demographic challenges and unexpected global economic shocks that the province will face over the next decade.

ADDITIONAL MESSAGES

Program Review

- The government is building on the success of recent initiatives to support the Province's fiscal objectives by expanding the review of current programs to identify opportunities for modernization and to ensure that expense growth is managed within the plan laid out in the Budget. Ontario has the lowest program spending per capita of all provinces and territories.

Pensions

- To help inform the future accounting treatment of pension plans the government appointed the Pension Asset Expert Advisory Panel last November. This Panel included experts from the accounting, legal and actuarial professions.
- The panel recommended that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan be recognized as an asset in Ontario's financial statements, and is consistent with how accounting standards have been applied to these plans since 2001.
- This accounting treatment was used to inform the fiscal outlook presented in the 2017 Budget.

Debt

- A DBRS report on the 2017 Budget stated that "The Province will continue borrowing to fund its capital needs, but the debt burden as a share of the economy is projected to track lower over the medium term with economic growth outpacing debt growth."

KEY QUOTES FROM FAO REPORT

Economic Outlook

"The FAO's economic outlook expects the recent strength of the Ontario economy to continue into 2017 … The FAO's economic forecast is broadly in-line with that presented in the government's 2017 Budget." (p. 2)

"Domestically, Ontario's surging housing market continues to be the largest risk for the economy." (p.2)

"Uncertainty over the future direction of U.S. trade and industrial policy could hamper business investment growth in the near term, which would negatively impact Ontario's competitiveness. Without stronger business sector investment to expand production capacity, the growth potential of several key Ontario industries will be limited." (p.10)

Fiscal Outlook

"Beyond 2017-18, the deficit is projected to deteriorate steadily due to rising expenses and moderate revenue growth. On this basis, staying in balance after 2017-18 will likely require additional fiscal policy measures." (p.2)

"The FAO's net debt-to-GDP projections under both accounting presentations, suggest that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24." (p.22)

"In the 2017 Budget, the government significantly reduced the prudence built into its program spending projection compared to the 2016 Budget, leaving less fiscal flexibility for the government to respond to unexpected events." (p.23)

Ontario's Debt Outlook

"Based on the FAO's application of the Auditor General's recommended accounting for these pension assets, the FAO is projecting a budget deficit of $2.9 billion for 2017-18, rising to $6.5 billion by 2021-22 … Under the government's accounting presentation, the FAO is projecting a budget deficit of $0.5 billion in 2017-18, growing to $3.6 billion by 2021-22." (p.15)

"Ontario's total borrowing requirements are expected to remain high over the outlook. To finance the cost of projected capital spending, on-going deficits and maturing debt issues the FAO estimates that provincial borrowing will average $37 billion per year over the next five years." (p.21)

CURRENT STATUS

The Financial Accountability Officer (FAO) released a report on Wednesday, May 31, 2017, that assesses Ontario's medium-term economic and fiscal outlook. The FAO plans to release these medium-term outlook reports each spring and fall.

In compliance with the *Financial Accountability Officer Act, 2013*, the FAO provided a copy of the final report to the Ministers of Finance and Treasury Board prior to the release.

REPORT SUMMARY

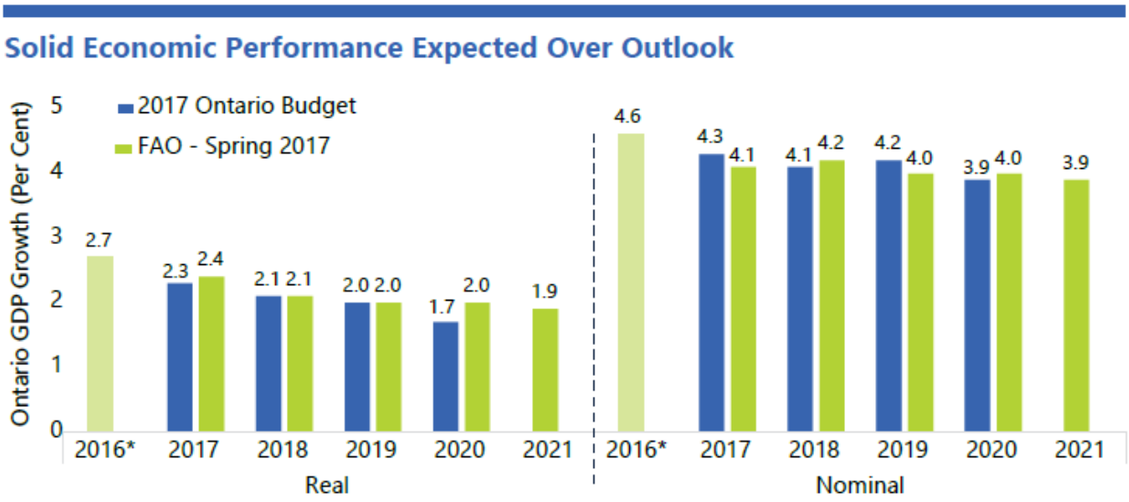
The report is divided into two main chapters:

1) The **Economic Outlook** chapter presents the FAO forecast for Ontario's economy out to 2021, and includes a discussion of potential risks.

2) The **Fiscal Outlook** chapter presents the FAO forecast for revenue, expense and the surplus/deficit between 2016-17 and 2021-22.

Economic Outlook

- The FAO has left its forecast for Ontario real GDP growth little changed, on average, over the 2017 to 2020 period relative to its fall forecast, though it included a modest downward revision in 2017 and upward revision in 2019.
- The FAO forecast is broadly consistent with the private sector economists' view that stronger international exports and business investment will be key drivers of Ontario's overall economic growth over the next several years.
- The FAO forecast for real GDP growth is 0.1 percentage points stronger annually, on average, than the 2017 Budget forecast between 2017 and 2020.
- The FAO believes the balance of the risks to the economic outlook is tilted to the downside, particularly risks associated with a correction in Ontario's housing market. (p. 13).



* 2016 are actuals.

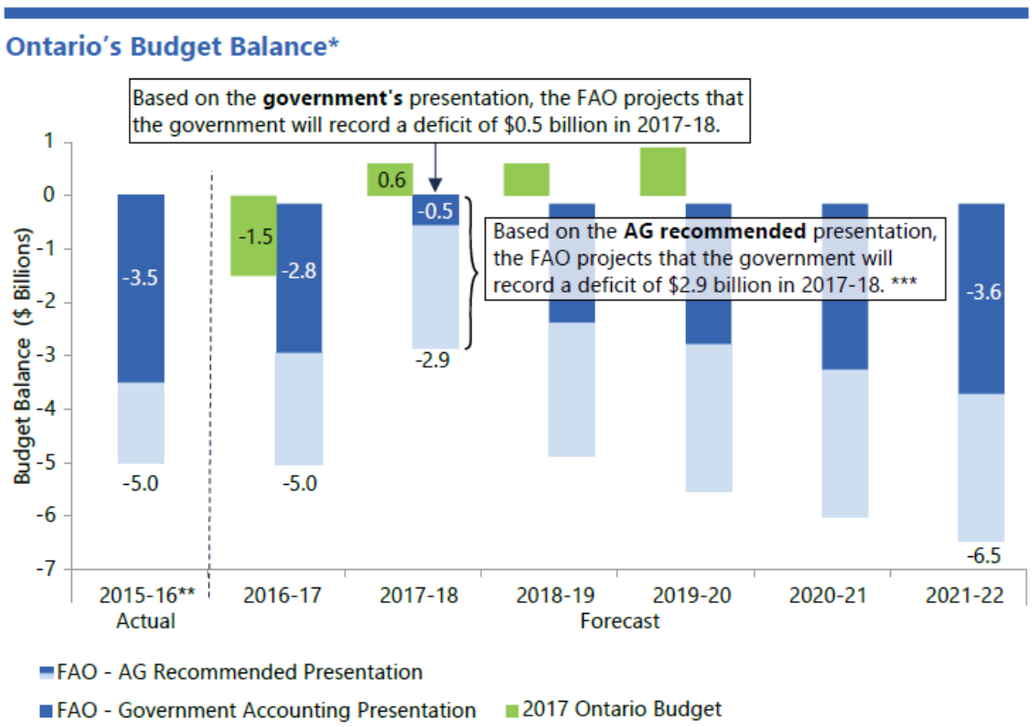
Source: Ontario Economic Accounts, 2017 Ontario Budget and FAO.

Fiscal Outlook

- The FAO's current projection of the outlook for budget balance has generally deteriorated relative to the FAO's fall 2016 projection and continues to present a gap against the government's balanced budget projections.
- **Using the government's accounting treatment of net pension assets** the FAO is projecting budget deficits of $2.8 billion in 2016–17, $0.5 billion in 2017–18, $2.2 billion in 2018–19, and $2.6 billion by 2019–20 (excluding the reserve). This represents an improvement in the deficit for 2016–17 and 2017–18, but deterioration over the outlook compared to the FAO's fall report.
    - By comparison, the 2017 Budget projects a $1.5 billion deficit in 2016–17 and surpluses of $0.6 billion in 2017–18 and 2018–19, and a $0.9 billion surplus in 2019–20, excluding the reserve. The FAO also makes projections out to 2021–22 with increasing deficits forecast for those years as well.
    - The FAO suggests that a balanced budget is "within the government's reach in 2017–18" when using the government's accounting method, however "staying in balance after 2017-18 will likely require additional fiscal policy measures"(p.1).

- The FAO notes that under this accounting presentation, Ontario's Public Accounts would be expected to receive a qualified opinion from the Auditor General.

- The FAO's forecast, **based on the Auditor General's recommended accounting treatment of jointly-sponsored pension plans**, projects deficits of $5.0 billion in 2016–17, $2.9 billion in 2017–18, $4.9 billion in 2018–19, and $5.5 billion by 2019–20 (excluding the reserve). Compared to the FAO's fall report, this represents a slight improvement in the deficit for 2016–17 but deterioration in 2017–18 and over the outlook.
    - The FAO notes that "on this basis, it is unlikely that the government will balance the budget without significant fiscal policy adjustments to raise revenue or lower expense" (p. 1).
- For 2016–17 the FAO is forecasting a deficit of $2.8 billion (or $5.0 billion with the pension adjustment) compared with the government's $1.5 billion interim projection.
- The FAO's asserts that its projection for an improved deficit in 2017–18 is due to robust economic performance and strong tax revenue growth in 2016 and 2017, compared to the FAO's fall estimates, and a one-time revenue increase in 2017–18 from increased federal transfers for infrastructure, additional revenue from asset sales and cap and trade proceeds. (p. 1 &19).
- Beginning in 2018-19, the FAO projects that the deficit will gradually deteriorate due to moderate revenue growth, the absence of one-time non-tax measures, and higher program expenses. (p. 16).



* Budget balance before reserve.

** Ontario's 2015-16 Public Accounts reported a deficit of $5.0 billion. Without the pension adjustment, the deficit would have been $3.5 billion.

*** This includes the FAO's estimate of the pension adjustment.

Source: 2015-16 Public Accounts, 2017 Ontario Budget and FAO.

Revenue Assumptions

- Compared to the 2017 Budget, the FAO's projected total revenue is lower mostly because of taxation revenue and, to a lesser extent, Federal Transfers.

FAO less Ontario 2017 Budget Outlook ($ Billions)					
	2016-17	2017-18	2018-19	2019-20	Average
Taxation Revenue	-1.2	-1.4	-2.3	-3.0	-2.0
Government of Canada Transfers	-0.1	0.0	-0.8	-0.8	-0.4
Government Business Enterprises	0.0	0.0	0.0	0.0	0.0
Other Non-Tax Revenue	0.0	0.0	0.0	0.0	0.0
Total Revenue	**-1.2**	**-1.4**	**-3.1**	**-3.7**	**-2.4**

    - FAO's projection for the composition of nominal GDP such as compensation of employees, net operating surplus and household consumption, are all lower than the 2017 Budget projection.
    - The 2017 Budget assumed higher yields from CIT and HST compared to recent projections, reflecting recent tax revenue performance. These yields also exceed those assumed by the FAO.
    - The FAO projection for PIT is consistently lower than the 2017 Budget, partly due to their assumptions regarding tax planning that may have occurred in 2015 by high-income earners. Whereas the 2017 Budget only included an allowance for PIT planning in 2016-17, the FAO estimates that roughly $600 million of Ontario's 2015 PIT revenue was due to income shifting, which lowers taxable income in 2016-17 and 2017-18.
- The FAO's federal transfer outlook is lower than assumed in the 2017 Ontario Budget, probably due to FAO's assumption that Ontario will no longer receive Equalization payments starting in 2019-20 as Ontario's fiscal capacity improves relative to other provinces.
- The FAO's government business enterprise net income outlook and other non-tax revenue is the same as reported in the 2017 Budget.

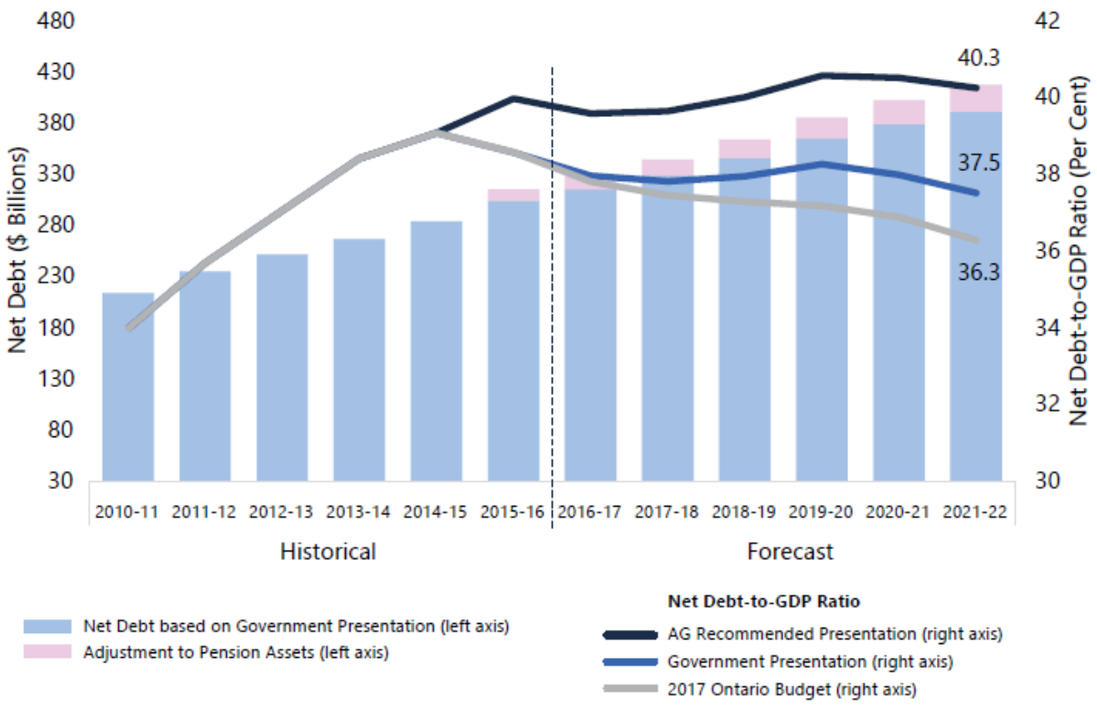
Expense Assumptions

- The FAO assumes the same program expense outlook as the 2017 Budget up to 2019–20, adjusted to reflect the Auditor General's recommended accounting treatment for jointly sponsored pension plans.(p. 20).
- The FAO's expense outlook includes new spending commitments announced in the 2017 Budget including the new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan. This results in average annual growth in program expense of 3.3 per cent between 2016–17 and 2021–22 – slightly below the growth in underlying cost and demographic pressure, which is estimated to be 3.6 per cent on average.
- The FAO projects that Ontario's interest on debt (IOD) payments will grow at an average annual rate of 4.0 per cent from $11.0 billion in 2015–16 to $13.9 billion by 2021–22, reflecting higher debt and rising interest rates over the outlook. The FAO forecasts that IOD will outpace the growth in program expense over the outlook. (p. 21).
- The FAO's projection for IOD expense is lower than the 2017 Budget projections.
- According to the FAO, interest on debt is expected to increase from 8.1per cent of revenues in 2017–18 to 8.9 per cent by 2021–22. Over the past five years IOD as a share of revenues declined steadily, benefitting from declining interest rates. The FAO argues that this ratio is expected to rise sharply due to projected interest rate increases. (p. 21 – Fiscal Chapter).

Debt Outlook

- Using the government's accounting method, the FAO expects net debt to increase by $62 billion over the next five years to $365 billion by 2021–22 or 37.5 per cent of GDP, above the 2017 Budget projection of 36.3 per cent.
- Under the Auditor General's recommended accounting treatment of jointly-sponsored pension plans, the FAO expects Ontario's net debt to rise by $76 billion to $392 billion by 2021–22 or 40.3 per cent of GDP, this represents a slightly lower net debt-to-GDP ratio over the plan and outlook period when compared to the FAO's fall forecast.
- The FAO's net debt-to-GDP projections under both accounting presentations, suggests that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24. (p. 22).

Ontario's Net Debt-to-GDP Ratio



Source: FAO, Ontario Economic Accounts, and 2017 Ontario Budget.
Note: AG recommended presentation is based on FAO estimates of the pension adjustment.

Accounting Treatment

- The FAO's spring outlook includes a detailed section on the different accounting interpretations for net pension assets of jointly sponsored pension plans (Ontario Teachers' Pension Plan and the Ontario Public Service Employees Union Pension Plan) used by the government and the Auditor General.
- While the FAO presents analysis based on both interpretations of the accounting treatment, the report states that "the Officer looks to the Auditor General as the provincial authority on the appropriate interpretation and application of accounting standards for the Province" (p.27).
- Furthermore, the FAO states that in the absence of a written agreement between the co-sponsors of the pension plans, the Auditor General would be expected to provide a qualified opinion on Ontario's 2016-17 Public Accounts.

Risks and Policy Options

- The FAO notes the following risks to Ontario's fiscal plan (p. 23):
    - A housing market correction could pose a significant risk for both the broader economy and the fiscal plan through lower taxation revenues
    - Reduced prudence built into program spending in the 2017 Budget compared to the previous budget – reducing flexibility for the government to respond to unexpected events
    - Interest on debt payments are expected to increase, exposing the government to fiscal risk should interest rates rise faster than expected
- Although the FAO projects deficits, the report notes that the government has a broad range of policy options that could improve the Province's fiscal position, including selling additional public assets beyond announced targets.

APPENDIX A – Detailed Comparison of Outlooks

Key factors driving change since the 2016 FAO fall report:

- Increases in Provincial tax revenue of $2.8 billion in 2016–17 and $4.2 billion in 2017–18 (stronger than expected PIT revenue) due to improving economic growth in 2017
- Declines in Ontario's equalization entitlement. Beyond 2018–19, the FAO is projecting that Ontario will no longer be entitled to Equalization payments – a reflection of the continued strength of the Ontario economy
- Significant new spending across all sectors, including a new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan
- Revised estimates for net pension asset expense of jointly sponsored pension plans

Developments since Fall 2016 EFO (AG Recommended Presentation)

	2016-17	2017-18	2018-19	2019-20	2020-21
FAO's Fall 2016 Budget Balance Forecast	**-5.2**	**-2.6**	**-2.8**	**-3.3**	**-3.7**
Developments Since Fall 2016					
Revenue					
Stronger Economic Outlook	2.3	4.1	3.9	4.4	4.7
Lower Federal Transfers[1]	-0.3	0.2	-1.3	-2.4	-2.2
Other Revenue Changes[2]	0.1	0.1	-0.5	-0.6	-0.6
Total	2.1	4.4	2.1	1.3	1.8
Expense					
Higher Spending, including Children and Youth Pharmacare, and Fair Hydro Plan	1.2	3.8	3.0	2.2	2.7
Revised Adjustment for Pension Asset[3]	0.7	0.8	1.1	1.4	1.4
Total	2.0	4.6	4.1	3.6	4.1
Total Developments	**0.2**	**-0.3**	**-2.1**	**-2.3**	**-2.3**
FAO's Spring 2017 Budget Balance Forecast	**-5.0**	**-2.9**	**-4.9**	**-5.5**	**-6.0**

Notes:

1. Change in federal transfers forecast mainly due the reduction in Ontario's Equalization payment.
2. Other revenue changes include the $0.5 billion re-profiling of cap-and-trade proceeds from 2016-17 to 2017-18, and an increase in sales and rentals for 2017-18.
3. In the Fall 2016 EFO, the FAO assumed an annual adjustment of $1.5 billion for the net pension assets of jointly sponsored pension plans. The current projection incorporates the FAO's updated estimates for the pension adjustment of $2.2 billion in 2016-17, increasing to $2.9 billion by 2020-21.

Source: FAO.

Revenue Assumptions:

- Compared to the FAO's fall forecast, from 2016-17 to 2019-20, on average, total revenue is projected to be $2.5 billion higher annually mostly because of higher taxation revenue, partially offset by lower Federal Transfers and other Non-Tax revenues.

FAO Revenue Difference (Spring 2017 less Fall 2016)					
$ Billions	2016-17	2017-18f	2018-19f	2019-20f	Annual Average
Taxation Revenue	**2.8**	**4.2**	**4.4**	**4.9**	**4.1**
Government of Canada Transfers	-0.4	0.2	-1.3	-2.4	-1.0
Government Business Enterprises	0.3	-0.4	0.0	0.1	0.0
Other Non-Tax Revenue	-0.6	0.4	-1.1	-1.3	-0.7
Total Non-Tax Revenue	**-0.7**	**0.2**	**-2.4**	**-3.6**	**-1.6**
Total Revenue	**2.1**	**4.4**	**2.1**	**1.4**	**2.5**

- Taxation revenues are projected to be, on average, $4.1 billion higher annually due to stronger economic growth as nominal GDP growth is, on average, projected to be 0.4 percentage points higher annually.
- More specifically, corporate profits are projected to be 3.3 percentage points higher annually, boosting Corporations Tax revenue. Higher labour income is expected to raise Personal Income Tax revenue while Ontario's strong housing market boosts Sales Tax and Land Transfer Tax revenues.
- Lower Federal Transfers reflects mostly the FAO's projection that Ontario will no longer be entitled to Equalization payments beyond 2018-19.
- Non-Tax revenues are lower, mainly because of the revisions to the multi-year asset optimization target to reflect the progress made so far and revised projections for Carbon allowance proceeds.

Comparison: 2017 Budget Fiscal Outlook and the 2017 Spring FAO Outlook										
								Avg. Annual Growth		
	Actual		Outlook					16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
2017 Budget										
Revenue	128.4	133.2	141.7	144.9	149.3			3.9%		
Expense										
Program Expense*	120.9	123.5	129.5	132.3	135.8			3.2%		
Adjustment for Pension Assets	-	-	-	-	-					
Interest on Debt	11.0	11.3	11.6	12.0	12.6			3.9%		
Total Expense	131.9	134.8	141.1	144.3	148.4			3.3%		
Surplus/(Deficit) Excl. Reserve	**(3.5)**	**(1.5)**	**0.6**	**0.6**	**0.9**					
Reserve	-	-	0.6	0.6	0.9					
Surplus/(Deficit)	**(3.5)**	**(1.5)**	**0.0**	**0.0**	**0.0**					
Net Debt	294.6	301.9	311.9	323.3	335.9					
Change - 2017 Budget to FAO Spring 2017 Report										
Revenue	-	*(1.2)*	*(1.4)*	*(3.1)*	*(3.7)*					
Expense										
Program Expense *	-	-	-	-	-					
Adjustment for Pension Assets	*1.5*	*2.2*	*2.3*	*2.6*	*2.9*					
Interest on Debt	-	-	*(0.3)*	*(0.3)*	*(0.3)*					
Total Expense	*1.5*	*2.2*	*2.0*	*2.3*	*2.7*					
Surplus/(Deficit) Excl. Reserve	***(1.5)***	***(3.5)***	***(3.5)***	***(5.5)***	***(6.4)***					
Reserve	-	-	*n/a*	*n/a*	*n/a*					
Surplus/(Deficit)	***(1.5)***	***(3.5)***	***n/a***	***n/a***	***n/a***					
Net Debt	*10.6*	*14.2*	*17.6*	*23.1*	*29.5*					
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	120.9	123.5	129.5	132.3	135.8	140.9	146.1	3.2%	3.7%	3.4%
Adjustment for Pension Assets	1.5	2.2	2.3	2.6	2.9	2.9	2.9			
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	133.4	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve	**(5.0)**	**(5.0)**	**(2.9)**	**(4.9)**	**(5.5)**	**(6.0)**	**(6.5)**			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	**(5.0)**	**(5.0)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Adjustment for Pension Assets	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**(3.5)**	**(2.8)**	**(0.5)**	**(2.2)**	**(2.6)**	**(3.1)**	**(3.6)**			
Note: Numbers may not align with report due to rounding.										
*** Program Expense excluding Adjustment for Pension Assets (captured on line below)**										

Comparison: 2016 Fall FAO Outlook Compared to 2017 Spring FAO Outlook										
								Avg. Annual Growth		
	Actual		Outlook					16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
FAO Fall 2016 Report										
Revenue	128.4	129.9	135.9	139.7	144.2	149.1		3.5%		
Expense										
Program Expense*	122.4	123.9	127.2	130.9	135.3	139.9		3.0%		
Interest on Debt	11.0	11.2	11.3	11.6	12.2	12.9		2.9%		
Total Expense	133.4	135.1	138.5	142.5	147.5	152.8		3.0%		
Surplus/(Deficit) Excl. Reserve	**(5.0)**	**(5.2)**	**(2.6)**	**(2.8)**	**(3.3)**	**(3.7)**				
Reserve	-	-	n/a	n/a	n/a	n/a				
Surplus/(Deficit)	**(5.0)**	**(5.2)**	**n/a**	**n/a**	**n/a**	**n/a**				
Net Debt	305.2	318.5	330.5	343.8	356.8	369.7				
Adjustment for Pension Assets	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)				
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**(3.5)**	**(3.7)**	**(1.1)**	**(1.3)**	**(1.8)**	**(2.2)**				
Change - FAO Fall 2016 Report to Spring 2017 Report										
Revenue	-	*2.1*	*4.4*	*2.1*	*1.3*	*1.8*				
Expense										
Program Expense *	-	*1.9*	*4.6*	*4.0*	*3.5*	*3.9*				
Interest on Debt	-	*0.1*	-	*0.1*	*0.1*	*0.2*				
Total Expense	-	*2.0*	*4.6*	*4.1*	*3.6*	*4.1*				
Surplus/(Deficit) Excl. Reserve	***0.0***	***0.2***	***(0.3)***	***(2.1)***	***(2.3)***	***(2.3)***				
Reserve	-	-	*n/a*	*n/a*	*n/a*	*n/a*				
Surplus/(Deficit)	***0.0***	***0.2***	***n/a***	***n/a***	***n/a***	***n/a***				
Net Debt	*(0.0)*	*(2.4)*	*(1.0)*	*2.6*	*8.6*	*9.7*				
Adjustment for Pension Assets	-	(0.7)	(0.8)	(1.1)	(1.4)	(1.4)				
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**-**	**0.9**	**0.6**	**(0.9)**	**(0.8)**	**(0.9)**				
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	122.4	125.7	131.8	134.9	138.8	143.8	149.0	3.4%	3.6%	3.5%
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	133.4	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve	**(5.0)**	**(5.0)**	**(2.9)**	**(4.9)**	**(5.5)**	**(6.0)**	**(6.5)**			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	**(5.0)**	**(5.0)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Adjustment for Pension Assets	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**(3.5)**	**(2.8)**	**(0.5)**	**(2.2)**	**(2.6)**	**(3.1)**	**(3.6)**			
Note: Numbers may not align with report due to rounding.										
*** Based on AG recommended accounting treatment with adjustment for net pension assets.**										

Financial Accountability Officer Report: Spring Economic and Fiscal Outlook

Draft – May 30, 2017 6:00 PM

ISSUE

- The Financial Accountability Officer (FAO) will be releasing a report on May 31, which assesses Ontario's medium-term economic and fiscal outlook.
- This represents the spring update to the FAO's planned release of semi-annual medium-term outlook reports.
- The spring report incorporates economic and fiscal information released since the FAO's fall 2016 report (released November 3, 2016). This includes:
    - New economic data that impacts their revenue and interest on debt outlooks; and
    - New spending commitments from the 2017 Budget.
- The FAO has presented two fiscal projections in its spring report:
    1. A projection that includes the impact of the net pension assets of jointly sponsored pension plans, based on the Auditor General's recommended accounting treatment, and
    2. A projection that excludes this impact based on the government's fiscal presentation in the 2017 Budget, as recommended by the Pension Asset Expert Advisory Panel.
- Both presentations used by the FAO project deficits in each year over the outlook period (2016–17 to 2021–22).
    - Using the government's fiscal presentation of net pension assets, the FAO has stated that balance is within reach in 2017–18 and that beyond this, staying in balance will likely require additional fiscal policy measures.
    - Similarly, using this presentation, the FAO projects that net debt-to-GDP will decline over the outlook but additional fiscal measures would be required for the government to achieve its interim net debt-to-GDP target of 35 per cent by 2023–24 and 27 per cent by 2029–30.
    - The FAO excludes the reserve from its fiscal outlook.

TOP MESSAGES

- I would like to thank the Financial Accountability Officer (FAO) for releasing his spring economic and fiscal outlook for Ontario. We value the FAO's independent assessment and projections of the province's fiscal plan.
- As outlined in the 2017 Budget, the government is projecting a balanced budget for 2017–18 and to remain balanced in 2018–19 and 2019–20.
- The government has a strong track record of beating its fiscal targets. In fact, for the 2016–17 fiscal year, the government is forecasting a deficit of $1.5 billion, beating our annual deficit target again, for the eighth year in a row.
- This Budget builds on the government's track record of fiscal management that has resulted in $29 billion in accumulated deficits being avoided over the past seven years, relative to the 2010 Budget forecast.
- We are also targeting a net debt-to-GDP ratio of 35 per cent by 2023–24 and reducing Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029–30.
- Ontario has recorded stronger economic growth than Canada and all other G7 countries over the 2014 to 2016 period, with real GDP rising 2.6 per cent a year.
- Private-sector forecasters expect Ontario will remain one of the fastest growing provinces over the next two years. It should be noted that the FAO's real GDP projections are modestly stronger than the 2017 Budget outlook over the 2017 to 2020 period.
- For prudent fiscal planning, the Province's real GDP growth projections are slightly below the average of private-sector forecasts. In fact, three economic experts also reviewed these economic assumptions and found them to be reasonable.
- This shows that our plan to make strategic investments in Ontario to grow the economy is working.
- It is also important to note that the FAO affirmed key aspects of the Budget plan, including projecting that a balanced budget is within reach for Ontario in 2017–18 and that the net debt-to-GDP ratio is on a downward trend.
- A balanced budget is providing the Province the fiscal flexibility to invest more in health care, education and other public services that matter most to Ontario families. It also adds stability to Ontario's finances and positions the government to better respond to demographic challenges and unexpected global economic shocks that the province will face over the next decade.

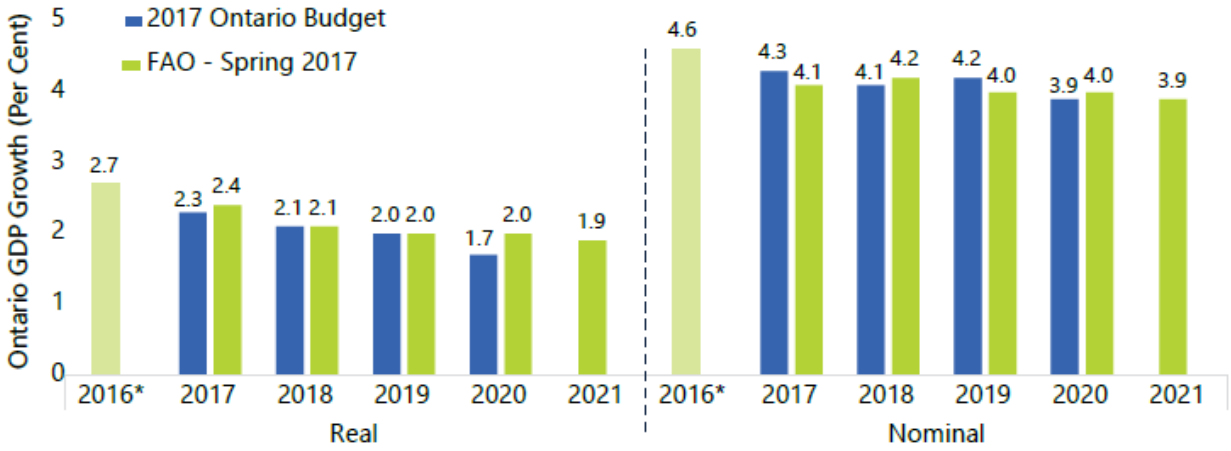
KEY FINDINGS

- The report is divided into two main chapters:
    1) The **Economic Outlook** chapter presents the FAO forecast for Ontario's economy out to 2021, and includes a discussion of potential risks.
    2) The **Fiscal Outlook** chapter presents the FAO forecast for revenue, expense and the surplus/deficit between 2016-17 and 2021-22.

<u>Economic Outlook</u>

- The FAO has left its forecast for Ontario real GDP growth little changed, on average, over the 2017 to 2020 period relative to its fall forecast, though it included a modest downward revision in 2017 and upward revision in 2019.
- The FAO forecast is broadly consistent with the private sector economists' view that stronger international exports and business investment will be key drivers of Ontario's overall economic growth over the next several years.
- The FAO forecast for real GDP growth is 0.1 percentage points stronger annually, on average, than the 2017 Budget forecast between 2017 and 2020.
- The FAO believes the balance of the risks to the economic outlook is tilted to the downside, particularly risks associated with a correction in Ontario's housing market. (p. 13).

Solid Economic Performance Expected Over Outlook



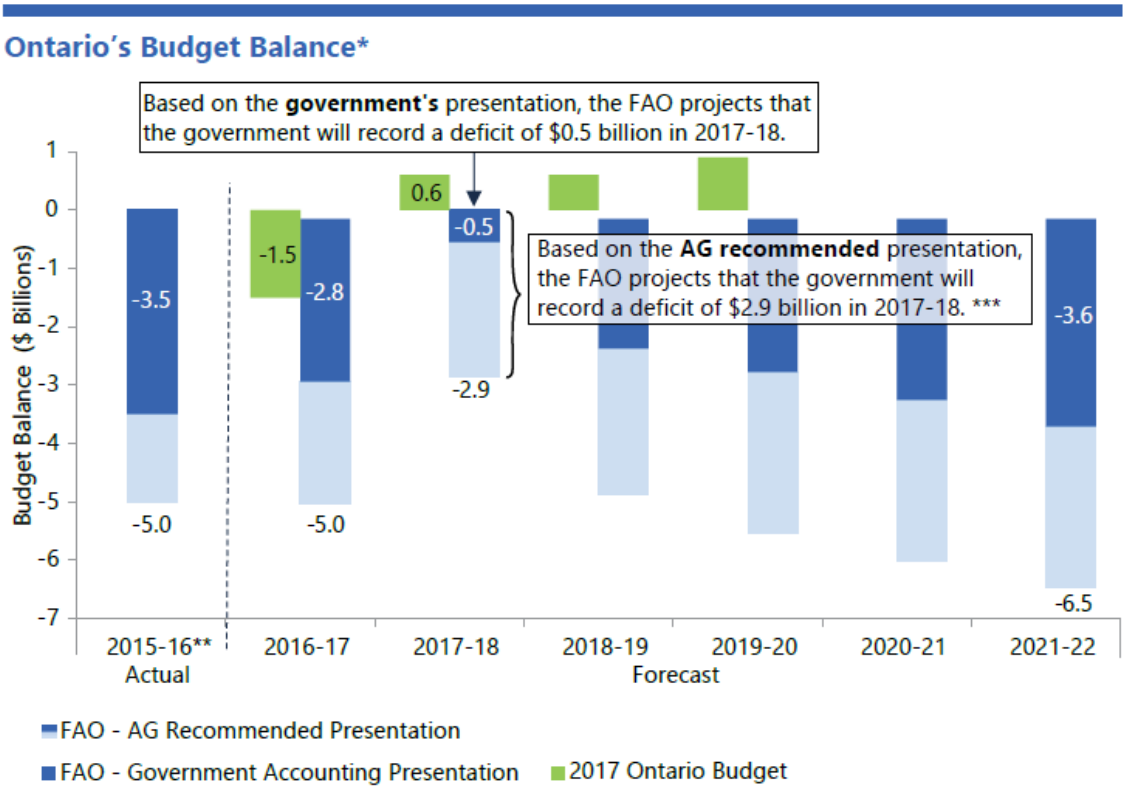
* 2016 are actuals.

Source: Ontario Economic Accounts, 2017 Ontario Budget and FAO.

Fiscal Outlook

- The FAO's current projection of the outlook for budget balance has generally deteriorated relative to the FAO's fall 2016 projection and continues to present a gap against the government's balanced budget projections.
- **Using the government's accounting treatment of net pension assets** the FAO is projecting budget deficits of $2.8 billion in 2016–17, $0.5 billion in 2017–18, $2.2 billion in 2018–19, and $2.6 billion by 2019–20 (excluding the reserve). This represents an improvement in the deficit for 2016–17 and 2017–18, but deterioration over the outlook compared to the FAO's fall report.
    - By comparison, the 2017 Budget projects a $1.5 billion deficit in 2016–17 and surpluses of $0.6 billion in 2017–18 and 2018–19, and a $0.9 billion surplus in 2019–20, excluding the reserve. The FAO also makes projections out to 2021–22 with increasing deficits forecast for those years as well.
    - The FAO suggests that a balanced budget is "within the government's reach in 2017–18" when using the government's accounting method, however "staying in balance after 2017-18 will likely require additional fiscal policy measures"(p.1).
    - The FAO notes that under this accounting presentation, Ontario's Public Accounts would be expected to receive a qualified opinion from the Auditor General.
- The FAO's forecast, **based on the Auditor General's recommended accounting treatment of jointly-sponsored pension plans**, projects deficits of $5.0 billion in 2016–17, $2.9 billion in 2017–18, $4.9 billion in 2018–19, and $5.5 billion by 2019–20 (excluding the reserve). Compared to the FAO's fall report, this represents a slight improvement in the deficit for 2016–17 but deterioration in 2017–18 and over the outlook.
    - The FAO notes that "on this basis, it is unlikely that the government will balance the budget without significant fiscal policy adjustments to raise revenue or lower expense" (p. 1).
- For 2016–17 the FAO is forecasting a deficit of $2.8 billion (or $5.0 billion with the pension adjustment) compared with the government's $1.5 billion interim projection.
- The FAO's asserts that its projection for an improved deficit in 2017–18 is due to robust economic performance and strong tax revenue growth in 2016 and 2017, compared to the FAO's fall estimates, and a one-time revenue increase in 2017–18 from increased federal transfers for infrastructure, additional revenue from asset sales and cap and trade proceeds. (p. 1 &19).

- Beginning in 2018-19, the FAO projects that the deficit will gradually deteriorate due to moderate revenue growth, the absence of one-time non-tax measures, and higher program expenses. (p. 16).



* Budget balance before reserve.

** Ontario's 2015-16 Public Accounts reported a deficit of $5.0 billion. Without the pension adjustment, the deficit would have been $3.5 billion.

*** This includes the FAO's estimate of the pension adjustment.

Source: 2015-16 Public Accounts, 2017 Ontario Budget and FAO.

Revenue Assumptions

- Compared to the 2017 Budget, the FAO's projected total revenue is lower mostly because of taxation revenue and, to a lesser extent, Federal Transfers.

FAO less Ontario 2017 Budget Outlook ($ Billions)

	2016-17	2017-18	2018-19	2019-20	Average
Taxation Revenue	-1.2	-1.4	-2.3	-3.0	-2.0
Government of Canada Transfers	-0.1	0.0	-0.8	-0.8	-0.4
Government Business Enterprises	0.0	0.0	0.0	0.0	0.0
Other Non-Tax Revenue	0.0	0.0	0.0	0.0	0.0
Total Revenue	**-1.2**	**-1.4**	**-3.1**	**-3.7**	**-2.4**

- FAO's projection for the composition of nominal GDP such as compensation of employees, net operating surplus and household consumption, are all lower than the 2017 Budget projection.
- The 2017 Budget assumed higher yields from CIT and HST compared to recent projections, reflecting recent tax revenue performance. These yields also exceed those assumed by the FAO.
- The FAO projection for PIT is consistently lower than the 2017 Budget, partly due to their assumptions regarding tax planning that may have occurred in 2015 by high-income earners. Whereas the 2017 Budget only included an allowance for PIT planning in 2016-17, the FAO estimates that roughly $600 million of Ontario's 2015 PIT revenue was due to income shifting, which lowers taxable income in 2016-17 and 2017-18.

- The FAO's federal transfer outlook is lower than assumed in the 2017 Ontario Budget, probably due to FAO's assumption that Ontario will no longer receive Equalization payments starting in 2019-20 as Ontario's fiscal capacity improves relative to other provinces.
- The FAO's government business enterprise net income outlook and other non-tax revenue is the same as reported in the 2017 Budget.

Expense Assumptions

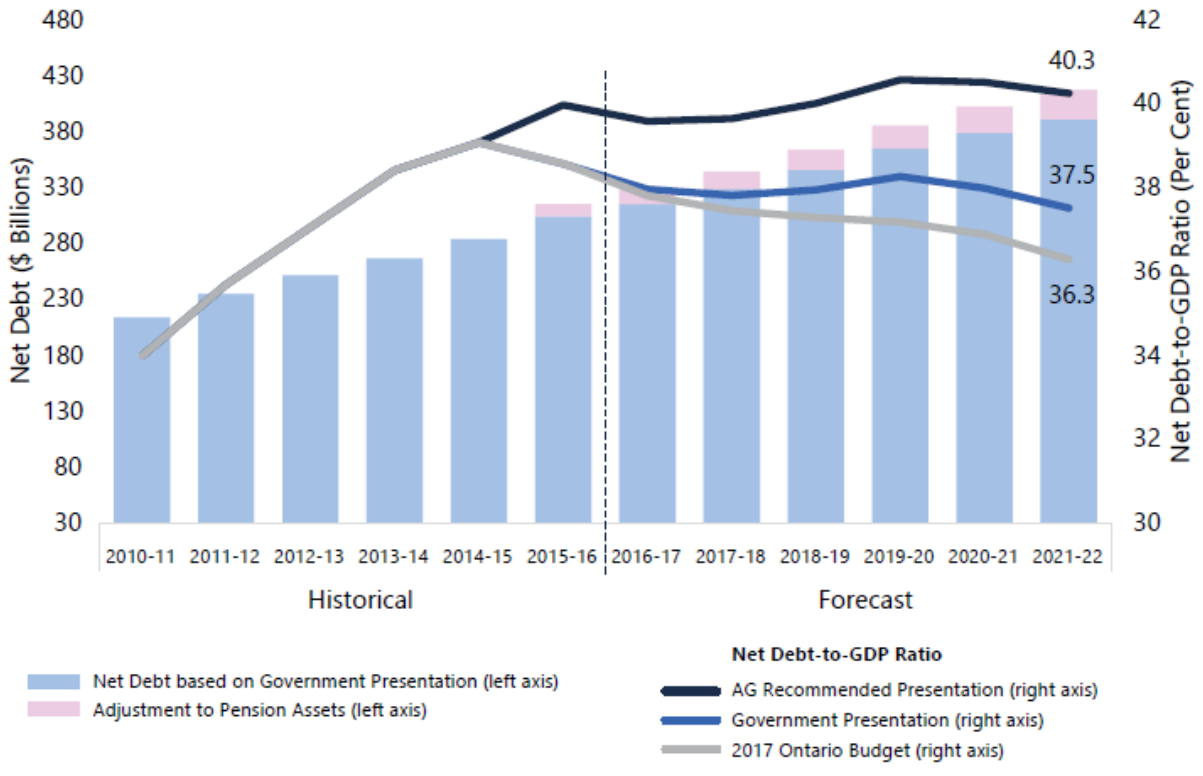
- The FAO assumes the same program expense outlook as the 2017 Budget up to 2019–20, adjusted to reflect the Auditor General's recommended accounting treatment for jointly sponsored pension plans.(p. 20).
- The FAO's expense outlook includes new spending commitments announced in the 2017 Budget including the new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan. This results in average annual growth in program expense of 3.3 per cent between 2016–17 and 2021–22 – slightly below the growth in underlying cost and demographic pressure, which is estimated to be 3.6 per cent on average.
- The FAO projects that Ontario's interest on debt (IOD) payments will grow at an average annual rate of 4.0 per cent from $11.0 billion in 2015–16 to $13.9 billion by 2021–22, reflecting higher debt and rising interest rates over the outlook. The FAO forecasts that IOD will outpace the growth in program expense over the outlook. (p. 21).
- The FAO's projection for IOD expense is lower than the 2017 Budget projections.
- According to the FAO, interest on debt is expected to increase from 8.1per cent of revenues in 2017–18 to 8.9 per cent by 2021–22. Over the past five years IOD as a share of revenues declined steadily, benefitting from declining interest rates. The

FAO argues that this ratio is expected to rise sharply due to projected interest rate increases. (p. 21 – Fiscal Chapter).

Debt Outlook

- Using the government's accounting method, the FAO expects net debt to increase by $62 billion over the next five years to $365 billion by 2021–22 or 37.5 per cent of GDP, above the 2017 Budget projection of 36.3 per cent.
- Under the Auditor General's recommended accounting treatment of jointly-sponsored pension plans, the FAO expects Ontario's net debt to rise by $76 billion to $392 billion by 2021–22 or 40.3 per cent of GDP, this represents a slightly lower net debt-to-GDP ratio over the plan and outlook period when compared to the FAO's fall forecast.
- The FAO's net debt-to-GDP projections under both accounting presentations, suggests that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24. (p. 22).

Ontario's Net Debt-to-GDP Ratio



Source: FAO, Ontario Economic Accounts, and 2017 Ontario Budget.
Note: AG recommended presentation is based on FAO estimates of the pension adjustment.

Accounting Treatment

- The FAO's spring outlook includes a detailed section on the different accounting interpretations for net pension assets of jointly sponsored pension plans (Ontario Teachers' Pension Plan and the Ontario Public Service Employees Union Pension Plan) used by the government and the Auditor General.
- While the FAO presents analysis based on both interpretations of the accounting treatment, the report states that "the Officer looks to the Auditor General as the provincial authority on the appropriate interpretation and application of accounting standards for the Province" (p.27).
- Furthermore, the FAO states that in the absence of a written agreement between the co-sponsors of the pension plans, the Auditor General would be expected to provide a qualified opinion on Ontario's 2016-17 Public Accounts.

Risks and Policy Options

- The FAO notes the following risks to Ontario's fiscal plan (p. 23):
    - A housing market correction could pose a significant risk for both the broader economy and the fiscal plan through lower taxation revenues
    - Reduced prudence built into program spending in the 2017 Budget compared to the previous budget – reducing flexibility for the government to respond to unexpected events
    - Interest on debt payments are expected to increase, exposing the government to fiscal risk should interest rates rise faster than expected
- Although the FAO projects deficits, the report notes that the government has a broad range of policy options that could improve the Province's fiscal position, including selling additional public assets beyond announced targets.

APPENDIX A – Detailed Comparison of Outlooks

Key factors driving change since the 2016 FAO fall report:

- Increases in Provincial tax revenue of $2.8 billion in 2016–17 and $4.2 billion in 2017–18 (stronger than expected PIT revenue) due to improving economic growth in 2017
- Declines in Ontario's equalization entitlement. Beyond 2018–19, the FAO is projecting that Ontario will no longer be entitled to Equalization payments – a reflection of the continued strength of the Ontario economy
- Significant new spending across all sectors, including a new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan
- Revised estimates for net pension asset expense of jointly sponsored pension plans

Developments since Fall 2016 EFO (AG Recommended Presentation)

	2016-17	2017-18	2018-19	2019-20	2020-21
FAO's Fall 2016 Budget Balance Forecast	**-5.2**	**-2.6**	**-2.8**	**-3.3**	**-3.7**
Developments Since Fall 2016					
Revenue					
Stronger Economic Outlook	2.3	4.1	3.9	4.4	4.7
Lower Federal Transfers[1]	-0.3	0.2	-1.3	-2.4	-2.2
Other Revenue Changes[2]	0.1	0.1	-0.5	-0.6	-0.6
Total	2.1	4.4	2.1	1.3	1.8
Expense					
Higher Spending, including Children and Youth Pharmacare, and Fair Hydro Plan	1.2	3.8	3.0	2.2	2.7
Revised Adjustment for Pension Asset[3]	0.7	0.8	1.1	1.4	1.4
Total	2.0	4.6	4.1	3.6	4.1
Total Developments	**0.2**	**-0.3**	**-2.1**	**-2.3**	**-2.3**
FAO's Spring 2017 Budget Balance Forecast	**-5.0**	**-2.9**	**-4.9**	**-5.5**	**-6.0**

Notes:

1. Change in federal transfers forecast mainly due the reduction in Ontario's Equalization payment.
2. Other revenue changes include the $0.5 billion re-profiling of cap-and-trade proceeds from 2016-17 to 2017-18, and an increase in sales and rentals for 2017-18.
3. In the Fall 2016 EFO, the FAO assumed an annual adjustment of $1.5 billion for the net pension assets of jointly sponsored pension plans. The current projection incorporates the FAO's updated estimates for the pension adjustment of $2.2 billion in 2016-17, increasing to $2.9 billion by 2020-21.

Source: FAO.

Revenue Assumptions:

- Compared to the FAO's fall forecast, from 2016-17 to 2019-20, on average, total revenue is projected to be $2.5 billion higher annually mostly because of higher taxation revenue, partially offset by lower Federal Transfers and other Non-Tax revenues.

FAO Revenue Difference (Spring 2017 less Fall 2016)

$ Billions	2016-17	2017-18f	2018-19f	2019-20f	Annual Average
Taxation Revenue	**2.8**	**4.2**	**4.4**	**4.9**	**4.1**
Government of Canada Transfers	-0.4	0.2	-1.3	-2.4	-1.0
Government Business Enterprises	0.3	-0.4	0.0	0.1	0.0
Other Non-Tax Revenue	-0.6	0.4	-1.1	-1.3	-0.7
Total Non-Tax Revenue	**-0.7**	**0.2**	**-2.4**	**-3.6**	**-1.6**
Total Revenue	**2.1**	**4.4**	**2.1**	**1.4**	**2.5**

  - Taxation revenues are projected to be, on average, $4.1 billion higher annually due to stronger economic growth as nominal GDP growth is, on average, projected to be 0.4 percentage points higher annually.
  - More specifically, corporate profits are projected to be 3.3 percentage points higher annually, boosting Corporations Tax revenue. Higher labour income is expected to raise Personal Income Tax revenue while Ontario's strong housing market boosts Sales Tax and Land Transfer Tax revenues.
  - Lower Federal Transfers reflects mostly the FAO's projection that Ontario will no longer be entitled to Equalization payments beyond 2018-19.
  - Non-Tax revenues are lower, mainly because of the revisions to the multi-year asset optimization target to reflect the progress made so far and revised projections for Carbon allowance proceeds.

Comparison: 2017 Budget Fiscal Outlook and the 2017 Spring FAO Outlook										
								Avg. Annual Growth		
	Actual		Outlook					16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
2017 Budget										
Revenue	128.4	133.2	141.7	144.9	149.3			3.9%		
Expense										
Program Expense*	120.9	123.5	129.5	132.3	135.8			3.2%		
Adjustment for Pension Assets	-	-	-	-	-					
Interest on Debt	11.0	11.3	11.6	12.0	12.6			3.9%		
Total Expense	131.9	134.8	141.1	144.3	148.4			3.3%		
Surplus/(Deficit) Excl. Reserve	**(3.5)**	**(1.5)**	**0.6**	**0.6**	**0.9**					
Reserve	-	-	0.6	0.6	0.9					
Surplus/(Deficit)	**(3.5)**	**(1.5)**	**0.0**	**0.0**	**0.0**					
Net Debt	294.6	301.9	311.9	323.3	335.9					
Change - 2017 Budget to FAO Spring 2017 Report										
Revenue	-	*(1.2)*	*(1.4)*	*(3.1)*	*(3.7)*					
Expense										
Program Expense *	-	-	-	-	-					
Adjustment for Pension Assets	*1.5*	*2.2*	*2.3*	*2.6*	*2.9*					
Interest on Debt	-	-	*(0.3)*	*(0.3)*	*(0.3)*					
Total Expense	*1.5*	*2.2*	*2.0*	*2.3*	*2.7*					
Surplus/(Deficit) Excl. Reserve	***(1.5)***	***(3.5)***	***(3.5)***	***(5.5)***	***(6.4)***					
Reserve	-	-	*n/a*	*n/a*	*n/a*					
Surplus/(Deficit)	***(1.5)***	***(3.5)***	***n/a***	***n/a***	***n/a***					
Net Debt	*10.6*	*14.2*	*17.6*	*23.1*	*29.5*					
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	120.9	123.5	129.5	132.3	135.8	140.9	146.1	3.2%	3.7%	3.4%
Adjustment for Pension Assets	1.5	2.2	2.3	2.6	2.9	2.9	2.9			
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	133.4	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve	**(5.0)**	**(5.0)**	**(2.9)**	**(4.9)**	**(5.5)**	**(6.0)**	**(6.5)**			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	**(5.0)**	**(5.0)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Adjustment for Pension Assets	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**(3.5)**	**(2.8)**	**(0.5)**	**(2.2)**	**(2.6)**	**(3.1)**	**(3.6)**			
Note: Numbers may not align with report due to rounding.										
*** Program Expense excluding Adjustment for Pension Assets (captured on line below)**										

Comparison: 2016 Fall FAO Outlook Compared to 2017 Spring FAO Outlook										
								Avg. Annual Growth		
	Actual		Outlook					16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
FAO Fall 2016 Report										
Revenue	128.4	129.9	135.9	139.7	144.2	149.1		3.5%		
Expense										
Program Expense*	122.4	123.9	127.2	130.9	135.3	139.9		3.0%		
Interest on Debt	11.0	11.2	11.3	11.6	12.2	12.9		2.9%		
Total Expense	133.4	135.1	138.5	142.5	147.5	152.8		3.0%		
Surplus/(Deficit) Excl. Reserve	**(5.0)**	**(5.2)**	**(2.6)**	**(2.8)**	**(3.3)**	**(3.7)**				
Reserve	-	-	n/a	n/a	n/a	n/a				
Surplus/(Deficit)	**(5.0)**	**(5.2)**	**n/a**	**n/a**	**n/a**	**n/a**				
Net Debt	305.2	318.5	330.5	343.8	356.8	369.7				
Adjustment for Pension Assets	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)				
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**(3.5)**	**(3.7)**	**(1.1)**	**(1.3)**	**(1.8)**	**(2.2)**				
Change - FAO Fall 2016 Report to Spring 2017 Report										
Revenue	-	*2.1*	*4.4*	*2.1*	*1.3*	*1.8*				
Expense										
Program Expense *	-	*1.9*	*4.6*	*4.0*	*3.5*	*3.9*				
Interest on Debt	-	*0.1*	-	*0.1*	*0.1*	*0.2*				
Total Expense	-	*2.0*	*4.6*	*4.1*	*3.6*	*4.1*				
Surplus/(Deficit) Excl. Reserve	***0.0***	***0.2***	***(0.3)***	***(2.1)***	***(2.3)***	***(2.3)***				
Reserve	-	-	*n/a*	*n/a*	*n/a*	*n/a*				
Surplus/(Deficit)	***0.0***	***0.2***	***n/a***	***n/a***	***n/a***	***n/a***				
Net Debt	*(0.0)*	*(2.4)*	*(1.0)*	*2.6*	*8.6*	*9.7*				
Adjustment for Pension Assets	-	(0.7)	(0.8)	(1.1)	(1.4)	(1.4)				
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**-**	**0.9**	**0.6**	**(0.9)**	**(0.8)**	**(0.9)**				
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	122.4	125.7	131.8	134.9	138.8	143.8	149.0	3.4%	3.6%	3.5%
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	133.4	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve	**(5.0)**	**(5.0)**	**(2.9)**	**(4.9)**	**(5.5)**	**(6.0)**	**(6.5)**			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	**(5.0)**	**(5.0)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Adjustment for Pension Assets	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**(3.5)**	**(2.8)**	**(0.5)**	**(2.2)**	**(2.6)**	**(3.1)**	**(3.6)**			

Note: Numbers may not align with report due to rounding.

*** Based on AG recommended accounting treatment with adjustment for net pension assets.**

Guide to Section 13 of FIPPA

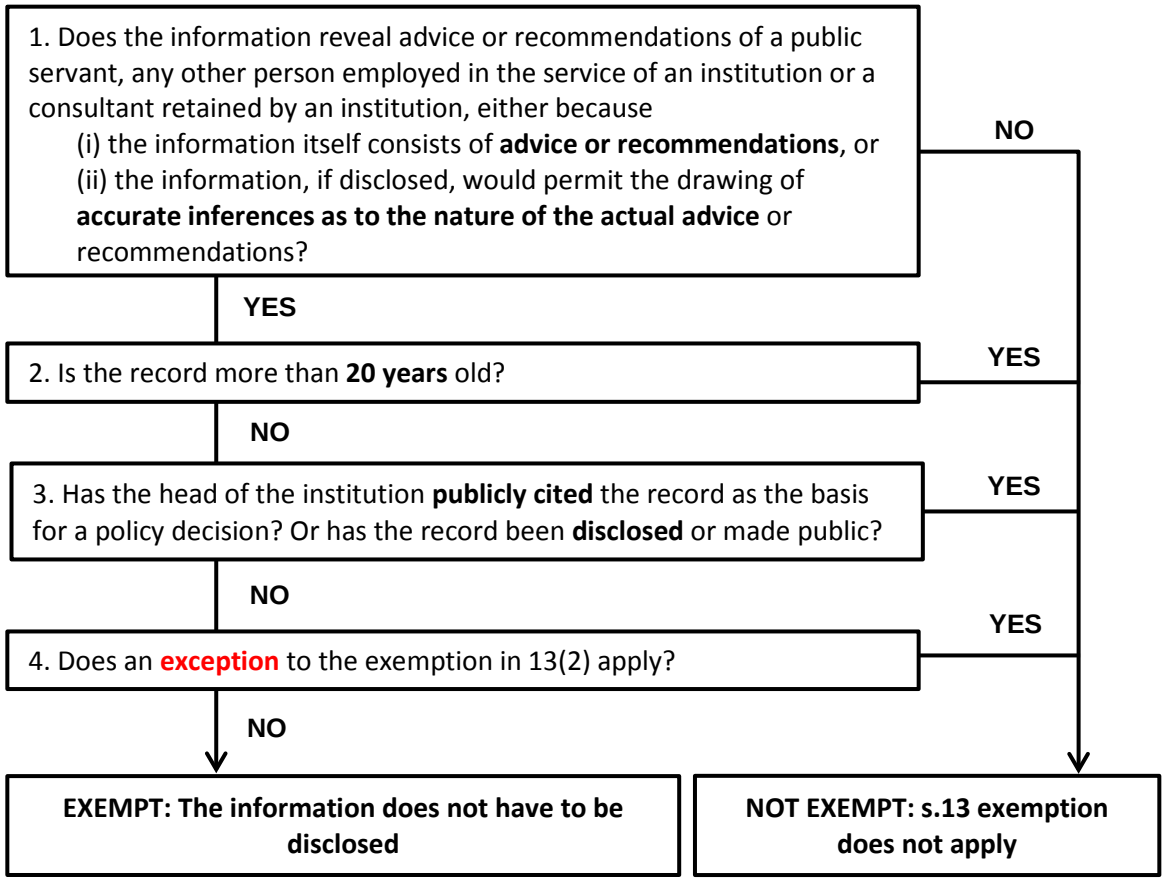
Summary

Subsection 13(1) of FIPPA provides for a **discretionary exemption** permitting an "institution" (i.e. the Ministry of Finance) to refuse to disclose information that "would reveal **advice or recommendations** of a public servant, any other person employed in the service of an institution or a consultant retained by an institution". However, if the information falls into one of the categories listed in subsections (2) or (3), it cannot be withheld under subsection 13(1).

Importantly, if only a portion of the record is exempt from disclosure under section 13, the record may be disclosed with that information be severed and redacted.

This guide applies to the application of the section 13 exemption, not to other possible exemptions in FIPPA.

To determine whether the section 13 exemption applies to a record or part of a record, consider the following flowchart. See the following pages for further details.



This guide is intended for informative purposes only; it is not legal advice. Not to be distributed externally.

1. Does the record reveal <u>advice or recommendations</u> of a <u>public servant, any other person employed in the service of an institution or a consultant retained by an institution</u>, either because

(i) the information itself consists of advice or recommendations, or

(ii) the information, if disclosed, would permit the drawing of accurate inferences as to the nature of the actual advice or recommendations?

"**Recommendations**" refers to material that relates to a suggested course of action that will ultimately be accepted or rejected by the person being advised, and can be express or inferred.

"**Advice**"

- Has a broader meaning than "recommendations".
- Includes "**policy options**", i.e. lists of alternative courses of action relating to a decision to be made even if they do not include a specific recommendation on which option to take.
- An evaluation or analysis of information.
- May include:
  - Advantages/disadvantages of each option;
  - List of all alternatives provided by person awaiting further instructions from the decision maker for which options should be considered in depth; or
  - Advantages/disadvantages perceived as being obvious or have already been canvassed already or in a prior draft, where options may appear without any additional explanation.
- The advice did not have to be communicated to a decision-maker – it only must have been ascertainable at the time the advice/recommendations were prepared that it was in fact advice/recommendations.
- Must be proximate to the decision-maker, for the benefit of the institution, and not for the benefit of third parties.

Notes:

- Drafts/earlier versions can qualify for the section 13 exemption, if the criteria in the flowchart above are satisfied.
- The following information likely does <u>not</u> qualify under section 13: information prepared for public dissemination, factual/background information (see below)

"**Public servant**", "**Person employed in the service of an institution**", or "**Consultant retained by an institution**":

- Includes:
  - Employees of an institution subject to FIPPA, and employees of other Canadian governments and institutions that fall under the umbrella of "the Crown".
- Does <u>not</u> include:
  - Third parties outside government who are not consultants.
  - Third parties in a contractual relationship with an institution not in the nature of a consultant relationship.
  - Consultants with no formal engagement with the institution for professional services (though formal engagement does not require a payment of a fee).

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2. Is the record more than 20 years old?

- If the record is over 20 years old, the section 13 exemption no longer applies.

3. Has the head of the institution cited the record as the basis for a policy decision? Or has the record been disclosed or made public?

- Exemption only applies where the institution, not a third party, claims its reliance on the record. Exemption cannot apply if the advice or recommendations have been publicly disclosed.

4. Does an exception to the exemption in 13(2) apply?

Factual material does not qualify for the section 13 exemption

- Factual material is a coherent body of facts separate and distinct from the advice and recommendations contained in the record.
- However, if the facts are so interwoven with the advice/recommendation that it cannot reasonably be considered a separate and distinct body of fact and cannot reasonably be severed, then it does not have to be disclosed.

A record or part of a record does not qualify for the section 13 exemption if it is:

- a **statistical survey**,
- a **formal valuator report** (i.e. a formal statement or account of the results of the collation and consideration of information, and generally would not include mere observations or recordings of fact),
- an **environmental impact statement** or similar record,
- a **product test report** for government equipment testing or consumer test,
- a **performance or efficiency report** or study of an institution,
- a government policy or **project feasibility** or other technical study (incl. a cost estimate),
- a **results report of field research** undertaken before the formulation of a policy proposal,
- a **final plan or proposal to change a program** or establish a new program (incl. a budgetary estimate), whether or not it is subject to approval, unless it is to be submitted to the Executive Council or its committees,
- a report of an interdepartmental committee task force or similar body, or of a committee or task force within an institution, which has been established for the purpose of preparing a **report on a particular topic**, unless the report is to be submitted to the Executive Council or its committees,
- a **report of a committee**, council or other body attached to an institution, which has been established for the purpose of undertaking inquiries and making reports/recommendations to the institution,
- the **reasons for a final decision of the institution** made during/at the end of the exercise of discretionary power conferred by/under an enactment/scheme administered by the institution, whether or not the enactment/scheme allows an appeal to be taken against the decision, whether or not the reasons (i) are contained in an internal memo of the institution or in a letter addressed to a named person, or (ii) were given by the decision-maker or were incorporated by reference into the decision.

From: John Psinas
To: Anna Strathy; Ken Kandeepan
Cc: George Sakura
Subject: FW: Response to FOI Request A-17-136 - FAO Projections
Date: Wednesday, October 04, 2017 2:12:25 PM
Attachments: CIN FAO EFO - Spring 2017_Redacted_Oct3.pdf
FAO EFO Report_Summary_Redacted_Oct3.pdf
FIPPA Section 13 Guide November 2016 - Client.pdf

Ken,

We can update parts of it with PA information, but have less than an hour to do so, and it may not be clear where to substitute PA information anyway. It can be argued that the CIN is focused on countering the FAO's assertions on the Budget, with our own Budget projections. Adding historical PA numbers to counter the FAO's Budget report projections –Issued in May- may be confusing.

We could simply remind the Office of the Budget that PA information is now available. Please let me know.

Thanks.

John

From: Ken Kandeepan
Sent: Wednesday, October 04, 2017 2:04 PM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>
Cc: John Psinas <John.Psinas@ofina.on.ca>
Subject: FW: Response to FOI Request A-17-136 - FAO Projections

Hi Ann

Nothing from me other than to point out that starting from Bullet 3 on page 1, the CIN presents all through the note the deficit for 2016-17 as projected in the 2017 Budget. That has now been superseded by the 2016-17 PA and the CIN should be updated accordingly.

I am cc'ing John, in case I have missed anything.

Thanks

Ken k

From: Anna Strathy
Sent: Wednesday, October 04, 2017 9:51 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: FW: Response to FOI Request A-17-136 - FAO Projections

Hi Ken,

Office of the Budget would like us to review the attached CIN and Report Summary that will be released in response to an FOI request for notes prepared for the DM and Minister of Finance on the FAO's 2017 Budget report. There's not a lot here for us, but several mentions of debt and IOD forecasts (see Expense Assumptions, Debt Outlook, and Risks). Let me know if there's any concerns, if anything needs to be redacted in accordance with FIPPA.

Note deadline of 3pm today.

Thanks, Anna

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Wednesday, October 04, 2017 8:56 AM
To: Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>
Cc: Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Jacob Hadwen (MOF) <Jacob.Hadwen@ontario.ca>; Giulio Rubini (MOF) <Giulio.Rubini@ontario.ca>
Subject: Response to FOI Request A-17-136 - FAO Projections

Hi Ghufran and Anna,

The FOI Office sent Office of the Budget an information request related to analysis on FAO projections. The clarified request follows:

> **"…all analysis (Briefing notes and Slide decks) prepared for the Minister of Finance or the Deputy Minister of Finance regarding the Financial Accountability Officer's report on 2017 Ontario Budget".**

To respond to this request, we're planning to share the attached Briefing Note and CIN that our divisions prepared for the Minister and Deputy Minister after the release of the FAO's Spring Economic and Fiscal Outlook back in late May. We chose to **redact *only* sections** of these notes that include any **analysis based on non-public documents & information** (2017 Budget, the Spring 2017 and Fall 2016 FAO reports) as per section 13 exemption under the FIPPA.

Could you please review the attached an advise if you have any concerns with the sections currently marked for redaction or if you suggest including any additional redactions **by 3pm today (if possible)**?

Let me know if you have any questions.

Thanks,
Ryan

From: Sharda, Ritvik (MOF)
Sent: September-15-17 9:38 AM
To: Birks, Ryan (MOF)
Subject: RE: A-17-136 - FAO Projections

Hi Ryan,

Our office has received clarification for the request.

Clarified Request: Please provide all analysis (Briefing notes and Slide decks) prepared for the Minister of Finance or the Deputy Minister of Finance regarding the Financial Accountability Officer's report on 2017 Ontario Budget.

CLARIFICATION
If further clarification is required from the requester, **please contact our office as soon as possible to discuss**

Request received: August 21, 2017

Clarification received: September 14, 2017

Final recommendation due: **September 29, 2017**

If you have any questions, please feel free to contact me.

Best,

Ritvik
5-3849

From: Sharda, Ritvik (MOF)
Sent: August-21-17 5:19 PM
To: Birks, Ryan (MOF)
Subject: A-17-136 - FAO Projections

The Ministry has received an access to information request (attached) under the *Freedom of Information and Protection of Privacy Act* (the *Act*). This request has been classified as **contentious.** Your Division/Program Area has been identified as a potential holder of all, or part of the records that have been requested. Please advise our office if you believe that the request should be directed to any other Divisions.

CLARIFICATION
If further clarification is required from the requester, **please contact our office as soon as possible to discuss.**

Request received: August 21, 2017

Final recommendation due: **September 5, 2017**

Documentation required:

- Recommendation Memo
- Index of Records *(to be shared with the requester)*
- TWO electronic copies of the records (A clean version and a version with the marked redactions)
- Fee/Cost Administration Form
- Approved Briefing Note

*****PLEASE NOTE – if during the preliminary review for the records you identify the request is voluminous and the fees will be over $100, please provide the initial review memo and fee/cost administration form.***

The FOI forms are available on our intranet site:
http://intra.net.gov.on.ca/fin-cqsd/bsb/foi/resources/

For more information regarding the *Act*, go to:
http://www.e-laws.gov.on.ca/html/statutes/english/elaws_statutes_90f31_e.htm

If you have any questions, please feel free to contact me.

Best,

Ritvik
5-3849

May 31, 2017

FAO's Spring 2017 Economic and Fiscal Outlook

On May 31, 2017, the FAO released its spring 2017 assessment of Ontario's medium-term economic and fiscal outlook. The FAO is projecting budget deficits in all years between 2016–17 and 2021–22. The report states that while balance is within reach in 2017–18, significant fiscal adjustments will likely be required to maintain budget balance through the outlook.

TOP MESSAGES

- I would like to thank the Financial Accountability Officer (FAO) for releasing his spring economic and fiscal outlook for Ontario. We value the FAO's independent assessment and projections of the province's fiscal plan.
- As outlined in the 2017 Budget, the government is projecting a balanced budget for 2017–18 and to remain balanced in 2018–19 and 2019–20.
- The government has a strong track record of beating its fiscal targets. In fact, for the 2016–17 fiscal year, the government is forecasting a deficit of $1.5 billion, beating our annual deficit target again, for the eighth year in a row.
- This Budget builds on the government's track record of fiscal management that has resulted in $29 billion in accumulated deficits being avoided over the past seven years, relative to the 2010 Budget forecast.
- We are also targeting a net debt-to-GDP ratio of 35 per cent by 2023–24 and reducing Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029–30.
- Ontario has recorded stronger economic growth than Canada and all other G7 countries over the 2014 to 2016 period, with real GDP rising 2.6 per cent a year.
- Private-sector forecasters expect Ontario will remain one of the fastest growing provinces over the next two years. It should be noted that the FAO's real GDP projections are modestly stronger than the 2017 Budget outlook over the 2017 to 2020 period.
- For prudent fiscal planning, the Province's real GDP growth projections are slightly below the average of private-sector forecasts. In fact, three economic experts also reviewed these economic assumptions and found them to be reasonable.
- This shows that our plan to make strategic investments in Ontario to grow the economy is working.
- It is also important to note that the FAO affirmed key aspects of the Budget plan, including projecting that a balanced budget is within reach for Ontario in 2017–18 and that the net debt-to-GDP ratio is on a downward trend.

- A balanced budget is providing the Province the fiscal flexibility to invest more in health care, education and other public services that matter most to Ontario families. It also adds stability to Ontario's finances and positions the government to better respond to demographic challenges and unexpected global economic shocks that the province will face over the next decade.

ADDITIONAL MESSAGES

Program Review

- The government is building on the success of recent initiatives to support the Province's fiscal objectives by expanding the review of current programs to identify opportunities for modernization and to ensure that expense growth is managed within the plan laid out in the Budget. Ontario has the lowest program spending per capita of all provinces and territories.

Pensions

- To help inform the future accounting treatment of pension plans the government appointed the Pension Asset Expert Advisory Panel last November. This Panel included experts from the accounting, legal and actuarial professions.
- The panel recommended that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan be recognized as an asset in Ontario's financial statements, and is consistent with how accounting standards have been applied to these plans since 2001.
- This accounting treatment was used to inform the fiscal outlook presented in the 2017 Budget.

Debt

- A DBRS report on the 2017 Budget stated that "The Province will continue borrowing to fund its capital needs, but the debt burden as a share of the economy is projected to track lower over the medium term with economic growth outpacing debt growth."

KEY QUOTES FROM FAO REPORT

Economic Outlook

"The FAO's economic outlook expects the recent strength of the Ontario economy to continue into 2017 … The FAO's economic forecast is broadly in-line with that presented in the government's 2017 Budget." (p. 2)

"Domestically, Ontario's surging housing market continues to be the largest risk for the economy." (p.2)

"Uncertainty over the future direction of U.S. trade and industrial policy could hamper business investment growth in the near term, which would negatively impact Ontario's competitiveness. Without stronger business sector investment to expand production capacity, the growth potential of several key Ontario industries will be limited." (p.10)

Fiscal Outlook

"Beyond 2017-18, the deficit is projected to deteriorate steadily due to rising expenses and moderate revenue growth. On this basis, staying in balance after 2017-18 will likely require additional fiscal policy measures." (p.2)

"The FAO's net debt-to-GDP projections under both accounting presentations, suggest that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24." (p.22)

"In the 2017 Budget, the government significantly reduced the prudence built into its program spending projection compared to the 2016 Budget, leaving less fiscal flexibility for the government to respond to unexpected events." (p.23)

Ontario's Debt Outlook

"Based on the FAO's application of the Auditor General's recommended accounting for these pension assets, the FAO is projecting a budget deficit of $2.9 billion for 2017-18, rising to $6.5 billion by 2021-22 … Under the government's accounting presentation, the FAO is projecting a budget deficit of $0.5 billion in 2017-18, growing to $3.6 billion by 2021-22." (p.15)

"Ontario's total borrowing requirements are expected to remain high over the outlook. To finance the cost of projected capital spending, on-going deficits and maturing debt issues the FAO estimates that provincial borrowing will average $37 billion per year over the next five years." (p.21)

CURRENT STATUS

The Financial Accountability Officer (FAO) released a report on Wednesday, May 31, 2017, that assesses Ontario's medium-term economic and fiscal outlook. The FAO plans to release these medium-term outlook reports each spring and fall.

In compliance with the *Financial Accountability Officer Act, 2013*, the FAO provided a copy of the final report to the Ministers of Finance and Treasury Board prior to the release.

REPORT SUMMARY

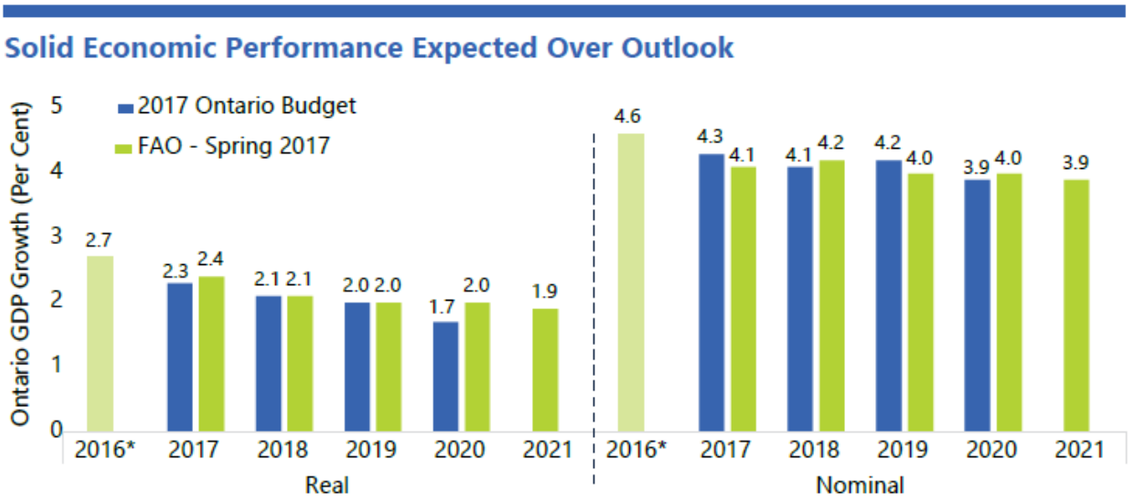
The report is divided into two main chapters:

1) The **Economic Outlook** chapter presents the FAO forecast for Ontario's economy out to 2021, and includes a discussion of potential risks.

2) The **Fiscal Outlook** chapter presents the FAO forecast for revenue, expense and the surplus/deficit between 2016-17 and 2021-22.

Economic Outlook

- The FAO has left its forecast for Ontario real GDP growth little changed, on average, over the 2017 to 2020 period relative to its fall forecast, though it included a modest downward revision in 2017 and upward revision in 2019.
- The FAO forecast is broadly consistent with the private sector economists' view that stronger international exports and business investment will be key drivers of Ontario's overall economic growth over the next several years.
- The FAO forecast for real GDP growth is 0.1 percentage points stronger annually, on average, than the 2017 Budget forecast between 2017 and 2020.
- The FAO believes the balance of the risks to the economic outlook is tilted to the downside, particularly risks associated with a correction in Ontario's housing market. (p. 13).



* 2016 are actuals.

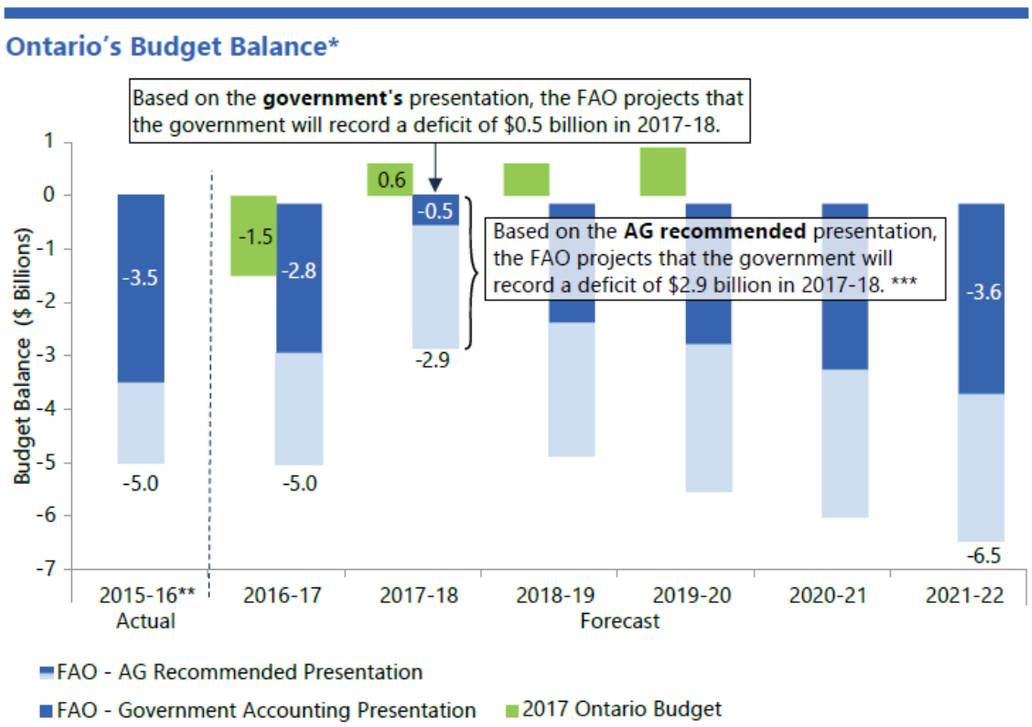
Source: Ontario Economic Accounts, 2017 Ontario Budget and FAO.

Fiscal Outlook

- The FAO's current projection of the outlook for budget balance has generally deteriorated relative to the FAO's fall 2016 projection and continues to present a gap against the government's balanced budget projections.
- **Using the government's accounting treatment of net pension assets** the FAO is projecting budget deficits of $2.8 billion in 2016–17, $0.5 billion in 2017–18, $2.2 billion in 2018–19, and $2.6 billion by 2019–20 (excluding the reserve). This represents an improvement in the deficit for 2016–17 and 2017–18, but deterioration over the outlook compared to the FAO's fall report.
    - By comparison, the 2017 Budget projects a $1.5 billion deficit in 2016–17 and surpluses of $0.6 billion in 2017–18 and 2018–19, and a $0.9 billion surplus in 2019–20, excluding the reserve. The FAO also makes projections out to 2021–22 with increasing deficits forecast for those years as well.
    - The FAO suggests that a balanced budget is "within the government's reach in 2017–18" when using the government's accounting method, however "staying in balance after 2017-18 will likely require additional fiscal policy measures"(p.1).

- The FAO notes that under this accounting presentation, Ontario's Public Accounts would be expected to receive a qualified opinion from the Auditor General.

- The FAO's forecast, **based on the Auditor General's recommended accounting treatment of jointly-sponsored pension plans**, projects deficits of $5.0 billion in 2016–17, $2.9 billion in 2017–18, $4.9 billion in 2018–19, and $5.5 billion by 2019–20 (excluding the reserve). Compared to the FAO's fall report, this represents a slight improvement in the deficit for 2016–17 but deterioration in 2017–18 and over the outlook.
    - The FAO notes that "on this basis, it is unlikely that the government will balance the budget without significant fiscal policy adjustments to raise revenue or lower expense" (p. 1).
- For 2016–17 the FAO is forecasting a deficit of $2.8 billion (or $5.0 billion with the pension adjustment) compared with the government's $1.5 billion interim projection.
- The FAO's asserts that its projection for an improved deficit in 2017–18 is due to robust economic performance and strong tax revenue growth in 2016 and 2017, compared to the FAO's fall estimates, and a one-time revenue increase in 2017–18 from increased federal transfers for infrastructure, additional revenue from asset sales and cap and trade proceeds. (p. 1 &19).
- Beginning in 2018-19, the FAO projects that the deficit will gradually deteriorate due to moderate revenue growth, the absence of one-time non-tax measures, and higher program expenses. (p. 16).



* Budget balance before reserve.

** Ontario's 2015-16 Public Accounts reported a deficit of $5.0 billion. Without the pension adjustment, the deficit would have been $3.5 billion.

*** This includes the FAO's estimate of the pension adjustment.

Source: 2015-16 Public Accounts, 2017 Ontario Budget and FAO.

Revenue Assumptions

- Compared to the 2017 Budget, the FAO's projected total revenue is lower mostly because of taxation revenue and, to a lesser extent, Federal Transfers.

FAO less Ontario 2017 Budget Outlook ($ Billions)					
	2016-17	2017-18	2018-19	2019-20	Average
Taxation Revenue	-1.2	-1.4	-2.3	-3.0	-2.0
Government of Canada Transfers	-0.1	0.0	-0.8	-0.8	-0.4
Government Business Enterprises	0.0	0.0	0.0	0.0	0.0
Other Non-Tax Revenue	0.0	0.0	0.0	0.0	0.0
Total Revenue	**-1.2**	**-1.4**	**-3.1**	**-3.7**	**-2.4**

    - FAO's projection for the composition of nominal GDP such as compensation of employees, net operating surplus and household consumption, are all lower than the 2017 Budget projection.
    - The 2017 Budget assumed higher yields from CIT and HST compared to recent projections, reflecting recent tax revenue performance. These yields also exceed those assumed by the FAO.
    - The FAO projection for PIT is consistently lower than the 2017 Budget, partly due to their assumptions regarding tax planning that may have occurred in 2015 by high-income earners. Whereas the 2017 Budget only included an allowance for PIT planning in 2016-17, the FAO estimates that roughly $600 million of Ontario's 2015 PIT revenue was due to income shifting, which lowers taxable income in 2016-17 and 2017-18.
- The FAO's federal transfer outlook is lower than assumed in the 2017 Ontario Budget, probably due to FAO's assumption that Ontario will no longer receive Equalization payments starting in 2019-20 as Ontario's fiscal capacity improves relative to other provinces.
- The FAO's government business enterprise net income outlook and other non-tax revenue is the same as reported in the 2017 Budget.

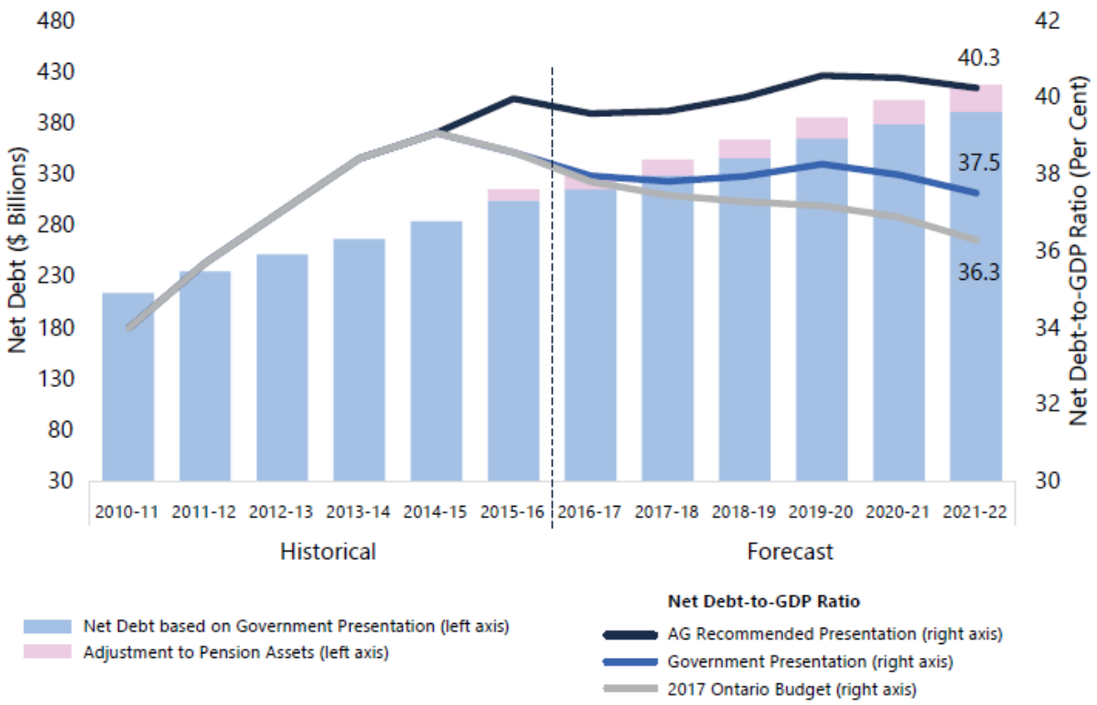
Expense Assumptions

- The FAO assumes the same program expense outlook as the 2017 Budget up to 2019–20, adjusted to reflect the Auditor General's recommended accounting treatment for jointly sponsored pension plans.(p. 20).
- The FAO's expense outlook includes new spending commitments announced in the 2017 Budget including the new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan. This results in average annual growth in program expense of 3.3 per cent between 2016–17 and 2021–22 – slightly below the growth in underlying cost and demographic pressure, which is estimated to be 3.6 per cent on average.
- The FAO projects that Ontario's interest on debt (IOD) payments will grow at an average annual rate of 4.0 per cent from $11.0 billion in 2015–16 to $13.9 billion by 2021–22, reflecting higher debt and rising interest rates over the outlook. The FAO forecasts that IOD will outpace the growth in program expense over the outlook. (p. 21).
- The FAO's projection for IOD expense is lower than the 2017 Budget projections.
- According to the FAO, interest on debt is expected to increase from 8.1per cent of revenues in 2017–18 to 8.9 per cent by 2021–22. Over the past five years IOD as a share of revenues declined steadily, benefitting from declining interest rates. The FAO argues that this ratio is expected to rise sharply due to projected interest rate increases. (p. 21 – Fiscal Chapter).

Debt Outlook

- Using the government's accounting method, the FAO expects net debt to increase by $62 billion over the next five years to $365 billion by 2021–22 or 37.5 per cent of GDP, above the 2017 Budget projection of 36.3 per cent.
- Under the Auditor General's recommended accounting treatment of jointly-sponsored pension plans, the FAO expects Ontario's net debt to rise by $76 billion to $392 billion by 2021–22 or 40.3 per cent of GDP, this represents a slightly lower net debt-to-GDP ratio over the plan and outlook period when compared to the FAO's fall forecast.
- The FAO's net debt-to-GDP projections under both accounting presentations, suggests that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24. (p. 22).

Ontario's Net Debt-to-GDP Ratio



Source: FAO, Ontario Economic Accounts, and 2017 Ontario Budget.
Note: AG recommended presentation is based on FAO estimates of the pension adjustment.

Accounting Treatment

- The FAO's spring outlook includes a detailed section on the different accounting interpretations for net pension assets of jointly sponsored pension plans (Ontario Teachers' Pension Plan and the Ontario Public Service Employees Union Pension Plan) used by the government and the Auditor General.
- While the FAO presents analysis based on both interpretations of the accounting treatment, the report states that "the Officer looks to the Auditor General as the provincial authority on the appropriate interpretation and application of accounting standards for the Province" (p.27).
- Furthermore, the FAO states that in the absence of a written agreement between the co-sponsors of the pension plans, the Auditor General would be expected to provide a qualified opinion on Ontario's 2016-17 Public Accounts.

Risks and Policy Options

- The FAO notes the following risks to Ontario's fiscal plan (p. 23):
    - A housing market correction could pose a significant risk for both the broader economy and the fiscal plan through lower taxation revenues
    - Reduced prudence built into program spending in the 2017 Budget compared to the previous budget – reducing flexibility for the government to respond to unexpected events
    - Interest on debt payments are expected to increase, exposing the government to fiscal risk should interest rates rise faster than expected
- Although the FAO projects deficits, the report notes that the government has a broad range of policy options that could improve the Province's fiscal position, including selling additional public assets beyond announced targets.

APPENDIX A – Detailed Comparison of Outlooks

Key factors driving change since the 2016 FAO fall report:

- Increases in Provincial tax revenue of $2.8 billion in 2016–17 and $4.2 billion in 2017–18 (stronger than expected PIT revenue) due to improving economic growth in 2017
- Declines in Ontario's equalization entitlement. Beyond 2018–19, the FAO is projecting that Ontario will no longer be entitled to Equalization payments – a reflection of the continued strength of the Ontario economy
- Significant new spending across all sectors, including a new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan
- Revised estimates for net pension asset expense of jointly sponsored pension plans

Developments since Fall 2016 EFO (AG Recommended Presentation)

	2016-17	2017-18	2018-19	2019-20	2020-21
FAO's Fall 2016 Budget Balance Forecast	**-5.2**	**-2.6**	**-2.8**	**-3.3**	**-3.7**
Developments Since Fall 2016					
Revenue					
Stronger Economic Outlook	2.3	4.1	3.9	4.4	4.7
Lower Federal Transfers[1]	-0.3	0.2	-1.3	-2.4	-2.2
Other Revenue Changes[2]	0.1	0.1	-0.5	-0.6	-0.6
Total	2.1	4.4	2.1	1.3	1.8
Expense					
Higher Spending, including Children and Youth Pharmacare, and Fair Hydro Plan	1.2	3.8	3.0	2.2	2.7
Revised Adjustment for Pension Asset[3]	0.7	0.8	1.1	1.4	1.4
Total	2.0	4.6	4.1	3.6	4.1
Total Developments	**0.2**	**-0.3**	**-2.1**	**-2.3**	**-2.3**
FAO's Spring 2017 Budget Balance Forecast	**-5.0**	**-2.9**	**-4.9**	**-5.5**	**-6.0**

Notes:

1. Change in federal transfers forecast mainly due the reduction in Ontario's Equalization payment.
2. Other revenue changes include the $0.5 billion re-profiling of cap-and-trade proceeds from 2016-17 to 2017-18, and an increase in sales and rentals for 2017-18.
3. In the Fall 2016 EFO, the FAO assumed an annual adjustment of $1.5 billion for the net pension assets of jointly sponsored pension plans. The current projection incorporates the FAO's updated estimates for the pension adjustment of $2.2 billion in 2016-17, increasing to $2.9 billion by 2020-21.

Source: FAO.

Revenue Assumptions:

- Compared to the FAO's fall forecast, from 2016-17 to 2019-20, on average, total revenue is projected to be $2.5 billion higher annually mostly because of higher taxation revenue, partially offset by lower Federal Transfers and other Non-Tax revenues.

FAO Revenue Difference (Spring 2017 less Fall 2016)					
$ Billions	2016-17	2017-18f	2018-19f	2019-20f	Annual Average
Taxation Revenue	**2.8**	**4.2**	**4.4**	**4.9**	**4.1**
Government of Canada Transfers	-0.4	0.2	-1.3	-2.4	-1.0
Government Business Enterprises	0.3	-0.4	0.0	0.1	0.0
Other Non-Tax Revenue	-0.6	0.4	-1.1	-1.3	-0.7
Total Non-Tax Revenue	**-0.7**	**0.2**	**-2.4**	**-3.6**	**-1.6**
Total Revenue	**2.1**	**4.4**	**2.1**	**1.4**	**2.5**

- Taxation revenues are projected to be, on average, $4.1 billion higher annually due to stronger economic growth as nominal GDP growth is, on average, projected to be 0.4 percentage points higher annually.
- More specifically, corporate profits are projected to be 3.3 percentage points higher annually, boosting Corporations Tax revenue. Higher labour income is expected to raise Personal Income Tax revenue while Ontario's strong housing market boosts Sales Tax and Land Transfer Tax revenues.
- Lower Federal Transfers reflects mostly the FAO's projection that Ontario will no longer be entitled to Equalization payments beyond 2018-19.
- Non-Tax revenues are lower, mainly because of the revisions to the multi-year asset optimization target to reflect the progress made so far and revised projections for Carbon allowance proceeds.

Comparison: 2017 Budget Fiscal Outlook and the 2017 Spring FAO Outlook										
								Avg. Annual Growth		
	Actual		Outlook					16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
2017 Budget										
Revenue	128.4	133.2	141.7	144.9	149.3			3.9%		
Expense										
Program Expense*	120.9	123.5	129.5	132.3	135.8			3.2%		
Adjustment for Pension Assets	-	-	-	-	-					
Interest on Debt	11.0	11.3	11.6	12.0	12.6			3.9%		
Total Expense	131.9	134.8	141.1	144.3	148.4			3.3%		
Surplus/(Deficit) Excl. Reserve	**(3.5)**	**(1.5)**	**0.6**	**0.6**	**0.9**					
Reserve	-	-	0.6	0.6	0.9					
Surplus/(Deficit)	**(3.5)**	**(1.5)**	**0.0**	**0.0**	**0.0**					
Net Debt	294.6	301.9	311.9	323.3	335.9					
Change - 2017 Budget to FAO Spring 2017 Report										
Revenue	-	*(1.2)*	*(1.4)*	*(3.1)*	*(3.7)*					
Expense										
Program Expense *	-	-	-	-	-					
Adjustment for Pension Assets	*1.5*	*2.2*	*2.3*	*2.6*	*2.9*					
Interest on Debt	-	-	*(0.3)*	*(0.3)*	*(0.3)*					
Total Expense	*1.5*	*2.2*	*2.0*	*2.3*	*2.7*					
Surplus/(Deficit) Excl. Reserve	***(1.5)***	***(3.5)***	***(3.5)***	***(5.5)***	***(6.4)***					
Reserve	-	-	*n/a*	*n/a*	*n/a*					
Surplus/(Deficit)	***(1.5)***	***(3.5)***	***n/a***	***n/a***	***n/a***					
Net Debt	*10.6*	*14.2*	*17.6*	*23.1*	*29.5*					
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	120.9	123.5	129.5	132.3	135.8	140.9	146.1	3.2%	3.7%	3.4%
Adjustment for Pension Assets	1.5	2.2	2.3	2.6	2.9	2.9	2.9			
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	133.4	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve	**(5.0)**	**(5.0)**	**(2.9)**	**(4.9)**	**(5.5)**	**(6.0)**	**(6.5)**			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	**(5.0)**	**(5.0)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Adjustment for Pension Assets	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**(3.5)**	**(2.8)**	**(0.5)**	**(2.2)**	**(2.6)**	**(3.1)**	**(3.6)**			
Note: Numbers may not align with report due to rounding.										
*** Program Expense excluding Adjustment for Pension Assets (captured on line below)**										

Comparison: 2016 Fall FAO Outlook Compared to 2017 Spring FAO Outlook										
								Avg. Annual Growth		
	Actual		Outlook					16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
FAO Fall 2016 Report										
Revenue	128.4	129.9	135.9	139.7	144.2	149.1		3.5%		
Expense										
Program Expense*	122.4	123.9	127.2	130.9	135.3	139.9		3.0%		
Interest on Debt	11.0	11.2	11.3	11.6	12.2	12.9		2.9%		
Total Expense	133.4	135.1	138.5	142.5	147.5	152.8		3.0%		
Surplus/(Deficit) Excl. Reserve	**(5.0)**	**(5.2)**	**(2.6)**	**(2.8)**	**(3.3)**	**(3.7)**				
Reserve	-	-	n/a	n/a	n/a	n/a				
Surplus/(Deficit)	**(5.0)**	**(5.2)**	**n/a**	**n/a**	**n/a**	**n/a**				
Net Debt	305.2	318.5	330.5	343.8	356.8	369.7				
Adjustment for Pension Assets	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)				
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**(3.5)**	**(3.7)**	**(1.1)**	**(1.3)**	**(1.8)**	**(2.2)**				
Change - FAO Fall 2016 Report to Spring 2017 Report										
Revenue	-	*2.1*	*4.4*	*2.1*	*1.3*	*1.8*				
Expense										
Program Expense *	-	*1.9*	*4.6*	*4.0*	*3.5*	*3.9*				
Interest on Debt	-	*0.1*	-	*0.1*	*0.1*	*0.2*				
Total Expense	-	*2.0*	*4.6*	*4.1*	*3.6*	*4.1*				
Surplus/(Deficit) Excl. Reserve	***0.0***	***0.2***	***(0.3)***	***(2.1)***	***(2.3)***	***(2.3)***				
Reserve	-	-	*n/a*	*n/a*	*n/a*	*n/a*				
Surplus/(Deficit)	***0.0***	***0.2***	***n/a***	***n/a***	***n/a***	***n/a***				
Net Debt	*(0.0)*	*(2.4)*	*(1.0)*	*2.6*	*8.6*	*9.7*				
Adjustment for Pension Assets	-	(0.7)	(0.8)	(1.1)	(1.4)	(1.4)				
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**-**	**0.9**	**0.6**	**(0.9)**	**(0.8)**	**(0.9)**				
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	122.4	125.7	131.8	134.9	138.8	143.8	149.0	3.4%	3.6%	3.5%
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	133.4	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve	**(5.0)**	**(5.0)**	**(2.9)**	**(4.9)**	**(5.5)**	**(6.0)**	**(6.5)**			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	**(5.0)**	**(5.0)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Adjustment for Pension Assets	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**(3.5)**	**(2.8)**	**(0.5)**	**(2.2)**	**(2.6)**	**(3.1)**	**(3.6)**			
Note: Numbers may not align with report due to rounding.										
*** Based on AG recommended accounting treatment with adjustment for net pension assets.**										

Financial Accountability Officer Report: Spring Economic and Fiscal Outlook

Draft – May 30, 2017 6:00 PM

ISSUE

- The Financial Accountability Officer (FAO) will be releasing a report on May 31, which assesses Ontario's medium-term economic and fiscal outlook.
- This represents the spring update to the FAO's planned release of semi-annual medium-term outlook reports.
- The spring report incorporates economic and fiscal information released since the FAO's fall 2016 report (released November 3, 2016). This includes:
    - New economic data that impacts their revenue and interest on debt outlooks; and
    - New spending commitments from the 2017 Budget.
- The FAO has presented two fiscal projections in its spring report:
    1. A projection that includes the impact of the net pension assets of jointly sponsored pension plans, based on the Auditor General's recommended accounting treatment, and
    2. A projection that excludes this impact based on the government's fiscal presentation in the 2017 Budget, as recommended by the Pension Asset Expert Advisory Panel.
- Both presentations used by the FAO project deficits in each year over the outlook period (2016–17 to 2021–22).
    - Using the government's fiscal presentation of net pension assets, the FAO has stated that balance is within reach in 2017–18 and that beyond this, staying in balance will likely require additional fiscal policy measures.
    - Similarly, using this presentation, the FAO projects that net debt-to-GDP will decline over the outlook but additional fiscal measures would be required for the government to achieve its interim net debt-to-GDP target of 35 per cent by 2023–24 and 27 per cent by 2029–30.
    - The FAO excludes the reserve from its fiscal outlook.

TOP MESSAGES

- I would like to thank the Financial Accountability Officer (FAO) for releasing his spring economic and fiscal outlook for Ontario. We value the FAO's independent assessment and projections of the province's fiscal plan.
- As outlined in the 2017 Budget, the government is projecting a balanced budget for 2017–18 and to remain balanced in 2018–19 and 2019–20.
- The government has a strong track record of beating its fiscal targets. In fact, for the 2016–17 fiscal year, the government is forecasting a deficit of $1.5 billion, beating our annual deficit target again, for the eighth year in a row.
- This Budget builds on the government's track record of fiscal management that has resulted in $29 billion in accumulated deficits being avoided over the past seven years, relative to the 2010 Budget forecast.
- We are also targeting a net debt-to-GDP ratio of 35 per cent by 2023–24 and reducing Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029–30.
- Ontario has recorded stronger economic growth than Canada and all other G7 countries over the 2014 to 2016 period, with real GDP rising 2.6 per cent a year.
- Private-sector forecasters expect Ontario will remain one of the fastest growing provinces over the next two years. It should be noted that the FAO's real GDP projections are modestly stronger than the 2017 Budget outlook over the 2017 to 2020 period.
- For prudent fiscal planning, the Province's real GDP growth projections are slightly below the average of private-sector forecasts. In fact, three economic experts also reviewed these economic assumptions and found them to be reasonable.
- This shows that our plan to make strategic investments in Ontario to grow the economy is working.
- It is also important to note that the FAO affirmed key aspects of the Budget plan, including projecting that a balanced budget is within reach for Ontario in 2017–18 and that the net debt-to-GDP ratio is on a downward trend.
- A balanced budget is providing the Province the fiscal flexibility to invest more in health care, education and other public services that matter most to Ontario families. It also adds stability to Ontario's finances and positions the government to better respond to demographic challenges and unexpected global economic shocks that the province will face over the next decade.

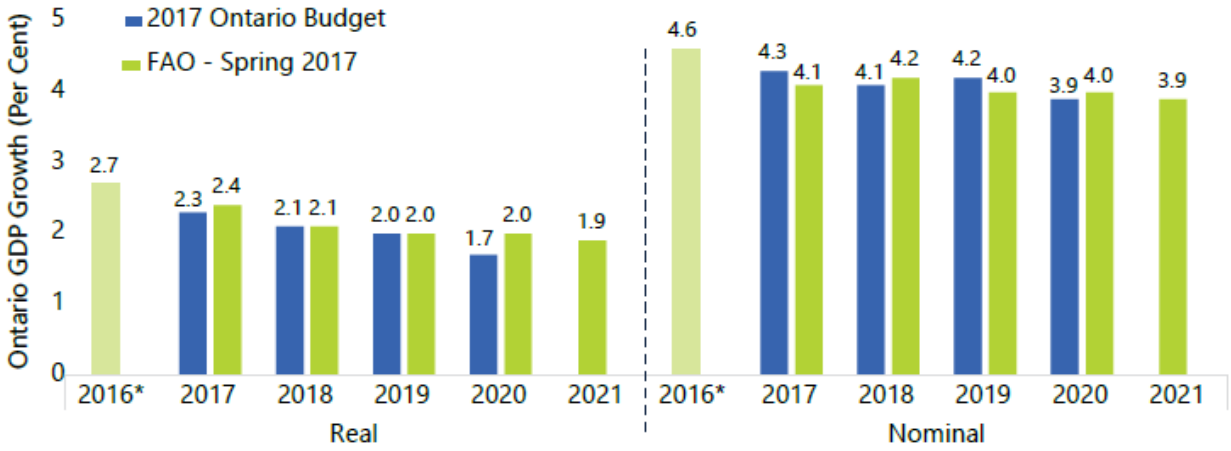
KEY FINDINGS

- The report is divided into two main chapters:
    1) The **Economic Outlook** chapter presents the FAO forecast for Ontario's economy out to 2021, and includes a discussion of potential risks.
    2) The **Fiscal Outlook** chapter presents the FAO forecast for revenue, expense and the surplus/deficit between 2016-17 and 2021-22.

<u>Economic Outlook</u>

- The FAO has left its forecast for Ontario real GDP growth little changed, on average, over the 2017 to 2020 period relative to its fall forecast, though it included a modest downward revision in 2017 and upward revision in 2019.
- The FAO forecast is broadly consistent with the private sector economists' view that stronger international exports and business investment will be key drivers of Ontario's overall economic growth over the next several years.
- The FAO forecast for real GDP growth is 0.1 percentage points stronger annually, on average, than the 2017 Budget forecast between 2017 and 2020.
- The FAO believes the balance of the risks to the economic outlook is tilted to the downside, particularly risks associated with a correction in Ontario's housing market. (p. 13).

Solid Economic Performance Expected Over Outlook



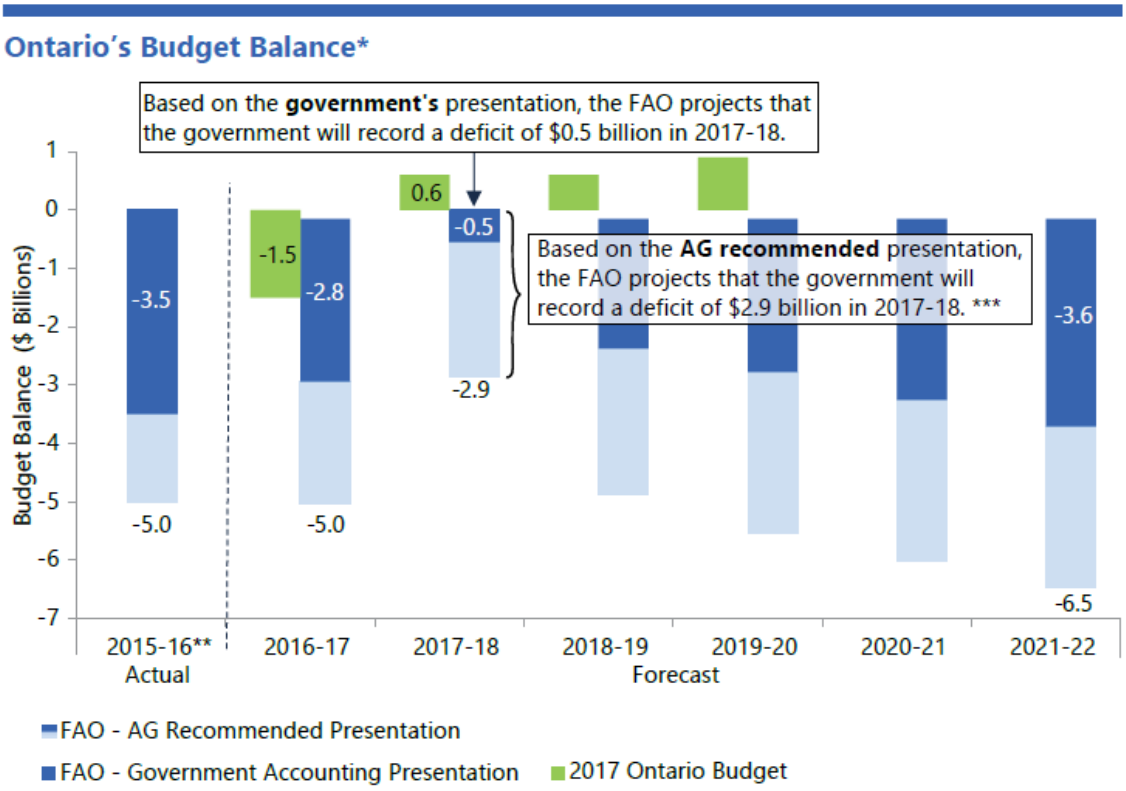
* 2016 are actuals.

Source: Ontario Economic Accounts, 2017 Ontario Budget and FAO.

Fiscal Outlook

- The FAO's current projection of the outlook for budget balance has generally deteriorated relative to the FAO's fall 2016 projection and continues to present a gap against the government's balanced budget projections.
- **Using the government's accounting treatment of net pension assets** the FAO is projecting budget deficits of $2.8 billion in 2016–17, $0.5 billion in 2017–18, $2.2 billion in 2018–19, and $2.6 billion by 2019–20 (excluding the reserve). This represents an improvement in the deficit for 2016–17 and 2017–18, but deterioration over the outlook compared to the FAO's fall report.
    - By comparison, the 2017 Budget projects a $1.5 billion deficit in 2016–17 and surpluses of $0.6 billion in 2017–18 and 2018–19, and a $0.9 billion surplus in 2019–20, excluding the reserve. The FAO also makes projections out to 2021–22 with increasing deficits forecast for those years as well.
    - The FAO suggests that a balanced budget is "within the government's reach in 2017–18" when using the government's accounting method, however "staying in balance after 2017-18 will likely require additional fiscal policy measures"(p.1).
    - The FAO notes that under this accounting presentation, Ontario's Public Accounts would be expected to receive a qualified opinion from the Auditor General.
- The FAO's forecast, **based on the Auditor General's recommended accounting treatment of jointly-sponsored pension plans**, projects deficits of $5.0 billion in 2016–17, $2.9 billion in 2017–18, $4.9 billion in 2018–19, and $5.5 billion by 2019–20 (excluding the reserve). Compared to the FAO's fall report, this represents a slight improvement in the deficit for 2016–17 but deterioration in 2017–18 and over the outlook.
    - The FAO notes that "on this basis, it is unlikely that the government will balance the budget without significant fiscal policy adjustments to raise revenue or lower expense" (p. 1).
- For 2016–17 the FAO is forecasting a deficit of $2.8 billion (or $5.0 billion with the pension adjustment) compared with the government's $1.5 billion interim projection.
- The FAO's asserts that its projection for an improved deficit in 2017–18 is due to robust economic performance and strong tax revenue growth in 2016 and 2017, compared to the FAO's fall estimates, and a one-time revenue increase in 2017–18 from increased federal transfers for infrastructure, additional revenue from asset sales and cap and trade proceeds. (p. 1 &19).

- Beginning in 2018-19, the FAO projects that the deficit will gradually deteriorate due to moderate revenue growth, the absence of one-time non-tax measures, and higher program expenses. (p. 16).



* Budget balance before reserve.

** Ontario's 2015-16 Public Accounts reported a deficit of $5.0 billion. Without the pension adjustment, the deficit would have been $3.5 billion.

*** This includes the FAO's estimate of the pension adjustment.

Source: 2015-16 Public Accounts, 2017 Ontario Budget and FAO.

Revenue Assumptions

- Compared to the 2017 Budget, the FAO's projected total revenue is lower mostly because of taxation revenue and, to a lesser extent, Federal Transfers.

FAO less Ontario 2017 Budget Outlook ($ Billions)

	2016-17	2017-18	2018-19	2019-20	Average
Taxation Revenue	-1.2	-1.4	-2.3	-3.0	-2.0
Government of Canada Transfers	-0.1	0.0	-0.8	-0.8	-0.4
Government Business Enterprises	0.0	0.0	0.0	0.0	0.0
Other Non-Tax Revenue	0.0	0.0	0.0	0.0	0.0
Total Revenue	**-1.2**	**-1.4**	**-3.1**	**-3.7**	**-2.4**

- FAO's projection for the composition of nominal GDP such as compensation of employees, net operating surplus and household consumption, are all lower than the 2017 Budget projection.
- The 2017 Budget assumed higher yields from CIT and HST compared to recent projections, reflecting recent tax revenue performance. These yields also exceed those assumed by the FAO.
- The FAO projection for PIT is consistently lower than the 2017 Budget, partly due to their assumptions regarding tax planning that may have occurred in 2015 by high-income earners. Whereas the 2017 Budget only included an allowance for PIT planning in 2016-17, the FAO estimates that roughly $600 million of Ontario's 2015 PIT revenue was due to income shifting, which lowers taxable income in 2016-17 and 2017-18.

- The FAO's federal transfer outlook is lower than assumed in the 2017 Ontario Budget, probably due to FAO's assumption that Ontario will no longer receive Equalization payments starting in 2019-20 as Ontario's fiscal capacity improves relative to other provinces.
- The FAO's government business enterprise net income outlook and other non-tax revenue is the same as reported in the 2017 Budget.

Expense Assumptions

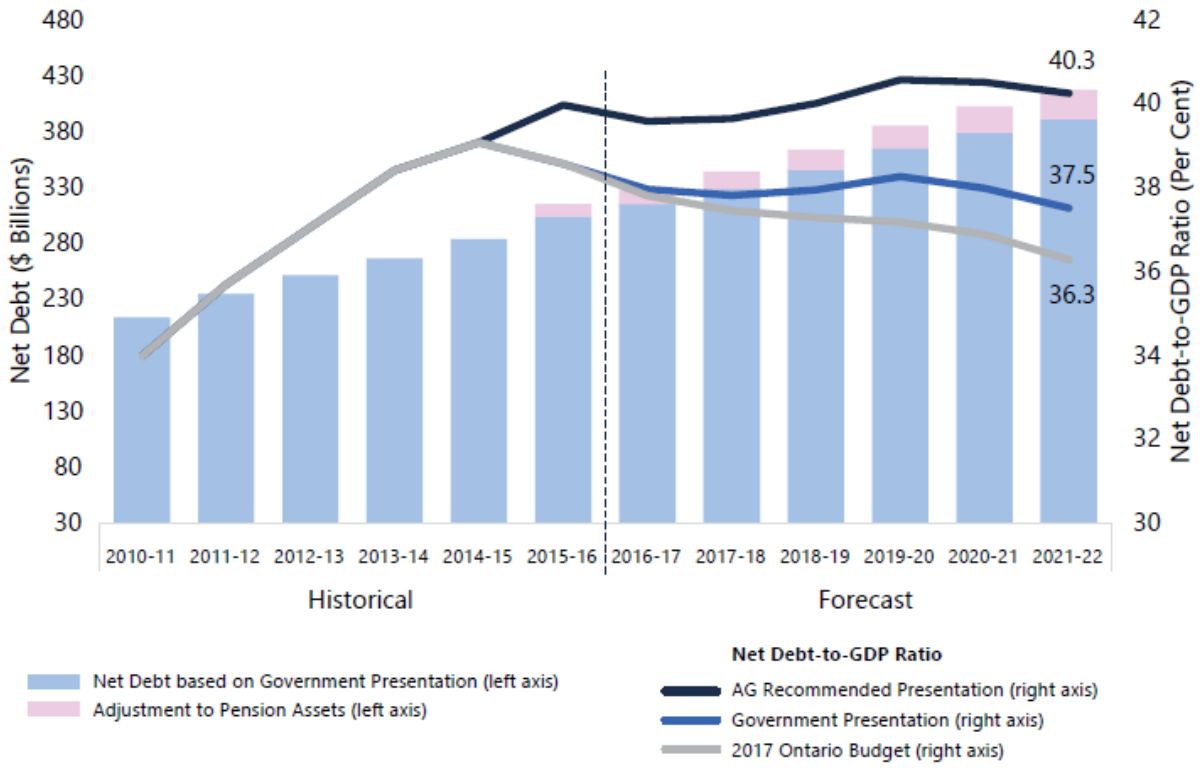
- The FAO assumes the same program expense outlook as the 2017 Budget up to 2019–20, adjusted to reflect the Auditor General's recommended accounting treatment for jointly sponsored pension plans.(p. 20).
- The FAO's expense outlook includes new spending commitments announced in the 2017 Budget including the new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan. This results in average annual growth in program expense of 3.3 per cent between 2016–17 and 2021–22 – slightly below the growth in underlying cost and demographic pressure, which is estimated to be 3.6 per cent on average.
- The FAO projects that Ontario's interest on debt (IOD) payments will grow at an average annual rate of 4.0 per cent from $11.0 billion in 2015–16 to $13.9 billion by 2021–22, reflecting higher debt and rising interest rates over the outlook. The FAO forecasts that IOD will outpace the growth in program expense over the outlook. (p. 21).
- The FAO's projection for IOD expense is lower than the 2017 Budget projections.
- According to the FAO, interest on debt is expected to increase from 8.1per cent of revenues in 2017–18 to 8.9 per cent by 2021–22. Over the past five years IOD as a share of revenues declined steadily, benefitting from declining interest rates. The

FAO argues that this ratio is expected to rise sharply due to projected interest rate increases. (p. 21 – Fiscal Chapter).

Debt Outlook

- Using the government's accounting method, the FAO expects net debt to increase by $62 billion over the next five years to $365 billion by 2021–22 or 37.5 per cent of GDP, above the 2017 Budget projection of 36.3 per cent.
- Under the Auditor General's recommended accounting treatment of jointly-sponsored pension plans, the FAO expects Ontario's net debt to rise by $76 billion to $392 billion by 2021–22 or 40.3 per cent of GDP, this represents a slightly lower net debt-to-GDP ratio over the plan and outlook period when compared to the FAO's fall forecast.
- The FAO's net debt-to-GDP projections under both accounting presentations, suggests that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24. (p. 22).

Ontario's Net Debt-to-GDP Ratio



Source: FAO, Ontario Economic Accounts, and 2017 Ontario Budget.
Note: AG recommended presentation is based on FAO estimates of the pension adjustment.

Accounting Treatment

- The FAO's spring outlook includes a detailed section on the different accounting interpretations for net pension assets of jointly sponsored pension plans (Ontario Teachers' Pension Plan and the Ontario Public Service Employees Union Pension Plan) used by the government and the Auditor General.
- While the FAO presents analysis based on both interpretations of the accounting treatment, the report states that "the Officer looks to the Auditor General as the provincial authority on the appropriate interpretation and application of accounting standards for the Province" (p.27).
- Furthermore, the FAO states that in the absence of a written agreement between the co-sponsors of the pension plans, the Auditor General would be expected to provide a qualified opinion on Ontario's 2016-17 Public Accounts.

Risks and Policy Options

- The FAO notes the following risks to Ontario's fiscal plan (p. 23):
    - A housing market correction could pose a significant risk for both the broader economy and the fiscal plan through lower taxation revenues
    - Reduced prudence built into program spending in the 2017 Budget compared to the previous budget – reducing flexibility for the government to respond to unexpected events
    - Interest on debt payments are expected to increase, exposing the government to fiscal risk should interest rates rise faster than expected
- Although the FAO projects deficits, the report notes that the government has a broad range of policy options that could improve the Province's fiscal position, including selling additional public assets beyond announced targets.

APPENDIX A – Detailed Comparison of Outlooks

Key factors driving change since the 2016 FAO fall report:

- Increases in Provincial tax revenue of $2.8 billion in 2016–17 and $4.2 billion in 2017–18 (stronger than expected PIT revenue) due to improving economic growth in 2017
- Declines in Ontario's equalization entitlement. Beyond 2018–19, the FAO is projecting that Ontario will no longer be entitled to Equalization payments – a reflection of the continued strength of the Ontario economy
- Significant new spending across all sectors, including a new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan
- Revised estimates for net pension asset expense of jointly sponsored pension plans

Developments since Fall 2016 EFO (AG Recommended Presentation)

	2016-17	2017-18	2018-19	2019-20	2020-21
FAO's Fall 2016 Budget Balance Forecast	**-5.2**	**-2.6**	**-2.8**	**-3.3**	**-3.7**
Developments Since Fall 2016					
Revenue					
Stronger Economic Outlook	2.3	4.1	3.9	4.4	4.7
Lower Federal Transfers[1]	-0.3	0.2	-1.3	-2.4	-2.2
Other Revenue Changes[2]	0.1	0.1	-0.5	-0.6	-0.6
Total	2.1	4.4	2.1	1.3	1.8
Expense					
Higher Spending, including Children and Youth Pharmacare, and Fair Hydro Plan	1.2	3.8	3.0	2.2	2.7
Revised Adjustment for Pension Asset[3]	0.7	0.8	1.1	1.4	1.4
Total	2.0	4.6	4.1	3.6	4.1
Total Developments	**0.2**	**-0.3**	**-2.1**	**-2.3**	**-2.3**
FAO's Spring 2017 Budget Balance Forecast	**-5.0**	**-2.9**	**-4.9**	**-5.5**	**-6.0**

Notes:

1. Change in federal transfers forecast mainly due the reduction in Ontario's Equalization payment.
2. Other revenue changes include the $0.5 billion re-profiling of cap-and-trade proceeds from 2016-17 to 2017-18, and an increase in sales and rentals for 2017-18.
3. In the Fall 2016 EFO, the FAO assumed an annual adjustment of $1.5 billion for the net pension assets of jointly sponsored pension plans. The current projection incorporates the FAO's updated estimates for the pension adjustment of $2.2 billion in 2016-17, increasing to $2.9 billion by 2020-21.

Source: FAO.

Revenue Assumptions:

- Compared to the FAO's fall forecast, from 2016-17 to 2019-20, on average, total revenue is projected to be $2.5 billion higher annually mostly because of higher taxation revenue, partially offset by lower Federal Transfers and other Non-Tax revenues.

FAO Revenue Difference (Spring 2017 less Fall 2016)

$ Billions	2016-17	2017-18f	2018-19f	2019-20f	Annual Average
Taxation Revenue	**2.8**	**4.2**	**4.4**	**4.9**	**4.1**
Government of Canada Transfers	-0.4	0.2	-1.3	-2.4	-1.0
Government Business Enterprises	0.3	-0.4	0.0	0.1	0.0
Other Non-Tax Revenue	-0.6	0.4	-1.1	-1.3	-0.7
Total Non-Tax Revenue	**-0.7**	**0.2**	**-2.4**	**-3.6**	**-1.6**
Total Revenue	**2.1**	**4.4**	**2.1**	**1.4**	**2.5**

  - Taxation revenues are projected to be, on average, $4.1 billion higher annually due to stronger economic growth as nominal GDP growth is, on average, projected to be 0.4 percentage points higher annually.
  - More specifically, corporate profits are projected to be 3.3 percentage points higher annually, boosting Corporations Tax revenue. Higher labour income is expected to raise Personal Income Tax revenue while Ontario's strong housing market boosts Sales Tax and Land Transfer Tax revenues.
  - Lower Federal Transfers reflects mostly the FAO's projection that Ontario will no longer be entitled to Equalization payments beyond 2018-19.
  - Non-Tax revenues are lower, mainly because of the revisions to the multi-year asset optimization target to reflect the progress made so far and revised projections for Carbon allowance proceeds.

Comparison: 2017 Budget Fiscal Outlook and the 2017 Spring FAO Outlook										
								Avg. Annual Growth		
	Actual		Outlook					16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
2017 Budget										
Revenue	128.4	133.2	141.7	144.9	149.3			3.9%		
Expense										
Program Expense*	120.9	123.5	129.5	132.3	135.8			3.2%		
Adjustment for Pension Assets	-	-	-	-	-					
Interest on Debt	11.0	11.3	11.6	12.0	12.6			3.9%		
Total Expense	131.9	134.8	141.1	144.3	148.4			3.3%		
Surplus/(Deficit) Excl. Reserve	**(3.5)**	**(1.5)**	**0.6**	**0.6**	**0.9**					
Reserve	-	-	0.6	0.6	0.9					
Surplus/(Deficit)	**(3.5)**	**(1.5)**	**0.0**	**0.0**	**0.0**					
Net Debt	294.6	301.9	311.9	323.3	335.9					
Change - 2017 Budget to FAO Spring 2017 Report										
Revenue	-	*(1.2)*	*(1.4)*	*(3.1)*	*(3.7)*					
Expense										
Program Expense *	-	-	-	-	-					
Adjustment for Pension Assets	*1.5*	*2.2*	*2.3*	*2.6*	*2.9*					
Interest on Debt	-	-	*(0.3)*	*(0.3)*	*(0.3)*					
Total Expense	*1.5*	*2.2*	*2.0*	*2.3*	*2.7*					
Surplus/(Deficit) Excl. Reserve	***(1.5)***	***(3.5)***	***(3.5)***	***(5.5)***	***(6.4)***					
Reserve	-	-	*n/a*	*n/a*	*n/a*					
Surplus/(Deficit)	***(1.5)***	***(3.5)***	***n/a***	***n/a***	***n/a***					
Net Debt	*10.6*	*14.2*	*17.6*	*23.1*	*29.5*					
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	120.9	123.5	129.5	132.3	135.8	140.9	146.1	3.2%	3.7%	3.4%
Adjustment for Pension Assets	1.5	2.2	2.3	2.6	2.9	2.9	2.9			
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	133.4	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve	**(5.0)**	**(5.0)**	**(2.9)**	**(4.9)**	**(5.5)**	**(6.0)**	**(6.5)**			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	**(5.0)**	**(5.0)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Adjustment for Pension Assets	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**(3.5)**	**(2.8)**	**(0.5)**	**(2.2)**	**(2.6)**	**(3.1)**	**(3.6)**			
Note: Numbers may not align with report due to rounding.										
*** Program Expense excluding Adjustment for Pension Assets (captured on line below)**										

Comparison: 2016 Fall FAO Outlook Compared to 2017 Spring FAO Outlook										
								Avg. Annual Growth		
	Actual		Outlook					16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
FAO Fall 2016 Report										
Revenue	128.4	129.9	135.9	139.7	144.2	149.1		3.5%		
Expense										
Program Expense*	122.4	123.9	127.2	130.9	135.3	139.9		3.0%		
Interest on Debt	11.0	11.2	11.3	11.6	12.2	12.9		2.9%		
Total Expense	133.4	135.1	138.5	142.5	147.5	152.8		3.0%		
Surplus/(Deficit) Excl. Reserve	**(5.0)**	**(5.2)**	**(2.6)**	**(2.8)**	**(3.3)**	**(3.7)**				
Reserve	-	-	n/a	n/a	n/a	n/a				
Surplus/(Deficit)	**(5.0)**	**(5.2)**	**n/a**	**n/a**	**n/a**	**n/a**				
Net Debt	305.2	318.5	330.5	343.8	356.8	369.7				
Adjustment for Pension Assets	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)				
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**(3.5)**	**(3.7)**	**(1.1)**	**(1.3)**	**(1.8)**	**(2.2)**				
Change - FAO Fall 2016 Report to Spring 2017 Report										
Revenue	-	*2.1*	*4.4*	*2.1*	*1.3*	*1.8*				
Expense										
Program Expense *	-	*1.9*	*4.6*	*4.0*	*3.5*	*3.9*				
Interest on Debt	-	*0.1*	-	*0.1*	*0.1*	*0.2*				
Total Expense	-	*2.0*	*4.6*	*4.1*	*3.6*	*4.1*				
Surplus/(Deficit) Excl. Reserve	***0.0***	***0.2***	***(0.3)***	***(2.1)***	***(2.3)***	***(2.3)***				
Reserve	-	-	*n/a*	*n/a*	*n/a*	*n/a*				
Surplus/(Deficit)	***0.0***	***0.2***	***n/a***	***n/a***	***n/a***	***n/a***				
Net Debt	*(0.0)*	*(2.4)*	*(1.0)*	*2.6*	*8.6*	*9.7*				
Adjustment for Pension Assets	-	(0.7)	(0.8)	(1.1)	(1.4)	(1.4)				
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**-**	**0.9**	**0.6**	**(0.9)**	**(0.8)**	**(0.9)**				
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	122.4	125.7	131.8	134.9	138.8	143.8	149.0	3.4%	3.6%	3.5%
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	133.4	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve	**(5.0)**	**(5.0)**	**(2.9)**	**(4.9)**	**(5.5)**	**(6.0)**	**(6.5)**			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	**(5.0)**	**(5.0)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Adjustment for Pension Assets	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	**(3.5)**	**(2.8)**	**(0.5)**	**(2.2)**	**(2.6)**	**(3.1)**	**(3.6)**			

Note: Numbers may not align with report due to rounding.

*** Based on AG recommended accounting treatment with adjustment for net pension assets.**

Guide to Section 13 of FIPPA

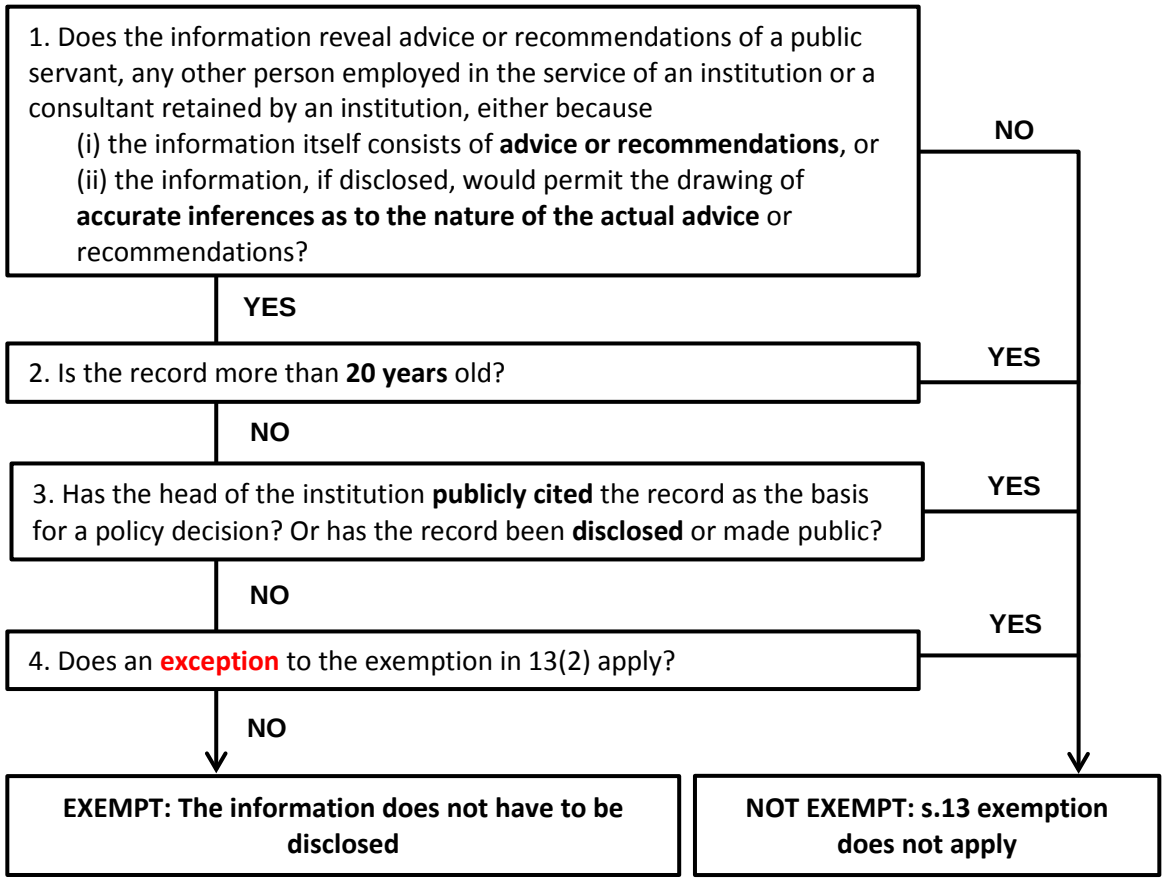
Summary

Subsection 13(1) of FIPPA provides for a **discretionary exemption** permitting an "institution" (i.e. the Ministry of Finance) to refuse to disclose information that "would reveal **advice or recommendations** of a public servant, any other person employed in the service of an institution or a consultant retained by an institution". However, if the information falls into one of the categories listed in subsections (2) or (3), it cannot be withheld under subsection 13(1).

Importantly, if only a portion of the record is exempt from disclosure under section 13, the record may be disclosed with that information be severed and redacted.

This guide applies to the application of the section 13 exemption, not to other possible exemptions in FIPPA.

To determine whether the section 13 exemption applies to a record or part of a record, consider the following flowchart. See the following pages for further details.



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1. Does the record reveal <u>advice or recommendations</u> of a <u>public servant, any other person employed in the service of an institution or a consultant retained by an institution</u>, either because

(i) the information itself consists of advice or recommendations, or

(ii) the information, if disclosed, would permit the drawing of accurate inferences as to the nature of the actual advice or recommendations?

"**Recommendations**" refers to material that relates to a suggested course of action that will ultimately be accepted or rejected by the person being advised, and can be express or inferred.

"**Advice**"

- Has a broader meaning than "recommendations".
- Includes "**policy options**", i.e. lists of alternative courses of action relating to a decision to be made even if they do not include a specific recommendation on which option to take.
- An evaluation or analysis of information.
- May include:
  - Advantages/disadvantages of each option;
  - List of all alternatives provided by person awaiting further instructions from the decision maker for which options should be considered in depth; or
  - Advantages/disadvantages perceived as being obvious or have already been canvassed already or in a prior draft, where options may appear without any additional explanation.
- The advice did not have to be communicated to a decision-maker – it only must have been ascertainable at the time the advice/recommendations were prepared that it was in fact advice/recommendations.
- Must be proximate to the decision-maker, for the benefit of the institution, and not for the benefit of third parties.

Notes:

- Drafts/earlier versions can qualify for the section 13 exemption, if the criteria in the flowchart above are satisfied.
- The following information likely does <u>not</u> qualify under section 13: information prepared for public dissemination, factual/background information (see below)

"**Public servant**", "**Person employed in the service of an institution**", or "**Consultant retained by an institution**":

- Includes:
  - Employees of an institution subject to FIPPA, and employees of other Canadian governments and institutions that fall under the umbrella of "the Crown".
- Does <u>not</u> include:
  - Third parties outside government who are not consultants.
  - Third parties in a contractual relationship with an institution not in the nature of a consultant relationship.
  - Consultants with no formal engagement with the institution for professional services (though formal engagement does not require a payment of a fee).

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2. Is the record more than 20 years old?

- If the record is over 20 years old, the section 13 exemption no longer applies.

3. Has the head of the institution cited the record as the basis for a policy decision? Or has the record been disclosed or made public?

- Exemption only applies where the institution, not a third party, claims its reliance on the record. Exemption cannot apply if the advice or recommendations have been publicly disclosed.

4. Does an exception to the exemption in 13(2) apply?

Factual material does not qualify for the section 13 exemption

- Factual material is a coherent body of facts separate and distinct from the advice and recommendations contained in the record.
- However, if the facts are so interwoven with the advice/recommendation that it cannot reasonably be considered a separate and distinct body of fact and cannot reasonably be severed, then it does not have to be disclosed.

A record or part of a record does not qualify for the section 13 exemption if it is:

- a **statistical survey**,
- a **formal valuator report** (i.e. a formal statement or account of the results of the collation and consideration of information, and generally would not include mere observations or recordings of fact),
- an **environmental impact statement** or similar record,
- a **product test report** for government equipment testing or consumer test,
- a **performance or efficiency report** or study of an institution,
- a government policy or **project feasibility** or other technical study (incl. a cost estimate),
- a **results report of field research** undertaken before the formulation of a policy proposal,
- a **final plan or proposal to change a program** or establish a new program (incl. a budgetary estimate), whether or not it is subject to approval, unless it is to be submitted to the Executive Council or its committees,
- a report of an interdepartmental committee task force or similar body, or of a committee or task force within an institution, which has been established for the purpose of preparing a **report on a particular topic**, unless the report is to be submitted to the Executive Council or its committees,
- a **report of a committee**, council or other body attached to an institution, which has been established for the purpose of undertaking inquiries and making reports/recommendations to the institution,
- the **reasons for a final decision of the institution** made during/at the end of the exercise of discretionary power conferred by/under an enactment/scheme administered by the institution, whether or not the enactment/scheme allows an appeal to be taken against the decision, whether or not the reasons (i) are contained in an internal memo of the institution or in a letter addressed to a named person, or (ii) were given by the decision-maker or were incorporated by reference into the decision.

From:	Anna Strathy
To:	Ken Kandeepan
Subject:	FW: SCOPA - CH 2 of AG Annual Report - Status Table
Date:	Monday, January 15, 2018 1:56:59 PM
Attachments:	Chapter 2 Public Accounts AG Recommendations Nov 15 2017_FINAL.DOCX Status Table form for response to Auditor General Report.doc
Importance:	High

Hi Ken,

One of the requirements for our appearance at SCOPA is that we complete the attached status table for the recommendations included in the AG Annual Report Ch. 2. The OFA is the lead on the debt recommendation (#7). I don't think our response will change much (if at all) from the management response provided in November (attached). I've taken the liberty of populating the status table with our November response, as well as a note about ongoing monitoring and expected implementation in 2029-30. Please feel free to add/edit amend before I share with Gadi for his approval.

Thanks, Anna

From: Hosick, Sarah (TBS) [mailto:Sarah.Hosick@ontario.ca]
Sent: Monday, January 08, 2018 3:39 PM
To: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Hilary Cox (ENE) <Hilary.Cox@ontario.ca>
Cc: Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Richard Hurley (MOF) <Richard.Hurley@ontario.ca>
Subject: SCOPA - CH 2 of AG Annual Report - Status Table
Importance: High

Hi everyone,

As you are likely aware, TBS, MOF, OFA, Energy, IESO and OPG were called to appear at SCOPA regarding the AG Annual Report Ch 2 on February 28th. Part of the requirements is that we submit the attached status table for the recommendations ahead of the meeting by February 14th.

Most of the responses can be based on our original management responses submitted in November (second attachment), adding any updates since that time.

I believe that TBS DMO will be setting up a meeting with everyone the week of January 22nd to go over the proposed approach for the SCOPA meeting. Ideally we would be able to provide a draft of the status table for that meeting (recognizing some responses may change based on the outcome of that meeting). Therefore let's aim to have the **first draft completed by end of day next Friday January 19th** (let me know if not feasible).

I've outlined below who took the lead in November for each of the recommendations so unless any

concerns, we will follow the same approach for these.

Hilary – please let me know if you want me to reach out to IESO directly, or if you will give them the heads up.

Recommendation #	Lead
1	OPCD
2	OPCD with Energy and IESO
3	OPCD with Energy, IESO, OFA
4	OPCD
5	IESO with Energy and OPCD
6	OPCD
7	OFA
8	OPCD with OEP
9	OPCD
10	OTB and OB

Happy to discuss any of the above

Thanks
Sarah

Sarah Hosick
Executive Assistant & Special Policy Advisor (A)
Assistant Deputy Minister's Office | Office of the Provincial Controller
Office of the Treasury Board | Treasury Board Secretariat
7 Queen's Park Cres E, 2nd Floor, Toronto, ON, M7A 1Y7
416-212-8512

AG Recommendation	Management Response
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: ▪ The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. ▪ An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded.

	▪ Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. The government respectfully disagrees with the Auditor General's interpretation of the accounting standards on this issue as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months. The government is open to continue to discuss the matter in the hopes of resolving this matter.
AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns*	The government prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS). The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the OAG's recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor

About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the*	Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis.

consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat: • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and* • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.*	Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements

• *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."*	provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of the legislation, would have been collected

	from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%, currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining, falling to 37.3% in 2017-18 from its 2014-15 peak of 39.3%. As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and

to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and personal income tax revenues.	resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
AG Recommendation #10 *We recommend that the government determine when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the*	Under the *Fiscal Transparency and Accountability Act*, 2004, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a Statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

timeline for issuance of the report that will be subject to our review under the Act.	

Summary Status Table in Response to the Report of the Auditor General of Ontario

[*Title of section]*

[Section #, 2017 Annual Report of the Auditor General]

[Name of Ministry or Organisation]

Auditor's Recommendation	Completed undertaking	Outstanding undertaking (including timeline)
Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%, currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining, falling to 37.3% in 2017-18 from its 2014-15 peak of 39.3%. As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	Continue to monitor progress. Estimated implementation by FY 2029-30.

From:	Anna Strathy
To:	Ken Kandeepan
Subject:	FW: SCOPA - CH 2 of AG Annual Report - Status Table
Date:	Monday, January 15, 2018 1:56:59 PM
Attachments:	Chapter 2 Public Accounts AG Recommendations Nov 15 2017_FINAL.DOCX Status Table form for response to Auditor General Report.doc
Importance:	High

Hi Ken,

One of the requirements for our appearance at SCOPA is that we complete the attached status table for the recommendations included in the AG Annual Report Ch. 2. The OFA is the lead on the debt recommendation (#7). I don't think our response will change much (if at all) from the management response provided in November (attached). I've taken the liberty of populating the status table with our November response, as well as a note about ongoing monitoring and expected implementation in 2029-30. Please feel free to add/edit amend before I share with Gadi for his approval.

Thanks, Anna

From: Hosick, Sarah (TBS) [mailto:Sarah.Hosick@ontario.ca]
Sent: Monday, January 08, 2018 3:39 PM
To: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Hilary Cox (ENE) <Hilary.Cox@ontario.ca>
Cc: Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Richard Hurley (MOF) <Richard.Hurley@ontario.ca>
Subject: SCOPA - CH 2 of AG Annual Report - Status Table
Importance: High

Hi everyone,

As you are likely aware, TBS, MOF, OFA, Energy, IESO and OPG were called to appear at SCOPA regarding the AG Annual Report Ch 2 on February 28th. Part of the requirements is that we submit the attached status table for the recommendations ahead of the meeting by February 14th.

Most of the responses can be based on our original management responses submitted in November (second attachment), adding any updates since that time.

I believe that TBS DMO will be setting up a meeting with everyone the week of January 22nd to go over the proposed approach for the SCOPA meeting. Ideally we would be able to provide a draft of the status table for that meeting (recognizing some responses may change based on the outcome of that meeting). Therefore let's aim to have the **first draft completed by end of day next Friday January 19th** (let me know if not feasible).

I've outlined below who took the lead in November for each of the recommendations so unless any

concerns, we will follow the same approach for these.

Hilary – please let me know if you want me to reach out to IESO directly, or if you will give them the heads up.

Recommendation #	Lead
1	OPCD
2	OPCD with Energy and IESO
3	OPCD with Energy, IESO, OFA
4	OPCD
5	IESO with Energy and OPCD
6	OPCD
7	OFA
8	OPCD with OEP
9	OPCD
10	OTB and OB

Happy to discuss any of the above

Thanks
Sarah

Sarah Hosick
Executive Assistant & Special Policy Advisor (A)
Assistant Deputy Minister's Office | Office of the Provincial Controller
Office of the Treasury Board | Treasury Board Secretariat
7 Queen's Park Cres E, 2nd Floor, Toronto, ON, M7A 1Y7
416-212-8512

AG Recommendation	Management Response
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: ▪ The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. ▪ An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded.

	▪ Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. The government respectfully disagrees with the Auditor General's interpretation of the accounting standards on this issue as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months. The government is open to continue to discuss the matter in the hopes of resolving this matter.
AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns*	The government prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS). The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the OAG's recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor

About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the*	Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis.

consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat: • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and* • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.*	Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.
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• *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."*	provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of the legislation, would have been collected

	from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%, currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining, falling to 37.3% in 2017-18 from its 2014-15 peak of 39.3%. As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and

to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and personal income tax revenues.	resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
AG Recommendation #10 *We recommend that the government determine when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the*	Under the *Fiscal Transparency and Accountability Act*, 2004, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a Statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

timeline for issuance of the report that will be subject to our review under the Act.	

Summary Status Table in Response to the Report of the Auditor General of Ontario

[*Title of section]*

[Section #, 2017 Annual Report of the Auditor General]

[Name of Ministry or Organisation]

Auditor's Recommendation	Completed undertaking	Outstanding undertaking (including timeline)
Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%, currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining, falling to 37.3% in 2017-18 from its 2014-15 peak of 39.3%. As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	Continue to monitor progress. Estimated implementation by FY 2029-30.

From: Anna Strathy
To: Ken Kandeepan
Subject: FW: SCOPA - CH 2 of AG Annual Report - Status Table
Date: Tuesday, January 16, 2018 10:59:02 AM
Attachments: Status Table_Ch 2 of AG AR_SCOPA_2 3 and 5.docx

Hi Ken,

OPCD has shared their response to SCOPA recommendation #3 (re: FHP and cost-effective borrowing) so that we may review and provide any comments. The response looked fine to me and consistent with our management response from November. Let me know if you have any comments or edits before I show this to Gadi.

You can disregard recommendations #2 and #5 as those are meant for Energy to weigh in on.

Thanks, Anna

From: Hosick, Sarah (TBS) [mailto:Sarah.Hosick@ontario.ca]
Sent: Monday, January 15, 2018 4:16 PM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Hilary Cox (ENE) <Hilary.Cox@ontario.ca>
Subject: RE: SCOPA - CH 2 of AG Annual Report - Status Table

Hi Anna and Hilary,

I've attached draft responses to Recommendation 2, 3 and 5 for your areas' review and edits.

Hilary – let me know whether you will send to your agencies after you have reviewed or if you want me to reach out directly to OPG and IESO.

If you could please send back any edits by Thursday, I will roll up for the briefing on Friday.

Thanks
Sarah

From: Hosick, Sarah (TBS)
Sent: January 12, 2018 2:48 PM
To: Birks, Ryan (MOF); Strathy, Anna (OFA); Tarin, Ghufran (MOF); Cox, Hilary (ENERGY); Sharda, Raj (TBS); Pearce, James (TBS)
Cc: Laughton, Patrick (TBS); Hurley, Richard (TBS); Donaldson, Mark (TBS)
Subject: RE: SCOPA - CH 2 of AG Annual Report - Status Table

Hi everyone

Update on this request - there is a joint deputy SCOPA pre-briefing next Friday now. If possible it

would be good to provide a draft status table at that point. Therefore let's please aim to have draft responses completed **by next Thursday instead of Friday.**

Happy to discuss

Thanks
Sarah

From: Hosick, Sarah (TBS)
Sent: January 8, 2018 3:39 PM
To: Birks, Ryan (MOF); Strathy, Anna (OFA); Tarin, Ghufran (MOF); Cox, Hilary (ENERGY)
Cc: Laughton, Patrick (TBS); Hurley, Richard (TBS)
Subject: SCOPA - CH 2 of AG Annual Report - Status Table
Importance: High

Hi everyone,

As you are likely aware, TBS, MOF, OFA, Energy, IESO and OPG were called to appear at SCOPA regarding the AG Annual Report Ch 2 on February 28th. Part of the requirements is that we submit the attached status table for the recommendations ahead of the meeting by February 14th.

Most of the responses can be based on our original management responses submitted in November (second attachment), adding any updates since that time.

I believe that TBS DMO will be setting up a meeting with everyone the week of January 22nd to go over the proposed approach for the SCOPA meeting. Ideally we would be able to provide a draft of the status table for that meeting (recognizing some responses may change based on the outcome of that meeting). Therefore let's aim to have the **first draft completed by end of day next Friday January 19th** (let me know if not feasible).

I've outlined below who took the lead in November for each of the recommendations so unless any concerns, we will follow the same approach for these.

Hilary – please let me know if you want me to reach out to IESO directly, or if you will give them the heads up.

Recommendation #	Lead
1	OPCD
2	OPCD with Energy and IESO
3	OPCD with Energy, IESO, OFA
4	OPCD
5	IESO with Energy and OPCD
6	OPCD

7	OFA
8	OPCD with OEP
9	OPCD
10	OTB and OB

Happy to discuss any of the above

Thanks
Sarah

Sarah Hosick
Executive Assistant & Special Policy Advisor (A)
Assistant Deputy Minister's Office | Office of the Provincial Controller
Office of the Treasury Board | Treasury Board Secretariat
7 Queen's Park Cres E, 2nd Floor, Toronto, ON, M7A 1Y7
416-212-8512

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.* *OPCD with Energy and IESO*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special*	The government prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS). The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). [OPG comment re: interest cost] The government is open to continue to discuss the issue in the hopes of resolving this matter.

Report issued by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.* *Opcd with Energy, IESO, OFA*	consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and	

	cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should: • *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."*	presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

IESO with Energy and OPCD		

From:	Ken Kandeepan
To:	Rasika Yatawara
Subject:	FW: SCOPA 2016 | Briefing Binders | Materials
Date:	Wednesday, October 05, 2016 10:52:05 AM
Attachments:	Tab 1 AG 2015 Annual Report - Chapter 2.pdf Tab 3.1 Deputy Orencsak Remarks.pdf Tab 3.3 Gadi Maymans Remarks.pdf Tab 3.4 Tom Teahen DRAFT Remarks.pdf Tab 2.1 Status Report for the Auditor General's 2015 Annual Report.pdf Tab 2.2 SCOPA Logistics BN.PDF Tab 5.2 TBS Questions and Answers.pdf Tab 4 Friendly Questions.pdf Tab 6 2015-16 Public Accounts Q&As.pdf Tab 8.1 Questions from Committee Members on AG 2014 Annual Report as per Hansard.pdf Tab 7.1 MOF CINs.pdf TOC_SCOPA 2016.pdf SCOPA_Remarks_MOF Deputy Thompson_v11 100416 130 pmrevised.docx
Importance:	High

Hi Rasika

Can you pls print all of the attached and place it in a binder.

Thanks

Ken K

From: Christina Zhang
Sent: Wednesday, October 05, 2016 10:40 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: FW: SCOPA 2016 | Briefing Binders | Materials
Importance: High

Hi Ken,

This is what I was referring to. Attached are the latest materials, as of 8:30pm last night at least. I've also attached the latest version of Scott's remarks.

Thanks,
Christina

From: Ize-Dukuze, Marilyn (MOF) [mailto:Marilyn.Ize-Dukuze@ontario.ca]
Sent: Tuesday, October 04, 2016 8:40 PM
To: Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Sofie DiMuzio (MGS) <Sofie.DiMuzio@ontario.ca>; Travis Coulter (TCU) <Travis.Coulter@ontario.ca>; Tim Schuurman (MOF) <Tim.Schuurman@ontario.ca>; Matthew Sylvain (MOF) <Matthew.Sylvain@ontario.ca>; David Morris (MAG) <David.Morris@ontario.ca>; Ize-Dukuze, Marilyn (MOF) <Marilyn.Ize-Dukuze@ontario.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Greg Orencsak (MOF) <Greg.Orencsak@ontario.ca>; Brian Lewis (MOL) <Brian.Lewis@ontario.ca>; Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Bruno Amara (MOF) <Bruno.Amara@ontario.ca>; Arruda, Artur (TBS) <Artur.Arruda@ontario.ca>; Christina Zhang

<Christina.Zhang@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Nicole Simone (MOI) <Nicole.Simone@ontario.ca>; Rebecca Morier (MOF) <Rebecca.Morier@ontario.ca>; Ostergard, Matt (TBS) <Matt.Ostergard@ontario.ca>; Tomasz Bugajski <Tomasz.Bugajski@ofina.on.ca>; Law, Rex (TBS) <Rex.Law@ontario.ca>; Bryant Sullivan (MAG) <Bryant.J.Sullivan@ontario.ca>; Dianne Lone (MOF) <Dianne.Lone@ontario.ca>; Jason Wesley (MGS) <Jason.2Wesley@ontario.ca>; Kyle MacIntyre (MOF) <Kyle.MacIntyre@ontario.ca>; Christopher Pearce (MOI) <Christopher.Pearce@ontario.ca>; Mercedes Sawosch (CAB) <Mercedes.Sawosch@ontario.ca>; David McLean (MOF) <David.McLean@ontario.ca>; Kearney, Heather (MOF) <Heather.Kearney@ontario.ca>; Lauren Tedesco (EDU) <Lauren.Tedesco@ontario.ca>; Karen Hughes (MGS) <Karen.Hughes@ontario.ca>; Saad Baig (MOI-MTO) <Saad.Baig@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Scott Thompson (CAB) <Scott.Thompson@ontario.ca>; Dale, Lindsay (MOF) <Lindsay.Dale@ontario.ca>
Subject: SCOPA 2016 | Briefing Binders | Materials
Importance: High

Hi –

Please see attached materials for the SCOPA Briefing Binders. These incorporate edits from the 12pm discussion. Physical copies of the binders will be available tomorrow at 9am, in the DMO suite at Frost South.

Please refer to the updated TOC to navigate the products.

Unfortunately, the following items remain outstanding from these attachments, but will be added by your EA tomorrow morning once finalized:

- Tab 5.1. MOF Questions and Answers
- Tab 7.2. TBS CINs & Key Highlights

Thanks,
Marilyn Ize-Dukuze
Policy Analyst
Deputy Minister's Office | Ministry of Finance
ph. 416.326.8529 | bb. 416.302.3609
marilyn.ize-dukuze@ontario.ca

Security settings or invalid file format do not permit using Tab 1 AG 2015 Annual Report - Chapter 2.pdf (416197 Bytes).

Standing Committee on Public Accounts

Review of Auditor General's 2015 Annual Report, Chapter 2

October 5, 2016

Deputy Minister Orencsak Opening Remarks

Good afternoon Chair and fellow members of the Public Accounts Committee.

On behalf of myself and my colleagues from the Ministry of Finance and the Ontario Financing Authority, we are pleased to be here today to address the committee on Chapter 2 of the Auditor General's 2015 Annual Report.

This includes discussion on the province's debt as well as a discussion of the Province's 2014-15 Annual Report and the accompanying Financial Statement Discussion and Analysis. These documents are integral to transparency and accountability in public sector financial reporting.

As members of the Committee will know, we also had the pleasure of joining this Committee last year to discuss Chapter 2 of the Auditor General's 2014 Annual Report.

We look forward to having these discussions with this Committee and to maintaining the positive and collaborative relationship with the Auditor General and her office.

I would like to begin today by acknowledging the observations and recommendations made by the Auditor General in Chapter 2 of her Annual Report last year. During our presentation we will

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update the Committee on the progress we have made in addressing those recommendations.

We agree with the Auditor General's observation that standard-setters, governments and auditors must continue to work together to resolve important reporting issues that are unique to governments and public-sector entities.

We all agree on the importance of producing high-quality financial reports, which serve the transparency and accountability needs of the public and the legislature.

When we appeared before the Committee last fall, the focus of the hearing was on the province's debt management program, as well as the recommendations made by the Auditor General in her 2014 Annual Report.

Deputy Thompson and I welcome the opportunity to speak with you again this year about the province's debt program. We will also discuss the changes we have made to significantly enhance the user experience and understanding of the province's financial results.

I would also like to welcome Mr. Thomas Teahan, President and CEO of the Workplace Safety and Insurance Board, who you have invited to appear before the Committee today.

Although the financial results of the WSIB are not reflected on the province's books, I'm sure that Mr. Teahan would be pleased to update you on the board's progress in meeting its sufficiency ratio which has been an interest of the Auditor General over the past several years.

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As I noted last fall, public sector accounting standards are relevant not only in terms of reporting the province's consolidated financial results, but also in relation to the government's fiscal planning process.

Since Public Sector Accounting Board standards were first adopted by Ontario in 1993, they have had a profound effect on how the government reports its financials to the public, and on how fiscal policy decisions are made by legislators.

I would like to talk for a moment about government financial reporting, and what the primary users of this information expect from their governments.

I am sure we all agree that the principles of transparency and accountability for governments reflect a fundamental element of a democratic society. They are the base upon which the Public Sector Accounting Board's accounting standards are set.

In Ontario, public reporting of the government's fiscal plan and financial results are prescribed by the *Fiscal Transparency and Accountability Act* and the *Financial Administration Act.*

These two pieces of legislation work together to ensure a principled financial management framework for Ontario. In particular, with the passing of the *Fiscal Transparency and Accountability Act* in 2004, the Ontario government made a commitment to responsibility, flexibility, equity and transparency.

Based on this real-life experience, the province's view is that it is crucial that the basis of planning and reporting key financial results be consistent.

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At last year's hearing we reported that Ontario had received an 'A' from a 2015 C.D. Howe report, ranking it among the best in the overall quality of its reporting of financial results.

This year, although Ontario's financial reporting continues to be ranked highly among senior government peers, due to the introduction and weighting given to the timing of release, our ranking has fallen to an "A-". In other words, it remains very good.

In line with C.D. Howe's position, we agree that applying a consistent basis for preparing budgets and reporting actual results best meets objectives for transparency and accountability to the public.

In Ontario, we also use the same basis for spending estimates, which is something that other governments, including the federal government, look to as a best practice.

We will continue to work with the Auditor General and the Public Sector Accounting Board to support public sector reporting which best serves the transparency and accountability needs of the public and the public interest. The value of this approach to ensure clear financial reporting has been demonstrated many times, including with the recent implementation of PSAB's standard for Liability for Contaminated Sites, noted in the Auditor General's Report as a challenge that was successfully navigated.

Staff at the Treasury Board Secretariat have taken steps to enhance the transparency and accountability in the report, and to make the information contained in it more accessible and understandable for the average person.

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Building upon the successful use of data visualization initiatives last year, this year we have supplemented the information with additional online tools and graphics. This allows the average person to better understand the trends in balance sheet and operating activities over the past five years, and to more easily search through the data.

Another area where we have made improvements stems from a recommendation by the Auditor General to improve the Financial Statement Discussion and Analysis section of the government's Annual Report.

Our staff worked to change the format and layout of this section to ensure it presented the province's key financial facts in a non-partisan manner in order to heighten transparency and accountability to the public.

Expanding beyond the Auditor General's recommendations to review PSAB's Statements of Recommended Practice, our staff also reviewed the reports of other senior Canadian governments to identify best practices.

Ontario's Annual Report addresses each of the specific areas identified by the Auditor General. It will also include a discussion of non-financial performance, responsible fiscal management, and transparency and accountability in public reporting.

As Deputy Minister of Treasury Board Secretariat, I am proud of the achievements and progress made by staff this year to strengthen the accountability and transparency of the Public Accounts.

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In closing, I would like to thank the Auditor General and her staff for their important contributions to serving the public interest. I am confident that we will continue to work together in supporting high quality public sector reporting for the people of Ontario.

At this point I would like to turn things over to Deputy Thompson to discuss debt management and financial accounting in greater detail.

(turn over to MOF)

DRAFT

Remarks by Gadi Mayman
CEO
Ontario Financing Authority

to the Standing Committee
on Public Accounts

Toronto, Ontario
October 5, 2016

Word count: 690

Check against Delivery

Thank you, Deputy Minister Thompson and Deputy Minister Orencsak.

Good afternoon.

My name is Gadi Mayman, and I am the Chief Executive Officer of the Ontario Financing Authority.

In this role, I am responsible for overseeing Ontario's:

- borrowing and debt management strategy;
- corporate and electricity finance projects and;
- banking relationships.

I also manage the province's relationships with credit rating agencies, bond underwriters and investors.

Before I continue, I would like to thank the committee for the opportunity to discuss what we have been doing to address the points raised by the Auditor General regarding Ontario's debt.

[Net debt]

The government is committed to reducing the net debt-to-GDP ratio to its pre-recession level.

A government's net debt increases primarily for two reasons: to finance its deficits and invest in capital assets.

In the first few years after the global recession in 2008–09, the increase in the province's net debt was primarily due to Ontario's deficit. Over this period the Government continued investing in much needed improvements to the Province's capital infrastructure.

The government plans to invest more than $137-billion in capital over 10 years, and $160 billion over the 12-year period starting in 2014-15.

Investments in capital, supplement GDP growth and the net debt-to-GDP ratio will come down more quickly than it would without these investments. Once a balanced budget is achieved, the increase in net debt will be limited

to difference between the cash investment to build the assets and the amortization, which is a non-cash amount.

This means that achieving balance will put net debt-to-GDP on a declining track.

Moody's notes that Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy.

The report also states, "The policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices outlined above, has helped to support the province's Aa2 rating."

[Borrowing Program]

Ontario conducts a robust and responsible borrowing program that protects the public interest.

Through prudent and cost-effective debt management, Ontario has consistently kept interest on debt costs below budget projections.

Employing term extensions has allowed the Province to lock in low interest rates for longer periods, which has reduced Ontario's refinancing risks.

It also helps offset the impact of expected higher interest rates on the interest-on-debt costs.

In fact, since 2010 Ontario has issued $59.1 billion of bonds longer than 30 years' duration to lock in low rates.

As a result, we have extended Ontario's weighted-average term to maturity of long-term provincial debt significantly.

In 2009-10 it was 8.1 years; last year it was 14.2 years.

The 2010 Ontario Budget forecast that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar on interest.

Currently, the Province spends 8.5 cents of every revenue dollar on interest, 3.5 cents lower than what was forecast in 2010.

This ratio is the lowest it has been since 1990, and is forecast to remain low through the outlook period in 2018–19.

The Province takes a very prudent approach to managing the risks associated with its borrowing program.

Ontario limits itself to a maximum net interest rate resetting exposure level of 35 per cent of debt issued for provincial purposes.

It also limits itself to a maximum foreign exchange exposure level of five per cent of debt issued for provincial purposes.

Currently, the actual values for Ontario's net interest rate resetting exposure and foreign exchange exposure were 10.6 per cent and 0.33 per cent, respectively.

As you can see, this is well below the policy limit levels.

The Province will remain flexible in its borrowing approach.

The approach includes monitoring all major markets and seeking the most cost-effective means, over the long term, to finance Ontario's borrowing program.

It also includes reaching out to investors and investment banks, domestically and globally, to ensure that Ontario bond issues remain highly attractive, liquid and sought after, as they have been since Ontario began accessing public markets almost 25 years ago.

I am happy to answer any questions you may have.

Standing Committee on Public Accounts
Speaking Notes for Tom Teahen
October 5, 2016

Thank you. Good day everyone. I'm Tom Teahen, President and CEO of the WSIB. With me is Pamela Steer, our Chief Financial Officer.

I would like to thank the members of the Standing Committee on Public Accounts for giving me the opportunity to provide an update on the WSIB's progress since the 2015 Auditor General's annual report.

In her report, the Auditor General supported the continued classification of the WSIB as a Trust Agency.

I am pleased to report to the Committee that our strong progress continues, supporting in my submission, the continued Trust status of the WSIB.

Let me say at the outset that the WSIB exists first and foremost to serve workers.

Our legislated mandate is to promote health and safety, to facilitate the return to work and recovery of workers and to provide compensation in a financially responsible and accountable manner.

Accountability ultimately rests in our ability to meet existing and future financial commitments to Ontario's workers and at the same time maintain stable and predictable premium rates.

The 2009 Auditor General report expressed concern that the growth and magnitude of our Unfunded Liability, or UFL, posed significant risk to our ability to meet this commitment.

Today, our situation is very different. I refer the Committee to our 2016 Economic Statement, released on September 14th. It serves as an update on our progress toward retiring our Unfunded Liability, but also highlights our strong progress in improving outcomes for the injured workers we serve.

I will briefly highlight some of our successes in both those areas. Our Unfunded Liability now stands at $5.6 billion, down from $14.2 billion in 2011. Current projections place us on a trajectory to eliminate it by 2021.

Our Sufficiency Ratio is forecasted to reach 85% by the end of this year.

We have determined, after working with key regulatory and financial thought leaders that we should aspire to a funding level between 115 and 125 per cent as our benchmark for being fully funded.

We currently project that we will reach a funding level of approximately 116 per cent by 2025.

In terms of how we compare to other provincial workplace compensation systems, our funding target is in line with most other jurisdictions.

The reason we have set this funding target is because of the injured workers and employers we serve.

It is our responsibility to ensure that a sustainable workplace compensation system exists for generations to come. Simply achieving 100 per cent funding is not enough to ensure workers' benefits are protected and employer premiums are stable and predictable.

A stable system ensures that workers' benefits and employer premiums are shielded from adverse economic conditions and market volatility.

Let me assure you that when the UFL is gone, we will continue to operate in a manner that is financially sustainable – so we can ensure secure benefits and stable premiums.

With respect to improved outcomes for injured workers, we have made significant progress to support safe recovery and return to work.

Currently, 92 per cent of injured workers are safely back on the job within a year of injury with no wage loss.

Our investments in Specialty Clinics and Programs of Care have also led to better outcomes for injured workers by providing faster access to specialized medical care.

In April of this year, we began providing benefits for workers under presumptive Post Traumatic Stress Disorder, or PTSD, legislation. As of September 9th, we had received 468 claims. Going forward, we expect to receive approximately 1,000 per year.

We are currently building a roster of psychiatrists and psychologists across the province to ensure that all of Ontario's workers have access to the support they need.

Our goal is to make Ontario a national leader in the prevention of workplace mental stress issues, including PTSD.

Those are just some of the highlights, both financial and operational, outlined in our 2016 Economic Statement.

In conclusion, I want to emphasize that as President, my message both internally and externally has been clear from the start: It is vital that our organization be seen by one and all – by workers and employers, by government and by the public – as being dedicated to, and defined by, Integrity and Excellence.

Those ideas – those principles – form the very core of our vision and our values.

The goals established in our 2016-2018 Strategic Plan and the priorities which support achieving the plan all align with our commitment to Integrity and Excellence.

These priorities will help us deliver on our duty to provide secure benefits for workers; stable and predictable premiums for employers; and in turn, deliver an essential benefit to the Ontario economy.

Thank you for this opportunity to appear. We would be happy to answer your questions.

Summary Status Table in Response to the Report of the Auditor General of Ontario

Chapter 2 Recommendations, 2015 Annual Report of the Auditor General
Treasury Board Secretariat

Auditor's Recommendation	Completed undertaking	Outstanding undertaking (including timeline)
In order to address the province's growing total debt burden, the government should work toward the development of a long-term total debt reduction plan that is linked to its target of reducing its net debt-to-GDP ratio to its prerecession level of 27%.	The first very important step in returning to a 27% net debt-to-GDP ratio is to balance the budget. Debt is incurred primarily for two reasons: to finance deficits and to make investments in capital assets. The government has a plan to invest more than $130-billion in capital over 10 years, and $160 billion over the 12-year period starting in 2014-15. These capital investments are amortized over a period of time corresponding to the useful life of these assets. Once a balanced budget is achieved, the difference between the cash investment to build the assets and the amortization (which is a non-cash amount) will continue to increase the debt. One of the objectives of investment in capital is to improve the economic growth of the province. As that investment increases growth, it supplements GDP growth and the net debt-to-GDP ratio will come down more quickly than it would without these investments in capital assets. A report[i] issued in 2015 found that on average, investing $1 in public infrastructure in Canada raises GDP by $1.43 in the short term and up to $3.83 in the long term. The government's plan therefore hinges on first balancing the budget, and then making investments in capital assets, which will add to economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio to the government's 27% target. The Province is on target to balance its budget in 2017-18. As a result, net debt to GDP is forecast to peak in 2015-16 at 39.6%, remain unchanged in 2016-17 and begin to decline to 38.9% in 2017-18. The Province's track record of beating its deficit targets 7 years in a row has contributed to net debt to GDP ratios that are consistently lower than forecast. For example, the 2014-15 Public Accounts forecasted peak net debt to GDP of 39.9% in 2015-16 declining to 39.3% in 2017-18.	The government remains committed to achieving its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% after eliminating its annual deficit in 2017-18.

[i] The Economic Benefits of Public Infrastructure Spending in Canada – Broadbent Institute, September 2015

Summary Status Table in Response to the Report of the Auditor General of Ontario

Chapter 2 Recommendations, 2015 Annual Report of the Auditor General
Treasury Board Secretariat

Auditor's Recommendation	Completed undertaking	Outstanding undertaking (including timeline)
We recommend the government consider the guidance outlined in the Public Sector Accounting Board's (PSAB) Statements of Recommended Practice in preparing its Financial Statement Discussion and Analysis for its Annual Report.	The province continues to strive to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. In preparing the Annual Report for the 2015-16 fiscal reporting period, the government reviewed reporting practices of other senior Canadian governments and also referenced recommended practices issued by the Public Sector Accounting Board.	The 2015-16 Public Accounts will be released later this month (i.e. 180 days after fiscal year end) in accordance with legislated timelines under the *Financial Administration Act*. A number of enhancements to both the Annual Report and the province's accompanying data visualization will improve the transparency and accountability in the government's financial reports, including: • An expanded comparison of the current year's results to those of the prior year, including analysis of the trends over a five year period as related to several financial items, including an expanded discussion on balance sheet items. • A description of the Province's capital assets, reflecting their importance in service delivery and their impact on the Province's financial condition. • A description of risks and uncertainties which impact the government's financial results and details on how the government manages those risks. • Supplementary data visualization on the Ontario.ca website which will graphically present more details on the financial information contained in the Annual Report and supporting volumes.

As of

TBS

Briefing Note

Communications Branch

Logistics for Standing Committee on Public Accounts

Issue:

- Government officials will appear before the Standing Committee on Public Accounts (SCOPA) regarding Chapter 2 of the 2015 Annual Report of the Office of the Auditor General of Ontario.
- Participating officials include:
    - Deputy Minister, Treasury Board Secretariat
    - Deputy Minister, Ministry of Finance
    - Chief Executive Officer, Ontario Financing Authority
    - Assistant Deputy Minister & Provincial Controller (Acting), Office of the Provincial Controller Division
    - President & CEO, WSIB

Agenda Information:

- SCOPA will begin meeting at 9 am in Committee Room 151 (See Appendix A) in the Legislature.
- The Auditor General will brief the Committee in a closed door session at 9 am
- TBS/MOF DM's and other witnesses are expected to appear before SCOPA at 12:30 pm for approximately 2.5 hours.
- The schedule for the afternoon portion will be as follows:
    - **12:30–12:50 pm** – Opening remarks (20 minutes total to be split between three government representatives):
        - DM TBS – 10-12 mins approx
        - DM MOF – 7 mins approx
        - CEO OFA – 5 mins approx

      *WSIB will not provide opening remarks

    - **12:50–1:50 pm** – First round of questions: each of the three political parties get 20 minutes of questions (60 mins total).
    - **1:50–2:45 pm** – Second round of questions: the remaining time until 2:45 pm is split between the three political parties (approximately 15-17 mins for each party totalling 45-50 mins).
    - **2:45–3:00 pm** – Closed session (committee members plus the Clerk only, no audience or presenters). Committee will discuss the outcome of the meeting and if they wish to prepare a report. There are no closing statements from the three gov't representatives.

Room Setup:

- SCOPA will take place in the Amethyst Room, Committee Room 151 (see appendix A).
- Room is equipped with cameras and the meeting will be available on TV's within the Legislature and streamed online.
- The setup of the room will be a square table with additional rows of seating at the front end of the room, closest to the door.
- The Committee Chair and Clerk will sit at the head of the table with the government and opposition parties on opposite sides. (See Appendix A for list of committee members)
- The TBS/MOF DM's and other witnesses will sit opposite the Committee Chair and Clerk.
- For TBS Karen Hughes (TBC), Artur Arruda (TBC), Nadine Petsche, Sofie DiMuzio and Jason Wesley will be present to support TBS DM if needed.

Tone of SCOPA/Media Access:

- A review of past SCOPA Committee Hansard transcripts shows that the vast majority of questions have focused on the audits themselves, the legislative landscape, the policy impact on real people, various processes and costs/cost controls.
- Media are allowed to sit in on the meeting as long as they do not interrupt the proceedings. They cannot ask questions in the committee room, but if they wish they can scrum participants in the hallway as they leave.
- Media can also watch SCOPA proceedings on the TV's in the Legislature or online.

Other Information:

- Committee members may substitute members of their party without advance notice.
- If there are any materials that the TBS/MOF DM's or OFA CEO want to distribute to the Committee members, they are asked to bring 25 copies.
- Committee members can request copies of any documents brought into the room. However in reviewing Hansard, TBS Communications did not find any questions/requests to table briefing binders/notes.

Next Steps:

- Finalize briefing binders for October 5 appearance.

Prepared by: Emilie Smith
Senior Corporate Issues Management Analyst
TBS Communications
416-327-2434
September 30, 2016

APPENDIX A:

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Wednesday, October 5, 2016

Committee Room 151

AGENDA

Public Accounts of the Province
(Chapter 2, 2015 Annual Report of the Office of the Auditor General of Ontario)

9:00 a.m. **Closed Session**
Briefing by the Auditor General

10:00 a.m. Briefing by the Research Officer

10:15 a.m. **RECESS**

12:30 p.m. **Treasury Board Secretariat**
Greg Orencsak, Deputy Minister
Cindy Veinot, Assistant Deputy Minister and Provincial Controller

Ministry of Finance
Scott Thompson, Deputy Minister

Ontario Financing Authority
Gadi Mayman, Chief Executive Officer

Workplace Safety and Insurance Board
Thomas Teahen, President and Chief Executive Officer
Pamela Steer, Chief Financial Officer

Committee discussion on report writing

- SUBJECT TO CHANGE -

About the Standing Committee on Public Accounts

Terms of Reference

As per Standing Order 108(h), the Standing Committee on Public Accounts is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the Committee as they become available.

Committee Members

- Chair
  Ernie Hardeman
  PC / Oxford

- Vice-Chair
  Lisa MacLeod
  PC / Nepean--Carleton

- Members:
  - Chris Ballard
    LIB / Newmarket--Aurora
  - John Fraser
    LIB / Ottawa South
  - Percy Hatfield
    NDP / Windsor--Tecumseh
  - Harinder Malhi
    LIB / Brampton--Springdale
  - Peter Milczyn
    LIB / Etobicoke--Lakeshore
  - Julia Munro
    PC / York--Simcoe
  - Lou Rinaldi
    LIB / Northumberland--Quinte West

- Clerk:
  - Valerie Quioc Lim
    Tel. 416-325-7352
    vquioc@ola.org

2014-15 Public Accounts
General Questions & Answers

Qs & As

(Follow the hyperlinks to questions on each topic)

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HYDRO ONE SALE

Q1. How are you managing the value of government assets?

A1. With the *2014 Budget*, the government began unlocking the economic value of the Province's assets, including setting up the Premier's Advisory Council on Government Assets, chaired by Ed Clark, former Group President and Chief Executive Officer of TD Bank Group.

In the Ontario Economic Outlook and Fiscal Review in the fall of 2014, the Province shared the council's initial findings, which it supported. The council delivered recommendations on the electricity sector to the Province in advance of the 2015 Budget, including broadening the ownership of Hydro One. This would involve an initial public offering of about 15 per cent of the voting securities in Hydro One, with additional share sales in subsequent years. Over time, share offerings would total up to 60 per cent of the voting securities in Hydro One.

The government's actions are unlocking the value of key government assets to generate better returns and revenues for Ontarians. The benefits include helping to expand the economy, boost productivity, improve competitiveness and create jobs for Ontarians.

Q2. Does Ontario have a structural deficit, and are you only able to balance the books by selling off Ontario's assets lock, stock and barrel?

A2. Ontario does not have a structural deficit. Much of the government's expenditures are discretionary. The government's plan for asset optimization is to dedicate any net proceeds, dollar for dollar, from designated asset sales to the Trillium Trust to ensure this money is not funding operational spending at the detriment of our public infrastructure. Over the life of the plan, the government will spend the Trust on new roads, highways, transit and other infrastructure as part of its Moving Ontario Forward plan. This builds on the over $100 billion in infrastructure investments made by the Province since 2003, which have supported an average of 100,000 jobs each year and maintains the government's commitment in maintain the Province's public infrastructure.

BARGAINING AND COMPENSATION

Q3. How are you managing the costs of public sector compensation?

A3. Managing compensation costs is critical to balancing the budget, as more than half of government spending goes to salaries and benefits, including those of both the Ontario Public Service (OPS) and broader public sector (BPS). All public-sector partners must continue to work together to control current and future compensation costs.

Between July 2012 and September 2016, the average annual negotiated wage increase across Ontario's provincial public sector has been 0.6 per cent. This is lower than:

- Ontario's municipal public sector (1.7 per cent)
- the federal public sector in Ontario (1.7 per cent) and
- Ontario's private sector (1.9 per cent).

The government has also taken steps to ensure executives at BPS organizations, which include hospitals, school boards, colleges and universities, receive fair but reasonable compensation. The new *Broader Public Sector Executive Compensation Act, 2014*, allows the Province to set sector-specific compensation frameworks. These frameworks will consider all aspects of compensation, including benefits and hard caps on salaries, and will reflect consultation and extensive research.

With significant compliance and enforcement measures, these new frameworks will help achieve better value for money while ensuring BPS organizations can attract and retain talented individuals.

Q4. The government was working in a net-zero bargaining environment but then why was there increases in public sector compensation, such as Teachers, AMAPCEO, Hydro? Is that why the government is now backing away from net-zero?

A4. The government has been clear, in multiple fiscal plans, including in the 2014, 2015 and 2016 Budgets, that compensation costs must be addressed within Ontario's existing fiscal framework. Recent agreements reached with Teachers, AMAPCEO and Hydro One unions are examples of the net zero approach to managing compensation, where modest wage increases were offset through a variety of trade-offs.

Q5. This was the sixth year in a row that you have reported a deficit lower than forecast. It's obvious you are overestimating the deficits. Will you balance the Budget before 2017-18?

A5. The government beat its deficit target for the sixth year in a row. Last fiscal year's deficit is $10.3 billion, down $2.2 billion from the $12.5 billion projected in last year's budget.

The government projected a deficit of $8.5 billion in 2015-16 and reported a deficit of $5.0B, $3.5B ahead of target despite taking a large valuation allowance on pension plan assets of $1.5B. We are confident that our projections of $4.8 billion in 2016-17 and a return to a balanced budget in 2017-18 can be achieved.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending.

Q6. Does the fact that your deficit was $2.2 billion lower than projected mean you had more money to bring to the table in labour negotiations?

A6. Ontario's $10.3 billion deficit is in line with the $10.9 billion deficit projected in the 2015 Budget so fiscal projections have not fundamentally changed.

It is also important to point out that through the Public Accounts process, the government is reporting on past performance whereas labour negotiations impact future fiscal pressures.

The government is committed to balancing the budget by 2017-18. While there are difficult choices ahead, the government will continue to take a fair and balanced approach, one that protects and improves the services that matter to Ontarians.

Managing compensation costs is critical to balancing the budget, as over half of government spending goes to salaries and benefits in the Ontario Public Service (OPS) and the broader public sector (BPS).

Moving forward, the government is committed to working with public sector bargaining agents in negotiating collective agreements in a manner that considers all relevant factors, including recent macroeconomic and labour market trends.

While continuing to work to achieve fiscal balance by 2017–18, the government is achieving significant results in priority areas for Ontarians.

TRILLIUM TRUST

Q7. Have the net proceeds from the sale of the GM holdings been dedicated to the Trillium Trust, and how was that being reported in Public Accounts?

A7. The $1.1 billion gain from the sale of the Province's common and preferred GM shares has been dedicated to the Trillium Trust to invest in Moving Ontario Forward. In addition, the Province also directed to the Trillium Trust the $249 million net proceeds from the September 2013 sale of the Province's interest in 10 million GM shares. As a result, the Trillium Trust now has $1.35 billion available for investment in roads, highways, transit and other infrastructure throughout Ontario.

In September 2016, amounts related to disposition of Hydro One Shares of $3.2B have been credited to the Trust bringing the balance to $4.5B available for the investment in public infrastructure.

The revenues allocated to the Trillium Trust are reported as a schedule to Volume 1 in the 2014-15 Public Accounts. The transactions are also disclosed in the Ministry of Finance statements located in Volume 1 of the Public Accounts.

Q8. How did you spend the $1.35 billion dedicated to the Trillium Trust?

A8. The revenues allocated to the Trillium Trust will be used to support building transit, transportation and other priority infrastructure as part of the Moving Ontario Forward plan.

The government plans to begin drawing down on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history.

INFRASTRUCTURE – MOVING ONTARIO FORWARD

Q9. In the 2015 Budget, the government stated that $3.5 billion would be dedicated to the Moving Ontario Forward plan. So far, only $1.35 billion has been dedicated to the Trillium Trust. How do you propose to supply the $2.2 billion difference?

A9. Moving Ontario Forward dedicated funds would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.
- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.
- Dedicated proceeds from targeted revenue measures.
- Working with the federal government to secure federal funding through the Building Canada Plan.

Q10. How much did the government spend on Moving Ontario Forward in 2014-15?

A10. Moving Ontario Forward is part of the government's commitment to invest more than $137 billion in public infrastructure over the next 10 years. Investments are underway, including initial spending focused on planning, design, property acquisition and other activities to get projects construction-ready but no infrastructure spending has been applied against the Trillium Trust to date. Initial investments include the first intake of the Ontario Community Infrastructure Fund, funding for the Ontario Northland Transportation Commission and investments in provincial highways. Over the 10-year Moving Ontario Forward period, all of the dedicated funds are expected to be spent on priority infrastructure projects.

Q11. Why weren't the additional $2.2 billion in revenues dedicated to the Moving Ontario Forward plan reported in the Public Accounts?

A11. In the 2015 Budget, the government committed to dedicate $31.5B over 10 years to support infrastructure projects under the Moving Ontario Forward plan, which included $5.7B from its asset optimization strategy. In 2014-15, this amounts to about $3.5B in dedicated funds including $1.3B from asset optimization. The remaining $2.2B in 2014-15 would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.
- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.
- Dedicated proceeds from targeted revenue measures.
- Working with the federal government to secure federal funding through the Building Canada Plan.

These additional amounts are largely taxation revenues and are reflected in the total revenue figures in the 2014-15 Public Accounts.

Q12. How does investing in public infrastructure impact the economy?

A12. A large and growing body of independent research shows that infrastructure investments support jobs, augment personal incomes and produce real growth in the economy. For example, a September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

ONTARIO'S FINANCIAL POSITION

Q13. Is the government on track to balance the budget by 2017-18?
A13. The government remains firmly committed to balancing the budget by 2017-18 in a way that is both fiscally responsible and fair.

The plan to balance set out in the 2015 Budget projected a deficit of $8.5 billion for 2015-16, followed by a $4.8 billion deficit in 2016-17 and a return to balance the following year.

The government will balance the budget through:

- Program Review, Renewal and Transformation;
- continuing to manage compensation costs;
- maintaining tax fairness and a level playing field for business; and
- strengthening government transparency, financial management and fiscal accountability

The Province's plan to balance the budget builds on past success: in each fiscal year between 2010-11 and 2014-15, the government beat its annual deficit target.

The government plans to balance the budget while continuing to make the investments that create jobs, expand opportunities and enhance prosperity for all Ontarians, which were outlined in the most recent budget.

That includes investing in people's talents and skills, building new public infrastructure like roads and transit, creating a dynamic, innovative environment where business thrives, and building a secure retirement savings plan.

Q14. Did you use your reserve to pad your fiscal results?

A14. For planning purposes, a reserve is included in the budgeted surplus/deficit each year to guard against unforeseen revenue and expense pressures that could have a negative impact on the Province's fiscal performance. The 2014 Budget plan included a $1.0 billion reserve. The reserve does not affect the actual deficit result of $10.3 billion and is only a budgeted amount for variability in results.

Q15. Ontario is still expected to be the last Canadian jurisdiction to return to balance. What are we doing wrong?

A15. Ontario has the lowest per-capita program spending among provinces. Ontario also has the lowest total government revenue per person among all Canadian provinces, including funding from federal transfers.

The government remains firmly committed to balancing the budget by 2017–18.
The deficit for 2014-15 is $10.3 billion, a $2.2 billion improvement compared with the 2014 Budget forecast. This marks the sixth year in a row Ontario has beaten its annual deficit target making the province one of the few governments in Canada to achieve this level of success.

As a result, Ontario's accumulated deficit is more than $25 billion lower than it otherwise would have been.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic

and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

Q16. Standard & Poor's downgraded the Province's credit rating from double-A-negative to A-plus because of a combination of "very high debt burden" and "very weak budgetary performance". What is the government doing to manage the debt?

A16. The government remains firmly committed to balancing the budget by 2017–18.

The deficit for 2014-15 is $10.3 billion, a $2.2 billion improvement compared to the 2014 Budget. This marks the sixth year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management. As a result, Ontario's accumulated deficit is more than $25 billion lower than it otherwise would have been.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

Q17. Some have said your government has a spending problem, not a revenue problem. What do you say to that?

A17. The government beat its deficit target for the sixth year in a row. Last fiscal year's deficit is $10.3 billion, down $2.2 billion from the $12.5 billion projected in last year's budget.

The government is projecting a deficit of $8.5 billion in 2015-16, $4.8 billion in 2016-17 and a return to a balanced budget in 2017-18.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

Over the past four years the Province has held the average annual growth in program spending to 1.4 per cent, less than the rate of inflation, while investing in services that people rely on.

Key elements of the government's plan to eliminate the deficit are:

- Program Review, Renewal and Transformation;
- managing compensation costs;
- maintaining tax fairness and a level playing field for business; and
- strengthening government transparency, financial management and fiscal accountability.

Q18. How much did government spend in 2014-15?

A18. Total spending for 2014-15 was $128.8 billion, against a planned $130.4 billion. This reflected savings across ministries and their agencies, as well as a lower-than-projected interest expense.

Over the past four years the Province has held average annual growth in program spending to 1.4 per cent, less than the rate of inflation, while continuing to invest in priorities like infrastructure and services like health care and education.

Q19. What are you going to do if Ontario's economy does not perform as strongly as you forecast?

A19. The Province has included prudence as part of the fiscal plan to help ensure it meets future fiscal targets as it moves towards a balanced budget in 2017–18.

As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan continues to incorporate prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2015–16, and has been set at $1.2 billion in each of 2016–17 and 2017–18.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

In keeping with sound fiscal practices, the Province's revenue outlook is based on prudent economic assumptions. The Ontario Economic Forecast Council, established under the FTAA, reviewed the Ministry of Finance's economic assumptions in February 2015. All council members found the assumptions to be reasonable.

BUDGET SURPLUS and REVENUE INCREASE

Q20. Can you explain the $29 million increase in revenue since your 2015 Budget?

A20. The modest $29 million improvement in revenues is largely due to higher net income of government enterprises like the OPG as well as revenues from other non-tax revenues such as sales, rentals and royalties

These higher revenues were largely offset by lower Taxation Revenues and Federal Payments.

Q21. How did net income from government business enterprises increase by $589 million from your 2014 Budget projection?

A21. This increase was mostly due to OPG's lower operating costs and better market performance of its nuclear funds.

CONTINGECY FUND / RESERVE

Q22. What is the difference between the contingency fund and the reserve?

A22. The contingency fund is an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover expenses due to unforeseen events or program pressures (e.g. fighting forest fires). This approved spending limit is allocated during the year to ministries for their programs and activities.

The reserve is an amount included in the forecast each year to protect the plan against unforeseen revenue and expense pressures that could have a negative impact on the Province's fiscal performance.

BUDGET PROJECTIONS vs PUBLIC ACCOUNTS REPORTING

Q23. What accounts for the $1.1 billion decrease in taxation revenues from your 2014 Budget projection?

A23. Taxation revenues were $1.1 billion lower due largely to lower corporations' tax revenue ($0.7 billion) and lower sales tax revenue (-$0.2 billion).

Lower 2013 corporate income tax assessments resulted in a higher repayment to the Canada Revenue Agency for amounts already paid to the Province for the 2013 tax year and, refunds to corporations for tax years prior to 2009 were also higher.

Sales tax revenue was lower due to revisions to harmonized sales tax entitlement estimates for 2013 and prior tax years.

Q24. Why did Ontario's net debt increase by $17.4 billion in 2014-15?

A24. Net debt is the province's total debt and other liabilities, minus its financial assets, including cash and investments. The increase in net debt is primarily due to the deficit, and significant investments in infrastructure. Ontario's net debt-to-GDP is levelling off and the government continues to maintain a target of reducing the ratio to its pre-recession level of 27 per cent. Upon achieving balance in 2017-18, increases in net debt will be limited to borrowing for investments in capital infrastructure.

Q25. How do you explain the $19.2 billion increase in total debt in 2014-15?

A25. The increase in total debt is primarily due to the deficit and significant investments in infrastructure in 2014-15.

Background: Total debt represents all borrowings without taking into consideration other liabilities and financial assets. Net debt is the province's total debt and other liabilities, less its financial assets, such as Ontario's cash reserves and investments, loans receivables, and investments in Government Business Enterprises (e.g. LCBO, OLGC). Net debt is the measurement of debt most commonly used by rating agencies and investors in the Province's bonds.

Q26. Why was the interest on debt for 2014-15 $375 million lower than forecast in the 2014 Budget?

A26. Interest on debt is lower primarily because of:

- lower than forecast interest rates
- cost-effective debt management
- a one-time gain from the sale of asset-backed commercial paper that was written down in prior fiscal years.

Q27. Why was interest on debt for 2014-15 $63 million higher than in 2013-14?

A27. The Province pays interest on its total debt. Total debt increased in 2014-15 by $19.2 billion as a result of the deficit and investments in infrastructure causing interest on debt to also increase by $63 million when compared to the previous fiscal year.

Q28. You spent $1.6 billion less than you budgeted for programs. With all the problems facing the Province, aren't you just denying badly needed services to Ontarians?

A28. Ontario's path to a balanced budget is focused on improving the quality of life of all Ontarians. As always, the government must manage its limited resources in a way that is efficient and effective. This means doing some things differently. For example, since launching Ontario's Action Plan for Health Care in January 2012, the government has moved forward in transforming health care in the province from a fragmented system with rising costs, to a system focused on better access, quality and value for all Ontarians. The government has reduced growth in health care spending to about two per cent annually from about six to seven per cent per year, significantly bending the health care cost curve while continuing to improve.

An efficient and effective health care system must be forward looking and anticipate rather than react —based on evidence —so that health care interventions are smart, targeted and effective. Putting the needs of people and patients first will help improve patient outcomes and make the best use of every dollar spent.

Managing growth in spending underpins the government's commitment to achieving a balanced budget by 2017-18. Achieving balance requires a relentless focus on finding smarter, better ways to deliver the best possible value for every dollar we spend.
For example, in the education sector, the School Board Efficiencies and Modernization strategy is helping school boards reduce the costs of managing underutilized school space by consolidating schools, sharing space with other boards and fostering community partnerships.

From an across-government perspective, ministries are working together to better deliver services to people. At the same time, the Province is making tough choices to transform or wind down programs that are not performing, do not link to government priorities or no longer clearly serve the public interest.

While the government continues to invest in priority areas and implement its plan to support economic growth and prosperity, it is also committed to managing program expense growth over the medium term to support a balanced and thoughtful approach to eliminating the deficit.

PROGRAM, REVIEW, RENEWAL AND TRANSFORMATION

Q29. How are you reviewing and transforming government programs?

A29. The Ontario Economic Outlook and Fiscal Review in fall 2014 announced Program Review, Renewal and Transformation (PRRT) as a key element of the government's plan to achieve a balanced budget.

PRRT is a fundamentally new approach to multi-year planning and budgeting, and is designed around four key principles:

- Examining how every government dollar is spent;
- Using evidence to inform better choices and improve outcomes;
- Looking across government to find the best way to deliver services; and
- Taking a multi-year approach to find opportunities to transform programs and achieve savings.

PRRT is focused on improving outcomes for government programs and services to ensure they are effective, efficient and sustainable.

This may mean redesigning policies to support greater cooperation within government, modernizing program delivery, and changing or ending programs that do not meet people's needs. [2016 Budget, p. 181].

Q30. Has PRRT achieved any tangible results/savings?

A30. The 2014 Budget announced that the government was implementing an annual program review savings target, and set the target at $250 million for 2014-15. The target was met through a number of initiatives that identified efficiencies, lowered costs or reduced administrative overhead without impacting front-line services. [2015 Budget, p. 232]

An additional year-end savings target of $1.1 billion built into the plan was also achieved.

The government met its program review savings target through initiatives such as:

- Negotiating lower prices for goods and services;
- Finding internal efficiencies in information technology data centre, desktop and service management operations;
- Modernizing the delivery of natural resources management programs;
- Restraining compensation growth in line with the government's "net zero" policy;
- Finding operational and administrative efficiencies across government, including reducing the government's office footprint and prudent management of discretionary costs, such as supplies and travel.

In the 2015 Budget, the government announced a number of opportunities identified through PRRT to improve outcomes while supporting fiscal objectives. They included:

- Changing business tax credits;
- Modernizing programs delivered through ServiceOntario;
- Reducing the government's office footprint;
- Getting better value for money invested in health care programs and services.

Examples of Successful Transformation Initiatives [from the 2015 Budget, p. 204]

The government has a strong track record of successfully transforming public services by improving outcomes and managing costs. Examples include:

- Moving from a provider-based to a patient-based health care funding model, which includes updating and rebalancing some OHIP fees to reflect advances in technology and applying the best medical evidence on patient outcomes. Government reform of the Provincial drug program has resulted in savings of $500 million per year.
- Transforming the youth justice system by diverting lower-risk youth in conflict with the law to community-based programs. Expanding rehabilitation programs for approximately 11,000 youth per year has both reduced the risk of reoffending and allowed the government to shut down or repurpose many youth detention centres. Key achievements between 2003 and 2013 include a drop in the number of youth in secure custody from over 1,000 to fewer than 400, and a 43 per cent decrease in the youth crime rate.
- Working with municipalities to allow for localized administration of programs for the homeless so that programs respond better to the needs of the families and individuals involved. This is being done through the Community Homelessness Prevention Initiative, which combines funding from five formerly separate housing and homelessness programs into a single, flexible and locally coordinated program. For further information, see Chapter I, Section F: *A Fair Society*.

In addition, the government is moving forward with opportunities that improve efficiency, reduce overlap across government programs, and ensure that government works better for Ontarians, including:

- Reducing the costs associated with managing under-utilized school space by encouraging school boards to consolidate schools, share space with other boards and foster community partnerships.
- Better targeting funding through business support programs, such as the Ontario Interactive Digital Media Tax Credit. Changes proposed in the 2015 Budget include realigning funding from an open-ended tax credit to a grant program, which will improve effectiveness.

Q31. What do you have to say to those public sector workers who have lost their jobs or are at risk of losing their jobs because of PRRT?

A31. The government is committed to protecting the public services that matter the most to Ontarians. This is why it is not making across the board cuts. Instead, the government is using PRRT to balance the budget by carefully and thoughtfully examining how every government dollar is spent while taking outcomes into account.

Q32. Why was the 2014-15 program review savings target of $250 million so much smaller than the $1.1 billion year-end savings target?

A32. The 2014 Budget included a year-end savings target of $1.1 billion for 2014-15. As in past years, the year-end saving provision reflects anticipated underspending that has historically arisen at year-end due to factors such as program efficiencies, and changes in project start-ups and implementation plans.

The 2014 Budget also included a program review savings target of $250 million in 2014-15. The target was established with a focus on maintaining or enhancing the delivery of public services while reducing costs that are not essential to delivering services.

The $250 million target was met through a number of initiatives that identified efficiencies, lowered costs or reduced administrative overhead without impacting front-line services. [2015 Budget, p. 232]

For example, the Ministry of Health and Long Term Care negotiated lower prices for goods and services, achieving savings of approximately $40 million through lower contract costs for vaccines and telehealth services. [See Q.30 for other examples.]

GOVERNMENT ADVERTISING ACT

Q33.What are you doing to ban partisan advertising before an election (Bill 201)?

A33. Although the Government Advertising Act already requires that all government advertising be non-partisan as defined in the Act, it is important to avoid even a perception that the government's advertising might be able to influence an election campaign.

The government brought forward amendments to Bill 201 to extend the time period during which government advertising would be restricted with limited exceptions.

These amendments would, if passed, extend the existing restrictions on government advertising in the Government Advertising Act for a period of 60 days prior to the drop of the writ for a scheduled general election.

Governments have ongoing obligations to communicate with citizens on a range of issues including public health warnings, emergency preparedness, access to identification documents (i.e., health cards, birth certificates, etc.) and public education on civic responsibilities (i.e., submitting taxes, etc.)

If asked about proposed changes to the Election Finances Act:

The Ontario government has also committed to enhance the fairness and integrity of the election system as part of its plan to build a fairer and more inclusive Ontario.

Proposed amendments to the Election Finances Act were introduced by Minister Naqvi, the Government House Leader, on May 17, 2016. Bill 201 was considered in committee and has been reported to the Legislature for Second Reading.

The government's goal is to have reforms in place by January 1, 2017.

Flagship elements include:

- Banning union and corporate donations;
- Reducing individual contribution limits;
- Regulation of pre-writ advertising spending by third parties and political parties; and,
- Spending limits on third-party advertising during election campaigns.

Further questions should be directed to the Government House Leader.

Q 34. The Auditor General has said the Government Advertising Act is not living up to its intended purpose. How do you respond?

A 34. Ontario is still the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

As part of the 2015 Budget, the government modernized the *Government Advertising Act* and broadened the Auditor General's mandate to cover digital advertising as well as transit ads and movie theatre ads.

The Office of the Auditor General continues to have oversight of government advertising, to ensure that an independent third party confirms that the standards of the Act have been met.

Friendly Questions (MOF)

1. Why was the deficit lower than projected? Where does the government stand when it comes to reaching a balanced budget?

A. Since the last time the Office of the Auditor General reviewed these statistics in its 2013 Annual Report, the province's net debt-to GDP ratio has improved from 39.1 per cent to 38.5 per cent for 2013-14 and remained relatively unchanged for 2014-15 at 39.4 per cent. This improvement is a direct result of better than forecast deficits.

With regard to debt management, the government's support for and commitment to economic growth will maintain debt at sustainable levels and achieve its target of reducing the net debt-to GDP ratio to the pre-recession level of 27 per cent.

The province has consistently beaten its annual deficit targets over the last seven years. A major contributor toward beating annual deficit targets has been the focus on annual expenditure management limiting the growth in program spending to an average of 1.2 percent from 2010-11 to 2013-14. The government has also addressed Ontario's infrastructure needs through targeted capital investments.

2. Chapter 2 of the Auditor General's 2015 annual report speaks to the increased vulnerability of Ontario with respect to interest rates. She points to the possible rise in rates related to borrowing.

However, I am also aware that the Province has consistently kept interest on debt costs below budget projections.

What steps has the government taken to reduce borrowing and keep interest on debt costs low?

A. Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents on interest for every revenue dollar received. The current forecast is 27 per cent lower, at 8.5 cents of interest costs for every dollar of revenue. This ratio is the lowest it has been in 25 fiscal years or since 1990-91, and is forecast to remain low through the period to balance in 2017–18.

Extending the term of the debt that the Province issues has locked in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

Going back to the beginning of fiscal 2010–11, Ontario has issued $59.1 billion of bonds that do not mature for at least 30 years to lock in low rates. As a result, the

weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.3 years as of September 30.

3. The stranded debt arose under the *Energy Competition Act of 1998*, and its schedule, the *Electricity Act, 1998*. The *Electricity Act, 1998*, also enabled the implementation of the Debt Retirement Charge (DRC) on electricity ratepayers.

Since May 2002, residential and other electricity users have been paying the DRC of 0.7 cents per kilowatt hour (kWh) on their electricity bills. The DRC is paid to the Ontario Electricity Financial Corporation (OEFC) to help service and pay down the stranded debt that arose because of the restructuring of Ontario's electricity sector under the *Energy Competition Act, 1998*.

However, I know that the government eliminated the DRC from residential bills as of January 1, 2016.

This legacy charge from the Harris government was eliminated from residential bills about 2 years earlier than previously estimated – saving the average residential user about $70/year.

Can you please inform the committee of the commitment that the government has to eliminating the debt retirement charge cost for commercial, industrial and all other electricity users by 2018?

A. Thank you for the question.

As part of its commitment to reduce electricity cost pressures, the government has removed the Debt Retirement Charge (DRC) from residential electricity users' bills as of January 1, 2016.

This is saving a typical residential user about $70 each year and meant ending the DRC earlier for these users than otherwise provided for in the *Electricity Act, 1998*, as originally enacted. As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act, 2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.

- A large industrial using 3,000 megawatt-hours (MWh) per month could save $21,000 per month, or about seven per cent off its electricity bills;
- For a large northern industrial in the Northern Industrial Electricity Rate program, this could be more than an eight per cent savings; and
- A small business using 20,000 kilowatt-hours (kWh) per month could save $140 per month, or about four per cent.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

I would note the following context. The government's electricity sector reforms in the Electricity Restructuring Act, 2004, and others, have put the stranded debt recovery plan back on track. Based on interim numbers in Budget 2016, 2015-16 is projected to be the twelfth consecutive year that the stranded debt has been reduced, to under $5 billion as at March 31, 2016, from $20.6 billion as at March 31, 2004. This allowed the government to follow through on its commitment to reduce electricity cost pressures.

4. Moody's just released a report noting that Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy. Can you explain how your conservative debt management policies are keeping debt service costs manageable?

A: According to Moody's, "low interest rates will keep interest costs in line with current levels." Moody's also states that "Ontario's strategy of issuing debt across a variety of maturities and markets helps ensure good access to funding and low financing costs. To protect against unfavorable market conditions, Ontario has in recent years increased its liquidity reserves. The province has also extended its weighted average debt maturity to take greater advantage of low interest rates."

This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs.

The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 23 per cent lower, at 9.0 cents of interest costs for every dollar of revenue.

This ratio is the lowest it has been since 1990-91, and is forecast to remain low through the outlook period in 2018–19.

5. Moody's just released a report noting that Ontario's policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices has helped to support the province's Aa2 rating. Can you explain how borrowing for infrastructure helps support the province's credit rating?

A: According to Moody's although Ontario's debt will continue to increase over the medium term as it funds its 10-year infrastructure plan "any negative impact on the province's credit strength will be counterbalanced by rising revenues and a return to budgetary balance."

The government plans to invest more than $137-billion in capital over 10 years, and $160 billion over the 12-year period starting in 2014-15.

Investments in capital, supplement GDP growth and the net debt-to-GDP ratio will come down more quickly than it would without these investments. Once a balanced budget is achieved, the increase in net debt will be limited to difference between the cash investment to build the assets and the amortization, which is a non-cash amount.

Friendly Questions (TBS)

6. Deputy Minister Orencsak, you mentioned that the C.D. Howe Institute has given positive feedback about the government's reporting practices. Why is that significant?

A. Ontario has consistently scored top marks in the C.D. Howe Institute's evaluation of senior government financial reporting transparency and fiscal accountability. For the past several years, Ontario has earned an "A" on overall measures. The Institute's latest report included some new measures, which caused Ontario's rank to fall to "A-." The results differ from those in previous iterations of the report because of modifications in the Institute's grading system as well as changes in the financial reports themselves.

The Institute noted that Ontario's presentation of its consolidated financial statements was a key strength when compared to other jurisdictions. Further, the Institute ranked Ontario first overall regarding the accuracy of its budgeted spending forecasts.

Ontario and several other provinces were praised for having their budgets prepared on the same accounting basis as their end-of-year public accounts. In having budget and public accounts on the same basis, Ontario and the other such provinces have increased transparency and comparability to their citizens.

7. How does the Financial Statement Discussion and Analysis meet the best practices recommended by Public Sector Accounting Board?

A.: In Ontario, public reporting of the government's fiscal plan and financial results are prescribed by the *Fiscal Transparency and Accountability Act* and the *Financial Administration Act.* The two pieces of legislation work together to ensure a principled financial management framework for Ontario.

In addition, the government has taken steps to enhance transparency and accountability and to make the information more accessible and understandable for the average person. We've used data visualization in the past, and this year we are supplementing the information with more online tools and graphics. This means the average person is better able to understand the trends in balance sheet and operating activities in the last five years. It also means a person can more search through the data more easily.

We've also made improvements after a recommendation by the Auditor General about the Financial Statement Discussion and Analysis section of the government's Annual Report.

We've changed the format and layout of this section to ensure it's presenting the province's key financial facts in a non-partisan manner.

Expanding beyond the Auditor General's recommendations, our staff also reviewed the reports of other senior Canadian governments to identify best practices.

8. Everyone has been doing more with less, and that includes the government. For example there are 6% fewer full time employees in the civil service now, compared to 2008. What else is the government doing to ensure its bringing costs down? What results have been achieved so far?

A. The Ontario Economic Outlook and Fiscal Review in fall 2014 announced Program Review, Renewal and Transformation (PRRT) as a key element of the government's plan to achieve a balanced budget.

PRRT is a fundamentally new approach to multi-year planning and budgeting, and is designed around four key principles:

- Examining how every government dollar is spent
- Using evidence to inform better choices and improve outcomes
- Looking across government to find the best way to deliver services, and
- Taking a multi-year approach to find opportunities to transform programs and achieve savings.

At the same time, the government is making tough choices to end programs that are not performing, do not link to key priorities or no longer serve a clear public interest.

The 2014 Budget announced that the government was implementing an annual program review savings target, and set the target at $250 million for 2014-15. The target was met through a number of initiatives that achieved the reductions while continuing to support front-line services.

An additional year-end savings target of $1.1 billion built into the plan was also achieved.

The government met its program review savings target through initiatives such as:

- Negotiating lower prices for goods and services
- Finding internal efficiencies in information technology data centre, desktop and service management operations
- Modernizing the delivery of natural resources management programs
- Restraining compensation growth in line with the government's "net zero" policy
- Finding operational and administrative efficiencies across government, including reducing the government's office footprint and prudent management of discretionary costs, such as supplies and travel.

In the 2015 Budget, the government announced a number of opportunities identified through PRRT to improve outcomes while supporting fiscal objectives. They included:

- Changing business tax credits
- Modernizing programs delivered through ServiceOntario
- Reducing the government's office footprint
- Getting better value for money invested in health care programs and services.

9. Why is it important that the government has consistently beaten its deficit reduction targets in terms of the province's finances?

A. The government is dedicated to a fiscally sound approach to managing the Province's finances, which will provide the foundation for the long-term well-being and prosperity of Ontarians.

The government remains on track to eliminate the deficit by 2017-18.

By continuing to beat our fiscal targets, and through prudent and cost-effective debt management, the Province has also consistently kept interest on debt costs below budget projections.

Term extension has allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

In addition, we have maintained a rigorous approach to control program spending to reduce Ontario's net debt-to-GDP ratio to its pre-recession level.

Our path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

Our plan is to first balance the budget while continuing to make strategic investments in capital assets. These infrastructure investments will stimulate economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio.

10. There's been concern about Ontario's net debt-to-GDP being significant; however the government is making large-scale infrastructure investments. How are these investments helping the people of Ontario?

A. The government's position is that the renewal and expansion of public infrastructure supports Ontario's industries, creates jobs and provides long-term benefits and improves the lives of Ontarians.

Large investments have been announced and made for improvements in the province's infrastructure. The province is making public infrastructure investments of more than $137 billion over the next 10 years. This builds on the 2014 Budget commitment to invest in infrastructure – resulting in about $160 billion of investment over 12 years, starting in 2014-15.

The revenues allocated to the Trillium Trust will be used to support building transit, transportation and other priority infrastructure as part of the Moving Ontario Forward plan.

A September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

Ontario's planned investments in public infrastructure are expected to support over 110,000 jobs per year on average.

Building and revitalizing public infrastructure are essential to strengthening Ontario's economy.

11. Given that compensation accounts for half of government spending, what has the government done to help alleviate the strain on finances as it works toward balancing its budget?

A. The government remains committed to balancing the budget by 2017-18 and managing compensation costs has been a key element of achieving this goal.

The 2016 Budget emphasized that all public-sector partners must continue to work together to control current and future compensation costs.

Since then, collective agreements have been reached in a number of key sectors, including the education sector, Ontario Public Service and provincial energy corporations that are consistent with the government's fiscal plan.

From July 2012 to September 2016, the provincial public sector annual wage increases have averaged 0.6%, compared to the municipal sector at 1.7%, the private sector at 1.9% and the federal public sector in Ontario at 1.7%.

The Government has achieved a number of net-zero deals, including:

In August 2014, the Government reached a new net-zero four-year agreement with AMAPCEO, which produced savings of approximately $45 million. The agreement included zero across-the-board increases in the first two years and modest increases in the third and fourth years that were offset by savings elsewhere in the collective agreement.

On Oct. 30, 2015, the Government ratified a new net-zero three-year agreement with the Unified Bargaining Unit in OPSEU.

The Unified agreement includes no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4 per cent one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4 per cent pay increase.

The agreement is consistent with the fiscal plan. The lump-sum payment in 2016 and pay increase in 2017 are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

In May of 2016, the government was able to achieve a net-zero negotiations and arbitration settlement outcome with OPSEU Corrections.

The government has a reached a tentative agreement with the Provincial Engineers Government of Ontario (PEGO) that still needs ratification by members. As such we cannot comment on the details of this deal.

12. There are changes ahead for retiree benefits, how will they help the government's bottom line and how do they compare with what is happening in the private sector? How important are these kinds of changes to our plan to balance the budget?

A. Currently, persons in receipt of a pension from the Public Service Pension Plan (PSPP) or OPSEU Pension plan who have a minimum 10 years of pension credit are entitled to post-retirement group health, dental and life insurance coverage. The Ontario government pays 100% of monthly premium costs.

On Feb. 18, 2014, the government announced that the post-retirement benefits eligibility criteria and cost-sharing terms would be changing in 2017.

PSPP and OPSEU Pension Plan member employees who do not have 10 years of pension credit as of Jan. 1, 2017 would be required to have at least 20 years of pension credit to retire to an immediate unreduced pension in order to be eligible for post-retirement benefits.

Also, eligible persons who have not commenced receiving a pension before Jan. 1, 2017, would be required to pay 50% of the life, health, dental and vision and hearing aid premiums.

Employees who commenced receiving a pension before Jan. 1, 2017 will not be affected by these changes.

Announcement of the changes led to a reduction of the retiree benefit program liability by over $1 billion and brings Ontario Public Service retiree benefits more in line with other public sector organizations.

Some other public sector workers pay 100% of their benefits premiums.

Eligible retirees include former employees of the OPS, as well as former employees of other employers which participate in the OPS pension plans.

Retired judges, justices of the peace and Ontario Provincial Police Association (OPPA) members have independent retiree benefit terms.

By transitioning to a new cost-sharing model for retiree benefits, the government is moving in line with the private sector and other public sector organizations.

Friendly Questions (WSIB)

13. The Auditor General has discussed the WSIB in her report for a couple of years, suggesting that the government reconsider the exclusion of the WSIB's financial results from the Province's consolidated financial statements. Her suggestion is based on the risk that the province might

have to provide funding to ensure the WSIB remains viable. Why hasn't the government consolidated the WSIB on its books?

A. Under public sector accounting standards the province only consolidates those organizations which are assessed as controlled. Where the province has the power to govern the financial and operating policies of an entity with expected benefits of risk or loss, it is consolidated on our books. This is not the case with the WSIB, and furthermore the Province doesn't have any legal liability for the debts of the WSIB.

In fact, the WSIB is really a non-controlled trust in nature, and such trusts are not consolidated on the basis that it would distort the Province's books if the trust's assets, liabilities, revenues and expenses were shown on our books. Since the government does not have any legal responsibility for the unfunded liability, and does not control the entity, we feel that it should remain non-consolidated.

The current exclusion of the entity from our books best serves transparency and accountability. Otherwise, the public and legislature would assume that the WSIB debt is taxpayer debt and that any net operating income/loss of the WSIB would somehow impact the taxpayer.

Following the 2009 report of the Auditor General, the government took steps to amend the *WSIA* to confirm the independence of the WSIB and reinforce its Trust status.

14. What progress has the WSIB made on its target to be fully funded by 2027?

A. Over the past five years, the WSIB has achieved meaningful progress in improving its financial position. Our Sufficiency Ratio is forecasted to reach 85% by the end of the year, compared with 54.2% (funding ratio) in 2009.

The UFL is being reduced ahead of schedule - from a peak of $14.2 billion in 2011, the UFL has now been brought down to $5.6 billion (sufficiency basis) in 2016 (Q2).

We have updated our funding trajectory as part of our 2016 economic statement and we expect to reach 100% sufficiency by 2021, six years ahead of the legislated requirement.

Our pursuit of financial sustainability is not an end unto itself. It is a way of ensuring the delivery of benefits to workers for generations to come – and the freedom to focus on other priorities in the service of both workers and employers.

The significant financial improvements achieved by the WSIB since 2009 can be attributed to four main factors.

Increased premium revenue from employers that was collected specifically to decrease the UFL.

Higher investment returns than long-term targets.

Fewer claims. Claim volumes have been declining for more than two decades and continue to do so today.

Improved recovery and return-to-work results – achieved through the WSIB's health care and return-to-work initiatives, along with more efficiency in the claims management process.

15. Can you please give us an update on the status of the WSIB review of its long term financial viability?

A. Long-term viability is about getting to a funding level which will ensure the sustainability of benefits for the injured workers who need them while providing premium rate stability for employers.

In order to moderate the risk of any future UFL in the event of economic shocks, the WSIB plans to target a Sufficiency Ratio in the range of 115 to 125 per cent as constituting full funding. This target was determined by examining the Office of the Superintendent of Financial Institutions (OSFI) guidelines and funding levels maintained by other workplace compensation boards.

The WSIB's current estimated trajectory shows us reaching full funding (115%) by 2025 while offering premium rate reductions of 5% in each of 2017, 2018 and 2019. Projections also include potential rate reductions of 15-20% between 2023 and 2027.

The WSIB's projections for the future continue to look bright. We believe we will eliminate the UFL by 2021 even as we implement legislated benefit increases (e.g., presumptive Post Traumatic Stress Disorder (PTSD) legislation, indexation of partial benefits), invest in our systems to improve service, and lower premium rates.

2015-16 Public Accounts
General Questions & Answers

Qs & As

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2015-16 ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

KEY MESSAGES

- The government has released its 2015-16 Annual Report and unaudited Consolidated Financial Statements to ensure transparency with respect to the province's financial position.

- To align with the Auditor General, a regulation has been filed to prescribe the accounting treatment for pension assets for the 2015-16 financial statements.

- The regulation resolves the outstanding accounting issue for this year in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

- This marks the seventh year in a row that Ontario has beaten its deficit target.

- Ontario remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

If pressed about why a regulation was needed:

- Based on their professional judgement, the Province's professional accounting staff could not agree with the Auditor General's interpretation of Public Sector Accounting Standards as it relates to jointly-sponsored pension plans.

- A regulation was required to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements.

- The Province has applied consistent accounting treatment for these plans for the past 14 years, and has consistently received unqualified, or clean audit opinions from the Auditor General, without exception.

- To remain clear and transparent, we have reflected the Auditor General's view of the issue for this year. In order to do so, the government regulated the treatment of the pension assets for 2015-16.

- This is an accounting issue. However the government remains optimistic that by studying the issue further and gathering third-party professional opinions, we will be able to reach an agreement on the treatment with the Auditor General in the coming months.

TOP QUESTIONS

Q1. It sounds to me like the government is yet again fighting with the Auditor General. What do you say to this?

A1. This is not true from the government's perspective. And let me explain why: The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. And in this case for this set of final accounts, while one specific issue is being sorted through, we actually are agreeing with the Auditor General's numbers.

Given these differences of opinion, the Province filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

The government believes that this accounting matter would benefit from additional discussions, information and consideration.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The government will ensure that the task force is made aware of this area of difference in interpretation.

In addition, the government will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The government will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Q2. Why did the government release its financial statements without the Auditor approving them?

A2. This year, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to an accounting issue – the treatment of pension assets.

Ontario has followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years, resulting in unqualified – or clean audit opinions. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In preparing the Annual Report and Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have difference interpretations.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

The government released its financial statements to ensure transparency with respect to province's financial position.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Q3. If the Public Sector Accounting Board is studying this issue, are other Canadian jurisdictions dealing with this as well?

A3. No other province has similar governance frameworks for their jointly-sponsored pension plans that are in a surplus position.

British Columbia

Pension assets for BC's jointly sponsored pension plans are not reported on British Columbia's consolidated financial statements. The governance framework in BC is different than Ontario's and would appear to justify different accounting treatment under PSAB standards.

Specifically, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to use ongoing surpluses through the amendment of the Plan rules governing contributions and benefits, so long as the amendment of the Plan rules:

- Does not result in an increased contribution rate for employees or employers
- Does not create or increase an unfunded liability in the Plan, and
- Is otherwise compliant with applicable legislation and the Trustees' fiduciary obligations.

In contrast, the governance arrangements with respect to the Ontario Teachers' Pension (OTPP) provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may use ongoing surpluses as they believe appropriate, subject only to the Ontario *Pension Benefits Act.* The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses.

The OPTrust governing documents also stipulate that it is the Sponsors of the OPTrust, being the Province of Ontario and OPSEU, who have the authority to utilize ongoing Plan surpluses. OPTrust's Board of Trustees, being the OPTrust administrator for purposes of the Ontario PBA, has no authority to utilize ongoing Plan surpluses.

New Brunswick

As we understand it, New Brunswick converted four of its pension plans into what it refers to as target plans.

In the prior year, New Brunswick accounted for these plans as defined contribution plans, meaning it expensed the contributions to the plan and did not reflect its share of the net asset or net liability of the plan in its financial statements. The Auditor General of New Brunswick issued a qualified opinion on those financial statements.

In the 2015-16 fiscal year, New Brunswick changed its accounting for those plans to account for them as defined benefit plans and the Auditor General of New Brunswick issued a clean opinion.

Ontario has always accounted for its share of its jointly sponsored plans as defined benefit plans.

Q4. What is the professional judgment that exists out there to interpreting jointly-sponsored pensions?

A4. A key consideration in exercising professional judgment is if the resulting financial information is both relevant and reliable and gives a fair presentation of the transaction.

This area of pension accounting is particularly complex, and it is important to consider the specific facts and circumstances when assessing the appropriate accounting treatment.

In this regard, the government has assessed the appropriate accounting treatments based on the governance frameworks applicable to Ontario's jointly-sponsored pension plans. It would be inappropriate to assume that the governance frameworks of plans in other jurisdictions would necessarily result in the same accounting treatment.

Q5. Is the Auditor General misinterpreting Public Sector Accounting Board standards?

A5. The Auditor General's responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment. A difference of opinion on the interpretation of accounting standards is not unique to this situation. Other jurisdictions have also experienced differences of opinion between preparers and auditors on complex accounting matters.

Over the coming months the government will undertake activities to further assess the application of PSAB standards to Ontario's accounting for jointly-sponsored pension plans. In the meantime, it remains the professional judgment of the professional staff that the accounting treatment in place since 2001 continues to be appropriate.

Q6. If the Auditor General had agreed with you, what would the differences have been in the deficit or net debt?

A6. According to the Province's interpretation of PSAB, the annual deficit would be $1.5 billion lower (at $3.5 billion), and net debt would be $10.7 billion lower.

Q7. The province has been treating pensions the same way since 2001. When did the Auditor General tell you about this new accounting treatment?

A7. The government only learned that the Auditor General was challenging the accounting treatment of the past 14 years very late in the audit. On September 13th the Auditor General communicated her position that the Province should write off the entire pension asset amount of $10.7 billion from the balance sheet.

Q8. If the government things its right, why would the government change the numbers?

A8. To clarify, the 2015-16 results are based on legislation and PSAB. Although they reflect the same fiscal results which would be presented according to the Auditor General's proposed interpretation of the standards, the results as presented do not represent our professional staff's interpretation of PSAB standards for jointly sponsored pension plans.

By adopting the Auditor General's interpretation, the financial statements could be finalized and signed off in order to complete the financial reporting process and enable Public Accounts to be completed. Unfortunately, the Auditor General's audit opinion remains outstanding at this time so the Public Accounts have yet to be finalized.

Q9. Was there something wrong with the accounting rules that the government was using before?

A9. No.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

That said, the Province believes that this complex accounting area would benefit from additional discussion and analysis. Over the coming months, efforts will be made to engage experts to assist with further analysis of the application of PSAB to accounting for jointly-sponsored pension plans on the Province's books.

Q10. Why hasn't the Auditor General raised this with you in the past two years?

A10. I cannot speak for the Auditor General. Please refer your questions to the Auditor General's Office.

Q11. So what happens next? When will you table the actual Public Accounts?

A11. The government will continue to work with the Auditor General to complete tabling of the 2015-16 Public Accounts.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Q12. Does the change in accounting regarding the assets of the Teachers' or OPSEU pensions plans mean those plans might be financially threatened?

A12. Absolutely not. This issue relates solely to the Province's reported financial results and the Province's historical practices of reporting pension assets.

The two pension plans in the Ontario Public Service – which are of the defined benefit type – are healthy and well-funded.

The OPSEU Pension Plan is fully funded with a small reserve of surplus assets standing to the credit of the joint-sponsors, while the Ontario Teachers' Pension Plan has a funding surplus of $13.2 billion.

Standing Committee on Public Accounts
Wednesday, November 4th 2015

Questions from Committee Members on AG's 2014 Annual Report

Progressive Conservative Party Questions/Comments/Issues

Based on the Financial Accountability Officer's report:

- The government claims that it will be in balance in 2017-18, but the FAO claimed that the government will still be in deficit of up to $3.5 billion
- Hydro sale will come with an initial income boost, but government will lose income over the longer term
- How will the government get to balance if the economy is slowing and a credit rating decrease will increase the cost of borrowing?
- How will the government get to balance – will it be raising revenues by increasing taxes; getting more money from the federal government; cutbacks and/or layoffs? or asset sales?

In terms of debt reduction (the net debt to GDP target) – how close is the government to achieving this and what is the plan?

If growth is slower, leading to reduced revenues – does the government rejig projections? How does the government make up for lost revenue – by increasing the land transfer tax or implementing a carbon tax?

What is the contribution to the economy of investing in capital assets?

When the government funds capital assets at the municipal level, the municipality still needs to pay for operating costs for the asset. How does that figure into the overall growing of the economy?

What is the impact of selling capital assets on the economy?

**There was a question on the loss of revenue from ORPP contributions and one on split pensions, but a government member suggested that they were not in order because they were not covered in Public Accounts.

New Democratic Party Questions/Comments/Issues

What is the impact of the hydro sell-off on net-debt-to-total-annual-revenue ratio?

$900 million in revenue came from Ontario Hydro and Ontario Power Generation. How much came from each company?

Has Hydro One traditionally brought in more revenue than forecasted?

Why has the stranded debt not been paid off when it was originally $7.8 billion and the government has collected $11.5 billion?

The stranded debt charge that business pay is supposed to end in 2018. Will it continue to drop so that business does not have to pay after 2018?

Will there be forecasted targets for the debt retirement charge to drop in 2016, 2017 and 2018?

How will the sale of Hydro One and the loss of its revenues ($500 million/year) affect the net-debt-to-total-annual-revenue ratio?

With the increase in the federal debt, will investors still want to buy Ontario debt? What happens if the demand for Ontario debt shrinks?

Program expenses are less – what was cut to achieve this?

Liberal Party Questions/Comments/Issues

What is the forecasted net-debt-to-GDP? Why is this important? What is the effect on the commitment to balance in 2017-18?

What is the material impact of the S&P downgrade on the province's finances?

The government is lucky that interest rates are low. Discuss the prudent measures taken by the government to manage the debt and to mitigate the risk of increased interest rates.

Discuss the uncertainties about the transfers from the federal government.

Provide an update on the Pension Benefit Guarantee Fund.

What is the impact of the infrastructure investments on the economy?

Why is it important that the government beats its deficit reduction target?

Can you talk more about how the government is controlling spending and reviewing spending through the program renewal, review and transformation?

August 30, 2016

ONTARIO'S CREDIT RATINGS

What is the status of Ontario's credit ratings?

SUGGESTED RESPONSE

- **The Financial Accountability Office (FAO) has released a commentary "Credit Rating Agencies Satisfied with Ontario's Progress to Fiscal Balance."**
    - **According to the FAO "the credit agencies' affirmation of Ontario's credit rating following the 2016 budget indicates that they believe the Province has taken adequate steps on both revenues and expenditures to achieve its plan to restore fiscal balance by 2017-18. In addition, while each agency's rating methodology differs slightly, they all believe that Ontario's debt burden (both as a percent of GDP and revenues) has likely peaked and would be expected to decline modestly over the next three fiscal years.**
- **Ontario has always valued the input of third-party analysis as an important checkpoint in ensuring that our fiscal plan is credible, reliable and transparent.**
- **Ontario's credit ratings are:**
    - **Moody's: Aa2**
    - **DBRS: AA (low)**
    - **Fitch: AA-**
    - **Standard and Poor's: A+**
- **As outlined in the 2016 Budget, the government is committed to eliminating the deficit by 2017-18 and remaining balanced in 2018-19. In 2015-16, Ontario is once again projected to beat its deficit target for the seventh year in a row. By continuing to beat our fiscal targets, Ontario's accumulated deficit is $30 billion lower than it otherwise would have been.**
- **We will continue to reduce the deficit through a fair and balanced approach. The 2016 budget is focused on strategic investments that stimulate economic growth and job creation including investing over $160 billion in infrastructure projects across the province over the next 12 years. Even with these investments, our government has the lowest program spending per capita of any province in Canada.**

- **Furthermore, between 2010-11 and 2014-15, our government has held program expense growth to an average annual rate of 1.4 per cent, while still supporting the vital public services that Ontarians rely on, like health care, education and social services. We have achieved this by finding new and more efficient ways to deliver the best value for Ontarians.**

BACKGROUND

FAO Commentary on Credit Rating Agencies

On August 30, 2016, the Financial Accountability Officer released a commentary titled “Credit Rating Agencies Satisfied with Ontario’s Progress to Fiscal Balance”.

According to the FAO, the credit agencies’ affirmation of Ontario’s credit rating following the 2016 budget indicates that they believe the Province has taken adequate steps on both revenues and expenditures to achieve its plan to restore fiscal balance by 2017-18. In addition, while each agency’s rating methodology differs slightly, they all believe that Ontario’s debt burden (both as a percent of GDP and revenues) has likely peaked and would be expected to decline modestly over the next three fiscal years.

This consensus view of the rating agencies is consistent with the FAO’s own analysis, which concluded that the Province should be able to achieve fiscal balance in 2017-18 and that Ontario’s debt-to-GDP ratio would decline modestly over the next five years.

According to the FAO, the rating agencies generally assume that the Province will maintain fiscal balance , beyond 2017-18 based on its ability to restrain expenditure growth and increase revenues as required. However, the FAO notes that the agencies all expect that the Province will be “challenged” to maintain expenditure restraint indefinitely, given mounting spending pressures.

The FAO notes that the agencies continue to emphasize that the Province’s relatively high debt burden compared to other provinces and international peers, remains a key weakness for Ontario’s credit outlook. Indeed, Ontario’s relatively high debt burden was an important determinant behind both Fitch and S&P’s decision to downgrade the Province’s credit rating in December 2014 and July 2015.

According to the FAO, if Ontario’s fiscal balance were to return to deficit beyond 2017-18, either through an easing of expenditure management restraint or through unexpected weakness in revenues (as a result of slower than expected economic growth), the agencies would be expected to revise Ontario’s credit outlook to negative followed by a potential credit rating downgrade. A credit rating downgrade could lead to higher borrowing costs for Ontario and a more difficult fiscal position.

Fitch

The tabled budget for fiscal 2017 follows the province’s plan to eliminate its annual budget deficits by fiscal 2018. Despite an uptick in the annual deficit in fiscal 2014, the province has recorded two successive years of declines since then and Fitch believes it remains on track to achieve its target assuming continued economic growth.

The province has demonstrated the ability to exert considerable expenditure restraint while instituting revenue changes as necessary to achieve its deficit reduction objectives.

Ontario's 'AA-' rating is supported by its wealthy, diversified economy and generally sound financial management.

S&P

The stable outlook reflects expectations that the province's liquidity will continue to be average in the next two years, real GDP growth will be above 2% and operating revenue growth will lead to operating surpluses beginning in fiscal 2017.

The ratings reflect the province's very strong and diversified economy, strong financial management, very predictable and well-balanced institutional framework, and low contingent liabilities. The ratings also reflect S&P's view of the province's weak budgetary performances and very high debt burden.

According to S&P, the debt burden should continue to decline, reaching below 240% of projected consolidated operating revenues by fiscal 2019.

Near-balanced after-capital results and continuing declines in Ontario's tax-supported debt burden could result in a positive outlook or upgrade.

DBRS

The trend remains Stable, supported by the Province's continued progress towards restoring fiscal balance and a large, well-diversified economy with an improving, growth outlook.

A positive rating action, appears highly unlikely over the medium term, as it would require improvements in fiscal performance on a sustained basis to reduce debt to a level more commensurate with the AA-range rating.

Alternatively, although not anticipated by DBRS in the current environment, a negative rating action could result from a relaxation in fiscal discipline, or an unforeseen economic shock that leads to deteriorating fiscal performance and rising debt.

Moody's

The stable outlook reflects Moody's view that the province's debt burden will continue to modestly improve as the province moves towards balanced budgets and therefore reduces its annual financing requirements.

With the return to balanced budgets on the horizon, aided by continued expenditure control and increasing revenues, the debt burden is expected to show slight improvements over the medium-term as annual financing requirements decrease.

Although the province forecasts only thin surpluses in the years immediately following the planned return to balance in 2017/18,Ontario has included some contingencies to help ensure it achieves its fiscal targets and therefore reduce the likelihood of incurring further deficits.

The current low interest rate environment has enabled the province to extend the maturity of its debt profile and issue long-term debt bearing historically low coupons which has also kept debt service low and manageable.

The province's large and diversified economy and growing population provides access to a broad and productive tax base and, as such, remains a source of credit strength.

Ontario's Current Long-term and Short-term Ratings

Agency	Long-Term Rating	Short-Term Rating	Most Recent Review
Moody's	Aa2	P-1	Negative Outlook removed on April 26, 2016
DBRS	AA (low)	R-1 (mid)	Confirmed, May 20, 2016
Fitch	AA-	F1+	Confirmed June 22, 2016
S&P	A+	A-1+	Confirmed June 1, 2016

Ontario's Long-Term Credit Rating History 1990-2016

Year	S&P	Moody's	DBRS	Fitch
2016	A+	Aa2	AA (low)	AA-
2015	A+	Aa2 (N)	AA (low)	AA-
2014	AA- (N)	Aa2 (N)	AA (low)	AA-
2013	AA- (N)	Aa2	AA (low)	AA (N)
2012	AA- (N)	Aa2	AA (low)	AA (N)
2011	AA-	Aa1 (N)	AA (low)	AA (N)
2010	AA-	Aa1	AA (low)	AA
2009	AA-	Aa1	AA (low)	AA
2008	AA	Aa1	AA	AA
2007	AA	Aa1	AA	AA
2006	AA	Aa1	AA	
2005	AA	Aa2	AA	
2004	AA	Aa2	AA (N)	
2003	AA	Aa2	AA	
2002	AA	Aa2	AA	

2001	AA	Aa3 (P)	AA	
2000	AA- (P)	Aa3	AA(low) (P)	
1999	AA-	Aa3	AA(low)	
1998	AA-	Aa3	A(high)	
1997	AA-	Aa3	A(high)	
1996	AA-	Aa3	A(high)	
1995	AA-	Aa3	A(high)	
1994	AA-	Aa3	A(high)	
1993	AA-	Aa2	A(high)	
1992	AA (N)	Aa2	AA(low) (CW-N)	
1991	AA+ (N)	Aa2	AA(low)	
1990	AAA	Aaa	AA	

Provincial Rating Comparison

Province	**S&P**	**Moody's**	**DBRS**	**Fitch**
Canada	AAA	Aaa	AAA	AAA
Ontario	**A+**	**Aa2**	**AA (low)**	**AA-**
British Columbia	AAA	Aaa	AA (high)	AAA
Saskatchewan	AA+ (N)	Aaa	AA	AA
Alberta	AA (N)	Aa1 (N)	AA (high)	Not Rated
Manitoba	AA-(N)	Aa2	A (high)	Not Rated
New Brunswick	A+	Aa2	A (high)	Not Rated
Northwest Territories	Not Rated	Aa1	Not Rated	Not Rated
Quebec	A+(P)	Aa2	A (high)	AA-
Nova Scotia	A+	Aa2	A (high)	Not Rated
PEI	A	Aa2	A (low)	Not Rated

Newfoundland & Labrador	A (N)	Aa3 (N)	A (low)	Not Rated

Agency Rating Scale

Rating	S&P	Moody's	DBRS	Fitch	Definition
Triple A	AAA	Aaa	AAA	AAA	Highest rating possible; capacity to pay interest and repay principal extremely strong.
Double A	AA+	Aa1	AA (high)	AA+	Has a very strong capacity to pay interest and principal and differs from triple A only in a small degree.
	AA	Aa2	AA	AA	
	AA-	Aa3	AA (low)	AA-	
Single A	A+	A1	A (high)	A+	Has a strong capacity to pay interest and principal, but more susceptible to adverse developments than higher rated categories.
	A	A2	A	A	
	A-	A3	A (low)	A-	

Ontario's ratings

Prepared by: Bonnie Lemcke, 416 325 8170
Ontario Financing Authority
Date Prepared: August 19, 2016

BORROWING AND DEBT

What is the status of Ontario's borrowing and debt management plan?

SUGGESTED RESPONSE

Debt-to-GDP

- **Net debt-to-GDP is expected to peak at 39.6 per cent in 2015–16, remain unchanged in 2016–17, and begin to decline in 2017–18.**

- **We will maintain a rigorous approach to control program spending to reduce Ontario's net debt-to-GDP ratio to its pre-recession level.**

- **The first very important step in returning the net debt-to-GDP ratio to its pre-recessionary levels is to balance the budget in 2017-18.**

    - **Debt is incurred primarily for two reasons: to finance deficits and invest in capital assets.**
        - **As outlined in the 2016 Budget, the government is committed to eliminating the deficit by 2017-18 and remaining balanced in 2018-19.**
        - **We are making the biggest investment in public infrastructure in Ontario's history. We have a plan to invest more than $137 billion over the next 10 years, or about $160 billion over 12 years, starting in 2014–15. This is a strategic investment will grow the economy and create jobs.**
    - **Our plan is to first balance the budget while continuing to make strategic investments in capital assets. These infrastructure investments will stimulate economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio.**

    - **With capital investments, the net debt-to-GDP ratio will come down more quickly than it would have without these investments in capital assets.**

    - **Capital investments are amortized over the useful life of the assets. Once a balanced budget is achieved, the increase in debt will be limited to the difference between the cash investment to build assets, and the amortization, which is a non-cash amount.**

Borrowing Program

- **Long-term borrowing for 2016–17 is forecast to be $24.4 billion when factoring in $2.0 billion pre-borrowed in 2015–16. This will be the Province's smallest borrowing program since 2007–08. As of August 31, 2016, the Province had borrowed $12.5 billion for the fiscal year.**

- **Through prudent and cost-effective debt management, we have consistently kept interest on debt costs below budget projections.**

- **Canada and Ontario 10-year interest rates have fallen to record lows recently. As well, Ontario interest rate spreads relative to Canada have fallen since the 2016 Ontario Budget.**

- **Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs. As of August 31, 2016, the average term for new borrowing in 2016–17 was 15.6 years compared to 8.1 years in 2009-10.**

- **Going back to the beginning of fiscal 2010–11, we have issued $59.1 billion of bonds longer than 30 years to lock in low rates. We are consistently making strategic and prudent decisions that will benefit the Ontario economy and ensure fiscal security.**

CURRENT STATUS

FAO Commentary on Ontario's Provincial Debt

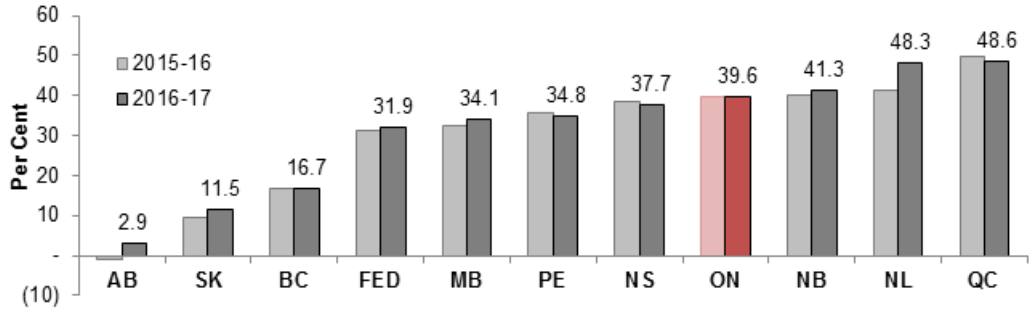
On July 19th, the Financial Accountability Officer released a commentary on Ontario's Provincial Debt, the commentary's key messages were as follows:

- The Government of Ontario's debt burden is one of the highest among provincial governments in Canada

    - Response: The FAO's commentary is based on data from 2014-15. Using more recent information, Ontario's net debt-to-GDP ratio ranks 4th after Quebec, Newfoundland & Labrador and New Brunswick in 2015-16.

    - Ontario's net debt as a share of GDP is projected to remain at 39.6 per cent through 2015-16 and into 2016-17.

Projected Net Debt-to-GDP Ratio by Jurisdiction, 2015-16 and 2016-17



Source: Budgets. Updates and 2014-15 Public Accounts; Conference Board of Canada (May 2016 GDP figures)
Note: For all Figures, accounting standards vary between jurisdictions and within jurisdictions across years. Values may not be directly comparable due to accounting differences across provinces. Federal net debt reflects accumulated debt to match federal public reporting. Data labels correspond to the net debt to GDP ratio for the 2016-17 fiscal year.

- The Province's market debt consists of publicly held bonds, treasury bills, and US commercial paper issued in Canadian dollars and foreign currencies. The effective interest rate on the publicly held debt is 3.6 per cent.

    - Response: Going back to the beginning of fiscal 2010–11,the Province has issued $59.1 billion of bonds longer than 30 years to lock in low rates. Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs. As of August 31, 2016, the average term for new borrowing in 2016–17 was 15.6 years compared to 8.1 years in 2009–10.

- There is uncertainty surrounding the future level of interest rates due to market fluctuations and Ontario's credit risk. All else equal, an increase in interest rates would lead to higher interest payments, which would reduce the Province's fiscal flexibility.

- Response: Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections.
- Canada and Ontario 10-year interest rates have fallen to record lows recently. As well, Ontario interest rate spreads relative to Canada have fallen since the 2016 Ontario Budget.

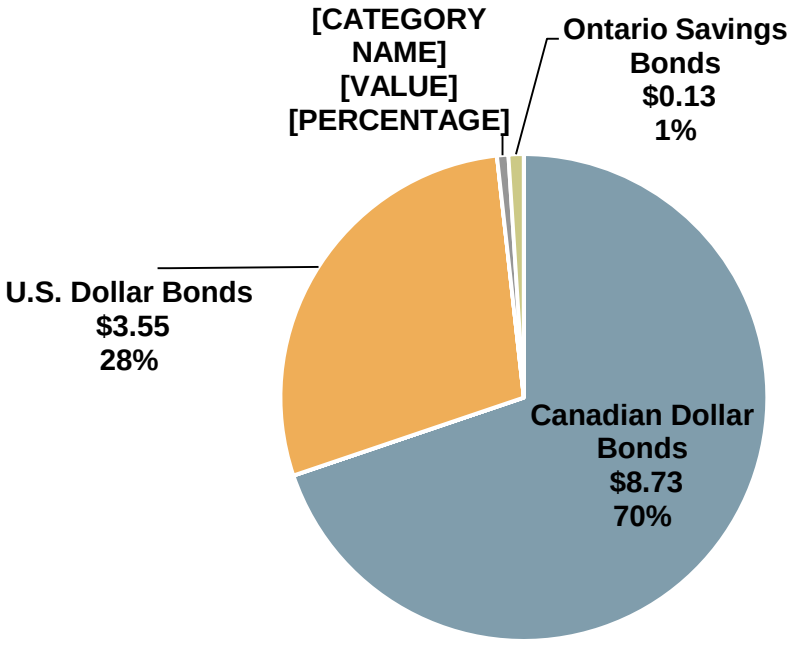
Borrowing Program

Long-term borrowing for 2016–17 is forecast to be $24.4 billion when factoring in $2.0 billion pre-borrowed in 2015–16. This will be the Province's smallest borrowing program since 2007–08.

As of August 31, 2016, the Province had borrowed $12.5 billion for the fiscal year. Approximately 71 per cent of this year's borrowing-to-date has been completed in Canadian dollars. The remainder of the Province's borrowing-to-date has been completed in international currencies through U.S. dollar global bonds, and Australian dollar Kangaroo bonds.

Canada and Ontario 10-year interest rates have fallen to record lows recently. As well, Ontario spreads relative to Canada have fallen since the 2016 Ontario Budget.

2016–17 Borrowing Completed: $12.5 billion

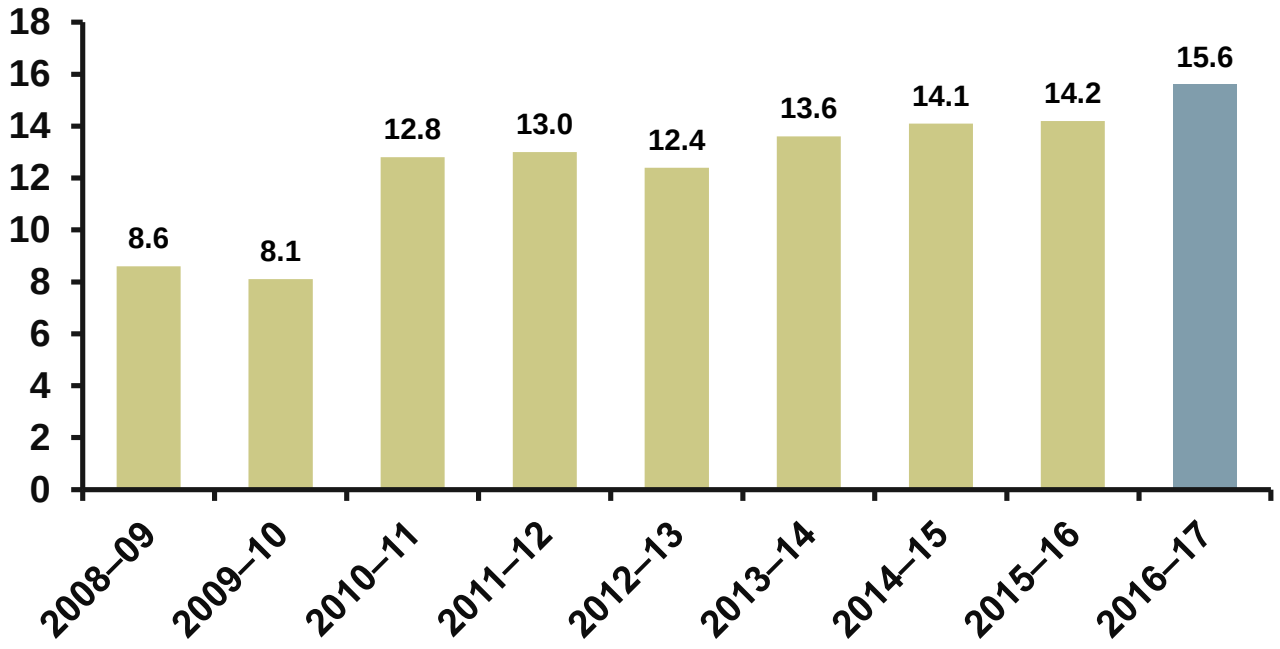


Note: Numbers may not add due to rounding

The Province may revise its Canadian dollar borrowing target of 75 per cent published in the 2016 Budget if international demand for Ontario bonds outpaces domestic demand.

Going back to the beginning of fiscal 2010–11, we have issued $59.1 billion of bonds longer than 30 years to lock in low rates. Term extension has allowed us to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs. As of August 31, 2016, the average term for new borrowing in 2016–17 was 15.6 years.

Average Term (years)



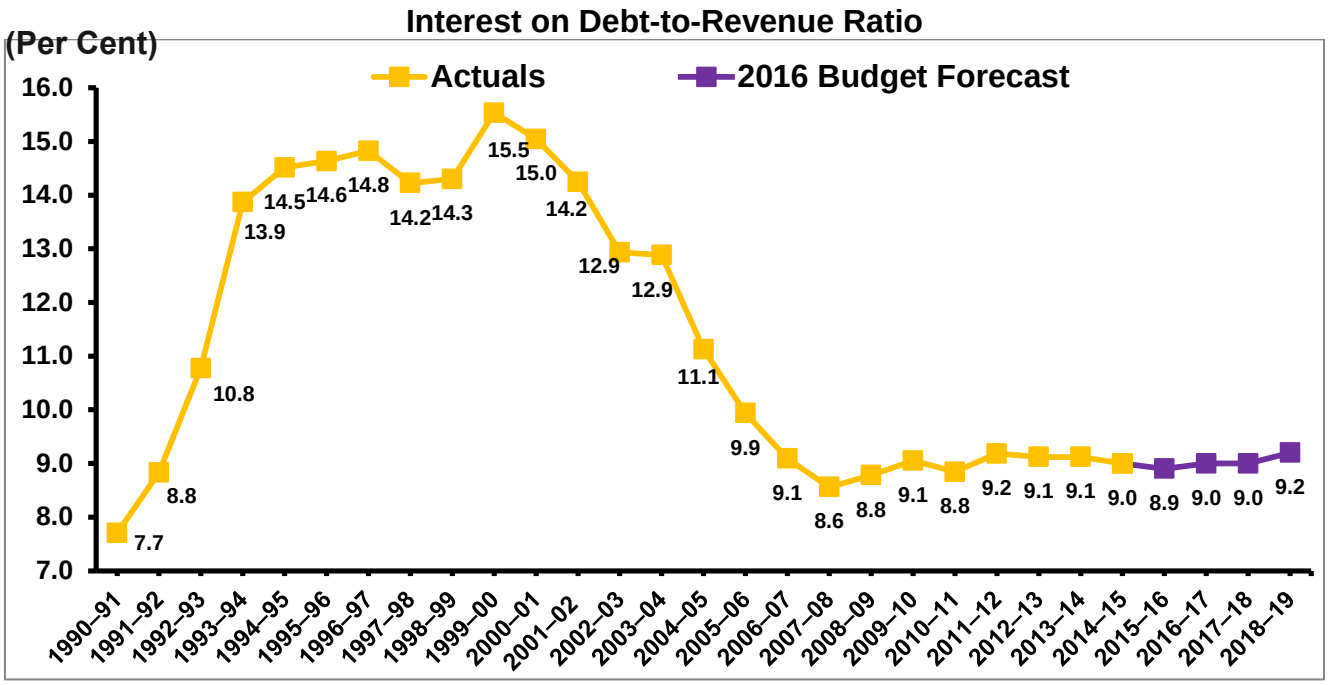
Interest on Debt

Ontario's interest on debt (IOD) is projected to remain at $11.8 billion for 2016-17, rising to $12.5 billion and $13.1 billion for 2017-18 and 2018-19, respectively.

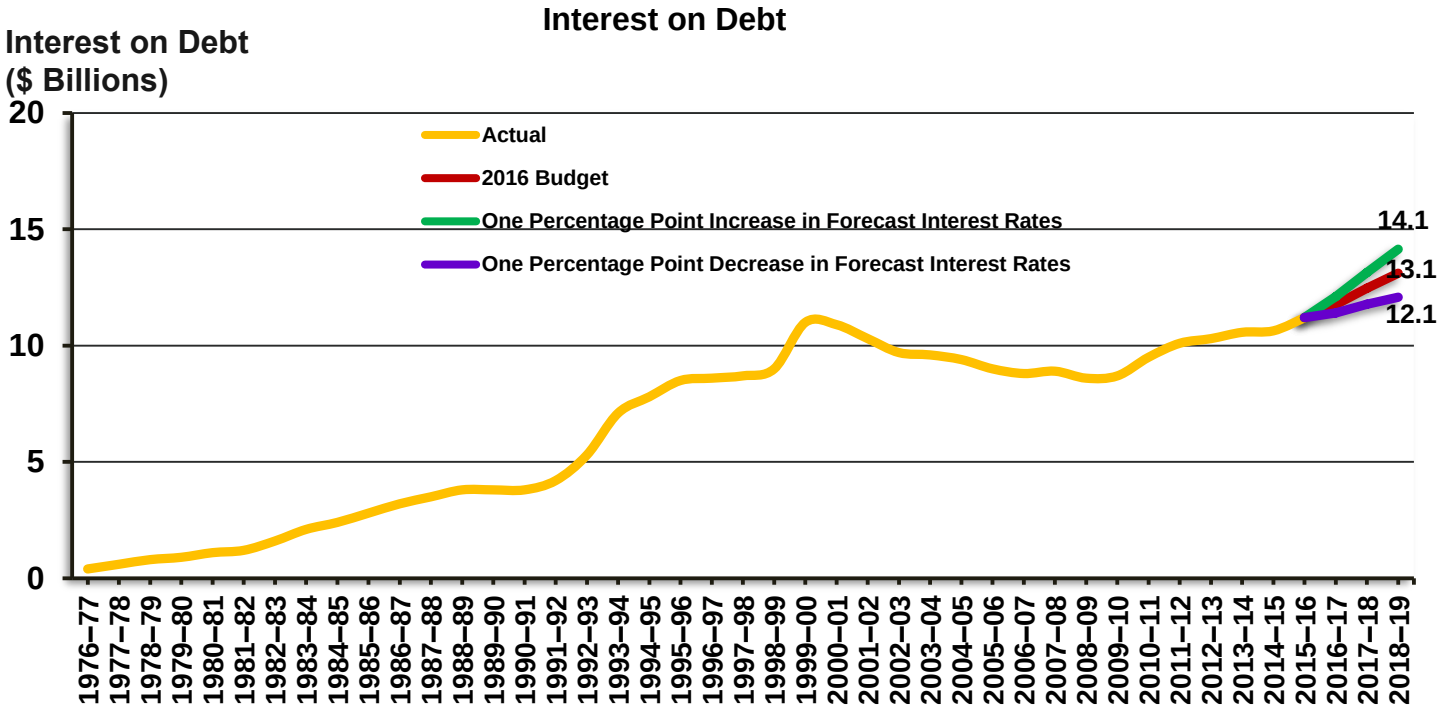
Although IOD increases from 2014–15 to 2017–18, it remains relatively constant as a percentage of government revenue. IOD-to-revenue falls to 8.9% in 2015–16 and is projected to remain at 9.0% over 2016–17 and 2017–18. As such, the increase in IOD has no impact on the Province's path to balance since its proportionate share of revenue is relatively constant. This ratio remains well below the peak reached in the mid-1990s because of the low interest rate environment over the past decade. IOD as a percentage of revenue is lower today than it was 10 years ago, in spite of more than a $143 billion increase in net debt over that period.

The *2010 Budget* forecasted that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 2.7 cents lower, at 9.0

cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through the outlook period in 2018–19.



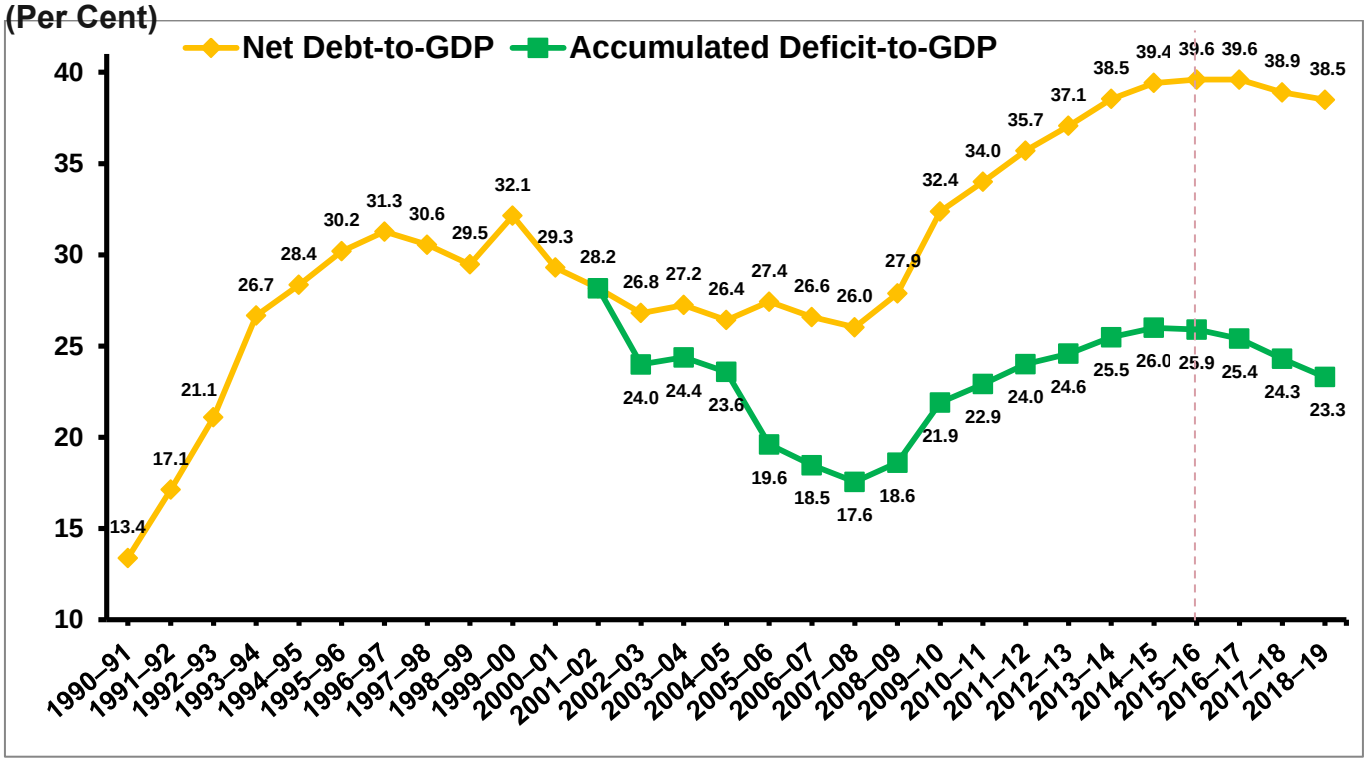
The Province's IOD is sensitive to interest rate fluctuations. A one percentage point change in interest rates would result in a change in Interest on Debt (IOD) of approximately $350 million in 2016–17, rising to $1.03 billion in 2018–19 alone. Rising IOD costs could crowd out spending on government priorities.



Net Debt-to-GDP

The government's strategy of enhancing GDP growth by investing in capital infrastructure has contributed approximately $90 billion to the increase in net debt over the last 13 years. Over the medium-term, net investments in capital assets will contribute over $26 billion to the total increase in net debt of close to $31 billion.

Net Debt-to-GDP and Accumulated Deficit-to-GDP



Debt Management

The Ontario Financing Authority uses a number of financial instruments, including options and swaps, to prudently manage risk. These financial instruments, or derivatives, are used primarily for hedging purposes and do not create net leverage. They are used to transform the cost of borrowing into Canadian dollars and foreign currency exposure from bond issues not denominated in Canadian dollars.

BACKGROUND

The three commonly used indicators of a government's financial and debt position are net debt, total debt, and accumulated deficit. Credit rating agencies and investors place the greatest emphasis on net debt.

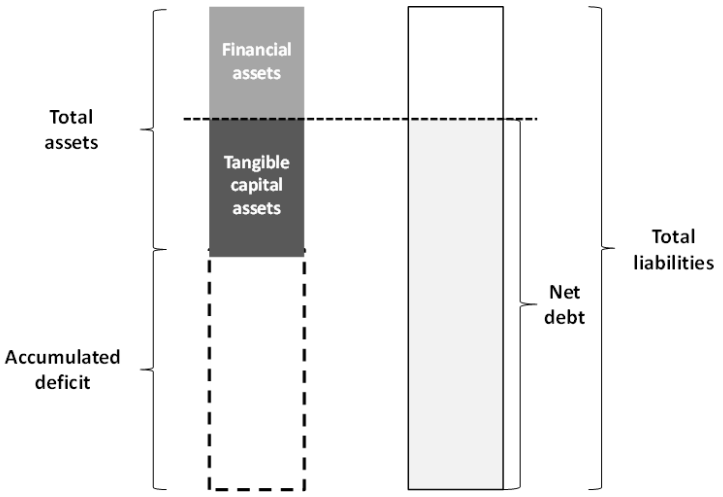
Net debt is the difference between the Province's total liabilities and financial assets. Ontario's net debt is projected to increase from $296.1 billion as at March 31, 2016 to $308.3 billion as at March 31, 2017, and $316.9 billion as at March 31, 2018 and $326.8 billion as at March 31, 2019. The increase in net debt primarily reflects the projected deficit, plus the increase in tangible capital assets of the Province. Financial markets use Net Debt as their primary measure because it represents the Province's future revenue requirements to pay for past transactions and events.

Total debt is the sum of the Province's total borrowings including Ontario Electricity Financial Corporation and agencies. Total debt is projected to increase from $315.0 billion as at March 31, 2015 to $325.3 billion as at March 31, 2016. This increase will be used mainly to fund the projected deficits and the government's capital investments. Canadian dollar denominated debt represents 81 per cent of the total debt projected as at March 31, 2016.

Accumulated deficit represents the sum of all deficits and surpluses. The accumulated deficit is projected to increase from $193.4 billion as at March 31, 2016 to $197.8 billion as at March 31, 2017. Accumulated deficit is projected to be $197.7 billion as at March 31, 2018 and remain unchanged as at March 31, 2019.

Accumulated deficit is not widely used in the financial markets, as it excludes debt raised for capital expenditures.

Net debt, Accumulated Deficit and Tangible Capital Assets



NET DEBT AND INTEREST ON DEBT: 1993-2018

	Net Debt ($ billions)	Net Debt (% of GDP) [5]	Interest on Debt ($ billions)	Interest on Debt (% of Revenue)[1]
1993-94	80.6	26.7	7.1	13.9
1994-95	90.7	28.4	7.8	14.5
1995-96	101.9	30.2	8.5	14.6
1996-97	108.8	31.3	8.6	14.8
1997-98	112.7	30.6	8.7	14.2
1998-99	114.7	29.5	9.0	14.3
1999-2000[2]	134.4	32.1	11.0	15.5
2000-01	132.5	29.3	10.9	15.0
2001-02	132.1	28.2	10.3	14.2
2002-03	132.6	26.8	9.7	12.9
2003-04	138.8	27.2	9.6	12.9
2004-05	140.9	26.4	9.4	11.1
2005-06[3]	152.7	27.4	9.0	9.9
2006-07	153.7	26.6	8.8	9.1
2007-08[4]	156.6	26.0	8.9	8.6
2008-09	169.6	27.9	8.6	8.8
2009-10	193.6	32.4	8.7	9.1
2010-11	214.5	34.0	9.5	8.8
2011-12	235.6	35.7	10.1	9.2
2012-13	252.1	37.1	10.3	9.1
2013-14	267.2	38.5	10.6	9.1
2014-15	284.6	39.4	10.6	9.0
2015-16 (Forecast)	296.1	39.6	11.2	8.9
2016-17 (Forecast)	308.3	39.6	11.8	9.0
2017-18 (Forecast)	316.9	38.9	12.5	9.0
2018-19 (Forecast)	326.8	38.5	13.1	9.2

Sources: 2014-15 Public Accounts, Ontario Budgets from 1993 to 2016.
1. In the 2009-10 Public Accounts, education property taxes were included in provincial revenue and no longer netted against education expense. To facilitate comparisons, the Province's historical revenues and expenses have been restated to account for this reporting change.
2. Starting in 1999-2000, the net debt includes the unfunded liability (stranded debt) of OEFC and interest on debt includes interest on OEFC debt.
3. Starting in 2005-06, the net debt includes the net debt of hospitals, school boards, and colleges that were recognized upon consolidation.
4. Starting in 2007-08, the net debt includes the unrealized gains and losses in the Ontario Nuclear Funds Agreement.
5. Historical Net debt-to-GDP were revised to reflect historical GDP released by Statistics Canada in November 2015.

Date Updated: August 31, 2016
Prepared by: Erica Wieder, Manager, Investor Relations (416-325-1661)

August 19, 2016

GREEN BONDS

What is the status of Ontario's green bond program?

SUGGESTED RESPONSE

- **On January 22, 2016 the Province of Ontario successfully priced its second Global Canadian Dollar (CAD) Green Bond for $750 million.**

- **There was strong demand for Ontario's second Green Bond issue, with 52 investors participating in the trade.**

- **The Province's second green bond was issued through its current domestic dealer group to Canadian and international institutional investors to continue to help to establish a Canadian-dollar green bond market and attract new investors.**

- **Retail investors were able to buy Ontario's green bonds through a Canadian financial institution.**

- **As the first Canadian province to issue Green Bonds, Ontario continues to lead the way in establishing and developing a Canadian dollar Green Bond market with investor participation from around the world.**

- **Eight projects were selected as eligible and are expected to receive funding from the second Green Bond, with an emphasis on clean transportation and energy efficiency and conservation. Projects include:**

    - **Eglinton Crosstown Light Rail Transit ($402 million)**
    - **vivaNext Bus Rapid Transit ($100 million)**
    - **Regional Express Rail ($200 million)**
    - **Sheridan College ($68 million)**
    - **St Joseph's Hamilton Healthcare – West 5th ($14 million)**
    - **St Joseph's Health Care–London & St Thomas ($5 million)**
    - **Waypoint Centre for Mental Health ($2 million)**
    - **CAMH – Phase 1B ($2 million)**

- **All proceeds raised through green bonds will be used to fund green infrastructure. Funding amounts for each project are estimates based on total eligible costs. Final amounts provided to each project will be confirmed in the coming year.**

- **To date, total Green Bond financing amounts to $1.25 billion, with up to $1.2 billion allocated to Metrolinx for clean transportation projects.**

- **Ontario's Green Bond Framework sets out the types of projects that may be eligible for green bonds, including:**

    1. **Clean transportation**
    2. **Energy efficiency and conservation**
    3. **Clean energy and technology**
    4. **Forestry, agriculture and land management**
    5. **Climate adaptation and resilience**

- **The size of future green bond issues will be determined by market demand and Ontario's availability of suitable green projects in any given fiscal year.**

CURRENT STATUS

Green Bond Issuance

On January 22, 2016 the Province of Ontario successfully priced its second Global Canadian Dollar (CAD) Green Bond. It matures on January 27, 2023 and has a coupon of 1.95 per cent.

There was strong demand for Ontario's second Green Bond issue. Investors with green mandates in Canada as well as in the United States and Europe participated in the deal. Global offering format was used to leverage and facilitate international investor interest with strong trading liquidity supported by Ontario's current domestic dealer syndicate.

52 accounts participated in the transaction with 70 per cent of the deal allocated to investors with Green mandates and/or signatories to the UN Principles for Responsible Investment (PRI) initiative. Interest was driven by Asset Managers (54%), Insurance Companies (19%) and Banks (15%). Ontario added three new investors and expanded its Canadian dollar investor base by seven names.

These bonds capitalize on the Province's ability to raise funds at low interest rates, and serve as a tool for the government to address critical infrastructure needs.

Eight projects have been selected as eligible and are expected to receive funding from this Green Bond, with an emphasis on clean transportation and energy efficiency and conservation:

Clean Transportation Category	**Forecasted Funding ($ Millions)**
Eglinton Crosstown Light Rail Transit	402
vivaNext Bus Rapid Transit	100
Regional Express Rail	200
Energy Efficiency & Conservation Category	
Sheridan College	68
St Joseph's HH –West 5th	14
St Joseph's HC –London and St. Thomas	5

Waypoint Centre for Mental Health	2
CAMH –Phase 1B	2

All proceeds raised through green bonds will be used to fund green infrastructure. Funding amounts for each project are estimates based on total eligible costs. Final amounts provided to each project will be confirmed in the coming year.

The Eglinton Crosstown LRT was selected as the first project to receive Green Bond funding for $500 million in 2014. To date, total Green Bond financing amounts to $1.25 billion, with up to $1.2 billion allocated to Metrolinx for clean transportation projects.

Green Bond Program

Ontario's first and second green bonds were issued at yields similar to conventional Ontario bonds of comparable term and size.

The size of each green bond issue will be determined by market demand and Ontario's availability of suitable green projects in any given fiscal year. Assuming adequate demand, Ontario's green project pipeline is expected to easily support a green bond borrowing program and serve as a source of funding well into the future.

Ontario's green bonds are direct unsecured obligations of the Province of Ontario and investors do not assume any specific risk related to the funded projects.

Retail Investors

Retail investors have been able to participate (through Canadian financial institutions) in both of the Province's Green Bond issues, accounting for approximately one per cent of total sales, in line with to slightly greater than the demand experienced with Ontario's regular domestic issues.

It is unknown to what extent Ontario retail investors would be motivated to buy green bonds if they are offered in a format similar to OSBs. Other international issuers who have attempted a direct retail approach for green bonds have struggled to raise funds.

Green Bond Framework

Ontario has developed a robust green bond framework that aligns with Ontario's environmental policies and climate objectives.

Ontario's Green Bond Framework sets out the types of projects that may be eligible for funding from green bonds. Without limitation, eligible projects may include projects in the following five categories identified in the Province of Ontario's Green Bond Framework, excluding fossil fuel and nuclear energy projects:

1. Clean transportation
2. Energy efficiency and conservation
3. Clean energy and technology
4. Forestry, agriculture and land management
5. Climate adaptation and resilience

Ontario's Green Bond Framework has been developed in consultation with the Centre for International Climate and Environmental Research – Oslo (CICERO).

Ontario's Green Bond program also aligns with the Green Bond Principles maintained by the International Capital Markets Association.

Project Selection

The selection of eligible green projects is done on behalf of the Province by the Ontario Financing Authority (OFA) staff with advice from the Province's Green Bond Advisory Panel (GBAP):

- Only fully approved projects are eligible for consideration. Spending authority for eligible green projects comes through approved ministry and agency spending in accordance with the Province's usual government appropriation and spending processes.

- OFA staff screen projects for all applicable approvals and against eligibility criteria prior to advancing projects to the GBAP for assessment.

- The GBAP, which includes staff from various ministries and agencies, including the Ministry of the Environment and Climate Change and the OFA, evaluates and recommends projects for inclusion in Ontario's Green Bond program.

Projects considered for green bonds will be consistent with Ontario's robust environmental policies and standards and limited to the categories in the Province's Green Bond Framework.

Use of Proceeds

Green Bond proceeds are paid into the Consolidated Revenue Fund of Ontario and are not held in a segregated account. An amount equal to the net proceeds of the bonds is recorded in a designated account in the Province of Ontario's financial records. This designated account is used to track the use of and allocation of funds to eligible projects. So long as the bonds are outstanding and the designated account has a positive balance, amounts are deducted from this account as funds are allocated to eligible projects.

Green projects will have funding requirements that occur within a twelve month period following and six month period prior to the issue of the green bond.

Updates on the selected green projects and allocation of funds to these projects will be reported to investors in an annual newsletter on the website of the Ontario Financing Authority. The first newsletter was published in late 2015.

An assurance audit will also be provided by the Auditor General of Ontario to verify amounts used for selected projects and the balance of proceeds remaining. This assurance audit is expected annually until all green bond proceeds have been allocated to selected projects.

August 8, 2016

OLD ONTARIO HYDRO'S STRANDED DEBT

What is the status of the old Ontario Hydro's "stranded debt", managed by Ontario Electricity Financial Corporation (OEFC)?

SUGGESTED RESPONSE

- **Based on interim numbers in Budget 2016, this is the twelfth consecutive year that the stranded debt has been reduced, to under $5 billion as at March 31, 2016, from $20.6 billion as at March 31, 2004.**

- **The electricity sector reforms in the Electricity Restructuring Act, 2004, and others, have put the stranded debt recovery plan back on track. This allowed the government to follow through on its commitment to reduce electricity cost pressures.**

Ending the Debt Retirement Charge

- **As part of its commitment to reduce electricity cost pressures, the government has removed the Debt Retirement Charge (DRC) from residential electricity users' bills as of January 1, 2016.**
  - **This would save a typical residential user about $70 each year and mean ending the DRC earlier for these users than otherwise provided for in the Electricity Act, 1998.**

- **As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act*, *2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.**
  - **A large industrial using 3,000 megawatt-hours (MWh) per month could save $21,000 per month, or about seven per cent off its electricity bills;**
  - **For a large northern industrial in the Northern Industrial Electricity Rate program, this could be more than an eight per cent savings; and**
  - **A small business using 20,000 kilowatt-hours (kWh) per month could save $140 per month, or about four per cent.**

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

- **In Budget 2015, it had been estimated that the residual stranded debt would be retired by the end of 2018. However, the estimated residual stranded debt could have extended beyond 2018, to the end of 2019 or later.**

  Prior to the Budget Measures Act 2015 amendments of the Electricity Act, the DRC would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

- **This was subject to uncertainty as it depended on the future financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities; the broadening of ownership of Hydro One; and other factors such as interest rates and electricity consumption.**

- **Residual stranded debt was defined under the Act as the stranded debt minus the estimated present value of future payments in lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC.**

- **As published in the 2015 Ontario Economic Outlook and Fiscal Review, the residual stranded debt was estimated at $2.2 billion as at March 31, 2015, an estimated reduction of $9.7 billion from an estimated peak of $11.9 billion as at March 31, 2004.**

- **The amendments to the *Electricity Act, 1998* in the *Budget Measures Act, 2015* has removed legislative references to the stranded debt and residual stranded debt (RSD), as a fixed DRC end date would mean that they no longer serve a legal purpose.**

- **OEFC will continue to prepare and submit an annual report, including an update on its unfunded liability (often called "stranded debt") in its annual financial statements, as required under the Electricity Act.**

<u>Prudent Management Of Electricity Sector Debt</u>

- **Under the *Electricity Act, 1998*, the Ontario Electricity Financial Corporation (OEFC) will continue to receive DRC revenues up to April 1, 2018, thus achieving a balance between making progress in paying down the electricity sector stranded debt and mitigating cost pressures for and providing certainty to commercial, industrial, and all other electricity users.**

- **Even after the end of the DRC, there would still be stranded debt remaining, to be serviced and paid down by OEFC's other dedicated revenues, such as payments in lieu of taxes and the Gross Revenue Charge.**

- **As announced in Budget 2016, the interim results of OEFC for 2015-16 show a reduction in stranded debt of more than $3 billion, to below $5 billion as at March 31, 2016. This would be the twelfth consecutive year that the stranded debt has been reduced, by a cumulative reduction of more than $15 billion between March 31, 2004 and March 31, 2016, based on the interim numbers.**

  - **Projected 2016-17 OEFC results are an excess of revenue over expense of about $0.6 billion.**

- **The government dedicates the revenues it receives from the electricity sector to OEFC. All OEFC revenues, including the DRC paid by electricity consumers, are used to service and retire its debt and other obligations, as provided for under the *Electricity Act, 1998*.**

- **This includes payment of interest costs. OEFC's interest expense is currently about $1.4 billion per year and has totalled about $30.6 billion between April 1, 1999 and March 31, 2015.**

- **The Auditor General audits OEFC's annual financial statements and has provided an unqualified opinion every year since the initial 1999-2000 financial statements.**

- **Stranded debt increased from April 1, 1999, to March 31, 2004 by over $1 billion.**
  - **The increase in stranded debt was primarily a result of the 4.3 ¢/kWh electricity price freeze, which cost about $900 million from May 1, 2002, to March 31, 2004.**

BACKGROUND

OEFC

OEFC is one of five entities established by the *Electricity Act, 1998*, as part of the restructuring of the former Ontario Hydro (OPG, Hydro One, IESO, Electrical Safety Authority, and OEFC). OEFC's mandate includes servicing and retiring the debt and other liabilities of the former Ontario Hydro.

OEFC inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets.

Unfunded Liability / Stranded Debt

The following table shows the unfunded liability (or "stranded debt") of OEFC since the opening amount of $19.4 billion on April 1, 1999. OEFC's initial unfunded liability of $19.4 billion as at April 1, 1999, was the stranded debt adjusted for $1.5 billion of additional assets, including primarily an accounting asset for deferred debt charges.

At March 31 ($M unless noted)	April 1, 1999	2000	2001	2002	2003	2004	2005	2006	2007
Unfunded Liability	$19,433	$20,034	$20,016	$20,085	$20,183	$20,550	$20,363	$19,293	$18,289
Increase / (Decrease)		$601	($18)	$69	$98	$367	($187)	($1,070)	($1,004)
At March 31 ($M unless noted)	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	
Unfunded Liability	$17,225	$16,182	$14,810	$13,448	$12,321	$11,257	$9,781	$8,185	
Increase / (Decrease)	($1,064)	($1,043)	($1,372)	($1,362)	($1,127)	($1,064)	($1,476)	($1,596)	

Ending the DRC

The *Electricity Act, 1998*, previously allowed for the DRC to be paid by consumers until the Minister of Finance determines that the residual stranded debt is retired.

As part of its commitment to reduce electricity cost pressures, the government removed the DRC cost from residential electricity users' bills as of January 1, 2016.

This would save a typical residential user about $70 each year and would mean ending the DRC earlier for these users than otherwise had been provided for in the *Electricity Act, 1998*.

As a further step to mitigate electricity cost pressures for non-residential users, the government introduced legislation Bill 144, the *Budget Measures Act, 2015*, passed in December 2015, to end the DRC for all other users on April 1, 2018, nine months earlier than previously estimated.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

Even after the end of the DRC, there would still be stranded debt remaining, to be serviced and paid down by OEFC's other dedicated revenues, such as payments in lieu of taxes and the Gross Revenue Charge.

Under the *Electricity Act*, the ability for OEFC to be wound up is tied to when substantially all the debts and other liabilities of OEFC have been retired or defeased.

Prudent Management of Electricity Sector Debt

Prior to amendments in the *Budget Measures Act, 2015* under the *Electricity Act*, *1998* the residual stranded debt was defined as the stranded debt minus the present value of projected future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC.

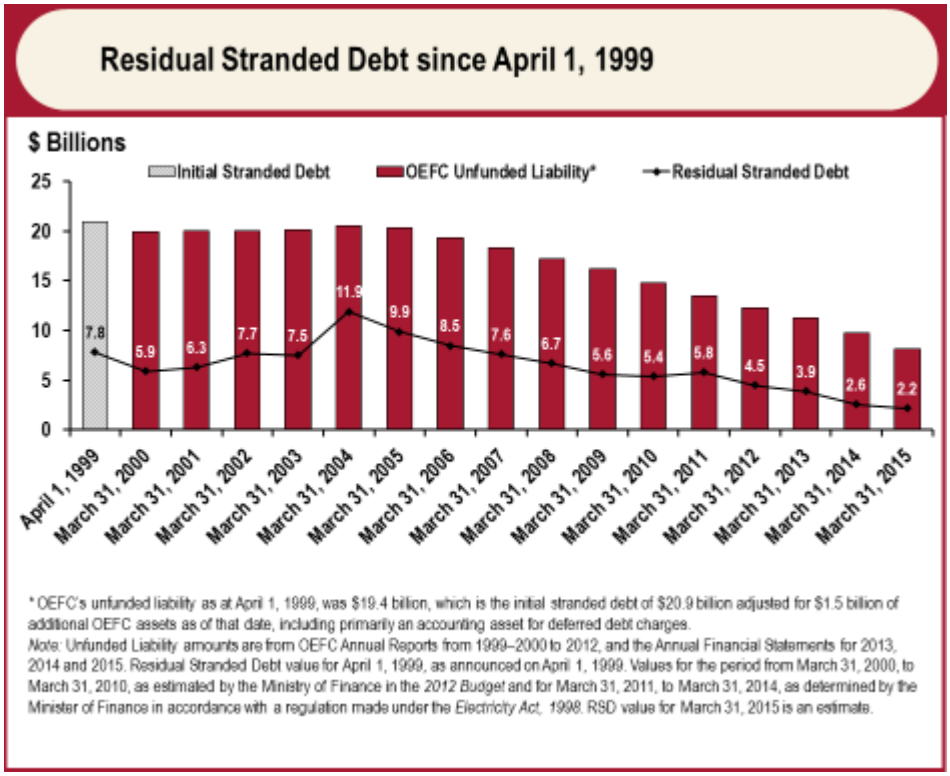
On May 15, 2012, the government filed Ontario Regulation 89/12, as provided for at that time under the *Electricity Act, 1998*, on the determination of the residual stranded debt, consistent with the recommendations of the Auditor General in his 2011 Annual Report that the residual stranded debt be determined in the near future.
The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* (Bill 144) and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt", including the regulation-making authority of Ontario Regulation 89/12, were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

In the *2015 Ontario Economic Outlook and Fiscal Review*, the residual stranded debt was estimated to be $2.2 billion as at March 31, 2015. This was a decrease of $0.4 billion compared to residual stranded debt of $2.6 billion as at March 31, 2014, and was a total estimated decrease of $9.7 billion from an estimated peak of residual stranded debt of $11.9 billion as at March 31, 2004. Residual stranded debt was initially estimated as $7.8 billion as at April 1, 1999.

Residual stranded debt is estimated to have increased to a peak of $11.9 billion as at March 31, 2004, primarily due to the electricity price freeze, the downward revision in 2004 of the

previous overestimation of future financial performance of Ontario Power Generation (OPG) which lowered the estimated future dedicated revenues to OEFC from the sector, and lower tax rates, resulting in lower projected future PILs to OEFC. OPG had significantly underperformed compared to its plans over the previous period of 1999 to 2004.

The following chart illustrates the path of residual stranded debt from April 1, 1999, to March 31, 2015.



<u>OEFC Dedicated Revenues</u>

OEFC is the legal continuation of the former Ontario Hydro with a mandate to service and retire the former Ontario Hydro's debt and certain other liabilities. The government has a long-term plan in place to retire OEFC's obligation from sources within the electricity sector, including the following:

Notes Receivable: OEFC receives principal and interest payments on notes from OPG, the Independent Electricity System Operator (IESO), and the Province. (Hydro One no longer owes any notes to OEFC.)

Payments-in-lieu (PILs) of Taxes: OEFC receives PILs from OPG, Hydro One, and MEUs.

On December 10, 2015, Bill 144, the *Budget Measures Act, 2015*, was passed, directing to OEFC Hydro One Inc.'s provincial corporate income taxes under the *Taxation Act, 2007*.

Gross Revenue Charge (GRC): OEFC receives a portion of the GRC that replaced property tax PILs on hydroelectric generating stations that are or were owned by OPG or MEUs. The GRC replaced existing property tax PILs for these facilities effective January 1, 2001.

Debt Retirement Charge (DRC): OEFC receives revenue from the DRC of 0.7 ¢/kWh levied on the consumption of electricity.

Electricity Sector Dedicated Income: The Province has committed to direct the income it earns from OPG and Hydro One, on a total cumulative basis, in excess of the interest cost of its investment in those companies (approximately $520 million annually, prior to the Hydro One IPO) to managing and retiring OEFC's debt and other liabilities.

OEFC's results are fully consolidated on a line-by-line basis into the Province's accounts.

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XX, 2016

Trillium Trust Act, 2014

What is the current status of the Trillium Trust?

SUGGESTED RESPONSE

- **The Trillium Trust Act, 2014, provides for the dedication of net revenue gains associated with the sale of designated assets to the Trust to support the Province's key infrastructure priorities, such as roads, bridges and public transit.**

- **Designated assets under the Act include the Province's shares in Hydro One and Hydro One Brampton, as well as the LCBO head office lands, the OPG head office building and the Lakeview lands.**

- **The Act also provides for regulations to designate additional assets, such as the Seaton lands.**

- **On August 30, 2016, the Province announced the dedication of $3.2 billion from the sale of Hydro One shares in 2015 to the Trillium Trust.**

    - **The $3.2 billion is made up of about $0.8 billion in gains on sale and the net benefit to the Province of about $2.4 billion from Hydro One's recognition of a deferred tax benefit.**

- **The Province previously credited $1.35 billion in net proceeds from the sale of the province's shares in General Motors, bringing the total balance of the Trillium Trust to over $4.5 billion.**

- **Additional net revenue gains will be credited to the Trust from the sale of the LCBO head office lands, as well as the secondary offering of Hydro One shares in April 2016.**

- **The government plans to begin drawing down on the balance in the Trillium Trust in 2016-17 to support Moving Ontario Forward initiatives such as Regional Express Rail (RER), Hurontario Light Rail Transit (LRT), and Ontario Community Infrastructure Fund.**

BACKGROUND

Trillium Trust Act, 2014: Introduction in 2014 Budget

The 2014 Budget introduced the Trillium Trust Act, 2014, which established the Trillium Trust to provide for the dedication of net proceeds from the sale of qualifying assets to support the Province's key infrastructure priorities, such as roads, bridges and public transit.

The Trillium Trust Act, 2014, was also established to require the Minister of Finance to maintain in the Public Accounts an account to track the receipt and disbursement of net proceeds obtained from the disposition of "qualifying assets".

Trillium Trust Act, 2014: Amendments in Budget Measures Act, 2015

The Act was amended in 2015, with a number of changes including:

1. Designation of certain named qualifying assets
    - Shares in Hydro One Limited
    - Shares in Hydro One Brampton Networks Inc.
    - LCBO head office lands
    - OPG headquarters building and attached property
    - OPG Lakeview lands and attached properties.

- The Act retains the authority of Treasury Board to designate further assets by regulation in future.
- The Seaton lands have not been named in legislation as the lands are made up of many parcels and are more complex and lengthy to describe. The Seaton lands can be named through regulations once the exact structure of a transaction or multiple transactions are known.

2. Allowing for non-cash revenue gains to be dedicated to the Trust

- The amendments provide for prescribing the amount of non-cash benefits recognized by the Crown in connection with the sale of a qualifying asset, to be credited to the Trillium Trust.
    - This allowed for the government to credit the Trust with the Province's fiscal benefit from the deferred tax benefit recognized by Hydro One.

3. Specifying the calculation of designated proceeds

- Designated proceeds are the gross revenues recognized by a ministry or public entity in connection with a sale, less book value, less any prescribed costs incurred, and/or

the value of any prescribed obligations assumed by a Ministry or public entity in disposing of the asset.

- The Act requires regulations to prescribe any costs and/or other obligations other than the book value of the qualifying asset, if necessary.

4. Changes to the nature of the spending authority in the Act

    - Previously, the amounts credited to the Trillium Trust were deemed as money received for the special purpose of infrastructure spending, under Section 7.(1) of the Financial Administration Act.

    - The amendments specify that amounts not exceeding the balance in the Trillium Trust may be paid out of the Consolidated Revenue Fund for the purposes of funding infrastructure.

5. Timing for designating assets as qualifying assets

    - To be eligible, an asset would need to be designated as a qualifying asset before the books of the Government of Ontario are closed for the fiscal year in which the asset is disposed.

6. Timing for reimbursement of expenditures

    - A reimbursement for infrastructure expenditures incurred by the Crown using the Trillium Trust must be made before the books of the Government of Ontario are closed for the fiscal year in which the expenditures are incurred.

<u>Trillium Trust Reporting</u>

The Public Accounts of Ontario 2014-2015, published in September 2015, show that $1.35 billion has been dedicated to the Trillium Trust. The $1.35 billion reflects the net proceeds from the sale of the Province's General Motors common shares the redemption of preferred shares.

- The Province generated $249 million net proceeds from the September 2013 sale of the Province's interest in 10 million shares of GM.

- On February 4, 2015, the Province completed the sale of its remaining 36.7 million GM common shares, resulting in a fiscal gain of $1.08 billion.

- General Motors redeemed the Province's preferred shares on December 31, 2014, producing a gain of $0.02 billion.

On August 26, 2016, the government filed regulations under the Act to prescribe net revenue gains from the Hydro One IPO and certain related share sales in November 2015, including the non-cash benefits from the deferred tax benefit recorded by Hydro One. The total amount dedicated to the Trust was $3.2 billion.

- The designated proceeds of disposition totalled about $0.8 billion.
    - This is based on gross proceeds, less the book value of these shares, less transaction costs incurred in disposing of the shares.
    - Transaction costs reflect underwriting fees of approximately $33M and other transaction related costs incurred by the Ministry of Energy of about $10M. The Ministry of Energy incurred costs for legal advisors, as well as certain other IPO costs, such as preparing and issuing the prospectus for the IPO.
- The gain to the Province from Hydro One's deferred tax benefit was about $2.4 billion.
    - Hydro One's 2015 Annual Financial Statements included a deferred tax benefit of $2.81 billion, which affected Hydro One's net income.
    - The Province records its share of net income from government business enterprises, including Hydro One, for which the Province owned about 84% of the common equity following the IPO.
- The $3.2 billion credited to the Trust does not include amounts associated with shares purchased by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts using loans provided by the Province.
    - In connection with the IPO, the Province sold $116 million worth of Hydro One shares to trusts of the PWU and SEP. Of the shares sold to the Trusts, about $108 million was purchased using loans provided by the Province.
    - The gains from the share sales financed through a provincial loan will be credited to the Trillium Trust over time as the loans are repaid.

An update on the status of the Trillium Trust will be included in the 2015-16 Ontario Public Accounts.

Disbursements from the Trillium Trust towards Infrastructure

As announced in the 2016 Budget, the government plans to begin drawing down on the balance in the Trillium Trust in 2016–17. Based on planned expenditures, in 2016–17 the Trillium Trust would support Moving Ontario Forward initiatives, such as Regional Express Rail (RER), Hurontario Light Rail Transit (LRT), and Ontario Community Infrastructure Fund.

Initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. It is expected that spending will ramp up significantly once this preliminary work is completed and construction activity is underway. This will allow for identification for cash flow timing requirements from the Trillium Trust during 2016-17 and subsequent years.

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Date Prepared: August 30, 2016
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August 30, 2016

Broadening Ownership of Hydro One

How is the Province progressing in broadening ownership of Hydro One?

SUGGESTED RESPONSE

- **The Province continues to move forward with broadening ownership in Hydro One, to unlock value to reinvest in infrastructure through the Trillium Trust.**

- **The first phase, for about 16 per cent of the common shares in Hydro One, was completed in November 2015, with strong retail and institutional demand. The price in the initial public offering (IPO) was $20.50 per share.**

- **The Province received about $1.83 billion in gross proceeds from the IPO, before expenses and fees, and about $116 million from related share sales.**

- **On April 5, 2016, the Province announced that it had agreed to sell up to approximately 14 per cent of the common shares through a secondary offering (about 83.30 million shares) at a price of $23.65 per share.**

    - **The secondary offering raised approximately $2 billlion in gross proceeds, through a base offering that closed April 14th and an over-allotment option that closed on April 29th.**

- **Through broadening Hydro One ownership, the Province is on track to meet its target to generate:**

    - **$4 billion in net revenue gains over time that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward; and**
    - **$5 billion to reduce debt.**

- **On July 12, 2016, the Province announced an agreement in principle to sell to First Nations (FNs) in Ontario up to 2.5% of the total current common shares outstanding of Hydro One Limited (approximately 15 million shares) at a price of $18 per share.**

    - **All 133 FNs in Ontario are invited to participate in the transaction and the number of shares sold will be proportional to the level of participation, with a minimum 80% participation required by closing (Dec. 2017).**

    - **The purchase would be financed with a 25 year loan from the Province of up to approximately $268 million, depending on the level of First Nations participation.**

- **The Province would also provide seed capital to a new First Nation investment fund of up to $45 million in cash, depending on the level of First Nation participation, over the initial three years.**

- **By law, the Province is restricted from being able to sell down its interest to holding less than 40 per cent of the voting securities in Hydro One, following the IPO and subsequent share sales.**

    - **The rest of the shares in Hydro One would be broadly held, with no other shareholder or group of shareholders acting jointly together allowed to hold more than 10 per cent of the common shares.**

- **The ability to set Hydro One's transmission and distribution rates will continue to be at arm's length from Hydro One management, with rates set by the independent regulator, the Ontario Energy Board (OEB).**

    - **The government has also passed legislation that strengthens the OEB to further enhance its ability to protect electricity ratepayers with respect to cost, consumer protection and service reliability.**

<u>IF ASKED ABOUT ASSET OPTIMIZATION / TRILLIUM TRUST:</u>

- **On August 30, 2016, the Province announced the dedication of $3.2 billion from the sale of Hydro One shares in 2015 to the Trillium Trust.**

    - **The $3.2 billion is made up of about $0.8 billion in gains on sale and the net benefit to the Province of about $2.4 billion from Hydro One's recognition of a deferred tax benefit.**

- **The Province previously credited $1.35 billion in net proceeds from the sale of the province's shares in General Motors, bringing the total balance of the Trillium Trust to over $4.5 billion.**

- **Additional net revenue gains will be credited to the Trust from the secondary offering of Hydro One shares in April 2016.**

- **The government plans to begin drawing down on the balance in the Trillium Trust in 2016-17. Based on planned expenditures in 2016-17, the Trillium Trust would support Moving Ontario Forward initiatives, such as**

    - **Regional Express Rail (RER),**
    - **Hurontario light rail transit (LRT), and**
    - **Ontario Community Infrastructure Fund.**

IF ASKED ABOUT USING PROCEEDS TO PAY DOWN DEBT:

- **The government is committed to using proceeds related to the book value of shares sold from broadening ownership in Hydro One to pay down electricity sector debt.**

- **These proceeds, along with a pre-IPO special dividend of $800 million which has been paid by the Province to the Ontario Electricity Financial Corporation (OEFC), will allow the Province to pay down its debt and other payables to OEFC.**

- **These amounts, and an additional one-time PILs payment of about $200 million to OEFC, will allow OEFC to reduce its overall debt, and contribute towards the Province's targeted $5 billion debt pay-down.**

IF ASKED ABOUT THE 2015 IPO DEFERRED TAX ASSET/BENEFIT:

- **The gain to the Province from Hydro One's deferred tax benefit was about $2.4 billion.**
    - **Hydro One's 2015 Annual Financial Statements included a deferred tax benefit of $2.81 billion, which affected Hydro One's net income.**

    - **The Province records its share of net income from government business enterprises, including Hydro One, for which the Province owned about 84% of the common equity following the IPO.**

BACKGROUND

Fiscal Impacts

- Qualitatively, the key fiscal impacts on the Province from an IPO are composed of the following components:
    - The gain on sale of the portion of shares sold – that is the gross proceeds less expenses/fees and less the book value of the shares sold.
    - Any one-time impact of a deferred tax asset benefit to Hydro One's net income that would be consolidated into Public Accounts based on the Province's ownership level in Hydro One.
    - A reduction in electricity payments-in-lieu of taxes, as Hydro One, following the IPO, has exited the PILs system and become taxable under the federal Income Tax Act and the Provincial Taxation Act.
    - Following the IPO, the Province is continuing to consolidate the net income of Hydro One into its revenues in Public Accounts, based on its proportionate share of ownership.

- The fiscal impacts on the Province from a gain on sale of the shares in a secondary offering, or other sales, are similar to the impacts from the IPO. However, there is no one-time impact of a deferred tax asset benefit or incremental reduction in electricity payments-in-lieu of taxes.

- The impact of broadening the ownership of Hydro One is expected to result in a more efficiently run and better performing company. Under new management, a group of diverse and accomplished leaders, there will be a renewed focus on customer service excellence, finding efficiencies and improved reliability. The Province expects to receive financial benefits from a strong and growing company.

IPO Proceeds / Net Revenue Gains

- The Province received $1.83 billion in gross proceeds as a result of the IPO.
    - This is before deducting any expenses or fees from the offering.

- In addition to the gross proceeds amount from the IPO, the Province also sold about $116 million in shares to seperate trusts established by the Power Workers Union (PWU) and the Society of Energy Professionals (SEP).

- On August 26, 2016, the government filed regulations under the Act to prescribe net revenue gains from the Hydro One IPO and certain related share sales in November 2015, including the non-cash benefits from the deferred tax benefit recorded by Hydro One. The total amount dedicated to the Trust was $3.2 billion.
    - The designated proceeds of disposition totalled about $0.8 billion.
        - This is based on gross proceeds, less the book value of these shares, less transaction costs incurred in disposing of the shares.

        - Transaction costs reflect underwriting fees of approximately $33M and other transaction related costs incurred by the Ministry of Energy of about $10M. The Ministry of Energy incurred costs for legal advisors, as well as certain other IPO costs, such as preparing and issuing the prospectus for the IPO.

    - The gain to the Province from Hydro One's deferred tax benefit was about $2.4 billion.
        - Hydro One's 2015 Annual Financial Statements included a deferred tax benefit of $2.81 billion, which affected Hydro One's net income.
        - The Province records its share of net income from government business enterprises, including Hydro One, for which the Province owned about 84% of the common equity following the IPO.

    - The $3.2 billion credited to the Trust does not include amounts associated with shares purchased by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts using loans provided by the Province.
        - Of the shares sold to the Trusts, about $108 million was purchased using loans provided by the Province.
        - The gains from those share sales will be credited to the Trillium Trust over time as the loans are repaid.

- The Province has also committed to using the cash amount of the proceeds related to the book value of the Hydro One shares sold to pay down the Province's electricity sector debt and other payables, helping to reduce the debt of the OEFC.

    - While this would reduce OEFC's gross debt, it would not reduce stranded debt, as the Province's payables to OEFC that would be reduced are currently assets on OEFC's books. Both OEFC assets and debt would be reduced by the same amount.

- As part of this IPO process, the Province has received approximately $1 billion in special payments from Hydro One, including $800 million in a special dividend paid prior to the IPO, which has now been paid by the Province to OEFC, and about $200 million in additional payments in lieu of taxes to OEFC.

    - Since the Province reflects in revenue its net income from government business enterprises, dividends paid by the Province's electricity government business enterprises are not recorded as revenue and do not provide a direct fiscal gain to the Province.

<u>Secondary Offering</u>

- The secondary offering was a "firm commitment offering", where the underwriters committed to buy the entire offering from the Province at an agreed price before the underwriters undertake any public sales or marketing of the offered shares.

- A "firm commitment offering" eliminates marketing risk to the Province and transfers it completely to the underwriters as the underwriters buy the entire offering from the Province at a predetermined price.

- Once the transaction closes, the underwriters would be in a position to then sell to retail and institutional investors.

- RBC and Scotiabank were the co-lead underwriters for the secondary offering.

    - These two firms were chosen to lead the IPO underwriting through a competitive and transparent process, overseen by Denis Desautels, the former Auditor General of Canada.

- The secondary raised approximately $2 billion in total gross proceeds, with approximately $1.7 billion coming from the initial base offering and $0.3 billion from the over-allotment option.
    - As part of the secondary offering, OPG purchased 9 million shares in connection with annual share award obligations for its employees in collective agreements reached with the PWU and SEP.
    - OPG independently made the decision to purchase Hydro One common shares in the offering and does not have any agreement, arrangement or understanding with the Province with respect to Hydro One common shares or the voting of those shares.

- Underwriting fees for this offering were 1% for institutional investors and 3% for retail investors, subject to an overall cap of 2%, totalling approximately $39.4 million with the over-allotment option exercised in full.
    - On a net basis (after fees), the Province raised approximately $1.93 billion.

- The price discount offered by the underwriters represented an approximate 2% discount compared to the closing trading price of Hydro One shares on April 5th, 2016 ($23.65 vs $24.16).

<u>Hydro One Dividend Policy</u>

- Hydro One's IPO Prospectus noted that Hydro One anticipated an annual dividend amount of approximately $500 million in the aggregate initially, based on a target payout ratio of 70 percent to 80 percent of net income

- In its 2015 Annual Financial Statements, Hydro One declared a dividend of 34 cents per common share, comprised of 13 cents for the post IPO fourth quarter period of November 5 through December 31 2015, plus 21 cents for the full first quarter ending March 31, 2016.

    - The dividend was paid on March 31, 2016. For the Province, that would be about $170M.

- On May 5, 2016, Hydro One's Board of Directors declared a quarterly cash dividend to common shareholders of $0.21 per share to be paid on June 30, 2016 (to shareholders of record on June 14, 2016).

Departure Tax/Capital Contribution

- In connection with the IPO, Hydro One's exemption from tax under the federal Income Tax Act and the Taxation Act (Ontario) ceased to apply and Hydro One was deemed to have disposed of its assets immediately before it lost its tax exempt status for proceeds equal to the estimated fair market value of those assets at that time.

- As a result of this deemed disposition, Hydro One was liable to make a "departure tax" payment in lieu of tax under the Electricity Act in respect of the income and capital gains.

- Before the IPO, the Province, as shareholder, made a capital contribution into Hydro One and received new common shares of Hydro One Limited for a total of $2.6 billion. This provided Hydro One with funds that it used to pay the "departure tax" to OEFC.

- This capital contribution has no fiscal impact for the Province, since the capital contribution also increased the Province's investment in Hydro One.

- On November 4, 2015, Hydro One paid OEFC the $2.6 billion "departure tax".

    - This transaction is fiscally neutral as the Province consolidates both OEFC's revenue and Hydro One's net income on its books.

    - OEFC (and the Province upon consolidation) will record a higher payment in lieu of tax revenue due to the departure tax, but this amount will be offset by the reduction in Hydro One's net income as a result of the payment.

Initiatives to Support Broadening Hydro One Ownership

- As part of the IPO process, and to support Hydro One's transition to being broadly held, the government agreed with the recommendations of the Council that the company should operate, to the extent possible, in the same legislative and regulatory environment as other publicly traded, rate-regulated entities.

- To achieve this, the Province has passed several legislative amendments, including legislation that requires that Hydro One retain the company's headquarters and grid control centre in Ontario.

    - In addition, the legislation provides for substantially all of Hydro One's senior executives with strategic decision-making authority to be located and carry out those functions in the province.

- The government has also put in place a governance agreement and registration rights agreement with Hydro One to serve both the public interest and investors' interests. The agreements clarify the Province's role as investor, including the process in which the Province nominates 40 per cent of the Board of Directors and the Province's rights related to future share sales by the Province or Hydro One.

- The Province appointed a new Board of Directors for Hydro One on July 17, 2015, (with the exception of Mayo Schmidt, who replaced Carmine Marcello) which includes:

    - David Denison (returning Director and Chair), former President and CEO of the Canada Pension Plan Investment Board;
    - Ian Bourne, Chair of Ballard Power Systems Inc.;
    - Charles Brindamour, CEO of Intact Financial Corporation;
    - Marc Caira, Vice Chairman of the Board of Directors of Restaurant Brands International Inc.;
    - Christie Clark, former CEO and Senior Partner of PricewaterhouseCoopers LLP;
    - George Cooke, (returning Director), Chair of the Board of Directors of the OMERS Administration Corporation;
    - M. Marianne Harris, former Managing Director at Bank of America Merrill Lynch Canada;
    - Jim Hinds, former Chair of the Independent Electricity System Operator (IESO) Board;
    - Kathryn Jackson, Senior Vice President and Chief Technology Officer of RTI International Metals, Inc.;
    - Roberta Jamieson, President and CEO of Indspire, former Board Member of Ontario Power Generation, and former Ombudsman of Ontario;
    - Frances Lankin, a member of the Board of Directors with the Ontario Lottery and Gaming Corporation; former President and CEO of United Way Toronto; and former member of the Premier 's Advisory Council on Government Assets;
    - Mayo Schmidt, President and CEO of Hydro One Limited.;
    - Philip Orsino, former President and CEO of JELD-WEN Inc.
    - Jane Peverett, former President and CEO of British Columbia Transmission Corporation; and
    - Gale Rubenstein, (returning Director), Partner at the law firm Goodmans LLP.

- On June 23, 2015, Michael Vels was hired as the new Chief Financial Officer and on August 20, 2015, Mayo Schmitt was hired as the new Chief Executive Officer.

- On February 3, 2016, Hydro One announced the first senior executive change since the IPO as Sandy Struthers, Chief Operating Officer and Executive Vice President left the company.

- On Aug. 22, 2016, Hydro One announced the appointment of Greg Kiraly to the role of Chief Operating Officer, effective September 12, 2016.

<u>Loans to PWU/SEP Trusts</u>

- The Asset Council’s Phase 1 report highlighted the need for a dialogue with management and labour unions to address cost implications of labour and pension agreements at Hydro One.

- In the Council’s Phase 2 report the Council recommended that the Province, Hydro One management, and unions finalize agreements on pensions and labour costs in advance of the Hydro One IPO to address issues raised by the Leech Report and the Ontario Energy Board with respect to pensions and compensation.

- The Power Workers Union (PWU) and the Society of Energy Professionals (SEP) collective agreements provide for net zero increases and substantial movement in pension sustainability, aligning with the recommendations contained in the Leech report.

- The government extended a $75 million loan to a trust established for the benefit of the Power Workers Union (PWU) and $36 million in loans to a trust established for the benefit of the Society of Energy Professionals (SEP) to purchase shares in Hydro One.

- The loans are to the seperate trusts, not to individual employees. These arrangements allow the unions to invest in high quality jobs for Ontarians, which the Province believes is consistent with the purpose of the IPO and will better align the interests of the union members with those of investors in Hydro One.

- The unions were also permitted to purchase some additional common shares from the Province with their own resources ($5 million in shares to PWU and $3 million in shares to SEP).

Executive Compensation

- For comparable companies, the pay for Hydro One senior management will actually be set at the medium-to-low range. And a large part of that compensation will be 'at risk' if they fail to perform.

- This pay is in line with similar privately-held energy companies in Canada. The CEO of Fortis Inc. received $5M in compensation, and the CEO of ATCO Ltd. received a salary similar to that of Hydro One's new CEO.

First Nations

- The government has committed to a formal Political Accord with First Nations (FNs), and is dedicated to working collaboratively on a host of issues, including energy.

- On July 12, 2016 the Province announced an agreement in principle to sell to the FNs in Ontario, up to approximately 15 million shares of Hydro One Limited (2.5% of the total current common shares outstanding).

- All 133 FNs in Ontario are invited to participated in the transaction and a minimum 80% threshold of FN participation by the end of 2017 is required for the transaction to close. Each First Nation will have up to two years from signing of binding agreements to decide whether to participate in this arrangement.

- If the agreement is ratified, the Province of Ontario would sell shares of Hydro One to an investment vehicle owned by the FNs at a price of $18 per share (which is above the Province's book value for the shares).

- This purchase would be financed with a 25-year loan from the Province of up to approximately $268 million, depending on the level of FN participation. The interest rate for the loan would be at the Province's relevant borrowing rate, plus 15 basis points.

- Moreoever, the Province would also provide seed capital to a new FN investment fund of up to $45 million in cash over the initial three years, depending on the level of FN participation in the transaction.

Prepared by: Arie Jarczyn, 416-325-1585 / Wentao Shi, 416-325-0902 / Michael Isaac 416-325-8080
Strategic Investment and Finance Branch, Corporate and Electricity Finance Division
Date Prepared: August 30, 2016
Approved by: Ronald Kwan, ADM, Corporate and Electricity Finance Division
August 30, 2016

Standing Committee on Public Accounts

OCTOBER 4, 2016
BRIEFING BINDER

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Remarks by Scott Thompson

Deputy Minister
Ministry of Finance

to the Standing Committee
on Public Accounts

Toronto, Ontario
October 5, 2016

Word count: 800

Check against delivery

Thank you, Greg.

Good afternoon everyone.

I'm Scott Thompson, Deputy Minister for the Ministry of Finance.

I'm pleased to be here today, speaking to the Standing Committee on Public Accounts.

[Introduction]

I welcome the opportunity to discuss how the Province manages its debt through the Ontario Financing Authority.

And to discuss how the government presents its financial information and reports.

The provincial debt and Ontario's financial statements and analysis were two salient points in the Auditor General of Ontario's 2015 annual review of the 2014-15 Public Accounts of Ontario.

Like TBS' deputy minister, I also am in agreement with the Auditor General's recommendations from the 2015 report relating to the importance of producing high-quality financial reports that meet the needs of the public and legislature.

Accurate and accessible information is crucial to accountability and transparency–two priorities for the government and public service.

The Ministry of Finance is proud of its work in these areas, and we will continue to refine and improve our efforts by using best practices.

[Deficit Reduction]

I'd like to take a moment to discuss the province's deficit, which plays a role in how Ontario manages the province's debt.

The government continues to confirm its commitment to eliminate the deficit by 2017–18.

This includes the most recent provincial Budget.

It should be noted that this commitment builds on past success. Successive budgets and public accounts have continually demonstrated that the province has beaten its annual deficit targets year after year

~~Ontario's accumulated deficit is more than $25 billion lower than it would have been without the strong fiscal management applied to exceed these targets~~

The government is achieving and beating these targets by managing program spending growth and by making strategically important financial decisions.

TRecently, , the credit rating agency Moody's affirmed its outlook for Ontario's debt and revised the outlook on the ratings to stable from negative.

Moody's said, and I quote:

"The stable outlook on the Province of Ontario's ratings reflects our opinion that the province has presented a budget plan with little risk that the debt burden will exceed recent levels."

End quote.

Moody's outlook on the Province was further confirmed in a later report. It said I quote:

"Ontario's debt burden and debt service cost will remain manageable thanks to low interest rates as well as the province's improving fiscal position and conservative debt management policy."

End quote.

The report also speaks positively to the importance of the Province's infrastructure spending at this time of low interest rates, as have a number of other external observers.

To be sure, while the news from Moody's is positive, it is just one assessment among many third-party analyses.

Indeed, private-sector economists across the board are forecasting Ontario's economy to be among the top two growth leaders in Canada.

[Unlocking Provincial Assets]

The government is using another tool to support growth and create the jobs province wide that strengthen our economy.

That tool is our asset optimization plan—unlocking the value of certain provincial assets.

As you know, in February 2015, the Province sold its remaining shares in General Motors, and in the 2015 Budget, the Province committed to unlocking the value from other assets in order to contribute approximately $5.7 billion for infrastructure projects.

.

The net revenue gains from these major transactions have been, or will be, credited to the Trillium Trust and will be invested in transit, transportation and other priority infrastructure projects that are part of the largest investment in public infrastructure in the province's history.

The government has already filed regulations crediting the Trillium Trust with net proceeds from the initial stages of its asset optimization plan

These investments will directly create jobs and positive economic spinoffs that further help improve the province's fiscal position.

The ministry is working to be as open and clear as possible when it comes to its management of the public purse.

The government's public communications on the Trillium Trust regulation, its asset sales, , our Q1 Finances and Ontario Economic Accounts are all concrete examples of these efforts.

[Conclusion]

Of course, we can do more. And we will.

We will continue to work with the Auditor General and the Public Sector Accounting Board to support public sector reporting that best serves the needs of the public interest.

Before closing, I would like to also take the opportunity to thank the staff from the Ministry of Finance who have helped prepare for this session today, many of whom are in attendance behind me.

I will now turn it over to Gadi Mayman, the CEO of the Ontario Financing Authority, to discuss the management of the province's debt.

Thank you….Gadi….

From:	Anna Strathy
To:	Ken Kandeepan
Subject:	FW: SCOPA material
Date:	Friday, January 19, 2018 2:54:18 PM
Attachments:	Binder for DM Pre-Briefing_January 19 2018.zip

FYI for the 4pm meeting.

From: McLean, David (MOF) [mailto:David.McLean@ontario.ca]
Sent: Thursday, January 18, 2018 6:27 PM
To: Tim Schuurman (MOF) <Tim.Schuurman@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Martha Maloney (MOL) <Martha.Maloney@ontario.ca>
Cc: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Maria Sapounas (MOF) <Maria.Sapounas@ontario.ca>
Subject: FW: SCOPA material

Materials for tomorrow's SCOPA meeting.

From: Ue, Allison (TBS)
Sent: January 18, 2018 5:52 PM
To: Schlaepfer, Martin (ENERGY); McLean, David (MOF)
Cc: Skoberne, Vivienne (TBS); Nelson, Dane (TBS)
Subject: SCOPA material

Hi Martin and Dave

For tomorrow's SCOPA briefing, the e-binder is attached. Please share this with folks that will be attending the meeting. I understand that our communications team has been working with their counterparts in your ministries. Feel free to invite them – I'll leave that up to you.

Let me know if you have any questions.

Thanks!
Allison

Attachment Binder for DM Pre-Briefing_January 19 2018 (0 Bytes) cannot be converted to PDF format.

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Attachment 2. Table of Contents (0 Bytes) cannot be converted to PDF format.

Attachment Tab 1_Pre-Briefing Discussion Agenda (0 Bytes) cannot be converted to PDF format.

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Attachment Tab 3_Strategic Approach (0 Bytes) cannot be converted to PDF format.

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Attachment Tab 5_DM Angus Opening Remarks Outline (0 Bytes) cannot be converted to PDF format.

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Attachment Tab 7_TBS Environmental Scan and Issues Overview (0 Bytes) cannot be converted to PDF format.

Attachment Tab 8_Draft Briefing Binder Table of Contents (0 Bytes) cannot be converted to PDF format.

achment Tab 9_Summary Status Table_Placeholder_To be circulated during meeting (0 Bytes) cannot be converted to PDF form

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 28, 2018

PRE-BRIEFING BINDER

January 19, 2018

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 28, 2018

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Communications Branch
Your Strategic Partner

AGENDA

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

PRE-BRIEFING DISCUSSION

Date: Friday, January 19, 2018
Time: 4:00 p.m. – 5:00 p.m.
Location: TBS DMO Board Room 5th Floor Whitney Block
Attendees: TBS, MOF, MOE

Topic	Lead	Time
Introduction	TBS Deputy Minister	5 minutes
Overview • Schedule and format • Attendees • Strategic approach • Roles and responsibilities • DM Angus opening remarks outline • Questions and answers overview • Draft binder table of contents • Overview of additional materials	TBS Communications	25 minutes
Summary Status Table • Overview of draft table	Office of the Provincial Controller	15 minutes
Questions	All	15 minutes

LOGISTICS & FORMAT OVERVIEW

Overview

- SCOPA meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports. All public committee proceedings are recorded in Hansard.
- The Chair will advise members to consider questions that are relevant to the content of the Auditor General's Annual Report, but in practice members do sometimes ask questions outside of the report's focus. As a general rule, expect that any question related to the Province's financial statements would be ruled within scope by the committee chair.
- The Committee members may ask that ministries provide details after the session if more research or gathering of information is needed to respond to a question.

Agenda

Wednesday, February 28, 2018
Committee Room 151 (Amethyst Room), Main Legislative Building

Time	*Topic*
9:00 a.m.	Closed Session: Briefing by the Auditor General
10:00 a.m.	Briefing by the Research Officer
10:15 a.m.	RECESS
12:30 p.m.	Treasury Board Secretariat and other representatives • *Invited senior officials appear and respond to questions.* • *The Auditor General attends, and the Committee members can seek clarification from the AG on points from her report if needed during the session.*

12:30 – 3:00 p.m.

- **Opening remarks** (20 minutes)
- **First round of questions** (60 minutes)
    - Each of the three political parties get 20 minutes of questions
- **Second round of questions** (50 minutes, approximately)
    - The remaining time until 2:45 p.m. is split between the three political parties; approximately 15-17 minutes per party

- **Closed session** (15 minutes)
    - Committee members plus the Clerk, only; no audience or presenters
    - The Committee will discuss the outcome of the meeting and if they want to do a report
    - There are no closing statements from ministry officials

Room Setup

- Committee Room 151 (Amethyst Room) is equipped with cameras and the meeting will be available on TVs within the Legislature and streamed online.
- The room has a square table with rows of extra seating at the front the room.
- The Committee Chair, Auditor General and Clerk will sit at the head of the table with the government and opposition parties on opposite sides.
- The invitees sit opposite the Committee Chair and Clerk, either at the table or in the first row of chairs.

Media Access

- Media are allowed to sit in on the meeting as long as they do not interrupt the proceedings. They cannot ask questions in the committee room, but if they wish they can scrum participants in the hallway as they leave.
- Media can also watch SCOPA proceedings on the TVs in the Legislature or online.

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Invitees

Organization	Position	Name
Cabinet Office	Secretary of Cabinet	Steve Orsini
Treasury Board Secretariat	Deputy Minister	Helen Angus
Ministry of Finance	Deputy Minister	Scott Thompson
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ministry of Energy	Deputy Minister Assistant Deputy Minister	Serge Imbrogno Steen Hume
Ontario Power Generation	President and Chief Executive Officer Senior Vice President and Chief Financial Officer	Jeffrey Lyash Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer Vice President, Corporate Services and Chief Financial Officer	Peter Gregg Kimberly Marshall

DRAFT

Ministry/Organization Representatives to Attend

Organization	Position	Name
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot
Ministry of Finance Deputy Minister's Office	Deputy Minister	Scott Thompson
Ministry of Finance Office of the Budget	Assistant Deputy Minister	Tim Schuurman
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ontario Financing Authority	Chief Financial and Risk Officer	Ken Kandeepan
Ministry of Energy Deputy Minister's Office	Deputy Minister	Serge Imbrogno
Ministry of Energy Assistant Deputy Minister	Energy Supply Division	Steen Hume
Ontario Power Generation	President and Chief Executive Officer	Jeffrey Lyash
Ontario Power Generation	Senior Vice President and Chief Financial Officer	Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer	Peter Gregg
Independent Electricity System Operator	Vice President, Corporate Services and Chief Financial Officer	Kimberly Marshall

DRAFT

Committee Members

Chair



ERNIE HARDEMAN, MPP (PC/OXFORD)

Current Parliamentary Roles

Chair, Standing Committee on Public Accounts
Critic, Municipal Affairs and Housing

Vice-Chair



LISA MACLEOD, MPP (PC/NEPEAN—CARLETON)

Current Parliamentary Roles

Vice-Chair, Standing Committee on Public Accounts
Critic, President of the Treasury Board, Critic for the Anti-Racism Secretariat, Critic for City of Ottawa Issues

DRAFT

Members



BOB DELANEY, MPP (LIB/MISSISSAUGA—STREETSVILLE)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts Member, Standing Committee on Estimates,
Parliamentary Assistant to the Minister of Energy



VIC DHILLON, MPP (LIB/BRAMPTON WEST)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Government and Consumer Services Member, Standing Committee on Social Policy



HAN DONG, MPP (LIB/TRINITY—SPADINA)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Advanced Education and Skills Development, Parliamentary Assistant to the Minister Responsible for the Poverty Reduction Strategy
Member, Standing Committee on Finance and Economic Affairs



JOHN FRASER, MPP (LIB/OTTAWA SOUTH)

Current Parliamentary Roles

Member, Standing Committee on Social Policy Member, Standing Committee on Public Accounts, Parliamentary Assistant to the Minister of Health and Long-Term Care

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PERCY HATFIELD, MPP (NDP/WINDSOR—TECUMSEH)

Current Parliamentary Roles
Critic, Housing
Critic, Municipal Affairs
Member, Standing Committee on Public Accounts



RANDY HILLIER, MPP (PC/LANARK—FRONTENAC—LENNOX AND ADDINGTON)

Current Parliamentary Roles
Member, Standing Committee on Public Accounts
Critic, Attorney General



MONTE KWINTER, MPP (LIB/YORK CENTRE)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of International Trade
Chair of the Ontario Investment and Trade Advisory Council

Clerk
Katch Koch
Tel. 416-325-7352
kkoch@ola.org

TIPS FOR PRESENTING AT SCOPA

Tips for Addressing Committee Members:

Note: Tips are applicable for addressing both Committee Members and media.

- When speaking be mindful of what you say – the proceedings are recorded and there's no such thing as "off the record."

- Adhere to the scripted remarks and prepared Q&As. Do not embellish and ***when in doubt, leave it out.***

    - Be sure you understand the question being asked (it's ok to ask for clarification) and Do NOT answer something you're not 100% sure of.

- If you do not have the response, you may advise Committee Members that the matter needs to be redirected to another ministry, or that you will get the requested information by saying, "I'll look into what is possible to provide."

- Be mindful of only addressing questions/issues that relate directly to the TBS.

- It is acceptable to decline to answer an unrelated question by noting that you are not clear of its relevance to TBS, and that you are prepared to address matters related to the ministry.

- If caught off guard, breathe, listen, work to understand the question, or ask for clarification.

    - Ask the questioner 'Excuse me' or 'I beg your pardon?'
    - Ask the questioner 'Can you kindly help me understand the context of the question/or what you just said?'

- If possible, use a bridging statement to get to your key message/prepared response. (See Appendix A).

- Do not offer personal opinions. Stick to the facts:

    - Leave off qualifiers like "I think" "I feel," and "I believe" which represents an opinion. To sound confident and assured, be mindful not to use qualifiers.
    - Do not use 'I assure you."

- Offer examples of success whenever possible.

Body Language, Tone:

- Be aware of how you come across. There is no benefit to being seen as defensive, argumentative, or unresponsive.

- Project an image of openness, honesty, and empathy.

- Remember to breathe deeply and speak slowly.

    - Controlling your breathing helps deal with the stress.
    - Take several deep breaths as you sit down and get organized.
    - Ahead of appearance take a few minutes in a quiet spot to breathe slowly and deeply.
    - "Super Hero Pose" – stand with your legs shoulder width apart, hands on hips, shoulders back. Do this for two minutes. It helps mentally prepare you ahead of having to speak.

- Use your hands while talking to look natural and help release anxiety. (Note palms up is a subconscious message to those looking at you that you are open and have nothing to hide)

- Avoid body language leakage—those involuntary movements that indicate you're nervous or stressed - e.g. head nodding, swallowing, and pursing your lips.

- Do not touch your face with your hands.

- Avoid repeating negative words that members use in questions. Doing so indicates you accept the negative premise.

- If you feel overwhelmed while speaking in front of an audience, recalibrate by breathing and pausing.

What-Ifs:

1. What if you don't want to answer the question, but you have to say something?

    - Offer a credible reason why you are unwilling to answer the question and identify what you prefer to discuss.

2. What if you're asked for hard numbers, and you don't have the answer?

    - Explain, "I want to be absolutely precise and specific, so I will need to get back to you with the exact number"

- Words like “precise,” “specific,” and “exact” convey that the question has been taken seriously.

3. What if you don’t know the answer, but a colleague who is with you may know it?

    - If you need help from the other ADMs, open your response with ‘In a moment I’m going to call on my colleague to get into more detail about this…’ This gives the other TBS representative time to know they’ll be called upon.

    - Briefly discuss a related subject, then pass the question.

4. What if you need to pause?

    - If you have said absolutely everything you need to say, then let there be a pause.

    - Remember it’s not up to you to keep the proceedings going. That’s the Chair’s job. They may intentionally leave dead air in the hopes that you’ll jump in to fill it by saying something you hadn’t intended to.

5. What if the answer is confidential?

    - Explain that confidentiality rules must be respected, so you cannot directly address the issue at hand. (e.g.: that matter is before the courts).

6. What if it’s a question about a rumour?

    - When asked to respond to a rumour, it is best to not respond at all. Instead, state that your focus is always on fact, not rumour.

7. What if the answer is HR related?

    - Say as little as possible. Commenting on someone’s employment record in a negative context can potentially put you in legal jeopardy.

8. What if you don’t like what you’re saying?

    - Don’t feel obligated to complete a sentence or thought. Simply begin the response again.

9. What if it’s a “yes or no” question?

    - Unless the question relates to a sensitive issue, skip “yes” or “no” and go right to the message that would follow.

10. What if it's an "is it possible" question?

    - Avoid speculating and tell the committee – "I'm not able to comment on something that may or may not happen."

11. What if you're interrupted mid-answer?

    - The first time, let it go. The second time, ask the Chair to be allowed to finish your thought.

APPENDIX

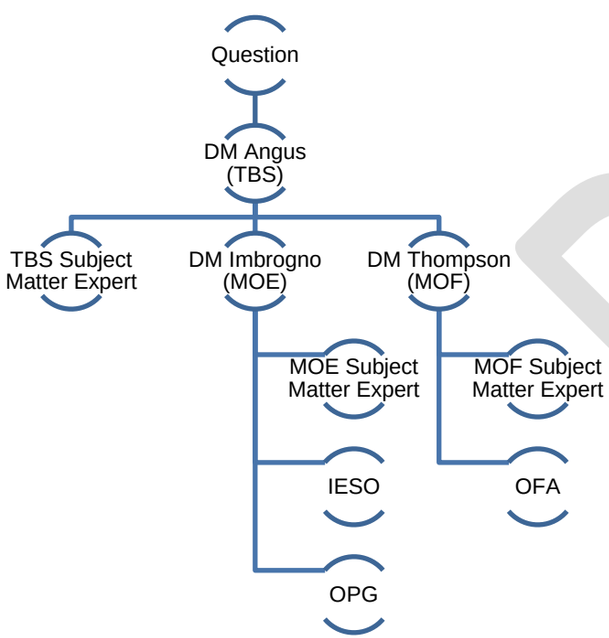
A. Sample Bridging Statements

1. "We find the more important issue is…"
2. "I think it would be more accurate (or correct) to say…"
3. "Let me emphasize again…"
4. "What matters most in this situation is…"
5. "While _____ is important, it's also important to remember that…"
6. "It all boils down to this…"
7. "And that reminds me…"
8. "Before we leave this subject, I need to add…"

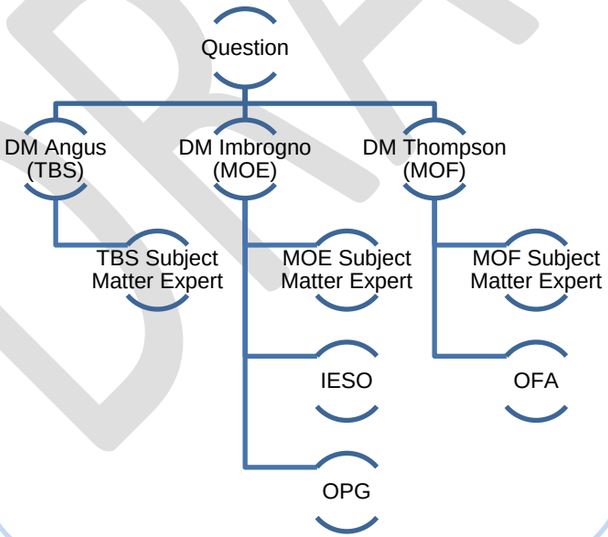
STRATEGIC APPROACH

- Provide evidence and facts as the basis of decision-making wherever appropriate (e.g. other jurisdictions, external advisors).
- Provide responses that are relevant and in scope of the consideration of chapter two of the Office of the Auditor General's report.
- Avoid any speculation on political decision-making or rationales; provide objective, factual responses in role as non-partisan public servant.
- Provide context wherever possible. Deputy Ministers to provide initial messaging then pass to the subject matter experts where appropriate.
- Emphasize the role of a public servant is to provide factual, non-partisan information to the Committee based on due diligence and the application of professional judgment.
- Reaffirm the government's commitment to working with the Office of the Auditor General.
- Emphasize that the province will continue to follow Public Sector Accounting Standards (PSAS), as always, and will seek appropriate expert guidance where PSAS is silent.
- Use the Committee appearance as an opportunity to communicate the facts and rationale for the decision to adopt/continue accounting practices in response to the Office of the Auditor General's recommendations.
- Highlight due diligence in decision making (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).

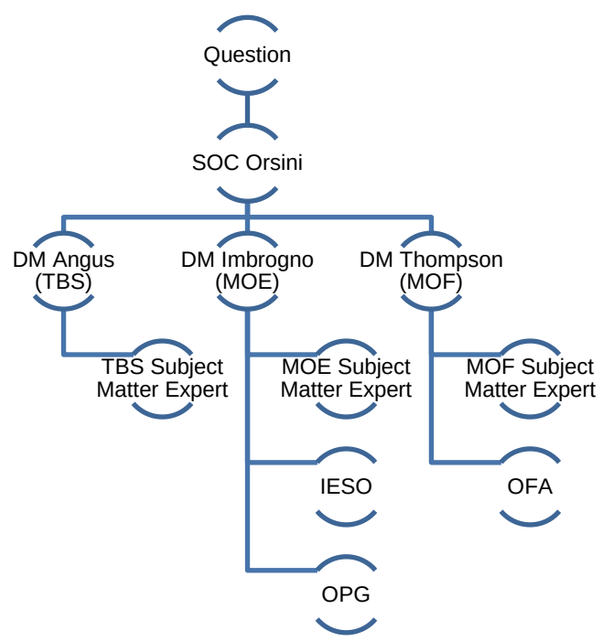
Option 1



Option 2 (Recommended)



Option 3



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STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Key Issues	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	Pres. & CEO, OPG	SVP & CFO, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thompson	Gadi Mayman	Serge Imbrogno	Steen Hume	Jeffrey Lyash	Ken Hartwick	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting		Overall - Pension Asset Accounting		Details - Pension Asset Accounting								
Advisory Panel Compensation			Advisory Panel Compensation									
IESO Accounting							**IESO LEAD**					
Rec # 2 IESO Market Accounts				Government decision to accept IESO market accounts			OFHP Policy Overview	OFHP Policy Overview			IESO's Role in OFHP / General Overview	IESO Market Accounts
Rec #3 IESO Rate-Regulated Accounting				Governmnet decision to accept IESO rate-regulated accounting								IESO Rate-Regulated Acocunting
AG Audit of 2017 Statements		Relationship with AG - AG Audit of 2017 Statements										AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #4 OFHP Accounting				Decision to accept OFHP accounting			OFHP Policy Overview	OFHP Policy Overview	OPG's Role in OFHP / General Overview	OPG Financing Struture / Transaction	IESO's Role in OFHP / General Overview	IESO Financing Struture
Rec #6 'Legislated Accounting'				OFHP - 'legislated' accounting						OPG Accounting / Trust		
Rec #9 Arm's Length Trusts					Financing Structure	Financing Structure						
Records Disclosure/Process		Ministry FOI/OPQ					Records Disclosure / Process Followed		Records Disclosure / Process Followed		Records Disclosure / Process Followed	
Re-design of hydro bills							Re-design of hydro bills					
Pre-Election Report		**JOINT PRE-ELECTION REPORT LEAD**			**JOINT PRE-ELECTION REPORT LEAD**							
Rec #10 Pre-Election Report on Ontario's Finances		Pre-Election Report on Ontario's Finances	Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #7 Province's Debt Burden					Province's Debt Burden	Province's Debt Burden; Repayment plan						
Financial Accountability Officer Reports					Financial Accountability Officer Reports	Financial Accountability Officer Reports						
Credit Ratings					Credit Ratings	Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
#4 External Advisors		External Advisors										
Rec #8 Timeline of Finalization of Financial Statements		Timeline of Finalization of Financial Statements	Timeline of finalization of financial statements		Timeline of finalization of financial statements - tax revenues							
Audit Opinion				Audit Opinions								
Out of Scope		Spefic ministry Public Accounts line items Speculation about future accounting implications; audit opinions Speculation about government motivations			Speculation about future policy implications Speculation about government motivations		OFHP final accounting implications Speculation about future policy implications Speculation about government motivations	Specific salaries				

INTRODUCTORY REMARKS - OUTLINE

Secretary Orsini – Introduction (Optional)

- Good afternoon and thank you to members of the Committee
- The Standing Committee on Public Accounts plays an important role in providing legislative oversight and guidance.
- Role of the public servant: non-partisan nature of public service; duty to provide our best advice; accountability and transparency

Deputy Angus – Introduction

- Good afternoon and thank you
- I'd like to take a moment to introduce my colleagues who are sitting with me here today:
    - Scott Thompson, Deputy Minister of Finance
    - Serge Imrogno, Deputy Minister of Energy
    - Cindy Veinot, Assistant Deputy Minister and Provincial Controller
    - And, as many of you know, I am Helen Angus, Deputy Minister of the Treasury Board Secretariat.
- We also have representatives here from the Ontario Financing Authority, Ontario Power Generation, the Independent Electricity System Operator, and other ministry officials, who are here to answer questions and would be pleased to join us at the table as needed.
- We welcome this opportunity to provide information and answer your questions regarding the Committee's consideration of the Chapter 2 of the Auditor General's 2017 Annual Report on the Public Accounts of the Province.

Overview of Public Accounts

- Public Accounts presents the government's financial statements and gives a picture of how finances were managed over the last fiscal year.
- Producing the Public Accounts of Ontario requires the teamwork and collaboration of many stakeholders across Ontario's public sector.
- The Office of the Auditor General plays a critical role in auditing and reporting on the province's financial statements.
- The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).
- PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and is used by all senior governments in Canada.
- PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

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Overview of Accounting Changes

- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency
- These changes include:
    - Accounting for hospitals, school boards and colleges.
    - Accounting for energy sector government business enterprises.
    - Accounting for the Independent Electricity System Operator (IESO) - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
    - Accounting for net pension assets of jointly sponsored pension plans - the Province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

Auditor General's 2017 Annual Report

- The government thanks the Office of the Auditor General for its recommendations.
- As I mentioned earlier, the Office of the Auditor General plays a critical role in auditing and reporting on the province's financial statements.
- However, there are times when we disagree, and it is our role as public servants to continue our due diligence, act with impartiality, and provide our best advice.
- Our professional staff exercises judgment in applying accounting standards and, as necessary, consults with external experts and advisors.
- They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
- All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.
- That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

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Management Response to the Auditor General's Recommendations

- The Auditor General's annual reports provide for an opportunity for conversation, and in response to the Auditor General's recommendations, the government provided a detailed response to each of the 10 recommendations.
- As requested by the Committee, we have provided a response to each recommendation in the Summary Status Table, which you now have in front of you.
- This table includes more detail than you may have previously seen in chapter two of the Annual Report.
- Each response, on which we would be pleased to provide further detail, outlines the process and rationale as to why the government chose to either continue or adopt changes to accounting treatments.

Updates on Progress – From the Summary Status Table

- *To be added – any key updates/highlights on progress from the Summary Status Table*

Conclusion

- I would like to emphasize that, in our role as public servants, it is our job to exercise due diligence and professional judgment, consult external advisors when needed, carefully consider options, and provide our best advice.
- It is for this reason that accounting changes were adopted in the 2016-17 Public Accounts, and it for this reason that Deputy Thompson, Provincial Controller Veinot, and myself as the Deputy of the Treasury Board Secretariat signed a statement of responsibility, reaffirming our responsibility for the objectivity and integrity of the Public Accounts of the Province.
- As always, we welcome the opportunity to provide the Committee with information and to answer any questions.
- Thank you.

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QUESTIONS & ANSWERS OVERVIEW

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- Ontario Fair Hydro Plan (OFHP) Accounting
- Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG "inappropriate expenses"; OPG compensation)
- Pension asset accounting
- Pre-Election Report
- Province's debt burden

Long-Form Member Questions

1. Why did the government choose to recognize pension assets from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan? What evidence and processes were used to support this decision?

2. Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements? Is there any precedent for this?

3. Can you explain when and how the Treasury Board Secretariat looks to other accounting methods to support the preparation of Public Accounts?

4. What are the plans to keep Ontario's credit rating in good standing?

5. What is Ontario's debt repayment plan?

6. How is Ontario planning to keep a balanced budget?

7. *MOE to add*

8. *MOE to add*

9. *MOE to add*

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Top Questions

1. How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?

2. How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?

3. The government has received a second qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

4. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

5. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

6. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

7. Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.

8. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

9. Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?

10. Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

**See appendix A for a full list of QAs, which are organized on the basis of Auditor General recommendation number.*

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AG RECOMMENDATION #2: INDEPENDENT ELECTRICITY SYSTEM OPERATOR (IESO) MARKET ACCOUNTS

Deputy Minister High-level Response

- Thank you for your question.
- The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit.
- In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements.
- The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.
- The government supports this enhanced reporting and greater transparency for the economic activities of the IESO.
- I will now pass it over to:
    - Cindy Veinot, Provincial Controller
    - Deputy Imrogno

  to provide more details.

Questions & Answers

1. **How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?**

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

   The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

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This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

2. The government has received a second qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of PSAS for net pension assets and recognition of market accounts.

Last year there was a disagreement among the province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the province.

The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

3. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and is used by all senior governments in Canada.

PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consults with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

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Communications Branch
Your Strategic Partner

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

TBS ENVIRONMENTAL SCAN AND ISSUES OVERVIEW

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Environmental Scan

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- **Pension asset accounting**
- **Ontario Fair Hydro Plan (OFHP) Accounting**
- **Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG "inappropriate expenses"; OPG compensation)**
- **Pre-Election Report**
- **Province's debt burden**

Following the release of the Auditor General's Annual Report on December 6, 2017, TBS-related issues were referenced in 41 per cent of articles, including specifically the "accounting disputes" between the Auditor General and the government, spending on government advertising, and the Auditor General's commitment to audit the IESO's consolidated financial statements. In the House, there were eight questions related to TBS issues: 50 per cent were related to the IESO/OPG "inappropriate expenses"; 25 per cent were related to government advertising; and the remaining two questions focused on the balanced budget narrative and the Pre-Election Report.

Overall, the focus on Public Accounts specifically has been limited in the media and the House alike: between September and December 2017, there were 12 mentions of Public Accounts. 50 per cent of mentions referenced "accounting rules" or the alleged existence of "multiple sets of books". Following the tabling of Public Accounts 2016-17, media coverage was limited and 80 per cent of coverage was neutral in tone.

Media Scan

Auditor General 2017 Annual Report

- **Media Events – December 6, 2017**
  - **Auditor General**
    - Overall, TBS-related issues represented 28% of the Auditor General's remarks.
    - Media questions on TBS-related issues represented 28% of all questions asked (7 out of 25)– **including on the planned audit of IESO's financial statements, government numbers vs. AG numbers being used for the PC's platform, and concerns regarding pre-election reports.**
  - **Government Response**
    - Overall, TBS-related issues represented approximately 20% of the discussion.

        - Media questions on TBS-related issues represented 20.8% of all questions asked (5 out of 24) – questions focused on government advertising and **on comments made by the Auditor General to "address significant issues without fear of push-back and reprisal."**

    - **PC Response**
        - Introductory remarks focused generally on waste and mismanagement.
        - Media questions on TBS-related issues represented 17% of all questions asked (2 out of 12) – **questions focused on the PC's use of the government's numbers in their "People's Guarantee" platform**

    - **NDP Response**
        - TBS-related issues related to 8% of the third party leader's remarks, particularly on government advertising
        - No direct mention of TBS-led chapters, **however 38% of questions (3 out of 8) focused on IESO expenditures**

- **Initial Media Coverage**
    - There were approximately 17 stories focusing on the Auditor Generals' 2017 Annual Report
    - 41% of articles referenced TBS-related issues
    - Key themes related to TBS issues include: **"accounting disputes" between the AG and the government** – and the effect it has on the balanced budget narrative, spending on government advertising, and **the AG's statement that she will audit the IESO's financial statements.**

- **Recent Media Coverage** (December 2017 – January 2018) has focused on the following key themes:
    - **The government's relationship with the Auditor General**
    - **Pre-election report**
    - **Distrust of government numbers/"two sets of books"**

Public Accounts

- **Media Coverage**
    - Media coverage was short-term (24-hours), with **80% of media coverage neutral in tone** (compared to 26% in 2016)
    - Government key messages were picked up 100% of the time
    - Balanced budget key messages were picked up in 60% of the coverage

- **Key Themes**
    - Disagreement between the government and auditor general

- Ontario's fiscal position: government debt and deficit
- The government's alleged continued dismissal of watchdogs

Hansard Scan

Auditor General 2017 Annual Report

Following the release of the Auditor General's 2017 Annual Report, there were eight questions in the House relating to TBS issues:

- 50% (4/8) were related to **OPG/IESO "inappropriate expenses"**
- 25% referenced the FAO - one on balanced budget, one on the **pre-election report**

Public Accounts

Public Accounts were mentioned in the House at least 12 times between September and December 2017:

- 50% mention some form of "accounting rules" / two sets of books
- 42% (5/12) related to infrastructure spending
- 25% (3/12) mention FAO and AG together
- 25% regarding Fair Hydro Plan accounting
- One reference to pre-election finance report

FOIs/OPQs

There is one FOI and one OPQ currently in progress with TBS related to Ontario Fair Hydro Plan accounting.

Overview	Key Issues	Key Dates	Next Steps
FOI Request TBS 2017-033 (Government) 1.All emails, memos and/or briefing materials responsive to the requests(s) made by the Auditor – General of Ontario and/or her office, in connection to her special report on the government's Fair Hydro Plan and *that were released* to the Auditor-General; and 2. All emails, memos and/or briefing materials responsive to the request(s) made by the A.G. of Ontario and/or her office, in connection to her special report on	**Ontario Fair Hydro Plan Accounting** **Relationship with the Auditor General** **Use of external advisors**	January 19, 2018 (awaiting deposit)	This is a common request received by Cabinet Office, Energy, Finance and TBS. A common approach is being coordinated by IPA. Interim decision and fee estimate sent on December 20, 2017. Request is on hold until 50% deposit of estimate is received ($2,427.50). **Next Steps:** Await payment of deposit **(due**

the government's Fair Hydro Plan and *that have not been* released to the Auditor – General. 3. A summary of outside consultant and/or legal fees paid and/or payable by the government in relation to the preparation and/or rollout of the government's Fair Hydro Plan.			**January 19, 2018)**
OPQ #700 **MPP Vic Fedeli** Would the President of the Treasury Board state whether the government is in possession of an opinion from KPMG or E&Y on how the Fair Hydro Plan transaction should be recorded in the government's Consolidated Financial Statements, and further state precisely where they disagree with the Auditor General	**Ontario Fair Hydro Plan Accounting** **Relationship with the Auditor General** **Use of external advisors**	OPQ will be formally filed on February 20, 2018	In progress – **Products:** Response to OPQ. **Notes:** Draft will be sent first week of January 2018 to OPCD to draft response. OPQ will be formally filed on February 20, 2018 TBS is the only ministry to have received this OPQ. **Next Steps:** Develop and approve response

Other Considerations

- Executive compensation (OPG, OEB, IESO)
- "Inappropriate expenses" (OPG, IESO)
- Hydro bill redesign ("$15 million")

Key Issues

Issue/Consideration	Strategy	Key Messages	Evidence
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees	• Pension Asset Expert Advisory Panel • Opinion from Deloitte LLP • Analysis Completed by EY

		with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.	
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. IESO's recent accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.	Opinion supported by: • IESO audit committee • Independent external auditor (unqualified opinion) • OPCD • Same method used by Ontario Power Authority previously

Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making, and that the accounting structure is still being finalized. Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS). The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.	• PSAS Guidance • CPA professional code of conduct • External advisors • Other jurisdictions
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election	• Highlight how the government has been working with the Office of the Auditor General (stated by Minister Sandals in a Dec 16,

	government will, as always, continue to follow the relevant legislation.	Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.	2017 Toronto Sun article)
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.	• C4SE study • MOF
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs	• Example of single use of legislated accounting (Public Accounts 15-16)

		were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.	
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.	• CPA professional code of conduct
FOI/OPQ/Records Disclosure			

Questions & Answers

Top Questions*

1. How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?

2. How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?

3. The government has received a second qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

4. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

5. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

6. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

7. Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.

8. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

9. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

10. Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?

11. When will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

**See appendix A for a full list of QAs.*

Long-Form Answers

1. **Why did the government choose to recognize pension assets from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan? What evidence and processes were used to support this decision?**

2. **Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements? Is there any precedent for this?**

3. **Can you explain when and how the Treasury Board Secretariat looks to other accounting methods to support the preparation of Public Accounts?**

Ministry/Agency Representatives

Organization	Position	Name
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot

Supporting Materials

Backgrounders

- Auditor General 2017 Annual Report – Public Accounts – Management Response Backgrounder
- Public Accounts Backgrounder

Technical Briefings/QAs

- Public Accounts – Technical Briefing Deck September 2017

House Book Notes

- Public Accounts
- Fair Hydro Plan Accounting
- Pension Asset Accounting

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 28, 2018

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Tab 5_____General Q&As

Tab 6_____Member Qs and Long-form Answers

Tab 7_____ Auditor General Reports
- 2017 Annual Report: Chapter 2
- 2017 Fair Hydro Plan

Tab 8_____ Reference Materials
- Government Response to Auditor General's 2017 Annual Report
- Public Accounts (Backgrounder and Technical Briefing Deck)
- Fair Hydro Plan
  - Energy's Technical Briefing Deck and Q+As
  - TBS-specific Q+As
- TBS House book Notes
  - Public Accounts
  - Fair Hydro Plan Accounting
  - Pension Asset Accounting
- MOF House book Notes
- Energy House book notes

DRAFT

From:	Ken Kandeepan
To:	Rasika Yatawara
Subject:	FW: SCOPA material
Date:	Friday, January 19, 2018 2:58:40 PM
Attachments:	Binder for DM Pre-Briefing_January 19 2018.zip

As discussed, thanks very much

ken k

From: Anna Strathy
Sent: Friday, January 19, 2018 2:54 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: FW: SCOPA material

FYI for the 4pm meeting.

From: McLean, David (MOF) [mailto:David.McLean@ontario.ca]
Sent: Thursday, January 18, 2018 6:27 PM
To: Tim Schuurman (MOF) <Tim.Schuurman@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Martha Maloney (MOL) <Martha.Maloney@ontario.ca>
Cc: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Maria Sapounas (MOF) <Maria.Sapounas@ontario.ca>
Subject: FW: SCOPA material

Materials for tomorrow's SCOPA meeting.

From: Ue, Allison (TBS)
Sent: January 18, 2018 5:52 PM
To: Schlaepfer, Martin (ENERGY); McLean, David (MOF)
Cc: Skoberne, Vivienne (TBS); Nelson, Dane (TBS)
Subject: SCOPA material

Hi Martin and Dave

For tomorrow's SCOPA briefing, the e-binder is attached. Please share this with folks that will be attending the meeting. I understand that our communications team has been working with their counterparts in your ministries. Feel free to invite them – I'll leave that up to you.

Let me know if you have any questions.

Thanks!
Allison

Attachment Binder for DM Pre-Briefing_January 19 2018 (0 Bytes) cannot be converted to PDF format.

Attachment 1. Cover Page (0 Bytes) cannot be converted to PDF format.

Attachment 2. Table of Contents (0 Bytes) cannot be converted to PDF format.

Attachment Tab 1_Pre-Briefing Discussion Agenda (0 Bytes) cannot be converted to PDF format.

Attachment Tab 2_Logistics and Format (0 Bytes) cannot be converted to PDF format.

Attachment Tab 3_Strategic Approach (0 Bytes) cannot be converted to PDF format.

Attachment Tab 4_Roles and Responsibilities (0 Bytes) cannot be converted to PDF format.

Attachment Tab 5_DM Angus Opening Remarks Outline (0 Bytes) cannot be converted to PDF format.

Attachment Tab 6_Questions and Answers Overview (0 Bytes) cannot be converted to PDF format.

Attachment Tab 7_TBS Environmental Scan and Issues Overview (0 Bytes) cannot be converted to PDF format.

Attachment Tab 8_Draft Briefing Binder Table of Contents (0 Bytes) cannot be converted to PDF format.

achment Tab 9_Summary Status Table_Placeholder_To be circulated during meeting (0 Bytes) cannot be converted to PDF form

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 28, 2018

PRE-BRIEFING BINDER

January 19, 2018

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
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Communications Branch
Your Strategic Partner

AGENDA

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

PRE-BRIEFING DISCUSSION

Date: Friday, January 19, 2018
Time: 4:00 p.m. – 5:00 p.m.
Location: TBS DMO Board Room 5th Floor Whitney Block
Attendees: TBS, MOF, MOE

Topic	Lead	Time
Introduction	TBS Deputy Minister	5 minutes
Overview • Schedule and format • Attendees • Strategic approach • Roles and responsibilities • DM Angus opening remarks outline • Questions and answers overview • Draft binder table of contents • Overview of additional materials	TBS Communications	25 minutes
Summary Status Table • Overview of draft table	Office of the Provincial Controller	15 minutes
Questions	All	15 minutes

LOGISTICS & FORMAT OVERVIEW

Overview

- SCOPA meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports. All public committee proceedings are recorded in Hansard.
- The Chair will advise members to consider questions that are relevant to the content of the Auditor General's Annual Report, but in practice members do sometimes ask questions outside of the report's focus. As a general rule, expect that any question related to the Province's financial statements would be ruled within scope by the committee chair.
- The Committee members may ask that ministries provide details after the session if more research or gathering of information is needed to respond to a question.

Agenda

Wednesday, February 28, 2018
Committee Room 151 (Amethyst Room), Main Legislative Building

Time	*Topic*
9:00 a.m.	Closed Session: Briefing by the Auditor General
10:00 a.m.	Briefing by the Research Officer
10:15 a.m.	RECESS
12:30 p.m.	Treasury Board Secretariat and other representatives • *Invited senior officials appear and respond to questions.* • *The Auditor General attends, and the Committee members can seek clarification from the AG on points from her report if needed during the session.*

12:30 – 3:00 p.m.

- **Opening remarks** (20 minutes)
- **First round of questions** (60 minutes)
    - Each of the three political parties get 20 minutes of questions
- **Second round of questions** (50 minutes, approximately)
    - The remaining time until 2:45 p.m. is split between the three political parties; approximately 15-17 minutes per party

- **Closed session** (15 minutes)
    - Committee members plus the Clerk, only; no audience or presenters
    - The Committee will discuss the outcome of the meeting and if they want to do a report
    - There are no closing statements from ministry officials

Room Setup

- Committee Room 151 (Amethyst Room) is equipped with cameras and the meeting will be available on TVs within the Legislature and streamed online.
- The room has a square table with rows of extra seating at the front the room.
- The Committee Chair, Auditor General and Clerk will sit at the head of the table with the government and opposition parties on opposite sides.
- The invitees sit opposite the Committee Chair and Clerk, either at the table or in the first row of chairs.

Media Access

- Media are allowed to sit in on the meeting as long as they do not interrupt the proceedings. They cannot ask questions in the committee room, but if they wish they can scrum participants in the hallway as they leave.
- Media can also watch SCOPA proceedings on the TVs in the Legislature or online.

DRAFT

Invitees

Organization	Position	Name
Cabinet Office	Secretary of Cabinet	Steve Orsini
Treasury Board Secretariat	Deputy Minister	Helen Angus
Ministry of Finance	Deputy Minister	Scott Thompson
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ministry of Energy	Deputy Minister Assistant Deputy Minister	Serge Imbrogno Steen Hume
Ontario Power Generation	President and Chief Executive Officer Senior Vice President and Chief Financial Officer	Jeffrey Lyash Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer Vice President, Corporate Services and Chief Financial Officer	Peter Gregg Kimberly Marshall

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Ministry/Organization Representatives to Attend

Organization	Position	Name
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot
Ministry of Finance Deputy Minister's Office	Deputy Minister	Scott Thompson
Ministry of Finance Office of the Budget	Assistant Deputy Minister	Tim Schuurman
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ontario Financing Authority	Chief Financial and Risk Officer	Ken Kandeepan
Ministry of Energy Deputy Minister's Office	Deputy Minister	Serge Imbrogno
Ministry of Energy Assistant Deputy Minister	Energy Supply Division	Steen Hume
Ontario Power Generation	President and Chief Executive Officer	Jeffrey Lyash
Ontario Power Generation	Senior Vice President and Chief Financial Officer	Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer	Peter Gregg
Independent Electricity System Operator	Vice President, Corporate Services and Chief Financial Officer	Kimberly Marshall

DRAFT

Committee Members

Chair



ERNIE HARDEMAN, MPP (PC/OXFORD)

Current Parliamentary Roles

Chair, Standing Committee on Public Accounts
Critic, Municipal Affairs and Housing

Vice-Chair



LISA MACLEOD, MPP (PC/NEPEAN—CARLETON)

Current Parliamentary Roles

Vice-Chair, Standing Committee on Public Accounts
Critic, President of the Treasury Board, Critic for the Anti-Racism Secretariat, Critic for City of Ottawa Issues

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Members



BOB DELANEY, MPP (LIB/MISSISSAUGA—STREETSVILLE)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts Member, Standing Committee on Estimates,
Parliamentary Assistant to the Minister of Energy



VIC DHILLON, MPP (LIB/BRAMPTON WEST)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Government and Consumer Services Member, Standing Committee on Social Policy



HAN DONG, MPP (LIB/TRINITY—SPADINA)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Advanced Education and Skills Development, Parliamentary Assistant to the Minister Responsible for the Poverty Reduction Strategy
Member, Standing Committee on Finance and Economic Affairs



JOHN FRASER, MPP (LIB/OTTAWA SOUTH)

Current Parliamentary Roles

Member, Standing Committee on Social Policy Member, Standing Committee on Public Accounts, Parliamentary Assistant to the Minister of Health and Long-Term Care

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PERCY HATFIELD, MPP (NDP/WINDSOR—TECUMSEH)

Current Parliamentary Roles
Critic, Housing
Critic, Municipal Affairs
Member, Standing Committee on Public Accounts



RANDY HILLIER, MPP (PC/LANARK—FRONTENAC—LENNOX AND ADDINGTON)

Current Parliamentary Roles
Member, Standing Committee on Public Accounts
Critic, Attorney General



MONTE KWINTER, MPP (LIB/YORK CENTRE)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of International Trade
Chair of the Ontario Investment and Trade Advisory Council

Clerk
Katch Koch
Tel. 416-325-7352
kkoch@ola.org

TIPS FOR PRESENTING AT SCOPA

Tips for Addressing Committee Members:

Note: Tips are applicable for addressing both Committee Members and media.

- When speaking be mindful of what you say – the proceedings are recorded and there's no such thing as "off the record."

- Adhere to the scripted remarks and prepared Q&As. Do not embellish and ***when in doubt, leave it out.***

    - Be sure you understand the question being asked (it's ok to ask for clarification) and Do NOT answer something you're not 100% sure of.

- If you do not have the response, you may advise Committee Members that the matter needs to be redirected to another ministry, or that you will get the requested information by saying, "I'll look into what is possible to provide."

- Be mindful of only addressing questions/issues that relate directly to the TBS.

- It is acceptable to decline to answer an unrelated question by noting that you are not clear of its relevance to TBS, and that you are prepared to address matters related to the ministry.

- If caught off guard, breathe, listen, work to understand the question, or ask for clarification.

    - Ask the questioner 'Excuse me' or 'I beg your pardon?'
    - Ask the questioner 'Can you kindly help me understand the context of the question/or what you just said?'

- If possible, use a bridging statement to get to your key message/prepared response. (See Appendix A).

- Do not offer personal opinions. Stick to the facts:

    - Leave off qualifiers like "I think" "I feel," and "I believe" which represents an opinion. To sound confident and assured, be mindful not to use qualifiers.
    - Do not use 'I assure you."

- Offer examples of success whenever possible.

Body Language, Tone:

- Be aware of how you come across. There is no benefit to being seen as defensive, argumentative, or unresponsive.

- Project an image of openness, honesty, and empathy.

- Remember to breathe deeply and speak slowly.

    - Controlling your breathing helps deal with the stress.
    - Take several deep breaths as you sit down and get organized.
    - Ahead of appearance take a few minutes in a quiet spot to breathe slowly and deeply.
    - "Super Hero Pose" – stand with your legs shoulder width apart, hands on hips, shoulders back. Do this for two minutes. It helps mentally prepare you ahead of having to speak.

- Use your hands while talking to look natural and help release anxiety. (Note palms up is a subconscious message to those looking at you that you are open and have nothing to hide)

- Avoid body language leakage—those involuntary movements that indicate you're nervous or stressed - e.g. head nodding, swallowing, and pursing your lips.

- Do not touch your face with your hands.

- Avoid repeating negative words that members use in questions. Doing so indicates you accept the negative premise.

- If you feel overwhelmed while speaking in front of an audience, recalibrate by breathing and pausing.

What-Ifs:

1. What if you don't want to answer the question, but you have to say something?

    - Offer a credible reason why you are unwilling to answer the question and identify what you prefer to discuss.

2. What if you're asked for hard numbers, and you don't have the answer?

    - Explain, "I want to be absolutely precise and specific, so I will need to get back to you with the exact number"

- Words like “precise,” “specific,” and “exact” convey that the question has been taken seriously.

3. What if you don’t know the answer, but a colleague who is with you may know it?

    - If you need help from the other ADMs, open your response with ‘In a moment I’m going to call on my colleague to get into more detail about this…’ This gives the other TBS representative time to know they’ll be called upon.

    - Briefly discuss a related subject, then pass the question.

4. What if you need to pause?

    - If you have said absolutely everything you need to say, then let there be a pause.

    - Remember it’s not up to you to keep the proceedings going. That’s the Chair’s job. They may intentionally leave dead air in the hopes that you’ll jump in to fill it by saying something you hadn’t intended to.

5. What if the answer is confidential?

    - Explain that confidentiality rules must be respected, so you cannot directly address the issue at hand. (e.g.: that matter is before the courts).

6. What if it’s a question about a rumour?

    - When asked to respond to a rumour, it is best to not respond at all. Instead, state that your focus is always on fact, not rumour.

7. What if the answer is HR related?

    - Say as little as possible. Commenting on someone’s employment record in a negative context can potentially put you in legal jeopardy.

8. What if you don’t like what you’re saying?

    - Don’t feel obligated to complete a sentence or thought. Simply begin the response again.

9. What if it’s a “yes or no” question?

    - Unless the question relates to a sensitive issue, skip “yes” or “no” and go right to the message that would follow.

10. What if it's an "is it possible" question?

    - Avoid speculating and tell the committee – "I'm not able to comment on something that may or may not happen."

11. What if you're interrupted mid-answer?

    - The first time, let it go. The second time, ask the Chair to be allowed to finish your thought.

APPENDIX

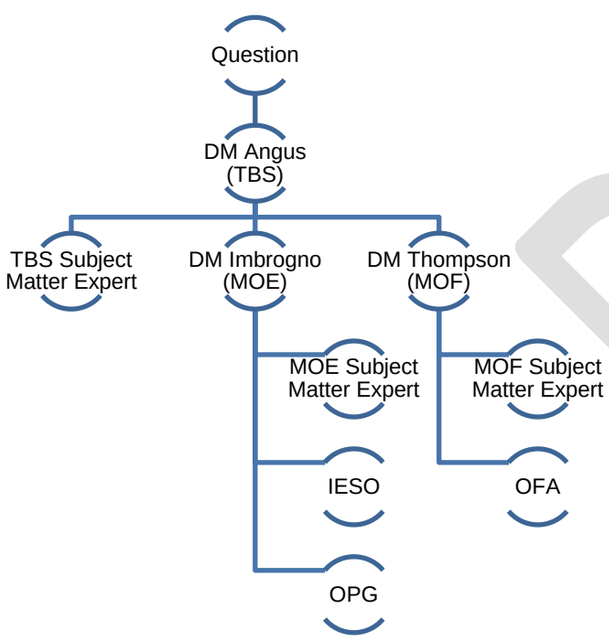
A. Sample Bridging Statements

1. "We find the more important issue is…"
2. "I think it would be more accurate (or correct) to say…"
3. "Let me emphasize again…"
4. "What matters most in this situation is…"
5. "While _____ is important, it's also important to remember that…"
6. "It all boils down to this…"
7. "And that reminds me…"
8. "Before we leave this subject, I need to add…"

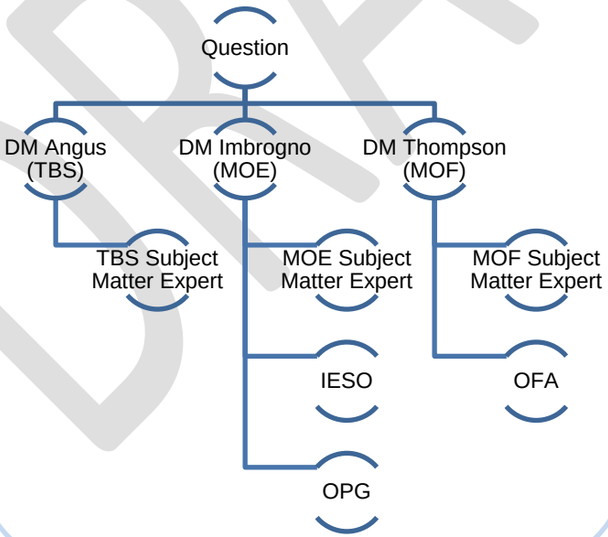
STRATEGIC APPROACH

- Provide evidence and facts as the basis of decision-making wherever appropriate (e.g. other jurisdictions, external advisors).
- Provide responses that are relevant and in scope of the consideration of chapter two of the Office of the Auditor General's report.
- Avoid any speculation on political decision-making or rationales; provide objective, factual responses in role as non-partisan public servant.
- Provide context wherever possible. Deputy Ministers to provide initial messaging then pass to the subject matter experts where appropriate.
- Emphasize the role of a public servant is to provide factual, non-partisan information to the Committee based on due diligence and the application of professional judgment.
- Reaffirm the government's commitment to working with the Office of the Auditor General.
- Emphasize that the province will continue to follow Public Sector Accounting Standards (PSAS), as always, and will seek appropriate expert guidance where PSAS is silent.
- Use the Committee appearance as an opportunity to communicate the facts and rationale for the decision to adopt/continue accounting practices in response to the Office of the Auditor General's recommendations.
- Highlight due diligence in decision making (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).

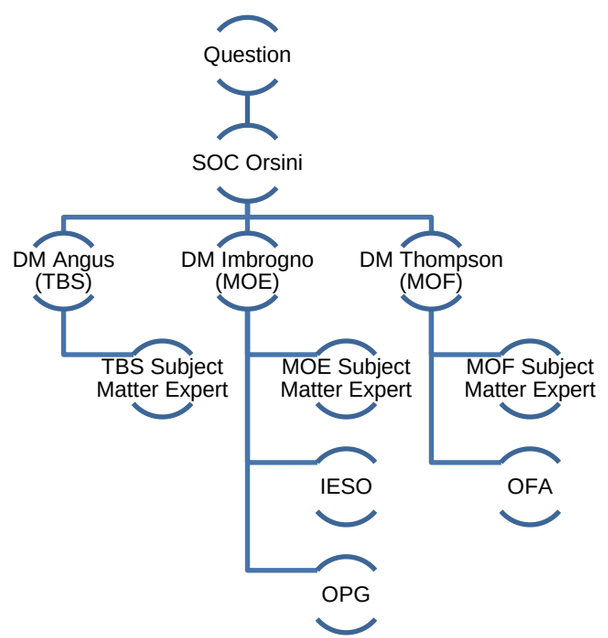
Option 1



Option 2 (Recommended)



Option 3



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STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Key Issues	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	Pres. & CEO, OPG	SVP & CFO, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thompson	Gadi Mayman	Serge Imbrogno	Steen Hume	Jeffrey Lyash	Ken Hartwick	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting		Overall - Pension Asset Accounting		Details - Pension Asset Accounting								
Advisory Panel Compensation			Advisory Panel Compensation									
IESO Accounting							**IESO LEAD**					
Rec # 2 IESO Market Accounts				Government decision to accept IESO market accounts			OFHP Policy Overview	OFHP Policy Overview			IESO's Role in OFHP / General Overview	IESO Market Accounts
Rec #3 IESO Rate-Regulated Accounting				Governmnet decision to accept IESO rate-regulated accounting								IESO Rate-Regulated Acocunting
AG Audit of 2017 Statements		Relationship with AG - AG Audit of 2017 Statements										AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #4 OFHP Accounting				Decision to accept OFHP accounting			OFHP Policy Overview	OFHP Policy Overview	OPG's Role in OFHP / General Overview	OPG Financing Struture / Transaction	IESO's Role in OFHP / General Overview	IESO Financing Struture
Rec #6 'Legislated Accounting'				OFHP - 'legislated' accounting						OPG Accounting / Trust		
Rec #9 Arm's Length Trusts					Financing Structure	Financing Structure						
Records Disclosure/Process		Ministry FOI/OPQ					Records Disclosure / Process Followed		Records Disclosure / Process Followed		Records Disclosure / Process Followed	
Re-design of hydro bills							Re-design of hydro bills					
Pre-Election Report		**JOINT PRE-ELECTION REPORT LEAD**			**JOINT PRE-ELECTION REPORT LEAD**							
Rec #10 Pre-Election Report on Ontario's Finances		Pre-Election Report on Ontario's Finances	Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #7 Province's Debt Burden					Province's Debt Burden	Province's Debt Burden; Repayment plan						
Financial Accountability Officer Reports					Financial Accountability Officer Reports	Financial Accountability Officer Reports						
Credit Ratings					Credit Ratings	Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
#4 External Advisors		External Advisors										
Rec #8 Timeline of Finalization of Financial Statements		Timeline of Finalization of Financial Statements	Timeline of finalization of financial statements		Timeline of finalization of financial statements - tax revenues							
Audit Opinion				Audit Opinions								
Out of Scope		Spefic ministry Public Accounts line items Speculation about future accounting implications; audit opinions Speculation about government motivations			Speculation about future policy implications Speculation about government motivations		OFHP final accounting implications Speculation about future policy implications Speculation about government motivations	Specific salaries				

INTRODUCTORY REMARKS - OUTLINE

Secretary Orsini – Introduction (Optional)

- Good afternoon and thank you to members of the Committee
- The Standing Committee on Public Accounts plays an important role in providing legislative oversight and guidance.
- Role of the public servant: non-partisan nature of public service; duty to provide our best advice; accountability and transparency

Deputy Angus – Introduction

- Good afternoon and thank you
- I'd like to take a moment to introduce my colleagues who are sitting with me here today:
    - Scott Thompson, Deputy Minister of Finance
    - Serge Imrogno, Deputy Minister of Energy
    - Cindy Veinot, Assistant Deputy Minister and Provincial Controller
    - And, as many of you know, I am Helen Angus, Deputy Minister of the Treasury Board Secretariat.
- We also have representatives here from the Ontario Financing Authority, Ontario Power Generation, the Independent Electricity System Operator, and other ministry officials, who are here to answer questions and would be pleased to join us at the table as needed.
- We welcome this opportunity to provide information and answer your questions regarding the Committee's consideration of the Chapter 2 of the Auditor General's 2017 Annual Report on the Public Accounts of the Province.

Overview of Public Accounts

- Public Accounts presents the government's financial statements and gives a picture of how finances were managed over the last fiscal year.
- Producing the Public Accounts of Ontario requires the teamwork and collaboration of many stakeholders across Ontario's public sector.
- The Office of the Auditor General plays a critical role in auditing and reporting on the province's financial statements.
- The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).
- PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and is used by all senior governments in Canada.
- PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

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Overview of Accounting Changes

- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency
- These changes include:
    - Accounting for hospitals, school boards and colleges.
    - Accounting for energy sector government business enterprises.
    - Accounting for the Independent Electricity System Operator (IESO) - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
    - Accounting for net pension assets of jointly sponsored pension plans - the Province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

Auditor General's 2017 Annual Report

- The government thanks the Office of the Auditor General for its recommendations.
- As I mentioned earlier, the Office of the Auditor General plays a critical role in auditing and reporting on the province's financial statements.
- However, there are times when we disagree, and it is our role as public servants to continue our due diligence, act with impartiality, and provide our best advice.
- Our professional staff exercises judgment in applying accounting standards and, as necessary, consults with external experts and advisors.
- They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
- All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.
- That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

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Management Response to the Auditor General's Recommendations

- The Auditor General's annual reports provide for an opportunity for conversation, and in response to the Auditor General's recommendations, the government provided a detailed response to each of the 10 recommendations.
- As requested by the Committee, we have provided a response to each recommendation in the Summary Status Table, which you now have in front of you.
- This table includes more detail than you may have previously seen in chapter two of the Annual Report.
- Each response, on which we would be pleased to provide further detail, outlines the process and rationale as to why the government chose to either continue or adopt changes to accounting treatments.

Updates on Progress – From the Summary Status Table

- *To be added – any key updates/highlights on progress from the Summary Status Table*

Conclusion

- I would like to emphasize that, in our role as public servants, it is our job to exercise due diligence and professional judgment, consult external advisors when needed, carefully consider options, and provide our best advice.
- It is for this reason that accounting changes were adopted in the 2016-17 Public Accounts, and it for this reason that Deputy Thompson, Provincial Controller Veinot, and myself as the Deputy of the Treasury Board Secretariat signed a statement of responsibility, reaffirming our responsibility for the objectivity and integrity of the Public Accounts of the Province.
- As always, we welcome the opportunity to provide the Committee with information and to answer any questions.
- Thank you.

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QUESTIONS & ANSWERS OVERVIEW

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- Ontario Fair Hydro Plan (OFHP) Accounting
- Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG "inappropriate expenses"; OPG compensation)
- Pension asset accounting
- Pre-Election Report
- Province's debt burden

Long-Form Member Questions

1. Why did the government choose to recognize pension assets from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan? What evidence and processes were used to support this decision?

2. Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements? Is there any precedent for this?

3. Can you explain when and how the Treasury Board Secretariat looks to other accounting methods to support the preparation of Public Accounts?

4. What are the plans to keep Ontario's credit rating in good standing?

5. What is Ontario's debt repayment plan?

6. How is Ontario planning to keep a balanced budget?

7. *MOE to add*

8. *MOE to add*

9. *MOE to add*

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Top Questions

1. How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?

2. How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?

3. The government has received a second qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

4. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

5. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

6. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

7. Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.

8. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

9. Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?

10. Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

**See appendix A for a full list of QAs, which are organized on the basis of Auditor General recommendation number.*

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AG RECOMMENDATION #2: INDEPENDENT ELECTRICITY SYSTEM OPERATOR (IESO) MARKET ACCOUNTS

Deputy Minister High-level Response

- Thank you for your question.
- The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit.
- In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements.
- The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.
- The government supports this enhanced reporting and greater transparency for the economic activities of the IESO.
- I will now pass it over to:
    - Cindy Veinot, Provincial Controller
    - Deputy Imrogno

  to provide more details.

Questions & Answers

1. **How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?**

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

   The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

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This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

2. The government has received a second qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of PSAS for net pension assets and recognition of market accounts.

Last year there was a disagreement among the province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the province.

The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

3. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and is used by all senior governments in Canada.

PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consults with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

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Communications Branch
Your Strategic Partner

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

TBS ENVIRONMENTAL SCAN AND ISSUES OVERVIEW

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Environmental Scan

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- **Pension asset accounting**
- **Ontario Fair Hydro Plan (OFHP) Accounting**
- **Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG "inappropriate expenses"; OPG compensation)**
- **Pre-Election Report**
- **Province's debt burden**

Following the release of the Auditor General's Annual Report on December 6, 2017, TBS-related issues were referenced in 41 per cent of articles, including specifically the "accounting disputes" between the Auditor General and the government, spending on government advertising, and the Auditor General's commitment to audit the IESO's consolidated financial statements. In the House, there were eight questions related to TBS issues: 50 per cent were related to the IESO/OPG "inappropriate expenses"; 25 per cent were related to government advertising; and the remaining two questions focused on the balanced budget narrative and the Pre-Election Report.

Overall, the focus on Public Accounts specifically has been limited in the media and the House alike: between September and December 2017, there were 12 mentions of Public Accounts. 50 per cent of mentions referenced "accounting rules" or the alleged existence of "multiple sets of books". Following the tabling of Public Accounts 2016-17, media coverage was limited and 80 per cent of coverage was neutral in tone.

Media Scan

Auditor General 2017 Annual Report

- **Media Events – December 6, 2017**
  - **Auditor General**
    - Overall, TBS-related issues represented 28% of the Auditor General's remarks.
    - Media questions on TBS-related issues represented 28% of all questions asked (7 out of 25)– **including on the planned audit of IESO's financial statements, government numbers vs. AG numbers being used for the PC's platform, and concerns regarding pre-election reports.**
  - **Government Response**
    - Overall, TBS-related issues represented approximately 20% of the discussion.

        - Media questions on TBS-related issues represented 20.8% of all questions asked (5 out of 24) – questions focused on government advertising and **on comments made by the Auditor General to "address significant issues without fear of push-back and reprisal."**

    - **PC Response**
        - Introductory remarks focused generally on waste and mismanagement.
        - Media questions on TBS-related issues represented 17% of all questions asked (2 out of 12) – **questions focused on the PC's use of the government's numbers in their "People's Guarantee" platform**

    - **NDP Response**
        - TBS-related issues related to 8% of the third party leader's remarks, particularly on government advertising
        - No direct mention of TBS-led chapters, **however 38% of questions (3 out of 8) focused on IESO expenditures**

- **Initial Media Coverage**
    - There were approximately 17 stories focusing on the Auditor Generals' 2017 Annual Report
    - 41% of articles referenced TBS-related issues
    - Key themes related to TBS issues include: **"accounting disputes" between the AG and the government** – and the effect it has on the balanced budget narrative, spending on government advertising, and **the AG's statement that she will audit the IESO's financial statements.**

- **Recent Media Coverage** (December 2017 – January 2018) has focused on the following key themes:
    - **The government's relationship with the Auditor General**
    - **Pre-election report**
    - **Distrust of government numbers/"two sets of books"**

Public Accounts

- **Media Coverage**
    - Media coverage was short-term (24-hours), with **80% of media coverage neutral in tone** (compared to 26% in 2016)
    - Government key messages were picked up 100% of the time
    - Balanced budget key messages were picked up in 60% of the coverage

- **Key Themes**
    - Disagreement between the government and auditor general

- Ontario's fiscal position: government debt and deficit
- The government's alleged continued dismissal of watchdogs

Hansard Scan

Auditor General 2017 Annual Report

Following the release of the Auditor General's 2017 Annual Report, there were eight questions in the House relating to TBS issues:

- 50% (4/8) were related to **OPG/IESO "inappropriate expenses"**
- 25% referenced the FAO - one on balanced budget, one on the **pre-election report**

Public Accounts

Public Accounts were mentioned in the House at least 12 times between September and December 2017:

- 50% mention some form of "accounting rules" / two sets of books
- 42% (5/12) related to infrastructure spending
- 25% (3/12) mention FAO and AG together
- 25% regarding Fair Hydro Plan accounting
- One reference to pre-election finance report

FOIs/OPQs

There is one FOI and one OPQ currently in progress with TBS related to Ontario Fair Hydro Plan accounting.

Overview	Key Issues	Key Dates	Next Steps
FOI Request TBS 2017-033 (Government) 1.All emails, memos and/or briefing materials responsive to the requests(s) made by the Auditor – General of Ontario and/or her office, in connection to her special report on the government's Fair Hydro Plan and *that were released* to the Auditor-General; and 2. All emails, memos and/or briefing materials responsive to the request(s) made by the A.G. of Ontario and/or her office, in connection to her special report on	**Ontario Fair Hydro Plan Accounting** **Relationship with the Auditor General** **Use of external advisors**	January 19, 2018 (awaiting deposit)	This is a common request received by Cabinet Office, Energy, Finance and TBS. A common approach is being coordinated by IPA. Interim decision and fee estimate sent on December 20, 2017. Request is on hold until 50% deposit of estimate is received ($2,427.50). **Next Steps:** Await payment of deposit **(due**

the government's Fair Hydro Plan and *that have not been* released to the Auditor – General. 3. A summary of outside consultant and/or legal fees paid and/or payable by the government in relation to the preparation and/or rollout of the government's Fair Hydro Plan.			**January 19, 2018)**
OPQ #700 **MPP Vic Fedeli** Would the President of the Treasury Board state whether the government is in possession of an opinion from KPMG or E&Y on how the Fair Hydro Plan transaction should be recorded in the government's Consolidated Financial Statements, and further state precisely where they disagree with the Auditor General	**Ontario Fair Hydro Plan Accounting** **Relationship with the Auditor General** **Use of external advisors**	OPQ will be formally filed on February 20, 2018	In progress – **Products:** Response to OPQ. **Notes:** Draft will be sent first week of January 2018 to OPCD to draft response. OPQ will be formally filed on February 20, 2018 TBS is the only ministry to have received this OPQ. **Next Steps:** Develop and approve response

Other Considerations

- Executive compensation (OPG, OEB, IESO)
- "Inappropriate expenses" (OPG, IESO)
- Hydro bill redesign ("$15 million")

Key Issues

Issue/Consideration	Strategy	Key Messages	Evidence
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees	• Pension Asset Expert Advisory Panel • Opinion from Deloitte LLP • Analysis Completed by EY

		with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.	
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. IESO's recent accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.	Opinion supported by: • IESO audit committee • Independent external auditor (unqualified opinion) • OPCD • Same method used by Ontario Power Authority previously

Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making, and that the accounting structure is still being finalized. Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS). The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.	• PSAS Guidance • CPA professional code of conduct • External advisors • Other jurisdictions
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election	• Highlight how the government has been working with the Office of the Auditor General (stated by Minister Sandals in a Dec 16,

	government will, as always, continue to follow the relevant legislation.	Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.	2017 Toronto Sun article)
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.	• C4SE study • MOF
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs	• Example of single use of legislated accounting (Public Accounts 15-16)

		were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.	
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.	• CPA professional code of conduct
FOI/OPQ/Records Disclosure			

Questions & Answers

Top Questions*

1. How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?

2. How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?

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4. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

5. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

6. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

7. Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.

8. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

9. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

10. Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?

11. When will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

**See appendix A for a full list of QAs.*

Long-Form Answers

1. **Why did the government choose to recognize pension assets from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan? What evidence and processes were used to support this decision?**

2. **Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements? Is there any precedent for this?**

3. **Can you explain when and how the Treasury Board Secretariat looks to other accounting methods to support the preparation of Public Accounts?**

Ministry/Agency Representatives

Organization	Position	Name
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot

Supporting Materials

Backgrounders

- Auditor General 2017 Annual Report – Public Accounts – Management Response Backgrounder
- Public Accounts Backgrounder

Technical Briefings/QAs

- Public Accounts – Technical Briefing Deck September 2017

House Book Notes

- Public Accounts
- Fair Hydro Plan Accounting
- Pension Asset Accounting

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 28, 2018

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- Energy House book notes

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Cc:	Gadi Mayman; Ken Kandeepan; Kobrinsky, Liza (MOF)
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	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. The government respectfully disagrees with the Auditor General's interpretation of the accounting standards on this issue as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

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AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

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by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

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	conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

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our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*		

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their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

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• *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

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states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

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	which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%~~,~~ ~~currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments.~~ The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. ~~The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets.~~ These investments ~~will~~are intended to grow ~~contribute to~~ the economy ~~growing~~ at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio. The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term.	Continue to monitor progress. ~~Estimated implementation by FY 2029-30.~~

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	Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining~~, falling to 37.3% in 2017-18~~ from its 2014-15 peak of 39.3%. As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

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barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and personal income tax revenues.	The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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	While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	
AG Recommendation #10 *We recommend that the government determine when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.*	Under the *Fiscal Transparency and Accountability Act*, 2004, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a Statement based on a prompt review following the release of such a Pre-Election Report.	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

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AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

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by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

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	conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

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our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*		

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their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

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• *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

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states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

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	which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%~~,~~ ~~currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments.~~ The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. ~~The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets.~~ These investments ~~will~~are intended to grow ~~contribute to~~ the economy ~~growing~~ at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio. The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term.	Continue to monitor progress. ~~Estimated implementation by FY 2029-30.~~

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Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

	Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining~~, falling to 37.3% in 2017-18~~ from its 2014-15 peak of 39.3%. As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

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barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and personal income tax revenues.	The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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	While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	
AG Recommendation #10 *We recommend that the government determine when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.*	Under the *Fiscal Transparency and Accountability Act*, 2004, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a Statement based on a prompt review following the release of such a Pre-Election Report.	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

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Summary Status Table in Response to the Report of the Auditor General of Ontario

Chapter 2 2017 Annual Report of the Auditor General

Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

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From: Anna Strathy
To: Gadi Mayman
Cc: Ken Kandeepan
Subject: FW: Status Table_Ch 2 of AG AR_SCOPA_20180208 (OFA Update).docx
Date: Monday, February 12, 2018 9:44:03 AM
Attachments: Status Table_Ch 2 of AG AR_SCOPA_20180212 (OFA Update).docx

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Hi Gadi – are you ok with the Deputy's edits? They look good to me. If you're ok, I'll send them along to OPCD.

Anna

From: McLean, David (MOF) [mailto:David.McLean@ontario.ca]
Sent: Monday, February 12, 2018 9:34 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>
Cc: Kim, Minzi (MOF) <Minzi.Kim@ontario.ca>; Kobrinsky, Liza (MOF) <Liza.Kobrinsky@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: RE: Status Table_Ch 2 of AG AR_SCOPA_20180208 (OFA Update).docx

Hi Anna,

Sorry for the delay. See the DM's edits attached. He would like to keep the first line about the Budget and FES language on the 27%. Other than that, just some minor wording changes.

Thanks
Dave

From: Anna Strathy [mailto:Anna.Strathy@ofina.on.ca]
Sent: February 9, 2018 3:59 PM
To: McLean, David (MOF)
Cc: Kim, Minzi (MOF); Kobrinsky, Liza (MOF); Mayman, Gadi (OFA); Kandeepan, Ken (OFA)
Subject: Status Table_Ch 2 of AG AR_SCOPA_20180208 (OFA Update).docx

Hi Dave,

As discussed in our 12:00pm meeting with the Secretary of Cabinet, we've revised the wording in the attached Status Table for SCOPA that pertains to recommendation #7 (debt). I've included our edits in track changes (p. 10-11).

If the Deputy is comfortable with this version, I'll send it along to OPCD to incorporate our changes.

Thanks, Anna

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message,

including any attachments, without reading them, and destroy all copies. Thank you.

Summary Status Table in Response to the
Report of the Auditor General of Ontario

Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and b) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

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	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. The government respectfully disagrees with the Auditor General's interpretation of the accounting standards on this issue as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
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	which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%~~,~~ ~~currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments.~~ The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. ~~The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets.~~ These investments ~~will~~are intended to grow ~~contribute to~~ the economy ~~growing~~ at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio. The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term.	Continue to monitor progress. ~~Estimated implementation by FY 2029-30.~~

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Summary Status Table in Response to the Report of the Auditor General of Ontario

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Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

	Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining~~, falling to 37.3% in 2017-18~~ from its 2014-15 peak of 39.3%. As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

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barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and personal income tax revenues.	The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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	While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	
AG Recommendation #10 *We recommend that the government determine when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.*	Under the *Fiscal Transparency and Accountability Act*, 2004, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a Statement based on a prompt review following the release of such a Pre-Election Report.	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

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Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

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From:	Ken Kandeepan
To:	John Psinas
Subject:	FW: Status Table_Ch 2 of AG AR_SCOPA_20180208 (OFA Update).docx
Date:	Sunday, February 11, 2018 1:00:16 PM
Attachments:	Status Table_Ch 2 of AG AR_SCOPA_20180208 (OFA Update).docx

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From: Anna Strathy
Sent: Friday, February 09, 2018 3:59 PM
To: David McLean (MOF) <David.McLean@ontario.ca>
Cc: 'Kim, Minzi (MOF)' <Minzi.Kim@ontario.ca>; Kobrinsky, Liza (MOF) <Liza.Kobrinsky@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: Status Table_Ch 2 of AG AR_SCOPA_20180208 (OFA Update).docx

Hi Dave,

As discussed in our 12:00pm meeting with the Secretary of Cabinet, we've revised the wording in the attached Status Table for SCOPA that pertains to recommendation #7 (debt). I've included our edits in track changes (p. 10-11).

If the Deputy is comfortable with this version, I'll send it along to OPCD to incorporate our changes.

Thanks, Anna

Summary Status Table in Response to the
Report of the Auditor General of Ontario

Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and b) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

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	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. The government respectfully disagrees with the Auditor General's interpretation of the accounting standards on this issue as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

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AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

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by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

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	conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

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our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*		

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their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

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• *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

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states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

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	which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	~~The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%, currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments.~~ The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. These investments will contribute to the economy growing at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term.	Continue to monitor progress. ~~Estimated implementation by FY 2029-30.~~

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	Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining ~~, falling to 37.3% in 2017-18~~ from its 2014-15 peak of 39.3%. As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

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	transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	
AG Recommendation #10 *We recommend that the government determine when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.*	Under the *Fiscal Transparency and Accountability Act*, 2004, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a Statement based on a prompt review following the release of such a Pre-Election Report.	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

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From:	Ken Kandeepan
To:	John Psinas
Subject:	FW: Status Table_Ch 2 of AG AR_SCOPA_20180208 (OFA Update).docx
Date:	Thursday, February 15, 2018 10:31:31 AM
Attachments:	Status Table_Ch 2 of AG AR_SCOPA_20180212 (OFA Update).docx

FYI.

Thanks

Ken k

From: Anna Strathy
Sent: Monday, February 12, 2018 9:50 AM
To: Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Cc: Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Kobrinsky, Liza (MOF) <Liza.Kobrinsky@ontario.ca>
Subject: FW: Status Table_Ch 2 of AG AR_SCOPA_20180208 (OFA Update).docx

Hi Sarah,

Please find attached, DM-approved edits to our response to recommendation #7 in the attached status table (edits in track changes p.10-11).

Happy to discuss should you have any questions.

Thanks, Anna

From: McLean, David (MOF) [mailto:David.McLean@ontario.ca]
Sent: Monday, February 12, 2018 9:34 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>
Cc: Kim, Minzi (MOF) <Minzi.Kim@ontario.ca>; Kobrinsky, Liza (MOF) <Liza.Kobrinsky@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: RE: Status Table_Ch 2 of AG AR_SCOPA_20180208 (OFA Update).docx

Hi Anna,

Sorry for the delay. See the DM's edits attached. He would like to keep the first line about the Budget and FES language on the 27%. Other than that, just some minor wording changes.

Thanks
Dave

From: Anna Strathy [mailto:Anna.Strathy@ofina.on.ca]
Sent: February 9, 2018 3:59 PM

To: McLean, David (MOF)
Cc: Kim, Minzi (MOF); Kobrinsky, Liza (MOF); Mayman, Gadi (OFA); Kandeepan, Ken (OFA)
Subject: Status Table_Ch 2 of AG AR_SCOPA_20180208 (OFA Update).docx

Hi Dave,

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If the Deputy is comfortable with this version, I'll send it along to OPCD to incorporate our changes.

Thanks, Anna

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
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AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

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by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

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	conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

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our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*		

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their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

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• *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

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states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

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	which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%~~,~~ ~~currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments.~~ The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. ~~The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets.~~ These investments ~~will~~are intended to grow ~~contribute to~~ the economy ~~growing~~ at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio. The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term.	Continue to monitor progress. ~~Estimated implementation by FY 2029-30.~~

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Summary Status Table in Response to the Report of the Auditor General of Ontario

Chapter 2 2017 Annual Report of the Auditor General

Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

	Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining~~, falling to 37.3% in 2017-18~~ from its 2014-15 peak of 39.3%. As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

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barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and personal income tax revenues.	The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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	While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	
AG Recommendation #10 *We recommend that the government determine when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.*	Under the *Fiscal Transparency and Accountability Act*, 2004, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a Statement based on a prompt review following the release of such a Pre-Election Report.	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

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Summary Status Table in Response to the Report of the Auditor General of Ontario

Chapter 2 2017 Annual Report of the Auditor General

Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

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From: Lynsey Wynberg
To: Ken Kandeepan
Subject: FW: TBS FACT CHECK - PAEAP NR - 3PM DEADLINE
Date: Tuesday, February 07, 2017 1:36:15 PM
Attachments: PAEAP Report NR_v11_csb.doc
Importance: High

Hi Ken,

Can you please take a quick look at the draft NR and advise of any edits?

Thanks,
Lynsey

From: Patel, Lesley (MOF) [mailto:Lesley.Patel@ontario.ca]
Sent: Tuesday, February 07, 2017 1:32 PM
To: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Jamie Buckland Foster (MCYS) <Jamie.Buckland.Foster@ontario.ca>; Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>
Cc: Alex Killoch (MOF) <Alex.Killoch@ontario.ca>
Subject: TBS FACT CHECK - PAEAP NR - 3PM DEADLINE
Importance: High

Hi all,

Please find attached a news release with regards to the Pension Asset Expert Advisory Panel report for fact check.

Please send any edits back before 3pm.

Thanks,
Lesley

p.s. Also please let me know the status of the Q&A document if you have not send your edits as yet.

Ontario

NEWS

Treasury Board Secretariat

Pension Asset Expert Advisory Panel Submits Final Report

Government Accepts Independent Panel's Recommendations on Accounting for Pension Plans

NEWS February XX, 2017

The Pension Asset Expert Advisory Panel has released its independent advice and recommendations on the application of public sector accounting standards to two of Ontario's jointly sponsored pension plans. The government is accepting the panel's recommendations, which will inform the preparation of the Province's financial statements.

The panel's report concluded that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP) should be recognized in Ontario's financial statements.

In preparing the 2015-16 Public Accounts of Ontario, the Province's professional accounting staff and the Auditor General's Office could not reach an agreement on the appropriate application of the Public Sector Accounting Board (PSAB) standards regarding pension accounting for the Province's jointly-sponsored pension plans.

The government formed the Pension Asset Expert Advisory Panel to provide independent advice on how public sector accounting standards are interpreted as they apply to net pension assets. The panel members have expertise in the areas of jointly-sponsored pension plans governance, actuarial modelling for pension plans and Public Sector Accounting Standards.

The Province remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Responsible financial management is part of the government's plan to create jobs, grow the economy and help people in their everyday lives.

QUOTES

"I would like to thank the expert advisory panel for their thorough analysis and recommendations on this complex accounting issue. We accept the advice of the panel and will use it in preparing the province's financial statements."
— Liz Sandals, President of the Treasury Board

"With the help of the unique professional skillsets and perspectives of the independent advisory panel, we now have additional advice on how to account for current jointly-sponsored pension assets. This advice will help us continue to present the province's finances fairly and accurately, as we work toward balancing the budget in 2017-18."
— Charles Sousa, Minister of Finance (TBC MOF)

QUICK FACTS

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- By applying the panel's advice, the province would see a reduction in debt to now $10.7 billion.
- For 2015-16, this means the province's deficit has been lowered by $1.5 billion.
- For 2016-17, the province's fiscal position will improve by $2.2 billion.
- In its report, the panel supports the accounting treatment that Ontario has used consistently since 2001.
- In the coming weeks, the panel will issue a supplemental report that will provide advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).

ADDITIONAL RESOURCES

Read the panel's report*: [insert hyperlink]*

Pension Asset Expert Advisory Panel Members

Pension Asset Expert Advisory Panel Terms of Reference

Read the 2015-16 Public Accounts of Ontario

Learn about the government's fiscal cycle

Commented [EKO1]: MOF Fact check

Commented [LT2]: Language on these will need to be refined

Field Code Changed

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

ontario.ca/news
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From: Gadi Mayman
To: Ken Kandeepan
Cc: Christina Zhang
Subject: FW: The FAO"s FES Commentary
Date: Friday, November 25, 2016 11:57:04 AM
Attachments: image001.png

FYI

-----Original Message-----
From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: Friday, November 25, 2016 11:12 AM
To: Brian Lewis (MOL) <Brian.Lewis@ontario.ca>; David West <dwest@fao-on.org>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Karen Hughes (MGS) <Karen.Hughes@ontario.ca>
Cc: Luan Ngo <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Maria Duran-Schneider (MOF) <Maria.Duran-Schneider@ontario.ca>; Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Mario Angastiniotis <MAngastiniotis@fao-on.org>; Nicolas Rhodes <nrhodes@fao-on.org>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Subject: RE: The FAO's FES Commentary

David

Thanks again for sharing this, its greatly appreciated.

Another small suggestion....its just a footnote, but just so we're on the same page:

In the footnote on page 3, it states:

"In the 2015-16 Public Accounts, the Province legislated a change in the accounting treatment of jointly sponsored pension plans, which increased net debt by $9.2 billion and the deficit by $1.5 billion in 2015-16. The FAO will adopt the government’s estimates of the accounting change’s impact in future reports."

The total impact on the change on net debt is actually $10.7 billion (= $9.2 billion + in-year of $1.5 billion) both in the press release and FES the government referred to the $10.7 billion. Press release excerpt is below.

“The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit and an increase in the annual deficit of $1.5 billion.”

Hope that helps

Tim

From: Lewis, Brian (MOF)
Sent: Thursday, November 24, 2016 10:05 AM
To: David West; Esmail, Selena (MOF); Schuurman, Tim (MOF); Hughes, Karen (TBS)

Cc: Luan Ngo; Edward Crummey; Tarin, Ghufran (MOF); Birks, Ryan (MOF); Duran-Schneider, Maria (TBS); Arbabzadeh, Nina (TBS); Laughton, Patrick (TBS); Mario Angastiniotis; Nicolas Rhodes
Subject: RE: The FAO's FES Commentary

Thanks for sharing.

Might be worth noting that upward revisions to past nominal GDP released after your report account of much of the difference in the debt/gdp ratio between the government and FAO projections.

A more subtle point, but you might want to consider describing the government forecast as “more optimistic” than yours rather than “optimistic”, as it is possible revenues will come in higher than the government’s forecast (as they did last year), or lower than yours.

From: David West [mailto:dwest@fao-on.org]
Sent: November 24, 2016 9:52 AM
To: Esmail, Selena (MOF); Schuurman, Tim (MOF); Lewis, Brian (MOF); Hughes, Karen (TBS)
Cc: Luan Ngo; Edward Crummey; Tarin, Ghufran (MOF); Birks, Ryan (MOF); Duran-Schneider, Maria (TBS); Arbabzadeh, Nina (TBS); Laughton, Patrick (TBS); Mario Angastiniotis; Nicolas Rhodes
Subject: The FAO's FES Commentary

Hello All,

As I promised at our meeting last week, please find attached a draft (embargoed) copy of the Commentary that I mentioned last week.

We plan to release this Commentary on our website on Monday. As always, please treat the document as confidential until its release.

Although we are not formally requesting any feedback on the note, please feel free to let us know if you find anything particularly egregious.

Thanks again for your on-going assistance.

Best regards,

David West
Chief Economist
[cid:image009.png@01D17ECB.966ECE00]

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
t.416.579.1465 | dwest@fao-on.org<mailto:dwest@fao-on.org>
www.fao-on.org<https://urldefense.proofpoint.com/v2/url?u=http-3A__www.fao-2Don.org_&d=CwIF-g&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FtiQ&r=OdoCVLs6i-6reBTUJh9PAGSfpmSjeJXGKKb9SzvJOII&m=XCt6eoHxgSoJ1l-CwZv5ahVmW9M2bk3QQARMz_inu2c&s=-ns5Ztatnb0-ewkMpzVZtcJiRRjxwjq0CDR8zXbiWBo&e= >

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: November 18, 2016 4:12 PM
To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>
Cc: Luan Ngo <lngo@fao-on.org<mailto:lngo@fao-on.org>>; Edward Crummey <ecrummey@fao-on.org<mailto:ecrummey@fao-on.org>>; Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca<mailto:Ghufran.Tarin@ontario.ca>>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca<mailto:Ryan.Birks@ontario.ca>>; Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca<mailto:Tim.Schuurman@ontario.ca>>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca<mailto:Brian.Lewis@Ontario.ca>>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca<mailto:Karen.Hughes@ontario.ca>>; Duran-Schneider, Maria (TBS) <Maria.Duran-Schneider@ontario.ca<mailto:Maria.Duran-Schneider@ontario.ca>>; Arbabzadeh, Nina (TBS) <Nina.Arbabzadeh@ontario.ca<mailto:Nina.Arbabzadeh@ontario.ca>>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca<mailto:Patrick.Laughton@ontario.ca>>
Subject: Meeting follow-up requests

Hi David,

Attached is the revenue and expense information requested in follow-up to our meeting held this past Wednesday - uses the FAO password. I trust that this information is helpful.

Thank you and have a wonderful weekend

Regards,

Selena Esmail

Director, Office of the Budget, Ministry of Finance

-----Original Message-----

From: Birks, Ryan (MOF)

Sent: November-18-16 2:43 PM

To: David West; Schuurman, Tim (MOF); Lewis, Brian (MOF)

Cc: Luan Ngo; Edward Crummey; Tarin, Ghufran (MOF); Esmail, Selena (MOF)

Subject: RE: Questions for tomorrows meeting

Hi David,

We'll be sending a consolidated package with both the revenue and expense details included before the end of day.

Thanks,

Ryan

-----Original Message-----

From: David West [mailto:dwest@fao-on.org]

Sent: November-18-16 2:38 PM

To: Schuurman, Tim (MOF); Lewis, Brian (MOF)

Cc: Luan Ngo; Birks, Ryan (MOF); Edward Crummey; Tarin, Ghufran (MOF)

Subject: RE: Questions for tomorrows meeting

Hi,

Will you be able to send us the follow-up information that we discussed at our meeting on Wednesday?

In particular the revenue and expenditure details?

Thanks

David West

(416) 579-1465

-----Original Message-----

From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]

Sent: November 15, 2016 5:06 PM

To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca<mailto:Ryan.Birks@ontario.ca>>

Cc: Peter Harrison <pharrison@fao-on.org<mailto:pharrison@fao-on.org>>; Edward Crummey <ecrummey@fao-on.org<mailto:ecrummey@fao-on.org>>; Luan Ngo <lngo@fao-on.org<mailto:lngo@fao-on.org>>; Mario Angastiniotis <MAngastiniotis@fao-on.org<mailto:MAngastiniotis@fao-on.org>>; Nicolas Rhodes <nrhodes@fao-on.org<mailto:nrhodes@fao-on.org>>

Subject: Re: Questions for tomorrows meeting

Thanks David and team!

Looking forward to our conversation tomorrow. As some of these questions are for detailed background data, we may need to provide those post-tomorrow's meeting so we can gather it up in a way that works best to answer the question. But we'll come prepared with as many A's as possible and together we can map out a plan to get you the details you need following the meeting as well. We'll do our best to have all the right people in the room tomorrow.

Hope that works.

Tim

From: David West

Sent: Tuesday, November 15, 2016 4:46 PM

To: Birks, Ryan (MOF)

Cc: Schuurman, Tim (MOF); Peter Harrison; Edward Crummey; Luan Ngo; Mario Angastiniotis; Nicolas Rhodes

Subject: Questions for tomorrows meeting

As promised, I've attached a list of the questions that we'd like to discuss at tomorrow's meeting.

See you tomorrow.

Thanks

David W.

(416-579-1465)

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]

Sent: November 15, 2016 1:43 PM

To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>; Peter Harrison <pharrison@fao-on.org<mailto:pharrison@fao-on.org>>

Cc: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca<mailto:Tim.Schuurman@ontario.ca>>

Subject: RE: Fall statement

Hello David and Peter,

I wanted to reconfirm tomorrow's FES/FAO meeting. It will be taking place between 2:30pm-3:30pm in the Aquarium Boardroom (4th floor of the Frost South Building). I'll be forward the invitation shortly.

Please let me know if additional FAO staff will be in attendance. I'll make sure they're also registered with security.

Let me know if you have any questions.

Thanks,

Ryan

From: Schuurman, Tim (MOF)

Sent: November-11-16 12:48 PM

To: David West

Cc: Peter Harrison; Birks, Ryan (MOF)

Subject: RE: Fall statement

Sounds great. I'm rallying the troops, and my EA Ryan Birks will be in touch with your offices to confirm timing and location, etc.

See you soon!

Tim Schuurman

Assistant Deputy Minister

Office of the Budget, Ministry of Finance

7 Queen's Park Cres.

Toronto ON M7A 1Z1

Tel: 416-327-0173

[cid:image002.png@01D0E4D5.A25B16F0]

From: David West [mailto:dwest@fao-on.org]

Sent: November-10-16 6:29 PM

To: Schuurman, Tim (MOF)

Cc: Peter Harrison

Subject: Re: Fall statement

Thanks Tim,

2:30 should be fine.

Sent from my Bell Samsung device over Canada's largest network.

-------- Original message --------

From: "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca<mailto:Tim.Schuurman@ontario.ca>>>

Date: 2016-11-10 5:19 PM (GMT-05:00)

To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>>

Cc: Peter Harrison <pharrison@fao-on.org<mailto:pharrison@fao-on.org>>>

Subject: RE: Fall statement

Hey guys

Thanks for the update on what would best suit your needs. We're happy to accommodate your request for a meeting….guess I'd suggest maybe late Wednesday so that folks have time to follow-up on the questions we'd get from you guys Tuesday afternoon. Also Wednesday mornings are filled with regular check-in meetings folks need to be at, so maybe we can find time Wednesday afternoon.

Something around 230pm work for you guys?

Tim Schuurman

Assistant Deputy Minister

Office of the Budget, Ministry of Finance

7 Queen's Park Cres.

Toronto ON M7A 1Z1

Tel: 416-327-0173

[cid:image002.png@01D0E4D5.A25B16F0]

From: David West [mailto:dwest@fao-on.org]

Sent: November-10-16 9:29 AM

To: Schuurman, Tim (MOF)

Cc: Peter Harrison

Subject: RE: Fall statement

Hi Tim,

So, change of plans! The release of FES at 1pm on Monday, which is earlier than we expected, reduces the benefits of coming over to Frost to get a preview of the document, prior to release.

As a result, while we thank you for the offer, we'll decline your invite to come over to Frost on Monday. (Although we'll miss seeing your smiling face!)

However, instead, we would like to request a potential meeting on Wednesday (possibly late morning?) to discuss any FES-related questions. We would plan to send you our questions by Tuesday afternoon to allow you to try to assemble appropriate staff for the Wednesday meeting.

Would this work for you?

Thanks

David

(416) 579-1465

From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]

Sent: November 9, 2016 7:31 PM

To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>>

Cc: Peter Harrison <pharrison@fao-on.org<mailto:pharrison@fao-on.org>>>

Subject: RE: Fall statement

Thanks David, Peter.

• Right now the plan is for the Minister to rise and present the FES at 1pm on Monday. So I'm wondering if it is ok for you guys to come at 11am. We would expect you to stay in the boardroom we assign to you until the Minister stands up to deliver the speech – like a lock-up of sorts. Please let me know if you have any issues with that.

• I'm working hard to get you guys bound copies for your secure reading, but it may be a challenge as they are under OPP guard until the Minister stands (and we have no official lock up so I need to pull a few favours). If not, we'll print out copies on paper for you.

• Can you send me the list of names that would come? I'll need to know in advance.

• As far as answering questions, we'll try and have a few people around but it's a crazy day around here for us and we'll probably be scrambling. If its ok, I prefer to not make it a merry-go-round of people going in and out of the boardroom where you are. If possible, can we agree that you guys will spend the first hour or so going through all the documents, compiling your questions into a list, and then we'll ask people to come around for a chat? That way it's abit more organized, and I can tell people to make themselves available around noon for q's rather than stay on stand-by for 2 hours not knowing. Let me know what you think. If we can't get someone in the time you're here, of course we'll arrange for any follow-up.

Let me know what you think.

Tim Schuurman

Assistant Deputy Minister

Office of the Budget, Ministry of Finance

7 Queen's Park Cres.

Toronto ON M7A 1Z1

Tel: 416-327-0173

[cid:image002.png@01D0E4D5.A25B16F0]

From: David West [mailto:dwest@fao-on.org]

Sent: November-09-16 4:05 PM

To: Schuurman, Tim (MOF)

Cc: Peter Harrison

Subject: RE: Fall statement

Thanks Tim,

As Peter indicated, we would like to take you up on this offer.

I think there will be 4 or 5 of us who would be interested in a preview of the document, and the opportunity to ask some questions in person.

Do you expect that the Minister will deliver a statement in the Legislature at approximately 4pm? So, if we arrived at perhaps 2pm we could have a couple of hours with the document before the release?

We (the FAO) would not plan to make any public statements on the FES right away. But, we may decide to release a short 'Commentary' document on the FAO's website several days after the FES release (likely the following week) that compares the FAO's projections (from our recent EFO) with the FES projections and outlines some of the main differences in assumptions.

Please confirm what time you recommend we arrive at Frost South on Monday and that we can (potentially) bring several staff with us.

Regards,

David West

(416) 579-1465

From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]

Sent: November 8, 2016 6:50 PM

To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>>; Peter Harrison <pharrison@fao-on.org<mailto:pharrison@fao-on.org>>>

Subject: Fall statement

Peter, David

Hope this email finds you both well. As you may have heard, today our Minister announced that the Fall Statement would be released on Monday, November 14th.

Last year we had you guys in here, on a confidential basis, to review the documents and read them ahead of when it was tabled. We'd like to extend that offer to you again, if you think it would help you in your efforts to respond to the document.

I believe we hosted you here last year and that you spent an hour or so with the documents.

Please let me know if this is something you think you'd benefit from again this year, and I'll work to make the necessary arrangements.

Thanks in advance;

Tim Schuurman

Assistant Deputy Minister

Office of the Budget, Ministry of Finance

7 Queen's Park Cres.

Toronto ON M7A 1Z1

Tel: 416-327-0173



Financial
Accountability
Office of Ontario

From:	Christina Zhang
To:	Gadi Mayman; Ken Kandeepan; Bonnie Lemcke
Subject:	FW: The FAO"s Fall Economic and Fiscal Outlook Report
Date:	Tuesday, November 01, 2016 4:16:36 PM
Attachments:	image001.png EFO update fall 2016.pdf Minister"s Letters.pdf

---

Hi there,

FYI. Please find attached the final FAO report to be officially released on Thursday.

Thanks,
Christina

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Tuesday, November 01, 2016 3:39 PM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>; Tomasz Bugajski <Tomasz.Bugajski@ofina.on.ca>
Subject: FW: The FAO's Fall Economic and Fiscal Outlook Report

Hi Christina and Tomasz,

I meant to loop you in earlier. Attached is the final FAO report that will be released officially on Thursday (please do NOT circulate). We're currently updating a joint summary note that we'll share with policy areas for input later this afternoon. We're also developing speaking points for Minister Sousa and Sandals.

Let me know if you have any questions.

Thanks,
Ryan

From: David West [mailto:dwest@fao-on.org]
Sent: November-01-16 11:31 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS)
Subject: The FAO's Fall Economic and Fiscal Outlook Report

Good morning,

As you know, the FAO will be releasing a fall economic and fiscal outlook (EFO) report on Thursday, November 3, 2016 at 9:00 am. There will be separate technical briefings for media and MPPs at 9:00 and a statement by the Temporary FAO, Commissioner Wake (with my assistance) for media at 12:00 noon. (The Media Studio wasn't available at 10:00.) Please find attached the final version of the report for your reference.

The report (along with the attached letters) is being delivered to Ministers Sousa and Sandals this

morning.

Please treat this document as embargoed until its release on Thursday at 9:00 am.

As always, we greatly appreciate your assistance and support for the work of the FAO.

Best regards,
David

David West
Chief Economist

Financial Accountability Office of Ontario

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Financial Accountability Office of Ontario

Economic and Fiscal Outlook

Assessing Ontario's Medium-term Prospects

Fall 2016 Update

About this Document

Established by the *Financial Accountability Officer Act, 2013*, the Financial Accountability Office (FAO) provides independent analysis on the state of the Province's finances, trends in the provincial economy and related matters important to the Legislative Assembly of Ontario. The FAO's Economic and Fiscal Outlook is released each spring and fall, providing an assessment of the province's medium-term economic performance and fiscal position.

This report was prepared by Nicolas Rhodes, Luan Ngo, Edward Crummey, and Mario Angastiniotis under the direction of David West. External reviewers were provided with earlier drafts of this report for their comments. However, the input of external reviewers implies no responsibility for this final report, which rests solely with the FAO.

This report is based on information available to October 7, 2016. Background data used in this report are available upon request.

FAO's Fiscal Projections

The FAO forecasts provincial finances based on projections of existing and announced revenue and spending policies. The forecast represents the FAO's view of the most likely fiscal outcomes given existing policies, without anticipating any new government policy decisions. The FAO's tax revenue projections are based on an assessment of the outlook for the provincial economy and current tax policies. Given the government's discretion over spending, the FAO adopts the government's announced spending plans from fiscal documents and incorporates policy announcements as appropriate. Beyond the government's published spending projections, the FAO forecasts spending based on the outlook for underlying cost drivers including demographics and price inflation.

FAO Financial Accountability Office of Ontario

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1 EXECUTIVE SUMMARY

This report provides an updated Economic and Fiscal Outlook for Ontario based on developments since the release of the FAO's spring outlook[1] on May 18, 2016.

Major developments since the FAO's spring report include:

- the release of Ontario's Public Accounts, which reported higher than expected tax revenues in 2015-16, suggesting higher revenues over the outlook;
- proposed new spending commitments, announced in the government's Throne Speech, to provide an HST rebate on electricity bills and expand child care spaces; and
- a more moderate outlook for economic growth, reflecting weaker economic conditions in Canada and globally, which leads to lower tax revenues but also lower interest on debt expense.

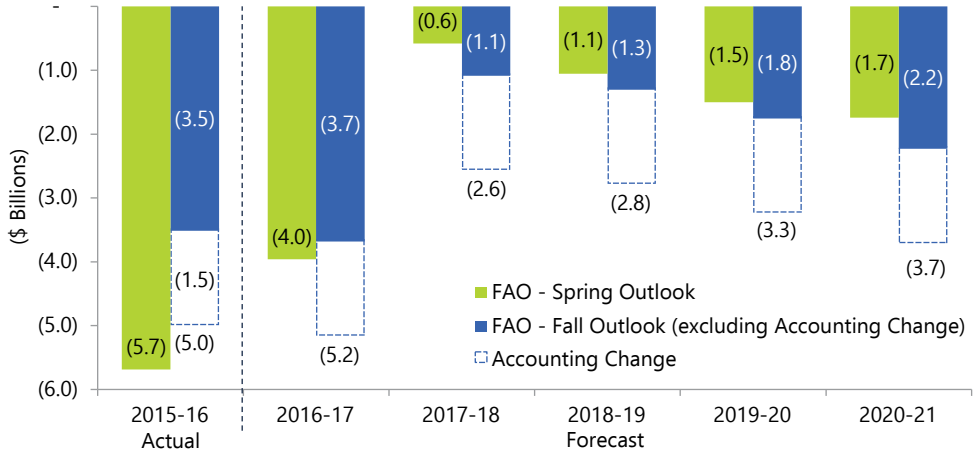
In addition, the government legislated a change in the accounting treatment for jointly sponsored pension plans, which increased program expense by $1.5 billion in 2015-16.[2]

1 'Economic and Fiscal Outlook, Assessing Ontario's Medium Term Prospects, Spring 2016', Financial Accountability Office of Ontario.

2 In the 2015-16 Public Accounts, the Province legislated a change in the accounting treatment of jointly sponsored pension plans, which increased net debt by $9.2 billion and the deficit by $1.5 billion in 2015-16. It is not clear how this accounting change for 2015-16 will impact the Province's finances in the future. For this report, the FAO assumed that program spending is $1.5 billion higher over the outlook, and provided Ontario's fiscal position both excluding and including the accounting change.

Excluding the accounting change, these developments were largely offsetting, resulting in a moderately higher budget deficit over the outlook compared to the FAO's spring report.

Ontario's Budget Balance*



Source: Ontario Public Accounts and FAO

* Budget balance excluding reserve.

Including the accounting change, the FAO is projecting Ontario budget deficits of $5.2 billion in 2016-17 and $2.6 billion in 2017-18.[3] Beginning in 2018-19, the deficit is forecast to steadily deteriorate to $3.7 billion by 2020-21, as growth in revenue is outpaced by increases in program expense and interest on debt.

Ontario's net debt is expected to rise by $64 billion over the next five years to $370 billion by 2020-21, about $20 billion higher than forecast in the FAO's spring outlook. This increase in net debt is the result of cumulative deficits, capital spending and the accounting change. Ontario's net debt-to-GDP ratio is now expected to plateau at about 41 per cent, significantly above the 39.6 per cent peak projected in the FAO's spring report.

The government has reaffirmed its commitment to achieve budget balance in 2017-18 and maintain balance going forward. However, based on the FAO's analysis of the economic outlook and the government's current fiscal position, Ontario's budget would be expected to remain in deficit over the next five years. Achieving and maintaining budget balance will likely require additional measures to raise revenue or reduce expense.

3 In this report, the budget deficit is presented excluding any 'reserve'. In government budget documents, the reported budget deficit typically includes a 'reserve' as a measure of prudence against unexpected outcomes. For example, in the 2016 Budget, the budget deficit for 2016-17 included a $1.0 billion reserve.

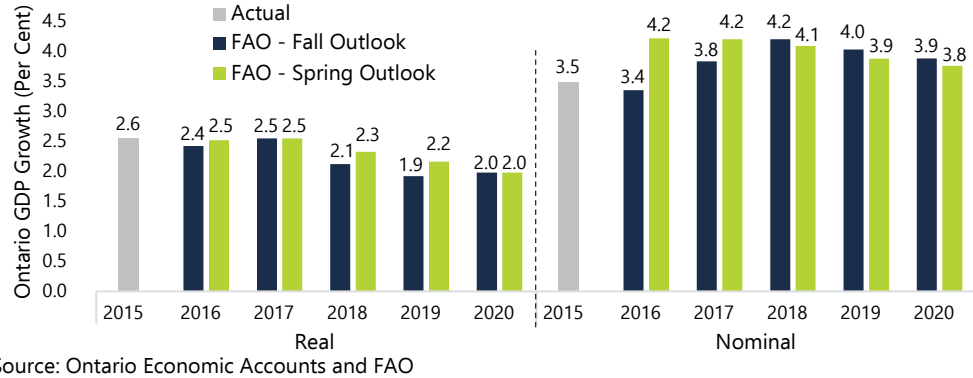
2 ECONOMIC OUTLOOK

Overview

Ontario Growth Expected to be Lower in 2016 and 2017[1]

Following a solid gain in the first quarter of 2016, economic indicators suggest that the pace of economic activity in Ontario moderated noticeably through the second quarter, reflecting a decline in merchandise exports and slower growth in retail sales. Based on Ontario's economic performance over the first half of 2016, the FAO has revised down its projection for Ontario real and nominal GDP growth compared to the outlook presented in the FAO's spring outlook report.[2] In particular, nominal GDP – the broadest measure of the tax base – is now projected to increase by 3.4 per cent in 2016 and 3.8 per cent in 2017, below the 4.2 per cent projected in the spring.

The FAO's Revised Economic Outlook



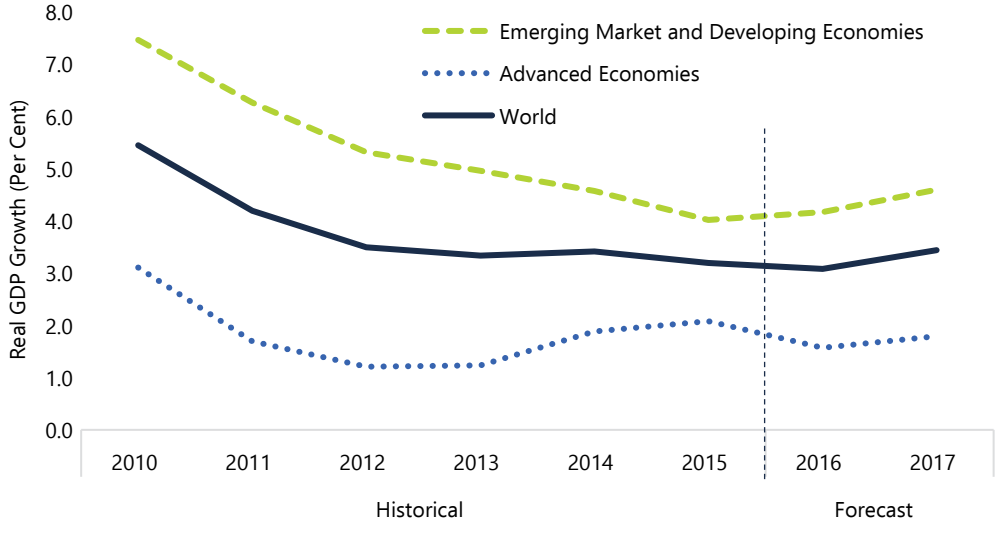
Source: Ontario Economic Accounts and FAO

1 See Appendix for detailed forecast tables.
2 'Economic and Fiscal Outlook, Assessing Ontario's Medium Term Prospects, Spring 2016', Financial Accountability Office of Ontario.

Global Economic Growth Revised Modestly Lower

Global economic growth remains tentative with current forecasts much weaker than expected a few years ago and well below the pace of growth before the 2008-2009 recession. According to the latest forecast from the International Monetary Fund (IMF)[3], the global outlook for 2016 and 2017 has weakened since the FAO's spring report, largely due to the United Kingdom's decision to withdraw from the European Union (commonly referred to as *Brexit)*. The deterioration in the global outlook largely reflects greater political uncertainty across a wide range of institutional and economic arrangements which is negatively affecting business confidence and investment.

Global Growth Remains Weak



Source: International Monetary Fund, World Economic Outlook, October 2016

The IMF is projecting global growth of 3.1 per cent in 2016 and 3.4 per cent in 2017, slightly lower than its outlook last spring. The downward revisions to the IMF's global outlook are concentrated in European economies, with minor changes to the forecasts for the United States and China. The IMF has lowered its forecast for Canadian real GDP growth to 1.2 per cent in 2016 and 1.9 per cent in 2017. Most advanced economies continue to experience weak business investment and poor labour market results, which are contributing to a muted inflation outlook. On average, advanced economies are expected to record growth of just 1.6 per cent in 2016 and 1.8 per cent in 2017.

3 International Monetary Fund, World Economic Outlook, October 2016

In China, economic growth is expected to gradually moderate as the economy continues to rebalance from investment and manufacturing-led growth to a more service-intensive economy. China's real GDP growth is expected to be 6.6 per cent in 2016 and 6.2 per cent in 2017, down substantially from growth rates of over nine per cent following the global recession. The short-term outlook for China has improved modestly compared to the spring outlook, largely as a result of stimulus from both monetary and fiscal policy.

There were only modest changes in the IMF's outlook for the other large emerging market economies since the spring. On average, the IMF is projecting real GDP growth for emerging and developing market economies of 4.2 per cent in 2016, strengthening to 4.6 per cent in 2017.

Significant Risks Remain for the Global Outlook

Economic and political uncertainty remains elevated with a number of significant risks continuing to weigh on global growth prospects.

In Europe, concerns over the stability of a number of major banks raises the risk of a renewed financial crisis which would impact the already weak pace of European growth. As well, the sharp rise in corporate and household debt in China over the past several years has been identified by the IMF as a key risk for the global economy.

Other political developments, including military conflict in the Middle East and the growing popularity of nationalism and protectionist trade policies in developed nations could also impact global economic growth.

U.S. Economic Growth Weaker than Expected in 2016

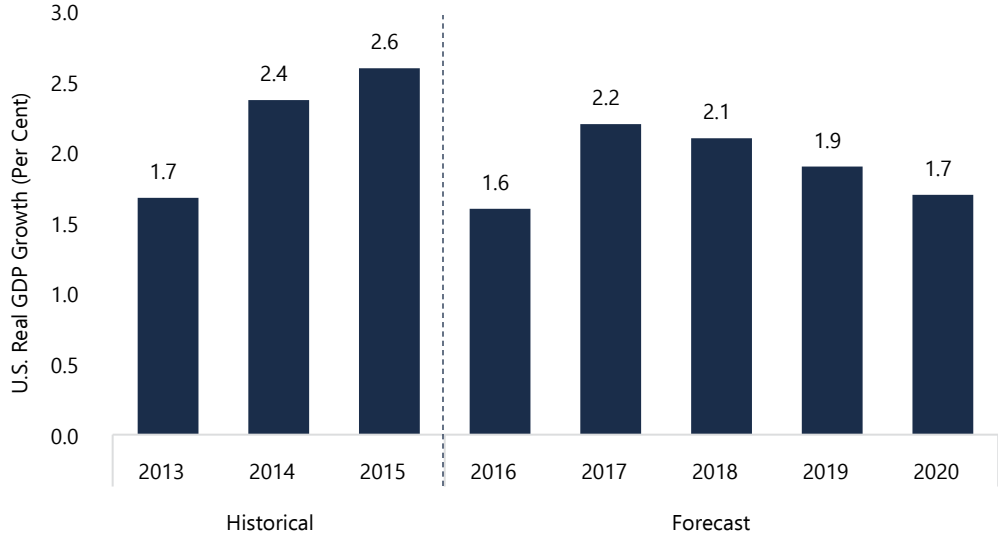
In the United States, economic growth over the first half of 2016 was weaker than expected, contributing to downward revisions of recent economic forecasts. Over the first two quarters of 2016, U.S. real GDP increased by just 1.4 per cent on a year-over-year basis, well below projections last spring for growth of over two per cent.

U.S. employment growth has also moderated in 2016, with average monthly gains of about 180,000 jobs, down from average monthly increases of almost 230,000 jobs in 2015 and 250,000 in 2014.

Despite the weaker than projected growth for 2016, economic forecasters continue to expect the U.S. economy will strengthen over the remainder of 2016 and beyond. In particular, household spending and residential construction are expected to contribute to overall economic growth, supported by continued job creation and rising wages. Forecasters also remain confident that business investment, which has generally disappointed expectations over the past several years, will eventually rebound and help spur overall economic growth.

Based on the latest IMF forecast, U.S. real GDP is expected to grow by 1.6 per cent in 2016 and strengthen to over two per cent growth in 2017 and 2018. Beyond 2018, growth is expected to moderate, remaining close to the pace of growth of potential output.[4] This moderate but steady growth in the U.S. economy should lead to a gradual rise in interest rates.

U.S. Economic Growth Disappoints in 2016



Source: International Monetary Fund, World Economic Outlook, October 2016

4 The maximum sustainable level of output where the economy's resources such as labour are fully utilized.

Canadian Economic Growth Revised Lower

The outlook for the Canadian economy has deteriorated over the past six months. Canadian real GDP is currently projected to grow by 1.2 per cent in 2016, down from a forecast of 1.7 per cent growth at the time of the FAO's spring outlook.[5] The downward revision to the Canadian outlook reflects the impact of the Alberta wildfires, but also weaker than expected non-energy exports and business investment.

After a promising start to 2016, with solid first quarter growth, Canadian real GDP declined at an annualized rate of 1.6 per cent in the second quarter, the weakest quarterly result since the 2008-2009 recession. While the Alberta wildfires were a major contributor to the disappointing outcome, there were also declines in household durable goods spending and business investment. Temporary disruptions in Ontario's auto sector[6] led to a drop in automotive exports, which contributed to an overall decrease in goods exports in the first half of 2016.

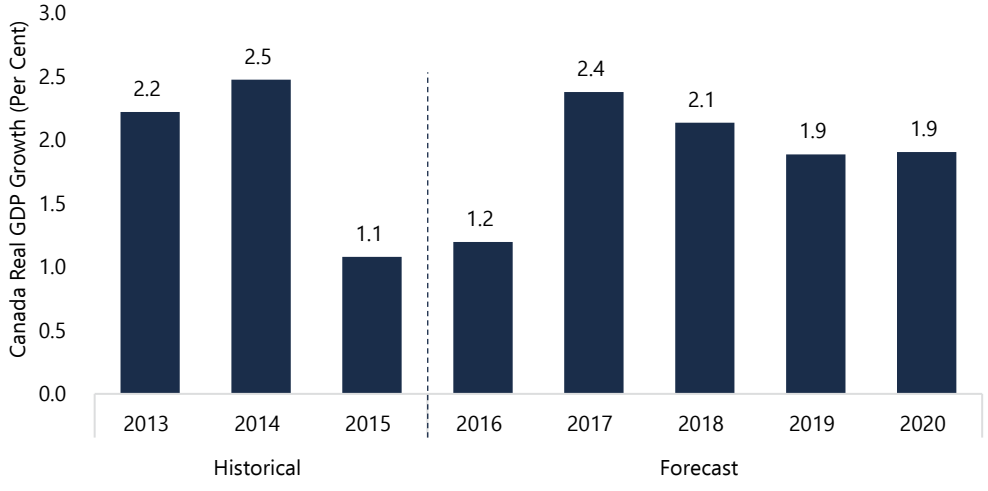
The resumption in oil production in Alberta and the end of production slowdowns in the auto sector should contribute to a rebound in Canada's goods exports in the third quarter. This, along with an expected boost to consumer spending from the federal child benefit in the third quarter, will contribute to stronger real GDP growth in the second half of 2016. Further, the rebuilding effort in Alberta should bolster Canadian real GDP growth in 2017.

Beyond the temporary factors which buffeted the economy in 2016, the Canadian economy continues to adjust to the longer-term structural impact of lower energy prices. While weakness in the energy sector continues, growth in the rest of the Canadian economy has not significantly improved, leading to slower growth overall than previously expected. In 2015 and 2016, Canadian real GDP is expected to grow by just over one per cent on average, well below the 2.5 per cent average rate recorded from 2010 to 2014.

However, forecasters generally expect the Canadian economy to strengthen in 2017, recording growth of 2.4 per cent, as steady gains in non-energy exports, and a rebound in business investment help offset continued slow growth in the oil and gas sector.

5 Based on the FAO consensus forecast which includes the Centre for Spatial Economics, the University of Toronto and the Conference Board of Canada.
6 General Motors shut four of its North American assembly plants, including the Oshawa plant for 2 weeks in April 2016. This was due to a parts shortage, caused by the earthquakes that struck Japan. 'GM's Oshawa plant halts production for two weeks', The Toronto Star, April 22, 2016.

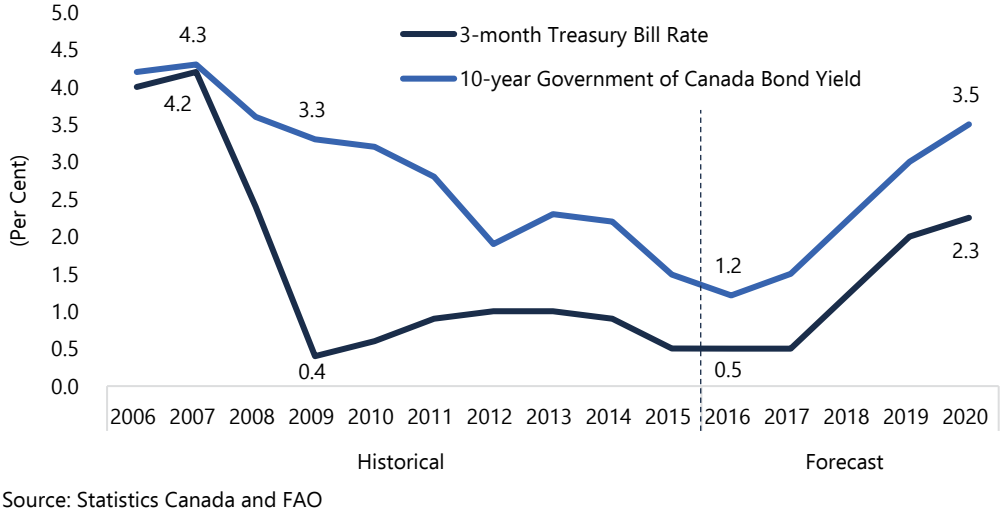
Canada GDP Growth Expected to Rebound in 2017



Source: Statistics Canada and FAO Consensus

Given the relatively slow growth of the Canadian economy, the Bank of Canada appears unlikely to raise its key policy interest rate before 2018. As a result, the FAO has revised down its interest rate outlook from its spring forecast. The current outlook assumes short-term rates remain near current levels until 2018. Beyond 2018, interest rates are expected to gradually normalize with the 10-year Government of Canada bond yield rising to 3.5 per cent by 2020 – a full percentage point below the FAO's spring projection of 4.5 per cent in 2020.

Canadian Interest Rates to Rise Gradually



Source: Statistics Canada and FAO

The Canadian dollar is expected to gradually appreciate over the next five years, rising from an average of about 76 cents U.S. in 2016 to about 84 cents U.S. by 2020, supported by steady economic growth and a gradual increase in oil prices.

Ontario Economic Outlook

Outlook for Real GDP Growth Remains Solid

The Ontario economy posted strong real GDP growth over the second half of 2015 and into the first quarter of 2016. However, merchandise exports, retail trade and employment growth slowed noticeably in the second quarter of 2016, contributing to a slowdown in overall economic growth.

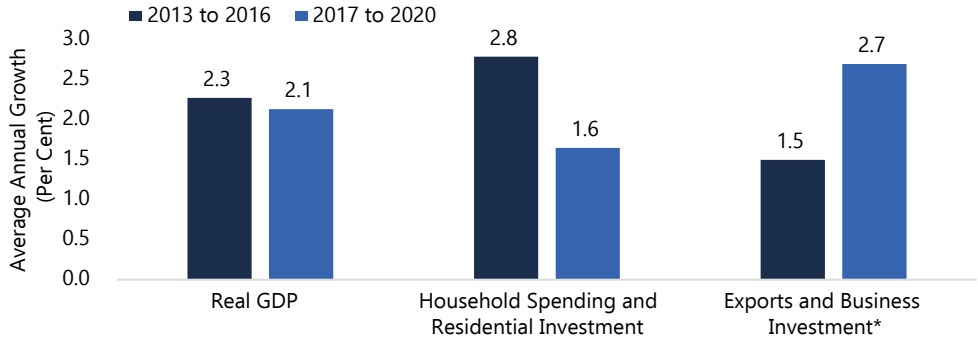
The slower pace of growth in the second quarter was partly the result of the temporary shutdown of some auto production facilities in the province. However, the return to normal production levels should boost third quarter growth. In addition, the introduction of the new federal child benefit in the third quarter is expected to provide a lift to household spending over the second half of 2016. In 2017, new spending initiatives announced in the Ontario government's September Throne Speech should also provide some additional support to household and government spending.[7]

On an annual basis, the FAO is forecasting real GDP growth of 2.4 per cent in 2016 and 2.5 per cent in 2017, slightly below the projection last spring. Beginning in 2018, real GDP growth is expected to gradually moderate, with average annual gains of 2.0 per cent.

The FAO forecast is broadly consistent with the consensus view among economists that stronger international exports and business investment will be key drivers of Ontario's overall growth over the next several years. At the same time, household spending and residential investment are expected to grow more modestly as households begin to reduce borrowing and residential construction activity slows.

7 This includes the announced expansion of child care spaces in Ontario and the rebate of the provincial portion of the HST on electricity bills.

Exports and Business Investment Expected to Drive Growth



* Business Investment includes both Non-Residential Investment and Machinery & Equipment Investment
Source: Ontario Economic Accounts, Statistics Canada and FAO

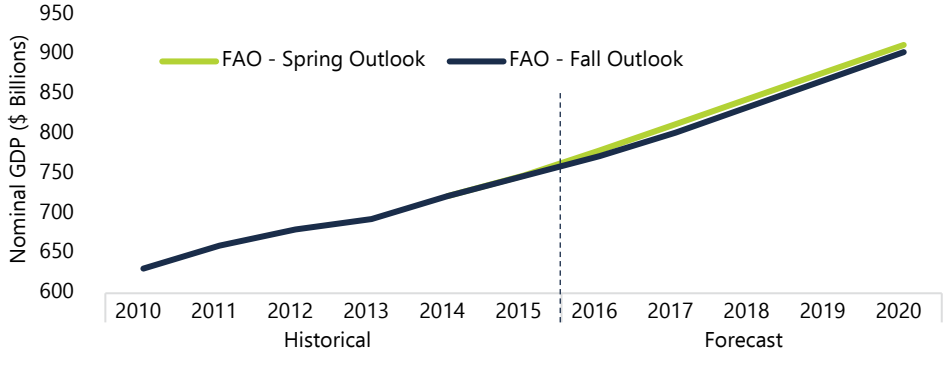
Weaker Profit Gains Contribute to Lower Nominal GDP Growth in 2016

The FAO forecast for nominal GDP over the short-term is largely based on its projections for labour income and net operating surplus of corporations (corporate profits), which together account for about 66 per cent of total GDP.

Labour income growth remained relatively robust over the first half of 2016, rising by 3.9 per cent compared to the same period in 2015. However, overall corporate profits declined in the first half of 2016, on a year-over-year basis, reflecting lower profits in the manufacturing and the banking sectors.[8]

Based on the FAO's updated outlook, Ontario nominal GDP is expected to be about 1.0 per cent lower by 2020 than originally projected in the spring forecast. The lower level of nominal GDP over the outlook is largely due to the downward revisions to growth for 2016 and 2017.

Ontario Nominal GDP Below FAO's Spring Forecast



Source: Ontario Economic Accounts and FAO

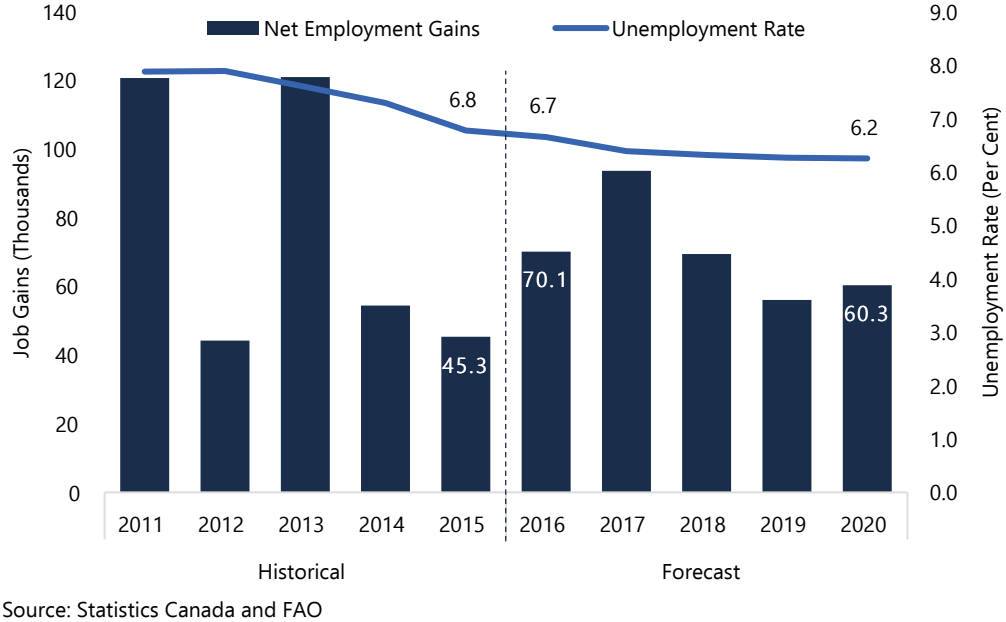
8 'Quarterly Financial Statistics for Enterprises', Second Quarter 2016, Statistics Canada.

Steady Employment Gains Result in Gradual Decline in Unemployment Rate

Ontario employment is expected to grow moderately over the outlook, reflecting the outlook for steady economic growth. The FAO is projecting solid job growth of 1.0 per cent (+70,000 net job gains) in 2016, following a more modest gain of 0.7 per cent (+45,000 net jobs) in 2015. The majority of the net new jobs are projected to be in full-time, private sector employment. Furthermore, manufacturing sector employment is expected to post a moderate gain in 2016, the first annual increase in four years.

Over the five-year forecast, the FAO is projecting Ontario employment growth to average 1.0 per cent per year, down from an average pace of 1.2 per cent over the past five years. Even so, the steady projected gains in employment, combined with more moderate labour force growth, will result in a gradual decline in Ontario's unemployment rate from 6.8 per cent in 2015 to 6.2 per cent by 2020.

Steady Employment Gains and Gradual Decline in Unemployment Rate



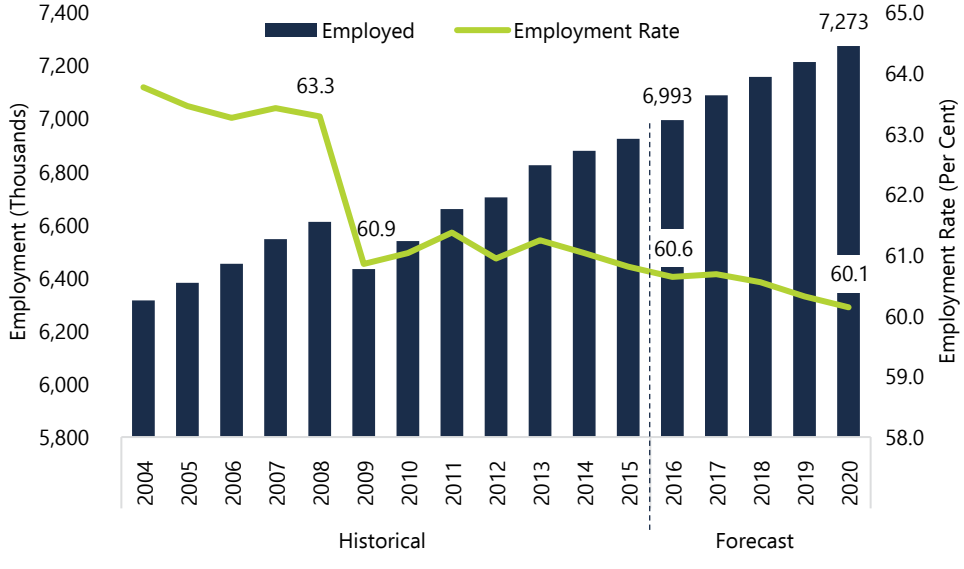
Source: Statistics Canada and FAO

Change Continues for Ontario's Labour Market

While steady job gains and a gradual improvement in the unemployment rate are expected to continue, significant structural changes are also occurring in Ontario's labour market.

Ontario's employment rate – the share of the working age population with a job – currently remains well below the pre-recession rate of over 63 per cent. The employment rate improved somewhat in the years following the recession, but has resumed its downward trend in the past three years. Over the next five years, the FAO projects a continued decline in the employment rate to about 60 per cent by 2020, as the rate of growth in employment continues to be lower than overall population growth.

Employment Rate to Trend Lower



Source: Statistics Canada and FAO

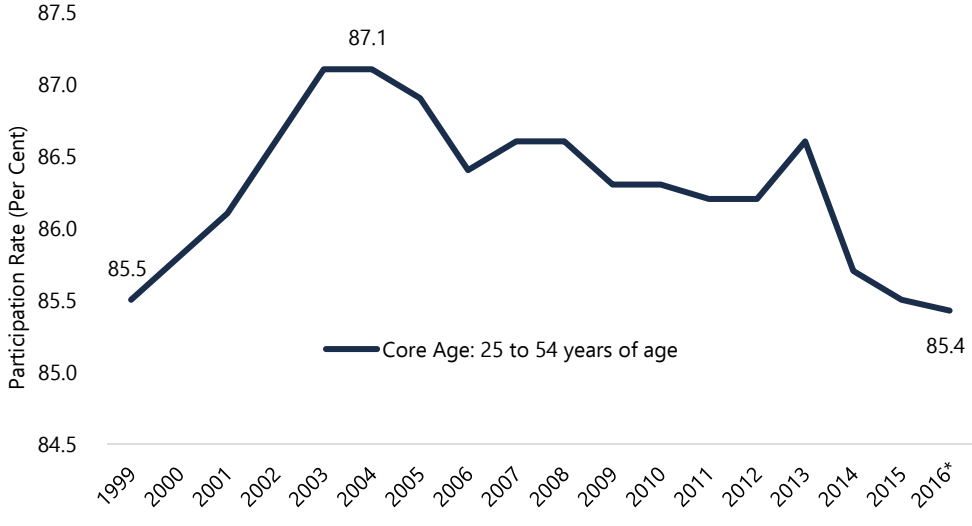
The nature of unemployment in Ontario has also changed since the 2008-2009 recession. Both the long-term unemployment rate (the share of those unemployed for longer than six months) and the average duration of unemployment (the length of time it takes to find a new job) continue to be worse than pre-recession levels.[9] The slow pace of improvement in these other measures of unemployment suggests

9 The long-term unemployment rate – the percentage of those unemployed who have been without a job for longer than six months – increased from 13 per cent in 2007 to 25 per cent in 2010. Since 2010, the long-term unemployment rate has improved moderately, decreasing to 20 per cent in 2015. The average duration of unemployment increased from around 15 weeks in 2007 to almost 22 weeks in 2010. Since 2010 the average time spent unemployed has decreased to 20 weeks in 2015, but remains well above pre-recession levels.

that despite overall job growth, many workers continue to face a challenging labour market.

Another indicator pointing to a structural shift in Ontario's labour market is the decline in the proportion of adults, aged 25 to 54, who are currently employed or looking for work – the 'core age participation rate'. Since 2004, the core participation rate decreased from about 87 per cent to just over 85 per cent in 2016 (the lowest rate since the late 1990s).

Core Age Participation Rate at Lowest Level Since 1999



Source: Statistics Canada and FAO

* 2016 is August year-to-date value.

As Ontario's population ages, the overall labour force participation rate (for all Ontarians) will decline since people work less as they move into their senior years. This will lead to slower growth in Ontario's workforce and contribute to a slower pace of economic growth. However, the declining participation rate for adult-aged workers is a key concern, since it exacerbates the effects of an aging workforce on economic growth.

An increase in the core age participation rate back to 87 per cent would represent about 90 thousand additional workers for Ontario's labour force.

Key Risks for Ontario's Economic Outlook

The FAO's current economic projection represents a prudent outlook for the Ontario economy and an appropriate foundation for fiscal planning. However, a number of key risks could lead to weaker than expected economic growth for Ontario.

The sharp rise in housing prices, particularly in the Greater Toronto Area, continues to represent a key risk for the overall economy. A significant correction in housing prices, exacerbated by elevated levels of household debt, would negatively affect household spending and residential construction activity and could lead to broader, economy-wide impacts on growth and employment.

Ontario's export sector is expected to be a key driver of economic growth over the next five years, as Ontario increases sales to the key U.S. market. A necessary ingredient of Ontario's export led growth will be a rebound in business investment to allow for the expansion in export volumes. However, growth in business investment has been disappointing over the past four years. If business investment continues to underperform, export gains would be more limited than expected, holding back overall economic growth.

3 FISCAL OUTLOOK

Overview

Outlook for Budget Deficit Has Deteriorated Moderately

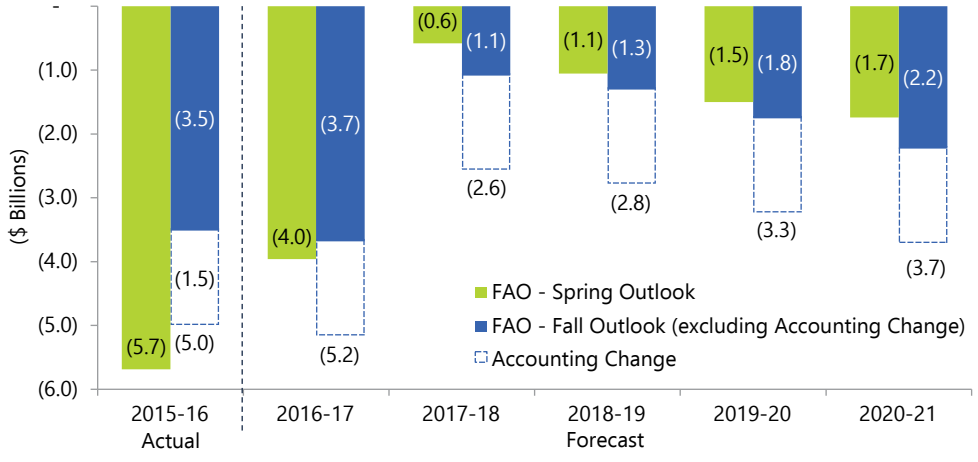
Based on the revised economic outlook and new fiscal developments, the FAO is projecting Ontario budget deficits of $5.2 billion in 2016-17 and $2.6 billion in 2017-18.[1] Beginning in 2018-19, the deficit is expected to gradually increase as growth in revenue is outpaced by increases in program spending and interest on debt expense.

This fiscal projection reflects the legislated change in the accounting treatment of jointly sponsored pension plans in 2015-16, which the FAO assumes will remain in place over the outlook.[2] Excluding this accounting change, the deficit would be $3.7 billion in 2016-17 and $1.1 billion in 2017-18. This represents a slight improvement in the deficit in 2016-17, but a moderate deterioration over the last four years of the outlook, compared to FAO's spring report.

1 Budget balance projections are presented without the reserve.

2 In the 2015-16 Public Accounts, the Province legislated a change in the accounting treatment of jointly sponsored pension plans for 2015-16, based on the position of the Auditor General of Ontario. This accounting change increased net debt by $9.2 billion and the deficit by $1.5 billion in 2015-16. However, it is unclear how this accounting change for 2015-16 will impact the Province's finances going forward. The government has announced it will form an independent expert panel to provide recommendations on the appropriate accounting treatment of Ontario's pension assets. This report provides Ontario's fiscal position both excluding the accounting change (to allow for comparisons to the FAO's spring outlook) and including the accounting change which the FAO assumes will result in a $1.5 billion increase in program spending over the outlook.

Ontario's Budget Balance*



Source: Ontario Public Accounts and FAO

* Budget balance excluding reserve.

The outlook for the budget balance (excluding the accounting change) has deteriorated moderately since the FAO's spring report due to a number of factors that had significant but partially offsetting impacts on Ontario's fiscal position. These include:

- higher than expected tax revenues in 2015-16, as reported in the Public Accounts, which partially carry forward over the outlook;
- proposed new spending commitments, announced in the September 12, 2016 Speech from the Throne, to expand child care spaces and provide a rebate equal to the provincial portion of the HST paid on the electricity bills of households, farms and small businesses;
- lower economic growth in 2016 and 2017 which moderately dampens the expected growth in tax revenues; and
- lower interest on debt expense, reflecting a more gradual expected increase in interest rates over the outlook.

Change in the Budget Balance since the FAO's Spring Outlook

($ Billions)	2016-17	2017-18	2018-19	2019-20	2020-21
2016 Spring Outlook Budget Balance	**-4.0**	**-0.6**	**-1.1**	**-1.5**	**-1.7**
2015-16 Public Accounts[1]	0.4	0.6	0.7	0.7	0.7
Throne Speech Announcements	-0.3	-1.4	-1.8	-1.8	-1.8
Updated economic and demographic data	-0.4	-0.8	-0.6	-0.6	-0.8
Interest on Debt[2]	0.4	0.8	0.9	0.9	0.9
Other[3]	0.2	0.3	0.4	0.5	0.5
Total	**0.3**	**-0.5**	**-0.2**	**-0.3**	**-0.5**
Updated Budget Balance	**-3.7**	**-1.1**	**-1.3**	**-1.8**	**-2.2**
Accounting Change	-1.5	-1.5	-1.5	-1.5	-1.5
Updated Budget Balance with Accounting Change	**-5.2**	**-2.6**	**-2.8**	**-3.3**	**-3.7**

1 Excludes $1.5 billion impact of the change in the accounting treatment of jointly sponsored pension plans.
2 Captures impact of lower interest rates as well as changes in borrowing.
3. Reflects a change in the forecasting methodology for income from government business enterprises, which is now based on the 2016 Budget projection to 2018-19.

Note: Positive values indicate improvement in budget balance (i.e. lower deficit). Numbers may not add due to rounding.
Source: FAO

Revenue Outlook

From 2015-16 to 2020-21, the FAO projects total revenues to increase at an average annual rate of 3.0 per cent, slightly below the 3.3 per cent forecast in the FAO's spring outlook. This incorporates the proceeds from the government's planned asset sales, new revenues from cap and trade, and new federal transfers as assumed in the 2016 Ontario Budget.

Tax Revenue

Consistent with the FAO's current economic projection, tax revenue is expected to rise by 3.0 per cent over the outlook, slightly weaker than the 3.2 per cent forecast in the spring.

There were two significant changes to the tax revenue outlook since the spring.

- The 2015-16 Public Accounts reported higher than expected tax revenues. This raised the starting point for the projection, pushing up tax revenues over the outlook.

- At the same time, a somewhat weaker economic forecast, particularly for corporate profits, slowed the growth of tax revenues over the outlook.

2015-16 Public Accounts

The incorporation of the 2015-16 Public Accounts led to somewhat higher tax revenues over the forecast, compared to the spring outlook. Specifically, the Public Accounts reported a strong 11.6 per cent increase in 2015-16 tax revenues. Excluding the impact of the sale of Hydro One shares, tax revenues grew by 8.3 per cent, much stronger than the growth in economic drivers would suggest.

In particular, personal income tax (PIT) revenue grew by 6.2 per cent in 2015-16, well above the 3.9 per cent growth in labour income.[3] This unusually large increase in PIT revenues was not anticipated in the 2016 Budget projections nor by the FAO in the spring outlook, and reflects stronger than expected tax assessments from personal income tax returns for 2015.

The strong increase in PIT revenues is partly due to the federal government's introduction of a 33 per cent tax rate on taxable income over $200,000 in 2016, which led some high income earners to shift earnings from the future into the 2015 tax year to avoid the tax increase.[4] The FAO has adjusted the PIT forecast to account for the effect of income-shifting[5].

Impact of Revised Economic Outlook on Tax Revenues

A moderately weaker economic forecast dampened the tax revenue outlook, partially offsetting some of the positive impact of the 2015-16 Public Accounts.

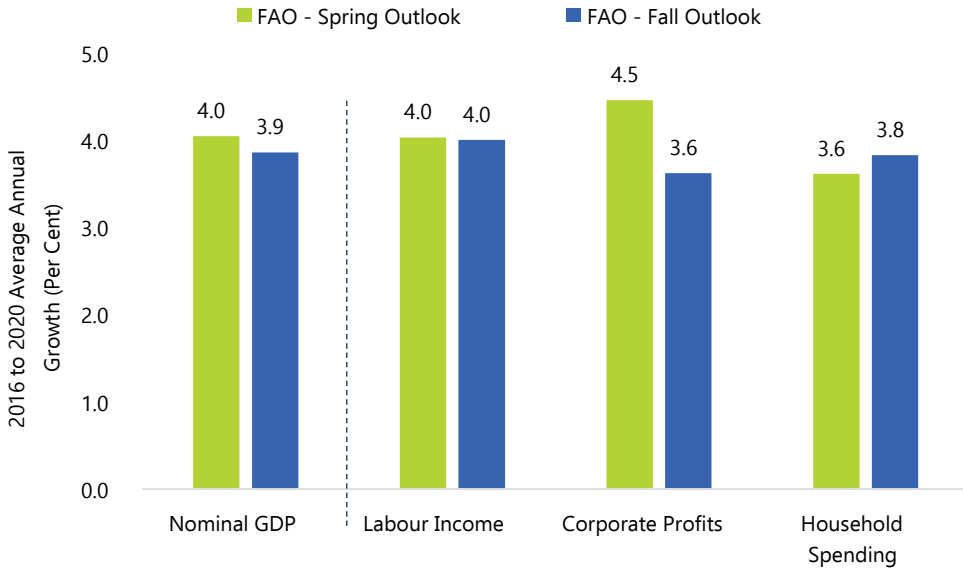
While the FAO outlook for labour income and household spending remains fairly strong, the forecast for nominal GDP has declined since the spring outlook, largely due to weaker corporate profits growth.

3 Household disposable income, which includes net property income and net government transfers increased by 3.8 per cent in 2015.

4 The federal government's 2015-16 Annual Financial Report indicated that stronger 2015 federal PIT returns partly reflect "…tax planning by high-income individuals to recognize income in the 2015 tax year before the new 33 per cent tax rate came into effect in 2016" (see: http://www.fin.gc.ca/afr-rfa/2016/report-rapport-eng.asp#_Toc463249478). Finance Canada estimates that this increased 2015 Federal PIT by $3.3 billion.

5 The FAO estimates that roughly $600 million of Ontario's 2015 PIT revenue was due to taxpayers shifting income to 2015 from future tax years.

Growth in Key Tax Drivers, 2016 – 2020*



* "Labour income", "corporate profits" and "household spending" are defined by Statistics Canada as "compensation of employees", "net operating surplus: corporations", and "household consumption" respectively.
Source: Ontario Economic Accounts and FAO

The forecast for corporate profits was revised lower, largely reflecting weak growth over the first half of 2016. As a result, corporate tax revenue is currently projected to average $0.5 billion lower over the outlook than was anticipated in the spring report.

Non-Tax Revenue

Revenues from federal transfers are expected to rise from $22.9 billion in 2015-16 to $27.0 billion by 2020-21. This includes the Province's anticipated $1.3 billion in new federal transfers by 2017-18 as outlined in the 2016 Budget. The current outlook for federal transfers has been revised down modestly from the FAO's spring outlook, reflecting $0.3 billion in lower Equalization receipts by 2020-21 due to a relatively weaker economic outlook for the rest of Canada.

In April 2016, non-tax revenues were boosted by the Province's sale of a further 14 per cent of Hydro One, generating approximately $0.6 billion in one-time revenue gains. Consequently, the Province's net income from Hydro One is reduced by a further 14 per cent (roughly $100 million) beginning in 2016-17.

The 2015-16 Public Accounts reported that revenue from government business enterprises (GBEs) was $560 million higher in 2015-16 than forecast in the 2016 Budget, largely reflecting higher net income from the electricity sector.

The FAO forecast adopts the 2016 Budget forecast for GBE income, and projects 2019-20 and 2020-21 based on economic growth.

The FAO revenue outlook continues to assume that the Province will collect $1.9 billion in proceeds from the cap and trade program, as reported in the 2016 Budget. However, it remains unclear the extent to which this revenue will be spent on new initiatives to reduce greenhouse gas emissions, or on programs already included in the government's fiscal plan.[6]

Spending Outlook

Program Spending

From 2015-16 to 2018-19, the FAO projects program spending to grow at an average annual rate of 2.2 per cent. Beyond the government's published fiscal projections to 2018-19, program spending is expected to increase by an average of 3.4 per cent in 2019-20 and 2020-21, in-line with population growth, aging and inflation.

The FAO's program spending projections adopt the 2016 Budget forecast with adjustments to incorporate the new spending commitments announced in the September 12, 2016 Speech from the Throne.

According to the Throne Speech, the government proposes to:

- Provide a rebate equal to the provincial portion of the HST on the electricity bills of residential homes, farms and small businesses, beginning January 1, 2017.[7] This measure is expected to result in new government spending of $1 billion annually.[8]

- Create 100,000 new child care spaces over five years starting in 2017. This program is expected to result in new capital spending between $1 billion and $3 billion over five years, and between $600 million and $750 million in new annual operating costs, when fully implemented.[9]

Given the limited details, the FAO has incorporated reasonable assumptions about the total cost and roll-out of both measures into its program spending projections. These measures are assumed to be new expenditures on top of the program spending projections published in the 2016 Budget.

6 Funding existing initiatives would improve its budget balance, while funding new initiatives would not impact the budget balance.
7 Government of Ontario News Release, Ontario Introducing Measures to Reduce Electricity Costs, September 15, 2016
8 QP Briefing, Throne Speech 2016: Premier Wynne pledges hydro bill relief, more child care spaces, September 12, 2016
9 QP Briefing, Throne Speech 2016: 100,000 new licensed child care spaces to cost up to $3.75B, September 12, 2016

FAO's Assumptions for Newly Announced Programs

($ Millions)	2016-17	2017-18	2018-19	2019-20	2020-21
Total Operating	**250**	**1,375**	**1,750**	**1,750**	**1,750**
Child Care Spaces Expansion		375	750	750	750
HST Rebate on Electricity Bills	250	1,000	1,000	1,000	1,000
Total Capital	**-**	**800**	**600**	**300**	**300**
Child Care Spaces Expansion	-	800	600	300	300

Note: Since the rebate is effective January 1, 2017, the HST rebate expense is assumed to be one quarter of the annual cost for 2016-17. Given the need to design and implement the new program, spending on the expansion of child care spaces is assumed to be one-half the estimated total cost in 2017-18. Capital spending for the day care expansion is assumed to be $2 billion (the mid-point of the announced range), front-loaded in the first two years, and conducted by the government rather than transferred to outside agencies.
Source: FAO

In addition, the Province legislated a change to the accounting treatment of jointly sponsored pension plans as reported in the 2015-16 Public Accounts. This resulted in an increase of $1.5 billion in program spending for 2015-16, which the FAO assumes will extend over the outlook.

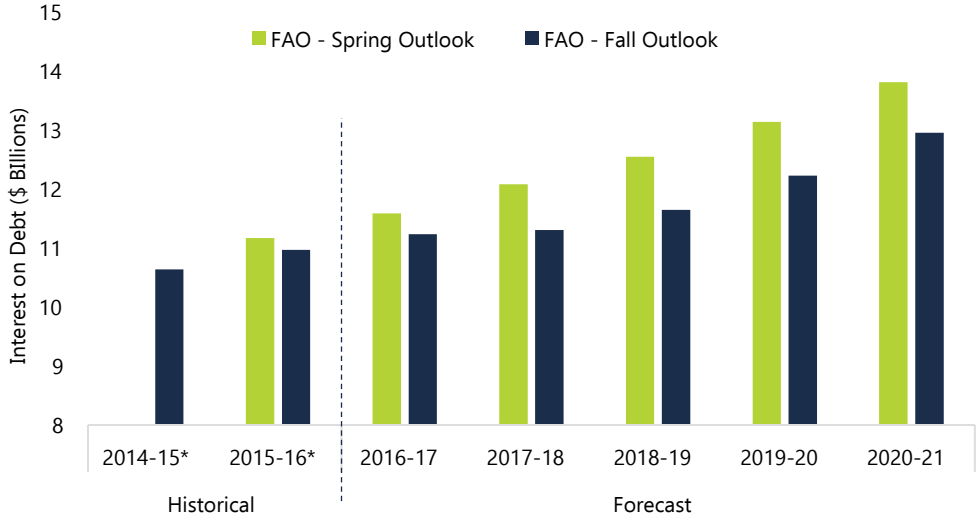
Interest on Debt

The 2015-16 Public Accounts reported that interest on debt expense (IOD) grew 3.1 per cent in 2015-16 to $11.0 billion, $0.2 billion below the FAO's spring outlook projection.

From 2015-16 to 2018-19, the FAO projects IOD will increase at an average rate of 2.0 per cent, reaching $11.6 billion by 2018-19. Over the final two years of the projection, IOD will increase more sharply rising 5.5 per cent per year on average.

The current IOD projection is $0.8 billion lower each year on average, compared to the FAO's spring outlook, primarily due to a lower forecast for interest rates over the outlook.

Interest on Debt Outlook



* 2014-15 and 2015-16 FAO – Fall Outlook values are actuals.
Source: Ontario Public Accounts and FAO

Debt Outlook

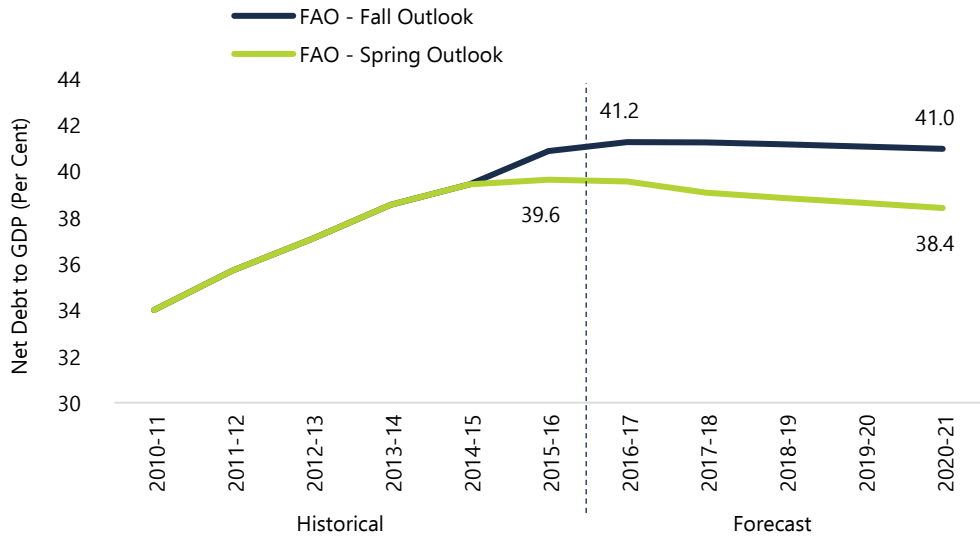
The Public Accounts reported that Ontario's net debt[10] rose 7.3 per cent to $305.2 billion in 2015-16, $8.9 billion higher than projected in the FAO's spring outlook. The increase in net debt in 2015-16 includes a one-time increase of $10.7 billion as a result of the legislated change in the accounting treatment of jointly sponsored pension plans.[11]

The FAO projects Ontario's net debt to rise by $64 billion over the next five years to $370 billion by 2020-21. This reflects cumulative deficits, capital spending for infrastructure and the accounting change.

The increase in net debt, coupled with slightly lower growth in nominal GDP, results in a significantly higher net debt-to-GDP ratio relative to the FAO's spring outlook. Ontario's net debt-to-GDP ratio is now expected to plateau at about 41 per cent, significantly above the 39.6 per cent peak projected in the FAO's spring report.

10 Net debt is defined as gross debt and other liabilities less financial assets.
11 2015-16 Public Accounts of Ontario, page 10.

Ontario's Net Debt to GDP Ratio



Source: Ontario Public Accounts and FAO

The Province's borrowing requirement is expected to edge down slightly to $29.3 billion in 2016-17 from $32.1 billion in 2015-16, and average $29 billion per year over the outlook, largely unchanged from the FAO's spring outlook. The change in the accounting treatment of jointly sponsored pension plans does not affect the Province's borrowing requirement or gross debt.

Risks to the Fiscal Plan and Policy Options

There are material risks that could impact Ontario's fiscal position.

- Actual growth in the economy could be weaker than projected, lowering tax revenues. Growth in nominal GDP over the first half of 2016 is currently tracking below forecasts published earlier in 2016. If actual growth continues to underperform forecasts, tax revenues would be lower.

- The FAO forecast adopts the government's outlook for program spending, adjusted for new fiscal developments. This assumes that program spending can be restrained below the growth in demographic factors and inflation. If program spending grows faster than projected, the fiscal balance would deteriorate. Notably, the government has increased planned spending for 2017-18 in each of the last three budgets.

At the same time, the government has a broad range of policy options that could improve the fiscal position, including the sale of additional public assets beyond announced targets, or applying new revenues (from cap and trade or new federal transfers) to existing program spending commitments.



4 APPENDIX: DATA TABLES

Table 1a: Outlook for Ontario Nominal GDP and Key Revenue Drivers

(Per Cent Growth)	2015a	2016f	2017f	2018f	2019f	2020f	Average
Nominal GDP							
FAO - Fall Outlook	3.5	3.4	3.8	4.2	4.0	3.9	**3.9**
FAO - Spring Outlook *	3.6	4.2	4.2	4.1	3.9	3.8	**4.0**
Current FAO Consensus **	3.5	4.2	4.4	4.4	4.0	3.9	**4.2**
Labour Income							
FAO - Fall Outlook	3.9	4.0	3.8	4.1	4.2	3.9	**4.0**
FAO - Spring Outlook *	3.7	4.0	3.9	4.1	4.2	3.9	**4.0**
Corporate Profits							
FAO - Fall Outlook	0.9	0.3	2.9	6.6	4.2	4.1	**3.6**
FAO - Spring Outlook *	3.1	3.4	6.9	5.3	3.2	3.5	**4.5**
Household Consumption							
FAO - Fall Outlook	4.2	4.4	4.2	3.7	3.5	3.4	**3.8**
FAO - Spring Outlook *	4.3	4.2	3.8	3.4	3.4	3.4	**3.6**

a = Actual f = Forecast
* 2015 FAO - Spring Outlook values reflect the FAO's forecast, as actuals were not available at the time of the publication of the Spring Outlook.
** FAO consensus includes forecasts from the Centre for Spatial Economics, University of Toronto, and the Conference Board of Canada.
Source: Statistics Canada, Ontario Economic Accounts, FAO Consensus and FAO

Table 1b: Outlook for Ontario Real GDP and Components

(Per Cent Growth)	2015a	2016f	2017f	2018f	2019f	2020f	Average
Real GDP							
FAO - Fall Outlook	2.6	2.4	2.5	2.1	1.9	2.0	**2.2**
FAO - Spring Outlook *	2.6	2.5	2.5	2.3	2.2	2.0	**2.3**
Current FAO Consensus **	2.6	2.6	2.5	2.1	1.9	2.0	**2.2**
Real GDP Components, FAO - Fall Outlook							
Consumption (Households and Non-Profit)	3.2	3.1	2.3	1.8	1.5	1.6	**2.1**
Investment (Business and Non-Profit)	5.9	2.2	1.0	2.7	3.4	2.7	**2.4**
Government (Current and Capital Spending)	1.6	1.4	2.2	1.4	1.1	1.2	**1.5**
Exports	1.5	2.2	2.4	2.7	2.5	2.3	**2.4**
Imports	1.6	2.1	2.3	2.3	2.0	1.7	**2.1**

a = Actual f = Forecast
* 2015 FAO - Spring Outlook values reflect the FAO's forecast, as actuals were not available at the time of the publication of the Spring Outlook.
** FAO consensus includes forecasts from the Centre for Spatial Economics, University of Toronto, and the Conference Board of Canada.
Source: Statistics Canada, Ontario Economic Accounts, FAO Consensus and FAO

Table 2: Outlook for Selected Economic Indicators

	2015a	2016f	2017f	2018f	2019f	2020f
Key Economic Indicators						
Employment (Per Cent Growth)						
FAO - Fall Outlook	0.7	1.0	1.3	1.0	0.8	0.8
FAO - Spring Outlook	0.7	1.2	1.4	1.1	1.1	0.9
Unemployment Rate (Per Cent)						
FAO - Fall Outlook	6.8	6.7	6.4	6.3	6.3	6.2
FAO - Spring Outlook	6.8	6.7	6.5	6.3	6.1	6.0
Labour Force (Per Cent Growth)						
FAO - Fall Outlook	0.1	0.9	1.1	0.9	0.7	0.8
FAO - Spring Outlook	0.1	1.1	1.2	1.0	0.9	0.8
Population (Per Cent Growth)						
FAO - Fall Outlook	0.8	1.2	1.2	1.2	1.2	1.1
FAO - Spring Outlook	0.8	1.0	1.0	1.0	1.0	1.0
CPI Inflation (Per Cent Growth)						
FAO - Fall Outlook	1.1	1.7	2.2	2.2	2.1	2.0
FAO - Spring Outlook *	1.2	1.5	2.0	2.0	2.0	1.9
Canada Real GDP (Per Cent Growth)						
FAO - Fall Outlook	1.1	1.2	2.4	2.1	1.9	1.9
FAO - Spring Outlook *	1.2	1.7	2.4	2.3	2.1	2.0
U.S. Real GDP (Per Cent Growth)						
FAO - Fall Outlook	2.6	1.6	2.2	2.1	1.9	1.7
FAO - Spring Outlook *	2.4	2.2	2.1	2.0	-	-
Canadian Dollar (Cents US)						
FAO - Fall Outlook	78	76	77	79	82	84
FAO - Spring Outlook	78	74	75	79	81	81
WTI Crude Oil (US$)						
FAO - Fall Outlook	48.7	41.9	50.6	54.6	69.5	78.6
FAO - Spring Outlook	48.7	36.5	44.2	50.8	55.4	59.3
Three-month Treasury Bill Rate (Per Cent)						
FAO - Fall Outlook	0.5	0.5	0.5	1.3	2.0	2.3
FAO - Spring Outlook	0.5	0.5	1.2	2.2	2.9	3.3
10-year Government Bond Rate (Per Cent)						
FAO - Fall Outlook	1.5	1.2	1.5	2.3	3.0	3.5
FAO - Spring Outlook	1.5	1.4	2.3	3.3	4.1	4.5

a = Actual f = Forecast
* 2015 FAO - Spring Outlook values reflect the FAO's forecast, as actuals were not available at the time of the publication of the Spring Outlook.
Source: Bank of Canada, Energy Information Administration, International Monetary Fund, Statistics Canada, FAO Consensus and FAO

Table 3: FAO Fiscal Outlook

($ Billions)	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f
Revenue						
Personal Income Tax	31.1	32.0	33.7	35.9	37.8	39.6
Sales Tax	23.5	24.0	24.8	25.5	26.4	27.2
Corporations Tax	11.4	11.5	11.8	12.3	12.6	13.0
All Other Taxes	25.8	23.6	24.2	25.0	25.6	26.4
Total Taxation Revenue	91.8	91.1	94.5	98.7	102.4	106.3
Transfers from Government of Canada	22.9	24.7	25.5	25.9	26.5	27.0
Income from Government Business Enterprise	4.9	5.0	5.3	5.7	5.9	6.2
Other Non-Tax Revenue	8.8	9.1	10.6	9.4	9.4	9.6
Total Revenue	128.4	129.9	135.9	139.7	144.2	149.1
Expense						
Health Sector	51.1	51.8	52.8	53.7	55.5	57.4
Education Sector	25.1	25.6	26.2	26.7	27.7	28.9
Postsecondary and Training Sector	7.6	7.9	7.9	8.0	8.1	8.3
Children's and Social Services Sector	15.6	15.8	16.1	16.3	16.9	17.4
Justice Sector	4.5	4.5	4.5	4.6	4.8	5.0
Other Programs*	18.6	18.3	19.7	21.6	22.2	22.9
Total Program Expense	122.4	123.9	127.2	130.9	135.3	139.9
Interest on Debt	11.0	11.2	11.3	11.6	12.2	12.9
Total Expense	133.4	135.1	138.5	142.5	147.5	152.8
Budget Balance*	-5.0	-5.2	-2.6	-2.8	-3.3	-3.7
Accounting Change	1.5	1.5	1.5	1.5	1.5	1.5
Budget Balance Excluding Accounting Change	-3.5	-3.7	-1.1	-1.3	-1.8	-2.2

a = Actual f = Forecast
* Includes $1.5 billion accounting change beginning in 2015-16.
Note: Budget balance is presented without reserve.
Source: Statistics Canada, Ontario Economic Accounts, FAO Consensus, Ontario Public Accounts and FAO

Table 4: FAO Debt Outlook

($ Billions)	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f
Budget Balance*	-5.0	-5.2	-2.6	-2.8	-3.3	-3.7
Accumulated Deficit	202.7	207.9	210.5	213.3	216.6	220.3
Net Debt	305.2	318.5	330.5	343.8	356.8	369.7
Change in Net Debt	*20.7*	*13.2*	*12.0*	*13.3*	*13.0*	*13.0*
Net Debt to GDP (Per Cent)	*40.9*	*41.2*	*41.2*	*41.2*	*41.1*	*41.0*

a = Actual f = Forecast
Note: All values include $1.5 billion accounting change beginning in 2015-16.
* Budget Balance is presented without reserve.
Source: 2016 Ontario Budget, Ontario Public Accounts and FAO

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November 1, 2016

Honourable Liz Sandals
President of Treasury Board
Treasury Board Secretariat
Room 4320, 4th Floor, Whitney Block
99 Wellesley Street West
Toronto, Ontario M7A 1W3

Dear Minister Sandals,

Subject: Economic and Fiscal Outlook – Assessing Ontario's Medium-Term Prospects: Fall 2016 Update

Under paragraph 10(1)(a) of the *Financial Accountability Officer Act, 2013* (the Act), the FAO is mandated to undertake a series of regular analyses of the state of the province's finances and trends in the provincial economy.

Section 15 of the Act requires that I deliver copies of any reports I publish to the relevant ministers ahead of publication. Accordingly, please find attached a copy of my report, which presents my office's assessment of the province's medium-term economic and fiscal outlook.

As arranged with the Clerk of the Legislative Assembly, the report will be **tabled at 9:00 a.m. on Thursday, November 3.** Until that time, please treat this report as confidential.

I will be briefing MPPs at 9:00 a.m. in Committee Room 1. Members of the Standing Committee on Finance and Economic Affairs, as well as two members per caucus are welcome to attend. A media conference will be held at 12:00 p.m. in the Media Studio.

Let me take this opportunity to thank you once more for the assistance that your ministry provided to my staff during the preparation of this report.

As always, please feel free to contact my office if we can be of assistance.

Sincerely,

The Honourable J. David Wake
Temporary Financial Accountability Officer

Encl.

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November 1, 2016

The Honourable Charles Sousa
Minister of Finance
7th Floor, Frost Building South
7 Queen's Park Crescent
Toronto, Ontario
M7A 1Y7

Dear Minister Sousa:

Subject: Economic and Fiscal Outlook – Assessing Ontario's Medium-Term Prospects: Fall 2016 Update

Under paragraph 10(1)(a) of the *Financial Accountability Officer Act, 2013* (the Act), the FAO is mandated to undertake regular analyses of the state of the province's finances and trends in the provincial economy.

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Sincerely,

The Honourable J. David Wake
Temporary Financial Accountability Officer

Encl.

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BRF | Bureau de la Responsabilité Financière de l'Ontario

From:	Esmail, Selena (MOF)
To:	Paul Lewis (MOF); Ken Kandeepan; Nadine Petsche (MOF); Teuta Dodbiba (MOF); Tim Cook (MOF); Andrea Dutton (MOF); John Kim
Cc:	Anand, Sareena (MOF); Stephen Taylor (MOF); Felix Fung (MOF); Sandy Luk (MOHLTC); Ruchi Parkash (MOI); Birks, Ryan (MOF); Patrick Laughton (MOF); Nina Arbabzadeh (EDU); Ghufran Tarin (MOF); Anna Strathy; Gavin He; Inglis, Liane (MOF)
Subject:	FW: The FAO"s Spring 2017 Economic and Fiscal Report
Date:	Monday, May 29, 2017 4:18:09 PM
Attachments:	image001.png image002.png EFO Spring 2017EN.pdf EFO Letter to Minister Sandals - May 29.pdf EFO Letter to Minister Sousa - May 29.pdf FAO EFO Report_Summary_v4g.docx
Importance:	High

Hi Everyone,

Attached is the FAO report that is to be released on Wednesday. I've also reattached the summary note (word document) that we are preparing that would be used to form the basis of a briefing of Minister Sousa (possibly joint with Minister Sandals) but we are still working on setting that up. – this is the same version I shared with your earlier.

In the meantime, could you kindly update the note with your input and pass along any Key Messages that could be used for the Minister(s) to respond to the report. We are looking for your feedback by noon tomorrow (apologies for the short turn).

Thanks and happy to take any questions you have.

From: Schuurman, Tim (MOF)
Sent: May-29-17 2:56 PM
To: Thompson, Scott (MOF); Mayman, Gadi (OFA); Kwan, Ronald (OFA); Duran-Schneider, Maria (TBS); Veinot, Cindy (TBS); Lewis, Brian (MOF)
Cc: McLean, David (MOF); Strathy, Anna (OFA); Birks, Ryan (MOF); Esmail, Selena (MOF); Laughton, Patrick (TBS)
Subject: FW: The FAO's Spring 2017 Economic and Fiscal Report

FAO has provided an advanced copy of their final EFO, which will be released on Wed morning at 9am. We're working with staff to review the final version to see whats changed and to update the briefing material. Will look to set up time with the Minister Sousa and his office as well (Maria let us know if Minister Sandals also needs to be briefed on it). Ministers and their offices should have received copies already.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



From: David West [mailto:dwest@fao-on.org]
Sent: May-29-17 2:47 PM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS)
Subject: The FAO's Spring 2017 Economic and Fiscal Report

Good afternoon,

The FAO will be releasing a spring 2017 Economic and Fiscal Outlook (EFO) report on Wednesday May 31st at 9:00 am. There will be separate technical briefings for media and MPPs on Wednesday at 1:30 pm. The report, along with the Officer's statement will be posted on the FAO's website. Please note that while the statement will be posted on our website, the Officer will not be reading the statement to the media for this release.

The report along with the attached letters are being delivered to Ministers Sousa and Sandals this afternoon – and are attached for your reference.

Please treat this document as embargoed until its release on Wednesday at 9:00 am.

As always, we greatly appreciate your assistance and support for the work of the FAO.

Best regards,
David

David West
Chief Economist
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FAO
Financial
Accountability
Office of Ontario


Office of the Budget
MINISTRY of FINANCE

Financial Accountability Office of Ontario

Economic and Fiscal Outlook

Assessing Ontario's Medium-term Prospects

Spring 2017

About this Document

Established by the *Financial Accountability Officer Act, 2013*, the Financial Accountability Office (FAO) provides independent analysis on the state of the Province's finances, trends in the provincial economy and related matters important to the Legislative Assembly of Ontario. The FAO's Economic and Fiscal Outlook is released each spring and fall, providing an assessment of the province's medium-term economic performance and fiscal position.

This report was prepared by Edward Crummey, Luan Ngo, Nicolas Rhodes and Mario Angastiniotis under the direction of David West. External reviewers were provided with earlier drafts of this report for their comments. However, the input of external reviewers implies no responsibility for this final report, which rests solely with the FAO.

This report is based on information available to May 2, 2017. Background data used in this report are available upon request.

FAO's Fiscal Projections

The FAO forecasts provincial finances based on projections of existing and announced revenue and spending policies. The forecast represents the FAO's view of the most likely fiscal outcomes given existing policies, without anticipating any new government policy decisions. The FAO's tax revenue projections are based on an assessment of the outlook for the provincial economy and current tax policies. Given the government's discretion over spending, the FAO adopts the government's announced spending plans from fiscal documents and incorporates policy announcements as appropriate. Beyond the government's published spending projections, the FAO forecasts spending based on the outlook for underlying cost drivers including demographics and price inflation.

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Photo credit: Jennifer Raetsen

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1 EXECUTIVE SUMMARY

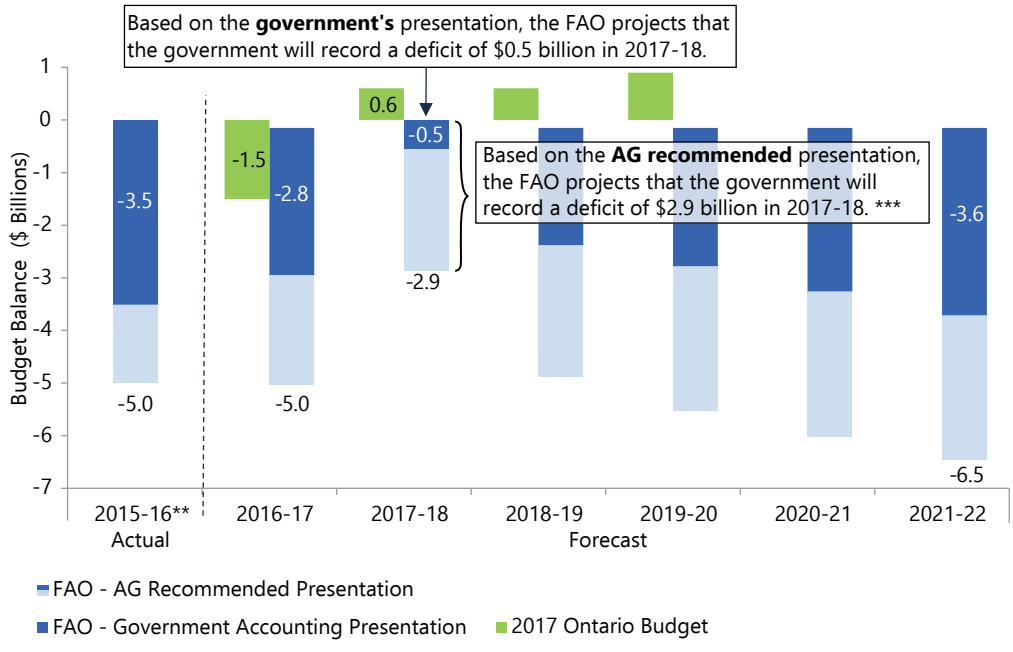
The FAO is projecting continued Ontario budget deficits over the next five years. For 2017-18, the FAO's projection includes an improvement in the deficit, the result of a $3.0 billion one-time boost to non-tax revenue and strong tax revenue growth. However, beginning in 2018-19, the FAO is projecting a steady deterioration in the budget deficit due to moderating revenue growth combined with higher expenses.

The government and the Auditor General continue to disagree on the application of public sector accounting standards for jointly-sponsored pension plans.[1] Based on the FAO's application of the Auditor General's recommended accounting treatment for these pension assets, the FAO is projecting significant budget deficits over the entire outlook. On this basis, it is unlikely that the government will balance the budget without significant fiscal policy adjustments to raise revenue or lower expense.

Under the government's accounting presentation, the FAO projects that a balanced budget is within the government's reach in 2017-18. Beyond 2017-18, the deficit is projected to deteriorate steadily due to rising expenses and moderate revenue growth. On this basis, staying in balance after 2017-18 will likely require additional fiscal policy measures. This presentation of Ontario's fiscal position would be expected to receive a qualified opinion from the Auditor General when published in the Province's 2016-17 Public Accounts.

1 See the discussion on page 25 of the Fiscal Outlook chapter for background and context.

Ontario's Budget Balance*



* Budget balance before reserve.

** Ontario's 2015-16 Public Accounts reported a deficit of $5.0 billion. Without the pension adjustment, the deficit would have been $3.5 billion.

*** This includes the FAO's estimate of the pension adjustment.

Source: 2015-16 Public Accounts, 2017 Ontario Budget and FAO.

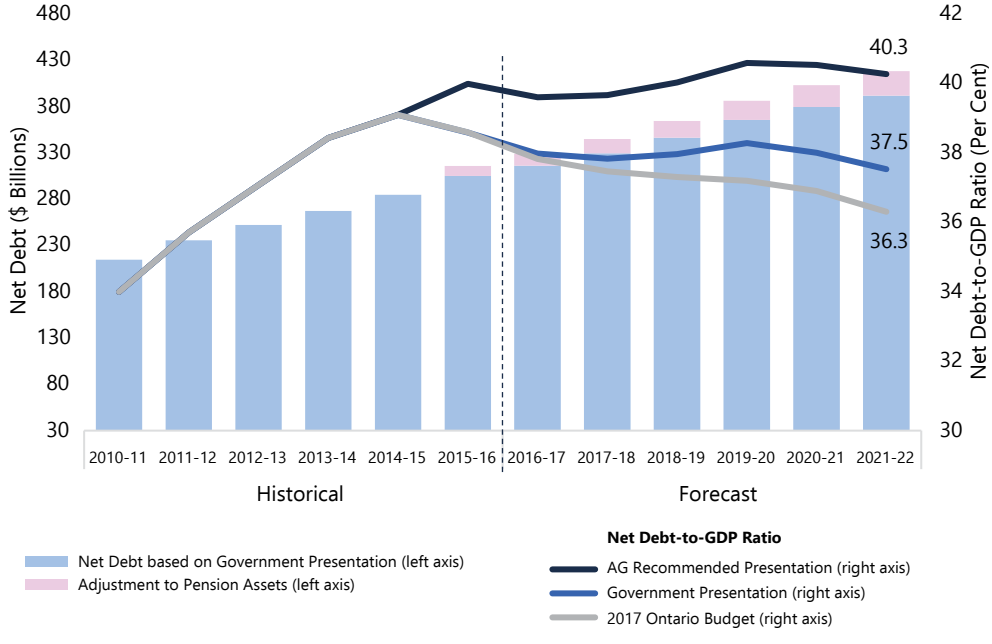
The FAO's economic outlook expects the recent strength of the Ontario economy to continue into 2017. The FAO is forecasting solid growth in real GDP of 2.4 per cent in 2017, moderating to an average annual pace of 2.0 per cent over the following four years. The FAO's economic forecast is broadly in-line with that presented in the government's 2017 Budget.

However, there are significant risks that could result in weaker than expected economic growth for Ontario. In particular, the policy direction of the new U.S. administration remains uncertain. This could hamper business investment and Ontario's economic prospects. Domestically, Ontario's surging housing market continues to be the largest risk for the economy. A sharp correction in housing prices could reverberate beyond the housing market and lead to broader, economy-wide impacts.

Consistent with the economic outlook, the FAO is projecting total revenues will rise by 3.3 per cent per year on average over the outlook. This reflects the FAO's forecast for solid growth in tax revenues combined with a significant one-time increase in non-tax revenues in 2017-18, including the sale of public sector assets. The FAO projects annual program spending growth to average 3.3 per cent per year over the outlook, a rate slightly below underlying spending pressures.

Given on-going deficits and projected capital spending, the FAO is forecasting Ontario's net debt will increase by $76 billion over the next five years, under the Auditor General's recommended accounting presentation. On this basis, Ontario's net debt-to-GDP ratio will edge higher to 40.3 per cent by 2021-22. In contrast, based on the government's accounting presentation, the FAO projects that net debt-to-GDP will fall slightly to 37.5 per cent by 2021-22.

Ontario's Net Debt-to-GDP Ratio



Note: AG recommended presentation based on FAO estimates of the pension adjustment.
Source: Ontario Economic Accounts, 2017 Ontario Budget, and FAO.

In the 2017 Budget, the government set an interim net debt-to-GDP target of 35 per cent by 2023-24 and committed to achieving 27 per cent by 2029-30. Given the FAO's projection of rising deficits and the government's planned capital investments over the outlook, achieving these debt targets will likely require significant additional fiscal measures under either accounting presentation.

2 ECONOMIC OUTLOOK

Overview

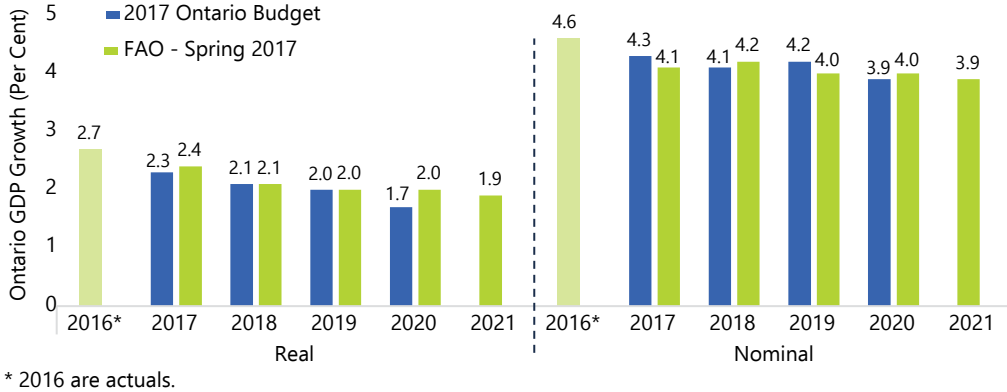
Ontario Economy Expected to Remain Strong in 2017

The Ontario economy finished 2016 with a strong 2.7 per cent increase in real GDP, reflecting solid growth in the second half of the year. Real GDP growth last year was significantly above the 2.1 per cent average gain seen from 2011 to 2015. Strong household spending, residential investment and exports contributed to the increase in real GDP in 2016.

Supported by the strong economic momentum in 2016 and continued improvement in economic indicators in the first quarter of 2017, the FAO is projecting real GDP to rise by 2.4 per cent in 2017 and 2.1 per cent in 2018.

Nominal GDP – the broadest measure of the tax base – increased by a robust 4.6 per cent in 2016. The FAO is projecting nominal GDP to increase by 4.1 per cent in 2017 and 4.2 per cent in 2018, reflecting solid gains in labour income and corporate profits.

Solid Economic Performance Expected Over Outlook



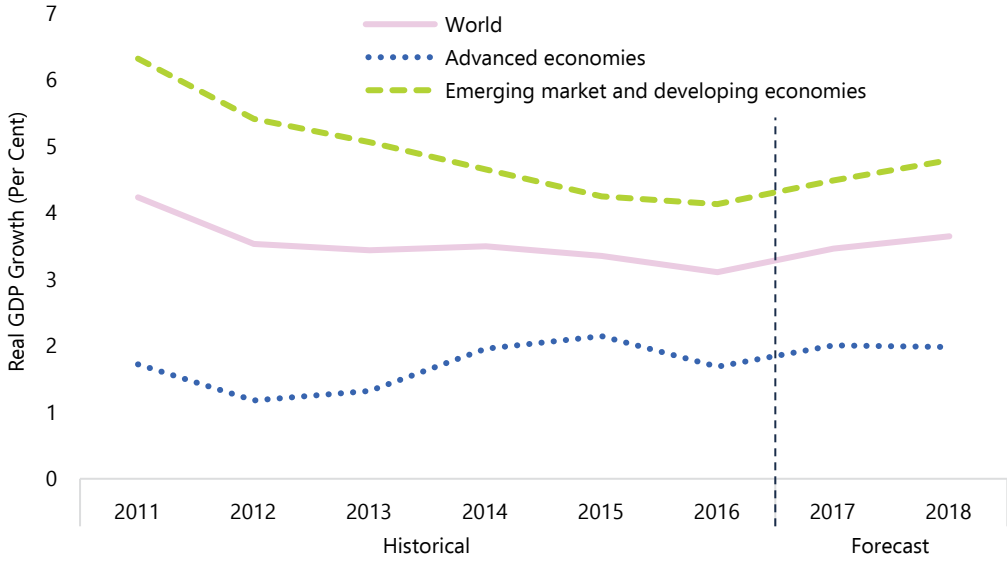
* 2016 are actuals.

Source: Ontario Economic Accounts, 2017 Ontario Budget and FAO.

Global Economy Gaining Momentum

In its latest World Economic Outlook,[1] the International Monetary Fund (IMF) is forecasting global economic growth to strengthen from 3.1 per cent in 2016 to 3.5 per cent in 2017 and 3.6 per cent in 2018. The IMF revised the outlook slightly higher for 2017, but left it unchanged for 2018, compared to its October 2016 outlook.[2]

Global Growth to Improve in 2017



Source: "World Economic Outlook, Gaining Momentum?", April 2017, International Monetary Fund.

For advanced economies, the IMF's forecast for 2017 and 2018 has improved slightly from its October projection with growth of 2.0 per cent in 2017 and 2018.

Growth prospects for emerging market and developing economies are much more varied, but overall have weakened slightly from the IMF's October outlook, due to weaker economic conditions in key export markets. On average, the IMF has lowered its growth forecast for emerging markets and developing countries to 4.5 per cent in 2017, with 2018's forecast remaining unchanged at 4.8 per cent.

The IMF expects China – the world's second largest economy – to grow by 6.6 per cent in 2017 and 6.2 per cent in 2018, reflecting continued support from government policy. In the medium term, China's economic growth is expected to gradually moderate as its economy rebalances from investment and manufacturing-led growth to a more service-intensive economy.

1 "World Economic Outlook, Gaining Momentum?", April 2017, International Monetary Fund.
2 "World Economic Outlook, October 2016: Subdued Demand: Symptoms and Remedies", October 2016, International Monetary Fund.

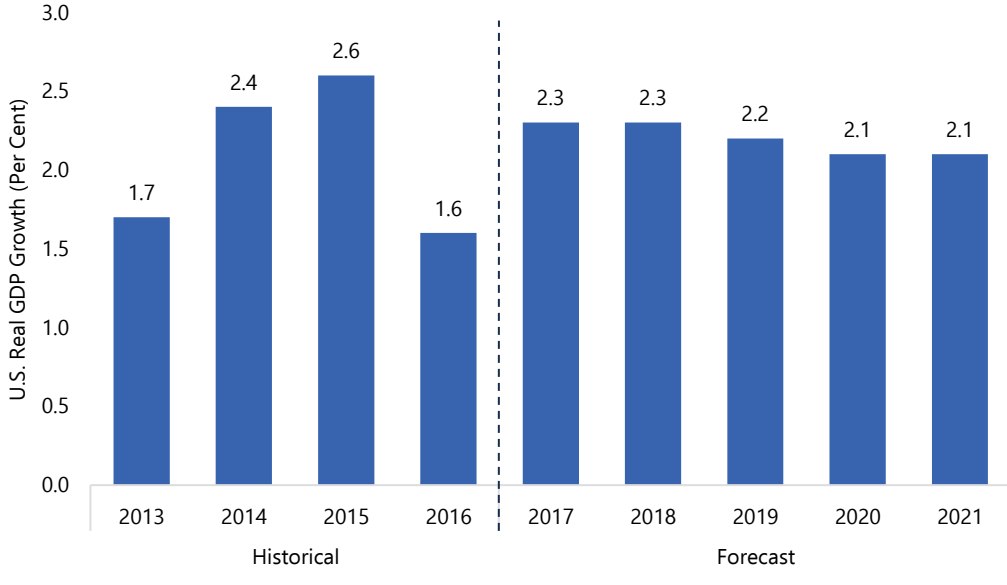
U.S. Economic Growth to Strengthen in 2017

U.S. real GDP advanced by a relatively moderate 1.6 per cent in 2016, the weakest increase in three years. For 2017 and 2018, the FAO projects U.S. growth to improve to 2.3 per cent, with household spending, business investment and residential construction being key contributors to overall growth.[3]

However, the lack of specific details on the new U.S. administration's proposed policies has raised the risks associated with the current U.S. outlook. Many forecasters are cautiously optimistic that some of the proposed fiscal policies, such as expected cuts to corporate tax rates, could boost U.S. economic growth in the short-term.[4] But this optimism is tempered by the potential for large future increases in the U.S. budget deficit, which could weigh on economic growth over the medium-term.

From 2019 to 2021, U.S. real GDP growth is projected to average 2.1 per cent annually, which is in-line with the average rate seen from 2012 to 2016.

U.S. Economic Growth Moderates Beyond 2017



Source: Federal Reserve Bank of St. Louis, Congressional Budget Office and FAO Consensus.

3 The FAO forecast for the U.S. economy in 2017 is based on the U.S. Congressional Budget Office's (CBO) latest forecast. For 2018 to 2021, the U.S. forecast is based on the average of the CBO outlook and the forecasts of three independent model-based forecasters – the Conference Board of Canada, the Centre for Spatial Economics and the Policy and Economic Analysis Program at the University of Toronto.

4 These forecasters include the IMF, CBO, TD Bank, RBC, BMO Capital Markets and National Bank Economics.

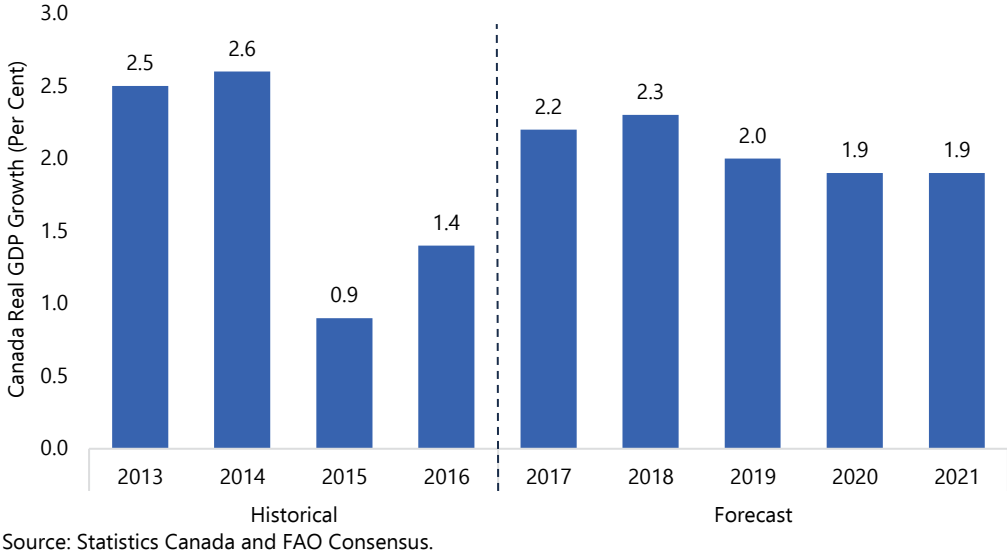
Canadian Economic Growth Expected to Rebound

The outlook for the Canadian economy has improved following strong growth over the second half of 2016.

Continued momentum in recent economic indicators point to a solid start for 2017. Canadian real GDP is currently projected to grow by 2.2 per cent in 2017 and 2.3 per cent in 2018, recovering from more moderate growth in 2015 and 2016.[5] Strength in household spending and non-energy exports are expected to contribute to overall growth in 2017 and 2018.

Beyond 2018, Canadian real GDP is projected to increase at an average annual rate of 2.0 per cent, as the economy continues to adjust to slower growth in the energy sector.

Canada GDP Growth Expected to Improve in 2017



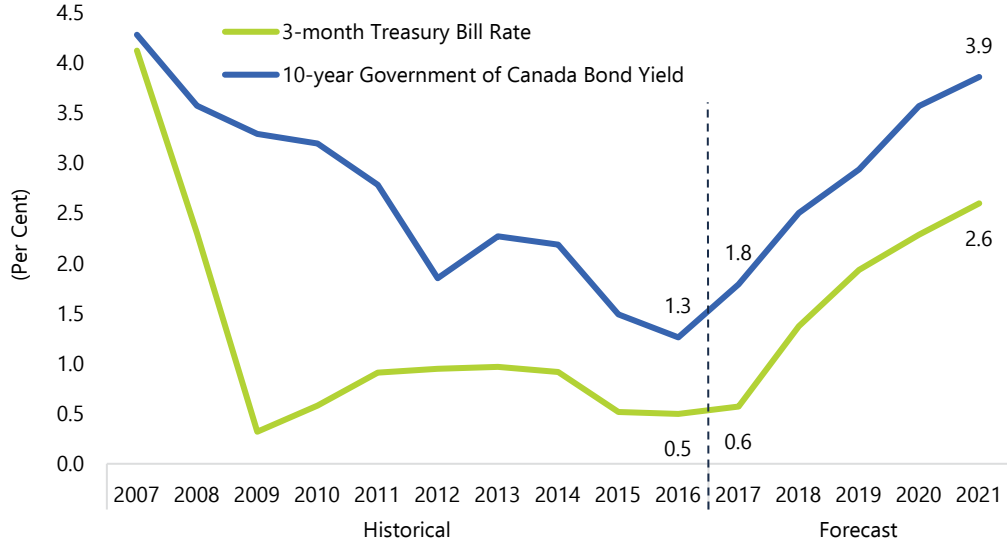
Source: Statistics Canada and FAO Consensus.

Based on the continuing recovery of the U.S. economy, and in particular the strength of U.S. labour markets, the U.S. Federal Reserve raised its key policy interest rate in March 2017.[6] In contrast, the Bank of Canada has remained more cautious about the underlying strength of the Canadian economy and as a result appears unlikely to raise its key policy interest rate before 2018.[7]

5 The FAO forecast for the Canadian economy is based on the average quarterly forecasts of two independent, model-based forecasters – the Conference Board of Canada and the Policy and Economic Analysis Program (PEAP) at the University of Toronto.
6 The Federal Reserve raised its key policy rate, or the Federal Funds Rate, to 1.0 per cent on March 15, 2017.
7 In its most recent monetary policy report, the Bank of Canada indicated that it expects the output gap to close in early 2018. At the same time, the BOC noted that "there is still considerable uncertainty about the outlook," suggesting caution with regard to future changes in its policy interest rate. Bank of Canada Monetary Policy Report, April, 2017.

The FAO is projecting Canadian short-term interest rates will remain near current levels through 2017 and then begin rising modestly in 2018. Beyond 2018, interest rates are expected to gradually normalize with the 3-month Treasury Bill rate increasing to 2.6 per cent and the 10-year Government of Canada bond yield rising to 3.9 per cent by 2021.

Canadian Interest Rates to Rise over the Forecast



Source: Statistics Canada and FAO.

The Canadian dollar is expected to gradually appreciate over the next five years, rising from an average of about 75 cents U.S. in 2016 to about 81 cents U.S. by 2021, supported by the steady increase in short-term interest rates and a gradual rise in oil prices.

Ontario Economic Outlook

Solid Real GDP Growth Expected in 2017

Based on the Ontario Ministry of Finance's estimates,[8] Ontario real GDP rose by a strong 2.7 per cent in 2016, following equally strong gains of 2.5 per cent and 2.7 per cent in 2015 and 2014, respectively. Household spending, residential investment and exports were key contributors to overall economic growth last year. Business investment in plant and equipment disappointed expectations, declining by 4.0 per cent.

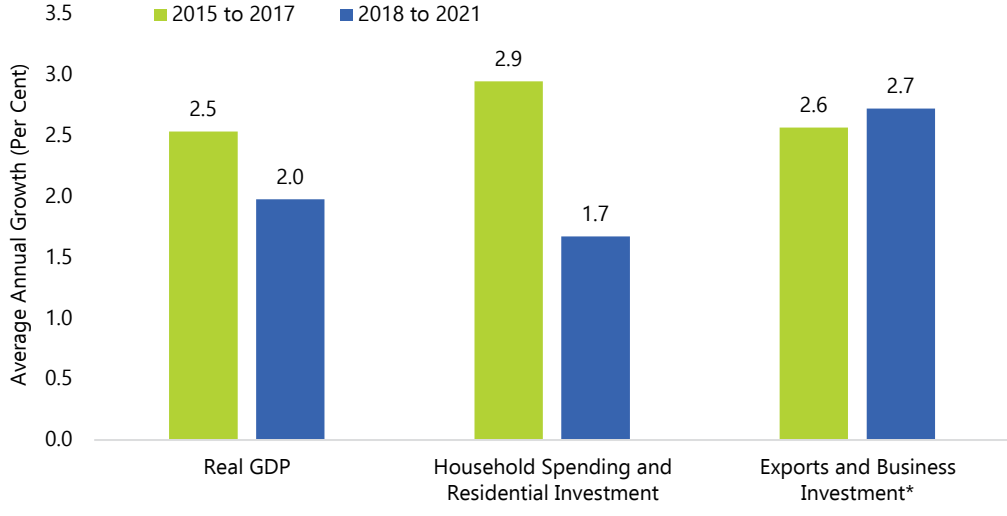
8 Ontario Economic Accounts, Fourth Quarter 2016, released April 13, 2017.

The performance of a number of economic indicators, including employment, retail sales and home sales remained solid in the first quarter of 2017. However, Ontario's merchandise export performance has been uneven so far in 2017.

Uncertainty over the future direction of U.S. trade and industrial policy could hamper business investment growth in the near term, which would negatively impact Ontario's competitiveness. Without stronger business sector investment to expand production capacity, the growth potential of several key Ontario industries will be limited.[9] As a result, despite the projection for steady growth in the U.S. and a competitively valued Canadian dollar, Ontario's net exports[10] are projected to grow at a relatively moderate pace over the outlook.

The FAO is forecasting real GDP growth of 2.4 per cent in 2017, supported by strong household spending and residential investment.[11] The pace of Ontario's overall economic growth will moderate to 2.1 per cent in 2018 and to an average of 2.0 per cent over the last three years of the outlook.

Exports and Business Investment Expected to Drive Economic Growth



* Business Investment includes both Non-Residential Investment and Machinery & Equipment Investment.
Source: Ontario Economic Accounts and FAO.

Moderate declines in residential investment in 2018 and 2019 – reflecting elevated household debt and a moderation in housing prices – is expected to contribute to the slower pace of overall economic activity.

9 As noted in a recent Conference Board of Canada report, nearly half of Ontario businesses are operating near or above capacity, hampering the ability of Ontario businesses to increase production to meet foreign demand. Conference Board of Canada Outlook, Winter 2017.
10 Net exports are exports less imports of goods and services.
11 The FAO forecast of the Ontario economy is based on the FAO's short-term quarterly model of the Ontario economy. For a description of the model, please refer to the end of the Economic Outlook chapter.

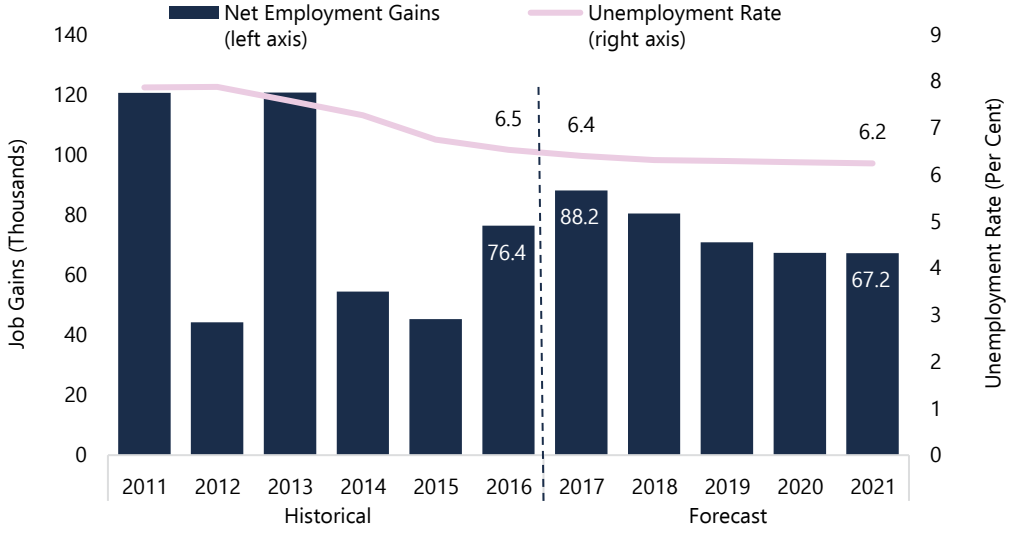
The FAO forecast is broadly consistent with the consensus view among economists that exports and business investment will lead Ontario growth over the next several years, while household spending and residential investment will grow at a more moderate pace, as households reduce borrowing to address high debt loads.

Steady Job Gains Over Outlook

Ontario experienced relatively strong employment growth of 1.1 per cent in 2016 (+76,400 net new jobs), the majority of which were full-time, private sector jobs. There was robust job growth in both goods and service producing industries. The construction industry in particular, posted the highest job growth (+3.4 per cent), followed by healthcare (+3.2 per cent).[12]

The strength in Ontario's labour market continued into 2017 with an increase of 99,600 jobs on a year-over-year basis during the first quarter. For the year, the FAO is projecting a 1.3 per cent gain in employment in 2017. On average, the FAO is forecasting average annual job gains of 1.0 per cent over the next four years, consistent with the outlook for solid economic growth.

Steady Employment Gains as Unemployment Rate Slowly Trends Lower



Source: Statistics Canada and FAO.

Sustained economic growth over the outlook is expected to attract more workers into the labour force, which is forecast to rise at a slightly higher rate than over the last five years. Faster labour force growth from 2017 to 2021, will partially offset relatively

12 For a more detailed discussion on Ontario's labour market, see the FAO's Commentary: "Ontario Posts Solid 2016 Job Gain as the Labour Market Continues to Evolve".

strong employment gains, leading to a more moderate decline in the unemployment rate over the outlook.

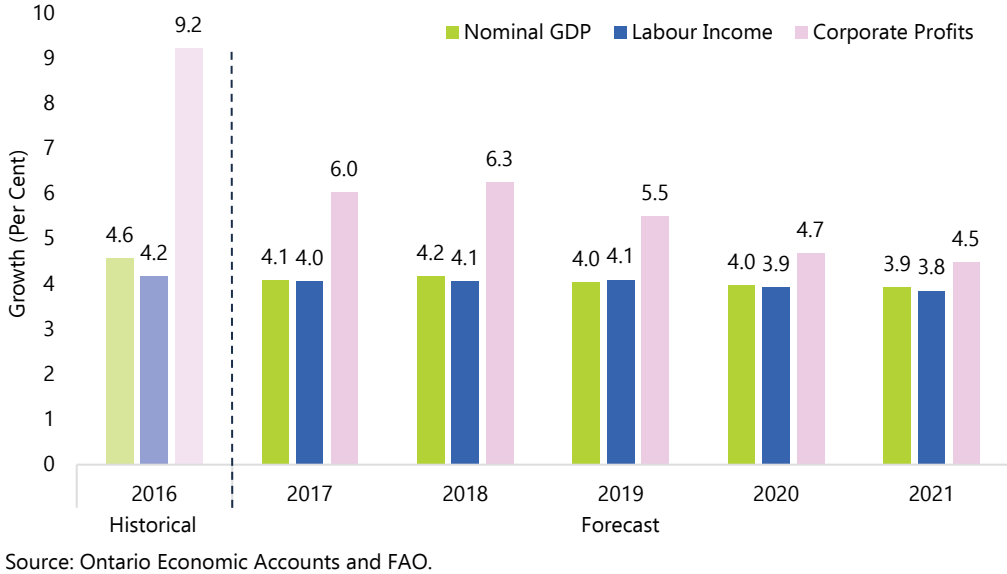
Strong Gains Expected for Labour Income and Corporate Profits

Labour income grew by a robust 4.2 per cent in 2016, above the average annual increase of 3.7 per cent from 2011 to 2015, and a reflection of the strong employment growth last year. The net operating surplus of corporations (largely corporate profits) also increased by a robust 9.2 per cent in 2016 following an equally strong gain of 9.1 per cent in 2015.

As a result of the gains in labour income and corporate profits (which together account for about two-thirds of nominal GDP), nominal GDP grew by a strong 4.6 per cent in 2016.[13]

For 2017, the FAO is projecting a 4.1 per cent rise in nominal GDP, supported by strong gains in labour income (+4.0 per cent) and corporate profits (+6.0 per cent). On average, the FAO is projecting nominal GDP growth of 4.0 per cent over the 2018 to 2021 outlook.

Labour Income and Corporate Profits Support Nominal GDP Growth



Source: Ontario Economic Accounts and FAO.

13 The robust 2016 increase in nominal GDP was much stronger than the 3.4 per cent increase projected in both the FAO's Economic and Fiscal Outlook, Fall 2016 Update and the government's 2016 Economic Outlook and Fiscal Review. The sharp upward shift in 2016 nominal GDP growth reflects large historical revisions to 2015 and 2016 nominal GDP growth in the Ontario Economic Accounts, consistent with new data from Statistics Canada. In particular, the net operating surplus of corporations is now estimated to have increased by 9.2 per cent in 2016 compared to an original projection of 0.3 per cent last fall.

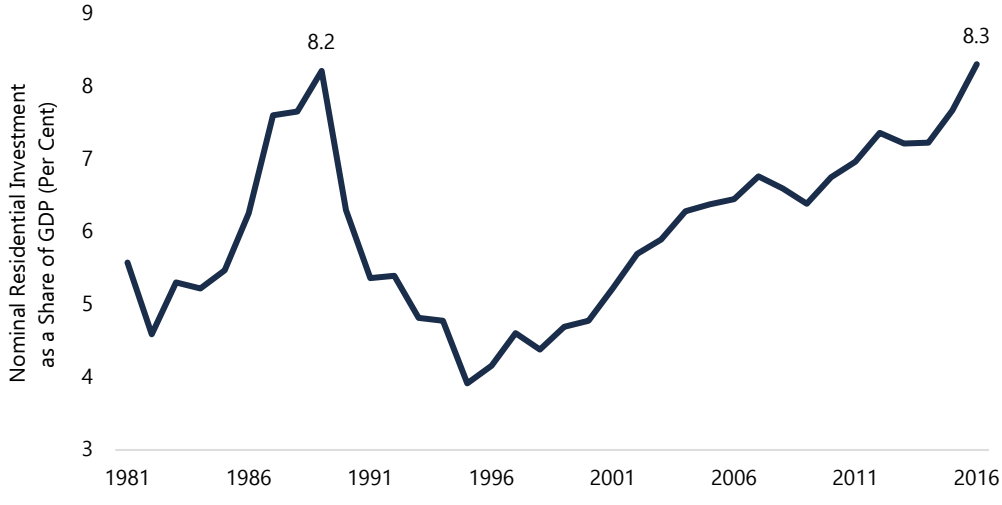
Key Risks for Ontario's Economic Outlook

The FAO's current economic forecast represents a reasonable outlook for the Ontario economy and an appropriate foundation for fiscal projections. However, several key risks could materialize leading to weaker than expected economic growth for the province.

In particular, there are significant risks with respect to the proposed renegotiation of the North American Free Trade Agreement (NAFTA) and the adoption of protectionist trade measures in the United States. As well, other proposed changes to U.S. fiscal and industrial policies, such as lower corporate tax rates and 'Buy America' executive orders, could harm Ontario's relative competitiveness, further discouraging business investment and limiting the contribution of exports to overall growth.

Domestically, the housing market continues to pose a significant risk to the overall economy. The sharp rise in Ontario housing prices – particularly in the Greater Toronto Area – has contributed to record consumer debt loads and stretched levels of affordability.

Residential Investment Spending Accounts for a Record Share of GDP



Source: Ontario Economic Accounts and FAO.

At the same time, the relative importance of residential housing investment to the overall economy has increased substantially in recent years, posing a significant risk to the Ontario economy, in the event of a sharp housing market correction. In 2016, investment in residential housing accounted for a record high 8.3 per cent of Ontario's nominal GDP, up from 6.4 per cent in 2009.[14]

14 Almost one-quarter (22 per cent) of the growth in nominal GDP in 2016 was directly attributable to the increase in residential investment spending.

The last time investment in residential housing accounted for a similar proportion of the economy was 1989, just prior to the 1990-1995 housing market correction.

A sharp correction in housing prices, exacerbated by the elevated levels of household debt, would negatively affect household spending and residential investment, and could lead to broader economy-wide impacts on growth and employment.

The Province recently announced a package of measures intended to respond to the underlying factors contributing to the unsustainable rise in housing prices and the rapid growth in housing market activity. However, it is too early to assess whether these measures will adequately address the imbalance between demand and supply pressures in the market.

The FAO's Quarterly Short-term Model of the Ontario Economy

The FAO has developed a short-term forecasting model to produce quarterly five-year projections of the Ontario economy. The model is based on dynamic equations for major sub-categories of real and nominal GDP. The model also includes key labour market components, financial variables and the Canada-U.S. dollar exchange rate. The model is structured around a number of important external or exogenous concepts such as Canada-wide economic growth, U.S. economic growth, U.S. prices, U.S. interest rates and energy prices.

The model is an important tool for the FAO's bi-annual Economic and Fiscal Outlook (EFO), ensuring internal consistency of each projection as well as consistency between EFO forecasts. It also provides the majority of the inputs required by the FAO's Fiscal Outlook Model which provides the FAO's projection of the government's fiscal position.

3 FISCAL OUTLOOK

Continued Budget Deficits Projected

Based on the FAO's current economic forecast and updated fiscal information, the FAO is projecting continued Ontario budget deficits over the outlook. In the near term, the deficit improves due to strong tax revenue growth and a temporary boost to non-tax revenue. However, beginning in 2018-19, the deficit is expected to increase as a result of moderating revenue growth combined with higher expenses.

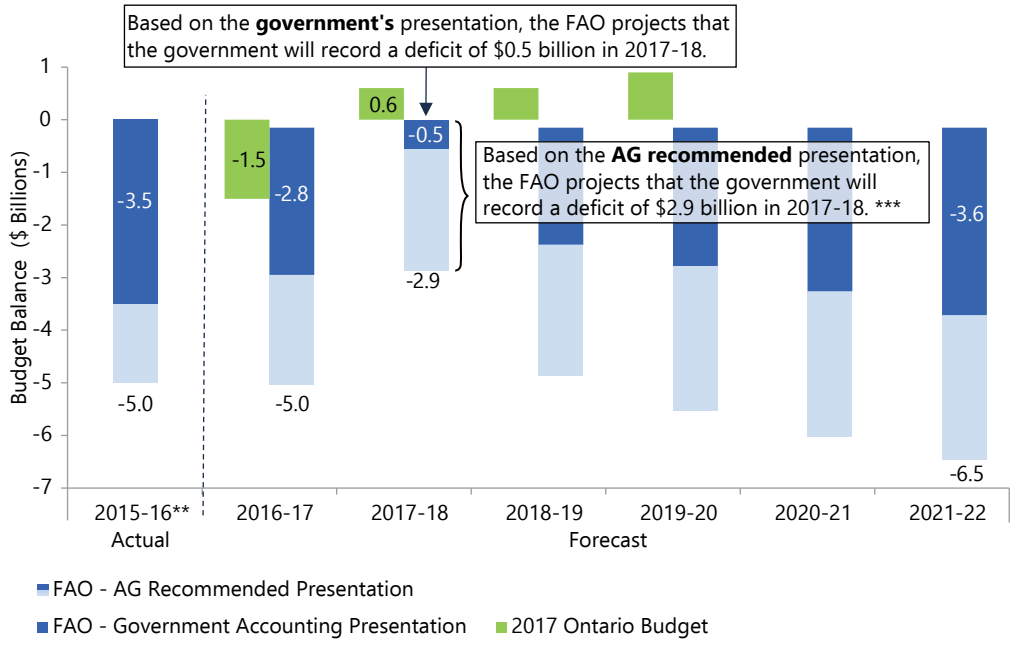
Since the release of the 2015-16 Public Accounts of Ontario, the government and the Auditor General (AG) have disagreed on the application of public sector accounting standards with respect to jointly-sponsored pension plans. (Please refer to the discussion on page 25 for additional background and context on this issue.) Based on the FAO's application of the Auditor General's recommended accounting for these pension assets, the FAO is projecting a budget deficit of $2.9 billion for 2017-18, rising to $6.5 billion by 2021-22.[1]

Under the government's accounting presentation, the FAO is projecting a budget deficit of $0.5 billion in 2017-18, growing to $3.6 billion by 2021-22.[2] By comparison, in the 2017 Budget, the government is projecting a budget surplus of $0.6 billion in 2017-18, followed by small surpluses over the next two years (before the reserve).

1 The FAO projection based on the Auditor General's recommended accounting presentation assumes a valuation allowance that effectively writes off the value of any net pension assets – referred to as the 'pension adjustment' in this report. The valuation allowance increases 'other program' expense, resulting in higher deficits under the AG's recommended accounting presentation.

2 Under the government's accounting presentation, Ontario's public accounts would be expected to receive a qualified opinion from the Auditor General.

Ontario's Budget Balance*



* Budget balance before reserve.

** Ontario's 2015-16 Public Accounts reported a deficit of $5.0 billion. Without the pension adjustment, the deficit would have been $3.5 billion.

*** This includes the FAO's estimate of the pension adjustment.

Source: 2015-16 Public Accounts, 2017 Ontario Budget and FAO.

On the government's accounting presentation, the FAO projects that a balanced budget is within the government's reach in 2017-18. However, the budget deficit is expected to increase after 2017-18, due to moderate revenue growth, the absence of one-time non-tax revenues, and higher program expenses. Staying in balance after 2017-18 will likely require additional fiscal policy measures.

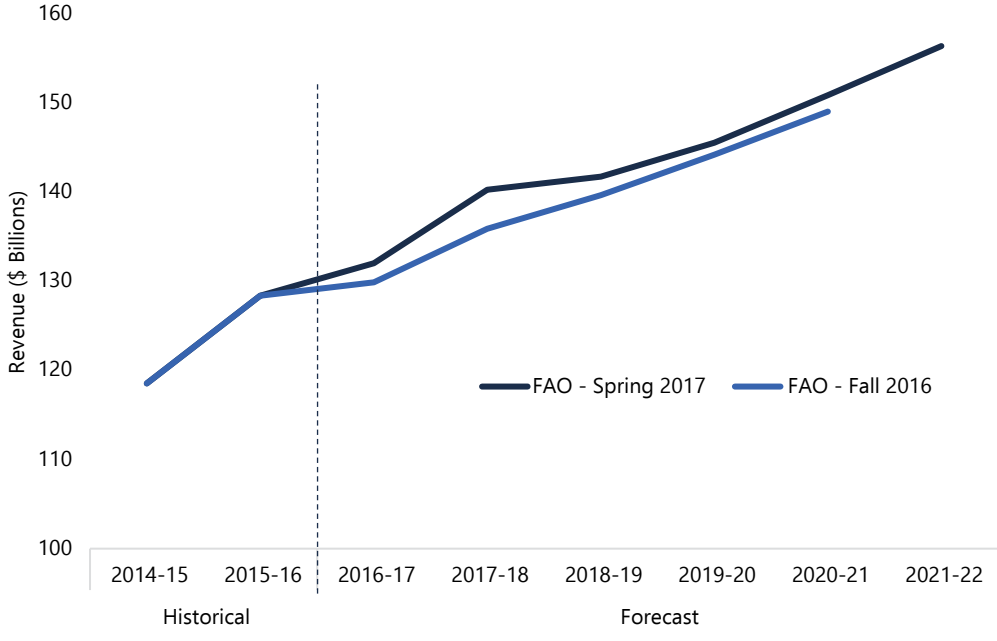
Under the Auditor General's recommended accounting presentation, the FAO is projecting significant budget deficits over the entire outlook. On this basis, it is unlikely that the government will balance the budget without additional fiscal policy adjustments to raise revenue or lower expense.

Revenue Outlook

The FAO is projecting average annual revenue growth of 3.3 per cent per year over the outlook, slightly higher than forecast in the FAO's fall report.

In the near-term, revenue growth is driven by robust economic performance in 2016 and 2017, and a boost from one-time revenue in 2017-18. Beyond 2017-18, growth in tax revenue moderates and the benefit of one-time non-tax revenue ends.

Revenue Stronger Than Expected in Near Term



Source: FAO and Public Accounts.

FAO Revenue Assumptions and Forecast

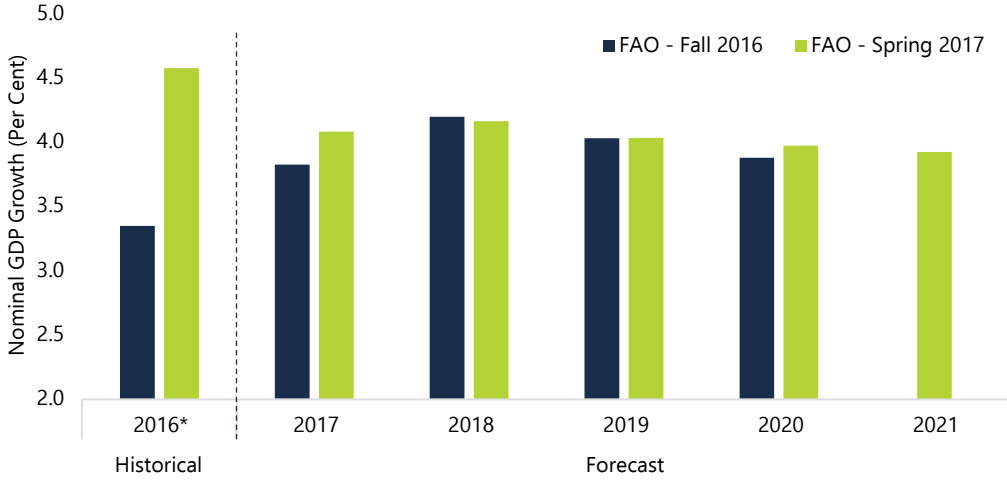
Revenue Source	Assumption	Forecast
Taxation Revenue	Grows with key economic drivers including labour income, corporate profits and household spending	Averages 3.9 per cent growth per year from 2016-17 to 2021-22
Federal Transfers	Based on legislated growth rates and economic performance	Federal transfers are expected to grow by 1.9 per cent per year from 2016-17 to 2021-22
Government Business Enterprises (GBE)	Based on government projections	Income from GBEs are projected to rise moderately from $5.3 billion in 2016-17 to $6.5 billion in 2021-22
Other Revenue	Based on government projections, and includes asset sales, and proceeds from cap and trade allowances	These revenues are projected to increase from $8.5 billion in 2016-17 to $11.0 billion in 2017-18, before declining to $8.5 billion by 2021-22

Stronger Economic Growth Expected to Boost Tax Revenue

Consistent with the FAO's economic forecast, the FAO is currently projecting tax revenues to rise at an average of 3.9 per cent from 2016-17 to 2021-22, much stronger than the 3.0 per cent forecast in the FAO's fall outlook.

Since the FAO's fall report, nominal GDP – the broadest measure of the tax base – was revised significantly higher in 2016, improving the forecast for 2017.[3] However, beyond 2017, the outlook for nominal GDP growth is relatively unchanged from the fall forecast.

Nominal GDP up Significantly in the Near-Term Since the Fall



* 2016 value for the Fall 2016 EFO was the FAO's forecast at the time of the report's release.

Source: Ontario Economic Accounts and FAO.

Improved economic prospects are expected to lift the Province's tax revenue by approximately $2.8 billion in 2016-17 and $4.2 billion in 2017-18, compared to the FAO's fall estimates.

- Personal income tax revenue is forecast to grow stronger than expected in the fall due to the stronger forecast for labour income.[4]
- Corporations tax revenue is projected to benefit from the stronger outlook for corporate profits.

3 See economic section, and the footnote on page 12.

4 However, near-term revenue growth will be somewhat dampened as some high-income earners shifted earnings into the 2015 tax year to avoid the new higher 33 per cent tax rate introduced by the federal government in 2016 (http://www.fin.gc.ca/afr-rfa/2016/report-rapport-eng.asp#_Toc463249478). Using Finance Canada estimates, the FAO estimates that roughly $600 million of Ontario's 2015 PIT revenue was due to income shifting, which lowers taxable income in 2016-17 and 2017-18.

- Sales tax and land transfer tax revenues are forecast to grow stronger than expected in the fall due to the on-going strength in Ontario's housing market.

Equalization Entitlement Declines

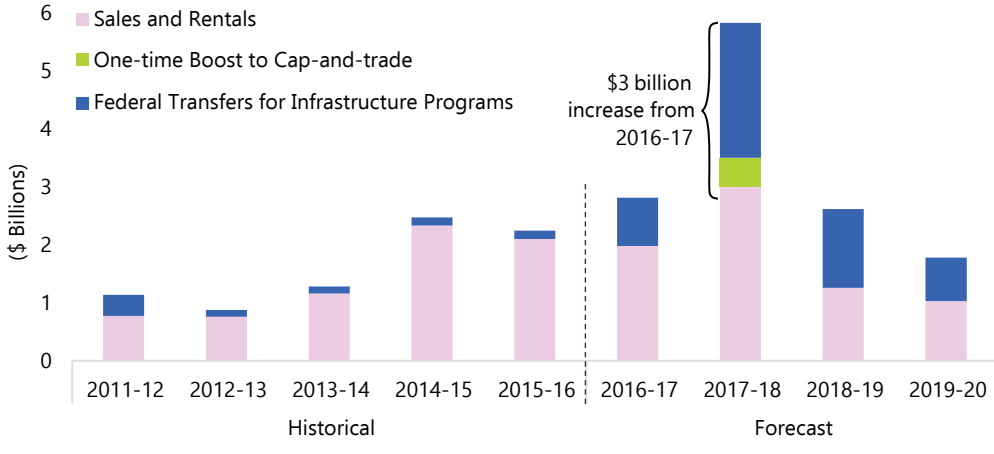
Given Ontario's recent economic strength relative to the rest of Canada, the Province's Equalization entitlement declined $0.8 billion to $1.4 billion in 2017-18. The FAO is projecting a further drop to $0.6 billion in 2018-19. Beyond 2018-19, the FAO is projecting that Ontario will no longer be entitled to Equalization payments — a reflection of the continued relative strength of the Ontario economy.

2017-18 Revenue to Benefit from One-time Increases

Based on the 2017 Budget, Ontario's 2017-18 revenues will benefit from a one-time $3.0 billion boost,[5] that includes:

- $1.5 billion in higher revenue from federal transfers for infrastructure;
- $1.0 billion in increased sales and rentals revenue, reflecting additional asset sales[6]; and
- $0.5 billion in additional cap and trade proceeds from March 2017, which will be recognized in 2017-18.[7]

2017-18 Temporary Revenue Boost



Source: Ontario Budgets, Ministry of Finance and FAO.

5 This one-time benefit is incorporated into the FAO's revenue projection.

6 A portion of this increase reflects the Province's sale of 22 per cent of Hydro One equity in 2017-18, compared to a 15 per cent sale in 2016-17. The FAO estimates that this sale would generate about $0.8 billion in revenue gains in 2017-18, compared to a gain of $0.5 billion in 2016-17.

7 The government indicated that the cap and trade revenues from the March 2017 auction will be reported in fiscal year 2017-18, because the allowances were certified and delivered on April 2, 2017.

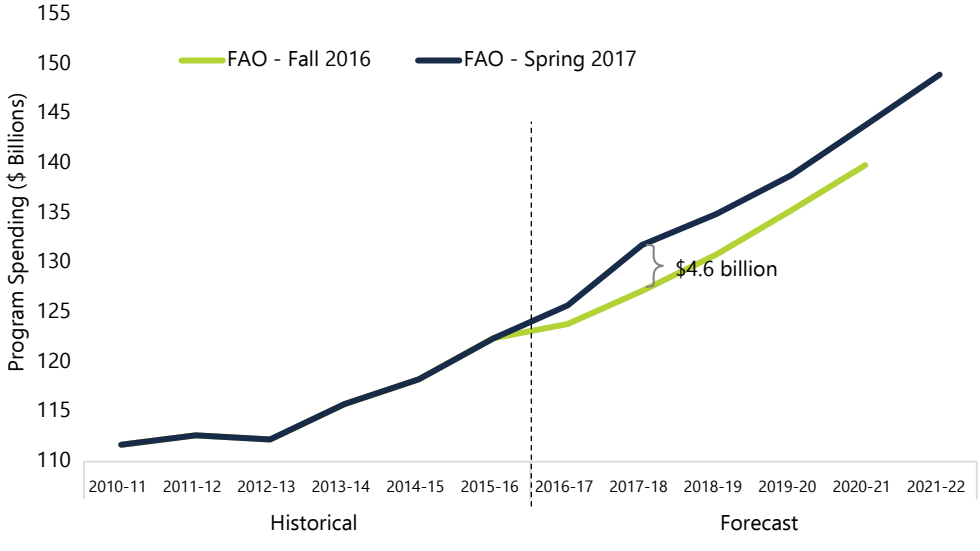
Expense Outlook

Program Expense to Increase Significantly over the Outlook

The FAO projects program spending growth of 3.3 per cent per year over the 2016-17 to 2021-22 period.[8]

Over the 2016-17 to 2019-20 period, the FAO adopts the government's 2017 Budget projections for program spending[9], adjusted to reflect the Auditor General's recommended accounting presentation.[10] The expense outlook includes significant new spending across all sectors, including a new children and youth Pharmacare program, higher operating funding for hospitals, 24,000 new child care spaces[11], and the government's new 'Fair Hydro Plan'. As a result, spending is now forecast to be significantly higher than projected in the FAO's fall outlook.

Program Expense Higher than Projected in the Fall



Note: Program spending includes the FAO's estimate of the pension adjustment.
Source: Ontario Public Accounts, 2017 Ontario Budget and FAO.

With these new expenses, program spending is expected to grow 3.3 per cent per year on average over the next five years. This higher program spending growth is still slightly below the growth in underlying cost and demographic pressures, which is estimated to be 3.6 per cent on average.

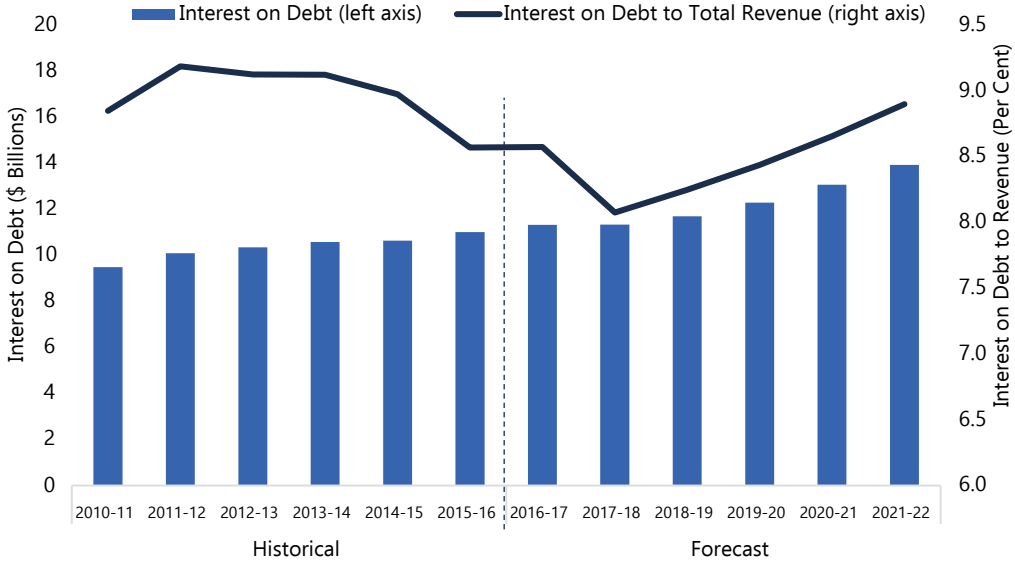
8 The FAO's projection extends to 2021-22, two years beyond the 2017 Ontario Budget forecast.
9 Given the government's discretion over spending, the FAO adopts the government's announced spending plans and incorporates policy announcements as appropriate.
10 The FAO's estimates the pension adjustment will increase 'other program' expense by $2.2 billion in 2016-17, rising to $2.9 billion by 2021-22.
11 The 2017 Budget announced 24,000 new child care spaces for 2017–18, as part of the government's September 2016 Throne Speech commitment to create 100,000 new child care spaces by 2022.

Interest on Debt

The FAO projects interest on debt (IOD) payments will increase at an average annual rate of 4.0 per cent from $11.0 billion in 2015-16 to $13.9 billion by 2021-22, reflecting higher debt and rising interest rates over the outlook. This is faster than the average rate of program spending growth over the outlook.

Over the past five years, IOD as a share of revenue declined steadily, benefitting from falling interest rates. However, given the projected rise in interest rates over the outlook, the FAO forecasts that IOD as a share of revenue will increase from 8.1 per cent in 2017-18 to 8.9 per cent by 2021-22.

Interest on Debt to Rise Sharply as a Share of Revenues



Source: Ontario Public Accounts and FAO.

Ontario Debt Outlook

Ontario Net Debt-to-GDP Ratio Will Remain Elevated

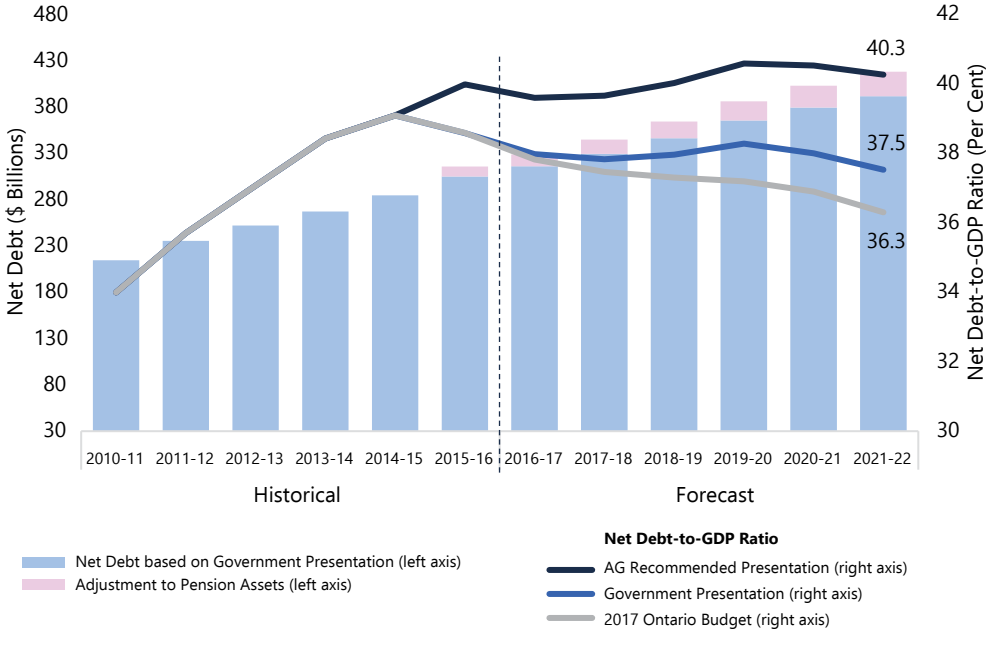
Ontario's total borrowing requirements are expected to remain high over the outlook. To finance the cost of projected capital spending, on-going deficits and maturing debt issues the FAO estimates that provincial borrowing will average $37 billion per year over the next five years.

As a result, the FAO projects Ontario's net debt to increase by $76 billion over the next five years to approximately $392 billion by 2021-22 based on the FAO's application of the AG's recommended accounting presentation. By comparison, using

the government's accounting presentation, the FAO projects Ontario's net debt will rise by $62 billion to roughly $365 billion by 2021-22.

Based on the AG's recommended accounting presentation, the FAO expects Ontario's net debt-to-GDP ratio will edge higher to 40.3 per cent by 2021-22, reflecting the projected increase in net debt and the FAO's forecast for nominal GDP growth. In contrast, based on the accounting presentation adopted by the government, the FAO projects that net debt-to-GDP will fall slightly from 38.6 per cent in 2015-16 to 37.5 per cent by 2021-22.

Ontario's Net Debt-to-GDP Ratio



Source: FAO, Ontario Economic Accounts, and 2017 Ontario Budget.
Note: AG recommended presentation is based on FAO estimates of the pension adjustment.

In the 2017 Budget, the Province set an interim net debt-to-GDP target of 35 per cent by 2023-24 and committed to lowering the ratio to 27 per cent by 2029-30. The FAO's net debt-to-GDP projections under both accounting presentations, suggest that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24.

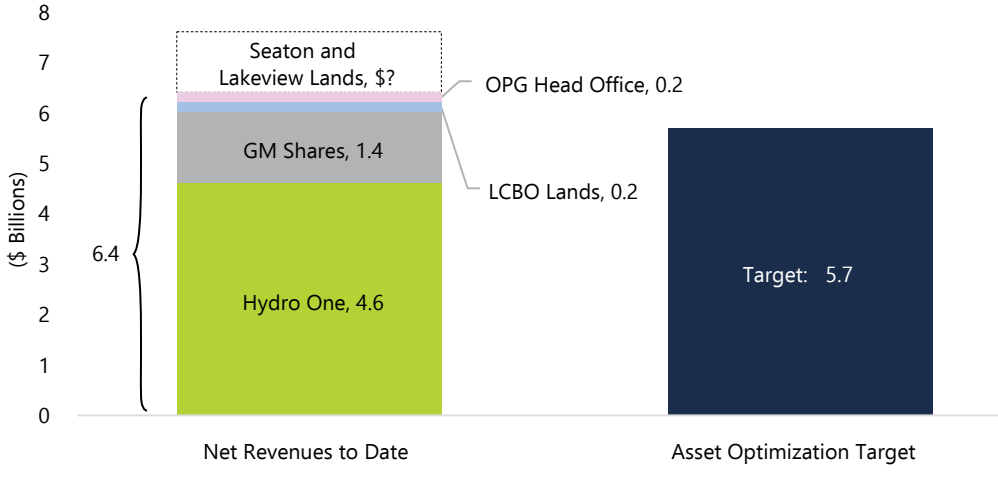
Risks to the Fiscal Plan and Policy Options

There are material risks that could impact Ontario's fiscal position.

- A sharp correction in the housing market could present a significant risk for both the broader economy and for the Province's fiscal plan. As discussed in an FAO commentary[12], a decline in house prices and housing market activity would directly reduce Land Transfer Tax and HST revenues. In addition, the broader economic impacts would lower personal and corporate income tax revenues.

- In the 2017 Budget, the government significantly reduced the prudence built into its program spending projection compared to the 2016 Budget, leaving less fiscal flexibility for the government to respond to unexpected events.[13] In addition, the FAO projects that interest on debt payments as a share of both program spending and revenue will increase significantly, exposing the government to added fiscal risk should interest rates rise faster than expected.

Asset Optimization Revenues and Target



Source: FAO and Ontario Budgets.

Note: As of the 2017 Budget, the government had generated $3.8 billion in net proceeds from its sale of Hydro One equity. On May 8, 2017, the government announced the sale of an additional 22 per cent of Hydro One equity, which the FAO estimates will generate $0.8 billion in net proceeds.

On the other hand, the government has increased spending growth to a rate closer to underlying spending pressures, diminishing the expense risk identified in earlier FAO reports.

12 "The Impact of a Housing Market Correction on Ontario's Fiscal Position", Financial Accountability Office of Ontario, February 15, 2017. http://fao-on.org/en/Blog/Publications/Housing_Market16821

13 In the 2017 Budget, contingency funds total $0.6 billion for the coming fiscal year, half the size built into the 2016 Budget fiscal plan. Similarly, the government's target for year-end savings has increased to $1.2 billion for the coming year, compared to $0.8 billion in Budget 2016.

Additionally, the government has a broad range of policy options that could improve its fiscal position, including the sale of additional public assets beyond announced targets. To date, the FAO estimates that the government has generated $6.4 billion in revenues from net asset sales, exceeding its target of $5.7 billion over 10 years. Given the government's intention to sell Seaton and Lakeview lands[14], it would further overachieve its asset sales target.

14 2017 Ontario Budget, page 161.

The Accounting Treatment of Jointly Sponsored Pension Plans

Background

Ontario's 2015-16 Public Accounts noted a disagreement between the Office of the Auditor General and the Province on the appropriate accounting treatment for net pension assets of jointly sponsored pension plans. Specifically, the Province is a joint sponsor of two pension plans, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees Union Pension Plan (OPSEUPP).

The government's position is that these pension assets have been appropriately and consistently reflected on the Province's financial statements since 2001. The Office of the Auditor General, based on a review of these pension assets, determined that a change in the accounting treatment was required. The Auditor General concluded that under current Canadian public sector accounting standards, the government could not unilaterally recognize a pension asset on its financial statements without evidence - in the form of a written agreement - permitting it to realize the asset through reduced contributions.[15]

In response, the Province adopted regulated accounting for 2015-16 to reflect the fiscal results according to the Auditor General's interpretation of public sector accounting standards, and subsequently appointed a panel, the 'Pension Asset Expert Advisory Panel', to review and provide their recommended interpretation. The panel's report,[16] released in February 2017, concluded that the Province's share of net assets in jointly sponsored pension plans should be fully recognized in the Province's financial statements — contrary to the opinion of the Office of the Auditor General.

In the 2017 Budget, the government adopted the advisory panel's interpretation of public sector accounting standards and recognized the net pension assets of the jointly sponsored pension plans. The 2017 Budget also indicated that the Province's 2016–17 Public Accounts will report the net pension assets for the two jointly sponsored pension plans.

15 The Auditor General indicated that her office began reviewing the treatment of pension assets after these assets started to materially affect the government's fiscal position (Auditor General's Statement on Pension Assets, February 16, 2017).

16 https://news.ontario.ca/tbs/en/2017/02/pension-asset-expert-advisory-panel-submits-report.html.

The Central Issue

The government and the Auditor General have put forward different interpretations of the application of public sector accounting standards for jointly sponsored pension plans.

The different interpretations centre on the question of whether the government has unilateral control of pension surplus assets in jointly sponsored pension plans. In particular, the issue is focused on whether an explicit written agreement between the co-sponsors (the government and the unions representing the employees) to lower future contributions is required for the government to recognize the value of the pension surplus assets.

According to the Auditor General, the issue can be resolved if the government presents an agreement with the Ontario Teacher's Federation (OTF) allowing the government to access the OTPP pension assets through reduced contributions. The extent and duration of the reduced contributions would determine the size of the pension asset that the government could recognize in its financial statements.

The government's position, based on the advice of the advisory panel, is that the existing agreements governing the pension plans, and past history, reflect the sponsors' rights and intent to benefit from surplus assets in the plans through mechanisms reflected in the agreements to potentially realize a benefit through lower future contribution rates.

In the absence of an agreement, and given the government's decision to accept the advisory panel's recommended approach to accounting for jointly sponsored pension plan assets, the Auditor General would be expected to provide a qualified opinion[17] on Ontario's 2016-17 Public Accounts.

Roles and Responsibilities of the Province and the Auditor General

The Province (through the Treasury Board Secretariat) is responsible for the preparation of Ontario's Public Accounts in accordance with legislation, and based on the standards set out by the Public Sector Accounting Board (PSAB).[18]

The PSAB accounting standards serve the public interest by providing an independent, high-quality accounting framework for public sector entities. The

17 An auditor may provide a qualified opinion when financial statements do not conform in a material way to the applicable accounting standards.
18 https://www.ontario.ca/page/public-accounts-101-guide#section-6].

government is responsible to ensure that the financial reports fairly reflect the activities and financial position of the Province.

The Auditor General reviews the Province's annual Public Accounts and provides an audit opinion to the Legislature on whether the Consolidated Financial Statements for the Province of Ontario present fairly, in all material respects, the Province's financial position, in accordance with the PSAB accounting standards.

The FAO's Presentation of Ontario's Fiscal Outlook

The Financial Accountability Officer supports the Legislative Assembly by providing independent economic and financial analysis intended to improve the transparency of the government's fiscal plan. The Officer looks to the Auditor General as the provincial authority on the appropriate interpretation and application of accounting standards for the Province.

The FAO has presented two fiscal projections, including and excluding the impact of the net pension assets of jointly sponsored pension plans, to help members of the Legislative Assembly better understand the implications of these different accounting interpretations on the Province's fiscal position.

- The FAO projection based on the Auditor General's recommended accounting presentation assumes a valuation allowance that offsets the net pension assets.
- The FAO projection based on the government's accounting presentation recognizes the net pension assets.

  In the absence of an agreement between the pension plan co-sponsors, this presentation of Ontario's fiscal position would be expected to receive a qualified opinion from the Auditor General when published in the Province's future Public Accounts.

Based on the Auditor General's recommended accounting presentation for the net assets of jointly sponsored pension plans, and the FAO's estimate of the pension adjustment, the FAO is projecting budget deficits of $2.9 billion in 2017-18, rising to $6.5 billion by 2021-22. Alternatively, based on the pension accounting presentation adopted by the government, the FAO is projecting budget deficits of $0.5 billion in 2017-18 rising to $3.6 billion in 2021-22.

4 APPENDICES

Developments since the FAO's Fall 2016 Economic and Fiscal Outlook

The FAO's current projection of the Ontario budget balance has generally deteriorated relative to the FAO's fall 2016 projection.

- Stronger than expected economic performance is expected to boost taxation revenues over the forecast, partially offset by lower Equalization revenue.
- Based on new government spending plans, program expense has increased significantly.

Developments since Fall 2016 EFO (AG Recommended Presentation)

	2016-17	2017-18	2018-19	2019-20	2020-21
FAO's Fall 2016 Budget Balance Forecast	**-5.2**	**-2.6**	**-2.8**	**-3.3**	**-3.7**
Developments Since Fall 2016					
Revenue					
Stronger Economic Outlook	2.3	4.1	3.9	4.4	4.7
Lower Federal Transfers[1]	-0.3	0.2	-1.3	-2.4	-2.2
Other Revenue Changes[2]	0.1	0.1	-0.5	-0.6	-0.6
Total	2.1	4.4	2.1	1.3	1.8
Expense					
Higher Spending, including Children and Youth Pharmacare, and Fair Hydro Plan	1.2	3.8	3.0	2.2	2.7
Revised Adjustment for Pension Asset[3]	0.7	0.8	1.1	1.4	1.4
Total	2.0	4.6	4.1	3.6	4.1
Total Developments	**0.2**	**-0.3**	**-2.1**	**-2.3**	**-2.3**
FAO's Spring 2017 Budget Balance Forecast	**-5.0**	**-2.9**	**-4.9**	**-5.5**	**-6.0**

Notes:

1. Change in federal transfers forecast mainly due the reduction in Ontario's Equalization payment.
2. Other revenue changes include the $0.5 billion re-profiling of cap-and-trade proceeds from 2016-17 to 2017-18, and an increase in sales and rentals for 2017-18.
3. In the Fall 2016 EFO, the FAO assumed an annual adjustment of $1.5 billion for the net pension assets of jointly sponsored pension plans. The current projection incorporates the FAO's updated estimates for the pension adjustment of $2.2 billion in 2016-17, increasing to $2.9 billion by 2020-21.

Source: FAO.

Forecast Tables

Table 1a: FAO Outlook for Key Revenue Drivers*

(Per Cent Growth)	2015a	2016a	2017f	2018f	2019f	2020f	2021f	Average**
Nominal GDP								
FAO – Spring 2017	4.9	4.6	4.1	4.2	4.0	4.0	3.9	**4.1**
2017 Ontario Budget	4.9	4.6	4.3	4.1	4.2	3.9	-	**4.1**
Current FAO Consensus***	-	-	3.9	4.3	4.1	3.8	4.0	**4.0**
Labour Income								
FAO – Spring 2017	4.2	4.2	4.0	4.1	4.1	3.9	3.8	**4.0**
2017 Ontario Budget****	-	4.4	4.1	4.5	4.6	4.2	-	**4.3**
Corporate Profits								
FAO – Spring 2017	9.1	9.2	6.0	6.3	5.5	4.7	4.5	**5.6**
2017 Ontario Budget	-	9.2	6.8	7.1	5.4	4.0	-	**5.8**
Nominal Household Spending								
FAO – Spring 2017	3.9	4.2	4.2	3.7	3.4	3.5	3.6	**3.8**
2017 Ontario Budget	-	4.2	4.3	4.2	4.2	-	-	**4.2**

a = Actual f = Forecast

* "Labour income", "corporate profits" and "household spending" are defined by Statistics Canada as "compensation of employees", "net operating surplus: corporations", and "household consumption" respectively.

** For comparison purposes, average is calculated from 2017 to 2020 and 2017 to 2019 for Household Spending.

*** FAO consensus includes forecasts from the Centre for Spatial Economics, the Conference Board of Canada and the Policy and Economic Analysis Program at the University of Toronto.

**** 2017 Ontario Budget reports Labour Income on a National Basis, whereas FAO reports Labour Income on a Domestic Basis.

Source: 2017 Ontario Budget, Statistics Canada, Ontario Economic Accounts, FAO Consensus and FAO.

Table 1b: FAO Outlook for Ontario Real GDP and Components

(Per Cent Growth)	2015a	2016a	2017f	2018f	2019f	2020f	2021f	Average*
Real GDP								
FAO – Spring 2017	2.5	2.7	2.4	2.1	2.0	2.0	1.9	**2.1**
2017 Ontario Budget	2.5	2.7	2.3	2.1	2.0	1.7	-	**2.0**
Current FAO Consensus**	-	-	2.1	2.3	2.1	1.9	1.9	**2.1**
Real GDP Components								
Household Spending***	2.7	2.7	2.3	1.9	1.9	1.8	1.8	**2.0**
Residential Investment	7.2	7.9	3.5	-1.3	-2.0	1.9	2.4	**0.5**
Business Investment****	8.2	-4.0	0.2	5.6	5.7	4.9	3.9	**4.1**
Government (Consumption and Investment)	1.9	1.6	1.7	1.3	1.2	1.1	1.0	**1.3**
Exports	2.8	3.0	2.4	2.7	2.5	2.3	2.2	**2.5**
Imports	3.7	1.4	2.2	2.2	2.3	2.2	2.1	**2.2**

a = Actual f = Forecast

* For comparison purposes, average is calculated from 2017 to 2020

** FAO consensus includes forecasts from the Centre for Spatial Economics, the Conference Board of Canada and the Policy and Economic Analysis Program at the University of Toronto.

*** Household Spending is Household and Non-Profit Consumption Expenditure.

**** Business Investment is Non-residential Investment and Machinery & Equipment.

Source: 2017 Ontario Budget, Statistics Canada, Ontario Economic Accounts, FAO Consensus and FAO.

Table 2: FAO Outlook for Selected Economic Indicators

	2015a	2016a	2017f	2018f	2019f	2020f	2021f
Employment (Per Cent Growth)							
FAO – Spring 2017	0.7	1.1	1.3	1.1	1.0	0.9	0.9
2017 Ontario Budget	0.7	1.1	1.3	1.2	1.1	0.9	-
Unemployment Rate (Per Cent)							
FAO – Spring 2017	6.8	6.5	6.4	6.3	6.3	6.3	6.2
2017 Ontario Budget	6.8	6.5	6.4	6.3	6.2	6.2	-
Labour Force (Per Cent Growth)							
FAO – Spring 2017	0.1	0.9	1.1	1.0	1.0	0.9	0.9
2017 Ontario Budget	-	-	-	-	-	-	-
Population Growth (Per Cent)							
FAO – Spring 2017	0.8	1.3	1.3	1.1	1.1	1.1	1.1
2017 Ontario Budget	-	-	-	-	-	-	-
CPI Inflation (Per Cent Growth)							
FAO – Spring 2017	1.2	1.8	2.1	2.1	2.0	2.0	2.0
2017 Ontario Budget	1.2	1.8	2.0	2.0	2.0	2.0	-
Canada Real GDP (Per Cent Growth)							
FAO – Spring 2017	0.9	1.4	2.2	2.3	2.0	1.9	1.9
2017 Ontario Budget	0.9	1.4	2.1	2.0	1.9	1.7	-
U.S. Real GDP (Per Cent Growth)							
FAO – Spring 2017	2.6	1.6	2.3	2.3	2.2	2.1	2.1
2017 Ontario Budget	2.6	1.6	2.3	2.4	2.1	2.0	-
Canadian Dollar (Cents US)							
FAO – Spring 2017	78.2	75.4	75.6	78.4	78.8	79.9	81.3
2017 Ontario Budget	78.2	75.4	74.5	75.5	78.5	80.0	-
WTI Crude Oil (US$)							
FAO – Spring 2017	49	43	54	55	56	61	68
2017 Ontario Budget	49	43	54	59	62	64	-
Three-month Treasury Bill Rate (Per Cent)							
FAO – Spring 2017	0.5	0.5	0.6	1.4	1.9	2.3	2.6
2017 Ontario Budget	0.5	0.5	0.5	0.8	1.5	1.9	-
10-year Government Bond Rate (Per Cent)							
FAO – Spring 2017	1.5	1.3	1.8	2.5	2.9	3.6	3.9
2017 Ontario Budget	1.5	1.3	1.9	2.4	3.0	3.2	-

a = Actual f = Forecast

Source: 2017 Ontario Budget, Bank of Canada, Congressional Budget Office, Statistics Canada, FAO Consensus and FAO.

Table 3: FAO Fiscal Outlook

($ Billions)	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Revenue							
Personal Income Tax	31.1	32.4	34.5	36.7	38.6	40.5	42.5
Sales Tax	23.5	24.7	25.8	26.5	27.3	28.2	29.2
Corporations Tax	11.4	12.7	13.3	14.0	14.6	15.1	15.6
All Other Taxes	25.8	24.0	25.1	25.9	26.9	27.6	28.5
Total Taxation Revenue	91.8	93.9	98.7	103.1	107.3	111.5	115.8
Transfers from Government of Canada	22.9	24.3	25.7	24.6	24.1	24.8	25.6
Income from Government Business Enterprise	4.9	5.3	4.9	5.7	6.0	6.3	6.5
Other Non-Tax Revenue	8.8	8.5	11.0	8.3	8.1	8.3	8.5
Total Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4
Expense							
Health Sector	51.0	52.2	53.8	56.3	58.1	60.6	63.3
Education Sector	25.0	25.7	26.5	27.4	28.0	29.0	29.8
Postsecondary and Training Sector	7.7	7.8	8.4	8.3	8.4	8.5	8.6
Children's and Social Services Sector	15.6	16.2	16.9	17.2	17.4	18.0	18.5
Justice Sector	4.5	4.6	4.7	4.7	4.8	4.9	5.0
Other Programs*	18.6	19.2	21.5	21.0	22.1	22.9	23.7
Total Program Expense*	122.4	125.7	131.8	134.9	138.8	143.8	149.0
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9
Total Expense*	133.4	137.0	143.1	146.6	151.1	156.9	162.9
Budget Balance* (AG Presentation)	-5.0	-5.0	-2.9	-4.9	-5.5	-6.0	-6.5
Adjustment for Pension Assets	-1.5	-2.2	-2.3	-2.6	-2.9	-2.9	-2.9
Budget Balance (Government Presentation)	-3.5	-2.8	-0.5	-2.2	-2.6	-3.1	-3.6
Budget Balance (2017 Ontario Budget)	-3.5	-1.5	0.6	0.6	0.9		

a = Actual f = Forecast

* Based on the FAO's application of the Auditor General's recommended accounting for these pension assets.

Note: Budget balance is presented without reserve.

Source: 2017 Ontario Budget and FAO.

Table 4a: FAO Debt Outlook (Auditor General Recommended Presentation)

$ Billions	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Budget Balance*	-5.0	-5.0	-2.9	-4.9	-5.5	-6.0	-6.5
Accumulated Deficit	202.7	207.7	210.6	215.5	221.0	227.0	233.5
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7
Change in Net Debt		*10.9*	*13.5*	*16.8*	*19.0*	*14.0*	*12.3*
Net Debt to GDP (Per Cent)	*40.0*	*39.6*	*39.7*	*40.0*	*40.6*	*40.5*	*40.3*

a = Actual f = Forecast

* Budget Balance is presented without reserve. Includes the FAO's estimate of the pension adjustment.

Source: Statistics Canada, 2017 Ontario Budget and FAO.

Table 4b: FAO Debt Outlook (Government Presentation)

$ Billions	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Budget Balance*	-3.5	-2.8	-0.5	-2.2	-2.6	-3.1	-3.6
Accumulated Deficit	192.0	194.8	195.3	197.6	200.2	203.3	206.9
Net Debt	294.6	303.1	314.3	328.5	344.6	355.7	365.1
Change in Net Debt		*8.7*	*11.2*	*14.2*	*16.1*	*11.1*	*9.4*
Net Debt to GDP (Per Cent)	*38.6*	*38.0*	*37.8*	*38.0*	*38.3*	*38.0*	*37.5*
Net Debt to GDP from 2017 Budget (Per Cent)	*38.6*	*37.8*	*37.5*	*37.3*	*37.2*	*36.9*	*36.3*

a = Actual f = Forecast

* Budget Balance is presented without reserve.

Source: Statistics Canada, 2017 Ontario Budget and FAO.

Provincial Comparisons

	NL	PE	NS	NB
Fiscal Performance (2015-16)				
Total Revenue				
Per Capita ($)	11,149	11,276	10,119	11,118
to GDP (%)	19.6	26.7	23.7	25.4
Total Program Expenditures				
Per Capita ($)	13,763	10,592	9,632	10,564
to GDP (%)	24.2	25.1	22.6	24.1
Interest on Debt				
Per Capita ($)	1,547	872	906	899
to GDP (%)	2.7	2.1	2.1	2.1
to Revenue (%)	13.9	7.7	9.0	8.1
Total Expenditures				
Per Capita ($)	15,310	11,465	10,538	11,463
to GDP (%)	26.9	27.2	24.7	26.2
Primary Balance				
Per Capita ($)	-2,613	684	487	554
to GDP (%)	-8.7	11.0	1.2	1.7
Deficit (-) or surplus				
Level (Millions $)	-2,200	-28	-11	-261
Per Capita ($)	-4,160	-189	-11	-345
to GDP (%)	-7.3	-0.4	0.0	-0.8
Net Debt				
Level (Millions $)	12,633	2,183	15,097	13,660
Per Capita ($)	23,896	14,880	16,003	18,109
to GDP (%)	42.0	35.3	37.5	41.3
Economic and Demographic Indicator Growth (2015) (Per Cent)				
Real GDP	-2.0	1.3	1.0	2.3
Nominal GDP	-11.5	3.9	2.4	2.9
Employment	-1.0	-1.1	0.1	-0.6
Population	0.1	0.6	0.0	-0.1

* Ontario 2015-16 Fiscal Performance measures are presented after adjustment for pension assets.

Source: FAO, Department of Finance Canada's Fiscal Reference Tables (September, 2016) and Statistics Canada.

QC	Ontario*	MB	SK	AB	BC
12,037	9,305	11,616	12,041	10,168	10,144
26.1	16.8	22.9	17.2	13.0	19.0
10,610	8,874	11,609	12,938	11,524	9,395
23.0	16.0	22.8	18.4	14.8	17.6
1,217	795	660	445	186	594
2.6	1.4	1.3	0.6	0.2	1.1
10.1	8.5	5.7	3.7	1.8	5.9
11,828	9,669	12,269	13,383	11,710	9,989
25.6	17.5	24.1	19.1	15.0	18.8
1,427	430	7	-897	-1,356	749
0.4	0.1	0.0	-1.1	-0.4	0.3
1,431	-5,029	-846	-1,520	-6,442	730
173	-364	-653	-1,342	-1,541	156
0.4	-0.7	-1.3	-1.9	-2.0	0.3
187,098	305,233	21,433	7,899	-3,881	39,635
22,653	22,123	16,538	6,977	-929	8,446
49.1	40.0	32.5	9.9	-1.2	15.9
1.2	2.5	2.2	-1.3	-3.6	3.3
2.6	4.9	3.1	-5.7	-12.5	3.8
0.9	0.7	1.5	0.5	1.2	1.2
0.5	0.8	1.2	1.0	1.7	1.0

May 29, 2017

The Honourable Liz Sandals
President of Treasury Board
Treasury Board Secretariat
Room 4320, 4th Floor, Whitney Block
99 Wellesley Street West
Toronto, Ontario M7A 1W3

Dear Minister Sandals:

Subject: Economic and Fiscal Outlook – Assessing Ontario's Medium-Term Prospects: Spring 2017

Under paragraph 10(1)(a) of the *Financial Accountability Officer Act, 2013* (the Act), the FAO is mandated to undertake regular analyses of the state of the province's finances and trends in the provincial economy.

Section 15 of the Act requires that I deliver copies of any reports I publish to the relevant ministers ahead of publication. Accordingly, please find attached a copy of my report, which presents my office's assessment of the province's medium-term economic and fiscal outlook.

As arranged with the Clerk of the Legislative Assembly, this report will be tabled on **Wednesday May 31 at 9:00 a.m.** Please treat this report as confidential until that time.

An MPP Briefing will be held in Committee Room 1 at 1:30 p.m. Members of the Standing Committee on Finance and Economic Affairs, as well as two members per caucus, are welcome to attend.

Let me take this opportunity to thank you once more for the assistance that your ministry provided to my staff during the preparation of this report.

As always, please feel free to contact my office if we can be of assistance.

Sincerely,



Stephen LeClair
Financial Accountability Officer

Encl.

Financial Accountability Office of Ontario
2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2 | 416.644.0702 | fao-on.org | info@fao-on.org

May 29, 2017

The Honourable Charles Sousa
Minister of Finance
7th Floor, Frost Building South
7 Queen's Park Crescent
Toronto, Ontario
M7A 1Y7

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Subject: Economic and Fiscal Outlook – Assessing Ontario's Medium-Term Prospects: Spring 2017

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Bureau de la Responsabilité Financière de l'Ontario

Office of the Budget
MINISTRY of FINANCE

Financial Accountability Officer Report:
Spring Economic and Fiscal Outlook

Draft – May 18, 2017 12:20 PM

ISSUE

- The Financial Accountability Officer (FAO) will be releasing a report on May XX, which assesses Ontario's medium-term economic and fiscal outlook.
- This represents the spring update to the FAO's planned release of semi-annual medium-term outlook reports.
- The spring report incorporates economic and fiscal information released since the FAO's fall 2016 report (released November 3, 2016). This includes:
    - New economic data that impacts their revenue and interest on debt outlooks; and
    - New spending commitments from the 2017 Budget.
- The FAO has presented two fiscal projections in its spring report:
    1. A projection that includes the impact of the net pension assets of jointly sponsored pension plans, based on the Auditor General's recommended accounting treatment, and
    2. A projection that excludes this impact based on the government's fiscal presentation in the 2017 Budget as recommended by the Pension Asset Expert Advisory Panel.
- Both presentations used by the FAO project deficits in each year over the outlook period (2016–17 to 2021–22).
- In the spring report, between 2017 and 2020 the FAO left their real GDP growth projection little changed, on average, compared to the outlook presented in its fall report. The FAO modestly raised its projection for Ontario nominal GDP by 0.1 percentage points annually, on average.

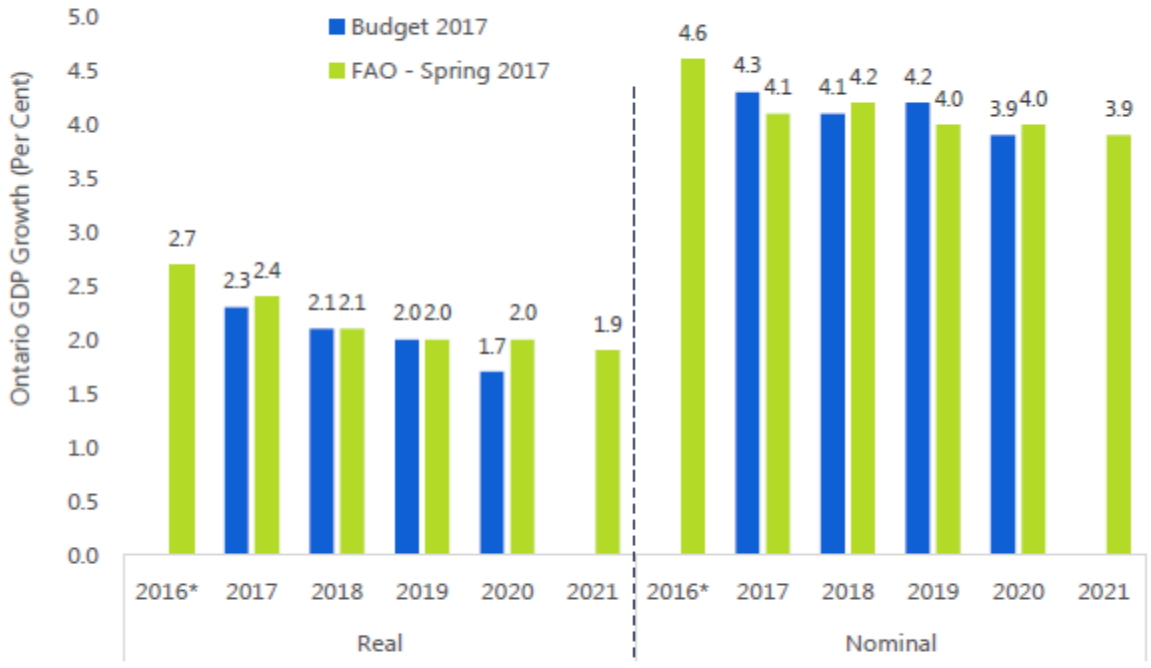
KEY FINDINGS

- The report is divided into two main chapters:
    1) The **Economic Outlook** chapter presents the FAO forecast for Ontario's economy out to 2021, and includes a discussion of potential risks.
    2) The **Fiscal Outlook** chapter presents the FAO forecast for revenue, expense and the surplus/deficit between 2016-17 and 2021-22.

Economic Outlook

- The FAO has left its forecast for Ontario real GDP growth little changed, on average, over the 2017 to 2020 period relative to its fall forecast, though it included a modest downward revision in 2017 and upward revision in 2019.
- The FAO forecast is broadly consistent with the private sector economists' view that stronger international exports and business investment will be key drivers of Ontario's overall economic growth over the next several years.
- The FAO forecast for real GDP growth is 0.1 percentage points stronger annually, on average, than the 2017 Budget forecast between 2017 and 2020.
- The FAO believes the balance of the risks to the economic outlook is tilted to the downside, particularly risks associated with a correction in Ontario's housing market. (p. 12 – Economic Chapter).

Solid Economic Performance Expected Over Outlook



* 2016 are actuals

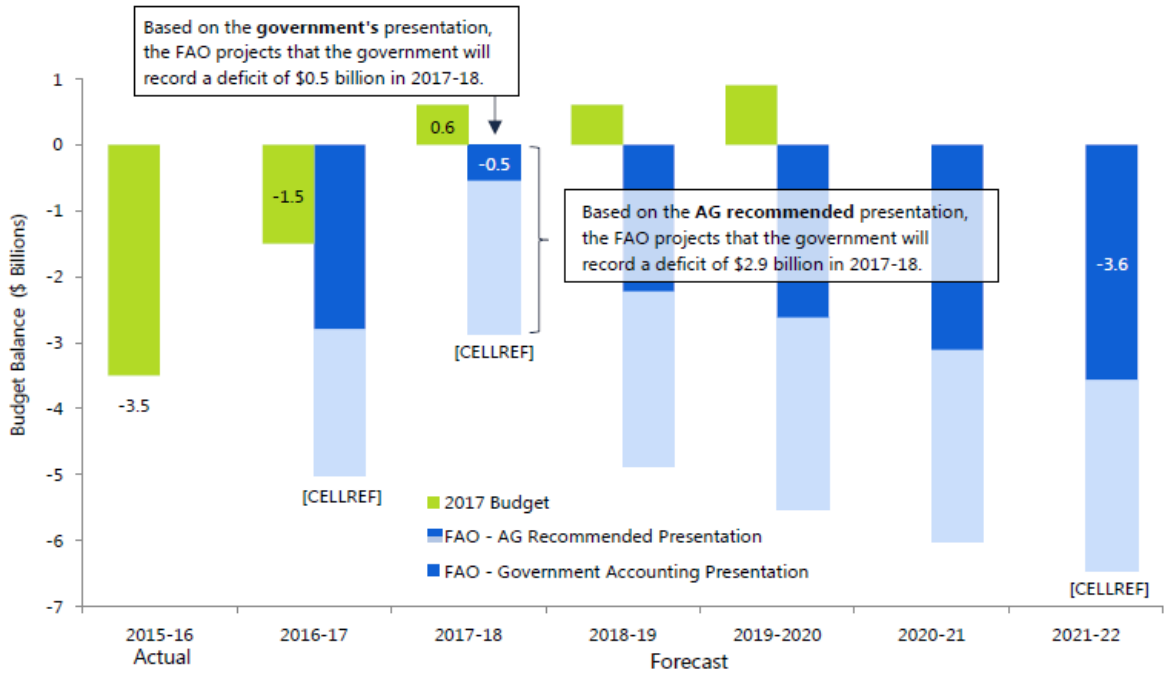
Source: Ontario Economic Accounts, Budget 2017 and FAO

Fiscal Outlook

- The FAO's current projection of the outlook for budget balance has generally deteriorated relative to the FAO's fall 2016 projection.

- The FAO's forecast, based on the Auditor General's recommended accounting treatment of jointly-sponsored pension plans, projects deficits of $5.0 billion in 2016–17, $2.9 billion in 2017–18, $4.9 billion in 2018–19, and $5.5 billion by 2019–20 (excluding the reserve). This represents a slight improvement in the deficit for 2016–17 but deterioration in 2017–18 and over the outlook compared to the FAO's fall report.
- The FAO also projects that a balanced budget is "within the government's reach in 2017–18" when using the government's accounting method.
- Using the government's accounting treatment of net pension assets the FAO is projecting budget deficits of $2.8 billion in 2016–17, $0.5 billion in 2017–18, $2.2 billion in 2018–19, and $2.6 billion by 2019–20 (excluding the reserve). This represents an improvement in the deficit for 2016–17 and 2017–18, but deterioration over the outlook compared to the FAO's fall report. By comparison, the 2017 Budget projects a $1.5 billion deficit in 2016–17 and surpluses of $0.6 billion in 2017–18 and 2018–19, and a $0.9 billion surplus in 2019–20, excluding the reserve. The FAO also makes projections out to 2021–22 with increasing deficits forecast for those years as well.
- The FAO's projection for an improved deficit in 2017–18 is due to robust economic performance in 2016 and 2017, compared to the FAO's fall estimates, and a one-time revenue increase in 2017–18 from increased federal transfers for infrastructure, additional revenue from asset sales and cap and trade proceeds. (p. 3 – Fiscal Chapter).
- Beginning in 2018-19, the FAO projects that the deficit will gradually deteriorate due to moderate revenue growth, the absence of one-time non-tax measures, and higher program expenses. (p. 1 – Fiscal Chapter).
- That FAO believes that "staying in balance after 2017–18 will likely require additional fiscal policy measures." (p. 1 – Fiscal Chapter).

Ontario's Budget Balance*



* Budget balance excluding reserve.

Source: 2015-16 Public Accounts, 2017 Budget and FAO

Key factors driving change since the 2016 FAO fall report:

- Increases in Provincial tax revenue of $2.3 billion in 2016–17 and $4.1 billion in 2017–18 (stronger than expected PIT revenue) due to improving economic growth in 2017
- Declines in Ontario's equalization entitlement. Beyond 2018–19, the FAO is projecting that Ontario will no longer be entitled to Equalization payments – a reflection of the continued strength of the Ontario economy
- Significant new spending across all sectors, including a new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan
- Revised estimates for net pension asset expense of jointly sponsored pension plans

Developments since 2016 Fall EFO (AG Recommended Presentation)

	2016-17	2017-18	2018-19	2019-20	2020-21
FAO's Fall 2016 Budget Balance Forecast	-5.2	-2.6	-2.8	-3.3	-3.7
Developments Since Fall 2016					
Revenue					
Stronger Economic Outlook	2.3	4.1	3.9	4.4	4.7
Lower Federal Transfers[1]	-0.3	0.2	-1.3	-2.4	-2.2
Other Revenue Changes	0.1	0.1	-0.5	-0.6	-0.6
Total	2.1	4.4	2.1	1.3	1.8
Expense					
Children and Youth Pharmacare, and Fair Hydro Plan[3]	0.5	1.3	1.3	1.3	1.3
Revised Pension Asset[4]	0.7	0.8	1.1	1.4	1.4
Other Expense Increases	0.7	2.5	1.7	0.9	1.4
Total	2.0	4.6	4.1	3.6	4.1
Total Developments	0.2	-0.3	-2.1	-2.3	-2.3
FAO's 2017 Spring Budget Balance Forecast	-5.0	-2.9	-4.9	-5.5	-6.0

Notes:

1. Change in federal transfers forecast mainly due the reduction in Ontario's Equalization payment.
2. Other revenue changes include the $0.5 billion re-profiling of cap-and-trade proceeds from 2016-17 to 2017-18, and an increase in sales and rentals for 2017-18.
3. In the 2016 Fall EFO, the FAO included $1 billion in expenses from the HST rebate on electricity bills beginning 2017-18, which is now part of the Fair Hydro Plan. As a result, the FAO estimates that the incremental impact of the Fair Hydro Plan is $0.8 billion, compared to the Fall.
4. In the 2016 Fall EFO, the FAO assumed $1.5 billion in adjustments for net pension assets of jointly sponsored pension plans. The government has revised its estimate of the impact to $2.2 billion in 2017-18, increasing to $2.9 billion by 2020-21.

Source: FAO

Revenue Assumptions

- Compared to the FAO's fall forecast, from 2016-17 to 2019-20, on average, total revenue is projected to be $2.5 billion higher annually mostly because of higher taxation revenue, partially offset by lower Federal Transfers and other Non-Tax revenues.

FAO Revenue Difference (Spring 2017 less Fall 2016)

$ Billions	2016-17	2017-18f	2018-19f	2019-20f	Annual Average
Taxation Revenue	**2.8**	**4.2**	**4.4**	**4.9**	**4.1**
Government of Canada Transfers	-0.4	0.2	-1.3	-2.4	-1.0
Government Business Enterprises	0.3	-0.4	0.0	0.1	0.0
Other Non-Tax Revenue	-0.6	0.4	-1.1	-1.3	-0.7
Total Non-Tax Revenue	**-0.7**	**0.2**	**-2.4**	**-3.6**	**-1.6**
Total Revenue	**2.1**	**4.4**	**2.1**	**1.4**	**2.5**

  - Taxation revenues are projected to be, on average, $4.1 billion higher annually due to stronger economic growth as nominal GDP growth is, on average, projected to be 0.4 percentage points higher annually.

- More specifically, corporate profits are projected to be 3.3 percentage points higher annually, boosting Corporations Tax revenue. Higher labour income is expected to raise Personal Income Tax revenue while Ontario's strong housing market boosts Sales Tax and Land Transfer Tax revenues.
- Lower Federal Transfers reflects mostly the FAO's projection that Ontario will no longer be entitled to Equalization payments beyond 2018-19.
- Non-Tax revenues are lower, mainly because of the revisions to the multi-year asset optimization target to reflect the progress made so far and revised projections for Carbon allowance proceeds.

- Compared to the 2017 Budget, the FAO total revenue is lower mostly because of taxation revenue and, to a lesser extent, Federal Transfers.

FAO less Ontario 2017 Budget Outlook ($ Billions)

	2016-17	2017-18	2018-19	2019-20	Average
Taxation Revenue	-1.2	-1.4	-2.3	-3.0	-2.0
Government of Canada Transfers	-0.1	0.0	-0.8	-0.8	-0.4
Government Business Enterprises	0.0	0.0	0.0	0.0	0.0
Other Non-Tax Revenue	0.0	0.0	0.0	0.0	0.0
Total Revenue	**-1.2**	**-1.3**	**-3.1**	**-3.7**	**-2.4**

- FAO's projection for the composition of nominal GDP such as compensation of employees, net operating surplus and household consumption, are all lower than the 2017 Budget projection.
- The 2017 Budget assumed higher yields from CIT and HST compared to recent projections, reflecting recent tax revenue performance. These yields also exceed those assumed by the FAO.
- The FAO projection for PIT is consistently lower than the 2017 Budget. This is likely due to a downward adjustment in each year reflecting tax planning that may have occurred in 2015 by high-income earners -- no details were provided by the FAO. The 2017 Budget only included an allowance for PIT planning in 2016-17.

- FAO's federal transfer outlook is lower than assumed in the 2017 Ontario Budget, probably due to FAO's assumption that Ontario will no longer receive Equalization payments starting in 2019-20 as Ontario's fiscal capacity improves relative to other provinces.
- The FAO's government business enterprise net income outlook and other non-tax revenue is the same as reported in the 2017 Budget.

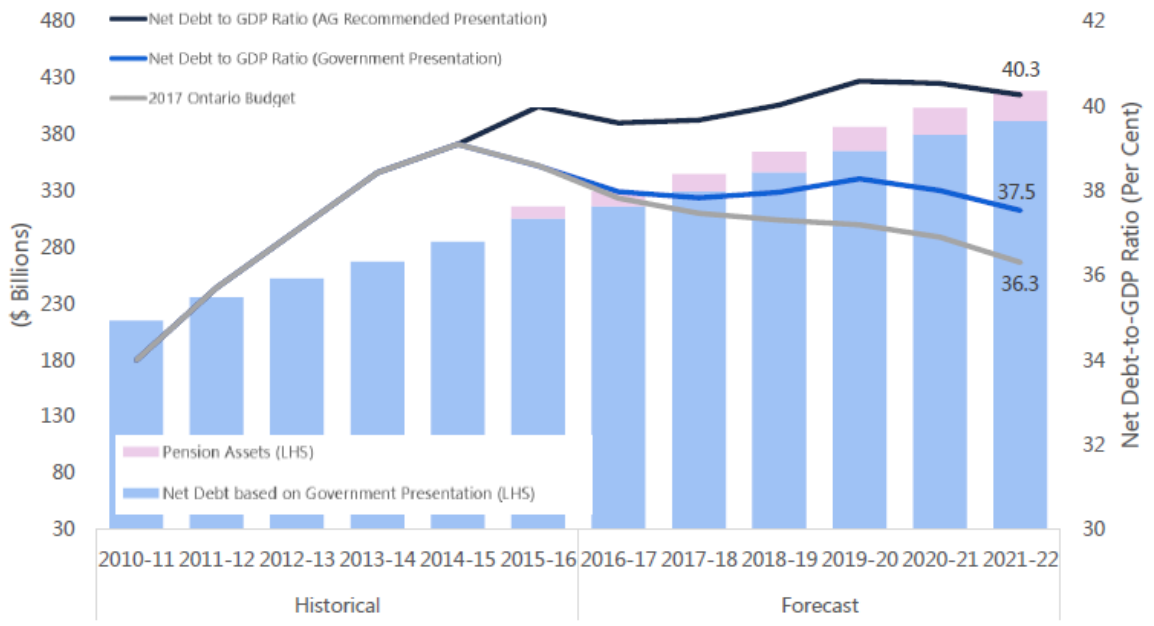
Expense Assumptions [to be confirmed by TBS]

- The FAO assumes the same program expense outlook as the 2017 Budget up to 2019–20, adjusted to reflect the Auditor General's recommended accounting treatment for jointly sponsored pension plans.(p. 4 – Fiscal Chapter).
- The FAO's expense outlook includes new spending commitments announced in the 2017 Budget including a new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan. This results in average annual growth in program expense of 3.3% between 2016–17 and 2021–22.
- The FAO also projects that program spending will increase by an average of 3.6% each year beyond 2019–20. The FAO argues that this increase is in line with population growth, aging and price inflation, consistent with its 2016 spring and fall reports.
- The FAO projects that Ontario's interest on debt (IOD) payments will grow at an average annual rate of 4.0% from $11.0 billion in 2015–16 to $13.9 billion by 2021–22, reflecting higher debt and rising interest rates over the outlook. The FAO forecasts that IOD will significantly outpace the growth in program expense over the outlook. (p. 5 – Fiscal Chapter).
- According to the FAO, interest on debt is expected to increase from 8.1% of revenues in 2017–18 to 8.9% by 2021–22. Over the past five years IOD as a share of revenues declined steadily, benefitting from declining interest rates. The FAO argues that this ratio is expected to rise sharply due to projected interest rate increases. (p. 5 – Fiscal Chapter).

Debt Outlook [to be confirmed by OFA]

- Under the Auditor General's recommended accounting treatment of jointly-sponsored pension plans, the FAO expects Ontario's net debt to rise by $76 billion to $392 billion by 2021–22 or 40.3 per cent of GDP, this represents a slightly lower net debt-to-GDP ratio over the plan and outlook period when compared to the FAO's fall forecast. Using the government's accounting method, the FAO expects net debt to increase by $62 billion over the next five years to $365 billion by 2021–22 or 37.5 per cent of GDP, above the 2017 Budget projection of 36.3 per cent.
- The FAO's net debt-to-GDP projections under both accounting presentations, suggests that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24. (p. 6 – Fiscal Chapter).

Ontario's Net Debt to GDP Ratio



Source: Ontario Economic Accounts, 2017 Ontario Budget, and FAO

Accounting Treatment

- The FAO's spring outlook includes a detailed section on the different accounting treatment for net pension assets of jointly sponsored pension plans (Ontario Teachers' Pension Plan and the Ontario Public Service Employees Union Pension Plan) used by the government and the Auditor General.
- The FAO states that in the absence of a written agreement between the co-sponsors of the pension plans, the Auditor General would be expected to provide a qualified opinion on Ontario's 2016-17 Public Accounts.

Risks and Policy Options

- The FAO notes the following risks to Ontario's fiscal plan (p. 7 – Fiscal Chapter):
    - A housing market correction could pose a significant risk for both the broader economy and the fiscal plan through lower taxation revenues
    - Reduced prudence built into program spending in the 2017 Budget compared to the previous budget – reducing flexibility for the government to respond to unexpected events
    - Interest on debt payments are expected to increase, exposing the government to fiscal risk should interest rates rise faster than expected

- Although the FAO projects deficits, the report notes that the government has a broad range of policy options that could improve the Province’s fiscal position, including selling additional public assets beyond announced targets.

APPENDIX A – Detailed Comparison of Outlooks

Comparison: 2017 Budget Fiscal Outlook and the 2017 Spring FAO Outlook										
								Avg. Annual Growth		
	Actual		Outlook					16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
2017 Budget										
Revenue	128.4	133.2	141.7	144.9	149.3			3.9%		
Expense										
Program Expense	120.9	123.5	129.5	132.3	135.8			3.2%		
Interest on Debt	11.0	11.3	11.6	12.0	12.6			3.9%		
Total Expense	131.9	134.8	141.1	144.3	148.4			3.3%		
Surplus/(Deficit) Excl. Reserve	(3.5)	(1.5)	0.6	0.6	0.9					
Reserve	-	-	0.6	0.6	0.9					
Surplus/(Deficit)	(3.5)	(1.5)	0.0	0.0	0.0					
Net Debt	294.6	301.9	311.9	323.3	335.9					
Change - 2017 Budget to FAO Spring 2017 Report										
Revenue	-	*(1.2)*	*(1.4)*	*(3.1)*	*(3.7)*					
Expense										
Program Expense	-	*2.2*	*2.3*	*2.6*	*2.9*					
Interest on Debt	-	-	*(0.3)*	*(0.3)*	*(0.3)*					
Total Expense	-	*2.2*	*2.0*	*2.3*	*2.7*					
Surplus/(Deficit) Excl. Reserve	-	*(3.5)*	*(3.5)*	*(5.5)*	*(6.4)*					
Reserve	-	-	*n/a*	*n/a*	*n/a*					
Surplus/(Deficit)	-	*(3.5)*	*n/a*	*n/a*	*n/a*					
Net Debt	*10.6*	*14.2*	*17.6*	*23.1*	*29.5*					
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	120.9	125.7	131.8	134.9	138.8	143.8	149.0	3.4%	3.6%	3.5%
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	131.9	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve*	(3.5)	(5.0)	(2.9)	(4.9)	(5.5)	(6.0)	(6.5)			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	(3.5)	(5.0)	n/a	n/a	n/a	n/a	n/a			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Pension Adjustment	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excl. Reserve and Pension Adj.	(3.5)	(2.8)	(0.5)	(2.2)	(2.6)	(3.1)	(3.6)			
Note: Numbers may not align with report due to rounding.										
* Based on AG recommended accounting treatment with adjustment for net pension assets.										

Comparison: 2016 Fall FAO Outlook Compared to 2017 Spring FAO Outlook										
								Avg. Annual Growth		
	Actual		Outlook					16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
FAO Fall 2016 Report										
Revenue	128.4	129.9	135.9	139.7	144.2	149.1		3.5%		
Expense										
Program Expense*	122.4	123.9	127.2	130.9	135.3	139.9		3.0%		
Interest on Debt	11.0	11.2	11.3	11.6	12.2	12.9		2.9%		
Total Expense	133.4	135.1	138.5	142.5	147.5	152.8		3.0%		
Surplus/(Deficit) Excl. Reserve*	(5.0)	(5.2)	(2.6)	(2.8)	(3.3)	(3.7)				
Reserve	-	-	n/a	n/a	n/a	n/a				
Surplus/(Deficit)	(5.0)	(5.2)	n/a	n/a	n/a	n/a				
Net Debt	305.2	318.5	330.5	343.8	356.8	369.7				
Pension Adjustment	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)				
Surplus/(Deficit) Excl. Reserve and Pension Adj.	(3.5)	(3.7)	(1.1)	(1.3)	(1.8)	(2.2)				
Change - FAO Fall 2016 Report to Spring 2017 Report										
Revenue	-	*2.1*	*4.4*	*2.1*	*1.3*	*1.8*				
Expense										
Program Expense *	*(1.5)*	*1.9*	*4.6*	*4.0*	*3.5*	*3.9*				
Interest on Debt	-	*0.1*	-	*0.1*	*0.1*	*0.2*				
Total Expense	*(1.5)*	*2.0*	*4.6*	*4.1*	*3.6*	*4.1*				
Surplus/(Deficit) Excl. Reserve *	*1.5*	*0.2*	*(0.3)*	*(2.1)*	*(2.3)*	*(2.3)*				
Reserve	-	-	*n/a*	*n/a*	*n/a*	*n/a*				
Surplus/(Deficit)	*1.5*	*0.2*	*n/a*	*n/a*	*n/a*	*n/a*				
Net Debt	*(0.0)*	*(2.4)*	*(1.0)*	*2.6*	*8.6*	*9.7*				
Pension Adjustment	-	(0.7)	(0.8)	(1.1)	(1.4)	(1.4)				
Surplus/(Deficit) Excl. Reserve and Pension Adj.	-	0.9	0.6	(0.9)	(0.8)	(0.9)				
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	120.9	125.7	131.8	134.9	138.8	143.8	149.0	3.4%	3.6%	3.5%
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	131.9	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve*	(3.5)	(5.0)	(2.9)	(4.9)	(5.5)	(6.0)	(6.5)			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	(3.5)	(5.0)	n/a	n/a	n/a	n/a	n/a			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Pension Adjustment	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excl. Reserve and Pension Adj.	(3.5)	(2.8)	(0.5)	(2.2)	(2.6)	(3.1)	(3.6)			

Note: Numbers may not align with report due to rounding.

* Based on AG recommended accounting treatment with adjustment for net pension assets.

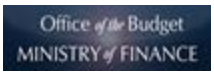
From:	Anna Strathy
To:	Ken Kandeepan
Subject:	FW: The FAO"s Spring 2017 Economic and Fiscal Report
Date:	Monday, May 29, 2017 2:59:36 PM
Attachments:	image001.png image002.png EFO Spring 2017EN.pdf EFO Letter to Minister Sandals - May 29.pdf EFO Letter to Minister Sousa - May 29.pdf

FYI

From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: Monday, May 29, 2017 2:56 PM
To: Scott Thompson (CAB) <Scott.Thompson@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Maria Duran-Schneider (MOF) <Maria.Duran-Schneider@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Brian Lewis (MOL) <Brian.Lewis@ontario.ca>
Cc: David McLean (MOF) <David.McLean@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>
Subject: FW: The FAO's Spring 2017 Economic and Fiscal Report

FAO has provided an advanced copy of their final EFO, which will be released on Wed morning at 9am. We're working with staff to review the final version to see whats changed and to update the briefing material. Will look to set up time with the Minister Sousa and his office as well (Maria let us know if Minister Sandals also needs to be briefed on it). Ministers and their offices should have received copies already.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



From: David West [mailto:dwest@fao-on.org]
Sent: May-29-17 2:47 PM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS)
Subject: The FAO's Spring 2017 Economic and Fiscal Report

Good afternoon,

The FAO will be releasing a spring 2017 Economic and Fiscal Outlook (EFO) report on Wednesday May 31st at 9:00 am. There will be separate technical briefings for media and MPPs on Wednesday at 1:30 pm. The report, along with the Officer's statement will be posted on the FAO's website.

Please note that while the statement will be posted on our website, the Officer will not be reading the statement to the media for this release.

The report along with the attached letters are being delivered to Ministers Sousa and Sandals this afternoon – and are attached for your reference.

Please treat this document as embargoed until its release on Wednesday at 9:00 am.

As always, we greatly appreciate your assistance and support for the work of the FAO.

Best regards,
David

David West
Chief Economist
FAO | Financial Accountability Office of Ontario

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FAO
Financial
Accountability
Office of Ontario


Office of the Budget
MINISTRY of FINANCE

Financial Accountability Office of Ontario

Economic and Fiscal Outlook

Assessing Ontario's Medium-term Prospects

Spring 2017

About this Document

Established by the *Financial Accountability Officer Act, 2013*, the Financial Accountability Office (FAO) provides independent analysis on the state of the Province's finances, trends in the provincial economy and related matters important to the Legislative Assembly of Ontario. The FAO's Economic and Fiscal Outlook is released each spring and fall, providing an assessment of the province's medium-term economic performance and fiscal position.

This report was prepared by Edward Crummey, Luan Ngo, Nicolas Rhodes and Mario Angastiniotis under the direction of David West. External reviewers were provided with earlier drafts of this report for their comments. However, the input of external reviewers implies no responsibility for this final report, which rests solely with the FAO.

This report is based on information available to May 2, 2017. Background data used in this report are available upon request.

FAO's Fiscal Projections

The FAO forecasts provincial finances based on projections of existing and announced revenue and spending policies. The forecast represents the FAO's view of the most likely fiscal outcomes given existing policies, without anticipating any new government policy decisions. The FAO's tax revenue projections are based on an assessment of the outlook for the provincial economy and current tax policies. Given the government's discretion over spending, the FAO adopts the government's announced spending plans from fiscal documents and incorporates policy announcements as appropriate. Beyond the government's published spending projections, the FAO forecasts spending based on the outlook for underlying cost drivers including demographics and price inflation.

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Photo credit: Jennifer Raetsen

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1 EXECUTIVE SUMMARY

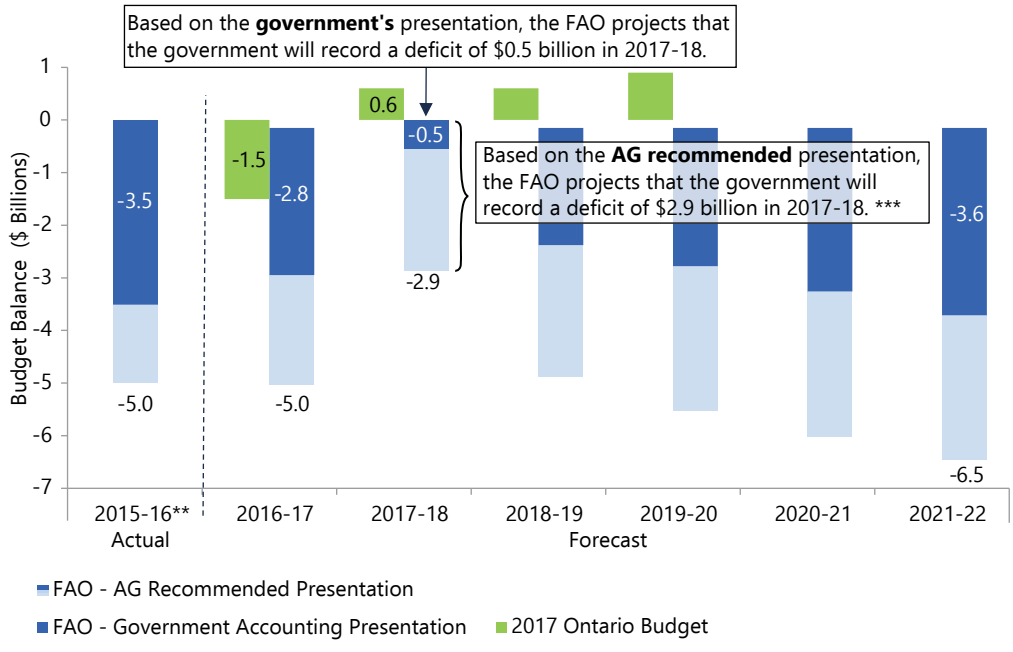
The FAO is projecting continued Ontario budget deficits over the next five years. For 2017-18, the FAO's projection includes an improvement in the deficit, the result of a $3.0 billion one-time boost to non-tax revenue and strong tax revenue growth. However, beginning in 2018-19, the FAO is projecting a steady deterioration in the budget deficit due to moderating revenue growth combined with higher expenses.

The government and the Auditor General continue to disagree on the application of public sector accounting standards for jointly-sponsored pension plans.[1] Based on the FAO's application of the Auditor General's recommended accounting treatment for these pension assets, the FAO is projecting significant budget deficits over the entire outlook. On this basis, it is unlikely that the government will balance the budget without significant fiscal policy adjustments to raise revenue or lower expense.

Under the government's accounting presentation, the FAO projects that a balanced budget is within the government's reach in 2017-18. Beyond 2017-18, the deficit is projected to deteriorate steadily due to rising expenses and moderate revenue growth. On this basis, staying in balance after 2017-18 will likely require additional fiscal policy measures. This presentation of Ontario's fiscal position would be expected to receive a qualified opinion from the Auditor General when published in the Province's 2016-17 Public Accounts.

1 See the discussion on page 25 of the Fiscal Outlook chapter for background and context.

Ontario's Budget Balance*



* Budget balance before reserve.

** Ontario's 2015-16 Public Accounts reported a deficit of $5.0 billion. Without the pension adjustment, the deficit would have been $3.5 billion.

*** This includes the FAO's estimate of the pension adjustment.

Source: 2015-16 Public Accounts, 2017 Ontario Budget and FAO.

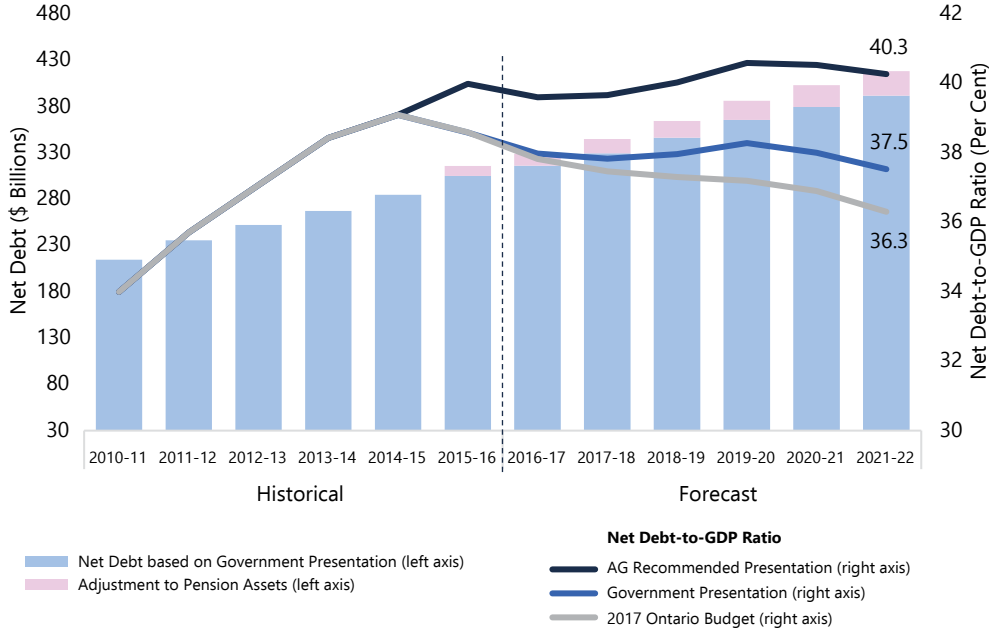
The FAO's economic outlook expects the recent strength of the Ontario economy to continue into 2017. The FAO is forecasting solid growth in real GDP of 2.4 per cent in 2017, moderating to an average annual pace of 2.0 per cent over the following four years. The FAO's economic forecast is broadly in-line with that presented in the government's 2017 Budget.

However, there are significant risks that could result in weaker than expected economic growth for Ontario. In particular, the policy direction of the new U.S. administration remains uncertain. This could hamper business investment and Ontario's economic prospects. Domestically, Ontario's surging housing market continues to be the largest risk for the economy. A sharp correction in housing prices could reverberate beyond the housing market and lead to broader, economy-wide impacts.

Consistent with the economic outlook, the FAO is projecting total revenues will rise by 3.3 per cent per year on average over the outlook. This reflects the FAO's forecast for solid growth in tax revenues combined with a significant one-time increase in non-tax revenues in 2017-18, including the sale of public sector assets. The FAO projects annual program spending growth to average 3.3 per cent per year over the outlook, a rate slightly below underlying spending pressures.

Given on-going deficits and projected capital spending, the FAO is forecasting Ontario's net debt will increase by $76 billion over the next five years, under the Auditor General's recommended accounting presentation. On this basis, Ontario's net debt-to-GDP ratio will edge higher to 40.3 per cent by 2021-22. In contrast, based on the government's accounting presentation, the FAO projects that net debt-to-GDP will fall slightly to 37.5 per cent by 2021-22.

Ontario's Net Debt-to-GDP Ratio



Note: AG recommended presentation based on FAO estimates of the pension adjustment.
Source: Ontario Economic Accounts, 2017 Ontario Budget, and FAO.

In the 2017 Budget, the government set an interim net debt-to-GDP target of 35 per cent by 2023-24 and committed to achieving 27 per cent by 2029-30. Given the FAO's projection of rising deficits and the government's planned capital investments over the outlook, achieving these debt targets will likely require significant additional fiscal measures under either accounting presentation.

2 ECONOMIC OUTLOOK

Overview

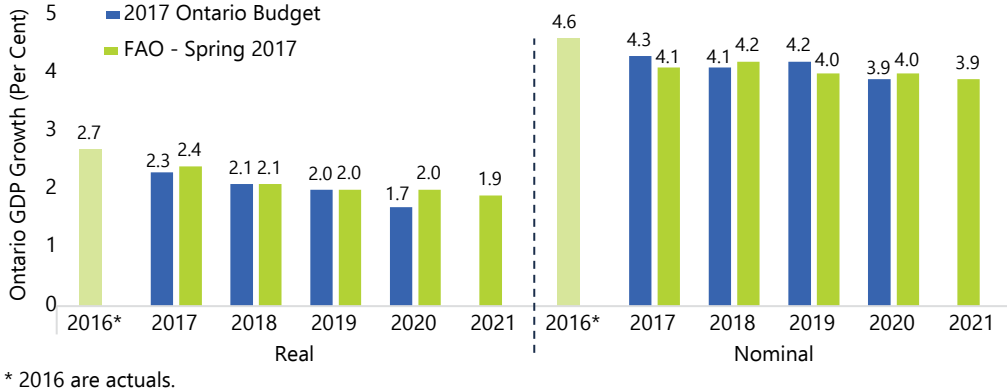
Ontario Economy Expected to Remain Strong in 2017

The Ontario economy finished 2016 with a strong 2.7 per cent increase in real GDP, reflecting solid growth in the second half of the year. Real GDP growth last year was significantly above the 2.1 per cent average gain seen from 2011 to 2015. Strong household spending, residential investment and exports contributed to the increase in real GDP in 2016.

Supported by the strong economic momentum in 2016 and continued improvement in economic indicators in the first quarter of 2017, the FAO is projecting real GDP to rise by 2.4 per cent in 2017 and 2.1 per cent in 2018.

Nominal GDP – the broadest measure of the tax base – increased by a robust 4.6 per cent in 2016. The FAO is projecting nominal GDP to increase by 4.1 per cent in 2017 and 4.2 per cent in 2018, reflecting solid gains in labour income and corporate profits.

Solid Economic Performance Expected Over Outlook



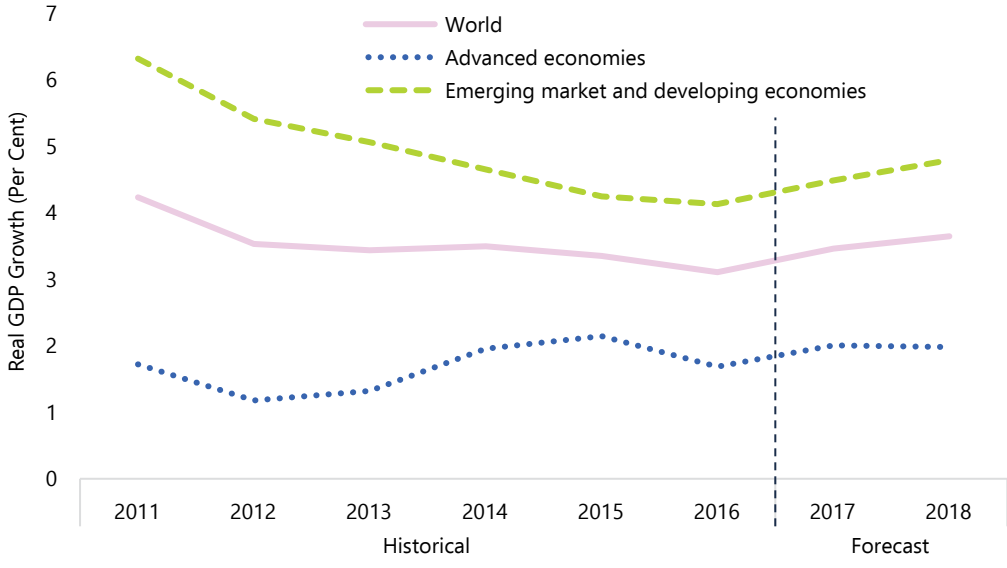
* 2016 are actuals.

Source: Ontario Economic Accounts, 2017 Ontario Budget and FAO.

Global Economy Gaining Momentum

In its latest World Economic Outlook,[1] the International Monetary Fund (IMF) is forecasting global economic growth to strengthen from 3.1 per cent in 2016 to 3.5 per cent in 2017 and 3.6 per cent in 2018. The IMF revised the outlook slightly higher for 2017, but left it unchanged for 2018, compared to its October 2016 outlook.[2]

Global Growth to Improve in 2017



Source: "World Economic Outlook, Gaining Momentum?", April 2017, International Monetary Fund.

For advanced economies, the IMF's forecast for 2017 and 2018 has improved slightly from its October projection with growth of 2.0 per cent in 2017 and 2018.

Growth prospects for emerging market and developing economies are much more varied, but overall have weakened slightly from the IMF's October outlook, due to weaker economic conditions in key export markets. On average, the IMF has lowered its growth forecast for emerging markets and developing countries to 4.5 per cent in 2017, with 2018's forecast remaining unchanged at 4.8 per cent.

The IMF expects China – the world's second largest economy – to grow by 6.6 per cent in 2017 and 6.2 per cent in 2018, reflecting continued support from government policy. In the medium term, China's economic growth is expected to gradually moderate as its economy rebalances from investment and manufacturing-led growth to a more service-intensive economy.

1 "World Economic Outlook, Gaining Momentum?", April 2017, International Monetary Fund.
2 "World Economic Outlook, October 2016: Subdued Demand: Symptoms and Remedies", October 2016, International Monetary Fund.

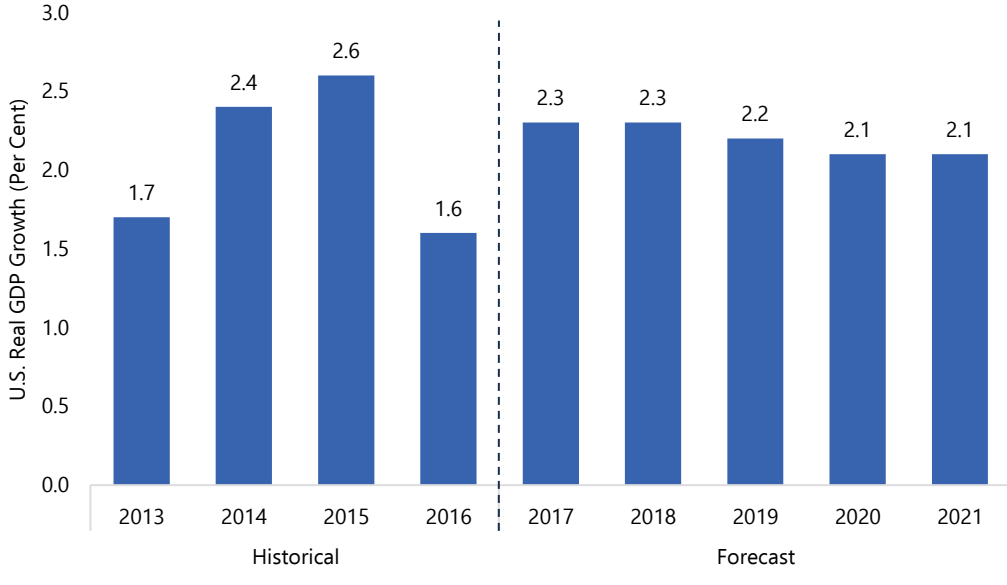
U.S. Economic Growth to Strengthen in 2017

U.S. real GDP advanced by a relatively moderate 1.6 per cent in 2016, the weakest increase in three years. For 2017 and 2018, the FAO projects U.S. growth to improve to 2.3 per cent, with household spending, business investment and residential construction being key contributors to overall growth.[3]

However, the lack of specific details on the new U.S. administration's proposed policies has raised the risks associated with the current U.S. outlook. Many forecasters are cautiously optimistic that some of the proposed fiscal policies, such as expected cuts to corporate tax rates, could boost U.S. economic growth in the short-term.[4] But this optimism is tempered by the potential for large future increases in the U.S. budget deficit, which could weigh on economic growth over the medium-term.

From 2019 to 2021, U.S. real GDP growth is projected to average 2.1 per cent annually, which is in-line with the average rate seen from 2012 to 2016.

U.S. Economic Growth Moderates Beyond 2017



Source: Federal Reserve Bank of St. Louis, Congressional Budget Office and FAO Consensus.

3 The FAO forecast for the U.S. economy in 2017 is based on the U.S. Congressional Budget Office's (CBO) latest forecast. For 2018 to 2021, the U.S. forecast is based on the average of the CBO outlook and the forecasts of three independent model-based forecasters – the Conference Board of Canada, the Centre for Spatial Economics and the Policy and Economic Analysis Program at the University of Toronto.

4 These forecasters include the IMF, CBO, TD Bank, RBC, BMO Capital Markets and National Bank Economics.

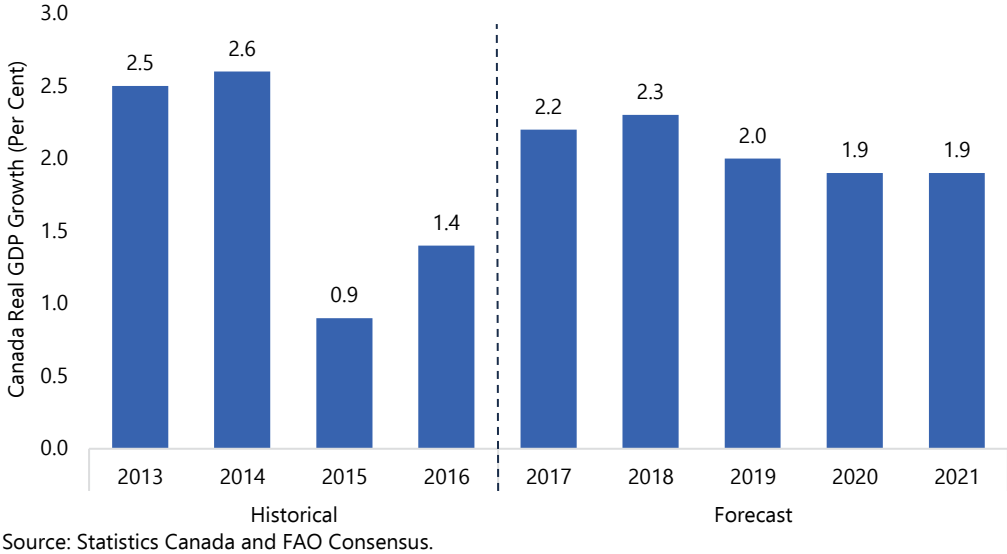
Canadian Economic Growth Expected to Rebound

The outlook for the Canadian economy has improved following strong growth over the second half of 2016.

Continued momentum in recent economic indicators point to a solid start for 2017. Canadian real GDP is currently projected to grow by 2.2 per cent in 2017 and 2.3 per cent in 2018, recovering from more moderate growth in 2015 and 2016.[5] Strength in household spending and non-energy exports are expected to contribute to overall growth in 2017 and 2018.

Beyond 2018, Canadian real GDP is projected to increase at an average annual rate of 2.0 per cent, as the economy continues to adjust to slower growth in the energy sector.

Canada GDP Growth Expected to Improve in 2017



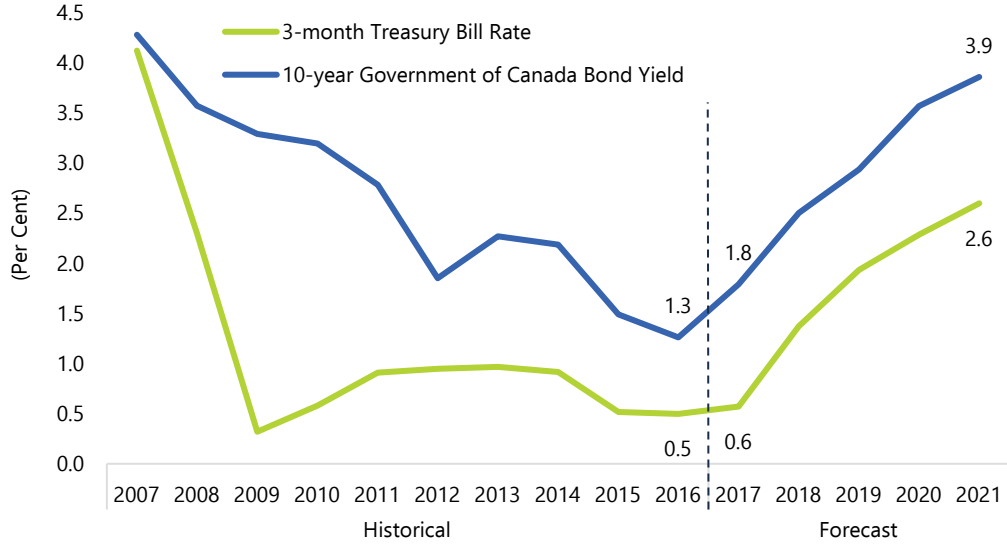
Source: Statistics Canada and FAO Consensus.

Based on the continuing recovery of the U.S. economy, and in particular the strength of U.S. labour markets, the U.S. Federal Reserve raised its key policy interest rate in March 2017.[6] In contrast, the Bank of Canada has remained more cautious about the underlying strength of the Canadian economy and as a result appears unlikely to raise its key policy interest rate before 2018.[7]

5 The FAO forecast for the Canadian economy is based on the average quarterly forecasts of two independent, model-based forecasters – the Conference Board of Canada and the Policy and Economic Analysis Program (PEAP) at the University of Toronto.
6 The Federal Reserve raised its key policy rate, or the Federal Funds Rate, to 1.0 per cent on March 15, 2017.
7 In its most recent monetary policy report, the Bank of Canada indicated that it expects the output gap to close in early 2018. At the same time, the BOC noted that "there is still considerable uncertainty about the outlook," suggesting caution with regard to future changes in its policy interest rate. Bank of Canada Monetary Policy Report, April, 2017.

The FAO is projecting Canadian short-term interest rates will remain near current levels through 2017 and then begin rising modestly in 2018. Beyond 2018, interest rates are expected to gradually normalize with the 3-month Treasury Bill rate increasing to 2.6 per cent and the 10-year Government of Canada bond yield rising to 3.9 per cent by 2021.

Canadian Interest Rates to Rise over the Forecast



Source: Statistics Canada and FAO.

The Canadian dollar is expected to gradually appreciate over the next five years, rising from an average of about 75 cents U.S. in 2016 to about 81 cents U.S. by 2021, supported by the steady increase in short-term interest rates and a gradual rise in oil prices.

Ontario Economic Outlook

Solid Real GDP Growth Expected in 2017

Based on the Ontario Ministry of Finance's estimates,[8] Ontario real GDP rose by a strong 2.7 per cent in 2016, following equally strong gains of 2.5 per cent and 2.7 per cent in 2015 and 2014, respectively. Household spending, residential investment and exports were key contributors to overall economic growth last year. Business investment in plant and equipment disappointed expectations, declining by 4.0 per cent.

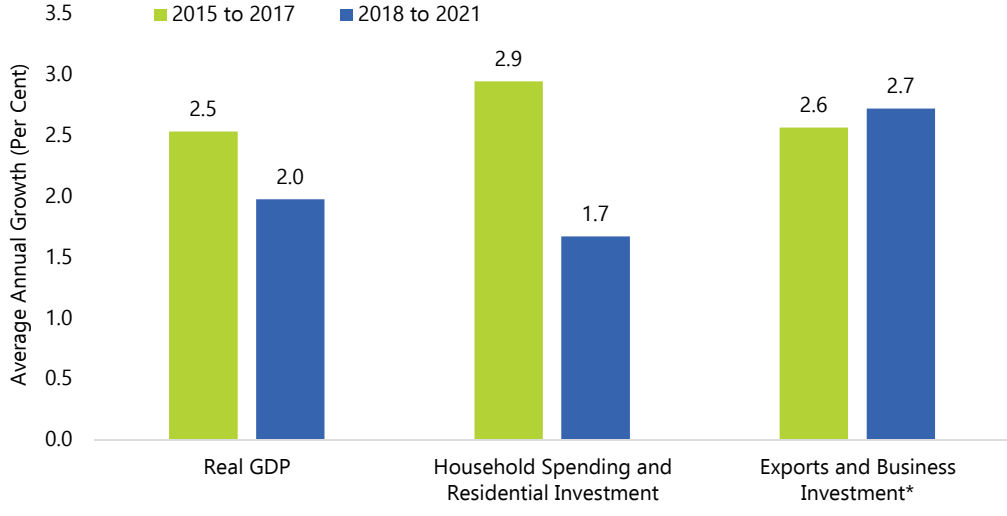
8 Ontario Economic Accounts, Fourth Quarter 2016, released April 13, 2017.

The performance of a number of economic indicators, including employment, retail sales and home sales remained solid in the first quarter of 2017. However, Ontario's merchandise export performance has been uneven so far in 2017.

Uncertainty over the future direction of U.S. trade and industrial policy could hamper business investment growth in the near term, which would negatively impact Ontario's competitiveness. Without stronger business sector investment to expand production capacity, the growth potential of several key Ontario industries will be limited.[9] As a result, despite the projection for steady growth in the U.S. and a competitively valued Canadian dollar, Ontario's net exports[10] are projected to grow at a relatively moderate pace over the outlook.

The FAO is forecasting real GDP growth of 2.4 per cent in 2017, supported by strong household spending and residential investment.[11] The pace of Ontario's overall economic growth will moderate to 2.1 per cent in 2018 and to an average of 2.0 per cent over the last three years of the outlook.

Exports and Business Investment Expected to Drive Economic Growth



* Business Investment includes both Non-Residential Investment and Machinery & Equipment Investment.
Source: Ontario Economic Accounts and FAO.

Moderate declines in residential investment in 2018 and 2019 – reflecting elevated household debt and a moderation in housing prices – is expected to contribute to the slower pace of overall economic activity.

9 As noted in a recent Conference Board of Canada report, nearly half of Ontario businesses are operating near or above capacity, hampering the ability of Ontario businesses to increase production to meet foreign demand. Conference Board of Canada Outlook, Winter 2017.
10 Net exports are exports less imports of goods and services.
11 The FAO forecast of the Ontario economy is based on the FAO's short-term quarterly model of the Ontario economy. For a description of the model, please refer to the end of the Economic Outlook chapter.

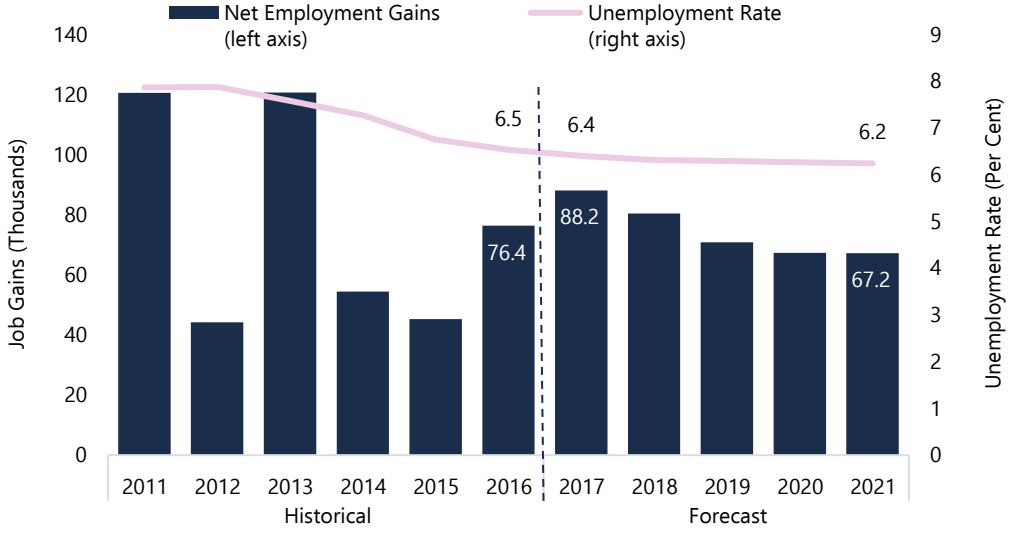
The FAO forecast is broadly consistent with the consensus view among economists that exports and business investment will lead Ontario growth over the next several years, while household spending and residential investment will grow at a more moderate pace, as households reduce borrowing to address high debt loads.

Steady Job Gains Over Outlook

Ontario experienced relatively strong employment growth of 1.1 per cent in 2016 (+76,400 net new jobs), the majority of which were full-time, private sector jobs. There was robust job growth in both goods and service producing industries. The construction industry in particular, posted the highest job growth (+3.4 per cent), followed by healthcare (+3.2 per cent).[12]

The strength in Ontario's labour market continued into 2017 with an increase of 99,600 jobs on a year-over-year basis during the first quarter. For the year, the FAO is projecting a 1.3 per cent gain in employment in 2017. On average, the FAO is forecasting average annual job gains of 1.0 per cent over the next four years, consistent with the outlook for solid economic growth.

Steady Employment Gains as Unemployment Rate Slowly Trends Lower



Source: Statistics Canada and FAO.

Sustained economic growth over the outlook is expected to attract more workers into the labour force, which is forecast to rise at a slightly higher rate than over the last five years. Faster labour force growth from 2017 to 2021, will partially offset relatively

12 For a more detailed discussion on Ontario's labour market, see the FAO's Commentary: "Ontario Posts Solid 2016 Job Gain as the Labour Market Continues to Evolve".

strong employment gains, leading to a more moderate decline in the unemployment rate over the outlook.

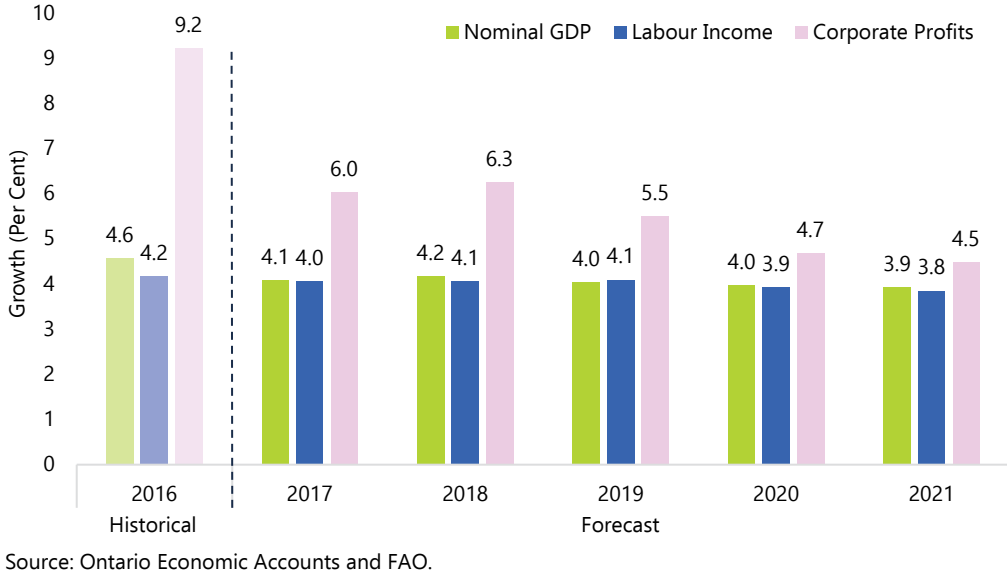
Strong Gains Expected for Labour Income and Corporate Profits

Labour income grew by a robust 4.2 per cent in 2016, above the average annual increase of 3.7 per cent from 2011 to 2015, and a reflection of the strong employment growth last year. The net operating surplus of corporations (largely corporate profits) also increased by a robust 9.2 per cent in 2016 following an equally strong gain of 9.1 per cent in 2015.

As a result of the gains in labour income and corporate profits (which together account for about two-thirds of nominal GDP), nominal GDP grew by a strong 4.6 per cent in 2016.[13]

For 2017, the FAO is projecting a 4.1 per cent rise in nominal GDP, supported by strong gains in labour income (+4.0 per cent) and corporate profits (+6.0 per cent). On average, the FAO is projecting nominal GDP growth of 4.0 per cent over the 2018 to 2021 outlook.

Labour Income and Corporate Profits Support Nominal GDP Growth



Source: Ontario Economic Accounts and FAO.

13 The robust 2016 increase in nominal GDP was much stronger than the 3.4 per cent increase projected in both the FAO's Economic and Fiscal Outlook, Fall 2016 Update and the government's 2016 Economic Outlook and Fiscal Review. The sharp upward shift in 2016 nominal GDP growth reflects large historical revisions to 2015 and 2016 nominal GDP growth in the Ontario Economic Accounts, consistent with new data from Statistics Canada. In particular, the net operating surplus of corporations is now estimated to have increased by 9.2 per cent in 2016 compared to an original projection of 0.3 per cent last fall.

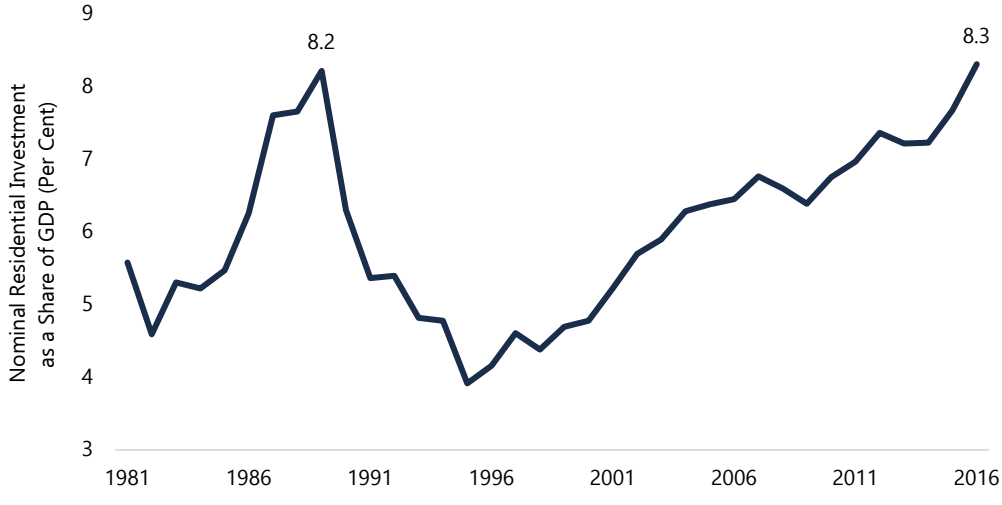
Key Risks for Ontario's Economic Outlook

The FAO's current economic forecast represents a reasonable outlook for the Ontario economy and an appropriate foundation for fiscal projections. However, several key risks could materialize leading to weaker than expected economic growth for the province.

In particular, there are significant risks with respect to the proposed renegotiation of the North American Free Trade Agreement (NAFTA) and the adoption of protectionist trade measures in the United States. As well, other proposed changes to U.S. fiscal and industrial policies, such as lower corporate tax rates and 'Buy America' executive orders, could harm Ontario's relative competitiveness, further discouraging business investment and limiting the contribution of exports to overall growth.

Domestically, the housing market continues to pose a significant risk to the overall economy. The sharp rise in Ontario housing prices – particularly in the Greater Toronto Area – has contributed to record consumer debt loads and stretched levels of affordability.

Residential Investment Spending Accounts for a Record Share of GDP



Source: Ontario Economic Accounts and FAO.

At the same time, the relative importance of residential housing investment to the overall economy has increased substantially in recent years, posing a significant risk to the Ontario economy, in the event of a sharp housing market correction. In 2016, investment in residential housing accounted for a record high 8.3 per cent of Ontario's nominal GDP, up from 6.4 per cent in 2009.[14]

14 Almost one-quarter (22 per cent) of the growth in nominal GDP in 2016 was directly attributable to the increase in residential investment spending.

The last time investment in residential housing accounted for a similar proportion of the economy was 1989, just prior to the 1990-1995 housing market correction.

A sharp correction in housing prices, exacerbated by the elevated levels of household debt, would negatively affect household spending and residential investment, and could lead to broader economy-wide impacts on growth and employment.

The Province recently announced a package of measures intended to respond to the underlying factors contributing to the unsustainable rise in housing prices and the rapid growth in housing market activity. However, it is too early to assess whether these measures will adequately address the imbalance between demand and supply pressures in the market.

The FAO's Quarterly Short-term Model of the Ontario Economy

The FAO has developed a short-term forecasting model to produce quarterly five-year projections of the Ontario economy. The model is based on dynamic equations for major sub-categories of real and nominal GDP. The model also includes key labour market components, financial variables and the Canada-U.S. dollar exchange rate. The model is structured around a number of important external or exogenous concepts such as Canada-wide economic growth, U.S. economic growth, U.S. prices, U.S. interest rates and energy prices.

The model is an important tool for the FAO's bi-annual Economic and Fiscal Outlook (EFO), ensuring internal consistency of each projection as well as consistency between EFO forecasts. It also provides the majority of the inputs required by the FAO's Fiscal Outlook Model which provides the FAO's projection of the government's fiscal position.

3 FISCAL OUTLOOK

Continued Budget Deficits Projected

Based on the FAO's current economic forecast and updated fiscal information, the FAO is projecting continued Ontario budget deficits over the outlook. In the near term, the deficit improves due to strong tax revenue growth and a temporary boost to non-tax revenue. However, beginning in 2018-19, the deficit is expected to increase as a result of moderating revenue growth combined with higher expenses.

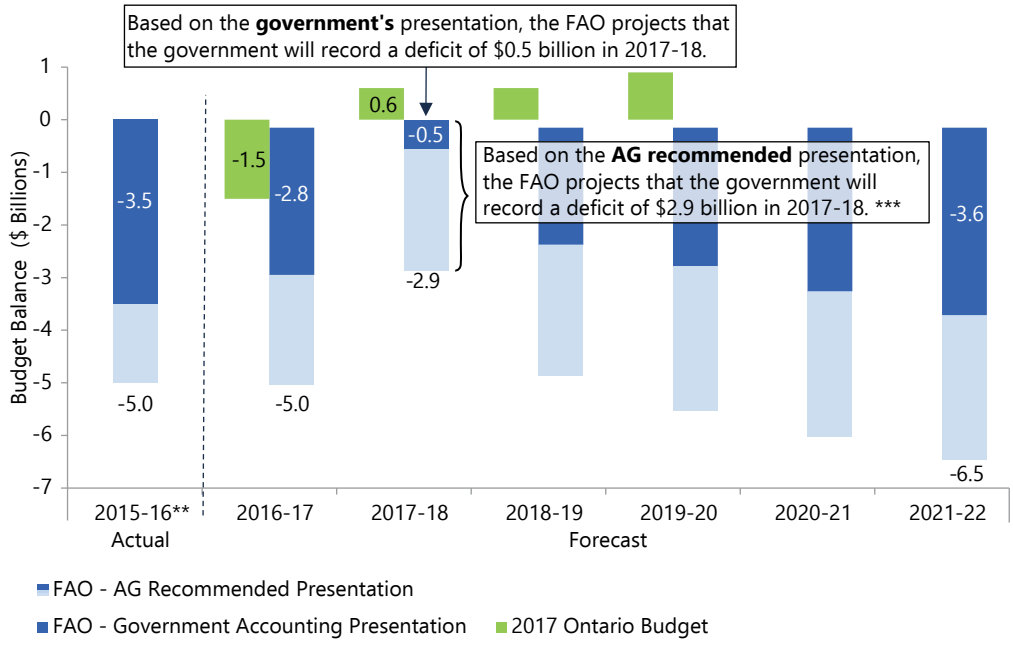
Since the release of the 2015-16 Public Accounts of Ontario, the government and the Auditor General (AG) have disagreed on the application of public sector accounting standards with respect to jointly-sponsored pension plans. (Please refer to the discussion on page 25 for additional background and context on this issue.) Based on the FAO's application of the Auditor General's recommended accounting for these pension assets, the FAO is projecting a budget deficit of $2.9 billion for 2017-18, rising to $6.5 billion by 2021-22.[1]

Under the government's accounting presentation, the FAO is projecting a budget deficit of $0.5 billion in 2017-18, growing to $3.6 billion by 2021-22.[2] By comparison, in the 2017 Budget, the government is projecting a budget surplus of $0.6 billion in 2017-18, followed by small surpluses over the next two years (before the reserve).

1 The FAO projection based on the Auditor General's recommended accounting presentation assumes a valuation allowance that effectively writes off the value of any net pension assets – referred to as the 'pension adjustment' in this report. The valuation allowance increases 'other program' expense, resulting in higher deficits under the AG's recommended accounting presentation.

2 Under the government's accounting presentation, Ontario's public accounts would be expected to receive a qualified opinion from the Auditor General.

Ontario's Budget Balance*



* Budget balance before reserve.

** Ontario's 2015-16 Public Accounts reported a deficit of $5.0 billion. Without the pension adjustment, the deficit would have been $3.5 billion.

*** This includes the FAO's estimate of the pension adjustment.

Source: 2015-16 Public Accounts, 2017 Ontario Budget and FAO.

On the government's accounting presentation, the FAO projects that a balanced budget is within the government's reach in 2017-18. However, the budget deficit is expected to increase after 2017-18, due to moderate revenue growth, the absence of one-time non-tax revenues, and higher program expenses. Staying in balance after 2017-18 will likely require additional fiscal policy measures.

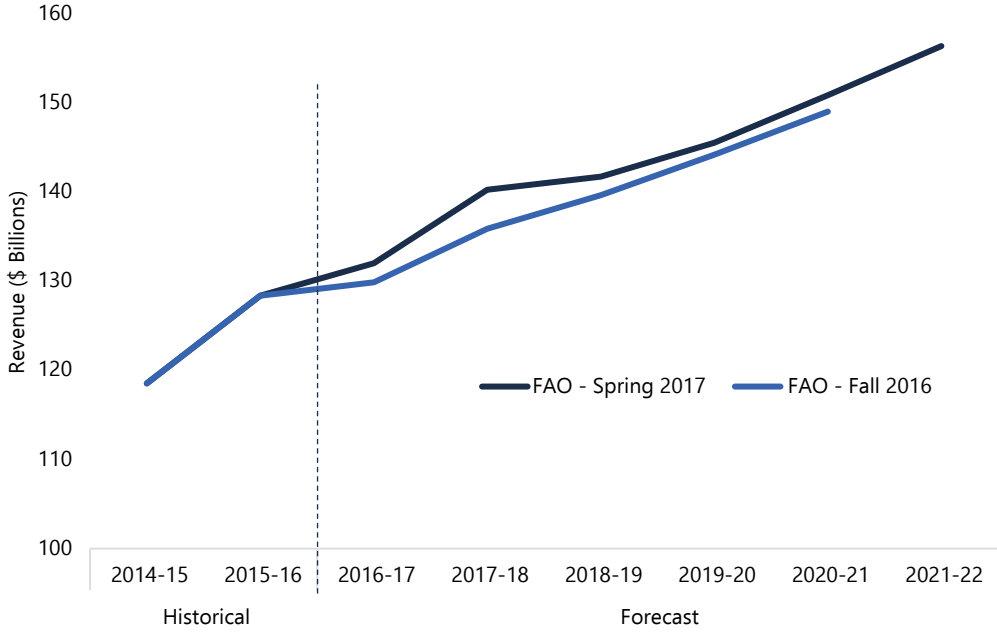
Under the Auditor General's recommended accounting presentation, the FAO is projecting significant budget deficits over the entire outlook. On this basis, it is unlikely that the government will balance the budget without additional fiscal policy adjustments to raise revenue or lower expense.

Revenue Outlook

The FAO is projecting average annual revenue growth of 3.3 per cent per year over the outlook, slightly higher than forecast in the FAO's fall report.

In the near-term, revenue growth is driven by robust economic performance in 2016 and 2017, and a boost from one-time revenue in 2017-18. Beyond 2017-18, growth in tax revenue moderates and the benefit of one-time non-tax revenue ends.

Revenue Stronger Than Expected in Near Term



Source: FAO and Public Accounts.

FAO Revenue Assumptions and Forecast

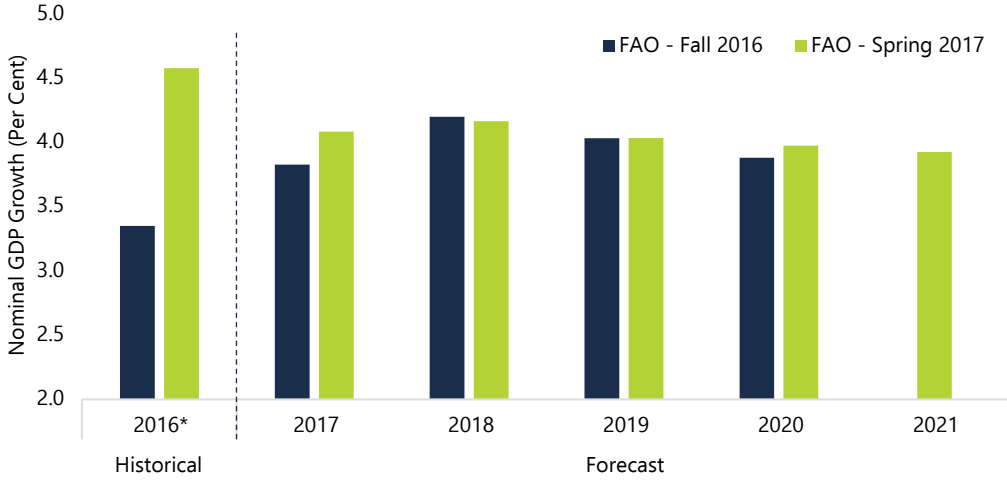
Revenue Source	Assumption	Forecast
Taxation Revenue	Grows with key economic drivers including labour income, corporate profits and household spending	Averages 3.9 per cent growth per year from 2016-17 to 2021-22
Federal Transfers	Based on legislated growth rates and economic performance	Federal transfers are expected to grow by 1.9 per cent per year from 2016-17 to 2021-22
Government Business Enterprises (GBE)	Based on government projections	Income from GBEs are projected to rise moderately from $5.3 billion in 2016-17 to $6.5 billion in 2021-22
Other Revenue	Based on government projections, and includes asset sales, and proceeds from cap and trade allowances	These revenues are projected to increase from $8.5 billion in 2016-17 to $11.0 billion in 2017-18, before declining to $8.5 billion by 2021-22

Stronger Economic Growth Expected to Boost Tax Revenue

Consistent with the FAO's economic forecast, the FAO is currently projecting tax revenues to rise at an average of 3.9 per cent from 2016-17 to 2021-22, much stronger than the 3.0 per cent forecast in the FAO's fall outlook.

Since the FAO's fall report, nominal GDP – the broadest measure of the tax base – was revised significantly higher in 2016, improving the forecast for 2017.[3] However, beyond 2017, the outlook for nominal GDP growth is relatively unchanged from the fall forecast.

Nominal GDP up Significantly in the Near-Term Since the Fall



* 2016 value for the Fall 2016 EFO was the FAO's forecast at the time of the report's release.

Source: Ontario Economic Accounts and FAO.

Improved economic prospects are expected to lift the Province's tax revenue by approximately $2.8 billion in 2016-17 and $4.2 billion in 2017-18, compared to the FAO's fall estimates.

- Personal income tax revenue is forecast to grow stronger than expected in the fall due to the stronger forecast for labour income.[4]
- Corporations tax revenue is projected to benefit from the stronger outlook for corporate profits.

3 See economic section, and the footnote on page 12.

4 However, near-term revenue growth will be somewhat dampened as some high-income earners shifted earnings into the 2015 tax year to avoid the new higher 33 per cent tax rate introduced by the federal government in 2016 (http://www.fin.gc.ca/afr-rfa/2016/report-rapport-eng.asp#_Toc463249478). Using Finance Canada estimates, the FAO estimates that roughly $600 million of Ontario's 2015 PIT revenue was due to income shifting, which lowers taxable income in 2016-17 and 2017-18.

- Sales tax and land transfer tax revenues are forecast to grow stronger than expected in the fall due to the on-going strength in Ontario's housing market.

Equalization Entitlement Declines

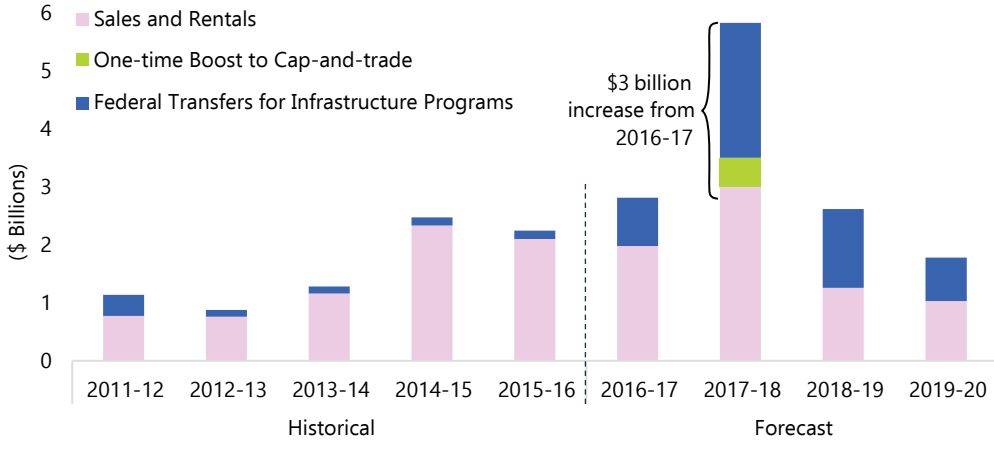
Given Ontario's recent economic strength relative to the rest of Canada, the Province's Equalization entitlement declined $0.8 billion to $1.4 billion in 2017-18. The FAO is projecting a further drop to $0.6 billion in 2018-19. Beyond 2018-19, the FAO is projecting that Ontario will no longer be entitled to Equalization payments — a reflection of the continued relative strength of the Ontario economy.

2017-18 Revenue to Benefit from One-time Increases

Based on the 2017 Budget, Ontario's 2017-18 revenues will benefit from a one-time $3.0 billion boost,[5] that includes:

- $1.5 billion in higher revenue from federal transfers for infrastructure;
- $1.0 billion in increased sales and rentals revenue, reflecting additional asset sales[6]; and
- $0.5 billion in additional cap and trade proceeds from March 2017, which will be recognized in 2017-18.[7]

2017-18 Temporary Revenue Boost



Source: Ontario Budgets, Ministry of Finance and FAO.

5 This one-time benefit is incorporated into the FAO's revenue projection.

6 A portion of this increase reflects the Province's sale of 22 per cent of Hydro One equity in 2017-18, compared to a 15 per cent sale in 2016-17. The FAO estimates that this sale would generate about $0.8 billion in revenue gains in 2017-18, compared to a gain of $0.5 billion in 2016-17.

7 The government indicated that the cap and trade revenues from the March 2017 auction will be reported in fiscal year 2017-18, because the allowances were certified and delivered on April 2, 2017.

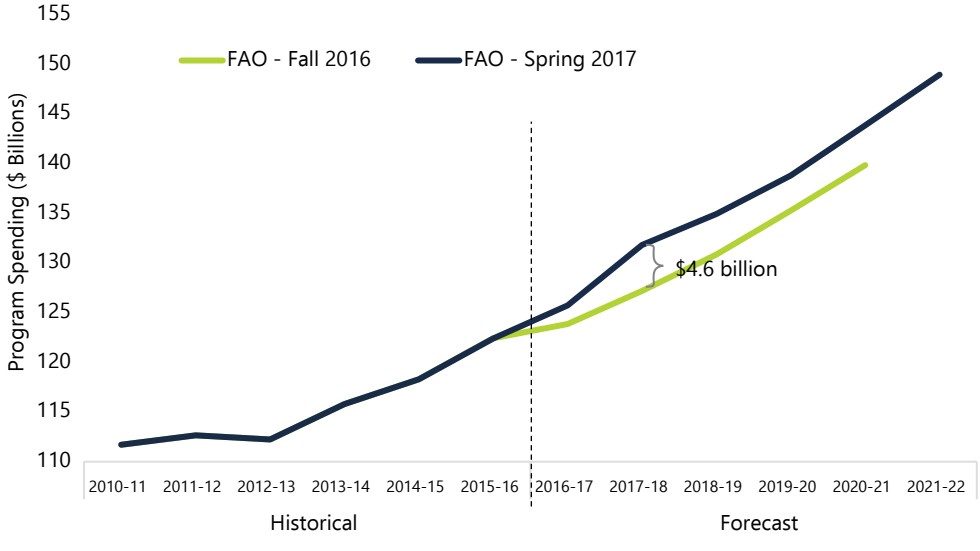
Expense Outlook

Program Expense to Increase Significantly over the Outlook

The FAO projects program spending growth of 3.3 per cent per year over the 2016-17 to 2021-22 period.[8]

Over the 2016-17 to 2019-20 period, the FAO adopts the government's 2017 Budget projections for program spending[9], adjusted to reflect the Auditor General's recommended accounting presentation.[10] The expense outlook includes significant new spending across all sectors, including a new children and youth Pharmacare program, higher operating funding for hospitals, 24,000 new child care spaces[11], and the government's new 'Fair Hydro Plan'. As a result, spending is now forecast to be significantly higher than projected in the FAO's fall outlook.

Program Expense Higher than Projected in the Fall



Note: Program spending includes the FAO's estimate of the pension adjustment.
Source: Ontario Public Accounts, 2017 Ontario Budget and FAO.

With these new expenses, program spending is expected to grow 3.3 per cent per year on average over the next five years. This higher program spending growth is still slightly below the growth in underlying cost and demographic pressures, which is estimated to be 3.6 per cent on average.

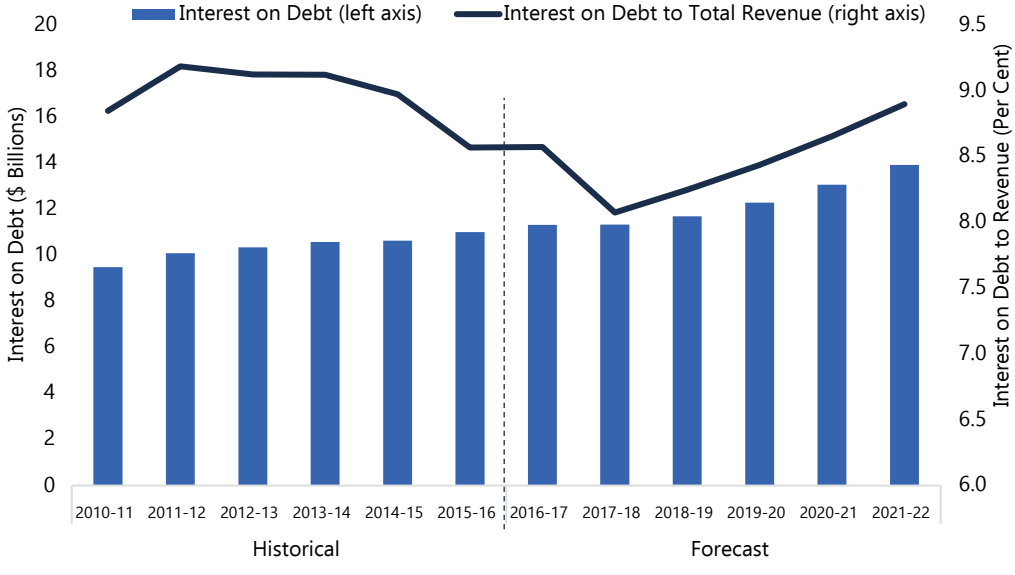
8 The FAO's projection extends to 2021-22, two years beyond the 2017 Ontario Budget forecast.
9 Given the government's discretion over spending, the FAO adopts the government's announced spending plans and incorporates policy announcements as appropriate.
10 The FAO's estimates the pension adjustment will increase 'other program' expense by $2.2 billion in 2016-17, rising to $2.9 billion by 2021-22.
11 The 2017 Budget announced 24,000 new child care spaces for 2017–18, as part of the government's September 2016 Throne Speech commitment to create 100,000 new child care spaces by 2022.

Interest on Debt

The FAO projects interest on debt (IOD) payments will increase at an average annual rate of 4.0 per cent from $11.0 billion in 2015-16 to $13.9 billion by 2021-22, reflecting higher debt and rising interest rates over the outlook. This is faster than the average rate of program spending growth over the outlook.

Over the past five years, IOD as a share of revenue declined steadily, benefitting from falling interest rates. However, given the projected rise in interest rates over the outlook, the FAO forecasts that IOD as a share of revenue will increase from 8.1 per cent in 2017-18 to 8.9 per cent by 2021-22.

Interest on Debt to Rise Sharply as a Share of Revenues



Source: Ontario Public Accounts and FAO.

Ontario Debt Outlook

Ontario Net Debt-to-GDP Ratio Will Remain Elevated

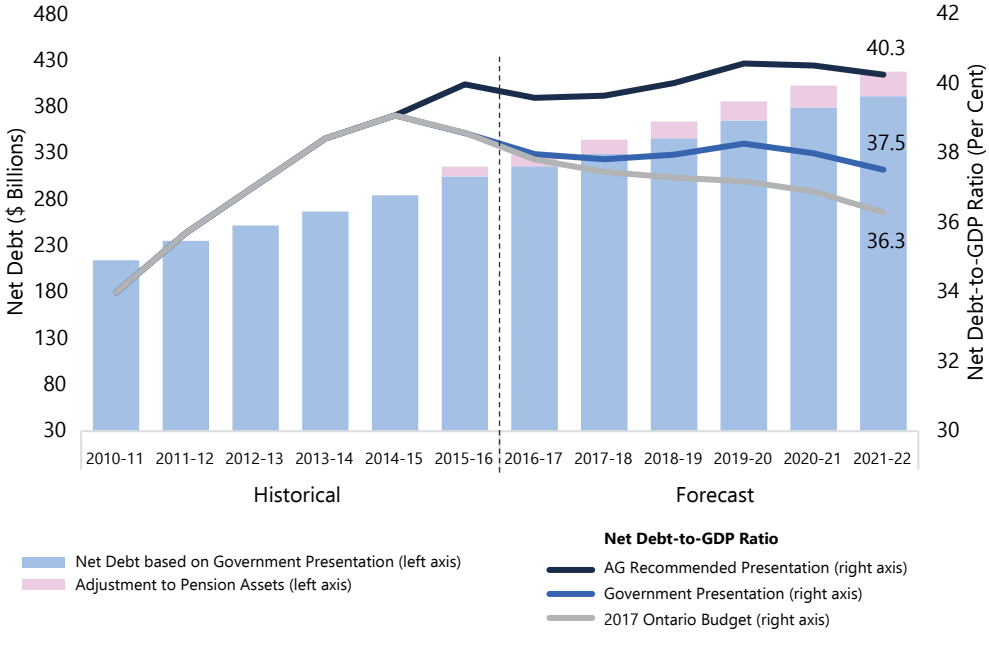
Ontario's total borrowing requirements are expected to remain high over the outlook. To finance the cost of projected capital spending, on-going deficits and maturing debt issues the FAO estimates that provincial borrowing will average $37 billion per year over the next five years.

As a result, the FAO projects Ontario's net debt to increase by $76 billion over the next five years to approximately $392 billion by 2021-22 based on the FAO's application of the AG's recommended accounting presentation. By comparison, using

the government's accounting presentation, the FAO projects Ontario's net debt will rise by $62 billion to roughly $365 billion by 2021-22.

Based on the AG's recommended accounting presentation, the FAO expects Ontario's net debt-to-GDP ratio will edge higher to 40.3 per cent by 2021-22, reflecting the projected increase in net debt and the FAO's forecast for nominal GDP growth. In contrast, based on the accounting presentation adopted by the government, the FAO projects that net debt-to-GDP will fall slightly from 38.6 per cent in 2015-16 to 37.5 per cent by 2021-22.

Ontario's Net Debt-to-GDP Ratio



Source: FAO, Ontario Economic Accounts, and 2017 Ontario Budget.
Note: AG recommended presentation is based on FAO estimates of the pension adjustment.

In the 2017 Budget, the Province set an interim net debt-to-GDP target of 35 per cent by 2023-24 and committed to lowering the ratio to 27 per cent by 2029-30. The FAO's net debt-to-GDP projections under both accounting presentations, suggest that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24.

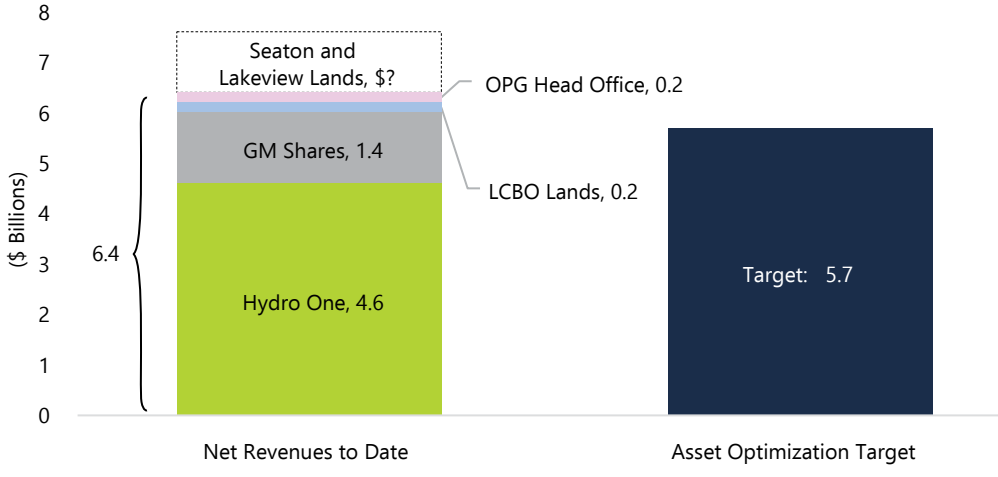
Risks to the Fiscal Plan and Policy Options

There are material risks that could impact Ontario's fiscal position.

- A sharp correction in the housing market could present a significant risk for both the broader economy and for the Province's fiscal plan. As discussed in an FAO commentary[12], a decline in house prices and housing market activity would directly reduce Land Transfer Tax and HST revenues. In addition, the broader economic impacts would lower personal and corporate income tax revenues.

- In the 2017 Budget, the government significantly reduced the prudence built into its program spending projection compared to the 2016 Budget, leaving less fiscal flexibility for the government to respond to unexpected events.[13] In addition, the FAO projects that interest on debt payments as a share of both program spending and revenue will increase significantly, exposing the government to added fiscal risk should interest rates rise faster than expected.

Asset Optimization Revenues and Target



Source: FAO and Ontario Budgets.

Note: As of the 2017 Budget, the government had generated $3.8 billion in net proceeds from its sale of Hydro One equity. On May 8, 2017, the government announced the sale of an additional 22 per cent of Hydro One equity, which the FAO estimates will generate $0.8 billion in net proceeds.

On the other hand, the government has increased spending growth to a rate closer to underlying spending pressures, diminishing the expense risk identified in earlier FAO reports.

12 "The Impact of a Housing Market Correction on Ontario's Fiscal Position", Financial Accountability Office of Ontario, February 15, 2017. http://fao-on.org/en/Blog/Publications/Housing_Market16821

13 In the 2017 Budget, contingency funds total $0.6 billion for the coming fiscal year, half the size built into the 2016 Budget fiscal plan. Similarly, the government's target for year-end savings has increased to $1.2 billion for the coming year, compared to $0.8 billion in Budget 2016.

Additionally, the government has a broad range of policy options that could improve its fiscal position, including the sale of additional public assets beyond announced targets. To date, the FAO estimates that the government has generated $6.4 billion in revenues from net asset sales, exceeding its target of $5.7 billion over 10 years. Given the government's intention to sell Seaton and Lakeview lands[14], it would further overachieve its asset sales target.

14 2017 Ontario Budget, page 161.

The Accounting Treatment of Jointly Sponsored Pension Plans

Background

Ontario's 2015-16 Public Accounts noted a disagreement between the Office of the Auditor General and the Province on the appropriate accounting treatment for net pension assets of jointly sponsored pension plans. Specifically, the Province is a joint sponsor of two pension plans, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees Union Pension Plan (OPSEUPP).

The government's position is that these pension assets have been appropriately and consistently reflected on the Province's financial statements since 2001. The Office of the Auditor General, based on a review of these pension assets, determined that a change in the accounting treatment was required. The Auditor General concluded that under current Canadian public sector accounting standards, the government could not unilaterally recognize a pension asset on its financial statements without evidence - in the form of a written agreement - permitting it to realize the asset through reduced contributions.[15]

In response, the Province adopted regulated accounting for 2015-16 to reflect the fiscal results according to the Auditor General's interpretation of public sector accounting standards, and subsequently appointed a panel, the 'Pension Asset Expert Advisory Panel', to review and provide their recommended interpretation. The panel's report,[16] released in February 2017, concluded that the Province's share of net assets in jointly sponsored pension plans should be fully recognized in the Province's financial statements — contrary to the opinion of the Office of the Auditor General.

In the 2017 Budget, the government adopted the advisory panel's interpretation of public sector accounting standards and recognized the net pension assets of the jointly sponsored pension plans. The 2017 Budget also indicated that the Province's 2016–17 Public Accounts will report the net pension assets for the two jointly sponsored pension plans.

15 The Auditor General indicated that her office began reviewing the treatment of pension assets after these assets started to materially affect the government's fiscal position (Auditor General's Statement on Pension Assets, February 16, 2017).

16 https://news.ontario.ca/tbs/en/2017/02/pension-asset-expert-advisory-panel-submits-report.html.

The Central Issue

The government and the Auditor General have put forward different interpretations of the application of public sector accounting standards for jointly sponsored pension plans.

The different interpretations centre on the question of whether the government has unilateral control of pension surplus assets in jointly sponsored pension plans. In particular, the issue is focused on whether an explicit written agreement between the co-sponsors (the government and the unions representing the employees) to lower future contributions is required for the government to recognize the value of the pension surplus assets.

According to the Auditor General, the issue can be resolved if the government presents an agreement with the Ontario Teacher's Federation (OTF) allowing the government to access the OTPP pension assets through reduced contributions. The extent and duration of the reduced contributions would determine the size of the pension asset that the government could recognize in its financial statements.

The government's position, based on the advice of the advisory panel, is that the existing agreements governing the pension plans, and past history, reflect the sponsors' rights and intent to benefit from surplus assets in the plans through mechanisms reflected in the agreements to potentially realize a benefit through lower future contribution rates.

In the absence of an agreement, and given the government's decision to accept the advisory panel's recommended approach to accounting for jointly sponsored pension plan assets, the Auditor General would be expected to provide a qualified opinion[17] on Ontario's 2016-17 Public Accounts.

Roles and Responsibilities of the Province and the Auditor General

The Province (through the Treasury Board Secretariat) is responsible for the preparation of Ontario's Public Accounts in accordance with legislation, and based on the standards set out by the Public Sector Accounting Board (PSAB).[18]

The PSAB accounting standards serve the public interest by providing an independent, high-quality accounting framework for public sector entities. The

17 An auditor may provide a qualified opinion when financial statements do not conform in a material way to the applicable accounting standards.
18 https://www.ontario.ca/page/public-accounts-101-guide#section-6].

government is responsible to ensure that the financial reports fairly reflect the activities and financial position of the Province.

The Auditor General reviews the Province's annual Public Accounts and provides an audit opinion to the Legislature on whether the Consolidated Financial Statements for the Province of Ontario present fairly, in all material respects, the Province's financial position, in accordance with the PSAB accounting standards.

The FAO's Presentation of Ontario's Fiscal Outlook

The Financial Accountability Officer supports the Legislative Assembly by providing independent economic and financial analysis intended to improve the transparency of the government's fiscal plan. The Officer looks to the Auditor General as the provincial authority on the appropriate interpretation and application of accounting standards for the Province.

The FAO has presented two fiscal projections, including and excluding the impact of the net pension assets of jointly sponsored pension plans, to help members of the Legislative Assembly better understand the implications of these different accounting interpretations on the Province's fiscal position.

- The FAO projection based on the Auditor General's recommended accounting presentation assumes a valuation allowance that offsets the net pension assets.
- The FAO projection based on the government's accounting presentation recognizes the net pension assets.

  In the absence of an agreement between the pension plan co-sponsors, this presentation of Ontario's fiscal position would be expected to receive a qualified opinion from the Auditor General when published in the Province's future Public Accounts.

Based on the Auditor General's recommended accounting presentation for the net assets of jointly sponsored pension plans, and the FAO's estimate of the pension adjustment, the FAO is projecting budget deficits of $2.9 billion in 2017-18, rising to $6.5 billion by 2021-22. Alternatively, based on the pension accounting presentation adopted by the government, the FAO is projecting budget deficits of $0.5 billion in 2017-18 rising to $3.6 billion in 2021-22.

4 APPENDICES

Developments since the FAO's Fall 2016 Economic and Fiscal Outlook

The FAO's current projection of the Ontario budget balance has generally deteriorated relative to the FAO's fall 2016 projection.

- Stronger than expected economic performance is expected to boost taxation revenues over the forecast, partially offset by lower Equalization revenue.
- Based on new government spending plans, program expense has increased significantly.

Developments since Fall 2016 EFO (AG Recommended Presentation)

	2016-17	2017-18	2018-19	2019-20	2020-21
FAO's Fall 2016 Budget Balance Forecast	**-5.2**	**-2.6**	**-2.8**	**-3.3**	**-3.7**
Developments Since Fall 2016					
Revenue					
Stronger Economic Outlook	2.3	4.1	3.9	4.4	4.7
Lower Federal Transfers[1]	-0.3	0.2	-1.3	-2.4	-2.2
Other Revenue Changes[2]	0.1	0.1	-0.5	-0.6	-0.6
Total	2.1	4.4	2.1	1.3	1.8
Expense					
Higher Spending, including Children and Youth Pharmacare, and Fair Hydro Plan	1.2	3.8	3.0	2.2	2.7
Revised Adjustment for Pension Asset[3]	0.7	0.8	1.1	1.4	1.4
Total	2.0	4.6	4.1	3.6	4.1
Total Developments	**0.2**	**-0.3**	**-2.1**	**-2.3**	**-2.3**
FAO's Spring 2017 Budget Balance Forecast	**-5.0**	**-2.9**	**-4.9**	**-5.5**	**-6.0**

Notes:

1. Change in federal transfers forecast mainly due the reduction in Ontario's Equalization payment.
2. Other revenue changes include the $0.5 billion re-profiling of cap-and-trade proceeds from 2016-17 to 2017-18, and an increase in sales and rentals for 2017-18.
3. In the Fall 2016 EFO, the FAO assumed an annual adjustment of $1.5 billion for the net pension assets of jointly sponsored pension plans. The current projection incorporates the FAO's updated estimates for the pension adjustment of $2.2 billion in 2016-17, increasing to $2.9 billion by 2020-21.

Source: FAO.

Forecast Tables

Table 1a: FAO Outlook for Key Revenue Drivers*

(Per Cent Growth)	2015a	2016a	2017f	2018f	2019f	2020f	2021f	Average**
Nominal GDP								
FAO – Spring 2017	4.9	4.6	4.1	4.2	4.0	4.0	3.9	**4.1**
2017 Ontario Budget	4.9	4.6	4.3	4.1	4.2	3.9	-	**4.1**
Current FAO Consensus***	-	-	3.9	4.3	4.1	3.8	4.0	**4.0**
Labour Income								
FAO – Spring 2017	4.2	4.2	4.0	4.1	4.1	3.9	3.8	**4.0**
2017 Ontario Budget****	-	4.4	4.1	4.5	4.6	4.2	-	**4.3**
Corporate Profits								
FAO – Spring 2017	9.1	9.2	6.0	6.3	5.5	4.7	4.5	**5.6**
2017 Ontario Budget	-	9.2	6.8	7.1	5.4	4.0	-	**5.8**
Nominal Household Spending								
FAO – Spring 2017	3.9	4.2	4.2	3.7	3.4	3.5	3.6	**3.8**
2017 Ontario Budget	-	4.2	4.3	4.2	4.2	-	-	**4.2**

a = Actual f = Forecast

* "Labour income", "corporate profits" and "household spending" are defined by Statistics Canada as "compensation of employees", "net operating surplus: corporations", and "household consumption" respectively.

** For comparison purposes, average is calculated from 2017 to 2020 and 2017 to 2019 for Household Spending.

*** FAO consensus includes forecasts from the Centre for Spatial Economics, the Conference Board of Canada and the Policy and Economic Analysis Program at the University of Toronto.

**** 2017 Ontario Budget reports Labour Income on a National Basis, whereas FAO reports Labour Income on a Domestic Basis.

Source: 2017 Ontario Budget, Statistics Canada, Ontario Economic Accounts, FAO Consensus and FAO.

Table 1b: FAO Outlook for Ontario Real GDP and Components

(Per Cent Growth)	2015a	2016a	2017f	2018f	2019f	2020f	2021f	Average*
Real GDP								
FAO – Spring 2017	2.5	2.7	2.4	2.1	2.0	2.0	1.9	**2.1**
2017 Ontario Budget	2.5	2.7	2.3	2.1	2.0	1.7	-	**2.0**
Current FAO Consensus**	-	-	2.1	2.3	2.1	1.9	1.9	**2.1**
Real GDP Components								
Household Spending***	2.7	2.7	2.3	1.9	1.9	1.8	1.8	**2.0**
Residential Investment	7.2	7.9	3.5	-1.3	-2.0	1.9	2.4	**0.5**
Business Investment****	8.2	-4.0	0.2	5.6	5.7	4.9	3.9	**4.1**
Government (Consumption and Investment)	1.9	1.6	1.7	1.3	1.2	1.1	1.0	**1.3**
Exports	2.8	3.0	2.4	2.7	2.5	2.3	2.2	**2.5**
Imports	3.7	1.4	2.2	2.2	2.3	2.2	2.1	**2.2**

a = Actual f = Forecast

* For comparison purposes, average is calculated from 2017 to 2020

** FAO consensus includes forecasts from the Centre for Spatial Economics, the Conference Board of Canada and the Policy and Economic Analysis Program at the University of Toronto.

*** Household Spending is Household and Non-Profit Consumption Expenditure.

**** Business Investment is Non-residential Investment and Machinery & Equipment.

Source: 2017 Ontario Budget, Statistics Canada, Ontario Economic Accounts, FAO Consensus and FAO.

Table 2: FAO Outlook for Selected Economic Indicators

	2015a	2016a	2017f	2018f	2019f	2020f	2021f
Employment (Per Cent Growth)							
FAO – Spring 2017	0.7	1.1	1.3	1.1	1.0	0.9	0.9
2017 Ontario Budget	0.7	1.1	1.3	1.2	1.1	0.9	-
Unemployment Rate (Per Cent)							
FAO – Spring 2017	6.8	6.5	6.4	6.3	6.3	6.3	6.2
2017 Ontario Budget	6.8	6.5	6.4	6.3	6.2	6.2	-
Labour Force (Per Cent Growth)							
FAO – Spring 2017	0.1	0.9	1.1	1.0	1.0	0.9	0.9
2017 Ontario Budget	-	-	-	-	-	-	-
Population Growth (Per Cent)							
FAO – Spring 2017	0.8	1.3	1.3	1.1	1.1	1.1	1.1
2017 Ontario Budget	-	-	-	-	-	-	-
CPI Inflation (Per Cent Growth)							
FAO – Spring 2017	1.2	1.8	2.1	2.1	2.0	2.0	2.0
2017 Ontario Budget	1.2	1.8	2.0	2.0	2.0	2.0	-
Canada Real GDP (Per Cent Growth)							
FAO – Spring 2017	0.9	1.4	2.2	2.3	2.0	1.9	1.9
2017 Ontario Budget	0.9	1.4	2.1	2.0	1.9	1.7	-
U.S. Real GDP (Per Cent Growth)							
FAO – Spring 2017	2.6	1.6	2.3	2.3	2.2	2.1	2.1
2017 Ontario Budget	2.6	1.6	2.3	2.4	2.1	2.0	-
Canadian Dollar (Cents US)							
FAO – Spring 2017	78.2	75.4	75.6	78.4	78.8	79.9	81.3
2017 Ontario Budget	78.2	75.4	74.5	75.5	78.5	80.0	-
WTI Crude Oil (US$)							
FAO – Spring 2017	49	43	54	55	56	61	68
2017 Ontario Budget	49	43	54	59	62	64	-
Three-month Treasury Bill Rate (Per Cent)							
FAO – Spring 2017	0.5	0.5	0.6	1.4	1.9	2.3	2.6
2017 Ontario Budget	0.5	0.5	0.5	0.8	1.5	1.9	-
10-year Government Bond Rate (Per Cent)							
FAO – Spring 2017	1.5	1.3	1.8	2.5	2.9	3.6	3.9
2017 Ontario Budget	1.5	1.3	1.9	2.4	3.0	3.2	-

a = Actual f = Forecast

Source: 2017 Ontario Budget, Bank of Canada, Congressional Budget Office, Statistics Canada, FAO Consensus and FAO.

Table 3: FAO Fiscal Outlook

($ Billions)	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Revenue							
Personal Income Tax	31.1	32.4	34.5	36.7	38.6	40.5	42.5
Sales Tax	23.5	24.7	25.8	26.5	27.3	28.2	29.2
Corporations Tax	11.4	12.7	13.3	14.0	14.6	15.1	15.6
All Other Taxes	25.8	24.0	25.1	25.9	26.9	27.6	28.5
Total Taxation Revenue	91.8	93.9	98.7	103.1	107.3	111.5	115.8
Transfers from Government of Canada	22.9	24.3	25.7	24.6	24.1	24.8	25.6
Income from Government Business Enterprise	4.9	5.3	4.9	5.7	6.0	6.3	6.5
Other Non-Tax Revenue	8.8	8.5	11.0	8.3	8.1	8.3	8.5
Total Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4
Expense							
Health Sector	51.0	52.2	53.8	56.3	58.1	60.6	63.3
Education Sector	25.0	25.7	26.5	27.4	28.0	29.0	29.8
Postsecondary and Training Sector	7.7	7.8	8.4	8.3	8.4	8.5	8.6
Children's and Social Services Sector	15.6	16.2	16.9	17.2	17.4	18.0	18.5
Justice Sector	4.5	4.6	4.7	4.7	4.8	4.9	5.0
Other Programs*	18.6	19.2	21.5	21.0	22.1	22.9	23.7
Total Program Expense*	122.4	125.7	131.8	134.9	138.8	143.8	149.0
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9
Total Expense*	133.4	137.0	143.1	146.6	151.1	156.9	162.9
Budget Balance* (AG Presentation)	-5.0	-5.0	-2.9	-4.9	-5.5	-6.0	-6.5
Adjustment for Pension Assets	-1.5	-2.2	-2.3	-2.6	-2.9	-2.9	-2.9
Budget Balance (Government Presentation)	-3.5	-2.8	-0.5	-2.2	-2.6	-3.1	-3.6
Budget Balance (2017 Ontario Budget)	-3.5	-1.5	0.6	0.6	0.9		

a = Actual f = Forecast

* Based on the FAO's application of the Auditor General's recommended accounting for these pension assets.

Note: Budget balance is presented without reserve.

Source: 2017 Ontario Budget and FAO.

Table 4a: FAO Debt Outlook (Auditor General Recommended Presentation)

$ Billions	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Budget Balance*	-5.0	-5.0	-2.9	-4.9	-5.5	-6.0	-6.5
Accumulated Deficit	202.7	207.7	210.6	215.5	221.0	227.0	233.5
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7
Change in Net Debt		*10.9*	*13.5*	*16.8*	*19.0*	*14.0*	*12.3*
Net Debt to GDP (Per Cent)	*40.0*	*39.6*	*39.7*	*40.0*	*40.6*	*40.5*	*40.3*

a = Actual f = Forecast

* Budget Balance is presented without reserve. Includes the FAO's estimate of the pension adjustment.

Source: Statistics Canada, 2017 Ontario Budget and FAO.

Table 4b: FAO Debt Outlook (Government Presentation)

$ Billions	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Budget Balance*	-3.5	-2.8	-0.5	-2.2	-2.6	-3.1	-3.6
Accumulated Deficit	192.0	194.8	195.3	197.6	200.2	203.3	206.9
Net Debt	294.6	303.1	314.3	328.5	344.6	355.7	365.1
Change in Net Debt		*8.7*	*11.2*	*14.2*	*16.1*	*11.1*	*9.4*
Net Debt to GDP (Per Cent)	*38.6*	*38.0*	*37.8*	*38.0*	*38.3*	*38.0*	*37.5*
Net Debt to GDP from 2017 Budget (Per Cent)	*38.6*	*37.8*	*37.5*	*37.3*	*37.2*	*36.9*	*36.3*

a = Actual f = Forecast

* Budget Balance is presented without reserve.

Source: Statistics Canada, 2017 Ontario Budget and FAO.

Provincial Comparisons

	NL	PE	NS	NB
Fiscal Performance (2015-16)				
Total Revenue				
Per Capita ($)	11,149	11,276	10,119	11,118
to GDP (%)	19.6	26.7	23.7	25.4
Total Program Expenditures				
Per Capita ($)	13,763	10,592	9,632	10,564
to GDP (%)	24.2	25.1	22.6	24.1
Interest on Debt				
Per Capita ($)	1,547	872	906	899
to GDP (%)	2.7	2.1	2.1	2.1
to Revenue (%)	13.9	7.7	9.0	8.1
Total Expenditures				
Per Capita ($)	15,310	11,465	10,538	11,463
to GDP (%)	26.9	27.2	24.7	26.2
Primary Balance				
Per Capita ($)	-2,613	684	487	554
to GDP (%)	-8.7	11.0	1.2	1.7
Deficit (-) or surplus				
Level (Millions $)	-2,200	-28	-11	-261
Per Capita ($)	-4,160	-189	-11	-345
to GDP (%)	-7.3	-0.4	0.0	-0.8
Net Debt				
Level (Millions $)	12,633	2,183	15,097	13,660
Per Capita ($)	23,896	14,880	16,003	18,109
to GDP (%)	42.0	35.3	37.5	41.3
Economic and Demographic Indicator Growth (2015) (Per Cent)				
Real GDP	-2.0	1.3	1.0	2.3
Nominal GDP	-11.5	3.9	2.4	2.9
Employment	-1.0	-1.1	0.1	-0.6
Population	0.1	0.6	0.0	-0.1

* Ontario 2015-16 Fiscal Performance measures are presented after adjustment for pension assets.

Source: FAO, Department of Finance Canada's Fiscal Reference Tables (September, 2016) and Statistics Canada.

QC	Ontario*	MB	SK	AB	BC
12,037	9,305	11,616	12,041	10,168	10,144
26.1	16.8	22.9	17.2	13.0	19.0
10,610	8,874	11,609	12,938	11,524	9,395
23.0	16.0	22.8	18.4	14.8	17.6
1,217	795	660	445	186	594
2.6	1.4	1.3	0.6	0.2	1.1
10.1	8.5	5.7	3.7	1.8	5.9
11,828	9,669	12,269	13,383	11,710	9,989
25.6	17.5	24.1	19.1	15.0	18.8
1,427	430	7	-897	-1,356	749
0.4	0.1	0.0	-1.1	-0.4	0.3
1,431	-5,029	-846	-1,520	-6,442	730
173	-364	-653	-1,342	-1,541	156
0.4	-0.7	-1.3	-1.9	-2.0	0.3
187,098	305,233	21,433	7,899	-3,881	39,635
22,653	22,123	16,538	6,977	-929	8,446
49.1	40.0	32.5	9.9	-1.2	15.9
1.2	2.5	2.2	-1.3	-3.6	3.3
2.6	4.9	3.1	-5.7	-12.5	3.8
0.9	0.7	1.5	0.5	1.2	1.2
0.5	0.8	1.2	1.0	1.7	1.0

May 29, 2017

The Honourable Liz Sandals
President of Treasury Board
Treasury Board Secretariat
Room 4320, 4th Floor, Whitney Block
99 Wellesley Street West
Toronto, Ontario M7A 1W3

Dear Minister Sandals:

Subject: Economic and Fiscal Outlook – Assessing Ontario's Medium-Term Prospects: Spring 2017

Under paragraph 10(1)(a) of the *Financial Accountability Officer Act, 2013* (the Act), the FAO is mandated to undertake regular analyses of the state of the province's finances and trends in the provincial economy.

Section 15 of the Act requires that I deliver copies of any reports I publish to the relevant ministers ahead of publication. Accordingly, please find attached a copy of my report, which presents my office's assessment of the province's medium-term economic and fiscal outlook.

As arranged with the Clerk of the Legislative Assembly, this report will be tabled on **Wednesday May 31 at 9:00 a.m.** Please treat this report as confidential until that time.

An MPP Briefing will be held in Committee Room 1 at 1:30 p.m. Members of the Standing Committee on Finance and Economic Affairs, as well as two members per caucus, are welcome to attend.

Let me take this opportunity to thank you once more for the assistance that your ministry provided to my staff during the preparation of this report.

As always, please feel free to contact my office if we can be of assistance.

Sincerely,



Stephen LeClair
Financial Accountability Officer

Encl.

Financial Accountability Office of Ontario
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May 29, 2017

The Honourable Charles Sousa
Minister of Finance
7th Floor, Frost Building South
7 Queen's Park Crescent
Toronto, Ontario
M7A 1Y7

Dear Minister Sousa:

Subject: Economic and Fiscal Outlook – Assessing Ontario's Medium-Term Prospects: Spring 2017

Under paragraph 10(1)(a) of the *Financial Accountability Officer Act, 2013* (the Act), the FAO is mandated to undertake regular analyses of the state of the province's finances and trends in the provincial economy.

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Sincerely,



Stephen LeClair
Financial Accountability Officer

Encl.

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Bureau de la Responsabilité Financière de l'Ontario

From:	Esmail, Selena (MOF)
To:	Paul Lewis (MOF); Ken Kandeepan; Nadine Petsche (MOF); Teuta Dodbiba (MOF); Tim Cook (MOF); Andrea Dutton (MOF); John Kim
Cc:	Anand, Sareena (MOF); Stephen Taylor (MOF); Felix Fung (MOF); Sandy Luk (MOHLTC); Ruchi Parkash (MOI); Birks, Ryan (MOF); Patrick Laughton (MOF); Nina Arbabzadeh (EDU); Ghufran Tarin (MOF); Anna Strathy; Gavin He; Inglis, Liane (MOF)
Subject:	FW: The FAO"s Spring 2017 Economic and Fiscal Report
Date:	Monday, May 29, 2017 4:18:09 PM
Attachments:	image001.png image002.png EFO Spring 2017EN.pdf EFO Letter to Minister Sandals - May 29.pdf EFO Letter to Minister Sousa - May 29.pdf FAO EFO Report_Summary_v4g.docx
Importance:	High

Hi Everyone,

Attached is the FAO report that is to be released on Wednesday. I've also reattached the summary note (word document) that we are preparing that would be used to form the basis of a briefing of Minister Sousa (possibly joint with Minister Sandals) but we are still working on setting that up. – this is the same version I shared with your earlier.

In the meantime, could you kindly update the note with your input and pass along any Key Messages that could be used for the Minister(s) to respond to the report. We are looking for your feedback by noon tomorrow (apologies for the short turn).

Thanks and happy to take any questions you have.

From: Schuurman, Tim (MOF)
Sent: May-29-17 2:56 PM
To: Thompson, Scott (MOF); Mayman, Gadi (OFA); Kwan, Ronald (OFA); Duran-Schneider, Maria (TBS); Veinot, Cindy (TBS); Lewis, Brian (MOF)
Cc: McLean, David (MOF); Strathy, Anna (OFA); Birks, Ryan (MOF); Esmail, Selena (MOF); Laughton, Patrick (TBS)
Subject: FW: The FAO's Spring 2017 Economic and Fiscal Report

FAO has provided an advanced copy of their final EFO, which will be released on Wed morning at 9am. We're working with staff to review the final version to see whats changed and to update the briefing material. Will look to set up time with the Minister Sousa and his office as well (Maria let us know if Minister Sandals also needs to be briefed on it). Ministers and their offices should have received copies already.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



From: David West [mailto:dwest@fao-on.org]
Sent: May-29-17 2:47 PM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS)
Subject: The FAO's Spring 2017 Economic and Fiscal Report

Good afternoon,

The FAO will be releasing a spring 2017 Economic and Fiscal Outlook (EFO) report on Wednesday May 31st at 9:00 am. There will be separate technical briefings for media and MPPs on Wednesday at 1:30 pm. The report, along with the Officer's statement will be posted on the FAO's website. Please note that while the statement will be posted on our website, the Officer will not be reading the statement to the media for this release.

The report along with the attached letters are being delivered to Ministers Sousa and Sandals this afternoon – and are attached for your reference.

Please treat this document as embargoed until its release on Wednesday at 9:00 am.

As always, we greatly appreciate your assistance and support for the work of the FAO.

Best regards,
David

David West
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FAO
Financial
Accountability
Office of Ontario


Office of the Budget
MINISTRY of FINANCE

Financial Accountability Office of Ontario

Economic and Fiscal Outlook

Assessing Ontario's Medium-term Prospects

Spring 2017

About this Document

Established by the *Financial Accountability Officer Act, 2013*, the Financial Accountability Office (FAO) provides independent analysis on the state of the Province's finances, trends in the provincial economy and related matters important to the Legislative Assembly of Ontario. The FAO's Economic and Fiscal Outlook is released each spring and fall, providing an assessment of the province's medium-term economic performance and fiscal position.

This report was prepared by Edward Crummey, Luan Ngo, Nicolas Rhodes and Mario Angastiniotis under the direction of David West. External reviewers were provided with earlier drafts of this report for their comments. However, the input of external reviewers implies no responsibility for this final report, which rests solely with the FAO.

This report is based on information available to May 2, 2017. Background data used in this report are available upon request.

FAO's Fiscal Projections

The FAO forecasts provincial finances based on projections of existing and announced revenue and spending policies. The forecast represents the FAO's view of the most likely fiscal outcomes given existing policies, without anticipating any new government policy decisions. The FAO's tax revenue projections are based on an assessment of the outlook for the provincial economy and current tax policies. Given the government's discretion over spending, the FAO adopts the government's announced spending plans from fiscal documents and incorporates policy announcements as appropriate. Beyond the government's published spending projections, the FAO forecasts spending based on the outlook for underlying cost drivers including demographics and price inflation.

FAO Financial Accountability Office of Ontario

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1 EXECUTIVE SUMMARY

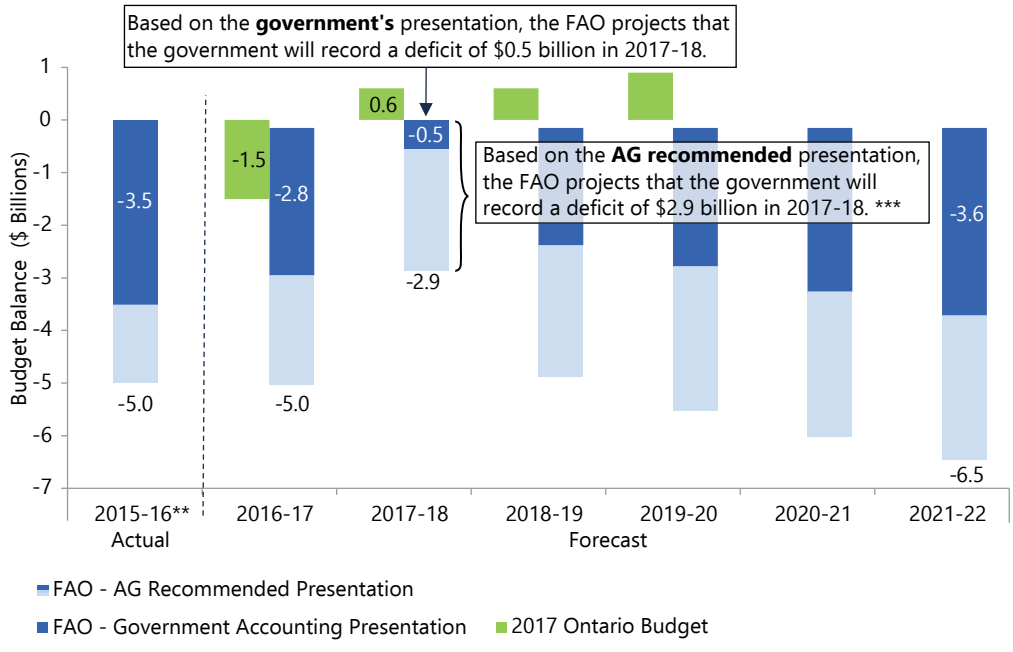
The FAO is projecting continued Ontario budget deficits over the next five years. For 2017-18, the FAO's projection includes an improvement in the deficit, the result of a $3.0 billion one-time boost to non-tax revenue and strong tax revenue growth. However, beginning in 2018-19, the FAO is projecting a steady deterioration in the budget deficit due to moderating revenue growth combined with higher expenses.

The government and the Auditor General continue to disagree on the application of public sector accounting standards for jointly-sponsored pension plans.[1] Based on the FAO's application of the Auditor General's recommended accounting treatment for these pension assets, the FAO is projecting significant budget deficits over the entire outlook. On this basis, it is unlikely that the government will balance the budget without significant fiscal policy adjustments to raise revenue or lower expense.

Under the government's accounting presentation, the FAO projects that a balanced budget is within the government's reach in 2017-18. Beyond 2017-18, the deficit is projected to deteriorate steadily due to rising expenses and moderate revenue growth. On this basis, staying in balance after 2017-18 will likely require additional fiscal policy measures. This presentation of Ontario's fiscal position would be expected to receive a qualified opinion from the Auditor General when published in the Province's 2016-17 Public Accounts.

1 See the discussion on page 25 of the Fiscal Outlook chapter for background and context.

Ontario's Budget Balance*



* Budget balance before reserve.

** Ontario's 2015-16 Public Accounts reported a deficit of $5.0 billion. Without the pension adjustment, the deficit would have been $3.5 billion.

*** This includes the FAO's estimate of the pension adjustment.

Source: 2015-16 Public Accounts, 2017 Ontario Budget and FAO.

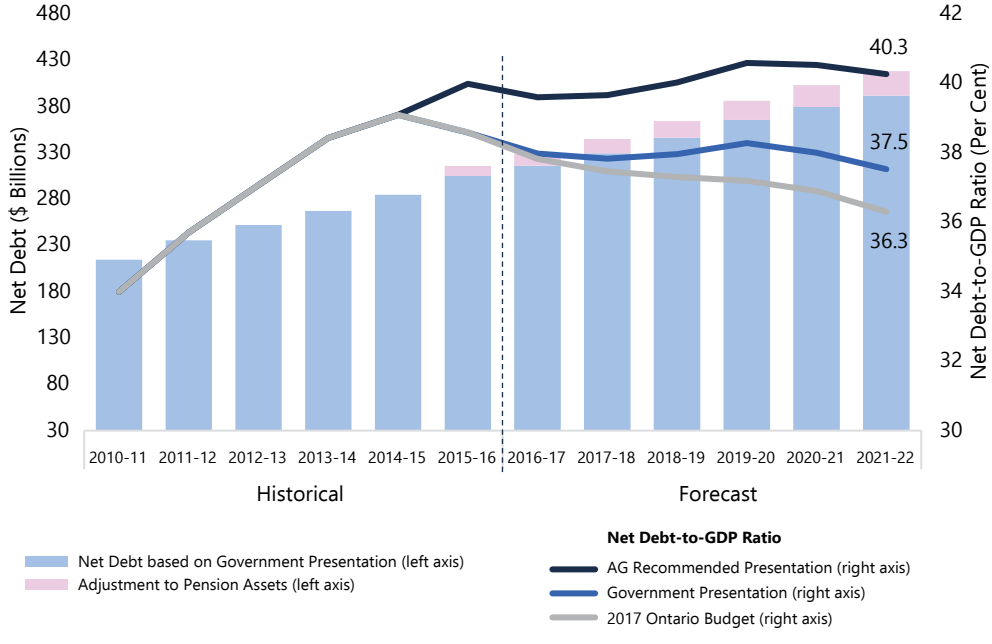
The FAO's economic outlook expects the recent strength of the Ontario economy to continue into 2017. The FAO is forecasting solid growth in real GDP of 2.4 per cent in 2017, moderating to an average annual pace of 2.0 per cent over the following four years. The FAO's economic forecast is broadly in-line with that presented in the government's 2017 Budget.

However, there are significant risks that could result in weaker than expected economic growth for Ontario. In particular, the policy direction of the new U.S. administration remains uncertain. This could hamper business investment and Ontario's economic prospects. Domestically, Ontario's surging housing market continues to be the largest risk for the economy. A sharp correction in housing prices could reverberate beyond the housing market and lead to broader, economy-wide impacts.

Consistent with the economic outlook, the FAO is projecting total revenues will rise by 3.3 per cent per year on average over the outlook. This reflects the FAO's forecast for solid growth in tax revenues combined with a significant one-time increase in non-tax revenues in 2017-18, including the sale of public sector assets. The FAO projects annual program spending growth to average 3.3 per cent per year over the outlook, a rate slightly below underlying spending pressures.

Given on-going deficits and projected capital spending, the FAO is forecasting Ontario's net debt will increase by $76 billion over the next five years, under the Auditor General's recommended accounting presentation. On this basis, Ontario's net debt-to-GDP ratio will edge higher to 40.3 per cent by 2021-22. In contrast, based on the government's accounting presentation, the FAO projects that net debt-to-GDP will fall slightly to 37.5 per cent by 2021-22.

Ontario's Net Debt-to-GDP Ratio



Note: AG recommended presentation based on FAO estimates of the pension adjustment.
Source: Ontario Economic Accounts, 2017 Ontario Budget, and FAO.

In the 2017 Budget, the government set an interim net debt-to-GDP target of 35 per cent by 2023-24 and committed to achieving 27 per cent by 2029-30. Given the FAO's projection of rising deficits and the government's planned capital investments over the outlook, achieving these debt targets will likely require significant additional fiscal measures under either accounting presentation.

2 ECONOMIC OUTLOOK

Overview

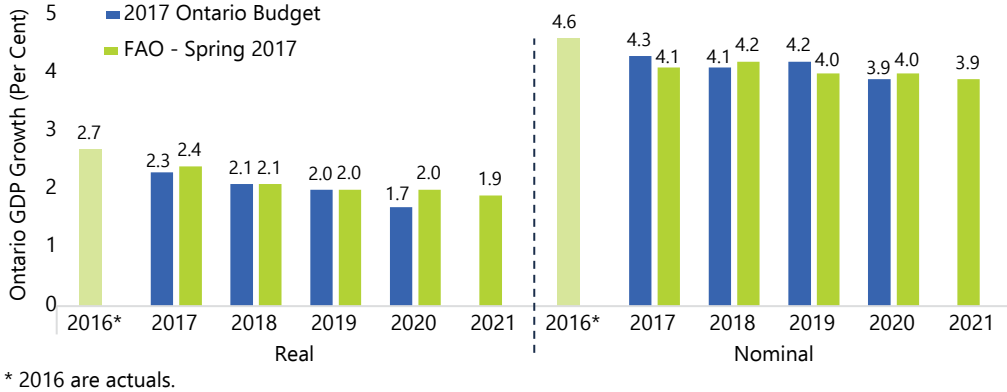
Ontario Economy Expected to Remain Strong in 2017

The Ontario economy finished 2016 with a strong 2.7 per cent increase in real GDP, reflecting solid growth in the second half of the year. Real GDP growth last year was significantly above the 2.1 per cent average gain seen from 2011 to 2015. Strong household spending, residential investment and exports contributed to the increase in real GDP in 2016.

Supported by the strong economic momentum in 2016 and continued improvement in economic indicators in the first quarter of 2017, the FAO is projecting real GDP to rise by 2.4 per cent in 2017 and 2.1 per cent in 2018.

Nominal GDP – the broadest measure of the tax base – increased by a robust 4.6 per cent in 2016. The FAO is projecting nominal GDP to increase by 4.1 per cent in 2017 and 4.2 per cent in 2018, reflecting solid gains in labour income and corporate profits.

Solid Economic Performance Expected Over Outlook



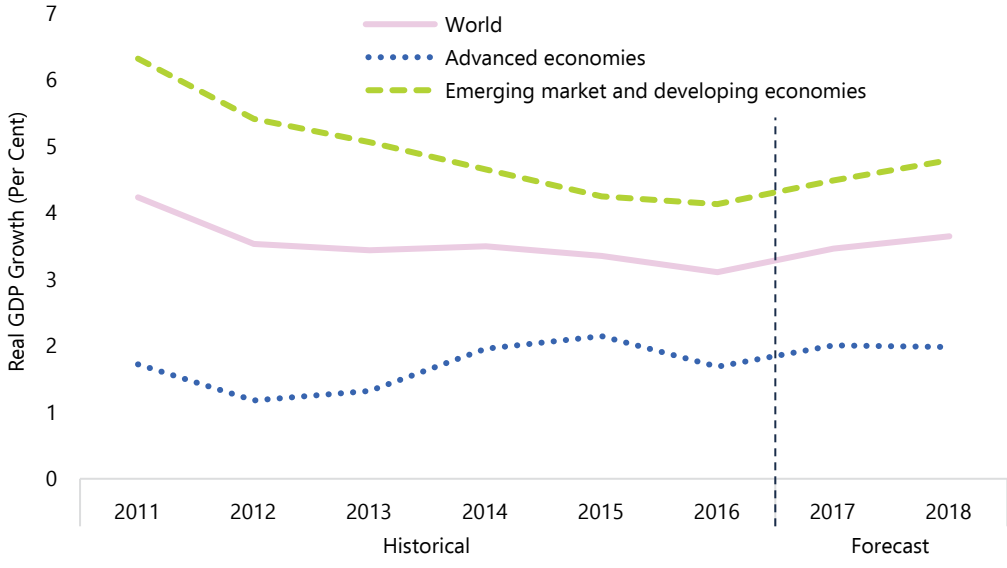
* 2016 are actuals.

Source: Ontario Economic Accounts, 2017 Ontario Budget and FAO.

Global Economy Gaining Momentum

In its latest World Economic Outlook,[1] the International Monetary Fund (IMF) is forecasting global economic growth to strengthen from 3.1 per cent in 2016 to 3.5 per cent in 2017 and 3.6 per cent in 2018. The IMF revised the outlook slightly higher for 2017, but left it unchanged for 2018, compared to its October 2016 outlook.[2]

Global Growth to Improve in 2017



Source: "World Economic Outlook, Gaining Momentum?", April 2017, International Monetary Fund.

For advanced economies, the IMF's forecast for 2017 and 2018 has improved slightly from its October projection with growth of 2.0 per cent in 2017 and 2018.

Growth prospects for emerging market and developing economies are much more varied, but overall have weakened slightly from the IMF's October outlook, due to weaker economic conditions in key export markets. On average, the IMF has lowered its growth forecast for emerging markets and developing countries to 4.5 per cent in 2017, with 2018's forecast remaining unchanged at 4.8 per cent.

The IMF expects China – the world's second largest economy – to grow by 6.6 per cent in 2017 and 6.2 per cent in 2018, reflecting continued support from government policy. In the medium term, China's economic growth is expected to gradually moderate as its economy rebalances from investment and manufacturing-led growth to a more service-intensive economy.

1 "World Economic Outlook, Gaining Momentum?", April 2017, International Monetary Fund.
2 "World Economic Outlook, October 2016: Subdued Demand: Symptoms and Remedies", October 2016, International Monetary Fund.

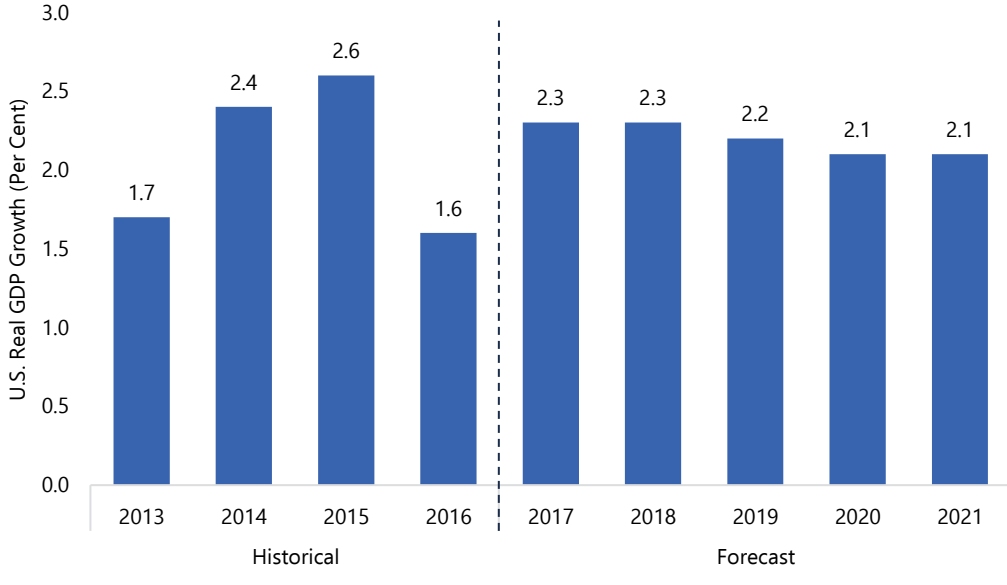
U.S. Economic Growth to Strengthen in 2017

U.S. real GDP advanced by a relatively moderate 1.6 per cent in 2016, the weakest increase in three years. For 2017 and 2018, the FAO projects U.S. growth to improve to 2.3 per cent, with household spending, business investment and residential construction being key contributors to overall growth.[3]

However, the lack of specific details on the new U.S. administration's proposed policies has raised the risks associated with the current U.S. outlook. Many forecasters are cautiously optimistic that some of the proposed fiscal policies, such as expected cuts to corporate tax rates, could boost U.S. economic growth in the short-term.[4] But this optimism is tempered by the potential for large future increases in the U.S. budget deficit, which could weigh on economic growth over the medium-term.

From 2019 to 2021, U.S. real GDP growth is projected to average 2.1 per cent annually, which is in-line with the average rate seen from 2012 to 2016.

U.S. Economic Growth Moderates Beyond 2017



Source: Federal Reserve Bank of St. Louis, Congressional Budget Office and FAO Consensus.

3 The FAO forecast for the U.S. economy in 2017 is based on the U.S. Congressional Budget Office's (CBO) latest forecast. For 2018 to 2021, the U.S. forecast is based on the average of the CBO outlook and the forecasts of three independent model-based forecasters – the Conference Board of Canada, the Centre for Spatial Economics and the Policy and Economic Analysis Program at the University of Toronto.

4 These forecasters include the IMF, CBO, TD Bank, RBC, BMO Capital Markets and National Bank Economics.

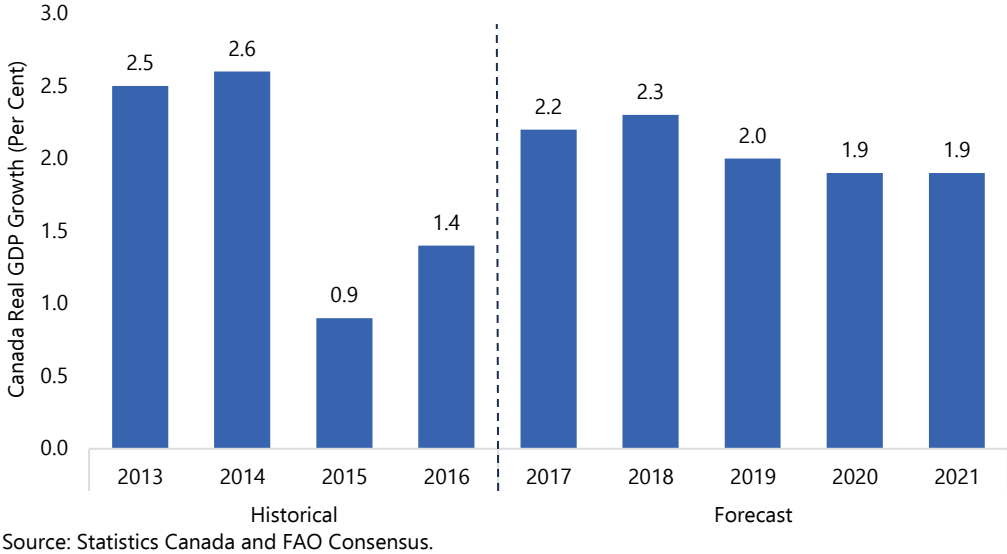
Canadian Economic Growth Expected to Rebound

The outlook for the Canadian economy has improved following strong growth over the second half of 2016.

Continued momentum in recent economic indicators point to a solid start for 2017. Canadian real GDP is currently projected to grow by 2.2 per cent in 2017 and 2.3 per cent in 2018, recovering from more moderate growth in 2015 and 2016.[5] Strength in household spending and non-energy exports are expected to contribute to overall growth in 2017 and 2018.

Beyond 2018, Canadian real GDP is projected to increase at an average annual rate of 2.0 per cent, as the economy continues to adjust to slower growth in the energy sector.

Canada GDP Growth Expected to Improve in 2017



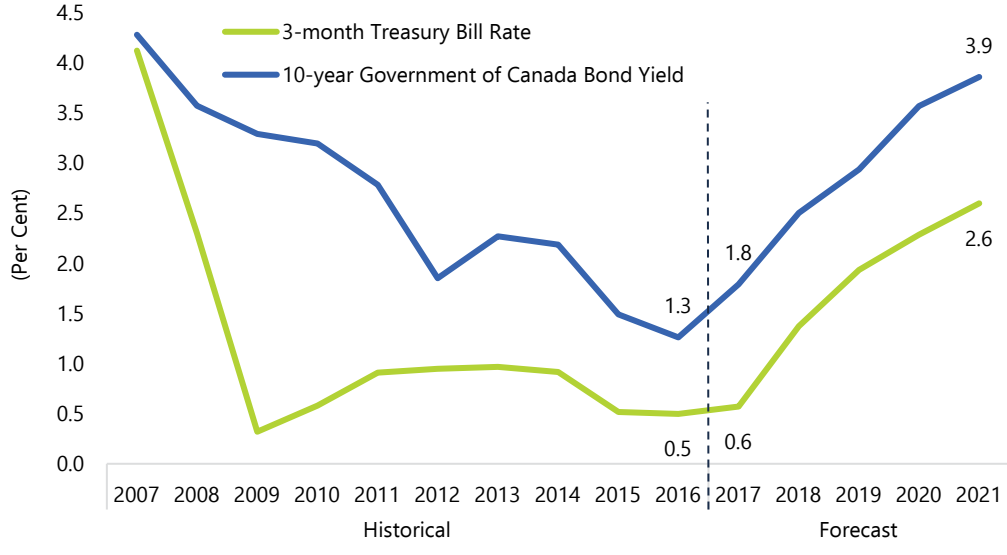
Source: Statistics Canada and FAO Consensus.

Based on the continuing recovery of the U.S. economy, and in particular the strength of U.S. labour markets, the U.S. Federal Reserve raised its key policy interest rate in March 2017.[6] In contrast, the Bank of Canada has remained more cautious about the underlying strength of the Canadian economy and as a result appears unlikely to raise its key policy interest rate before 2018.[7]

5 The FAO forecast for the Canadian economy is based on the average quarterly forecasts of two independent, model-based forecasters – the Conference Board of Canada and the Policy and Economic Analysis Program (PEAP) at the University of Toronto.
6 The Federal Reserve raised its key policy rate, or the Federal Funds Rate, to 1.0 per cent on March 15, 2017.
7 In its most recent monetary policy report, the Bank of Canada indicated that it expects the output gap to close in early 2018. At the same time, the BOC noted that "there is still considerable uncertainty about the outlook," suggesting caution with regard to future changes in its policy interest rate. Bank of Canada Monetary Policy Report, April, 2017.

The FAO is projecting Canadian short-term interest rates will remain near current levels through 2017 and then begin rising modestly in 2018. Beyond 2018, interest rates are expected to gradually normalize with the 3-month Treasury Bill rate increasing to 2.6 per cent and the 10-year Government of Canada bond yield rising to 3.9 per cent by 2021.

Canadian Interest Rates to Rise over the Forecast



Source: Statistics Canada and FAO.

The Canadian dollar is expected to gradually appreciate over the next five years, rising from an average of about 75 cents U.S. in 2016 to about 81 cents U.S. by 2021, supported by the steady increase in short-term interest rates and a gradual rise in oil prices.

Ontario Economic Outlook

Solid Real GDP Growth Expected in 2017

Based on the Ontario Ministry of Finance's estimates,[8] Ontario real GDP rose by a strong 2.7 per cent in 2016, following equally strong gains of 2.5 per cent and 2.7 per cent in 2015 and 2014, respectively. Household spending, residential investment and exports were key contributors to overall economic growth last year. Business investment in plant and equipment disappointed expectations, declining by 4.0 per cent.

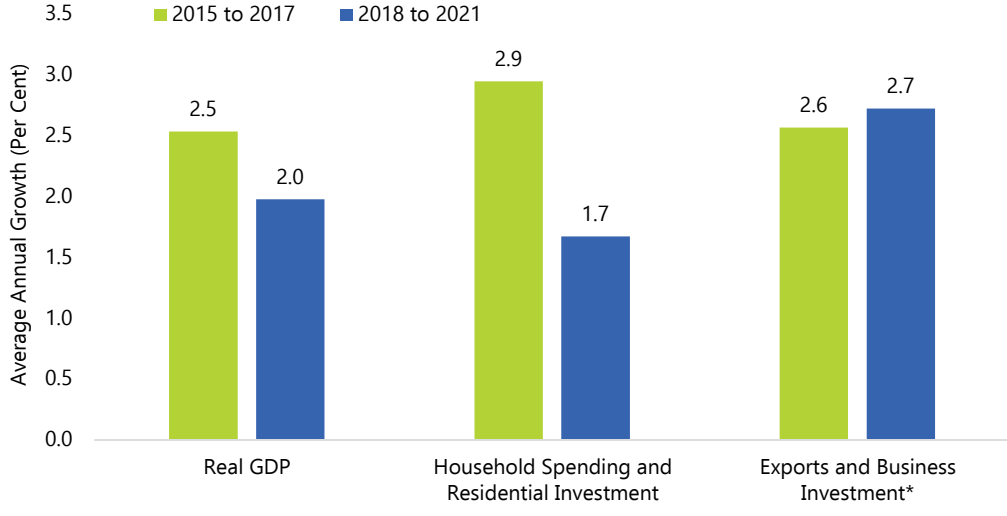
8 Ontario Economic Accounts, Fourth Quarter 2016, released April 13, 2017.

The performance of a number of economic indicators, including employment, retail sales and home sales remained solid in the first quarter of 2017. However, Ontario's merchandise export performance has been uneven so far in 2017.

Uncertainty over the future direction of U.S. trade and industrial policy could hamper business investment growth in the near term, which would negatively impact Ontario's competitiveness. Without stronger business sector investment to expand production capacity, the growth potential of several key Ontario industries will be limited.[9] As a result, despite the projection for steady growth in the U.S. and a competitively valued Canadian dollar, Ontario's net exports[10] are projected to grow at a relatively moderate pace over the outlook.

The FAO is forecasting real GDP growth of 2.4 per cent in 2017, supported by strong household spending and residential investment.[11] The pace of Ontario's overall economic growth will moderate to 2.1 per cent in 2018 and to an average of 2.0 per cent over the last three years of the outlook.

Exports and Business Investment Expected to Drive Economic Growth



* Business Investment includes both Non-Residential Investment and Machinery & Equipment Investment.
Source: Ontario Economic Accounts and FAO.

Moderate declines in residential investment in 2018 and 2019 – reflecting elevated household debt and a moderation in housing prices – is expected to contribute to the slower pace of overall economic activity.

9 As noted in a recent Conference Board of Canada report, nearly half of Ontario businesses are operating near or above capacity, hampering the ability of Ontario businesses to increase production to meet foreign demand. Conference Board of Canada Outlook, Winter 2017.
10 Net exports are exports less imports of goods and services.
11 The FAO forecast of the Ontario economy is based on the FAO's short-term quarterly model of the Ontario economy. For a description of the model, please refer to the end of the Economic Outlook chapter.

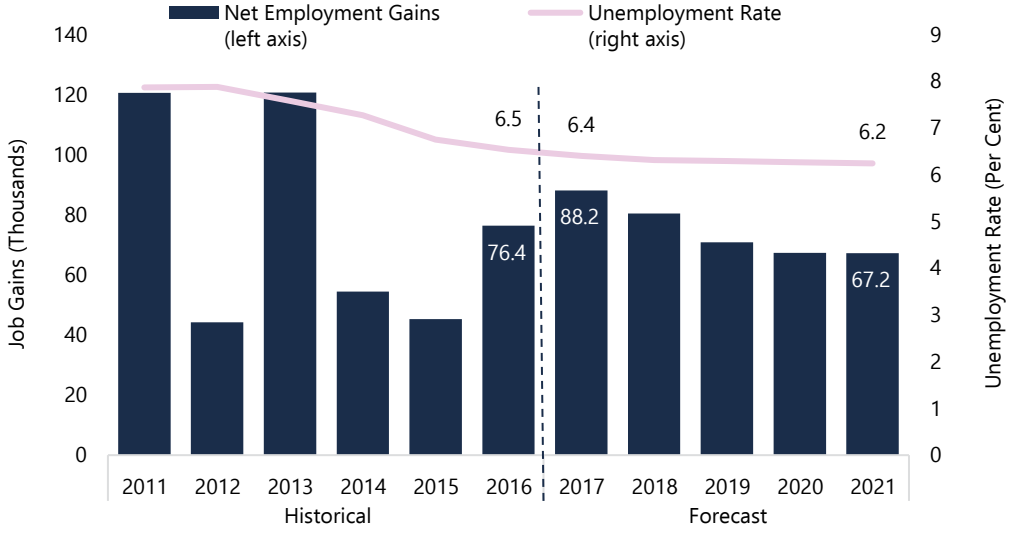
The FAO forecast is broadly consistent with the consensus view among economists that exports and business investment will lead Ontario growth over the next several years, while household spending and residential investment will grow at a more moderate pace, as households reduce borrowing to address high debt loads.

Steady Job Gains Over Outlook

Ontario experienced relatively strong employment growth of 1.1 per cent in 2016 (+76,400 net new jobs), the majority of which were full-time, private sector jobs. There was robust job growth in both goods and service producing industries. The construction industry in particular, posted the highest job growth (+3.4 per cent), followed by healthcare (+3.2 per cent).[12]

The strength in Ontario's labour market continued into 2017 with an increase of 99,600 jobs on a year-over-year basis during the first quarter. For the year, the FAO is projecting a 1.3 per cent gain in employment in 2017. On average, the FAO is forecasting average annual job gains of 1.0 per cent over the next four years, consistent with the outlook for solid economic growth.

Steady Employment Gains as Unemployment Rate Slowly Trends Lower



Source: Statistics Canada and FAO.

Sustained economic growth over the outlook is expected to attract more workers into the labour force, which is forecast to rise at a slightly higher rate than over the last five years. Faster labour force growth from 2017 to 2021, will partially offset relatively

12 For a more detailed discussion on Ontario's labour market, see the FAO's Commentary: "Ontario Posts Solid 2016 Job Gain as the Labour Market Continues to Evolve".

strong employment gains, leading to a more moderate decline in the unemployment rate over the outlook.

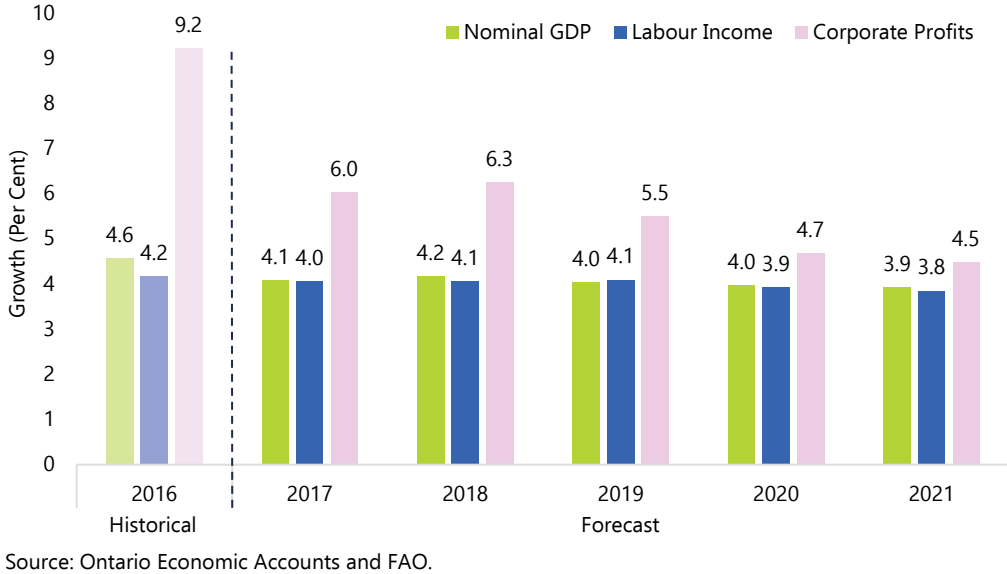
Strong Gains Expected for Labour Income and Corporate Profits

Labour income grew by a robust 4.2 per cent in 2016, above the average annual increase of 3.7 per cent from 2011 to 2015, and a reflection of the strong employment growth last year. The net operating surplus of corporations (largely corporate profits) also increased by a robust 9.2 per cent in 2016 following an equally strong gain of 9.1 per cent in 2015.

As a result of the gains in labour income and corporate profits (which together account for about two-thirds of nominal GDP), nominal GDP grew by a strong 4.6 per cent in 2016.[13]

For 2017, the FAO is projecting a 4.1 per cent rise in nominal GDP, supported by strong gains in labour income (+4.0 per cent) and corporate profits (+6.0 per cent). On average, the FAO is projecting nominal GDP growth of 4.0 per cent over the 2018 to 2021 outlook.

Labour Income and Corporate Profits Support Nominal GDP Growth



Source: Ontario Economic Accounts and FAO.

13 The robust 2016 increase in nominal GDP was much stronger than the 3.4 per cent increase projected in both the FAO's Economic and Fiscal Outlook, Fall 2016 Update and the government's 2016 Economic Outlook and Fiscal Review. The sharp upward shift in 2016 nominal GDP growth reflects large historical revisions to 2015 and 2016 nominal GDP growth in the Ontario Economic Accounts, consistent with new data from Statistics Canada. In particular, the net operating surplus of corporations is now estimated to have increased by 9.2 per cent in 2016 compared to an original projection of 0.3 per cent last fall.

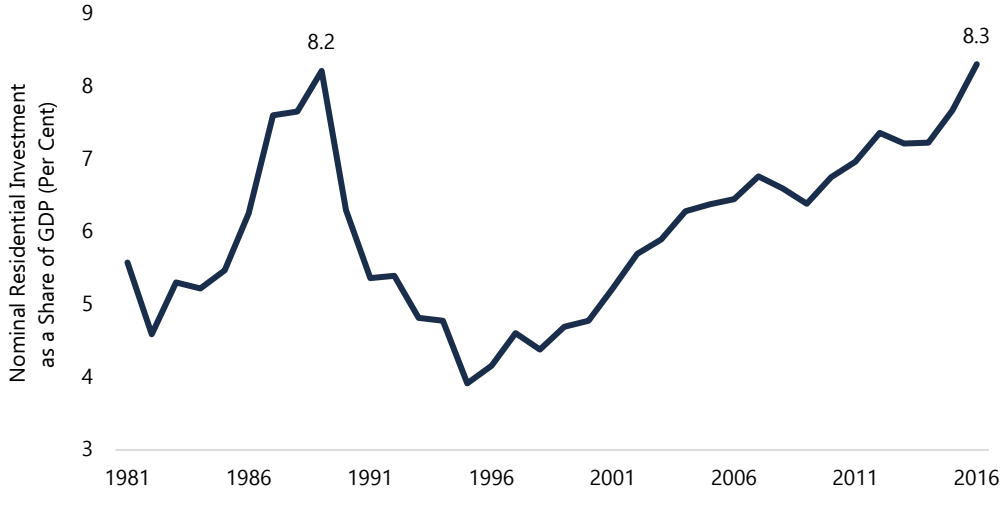
Key Risks for Ontario's Economic Outlook

The FAO's current economic forecast represents a reasonable outlook for the Ontario economy and an appropriate foundation for fiscal projections. However, several key risks could materialize leading to weaker than expected economic growth for the province.

In particular, there are significant risks with respect to the proposed renegotiation of the North American Free Trade Agreement (NAFTA) and the adoption of protectionist trade measures in the United States. As well, other proposed changes to U.S. fiscal and industrial policies, such as lower corporate tax rates and 'Buy America' executive orders, could harm Ontario's relative competitiveness, further discouraging business investment and limiting the contribution of exports to overall growth.

Domestically, the housing market continues to pose a significant risk to the overall economy. The sharp rise in Ontario housing prices – particularly in the Greater Toronto Area – has contributed to record consumer debt loads and stretched levels of affordability.

Residential Investment Spending Accounts for a Record Share of GDP



Source: Ontario Economic Accounts and FAO.

At the same time, the relative importance of residential housing investment to the overall economy has increased substantially in recent years, posing a significant risk to the Ontario economy, in the event of a sharp housing market correction. In 2016, investment in residential housing accounted for a record high 8.3 per cent of Ontario's nominal GDP, up from 6.4 per cent in 2009.[14]

14 Almost one-quarter (22 per cent) of the growth in nominal GDP in 2016 was directly attributable to the increase in residential investment spending.

The last time investment in residential housing accounted for a similar proportion of the economy was 1989, just prior to the 1990-1995 housing market correction.

A sharp correction in housing prices, exacerbated by the elevated levels of household debt, would negatively affect household spending and residential investment, and could lead to broader economy-wide impacts on growth and employment.

The Province recently announced a package of measures intended to respond to the underlying factors contributing to the unsustainable rise in housing prices and the rapid growth in housing market activity. However, it is too early to assess whether these measures will adequately address the imbalance between demand and supply pressures in the market.

The FAO's Quarterly Short-term Model of the Ontario Economy

The FAO has developed a short-term forecasting model to produce quarterly five-year projections of the Ontario economy. The model is based on dynamic equations for major sub-categories of real and nominal GDP. The model also includes key labour market components, financial variables and the Canada-U.S. dollar exchange rate. The model is structured around a number of important external or exogenous concepts such as Canada-wide economic growth, U.S. economic growth, U.S. prices, U.S. interest rates and energy prices.

The model is an important tool for the FAO's bi-annual Economic and Fiscal Outlook (EFO), ensuring internal consistency of each projection as well as consistency between EFO forecasts. It also provides the majority of the inputs required by the FAO's Fiscal Outlook Model which provides the FAO's projection of the government's fiscal position.

3 FISCAL OUTLOOK

Continued Budget Deficits Projected

Based on the FAO's current economic forecast and updated fiscal information, the FAO is projecting continued Ontario budget deficits over the outlook. In the near term, the deficit improves due to strong tax revenue growth and a temporary boost to non-tax revenue. However, beginning in 2018-19, the deficit is expected to increase as a result of moderating revenue growth combined with higher expenses.

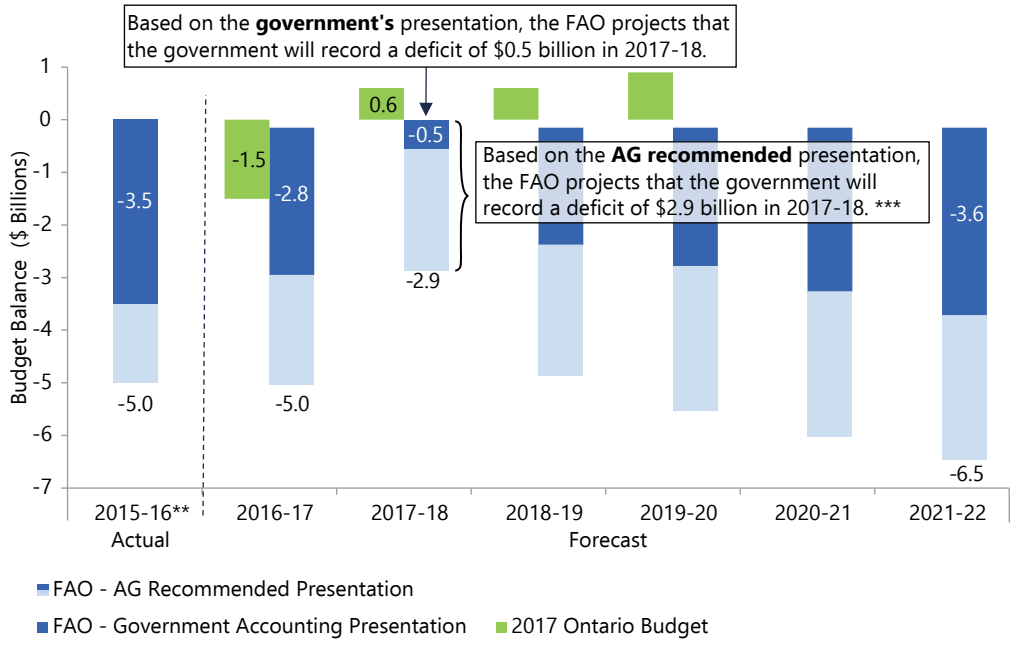
Since the release of the 2015-16 Public Accounts of Ontario, the government and the Auditor General (AG) have disagreed on the application of public sector accounting standards with respect to jointly-sponsored pension plans. (Please refer to the discussion on page 25 for additional background and context on this issue.) Based on the FAO's application of the Auditor General's recommended accounting for these pension assets, the FAO is projecting a budget deficit of $2.9 billion for 2017-18, rising to $6.5 billion by 2021-22.[1]

Under the government's accounting presentation, the FAO is projecting a budget deficit of $0.5 billion in 2017-18, growing to $3.6 billion by 2021-22.[2] By comparison, in the 2017 Budget, the government is projecting a budget surplus of $0.6 billion in 2017-18, followed by small surpluses over the next two years (before the reserve).

1 The FAO projection based on the Auditor General's recommended accounting presentation assumes a valuation allowance that effectively writes off the value of any net pension assets – referred to as the 'pension adjustment' in this report. The valuation allowance increases 'other program' expense, resulting in higher deficits under the AG's recommended accounting presentation.

2 Under the government's accounting presentation, Ontario's public accounts would be expected to receive a qualified opinion from the Auditor General.

Ontario's Budget Balance*



* Budget balance before reserve.

** Ontario's 2015-16 Public Accounts reported a deficit of $5.0 billion. Without the pension adjustment, the deficit would have been $3.5 billion.

*** This includes the FAO's estimate of the pension adjustment.

Source: 2015-16 Public Accounts, 2017 Ontario Budget and FAO.

On the government's accounting presentation, the FAO projects that a balanced budget is within the government's reach in 2017-18. However, the budget deficit is expected to increase after 2017-18, due to moderate revenue growth, the absence of one-time non-tax revenues, and higher program expenses. Staying in balance after 2017-18 will likely require additional fiscal policy measures.

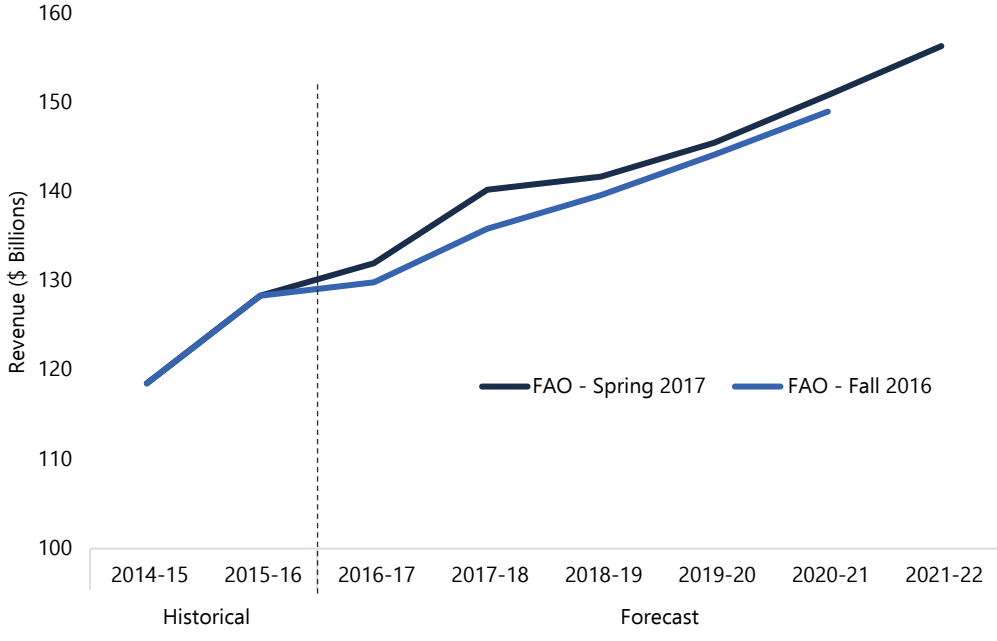
Under the Auditor General's recommended accounting presentation, the FAO is projecting significant budget deficits over the entire outlook. On this basis, it is unlikely that the government will balance the budget without additional fiscal policy adjustments to raise revenue or lower expense.

Revenue Outlook

The FAO is projecting average annual revenue growth of 3.3 per cent per year over the outlook, slightly higher than forecast in the FAO's fall report.

In the near-term, revenue growth is driven by robust economic performance in 2016 and 2017, and a boost from one-time revenue in 2017-18. Beyond 2017-18, growth in tax revenue moderates and the benefit of one-time non-tax revenue ends.

Revenue Stronger Than Expected in Near Term



Source: FAO and Public Accounts.

FAO Revenue Assumptions and Forecast

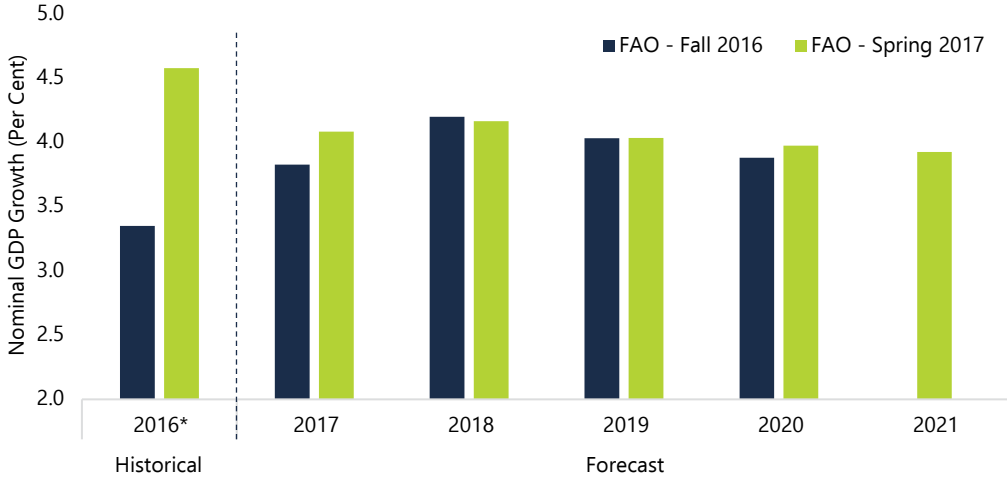
Revenue Source	Assumption	Forecast
Taxation Revenue	Grows with key economic drivers including labour income, corporate profits and household spending	Averages 3.9 per cent growth per year from 2016-17 to 2021-22
Federal Transfers	Based on legislated growth rates and economic performance	Federal transfers are expected to grow by 1.9 per cent per year from 2016-17 to 2021-22
Government Business Enterprises (GBE)	Based on government projections	Income from GBEs are projected to rise moderately from $5.3 billion in 2016-17 to $6.5 billion in 2021-22
Other Revenue	Based on government projections, and includes asset sales, and proceeds from cap and trade allowances	These revenues are projected to increase from $8.5 billion in 2016-17 to $11.0 billion in 2017-18, before declining to $8.5 billion by 2021-22

Stronger Economic Growth Expected to Boost Tax Revenue

Consistent with the FAO's economic forecast, the FAO is currently projecting tax revenues to rise at an average of 3.9 per cent from 2016-17 to 2021-22, much stronger than the 3.0 per cent forecast in the FAO's fall outlook.

Since the FAO's fall report, nominal GDP – the broadest measure of the tax base – was revised significantly higher in 2016, improving the forecast for 2017.[3] However, beyond 2017, the outlook for nominal GDP growth is relatively unchanged from the fall forecast.

Nominal GDP up Significantly in the Near-Term Since the Fall



* 2016 value for the Fall 2016 EFO was the FAO's forecast at the time of the report's release.

Source: Ontario Economic Accounts and FAO.

Improved economic prospects are expected to lift the Province's tax revenue by approximately $2.8 billion in 2016-17 and $4.2 billion in 2017-18, compared to the FAO's fall estimates.

- Personal income tax revenue is forecast to grow stronger than expected in the fall due to the stronger forecast for labour income.[4]
- Corporations tax revenue is projected to benefit from the stronger outlook for corporate profits.

3 See economic section, and the footnote on page 12.

4 However, near-term revenue growth will be somewhat dampened as some high-income earners shifted earnings into the 2015 tax year to avoid the new higher 33 per cent tax rate introduced by the federal government in 2016 (http://www.fin.gc.ca/afr-rfa/2016/report-rapport-eng.asp#_Toc463249478). Using Finance Canada estimates, the FAO estimates that roughly $600 million of Ontario's 2015 PIT revenue was due to income shifting, which lowers taxable income in 2016-17 and 2017-18.

- Sales tax and land transfer tax revenues are forecast to grow stronger than expected in the fall due to the on-going strength in Ontario's housing market.

Equalization Entitlement Declines

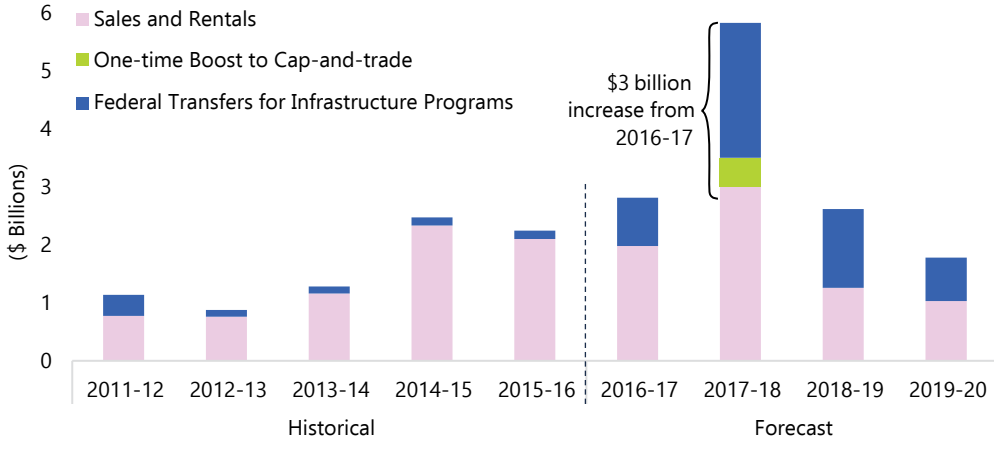
Given Ontario's recent economic strength relative to the rest of Canada, the Province's Equalization entitlement declined $0.8 billion to $1.4 billion in 2017-18. The FAO is projecting a further drop to $0.6 billion in 2018-19. Beyond 2018-19, the FAO is projecting that Ontario will no longer be entitled to Equalization payments — a reflection of the continued relative strength of the Ontario economy.

2017-18 Revenue to Benefit from One-time Increases

Based on the 2017 Budget, Ontario's 2017-18 revenues will benefit from a one-time $3.0 billion boost,[5] that includes:

- $1.5 billion in higher revenue from federal transfers for infrastructure;
- $1.0 billion in increased sales and rentals revenue, reflecting additional asset sales[6]; and
- $0.5 billion in additional cap and trade proceeds from March 2017, which will be recognized in 2017-18.[7]

2017-18 Temporary Revenue Boost



Source: Ontario Budgets, Ministry of Finance and FAO.

5 This one-time benefit is incorporated into the FAO's revenue projection.

6 A portion of this increase reflects the Province's sale of 22 per cent of Hydro One equity in 2017-18, compared to a 15 per cent sale in 2016-17. The FAO estimates that this sale would generate about $0.8 billion in revenue gains in 2017-18, compared to a gain of $0.5 billion in 2016-17.

7 The government indicated that the cap and trade revenues from the March 2017 auction will be reported in fiscal year 2017-18, because the allowances were certified and delivered on April 2, 2017.

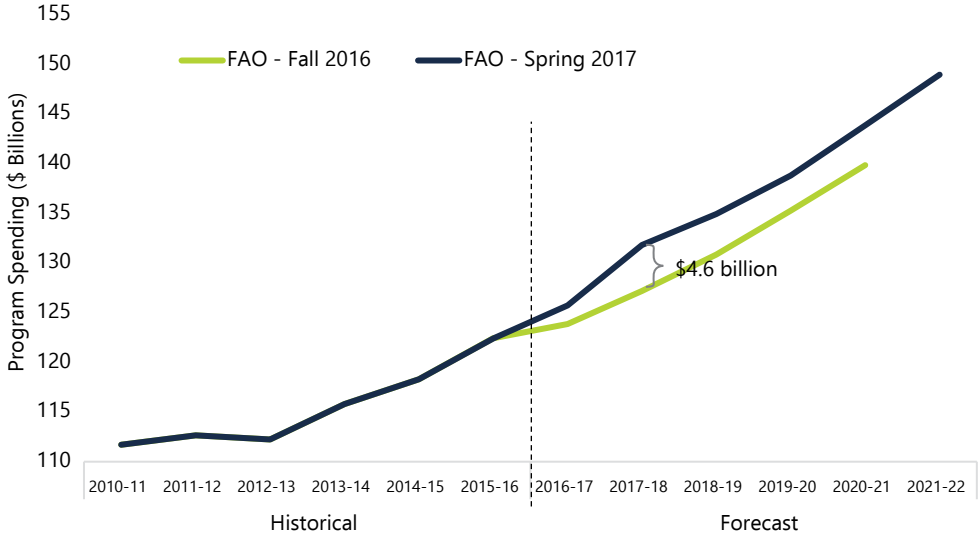
Expense Outlook

Program Expense to Increase Significantly over the Outlook

The FAO projects program spending growth of 3.3 per cent per year over the 2016-17 to 2021-22 period.[8]

Over the 2016-17 to 2019-20 period, the FAO adopts the government's 2017 Budget projections for program spending[9], adjusted to reflect the Auditor General's recommended accounting presentation.[10] The expense outlook includes significant new spending across all sectors, including a new children and youth Pharmacare program, higher operating funding for hospitals, 24,000 new child care spaces[11], and the government's new 'Fair Hydro Plan'. As a result, spending is now forecast to be significantly higher than projected in the FAO's fall outlook.

Program Expense Higher than Projected in the Fall



Note: Program spending includes the FAO's estimate of the pension adjustment.
Source: Ontario Public Accounts, 2017 Ontario Budget and FAO.

With these new expenses, program spending is expected to grow 3.3 per cent per year on average over the next five years. This higher program spending growth is still slightly below the growth in underlying cost and demographic pressures, which is estimated to be 3.6 per cent on average.

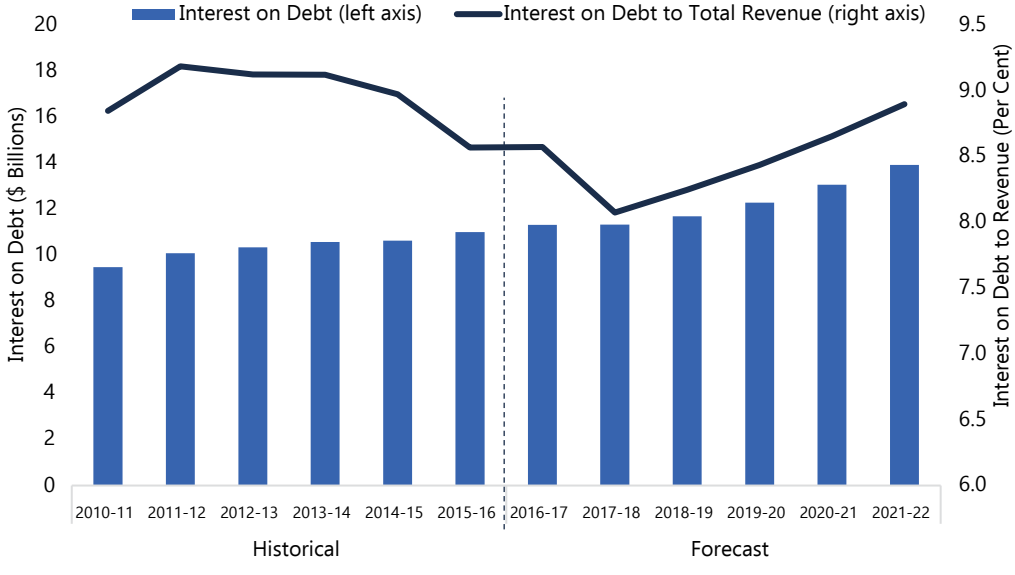
8 The FAO's projection extends to 2021-22, two years beyond the 2017 Ontario Budget forecast.
9 Given the government's discretion over spending, the FAO adopts the government's announced spending plans and incorporates policy announcements as appropriate.
10 The FAO's estimates the pension adjustment will increase 'other program' expense by $2.2 billion in 2016-17, rising to $2.9 billion by 2021-22.
11 The 2017 Budget announced 24,000 new child care spaces for 2017–18, as part of the government's September 2016 Throne Speech commitment to create 100,000 new child care spaces by 2022.

Interest on Debt

The FAO projects interest on debt (IOD) payments will increase at an average annual rate of 4.0 per cent from $11.0 billion in 2015-16 to $13.9 billion by 2021-22, reflecting higher debt and rising interest rates over the outlook. This is faster than the average rate of program spending growth over the outlook.

Over the past five years, IOD as a share of revenue declined steadily, benefitting from falling interest rates. However, given the projected rise in interest rates over the outlook, the FAO forecasts that IOD as a share of revenue will increase from 8.1 per cent in 2017-18 to 8.9 per cent by 2021-22.

Interest on Debt to Rise Sharply as a Share of Revenues



Source: Ontario Public Accounts and FAO.

Ontario Debt Outlook

Ontario Net Debt-to-GDP Ratio Will Remain Elevated

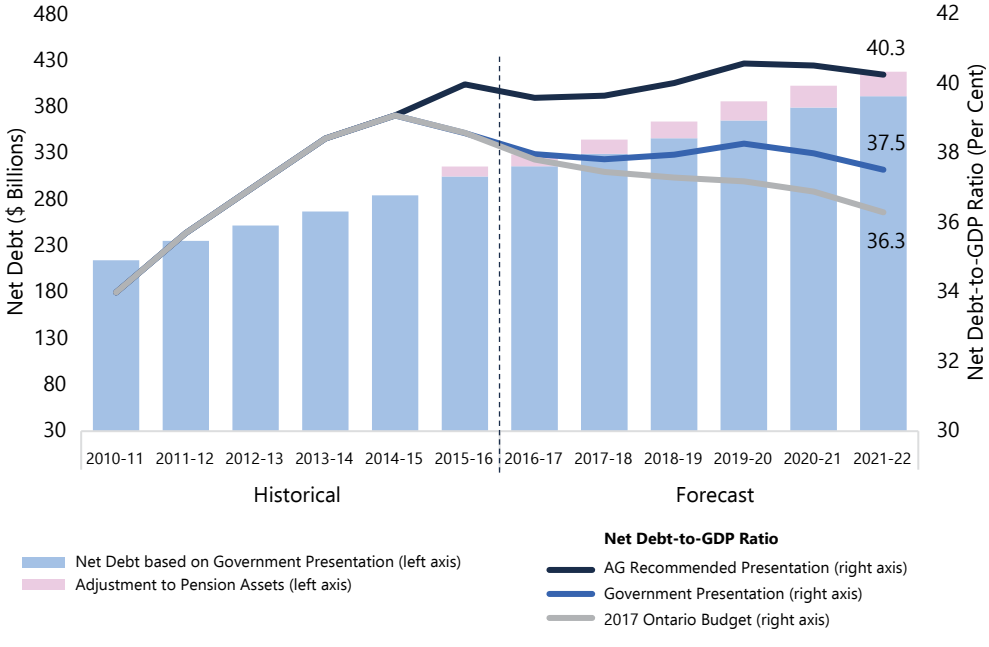
Ontario's total borrowing requirements are expected to remain high over the outlook. To finance the cost of projected capital spending, on-going deficits and maturing debt issues the FAO estimates that provincial borrowing will average $37 billion per year over the next five years.

As a result, the FAO projects Ontario's net debt to increase by $76 billion over the next five years to approximately $392 billion by 2021-22 based on the FAO's application of the AG's recommended accounting presentation. By comparison, using

the government's accounting presentation, the FAO projects Ontario's net debt will rise by $62 billion to roughly $365 billion by 2021-22.

Based on the AG's recommended accounting presentation, the FAO expects Ontario's net debt-to-GDP ratio will edge higher to 40.3 per cent by 2021-22, reflecting the projected increase in net debt and the FAO's forecast for nominal GDP growth. In contrast, based on the accounting presentation adopted by the government, the FAO projects that net debt-to-GDP will fall slightly from 38.6 per cent in 2015-16 to 37.5 per cent by 2021-22.

Ontario's Net Debt-to-GDP Ratio



Source: FAO, Ontario Economic Accounts, and 2017 Ontario Budget.
Note: AG recommended presentation is based on FAO estimates of the pension adjustment.

In the 2017 Budget, the Province set an interim net debt-to-GDP target of 35 per cent by 2023-24 and committed to lowering the ratio to 27 per cent by 2029-30. The FAO's net debt-to-GDP projections under both accounting presentations, suggest that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24.

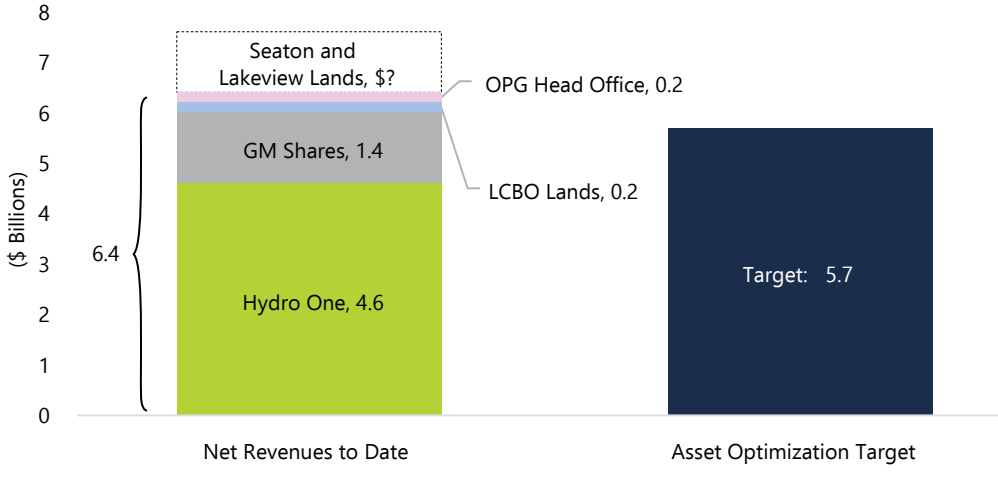
Risks to the Fiscal Plan and Policy Options

There are material risks that could impact Ontario's fiscal position.

- A sharp correction in the housing market could present a significant risk for both the broader economy and for the Province's fiscal plan. As discussed in an FAO commentary[12], a decline in house prices and housing market activity would directly reduce Land Transfer Tax and HST revenues. In addition, the broader economic impacts would lower personal and corporate income tax revenues.

- In the 2017 Budget, the government significantly reduced the prudence built into its program spending projection compared to the 2016 Budget, leaving less fiscal flexibility for the government to respond to unexpected events.[13] In addition, the FAO projects that interest on debt payments as a share of both program spending and revenue will increase significantly, exposing the government to added fiscal risk should interest rates rise faster than expected.

Asset Optimization Revenues and Target



Source: FAO and Ontario Budgets.

Note: As of the 2017 Budget, the government had generated $3.8 billion in net proceeds from its sale of Hydro One equity. On May 8, 2017, the government announced the sale of an additional 22 per cent of Hydro One equity, which the FAO estimates will generate $0.8 billion in net proceeds.

On the other hand, the government has increased spending growth to a rate closer to underlying spending pressures, diminishing the expense risk identified in earlier FAO reports.

12 "The Impact of a Housing Market Correction on Ontario's Fiscal Position", Financial Accountability Office of Ontario, February 15, 2017. http://fao-on.org/en/Blog/Publications/Housing_Market16821

13 In the 2017 Budget, contingency funds total $0.6 billion for the coming fiscal year, half the size built into the 2016 Budget fiscal plan. Similarly, the government's target for year-end savings has increased to $1.2 billion for the coming year, compared to $0.8 billion in Budget 2016.

Additionally, the government has a broad range of policy options that could improve its fiscal position, including the sale of additional public assets beyond announced targets. To date, the FAO estimates that the government has generated $6.4 billion in revenues from net asset sales, exceeding its target of $5.7 billion over 10 years. Given the government's intention to sell Seaton and Lakeview lands[14], it would further overachieve its asset sales target.

14 2017 Ontario Budget, page 161.

The Accounting Treatment of Jointly Sponsored Pension Plans

Background

Ontario's 2015-16 Public Accounts noted a disagreement between the Office of the Auditor General and the Province on the appropriate accounting treatment for net pension assets of jointly sponsored pension plans. Specifically, the Province is a joint sponsor of two pension plans, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees Union Pension Plan (OPSEUPP).

The government's position is that these pension assets have been appropriately and consistently reflected on the Province's financial statements since 2001. The Office of the Auditor General, based on a review of these pension assets, determined that a change in the accounting treatment was required. The Auditor General concluded that under current Canadian public sector accounting standards, the government could not unilaterally recognize a pension asset on its financial statements without evidence - in the form of a written agreement - permitting it to realize the asset through reduced contributions.[15]

In response, the Province adopted regulated accounting for 2015-16 to reflect the fiscal results according to the Auditor General's interpretation of public sector accounting standards, and subsequently appointed a panel, the 'Pension Asset Expert Advisory Panel', to review and provide their recommended interpretation. The panel's report,[16] released in February 2017, concluded that the Province's share of net assets in jointly sponsored pension plans should be fully recognized in the Province's financial statements — contrary to the opinion of the Office of the Auditor General.

In the 2017 Budget, the government adopted the advisory panel's interpretation of public sector accounting standards and recognized the net pension assets of the jointly sponsored pension plans. The 2017 Budget also indicated that the Province's 2016–17 Public Accounts will report the net pension assets for the two jointly sponsored pension plans.

15 The Auditor General indicated that her office began reviewing the treatment of pension assets after these assets started to materially affect the government's fiscal position (Auditor General's Statement on Pension Assets, February 16, 2017).

16 https://news.ontario.ca/tbs/en/2017/02/pension-asset-expert-advisory-panel-submits-report.html.

The Central Issue

The government and the Auditor General have put forward different interpretations of the application of public sector accounting standards for jointly sponsored pension plans.

The different interpretations centre on the question of whether the government has unilateral control of pension surplus assets in jointly sponsored pension plans. In particular, the issue is focused on whether an explicit written agreement between the co-sponsors (the government and the unions representing the employees) to lower future contributions is required for the government to recognize the value of the pension surplus assets.

According to the Auditor General, the issue can be resolved if the government presents an agreement with the Ontario Teacher's Federation (OTF) allowing the government to access the OTPP pension assets through reduced contributions. The extent and duration of the reduced contributions would determine the size of the pension asset that the government could recognize in its financial statements.

The government's position, based on the advice of the advisory panel, is that the existing agreements governing the pension plans, and past history, reflect the sponsors' rights and intent to benefit from surplus assets in the plans through mechanisms reflected in the agreements to potentially realize a benefit through lower future contribution rates.

In the absence of an agreement, and given the government's decision to accept the advisory panel's recommended approach to accounting for jointly sponsored pension plan assets, the Auditor General would be expected to provide a qualified opinion[17] on Ontario's 2016-17 Public Accounts.

Roles and Responsibilities of the Province and the Auditor General

The Province (through the Treasury Board Secretariat) is responsible for the preparation of Ontario's Public Accounts in accordance with legislation, and based on the standards set out by the Public Sector Accounting Board (PSAB).[18]

The PSAB accounting standards serve the public interest by providing an independent, high-quality accounting framework for public sector entities. The

17 An auditor may provide a qualified opinion when financial statements do not conform in a material way to the applicable accounting standards.
18 https://www.ontario.ca/page/public-accounts-101-guide#section-6].

government is responsible to ensure that the financial reports fairly reflect the activities and financial position of the Province.

The Auditor General reviews the Province's annual Public Accounts and provides an audit opinion to the Legislature on whether the Consolidated Financial Statements for the Province of Ontario present fairly, in all material respects, the Province's financial position, in accordance with the PSAB accounting standards.

The FAO's Presentation of Ontario's Fiscal Outlook

The Financial Accountability Officer supports the Legislative Assembly by providing independent economic and financial analysis intended to improve the transparency of the government's fiscal plan. The Officer looks to the Auditor General as the provincial authority on the appropriate interpretation and application of accounting standards for the Province.

The FAO has presented two fiscal projections, including and excluding the impact of the net pension assets of jointly sponsored pension plans, to help members of the Legislative Assembly better understand the implications of these different accounting interpretations on the Province's fiscal position.

- The FAO projection based on the Auditor General's recommended accounting presentation assumes a valuation allowance that offsets the net pension assets.
- The FAO projection based on the government's accounting presentation recognizes the net pension assets.

  In the absence of an agreement between the pension plan co-sponsors, this presentation of Ontario's fiscal position would be expected to receive a qualified opinion from the Auditor General when published in the Province's future Public Accounts.

Based on the Auditor General's recommended accounting presentation for the net assets of jointly sponsored pension plans, and the FAO's estimate of the pension adjustment, the FAO is projecting budget deficits of $2.9 billion in 2017-18, rising to $6.5 billion by 2021-22. Alternatively, based on the pension accounting presentation adopted by the government, the FAO is projecting budget deficits of $0.5 billion in 2017-18 rising to $3.6 billion in 2021-22.

4 APPENDICES

Developments since the FAO's Fall 2016 Economic and Fiscal Outlook

The FAO's current projection of the Ontario budget balance has generally deteriorated relative to the FAO's fall 2016 projection.

- Stronger than expected economic performance is expected to boost taxation revenues over the forecast, partially offset by lower Equalization revenue.
- Based on new government spending plans, program expense has increased significantly.

Developments since Fall 2016 EFO (AG Recommended Presentation)

	2016-17	2017-18	2018-19	2019-20	2020-21
FAO's Fall 2016 Budget Balance Forecast	**-5.2**	**-2.6**	**-2.8**	**-3.3**	**-3.7**
Developments Since Fall 2016					
Revenue					
Stronger Economic Outlook	2.3	4.1	3.9	4.4	4.7
Lower Federal Transfers[1]	-0.3	0.2	-1.3	-2.4	-2.2
Other Revenue Changes[2]	0.1	0.1	-0.5	-0.6	-0.6
Total	2.1	4.4	2.1	1.3	1.8
Expense					
Higher Spending, including Children and Youth Pharmacare, and Fair Hydro Plan	1.2	3.8	3.0	2.2	2.7
Revised Adjustment for Pension Asset[3]	0.7	0.8	1.1	1.4	1.4
Total	2.0	4.6	4.1	3.6	4.1
Total Developments	**0.2**	**-0.3**	**-2.1**	**-2.3**	**-2.3**
FAO's Spring 2017 Budget Balance Forecast	**-5.0**	**-2.9**	**-4.9**	**-5.5**	**-6.0**

Notes:

1. Change in federal transfers forecast mainly due the reduction in Ontario's Equalization payment.
2. Other revenue changes include the $0.5 billion re-profiling of cap-and-trade proceeds from 2016-17 to 2017-18, and an increase in sales and rentals for 2017-18.
3. In the Fall 2016 EFO, the FAO assumed an annual adjustment of $1.5 billion for the net pension assets of jointly sponsored pension plans. The current projection incorporates the FAO's updated estimates for the pension adjustment of $2.2 billion in 2016-17, increasing to $2.9 billion by 2020-21.

Source: FAO.

Forecast Tables

Table 1a: FAO Outlook for Key Revenue Drivers*

(Per Cent Growth)	2015a	2016a	2017f	2018f	2019f	2020f	2021f	Average**
Nominal GDP								
FAO – Spring 2017	4.9	4.6	4.1	4.2	4.0	4.0	3.9	**4.1**
2017 Ontario Budget	4.9	4.6	4.3	4.1	4.2	3.9	-	**4.1**
Current FAO Consensus***	-	-	3.9	4.3	4.1	3.8	4.0	**4.0**
Labour Income								
FAO – Spring 2017	4.2	4.2	4.0	4.1	4.1	3.9	3.8	**4.0**
2017 Ontario Budget****	-	4.4	4.1	4.5	4.6	4.2	-	**4.3**
Corporate Profits								
FAO – Spring 2017	9.1	9.2	6.0	6.3	5.5	4.7	4.5	**5.6**
2017 Ontario Budget	-	9.2	6.8	7.1	5.4	4.0	-	**5.8**
Nominal Household Spending								
FAO – Spring 2017	3.9	4.2	4.2	3.7	3.4	3.5	3.6	**3.8**
2017 Ontario Budget	-	4.2	4.3	4.2	4.2	-	-	**4.2**

a = Actual f = Forecast

* "Labour income", "corporate profits" and "household spending" are defined by Statistics Canada as "compensation of employees", "net operating surplus: corporations", and "household consumption" respectively.

** For comparison purposes, average is calculated from 2017 to 2020 and 2017 to 2019 for Household Spending.

*** FAO consensus includes forecasts from the Centre for Spatial Economics, the Conference Board of Canada and the Policy and Economic Analysis Program at the University of Toronto.

**** 2017 Ontario Budget reports Labour Income on a National Basis, whereas FAO reports Labour Income on a Domestic Basis.

Source: 2017 Ontario Budget, Statistics Canada, Ontario Economic Accounts, FAO Consensus and FAO.

Table 1b: FAO Outlook for Ontario Real GDP and Components

(Per Cent Growth)	2015a	2016a	2017f	2018f	2019f	2020f	2021f	Average*
Real GDP								
FAO – Spring 2017	2.5	2.7	2.4	2.1	2.0	2.0	1.9	**2.1**
2017 Ontario Budget	2.5	2.7	2.3	2.1	2.0	1.7	-	**2.0**
Current FAO Consensus**	-	-	2.1	2.3	2.1	1.9	1.9	**2.1**
Real GDP Components								
Household Spending***	2.7	2.7	2.3	1.9	1.9	1.8	1.8	**2.0**
Residential Investment	7.2	7.9	3.5	-1.3	-2.0	1.9	2.4	**0.5**
Business Investment****	8.2	-4.0	0.2	5.6	5.7	4.9	3.9	**4.1**
Government (Consumption and Investment)	1.9	1.6	1.7	1.3	1.2	1.1	1.0	**1.3**
Exports	2.8	3.0	2.4	2.7	2.5	2.3	2.2	**2.5**
Imports	3.7	1.4	2.2	2.2	2.3	2.2	2.1	**2.2**

a = Actual f = Forecast

* For comparison purposes, average is calculated from 2017 to 2020

** FAO consensus includes forecasts from the Centre for Spatial Economics, the Conference Board of Canada and the Policy and Economic Analysis Program at the University of Toronto.

*** Household Spending is Household and Non-Profit Consumption Expenditure.

**** Business Investment is Non-residential Investment and Machinery & Equipment.

Source: 2017 Ontario Budget, Statistics Canada, Ontario Economic Accounts, FAO Consensus and FAO.

Table 2: FAO Outlook for Selected Economic Indicators

	2015a	2016a	2017f	2018f	2019f	2020f	2021f
Employment (Per Cent Growth)							
FAO – Spring 2017	0.7	1.1	1.3	1.1	1.0	0.9	0.9
2017 Ontario Budget	0.7	1.1	1.3	1.2	1.1	0.9	-
Unemployment Rate (Per Cent)							
FAO – Spring 2017	6.8	6.5	6.4	6.3	6.3	6.3	6.2
2017 Ontario Budget	6.8	6.5	6.4	6.3	6.2	6.2	-
Labour Force (Per Cent Growth)							
FAO – Spring 2017	0.1	0.9	1.1	1.0	1.0	0.9	0.9
2017 Ontario Budget	-	-	-	-	-	-	-
Population Growth (Per Cent)							
FAO – Spring 2017	0.8	1.3	1.3	1.1	1.1	1.1	1.1
2017 Ontario Budget	-	-	-	-	-	-	-
CPI Inflation (Per Cent Growth)							
FAO – Spring 2017	1.2	1.8	2.1	2.1	2.0	2.0	2.0
2017 Ontario Budget	1.2	1.8	2.0	2.0	2.0	2.0	-
Canada Real GDP (Per Cent Growth)							
FAO – Spring 2017	0.9	1.4	2.2	2.3	2.0	1.9	1.9
2017 Ontario Budget	0.9	1.4	2.1	2.0	1.9	1.7	-
U.S. Real GDP (Per Cent Growth)							
FAO – Spring 2017	2.6	1.6	2.3	2.3	2.2	2.1	2.1
2017 Ontario Budget	2.6	1.6	2.3	2.4	2.1	2.0	-
Canadian Dollar (Cents US)							
FAO – Spring 2017	78.2	75.4	75.6	78.4	78.8	79.9	81.3
2017 Ontario Budget	78.2	75.4	74.5	75.5	78.5	80.0	-
WTI Crude Oil (US$)							
FAO – Spring 2017	49	43	54	55	56	61	68
2017 Ontario Budget	49	43	54	59	62	64	-
Three-month Treasury Bill Rate (Per Cent)							
FAO – Spring 2017	0.5	0.5	0.6	1.4	1.9	2.3	2.6
2017 Ontario Budget	0.5	0.5	0.5	0.8	1.5	1.9	-
10-year Government Bond Rate (Per Cent)							
FAO – Spring 2017	1.5	1.3	1.8	2.5	2.9	3.6	3.9
2017 Ontario Budget	1.5	1.3	1.9	2.4	3.0	3.2	-

a = Actual f = Forecast

Source: 2017 Ontario Budget, Bank of Canada, Congressional Budget Office, Statistics Canada, FAO Consensus and FAO.

Table 3: FAO Fiscal Outlook

($ Billions)	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Revenue							
Personal Income Tax	31.1	32.4	34.5	36.7	38.6	40.5	42.5
Sales Tax	23.5	24.7	25.8	26.5	27.3	28.2	29.2
Corporations Tax	11.4	12.7	13.3	14.0	14.6	15.1	15.6
All Other Taxes	25.8	24.0	25.1	25.9	26.9	27.6	28.5
Total Taxation Revenue	91.8	93.9	98.7	103.1	107.3	111.5	115.8
Transfers from Government of Canada	22.9	24.3	25.7	24.6	24.1	24.8	25.6
Income from Government Business Enterprise	4.9	5.3	4.9	5.7	6.0	6.3	6.5
Other Non-Tax Revenue	8.8	8.5	11.0	8.3	8.1	8.3	8.5
Total Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4
Expense							
Health Sector	51.0	52.2	53.8	56.3	58.1	60.6	63.3
Education Sector	25.0	25.7	26.5	27.4	28.0	29.0	29.8
Postsecondary and Training Sector	7.7	7.8	8.4	8.3	8.4	8.5	8.6
Children's and Social Services Sector	15.6	16.2	16.9	17.2	17.4	18.0	18.5
Justice Sector	4.5	4.6	4.7	4.7	4.8	4.9	5.0
Other Programs*	18.6	19.2	21.5	21.0	22.1	22.9	23.7
Total Program Expense*	122.4	125.7	131.8	134.9	138.8	143.8	149.0
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9
Total Expense*	133.4	137.0	143.1	146.6	151.1	156.9	162.9
Budget Balance* (AG Presentation)	-5.0	-5.0	-2.9	-4.9	-5.5	-6.0	-6.5
Adjustment for Pension Assets	-1.5	-2.2	-2.3	-2.6	-2.9	-2.9	-2.9
Budget Balance (Government Presentation)	-3.5	-2.8	-0.5	-2.2	-2.6	-3.1	-3.6
Budget Balance (2017 Ontario Budget)	-3.5	-1.5	0.6	0.6	0.9		

a = Actual f = Forecast

* Based on the FAO's application of the Auditor General's recommended accounting for these pension assets.

Note: Budget balance is presented without reserve.

Source: 2017 Ontario Budget and FAO.

Table 4a: FAO Debt Outlook (Auditor General Recommended Presentation)

$ Billions	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Budget Balance*	-5.0	-5.0	-2.9	-4.9	-5.5	-6.0	-6.5
Accumulated Deficit	202.7	207.7	210.6	215.5	221.0	227.0	233.5
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7
Change in Net Debt		*10.9*	*13.5*	*16.8*	*19.0*	*14.0*	*12.3*
Net Debt to GDP (Per Cent)	*40.0*	*39.6*	*39.7*	*40.0*	*40.6*	*40.5*	*40.3*

a = Actual f = Forecast

* Budget Balance is presented without reserve. Includes the FAO's estimate of the pension adjustment.

Source: Statistics Canada, 2017 Ontario Budget and FAO.

Table 4b: FAO Debt Outlook (Government Presentation)

$ Billions	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Budget Balance*	-3.5	-2.8	-0.5	-2.2	-2.6	-3.1	-3.6
Accumulated Deficit	192.0	194.8	195.3	197.6	200.2	203.3	206.9
Net Debt	294.6	303.1	314.3	328.5	344.6	355.7	365.1
Change in Net Debt		*8.7*	*11.2*	*14.2*	*16.1*	*11.1*	*9.4*
Net Debt to GDP (Per Cent)	*38.6*	*38.0*	*37.8*	*38.0*	*38.3*	*38.0*	*37.5*
Net Debt to GDP from 2017 Budget (Per Cent)	*38.6*	*37.8*	*37.5*	*37.3*	*37.2*	*36.9*	*36.3*

a = Actual f = Forecast

* Budget Balance is presented without reserve.

Source: Statistics Canada, 2017 Ontario Budget and FAO.

Provincial Comparisons

	NL	PE	NS	NB
Fiscal Performance (2015-16)				
Total Revenue				
Per Capita ($)	11,149	11,276	10,119	11,118
to GDP (%)	19.6	26.7	23.7	25.4
Total Program Expenditures				
Per Capita ($)	13,763	10,592	9,632	10,564
to GDP (%)	24.2	25.1	22.6	24.1
Interest on Debt				
Per Capita ($)	1,547	872	906	899
to GDP (%)	2.7	2.1	2.1	2.1
to Revenue (%)	13.9	7.7	9.0	8.1
Total Expenditures				
Per Capita ($)	15,310	11,465	10,538	11,463
to GDP (%)	26.9	27.2	24.7	26.2
Primary Balance				
Per Capita ($)	-2,613	684	487	554
to GDP (%)	-8.7	11.0	1.2	1.7
Deficit (-) or surplus				
Level (Millions $)	-2,200	-28	-11	-261
Per Capita ($)	-4,160	-189	-11	-345
to GDP (%)	-7.3	-0.4	0.0	-0.8
Net Debt				
Level (Millions $)	12,633	2,183	15,097	13,660
Per Capita ($)	23,896	14,880	16,003	18,109
to GDP (%)	42.0	35.3	37.5	41.3
Economic and Demographic Indicator Growth (2015) (Per Cent)				
Real GDP	-2.0	1.3	1.0	2.3
Nominal GDP	-11.5	3.9	2.4	2.9
Employment	-1.0	-1.1	0.1	-0.6
Population	0.1	0.6	0.0	-0.1

* Ontario 2015-16 Fiscal Performance measures are presented after adjustment for pension assets.

Source: FAO, Department of Finance Canada's Fiscal Reference Tables (September, 2016) and Statistics Canada.

QC	Ontario*	MB	SK	AB	BC
12,037	9,305	11,616	12,041	10,168	10,144
26.1	16.8	22.9	17.2	13.0	19.0
10,610	8,874	11,609	12,938	11,524	9,395
23.0	16.0	22.8	18.4	14.8	17.6
1,217	795	660	445	186	594
2.6	1.4	1.3	0.6	0.2	1.1
10.1	8.5	5.7	3.7	1.8	5.9
11,828	9,669	12,269	13,383	11,710	9,989
25.6	17.5	24.1	19.1	15.0	18.8
1,427	430	7	-897	-1,356	749
0.4	0.1	0.0	-1.1	-0.4	0.3
1,431	-5,029	-846	-1,520	-6,442	730
173	-364	-653	-1,342	-1,541	156
0.4	-0.7	-1.3	-1.9	-2.0	0.3
187,098	305,233	21,433	7,899	-3,881	39,635
22,653	22,123	16,538	6,977	-929	8,446
49.1	40.0	32.5	9.9	-1.2	15.9
1.2	2.5	2.2	-1.3	-3.6	3.3
2.6	4.9	3.1	-5.7	-12.5	3.8
0.9	0.7	1.5	0.5	1.2	1.2
0.5	0.8	1.2	1.0	1.7	1.0

May 29, 2017

The Honourable Liz Sandals
President of Treasury Board
Treasury Board Secretariat
Room 4320, 4th Floor, Whitney Block
99 Wellesley Street West
Toronto, Ontario M7A 1W3

Dear Minister Sandals:

Subject: Economic and Fiscal Outlook – Assessing Ontario's Medium-Term Prospects: Spring 2017

Under paragraph 10(1)(a) of the *Financial Accountability Officer Act, 2013* (the Act), the FAO is mandated to undertake regular analyses of the state of the province's finances and trends in the provincial economy.

Section 15 of the Act requires that I deliver copies of any reports I publish to the relevant ministers ahead of publication. Accordingly, please find attached a copy of my report, which presents my office's assessment of the province's medium-term economic and fiscal outlook.

As arranged with the Clerk of the Legislative Assembly, this report will be tabled on **Wednesday May 31 at 9:00 a.m.** Please treat this report as confidential until that time.

An MPP Briefing will be held in Committee Room 1 at 1:30 p.m. Members of the Standing Committee on Finance and Economic Affairs, as well as two members per caucus, are welcome to attend.

Let me take this opportunity to thank you once more for the assistance that your ministry provided to my staff during the preparation of this report.

As always, please feel free to contact my office if we can be of assistance.

Sincerely,



Stephen LeClair
Financial Accountability Officer

Encl.

Financial Accountability Office of Ontario
2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2 | 416.644.0702 | fao-on.org | info@fao-on.org

May 29, 2017

The Honourable Charles Sousa
Minister of Finance
7th Floor, Frost Building South
7 Queen's Park Crescent
Toronto, Ontario
M7A 1Y7

Dear Minister Sousa:

Subject: Economic and Fiscal Outlook – Assessing Ontario's Medium-Term Prospects: Spring 2017

Under paragraph 10(1)(a) of the *Financial Accountability Officer Act, 2013* (the Act), the FAO is mandated to undertake regular analyses of the state of the province's finances and trends in the provincial economy.

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Stephen LeClair
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Bureau de la Responsabilité Financière de l'Ontario

Office of the Budget
MINISTRY of FINANCE

Financial Accountability Officer Report:
Spring Economic and Fiscal Outlook

Draft – May 18, 2017 12:20 PM

ISSUE

- The Financial Accountability Officer (FAO) will be releasing a report on May XX, which assesses Ontario's medium-term economic and fiscal outlook.
- This represents the spring update to the FAO's planned release of semi-annual medium-term outlook reports.
- The spring report incorporates economic and fiscal information released since the FAO's fall 2016 report (released November 3, 2016). This includes:
    - New economic data that impacts their revenue and interest on debt outlooks; and
    - New spending commitments from the 2017 Budget.
- The FAO has presented two fiscal projections in its spring report:
    1. A projection that includes the impact of the net pension assets of jointly sponsored pension plans, based on the Auditor General's recommended accounting treatment, and
    2. A projection that excludes this impact based on the government's fiscal presentation in the 2017 Budget as recommended by the Pension Asset Expert Advisory Panel.
- Both presentations used by the FAO project deficits in each year over the outlook period (2016–17 to 2021–22).
- In the spring report, between 2017 and 2020 the FAO left their real GDP growth projection little changed, on average, compared to the outlook presented in its fall report. The FAO modestly raised its projection for Ontario nominal GDP by 0.1 percentage points annually, on average.

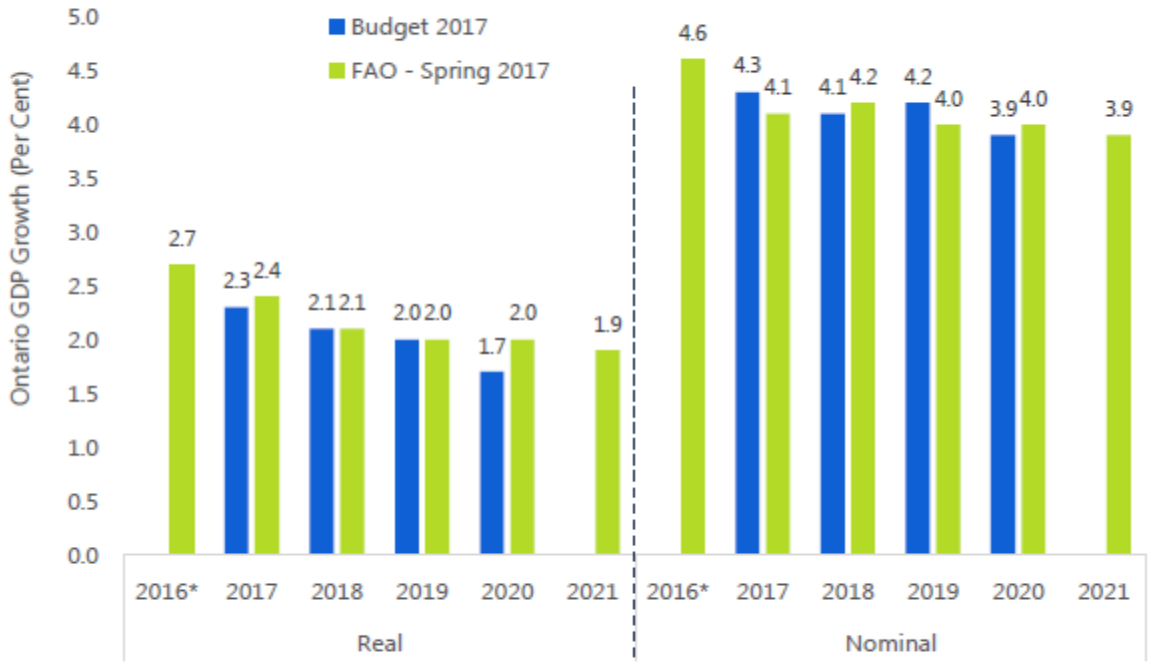
KEY FINDINGS

- The report is divided into two main chapters:
    1) The **Economic Outlook** chapter presents the FAO forecast for Ontario's economy out to 2021, and includes a discussion of potential risks.
    2) The **Fiscal Outlook** chapter presents the FAO forecast for revenue, expense and the surplus/deficit between 2016-17 and 2021-22.

Economic Outlook

- The FAO has left its forecast for Ontario real GDP growth little changed, on average, over the 2017 to 2020 period relative to its fall forecast, though it included a modest downward revision in 2017 and upward revision in 2019.
- The FAO forecast is broadly consistent with the private sector economists' view that stronger international exports and business investment will be key drivers of Ontario's overall economic growth over the next several years.
- The FAO forecast for real GDP growth is 0.1 percentage points stronger annually, on average, than the 2017 Budget forecast between 2017 and 2020.
- The FAO believes the balance of the risks to the economic outlook is tilted to the downside, particularly risks associated with a correction in Ontario's housing market. (p. 12 – Economic Chapter).

Solid Economic Performance Expected Over Outlook



* 2016 are actuals

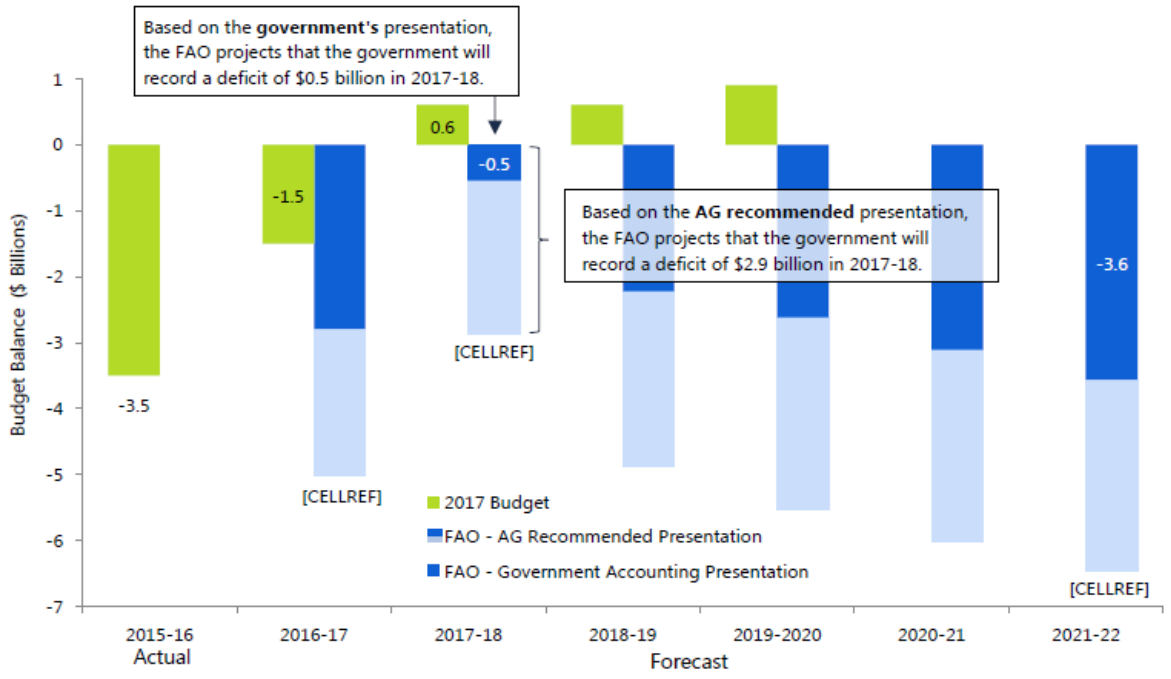
Source: Ontario Economic Accounts, Budget 2017 and FAO

Fiscal Outlook

- The FAO's current projection of the outlook for budget balance has generally deteriorated relative to the FAO's fall 2016 projection.

- The FAO's forecast, based on the Auditor General's recommended accounting treatment of jointly-sponsored pension plans, projects deficits of $5.0 billion in 2016–17, $2.9 billion in 2017–18, $4.9 billion in 2018–19, and $5.5 billion by 2019–20 (excluding the reserve). This represents a slight improvement in the deficit for 2016–17 but deterioration in 2017–18 and over the outlook compared to the FAO's fall report.
- The FAO also projects that a balanced budget is "within the government's reach in 2017–18" when using the government's accounting method.
- Using the government's accounting treatment of net pension assets the FAO is projecting budget deficits of $2.8 billion in 2016–17, $0.5 billion in 2017–18, $2.2 billion in 2018–19, and $2.6 billion by 2019–20 (excluding the reserve). This represents an improvement in the deficit for 2016–17 and 2017–18, but deterioration over the outlook compared to the FAO's fall report. By comparison, the 2017 Budget projects a $1.5 billion deficit in 2016–17 and surpluses of $0.6 billion in 2017–18 and 2018–19, and a $0.9 billion surplus in 2019–20, excluding the reserve. The FAO also makes projections out to 2021–22 with increasing deficits forecast for those years as well.
- The FAO's projection for an improved deficit in 2017–18 is due to robust economic performance in 2016 and 2017, compared to the FAO's fall estimates, and a one-time revenue increase in 2017–18 from increased federal transfers for infrastructure, additional revenue from asset sales and cap and trade proceeds. (p. 3 – Fiscal Chapter).
- Beginning in 2018-19, the FAO projects that the deficit will gradually deteriorate due to moderate revenue growth, the absence of one-time non-tax measures, and higher program expenses. (p. 1 – Fiscal Chapter).
- That FAO believes that "staying in balance after 2017–18 will likely require additional fiscal policy measures." (p. 1 – Fiscal Chapter).

Ontario's Budget Balance*



* Budget balance excluding reserve.

Source: 2015-16 Public Accounts, 2017 Budget and FAO

Key factors driving change since the 2016 FAO fall report:

- Increases in Provincial tax revenue of $2.3 billion in 2016–17 and $4.1 billion in 2017–18 (stronger than expected PIT revenue) due to improving economic growth in 2017
- Declines in Ontario's equalization entitlement. Beyond 2018–19, the FAO is projecting that Ontario will no longer be entitled to Equalization payments – a reflection of the continued strength of the Ontario economy
- Significant new spending across all sectors, including a new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan
- Revised estimates for net pension asset expense of jointly sponsored pension plans

Developments since 2016 Fall EFO (AG Recommended Presentation)

	2016-17	2017-18	2018-19	2019-20	2020-21
FAO's Fall 2016 Budget Balance Forecast	-5.2	-2.6	-2.8	-3.3	-3.7
Developments Since Fall 2016					
Revenue					
Stronger Economic Outlook	2.3	4.1	3.9	4.4	4.7
Lower Federal Transfers[1]	-0.3	0.2	-1.3	-2.4	-2.2
Other Revenue Changes	0.1	0.1	-0.5	-0.6	-0.6
Total	2.1	4.4	2.1	1.3	1.8
Expense					
Children and Youth Pharmacare, and Fair Hydro Plan[3]	0.5	1.3	1.3	1.3	1.3
Revised Pension Asset[4]	0.7	0.8	1.1	1.4	1.4
Other Expense Increases	0.7	2.5	1.7	0.9	1.4
Total	2.0	4.6	4.1	3.6	4.1
Total Developments	0.2	-0.3	-2.1	-2.3	-2.3
FAO's 2017 Spring Budget Balance Forecast	-5.0	-2.9	-4.9	-5.5	-6.0

Notes:

1. Change in federal transfers forecast mainly due the reduction in Ontario's Equalization payment.
2. Other revenue changes include the $0.5 billion re-profiling of cap-and-trade proceeds from 2016-17 to 2017-18, and an increase in sales and rentals for 2017-18.
3. In the 2016 Fall EFO, the FAO included $1 billion in expenses from the HST rebate on electricity bills beginning 2017-18, which is now part of the Fair Hydro Plan. As a result, the FAO estimates that the incremental impact of the Fair Hydro Plan is $0.8 billion, compared to the Fall.
4. In the 2016 Fall EFO, the FAO assumed $1.5 billion in adjustments for net pension assets of jointly sponsored pension plans. The government has revised its estimate of the impact to $2.2 billion in 2017-18, increasing to $2.9 billion by 2020-21.

Source: FAO

Revenue Assumptions

- Compared to the FAO's fall forecast, from 2016-17 to 2019-20, on average, total revenue is projected to be $2.5 billion higher annually mostly because of higher taxation revenue, partially offset by lower Federal Transfers and other Non-Tax revenues.

FAO Revenue Difference (Spring 2017 less Fall 2016)

$ Billions	2016-17	2017-18f	2018-19f	2019-20f	Annual Average
Taxation Revenue	**2.8**	**4.2**	**4.4**	**4.9**	**4.1**
Government of Canada Transfers	-0.4	0.2	-1.3	-2.4	-1.0
Government Business Enterprises	0.3	-0.4	0.0	0.1	0.0
Other Non-Tax Revenue	-0.6	0.4	-1.1	-1.3	-0.7
Total Non-Tax Revenue	**-0.7**	**0.2**	**-2.4**	**-3.6**	**-1.6**
Total Revenue	**2.1**	**4.4**	**2.1**	**1.4**	**2.5**

  - Taxation revenues are projected to be, on average, $4.1 billion higher annually due to stronger economic growth as nominal GDP growth is, on average, projected to be 0.4 percentage points higher annually.

- More specifically, corporate profits are projected to be 3.3 percentage points higher annually, boosting Corporations Tax revenue. Higher labour income is expected to raise Personal Income Tax revenue while Ontario's strong housing market boosts Sales Tax and Land Transfer Tax revenues.
- Lower Federal Transfers reflects mostly the FAO's projection that Ontario will no longer be entitled to Equalization payments beyond 2018-19.
- Non-Tax revenues are lower, mainly because of the revisions to the multi-year asset optimization target to reflect the progress made so far and revised projections for Carbon allowance proceeds.

- Compared to the 2017 Budget, the FAO total revenue is lower mostly because of taxation revenue and, to a lesser extent, Federal Transfers.

FAO less Ontario 2017 Budget Outlook ($ Billions)

	2016-17	2017-18	2018-19	2019-20	Average
Taxation Revenue	-1.2	-1.4	-2.3	-3.0	-2.0
Government of Canada Transfers	-0.1	0.0	-0.8	-0.8	-0.4
Government Business Enterprises	0.0	0.0	0.0	0.0	0.0
Other Non-Tax Revenue	0.0	0.0	0.0	0.0	0.0
Total Revenue	**-1.2**	**-1.3**	**-3.1**	**-3.7**	**-2.4**

- FAO's projection for the composition of nominal GDP such as compensation of employees, net operating surplus and household consumption, are all lower than the 2017 Budget projection.
- The 2017 Budget assumed higher yields from CIT and HST compared to recent projections, reflecting recent tax revenue performance. These yields also exceed those assumed by the FAO.
- The FAO projection for PIT is consistently lower than the 2017 Budget. This is likely due to a downward adjustment in each year reflecting tax planning that may have occurred in 2015 by high-income earners -- no details were provided by the FAO. The 2017 Budget only included an allowance for PIT planning in 2016-17.

- FAO's federal transfer outlook is lower than assumed in the 2017 Ontario Budget, probably due to FAO's assumption that Ontario will no longer receive Equalization payments starting in 2019-20 as Ontario's fiscal capacity improves relative to other provinces.
- The FAO's government business enterprise net income outlook and other non-tax revenue is the same as reported in the 2017 Budget.

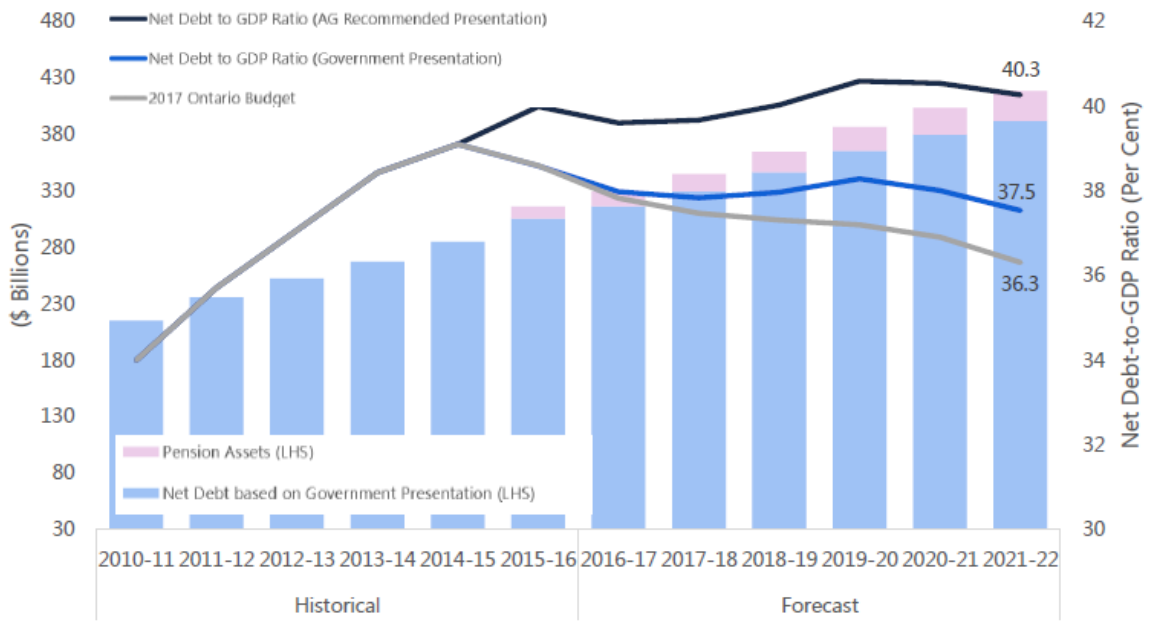
Expense Assumptions [to be confirmed by TBS]

- The FAO assumes the same program expense outlook as the 2017 Budget up to 2019–20, adjusted to reflect the Auditor General's recommended accounting treatment for jointly sponsored pension plans.(p. 4 – Fiscal Chapter).
- The FAO's expense outlook includes new spending commitments announced in the 2017 Budget including a new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan. This results in average annual growth in program expense of 3.3% between 2016–17 and 2021–22.
- The FAO also projects that program spending will increase by an average of 3.6% each year beyond 2019–20. The FAO argues that this increase is in line with population growth, aging and price inflation, consistent with its 2016 spring and fall reports.
- The FAO projects that Ontario's interest on debt (IOD) payments will grow at an average annual rate of 4.0% from $11.0 billion in 2015–16 to $13.9 billion by 2021–22, reflecting higher debt and rising interest rates over the outlook. The FAO forecasts that IOD will significantly outpace the growth in program expense over the outlook. (p. 5 – Fiscal Chapter).
- According to the FAO, interest on debt is expected to increase from 8.1% of revenues in 2017–18 to 8.9% by 2021–22. Over the past five years IOD as a share of revenues declined steadily, benefitting from declining interest rates. The FAO argues that this ratio is expected to rise sharply due to projected interest rate increases. (p. 5 – Fiscal Chapter).

Debt Outlook [to be confirmed by OFA]

- Under the Auditor General's recommended accounting treatment of jointly-sponsored pension plans, the FAO expects Ontario's net debt to rise by $76 billion to $392 billion by 2021–22 or 40.3 per cent of GDP, this represents a slightly lower net debt-to-GDP ratio over the plan and outlook period when compared to the FAO's fall forecast. Using the government's accounting method, the FAO expects net debt to increase by $62 billion over the next five years to $365 billion by 2021–22 or 37.5 per cent of GDP, above the 2017 Budget projection of 36.3 per cent.
- The FAO's net debt-to-GDP projections under both accounting presentations, suggests that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24. (p. 6 – Fiscal Chapter).

Ontario's Net Debt to GDP Ratio



Source: Ontario Economic Accounts, 2017 Ontario Budget, and FAO

Accounting Treatment

- The FAO's spring outlook includes a detailed section on the different accounting treatment for net pension assets of jointly sponsored pension plans (Ontario Teachers' Pension Plan and the Ontario Public Service Employees Union Pension Plan) used by the government and the Auditor General.
- The FAO states that in the absence of a written agreement between the co-sponsors of the pension plans, the Auditor General would be expected to provide a qualified opinion on Ontario's 2016-17 Public Accounts.

Risks and Policy Options

- The FAO notes the following risks to Ontario's fiscal plan (p. 7 – Fiscal Chapter):
    - A housing market correction could pose a significant risk for both the broader economy and the fiscal plan through lower taxation revenues
    - Reduced prudence built into program spending in the 2017 Budget compared to the previous budget – reducing flexibility for the government to respond to unexpected events
    - Interest on debt payments are expected to increase, exposing the government to fiscal risk should interest rates rise faster than expected

- Although the FAO projects deficits, the report notes that the government has a broad range of policy options that could improve the Province’s fiscal position, including selling additional public assets beyond announced targets.

APPENDIX A – Detailed Comparison of Outlooks

Comparison: 2017 Budget Fiscal Outlook and the 2017 Spring FAO Outlook										
								Avg. Annual Growth		
	Actual		Outlook					16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
2017 Budget										
Revenue	128.4	133.2	141.7	144.9	149.3			3.9%		
Expense										
Program Expense	120.9	123.5	129.5	132.3	135.8			3.2%		
Interest on Debt	11.0	11.3	11.6	12.0	12.6			3.9%		
Total Expense	131.9	134.8	141.1	144.3	148.4			3.3%		
Surplus/(Deficit) Excl. Reserve	(3.5)	(1.5)	0.6	0.6	0.9					
Reserve	-	-	0.6	0.6	0.9					
Surplus/(Deficit)	(3.5)	(1.5)	0.0	0.0	0.0					
Net Debt	294.6	301.9	311.9	323.3	335.9					
Change - 2017 Budget to FAO Spring 2017 Report										
Revenue	-	*(1.2)*	*(1.4)*	*(3.1)*	*(3.7)*					
Expense										
Program Expense	-	*2.2*	*2.3*	*2.6*	*2.9*					
Interest on Debt	-	-	*(0.3)*	*(0.3)*	*(0.3)*					
Total Expense	-	*2.2*	*2.0*	*2.3*	*2.7*					
Surplus/(Deficit) Excl. Reserve	-	*(3.5)*	*(3.5)*	*(5.5)*	*(6.4)*					
Reserve	-	-	*n/a*	*n/a*	*n/a*					
Surplus/(Deficit)	-	*(3.5)*	*n/a*	*n/a*	*n/a*					
Net Debt	*10.6*	*14.2*	*17.6*	*23.1*	*29.5*					
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	120.9	125.7	131.8	134.9	138.8	143.8	149.0	3.4%	3.6%	3.5%
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	131.9	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve*	(3.5)	(5.0)	(2.9)	(4.9)	(5.5)	(6.0)	(6.5)			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	(3.5)	(5.0)	n/a	n/a	n/a	n/a	n/a			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Pension Adjustment	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excl. Reserve and Pension Adj.	(3.5)	(2.8)	(0.5)	(2.2)	(2.6)	(3.1)	(3.6)			
Note: Numbers may not align with report due to rounding.										
* Based on AG recommended accounting treatment with adjustment for net pension assets.										

Comparison: 2016 Fall FAO Outlook Compared to 2017 Spring FAO Outlook										
								Avg. Annual Growth		
	Actual		Outlook					16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
FAO Fall 2016 Report										
Revenue	128.4	129.9	135.9	139.7	144.2	149.1		3.5%		
Expense										
Program Expense*	122.4	123.9	127.2	130.9	135.3	139.9		3.0%		
Interest on Debt	11.0	11.2	11.3	11.6	12.2	12.9		2.9%		
Total Expense	133.4	135.1	138.5	142.5	147.5	152.8		3.0%		
Surplus/(Deficit) Excl. Reserve*	(5.0)	(5.2)	(2.6)	(2.8)	(3.3)	(3.7)				
Reserve	-	-	n/a	n/a	n/a	n/a				
Surplus/(Deficit)	(5.0)	(5.2)	n/a	n/a	n/a	n/a				
Net Debt	305.2	318.5	330.5	343.8	356.8	369.7				
Pension Adjustment	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)				
Surplus/(Deficit) Excl. Reserve and Pension Adj.	(3.5)	(3.7)	(1.1)	(1.3)	(1.8)	(2.2)				
Change - FAO Fall 2016 Report to Spring 2017 Report										
Revenue	-	*2.1*	*4.4*	*2.1*	*1.3*	*1.8*				
Expense										
Program Expense *	*(1.5)*	*1.9*	*4.6*	*4.0*	*3.5*	*3.9*				
Interest on Debt	-	*0.1*	-	*0.1*	*0.1*	*0.2*				
Total Expense	*(1.5)*	*2.0*	*4.6*	*4.1*	*3.6*	*4.1*				
Surplus/(Deficit) Excl. Reserve *	*1.5*	*0.2*	*(0.3)*	*(2.1)*	*(2.3)*	*(2.3)*				
Reserve	-	-	*n/a*	*n/a*	*n/a*	*n/a*				
Surplus/(Deficit)	*1.5*	*0.2*	*n/a*	*n/a*	*n/a*	*n/a*				
Net Debt	*(0.0)*	*(2.4)*	*(1.0)*	*2.6*	*8.6*	*9.7*				
Pension Adjustment	-	(0.7)	(0.8)	(1.1)	(1.4)	(1.4)				
Surplus/(Deficit) Excl. Reserve and Pension Adj.	-	0.9	0.6	(0.9)	(0.8)	(0.9)				
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	120.9	125.7	131.8	134.9	138.8	143.8	149.0	3.4%	3.6%	3.5%
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	131.9	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve*	(3.5)	(5.0)	(2.9)	(4.9)	(5.5)	(6.0)	(6.5)			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	(3.5)	(5.0)	n/a	n/a	n/a	n/a	n/a			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Pension Adjustment	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excl. Reserve and Pension Adj.	(3.5)	(2.8)	(0.5)	(2.2)	(2.6)	(3.1)	(3.6)			

Note: Numbers may not align with report due to rounding.

* Based on AG recommended accounting treatment with adjustment for net pension assets.

From:	Inglis, Liane (MOF)
To:	Ken Kandeepan; Alexander Kraas; John Psinas; Christina Zhang
Subject:	FW: The FAO"s Spring 2018 Economic and Budget Outlook Report
Date:	Monday, April 30, 2018 11:43:55 AM
Attachments:	image001.png image002.png EBO Spring 2018.pdf Letter to Minister McMahon - EBO.docx Letter to Minister Sousa - EBO.docx

FYI – here's the updated report. We're catching the note up now and hope to get it over to you for quick review early in the afternoon. As expected their IOD forecast has been revised.

Liane

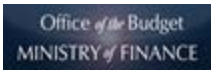
From: Schuurman, Tim (MOF)
Sent: April 30, 2018 10:28 AM
To: Thompson, Scott (MOF)
Cc: McLean, David (MOF); Rowe, Alana (MOF); Inglis, Liane (MOF); Tiburcio, Daniel (MOF); Lewis, Brian (MOF); Mayman, Gadi (OFA)
Subject: FW: The FAO's Spring 2018 Economic and Budget Outlook Report

Attached is the FAO Economic and Fiscal Outlook Report that will be delivered to Ministers by noon today.

We'll do a more detailed look at the numbers but it looks like the only significant change relative to the last version we saw was the addition of a new "scenario" over the recovery plan where the FAO shows what would happen if the government restrained spending – and it shows the Province would return to balance. They do talk abit about what that would entail, and do piggy back on historical experience to show that it has been done in the past.

My division will coordinate a rolled up note and speaking notes – we'll need to figure out when and if a briefing would be required.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



From: David West [mailto:dwest@fao-on.org]
Sent: April-30-18 10:13 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS)
Subject: The FAO's Spring 2018 Economic and Budget Outlook Report

Good morning

The FAO will be releasing its spring 2018 Economic and Budget Outlook (EBO) report on Wednesday May 2nd at 10:00 am. There will be separate technical briefings for media and MPPs on Wednesday at 9:00 am. The Temporary Financial Accountability Officer, David Wake, and myself will be making a media statement and responding to questions at 10:00 am.

The report along with the attached letters are being delivered to Ministers Sousa and McMahon later this morning – and are attached for your reference.

Please treat this document as embargoed until its release on Wednesday at 10:00 am.

As always, your assistance and support for the work of the FAO are greatly appreciated.

Best regards,
David

David West
Chief Economist
FAO | Financial Accountability Office of Ontario

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ECONOMIC AND BUDGET OUTLOOK

Assessing Ontario's Medium-term Budget Plan

Spring 2018

About this Document

Established by the *Financial Accountability Officer Act, 2013*, the Financial Accountability Office (FAO) provides independent analysis on the state of the Province's finances, trends in the provincial economy and related matters important to the Legislative Assembly of Ontario.

The FAO's Economic and Budget Outlook (EBO) reports are released each spring and fall, providing an assessment of the province's medium-term economic performance and fiscal position. This report also provides the FAO's assessment of the reasonableness and risks associated with the government's fiscal recovery plan presented in the 2018 Budget.

This report was prepared by Nicolas Rhodes, Luan Ngo and Edward Crummey, with contributions from Matt Gurnham and Andy Tran, under the direction of David West. External reviewers were provided with earlier drafts of this report for their comments. However, the input of external reviewers implies no responsibility for this final report, which rests solely with the FAO.

The content is based on information available to April 6, 2018. Background data used in this report are available upon request.

In keeping with the FAO's mandate to provide the Legislative Assembly of Ontario with independent economic and financial analysis, this report makes no policy recommendations.

FAO's Fiscal Projections

The FAO forecasts provincial finances based on projections of existing and announced revenue and spending policies. The forecast represents the FAO's view of the most likely fiscal outcomes given existing policies, without anticipating any new government policy decisions. The FAO's tax revenue projections are based on an assessment of the outlook for the provincial economy and current tax policies. Given the government's discretion over spending, the FAO adopts the government's announced spending plans from fiscal documents and incorporates policy announcements as appropriate. Beyond the government's published spending projections, the FAO forecasts spending based on the outlook for underlying cost drivers including demographics and price inflation.

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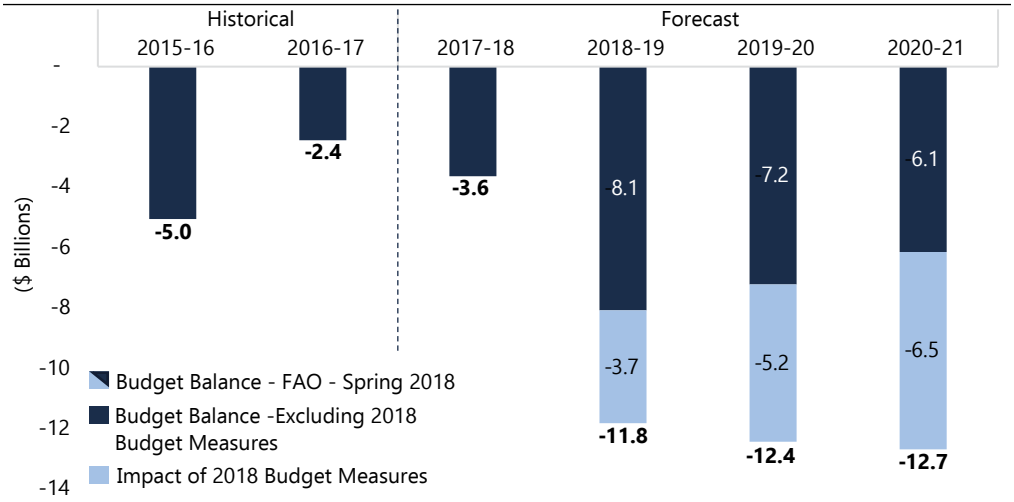
1 | Summary

FAO Projects Sharp Increase in Budget Deficit

In 2017-18, the FAO estimates that Ontario will record a budget deficit of $3.6 billion, consistent with the Auditor General's recommended accounting treatment for net pension assets and the Fair Hydro Plan.

For 2018-19, the FAO projects that Ontario's budget deficit will increase sharply to $11.8 billion, the result of higher spending from the 2018 Budget combined with only a weak gain in revenue. Going forward, the FAO projects a continued deterioration in Ontario's budget, with the deficit reaching $12.7 billion by 2020-21.

Ontario budget balance deteriorates significantly



Note: The budget balance excludes the reserve and is presented on the Auditor General's recommended accounting basis.

Source: Ontario Public Accounts, 2018 Ontario Budget and FAO.

Over the past four years, the Ontario economy has shown significant strength, primarily due to strong gains in household spending and residential investment. Most economic forecasters, including the FAO, expect this robust pace of growth will moderate somewhat over the next few years as rising interest rates, combined with high levels of household debt, slow the growth of household spending. The slower

pace of economic growth results in more modest growth in Ontario's revenues, which in turn, contributes to Ontario's worsening budget deficit.

Importantly, the FAO estimates that Ontario was facing an $8.1 billion deficit in 2018-19 prior to the introduction of the 2018 Budget.

In this context, the government introduced the 2018 Budget which included a broad range of new public spending initiatives. While many of these new programs would provide significant social and economic benefits for Ontarians, the government has not raised adequate revenue to pay for them, adding to continued deficits over the outlook.

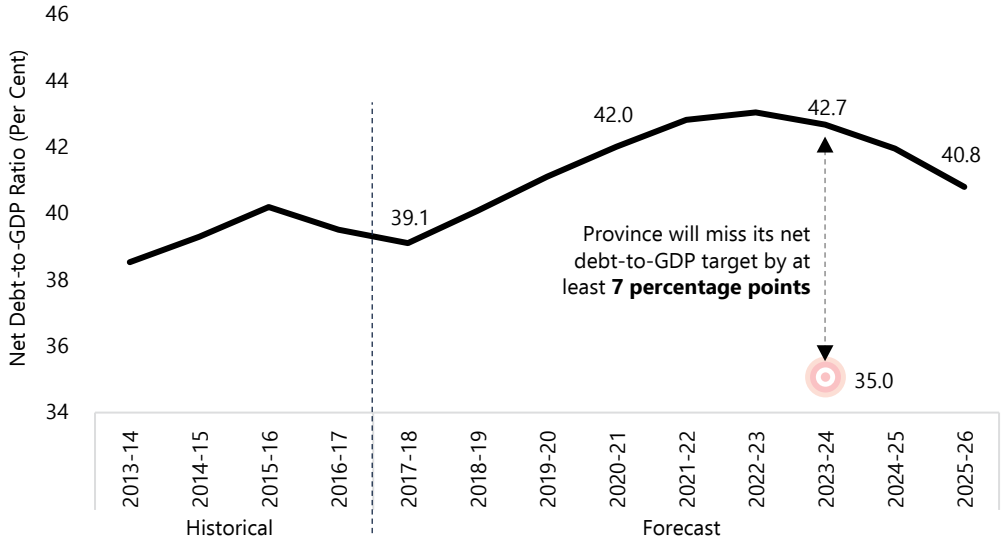
Large, on-going deficits will contribute to a steady increase in Ontario's debt over the next three years. The FAO projects that Ontario's net debt will increase by almost $70 billion, reaching $394 billion in 2020-21, pushing the net debt-to-GDP ratio to 42 per cent, well above today's ratio of 39 per cent.

To address the budget deficit, the government introduced a 'fiscal recovery plan' which projects a balanced budget by 2024-25, based on restricting the growth in program spending. The fiscal recovery plan provides few policy specifics, but assumes that the government will dramatically cut spending growth from an average of 4.2 per cent over the next three years, to just 2.1 per cent from 2020-21 to 2025-26.

Based on the FAO's analysis, severely restraining the growth in program spending, below the pace of population growth and price inflation, could lead to a balanced budget by 2025-26. However, this plan implies that the Province would have to lower spending by approximately $15 billion, or eight per cent, by 2025-26.

Even with the significant spending restraint planned by the government in the 2020s, Ontario's debt burden would remain elevated, and the Province would miss its 2023-24 net debt-to-GDP target by a wide margin.

The Province will not meet its 2023-24 net debt-to-GDP target



Note: Projection incorporates the Auditor General's recommended accounting treatment of the Fair Hydro Plan and net pension assets.

Source: 2018 Ontario Budget, Ontario Public Accounts and FAO.

The 2018 Budget postpones deficit recovery, leading to the accumulation of additional debt into the 2020s when demographic pressures on the budget will intensify. This additional debt will increase the challenge of stabilizing Ontario's public finances, shift the burden from the baby boom generation to younger Ontarians, and would leave future governments with less flexibility to respond to future crises, including recessions.

Alternate fiscal plans that address the deficit would also involve difficult trade-offs. Raising revenue leaves less money for households to spend and businesses to invest, and would contribute to the already moderating pace of economic growth.

However, achieving continued spending restraint may be more difficult in the coming years. The government has been limiting spending growth since 2010, and many public services are currently facing budget pressures.

2 | Economic Outlook

Overview

Over the past four years[1], the Ontario economy recorded the strongest pace of growth since the early 2000s, with real GDP increasing by an average of 2.7 per cent per year. Over this period, strong gains in household spending and residential investment were the primary drivers of economic growth.

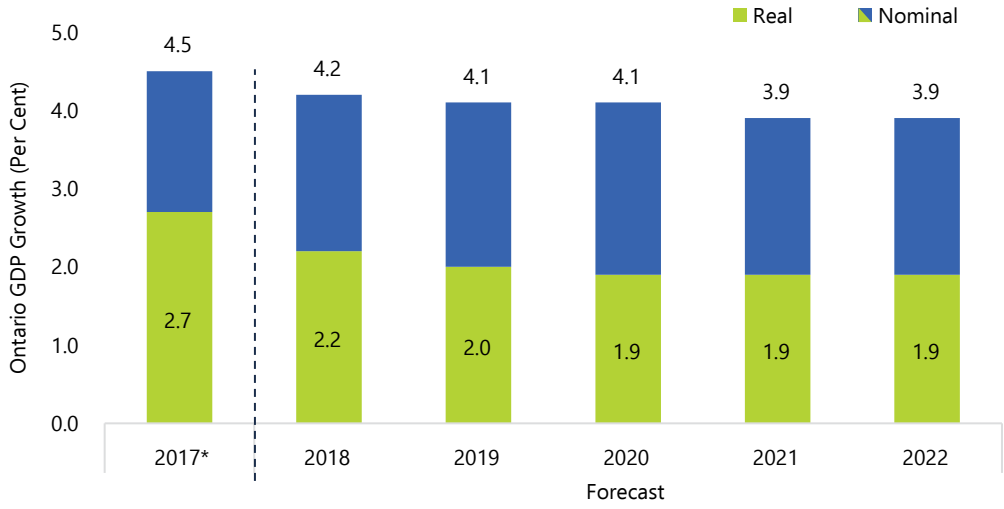
Consistent with the strong economy, Ontario job growth surged last year, with 128,400 net new jobs (+1.8 per cent), the largest annual employment increase since 2003. The strong job gain helped lower Ontario's unemployment rate to 6.0 per cent in 2017, the lowest annual rate since 2000.

Most economic forecasters, including the FAO, expect this robust pace of growth to moderate somewhat over the next few years. The FAO is forecasting average real GDP growth of 1.9 per cent per year from 2017 to 2022, as rising interest rates, combined with high levels of household debt, slow the growth of household spending. The FAO's current economic outlook for Ontario is also broadly consistent with the FAO's fall forecast.

Nominal GDP – the broadest measure of the tax base – increased 4.5 per cent in 2017, driven by a strong gain in corporate profits. The FAO expects overall nominal GDP growth to return to a more moderate 4.2 per cent pace in 2018 and average 4.0 per cent over the remainder of the economic outlook.

1 From 2013 to 2017.

Economic growth to moderate after four years of strong growth



* 2017 are estimates.
Source: Statistics Canada, Ontario Economic Accounts and FAO.

As was the case for the FAO's fall report[2], the key risks to Ontario's economic outlook continue to include weaker than expected exports and business investment given the rise in protectionist trade policies in the US, as well as a more pronounced slowing in consumer spending and residential construction, reflecting the elevated level of household debt (see 'Key Risks' section).

Global Economic Growth Improves

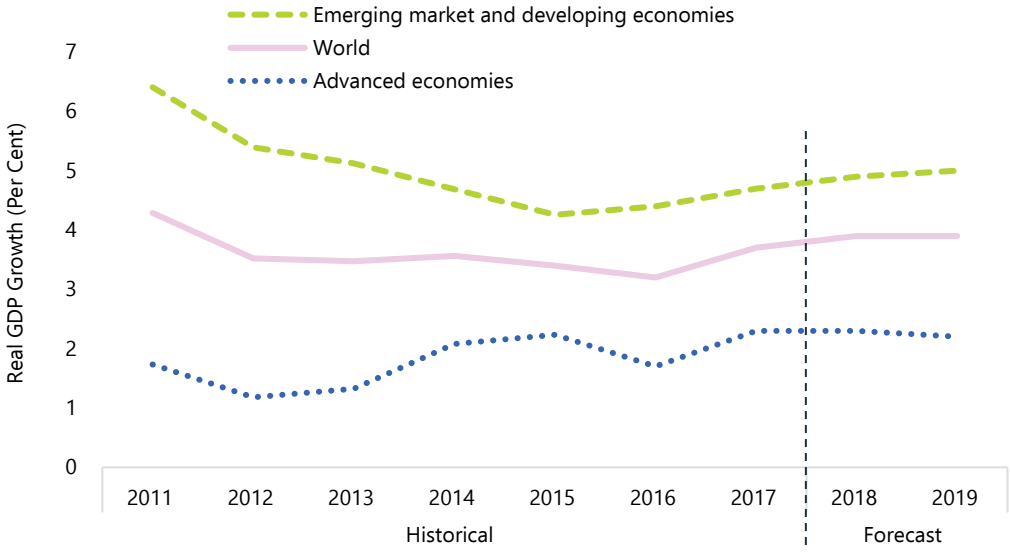
The global economy posted solid, broad-based growth of 3.7 per cent in 2017, up from 3.2 per cent in 2016.[3] The International Monetary Fund (IMF) expects the current economic momentum to carry forward into 2018 and 2019, with global growth of 3.9 per cent projected for both years.

The IMF estimates that advanced economies grew by a solid 2.3 per cent in 2017. In its latest report, the IMF revised up the outlook for most advanced economies, based on the expectation that favourable conditions will continue to support stronger business investment.[4]

Growth in emerging market and developing economies is also expected to accelerate slightly over the next two years. While the IMF expects Chinese economic growth to moderate, the forecast for the Indian economy has improved.

2 See the FAO's Economic and Fiscal Outlook, Fall 2017 Update.
3 World Economic Outlook Update, January 2018, International Monetary Fund.
4 Global Economic Prospects: Broad-Based Upturn, but for How Long? – Chapter 1, January 2018, World Bank.

Global growth to accelerate in 2018 and 2019

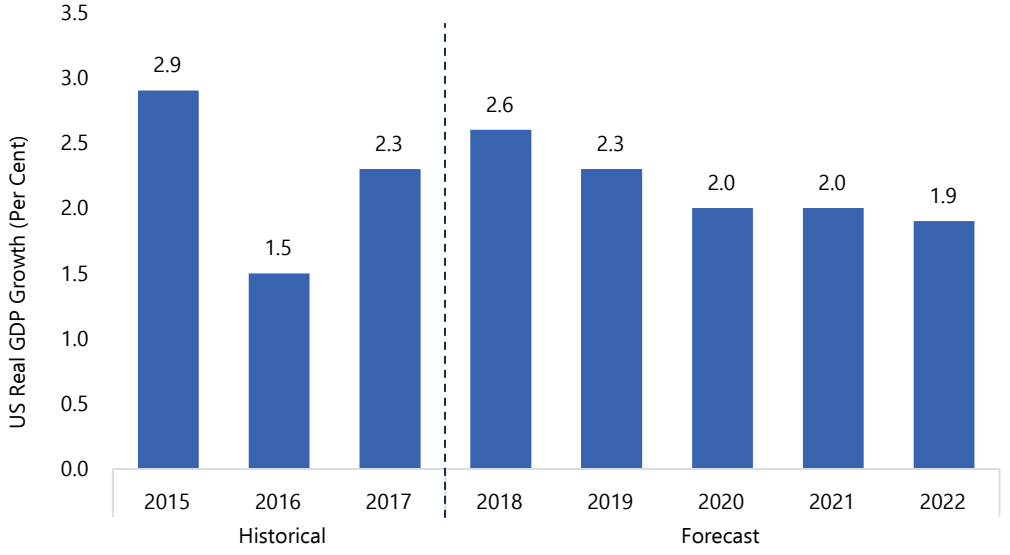


Source: International Monetary Fund, World Economic Outlook Update, January 2018.

U.S. Economy Expected to Strengthen in 2018

The United States posted real GDP growth of 2.3 per cent in 2017, driven by solid household consumption, business investment and exports.

US to grow strongly in the next two years



Source: US Bureau of Economic Analysis, Conference Board of Canada, Bank of Canada and FAO.

Significant changes to the US tax system, coupled with Congress's recent $1.3 trillion spending plan[5] should provide strong support for US domestic demand in the short-term. This fiscal policy stimulus combined with the upswing in the global economy will result in a temporary boost to US growth, with real GDP projected to increase by 2.6 per cent and 2.3 per cent, over the next two years.

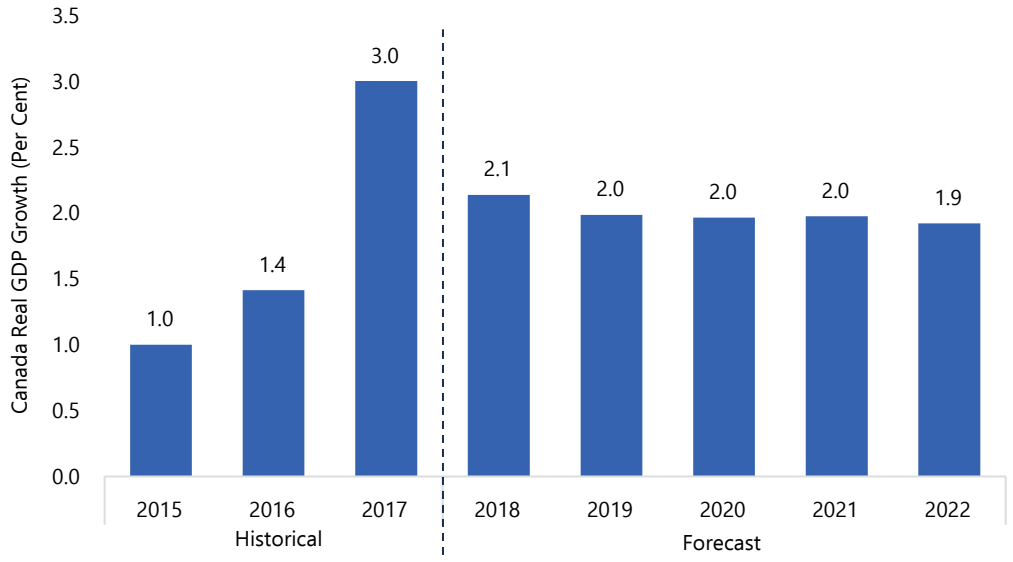
Beyond 2019, the boost from fiscal stimulus will fade, while US interest rates are expected to continue rising, slowing economic growth over the outlook.

Canadian Economic Growth to Moderate

The Canadian economy grew by 3.0 per cent in 2017, the strongest annual gain since 2011. Growth was driven by household spending, particularly durable goods, and residential investment. Despite the strong overall growth, Canada's export performance disappointed.

Over the outlook, real GDP growth is expected to moderate, averaging 2.0 per cent, as the Bank of Canada gradually raises its policy interest rate, contributing to slower growth in household consumption and residential investment. However, strong global demand is expected to boost Canadian business investment and exports, assuming that current trade tensions are resolved positively (see the 'Key Risks' section for more details).

Canada growth expected to moderate following surge in 2017



Source: Statistics Canada and FAO.

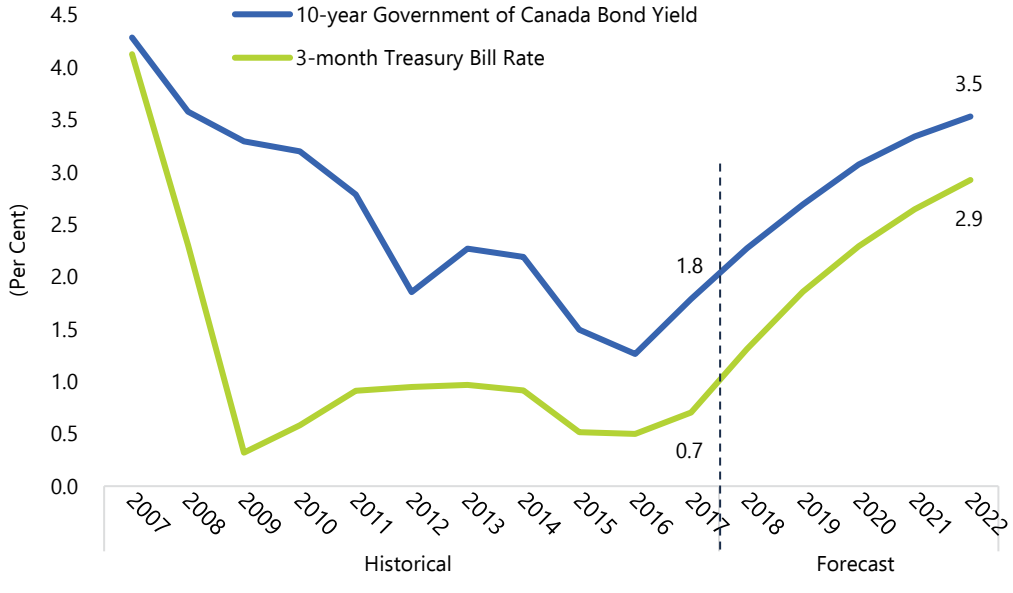
5 Rules Committee Print 115-66, the Consolidated Appropriations Act, 2018, Congressional Budget Office.

In recent public statements[6], the Bank of Canada noted that strong economic growth in 2017 pushed the Canadian economy close to its production capacity, putting upward pressure on wages and prices.

As a result, the Bank increased its policy interest rate twice in 2017 and once so far in 2018. Going forward, the Bank has indicated that it will continue to gradually and cautiously increase interest rates, depending on the strength of new economic data.[7]

Given the Bank's cautious approach to rate setting, and the current economic and inflation outlook for Canada, the FAO continues to expect a gradual but steady rise in interest rates over the outlook.

Interest rates to increase gradually over outlook



Source: Statistics Canada and FAO.

The Canadian dollar exchange rate averaged 77 cents (US) in 2017. Over the outlook, the FAO projects that the dollar will remain relatively steady, reaching 78 cents (US) by 2022.

6 Remarks by Timothy Lane, Deputy Governor of the Bank of Canada, March 8, 2018.
7 Bank of Canada Press Release, March 7, 2018.

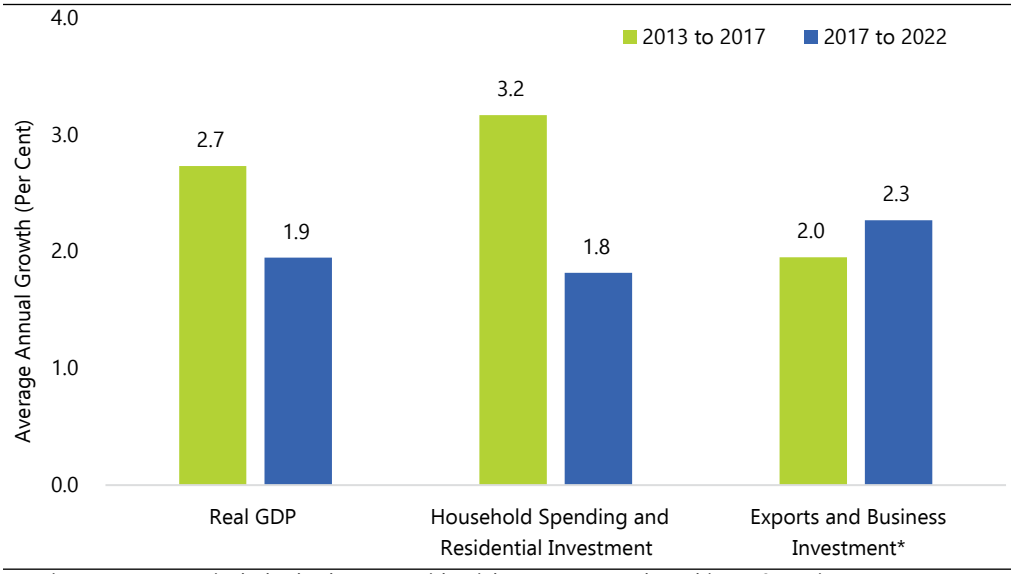
Ontario Economic Outlook

Growth Expected to Ease

Ontario real GDP grew by a strong 2.7 per cent in 2017, driven primarily by household spending and residential investment. While household spending and residential investment have been the primary sources of overall economic growth since 2012, both lost momentum in the second half of 2017.[8]

Rising debt service payments – a reflection of high debt loads and interest rate increases - will lead to slower growth in household spending and residential investment over the outlook.[9] At the same time, exports and business investment are expected to pick-up given the strong US economy, new trade agreements,[10] and the need for Ontario businesses to expand production capacity to meet higher demand. Overall, the FAO projects real GDP growth to slow to 2.2 per cent in 2018 and average 1.9 per cent over the remainder of the economic outlook.

Economic growth expected to become more balanced over outlook



* Business Investment includes both Non-Residential Investment and Machinery & Equipment Investment.

Source: Statistics Canada, Ontario Economic Accounts and FAO.

The FAO's forecast is broadly consistent with the outlook of most economic forecasters and largely in-line with the FAO's fall economic outlook.

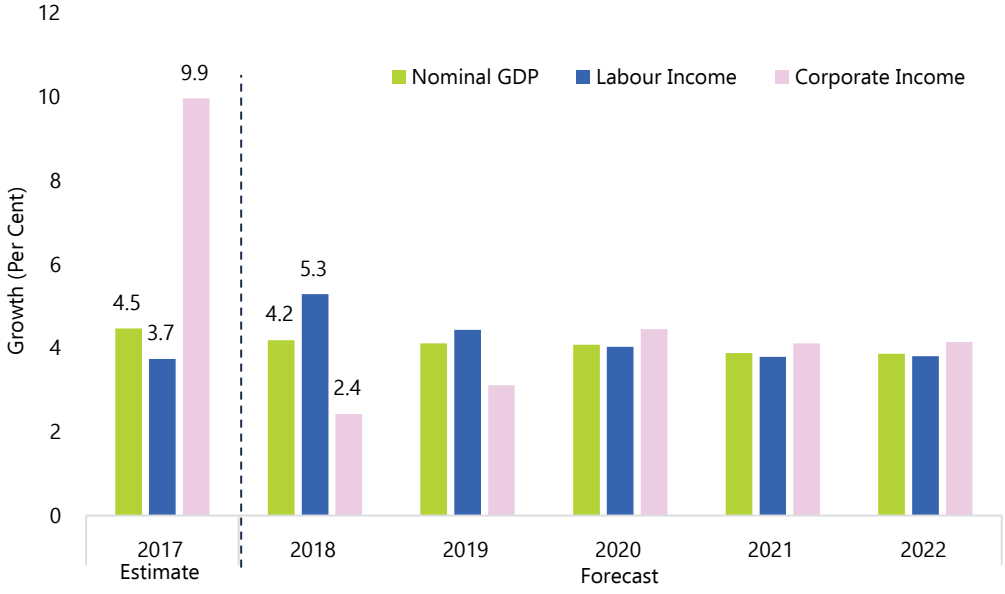
8 Consumption and residential investment have accounted for over 50 per cent of real economic growth since 2012.
9 The strong growth of Ontario's housing sector was more subdued following the introduction of the Fair Housing Plan in April of 2017. As well, stricter mortgage qualification rules introduced by the Office of the Superintendent of Financial Institutions (OSFI) at the start of 2018 are expected to further reduce housing demand.
10 Foreign exporters are expected to benefit from the introduction of the Comprehensive Economic and Trade Agreement (CETA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Income Growth Also Expected to Moderate

Total economy-wide income (as measured by nominal GDP) grew by 4.5 per cent in 2017, driven by a significant increase in corporate profits. Labour income posted a more moderate gain of 3.7 per cent in 2017. The increase in the minimum wage in 2018 and the planned increase for 2019 are expected to strengthen labour income growth in these years. Beyond 2019, labour income growth is expected to moderate, partially reflecting a gradual slowing in the growth of Ontario's labour force.

From 2018 to 2022, nominal GDP growth is projected to average 4.0 per cent per year.

Labour income to lead nominal GDP growth in 2018



Note: Labour and corporate income comprise roughly 65 per cent of nominal GDP. The other categories include mixed income (from proprietorships) and net taxes.

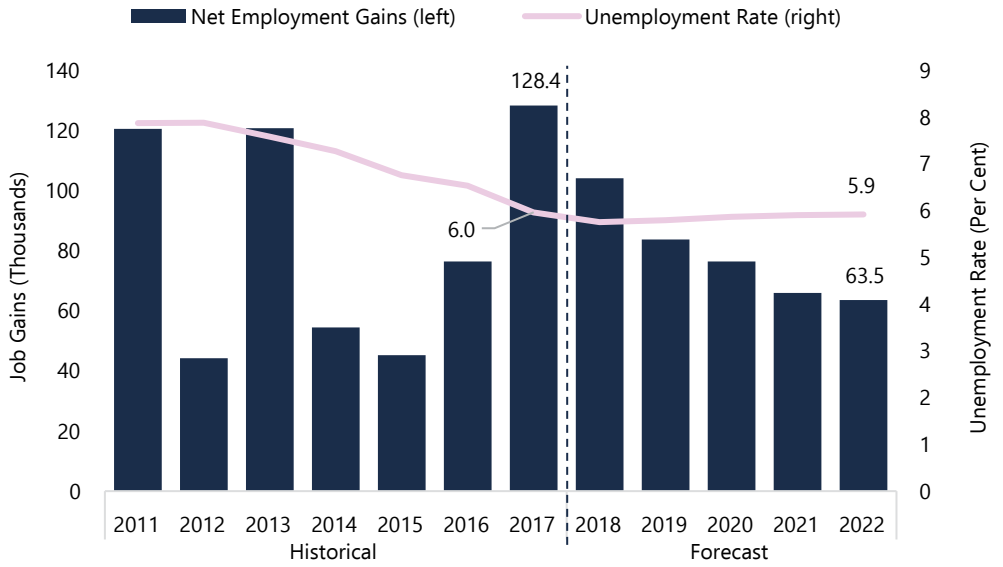
Source: Statistics Canada, Ontario Economic Accounts and FAO.

Steady Job Gains in Ontario's Labour Markets

The Ontario economy created 128,400 net new jobs in 2017, the largest annual job gain since 2003, while the annual unemployment rate dropped to 6.0 per cent, the lowest rate since 2000. The majority of the job gains last year were full-time, private sector positions. The service sector added 114,000 positions, while the goods sector (led by solid employment gains in manufacturing industries) added 14,500 new jobs.

Employment growth eased in the first quarter of 2018, with 110,300 jobs created on a year-over-year basis. Over the forecast, the FAO is projecting average annual job growth of 1.1 per cent, consistent with the outlook for continued but more modest economic growth.

Steady employment gains over outlook



Source: Statistics Canada and FAO.

Sustained economic growth over the outlook, combined with recent increases to the minimum wage are expected to support labour force growth. The projections for the labour force and employment are expected to keep the unemployment rate roughly stable over the outlook.

An Extended Outlook for Ontario

The FAO's economic outlook covers the five-year period from 2018 to 2022. However, to assess the government's 'fiscal recovery plan' which projects a balanced budget by fiscal year 2024-25, the economic outlook was extended by an additional three years to 2025, based on the FAO's latest long-term economic projection.[11]

11 'Long-term Budget Outlook, Fiscal Implications of the Coming Demographic and Economic Changes in Ontario', Fall 2017, Financial Accountability Office of Ontario.

Summary of the FAO's economic outlook

(Per Cent Growth)	Historical 2013-2017	Forecast 2017-2022	Extended Forecast 2022-2025
Nominal GDP	4.5	4.0	3.9
Real GDP	2.7	1.9	2.0
Labour Force	0.7	1.1	0.8
Employment	1.1	1.1	0.8
Unemployment Rate*	6.8	5.9	5.9
Population	1.1	1.2	1.1
CPI Inflation	1.7	2.1	2.0

* Unemployment Rate is presented as the average rate for the period.

Source: Statistics Canada and FAO.

Key Risks to the Ontario Outlook

The FAO's current economic forecast is a reasonable outlook for the Ontario economy and an appropriate foundation for fiscal projections. However, several key risks could materialize, with implications for the outlook.

Protectionist Trade Policies in the United States

Most economic forecasters continue to assume that existing global trade arrangements will remain in place over the outlook. However, the US administration's recent decision to impose tariffs on a broad cross-section of Chinese imports combined with the Chinese government's retaliatory response, present a serious risk for the global economy. In addition, the current renegotiation of the North American Free Trade Agreement (NAFTA) also poses a direct risk for Ontario exporters.

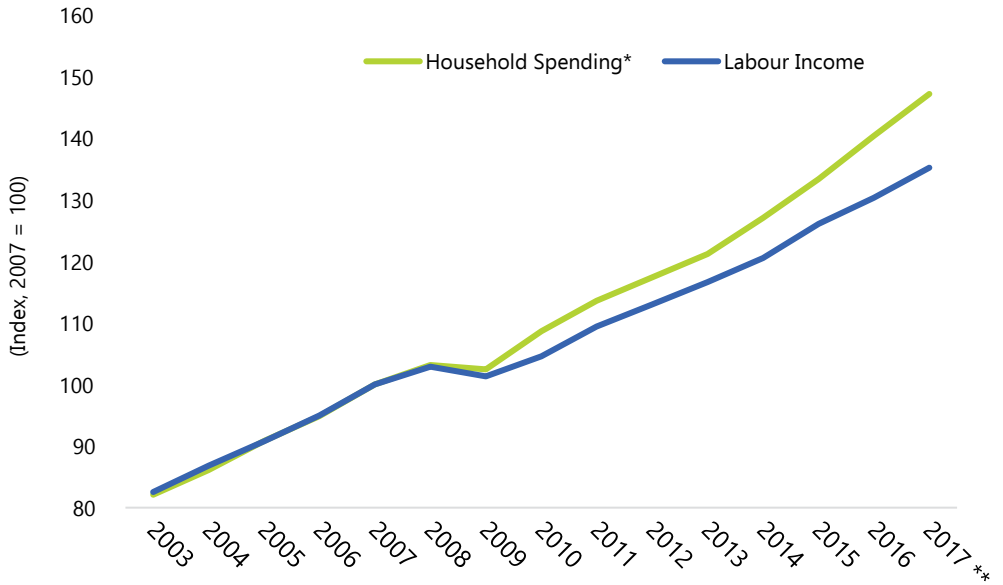
It is likely that the uncertainty surrounding NAFTA, and global trade more generally, has already resulted in businesses scaling-back or postponing planned investments. If the renegotiation of NAFTA or other protectionist trade policies adversely impact the US economy or places Ontario businesses at a competitive disadvantage, there could be significant negative implications for the Ontario economy, and export-dependent industries in particular.

Household Spending and Debt

From the 1980s to the 2008-2009 financial crisis, growth in labour income generally kept pace with the growth in household consumption and residential investment. However, since the financial crisis, slower income growth combined with record low

interest rates encouraged households to boost spending through higher borrowing. This resulted in spending on consumption and housing outpacing income growth.

Household spending growth outpaces growth in incomes



* Household spending is household consumption and residential investment.

** 2017 values are estimated.

Source: Statistics Canada and FAO.

Ontario household debt reached record levels in 2016, at 171 per cent of disposable income.[12] To service this debt, Ontarians spent an average of 14 per cent of their disposable income on debt payments – a share that is expected to increase as interest rates rise over the outlook.

If economic developments lead the Bank of Canada to raise interest rates more quickly (or higher) than currently anticipated, households would have to further increase debt payments, forcing them to scale back other spending. This could have negative implications for the broader economy.

Stronger US Growth

While the FAO expects the US to perform well in the coming years, growth could turn out to be stronger than anticipated, lifting demand for Ontario's exports, raising employment and leading to stronger wage and profit growth for the province.

12 For more details on Ontario household debt, see the FAO's January 2018 Commentary: Assessing Ontario Households' Debt Burden and Financial Vulnerability

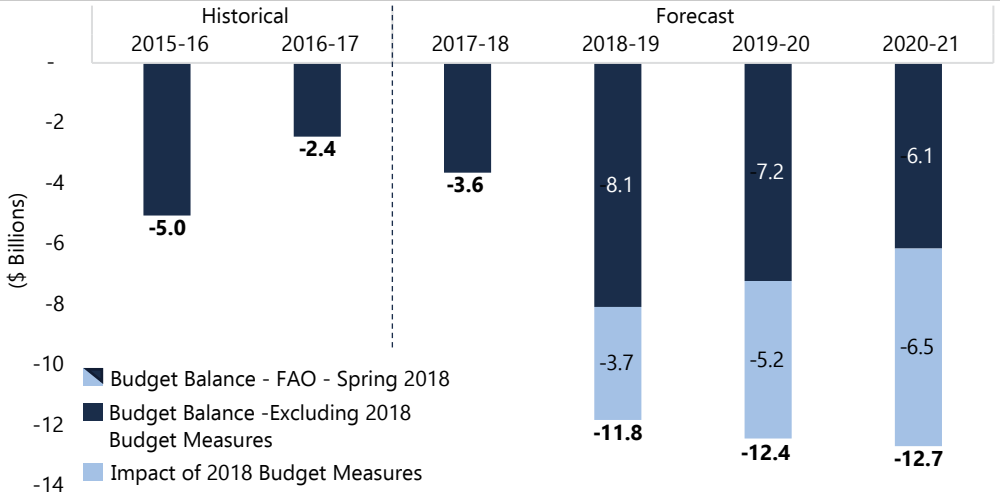
3 | Medium-term Budget Outlook

FAO Projects Budget Deficit to Increase Sharply

In 2017-18, the FAO estimates that Ontario will record a budget deficit of $3.6 billion, based on the Auditor General's recommended accounting treatment for the Fair Hydro Plan and net pension assets.

For 2018-19, the FAO projects that Ontario's budget deficit will increase sharply to $11.8 billion, the result of significant increases in program spending from the 2018 Budget combined with only a weak gain in revenue. Going forward, the FAO is projecting that the budget deficit will increase to $12.7 billion by 2020-21.

Ontario budget balance deteriorates significantly



Note: The budget balance excludes the reserve and is based on the Auditor General's recommended accounting treatment for the Fair Hydro Plan and net pension assets.

Source: Ontario Public Accounts, 2018 Ontario Budget and FAO.

The 2018 Budget introduced a broad range of new spending initiatives. While many of these new spending programs would provide significant social and economic benefits for Ontario, the government has not raised adequate new revenue to pay for them. Based on the FAO's analysis, the 2018 Ontario Budget measures will add $3.7 billion to the deficit in 2018-19, increasing to $6.5 billion by 2020-21.

Importantly, even before the introduction of the 2018 Budget, the FAO projects that the Province would have already been in deficit over the next three years. In 2018-19, the FAO estimates that Ontario would have recorded a deficit of $8.1 billion, before the impact of the 2018 Budget measures.

The FAO's projection for persistent budget deficits, despite strong economic growth and low unemployment, suggests that the Province is facing a fundamental imbalance between revenues and spending, resulting in a structural deficit.[13] As a result, Ontario's current deficit cannot be eliminated by economic growth alone, but would instead require fiscal policy changes to raise revenue or reduce spending.

The FAO's fiscal projections are based on the Auditor General of Ontario's recommended accounting treatment for the Fair Hydro Plan and net pension assets.*

The Auditor General and the government continue to disagree over the appropriate accounting treatment of the refinancing portion of the Fair Hydro Plan (FHP) and the net pension assets of the government's jointly sponsored pension plans.

In the 2018 Ontario Budget, the government did not adopt the Auditor General's recommended accounting framework, reducing the clarity and reliability of Ontario's fiscal projections. The Auditor General has indicated that the government's financial statements may continue to receive a qualified opinion.

See the Appendix for the FAO's budget projections consistent with the government's accounting treatment.

* The FAO looks to the Auditor General as the provincial authority on the appropriate interpretation and application of accounting standards for the Province.

Revenue Outlook

In 2017-18, the FAO estimates that revenue grew by 6.7 per cent, reflecting strong gains from both tax and non-tax sources. Over the medium-term, the FAO is projecting that revenue growth will slow significantly to 2.7 per cent per year on average from 2017-18 to 2020-21. This slower growth reflects several factors.

- Tax revenues are projected to increase more slowly, in-line with moderating economic growth, following several years of stronger than average economic growth.

13 The OECD defines a "structural" deficit as a fundamental mismatch between revenue and expense, after adjusting for temporary factors such as economic cycles and one-time budget measures. See OECD's 'Government at a Glance 2015' report, pg. 56.

- Increases in federal transfers are expected to slow, reflecting current federal-provincial agreements.

- Time-limited revenues totaling $2.1 billion will end in 2018-19.

In addition, the 2018 Budget introduced several modest new revenue measures, which result in a net increase in government revenue of about $0.6 billion in 2018-19, growing to $0.8 billion by 2020-21. These measures include:

- the elimination of the personal income tax (PIT) surtax along with adjustments to tax rates and income brackets;

- enhancements to the Ontario Research and Development Tax Credit and the Ontario Innovation Tax Credit[14]; and

- changes to the Employer Health Tax exemption for small employers.

The budget also included new revenues from the federal cannabis excise duty as well as several measures to parallel federal tax changes.

FAO medium-term revenue assumptions

Revenue Source	Assumption	Forecast
Taxation Revenue	Grows with key economic drivers including labour income, corporate income and household spending	Projected to average 3.9 per cent growth per year from 2017-18 to 2020-21
Federal Transfers	Based on legislated growth rates and economic forecasts for Ontario and Canada	Federal transfers are projected to grow by 1.8 per cent per year from 2017-18 to 2020-21
Government Business Enterprises (GBE)	Based on government projections	Income from GBEs are projected to grow at 2.4 per cent on average from 2017-18 to 2020-21*
Other Revenue	Based on government projections, and includes asset sales, and proceeds from the sale of cap and trade allowances	These revenues are projected to decrease from $19.3 billion in 2017-18 to $18.0 billion by 2020-21

* The FAO reduces Hydro One net income by about $400 million in 2018-19 to reflect the decision by the Ontario Energy Board (OEB) to allocate a portion of the company's tax gain to ratepayers. Hydro One is appealing the OEB decision and if successful, this adjustment could be reversed. (See the FAO's report Hydro One: Updated Financial Analysis of the Partial Sale of Hydro One for more details).

Tax Revenue Growth Expected to Moderate

Nominal GDP, the broadest measure of the tax base, grew by 4.5 per cent in 2017, supporting a 5.3 per cent increase in tax revenues in 2017-18. From 2017 to 2020, the FAO is projecting annual GDP growth to ease to an average of 4.1 per cent, while tax

14 The enhancement to the Ontario Innovation Tax Credit represents an increase in government expenditures.

revenue is projected to increase by 3.9 per cent on average over the same period.

The slower pace of tax revenue growth relative to economic growth is in part a reflection of the minimum wage increases in 2018 and 2019. While the higher minimum wage will boost the growth in labour income over the next two years, minimum wage workers typically pay below average rates of personal income tax. To reflect this, the FAO made a moderate downward adjustment to the projection for PIT revenues for 2018-19 and 2019-20. However, even after this adjustment, the FAO projects PIT revenues will increase by a strong 8.7 per cent in 2018-19 and by 5.0 per cent in 2019-20.

Federal Transfer Growth Slows

Since 2010-11, federal transfers grew much faster than the economy. This reflected federal stimulus spending (in response to the 2008-2009 recession), the federal-provincial agreement to grow the Canada Health Transfer by six per cent per year, as well as Ontario's receipt of Equalization payments following the recession.

Consistent with current federal-provincial agreements, federal transfers are projected to grow slower than the economy over the outlook, reflecting:

- three per cent annual increases in the Canada Social Transfer;
- the Canada Health Transfer growing in-line with Canadian nominal GDP; and
- the expectation that Ontario will no longer qualify for Equalization payments after 2018-19, based on FAO estimates.

Time-Limited Revenues Expire

In 2017-18, Ontario's revenue included several one-time or time-limited sources of revenue that are set to expire.[15] These include:

- a temporary increase to sales and rentals revenue, reflecting additional asset sales[16];
- the final year of the debt retirement charge[17]; and

15 Some of these temporary revenues - notably proceeds from the sale of carbon allowances - are tied to corresponding spending commitments, which would partially offset the reductions in these revenue sources.

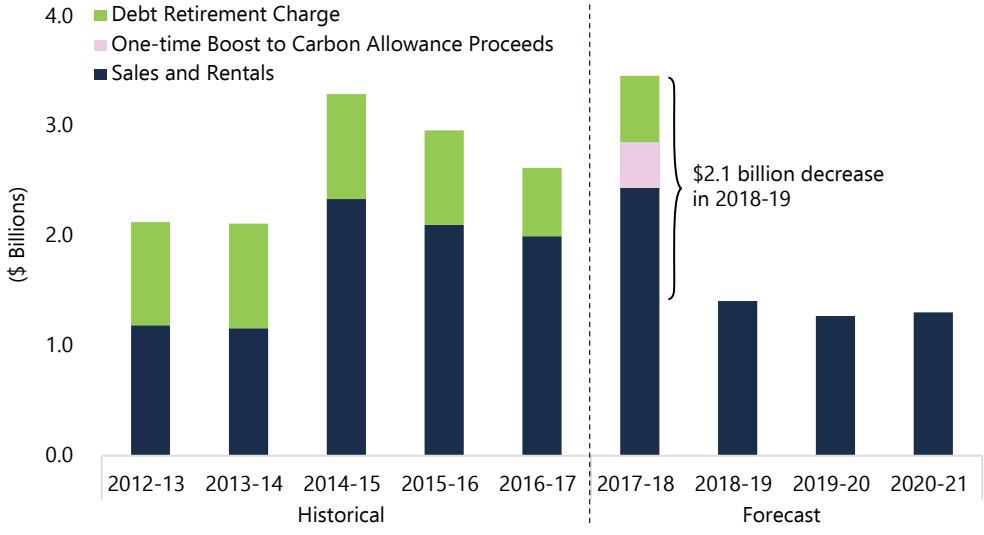
16 Asset sales include the Province's 20 per cent sale of Hydro One equity in a secondary offering in 2017-18, which the FAO estimates generated about $0.7 billion in revenue.

17 The debt retirement charge (DRC) is a charge payable on electricity consumed in Ontario and replaces a portion of debt servicing costs previously included as part of electricity bills before the restructuring of the former Ontario Hydro. The government ended the DRC on residential bills as of January 1, 2016. The DRC remained on non-residential electricity users' bills until March 31, 2018.

- additional one-time proceeds from Ontario's cap and trade program in 2017-18.[18]

In total, the FAO projects that $2.1 billion in time-limited revenues will expire in 2018-19.

Time-limited revenues decline after 2017-18



Source: Ontario Budgets, Ministry of Finance and FAO.

Spending Outlook

The FAO projects total spending to grow by 4.5 per cent from 2017-18 to 2020-21. The strong growth in spending is driven by the new spending initiatives announced in the 2018 Budget combined with rising interest on debt payments.

Program Spending

Program spending is projected to grow at an average annual pace of 4.5 per cent over the outlook.

In the 2018 Budget, the government increased spending by $5.5 billion in 2018-19, growing to $8.1 billion in 2020-21, compared to the 2017 Fall Economic Statement.[19] This new spending covers initiatives such as publicly funded pre-school child care, an expansion of the government's pharma-care plan, an increase in public coverage for dental care, more resources for mental health care services, and income security reform.[20]

18 In the 2017-18 fiscal year, Ontario held five carbon market auctions. Going forward, the Province expects to hold four auctions each year.
19 This increase excludes new spending for the Early Learning and Child Care agreement, which was already announced in the 2017 Fall Economic Statement. See Table 3.23 of the 2018 Budget.
20 The new spending also includes other adjustments related to government expenditure management.

Health

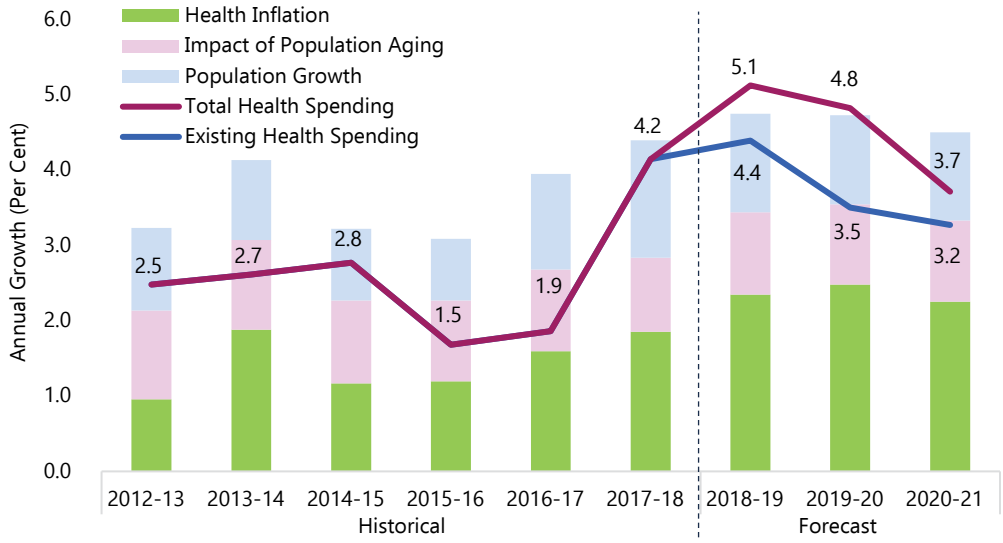
The 2018 Budget increased health sector spending by a total of $5.0 billion from 2018-19 to 2020-21, compared to the 2017 Fall Economic Statement. Approximately $1.8 billion of this new spending is to support two new health care programs.

- The Province is expanding the OHIP+ program to make eligible prescription drugs free for all people aged 65 and over. This is an extension of the Ontario Drug Benefit Program that removes the deductible and co-payment, and is estimated to save the average senior $240 annually. The program will be introduced August 1, 2019 with an estimated cumulative cost of $1.0 billion over fiscal years 2019-20 and 2020-21.[21]

- The Province is introducing a new drug and dental insurance plan to cover Ontarians without an extended health plan. The program covers up to $700 of drug and dental costs per year for an eligible family of four, and will be introduced in the summer of 2019. The estimated cumulative cost of the program is $0.8 billion over the fiscal years 2019-20 and 2020-21.[22]

The majority of the remaining $3.2 billion of new health spending is to increase funding for existing programs such as improving access to mental health services, more long-term care staff, increasing access to home and community care and increases in hospital funding.

Health spending and core cost drivers



Source: 2018 Ontario Budget and FAO analysis of data from the Ontario Ministry of Health and Long-term Care and Treasury Board Secretariat.

21 2018 Ontario Budget.
22 Ibid.

Overall, the 2018 Budget increased health spending by $0.8 billion in 2018-19 rising to $2.4 billion in 2020-21 compared to the 2017 Fall Economic Statement. This raised the planned average annual growth of health sector spending from 3.5 per cent to 4.6 per cent from 2017-18 to 2020-21. The pace of health spending growth is now projected to approximately match the growth of core cost pressures, including population growth and aging, and price inflation.[23]

However, if the spending on new health care programs is excluded,[24] the FAO projects that spending on existing health care services will grow by an annual average of 3.7 per cent, which is below the rate of population growth, aging, and price inflation.[25] This indicates that budget pressures in existing health services may not be fully relieved by this additional spending.

Education

In the 2018 Budget, the government projected education sector spending to grow by 4.7 per cent per year from 2017-18 to 2020-21. This is partially driven by additional spending for new child care initiatives, such as reducing child care fees and adding more subsidized child care spaces for infants and toddlers. In addition, beginning in September 2020, the 2018 Budget proposes to implement publicly-funded preschool for children aged 2½ until kindergarten.

Aside from absorbing the financial burden of child care from young Ontario families, studies have shown that expanding early childhood education and care would yield significant economic and social benefits, including improvements in children's academic outcomes, reducing income inequality and boosting women's labour force participation.[26]

Social Services

In the 2018 Budget, the government projected spending in the children and social services sector to grow by 5.6 per cent per year from 2017-18 to 2020-21. This strong growth is partly due to the government's proposed reforms to income security, which is expected to cost $1.3 billion by 2020-21.

23 There are other factors that influence health care costs, including: the introduction of new health care services (or the removal of old ones), the adoption of new technologies and medications, efficiency measures, rising incomes, government policies, and the underlying health of the population.
24 Excluded programs are: OHIP+, extended health benefits including dental, and other minor new initiatives announced in the 2018 Budget.
25 These are the "core" cost drivers of health spending. See the FAO's "Ontario Health Sector - An Updated Assessment of Ontario Health Spending".
26 See The Conference Board of Canada's report: "Ready for Life: A Socio-Economic Analysis of Early Childhood Education and Care."

These reforms include increasing Ontario Works and Ontario Disability Support Program rates by 3 per cent annually – a rate exceeding inflation – and increasing the threshold that a recipient can earn income before reducing their benefits. Overall, these reforms would be expected to provide social benefits, including boosting disposable income for low-income households.

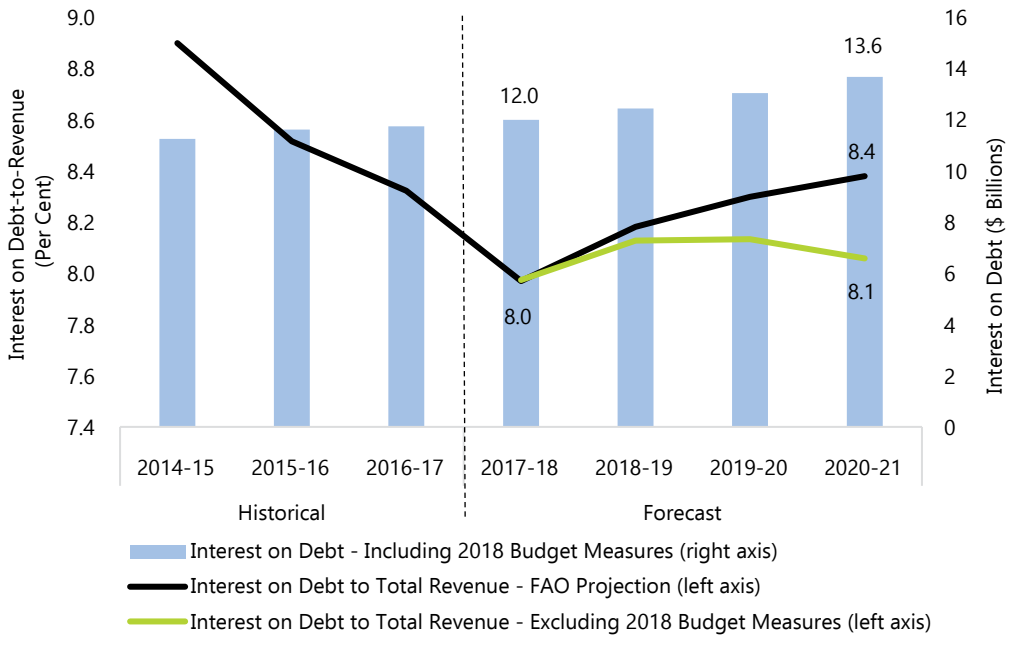
Interest on Debt Payments to Increase

The FAO projects interest on debt (IOD) payments to increase by an average of 4.4 per cent per year from 2017-18 to 2020-21, reflecting rising interest rates and growing deficits.

The 2018 Budget measures will result in increased borrowing, contributing to higher IOD payments. The FAO estimates that budget measures will increase IOD payments by $0.5 billion in 2020-21, and by increasing amounts over the outlook.

Rising interest on debt payments will increase the ratio of IOD to revenue – a key measure of the government's ability to finance its debt. Over the next three years, IOD payments are projected to increase by $1.7 billion, reaching $13.6 billion in 2020-21 and accounting for 8.4 per cent of total revenues.

Interest on debt to rise



Source: Ontario Public Accounts, 2018 Ontario Budget and FAO.

Budget Balance

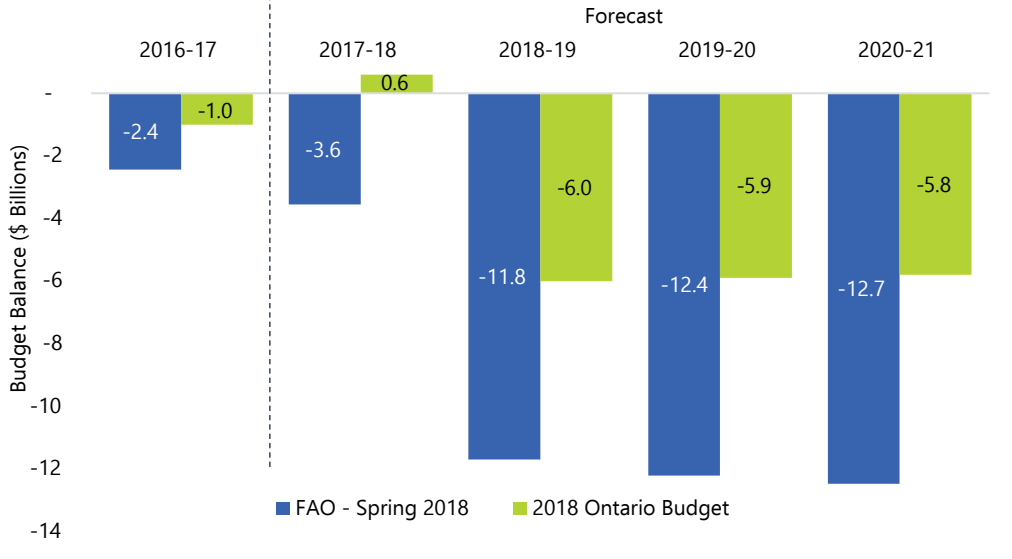
The FAO estimates that Ontario will record a budget deficit of $3.6 billion in 2017-18, in-line with the FAO's fall projection.

In 2018-19, tax revenue growth moderates, time-limited revenues end, and government business income temporarily drops. These factors, combined with significant new spending measures announced in the 2018 Budget, result in a sharply higher deficit of $11.8 billion in 2018-19.

The FAO projects the deficit will continue to increase, reaching $12.7 billion by 2020-21.

In contrast, in the 2018 Ontario Budget, the government projected a small budget surplus in 2017-18, followed by deficits of approximately $6 billion from 2018-19 to 2020-21.[27] The difference between the deficit projections of the FAO and the government reflects the FAO's moderately lower revenue projection combined with the FAO's adoption of the AG's recommended accounting treatment for the Fair Hydro Plan and net pension assets.

Ontario budget balance



Note: Budget Balance before reserve. The government's projection does not incorporate the Auditor General's recommended accounting treatment for the Fair Hydro Plan and net pension assets.

Source: 2016-17 Ontario Public Accounts, 2018 Ontario Budget and FAO.

27 Excluding reserve.

Ontario Deficit Outlook Excluding 2018 Budget Measures

The FAO developed a 'baseline' budget projection that excludes the new measures introduced in the 2018 Budget and includes the AG's recommended accounting treatment for the Fair Hydro Plan and net pension assets.

Based on the FAO's baseline projection, the Ontario budget was in deficit prior to the introduction of the 2018 Budget. Specifically, excluding 2018 Budget measures, the FAO projects budget deficits of $3.6 billion in 2017-18 and $8.1 billion in 2018-19. The baseline deficit improves to $6.1 billion by 2020-21 due to strengthening non-tax revenues.

Baseline budget balance, excluding 2018 budget measures

	2017-18	2018–19	2019–20	2020-21
Baseline Budget Balance	**-3.6**	**-8.1**	**-7.2**	**-6.1**
2018 Budget Measures				
Revenue Measures*	0.1	0.3	0.3	0.3
Spending Measures**		-3.9	-5.2	-6.3
Interest on Debt Impact		-0.1	-0.3	-0.5
Net Changes	0.1	-3.7	-5.2	-6.5
Budget Balance with 2018 Budget Measures	**-3.6**	**-11.8**	**-12.4**	**-12.7**

Note: May not add due to rounding.

* Revenue measures exclude automatic policy changes such as the paralleling of recent federal tax measures and new cannabis excise duty revenues.

** Spending measures represent the FAO's estimate of additional spending for programs and services in the 2018 Budget, but excludes other adjustments related to government expenditure management.

Source: 2018 Ontario Budget and FAO.

This baseline deficit averages $6.0 billion from 2021-22 to 2025-26*, despite steady ongoing economic growth. This permanent imbalance between Ontario's revenues and expenditures suggests a structural deficit existed prior to the introduction of the 2018 Budget.

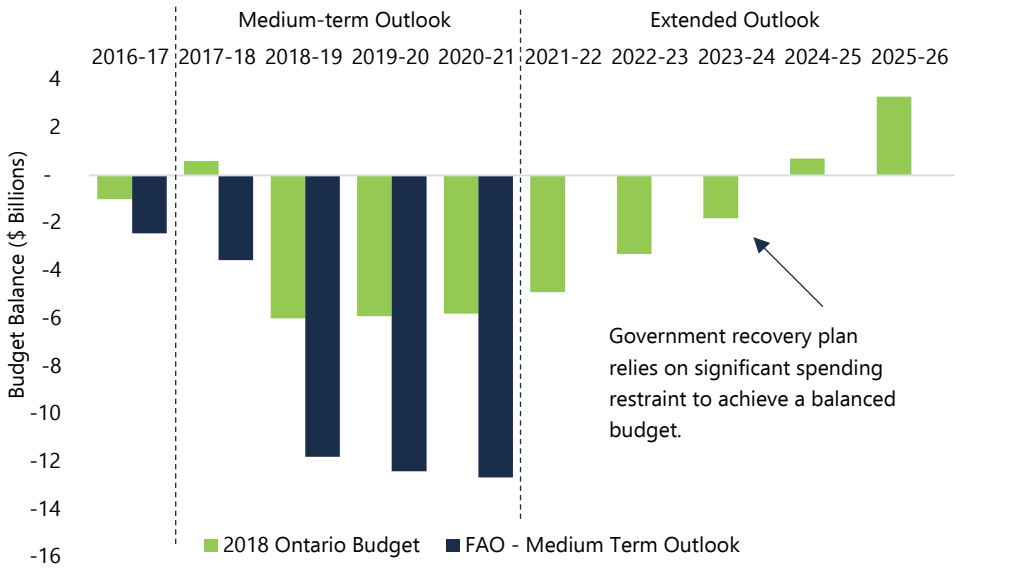
*details available upon request

4 | Extended Budget Outlook

Assessing the 2018 Budget's Fiscal Recovery Plan

Ontario's annual budget is governed by the Fiscal Transparency and Accountability Act (FTAA).[28] FTAA directs Ontario governments to 'plan for a balanced budget' each year. In 'extraordinary circumstances', FTAA permits short-term deficits, but requires the government to specify how and when a return to budget balance will be achieved.[29]

The government's fiscal recovery plan will be challenging



Note: The 2018 Ontario Budget projection excludes the reserve and does not incorporate the Auditor General's recommended treatment of the Fair Hydro Plan and net pension assets.

Source: Ontario Public Accounts, 2018 Ontario Budget and FAO.

Consistent with FTAA, the government presented a fiscal recovery plan in the 2018 Budget, which included an extended five-year projection for revenues, spending and

28 Fiscal Accountability and Transparency Act, 2004, S.O. 2004, c. 27.

29 FTAA does not provide guidance on what conditions might be viewed as extraordinary. A reasonable interpretation might be that FTAA requires balanced budgets each year, except during economic downturns or other short-term crises. However, over the past four years the Ontario economy recorded the strongest period of growth since the early 2000s, while the unemployment rate fell to its lowest level in almost two decades. Going forward, all economic forecasters are projecting steady, moderate growth combined with continued gains in employment. As a result, it is not apparent how the government views the current environment to be extraordinary.

the budget balance from 2021-22 to 2025-26[30]. The government's recovery plan projects a balanced budget by 2024-25, based largely on restricting the growth in program spending. The government's plan provides few policy specifics on how it intends to limit spending growth, but assumes the government will dramatically cut the growth in program spending from an average of 4.2 per cent per year over the next three years, to an average of just 2.1 per cent beginning in 2021-22.

The FAO's Extended Budget Projections

The FAO extended its fiscal projections from 2020-21 to 2025-26 to assess the reasonableness and risks associated with the government's fiscal recovery plan to eliminate the budget deficit.

The FAO's extended outlook includes a detailed revenue projection to 2025-26, incorporates the 2018 Budget's projection for program spending to 2020-21 and continues to adopt the AG's recommended accounting treatment for the Fair Hydro Plan and net pension assets. However, due to the critical importance of the assumption for program spending growth over the extended outlook, the FAO developed two projections.

- The FAO's 'spending restraint' projection is based on the government's plan to limit the growth in program spending to 2.1 per cent per year from 2020-21 to 2025-26.

- The FAO also developed a 'status quo' projection which assumes program spending will grow by approximately 3.5 per cent per year from 2020-21 to 2025-26. This projection implies that the quality of public services would be maintained, as program spending increases to accommodate population growth and aging as well as price inflation, core cost drivers which contribute to the rising cost of providing public services.

The FAO's 'spending restraint' projection shows that Ontario could achieve a balanced budget by 2025-26, roughly consistent with the government's own fiscal recovery plan, which anticipates a balanced budget a year earlier. This projection relies on a dramatic slow-down in spending growth beginning in 2021-22, compared with the government's planned spending over the next three years.

30 See 2018 Ontario Budget, page 171.

In contrast, under the FAO's 'status quo' projection, which assumes program spending matches the growth in core cost drivers, Ontario's budget deficit would continue to deteriorate steadily over the extended outlook.

Revenue Outlook

From 2020-21 to 2025-26, the economic projections of both the FAO and the government are roughly similar, with nominal GDP growth averaging approximately 4.0 per cent (see the Economic Outlook chapter for more details on the FAO's extended economic outlook).

Despite a similar projection for economic growth, the government forecasts revenue growth will average 3.3 per cent annually over this period, lower than the FAO's forecast of 3.7 per cent and well below the expected growth rate of nominal GDP.

The government's projection for slower revenue growth reflects slower growth in taxes and other revenue (e.g. service fees, and sales and rentals). As a result, the FAO projects total revenue will be $2.1 billion higher than the government forecast by 2025-26.

Revenue projection assumptions, 2020-21 to 2025-26

Revenue Source	FAO Growth Assumptions	FAO Spring	Extended Forecast 2023-2025
Taxation Revenue	Grows with key economic drivers including labour income, corporate income and household spending	3.8	3.6
Federal Transfers	Based on legislated growth rates and economic forecasts for Ontario and Canada	3.1	2.9
Government Business Enterprises (GBE)	Based on nominal GDP growth	3.9	4.3
Other Revenue	Based on nominal GDP growth and the FAO projection of revenue from cap and trade allowances	3.6	2.0
Total Revenue		**3.7**	**3.3**

Source: FAO and Ontario Ministry of Finance.

The slow pace of revenue growth over the government's recovery plan implies that Ontario revenues would decline as a share of the economy, falling from 17.5 per cent of GDP in 2020-21 to 17.0 per cent by 2025-26. This declining trend is unlikely to be sustained over the longer term.

Spending Outlook

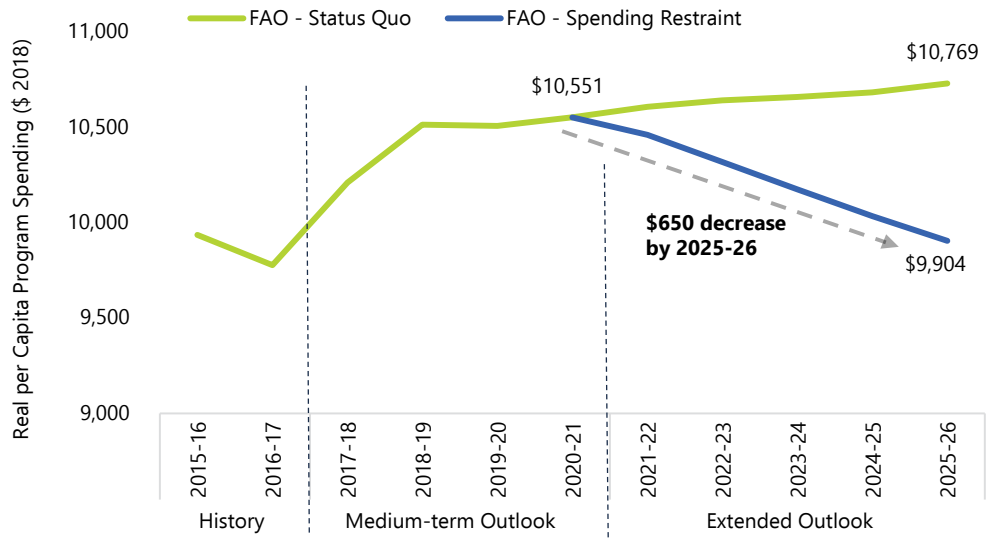
The demand for public services generally increases as the population grows and ages, while the cost of providing services increases with price inflation. To maintain the quality of public services, program spending would typically need to grow at the rate of these core cost drivers.

Based on these core cost drivers, the FAO's status quo outlook assumes program spending growth of 3.5 per cent per year from 2020-21 to 2025-26, to maintain the existing quantity and quality of public services.

In contrast, the government's fiscal recovery plan relies on limiting the annual growth in spending to an average of 2.1 per cent per year over five years, well below the pace of population growth and inflation. The FAO's 'spending restraint' projection assumes program spending growth consistent with the government's recovery plan.

By limiting the growth in spending, the 2018 Budget's fiscal recovery plan implies that government spending on goods and services would be reduced by $650 per person by 2025-26, after adjusting for inflation.

Fiscal recovery plan assumes $650 reduction in program spending per person, after adjusting for inflation



Note: Both projections incorporate the Auditor General's recommended treatment of the Fair Hydro Plan and net pension assets.

Source: 2018 Ontario Budget and FAO.

Implications of Program Spending Restraint

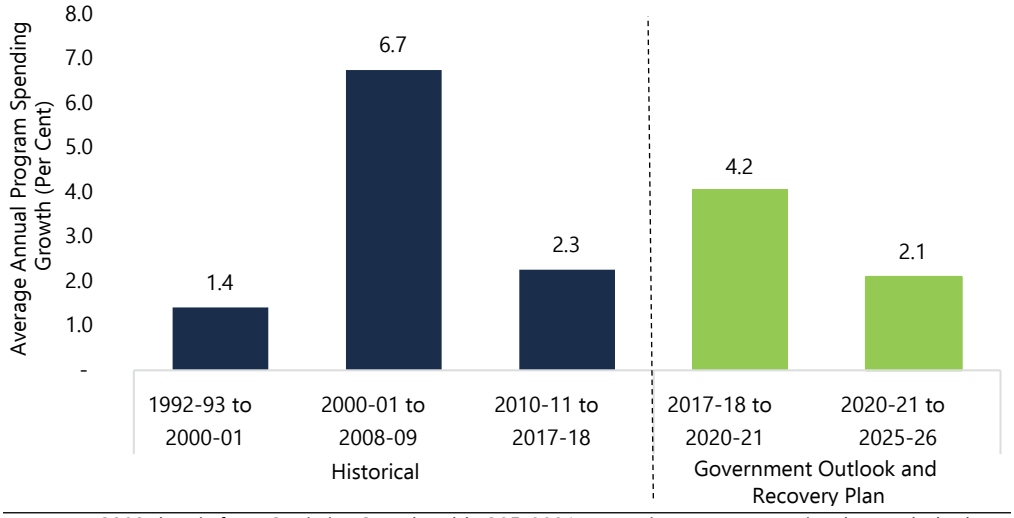
There are three broad strategies jurisdictions can use to manage and reduce the pace of program spending growth:

- adopt transformational changes to public services that improve the efficiency of program delivery;
- temporarily reduce planned spending (such as wage restraint or postponing maintenance), and
- reduce the quantity or quality of existing services.

Transformational changes to public services that lead to permanent efficiency gains have generally been difficult to achieve.[31] But the simple elimination of government programs is also difficult to implement, because of the concerns of current stakeholders.

As a result, governments have often relied on temporary measures to manage and reduce public spending. However, temporary measures can result in a 'catch-up' period where additional spending is used to address built-up budget pressure.

Periods of slow program spending are followed by 'catch-up' periods



Note: Pre-2009 data is from Statistics Canada table 385-0001. Recession years are omitted to exclude the effect of stimulus spending. Government outlook and recovery plan does not incorporate the Auditor General's recommended treatment of the Fair Hydro Plan and net pension assets.

Source: Statistics Canada, Ontario Budgets and FAO.

31 While there are examples of successful initiatives (see: "Estonia, The Digital Republic" in the New Yorker's December 18 & 25, 2017 Issue), there have also been notable failures (see the Auditor General of Canada's report: Phoenix Pay Problems).

Since 1991, there have been two periods of prolonged spending restraint in Ontario similar to that being proposed in the government's fiscal recovery plan. After the onset of the early-1990s recession, successive governments used a combination of strategies to limit the growth in program spending to 1.4 per cent annually from 1992-93 to 2000-01.

The spending restraint of the 1990s was followed by a 'catch-up' period during the 2000s, when program spending grew by 6.7 per cent annually. This period of strong growth reflected the introduction of new public services, but was also a response to relieve the "temporary" cost pressures (including infrastructure backlogs and public-sector wage restraint) that had built-up during the 1990s.

After the 2008-2009 recession, limiting spending growth was a critical part of the Province's plan to balance the budget in 2017-18. This was achieved through a combination of strategies, including delivering public services more efficiently,[32] restraining public-sector wage growth, and deferring maintenance for schools and hospitals.[33] This reduced program spending to an average of 2.3 per cent per year over the 2011-12 to 2017-18 period.

As in the 1990s, the spending restraint in the years following the 2008-2009 recession created future budget risks, as additional funding would be required if the Province chooses to address the built-up cost pressures.[34]

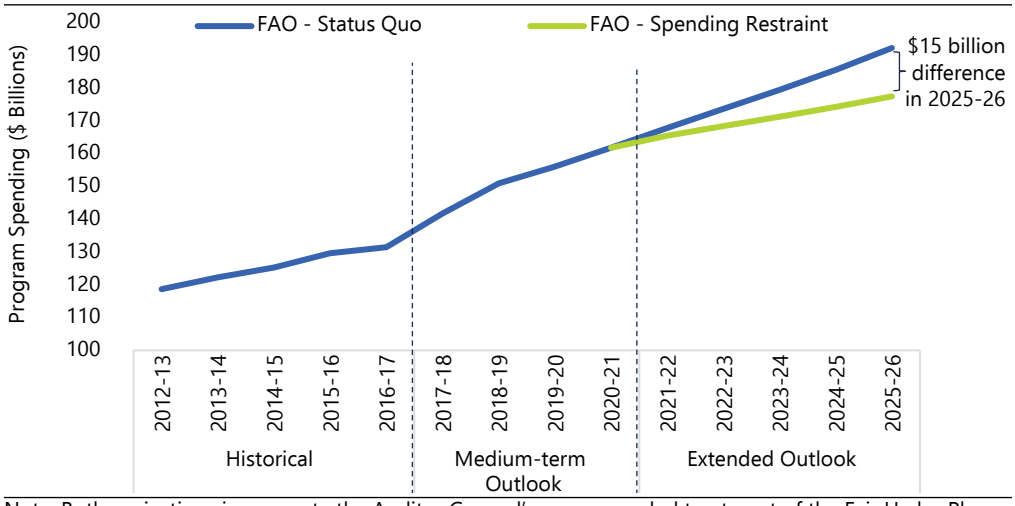
Over the next three years (2018-19 to 2020-21), the 2018 Budget provides a substantial boost to program spending, lifting the average annual growth rate to 4.2 per cent. However, much of this spending is allocated to new initiatives, which may not fully relieve the budget pressure in existing public services.

Beginning in 2021-22, the government plans to grow program spending by an average of just 2.1 per cent per year, below the 2.3 per cent growth of the 2011 to 2017 period, and well below the 3.5 per cent that is necessary to meet the cost pressures of population growth, aging and inflation.

Spending restraint of this magnitude implies that the government would have to find $15 billion in permanent savings to achieve a balanced budget by 2025-26, compared to the FAO's status quo projection.

32 One example is the increasing efficiency of Ontario's hospitals, see FAO's 2018 Health Sector report.
33 While capital renewal funding has been increasing, the Auditor General indicated that "significant infrastructure investments are needed to maintain Ontario's existing schools and hospitals, which current funding levels cannot meet." See the Auditor General's 2015 Annual Report, page 289.
34 For example, after years of wage restraint for Ontario's doctors, the Province is currently negotiating with the Ontario Medical Association (OMA) on a new physician services agreement. As of March 2018, the Ontario Medical Association is entering binding arbitration with the Province, and the OMA's key priority is redressing the 2015 fee cuts.

FAO program spending projections



Note: Both projections incorporate the Auditor General's recommended treatment of the Fair Hydro Plan and net pension assets.

Source: Ontario Public Accounts, 2017 and 2018 Ontario Budgets and FAO.

To address Ontario's significant deficit exclusively through spending restraint would require permanent solutions, such as transformational changes in service delivery, reductions in the quality of public services, or simply eliminating services.

Given that the government's plan provides few specifics on how it intends to limit spending growth, and the difficulty of cutting or transforming public services, there is a risk that the government will be unable to achieve the planned restraint in program spending.

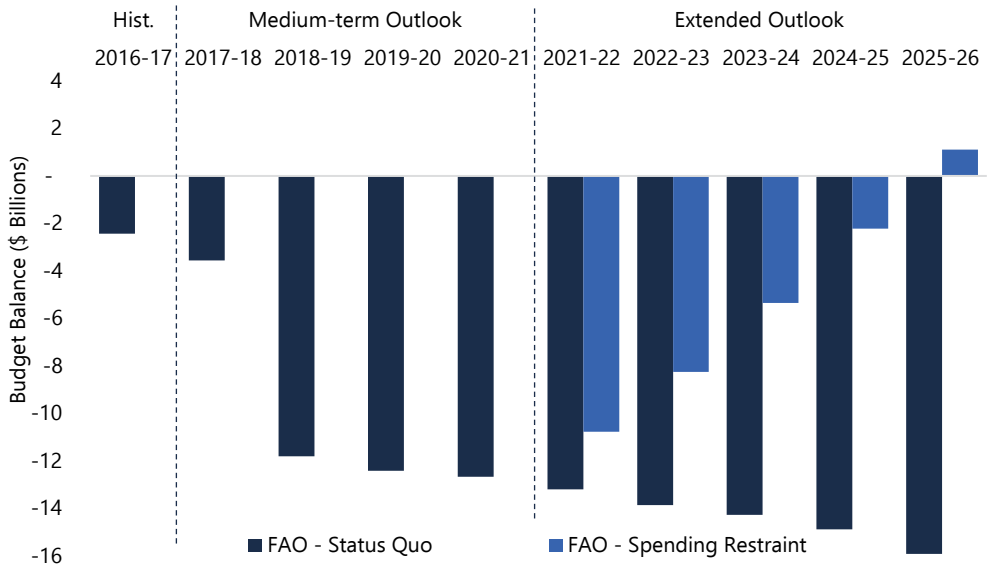
Budget Balance

By 2020-21, the FAO projects that Ontario's deficit will be $12.7 billion. To reduce the deficit and achieve a balanced budget over the next five years, the government's recovery plan involves a significant shift in fiscal policy that focuses on dramatically cutting spending growth.

Under the FAO's 'spending restraint' projection (consistent with the government's recovery plan), Ontario's budget deficit would improve rapidly, reaching a small surplus by 2025-26. But the balanced budget would be achieved by severely restricting the growth in government spending over a five-year period.

In contrast, based on the FAO's 'status quo' projection, public services would be maintained, but Ontario's budget deficit would steadily deteriorate over the extended outlook. By 2025-26, the FAO projects that the deficit would reach $16.6 billion, or 1.5 per cent of GDP.

FAO budget balance outlook



Note: Both projections incorporate the Auditor General's recommended treatment of the Fair Hydro Plan and net pension assets.

Source: Ontario Public Accounts, 2018 Ontario Budget and FAO.

The Implications of Ontario's Elevated Debt Burden

Over the next three years, the FAO projects that Ontario's net debt will increase by almost $70 billion, reaching $394 billion by 2020-21,[35] pushing the net debt-to-GDP ratio to 42 per cent. Over the extended outlook (from 2020-21 to 2025-26), Ontario's debt would continue to rise under both of the FAO's spending projections.

Under the FAO's 'spending restraint' projection, Ontario's net debt-to-GDP ratio would peak at 43 per cent in 2022-23 before beginning to gradually decline. But even with this improvement, Ontario's net debt-to-GDP ratio in 2025-26 would remain above today's level of 39 per cent.

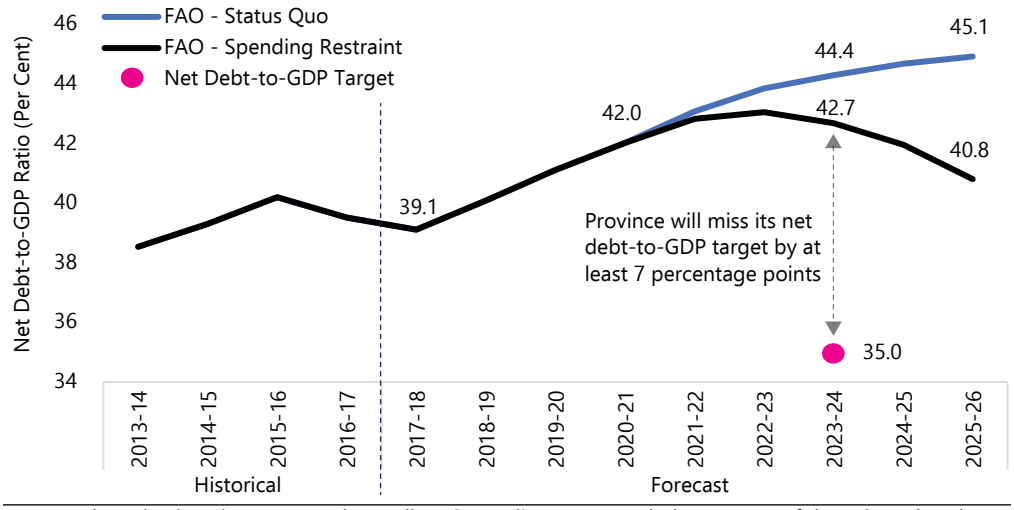
Under the FAO's status quo projection, Ontario's net debt-to-GDP ratio would increase to over 45 per cent by 2025-26.

In the 2017 Budget, the government set a target of reducing the net debt-to-GDP ratio to 35 per cent by 2023-24, on the path to achieving a 27 per cent ratio by 2029-30. In the 2018 Budget, the government did not acknowledge these previous targets for reducing Ontario's debt burden.

35 The FAO's net debt projections include the fiscal impact of the accounting treatment for the Fair Hydro Plan and net pension assets as recommended by the Auditor General.

Under both of the FAO's projections, Ontario's net debt-to-GDP ratio would be well above the Province's net debt-to-GDP target of 35 per cent in 2023-24. Even with the significant program spending restraint assumed in the government's fiscal recovery plan, the FAO projects that the Province would miss its net debt-to-GDP target by 7 percentage points in 2023-24.[36]

The province not expected to meet its net debt target



Note: Both projections incorporate the Auditor General's recommended treatment of the Fair Hydro Plan and net pension assets.

Source: 2017 Ontario Budget, Ontario Public Accounts and FAO.

The Fiscal Transparency and Accountability Act directs Ontario governments to "maintain a prudent ratio of provincial debt to Ontario's gross domestic product".[37] However, the government's 2018 Budget will significantly increase Ontario's debt burden into the 2020s.

High and rising public debt could have significant adverse consequences for Ontario. Growing levels of debt lead to larger debt interest payments, leaving the Province less fiscal flexibility to fund future public services or respond to unforeseen events, including recessions, through deficit spending.

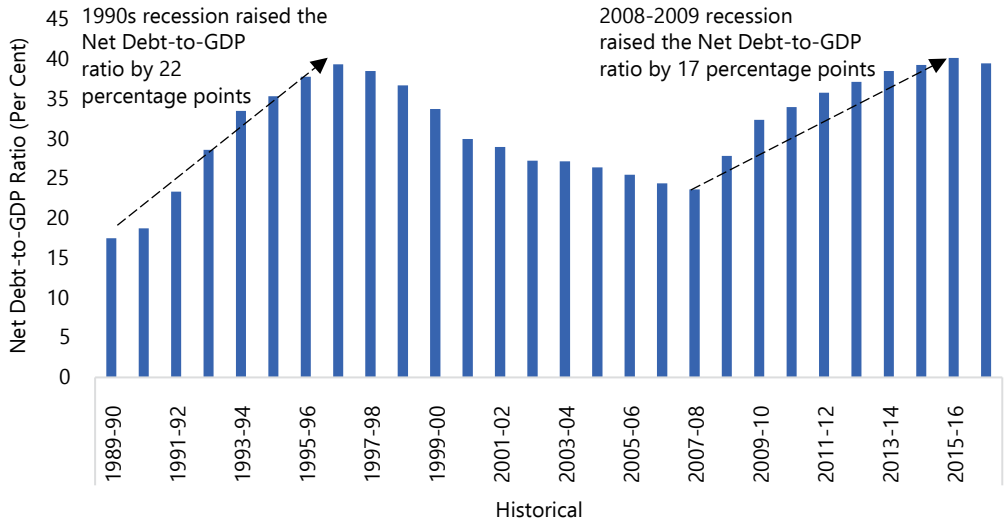
Future Economic Downturns

Economic recessions can have severe negative impacts on the lives of Ontarians as well as the finances of the Province. The early 1990s recession increased Ontario's net debt-to-GDP ratio by 22 percentage points, while the more recent 2008-2009 global financial crisis increased Ontario's debt burden by 17 percentage points.

36 The government's fiscal recovery plan does not achieve the goal of lowering the net debt-to-GDP ratio to 35 per cent by 2023-24.

37 Fiscal Accountability and Transparency Act, 2004, S.O. 2004, c. 27.

Ontario's net debt-to-GDP ratio increased sharply after recessions



Source: Public Accounts of Ontario, Statistics Canada and FAO.

While the future is uncertain, Ontario's strong recent economic performance is unlikely to last indefinitely. When the next economic downturn occurs, it will push Ontario's net debt-to-GDP ratio higher. A more cautious fiscal plan that lowers Ontario's current net debt-to-GDP ratio would provide the Province greater budget flexibility to maintain public services in the event of a future economic downturn.

Fiscal Pressures from Ontario's Aging Population

Over the next 35 years, Ontario will undergo a significant demographic transition, as the population becomes older and grows more slowly than in the past. The baby boom generation, accounting for over one-quarter of Ontario's population, will be between 55 and 75 years old by 2020 and in the process of gradually transitioning out of the labour force. This transition is expected to lead to slower growth in employment and overall income in the 2020s and beyond.

As the baby boomers continue to age, they will require more resources from Ontario's health care system, increasing pressure on government spending. These demographic changes will combine to lower tax revenue growth and raise spending, leading to large and rising budget deficits under current fiscal policy trends.[38]

The 2018 Budget postpones deficit recovery, resulting in the accumulation of additional debt into the 2020s, when demographic pressures on the budget will intensify. This additional debt will increase the challenge of stabilizing Ontario's public finances, and shifts the burden away from the baby boom generation and on to younger Ontarians.

38 For more information see the FAO's Long Term Budget Outlook.

Budget Sensitivities

Changes in Ontario's current revenue or expense policies, as well as external factors can have a significant impact on Ontario's budget balance by 2025-26. To gauge the sensitivity of Ontario's finances to changes in key variables, the FAO estimated the impact of changes in four key areas to Ontario's budget balance in 2025-26. These areas include: tax policy, federal transfers, spending and interest rates.

For example, if the government permanently raised personal income tax (PIT) rates in 2018-19 to generate 10 per cent more PIT revenue (roughly an additional $510 per taxpayer on average in that year), Ontario's deficit would fall by $6.5 billion by 2025-26.

For the HST, if the government permanently raised the rate from 8.0 per cent to 9.0 per cent beginning in 2018-19, it would raise about $3.4 billion in the first year. Over time, this amount would grow, while interest on debt payments would be somewhat lower. The combined effect would lower Ontario's deficit in 2025-26 by $6.0 billion.

For spending, if the government was able to reduce the growth rate of health care spending by 1 per cent in each year of the projection, Ontario's deficit would improve by $7.5 billion by 2025-26.

Sensitivity of Ontario's budget balance to select factors

Change Beginning in 2018-19	Deficit Reduction in:	
	2018-19	2025-26
Taxation		
A sustained 10 per cent increase in Personal Income Tax revenues ($510 per tax filer in 2018-19) over the projection	$3.6 billion	$6.5 billion
A sustained 1 percentage point increase in the general Corporations Tax rate over the projection	$1.2 billion	$2.1 billion
A sustained 1 percentage point increase in the HST rate over the projection	$3.4 billion	$6.0 billion
Federal Transfers		
A sustained 1 percentage point increase in the annual growth of the Canada Health Transfer over the projection	$0.1 billion	$1.9 billion
A sustained 1 percentage point increase in the annual growth of the Canada Social Transfer over the projection	$0.1 billion	$0.7 billion
Health Care Spending		
A sustained 1 percentage point decrease in the growth rate of health care spending over the projection	$0.6 billion	$7.5 billion
Interest Rates		
A sustained 1 percentage point decrease in Ontario's effective borrowing rate over the projection	$0.4 billion	$3.1 billion

Note: These estimates include the associated impact to interest on debt, but do not incorporate any economic feedback effects.

Source: FAO.

5 | Appendices

Forecast Tables

Table 1a: FAO outlook for key revenue drivers

(Per Cent Growth)	2016a	2017e	2018f	2019f	2020f	2021f	2022f	Average*
Nominal GDP								
FAO - Spring 2018	4.3	4.5	4.2	4.1	4.1	3.9	3.9	4.1
Ontario Budget 2018	4.3	4.4	4.1	3.9	4.0	3.9	-	4.0
Current FAO Consensus **	4.3	4.5	4.1	4.0	3.9	4.1	4.1	4.0
Labour Income								
FAO - Spring 2018	3.4	3.7	5.3	4.4	4.0	3.8	3.8	4.4
Ontario Budget 2018 ***	3.3	3.6	5.9	4.5	4.2	4.2	-	4.7
Corporate Profits								
FAO - Spring 2018	7.3	9.9	2.4	3.1	4.4	4.1	4.1	3.5
Ontario Budget 2018	7.3	9.2	1.5	3.5	2.8	4.1	-	3.0
Household Consumption								
FAO - Spring 2018	4.2	4.4	4.5	4.2	3.8	3.8	3.8	4.1
Ontario Budget 2018****	4.2	-	4.8	4.2	4.0	-	-	4.3

a = Actual e = Estimate f = Forecast
* For comparison purposes, average is calculated from 2017 to 2021.
** FAO Consensus includes forecasts from the Centre for Spatial Economics, the Policy and Economic Analysis Program at the University of Toronto, and the Conference Board of Canada.
*** 2018 Ontario Budget reports Labour Income on a National Basis, whereas FAO reports Labour Income on a Domestic Basis.
**** The average for Household Consumption in the 2018 Ontario Budget is from 2018 to 2020.
Source: Statistics Canada, 2018 Ontario Budget, Ontario Economic Accounts, FAO Consensus and FAO.

Table 1b: FAO outlook for Ontario real GDP and components

(Per Cent Growth)	2016a	2017e	2018f	2019f	2020f	2021f	2022f	Average*
Real GDP								
FAO - Spring 2018	2.6	2.7	2.2	2.0	1.9	1.9	1.9	2.0
Ontario Budget 2018	2.6	2.7	2.2	1.8	1.9	1.7	-	1.9
Current FAO Consensus **	2.6	2.8	2.1	2.0	2.1	2.1	2.0	2.1
Real GDP Components								
Household Consumption ***	2.9	3.5	2.5	1.9	1.8	1.8	1.8	2.0
Residential Investment	7.4	2.9	-3.5	0.9	1.8	2.1	2.4	0.3
Business Investment ****	-8.8	4.8	5.9	4.8	3.4	3.0	2.7	4.3
Government (Consumption and Investment)	2.1	2.9	3.3	1.7	1.2	1.2	1.2	1.9
Exports	2.5	-1.4	1.9	2.2	2.0	2.0	2.0	2.0
Imports	0.0	1.2	1.6	1.9	1.8	1.8	1.8	1.8

a = Actual e = Estimate f = Forecast
* For comparison purposes, average is calculated from 2017 to 2021.
** FAO Consensus includes forecasts from the Centre for Spatial Economics, the Policy and Economic Analysis Program at the University of Toronto, and the Conference Board of Canada.
*** Household Consumption is Household and Non-Profit Consumption Expenditure.
**** Business Investment is Non-residential Investment and Machinery & Equipment.
Source: Statistics Canada, 2018 Ontario Budget, Ontario Economic Accounts, FAO Consensus and FAO.

Table 2: FAO outlook for selected economic indicators

	2016a	2017a	2018f	2019f	2020f	2021f	2022f
Employment (Per Cent Growth)							
FAO - Spring 2018	1.1	1.8	1.5	1.2	1.0	0.9	0.9
Ontario Budget 2018	1.1	1.8	1.7	1.1	0.9	0.8	-
Unemployment Rate (Per Cent)							
FAO - Spring 2018	6.5	6.0	5.8	5.8	5.9	5.9	5.9
Ontario Budget 2018	6.5	6.0	5.5	5.4	5.4	5.4	-
Labour Force (Per Cent Growth)							
FAO - Spring 2018	0.9	1.2	1.2	1.2	1.1	0.9	0.9
Ontario Budget 2018	-	-	-	-	-	-	-
Population Growth (Per Cent)							
FAO - Spring 2018	1.3	1.6	1.3	1.2	1.2	1.1	1.1
Ontario Budget 2018	-	-	-	-	-	-	-
CPI Inflation (Per Cent Growth)							
FAO - Spring 2018	1.8	1.7	2.1	2.3	2.0	2.0	2.0
Ontario Budget 2018	1.8	1.7	2.2	2.2	2.1	1.9	-
Canada Real GDP (Per Cent Growth)							
FAO - Spring 2018	1.4	3.0	2.1	2.0	2.0	2.0	1.9
Ontario Budget 2018	-	-	-	-	-	-	-
U.S. Real GDP (Per Cent Growth)							
FAO - Spring 2018	1.5	2.3	2.6	2.3	2.0	2.0	1.9
Ontario Budget 2018	1.5	2.3	2.8	2.4	2.1	2.0	-
Canadian Dollar (Cents US)							
FAO - Spring 2018	75.5	77.0	76.3	76.6	76.9	77.5	78.1
Ontario Budget 2018	75.5	77.0	80.1	80.9	81.2	81.2	-
WTI Crude Oil (US$)							
FAO - Spring 2018	43	51	59	58	61	64	68
Ontario Budget 2018	43	51	59	59	59	60	-
Three-month Treasury Bill Rate (Per Cent)							
FAO - Spring 2018	0.5	0.7	1.3	1.9	2.3	2.6	2.9
Ontario Budget 2018	0.5	0.7	1.4	2.2	2.7	2.7	-
10-year Government Bond Rate (Per Cent)							
FAO - Spring 2018	1.3	1.8	2.3	2.7	3.1	3.3	3.5
Ontario Budget 2018	1.3	1.8	2.4	3.0	3.5	3.5	-

a = Actual f = Forecast

Source: Statistics Canada, 2018 Ontario Budget, Bank of Canada, 2018 Federal Budget, FAO Consensus and FAO.

Table 3a: Medium-term FAO fiscal outlook

($ Billions)	2016a	2017f	2018f	2019f	2020f
Revenue					
Personal Income Tax	30.7	32.4	35.2	37.0	38.8
Sales Tax	24.8	26.0	26.8	27.9	28.9
Corporations Tax	14.9	15.7	15.2	15.7	16.2
All Other Taxes	24.1	25.3	25.9	26.7	27.5
Total Taxation Revenue	94.3	99.4	103.1	107.2	111.4
Transfers from Government of Canada	24.5	25.3	26.0	25.6	26.7
Income from Government Business Enterprise	5.6	6.1	4.9	6.0	6.6
Other Non-Tax Revenue	16.3	19.3	17.6	17.7	18.0
Total Revenue	140.7	150.2	151.5	156.6	162.8
Expense					
Health Sector	55.9	58.3	61.3	64.2	66.6
Education Sector	26.6	27.5	29.1	30.1	31.5
Postsecondary and Training Sector	10.1	11.1	11.8	12.0	12.0
Children's and Social Services Sector	16.1	16.8	17.9	18.7	19.8
Justice Sector	4.6	4.9	5.0	5.0	5.0
Other Programs	18.2	23.2	25.8	26.1	26.8
Total Program Expense	131.5	141.8	150.9	156.1	161.8
Interest on Debt	11.7	12.0	12.4	13.0	13.6
Total Expense	143.2	153.7	163.3	169.0	175.4
Budget Balance * (AG Presentation)	-2.4	-3.6	-11.8	-12.4	-12.7
Accounting Adjustments					
Fair Hydro Plan	-	2.0	2.4	2.6	2.8
Net Pension Assets	1.4	2.2	2.6	3.0	3.2
Total Accounting Adjustments	**1.4**	**4.2**	**5.0**	**5.6**	**6.0**
FAO Budget Balance* (Government's Presentation)	**-1.0**	**0.7**	**-6.8**	**-6.8**	**-6.6**
Budget Balance* (2018 Budget)	**-1.0**	**0.6**	**-6.0**	**-5.9**	**-5.8**

a = Actual f = Forecast

* Budget balance is presented without reserve.

Note: Years represent fiscal years starting in number presented (i.e. 2017 is fiscal year 2017-18). Numbers may not add up due to rounding. All values presented on Auditor General's recommended accounting standards.

Source: 2018 Ontario Budget, Public Accounts of Ontario and FAO.

Table 3b: Medium-term FAO debt outlook

($ Billions)	2016a	2017f	2018f	2019f	2020f
Budget Balance*	-2.4	-3.6	-11.8	-12.4	-12.7
AG Presentation					
Accumulated Deficit	205.9	209.5	221.3	233.7	246.4
Net Debt	314.1	324.8	346.7	370.2	393.8
Net Debt to GDP (Per Cent)	39.5	39.1	40.1	41.1	42.0
Impact of Accounting Adjustments	12.4	16.7	21.7	27.3	33.3
Government Presentation					
Net Debt	301.6	308.1	325.0	342.9	360.5
Net Debt to GDP (Per Cent)	38.0	37.1	37.6	38.1	38.5

a = Actual f = Forecast

* Budget Balance is presented without reserve.

Note: Years represent fiscal years starting in number presented (i.e. 2017 is fiscal year 2017-18). Numbers may not add up due to rounding. All values presented on Auditor General's recommended accounting standards.

Source: Statistics Canada, 2018 Ontario Budget and FAO.

Table 4: Extended FAO fiscal outlook

($ Billions)	2021f	2022f	2023f	2024f	2025f
Spending Restraint Projection					
Total Revenue	169.1	175.2	181.5	188.1	195.0
Total Expense	179.9	183.5	186.9	190.3	193.9
Program Expense	165.5	168.4	171.2	174.2	177.5
Interest on Debt	14.4	15.1	15.6	16.1	16.4
Budget Balance*	**-10.8**	**-8.2**	**-5.3**	**-2.2**	**1.1**
Net Debt to GDP (Per Cent)	**42.8**	**43.1**	**42.7**	**42.0**	**40.8**
Status Quo Projection					
Total Revenue	169.1	175.2	181.5	188.1	195.0
Total Expense	182.4	189.3	196.2	203.6	211.6
Program Expense	167.9	173.9	179.8	186.1	193.0
Interest on Debt	14.5	15.4	16.4	17.5	18.7
Budget Balance*	**-13.3**	**-14.1**	**-14.7**	**-15.4**	**-16.6**
Net Debt to GDP (Per Cent)	**43.1**	**43.9**	**44.4**	**44.8**	**45.1**
Impact of Accounting Adjustments					
To Budget Balance ($ Billions)	6.0	5.7	5.3	5.0	4.8
To Net Debt-to-GDP (Per Cent)	4.0	4.5	4.8	5.1	5.3

a = Actual f = Forecast

*Budget Balance is presented without reserve.

Note: Years represent fiscal years starting in number presented (i.e. 2017 is fiscal year 2017-18). Numbers may not add up due to rounding. All values presented on Auditor General's recommended accounting standards.

Source: Statistics Canada, 2018 Ontario Budget, Public Accounts of Ontario and FAO.

Table 5: Provincial comparisons

	NL	PE	NS	NB
Fiscal Performance (2016-17)				
Total Revenue				
Per Capita ($)	13,803	11,590	10,345	11,654
to GDP (%)	23.5	27.4	23.5	25.8
Total Program Expenditures				
Per Capita ($)	13,743	10,881	9,764	11,041
to GDP (%)	23.4	25.7	22.2	24.4
Interest on Debt				
Per Capita ($)	2,097	829	868	918
to GDP (%)	3.6	2.0	2.0	2.0
to Revenue (%)	15.2	7.2	8.4	7.9
Total Expenditures				
Per Capita ($)	15,840	11,710	10,633	11,959
to GDP (%)	27.0	27.7	24.2	26.5
Primary Balance				
Per Capita ($)	60	709	581	613
to GDP (%)	0.2	11.2	1.4	1.8
Deficit (-) or surplus				
Level (Millions $)	-1,080	-18	150	-231
Per Capita ($)	-2,037	-120	158	-305
to GDP (%)	-3.5	-0.3	0.4	-0.7
Net Debt				
Level (Millions $)	14,251	2,196	14,955	13,997
Per Capita ($)	26,874	14,694	15,765	18,481
to GDP (%)	45.8	34.7	35.8	40.9
Economic and Demographic Indicator Growth (2016)				
(Per Cent)				
Real GDP	1.9	2.3	0.8	1.2
Nominal GDP	2.6	4.0	2.8	3.6
Employment	-1.5	-2.3	-0.4	-0.1
Population	0.3	1.8	0.8	0.5

* Ontario 2016-17 Fiscal Performance measures are presented after adjustment for pension assets.

Source: FAO, Department of Finance Canada's Fiscal Reference Tables (September 2017) and Statistics Canada.

QC	Ontario*	MB	SK	AB	BC
12,313	10,069	11,868	11,863	10,009	10,816
26.0	17.7	23.1	18.1	13.5	19.5
10,861	9,406	11,818	12,451	12,315	9,697
22.9	16.5	23.0	19.0	16.6	17.5
1,164	838	712	473	240	544
2.5	1.5	1.4	0.7	0.3	1.0
9.5	8.3	6.0	4.0	2.4	5.0
12,025	10,244	12,529	12,924	12,555	10,241
25.3	18.0	24.3	19.7	16.9	18.5
1,451	664	50	-587	-2,305	1,119
0.4	0.1	0.1	-0.8	-0.7	0.4
-100	-2,435	-872	-1,218	-10,784	2,737
275	-174	-662	-1,061	-2,546	575
0.6	-0.3	-1.3	-1.6	-3.4	1.0
185,214	314,077	23,111	10,192	-3,919	37,795
22,256	22,472	17,533	8,873	2,101	7,944
46.9	39.5	34.1	13.5	2.8	14.3
1.4	2.6	2.2	-0.5	-3.7	3.5
2.7	4.3	2.3	-4.0	-4.9	4.8
0.9	1.1	-0.4	-0.9	-1.6	3.2
0.8	1.4	1.8	1.5	1.4	1.3

April 30, 2018

The Honourable Eleanor McMahon
President, Treasury Board
Room 4320
99 Wellesley St W
Toronto, ON M7A 1W3

Dear Minister McMahon:

Subject: Economic and Budget Outlook - Spring 2018

Under paragraph 10(1)(a) of the *Financial Accountability Officer Act, 2013* (the Act), the FAO is mandated to undertake regular analyses of the state of the province's finances and trends in the provincial economy.

Section 15 of the Act requires that I deliver copies of any reports I publish to the relevant ministers ahead of publication. Accordingly, please find attached a copy of my report, ***Economic and Budget Outlook – Spring 2018.***

As arranged with the Clerk of the Legislative Assembly, this report will be tabled on **Wednesday May 2, 2018 at 10:00 a.m**. Please treat this report as confidential until that time**.**

An MPP Technical Briefing will be held in Committee Room 230 at 9:00 a.m. Members of the Standing Committee on Finance and Economic Affairs, as well as two members per caucus, are welcome to attend. A media conference will be held at 10:00 a.m. in the Media Studio.

- **LIVE** webcasting of the press conference will be available at 10:00 a.m. here

Let me take this opportunity to thank you once more for the assistance that your ministry provided to my staff during the preparation of this report.

As always, please feel free to contact my office if we can be of assistance.

Sincerely,

The Honourable J. David Wake
Temporary Financial Accountability Officer

Encl.

April 30, 2018

The Honourable Charles Sousa
Minister of Finance
7th Floor, Frost Building South
7 Queen's Park Crescent
Toronto, Ontario
M7A 1Y7

Dear Minister Sousa:

Subject: Economic and Budget Outlook – Spring 2018

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Sincerely,

The Honourable J. David Wake
Temporary Financial Accountability Officer

Encl.

From: John Psinas
To: Ken Kandeepan; Alexander Kraas; Christina Zhang
Cc: George Sakura; Kevin Hwang; Shemin Meralli
Subject: FW: The FAO"s Spring 2018 Economic and Budget Outlook Report
Date: Monday, April 30, 2018 3:41:37 PM
Attachments: image002.png
image003.png
Summary of Draft FAO Spring Economic and Fiscal Outlook_v7a.docx

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I would say this in yellow is wrong.. the peak was in 2014-15

- The FAO is also projecting that net debt-to-GDP ratio will continue to increase over the medium-term and beyond 2020-21 reaching 44.4 per cent by 2023-24. The 2018 Budget projects that the net debt-to-GDP ratio to peak in 2021-22 before beginning a downward trend.

From: Inglis, Liane (MOF) [mailto:Liane.Inglis@ontario.ca]
Sent: Monday, April 30, 2018 3:00 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: RE: The FAO's Spring 2018 Economic and Budget Outlook Report

Hi Folks,

Here's is the updated note. If you're able to provide input by 4:30, it would be great!

Thanks so much (and sorry for the tight turnaround).

Liane

From: Inglis, Liane (MOF)
Sent: April 30, 2018 11:44 AM
To: Kandeepan, Ken (OFA); Kraas, Alexander (OFA); 'John Psinas'; Zhang, Christina (OFA)
Subject: FW: The FAO's Spring 2018 Economic and Budget Outlook Report

FYI – here's the updated report. We're catching the note up now and hope to get it over to you for quick review early in the afternoon. As expected their IOD forecast has been revised.

Liane

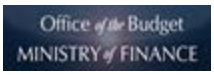
From: Schuurman, Tim (MOF)
Sent: April 30, 2018 10:28 AM
To: Thompson, Scott (MOF)
Cc: McLean, David (MOF); Rowe, Alana (MOF); Inglis, Liane (MOF); Tiburcio, Daniel (MOF); Lewis, Brian (MOF); Mayman, Gadi (OFA)
Subject: FW: The FAO's Spring 2018 Economic and Budget Outlook Report

Attached is the FAO Economic and Fiscal Outlook Report that will be delivered to Ministers by noon today.

We'll do a more detailed look at the numbers but it looks like the only significant change relative to the last version we saw was the addition of a new "scenario" over the recovery plan where the FAO shows what would happen if the government restrained spending – and it shows the Province would return to balance. They do talk abit about what that would entail, and do piggy back on historical experience to show that it has been done in the past.

My division will coordinate a rolled up note and speaking notes – we'll need to figure out when and if a briefing would be required.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



From: David West [mailto:dwest@fao-on.org]
Sent: April-30-18 10:13 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS)
Subject: The FAO's Spring 2018 Economic and Budget Outlook Report

Good morning

The FAO will be releasing its spring 2018 Economic and Budget Outlook (EBO) report on Wednesday May 2nd at 10:00 am. There will be separate technical briefings for media and MPPs on Wednesday at 9:00 am. The Temporary Financial Accountability Officer, David Wake, and myself will be making a media statement and responding to questions at 10:00 am.

The report along with the attached letters are being delivered to Ministers Sousa and McMahon later this morning – and are attached for your reference.

Please treat this document as embargoed until its release on Wednesday at 10:00 am.

As always, your assistance and support for the work of the FAO are greatly appreciated.

Best regards,
David

David West
Chief Economist

Financial Accountability Office of Ontario

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
c.416.579-1465 | dwest@fao-on.org
www.fao-on.org[na01.safelinks.protection.outlook.com]


Office of the Budget
MINISTRY of FINANCE

FAO
Financial
Accountability
Office of Ontario

FAO's 2018 Spring Economic and Fiscal Outlook

ISSUE

On May 2, 2018 the Financial Accountability Office will release its '2018 Spring Economic and Fiscal Outlook' report. The report adopts the AG's accounting treatment of both the Fair Hydro Plan and Pension Assets and indicates that the government is facing persistent budget deficits over the medium-term that will continue to grow well into the government's deficit recovery phase, unless spending growth slows dramatically beginning in 2021-22. It also suggests that the deficit cannot be eliminate by economic growth alone, but will require fiscal policy changes to raise revenue or reduce spending.

KEY MESSAGES

- I would like to thank the Financial Accountability Officer (FAO) for releasing his spring economic and fiscal outlook for Ontario. We value the FAO's independent assessment of the province's fiscal plan.
- The government is committed to a responsible fiscal plan that provides the conditions for all Ontarians to thrive.
- The FAO's deficit projections include the Auditor General's interpretation of how the government should be accounting for net pension assets and the Fair Hydro Plan. The disagreement in accounting is the main driver of the difference between the FAO's projections and the 2018 Budget.
- It is important to note that with the exception of the two accounting disagreements, the Auditor General has determined that the majority of the province's estimates regarding revenue, program expenses and interest on debt are based on cautious assumptions, as required by the Fiscal Transparency and Accountability Act.
- And while there is uncertainty in any future-oriented forecast, what we do know is that this government has a strong track record of beating its fiscal targets. As outlined in the *2018 Budget*, the government is projecting a surplus of $600 million for 2017–18, beating its fiscal target for the ninth year in a row.
- Ontario's fiscal policy is based on cautious assumptions and recognizes the need for flexibility to respond to changing circumstances. During this period of rapid economic change, the fiscal plan considers the impact of today's choices on different groups within the province and on future generations.
- While Ontario's economy has been growing steadily, the government knows that more must be done to ensure that the benefits of a solid economy are being shared equally by all Ontarians.
- The government believes that the best way to deliver prosperity to more people is by continuing to invest in the economy, and in public services that promote greater fairness and opportunity across the province.

- As a result, the province is projecting modest deficits over the medium term of $6.7 billion in 2018–19, $6.6 billion in 2019–20 and $6.5 billion in 2020–21, or 0.8 per cent of GDP in 2018–19, declining to 0.7 per cent by 2020–21.

BACKGROUND

Economic Outlook

- The FAO forecast for real GDP growth to average 2.0 percent annually between 2018 and 2021 is 0.1 percentage points faster than the *2018 Budget* forecast of 1.9 percent.
- The FAO forecast is consistent with the private sector economists' view that housing and consumer spending will slow over the next four years while exports and business investment will grow at a faster pace.
- The FAO recognizes similar economic risks identified in the *2018 Budget*. The possibility of stronger U.S. growth could boost Ontario's economy. However, protectionist trade policies in the U.S., and associated business uncertainty, could place Ontario at a competitive disadvantage. As well, high levels of household debt have left Ontario households vulnerable to rising interest rates.
- Over the extended period 2021 to 2025, FAO's long-term economic outlook is similar to the unpublished Ontario Ministry of Finance projection. In particular, the FAO projects Ontario nominal GDP growth of 3.9 percent annually, on average, between 2021 and 2025, 0.1 percentage points lower than the *2018 Budget* recovery plan projection of 4.0 percent.

Fiscal Outlook

- The FAO is projecting a deficit of $3.6B in 2017-18, rising to $12.7B by 2020-21. The FAO projects the deficit to further deteriorate over the government's recovery plan period, reaching $16.6B by 2025-26 under a 'status quo' scenario of 3.5 per cent program expense growth. However, the report suggests balanced budget is possible by 2025-26 if the government constrains program spending to 2.1 per cent beginning in 2021-22.
- Unlike its Fall report, the FAO is now only presenting projections that include the impact of the Auditor General's (AG) recommended accounting treatment for both the Fair Hydro Plan and the net pension assets of jointly sponsored pensions plans.
    - Taken together, the adjustment for these two accounting differences add between $4B and $6B to the deficit in each year.

Interim and Medium-Term (2017-18 to 2020-21)

- The FAO is projecting a deficit of $3.6B in 2017-18 and deficits of between $11B and $13B over the medium term.

- The FAO's **revenue forecast** is approximately $1B lower than the government's in each year of the medium-term outlook, mainly due to a lower outlook for personal income tax revenue.
- Similar to past reports, the FAO adopts the *2018 Budget* **program expense outlook** (other than the accounting treatment differences).
- Similar to past reports, the FAO also continues to project **interest on debt expense** that is slightly below the government's projection over the medium-term – by between $0.1B and $0.2B per year.

Overall, the difference between the FAO's and government's medium-term fiscal outlook is largely driven by the impact of the AG's recommended accounting treatment for both the Fair Hydro Plan and the net pension assets of jointly sponsored pensions plans .

Differences Between the FAO's Fiscal Outlook and the *2018 Budget* ($ Billions)	2017-18	2018-19	2019-20	2020-21
2018 Budget Projected Deficits (Excl Reserve)	0.6	(6.0)	(5.9)	(5.8)
FAO Projected Deficits (Excl Reserve)	(3.6)	(11.8)	(12.4)	(12.7)
Difference between FAO and 2018 Budget	*(4.2)*	*(5.8)*	*(6.5)*	*(6.9)*
Difference Due to Accounting	*(4.2)*	*(5.0)*	*(5.6)*	*(6.0)*
Difference Due to Other (Lower revenue offset by lower IOD)	*-*	*(0.8)*	*(0.9)*	*(0.8)*

- In addition to its assessment of the government's current fiscal plan, the FAO developed a "baseline" budget projection that excludes the new revenue and spending measures announced in the 2018 Budget. This baseline scenario projects budget deficits of $8.1B in 2018-19, $7.2B in 2019-20, and $6.1B in 2021-21.

Recovery Plan (2021-22 to 2025-26)

- The 2018 Budget projects a return to balance by 2024-25 and a small surplus in 2025-26. This is premised on:
  - Projected average annual growth in revenue of 3.3% over the recovery plan period and managing program expense to an average annual growth rate of 2%.
- In contrast, the FAO's "status quo" projection assumes program spending will grow by about 3.5 percent per year from 2020-21 to 2025-26 resulting in deficits that reach $16.6 billion by 2025-26. Compared with the 2018 Budget projections:
  - The revenue outlook is higher due to a higher outlook for taxes and other revenue.
  - Given an aging and growing population and price inflation, the FAO projects program spending would need to grow at the rate of these core cost drivers, 3.5%

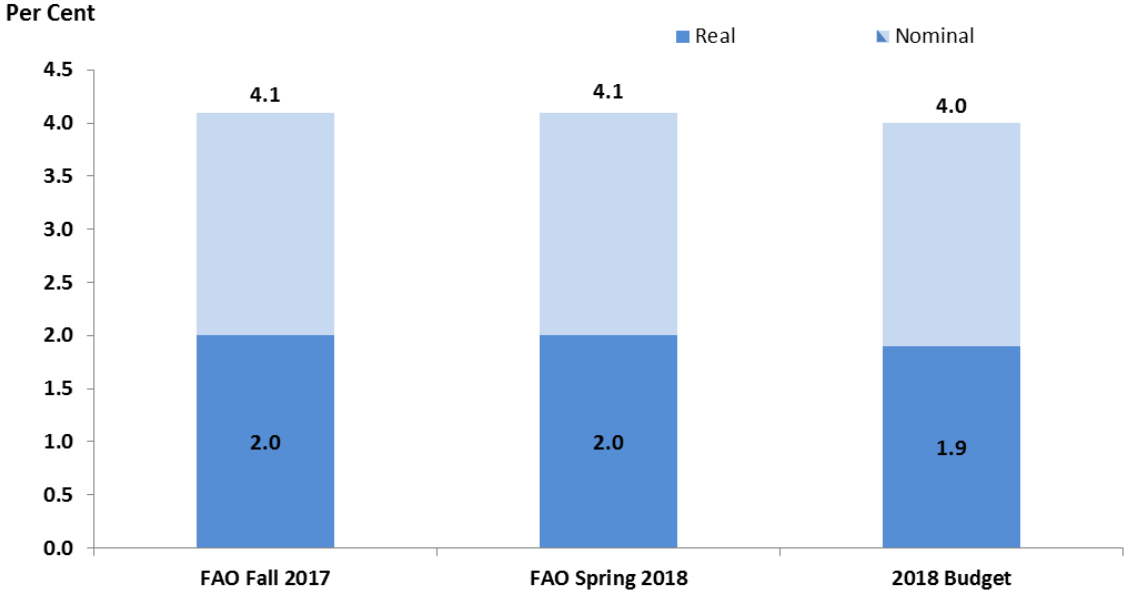
annually over the outlook, so that “the quality of public services would be maintained”.

- The IOD outlook grows faster due to the FAO’s forecast of higher projected net debt leading to larger debt interest payments.
- The FAO is also projecting that net debt-to-GDP ratio will continue to increase over the medium-term and beyond 2020-21 reaching 44.4 per cent by 2023-24. The 2018 Budget projects that the net debt-to-GDP ratio to peak in 2021-22 before beginning a downward trend.

The FAO also included a “spending restraint” scenario that holds program expense growth to 2.1 per cent beyond 2021-22, consistent with the 2018 Budget projection. Using this method the FAO projects Ontario’s budget deficit would improve rapidly, reaching a small surplus by 2025-26, however they caution that this projection relies on a dramatic slow-down in spending growth and implies that the government would have to find $15 billion in permanent savings by 2025-26.

Appendix

Ontario GDP Growth, Average Annual 2018-21
Per Cent



Sources: Financial Accoutability Office, Ontario Ministry of Finance

Comparison: 2018 Ontario Budget to Draft 2018 Spring FAO Fiscal Outlook

$ Billions	Actual 2016-17	Interim 2017-18	Outlook 2018-19	Outlook 2019-20	Outlook 2020-21	Extended Outlook 2021-22	Extended Outlook 2022-23	Extended Outlook 2023-24	Extended Outlook 2024-25	Extended Outlook 2025-26	Avg. Annual Growth 17-18 to 20-21	Avg. Annual Growth 18-19 to 20-21
2018 Budget												
Taxation Revenue	94.3	99.4	103.6	108.1	112.4						4.2%	4.2%
Transfers from Gov't of Canada	24.5	25.3	26.0	25.7	26.8						1.9%	1.5%
Income from GBEs	5.6	6.1	5.3	6.0	6.6						2.4%	11.6%
Other Non-Tax Revenue	16.3	19.3	17.6	17.7	18.0						-2.3%	1.3%
Total Revenue	140.7	150.1	152.5	157.6	163.8	169.5	174.9	180.4	186.5	192.9	3.0%	3.7%
Expense												
Program Expense	130.0	137.5	145.9	150.4	155.8	159.5	162.7	166.0	169.3	172.7	4.2%	3.3%
Interest on Debt	11.7	12.0	12.5	13.1	13.8	14.9	15.5	16.3	16.5	16.9	5.0%	5.1%
Total Expense	141.7	149.5	158.5	163.5	169.6	174.4	178.2	182.2	185.8	189.6	4.3%	3.5%
Surplus/(Deficit) before Reserve	(1.0)	0.6	(6.0)	(5.9)	(5.8)	(4.9)	(3.3)	(1.8)	0.7	3.3		
Net Debt to GDP, per cent	38.0	37.1	37.6	38.2	38.6	38.9	38.6	37.7	36.8	35.5		
Change - 2018 Spring FAO Fiscal Outlook to 2018 Budget												
Taxation Revenue	-	*0.0*	*(0.5)*	*(0.8)*	*(1.0)*							
Transfers from Gov't of Canada	-	-	-	*(0.1)*	*(0.0)*							
Income from GBEs	-	-	*(0.4)*	-	-							
Other Non-Tax Revenue	-	-	-	-	-							
Total Revenue	-	*0.0*	*(0.9)*	*(0.9)*	*(1.1)*	*(0.4)*	*0.3*	*1.1*	*1.6*	*2.1*		
Expense												
Program Expense	-	-	-	-	-	*2.4*	*5.5*	*8.5*	*11.7*	*15.4*		
Interest on Debt	-	-	*(0.1)*	*(0.1)*	*(0.2)*	*(0.4)*	*(0.1)*	*0.1*	*1.0*	*1.8*		
Total Expense	-	-	*(0.1)*	*(0.1)*	*(0.2)*	*2.0*	*5.4*	*8.6*	*12.7*	*17.2*		
Surplus/(Deficit) before Reserve, EXC. Adj. for Fair Hydro Plan and Pension Assets	-	*0.0*	*(0.8)*	*(0.9)*	*(0.8)*	*(2.4)*	*(5.1)*	*(7.6)*	*(11.1)*	*(15.1)*		
Surplus/(Deficit) before Reserve, INC. Adj. for Fair Hydro Plan and Pension Assets	*(1.4)*	*(4.2)*	*(5.8)*	*(6.5)*	*(6.9)*	*(8.4)*	*(10.8)*	*(12.9)*	*(16.1)*	*(19.9)*		
2018 Spring FAO Outlook												
Taxation Revenue	94.3	99.4	103.1	107.2	111.4	116.0	120.4	124.8	129.5	134.4	3.9%	4.0%
Transfers from Gov't of Canada	24.5	25.3	26.0	25.6	26.7	27.6	28.4	29.2	30.2	31.1	1.8%	1.4%
Income from GBEs	5.6	6.1	4.9	6.0	6.6	6.8	7.1	7.4	7.7	8.0	2.4%	16.1%
Other Non-Tax Revenue	16.3	19.3	17.6	17.7	18.0	18.7	19.4	20.0	20.8	21.5	-2.3%	1.3%
Total Revenue	140.7	150.2	151.5	156.6	162.8	169.1	175.2	181.5	188.1	195.0	2.7%	3.6%
Expense												
Program Expense	130.0	137.5	145.9	150.4	155.8	161.9	168.2	174.5	181.0	188.1	4.2%	3.3%
Interest on Debt	11.7	12.0	12.4	13.0	13.6	14.5	15.4	16.4	17.5	18.7	4.4%	4.7%
Total Expense	141.7	149.5	158.3	163.4	169.4	176.4	183.6	190.9	198.5	206.8	4.2%	3.4%
Surplus/(Deficit) before Reseve, EXC. Adj. for Fair Hydro Plan and Pension Assets	(1.0)	0.7	(6.8)	(6.8)	(6.6)	(7.3)	(8.4)	(9.3)	(10.4)	(11.8)		
Accounting Adjustments	1.4	4.2	5.0	5.6	6.0	6.0	5.7	5.3	5.0	4.8		
Surplus/(Deficit) before Reseve, Inc. Adj. for Fair Hydro Plan and Pension Assets	(2.4)	(3.6)	(11.8)	(12.4)	(12.7)	(13.3)	(14.1)	(14.7)	(15.4)	(16.6)		
Net Debt to GDP INC Adjustments, per cent	39.5	39.1	40.1	41.1	42.0	43.1	43.9	44.4	44.8	45.1		

Note: All surplus/deficits exclude the reserve. Numbers may not add due to rounding.

MEDIUM-TERM REVENUE:

- The FAO projects Personal Income Tax to be significantly lower than the 2018 Budget projections ($0.4 billion in 2018-19, $0.7 billion in 2019-20, and $0.9 billion in 2020-21).
- FAO estimates that Ontario will no longer qualify for Equalization payments after 2018-19, where as the 2018 Budget assumes Equalization ends in 2020-21.
- The FAO reduces H1 net income by $0.4 billion in 2018-19 to reflect the recent decision by the OEB to allocate a portion of tax gain to rate payers.

RECOVERY PLAN REVENUE:

- Over the recovery plan, the FAO projects significantly stronger growth (3.6%) in other non-tax revenues, compared to the 2018 Budget (2.0%).

RECOVERY PLAN PROGRAM EXPENSE:

The FAO assumes program expense to grow at 3.5% over the recovery plan (closer to population and inflation), versus the 2018 Budget projection of 2.0%.

INTEREST ON DEBT EXPENSE:

- Despite projecting larger deficits and potentially larger borrowings, the FAO's IOD grows on average by 4.7% over the medium-term, in contrast to 5.1% in the 2018 Budget.

From: John Psinas
To: Ken Kandeepan
Subject: FW: Transition Deck: Base Case & Alternative Fiscal Scenarios
Date: Wednesday, May 30, 2018 4:50:42 PM
Attachments: Net Debt - Scenarios- incl revised TCA pension hydro adj May 30 2018.xlsx

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-----Original Message-----
From: John Psinas
Sent: Wednesday, May 30, 2018 10:31 AM
To: 'Anand, Sareena (MOF)' <Sareena.Anand@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Chi-Wa Che <Chi-Wa.Che@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: IOD_RPA <IOD_RPA@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Nero, Freba (MOF) <Freba.Nero@ontario.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Sareena,

I see that our net debt template was used for a myriad of variable presentations of net debt, such as with the fair hydro, with pension adjustments etc, along with new fiscal deficit numbers since yesterday.

We got the accumulated deficit impact of the pension adjustment this morning from OPCD and put it into the opening net debt number for 2016-17 in the attached. Our opening 2016-17 net debt number now matches what the AG has indicated it should be if following this accounting interpretation. You may have to redo the net debt calculations based on this adjustment as well as the new fiscal impacts.

As you can see, there is a significant impact to the ratio by adding over $12.4 Billion of the pension adjustment to accumulated deficit.

Thanks.

John

-----Original Message-----
From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Wednesday, May 30, 2018 10:15 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Chi-Wa Che <Chi-Wa.Che@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: IOD_RPA <IOD_RPA@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Nero, Freba (MOF) <Freba.Nero@ontario.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Good morning:

Per the email thread below, we're touching base to provide you with the outlooks for the three scenarios (base, 1, and 2) as they currently stand, including with the IOD forecast that you provided yesterday at 4:30pm. Please note that the only change that has not been incorporated into the attached IOD outlook is a $5M revenue decrease in 2019-20 and 2020-21 that was made this morning. Revenue has been updated in the attached document, but IOD has

not since we didn't think it would make a significant difference.

In addition, we have attached a draft version of the deck that will be used to brief the SOC this afternoon at 3pm, however, we are still working through some wording edits. The net debt-to-GDP numbers that we calculated for each scenario can be found in the deck on slides 10,13,14 and 15. Also attached is a copy of the net debt-to-gdp calculator that we used.

Could you please confirm that both the IOD forecast in each scenario as well as the net debt-to-GDP numbers in the deck are correct?

Many thanks!
Sareena

-----Original Message-----
From: McGrath, Tara (MOF)
Sent: May 29, 2018 9:31 PM
To: Kandeepan, Ken (OFA)
Cc: Che, Chi-Wa (OFA); Anand, Sareena (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA); Strathy, Anna (OFA); Nero, Freba (MOF); Macdonald, James (MOF); Cheung, Danny (MOF); Esmail, Selena (MOF)
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Ok great - thanks Ken.

Coming out of the meeting there were no further changes to the base case or alternative fiscal outlooks, save one small revenue adjustment that is less than $5M per year.

We'll touch base in the morning.

Tara

_____
From: Kandeepan, Ken (OFA) [Ken.Kandeepan@ofina.on.ca]
Sent: Tuesday, May 29, 2018 9:28 PM
To: McGrath, Tara (MOF)
Cc: Che, Chi-Wa (OFA); Anand, Sareena (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA); Strathy, Anna (OFA); Nero, Freba (MOF); Macdonald, James (MOF); Cheung, Danny (MOF)
Subject: Re: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi Tara

With regard to IOD, your characterization of the two versions is accurate. However since our runs were done to meet deadlines we will review the results once more tomorrow morning and confirm.

With regard to the net debt to GDP ratio, as John has pointed out, the version that includes the AG's adjustments should also incorporate the cumulative impact of reversing the pension adjustment and that should not be limited to 16-17 onwards.

We have requested the cumulative impact from OPCD and should be able to provide revised ratios tomorrow.

Thanks

Ken k

> On May 29, 2018, at 908 PM, McGrath, Tara (MOF) <Tara.McGrath@ontario.ca> wrote:
>
> Hi everyone,

>
> Thank you again for your nimbleness today - we appreciate it.
>
> We were moving quickly today, so we wanted to take a pause just to confirm we are using the correct IOD numbers. We understand that the version sent at 3:56 (first attachment) includes the IOD changes without taking on the accounting change for pensions and Fair Hydro; and the version sent at 4:30 (second attachment) represents the IOD changes after taking on the accounting changes.
>
> We have a small window tomorrow morning to make any final updates, so it would be great if you could confirm first thing in the morning.
>
> John - we're working through all of the net debt-to-GDP scenarios with these new IOD figures, so we'll loop back around with you in the morning to confirm you're ok with all of the ratios for the deck.
>
> We understand the briefing with the SOC is at 3.
>
> Thanks,
>
> Tara
>
> _____
> From: Che, Chi-Wa (OFA) [Chi-Wa.Che@ofina.on.ca]
> Sent: Tuesday, May 29, 2018 4:30 PM
> To: Anand, Sareena (MOF)
> Cc: McGrath, Tara (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA);
> Kandeepan, Ken (OFA); Strathy, Anna (OFA)
> Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
>
> Hi Sareena,
>
> Attached is the revised IOD Summary for the Base Case and Alternative Scenarios together with the impacts from Pension Adjustments and Fair Hydro Plan.
>
> The IOD forecast as of April 30, 2018 is made with the following
> assumptions:-
>
>
> 1. IOD projections based on new OEP interest rate forecasts (May 23, 2018) for F2018-19 and F2019-20 and the 20-year historical average of interest rates for F2020-21. The latest forecast indicated that there is an decrease of 16 bps for 2019-20 only while marginally the same for 2018-19.
> 2. Uses the new Net Investment in Capital Assets and interest cap assumptions provided by TBS.
> 3. The pension adjustments does not impact borrowing as it only has PSAB implications and not cash implications.
> 4. New borrowing is increased by the partial cost of transferring the Fair Hydro Plan onto the Province's books as 44% of the cost is already accounted for.
>
>
>
> Thanks.
>
> Chi-Wa Che
>
> 5-8163
>
>
>
> _____

>
> This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.
> <IOD Summary for Transition.Revised.xlsx> <IOD Summary for
> Transition.RevisedV2.xlsx>

	Budget 2018		Base Case Scenario		Scenario 1		Scenario 2		Difference Base Case vs. Budget 2018		Difference Scenario 1 vs. Budget 2018		Difference Scenario 2 vs. Budget 2018	
	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)
2017-18 Interim	37.1	(642)	39.1	3,593	39.1	3,593	39.1	3,593	2.0	4,235	2.0	4,235	2.0	4,235
2018-19 Outlook	37.6	6,704	40.2	11,882	40.7	16,511	40.1	11,297	2.5	5,178	3.1	9,807	2.5	4,593
2019-20 Outlook	38.2	6,624	40.9	9,321	42.1	15,528	41.0	10,157	2.7	2,697	3.9	8,904	2.8	3,533
2020-21 Outlook	38.6	6,475	41.2	6,444	43.4	16,272	41.1	5,739	2.6	(31)	4.8	9,797	2.6	(736)

Net Debt to Revenue and GDP Ratios																	
Ontario		Base Case Scenario (Based on 2018 Budget)															
				Net Debt As	Accumulated	Acc Deficit		Prepds/inv.	ONFA	Other Adj	Deficit/						
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP %	TCA	Adj.(gain)/los	(gain)/loss	(gain)/loss	(Surplus)						
Actual	1989-90	282,754	35,409	12.5	35,409	12.5	-				(90)						
Actual	1990-91	287,293	38,438	13.4	38,438	13.4	-				3,029						
Actual	1991-92	288,190	49,368	17.1	49,368	17.1	-				10,930						
Actual	1992-93	293,007	61,796	21.1	61,796	21.1	-				12,428						
Actual	1993-94	302,160	80,599	26.7	80,599	26.7	-				11,202						
Actual	1994-95	319,901	90,728	28.4	90,728	28.4	-				10,129						
Actual	1995-96	337,337	101,864	30.2	101,864	30.2	-				8,800						
Actual	1996-97	347,738	108,769	31.3	108,769	31.3	-				6,905						
Actual	1997-98	368,909	112,735	30.6	112,735	30.6	-				3,966						
Actual	1998-99	389,219	114,737	29.5	114,737	29.5	-				2,002						
Actual	1999-2000	418,202	134,398	32.1	134,398	32.1	-				(668)						
Actual	2000-01	452,186	132,496	29.3	132,496	29.3	-				(1,902)						
Actual	2001-02	469,045	132,121	28.2	132,121	28.2	-				(375)						
Actual	2002-03	494,804	132,647	26.8	118,705	24.0	13,942				(117)						
Actual	2003-04	509,472	138,816	27.2	124,188	24.4	14,628				5,483						
Actual	2004-05	533,334	140,921	26.4	125,743	23.6	15,178				1,555						
Actual	2005-06	556,607	152,702	27.4	109,155	19.6	43,547				(298)						
Actual	2006-07	578,229	153,742	26.6	106,776	18.5	46,966			(110)	(2,269)						
Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999		(559)		(600)						
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347		1,212		6,409						
Actual	2009-10	597,876	193,589	32.4	130,957	21.9	62,632		1,090	-	19,262						
Actual	2010-11	630,983	214,511	34.0	144,573	22.9	69,938		(395)	-	14,011						
Actual	2011-12	659,740	236,230	35.8	158,410	24.0	77,172	648	3	865	12,969						
Actual	2012-13	680,086	252,823	37.2	167,132	24.6	84,956	735	(639)	141	9,220						
Actual	2013-14	695,354	267,968	38.5	176,634	25.4	90,556	778	(951)	-	10,453						
Actual	2014-15	726,053	285,403	39.3	187,511	25.8	97,065	827	(1,121)	1,683	10,315						
Actual	2015-16	762,029	295,372	38.8	192,029	25.2	102,536	807	1,003	-	3,515						
Actual	2016-17	794,835	314,077	39.5	205,939	25.9	107,288	850	(1,094)	14,013	991						
	2017-18 Interim	829,984	324,869	39.1	209,113	25.2	114,906	850	(419)		3,593						
	2018-19 Outloo	863,690	346,865	40.2	220,995	25.6	125,020	850			11,882						
	2019-20 Outloo	897,341	367,239	40.9	230,316	25.7	136,073	850			9,321						
	2020-21 Outloo	933,145	384,373	41.2	236,760	25.4	146,763	850			6,444						
	2021-22 Outloo	969,156	393,694	40.6	236,760	24.4	156,084	850			-						
	2022-23 Outloo	1,005,572	399,447	39.7	236,760	23.5	161,837	850			-						

Net debt as presented
Effect of valuation allowance
Net debt in accordance with Canadian public secto

Net Debt for 2016-17 has been chan
opinion of the 2016-17 Public Accou

Net Debt to Revenue and GDP Ratios

Ontario

Base Case Scenario (Based on 2018 Budget)

Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)
2023-24 Outloo	1,045,203	401,120	38.4	236,760	22.7	163,510	850			-
2024-25 Outloo	1,088,440	404,772	37.2	236,760	21.8	167,162	850			-
2025-26 Outloo	1,133,057	407,234	35.9	236,760	20.9	169,624	850			-
2026-27 Outloo	1,176,212	406,742	34.6	236,760	20.1	169,132	850			-
2027-28 Outloo	1,223,997	404,438	33.0	236,760	19.3	166,828	850			-
2028-29 Outloo	1,274,188	404,438	31.7	236,760	18.6	166,828	850			-
2029-30 Outloo	1,326,796	404,438	30.5	236,760	17.8	166,828	850			-
2030-31 Outloo	1,379,701	404,438	29.3	236,760	17.2	166,828	850			-
2031-32 Outloo	1,434,889	404,438	28.2	236,760	16.5	166,828	850			-
2032-33 Outloo	1,492,284	404,438	27.1	236,760	15.9	166,828	850			-
2033-34 Outloo	1,551,976	404,438	26.1	236,760	15.3	166,828	850			-
2034-35 Outloo	1,614,055	404,438	25.1	236,760	14.7	166,828	850			-
2035-36 Outloo	1,678,617	404,438	24.1	236,760	14.1	166,828	850			-

Assumptions /Notes

1 - deleted for this scenario -

2 GDP - per latest information rec'd (see GDP tab)

3 TCA - per info rec'd May 29, 2018 from M Reghabi

After 2027-28 TCA increases are equal to annual amortization

4 Net Debt adjusted for prepaids starting 2014-15. From 2017-18 and onwards - same amount as prior month assumed.

5 Balanced budget continues through to 2035-36

6 GDP annual growth is 4% from 2031-32 to 2035-36

7 Revenue restated to include BPS (Hospitals, colleges, school boards) from 2012-13

8 Revenue from 2017-18 to 2019-20 has been restated for BPS

9 Revenue for 2016-17 was revised down by approx $1 million from $140,735m to $140,734.

10 Accumulated deficit for 2016-17 now incorporates the pension valuation adjustment of approx $12.4b

Prepared by OFA, FTD

30-May-18

	2017 ($ million)	2016 ($ million)
	(301,648)	(295,372)
	(12,429)	(10,985)
r accounting standards	(314,077)	(306,357)

ged to the amount indicated by the AG in her
nts, $314,077 M.

Net Debt to Revenue and GDP Ratios															
Ontario		Scenario 1 (Based on 2018 Budget)													
				Net Debt As	Accumulated	Acc Deficit		Prepds/inv.	ONFA	Other Adj	Deficit/				
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP %	TCA	Adj.(gain)/los	(gain)/loss	(gain)/loss	(Surplus)				
Actual	1989-90	282,754	35,409	12.5	35,409	12.5	-				(90)				
Actual	1990-91	287,293	38,438	13.4	38,438	13.4	-				3,029				
Actual	1991-92	288,190	49,368	17.1	49,368	17.1	-				10,930				
Actual	1992-93	293,007	61,796	21.1	61,796	21.1	-				12,428				
Actual	1993-94	302,160	80,599	26.7	80,599	26.7	-				11,202				
Actual	1994-95	319,901	90,728	28.4	90,728	28.4	-				10,129				
Actual	1995-96	337,337	101,864	30.2	101,864	30.2	-				8,800				
Actual	1996-97	347,738	108,769	31.3	108,769	31.3	-				6,905				
Actual	1997-98	368,909	112,735	30.6	112,735	30.6	-				3,966				
Actual	1998-99	389,219	114,737	29.5	114,737	29.5	-				2,002				
Actual	1999-2000	418,202	134,398	32.1	134,398	32.1	-				(668)				
Actual	2000-01	452,186	132,496	29.3	132,496	29.3	-				(1,902)				
Actual	2001-02	469,045	132,121	28.2	132,121	28.2	-				(375)				
Actual	2002-03	494,804	132,647	26.8	118,705	24.0	13,942				(117)				
Actual	2003-04	509,472	138,816	27.2	124,188	24.4	14,628				5,483				
Actual	2004-05	533,334	140,921	26.4	125,743	23.6	15,178				1,555				
Actual	2005-06	556,607	152,702	27.4	109,155	19.6	43,547				(298)				
Actual	2006-07	578,229	153,742	26.6	106,776	18.5	46,966			(110)	(2,269)				
Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999		(559)		(600)				
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347		1,212		6,409				
Actual	2009-10	597,876	193,589	32.4	130,957	21.9	62,632		1,090	-	19,262				
Actual	2010-11	630,983	214,511	34.0	144,573	22.9	69,938		(395)	-	14,011				
Actual	2011-12	659,740	236,230	35.8	158,410	24.0	77,172	648	3	865	12,969				
Actual	2012-13	680,086	252,823	37.2	167,132	24.6	84,956	735	(639)	141	9,220				
Actual	2013-14	695,354	267,968	38.5	176,634	25.4	90,556	778	(951)	-	10,453				
Actual	2014-15	726,053	285,403	39.3	187,511	25.8	97,065	827	(1,121)	1,683	10,315				
Actual	2015-16	762,029	295,372	38.8	192,029	25.2	102,536	807	1,003	-	3,515				
Actual	2016-17	794,835	314,077	39.5	205,939	25.9	107,288	850	(1,094)	14,013	991				
	2017-18 Interim	829,984	324,869	39.1	209,113	25.2	114,906	850	(419)		3,593				
	2018-19 Outloo	863,690	351,494	40.7	225,624	26.1	125,020	850			16,511				
	2019-20 Outloo	897,341	378,075	42.1	241,152	26.9	136,073	850			15,528				
	2020-21 Outloo	933,145	405,037	43.4	257,424	27.6	146,763	850			16,272				

Net debt as presented
Effect of valuation allowance
Net debt in accordance with Canadi

Net Debt to Revenue and GDP Ratios

Ontario

Scenario 1 (Based on 2018 Budget)

Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)
2021-22 Outloo	969,156	414,358	42.8	257,424	26.6	156,084	850			-
2022-23 Outloo	1,005,572	420,111	41.8	257,424	25.6	161,837	850			-
2023-24 Outloo	1,045,203	421,784	40.4	257,424	24.6	163,510	850			-
2024-25 Outloo	1,088,440	425,436	39.1	257,424	23.7	167,162	850			-
2025-26 Outloo	1,133,057	427,898	37.8	257,424	22.7	169,624	850			-
2026-27 Outloo	1,176,212	427,406	36.3	257,424	21.9	169,132	850			-
2027-28 Outloo	1,223,997	425,102	34.7	257,424	21.0	166,828	850			-
2028-29 Outloo	1,274,188	425,102	33.4	257,424	20.2	166,828	850			-
2029-30 Outloo	1,326,796	425,102	32.0	257,424	19.4	166,828	850			-
2030-31 Outloo	1,379,701	425,102	30.8	257,424	18.7	166,828	850			-
2031-32 Outloo	1,434,889	425,102	29.6	257,424	17.9	166,828	850			-
2032-33 Outloo	1,492,284	425,102	28.5	257,424	17.3	166,828	850			-
2033-34 Outloo	1,551,976	425,102	27.4	257,424	16.6	166,828	850			-
2034-35 Outloo	1,614,055	425,102	26.3	257,424	15.9	166,828	850			-
2035-36 Outloo	1,678,617	425,102	25.3	257,424	15.3	166,828	850			-

Net Debt for 2016-17 has
opinion of the 2016-17 P

Assumptions /Notes

1 - deleted for this scenario - m

2 GDP - per latest information rec'd (see GDP tab)

3 TCA - per info rec'd May 29, 2018 from M Reghabi

After 2027-28 TCA increases are equal to annual amortization

4 Net Debt adjusted for prepaids starting 2014-15. From 2017-18 and onwards - same amount as prior month assumed.

5 Balanced budget continues through to 2035-36

6 GDP annual growth is 4% from 2031-32 to 2035-36

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9 Revenue for 2016-17 was revised down by approx $1 million from $140,735m to $140,734.

10 Accumulated deficit for 2016-17 now incorporates the pension valuation adjustment of approx $12.4b

Prepared by OFA, FTD

30-May-18

	2017 ($ million)	2016 ($ million)
	(301,648)	(295,372)
	(12,429)	(10,985)
n public sector accounting standards	(314,077)	(306,357)

s been changed to the amount indicated by the AG in her						
ublic Accounts, $314,077 M.						

Net Debt to Revenue and GDP Ratios															
Ontario		Scenario 2 (Based on 2018 Budget)													
				Net Debt As	Accumulated	Acc Deficit		Prepds/inv.	ONFA	Other Adj	Deficit/				
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP %	TCA	Adj.(gain)/los	(gain)/loss	(gain)/loss	(Surplus)				
Actual	1989-90	282,754	35,409	12.5	35,409	12.5	-				(90)				
Actual	1990-91	287,293	38,438	13.4	38,438	13.4	-				3,029				
Actual	1991-92	288,190	49,368	17.1	49,368	17.1	-				10,930				
Actual	1992-93	293,007	61,796	21.1	61,796	21.1	-				12,428				
Actual	1993-94	302,160	80,599	26.7	80,599	26.7	-				11,202				
Actual	1994-95	319,901	90,728	28.4	90,728	28.4	-				10,129				
Actual	1995-96	337,337	101,864	30.2	101,864	30.2	-				8,800				
Actual	1996-97	347,738	108,769	31.3	108,769	31.3	-				6,905				
Actual	1997-98	368,909	112,735	30.6	112,735	30.6	-				3,966				
Actual	1998-99	389,219	114,737	29.5	114,737	29.5	-				2,002				
Actual	1999-2000	418,202	134,398	32.1	134,398	32.1	-				(668)				
Actual	2000-01	452,186	132,496	29.3	132,496	29.3	-				(1,902)				
Actual	2001-02	469,045	132,121	28.2	132,121	28.2	-				(375)				
Actual	2002-03	494,804	132,647	26.8	118,705	24.0	13,942				(117)				
Actual	2003-04	509,472	138,816	27.2	124,188	24.4	14,628				5,483				
Actual	2004-05	533,334	140,921	26.4	125,743	23.6	15,178				1,555				
Actual	2005-06	556,607	152,702	27.4	109,155	19.6	43,547				(298)				
Actual	2006-07	578,229	153,742	26.6	106,776	18.5	46,966			(110)	(2,269)				
Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999		(559)		(600)				
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347		1,212		6,409				
Actual	2009-10	597,876	193,589	32.4	130,957	21.9	62,632		1,090	-	19,262				
Actual	2010-11	630,983	214,511	34.0	144,573	22.9	69,938		(395)	-	14,011				
Actual	2011-12	659,740	236,230	35.8	158,410	24.0	77,172	648	3	865	12,969				
Actual	2012-13	680,086	252,823	37.2	167,132	24.6	84,956	735	(639)	141	9,220				
Actual	2013-14	695,354	267,968	38.5	176,634	25.4	90,556	778	(951)	-	10,453				
Actual	2014-15	726,053	285,403	39.3	187,511	25.8	97,065	827	(1,121)	1,683	10,315				
Actual	2015-16	762,029	295,372	38.8	192,029	25.2	102,536	807	1,003	-	3,515				
Actual	2016-17	794,835	314,077	39.5	205,939	25.9	107,288	850	(1,094)	14,013	991				
	2017-18 Interim	829,984	324,869	39.1	209,113	25.2	114,906	850	(419)		3,593				
	2018-19 Outloo	863,690	346,280	40.1	220,410	25.5	125,020	850			11,297				
	2019-20 Outloo	897,341	367,490	41.0	230,567	25.7	136,073	850			10,157				
	2020-21 Outloo	933,145	383,919	41.1	236,306	25.3	146,763	850			5,739				

Net debt as presented

Effect of valuation allowance

Net debt in accordance with Cana

Net Debt for 2016-17 has

Net Debt to Revenue and GDP Ratios

Ontario

Scenario 2 (Based on 2018 Budget)

Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)	
2021-22 Outloo	969,156	393,240	40.6	236,306	24.4	156,084	850			-	opinion of the 2016-17 P
2022-23 Outloo	1,005,572	398,993	39.7	236,306	23.5	161,837	850			-	
2023-24 Outloo	1,045,203	400,666	38.3	236,306	22.6	163,510	850			-	
2024-25 Outloo	1,088,440	404,318	37.1	236,306	21.7	167,162	850			-	
2025-26 Outloo	1,133,057	406,780	35.9	236,306	20.9	169,624	850			-	
2026-27 Outloo	1,176,212	406,288	34.5	236,306	20.1	169,132	850			-	
2027-28 Outloo	1,223,997	403,984	33.0	236,306	19.3	166,828	850			-	
2028-29 Outloo	1,274,188	403,984	31.7	236,306	18.5	166,828	850			-	
2029-30 Outloo	1,326,796	403,984	30.4	236,306	17.8	166,828	850			-	
2030-31 Outloo	1,379,701	403,984	29.3	236,306	17.1	166,828	850			-	
2031-32 Outloo	1,434,889	403,984	28.2	236,306	16.5	166,828	850			-	
2032-33 Outloo	1,492,284	403,984	27.1	236,306	15.8	166,828	850			-	
2033-34 Outloo	1,551,976	403,984	26.0	236,306	15.2	166,828	850			-	
2034-35 Outloo	1,614,055	403,984	25.0	236,306	14.6	166,828	850			-	
2035-36 Outloo	1,678,617	403,984	24.1	236,306	14.1	166,828	850			-	

Assumptions /Notes

1	- deleted for this scenario -
2	GDP - per latest information rec'd (see GDP tab)
3	TCA - per info rec'd May 29, 2018 from M Reghabi
	After 2027-28 TCA increases are equal to annual amortization
4	Net Debt adjusted for prepaids starting 2014-15. From 2017-18 and onwards - same amount as prior month assumed.
5	Balanced budget continues through to 2035-36
6	GDP annual growth is 4% from 2031-32 to 2035-36
7	Revenue restated to include BPS (Hospitals, colleges, school boards) from 2012-13
8	Revenue from 2017-18 to 2019-20 has been restated for BPS
9	Revenue for 2016-17 was revised down by approx $1 million from $140,735m to $140,734.
10	Accumulated deficit for 2016-17 now incorporates the pension valuation adjustment of approx $12.4b

Prepared by OFA, FTD

30-May-18

	2017 ($ million)	2016 ($ million)
	(301,648)	(295,372)
	(12,429)	(10,985)
dian public sector accounting standards	(314,077)	(306,357)

been changed to the amount indicated by the AG in her

ublic Accounts, $314,077 M.						

Net Debt to Revenue and GDP Ratios

Ontario

2018 Document Outlook

	Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)		
Actual	1989-90	282,754	35,409	12.5	35,409	12.5	-				(90)		
Actual	1990-91	287,293	38,438	13.4	38,438	13.4	-				3,029		
Actual	1991-92	288,190	49,368	17.1	49,368	17.1	-				10,930		
Actual	1992-93	293,007	61,796	21.1	61,796	21.1	-				12,428		
Actual	1993-94	302,160	80,599	26.7	80,599	26.7	-				11,202		
Actual	1994-95	319,901	90,728	28.4	90,728	28.4	-				10,129		
Actual	1995-96	337,337	101,864	30.2	101,864	30.2	-				8,800		
Actual	1996-97	347,738	108,769	31.3	108,769	31.3	-				6,905		
Actual	1997-98	368,909	112,735	30.6	112,735	30.6	-				3,966		
Actual	1998-99	389,219	114,737	29.5	114,737	29.5	-				2,002		
Actual	1999-2000	418,202	134,398	32.1	134,398	32.1	-				(668)		
Actual	2000-01	452,186	132,496	29.3	132,496	29.3	-				(1,902)		
Actual	2001-02	469,045	132,121	28.2	132,121	28.2	-				(375)		
Actual	2002-03	494,804	132,647	26.8	118,705	24.0	13,942				(117)		
Actual	2003-04	509,472	138,816	27.2	124,188	24.4	14,628				5,483		
Actual	2004-05	533,334	140,921	26.4	125,743	23.6	15,178				1,555		
Actual	2005-06	556,607	152,702	27.4	109,155	19.6	43,547				(298)		
Actual	2006-07	578,229	153,742	26.6	106,776	18.5	46,966			(110)	(2,269)		
Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999		(559)		(600)		
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347		1,212		6,409		
Actual	2009-10	597,876	193,589	32.4	130,957	21.9	62,632		1,090	-	19,262		
Actual	2010-11	630,983	214,511	34.0	144,573	22.9	69,938		(395)	-	14,011		
Actual	2011-12	659,740	236,230	35.8	158,410	24.0	77,172	648	3	865	12,969		
Actual	2012-13	680,086	252,823	37.2	167,132	24.6	84,956	735	(639)	141	9,220		
Actual	2013-14	695,354	267,968	38.5	176,634	25.4	90,556	778	(951)	-	10,453		
Actual	2014-15	726,053	285,403	39.3	187,511	25.8	97,065	827	(1,121)	1,683	10,315		
Actual	2015-16	762,029	295,372	38.8	192,029	25.2	102,536	807	1,003	-	3,515		
Actual	2016-17	794,835	301,648	38.0	193,510	24.3	107,288	850	(1,094)	1,584	991		4,752
	2017-18 Outloo	829,984	308,203	37.1	192,449	23.2	114,904	850	(419)		(642)		7,616
	2018-19 Outloo	863,690	325,041	37.6	199,153	23.1	125,038	850			6,704		10,134
	2019-20 Outloo	897,341	342,752	38.2	205,777	22.9	136,125	850			6,624		11,087
	2020-21 Outloo	933,145	360,123	38.6	212,252	22.7	147,021	850			6,475		10,896
	2021-22 Outloo	969,156	376,811	38.9	217,824	22.5	158,137	850			5,572		11,116
	2022-23 Outloo	1,005,572	388,265	38.6	221,785	22.1	165,630	850			3,961		7,493

Ontario

2018 Document Outlook

Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)	
2023-24 Outloo	1,045,203	394,185	37.7	224,261	21.5	169,074	850			2,476	3,444
2024-25 Outloo	1,088,440	400,152	36.8	224,277	20.6	175,025	850			16	5,951
2025-26 Outloo	1,133,057	402,058	35.5	221,674	19.6	179,534	850			(2,603)	4,509
2026-27 Outloo	1,176,212	402,020	34.2	221,674	18.8	179,496	850			-	(38)
2027-28 Outloo	1,223,997	400,921	32.8	221,674	18.1	178,397	850			-	(1,099)
2028-29 Outloo	1,274,188	400,921	31.5	221,674	17.4	178,397	850			-	
2029-30 Outloo	1,326,796	400,921	30.2	221,674	16.7	178,397	850			-	
2030-31 Outloo	1,379,701	400,921	29.1	221,674	16.1	178,397	850			-	
2031-32 Outloo	1,434,889	400,921	27.9	221,674	15.4	178,397	850			-	
2032-33 Outloo	1,492,284	400,921	26.9	221,674	14.9	178,397	850			-	
2033-34 Outloo	1,551,976	400,921	25.8	221,674	14.3	178,397	850			-	
2034-35 Outloo	1,614,055	400,921	24.8	221,674	13.7	178,397	850			-	
2035-36 Outloo	1,678,617	400,921	23.9	221,674	13.2	178,397	850			-	

Assumptions /Notes

1. Surplus for 2017-18 is $ 642 m
2. GDP - per latest information rec'd (see GDP tab)
3. TCA - per info rec'd March 3, 2018 from David Hodes
   After 2027-28 TCA increases are equal to annual amortization
4. Net Debt adjusted for prepaids starting 2014-15. From 2017-18 and onwards - same amount as prior month assumed.
5. Balanced budget continues through to 2035-36
6. GDP annual growth is 4% from 2031-32 to 2035-36
7. Revenue restated to include BPS (Hospitals, colleges, school boards) from 2012-13
8. Revenue from 2017-18 to 2019-20 has been restated for BPS
9. Revenue for 2016-17 was revised down by approx $1 million from $140,735m to $140,734.

Prepared by OFA, FTD

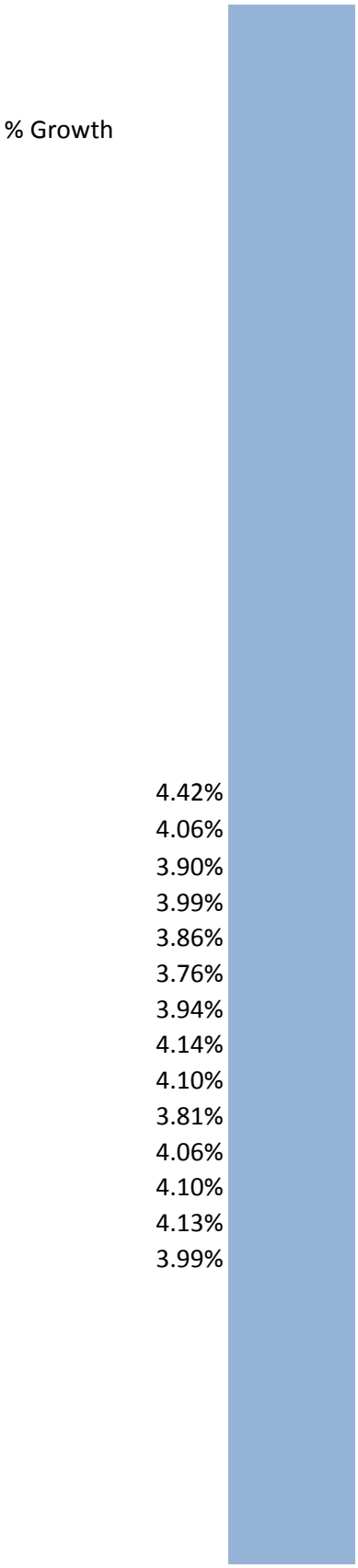
9-Mar-18

	Budget time Ontario Nominal GDP			Ontario Nominal GDP
2000	452,238			
2001	469,084			
2002	494,815			
2003	509,511			
2004	533,365			
2005	556,635			
2006	578,241			
2007	601,735			
2008	608,446			
2009	597,882			
2010	630,989	5.5		
2011	659,743	4.6		
2012	680,084	3.1		
2013	695,349	2.2		
2014	727,962	4.7		
2015	763,276	4.9		
2016	798,218	4.6	2016	794,835
2017p	832,652	4.3	2017p	829,984
2018p	866,612	4.1	2018p	863,690
2019p	902,778	4.2	2019p	897,341
2020p	938,411	3.9	2020p	933,145
2021p			2021p	969,156
			2022	1,005,572
			2023	1,045,203
			2024	1,088,440
			2025	1,133,057
			2026	1,176,212
			2027	1,223,997
			2028	1,274,188
			2029	1,326,796
			2030	1,379,701

p = projection

Rec'd from: Mark Williams
28-Mar-17

Paul Lewis
27-Feb-18


% Growth
4.42%
4.06%
3.90%
3.99%
3.86%
3.76%
3.94%
4.14%
4.10%
3.81%
4.06%
4.10%
4.13%
3.99%

Draft- Mar 2 1pm 2018

PROVINCIAL TCA Net Book Value ($ Billions)	2017-18 Interim	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Opening Net Book Value	**107,288**	**114,904**	**125,038**	**136,125**	**147,021**	**158,137**	**165,630**	**169,074**	**175,025**	**179,534**	**179,496**
Annual Acquisitions	13,251	16,094	17,455	17,688	18,522	15,477	11,801	14,763	13,914	9,683	8,815
Gross Amortization Expense	(5,634)	(5,960)	(6,367)	(6,792)	(7,406)	(7,983)	(8,357)	(8,812)	(9,405)	(9,721)	(9,914)
Closing Net Book Value	**114,904**	**125,038**	**136,125**	**147,021**	**158,137**	**165,630**	**169,074**	**175,025**	**179,534**	**179,496**	**178,397**

Notes:
- Opening NBV for 2016-17 from public accounts
- Annual Acquisitions include other partner funding and federal flowthroughs

Received from David Hodes
3/8/2018 - 5pm

Scenarios - Base Case

Draft - May 24

PROVINCIAL TCA Net Book Value ($ Billions)	2017-18 Interim	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Opening Net Book Value	**107,288**	**114,906**	**125,020**	**136,073**	**146,763**	**156,084**	**161,837**	**163,510**	**167,162**	**169,624**	**169,132**
Annual Acquisitions	13,252	16,075	17,419	17,478	16,721	13,725	10,017	12,446	11,700	8,910	7,290
Gross Amortization Expense	(5,634)	(5,960)	(6,366)	(6,789)	(7,399)	(7,973)	(8,343)	(8,794)	(9,238)	(9,402)	(9,594)
Closing Net Book Value	**114,906**	**125,020**	**136,073**	**146,763**	**156,084**	**161,837**	**163,510**	**167,162**	**169,624**	**169,132**	**166,828**

Notes:
- Opening NBV for 2016-17 from public accounts
- Annual Acquisitions include other partner funding and federal flowthroughs

Received from M Reghabi
29-May-18

ONFA Net Debt impact

As at Feb 2018

Fiscal year	2018	2017	Bruce Variance (Per CEFD)	Net debt	
A	0		47%	-	
B	60		50%	30	
C	1,743	1,561		182	
D	1,955	1,748		207	
				419	Net Debt - gain/(loss)

Notes:

A - Decommissioning Fund unrealized gain/loss calculation x Bruce Variance Cost % (where the p

B - Used Fuel Fund unrealized gain/loss calculation x Bruce Variance Cost % (where the percentage

C - Decommissioning Fund payable to the province(FMV – cost, this year's) less (FMV – cost, last ye

D - Used Fuel Fund payable to the province(FMV – cost, this year's) less (FMV – cost, last year's)

Supporting documentation

ercentage changes every year)
changes every year)
ar's)

Seg Fund Balances - OFINA C

Decomm. Fund

Balance Mar 31, 2017 per F/S

Add YTD Apr 1 - Feb 28, 2018 e

Realized
Unrealized - G/L on investments
Unrealized - Bid pricing adjustm
Excess adjustment charge for y

A Total Decomm earnings

Less Eligible program costs YTI

Add Contributions YTD April 1, 2

Decomm Fund balance Febru

UFF

Balance Mar 31, 2017 per F/S

Add YTD Apr 1 - Feb 28, 2018 e

Realized
Unrealized - G/L on investments
Unrealized - Bid pricing adjustm
Excess adjustment charge for y

B Total UFF earnings

Less Eligible program costs YTI

Add Contributions YTD April 1, 2

UFF balance February 28, 201

Seg Fund Balances at Februa

Decommissioning Fund Balar

Balance February 28, 2018 per

C Exess over 2018 ONFA Ref Pln

Used Fuel Fund Balance:

Balance February 28, 2018 per

D Due (To)/ From Province

Adjustment for Change in Due to Province
Decommissioning Fund
Due from (to) Province
Less: 50% in excess of 120% fu
Decommissioning Fund Balanc
Used Fuel Fund
Due from (to) Province
Used Fuel Fund Balance

ontinuity April 1, 2017 to February 28, 2018

		Cost		Market
		6,916		6,916
earnings:				
	422		422	
s & Currenc	-		181	
ent	-		1	
ear	(95)		(277)	
		327		327
D April 1, 2017 to Feb 28, 2018		(21)		(21)
2017 to Feb 28, 2018		-		-
ary 28, 2018		**7,222**		**7,222**

		Cost		Market
		9,086		9,241
earnings:				
	532		532	
s & Currenc	-		265	
ent	-		2	
ear	(158)		(365)	
		374		434
D April 1, 2017 to Feb 28, 2018		(48)		(48)
2017 to Feb 28, 2018		-		-
8		**9,412**		**9,627**

ry 28, 2018 on amortized cost basis and FMV basis

($M)

ıce:

	Cost	FMV
CIBC	7,396	9,139
Liab (due t	(174)	(1,917)
	7,222	**7,222**

	Cost	FMV
CIBC	9,977	12,147
	(565)	(2,520)
	9,412	**9,627**

March 31, 2017		
Cost	**Market**	***Difference***
6,995	8,556	1,561
(79)	(1,640)	(1,561)
0	0	0
6,916	6,916	*0*
9,493	11,396	1,903
(407)	(2,155)	(1,748)
9,086	9,241	*155*

From: John Psinas
To: Francisco Chinchon
Cc: George Sakura; Shemin Meralli; Kevin Hwang; Ken Kandeepan; Alexander Kraas; Bonnie Lemcke; Siva Nathan
Subject: FW: Update to Estimates Defence Document Submissions
Date: Thursday, September 07, 2017 2:25:56 PM
Attachments: 2016 TOC_v2.docx
Tab 2 Accomplishments_v3 (Sept 7, 2017).docx
Tab 3 Top Facts_v2 (Sept 7, 2017).docx

Francisco,

We have updated our part but will be happy to coordinate with your group and send back a combined response by Monday's deadline.

Thanks.

John

From: Padmore, Pauline (MOF) [mailto:Pauline.Padmore@ontario.ca]
Sent: Thursday, September 07, 2017 1:17 PM
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Subject: Update to Estimates Defence Document Submissions

Hello everyone –

In addition to the Accomplishments and Top Facts, please include 'General Facts' as shown in Tab 5 of the attached 2016 Estimates Briefing Binder table of contents.

Thank you.



Pauline Padmore
Corporate Initiatives and Stakeholder Coordinator (A)
416-325-0961

From: Padmore, Pauline (MOF)
Sent: August-31-17 4:24 PM
To: Zilinski, Stephanie (MOF); Dupuis, Paul (MOF); Laughlin, Debbie (MOF); Mattiussi, Nancy (MOF); Baldino, Rick (MOF); Luc, Rebecca (TBS); Rastinehad, Neda (MOF); Patel, Lesley (MOF); Mikhailova, Olga (MOF); Tarin, Ghufran (MOF); Boa, Krista (MOF); Wallace, Julia (MOF); Birks, Ryan (MOF); Bianchi, Angela (MOF); Scanlan, Darren (OFA); He, Gavin (OFA); Chinchon, Francisco (OFA); Ciavatta, Marco (FSCO); Hamilton, Carolyn (FSCO); Kancharla, Sagar (MOF); Gobeil, Diana (MOF); Harten, Jayne (MOF); Kandeepan, Ken (OFA); Jeanes, Bridget (MOF); Portelance, Lynn (MOF); Wong, Mimi (MOF); Kim, John (OFA); Meralli, Shemin (OFA); Sakura, George (OFA); Salman, Sadruddin (MOF); Vavlekis, Penny (MOF); Skoberne, Vivienne (MOF); Chan, Sybille (MOF); Strathy, Anna (OFA); Bruno Amara; Deena.Padamadan@ofina.on.ca; Sylvain, Matthew (MOF); McCall, Ashley (MOF); Hancock, Julia (MOF); Ouzas, Melissa (MOF); Lone, Dianne (MOF); Pichette, Marc (MOF); Padmore, Pauline (MOF); Yanqui, Nicole (MOF); Bramble, Veralyn (MOF); Cengarle, John (MOF); Donais, Cheryl (MOF)
Cc: McLean, David (MOF); Boyd, Steve (MOF); Sapounas, Maria (MOF); Waterston, Michael (MOF); Nowlan, Gordon (TBS); Bilar, Justin (MOF); Villagra, Jhenny (FSCO); Policelli, Maria (FSCO); Troiani, Robert (FSCO); Grant, Kathy (MOF); Young, Leah (MOF); Chow, Fred (MOF); Misener, Barry (MOF); Newbatt, Brenda (MOF); Maw, Steve (MOF); Long, Anne-Marie (MOF); Mulrooney, Ellen (MOF); Reiss, Anthony (MOF); Buzza, Ray (MOF); Clarkson, Shannon (MOF); Gibney, Linda (MOF); Paramasivam, Luxman (MOF); Mah, Catherine (MOF); Coste, Victoria (MOF)

Subject: Estimates Defence Document Submissions

Good afternoon –

Program areas are asked to please submit Top Facts (formerly called Q&As) and update Accomplishments no later than September 11th to Pauline Padmore and cc Nicole Yanqui. Attached for your reference is the table of contents from last years' Estimates Briefing Binder, Accomplishments and Top Facts.

Here is the Minister's Office recommended list of top facts & top issues **by order of importance**:

Tab 3: Top Facts

- Office of the Budget
- Ontario Financing Authority
- Office of Economic Policy
- Corporate Electricity Finance Division
- Taxation Policy Division
- Tax and Benefits Administration
- Provincial Local Division
- Cannabis Retail Implementation Project
- Government Business Enterprise Division
- ORPP Implementation Secretariat / Admin Corporation
- Income Security & Pension Policy Division
- Financial Services Policy Division

Tab 4: Top Issues

- Fiscal Plan (in relation to questions that might come up about balancing)
- Debt (Interest on Debt costs)
- Public Accounts (emphasis on AG Accounting)
- Fair Hydro Plan
- Housing Market
- Cannabis
- Cap & Trade
- Trillium Trust
- OLG Modernization
- LBCO
- ORPP – if needed

In addition to the corporate preparations, program areas should prepare their ADM/Program Head in the event we do appear before the Estimates Committee – for those questions that are of a technical or operational nature. This also includes preparations for your ADM/Program Head to explain any financial variances from the Estimates Briefing Book, should those questions arise at the proceedings. This work should currently be underway.

Please let me know if you have any questions about this process.

Thank you.



Pauline Padmore
Corporate Initiatives and Stakeholder Coordinator (A)
Budget Secretariat | Ministry of Finance
95 Grosvenor Street, 3rd Floor
Toronto, Ontario M7A 1Z1
416-325-0961

MINISTRY OF FINANCE
2016 ESTIMATES
BRIEFING BINDER

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Financial Services Policy Division 1
Provincial Local Finance Division 1
Office of the Budget 2
Taxation Policy Division 2
Tax and Benefits Administration 2
ORPP Implementation Secretariat 2
Ontario Financing Authority 3
Corporate Electricity Finance Division 3

Income Security and Pension Policy Division

Continued to provide the government with policy advice on income security matters, from childhood through to retirement, including: the indexing of the Ontario Child Benefit; policy work for key sections of the 2016 Budget (such as announcements on the Basic Income Pilot and social assistance rate increase); and worked collaboratively and intensively with the federal government and provinces to make progress on enhancing the CPP. The Divisions also provided policy and legislative advice on pension policy issues such as the successful passage of the *Pooled Registered Pension Plans Act, 2015*, initiated a review of solvency funding rules for defined benefit pension plans, proclaimed legislation and passed regulations governing the conversion or merger of single employer defined benefit pension plans to jointly sponsored pension plans, and enacted legislation (to be proclaimed into force by the LGIC) that creates a pooled asset management entity for pension plans in the broader public service.

Revenue Agencies Oversight Division

Moving forward the large scale modernization and transformation of the gaming and alcohol sectors in Ontario that will improve consumer experience and support increased revenues for important public services.

Office of Economic Policy

Supported effective, economic, fiscal and financial management consistent with the government's priorities, and supported various initiatives which continue to make Ontario an attractive environment for business investment.

Financial Services Policy Division

Supported the growth of the financial services sector by advancing a modern and flexible approach to regulation, strengthening consumer and investor protection by implementing regulatory changes to help ensure auto insurance is affordable for Ontario drivers; exploring how Ontario's regulatory framework for auto insurance can fit new insurance products for ride-sharing services; reviewing the legislative framework for Ontario's credit unions to protect consumers and their deposits; supporting an independent review of the mandates of key financial services agencies. Additionally, the Financial Services Policy Division continues to support the independent Expert Committee to Consider Financial Advisory and Financial Planning Policy Alternatives, which released its preliminary policy recommendations in April 2016; and is working with participating jurisdictions to achieve important milestones toward the establishment of the Cooperative Capital Markets Regulatory System (CCMR).

Provincial Local Finance Division

The Ministry is delivering improvements to the property tax and municipal funding system that contributes so much to communities and public services across Ontario. During 2015-16, the government implemented changes to Ontario's property assessment and property tax systems, including implementing recommendations coming out of the Assessment Review in time for the 2016 reassessment of all Ontario properties. These measures improve the transparency, accuracy and predictability of property assessments. The Ministry also worked in close consultation with municipalities to redesign the Ontario Municipal Partnership Fund (OMPF) so that it better targets funding to municipalities with the greatest needs. While the program has been phased down, the government's commitment to the provincial uploads means that overall support to municipalities will continue to increase. Together, these measures have helped ensure that municipalities are on a financially sustainable footing and in a position to invest in local priorities like roads, transit and economic development.

Office of the Budget

Provided strategic fiscal advice and coordinating key government publications including the annual Budget, the Economic Outlook and Fiscal Review and the Quarterly Finances

Taxation Policy Division

The 2016 Student Financial Assistance Budget announcement that Ontario's tuition and education tax credits would end beginning September 2017. Additional revenue from ending the credits is proposed to be redirected to the new Ontario Student Grant or other postsecondary, education, training and youth jobs programs, which fulfills a CROPS recommendation.

Tax and Benefits Administration

Established a Contraband Tobacco Enforcement Team within the OPP to focus on the organized crime linkages

ORPP Implementation Secretariat

The government passed two pieces of ORPP legislation that outlined the framework of the plan and established an arm's length entity, the ORPP Administration Corporation, including appointing the initial Board of Directors and hiring a Chief Executive Officer.

Ontario Financing Authority

Completed the ~~2015-16~~2016-17 borrowing requirement and pre-borrowed $~~2~~ 3.2 billion for ~~2016-17~~2017-18 for total borrowing of $~~32.1~~27.0 billion.~~,~~ ~~while continuing~~Continued to extend the term in order to lock in low interest rates, with an average term of borrowing for the year of ~~14.2~~13.9 years. Since 2010, the OFA borrowed more than $~~54~~ 63 billion in terms of 30 years or longer.

Corporate Electricity Finance Division

Provided strong support to the Province's asset optimisation initiative, including the Hydro One IPO, real estate assets and the Trillium Trust to dedicate funds to infrastructure investments; and has moved forward with a legislated, fixed end date of April 1, 2018, to the Debt Retirement Charge (DRC) for commercial, industrial and all other users of electricity. The DRC for residential users ended as of January 1, 2016.

TOP FACTS

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Q: If there is agreement on a CPP enhancement that does not meet Ontario's objectives, what is Ontario's position? 1

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Q: How much money is being loaned? 20

Q: In the 2016/17 estimates, it shows a loan amount of up to $240M. How is that money going to be used? 21

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Q: How much has been spent on the ORPP Implementation Secretariat (ORPPIS) to date? 22

Q: Why does the Ministry's direct spending for ORPP decrease by $12.5M in 2016-17? 22

Q: Why is the government providing the ORPP AC with a $240M loan in 2016-2017? 22

Q: In total, how much is the government loaning the ORPP AC for set-up expenses? 23

Q: In addition to the current costs and the loan to ORPP AC, how much money will it cost to implement the ORPP? Are we talking billions? 23

Q: Isn't the federal government helping to administer the ORPP? 23

Q: Who pays for the ORPP start-up costs if the CPP is enhanced and the plan is never implemented? 24

Q: How much money is being loaned? 24

Q: In the 2016/17 estimates, it shows a loan amount of up to $240M. How is that money going to be used? 25

Q: How much of the loan has been drawn down to date? What has that money been used for? 25

Q: Is this money being spent on high salaries? What is the compensation framework for the ORPP AC? 25

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Q: What would be the cost to government if the ORPP is cancelled after it launches? 25

Q: How is the repayment schedule structured? Will it be charged interest? 26

Q: Why doesn't the ORPP AC get a traditional bank loan? 26

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Q: What types of costs will the loan be used to pay? 26

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Q: What is the ORPP Administration Corporation? 27

Q: What are the accountability mechanisms of the ORPP Administration Corporation? To whom does it report? 27

Q: Why is the ORPP IS still in place now that the ORPP AC has been established? 28

Q: Why did the government spend an additional $6 million than was estimated last year? Is this another example of the government overspending on consultants? 29

Q: On one hand you say you are launching the ORPP in 2017, but then indicate that the collection of contributions won't start until 2018…which is it 29

Q: Is the federal government committing to administer your plan if CPP talks fail? 30

Q: Would Ontario support a CPP enhancement that is a universal program to all employers and employees? 30

Q: If the government is going to proceed with measures such as introducing legislation on ORPP plan design, are you even serious about discussing the CPP? 31

Q: What progress has the government made on the ORPP to date? 31

Q: Why introduce legislation now? Didn't you commit to ongoing national discussions on a CPP enhancement? 31

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Q: Why is the ORPP needed? 33

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Q: In 2015-16, how much did the ministry spend on the ORPP campaign (including advertising, marketing and market research)? 34

ONTARIO FINANCING AUTHORITY 35

Q: How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent? 35

Q: Ontario's debt has more than doubled since Premier McGuinty was first elected. When interest rates begin to rise, won't interest costs displace spending on the Government's priorities? 35

Q: How will the credit rating agencies respond to the 2016 Budget? 36

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Q: What's the current status of the funds in the Trillium Trust? 37

Q: Since the Hydro One IPO was completed several months ago and now the government has announced a secondary share offering, why haven't you made any regulations to dedicate the fiscal benefits of the Hydro One IPO to the Trillium Trust? When will you make these regulations and when will we see these amounts in the Trillium Trust? 37

Q: Why have no amounts been spent from the Trillium Trust yet, not even from the GM share gain amounts from 2014-15? And why are there only $1,000 in placeholder expenditure numbers for the Trillium Trust lines in Estimates? 38

Q: When will the government actually be able to start using funds from the Trillium Trust to pay for transit and infrastructure? 38

Q: How much was raised from the Hydro One IPO? 38

Q: What amount of proceeds will the Province receive from the secondary offering? 39

Q: What was the process involved in selecting the underwriters involved for the secondary offering 40

Q: Why is the interim Electricity Sector Dedicated Income (ESDI) $0 in 2015-16, and why is the forecast so low for ESDI in the 2016-17 Printed Estimates? Is this because of the Hydro One IPO reducing the Province's future revenues from Hydro One and reducing the amounts to pay for stranded debt? 40

INCOME SECURITY AND PENSION POLICY DIVISON

Q: When and where will the Basic Income pilot be implemented? How much will the Basic Income pilot cost? Your Estimates show $5 million in 2016-17 for the pilot.

A: The pilot in still in the inception stage. A start date and criteria for determining a location for the Basic Income pilot have not yet been determined. The government will be gathering expert advice on the design of the Basic Income pilot over the course of 2016. Once this work has been completed, the government will finalize the costs for the pilot.

Q: If there is an agreement on CPP enhancement within the year, will Ontario still implement the ORPP?

A: While Ontario is pleased that the federal government understands the importance of enhancing retirement security, the process to enhance the CPP is not simple and could take a very long time.

Ontario will continue to be an advocate of the need for enhanced retirement security and will work intensively with its federal, provincial and territorial counterparts to address the needs of future retirees.

To provide more time for discussion among provinces and the federal government, Ontario is phasing-in the launch of the ORPP by starting enrollment one year later than the original start date, and by starting the first phase of contributions in January, 2018.

Q: If there is agreement on a CPP enhancement that does not meet Ontario's objectives, what is Ontario's position?

A: The Province's extensive consultations in developing the ORPP have helped to inform Ontario's view that any CPP enhancement must be timely and provide a level of adequacy and targeted coverage that is consistent with the ORPP.

The government looks forward to collaboration on a CPP enhancement and other innovative approaches at the Federal-Provincial-Territorial Finance Ministers meeting in June 2016.

Ontario's main objective is to look at ways to meet the goals of the ORPP in an enhanced CPP framework, while preserving the ability to implement the ORPP, should that not be possible.

REVENUE AGENCIES OVERSIGHT DIVISION

Alcohol

Q: Why is this so complicated? There will be universal authorizations, existing winery stores operating inside grocery, controls on who sells what, some will be matched with beer but some won't. Why not just open it up?

A: The Council did not start from scratch in making its recommendations. It recognized the benefits of the existing retail channels for wine, including the LCBO and winery retail stores, and how we could build on and improve them for consumers and all producers.

There will be differences in the consumer experience. Just like beer, and just like grocery stores in general.

The bottom line is that we're getting what consumers want done — wine will be sold alongside beer in grocery stores.

Q: Why is the Council recommending only introducing wine into 150 grocery stores? There will be beer in 450 grocery stores.

A: We are expanding access responsibly. The number of new licences in the proposed new model is based on the total number of beer in grocery licences that were established under the beer framework – 450. There are currently 292 "off site" winery retail stores, so we added 150 new authorizations to bring it to about the same as beer.

The exact number of grocery stores selling wine through their own checkouts will depend on the number of WRS outlets that ultimately move inside the check-out at grocery stores. Of the 292 existing WRS outlets, the Council is recommending that up to 150 that are currently located in grocery and outside the grocery store checkout be enabled to operate inside grocery with a shared checkout.

In total, wine could be available in up to 300 grocery stores – including up to 70 locations authorized to sell by this fall.

Q: Why will grocery stores only be able to sell wine that costs $10.95 or more?

A: We believe that, where access is expanded, social responsibility standards should be strengthened. This price restriction is supported by social responsibility groups, including MADD.

This price restriction also supports the competitiveness of Ontario VQA wines in the grocery channel, and promotes the objectives of Ontario's Wine and Grape Strategy.

Gaming

Q: What is the future of the HRPFP?

A: The two year program extension will give confidence to the industry to make investments and business decisions for the coming years.

Beyond this time, the intention would be for OLG to establish a future, longer-term funding arrangement with the industry. The arrangement would be subject to government approvals, and further integrate gaming with horse racing and support industry sustainability.

Q: Why is OLG net profit to the province (NPP) expected to decline slightly from 2015-16 to 2016-17?

A: OLG continues to provide approximately $2 billion to the province, which helps to fund key public services like health care and education.

Delays in the procurement processes for private sector service providers for gaming and lottery have impacted the timelines for increased NPP from modernization.

2015-16 was an exceptional year for OLG NPP with projections of over $150M more than Budget 2015, mainly due to increased sales revenue from national lottery tickets (Lottomax, Lotto 6/49). NPP in 2016-17 is expected to decrease slightly in comparison, as lottery sales and resulting revenues return to more normal levels.

Q: Why is net profit to the province higher in 2015-16 compared with projections in Budget 2015?

A: Revenue from national lotteries (Lottomax and Lotto 6/49) is higher than was projected in Budget 2015, primarily due to a higher number of large jackpots. More large jackpots led to higher sales revenues.

Q: Is funding to hospitals being reduced by $107M in 2016-17 as a result of OLG's projected lower net profit to the province?

A: Revenue generated by OLG is paid into the province's Consolidated Revenue Fund (CRF). Allocations to the Ministry of Health and Long-Term Care (MOHLTC) are made from the CRF. OLG revenues targeted for health care only amount to 3% of MOHLTC's $52B budget.

Fluctuations in OLG's revenues do not impact health care funding levels or projections.

OFFICE OF ECONOMIC POLICY

Q: Will the 30% Off Ontario Tuition grant still be available or has it been eliminated?

A: The government will create a single major upfront grant — the Ontario Student Grant (OSG) starting in the 2017–18 school year by redirecting 100 per cent of the funding from the 30% Off Ontario Tuition grant and other grants offered by OSAP. This will make the student financial assistance system more progressive, effective and transparent for students and their families. The changes will provide students who have the greatest need for financial assistance with better access to grants upfront, when they need them.

The additional revenue from the proposed discontinuation of the tuition and education tax credits would be reinvested to support the OSG or other postsecondary, education, training and youth job programs.

Q: What evidence do you have that Ontario's economy is performing better than Canada's?

A: Ontario became one of the fastest growing provinces in 2014 and 2015, and private-sector economists expect this will continue until at least 2017.

On an annual basis, Ontario's real GDP increased by 2.7 per cent in 2014, strengthening from growth of 1.3 per cent in 2013 and outpacing the national average for the first time since 2002.

After a slow start to 2015 when the economy was affected by a number of temporary factors including unusually harsh winter weather, closure at auto plants for retooling, and a west coast port strike affecting exports, Ontario's economic growth gained pace in the second and third quarters of 2015, with real GDP advancing 0.4 per cent and 0.9 per cent, respectively. Ontario's economy outpaced the Canadian economy in all three quarters in 2015.

Q: Over the last 18-months there has been a significant shift in the global economic environment. Why do you remain positive about Ontario's economic prospects?

A: There have been significant shifts in the external economic environment over the past year and a half. Growth has slowed in emerging economies, commodity prices have fallen dramatically, and the Canadian dollar has weakened. This has shaken business confidence and left Ontario households unsure about the ultimate impact on their budgets and spending plans.

Yet, overall, Ontario is expected to benefit from the shifting global economic environment. Growth in the U.S., our largest trading partner, is expected to remain solid. As well, the more competitive Canadian dollar provides additional lift to our

exporters. Finally, Ontario is an oil-importing province which means consumers and businesses are benefitting from low oil prices. These factors provide an increasingly compelling case for increased business investment and will help support continued solid economic growth in coming years.

FINANCIAL SERVICES POLICY DIVISON

Q: What is the government's reaction to the preliminary policy recommendations released by the Expert Committee to Consider Financial Advisory and Financial Planning Policy Alternatives?

A: It would be premature for the government to comment at this time on the preliminary policy recommendations.

The independent Expert Committee to Consider Financial Advisory and Financial Planning Policy Alternatives released their preliminary policy recommendations in April 2016 as a means of facilitating further input from stakeholders and the public. The expert committee is seeking feedback through written submissions and an across-the-province public consultation process.

The Government expects the expert committee's final report in fall 2016 and will consider their recommendations at that time.

Q: Both the City of Ottawa and City of Toronto staff reports on vehicles for hire recommend minimum insurance requirements for drivers involved in ride-sharing. What are you doing to make sure that insurance is in place?

A: The sharing economy is changing the way transportation services are provided in Ontario. The government is committed to ensuring that Ontario's auto insurance system can help provide peace of mind to those offering and using these new types of transportation services.

Ontario's competitive market for auto insurance is already responding and adapting. FSCO has received filings from different companies proposing new auto insurance products tailored to the sharing economy, and in January FSCO approved one product allowing individual drivers to purchase coverage.

Other proposals are currently being reviewed by FSCO. While this work is proceeding, the reality is that there continues to be a significant insurance coverage gap.

The government is committed to protecting Ontario drivers and consumers by addressing that gap, and FSCO is aware of the importance to the government of achieving this objective as quickly as possible.

Towards that end, the government and FSCO are exploring how Ontario's flexible insurance regulatory system can quickly approve new insurance products. Using such flexible responses would allow new products to be introduced in the market while the government, working with the regulator and the insurance industry, develops the legislative and regulatory changes necessary to fully integrate the sharing economy into Ontario's auto insurance system.

Q: Some media reports have been sceptical about the public timelines for launching the Cooperative Capital Markets Regulatory System (CCMR). When is the CCMR expected to be established and operational?

A: The participating jurisdictions have agreed to target the enactment of legislation by June 30, 2016 and the Capital Markets Regulatory Authority becoming operational in the fall of 2016.

These timelines will be challenging given the need for the enactment of legislation by multiple legislatures. The participating jurisdictions are committed to moving forward with this initiative and market participants should take comfort that we will take the time necessary to ensure a successful launch of the Cooperative System. We will work to ensure a smooth transition to the new system for market participants and their businesses.

PROVINCIAL LOCAL FINANCE DIVISION

Q: What is the government doing to support municipalities?

A: Our government has a strong record of supporting and working with municipalities.

In 2016 alone, municipalities will benefit from over $3.8 billion in ongoing support through the Ontario Municipal Partnership Fund (OMPF), provincial uploads and other provincial initiatives – an increase of $2.7 billion above the support provided in 2003.

The government will continue to fulfill its commitment to upload social assistance benefit programs as well as court security and prisoner transportation costs off the property tax base. This will ensure that municipalities have more property tax dollars to invest in local priorities like roads, transit and economic development.

In partnership with communities, Ontario is making significant investments to revitalize infrastructure and grow the economy. The Province's infrastructure commitments include:

- Transit, transportation and other priority infrastructure through *Moving Ontario Forward* that is supported by $31.5 billion in dedicated funds, with about $16 billion available within the Greater Toronto and Hamilton Area (GTHA) and about $15 billion available outside the GTHA.
    - As part of *Moving Ontario Forward*, the Ontario Community Infrastructure Fund is being expanded to $300 million per year by 2018–19, which will provide ongoing support for critical local infrastructure priorities.
- Introducing a new Connecting Links program that will provide $20 million in 2016-17, up from $15 million announced in the *2015 Budget,* to help municipalities pay for construction and repair costs for municipal roads that connect two ends of a provincial highway through a community or to a border crossing. Funding for this program will increase to $30 million per year by 2018-19.

In addition to implementing the provincial uploads, the Province has worked in partnership with municipalities to introduce measures that support communities. These include:

- Sharing provincial gas tax revenues;
- Unconditional funding through the Ontario Municipal Partnership Fund;
- Long-term funding through the Ontario Community Infrastructure Fund;

- Connecting Links program;
- Developing a fair and equitable Ontario Provincial Police billing model;
- Working with municipalities to enhance the fairness, effectiveness and predictability of the Ontario's property tax and assessment system;
- Consulting with municipal partners through the Memorandum of Understanding with the Association of Municipalities of Ontario, as well as other forums;
- Undertaking an integrated review of the Municipal Act, the City of Toronto Act and the Municipal Conflict of Interest Act.

Q: Will the Ontario Municipal Partnership Fund (OMPF) be further reduced beyond 2016?

A. During our consultations, municipalities have been clear that the OMPF is an important unconditional funding program for many municipalities.

The Ontario Municipal Partnership Fund (OMPF) will continue to provide unconditional support to municipalities in 2016 and beyond. In 2016, the phase-down of the OMPF is complete, and the design of the core grants now reflects the long-term objectives of the program.

At this time, there is no plan to further reduce the OMPF.

It is also important to note that as announced in the *2015 Ontario Budget*, the OMPF has been increased by an additional $5 million in 2016, bringing the total OMPF envelope to $505 million rather than the $500 million previously planned for 2016. This additional funding is being provided through the Northern Communities Grant of the program to further recognize the challenges of northern municipalities.

Q: In the 2014 Budget, the Province announced that payments to municipalities under the Power Dam Special Payment Program would be reduced. What is the status of this phase-down?

A: The 2014 Budget announced a plan to phase down the program over three years, ensuring that more than 75% of the current funding level is maintained.

However, the phase-down reductions for 2015 and 2016 were deferred in light of consultations and analysis that were underway to consider alternative options to the phase-down, including the re-introduction of property taxation for power dams.

As announced in the 2016 Budget, following extensive review and consultations on this program, the Province has confirmed that stable funding to municipalities with respect to currently-eligible hydroelectric generating stations will remain in place for 2017 and future years.

OFFICE OF THE BUDGET

Q: The Ontario budget states that new federal funding has been included in the fiscal outlook based on 'prudent assumptions' about new transfers, but the federal government has not said how much Ontario will receive. What are these prudent assumptions and how much new federal money is counted in this budget?

A: The 2016 budget continues the government's plan to build Ontario up and deliver on its priority of growing the economy and supporting job creation. Ontario's plan includes investing in people's talents and skills, as well as making the largest investment in public infrastructure in the province's history.

Ontario and the federal government share common goals, common values and have the same priorities. The federal government has recognized that coordinated and collaborative action is needed to address the issues facing Ontarians and Canadians. And the Province is ready to work with a federal partner to build on Ontario's investments and welcomes federal support for Ontario's plans in areas that matter to Ontarians and Canadians.

The 2016 Ontario budget included some prudent assumptions about what new revenue Ontario could expect from the federal government based on what was in the federal government's election platform. Even the Financial Accountability Officer (FAO) indicated these assumptions were prudent.

For instance, the federal government has committed to $60 billion in new infrastructure funding over 10 years. The Province welcomes this new commitment to build on existing programs and provide both immediate infrastructure investments and longer-term funding to support shared infrastructure priorities, and is working with the federal government to secure its per capita share.

More information will become available in the coming months as the federal government rolls out the details of its various plans around infrastructure, climate change and skills training.

While in some cases, federal measures have already been included in Ontario's fiscal plan, the full extent of the impact of these measures must be analyzed when more details of federal proposals are released.

This is particularly true of infrastructure, where both levels of government are making significant fiscal commitments.

Q: Will cap-and-trade impact the Province's bottom line?

A: The government is committed to dedicating all proceeds from the auctioning of allowances under the cap and trade program to fund GHG-emissions reduction initiatives – which would help Ontario meet its 2020 and 2030 emissions reduction targets.

The fiscal plan included in the 2016 Budget reflects this commitment.

The medium-term revenue outlook includes projected cap-and-trade proceeds from the auctioning of carbon allowanced beginning in 2017. The current estimate for proceeds is:

$478 million in 2016-17; and

Between $1.8 billion and $1.9 billion annually starting in 2017-18.

The government has already taken an important step towards investing cap-and-trade proceeds with the investment of $325 million in 2015-16 through a new Green Investment Fund.

For spending of cap and trade proceeds in 2016-17 and beyond, the government is still working out the details which is subject to the enabling legislative framework that's currently under review by the Legislature – any changes to the legislation could impact the potential areas of investment that are eligible for funding from cap and trade proceeds.

Moving forward, Ontario's approach to the investment of cap-and-trade proceeds will be both balanced and strategic, focusing on initiatives where the opportunity for emissions reduction and sustainable economic growth is greatest.

The fiscal plan reflects the most recent information available at the time of the Budget, including the impact of new initiatives announced as part of the Budget. The government recognizes that different factors could affect the Province's outlook for revenue and expense. That is why the fiscal plan incorporates prudence – to protect the fiscal outlook against these potential adverse changes.

The fiscal plan incorporates a reserve, set at $1.0 billion in 2016-17, $1.1 billion in 2017-18 and $1.2 billion in 2018-19.

It also includes contingency funds to help mitigate expense risks that may otherwise adversely affect Ontario's fiscal performance.

Q: Is the Government using Asset Optimization Revenues to balance the Budget?

A: The government's plan to eliminate the deficit does not depend on the revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario.

In fact, the government is taking deliberate and responsible steps to achieve its goal of balancing the budget in 2017-18. Ontario's plan to eliminate the deficit is centred on transforming government and managing costs, and ensuring revenue integrity and addressing the underground economy.

Under the *Trillium Trust Act*, *2014,* all net revenue gains from the sale of designated assets are to be credited to the Trillium Trust to help fund further investments in public transit, transportation and other priority infrastructure as part of the Moving Ontario Forward initiatives.

The asset optimization target will help support the largest infrastructure investment in the province's history.

Q: Is the government restricting the ability of the FAO to access Cabinet Confidential documents?

A: No, the government is acting in accordance with the governing legislation that was approved by all three parties.

As per Section 12(2) of the *Financial Accountability Officer Act* (FAOA), a ministry or public entity is prohibited from disclosing to the Financial Accountability Officer (FAO) a record "described in subsection 12(1) of *the Freedom of Information and Protection of Privacy Act*" (FIPPA). Section 12(1) of FIPPA prohibits the release of any record that would reveal the substance of deliberations of the Executive Council or its committees.

In the end, the primary purpose of subsection 12(1) of FIPPA is to protect the deliberations or future deliberations of Cabinet. As a result, the section prohibits the disclosure of both existing records as well as any newly created records that would reveal those deliberations.

Q: What is the government's plan to hold average annual growth in program expense to 1.9% going forward? Given that this is below inflation, what programs are being cut?

A: Program expense is projected to grow at an average annual rate of 1.9 per cent between 2014-15 and 2018-19. This reflects the government's commitment to invest in priority areas to enhance public services, support economic growth and a low-carbon economy, and create jobs. [Ch. 3B, Pg. 29]

A key pillar of Ontario's plan to eliminate the deficit is transforming government and responsibly managing spending. [~Ch. 2A, Pg. 3] The government is achieving this through Program Review, Renewal and Transformation (PRRT) – a new approach to fiscal planning and expenditure management this is designed around four key principles:

- Examining how every government dollar is spent;
- Using evidence to inform better choices and improve outcomes;
- Looking across government to find the best way to deliver services; and
- Taking a multi-year approach to find opportunities to transform programs and achieve savings. [~Ch. 2B, Pg. 3]

PRRT is about more than saving money – it is a continuous planning approach focused on improving outcomes for government programs and services to ensure they are effective, efficient and sustainable. [Ch. 2B, Pg. 3]

Through cross-ministry horizontal collaboration, the government is taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to invest in key priorities, such as health care and education. [Ch. 2B, Pg. 7]

The *2016 Budget* outlines progress on and expected outcomes of these major transformation and efficiency initiatives.

Q: Compared to the 2015 Budget, program spending is higher in each year. How is the government going to balance when spending is up?

A: Compared with the *2015 Budget*, program expense is projected to be $1.6 billion higher in 2016-17 and $4.2 billion higher in 2017-18. [Ch. 3B, Pg. 32]

These changes primarily reflect:

- Projected emissions reduction initiatives offset by cap-and-trade revenue;
- Small changes to Moving Ontario Forward projects;
- Adjustments for changes in demand and demographics across many programs; and
- Other investments in infrastructure. [Ch. 3B, Pg. 32]

These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth to generate revenues on the path to balance. [~Ch. 2A, Pg. 3]

The government remains dedicated to a fiscally sound approach to managing the Province's finances, and to balancing the budget by 2017-18. The government is taking deliberate and responsible steps to achieve that goal. [~Ch. 2A, Pg. 3]

The government is projecting deficits of $5.7 billion in 2015-16 and $4.3 billion in 2016-17 – improvements of $2.8 billion and $0.5 billion compared with the 2015 Budget forecasts. [~Ch. 2A, Pg. 4, 5]

With the economy expected to continue to growth, and the Province's ongoing commitment to transform government programs and services, Ontario is projecting to return to balance in 2017-18 and remain balanced in 2018-19. Achieving balance will put net debt-to-GDP on a declining track. [~Ch. 2A, Pg. 5]

Ontario's plan to eliminate the deficit includes: [2A, Pg. 3]

- Transforming government and responsibly managing spending; and
- Ensuring revenue integrity and addressing the underground economy.

Q: The government is reporting overachievement on its annual deficit target for the 7th year in a row. How is this possible? Is the government purposely setting easy targets?

A: The government is projecting a deficit of $5.7 billion in 2015-16, an improvement of $2.8 billion compared with the *2015 Budget* forecast. It is also a $4.6 billion improvement compared with the 2014-15 deficit of $10.3 billion. This represents the Province's largest year-over-year reduction in the deficit in the last five years. [Ch. 2A, Pg. 4]

The overachievement in 2015-16 is mainly due to total revenue projected to be $2.2 billion above the *2015 Budget* plan, due to higher revenue from asset optimization in 2015-16, higher taxation revenues and stronger overall performance from Government Business Enterprises (GBEs). [~Ch. 3B, Pg. 4]

It is also the result of $0.2 billion in lower interest on debt expense, from lower-than-forecast interest rates, the lower forecast deficit and cost-effective debt management. [~Ch. 3B, Pg. 4]

Ontario's program expense is projected to be $0.4 billion higher than outlined in the *2015 Budget*, but consistent with the forecast laid out in the *2015 Ontario Economic Outlook and Fiscal Review*. This is primarily due to the $325 million down payment through the Green Investment Fund. [~Ch. 3B, Pg. 4]

The *2015 Budget* included a $1.0 billion reserve for 2015-16. In the *2016 Document*, the 2015-16 interim outlook maintains a $150 million reserve to protect the fiscal plan against any potential adverse changes that may occur before year-end. [~Ch. 3B. Pg. 5]

The government's fiscal targets are based on the best available economic and fiscal information at the time. They reflect a realistic and responsible plan to manage the Province's resources, while still protecting the vital services that Ontarians rely on. [Framework]

TAXATION POLICY DIVISION

Q: How many students will be affected when the tuition and education tax credits end?

A: About 1 million students are expected to report that they attended studies in 2015 that qualified them for tuition and education tax credits. About 800,000 attended full time studies, and about 200,000 attended part-time studies.

Q: Will everyone who loses their tax credits get back the money through the new student grant?

A: Currently, tax credits go to a larger group of students than those eligible for OSAP. The grant design has not been finalised. The government will announce details of the new program later this year.

Q: Why are you cutting R&D Tax Credits (i.e. OITC and ORDTC) when you say you want to support innovation?

A: Research and Development remains a key priority for the government. That is why the government is reinvesting savings from the proposed R&D tax credit changes into new targeted investments across key sectors of Ontario's economy.

The government is investing $35 million over five years towards establishing the Advanced Manufacturing Consortium; $20 million over three years to partner with Colleges to tackle industry challenges through innovation projects; and $50 million over five years in world-leading research at the Perimeter Institute.

Through the province's Business Growth Initiative, the government will continue to examine ways to encourage R&D investment in Ontario, increase the commercialization of research and better support export activity.

TAX AND BENEFITS ADMINISTRATION

Q: Why are Bad Debt Expenses increasing from approximately $46.7Million (2014-2015 Actuals) to $90Million (2015-2016 interim actuals)?

A: In recent years, the Ministry of Finance has uncovered several large scale tax evasion schemes while conducting tobacco tax audits. As a result of these audits, there have been a number of large tobacco assessments which have proven to be problematic from a collectability standpoint. The increase of $58M above the 2015-16 Printed Estimates was primarily a result of these large tobacco tax assessments.

Q: Why is the Ministry of Finance seeking an increase of $13.2Million in its Bad Debt Expense allocation in 2016-17 (from $32Million to $45.2Million)?

A: The Ministry of Finance has uncovered several large scale tax evasion schemes while conducting tobacco tax audits. As a result of these audits, there have been a number of large tobacco assessments which have proven to be problematic from a collectability standpoint. It is anticipated that these assessments will continue in the 2016-17 year. These assessments will be uncollectible and as a result the ministry has requested a $13.2M internal ministry re-allocation to increase the Bad Debt Expense allocation in the 2016-17 estimates.

Q: How is Ontario supporting the sharing economy?

A: The government has taken action to begin supporting the development of a robust sharing economy, including announcing the creation of the Sharing Economy Advisory Committee, with representation from key ministries, to oversee the development and coordination of Ontario's approach to the sharing economy.

Further, in the 2016 Budget, the government announced a series of new measures, including:

- Working to ensure the province's auto insurance system can help provide peace of mind to those offering and using new types of transportation services through the sharing economy;
- Commencing consultation with industry and communities in spring 2016 on options to facilitate new and innovative choices for intercity passenger travel. The government will consult on a new regulatory regime to ensure safe and sustainable intercity passenger travel services;
- Piloting a program with Airbnb, a key sharing economy platform, to inform Ontarians who engage in home sharing about their consumer rights and responsibilities, and raise awareness of tax obligations; and

- Committing to consultations led by the Sharing Economy Advisory Committee, and focussed on the sharing economy, to help determine the best approach for Ontario moving forward.

Q: Why has the government introduced more red tape for estate representatives?

A: Following a 2011 Budget commitment to enhance EAT compliance, the Ministry of Finance (MOF) is collecting information needed to perform audits and verify that correct amounts of the tax have been paid. Effective January 1, 2015, estate representatives are required to submit an Estate Information Return with MOF to substantiate the total estate value provided to the courts. This new requirement does not alter the amount of tax payable or how the tax is calculated. An Estate Information Return is only required where an Estate Certificate has been applied for and issued by the courts.

Q: Has the government seen an increase in the Estate Administration Tax collected since January 1, 2015?

A: Tackling tax avoidance remains a key strategy as part of a robust and transparent administration process. The requirement to file an Estate Information Return (EIR) came into effect on January 1, 2015, for all applications made for an Estate Certificate on or after this date. Therefore, the first EIRs did not become due until the spring of 2015. In addition to verifying and auditing selected files, MOF continues to respond to written enquiries, telephone calls, and provide outreach activities to estate representatives and the legal profession to raise their awareness and understanding in meeting their obligations with respect to the Estate Administration Tax Act.

Q: What is the government doing to address Aggressive International Tax Planning?

A: All corporations should pay their fair share of taxes. That is why Ontario, in conjunction with the federal government, has taken substantive actions to help better address aggressive corporate tax avoidance. For example, under a fee-for-service agreement with the Canada Revenue Agency, Ontario invests in audit activities targeting aggressive international tax planning and the underground economy.

With Ontario's significant investment the Canada Revenue Agency was able to increase overall audit coverage rates, further reinforcing the integrity of the tax system. The government's agreement with the federal government to address non-compliance with federally administered provincial taxes through ongoing enhanced compliance-focused measures, including those that address the underground economy and aggressive tax planning has generated over $630M since 2013-14.

Q: What is Ontario doing to address the underground economy?

A: The government has made progress in fighting underground economic activities through:

Ongoing enhanced compliance-focused measures, including those that address the underground economy and aggressive tax planning, the Province has generated over $930 million to date - a $330 million increase over what was reported in the 2015 Budget;

Consultations with high-risk sectors, with a view to partnering with industry and gaining insight into how best to tackle the underground economy;

Requiring corporations to demonstrate federal and provincial tax compliance before receiving government contracts. Since February 2014, the government has verified compliance with tax obligations for more than 2,200 contracts; and

Amending the Taxation Act, 2007, to make the sale, use or distribution of electronic sales suppression devices an offence.

Taking specific actions in response to Parliamentary Assistant Laura Albanese's consultation with the residential construction industry, including:

Extending the residential roofing pilot project for an additional two years and examining opportunities to expand its scope beyond roofing to other areas of residential construction;

Launching a public awareness campaign to educate the public on the risks and potential liabilities associated with participation in the underground economy;

Dispatching specialized audit teams to focus on sectors that are at high risk of underground economy activity, in partnership with the Canada Revenue Agency;

Proposing legislation that would enhance information sharing, enable greater enforcement, and introduce additional penalties for participation in the underground economy; and

Helping home owners hire legitimate contractors when taking advantage of government-funded rebates for enhancing the energy efficiency of their homes.

ORPP ADMINISTRATION CORPORATION

Q: Why is the government providing the ORPP AC with a loan?

A: The ORPP AC is the independent, arms-length organization that will set-up and administer the ORPP.

The government is providing the ORPP AC with a repayable loan for essential work required to develop administrative systems, recruit a skilled team and launch the employer verification and enrolment process in 2017 and begin collection of contributions on January 1, 2018.

Ongoing costs to administer the ORPP would come from the plan, not from government revenues.

The ORPP AC is expected to repay the loan, with interest, from plan assets within a 10-year period.

Q: How much money is being loaned?

A: The government is providing flexibility for the ORPP AC to draw down based on operational requirements, up to $400M over three fiscal years. Costs would cover set-up expenses, including organizational start-up, development of tools/systems required for the verification and enrolment process, and the build/launch of administrative systems.

The government will monitor spending of the ORPP AC, while giving the Corporation the independence and flexibility it requires to administer the ORPP.

Accountability is at the core of the ORPP. Through a strong accountability and transparency framework, the independent Board of Directors and ORPP executives will be fully accountable to the plan's members. This framework has been benchmarked against the best practices of other leading independent pension plans.

Accountability measures include:

- An annual report tabled in the Legislature;
- Annual meetings for members;
- A publicly available Memorandum of Understanding; and,
- External auditing and strong financial controls.

Q: In the 2016/17 estimates, it shows a loan amount of up to $240M. How is that money going to be used?

A: This year (2016) is a critical period for the ORPP AC, with the launch of the employer verification/enrolment process and the building of systems needed to begin collecting contributions on January 1, 2018.

If pressed for more information: Further questions regarding ORPP AC expenditures can be directed towards the Administration Corporation.

ORPP IMPLEMENTATION SECRETARIAT

TOP 5 QAs

Q: How much has been spent on the ORPP Implementation Secretariat (ORPPIS) to date?

A: The Ministry is currently in the process of closing its books. The final expenditures for the ORPP IS will be included in the government's Public Accounts for 2015-16. The current $20M projection addresses costs associated with staffing and other related costs for the ORPP IS.

With regards to Other Direct Operating Expenditures (ODOE), the majority of expenses incurred by ORPP IS relate to the costs of services provided by third party vendors in areas where expertise external to government were required, such as actuarial analysis, legal advice and expert technical advice for the pension administration.

Approximately $5.5 million will be recovered from the Administration Corporation for expenditures directly related to the administration of the plan.

Q: Why does the Ministry's direct spending for ORPP decrease by $12.5M in 2016-17?

A: The Ministry, through the ORPP IS, continues to lead the implementation of the ORPP. Now that the ORPP Administration Corporation has been established, operational work has transferred to the Corporation, thus decreasing funding requirements for the Secretariat.

Funding for the ORPP IS in 2016-17 will support the development of regulations for the ORPP Act, 2016, as well as legislation to create the Office of the Chief Actuary and oversight responsibilities related to the ORPP Administration Corporation.

Q: Why is the government providing the ORPP AC with a $240M loan in 2016-2017?

A: The ORPP AC is the independent, arms-length organization that will set-up and administer the ORPP.

The government is providing the ORPP AC with a repayable loan for essential work required to develop administrative systems, recruit a skilled team and launch the employer verification and enrolment process in 2017 and begin collection of contributions on January 1, 2018.

Ongoing costs to administer the ORPP would come from the plan, not from government revenues.

The ORPP AC is expected to repay the loan, with interest, from plan assets beginning in 2019. The loan will be repaid by 2027.

If pressed about the terms of the loan:

The loan to the ORPP AC has been made on commercial terms. This includes the government's cost of borrowing plus a small margin of additional interest (25 bps).

Q: In total, how much is the government loaning the ORPP AC for set-up expenses?

A: The government is providing flexibility for the ORPP AC to draw down the loan based on operational requirements, up to $400M over three fiscal years. Costs would cover set-up expenses, including organizational start-up, the development of tools/systems required for the verification and enrolment process, and the build/launch of administrative systems.

The government will monitor the ORPP AC's spending, while giving the Corporation the independence and flexibility it requires to administer the ORPP.

Future administrative costs associated with the ORPP would be funded from member contributions and investment returns.

Q: In addition to the current costs and the loan to ORPP AC, how much money will it cost to implement the ORPP? Are we talking billions?

A: From the outset the government has said that it is committed to cost-effective and efficient administration of the ORPP that leverages existing expertise in Ontario's pension and financial services sector.

The ORPP AC will benchmark its administration costs to Canada's leading pension organization.

It would be premature to estimate the cost of implementing all components of the ORPP.

Q: Isn't the federal government helping to administer the ORPP?

A: The government is continuing to have discussions with federal government departments on the possibility of cooperation in administering the plan. This is in addition to the exploring and assessing different options, including leveraging infrastructure that exists within the Government of Ontario and exploring third-party private sector delivery through a procurement that is currently underway.

Running a modern pension plan is not simple and so the government continues to explore multiple options. In fact, it may make sense to work with several partners to support effective administration of the plan.

Q: Who pays for the ORPP start-up costs if the CPP is enhanced and the plan is never implemented?

A: The government's intention is that eligible start-up costs it incurs would be recovered from the plan.

If those circumstances arise, however, it means that there is an agreement on a CPP enhancement that will address the retirement security challenges facing Ontarians. That has always been the government's objective.

By continuing with preparations for the ORPP, the government is ensuring that, if no consensus on CPP enhancement is reached, retirement security can be strengthened in Ontario through the ORPP.

Loan Agreement with the ORPP Administration Corporation

Q: How much money is being loaned?

A: The government is providing flexibility for the ORPP AC to draw down based on operational requirements, up to $400M over three fiscal years. Costs would cover set-up expenses, including organizational start-up, development of tools/systems required for the verification and enrolment process, and the build/launch of administrative systems.

The government will monitor spending of the ORPP AC, while giving the Corporation the independence and flexibility it requires to administer the ORPP.

Accountability is at the core of the ORPP. Through a strong accountability and transparency framework, the independent Board of Directors and ORPP executives will be fully accountable to the plan's members. This framework has been benchmarked against the best practices of other leading independent pension plans.

Accountability measures include:

- An annual report tabled in the Legislature;
- Annual meetings for members;
- A publicly available Memorandum of Understanding; and,
- External auditing and strong financial controls.

Q: In the 2016/17 estimates, it shows a loan amount of up to $240M. How is that money going to be used?

A: This year (2016) is a critical period for the ORPP AC, with the launch of the employer verification/enrolment process and the building of systems needed to begin collecting contributions on January 1, 2018.

Q: How much of the loan has been drawn down to date? What has that money been used for?

A: $26 million has been drawn down to date.

The money has been used to fund essential start-up requirements for the ORPP AC. This includes contracts for expert services required to administer and operationalize the ORPP (e.g. organizational start-up, legal services, technical experts) and initial recruitment of staff.

Q: Is this money being spent on high salaries? What is the compensation framework for the ORPP AC?

A: The independent initial board of directors of the ORPP AC is responsible for establishing the Corporation's compensation framework.

Salaries would be benchmarked to other leading pension plans in Ontario to ensure that the ORPP AC is able to recruit essential talent.

The compensation of the top five executives, including the CEO, will be reported on an annual basis in the ORPP AC's Annual Report. This is in line with the best practices of Ontario's leading pension plans.

If pressed for more information: The ORPP AC has hired external advisors to assist with the compensation framework.

Q: Does the government expect to be repaid?

A: Yes, the repayable loan is structured on commercial terms. This means that it includes repayment obligations, with interest, over an established period of time.

Q: What would be the cost to government if the ORPP is cancelled after it launches?

A: The government is providing flexibility for the ORPP AC to draw down the loan based on operational requirements, up to $400M over three fiscal years. Costs would cover set-up expenses, including organizational start-up, development of tools/systems required for the verification and enrolment process, and the build/launch of administrative systems. Future ORPP administration costs would be funded from member contributions and investment returns.

The government's intention is that all eligible start-up costs it incurs would be recovered from the plan. The level of contributions collected, benefits owed and investment returns at the time of cancellation will determine the net cost of the cancellation.

Q: How is the repayment schedule structured? Will it be charged interest?

A: The ORPP AC has an obligation to repay the loan, principal and interest, within ten years.

This repayment period will help ensure that payments do not negatively impact plan sustainability. It is intended that the ORPP AC repay the loan from investment returns to make sure that contributions and benefits are reserved in trust for members.

Q: Why doesn't the ORPP AC get a traditional bank loan?

A: The repayable loan is structured on commercial terms. This was the appropriate vehicle given the ORPP AC would not have assets until contributions begin in 2018.

Q: Will there be any public reporting or accountability to how the loan is spent?

A: The loan to the ORPP AC is structured on commercial terms and will be repaid with interest. Actual expenditures from the loan will be reported through public accounts.

In addition, the ORPP AC is required to develop and publicly release an annual report, which would include financial statements of the Corporation. The report will also include compensation for the top five executive positions.

Accountability is at the core of the ORPP. Through a strong accountability and transparency framework, the independent Board of Directors and ORPP executives will be fully accountable to the plan's members and to government. This framework has been benchmarked against the best practices of other leading independent pension plans.

Q: What types of costs will the loan be used to pay?

A: The repayable loan will be used to fund set-up expenses, including organizational start-up, development of tools/systems required for the verification and enrolment process (e.g. software licencing, hardware and technical writing), and the build and initial operation of administrative systems.

The loan will not be used to fund ongoing plan operations or investments.

Q: How much money has the ORPP AC spent on the services of consultants?

A: The ORPP AC has obtained expert services required to administer and operationalize the ORPP (e.g. organizational start-up, legal services, technical experts).

The government and the ORPP AC are committed to leveraging the expertise and experience of the industry and the financial sector to deliver a simple, reliable and cost-effective plan.

If pressed for more specifics: The ORPP AC procures goods and services based on a policy that was benchmarked against government and other leading pension plans.

Q: How does the loan relate to administration costs of the ORPP?

A: The ORPP will be one of the largest pension plans in the Canada. At maturity, the ORPP is expected to have over 4 million members, involve nearly 450,000 employers and collect more than $6 billion annually.

The government is committed to a simple, reliable and cost effective administration. This includes leveraging the strong, existing capabilities found in Ontario's pension and financial services sector and benchmarking ORPP administration costs against Canada's leading pension organizations.

We are continuing to have discussions with federal government departments on the possibility of cooperation in registration and administering the plan. This is in addition to the exploring and assessing different options, including leveraging infrastructure that exists within the Government of Ontario and exploring third-party private sector delivery.

Q: What is the ORPP Administration Corporation?

A: The ORPP Administration Corporation is the independent, arm's length organization that will administer the ORPP. Its responsibilities include:

- Enrolling eligible employers and employees;
- Collecting, investing and holding contributions in trust for members;
- Administering benefits; and
- Communicating with employers, members and other beneficiaries.

Q: What are the accountability mechanisms of the ORPP Administration Corporation? To whom does it report?

A: Accountability is at the core of the governance structure of the ORPP Administration Corporation. Through a strong accountability and transparency framework, the independent board of directors and ORPP executives will be fully

accountable to the plan's members. This framework mirrors the best practices of other leading independent pension plans.

Accountability measures include:

- A Memorandum of Understanding being developed between the ORPP Administration Corporation and the Minister of Finance
- An annual report;
- An annual meeting for beneficiaries;
- External auditing and strong financial controls; and
- A review of the governance framework established by legislation within 10 years.

ORPP Implementation Secretariat

Q: Why is the ORPP IS still in place now that the ORPP AC has been established?

A: The Ontario Retirement Pension Plan Implementation Secretariat leads the policy, governance and legislative functions to establish the ORPP and supports the set-up of the ORPP AC.

Specific responsibilities include:

- Finalizing the plan design for the ORPP, including conducting analysis, developing policy options, preparing the plan text, developing a funding policy, conducting actuarial analysis, and drafting legislation.
- Leading discussions between governments with respect to ORPP implementation, including registration of the plan, data sharing agreement, and exploration of options for administration cooperation.
- Establishing and supporting the ORPP AC to ensure successful launch and implementation.
- Providing strategic communications and stakeholder engagement advice and services to support ORPP development and implementation.
- Developing an oversight function related to the ORPP, including monitoring progress of deliverables and achievements.

Q: Why did the government spend an additional $6 million than was estimated last year? Is this another example of the government overspending on consultants?

A: Implementing the ORPP is one of the government's top priorities and involves very aggressive timelines. The government continues to drive forward plan implementation to ensure this priority is delivered in timely manner. Implementation activities include acquiring third party vendors to deliver expert services in the areas of actuarial analysis, legal advice and expert technical advice for the pension administration.

Timely and thoughtful procurement of these services is critical to ensure all milestones are met and registration of employers can begin in 2017. The costs associated with operational procurements will be reimbursed by the ORPP AC.

Approximately $5.5 million will be recovered from the Administration Corporation for expenditures directly related to the administration of the plan.

Federal Collaboration

Q: On one hand you say you are launching the ORPP in 2017, but then indicate that the collection of contributions won't start until 2018…which is it?

A: The ORPP implementation timeline has being modified. Employer verification will begin later in 2016 with enrollment of employers beginning in January 2017. This process will support a seamless transition to the collection of contributions starting on January 1, 2018 for large and medium size employers.

All other implementation dates remain the same. Contribution rates for employers without a registered pension plan will still be phased in as previously announced.

Many employer groups have called on the government to delay the launch of the plan to ensure a successful and smooth implementation, and allow a window to discuss a national solution. The government has modified the ORPP timelines to reflect this advice.

The government is on track to ensure that all eligible Ontario workers are enrolled in a comparable workplace plan or the ORPP by 2020.

ORPP Phase-In and Contribution Schedule (rates reflect contributions to be made by each employer and employee) Employer registration in the ORPP would begin on January 1, 2017.				
Type of Employer	Jan 1, 2018	Jan 1, 2019	Jan 1, 2020	Jan 1, 2021
Wave 1: large employers without registered workplace pension plans	**0.8%**	**1.6%**	**1.9%**	**1.9%**
Wave 2: medium employers without registered workplace pension plans	**0.8%**	**1.6%**	**1.9%**	**1.9%**
Wave 3: small employers without registered workplace pension plans	**0%**	**0.8%**	**1.6%**	**1.9%**
Wave 4: employers with registered pension plans that either do not meet the comparability test or do not cover all classes of employees	**0%**	**0%**	**1.9%**	**1.9%**

Q: Is the federal government committing to administer your plan if CPP talks fail?

A: Ontario is pleased with the cooperation and partnership it has received from the new federal government. They have agreed to facilitate ORPP plan registration and to enter into a data sharing agreement to support implementation. The federal government has also committed to working with Ontario to ensure effective plan administration.

Ontario has always stated that it is committed to a simple, reliable and cost effective administration of the ORPP. Partnering with the federal government on plan registration, data sharing, and exploring models of plan administration supports this objective.

However, running a modern pension plan is not simple and so other options for administration are being explored including within the broader public sector and in partnership with private sector vendors. In fact, it may make sense to work with several partners to support effective administration of the plan.

Q: Would Ontario support a CPP enhancement that is a universal program to all employers and employees?

A: In designing the ORPP it was clear that, even though two thirds of Ontarians are not members of a workplace pension plan, many employers do provide generous workplace pension plans.

With this in mind, the government developed the framework of a comparable plan – so that employers that provide a generous workplace pension plan would not be

required to contribute to the ORPP. This is a central part of the ORPP and reflects the objective of introducing the ORPP in a manner that doesn't adversely impact generous workplace pension plan arrangements that are already working well for employees and employers.

The Province's extensive consultations in developing the ORPP have helped to inform its view that a CPP enhancement must be timely and provide a level of adequacy and targeted coverage that is consistent with the ORPP. Ontario is bringing this insight to the national discussion.

The province is also listening to the federal government and the other provinces and territories, and reflecting on their perspective on a CPP enhancement.

Q: If the government is going to proceed with measures such as introducing legislation on ORPP plan design, are you even serious about discussing the CPP?

A: The government has always said a national solution to enhancing retirement security is the best way forward. It has also said that it is imperative to address the challenge of retirement security ***now***. It is a critical issue for the future well-being of Ontarians and the economy that cannot be delayed.

Minister Morneau has outlined an aggressive timeline to enhance the CPP, including achieving a consensus to move forward by June and a national agreement by the end of 2016. The province looks forward to these discussions.

Legislation

Q: What progress has the government made on the ORPP to date?

A: The government is on track to meet its objective that, by 2020, all eligible Ontario workers are covered by a comparable workplace plan or the ORPP.

The ORPP Administration Corporation is now established and the process to register the plan with the Canada Revenue Agency is well underway. Final elements of plan design will be enshrined in legislation this spring. 6.

Employer verification will begin later in 2016 with enrollment of employers beginning in January 2017. This process will support a seamless transition to the collection of contributions starting on January 1, 2018 for large and medium size employers. The additional time is also enabling national discussion on a CPP enhancement to proceed.

Q: Why introduce legislation now? Didn't you commit to ongoing national discussions on a CPP enhancement?

[Legislation tracking to be introduced April 14, 2016]

A: The government has been clear that about the need to enhance retirement security today. The problem cannot be left to some ambiguous future date. It is critical for the well-being of Ontarians and the economy that we take action now.

Ontario moved to create the ORPP after the previous federal government refused to discuss enhancing the CPP. Today, the circumstances have changed and Ontario is playing a leading role in discussing a national solution.

However, to successfully launch the ORPP plan preparations must continue alongside federal discussions to ensure that, no matter the outcome, Ontario will retire with enhanced security.

Moving forward with legislation will ensure that employers have the time they need to prepare for the ORPP.

Q: What will be included in upcoming legislation?

A: The government intends to introduce further legislation on the ORPP in the spring of 2016. The legislation will set out the comprehensive requirements of the ORPP, plan sustainability and the compliance and enforcement regime.

Further legislation in 2016 would establish an Office of the Chief Actuary to provide independent actuarial advice and valuations of the ORPP to government and the ORPP Administration Corporation.

Plan Sustainability

Q: What accountability mechanisms exist to ensure that plan members' benefits will be there for them when they retire?

A: Through extensive actuarial modelling, the government has designed the plan to be sustainable over the long term. To ensure continued plan sustainability, a formal funding policy would be established that provides for appropriate adjustments to be made to plan benefits and/or contributions.

Background

Q: What is the Ontario Retirement Pension Plan (ORPP)?

A: The ORPP is a mandatory provincial pension plan that is scheduled to launch on January 1, 2017, with employer and employee collections beginning in 2018.

The ORPP would:

- Include eligible employees who are employed in Ontario and not participating in a comparable workplace pension plan;
- Aim to replace 15 per cent of an individual's pre-retirement earnings up to maximum earnings threshold of $90,000 (in proposed 2017 dollars);
- Require eligible employers and employees each to contribute up to 1.9% of employee earnings
- Require benefits to be earned as contributions are made; and
- Be managed by the ORPP Administration Corporation – an independent, arm's length entity, which will be responsible and fully accountable for administration and investment in the best interest of plan members.

Q: Why is the ORPP needed?

A: Experts generally recommend that individuals aim to replace 50-70% of their pre-retirement income to maintain their standard of living in retirement. However, studies show that a significant number of Ontarians are concerned they will not have sufficient income in retirement.

Two-thirds of Ontario's workers do not participate in a workplace pension plan. Moreover, three-quarters of younger workers – aged 25 to 34 – do not participate in a workplace pension plan.

Q: What are the anticipated impacts of the ORPP on Ontario's economy?

A: The government commissioned the Conference Board of Canada to conduct a cost-benefit analysis on the economic impact of the ORPP that was tabled in the legislature in December. The report's conclusion is clear – accounting for all factors and opportunity costs, both consumers and the economy are better off under the ORPP. This is good news for Ontarians.

The report reiterates that in the long-term, the ORPP is expected to add over $39 billion to Ontario's economy by ensuring that future retirees have adequate retirement savings. It also notes the ORPP is a more cost-effective means of helping individuals save than traditional retirement savings vehicles.

The report does acknowledge a small, short-term impact to the economy. However, this impact is partially mitigated by reductions in employment insurance and WSIB premiums. As well, the government remains committed to taking measures today to strengthen the economy.

ORPP Advertising and Market Research Costs

Q: Why is the Government advertising the Ontario Retirement Pension Plan?

A: The ORPP is intended to provide a predictable source of retirement income for life, for millions of Ontarians. By 2020, every employee in Ontario will be part of either the ORPP or a comparable workplace pension plan.

The ORPP is a key pillar of the government's economic plan. It is important that Ontarians know where to get the most up-to-date information on the plan.

There is a lot of work that needs to happen between then and now. To build awareness of the ORPP ahead of its launch in January 2017, we have recently released ads about the ORPP on TV radio and digital platforms.

The government has a responsibility to raise awareness and communicate information about its programs and services.

These ads are meant to increase Ontarian's awareness of the ORPP, drive them to http://www.ontario.ca/orpp for more information and answer questions about the design and implementation of the plan.

Q: In 2015-16, how much did the ministry spend on the ORPP campaign (including advertising, marketing and market research)?

A: In total, $6,614,987 was spent on the ORPP advertising campaign. Of this figure, $1,770,067 was spent on agency fees.

Media buying costs totalled $4,689,080. This amount will be recouped through the Bulk Media Buy. In total, $155,840 was spent on market research to provide benchmarking and tracking data, as well as creative feedback and insights for advertising and marketing purposes.

ONTARIO FINANCING AUTHORITY

Q: How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

A: Debt is incurred primarily for two reasons: to finance deficits and invest in capital assets. Ontario ~~is making~~has a plan to make public infrastructure investments of ~~more than~~about $~~137~~ 190 billion over ~~the next 10~~13 years~~, or about $160 billion over 12 years,~~ starting in 2014–15.

One of the objectives of investment in capital is to improve the economic growth of the Province, supplementing GDP growth. As a result, the net debt-to-GDP ratio will come down more quickly than it would have without these investments in capital assets.

The government's plan therefore hinges on first balancing the budget, and continuing to make investments in capital assets which will add to economic growth, resulting in GDP growing more quickly than debt, and lowering the net debt-to-GDP ratio to our 27 per cent target.

Q: Ontario's debt has more than doubled since Premier McGuinty was first elected. When interest rates begin to rise, won't interest costs displace spending on the Government's priorities?

A: Ontario has a realistic plan to balance its budget while investments are made in the priorities of Ontario families – health care, education, the environment and infrastructure.

Investor demand has allowed the Province to extend the term of its debt in recent years and lock in low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs. Since ~~2010~~ the beginning of fiscal year 2010-11, Ontario has issued approximately $63.0 billion in bonds with terms of 30 years or longer to lock in low rates. ~~the province has borrowed $53.5 billion in the 30-year term.~~

~~The 2010 Budget forecasted that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 2.7 cents lower, at 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 1990s, and is forecast to remain lower through the outlook period in 2018–19.~~

As a result of locking in these historically low interest rates for the long term, the Province's interest cost per every dollar of revenue is forecast at 8.2 cents in 2017-18. This is 3.1 cents lower than the 11.3 cents forecast for 2017-18 in the 2010 Budget and the lowest since 1991-92. Over the medium term outlook until 2019-20, this ratio is forecast to remain significantly below the average since 1991-92.

Q: How will the credit rating agencies respond to the 2016 Budget?

A: Ontario currently maintains a double-A rating with three of its four credit rating agencies and all of the ratings were confirmed following the 2017 Budget. Ontario continues to outperform its deficit projections and is on track to a balanced budget by 2017–18. Moreover, Ontario's net debt-to-GDP ratio is expected to continue its downward trend from its peak in 2014-15 at 39.2% and is forecasted to be 37.2% in 2019-20.~~peak in 2015–16 at 39.6 per cent, remain unchanged in 2016–17, decline to 38.9 per cent in 2017–18 and 38.5 per cent in the 2018–19.~~

~~We met with the rating agencies following the 2016 Budget and expect to hear back from them over the next few months.~~

CORPORATE ELECTRICITY FINANCE DIVISION

Trillium Trust

Q: What's the current status of the funds in the Trillium Trust?

A: The Public Accounts of Ontario 2014-2015, published in September 2015, show that $1.35 billion has been dedicated to the Trillium Trust.

These are the net proceeds from the sale of the Province's remaining General Motors common shares in early 2015, combined with net proceeds from a September 2013 GM share sale and the redemption of preferred shares in late 2014.

Under the Trillium Trust Act, Hydro One shares have been designated as assets for which the net revenue gains from a sale are dedicated to the Trillium Trust. Once the Province has received all of the final financial inputs to fully assess and account for the net revenue gains associated with the Hydro One IPO, it will introduce a regulation to designate the net gain amount from the Hydro One IPO to be dedicated to the Trust and prescribe the other net revenue benefits resulting from Hydro One's recognition of a deferred tax benefit, to be dedicated to the trust.

Q: Since the Hydro One IPO was completed several months ago and now the government has announced a secondary share offering, why haven't you made any regulations to dedicate the fiscal benefits of the Hydro One IPO to the Trillium Trust? When will you make these regulations and when will we see these amounts in the Trillium Trust?

A: Under the Trillium Trust Act, Hydro One shares have been designated as assets for which the net revenue gains from a sale are dedicated to the Trillium Trust.

The determination of the net revenue gains related to the Hydro One IPO depends in part on Hydro One's audited, year-end financial statements. Hydro One released its 2015 Annual Financial Statements on February 12, 2016. Once the Province has received the financial information to fully assess and account for the net revenue gains, including the determination of a deferred tax benefit impact on the Province's net revenues, it will introduce regulations to designate the amounts to be dedicated to the trust.

Q: Why have no amounts been spent from the Trillium Trust yet, not even from the GM share gain amounts from 2014-15? And why are there only $1,000 in placeholder expenditure numbers for the Trillium Trust lines in Estimates?

A: The Province is on track to generate $5.7 billion in net revenue benefit from asset optimization to be dedicated to the Trillium Trust to help support investments in transit, transportation and other priority infrastructure projects under the $31.5 billion Moving Ontario Forward initiative over 10 years to create jobs, boost productivity and revitalize communities.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects such as GO Regional Express Rail is focused on planning, design, property acquisition and other activities to get projects construction-ready. The government plans to begin drawing down on the balance in the Trillium Trust starting in 2016-17, as it is expected that spending will ramp up significantly once this preliminary work is completed and construction activity is underway. This will allow for identification for cash flow timing requirements from the Trillium Trust during 2016-17 and subsequent years.

Q: When will the government actually be able to start using funds from the Trillium Trust to pay for transit and infrastructure?

A: The government plans to begin drawing down on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history. As the Moving Ontario Forward initiative was announced prior to Budget 2014, with incremental transit, transportation and other priority infrastructure projects, the expected timeframe for expenditures for these projects and drawdowns from the Trillium Trust are expected to happen over time, starting in 2016-17.

Based on planned expenditures, in 2016-17 the Trillium Trust would support Moving Ontario Forward initiatives, such as

- Regional Express Rail (RER);
- Hurontario Light Rail Transit (LRT); and
- Ontario Community Infrastructure Fund.
- *Asset Optimization*

Q: How much was raised from the Hydro One IPO?

A: From the November 2015 IPO and related share sales, the Province raised about $1.9 billion in gross proceeds before expenses and fees.

- In the November 2015 IPO, the Province sold 89,250,000 common shares at the IPO price of $20.50 per share for total gross proceeds to the Province of approximately $1.83 billion.

- Including other related share sales at the IPO price, the gross proceeds were $1.9 billion, including approximately $116 million in gross proceeds from shares sold to separate trusts established respectively by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP).

The determination of the net revenue gains from the gross proceeds depends on the finalisation of the book value of the shares sold at the time of the IPO and expenses and fees related to the IPO. The net gain from the November 2015 share sales is currently estimated at about $0.8 billion.

There are other associated benefits, aside from the sale of shares.

- An expected revenue benefit to the Province due to the revaluation of its fixed assets as a result of the IPO, resulting in Hydro One recognizing a deferred tax benefit. Based on the Prospectus, the Province communicated that it expected to realize a benefit of about $2.2 billion, which is subject to update and finalisation in Public Accounts.

- The Province also received cash (non-revenue benefits) of $1 billion in special payments from Hydro One, including $800 million in a special dividend paid prior to the IPO, and about $200 million in additional payments in lieu of taxes to the Ontario Electricity Financial Corporation (OEFC).

Q: What amount of proceeds will the Province receive from the secondary offering?

A: In this secondary offering, the Province has offered about 72.4 million common shares, or about 12 per cent of the common shares, at $23.65 per share, for total gross proceeds of approximately $1.7 billion

The Province has granted an option to the underwriters to purchase up to an additional approximately 10.86 million common shares, or just under 2 per cent of the common shares, which if exercised in full, would result in total gross proceeds of approximately $2 billion.

If the overallotment option is exercised in full, the Province will have sold 14% of its shares outstanding in this offering.

The government is committed to dedicating the net revenue gains from the secondary offering to the Trillium Trust. The *Trillium Trust Act, 2014* ensures that all net revenue gains from the sale of Hydro One shares will be credited to the Trillium Trust for investments in priority infrastructure projects.

[Net proceeds are currently estimated at about $0.5 billion based on the about 12% of shares offered in the base amount. If the over-allotment is fully exercised, the net proceeds are estimated at about $0.6 billion.]

Q: What was the process involved in selecting the underwriters involved for the secondary offering

A: RBC and Scotiabank were chosen as the co-lead underwriters for the secondary offering. These same two firms were chosen to lead the IPO underwriting through a competitive and transparent process, overseen by Denis Desautels, the former Auditor General of Canada.

The price discount offered by the underwriters to purchase shares from the Province through the "firm commitment offering" was also very competitive, representing an approximate 2% discount compared to the closing trading price of Hydro One shares on April 5th. Underwriting fees of 1% for institutional investors and 3% for retail investors is significantly lower than what underwriters have typically earned on firm commitment offerings and consistent with the fees earned in the Initial Public Offering.

- Impact on Electricity Sector Dedicated Income

Q: Why is the interim Electricity Sector Dedicated Income (ESDI) $0 in 2015-16, and why is the forecast so low for ESDI in the 2016-17 Printed Estimates? Is this because of the Hydro One IPO reducing the Province's future revenues from Hydro One and reducing the amounts to pay for stranded debt?

A: The Hydro One IPO resulted in a significant upfront reduction in the stranded debt of the electricity sector.

For the year ended March 31, 2016, the IPO resulted in very large upfront payments to the Ontario Electricity Financial Corporation (OEFC) towards stranded debt. This included a total of $2.8 billion in departure tax and additional payments-in-lieu of taxes (PILs) paid by Hydro One to OEFC.

As these large amounts were expenses to Hydro One, they had a dollar-for-dollar impact on reducing Hydro One's estimated net income for 2015-16, partially offset by the deferred tax benefit impact on the Province's net income from Hydro One.

Because of these large payments to OEFC, this resulted in an estimated zero Electricity Sector Dedicated Income transfer to OEFC, as the combined net income of OPG and Hydro One to the Province was estimated to fall short of the about $520 million in annual interest expense.

Under the Electricity Sector Dedicated Income, the Province has been dedicating the cumulative combined net income of OPG and Hydro One in excess of the Province's interest cost of its investment in these companies (about $520 million annually, prior to the Hydro One IPO) to OEFC.

As the ESDI commitment is calculated on a cumulative basis over time, the estimated shortfall in the combined net incomes of OPG and Hydro One in 2015-16 compared to the about $520 million in the Province's financing costs, reduces

the estimated Electricity Sector Dedicated Income in 2016-17 [and potentially in future years], until the past shortfall is offset by the combined net incomes going forward from 2015-16.

The actual ESDI amounts for 2015-16 and 2016-17 is subject to finalisation, including the actual financial performances of OPG and Hydro One in 2015-16 and 2016-17, and will be reported in OEFC's annual financial statements and Public Accounts.

[Note: For the 2015-16 Printed Estimates, the ESDI was positive, as the projected ESDI did not build in the potential impact of the broadening of Hydro One ownership due to the commercial and market sensitivity of the estimated impacts on Hydro One of the expected departure tax. The potential impact of the broadening of Hydro One ownership was built into the asset optimization component of the Sales and Rental revenue line.]

From:	John Psinas
To:	Francisco Chinchon; Alexander Kraas; Bonnie Lemcke
Cc:	Erica Wieder; Ken Kandeepan; George Sakura; Shemin Meralli; Kevin Hwang
Subject:	FW: Update to Estimates Defence Document Submissions
Date:	Thursday, September 07, 2017 2:46:13 PM
Attachments:	Tab 5 General Facts_v2.docx

Francisco, Alex, Bonnie,

There are more questions to answer it seems. Please see last year's, which Shemin just got from Pauline. Like before, we would be happy to coordinate it along with the rest for Monday.

Thanks.

John

From: Shemin Meralli
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Subject: RE: Update to Estimates Defence Document Submissions

Hello –

As a number of you have asked for this document, it is here attached.

Please note that the deadline remains the same and kindly advise if you have any questions or concerns.

Thank you.



Pauline Padmore
Corporate Initiatives and Stakeholder Coordinator (A)
416-325-0961

From: Padmore, Pauline (MOF)
Sent: September-07-17 1:17 PM
To: Zilinski, Stephanie (MOF); Dupuis, Paul (MOF); Laughlin, Debbie (MOF); Mattiussi, Nancy (MOF); Baldino, Rick (MOF); Luc, Rebecca (TBS); Rastinehad, Neda (MOF); Patel, Lesley (MOF); Mikhailova, Olga (MOF); Tarin, Ghufran (MOF); Boa, Krista (MOF); Wallace, Julia (MOF); Birks, Ryan (MOF); Bianchi, Angela (MOF); Scanlan, Darren (OFA); He, Gavin (OFA); Chinchon, Francisco (OFA); Ciavatta, Marco (FSCO); Hamilton, Carolyn (FSCO); Kancharla, Sagar (MOF); Gobeil, Diana (MOF); Harten, Jayne (MOF); Kandeepan, Ken (OFA); Jeanes, Bridget (MOF); Portelance, Lynn (MOF); Wong, Mimi (MOF); Kim, John (OFA); Meralli, Shemin (OFA); Sakura, George (OFA); Salman, Sadruddin (MOF); Vavlekis, Penny (MOF);

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Subject: Update to Estimates Defence Document Submissions

Hello everyone –

In addition to the Accomplishments and Top Facts, please include 'General Facts' as shown in Tab 5 of the attached 2016 Estimates Briefing Binder table of contents.

Thank you.



Pauline Padmore
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Subject: Estimates Defence Document Submissions

Good afternoon –

Program areas are asked to please submit Top Facts (formerly called Q&As) and update

Accomplishments no later than September 11th to Pauline Padmore and cc Nicole Yanqui. Attached for your reference is the table of contents from last years' Estimates Briefing Binder, Accomplishments and Top Facts.

Here is the Minister's Office recommended list of top facts & top issues **by order of importance**:

Tab 3: Top Facts

- Office of the Budget
- Ontario Financing Authority
- Office of Economic Policy
- Corporate Electricity Finance Division
- Taxation Policy Division
- Tax and Benefits Administration
- Provincial Local Division
- Cannabis Retail Implementation Project
- Government Business Enterprise Division
- ORPP Implementation Secretariat / Admin Corporation
- Income Security & Pension Policy Division
- Financial Services Policy Division

Tab 4: Top Issues

- Fiscal Plan (in relation to questions that might come up about balancing)
- Debt (Interest on Debt costs)
- Public Accounts (emphasis on AG Accounting)
- Fair Hydro Plan
- Housing Market
- Cannabis
- Cap & Trade
- Trillium Trust
- OLG Modernization
- LBCO
- ORPP – if needed

In addition to the corporate preparations, program areas should prepare their ADM/Program Head in the event we do appear before the Estimates Committee – for those questions that are of a technical or operational nature. This also includes preparations for your ADM/Program Head to explain any financial variances from the Estimates Briefing Book, should those questions arise at the proceedings. This work should currently be underway.

Please let me know if you have any questions about this process.

Thank you.



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INCOME SECURITY AND PENSION POLICY

Investment Management Corporation of Ontario (IMCO)

Q: What is the status of IMCO? And when will it be operational?

A: The government is developing regulations under the IMCO Act. These regulations will name the initial participants of the corporation, appoint Board members and proclaim the Act later this year.

Most of the remaining work required before IMCO becomes operational is in the development of governance structures, implementation planning, the completion of investment agreements for initial members and the development of the investment pools. The corporation is expected to be operational in 2017.

Q: Have you heard from many plans in the BPS about joining IMCO? How many plans could potentially participate in it?

A: There has been expression of interest from some plan sponsors but it's too early to disclose those details. When IMCO is up and running, it will be flexible and scalable enough to accommodate funds from all qualified organizations in the BPS that could benefit from its services.

Q: How will you be selecting the initial board members, including the Chair?

A: The government is working closely with OPB and WSIB on the selection of board members, including the Chair. The government is committed to selecting an expert board in accordance with the advice received from the Technical Working Group. We plan to have the initial directors, including the Chair, appointed by summer this year.

Q: Why did you provide in the Act for the government to appoint three board members if IMCO is an arm's length corporation?

A: The government agrees with the Technical Working Group's advice to allow the corporation to focus, without distractions, on achieving the benefits of asset pooling for its members. However, given that the members of the corporation would be broader public sector entities, the government considers it prudent to preserve the right to appoint some, but not a majority, of the board members. This would provide a minimal degree of government involvement in the corporation's affairs, which would not undermine the fundamental independence of the corporation from government. All government appointees to the board will be legally bound to promote the interest of the corporation and its members in making their decisions.

Q: Is the government providing "start-up" funding or ongoing financial `support to IMCO?

A: There are no plans to provide any government funding to IMCO. The financial benefits that asset pooling brings should be sufficient to encourage participation and for those initial participants to make arrangements to meet the start-up costs.

Q: If all potential participants were to join IMCO, how big could it get in terms of assets under management?

A: It is difficult to determine the total assets of the pool of potential participants at this time. However, the 2012 Morneau report, which studied the viability of asset pooling in Ontario, estimated an excess of $100 billion in potential assets under management.

Amending the Teachers' Pension Act (TPA) to include a retroactive override of Section 14 of the Pensions Benefit Act (PBA).

Q: What is the current reemployment limit? For how long have they existed?

A: The OTPP contains provisions that require the pension of a retired teacher to be suspended if the retired teacher works more than a specified number of days in the education sector. Current limits are set out in the TPA and were updated as recently as 2010 to set a limit of 50 days per school year for all retired teachers.

Re-employment limits have been part of the OTPP for over 70 years, with different limits on the number of days a retired teacher could work without affecting pension payments.

Q: What is the purpose of the re-employment provisions?

A: The current re-employment limit of 50 days per school year is intended to:

- Open up employment opportunities for new teachers;
- Create equity between pensioners working for different employers; and
- Provide flexibility to school boards who find it more difficult to replace retired teachers.

Q: Why do this amendment now?

A: In response to recent complaints by retired teachers, it is anticipated that Financial Services Commission of Ontario (FSCO) could rule that provisions in the pension plan that allow pension suspensions are inconsistent with the PBA rules, and are therefore void. The amendment would ensure the continuing validity of the current and any prior re-employment provisions by clarifying that these rules prevail over the PBA.

Q: What will the amendment do?

A: The amendment will add a retroactive override of the PBA to the TPA with respect to the re-employment provisions in the OTPP. More specifically, the amendment would specify that the TPA prevails in the event of a conflict with the PBA.

The proposed amendment would exempt the re-employment rules from the PBA. It will also protect the Crown, the OTF and the Ontario Teachers' Pension Plan Board from potential litigation.

Q: If approved, when will the amendment be effective?

A: This legislative amendment would come into force on Royal Assent of the Budget Bill. The amendment would be retroactive to January 1,1990 (the date the TPA came into force).

Q: Does the Ontario Teachers Federation (co-sponsor of the Plan) endorse this approach?

A: The OTF strongly supports a legislative amendment to preserve the re-employment provisions.

Q: How does the proposed amendment compare to other provincial pension plans?

A: Other public pension plans in Ontario (CAAT Pension Plan, Healthcare of Ontario Pension Plan (HOOPP), Ontario Municipal Employees Retirement System (OMERS), Public Sector Pension Plan (PSPP) and OPSEU Pension Trust) all have provisions related to re-employment. However, their re-employment rules are not subject to challenge under the PBA.

- OPSEU allows a pension reduction if the re-employment period exceeds a specified limit. The constituting legislation of OPSEU includes specific overrides of the PBA;
- PSPP also allows a pension reduction if the re-employment period exceeds a specified limit. The re-employment provisions have not been amended since the inception of the plan and therefore do not conflict with the PBA;
- CAAT, HOOPP and OMERS permit either the continued payment of a pension or pension re-accrual post-retirement, and are therefore not in conflict with the PBA.

Temporary Solvency Relief and Solvency Funding Review

Q: Why is Ontario providing sponsors of private sector defined benefit pension plans with temporary solvency funding relief?

A: Due to persistently low long term interest rates, the next actuarial valuation filed by many pension plan sponsors will continue to show significant solvency funding requirements.

Solvency funding relief will help private sector employers meet this challenge while protecting the benefits of plan members and retirees.

Q: What kind of funding relief will be made available?

A: Temporary measures will be introduced to help employers adjust to increased solvency payments.

Temporary solvency funding relief measures introduced in 2009 and offered again in 2012 would be extended for the first valuation report filed during the three year period starting December 31, 2015. A plan administrator would be able to:

- Consolidate existing solvency payment schedules into a new 5-year payment schedule.
- Extend the solvency special payment schedule to up to 10 years for new solvency deficiencies, with the consent of members and retirees.

Q: When will these measures come into effect?

A: Related regulations are targeted for this spring.

Q: How do these measures protect the benefits of plan members and retirees?

A: Solvency relief measures are intended to support jobs and growth by helping employers meet the challenge of higher solvency special payments.

As with the 2009 and 2012 solvency relief provisions, members and retirees would be provided with additional disclosure when temporary relief measures are employed. They would also have to consent to the extension of solvency payment schedules.

Q: What consent mechanism will be used for the option to extend a new solvency payment schedule?

A: Consistent with solvency funding relief provided in 2009 and again in 2012, the solvency payment schedule would only be extended if no more than one third of the aggregate of all active, former and retired plan members indicate (before the

start of payments) that they do not consent. Collective bargaining agents would only be able to provide consent for the proportionate share of the active members whom they represent.

Q: Why is the government undertaking a review of the current solvency funding framework?

A: Over the last several years, private sector sponsors of single employer defined benefit pension plans have faced funding pressures associated with the low interest rate environment. Many sponsors continue to face challenging contribution requirements as a result of these economic conditions. Recognizing this situation, the government has initiated a review of the current solvency funding framework with a view towards developing a balanced set of reforms that would take into account interests of pension stakeholders – including sponsors, unions, members, and retirees.

Q: What will David Marshall's role be in the solvency funding review?

A: The government has appointed David Marshall to lead the solvency funding review process and provide advice and recommendations to the Minister of Finance with a view to assisting the Ministry of Finance in developing a balanced set of solvency funding reforms that would focus on plan sustainability, affordability and benefit security. He will also assist in ensuring that the review is informed by feedback from a diverse group of stakeholders.

Pooled Registered Pension Plans (PRPPs)

Q: What is the status of PRPP legislation in Ontario?

A: On May 28, 2015, the *Pooled Registered Pension Plans Act, 2015* (Act) received Royal Assent.

The Act would come into force on proclamation once supporting regulations have been developed. Regulations are currently being drafted.

Q: Why is Ontario's Act so similar to the federal framework?

A: Ontario continues to support national efforts to improve the retirement income system and recognizes the value in working with other jurisdictions to develop innovative solutions that advance this important goal for all Canadians.

An Ontario PRPP framework that is harmonized with those of the federal government and other provincial jurisdictions would assist in creating a coordinated approach to administration and regulation across the country. Not only would this help to create economies of scale and minimize costs, but it would also foster greater portability, supporting a modern, mobile workforce.

Q: How many PRPPs are currently registered throughout Canada?

A: To date, only Québec and the federal jurisdiction have legislation in effect and as such, the only plans currently in existence are those registered in those two jurisdictions.

Québec: As of April 2016, Quebec had registered nine plans belonging to the following administrators: National Bank; Sunlife; Société de gérance des fonds FMOQ Inc.; Morneau Shepell; London Life; Manulife; Industrial Alliance; Desjardins; and Compagnie Trust Royal/RBC.

Federal: As of April 2016, the federal Office of the Superintendent of Financial Institutions had registered four plans belonging to the following administrators: Industrielle Alliance Assurance et Services Financiers Inc.; London Life; Manulife; and Sun Life.

Q: How are PRPPs different from individual Registered Retirement Savings Plans (RRSPs) and how will they be more effective than RRSPs in encouraging people to save for retirement?

A: PRPPs differ from RRSPs in a number of important respects, including the pooling of accounts for investment purposes, the higher legal standard of care applied to administrators, and the requirement that PRPPs be offered at low-cost to ensure that individuals' retirement savings and investments are not eroded by high management fees.

Similar to RRSPs, individuals' annual PRPP contributions are deductible in calculating their annual taxable income. Also, similar to group RRSPs, employer PRPP contributions would be tax deductible. However, unlike employer contributions to a group RRSP, employer PRPP contributions are excluded from salaried compensation of employees and would therefore not be subject to Employer Health Tax, Employment Insurance Premiums, Canada Pension Plan contributions or workers' compensation premiums.

Finally, unlike RRSPs, PRPP funds are required by legislation to be locked-in until a specified age to ensure they provide for retirement income (some exceptions exist).

Q: Who are PRPPs intended to benefit? How?

A: Employees & Self-Employed: PRPPs are intended to make it easier to save for retirement by providing employees and self-employed individuals with an additional savings vehicle that is low cost (achieved through a simple design and economies of scale), professionally managed, and portable from one workplace to another.

Employers: PRPPs can result in lower employer taxes and withholdings than Group RRSPs, since employer contributions are not subject to the Employer Health Tax, Employment Insurance premiums, Canada Pension Plan contributions or workers' compensation premiums.

Business: PRPPs are intended to be particularly beneficial for small and medium-sized businesses that may not have the capacity to offer traditional pension plans.

Q: What is the multilateral agreement for PRPPs? What is the status?

A: The federal government and provinces with PRPP legislation in place – British Columbia, Alberta, Saskatchewan, Nova Scotia and Ontario – are currently in negotiations regarding a multilateral agreement for the regulation and supervision of PRPPs with members in more than one jurisdiction (i.e., multi-jurisdictional PRPPs).

If signed, such an agreement would assist in creating a coordinated approach to the administration and regulation of PRPPs across the country.

On July 15, 2015, the federal government released for public consultation the draft multilateral agreement for PRPPs. Comments were due September 1, 2015. Negotiations with other provinces are ongoing and it is anticipated that a draft will be finalised in 2016.

Q: What amendments would be made to the Act in Bill 173, the 2016 Spring Budget Bill?

A: The amendment to the application section would clarify that the Act also applies to individuals formerly employed in the specified forms of employment who continue to maintain funds in a PRPP account.

To further facilitate harmonization with other jurisdictions and to ensure the efficient operation of PRPPs, and amendment would remove provisions that permit transfers from registered pension plans to PRPPs. This amendment would also help to simplify regulatory oversight.

Other amendments would provide that the Superintendent will not issue a licence authorizing a corporation to be an administrator of a PRPP before a multilateral agreement described in section 8 of the Act comes into effect in Ontario. This is a procedural measure to help Ontario put the multilateral agreement into effect.

Finally, the Lieutenant Governor in Council's regulation making powers would be amended in respect of the issuing of licences, the requirements for registration and the provision of information under the Act. This additional regulatory authority would promote streamlined administration and oversight of PRPPs.

Q: Will PRPPs be considered a comparable plan?

A: The government will be developing an appropriate test to determine comparability for the purposes of the ORPP.

Target Benefit Pension Plans

Q: What are target benefit pension plans?

A: Target benefit pension plans combine features of defined benefit and defined contribution plans. They "target" a specified retirement pension funded by fixed contributions, but can address funding shortfalls by reducing accrued benefits, including pensions in pay.

Q: Why is Ontario considering target benefit pension models?

A: Target benefit pension plans have the potential to increase workplace pension plan coverage by providing employers and employees with a more flexible pension option. With a more predictable cost structure, employers that may not be able to manage the risks of a defined benefit plan would have another option to offer employees. Members and retirees would also benefit from pooling of investment risk and longevity risk, which can reduce the cost of pensions.

Q: Why did we only consult on multi-employer pension plans?

A: While numerous target benefit multi-employer pension plans (MEPPs) exist in Ontario, there is no specific framework for target benefit pension plans in the Pension Benefits Act (PBA). For the purposes of the PBA, they are classified as defined benefit plans. Feedback from the consultation will help inform the development of a comprehensive framework for target benefit MEPPs that will replace the time-limited funding regulations that are currently in place for certain MEPPs, known as specified Ontario multi-employer pension plans (SOMEPPs).

Currently, there are no target benefit single-employer pension plans. Additional issues may need to be addressed in a framework for single-employer plans. For example, single-employer plans have a higher risk of winding up than multi-employer plans.

Feedback from consultations relating to MEPPs will help in subsequently developing a framework for single-employer target benefit pension plans.

Q: What concerns did stakeholders express in the consultation?

A: While submissions were supportive of a new framework, including a solvency funding exemption, some concerns were raised that certain MEPPs may face challenges transitioning to a new framework and implementing changes in funding rules.

The government will continue to consult with affected stakeholders on all aspects of a target benefit MEPP framework, including funding rules, and is committed to providing a transition period that allows sufficient time and ensures minimal disruption to the collective bargaining process.

Q: How will the solvency funding review and any potential reforms to Ontario's current funding regime affect the development of a new funding framework for TB MEPPs?

A: In order to ensure a comprehensive and coherent framework for TB MEPPs, a new TB MEPP framework will be developed in the context of any changes to the current solvency funding regime.

Pension Advisory Committees

Q: What is the government doing to facilitate the establishment of Pension Advisory Committees (PACs)?

A: The role of PACs will be to monitor plan administration, make recommendations to the administrator regarding the pension plan, and promote awareness and understanding of the pension plan.

The government is proposing legislative changes to facilitate the establishment of PACs.

Draft regulations under the Pension Benefits Act were posted for public consultation in the fall of 2015. Regulations incorporating stakeholder feedback will be finalized later this year once the necessary legislative amendments have been passed.

Q: What are the legislative changes that the government is proposing to enable the implementation of PACs?

A: The government is proposing two amendments relating to PACs to facilitate the establishment of PACs.

1) Allow for transitional rules for pension plans that already have advisory committees to be included in the regulatory framework for PACs which is currently under development.

2) Allow the government to make regulations to provide for the exemption of pension plans that meet specified criteria from the requirement to establish a PAC. Currently, jointly sponsored pension plans and multi-employer pension plans would be exempt from this requirement because their governance structures already require member representation. It has been brought to the attention of the Ministry of Finance that certain other pension plans also

provide for member or retiree representation in their governance structure. As a result, the PBA is being amended to avoid potential duplication.

Pension Benefits Guarantee Fund (PBGF)

Q: What is the government doing to ensure that the PBGF remains a sustainable source of protection for Ontarians?

A: The PBGF was created in 1980 to provide a measure of security to help offset the effects of pension shortfalls that occur when a plan is wound up without sufficient assets to pay full benefits for all members and the employer is unable to fund the pension shortfalls (e.g., if the employer is insolvent).

Ontario is the only jurisdiction in Canada with a Pension Benefits Guarantee Fund (PBGF). The PBGF guarantees eligible pension benefits up to the first $1000 per month in respect of covered employment in Ontario.

The PBGF plays an important role in Ontario's pension system by ensuring a minimum level of benefit security for plan beneficiaries. Reforms to the PBGF were made in 2012 to put it on a more sustainable footing including increasing assessments and eligibility conditions for covered benefits. As the government continues to pursue reforms to Ontario's pension regulatory landscape consideration will also be given to how any reforms may impact the PBGF to ensure that the fund remains a sustainable source of protection for covered plans.

"Split Pensions"

Q: What is the government doing to help public sector employees whose pensions were affected by past government-initiated restructuring?

A: Reforms were made to the Pension Benefits Act and its regulations to allow certain pension plans, such as HOOPP, OMERS and the OPS plan, to enter into agreements and offer eligible individuals an opportunity to consolidate their pension benefits in their successor plan. These reforms came into force on January 1, 2014.

The regulation names the affected plans and sets out the information that must be given to eligible individuals, including any implications of consolidating their pension benefits. This should help individuals make informed decisions about whether or not to consolidate their pensions.

An amendment in the 2015 budget bill extended the date by which the affected plans must fully implement their agreements, from July 1, 2016 to July 1, 2017.

A minor amendment is being proposed to ensure that affected plans have until July 1, 2017 to implement their agreements.

Social Assistance

Social Assistance Rate Increase

Q: Why is the government giving a higher rate increase to Ontario Works single adults without children compared to everyone else on social assistance?

A: The increase will provide a top-up to singles without children receiving Ontario Works, who have the lowest incomes among social assistance recipients. With the increase and the top-up, this group of recipients will receive a total increase of $25 per month, which is $100 per month, or 16.5 per cent, more than they received in 2012.

Q: Why are the non-disabled spouses of ODSP recipients excluded from the rate increase? Is the $25 increase for OW singles adults without children being made at the expense of ODSP recipients?

A: All individuals and families receiving Ontario Disability Support Program (ODSP) benefits will benefit from the 1.5 per cent increase for persons with disabilities.

This approach helps reduce the disparity between Ontario Works and ODSP rates for non-disabled spouses and takes an initial step towards treating non-disabled recipients more equally.

Q: Will the province cover the 2016 municipal share of the cost of the Ontario Works rate increase?

A: Yes. The government recognizes that most 2016 municipal budgets have already been completed. Municipalities would not be required to share the cost of the rate increase until January 2017.

Social Assistance Consultations

Q: Is the government starting yet another consultation on social assistance reform?

A: In the 2015 Budget, Ontario introduced a consultation on social assistance rate restructuring. Through ongoing discussions, there emerged a clear consensus on the need to move policy considerations beyond social assistance rates to include aspects of the broader income security system.

The government is continuing to engage with delivery partners, clients and sector advocates to chart the path to a comprehensive system that effectively reduces poverty, supports people in their efforts to participate in the economy, and provides human services in a way that makes sense to the people who need them.

This process will look across the government and at the broader income security landscape to ensure that various existing and future programs work together to

help Ontarians. The government will also engage First Nation, Inuit and Metis communities to ensure that the path forward recognizes unique challenges on- and off-reserve and helps all Ontarians live a better life.

One area of research that will inform the path to comprehensive reform will be the evaluation of a Basic Income pilot. The government will work with communities, researchers and other stakeholders in 2016 to determine how best to design and implement a Basic Income pilot.

Child Support Exemption in Social Assistance

Q: Why is the government going to introduce changes to social assistance rules to exempt child support payments?

A: Currently, families receiving child support have their social assistance benefits reduced by the full amount of child support they receive. This means that families on social assistance are no better off when they receive child support, and the parent responsible for making child support payments may feel little incentive to do so.

That is why the government will introduce changes to social assistance rules so that families on social assistance who receive child support payments can benefit from more of this income.

Q: When is the government going to exempt child support for the purpose of determining social assistance benefits?

A: Over the next year, the government will introduce changes to social assistance rules so that families on social assistance who receive child support payments can benefit from more of this income. Details will be provided in the near future.

Q: Will child support be fully exempt or treated like employment income as recommended by the Lankin-Sheikh Report? Will social assistance recipients still be required to seek child support?

A: Over the next year, the government will be considering different approaches to implementing a change to how child support payments are treated for the purpose of social assistance and will announce details in the near future.

Prosper Canada

Q: What is Prosper Canada?

A: Prosper Canada is a national organization dedicated to expanding economic opportunity and financial empowerment to low-income Canadians. Prosper Canada works with government, business and community partners to develop programs such as Financial Empowerment and Problem Solving (FEPS).

Q: What will Proper Canada do with the funds?

A: Through the Ministry of Community and Social Services, the government will invest up to $1 million annually over five years to partner with Prosper Canada in order to provide a range of financial empowerment tools and services to more Ontario communities.

The Ministry of Community and Social Services will work with Prosper Canada to develop a plan for the best way to use the funds to support new financial empowerment services. The new programs would be evaluated for their effectiveness on enhancing the financial stability and empowerment of participants.

Q: What is FEPS?

A: The Financial Empowerment and Problem Solving (FEPS) program helps low-income people boost their incomes and take control of their finances.

The program offers individualized counseling and hands-on help to those in financial crisis to obtain banking services, apply for benefits such as Canada Learning Bonds to save for their children's education, manage debt and enable participants to move from crisis to longer-term financial planning.

Funny Money

Q: Why is the government funding Funny Money? Isn't financial literacy already part of the Ontario high school curriculum?

A: Financial literacy education is integrated in the existing Ontario curriculum for students in grades 4-12, so they have the knowledge and skills to take responsibility for managing their personal financial well-being with confidence and competence, but is not currently offered as a separate course.

Funny Money would complement the curriculum through standalone sessions that use humour to educate youth about money management, credit, debt and savings in order to empower students with the knowledge they need to make good financial choices.

Basic Income Pilot Project

Q: Why is the government implementing a Basic Income pilot project?

A: A Basic Income pilot will test a growing view at home and abroad that a basic income could build on the success of minimum wage policies and increases in child benefits by providing more consistent and predictable support in the context of today's dynamic labour market.

The pilot would also test whether a basic income would provide a more efficient way of delivering income support, strengthen labour market attachment and achieve savings in other areas, such as health care and housing supports.

Q: When and where will the Basic Income pilot be implemented? How much will the Basic Income pilot cost? Your Estimates show $5 million in 2016-17 for the pilot.

A: The pilot in still in the inception stage. A start date and criteria for determining a location for the Basic Income pilot have not yet been determined. The government will be gathering expert advice on the design of the Basic Income pilot over the course of 2016. Once this work has been completed, the government will finalize the costs for the pilot.

Canada Pension Plan Enhancement

Q: Minister Morneau has begun a process to enhance the Canada Pension Plan (CPP). What does Ontario want from this process?

A: Ontario has long been a champion of strengthening the retirement income security system and is pleased that the federal government shares this commitment and has renewed national discussions to enhance the CPP.

The Province's extensive consultations in developing the Ontario Retirement Pension Plan (ORPP) have helped to inform Ontario's view that any CPP enhancement must be timely and provide a level of adequacy and targeted coverage that is consistent with the ORPP.

Q: If there is an agreement on CPP enhancement within the year, will Ontario still implement the ORPP?

A: While Ontario is pleased that the federal government understands the importance of enhancing retirement security, the process to enhance the CPP is not simple and could take a very long time.

Ontario will continue to be an advocate of the need for enhanced retirement security and will work intensively with its federal, provincial and territorial counterparts to address the needs of future retirees.

To provide more time for discussion among provinces and the federal government, Ontario is phasing-in the launch of the ORPP by starting enrollment one year later than the original start date, and by starting the first phase of contributions in January, 2018.

Q: If there is agreement on a CPP enhancement that does not meet Ontario's objectives, what is Ontario's position?

A: The Province's extensive consultations in developing the ORPP have helped to inform Ontario's view that any CPP enhancement must be timely and provide a level of adequacy and targeted coverage that is consistent with the ORPP.

The government looks forward to collaboration on a CPP enhancement and other innovative approaches at the Federal-Provincial-Territorial Finance Ministers meeting in June 2016.

Ontario's main objective is to look at ways to meet the goals of the ORPP in an enhanced CPP framework, while preserving the ability to implement the ORPP, should that not be possible.

Q: The federal budget announced that in the coming months the federal government will launch consultations to give Canadians an opportunity to share their views on enhancing the CPP. How will the federal consultation process affect the timeline to reach agreement on a CPP enhancement by the end of 2016?

A: Details of the federal consultation process on CPP enhancement are unknown at this time.

Our government will continue to be an advocate of the need for enhanced retirement security and will work intensively with its federal, provincial and territorial counterparts to address the needs of future retirees.

The Province's extensive consultations in developing the ORPP helped inform Ontario's view that any CPP enhancement must be timely and provide a level of adequacy and coverage consistent with the ORPP.

REVENUE AGENCIES OVERSIGHT DIVISION

Wine and Spirits Retailing

Overview

Q: What are the key recommendations and changes being implemented?

A: There are a handful of key changes that consumers will notice.

The government is expanding wine sales in up to 300 grocery stores across the province. This includes:

- 150 brand new authorizations to grocery stores that will allow them to sell domestic and imported wine and beer. These new authorizations will also allow grocers to sell cider and fruit wine.
    - 70 of these authorizations will be issued this fall. Of these 70:
        - 35 will allow grocers to sell imported and domestic wine immediately.
        - 35 will allow for the sale of Ontario Vintners Quality Alliance (VQA) wine from producers other that the larger owners of winery retail stores. After three years, these authorizations will automatically open up to allow for the sale of all imported and domestic wine. This transitional arrangement allows time for the industry to adapt to the new channel.
- Up to 150 of the existing winery retail outlets at grocery stores that consumers are already familiar with will be allowed to operate their stores inside grocery locations. These locations will expand their product selection and sell wine from other Ontario producers. Winery retail stores will be pairing with grocers that can also sell beer. There will no longer be a separate checkout at these locations.
- And finally, we will continue to issue beer-only authorizations to grocery stores until up to 450 grocery stores sell beer.
- All grocers that sell beer will be allowed to sell cider.

For industry – including producers of cider, beer, domestic and international wine – these changes open up new retail opportunities.

Q: When will wine be available on grocery store shelves? What are the next steps?

A: The first 70 stores will be authorized by this fall, and the process will be similar to the one for beer. As with beer, we expect that grocers will want to move quickly to have wine on shelves shortly after authorizations are issued.

We expect to continue to issue authorizations to grocery stores on a rolling basis, while allowing the same number of winery retail stores to operate their stores inside grocery locations with a shared checkout. The Council has recommended that the government review the outcomes of the initial tranche of 70 new outlets before proceeding with future tranches.

Ultimately, up to 300 grocery stores will sell beer, cider and wine. Beer-only authorizations will be issued to bring the total number of grocery stores with beer and cider to 450.

Q: Why did it take so long for you to do this?

A: The wine industry in Ontario is complex. We have stakeholders with a range of interests: local and international wine producers, grape growers, winery retail store owners, grocery store operators and social responsibility groups.

We just changed a 90 year old regime in December with respect to beer sales. It became obvious in the fall that taking more time to get things right was the sensible approach.

In the end, we have a solution that is win-win-win - for wine lovers, for Ontario wine producers and the farmers who support them, and for international wine producers.

We'll have wine in up to 300 grocery stores – including up to 70 locations authorized to sell by this fall.

Q: Why is the Council recommending only introducing wine into 150 grocery stores? There will be beer in 450 grocery stores.

A: We are expanding access responsibly. The number of new licences in the proposed new model is based on the total number of beer in grocery licences that were established under the beer framework – 450. There are currently 292 "off site" winery retail stores, so we added 150 new authorizations to bring it to about the same as beer.

The exact number of grocery stores selling wine through their own checkouts will depend on the number of WRS outlets that ultimately move inside the check-out at grocery stores. Of the 292 existing WRS outlets, the Council is recommending that up to 150 that are currently located in grocery and outside the grocery store checkout be enabled to operate inside grocery with a shared checkout.

In total, wine could be available in up to 300 grocery stores – including up to 70 locations authorized to sell by this fall.

Q: What does this mean for beer in grocery stores?

A: We are committed to expanding beer sales to up to 450 grocery stores. To reach this target:

- 150 brand new authorizations will allow grocers to sell beer, cider, wine and fruit wine.
- Up to 150 existing winery retail stores will operate their stores inside grocery, where beer and cider will also be sold.
- Beer-only authorizations will be issued to grocers to bring the total number of grocery stores selling beer to up to 450.

Q: Why is this so complicated? There will be universal authorizations, existing winery stores operating inside grocery, controls on who sells what, some will be matched with beer but some won't. Why not just open it up?

A: The Council did not start from scratch in making its recommendations. It recognized the benefits of the existing retail channels for wine, including the LCBO and winery retail stores, and how we could build on and improve them for consumers and all producers.

There will be differences in the consumer experience. Just like beer, and just like grocery stores in general.

The bottom line is that we're getting what consumers want done — wine will be sold alongside beer in grocery stores.

Q: How will this affect Ontario's wine industry?

A: These changes open up opportunities for all producers – from Ontario, across Canada and around the world. All producers will benefit from being able to sell their wine in more locations.

Here in Ontario, these changes build on our already-thriving industry. Ontario's wine and grape industry contributes to developing tourism destinations, creating jobs and growing our economy. VQA wine sales in Ontario have increased by over $115 million since 2009 to $288 million – a 66 per cent increase.

This is a win for consumers and all producers.

Q: Will bringing winery retail stores inside grocery stores make a big difference to consumers?

A: As consumers will be able to shop for wine in a convenient way, we expect that they will respond favourably to the changes.

Q: Why will it take so long to roll out only 150 new authorizations?

A: By making these changes in stages, we are giving the industry time to adapt.

Unlike beer, wine requires grapes to be grown and wine to be aged, which creates much longer lead times for domestic industry to ramp up.

We have moved quite quickly to increase consumer convenience and choice.

We were pleased to launch the sale of beer in grocery stores this past December, and we look forward to seeing wine on shelves beginning this fall.

Product Assortment and Prices

Q: What type of wine will consumers be able to purchase in grocery stores?

A: In grocery stores, Ontarians will have access to Ontario wines as well as wines from the rest of Canada and around the world. Fruit wine will also be available.

The product selection will vary depending on the grocery store.

Q: Will there be restrictions on wine sales like there are for beer sales?

A: Yes, there will be restrictions similar to beer, to ensure that:

- The sale of wine and beer adheres to standard hours;
- Staff selling and handling wine and beer in grocery stores must be a minimum of 18 years of age;
- Staff must be fully trained to ensure Ontario's standards for social responsibility are always met;
- Staff will be responsible to ensure that customers under the age of 19 and intoxicated adults do not purchase beer.

Q: Why will grocery stores only be able to sell wine that costs $10.95 or more?

A: We believe that, where access is expanded, social responsibility standards should be strengthened. This price restriction is supported by social responsibility groups, including MADD.

This price restriction also supports the competitiveness of Ontario VQA wines in the grocery channel, and promotes the objectives of Ontario's Wine and Grape Strategy.

Q: Why is the price restriction set at $10.95, and not higher/lower?

The $10.95 price restriction strikes a balance between providing a broad product selection and maintaining social responsibility standards. The majority of Ontario VQA wines are priced at $10.95 or higher, and therefore the price restriction supports their competitiveness in this channel.

Q: What are the differences between the grocery stores what will get new authorizations vs. the stores that will have wine retail stores move inside their checkouts?

A: The new wine authorizations will see wine fully integrated on grocery store shelves with a full assortment of domestic and imported wine.

Winery retail outlets that operate their stores inside grocery locations will broaden their assortment to sell the wines of any Ontario producer.

In both cases, there would be a shared checkout for both groceries and wine.

Q: Who decides which wines will be sold in grocery stores?

A: While the product selection will vary depending on the grocery store, the new grocery store channel will sell imported and domestic wine.

For the grocery stores that secure one of the new beer and wine authorizations, it will be the grocers that decide which products to offer.

The owners of winery retail stores will continue to decide which products they offer, however they will broaden their selection to sell the wines of any Ontario producer. There will be minimum shelf space requirements for the wines of other Ontario producers and small wineries to ensure fair representation.

Q: The Council's report suggests that some authorizations be restricted until three years after they are issued. What does this mean?

A: The initial allocation of 70 licences should be split into two equal groups of 35 licences. One group of 35 would allow for the immediate sale of both imported and domestic wine. The remaining 35 would be restricted for the first three years to selling only Ontario VQA wines from producers other than the larger owners of off-site WRS outlets. After the initial three-year period, these stores would automatically be permitted to sell all wine. This transitional arrangement is designed to allow time for the industry to adapt to the new Wine in Grocery channel.

The Council is suggesting that the Province consider allocating further tranches at three-year intervals to coincide with the date that the previous tranche converts to permit the sale of all wine, up to 150 licences in total.

Q: Will there be a minimum amount of shelf space for Ontario wines?

A: The Council has recommended that the government discuss with grocers opportunities for small producers to access the new Wine in Grocery channel, and ways to provide adequate display of VQA wines.

The government will take this recommendation into consideration in the lead up to the allocation process for Wine in Grocery.

Off-site winery retail stores are only permitted to sell Ontario wines.

Q: Will wine prices increase as a result of these changes? How much? What about beer and other alcoholic beverages?

A: Beverage alcohol producers will continue to set prices for their products.

It's important to keep in mind that Ontario enjoys the lowest prices in Canada for wine – and among the lowest prices for beer.

Q: Will wine prices be the same at grocery stores as in the LCBO and winery retail stores?

A: Yes. Consumers will pay the same price for the same product no matter where they buy it.

This applies to all types of alcoholic beverages, whether purchased at the LCBO, grocery stores or on-site where the product is made.

Revenue and LCBO Impact

Q: How will these changes affect the Province's revenue?

A: We believe government revenues will be mostly unaffected by this move to better integrate wine retailing into grocery stores. We will know better over time, as all participants adjust to the changing retail landscape.

We are doing this to deliver on consumer demand for increased convenience and choice while ensuring returns to fund key government priorities like healthcare and education.

The Ministry of Finance is moving ahead with the 2016 Budget announcement to increase LCBO mark-ups on wine and corresponding increases to the wine taxes at winery retail stores, as well as increases to the minimum price for wine. These will generate approximately $75 million in new revenue at year 3 of implementation, in 2018-19.

Q: Will grocers profit from wine sales? Will government share in this benefit?

A: This model creates opportunities for producers, grocers and the LCBO while ensuring Ontario continues to have necessary revenue for investing in key priorities like infrastructure.

As is the case with beer sold in grocery stores, producers, grocers and government will earn revenue from wine sales in grocery stores.

Because grocers purchase product from the LCBO at a discount, the grocers earn the gross margin bid in the auction when they sell it to consumers.

Grocers will compete in a competitive allocation process based on the minimum discounts bid.

We expect wine prices to remain the lowest in the country after these changes are implemented.

Q: How will the LCBO's business change as a result of expanded wine and beer sales in Ontario?

A: These changes mean the biggest increase in competition the LCBO has ever faced. The grocery channel also shifts the LCBO's focus to its role as a supplier.

LCBO will become a more innovative retailer, including continuing to focus on the customer experience and expanding in key areas like eCommerce.

The LCBO is developing its long-term strategic plan to address these challenges. This is demonstrated by key consumer-focused initiatives including store upgrades and merchandising innovations like "Products of the World."

We look forward to the LCBO's moving forward on its eCommerce platform later this year.

Q: How will these changes affect the LCBO? Are LCBO employees at risk of losing their jobs?

We are building Ontario up, with our number-one priority being growing the economy and creating jobs.

We recognize that these changes will mean the LCBO has to adapt the way it does business.

LCBO will become a more innovative retailer, including continuing to focus on the customer experience and expanding in key areas like eCommerce.

Competitive Allocation Process

Q: Who will run the competitive allocation process, issue the authorizations and enforce social responsibility requirements?

A: As with beer, the LCBO will run the competitive allocation process and enter into supply agreements with grocers.

The AGCO will ensure that any locations with supply agreements meet store eligibility criteria, as well as criteria for the socially responsible sale of beer and wine in their stores, before authorizing them to sell.

Q: When will grocers be able to bid on authorizations to sell wine?

A: The LCBO is expected to launch the competitive allocation process this summer. Grocers would be authorized and begin to put product on their shelves by fall.

Q: Is there a required geographic distribution for the authorizations?

A: As with beer, we will put measures in place to ensure a fair representation of grocers and equitable geographic distribution across Ontario.

Q: Will large and independent grocers be given the same opportunities?

A: As with beer, we will put measures in place to ensure fair representation of grocers and equitable geographic distribution across Ontario.

In fact, of the first 70 wine authorizations, at least 18 will be allocated to independent grocers.

Q: What does this mean for grocery stores that already have winery retail stores on their premises?

A: Up to 150 winery retail outlets that are currently located in grocery stores and just outside the checkout will be enabled to operate their stores inside grocery locations with a shared checkout so that consumers can check out wine along with the rest of their groceries.

To facilitate that process, up to 70 beer authorizations will be offered to grocers that are able to reach an agreement with winery retail store owners by May 1, 2017. These beer authorizations would be granted directly to the grocer based on a set discount of 3% off the net price, which was the minimum bid in the 2015 Beer in Grocery allocation.

This is in addition to the 150 brand new authorizations that will be issued for grocers to sell wine, beer, cider and fruit wine on shelves.

The remainder of the winery retail stores will continue to operate as they do now. Grocery locations with winery retail stores on their premises would not be eligible for one of the 150 new universal wine authorizations. They could, however, apply for an authorization to sell beer.

Q: What about the grocery stores already selling beer?

A: Grocers that successfully won beer authorizations in the last allocation can bid on wine and beer authorizations and to co-locate with winery retail stores. Large grocers are free to move beer authorizations between stores within a region they would not be prevented from bidding on wine authorizations.

Single store grocery operators that were successful in the 2015 allocation would be able to bid for a new universal wine authorization for their store to combine with their existing beer authorization.

Q: How much will it cost grocers to apply for and maintain their authorizations?

A: These details will be made available when the competitive process opens this summer.

<u>Other</u>

Q: What are the terms for a winery retail outlet seeking to relocate inside a grocery store?

A: The grocer and the existing winery retail outlet must form an agreement for the winery retail outlet to operate its store inside the grocer's space.

To facilitate this process, up to 70 beer licences will be offered to grocers that are able to reach an agreement with winery retail store owners by May 1, 2017. These beer licences would be granted directly to the grocer based on a set discount of 3% off the net price, which was the minimum bid in the 2015 Beer in Grocery allocation.

Q: What is the outcome and status of the pilot project for farmers' markets?

A: The VQA wine sales at farmers' markets initiative is part of the overall renewed Wine and Grape Strategy. The two-year pilot project started on May 1, 2014. To date, 83 wineries and 212 farmers' markets have participated and sales have surpassed $1.4 million. The Council has recommended that craft cider and fruit wine be included in the farmers' market initiative.

The government is accepting the Council's recommendations and is taking steps to ensure these products are included in this initiative. The details regarding implementation will be announced in the coming months.

Q: You're opening new retail channels for wine, beer, cider and fruit wine. Why not for spirits?

A: The Council's recommendations recognize and build in the existing retail systems for beverage alcohol. We are confident the LCBO is a fair, competitive and effective retail channel for spirits. Spirits are key to the LCBO's profitability and the LCBO engages in a number of activities to ensure the industry continues to thrive.

The LCBO, as the exclusive retailer of spirits in Ontario, is encouraged to continue to find customer-focused ways to offer new and innovative merchandising and promotional opportunities for this important product category.

Q. What changes are you making for spirits producers?

The government will allow craft distillers to deliver directly to bars and restaurants, replace the current markup/commission structure at on-site stores for all distillers with a consumer tax, provide craft distillers with improved margins at their on-site stores, and provide an exemption on a limited volume of spirits for promotional distribution at on-site stores.

Acknowledging that spirits are subject to the highest markups of the three major categories, the government is not increasing spirits mark-ups at this time.

Q: You're preserving advantages for Ontario wineries – are you certain that you're trade compliant? Aren't you worried that allowing winery retail stores to operate inside grocery markets and keeping them domestic will lead to a trade challenge?

A: In an increasingly global economy, Ontario's trade and investment relationships are important to us. Trade obligations were a key consideration in the Council's recommendations for the wine sector.

We're confident we've created a win-win-win scenario – for the province's wine lovers, for Ontario's outstanding wine producers and the many farmers who support them and for wine producers from across the country and around the world.

The reality is that these changes open up new market opportunities for imports as well as Ontario products.

Q: How does this proposal manage the social responsibility risks associated with increased access to alcohol?

A: As we did with beer in grocery, we will make sure that wine is sold in a way that is consistent with Ontario's social responsibility mandate for the sale of alcoholic beverages.

This will include restricted hours of sale and mandatory training for all staff handling alcohol, and restrictions, such as maximum alcohol content and package sizes.

At the same time, we need to recognize that we are expanding the alcohol retailing network, and this has corresponding social responsibility impacts.

That is why the work we are doing with the Ministry of Health and Long-term Care on the provincial alcohol strategy is so important. The Ministry of Health is consulting with stakeholders on that work, and we expect to report back in the spring with a comprehensive plan.

Q: How is the government supporting Ontario's domestic beverage alcohol industry?

A: Ontario will provide increased retail access and other improvement to support Ontario's domestic beverage alcohol manufacturing industry.

- **Cider:** Allow cider (both imported and domestic) to be sold in grocery stores, and allow Ontario craft cider to be sold at farmers' markets.
- **Fruit Wine:** Allow fruit wine to be sold in grocery stores as part of the universal wine authorizations and at farmers' markets, and allow fruit wineries to deliver directly to bars and restaurants at the same rate as VQA wine.
- **Spirits:** Allow craft distillers to deliver directly to bars and restaurants, replace the current markup/commission structure at on-site stores for all distillers with a consumer tax, provide craft distillers with improved margins at their on-site stores, and provide an exemption on a limited volume of spirits for promotional distribution at on-site stores.

Ontario Microbrewery Strategy Renewal

Q: Why is the government extending the Ontario Microbrewery Strategy program two years to March 31, 2018?

A: The program is being extended to assist with craft brewers' successful launch in grocery stores.

The funding would also allow the Ontario Craft Brewers Association (OCB) to:

- continue building their brand;
- finish implementing quality programs for new members;
- establish breweries in more communities; and

- further explore export markets.

Q: How much funding will the Ontario Craft Brewers Association receive?

A: The program extension will provide $1.4 million over two years to the Ontario Craft Brewers Association (OCB).

- $800,000 would be allocated for 2016-17 and $600,000 would be allocated for 2017-18.
- The program would expire on March 31, 2018.

Q: Why is the program only being extended for two years? Why not extend it beyond March 2018?

A: The program is being extended in line with the rollout of beer in grocery stores and will help craft brewers' successful launch in that new channel.

Q: How have Ontario craft beer sales grown in Ontario?

A: Since first being introduced to the market in 1984, locally brewed, small batch beer has steadily gained popularity and market share to become one of LCBO's fastest-growing product categories.

In 2014-15, sales of Ontario craft beer in the LCBO were more than $68 million. This represents an increase of about 635 per cent since 2006-07.

Beer Framework Agreement

Q: Why does Ontario need a beer framework? Why not simply open up the sale of beer as widely as possible?

A: The Beer Store operates as part of Ontario's low-cost, efficient distribution system, which will be maintained and will continue to benefit Ontarians by keeping beer prices below the Canadian average.

We have expanded convenience and choice for consumers by expanding the sale of beer to grocery stores. This new approach brings added competition to the beer retail market and provides new growth opportunities for small brewers.

Q: The government's strict controls around beer in grocery stores have been criticized. Why are you still so involved in alcohol retailing?

A: Selling alcohol is a public trust that our government takes very seriously. These are the biggest changes to beer retailing in Ontario since the repeal of prohibition.

Our approach balances a number of considerations, including how to best meet consumer demand, secure good value, ensure fair competition, avoid regional

concentration and serve communities across the province, while maintaining our strong commitment to social responsibility.

The government is proceeding prudently and responsibly.

Q: Are beer prices going up as the result of the new beer framework agreements?

A: On November 1, 2015, the charge on beer increased by three cents per litre, or 25 cents per 24-pack, and will increase by 3 cents per litre each November until 2018. These four increases will generate about $100 million a year when fully implemented.

Even with these changes, Ontario beer prices are expected to remain below the Canadian average.

The industry's largest brewers have also committed to cap price increases to inflation for some of their most popular beer products until May 2017.

Any revenue generated from selling alcohol in a socially responsible manner supports key government priorities such as health care, education and skills training, and infrastructure and transit investments that benefit all Ontarians.

Q: How much does beer cost in the grocery store compared to the cost of beer at the LCBO or the Beer Store?

A: Beer prices are set by the brewer, subject to minimum price requirements to encourage responsible consumption, and under our uniform pricing policy, the retail price for a particular product is the same at the LCBO, the Beer Store, the brewer's own on-site store, or in a grocery store

For example, a 6-pack of Steam Whistle Premium Pilsner that sells at the LCBO for $13.85, including container deposit, sells for the identical price at the grocery store and the Beer Store. And a 6-pack of Molson Canadian that sells at the Beer Store for $10.95, including container deposit, sells for the identical price at the grocery store and the LCBO.

Q: How is social responsibility being upheld for beer sold in grocery stores?

A: Grocers must follow strict rules for the safe sale of alcohol.

Beer can only be sold within permissible hours, in a single section of the store, it cannot exceed 7.1 per cent alcohol by volume, and is limited to six-packs or less.

Staff selling and handling beer in grocery stores must be at least 18 years old, and fully trained to ensure that underage customers and intoxicated adults do not buy beer.

The government is also consulting industry and social responsibility groups to develop a comprehensive alcohol policy framework to support the safe and responsible consumption of alcohol.

Q: Why can't convenience stores sell beer?

A: The Premier's Advisory Council on Government Assets recommended that the expansion of beer sales be limited to grocery stores, which it defined as retailers with at least 10,000 square feet of food products. The government believes that grocery stores are best positioned to maintain our system's strong social responsibility standards. Smaller, locally owned grocers are among the 60 stores authorized to sell beer.

Q: When will the LCBO run the next competitive allocation for beer?

A: The government proceeded with its first beer authorizations in December 2015.

The LCBO is expected to launch the competitive allocation process for 70 wine and beer licences this summer. Grocers would be authorized and begin to put product on their shelves in the fall.

The government will review the outcomes of this initial tranche before proceeding with future tranches.

Q: How does the new Beer Framework bring enhanced transparency and accountability to the Beer Store?

A: The Beer Store is being returned to its co-operative roots. By opening up its ownership to all brewers with facilities in Ontario it will be more transparent and responsive to brewers, the government and the public. All transactions between the Beer Store and its shareholders will be conducted in a transparent, auditable and commercially reasonable way.

The Beer Store will also operate under a new governance structure to provide fair representation for all shareholders.

- Four Independent Directors will approve key policies related to brewer neutrality, will approve transactions between the Beer Store and its owners, and will participate on all board committees.

- An independent Beer Store Ombudsperson will ensure brewer and customer complaints are handled in an unbiased manner.

Q: How do Ontario small brewers benefit from the new Beer Framework?

A: The government is committed to supporting Ontario's small and craft brewers. The Beer Store's retailing and marketing practices will treat all brewers fairly and provide additional retail opportunities.

Small brewers can pool deliveries to licensees and the LCBO, and use third party carriers and warehousing.

At least 20 per cent of shelf space in the Beer Store network and in grocery stores is dedicated to small brewers, and there is a new marketing sub-category called "Ontario Craft in the Beer Store.

Q: What other improvements can consumers expect to see at the Beer Store?

A: The Beer Store will improve the customer experience over time, by converting its stores to modern self-serve and open concept formats. It will also spend $100 million in capital improvements over the next four years, including $80 million on its retail stores.

Q: Why does the Beer Store have a new rebate program for small licensees?

A: Under the new beer framework, as of January 31, 2016, small licensees who purchase less than 2,046 litres of beer (up to 250 cases) annually are eligible to purchase it at consumer retail prices.

Due to technical issues associated with the Beer Store's pricing systems, a rebate program is currently the quickest way for the Beer Store to implement this new program and extend the benefit of lower prices to small licensees.

Licensees will receive a rebate for the difference between the licensee price and consumer retail price on the purchase date. The rebate will be paid quarterly, within 60 days after quarter end.

Alcohol Policy Framework

Q: How much money will you be dedicating to support an alcohol policy framework and how will you be distributing the money across the province?

A: As indicated in the Budget, we expect to dedicate a portion of revenue to support the strategy. However, it is premature to determine the exact amount required until the Ministry of Health and Long-Term Care reports back on the strategy. We need to understand where there is a need for additional funds and determine how to invest to ensure the best outcome. I look forward to their advice.

LCBO Head Office Land Sale

Q: The government originally announced its intention to sell the LCBO head office lands in the 2012 Budget. Why is it taking so long?

A: The Province is in the final stages of the process to sell the LCBO's head office lands. Proponents were invited to submit development plans and a purchase price

through the Request for Proposal process, which closed in September 2015. Negotiations with a potential purchaser are underway, with the transaction expected to close in the spring of 2016.

Q: How will the proceeds from the sale of the LCBO head office lands be used?

A: Net revenue gains from the sale will be dedicated to the Trillium Trust to help fund investments in transit, transportation and other priority infrastructure in the Moving Ontario Forward initiative. These investments are being made under the Province's plan to grow the economy, create jobs and enhance the quality of life for Ontarians.

Q: Do you have any comment on the Statement of Claim to the Ontario Superior Court of Justice by a proponent that was disqualified from the head office lands sale RFP process?

A: As a formal legal process has been initiated, I am not in a position to comment.

LCBO Modernization

Q: Why is the LCBO developing an e-commerce marketplace?

A: In response to the Premier's Advisory Council recommendation that the LCBO improve its e-commerce offerings, the LCBO is developing a best-in-class e-commerce marketplace to expand the assortment of products available for pick-up at local stores and eventually home delivery in accordance with strict rules for social responsibility.

Q: When will the LCBO launch its new e-commerce website? Will consumers be able to have LCBO products delivered to their homes?

A: This new platform will be operational by mid-2016.

Domestic producers, suppliers and agents from around the world will be able to list products for purchase for pickup at local LCBO stores or for home delivery in accordance with strict rules for social responsibility.

Q: When is the LCBO going to expand the sale of 12-packs of beer to more of its stores?

A: The LCBO is selling 12-packs of beer on a pilot basis in 10 stores across the province. The results of this pilot program will be evaluated by an independent third party later this year, and if found to be successful, the program could expand to up to 60 stores.

Q: How is the LCBO supporting Ontario's craft and small brewers?

A: The LCBO is rolling out Craft Beer Zones to 25 locations across Ontario, bringing together Ontario, Canadian and international craft beers, grouped by style.

In addition, a growler-filling station at the LCBO Summerhill store features a rotating selection of three different Ontario craft beers not available in any other format. Consumers can also sample the featured brands for a small fee.

Q: What types of specialty shops has the LCBO launched recently?

A: The LCBO's "Products of the World" program has destination stores with expanded boutique formats for products from Greece, Portugal and Spain, as well as two kosher boutiques and a specialty whisky boutique.

Q: What other measures will the LCBO consider coming out of the Premier's Advisory Council's recommendations?

A: In response to the Council's recommendations, the LCBO will launch a pilot program in 2016 offering suppliers the opportunity to tender for unique or exclusive product calls that would include special promotional benefits in exchange for higher margins on these products.

The proposed changes to introduce beer and wine in grocery stores represent a significant increase in competition, and the LCBO is developing its strategic plan to take account of the new realities of Ontario's beverage alcohol system. The LCBO will continue to focus on the customer experience, such as its recent "Products of the World" initiative, and on expanding in key areas like eCommerce.

Alcohol Charges

Q: What change is being made to the minimum price for wine and why?

A: The government will change the minimum price for wine from a wholesale to retail price to be consistent with spirits and beer. Minimum prices are an important measure for reducing alcohol-related harm.

- The minimum retail price for table wine will be set at $6.45 on March 1, 2017, $7.25 on March 1, 2018 and $7.95 on March 1, 2019. These prices include a 20 cent deposit.
- The minimum retail price for cider, fortified wine and low-alcohol wine will also be phased in over three years.

Q: What is the impact of the wine minimum price change?

A: Changing the minimum price for wine from a wholesale to retail price of $6.45 won't happen until March 1, 2017.

There are very few wine products listed in the LCBO that are at the minimum price. For example, only 5 wine products listed in the LCBO will be at the March 1, 2016 minimum price of $6.30.

Q: What is the minimum price now?

A: The current wine minimum price is a wholesale minimum price. As a result of differing wholesale bases, wine minimum retail prices vary by source and type of wine. This is why we are changing the wine minimum price from a wholesale level to a retail level.

- For example, the current minimum retail price equivalent for a 750mL bottle of 100% Canadian table wine, including deposit, is $5.30, while U.S. Table wine is $6.30.

The current beer and spirits minimum prices are identical for domestic and imported products because they are retail minimum prices.

- The current minimum retail price for a typical case of 24 bottles of beer with 5% alcohol is $31.35, including deposit, regarding of whether it is a domestic product or imported product.
- Similarly, the current retail minimum price for a 750ml of spirits is $25.75, including deposit, regarding of whether it is a domestic product or imported product.

Q: How do the changes you are making to the minimum price for wine fit with the minimum price increase that occurred on March 1, 2016?

A: Changing the minimum price for wine from a wholesale to retail price won't happen until March 1, 2017.

The adjustment on March 1, 2016 was made in accordance with a regulation under the *Liquor Control Act* which provides for annual indexing of the beer, wine and spirits minimum prices based on the three-year average of Ontario CPI. This adjustment happens every year on March 1st - or the following Monday if March 1st falls on a weekend.

The March 1, 2016 adjustment was 1.5%. For a 750mL bottle of table wine, the minimum retail prices increased by 5 cents to:

- $5.30 for VQA/100% Ontario wine
- $6.15 for blended Ontario wine
- $6.30 for imported table wine

Per the Premier's Advisory Council on Government Assets' recommendation, the wine minimum price for a 750mL bottle of imported or domestic table wine in subsequent years will be adjusted to ensure wine is sold at a price per litre of absolute alcohol that is more in line with beer and spirits:

- March 1, 2017: $6.45
- March 1, 2018: $7.25
- March 1, 2019: $7.95

Recommencing on March 1, 2020, the wine minimum retail prices will be adjusted by the three-year average of Ontario CPI.

Q: Why did the Council recommend increasing the minimum price of wine increasing to $7.95, and not higher/lower?

Minimum retail prices are an important component of Ontario's socially responsible beverage alcohol system. The minimum price for wine will change from a wholesale to retail price and will increase to $7.95 on March 1, 2019. These changes will help bring the minimum price per litre of absolute alcohol for wine more in line with beer and spirits.

We expect Ontario's wine prices to remain the lowest in the country after these changes are implemented. Only 2% of wine sold in the LCBO is below $7.95 per bottle.

Q: How much will the price of wine increase as a result of the 2 percentage point mark-up change this year?

A: The impact of the mark-up change will depend on the price of the product and whether the producer wants to keep the price the same or increase it.

- A $13.95 bottle of wine could increase by $0.15 to $14.10 if the producer decides to change the price in response to the mark-up change. Due to uniform pricing, the price would be the same at the LCBO, a grocery store and a winery retail store.
- With the full 7 percentage point mark-up increases, the price of the $13.95 bottle of wine could increase by $0.55 to $14.50. This price would not be in effect until April 1, 2019.

Q: How much revenue will the Province make as a result of these changes?

A: The wine mark-up, tax and minimum price changes will generate about $15 million in 2016-17, $45 million in 2017-18 and $75 million in 2018-19.

- The increase in the wine mark-up accounts for about 96% of the estimated revenue.

Q: Are you making changes to on-site distillery stores because of the court case?

A: We are responding to industry requests for lower charges on craft spirits products sold in on-site distillery stores. The government expects to introduce legislation in the future that will outline the design and establish the rate that will apply to craft spirits sold in on-site distillery stores.

Q: How much of a reduction will there be to the charges applied at on-site distillery stores?

A: No decision has been made yet on the rate.

The government expects to introduce legislation in the future that will outline the design and establish the rate that will apply to craft spirits sold in on-site distillery stores.

Q: What will be the exemption for promotional distribution at on-site distillery stores?

A: Currently wine and beer manufacturers are exempt from paying the wine and beer taxes on the first 10,000 litres of product used for promotional purposes. It is proposed that this exemption be extended to spirit manufacturers' who provide promotional products from their on-site distillery stores.

- Promotional distribution of craft spirits by Ontario manufacturers helps increase awareness of and demand for Ontario products.

Q: What are you doing to the basic tax on non-Ontario (blended) wine? Why?

A: The increases to the basic tax for non-Ontario wine will help close the gap between the charges applied in the LCBO and the winery retail store network. The revenue generated from the wine tax and mark-up changes will support key government priorities such as health care, education and skills training, and infrastructure and transit investments that benefit all Ontarians.

The basic tax on non-Ontario (blended) wine purchased at winery retail stores will be increased by one percentage point on each of June 1, 2016, April 2017, April 2018 and April 2019.

- The current basic tax rate of 16.1 will increase to 17.1, 18.1, 19.1 and 20.1.

Q: Why is the tax rate for non-Ontario (blended) wine increasing but not the tax rate for Ontario (VQA and 100%) wine is not?

A: Maintaining the current tax rate on Ontario (VQA and 100%) wine while increasing the tax rate on non-Ontario (blended) wine is consistent with Ontario's wine and grape strategy.

The strategy focuses on VQA wines with a goal to compete internationally on quality. The strategy continues to support industry growth in general to improve the competitiveness of our local wine industry.

Q: Why are LCBO mark-ups increasing and how much are they increasing?

A: The government has accepted the Council's recommendation to adjust the LCBO mark-ups that apply to wine to bring them more in line with those applied to other alcohol products.

Except for adjustments for the Harmonized Sales Tax (HST) in July 2010, there have been no mark-up increases to wine since 1998.

The LCBO wine mark-ups will increase:

- 2 percentage points on June 20, 2016;
- 2 percentage points on April 1, 2017;
- 2 percentage points on April 1, 2018, and;
- 1 percentage point on April 1, 2019.

Horse Racing Partnership Funding Program

Q: Why is the Government extending the Horse Racing Partnership Funding Program (HRPFP) for two years?

A: The HRPFP came into effect on April 1, 2014 as the government's plan to invest up to $500M over five years (to March 31, 2019) to support a world-class horse racing industry in the province.

The two year extension (to March 31, 2021) will give confidence to the industry to make investments and business decisions for the coming years.

Q: How much money will the government spend for these additional two years?

A: The two year extension will provide funding consistent with the initial five year program in that up to $100M will be provided to the industry annually.

Q: If OLG is taking over responsibility for HRPFP, what is OMAFRA's role going forward?

A: OLG has taken responsibility for HRPFP. Previously the Ontario Racing Commission delivered this funding. The agreements and level of funding for this program will not change. OLG has outreached to racetracks to make them aware of this transition.

OMAFRA will still provide funding to the industry for breeding support programs and initiatives such as equine health.

Q: What is the future of the HRPFP?

A: The two year program extension will give confidence to the industry to make investments and business decisions for the coming years.

Beyond this time, the intention would be for OLG to establish a future, longer-term funding arrangement with the industry. The arrangement would be subject to government approvals, and further integrate gaming with horse racing and support industry sustainability.

Q: What will a long-term funding arrangement look like between OLG and the horse racing industry?

A: OLG is working with the horse racing industry to further inform what a long-term funding arrangement would be. Any provincial funding arrangement directly delivered by OLG will require prior government approval.

The overall objective of this funding is to assist the industry in sustaining a quality, internationally recognized horse racing product for the wagering customer and to support the industry and jobs across rural Ontario.

As with any funding arrangement, performance measures will be established and tracked to further inform ongoing funding.

Q: Why is horse racing integration taking so long?

A: The integration began in 2013 and continues. Over the previous year, the government advanced its integration efforts by realigning provincial regulation, adjudication and funding support to the industry.

We want to make sure that we get the provincial support for the industry right. This is a collaborative ongoing process with the industry. The government is committed to horse racing integration, and the extension of the Horse Racing Partnership Funding Program (HRPFP) for another two years, is a critical next step to providing ongoing certainty to the industry while a long-term strategy is developed.

Q: The government is establishing leases with racetracks where OLG slots are located. How is this proceeding?

A: OLG currently has long-term leases in place with 12 racetracks. OLG is working to finalize the remaining leases as soon as possible.

Q. What is the role of the Alcohol and Gaming Commission of Ontario (AGCO) in horse racing regulation?

A: The AGCO currently regulates gaming activity in Ontario. To streamline all gaming regulatory activities, as of April 1, 2016, AGCO will also regulate and license the horse racing industry.

Q: **Why is OLG net profit to the province (NPP) expected to decline slightly from 2015-16 to 2016-17?**

A: OLG continues to provide approximately $2 billion to the province, which helps to fund key public services like health care and education.

Delays in the procurement processes for private sector service providers for gaming and lottery have impacted the timelines for increased NPP from modernization.

2015-16 was an exceptional year for OLG NPP with projections of over $150M more than Budget 2015, mainly due to increased sales revenue from national lottery tickets (Lottomax, Lotto 6/49). NPP in 2016-17 is expected to decrease slightly in comparison, as lottery sales and resulting revenues return to more normal levels.

Q: Why is net profit to the province higher in 2015-16 compared with projections in Budget 2015?

A: Revenue from national lotteries (Lottomax and Lotto 6/49) is higher than was projected in Budget 2015, primarily due to a higher number of large jackpots. More large jackpots led to higher sales revenues.

Q: Is funding to hospitals being reduced by $107M in 2016-17 as a result of OLG's projected lower net profit to the province?

A: Revenue generated by OLG is paid into the province's Consolidated Revenue Fund (CRF). Allocations to the Ministry of Health and Long-Term Care (MOHLTC) are made from the CRF. OLG revenues targeted for health care only amount to 3% of MOHLTC's $52B budget.

Fluctuations in OLG's revenues do not impact health care funding levels or projections.

Q: Is OLG still expecting to have an increase of $1B in NPP as a result of modernization?

A: OLG is continuing with modernization. When OLG's plan is fully implemented, the Province will benefit from increased profit to the province each year. This money will be used to fund the vital public services - especially health care and education - that Ontarians count on. Current projections are that modernization will be fully implemented by 2021-22.

Q: What is the status of OLG modernization?

A: Modernization is expected to be fully implemented by 2021-22. To date, OLG has released the Lottery, North, Southwest and the GTA Requests for Proposals (RFPs). Operators for these sites will be selected throughout 2017. The RFPs for the other gaming bundles will be released in the coming months. Additionally, this past January, OLG and Ontario Gaming East Limited Partnership (OGELP) entered into a 20-year Casino Operating and Services Agreement for the East Gaming Bundle.

Under this agreement, OGELP is running the daily operations of the former OLG Casino Thousand Islands and OLG Slots at Kawartha Downs under its Shorelines Brand. OGELP also intends to build and operate a new site in Belleville.

OLG has also announced it is adding the Niagara Casinos to its modernization procurement process. The Request for Pre-Qualification (RFPQ) for the Niagara Gaming Bundle is expected to be released in Summer 2016.

Q: Why did OLG cancel the Ottawa Request for Pre-Qualification (RFPQ) Procurement?

A: In December 2015, OLG cancelled the RFPQ for the Ottawa Gaming Bundle. OLG and the landlord have not been able to finalize a lease for the gaming site at Rideau Carleton Raceway, which is required to proceed with the modernization procurement process. OLG hopes to reach a commercially viable solution in the near future so the procurement process can proceed.

Q: When will the labour dispute between OLG and gaming employees at the Rideau Carleton Raceway (near Ottawa) be settled?

A: OLG is expected to proceed with negotiations that are reflective of the ongoing modernization procurement exercises and are within the parameters of the government's expectations for fiscal responsibility.

The Government respects the collective bargaining process and will respect OLG's role as an agency in this matter.

Q: Why isn't Great Blue Heron part of the GTA Gaming Bundle?

A: OLG continues to have discussions with the Mississaugas of Scugog Island First Nation (MSIFN) regarding the possible inclusion of the Great Blue Heron Casino within the GTA Gaming Bundle. Some draft agreements have been developed and will be put forward for required approvals by the provincial government, the OLG Board of Directors and others as necessary. The government is also involved in ongoing discussions about inclusion of Great Blue Heron in the GTA Gaming Bundle. If and when applicable, further details will be provided by OLG to proponents during the RFP process.

Q: Why has OLG entered in to two long-term leases with the Woodbine Entertainment Group (WEG)?

A: OLG has entered into two long-term leases with WEG, one for the existing site where OLG's slots facility is co-located, and one for land which a future service provider will develop to build a casino. The long-term lease agreements help OLG achieve its modernization objectives, which include job creation, new capital investment and increased revenue for the Province of Ontario.

These agreements will be assigned to the successful service provider when it assumes operation of the gaming sites in the GTA Gaming Bundle (i.e. upon execution of the Casino Operating Service Agreement ([COSA]). These agreements will replace the current Interim Racetrack leases between OLG and WEG.

Q: What is the status of OLG's Internet Gaming (iGaming)?

A: In January 2016, OLG's Internet gaming site, PlayOLG.ca, celebrated its one-year anniversary. Ontario joined British Columbia, Manitoba, Quebec, and all of the Atlantic Provinces in offering a provincially regulated Internet gambling option.

Ontarians spend an estimated $400 million per year on offshore gaming websites that are not regulated in Ontario. Quebec put forward in their 2015 Budget a proposal to require internet service providers to block access to illegal gaming websites. Discussions between the provinces and the federal government are taking place to determine what options exist under the Criminal Code of Canada to deal with the grey market.

The Ontario Government and OLG will work together to decide on prudent next steps, in 2016.

Q: How are municipalities, that host gaming sites, benefiting under OLG's Municipality Contribution Agreements (MCA)?

A: In the third quarter of 2015-16, OLG gaming sites generated a combined total of $24.9 million for 23 host municipal communities.

Since the launch of gaming sites in Ontario, host municipalities have received more than $1.2 billion in non-tax revenue.

Host OLG municipalities invest their revenues in important local programs and infrastructure projects, creating robust communities.

OFFICE OF ECONOMIC POLICY

Chapter 1A: Fostering a More Innovative and Dynamic Business Environment

Q: How will the Business Growth Initiative help Ontario's economy?

A: The Business Growth Initiative (BGI) is Ontario's new five year, $400 million strategy to increase the province's global competitiveness. It has three elements to accelerate the province's shift towards a more knowledge-based economy:

- Creating an Innovation-Driven Economy;
- Helping Ontario Businesses Scale Up; and
- Modernizing the Regulatory Systems and Lowering the Cost of Doing Business.

As part of the BGI, the government is announcing a number of initiatives in the 2016 Budget, including:

- A $50 million investment over five years in the Perimeter Institute, a world-leading research centre for theoretical physics;
- Investing $35 milion over the next five years towards the establishment of the Advanced Manufacturing Consortium, which will partner the manufacturing industry with three Ontario universities – McMaster, Waterloo, and Western;
- A $20 million fund over three years to better connect colleges and industry on applied research projects;
- Investing $15 million over four years to boost the competitiveness of the automotive sector;
- Support for southwestern Ontario's bioeconomy and biochemical sector through a $3 million investment in Bioindustrial Innovation Canada over four years; and
- Creating a voucher program to help new and emerging firms scale up by supporting commercialization activities, including market research and proof of concept testing;

The Business Growth Initiative builds upon the government's long-term commitment to create a more innovative economy. As part of this commitment, the government has:

- Made significant investments to create a more highly-skilled workforce;
- Supported world-class research at Ontario's postsecondary institutions;
- Provided significant support for research and development (R&D) and other innovation-related activities; and
- Encouraged more knowledge-based startups and innovative small and medium-sized enterprises (SMEs).

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Q: What is Ontario doing to help the auto manufacturing sector transition to the innovation-driven economy of the 21st century?

A: The successful transition of Ontario's auto industry to a more innovation driven and higher value-added business model is crucial for the Ontario economy. The industry is a major contributor to the provincial economy, directly employing over 100,000 highly skilled workers. It also generated almost 20 per cent of the real GDP of the province's manufacturing sector in 2014 and is a major driver of our international exports.

Ontario has demonstrated an ongoing commitment to working with automotive companies to ensure continuing investment, employment and innovation.

- We have encouraged vehicle assemblers and parts suppliers to grow their operations in Ontario resulting in over $4.5 billion in investment in the last two years.
- For example, in 2015, in addition to Toyota's $421 million investment at its assembly plants in Cambridge and Woodstock, Chrysler invested more than $2 billion in their Windsor assembly plant and GM invested $585 million into their Ontario operations.

The 2016 Budget announced $15 million over four years through the Business Growth Initiative to help boost competitiveness, including:

- Investing $5 million over two years to establish an Automotive Supplier Competitiveness Program to strengthen the technological capabilities of small and medium sized auto parts firms; and

- Committing $10 million over four years to the Canadian Urban Transit Research and Innovation Consortium to support R&D and commercialization of technologies like light-weighting and autonomous software, in partnership with the federal and Quebec governments.

Additionally, Ontario recently became the first Canadian jurisdiction to allow the on-road testing of automated vehicles and is investing $20 million to build more public charging stations for electric vehicles.

Continuing to promote innovative anchor investments in the auto sector will help further develop the strength of the auto cluster in Ontario and turn it into a technology hub where Original Equipment Manufacturers (OEMs), auto parts companies, universities and colleges, and technology firms can collaborate to push forward the boundaries of transportation technology.

- Last year GM Canada announced that it would be focussing its engineering centre in Oshawa into an innovation hub for connected and green car technologies as well as supporting a research chair and student research at the University of Waterloo and partnering with Waterloo's Communitech Hub to establish an innovation research hub that will initially focus on urban mobility, car sharing and mobile app innovation.

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Q: What is the state of venture capital in Ontario?

A: Venture capital is an important source of financing for high-potential, entrepreneurial firms. In 2015, Ontario-based businesses received more than $1.2 billion in venture capital investments – the most since 2001. Ontario accounted for almost half of all venture capital investment in Canada in 2015 according to Thomson Reuters.

In January 2014, the Province launched the Northleaf Venture Catalyst Fund (NVCF) in partnership with the federal government and private sector partners. The NVCF has made a number of investments, including in nine venture capital funds and five Ontario-based companies.. This builds upon the success of the Ontario Venture Capital Fund, which has invested in 50 Ontario-based companies to date. As well, the Investment Accelerator Fund (IAF) and the Youth IAF have invested in more than 110 companies.

In April 2015, the government announced Scale Up Ventures, an initiative to provide promising Ontario start-ups with both capital and access to top influential business leaders. The $50 million venture capital fund, with $25 million from the Province, will be complemented by a Leadership Council led by Nadir Mohamed, from president and CEO of Rogers Communications.

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Ontario Student Assistance Program

Q: Will the 30% Off Ontario Tuition grant still be available or has it been eliminated?

A: The government will create a single major upfront grant — the Ontario Student Grant (OSG) starting in the 2017–18 school year by redirecting 100 per cent of the funding from the 30% Off Ontario Tuition grant and other grants offered by OSAP. This will make the student financial assistance system more progressive, effective and transparent for students and their families. The changes will provide students who have the greatest need for financial assistance with better access to grants upfront, when they need them.

The additional revenue from the proposed discontinuation of the tuition and education tax credits would be reinvested to support the OSG or other postsecondary, education, training and youth job programs.

Q: Will increasing access to student loans for middle- and upper-income families result in students taking on more debt for their studies?

A: Currently, many students who do not qualify for OSAP seek financial assistance from private sources such as banks or credit unions. With the student aid transformation, Ontario will increase access to interest-free and low-cost loans for middle-and upper-income families.

OSAP loans are interest-free while a student is in studies and less expensive than a bank loan once students graduate. Moreover, if a student is struggling with repayment they can enter in the Repayment Assistance Program, which will scale a student's loan payment to what is affordable based on their income. This is why increasing access to OSAP loans is a benefit to parents looking to finance their children's education.

Also, Ontario will ensure that the maximum OSAP loan debt a student can incur is not greater than $10,000 for two-terms of academic studies.

Q: When will the changes to student financial assistance be implemented?

A: The changes to student financial assistance will be carried out in two phases and be fully implemented by the 2018-19 academic year.

The first phase will be to implement the Ontario Student Grant and other changes to OSAP to increase the program's assistance limits. These changes will take

effect as of the 2017-18 academic year (August 1, 2017). The second phase of the changes will be to increase access to loans and will be in place by August 1, 2018.

Q: Some students do not attend university or college for reasons that are completely unrelated to finances. Will the government do anything to help these students access postsecondary education?

A: The government wants every Ontarian to recognize and understand the benefit of obtaining a postsecondary education – be it in an apprenticeship program, diploma or degree. The more these students succeed in studies, the better off we are as a Province.

To help students understand the opportunities available to them, Ontario will implement programs to ensure more effective communication of how easy it is to access postsecondary education, and afford it.

This will build on the important work that Ontario's universities, colleges, school boards and communities are already doing to address non-financial barriers to postsecondary education for under-represented groups including Indigenous students, low-income students, students with disabilities and mature students with early outreach programs beginning as early as elementary schools.

Recent Economic Performance

Q: What evidence do you have that Ontario's economy is performing better than Canada's?

A: Ontario became one of the fastest growing provinces in 2014 and 2015, and private-sector economists expect this will continue until at least 2017.

On an annual basis, Ontario's real GDP increased by 2.7 per cent in 2014, strengthening from growth of 1.3 per cent in 2013 and outpacing the national average for the first time since 2002.

After a slow start to 2015 when the economy was affected by a number of temporary factors including unusually harsh winter weather, closure at auto plants for retooling, and a west coast port strike affecting exports, Ontario's economic growth gained pace in the second and third quarters of 2015, with real GDP advancing 0.4 per cent and 0.9 per cent, respectively. Ontario's economy outpaced the Canadian economy in all three quarters in 2015.

Q: The FAO claims that Ontario's export gains have been disappointing in 2015, yet the Budget claims that Ontario's exports continue to strengthen. What evidence do you have to support this claim?

A: Ontario's real (or volume of) merchandise exports has increased by around 3% in 2015, following an increase of 2.8% in 2014, according to Ontario Ministry of Finance estimates, using Statistics Canada international export price data.

Ontario's economy in early 2015 was affected by a number of temporary factors including unusually harsh winter weather, closures at auto plants for retooling, and a west coast port strike – all of which impacted exports. Ontario real exports declined 2.0% in the first quarter of 2015, but rebounded in the second (+0.2%) and third quarters (+3.0%) of the year.

In a previous commentary, the FAO noted that "exports did increase by a strong 3.0% in the third quarter, following a weak performance over the first half of the year, providing some promise that exports may continue to support growth in 2016."

The Budget projects real gains of 3.0% annually, on average, over the 2016 to 2019 period, benefiting from the lower Canadian dollar and ongoing solid U.S. demand.

Q: Employment gains may have been over 600,000 since June 2009, but Ontario created less than 50,000 jobs in 2015. Why was employment growth weak in 2015?

A: Employment growth was dampened in the first quarter of 2015 as a result of various temporary factors that impacted the overall economy.

Employment gains were stronger over the rest of 2015. In Ontario, all the employment gains in 2015 were in full-time positions and in industries paying above average wages.

Employment growth is expected to pick up in the medium term, growing by 1.1% or 78,000 net new jobs in 2016 and then average of 1.2 per cent annually, from 2017 to 2019.

Ontario's unemployment rate declined from 7.3 per cent in 2014 to 6.8 per cent in 2015, below the national average for the first time since 2005.

The unemployment rate is projected to improve to 6.6 per cent in 2016, down from 6.8 per cent in 2015, and is forecast to steadily decline to 6.1 per cent by 2019.

Q: The FAO claims an additional 285,000 jobs is required to return Ontario's employment rate to its pre-recession levels. Is that a realistic assumption?

A: The employment rate refers to the ratio of total employment-to-population in the province. The rate has yet to return to pre-recession levels for a number of reasons:

- The global economic recovery following the recession has been weak in most advanced economies, dampening job growth.
- As well, the population aging has put downward pressure on the employment ratio as an increasing number of baby boomers have retired.
    - If we look at core age workers, those between the age of 25 and 54, it would take about a quarter of the FAO estimate (77,000 jobs) to return that rate to its pre-recession level.

Despite a challenging environment, Ontario has recovered all of the jobs lost during the recession, and employment is now 5.1% or 338,000 above the pre-recession peak. In addition, the unemployment rate continues to improve, declining from a recessionary high of 9.6% in June 2009 to 6,8% in March 2016 close r to its pre-recession rate of 6.6% in October 2008.

Economic Outlook

Q: Over the last 18-months there has been a significant shift in the global economic environment. Why do you remain positive about Ontario's economic prospects?

A: There have been significant shifts in the external economic environment over the past year and a half. Growth has slowed in emerging economies, commodity prices have fallen dramatically, and the Canadian dollar has weakened. This has shaken business confidence and left Ontario households unsure about the ultimate impact on their budgets and spending plans.

Yet, overall, Ontario is expected to benefit from the shifting global economic environment. Growth in the U.S., our largest trading partner, is expected to remain solid. As well, the more competitive Canadian dollar provides additional lift to our exporters. Finally, Ontario is an oil-importing province which means consumers and businesses are benefitting from low oil prices. These factors provide an increasingly compelling case for increased business investment and will help support continued solid economic growth in coming years.

Q: Why do forecasters believe Ontario will be among the provincial leaders in economic growth over the next two years, with growth outpacing the national average?

A: Ontario has been among the fastest growing provinces for the past two years.

Overall, Ontario is expected to benefit from the shifting global economic environment. Growth in the U.S., our largest trading partner, is expected to remain solid. As well, the more competitive Canadian dollar provides additional lift to our exporters. Ontario is an oil-importing province which means consumers and businesses are benefitting from low oil prices. These factors will help Ontario lead provincial growth over the next two years.

At the same time, economies in resource-rich provinces have been negatively affected by the low commodity price environment. Private-sector forecasters, on average, expect that Alberta, Saskatchewan and Newfoundland and Labrador all experienced a recession in 2015 while real GDP is expected to decline further in both Alberta and Newfoundland and Labrador in 2016.

Q: Why do you believe Ontario economic growth will be led by business investment and trade?

A: Exports and business investment improved in 2015 and are expected to be key drivers of Ontario's economic growth over the forecast period. Growth in the U.S., our largest trading partner, is expected to remain solid this year. As well, the more competitive Canadian dollar provides additional lift to our exporters. Indeed, the latest data shows that Ontario exporters are already benefiting from strong U.S. demand and the lower exchange rate. On an annual basis, exchange-rate sensitive exports rose 14.1% in 2015.

Solid U.S. demand and a more competitive Canadian dollar will provide an increasingly compelling case for increased business investment, especially now that Ontario's businesses are operating close to full capacity. Business investment will also continue to be supported by Ontario's competitive tax structure.

Q: Is the housing market headed for a correction?

A: The Ontario housing market has experienced years of strong growth, driven by low borrowing rates, steady employment gains and growth in the number of households.

Looking ahead, the housing market is expected to experience a soft landing. Continued gains in employment and healthy demographic demand are expected to support rising house prices. However, rising interest rates, historically high valuations and mortgage debt are expected to provide an offset and result in a more modest rate of growth in house prices and residential investment when compared to recent years.

Q: What are the net risks facing the Ontario economy?

A: While there are both upside and downside risks to Ontario's economic outlook, overall the risks surrounding the outlook appear evenly balanced.

Sustained lower oil prices could provide a greater-than-expected boost to the economy through lower costs for businesses and households.

Despite strong U.S. demand and a more competitive Canadian dollar, challenges remain for Ontario's export sector. The loss of U.S. market share to Mexico and China suggests Ontario export growth to the U.S. may be less robust than experienced during previous periods of currency depreciation.

The housing market is expected to experience a soft landing as price appreciation is expected to moderate following a number of years in which house prices rose faster than incomes. This has led to rising mortgage debt and elevated carrying costs for households which pose a downside risk to Ontario's economic outlook.

Q: Won't weak growth in the rest of Canada drag Ontario down?

A: While Ontario is expected to see continued economic growth, we are feeling the impact of weaker economic activity in resource-rich provinces. Indeed, a recent report from the Bank of Canada noted that 'the adverse impact of the decline in oil prices has gradually spread outside Western Canada into all regions and sectors'.

However, at a time of weak commodity prices and recession in resource-rich provinces, we project real GDP in Ontario rose by 2.5 per cent in 2015 as the economy benefited from solid growth in the U.S., a more competitive Canadian dollar and falling oil prices that lowered costs for consumers and businesses. Ontario's real GDP is projected to rise by 2.2 per cent in 2016 as these factors are expected to continue to support growth going forward.

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2015–16 In-Year Change from 2015 Budget

Q: Land Transfer Tax revenues in 2015–16 are $311 million higher than Plan. Are you expecting continued strength in the housing market?

A: The strong Ontario housing market in 2015 boosted the 2015–16 Land Transfer tax revenue to a record level. However, going forward, the Ontario housing market is projected to moderate over the next two years. As a result, LTT revenue is

projected fall from the record 2015–16 level, yet remains above the levels projected in last year's budget.

Q: Why is Employer Health Tax revenue up if wages and salaries growth was slower in 2015? Was there an increase in the tax rate?

A: No, there was no increase in the EHT rates. The increase in EHT including is likely due to the Province's efforts to enhance auditing of provincially-administered taxes. EHT revenues could also rise because firms grow in size and may now be subject to EHT for the first time, or they move up to a higher EHT bracket and now pay more in EHT.

Medium-Term Revenue Outlook

Q: Comparing your Sales Tax revenue outlook to your 2015 Budget outlook, revenues are lower in 2016–17 and 2017–18 even though revenue in 2015–16 is $504 million higher. Why is this higher revenue not sustained into the medium term?

A: Sales Tax revenue in 2015–16 was boosted by one-time factors, specifically, a 36.6 per cent spike in housing completions in 2015 and one-time prior-year adjustments. The spike in housing completion is projected to give way to a significant decline in 2016 of 12.6 per cent. In addition, the more heavily taxed components of consumption such as durables and semi-durables are projected to grow more slowly than projected in the 2015 Budget.

Q: Given a $3 per carton increase in Tobacco Tax rates announced in the 2016 Budget, why is Tobacco Tax revenue for 2016–17 projected to increase by only 1.1 per cent?

A: The 2016–17 increase appears low because 2015–16 Tobacco Tax revenues include a $51 million one-time audit assessments against two companies. Excluding the $51 million one-time boost to 2015–16 Tobacco Tax revenues, the increase for 2016–17 would be 5.5 per cent.

Q: Experts, and even former finance minister Joe Oliver, have stated that the large drop in oil revenue from oil-producing provinces could have impacts on the Equalization program, and that the entry of other provinces into the program could push Ontario out. Is this true?

A: Ontario is projected to receive Equalization payments over the medium-term. There are however, risks to Ontario's Equalization forecast over the medium and longer term if the low oil prices persist and continue to negatively impact oil-producing provinces or if there is a sustained improvement in Ontario's economic growth relative to other provinces.

Equalization is driven by a formula defined by the federal government.

Ontario will continue to focus our efforts on taking action to support job creation and economic growth within the Province.

Despite continued volatility in global financial and commodity markets, Ontario's economic growth is now outpacing national growth, and is expected to continue being among the strongest in Canada over the next two years.

Equalization funding is tied to growth in Canada-wide nominal GDP. To the extent that lower oil prices have lowered expectations for Canada-wide nominal GDP growth, Equalization entitlements among all receiving provinces could be affected.

Given certain features of the Equalization program, such as the weighted averages and lags used for calculating fiscal capacities, it takes some time for current economic conditions to be reflected in Equalization entitlements.

Key Changes since the *2015 Budget*

Q: Compared to the 2015 Budget, revenues are higher by $2.2 billion in 2015–16, $1.2 billion in 2016–17 and $3.3 billion in 2017–18. Isn't that a substantial tax increase?

A: No. There are several factors contributing to the increase in the revenue outlook including, strength in the housing market, prudent assumptions related to federal government commitments for additional funding for infrastructure, home care and jobs and training, projected proceeds from the Province's cap and trade program and Measures discussed in the 2016 *[Document].*

Higher than projected up-front net revenues from asset optimization, related to the Hydro One IPO are also boosting revenue in 2015–16. [Ch. 1B, Pg. 21]

Q: In the key changes from Budget, the positive impact from the housing market falls from $0.7 billion in 2015–16 to $0.3 billion in 2016–17. Are you expecting a strong correction in the housing market?

A: No, we do not expect a strong correction in the Ontario housing market. A significant portion (about 60 per cent) of the relatively large 2015–16 impact was due to a one-time spike in housing completions in 2015, specifically, multiples which can be quite volatile. Excluding the one-time impact, the contribution of the housing market to revenue would show a modest decline. This is consistent with a projected moderation in the Ontario housing market over the next two years.

Q: The Ontario budget states that new federal funding has been included in the fiscal outlook based on 'prudent assumptions' about new transfers, but the federal government has not said how much Ontario will receive. What are these prudent assumptions and how much new federal money is counted in this budget?

A: The 2016 budget continues the government's plan to build Ontario up and deliver on its number-one priority of growing the economy and supporting job creations. Ontario's plan includes investing in people's talents and skills, as well as making the largest investment in public infrastructure in the province's history.

Ontario and the federal government share common goals, common values and have the same priorities. The federal government has recognized that coordinated and collaborative action is needed to address the issues facing Ontarians and Canadians. And the Province is ready to work with a federal partner to build on Ontario's investments and welcomes federal support for Ontario's plans in areas that matter to Ontarians and Canadians.

The 2016 Ontario budget included some prudent assumptions about what new revenue Ontario could expect from the federal government based on what was in the federal government's election platform. Even the Financial Accountability Officer (FAO) indicated these assumptions were prudent.

For instance, the federal government has committed to $60 billion in new infrastructure funding over 10 years. The Province welcomes this new commitment to build on existing programs and provide both immediate infrastructure investments and longer-term funding to support shared infrastructure priorities, and is working with the federal government to secure its per capita share.

More information will become available in the coming months as the federal government rolls out the details of its various plans around infrastructure, climate change and skills training.

While in some cases, federal measures have already been included in Ontario's fiscal plan, the full extent of the impact of these measures must be analyzed when more details of federal proposals are released.

This is particularly true of infrastructure, where both levels of government are making significant fiscal commitments.

All other forecasts for Government of Canada transfers are based on existing federal-provincial funding arrangements.

Q: In your Fall Statement you estimated cap and trade proceeds to be $325 million in 2016–17 and $1.3 billion in 2017–18. This has now increased to $478 million in 2016–17 and $1.9 billion in 2017–18. Why has the estimated amount of proceeds increased?

A: The cap and trade proceeds estimated at the time of the Fall Statement was based on preliminary design of the cap and trade program and a preliminary forecast for emissions and auction allowances. Given the greater uncertainty at the time with respect to final program design, the estimate for cap and trade proceeds was intentionally cautious. Since the Fall Statement, the Canada-U.S. exchange rate has declined and projected allowances to be auctioned has increased. In addition, the prudence included in the Fall Statement estimate has been removed. Each of these changes has contributed to an increase in the cap and trade proceeds estimate.

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FINANCIAL SERVICES POLICY DIVISION

CCMR

Q: Some media reports have been sceptical about the public timelines for launching the Cooperative Capital Markets Regulatory System (CCMR). When is the CCMR expected to be established and operational?

A: The participating jurisdictions have agreed to target the enactment of legislation by June 30, 2016 and the Capital Markets Regulatory Authority becoming operational in the fall of 2016.

These timelines will be challenging given the need for the enactment of legislation by multiple legislatures. The participating jurisdictions are committed to moving forward with this initiative and market participants should take comfort that we will take the time necessary to ensure a successful launch of the Cooperative System. We will work to ensure a smooth transition to the new system for market participants and their businesses.

Q: What are the next steps in establishing the Cooperative Capital Markets Regulatory System?

A: Going forward, the government plans to introduce the Capital Markets Act and related Cooperative System legislation, following work with other participating jurisdictions to finalize the proposed Cooperative System legislative framework.

- Stakeholder comments on the August 2015 consultation draft provincial / territorial Capital Markets Act and draft initial regulations are being reviewed and have been posted online. These comments will inform work to finalize Cooperative System legislation for introduction.

Q: What is the effect of Alberta's recent announcement that it will not participate in the Cooperative Capital Markets Regulatory System?

A: We were disappointed that Alberta has confirmed its previous position that it will not participate, but this will not impact continuing work. While the Cooperative System would be stronger with the participation of all provinces and territories it still represents a better approach than the status quo and, once it is in place, it will make capital markets in Canada safer, more efficient and more competitive.

Q: What is Ontario doing with regard to the reference on constitutional questions that Quebec is taking to the Quebec Court of Appeal and what will the affect be if the court rules in Quebec's favour?

A: Ontario is not intervening in this matter. We will monitor developments closely. I would refer any legal or constitutional questions related to this matter to the Attorney General.

Review of Financial Planning and Financial Advisory Services

Q: What is the government's reaction to the preliminary policy recommendations released by the Expert Committee to Consider Financial Advisory and Financial Planning Policy Alternatives?

A: It would be premature for the government to comment at this time on the preliminary policy recommendations.

The independent Expert Committee to Consider Financial Advisory and Financial Planning Policy Alternatives released their preliminary policy recommendations in April 2016 as a means of facilitating further input from stakeholders and the public. The expert committee is seeking feedback through written submissions and an across-the-province public consultation process.

The Government expects the expert committee's final report in fall 2016 and will consider their recommendations at that time.

Q: Why did you launch a review of regulation relating to financial planning and advisory services? Will this review result in additional regulatory burden for the financial services sector?

A: Consumers today face complex financial decisions. They need informed, professional financial planning and advisory services that best meets their financial goals. With this in mind, the government launched this expert committee to review and propose how Ontario should regulate individuals who offer financial planning and financial advisory services. Regulatory oversight could raise proficiency and quality standards and minimize conflicts of interest in the sector.

Ontario is pursuing a modern and flexible approach to financial services regulation that protects consumers and strengthens the financial services sector. The expert committee has committed to ensuring its recommendations avoid imposing unnecessary or duplicative regulation.

The goal is for consumers to get trustworthy financial planning and advisory services that best meet their interests so they can face complex financial decisions with confidence. Growth in the sector will be fostered when consumers are able to make more confident financial decisions.

Q: How much is MOF spending in the 2016-17 estimates (1) on the Cooperative Capital Markets Regulatory System (CCMR) and (2) on the Review of Financial Planning and Advisory Services (FP review)?

A: The estimates for the Financial Services Policy Division include the estimates for the Securities Reform Policy Branch (SRPB), which is responsible for the CCMR project and the Review of Financial Planning and Advisory Services as well as other work and oversight on the securities regulatory side of things, and the other portion of the Division that has responsibility for the other areas discussed in the Estimates Briefing Book at page 88. Of the $4,577,700 total showing in the estimates, the portion allocable to the SRPB is approximately $1.5 million. The largest part of the estimated costs are employee related. SRPB staff work on many different projects at the same time, so the estimates do not break down the numbers for CCMR or the FP Review. The costs of the work on CCMR are born by a number of different parties, including the securities regulatory authorities and governments of the participating jurisdictions.

Review of the Credit Unions and Caisses Populaires Act, 1994

Q: When was the Parliamentary Assistant's report on the review of the Credit Unions and Caisses Populaires Act, 1994, released and what were the key recommendations?

A: The Minister of Finance released Parliamentary Assistant Laura Albanese's report on the review of the Credit Unions and Caisses Populaires Act, 1994, on February 12, 2016. The report is available on the Ministry of Finance website at: ***http://www.fin.gov.on.ca/en/consultations/cu-cp/legislative-review.html***.

The recommendations aim to ensure that the legislative framework continues to protect consumers, is aligned with international best practices and enables credit unions to meet the revolving needs of their members. Some of the key recommendations include:

- Setting the deposit insurance limit at $250,000, including $250,000 coverage for deposits held in each type of registered account (such as RRSPs or TFSAs).
- Harmonizing subsidiary ownership rules with those in place for banks and permitting credit unions to own insurance brokerage subsidiaries.
- Working with relevant ministries to remove legislative barriers that impede the ability of credit unions to do business with municipalities, universities, school boards, and hospitals ("the MUSH sector") and other sectors.
- Permitting credit unions to enter into loan syndication agreements with credit unions in other provinces.

- Removing differentiated rules for small credit unions.
- Strengthening Ontario's credit union consumer protection framework, as well as working with credit unions to explore voluntary commitments to provide notices of branch closures, and options for providing consumers with alternatives to high-cost payday loans.

Q: Why did Ontario review the Act? What was the trigger? Was there a problem in the sector?

A: The Credit Unions and Caisses Populaires Act requires that the Minister of Finance appoint a person to review the legislation and regulations every five years. The Act was previously reviewed in 2009.

Reviewing Ontario's legislative framework for credit unions and caisses populaires is important to ensure it stays current to protect consumers and their deposits, help Ontario's 110 credit unions continue to meet the needs of their 1.6 million members, as well as promote competition in the financial services sector.

Q: When will the Act be amended? When will credit unions and their members see changes from the recommendations?

A: When and how the recommendations are implemented varies by recommendation. Some require regulation amendments which must be approved by Cabinet, some require tabling and passage of legislative changes by the Legislature and some can be implemented by credit unions voluntarily and immediately. On March 16th, the government posted, on the Ontario Regulatory Registry, a proposal for implementing the recommendations related to the deposit insurance limit and subsidiary ownership rules. The comment period ends on April 30th.

Q: Why is Ontario changing the deposit insurance coverage limit for credit unions to $250,000 when the federal government only provides $100,000 coverage for bank deposits?

A: Ontario's current deposit insurance limit of $100,000 for basic deposits was set in 2000. It is important that the level and scope of coverage be reviewed periodically to ensure that they meet the public policy objectives of the deposit insurance system, such as maintaining confidence in, and contributing to the stability of, the financial system.

The proposed $250,000 limit is higher than the limit provided by the Canada Deposit Insurance Corporation for bank deposits. It would, however, be equal to the coverage currently provided for credit union deposits in New Brunswick, Nova Scotia and Newfoundland and Labrador and for credit union and bank deposits in the United States. It is important to work towards harmonizing deposit insurance coverage levels among jurisdictions in order to alleviate competitive concerns and reduce consumer confusion.

Q: Why is the government reversing its decision made in 2009 for deposits in registered accounts—such as RRSPs, RRIFs and TFSAs—to have unlimited coverage?

A: International best practices have evolved since 2009, and it is now explicit that they do not support unlimited deposit insurance coverage. Unlimited deposit insurance or deposit insurance limits that are set too high may give rise to moral hazard, the situation when financial institutions have incentives to take on more risk because they are insulated from the consequences of their actions. One of the key objectives of the review was to ensure that Ontario remains in line with international best practices.

Ms. Albanese's report recommended limiting the coverage for registered deposits to same level as for basic deposits in order to mitigate against moral hazard - defined as an incentive to accept more risk because the costs are borne by others. Under the proposal, each type of registered account will be insured to a limit of $250,000. Potentially, this could provide $1,250,000 in total coverage for registered accounts: RRSPs ($250,000), RRIFs ($250,000), RESPs ($250,000), RDSPs ($250,000) and TFSAs ($250,000). In addition, it is important to note that the proposed limit would only apply to deposits that are held in registered accounts and would not affect other investment products more typically held in such accounts (e.g., mutual funds), as deposit insurance does not cover such products.

Q: Is the government concerned that permitting credit unions to own insurance brokerages as subsidiaries may encourage practices like tied-selling, where credit unions might pressure their members to buy insurance from their insurance broker subsidiary?

A: Credit unions are currently allowed under the *Credit Unions and Caisses Populaires Act* (CUCPA) to own an insurance company as a subsidiary. Expanding the list of prescribed subsidiaries to include insurance brokerages would help to put credit unions on an equal footing with banks.

There are currently rules under the CUCPA that protect consumers against being pressured by a credit union to purchase insurance from a specific provider, for the security of the credit union.

In addition, a credit union that chooses to invest in an insurance brokerage subsidiary would be required to adhere to the CUCPA rules regarding insurance retailing and promotion. This includes prohibitions on retailing or promoting insurance products in a branch and on the credit union's website, as well as sharing any member's information with an insurance company, agent or broker.

Under the CUCPA, any promotion of insurance must take place outside of the physical premises of the credit union and must be directed at all of the credit card holders, the members or the credit union, or the general public. For example, promotional material may be included in monthly statements of account that are

mailed, but it must be provided to all account holders. In addition, any insurance operations on premises adjacent to a credit union branch must be clearly indicated as being separate and distinct from the credit union.

Q: What types of barriers currently exist to municipalities and other MUSH sector organizations from doing business with credit unions? Why does the government want to encourage such organizations to do more business with credit unions, as opposed to other financial institutions?

A: A number of restrictions and omissions exist in Ontario's municipal legislative framework, as well as other statutes that govern the MUSH and other sectors, that create barriers for municipalities and other organizations to doing business with credit unions.

Investment rules for municipalities require that a financial institution have a credit rating in order for a municipality to invest a deposit with a term of greater than two years with the financial institution. Credit unions do not have credit ratings, as they do not issue bonds, and hence are not being given equal access to municipal deposits to other financial institutions.

In addition, rules exist under many other Ontario statutes governing organizations from the MUSH and other sectors that do not treat credit unions equally to other financial institutions. For example, administrators of nursing homes are required to establish and maintain trust accounts at either a bank or trust corporation to hold certain resident deposits, but trust accounts at credit unions are not permitted for this purpose. The government will appoint a leader to undertake an initiative to identify all such provisions under Ontario statutes and propose the amendments necessary in order to put credit unions on an equal footing with other financial institutions.

Modernizing the Regulation and Oversight of Financial Services and Pensions

Q: What is the government's reaction to the Panel's Preliminary Position Paper? Will the government be taking any action?

A: It would be premature for the government to comment at this time on this consultation paper.

The independent Expert Advisory Panel released their Preliminary Position Paper in November 2015 as a means of facilitating further input from stakeholders and the public.

The Panel's Final Report will be released this Spring. The Government will review the Final Report and consider its recommendations at that time.

Q: Does the Government support the Expert Advisory Panel's recommendation to establish a new, independent regulator?

A: The financial services and pensions sectors are vital to the economy and to the well-being of Ontario's consumers, investors and pension plan beneficiaries.

The mandate reviews of FSCO, the FST and DICO will ensure we are doing our best to protect Ontario's consumers, investors, and pension plan beneficiaries while fostering a strong business climate. They also provide the opportunity to modernize the regulation of financial services and pensions, and improve agency governance and accountability.

The Panel's Final Report will be released this Spring. The Government will review the Final Report and consider its recommendations at that time. .

Q: What legislative or regulatory changes will the Government be undertaking as a result of the reviews?

A: The mandate reviews of FSCO, the FST and DICO will ensure we are doing our best to protect Ontario's consumers, investors, and pension plan beneficiaries while fostering a strong business climate. They also provide the opportunity to modernize the regulation of financial services and pensions, and improve agency governance and accountability.

The Panel's Final Report will be released this Spring. The Government will review the Final Report and consider its recommendations at that time. Necessary legislative or regulatory changes will be identified and pursued as early as possible.

Q: When will the government be receiving the Expert Advisory Panel's final recommendations? When will the recommendations be public?

A: The independent Expert Advisory Panel released their Preliminary Position Paper last Fall as a means of facilitating ongoing consultation.

The Panel has completed their consultations and will release their Final Report this Spring.

Q: Who did the Expert Advisory Panel consult with in developing the Preliminary Position Paper?

A: The independent Expert Advisory Panel released a consultation paper in April 2015 and received written submissions from over 45 organizations and individuals. The Panel released a Preliminary Position Paper in November 2015 to seek further input and received approximately 50 submissions from industry stakeholders, regulators, and consumer, investor and pension plan beneficiary representatives.

The Panel also held seven sector roundtable discussions, and engaged in open dialogue with regulators, financial services and pension sector stakeholders, and investor advocates.

Q: Why did the government undertake mandate reviews of FSCO, FST and DICO?

A: The financial services sector is vital to the economy and to the well-being of Ontario consumers and pension plan holders.

The mandate reviews of FSCO, the FST and DICO will ensure we are doing our best to protect Ontario's consumers of financial services and pension plan beneficiaries while fostering a strong business climate.

Mandate reviews are also part of the government's commitment to review the role, structure and efficacy of all its agencies on a regular basis. Ontario is committed to strong agency oversight, and the government will be prepared to take legislative action to help modernize financial services and pension regulation, and to improve agency accountability and governance following the independent Expert Advisory Panel's final recommendations.

Lowering the Cost of Auto Insurance

Q: You set a target for a 15% reduction in auto insurance rates but have only achieved 7% to date. Isn't your auto insurance strategy a failure?

A: The 15% target was just that – a target. The government has made significant progress in lowering the cost of auto insurance in Ontario. Rates have already decreased by more than 7% on average, and there are further reductions expected.

Reforms that were announced in the 2015 Budget demonstrate that the government remains committed to achieving lower rates. These reforms are significant, and we need to give these changes time to work through the system to deliver further rate reductions in the months to come.

The reforms also included pro-consumer initiatives, such as an industry-wide discount for winter tires that became effective on January 1, 2016.

Ontario has a highly competitive insurance marketplace. Drivers should always shop around for the best possible rates and coverage that meets their needs.

Q: The winter tire discount became effective January 1, but some consumers are reporting that their insurer won't give them the discount until they renew their policy. What are you doing to help those consumers?

A: Insurers are not required to offer mid-term discounts to consumers, but many have been doing just that. Consumers with policies renewing later in the year should call their insurer to inquire about a possible mid-term discount.

Requiring insurers to offer discounts for winter tires was a key part of the reforms announced by the government in the 2015 Budget. Other consumer protection measures, such as a reduction to the maximum interest rate insurers can charge for monthly premium payment plans, will become effective on June 1, 2016.

Q: You posted KPMG's 2015 "Auto Insurance Transparency and Accountability" report online with little fanfare. What does that report say?

A: KPMG's report for 2015 shows that our strategy for keeping auto insurance affordable is working.

KPMG found that although claims costs are starting to trend back up, recent initiatives, including the reforms announced in last year's Budget, will help to decrease those costs and put downward pressure on auto insurance rates.

KPMG also found that in Ontario's competitive market for auto insurance, consumers that shop around should be able to reduce their premiums. Consumers should always take advantage of Ontario's competitive system to find the rates and coverage that work for them.

The government encourages participants in the auto insurance system and individual consumers to review the entire report.

Q: What specifically will David Marshall do as an advisor on auto insurance issues?

A: David Marshall's expertise in active claims management practices gained in his experience as president and CEO of WSIB should help identify new opportunities to reform the auto insurance system.

The goal of Mr. Marshall's work is to improve health outcomes, lower costs and achieve more affordable insurance premiums. He is in the early days of his appointment, which began on February 1, 2016.

Q: How are you responding to calls for a public inquiry into the quality of independent medical examinations in the auto insurance system?

A: The government is committed to protecting consumers and claimants in the auto insurance system. For example, significant action has been taken in recent years to develop a new auto insurance dispute resolution system to help claimants get

faster access to the benefits they need. The new system will begin accepting dispute applications on April 1, 2016.

The government will continue to improve Ontario's auto insurance system. As part of that commitment, the government appointed David Marshall as an adviser on auto insurance and pensions.

Mr. Marshall's appointment began February 1, 2016. He will apply expertise he developed as president and CEO of WSIB to identify additional opportunities to improve health outcomes and reduce costs in Ontario's auto insurance system.

Auto Insurance – Sharing Economy

Q: Both the City of Ottawa and City of Toronto staff reports on vehicles for hire recommend minimum insurance requirements for drivers involved in ride-sharing. What are you doing to make sure that insurance is in place?

A: The sharing economy is changing the way transportation services are provided in Ontario. The government is committed to ensuring that Ontario`s auto insurance system can help provide peace of mind to those offering and using these new types of transportation services.

Ontario's competitive market for auto insurance is already responding and adapting. FSCO has received filings from different companies proposing new auto insurance products tailored to the sharing economy, and in January FSCO approved one product allowing individual drivers to purchase coverage.

Other proposals are currently being reviewed by FSCO. While this work is proceeding, the reality is that there continues to be a significant insurance coverage gap.

The government is committed to protecting Ontario drivers and consumers by addressing that gap, and FSCO is aware of the importance to the government of achieving this objective as quickly as possible.

Towards that end, the government and FSCO are exploring how Ontario's flexible insurance regulatory system can quickly approve new insurance products. Using such flexible responses would allow new products to be introduced in the market while the government, working with the regulator and the insurance industry, develops the legislative and regulatory changes necessary to fully integrate the sharing economy into Ontario's auto insurance system.

Q: Aviva has already announced it is selling auto insurance coverage for ride-sharing. Why do you need to take further action?

A: Ontario's competitive market for auto insurance is beginning to respond and adapt to the sharing economy. And our province's flexible regulatory framework for insurance is letting that innovation happen. But there continues to be a significant

insurance coverage gap for thousands of Ontarians driving and using ride-sharing services every day.

Closing that gap is a critical government priority, and the government and FSCO are exploring how our flexible regulatory system can quickly approve new insurance products.

A flexible response to new products will help give drivers and passengers peace of mind while the government works with stakeholders to develop the necessary legislative and regulatory changes to fully integrate the sharing economy into the auto insurance system.

Q: What would your flexible approach involve? What specifically are you exploring with FSCO?

A: The government has made clear to the public, and to FSCO, that protection of consumers and drivers involved in ride-sharing is an objective that needs to be achieved as quickly as possible.

Our flexible approach involves working with FSCO to explore how Ontario's insurance regulatory system can quickly approve new insurance products. This could involve interim approvals of new products.

The government is also working with FSCO and stakeholders in the auto insurance system to develop the legislative and regulatory changes necessary to fully integrate the sharing economy into Ontario's auto insurance system.

This flexible approach ensures Ontario's auto insurance system can help provide peace of mind to those involved in ride-sharing.

Towards that end, the government and FSCO are exploring how Ontario's flexible insurance regulatory system can quickly approve new insurance products.

Q: What do you mean by interim approvals?

A: The idea of interim approvals is just an example of what the government and FSCO are exploring. Everything is on the table to make sure Ontario's auto insurance system can help provide peace of mind to those involved in ride-sharing.

As a government, we are making it clear that the insurance coverage gap for those engaged in ride-sharing in Ontario needs to be addressed as quickly as possible. This is a government priority.

One insurance product has already been approved; this is a good first step. And we need more companies to step forward with other new products to provide more insurance options.

And the government, working with FSCO, is exploring ways to approve more new insurance products, including approving new products on an interim basis, while we make the necessary changes to fully integrate the sharing economy into Ontario's auto insurance system.

Q: Aren't you playing into Uber's hands by approving insurance products that don't comply with the law?

A: When it comes to auto insurance and ride-sharing, our top concern is for the protection of drivers and their passengers. New auto insurance products have to be filed with FSCO for review and approval, and we are confident in FSCO's internal review processes.

One insurance product has already been approved by FSCO, and other proposals are currently being reviewed. The government and FSCO are exploring how Ontario's flexible insurance regulatory system can quickly approve new insurance products. This work isn't being done to satisfy any single company – it is being done to help ensure Ontario drivers and consumers are protected.

Q: Uber has launched a public campaign to pressure Alberta's government. Is this announcement pre-empting similar criticism by Uber in Ontario?

A: This isn't about what's going on in other jurisdictions. When it comes to auto insurance and ride-sharing, our top concern is for the protection of drivers and their passengers.

Ontario's auto insurance system has already demonstrated flexibility and responsiveness to ride-sharing. One insurance product has already been approved by FSCO, and other proposals are currently being reviewed. The government and FSCO are exploring how Ontario's flexible system can quickly approve new insurance products to help give drivers and consumers peace of mind.

This work isn't being done to satisfy a single company – it is being done to help ensure Ontario drivers and consumers are protected.

Q: When can we expect FSCO to announce interim approval of these other auto insurance products?

A: FSCO is an independent regulator. It would be inappropriate for the government to comment on FSCO's internal processes.

What the government has made clear to the public, and to what FSCO is aware of, is that protection of consumers and drivers involved in ride-sharing is an objective that needs to be achieved as quickly as possible.

Towards that end, the government and FSCO are exploring how Ontario's flexible insurance regulatory system can quickly approve new insurance products.

Q: How long do you need to make the long-term changes you're talking about?

A: The government and FSCO are exploring how Ontario's flexible insurance regulatory system can quickly approve new insurance products to help protect consumers and drivers engaged in ride-sharing activity.

In parallel with that work, the government is also working with the regulator and the insurance industry to develop the legislative and regulatory changes necessary to fully integrate the sharing economy into Ontario's auto insurance system. These changes will be comprehensive and complex, and will require careful consideration over the coming months.

Q: Have you been working with the City of Toronto on this?

A: Ontario's strategy for the sharing economy includes taking a coordinated government approach. Ministry of Finance and FSCO staff have engaged other jurisdictions and levels of government, including the City of Toronto, to build relationships and share information. We are also reviewing the recent staff reports published by the City of Ottawa and the City of Toronto.

The focus of our government's early action is on ensuring Ontario's auto insurance system can help provide peace of mind to Ontarians engaged in ride-sharing activity. Other jurisdictions and levels of governments may have different priorities, and we will continue to work with them as we develop more long-term changes to fully integrate the sharing economy into Ontario's auto insurance system.

The Province is also looking at other aspects of the sharing economy. And in the coming months we will launch a consultation to help determine the best approach for Ontario, which will include engagement with municipalities like the City of Toronto.

PROVINCIAL-LOCAL FINANCE DIVISION

Provincial-Municipal Partnership:

Q: What is the government doing to support municipalities?

A: Our government has a strong record of supporting and working with municipalities.

In 2016 alone, municipalities will benefit from over $3.8 billion in ongoing support through the Ontario Municipal Partnership Fund (OMPF), provincial uploads and other provincial initiatives – an increase of $2.7 billion above the support provided in 2003.

The government will continue to fulfill its commitment to upload social assistance benefit programs as well as court security and prisoner transportation costs off the property tax base. This will ensure that municipalities have more property tax dollars to invest in local priorities like roads, transit and economic development.

In partnership with communities, Ontario is making significant investments to revitalize infrastructure and grow the economy. The Province's infrastructure commitments include:

- Transit, transportation and other priority infrastructure through *Moving Ontario Forward* that is supported by $31.5 billion in dedicated funds, with about $16 billion available within the Greater Toronto and Hamilton Area (GTHA) and about $15 billion available outside the GTHA.
    - As part of *Moving Ontario Forward*, the Ontario Community Infrastructure Fund is being expanded to $300 million per year by 2018–19, which will provide ongoing support for critical local infrastructure priorities.
- Introducing a new Connecting Links program that will provide $20 million in 2016-17, up from $15 million announced in the *2015 Budget,* to help municipalities pay for construction and repair costs for municipal roads that connect two ends of a provincial highway through a community or to a border crossing. Funding for this program will increase to $30 million per year by 2018-19.

In addition to implementing the provincial uploads, the Province has worked in partnership with municipalities to introduce measures that support communities. These include:

- Sharing provincial gas tax revenues;
- Unconditional funding through the Ontario Municipal Partnership Fund;

- Long-term funding through the Ontario Community Infrastructure Fund;
- Connecting Links program;
- Developing a fair and equitable Ontario Provincial Police billing model;
- Working with municipalities to enhance the fairness, effectiveness and predictability of the Ontario's property tax and assessment system;
- Consulting with municipal partners through the Memorandum of Understanding with the Association of Municipalities of Ontario, as well as other forums;
- Undertaking an integrated review of the *Municipal Act*, the *City of Toronto Act* and the *Municipal Conflict of Interest Act*.

Q: Will the government commit to implementing the uploads of social assistance benefit programs as well as court security and prisoner transportation costs in accordance with the timelines agreed to through the Provincial-Municipal Fiscal and Service Delivery Review?

A: Yes. The government will continue to fulfil its commitment to upload social assistance benefit programs, as well as court security and prisoner transportation costs off the property tax base, as agreed with municipalities in 2008. The uploads will be fully implemented by 2018. This represents a significant milestone in the provincial-municipal relationship and will help put municipalities on a financially sustainable footing.

Q: Ontario's ongoing funding for municipalities will be $3.8 billion in 2016. Will this be sufficient to address the fiscal pressures facing Ontario's cities?

A: Our government has a strong record of supporting and working with municipalities. We will continue to fulfil its commitment to upload social assistance benefit programs, as well as court security and prisoner transportation costs off the property tax base, as agreed with municipalities in 2008. The uploads will be fully implemented by 2018. This represents a significant milestone in the provincial-municipal relationship and will help put municipalities on a financially sustainable footing.

It is important to note that support to municipalities has increased significantly at a greater rate than support to other sectors. In 2016 alone, municipalities will benefit from over $3.8 billion in ongoing support through the Ontario Municipal Partnership Fund (OMPF), provincial uploads and other provincial initiatives – an increase of $2.7 billion above the support provided in 2003.

Provincial measures are helping to improve municipal fiscal sustainability, but the province must also consider its responsibility to protect key public services such as health, education and infrastructure.

Q: The government has stated that going forward, it will shift its focus to investing in infrastructure. Does this mean that it will be reducing other support to municipalities?

A: Our government will continue to fulfil its commitment to upload social assistance benefit programs, as well as court security and prisoner transportation costs off the property tax base, as agreed with municipalities in 2008. The uploads will be fully implemented by 2018. This represents a significant milestone in the provincial-municipal relationship and will help put municipalities on a financially sustainable footing.

It is important to note that support to municipalities has increased significantly at a greater rate than support to other sectors. In 2016 alone, municipalities will benefit from over $3.8 billion in ongoing support through the Ontario Municipal Partnership Fund (OMPF), provincial uploads and other provincial initiatives – an increase of $2.7 billion above the support provided in 2003.

Provincial measures are helping to improve municipal fiscal sustainability, but the province must also consider its responsibility to protect key public services such as health, education and infrastructure.

Given that the government will be fulfilling its commitment to upload social assistance benefit programs, as well as court security and prisoner transportation costs off the property tax base by 2018, it is important to manage expectations regarding any new ongoing support to municipalities. Going forward, the government will shift its focus to investing in the infrastructure that is vital to the health, prosperity and quality of life of Ontarians.

The Province's infrastructure commitments include transit, transportation and other priority infrastructure through *Moving Ontario Forward* that is supported by $31.5 billion in dedicated funds, with about $16 billion available within the Greater Toronto and Hamilton Area (GTHA) and about $15 billion available outside the GTHA. As part of *Moving Ontario Forward*, the Ontario Community Infrastructure Fund is being expanded to $300 million per year by 2018–19, which will provide ongoing support for critical local infrastructure priorities.

Q: Will the Ontario Municipal Partnership Fund (OMPF) be further reduced beyond 2016?

A. During our consultations, municipalities have been clear that the OMPF is an important unconditional funding program for many municipalities.

The Ontario Municipal Partnership Fund (OMPF) will continue to provide unconditional support to municipalities in 2016 and beyond. In 2016, the phase-down of the OMPF is complete, and the design of the core grants now reflects the long-term objectives of the program.

At this time, there is no plan to further reduce the OMPF.

It is also important to note that as announced in the *2015 Ontario Budget*, the OMPF has been increased by an additional $5 million in 2016, bringing the total OMPF envelope to $505 million rather than the $500 million previously planned for 2016. This additional funding is being provided through the Northern Communities Grant of the program to further recognize the challenges of northern municipalities.

Q: What are the government's plans for the Ontario Municipal Partnership Fund?

A: The Ontario Municipal Partnership Fund (OMPF) will continue to provide unconditional support to municipalities in 2016 and beyond. In 2016, the phase down of the OMPF is complete, and the design of the core grants now reflects the long-term objectives of the program.

This year, we will continue to work with our municipal partners to ensure the design of the OMPF reflects the long-term priorities of municipalities.

The program includes a significant amount of Transitional Assistance, and in the coming year, we will examine how some of this funding can be reallocated to the core objectives.

Q: Will the government commit to further uploads, e.g. social housing costs, once the uploads agreed to through the Provincial-Municipal Fiscal and Service Delivery Review have been completed?

A: Our government will continue to fulfill its commitment to upload social assistance benefit programs as well as court security and prisoner transportation costs off the property tax base. This will ensure that municipalities have more property tax dollars to invest in local priorities like roads, transit and economic development.

It is important to note that support to municipalities has increased significantly at a greater rate than support to other sector. In 2016 alone, municipalities will benefit from over $3.8 billion in ongoing support through the OMPF, provincial uploads and other provincial initiatives – an increase of $2.7 billion above the support provided in 2003.

Provincial measures are helping to improve municipal fiscal sustainability, but the province must also consider its responsibility to protect key public services such as health, education and infrastructure.

Given that the government will be fulfilling its commitment to upload social assistance benefit programs, as well as court security and prisoner transportation costs off the property tax base by 2018, it is important to manage expectations regarding any new ongoing support to municipalities. Going forward, the

government will shift its focus to investing in the infrastructure that is vital to the health, prosperity and quality of life of Ontarians.

The Province's infrastructure commitments include transit, transportation and other priority infrastructure through Moving Ontario Forward that is supported by $31.5 billion in dedicated funds, with about $16 billion available within the Greater Toronto and Hamilton Area (GTHA) and about $15 billion available outside the GTHA. As part of Moving Ontario Forward, the Ontario Community Infrastructure Fund is being expanded to $300 million per year by 2018–19, which will provide ongoing support for critical local infrastructure priorities.

Q: What is the province doing to enhance the fairness, effectiveness and predictability of Ontario's property tax and assessment system?

A: The Province is working to improve the property assessment system by implementing the recommendations of the Assessment Review (Special Purpose Business Property Assessment Review) in partnership with the Municipal Property Assessment Corporation (MPAC), municipalities and stakeholders.

- The objective of the Assessment Review is to enhance transparency, predictability and accuracy of assessed values for the next province-wide reassessment.

One of the key recommendations from the Assessment Review is the introduction of an advance disclosure process, which enables affected businesses and municipalities to contribute to the determination of assessed values before the assessment roll is finalized. An important objective of this process is to reduce the number and impact of assessment appeals.

To further support the objectives of accuracy, transparency and predictability through early disclosure of information, the Ministry of Finance and MPAC have also established an assessment methodology change protocol.

- This protocol establishes a consultative approach to any major changes that are proposed in assessment methodology.

Non-PLFD items

Q: What are the province's plans for developing a new Ontario Provincial Policing billing model?

A: Our government is continually impressed by the service the OPP provides throughout the province to help keep our communities safe. And now, the services that keep our communities safe are paired with a fair and equitable billing model.

The new OPP Billing Model will help municipalities to better direct crime prevention resources to save money and keep their communities safe. The new model will be

phased in over five years with annual limits on changes in policing costs to provide stability and predictability for both taxpayers and municipalities.

The new OPP Billing Model:

- Eliminates the huge differences in how much municipalities were paying for policing by more equitably redistributing costs
- It also provides municipalities with data so they can better understand the types of calls in their community

The new model represents a fair, responsive, equitable, transparent and responsible approach.

Q: What is the status of the integrated review of the *Municipal Act*, the *City of Toronto Act* and the Municipal Conflict of Interest Act?

A: Our government wants to ensure that our local governments remain strong and financially-sustainable, and that they continue to be accountable, open, flexible and responsive to the people they serve. We continue to undertake an integrated review of the *Municipal Act*, the *City of Toronto Act* and the *Municipal Conflict of Interest Act*.

The review is examining if municipalities are using, and have in place, the tools to address local concern. Through recent consultations, we have heard from the public and many municipalities, community groups and key stakeholders on a range of important issues.

We thank everyone for taking the time to provide comments and suggestions about what we can do to improve the acts. We are assessing the feedback received and will develop recommendations on how to improve the legislation.

Q: What changes is the Province making to the Ontario Community Infrastructure Fund?

A: Through the Ontario Community Infrastructure Fund, the Province is providing small, rural and northern municipalities access to $100 million per year to build and repair critical infrastructure and create jobs across Ontario. Reflecting consultation feedback and the progress municipalities have made on their asset management plans, the Ontario Community Infrastructure Fund will be expanded to $300 million per year by 2018–19. This increased funding will help municipalities invest even more in the critical infrastructure they need to thrive, while also creating jobs across the province. The expanded fund will be re-launched in late spring.

Business Property Tax Capping Program

Q: What are the changes proposed in the Spring Bill?

A: The Capping Program review continues in 2016 building on the enhancements announced in the *2015 Ontario Economic Outlook and Fiscal Review* and will consider issues such as stakeholder concerns about the interaction between reassessment impacts and the Capping Program. The Spring Bill amendments support potential changes as a result of the ongoing review by providing the framework to facilitate potential future refinements and program flexibility.

Q: With announcements in the *2015 Ontario Economic Outlook and Fiscal Review* and amendments in the Spring Bill, why is the Capping Review ongoing?

A: The Capping Program review continues in 2016 building on the enhancements announced in the *2015 Ontario Economic Outlook and Fiscal Review* and will consider issues such as stakeholder concerns about the interaction between reassessment impacts and the Capping Program.

Q: The Province has made changes to the Capping Program to accelerate progress towards CVA level taxes. Why won't the government get rid of the Capping Program?

A: The government has announced significant enhancements to the capping program through the *2015 Ontario Economic Outlook and Fiscal Review* and subsequent regulations that will improve fairness and transparency in the property tax system. Beginning in 2016, municipalities will have increased flexibility to accelerate progress to current value assessment (CVA) level taxes.

Additionally, municipalities that meet certain criteria established by the province will have the option to exit or phase-out the Capping Program, if doing so would have a limited impact on business properties.

These enhancements will enable municipalities to adjust the capping program to best suit their local circumstances, and also address the potential for inequities and economic distortions that may result from the program

Q: What are the Capping Program enhancements for 2016?

A: The *2015 Ontario Economic Outlook and Fiscal Review* announced that beginning in 2016, municipalities would have additional flexibility to adjust capping parameters to increase progress towards CVA level taxes:

Parameters	CVA Taxes	Threshold
Current Maximum	5%	± $250
Proposed Maximum	10%	± $500

Municipalities that meet certain eligibility criteria established by the Province would also be given the option to exit or phase-out from the Capping Program, if this would have a limited impact on business properties.

- A municipality would be eligible for a four-year phase-out from the Capping Program once it has no capped properties beyond 50% of CVA level taxes in a property class.
- Municipalities with no properties currently remaining in the Capping Program would be eligible to exit the program immediately.

These new proposed flexibility measures would enable municipalities to adjust the Capping Program to best suit their local circumstances, and also address the potential for inequities and economic distortions that may result from the program.

A municipality can choose to apply these options to all business property classes, or limit it to individual business property classes. As these are municipal options, each municipal Council would be required to pass a by-law to adopt options. As such, municipalities need to be able to explain any associated tax impacts to individual business taxpayers, just as they have in the past with other municipal tax policy decisions.

Q: The Capping Program enhancements are complicated. What is the Province doing to support municipal analysis?

A: The provincially-funded Online Property Tax Analysis (OPTA) system provides a number of tools and reports to assist municipalities with property-level tax analysis. OPTA will be updated to include a learning tool to reflect the proposed Capping Program enhancements allowing municipalities to analyse the proposed enhancements in their own local circumstances.

Q: When will the Capping Program enhancements be implemented?

A: Capping Program enhancements will be implemented through regulation and be in effect for the 2016 tax year. Regulations are anticipated in the coming weeks and municipalities will be notified when filed.

Q: What will be the impact to my property tax bill?

A: The government is proposing enhancements that would improve fairness and transparency of the Capping Program. As a result more properties will benefit from increased property tax predictability, knowing their taxes are now calculated as rate x assessment, without capping or claw-back adjustments.

Individual business property tax impacts will vary. Some capped properties may see related property tax increases, but clawed-back properties may see property tax decreases.

All Capping Program enhancements are implemented at the municipal level and adopted through municipal by-law. Therefore, questions about individual business property tax bills should be directed to your municipality.

Vacant Unit Rebate and Tax Class Programs

Q: The Province initiated a review of the Vacant Unit Rebate and Vacant/Excess Land Subclasses in response to stakeholders concerns. What are some of the concerns raised by stakeholders?

A: Stakeholders have raised concerns regarding the appropriateness of the lower tax level provided through these programs and unintended implications this may have for local economies. Some stakeholders have also noted that Ontario is the only province providing these types of programs in Canada.

Q: What are some of the potential changes the government is considering?

A: The Vacant Unit Rebate and Vacant/Excess Land Subclasses review continues in 2016 with stakeholder consultations on the potential provision of additional municipal flexibility to reflect local needs. Through the Spring Bill, the Province is introducing a legislative framework to facilitate potential changes to the programs as a result of the review.

Q: Business stakeholders provided feedback requesting province-wide program consistency. The Budget suggests the government is going a different route consulting on the "potential provision of additional municipal flexibility". Why?

A: The Province believes it is important to give municipalities, an independent, accountable level of government, the flexibility to make tax policy decisions that are sensitive to local circumstances but at the same time, recognizes the concerns of the business community. Therefore, it will continue to consult with municipalities and business stakeholders before making any changes to the vacant unit rebate and vacant/excess land subclasses programs.

Property Tax Rate Calculation Adjustment

Q: The Province plans to include a technical adjustment to the provincially prescribed property tax rate calculation. Isn't this just a property tax increase?

A: No, this is not a tax increase. In response to municipal requests, starting in 2016, the Province will allow a technical adjustment to the prescribed property tax rate calculation. This change to the property tax rate calculation would enable the Province and municipalities to make technical adjustments to account for in-year assessment changes, such as assessment appeal losses. This will ensure municipalities and the Province have the ability to avoid revenue losses due to in-year property assessment changes.

Q: Why is this adjustment being made now?

A: Municipalities and municipal associations approached the Province requesting an adjustment for in-year tax changes in 2015. This technical adjustment is in response to those requests.

A regulation implementing the adjustment is anticipated in the coming weeks and municipalities will be notified when filed.

Q: How will this technical adjustment be implemented for municipalities?

A: Applying the technical adjustment will be an annual municipal decision, as impacts will vary each year and for each municipality.

As requested by municipal stakeholders, municipalities will have the option to adopt the technical adjustment based on their analysis of the impacts in their local circumstances and advise their Council on whether to adopt the adjustment annually. If adopted, an adjustment would be applied to the annual property tax rate setting calculation for the municipality.

Q: Will the Province also adopt this technical adjustment?

A: Municipalities and municipal associations approached the Province requesting an adjustment for in-year tax changes to the annual property tax rate calculation. The technical adjustment will help ensure that assessment appeal losses affecting the annual rate setting calculation do not further erode the property tax base going-forward. To ensure consistency with municipal property tax calculations, the Province will also apply the technical adjustment to the calculation of education property taxes.

Q: The Budget states "... the Province will also ensure the ongoing integrity of education property tax revenues". What does this mean?

A: The technical adjustment will help ensure that assessment appeal losses affecting the annual rate setting calculation do not further erode the property tax base going-forward. As a forward-looking measure, the technical adjustment does not address revenue lost due to past assessment appeals losses.

Since 1998, when the Province took over responsibility for setting the education property tax rates, the rates have been reset to offset reassessment impacts. The Province has also implemented several education property tax cuts totaling over **$900M**.

Unlike municipal property taxes, which have generally addressed historic assessment appeal losses as a part of annual levy considerations, education property tax rates have not been adjusted for assessment appeal losses.

Therefore, as a part of the ongoing review of education property tax rate setting policies, the Province is considering revenue integrity measures to prevent the continued erosion of the property tax base due to assessment appeal losses.

Provincial Land Tax

Q: Why is the government continuing the review of the Provincial Land Tax (PLT)?

A: The 2015 Budget announced changes to the Provincial Land Tax (PLT). Before these changes were announced, PLT rates had not been updated to increase revenues in over 60 years. As a result, property tax inequities had developed in northern Ontario.

While this initial stage of PLT reform made important strides in creating a more equitable PLT, the government committed to continue discussions with northerners on ways to further address tax inequities in the North.

The 2016 Ontario Budget reiterated the government's commitment to consult with northerners on ways to further address property tax inequities before determining PLT rate adjustments for 2017.

As part of this commitment, the Ministry is inviting property owners to provide input through the "PLT Consultation Questionnaire". The questionnaire will be available on the Ministry of Finance website until June 1, 2016. The consultations will also include further discussions with local board representatives, northern municipalities and business.

The second stage of the PLT review will continue to address inequities in taxation and in how important services are paid for in the north. The Province remains committed to transforming the PLT into a fair and modern property tax system.

Q: Why did PLT rates increase in 2015 and 2016 - isn't this just a tax grab by the government?

A: The government announced a review of the PLT in 2013 in response to concerns raised by Northern municipalities about significant differences between their property taxes and the PLT.

The 2015 Ontario Budget announced an important first step in PLT reform, including 2015 and 2016 PLT rate changes. For residential taxpayers, the PLT rate was adjusted by $10 per $100,000 of assessed value in 2015 and by an additional $40 per $100,000 of assessed value in 2016. The PLT rate increase for all business properties is in line with the percentage change for residential properties outside schoolboard areas.

Prior to the changes announced in the 2015 Ontario Budget, PLT rates had not been adjusted to increase revenues in over 60 years. As a result, a gap of more than $50 million developed between PLT revenues and the additional amount that the province spends on services on behalf of unincorporated areas.

While the initial stage of PLT reform made important strides in creating a more equitable PLT, the government committed to continue discussions with northerners on ways to further address tax inequities in the North.

The second stage of the PLT review will continue to address inequities in taxation and in how important services are paid for in the north. The government is consulting with northerners on ways to further address tax inequities before determining PLT rate adjustments for 2017.

Q: Is there a plan to increase services now that PLT rates have increased?

A: The PLT paid by unincorporated area property owners contributes only a portion of the cost of providing services that benefit the broader community, including policing, public health, land ambulance, child care and social assistance.

Prior to the changes announced in the 2015 Ontario Budget, PLT rates had not been adjusted to increase revenues in over 60 years. As a result, a gap of more than $50 million developed between PLT revenues and the additional amount that the province spends on these important services on behalf of unincorporated areas.

Differences in the way services are paid for in the North are a significant reason why average residential PLT is lower than average northern residential municipal tax.

While the initial stage of PLT reform made important strides in creating a more equitable PLT, the government committed to continue discussions with northerners on ways to further address tax inequities in the north.

The 2016 Ontario Budget reiterated the government's commitment to consult with northerners on ways to further address property tax inequities before determining PLT rate adjustments for 2017.

As part of this commitment, the Ministry is inviting property owners to provide input through the "PLT Consultation Questionnaire", and discussions with local board representatives, northern municipalities and business will also take place.

The second stage of the PLT review will continue to address inequities in taxation and in how important services are paid for in the North.

Q: What consultations have taken place so far?

A: In 2014, the Ministry of Finance held 21 consultation sessions with unincorporated area representatives across northern Ontario. A PLT working group of northern municipal representatives was also established to provide input and meetings were held with business.

The findings of the first stage of the PLT review formed the basis of a paper, "Provincial Land Tax Review, A Summary of Stakeholder Consultations", (December 2014). The province requested feedback on the summary paper and received numerous helpful responses from unincorporated area property owners.

The Province initiated the next round of consultations by holding 15 open houses across northern Ontario in 2015. The open houses provided unincorporated area property owners the opportunity to hear more about PLT changes and provide input.

These sessions are summarized in "Provincial Land Tax Reform: Overview of the Provincial Land Tax Open Houses", published by the Ministry of Finance.

The 2016 Ontario Budget reiterated commitments to ongoing discussions with northerners on ways to further address property tax inequities prior to determining PLT rate adjustments for 2017.

The consultations include the "PLT Consultation Questionnaire", available on the Ministry of Finance website until June 1, 2016, for unincorporated area property owners to provide additional input. There will also be ongoing discussions with local board representatives, northern municipalities and business in this stage of consultations. The feedback received will be carefully considered before determining PLT rate adjustments for 2017.

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Strengthening Ontario's Assessment System

Assessment Review

Q: What is the status of the Advance Disclosure process and how will it improve Ontario's property assessment system?

A: The Municipal Property Assessment Corporation (MPAC) has made considerable progress on implementing advance disclosure, including publishing an information and data sharing policy, methodology guides, and market valuation reports for special purpose business properties, and a protocol describing the new advance disclosure process, all of which are available on MPAC's website at www.mpac.ca/AboutMPAC/20132016StrategicPlan/Disclosure2016AssessmentUpdate

Building on the advance disclosure work completed to date, MPAC is now working on preliminary values. MPAC plans to share summary preliminary valuations with property owners, municipalities and representatives in spring 2016. The advance disclosure process is expected to be completed by the summer.

An important objective of the advance disclosure process is to reduce the number and impact of appeals following the 2016 reassessment by increasing the transparency, predictability and accuracy of assessed values.

Q: What changes were announced in the *2015 Ontario Economic Outlook and Fiscal Review* to the Request for Reconsideration Process?

A: A recurring theme expressed during consultations on the implementation of the Assessment Review (Special Purpose Business Property Assessment Review recommendations) was the need for earlier resolution of assessment issues.

To support this objective, and to complement the Municipal Property Assessment Corporation's (MPAC) plans for the earlier staggered mailing of assessment notices, improvements were made to the Request for Reconsideration (RfR) process. The *2015 Ontario Economic Outlook and Fiscal Review* announced changes made to the RfR process to standardize the amount of time that property owners have to file an RfR and encourage the earlier resolution of assessment issues.

Specifically, the deadline for property owners to file an RfR with MPAC in a reassessment year is now 120 days after the assessment notice is issued. The RfR deadline for regular notices in non-reassessment years remains unchanged at March 31 of the taxation year.

Q: What is the status of the Ministry of Finance's review of the assessment of landfills?

A: The Ministry of Finance remains committed to arriving at a recommended valuation approach for landfills in time for the 2016 province-wide reassessment.

To support this objective, the Ministry has selected a Reviewer who will provide recommendations with regards to an appropriate valuation methodology to assess landfills:

- Through a competitive procurement process, the Ministry has retained the services of PricewaterhouseCoopers (PwC).
- PwC brought the expertise of former Ontario Cabinet Minister John Wilkinson to lead this review
- Mr. Wilkinson's role is to review the potential options for assessing landfills and make recommendations on an appropriate methodology for the 2016 reassessment cycle.
- Mr. Wilkinson has sought input from stakeholders and municipalities on a recommended solution and is expected to provide advice to the Minister by early spring2016.

Governance of MPAC

Q: What changes are being proposed to the Board of Directors of the Municipal Property Assessment Corporation (MPAC)? How is the amendment different from the way members are currently appointed to MPAC's Board of Directors?

A: The Province is proposing a legislative amendment to change the number of terms a member can serve on MPAC's board of directors. If passed, directors may be reappointed for a third term of up to three years, for a maximum duration of nine years on the board. Currently, board members can serve for a maximum of two terms of up to three years each (maximum term of six years).

Q: Why is the Province proposing this change?

A: This would enhance the continuity of MPAC's leadership and membership on the board, allowing members to make a greater contribution to the oversight of MPAC's operations and develop the necessary expertise to more effectively fulfil their mandate.

Q: What other changes is the Province considering to MPAC's governance structure? How will this make MPAC more accountable to municipalities and property owners?

A: The Province is committed to continue improving the property assessment system in partnership with municipalities and stakeholders.

The government will be consulting on potential further changes and identify ways to strengthen MPAC's governance structure and support its objective of remaining accountable to stakeholders while maintaining excellence in assessment service delivery.

Q: Who will the government be consulting with regarding future changes to MPAC's governance?

A: A collaborative approach to consulting with municipalities and stakeholders has been key to implementing improvements to the property assessment system. The ministry intends to continue this collaborative approach and is working with MPAC to engage the Association of Municipalities of Ontario (AMO) and the City of Toronto to better understand issues and opportunities for improvement related to its board governance. For example, AMO has raised the issue of the direct appointment of MPAC board members.

Q: Has the Province introduced any other changes recently to MPAC's board structure?

A: In the 2015 Ontario Budget, legislative amendments were made to clarify that the length of a term a member can serve on MPAC's board is up to three years, but could be shorter than three years at the Minister's option.

- If a member is reappointed for a second term, that would also be for up to three years, but could be shorter.
- As a result of changes introduced through the 2015 Ontario Budget, the maximum total amount of time that a member may currently serve on the board is six years.

Authorizing appointments "up to" a maximum period of time, rather than stipulating fixed appointment terms, is consistent with the approach taken in legislation governing other provincial corporations, and would bring MPAC in line with the Agencies and Appointments Directive (issued by Management Board of Cabinet in February 2015).

Q: What is the composition of MPAC's Board of Directors?

A: MPAC is governed by a 15-member Board of Directors, the majority of whom are municipal representatives nominated by the Association of Municipalities of Ontario (AMO).

The Board is composed of the following individuals:

- eight municipal representatives;
- five taxpayer representatives;
- two provincial representatives.

The municipal representatives are selected by the Minister of Finance based on nominations made by AMO and the City of Toronto.

The taxpayer and provincial representatives may be selected by the Minister at his / her discretion.

Q: Who appoints members to MPAC's Board of Directors?

A: Appointments to the MPAC Board are made by the Minister of Finance. The municipal representatives are chosen based on nominations made by the Association of Municipalities of Ontario (AMO) and the City of Toronto.

Power Dam Special Payment Program

Q: What is the Power Dam Special Payment Program?

A: Through the Power Dam Special Payment Program, the Province provides mitigation funding to 111 municipalities in respect of the former property tax on hydro-electric generating stations ("power dams").

Power dams became exempt from property taxation in 2001 when the provincial Gross Revenue Charge (GRC) was introduced.

Q: In the 2014 Budget, the Province announced that payments to municipalities under the Power Dam Special Payment Program would be reduced. What is the status of this phase-down?

A: The 2014 Budget announced a plan to phase down the program over three years, ensuring that more than 75% of the current funding level is maintained.

However, the phase-down reductions for 2015 and 2016 were deferred in light of consultations and analysis that were underway to consider alternative options to the phase-down, including the re-introduction of property taxation for power dams.

As announced in the 2016 Budget, following extensive review and consultations on this program, the Province has confirmed that stable funding to municipalities with respect to currently-eligible hydroelectric generating stations will remain in place for 2017 and future years.

Q: What was the focus and outcome of the review?

A: As part of the plan to phase-down the Power Dam Special Payment Program, the Premier asked the Ministry to consider the option of reintroducing property taxation. The Ministry held numerous consultations with municipal and electricity stakeholder representatives and conducted extensive analysis on a range of funding and taxation options.

A number of challenging and complex issues were raised with respect to the property taxation option, particularly when taking into account the priority of avoiding impacts on electricity ratepayers. However, throughout our review, municipalities have consistently emphasized the importance of stability.

The review is now concluded and the government is pleased to announce that as a result of our discussions with municipalities, we will not proceed with the previously proposed phase-down. Stable funding with respect to currently eligible hydroelectric generating stations will therefore remain in place for 2017 and future years.

While no meetings are currently planned to further review the program, the Ministry is always open to discussing issues that our municipal partners may have and would be happy to facilitate additional consultations if necessary.

Q: Why has this process taken so long?

A: Considering property taxation for power dams was a complex and challenging proposal, particularly when balancing the priority of avoiding impacts on electricity ratepayers.

It is important that due diligence was exercised to mitigate the risk of creating a new approach that would lead to unintended consequences, such as costly assessment appeals that would undermine the tax base of municipalities.

Q. Will the payments for 2016 be the same as they were in 2015?

A. In the *2015 Ontario Economic Outlook and Fiscal Review*, the government announced that stable funding to municipalities under the Power Dam Special Payment Program would be maintained for the 2016 taxation year.

This means that eligible municipalities will receive the same payment under this program for 2016 as they received in 2015, subject to any necessary maintenance adjustments. For example, if a generating station is decommissioned, payments under the program will be adjusted accordingly.

Q: Payments under this program haven't changed for a number of years. Now that the government has committed to providing stable funding under the program, what about indexation?

A. There is no plan to increase payments under the Power Dam Special Payment Program. The government has committed to maintain stable funding for 2017 and future years, rather than proceed with the previously proposed phase-down

Our government has a very strong record of supporting municipalities through a number of programs and initiatives.

In 2016, the Province is providing the 111 municipalities that receive payments under the Power Dam Special Payment Program with $750 million in support through the combined benefit of the Ontario Municipal Partnership Fund (OMPF) and provincial uploads.

This is equivalent to 16% of all municipal property tax revenue in these municipalities, and exceeds the amount of support provided to these municipalities in 2015 by $14 million. This also exceeds payments provided in 2004 by $460 million, or by more than 2.5 times.

Value-Added Farm Activities

Q: What is a "value-added activity"?

A: In the context of a farm operation, "value-added" refers to activities which utilize farm products to create a new product, such as turning strawberries into jam.

The phrase is also used to refer to the retail sale of farm products.

Q: Why is the government reviewing the property tax treatment of value-added activities on farms?

A: The government has heard from the agriculture sector that current property tax increases relating to small-scale on-farm agricultural processing and manufacturing can be a disincentive for some farmers to expand and diversify their operations.

Municipalities, particularly in rural Ontario, have also expressed support for encouraging small-scale on-farm agricultural innovations that contribute to local economies.

As a result, the Province will be consulting with the farming community and the municipal sector to review the property tax treatment of small-scale value-added activities on farms, while maintaining a level playing field for large agricultural processors.

Q. What will the government be consulting on with respect to the property tax treatment of value-added activities on farms?

A: The objective of this review will be to develop and consider options that would provide sustainable property tax treatment for farmers who conduct value-added activities on a small-scale, while maintaining a level playing field for large agricultural processors.

Q: What does the Province consider a "small-scale" value-added activity?

A: The Province will be working with the farming community and the municipal sector to solicit feedback on all aspects of this initiative, including the determination of what constitutes "small-scale".

Our goal is to ensure fair and equitable property tax treatment for all taxpayers.

Q: How can the government ensure a level playing field for large processors if it provides special tax treatment to small-scale operations?

A: We recognize the challenges involved in addressing concerns about small scale value-added activities on farms, while at the same time maintaining a level playing field for large agricultural processors. This is an important issue that will be given careful consideration during the review process.

Our goal is to ensure fair and equitable property tax treatment for all taxpayers.

To that end, the Province will be working with the farming community and the municipal sector to solicit feedback on all aspects of this initiative, including the determination of what constitutes "small-scale".

Q: When will the review be completed and changes implemented?

A: Over the next several months, the Province will be working with the municipal sector and the farming community, including the Association of Municipalities of Ontario (AMO) and the Ontario Federation of Agriculture (OFA), to develop options for the government's consideration.

It is important to note that no decisions have been made at this time. However, it is our intention to ensure that the review will be completed in time to inform decisions that may be considered for implementation in the 2017 taxation year.

Q: The agriculture sector has been asking for reduced property taxes for value-added activities on farms for years. Why is the government just reviewing this issue now?

A: The government appreciates the importance of encouraging emerging innovations in the agriculture sector. The Province understands that building a strong rural economy includes providing farmers with the support they need to engage in small-scale value-added activities as part of their farm operation.

While the focus of our current review is on small-scale value-added activities, the government has acted on a number of property tax issues affecting the agricultural sector over the years.

For example, since 2004, we have established clear, consistent and equitable guidelines governing the assessment and classification of the following activities, provided specific conditions are met for each type of operation:

Activity	Property Tax Treatment
Maple Sap Processing	Farm classification, if 50% of sap is from trees owned by the processor and products contain no other additives
Equestrian Farms	Farm or Residential classification for different types of activities (e.g., boarding treated as farm activity, land used for recreational riding classified as residential).
Sour Cherry Processing	Farm classification, if 50% of cherries were harvested from trees owned by the processor, and no other products are manufactured from the cherries.
Bunkhouses on Farms	Farm classification, if used only on a temporary basis by on-farm labourers
Grain Elevators	Farm classification or partly Commercial classification for licenced grain elevator operations, based on the amount of customer grain being stored.

OFFICE OF THE BUDGET

Ontario's 2015-16 Interim Fiscal Performance

Q: The government is reporting overachievement on its annual deficit target for the 7th year in a row. How is this possible? Is the government purposely setting easy targets?

A: The government is projecting a deficit of $5.7 billion in 2015-16, an improvement of $2.8 billion compared with the *2015 Budget* forecast. It is also a $4.6 billion improvement compared with the 2014-15 deficit of $10.3 billion. This represents the Province's largest year-over-year reduction in the deficit in the last five years. [Ch. 2A, Pg. 4]

The overachievement in 2015-16 is mainly due to total revenue projected to be $2.2 billion above the *2015 Budget* plan, due to higher revenue from asset optimization in 2015-16, higher taxation revenues and stronger overall performance from Government Business Enterprises (GBEs). [~Ch. 3B, Pg. 4]

It is also the result of $0.2 billion in lower interest on debt expense, from lower-than-forecast interest rates, the lower forecast deficit and cost-effective debt management. [~Ch. 3B, Pg. 4]

Ontario's program expense is projected to be $0.4 billion higher than outlined in the *2015 Budget*, but consistent with the forecast laid out in the *2015 Ontario Economic Outlook and Fiscal Review*. This is primarily due to the $325 million down payment through the Green Investment Fund. [~Ch. 3B, Pg. 4]

The *2015 Budget* included a $1.0 billion reserve for 2015-16. In the *2016 Document*, the 2015-16 interim outlook maintains a $150 million reserve to protect the fiscal plan against any potential adverse changes that may occur before year-end. [~Ch. 3B. Pg. 5]

The government's fiscal targets are based on the best available economic and fiscal information at the time. They reflect a realistic and responsible plan to manage the Province's resources, while still protecting the vital services that Ontarians rely on. [Framework]

Q: What has changed since the 2015 Ontario Economic Outlook and Fiscal Review was released in November to improve the government's deficit projection by $1.8 billion?

A: Ontario's deficit for 2015-16 is projected to be $5.7 billion, an improvement of $2.8 billion compared with the *2015 Budget* forecast and $1.8 billion compared with the projection laid out in the *2015 Ontario Economic Outlook and Fiscal Review*. [Ch. 3B, Pg. 4]

Since the *2015 Ontario Economic Outlook and Fiscal Review*, total revenue is projected to be about $1 billion higher. Key revenue changes include:

- Higher Sales Tax revenues, largely reflecting an increase in Harmonized Sales Tax (HST) revenues due to Ontario's strong housing market, particularly housing completions in 2015, and one-time positive adjustments to estimates of Ontario's prior-year HST entitlements. [~Ch. 3B, Pg. 7]

- Higher Land Transfer Tax revenues due to the strong housing market in 2015.

- Stronger overall performance from Government Business Enterprises, which also accounts for estimated Hydro One Limited net income changes unrelated to the government's asset optimization strategy. [~Ch. 3B, Pg. 6]

Ontario's program expense is consistent with the forecast laid out in the *2015 Ontario Economic Outlook and Fiscal Review.* [~Ch. 3B, Pg. 4]

In the *2015 Ontario Economic Outlook and Fiscal Review*, the reserve for 2015-16 was $ 1.0 billion. The 2015-16 outlook in the *2016 Document* maintains a $150 million reserve to protect the fiscal plan against any potential adverse changes that may occur before year-end. [~Ch. 3B, Pg. 5]

Q: Why is the government maintaining a $150 million reserve for 2015-16?

A: As required by the *Fiscal Transparency and Accountability Act*, Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense. [Ch. 3B. Pg. 35]

The fiscal plan outlined in the *2015 Budget* included a $1.0 billion reserve. The 2015-16 outlook in the *2016 Document* maintains a $150 million reserve to protect the fiscal plan against any potential adverse changes that may occur before year-end. [~Ch. 3B. Pg. 5]

Q: What was the Contingency fund used for in 2015-16?

A: The *2015 Budget* included contingency funds totalling $650 million in 2015-16 to help mitigate expense risks that may otherwise adversely affect Ontario's fiscal performance.

The contingency funds were used for a number of unexpected expenses. For example:

- $29.6 million to support emergency forest firefighting activities until the end of the 2015 fire season; [2015 FES, Pg. 104]
- $4.5 million to support a land claim settlement with Windy Point First Nation and a settlement to address a historical flooding claim with Rainy River First Nation; and [2015 FES, Pg. 104]
- $3.8 million to support the arrival and settlement of refugees and international relief efforts. [2015 FES, Pg. 104]

As a result of the government's success in managing growth in spending, total contingency funds were not needed for the fiscal year.

The 2015-16 interim expense projection maintains a total balance in the contingency funds of $15 million in recognition of expense changes that could materialize as the Public Accounts of Ontario for 2015-16 are finalized.

Q: How has the government lowered the deficit from $10.3 billion in 2014-15 to $5.7 billion in 2015-16? What programs were cut?

A: The improvement in the deficit between 2014-15 and 2015-16 at interim is driven mainly by increased revenue.

Between 2014-15 actuals and 2015-16 interim projections:

- Revenue increased by $8.0 billion, or 6.7% [from $118.5 billion in 2014-15 to $126.5 billion for 2015-16 at interim].
- Total expense increased by $3.2 billion, or 2.5% [from $128.9 billion in 2014-15 to $132.1 billion for 2015-16 at interim].

The year-over-year increase in revenue is mainly due to taxation revenue, which increased by $8.5 billion. The largest changes in taxation revenue were:

- A $3.1 billion increase to Electricity Payments-in-Lieu of Taxes – mainly related to the November 2015 Hydro One IPO;
- A $1.8 billion increase in Corporations Tax;

- A $1.8 billion increase in Sales Tax; and
- A $1.0 billion increase in Personal Income Tax.

Ontario's Medium-Term Fiscal Outlook and Path to Balance

Q: The federal government is committed to running a deficit to boost the economy. Why has the Ontario government decided to maintain a balanced budget in 2018-19?

A: The government is dedicated to a fiscally sound approach to managing the Province's finances, which will provide the foundation for the long-term well-being and prosperity of Ontarians. [Ch. 2A, Pg. 3]

Ontario is projecting it will meet its commitment to return to balance in 2017-18, the result of a plan to eliminate the deficit that was first laid out in the *2010 Budget*. Ontario is also projecting to remain balanced in 2018-19. [Ch. 2A. Pg. 5]

Through strong fiscal management, the Province is achieving its targets while continuing to invest in the economy, its people and a healthy, clean and prosperous low-carbon future. These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth. [Ch. 2A, Pg. 3]

Building and revitalizing public infrastructure are critical to strengthening Ontario's economy and supporting jobs for today and tomorrow. The government previously committed to investing more than $134 billion in priority projects, such as roads, bridges, public transit, hospitals and schools, over the next 10 years. [News Release, Pg. 2]

The *2016 Document* builds on this plan, which started in 2014-15, by increasing investments by $26 billion over an additional two years, bringing total investments to $160 billion over 12 years. This is the largest investment in public infrastructure in the Province's history. Over this period, these investments would support over 110,000 jobs each year, on average. [News Release, Pg. 2&3]

Q: What is the government's plan to hold average annual growth in program expense to 1.9% going forward? Given that this is below inflation, what programs are being cut?

A: Program expense is projected to grow at an average annual rate of 1.9 per cent between 2014-15 and 2018-19. This reflects the government's commitment to invest in priority areas to enhance public services, support economic growth and a low-carbon economy, and create jobs. [Ch. 3B, Pg. 29]

A key pillar of Ontario's plan to eliminate the deficit is transforming government and responsibly managing spending. [~Ch. 2A, Pg. 3] The government is

achieving this through Program Review, Renewal and Transformation (PRRT) – a new approach to fiscal planning and expenditure management this is designed around four key principles:

- Examining how every government dollar is spent;
- Using evidence to inform better choices and improve outcomes;
- Looking across government to find the best way to deliver services; and
- Taking a multi-year approach to find opportunities to transform programs and achieve savings. [~Ch. 2B, Pg. 3]

PRRT is about more than saving money – it is a continuous planning approach focused on improving outcomes for government programs and services to ensure they are effective, efficient and sustainable. [Ch. 2B, Pg. 3]

Through cross-ministry horizontal collaboration, the government is taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to invest in key priorities, such as health care and education. [Ch. 2B, Pg. 7]

The *2016 Budget* outlines progress on and expected outcomes of these major transformation and efficiency initiatives.

Q: Compared to the 2015 Budget, program spending is higher in each year. How is the government going to balance when spending is up?

A: Compared with the *2015 Budget*, program expense is projected to be $1.6 billion higher in 2016-17 and $4.2 billion higher in 2017-18. [Ch. 3B, Pg. 32]

These changes primarily reflect:

- Projected emissions reduction initiatives offset by cap-and-trade revenue;
- Small changes to Moving Ontario Forward projects;
- Adjustments for changes in demand and demographics across many programs; and
- Other investments in infrastructure. [Ch. 3B, Pg. 32]

These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth to generate revenues on the path to balance. [~Ch. 2A, Pg. 3]

The government remains dedicated to a fiscally sound approach to managing the Province's finances, and to balancing the budget by 2017-18. The government is taking deliberate and responsible steps to achieve that goal. [~Ch. 2A, Pg. 3]

The government is projecting deficits of $5.7 billion in 2015-16 and $4.3 billion in 2016-17 – improvements of $2.8 billion and $0.5 billion compared with the 2015 Budget forecasts. [~Ch. 2A, Pg. 4, 5]

With the economy expected to continue to growth, and the Province's ongoing commitment to transform government programs and services, Ontario is projecting to return to balance in 2017-18 and remain balanced in 2018-19. Achieving balance will put net debt-to-GDP on a declining track. [~Ch. 2A, Pg. 5]

- Ontario's plan to eliminate the deficit includes: [2A, Pg. 3]
- Transforming government and responsibly managing spending; and
- Ensuring revenue integrity and addressing the underground economy.

Q: Why is the Contingency Fund being increased by $0.6 billion (to $1.2 billion) in 2016-17?

A: The combined operating and capital contingency funds for 2016-17 are $0.6 billion higher than the combined contingency funds included in the *2015 Budget* for the 2015-16 fiscal year.

These increased contingencies provide flexibility to allow the government to respond to changing needs and help mitigate expense risks that may otherwise adversely affect Ontario's fiscal performance. [Ch. 3B, Pg. 32]

Q: Compared to the 2015 Budget, program spending is up in every year. What is the government spending the extra money on?

A: Compared with the 2015 Budget, program expense is projected to be $1.6 billion higher in 2016–17 and $4.2 billion higher in 2017–18.

These changes primarily reflect:

- Projected emissions reduction initiatives offset by cap-and-trade revenue;
- Small changes to Moving Ontario Forward projects;
- Adjustments for changes in demand and demographics across many programs; and
- Other investments in infrastructure.

In addition, the 2016 Budget includes combined operating and capital contingency funds for 2016–17 that are $0.6 billion higher than the combined contingency funds included in the 2015 Budget for the 2015–16 fiscal year. These increased contingencies provide flexibility to allow the government to respond to changing needs and help mitigate expense risks that may otherwise adversely affect Ontario's fiscal performance. [Ch. 3B, Pg. 32]

CHAPTER IV: Together Towards a Stronger Ontario and a Stronger Canada

Q: The Ontario budget states that new federal funding has been included in the fiscal outlook based on 'prudent assumptions' about new transfers, but the federal government has not said how much Ontario will receive. What are these prudent assumptions and how much new federal money is counted in this budget?

A: The 2016 budget continues the government's plan to build Ontario up and deliver on its priority of growing the economy and supporting job creation. Ontario's plan includes investing in people's talents and skills, as well as making the largest investment in public infrastructure in the province's history.

Ontario and the federal government share common goals, common values and have the same priorities. The federal government has recognized that coordinated and collaborative action is needed to address the issues facing Ontarians and Canadians. And the Province is ready to work with a federal partner to build on Ontario's investments and welcomes federal support for Ontario's plans in areas that matter to Ontarians and Canadians.

The 2016 Ontario budget included some prudent assumptions about what new revenue Ontario could expect from the federal government based on what was in the federal government's election platform. Even the Financial Accountability Officer (FAO) indicated these assumptions were prudent.

For instance, the federal government has committed to $60 billion in new infrastructure funding over 10 years. The Province welcomes this new commitment to build on existing programs and provide both immediate infrastructure investments and longer-term funding to support shared infrastructure priorities, and is working with the federal government to secure its per capita share.

More information will become available in the coming months as the federal government rolls out the details of its various plans around infrastructure, climate change and skills training.

While in some cases, federal measures have already been included in Ontario's fiscal plan, the full extent of the impact of these measures must be analyzed when more details of federal proposals are released.

This is particularly true of infrastructure, where both levels of government are making significant fiscal commitments.

All other forecasts for Government of Canada transfers are based on existing federal-provincial funding arrangements.

Q: In the past, Ontario has stated that there is a structural vertical fiscal imbalance, where provinces and territories are in a worse fiscal position than the federal government. Is that still the case?

A: Provinces are the custodians of those public services that are not only of greatest importance to Canadians, but also those services that which are subject to the greatest increasing cost pressures, such as health care, education and social services.

- While provinces raise less own-source revenues than they require to cover expenditure responsibilities, the federal government has a greater ability to raise revenues relative to the services it delivers.

- Major think tanks and experts, such as the Conference Board of Canada and the Parliamentary Budget Officer, have shown that there are significant challenges if action is not taken to address this imbalance between resources and responsibilities, particularly as the population ages.

The important challenges facing the country cannot, and should not, be tackled by one order of government alone – in the Canadian system, the best solutions result from governments working together.

- Ontario is committed to continuing to be a collaborative partner in the federation, and Ontarians recognize the long-standing important role that the Province has historically played as a contributor to the federation.

- The Province is ready to work with a federal partner to build on Ontario's investments and create a modern and effective federation that will support sustainable public services, economic growth and job creation.

Q: Experts, and even former finance minister Joe Oliver, have stated that the large drop in oil revenue from oil-producing provinces could have impacts on the Equalization program, and that the entry of other provinces into the program could push Ontario out. Is this true?

A: Ontario is projected to receive Equalization payments over the medium-term. There are however, risks to Ontario's Equalization forecast over the medium and longer term if the low oil prices persist and continue to negatively impact oil-producing provinces or if there is a sustained improvement in Ontario's economic growth relative to other provinces.

Equalization is driven by a formula defined by the federal government.

- Ontario will continue to focus our efforts on taking action to support job creation and economic growth within the Province.

- Despite continued volatility in global financial and commodity markets, Ontario's economic growth is now outpacing national growth, and is expected to continue being among the strongest in Canada over the next two years.

Equalization funding is tied to growth in Canada-wide nominal GDP. To the extent that lower oil prices have lowered expectations for Canada-wide nominal GDP growth, Equalization entitlements among all receiving provinces could be affected.

Given certain features of the Equalization program, such as the weighted averages and lags used for calculating fiscal capacities, it takes some time for current economic conditions to be reflected in Equalization entitlements.

Q: The federal government has said that it wants to negotiate a health accord with provinces. What would Ontario be looking for from a new health accord?

A: In January 2016, federal, provincial and territorial ministers of health met in Vancouver to move ahead on shared health priorities. Ministers agreed to work individually and collectively on the following areas where efforts will yield the greatest impact:

- Enhancing the affordability, accessibility and appropriate use of prescription drugs;

- Improving community care, home care and mental health services to better meet the needs of patients closer to home; and

- Fostering innovation in health care services that improves both the quality of care and value for money.

Ontario welcomes federal commitments in these areas.

- Ontario welcomes the federal government's decision to join the provinces and territories pan-Canadian Pharmaceutical Alliance, which negotiates lower drug prices on behalf of public drug plans.

- The federal government also agreed, at the invitation of Ontario, to join a federal–provincial–territorial working group exploring ways to improve coverage and equitable access to appropriate prescription drugs for Canadians.

In the spirit of collaboration, all ministers agreed that new resources are needed to stimulate and support health care and drive transformation.

- The federal minister also confirmed the federal government's commitment to work collaboratively with provinces and territories towards a long-term funding arrangement for health care.

Ontario will continue to seek additional funding so that support for health care is adequate, responds to the needs of Ontarians and ensures the sustainability of the health care system over the long term.

Q: All health ministers have agreed that new resources for health are needed, and Ontario has called for the federal government to invest adequately in health care, yet the Canada Health Transfer is growing faster than Ontario health expenditure. How do you reconcile and explain these facts?

A: Since 2004-05, spending by the Ministry of Health and Long-Term Care has increased by more than $18 billion while Canada Health Transfer (CHT) revenues to Ontario have increased by $6.8 billion.

- Ontario's 2014-15 Public Accounts and the 2015 Budget showed that, in 2015-16, CHT revenue increased by $657 million over the previous year to approximately $13.1 billion.

- During the same period, health expenses increased by $758 million, to nearly $51 billion.

The CHT now represents roughly one-quarter of health care spending in Ontario.

- Currently, federal legislation is set to reduce CHT annual growth to the rate of nominal gross domestic product (GDP) growth.

- Without action, this change will take effect in 2017-18 and is expected to remove at minimum $21 billion from health care nationally – $8 billion in Ontario alone – by 2023-24. And with economic growth in Canada falling below earlier forecasts, the actual impact could be even greater.

A federal partner on health issues could help support investments in innovation and transformation of health care systems, in particular by building on Ontario's investments in home care and mental health.

- Ontario looks forward to ongoing collaboration in this critical area, and to working with the federal government to ensure federal support for health is adequate, responds to the needs of an aging population, and is sustainable over the long term.

Q: The 2016 budget shows that the federal government was under-spending in infrastructure compared to the provinces and municipalities in 2013. The current federal government has committed to significant new infrastructure funding. Is this enough to address the funding gap?

A: Ontario is making the largest investment in public infrastructure in the Province's history of more than $137 billion over the next 10 years, or about $160 billion over 12 years, starting in 2014–15.

- Over the next ten years, these planned investments would support over 110,000 jobs each year, on average.

Other provinces have announced similar multi-year capital plans, recognizing the importance of public infrastructure investments, and now the federal government has committed to make significant new investments.

The Province welcomes the new federal government's commitment to build on existing programs and provide both immediate infrastructure investments and longer-term funding to support shared infrastructure priorities, and will work with the federal government to ensure investments maximize the positive impact on the economy, both now and in the future.

Q: You have welcomed the federal commitment to increase infrastructure funding, but have stated Ontario has an interest in the design of new programs. What design does Ontario want for these new federal programs?

A: The Province welcomes the new federal government's commitment to build on existing programs and provide both immediate infrastructure investments and longer-term funding to support shared infrastructure priorities.

- As the design of these new federal investments is finalized, it is critical that the federal government work together with the provinces and territories to ensure that programs are predictable, support jobs and economic growth, and respect fiscal plans.

New federal infrastructure funding should give provinces and territories a greater ability to identify those projects that can be acted on to maximize the positive impact on the economy, both now and in the future.

- Ontario is working with the federal government to secure its per capita share to further invest in shovel-ready and shovel-worthy projects for transit and social and green infrastructure.

Q: Ontario has stated that it will work with the federal government and other provinces and territories on a pan-Canadian climate change framework. What does Ontario want from this framework, and how should any new action recognize what Ontario has already done, as the province has asked?

A: The Province continues to lead in fighting climate change. Ontario recently signed memorandums of understanding with Quebec and Manitoba, signalling the intention to link future cap-and-trade markets and committing to concerted climate change actions.

Ontario has already made significant contributions towards addressing this global challenge.

- The Province successfully phased out coal-fired electricity generation in 2014, the single largest greenhouse gas (GHG) reduction initiative of its kind in North America.

As the federal government continues to engage provinces and territories on national initiatives, it is critical that any action recognize the steps Ontario has already taken to reduce GHG emissions.

- In addition, Ontario is eager to share the benefit of its experiences to help inform the development of potential national initiatives based on its own experience of developing a broad provincial climate policy.

Q: Ontario has called for improvements to federal labour market programs, while the mandate letter to Minister Bill Morneau directs him to improve and modernize EI and the job training system. What specifically does the province want from the federal government on this issue?

A: Ontario looks forward to working with the federal government to ensure that new Labour Market Development (LMDA) funding and other training funding is able to best meet the needs of Ontario's labour market.

The Province welcomes the federal government's commitment to increase investments for employment and training services. These new investments will provide an opportunity to improve the federal labour market transfers that fall short of meeting the needs of Ontarians.

- Currently, the Employment Insurance system is not well aligned with the realities of Ontario's labour market. The majority of unemployed Ontarians do not qualify for employment insurance and so are not eligible for LMDA funded training.

- For LMDA funding to be most beneficial to Ontarians, a significant expansion of client eligibility is necessary.

- Ontario receives a share of LMDA funding that is well below its share of Canada's population and of Canada's unemployed. A proportionate and fair allocation of LMDAs and other skills funding would help Ontario better meet the needs of unemployed workers.

Q: Ontario's ongoing funding for municipalities will be $3.8 billion in 2016. Will this be sufficient to address the fiscal pressures facing Ontario's cities?

A: Our government has a strong record of supporting and working with municipalities.

- We will continue to fulfil its commitment to upload social assistance benefit program, as well as court security and prisoner transportation costs off the property tax base, as agreed with municipalities in 2008.

- The uploads will be fully implemented by 2018. This represents a significant milestone in the provincial-municipal relationship and will help put municipalities on a financially sustainable footing.

It is important to note that support to municipalities has increased significantly at a greater rate than support to other sectors.

- In 2016 alone, municipalities will benefit from over $3.8 billion in ongoing support through the OMPF, provincial uploads and other provincial initiatives – an increase of $2.7 billion above the support provided in 2003.

Provincial measures are helping to improve municipal fiscal sustainability, but the province must also consider its responsibility to protect key public services such as health, education and infrastructure.

Asset Optimization

Q: Is the Government using Asset Optimization Revenues to balance the Budget?

A: The government's plan to eliminate the deficit does not depend on the revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario.

In fact, the government is taking deliberate and responsible steps to achieve its goal of balancing the budget in 2017-18. Ontario's plan to eliminate the deficit is centred on transforming government and managing costs, and ensuring revenue integrity and addressing the underground economy.

Under the *Trillium Trust Act*, *2014,* all net revenue gains from the sale of designated assets are to be credited to the Trillium Trust to help fund further investments in public transit, transportation and other priority infrastructure as part of the Moving Ontario Forward initiatives.

The asset optimization target will help support the largest infrastructure investment in the province's history.

Cap and Trade:

Q: Will cap-and-trade impact the Province's bottom line?

A: The government is committed to dedicating all proceeds from the auctioning of allowances under the cap and trade program to fund GHG-emissions reduction initiatives – which would help Ontario meet its 2020 and 2030 emissions reduction targets.

The fiscal plan included in the 2016 Budget reflects this commitment.

The medium-term revenue outlook includes projected cap-and-trade proceeds from the auctioning of carbon allowanced beginning in 2017. The current estimate for proceeds is:

- $478 million in 2016-17; and
- Between $1.8 billion and $1.9 billion annually starting in 2017-18.

The government has already taken an important step towards investing cap-and-trade proceeds with the investment of $325 million in 2015-16 through a new Green Investment Fund.

For spending of cap and trade proceeds in 2016-17 and beyond, the government is still working out the details which is subject to the enabling legislative framework that's currently under review by the Legislature – any changes to the legislation could impact the potential areas of investment that are eligible for funding from cap and trade proceeds.

Moving forward, Ontario's approach to the investment of cap-and-trade proceeds will be both balanced and strategic, focusing on initiatives where the opportunity for emissions reduction and sustainable economic growth is greatest.

The fiscal plan reflects the most recent information available at the time of the Budget, including the impact of new initiatives announced as part of the Budget. The government recognizes that different factors could affect the Province's outlook for revenue and expense. That is why the fiscal plan incorporates prudence – to protect the fiscal outlook against these potential adverse changes.

- The fiscal plan incorporates a reserve, set at $1.0 billion in 2016-17, $1.1 billion in 2017-18 and $1.2 billion in 2018-19.

- It also includes contingency funds to help mitigate expense risks that may otherwise adversely affect Ontario's fiscal performance.

Q: Will the FAO be able to review all cap and trade spending plans before they are approved?

A: The FAO has a mandate to provide independent analysis to the Legislative Assembly about the state of the province's finances, including the Ontario Budget, as well as trends in the provincial and national economies.

At his discretion, the FAO could undertake an analysis and comment on any aspect of the province's finances, including the approved spending plans outlined in the Ontario Budget.

However, before these spending plans are incorporated in the Budget, Treasury Board and Cabinet must first review, evaluate and approve these proposals. These discussions are protected by subsection 12(1) of the *Freedom of Information and Protection of Privacy Act* (FIPPA) as they would reveal the substance of deliberations of the Executive Council or its committees and in accordance to Section 12(2) of the *Financial Accountability Officer Act* (FAOA) the government is prohibited from sharing this information with the FAO.

Financial Accountability Officer (FAO):

Q: Is the government restricting the ability of the FAO to access Cabinet Confidential documents?

A: No, the government is acting in accordance with the governing legislation that was approved by all three parties.

As per Section 12(2) of the *Financial Accountability Officer Act* (FAOA), a ministry or public entity is prohibited from disclosing to the Financial Accountability Officer (FAO) a record "described in subsection 12(1) of *the Freedom of Information and Protection of Privacy Act*" (FIPPA). Section 12(1) of FIPPA prohibits the release of any record that would reveal the substance of deliberations of the Executive Council or its committees.

In the end, the primary purpose of subsection 12(1) of FIPPA is to protect the deliberations or future deliberations of Cabinet. As a result, the section prohibits the disclosure of both existing records as well as any newly created records that would reveal those deliberations.

TAX POLICY DIVISION

Tuition and Education Tax Credits

Q: How many students will be affected when the tuition and education tax credits end?

A: About 1 million students are expected to report that they attended studies in 2015 that qualified them for tuition and education tax credits. About 800,000 attended full time studies, and about 200,000 attended part-time studies.

Q: Will everyone who loses their tax credits get back the money through the new student grant?

A: Currently, tax credits go to a larger group of students than those eligible for OSAP. The grant design has not been finalised. The government will announce details of the new program later this year.

Q: How much tax relief do the tax credits currently provide to Ontario students?

A: The tuition and education credits for studies in 2015 are expected to provide about $400, on average, in tax relief. This includes tax relief immediately received by students, tax relief received by their family members through transfers, and tax relief that would be received in future years through carry-forwards.

Q: What will happen to students' carry-forward pools?

A: Tax filers who are resident in Ontario on December 31, 2017 and have unused tuition and education tax credits will be able to claim their credits for tax relief in future tax years.

Ontario students would no longer be able to accumulate these credits after 2017. Similarly, tax filers who move to Ontario from other provinces after December 31, 2017, would no longer be able to claim their carry-forward amounts for Ontario credits.

Children's Activity Tax Credit

Q: Why are you ending a tax credit that helps parents enroll their children in extra-curricular activities?

A: The Children's Activity Tax credit largely goes to higher-income families who are less likely to need it to help pay for their children's activities. About half of 2015 claimants are estimated to have family incomes above $100,000.

Other existing programs support the objective of providing more opportunities for children and youth to stay healthy, such as the Healthy Kids Strategy.

Q: How much will Ontario save by no longer providing this credit?

A: Ontario would save about $15 million in 2016-17 and over $50 million per fiscal year thereafter.

Q: If you end this credit, what are impacted families left with?

A: Ontario will focus on developing other programs to encourage physical activity and healthy eating for Ontario's children. Several such programs are provided through the Healthy Kids Strategy.

Q: Would I be able to claim the credit for activity fees I paid for my child this year?

A: You would be able to claim the credit for eligible expenses paid for your child's activities in 2016. No provincial credit would be provided for similar expenses incurred for future years.

Q: How many parents will be affected when this credit ends and how much will they lose?

A: About 675,000 parents are expected to receive a CATC of about $70 on average for eligible activities in 2015.

Healthy Homes Renovation Tax Credit

Q: Why are you ending a tax credit that helps seniors live longer in their homes?

A: Ontario proposes to end the HHRTC because take-up of the credit is low and it largely benefits higher-income families. For 2015, only 10% of the credit is expected to go to claimants with net family incomes below $30,000.

Assistance with home modification costs is provided for people with mobility-related disabilities or impairments through other Ontario programs, including the Ontario Home and Vehicle Modification Program.

Q: How much will Ontario save by no longer providing this credit?

A: Ontario will save about $4 million in 2016-17 and about $15 million in the following years.

Q: What help would seniors with mobility issues get in the absence of this credit?

A: Assistance with home modification costs is provided for people with mobility-related disabilities or impairments through the Ontario Home and Vehicle Modification Program.

Many qualifying expenses for HHRTC are also eligible for the medical expense tax credit (METC). Examples of eligible renovation expenses include the purchase and installation of ramps; widening halls and doorways; and lowering of kitchen or bathroom cabinets.

In addition, the federal government recently announced the Home Accessibility Tax Credit. The credit is similar to the HHRTC and would also be available to all people with disabilities. The federal credit is a non-refundable tax credit of 15% of eligible expenses of up to $10,000.

Q: The federal government recently introduced the Home Accessibility Tax Credit, and B.C. just announced it would parallel the credit. Why have you taken the opposite approach by eliminating HHRTC?

A: The Program Review Renewal and Transformation process helped us determine that this program is not effectively meeting desired outcomes. The credit was made refundable so that even lower-income seniors could fully benefit. Despite this, the credit has had lower take-up than expected and only 10% of the credit goes to claimants with net family incomes below $30,000.

Ontario's Home and Vehicle Modification Program better meets people's needs by providing funds upfront to make home accessibility modifications. The program is application based and is available to low- and moderate-income people with disabilities.

Q: Would I be able to claim the credit for home accessibility renovations I paid for this year?

A: Yes, you would be able to claim the credit for eligible expenses you incurred in 2016 to make your home more accessible. For 2017 and future years, the credit would no longer be available.

Q: How many people will be affected when this credit ends and how much will they lose?

A: About 25,000 people are estimated to receive about $575 on average through the HHRTC for expenses paid in 2015. About 90% of claimants have net family incomes over $30,000.

Seniors who plan on making accessibility renovations in 2017 and subsequent years may be eligible for the federal Home Accessibility Tax Credit that provides up to $1,500 (or 15% of up to $10,000 of qualifying expenses).

Tax on Split Income

Q: Why did you introduce a 20.53% tax rate on income split with certain related minor children when Ontario's top rate is only 13.16%? Is this a sneaky tax increase?

A: The tax on split income is a measure designed to discourage splitting income with children for tax planning purposes. By paralleling the federal approach of imposing the top marginal tax rate on split income, Ontario is closing a tax planning loophole to ensure there is no incentive for this method of income splitting in Ontario.

Q: How can you claim that an increase in a tax rate is not designed to generate additional revenue?

A: The proposed fix is intended to ensure that the tax on split income measure is effective at discouraging income splitting with children. Raising revenue is not the objective of this change, and the revenue impact is estimated to be less than $1 million.

Tax-Free Savings Accounts

Q: How much do Tax-Free Savings Accounts (TFSAs) cost Ontario?

A: TFSAs are estimated to cost Ontario about $165 million in foregone revenue in 2015.

Q: The TFSA contribution limit was almost cut in half. Why doesn't this change generate more revenue for Ontario?

A: The foregone revenue from increasing the contribution limit to $10,000 was forecasted to be relatively small. This is because as the total contribution room increases, fewer Ontarians are able to make use of the larger TFSA limit.

Ontario has not received any information on how people have responded to the policy changes announced in 2015. Cautious revenue estimates were made until these data become available.

Reviewing Personal Income Tax

Q: Does the review to simplify the Personal Income Tax calculation mean that you're going to increase taxes?

A: The review will examine ways to simplify Ontario's Personal Income Tax calculation so that Ontarians can better understand their effective tax rates. The review is not intended to make recommendations about the overall amount of Personal Income Tax revenue collected.

Q: What is the scope of the review? Are you going to conduct consultations?

A: The government is designing a plan for evaluating Personal Income Tax and looking for ways to simplify the calculation. I cannot comment at this point whether formal consultations will form part of that plan.

Q: How does the complexity of Ontario's Personal Income Tax calculation compare to other provinces?

A: Ontario is the only province that has a surtax, health premium, and low-income tax reduction.

Prince Edward Island is the only other province with a surtax. Quebec is the only other province with a health premium in its PIT calculation. Quebec's premium will be eliminated for low-income taxpayers and reduced for others in 2017 and fully eliminated in 2018.

Five other provinces have low-income tax reductions. Ontario's low-income tax reduction is based on an intermediary calculation of individual tax owed, which is not easily understood by tax filers.

Q: When will Ontario be announcing the results of the review?

A: A detailed plan for conducting the evaluation is still being developed. I cannot comment at this point about the timing of its completion or any subsequent announcements that may be made.

Research and Development (R&D) Tax Credits

Q: You've twice announced that you're reviewing R&D tax credits. Why are you now cutting them without consultation?

A: The Ontario Government reviewed options to restructure Ontario's R&D tax credits. The R&D tax credits, like all of the business support programs, were reviewed as part of the Program Review, Renewal and Transformation (PRRT) process which is focused on improving outcomes for government programs to ensure they are efficient, effective, and sustainable.

As part of the PRRT process, the government proposes to reduce the level of support provided through the Ontario Research and Development Tax Credit (ORDTC) and the Ontario Innovation Tax Credit (OITC).

R&D remains a key priority for the government, which is why the government will reinvest savings from the proposed tax credit changes into targeted investments across key sectors of Ontario's economy.

Through the Business Growth Initiative, the province will continue to examine ways to encourage R&D investment in Ontario, increase the commercialization of research, and better support export activity.

Q: Why are you cutting R&D Tax Credits (i.e. OITC and ORDTC) when you say you want to support innovation?

A: Research and Development remains a key priority for the government. That is why the government is reinvesting savings from the proposed R&D tax credit changes into new targeted investments across key sectors of Ontario's economy.

The government is investing $35 million over five years towards establishing the Advanced Manufacturing Consortium; $20 million over three years to partner with Colleges to tackle industry challenges through innovation projects; and $50 million over five years in world-leading research at the Perimeter Institute.

Through the province's Business Growth Initiative, the government will continue to examine ways to encourage R&D investment in Ontario, increase the commercialization of research and better support export activity.

Q: Who will be affected by the change to the R&D Tax Credits (OITC and ORDTC)?

A: The proposed changes would affect all businesses that invest in R&D in Ontario and claim the OITC or the ORDTC. Smaller firms who can claim both the OITC and the ORDTC on the same R&D expenditure will be affected by both rate reductions.

Q: When will the change to the R&D Tax Credits take place? What is the transition period? Why wasn't more time provided?

A: These changes would be effective for eligible R&D expenditures incurred in taxation years that end on or after June 1, 2016. A transition period from Budget day until June 1, 2016 is being proposed to ensure that businesses have some lead time to adjust to these changes. The rate reductions would be prorated for taxation years straddling June 1, 2016.

Q: Won't this reduce jobs and business investment in innovation and high-tech sectors?

A: R&D remains a key priority of the government. That is why the government will reinvest savings from the proposed tax credit changes into new targeted investments across key sectors of Ontario's economy, including: $35 million over five years towards establishing the Advanced Manufacturing Consortium; $20 million over three years to partner with colleges to tackle industry challenges through innovation projects; and $50 million over five years in world-leading research at the Perimeter Institute.

Through the Business Growth Initiative, the province will continue to examine ways to encourage R&D investment in Ontario, increase the commercialization of research, and better support export activity.

Q: Will Ontario still be competitive with other provinces/jurisdictions?

A: Smaller businesses performing R&D in Ontario would continue to be able to claim both the 8 per cent refundable OITC and the 3.5 per cent non-refundable ORDTC on their R&D investments. With the proposed rate reductions, Ontario tax support for small businesses would remain competitive with other provinces. Larger businesses would be able to claim the 3.5 per cent non-refundable ORDTC.

R&D remains a key priority of the government. The government will reinvest savings from the proposed tax credit changes into new targeted investments across key sectors of Ontario's economy. This includes $35 million over five years towards establishing the Advanced Manufacturing Consortium; $20 million over three years to partner with colleges to tackle industry challenges through innovation projects; and $50 million over five years in world-leading research at the Perimeter Institute.

The government is also committed to lowering the costs of doing business by maintaining a competitive tax environment. Ontario's general corporate income tax (CIT) rate of 11.5 per cent is the second lowest in Canada. Also, Ontario's combined federal-provincial general CIT rate of 26.5 per cent is lower than the comparable rate in any of the U.S. states.

Q: If business R&D has been declining in Ontario, why is the government reducing support? Shouldn't the government be increasing support?

A: The R&D tax credits, like all of the business support programs, were reviewed as part of the Program Review, Renewal and Transformation (PRRT) process which is focused on improving outcomes for government programs to ensure they are efficient, effective, and sustainable.

As part of the PRRT process, the government proposes to reduce the level of support provided through the ORDTC and the OITC.

R&D remains a key priority of the government. That is why the government will reinvest savings from the proposed tax credit changes, including: $35 million over five years towards establishing the Advanced Manufacturing Consortium; $20 million over three years to partner with colleges to tackle industry challenges through innovation projects; and $50 million over five years in world-leading research at the Perimeter Institute.

Q: How much will the reductions to the R&D tax credits save the Province?

A: The proposed R&D tax credit rate reductions are estimated to save the province approximately $35 million in 2016-17, $65 million in 2017-18 and $65 million in 2018-19.

Q: How are the savings from this change being used? Will the savings help to balance the Budget or be redirected into other programs to incent innovation in the Province?

A: Research and Development remains a key priority of the government. That is why the government will reinvest savings from the proposed tax credit changes, including: $35 million over five years towards establishing the Advanced Manufacturing Consortium; $20 million over three years to partner with colleges to tackle industry challenges through innovation projects; and $50 million over five years in world-leading research at the Perimeter Institute.

Through the Business Growth Initiative, the province will continue to examine ways to encourage R&D investment in Ontario, increase the commercialization of research, and better support export activity.

Q: What was the rationale for lowering the amount of the credit?

A: The Ontario Government reviewed options to restructure Ontario's R&D tax credits. The R&D tax credits, like all of the business support programs, were reviewed as part of the Program Review, Renewal and Transformation (PRRT) process which is focused on improving outcomes for government programs to ensure they are efficient, effective, and sustainable.

As part of the PRRT process, the government proposes to reduce the level of support provided through the Ontario Research and Development Tax Credit (ORDTC) and the Ontario Innovation Tax Credit (OITC).

Despite total Ontario R&D support of approximately $400 million delivered annually through the tax system, in addition to federal programs, business spending on R&D in Ontario has declined over the last decade and continues to lag the United States as a share of the economy.

R&D remains a key priority for the government, which is why the government will reinvest savings from the proposed tax credit changes into targeted investments across key sectors of Ontario's economy.

The government is investing $35 million over five years towards establishing the Advanced Manufacturing Consortium; $20 million over three years to partner with Colleges to tackle industry challenges through innovation projects; and $50 million over five years in world-leading research at the Perimeter Institute.

Through the Business Growth Initiative, the province will continue to examine ways to encourage R&D investment in Ontario, increase the commercialization of research, and better support export activity.

Maintaining a Competitive Tax Environment

Q: How competitive are Ontario's business taxes with other international jurisdictions?

A: Ontario's combined federal-provincial general Corporate Income Tax (CIT) rate of 26.5 per cent is lower than the comparable rate in any of the U.S. States. Ontario's combined rate is also lower than the Great Lakes States average (39.7 per cent) and the average CIT rate of G7 and G20 member countries (30.5 per cent and 28.2 per cent respectively).

Q: How competitive are Ontario's business taxes with other provinces?

A: Ontario has the second lowest general CIT rate of 11.5 per cent when being compared with Canada's federal and provincial general CIT rates. British Columbia has the lowest general CIT rate of 11 per cent and Nova Scotia and Prince Edward Island have the highest general CIT rate of 16 per cent.

CIT Rates (Chapter 1A)

Q: Why is the government not raising corporate taxes in this Budget?

A: Since 2009 Ontario has taken significant steps to improve business tax competitiveness to make the province a more attractive location for business investment which is necessary to support long-term economic growth and job creation.

Ontario's general Corporate Income Tax (CIT) rate was reduced in stages from 14 per cent in 2009 to the current 11.5 per cent, making it the second lowest in Canada. We now have a combined federal-provincial general CIT rate of 26.5 per cent, which is lower than the comparable CIT rate in any of the U.S. States.

We have also introduced several measures to better target Ontario's business tax credits to ensure that they are effective and fiscally sustainable.

Taking a balanced approach will help to ensure that Ontario remains a competitive location for business investment and that support provided to Ontario businesses contributes to economic growth and job creation, and promotes investment in key industries.

Business Supports Program Review Panel Report

Q: Why didn't Ontario release the Business Supports Program Review Panel Report?

A: The report was used for internal government decision making and played a valuable role in informing the government's review of existing business support programs.

Land Transfer Tax (LTT) "De Minimis" Exemption for Partnerships: Clarifying Amendments Made on February 18, 2016 for Certain Dispositions

Q. What is the "de minimis" partnership exemption?

A: In Ontario, Land Transfer Tax (LTT) applies to transfers of land, both registered and unregistered, with few exceptions. A person acquiring a beneficial interest in land by becoming a beneficiary of a trust or a partner in a partnership is required to file a return and pay tax within 30 days after the date of the transaction, if an instrument is not registered on title.

Ontario Regulation 70/91, made under the Land Transfer Tax Act, provides a "de minimis" partnership exemption from the LTT for small changes in partnerships (up to 5 per cent). The five per cent threshold is measured by a change (increase) in the entitlement to profits in the partnership during the fiscal year of the partnership in which the disposition(s) was (were) made.

The exemption is available only to a person who becomes a partner in a partnership that holds land, or to a person who is an existing partner whose partnership interest increases (provided other requirements are met).

Q. Why have retroactive amendments to the Land Transfer Tax (LTT) "de minimis" partnership exemption been made?

A: The amendments made on February 18, 2016 clarify the application of the Land Transfer Tax (LTT) to certain dispositions occurring as part of complex real estate structures, such as those involving real estate investment trusts (REITs).

These amendments are intended to further ensure the integrity of the LTT system.

Some taxpayers have attempted to apply the "de minimis" partnership exemption incorrectly, avoiding LTT on large transactions occurring within complex real estate structures, such as those involving real estate investment trusts (REITs).

The amendments will help maintain a level playing field for investors in real estate vehicles such as REITs that have paid tax in similar circumstances.

As they are clarifying, the amendments are applicable on or after July 19, 1989 (the date on which the Exemption became effective).

However, on March 24, 2016 the ministry announced its administrative approach to facilitate compliance. As part of that approach, for dispositions of a beneficial interest in land through one or more partnerships, the Minister will assess and/or reassess only dispositions that occurred on or after February 18, 2012. This is a balanced approach to administration that recognizes the practicalities involved in complying with taxpayer obligations at this time.

TAX AND BENEFITS ADMINISTRATION

Supporting the Sharing Economy

Q: How is Ontario supporting the sharing economy?

A: The government has taken action to begin supporting the development of a robust sharing economy, including announcing the creation of the Sharing Economy Advisory Committee, with representation from key ministries, to oversee the development and coordination of Ontario's approach to the sharing economy.

Further, in the 2016 Budget, the government announced a series of new measures, including:

- Working to ensure the province's auto insurance system can help provide peace of mind to those offering and using new types of transportation services through the sharing economy;
- Commencing consultation with industry and communities in spring 2016 on options to facilitate new and innovative choices for intercity passenger travel. The government will consult on a new regulatory regime to ensure safe and sustainable intercity passenger travel services;
- Piloting a program with Airbnb, a key sharing economy platform, to inform Ontarians who engage in home sharing about their consumer rights and responsibilities, and raise awareness of tax obligations; and
- Committing to consultations led by the Sharing Economy Advisory Committee, and focussed on the sharing economy, to help determine the best approach for Ontario moving forward.

Q: Why is the government supporting the sharing economy?

A: The sharing economy has significant potential to drive economic growth, productivity and innovation.

According to an estimate by PricewaterhouseCoopers, revenues from five of the key sharing economy sectors (accommodation, transportation, finance, services and labour, and music/video streaming) are projected to grow from USD $15 billion today to USD $335 billion by 2025.

Further, according to research done by the University of California, Berkley and the Wharton School of the University of Pennsylvania, the benefits of the sharing economy extend to cost savings for consumers, flexible employment opportunities,

greater supply and choice of services across sectors, and increased access to capital for small start-ups.

Q: Why aren't you doing something about Uber?

A: In the 2016 Budget, the government committed to a consultation to determine the best approach for Ontario moving forward. Ride-sharing and home-sharing will undoubtedly be a key topic of discussion.

Adapting Ontario's economy to accommodate new business models requires careful consideration and consultations with key stakeholders, including industry, municipalities, the public and other interested parties. The government looks forward to having more to say on this in the coming months.

Q: What is the Sharing Economy Advisory Committee?

A: The Sharing Economy Advisory Committee is an internal committee of Assistant Deputy Ministers who have been tasked with developing an integrated approach to the sharing economy for Ontario.

Key committee objectives include fostering innovation while seizing the opportunities presented by this emerging sector, and helping to ensure a level playing field as well as safety for consumers and workers.

Q: When will we see an Integrated Strategy to Address the Sharing Economy?

A: The government, led by the Sharing Economy Advisory Committee, is developing an integrated strategy to address the sharing economy. However, the government must consult to become better informed, and to gain insights into the best approach for Ontario moving forward. Following these consultations, the government will finalize its integrated strategy.

Auto Insurance – Sharing Economy

Q: Aviva has already announced it is selling auto insurance coverage for ride-sharing. Why do you need to take further action?

A: Ontario's competitive market for auto insurance is beginning to respond and adapt to the sharing economy. And our province's flexible regulatory framework for insurance is letting that innovation happen. But there continues to be a significant insurance coverage gap for thousands of Ontarians driving and using ride-sharing services every day.

Closing that gap is a critical government priority, and the government and the Financial Services Commission of Ontario (FSCO) are exploring how our flexible regulatory system can quickly approve new insurance products.

A flexible response to new products will help give drivers and passengers peace of mind while the government works with stakeholders to develop the necessary legislative and regulatory changes to fully integrate the sharing economy into the auto insurance system.

Q: What would your flexible approach involve? What specifically are you exploring with FSCO?

A: The government has made clear to the public, and to FSCO, that protection of consumers and drivers involved in ride-sharing is an objective that needs to be achieved as quickly as possible.

Our flexible approach involves working with FSCO to explore how Ontario's insurance regulatory system can quickly approve new insurance products. This could involve interim approvals of new products.

The government is also working with FSCO and stakeholders in the auto insurance system to develop the legislative and regulatory changes necessary to fully integrate the sharing economy into Ontario's auto insurance system.

This flexible approach ensures Ontario's auto insurance system can help provide peace of mind to those involved in ride-sharing.

Towards that end, the government and FSCO are exploring how Ontario's flexible insurance regulatory system can quickly approve new insurance products.

Q: What do you mean by interim approvals?

A: The idea of interim approvals is just an example of what the government and FSCO are exploring. Everything is on the table to make sure Ontario's auto insurance system can help provide peace of mind to those involved in ride-sharing.

As a government, we are making it clear that the insurance coverage gap for those engaged in ride-sharing in Ontario needs to be addressed as quickly as possible. This is a government priority.

One insurance product has already been approved; this is a good first step. And we need more companies to step forward with other new products to provide more insurance options.

And the government, working with FSCO, is exploring ways to approve more new insurance products, including approving new products on an interim basis, while we make the necessary changes to fully integrate the sharing economy into Ontario's auto insurance system.

Q: Aren't you playing into Uber's hands by approving insurance products that don't comply with the law?

A: When it comes to auto insurance and ride-sharing, our top concern is for the protection of drivers and their passengers. New auto insurance products have to be filed with FSCO for review and approval, and we are confident in FSCO's internal review processes.

One insurance product has already been approved by FSCO, and other proposals are currently being reviewed. The government and FSCO are exploring how Ontario's flexible insurance regulatory system can quickly approve new insurance products. This work isn't being done to satisfy any single company – it is being done to help ensure Ontario drivers and consumers are protected.

Q: Uber has launched a public campaign to pressure Alberta's government? Is this announcement pre-empting similar criticism by Uber in Ontario?

A: This isn't about what's going on in other jurisdictions. When it comes to auto insurance and ride-sharing, our top concern is for the protection of drivers and their passengers.

Ontario's auto insurance system has already demonstrated flexibility and responsiveness to ride-sharing. One insurance product has already been approved by FSCO, and other proposals are currently being reviewed. The government and FSCO are exploring how Ontario's flexible system can quickly approve new insurance products to help give drivers and consumers peace of mind.

This work isn't being done to satisfy a single company – it is being done to help ensure Ontario drivers and consumers are protected.

Q: When can we expect FSCO to announce interim approval of these other auto insurance products?

A: FSCO is an independent regulator. It would be inappropriate for the government to comment on FSCO's internal processes.

What the government has made clear to the public, and to what FSCO is aware of, is that protection of consumers and drivers involved in ride-sharing is an objective that needs to be achieved as quickly as possible.

Towards that end, the government and FSCO are exploring how Ontario's flexible insurance regulatory system can quickly approve new insurance products.

Q: How long do you need to make the long-term changes you're talking about?

A: The government and FSCO are exploring how Ontario's flexible insurance regulatory system can quickly approve new insurance products to help protect consumers and drivers engaged in ride-sharing activity.

In parallel with that work, the government is also working with the regulator and the insurance industry to develop the legislative and regulatory changes necessary to fully integrate the sharing economy into Ontario's auto insurance system. These changes will be comprehensive and complex, and will require careful consideration over the coming months.

Q: What about other issues with ride-sharing services like Uber? What's the government doing to ensure these vehicles are safe and drivers are paying their fair share of taxes?

A: To help realize the benefits of the sharing economy, the government is developing an integrated strategy to promote a more level playing field and tax fairness, foster innovation and support new business, ensure a coordinated government approach is taken and protect workers, consumers and communities.

Adapting Ontario's economy to accommodate new business models requires careful consideration and consultations with key stakeholders, including industry, municipalities, the public and other interested parties. The government's Sharing Economy Advisory Committee will launch a more targeted consultation in the coming months.

Q: Have you been working with the City of Toronto on this?

A: Ontario's strategy for the sharing economy includes taking a coordinated government approach. Ministry of Finance and FSCO staff has engaged other jurisdictions and levels of government, including the City of Toronto, to build relationships and share information.

The focus of our government's early action is on ensuring Ontario's auto insurance system can help provide peace of mind to Ontarians engaged in ride-sharing activity. Other jurisdictions and levels of governments may have different priorities, and we will continue to work with them as we develop more long-term changes to fully integrate the sharing economy into Ontario's auto insurance system.

The Province is also looking at other aspects of the sharing economy. And in the coming months we will launch a consultation to help determine the best approach for Ontario, which will include engagement with municipalities like the City of Toronto.

Underground Economy and Other Revenue Integrity Measures

Q: What is Ontario doing to address the underground economy?

A: The government has made progress in fighting underground economic activities through:

- Ongoing enhanced compliance-focused measures, including those that address the underground economy and aggressive tax planning, the Province has generated over $930 million to date - a $330 million increase over what was reported in the 2015 Budget;
- Consultations with high-risk sectors, with a view to partnering with industry and gaining insight into how best to tackle the underground economy;
- Requiring corporations to demonstrate federal and provincial tax compliance before receiving government contracts. Since February 2014, the government has verified compliance with tax obligations for more than 2,200 contracts; and
- Amending the Taxation Act, 2007, to make the sale, use or distribution of electronic sales suppression devices an offence.
- Taking specific actions in response to Parliamentary Assistant Laura Albanese's consultation with the residential construction industry, including:
    - Extending the residential roofing pilot project for an additional two years and examining opportunities to expand its scope beyond roofing to other areas of residential construction;
    - Launching a public awareness campaign to educate the public on the risks and potential liabilities associated with participation in the underground economy;
    - Dispatching specialized audit teams to focus on sectors that are at high risk of underground economy activity, in partnership with the Canada Revenue Agency;
    - Proposing legislation that would enhance information sharing, enable greater enforcement, and introduce additional penalties for participation in the underground economy; and
    - Helping home owners hire legitimate contractors when taking advantage of government-funded rebates for enhancing the energy efficiency of their homes.

Q: Why isn't Ontario doing more to address the underground economy?

A: Since 2013–14, the government has made progress in fighting underground economic activities:

- Through ongoing enhanced compliance-focused measures, including those that address the underground economy, the Province has generated over $ 930 million to date - a $ 330 million increase over what was reported in the 2015 Budget;
- The government has held consultations with high-risk sectors, with a view to partnering with industry and gaining insight into how best to tackle the underground economy;
- Corporations are required to demonstrate federal and provincial tax compliance before receiving government contracts. Since February 2014, the government has verified compliance with tax obligations for more than 2,200 contracts; and
- The Taxation Act, 2007, was amended to make the sale, use or distribution of electronic sales suppression devices an offence.

Q: What new initiatives is the government announcing in the Budget?

A: In the 2016 Budget, the government committed to taking specific actions in response to Parliamentary Assistant Laura Albanese's recent consultation with the residential construction industry, including:

- Extending the residential roofing pilot project for an additional two years and examining opportunities to expand its scope beyond roofing to other areas of residential construction;
- Launching a public awareness campaign to educate the public on the risks and potential liabilities associated with participation in the underground economy;
- Dispatching specialized audit teams to focus on sectors that are at high risk of underground economy activity, in partnership with the Canada Revenue Agency;
- Proposing legislation that would enhance information sharing, enable greater enforcement, and introduce additional penalties for participation in the underground economy; and
- Helping home owners hire legitimate contractors when taking advantage of government-funded rebates for enhancing the energy efficiency of their homes.

Q: Can you explain the $ 930 million figure for enhanced compliance initiatives? Where does it come from?

A: Enhanced compliance initiatives consist of:

- The government's agreement with the federal government to address non-compliance with federally administered provincial taxes which has generated over $630M since 2013-14; and
- Ontario's own enhanced compliance measures focused on provincially administered taxes, such as the Employer Health Tax, which have generated over $ 300M since 2013-14.
- When combined, these compliance measures have generated over $ 930 million for Ontario since 2013-14.

Q: What do you mean by "the government was able to work with non-compliant businesses to help them satisfy their tax obligations before starting work"?

A: The government requires businesses to be compliant with their tax obligations before awarding a government contract. If a business is not compliant, the government generally allows for a short grace period to become complaint. This gives the business an opportunity to work with either the Canada Revenue Agency and/or the provincial government to meet their tax obligations before starting work.

Q: Why has the government introduced more red tape for estate representatives?

A: Following a 2011 Budget commitment to enhance EAT compliance, the Ministry of Finance (MOF) is collecting information needed to perform audits and verify that correct amounts of the tax have been paid. Effective January 1, 2015, estate representatives are required to submit an Estate Information Return with MOF to substantiate the total estate value provided to the courts. This new requirement does not alter the amount of tax payable or how the tax is calculated. An Estate Information Return is only required where an Estate Certificate has been applied for and issued by the courts.

Q: Why are Bad Debt Expenses increasing from approximately $46.7Million (2014-2015 Actuals) to $90Million (2015-2016 interim actuals)?

A: In recent years, the Ministry of Finance has uncovered several large scale tax evasion schemes while conducting tobacco tax audits. As a result of these audits, there have been a number of large tobacco assessments which have proven to be problematic from a collectability standpoint. The increase of $58M above the 2015-16 Printed Estimates was primarily a result of these large tobacco tax assessments.

Q: Why is the Ministry of Finance seeking an increase of $13.2Million in its Bad Debt Expense allocation in 2016-17 (from $32Million to $45.2Million)?

A: The Ministry of Finance has uncovered several large scale tax evasion schemes while conducting tobacco tax audits. As a result of these audits, there have been a number of large tobacco assessments which have proven to be problematic from a collectability standpoint. It is anticipated that these assessments will continue in the 2016-17 year. These assessments will be uncollectible and as a result the ministry has requested a $13.2M internal ministry re-allocation to increase the Bad Debt Expense allocation in the 2016-17 estimates.

Q: Has the government seen an increase in the Estate Administration Tax collected since January 1, 2015?

A: Tackling tax avoidance remains a key strategy as part of a robust and transparent administration process. The requirement to file an Estate Information Return (EIR) came into effect on January 1, 2015, for all applications made for an Estate Certificate on or after this date. Therefore, the first EIRs did not become due until the spring of 2015. In addition to verifying and auditing selected files, MOF continues to respond to written enquiries, telephone calls, and provide outreach activities to estate representatives and the legal profession to raise their awareness and understanding in meeting their obligations with respect to the Estate Administration Tax Act.

Q: What is the government doing to address Aggressive International Tax Planning?

A: All corporations should pay their fair share of taxes. That is why Ontario, in conjunction with the federal government, has taken substantive actions to help better address aggressive corporate tax avoidance. For example, under a fee-for-service agreement with the Canada Revenue Agency, Ontario invests in audit activities targeting aggressive international tax planning and the underground economy.

With Ontario's significant investment the Canada Revenue Agency was able to increase overall audit coverage rates, further reinforcing the integrity of the tax system. The government's agreement with the federal government to address non-compliance with federally administered provincial taxes through ongoing enhanced compliance-focused measures, including those that address the underground economy and aggressive tax planning has generated over $630M since 2013-14.

Contraband Tobacco

Q: Smoking rates are going down over time. Are further measures targeting contraband tobacco really necessary?

A: Increasing tobacco taxes has been key to Ontario's approach to encouraging smoking cessation and prevention, particularly amongst youth. The Smoke-Free Ontario Strategy has contributed to reduced tobacco use and lowered health risks for all Ontarians.

However, further measures to target contraband tobacco are needed. The presence of contraband tobacco in Ontario undermines provincial health objectives, results in less tobacco tax revenue for critical public services and compromises public safety through links with organized crime.

Q: What are the benefits to the taxpayer of tackling contraband tobacco?

A: The presence of contraband tobacco in Ontario undermines provincial health objectives, results in less tobacco tax revenue for critical public services and compromises public safety through links with organized crime.

Easy access to a large supply of low-cost contraband tobacco products prevents tobacco taxes from being as effective as they should be, both as a health policy tool and a source of revenue to provide for critical public services that benefit all Ontarians.

Q: What is the size of the contraband tobacco market in Ontario?

A: By virtue of being illegal activity, it is difficult to precisely measure the size of the contraband tobacco market in Ontario. However, a variety of reports typically estimate the size of the contraband market to be between 20% and 40% of the Ontario tobacco market.

In 2008, the Auditor General estimated that Ontario loses up to $500 million in tobacco tax revenues annually due to contraband tobacco.

Q: What is the government doing about contraband tobacco in Ontario?

A: Addressing contraband tobacco is a priority for the government. Enforcing Ontario's tobacco tax laws complements the Smoke-Free Ontario Strategy.

Since 2008, MOF inspections have resulted in penalties of more than $37 million assessed against retailers under the TTA. In addition, more than 252 million contraband cigarettes, 4.3 million untaxed cigars, and 169 million grams of untaxed fine-cut or other tobacco products have been seized by MOF since 2008. Addressing contraband tobacco requires a balance of partnerships and enforcement, and the government has taken some important steps forward in this regard.

Effective January 1, 2015, the Ministry assumed oversight of raw leaf tobacco in Ontario. Implementation of raw leaf tobacco oversight helps impede the flow of raw leaf tobacco to contraband tobacco product manufacturers.

Building on the government's existing raw leaf oversight regime, the 2016 Budget indicated a regulation prescribing labelling and other requirements for bales and packages of raw leaf tobacco will be filed in advance of the 2016 raw leaf tobacco harvest. The government will continue to monitor the results of its raw leaf tobacco oversight and may propose future enhancements and amendments under the *Tobacco Tax Act*.

The government is also enhancing partnerships with key enforcement agencies by providing resources to the Ontario Provincial Police to address the link between contraband tobacco and organized crime.

The government is partnering with a number of public health units to undertake cross-designation pilot projects where inspection officers will be cross-designated under both the *Tobacco Tax Act* and *Smoke-Free Ontario Act*. These projects will allow inspectors to identify and seize contraband tobacco and flavoured tobacco products during retail inspections.

In addition, the province continues to work towards building a strong, sustainable partnership with First Nation communities. The government continues to support two tobacco pilot projects with the Chippewas of the Thames First Nation and the Mohawk Council of Akwesasne, with the goal of reaching agreements on self-regulation of tobacco on-reserve, and revenue-sharing.

Q: Why is the government amending its forfeiture provisions for raw leaf tobacco under the Tobacco Tax Act?

A: The province is proposing updates to the *Tobacco Tax Act* to align forfeiture powers for raw leaf tobacco with other forfeiture powers on products seized as evidence of a contravention of the Act. Currently, when raw leaf tobacco is seized by search warrant, there is no provision for forfeiture to the Minister of Finance upon conviction. Raw leaf tobacco seized by search warrant as evidence of an offence must be returned to the person from whom it was seized upon completion of the court matter, even if the person is convicted.

The proposed amendments will provide consistency with existing *Tobacco Tax Act* forfeiture provisions, and will increase the consequence of illegal activity to include the loss of the raw leaf tobacco.

Q: What does the Ministry of Finance mean by "asset forfeiture"?

A: The Ministry of Finance will examine the possibility of introducing amendments to the *Tobacco Tax Act* to allow for the forfeiture of assets used in or derived from the

commission of a tobacco-related offence. This could include things like vehicles and cash.

Expanding asset forfeiture provisions within the TTA would create an added deterrent against dealing in contraband tobacco.

Q: Why is the government taking a heavy-handed enforcement approach on tobacco rather than engaging and partnering with First Nations?

A: Ontario's tobacco strategy consists of a balanced approach of partnerships and compliance activities to address the issue of contraband tobacco.

The Province remains committed to an ongoing dialogue with First Nations communities and leaders on tobacco, including discussions on the self-regulation of tobacco on-reserve and revenue sharing.

Q: What is the Contraband Tobacco Enforcement Team?

A: Building on commitments in the 2015 Budget, the province has worked with the OPP to establish of a dedicated contraband tobacco enforcement team to focus on addressing the link between contraband tobacco and organized crime.

Tobacco smuggling and production is seen as a lucrative opportunity for organized crime. Links have been made between organized crime groups involved in tobacco smuggling with other more serious illegal activity such as drug and weapons trafficking.

The enforcement team provides intelligence and coordinates enforcement to address organized crime and sophisticated contraband tobacco networks in Ontario. It also shares information across enforcement and revenue agencies provincially, nationally and internationally.

Q: Why was the Contraband Tobacco Enforcement Team established?

A: The presence of contraband tobacco in Ontario is a persistent and complex challenge that undermines provincial health objectives under the Smoke-Free Ontario Strategy, results in less tobacco tax revenue for critical public services and compromises public safety.

The RCMP estimates that there are 175 organized crime groups involved in contraband tobacco in Canada. Disrupting the links between organized crime and contraband tobacco is a key component of tobacco enforcement.

Tobacco smuggling and production is seen as a lucrative opportunity for organized crime. Links have been made between organized crime groups involved in tobacco smuggling with other more serious illegal activity such as drug and weapons trafficking.

Q: How will this Contraband Tobacco Enforcement Team impact First Nation communities?

A: Ontario recognizes and respects the ceremonial value and economic importance of tobacco to First Nations, and remains committed to continuing a dialogue with First Nation communities on tobacco. This includes discussions on self-regulation of tobacco on-reserve and revenue sharing.

The new Contraband Tobacco Enforcement Team was created by the Ontario Provincial Police and is located within their Organized Crime Enforcement Bureau.

The team has been established to allow for the prioritization of investigations with respect to organized crime groups in Ontario involved in illegal activities and contraband tobacco. The team gathers intelligence and coordinates enforcement interventions for the purpose of addressing organized crime and contraband tobacco networks in Ontario. CTET leverages the OPP's relationship with municipal police and First Nations police services in gathering intelligence and for enforcement interventions, as permitted by law.

In addition, the team works with Ministry of Finance tobacco tax enforcement staff by sharing information and collaborating on contraband tobacco enforcement investigations.

Q: What is the purpose of cross-designating tobacco inspections officials under the Smoke-Free Ontario Act, and the Tobacco Tax Act?

A:. The government will partner with up to four municipal public health units across Ontario to undertake cross-designation pilot projects where inspection officers will be cross-designated under both the Tobacco Tax Act and Smoke-Free Ontario Act.

The pilot projects will enable both MOF Inspectors and Tobacco Enforcement Officers to seize tobacco that is found to be in contravention of select provisions of *Tobacco Tax Act* and/or *Smoke-Free Ontario Act* during their regular course of inspections. As a result, inspectors will be able to identify and seize contraband tobacco and flavoured tobacco products during routine retail inspections.

Moving Towards Community Regulation

Q: How is the government working with First Nation communities to address contraband tobacco?

A: The government is committed to continuing a dialogue with First Nations to identify mutually-beneficial solutions to tobacco.

The government continues to support two tobacco pilot projects with the Chippewas of the Thames First Nation and the Mohawk Council of Akwesasne,

with the goal of reaching agreements on self-regulation of tobacco on-reserve, and revenue-sharing.

The province will also be working with the Anishinabek Nation, representing 39 First Nation communities across Ontario, to develop an agreement related to tobacco and gasoline that could generate revenue for Anishinabek Nation communities from on-reserve sales of tobacco and gas.

In addition, the Province also launched a review of the First Nations Cigarette Allocation System in April 2015, led by two independent co-facilitators. The facilitators engaged First Nation communities and leadership, as well as key stakeholders, to gather input and perspectives, and provide options to the government on ways to modernize and improve the system.

The facilitators provided a Final Report to the government in February 2016.

The government is carefully considering the options outlined in the Final Report, including the convening of a Tobacco Forum to discuss the outcomes of the allocation system review with First Nation communities and options for moving forward on community-based regulation of tobacco on-reserve.

Q: What does "modernizing" the allocation system mean?

A: The government is examining a variety of options and seeking perspectives on how to modernize and improve the current allocation system. Modernization could range from updating the current formula and approaches used to allocate cigarettes among First Nations, identifying alternative approaches to allocating cigarettes to tax-exempt First Nation consumers, or implementing a new model for tobacco sales on-reserve.

Q: What were the outcomes of the formal review?

A: The facilitators provided a final report to the Ministry of Finance in February 2016 detailing what was heard during the formal review, and outlining potential options for the government’s consideration. MOF is currently reviewing the report and is carefully considering each of the recommendations.

This includes the possibility of convening a tobacco forum with representatives from First Nations communities to present options and discuss potential broad-based solutions to tobacco, as recommended by the facilitators.

Q: Why is the government working with the Anishinabek Nation?

A: Building on the work from the two First Nation tobacco pilot projects and the First Nations allocation review, there is an opportunity for the province and the political territorial organization of the Anishinabek Nation to broaden the dialogue and engage more First Nation communities on developing an agreement regarding tobacco and gasoline sales on reserve.

The Anishinabek Nation is a political territorial organization that represents 39 First Nations across Ontario. The Anishinabek Nation has four regional areas Southwest, Southeast, Lake Huron and Northern Superior and each region is represented by a Regional Grand Chief.

Q: What does "modernizing" the Ontario Gas Card Program mean?

A: The government is committed to seeking First Nations' advice on modernizing the Ontario Gas Card Program.

The objective of the engagement process, beginning in spring 2016, is to provide First Nation gasoline retailers and consumers with the opportunity to share their experiences related to the Ontario Gas Card Program.

The information gathered through the engagement process will inform the development of recommendations to improve the efficiency of the current tax refund delivery model and the integrity of the Ontario Gas Card Program.

Ontario's Tobacco Strategy

Q: What changes are being made to the tobacco tax rate?

A: To support the Smoke-Free Ontario Strategy, effective February 26, 2016 at 12:01 a.m., Ontario's tobacco tax increased from 13.975 cents to 15.475 cents per cigarette and per gram of tobacco product other than cigars.

This change is equivalent to a $3 increase per carton of 200 cigarettes.

This increase will help support smoking cessation efforts under the strategy, leading towards meeting the Province's goal of having the lowest smoking rate in Canada.

In addition, moving forward, to ensure tobacco tax rates retain their real value over time, annual tobacco tax rate increases based on inflation will occur over each of the next five years, beginning in 2017.

Q: Why was the tobacco tax rate increased?

A Tobacco taxes are a proven method of supporting smoking cessation and prevention efforts.

Increasing the tobacco tax rate in 2016 will help support smoking cessation efforts under the Smoke Free Ontario Strategy, leading towards meeting the Province's goal of having the lowest smoking rate in Canada. Public health research indicates that tobacco taxes are a key measure in helping to reduce smoking rates, particularly amongst youth.

Moving forward, by raising tobacco taxes on an annual basis for five years beginning in 2017, the Province will ensure that, at a minimum, the tobacco tax rate remains consistent on a real dollar basis over time.

Q: How much incremental revenue does the government expect the tobacco tax increases announced in the 2016 Budget to generate?

A: The government projects that the tobacco tax rate increases will generate up to $100 million over each of the next three years.

Q: Why is the government clarifying the obligations of retailers after a tax rate change?

A: The government has introduced legislation that will amend the Tobacco Tax Act to allow retailers to charge the lower tax rate on products in their inventory before the increase and that provision would be retroactive to Budget day.

This relieves retailers of the obligation to remit additional tax on existing inventories, in accordance with existing practice.

Q: Did the government consider a larger increase to the tobacco tax rate?

A: There is a risk that significant increases to the tobacco tax rate may result in increased consumption of contraband tobacco. Several reports have estimated that approximately 20-40% of the tobacco market is illegal.

The presence of low-cost contraband tobacco undermines provincial health objectives, results in less tobacco tax revenue for the province, and compromises public safety through links with organized crime.

The government will monitor the impact of the increase on the contraband market to ensure the stated objectives are met. Addressing contraband tobacco is a priority for the government.

Q: The government announced the tobacco tax rate would increase on an annual basis at an amount based on the rate of inflation over five years, beginning in 2017. What assumptions about the rate of inflation over the next five years has the government made?

A: As announced in the 2016 Ontario Budget, the Ontario tax rate on cigarettes and other tobacco products (except cigars) is increasing by an amount based on inflation, each year for five years, beginning on June 1, 2017.

Annual 2% increases are currently scheduled to reflect the Bank of Canada's 2% inflation-control target.

This means that the tobacco tax rate on a carton of 200 cigarettes is currently scheduled to increase by 62 cents, 63 cents, 64.4 cents, 65.8 cents and 67 cents on June 1st of 2017, 2018, 2019, 2020 and 2021 respectively.

The scheduled tobacco tax rate increases may be adjusted due to changes in the actual rate of inflation, as measured by the CPI.

Q: Why is the government raising tobacco taxes, given the high prevalence of contraband tobacco in Ontario?

A: Tobacco taxes are a proven method of discouraging tobacco use.

This tobacco tax increase announced in the 2016 Budget will help support smoking prevention and cessation efforts under the Smoke-Free Ontario Strategy, leading towards meeting the Province's goal of having the lowest smoking rate in Canada.

Ontario's tobacco strategy consists of a balanced approach of partnerships and compliance activities to address the issue of contraband tobacco. Ontario's Smoke-Free Strategy is central to the government's approach to tobacco.

The province continues to make progress on addressing contraband tobacco. The presence of contraband tobacco in Ontario undermines provincial health objectives, results in less tobacco tax revenue for critical public services and compromises public safety through links with organized crime.

Benefits Transformation

Q: How will Benefits Transformation impact Ontarians?

A: Benefits Transformation is about improving the way people access benefits by implementing initiatives such as single-window online access for multiple programs and making program administration of some common functions more efficient. Online access would be provided while maintaining phone and walk-in presence for clients.

Q: Which benefit programs will have integrated administration?

A: Specific programs have not been identified at this stage. The government is exploring a variety of opportunities to improve how benefit programs are delivered. Benefits transformation initiatives will be designed and implemented in alignment with other government priorities.

Q: Under proposed legislation, what information would be shared and with whom? How are you modernizing privacy frameworks?

A: Proposed framework legislation would authorize the collection, use and disclosure of personal information for the purpose of administering some or all functions of prescribed benefit programs. The specific information shared and parties authorized would need to be prescribed by regulation once opportunities for integrated administration are identified and confirmed.

The Ministry of Finance has engaged the Office of the Information and Privacy Commissioner (OIPC) in the development of legislation and will continue to do so as regulations and specific initiatives are developed. Consultations with key stakeholders will also take place in order to identify and mitigate issues related to confidentiality.

Q: What is the government doing to ensure personal information is protected?

A: Privacy rules would be included as part of the new legislation, and appropriate controls and procedures would be built into initiatives to ensure personal information is protected. Any supporting technology systems would include controls to ensure appropriate authorities are assigned for information sharing.

The Ministry of Finance has engaged the Office of the Information and Privacy Commissioner (OIPC) in the development of legislation and will continue to do so as regulations and specific initiatives are developed. Consultations with key stakeholders will also take place in order to identify and mitigate issues related to confidentiality.

Q: How will transformation of benefits delivery impact service delivery partners and provincial staff?

A: At this stage, multiple ministries are collaborating to explore benefits transformation initiatives including integrated delivery of common administrative functions. The impact of benefits transformation activities will depend upon specific opportunities pursued. As opportunities are explored, engagement with Bargaining Agents and service delivery partners will take place on the approach to transformation and to identify any specific impacts of initiatives.

ORPP ADMINISTRATION CORPORATION

Q: Why is the government providing the ORPP AC with a loan?

A: The ORPP AC is the independent, arms-length organization that will set-up and administer the ORPP.

The government is providing the ORPP AC with a repayable loan for essential work required to develop administrative systems, recruit a skilled team and launch the employer verification and enrolment process in 2017 and begin collection of contributions on January 1, 2018.

Ongoing costs to administer the ORPP would come from the plan, not from government revenues.

The ORPP AC is expected to repay the loan, with interest, from plan assets within a 10-year period.

Q: How much money is being loaned?

A: The government is providing flexibility for the ORPP AC to draw down based on operational requirements, up to $400M over three fiscal years. Costs would cover set-up expenses, including organizational start-up, development of tools/systems required for the verification and enrolment process, and the build/launch of administrative systems.

The government will monitor spending of the ORPP AC, while giving the Corporation the independence and flexibility it requires to administer the ORPP.

Accountability is at the core of the ORPP. Through a strong accountability and transparency framework, the independent Board of Directors and ORPP executives will be fully accountable to the plan's members. This framework has been benchmarked against the best practices of other leading independent pension plans.

Accountability measures include:

- An annual report tabled in the Legislature;
- Annual meetings for members;
- A publicly available Memorandum of Understanding; and,
- External auditing and strong financial controls.

Q: In the 2016/17 estimates, it shows a loan amount of up to $240M. How is that money going to be used?

A: This year (2016) is a critical period for the ORPP AC, with the launch of the employer verification/enrolment process and the building of systems needed to begin collecting contributions on January 1, 2018.

If pressed for more information: Further questions regarding ORPP AC expenditures can be directed towards the Administration Corporation.

Q: The ORPP AC has already received a loan $20M in 2015/16. How has that money been used?

A: The money has been used to fund essential start-up requirements for the ORPP AC. This includes contracts for expert services required to administer and operationalize the ORPP (e.g. organizational start-up, legal services, technical experts) and initial recruitment of staff.

If pressed for more information: Further questions regarding ORPP AC expenditures can be directed towards the Administration Corporation.

Q: Does the government expect to be repaid?

A: Yes, the repayable loan is structured on commercial terms. This means that it includes repayment obligations, with interest, over an established period of time.

Q: How long does the ORPP AC have to repay the loan? Will it be charged interest?

A: The ORPP AC has an obligation to repay the loan, principal and interest, within ten years.

This repayment period will help ensure that payments do not negatively impact plan sustainability. It is intended that the ORPP AC repay the loan from investment returns to make sure that contributions and benefits are reserved in trust for members.

Q: Why doesn't the ORPP AC get a traditional bank loan?

A: The repayable loan is structured on commercial terms. This was the appropriate vehicle given the ORPP AC would not have assets until contributions begin in 2018.

Q: Will there be any public reporting or accountability to how the loan is spent?

A: The loan to the ORPP AC is structured on commercial terms and will be repaid with interest. Actual expenditures from the loan will be reported through public accounts.

In addition, the ORPP AC is required to develop and publicly release an annual report, which would include financial statements of the Corporation. The report will also include compensation for the top five executive positions.

Accountability is at the core of the ORPP. Through a strong accountability and transparency framework, the independent Board of Directors and ORPP executives will be fully accountable to the plan's members and to government. This framework has been benchmarked against the best practices of other leading independent pension plans.

Q: What types of costs will the loan be used to pay?

A: The repayable loan will be used to fund set-up expenses, including organizational start-up, development of tools/systems required for the verification and enrolment process (e.g. software licencing, hardware and technical writing), and the build and initial operation of administrative systems.

The loan will not be used to fund ongoing plan operations or investments.

Q: What happens to the loan if there is a CPP enhancement and the ORPP does not go ahead?

A: The government has been clear about the need to enhance retirement security for current and future generations of Ontarians.

Given the complexity of both options, the government is pursing ORPP and an enhanced CPP simultaneously to ensure it achieves its objective of improving retirement security.

If pressed for more specifics: It is premature to discuss the impact of CPP enhancement on the loan.

Q: How much money has the ORPP AC spent on the services of consultants?

A: The ORPP AC has obtained expert services required to administer and operationalize the ORPP (e.g. organizational start-up, legal services, technical experts).

The government and the ORPP AC are committed to leveraging the expertise and experience of the industry and the financial sector to deliver a simple, reliable and cost-effective plan.

If pressed for more specifics: The ORPP AC procures goods and services based on a policy that was benchmarked against government and other leading pension plans. Further questions regarding ORPP AC expenditures can be directed towards the Administration Corporation.

Q: Is this money being spent on high salaries? What is the compensation framework for the ORPP AC?

A: The independent initial board of directors of the ORPP AC is responsible for establishing the Corporation's compensation framework.

Salaries would be benchmarked to other leading pension plans in Ontario to ensure that the ORPP AC is able to recruit essential talent.

The compensation of the top five executives, including the CEO, will be reported on an annual basis in the ORPP AC's Annual Report. This is in line with the best practices of Ontario's leading pension plans.

If pressed for more information: The ORPP AC has hired external advisors to assist with the compensation framework. Further question regarding this framework can be directed towards the Administration Corporation.

Q: How does the loan relate to administration costs of the ORPP?

A: ORPP will be one of the largest pension plans in the Canada. At maturity, the ORPP is expected to have over 4 million members, involve nearly 450,000 employers and collect more than $6 billion annually.

The government is committed to a simple, reliable and cost effective administration. This includes leveraging the strong, existing capabilities found in Ontario's pension and financial services sector and benchmarking ORPP administration costs against Canada's leading pension organizations.

We are continuing to have discussions with federal government departments on the possibility of cooperation in registration and administering the plan. This is in addition to the exploring and assessing different options, including leveraging infrastructure that exists within the Government of Ontario and exploring third-party private sector delivery.

Q: Why does the Ministry's spending for ORPP decrease by $12.5M in 2016-17?

A: The Ministry, through Ontario Retirement Pension Plan Implementation Secretariat, continues to lead the implementation of the Ontario Retirement Pension Plan. However, now that the ORPP AC has been established, it is expected that certain costs and responsibilities related to the operational work will transfer to the new organization, thus decreasing funding requirements for the Secretariat.

Q: Why is the ORPP IS still in place now that the ORPP AC has been established?

A: The Ontario Retirement Pension Plan Implementation Secretariat leads the policy, governance and legislative functions to establish the ORPP and supports the set-up of the ORPP AC.

Specific responsibilities include:

- Finalizing the plan design for the ORPP, including conducting analysis, developing policy options, preparing the plan text, developing a funding policy, conducting actuarial analysis, and drafting legislation.
- Leading discussions between governments with respect to ORPP implementation, including registration of the plan, data sharing agreement, and exploration of options for administration cooperation.
- Establishing and supporting the ORPP AC to ensure successful launch and implementation.
- Providing strategic communications and stakeholder engagement advice and services to support ORPP development and implementation.
- Developing an oversight function related to the ORPP, including monitoring progress of deliverables and achievements.

ORPP IMPLEMENTATION SECRETARIAT

TOP QAs

Q: Why is the government providing the ORPP AC with a loan?

A: The ORPP AC is the independent, arms-length organization that will set-up and administer the ORPP.

The government is providing the ORPP AC with a repayable loan for essential work required to develop administrative systems, recruit a skilled team and launch the employer verification and enrolment process in 2017 and begin collection of contributions on January 1, 2018.

Ongoing costs to administer the ORPP would come from the plan, not from government revenues.

The ORPP AC is expected to repay the loan, with interest, from plan assets within a 10-year period.

Q: Who pays for the ORPP start-up costs if the CPP is enhanced and the plan is never implemented?

A: The government's intention is that all eligible start-up costs it incurs would be recovered from the plan. If the ORPP is not implemented that won't be possible.

If those circumstances arise, however, it means that there is an agreement on a CPP enhancement that will address the retirement security challenges facing Ontarians. That has always been the government's objective.

By continuing with preparations for the ORPP, the government is ensuring that, if no consensus on CPP enhancement is reached, retirement security can be strengthened in Ontario through the ORPP.

Q: How much has been spent on the ORPP Implementation Secretariat (ORPP IS) to date?

A: The Ministry is currently in the process of closing its books. The final expenditures for the ORPP IS will be included in the government's Public Accounts for 2015-16. The current $20M projection addresses costs associated with staffing and other related costs for the ORPP IS.

With regards to ODOE, the majority of expenses incurred by ORPP IS can be attributed to the costs of services provided by third party vendors, mainly in areas where expertise external to government were required, such as actuarial analysis, legal advice and expert technical advice for the pension administration.

Loan Agreement with the ORPP Administration Corporation

Q: How much money is being loaned?

A: The government is providing flexibility for the ORPP AC to draw down based on operational requirements, up to $400M over three fiscal years. Costs would cover set-up expenses, including organizational start-up, development of tools/systems required for the verification and enrolment process, and the build/launch of administrative systems.

The government will monitor spending of the ORPP AC, while giving the Corporation the independence and flexibility it requires to administer the ORPP.

Accountability is at the core of the ORPP. Through a strong accountability and transparency framework, the independent Board of Directors and ORPP executives will be fully accountable to the plan's members. This framework has been benchmarked against the best practices of other leading independent pension plans.

Accountability measures include:

- An annual report tabled in the Legislature;
- Annual meetings for members;
- A publicly available Memorandum of Understanding; and,
- External auditing and strong financial controls.

Q: In the 2016/17 estimates, it shows a loan amount of up to $240M. How is that money going to be used?

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A: The independent initial board of directors of the ORPP AC is responsible for establishing the Corporation's compensation framework.

Salaries would be benchmarked to other leading pension plans in Ontario to ensure that the ORPP AC is able to recruit essential talent.

The compensation of the top five executives, including the CEO, will be reported on an annual basis in the ORPP AC's Annual Report. This is in line with the best practices of Ontario's leading pension plans.

If pressed for more information: The ORPP AC has hired external advisors to assist with the compensation framework. Further question regarding this framework can be directed towards the Administration Corporation.

Q: Does the government expect to be repaid?

A: Yes, the repayable loan is structured on commercial terms. This means that it includes repayment obligations, with interest, over an established period of time.

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A: ORPP will be one of the largest pension plans in the Canada. At maturity, the ORPP is expected to have over 4 million members, involve nearly 450,000 employers and collect more than $6 billion annually.

The government is committed to a simple, reliable and cost effective administration. This includes leveraging the strong, existing capabilities found in Ontario's pension and financial services sector and benchmarking ORPP administration costs against Canada's leading pension organizations.

We are continuing to have discussions with federal government departments on the possibility of cooperation in registration and administering the plan. This is in addition to the exploring and assessing different options, including leveraging infrastructure that exists within the Government of Ontario and exploring third-party private sector delivery.

Q: Why does the Ministry's spending for ORPP decrease by $12.5M in 2016-17?

A: The Ministry, through Ontario Retirement Pension Plan Implementation Secretariat, continues to lead the implementation of the ORPP. However, now that the Ontario Retirement Pension Plan Administration Corporation has been established, it is expected that the operational work will transfer to the new organization, thus decreasing funding requirements for the Secretariat.

Q: Why is the ORPP IS still in place now that the ORPP AC has been established?

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Specific responsibilities include:

- Finalizing the plan design for the ORPP, including conducting analysis, developing policy options, preparing the plan text, developing a funding policy, conducting actuarial analysis, and drafting legislation.
- Leading discussions between governments with respect to ORPP implementation, including registration of the plan, data sharing agreement, and exploration of options for administration cooperation.
- Establishing and supporting the ORPP AC to ensure successful launch and implementation.

- Providing strategic communications and stakeholder engagement advice and services to support ORPP development and implementation.

- Developing an oversight function related to the ORPP, including monitoring progress of deliverables and achievements.

Q: What is the ORPP Administration Corporation?

A: The ORPP Administration Corporation is the independent, arm's length organization that will administer the ORPP. Its responsibilities include:

- Enrolling eligible employers and employees;

- Collecting, investing and holding contributions in trust for members;

- Administering benefits; and

- Communicating with employers, members and other beneficiaries.

Q: What are the accountability mechanisms of the ORPP Administration Corporation? To whom does it report?

A: Accountability is at the core of the governance structure of the ORPP Administration Corporation. Through a strong accountability and transparency framework, the independent board of directors and ORPP executives will be fully accountable to the plan's members. This framework mirrors the best practices of other leading independent pension plans.

Accountability measures include:

- A Memorandum of Understanding being developed between the ORPP Administration Corporation and the Minister of Finance

- An annual report;

- An annual meeting for beneficiaries;

- External auditing and strong financial controls; and

- A review of the governance framework established by legislation within 10 years.

Federal Collaboration

Q: On one hand you say you are launching the ORPP in 2017, but then indicate that the collection of contributions won't start until 2018…which is it?

A: The ORPP implementation timeline has being modified. Employer verification will begin later in 2016 with enrollment of employers beginning in January 2017. This process will support a seamless transition to the collection of contributions starting on January 1, 2018 for large and medium size employers.

All other implementation dates remain the same. Contribution rates for employers without a registered pension plan will still be phased in as previously announced.

Many employer groups have called on the government to delay the launch of the plan to ensure a successful and smooth implementation, and allow a window to discuss a national solution. The government has modified the ORPP timelines to reflect this advice.

The government is on track to ensure that all eligible Ontario workers are enrolled in a comparable workplace plan or the ORPP by 2020.

ORPP Phase-In and Contribution Schedule

(rates reflect contributions to be made by each employer and employee)

Employer registration in the ORPP would begin on January 1, 2017.

Type of Employer	Jan 1, 2018	Jan 1, 2019	Jan 1, 2020	Jan 1, 2021
Wave 1: large employers without registered workplace pension plans	**0.8%**	**1.6%**	**1.9%**	**1.9%**
Wave 2: medium employers without registered workplace pension plans	**0.8%**	**1.6%**	**1.9%**	**1.9%**
Wave 3: small employers without registered workplace pension plans	**0%**	**0.8%**	**1.6%**	**1.9%**
Wave 4: employers with registered pension plans that either do not meet the comparability test or do not cover all classes of employees	**0%**	**0%**	**1.9%**	**1.9%**

Q: Is the federal government committing to administer your plan if CPP talks fail?

A: Ontario is pleased with the cooperation and partnership it has received from the new federal government. They have agreed to facilitate ORPP plan registration and to enter into a data sharing agreement to support implementation. The federal government has also committed to working with Ontario to ensure effective plan administration.

Ontario has always stated that it is committed to a simple, reliable and cost effective administration of the ORPP. Partnering with the federal government on plan registration, data sharing, and exploring models of plan administration supports this objective.

However, running a modern pension plan is not simple and so other options for administration are being explored including within the broader public sector and in partnership with private sector vendors. In fact, it may make sense to work with several partners to support effective administration of the plan.

Q: Would Ontario support a CPP enhancement that is a universal program to all employers and employees?

A: In designing the ORPP it was clear that, even though two thirds of Ontarians are not members of a workplace pension plan, many employers do provide generous workplace pension plans.

With this in mind, the government developed the framework of a comparable plan – so that employers that provide a generous workplace pension plan would not be required to contribute to the ORPP. This is a central part of the ORPP and reflects the objective of introducing the ORPP in a manner that doesn't adversely impact generous workplace pension plan arrangements that are already working well for employees and employers.

The Province's extensive consultations in developing the ORPP have helped to inform its view that a CPP enhancement must be timely and provide a level of adequacy and targeted coverage that is consistent with the ORPP. Ontario is bringing this insight to the national discussion.

The province is also listening to the federal government and the other provinces and territories, and reflecting on their perspective on a CPP enhancement.

Q: If the government is going to proceed with measures such as introducing legislation on ORPP plan design, are you even serious about discussing the CPP?

A: The government has always said a national solution to enhancing retirement security is the best way forward. It has also said that it is imperative to address the challenge of retirement security ***now***. It is a critical issue for the future well-being of Ontarians and the economy that cannot be delayed.

Minister Morneau has outlined an aggressive timeline to enhance the CPP, including achieving a consensus to move forward by June and a national agreement by the end of 2016. The province looks forward to these discussions.

Legislation

Q: What progress has the government made on the ORPP to date?

A: The government is on track to meet its objective that, by 2020, all eligible Ontario workers are covered by a comparable workplace plan or the ORPP.

The ORPP Administration Corporation is now established and the process to register the plan with the Canada Revenue Agency is well underway. Final elements of plan design will be enshrined in legislation this spring. 6.

Employer verification will begin later in 2016 with enrollment of employers beginning in January 2017. This process will support a seamless transition to the collection of contributions starting on January 1, 2018 for large and medium size employers. The additional time is also enabling national discussion on a CPP enhancement to proceed.

Q: Why introduce legislation now? Didn't you commit to ongoing national discussions on a CPP enhancement?

[Legislation tracking to be introduced April 14, 2016]

The government has been clear that about the need to enhance retirement security today. The problem cannot be left to some ambiguous future date. It is critical for the well-being of Ontarians and the economy that we take action now.

Ontario moved to create the ORPP after the previous federal government refused to discuss enhancing the CPP. Today, the circumstances have changed and Ontario is playing a leading role in discussing a national solution.

However, to successfully launch the ORPP plan preparations must continue alongside federal discussions to ensure that, no matter the outcome, Ontario will retire with enhanced security.

Moving forward with legislation will ensure that employers have the time they need to prepare for the ORPP.

Q: What will be included in upcoming legislation?

A: The government intends to introduce further legislation on the ORPP in the spring of 2016. The legislation will set out the comprehensive requirements of the ORPP, plan sustainability and the compliance and enforcement regime.

Further legislation in 2016 would establish an Office of the Chief Actuary to provide independent actuarial advice and valuations of the ORPP to government and the ORPP Administration Corporation.

Plan Sustainability

Q: What accountability mechanisms exist to ensure that plan members' benefits will be there for them when they retire?

A: Through extensive actuarial modelling, the government has designed the plan to be sustainable over the long term. To ensure continued plan sustainability, a formal funding policy would be established that provides for appropriate adjustments to be made to plan benefits and/or contributions.

Background

Q: What is the Ontario Retirement Pension Plan (ORPP)?

A: The ORPP is a mandatory provincial pension plan that is scheduled to launch on January 1, 2017, with employer and employee collections beginning in 2018.

The ORPP would:

- Include eligible employees who are employed in Ontario and not participating in a comparable workplace pension plan;
- Aim to replace 15 per cent of an individual's pre-retirement earnings up to maximum earnings threshold of $90,000 (in proposed 2017 dollars);
- Require eligible employers and employees each to contribute up to 1.9% of employee earnings
- Require benefits to be earned as contributions are made; and
- Be managed by the ORPP Administration Corporation – an independent, arm's length entity, which will be responsible and fully accountable for administration and investment in the best interest of plan members.

Q: Why is the ORPP needed?

A: Experts generally recommend that individuals aim to replace 50-70% of their pre-retirement income to maintain their standard of living in retirement. However, studies show that a significant number of Ontarians are concerned they will not have sufficient income in retirement.

Two-thirds of Ontario's workers do not participate in a workplace pension plan. Moreover, three-quarters of younger workers – aged 25 to 34 – do not participate in a workplace pension plan.

Q: What are the anticipated impacts of the ORPP on the Ontario's economy?

A: The government commissioned the Conference Board of Canada to conduct a cost-benefit analysis on the economic impact of the ORPP that was tabled in the legislature in December. The report's conclusion is clear – accounting for all factors and opportunity costs, both consumers and the economy are better off under the ORPP. This is good news for Ontarians.

The report reiterates that in the long-term, the ORPP is expected to add over $39 billion to Ontario's economy by ensuring that future retirees have adequate retirement savings. It also notes the ORPP is a more cost-effective means of helping individuals save than traditional retirement savings vehicles.

The report does acknowledge a small, short-term impact to the economy. However, this impact is partially mitigated by reductions in employment insurance and WSIB premiums. As well, the government remains committed to taking measures today to strengthen the economy.

ONTARIO FINANCING AUTHORITY

Borrowing and Debt Management – General

Q: Why was total long-term public borrowing $32.1 billion in 2015–16 when the deficit is projected to be $5.7 billion?

A: In addition to financing the deficit, long-term public borrowing refinances debt maturities and debt redemptions, funds the Province's investments in capital assets, and loans to agencies. Subsequent to the release of the 2016 Budget, the Province borrowed an additional $2 billion to take advantage of historically low interest rates. Therefore, total 2015-16 long-term borrowing increased from $30.1 billion to $32.1 billion with the extra $2 billion serving as pre-borrowing for 2016-17.

Q: Why does the Net Debt-to-GDP ratio decrease to 39.6 per cent at the end of fiscal 2015–16, compared to the 39.8 per cent forecast in the 2015 Budget?

A: The decrease in the Net Debt-to-GDP ratio is primarily due to a less than forecast deficit in 2015–16.

Q: How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

A: Debt is incurred primarily for two reasons: to finance deficits and invest in capital assets. Ontario is making public infrastructure investments of more than $137 billion over the next 10 years, or about $160 billion over 12 years, starting in 2014–15.

One of the objectives of investment in capital is to improve the economic growth of the Province, supplementing GDP growth. As a result, the net debt-to-GDP ratio will come down more quickly than it would have without these investments in capital assets.

The government's plan therefore hinges on first balancing the budget, and continuing to make investments in capital assets which will add to economic growth, resulting in GDP growing more quickly than debt, and lowering the net debt-to-GDP ratio to our 27 per cent target.

Q: The Province is projected to borrow $24.4 billion in 2016–17. Will the Province eventually run into a debt wall and be forced to raise taxes and cut services?

A: There is strong demand for Ontario bonds in both the domestic and international markets. In addition to completing the 2015-16 borrowing requirements, the province was able to pre-borrow an additional $2 billion for 2016-17.

Q: Why do debt maturities fluctuate? Is this pattern consistent with the OFA's goal of a smooth debt maturity profile?

A: While the OFA aims for a smooth debt maturity profile, market conditions such as investor demand and the cost of borrowing in different terms result in fluctuations in debt maturities.

Q: Has it been difficult to complete the Province's borrowing program?

A: The Province continues to have steady access to both domestic and international bond markets. The Province was able to complete the 2015-16 borrowing program and pre-borrow $2 billion for the 2016-17 program.

Q: What is the difference between total debt, net debt and accumulated deficit?

A: Total debt represents all borrowing.

Net debt is all borrowing plus other liabilities, minus the Province's financial assets.

By analogy, think of a family's finances. A mortgage, car loans and lines of credit represent total debt. Total debt partially offset by money the family has in the bank, in RRSPs and in RESPs represents the family's net debt.

Accumulated deficit is the sum of all past Provincial surpluses and deficits, adjusted for changes in accounting rules.

Q: What does non-cash adjustments of $5.8 billion in 2016–17 represent?

A: Non-cash adjustments convert accounting accruals into cash requirements. Cash and accruals primarily differ due to accrued expenses that do not result in a cash outlay. These include the reserve of $1.0 billion, $0.4 billion in grants that forgive existing student loans and $2.6 billion in Alternative Financing Procurements (AFPs) funded by third parties, partly offset by payments to be made in 2016–17 upon substantial completion of prior AFP projects. Another significant adjustment is amortization that is currently over $5 billion but is partly offset by general timing adjustments that always arise between the Province's inflows and outflows on a cash versus accrual basis. A notable example of the latter is the variance between the net incomes earned by Government Business Enterprises and the dividends they pay to the Province.

Q: Why is Loans to Infrastructure Ontario (IO) projected to be $0.5 billion lower than the 2015 Budget forecast for 2016–17?

A: Projected loans by the Province to IO will be offset by IO's partial repayment in 2016-17 of the 50-year subordinated loan provided by the Province in 2003.

Q: Why is Other Net Loans/Investments projected to be $1.2 billion lower than the 2015 Budget forecast for 2016–17?

A: The Province made prudent assumptions at the time of the Budget for cash inflows it expected to receive through asset optimization. Since that time, and given the recent Hydro One IPO, the Province has built in higher cash amounts expected from the asset optimization initiatives.

Q: What is the status of Ontario's Green Bond program?

A: On January 22, 2016, Ontario successfully launched its second Green Bond of $750 million. There was strong international interest, with 35 per cent of investor participation from the United States and Europe. The issue was also made available to retail investors through Canadian financial institutions. To date, total Green Bond financing amounts to $1.25 billion, with up to $1.2 billion allocated to Metrolinx for clean transportation projects.

Q: What are unrestricted liquid reserves, and how do they ensure that Ontario will have sufficient liquidity to meet its financial obligations?

A: Liquid reserves are cash and temporary investments that can easily be converted to cash.

In the normal course of doing business, the Province enters into transactions that may require it or its counterparties to pledge collateral. Although the pledged collateral is technically owned by the Province, it is deducted from the total liquid reserves figure to arrive at unrestricted liquid reserves. This provides a more conservative measure of the liquidity available to meet the Province's financial obligations.

The Province ensures it always has a prudent level of unrestricted liquid reserves to cover all obligations in the short term.

Interest on Debt (IOD)

Q: What is the impact on IOD of a $1.0 billion change in deficit?

A: The 2016–17 impact is forecast to be approximately $31 million.

Q: What is the impact on IOD of a one percentage point change in interest rates?

A: The 2016–17 impact is forecast to be approximately $350 million.

Q: What is your forecast interest rate for the IOD forecast in the 2016 Budget?

A: The forecast ten-year interest rate is 3.1 per cent for 2016-17.

Q: Ontario's debt has more than doubled since Premier McGuinty was first elected. When interest rates begin to rise, won't interest costs displace spending on the Government's priorities?

A: Ontario has a realistic plan to balance its budget while investments are made in the priorities of Ontario families – health care, education, the environment and infrastructure.

Investor demand has allowed the Province to extend the term of its debt in recent years and lock in low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs. Since 2010, the province has borrowed $53.5 billion in the 30-year term.

The 2010 Budget forecasted that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 2.7 cents lower, at 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 1990s, and is forecast to remain lower through the outlook period in 2018–19.

Q: How much more does the Government of Ontario pay annually to service its debt than it did prior to the two downgrades to Ontario's debt?

A: On April 25, 2012, the day before the Moody's downgraded Ontario from Aa1 to Aa2, Ontario's 10-year spread vs. the federal government was 1.00 per cent (100 basis points). On July 3, 2015, the day before the S&P downgraded Ontario from AA- to A+, Ontario's 10-year spread was 76 basis points. Between July 6th, 2015 and the end of July 2015, the province borrowed $3.8 billion. At the end of July, the spread was 74 basis points.

More recently, however, Ontario's cost of borrowing relative to that of the federal government has increased as a result of global financial market volatility, a phenomenon that has affected other Provinces even more than Ontario. For

example, in early 2015, Alberta's 10-year debt traded about 15 basis points below Ontario debt, but now trades about 10 basis points above the equivalent Ontario bonds in early April 2016.

Credit Ratings

Q: What are the Province's current credit ratings?

A: The Province is rated:

	Long-Term	Short-Term
Moody's Investors Service:	Aa2 (N)	P-1
Standard & Poor's:	A+	A-1+
DBRS:	AA (low)	R-1 (mid)
Fitch	AA-	F1+

Q: How will the credit rating agencies respond to the 2016 Budget?

A: Ontario currently maintains a double-A rating with three of its four credit rating agencies. Ontario continues to outperform its deficit projections and is on track to a balanced budget by 2017–18. Moreover, Ontario's net debt-to-GDP ratio is expected to peak in 2015–16 at 39.6 per cent, remain unchanged in 2016–17, decline to 38.9 per cent in 2017–18 and 38.5 per cent in the 2018–19.

We met with the rating agencies following the 2016 Budget and expect to hear back from them over the next few months.

Q: What impact will a rating downgrade have on your borrowing costs?

A: Credit ratings are one of a number of factors that contribute to borrowing costs.

Effective Management of Debt

Q: Why is it important to manage the growth in debt?

A: An uncontrolled increase in net debt would result in increased interest costs. These interest costs could squeeze the overall amount of funding available for future healthcare, education and social programs. Once balanced budget is achieved in 2017–18 however, the increase in debt will be limited to the net funding required for investments in capital assets. These investments will meet government priorities while also contributing to the economic growth of the Province allowing the government to lower net debt to GDP to its pre-recession level of 27 per cent.

CORPORATE AND ELECTRICITY FINANCE DIVISION

Trillium Trust

Q: What's the current status of the funds in the Trillium Trust?

A: The Public Accounts of Ontario 2014-2015, published in September 2015, show that $1.35 billion has been dedicated to the Trillium Trust.

These are the net proceeds from the sale of the Province's remaining General Motors common shares in early 2015, combined with net proceeds from a September 2013 GM share sale and the redemption of preferred shares in late 2014.

Under the Trillium Trust Act, Hydro One shares have been designated as assets for which the net revenue gains from a sale are dedicated to the Trillium Trust. Once the Province has received all of the final financial inputs to fully assess and account for the net revenue gains associated with the Hydro One IPO, it will introduce a regulation to designate the net gain amount from the Hydro One IPO to be dedicated to the Trust and prescribe the other net revenue benefits resulting from Hydro One's recognition of a deferred tax benefit, to be dedicated to the trust.

Q: Since the Hydro One IPO was completed several months ago and now the government has announced a secondary share offering, why haven't you made any regulations to dedicate the fiscal benefits of the Hydro One IPO to the Trillium Trust? When will you make these regulations and when will we see these amounts in the Trillium Trust?

A: Under the Trillium Trust Act, Hydro One shares have been designated as assets for which the net revenue gains from a sale are dedicated to the Trillium Trust.

The determination of the net revenue gains related to the Hydro One IPO depends in part on Hydro One's audited, year-end financial statements. Hydro One released its 2015 Annual Financial Statements on February 12, 2016. Once the Province has received the financial information to fully assess and account for the net revenue gains, including the determination of a deferred tax benefit impact on the Province's net revenues, it will introduce regulations to designate the amounts to be dedicated to the trust.

Q: Why have no amounts been spent from the Trillium Trust yet, not even from the GM share gain amounts from 2014-15? And why are there only $1,000 in placeholder expenditure numbers for the Trillium Trust lines in Estimates?

A: The Province is on track to generate $5.7 billion in net revenue benefit from asset optimization to be dedicated to the Trillium Trust to help support investments in transit, transportation and other priority infrastructure projects under the $31.5

billion Moving Ontario Forward initiative over 10 years to create jobs, boost productivity and revitalize communities.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects such as GO Regional Express Rail is focused on planning, design, property acquisition and other activities to get projects construction-ready. The government plans to begin drawing down on the balance in the Trillium Trust starting in 2016-17, as it is expected that spending will ramp up significantly once this preliminary work is completed and construction activity is underway. This will allow for identification for cash flow timing requirements from the Trillium Trust during 2016-17 and subsequent years.

Q: When will the government actually be able to start using funds from the Trillium Trust to pay for transit and infrastructure?

A: The government plans to begin drawing down on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history. Based on planned expenditures, in 2016-17 the Trillium Trust would support Moving Ontario Forward initiatives, such as

- Regional Express Rail (RER);
- Hurontario Light Rail Transit (LRT); and
- Ontario Community Infrastructure Fund.

Q: Isn't the deferred tax benefit just an accounting entry? How can the government dedicate this to the Trillium Trust if it is a non-cash item? Will the government have to borrow for the non-cash amounts dedicated to infrastructure?

A: The *Trillium Trust Act, 2014*, provides for all fiscal benefits related to the Hydro One IPO to be directed to the Trillium Trust. This includes the gain on the sale of shares and the deferred tax benefit.

By providing for the deferred tax benefit to be dedicated to the Trillium Trust, the government is ensuring that a projected $4 billion in net revenue gains from the IPO is dedicated to the Trust to support investments in transit and infrastructure.

The deferred tax benefit provides an up-front revenue gain to the Province through consolidation of Hydro One's financial results in the Public Accounts, which increases the book value of Hydro One's shares and reduces the accounting gains for subsequent sales for a given amount of gross sale proceeds.

Q: The government has said that it anticipates that an additional $1.149 billion in net revenue will be generated over the 2015 Budget asset optimization target for 2015–16 of $1.6 billion, and is on track to generate $5.7 billion from asset optimization over time. So, what is the amount that the Province expects will be placed into the Trillium Trust?

A: The Province is on track to generate $5.7 billion in net revenue benefit from asset optimization.

It is estimated that a total of more than $4 billion will have been credited to the Trillium Trust from the broadening of Hydro One ownership in 2015-16 and from the sale of the Province's shares in General Motors in prior years.

Additional net revenue benefits are anticipated from the secondary offering of Hydro One shares scheduled to close on April 14. 2016; as well as from the Hydro One Brampton transaction, subject to approval of the proposed merger by the Ontario Energy Board; and from announced real estate asset sales: the LCBO and OPG head office properties and Seaton and Lakeview lands.

The *Trillium Trust Act, 2014*, provides for all net revenue benefits related to the Hydro One IPO to be directed to the Trillium Trust. This includes the gain on the sale of shares and the deferred tax benefit.

Asset Optimization – Hydro One IPO (General)

Q: How much was raised from the Hydro One IPO?

A: From the November 2015 IPO and related share sales, the Province raised about $1.9 billion in gross proceeds before expenses and fees.

- In the November 2015 IPO, the Province sold 89,250,000 common shares at the IPO price of $20.50 per share for total gross proceeds to the Province of approximately $1.83 billion.
- Including other related share sales at the IPO price, the gross proceeds were $1.9 billion, including approximately $116 million in gross proceeds from shares sold to separate trusts established respectively by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP).

The determination of the net revenue gains from the gross proceeds depends on the finalisation of the book value of the shares sold at the time of the IPO and expenses and fees related to the IPO. The net gain from the November 2015 share sales is currently estimated at about $0.8 billion.

There are other associated benefits, aside from the sale of shares.

- An expected revenue benefit to the Province due to the revaluation of its fixed assets as a result of the IPO, resulting in Hydro One recognizing a deferred tax benefit. Based on the Prospectus, the Province communicated that it expected to realize a benefit of about $2.2 billion, which is subject to update and finalisation in Public Accounts.

- The Province also received cash (non-revenue benefits) of $1 billion in special payments from Hydro One, including $800 million in a special dividend paid prior to the IPO, and about $200 million in additional payments in lieu of taxes to the Ontario Electricity Financial Corporation (OEFC).

Q: How much of Hydro One did the Province sell through the IPO?

A: The Province sold 15 per cent of the common shares in Hydro One through the IPO, and about 0.95 per cent through related share sales, totalling about 15.95 per cent.

The Province will continue to move forward with broadening Hydro One ownership in a staged and prudent manner, including through the most recently announced secondary offering of shares.

The Province plans on selling up to 60 per cent of the voting securities in the company with the Province remaining the largest shareholder with 40 per cent of the voting securities.

Asset Optimization - Hydro One Secondary Offering

Q: What amount of proceeds will the Province receive from the secondary offering?

A: In this secondary offering, the Province has offered about 72.4 million common shares, or about 12 per cent of the common shares, at $23.65 per share, for total gross proceeds of approximately $1.7 billion

The Province has granted an option to the underwriters to purchase up to an additional approximately 10.86 million common shares, or just under 2 per cent of the common shares, which if exercised in full, would result in total gross proceeds of approximately $2 billion.

If the overallotment option is exercised in full, the Province will have sold 14% of its shares outstanding in this offering.

The government is committed to dedicating the net revenue gains from the secondary offering to the Trillium Trust. The *Trillium Trust Act, 2014* ensures that all net revenue gains from the sale of Hydro One shares will be credited to the Trillium Trust for investments in priority infrastructure projects.

The Province is also committed to using the cash amount of the proceeds related to the book value of the Hydro One shares sold to pay down the Province's electricity sector debt and other payables, helping to reduce the debt of the Ontario Electricity Financial Corporation (OEFC).

Q: How much will be generated from the secondary offering for the Trillium Trust?

A: All net revenue gains (gross proceeds less fees/expenses and less the book value of the shares sold) generated from the sale of this secondary offering will be dedicated to the Trillium Trust to support infrastructure investments under Moving Ontario Forward.

Net proceeds received by the Province will be determined based on the final transactions costs and underwriting fees, which are dependent on allocation of shares to retail/institutional investors, as well as the book value of the shares at the time of the sale.

[Net proceeds are currently estimated at about $0.5 billion based on the about 12% of shares offered in the base amount. If the over-allotment is fully exercised, the net proceeds are estimated at about $0.6 billion.]

Q: What amount of share sales / gains did the Province build into its 2016 Budget outlook?

A: In the 2016 Budget, the Province noted that it remains on track in its multi-year asset optimization initiative to generate $5.7B over time. This includes the Province's progress with its plans to unlock value from its real estate assets, including the LCBO head office lands, OPG's head office building, and the Seaton and Lakeview lands. Net revenue gains from the Province's asset optimization strategy are included in the "Sales and Rentals" other non-tax revenue line.

Q: The 2016 Document includes $71 million for strategic asset management and transformation related to Hydro One in 2016-17. How does this relate to the recent offering of Hydro One shares?

A: The $71M included as a line item under Ministry of Energy Estimates, and is a preliminary planning assumption. Actual costs will depend on size, price and associated fees. Underwriting fees associated with the transaction are 3 per cent for retail investors and 1 per cent for institutional investors. This is significantly lower than what underwriters have typically earned on firm commitment offerings and consistent with the fees earned in the Initial Public Offering.

For additional information on governance and oversight over Hydro One, your question may be more appropriately directed to the Ministry of Energy.

Q: With this transaction, is the Province still on track to hit its targets from broadening Hydro One ownership?

A: The government remains on track to generate, over time, $4 billion in net revenue gains to be invested in transit and infrastructure, along with $5 billion to reduce debt, from broadening Hydro One's ownership.

Q: What benefits from the offering will be provided to the Ontario Electricity Financial Corporation (OEFC)?

A: The government will provide the OEFC with a benefit under Section 50.3 of the Electricity Act. Section 50.3 allows the Province to meet its obligations to OEFC by, for example, relieving OEFC of certain debt obligations that it currently owes to the Province. This means that the net proceeds will go to infrastructure as indicated, while also allowing for a reduction in stranded debt.

Q: What is the expected amount of the benefits that will be directed to OEFC from this secondary share offering?

A: The total net benefits from this secondary offering of Hydro One shares will be finalized after the Province has assessed all of the final financial inputs associated with the transaction. Once these amounts have been assessed, the benefits from the secondary transaction would be able to be provided to OEFC.

Q: What was the process involved in selecting the underwriters involved for the secondary offering

A: RBC and Scotiabank were chosen as the co-lead underwriters for the secondary offering. These same two firms were chosen to lead the IPO underwriting through a competitive and transparent process, overseen by Denis Desautels, the former Auditor General of Canada.

The price discount offered by the underwriters to purchase shares from the Province through the "firm commitment offering" was also very competitive, representing an approximate 2% discount compared to the closing trading price of Hydro One shares on April 5th. Underwriting fees of 1% for institutional investors and 3% for retail investors is significantly lower than what underwriters have typically earned on firm commitment offerings and consistent with the fees earned in the Initial Public Offering.

Asset Optimization – Hydro One IPO (General Fiscal)

Q: Is the total amount raised from share sales from the IPO going into the Trillium Trust? Isn't the Province also using money to pay down debt?

A: The government is committed to dedicating the net revenue gains from the Hydro One IPO to the Trillium Trust. The *Trillium Trust Act, 2014* ensures that all net revenue gains from the sale of Hydro One shares will be credited to the Trillium Trust for investments in priority infrastructure projects. This includes the gain on the sale of the shares and the deferred tax benefit recorded by Hydro One

The Province has also committed to using the cash amount of the proceeds related to the book value of the Hydro One shares sold to pay down the Province's electricity sector debt and other payables, helping to reduce the debt of the OEFC.

The government is on track to generate, over time, $4 billion in net revenue gains to be invested in transit and infrastructure, along with $5 billion to reduce debt, from broadening Hydro One's ownership.

- The Province also received $1 billion in special payments from Hydro One, including an $800 million special dividend paid prior to the IPO. The special dividend has been used to pay down the Province's electricity sector debt and payables. This will allow OEFC to reduce its overall debt, and contribute towards the Province's targeted $5 billion debt pay down.

- *[Technical note: the dividend payments are fiscally neutral; they do not constitute revenue or income as this is already recognized at consolidation of Hydro One's net income]*

Q: The government has revealed that the benefit from the Asset Optimization Strategy in 2015-16 is $1,149 million higher than forecasted in the 2015 Budget. How did the government achieve this better than expected result?

A: This increase over and above the previous target is primarily the result of higher than expected up-front benefits from the first phase of broadening Hydro One ownership. This includes the estimated impact of a deferred tax benefit recognized by Hydro One, which will provide an upfront net fiscal benefit to the Province on consolidation of Hydro One results. This deferred tax benefit is due to the revaluation of Hydro One's fixed assets as a result of the IPO.

Q: The Province expects benefits from asset optimization in 2015-16 to be $1,149 million above the 2015 Budget target of $1.6 B, totalling about $2.7 billion from asset optimization. Since Hydro One's recent financial statements included a deferred tax benefit of about $2.8 B, an amount higher than in the IPO prospectus, shouldn't the Province be expecting more?

A: The estimated impact of asset optimization included an estimate of the deferred tax benefit impact. This is subject to update. Based on the Prospectus, the Province communicated that it expected to realize a benefit of about $2.2 billion. The actual impact on the Province will be determined through the 2015-16 Public Accounts process, where the Province records its revenues from government business enterprises, including Hydro One, which the Province owned about 84% of the common equity in 2015-16, following the IPO.

Q: If the Province expects to realize about $3 billion from Hydro One in 2015-16, why does the Budget suggest about $2.7 billion from asset optimization?

A: The estimated total of about $3 billion are the gain on sale and deferred tax benefit from Hydro One. The $2.7 billion includes other impacts to arrive at the net revenue impact. In addition, Budget 2015 had projected that the sale of LCBO head office lands would close by March 31, 2016. The transaction is now expected to close in spring 2016.

Q: While I understand that the timing of Hydro One's annual report may not have allowed for Hydro One's reported results to be reflected in the interim numbers in the 2016 Budget, what impact will the reported amounts have on the total benefits from Asset Optimization and 2015-16 and in later years?

A: The total net benefits from asset optimization for 2015-16 will be finalized as part of the Public Accounts process and will take into account the final financial inputs associated with the Hydro One IPO. This includes a final determination of fees and expenses related to the IPO, in addition to the book value of the shares as of the date they were sold. The Province is working with Hydro One to finalize the amount.

Q: What was the amount of expenses incurred by the government in moving forward with the Hydro One IPO? The 2016 Document includes $52 million for strategic asset management and transformation related to Hydro One in 2015-16.

A: Underwriting fees associated with the IPO transaction were 3 per cent for retail investors and 1 per cent for institutional investors. These were substantially below typical private IPO rates. Of the shares allocated through the IPO Hydro One, 60 per cent were allocated to institutional investors, while 40 per cent was allocated to retail investors.

For additional information on governance and oversight over Hydro One, your question may be more appropriately directed to the Ministry of Energy.

Q: In moving forward with a Hydro One IPO, and secondary offerings, isn't the government giving up future revenues from the company?

A: While broadening ownership in a revenue generating asset means that there may be an impact on revenues over the longer term, the fiscal impact of an asset sale includes upfront gains that the government will reinvest into public infrastructure, improving the lives of Ontarians where they live, work and play. In turn, this will create jobs, generate economic growth and additional revenues for the Province.

- The Province would also retain 40 per cent of Hydro One, following the IPO and subsequent share offerings, which would continue generating revenue for the Province.

Q: How will the government guarantee that proper oversight and governance mechanisms will be in place for Hydro One?

A: The Province has ensured Hydro One oversight measures are in place. The government will remain, by law, the largest single shareholder in Hydro One – and no other single shareholder or group of shareholders working in concert will be permitted to hold more than 10 per cent of the company's shares.

For additional information on governance and oversight over Hydro One, your question may be more appropriately directed to the Ministry of Energy.

Q: Isn't it possible that the government could end up diluting its ownership stake to less than 40 per cent?

A: Legislation has passed that restricts the Province from selling down to less than 40 per cent of the voting securities in Hydro One.

For additional information on governance and oversight over Hydro One, your question may be more appropriately directed to the Ministry of Energy.

Asset Optimization – Hydro One IPO (Departure Tax / Capital Contribution / Deferred Tax Benefit)

Q: What is the deferred tax benefit that is resulting from broadening Hydro One ownership?

A: The deferred tax benefit recorded by Hydro One is a consequence of Hydro One leaving the payment in lieu of tax regime and entering the corporate tax regime at closing of the IPO.

As a result of entering the corporate tax regime, Hydro One is revaluing the tax basis of its fixed assets at fair market value and recognizing eligible capital expenditures.

The revaluation of the tax basis of Hydro One's assets results in higher future deductions from taxable income for depreciation of its assets for tax purposes. This benefit is reflected as a deferred tax benefit, as Hydro One expects to see a reduction in cash taxes payable as a result. This deferred tax benefit will provide a net fiscal benefit to the Province on consolidation of the results of Hydro One into the Public Accounts.

Further details are provided in the IPO prospectus document and Hydro One's 2015 Annual Report, both documents are available in SEDAR and Hydro One's website.

Q: What is the amount of deferred tax benefit that the Province will recognize?

A: The estimated impact of asset optimization included an estimate of the deferred tax benefit impact. Based on the Prospectus, the Province communicated that it expected to realize a benefit of about $2.2 billion. The actual impact on the Province will be determined through the 2015-16 Public Accounts process, where the Province records its revenues in 2015-16 from government business enterprises, including Hydro One, which the Province owned about 84% of the common equity in 2015-16, following the IPO.

Q: What is the "departure tax" that resulted from broadening Hydro One ownership?

A: A company that exits from a tax regime may be deemed to have disposed of its assets for proceeds equal to the fair market value of those assets at that time, which could result in a tax payment in respect of the income and capital gains that arise as a result of this deemed disposition. The amount payable is generally referred to as a "departure tax".

- Hydro One paid $2.6 billion in "departure tax" to OEFC prior to the closing of the IPO as part of its transition to a broadly held, publicly traded company.
- OEFC also received an additional about $200 million in payments-in-lieu of taxes as a result of the IPO.

Q: What is the amount of departure tax that was received and how this amount determined?

A: The Minister of Finance provided a letter to Hydro One confirming the Minister's consent to the payment of the departure tax amount under the application of Ontario Regulation 207/99, and confirming the total amount of the departure tax payable by Hydro One would be $2.6 billion as a result of the planned IPO.

- Under Ontario Regulation 207/99, the Minister of Finance can consent to a departure tax amount that, in the Minister's opinion, reasonably approximates the amount of the departure tax that would be payable.

Q: What is the anticipated fiscal impact of the departure tax? The impact on OEFC and stranded debt?

A: The departure tax has no net fiscal impact for the Province as the Province records both the departure tax amount as payments-in-lieu of tax (PILs) revenue and Hydro One's net income, which is reduced due to the recognition of the departure tax expense.

The upfront impact of the departure tax on the OEFC's unfunded liability will be fully offset over time by their impact on reducing dedicated revenues to the OEFC in 2015–16, and in future years related to Hydro One net income.

Q: What is the capital contribution that the Province made in support of broadening Hydro One ownership?

A: Before the IPO, the Province, as shareholder, made a capital contribution into Hydro One and received new common shares of Hydro One Limited for a total of $2.6 billion. This provided Hydro One funds that it used to pay the "departure tax".

Q: What is the anticipated fiscal impact of the capital contribution?

A: The capital contribution has no fiscal impact for the Province, since the capital contribution also increased the Province's investment in Hydro One by the same amount.

Asset Optimization – Hydro One IPO (Fiscal Reporting)

Q: How are the impacts of the Hydro One IPO reported in the 2016 Budget? Where are these amounts recorded?

A: The estimated gain on sale is recorded in the "Sales and Rentals" other non-tax revenue line.

The estimated net fiscal benefit resulting from Hydro One's recognition of a deferred tax benefit is reflected as an increase in "Income from Government Business Enterprises", partially offset by lower Hydro One Net income through the Province's reduced ownership levels.

The $2.6 billion departure tax, as well as about $200 million in one-time additional PILs from Hydro One, are recorded in the "Electricity Payments-In-Lieu of Taxes" revenue line. These amounts are offset by an equal reduction in "Income from Government Business Enterprises".

The capital contribution has no fiscal impact for the Province, since the capital contribution also increased the Province's investment in Hydro One.

Asset Optimization – Hydro One IPO (OEFC Benefits)

Q: Isn't the government obligated to dedicate any proceeds for a share sale to OEFC to pay down stranded debt? Shouldn't ratepayers benefit from a transaction?

A: The government will dedicate the net revenue gains from the Hydro One IPO and future subsequent shareholder offerings to the Trillium Trust.

The *Electricity Act, 1998*, also allows the Province to meet its obligations to OEFC by, for example, relieving OEFC of certain debt obligations that it currently owes to the Province.

This means that the cash will go to infrastructure as indicated, while also allowing for a reduction in stranded debt.

- The Province has also committed to using the cash amount of the proceeds related to the book value of the Hydro One shares sold to pay down the Province's electricity sector debt and other payables, helping to reduce the debt of the OEFC.

- The Province also received $1 billion in special payments from Hydro One, including $800 million in a special dividend paid prior to the IPO, and about $200 million in additional payments in lieu of taxes to OEFC. The special dividend has been used to pay down the Province's electricity sector debt and payables. This will allow OEFC to reduce its overall debt, and contribute towards the Province's targeted $5 billion debt pay down.

- OEFC has also received $2.6 billion in departure tax.

Q: Will the gain on sale of Hydro One shares from the IPO credited to the Trillium Trust be the same as the benefit to OEFC?

A: Under Section 50.3 of the *Electricity Act, 1998*, the amount to be paid to OEFC is calculated as the proceeds from a sale of Hydro One shares, less transaction costs and other obligations, costs and amounts in connection with the Province's ownership stake in Hydro One,.

Only if pushed:

The Province has also been transferring to OEFC the "Electricity Sector Dedicated Income" (ESDI) in respect of Hydro One and OPG net income and has been doing so since 1999. In other words, the government has been allocating the value created in Hydro One to OEFC since 1999.

Q: When will OEFC receive benefits from the Hydro One IPO ownership?

A: OEFC will be benefiting from the Hydro One IPO in a number of ways.

OEFC has already received $2.6 billion in departure tax and about $200 million in one-time additional payments-in-lieu of tax (PILs), as Hydro One exited the PILs regime.

OEFC will also receive the benefits prescribed under section 50.3 of the Electricity Act.

The Province has also provided OEFC $800 million in cash in respect of the pre-IPO special dividend of $800 million

The Province has also committed to dedicating to OEFC the cash amount of the share sale proceeds related to the book value of the Hydro One shares.

If Pushed

Hydro One released its 2015 Annual Financial Statements on February 12, 2016. The total net benefits from asset optimization for 2015-16 will be finalized after the Province has assessed all of the final financial inputs associated with the Hydro One IPO. Once these amounts have been assessed, all of these additional benefits from the transaction will be able to be provided to OEFC.

Q: Why is there no Financial Benefit to OEFC currently included in the Estimates for Hydro One share sales?

A: The determination of the net benefit to the OEFC under section 50.3 of the Electricity Act depends in part on information to be provided by Hydro One associated with the IPO transaction, including a final determination of fees and expenses. Once the Province has assessed all of the final financial inputs associated with the Hydro One IPO, it will be in a position to report on the benefit to be provided to OEFC, which is expected to be included as part of reporting in the 2015-16 public accounts. The benefit to OEFC for any future offerings would be assessed after those offerings, once the final financial inputs associated with those transaction have been finalized.

Q: Why did your government amend section 50.3 of the Electricity Act? Isn't it true that before the amendment, all proceeds of the IPO would have gone to OEFC?

A: Under section 50.3, before and after the amendments, proceeds net of prescribed deductions are to be paid to OEFC.

The amendments that the government made to the *Electricity Act, 1998* as part of the 2015 Budget allow the Province to meet its obligations to OEFC by, for example, relieving OEFC of certain debt obligations that it currently owes to the Province.

This means that the cash will go to infrastructure as indicated, while also allowing for a reduction in stranded debt.

Only if pushed:

The Province has also been transferring to OEFC the "Electricity Sector Dedicated Income" (ESDI) in respect of Hydro One and OPG net income and has been doing so since 1999. In other words, the government has been allocating the value created in Hydro One to OEFC since 1999.

As part of the Budget Measures Act, 2015, introduced at the time of the Fall Ontario Economic Outlook and Fiscal Review the government also amended the Electricity Act, 1998 to provide for future Provincial corporate taxes paid by Hydro One Inc. to be allocated to OEFC.

Asset Optimization – Hydro One IPO (PWU/SEP Share Purchases)

Q: Why were agreements made with the unions to purchase shares in Hydro One?

A: These agreements mean the employees and unions are all-in on Hydro One's future success. As shareholders, they have a strong incentive to see the company's performance continue to improve.

The loans, which are for a 15 year term, will be secured by the shares purchased with the loan and held in the separate trusts established respectively by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP). The Province will also charge interest above its cost of borrowing on these loans, at the Ontario government rate plus 0.15% resulting in additional revenue to the Province.

Q: What is the value of the loans that were extended to the Unions to purchase shares in Hydro One?

A: The government extended a $75 million loan to a trust established for the benefit of the Power Workers Union (PWU) and a $36 million loan to a trust established for the benefit of the Society of Energy Professionals (SEP) to purchase shares in Hydro One. The loans are to the separate trusts, not to individual employees.

Q: What is this going to cost the government?

A: The Province received the same price for shares sold to the trusts as it received in the IPO. The loans are secured by the shares purchased with the loans and held in the trusts. The Province also charges interest at a 0.15% spread above its cost of borrowing on these loans, resulting in additional revenue to the Province.

Q: Could the unions default on these loans?

A: The loans are secured by the pledged shares, minimizing the risk to the Province of a default.

Q: How many shares were purchased by the PWU/SEP Unions and how much did the government raise through those shares sales?

A: PWU and SEP have been provided with $75 million and $36 million loans, respectively, to purchase shares, with PWU purchasing an additional $5 million and SEP purchasing an additional $3 million worth of shares.

This gives the unions' trusts about a 0.95% stake in Hydro One Limited.

Asset Optimization - Hydro One Brampton

Q: What is the status of the potential merger between Hydro One Brampton and a group of urban local distribution companies (LDCs)?

A: The proposed merger of Hydro One Brampton with PowerStream, Enersource, and Horizon Utilities, continues to move forward. The municipal councils for the cities of Barrie, Markham, Vaughan, Mississauga, Hamilton and St. Catharines have all voted to proceed with the merger. Ontario has now executed a Share Purchase Agreement with PowerStream, Enersource, and Horizon. Commercial closing of the transaction would be subject to certain closing conditions, including Ontario Energy Board (OEB) approval.

- The proposed merger of these three strong performing utilities with Hydro One Brampton would create the second-largest electricity distributor in Ontario by number of customers. The merged entity would deliver efficiencies and economies of scale while continuing to provide safe, reliable and clean electricity.

Q: Would the Province realize any up-front benefit from the sale or merger of Hydro One Brampton with other local distribution companies (LDCs)? Would these benefits go to the Trillium Trust or to the Ontario Electricity Financial Corporation (OEFC)?

A: The *Trillium Trust Act, 2014*, ensures that net revenue gains from the sale of Hydro One Brampton shares would be credited to the Trillium Trust.

The *Electricity Act, 1998*, also allows the Province to meet its obligations to OEFC by, for example, relieving OEFC of certain debt obligations that it currently owes to the Province.

Asset Optimization – Real Estate

Q: The 2016 Document talks about the LCBO head office lands, OPG's head office building, and the Seaton and Lakeview lands, but is the government looking at other real estate assets?

A: The government owns a range of valuable assets directly and through its agencies and operational enterprises. A number of these are not required to deliver public services but are located on valuable commercial land such as Toronto and surrounding municipalities.

Q: The government has mentioned that it is optimizing real estate assets for a while but nothing has been sold - is the government actually moving forward with any sales?

A: The Province is in the final stages of the process to sell the LCBO's head office lands. Negotiations with a potential purchaser are ongoing, with the transaction expected to close in the spring of 2016.

As announced on January 7, 2016, the Province is moving forward with the sale of the Seaton Lands. The lands will be marketed to prospective purchasers and are being sold on the open market to support a new urban development in the City of Pickering. By selling approximately 800 acres of employment lands and 269 acres of residential and mixed-use lands, upon completion Seaton will be a sustainable community that will be home to 70,000 people and support 35,000 jobs.

The Province also continues to move forward with the sale of OPG's head office building, and the former Lakeview generating station lands in south Mississauga continues to be reviewed under a longer-term revitalization plan for the property and adjacent lands. The Province is focused on realizing the potential of the Lakeview lands, with an opportunity to create a new and sustainable, mixed-use community along Mississauga's eastern waterfront, with arts and culture districts, housing, employment, and retail and recreational uses.

Reducing Electricity Costs for Businesses

Industrial Consumers

Q: What is the government doing to help industrial consumers with rising electricity costs?

A: The government is committed to reducing electricity cost pressures on businesses and industrial consumers, supporting economic growth for the benefit of the people of Ontario.

The government has put in place a number of initiatives to help industrial consumers, including a fixed, legislated end date for the debt retirement charge, the Industrial Electricity Incentive for reduced pricing for eligible incremental electricity consumption, the Industrial Conservation Initiative that provides large industrials an incentive to shift electricity demand and save them and the electricity system costs, the Industrial Accelerator Program, and continued funding for eligible large northern industrials currently in the Northern Industrial Electricity Rate program.

Debt Retirement Charge: The government has introduced legislation, passed in December 2015 that will end the DRC as of April 1, 2018 – nine months earlier than previously estimated. The fixed end date would provide certainty to commercial, industrial and other electricity users, and help them to plan their investment decisions more effectively.

Industrial Electricity Incentive: In the 2014 Budget, Ontario announced an expanded Industrial Electricity Incentive (IEI) program to further capitalize on the province's strong supply of electricity by incenting industrial expansion through rate mitigation.

As part of this enhancement, eligibility for the IEI program was expanded to encourage participation from more diverse economic sectors throughout the province.

As of April 2015, 14 industrial companies have signed contracts capitalizing on the IEI program. These new business expansions will create hundreds of new jobs.

Industrial Conservation Initiative (ICI): The ICI program encourages Ontario's largest energy users to reduce their electricity use during peak periods, which not only saves them money, but also lowers costs and improves reliability for the electricity system as a whole. Since July 1, the expanded ICI program has helped over 280 of Ontario's largest energy consumers save an average of about 25 per cent on their electricity bills.

Other programs and incentives are already available to support industrial consumers:

Northern Industrial Electricity Rate (NIER) Program: On April 7, 2015, the government announced on-going support for qualifying large northern industrial consumers, with continued investment of up to $120 million per year.

The Province had earlier extended the NIER Program with $360 million over three years (2013-14 to 2015-16) to provide a rebate of two cents per kilowatt-hour to qualifying large northern industrials. As well, the government will undertake a review of the efficiency and effectiveness of the program and options for a sustainable approach.

Industrial Accelerator Program (IAP): The IAP has been extended for an additional five-year period from 2015 to 2020. The IAP is designed to assist eligible transmission-connected companies to fast-track capital investments in major energy conservation projects. The IAP provides financial incentives to encourage investment in innovative process improvements and equipment retrofits to reduce electricity consumption and help companies become more competitive.

Companies have the opportunity to participate in demand response programs administered by the Independent Electricity System Operator (IESO).

Industrial Electricity Incentive (IEI) Program

Q: What is the status of the expanded Industrial Electricity Incentive (IEI) program?

A: As of April 2015, 14 industrial companies have signed contracts capitalizing on the Industrial Electricity Incentive (IEI) program, which was designed to provide incentives for industrial expansion through reduced electricity costs. These new business expansions will create hundreds of new jobs.

In the 2014 Budget, Ontario announced an expanded Industrial Electricity Incentive to further capitalize on the province's strong supply of electricity by incenting industrial expansion through rate mitigation.

This new stream made available up to four terawatt-hours of electricity per year for industrial companies that start or expand operations.

Eligibility was extended to other energy intensive sectors, such as greenhouses, data processing and refrigerated warehousing. Previously, eligibility was limited to the manufacturing and resource extraction (mining, quarrying, oil and gas) sectors.

Five-Point Business Energy Savings Plan

Q: What is the government doing to help small businesses with rising electricity costs?

A: The government knows that local entrepreneurs are focused on growing their business. The government is ensuring small businesses have the tools they need to understand their bill, conserve energy, manage costs and save money through the five-point business energy savings plan.

- Working with energy agencies, local distribution companies and the Retail Council of Canada, the government will promote the use of Roving Energy Managers.
- Roving Energy Managers will be available to small businesses to provide support and assistance every step of the way on an energy-savings project – from applying for incentives to installing energy-efficiency measures.
- The saveONenergy for Business Conservation program will be better tailored to small businesses to ensure they can benefit from the programs to help them manage and reduce their energy bills.
- The saveONenergy for Business Conservation program is also being expanded to provide increased incentives to businesses. Participation will be made easier and faster for small businesses by simplifying and automating application processes.
- To help small businesses cover the upfront capital costs of conservation projects, the Province will work to make on-bill financing available for the sector, beginning in 2015, and allow repayment through the utility bill.
- To ensure conservation incentives continue to be available for small businesses, Ontario will commit to another six years of conservation programs through the new Conservation and Demand Management Framework.

Northern Industrial Electricity Rate (NIER) Program

Q: What are the eligibility requirements for participation in the NIER program?

A: Each of the participant's individual facilities must purchase and consume a minimum of 50,000 MWh of electricity annually from the Independent Electricity System Operator or a local distribution company.

Companies eligible to participate in the NIER program must be classified as being within one of the following North American Industry Classification System industry sectors:

- Mining and Oil and Gas Extraction, and
- Manufacturing, with the exception of facilities that are designated as Sawmills and Wood Preservation which would not be eligible for the NIER program.

Companies must implement, and new companies are required to develop, an Energy Management Plan (EMP) that includes targets and benchmarks. The EMP provides information regarding reduced electricity costs and energy consumption, planned capital investments, energy savings, and efficiency measures, including company-specific targets.

Q: How much price relief does the NIER program provide to participants?

A: Qualifying participants receive two cents per kilowatt-hour (kWh) up to one terawatt-hour (TWh) per year, resulting in a maximum of $20 million per year per company. Rebates for existing participants are also capped at the lesser of 2011-12 consumption levels or $20 million per year.

On average, industrial electricity prices may be reduced by up to 25 per cent through the program. To date as of March 31, 2015, the NIER program has disbursed about $567 million.

New applicants would be accepted if funds are available up to the program cap of $120 million per year on a first come, first serve basis.

Q: What are the details of a NIER program beyond 2016?

A: The government is committed to an ongoing program to support large northern industrial facilities beyond March 2016, with continued investment of up to $120 million per year.

The government will undertake a review on the efficiency and effectiveness of the program and options for a sustainable approach. This will support and retain large electricity users, as well as promote global competitiveness and jobs in northern Ontario for the benefit of all Ontarians.

Energy Infrastructure

Reliable and Clean Energy Supply

Q: What has the government done to ensure a reliable and clean supply of energy?

A: A clean, reliable and affordable supply of electricity is a critical element for sustainable job creation and economic development.

Since 2003, the government has made significant progress transforming the electricity system into one that Ontarians can count on for reliability and clean energy.

- More than $34 billion has been invested in cleaner generation. About $15 billion has been invested in transmission and distribution infrastructure by Hydro One alone.

- Over 16,000 megawatts (MW) of new and refurbished capacity have come online, including more than 7,000 MW of wind, solar and other renewable energy supply, and an additional 2,400 MW in renewable capacity contracted for and under development.

Q: How is OPG contributing to new renewable energy supply?

A: In 2015, OPG and Coral Rapids Power Corporation (CRP), a company wholly owned by Taykwa Tagamou Nation (TTN), began the construction of the Peter Sutherland Sr. Generating Station, a new 28 MW hydroelectric station on the Abitibi River near New Post Creek. The $300 million project is expected to employ 220 workers at its peak and be completed in 2018.

Ontario is now home to North America's largest power plant fuelled completely by biomass; converted from using coal, the Atikokan Generating Station has a capacity of over 200 MW. The station is now generating electricity and helping meet local power needs in northwestern Ontario.

In addition, the Thunder Bay Generating Station is leading the electricity industry with exciting new technology, in service as of early 2015. The station can meet changes in electricity demand using a clean and renewable fuel with its conversion to advanced biomass.

Six new generating units on the Lower Mattagami River have come online, with the last unit coming into service in December 2014. These units have added 438 MW of emission-free electricity to the previous 486 MW — or enough incremental capacity to meet twice the peak demand of Greater Sudbury.

FIT4 and LRP I

Q: What is the status of procurement of the new renewable supply projects?

A: Ontario remains committed to building a cleaner and more sustainable energy system. The first phase of the Independent Electricity System Operator's (IESO) competitive Large Renewable Procurement (LRP I), where large is generally over 500 kilowatts (kW), is targeted to procure up to 300 MW of wind, 140 MW of solar, 50 MW of bioenergy, and 75 MW of waterpower.

On March 10, 2016 the IESO released the list of 16 contracts that have been offered under the Large Renewable Procurement (LRP), representing 454.885 megawatts (MW) of clean renewable energy capacity.

For LRP Phase II, Ontario has set targets of up to 600 MW of wind, up to 250 MW of solar photovoltaic, up to 50 MW of hydroelectricity and up to 30 MW of bioenergy.

The recent round of the Feed-In Tariff 4 (FIT4) application window closed in October 2015, with over 1,968 applications received, representing a total of 582 MW. Contracts for the FIT4 program will be awarded up to the procurement target of about 241 MW.

Energy Storage

Q: What progress has Ontario made with the emerging new, more cost-effective energy storage technologies?

A: In November 2015, the IESO completed its plan to secure a total of 50 MW of energy storage in Ontario. The IESO offered contracts to five companies for nine separate energy storage projects totalling 16.75 MW. This is in addition to the approximately 34 MW in storage capacity previously secured.

Nuclear Refurbishment

Q: A retired nuclear scientist argued that the proposed $12.8 billion refurbishment of four nuclear reactors at the Darlington generating station is an ill-advised make-work project that will end up soaking taxpayers. Do you have any concerns about that possibility?

A: The planned refurbishments of the four units at the Darlington Nuclear Generating Station, and of six nuclear units at the Bruce Nuclear Generating Stations, in addition to the two units already refurbished at the Bruce site, secures over 9,800 MW of affordable, reliable, and emission free power.

This is part of the government's significant progress in transforming the electricity system into one that Ontarians can count on for reliability and leadership in clean energy, with over 16,000 megawatts (MW) of new and refurbished capacity having come online since 2003, including more than 7,000 MW of wind, solar and other renewable energy supply.

Nuclear refurbishment at Darlington will contribute an estimated about $15 billion to Ontario's gross domestic product (GDP) and the boost to jobs is estimated to average 11,800 over the peak 10 years of the refurbishment. The $12.8 billion budget is about $1.2 billion less than originally projected by OPG.

OPG has put in years of detailed planning, built a state-of-the-art training facility, and assembled an experienced team, positioning itself well to deliver on its budget and schedule commitments for the Darlington Refurbishment.

- Years of extensive project planning includes detailed planning commenced in 2010 and concluding in 2015, with engineering completed before field execution starts, and with lessons learned incorporated; from other major projects.

- OPG has built a training facility including a replica of the Darlington Nuclear station reactor vault. It houses a full-scale, reconfigurable replica reactor suitable for tool performance testing and integration, as well as training workers.

- OPG has also structured contracts so that contractors are accountable for price and schedule to minimize risk to ratepayers.

- OPG and Bruce Power are also collaborating during Ontario's Refurbishment Period to improve both companies' refurbishment programs.

- Two independent oversight organizations have been established, one reporting to OPG's Project Executive and Board, and a second reporting directly to the Ministry of Energy.

To best protect Ontario ratepayers and ensure OPG delivers refurbishment on-time and on-budget, the government has also established off-ramps that require OPG to obtain government approval prior to proceeding with each of the remaining unit refurbishments.

Electricity Price Relief for Ontarians

Q: What is the government doing to help Ontario families with rising electricity costs?

A: The government is committed to reducing electricity cost pressures on individuals and families, and recognizes that Ontario's most vulnerable spend a proportionately higher percentage of disposable income on energy and electricity.

The government has removed the Debt Retirement Charge (DRC) from residential users' electricity bills beginning on January 1, 2016. This would save a typical residential ratepayer about $70 per year and mean ending the DRC earlier for these users than otherwise provided for in the *Electricity Act, 1988*.

The Ontario Energy Board developed the Ontario Electricity Support Program (OESP) to lower electricity bills for Ontario's low-income households. Starting January 1, 2016, the OESP will provide a monthly credit of $30-$50 directly on the bills of eligible low-income households, for a total of $360 to $600 per year. The OESP offers a larger credit to low-income consumers whose homes are electrically heated, and those who rely on certain medical devices. Eligible First Nation and Métis households also qualify for a larger credit. The credit for those receiving a larger reduction is $45 to $75 a month, for a total of $540 to $900 per year.

For low-income Ontarians, electricity costs represents a significantly greater share of their monthly expenses, the OESP could benefit more than 500,000 low-income Ontario households. The OESP is an application-based program, which began accepting applications in fall 2015.

- The Province is also already taking significant steps to support and mitigate future rate increases for Ontario families and seniors.
    - Ontario Energy & Property Tax Credit – for 2016, up to $1,008 in tax relief for non-seniors, $1,148 in tax relief for seniors, or $224 in tax relief if you live on a reserve or in a public long-term care home, to help with the sales tax on energy, including electricity, and with property tax.
    - Northern Ontario Energy Credit – for 2016, up to $146 for single people in the north, or up to $224 for families in the north, to help with the higher energy costs they face.
    - The Strengthening Consumer Protection and Electricity System Oversight Act, 2015, passed on December 1, 2015, will enhance the OEB's role to ensure that it continues to have a robust set of tools to protect consumers and regulate the energy sector.

- Energy Consumer Protection Act, 2010 – tough new rules to protect consumers from unfair practices in the retail energy sector.

Ending the DRC

Q: Why are you setting a fixed end date for the Debt Retirement Charge?

A: Electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others have put the stranded debt recovery plan back on track. This has allowed the government to follow through on its commitment to reduce electricity cost pressures.

This is projected to be the twelfth consecutive year that the stranded debt has been reduced, with interim 2015-16 results for the OEFC showing an estimated excess of revenue over expense of more than $3 billion, reducing the stranded debt to under $5 billion as at March 31, 2016, based on interim numbers.

The government introduced legislation, passed in December 2015, that will end the DRC as of April 1, 2018 – nine months earlier than previously estimated. The fixed end date would provide certainty to commercial, industrial and other electricity users, and help them plan their investment decisions more effectively.

Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act* and the revocation of Ontario Regulation 89/12, the *Electricity Act, 1998*, provided for the DRC to be paid by consumers until the residual stranded debt is retired.

The estimated residual stranded debt amount and timing for its retirement were subject to uncertainty in forecasting future OEFC results and dedicated revenues to OEFC, which depend on the financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, and other factors such as interest rates and electricity consumption.

The DRC is one of the dedicated revenues that the Ontario Electricity Financial Corporation (OEFC) receives to service and retire the former Ontario Hydro's debt and certain other liabilities.

Q: After so many years of estimating an end date for the debt retirement charge and residual stranded debt retirement, why is a fixed end date selected only now?

A: Electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others have put the stranded debt recovery plan back on track. This has allowed the government to follow through on its commitment to reduce electricity cost pressures.

This is projected to be the twelfth consecutive year that the stranded debt has been reduced, with interim 2015-16 results for the OEFC showing an estimated

excess of revenue over expense of more than $3 billion, reducing the stranded debt to under $5 billion as at March 31, 2016, based on interim numbers.

The government has introduced legislation, passed in December 2015,that will end the DRC as of April 1, 2018 – nine months earlier than previously estimated. The fixed end date would provide certainty to commercial, industrial and all other electricity users, and help them plan their investment decisions more effectively.

Under the proposal, the OEFC would continue to receive DRC revenues up to April 1, 2018, thus achieving a balance between making progress in paying down the electricity sector stranded debt and mitigating cost pressures for and providing certainty to commercial, industrial and all other electricity users.

Ending the DRC – Residential and Business Users

Q: How much of an impact will removing the debt retirement charge help industrial consumers? Charges for consumers are still going up.

A: The government is committed to supporting a dynamic business climate, drive local economic growth, support job creation and provide competitive electricity rates.

The government introduced legislation, passed in December 2015, that will end the DRC as of April 1, 2018 – nine months earlier than previously estimated. The fixed end date would provide certainty to commercial, industrial and other electricity users, and help them to plan their investment decisions more effectively.

For a large industrial using 3,000 MWh per month, the elimination of the DRC will save up to $21,000 per month, or an estimated about 7 per cent, off the monthly electricity bill.

For a large northern industrial user in the Northern Industrial Electricity Rate program using 3,000 MWh per month, removing the DRC would result in a $21,000 per month saving, or an estimated more than 8 per cent off its electricity bill.

Q: What will be the fiscal impact of removing the DRC cost from residential users' electricity bills?

A: Prior to eliminating the Debt Retirement Charge (DRC) for residential users on January 1, 2016, the DRC has provided annual revenues of about $950 million to the Ontario Electricity Financial Corporation (OEFC), and to the Province on consolidation into Public Accounts. The residential rate class accounts for about a third of electricity load subject to the DRC (varying year-over-year), so, on an annualised basis, the direct DRC revenues forgone from removing the DRC cost from residential bills is estimated to be just over $300 million.

Q: What do you mean by a "residential" electricity user? Will condos and/or mixed use buildings be included? What about long-term care homes and farms?

A: The government has removed the Debt Retirement Charge (DRC) cost from residential users' electricity bills beginning January 1, 2016. This was implemented through regulations, which set out the definition of residential electricity users for the purposes of this initiative:

- All electricity users with a residential rate class account are exempt from the DRC. Users with a general service rate class account that provides electricity to one or more 'eligible residential units' are also eligible for a DRC exemption up to 1,500 kilowatt-hours (kWh) per month multiplied by the number of eligible residential units included in the account.
- An eligible residential unit means a unit that:
  - is a self-contained set of rooms located in a building or structure
  - contains kitchen and bathroom facilities that are intended for the use of the unit only, and
  - is used or intended for use as a residential premises.

Q: The removal of the Debt Retirement Charge (DRC) cost from residential users' electricity bills after December 31, 2015, will save residential users less than half of what the Ontario Clean Energy Benefit (OCEB) is saving them, which is legislated to end January 1, 2016. Why isn't your gov't doing more to assist residential consumers with their bills by extending the OCEB, in addition to removing the DRC?

A: The Ontario Clean Energy Benefit ended on December 31, 2015.

The government is committed to reducing electricity cost pressures on individuals and families, recognizing that Ontario's most vulnerable spend a proportionately higher percentage of disposable income on energy and electricity.

As reported in the 2013 Long-term Energy Plan, government actions have lowered costs in the electricity system, reducing what people would have otherwise paid by about $520 over five years.

The removal of the DRC for residential electricity users after December 31, 2015, would save a typical residential user about $70 per year.

Beginning January 1, 2016, the government implemented the Ontario Electricity Support Program (OESP) to provide a monthly credit of $30 to $50 directly on the bills of Ontario's low income households. The OESP offers a larger credit to low-

income consumers whose homes are electrically heated, those who rely on certain medical devices and eligible First Nation and Métis households. The credit for those receiving a larger reduction is $45 to $75 a month. The size of this benefit would be assessed based on income level and household size, and the program has begun on January 1, 2016.

The government also provides tax credits to help low- to moderate-income families and individuals with their energy costs such as the Ontario Energy and Property Tax Credit and the Northern Ontario Energy Credit.

Ending the DRC – RSD

Q: Why can't you end the DRC now, as opposed to April 1, 2018? The *Electricity Act, 1998*, provides for the DRC to be paid by consumers until the residual stranded debt is retired.

A: The *Budget Measures Act, 2015* amended the *Electricity Act, 2015* and provided a legislated fixed end-date of April 1, 2018 for the Debt Retirement Charge (DRC). The amendments to the *Electricity Act* removed legislative references to the stranded debt and the residual stranded debt.

Ending the DRC on April 1, 2018 provides for OEFC to receive DRC revenues until a specific end date, thus achieving a balance between providing certainty to and mitigating cost pressures for commercial, industrial and other electricity users, while continuing to make progress in paying down the electricity sector stranded debt.

The DRC is one of the principal dedicated revenues that the Ontario Electricity Financial Corporation (OEFC) receives to service and retire the former Ontario Hydro's debt and certain other liabilities. The debt was accumulated by building Ontario's electricity generation and transmission infrastructure.

At the time of the *2014 Ontario Economic Outlook and Fiscal Review*, and as stated in *2015 Budget*, it has been estimated that the residual stranded debt would be retired by the end of 2018. However, the estimated residual stranded debt could extend beyond 2018, such as through to the end of 2019.

As published in the *2015 Ontario Economic Outlook and Fiscal Review*, the residual stranded debt is estimated to be $2.2 billion as of March 31, 2015.

Even after the Debt Retirement Charge ends, there would still be stranded debt remaining, and OEFC would continue to receive PILs and GRC to help service and pay down the stranded debt. Under the *Electricity Act*, OEFC is required to prepare and submit an Annual Report, and OEFC's annual financial statements are included in Public Accounts each year.

Q: What will happen to Residual Stranded Debt once the Debt Retirement Charge (DRC) ends? Does this imply the Residual Stranded Debt will be retired by April 1, 2018?

A: The *Budget Measures Act, 2015* amended the *Electricity Act, 2015* and provided a legislated fixed end-date of April 1, 2018 for the DRC. The amendments to the *Electricity Act* removed legislative references to the stranded debt and the residual stranded debt.

Ending the DRC on April 1, 2018 provides for OEFC to receive DRC revenues until a specific end date, thus achieving a balance between providing certainty to and mitigating cost pressures for commercial, industrial and other electricity users, while continuing to make progress in paying down the electricity sector stranded debt.

Since the government's reforms under the *Electricity Restructuring Act, 2004*, OEFC has reduced its stranded debt for 12 consecutive years, based on interim numbers.

Even after the Debt Retirement Charge ends, there would still be stranded debt remaining, and OEFC would continue to receive PILs and GRC to help service and pay down the stranded debt. The government expects that the stranded debt will continue to decline following the end of the DRC.

The OEFC will continue to report its unfunded liability (often referred to as stranded debt) in its financial statements to provide continued disclosure and transparency.

Under the Electricity Act, OEFC is required to prepare and submit an Annual Report, and OEFC's annual financial statements are included in Public Accounts each year.

If pressed on technicalities related to legislation:

Legislative references to the stranded debt and RSD have been removed from the *Electricity Act*, as a result of Bill 144, the *Budget Measures Act*, as they no longer have a legislative purpose.

At the time of the 2014 *Ontario Economic Outlook and Fiscal Review*, and as stated in 2015 Budget, it has been estimated that the residual stranded debt would be retired by the end of 2018. However, the estimated residual stranded debt could extend beyond 2018, such as through to the end of 2019.

Fiscal Performance and Revenue Outlook

Interim 2015-16 vs. 2014-15

Q: Why is the interim 2015-16 combined net income from Hydro One and OPG projected to be $1,459 million lower than in 2014-15? ($330 million projected for interim 2015-16 compared to $1,789 million in 2014-15.)

A: The decrease is primarily due to the impacts of broadening the ownership of Hydro One and the impact of the one-time extraordinary gain recognized in 2014-15 by OPG related to the newly regulated hydroelectric facilities [i.e. regulatory assets related to deferred income taxes expected to be recovered from customers through future regulated prices]. Other factors leading to the decrease include higher market prices for OPG's previously unregulated hydroelectric facilities in 2014 and, lower nuclear production and higher OM&A costs in 2015 for OPG.

As a result of Hydro One's completed IPO in November, 2015, the interim 2015-16 net income reflects the estimated impacts of the broadening of Hydro One ownership, including positive impacts from the departure tax benefit, negative impacts from $2.6 billion in departure tax and positive impacts of $200 million from additional PILs. The decrease also reflects a reduction to 84% of the Province's proportionate share of Hydro One net income following the IPO and related additional share sales [to trusts with beneficial ownership by unions] due to lower ownership by the Province.

Q: Why is the interim 2015-16 payments-in-lieu of taxes (PILs) from electricity sector projected to be $3,052 million higher than in 2014-15? ($3,232 million projected for interim 2015-16 compared to $180 million in 2014-15.)

A: The increase in 2015-16 is primarily due to significant one-time payments in lieu of tax (PILs) payments related to Hydro One's IPO, i.e., $2.6 billion in departure tax and $200 million in additional PILs, as a result of leaving the PILs regime, and entering corporate income tax (CIT) regime. The increase also reflects higher OPG PILs compared to 2014-15, due to the income tax impact of rate-regulating OPG's previously unregulated hydroelectric stations in the fiscal 2014-15.

Interim 2015-16 vs. 2015 Budget

Q: Why is the interim 2015-16 combined net income from Hydro One and OPG projected to be $682 million lower than in 2015 Budget? ($330 million projected for interim 2015-16 compared to $1,012 million in Budget 2015.)

A: The decreases in 2015-16 reflects a significantly lower forecast income from Hydro One primarily due to the IPO impacts: positive impacts of the deferred tax benefit gain, negative impacts of $2.6 billion in departure tax and $200 million in additional

PILs, and a reduction to the Province's 84% proportionate share of Hydro One net income due to decreased ownership share of the Province. The decrease is partly offset by an increase in OPG's forecast income due to favourable ONFA fair value adjustments lower operating costs.

Q: Why is the interim 2015-16 payments-in-lieu of taxes (PILs) from electricity sector projected to be $2,708 million higher than in Budget 2015? ($3,232 million projected for interim 2015-16 compared to $524 million in Budget 2015.)

A: The increase is primarily due to significant one-time PILs related to Hydro One's initial public offering (IPO), i.e. the $2.6 billion in departure tax and $200 million additional PILs, as Hydro One exited the PILs regime, and entered Corporate Income Tax (CIT) regime as a result of the IPO. This is fiscally neutral, when combined with the impact on reduced net income from Hydro One.

Q: You are reporting a $1.1 billion increase from asset optimization in 2015-16 due to increase in the estimated impact of a deferred tax benefit for Hydro One. What is a deferred tax benefit?

A: The deferred tax benefit recorded by Hydro One is a consequence of Hydro One revaluing the tax basis of its assets to fair market value as it enters the corporate tax regime at closing of the IPO.

This deferred tax benefit will provide a net fiscal benefit to the Province on consolidation of the results of Hydro One into the Public Accounts, based on the Province's proportionate ownership share of Hydro One.

Q: Brampton Distribution Holdco Inc. is included in your electricity company combined net incomes. This company was not there in previous financial reports. Why is this organization shown separately now in this budget?

A: Prior to August 31, 2015, Hydro One Brampton was a subsidiary of Hydro One. To facilitate the potential merger of Hydro One Brampton with Enersource, Horizon Utilities, and PowerStream, on August 31, 2015, Hydro One declared a dividend in kind to the Province of all the issued and outstanding common shares of Hydro One Brampton Networks Inc.

This means that Hydro One Brampton is no longer a subsidiary of Hydro One. It is now a wholly Provincially-owned subsidiary of Brampton Distribution Holdco Inc.

If pushed:

This is only an organizational restructuring. It doesn't have material fiscal impacts as for the time being the Province continues to be the sole owner of Hydro One Brampton.

Q: What should be the reporting treatments for Hydro One Inc.'s (HOI) projected and actual provincial corporate income tax (CIT) for the provincial Budget, Estimates and Public Accounts processes?

A: Following Hydro One Ltd.'s (HOL) initial public offering (IPO) on November 5, 2015, Hydro One has exited the electricity payments-in-lieu of taxes (PILs) regime and will start paying corporate income taxes to both the federal and provincial governments.

Under the amendments made to the *Electricity Act, 1998* in the fall *Budget Measures Act, 2015*, the Minister of Finance will pay the OEFC an amount equal to tax payable under the *Taxation Act, 2007* (i.e., the provincial corporate income tax – CIT) by Hydro One Inc. (HOI), in a taxation year-end during each fiscal year. This will help to service and pay down the electricity sector stranded debt.

Interim 2015-16 vs. 2016-17 Forecast

Q: Why is the projected 2016-17 combined net income from Hydro One and OPG projected to be $719 million higher than interim 2015-16? ($330 million projected for interim 2015-16 compared to $1,049 million projected in 2016-17.)

A: The increase is primarily due to higher estimated 2016-17 earnings from OPG and Hydro One.

The estimated increase in 2016-17 is also due to significantly lower estimated 2015-16 income for Hydro One, as it reflects the upfront impacts of the Hydro One's IPO in 2015, which included one-time expenses of $2.6 billion in departure tax, $200 million in IPO related additional PILs, estimated to be partially offset by a deferred tax benefit.

Projected Impact of the Asset Optimization Strategy

Q: Does the projected future combined net income from Hydro One and OPG and the projected payments-in-lieu (PILs) of taxes from electricity sector include the impacts of the initial public offering (IPO) of the Hydro One common shares?

A: The Hydro One's net income and PILs has reflected the impacts of Hydro One's IPO and the resulting about 84% Provincial ownership share.

As Hydro One is now taxable under the federal Income tax Act and the provincial Taxation Act, Hydro One will no longer pay corporate tax PILs to OEFC. Hydro One is still subject to pay to OEFC incremental property tax PILs under the Electricity Act.

The gains from Hydro One IPO sale and projected impacts from further common shares sales are captured as part of the projected net impacts of the Province's asset optimization strategy in Sales and Rental under Other Non-Tax Revenue.

Medium-Term Revenue Outlook

Q: In your medium-term revenue outlook discussion you discuss a one-time payments in lieu of taxes from Hydro One as a result of the Hydro One initial public offering? What is that payment about?

A: A company that exits from a tax regime may be deemed to have disposed of its assets for proceeds equal to the fair market value of those assets at that time, which could result in a tax payment in respect of the income and capital gains that arise as a result of this deemed disposition. The amount payable is generally referred to as a "departure tax".

Hydro One paid $2.6 billion in "departure tax" to OEFC prior to the closing of the IPO as part of its transition to a broadly held, publicly traded company. Hydro One also paid an additional $200 million in PILs to OEFC as a consequence of the IPO.

OEFC and Stranded Debt

Stranded Debt

Q: Why is the interim Electricity Sector Dedicated Income (ESDI) $0 in 2015-16, and why is the forecast so low for ESDI in the 2016-17 Printed Estimates? Is this because of the Hydro One IPO reducing the Province's future revenues from Hydro One and reducing the amounts to pay for stranded debt?

A: The Hydro One IPO resulted in a significant upfront reduction in the stranded debt of the electricity sector.

For the year ended March 31, 2016, the IPO resulted in very large upfront payments to the Ontario Electricity Financial Corporation (OEFC) towards stranded debt. This included a total of $2.8 billion in departure tax and additional payments-in-lieu of taxes (PILs) paid by Hydro One to OEFC.

As these large amounts were expenses to Hydro One, they had a dollar-for-dollar impact on reducing Hydro One's estimated net income for 2015-16, partially offset by the deferred tax benefit impact on the Province's net income from Hydro One.

Because of these large payments to OEFC, this resulted in an estimated zero Electricity Sector Dedicated Income transfer to OEFC, as the combined net income of OPG and Hydro One to the Province was estimated to fall short of the about $520 million in annual interest expense.

Under the Electricity Sector Dedicated Income, the Province has been dedicating the cumulative combined net income of OPG and Hydro One in excess of the Province's interest cost of its investment in these companies (about $520 million annually, prior to the Hydro One IPO) to OEFC.

As the ESDI commitment is calculated on a cumulative basis over time, the estimated shortfall in the combined net incomes of OPG and Hydro One in 2015-16 compared to the about $520 million in the Province's financing costs, reduces the estimated Electricity Sector Dedicated Income in 2016-17 [and potentially in future years], until the past shortfall is offset by the combined net incomes going forward from 2015-16.

The actual ESDI amounts for 2015-16 and 2016-17 is subject to finalisation, including the actual financial performances of OPG and Hydro One in 2015-16 and 2016-17, and will be reported in OEFC's annual financial statements and Public Accounts.

[Note: For the 2015-16 Printed Estimates, the ESDI was positive, as the projected ESDI did not build in the potential impact of the broadening of Hydro One ownership due to the commercial and market sensitivity of the estimated impacts on Hydro One of the expected departure tax. The potential impact of the broadening of Hydro One ownership was built into the asset optimization component of the Sales and Rental revenue line.]

Q: As at March 31, 2015, in the Ontario Economic Outlook and Fiscal Review, the residual stranded debt was estimated to be $2.2 billion. If the stranded debt is estimated to have been reduced by more than $3 billion in 2015-16, to less than $5 billion as at March 31, 2016, does that mean that the residual stranded debt is now retired?

With the proceeds from the Hydro One initial public offering (IPO) in the billions of dollars, why hasn't the OEFC retired the stranded and/or the residual stranded debt and ended the Debt Retirement Charge (DRC)?

A: OEFC estimated results for 2015-16 show an estimated excess of revenue over expense of more than $3 billion, which would reduce OEFC's unfunded liability (or "stranded debt of the electricity sector") from $8.2 billion as of March 31, 2015, to below $5 billion as of March 31, 2016.

The estimated residual stranded as at March 31, 2015, was $2.2 billion, based on a stranded debt of $8.2 billion and the estimated present value of future, going forward dedicated revenues from March 31, 2015, to OEFC of about $6 billion.

The estimated 2015–16 results reflect the upfront benefits to OEFC of broadening the ownership of Hydro One through an initial public offering (IPO). This includes the OEFC receiving *in* fiscal 2015-16 – that is after March 31, 2015 -- $2.6 billion in departure tax and about $200 million in one-time additional payments in lieu of

taxes (PILs), as Hydro One exited the PILs regime and will no longer pay corporate tax PILs to the OEFC.

The upfront impact on OEFC of the departure tax and one-time PILs payments on the OEFC's unfunded liability will be fully offset over time by their impact on reducing dedicated revenues to the OEFC in 2015–16, and in future years related to Hydro One net income. In addition, as Hydro One is now a taxable corporation, it will no longer pay payments-in-lieu of corporate taxes (PILs) to OEFC, further reducing the estimated present value of future dedicated revenues to OEFC.

There is still stranded debt remaining, to be serviced and paid down by the OEFC's other dedicated revenues, such as other payments in lieu of taxes and the Gross Revenue Charge.

- The government expects that the stranded debt will continue to decline following the broadening of the ownership of Hydro One, as well as the end of the DRC on residential users as of January 1, 2016, and commercial, industrial and all other electricity users as of April 1, 2018.

- The OEFC will continue to report annually on the stranded debt.

Projected 2016–17 OEFC results are an excess of revenue over expense of about $0.6 billion.

Q: What is the status of the old Ontario Hydro's stranded debt?

A: The government dedicates the revenues it receives from the electricity sector to the Ontario Electricity Financial Corporation (OEFC). All OEFC revenues, including the Debt Retirement Charge (DRC) paid by electricity consumers, are used to service and retire its debt and other obligations, as provided for under the *Electricity Act, 1998*.

For the twelfth consecutive year, the stranded debt has been reduced, based on the interim 2015–16 results for the OEFC showing an estimated excess of revenue over expense of more than $3 billion. The OEFC has paid down stranded debt by an estimated total of more than $15 billion from its peak in 2003-04, reducing stranded debt to under $5 billion as at March 31, 2016, based on interim numbers.

- The following table shows the unfunded liability (or "stranded debt") of OEFC since the opening amount of $19,433 million on April 1, 1999.

At March 31 ($M unless noted)	April 1, 1999	2000	2001	2002	2003	2004	2005	2006	2007
Unfunded Liability	$19,433	$20,034	$20,016	$20,085	$20,183	$20,550	$20,363	$19,293	$18,289
Increase / (Decrease)		$601	($18)	$69	$98	$367	($187)	($1,070)	($1,004)
At March 31 ($M unless noted)	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	
Unfunded Liability	$17,225	$16,182	$14,810	$13,448	$12,321	$11,257	$9,781	$8,185	
Increase / (Decrease)	($1,064)	($1,043)	($1,372)	($1,362)	($1,127)	($1,064)	($1,476)	($1,596)	

Prudent Management of Electricity Sector Debt

Q: What is the current status of the residual stranded debt?

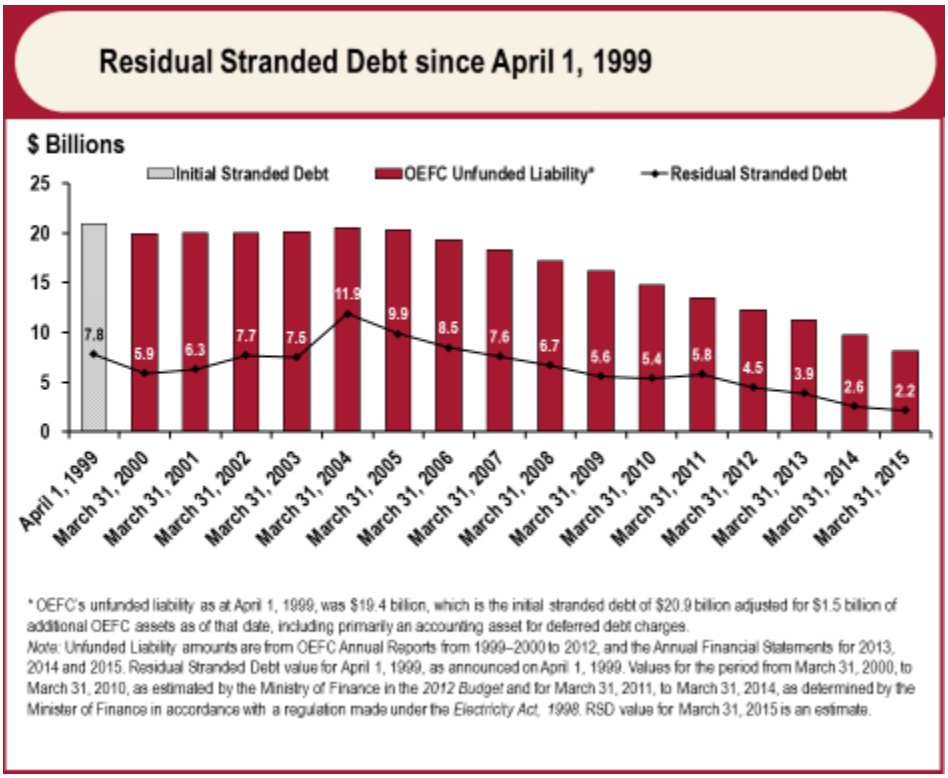
A: The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* (Bill 144) and effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt", including regulation-making authority of Ontario Regulation 89/12, were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete.

On February 11, 2016, the government filed Ontario Regulation 20/16 revoking O. Reg. 89/12.

Prior to the amendments of the *Electricity Act, 1998*, the residual stranded debt was estimated to be $2.2 billion as at March 31, 2015 as published in the 2015 Ontario Economic Outlook and Fiscal Review.

- This is a decrease of $0.4 billion compared to the residual stranded debt of $2.6 billion as at March 31, 2014, and a decrease of $9.7 billion from an estimated peak of $11.9 billion as at March 31, 2004.

- The residual stranded debt as at March 31, 2015, is based on the unfunded liability (or "stranded debt of the electricity sector") of $8.2 billion as reported in the OEFC's financial statements for the year ending March 31, 2015, reduced by the estimated present value of future dedicated revenues to OEFC of $6.0 billion. This results in the estimated $2.2 billion of residual stranded debt as at March 31, 2015.



Q: What happened to the residual stranded debt?

A: The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* (Bill 144) and effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt", including regulation-making authority of Ontario Regulation 89/12, were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete.

On February 11, 2016, the government filed Ontario Regulation 20/16 revoking O. Reg. 89/12.

Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998* and the revocation of Ontario Regulation 89/12, the *Electricity Act*, provided for the DRC to be paid by consumers until the residual stranded debt is retired.

As part of its commitment to reduce the cost of electricity to all Ontarians, the government has removed the Debt Retirement Charge (DRC) from residential users' electricity bills beginning January 1, 2016.

As a further step to mitigate electricity cost pressures for all other users, the government introduced legislation, passed on December 10, 2015, Bill 144, the *Budget Measures Act, 2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.

- Even after the end of the DRC, there will be stranded debt remaining, to be serviced and paid down by the OEFC's other dedicated revenues, such as payments in lieu of taxes and the Gross Revenue Charge.

- The government expects that the stranded debt will continue to decline following broadening of the ownership of Hydro One, as well as the end of the DRC.

- The OEFC will continue to report annually on the stranded debt.

Q: As published in the *2015 Economic Outlook and Fiscal Review*, why did the residual stranded debt only fall from $2.6 billion to $2.2 billion if the Ontario Electricity Financial Corporation's (OEFC) unfunded liability fell by about $1.6 billion and the DRC collected the same year was $0.956 billion?

A: Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act* and the revocation of Ontario Regulation 89/12, the residual stranded debt was defined under the Act as the stranded debt minus the estimated present value of future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC. The DRC would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

The residual stranded debt fell by less than the decrease in OEFC's unfunded liability due to a reduction in the estimated present value of future dedicated revenues to the OEFC from $7.2 billion as at March 31, 2014, to $6.0 billion as at March 31, 2015, which reflects the uncertainty of and update to the forecast of future dedicated revenues to OEFC. These forecasted revenues depend on the financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, regulatory decisions by the Ontario Energy Board, as well as other factors such as interest rates and electricity consumption.

Q: Since you have collected about $12.5 billion in Debt Retirement Charge (DRC) revenue to March 31, 2015, compared to the estimated $7.8 billion in residual stranded debt as at April 1, 1999, why has the residual stranded debt only decreased by $5.6 billion and why hasn't DRC already ended for all users?

A: Since 2004, the government's electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others, have put the stranded debt recovery plan back on track. The Ontario Electricity Financial Corporation (OEFC) has paid down stranded debt by about $12.3 billion from its peak in 2003-04, reducing stranded debt to $8.2 billion as at March 31, 2015.

The residual stranded debt increased from $7.8 billion as at April 1, 1999, to an estimated $11.9 billion as at March 31, 2004, as a result of an increase in stranded debt primarily due to the electricity price freeze, as well as a reduction in the estimated present value of future dedicated revenues to the Ontario Electricity Financial Corporation (OEFC), mainly reflecting the downward revision in 2004 of the previous overestimation of future financial performance of Ontario Power Generation (OPG), and lower tax rates. OPG had significantly underperformed compared to its plans over the previous period of 1999 to 2004.

As confirmed in the Auditor General's 2011 Annual Report, the DRC is used exclusively by the Ontario Electricity Financial Corporation (OEFC) to meet its mandate, as provided for under the *Electricity Act, 1998*, which includes servicing and retiring its debt and other liabilities. This includes payment of principal amounts as well as interest costs. OEFC's interest expense is currently about $1.4 billion per year and has totalled about $30.5 billion between April 1, 1999 and March 31, 2015.

- Prior to the amendments in the fall 2015 *Budget Measures Act*, under the *Electricity Act*, the residual stranded debt was defined under the Act as the stranded debt minus the estimated present value of future payments-in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC. The residual stranded debt was, therefore, affected by 1) changes in the amount of stranded debt, and 2) changes in the estimated future dedicated revenues.

- Since 2004, the government's electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others, have put the stranded debt recovery plan back on track. The residual stranded debt has been reduced by an estimated $9.7 billion, from an estimated peak of $11.9 billion as at March 31, 2004, to $2.2 billion as at March 31, 2015, as published in the 2015 Ontario Economic Outlook and Fiscal Review.

- The Auditor General audits OEFC's annual financial statements and has provided an unqualified opinion every year since the initial 1999–2000 financial statements.

From:	Ken Kandeepan
To:	John Psinas; George Sakura; Alexander Kraas
Subject:	FW: Updated Summary of Draft FAO Fall Economic and Fiscal Outlook_v6d
Date:	Sunday, December 10, 2017 1:16:39 PM
Attachments:	Summary of Draft FAO Fall Economic and Fiscal Outlook_v6d.docx ATT00001.htm

FYI,

Thanks

Ken k

From: Gadi Mayman
Sent: Friday, December 08, 2017 8:23 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>
Subject: Fwd: Updated Summary of Draft FAO Fall Economic and Fiscal Outlook_v6d

Begin forwarded message:

> **From:** "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
> **Date:** December 8, 2017 at 8:21:57 PM EST
> **To:** "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca>, "Ghiassi, Ali (MOF)" <Ali.Ghiassi@ontario.ca>, "Lewis, Brian (MOF)" <Brian.Lewis@Ontario.ca>, "Mayman, Gadi (OFA)" <Gadi.Mayman@ofina.on.ca>, "Lewis, Paul (MOF)" <Paul.D.Lewis@ontario.ca>, "Giroux Namian, Orli (MOF)" <Orli.GirouxNamian@ontario.ca>, "Martin, Jessica (MOF)" <Jessica.Martin@ontario.ca>, "Moore, Brynne (MOF)" <Brynne.Moore@ontario.ca>, "Buckingham, Brigid (MOF)" <Brigid.Buckingham@ontario.ca>
> **Cc:** "McLean, David (MOF)" <David.McLean@ontario.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>, "Esmail, Selena (MOF)" <Selena.Esmail@ontario.ca>, "Chaput, Brandon (MOF)" <Brandon.Chaput@ontario.ca>, "Inglis, Liane (MOF)" <Liane.Inglis@ontario.ca>
> **Subject: Updated Summary of Draft FAO Fall Economic and Fiscal Outlook_v6d**
>
> Please find attached an updated summary note of the FAO's report due to come out Monday. It reflects feedback from the meeting earlier today.
>
> Tim Schuurman
> Assistant Deputy Minister
> Office of the Budget
> Ministry of Finance

FAO's 2017 Fall Economic and Fiscal Outlook

ISSUE

On Monday Dec 11th, 2017 the Financial Accountability Office will release its 'Fall Economic and Fiscal Outlook' report. This note is a summary.

TOP MESSAGES

- I would like to thank the Financial Accountability Officer (FAO) for releasing his fall economic and fiscal outlook for Ontario. We value the FAO's independent assessment and projections of the province's fiscal plan.
- The government is committed to a responsible fiscal plan that provides the conditions for all Ontarians to thrive.
- As outlined in the 2017 Ontario Economic Outlook and Fiscal Review, the government is projecting a balanced budget for 2017–18 and continued balance in 2018–19 and 2019–20.
- The FAO's deficit projections differ from the government's, but as with any future oriented forecast there is uncertainty.
- What we do know for certain is that this government has a strong track record of beating its fiscal targets. In fact, the Public Accounts of Ontario reported that the 2016–17 deficit was $1.0 billion, beating our annual deficit target again, for the eighth year in a row.
- The 2017 Ontario Economic Outlook and Fiscal Review builds on the government's track record of fiscal management that has resulted in $29 billion in accumulated deficits being avoided over the past seven years, relative to the 2010 Budget forecast.
- We are also targeting a net debt-to-GDP ratio of 35 per cent by 2023–24 and reducing Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029–30.
- Since 2014, Ontario's real GDP growth has strengthened, positioning Ontario as a growth leader, not only in Canada, but among G7 countries. In fact, over the 2014-17 period, Ontario's real GDP growth is on pace to exceed that of all G7 countries.
- Private-sector economists are projecting continued growth for Ontario over the forecast horizon; the FAO's real GDP projections are aligned with the 2017 Fall Economic Statement over the 2017 to 2020 period.
- This shows that our plan to make strategic investments in Ontario to grow the economy is working.
- A balanced budget is providing the Province the fiscal flexibility to invest more in health care, education, support for seniors and small businesses and other public services that matter most to Ontario families. A balanced budget also adds stability to Ontario's finances and positions the government to better respond to demographic challenges and unexpected global economic shocks that the province will face over the next decade.

- We will continue moving forward on our fiscally responsible plan that creates fairness and opportunity for all Ontarians.

KEY POINTS

Economic Outlook

- The FAO has raised its forecast for Ontario economic growth in 2017 from its spring outlook report. However, despite this upward revision, the FAO forecast is at the bottom of the current range of the MOF survey of private sector forecasts for both real and nominal GDP growth in 2017.
- Beyond 2017, the FAO forecast anticipates growth to moderate as the housing market and consumer spending cool alongside gradually rising interest rates, in line with the FES forecast.
- Over the 2017 to 2020 period, the FAO's forecast for average annual real GDP growth of 2.2 per cent is the same as the 2017 FES outlook.
- However, for nominal GDP growth, the FAO's average annual forecast of 4.2 per cent over the 2017 to 2020 period is slower than the FES projection of 4.4 per cent growth. This difference is explained by a much lower FAO nominal GDP forecast in 2017 compared to the FES (4.7 per cent vs 5.3 per cent).
- The FAO forecast takes into account its estimate of the impact of the new minimum wage legislation, which is expected to boost wage growth over the forecast, but temper employment gains. Even with these employment impacts, the FAO predicts a modest decline in the unemployment rate.

Fiscal Outlook

- The FAO is projecting a budget deficit of $4.0 billion in 2017–18 using the **Auditor General's recommended accounting treatment for both the Fair Hydro Plan and the net pension assets of jointly sponsored pension plans.** In the absence of any fiscal policy changes the deficit grows steadily to $9.8 billion in 2021-22.
- Under the **government's accounting presentation (excluding the AG's recommendations)**, the FAO projects a small surplus for 2017–18 of $0.2 billion (excluding the reserve) and a return to deficits beyond 2017–18 driven by revenue factors - loss of temporary revenues combined with more moderate tax revenue growth.
- The FAO suggests that by not adopting the AG's recommended accounting presentation, the 2017 Budget and the 2017 FES have reduced transparency and clarity of Ontario's fiscal position and Ontario will continue to receive qualified opinions from the AG on its Pubic Accounts.

Budget Balance - FAO's Fiscal Outlook ($ Billions)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
AG Presentation	-5.0	-2.4	-4.0	-7.1	-7.8	-9.0	-9.8
Government Presentation	-3.5	-1.0	0.2	-1.9	-1.9	-2.6	-3.7
2017 FES -- Excluding Reserve	-3.5	-1.0	0.5	0.5	0.8	N/A	N/A

Revenue Outlook

- The FAO is projecting average annual revenue growth of 3.2 per cent from 2016-17 to 2019-20 as compared with the government's projections of 4.0 per cent. The main drivers are:
    - The FAO projections for taxation revenues are $2.9 billion lower by 2019-20 than the projections in the 2017 FES due to lower projected growth in household spending, labour income and corporate profits.
    - In addition, the FAO continues to highlight a number of one-time 2017-18 revenues, including: increase to sales and rentals from sale of final tranche of H1, higher federal transfers for infrastructure (PTIF), a one-time boost from extra Cap and Trade auction. Taken together the FAO estimates that these amount to $4.5 billion in additional one-time revenues in 2017-18.

Expense Outlook

- From 2017–18 to 2019–20 the FAO's outlook adopts the government's 2017 FES projections for program spending, **adjusted to reflect the AG's recommended accounting presentation.**
    - Both the Fair Hydro Plan and net pension asset adjustment impact the expense side with a combined impact of approximately $4.2 billion in 2017-18.
- The FAO notes that in 2018-19 and 2019-20, increases in program spending will be restrained to an average of 2.4 percent, below the growth in underlying spending pressures. Beyond 2019–20 the FAO projects program spending will grow faster -- at an average annual rate of 4.2 per cent – due to population pressures.

Borrowing and Net Debt

- Using the **government's accounting presentation** net debt-to-GDP is expected to reach 38.5 per cent by 2019–20 and 38.7 per cent by 2021–22. This increases to 41.4 per cent by 2021–22 **under the AG's accounting presentation for jointly sponsored pension plans and the Fair Hydro Plan**.

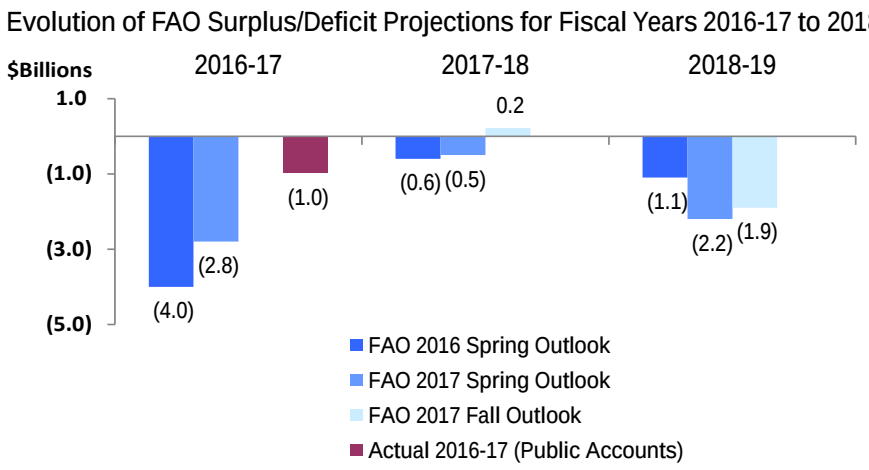
- The 2017 FES projected a net debt-to-GDP ratio of 37.0 per cent by 2019–20.

Comparison: 2017 Fall Economic Statement and the 2017 Fall FAO Fiscal Outlook

	Actual		Outlook					Avg. Annual Growth 16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
2017 Fall Economic Statement										
Taxation Revenue	91.8	94.3	99.9	105.1	110.0			5.2%		
Transfers from Gov't of Canada	23.1	24.5	26.2	26.0	25.4			1.2%		
Income from GBEs	4.9	5.6	5.1	5.9	6.2			3.7%		
Other Non-Tax Revenue	16.3	16.3	19.0	16.5	16.6			0.7%		
Total Revenue	136.1	140.7	150.1	153.6	158.2			4.0%		
Expense										
Program Expense	128.1	130.0	137.4	140.4	144.2			3.5%		
Adjustment for Pension Assets	-	-	-	-	-					
Adjustment for Fair Hydro Plan	-	-	-	-	-					
Interest on Debt	11.6	11.7	12.2	12.7	13.3			4.2%		
Total Expense	139.7	141.7	149.6	153.1	157.4			3.6%		
Surplus/(Deficit)	(3.5)	(1.0)	0.5	0.5	0.8					
Net Debt	295.4	301.6	311.7	323.0	335.6			3.6%		
Change - 2017 Fall Economic Statement to 2017 Fall FAO Fiscal Outlook										
Taxation Revenue	-	-	-1.2	-2.4	-2.9					
Transfers from Gov't of Canada	-	-	0.0	-0.5	-0.4					
Income from GBEs	-	-	0.0	0.0	0.0					
Other Non-Tax Revenue	-	-	0.4	0.0	0.0					
Total Revenue	-	-	(0.7)	(2.9)	(3.4)					
Expense										
Program Expense	-	-	-	-	-					
Adjustment for Pension Assets	1.5	1.5	2.3	2.6	2.9					
Adjustment for Fair Hydro Plan	-	-	1.9	2.7	2.9					
Interest on Debt	-	-	*(0.4)*	*(0.6)*	*(0.7)*					
Total Expense	*1.5*	*1.5*	*3.8*	*4.7*	*5.2*					
Surplus/(Deficit) AG Presentation	*(1.5)*	*(1.4)*	*(4.5)*	*(7.6)*	*(8.6)*					
Surplus/(Deficit) - Gov't Presentation (excl. Fair Hydro Pension Adj.)	*(0.0)*	*(0.0)*	*(0.3)*	*(2.4)*	*(2.7)*					
Net Debt	*11.0*	*12.5*	*17.5*	*24.7*	*32.4*					
2017 Fall FAO Fiscal Outlook										
Taxation Revenue	91.8	94.3	98.7	102.7	107.0	111.3	115.8	4.3%	4.0%	4.2%
Transfers from Gov't of Canada	23.1	24.5	26.2	25.5	25.0	25.8	26.6	0.7%	3.2%	1.7%
Income from GBEs	4.9	5.6	5.1	5.9	6.2	6.5	6.7	3.5%	4.0%	3.7%
Other Non-Tax Revenue	16.3	16.3	19.4	16.5	16.6	17.3	18.0	0.6%	4.1%	2.0%
Total Revenue	136.1	140.7	149.4	150.7	154.8	160.8	167.0	3.2%	3.9%	3.5%
Expense										
Program Expense	128.1	130.0	137.4	140.4	144.2	150.2	156.9	3.5%	4.3%	3.8%
Adjustment for Pension Assets	1.5	1.5	2.3	2.6	2.9	2.9	2.9			
Adjustment for Fair Hydro Plan	-	-	1.9	2.7	2.9	3.4	3.2			
Interest on Debt	11.6	11.7	11.8	12.1	12.6	13.2	13.8	2.5%	4.7%	3.4%
Total Expense	141.2	143.2	153.4	157.8	162.6	169.8	176.8	4.3%	4.3%	4.3%
Surplus/(Deficit) AG Presentation	(5.0)	(2.4)	(4.0)	(7.1)	(7.8)	(9.0)	(9.8)			
Surplus/(Deficit) - Gov't Presentation (excl. Fair Hydro Pension Adj.)	(3.5)	(1.0)	0.2	(1.9)	(1.9)	(2.6)	(3.7)			
Net Debt	306.4	314.1	329.2	347.7	368.0	386.8	404.4	5.4%	4.8%	5.2%

Note: All surplus/deficits exlcude the reserve. Numbers may not add due to rounding.

FAO Projections Compared to Actuals/Current Outlook



Note: Surplus/Deficit excludes the reserve and is calculated based on the government's accounting presentation.

Comparison of FAO Economic Projection to Actual/Current						
	2016 % change			2017 % change		
	FAO Spring 2016	Actual	Diff FAO-Actuals	FAO Spring 2017	FAO Fall 2017	Diff Spring-Fall
Nominal GDP	3.4	4.3	*-0.9*	4.1	4.7	*-0.6*
Real GDP	2.4	2.6	*-0.2*	2.4	2.8	*-0.4*
Corporate Profits	0.3	7.3	*-7.0*	6.0	11.7	*-5.7*
Labour Income	4.0	3.3	*0.7*	4.0	4.0	*0.0*
Nominal Household Spending	4.4	4.2	*0.2*	4.2	4.7	*-0.5*

Comparison of FAO Revenue Projection to Actual/Current						
	2016-17 % change			2017-18 % change		
	FAO Spring 2016	Actual	Diff FAO-Actuals	FAO Spring 2017	FAO Fall 2017	Diff Spring-Fall
Total Revenues	2.6	3.4	*-0.8*	6.3	6.5	*-0.2*
Taxation Revenues	0.6	2.8	*-2.2*	5.1	4.7	*0.4*
Government of Canada Transfers	7.4	6.1	*1.3*	5.8	6.5	*-0.8*
Income from GBEs	14.0	13.4	*0.6*	-7.5	-8.9	*1.4*
Other Non-Tax Revenues	5.8	0.0	*5.8*	29.4	36.9	*-7.5*

Economic Assumptions: FAO vs FES

Real GDP	**2017**	**2018**	**2019**	**2020**	**2017-20 average**
FAO - Fall 2017	2.8	2.1	2.0	1.9	2.2
FES 2017	2.8	2.1	2.0	2.0	2.2
Nominal GDP					
FAO - Fall 2017	4.7	4.1	4.1	4.1	4.2
FES 2017	5.3	4.1	4.1	4.2	4.4
Labour income					
FAO - Fall 2017	4.0	4.5	4.3	4.1	4.2
FES 2017	4.3	4.7	4.8	4.4	4.6
Corporate profits					
FAO - Fall 2017	11.7	2.2	3.7	4.4	5.5
FES 2017	16.1	2.9	2.8	3.7	6.4
Household consumption*					
FAO - Fall 2017	4.7	4.2	4.1	3.9	4.2
FES 2017	5.1	4.3	4.3	4.3	4.5

* Real household consumption plus CPI

From:	Ken Kandeepan
To:	John Psinas; George Sakura; Alexander Kraas
Subject:	FW: Updated Summary of Draft FAO Fall Economic and Fiscal Outlook_v6d
Date:	Sunday, December 10, 2017 1:16:39 PM
Attachments:	Summary of Draft FAO Fall Economic and Fiscal Outlook_v6d.docx ATT00001.htm

FYI,

Thanks

Ken k

From: Gadi Mayman
Sent: Friday, December 08, 2017 8:23 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>
Subject: Fwd: Updated Summary of Draft FAO Fall Economic and Fiscal Outlook_v6d

Begin forwarded message:

> **From:** "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
> **Date:** December 8, 2017 at 8:21:57 PM EST
> **To:** "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca>, "Ghiassi, Ali (MOF)" <Ali.Ghiassi@ontario.ca>, "Lewis, Brian (MOF)" <Brian.Lewis@Ontario.ca>, "Mayman, Gadi (OFA)" <Gadi.Mayman@ofina.on.ca>, "Lewis, Paul (MOF)" <Paul.D.Lewis@ontario.ca>, "Giroux Namian, Orli (MOF)" <Orli.GirouxNamian@ontario.ca>, "Martin, Jessica (MOF)" <Jessica.Martin@ontario.ca>, "Moore, Brynne (MOF)" <Brynne.Moore@ontario.ca>, "Buckingham, Brigid (MOF)" <Brigid.Buckingham@ontario.ca>
> **Cc:** "McLean, David (MOF)" <David.McLean@ontario.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>, "Esmail, Selena (MOF)" <Selena.Esmail@ontario.ca>, "Chaput, Brandon (MOF)" <Brandon.Chaput@ontario.ca>, "Inglis, Liane (MOF)" <Liane.Inglis@ontario.ca>
> **Subject: Updated Summary of Draft FAO Fall Economic and Fiscal Outlook_v6d**
>
> Please find attached an updated summary note of the FAO's report due to come out Monday. It reflects feedback from the meeting earlier today.
>
> Tim Schuurman
> Assistant Deputy Minister
> Office of the Budget
> Ministry of Finance

FAO's 2017 Fall Economic and Fiscal Outlook

ISSUE

On Monday Dec 11th, 2017 the Financial Accountability Office will release its 'Fall Economic and Fiscal Outlook' report. This note is a summary.

TOP MESSAGES

- I would like to thank the Financial Accountability Officer (FAO) for releasing his fall economic and fiscal outlook for Ontario. We value the FAO's independent assessment and projections of the province's fiscal plan.
- The government is committed to a responsible fiscal plan that provides the conditions for all Ontarians to thrive.
- As outlined in the 2017 Ontario Economic Outlook and Fiscal Review, the government is projecting a balanced budget for 2017–18 and continued balance in 2018–19 and 2019–20.
- The FAO's deficit projections differ from the government's, but as with any future oriented forecast there is uncertainty.
- What we do know for certain is that this government has a strong track record of beating its fiscal targets. In fact, the Public Accounts of Ontario reported that the 2016–17 deficit was $1.0 billion, beating our annual deficit target again, for the eighth year in a row.
- The 2017 Ontario Economic Outlook and Fiscal Review builds on the government's track record of fiscal management that has resulted in $29 billion in accumulated deficits being avoided over the past seven years, relative to the 2010 Budget forecast.
- We are also targeting a net debt-to-GDP ratio of 35 per cent by 2023–24 and reducing Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029–30.
- Since 2014, Ontario's real GDP growth has strengthened, positioning Ontario as a growth leader, not only in Canada, but among G7 countries. In fact, over the 2014-17 period, Ontario's real GDP growth is on pace to exceed that of all G7 countries.
- Private-sector economists are projecting continued growth for Ontario over the forecast horizon; the FAO's real GDP projections are aligned with the 2017 Fall Economic Statement over the 2017 to 2020 period.
- This shows that our plan to make strategic investments in Ontario to grow the economy is working.
- A balanced budget is providing the Province the fiscal flexibility to invest more in health care, education, support for seniors and small businesses and other public services that matter most to Ontario families. A balanced budget also adds stability to Ontario's finances and positions the government to better respond to demographic challenges and unexpected global economic shocks that the province will face over the next decade.

- We will continue moving forward on our fiscally responsible plan that creates fairness and opportunity for all Ontarians.

KEY POINTS

Economic Outlook

- The FAO has raised its forecast for Ontario economic growth in 2017 from its spring outlook report. However, despite this upward revision, the FAO forecast is at the bottom of the current range of the MOF survey of private sector forecasts for both real and nominal GDP growth in 2017.
- Beyond 2017, the FAO forecast anticipates growth to moderate as the housing market and consumer spending cool alongside gradually rising interest rates, in line with the FES forecast.
- Over the 2017 to 2020 period, the FAO's forecast for average annual real GDP growth of 2.2 per cent is the same as the 2017 FES outlook.
- However, for nominal GDP growth, the FAO's average annual forecast of 4.2 per cent over the 2017 to 2020 period is slower than the FES projection of 4.4 per cent growth. This difference is explained by a much lower FAO nominal GDP forecast in 2017 compared to the FES (4.7 per cent vs 5.3 per cent).
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- The FAO is projecting a budget deficit of $4.0 billion in 2017–18 using the **Auditor General's recommended accounting treatment for both the Fair Hydro Plan and the net pension assets of jointly sponsored pension plans.** In the absence of any fiscal policy changes the deficit grows steadily to $9.8 billion in 2021-22.
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Budget Balance - FAO's Fiscal Outlook ($ Billions)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
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Government Presentation	-3.5	-1.0	0.2	-1.9	-1.9	-2.6	-3.7
2017 FES -- Excluding Reserve	-3.5	-1.0	0.5	0.5	0.8	N/A	N/A

Revenue Outlook

- The FAO is projecting average annual revenue growth of 3.2 per cent from 2016-17 to 2019-20 as compared with the government's projections of 4.0 per cent. The main drivers are:
    - The FAO projections for taxation revenues are $2.9 billion lower by 2019-20 than the projections in the 2017 FES due to lower projected growth in household spending, labour income and corporate profits.
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Expense Outlook

- From 2017–18 to 2019–20 the FAO's outlook adopts the government's 2017 FES projections for program spending, **adjusted to reflect the AG's recommended accounting presentation.**
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- The FAO notes that in 2018-19 and 2019-20, increases in program spending will be restrained to an average of 2.4 percent, below the growth in underlying spending pressures. Beyond 2019–20 the FAO projects program spending will grow faster -- at an average annual rate of 4.2 per cent – due to population pressures.

Borrowing and Net Debt

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- The 2017 FES projected a net debt-to-GDP ratio of 37.0 per cent by 2019–20.

Comparison: 2017 Fall Economic Statement and the 2017 Fall FAO Fiscal Outlook

	Actual		Outlook					Avg. Annual Growth 16-17	19-20	16-17
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2017 Fall Economic Statement										
Taxation Revenue	91.8	94.3	99.9	105.1	110.0			5.2%		
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Income from GBEs	4.9	5.6	5.1	5.9	6.2			3.7%		
Other Non-Tax Revenue	16.3	16.3	19.0	16.5	16.6			0.7%		
Total Revenue	136.1	140.7	150.1	153.6	158.2			4.0%		
Expense										
Program Expense	128.1	130.0	137.4	140.4	144.2			3.5%		
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Total Expense	139.7	141.7	149.6	153.1	157.4			3.6%		
Surplus/(Deficit)	(3.5)	(1.0)	0.5	0.5	0.8					
Net Debt	295.4	301.6	311.7	323.0	335.6			3.6%		
Change - 2017 Fall Economic Statement to 2017 Fall FAO Fiscal Outlook										
Taxation Revenue	-	-	-1.2	-2.4	-2.9					
Transfers from Gov't of Canada	-	-	0.0	-0.5	-0.4					
Income from GBEs	-	-	0.0	0.0	0.0					
Other Non-Tax Revenue	-	-	0.4	0.0	0.0					
Total Revenue	-	-	(0.7)	(2.9)	(3.4)					
Expense										
Program Expense	-	-	-	-	-					
Adjustment for Pension Assets	1.5	1.5	2.3	2.6	2.9					
Adjustment for Fair Hydro Plan	-	-	1.9	2.7	2.9					
Interest on Debt	-	-	*(0.4)*	*(0.6)*	*(0.7)*					
Total Expense	*1.5*	*1.5*	*3.8*	*4.7*	*5.2*					
Surplus/(Deficit) AG Presentation	*(1.5)*	*(1.4)*	*(4.5)*	*(7.6)*	*(8.6)*					
Surplus/(Deficit) - Gov't Presentation (excl. Fair Hydro Pension Adj.)	*(0.0)*	*(0.0)*	*(0.3)*	*(2.4)*	*(2.7)*					
Net Debt	*11.0*	*12.5*	*17.5*	*24.7*	*32.4*					
2017 Fall FAO Fiscal Outlook										
Taxation Revenue	91.8	94.3	98.7	102.7	107.0	111.3	115.8	4.3%	4.0%	4.2%
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Income from GBEs	4.9	5.6	5.1	5.9	6.2	6.5	6.7	3.5%	4.0%	3.7%
Other Non-Tax Revenue	16.3	16.3	19.4	16.5	16.6	17.3	18.0	0.6%	4.1%	2.0%
Total Revenue	136.1	140.7	149.4	150.7	154.8	160.8	167.0	3.2%	3.9%	3.5%
Expense										
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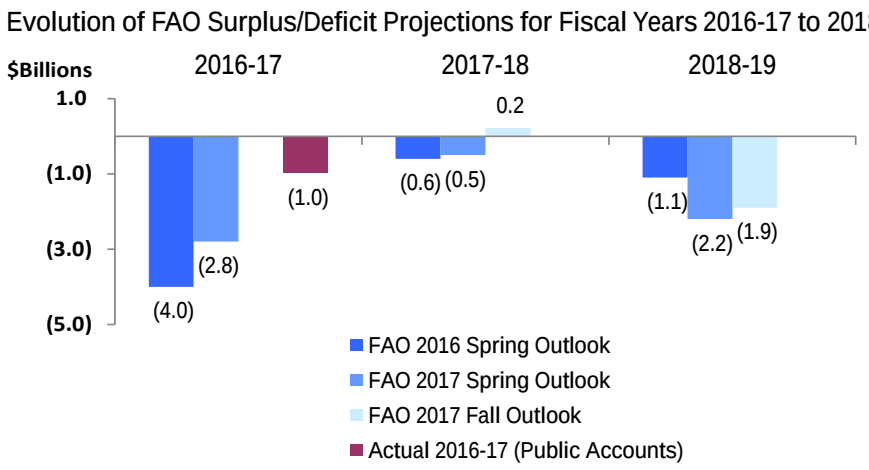
Interest on Debt	11.6	11.7	11.8	12.1	12.6	13.2	13.8	2.5%	4.7%	3.4%
Total Expense	141.2	143.2	153.4	157.8	162.6	169.8	176.8	4.3%	4.3%	4.3%
Surplus/(Deficit) AG Presentation	(5.0)	(2.4)	(4.0)	(7.1)	(7.8)	(9.0)	(9.8)			
Surplus/(Deficit) - Gov't Presentation (excl. Fair Hydro Pension Adj.)	(3.5)	(1.0)	0.2	(1.9)	(1.9)	(2.6)	(3.7)			
Net Debt	306.4	314.1	329.2	347.7	368.0	386.8	404.4	5.4%	4.8%	5.2%

Note: All surplus/deficits exlcude the reserve. Numbers may not add due to rounding.

FAO Projections Compared to Actuals/Current Outlook



Note: Surplus/Deficit excludes the reserve and is calculated based on the government's accounting presentation.

Comparison of FAO Economic Projection to Actual/Current						
	2016 % change			2017 % change		
	FAO Spring 2016	Actual	Diff FAO-Actuals	FAO Spring 2017	FAO Fall 2017	Diff Spring-Fall
Nominal GDP	3.4	4.3	*-0.9*	4.1	4.7	*-0.6*
Real GDP	2.4	2.6	*-0.2*	2.4	2.8	*-0.4*
Corporate Profits	0.3	7.3	*-7.0*	6.0	11.7	*-5.7*
Labour Income	4.0	3.3	*0.7*	4.0	4.0	*0.0*
Nominal Household Spending	4.4	4.2	*0.2*	4.2	4.7	*-0.5*

Comparison of FAO Revenue Projection to Actual/Current						
	2016-17 % change			2017-18 % change		
	FAO Spring 2016	Actual	Diff FAO-Actuals	FAO Spring 2017	FAO Fall 2017	Diff Spring-Fall
Total Revenues	2.6	3.4	*-0.8*	6.3	6.5	*-0.2*
Taxation Revenues	0.6	2.8	*-2.2*	5.1	4.7	*0.4*
Government of Canada Transfers	7.4	6.1	*1.3*	5.8	6.5	*-0.8*
Income from GBEs	14.0	13.4	*0.6*	-7.5	-8.9	*1.4*
Other Non-Tax Revenues	5.8	0.0	*5.8*	29.4	36.9	*-7.5*

Economic Assumptions: FAO vs FES

Real GDP	**2017**	**2018**	**2019**	**2020**	**2017-20 average**
FAO - Fall 2017	2.8	2.1	2.0	1.9	2.2
FES 2017	2.8	2.1	2.0	2.0	2.2
Nominal GDP					
FAO - Fall 2017	4.7	4.1	4.1	4.1	4.2
FES 2017	5.3	4.1	4.1	4.2	4.4
Labour income					
FAO - Fall 2017	4.0	4.5	4.3	4.1	4.2
FES 2017	4.3	4.7	4.8	4.4	4.6
Corporate profits					
FAO - Fall 2017	11.7	2.2	3.7	4.4	5.5
FES 2017	16.1	2.9	2.8	3.7	6.4
Household consumption*					
FAO - Fall 2017	4.7	4.2	4.1	3.9	4.2
FES 2017	5.1	4.3	4.3	4.3	4.5

* Real household consumption plus CPI

From:	John Psinas
To:	Ken Kandeepan
Cc:	George Sakura; Kevin Hwang
Subject:	FW: debt question
Date:	Tuesday, July 25, 2017 2:04:50 PM
Attachments:	image001.png Fixed vs Variable - Effective Rate 2017 03 31 Consolidated - Feb 2017 cut-off.xls Fixed vs Variable - NPDB Effective Rate - projected to Mar 31 2017 - (Feb17 cut-off) on March 8 2017.xls

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Ken,

We have the variable debt pegged at 6.2% of total debt. My thanks to Kevin for doing this so quickly.

Thanks.

John

From: Kevin Hwang
Sent: Tuesday, July 25, 2017 1:31 PM
To: John Psinas <John.Psinas@ofina.on.ca>
Cc: George Sakura <George.Sakura@ofina.on.ca>
Subject: RE: debt question

Hi John,

The Fixed and Variable debt (after hedging) breakdown based on the 2017 Budget – consolidated debt number is:

	(in $billions)	
Fixed	311.7	93.8%
Variable	20.7	6.2%
	332.4	100.0%

My back-up has been attached.

Thanks,
kevin

From: John Psinas
Sent: Tuesday, July 25, 2017 11:52 AM
To: Kevin Hwang <Kevin.Hwang@ofina.on.ca>
Subject: FW: debt question

From: Ken Kandeepan

Sent: Tuesday, July 25, 2017 11:51 AM
To: John Psinas <John.Psinas@ofina.on.ca>
Cc: George Sakura <George.Sakura@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>
Subject: Re: debt question

Makes sense, I suggest though we use the total debt number for March 31, 2017 as published in the Interim numbers of the 2017 Budget.

And you are correct in considering the unhedged portion only.

Thanks

Ken k

Sent from my iPhone

On Jul 25, 2017, at 11:47 AM, John Psinas <John.Psinas@ofina.on.ca> wrote:

> Ken,
>
> We'll make it a priority and make an analysis on a post-hedging basis rather than on issuance. Since this is going to the Minister, we'll have to assume it will be shared with the public, so we'll use published information, as at March 31, 2015-16, unless you want us to use more concurrent data.
>
> Thanks.
>
> John
>
> ---
>
> **From:** Ken Kandeepan
> **Sent:** Tuesday, July 25, 2017 11:19 AM
> **To:** John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>
> **Cc:** Anna Strathy <Anna.Strathy@ofina.on.ca>
> **Subject:** Fwd: debt question
>
> Can you pls respond to Anna.
>
> Thanks
>
> Ken k
>
> Sent from my iPhone
>
> Begin forwarded message:

From: Anna Strathy <Anna.Strathy@ofina.on.ca>
Date: July 25, 2017 at 11:17:24 AM EDT
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>, Mike Manning <Mike.Manning@ofina.on.ca>
Subject: FW: debt question

Hi Ken, Mike,

Our Deputy's Office received the following question from Minister's staff at Ministry of Labour:

What is the percentage of Ontario's debt that's fixed vs variable?

Could one of you please advise on a response?

Thanks, Anna

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Tuesday, July 25, 2017 11:14 AM
To: Ryder, Kevin (MOF) <Kevin.Ryder@ontario.ca>
Cc: Gwendolynne Young (ENE) <Gwendolynne.Young@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>
Subject: RE: debt question

Hi Kevin,

Thanks for passing this question along. I think OFA would actually be best positioned to respond to this fixed vs variable debt question. I'm looping in Anna Strathy.

Thanks,
Ryan

From: Ryder, Kevin (MOF)
Sent: July-25-17 11:06 AM
To: Birks, Ryan (MOF); DeRonov, Donnay (MOF)
Cc: Young, Gwendolynne (MOF)
Subject: FW: debt question

Hi Ryan,

Could you please assist with this question from MO?

Thanks,
Kevin

From: Ziaey, Sahar (MOF)
Sent: July 25, 2017 10:21 AM
To: Ryder, Kevin (MOF)
Subject: debt question

Got a question from a policy advisor at MOL. What is the percentage of Ontario's debt that's fixed vs variable? Can we get a response from the division please.

Thanks,

Sahar Ziaey
MPP Liaison and Stakeholder Relations
Office of the Hon. Charles Sousa
Minister of Finance
(416) 325-9971 |(416)-200-0048 (BB)

	(in $billions)	
Fixed	311.7	93.8%
Variable	20.7	6.2%
	332.4	100.0%

	Fixed	Variable	Total
Province			
Public	258,367,147,612	19,975,698,812	278,342,846,424
Non-Public	11,244,556,466	155,144,160	11,399,700,626
			-
OEFC	20,189,452,813	205,000,000	20,394,452,813
OILC	-	300,000,000	300,000,000
Other Entities	289,366,593	-	289,366,593
Consolidation Adjustment Total	(221,975,000)	-	(221,975,000)
			-
OSB	1,625,861,900	19,565,000	1,645,426,900
TB	15,389,759,000	-	15,389,759,000
USCP	4,863,947,155	-	4,863,947,155
			-
Unrealized FX g/l	(49,610,752)	-	(49,610,752)
	311,698,505,787	20,655,407,972	332,353,913,758

Fixed
Variable

Check	Difference
278,342,846,424	0.00
11,399,700,626	0.00
20,394,452,813	0.00
300,000,000	0.00
289,366,593	0.00
(221,975,000)	0.00
1,645,426,900	0.00
15,389,759,000	0.00
4,863,947,155	0.00
(49,610,752)	0.00
332,353,913,758	
332,353,913,758	
0	

	(in $billions)	
311,698,505,787	311.7	93.8%
20,655,407,972	20.7	6.2%
332,353,913,758	332.4	100.0%
0		

Effective interest rate by currencies

Forecast to March 31, 2017 (Feb 2017 cut-off)

	Province		OILC		OEFC		Other Entities		Forecast to March 31, 2017 (Feb 2017 cut-off) Total		31-Mar-16 Total	
CANADIAN DOLLARS	257,186,323,443.34	3.65928	300,000,000.00	1.25430	19,690,202,000.00	5.51060	289,366,593.24	5.65981	277,465,892,036.58	3.79014	266,085,457,789.18	3.91859
U.S. DOLLARS	39,159,337,904.70	1.82076			368,650,000.00	1.85800			39,527,987,904.70	1.82110	45,392,776,451.86	1.97994
JAPANESE YEN	503,567,245.59	2.52808							503,567,245.59	2.52808	500,984,642.31	2.05672
EURO DOLLARS	11,711,481,779.60	3.46451			179,340,000.00	3.99700			11,890,821,779.60	3.47254	12,253,143,483.40	3.37286
OTHER CURRENCIES	2,858,994,731.17	3.37578			156,260,812.54	1.28341			3,015,255,543.71	3.26735	3,257,030,612.70	3.70885
Total Consolidated Debt	311,419,705,104.40	**3.41634**	300,000,000.00	**1.25430**	20,394,452,812.54	**5.39887**	289,366,593.24	**5.65981**	332,403,524,510.18	**3.53798**	327,489,392,979.45	**3.62452**
				Per Brian	20,394,452,812.54	**0.00**						
	230,396,863,817.33								Per Brian (before FX g/l)		332,403,524,509.85	
CANADIAN DOLLARS												
Public Debt	228,973,411,917.33	3.72449	300,000,000.00	1.254300	18,805,676,000.00	5.50170						
									diff.		0.33	
Less Agricorp in												
Less Agricorp in												
Less OILC in DMTN195	(17,100,000.00)	3.76384 Fixed										
Less OILC in DMTN218	(62,300,000.00)	2.01456 Fixed										
Less OILC in DMTN223	(87,500,000.00)	3.14510 Fixed										
Less OILC in DMTN225	(5,900,000.00)	1.67778 Fixed										
Less OEB in												
Less OEB in												
Less Forest Renewal Trust in DMTN207	(2,480,000.00)	3.71441 Fixed										
Less Forest Renewal Trust in DMTN215	(2,980,000.00)	3.01323 Fixed										
Less OTF in DMTN213	(12,375,000.00)	1.90987 Fixed										
Less OTF in DMTN218	(12,084,000.00)	2.01456 Fixed										
Less OTF in DMTN219	(7,150,000.00)	1.94916 Fixed										
Less OTF in DMTN225	(12,106,000.00)	1.67778 Fixed										
Less OILC CP held by OTF												
Add: Ornge							265,737,242.68	5.71582				
Add: Niagara Parks Commission							21,942,098.91	5.05750				
Add: Ottawa Convention Centre							1,687,251.65	4.67200				
OSB	1,645,426,900.00	2.13018										
TBILLS	15,389,759,000.00	1.08494			654,060,000.00	5.50141						
Non-publicly held	11,399,700,626.01	4.93587			230,466,000.00	6.26216						
Net portfolio hedging swaps: H52 & Floating	3,075,000,000.00	4.03680										
Debt already included	(3,075,000,000.00)	0.00000										
	257,186,323,443.34	**3.65928**	**300,000,000.00**	**1.25430**	**19,690,202,000.00**	**5.51060**	**289,366,593.24**	**5.65981**				
U.S. DOLLARS												
Public debt	34,295,390,750.00	2.01983										
USCP USCP H100 & 4SLT	4,863,947,154.70	0.41708										
	39,159,337,904.70	**1.82076**										
Consolidation Adjustment Total	(221,975,000.00)	2.59210										

Rounded version

Forecast to March 31, 2017 (Feb 2017 cut-off)

Province		OIPC		OEFC		Other Entities		Consolidated	
257,186	3.66	300	1.25	19,690	5.51	289	5.66	277,465	3.79
39,159	1.82			369	1.86			39,528	1.82
504	2.53			-	-			504	2.53
11,712	3.46			179	4.00			11,891	3.47
2,859	3.38			156	1.28			3,015	3.27
311,420	3.42	300	1.25	20,394	5.40	289	5.66	332,403	3.54
-								(1.00)	

	Public LT		278,342,846,423.69	3.49777
	OSB		1,645,426,900.00	2.13018
	TB		15,389,759,000.00	1.08494
	USCP	Revalued	4,863,947,154.70	0.41708
	NPD		11,399,700,626.01	4.93587
	OEFC		20,394,452,812.54	5.39887
	OILC		300,000,000.00	1.25430
	Ornge		265,737,242.68	5.71582
	Niagara Parks Commission		21,942,098.91	5.05750
	Ottawa Convention Centre		1,687,251.65	4.67200
	Consolidation		(221,975,000.00)	2.59210
	Net portfolio hedging swaps: H52 & Floating		3,075,000,000.00	4.03680
	Debt already included		(3,075,000,000.00)	0.00000
	Total		**332,403,524,510.18**	**3.53798**

Per Brian	Diff
278,342,846,424.00	(0.31)
1,645,426,900.00	0.00
15,389,759,000.00	0.00
4,863,947,154.70	0.00
11,399,700,625.92	0.09
20,394,452,812.54	0.00
300,000,000.00	0.00
265,737,242.38	0.30
21,942,098.91	0.00
1,687,251.65	(0.00)
(221,975,000.00)	0.00
0.00	3,075,000,000.00
0.00	(3,075,000,000.00)
332,403,524,510.10	0.08
Unrealized FX g/l	(49,610,751.84)
	332,353,913,758.27

Prepared by: Brian Kam
Date: March 28, 2017

NPD		
Province	11,399,700,626.01	4.93587
OEFC	230,466,000.00	6.26216
OILC	0.00	0.00000 Part of OIIC
	11,630,166,626.01	**4.96215**
PD		
Province	300,020,004,478.39	3.35860
OILC	300,000,000.00	1.25430
Ornge	265,737,242.68	5.71582
Niagara Parks Commission	21,942,098.91	5.05750
Ottawa Convention Centre	1,687,251.65	4.67200
OEFC	20,163,986,812.54	5.38901
	320,773,357,884.17	**3.48634**
Total	**332,403,524,510.18**	**3.53798**
	300,609,371,071.63	3.35872

Reviewed by: Shemin Merilli
30-Mar-17

				Diff.
OEFC	20,394,452,812.54	5.39887	26,128,186,739.14	##########
Overall	**20,394,452,812.54**	**5.39887**	26,128,186,739.14	##########

EFFECTIVE INTEREST RATE - PROVINCE
AS AT **28-Feb-17** Projected to March 2017

Hedge Group	Codes from the Liab Sys	Issue Date	Maturity Date	CCY	Hedge	Debt in FX Original Issue	Debt in FX Outstanding	FX rate	Equivalent	Coupon Nature	Eff Rate Nature	Eff rate 28-Feb-17	Fixed	Variable
PUBLICLY HELD DEBT														
CANADIAN DOLLAR BORROWING														
0	CDB-JL	25-May-95	10-Jan-45	CAD	UH	35,531,176	35,531,176	1.00000	35,531,176	Chunky		8.43500	35,531,176	
0	CDPV-JY	6-Feb-96	6-Feb-26	CAD	UH	50,000,000	12,500,000	1.00000	12,500,000	Fixed		7.79400	12,500,000	
0	EMTN005A	13-Jul-94	13-Jul-34	CAD	UH	100,000,000	100,000,000	1.00000	100,000,000	Fixed		9.44260	100,000,000	
0	EMTN005B	13-Jul-94	13-Jul-34	CAD	UH	200,000,000	200,000,000	1.00000	200,000,000	Fixed		9.52100	200,000,000	
0	HC	13-Jul-92	13-Jul-22	CAD	UH	1,850,000,000	1,590,438,000	1.00000	1,590,438,000	Fixed		9.53050	1,590,438,000	
0	HP	8-Sep-93	8-Sep-23	CAD	UH	1,350,000,000	915,570,000	1.00000	915,570,000	Fixed		8.25850	915,570,000	
0	HY	3-Nov-94	3-Nov-34	CAD	UH	280,000,000	248,800,000	1.00000	248,800,000	Fixed		9.77000	248,800,000	
0	HZ	30-Nov-94	10-Jan-35	CAD	UH	189,616,626	2,315,904	1.00000	2,315,904	Chunky		9.46880	2,315,904	
0	JA	30-Nov-94	10-Jan-35	CAD	UH	24,766,559	3,480,198	1.00000	3,480,198	Chunky		9.46880	3,480,198	
0	JB	30-Nov-94	10-Jan-35	CAD	UH	8,482,324	8,482,324	1.00000	8,482,324	Chunky		9.46880	8,482,324	
0	JC	30-Nov-94	10-Jan-35	CAD	UH	4,764,354	4,764,354	1.00000	4,764,354	Chunky		9.46880	4,764,354	
0	JD	30-Nov-94	10-Jan-35	CAD	UH	3,171,134	3,171,134	1.00000	3,171,134	Chunky		9.46880	3,171,134	
0	JE	20-Dec-94	2-Jun-25	CAD	UH	500,000,000	460,000,000	1.00000	460,000,000	Fixed		9.59570	460,000,000	
0	JG	12-Jan-07	12-Jan-35	CAD	UH	132,950,000	110,950,000	1.00000	110,950,000	Fixed		9.50000	110,950,000	
0	JJ	8-Feb-95	8-Feb-35	CAD	UH	73,000,000	32,000,000	1.00000	32,000,000	Fixed		9.65300	32,000,000	
0	JN	8-Sep-95	13-Jan-31	CAD	UH	125,000,000	125,000,000	1.00000	125,000,000	Fixed		8.87800	125,000,000	
0	JQ	5-Oct-95	2-Dec-25	CAD	UH	1,000,000,000	1,000,000,000	1.00000	1,000,000,000	Fixed		8.57400	1,000,000,000	
28	HS	7-Feb-94	7-Feb-24	CAD	UH	1,250,000,000	1,106,700,000	1.00000	1,106,700,000	Fixed		7.63490	1,106,700,000	
55	CDPV-JK	1-Mar-95	1-Mar-45	CAD	UH	150,000,000	150,000,000	1.00000	150,000,000	Fixed		9.23660	150,000,000	
72	JU	21-Dec-95	2-Jun-26	CAD	UH	1,000,000,000	1,000,000,000	1.00000	1,000,000,000	Fixed		8.19500	1,000,000,000	
75	KC	20-Jun-96	20-Jun-36	CAD	UH	211,000,000	98,984,000	1.00000	98,984,000	Fixed		8.35000	98,984,000	
87	KG	16-Sep-96	20-Jun-38	CAD	UH	120,000,000	120,000,000	1.00000	120,000,000	Fixed		8.13200	120,000,000	
101	CDPV-KN	5-Aug-97	3-Feb-27	CAD	UH	0	58,220,000	1.00000	58,220,000	Fixed		7.50000	58,220,000	
102	KQ	4-Feb-98	4-Feb-27	CAD	UH	0	990,000	1.00000	990,000	Fixed		7.27100	990,000	
113	KR	13-Feb-97	2-Dec-26	CAD	UH	225,000,000	386,500,000	1.00000	386,500,000	Fixed		7.11080	386,500,000	
116	KY	1-Apr-98	3-Feb-27	CAD	UH	0	11,549,000	1.00000	11,549,000	Fixed		7.50000	11,549,000	
117	KJ	17-Oct-96	2-Jun-27	CAD	UH	4,170,300,000	4,170,300,000	1.00000	4,170,300,000	Fixed		7.72400	4,170,300,000	
129	KT	5-Aug-97	3-Feb-27	CAD	UH	0	8,726,000	1.00000	8,726,000	Fixed		6.95000	8,726,000	
132	LK	8-Jan-98	8-Mar-29	CAD	UH	4,677,000,000	4,677,000,000	1.00000	4,677,000,000	Fixed		6.14210	4,677,000,000	
136	LQ	25-Feb-98	25-Aug-28	CAD	UH	646,243,000	2,020,000	1.00000	2,020,000	Fixed		6.13600	2,020,000	
146	LS	29-Jul-98	13-Jul-38	CAD	UH	50,000,000	50,000,000	1.00000	50,000,000	Fixed		5.81920	50,000,000	
147	LT	17-Aug-98	25-Aug-38	CAD	UH	100,000,000	86,500,000	1.00000	86,500,000	Fixed		5.77500	86,500,000	
152	CDPV-LY	4-Sep-98	4-Sep-20	CAD	UH	50,000,000	15,000,000	1.00000	15,000,000	Fixed		6.58170	15,000,000	
162	LA	4-Dec-98	3-Feb-27	CAD	UH	50,000,000	5,507,000	1.00000	5,507,000	Fixed		6.94150	5,507,000	
168	MH	20-Jan-99	2-Dec-26	CAD	UH	124,584,000	124,584,000	1.00000	124,584,000	Fixed		5.43170	124,584,000	
170	MK	2-Feb-99	13-Jul-39	CAD	UH	300,000,000	223,858,000	1.00000	223,858,000	Fixed		5.67320	223,858,000	
212	CDPV-NE	25-Feb-00	2-Dec-39	CAD	UH	553,700,000	553,700,000	1.00000	553,700,000	Fixed		6.33980	553,700,000	
214	HC-NF	1-Mar-00	2-Jun-31	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		6.23880	500,000,000	
214	CDB-NFA	27-Mar-00	2-Jun-31	CAD	UH	2,000,000,000	2,000,000,000	1.00000	2,000,000,000	Fixed		6.15280	2,000,000,000	
276	DMTN10	15-Aug-01	2-Dec-41	CAD	UH	250,000,000	250,000,000	1.00000	250,000,000	Fixed		6.26140	250,000,000	
277	CDB-KJ-C	21-Aug-01	2-Jun-27	CAD	UH	67,400,000	67,400,000	1.00000	67,400,000	Fixed		6.33610	67,400,000	
311	DMTN29	4-Dec-01	8-Mar-42	CAD	UH	41,000,000	41,000,000	1.00000	41,000,000	Fixed		5.99940	41,000,000	
319	DMTN033	18-Jan-02	2-Jun-42	CAD	UH	115,000,000	115,000,000	1.00000	115,000,000	Fixed		5.87500	115,000,000	
337	DMTN44	18-Apr-02	13-Jul-40	CAD	UH	50,000,000	50,000,000	1.00000	50,000,000	Fixed		6.17850	50,000,000	
343	DMTN010A	29-May-02	2-Dec-41	CAD	UH	40,000,000	40,000,000	1.00000	40,000,000	Fixed		6.10400	40,000,000	
369	CDB-NFE	2-Dec-02	2-Jun-31	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		5.89100	500,000,000	
372	DMTN033A	12-Dec-02	2-Jun-42	CAD	UH	25,000,000	25,000,000	1.00000	25,000,000	Fixed		5.75800	25,000,000	
385	DMTN061	17-Feb-03	8-Mar-33	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		5.89040	500,000,000	
385	DMTN061.	18-Mar-09	8-Mar-33	CAD	UH	162,610,000	162,610,000	1.00000	162,610,000	Fixed		5.85000	162,610,000	
387	DMTN062	24-Feb-03	2-Jun-43	CAD	UH	25,000,000	25,000,000	1.00000	25,000,000	Fixed		5.76400	25,000,000	
389	DMTN062A	26-Feb-03	2-Jun-43	CAD	UH	25,000,000	25,000,000	1.00000	25,000,000	Fixed		5.75700	25,000,000	
390	DMTN061A	27-Feb-03	8-Mar-33	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		5.87540	500,000,000	
409	DMTN061B	25-Apr-03	8-Mar-33	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		5.89000	500,000,000	
429	DMTN061C	16-Jun-03	8-Mar-33	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		5.21000	500,000,000	
446	DMTN079	28-Aug-03	2-Jun-18	CAD	H	75,000,000	75,000,000	1.00000	75,000,000	Fixed	3M CBA minus 3 bps	0.86700		75,000,000
475	DMTN061/1	23-Dec-03	8-Mar-33	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		5.60900	500,000,000	
481	DMTN079/1	14-Jan-04	2-Jun-18	CAD	H	50,000,000	50,000,000	1.00000	50,000,000	Fixed	CBA 3M	0.89700		50,000,000
483	DMTN061/2	20-Jan-04	8-Mar-33	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		5.52050	500,000,000	
496	DMTN061/3	23-Feb-04	8-Mar-33	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		5.44100	500,000,000	
510	DMTN033/1	12-Mar-04	2-Jun-42	CAD	UH	100,000,000	100,000,000	1.00000	100,000,000	Fixed		5.29570	100,000,000	

524	DMTN061/4	31-Mar-04	8-Mar-33	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		5.35100	500,000,000	
528	DMTN105	19-Apr-04	2-Jun-19	CAD	H	50,000,000	50,000,000	1.00000	50,000,000	Fixed	CBA 3M + 0.5bps	0.90200		50,000,000
534	DMTN110	29-Apr-04	8-Mar-33	CAD	UH	200,000,000	188,000,000	1.00000	188,000,000	Fixed		5.85000	188,000,000	
534	DMTN61	Mar 21, 12	Mar 8, 33	CAD	UH	12,000,000	12,000,000	1.00000	12,000,000	Fixed		5.85000	12,000,000	
539	DMTN105/1	5-May-04	2-Jun-19	CAD	H	50,000,000	50,000,000	1.00000	50,000,000	Fixed	CBA 3M minus 0.5bps	0.89200		50,000,000
540	DMTN061/5	7-May-04	8-Mar-33	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		5.64830	500,000,000	
553	KJ/1	14-Jul-04	2-Jun-27	CAD	UH	105,000,000	105,000,000	1.00000	105,000,000	Fixed		5.72950	105,000,000	
554	KJ/2	15-Jul-04	2-Jun-27	CAD	UH	100,000,000	100,000,000	1.00000	100,000,000	Fixed		5.71560	100,000,000	
555	DMTN116	23-Jul-04	8-Mar-33	CAD	H	100,000,000	100,000,000	1.00000	100,000,000	Sch Step up	extend option exercised Aug 2013, swaptior	4.21608	100,000,000	
559	DMTN117	28-Jul-04	2-Jun-38	CAD	UH	75,000,000	75,000,000	1.00000	75,000,000	Fixed		5.73670	75,000,000	
566	DMTN119	25-Aug-04	2-Jun-35	CAD	UH	500,000,000	282,300,000	1.00000	282,300,000	Fixed		5.62990	282,300,000	
566	DMTN119.	16-Oct-06	2-Jun-35	CAD	UH	100,000,000	100,000,000	1.00000	100,000,000	Fixed		5.60000	100,000,000	
567	DMTN119/1	15-Sep-04	2-Jun-35	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		5.57060	500,000,000	
583	DMTN119/2	20-Oct-04	2-Jun-35	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		5.50400	500,000,000	
588	KJ/3	2-Nov-04	2-Jun-27	CAD	UH	150,000,000	150,000,000	1.00000	150,000,000	Fixed		5.39590	150,000,000	
594	LK/1	18-Oct-04	8-Mar-29	CAD	UH	50,000,000	50,000,000	1.00000	50,000,000	Fixed		5.54400	50,000,000	
595	DMTN119/3	15-Nov-04	2-Jun-35	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		5.44660	500,000,000	
598	KJ/4	24-Nov-04	2-Jun-27	CAD	UH	142,000,000	142,000,000	1.00000	142,000,000	Fixed		5.38480	142,000,000	
600	DMTN079/2	29-Nov-04	2-Jun-18	CAD	UH	25,000,000	25,000,000	1.00000	25,000,000	Fixed		5.01750	25,000,000	
603	HP/1	1-Dec-04	8-Sep-23	CAD	UH	25,000,000	25,000,000	1.00000	25,000,000	Fixed		5.22750	25,000,000	
613	DMTN119d	10-Jan-05	2-Jun-35	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		5.30840	500,000,000	
615	DMTN133	12-Jan-05	2-Jun-35	CAD	UH	150,000,000	150,000,000	1.00000	150,000,000	Fixed		5.35000	150,000,000	
616	CDPV-NE	25-Jan-05	2-Dec-39	CAD	UH	220,000,000	220,000,000	1.00000	220,000,000	Fixed		5.26050	220,000,000	
621	DMTN138	11-Feb-05	2-Dec-37	CAD	UH	100,000,000	100,000,000	1.00000	100,000,000	Fixed		5.22900	100,000,000	
623	DMTN119e	3-Feb-05	2-Jun-35	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		5.18980	500,000,000	
628	DMTN119f	17-Feb-05	2-Jun-35	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		5.07780	500,000,000	
633	DMTN140	22-Feb-05	2-Jun-20	CAD	UH	71,000,000	71,000,000	1.00000	71,000,000	Fixed		4.86120	71,000,000	
637	DMTN140	25-Feb-05	2-Jun-20	CAD	UH	50,000,000	50,000,000	1.00000	50,000,000	Fixed		4.89300	50,000,000	
642	DMTN140	15-Mar-05	2-Jun-20	CAD	UH	50,000,000	50,000,000	1.00000	50,000,000	Fixed		4.99870	50,000,000	
660	DMTN140	24-May-05	2-Jun-20	CAD	UH	25,000,000	25,000,000	1.00000	25,000,000	Fixed		4.67990	25,000,000	
661	DMTN79/3	24-May-05	2-Jun-18	CAD	UH	25,000,000	25,000,000	1.00000	25,000,000	Fixed		4.60020	25,000,000	
662	DMTN140/1	25-May-05	2-Jun-20	CAD	UH	41,000,000	41,000,000	1.00000	41,000,000	Fixed		4.72180	41,000,000	
665	DMTN079/4	30-May-05	2-Jun-18	CAD	UH	25,000,000	25,000,000	1.00000	25,000,000	Fixed		4.56980	25,000,000	
669	DMTN140f	3-Jun-05	2-Jun-20	CAD	UH	48,000,000	48,000,000	1.00000	48,000,000	Fixed		4.60780	48,000,000	
670	DMTN119g	6-Jun-05	2-Jun-35	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		4.84970	500,000,000	
672	DMTN140g	6-Jun-05	2-Jun-20	CAD	UH	44,000,000	44,000,000	1.00000	44,000,000	Fixed		4.55500	44,000,000	
684	DMTN119h	5-Jul-05	2-Jun-35	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		4.70320	500,000,000	
694	DMTN79f	9-Aug-05	2-Jun-18	CAD	UH	50,000,000	50,000,000	1.00000	50,000,000	Fixed		4.41300	50,000,000	
696	DMTN79g	10-Aug-05	2-Jun-18	CAD	UH	35,000,000	35,000,000	1.00000	35,000,000	Fixed		4.47410	35,000,000	
697	DMTN119i	12-Aug-05	2-Jun-35	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		4.81370	500,000,000	
698	DMTN119 extend	22-Aug-05	2-Jun-35	CAD	H	100,000,000	56,985,000	1.00000	56,985,000	Sch Step up	Option	4.75000	56,985,000	
701	DMTN140h	30-Aug-05	2-Jun-20	CAD	UH	25,000,000	25,000,000	1.00000	25,000,000	Fixed		4.35170	25,000,000	
702	DMTN153	31-Aug-05	2-Jun-45	CAD	UH	25,000,000	25,000,000	1.00000	25,000,000	Fixed		4.54360	25,000,000	
705	NEb	12-Sep-05	2-Dec-39	CAD	UH	100,000,000	100,000,000	1.00000	100,000,000	Fixed		4.61820	100,000,000	
707	DMTN119j	13-Sep-05	2-Jun-35	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		4.63560	500,000,000	
711	DMTN157	21-Sep-05	13-Jul-34	CAD	UH	47,500,000	47,500,000	1.00000	47,500,000	Sch Step down		4.70730	47,500,000	
712	DMTN44a	22-Sep-05	13-Jul-40	CAD	UH	50,000,000	50,000,000	1.00000	50,000,000	Fixed		4.64380	50,000,000	
720	CDPV-Nec	5-Oct-05	2-Dec-39	CAD	UH	100,000,000	100,000,000	1.00000	100,000,000	Fixed		4.69390	100,000,000	
721	DMTN119	5-Oct-05	2-Jun-35	CAD	H	200,000,000	200,000,000	1.00000	200,000,000	Sch Step up	Option	4.75000	200,000,000	
727	DMTN153a	28-Oct-05	2-Jun-45	CAD	UH	75,000,000	75,000,000	1.00000	75,000,000	Fixed		4.70180	75,000,000	
728	CDPV-Ned	28-Oct-05	2-Dec-39	CAD	UH	100,300,000	100,300,000	1.00000	100,300,000	Fixed		4.74320	100,300,000	
729	DMTN153b	31-Oct-05	2-Jun-45	CAD	UH	50,000,000	50,000,000	1.00000	50,000,000	Fixed		4.78030	50,000,000	
735	CDPV-NEe	18-Nov-05	2-Dec-39	CAD	UH	100,000,000	100,000,000	1.00000	100,000,000	Fixed		4.75090	100,000,000	
736	DMTN79h	18-Nov-05	2-Jun-18	CAD	UH	50,000,000	50,000,000	1.00000	50,000,000	Fixed		4.49900	50,000,000	
738	CDPV-NEf	21-Nov-05	2-Dec-39	CAD	UH	100,000,000	100,000,000	1.00000	100,000,000	Fixed		4.72740	100,000,000	
739	CDPV-NEg	22-Nov-05	2-Dec-39	CAD	UH	50,000,000	50,000,000	1.00000	50,000,000	Fixed		4.70200	50,000,000	
741	DMTN119k	1-Dec-05	2-Jun-35	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		4.68520	500,000,000	
744	CDPV-NEh	19-Dec-05	2-Dec-39	CAD	UH	90,000,000	90,000,000	1.00000	90,000,000	Fixed		4.68510	90,000,000	
747	CDPV-NEi	6-Jan-06	2-Dec-39	CAD	UH	75,000,000	75,000,000	1.00000	75,000,000	Fixed		4.58460	75,000,000	
749	DMTN119l	17-Jan-06	2-Jun-35	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		4.68870	500,000,000	
750	DMTN79i	17-Jan-06	2-Jun-18	CAD	UH	25,000,000	25,000,000	1.00000	25,000,000	Fixed		4.42730	25,000,000	
751	DMTN140i	18-Jan-06	2-Jun-20	CAD	UH	45,000,000	45,000,000	1.00000	45,000,000	Fixed		4.44650	45,000,000	
753	DMTN119m	3-Feb-06	2-Jun-35	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		4.77560	500,000,000	
757	DMTN164	22-Feb-06	2-Jun-37	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		4.74500	500,000,000	
762	DMTN158a	8-Mar-06	1-Dec-36	CAD	H	170,756,134	170,756,134	1.00000	204,567,556	Fixed + Real Return	Fixed	4.26603	204,567,556	
763	DMTN158b	8-Mar-06	1-Dec-36	CAD	H	129,243,867	129,243,867	1.00000	154,835,445	Fixed + Real Return	Fixed	4.12524	154,835,445	
	RRS		CPI Adjustment Compensated by RR Swap						-57,735,000			4.12524	-57,735,000	
	RRS.		Notional Payable - interest received from RRS related to Dec. 1, 2005 to Mar. 8, 2006 was not earne						1,603,386			4.12524	1,603,386	
776	DMTN79J	1-May-06	2-Jun-18	CAD	UH	25,000,000	25,000,000	1.00000	25,000,000	Fixed		4.87710	25,000,000	
779	DMTN79K	5-May-06	2-Jun-18	CAD	UH	100,000,000	100,000,000	1.00000	100,000,000	Fixed		4.83720	100,000,000	

780	DMTN79L	5-May-06	2-Jun-18	CAD	UH	35,000,000	35,000,000	1.00000	35,000,000	Fixed		4.83720	35,000,000
781	DMTN79M	5-May-06	2-Jun-18	CAD	UH	60,000,000	60,000,000	1.00000	60,000,000	Fixed		4.83310	60,000,000
782	DMTN79N	5-May-06	2-Jun-18	CAD	UH	25,000,000	25,000,000	1.00000	25,000,000	Fixed		4.83450	25,000,000
784	DMTN164A	10-May-06	2-Jun-37	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		4.95810	500,000,000
785	DMTN153C	19-May-06	2-Jun-45	CAD	UH	25,000,000	25,000,000	1.00000	25,000,000	Fixed		4.89550	25,000,000
787	DMTN166	24-May-06	2-Jun-46	CAD	UH	25,000,000	25,000,000	1.00000	25,000,000	Fixed		4.85290	25,000,000
788	DMTN164	7-Jun-06	2-Jun-37	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		4.87170	500,000,000
797	DMTN166A	11-Jul-06	2-Jun-46	CAD	UH	25,000,000	25,000,000	1.00000	25,000,000	Fixed		5.04140	25,000,000
798	DMTN62B	13-Jul-06	2-Jun-43	CAD	UH	25,000,000	25,000,000	1.00000	25,000,000	Fixed		5.01260	25,000,000
801	DMTN164C	26-Jul-06	2-Jun-37	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		4.96240	500,000,000
809	DMTN166B	24-Aug-06	2-Jun-46	CAD	UH	29,700,000	29,700,000	1.00000	29,700,000	Fixed		4.69790	29,700,000
810	DMTN164d	1-Sep-06	2-Jun-37	CAD	UH	300,000,000	300,000,000	1.00000	300,000,000	Fixed		4.74670	300,000,000
816	DMTN140J	12-Sep-06	2-Jun-20	CAD	UH	100,000,000	100,000,000	1.00000	100,000,000	Fixed		4.55800	100,000,000
817	DMTN169	13-Sep-06	2-Jun-44	CAD	UH	27,000,000	27,000,000	1.00000	27,000,000	Fixed		4.60320	27,000,000
819	DMTN140K	19-Sep-06	2-Jun-20	CAD	UH	25,000,000	25,000,000	1.00000	25,000,000	Fixed		4.50870	25,000,000
822	DMTN164F	27-Sep-06	2-Jun-37	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		4.57120	500,000,000
831	DMTN166C	6-Oct-06	2-Jun-46	CAD	UH	25,000,000	25,000,000	1.00000	25,000,000	Fixed		4.46400	25,000,000
835	DMTN164G	2-Nov-06	2-Jun-37	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		4.56150	500,000,000
837	DMTN166D	7-Nov-06	2-Jun-46	CAD	UH	50,000,000	50,000,000	1.00000	50,000,000	Fixed		4.45930	50,000,000
841	DMTN10B	7-Nov-06	2-Dec-41	CAD	UH	50,000,000	50,000,000	1.00000	50,000,000	Fixed		4.49000	50,000,000
846	DMTN164H	23-Nov-06	2-Jun-37	CAD	UH	300,000,000	300,000,000	1.00000	300,000,000	Fixed		4.47500	300,000,000
854	DMTN164J	20-Dec-06	2-Jun-37	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		4.44200	500,000,000
865	DMTN164K	8-Feb-07	2-Jun-37	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		4.61060	500,000,000
867	DMTN164L	23-Feb-07	2-Jun-37	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		4.56040	500,000,000
869	DMTN176	28-Feb-07	2-Jun-47	CAD	UH	30,000,000	30,000,000	1.00000	30,000,000	Fixed		4.49670	30,000,000
882	DMTN176a	25-May-07	2-Jun-47	CAD	UH	28,000,000	28,000,000	1.00000	28,000,000	Fixed		4.56950	28,000,000
886	DMTN164M	18-Jun-07	2-Jun-37	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed		5.06980	600,000,000
895	DMTN177	31-Jul-07	8-Sep-23	CAD	UH	75,000,000	75,000,000	1.00000	75,000,000	Fixed		4.96240	75,000,000
898	DMTN164N	8-Aug-07	2-Jun-37	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed		4.95630	600,000,000
905	DMTN164O	4-Sep-07	2-Jun-37	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed		4.90400	600,000,000
913	DMTN164P	19-Sep-07	2-Jun-37	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed		4.89680	600,000,000
924	DMTN164Q	6-Nov-07	2-Jun-37	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed		4.84360	600,000,000
936	DMTN164R	7-Dec-07	2-Jun-37	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed		4.68160	600,000,000
939	DMTN180	27-Dec-07	2-Jun-21	CAD	H	75,000,000	75,000,000	1.00000	75,000,000	Fixed	Fixed to longer term	4.52360	75,000,000
941	DMTN176B	7-Jan-08	2-Jun-47	CAD	UH	100,000,000	100,000,000	1.00000	100,000,000	Fixed		4.51560	100,000,000
943	DMTN182	15-Jan-08	2-Jun-39	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed		4.61850	600,000,000
968	DMTN183	10-Mar-08	8-Mar-18	CAD	UH	260,000,000	260,000,000	1.00000	260,000,000	Fixed		4.26770	260,000,000
971	DMTN183b	3-Apr-08	8-Mar-18	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed		4.13020	600,000,000
963	DMTN182A	1-May-08	2-Jun-39	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed		4.89060	600,000,000
965	DMTN184	6-May-08	2-Jun-48	CAD	UH	25,000,000	25,000,000	1.00000	25,000,000	Fixed		4.66170	25,000,000
983	DMTN183c	14-May-08	8-Mar-18	CAD	UH	300,000,000	300,000,000	1.00000	300,000,000	Fixed		4.30400	300,000,000
994	DMTN182b	30-May-08	2-Jun-39	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed		4.72060	600,000,000
1006	DMTN183E	19-Jun-08	8-Mar-18	CAD	UH	200,000,000	200,000,000	1.00000	200,000,000	Fixed		4.56970	200,000,000
1012	DMTN182C	2-Jul-08	2-Jun-39	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed		4.71300	600,000,000
1017	DMTN185	22-Jul-08	2-Jun-54	CAD	UH	20,000,000	20,000,000	1.00000	20,000,000	Fixed		4.60900	20,000,000
1021	DMTN182D	29-Jul-08	2-Jun-39	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed		4.79190	600,000,000
1033	DMTN140L	12-Sep-08	2-Jun-20	CAD	UH	38,000,000	38,000,000	1.00000	38,000,000	Fixed		4.41180	38,000,000
1049	DMTN158C	5-Nov-08	1-Dec-36	CAD	UH	230,000,000	230,000,000	1.00000	275,542,300	Fixed + Real Return	Yield plus CPI_{change}	4.63502	275,542,300
1062	DMTN158D	18-Nov-08	1-Dec-36	CAD	UH	189,000,000	189,000,000	1.00000	226,423,890	Fixed + Real Return	Yield plus CPI_{change}	4.65562	226,423,890
1063	DMTN158E	18-Nov-08	1-Dec-36	CAD	UH	80,000,000	80,000,000	1.00000	95,840,800	Fixed + Real Return	Yield plus CPI_{change}	4.61882	95,840,800
1085	DMTN183H	12-Dec-08	8-Mar-18	CAD	UH	200,000,000	200,000,000	1.00000	200,000,000	Fixed		4.35180	200,000,000
1088	DMTN158F	16-Dec-08	1-Dec-36	CAD	UH	700,000,000	700,000,000	1.00000	838,607,000	Fixed + Real Return	Yield plus CPI_{change}	4.74102	838,607,000
1090	DMTN158G	23-Dec-08	1-Dec-36	CAD	UH	234,000,000	234,000,000	1.00000	280,334,340	Fixed + Real Return	Yield plus CPI_{change}	4.59102	280,334,340
1108	DMTN182E	23-Feb-09	2-Jun-39	CAD	UH	150,000,000	150,000,000	1.00000	150,000,000	Fixed		4.63460	150,000,000
1114	DMTN158I	13-Mar-09	1-Dec-36	CAD	UH	25,000,000	25,000,000	1.00000	29,950,250	Fixed + Real Return	Yield plus CPI_{change}	4.50102	29,950,250
1115	DMTN158H	13-Mar-09	1-Dec-36	CAD	UH	116,000,000	116,000,000	1.00000	138,969,160	Fixed + Real Return	Yield plus CPI_{change}	4.50102	138,969,160
1117	DMTN182F	13-Mar-09	2-Jun-39	CAD	UH	150,000,000	150,000,000	1.00000	150,000,000	Fixed		4.96260	150,000,000
1129	DMTN182G	7-Apr-09	2-Jun-39	CAD	UH	250,000,000	250,000,000	1.00000	250,000,000	Fixed		4.80580	250,000,000
1139	DMTN195	17-Apr-09	2-Jun-19	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed		4.42670	600,000,000
1141	DMTN158J	20-Apr-09	1-Dec-36	CAD	UH	70,000,000	70,000,000	1.00000	83,860,700	Fixed + Real Return	Yield plus CPI_{change}	4.09552	83,860,700
1143	DMTN195A	27-Apr-09	2-Jun-19	CAD	UH	475,000,000	475,000,000	1.00000	475,000,000	Fixed		4.35370	475,000,000
1157	DMTN182H	7-May-09	2-Jun-39	CAD	UH	150,000,000	150,000,000	1.00000	150,000,000	Fixed		4.91650	150,000,000
1158	DMTN195C	7-May-09	2-Jun-19	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed		4.26420	600,000,000
1169	DMTN195D	24-Jun-09	2-Jun-19	CAD	UH	450,000,000	450,000,000	1.00000	450,000,000	Fixed		4.49330	450,000,000
1176	DMTN182I	10-Jul-09	2-Jun-39	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed		4.74890	500,000,000
1186	DMTN195F	10-Aug-09	2-Jun-19	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed		4.33060	600,000,000
1189	DMTN195G	31-Aug-09	2-Jun-19	CAD	UH	650,000,000	650,000,000	1.00000	650,000,000	Fixed		4.16230	650,000,000
1191	DMTN182K	31-Aug-09	2-Jun-39	CAD	UH	150,000,000	150,000,000	1.00000	150,000,000	Fixed		4.69230	150,000,000

1197	DMTN182L	2-Oct-09	2-Jun-39	CAD	UH	250,000,000	250,000,000	1.00000	250,000,000	Fixed			4.56510	250,000,000
1198	DMTN195I	2-Oct-09	2-Jun-19	CAD	UH	575,000,000	575,000,000	1.00000	575,000,000	Fixed			3.99200	575,000,000
1204	DMTN182M	9-Oct-09	2-Jun-39	CAD	UH	150,000,000	150,000,000	1.00000	150,000,000	Fixed			4.53970	150,000,000
1226	DMTN195K	19-Nov-09	2-Jun-19	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			4.10920	750,000,000
1228	DMTN158K RRB	20-Nov-09	1-Dec-36	CAD	UH	200,000,000	200,000,000	1.00000	239,602,000	Fixed + Real Return	Yield plus CPI $_{change}$		4.09552	239,602,000
1236	DMTN195l	7-Dec-09	2-Jun-19	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.94700	600,000,000
1237	DMTN182n	7-Dec-09	2-Jun-39	CAD	UH	250,000,000	250,000,000	1.00000	250,000,000	Fixed			4.61460	250,000,000
1239	DMTN184a	10-Dec-09	2-Jun-48	CAD	UH	25,000,000	25,000,000	1.00000	25,000,000	Fixed			4.59160	25,000,000
1241	DMTN195m	21-Dec-09	2-Jun-19	CAD	UH	250,000,000	250,000,000	1.00000	250,000,000	Fixed			4.07550	250,000,000
1250	DMTN182O	20-Jan-10	2-Jun-39	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			4.70230	750,000,000
1260	DMTN200	23-Feb-10	2-Jun-20	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			4.23090	750,000,000
1264	DMTN182P	9-Mar-10	2-Jun-39	CAD	UH	250,000,000	250,000,000	1.00000	250,000,000	Fixed			4.63840	250,000,000
1269	DMTN200A	15-Mar-10	2-Jun-20	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			4.27700	600,000,000
1276	DMTN200b	22-Apr-10	2-Jun-20	CAD	UH	675,000,000	675,000,000	1.00000	675,000,000	Fixed			4.44400	675,000,000
1283	DMTN182q	29-Apr-10	2-Jun-39	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			4.87900	600,000,000
1288	DMTN182r	4-May-10	2-Jun-39	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			4.84400	600,000,000
1295	DMTN182s	14-May-10	2-Jun-39	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			4.77700	600,000,000
1298	DMTN200d	18-May-10	2-Jun-20	CAD	UH	700,000,000	700,000,000	1.00000	700,000,000	Fixed			4.36300	700,000,000
1305	DMTN182T	2-Jun-10	2-Jun-39	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			4.73300	600,000,000
1309	DMTN182U	4-Jun-10	2-Jun-39	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			4.60800	600,000,000
1319	DMTN204	15-Jun-10	2-Jun-41	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			4.69400	600,000,000
1324	DMTN200F	13-Jul-10	2-Jun-20	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			4.11900	600,000,000
1327	DMTN204A	19-Jul-10	2-Jun-41	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			4.67120	600,000,000
1331	DMTN200H	3-Aug-10	2-Jun-20	CAD	UH	700,000,000	700,000,000	1.00000	700,000,000	Fixed			4.06000	700,000,000
1337	DMTN200J	30-Aug-10	2-Jun-20	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			3.67200	750,000,000
1339	DMTN182V	3-Sep-10	2-Jun-39	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			4.35400	600,000,000
1342	DMTN204B	14-Sep-10	2-Jun-41	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			4.40900	600,000,000
1343	DMTN200K	22-Sep-10	2-Jun-20	CAD	UH	700,000,000	700,000,000	1.00000	700,000,000	Fixed			3.78900	700,000,000
1352	DMTN204C	30-Sep-10	2-Jun-41	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			4.24200	750,000,000
1355	DMTN200M	13-Oct-10	2-Jun-20	CAD	UH	650,000,000	650,000,000	1.00000	650,000,000	Fixed			3.50900	650,000,000
1358	DMTN200o	21-Oct-10	2-Jun-20	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			3.48700	750,000,000
1361	DMTN200P	26-Oct-10	2-Jun-20	CAD	UH	1,000,000,000	1,000,000,000	1.00000	1,000,000,000	Fixed			3.47600	1,000,000,000
1367	DMTN204D	9-Nov-10	2-Jun-41	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			4.23910	600,000,000
1370	DMTN206	25-Nov-10	2-Jun-31	CAD	UH	133,300,000	133,300,000	1.00000	133,300,000	Fixed			4.39500	133,300,000
1380	DMTN204E	17-Dec-10	2-Jun-41	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			4.53300	600,000,000
1385	DMTN207	12-Jan-11	2-Jun-21	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			4.03510	750,000,000
1391	DMTN204F	24-Jan-11	2-Jun-41	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			4.57390	600,000,000
1396	DMTN204G	2-Feb-11	2-Jun-41	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			4.53110	600,000,000
1397	DMTN204H	9-Feb-11	2-Jun-41	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			4.55250	600,000,000
1402	DMTN207A	28-Feb-11	2-Jun-21	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			4.13450	750,000,000
1404	DMTN185A	3-Mar-11	2-Jun-54	CAD	UH	20,000,000	20,000,000	1.00000	20,000,000	Fixed			4.42200	20,000,000
1405	DMTN204I	9-Mar-11	2-Jun-41	CAD	UH	450,000,000	450,000,000	1.00000	450,000,000	Fixed			4.58320	450,000,000
1409	DMTN207b	5-Apr-11	2-Jun-21	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			4.11390	750,000,000
1416	DMTN207c	15-Apr-11	2-Jun-21	CAD	UH	700,000,000	700,000,000	1.00000	700,000,000	Fixed			4.21740	700,000,000
1419	DMTN204k	25-Apr-11	2-Jun-41	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			4.51410	600,000,000
1423	DMTN207e	3-May-11	2-Jun-21	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			4.07200	750,000,000
1429	DMTN204l	16-May-11	2-Jun-41	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			4.48490	600,000,000
1432	DMTN204m	24-May-11	2-Jun-41	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			4.40650	600,000,000
1455	DMTN204N	3-Jun-11	2-Jun-41	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			4.34500	600,000,000
1458	DMTN207F	14-Jun-11	2-Jun-21	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			3.80600	750,000,000
1463	DMTN207G	27-Jun-11	2-Jun-21	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			3.74160	750,000,000
1473	DMTN207H	14-Jul-11	2-Jun-21	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			3.68000	750,000,000
1482	DMTN207i	17-Aug-11	2-Jun-21	CAD	UH	715,000,000	715,000,000	1.00000	715,000,000	Fixed			3.28800	715,000,000
1486	DMTN207K	7-Sep-11	2-Jun-21	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			3.34410	750,000,000
1489	DMTN204o	13-Sep-11	2-Jun-41	CAD	UH	618,000,000	618,000,000	1.00000	618,000,000	Fixed			3.84500	618,000,000
1491	DMTN207L	16-Sep-11	2-Jun-21	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			3.09100	750,000,000
1494	DMTN207M	29-Sep-11	2-Jun-21	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			3.06300	750,000,000
1497	DMTN204Q	17-Oct-11	2-Jun-41	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			3.83900	750,000,000
1498	DMTN195N	21-Oct-11	2-Jun-19	CAD	H	600,000,000	600,000,000	1.00000	600,000,000	Fixed	CBA 3M (58bp spread between swap and debt)		1.47753	600,000,000
1499	DMTN195o	21-Oct-11	2-Jun-19	CAD	UH	400,000,000	400,000,000	1.00000	400,000,000	Fixed			2.78700	400,000,000
1504	DMTN212	8-Nov-11	2-Jun-22	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			3.19600	750,000,000
1505	DMTN212A	18-Nov-11	2-Jun-22	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			3.15500	750,000,000
1507	DMTN204R	2-Dec-11	2-Jun-41	CAD	UH	1,000,000,000	1,000,000,000	1.00000	1,000,000,000	Fixed			3.71700	1,000,000,000
1510	DMTN204S	7-Dec-11	2-Jun-41	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.68100	600,000,000
1512	DMTN212B	22-Dec-11	2-Jun-22	CAD	UH	1,000,000,000	1,000,000,000	1.00000	1,000,000,000	Fixed			2.91110	1,000,000,000
1517	DMTN212C	13-Jan-12	2-Jun-22	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			2.95300	750,000,000
1519	DMTN213	20-Jan-12	8-Sep-17	CAD	UH	1,250,000,000	1,250,000,000	1.00000	1,250,000,000	Fixed			1.94800	1,250,000,000
1521	DMTN212D	25-Jan-12	2-Jun-22	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			2.98000	750,000,000
1522	DMTN214	31-Jan-12	2-Jun-43	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.54300	600,000,000
1526	DMTN213A	8-Feb-12	8-Sep-17	CAD	UH	1,000,000,000	1,000,000,000	1.00000	1,000,000,000	Fixed			1.97980	1,000,000,000

1527	DMTN214A	13-Feb-12	2-Jun-43	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.54000	600,000,000
1528	DMTN213B	27-Feb-12	8-Sep-17	CAD	UH	1,000,000,000	1,000,000,000	1.00000	1,000,000,000	Fixed			2.08720	1,000,000,000
1534	DMTN214b	12-Mar-12	2-Jun-43	CAD	UH	900,000,000	900,000,000	1.00000	900,000,000	Fixed			3.55000	900,000,000
1535	DMTN212e	12-Mar-12	2-Jun-22	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed			2.98040	500,000,000
1540	DMTN214C	20-Apr-12	2-Jun-43	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.59100	600,000,000
1549	DMTN214D	23-Apr-12	2-Jun-43	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.64400	600,000,000
1542	DMTN212F	3-May-12	2-Jun-22	CAD	UH	675,000,000	675,000,000	1.00000	675,000,000	Fixed			3.09500	675,000,000
1553	DMTN212H	3-May-12	2-Jun-22	CAD	UH	40,000,000	40,000,000	1.00000	40,000,000	Fixed			3.09500	40,000,000
1558	DMTN214E	15-May-12	2-Jun-43	CAD	UH	400,000,000	400,000,000	1.00000	400,000,000	Fixed			3.57200	400,000,000
1561	DMTN212I	29-May-12	2-Jun-22	CAD	UH	507,400,000	507,400,000	1.00000	507,400,000	Fixed			2.93260	507,400,000
1562	DMTN212K	29-May-12	2-Jun-22	CAD	UH	42,600,000	42,600,000	1.00000	42,600,000	Fixed			2.93260	42,600,000
1570	DMTN212L	4-Jun-12	2-Jun-22	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			2.80900	750,000,000
1572	DMTN212M	12-Jun-12	2-Jun-22	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			2.83300	750,000,000
1576	DMTN214G	27-Jun-12	2-Jun-43	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			3.41800	750,000,000
1579	DMTN195P	29-Jun-12	2-Jun-19	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed			2.32200	500,000,000
1584	DMTN212N	20-Jul-12	2-Jun-22	CAD	UH	706,700,000	706,700,000	1.00000	706,700,000	Fixed			2.63900	706,700,000
1587	DMTN214H	13-Aug-12	2-Jun-43	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.37400	600,000,000
1589	DMTN212P	24-Aug-12	2-Jun-22	CAD	UH	650,000,000	650,000,000	1.00000	650,000,000	Fixed			2.92000	650,000,000
1592	DMTN212R	19-Sep-12	2-Jun-22	CAD	UH	1,650,000,000	1,650,000,000	1.00000	1,650,000,000	Fixed			2.90600	1,650,000,000
1597	DMTN214i	2-Oct-12	2-Jun-43	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.31100	600,000,000
1541	DMTN213C	30-Oct-12	8-Sep-17	CAD	UH	1,000,000,000	1,000,000,000	1.00000	1,000,000,000	Fixed			1.97100	1,000,000,000
1603	DMTN215	6-Nov-12	2-Jun-23	CAD	UH	720,000,000	720,000,000	1.00000	720,000,000	Fixed			2.87900	720,000,000
1606	DMTN216	8-Nov-12	2-Jun-62	CAD	UH	300,000,000	300,000,000	1.00000	300,000,000	Fixed			3.26500	300,000,000
1607	DMTN214J	14-Nov-12	2-Jun-43	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.39100	600,000,000
1608	DMTN215C	19-Nov-12	2-Jun-23	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			2.83100	750,000,000
1610	DMTN214K	21-Nov-12	2-Jun-43	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.37100	600,000,000
1611	DMTN217	23-Nov-12	23-Nov-17	CAD	H	200,000,000	200,000,000	1.00000	200,000,000	CBA 3M plus 25 bps	Fixed		1.86350	200,000,000
1612	DMTN217A	23-Nov-12	23-Nov-17	CAD	H	25,000,000	25,000,000	1.00000	25,000,000	CBA 3M plus 25 bps	Fixed		1.89390	25,000,000
1613	DMTN217B	23-Nov-12	23-Nov-17	CAD	H	170,000,000	170,000,000	1.00000	170,000,000	CBA 3M plus 25 bps	Fixed		1.89390	170,000,000
1614	DMTN217C	23-Nov-12	23-Nov-17	CAD	H	100,000,000	100,000,000	1.00000	100,000,000	CBA 3M plus 25 bps	Fixed		1.86350	100,000,000
1615	DMTN217D	23-Nov-12	23-Nov-17	CAD	H	90,000,000	90,000,000	1.00000	90,000,000	CBA 3M plus 25 bps	Fixed		1.86910	90,000,000
1616	DMTN217E	23-Nov-12	23-Nov-17	CAD	H	120,000,000	120,000,000	1.00000	120,000,000	CBA 3M plus 25 bps	Fixed		1.89390	120,000,000
1617	DMTN217F	23-Nov-12	23-Nov-17	CAD	H	10,000,000	10,000,000	1.00000	10,000,000	CBA 3M plus 25 bps	Fixed		1.86910	10,000,000
1619	DMTN217H	23-Nov-12	23-Nov-17	CAD	H	35,000,000	35,000,000	1.00000	35,000,000	CBA 3M plus 25 bps	Fixed		1.89390	35,000,000
1623	DMTN215D	29-Nov-12	2-Jun-23	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			2.87000	750,000,000
1625	DMTN213D	6-Dec-12	8-Sep-17	CAD	UH	1,000,000,000	1,000,000,000	1.00000	1,000,000,000	Fixed			1.86100	1,000,000,000
1627	DMTN214L	19-Dec-12	2-Jun-43	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.43300	600,000,000
1628	DMTN214M	20-Dec-12	2-Jun-43	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.42400	600,000,000
1630	DMTN214N	7-Jan-13	2-Jun-43	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.45500	600,000,000
1631	DMTN218	15-Jan-13	8-Sep-18	CAD	UH	1,000,000,000	1,000,000,000	1.00000	1,000,000,000	Fixed			2.12200	1,000,000,000
1633	DMTN216A	31-Jan-13	2-Jun-62	CAD	UH	100,000,000	100,000,000	1.00000	100,000,000	Fixed			3.41000	100,000,000
1636	DMTN216B	4-Feb-13	2-Jun-62	CAD	UH	50,000,000	50,000,000	1.00000	50,000,000	Fixed			3.42100	50,000,000
1639	DMTN215E	8-Feb-13	2-Jun-23	CAD	UH	587,500,000	587,500,000	1.00000	587,500,000	Fixed			3.06000	587,500,000
1643	DMTN214O	12-Feb-13	2-Jun-43	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			3.59100	750,000,000
1647	DMTN219	22-Feb-13	22-Sep-17	CAD	H	100,000,000	100,000,000	1.00000	100,000,000	CBA 3M plus 19 bps	Fixed		1.94950	100,000,000
1648	DMTN219A	22-Feb-13	22-Sep-17	CAD	H	50,000,000	50,000,000	1.00000	50,000,000	CBA 3M plus 19 bps	Fixed		1.95550	50,000,000
1649	DMTN219B	22-Feb-13	22-Sep-17	CAD	H	125,000,000	125,000,000	1.00000	125,000,000	CBA 3M plus 19 bps	Fixed		1.95550	125,000,000
1650	DMTN219C	22-Feb-13	22-Sep-17	CAD	H	75,000,000	75,000,000	1.00000	75,000,000	CBA 3M plus 19 bps	Fixed		1.95550	75,000,000
1651	DMTN219D	22-Feb-13	22-Sep-17	CAD	H	95,000,000	95,000,000	1.00000	95,000,000	CBA 3M plus 19 bps	Fixed		1.94300	95,000,000
1652	DMTN219E	22-Feb-13	22-Sep-17	CAD	H	25,000,000	25,000,000	1.00000	25,000,000	CBA 3M plus 19 bps	Fixed		1.94950	25,000,000
1653	DMTN219F	22-Feb-13	22-Sep-17	CAD	H	45,000,000	45,000,000	1.00000	45,000,000	CBA 3M plus 19 bps	Fixed		1.94950	45,000,000
1654	DMTN219G	22-Feb-13	22-Sep-17	CAD	H	304,500,000	304,500,000	1.00000	304,500,000	CBA 3M plus 19 bps	Fixed		1.94940	304,500,000
1655	DMTN219H	22-Feb-13	22-Sep-17	CAD	H	300,000,000	300,000,000	1.00000	300,000,000	CBA 3M plus 19 bps	Fixed		1.94540	300,000,000
1656	DMTN218A	27-Feb-13	8-Sep-18	CAD	UH	152,000,000	152,000,000	1.00000	152,000,000	Fixed			2.08200	152,000,000
1657	DMTN218B	27-Feb-13	8-Sep-18	CAD	UH	1,348,000,000	1,348,000,000	1.00000	1,348,000,000	Fixed			2.08200	1,348,000,000
1660	DMTN215H	12-Mar-13	2-Jun-23	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			2.88600	750,000,000
1664	DMTN214P	5-Apr-13	2-Jun-43	CAD	UH	1,000,000,000	1,000,000,000	1.00000	1,000,000,000	Fixed			3.53000	1,000,000,000
1666	DMTN214Q	9-Apr-13	2-Jun-43	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.46500	600,000,000
1670	DMTN220	10-May-13	2-Jun-45	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			3.48600	750,000,000
1671	DMTN216C	23-May-13	2-Jun-62	CAD	UH	25,000,000	25,000,000	1.00000	25,000,000	Fixed			3.36780	25,000,000
1672	DMTN215i	24-May-13	2-Jun-23	CAD	UH	350,000,000	350,000,000	1.00000	350,000,000	Fixed			2.80600	350,000,000
1675	DMTN221	30-May-13	30-May-18	CAD	H	45,000,000	45,000,000	1.00000	45,000,000	CBA 3M plus 12 bps	Fixed		1.89800	45,000,000
1676	DMTN221A	30-May-13	30-May-18	CAD	UH	200,000,000	200,000,000	1.00000	200,000,000	CBA 3M plus 12 bps			1.07000	200,000,000
1677	DMTN221B	30-May-13	30-May-18	CAD	H	130,000,000	130,000,000	1.00000	130,000,000	CBA 3M plus 12 bps	Fixed		1.89800	130,000,000
1678	DMTN221C	30-May-13	30-May-18	CAD	H	25,000,000	25,000,000	1.00000	25,000,000	CBA 3M plus 12 bps	Fixed		1.89800	25,000,000
1679	DMTN221D	30-May-13	30-May-18	CAD	UH	100,000,000	100,000,000	1.00000	100,000,000	CBA 3M plus 12 bps			1.07000	100,000,000
1680	DMTN221E	30-May-13	30-May-18	CAD	H	100,000,000	100,000,000	1.00000	100,000,000	CBA 3M plus 12 bps	Fixed		2.40150	100,000,000
1681	DMTN221F	30-May-13	30-May-18	CAD	H	25,000,000	25,000,000	1.00000	25,000,000	CBA 3M plus 12 bps	Fixed		2.40140	25,000,000
1682	DMTN221G	30-May-13	30-May-18	CAD	H	25,000,000	25,000,000	1.00000	25,000,000	CBA 3M plus 12 bps	Fixed		2.40140	25,000,000
1683	DMTN221H	30-May-13	30-May-18	CAD	H	25,000,000	25,000,000	1.00000	25,000,000	CBA 3M plus 12 bps	Fixed		2.40140	25,000,000

1684	DMTN221i	30-May-13	30-May-18	CAD	H	25,000,000	25,000,000	1.00000	25,000,000	CBA 3M plus 12 bps	Fixed		2.40150	25,000,000	
1685	DMTN221J	30-May-13	30-May-18	CAD	H	50,000,000	50,000,000	1.00000	50,000,000	CBA 3M plus 12 bps	Fixed		2.40150	50,000,000	
1686	DMTN221K	30-May-13	30-May-18	CAD	H	25,000,000	25,000,000	1.00000	25,000,000	CBA 3M plus 12 bps	Fixed		2.40150	25,000,000	
1687	DMTN220A	3-Jun-13	2-Jun-45	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.60300	600,000,000	
1692	DMN215L	17-Jun-13	2-Jun-23	CAD	UH	1,200,000,000	1,200,000,000	1.00000	1,200,000,000	Fixed			3.11600	1,200,000,000	
1694	DMTN215N	21-Jun-13	2-Jun-23	CAD	UH	550,000,000	550,000,000	1.00000	550,000,000	Fixed			3.04400	550,000,000	
1696	DMTN220B	2-Jul-13	2-Jun-45	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.95700	600,000,000	
1701	DMTN220C	12-Jul-13	2-Jun-45	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.93600	600,000,000	
1704	DMTN218C	22-Jul-13	8-Sep-18	CAD	UH	850,000,000	850,000,000	1.00000	850,000,000	Fixed			2.24800	850,000,000	
1708	DMTN215P	2-Aug-13	2-Jun-23	CAD	UH	450,000,000	450,000,000	1.00000	450,000,000	Fixed			3.36800	450,000,000	
1722	DMTN220D	27-Aug-13	2-Jun-45	CAD	UH	650,000,000	650,000,000	1.00000	650,000,000	Fixed			4.24200	650,000,000	
1711	DMTN222	28-Aug-13	28-Aug-18	CAD	H	82,000,000	82,000,000	1.00000	82,000,000	CBA 3M plus 16 bps	Fixed		2.55900	82,000,000	
1712	DMTN222A	28-Aug-13	28-Aug-18	CAD	UH	70,000,000	70,000,000	1.00000	70,000,000	CBA 3M plus 16 bps			1.11000		70,000,000
1713	DMTN222B	28-Aug-13	28-Aug-18	CAD	H	60,000,000	60,000,000	1.00000	60,000,000	CBA 3M plus 16 bps	Fixed		2.51110	60,000,000	
1714	DMTN222C	28-Aug-13	28-Aug-18	CAD	H	50,000,000	50,000,000	1.00000	50,000,000	CBA 3M plus 16 bps	Fixed		2.55900	50,000,000	
1715	DMTN222D	28-Aug-13	28-Aug-18	CAD	H	133,800,000	133,800,000	1.00000	133,800,000	CBA 3M plus 16 bps	Fixed		2.55900	133,800,000	
1716	DMTN222E	28-Aug-13	28-Aug-18	CAD	H	44,000,000	44,000,000	1.00000	44,000,000	CBA 3M plus 16 bps	Fixed		2.49370	44,000,000	
1717	DMTN222F	28-Aug-13	28-Aug-18	CAD	H	109,000,000	109,000,000	1.00000	109,000,000	CBA 3M plus 16 bps	Fixed		2.44830	109,000,000	
1718	DMTN222G	28-Aug-13	28-Aug-18	CAD	H	25,000,000	25,000,000	1.00000	25,000,000	CBA 3M plus 16 bps	Fixed		2.55900	25,000,000	
1720	DMTN222H	28-Aug-13	28-Aug-18	CAD	H	27,000,000	27,000,000	1.00000	27,000,000	CBA 3M plus 16 bps	Fixed		2.41540	27,000,000	
1723	DMTN218E	30-Aug-13	8-Sep-18	CAD	UH	1,000,000,000	1,000,000,000	1.00000	1,000,000,000	Fixed			2.51400	1,000,000,000	
1724	DMTN215R	30-Aug-13	2-Jun-23	CAD	UH	400,000,000	400,000,000	1.00000	400,000,000	Fixed			3.54300	400,000,000	
1731	DMTN220E	16-Sep-13	2-Jun-45	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			4.29400	750,000,000	
1733	DMTN215T	24-Sep-13	2-Jun-23	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed			3.61300	500,000,000	
1735	DMTN220F	1-Oct-13	2-Jun-45	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed			4.10900	500,000,000	
1740	DMTN215V	15-Oct-13	2-Jun-23	CAD	UH	550,000,000	550,000,000	1.00000	550,000,000	Fixed			3.47400	550,000,000	
1742	DMTN218F	22-Oct-13	8-Sep-18	CAD	UH	900,000,000	900,000,000	1.00000	900,000,000	Fixed			2.35300	900,000,000	
1745	DMTN215X	28-Oct-13	2-Jun-23	CAD	UH	650,000,000	650,000,000	1.00000	650,000,000	Fixed			3.31800	650,000,000	
1748	DMTN220H	28-Oct-13	2-Jun-45	CAD	UH	350,000,000	350,000,000	1.00000	350,000,000	Fixed			4.06700	350,000,000	
1754	DMTN223	25-Nov-13	2-Jun-24	CAD	UH	650,000,000	650,000,000	1.00000	650,000,000	Fixed			3.52500	650,000,000	
1756	DMTN220J	28-Nov-13	2-Jun-45	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			4.13800	600,000,000	
1758	DMTN224	3-Dec-13	3-Dec-18	CAD	H	215,000,000	215,000,000	1.00000	215,000,000	CBA 3M plus 15 bps	Fixed		2.14610	215,000,000	
1759	DMTN224A	3-Dec-13	3-Dec-18	CAD	H	200,000,000	200,000,000	1.00000	200,000,000	CBA 3M plus 15 bps	Fixed		2.06240	200,000,000	
1760	DMTN224B	3-Dec-13	3-Dec-18	CAD	H	50,000,000	50,000,000	1.00000	50,000,000	CBA 3M plus 15 bps	Fixed		2.10170	50,000,000	
1761	DMTN224C	3-Dec-13	3-Dec-18	CAD	H	225,000,000	225,000,000	1.00000	225,000,000	CBA 3M plus 15 bps	Fixed		2.21800	225,000,000	
1762	DMTN224D	3-Dec-13	3-Dec-18	CAD	H	25,000,000	25,000,000	1.00000	25,000,000	CBA 3M plus 15 bps	Fixed		2.21800	25,000,000	
1763	DMTN224E	3-Dec-13	3-Dec-18	CAD	H	50,000,000	50,000,000	1.00000	50,000,000	CBA 3M plus 15 bps	Fixed		2.15200	50,000,000	
1764	DMTN224F	3-Dec-13	3-Dec-18	CAD	H	25,000,000	25,000,000	1.00000	25,000,000	CBA 3M plus 15 bps	Fixed		2.10170	25,000,000	
1765	DMTN224G	3-Dec-13	3-Dec-18	CAD	H	10,000,000	10,000,000	1.00000	10,000,000	CBA 3M plus 15 bps	Fixed		2.15200	10,000,000	
1769	DMTN224H	3-Dec-13	3-Dec-18	CAD	H	112,000,000	112,000,000	1.00000	112,000,000	CBA 3M plus 15 bps	Fixed		2.10710	112,000,000	
1770	DMTN224I	3-Dec-13	3-Dec-18	CAD	H	25,000,000	25,000,000	1.00000	25,000,000	CBA 3M plus 15 bps	Fixed		2.10170	25,000,000	
1772	DMTN200Q	6-Dec-13	2-Jun-20	CAD	UH	1,000,000,000	1,000,000,000	1.00000	1,000,000,000	Fixed			2.67900	1,000,000,000	
1774	DMTN220I	17-Dec-13	2-Jun-45	CAD	UH	525,000,000	525,000,000	1.00000	525,000,000	Fixed			4.14500	525,000,000	
1779	DMTN223B	10-Jan-14	2-Jun-24	CAD	UH	700,000,000	700,000,000	1.00000	700,000,000	Fixed			3.62400	700,000,000	
1781	DMTN220N	14-Jan-14	2-Jun-45	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			4.09100	600,000,000	
1782	DMTN223D	21-Jan-14	2-Jun-24	CAD	UH	650,000,000	650,000,000	1.00000	650,000,000	Fixed			3.44100	650,000,000	
1789	DMTN220o	4-Feb-14	2-Jun-45	CAD	UH	950,000,000	950,000,000	1.00000	950,000,000	Fixed			3.90000	950,000,000	
1792	DMTN218H	7-Feb-14	8-Sep-18	CAD	UH	878,000,000	878,000,000	1.00000	878,000,000	Fixed			1.94700	878,000,000	
1795	DMTN213E	26-Feb-14	8-Sep-17	CAD	UH	1,100,000,000	1,100,000,000	1.00000	1,100,000,000	Fixed			1.63060	1,100,000,000	
1796	DMTN220Q	28-Feb-14	2-Jun-45	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.88200	600,000,000	
1799	DMTN223F	7-Mar-14	2-Jun-24	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			3.22700	750,000,000	
1800	DMTN220R	26-Mar-14	2-Jun-45	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.89500	600,000,000	
1803	DMTN223G	2-Apr-14	2-Jun-24	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			3.25400	750,000,000	
1808	DMTN223H	12-May-14	2-Jun-24	CAD	UH	400,000,000	400,000,000	1.00000	400,000,000	Fixed			3.22500	400,000,000	
1811	DMTN220S	20-May-14	2-Jun-45	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed			3.79800	500,000,000	
1813	DMTN223J	27-May-14	2-Jun-24	CAD	UH	650,000,000	650,000,000	1.00000	650,000,000	Fixed			3.17600	650,000,000	
1815	DMTN220U	30-May-14	2-Jun-45	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.77500	600,000,000	
1807	DMTN225	5-Jun-14	8-Sep-19	CAD	UH	1,150,000,000	1,150,000,000	1.00000	1,150,000,000	Fixed			2.13700	1,150,000,000	
1819	DMTN223L	9-Jun-14	2-Jun-24	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			3.18100	750,000,000	
1821	DMTN220V	11-Jun-14	2-Jun-45	CAD	UH	1,000,000,000	1,000,000,000	1.00000	1,000,000,000	Fixed			3.75400	1,000,000,000	
1823	DMTN223M	2-Jul-14	2-Jun-24	CAD	UH	650,000,000	650,000,000	1.00000	650,000,000	Fixed			3.07800	650,000,000	
1826	DMTN220W	28-Jul-14	2-Jun-45	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.56560	600,000,000	
1827	DMTN223O	6-Aug-14	2-Jun-24	CAD	UH	650,000,000	650,000,000	1.00000	650,000,000	Fixed			3.01900	650,000,000	
1833	DMTN226	26-Aug-14	26-Aug-19	CAD	H	450,000,000	450,000,000	1.00000	450,000,000	CBA 3M plus 9 bps	Fixed		1.99280	450,000,000	
1834	DMTN226A	26-Aug-14	26-Aug-19	CAD	H	245,000,000	245,000,000	1.00000	245,000,000	CBA 3M plus 9 bps	Fixed		1.99250	245,000,000	
1835	DMTN226B	26-Aug-14	26-Aug-19	CAD	H	50,000,000	50,000,000	1.00000	50,000,000	CBA 3M plus 9 bps	Fixed		1.99280	50,000,000	
1836	DMTN226C	26-Aug-14	26-Aug-19	CAD	H	150,000,000	150,000,000	1.00000	150,000,000	CBA 3M plus 9 bps	Fixed		1.99250	150,000,000	
1837	DMTN226D	26-Aug-14	26-Aug-19	CAD	H	425,000,000	425,000,000	1.00000	425,000,000	CBA 3M plus 9 bps	Fixed		1.99280	425,000,000	
1838	DMTN226E	26-Aug-14	26-Aug-19	CAD	H	206,000,000	206,000,000	1.00000	206,000,000	CBA 3M plus 9 bps	Fixed		1.60640	206,000,000	
1839	DMTN226F	26-Aug-14	26-Aug-19	CAD	H	200,000,000	200,000,000	1.00000	200,000,000	CBA 3M plus 9 bps	Fixed		1.68400	200,000,000	

1840	DMTN226G	26-Aug-14	26-Aug-19	CAD	H	150,000,000	150,000,000	1.00000	150,000,000	CBA 3M plus 9 bps	Fixed		2.00330	150,000,000
1841	DMTN226H	26-Aug-14	26-Aug-19	CAD	H	25,000,000	25,000,000	1.00000	25,000,000	CBA 3M plus 9 bps	Fixed		1.66670	25,000,000
1842	DMTN226I	26-Aug-14	26-Aug-19	CAD	H	20,000,000	20,000,000	1.00000	20,000,000	CBA 3M plus 9 bps	Fixed		1.58520	20,000,000
1844	DMTN223Q	2-Sep-14	2-Jun-24	CAD	UH	900,000,000	900,000,000	1.00000	900,000,000	Fixed			2.84960	900,000,000
1849	DMTN220X	12-Sep-14	2-Jun-45	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.60500	600,000,000
1850	DMTN223S	29-Sep-14	2-Jun-24	CAD	UH	550,000,000	550,000,000	1.00000	550,000,000	Fixed			3.00200	550,000,000
1853	G68 (green bond)	9-Oct-14	9-Oct-18	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed			1.79600	500,000,000
1854	DMTN220Y	14-Oct-14	2-Jun-45	CAD	UH	800,000,000	800,000,000	1.00000	800,000,000	Fixed			3.48600	800,000,000
1856	DMTN220Z	24-Oct-14	2-Jun-45	CAD	UH	800,000,000	800,000,000	1.00000	800,000,000	Fixed			3.51400	800,000,000
1857	DMTN223U	28-Oct-14	2-Jun-24	CAD	UH	650,000,000	650,000,000	1.00000	650,000,000	Fixed			2.85900	650,000,000
1860	DMTN225B	31-Oct-14	8-Sep-19	CAD	UH	1,250,000,000	1,250,000,000	1.00000	1,250,000,000	Fixed			1.99100	1,250,000,000
1862	DMTN223W	12-Nov-14	2-Jun-24	CAD	UH	700,000,000	700,000,000	1.00000	700,000,000	Fixed			2.91100	700,000,000
1864	DMTN220AA	12-Nov-14	2-Jun-45	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			3.58600	750,000,000
1865	DMTN220AB	24-Nov-14	2-Jun-45	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.51500	600,000,000
1866	DMTN223Y	26-Nov-14	2-Jun-24	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			2.85100	600,000,000
1870	DMTN220AC	8-Dec-14	2-Jun-45	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.44200	600,000,000
1871	DMTN218J	12-Dec-14	8-Sep-18	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			1.56020	750,000,000
1873	DMTN227	9-Jan-15	2-Jun-25	CAD	UH	900,000,000	900,000,000	1.00000	900,000,000	Fixed			2.64500	900,000,000
1875	DMTN227B	13-Jan-15	2-Jun-25	CAD	UH	1,000,000,000	1,000,000,000	1.00000	1,000,000,000	Fixed			2.64900	1,000,000,000
1877	DMTN215Z	16-Jan-15	2-Jun-23	CAD	UH	1,115,200,000	1,115,200,000	1.00000	1,115,200,000	Fixed			2.31200	1,115,200,000
1879	DMTN227C	19-Jan-15	2-Jun-25	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			2.48900	750,000,000
1881	DMTN228	2-Feb-15	2-Dec-46	CAD	UH	675,000,000	675,000,000	1.00000	675,000,000	Fixed			2.91600	675,000,000
1883	DMTN228b	3-Feb-15	2-Dec-46	CAD	UH	525,250,000	525,250,000	1.00000	525,250,000	Fixed			2.85700	525,250,000
1886	DMTN227d	9-Feb-15	2-Jun-25	CAD	UH	322,500,000	322,500,000	1.00000	322,500,000	Fixed			2.08500	322,500,000
1887	DMTN227e	9-Feb-15	2-Jun-25	CAD	UH	677,500,000	677,500,000	1.00000	677,500,000	Fixed			2.08500	677,500,000
1890	DMTN228d	24-Feb-15	2-Dec-46	CAD	UH	650,000,000	650,000,000	1.00000	650,000,000	Fixed			2.92500	650,000,000
1892	DMTN225c	4-Mar-15	8-Sep-19	CAD	UH	1,000,000,000	1,000,000,000	1.00000	1,000,000,000	Fixed			1.11400	1,000,000,000
1893	DMTN227f	4-Mar-15	2-Jun-25	CAD	UH	500,000,000	500,000,000	1.00000	500,000,000	Fixed			2.12500	500,000,000
1894	DMTN227g	24-Mar-15	2-Jun-25	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			2.05300	750,000,000
1895	DMTN228e	30-Mar-15	2-Dec-46	CAD	UH	1,000,000,000	1,000,000,000	1.00000	1,000,000,000	Fixed			2.79600	1,000,000,000
1901	DMTN228f	5-May-15	2-Dec-46	CAD	UH	650,000,000	650,000,000	1.00000	650,000,000	Fixed			3.08600	650,000,000
1902	DMTN227h	8-May-15	2-Jun-25	CAD	UH	650,000,000	650,000,000	1.00000	650,000,000	Fixed			2.48400	650,000,000
1906	DMTN228g	2-Jun-15	2-Dec-46	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			3.09300	750,000,000
1907	DMTN227j	8-Jun-15	2-Jun-25	CAD	UH	550,000,000	550,000,000	1.00000	550,000,000	Fixed			2.51400	550,000,000
1910	DMTN227l	12-Jun-15	2-Jun-25	CAD	UH	650,000,000	650,000,000	1.00000	650,000,000	Fixed			2.61900	650,000,000
1913	DMTN228h	23-Jun-15	2-Dec-46	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.24700	600,000,000
1915	DMTN227n	14-Jul-15	2-Jun-25	CAD	UH	650,000,000	650,000,000	1.00000	650,000,000	Fixed			2.37760	650,000,000
1917	DMTN228i	17-Jul-15	2-Dec-46	CAD	UH	1,300,000,000	1,300,000,000	1.00000	1,300,000,000	Fixed			3.21100	1,300,000,000
1918	DMTN228j	30-Jul-15	2-Dec-46	CAD	UH	1,000,000,000	1,000,000,000	1.00000	1,000,000,000	Fixed			3.01000	1,000,000,000
1919	DMTN227p	5-Aug-15	2-Jun-25	CAD	UH	550,000,000	550,000,000	1.00000	550,000,000	Fixed			2.27280	550,000,000
1922	DMTN228k	11-Aug-15	2-Dec-46	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.02800	600,000,000
1923	DMTN227r	1-Sep-15	2-Jun-25	CAD	UH	650,000,000	650,000,000	1.00000	650,000,000	Fixed			2.33000	650,000,000
1925	DMTN228l	3-Sep-15	2-Dec-46	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			3.16150	750,000,000
1928	DMTN200s	9-Sep-15	2-Jun-20	CAD	UH	1,150,000,000	1,150,000,000	1.00000	1,150,000,000	Fixed			1.33550	1,150,000,000
1930	DMTN227t	5-Oct-15	2-Jun-25	CAD	UH	1,150,000,000	1,150,000,000	1.00000	1,150,000,000	Fixed			2.45200	1,150,000,000
1933	DMTN228m	13-Oct-15	2-Dec-46	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.35200	600,000,000
1934	DMTN212t	21-Oct-15	2-Jun-22	CAD	UH	1,500,000,000	1,500,000,000	1.00000	1,500,000,000	Fixed			1.94000	1,500,000,000
1935	DMTN227v	23-Oct-15	2-Jun-25	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			2.48200	750,000,000
1936	DMTN228n	27-Oct-15	2-Dec-46	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.33500	600,000,000
1937	DMTN228o	3-Nov-15	2-Dec-46	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.34500	600,000,000
1938	DMTN227w	4-Nov-15	2-Jun-25	CAD	UH	800,000,000	800,000,000	1.00000	800,000,000	Fixed			2.47300	800,000,000
1942	DMTN227x	4-Dec-15	2-Jun-25	CAD	UH	1,250,000,000	1,250,000,000	1.00000	1,250,000,000	Fixed			2.47220	1,250,000,000
1944	DMTN228p	10-Dec-15	2-Dec-46	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.34000	600,000,000
1945	DMTN218k	15-Dec-15	8-Sep-18	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			0.93330	750,000,000
1948	DMTN228q	27-Jan-16	2-Dec-46	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.27000	600,000,000
1949	G72 (Green bond)	29-Jan-16	27-Jan-23	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			1.98200	750,000,000
1951	DMTN229	3-Feb-16	2-Jun-26	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			2.40700	750,000,000
1955	DMTN228r	7-Mar-16	2-Dec-46	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			3.24300	750,000,000
1956	DMTN229a	7-Mar-16	2-Jun-26	CAD	UH	1,100,000,000	1,100,000,000	1.00000	1,100,000,000	Fixed			2.50200	1,100,000,000
1957	DMTN230 FRN	16-Mar-16	16-Mar-21	CAD	H	345,600,000	345,600,000	1.00000	345,600,000	CBA 3M plus 44 bps	Fixed		1.35780	345,600,000
1958	DMTN230a FRN	16-Mar-16	16-Mar-21	CAD	H	200,000,000	200,000,000	1.00000	200,000,000	CBA 3M plus 44 bps	Fixed		1.45150	200,000,000
1959	DMTN230b FRN	16-Mar-16	16-Mar-21	CAD	H	60,000,000	60,000,000	1.00000	60,000,000	CBA 3M plus 44 bps	Fixed		1.41130	60,000,000
1960	DMTN230c FRN	16-Mar-16	16-Mar-21	CAD	H	200,000,000	200,000,000	1.00000	200,000,000	CBA 3M plus 44 bps	Fixed		1.46980	200,000,000
1961	DMTN230d FRN	16-Mar-16	16-Mar-21	CAD	H	98,000,000	98,000,000	1.00000	98,000,000	CBA 3M plus 44 bps	Fixed		1.38280	98,000,000
1962	DMTN230e FRN	16-Mar-16	16-Mar-21	CAD	H	300,000,000	300,000,000	1.00000	300,000,000	CBA 3M plus 44 bps	Fixed		1.42530	300,000,000
1963	DMTN230f FRN	16-Mar-16	16-Mar-21	CAD	H	50,000,000	50,000,000	1.00000	50,000,000	CBA 3M plus 44 bps	Fixed		1.36000	50,000,000
1964	DMTN230g FRN	16-Mar-16	16-Mar-21	CAD	H	50,000,000	50,000,000	1.00000	50,000,000	CBA 3M plus 44 bps	Fixed		1.36000	50,000,000
1965	DMTN230h FRN	16-Mar-16	16-Mar-21	CAD	H	51,000,000	51,000,000	1.00000	51,000,000	CBA 3M plus 44 bps	Fixed		1.38280	51,000,000
1966	DMTN230i FRN	16-Mar-16	16-Mar-21	CAD	H	10,000,000	10,000,000	1.00000	10,000,000	CBA 3M plus 44 bps	Fixed		1.41130	10,000,000
1967	DMTN228s	22-Mar-16	2-Dec-46	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.13800	600,000,000

1969	DMTN229b	12-Apr-16	2-Jun-26	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			2.26600	750,000,000
1972	DMTN228t	18-May-16	2-Dec-46	CAD	UH	700,000,000	700,000,000	1.00000	700,000,000	Fixed			3.00500	700,000,000
1973	DMTN228u	3-Jun-16	2-Dec-46	CAD	UH	1,000,000,000	1,000,000,000	1.00000	1,000,000,000	Fixed			3.03200	1,000,000,000
1974	DMTN229c	7-Jun-16	2-Jun-26	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			2.17700	750,000,000
1977	DMTN119n	13-Jun-16	2-Jun-35	CAD	UH	0	183,111,000	1.00000	183,111,000	Fixed			4.11290	183,111,000
1978	DMTN231	21-Jun-16	2-Jun-48	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			2.82900	600,000,000
1980	DMTN231a	5-Jul-16	2-Jun-48	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			2.77700	600,000,000
1981	DMTN231b	12-Jul-16	2-Jun-48	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			2.58500	600,000,000
1982	DMTN229d	15-Jul-16	2-Jun-26	CAD	UH	1,000,000,000	1,000,000,000	1.00000	1,000,000,000	Fixed			1.89700	1,000,000,000
1983	DMTN231c	29-Jul-16	2-Jun-48	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			2.69600	750,000,000
1985	DMTN232	23-Aug-16	8-Mar-22	CAD	UH	1,000,000,000	1,000,000,000	1.00000	1,000,000,000	Fixed			1.38600	1,000,000,000
1986	DMTN229e	26-Aug-16	2-Jun-26	CAD	UH	900,000,000	900,000,000	1.00000	900,000,000	Fixed			1.88200	900,000,000
1989	DMTN229f	20-Sep-16	2-Jun-26	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			2.08500	750,000,000
1991	DMTN229g	14-Oct-16	2-Jun-26	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			2.05800	750,000,000
1992	DMTN231d	25-Oct-16	2-Jun-48	CAD	UH	800,000,000	800,000,000	1.00000	800,000,000	Fixed			2.78900	800,000,000
1993	DMTN233 FRN	27-Oct-16	27-Oct-21	CAD	H	117,500,000	117,500,000	1.00000	117,500,000	CBA 3M plus 26 bps	Fixed		1.27300	117,500,000
1994	DMTN233a FRN	27-Oct-16	27-Oct-21	CAD	H	25,000,000	25,000,000	1.00000	25,000,000	CBA 3M plus 26 bps	Fixed		1.55900	25,000,000
1995	DMTN233b FRN	27-Oct-16	27-Oct-21	CAD	H	161,800,000	161,800,000	1.00000	161,800,000	CBA 3M plus 26 bps	Fixed		1.27300	161,800,000
1996	DMTN233c FRN	27-Oct-16	27-Oct-21	CAD	H	30,000,000	30,000,000	1.00000	30,000,000	CBA 3M plus 26 bps	Fixed		1.27300	30,000,000
1997	DMTN233d FRN	27-Oct-16	27-Oct-21	CAD	H	105,000,000	105,000,000	1.00000	105,000,000	CBA 3M plus 26 bps	Fixed		1.27300	105,000,000
1998	DMTN233e FRN	27-Oct-16	27-Oct-21	CAD	H	335,000,000	335,000,000	1.00000	335,000,000	CBA 3M plus 26 bps	Fixed		1.27300	335,000,000
1999	DMTN233f FRN	27-Oct-16	27-Oct-21	CAD	H	200,000,000	200,000,000	1.00000	200,000,000	CBA 3M plus 26 bps	Fixed		1.27300	200,000,000
2256	DMTN233g FRN	27-Oct-16	27-Oct-21	CAD	H	50,000,000	50,000,000	1.00000	50,000,000	CBA 3M plus 26 bps	Fixed		1.34610	50,000,000
2257	DMTN233h FRN	27-Oct-16	27-Oct-21	CAD	H	111,300,000	111,300,000	1.00000	111,300,000	CBA 3M plus 26 bps	Fixed		1.55900	111,300,000
2258	DMTN233i FRN	27-Oct-16	27-Oct-21	CAD	H	14,400,000	14,400,000	1.00000	14,400,000	CBA 3M plus 26 bps	Fixed		1.54510	14,400,000
2259	DMTN233j FRN	27-Oct-16	27-Oct-21	CAD	H	50,000,000	50,000,000	1.00000	50,000,000	CBA 3M plus 26 bps	Fixed		1.34610	50,000,000
2261	DMTN229h	22-Nov-16	2-Jun-26	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			2.36500	750,000,000
2262	DMTN231e	25-Nov-16	2-Jun-48	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			3.11400	750,000,000
2263	DMTN231f	2-Dec-16	2-Jun-48	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			3.08600	750,000,000
2264	DMTN231g	14-Dec-16	2-Jun-48	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.26200	600,000,000
2265	DMTN119o	14-Dec-16	2-Jun-35	CAD	UH	16,113,000	16,113,000	1.00000	16,113,000	Fixed			3.18500	16,113,000
2267	DMTN225d	24-Jan-17	8-Sep-19	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			1.20330	750,000,000
2269	G72b (green bond	2-Feb-17	27-Jan-23	CAD	UH	800,000,000	800,000,000	1.00000	800,000,000	Fixed			2.05500	800,000,000
2274	DMTN234	9-Feb-17	2-Jun-27	CAD	UH	190,800,000	190,800,000	1.00000	190,800,000	Fixed			2.63000	190,800,000
2275	DMTN234a	9-Feb-17	2-Jun-27	CAD	UH	809,200,000	809,200,000	1.00000	809,200,000	Fixed			2.63000	809,200,000
2278	DMTN232a	6-Mar-17	8-Mar-22	CAD	UH	1,000,000,000	1,000,000,000	1.00000	1,000,000,000	Fixed			1.72500	1,000,000,000
2279	DMTN231h	9-Mar-17	2-Jun-48	CAD	UH	600,000,000	600,000,000	1.00000	600,000,000	Fixed			3.25000	600,000,000
2282	DMTN234b	28-Mar-17	2-Jun-27	CAD	UH	750,000,000	750,000,000	1.00000	750,000,000	Fixed			2.53100	750,000,000
							0	1.00000	0				-	0
							228,605,010,091		**228,973,411,917**				**3.72449**	

FOREIGN CURRENCY BORROWING **Currency**

1347	AUD2	29-Sep-10	29-Sep-20	AUD	H	275,000,000	275,000,000	0.99083	272,478,360	Fixed	Fixed		3.84570	272,478,360
1459	AUD2A	20-Jun-11	29-Sep-20	AUD	H	225,000,000	225,000,000	1.03856	233,676,360	Fixed	Fixed		3.79050	233,676,360
1832	AUD3	22-Aug-14	22-Aug-24	AUD	H	225,000,000	225,000,000	1.01450	228,262,500	Fixed	Fixed		2.94900	228,262,500
1859	AUD3A	3-Nov-14	22-Aug-24	AUD	H	75,000,000	75,000,000	0.98150	73,612,500	Fixed	Fixed		2.88280	73,612,500
1868	AUD3B	5-Dec-14	22-Aug-24	AUD	H	50,000,000	50,000,000	0.96200	48,100,000	Fixed	Fixed		2.75970	48,100,000
1888	AUD4	26-Feb-15	26-Aug-25	AUD	H	125,000,000	125,000,000	0.96850	121,062,500	Fixed	Fixed		2.23280	121,062,500
1889	AUD4a	19-May-15	26-Aug-25	AUD	H	75,000,000	75,000,000	0.95600	71,700,000	Fixed	Fixed		2.56570	71,700,000
1904	AUD4b	19-May-15	26-Aug-25	AUD	H	25,000,000	25,000,000	0.95900	23,975,000	Fixed	Fixed		2.64580	23,975,000
1940	AUD4c	12-Nov-15	26-Aug-25	AUD	H	40,000,000	40,000,000	0.94100	37,640,000	Fixed	Fixed		2.58800	37,640,000
1941	AUD4d	26-May-16	26-Aug-25	AUD	H	40,000,000	40,000,000	0.93780	37,512,000	Fixed	Fixed		2.13400	37,512,000
1971	AUD4e	2-Jun-16	26-Aug-25	AUD	H	60,000,000	60,000,000	0.94420	56,652,000	Fixed	Fixed		2.21600	56,652,000
2266	AUD5	27-Jan-17	27-Jan-27	AUD	H	30,000,000	30,000,000	0.98620	29,586,000	Fixed	Fixed		2.48500	29,586,000
2268	AUD5a	3-Feb-17	27-Jan-27	AUD	H	30,000,000	30,000,000	0.99100	29,730,000	Fixed	Fixed		2.56130	29,730,000
2276	AUD5b	8-Mar-17	27-Jan-27	AUD	H	55,000,000	55,000,000	1.01300	55,715,000	Fixed	Fixed		2.42930	55,715,000
2280	AUD5c	17-Mar-17	27-Jan-27	AUD	H	25,000,000	25,000,000	1.01480	25,370,000	Fixed	Fixed		2.57500	25,370,000
2281	AUD5d	17-Mar-17	27-Jan-27	AUD	H	30,000,000	30,000,000	1.01670	30,501,000	Fixed	Fixed		2.64680	30,501,000
1011	EMTN82	30-Jul-08	30-Jul-18	CHF	H	225,000,000	225,000,000	0.97556	219,502,008	Fixed	Fixed		4.57290	219,502,008
1134	EMTN95	29-Apr-09	29-Apr-19	CHF	H	225,000,000	225,000,000	1.09183	245,662,252	Fixed	Fixed		4.32630	245,662,252
1182	PY - CHF1	14-Aug-09	30-Jul-18	CHF	H	100,000,000	100,000,000	1.01687	101,686,973	Fixed	Fixed		4.98660	101,686,973
1183	PZ - CHF2	14-Aug-09	14-Dec-18	CHF	H	100,000,000	100,000,000	1.01687	101,686,973	Fixed	Fixed		4.59000	101,686,973
1220	EMTN99	4-Dec-09	4-Dec-19	CHF	H	275,000,000	275,000,000	1.04059	286,163,306	Fixed	Fixed		4.23520	286,163,306
1275	EMTN101	7-May-10	7-May-20	CHF	UH	400,000,000	400,000,000	1.32180	528,720,000	Fixed			2.26113	528,720,000

									2,858,994,731			**3.37578**				
1091	PU - G39	9-Jan-09	9-Jan-18	EUR	H	120,000,000	120,000,000	1.71800	206,160,000	EUR 3M plus 139bps	Fixed	3.99950		206,160,000		
1140	EMTN97	23-Apr-09	23-Apr-19	EUR	H	750,000,000	750,000,000	1.48408	1,113,062,208	Fixed	Fixed with FX rolls	4.53110		1,113,062,208		
1142	EMTN97A	23-Apr-09	23-Apr-19	EUR	H	750,000,000	750,000,000	1.48408	1,113,062,208	Fixed	Floating with FX rolls (spread approx 181 bp)	2.71220			1,113,062,208	
1229	EMTN100	3-Dec-09	3-Dec-19	EUR	H	600,000,000	600,000,000	1.41848	851,088,540	Fixed	EUR fixed (EUR flt & CAD flt offsets)	5.40750		851,088,540		
1230	EMTN100A	3-Dec-09	3-Dec-19	EUR	H	600,000,000	600,000,000	1.53820	922,922,325	Fixed	Fixed	4.56760		922,922,325		
1259	EMTN100B	3-Dec-09	3-Dec-19	EUR	H	550,000,000	550,000,000	1.39008	764,543,000	Fixed	EUR fixed (EUR flt & CAD flt offsets)	5.49900		764,543,000		
1345	EMTN107	28-Sep-10	28-Sep-20	EUR	H	750,000,000	750,000,000	1.32123	990,921,000	Fixed	Fixed	3.88860		990,921,000		
1346	EMTN107A	28-Sep-10	28-Sep-20	EUR	H	500,000,000	500,000,000	1.32123	660,614,000	Fixed	CBA 3M plus 84bps	1.77480			660,614,000	
1794	EMTN110	21-May-14	21-May-24	EUR	H	1,750,000,000	1,750,000,000	1.73558	3,037,265,000	Fixed	Fixed with FX rolls	3.02100		3,037,265,000		
1876	EMTN111	21-Jan-15	21-Jan-25	EUR	H	1,250,000,000	1,250,000,000	1.57779	1,972,231,500	Fixed	Fixed with FX rolls	2.13170		1,972,231,500		
1950	EMTN112	29-Jan-16	28-Jun-41	EUR	H	52,000,000	52,000,000	1.53100	79,612,000	Fixed	Fixed	3.26800		79,612,000		
									11,711,481,780			**3.46451**				
1019	YL16	8-Aug-08	8-Aug-18	JPY	H	8,000,000,000	8,000,000,000	0.00944	75,550,891	Fixed	Fixed	4.34390		75,550,891		
1304	EMTN105	7-Jun-10	8-Jun-20	JPY	H	36,900,000,000	36,900,000,000	0.01160	428,016,354	Fixed	Floating with FX Fwds	2.20756			428,016,354	
							44,900,000,000		**503,567,246**			**2.52808**				
1196	G44 - USD	7-Oct-09	7-Oct-19	USD	H	2,000,000,000	2,000,000,000	1.05975	2,119,495,000	Fixed	Fixed	4.28760		2,119,495,000		
1274	G48	14-Apr-10	14-Apr-20	USD	H	2,000,000,000	2,000,000,000	1.02084	2,041,680,000	Fixed	Fixed	5.64230		2,041,680,000		
1379	G52	15-Dec-10	15-Dec-17	USD	H	1,250,000,000	1,250,000,000	0.98448	1,230,600,000	Fixed	CBA 3M plus 59bps	1.50650			1,230,600,000	
1472	G55	14-Jul-11	16-Jul-18	USD	H	1,000,000,000	1,000,000,000	0.99364	993,640,000	Fixed	Fixed	3.29780		993,640,000		
1575	G58	29-Jun-12	29-Jun-22	USD	H	1,000,000,000	1,000,000,000	1.02261	1,022,605,000	Fixed	Fixed	2.93370		1,022,605,000		
1595	G59	29-Sep-12	27-Sep-19	USD	H	1,250,000,000	1,250,000,000	1.33794	1,672,430,000	Fixed	Floating with FX rolls	0.92560			1,672,430,000	
1599	G60	25-Oct-12	25-Oct-17	USD	H	1,500,000,000	1,500,000,000	1.24789	1,871,835,000	Fixed	Fixed with FX rolls	1.77060		1,871,835,000		
1600	G60A	25-Oct-12	25-Oct-17	USD	H	750,000,000	750,000,000	0.98250	736,875,000	Fixed	CBA 3M plus 36bps	1.31310			736,875,000	
1609	USMTN2	23-Nov-12	23-Nov-17	USD	H	250,000,000	250,000,000	1.01600	254,000,000	Libor 3m+25bp	Fixed	1.84340		254,000,000		
1644	G62	14-Feb-13	14-Feb-18	USD	H	705,000,000	705,000,000	1.00000	705,000,000	Fixed	CBA 3M plus 32bps	1.27360			705,000,000	
1665	G63	27-Sep-13	27-Sep-18	USD	H	1,750,000,000	1,750,000,000	1.20537	2,109,405,000	Fixed	Fixed with FX rolls	2.29384		2,109,405,000		
1784	G65	30-Jan-14	30-Jan-19	USD	H	1,000,000,000	1,000,000,000	1.31019	1,310,193,250	Fixed	Fixed with FX rolls	1.94640		1,310,193,250		
1785	G65A	30-Jan-14	30-Jan-19	USD	H	1,000,000,000	1,000,000,000	1.31019	1,310,193,250	Fixed	Floating with FX rolls	0.92890			1,310,193,250	
1804	G66	16-May-14	16-May-24	USD	H	1,250,000,000	1,250,000,000	1.15634	1,445,420,000	Fixed	Fixed	3.30890		1,445,420,000		
1846	G67	11-Sep-14	10-Sep-21	USD	H	1,000,000,000	1,000,000,000	1.31600	1,316,000,000	Fixed	Fixed with FX rolls	1.86980		1,316,000,000		
1847	G67A	11-Sep-14	10-Sep-21	USD	H	1,000,000,000	1,000,000,000	1.31675	1,316,750,000	Fixed	Floating with FX rolls	0.84100			1,316,750,000	
1905	G70	21-May-15	21-May-20	USD	H	2,000,000,000	2,000,000,000	1.27698	2,553,959,000	Fixed	Floating with FX rolls	1.06410			2,553,959,000	
1947	G71	21-Jan-16	18-Jan-19	USD	H	2,500,000,000	2,500,000,000	1.35587	3,389,669,500	Fixed	Floating with FX rolls	1.32360			3,389,669,500	
1898	G69	27-Apr-16	27-Apr-26	USD	H	1,000,000,000	1,000,000,000	1.27418	1,274,175,000	Fixed	Mixed with FX rolls	1.90920		1,263,032,250	11,142,750	
1976	G73	17-Jun-16	17-Jun-19	USD	H	1,750,000,000	1,750,000,000	1.33606	2,338,107,750	Fixed	Floating with FX rolls	0.79370			2,338,107,750	
2271	G74	8-Feb-17	8-Feb-22	USD	H	1,500,000,000	1,500,000,000	1.31272	1,969,079,000	Fixed	Fixed with FX rolls	1.71530		1,969,079,000		
2272	G74a	8-Feb-17	8-Feb-22	USD	H	1,000,000,000	1,000,000,000	1.31428	1,314,279,000	Fixed	Floating with FX rolls	1.14900			1,314,279,000	
								#DIV/0!				-				
							28,455,000,000		**34,295,390,750**			**2.01983**				
Total Public Debt									**278,342,846,424**			**3.49777**		258,367,147,611.92	19,975,698,811.77	278,342,846,423.69
																-

Fx debt as per table above	**49,369,434,506**
Long-term FX debt per GL	**49,257,848,500**
Difference	**111,586,006**

Debt Summary	**28-Feb-17**
	MOF G/L

MOF G/L		CAD Equivalent	Difference
700	CAD Public Debt	**227,211,010,091.13**	**750,000,000.74**
700A	CAD Public Debt - trade date	**-**	**0.00**
700RRB	CAD Public Debt - Real Return Bond - Principal at Issuance	**2,144,000,000.94**	**0.00**
700RRBC	CAD Public Debt - Real Return Bond - CPI Adjustment	**424,533,440.01**	**(0.18)**
700RRSC	Real Return Swaps - CPI Adjustment	**(57,735,000.00)**	**0.19**
700RRSF	Real Return Swap - Notional Payable	**1,603,386.00**	**0.00**
LT CAD Debt		**229,723,411,918.08**	**750,000,000.75**
770AD	Foreign Debt - LT - Australian Dollar - Hedged	**1,263,987,220.00**	**(111,586,000.00)**
770EU	Foreign Debt - LT - Euro - Hedged	**11,711,481,777.96**	**(1.64)**
770GB	Foreign Debt - LT - Great Britain Pound - Hedged	**-**	**0.00**
770HD	Foreign Debt - LT - Hong Kong Dollar - Hedged	**-**	**0.00**
770JY	Foreign Debt - LT - Japanese Yen - Hedged	**503,567,245.24**	**(0.34)**
770NK	Foreign Debt - LT - Norwegian Krone - Hedged	**-**	**0.00**
770NZ	Foreign Debt - LT - New Zealand Dollar - Hedged	**-**	**0.00**
770SF	Foreign Debt - LT - Swiss Franc - Hedged	**1,483,421,513.83**	**2.66**
770TL	Foreign Debt - LT - Turkish Lira - Hedged	**-**	**0.00**
770US	Foreign Debt - LT - United States Dollar - Hedged	**34,295,390,743.44**	**(6.56)**
770ZR	Foreign Debt - LT - South African Rand - Hedged	**0.00**	**0.00**
771JY	Foreign Debt - LT - Japanese Yen - Unhedged	**-**	**0.00**
771SF	Foreign Debt - LT - Swiss Franc - Unhedged	**-**	**0.00**
771US	Foreign Debt - LT - USD - Unhedged	**-**	**0.00**
LT Foreign Debt		**49,257,848,500.48**	**(111,586,005.88)**
Total LT Provincial Debt		**278,981,260,418.56**	**638,413,994.87**

Diff -Mar 2017 issues/maturities/misc (638,413,995)

new borrowing	CAD	2,350,000,000
new borrowing	AUD	111,586,000
Mar 2017 maturities		(3,100,000,000)
		(638,414,000)
Misc diff		5

Reconciliation:

EFF Summary - LT CAD Public

Adjustments:
Less: Held by Agricorp:

DMTN173	-

Less: Held by Forest Renewal Trust:

DMTN207	(2,480,000)
DMTN215	(2,980,000)

Less: Held by OILC:

DMTN195	(17,100,000)
DMTN218	(62,300,000)
DMTN223	(87,500,000)
DMTN225	(5,900,000)

Less: Held by OEB:

DMTN173	-

Less: Held by OTF:

DMTN173	-
DMTN213	(12,375,000)
DMTN218	(12,084,000)
DMTN225	(12,106,000)
DMTN219	(7,150,000)

OSBs - Per TAS Feb 2017 1,645,426,900

Mar 1 2017 - Mar 31 2017		**CAD**	**3,100,000,000.00**	**3,100,000,000.00**		
DMTN173	ONT	08-Mar-17	600,000,000.00	600,000,000.00	894	
DMTN173	ONT	08-Mar-17	300,000,000.00	300,000,000.00	921	
DMTN173	ONT	08-Mar-17	104,750,000.00	104,750,000.00	892	
DMTN173	ONT	08-Mar-17	200,000,000.00	200,000,000.00	928	
DMTN173	ONT	08-Mar-17	190,500,000.00	190,500,000.00	890	
DMTN173	ONT	08-Mar-17	52,375,000.00	52,375,000.00	891	
DMTN173	ONT	08-Mar-17	200,000,000.00	200,000,000.00	1247	
DMTN173	ONT	08-Mar-17	600,000,000.00	600,000,000.00	875	
DMTN173	ONT	08-Mar-17	500,000,000.00	500,000,000.00	860	
DMTN173	ONT	08-Mar-17	52,375,000.00	52,375,000.00	893	
DMTN173	ONT	08-Mar-17	300,000,000.00	300,000,000.00	884	

Prepared by: Fred Chow
Date: Mar 24, 2017
Reviewed by: Shemin Meralli
Date:

Adjusted - LT CAD Public

<u>Projected Debt as at March 31, 2017:</u>
Adjusted - LT CAD Public - in millions
LT - Canadian, per George
Difference

EFF Summary - LT Foreign Debt

EFF Summary - LT Foreign Debt - in millions
LT - Foreign, per George
Difference

Summary	Amount O/S as at 28-Feb-17	Eff % as at 28-Feb-17	Projected Maturities Mar. 1, 2017 to Mar. 31, 2017	Rate
CMHC	37,739,232.59	10.15810	(1,282,562.48)	10.19014
FP Project	247,078,442.84	6.72233	(25,348.63)	15.04483
CPP	10,002,740,000.00	5.03949	0.00	-
OPB	0.00	0.00000	0.00	-
OPSEU	0.00	0.00000	0.00	-
OIIC	120,530,985.00	0.00000	(6,612,419.00)	-
OIIC Discount	0.00	0.00000	-	-
OIIC (issued by OILC)	363,084,177.00	0.00000	(12,500,000.00)	-
School Boards	660,798,299.69	5.90000	(12,000,000.00)	5.90000
	11,431,971,137.12	**4.92931**	**(32,420,330.11)**	2.59870
	-	-	-	-

Prepared by: Abdul Hamid
Date: Mar. 8, 2017

Reviewed by : Shemin Meralli

Projected Issues	Rate	Projected Amt. as at March 31, 2017	Rate	
		36,456,670.11	10.1570	MOF NPDB
		247,053,094.21	6.7215	OHCDBTGPROV
	3.07467	10,002,740,000.00	5.0395	MOF NPDB
		0.00		MOF NPDB
		0.00		MOF NPDB
149,819.00	-	114,068,385.00	-	MOF NPDB
		0.00	-	
-	0.00000	350,584,177.00	-	
		648,798,299.69	5.9000	
149,819.00	0.00000	**11,399,700,626.01**	4.9359	

Per Brian's	11,399,700,625.92	
	(0.09)	
NPD EFF		
Province	11,399,700,626.01	4.9359
OEFC	230,466,000.00	6.2622
	11,630,166,626.01	**4.9622**

Fixed	Variable	
36,456,670.11		0.00
247,053,094.21		0.00
10,002,740,000.00		0.00
114,068,385.00		0.00
195,440,017.00	155,144,160.00	0.00
648,798,299.69		0.00
11,244,556,466.01	155,144,160.00	-

OEFC Debt
Effective Interest Rate on Debt
March 31/17

Shaded = Non-public

Projected using Feb.28 rates

Series	HG #	Maturity	Issue	Coupon	Yield	IssueCur	Original Issue	Outstanding	FX rate	CAD equiv	Effective rate		Weighting
NPDB:													
OEFC15	2050	Jan 05, 2021	Jan 04, 2001	6.080		CAD	$19,375,000.00	$19,375,000.00		19,375,000.00	6.08000		0.00095
OEFC22	2057	Apr 02, 2021	Mar 28, 2001	6.270		CAD	$45,000,000.00	$45,000,000.00		45,000,000.00	6.27000		0.00221
OEFC23	2059	Apr 03, 2021	Mar 29, 2001	6.290		CAD	$6,000,000.00	$6,000,000.00		6,000,000.00	6.29000		0.00029
OEFC24	2060	Apr 06, 2021	Apr 04, 2001	6.260		CAD	$30,000,000.00	$30,000,000.00		30,000,000.00	6.26000		0.00147
OEFC25	2061	Apr 09, 2021	Apr 04, 2001	6.270		CAD	$33,000,000.00	$33,000,000.00		33,000,000.00	6.27000		0.00162
OEFC30	2074	Jan 04, 2022	May 14, 2002	6.170	6.37598	CAD	$58,961,000.00	$58,961,000.00		58,961,000.00	6.37598		0.00289
OEFC31	2075	Jun 04, 2022	May 31, 2002	6.160		CAD	$38,130,000.00	$38,130,000.00		38,130,000.00	6.16000		0.00187
									NPDB:			**230,466,000.00**	**6.26216**
Prom note - CAD													
PN-289966	2,011	Mar 22, 2017	Dec 21, 2016			CAD		$423,791,000.00		423,791,000.00	**5.96576**		0.02078
PN-292192	2,012	May 24, 2017	Feb 22, 2017			CAD		$177,269,000.00		177,269,000.00	**5.86099**		0.00869
PN-289666	0	Mar 15, 2017	Dec 14, 2016			CAD		$53,000,000.00		53,000,000.00	0.58581		0.00260
						CAD				0.00			0.00000
									Short-term:			**654,060,000.00**	**5.50141**
LONG-TERM: BY CURRENCY													
On-loan from Province													
LT CAD:													
HYL-OH003	0	Aug 25, 2028	Apr 06, 1999	6.250	5.73943	CAD	$78,600,000.00	$78,600,000.00		78,600,000.00	5.73943		0.00385
HYL-OH08	2039	Jun 02, 2027	Feb 11, 2000	7.600	6.64329	CAD	$25,500,000.00	$25,500,000.00		25,500,000.00	6.64329		0.00125
OEFC58	2118	Sep 08, 2023	Nov 29, 2004	8.100	5.22511	CAD	$50,000,000.00	$50,000,000.00		50,000,000.00	5.22511		0.00245
OEFC59	2119	Jun 02, 2027	Nov 29, 2004	7.600	5.32256	CAD	$75,000,000.00	$75,000,000.00		75,000,000.00	5.32256		0.00368
OEFC64	2124	Jun 02, 2020	Feb 22, 2005	4.850	4.86120	CAD	$29,000,000.00	$29,000,000.00		29,000,000.00	4.86120		0.00142
OEFC66	2126	Jun 02, 2018	Jun 06, 2005	5.500	4.39698	CAD	$60,000,000.00	$60,000,000.00		60,000,000.00	4.39698		0.00294
OEFC66A	2131	Jun 02, 2018	May 09, 2006	5.500	4.79880	CAD	$50,000,000.00	$50,000,000.00		50,000,000.00	4.79880		0.00245
OEFC68	2127	Dec 01, 2036	Oct 04, 2005	2.0 real	1.93010 Index linked	CAD	$700,000,000.00	$700,000,000.00		**838,607,000.00**	**3.42112**		0.04112
OEFC72	2136	Jun 02, 2037	Sep 01, 2006	4.700	4.74667	CAD	$200,000,000.00	$200,000,000.00		200,000,000.00	4.74667		0.00981
OEFC72A	2137	Jun 02, 2037	Nov 23, 2006	4.700	4.47500	CAD	$200,000,000.00	$200,000,000.00		200,000,000.00	4.47500		0.00981
OEFC78	2149	Mar 08, 2018	Mar 10, 2008	4.200	4.26770	CAD	$340,000,000.00	$340,000,000.00		340,000,000.00	4.26770		0.01667
OEFC78A	2151	Mar 08, 2018	May 14, 2008	4.200	4.30400	CAD	$300,000,000.00	$300,000,000.00		300,000,000.00	4.30400		0.01471
OEFC78B	2152	Mar 08, 2018	Jun 19, 2008	4.200	4.56970	CAD	$400,000,000.00	$400,000,000.00		400,000,000.00	4.56970		0.01961
OEFC78C	2157	Mar 08, 2018	Dec 12, 2008	4.200	4.36600	CAD	$400,000,000.00	$400,000,000.00		400,000,000.00	4.36600		0.01961
OEFC84	2165	Jun 02, 2019	Apr 27, 2009	4.400	4.35370	CAD		$125,000,000.00		125,000,000.00	4.35370		0.00613
OEFC84A	2168	Jun 02, 2019	Jun 24, 2009	4.400	4.49330	CAD		$150,000,000.00		150,000,000.00	4.49330		0.00735
OEFC84B	2170	Jun 02, 2019	Aug 31, 2009	4.400	4.16230	CAD		$100,000,000.00		100,000,000.00	4.16230		0.00490
OEFC84C	2171	Jun 02, 2019	Oct 02, 2009	4.400	3.99200	CAD		$175,000,000.00		175,000,000.00	3.99200		0.00858

OEFC84D	2198	Jun 02, 2019	Jun 29, 2012	4.400	2.32200		CAD		$250,000,000.00	250,000,000.00	2.32200	0.01226
OEFC86	2169	Jun 02, 2039	Jul 10, 2009	4.600	4.74890		CAD		$100,000,000.00	100,000,000.00	4.74890	0.00490
OEFC90	2176	Jun 02, 2020	Apr 22, 2010	4.200	4.44400		CAD		$75,000,000.00	75,000,000.00	4.44400	0.00368
OEFC90A	2177	Jun 02, 2020	May 18, 2010	4.200	4.36300		CAD		$50,000,000.00	50,000,000.00	4.36300	0.00245
OEFC90B	2178	Jun 02, 2020	Jul 13, 2010	4.200	4.11900		CAD		$150,000,000.00	150,000,000.00	4.11900	0.00735
OEFC90C	2179	Jun 02, 2020	Aug 03, 2010	4.200	4.06000		CAD		$50,000,000.00	50,000,000.00	4.06000	0.00245
OEFC90D	2181	Jun 02, 2020	Sep 22, 2010	4.200	3.78900		CAD		$50,000,000.00	50,000,000.00	3.78900	0.00245
OEFC90E	2182	Jun 02, 2020	Oct 13, 2010	4.200	3.50900		CAD		$100,000,000.00	100,000,000.00	3.50900	0.00490
OEFC90F	2226	Jun 02, 2020	Dec 06, 2013	4.200	2.67900		CAD		$200,000,000.00	200,000,000.00	2.67900	0.00981
OEFC90G	2254	Jun 02, 2020	Sep 09, 2015	4.200	1.33550		CAD		$100,000,000.00	100,000,000.00	1.33550	0.00490
OEFC95	2187	Jun 02, 2041	Mar 09, 2011	4.650	4.58320		CAD		$150,000,000.00	150,000,000.00	4.58320	0.00735
OEFC95A	2191	Jun 02, 2041	Sep 13, 2011	4.650	3.84500		CAD		$132,000,000.00	132,000,000.00	3.84500	0.00647
OEFC96	2188	Jun 02, 2021	Apr 15, 2011	4.000	4.21740		CAD		$50,000,000.00	50,000,000.00	4.21740	0.00245
OEFC96A	2190	Jun 02, 2021	Aug 17, 2011	4.000	3.28800		CAD		$35,000,000.00	35,000,000.00	3.28800	0.00172
OEFC97	2194	Jun 02, 2022	May 03, 2012	3.150	3.09500		CAD		$35,000,000.00	35,000,000.00	3.09500	0.00172
OEFC97A	2195	Jun 02, 2022	May 29, 2012	3.150	2.93260		CAD		$200,000,000.00	200,000,000.00	2.93260	0.00981
OEFC97B	2199	Jun 02, 2022	Jul 20, 2012	3.150	2.63900		CAD		$43,300,000.00	43,300,000.00	2.63900	0.00212
OEFC97C	2200	Jun 02, 2022	Aug 24, 2012	3.150	2.92000		CAD		$100,000,000.00	100,000,000.00	2.92000	0.00490
OEFC97D	2201	Jun 02, 2022	Sep 19, 2012	3.150	2.90600		CAD		$100,000,000.00	100,000,000.00	2.90600	0.00490
OEFC98	2196	Jun 02, 2043	May 15, 2012	3.500	3.57200		CAD		$200,000,000.00	200,000,000.00	3.57200	0.00981
OEFC99	2202	Jun 02, 2023	Nov 06, 2012	2.850	2.87900		CAD		$30,000,000.00	30,000,000.00	2.87900	0.00147
OEFC99A	2203	Jun 02, 2023	Nov 06, 2012	2.850	2.87900		CAD		$250,000,000.00	250,000,000.00	2.87900	0.01226
OEFC99B	2207	Jun 02, 2023	Feb 08, 2013	2.850	3.06000		CAD	CAD	$20,500,000.00	20,500,000.00	3.06000	0.00101
OEFC99C	2208	Jun 02, 2023	Feb 08, 2013	2.850	3.06000		CAD	CAD	$142,000,000.00	142,000,000.00	3.06000	0.00696
OEFC99D	2210	Jun 02, 2023	May 24, 2013	2.850	2.80600		CAD		$20,000,000.00	20,000,000.00	2.80600	0.00098
OEFC99E	2211	Jun 02, 2023	May 24, 2013	2.850	2.80600		CAD		$380,000,000.00	380,000,000.00	2.80600	0.01863
OEFC99F	2213	Jun 02, 2023	Jun 17, 2013	2.850	3.11600		CAD		$400,000,000.00	400,000,000.00	3.11600	0.01961
OEFC99G	2214	Jun 02, 2023	Jun 21, 2013	2.850	3.04400		CAD		$200,000,000.00	200,000,000.00	3.04400	0.00981
OEFC99H	2216	Jun 02, 2023	Aug 02, 2013	2.850	3.36800		CAD		$300,000,000.00	300,000,000.00	3.36800	0.01471
OEFC99I	2217	Jun 02, 2023	Aug 30, 2013	2.850	3.54300		CAD		$350,000,000.00	350,000,000.00	3.54300	0.01716
OEFC99J	2218	Jun 02, 2023	Sep 24, 2013	2.850	3.61300		CAD		$250,000,000.00	250,000,000.00	3.61300	0.01226
OEFC99K	2220	Jun 02, 2023	Oct 15, 2013	2.850	3.47400		CAD		$200,000,000.00	200,000,000.00	3.47400	0.00981
OEFC99L	2222	Jun 02, 2023	Oct 28, 2013	2.850	3.31800		CAD		$100,000,000.00	100,000,000.00	3.31800	0.00490
OEFC99M	2245	Jun 02, 2023	Jan 16, 2015	2.850	2.31200		CAD		$134,800,000.00	134,800,000.00	2.31200	0.00661
OEFC100	2204	Nov 23, 2017	Nov 23, 2012	var		3M CDOR +2	CAD		$100,000,000.00	100,000,000.00	**1.20000**	0.00490
OEFC100A	2205	Nov 23, 2017	Nov 23, 2012	var		3M CDOR +2	CAD	CAD	$35,000,000.00	35,000,000.00	**1.20000**	0.00172
OEFC100B	2206	Nov 23, 2017	Nov 23, 2012	var		3M CDOR +2	CAD	CAD	$70,000,000.00	70,000,000.00	**1.20000**	0.00343
OEFC102	2215	Sep 08, 2018	Jul 22, 2013	2.100	2.24800		CAD		$150,000,000.00	150,000,000.00	2.24800	0.00735
OEFC102A	2221	Sep 08, 2018	Oct 22, 2013	2.100	2.35300		CAD		$100,000,000.00	100,000,000.00	2.35300	0.00490
OEFC102B	2231	Sep 08, 2018	Feb 07, 2014	2.100	1.94700		CAD		$122,000,000.00	122,000,000.00	1.94700	0.00598
OEFC103	2219	Jun 02, 2045	Oct 01, 2013	3.450	4.10900		CAD		$100,000,000.00	100,000,000.00	4.10900	0.00490
OEFC103A	2223	Jun 02, 2045	Oct 28, 2013	3.450	4.06700		CAD		$50,000,000.00	50,000,000.00	4.06700	0.00245
OEFC103B	2225	Jun 02, 2045	Nov 28, 2013	3.450	4.13800		CAD		$50,000,000.00	50,000,000.00	4.13800	0.00245
OEFC103C	2227	Jun 02, 2045	Dec 17, 2013	3.450	4.14500		CAD		$75,000,000.00	75,000,000.00	4.14500	0.00368
OEFC103D	2230	Jun 02, 2045	Feb 04, 2014	3.450	3.90000		CAD		$150,000,000.00	150,000,000.00	3.90000	0.00735
OEFC103E	2234	Jun 02, 2045	May 20, 2014	3.450	3.79800		CAD		$100,000,000.00	100,000,000.00	3.79800	0.00490
OEFC104	2224	Jun 02, 2024	Nov 25, 2013	3.500	3.52500		CAD		$100,000,000.00	100,000,000.00	3.52500	0.00490
OEFC104A	2228	Jun 02, 2024	Jan 10, 2014	3.500	3.62400		CAD		$100,000,000.00	100,000,000.00	3.62400	0.00490
OEFC104B	2229	Jun 02, 2024	Jan 21, 2014	3.500	3.44100		CAD		$100,000,000.00	100,000,000.00	3.44100	0.00490

OEFC104C	2232	Jun 02, 2024	May 12, 2014	3.500	3.22500	CAD		$350,000,000.00	350,000,000.00	3.22500		0.01716
OEFC104D	2235	Jun 02, 2024	May 27, 2014	3.500	3.17600	CAD		$100,000,000.00	100,000,000.00	3.17600		0.00490
OEFC104E	2237	Jun 02, 2024	Jul 02, 2014	3.500	3.07800	CAD		$100,000,000.00	100,000,000.00	3.07800		0.00490
OEFC104F	2238	Jun 02, 2024	Aug 06, 2014	3.500	3.01900	CAD		$100,000,000.00	100,000,000.00	3.01900		0.00490
OEFC104G	2239	Jun 02, 2024	Sep 02, 2014	3.500	2.84960	CAD		$100,000,000.00	100,000,000.00	2.84960		0.00490
OEFC104H	2240	Jun 02, 2024	Sep 29, 2014	3.500	3.00200	CAD		$200,000,000.00	200,000,000.00	3.00200		0.00981
OEFC104I	2241	Jun 02, 2024	Oct 28, 2014	3.500	2.85900	CAD		$100,000,000.00	100,000,000.00	2.85900		0.00490
OEFC104J	2242	Jun 02, 2024	Nov 12, 2014	3.500	2.91100	CAD		$50,000,000.00	50,000,000.00	2.91100		0.00245
OEFC104K	2243	Jun 02, 2024	Nov 26, 2014	3.500	2.85100	CAD		$150,000,000.00	150,000,000.00	2.85100		0.00735
OEFC105	2236	Sep 08, 2019	Jun 05, 2014	2.100	2.13700	CAD		$100,000,000.00	100,000,000.00	2.13700		0.00490
OEFC106	2244	Jun 02, 2025	Jan 09, 2015	2.600	2.64500	CAD		$100,000,000.00	100,000,000.00	2.64500		0.00490
OEFC106A	2248	Jun 02, 2025	May 08, 2015	2.600	2.48400	CAD		$100,000,000.00	100,000,000.00	2.48400		0.00490
OEFC106B	2249	Jun 02, 2025	Jun 08, 2015	2.600	2.51400	CAD		$200,000,000.00	200,000,000.00	2.51400		0.00981
OEFC106C	2250	Jun 02, 2025	Jun 12, 2015	2.600	2.61900	CAD		$100,000,000.00	100,000,000.00	2.61900		0.00490
OEFC106D	2251	Jun 02, 2025	Jul 14, 2015	2.600	2.37760	CAD		$100,000,000.00	100,000,000.00	2.37760		0.00490
OEFC106E	2252	Jun 02, 2025	Aug 05, 2015	2.600	2.27280	CAD		$200,000,000.00	200,000,000.00	2.27280		0.00981
OEFC106F	2253	Jun 02, 2025	Sep 01, 2015	2.600	2.33000	CAD		$100,000,000.00	100,000,000.00	2.33000		0.00490
OEFC106G	2255	Jun 02, 2025	Oct 05, 2015	2.600	2.45200	CAD		$150,000,000.00	150,000,000.00	2.45200		0.00735
OEFC107	2246	Dec 02, 2046	Feb 02, 2015	2.900	2.91600	CAD		$75,000,000.00	75,000,000.00	2.91600		0.00368
OEFC107A	2247	Dec 02, 2046	Feb 03, 2015	2.900	2.85700	CAD		$74,750,000.00	74,750,000.00	2.85700		0.00367
Old Hydro debt												
HYD-FP9	0	Apr 11, 2031	Mar 25, 1991	10.800	zero coupon bonds	CAD		$750,000,000.00	750,000,000.00	10.80000		0.03677
HYD-DK2	0	Feb 06, 2020	Feb 06, 1990	10.000	10.04241	CAD	$500,000,000.00	$484,239,000.00	484,239,000.00	10.04241		0.02374
HYD-DQ9	0	Nov 27, 2020	Nov 27, 1990	11.500	11.60511	CAD	$250,000,000.00	$250,000,000.00	250,000,000.00	11.60511		0.01226
HYD-DS5	0	Oct 01, 2020	Dec 18, 1990	11.000	11.21566	CAD	$250,000,000.00	$250,000,000.00	250,000,000.00	11.21566		0.01226
HYD-DW6	0	Aug 06, 2021	Aug 06, 1991	10.750	10.85195	CAD	$350,000,000.00	$350,000,000.00	350,000,000.00	10.85195		0.01716
HYD-FQ7	0	Oct 15, 2021	Oct 15, 1991	10.125	10.22403	CAD	$1,250,000,000.00	$1,196,500,000.00	1,196,500,000.00	10.22403		0.05867
HYD-FV6	0	Aug 18, 2022	Aug 18, 1992	8.900	9.21534	CAD	$750,000,000.00	$879,300,000.00	879,300,000.00	9.21534		0.04311
HYD-GB9	0	May 26, 2025	May 26, 1995	8.500	8.63124	CAD	$500,000,000.00	$500,000,000.00	500,000,000.00	8.63124		0.02452
HYD-GD5	0	May 26, 2025	Sep 07, 1995	9.000	9.07807	CAD	$500,000,000.00	$500,000,000.00	500,000,000.00	9.07807		0.02452
HYD-ECDN	0	Nov 06, 2020	Nov 06, 1995	8.400	7.86091	CAD	$75,000,000.00	$37,510,000.00	37,510,000.00	7.86091		0.00184
HYD-GT0-1	0	Oct 17, 2031	Jan 23, 1998	6.000	6.11398	CAD	$59,000,000.00	$100,000,000.00	100,000,000.00	6.11398		0.00490
HYD-GR4	0	Jul 18, 2027	Jul 18, 1998	6.594	6.59400	CAD	$114,900,000.00	$12,070,000.00	12,070,000.00	6.59400		0.00059
HYD-GG8	2026	Jun 22, 2026	Jun 21, 1996	8.250	8.26535	CAD	$500,000,000.00	$1,000,000,000.00	1,000,000,000.00	8.26535		0.04903
								LT CAD:			**18,805,676,000.00**	**5.50170**
LT USD:												
OEFC81	2159	Dec 18, 2018	Dec 18, 2008	4.280		**USD**	$60,000,000.00	$60,000,000.00	1.227500	73,650,000.00	**4.21900**	0.00361
OEFC101	2209	Feb 14, 2018	Feb 14, 2013	1.200		**USD**		$295,000,000.00	1.00	295,000,000.00	**1.26855**	0.01446
								LT USD:			**368,650,000.00**	**1.85800**
LT EURO:												
OEFC83	2161	Oct 09, 2017	Jan 09, 2009	var	3M EURIBOR +139bp	**EUR**	$105,000,000.00	$105,000,000.00	1.708000	179,340,000.00	**3.99700**	0.00879
								LT EURO:			**179,340,000.00**	**3.99700**

LT OTHER CURRENCIES:

OEFC80	2158	Jul 30, 2018	Dec 29, 2008	3.750		**CHF**	$125,000,000.00	$125,000,000.00	1.250087	**156,260,812.54**	**1.28341**		0.00766

LT OTHER CURRENCIES:	**156,260,812.54**	**1.28341**
Total debt after adjustments	**20,394,452,812.54**	**5.39887**

	Amount	**Eff**
CAD ST	654,060,000	5.50141
CAD LT	18,805,676,000	5.50170
USD LT	368,650,000	1.85800
EUR LT	179,340,000	3.99700
Other Currency	156,260,813	1.28341
CPP (NPD)	230,466,000	6.26216
Total	**20,394,452,813**	**5.39887**
	-	-
CAD	19,690,202,000	5.51060

										13,430,773,812.54			
										654,060,000.00			
USCP													
						USD			1.3248				0.00000
										$0.00			
Term loan from Province		term loans				CAD				0.00			0.00000
						CAD				0.00			0.00000
						USD			1.3248	$0.00			0.00000
										0.00			
								Held by Province	**Total**	**14,084,833,812.54**			
								Prov. Guaranteed		**6,309,619,000.00**			
N.B.													
Where debt is hedged, yield = hedged rate									Total Debt	**20,394,452,812.54**			**1.00000**

Unhedged CAD debt, yield as per original ticket

ST	**TOTAL ST**	**$654,060,000.00**
LT	**TOTAL LT**	**$19,740,392,812.54**
		$20,394,452,812.54

Unamortized FX gain	21,280,126	credit balance
	$20,415,732,938.54	
less:	$9,712,809	net discounts/commission
	$20,406,020,129.92	

zero coupon bonds maturing at $81 mln annually (recorded as interest)

HYD-EZ8	0	Apr 11, 2017	Mar 25, 1991
HYD-FA2	0	Apr 11, 2018	Mar 25, 1991
HYD-FB0	0	Apr 11, 2019	Mar 25, 1991
HYD-FC8	0	Apr 11, 2020	Mar 25, 1991
HYD-FD6	0	Apr 11, 2021	Mar 25, 1991
HYD-FE4	0	Apr 11, 2022	Mar 25, 1991
HYD-FF1	0	Apr 11, 2023	Mar 25, 1991
HYD-FG9	0	Apr 11, 2024	Mar 25, 1991
HYD-FH7	0	Apr 11, 2025	Mar 25, 1991
HYD-FJ3	0	Apr 11, 2026	Mar 25, 1991
HYD-FK0	0	Apr 11, 2027	Mar 25, 1991
HYD-FL8	0	Apr 11, 2028	Mar 25, 1991
HYD-FM6	0	Apr 11, 2029	Mar 25, 1991
HYD-FN4		Apr 11, 2030	Mar 25, 1991

	Fixed	Variable		
0.00578	19,375,000.00		704,250,812.54	
0.01383	45,000,000.00			
0.00185	6,000,000.00		12,726,523,000.00	CAD from Prov
0.00921	30,000,000.00			
0.01015	33,000,000.00			
0.01843	58,961,000.00			
0.01152	38,130,000.00			
0.12397	423,791,000.00			
0.05094	177,269,000.00			
0.00152	53,000,000.00			
0.00000	0.00			
0.02212	78,600,000.00		368,650,000.00	USD
0.00831	25,500,000.00		335,600,812.54	FX Debt
0.01281	50,000,000.00			
0.01957	75,000,000.00			
0.00691	29,000,000.00			
0.01294	60,000,000.00			
0.01176	50,000,000.00			
0.14067	838,607,000.00			
0.04655	200,000,000.00			
0.04388	200,000,000.00			
0.07115	340,000,000.00			
0.06331	300,000,000.00			
0.08963	400,000,000.00			
0.08563	400,000,000.00			
0.02668	125,000,000.00			
0.03305	150,000,000.00			
0.02041	100,000,000.00			
0.03425	175,000,000.00			

0.02846		250,000,000.00	
0.02329		100,000,000.00	
0.01634		75,000,000.00	
0.01070		50,000,000.00	
0.03030		150,000,000.00	
0.00995		50,000,000.00	
0.00929		50,000,000.00	
0.01721		100,000,000.00	
0.02627		200,000,000.00	
0.00655		100,000,000.00	
0.03371		150,000,000.00	
0.02489		132,000,000.00	
0.01034		50,000,000.00	
0.00564		35,000,000.00	
0.00531		35,000,000.00	
0.02876		200,000,000.00	
0.00560		43,300,000.00	
0.01432		100,000,000.00	
0.01425		100,000,000.00	
0.03503		200,000,000.00	
0.00423		30,000,000.00	
0.03529		250,000,000.00	
0.00308		20,500,000.00	
0.02131		142,000,000.00	
0.00275		20,000,000.00	
0.05228		380,000,000.00	
0.06111		400,000,000.00	
0.02985		200,000,000.00	
0.04954		300,000,000.00	
0.06080		350,000,000.00	
0.04429		250,000,000.00	
0.03407		200,000,000.00	
0.01627		100,000,000.00	
0.01528		134,800,000.00	
0.00588	no swap		100,000,000.000
0.00206	no swap		35,000,000.000
0.00412	no swap		70,000,000.000
0.01653		150,000,000.00	
0.01154		100,000,000.00	
0.01165		122,000,000.00	
0.02015		100,000,000.00	
0.00997		50,000,000.00	
0.01014		50,000,000.00	
0.01524		75,000,000.00	
0.02868		150,000,000.00	
0.01862		100,000,000.00	
0.01728		100,000,000.00	
0.01777		100,000,000.00	
0.01687		100,000,000.00	

0.05535	350,000,000.00
0.01557	100,000,000.00
0.01509	100,000,000.00
0.01480	100,000,000.00
0.01397	100,000,000.00
0.02944	200,000,000.00
0.01402	100,000,000.00
0.00714	50,000,000.00
0.02097	150,000,000.00
0.01048	100,000,000.00
0.01297	100,000,000.00
0.01218	100,000,000.00
0.02465	200,000,000.00
0.01284	100,000,000.00
0.01166	100,000,000.00
0.02229	200,000,000.00
0.01142	100,000,000.00
0.01803	150,000,000.00
0.01072	75,000,000.00
0.01047	74,750,000.00
0.39717	750,000,000.00
0.23844	484,239,000.00
0.14226	250,000,000.00
0.13748	250,000,000.00
0.18624	350,000,000.00
0.59982	1,196,500,000.00
0.39732	879,300,000.00
0.21161	500,000,000.00
0.22256	500,000,000.00
0.01446	37,510,000.00
0.02998	100,000,000.00
0.00390	12,070,000.00
0.40527	1,000,000,000.00
0.01524	73,650,000.00
0.01835	295,000,000.00
0.03515	179,340,000.00

0.00983	156,260,812.54		
	20,189,452,812.54	205,000,000.00	20,394,452,812.54

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0.00000

0.00000
0.00000
0.00000

5.39887

Effect Rate

ONTARIO INFRASTRUCTURE AND LANDS CORPORATION (OILC)
DEBT SUMMARY AND EFFECTIVE RATE CALCULATION
FORECAST AS ATMARCH 31, 2017 (Feb 28,2017 cutoff) 31-Mar-17

	Hedge #	Ticket #	Issue Date	Maturity Date	Outstanding Debt as at	Discount Rates	Source Data	Discount	Proceeds	Yield	Accrued Interest	Outstanding Debt as at	Eff Rate
					31-Mar-17							31-Mar-17	31-Mar-17
Infrastructure Renewal Bonds (IRB1)	874	146103	Apr-26-2007	Jun-01-2037	300,000,000		Per Eff. Interest ARS Report					300,000,000.00	1.25430
Commercial Paper (CP):					-								
					300,000,000			-	-		-		

Total IRB	300,000,000
Total CP	
- Less OTF	
- Less OTF	-
TOTAL PUBLIC DEBT AT PAR	**300,000,000**

Reconciliation of Debt:		
Public Debt at PAR		**300,000,000**
Less: Future Interest		-
OILC Public Debt Outstanding as at	31-Mar-17	**300,000,000**
Non-Public Debt :		
OIIC debt		350,584,177
OILC Non-Public Debt Outstanding as at	31-Mar-17	**350,584,177**
Total OILC Debt		**650,584,177**

Effective Rate as at December 31, 2016 - Public Debt	**300,000,000.00**	**1.254300**

Prepared by: San Rajaratnam
Date: Mar 28, 2017

Reviewed by: Siva Nathan
Date:

Public Debt & Non-Public Debt		
Effective Interest Rate as at Forecast 3/31/17 (Doc 2017- Feb 28,17 cut-off)		*1.254300*
Effective Interest Rate as at	*12/31/2016*	*1.237600*
Effective Interest Rate as at	*9/30/2016*	*1.204200*
Effective Interest Rate as at	*6/30/2016*	*1.193100*
Effective Interest Rate as at	*3/31/2016*	*1.192600*
Effective Interest Rate as at	*12/31/2015*	*1.166100*
Effective Interest Rate as at	*12/31/2015*	*1.166100*
Effective Interest Rate as at	*9/30/2015*	*1.085700*
Effective Interest Rate as at	*6/30/2015*	*1.298900*
Effective Interest Rate as at	*3/31/2015*	*1.417021*
Effective Interest Rate as at Forecast 3/31/15 (Doc 2015- Feb 28,15 cut-off)		*1.483179*
Effective Interest Rate as at Forecast 3/31/15 (Doc 2015-Jan 31,15 cut-off)		*1.750405*

Effective Interest Rate as at	*12/31/2014*	*1.750405*
Effective Interest Rate as at	*30-Sep-14*	*1.739811*
Effective Interest Rate as at	*30-Jun-14*	*1.542406*
Effective Interest Rate as at	*31-Mar-14*	*1.456742*
Effective Interest Rate as at	*31-Jan-14*	*1.464665*

COMPUTERSHARE TRUST COMPANY OF CANADA
PROVINCE OF ONTARIO SAVINGS BONDS
MONTHLY OUTSTANDING REPORT - AS AT February 28, 2017

ACTIVE BONDS		BONDS REDEEMED - BANK CLEARING RECONCILED	PRINCIPAL AMOUNT OUTSTANDING		Fixed	Variable	
2010 SERIES							
Fixed Rate Bonds (7 yrs)	Compound	$0	$8,571,600	3.75%	8,571,600		
	Annual	$0	$9,789,400	3.75%	9,789,400		
Fixed Rate Bonds (10 yrs)	Compound	$0	$30,518,800	4.25%	30,518,800		
	Annual	$0	$41,858,000	4.25%	41,858,000		
	TOTAL 2010	$0	$90,737,800				
2011 SERIES							
Fixed Rate Bonds (7 yrs)	Compound	$0	$6,202,700	3.20%	6,202,700		
	Annual	$0	$6,479,100	3.20%	6,479,100		
Fixed Rate Bonds (10 yrs)	Compound	$0	$12,889,200	3.80%	12,889,200		
	Annual	$0	$11,636,500	3.80%	11,636,500		
	TOTAL 2011	$0	$37,207,500				
2012 SERIES							
Step-Up Bonds	Compound	$0	$212,326,700	2.25%	212,326,700		
	Annual	$0	$338,261,000	2.25%	338,261,000		
Fixed Rate Bonds (10 yrs)	Compound	$0	$5,100,100	2.80%	5,100,100		
	Annual	$0	$3,983,600	2.80%	3,983,600		
	TOTAL 2012	$0	$559,671,400				
2013 SERIES							
Step-Up Bonds	Compound	$0	$78,022,200	2.00%	78,022,200		
	Annual	$0	$199,822,900	2.00%	199,822,900		
Fixed Rate Bonds (10 yrs)	Compound	$0	$7,091,200	3.10%	7,091,200		
	Annual	$0	$10,578,100	3.10%	10,578,100		
	TOTAL 2013	$0	$295,514,400				
2014 SERIES							
Step-Up Bonds	Compound	$0	$159,291,900	2.00%	159,291,900		
	Annual	$0	$294,011,400	2.00%	294,011,400		
Variable Bonds	Compound	$0	$7,142,600	0.65%		7,142,600	
	Annual	$0	$2,372,600	0.65%		2,372,600	
Fixed Rate Bonds (3 yrs)	Compound	$0	$3,253,300	1.35%	3,253,300		
	Annual	$0	$3,422,000	1.35%	3,422,000		
Fixed Rate Bonds (10 yrs)	Compound	$0	$9,434,100	3.10%	9,434,100		
	Annual	$0	$18,944,400	3.10%	18,944,400		
	TOTAL 2014	$0	$497,872,300				
2015 SERIES							
Step-Up Bonds	Compound	$0	$11,131,100	0.90%	11,131,100		
	Annual	$0	$27,823,700	0.90%	27,823,700		
Variable Bonds	Compound	$0	$2,165,700	0.65%		2,165,700	
	Annual	$0	$2,241,600	0.65%		2,241,600	
Fixed Rate Bonds (3 yrs)	Compound	$0	$1,184,900	0.90%	1,184,900		
	Annual	$0	$2,137,400	0.90%	2,137,400		
Fixed Rate Bonds (10 yrs)	Compound	$0	$3,184,500	2.35%	3,184,500		
	Annual	$0	$3,961,600	2.35%	3,961,600		
	TOTAL 2015	$0	$53,830,500				
2016 SERIES							
Step-Up Bonds	Compound	$0	$9,224,900	0.60%	9,224,900		
	Annual	$0	$22,796,200	0.60%	22,796,200		
Variable Bonds	Compound	$0	$2,706,000	0.65%		2,706,000	
	Annual	$0	$2,936,500	0.65%		2,936,500	
Fixed Rate Bonds (3 yrs)	Compound	$0	$2,658,700	1.00%	2,658,700		
	Annual	$0	$2,552,400	1.00%	2,552,400		
Fixed Rate Bonds (10 yrs)	Compound	$0	$6,355,800	2.20%	6,355,800		
	Annual	$0	$4,795,100	2.20%	4,795,100		
	TOTAL 2015	$0	$54,025,600				
TOTAL OUTSTANDING ACTIVE BONDS			$1,588,859,500				
Matured, per Jan 31, 2017 - Computershare rpt.			$56,612,200	0.0000%	56,612,200		
					-		
Adjustment to reconcile to Brian's Consolidated Debt		Active	-	2.2060%	-		
		Matured	(44,800)	0.0000%	(44,800)		
Per TAS, as at February 28, 2017			1,645,426,900	2.1302%	1,625,861,900	19,565,000	1,645,426,900
							-
OSBs per Brian's Consolidated Debt Schedule			1,645,426,900				
Difference			-				

Prepared by: Abdul Hamid
6-Mar-17

Reviewed by: Shemin Merallil

ONTARIO FINANCING AUTHORITY
T-Bill Interest Deferral
Client: MOF As Of Date: 2/28/2017
Debt Portfolios: MOF PDB,MOF4SLT,MOF4IMO

Printed On: 3/6/2017 10:33:31 AM

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18		
	Liab Code	HG #		Settlement	Maturity		CUR		Par Value		Proceeds		Discount	Yield	EFF	Term	Days Accrual	Days Rem.	Accrual Int.	Future Int.
Agencies	TB-291271	0		31-Jan-2017	01-Mar-2017		CAD		20,759,000.00		20,749,658.45		9,341.55			29	28	1	9,019.43	322.12
Agencies	TB-291304	0		01-Feb-2017	01-Mar-2017		CAD		112,140,000.00		112,090,983.61		49,016.39			28	27	1	47,265.81	1,750.59
Agencies	TB-280455	0		23-Mar-2016	22-Mar-2017		CAD		7,936,000.00		7,880,359.91		55,640.09			364	342	22	52,277.23	3,362.86
Agencies	TB-285156	0		24-Aug-2016	22-Mar-2017		CAD		25,731,000.00		25,637,043.25		93,956.75			210	188	22	84,113.66	9,843.09
Agencies	TB-288220	0		02-Nov-2016	22-Mar-2017		CAD		13,531,000.00		13,499,931.47		31,068.53			140	118	22	26,186.33	4,882.20
Agencies	TB-288220	0		17-Nov-2016	22-Mar-2017		CAD		(4,158,000.00)		(4,149,473.61)		(8,526.39)			125	103	22	(7,025.75)	(1,500.65)
Agencies	TB-280455	0		30-Nov-2016	22-Mar-2017		CAD		(2,057,000.00)		(2,053,282.80)		(3,717.20)			112	90	22	(2,987.04)	(730.17)
Agencies	TB-280455	0		06-Jan-2017	22-Mar-2017		CAD		(721,000.00)		(720,097.38)		(902.62)			75	53	22	(637.85)	(264.77)
Agencies	TB-280455	0		13-Feb-2017	22-Mar-2017		CAD		(952,000.00)		(951,450.22)		(549.78)			37	15	22	(222.88)	(326.90)
Agencies	TB-287003	0		21-Sep-2016	19-Apr-2017		CAD		25,483,000.00		25,389,948.83		93,051.17			210	160	50	70,896.13	22,155.04
Agencies	TB-291037	0		25-Jan-2017	26-Apr-2017		CAD		3,004,000.00		2,999,430.92		4,569.08			91	34	57	1,707.13	2,861.95
Agencies	TB-281732	0		04-May-2016	03-May-2017		CAD		20,145,000.00		20,000,195.73		144,804.27			364	300	64	119,344.18	25,460.09
Agencies	TB-288023	0		26-Oct-2016	03-May-2017		CAD		433,000.00		431,592.06		1,407.94			189	125	64	931.18	476.76
Agencies	TB-281971	0		11-May-2016	10-May-2017		CAD		1,651,000.00		1,639,723.34		11,276.66			364	293	71	9,077.09	2,199.57
Agencies	TB-288021	0		26-Oct-2016	17-May-2017		CAD		22,425,000.00		22,346,328.62		78,671.39			203	125	78	48,442.97	30,228.41
Agencies	TB-282318	0		25-May-2016	24-May-2017		CAD		18,786,000.00		18,651,334.44		134,665.56			364	279	85	103,218.93	31,446.63
Agencies	TB-288881	0		23-Nov-2016	21-Jun-2017		CAD		25,538,000.00		25,443,580.91		94,419.09			210	97	113	43,612.63	50,806.46
Agencies	TB-283460	0		04-Jul-2016	28-Jun-2017		CAD		1,757,000.00		1,745,668.05		11,331.95			359	239	120	7,544.11	3,787.84
Agencies	TB-283542	0		06-Jul-2016	28-Jun-2017		CAD		259,000.00		257,388.81		1,611.19			357	237	120	1,069.61	541.58
Agencies	TB-288883	0		23-Nov-2016	19-Jul-2017		CAD		25,576,000.00		25,467,726.56		108,273.44			238	97	141	44,128.25	64,145.19
Agencies	TB-284190	0		27-Jul-2016	26-Jul-2017		CAD		11,418,000.00		11,342,215.31		75,784.69			364	216	148	44,971.14	30,813.56
Agencies	TB-289972	0		21-Dec-2016	16-Aug-2017		CAD		25,742,000.00		25,627,033.65		114,966.35			238	69	169	33,330.58	81,635.77
Agencies	TB-291039	0		25-Jan-2017	20-Sep-2017		CAD		25,606,000.00		25,489,656.58		116,343.42			238	34	204	16,620.49	99,722.93
Agencies	TB-292194	0		22-Feb-2017	18-Oct-2017		CAD		25,845,000.00		25,728,405.45		116,594.55			238	6	232	2,939.36	113,655.19
									405,877,000.00											
									-											
Province:																				
MOF	TB-279701	0		02-Mar-2016	01-Mar-2017		CAD		50,000,000.00		49,664,199.00		335,801.00	0.67800	0.67800	364	363	1	334,878.47	922.53
MOF	TB-285366	0		31-Aug-2016	01-Mar-2017		CAD		100,000,000.00		99,684,445.00		315,555.00	0.63485	0.63485	182	181	1	313,821.18	1,733.82
MOF	TB-289118	0		30-Nov-2016	01-Mar-2017		CAD		349,568,000.00		349,066,418.86		501,581.14	0.57635	0.57635	91	90	1	496,069.26	5,511.88
MOF	TB-279984	0		09-Mar-2016	08-Mar-2017		CAD		50,000,000.00		49,659,771.50		340,228.50	0.68700	0.68700	364	356	8	332,750.95	7,477.55
MOF	TB-286589	0		07-Sep-2016	08-Mar-2017		CAD		100,000,000.00		99,687,467.50		312,532.50	0.62875	0.62875	182	174	8	298,794.81	13,737.69
MOF	TB-289373	0		07-Dec-2016	08-Mar-2017		CAD		349,566,000.00		349,062,282.44		503,717.56	0.57881	0.57881	91	83	8	459,434.70	44,282.86
MOF	TB-280232	0		16-Mar-2016	15-Mar-2017		CAD		50,000,000.00		49,655,248.00		344,752.00	0.69620	0.69620	364	349	15	330,545.19	14,206.81
MOF	TB-286787	0		14-Sep-2016	15-Mar-2017		CAD		100,000,000.00		99,687,194.50		312,805.50	0.62930	0.62930	182	167	15	287,024.83	25,780.67
MOF	TB-289663	0		14-Dec-2016	15-Mar-2017		CAD		296,561,000.00		296,127,870.97		433,129.03	0.58666	0.58666	91	76	15	361,734.13	71,394.89
MOF	TB-280450	0		23-Mar-2016	22-Mar-2017		CAD		50,000,000.00		49,649,641.00		350,359.00	0.70760	0.70760	364	342	22	329,183.46	21,175.54
MOF	TB-287000	0		21-Sep-2016	22-Mar-2017		CAD		100,000,000.00		99,686,923.50		313,076.50	0.62985	0.62985	182	160	22	275,232.09	37,844.41
MOF	TB-289962	0		21-Dec-2016	22-Mar-2017		CAD		176,133,000.00		175,868,390.65		264,609.35	0.60349	0.60349	91	69	22	200,637.86	63,971.49
MOF	TB-292244	0		23-Feb-2017	22-Mar-2017		CAD		1,789,000.00		1,788,272.41		727.59	0.55002	0.55002	27	5	22	134.74	592.85
MOF	TB-280582	0		30-Mar-2016	29-Mar-2017		CAD		50,000,000.00		49,653,871.00		346,129.00	0.69900	0.69900	364	335	29	318,552.79	27,576.21
MOF	TB-287213	0		28-Sep-2016	29-Mar-2017		CAD		100,000,000.00		99,692,197.00		307,803.00	0.61920	0.61920	182	153	29	258,757.47	49,045.53
MOF	TB-290117	0		28-Dec-2016	29-Mar-2017		CAD		590,138,000.00		589,231,520.79		906,479.21	0.61705	0.61705	91	62	29	617,601.22	288,877.99
OTF	TB-290117	0		28-Dec-2016	29-Mar-2017		CAD		(10,766,000.00)		(10,749,462.93)		(16,537.07)	0.61705	0.61705	91	62	29		
MOF	TB-280781	0		06-Apr-2016	05-Apr-2017		CAD		50,000,000.00		49,651,412.00		348,588.00	0.70400	0.70400	364	328	36	314,112.26	34,475.74
MOF	TB-287403	0		05-Oct-2016	05-Apr-2017		CAD		100,000,000.00		99,691,999.00		308,001.00	0.61960	0.61960	182	146	36	247,077.73	60,923.27
MOF	TB-290317	0		04-Jan-2017	05-Apr-2017		CAD		650,000,000.00		649,001,846.50		998,153.50	0.61688	0.61688	91	55	36	603,279.59	394,873.91
MOF	TB-281018	0		13-Apr-2016	12-Apr-2017		CAD		50,000,000.00		49,638,630.00		361,370.00	0.73000	0.73000	364	321	43	318,680.69	42,689.31
MOF	TB-287543	0		12-Oct-2016	12-Apr-2017		CAD		150,000,000.00		149,531,683.00		468,317.00	0.62810	0.62810	182	139	43	357,670.68	110,646.32
MOF	TB-290561	0		11-Jan-2017	12-Apr-2017		CAD		650,000,000.00		649,012,722.50		987,277.50	0.61015	0.61015	91	48	43	520,761.76	466,515.74
OTF	TB-290561	0		11-Jan-2017	12-Apr-2017		CAD		(23,549,000.00)		(23,513,231.70)		(35,768.30)	0.61015	0.61015	91	48	43		
MOF	TB-281238	0		20-Apr-2016	19-Apr-2017		CAD		50,000,000.00		49,629,885.00		370,115.00	0.74780	0.74780	364	314	50	319,275.03	50,839.97
MOF	TB-287766	0		19-Oct-2016	19-Apr-2017		CAD		150,000,000.00		149,526,925.50		473,074.50	0.63450	0.63450	182	132	50	343,108.98	129,965.52
MOF	TB-290760	0		18-Jan-2017	19-Apr-2017		CAD		650,000,000.00		649,015,809.50		984,190.50	0.60824	0.60824	91	41	50	443,426.49	540,764.01
MOF	TB-281457	0		27-Apr-2016	26-Apr-2017		CAD		50,000,000.00		49,627,113.10		372,886.90	0.75344	0.75344	364	307	57	314,495.27	58,391.63
MOF	TB-288027	0		26-Oct-2016	26-Apr-2017		CAD		150,000,000.00		149,531,463.00		468,537.00	0.62840	0.62840	182	125	57	321,797.39	146,739.61
MOF	TB-291033	0		25-Jan-2017	26-Apr-2017		CAD		549,847,000.00		549,011,114.13		835,885.87	0.61069	0.61069	91	34	57	312,309.01	523,576.86
MOF	TB-281726	0		04-May-2016	03-May-2017		CAD		50,000,000.00		49,640,567.40		359,432.60	0.72606	0.72606	364	300	64	296,235.66	63,196.94
MOF	TB-288216	0		02-Nov-2016	03-May-2017		CAD		150,000,000.00		149,534,107.00		465,893.00	0.62484	0.62484	182	118	64	302,062.49	163,830.51

MOF	TB-291307	0	01-Feb-2017	03-May-2017	CAD	599,923,000.00	599,006,003.67	916,996.33	0.61403	0.61403	91	27	64	272,075.84	644,920.50
OTF	TB-291307	0	01-Feb-2017	03-May-2017	CAD	(2,655,000.00)	(2,650,941.77)	(4,058.23)	0.61403	0.61403	91	27	64		
MOF	TB-281964	0	11-May-2016	10-May-2017	CAD	50,000,000.00	49,658,492.00	341,508.00	0.68960	0.68960	364	293	71	274,895.18	66,612.82
MOF	TB-288397	0	09-Nov-2016	10-May-2017	CAD	150,000,000.00	149,533,834.50	466,165.50	0.62520	0.62520	182	111	71	284,309.73	181,855.77
MOF	TB-291612	0	08-Feb-2017	10-May-2017	CAD	499,769,000.00	499,009,057.03	759,942.97	0.61084	0.61084	91	20	71	167,020.43	592,922.54
MOF	TB-282164	0	18-May-2016	17-May-2017	CAD	50,000,000.00	49,648,462.50	351,537.50	0.71000	0.71000	364	286	78	276,208.04	75,329.46
MOF	TB-288591	0	16-Nov-2016	17-May-2017	CAD	150,000,000.00	149,522,439.00	477,561.00	0.64054	0.64054	182	104	78	272,892.00	204,669.00
MOF	TB-291951	0	15-Feb-2017	17-May-2017	CAD	650,000,000.00	649,015,508.50	984,491.50	0.60843	0.60843	91	13	78	140,641.64	843,849.86
MOF	TB-282313	0	25-May-2016	24-May-2017	CAD	50,000,000.00	49,641,776.00	358,224.00	0.72360	0.72360	364	279	85	274,572.79	83,651.21
MOF	TB-288874	0	23-Nov-2016	24-May-2017	CAD	150,000,000.00	149,523,505.00	476,495.00	0.63910	0.63910	182	97	85	253,956.13	222,538.87
MOF	TB-292189	0	22-Feb-2017	24-May-2017	CAD	272,427,000.00	272,014,058.30	412,941.70	0.60890	0.60890	91	6	85	27,226.93	385,714.78
MOF	TB-282526	0	01-Jun-2016	31-May-2017	CAD	50,000,000.00	49,638,925.00	361,075.00	0.72940	0.72940	364	272	92	269,814.29	91,260.71
MOF	TB-289119	0	30-Nov-2016	31-May-2017	CAD	150,000,000.00	149,515,182.50	484,817.50	0.65030	0.65030	182	90	92	239,744.92	245,072.58
MOF	TB-282763	0	08-Jun-2016	07-Jun-2017	CAD	50,000,000.00	49,658,295.00	341,705.00	0.69000	0.69000	364	265	99	248,768.75	92,936.25
MOF	TB-289374	0	07-Dec-2016	07-Jun-2017	CAD	150,000,000.00	149,518,702.00	481,298.00	0.64557	0.64557	182	83	99	219,493.04	261,804.96
MOF	TB-282942	0	15-Jun-2016	14-Jun-2017	CAD	50,000,000.00	49,664,100.00	335,900.00	0.67820	0.67820	364	258	106	238,082.97	97,817.03
MOF	TB-289664	0	14-Dec-2016	14-Jun-2017	CAD	150,000,000.00	149,515,410.00	484,590.00	0.64999	0.64999	182	76	106	202,356.26	282,233.74
MOF	TB-283167	0	22-Jun-2016	21-Jun-2017	CAD	50,000,000.00	49,659,082.00	340,918.00	0.68840	0.68840	364	251	113	235,083.57	105,834.43
MOF	TB-289963	0	21-Dec-2016	21-Jun-2017	CAD	150,000,000.00	149,507,129.50	492,870.50	0.66114	0.66114	182	69	113	186,857.50	306,013.00
MOF	TB-283354	0	29-Jun-2016	28-Jun-2017	CAD	50,000,000.00	49,676,107.00	323,893.00	0.65380	0.65380	364	244	120	217,115.09	106,777.91
MOF	TB-290118	0	28-Dec-2016	28-Jun-2017	CAD	150,000,000.00	149,497,523.00	502,477.00	0.67407	0.67407	182	62	120	171,173.48	331,303.52
MOF	TB-283540	0	06-Jul-2016	05-Jul-2017	CAD	50,000,000.00	49,682,900.00	317,100.00	0.64000	0.64000	364	237	127	206,463.46	110,636.54
MOF	TB-290318	0	04-Jan-2017	05-Jul-2017	CAD	150,000,000.00	149,491,508.00	508,492.00	0.68216	0.68216	182	55	127	153,665.16	354,826.84
MOF	TB-283776	0	13-Jul-2016	12-Jul-2017	CAD	50,000,000.00	49,685,360.00	314,640.00	0.63500	0.63500	364	230	134	198,810.99	115,829.01
MOF	TB-290562	0	11-Jan-2017	12-Jul-2017	CAD	150,000,000.00	149,494,574.00	505,426.00	0.67804	0.67804	182	48	134	133,299.16	372,126.84
MOF	TB-283979	0	20-Jul-2016	19-Jul-2017	CAD	50,000,000.00	49,673,253.00	326,747.00	0.65960	0.65960	364	223	141	200,177.42	126,569.58
MOF	TB-290761	0	18-Jan-2017	19-Jul-2017	CAD	150,000,000.00	149,496,458.00	503,542.00	0.67550	0.67550	182	41	141	113,435.29	390,106.71
MOF	TB-284183	0	27-Jul-2016	26-Jul-2017	CAD	50,000,000.00	49,668,135.00	331,865.00	0.67000	0.67000	364	216	148	196,930.88	134,934.12
MOF	TB-291034	0	25-Jan-2017	26-Jul-2017	CAD	150,000,000.00	149,492,148.00	507,852.00	0.68130	0.68130	182	34	148	94,873.45	412,978.55
MOF	TB-284416	0	03-Aug-2016	02-Aug-2017	CAD	50,000,000.00	49,669,474.10	330,525.90	0.66728	0.66728	364	209	155	189,779.98	140,745.92
MOF	TB-291308	0	01-Feb-2017	02-Aug-2017	CAD	150,000,000.00	149,495,069.00	504,931.00	0.67737	0.67737	182	27	155	74,907.35	430,023.65
MOF	TB-284667	0	10-Aug-2016	09-Aug-2017	CAD	50,000,000.00	49,679,652.00	320,348.00	0.64660	0.64660	364	202	162	177,775.54	142,572.46
MOF	TB-291613	0	08-Feb-2017	09-Aug-2017	CAD	150,000,000.00	149,501,094.00	498,906.00	0.66926	0.66926	182	20	162	54,824.84	444,081.16
MOF	TB-284889	0	17-Aug-2016	16-Aug-2017	CAD	50,000,000.00	49,670,349.00	329,651.00	0.66550	0.66550	364	195	169	176,598.75	153,052.25
MOF	TB-291952	0	15-Feb-2017	16-Aug-2017	CAD	150,000,000.00	149,496,656.50	503,343.50	0.67523	0.67523	182	13	169	35,953.11	467,390.39
MOF	TB-285164	0	24-Aug-2016	23-Aug-2017	CAD	50,000,000.00	49,668,528.00	331,472.00	0.66920	0.66920	364	188	176	171,199.82	160,272.18
MOF	TB-292190	0	22-Feb-2017	23-Aug-2017	CAD	150,000,000.00	149,500,545.00	499,455.00	0.67000	0.67000	182	6	176	16,465.55	482,989.45
MOF	TB-285367	0	31-Aug-2016	30-Aug-2017	CAD	50,000,000.00	49,666,167.00	333,833.00	0.67400	0.67400	364	181	183	165,999.38	167,833.62
MOF	TB-286590	0	07-Sep-2016	06-Sep-2017	CAD	50,000,000.00	49,668,135.00	331,865.00	0.67000	0.67000	364	174	190	158,638.76	173,226.24
MOF	TB-286788	0	14-Sep-2016	13-Sep-2017	CAD	50,000,000.00	49,668,135.00	331,865.00	0.67000	0.67000	364	167	197	152,256.74	179,608.26
MOF	TB-287001	0	21-Sep-2016	20-Sep-2017	CAD	50,000,000.00	49,665,675.00	334,325.00	0.67500	0.67500	364	160	204	146,956.04	187,368.96
MOF	TB-287214	0	28-Sep-2016	27-Sep-2017	CAD	50,000,000.00	49,676,698.00	323,302.00	0.65260	0.65260	364	153	211	135,893.42	187,408.58
MOF	TB-287404	0	05-Oct-2016	04-Oct-2017	CAD	50,000,000.00	49,668,627.00	331,373.00	0.66900	0.66900	364	146	218	132,913.35	198,459.65
MOF	TB-287544	0	12-Oct-2016	11-Oct-2017	CAD	100,000,000.00	99,324,659.00	675,341.00	0.68180	0.68180	364	139	225	257,891.21	417,449.79
MOF	TB-287767	0	19-Oct-2016	18-Oct-2017	CAD	100,000,000.00	99,321,510.00	678,490.00	0.68500	0.68500	364	132	232	246,045.82	432,444.18
MOF	TB-288028	0	26-Oct-2016	25-Oct-2017	CAD	100,000,000.00	99,338,732.00	661,268.00	0.66750	0.66750	364	125	239	227,083.79	434,184.21
MOF	TB-288217	0	02-Nov-2016	01-Nov-2017	CAD	100,000,000.00	99,328,792.00	671,208.00	0.67760	0.67760	364	118	246	217,589.41	453,618.59
MOF	TB-288398	0	09-Nov-2016	08-Nov-2017	CAD	100,000,000.00	99,335,040.00	664,960.00	0.67125	0.67125	364	111	253	202,776.26	462,183.74
MOF	TB-288592	0	16-Nov-2016	15-Nov-2017	CAD	100,000,000.00	99,326,430.00	673,570.00	0.68000	0.68000	364	104	260	192,448.57	481,121.43
MOF	TB-288875	0	23-Nov-2016	22-Nov-2017	CAD	100,000,000.00	99,326,430.00	673,570.00	0.68000	0.68000	364	97	267	179,495.30	494,074.70
MOF	TB-289120	0	30-Nov-2016	29-Nov-2017	CAD	100,000,000.00	99,316,590.00	683,410.00	0.69000	0.69000	364	90	274	168,975.00	514,435.00
MOF	TB-289375	0	07-Dec-2016	06-Dec-2017	CAD	100,000,000.00	99,301,151.00	698,849.00	0.70570	0.70570	364	83	281	159,352.93	539,496.07
MOF	TB-289665	0	14-Dec-2016	13-Dec-2017	CAD	100,000,000.00	99,283,411.53	716,588.48	0.72374	0.72374	364	76	288	149,617.37	566,971.10
MOF	TB-289964	0	21-Dec-2016	20-Dec-2017	CAD	100,000,000.00	99,257,610.00	742,390.00	0.75000	0.75000	364	69	295	140,727.77	601,662.23
MOF	TB-290119	0	28-Dec-2016	27-Dec-2017	CAD	100,000,000.00	99,244,147.00	755,853.00	0.76370	0.76370	364	62	302	128,744.19	627,108.81
MOF	TB-290319	0	04-Jan-2017	03-Jan-2018	CAD	100,000,000.00	99,242,136.00	757,864.00	0.76575	0.76575	364	55	309	114,512.42	643,351.58
MOF	TB-290563	0	11-Jan-2017	10-Jan-2018	CAD	100,000,000.00	99,240,955.00	759,045.00	0.76695	0.76695	364	48	316	100,093.85	658,951.15
MOF	TB-290762	0	18-Jan-2017	17-Jan-2018	CAD	100,000,000.00	99,240,365.50	759,634.50	0.76755	0.76755	364	41	323	85,563.23	674,071.27
MOF	TB-291035	0	25-Jan-2017	24-Jan-2018	CAD	100,000,000.00	99,236,437.50	763,562.50	0.77155	0.77155	364	34	330	71,321.77	692,240.73
MOF	TB-291309	0	01-Feb-2017	31-Jan-2018	CAD	100,000,000.00	99,238,450.00	761,550.00	0.76950	0.76950	364	27	337	56,488.60	705,061.40
MOF	TB-291614	0	08-Feb-2017	07-Feb-2018	CAD	100,000,000.00	99,258,590.00	741,410.00	0.74900	0.74900	364	20	344	40,736.81	700,673.19
MOF	TB-291953	0	15-Feb-2017	14-Feb-2018	CAD	100,000,000.00	99,248,715.50	751,284.50	0.75905	0.75905	364	13	351	26,831.59	724,452.91
MOF	TB-292191	0	22-Feb-2017	21-Feb-2018	CAD	100,000,000.00	99,257,610.00	742,390.00	0.75000	0.75000	364	6	358	12,237.20	730,152.80
Hedged T-Bills						1,512,008,000.00			4.85469	4.85469					

Projected to be issued before April 1, 2017	**2,942,755,000.00**	**0.75268**
Unhedged maturing in Mar 2017	**(2,513,755,000.00)**	**0.61135**
Excess Maturities - Discrepency in the budget (see note below)	-	**0.00000**

Province	**15,389,759,000.00**	**1.08494**
Others	405,877,000.00	

Agricorp	-
Forest Renew	-
OILC	-
OTF	36,970,000.00
OEB	
Total	15,832,606,000.00
New Issues	**429,000,000.00**

Eff. Intr. R	**15,389,759,000.00**	**1.08494**

Calculation of the Eff rate for new projected TB:

MOF	TB-291614	0	08-Feb-2017	07-Feb-2018	CAD	100,000,000.00	99,258,590.00	741,410.00	0.74900	0.74900	364	20	344	40,736.81	700,673.19
MOF	TB-291953	0	15-Feb-2017	14-Feb-2018	CAD	100,000,000.00	99,248,715.50	751,284.50	0.75905	0.75905	364	13	351	26,831.59	724,452.91
MOF	TB-292191	0	22-Feb-2017	21-Feb-2018	CAD	100,000,000.00	99,257,610.00	742,390.00	0.75000	0.75000	364	6	358	12,237.20	730,152.80
						300,000,000.00				0.75268					

Hedged

Portfolio: MOF PDB

TB-289115	392	30-Nov-2016	01-Mar-2017	CAD	100,144,000.00	100,000,307.38	143,692.62		91	90	1	142,113.58	1,579.04
TB-289116	424	30-Nov-2016	01-Mar-2017	CAD	100,144,000.00	100,000,307.38	143,692.62		91	90	1	142,113.58	1,579.04
TB-289117	666	30-Nov-2016	01-Mar-2017	CAD	100,144,000.00	100,000,307.38	143,692.62		91	90	1	142,113.58	1,579.04
TB-289371	265	07-Dec-2016	08-Mar-2017	CAD	200,289,000.00	200,000,387.59	288,612.41		91	83	8	263,239.89	25,372.52
TB-289372	396	07-Dec-2016	08-Mar-2017	CAD	100,145,000.00	100,000,693.07	144,306.93		91	83	8	131,620.60	12,686.32
TB-289661	397	14-Dec-2016	15-Mar-2017	CAD	300,439,000.00	300,000,207.13	438,792.87		91	76	15	366,464.37	72,328.50
TB-289960	1008	21-Dec-2016	22-Mar-2017	CAD	50,076,000.00	50,000,769.48	75,230.52		91	69	22	57,042.92	18,187.60
TB-290115	265	28-Dec-2016	29-Mar-2017	CAD	50,077,000.00	50,000,079.42	76,920.58		91	62	29	52,407.43	24,513.15
TB-290116	257	28-Dec-2016	29-Mar-2017	CAD	9,785,000.00	9,769,969.79	15,030.21		91	62	29	10,240.36	4,789.85
TB-291032	375	25-Jan-2017	26-Apr-2017	CAD	100,153,000.00	100,000,745.87	152,254.13		91	34	57	56,886.16	95,367.97
TB-291306	265	01-Feb-2017	03-May-2017	CAD	50,077,000.00	50,000,456.13	76,543.87		91	27	64	22,710.82	53,833.05
TB-291609	654	08-Feb-2017	10-May-2017	CAD	50,077,000.00	50,000,853.49	76,146.51		91	20	71	16,735.50	59,411.01
TB-291610	656	08-Feb-2017	10-May-2017	CAD	50,077,000.00	50,000,853.49	76,146.51		91	20	71	16,735.50	59,411.01
TB-291611	657	08-Feb-2017	10-May-2017	CAD	50,077,000.00	50,000,853.49	76,146.51		91	20	71	16,735.50	59,411.01
TB-292185	420	22-Feb-2017	24-May-2017	CAD	100,152,000.00	100,000,190.75	151,809.25		91	6	85	10,009.40	141,799.85
TB-292186	991	22-Feb-2017	24-May-2017	CAD	75,114,000.00	75,000,143.07	113,856.93		91	6	85	7,507.05	106,349.88
TB-292187	992	22-Feb-2017	24-May-2017	CAD	25,038,000.00	25,000,047.69	37,952.31		91	6	85	2,502.35	35,449.96
PortFolio Total:					1512008000	1509777173	2230827.401					1457178.596	773648.8049
Hedged Total:					**1,512,008,000.00**	**1,509,777,172.60**	**2,230,827.40**					**1,457,178.60**	**773,648.80**

Total per spreadsheet	**15,403,606,000.00**
Total per Trial Balance	15,403,606,000.00
Grand Total:	**15,403,606,000.00**

15,353,702,561.40	**49,903,438.60**	22781087.55

27122351.05

ONTARIO FINANCE AUTHORITY

USCP

Effective Interest Rate

As at ##########

FX Roll				CAD	CAD	USD	USD	USCP
Trade no.	Settle Date	Maturity Date	Leg1 Buy	Leg2 Sell	Leg1 Sell	Leg2 Buy		Trade no.
Hedge 100 USCP-MOF HDGE								
289230	#	#####	33,169,238.61	(33,198,925.00)	(24,952,410.00)	25,000,000.00	0.00	CP-289221
289282	#	#####	33,078,121.74	(33,125,000.00)	(24,929,681.00)	25,000,000.00	0.00	CP-289275
289513	#	#####	32,886,699.10	(32,910,600.00)	(24,951,972.00)	25,000,000.00	0.00	CP-289480
289790	#	#####	99,987,075.00	(100,070,100.00)	(74,840,625.00)	75,000,000.00	0.00	CP-289780
289849	#	#####	167,015,954.41	(167,175,000.00)	(124,707,361.00)	125,000,000.00	0.00	CP-289836
289850	#	#####	166,642,609.04	(167,088,750.00)	(124,360,156.00)	125,000,000.00	0.00	CP-289834
290131	#	#####	148,977,823.56	(149,029,100.00)	(109,857,550.00)	110,000,000.00	0.00	CP-290113
290202	#	#####	270,195,213.00	(270,290,000.00)	(199,745,112.00)	200,000,000.00	0.00	CP-290197
290252	#	#####	40,257,457.80	(40,284,600.00)	(29,962,383.00)	30,000,000.00	0.00	CP-290239
290253	#	#####	268,383,054.68	(268,564,000.00)	(199,749,222.00)	200,000,000.00	0.00	CP-290240
290333	#	#####	33,195,824.16	(33,215,875.00)	(24,968,653.00)	25,000,000.00	0.00	CP-290326
290371	#	#####	65,973,533.05	(66,012,000.00)	(49,938,334.00)	50,000,000.00	0.00	CP-290366
290439	#	#####	79,099,343.24	(79,194,720.00)	(59,873,850.00)	60,000,000.00	0.00	CP-290432
290489	#	#####	105,570,756.88	(105,643,920.00)	(79,893,111.00)	80,000,000.00	0.00	CP-290475
290491	#	#####	65,984,439.35	(66,028,850.00)	(49,935,250.00)	50,000,000.00	0.00	CP-290476
290602	#	#####	393,495,979.88	(393,770,400.00)	(299,623,833.00)	300,000,000.00	0.00	CP-290601
290638	#	#####	45,861,082.14	(45,919,580.00)	(34,920,492.00)	35,000,000.00	0.00	CP-290629
290639	#	#####	32,782,491.63	(32,805,375.00)	(24,967,625.00)	25,000,000.00	0.00	CP-290637
290766	#	#####	39,204,972.12	(39,231,660.00)	(29,961,767.00)	30,000,000.00	0.00	CP-290764
290767	#	#####	32,683,251.10	(32,712,700.00)	(24,956,667.00)	25,000,000.00	0.00	CP-290763
290934	#	#####	113,012,446.31	(113,082,215.00)	(84,895,167.00)	85,000,000.00	0.00	CP-290928
291176	#	#####	263,758,141.73	(264,457,188.00)	(201,035,169.00)	202,000,000.00	0.00	CP-291165
291335	#	#####	54,818,639.57	(54,851,538.00)	(41,948,760.00)	42,000,000.00	0.00	CP-291330
291336	#	#####	32,651,432.99	(32,660,075.00)	(24,985,792.00)	25,000,000.00	0.00	CP-291326
291337	#	#####	32,599,805.24	(32,639,600.00)	(24,946,285.00)	25,000,000.00	0.00	CP-291316
291338	#	#####	32,599,032.92	(32,639,300.00)	(24,945,694.00)	25,000,000.00	0.00	CP-291331
291390	#	#####	32,514,156.87	(32,525,000.00)	(24,986,000.00)	25,000,000.00	0.00	CP-291387
291391	#	#####	194,954,260.80	(195,099,000.00)	(149,815,001.00)	150,000,000.00	0.00	CP-291380
291393	#	#####	32,463,368.44	(32,506,875.00)	(24,946,875.00)	25,000,000.00	0.00	CP-291386
291444	#	#####	64,949,745.64	(64,969,950.00)	(49,972,875.00)	50,000,000.00	0.00	CP-291431
291445	#	#####	129,897,216.80	(129,938,900.00)	(99,944,000.00)	100,000,000.00	0.00	CP-291430
291446	#	#####	32,451,758.30	(32,474,700.00)	(24,968,653.00)	25,000,000.00	0.00	CP-291429
291448	#	#####	64,846,906.88	(64,931,450.00)	(49,893,750.00)	50,000,000.00	0.00	CP-291432
291392	#	#####	168,963,835.74	(169,086,450.00)	(129,842,339.00)	130,000,000.00	0.00	CP-291379

291490	#	#####	131,146,516.80	(131,184,900.00)	(99,944,000.00)	100,000,000.00	0.00	CP-291473
291447	#	#####	39,983,035.02	(40,009,785.20)	(30,763,280.00)	30,800,000.00	0.00	CP-291435
291771	#	#####	65,317,943.76	(65,358,750.00)	(49,948,722.00)	50,000,000.00	0.00	CP-291769
291772	#	#####	65,303,014.48	(65,353,650.00)	(49,937,305.56)	50,000,000.00	0.00	CP-291770
291893	#	#####	32,694,893.00	(32,713,375.00)	(24,977,000.00)	25,000,000.00	0.00	CP-291891
291894	#	#####	65,389,786.00	(65,426,750.00)	(49,954,000.00)	50,000,000.00	0.00	CP-291881
291895	#	#####	65,389,786.00	(65,426,750.00)	(49,954,000.00)	50,000,000.00	0.00	CP-291883
291896	#	#####	326,818,666.17	(327,083,750.00)	(249,670,486.00)	250,000,000.00	0.00	CP-291887
291897	#	#####	32,629,007.10	(32,690,500.00)	(24,926,667.00)	25,000,000.00	0.00	CP-291889
291898	#	#####	32,628,207.30	(32,690,250.00)	(24,926,056.00)	25,000,000.00	0.00	CP-291892
291956	#	#####	65,391,040.68	(65,427,400.00)	(49,954,958.50)	50,000,000.00	0.00	CP-291955
292128	#	#####	32,817,812.95	(32,833,950.00)	(24,981,208.00)	25,000,000.00	0.00	CP-292111
292130	#	#####	65,477,872.86	(65,612,500.00)	(49,842,333.00)	50,000,000.00	0.00	CP-292113
292131	#	#####	32,834,235.00	(32,861,000.00)	(24,969,000.00)	25,000,000.00	0.00	CP-292114
292132	#	#####	32,789,320.69	(32,835,250.00)	(24,948,125.00)	25,000,000.00	0.00	CP-292118
292163	#	#####	32,732,928.75	(32,827,875.00)	(24,882,500.00)	25,000,000.00	0.00	CP-292146
292202	#	#####	32,935,829.34	(32,950,875.00)	(24,981,666.67)	25,000,000.00	0.00	CP-292200
292203	#	#####	39,522,995.33	(39,541,050.00)	(29,978,000.10)	30,000,000.00	0.00	CP-292199
292129	#	#####	65,493,930.22	(65,620,350.00)	(49,854,556.00)	50,000,000.00	0.00	CP-292112
292205	#	#####	32,880,868.92	(32,925,375.00)	(24,947,548.50)	25,000,000.00	0.00	CP-292195
292254	#	#####	65,494,887.65	(65,525,000.00)	(49,964,250.00)	50,000,000.00	0.00	CP-292246
292204	#	#####	33,335,587.88	(33,414,673.50)	(25,282,963.88)	25,380,000.00	0.00	CP-292197
292255	#	#####	65,471,698.37	(65,500,000.00)	(49,965,694.50)	50,000,000.00	0.00	CP-292253
								Adjustment of FX f
			4,859,405,532.99	(4,863,947,154.70)	(3,683,776,734.71)	3,690,180,000.00		
							Total-USD	
			4,859,405,532.99	(4,863,947,154.70)			**Total-CAD Equivalent**	

			FX Fwds	
USCP	USCP	USCP CAD EquivalentNet Payment in CAD		
ParValue	Discounted	based on CAD Leg1	Annualized	Effective rate
(25,000,000.00)	(47,590.28)	(33,169,238.61)	(121,747.55)	0.36705%
(25,000,000.00)	(70,319.44)	(33,078,121.74)	(140,250.53)	0.42400%
(25,000,000.00)	(48,027.78)	(32,886,699.10)	(95,866.25)	0.29150%
(75,000,000.00)	(159,375.00)	(99,987,075.00)	(336,712.50)	0.33676%
(125,000,000.00)	(292,638.89)	(167,015,954.41)	(592,363.68)	0.35467%
(125,000,000.00)	(639,843.75)	(166,642,609.04)	(861,594.98)	0.51703%
(110,000,000.00)	(142,450.00)	(148,977,823.56)	(297,077.79)	0.19941%
(200,000,000.00)	(254,888.00)	(270,195,213.00)	(558,020.24)	0.20652%
(30,000,000.00)	(37,616.67)	(40,257,457.80)	(162,408.25)	0.40342%
(200,000,000.00)	(250,777.78)	(268,383,054.68)	(1,082,705.60)	0.40342%
(25,000,000.00)	(31,347.25)	(33,195,824.16)	(119,976.34)	0.36142%
(50,000,000.00)	(61,666.50)	(65,973,533.05)	(234,007.28)	0.35470%
(60,000,000.00)	(126,150.00)	(79,099,343.24)	(400,143.88)	0.50588%
(80,000,000.00)	(106,888.80)	(105,570,756.88)	(410,839.06)	0.38916%
(50,000,000.00)	(64,750.00)	(65,984,439.35)	(257,299.80)	0.38994%
(300,000,000.00)	(376,166.67)	(393,495,979.88)	(1,642,022.03)	0.41729%
(35,000,000.00)	(79,508.45)	(45,861,082.14)	(227,145.95)	0.49529%
(25,000,000.00)	(32,375.00)	(32,782,491.63)	(132,578.25)	0.40442%
(30,000,000.00)	(38,233.20)	(39,204,972.12)	(157,114.13)	0.40075%
(25,000,000.00)	(43,333.33)	(32,683,251.10)	(137,805.75)	0.42164%
(85,000,000.00)	(104,833.05)	(113,012,446.31)	(424,426.20)	0.37556%
(202,000,000.00)	(964,830.78)	(263,758,141.73)	(1,409,678.94)	0.53446%
(42,000,000.00)	(51,240.00)	(54,818,639.57)	(196,851.26)	0.35910%
(25,000,000.00)	(14,208.25)	(32,651,432.99)	(95,585.87)	0.29275%
(25,000,000.00)	(53,715.28)	(32,599,805.24)	(159,616.35)	0.48962%
(25,000,000.00)	(54,305.56)	(32,599,032.92)	(159,755.26)	0.49006%
(25,000,000.00)	(14,000.00)	(32,514,156.87)	(123,679.45)	0.38039%
(150,000,000.00)	(184,999.50)	(194,954,260.80)	(880,496.80)	0.45164%
(25,000,000.00)	(53,125.00)	(32,463,368.44)	(176,443.27)	0.54351%
(50,000,000.00)	(27,125.00)	(64,949,745.64)	(237,890.05)	0.36627%
(100,000,000.00)	(56,000.00)	(129,897,216.80)	(475,449.00)	0.36602%
(25,000,000.00)	(31,347.25)	(32,451,758.30)	(137,274.11)	0.42301%
(50,000,000.00)	(106,250.00)	(64,846,906.88)	(342,869.32)	0.52874%
(130,000,000.00)	(157,661.11)	(168,963,835.74)	(758,545.85)	0.44894%

(100,000,000.00)	(56,000.00)	(131,146,516.80)		(437,808.38)	0.33383%
(30,800,000.00)	(36,720.38)	(39,983,035.02)		(168,341.65)	0.42103%
(50,000,000.00)	(51,277.78)	(65,317,943.76)		(286,428.42)	0.43851%
(50,000,000.00)	(62,694.44)	(65,303,014.48)		(302,983.03)	0.46396%
(25,000,000.00)	(23,000.00)	(32,694,893.00)		(140,540.21)	0.42985%
(50,000,000.00)	(46,000.00)	(65,389,786.00)		(281,080.42)	0.42985%
(50,000,000.00)	(46,000.00)	(65,389,786.00)		(281,080.42)	0.42985%
(250,000,000.00)	(329,513.89)	(326,818,666.17)		(1,488,547.66)	0.45547%
(25,000,000.00)	(73,333.33)	(32,629,007.10)		(187,040.90)	0.57324%
(25,000,000.00)	(73,944.50)	(32,628,207.30)		(187,153.60)	0.57359%
(50,000,000.00)	(45,041.50)	(65,391,040.68)		(282,364.93)	0.43181%
(25,000,000.00)	(18,791.67)	(32,817,812.95)		(143,659.10)	0.43775%
(50,000,000.00)	(157,666.67)	(65,477,872.86)		(380,921.75)	0.58176%
(25,000,000.00)	(31,000.00)	(32,834,235.00)		(157,568.15)	0.47989%
(25,000,000.00)	(51,875.00)	(32,789,320.69)		(186,268.87)	0.56808%
(25,000,000.00)	(117,500.00)	(32,732,928.75)		(192,529.90)	0.58818%
(25,000,000.00)	(18,333.33)	(32,935,829.34)		(137,291.65)	0.41685%
(30,000,000.00)	(21,999.90)	(39,522,995.33)		(164,748.86)	0.41684%
(50,000,000.00)	(145,444.45)	(65,493,930.22)		(387,758.15)	0.59205%
(25,000,000.00)	(52,451.50)	(32,880,868.92)		(178,513.40)	0.54291%
(50,000,000.00)	(35,750.00)	(65,494,887.65)		(281,820.71)	0.43029%
(25,380,000.00)	(97,036.12)	(33,335,587.88)		(195,042.24)	0.58509%
(50,000,000.00)	(34,305.50)	(65,471,698.37)		(271,844.60)	0.41521%
		(4,859,405,532.99)	B	(20,267,578.53) A	0.41708%
orward points - CAD		(4,541,621.69)			**Effective rate (A/B)**
(3,690,180,000.00)	(6,403,267.53)	(4,863,947,154.70)			0.41708%
(3,690,180,000.00)	(6,403,267.53)				
(4,863,947,154.70)					**0.41708%**

Other Entities
Effective Interest Rate
As at March 31, 2017 (Feb 2017 cut-off)

Entity	Maturity Date	Amount Outstanding	Effective Rate	Information source:
Ornge Issuer Trust debentures	see details below	265,737,242.68	5.71582	
Niagara Parks Commission	see details below	21,942,098.91	5.05750	
Ottawa Convention Centre	see details below	1,687,251.65	4.67200	
		289,366,593.24	**5.65981**	

Ornge: (detail) - using amortization schedules -					
Ornge Issue Trust debentures	11-Jun-2034	242,704,371.55	5.72700	Principal payments begin from Dec2012	
Ornge 5.598% First Mortgage Series A Bonds	31-Jan-2036	23,032,871.13	5.59800	per amortization schedule	5.715819
TD $39.8M credit facility		-	0.00000	$ -- include per George	
		265,737,242.68	**5.71582**		
Niagara Parks Commission -					
TD Loan (amortizer)	30-Apr-2027	21,942,098.91	5.05750	see debt number from George's schedule and rate from amortization schedule	
Line of credit		0.00	0.00000	see e-mail from George	
		21,942,098.91	**5.05750**		
Ottawa Convention Centre					
Loan $2.4M at 4.672%	21-Mar-2026	1,687,251.65	4.67200	see debt number from George's schedule and rate from amortization schedule	
		1,687,251.65	**4.67200**		

Portfolio Hedging Swaps
As at February 28, 2016

Description		Notional	Interest expense (income)	Effective Rate
H52	Receive Fixed, Pay Floating	800,000,000.00	(23,041,250.00)	-2.88016%
Floating swaps	Receive Floating, Pay Fixed	3,875,000,000.00	147,172,965.00	3.79801%
Net	**Receive Floating, Pay Fixed**	**3,075,000,000.00**	**124,131,715.00**	**4.03680%**

EFFECTIVE INTEREST RATE - PROVINCE
AS AT **28-Feb-17** Projected to March 2017

Hedge Group	Codes from the Liab Sys	Issue Date	Maturity Date	CCY	Hedge	Debt in FX Original Issue
PUBLICLY HELD DEBT						
CANADIAN DOLLAR BORROWING						
1519	DMTN213	20-Jan-12	8-Sep-17	CAD	UH	1,250,000,000
1526	DMTN213A	8-Feb-12	8-Sep-17	CAD	UH	1,000,000,000
1528	DMTN213B	27-Feb-12	8-Sep-17	CAD	UH	1,000,000,000
1541	DMTN213C	30-Oct-12	8-Sep-17	CAD	UH	1,000,000,000
1625	DMTN213D	6-Dec-12	8-Sep-17	CAD	UH	1,000,000,000
1795	DMTN213E	26-Feb-14	8-Sep-17	CAD	UH	1,100,000,000
1647	DMTN219	22-Feb-13	22-Sep-17	CAD	H	100,000,000
1648	DMTN219A	22-Feb-13	22-Sep-17	CAD	H	50,000,000
1649	DMTN219B	22-Feb-13	22-Sep-17	CAD	H	125,000,000
1650	DMTN219C	22-Feb-13	22-Sep-17	CAD	H	75,000,000
1651	DMTN219D	22-Feb-13	22-Sep-17	CAD	H	95,000,000
1652	DMTN219E	22-Feb-13	22-Sep-17	CAD	H	25,000,000
1653	DMTN219F	22-Feb-13	22-Sep-17	CAD	H	45,000,000
1654	DMTN219G	22-Feb-13	22-Sep-17	CAD	H	304,500,000
1655	DMTN219H	22-Feb-13	22-Sep-17	CAD	H	300,000,000
1611	DMTN217	23-Nov-12	23-Nov-17	CAD	H	200,000,000
1612	DMTN217A	23-Nov-12	23-Nov-17	CAD	H	25,000,000
1613	DMTN217B	23-Nov-12	23-Nov-17	CAD	H	170,000,000
1614	DMTN217C	23-Nov-12	23-Nov-17	CAD	H	100,000,000
1615	DMTN217D	23-Nov-12	23-Nov-17	CAD	H	90,000,000
1616	DMTN217E	23-Nov-12	23-Nov-17	CAD	H	120,000,000
1617	DMTN217F	23-Nov-12	23-Nov-17	CAD	H	10,000,000
1619	DMTN217H	23-Nov-12	23-Nov-17	CAD	H	35,000,000
968	DMTN183	10-Mar-08	8-Mar-18	CAD	UH	260,000,000
971	DMTN183b	3-Apr-08	8-Mar-18	CAD	UH	600,000,000
983	DMTN183c	14-May-08	8-Mar-18	CAD	UH	300,000,000
1006	DMTN183E	19-Jun-08	8-Mar-18	CAD	UH	200,000,000
1085	DMTN183H	12-Dec-08	8-Mar-18	CAD	UH	200,000,000
1675	DMTN221	30-May-13	30-May-18	CAD	H	45,000,000
1676	DMTN221A	30-May-13	30-May-18	CAD	UH	200,000,000
1677	DMTN221B	30-May-13	30-May-18	CAD	H	130,000,000
1678	DMTN221C	30-May-13	30-May-18	CAD	H	25,000,000
1679	DMTN221D	30-May-13	30-May-18	CAD	UH	100,000,000
1680	DMTN221E	30-May-13	30-May-18	CAD	H	100,000,000
1681	DMTN221F	30-May-13	30-May-18	CAD	H	25,000,000
1682	DMTN221G	30-May-13	30-May-18	CAD	H	25,000,000
1683	DMTN221H	30-May-13	30-May-18	CAD	H	25,000,000
1684	DMTN221i	30-May-13	30-May-18	CAD	H	25,000,000
1685	DMTN221J	30-May-13	30-May-18	CAD	H	50,000,000
1686	DMTN221K	30-May-13	30-May-18	CAD	H	25,000,000

446	DMTN079	28-Aug-03	2-Jun-18	CAD	H	75,000,000
481	DMTN079/1	14-Jan-04	2-Jun-18	CAD	H	50,000,000
600	DMTN079/2	29-Nov-04	2-Jun-18	CAD	UH	25,000,000
661	DMTN79/3	24-May-05	2-Jun-18	CAD	UH	25,000,000
665	DMTN079/4	30-May-05	2-Jun-18	CAD	UH	25,000,000
694	DMTN79f	9-Aug-05	2-Jun-18	CAD	UH	50,000,000
696	DMTN79g	10-Aug-05	2-Jun-18	CAD	UH	35,000,000
736	DMTN79h	18-Nov-05	2-Jun-18	CAD	UH	50,000,000
750	DMTN79i	17-Jan-06	2-Jun-18	CAD	UH	25,000,000
776	DMTN79J	1-May-06	2-Jun-18	CAD	UH	25,000,000
779	DMTN79K	5-May-06	2-Jun-18	CAD	UH	100,000,000
780	DMTN79L	5-May-06	2-Jun-18	CAD	UH	35,000,000
781	DMTN79M	5-May-06	2-Jun-18	CAD	UH	60,000,000
782	DMTN79N	5-May-06	2-Jun-18	CAD	UH	25,000,000
1711	DMTN222	28-Aug-13	28-Aug-18	CAD	H	82,000,000
1712	DMTN222A	28-Aug-13	28-Aug-18	CAD	UH	70,000,000
1713	DMTN222B	28-Aug-13	28-Aug-18	CAD	H	60,000,000
1714	DMTN222C	28-Aug-13	28-Aug-18	CAD	H	50,000,000
1715	DMTN222D	28-Aug-13	28-Aug-18	CAD	H	133,800,000
1716	DMTN222E	28-Aug-13	28-Aug-18	CAD	H	44,000,000
1717	DMTN222F	28-Aug-13	28-Aug-18	CAD	H	109,000,000
1718	DMTN222G	28-Aug-13	28-Aug-18	CAD	H	25,000,000
1720	DMTN222H	28-Aug-13	28-Aug-18	CAD	H	27,000,000
1631	DMTN218	15-Jan-13	Sep 8, 18	CAD	UH	1,000,000,000
1656	DMTN218A	27-Feb-13	Sep 8, 18	CAD	UH	152,000,000
1657	DMTN218B	27-Feb-13	Sep 8, 18	CAD	UH	1,348,000,000
1704	DMTN218C	22-Jul-13	Sep 8, 18	CAD	UH	850,000,000
1723	DMTN218E	30-Aug-13	Sep 8, 18	CAD	UH	1,000,000,000
1742	DMTN218F	22-Oct-13	Sep 8, 18	CAD	UH	900,000,000
1792	DMTN218H	7-Feb-14	Sep 8, 18	CAD	UH	878,000,000
1871	DMTN218J	12-Dec-14	Sep 8, 18	CAD	UH	750,000,000
1945	DMTN218k	15-Dec-15	Sep 8, 18	CAD	UH	750,000,000
1853	G68 (green bond)	9-Oct-14	9-Oct-18	CAD	UH	500,000,000
1758	DMTN224	3-Dec-13	3-Dec-18	CAD	H	215,000,000
1759	DMTN224A	3-Dec-13	3-Dec-18	CAD	H	200,000,000
1760	DMTN224B	3-Dec-13	3-Dec-18	CAD	H	50,000,000
1761	DMTN224C	3-Dec-13	3-Dec-18	CAD	H	225,000,000
1762	DMTN224D	3-Dec-13	3-Dec-18	CAD	H	25,000,000
1763	DMTN224E	3-Dec-13	3-Dec-18	CAD	H	50,000,000
1764	DMTN224F	3-Dec-13	3-Dec-18	CAD	H	25,000,000
1765	DMTN224G	3-Dec-13	3-Dec-18	CAD	H	10,000,000
1769	DMTN224H	3-Dec-13	3-Dec-18	CAD	H	112,000,000
1770	DMTN224I	3-Dec-13	3-Dec-18	CAD	H	25,000,000
528	DMTN105	19-Apr-04	2-Jun-19	CAD	H	50,000,000
539	DMTN105/1	5-May-04	2-Jun-19	CAD	H	50,000,000
1139	DMTN195	17-Apr-09	2-Jun-19	CAD	UH	600,000,000
1143	DMTN195A	27-Apr-09	2-Jun-19	CAD	UH	475,000,000
1158	DMTN195C	7-May-09	2-Jun-19	CAD	UH	600,000,000
1169	DMTN195D	24-Jun-09	2-Jun-19	CAD	UH	450,000,000
1186	DMTN195F	10-Aug-09	2-Jun-19	CAD	UH	600,000,000
1189	DMTN195G	31-Aug-09	2-Jun-19	CAD	UH	650,000,000
1198	DMTN195I	2-Oct-09	2-Jun-19	CAD	UH	575,000,000
1226	DMTN195K	19-Nov-09	2-Jun-19	CAD	UH	750,000,000
1236	DMTN195l	7-Dec-09	2-Jun-19	CAD	UH	600,000,000
1241	DMTN195m	21-Dec-09	2-Jun-19	CAD	UH	250,000,000

1498	DMTN195N	21-Oct-11	2-Jun-19	CAD	H	600,000,000
1499	DMTN195o	21-Oct-11	2-Jun-19	CAD	UH	400,000,000
1579	DMTN195P	29-Jun-12	Jun 2, 19	CAD	UH	500,000,000
1833	DMTN226	26-Aug-14	Aug 26, 19	CAD	H	450,000,000
1834	DMTN226A	26-Aug-14	Aug 26, 19	CAD	H	245,000,000
1835	DMTN226B	26-Aug-14	Aug 26, 19	CAD	H	50,000,000
1836	DMTN226C	26-Aug-14	Aug 26, 19	CAD	H	150,000,000
1837	DMTN226D	26-Aug-14	Aug 26, 19	CAD	H	425,000,000
1838	DMTN226E	26-Aug-14	Aug 26, 19	CAD	H	206,000,000
1839	DMTN226F	26-Aug-14	Aug 26, 19	CAD	H	200,000,000
1840	DMTN226G	26-Aug-14	Aug 26, 19	CAD	H	150,000,000
1841	DMTN226H	26-Aug-14	Aug 26, 19	CAD	H	25,000,000
1842	DMTN226I	26-Aug-14	Aug 26, 19	CAD	H	20,000,000
1807	DMTN225	5-Jun-14	8-Sep-19	CAD	UH	1,150,000,000
1860	DMTN225B	31-Oct-14	8-Sep-19	CAD	UH	1,250,000,000
1892	DMTN225c	4-Mar-15	8-Sep-19	CAD	UH	1,000,000,000
2267	DMTN225d	24-Jan-17	8-Sep-19	CAD	UH	750,000,000
633	DMTN140	22-Feb-05	2-Jun-20	CAD	UH	71,000,000
637	DMTN140	25-Feb-05	2-Jun-20	CAD	UH	50,000,000
642	DMTN140	15-Mar-05	2-Jun-20	CAD	UH	50,000,000
660	DMTN140	24-May-05	2-Jun-20	CAD	UH	25,000,000
662	DMTN140/1	25-May-05	2-Jun-20	CAD	UH	41,000,000
669	DMTN140f	3-Jun-05	2-Jun-20	CAD	UH	48,000,000
672	DMTN140g	6-Jun-05	2-Jun-20	CAD	UH	44,000,000
701	DMTN140h	30-Aug-05	2-Jun-20	CAD	UH	25,000,000
751	DMTN140i	18-Jan-06	2-Jun-20	CAD	UH	45,000,000
816	DMTN140J	12-Sep-06	2-Jun-20	CAD	UH	100,000,000
819	DMTN140K	19-Sep-06	2-Jun-20	CAD	UH	25,000,000
1033	DMTN140L	12-Sep-08	2-Jun-20	CAD	UH	38,000,000
1260	DMTN200	23-Feb-10	2-Jun-20	CAD	UH	750,000,000
1269	DMTN200A	15-Mar-10	2-Jun-20	CAD	UH	600,000,000
1276	DMTN200b	22-Apr-10	2-Jun-20	CAD	UH	675,000,000
1298	DMTN200d	18-May-10	2-Jun-20	CAD	UH	700,000,000
1324	DMTN200F	13-Jul-10	2-Jun-20	CAD	UH	600,000,000
1331	DMTN200H	3-Aug-10	2-Jun-20	CAD	UH	700,000,000
1337	DMTN200J	30-Aug-10	2-Jun-20	CAD	UH	750,000,000
1343	DMTN200K	22-Sep-10	2-Jun-20	CAD	UH	700,000,000
1355	DMTN200M	13-Oct-10	2-Jun-20	CAD	UH	650,000,000
1358	DMTN200o	21-Oct-10	2-Jun-20	CAD	UH	750,000,000
1361	DMTN200P	26-Oct-10	2-Jun-20	CAD	UH	1,000,000,000
1772	DMTN200Q	6-Dec-13	2-Jun-20	CAD	UH	1,000,000,000
1928	DMTN200s	9-Sep-15	2-Jun-20	CAD	UH	1,150,000,000
152	CDPV-LY	4-Sep-98	4-Sep-20	CAD	UH	50,000,000
1957	DMTN230 FRN	16-Mar-16	16-Mar-21	CAD	H	345,600,000
1958	DMTN230a FRN	16-Mar-16	16-Mar-21	CAD	H	200,000,000
1959	DMTN230b FRN	16-Mar-16	16-Mar-21	CAD	H	60,000,000
1960	DMTN230c FRN	16-Mar-16	16-Mar-21	CAD	H	200,000,000
1961	DMTN230d FRN	16-Mar-16	16-Mar-21	CAD	H	98,000,000
1962	DMTN230e FRN	16-Mar-16	16-Mar-21	CAD	H	300,000,000
1963	DMTN230f FRN	16-Mar-16	16-Mar-21	CAD	H	50,000,000
1964	DMTN230g FRN	16-Mar-16	16-Mar-21	CAD	H	50,000,000
1965	DMTN230h FRN	16-Mar-16	16-Mar-21	CAD	H	51,000,000
1966	DMTN230i FRN	16-Mar-16	16-Mar-21	CAD	H	10,000,000
939	DMTN180	27-Dec-07	2-Jun-21	CAD	H	75,000,000
1385	DMTN207	12-Jan-11	2-Jun-21	CAD	UH	750,000,000

1402	DMTN207A	28-Feb-11	2-Jun-21	CAD	UH	750,000,000
1409	DMTN207b	5-Apr-11	2-Jun-21	CAD	UH	750,000,000
1416	DMTN207c	15-Apr-11	2-Jun-21	CAD	UH	700,000,000
1423	DMTN207e	3-May-11	2-Jun-21	CAD	UH	750,000,000
1458	DMTN207F	14-Jun-11	2-Jun-21	CAD	UH	750,000,000
1463	DMTN207G	27-Jun-11	2-Jun-21	CAD	UH	750,000,000
1473	DMTN207H	14-Jul-11	2-Jun-21	CAD	UH	750,000,000
1482	DMTN207i	17-Aug-11	2-Jun-21	CAD	UH	715,000,000
1486	DMTN207K	7-Sep-11	2-Jun-21	CAD	UH	750,000,000
1491	DMTN207L	16-Sep-11	2-Jun-21	CAD	UH	750,000,000
1494	DMTN207M	29-Sep-11	2-Jun-21	CAD	UH	750,000,000
1993	DMTN233 FRN	27-Oct-16	27-Oct-21	CAD	H	117,500,000
1994	DMTN233a FRN	27-Oct-16	27-Oct-21	CAD	H	25,000,000
1995	DMTN233b FRN	27-Oct-16	27-Oct-21	CAD	H	161,800,000
1996	DMTN233c FRN	27-Oct-16	27-Oct-21	CAD	H	30,000,000
1997	DMTN233d FRN	27-Oct-16	27-Oct-21	CAD	H	105,000,000
1998	DMTN233e FRN	27-Oct-16	27-Oct-21	CAD	H	335,000,000
1999	DMTN233f FRN	27-Oct-16	27-Oct-21	CAD	H	200,000,000
2256	DMTN233g FRN	27-Oct-16	27-Oct-21	CAD	H	50,000,000
2257	DMTN233h FRN	27-Oct-16	27-Oct-21	CAD	H	111,300,000
2258	DMTN233i FRN	27-Oct-16	27-Oct-21	CAD	H	14,400,000
2259	DMTN233j FRN	27-Oct-16	27-Oct-21	CAD	H	50,000,000
1985	DMTN232	23-Aug-16	8-Mar-22	CAD	UH	1,000,000,000
2278	DMTN232a	6-Mar-17	8-Mar-22	CAD	UH	1,000,000,000
1504	DMTN212	8-Nov-11	2-Jun-22	CAD	UH	750,000,000
1505	DMTN212A	18-Nov-11	2-Jun-22	CAD	UH	750,000,000
1512	DMTN212B	22-Dec-11	2-Jun-22	CAD	UH	1,000,000,000
1517	DMTN212C	13-Jan-12	2-Jun-22	CAD	UH	750,000,000
1521	DMTN212D	25-Jan-12	Jun 2, 22	CAD	UH	750,000,000
1535	DMTN212e	12-Mar-12	Jun 2, 22	CAD	UH	500,000,000
1542	DMTN212F	3-May-12	Jun 2, 22	CAD	UH	675,000,000
1553	DMTN212H	3-May-12	Jun 2, 22	CAD	UH	40,000,000
1561	DMTN212I	29-May-12	Jun 2, 22	CAD	UH	507,400,000
1562	DMTN212K	29-May-12	Jun 2, 22	CAD	UH	42,600,000
1570	DMTN212L	4-Jun-12	Jun 2, 22	CAD	UH	750,000,000
1572	DMTN212M	12-Jun-12	Jun 2, 22	CAD	UH	750,000,000
1584	DMTN212N	20-Jul-12	Jun 2, 22	CAD	UH	706,700,000
1589	DMTN212P	24-Aug-12	Jun 2, 22	CAD	UH	650,000,000
1592	DMTN212R	19-Sep-12	Jun 2, 22	CAD	UH	1,650,000,000
1934	DMTN212t	21-Oct-15	Jun 2, 22	CAD	UH	1,500,000,000
0	HC	13-Jul-92	Jul 13, 22	CAD	UH	1,850,000,000
1949	G72 (Green bond)	29-Jan-16	Jan 27, 23	CAD	UH	750,000,000
2269	G72b (green bond	2-Feb-17	Jan 27, 23	CAD	UH	800,000,000
1603	DMTN215	6-Nov-12	Jun 2, 23	CAD	UH	720,000,000
1608	DMTN215C	19-Nov-12	Jun 2, 23	CAD	UH	750,000,000
1623	DMTN215D	29-Nov-12	Jun 2, 23	CAD	UH	750,000,000
1639	DMTN215E	8-Feb-13	Jun 2, 23	CAD	UH	587,500,000
1660	DMTN215H	12-Mar-13	Jun 2, 23	CAD	UH	750,000,000
1672	DMTN215i	24-May-13	Jun 2, 23	CAD	UH	350,000,000
1692	DMN215L	17-Jun-13	Jun 2, 23	CAD	UH	1,200,000,000
1694	DMTN215N	21-Jun-13	Jun 2, 23	CAD	UH	550,000,000
1708	DMTN215P	2-Aug-13	Jun 2, 23	CAD	UH	450,000,000
1724	DMTN215R	30-Aug-13	Jun 2, 23	CAD	UH	400,000,000
1733	DMTN215T	24-Sep-13	Jun 2, 23	CAD	UH	500,000,000
1740	DMTN215V	15-Oct-13	Jun 2, 23	CAD	UH	550,000,000

1745	DMTN215X	28-Oct-13	Jun 2, 23	CAD	UH	650,000,000
1877	DMTN215Z	16-Jan-15	Jun 2, 23	CAD	UH	1,115,200,000
0	HP	8-Sep-93	8-Sep-23	CAD	UH	1,350,000,000
603	HP/1	1-Dec-04	8-Sep-23	CAD	UH	25,000,000
895	DMTN177	31-Jul-07	8-Sep-23	CAD	UH	75,000,000
28	HS	7-Feb-94	7-Feb-24	CAD	UH	1,250,000,000
1754	DMTN223	25-Nov-13	2-Jun-24	CAD	UH	650,000,000
1779	DMTN223B	10-Jan-14	2-Jun-24	CAD	UH	700,000,000
1782	DMTN223D	21-Jan-14	2-Jun-24	CAD	UH	650,000,000
1799	DMTN223F	7-Mar-14	2-Jun-24	CAD	UH	750,000,000
1803	DMTN223G	2-Apr-14	2-Jun-24	CAD	UH	750,000,000
1808	DMTN223H	12-May-14	2-Jun-24	CAD	UH	400,000,000
1813	DMTN223J	27-May-14	2-Jun-24	CAD	UH	650,000,000
1819	DMTN223L	9-Jun-14	2-Jun-24	CAD	UH	750,000,000
1823	DMTN223M	2-Jul-14	2-Jun-24	CAD	UH	650,000,000
1827	DMTN223O	6-Aug-14	2-Jun-24	CAD	UH	650,000,000
1844	DMTN223Q	2-Sep-14	2-Jun-24	CAD	UH	900,000,000
1850	DMTN223S	29-Sep-14	2-Jun-24	CAD	UH	550,000,000
1857	DMTN223U	28-Oct-14	2-Jun-24	CAD	UH	650,000,000
1862	DMTN223W	12-Nov-14	2-Jun-24	CAD	UH	700,000,000
1866	DMTN223Y	26-Nov-14	2-Jun-24	CAD	UH	600,000,000
0	JE	20-Dec-94	2-Jun-25	CAD	UH	500,000,000
1873	DMTN227	9-Jan-15	2-Jun-25	CAD	UH	900,000,000
1875	DMTN227B	13-Jan-15	2-Jun-25	CAD	UH	1,000,000,000
1879	DMTN227C	19-Jan-15	2-Jun-25	CAD	UH	750,000,000
1886	DMTN227d	9-Feb-15	2-Jun-25	CAD	UH	322,500,000
1887	DMTN227e	9-Feb-15	2-Jun-25	CAD	UH	677,500,000
1893	DMTN227f	4-Mar-15	2-Jun-25	CAD	UH	500,000,000
1894	DMTN227g	24-Mar-15	2-Jun-25	CAD	UH	750,000,000
1902	DMTN227h	8-May-15	2-Jun-25	CAD	UH	650,000,000
1907	DMTN227j	8-Jun-15	2-Jun-25	CAD	UH	550,000,000
1910	DMTN227l	12-Jun-15	2-Jun-25	CAD	UH	650,000,000
1915	DMTN227n	14-Jul-15	2-Jun-25	CAD	UH	650,000,000
1919	DMTN227p	5-Aug-15	2-Jun-25	CAD	UH	550,000,000
1923	DMTN227r	1-Sep-15	2-Jun-25	CAD	UH	650,000,000
1930	DMTN227t	5-Oct-15	2-Jun-25	CAD	UH	1,150,000,000
1935	DMTN227v	23-Oct-15	2-Jun-25	CAD	UH	750,000,000
1938	DMTN227w	4-Nov-15	2-Jun-25	CAD	UH	800,000,000
1942	DMTN227x	4-Dec-15	2-Jun-25	CAD	UH	1,250,000,000
0	JQ	5-Oct-95	2-Dec-25	CAD	UH	1,000,000,000
0	CDPV-JY	6-Feb-96	6-Feb-26	CAD	UH	50,000,000
72	JU	21-Dec-95	2-Jun-26	CAD	UH	1,000,000,000
1951	DMTN229	3-Feb-16	2-Jun-26	CAD	UH	750,000,000
1956	DMTN229a	7-Mar-16	2-Jun-26	CAD	UH	1,100,000,000
1969	DMTN229b	12-Apr-16	2-Jun-26	CAD	UH	750,000,000
1974	DMTN229c	7-Jun-16	2-Jun-26	CAD	UH	750,000,000
1982	DMTN229d	15-Jul-16	2-Jun-26	CAD	UH	1,000,000,000
1986	DMTN229e	26-Aug-16	2-Jun-26	CAD	UH	900,000,000
1989	DMTN229f	20-Sep-16	2-Jun-26	CAD	UH	750,000,000
1991	DMTN229g	14-Oct-16	2-Jun-26	CAD	UH	750,000,000
2261	DMTN229h	22-Nov-16	2-Jun-26	CAD	UH	750,000,000
113	KR	13-Feb-97	2-Dec-26	CAD	UH	225,000,000
168	MH	20-Jan-99	2-Dec-26	CAD	UH	124,584,000
101	CDPV-KN	5-Aug-97	3-Feb-27	CAD	UH	0
116	KY	1-Apr-98	3-Feb-27	CAD	UH	0

129	KT	5-Aug-97	3-Feb-27	CAD	UH	0
162	LA	4-Dec-98	3-Feb-27	CAD	UH	50,000,000
102	KQ	4-Feb-98	4-Feb-27	CAD	UH	0
117	KJ	17-Oct-96	2-Jun-27	CAD	UH	4,170,300,000
277	CDB-KJ-C	21-Aug-01	2-Jun-27	CAD	UH	67,400,000
553	KJ/1	14-Jul-04	2-Jun-27	CAD	UH	105,000,000
554	KJ/2	15-Jul-04	2-Jun-27	CAD	UH	100,000,000
588	KJ/3	2-Nov-04	2-Jun-27	CAD	UH	150,000,000
598	KJ/4	24-Nov-04	2-Jun-27	CAD	UH	142,000,000
2274	DMTN234	9-Feb-17	2-Jun-27	CAD	UH	190,800,000
2275	DMTN234a	9-Feb-17	2-Jun-27	CAD	UH	809,200,000
2282	DMTN234b	28-Mar-17	2-Jun-27	CAD	UH	750,000,000
136	LQ	25-Feb-98	25-Aug-28	CAD	UH	646,243,000
132	LK	8-Jan-98	8-Mar-29	CAD	UH	4,677,000,000
594	LK/1	18-Oct-04	8-Mar-29	CAD	UH	50,000,000
0	JN	8-Sep-95	13-Jan-31	CAD	UH	125,000,000
214	HC-NF	1-Mar-00	2-Jun-31	CAD	UH	500,000,000
214	CDB-NFA	27-Mar-00	2-Jun-31	CAD	UH	2,000,000,000
369	CDB-NFE	2-Dec-02	2-Jun-31	CAD	UH	500,000,000
1370	DMTN206	25-Nov-10	2-Jun-31	CAD	UH	133,300,000
385	DMTN061	17-Feb-03	8-Mar-33	CAD	UH	500,000,000
385	DMTN061.	18-Mar-09	8-Mar-33	CAD	UH	162,610,000
390	DMTN061A	27-Feb-03	8-Mar-33	CAD	UH	500,000,000
409	DMTN061B	25-Apr-03	8-Mar-33	CAD	UH	500,000,000
429	DMTN061C	16-Jun-03	8-Mar-33	CAD	UH	500,000,000
475	DMTN061/1	23-Dec-03	8-Mar-33	CAD	UH	500,000,000
483	DMTN061/2	20-Jan-04	8-Mar-33	CAD	UH	500,000,000
496	DMTN061/3	Feb 23, 04	Mar 8, 33	CAD	UH	500,000,000
524	DMTN061/4	31-Mar-04	8-Mar-33	CAD	UH	500,000,000
534	DMTN110	29-Apr-04	8-Mar-33	CAD	UH	200,000,000
534	DMTN61	21-Mar-12	8-Mar-33	CAD	UH	12,000,000
540	DMTN061/5	7-May-04	8-Mar-33	CAD	UH	500,000,000
555	DMTN116	23-Jul-04	8-Mar-33	CAD	H	100,000,000
0	EMTN005A	13-Jul-94	13-Jul-34	CAD	UH	100,000,000
0	EMTN005B	13-Jul-94	13-Jul-34	CAD	UH	200,000,000
711	DMTN157	21-Sep-05	13-Jul-34	CAD	UH	47,500,000
0	HY	3-Nov-94	3-Nov-34	CAD	UH	280,000,000
0	HZ	30-Nov-94	10-Jan-35	CAD	UH	189,616,626
0	JA	30-Nov-94	10-Jan-35	CAD	UH	24,766,559
0	JB	30-Nov-94	10-Jan-35	CAD	UH	8,482,324
0	JC	30-Nov-94	10-Jan-35	CAD	UH	4,764,354
0	JD	30-Nov-94	10-Jan-35	CAD	UH	3,171,134
0	JG	12-Jan-07	12-Jan-35	CAD	UH	132,950,000
0	JJ	8-Feb-95	8-Feb-35	CAD	UH	73,000,000
566	DMTN119	25-Aug-04	2-Jun-35	CAD	UH	500,000,000
566	DMTN119.	16-Oct-06	2-Jun-35	CAD	UH	100,000,000
567	DMTN119/1	15-Sep-04	2-Jun-35	CAD	UH	500,000,000
583	DMTN119/2	20-Oct-04	2-Jun-35	CAD	UH	500,000,000
595	DMTN119/3	15-Nov-04	2-Jun-35	CAD	UH	500,000,000
613	DMTN119d	10-Jan-05	2-Jun-35	CAD	UH	500,000,000
615	DMTN133	12-Jan-05	2-Jun-35	CAD	UH	150,000,000
623	DMTN119e	3-Feb-05	2-Jun-35	CAD	UH	500,000,000
628	DMTN119f	17-Feb-05	2-Jun-35	CAD	UH	500,000,000
670	DMTN119g	6-Jun-05	2-Jun-35	CAD	UH	500,000,000
684	DMTN119h	5-Jul-05	2-Jun-35	CAD	UH	500,000,000

697	DMTN119i	12-Aug-05	2-Jun-35	CAD	UH	500,000,000
698	DMTN119 extend	22-Aug-05	2-Jun-35	CAD	H	100,000,000
707	DMTN119j	13-Sep-05	2-Jun-35	CAD	UH	500,000,000
721	DMTN119	5-Oct-05	2-Jun-35	CAD	H	200,000,000
741	DMTN119k	1-Dec-05	2-Jun-35	CAD	UH	500,000,000
749	DMTN119l	17-Jan-06	2-Jun-35	CAD	UH	500,000,000
753	DMTN119m	3-Feb-06	Jun 2, 35	CAD	UH	500,000,000
1977	DMTN119n	13-Jun-16	Jun 2, 35	CAD	UH	0
2265	DMTN119o	14-Dec-16	Jun 2, 35	CAD	UH	16,113,000
75	KC	20-Jun-96	Jun 20, 36	CAD	UH	211,000,000
762	DMTN158a	8-Mar-06	1-Dec-36	CAD	H	170,756,134
763	DMTN158b	8-Mar-06	1-Dec-36	CAD	H	129,243,867
	RRS	CPI Adjustment Compensated by RR Swap				
	RRS.	Notional Payable - interest received from RRS related to Dec. 1, 2005 to Mar.				
1049	DMTN158C	5-Nov-08	1-Dec-36	CAD	UH	230,000,000
1062	DMTN158D	18-Nov-08	1-Dec-36	CAD	UH	189,000,000
1063	DMTN158E	18-Nov-08	1-Dec-36	CAD	UH	80,000,000
1088	DMTN158F	16-Dec-08	1-Dec-36	CAD	UH	700,000,000
1090	DMTN158G	23-Dec-08	1-Dec-36	CAD	UH	234,000,000
1114	DMTN158I	13-Mar-09	1-Dec-36	CAD	UH	25,000,000
1115	DMTN158H	13-Mar-09	1-Dec-36	CAD	UH	116,000,000
1141	DMTN158J	20-Apr-09	1-Dec-36	CAD	UH	70,000,000
1228	DMTN158K RRB	20-Nov-09	1-Dec-36	CAD	UH	200,000,000
757	DMTN164	22-Feb-06	2-Jun-37	CAD	UH	500,000,000
784	DMTN164A	10-May-06	2-Jun-37	CAD	UH	500,000,000
788	DMTN164	7-Jun-06	2-Jun-37	CAD	UH	500,000,000
801	DMTN164C	26-Jul-06	2-Jun-37	CAD	UH	500,000,000
810	DMTN164d	1-Sep-06	2-Jun-37	CAD	UH	300,000,000
822	DMTN164F	27-Sep-06	2-Jun-37	CAD	UH	500,000,000
835	DMTN164G	2-Nov-06	2-Jun-37	CAD	UH	500,000,000
846	DMTN164H	23-Nov-06	2-Jun-37	CAD	UH	300,000,000
854	DMTN164J	20-Dec-06	2-Jun-37	CAD	UH	500,000,000
865	DMTN164K	8-Feb-07	2-Jun-37	CAD	UH	500,000,000
867	DMTN164L	23-Feb-07	2-Jun-37	CAD	UH	500,000,000
886	DMTN164M	18-Jun-07	2-Jun-37	CAD	UH	600,000,000
898	DMTN164N	8-Aug-07	2-Jun-37	CAD	UH	600,000,000
905	DMTN164O	4-Sep-07	2-Jun-37	CAD	UH	600,000,000
913	DMTN164P	19-Sep-07	2-Jun-37	CAD	UH	600,000,000
924	DMTN164Q	6-Nov-07	2-Jun-37	CAD	UH	600,000,000
936	DMTN164R	7-Dec-07	2-Jun-37	CAD	UH	600,000,000
621	DMTN138	11-Feb-05	2-Dec-37	CAD	UH	100,000,000
559	DMTN117	28-Jul-04	2-Jun-38	CAD	UH	75,000,000
87	KG	16-Sep-96	20-Jun-38	CAD	UH	120,000,000
146	LS	29-Jul-98	13-Jul-38	CAD	UH	50,000,000
147	LT	17-Aug-98	25-Aug-38	CAD	UH	100,000,000
943	DMTN182	15-Jan-08	2-Jun-39	CAD	UH	600,000,000
963	DMTN182A	1-May-08	2-Jun-39	CAD	UH	600,000,000
994	DMTN182b	30-May-08	2-Jun-39	CAD	UH	600,000,000
1012	DMTN182C	2-Jul-08	2-Jun-39	CAD	UH	600,000,000
1021	DMTN182D	29-Jul-08	2-Jun-39	CAD	UH	600,000,000
1108	DMTN182E	23-Feb-09	2-Jun-39	CAD	UH	150,000,000
1117	DMTN182F	13-Mar-09	2-Jun-39	CAD	UH	150,000,000
1129	DMTN182G	7-Apr-09	2-Jun-39	CAD	UH	250,000,000
1157	DMTN182H	7-May-09	2-Jun-39	CAD	UH	150,000,000
1176	DMTN182I	10-Jul-09	2-Jun-39	CAD	UH	500,000,000

1191	DMTN182K	31-Aug-09	2-Jun-39	CAD	UH	150,000,000
1197	DMTN182L	2-Oct-09	2-Jun-39	CAD	UH	250,000,000
1204	DMTN182M	9-Oct-09	2-Jun-39	CAD	UH	150,000,000
1237	DMTN182n	7-Dec-09	2-Jun-39	CAD	UH	250,000,000
1250	DMTN182O	20-Jan-10	2-Jun-39	CAD	UH	750,000,000
1264	DMTN182P	9-Mar-10	2-Jun-39	CAD	UH	250,000,000
1283	DMTN182q	29-Apr-10	2-Jun-39	CAD	UH	600,000,000
1288	DMTN182r	4-May-10	2-Jun-39	CAD	UH	600,000,000
1295	DMTN182s	14-May-10	2-Jun-39	CAD	UH	600,000,000
1305	DMTN182T	2-Jun-10	2-Jun-39	CAD	UH	600,000,000
1309	DMTN182U	4-Jun-10	2-Jun-39	CAD	UH	600,000,000
1339	DMTN182V	3-Sep-10	2-Jun-39	CAD	UH	600,000,000
170	MK	2-Feb-99	13-Jul-39	CAD	UH	300,000,000
212	CDPV-NE	25-Feb-00	2-Dec-39	CAD	UH	553,700,000
616	CDPV-NE	25-Jan-05	2-Dec-39	CAD	UH	220,000,000
705	NEb	12-Sep-05	2-Dec-39	CAD	UH	100,000,000
720	CDPV-Nec	5-Oct-05	2-Dec-39	CAD	UH	100,000,000
728	CDPV-Ned	28-Oct-05	2-Dec-39	CAD	UH	100,300,000
735	CDPV-NEe	18-Nov-05	2-Dec-39	CAD	UH	100,000,000
738	CDPV-NEf	21-Nov-05	2-Dec-39	CAD	UH	100,000,000
739	CDPV-NEg	22-Nov-05	2-Dec-39	CAD	UH	50,000,000
744	CDPV-NEh	19-Dec-05	2-Dec-39	CAD	UH	90,000,000
747	CDPV-NEi	6-Jan-06	2-Dec-39	CAD	UH	75,000,000
337	DMTN44	18-Apr-02	13-Jul-40	CAD	UH	50,000,000
712	DMTN44a	22-Sep-05	13-Jul-40	CAD	UH	50,000,000
1319	DMTN204	15-Jun-10	2-Jun-41	CAD	UH	600,000,000
1327	DMTN204A	19-Jul-10	2-Jun-41	CAD	UH	600,000,000
1342	DMTN204B	14-Sep-10	2-Jun-41	CAD	UH	600,000,000
1352	DMTN204C	30-Sep-10	2-Jun-41	CAD	UH	750,000,000
1367	DMTN204D	9-Nov-10	2-Jun-41	CAD	UH	600,000,000
1380	DMTN204E	17-Dec-10	2-Jun-41	CAD	UH	600,000,000
1391	DMTN204F	24-Jan-11	2-Jun-41	CAD	UH	600,000,000
1396	DMTN204G	2-Feb-11	2-Jun-41	CAD	UH	600,000,000
1397	DMTN204H	9-Feb-11	2-Jun-41	CAD	UH	600,000,000
1405	DMTN204I	9-Mar-11	2-Jun-41	CAD	UH	450,000,000
1419	DMTN204k	25-Apr-11	2-Jun-41	CAD	UH	600,000,000
1429	DMTN204l	16-May-11	2-Jun-41	CAD	UH	600,000,000
1432	DMTN204m	24-May-11	2-Jun-41	CAD	UH	600,000,000
1455	DMTN204N	3-Jun-11	2-Jun-41	CAD	UH	600,000,000
1489	DMTN204o	13-Sep-11	2-Jun-41	CAD	UH	618,000,000
1497	DMTN204Q	17-Oct-11	2-Jun-41	CAD	UH	750,000,000
1507	DMTN204R	2-Dec-11	2-Jun-41	CAD	UH	1,000,000,000
1510	DMTN204S	7-Dec-11	2-Jun-41	CAD	UH	600,000,000
276	DMTN10	15-Aug-01	2-Dec-41	CAD	UH	250,000,000
343	DMTN010A	29-May-02	2-Dec-41	CAD	UH	40,000,000
841	DMTN10B	7-Nov-06	2-Dec-41	CAD	UH	50,000,000
311	DMTN29	4-Dec-01	8-Mar-42	CAD	UH	41,000,000
319	DMTN033	18-Jan-02	2-Jun-42	CAD	UH	115,000,000
372	DMTN033A	12-Dec-02	2-Jun-42	CAD	UH	25,000,000
510	DMTN033/1	12-Mar-04	2-Jun-42	CAD	UH	100,000,000
387	DMTN062	24-Feb-03	Jun 2, 43	CAD	UH	25,000,000
389	DMTN062A	26-Feb-03	Jun 2, 43	CAD	UH	25,000,000
798	DMTN62B	13-Jul-06	Jun 2, 43	CAD	UH	25,000,000
1522	DMTN214	31-Jan-12	Jun 2, 43	CAD	UH	600,000,000
1527	DMTN214A	13-Feb-12	Jun 2, 43	CAD	UH	600,000,000

1534	DMTN214b	12-Mar-12	Jun 2, 43	CAD	UH	900,000,000
1540	DMTN214C	20-Apr-12	Jun 2, 43	CAD	UH	600,000,000
1549	DMTN214D	23-Apr-12	Jun 2, 43	CAD	UH	600,000,000
1558	DMTN214E	15-May-12	Jun 2, 43	CAD	UH	400,000,000
1576	DMTN214G	27-Jun-12	Jun 2, 43	CAD	UH	750,000,000
1587	DMTN214H	13-Aug-12	Jun 2, 43	CAD	UH	600,000,000
1597	DMTN214i	2-Oct-12	Jun 2, 43	CAD	UH	600,000,000
1607	DMTN214J	14-Nov-12	Jun 2, 43	CAD	UH	600,000,000
1610	DMTN214K	21-Nov-12	Jun 2, 43	CAD	UH	600,000,000
1627	DMTN214L	19-Dec-12	Jun 2, 43	CAD	UH	600,000,000
1628	DMTN214M	20-Dec-12	Jun 2, 43	CAD	UH	600,000,000
1630	DMTN214N	7-Jan-13	Jun 2, 43	CAD	UH	600,000,000
1643	DMTN214O	12-Feb-13	Jun 2, 43	CAD	UH	750,000,000
1664	DMTN214P	5-Apr-13	Jun 2, 43	CAD	UH	1,000,000,000
1666	DMTN214Q	9-Apr-13	Jun 2, 43	CAD	UH	600,000,000
817	DMTN169	13-Sep-06	2-Jun-44	CAD	UH	27,000,000
0	CDB-JL	25-May-95	10-Jan-45	CAD	UH	35,531,176
55	CDPV-JK	1-Mar-95	1-Mar-45	CAD	UH	150,000,000
702	DMTN153	31-Aug-05	2-Jun-45	CAD	UH	25,000,000
727	DMTN153a	28-Oct-05	2-Jun-45	CAD	UH	75,000,000
729	DMTN153b	31-Oct-05	2-Jun-45	CAD	UH	50,000,000
785	DMTN153C	19-May-06	2-Jun-45	CAD	UH	25,000,000
1670	DMTN220	10-May-13	2-Jun-45	CAD	UH	750,000,000
1687	DMTN220A	3-Jun-13	2-Jun-45	CAD	UH	600,000,000
1696	DMTN220B	2-Jul-13	2-Jun-45	CAD	UH	600,000,000
1701	DMTN220C	12-Jul-13	2-Jun-45	CAD	UH	600,000,000
1722	DMTN220D	27-Aug-13	2-Jun-45	CAD	UH	650,000,000
1731	DMTN220E	16-Sep-13	2-Jun-45	CAD	UH	750,000,000
1735	DMTN220F	1-Oct-13	2-Jun-45	CAD	UH	500,000,000
1748	DMTN220H	28-Oct-13	2-Jun-45	CAD	UH	350,000,000
1756	DMTN220J	28-Nov-13	2-Jun-45	CAD	UH	600,000,000
1774	DMTN220I	17-Dec-13	2-Jun-45	CAD	UH	525,000,000
1781	DMTN220N	14-Jan-14	2-Jun-45	CAD	UH	600,000,000
1789	DMTN220o	4-Feb-14	2-Jun-45	CAD	UH	950,000,000
1796	DMTN220Q	28-Feb-14	2-Jun-45	CAD	UH	600,000,000
1800	DMTN220R	26-Mar-14	2-Jun-45	CAD	UH	600,000,000
1811	DMTN220S	20-May-14	2-Jun-45	CAD	UH	500,000,000
1815	DMTN220U	30-May-14	2-Jun-45	CAD	UH	600,000,000
1821	DMTN220V	11-Jun-14	2-Jun-45	CAD	UH	1,000,000,000
1826	DMTN220W	28-Jul-14	2-Jun-45	CAD	UH	600,000,000
1849	DMTN220X	12-Sep-14	2-Jun-45	CAD	UH	600,000,000
1854	DMTN220Y	14-Oct-14	2-Jun-45	CAD	UH	800,000,000
1856	DMTN220Z	24-Oct-14	2-Jun-45	CAD	UH	800,000,000
1864	DMTN220AA	12-Nov-14	2-Jun-45	CAD	UH	750,000,000
1865	DMTN220AB	24-Nov-14	2-Jun-45	CAD	UH	600,000,000
1870	DMTN220AC	8-Dec-14	2-Jun-45	CAD	UH	600,000,000
787	DMTN166	24-May-06	2-Jun-46	CAD	UH	25,000,000
797	DMTN166A	11-Jul-06	2-Jun-46	CAD	UH	25,000,000
809	DMTN166B	24-Aug-06	2-Jun-46	CAD	UH	29,700,000
831	DMTN166C	6-Oct-06	2-Jun-46	CAD	UH	25,000,000
837	DMTN166D	7-Nov-06	2-Jun-46	CAD	UH	50,000,000
1881	DMTN228	2-Feb-15	2-Dec-46	CAD	UH	675,000,000
1883	DMTN228b	3-Feb-15	2-Dec-46	CAD	UH	525,250,000
1890	DMTN228d	24-Feb-15	2-Dec-46	CAD	UH	650,000,000
1895	DMTN228e	30-Mar-15	2-Dec-46	CAD	UH	1,000,000,000

1901	DMTN228f	5-May-15	2-Dec-46	CAD	UH	650,000,000
1906	DMTN228g	2-Jun-15	2-Dec-46	CAD	UH	750,000,000
1913	DMTN228h	23-Jun-15	2-Dec-46	CAD	UH	600,000,000
1917	DMTN228i	17-Jul-15	2-Dec-46	CAD	UH	1,300,000,000
1918	DMTN228j	30-Jul-15	2-Dec-46	CAD	UH	1,000,000,000
1922	DMTN228k	11-Aug-15	2-Dec-46	CAD	UH	600,000,000
1925	DMTN228l	3-Sep-15	2-Dec-46	CAD	UH	750,000,000
1933	DMTN228m	13-Oct-15	2-Dec-46	CAD	UH	600,000,000
1936	DMTN228n	27-Oct-15	2-Dec-46	CAD	UH	600,000,000
1937	DMTN228o	3-Nov-15	2-Dec-46	CAD	UH	600,000,000
1944	DMTN228p	10-Dec-15	2-Dec-46	CAD	UH	600,000,000
1948	DMTN228q	27-Jan-16	2-Dec-46	CAD	UH	600,000,000
1955	DMTN228r	7-Mar-16	2-Dec-46	CAD	UH	750,000,000
1967	DMTN228s	22-Mar-16	2-Dec-46	CAD	UH	600,000,000
1972	DMTN228t	18-May-16	2-Dec-46	CAD	UH	700,000,000
1973	DMTN228u	3-Jun-16	2-Dec-46	CAD	UH	1,000,000,000
869	DMTN176	28-Feb-07	2-Jun-47	CAD	UH	30,000,000
882	DMTN176a	25-May-07	2-Jun-47	CAD	UH	28,000,000
941	DMTN176B	7-Jan-08	2-Jun-47	CAD	UH	100,000,000
965	DMTN184	6-May-08	2-Jun-48	CAD	UH	25,000,000
1239	DMTN184a	10-Dec-09	2-Jun-48	CAD	UH	25,000,000
1978	DMTN231	21-Jun-16	2-Jun-48	CAD	UH	600,000,000
1980	DMTN231a	5-Jul-16	2-Jun-48	CAD	UH	600,000,000
1981	DMTN231b	12-Jul-16	2-Jun-48	CAD	UH	600,000,000
1983	DMTN231c	29-Jul-16	2-Jun-48	CAD	UH	750,000,000
1992	DMTN231d	25-Oct-16	2-Jun-48	CAD	UH	800,000,000
2262	DMTN231e	25-Nov-16	2-Jun-48	CAD	UH	750,000,000
2263	DMTN231f	2-Dec-16	2-Jun-48	CAD	UH	750,000,000
2264	DMTN231g	14-Dec-16	2-Jun-48	CAD	UH	600,000,000
2279	DMTN231h	9-Mar-17	2-Jun-48	CAD	UH	600,000,000
1017	DMTN185	22-Jul-08	2-Jun-54	CAD	UH	20,000,000
1404	DMTN185A	3-Mar-11	2-Jun-54	CAD	UH	20,000,000
1606	DMTN216	8-Nov-12	2-Jun-62	CAD	UH	300,000,000
1633	DMTN216A	31-Jan-13	2-Jun-62	CAD	UH	100,000,000
1636	DMTN216B	4-Feb-13	2-Jun-62	CAD	UH	50,000,000
1671	DMTN216C	23-May-13	2-Jun-62	CAD	UH	25,000,000

FOREIGN CURRENCY BORROWING **Currency**

1347	AUD2	29-Sep-10	29-Sep-20	AUD	H	275,000,000
1459	AUD2A	20-Jun-11	29-Sep-20	AUD	H	225,000,000
1832	AUD3	22-Aug-14	22-Aug-24	AUD	H	225,000,000
1859	AUD3A	3-Nov-14	22-Aug-24	AUD	H	75,000,000
1868	AUD3B	5-Dec-14	22-Aug-24	AUD	H	50,000,000
1888	AUD4	26-Feb-15	26-Aug-25	AUD	H	125,000,000
1889	AUD4a	19-May-15	26-Aug-25	AUD	H	75,000,000
1904	AUD4b	19-May-15	26-Aug-25	AUD	H	25,000,000
1940	AUD4c	12-Nov-15	26-Aug-25	AUD	H	40,000,000
1941	AUD4d	26-May-16	26-Aug-25	AUD	H	40,000,000
1971	AUD4e	2-Jun-16	26-Aug-25	AUD	H	60,000,000

2266	AUD5	27-Jan-17	27-Jan-27	AUD	H	30,000,000
2268	AUD5a	3-Feb-17	27-Jan-27	AUD	H	30,000,000
2276	AUD5b	8-Mar-17	27-Jan-27	AUD	H	55,000,000
2280	AUD5c	17-Mar-17	27-Jan-27	AUD	H	25,000,000
2281	AUD5d	17-Mar-17	27-Jan-27	AUD	H	30,000,000
1011	EMTN82	30-Jul-08	30-Jul-18	CHF	H	225,000,000
1134	EMTN95	29-Apr-09	29-Apr-19	CHF	H	225,000,000
1182	PY - CHF1	14-Aug-09	30-Jul-18	CHF	H	100,000,000
1183	PZ - CHF2	14-Aug-09	14-Dec-18	CHF	H	100,000,000
1220	EMTN99	4-Dec-09	4-Dec-19	CHF	H	275,000,000
1275	EMTN101	7-May-10	7-May-20	CHF	UH	400,000,000
1091	PU - G39	9-Jan-09	9-Jan-18	EUR	H	120,000,000
1140	EMTN97	23-Apr-09	23-Apr-19	EUR	H	750,000,000
1142	EMTN97A	23-Apr-09	23-Apr-19	EUR	H	750,000,000
1229	EMTN100	3-Dec-09	3-Dec-19	EUR	H	600,000,000
1230	EMTN100A	3-Dec-09	3-Dec-19	EUR	H	600,000,000
1259	EMTN100B	3-Dec-09	3-Dec-19	EUR	H	550,000,000
1345	EMTN107	28-Sep-10	28-Sep-20	EUR	H	750,000,000
1346	EMTN107A	28-Sep-10	28-Sep-20	EUR	H	500,000,000
1794	EMTN110	21-May-14	21-May-24	EUR	H	1,750,000,000
1876	EMTN111	21-Jan-15	21-Jan-25	EUR	H	1,250,000,000
1950	EMTN112	29-Jan-16	28-Jun-41	EUR	H	52,000,000
1019	YL16	8-Aug-08	8-Aug-18	JPY	H	8,000,000,000
1304	EMTN105	7-Jun-10	8-Jun-20	JPY	H	36,900,000,000
1196	G44 - USD	7-Oct-09	7-Oct-19	USD	H	2,000,000,000
1274	G48	14-Apr-10	14-Apr-20	USD	H	2,000,000,000
1379	G52	15-Dec-10	15-Dec-17	USD	H	1,250,000,000
1472	G55	14-Jul-11	16-Jul-18	USD	H	1,000,000,000
1575	G58	29-Jun-12	29-Jun-22	USD	H	1,000,000,000
1595	G59	29-Sep-12	27-Sep-19	USD	H	1,250,000,000
1599	G60	25-Oct-12	25-Oct-17	USD	H	1,500,000,000
1600	G60A	25-Oct-12	25-Oct-17	USD	H	750,000,000
1609	USMTN2	23-Nov-12	23-Nov-17	USD	H	250,000,000
1644	G62	14-Feb-13	14-Feb-18	USD	H	705,000,000
1665	G63	27-Sep-13	27-Sep-18	USD	H	1,750,000,000
1784	G65	30-Jan-14	30-Jan-19	USD	H	1,000,000,000
1785	G65A	30-Jan-14	30-Jan-19	USD	H	1,000,000,000
1804	G66	16-May-14	16-May-24	USD	H	1,250,000,000

1846	G67	11-Sep-14	10-Sep-21	USD	H	1,000,000,000
1847	G67A	11-Sep-14	10-Sep-21	USD	H	1,000,000,000
1905	G70	21-May-15	21-May-20	USD	H	2,000,000,000
1947	G71	21-Jan-16	18-Jan-19	USD	H	2,500,000,000
1898	G69	27-Apr-16	27-Apr-26	USD	H	1,000,000,000
1976	G73	17-Jun-16	17-Jun-19	USD	H	1,750,000,000
2271	G74	8-Feb-17	8-Feb-22	USD	H	1,500,000,000
2272	G74a	8-Feb-17	8-Feb-22	USD	H	1,000,000,000

Total Public Debt

Fx debt as per table above

Long-term FX debt per GL

Difference

Debt Summary

MOF G/L	
700	CAD Public Debt
700A	CAD Public Debt - trade date
700RRB	CAD Public Debt - Real Return Bon
700RRBC	CAD Public Debt - Real Return Bon
700RRSC	Real Return Swaps - CPI Adjustmer
700RRSF	Real Return Swap - Notional Payab
LT CAD Debt	
770AD	Foreign Debt - LT - Australian Dolla
770EU	Foreign Debt - LT - Euro - Hedged
770GB	Foreign Debt - LT - Great Britain Po
770HD	Foreign Debt - LT - Hong Kong Doll
770JY	Foreign Debt - LT - Japanese Yen -
770NK	Foreign Debt - LT - Norwegian Kron
770NZ	Foreign Debt - LT - New Zealand D
770SF	Foreign Debt - LT - Swiss Franc - H
770TL	Foreign Debt - LT - Turkish Lira - H
770US	Foreign Debt - LT - United States D
770ZR	Foreign Debt - LT - South African R
771JY	Foreign Debt - LT - Japanese Yen -
771SF	Foreign Debt - LT - Swiss Franc - U
771US	Foreign Debt - LT - USD - Unhedge
LT Foreign Debt	
Total LT Provincial Debt	

Diff -Mar 2017 issue

new borrowing
new borrowing

Mar 2017 maturities

Misc diff

Reconciliation:

Prepared by: Fred Chow
Date: Mar 24, 2017
Reviewed by: Shemin Meralli
Date:

Debt in FX Outstanding	FX rate	Equivalent	Eff rate 31-Dec-15	Series Subtotal
1,250,000,000	1.00000	1,250,000,000	1.94800	
1,000,000,000	1.00000	1,000,000,000	1.97980	
1,000,000,000	1.00000	1,000,000,000	2.08720	
1,000,000,000	1.00000	1,000,000,000	1.97100	
1,000,000,000	1.00000	1,000,000,000	1.86100	
1,100,000,000	1.00000	1,100,000,000	1.63060	6,350,000,000
100,000,000	1.00000	100,000,000	1.94950	
50,000,000	1.00000	50,000,000	1.95550	
125,000,000	1.00000	125,000,000	1.95550	
75,000,000	1.00000	75,000,000	1.95550	
95,000,000	1.00000	95,000,000	1.94300	
25,000,000	1.00000	25,000,000	1.94950	
45,000,000	1.00000	45,000,000	1.94950	
304,500,000	1.00000	304,500,000	1.94940	
300,000,000	1.00000	300,000,000	1.94540	1,119,500,000
200,000,000	1.00000	200,000,000	1.86350	
25,000,000	1.00000	25,000,000	1.89390	
170,000,000	1.00000	170,000,000	1.89390	
100,000,000	1.00000	100,000,000	1.86350	
90,000,000	1.00000	90,000,000	1.86910	
120,000,000	1.00000	120,000,000	1.89390	
10,000,000	1.00000	10,000,000	1.86910	
35,000,000	1.00000	35,000,000	1.89390	
260,000,000	1.00000	260,000,000	4.26770	
600,000,000	1.00000	600,000,000	4.13020	
300,000,000	1.00000	300,000,000	4.30400	
200,000,000	1.00000	200,000,000	4.56970	
200,000,000	1.00000	200,000,000	4.35180	
45,000,000	1.00000	45,000,000	1.89800	
200,000,000	1.00000	200,000,000	1.07000	
130,000,000	1.00000	130,000,000	1.89800	
25,000,000	1.00000	25,000,000	1.89800	
100,000,000	1.00000	100,000,000	1.07000	
100,000,000	1.00000	100,000,000	2.40150	
25,000,000	1.00000	25,000,000	2.40140	
25,000,000	1.00000	25,000,000	2.40140	
25,000,000	1.00000	25,000,000	2.40140	
25,000,000	1.00000	25,000,000	2.40150	
50,000,000	1.00000	50,000,000	2.40150	
25,000,000	1.00000	25,000,000	2.40150	

75,000,000	1.00000	75,000,000	0.86700	
50,000,000	1.00000	50,000,000	0.89700	
25,000,000	1.00000	25,000,000	5.01750	
25,000,000	1.00000	25,000,000	4.60020	
25,000,000	1.00000	25,000,000	4.56980	
50,000,000	1.00000	50,000,000	4.41300	
35,000,000	1.00000	35,000,000	4.47410	
50,000,000	1.00000	50,000,000	4.49900	
25,000,000	1.00000	25,000,000	4.42730	
25,000,000	1.00000	25,000,000	4.87710	
100,000,000	1.00000	100,000,000	4.83720	
35,000,000	1.00000	35,000,000	4.83720	
60,000,000	1.00000	60,000,000	4.83310	
25,000,000	1.00000	25,000,000	4.83450	
82,000,000	1.00000	82,000,000	2.55900	
70,000,000	1.00000	70,000,000	1.11000	
60,000,000	1.00000	60,000,000	2.51110	
50,000,000	1.00000	50,000,000	2.55900	
133,800,000	1.00000	133,800,000	2.55900	
44,000,000	1.00000	44,000,000	2.49370	
109,000,000	1.00000	109,000,000	2.44830	
25,000,000	1.00000	25,000,000	2.55900	
27,000,000	1.00000	27,000,000	2.41540	
1,000,000,000	1.00000	1,000,000,000	2.12200	
152,000,000	1.00000	152,000,000	2.08200	
1,348,000,000	1.00000	1,348,000,000	2.08200	
850,000,000	1.00000	850,000,000	2.24800	
1,000,000,000	1.00000	1,000,000,000	2.51400	
900,000,000	1.00000	900,000,000	2.35300	
878,000,000	1.00000	878,000,000	1.94700	
750,000,000	1.00000	750,000,000	1.56020	
750,000,000	1.00000	750,000,000	0.93330	7,628,000,000
500,000,000	1.00000	500,000,000	1.79600	
215,000,000	1.00000	215,000,000	2.14610	
200,000,000	1.00000	200,000,000	2.06240	
50,000,000	1.00000	50,000,000	2.10170	
225,000,000	1.00000	225,000,000	2.21800	
25,000,000	1.00000	25,000,000	2.21800	
50,000,000	1.00000	50,000,000	2.15200	
25,000,000	1.00000	25,000,000	2.10170	
10,000,000	1.00000	10,000,000	2.15200	
112,000,000	1.00000	112,000,000	2.10710	
25,000,000	1.00000	25,000,000	2.10170	
50,000,000	1.00000	50,000,000	0.90200	
50,000,000	1.00000	50,000,000	0.89200	
600,000,000	1.00000	600,000,000	4.42670	
475,000,000	1.00000	475,000,000	4.35370	
600,000,000	1.00000	600,000,000	4.26420	
450,000,000	1.00000	450,000,000	4.49330	
600,000,000	1.00000	600,000,000	4.33060	
650,000,000	1.00000	650,000,000	4.16230	
575,000,000	1.00000	575,000,000	3.99200	
750,000,000	1.00000	750,000,000	4.10920	
600,000,000	1.00000	600,000,000	3.94700	
250,000,000	1.00000	250,000,000	4.07550	

600,000,000	1.00000	600,000,000	1.47753	
400,000,000	1.00000	400,000,000	2.78700	
500,000,000	1.00000	500,000,000	2.32200	7,050,000,000
450,000,000	1.00000	450,000,000	1.99280	
245,000,000	1.00000	245,000,000	1.99250	
50,000,000	1.00000	50,000,000	1.99280	
150,000,000	1.00000	150,000,000	1.99250	
425,000,000	1.00000	425,000,000	1.99280	
206,000,000	1.00000	206,000,000	1.60640	
200,000,000	1.00000	200,000,000	1.68400	
150,000,000	1.00000	150,000,000	2.00330	
25,000,000	1.00000	25,000,000	1.66670	
20,000,000	1.00000	20,000,000	1.58520	
1,150,000,000	1.00000	1,150,000,000	2.13700	
1,250,000,000	1.00000	1,250,000,000	1.99100	
1,000,000,000	1.00000	1,000,000,000	1.11400	
750,000,000	1.00000	750,000,000	1.20330	4,150,000,000
71,000,000	1.00000	71,000,000	4.86120	
50,000,000	1.00000	50,000,000	4.89300	
50,000,000	1.00000	50,000,000	4.99870	
25,000,000	1.00000	25,000,000	4.67990	
41,000,000	1.00000	41,000,000	4.72180	
48,000,000	1.00000	48,000,000	4.60780	
44,000,000	1.00000	44,000,000	4.55500	
25,000,000	1.00000	25,000,000	4.35170	
45,000,000	1.00000	45,000,000	4.44650	
100,000,000	1.00000	100,000,000	4.55800	
25,000,000	1.00000	25,000,000	4.50870	
38,000,000	1.00000	38,000,000	4.41180	
750,000,000	1.00000	750,000,000	4.23090	
600,000,000	1.00000	600,000,000	4.27700	
675,000,000	1.00000	675,000,000	4.44400	
700,000,000	1.00000	700,000,000	4.36300	
600,000,000	1.00000	600,000,000	4.11900	
700,000,000	1.00000	700,000,000	4.06000	
750,000,000	1.00000	750,000,000	3.67200	
700,000,000	1.00000	700,000,000	3.78900	
650,000,000	1.00000	650,000,000	3.50900	
750,000,000	1.00000	750,000,000	3.48700	
1,000,000,000	1.00000	1,000,000,000	3.47600	
1,000,000,000	1.00000	1,000,000,000	2.67900	
1,150,000,000	1.00000	1,150,000,000	1.33550	
15,000,000	1.00000	15,000,000	6.58170	
345,600,000	1.00000	345,600,000	1.35780	
200,000,000	1.00000	200,000,000	1.45150	
60,000,000	1.00000	60,000,000	1.41130	
200,000,000	1.00000	200,000,000	1.46980	
98,000,000	1.00000	98,000,000	1.38280	
300,000,000	1.00000	300,000,000	1.42530	
50,000,000	1.00000	50,000,000	1.36000	
50,000,000	1.00000	50,000,000	1.36000	
51,000,000	1.00000	51,000,000	1.38280	
10,000,000	1.00000	10,000,000	1.41130	
75,000,000	1.00000	75,000,000	4.52360	
750,000,000	1.00000	750,000,000	4.03510	

750,000,000	1.00000	750,000,000	4.13450	
750,000,000	1.00000	750,000,000	4.11390	
700,000,000	1.00000	700,000,000	4.21740	
750,000,000	1.00000	750,000,000	4.07200	
750,000,000	1.00000	750,000,000	3.80600	
750,000,000	1.00000	750,000,000	3.74160	
750,000,000	1.00000	750,000,000	3.68000	
715,000,000	1.00000	715,000,000	3.28800	
750,000,000	1.00000	750,000,000	3.34410	
750,000,000	1.00000	750,000,000	3.09100	
750,000,000	1.00000	750,000,000	3.06300	8,915,000,000
117,500,000	1.00000	117,500,000	1.27300	
25,000,000	1.00000	25,000,000	1.55900	
161,800,000	1.00000	161,800,000	1.27300	
30,000,000	1.00000	30,000,000	1.27300	
105,000,000	1.00000	105,000,000	1.27300	
335,000,000	1.00000	335,000,000	1.27300	
200,000,000	1.00000	200,000,000	1.27300	
50,000,000	1.00000	50,000,000	1.34610	
111,300,000	1.00000	111,300,000	1.55900	
14,400,000	1.00000	14,400,000	1.54510	
50,000,000	1.00000	50,000,000	1.34610	
1,000,000,000	1.00000	1,000,000,000	1.38600	
1,000,000,000	1.00000	1,000,000,000	1.72500	
750,000,000	1.00000	750,000,000	3.19600	
750,000,000	1.00000	750,000,000	3.15500	
1,000,000,000	1.00000	1,000,000,000	2.91110	
750,000,000	1.00000	750,000,000	2.95300	
750,000,000	1.00000	750,000,000	2.98000	
500,000,000	1.00000	500,000,000	2.98040	
675,000,000	1.00000	675,000,000	3.09500	
40,000,000	1.00000	40,000,000	3.09500	
507,400,000	1.00000	507,400,000	2.93260	
42,600,000	1.00000	42,600,000	2.93260	
750,000,000	1.00000	750,000,000	2.80900	
750,000,000	1.00000	750,000,000	2.83300	
706,700,000	1.00000	706,700,000	2.63900	
650,000,000	1.00000	650,000,000	2.92000	
1,650,000,000	1.00000	1,650,000,000	2.90600	
1,500,000,000	1.00000	1,500,000,000	1.94000	11,771,700,000
1,590,438,000	1.00000	1,590,438,000	9.53050	
750,000,000	1.00000	750,000,000	1.98200	
800,000,000	1.00000	800,000,000	2.05500	
720,000,000	1.00000	720,000,000	2.87900	
750,000,000	1.00000	750,000,000	2.83100	
750,000,000	1.00000	750,000,000	2.87000	
587,500,000	1.00000	587,500,000	3.06000	
750,000,000	1.00000	750,000,000	2.88600	
350,000,000	1.00000	350,000,000	2.80600	
1,200,000,000	1.00000	1,200,000,000	3.11600	
550,000,000	1.00000	550,000,000	3.04400	
450,000,000	1.00000	450,000,000	3.36800	
400,000,000	1.00000	400,000,000	3.54300	
500,000,000	1.00000	500,000,000	3.61300	
550,000,000	1.00000	550,000,000	3.47400	

650,000,000	1.00000	650,000,000	3.31800	
1,115,200,000	1.00000	1,115,200,000	2.31200	9,322,700,000
915,570,000	1.00000	915,570,000	8.25850	
25,000,000	1.00000	25,000,000	5.22750	
75,000,000	1.00000	75,000,000	4.96240	
1,106,700,000	1.00000	1,106,700,000	7.63490	
650,000,000	1.00000	650,000,000	3.52500	
700,000,000	1.00000	700,000,000	3.62400	
650,000,000	1.00000	650,000,000	3.44100	
750,000,000	1.00000	750,000,000	3.22700	
750,000,000	1.00000	750,000,000	3.25400	
400,000,000	1.00000	400,000,000	3.22500	
650,000,000	1.00000	650,000,000	3.17600	
750,000,000	1.00000	750,000,000	3.18100	
650,000,000	1.00000	650,000,000	3.07800	
650,000,000	1.00000	650,000,000	3.01900	
900,000,000	1.00000	900,000,000	2.84960	
550,000,000	1.00000	550,000,000	3.00200	
650,000,000	1.00000	650,000,000	2.85900	
700,000,000	1.00000	700,000,000	2.91100	
600,000,000	1.00000	600,000,000	2.85100	10,000,000,000
460,000,000	1.00000	460,000,000	9.59570	
900,000,000	1.00000	900,000,000	2.64500	
1,000,000,000	1.00000	1,000,000,000	2.64900	
750,000,000	1.00000	750,000,000	2.48900	
322,500,000	1.00000	322,500,000	2.08500	
677,500,000	1.00000	677,500,000	2.08500	
500,000,000	1.00000	500,000,000	2.12500	
750,000,000	1.00000	750,000,000	2.05300	
650,000,000	1.00000	650,000,000	2.48400	
550,000,000	1.00000	550,000,000	2.51400	
650,000,000	1.00000	650,000,000	2.61900	
650,000,000	1.00000	650,000,000	2.37760	
550,000,000	1.00000	550,000,000	2.27280	
650,000,000	1.00000	650,000,000	2.33000	
1,150,000,000	1.00000	1,150,000,000	2.45200	
750,000,000	1.00000	750,000,000	2.48200	
800,000,000	1.00000	800,000,000	2.47300	
1,250,000,000	1.00000	1,250,000,000	2.47220	
1,000,000,000	1.00000	1,000,000,000	8.57400	
12,500,000	1.00000	12,500,000	7.79400	
1,000,000,000	1.00000	1,000,000,000	8.19500	
750,000,000	1.00000	750,000,000	2.40700	
1,100,000,000	1.00000	1,100,000,000	2.50200	
750,000,000	1.00000	750,000,000	2.26600	
750,000,000	1.00000	750,000,000	2.17700	
1,000,000,000	1.00000	1,000,000,000	1.89700	
900,000,000	1.00000	900,000,000	1.88200	
750,000,000	1.00000	750,000,000	2.08500	
750,000,000	1.00000	750,000,000	2.05800	
750,000,000	1.00000	750,000,000	2.36500	
386,500,000	1.00000	386,500,000	7.11080	
124,584,000	1.00000	124,584,000	5.43170	
58,220,000	1.00000	58,220,000	7.50000	
11,549,000	1.00000	11,549,000	7.50000	

8,726,000	1.00000	8,726,000	6.95000
5,507,000	1.00000	5,507,000	6.94150
990,000	1.00000	990,000	7.27100
4,170,300,000	1.00000	4,170,300,000	7.72400
67,400,000	1.00000	67,400,000	6.33610
105,000,000	1.00000	105,000,000	5.72950
100,000,000	1.00000	100,000,000	5.71560
150,000,000	1.00000	150,000,000	5.39590
142,000,000	1.00000	142,000,000	5.38480
190,800,000	1.00000	190,800,000	2.63000
809,200,000	1.00000	809,200,000	2.63000
750,000,000	1.00000	750,000,000	2.53100
2,020,000	1.00000	2,020,000	6.13600
4,677,000,000	1.00000	4,677,000,000	6.14210
50,000,000	1.00000	50,000,000	5.54400
125,000,000	1.00000	125,000,000	8.87800
500,000,000	1.00000	500,000,000	6.23880
2,000,000,000	1.00000	2,000,000,000	6.15280
500,000,000	1.00000	500,000,000	5.89100
133,300,000	1.00000	133,300,000	4.39500
500,000,000	1.00000	500,000,000	5.89040
162,610,000	1.00000	162,610,000	5.85000
500,000,000	1.00000	500,000,000	5.87540
500,000,000	1.00000	500,000,000	5.89000
500,000,000	1.00000	500,000,000	5.21000
500,000,000	1.00000	500,000,000	5.60900
500,000,000	1.00000	500,000,000	5.52050
500,000,000	1.00000	500,000,000	5.44100
500,000,000	1.00000	500,000,000	5.35100
188,000,000	1.00000	188,000,000	5.85000
12,000,000	1.00000	12,000,000	5.85000
500,000,000	1.00000	500,000,000	5.64830
100,000,000	1.00000	100,000,000	4.21608
100,000,000	1.00000	100,000,000	9.44260
200,000,000	1.00000	200,000,000	9.52100
47,500,000	1.00000	47,500,000	4.70730
248,800,000	1.00000	248,800,000	9.77000
2,315,904	1.00000	2,315,904	9.46880
3,480,198	1.00000	3,480,198	9.46880
8,482,324	1.00000	8,482,324	9.46880
4,764,354	1.00000	4,764,354	9.46880
3,171,134	1.00000	3,171,134	9.46880
110,950,000	1.00000	110,950,000	9.50000
32,000,000	1.00000	32,000,000	9.65300
282,300,000	1.00000	282,300,000	5.62990
100,000,000	1.00000	100,000,000	5.60000
500,000,000	1.00000	500,000,000	5.57060
500,000,000	1.00000	500,000,000	5.50400
500,000,000	1.00000	500,000,000	5.44660
500,000,000	1.00000	500,000,000	5.30840
150,000,000	1.00000	150,000,000	5.35000
500,000,000	1.00000	500,000,000	5.18980
500,000,000	1.00000	500,000,000	5.07780
500,000,000	1.00000	500,000,000	4.84970
500,000,000	1.00000	500,000,000	4.70320

500,000,000	1.00000	500,000,000	4.81370
56,985,000	1.00000	56,985,000	4.75000
500,000,000	1.00000	500,000,000	4.63560
200,000,000	1.00000	200,000,000	4.75000
500,000,000	1.00000	500,000,000	4.68520
500,000,000	1.00000	500,000,000	4.68870
500,000,000	1.00000	500,000,000	4.77560
183,111,000	1.00000	183,111,000	4.11290
16,113,000	1.00000	16,113,000	3.18500
98,984,000	1.00000	98,984,000	8.35000
170,756,134	1.00000	204,567,556	4.26603
129,243,867	1.00000	154,835,445	4.12524
		(57,735,000)	4.12524
. 8, 2006 was not earned and is payabl		1,603,386	4.12524
230,000,000	1.00000	275,542,300	4.63502
189,000,000	1.00000	226,423,890	4.65562
80,000,000	1.00000	95,840,800	4.61882
700,000,000	1.00000	838,607,000	4.74102
234,000,000	1.00000	280,334,340	4.59102
25,000,000	1.00000	29,950,250	4.50102
116,000,000	1.00000	138,969,160	4.50102
70,000,000	1.00000	83,860,700	4.09552
200,000,000	1.00000	239,602,000	4.09552
500,000,000	1.00000	500,000,000	4.74500
500,000,000	1.00000	500,000,000	4.95810
500,000,000	1.00000	500,000,000	4.87170
500,000,000	1.00000	500,000,000	4.96240
300,000,000	1.00000	300,000,000	4.74670
500,000,000	1.00000	500,000,000	4.57120
500,000,000	1.00000	500,000,000	4.56150
300,000,000	1.00000	300,000,000	4.47500
500,000,000	1.00000	500,000,000	4.44200
500,000,000	1.00000	500,000,000	4.61060
500,000,000	1.00000	500,000,000	4.56040
600,000,000	1.00000	600,000,000	5.06980
600,000,000	1.00000	600,000,000	4.95630
600,000,000	1.00000	600,000,000	4.90400
600,000,000	1.00000	600,000,000	4.89680
600,000,000	1.00000	600,000,000	4.84360
600,000,000	1.00000	600,000,000	4.68160
100,000,000	1.00000	100,000,000	5.22900
75,000,000	1.00000	75,000,000	5.73670
120,000,000	1.00000	120,000,000	8.13200
50,000,000	1.00000	50,000,000	5.81920
86,500,000	1.00000	86,500,000	5.77500
600,000,000	1.00000	600,000,000	4.61850
600,000,000	1.00000	600,000,000	4.89060
600,000,000	1.00000	600,000,000	4.72060
600,000,000	1.00000	600,000,000	4.71300
600,000,000	1.00000	600,000,000	4.79190
150,000,000	1.00000	150,000,000	4.63460
150,000,000	1.00000	150,000,000	4.96260
250,000,000	1.00000	250,000,000	4.80580
150,000,000	1.00000	150,000,000	4.91650
500,000,000	1.00000	500,000,000	4.74890

150,000,000	1.00000	150,000,000	4.69230
250,000,000	1.00000	250,000,000	4.56510
150,000,000	1.00000	150,000,000	4.53970
250,000,000	1.00000	250,000,000	4.61460
750,000,000	1.00000	750,000,000	4.70230
250,000,000	1.00000	250,000,000	4.63840
600,000,000	1.00000	600,000,000	4.87900
600,000,000	1.00000	600,000,000	4.84400
600,000,000	1.00000	600,000,000	4.77700
600,000,000	1.00000	600,000,000	4.73300
600,000,000	1.00000	600,000,000	4.60800
600,000,000	1.00000	600,000,000	4.35400
223,858,000	1.00000	223,858,000	5.67320
553,700,000	1.00000	553,700,000	6.33980
220,000,000	1.00000	220,000,000	5.26050
100,000,000	1.00000	100,000,000	4.61820
100,000,000	1.00000	100,000,000	4.69390
100,300,000	1.00000	100,300,000	4.74320
100,000,000	1.00000	100,000,000	4.75090
100,000,000	1.00000	100,000,000	4.72740
50,000,000	1.00000	50,000,000	4.70200
90,000,000	1.00000	90,000,000	4.68510
75,000,000	1.00000	75,000,000	4.58460
50,000,000	1.00000	50,000,000	6.17850
50,000,000	1.00000	50,000,000	4.64380
600,000,000	1.00000	600,000,000	4.69400
600,000,000	1.00000	600,000,000	4.67120
600,000,000	1.00000	600,000,000	4.40900
750,000,000	1.00000	750,000,000	4.24200
600,000,000	1.00000	600,000,000	4.23910
600,000,000	1.00000	600,000,000	4.53300
600,000,000	1.00000	600,000,000	4.57390
600,000,000	1.00000	600,000,000	4.53110
600,000,000	1.00000	600,000,000	4.55250
450,000,000	1.00000	450,000,000	4.58320
600,000,000	1.00000	600,000,000	4.51410
600,000,000	1.00000	600,000,000	4.48490
600,000,000	1.00000	600,000,000	4.40650
600,000,000	1.00000	600,000,000	4.34500
618,000,000	1.00000	618,000,000	3.84500
750,000,000	1.00000	750,000,000	3.83900
1,000,000,000	1.00000	1,000,000,000	3.71700
600,000,000	1.00000	600,000,000	3.68100
250,000,000	1.00000	250,000,000	6.26140
40,000,000	1.00000	40,000,000	6.10400
50,000,000	1.00000	50,000,000	4.49000
41,000,000	1.00000	41,000,000	5.99940
115,000,000	1.00000	115,000,000	5.87500
25,000,000	1.00000	25,000,000	5.75800
100,000,000	1.00000	100,000,000	5.29570
25,000,000	1.00000	25,000,000	5.76400
25,000,000	1.00000	25,000,000	5.75700
25,000,000	1.00000	25,000,000	5.01260
600,000,000	1.00000	600,000,000	3.54300
600,000,000	1.00000	600,000,000	3.54000

900,000,000	1.00000	900,000,000	3.55000	
600,000,000	1.00000	600,000,000	3.59100	
600,000,000	1.00000	600,000,000	3.64400	
400,000,000	1.00000	400,000,000	3.57200	
750,000,000	1.00000	750,000,000	3.41800	
600,000,000	1.00000	600,000,000	3.37400	
600,000,000	1.00000	600,000,000	3.31100	
600,000,000	1.00000	600,000,000	3.39100	
600,000,000	1.00000	600,000,000	3.37100	
600,000,000	1.00000	600,000,000	3.43300	
600,000,000	1.00000	600,000,000	3.42400	
600,000,000	1.00000	600,000,000	3.45500	
750,000,000	1.00000	750,000,000	3.59100	
1,000,000,000	1.00000	1,000,000,000	3.53000	
600,000,000	1.00000	600,000,000	3.46500	11,000,000,000
27,000,000	1.00000	27,000,000	4.60320	
35,531,176	1.00000	35,531,176	8.43500	
150,000,000	1.00000	150,000,000	9.23660	
25,000,000	1.00000	25,000,000	4.54360	
75,000,000	1.00000	75,000,000	4.70180	
50,000,000	1.00000	50,000,000	4.78030	
25,000,000	1.00000	25,000,000	4.89550	
750,000,000	1.00000	750,000,000	3.48600	
600,000,000	1.00000	600,000,000	3.60300	
600,000,000	1.00000	600,000,000	3.95700	
600,000,000	1.00000	600,000,000	3.93600	
650,000,000	1.00000	650,000,000	4.24200	
750,000,000	1.00000	750,000,000	4.29400	
500,000,000	1.00000	500,000,000	4.10900	
350,000,000	1.00000	350,000,000	4.06700	
600,000,000	1.00000	600,000,000	4.13800	
525,000,000	1.00000	525,000,000	4.14500	
600,000,000	1.00000	600,000,000	4.09100	
950,000,000	1.00000	950,000,000	3.90000	
600,000,000	1.00000	600,000,000	3.88200	
600,000,000	1.00000	600,000,000	3.89500	
500,000,000	1.00000	500,000,000	3.79800	
600,000,000	1.00000	600,000,000	3.77500	
1,000,000,000	1.00000	1,000,000,000	3.75400	
600,000,000	1.00000	600,000,000	3.56560	
600,000,000	1.00000	600,000,000	3.60500	
800,000,000	1.00000	800,000,000	3.48600	
800,000,000	1.00000	800,000,000	3.51400	
750,000,000	1.00000	750,000,000	3.58600	
600,000,000	1.00000	600,000,000	3.51500	
600,000,000	1.00000	600,000,000	3.44200	15,525,000,000
25,000,000	1.00000	25,000,000	4.85290	
25,000,000	1.00000	25,000,000	5.04140	
29,700,000	1.00000	29,700,000	4.69790	
25,000,000	1.00000	25,000,000	4.46400	
50,000,000	1.00000	50,000,000	4.45930	
675,000,000	1.00000	675,000,000	2.91600	
525,250,000	1.00000	525,250,000	2.85700	
650,000,000	1.00000	650,000,000	2.92500	
1,000,000,000	1.00000	1,000,000,000	2.79600	

650,000,000	1.00000	650,000,000	3.08600
750,000,000	1.00000	750,000,000	3.09300
600,000,000	1.00000	600,000,000	3.24700
1,300,000,000	1.00000	1,300,000,000	3.21100
1,000,000,000	1.00000	1,000,000,000	3.01000
600,000,000	1.00000	600,000,000	3.02800
750,000,000	1.00000	750,000,000	3.16150
600,000,000	1.00000	600,000,000	3.35200
600,000,000	1.00000	600,000,000	3.33500
600,000,000	1.00000	600,000,000	3.34500
600,000,000	1.00000	600,000,000	3.34000
600,000,000	1.00000	600,000,000	3.27000
750,000,000	1.00000	750,000,000	3.24300
600,000,000	1.00000	600,000,000	3.13800
700,000,000	1.00000	700,000,000	3.00500
1,000,000,000	1.00000	1,000,000,000	3.03200
30,000,000	1.00000	30,000,000	4.49670
28,000,000	1.00000	28,000,000	4.56950
100,000,000	1.00000	100,000,000	4.51560
25,000,000	1.00000	25,000,000	4.66170
25,000,000	1.00000	25,000,000	4.59160
600,000,000	1.00000	600,000,000	2.82900
600,000,000	1.00000	600,000,000	2.77700
600,000,000	1.00000	600,000,000	2.58500
750,000,000	1.00000	750,000,000	2.69600
800,000,000	1.00000	800,000,000	2.78900
750,000,000	1.00000	750,000,000	3.11400
750,000,000	1.00000	750,000,000	3.08600
600,000,000	1.00000	600,000,000	3.26200
600,000,000	1.00000	600,000,000	3.25000
20,000,000	1.00000	20,000,000	4.60900
20,000,000	1.00000	20,000,000	4.42200
300,000,000	1.00000	300,000,000	3.26500
100,000,000	1.00000	100,000,000	3.41000
50,000,000	1.00000	50,000,000	3.42100
25,000,000	1.00000	25,000,000	3.36780
0	1.00000	-	-
228,605,010,091		**228,973,411,917**	**3.72449**

275,000,000	0.99083	272,478,360	3.84570
225,000,000	1.03856	233,676,360	3.79050
225,000,000	1.01450	228,262,500	2.94900
75,000,000	0.98150	73,612,500	2.88280
50,000,000	0.96200	48,100,000	2.75970
125,000,000	0.96850	121,062,500	2.23280
75,000,000	0.95600	71,700,000	2.56570
25,000,000	0.95900	23,975,000	2.64580
40,000,000	0.94100	37,640,000	2.58800
40,000,000	0.93780	37,512,000	2.13400
60,000,000	0.94420	56,652,000	2.21600

30,000,000	0.98620	29,586,000	2.48500
30,000,000	0.99100	29,730,000	2.56130
55,000,000	1.01300	55,715,000	2.42930
25,000,000	1.01480	25,370,000	2.57500
30,000,000	1.01670	30,501,000	2.64680
225,000,000	0.97556	219,502,008	4.57290
225,000,000	1.09183	245,662,252	4.32630
100,000,000	1.01687	101,686,973	4.98660
100,000,000	1.01687	101,686,973	4.59000
275,000,000	1.04059	286,163,306	4.23520
400,000,000	1.32180	528,720,000	2.26113
		2,858,994,731	**3.37578**
120,000,000	1.71800	206,160,000	3.99950
750,000,000	1.48408	1,113,062,208	4.53110
750,000,000	1.48408	1,113,062,208	2.71220
600,000,000	1.41848	851,088,540	5.40750
600,000,000	1.53820	922,922,325	4.56760
550,000,000	1.39008	764,543,000	5.49900
750,000,000	1.32123	990,921,000	3.88860
500,000,000	1.32123	660,614,000	1.77480
1,750,000,000	1.73558	3,037,265,000	3.02100
1,250,000,000	1.57779	1,972,231,500	2.13170
52,000,000	1.53100	79,612,000	3.26800
		11,711,481,780	**3.46451**
8,000,000,000	0.00944	75,550,891	4.34390
36,900,000,000	0.01160	428,016,354	2.20756
44,900,000,000		**503,567,246**	**2.52808**
2,000,000,000	1.05975	2,119,495,000	4.28760
2,000,000,000	1.02084	2,041,680,000	5.64230
1,250,000,000	0.98448	1,230,600,000	1.50650
1,000,000,000	0.99364	993,640,000	3.29780
1,000,000,000	1.02261	1,022,605,000	2.93370
1,250,000,000	1.33794	1,672,430,000	0.92560
1,500,000,000	1.24789	1,871,835,000	1.77060
750,000,000	0.98250	736,875,000	1.31310
250,000,000	1.01600	254,000,000	1.84340
705,000,000	1.00000	705,000,000	1.27360
1,750,000,000	1.20537	2,109,405,000	2.29384
1,000,000,000	1.31019	1,310,193,250	1.94640
1,000,000,000	1.31019	1,310,193,250	0.92890
1,250,000,000	1.15634	1,445,420,000	3.30890

1,000,000,000	1.31600	1,316,000,000	1.86980
1,000,000,000	1.31675	1,316,750,000	0.84100
2,000,000,000	1.27698	2,553,959,000	1.06410
2,500,000,000	1.35587	3,389,669,500	1.32360
1,000,000,000	1.27418	1,274,175,000	1.90920
1,750,000,000	1.33606	2,338,107,750	0.79370
1,500,000,000	1.31272	1,969,079,000	1.71530
1,000,000,000	1.31428	1,314,279,000	1.14900
	#DIV/0!		-
28,455,000,000		**34,295,390,750**	**2.01983**

278,342,846,424	**3.49777**

49,369,434,506
49,257,848,500
111,586,006

	28-Feb-17
	MOF G/L CAD Equivalent
	227,211,010,091.13
	-
d - Principal at Issuance	**2,144,000,000.94**
d - CPI Adjustment	**424,533,440.01**
nt	**(57,735,000.00)**
le	**1,603,386.00**
	229,723,411,918.08
r - Hedged	**1,263,987,220.00**
	11,711,481,777.96
ound - Hedged	**-**
ar - Hedged	**-**
Hedged	**503,567,245.24**
ıe - Hedged	**-**
ollar - Hedged	**-**
ledged	**1,483,421,513.83**
edged	**-**
ollar - Hedged	**34,295,390,743.44**
and - Hedged	**0.00**
Unhedged	**-**
nhedged	**-**
d	**-**
	49,257,848,500.48
	278,981,260,418.56

s/maturities/misc	(638,413,994.87)

CAD	2,350,000,000
AUD	111,586,000
	(3,100,000,000)
	(638,414,000)
	5

EFF Summary - LT CAD Public

Adjustments:
Less: Held by Agricorp:

DMTN173	-

Less: Held by Forest Renewal Trust:

DMTN207	(2,480,000)
DMTN215	(2,980,000)

Less: Held by OILC:

DMTN195	(17,100,000)
DMTN218	(62,300,000)
DMTN223	(87,500,000)
DMTN225	(5,900,000)

Less: Held by OEB:

DMTN173	-

Less: Held by OTF:

DMTN173	-
DMTN213	(12,375,000)
DMTN218	(12,084,000)
DMTN225	(12,106,000)
DMTN219	(7,150,000)
OSBs - Per TAS Feb 2017	1,645,426,900

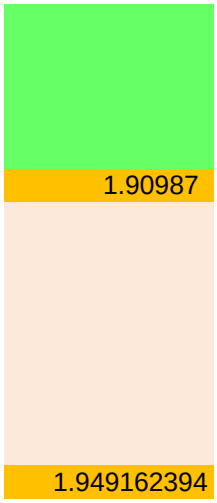
Adjusted - LT CAD Public

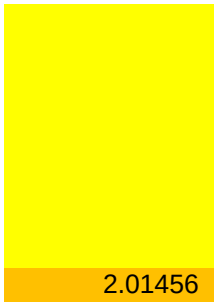
Projected Debt as at March 31, 2017:
Adjusted - LT CAD Public - in millions
LT - Canadian, per George
Difference

EFF Summary - LT Foreign Debt

EFF Summary - LT Foreign Debt - in millions
LT - Foreign, per George
Difference

Weighted Eff

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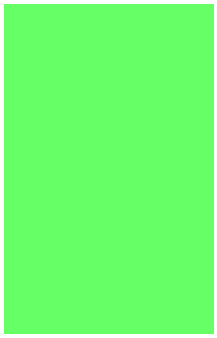

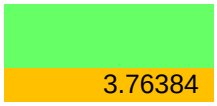
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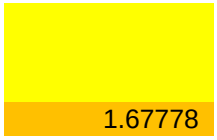
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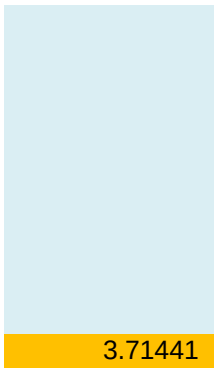
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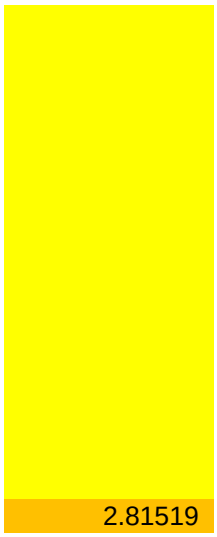
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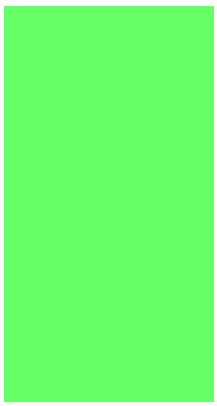

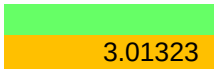
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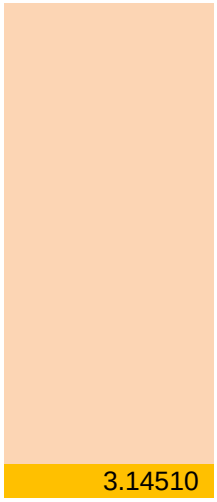
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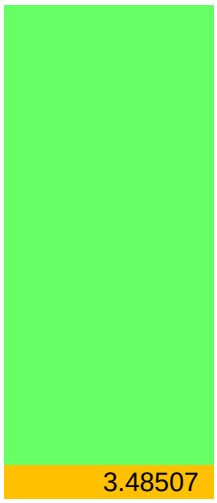
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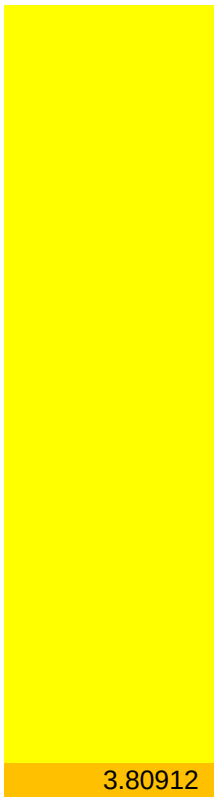
3.80912

	February 28, 2017 FX Rate		
If you have		multiply by to get Cdn	
USD	1.324800	USD to Cdn	Goto Bank
AUD	1.018200	Australian Dollar to Cdn	Goto Bank
JPY	0.011820	Japanese Yen to Cdn	Goto Bank
EUR	1.406600	Euro to Cdn	Goto Bank
NOK	0.158300	Norwegian Krone to Cdn	Goto Bank
NZD	0.957700	New Zealand Dollar to Cdn	Goto Bank
CHF	1.321800	Swiss Francs to Cdn	Goto Bank
GBP	1.646200	British Pounds	Goto Bank
CAD	1.000000	Cdn	Goto Bank
HKD	0.170667	HKD	Goto Bank
ZAR	0.101100	South African Rand	Goto Bank
TRY	0.364800	New Turkish Lira	Goto Bank
FRF	0.207309	French Franc to Euro to Cdn	
DEM	0.695285	Deutsche Marks to Euro to Cdn	
GRD	472.995075		Goto Bank
NLG	0.617077	Dutch Guilders to Euro to Cdn	
HEUR	1.781174512		
FRFE	0.152449	French Franc to Euro	
DEME	0.511292	Deutsche Marks to Euro	
NLGE	0.453780	Dutch Guilders to Euro	

	28-Feb-17		
	Interest Rates		
UL1		1mth USD LIBOR	Goto Telerate P3750
UL3	1.06400	3mth USD LIBOR	Goto Telerate P3750
UL6		6mth USD LIBOR	Goto Telerate P3750
CBA1		1mth CAD BA	Telerate Page P3197
CBA3	0.95000	3mth CAD BA	Telerate Page P3197
JL3		3mth JPY LIBOR	Goto Telerate P3750
JL6		6mth JPY LIBOR	Goto Telerate P3750
GBL3		3mth GBP LIBOR	Goto Telerate P3750
GBL6		6mth GBP LIBOR	Goto Telerate P3750

Tab color: Hedge groups with settlement differences and/o

February 28, 2017

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0.21200
0.23070
0.32680
1.24800
1.27300
0.18857
0.30229
0.52750
0.70750

r FX-rolls/fwds.

TRUE

10	10	10
101	101	101
102	102	102
105	105	105
106	106	106
113	113	113
114	114	114
115	115	115
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Summary	Amount O/S as at 28-Feb-17	Eff % as at 28-Feb-17	Projected Maturities Mar. 1, 2017 to Mar. 31, 2017	Rate
CMHC	37,739,232.59	10.15810	(1,282,562.48)	10.19014
FP Project	247,078,442.84	6.72233	(25,348.63)	15.04483
CPP	10,002,740,000.00	5.03949	0.00	-
OPB	0.00	0.00000	0.00	-
OPSEU	0.00	0.00000	0.00	-
OIIC	120,530,985.00	0.00000	(6,612,419.00)	-
OIIC Discount	0.00	0.00000	-	-
OIIC (issued by OILC)	363,084,177.00	0.00000	(12,500,000.00)	-
School Boards	660,798,299.69	5.90000	(12,000,000.00)	5.90000
	11,431,971,137.12	**4.92931**	**(32,420,330.11)**	2.59870
	-	-	-	-

Prepared by: Abdul Hamid
Date: Mar. 8, 2017

Reviewed by : Shemin Meralli

Projected Issues	Rate	Projected Amt. as at March 31, 2017	Rate	
		36,456,670.11	10.1570	MOF NPDB
		247,053,094.21	6.7215	OHCDBTGPROV
	3.07467	10,002,740,000.00	5.0395	MOF NPDB
		0.00		MOF NPDB
		0.00		MOF NPDB
149,819.00	-	114,068,385.00	-	MOF NPDB
		0.00	-	
-	0.00000	350,584,177.00	-	
		648,798,299.69	5.9000	
149,819.00	0.00000	**11,399,700,626.01**	4.9359	

Per Brian's	11,399,700,625.92	
	(0.09)	
NPD EFF		
Province	11,399,700,626.01	4.9359
OEFC	230,466,000.00	6.2622
	11,630,166,626.01	**4.9622**

Fixed	Variable	
36,456,670.11		0.00
247,053,094.21		0.00
10,002,740,000.00		0.00
114,068,385.00		0.00
195,440,017.00	155,144,160.00	0.00
648,798,299.69		0.00
11,244,556,466.01	155,144,160.00	-

OIIC Debt Issued by OILC													
											Fixed	Variable	
OILCC21	1,538	OILCC21	27-Mar-17	27-Mar-17	02-Apr-12	AM	0.000	CAD	7,126,849.00			0.000	
OILCC23	1,556	OILCC23	24-Apr-17	24-Apr-17	01-May-12	AM	0.000	CAD	7,797,875.00			7,797,875.000	UH Confi
OILCC25	1,569	OILCC25	25-May-17	25-May-17	01-Jun-12	AM	0.000	CAD	10,275,280.00			10,275,280.000	UH Confi
OILCC27	1,582	OILCC27	26-Jun-17	26-Jun-17	03-Jul-12	AM	0.000	CAD	10,861,146.00			10,861,146.000	UH Confi
OILCC28	1,586	OILCC28	25-Jul-17	25-Jul-17	01-Aug-12	AM	0.000	CAD	8,906,200.00			8,906,200.000	UH Confi
OILCC29	1,591	OILCC29	28-Aug-17	28-Aug-17	04-Sep-12	AM	0.000	CAD	6,156,770.00			6,156,770.000	UH Confi
OILCC30	1,596	OILCC30	25-Sep-17	25-Sep-17	01-Oct-12	AM	0.000	CAD	5,822,069.00			5,822,069.000	UH Confi
OILCC31	1,602	OILCC31	25-Oct-17	25-Oct-17	01-Nov-12	AM	0.000	CAD	4,152,875.00			4,152,875.000	UH Confi
OILCC32	1,624	OILCC32	27-Nov-17	27-Nov-17	03-Dec-12	AM	0.000	CAD	6,847,719.00			6,847,719.000	UH Confi
OILCC33	1,629	OILCC33	22-Dec-17	22-Dec-17	02-Jan-13	AM	0.000	CAD	16,345,458.00			16,345,458.000	UH Confi
OILCC35	1,634	OILCC35	25-Jan-18	25-Jan-18	01-Feb-13	AM	0.000	CAD	5,349,816.00			5,349,816.000	UH Confi
OILCC37	1,659	OILCC37	22-Feb-18	22-Feb-18	01-Mar-13	AM	0.000	CAD	5,035,769.00			5,035,769.000	UH Confi
OILCC39	1,663	OILCC39	26-Mar-18	26-Mar-18	02-Apr-13	AM	0.000	CAD	4,570,783.00			4,570,783.000	UH Confi
OILCC41	1,669	OILCC41	24-Apr-18	24-Apr-18	01-May-13	AM	0.000	CAD	4,761,638.00			4,761,638.000	UH Confi
OILCC42	1,689	OILCC42	25-May-18	25-May-18	03-Jun-13	AM	0.000	CAD	12,500,000.00			12,500,000.000	UH Confi
OILCC44	1,698	OILCC44	25-Jun-18	25-Jun-18	08-Jul-13	AM	0.000	CAD	5,367,065.00			5,367,065.000	UH Confi
OILCC46	1,707	OILCC46	25-Jul-18	25-Jul-18	01-Aug-13	AM	0.000	CAD	3,939,621.00			3,939,621.000	UH Confi
OILCC48	1,728	OILCC48	28-Aug-18	28-Aug-18	03-Sep-13	AM	0.000	CAD	3,346,237.00			3,346,237.000	UH Confi
OILCC50	1,738	OILCC50	24-Sep-18	24-Sep-18	01-Oct-13	AM	0.000	CAD	3,182,421.00			3,182,421.000	UH Confi
OILCC51	1,752	OILCC51	25-Oct-18	25-Oct-18	01-Nov-13	AM	0.000	CAD	1,314,729.00			1,314,729.000	UH Confi
OILCC53	1,767	OILCC53	26-Nov-18	26-Nov-18	02-Dec-13	AM	0.000	CAD	3,404,931.00			3,404,931.000	UH Confi
OILCC55	1,776	OILCC55	21-Dec-18	21-Dec-18	02-Jan-14	AM	0.000	CAD	23,646,731.00			23,646,731.000	UH Confi
OILCC57	1,788	OILCC57	25-Jan-19	25-Jan-19	03-Feb-14	AM	0.000	CAD	1,559,027.00			1,559,027.000	UH Confi
OILCC40	1,668	OILCC40	24-Apr-18	24-Apr-18	01-May-13	AM	1.860	CAD	10,302,651.00		10,302,651.000		
OILCC26	1,581	OILCC26	26-Jun-17	26-Jun-17	03-Jul-12	AM	1.980	CAD	1,124,876.00		1,124,876.000		
OILCC38	1,662	OILCC38	26-Mar-18	26-Mar-18	02-Apr-13	AM	1.980	CAD	2,664,380.00		2,664,380.000		
OILCC36	1,658	OILCC36	22-Feb-18	22-Feb-18	01-Mar-13	AM	2.020	CAD	6,489,739.00		6,489,739.000		
OILCC61	1,816	OILCC61	24-May-19	24-May-19	02-Jun-14	AM	2.120	CAD	23,000,000.00		23,000,000.000		
OILCC24	1,568	OILCC24	25-May-17	25-May-17	01-Jun-12	AM	2.140	CAD	1,715,051.00		1,715,051.000		
OILCC34	1,635	OILCC34	25-Jan-18	25-Jan-18	01-Feb-13	AM	2.160	CAD	7,150,184.00		7,150,184.000		
OILCC58	1,786	OILCC58	25-Jan-19	25-Jan-19	03-Feb-14	AM	2.200	CAD	9,709,738.00		9,709,738.000		
OILCC62	1,830	OILCC62	25-Jul-19	25-Jul-19	01-Aug-14	AM	2.200	CAD	6,000,000.00		6,000,000.000		
OILCC59	1,797	OILCC59	22-Feb-19	22-Feb-19	03-Mar-14	AM	2.210	CAD	5,000,000.00		5,000,000.000		
OILCC60	1,805	OILCC60	24-Apr-19	24-Apr-19	01-May-14	AM	2.280	CAD	13,000,000.00		13,000,000.000		
OILCC20	1,537	OILCC20	27-Mar-17	27-Mar-17	02-Apr-12	AM	2.290	CAD	5,373,151.00			0.000	
OILCC52	1,751	OILCC52	25-Oct-18	25-Oct-18	01-Nov-13	AM	2.320	CAD	12,000,000.00		12,000,000.000		
OILCC22	1,551	OILCC22	24-Apr-17	24-Apr-17	01-May-12	AM	2.330	CAD	4,702,125.00		4,702,125.000		
OILCC54	1,771	OILCC54	26-Nov-18	26-Nov-18	02-Dec-13	AM	2.350	CAD	9,095,069.00		9,095,069.000		
OILCC45	1,706	OILCC45	25-Jul-18	25-Jul-18	01-Aug-13	AM	2.440	CAD	25,000,000.00		25,000,000.000		
OILCC43	1,699	OILCC43	25-Jun-18	25-Jun-18	08-Jul-13	AM	2.460	CAD	7,132,935.00		7,132,935.000		
OILCC49	1,737	OILCC49	24-Sep-18	24-Sep-18	01-Oct-13	AM	2.550	CAD	20,000,000.00		20,000,000.000		
OILCC56	1,777	OILCC56	21-Dec-18	21-Dec-18	02-Jan-14	AM	2.553	CAD	6,353,269.00		6,353,269.000		
OILCC47	1,727	OILCC47	28-Aug-18	28-Aug-18	03-Sep-13	AM	2.640	CAD	25,000,000.00		25,000,000.000		
										363,084,177.00	-		
Projected new issues during Mar 2017 (as per OILC Eff Interest Rate)													
										363,084,177.00	195,440,017.000	155,144,160.000	350,584,177.000
												matured in Mar17	(12,500,000.00)

ONTARIO FINANCING ITS - LIABILITIES SYSTI Maturity Report

User :	AHAMID	Workstation :	14039-3652-U300
Client	ALL		
Portfolio	'MOF NPDB'		
Hedge	ALL		
Counter Party	ALL		
Series Name	ALL		
Market	ALL		
Trader	ALL		
Issuer	ALL		
Instr Type	ALL		
Coupon Type	ALL		
Public	ALL		
Maturity Date	ALL		
Issue Date	ALL		
Delievery Date	ALL		
Maturity Currency	ALL		
Issue Currency	ALL		
Coupon Currency	ALL		
Coupon Rate	ALL		
Contingent Debt	ALL		
Attribute	ALL		
Fiscal Agent	ALL		
Printed :	08-Mar-17	10:05:28 AM	

Series Name	C/P	Date	Payable Amount	CAD Equivalent
CM181	CAAT	01-Mar-17	30,045.68	30,045.68
CM184	CAAT	01-Mar-17	14,119.18	14,119.18
CM209	CAAT	01-Mar-17	11,847.73	11,847.73
CM210	CAAT	01-Mar-17	29,382.86	29,382.86
CM211	CAAT	01-Mar-17	98,624.40	98,624.40
CM230	CAAT	01-Mar-17	21,136.06	21,136.06
CM231	CAAT	01-Mar-17	15,399.99	15,399.99
CM245	CAAT	01-Mar-17	9,433.85	9,433.85
CM247	CAAT	01-Mar-17	4,440.17	4,440.17
CM261	CAAT	01-Mar-17	51,956.20	51,956.20
CM262	CAAT	01-Mar-17	3,086.50	3,086.50
CM270	CAAT	01-Mar-17	82,979.45	82,979.45
CM271	CAAT	01-Mar-17	3,888.97	3,888.97
CM282	CAAT	01-Mar-17	19,076.40	19,076.40
CM283	CAAT	01-Mar-17	15,862.29	15,862.29
CM315	CAAT	01-Mar-17	20,233.10	20,233.10
CM327	CAAT	01-Mar-17	15,307.92	15,307.92
CM330	CAAT	01-Mar-17	4,674.99	4,674.99
CM334	CAAT	01-Mar-17	14,460.56	14,460.56
CM335	CAAT	01-Mar-17	4,757.64	4,757.64
CM363	CAAT	01-Mar-17	114,291.01	114,291.01
CM376	CAAT	01-Mar-17	284,826.96	284,826.96
CM378	CAAT	01-Mar-17	25,920.30	25,920.30
CM387	CAAT	01-Mar-17	31,736.56	31,736.56
CM388	CAAT	01-Mar-17	1,623.49	1,623.49
CM416	CAAT	01-Mar-17	14,966.52	14,966.52
CM417	CAAT	01-Mar-17	5,916.14	5,916.14

CM433	CAAT	01-Mar-17	32,467.03	32,467.03
CM453	CAAT	01-Mar-17	94,727.15	94,727.15
CM454	CAAT	01-Mar-17	29,644.97	29,644.97
CM462	CAAT	01-Mar-17	43,311.60	43,311.60
CM465	CAAT	01-Mar-17	10,652.30	10,652.30
CM485	CAAT	01-Mar-17	13,297.99	13,297.99
CM488	CAAT	01-Mar-17	4,888.25	4,888.25
CM490	CAAT	01-Mar-17	14,963.42	14,963.42
CM491	CAAT	01-Mar-17	88,614.85	88,614.85
			CMHC:	**1,282,562.48**

CPP:

				0.00
			CPP	**0.00**

OIIC:

OIIC143	ONT	24-Mar-17	6,612,419.00	6,612,419.00
			OIIC	**6,612,419.00**

Non-Public Projected Maturities:

	NPDB:	
	CMHC	1,282,562.48
	CPP	0.00
	OIIC	6,612,419.00
	OPB	0.00
	OPPT	0.00
	School Boards	12,000,000.00
		19,894,981.48
		(12,000,000.00)
	OIIC Discount Adj.	-
	OHCDBTGPROV:	
	FP Project	25,348.63
Non-Public Projected Maturities: not incl. OHC		**19,920,330.11**
OIIC Interest Deferral:		
Remove Feb 2017		0.00
Add March 2017		0.00
		0.00
Revised Non-Public Maturities		**19,920,330.11**

	OIPC/OILC NPD	
	OIPC/OILC NPD	12,500,000.00
	Revised Non-Public Maturities	**32,420,330.11**

Mar 1 2017 - Mar 31	CAD		7,894,981.48	7,877,282.12
Total:		7,894,981.48	7,877,282.12	

Maturity Report, Sum	Date Range	CAD/CAD Equivalent
Mar 1 2017 - Mar 31	7,877,282.12	
Grand Total:	7,877,282.12	

Printed:	08-Mar-17	10:05:28 AM	AHAMID	14039-3652-U300

	Hedge Num		FX Rate (changed to 1.00)	
7.62500		0	0.98620000	1.0000
9.87500		0	0.98620000	
10.00000		0	0.98620000	
10.75000		0	0.98620000	
10.75000		0	0.98620000	
10.75000		0	0.98620000	
10.50000		0	0.98620000	
9.62500		0	0.98620000	
10.00000		0	0.98620000	
10.00000		0	0.98620000	
10.00000		0	0.98620000	
9.62500		0	0.98620000	
10.00000		0	0.98620000	
10.37500		0	0.98620000	
10.37500		0	0.98620000	
9.50000		0	0.98620000	
10.75000		0	0.98620000	
10.00000		0	0.98620000	
9.62500		0	0.98620000	
9.50000		0	0.98620000	
9.62500		0	0.98620000	
10.00000		0	0.98620000	
10.00000		0	0.98620000	
10.75000		0	0.98620000	
9.50000		0	0.98620000	
10.00000		0	0.98620000	
11.00000		0	0.98620000	

9.87500	0	0.98620000
10.00000	0	0.98620000
10.00000	0	0.98620000
10.00000	0	0.98620000
14.75000	0	0.98620000
11.00000	0	0.98620000
11.00000	0	0.98620000
15.75000	0	0.98620000
11.00000	0	0.98620000
10.19014		

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ONTARIO FINANCING	ITS - LIABILITIES SYSTE	Maturity Report	
User :	AHAMID	Workstation :	14039-3652-U300
Client	ALL		
Portfolio	'MOF NPPG', 'OHCDBTGPROV'		
Hedge	ALL		
Counter Party	ALL		
Series Name	ALL		
Market	ALL		
Trader	ALL		
Issuer	ALL		
Instr Type	ALL		
Coupon Type	ALL		
Public	ALL		
Maturity Date	ALL		
Issue Date	ALL		
Delievery Date	ALL		
Maturity Currency	ALL		
Issue Currency	ALL		
Coupon Currency	ALL		
Coupon Rate	ALL		
Contingent Debt	ALL		
Attribute	ALL		
Fiscal Agent	ALL		
Printed :	08-Mar-17	10:03:21 AM	

Series Name	C/P	Date	Payable Amount	CAD Equivalent
10-422-143	CMOHC	01-Mar-17	8,006.24	8,006.24
13-484-753	CMOHC	01-Mar-17	4,514.98	4,514.98
10-622-637	CMOHC	01-Mar-17	6,755.59	6,755.59
13-835-699	CMOHC	01-Mar-17	6,071.82	6,071.82
				25,348.63

Mar 1 2017 - Mar 31	CAD		25,348.63	24,998.82
Total:		25,348.63	24,998.82	

Maturity Report, Sum	Date Range	CAD/CAD Equivalent
Mar 1 2017 - Mar 31	24,998.82	
Grand Total:	24,998.82	

Printed:	08-Mar-17	10:03:21 AM	AHAMID	14039-3652-U300

Hedge Num		FX Rate			column replaced with actual values CAD Equivalent
	552	0.98620000	18.750		7,895.75
	552	0.98620000	12.750		4,452.67
	552	0.98620000	14.250		6,662.36
	552	0.98620000	12.750		5,988.03
				15.0448311	

ONTARIO FINAN ITS - LIABILITIES SYST Outstanding Report

User :	AHAMID	Workstation :	14039-3652-U300
Client	ONT		
Portfolio	'MOF NPDB'		
Hedge	ALL		
Counter Party	ALL		
Series Name	ALL		
Market	ALL		
Trader	ALL		
Issuer	ALL		
Instr Type	ALL		
Coupon Type	ALL		
Public	ALL		
Maturity Date	ALL		
Issue Date	ALL		
Delievery Date	ALL		
Maturity Curren	ALL		
Issue Currency	ALL		
Coupon Currenc	ALL		
Coupon Rate	ALL		
Contingent Debt	ALL		
Attribute	ALL		
Fiscal Agent	CPP,CPPIB		
Printed :	08-Mar-17	9:50:42 AM	

Principal Paymer	SeriesName	Hedge	Maturity Date	Pay Date
Portfolio:	MOF NPDB			
CP652	0	MOF NPDB	5-Mar-19	5-Mar-19
CP653	0	MOF NPDB	8-Mar-19	8-Mar-19
CP654	0	MOF NPDB	5-Apr-19	5-Apr-19
CP655	0	MOF NPDB	9-Apr-19	9-Apr-19
CP656	0	MOF NPDB	12-Apr-19	12-Apr-19
CP657	0	MOF NPDB	3-May-19	3-May-19
CP658	0	MOF NPDB	7-May-19	7-May-19
CP659	0	MOF NPDB	10-May-19	10-May-19
CP660	0	MOF NPDB	4-Jun-19	4-Jun-19
CP661	0	MOF NPDB	7-Jun-19	7-Jun-19
CP662	0	MOF NPDB	5-Jul-19	5-Jul-19
CP663	0	MOF NPDB	9-Jul-19	9-Jul-19
CP664	0	MOF NPDB	12-Jul-19	12-Jul-19
CP665	0	MOF NPDB	9-Aug-19	9-Aug-19
CP666	0	MOF NPDB	7-Sep-19	9-Sep-19
CP667	0	MOF NPDB	12-Oct-19	15-Oct-19
CP668	0	MOF NPDB	5-Nov-19	5-Nov-19
CP669	0	MOF NPDB	8-Nov-19	8-Nov-19
CP670	0	MOF NPDB	6-Dec-19	6-Dec-19
CP671	0	MOF NPDB	10-Dec-19	10-Dec-19
CP672	0	MOF NPDB	10-Jan-20	10-Jan-20
CP673	0	MOF NPDB	6-Mar-20	6-Mar-20
CP674	0	MOF NPDB	10-Mar-20	10-Mar-20
CP675	0	MOF NPDB	3-Apr-20	3-Apr-20
CP676	0	MOF NPDB	10-Apr-20	13-Apr-20
CP677	0	MOF NPDB	1-May-20	1-May-20

CP678	0	MOF NPDB	5-May-20	5-May-20
CP679	0	MOF NPDB	8-May-20	8-May-20
CP680	0	MOF NPDB	2-Jun-20	2-Jun-20
CP681	0	MOF NPDB	5-Jun-20	5-Jun-20
CP682	0	MOF NPDB	4-Jul-20	6-Jul-20
CP683	0	MOF NPDB	8-Aug-20	10-Aug-20
CP689	266	CPP689	3-Jul-21	5-Jul-21
CP690	274	CPP690	7-Aug-21	9-Aug-21
CP691	281	CPP691	4-Sep-21	7-Sep-21
CP693	330	CPP693	11-Mar-22	11-Mar-22
CP695	402	CPP695	7-Apr-23	10-Apr-23
CP696	403	CPP696	8-Apr-23	10-Apr-23
CP697	413	CPP697	6-May-23	8-May-23
CP698	425	CPP698	3-Jun-23	5-Jun-23
CP699	437	CPP699	4-Jul-23	4-Jul-23
CP700	438	CPP700	5-Jul-23	5-Jul-23
CP701	443	CPP701	2-Aug-23	2-Aug-23
CP702	443	CPP702	3-Aug-23	3-Aug-23
CP703	443	CPP703	4-Aug-23	4-Aug-23
CP704	443	CPP704	5-Aug-23	8-Aug-23
CP705	461	CPP705	4-Oct-23	4-Oct-23
CP706	462	CPP706	5-Oct-23	5-Oct-23
CP707	463	CPP707	1-Nov-23	1-Nov-23
CP708	463	CPP708	2-Nov-23	2-Nov-23
CP709	463	CPP709	3-Nov-23	3-Nov-23
CPP710	504	CPP710	5-Mar-24	5-Mar-24
CPP711	505	CPP711	8-Mar-24	8-Mar-24
CPP712	0	MOF NPDB	2-Apr-24	2-Apr-24
CPP713	0	MOF NPDB	3-Apr-24	3-Apr-24
CPP714	0	MOF NPDB	4-Apr-24	4-Apr-24
CPP715	0	MOF NPDB	5-Apr-24	5-Apr-24
CPP716	0	MOF NPDB	3-May-24	3-May-24
CPP717	0	MOF NPDB	4-May-24	6-May-24
CPP718	544	CPP718	1-Jun-24	3-Jun-24
CPP719	546	CPP719	4-Jun-24	4-Jun-24
CPP720	0	MOF NPDB	7-Jun-24	7-Jun-24
CPP721	0	MOF NPDB	5-Jul-24	5-Jul-24
CPP722	0	MOF NPDB	6-Jul-24	8-Jul-24
CPP723	0	MOF NPDB	3-Aug-24	6-Aug-24
CPP724	0	MOF NPDB	9-Aug-24	9-Aug-24
CPP726	0	MOF NPDB	7-Sep-24	9-Sep-24
CPP727	0	MOF NPDB	1-Oct-24	1-Oct-24
CPP728	0	MOF NPDB	2-Oct-24	2-Oct-24
CPP729	587	CPP729	1-Nov-24	1-Nov-24
CPP730	589	CPP730	2-Nov-24	4-Nov-24
CPP731	591	CPP731	5-Nov-24	5-Nov-24
CPP732	614	CPP732	10-Jan-25	10-Jan-25
CPP733	646	CPP733	4-Apr-25	4-Apr-25
CPP734	650	CPP734	2-May-25	2-May-25
CPP735	651	CPP735	3-May-25	5-May-25
CPP736	653	CPP736	6-May-25	6-May-25
CPP737	655	CPP737	9-May-25	9-May-25
CPP738	667	CPP738	3-Jun-25	3-Jun-25
CPP739	668	CPP739	6-Jun-25	6-Jun-25

CPP740	674	CPP740	10-Jun-25	10-Jun-25
CPP741	682	CPP741	4-Jul-35	4-Jul-35
CPP742	683	CPP742	5-Jul-35	5-Jul-35
CPP743	691	CPP743	8-Aug-35	8-Aug-35
CPP744	703	CPP744	6-Sep-35	6-Sep-35
CPP745	713	CPP745	3-Oct-35	3-Oct-35
CPP745	714	CPP745A	3-Oct-35	3-Oct-35
CPP746	715	CPP746	4-Oct-35	4-Oct-35
CPP748	742	CPP748	2-Dec-35	3-Dec-35
CPP749	746	CPP749	3-Jan-36	3-Jan-36
CPP750	759	CPP750	6-Mar-36	6-Mar-36
CPP751	760	CPP751	7-Mar-36	7-Mar-36
CPP752	765	CPP752	3-Apr-36	3-Apr-36
CPP753	766	CPP753	4-Apr-36	4-Apr-36
CPP754	823	CPP754	2-Oct-36	2-Oct-36
CPP755	824	CPP755	3-Oct-36	3-Oct-36
CPP756	830	CPP756	6-Oct-36	6-Oct-36
CPP757	842	CPP757	10-Nov-36	10-Nov-36
CPP758	843	CPP758	10-Nov-36	10-Nov-36
CPP759	876	CPP759	1-May-37	1-May-37
CPP760	877	CPP760	4-May-37	4-May-37
CPP761	878	CPP761	7-May-37	7-May-37
CPP764	956	CPP764	10-Jun-35	11-Jun-35
CPP766	973	CPP766	8-Apr-38	8-Apr-38
CPP767	966	CPP767	12-May-38	12-May-38
CPP767	987	CPP767A	12-May-38	12-May-38
CPP768	986	CPP768	12-May-31	12-May-31
CPP769	996	CPP769	10-Jun-38	10-Jun-38
CPP770	1,025	CPP770	11-Feb-31	11-Feb-31
CPP771	1,032	CPP771	9-Sep-38	9-Sep-38
CPP772	1,053	CPP772	10-Nov-38	10-Nov-38
CPP773	1,079	CPP773	9-Dec-38	9-Dec-38
CPP774	1,118	CPP774	3-Apr-39	4-Apr-39
CPP775	1,119	CPP775	6-Apr-39	6-Apr-39
CPP776	1,147	CPP776	1-May-39	2-May-39
CPP777	1,148	CPP777	5-May-39	5-May-39
CPP778	1,163	CPP778	1-Jun-39	1-Jun-39
CPP779	1,164	CPP779	2-Jun-39	2-Jun-39
CPP780	1,173	CPP780	6-Jul-39	6-Jul-39
CPP781	1,174	CPP781	7-Jul-39	7-Jul-39
CPP782	1,178	CPP782	4-Aug-39	4-Aug-39
CPP783	1,193	CPP783	8-Sep-39	8-Sep-39
CPP784	1,199	CPP784	6-Oct-39	6-Oct-39
CPP785	1,207	CPP785	2-Nov-39	2-Nov-39
CPP786	1,234	CPP786	4-Dec-39	5-Dec-39
CPP787	1,262	CPP787	2-Mar-40	2-Mar-40
CPP788	1,270	CPP788	5-Apr-40	5-Apr-40
CPP789	1,282	CPP789	3-May-40	3-May-40
CPP790	1,292	CPP790	10-May-40	10-May-40
CPP791	1,307	CPP791	7-Jun-40	7-Jun-40
CPP792	1,321	CPP792	5-Jul-40	5-Jul-40
CPP793	1,322	CPP793	12-Jul-40	12-Jul-40
CPP794	1,330	CPP794	3-Aug-40	3-Aug-40
CPP795	1,334	CPP795	10-Aug-40	10-Aug-40

CPP796	1,362	CPP796	2-Nov-40	2-Nov-40
CPP797	1,365	CPP797	9-Nov-40	9-Nov-40
CPP798	1,372	CPP798	6-Dec-40	6-Dec-40
CPP799	1,374	CPP799	10-Dec-40	10-Dec-40
CPP800	1,407	CPP800	4-Apr-41	4-Apr-41
CPP801	1,411	CPP801	11-Apr-41	11-Apr-41
CPP802	1,422	CPP802	2-May-41	2-May-41
CPP803	1,426	CPP803	9-May-41	9-May-41
CPP804	1,427	CPP804	10-May-41	10-May-41
CPP805	1,450	CPP805	3-Jun-41	3-Jun-41
CPP806	1,451	CPP806	3-Jun-39	3-Jun-39
CPP806	1,452	CPP806a	3-Jun-39	3-Jun-39
CPP807	1,453	CPP807	6-Jun-35	6-Jun-35
CPP808	1,457	CPP808	10-Jun-41	10-Jun-41
CPP809	1,464	CPP809	4-Jul-41	4-Jul-41
CPP810	1,467	CPP810	11-Jul-41	11-Jul-41
CPP811	1,550	CPP811	1-May-42	1-May-42
CPP812	1,555	CPP812	8-May-42	8-May-42
CPP813	1,565	CPP813	1-Jun-42	2-Jun-42
CPP814	1,566	CPP814	5-Jun-42	5-Jun-42
CPP815	1,571	CPP815	11-Jun-42	11-Jun-42
CPP816	1,578	CPP816	3-Jul-42	3-Jul-42
CPP817	1,583	CPP817	10-Jul-42	10-Jul-42
CPP818	1,667	CPP818	6-Jul-35	6-Jul-35
CPP819	1,912	CPP819	1-Oct-37	1-Oct-37
CPP820	1,988	CPP820	10-Mar-38	10-Mar-38
CPP821	2,273	CPP821	10-Aug-37	10-Aug-37

CPP Issued during 2016-17:

CPP820	1,988	CPP820	10-Mar-38	10-Mar-38
CPP821	2,273	CPP821	10-Aug-37	10-Aug-37

CPP821

Total Portfolio:	MOF NPDB	10,002,740,000.00	(10,002,740,000.00)	10,002,740,000.00

SUMMARY :	Principal Amount on Issue Cur		Original Issue	Amount O/S
CAD	10,002,740,000.00	10,002,740,000.00	(10,002,740,000.00)	10,002,740,000.00
Total:	10,002,740,000.00			

Printed :	8-Mar-2017	9:50:42 AM	AHAMID	14039-3652-U300

Settle Date		Coupon	IssueCurr	Original Issue	Outstanding	FX Rate
05-Mar-99	AM	5.810	CAD	40,000,000.00	40,000,000.00	(40,000,000.00)
08-Mar-99	AM	5.840	CAD	5,270,000.00	5,270,000.00	(5,270,000.00)
05-Apr-99	AM	5.630	CAD	50,000,000.00	50,000,000.00	(50,000,000.00)
09-Apr-99	AM	5.500	CAD	35,000,000.00	35,000,000.00	(35,000,000.00)
12-Apr-99	AM	5.540	CAD	2,850,000.00	2,850,000.00	(2,850,000.00)
03-May-99	AM	5.670	CAD	44,000,000.00	44,000,000.00	(44,000,000.00)
07-May-99	AM	5.700	CAD	44,000,000.00	44,000,000.00	(44,000,000.00)
10-May-99	AM	5.720	CAD	46,836,000.00	46,836,000.00	(46,836,000.00)
04-Jun-99	AM	6.010	CAD	44,000,000.00	44,000,000.00	(44,000,000.00)
07-Jun-99	AM	5.990	CAD	104,121,000.00	104,121,000.00	(104,121,000.00)
05-Jul-99	AM	6.120	CAD	30,000,000.00	30,000,000.00	(30,000,000.00)
09-Jul-99	AM	6.080	CAD	31,190,000.00	31,190,000.00	(31,190,000.00)
12-Jul-99	AM	6.080	CAD	30,000,000.00	30,000,000.00	(30,000,000.00)
09-Aug-99	AM	6.290	CAD	41,503,000.00	41,503,000.00	(41,503,000.00)
07-Sep-99	AM	6.310	CAD	31,125,000.00	31,125,000.00	(31,125,000.00)
12-Oct-99	AM	6.480	CAD	76,321,000.00	76,321,000.00	(76,321,000.00)
05-Nov-99	AM	6.500	CAD	45,000,000.00	45,000,000.00	(45,000,000.00)
08-Nov-99	AM	6.530	CAD	31,183,000.00	31,183,000.00	(31,183,000.00)
06-Dec-99	AM	6.570	CAD	36,174,000.00	36,174,000.00	(36,174,000.00)
10-Dec-99	AM	6.410	CAD	20,000,000.00	20,000,000.00	(20,000,000.00)
10-Jan-00	AM	6.910	CAD	14,790,000.00	14,790,000.00	(14,790,000.00)
06-Mar-00	AM	6.400	CAD	80,000,000.00	80,000,000.00	(80,000,000.00)
10-Mar-00	AM	6.400	CAD	31,796,000.00	31,796,000.00	(31,796,000.00)
03-Apr-00	AM	6.470	CAD	73,749,000.00	73,749,000.00	(73,749,000.00)
10-Apr-00	AM	6.380	CAD	50,000,000.00	50,000,000.00	(50,000,000.00)
01-May-00	AM	6.560	CAD	60,000,000.00	60,000,000.00	(60,000,000.00)

05-May-00	AM	6.630	CAD	60,000,000.00	60,000,000.00	(60,000,000.00)
08-May-00	AM	6.670	CAD	21,714,000.00	21,714,000.00	(21,714,000.00)
02-Jun-00	AM	6.640	CAD	60,000,000.00	60,000,000.00	(60,000,000.00)
05-Jun-00	AM	6.560	CAD	102,273,000.00	102,273,000.00	(102,273,000.00)
04-Jul-00	AM	6.510	CAD	102,564,000.00	102,564,000.00	(102,564,000.00)
08-Aug-00	AM	6.330	CAD	79,534,000.00	79,534,000.00	(79,534,000.00)
03-Jul-01	AM	6.450	CAD	60,000,000.00	60,000,000.00	(60,000,000.00)
07-Aug-01	AM	6.470	CAD	63,500,000.00	63,500,000.00	(63,500,000.00)
04-Sep-01	AM	6.220	CAD	87,494,000.00	87,494,000.00	(87,494,000.00)
11-Mar-02	AM	6.230	CAD	120,000,000.00	120,000,000.00	(120,000,000.00)
07-Apr-03	AM	5.970	CAD	118,220,000.00	118,220,000.00	(118,220,000.00)
08-Apr-03	AM	5.970	CAD	14,416,000.00	14,416,000.00	(14,416,000.00)
06-May-03	AM	5.750	CAD	32,105,000.00	32,105,000.00	(32,105,000.00)
03-Jun-03	AM	5.340	CAD	55,000,000.00	55,000,000.00	(55,000,000.00)
04-Jul-03	AM	5.410	CAD	60,000,000.00	60,000,000.00	(60,000,000.00)
07-Jul-03	AM	5.410	CAD	40,000,000.00	40,000,000.00	(40,000,000.00)
05-Aug-03	AM	5.680	CAD	27,000,000.00	27,000,000.00	(27,000,000.00)
05-Aug-03	AM	5.680	CAD	20,000,000.00	20,000,000.00	(20,000,000.00)
05-Aug-03	AM	5.680	CAD	30,000,000.00	30,000,000.00	(30,000,000.00)
05-Aug-03	AM	5.680	CAD	15,266,000.00	15,266,000.00	(15,266,000.00)
06-Oct-03	AM	5.450	CAD	20,000,000.00	20,000,000.00	(20,000,000.00)
06-Oct-03	AM	5.450	CAD	18,074,000.00	18,074,000.00	(18,074,000.00)
03-Nov-03	AM	5.690	CAD	15,000,000.00	15,000,000.00	(15,000,000.00)
03-Nov-03	AM	5.690	CAD	25,000,000.00	25,000,000.00	(25,000,000.00)
03-Nov-03	AM	5.690	CAD	40,000,000.00	40,000,000.00	(40,000,000.00)
05-Mar-04	AM	5.260	CAD	57,926,000.00	57,926,000.00	(57,926,000.00)
08-Mar-04	AM	5.290	CAD	100,000,000.00	100,000,000.00	(100,000,000.00)
02-Apr-04	AM	5.320	CAD	40,000,000.00	40,000,000.00	(40,000,000.00)
05-Apr-04	AM	5.310	CAD	40,000,000.00	40,000,000.00	(40,000,000.00)
05-Apr-04	AM	5.310	CAD	50,000,000.00	50,000,000.00	(50,000,000.00)
05-Apr-04	AM	5.310	CAD	33,805,000.00	33,805,000.00	(33,805,000.00)
03-May-04	AM	5.620	CAD	180,000,000.00	180,000,000.00	(180,000,000.00)
04-May-04	AM	5.630	CAD	35,189,000.00	35,189,000.00	(35,189,000.00)
01-Jun-04	AM	5.630	CAD	25,259,000.00	25,259,000.00	(25,259,000.00)
04-Jun-04	AM	5.690	CAD	75,000,000.00	75,000,000.00	(75,000,000.00)
07-Jun-04	AM	5.750	CAD	125,000,000.00	125,000,000.00	(125,000,000.00)
05-Jul-04	AM	5.790	CAD	110,000,000.00	110,000,000.00	(110,000,000.00)
06-Jul-04	AM	5.720	CAD	47,309,000.00	47,309,000.00	(47,309,000.00)
03-Aug-04	AM	5.710	CAD	60,000,000.00	60,000,000.00	(60,000,000.00)
09-Aug-04	AM	5.600	CAD	44,180,000.00	44,180,000.00	(44,180,000.00)
07-Sep-04	AM	5.460	CAD	90,451,000.00	90,451,000.00	(90,451,000.00)
01-Oct-04	AM	5.350	CAD	23,513,000.00	23,513,000.00	(23,513,000.00)
04-Oct-04	AM	5.395	CAD	20,000,000.00	20,000,000.00	(20,000,000.00)
01-Nov-04	AM	5.350	CAD	30,000,000.00	30,000,000.00	(30,000,000.00)
02-Nov-04	AM	5.320	CAD	30,000,000.00	30,000,000.00	(30,000,000.00)
05-Nov-04	AM	5.300	CAD	41,700,000.00	41,700,000.00	(41,700,000.00)
10-Jan-05	AM	5.150	CAD	31,776,000.00	31,776,000.00	(31,776,000.00)
04-Apr-05	AM	5.190	CAD	144,170,000.00	144,170,000.00	(144,170,000.00)
02-May-05	AM	5.010	CAD	45,000,000.00	45,000,000.00	(45,000,000.00)
03-May-05	AM	4.970	CAD	55,000,000.00	55,000,000.00	(55,000,000.00)
06-May-05	AM	4.980	CAD	55,000,000.00	55,000,000.00	(55,000,000.00)
09-May-05	AM	4.990	CAD	25,917,000.00	25,917,000.00	(25,917,000.00)
03-Jun-05	AM	4.870	CAD	60,000,000.00	60,000,000.00	(60,000,000.00)
06-Jun-05	AM	4.830	CAD	120,000,000.00	120,000,000.00	(120,000,000.00)

10-Jun-05	AM	4.670	CAD	69,525,000.00	69,525,000.00	(69,525,000.00)
04-Jul-05	AM	4.710	CAD	97,283,000.00	97,283,000.00	(97,283,000.00)
05-Jul-05	AM	4.710	CAD	55,000,000.00	55,000,000.00	(55,000,000.00)
08-Aug-05	AM	4.730	CAD	84,624,000.00	84,624,000.00	(84,624,000.00)
06-Sep-05	AM	4.590	CAD	78,436,000.00	78,436,000.00	(78,436,000.00)
03-Oct-05	AM	4.720	CAD	33,000,000.00	33,000,000.00	(33,000,000.00)
03-Oct-05	AM	4.720	CAD	12,000,000.00	12,000,000.00	(12,000,000.00)
04-Oct-05	AM	4.730	CAD	24,655,000.00	24,655,000.00	(24,655,000.00)
02-Dec-05	AM	4.680	CAD	25,822,000.00	25,822,000.00	(25,822,000.00)
03-Jan-06	AM	4.640	CAD	48,931,000.00	48,931,000.00	(48,931,000.00)
06-Mar-06	AM	4.710	CAD	99,252,000.00	99,252,000.00	(99,252,000.00)
07-Mar-06	AM	4.710	CAD	35,000,000.00	35,000,000.00	(35,000,000.00)
03-Apr-06	AM	4.710	CAD	100,000,000.00	100,000,000.00	(100,000,000.00)
04-Apr-06	AM	4.760	CAD	58,029,000.00	58,029,000.00	(58,029,000.00)
02-Oct-06	AM	4.530	CAD	25,000,000.00	25,000,000.00	(25,000,000.00)
03-Oct-06	AM	4.500	CAD	25,000,000.00	25,000,000.00	(25,000,000.00)
06-Oct-06	AM	4.560	CAD	24,240,000.00	24,240,000.00	(24,240,000.00)
10-Nov-06	AM	4.570	CAD	27,350,000.00	27,350,000.00	(27,350,000.00)
10-Nov-06	AM	4.570	CAD	91,650,000.00	91,650,000.00	(91,650,000.00)
01-May-07	AM	4.630	CAD	41,756,000.00	41,756,000.00	(41,756,000.00)
04-May-07	AM	4.680	CAD	50,000,000.00	50,000,000.00	(50,000,000.00)
07-May-07	AM	4.660	CAD	150,000,000.00	150,000,000.00	(150,000,000.00)
10-Mar-08	AM	4.710	CAD	55,063,000.00	55,063,000.00	(55,063,000.00)
08-Apr-08	AM	4.700	CAD	141,348,000.00	141,348,000.00	(141,348,000.00)
12-May-08	AM	4.730	CAD	57,000,000.00	57,000,000.00	(57,000,000.00)
12-May-08	AM	4.730	CAD	16,000,000.00	16,000,000.00	(16,000,000.00)
12-May-08	AM	4.750	CAD	52,000,000.00	52,000,000.00	(52,000,000.00)
10-Jun-08	AM	4.760	CAD	69,393,000.00	69,393,000.00	(69,393,000.00)
11-Aug-08	AM	4.790	CAD	43,880,000.00	43,880,000.00	(43,880,000.00)
09-Sep-08	AM	4.740	CAD	19,373,000.00	19,373,000.00	(19,373,000.00)
10-Nov-08	AM	5.480	CAD	123,586,000.00	123,586,000.00	(123,586,000.00)
09-Dec-08	AM	5.020	CAD	66,739,000.00	66,739,000.00	(66,739,000.00)
03-Apr-09	AM	4.840	CAD	111,220,000.00	111,220,000.00	(111,220,000.00)
06-Apr-09	AM	4.840	CAD	6,000,000.00	6,000,000.00	(6,000,000.00)
01-May-09	AM	4.940	CAD	242,694,000.00	242,694,000.00	(242,694,000.00)
05-May-09	AM	4.940	CAD	25,000,000.00	25,000,000.00	(25,000,000.00)
01-Jun-09	AM	5.030	CAD	200,000,000.00	200,000,000.00	(200,000,000.00)
02-Jun-09	AM	5.030	CAD	20,000,000.00	20,000,000.00	(20,000,000.00)
06-Jul-09	AM	4.860	CAD	96,798,000.00	96,798,000.00	(96,798,000.00)
07-Jul-09	AM	4.860	CAD	25,000,000.00	25,000,000.00	(25,000,000.00)
04-Aug-09	AM	4.890	CAD	58,000,000.00	58,000,000.00	(58,000,000.00)
08-Sep-09	AM	4.670	CAD	11,907,000.00	11,907,000.00	(11,907,000.00)
06-Oct-09	AM	4.560	CAD	21,547,000.00	21,547,000.00	(21,547,000.00)
02-Nov-09	AM	4.680	CAD	118,658,000.00	118,658,000.00	(118,658,000.00)
04-Dec-09	AM	4.590	CAD	24,327,000.00	24,327,000.00	(24,327,000.00)
02-Mar-10	AM	4.730	CAD	125,544,000.00	125,544,000.00	(125,544,000.00)
05-Apr-10	AM	4.740	CAD	188,605,000.00	188,605,000.00	(188,605,000.00)
03-May-10	AM	4.860	CAD	267,561,000.00	267,561,000.00	(267,561,000.00)
10-May-10	AM	4.820	CAD	1,344,000.00	1,344,000.00	(1,344,000.00)
07-Jun-10	AM	4.640	CAD	65,000,000.00	65,000,000.00	(65,000,000.00)
05-Jul-10	AM	4.620	CAD	167,573,000.00	167,573,000.00	(167,573,000.00)
12-Jul-10	AM	4.570	CAD	215,000.00	215,000.00	(215,000.00)
03-Aug-10	AM	4.660	CAD	8,862,000.00	8,862,000.00	(8,862,000.00)
10-Aug-10	AM	4.540	CAD	703,000.00	703,000.00	(703,000.00)

02-Nov-10	AM	4.200	CAD	60,919,000.00	60,919,000.00	(60,919,000.00)
09-Nov-10	AM	4.270	CAD	2,308,000.00	2,308,000.00	(2,308,000.00)
06-Dec-10	AM	4.380	CAD	35,937,000.00	35,937,000.00	(35,937,000.00)
10-Dec-10	AM	4.450	CAD	586,000.00	586,000.00	(586,000.00)
04-Apr-11	AM	4.510	CAD	266,427,000.00	266,427,000.00	(266,427,000.00)
11-Apr-11	AM	4.560	CAD	3,200,000.00	3,200,000.00	(3,200,000.00)
02-May-11	AM	4.520	CAD	249,283,000.00	249,283,000.00	(249,283,000.00)
09-May-11	AM	4.530	CAD	30,000,000.00	30,000,000.00	(30,000,000.00)
10-May-11	AM	4.490	CAD	4,821,000.00	4,821,000.00	(4,821,000.00)
03-Jun-11	AM	4.350	CAD	186,111,000.00	186,111,000.00	(186,111,000.00)
03-Jun-11	AM	4.360	CAD	42,700,000.00	42,700,000.00	(42,700,000.00)
03-Jun-11	AM	4.360	CAD	50,000,000.00	50,000,000.00	(50,000,000.00)
06-Jun-11	AM	4.350	CAD	32,000,000.00	32,000,000.00	(32,000,000.00)
10-Jun-11	AM	4.350	CAD	4,476,000.00	4,476,000.00	(4,476,000.00)
04-Jul-11	AM	4.230	CAD	192,728,000.00	192,728,000.00	(192,728,000.00)
11-Jul-11	AM	4.350	CAD	17,133,000.00	17,133,000.00	(17,133,000.00)
01-May-12	AM	3.620	CAD	242,106,000.00	242,106,000.00	(242,106,000.00)
08-May-12	AM	3.610	CAD	1,855,000.00	1,855,000.00	(1,855,000.00)
01-Jun-12	AM	3.440	CAD	327,143,000.00	327,143,000.00	(327,143,000.00)
05-Jun-12	AM	3.430	CAD	7,000,000.00	7,000,000.00	(7,000,000.00)
11-Jun-12	AM	3.360	CAD	6,200,000.00	6,200,000.00	(6,200,000.00)
03-Jul-12	AM	3.400	CAD	130,888,000.00	130,888,000.00	(130,888,000.00)
10-Jul-12	AM	3.400	CAD	60,080,000.00	60,080,000.00	(60,080,000.00)
06-May-13	AM	3.410	CAD	44,887,000.00	44,887,000.00	(44,887,000.00)
16-Jun-15	AM	3.250	CAD	42,300,000.00	42,300,000.00	(42,300,000.00)
12-Sep-16	AM	2.640	CAD	31,374,000.00	31,374,000.00	(31,374,000.00)
10-Feb-17	AM	3.300	CAD	60,522,000.00	60,522,000.00	(60,522,000.00)

12-Sep-16	AM	2.640	CAD	31,374,000.00	31,374,000.00	(31,374,000.00)
10-Feb-17	AM	3.300	CAD	60,522,000.00	60,522,000.00	(60,522,000.00)
		Projected eff rate		**91,896,000.00**		**3.07467**

Amount O/S in CAD

O/S Amount inCAD

CAD	1.00000000	(	1.00000000	)	40,000,000.00
CAD	1.00000000	(	1.00000000	)	5,270,000.00
CAD	1.00000000	(	1.00000000	)	50,000,000.00
CAD	1.00000000	(	1.00000000	)	35,000,000.00
CAD	1.00000000	(	1.00000000	)	2,850,000.00
CAD	1.00000000	(	1.00000000	)	44,000,000.00
CAD	1.00000000	(	1.00000000	)	44,000,000.00
CAD	1.00000000	(	1.00000000	)	46,836,000.00
CAD	1.00000000	(	1.00000000	)	44,000,000.00
CAD	1.00000000	(	1.00000000	)	104,121,000.00
CAD	1.00000000	(	1.00000000	)	30,000,000.00
CAD	1.00000000	(	1.00000000	)	31,190,000.00
CAD	1.00000000	(	1.00000000	)	30,000,000.00
CAD	1.00000000	(	1.00000000	)	41,503,000.00
CAD	1.00000000	(	1.00000000	)	31,125,000.00
CAD	1.00000000	(	1.00000000	)	76,321,000.00
CAD	1.00000000	(	1.00000000	)	45,000,000.00
CAD	1.00000000	(	1.00000000	)	31,183,000.00
CAD	1.00000000	(	1.00000000	)	36,174,000.00
CAD	1.00000000	(	1.00000000	)	20,000,000.00
CAD	1.00000000	(	1.00000000	)	14,790,000.00
CAD	1.00000000	(	1.00000000	)	80,000,000.00
CAD	1.00000000	(	1.00000000	)	31,796,000.00
CAD	1.00000000	(	1.00000000	)	73,749,000.00
CAD	1.00000000	(	1.00000000	)	50,000,000.00
CAD	1.00000000	(	1.00000000	)	60,000,000.00

CAD	1.00000000	(	1.00000000	)	60,000,000.00
CAD	1.00000000	(	1.00000000	)	21,714,000.00
CAD	1.00000000	(	1.00000000	)	60,000,000.00
CAD	1.00000000	(	1.00000000	)	102,273,000.00
CAD	1.00000000	(	1.00000000	)	102,564,000.00
CAD	1.00000000	(	1.00000000	)	79,534,000.00
CAD	1.00000000	(	1.00000000	)	60,000,000.00
CAD	1.00000000	(	1.00000000	)	63,500,000.00
CAD	1.00000000	(	1.00000000	)	87,494,000.00
CAD	1.00000000	(	1.00000000	)	120,000,000.00
CAD	1.00000000	(	1.00000000	)	118,220,000.00
CAD	1.00000000	(	1.00000000	)	14,416,000.00
CAD	1.00000000	(	1.00000000	)	32,105,000.00
CAD	1.00000000	(	1.00000000	)	55,000,000.00
CAD	1.00000000	(	1.00000000	)	60,000,000.00
CAD	1.00000000	(	1.00000000	)	40,000,000.00
CAD	1.00000000	(	1.00000000	)	27,000,000.00
CAD	1.00000000	(	1.00000000	)	20,000,000.00
CAD	1.00000000	(	1.00000000	)	30,000,000.00
CAD	1.00000000	(	1.00000000	)	15,266,000.00
CAD	1.00000000	(	1.00000000	)	20,000,000.00
CAD	1.00000000	(	1.00000000	)	18,074,000.00
CAD	1.00000000	(	1.00000000	)	15,000,000.00
CAD	1.00000000	(	1.00000000	)	25,000,000.00
CAD	1.00000000	(	1.00000000	)	40,000,000.00
CAD	1.00000000	(	1.00000000	)	57,926,000.00
CAD	1.00000000	(	1.00000000	)	100,000,000.00
CAD	1.00000000	(	1.00000000	)	40,000,000.00
CAD	1.00000000	(	1.00000000	)	40,000,000.00
CAD	1.00000000	(	1.00000000	)	50,000,000.00
CAD	1.00000000	(	1.00000000	)	33,805,000.00
CAD	1.00000000	(	1.00000000	)	180,000,000.00
CAD	1.00000000	(	1.00000000	)	35,189,000.00
CAD	1.00000000	(	1.00000000	)	25,259,000.00
CAD	1.00000000	(	1.00000000	)	75,000,000.00
CAD	1.00000000	(	1.00000000	)	125,000,000.00
CAD	1.00000000	(	1.00000000	)	110,000,000.00
CAD	1.00000000	(	1.00000000	)	47,309,000.00
CAD	1.00000000	(	1.00000000	)	60,000,000.00
CAD	1.00000000	(	1.00000000	)	44,180,000.00
CAD	1.00000000	(	1.00000000	)	90,451,000.00
CAD	1.00000000	(	1.00000000	)	23,513,000.00
CAD	1.00000000	(	1.00000000	)	20,000,000.00
CAD	1.00000000	(	1.00000000	)	30,000,000.00
CAD	1.00000000	(	1.00000000	)	30,000,000.00
CAD	1.00000000	(	1.00000000	)	41,700,000.00
CAD	1.00000000	(	1.00000000	)	31,776,000.00
CAD	1.00000000	(	1.00000000	)	144,170,000.00
CAD	1.00000000	(	1.00000000	)	45,000,000.00
CAD	1.00000000	(	1.00000000	)	55,000,000.00
CAD	1.00000000	(	1.00000000	)	55,000,000.00
CAD	1.00000000	(	1.00000000	)	25,917,000.00
CAD	1.00000000	(	1.00000000	)	60,000,000.00
CAD	1.00000000	(	1.00000000	)	120,000,000.00

CAD	1.00000000	(	1.00000000	)	69,525,000.00
CAD	1.00000000	(	1.00000000	)	97,283,000.00
CAD	1.00000000	(	1.00000000	)	55,000,000.00
CAD	1.00000000	(	1.00000000	)	84,624,000.00
CAD	1.00000000	(	1.00000000	)	78,436,000.00
CAD	1.00000000	(	1.00000000	)	33,000,000.00
CAD	1.00000000	(	1.00000000	)	12,000,000.00
CAD	1.00000000	(	1.00000000	)	24,655,000.00
CAD	1.00000000	(	1.00000000	)	25,822,000.00
CAD	1.00000000	(	1.00000000	)	48,931,000.00
CAD	1.00000000	(	1.00000000	)	99,252,000.00
CAD	1.00000000	(	1.00000000	)	35,000,000.00
CAD	1.00000000	(	1.00000000	)	100,000,000.00
CAD	1.00000000	(	1.00000000	)	58,029,000.00
CAD	1.00000000	(	1.00000000	)	25,000,000.00
CAD	1.00000000	(	1.00000000	)	25,000,000.00
CAD	1.00000000	(	1.00000000	)	24,240,000.00
CAD	1.00000000	(	1.00000000	)	27,350,000.00
CAD	1.00000000	(	1.00000000	)	91,650,000.00
CAD	1.00000000	(	1.00000000	)	41,756,000.00
CAD	1.00000000	(	1.00000000	)	50,000,000.00
CAD	1.00000000	(	1.00000000	)	150,000,000.00
CAD	1.00000000	(	1.00000000	)	55,063,000.00
CAD	1.00000000	(	1.00000000	)	141,348,000.00
CAD	1.00000000	(	1.00000000	)	57,000,000.00
CAD	1.00000000	(	1.00000000	)	16,000,000.00
CAD	1.00000000	(	1.00000000	)	52,000,000.00
CAD	1.00000000	(	1.00000000	)	69,393,000.00
CAD	1.00000000	(	1.00000000	)	43,880,000.00
CAD	1.00000000	(	1.00000000	)	19,373,000.00
CAD	1.00000000	(	1.00000000	)	123,586,000.00
CAD	1.00000000	(	1.00000000	)	66,739,000.00
CAD	1.00000000	(	1.00000000	)	111,220,000.00
CAD	1.00000000	(	1.00000000	)	6,000,000.00
CAD	1.00000000	(	1.00000000	)	242,694,000.00
CAD	1.00000000	(	1.00000000	)	25,000,000.00
CAD	1.00000000	(	1.00000000	)	200,000,000.00
CAD	1.00000000	(	1.00000000	)	20,000,000.00
CAD	1.00000000	(	1.00000000	)	96,798,000.00
CAD	1.00000000	(	1.00000000	)	25,000,000.00
CAD	1.00000000	(	1.00000000	)	58,000,000.00
CAD	1.00000000	(	1.00000000	)	11,907,000.00
CAD	1.00000000	(	1.00000000	)	21,547,000.00
CAD	1.00000000	(	1.00000000	)	118,658,000.00
CAD	1.00000000	(	1.00000000	)	24,327,000.00
CAD	1.00000000	(	1.00000000	)	125,544,000.00
CAD	1.00000000	(	1.00000000	)	188,605,000.00
CAD	1.00000000	(	1.00000000	)	267,561,000.00
CAD	1.00000000	(	1.00000000	)	1,344,000.00
CAD	1.00000000	(	1.00000000	)	65,000,000.00
CAD	1.00000000	(	1.00000000	)	167,573,000.00
CAD	1.00000000	(	1.00000000	)	215,000.00
CAD	1.00000000	(	1.00000000	)	8,862,000.00
CAD	1.00000000	(	1.00000000	)	703,000.00

CAD	1.00000000	(	1.00000000	)	60,919,000.00
CAD	1.00000000	(	1.00000000	)	2,308,000.00
CAD	1.00000000	(	1.00000000	)	35,937,000.00
CAD	1.00000000	(	1.00000000	)	586,000.00
CAD	1.00000000	(	1.00000000	)	266,427,000.00
CAD	1.00000000	(	1.00000000	)	3,200,000.00
CAD	1.00000000	(	1.00000000	)	249,283,000.00
CAD	1.00000000	(	1.00000000	)	30,000,000.00
CAD	1.00000000	(	1.00000000	)	4,821,000.00
CAD	1.00000000	(	1.00000000	)	186,111,000.00
CAD	1.00000000	(	1.00000000	)	42,700,000.00
CAD	1.00000000	(	1.00000000	)	50,000,000.00
CAD	1.00000000	(	1.00000000	)	32,000,000.00
CAD	1.00000000	(	1.00000000	)	4,476,000.00
CAD	1.00000000	(	1.00000000	)	192,728,000.00
CAD	1.00000000	(	1.00000000	)	17,133,000.00
CAD	1.00000000	(	1.00000000	)	242,106,000.00
CAD	1.00000000	(	1.00000000	)	1,855,000.00
CAD	1.00000000	(	1.00000000	)	327,143,000.00
CAD	1.00000000	(	1.00000000	)	7,000,000.00
CAD	1.00000000	(	1.00000000	)	6,200,000.00
CAD	1.00000000	(	1.00000000	)	130,888,000.00
CAD	1.00000000	(	1.00000000	)	60,080,000.00
CAD	1.00000000	(	1.00000000	)	44,887,000.00
CAD	1.00000000	(	1.00000000	)	42,300,000.00
CAD	1.00000000	(	1.00000000	)	31,374,000.00
CAD	1.00000000	(	1.00000000	)	60,522,000.00

CAD	1.00000000	(	1.00000000	)	31,374,000.00
CAD	1.00000000	(	1.00000000	)	60,522,000.00

ONTARIO FINANCIN(ITS - LIABILITIES SYST Outstanding Report

User :	AHAMID	Workstation :	14039-3652-U300
Client	ALL		
Portfolio	'OILC NPDB', 'OIPC NPD'		
Hedge	ALL		
Counter Party	ALL		
Series Name	ALL		
Market	ALL		
Trader	ALL		
Issuer	ALL		
Instr Type	ALL		
Coupon Type	ALL		
Public	ALL		
Maturity Date	ALL		
Issue Date	ALL		
Delievery Date	ALL		
Maturity Currency	ALL		
Issue Currency	ALL		
Coupon Currency	ALL		
Coupon Rate	ALL		
Contingent Debt	ALL		
Attribute	ALL		
Fiscal Agent	ALL		
Printed :	08-Mar-17	9:54:13 AM	

Principal Payment D	SeriesName		Hedge	Maturity Date	Pay Date
Portfolio:	OILC NPDB				
OILCB22		1,508	OILCB22	2-Jun-41	3-Jun-41
OILCB23		1,514	OILCB23	2-Jun-22	2-Jun-22
OILCB24		1,518	OILCB24	2-Jun-22	2-Jun-22
OILCB25		1,520	OILCB25	8-Sep-17	8-Sep-17
OILCB26		1,529	OILCB26	8-Sep-17	8-Sep-17
OILCB27		1,554	OILCB27	2-Jun-22	2-Jun-22
OILCB28		1,573	OILCB28	2-Jun-22	2-Jun-22
OILCB29		1,577	OILCB29	2-Jun-43	2-Jun-43
OILCB30		1,594	OILCB30	2-Jun-22	2-Jun-22
OILCB31		1,598	OILCB31	2-Jun-43	2-Jun-43
OILCB32		1,601	OILCB32	8-Sep-17	8-Sep-17
OILCB33		1,632	OILCB33	8-Sep-18	10-Sep-18
OILCB34		1,642	OILCB34	2-Jun-23	2-Jun-23
OILCB35		1,688	OILCB35	30-Jun-18	29-Jun-18
OILCB35		1,691	OILCB35a	30-Jun-18	29-Jun-18
OILCB36		1,719	OILCB36	30-Jun-18	29-Jun-18
OILCB37		1,726	OILCB37	2-Jun-23	2-Jun-23
OILCB38		1,732	OILCB38	2-Jun-45	2-Jun-45
OILCB39		1,743	OILCB39	8-Sep-18	10-Sep-18
OILCB40		1,747	OILCB40	2-Jun-23	2-Jun-23
OILCB41		1,750	OILCB41	2-Jun-45	2-Jun-45
OILCB42		1,810	OILCB42	2-Jun-24	3-Jun-24
OILCB43		1,820	OILCB43	2-Jun-24	3-Jun-24
OILCB44		1,829	OILCB44	2-Jun-24	3-Jun-24
OILCC20		1,537	OILCC20	27-Mar-17	27-Mar-17
OILCC21		1,538	OILCC21	27-Mar-17	27-Mar-17

OILCC22		1,551	OILCC22	24-Apr-17	24-Apr-17
OILCC23		1,556	OILCC23	24-Apr-17	24-Apr-17
OILCC24		1,568	OILCC24	25-May-17	25-May-17
OILCC25		1,569	OILCC25	25-May-17	25-May-17
OILCC26		1,581	OILCC26	26-Jun-17	26-Jun-17
OILCC27		1,582	OILCC27	26-Jun-17	26-Jun-17
OILCC28		1,586	OILCC28	25-Jul-17	25-Jul-17
OILCC29		1,591	OILCC29	28-Aug-17	28-Aug-17
OILCC30		1,596	OILCC30	25-Sep-17	25-Sep-17
OILCC31		1,602	OILCC31	25-Oct-17	25-Oct-17
OILCC32		1,624	OILCC32	27-Nov-17	27-Nov-17
OILCC33		1,629	OILCC33	22-Dec-17	22-Dec-17
OILCC34		1,635	OILCC34	25-Jan-18	25-Jan-18
OILCC35		1,634	OILCC35	25-Jan-18	25-Jan-18
OILCC36		1,658	OILCC36	22-Feb-18	22-Feb-18
OILCC37		1,659	OILCC37	22-Feb-18	22-Feb-18
OILCC38		1,662	OILCC38	26-Mar-18	26-Mar-18
OILCC39		1,663	OILCC39	26-Mar-18	26-Mar-18
OILCC40		1,668	OILCC40	24-Apr-18	24-Apr-18
OILCC41		1,669	OILCC41	24-Apr-18	24-Apr-18
OILCC42		1,689	OILCC42	25-May-18	25-May-18
OILCC43		1,699	OILCC43	25-Jun-18	25-Jun-18
OILCC44		1,698	OILCC44	25-Jun-18	25-Jun-18
OILCC45		1,706	OILCC45	25-Jul-18	25-Jul-18
OILCC46		1,707	OILCC46	25-Jul-18	25-Jul-18
OILCC47		1,727	OILCC47	28-Aug-18	28-Aug-18
OILCC48		1,728	OILCC48	28-Aug-18	28-Aug-18
OILCC49		1,737	OILCC49	24-Sep-18	24-Sep-18
OILCC50		1,738	OILCC50	24-Sep-18	24-Sep-18
OILCC51		1,752	OILCC51	25-Oct-18	25-Oct-18
OILCC52		1,751	OILCC52	25-Oct-18	25-Oct-18
OILCC53		1,767	OILCC53	26-Nov-18	26-Nov-18
OILCC54		1,771	OILCC54	26-Nov-18	26-Nov-18
OILCC55		1,776	OILCC55	21-Dec-18	21-Dec-18
OILCC56		1,777	OILCC56	21-Dec-18	21-Dec-18
OILCC57		1,788	OILCC57	25-Jan-19	25-Jan-19
OILCC58		1,786	OILCC58	25-Jan-19	25-Jan-19
OILCC59		1,797	OILCC59	22-Feb-19	22-Feb-19
OILCC60		1,805	OILCC60	24-Apr-19	24-Apr-19
OILCC61		1,816	OILCC61	24-May-19	24-May-19
OILCC62		1,830	OILCC62	25-Jul-19	25-Jul-19
Total Portfolio:	OILC NPDB		1,983,084,177.00	(1,983,084,177.00)	1,983,084,177.00
Portfolio:	OIPC NPD				
OIPC2009B1		1,227	OIPC2009B1	2-Jun-19	3-Jun-19
OIPC2010B10		1,300	OIPC2010B1	2-Jun-20	2-Jun-20
OIPC2010B3		1,251	OIPC2010B3	2-Jun-39	2-Jun-39
OIPC2010B4		1,261	OIPC2010B4	2-Jun-20	2-Jun-20
OIPC2010B5		1,267	OIPC2010B5	2-Jun-39	2-Jun-39
OIPC2010B7		1,278	OIPC2010B7	2-Jun-20	2-Jun-20
OIPC2010B8		1,284	OIPC2010B8	2-Jun-39	2-Jun-39
OIPC2010B9		1,296	OIPC2010B9	2-Jun-39	2-Jun-39
OIPCB11		1,338	OIPCB11	2-Jun-20	2-Jun-20
OIPCB12		1,353	OIPCB12	2-Jun-41	3-Jun-41
OIPCB13		1,357	OIPCB13	2-Jun-20	2-Jun-20

OIPCB14		1,359	OIPCB14	2-Jun-20	2-Jun-20
OIPCB15		1,368	OIPCB15	2-Jun-41	3-Jun-41
OIPCB17		1,383	OIPCB17	2-Jun-41	3-Jun-41
OIPCB19		1,417	OIPCB19	2-Jun-21	2-Jun-21
OIPCB20		1,421	OIPCB20	2-Jun-41	3-Jun-41
OIPCB21		1,424	OIPCB21	2-Jun-21	2-Jun-21
Total Portfolio:	OIPC NPD		995,000,000.00	(995,000,000.00)	995,000,000.00

SUMMARY :	Principal Amount on Issue Cur		Original Issue	Amount O/S
CAD	2,978,084,177.00	2,978,084,177.00	(2,978,084,177.00)	2,978,084,177.00
Total:	2,978,084,177.00			

Printed :	8-Mar-2017	9:54:13 AM	AHAMID	14039-3652-U300

Settle Date		Coupon	IssueCurr	Original Issue	Outstanding
02-Dec-11	AM	3.820	CAD	75,000,000.00	75,000,000.00
22-Dec-11	AM	3.010	CAD	50,000,000.00	50,000,000.00
13-Jan-12	AM	3.050	CAD	75,000,000.00	75,000,000.00
20-Jan-12	AM	2.020	CAD	150,000,000.00	150,000,000.00
27-Feb-12	AM	2.160	CAD	75,000,000.00	75,000,000.00
03-May-12	AM	3.180	CAD	50,000,000.00	50,000,000.00
12-Jun-12	AM	2.920	CAD	75,000,000.00	75,000,000.00
27-Jun-12	AM	3.530	CAD	35,000,000.00	35,000,000.00
19-Sep-12	AM	2.990	CAD	50,000,000.00	50,000,000.00
02-Oct-12	AM	3.420	CAD	25,000,000.00	25,000,000.00
30-Oct-12	AM	2.050	CAD	75,000,000.00	75,000,000.00
15-Jan-13	AM	2.200	CAD	50,000,000.00	50,000,000.00
08-Feb-13	AM	3.140	CAD	85,000,000.00	85,000,000.00
03-Jun-13	AM	0.000	CAD	200,000,000.00	200,000,000.00
03-Jun-13	AM	0.000	CAD	30,000,000.00	30,000,000.00
28-Aug-13	AM	0.000	CAD	70,000,000.00	70,000,000.00
30-Aug-13	AM	3.610	CAD	50,000,000.00	50,000,000.00
16-Sep-13	AM	4.370	CAD	25,000,000.00	25,000,000.00
22-Oct-13	AM	2.400	CAD	50,000,000.00	50,000,000.00
28-Oct-13	AM	3.380	CAD	110,000,000.00	110,000,000.00
28-Oct-13	AM	4.140	CAD	75,000,000.00	75,000,000.00
12-May-14	AM	3.290	CAD	40,000,000.00	40,000,000.00
09-Jun-14	AM	3.240	CAD	50,000,000.00	50,000,000.00
06-Aug-14	AM	3.070	CAD	50,000,000.00	50,000,000.00
02-Apr-12	AM	2.290	CAD	5,373,151.00	5,373,151.00
02-Apr-12	AM	0.000	CAD	7,126,849.00	7,126,849.00

01-May-12	AM	2.330	CAD	4,702,125.00	4,702,125.00
01-May-12	AM	0.000	CAD	7,797,875.00	7,797,875.00
01-Jun-12	AM	2.140	CAD	1,715,051.00	1,715,051.00
01-Jun-12	AM	0.000	CAD	10,275,280.00	10,275,280.00
03-Jul-12	AM	1.980	CAD	1,124,876.00	1,124,876.00
03-Jul-12	AM	0.000	CAD	10,861,146.00	10,861,146.00
01-Aug-12	AM	0.000	CAD	8,906,200.00	8,906,200.00
04-Sep-12	AM	0.000	CAD	6,156,770.00	6,156,770.00
01-Oct-12	AM	0.000	CAD	5,822,069.00	5,822,069.00
01-Nov-12	AM	0.000	CAD	4,152,875.00	4,152,875.00
03-Dec-12	AM	0.000	CAD	6,847,719.00	6,847,719.00
02-Jan-13	AM	0.000	CAD	16,345,458.00	16,345,458.00
01-Feb-13	AM	2.160	CAD	7,150,184.00	7,150,184.00
01-Feb-13	AM	0.000	CAD	5,349,816.00	5,349,816.00
01-Mar-13	AM	2.020	CAD	6,489,739.00	6,489,739.00
01-Mar-13	AM	0.000	CAD	5,035,769.00	5,035,769.00
02-Apr-13	AM	1.980	CAD	2,664,380.00	2,664,380.00
02-Apr-13	AM	0.000	CAD	4,570,783.00	4,570,783.00
01-May-13	AM	1.860	CAD	10,302,651.00	10,302,651.00
01-May-13	AM	0.000	CAD	4,761,638.00	4,761,638.00
03-Jun-13	AM	0.000	CAD	12,500,000.00	12,500,000.00
08-Jul-13	AM	2.460	CAD	7,132,935.00	7,132,935.00
08-Jul-13	AM	0.000	CAD	5,367,065.00	5,367,065.00
01-Aug-13	AM	2.440	CAD	25,000,000.00	25,000,000.00
01-Aug-13	AM	0.000	CAD	3,939,621.00	3,939,621.00
03-Sep-13	AM	2.640	CAD	25,000,000.00	25,000,000.00
03-Sep-13	AM	0.000	CAD	3,346,237.00	3,346,237.00
01-Oct-13	AM	2.550	CAD	20,000,000.00	20,000,000.00
01-Oct-13	AM	0.000	CAD	3,182,421.00	3,182,421.00
01-Nov-13	AM	0.000	CAD	1,314,729.00	1,314,729.00
01-Nov-13	AM	2.320	CAD	12,000,000.00	12,000,000.00
02-Dec-13	AM	0.000	CAD	3,404,931.00	3,404,931.00
02-Dec-13	AM	2.350	CAD	9,095,069.00	9,095,069.00
02-Jan-14	AM	0.000	CAD	23,646,731.00	23,646,731.00
02-Jan-14	AM	2.553	CAD	6,353,269.00	6,353,269.00
03-Feb-14	AM	0.000	CAD	1,559,027.00	1,559,027.00
03-Feb-14	AM	2.200	CAD	9,709,738.00	9,709,738.00
03-Mar-14	AM	2.210	CAD	5,000,000.00	5,000,000.00
01-May-14	AM	2.280	CAD	13,000,000.00	13,000,000.00
02-Jun-14	AM	2.120	CAD	23,000,000.00	23,000,000.00
01-Aug-14	AM	2.200	CAD	6,000,000.00	6,000,000.00

19-Nov-09	AM	4.170	CAD	100,000,000.00	100,000,000.00
18-May-10	AM	4.420	CAD	50,000,000.00	50,000,000.00
20-Jan-10	AM	4.800	CAD	50,000,000.00	50,000,000.00
23-Feb-10	AM	4.290	CAD	75,000,000.00	75,000,000.00
09-Mar-10	AM	4.730	CAD	50,000,000.00	50,000,000.00
22-Apr-10	AM	4.500	CAD	100,000,000.00	100,000,000.00
29-Apr-10	AM	4.960	CAD	75,000,000.00	75,000,000.00
14-May-10	AM	4.860	CAD	50,000,000.00	50,000,000.00
30-Aug-10	AM	3.730	CAD	50,000,000.00	50,000,000.00
30-Sep-10	AM	4.340	CAD	50,000,000.00	50,000,000.00
13-Oct-10	AM	3.560	CAD	50,000,000.00	50,000,000.00

21-Oct-10	AM	3.540	CAD	50,000,000.00	50,000,000.00
09-Nov-10	AM	4.340	CAD	50,000,000.00	50,000,000.00
24-Jan-11	AM	4.670	CAD	35,000,000.00	35,000,000.00
15-Apr-11	AM	4.290	CAD	50,000,000.00	50,000,000.00
25-Apr-11	AM	4.600	CAD	75,000,000.00	75,000,000.00
03-May-11	AM	4.140	CAD	35,000,000.00	35,000,000.00

Amount O/S in CAD

FX Rate	O/S Amount inCAD				
(75,000,000.00)	CAD	1.00000000	(	1.00000000)	75,000,000.00
(50,000,000.00)	CAD	1.00000000	(	1.00000000)	50,000,000.00
(75,000,000.00)	CAD	1.00000000	(	1.00000000)	75,000,000.00
(150,000,000.00)	CAD	1.00000000	(	1.00000000)	150,000,000.00
(75,000,000.00)	CAD	1.00000000	(	1.00000000)	75,000,000.00
(50,000,000.00)	CAD	1.00000000	(	1.00000000)	50,000,000.00
(75,000,000.00)	CAD	1.00000000	(	1.00000000)	75,000,000.00
(35,000,000.00)	CAD	1.00000000	(	1.00000000)	35,000,000.00
(50,000,000.00)	CAD	1.00000000	(	1.00000000)	50,000,000.00
(25,000,000.00)	CAD	1.00000000	(	1.00000000)	25,000,000.00
(75,000,000.00)	CAD	1.00000000	(	1.00000000)	75,000,000.00
(50,000,000.00)	CAD	1.00000000	(	1.00000000)	50,000,000.00
(85,000,000.00)	CAD	1.00000000	(	1.00000000)	85,000,000.00
(200,000,000.00)	CAD	1.00000000	(	1.00000000)	200,000,000.00
(30,000,000.00)	CAD	1.00000000	(	1.00000000)	30,000,000.00
(70,000,000.00)	CAD	1.00000000	(	1.00000000)	70,000,000.00
(50,000,000.00)	CAD	1.00000000	(	1.00000000)	50,000,000.00
(25,000,000.00)	CAD	1.00000000	(	1.00000000)	25,000,000.00
(50,000,000.00)	CAD	1.00000000	(	1.00000000)	50,000,000.00
(110,000,000.00)	CAD	1.00000000	(	1.00000000)	110,000,000.00
(75,000,000.00)	CAD	1.00000000	(	1.00000000)	75,000,000.00
(40,000,000.00)	CAD	1.00000000	(	1.00000000)	40,000,000.00
(50,000,000.00)	CAD	1.00000000	(	1.00000000)	50,000,000.00
(50,000,000.00)	CAD	1.00000000	(	1.00000000)	50,000,000.00
(5,373,151.00)	CAD	1.00000000	(	1.00000000)	5,373,151.00
(7,126,849.00)	CAD	1.00000000	(	1.00000000)	7,126,849.00

(4,702,125.00)	CAD	1.00000000	(	1.00000000)	4,702,125.00
(7,797,875.00)	CAD	1.00000000	(	1.00000000)	7,797,875.00
(1,715,051.00)	CAD	1.00000000	(	1.00000000)	1,715,051.00
(10,275,280.00)	CAD	1.00000000	(	1.00000000)	10,275,280.00
(1,124,876.00)	CAD	1.00000000	(	1.00000000)	1,124,876.00
(10,861,146.00)	CAD	1.00000000	(	1.00000000)	10,861,146.00
(8,906,200.00)	CAD	1.00000000	(	1.00000000)	8,906,200.00
(6,156,770.00)	CAD	1.00000000	(	1.00000000)	6,156,770.00
(5,822,069.00)	CAD	1.00000000	(	1.00000000)	5,822,069.00
(4,152,875.00)	CAD	1.00000000	(	1.00000000)	4,152,875.00
(6,847,719.00)	CAD	1.00000000	(	1.00000000)	6,847,719.00
(16,345,458.00)	CAD	1.00000000	(	1.00000000)	16,345,458.00
(7,150,184.00)	CAD	1.00000000	(	1.00000000)	7,150,184.00
(5,349,816.00)	CAD	1.00000000	(	1.00000000)	5,349,816.00
(6,489,739.00)	CAD	1.00000000	(	1.00000000)	6,489,739.00
(5,035,769.00)	CAD	1.00000000	(	1.00000000)	5,035,769.00
(2,664,380.00)	CAD	1.00000000	(	1.00000000)	2,664,380.00
(4,570,783.00)	CAD	1.00000000	(	1.00000000)	4,570,783.00
(10,302,651.00)	CAD	1.00000000	(	1.00000000)	10,302,651.00
(4,761,638.00)	CAD	1.00000000	(	1.00000000)	4,761,638.00
(12,500,000.00)	CAD	1.00000000	(	1.00000000)	12,500,000.00
(7,132,935.00)	CAD	1.00000000	(	1.00000000)	7,132,935.00
(5,367,065.00)	CAD	1.00000000	(	1.00000000)	5,367,065.00
(25,000,000.00)	CAD	1.00000000	(	1.00000000)	25,000,000.00
(3,939,621.00)	CAD	1.00000000	(	1.00000000)	3,939,621.00
(25,000,000.00)	CAD	1.00000000	(	1.00000000)	25,000,000.00
(3,346,237.00)	CAD	1.00000000	(	1.00000000)	3,346,237.00
(20,000,000.00)	CAD	1.00000000	(	1.00000000)	20,000,000.00
(3,182,421.00)	CAD	1.00000000	(	1.00000000)	3,182,421.00
(1,314,729.00)	CAD	1.00000000	(	1.00000000)	1,314,729.00
(12,000,000.00)	CAD	1.00000000	(	1.00000000)	12,000,000.00
(3,404,931.00)	CAD	1.00000000	(	1.00000000)	3,404,931.00
(9,095,069.00)	CAD	1.00000000	(	1.00000000)	9,095,069.00
(23,646,731.00)	CAD	1.00000000	(	1.00000000)	23,646,731.00
(6,353,269.00)	CAD	1.00000000	(	1.00000000)	6,353,269.00
(1,559,027.00)	CAD	1.00000000	(	1.00000000)	1,559,027.00
(9,709,738.00)	CAD	1.00000000	(	1.00000000)	9,709,738.00
(5,000,000.00)	CAD	1.00000000	(	1.00000000)	5,000,000.00
(13,000,000.00)	CAD	1.00000000	(	1.00000000)	13,000,000.00
(23,000,000.00)	CAD	1.00000000	(	1.00000000)	23,000,000.00
(6,000,000.00)	CAD	1.00000000	(	1.00000000)	6,000,000.00

(100,000,000.00)	CAD	1.00000000	(	1.00000000)	100,000,000.00
(50,000,000.00)	CAD	1.00000000	(	1.00000000)	50,000,000.00
(50,000,000.00)	CAD	1.00000000	(	1.00000000)	50,000,000.00
(75,000,000.00)	CAD	1.00000000	(	1.00000000)	75,000,000.00
(50,000,000.00)	CAD	1.00000000	(	1.00000000)	50,000,000.00
(100,000,000.00)	CAD	1.00000000	(	1.00000000)	100,000,000.00
(75,000,000.00)	CAD	1.00000000	(	1.00000000)	75,000,000.00
(50,000,000.00)	CAD	1.00000000	(	1.00000000)	50,000,000.00
(50,000,000.00)	CAD	1.00000000	(	1.00000000)	50,000,000.00
(50,000,000.00)	CAD	1.00000000	(	1.00000000)	50,000,000.00
(50,000,000.00)	CAD	1.00000000	(	1.00000000)	50,000,000.00

(50,000,000.00)	CAD	1.00000000	(1.00000000)	50,000,000.00
(50,000,000.00)	CAD	1.00000000	(1.00000000)	50,000,000.00
(35,000,000.00)	CAD	1.00000000	(1.00000000)	35,000,000.00
(50,000,000.00)	CAD	1.00000000	(1.00000000)	50,000,000.00
(75,000,000.00)	CAD	1.00000000	(1.00000000)	75,000,000.00
(35,000,000.00)	CAD	1.00000000	(1.00000000)	35,000,000.00

ONTARIO FINANCING ITS - LIABILITIES SYST Maturity Report

User :	AHAMID	Workstation :	14039-3652-U300
Client	ALL		
Portfolio	'OILC NPDB', 'OIPC NPD'		
Hedge	ALL		
Counter Party	ALL		
Series Name	ALL		
Market	ALL		
Trader	ALL		
Issuer	ALL		
Instr Type	ALL		
Coupon Type	ALL		
Public	ALL		
Maturity Date	ALL		
Issue Date	ALL		
Delievery Date	ALL		
Maturity Currency	ALL		
Issue Currency	ALL		
Coupon Currency	ALL		
Coupon Rate	ALL		
Contingent Debt	ALL		
Attribute	ALL		
Fiscal Agent	ALL		
Printed :	08-Mar-17	9:59:22 AM	

Series Name	C/P	Date	Payable Amount	CAD Equivalent
OILCC21	OILC	27-Mar-17	7,126,849.00	7,126,849.00
OILCC20	OILC	27-Mar-17	5,373,151.00	5,373,151.00
				12,500,000.00

Mar 1 2017 - Mar 3:	CAD	12,500,000.00	12,500,000.00	
Total:	12,500,000.00	12,500,000.00		

Maturity Report, Sun	Date Range	CAD/CAD Equivalent
Mar 1 2017 - Mar 3:	12,500,000.00	
Grand Total:	12,500,000.00	

Printed:	08-Mar-17	9:59:22 AM	AHAMID	14039-3652-U300

Hedge Num	FX Rate
1538	1.00000000
1537	1.00000000

ONTARIO IMMIGRANT INVESTOR CORPORATION
OIIC Interest Deferral Adjustment - Fixed Rate
SUMMARY AS OF: 2/28/2017

Security	Settle Date	Maturity Date	Cur	Par	Cost	Discount	Term
TOTAL				##	**0.00**	**0.00**	

Yield	Pri	3/31/2016 Days Accr. to last FYR	Day Acc C.Y.	2/28/2017 Total Days Accr.	Days Remain	Accrued Int Current Yr	Total Accru	Future Interest
0.00%	0.00					0.00	0.00	0.00

Printed On: 3/8/2017 9:44:54 AM

Total Interest	Cost & Accrued Interest On 2/28/2017
0.00	**0.00**

ONTARIO IMMIGRANT INVESTOR CORPORATION
OIIC Interest Deferral Adjustment - Fixed Rate
SUMMARY AS OF: 3/31/2017

Security	Settle Date	Maturity Date	Cur	Par	Cost	Discount	Term
TOTAL				##	**0.00**	**0.00**	

Yield	Pri	3/31/2016 Days Accr. to last FYR	Day Acc C.Y.	3/31/2017 Total Days Accr.	Days Remain	Accrued Int Current Yr	Total Accru	Future Interest
0.00%	0.00					0.00	0.00	0.00

Printed On: 3/8/2017 9:46:28 AM

Total Interest	Cost & Accrued Interest On 3/31/2017
0.00	**0.00**

ONTARIO IMMIGRANT INVESTOR CORPORATION
OIIC Interest Accrual on Compound Fixed Rate Bonds
SUMMARY AS OF: 3/31/2017

Security	Settle Date	Maturity Date	Cur	Par Value	Coupon Rate	Last Compound Date
Inventory						
OIIC144	05/01/2012	04/24/2017	CAD	8,172,441.00	2.2100	10/24/2016
OIIC145	02/01/2013	01/25/2018	CAD	6,104,961.00	2.0400	01/25/2017
OIIC146	06/03/2013	05/25/2018	CAD	8,732,536.00	2.0200	11/25/2016
OIIC147	07/08/2013	06/25/2018	CAD	14,366,594.00	2.3600	12/28/2016
OIIC148	08/01/2013	07/25/2018	CAD	1,395,696.00	2.3300	01/25/2017
OIIC149	09/03/2013	08/28/2018	CAD	446,857.00	2.5300	02/28/2017
OIIC150	10/01/2013	09/24/2018	CAD	72,348.00	2.4400	03/24/2017
OIIC151	11/01/2013	10/25/2018	CAD	8,203,359.00	2.2200	10/25/2016
OIIC152	12/02/2013	11/26/2018	CAD	11,908,537.00	2.2500	11/28/2016
OIIC153	01/02/2014	12/21/2018	CAD	114,698.00	2.4480	12/21/2016
OIIC154	02/03/2014	01/25/2019	CAD	360,000.00	2.1000	01/25/2017
OIIC155	03/03/2014	02/22/2019	CAD	5,279,986.00	2.1100	02/22/2017
OIIC156	03/31/2014	03/25/2019	CAD	6,214,999.00	2.1600	03/27/2017
OIIC157	05/01/2014	04/24/2019	CAD	483,509.00	2.1800	10/24/2016
OIIC158	06/02/2014	05/24/2019	CAD	451,013.00	2.0200	11/24/2016
OIIC159	07/04/2014	06/24/2019	CAD	16,959,369.00	2.0600	12/28/2016
OIIC160	08/01/2014	07/25/2019	CAD	705,195.00	2.1000	01/25/2017
OIIC161	09/04/2014	08/23/2019	CAD	1,761,588.00	2.0400	02/23/2017
OIIC162	10/01/2014	09/23/2019	CAD	4,221,219.00	2.0500	03/23/2017
OIIC163	11/03/2014	10/24/2019	CAD	2,155,756.00	2.0500	10/24/2016
OIIC164	12/01/2014	11/25/2019	CAD	3,239,369.00	1.8700	11/25/2016
OIIC165	01/05/2015	12/19/2019	CAD	1,736,122.00	1.7800	12/19/2016
OIIC166	01/30/2015	01/23/2020	CAD	689,028.00	1.1100	01/23/2017
OIIC167	03/02/2015	02/21/2020	CAD	801,726.00	1.2200	02/21/2017
OIIC168	03/31/2015	03/25/2020	CAD	530,680.00	1.2600	03/27/2017
OIIC169	04/28/2015	04/24/2020	CAD	398,010.00	1.4000	10/24/2016

ONTARIO IMMIGRANT INVESTOR CORPORATION
OIIC Interest Accrual on Compound Fixed Rate Bonds
SUMMARY AS OF: 3/31/2017

Security	Settle Date	Maturity Date	Cur	Par Value	Coupon Rate	Last Compound Date
OIIC170	06/08/2015	05/22/2020	CAD	132,670.00	1.6200	11/22/2016
OIIC171	07/03/2015	06/25/2020	CAD	403,716.00	1.3875	12/28/2016
OIIC172	08/04/2015	07/24/2020	CAD	1,214,002.00	1.3000	01/24/2017
OIIC173	09/01/2015	08/25/2020	CAD	272,337.00	1.4200	02/27/2017
OIIC174	09/01/2015	08/25/2020	CAD	403,716.00	1.4200	02/27/2017
OIIC175	10/02/2015	09/24/2020	CAD	265,340.00	1.5100	03/24/2017
OIIC176	11/03/2015	10/22/2020	CAD	530,680.00	1.5600	10/24/2016
OIIC177	12/01/2015	11/20/2020	CAD	403,716.00	1.5800	11/21/2016
OIIC178	01/04/2016	12/22/2020	CAD	1,417,407.00	1.4800	12/22/2016
OIIC179	02/03/2016	01/22/2021	CAD	985,564.00	1.3950	01/23/2017
OIIC180	03/02/2016	02/19/2021	CAD	565,759.00	1.5100	02/21/2017

OIIC181	04/01/2016	03/23/2021	CAD	139,935.00	1.4000	03/23/2017
OIIC182	04/27/2016	04/22/2021	CAD	132,824.00	1.5100	10/24/2016
OIIC183	06/08/2016	05/21/2021	CAD	279,870.00	1.3180	11/21/2016
OIIC184	06/30/2016	06/23/2021	CAD	845,629.00	1.2500	12/23/2016
OIIC185	08/02/2016	07/23/2021	CAD	139,935.00	1.2120	01/23/2017
OIIC186	10/06/2016	09/23/2021	CAD	139,935.00	1.2970	03/23/2017
OIIC187	11/04/2016	10/22/2021	CAD	139,935.00	1.3440	
OIIC188	03/01/2017	02/23/2022	CAD	149,819.00	1.7090	
TOTAL				**114,068,385.00**		

New issue after Feb 28 2017	(149,819.00)
Projected - Mar 2017	-
Total new issued - Mar 2017	(149,819.00)

Maturing during the current Fiscal Year

OIIC139	08/02/2011	07/26/2016	CAD	4,400,082.00	2.5010	01/26/2016
OIIC140	09/01/2011	08/25/2016	CAD	1,868,018.00	2.1440	02/25/2016
OIIC141	10/11/2011	09/26/2016	CAD	3,109,264.00	1.9170	03/28/2016
OIIC142	11/01/2011	10/25/2016	CAD	3,833,322.00	2.0570	04/25/2016
OIIC143	04/02/2012	03/24/2017	CAD	6,612,419.00	2.1700	09/26/2016
TOTAL				**19,823,105.00**		

ONTARIO IMMIGRANT INVESTOR CORPORATION
OIIC Interest Accrual on Compound Fixed Rate Bonds
SUMMARY AS OF: 3/31/2017

Security	**Settle Date**	**Maturity Date**	**Cur**	**Par Value**	**Coupon Rate**	**Last Compound Date**

Compound Amount	Days Acc. Cur Comp Period	Int Acc. Curr Comp Period	Term	Total Days Accr.	Total Int Acc Up to Last FY	Accrued Int Current Yr
845,845.58	158	86,274.12	1,819	1,795	734,496.06	197,623.64
513,753.87	65	24,044.98	1,819	1,519	404,448.14	133,350.71
632,565.35	126	65,304.26	1,817	1,397	510,554.76	187,314.85
1,220,056.80	93	93,724.88	1,813	1,362	950,899.42	362,882.26
117,350.35	65	6,278.11	1,819	1,338	88,867.61	34,760.84
40,952.47	31	1,048.19	1,820	1,305	29,876.78	12,123.88
6,365.06	7	36.83	1,819	1,277	4,517.48	1,884.41
558,041.41	157	83,662.97	1,819	1,246	448,861.10	192,843.28
823,664.98	123	96,538.00	1,820	1,215	636,868.29	283,334.69
8,587.33	100	826.86	1,814	1,184	6,436.65	2,977.54
23,087.44	65	1,432.64	1,817	1,152	16,577.50	7,942.58
340,269.59	37	12,021.19	1,817	1,124	235,430.81	116,859.96
412,209.99	4	1,568.74	1,820	1,096	273,065.45	140,713.28
26,736.12	158	4,815.04	1,819	1,065	20,520.58	11,030.58
23,046.02	127	3,331.92	1,817	1,033	16,895.52	9,482.42
886,088.31	93	93,666.65	1,816	1,001	616,593.90	363,161.06
37,575.99	65	2,777.76	1,819	973	24,953.81	15,399.93
90,616.19	36	3,726.74	1,814	939	57,094.04	37,248.89
218,471.99	8	1,994.82	1,818	912	130,909.64	89,557.17
88,506.48	158	19,915.52	1,816	879	62,779.88	45,642.12
121,838.11	126	21,697.74	1,820	851	81,262.21	62,273.64
61,158.29	102	8,940.12	1,809	816	38,433.07	31,665.34
15,274.98	67	1,435.04	1,819	791	8,947.66	7,762.35
19,496.13	38	1,043.06	1,817	760	10,609.21	9,929.98
13,425.32	4	75.13	1,821	731	6,716.93	6,783.52
8,362.76	158	2,462.73	1,823	703	5,170.00	5,655.49

Compound Amount	Days Acc. Cur Comp Period	Int Acc. Curr Comp Period	Term	Total Days Accr.	Total Int Acc Up to Last FY	Accrued Int Current Yr
3,157.33	129	777.68	1,810	662	1,752.42	2,182.59
8,390.79	93	1,456.91	1,819	637	4,180.10	5,667.60
23,412.33	66	2,908.77	1,816	605	10,366.46	15,954.64
5,804.65	32	346.27	1,820	577	2,242.55	3,908.37
8,604.89	32	513.31	1,820	577	3,324.38	5,793.81
5,949.76	7	78.56	1,819	546	1,981.97	4,046.35
8,082.92	158	3,638.20	1,815	514	3,370.25	8,350.86
6,228.23	130	2,306.92	1,816	486	2,108.81	6,426.34
20,304.62	99	5,771.33	1,814	452	4,986.48	21,089.46
13,399.60	67	2,558.03	1,815	422	2,141.18	13,816.45
8,351.97	38	902.53	1,815	394	676.90	8,577.61

1,914.72	8	43.53	1,817	364	0.00	1,958.25
986.38	158	874.64	1,821	338	0.00	1,861.02
1,673.01	130	1,321.63	1,808	296	0.00	2,994.64
5,083.02	98	2,855.13	1,819	274	0.00	7,938.15
808.51	67	313.12	1,816	241	0.00	1,121.63
835.38	8	40.02	1,813	176	0.00	875.39
0.00	147	757.44	1,813	147	0.00	757.44
0.00	30	210.44	1,820	30	0.00	210.44
					5,458,918.02	**2,483,735.47**

518,721.91	182	61,173.52	1,820	1,820	540,569.60	39,325.84
187,435.29	182	21,914.05	1,820	1,820	191,649.53	17,699.81
276,277.38	182	32,273.09	1,812	1,812	276,809.35	31,741.12
368,148.85	183	43,212.13	1,820	1,820	362,305.33	49,055.65
671,882.36	179	77,518.94	1,817	1,817	595,418.46	153,982.84
					1,966,752.27	**291,805.25**

Compound	**Days Acc.**	**Int Acc. Curr**	**Term**	**Total**		
Amount	**Cur Comp Period**	**Comp Period**		**Days Accr.**	**Total Int Acc Up to Last FY**	**Accrued Int Current Yr**

Total Int Accrued	Future Interest	Total Interest
932,119.70	13,104.93	945,224.63
537,798.85	111,665.37	649,464.22
697,869.61	220,540.39	918,410.00
1,313,781.68	460,967.93	1,774,749.61
123,628.45	47,073.03	170,701.48
42,000.66	17,647.33	59,647.99
6,401.90	2,887.44	9,289.34
641,704.38	311,868.20	953,572.59
920,202.98	484,528.65	1,404,731.63
9,414.19	5,320.92	14,735.11
24,520.08	14,912.22	39,432.30
352,290.77	228,933.27	581,224.04
413,778.73	288,588.11	702,366.84
31,551.16	23,590.28	55,141.44
26,377.94	21,055.57	47,433.51
979,754.96	839,780.91	1,819,535.87
40,353.75	36,978.42	77,332.16
94,342.93	92,520.67	186,863.59
220,466.81	230,641.24	451,108.05
108,422.00	121,692.14	230,114.14
143,535.85	171,328.84	314,864.68
70,098.41	89,195.60	159,294.00
16,710.02	22,335.01	39,045.02
20,539.19	29,461.54	50,000.74
13,500.45	20,789.70	34,290.15
10,825.49	17,872.60	28,698.09

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Total Int Accrued	Future Interest	Total Interest
3,935.01	7,107.11	11,042.12
9,847.70	18,928.49	28,776.18
26,321.10	54,434.71	80,755.81
6,150.92	13,735.84	19,886.75
9,118.20	20,362.19	29,480.39
6,028.32	14,605.58	20,633.90
11,721.12	30,864.23	42,585.35
8,535.15	24,310.60	32,845.76
26,075.95	81,578.70	107,654.65
15,957.63	54,524.01	70,481.64
9,254.51	34,653.98	43,908.49

1,958.25	8,097.42	10,055.67
1,861.02	8,482.56	10,343.58
2,994.64	15,807.55	18,802.19
7,938.15	46,196.02	54,134.17
1,121.63	7,544.39	8,666.03
875.39	8,400.33	9,275.72
757.44	8,864.57	9,622.01
210.44	13,049.78	13,260.22
7,942,653.50	**4,396,828.36**	**12,339,481.86**

579,895.44	(0.00)	579,895.44
209,349.34	0.00	209,349.34
308,550.47	0.00	308,550.47
411,360.98	0.00	411,360.98
749,401.30	0.00	749,401.30
2,258,557.52	**(0.00)**	**2,258,557.52**

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Total Int Accrued	**Future Interest**	**Total Interest**

ONTARIO FINANC	Trial Balance	Selection Criteria:
(Orig. Currency)	(Orig. Currency)	(CAD Equiv)
10	999999	0
100	580105	997101
101	580105	997101
102	580105	997101
105	580105	997101
105A	580105	997101
110	580105	997101
110ANN	580105	997101
110COMP	580105	997101
115	580105	997101
116	580105	997101
125	580105	997101
126	580105	997101
130A	580105	997101
130ACFIX	580105	997101
130ACFLO	580105	997101
130AFFIX	580105	997101
130AFFLO	580105	997101
130AUNA	580105	997101
130B	580105	997101
130C	580105	997101
130D	580105	997101
130DHDG	580105	997101
130DSW	580105	997101
130E	580105	997101
130EHDG	580105	997101
130ESW	580105	997101
130F	580105	997101
130G	580105	997101
130H	580110	997101
130I	580145	997101
130J	580115	997101
130K	580120	997101
130L	580130	997101
130M	580135	997101
130N	580150	997101
130P	580140	997101
130Q	580125	997101
130R	580152	997101
130RRB	580105	997101
130RRS	580105	997101
130S	580160	997101
130T	580230	997101
130U	580240	997101
130V	580152	997101
130W	580152	997101
135	580105	997101
135 TRADE DATE	580105	997101
136	580105	997101
140	580105	997101
150	580110	997101
151	580115	997101
152	580120	997101

153	580130	997101
160	580135	997101
161	580150	997101
162	580140	997101
163	580125	997101
164	580152	997101
164A	580152	997101
164B	580152	997101
165	580160	997101
170	580145	997101
171	580230	997101
172	580240	997101
172A	580240	997101
173	580260	997101
175	580155	997101
180	580248	997101
200	580290	995821
201	580290	995821
201A	580290	995821
201B	580290	995821
201C	580290	995821
202	580290	995821
203	580290	995821
204	580290	995821
204A	580290	995821
205	580290	995821
209	580290	995821
210	580290	995821
211	580290	995821
212	580290	995821
213	580290	995821
213OSB	580290	995821
214	580290	995821
215	580290	995821
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217	580290	995821
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240 DEBT	580290	995821
240 TRADE DATE	580290	995821
255	580290	995821
255A	580290	995821
261F	580290	995821
270	580290	995821
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310		580290	995821
360		580210	995821
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360	531110 B	531110	995875
360	531125 A	531125	995872
360	531125 B	531125	995875
360	531275 A	531275	995872
360	531525 D	531525	995871
360	541020 D	541020	995871
360	541030 D	541030	995871
360	541510 C	541510	995821
360	541520 C	541520	995821
360	541540 D	541540	995871
360	541635 D	541635	995871
360	542318 A	542318	995872
360	542720 A	542720	995872
360	542780 A	542780	995872
360	543115 B	543115	995875
360	543310 A	543310	995872

360 543310 B	543310	995875
360 543315 A	543315	995872
360 543320 A	543320	995872
360 544310 A	544310	995872
360 544310 D	544310	995871
360 544320 A	544320	995872
360 544320 E	544320	995852
360 544510 B	544510	995875
360 544610 C	544610	995821
360 544610 F	544610	995861
360 545120 A	545120	995872
360 545410 C	545450	995821
360 545450 C	545450	995821
360 545530 A	545530	995872
360 545530 B	545530	995875
360 546015 D	546015	995871
360 546035 B	546035	995875
360 546040 A	546040	995872
360 546040 B	546040	995875
360 546040 D	546040	995871
360 546055 A	546055	995872
360 546755 A	546755	995872
360 546785 C	546785	995821
360 546785 F	546785	995861
360 550620 A	550620	995872
360 550640 A	550640	995872
360 550685 A	550685	995872
360 551510 A	551510	995872
360 551510 B	551510	995875
360 551910 A	551910	995872
360 552550 C	552550	995821
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365 511110 R	511110	995311
365 511110 S	511110	995701
365 511110 Y	511110	995101
365 511110 Z	511110	995111
365 515110 Y	515110	995101
365 515110 Z	515110	995111
365 521010 Y	521010	995101
365 521010 Z	521010	995111
365 521110 Y	521110	995101
365 521110 Z	521110	995111
365 521150 Y	521150	995101
365 521150 Z	521150	995111
365 521175 Y	521175	995101
365 521175 Z	521175	995111
365 521225 Y	521225	995101
365 521225 Z	521225	995111
365 521250 Y	521250	995101
365 521250 Z	521250	995111
365 521275 Y	521275	995101
365 521275 Z	521275	995111
365 531110 Y	531110	995101
365 531125 Y	531125	995101
365 531334 Z	531334	995111

365 531520 Y	531520	995101
365 531520 Z	531520	995111
365 531610 Z	531610	995111
365 531830 ZZ	531830	995331
365 531870 L	531870	995321
365 531895 ZZ	531895	995331
365 536010 Z	536010	995111
365 541010 Y	541010	995101
365 541010 Z	541010	995111
365 541020 Y	541020	995101
365 541560 Y	541560	995101
365 542020 Z	542020	995111
365 542318 Y	542318	995101
365 542330 Z	542330	995111
365 542710 J	542710	995451
365 542720 Y	542720	995101
365 542740 Y	542740	995101
365 542780 Y	542780	995101
365 543115 Z	543115	995111
365 543310 Y	543310	995101
365 543310 Z	543310	995111
365 543315 Y	543315	995101
365 543320 S	543320	995701
365 543320 Y	543320	995101
365 543320 Z	543320	995111
365 543410 Z	543410	995111
365 544010 Y	544010	995101
365 544010 Z	544010	995111
365 544050 Y	544050	995101
365 544310 N	544310	995342
365 544310 Y	544310	995101
365 544310 Z	544310	995111
365 544320 P	544320	995301
365 544320 T	544320	995211
365 544320 V	544320	995651
365 544320 W	544320	995601
365 544320 X	544320	995341
365 544320 Y	544320	995101
365 544320 Z	544320	995111
365 544410 T	544410	995211
365 544410 U	544410	995201
365 544440 U	544440	995201
365 544510 I	544510	995401
365 544510 J	544510	995451
365 544510 M	544510	995431
365 544510 Y	544510	995101
365 544540 M	544540	995431
365 544540 X	544540	995341
365 544610 J	544610	995451
365 544610 K	544610	995461
365 544610 M	544610	995431
365 544610 Z	544610	995111
365 544710 Z	544710	995111
365 545120 S	545120	995701
365 545120 V	545120	995651

365 545120 W	545120	995601
365 545120 Y	545120	995101
365 545120 Z	545120	995111
365 545130 S	545130	995701
365 545130 Z	545130	995111
365 545310 Y	545310	995101
365 545510 Z	545510	995111
365 546010 Z	546010	995111
365 546035 T	546035	995211
365 546035 Z	546035	995111
365 546040 Y	546040	995101
365 546755 Y	546755	995101
365 546785 Y	546785	995101
365 546950 Y	546950	995101
365 546950 Z	546950	995111
365 547840 Z	547840	995111
365 547920 Q	547920	995221
365 550620 Y	550620	995101
365 550630 Y	550630	995101
365 550640 Y	550640	995101
365 550685 Y	550685	995101
365 550810 Y	550810	995101
365 551510 Y	551510	995101
365 551510 Z	551510	995111
365 551520 Y	551520	995101
365 551530 Y	551530	995101
365 551530 Z	551530	995111
365 551910 Y	551910	995101
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365 552550 S	552550	995701
365 552550 Y	552550	995101
365 552550 Z	552550	995111
365 552701 Y	552701	995101
365 553010 Y	553010	995101
365 553510 Y	553510	995101
365 553510 Z	553510	995111
365 555110 Y	555110	995101
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401	580220	997101
410	580220	997101
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420	580220	997101
421	580220	997101
421 NPC	580220	997101
421 OCC	580220	997101

422	580220	997101
425	580220	997101
425A	580220	997101
425B	580220	997101
425C	580220	997101
425D	580220	997101
425E	580220	997101
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425G	580220	997101
425H	580220	997101
425J	580220	997101
425K	580220	997101
425M	580220	997101
425N	580220	997101
425P	580220	997101
425Q	580220	997101
425R	580220	997101
425RA	580220	997101
425S	580220	997101
425T	580220	997101
425UOIT	580220	997101
426	580220	997101
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432	580220	997101
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434	580220	997101
435	580220	997101
436	580220	997101
437	580220	997101
438	580220	997101
438 A	580220	997101
439 1 IA AP	580225	997101
439 13 IA RKT	580225	997101
439 14 PN	580225	997101
439 15 SIT	580225	997101
439 16 TA NS	580225	997101
439 16B TA NS	580225	997101
439 2 IA AP	580225	997101
439 3 IA ARIA	580225	997101
439 6 IA PN	580225	997101
439 7 IA PN	580225	997101
439 8 IA PN	580225	997101
439 MAV A-1	580225	997101
439 MAV A-2	580225	997101
439 MAV B	580225	997101
439 MAV C	580225	997101
439 MAVLT A1	580225	997101
439 MAVLT A2	580225	997101
439 MAVLT B	580225	997101
439 MAVLT C	580225	997101
439MAV	580225	997101
439TN	580225	997101
440	580220	997101
440 BOND	580220	997101

440 REPO	580220	997101
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440 TRADE DATE	580220	997101
440A	580220	997101
441	580220	997101
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445 BOND	580220	997101
445 REPO	580220	997101
445 REVREPO	580220	997101
445A	580220	997101
446	580220	997101
448	580220	997101
450	580220	997101
450A	580220	997101
450B	580220	997101
450C	580220	997101
450D	580225	997101
450SWAP	580220	997101
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452	580220	997101
453	580220	997101
455A	580220	997101
455A REPO	580220	997101
455A REVREPO	580220	997101
455AUSD	580220	997101
455AUSD REPO	580220	997101
455AUSD REVREP	580220	997101
455B	580220	997101
455B SWAP	580220	997101
455BUSD	580220	997101
455OFA	580220	997101
455OSLT	580220	997101
460	580220	997101
461	580220	997101
470	580220	997101
471	580220	997101
472	580220	997101
475	580220	997101
475A	580220	997101
476	580220	997101
476 AB	580220	997101
476A	580220	997101
476AUTO	580220	997101
476B	580220	997101
476C	580220	997101
476CHRY	580220	997101
476D	580220	997101
476E	580220	997101
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476FF	580220	997101
476G	580220	997101
476GG	580220	997101
476GGG	580220	997101
476GGGG	580220	997101
476GGGGG	580220	997101

476H	580220	997101
476J	580220	997101
476K	580220	997101
476M	580220	997101
476N	580220	997101
476P	580220	997101
476Q	580220	997101
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476S	580220	997101
476T	580220	997101
476U	580220	997101
476V	580220	997101
476W	580220	997101
476X	580220	997101
476Y	580220	997101
476Z	580220	997101
476ZA	580220	997101
476ZB	580220	997101
476ZC	580220	997101
476ZD	580220	997101
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476ZER	580220	997101
476ZF	580220	997101
476ZG	580220	997101
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478B	580220	997101
478C	580220	997101
478D	580220	997101
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554	131380	0
554LC	131380	0
555	131380	0
555A	131380	0
555BC	131380	0
555CANC	131380	0
555CC	131380	0
555G	131380	0
555LC	131380	0
555M	131380	0
555NPC	131380	0
555OCC	131380	0

555ROM	131380	0
555SC	131380	0
555SSF	131380	0
556	131380	0
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559IESO	131380	0
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561CONFED	131380	0
561DUR	131380	0
561DUR RESID	131380	0
561FC	131380	0
561GC	131380	0
561GEOBR	131380	0
561LC	131380	0
561LOY	131380	0
561MC	131380	0
561SAULT	131380	0
561SCC	131380	0
561SHERI	131380	0
561SSF	131380	0
561UOIT	131380	0
562 CHRY	131380	0
562 FED GOV	131380	0
562 FED USD	131380	0
564	174510	0
565	117310	0
565E	117310	0
565N	117310	0
565U	117310	0
565US INT	117310	0
566	141080	0
567	141085	0
568 GM	141075	0
568 GM USD	141075	0
569 GM	141200	0
570	131320	0
572 E ISSUE	131661	996302
572 E OPEN	131660	996302
572 E REPAY	131662	996302
572 F ISSUE	131661	996302
572 F OPEN	131660	996302
572 F REPAY	131662	996302
572A	131660	996301
572B	131661	996301
572C	131662	996301
572D	139010	996301
573A	161005	996401

573B	161010	996401
573C	161015	996401
573D	220220	0
575	131390	0
575A	131390	0
577	131230	995921
577A	131445	0
577B	131234	995921
578A	121910	0
578B	121915	0
578C	121920	0
578D	121110	995554
579 TRADE DATE	123510	0
579A	123510	0
579B	123510	0
579C	123510	0
580	131440	0
583A	118230	0
585	586401	996001
586	124120	0
587	123510	0
587 USD	123510	0
590 A CAD	131450	996601
590 A ISSUE CAD	131452	996601
590 A REPAY CAD	131454	996601
590 B	131450	996601
590 B ISSUE	131452	996601
590 B REPAY	131454	996601
591	131777	0
591 OPEN	131776	0
591 REPAY	131778	0
593 TRADE DATE	141010	0
600	422475	997101
600A	422475	997101
602	422480	997101
602 ALGP	422480	997101
602 MERE	422480	997101
603	440610	997101
603A	440650	997101
604	422485	997101
604A	455735	997101
604B	455735	997101
604C	455735	997101
605	474990	997101
606	422490	997101
607	465136	997101
607 CHRY	465290	996501
607 GM	465290	996501
607 PBGF	465290	996301
607A	465290	996301
608	582410	997101
608A	580550	997101
609	422810	997101
610	420110	997101
611	479090	997101

611A	479090	997101
611B	479090	997101
611C	479090	997101
611D	479090	997101
612	421990	997101
613	476230	997101
614	475010	997101
615 AUTO	440080	996501
617	418505	997101
618	418505	997101
619 GM	475550	997101
620	237100	0
621	237200	0
626	212025	0
626A	212025	0
627	213050	0
627A	213050	0
628	244600	0
629	212150	0
629A	212150	0
629B	212150	0
629C	212150	0
629D	212150	0
629E	212150	0
629F	212150	0
629G	212150	0
630	212150	0
630A	212150	0
632	212175	0
633	220210	0
633A	220210	0
634	220810	0
635	219010	0
635A	124950	0
636 TRADE DATE	221114	0
636 TRADE DATE	221114	0
636 TRADE DATE	221114	0
636A	221114	0
636A US	221114	0
636B	220510	0
636C	221112	0
638	235420	0
640	131225	0
641	131225	0
642	131225	0
643	131225	0
644	131225	0
650	210150	0
670	131310	0
671	131310	0
684	131615	0
684A	131618	0
700	231010	0
700A	231010	0
700RRB	231010	0

700RRBCPI	231010	0
700RRSCPI	231010	0
700RRSPAY	231010	0
711	233050	0
711A	231021	0
711A MAT	231021	0
711B	231022	0
711B MAT	231022	0
711C	231023	0
711C MAT	231023	0
711D	231024	0
711D MAT	231024	0
711E	231025	0
711E MAT	231025	0
711F	231026	0
711F MAT	231026	0
711G	231027	0
711G MAT	231027	0
711H	231028	0
711H MAT	231028	0
711J	231029	0
711J MAT	231029	0
711K	231030	0
711K MAT	231030	0
711M	231031	0
711M MAT	231031	0
711N	231032	0
711N MAT	231032	0
711P	231033	0
711P MAT	231033	0
711Q	231034	0
711Q MAT	231034	0
711R	231035	0
711R MAT	231035	0
711S	231036	0
711S MAT	231036	0
711T	231037	0
711T MAT	231037	0
711U	231038	0
711U MAT	231038	0
711V	231039	0
711V MAT	231039	0
711W	231040	0
711W MAT	231040	0
711X	231041	0
711Y	231042	0
720	230110	0
721	230110	0
722	230110	0
722A	230110	0
722B	230110	0
722C	230110	0
722D	230110	0
722E	230110	0
722EE	230110	0

723	230110	0
724	230110	0
725	230110	0
726	230110	0
727	230110	0
728	230110	0
729	230110	0
735 TRADE DATE	220210	0
735A	220210	0
735A CFIX	220210	0
735A CFLO	220210	0
735A FFIX	220210	0
735A FFLO	220210	0
735A MONEY MK	220210	0
735A UNA	220210	0
735B	220210	0
735C	220210	0
735D	220210	0
735DHDG	220210	0
735DSW	220210	0
735E	220210	0
735EHDG	220210	0
735ESW	220210	0
735F	220210	0
735G	220210	0
735H	220210	0
735I	220210	0
735J	220210	0
735K	220210	0
735L	220210	0
735M	220210	0
735N	220210	0
735P	220210	0
735Q	220210	0
735R	220210	0
735RR	220210	0
735S	220211	0
736 TRADE DATE	220220	0
736A	220220	0
736B	220220	0
736C	220220	0
736RRB	220220	0
736RRS	220220	0
741	232210	0
742	232215	0
743	232240	0
744	232250	0
745	232235	0
746	232220	0
747	232245	0
748	232225	0
749	232230	0
750	233110	0
752	233120	0
753	232255	0

753A	232310	0
754	232260	0
754A	232261	0
760US	234110	0
761US	234150	0
770AD	234310	0
770DM	234410	0
770EU	234410	0
770FF	234410	0
770GB	234510	0
770HD	234710	0
770IK	234320	0
770JY	234210	0
770NG	234410	0
770NK	234450	0
770NZ	234610	0
770SF	234350	0
770SK	234360	0
770TL	234325	0
770US	234115	0
770ZR	234810	0
771JY	234250	0
771SF	234355	0
771US	234155	0
772	234010	0
775	233510	0
777	233710	0
780	233810	0
781	174110	0
782	174110	0
782A	174110	0
782E	174110	0
783	174410	0
786	174510	0
786A	174510	0
801	233610	0
803	233550	0
803RRB	233550	0
803RRBCPI	233550	0
805	233850	0
805RRB	233850	0
807	233750	0
807AD	233750	0
807EUR	233750	0
807HKD	233750	0
807SF	233750	0

807ZR	233750	0
811	174210	0
813	174120	0
813RRB	174120	0
813RRBCPI	174120	0
815	174520	0
815RRB	174520	0
817	174420	0
817AD	174420	0
817EUR	174420	0
817HKD	174420	0
817SF	174420	0
817ZR	174420	0
820 1 IA AP	141050	0
820 13 IA RKT	141050	0
820 14 PN	141050	0
820 15 SIT	141050	0
820 16 TA NS	141050	0
820 16B TA NS	141050	0
820 2 IA AP	141050	0
820 3 IA ARIA	141050	0
820 6 IA PN	141050	0
820 7 IA PN	141050	0
820 8 IA PN	141050	0
820 MAV A-1	141050	0
820 MAV A-2	141050	0
820 MAV B	141050	0
820 MAV C	141050	0
820 MAVLT A1	141050	0
820 MAVLT A2	141050	0
820 MAVLT B	141050	0
820 MAVLT C	141050	0
820ABCP	141050	0
820MAVA1	141050	0
820MAVA2	141050	0
820MAVB	141050	0
820TNIA	141050	0
820TNPT	141050	0
820TNSIT	141050	0
820TNTA	141050	0
821 1 IA AP	141050	0
821 13 IA RKT	141050	0
821 14 PN	141050	0
821 15 SIT	141050	0
821 16 TA NS	141050	0
821 16B TA NS	141050	0
821 2 IA AP	141050	0
821 3 IA ARIA	141050	0
821 6 IA PN	141050	0
821 7 IA PN	141050	0
821 8 IA PN	141050	0
821 MAV A-1	141050	0
821 MAV A-2	141050	0
821 MAV B	141050	0
821 MAV C	141050	0

821 MAVLT A1	141050	0
821 MAVLT A2	141050	0
821 MAVLT B	141050	0
821 MAVLT C	141050	0
821MAVA1	141050	0
821MAVA2	141050	0
821MAVB	141050	0
830	118210	0
830 FAILED	118210	0
830 PURCH INTER	118210	0
830 TIB	118210	0
830 TIR	118210	0
830 TIRR	118210	0
830 TRADE DATE	118210	0
830A	118210	0
831	118220	0
831 FAILED	118220	0
831 PURCH INTER	118220	0
831 TIB	118220	0
831 TIR	118220	0
831 TIRR	118220	0
831A	118220	0
831NZ	118220	0
831ZA	118220	0
832	117210	0
832 FAILED	117210	0
832 TRADE DATE	117210	0
832A	141050	0
832B	141050	0
833	117220	0
833 FAILED	117220	0
834	118210	0
835	117210	0
835 A	118210	0
836	118210	0
837	118220	0
838	118210	0
838 USD	118220	0
839	118210	0
839 USD	118220	0
840	118210	0
842	118210	0
843	118220	0
845A	118230	0
845AUSD	118230	0
845B	118230	0
845B SWAP	118230	0
845BUSD	118230	0
845OFA	118230	0
845OSLT	118230	0
850	118210	0
860AB	117050	0
860AC	117050	0
860AD	117050	0
860AE	117050	0

860AF	117050	0
860AG	117050	0
860AH	117050	0
860AJ	117050	0
860AK	117050	0
860AL	117050	0
860AM	117050	0
860AN	117050	0
860AP	117050	0
860AQ	117050	0
860AR	117050	0
860AS	117050	0
860AT	117050	0
860AU	117050	0
860AV	117050	0
860AW	117050	0
860AX	117050	0
860AY	117050	0
860AZ	117050	0
860BA	117050	0
860BB	117050	0
860BC	117050	0
860BD	117050	0
860BE	117050	0
860BF	117050	0
860BG	117050	0
865AB	117075	0
865AC	117075	0
900	220525	0
915	220610	0
920	220521	0
925	110990	0
930	221010	0
931	221010	0
933	221010	0
935	221010	0
935 JPY	221010	0
935 US	221010	0
940	221010	0
941	221010	0
942	221010	0
943	221010	0
945	221010	0
950	221010	0
955	221010	0
960	221010	0
965	221010	0
967 TRADE DATE	221010	0
970	110990	0
971	110990	0
975	221010	0
980	221010	0
981	110990	0
985	110990	0
985A	110990	0

995	221010	0
996A	222004	0
996B	222012	0
996B GM SHARES	544610	475362
996B GM SHARES	544610	475362
996B HST	122310	486016
996B HST USD	122310	486016
996B USD	222012	0
996C	222022	0
996C NIER	576510	792106
996D	222024	0
996E	224048	0
996F	215110	0
996G	222010	0
996H	222016	0
996I	222021	0
996J	222030	0
996J MRSL	13146B	314955
996J SL	131462	314955
996K	222001	0
996L	222019	0
996M	222018	0
996N	222006	0
996P	222008	0
996Q	222009	0
996R	222011	0
996S	222013	0
996T	222015	0
996U	222028	0
996V	222038	0
996W	222005	0
996X	222007	0
996Y	222014	0
996Z	222027	0
996ZA	222025	0
996ZB	222002	0
996ZC	222003	0
996ZD	222026	0
996ZE	222029	0
996ZE OCEB	577210	981651
996ZE OREC	577210	981657
996ZF	222037	0
996ZG	222017	0
996ZH	222023	0
996ZJ	999999	0
996ZK	222040	0
996ZL	222043	0
996ZM	222041	0
996ZN	222042	0
996ZP	222020	0
996ZQ	222031	0
996ZQ USD	222031	0
996ZR	222032	0
996ZS	222033	0
996ZT	222112	0

996ZU	222034	0
996ZU HST	122310	991101
996ZU HST USD	122310	991101
997A	295048	0
997B	295048	0
998A	999999	0
998AA	999999	0
998AB	999999	0
998AC	999999	0
998AD	999999	0
998AE	999999	0
998AF	999999	0
998AG	999999	0
998AH	999999	0
998B	999999	0
998C	999999	0
998D	999999	0
998E	999999	0
998F	999999	0
998G	999999	0
998H	999999	0
998J	999999	0
998K	999999	0
998L	999999	0
998M	999999	0
998N	999999	0
998P	999999	0
998Q	999999	0
998R	999999	0
998S	999999	0
998T	999999	0
998U	999999	0
998V	999999	0
998W	999999	0
998X	999999	0
998Y	999999	0
998Z	999999	0
999	299910	0
999A	999999	0
999B	999999	0
999C	299950	0
999H	999999	0
999T	999999	0
999W	215795	0
999Y	215790	0
BH	999999	0
BH-IK	101620	0
BHIFIS	101615	0
BI	101610	0
BMO COMP	101230	0
BNS COMP	101325	0
CA	101145	0
CB	101125	0
CC	111230	0
CE	101160	0

CF-TRY	101122	0
CG	101172	0
CH	999999	0
CHIFIS	101110	0
CI	101112	0
CIBC COMP	101158	0
CIBC MELL CAD	101166	0
CIBC MELL USD	101167	0
CIBC-AUD	101185	0
CIBC-CHF	101182	0
CIBC-EUR	101181	0
CIBC-GBP	101184	0
CIBC-HKD	101186	0
CIBC-JPY	101183	0
CIBC-NOK	101190	0
CIBC-NZD	101191	0
CIBC-SEK	101188	0
CIBC-SGD	101187	0
CIBC-ZAR	101189	0
CL	101130	0
CM	101135	0
CN	101140	0
CO	101170	0
CP	101111	0
CQ	101174	0
CT	101120	0
CU	101165	0
CV	101180	0
CW	101117	0
CX	101116	0
CXIFIS	101178	0
CY	101176	0
CZ	101115	0
DJ	101710	0
General1000		
General3000		
General7000		
General9000		
MH	999999	0
MHIFIS	101215	0
MI	101210	0
MT	101220	0
NA	101320	0
NH	999999	0
NHIFIS	101315	0
NI	101310	0
PDI		
RBC COMP	101447	0
RE	101430	0
RF	999999	0
RF-AD	101462	0
RF-DK	101466	0
RF-EU	101464	0
RF-GB	101452	0
RF-HK	101458	0

RF-JY	101450	0
RF-NK	101454	0
RF-NZ	101460	0
RF-SF	101456	0
RF-SG	101468	0
RF-SK	101470	0
RF-ZA	101472	0
RH	999999	0
RHIFIS	101410	0
RI	101413	0
RM	101440	0
RO	101420	0
RP	101411	0
RU	101435	0
RX	101415	0
RY	101412	0
RZ	999999	0
RZIFIS	101416	0
TD COMP	101520	0
TDIFIS	101515	0
TH	999999	0
TI	101510	0
XR	101445	0
	Total:	

Entity: MOF, Fiscal Year: 2016/2017, Status: Posted, As Of Date: 2/28/2017
(CAD Equiv)
Surplus/Deficit
Debt Coupon Payment
Accrued Interest - Debt Issues
(Not to use) Accrued Interest - Chunky Issues - modified cash
Discount on USCP
Interest on USCP from forward rolls
(not to use - old) Int Payment for OSBs
OSB Interest Payment - Annual
OSB Interest Payment - Compound
Int Payment - T-Bills
Int Payment - T-Bills - Ont Student Loans
Swap Payment/(Receipt) - int
Swap - CSTL Claim
(Do not use) Monthly Accrued Interest - Long-term Debt - Public
Interest Accrual - Canadian Fixed
Interest Accrual - Canadian Floating
Interest Accural - Foreign Fixed
Interest Accrual - Foreign Floating
Interest Accural - Unassigned
(not to use- old) Monthly Accrued Interest - LTD - Non-public
Monthly Accrued Interest - OSB - Annual
Interest Accural - Short-term Debt - T-bills
Interest Accrual - Short-term Debt - T-bills - Synfix
Interest Accural - Synfix Swaps (for Tbills)
Interest Accural - Short-term Debt - USCP
Interest Accrual - Short-term Debt - USCP - Synfix
Interest Accrual - Synfix Swaps (for USCP)
Monthly Accrued Interest - OSB - Compound
Monthly Accrued Interest - Chunkies
Monthly Accrued Interest - CPP
Monthly Accrued Interest - CAAT
Monthly Accrued Interest - OTPP
Monthly Accrued Interest - PSPF
Monthly Accrued Interest - OMERS
Monthly Accrued Interest - OHC
Monthly Accrued Interest - Ryerson
Monthly Accrued Interest - CMHC
Monthly Accrued Interest - OPSEU
Monthly Accrued Interest - OIIC FRN
Monthly Accrued Interest - Real Return Bond - CPI Adjustment
Monthly Accrued Interest - Real Return Swaps - CPI Adjustment
Monthly Accrued Interest - School Board Trust Debt
Monthly Accrued Interest - OPG
Monthly Accrued Interest - Hydro One Inc
Interest Accrual adj - OIIC - Discount Notes
Interererst Accrual - OIIC - Compound Fix
Transfer from 240 FX to Interest re: Forward Roll
Transfer from 240 FX to interest re: Forward Roll - Trade Date
Non-Applicable Deferred Hedging Charges, i.e. zero hedge, debt retired
Swap upfront fees or unwinds where deferred hedging is not applicable
Interest Expense - CPP
Interest Expense - OTPP
Interest Expense - PSPF

Interest Expense - OMERS
Interest Expense - OHC
Interest Expense - Ryerson
Interest Expense - CMHC
Interest Expense - OPSEU Pension
Interest Expense - OIIC - FRN
Interest Expense - OIIC - Discount Notes
Interest Expense - OIIC - Compound Fix
Interest Expense - School Board Trust Debt
Interest Expense - CAAT
Int Exp - Debt Assumed from OPG
Int Exp - Debt Assumed from Hydro One Inc.
Montlhy Accrued Interest - Debt assumed from OEFC
Interest - ONFA
Interest Expense - POSO Deposit
Interest Capitalization - recovery
Discounts - Debt
Premiums - Debt
Deferral of Debt Premiums, Discounts and Commissions
Deferral of Gain/Loss on Debt Buybacks
Amortization of Discount on 55 School Board Trust
Underwriting Commissions
Underwriting Expenses
Other Commissions
(do not use) Deferral of OSB Commissions
Gains or Losses on Debt Buy Back
Bank Charges - FRO Plan (AG)
Bank Charges - account and services
Bank Charges - credit card transactions
Bank O/D interest exp
Fiscal Agent Fees
Fiscal Agent Fees - OSBs
Custodian Fees-inv-handling bonds
Custodian Fees-inv-safekeeping bonds
Custodian Fees-inv-money market
Legal/Consulting
Publication/Subscription
Conference
POSO Sundry Expenses
Miscellaneous
Skydome/Stadco prepaid rent obligation
Int Exp/Rev - Caps/floors
Option Premiums (current year)
DH: Amortization & adjustments
FX transactions
FX transactions - bank revaluation
FX transactions - debt revaluation
FX transactions - Trade Date
Debt revaluation - unrealized
Deferral of Unrealized Gains/Losses on Exposed Debt
FX - Ministry - Finance
Fund Int Exp - Victim Justice (AG)
Fund Int Exp - Ont Parks (MNR)
Fund Int Exp - Fish & Wildlife (MNR)
Fund Int Exp - Group Rev Insur (AG & F)

Fund Int Exp - Milk & Cream (AG & F)
Fund Int Exp - Proceeds of Crime (AG)
Fund Int Exp - Proceeds of Crime (Sol Gen)
Fund Int Exp - Forestry Fut (MNR)
Fund Int Exp - Forestry Renewal (MNR)
Fund Int Exp - Ont Heritage Fdn (OFA)
Fund Int Exp - Terry Fox (Health)
Fund Int Exp - Mine Assur (N Dev & Mines)
Fund Int Exp - Richard Palmer (AG & F)
Fund Int Exp - Ont Ag Museum (AG & F)
Fund Int Exp - J. Foote (Sol Gen)
Fund Int Exp - C. Campbell (Sol Gen)
Fund Int Exp - Ont Police Coll Lib (Sol Gen)
Fund Int Exp - E.F. Seagram (Health)
Fund Int Exp - Bequest for Schol (Educ & Tr)
Fund Int Exp - QE II Schol (Educ & Tr)
Fund Int Exp - John Polyani (Educ & Tr)
Fund Int Exp - Pits & Quarries (MNR)
Fund Int Exp - Per Prop Assur (CCR)
Fund Int Exp - Waste Dis Site Trust (Envir)
Fund Int Exp - Deep Well Dis Sec (Envir)
Fund Int Exp - Fin Assur Trust (Envir)
Fund Int Exp - Pension DMSBA (MBS)
Fund Int Exp - Prov Judges (MBS)
Fund Int Exp - Bequest & Schol (Comsoc)
Fund Int Exp - Pub Safety Off Surv Schol (Sol Gen)
Fund Int Exp - Long Term Care (N Dev & Mines)
Fund Int Exp - Integ Network Perf Fund (MBS)
Fund Int. Exp - Walkerton Class Action - Trust Account
Fund Int Exp - OPSEU Supplementary Benefits (MBS)
Fund Int Exp - PSPF Supplementary Benefits (MBS)
Fund Int Exp - Port Loring Cost Sharing Agreement (MOE)
Fund Int Exp - Civil Remedies (MAG)
Fund Int Exp - Training Completion Assurance Fund (MTCU)
Fund Int Exp - Justices of the Peace Supplementary Pension Plan (MGS)
Fund Int Exp - Provincial Schools Student Enhancement Program (MED)
Fund Int Exp - Unincorporated Roads Program (MTO)
General PDI - DOE
Communications - Personal Mobile Communication Device Charge
Communications - Personal Mobile Communication Device Charge
Communications - Telephone - Local & Fax Charges
Communications - Telephone - Local & Fax Charges
Transportation & Communications - Other Data Communication Charge
Mailing, Courier, Freight - Bulk
Communications - Other
Communications - Media Purchases
Communications - Publications
Communications - Writing
Communication - Design & Production
Communications - Planning and Reserch Services
Rental - IT Supplies/Maintenance Contract - Network
Leases - IT Maintenance/Support - Midrange Software
Leases - IT S/W Licence - Personal Computers
Repairs & Maintenance - Capital - Tenant Improvements - Building
Repairs & Maintenance - Operating - Leased Engineering Structures

Repairs & Maintenance - Operating - Leased Engineering Structures
Repairs & Maintenance - Operating - Heating, Ventilation, Air Conditioning
Repairs & Maintenance - Operating - Protection Systems
External Consulting - IT Specialized Service - Task Oriented
External Consulting - IT Specialized Service - Task Oriented
External Consulting - Technical
External Consulting - Technical
Professional Services - Research & Development
Professional Services - Other Professional Services
Professional Services - Other Professional Services
Staff Development - External courses/conferences/seminars
Non Hospitality Meetings and Hospitality - Business Meetings (DO NOT USE)
Non Hospitality Meetings and Hospitality - Hospitality
Housekeeping & Protection Services - Protection & Security
Housekeeping & Protection Services - Protection & Security
Other - Printing Services
Other - Storage & Warehousing
Other - Service Arrangements - Non-Consulting
Other - Service Arrangements - Non-Consulting
Other - Service Arrangements (Non-Consulting)
Other - Facilities Management
Other - WAN Management Fees
Other - Other Network Services
Other - Other Network Services
(DO NOT USE) IT Equipment Purchase - Midrange Computers
(DO NOT USE) IT - Equipment Purchase - Network
Data Centre Systems - Network Equipment/Storage - under 100K
Office Equipment & Supplies - Furniture & Fixtures
Office Equipment & Supplies - Furniture & Fixtures
Office Equipment & Supplies - Other
Publications - Books, maps, microfilm, periodicals, forms
Due (to) from OFA
Salaries & Wages - Classified - Normal Pay
Salaries & Wages - Classified - Normal Pay
Salaries & Wages - Classified - Normal Pay
Salaries & Wages - Classified - Normal Pay
Salaries & Wages - Non-employee - Temp - Private Sector
Salaries & Wages - Non-employee - Temp - Private Sector
Employee Benefits - Canada Pension Plan
Employee Benefits - Canada Pension Plan
Employee Benefits - Employment Insurance
Employee Benefits - Employment Insurance
Employee Benefits - Employer Health Tax
Employee Benefits - Employer Health Tax
Employee Benefits - Group Life Insurance
Employee Benefits - Group Life Insurance
Employee Benefits - Dental Plan
Employee Benefits - Dental Plan
Employee Benefits - Supplementary Health and Hospital Plan
Employee Benefits - Supplementary Health and Hospital Plan
Employee Benefits - Long Term Income Protection
Employee Benefits - Long Term Income Protection
Communications - Personal Mobile Communication Device Charge
Communications - Telephone - Local & Fax Charges
Communications - Other

Mailing, Courier, Freight - Regular
Mailing, Courier, Freight - Regular
Mailing, Courier, Freight - Courier Services
Staff Travel - Roads
Staff Travel - Meals
Staff Travel - Taxable Benefits
Direct Invoices - Taxi, TTC and Parking Only
Communications - Jobs
Communication - Jobs
Communications - Other
Communications - Audio/Visual/Photograhy/Film
Rental - Photocopy & Facsimile Equipment
Rental - IT Supplies/Maintenance Contract - Network
Rental - Buildings and Office Space
IT Maintenance/Support - Mainframe S/W
Leases - IT Equipment - Midrange Computers
Leases - IT Support/Maintenance - Network Software
Leases - IT S/W Licence - Personal Computers
Repairs & Maintenance - Tenant Improvements - Buildings
Repairs & Maintenance - Leased Engineering Structure - Tenant Improvements
Repairs & Maintenance - Operating - Leased Engineering Structures
Repairs & Maintenance - Operating - Heating, Ventilation, Air Conditioning
Repairs & Maintenance - Operating - Protection Systems
Repairs & Maintenance - Operating - Protection Systems
Repairs & Maintenance - Operating - Protection Systems
Repairs & Maintenance - Operating - Furniture & Office Equipment
External Consulting - Management Consulting Services
External Consulting - Management
External Consulting - IM/IT Mgmt Consulting Services
External Consulting - IT Specialized Service - Task Oriented
External Consulting - IT Specialized Service - Task Oriented
External Consulting - IT Specialized Service - Task Oriented
External Consulting - Technical
External Consulting - Technical
External Consulting - Technical
External Consulting - Technical
External Consulting - Technical
External Consulting - Technical
External Consulting - Technical
Professional Services - Legal - Legal Services Private Sector
Professional Services - Legal - Legal Services Private Sector
Professional Services - Other Legal
Professional Services - Research & Development Consulting Services
External Consulting - Research & Development
Professional Services - Research & Development Consulting Services
Professional Services - Research & Development Consulting Services
Professional Services - Translation Services
Professional Services - Translation Services
Professional Services - Other Professional Services
Professional Services - Other Professional Services
Professional Services - Other Professional Services
Professional Services - Other Professional Services
Professional Services - Government Facilities Relocation
Staff Development - External courses/conferences/seminars
Staff Development - External courses/conferences/seminars

Staff Development - External courses/conferences/seminars
Staff Development - External courses/conferences/seminars
Staff Development - External courses/conferences/seminars
Staff Development - Tuition
Staff Development - Tuition
Non Hospitality Meetings
Housekeeping & Protection Services - Housekeeping
Other - Photocopying
Other - Storage & Warehousing
Other - Storage & Warehousing
Other - Service Arrangements - Non-consulting
Other - WAN Management Fees
Other - Other Network Services
Other - Miscellaneous
Other - Miscellaneous
Centralized Services - SSB - General
Payments to members of Agencies, Boards, Commissions
(DO NOT USE) IT - Equipment Purchases - Midrange Computer
(DO NOT USE) IT - Equipment Purchases - Personal Computers
(DO NOT USE) IT - Equipment Purchase - Network
Data Centre Systems - Network Equipment/Storage - under 100K
IT - Cosumable Supplies (EDP Office Supplies)
Office Equipment & Supplies - Furniture & Fixtures
Office Equipment & Supplies - Furniture & Fixtures
Office Equipment & Supplies - Office Related Equipment
Office Equipment & Supplies - Stationery & Office Supplies
Office Equipment & Supplies - Stationery & Office Supplies
Office Equipment & Supplies - Other
Publications - Books, Maps, Microfilm, Periodicals, Forms
Publications - Books, Maps, Microfilm, Periodicals, Forms
Publications - Books, Maps, Microfilm, Periodicals, Forms
Publications - Books, Maps, Microfilm, Periodicals, Forms
Publications Ontario - Printed Legislative/Legal Products
Other Personal & Household Goods
Clothing, Individual Accessories & Insignia
Clothing, Individual Accessories & Insignia
Other Materials, Parts, Tools and Accessories
OSIFA expenses to be recovered
Bank Int Revenue
Bank Int Compensation - tax revenues
Loan Int from OFA - OTCC
Loan Int from OFA - MTCC
Loan Int from OFA - Ont Sci Ctr
Loan Int from OFA - City of Windsor
Loan Int from OFA - ONTC
Loan Int from OFA - Toronto District School Board
Loan Int from OFA - Ontario Lottery & Gaming Corporation
Loan Int from OFA - Ontario Power Authority
Loan Int from OFA - Independent Electricity System Operator re: IESO
Loan Int from OFA - OILC Line of Credit
Loan Int from OFA - School Boards
Loan Int from OFA - Mohawk College
Loan Int from OFA - Royal Ontario Museum
Loan Int from OFA - Niagara Parks Commission
Loan Int from OFA - Ottawa Convention Centre

Loan Int from OFA - Auto Sector
(not to use) Loan Int from OFA - OFA
Loan Int from OFA - St Clair College of Applied Arts and Technology
Loan Int from OFA - Sir Sanford Fleming College of Applied Arts and Technology
Loan Int from OFA - Cambrian College of Applied Arts and Technology
Loan Int from OFA - Boreal College of Applied Arts and Technology
Loan Int from OFA - Canadore College of Applied Arts and Technology
Loan Int from OFA - Lambton College of Applied Arts and Technology
Loan Int from OFA - Georgian College of Applied Arts and Technology
Loan Int from OFA - Loyalist College of Applied Arts and Technology
Loan Int from OFA - Fanshawe College
Loan Int from OFA - Centennial College of Applied Arts and Technology
Loan Int from OFA - Algonquin College of Applied Arts and Technology
Loan Int from OFA - Conestoga Institute of Technology & Advanced Learning
Loan Int from OFA - Confederation College of Applied Arts and Technology
Loan Int from OFA - George Brown College of Applied Arts and Technology
Loan Int from OFA - Durham College
Loan Int from OFA - Durham College Residence Refinancing
Loan Int from OFA - Sault College of Applied Arts and Technology
Loan Int from OFA - Sheridan College Institute of Technology and Advanced Learning
Loan Int from OFA - University of Ontario Institute of Technology
Premium - OTCC Debenture
Interest Rev: OCWA
Interest Rev: CMHC
Interest Rev: OMIC
Interest Rev: OMIC - MOE
Int Rev - OMIC - CPP
Interest Rev: NODC
Interest Rev: ODC
Interest Rev: EODC
Interest Rev: Schoolboards
Interest Rev: 55 School Board Trust - sinking fund deposit
Long-term Investment Income - MAV II CL 1 25-Dec-2036
Long-term Investment Income - MAV II CL 13 20-Mar-2014
Long-term Investment Income - MAV II CL 14 5-Apr-2014
Long-term Investment Income - MAV II CL 15 20-Dec-2013
Long-term Investment Income - MAV III CL 16 NT 28-Sep-2013
Long-term Investment Income - MAV III CL 16B NOTE 28-Sep-2013
Long-term Investment Income - MAV II CL 2 15-Dec-2024
Long-term Investment Income - MAV II CL 3 24-Oct-2016
Long-term Investment Income - MAV II CL 6 20-Jun-2013
Long-term Investment Income - MAV II CL 7 20-Dec-2013
Long-term Investment Income - MAV II CL 8 25-Apr-2029
Long-term Investment Income - MAV II CL A-1 15Jul-2056
Long-term Investment Income - MAV II CL A-2 15-Jul-2056
Long-term Investment Income - MAV II CL B 15Jul-2056
Long-term Investment Income - MAV II CL C 15-Jul-2056
Long-term Investment Income - MAVLT A1_Float_15-Jul-2056
Long-term Investment Income - MAVLT A2_Float_15-Jul-2056
Long-term Investment Income - MAVLT B_Float_15-Jul-2056
Long-term Investment Income - MAVLT C_Float_15-Jul-2056
Long-term Investment Income - MAV notes
Long-term Investment Income - Tracking Notes
(Do not use) Revenue: CAD Bonds-Profit/Loss/Int
CAD Bonds-Profit/Loss

CAD Repo interest		
CAD RevRepo interest		
Revenue: CAD Bonds-Profit/Loss/Int - Trade Date		
Amortization of discounts/premiums on Cdn bonds held in Temporary Investments		
Interest Rev: CAD Bonds-Coupon		
(Do not use) Revenue: US Treasury-Profit/Loss/Int	-	-
USD Bonds-Profit/Loss	24,994,906.52	-
USD Repo interest	1,616,917.62	-
USD RevRepo interest	-	-
Amortization of discounts/premiums on US Treasury held in Temporary Inve	-	20,466,090.68
Interest Rev: US Treasury-Coupon	-	22,084,096.13
Gain/Loss on Mortgage Backed Security		
Interest Rev: CAD Money Mkts		
Interest Rev: CAD Money Mkts - ABCP		
Interest Rev: CAD Money Markets - ABCP costs re: legal, consulting, etc		
Writedown of ABCP		
Writedown/Writeoff of MAV notes		
Interest Rev: CAD Money Mkt Swap interest		
Interest Rev: USD Money Mkts	-	536,657.87
Interest Rev/Exp: S/T Lend to OEFC (MM)		
Interest revenue/expense: OEFC re: ECPPF		
Monthly Accrued Interest - Cdn Bonds		
Monthly Accrued Interest - Cdn Repos		
Monthly Accrued Interest - Cdn RevRepos		
Monthly Accrued Interest - US Bonds		
Monthly Accrued Interest - US Repos		
Monthly Accrued Interest - US RevRepos		
Monthly Accrued Interest - Money Market		
Monthly Accrued Interest - Money Market - SWAP		
Monthly Accrued Interest - US Money Market		
(not to use, use 476(x)) Monthly Accrued Interest - OFA Loans		
(not to use, use 476(x)) Monthly Accrued Interest - OSLT Loan		
Interest Rev - FRA		
Interest Exp - FRA		
Profit/Loss on Futures		
Int Rev/Exp - Margin A/C		
Int Rev/Exp - Tbills in Margin A/C		
Interest Revenue - Loan to IMO		
Interest Revenue - Loan to IESO (Independent Electricity System Operator)		
Interest Rev: Loans to OSLT		
Accrued Interest Revenue - OFA - Ottawa Convention Centre		
Accrued Interest Revenue - Loans (Not to be used)		
Accrued Interest Revenue - OFA - Auto Sector Loans - Federal Government		
Accrued Interest Revenue - OFA - Ontario Science Centre		
Accrued Interest Revenue - OFA - City of Windsor		
Accrued Interest Revenue - Chrysler Corporation		
Accrued Interest Revenue - OFA - Ontario Northland Transportation Commission		
Accrued Interest Revenue - OFA - Ontario Lottery & Gaming Corporation		
Accrued Interest Revenue - OFA - Ontario Power Authority		
Accrued Interest Revenue - OFA - Independent Electricity System Operator re: IESO		
Accrued Interest Revenue - Ontario Infrastructure and Lands Corporation		
Accrued Interest Revenue - OFA - OILC Line of Credit		
Accrued Interest Revenue - OILC - On-Lent Debt		
Accrued Interest Revenue - OILC - revolving credit facility		
Accrued Interest Revenue - OILC - on-lend re: Long term credit facility		

Accrued Interest Revenue - OFA - School Boards
Accrued Interest Revenue - Ontario Student Loan Trust
Accrued Interest Revenue - OFA - Mohawk College
Accrued Interest Revenue - OFA - Royal Ontario Museum
Accrued Interest Revenue - OFA - Georgian College of Applied Arts and Technology
Accrued Interest Revenue - OFA - St. Clair College of Applied Arts and Technology
Accrued Interest Revenue - OFA - Sir Sanford Fleming College of Applied Arts and Technology
Accrued Interest Revenue - OFA - Cambrian College of Applied Arts and Technology
Accrued Interest Revenue - OFA - Boreal College of Applied Arts and Techology
Accrued Interest Revenue - OFA - Canadore College of Applied Arts and Technology
Accrued Interest Revenue - OFA - Lambton College of Applied Arts and Technology
Accrued Interest Revenue - OFA - Loyalist College of Applied Arts and Technology
Accrued Interest Revenue - OFA - Niagara Parks Commission
Accrued Interest Revenue - OFA - Fanshawe College
Accrued Interest Revenue - OFA - Centennial College of Applied Arts and Technology
Accrued Interest Revenue - OFA - Algonquin College of Applied Arts and Technology
Accrued Interest Revenue - OFA - University of Ontario Institute of Technology
Accrued Interest Revenue - OFA - Conestoga Institute of Technology & Advanced Learning
Accrued Interest Revenue - OFA - Confederation College of Applied Arts and Technology
Accrued Interest Revenue - OFA - George Brown College of Applied Arts and Technology
Accrued Interest Revenue - OFA - Durham College
Accrued Interest Revenue - OFA - Durham College Residence Refinancing
Accrued Interest Revenue - OFA - Sault College of Applied Arts and Technology
Accrued Interest Revenue - OFA - Sheridan College Institute of Technology & Advanced Learning
(not to use) Interest Rev: Loan to Ont North Tran Comm
Interest Rev. Loan to OILC re: OMEIFA loan
Interest to/from OILC re: MM
Interest Rev. - OILC - On-Lent Debt
Interest revenue - OILC - on-lend re: Long term credit facility
Interest revenue - OILC revolving credit facility
Interest revenue - Bruce Nuclear Plant
Interest Rev - PBGF
Other Revenue: Miscellaneous IOD related
Fund Int Rev - Ont Stockyards (Muni Aff)
Fund Int Rev - Ont Jr Farmers (AG & F)
Fund Int Rev - Tile Drainage (AG & F)
Fund Int Rev - Incentive Prgm (MEDTT)
Allowance for Doubtful Accounts
Allowance for Doubtful Accounts - Auto Loans
Allowance for Doubtful Accounts - PBGF Loans
Loans to OFA - MTCC
Loans to OFA - Ont Science Centre
Loans to OFA - City of Windsor
Loans to OFA - Ont Northland Ttransportation Commission
Loans to OFA - ONTC - Line of Credit
Loans to OFA - OFA
Loans to OFA - Ontario Infrastructure Projects Corporation
(Do not use) Loans to OFA - Boreal College of Applied Arts and Technology
(Do not use) Loan to OFA - Canadore College of Applied Arts and Technology
(Do not use) Loans to OFA - Cambrian College of Applied Arts and Technology
(Do not use) Loans to OFA - Georgian College of Applied Arts and Technology
(Do not use) Loan to OFA - Lambton College of Applied Arts and Technology
(Do not use) Loans to OFA - Mohawk College
Loans to OFA - Niagara Parks Commission
Loan to OFA - Ottawa Convention Centre

Loans to OFA - Royal Ontario Museum		
(Do not use) Loans to OFA - St Clair College of Applied Arts and Technology		
(Do not use) Loans to OFA - Sir Sanford Fleming College of Applied Arts and Technology		
Loans to OFA - METRO		
Loans to OFA - Toronto District School Board		
Loans to OFA - Ontario Lottery and Gaming Corporation		
Loans to OFA - Ontario Power Authority		
Loans to OFA - Independent Electricity System Operator re: IESO		
Loans to OFA - School Boards		
Loans to OFA - Algonquin College of Applied Arts and Technology		
Loans to OFA - Boreal College of Applied Arts and Technology		
Loans to OFA - Canadore College of Applied Arts and Technology		
Loans to OFA - Cambrian College of Applied Arts and Technology		
Loans to OFA - Centennial College of Applied Arts and Technology		
Loans to OFA - Conestoga Institute of Technology & Advanced Learning		
Loans to OFA - Confederation College of Applied Arts and Technology		
Loans to OFA - Durham College		
Loans to OFA - Durham College Residence Refinancing		
Loans to OFA - Fanshawe College		
Loans to OFA - Georgian College of Applied Arts and Technology		
Loans to OFA - George Brown College of Applied Arts and Technology		
Loans to OFA - Lambton College of Applied Arts and Technology		
Loans to OFA - Loyalist College of Applied Arts and Technology		
Loans to OFA - Mohawk College		
Loans to OFA - Sault College of Applied Arts and Technology		
Loans to OFA - St. Clair College of Applied Arts and Technology		
Loans to OFA - Sheridan College Institute of Technology and Advanced Learning		
Loans to OFA - Sir Sanford Fleming College of Applied Arts and Technology		
Loans to OFA - University of Ontario Institute of Technology		
(Do not use) Loans to OFA - Chyrsler Corporation		
Loans to OFA - Federal Government - Auto Sector Loans		
Loans to OFA - Federal Government - Auto Sector Loans - USD	-	-
OEFC Clearing		
Due from OEFC - S/T Lend (MM)		
Due from OEFC - S/T MM re: ECPPF		
Due from OEFC - S/T MM re: ONFA		
Due from OEFC - S/T Lend (MM) - US	-	-
Due to/from OEFC - Accrued interest payable on US S/T Lending	-	-
Investment in Hydro One Inc.		
Investment in OPG		
Investment - GM Equity		
Investment - GM Equity - USD	-	-
Allowance for Investment Write-down - GM		
Loan to Ont Northland Tran Comm		
Pension Benefits Guarantee Fund $30M Loan - Issue		
Pension Benefits Guarantee Fund $30M Loan - Opening		
Pension Benefits Guarantee Fund $30M Loan - Repayment		
Pension Benefits Guarantee Fund $100M Loan - Issue		
Pension Benefits Guarantee Fund $100M Loan - Opening		
Pension Benefits Guarantee Fune $100M Loan - Repayment		
Loans to Pension Benefits Guaranteed Fund - Opening		
Loans to Pension Benefits Guaranteed Fund - Issuance		
Loans to Pension Benefits Guaranteed Fund - Repayment		
Unamortized Discount on Loan Receivable - Pension Benefits Guaranteed Fund		
Advance to the School Board Trust - Opening		

Advance to the School Board Trust - Issuance		
Advance to the School Board Trust - Repayment		
Advance to SBTrust - Unamortized Discount		
Loan to IMO		
Loan to IESO (Independent Electricity System Operator)		
Loan to OIPC - Opening		
Due to/from OIPC - S/T (MM)		
Loan to OIPC - Repayment		
Due from OSIFA - (not used) Travel & Communication Expenses		
Due from OSIFA - Fee for Service		
Due from OSIFA - Proper Expenses		
A/R OSIFA for salary & benefits		
Accrued Receivable - Trade Date		
AR - Miscellaneous		
AR - Miscellaneous - USD	-	-
AR - Miscellaneous - GBP	-	-
Loans - Student Loans Program		
Accrued Interest Receivable on Loans		
Acq./Const. Of Physical Assets (Stadco)		
Asset in CSA re: Cash Collateral Paid		
HST Recoverable		
HST Recoverable - USD	-	-
OIPC - Debt on-lend - Opening		
OIPC - Debt on-lend - Issues		
OIPC - Debt on-lend - Repayments		
OILC - on-lend re: Long term loans - Opening		
OILC - on-lend re: Long term loans - Issues		
OILC - on-lend re: Long term loans - Repayments		
OILC - Revolving Credit Facility - Issue		
OILC - Revolving Credit Facility - Opening		
OILC - Revolving Credit Facility - Repayments		
Deferred Charges - Trade Date	-	-
Ontario Hydro - Debt Guarantee Fee		
Debt Guarantee Fee - OEFC re: ONFA		
Debt Guarantee Fee - other		
Loan Guarantee Fee - Aboriginal Loan Guarantee Program		
Loan Guarantee Fee - MERE General Partner Inc.		
Sale of Highway 407		
Sale of POSO		
Restructuring and Performance Fees - Bruce Nuclear Plant		
Bruce Nuclear - Restarting Penalty		
Bruce Nuclear - Restarting - Interest revenue		
Bruce Nuclear - Restarting - Custodial fees		
Other Revenue - Recoveries		
CNSC - Guarantee Fee from OPG		
ODC - Recoveries		
Recovery of Write-off of Prior Years' Expenditures - Chrysler		
Recovery of Write-off of Prior Years' Expenditures - GM		
Recovery of Write-off of Prior Years' Expenditures - PBGF		
MTCC - Recoveries		
Release of loan		
Bad Debt Expense		
Investment Management Fees		
Admin. Costs - Reimb. by Hydro		
Other Revenue - Miscellaneous		

Commission received on Canada Savings Bonds sold		
Indemnity fee received on ABCP from Federal Government		
Capital Market conference		
Other Revenue - Unclaimed Funds re: MoF		
Other Revenue - Reimbursement of Expenditure		
Reserve for OS Cheques		
Ont. Opportunities Fund - Donations		
Gain/Loss on Sale of Investments		
Income from gov'nt enter- Hydro One Inc.		
Income from gov'nt enter- Ont Power Gen		
Dividends - GM		
POSO - Net CAD Deposits		
POSO - Net USD Deposits		
Reserve For O/S Cheques		
Reserve for O/S Cheques - USD	-	37,611.08
Unclaimed Fully Reg'd Bond Int. - compound OSB		
Unclaimed OSB Interest - Annual		
Ontario Heritage Foundation		
Unclaimed Monies		
Unclaimed Monies - USD	-	133,700.85
Unclaimed bonds and coupons re: Computershare		
Unclaimed Monies - EUR	3,306.93	-
Unclaimed Northern Ontario Grow Bonds		
Unclaimed Monies - AUD	-	24,485.00
Unclaimed Monies - CHF	-	13,125.00
Unclaimed Monies - NZD	-	27,331.25
POSO unclaimed deposits - CDN		
POSO unclaimed deposit - USD	-	10,266.23
Unclaimed Dividends		
Accrued Interest Payable - OSB Compound		
Accrued Interest on Chunkies		
Deferred Revenue		
One-time Residual Accounts Payable		
One Time Residual Accrual AR		
Accrued Liabilities - Trade Date		
Accrued Liabilities - Trade Date - EUR	-	-
Accrued Liabilities - Trade Date - USD	-	-
Accrued Liabilities - Other		
Accrued Liabilities - Other USD	-	-
Accrued Liabilities - Salaries and Wages		
Accrued Liabilities - Services		
Liability in CSA re: Cash Collateral Received		
ODC - Repayment		
ODC - Loss on Loans		
ODC - Agency - Loss on Loans		
ODC - Agency - Principal Repayments		
ODC - MFG Recovery Program		
HST Collected		
Repayment - OMIC		
Repayment - OMIC - MOE		
OMC Mortgages Re OLC		
OMC mortgages re OLC - repayment of loan		
CAD Public Debt		
CAD Public Debt - trade date		
CAD Public Debt - Real Return Bond - Principal at Issuance		

CAD Public Debt - Real Return Bond - CPI Adjustment
Real Return Swaps - CPI Adjustment
Real Return Swap - Notional Payable
OSB Current Year Issue
OSB 1995 Series
OSB 1995 Matured
OSB 1996 Series
OSB 1996 Matured
OSB 1997 Series
OSB 1997 Matured
OSB 1998 Series
OSB 1998 Matured
OSB 1999 Series
OSB 1999 Matured
OSB 2000 Series
OSB 2000 Matured
OSB 2001 Series
OSB 2001 Matured
OSB 2002 Series
OSB 2002 Matured
OSB 2003 Series
OSB 2003 Matured
OSB 2004 Series
OSB 2004 Matured
OSB 2005 Series
OSB 2005 Matured
OSB 2006 Series
OSB 2006 Matured
OSB 2007 Series
OSB 2007 Matured
OSB 2008 Series
OSB 2008 Matured
OSB 2009 Series
OSB 2009 Matured
OSB 2010 Series
OSB 2010 Matured
OSB 2011 Series
OSB 2011 Matured
OSB 2012 Series
OSB 2012 Matured
OSB 2013 Series
OSB 2013 Matured
OSB 2014 Series
OSB 2014 Matured
OSB 2015 Series
OSB 2016 Series
T-bills - Public MOF
T-bills - NOHFC
T-bills - Investment Pool
T-bills - PBGF
T-bills - OILC
T-bills - OIIC
T-bills - OFA - Venture Capital Fund
T-bills - OCGC (Ont Capital Growth Corp)
T-bills - OCGC 2

T-bills - Trillium
T-bills - OSC
T-bills - Student Loan Program
T-bills - AFA
T-bills - OILC GREP
T-bills - OPA
T-bills - MOH&LTC
Accrued Interest - Trade Date
(old, not to use) Accrued Interest Payable - Long-term - Public
Acc Int Pay - LT Public - Canadian Fixed
Acc Int Pay - LT Public - Canadian Floating
Acc Int Pay - LT Public - Foreign Fixed
Acc Int Pay - LT Public - Foreign Floating
Acc Int - Money Market SWAP
Acc Int Pay - LT Public - Unassigned
(not to use -old) A I P- Long-term - Non-public
Accrued Interest Payable - OSB Annual
Unamortized Discounts - Short-term - T-Bills
Unamortized Discounts - Short-term - T-bills - Synfix
Accrued Interest Payable - Synfix Swaps (for Tbills)
Unamortized Discounts - Short-term - USCP
Unamortized Discounts - Short-term - USCP - Synfix
Accrued Interest Payable - Synfix Swaps (for USCP)
Accrued Interest Payable - Debt from OEFC
Accrued Interest Payable - POSO
Accrued Interest Payable - CPP
Accrued Interest Payable - CAAT
Accrued Interest Payable - OTPP
Accrued Interest Payable - PSPF
Accrued Interest Payable - OMERS
Accrued Interest Payable - OHC
Accrued Interest Payable - Ryerson
Accrued Interest Payable - CMHC
Accrued Interest Payable - OPSEU
Accrued Interest Payable - OIIC - FRN
Accrued Interest Payable - OIIC - Compound Fix
Accrued Interest Payable - School Board Trust
Premium, Discount and Commissions - Trade Date
Unamortized Premiums and Discounts - Debt
Unamortized Commissions - OSB
Unamortized Gain/Loss on Buybacks
Unamortized premiums and discounts - RRB
Unamortized premiums and discounts - RRS
CAD -CPP
CAD - OTPP
CAD - PSPF
CAD - OHC
CAD - CMHC
CAD - OMERS
CAD - OPSEU
CAD - CAAT
CAD - Ryerson
Debt Assumed fr OPG - CAD
Debt Assumed fr Hydro One Inc. - CAD
CAD - OIIC

Unamortized Discounts - OIIC Discount Notes

CAD - School Board Trust Debt
Sinking Fund Deposit - School Board Trust

Foreign Debt - ST - USD - Hedged	-	3,690,180,000.00
Foreign Debt - ST - USD - Unhedged	-	-
Foreign Debt - LT - Australian Dollar - Hedged	-	1,275,000,000.00
Foreign Debt - LT - Deutsche Mark - Hedged	-	-
Foreign Debt - LT - Euro - Hedged	-	7,672,000,000.00
Foreign Debt - LT - French Franc - Hedged	-	-
Foreign Debt - LT - Great Britain Pound - Hedged	-	-
Foreign Debt - LT - Hong Kong Dollar - Hedged	-	-
Foreign Debt - LT - Icelandic Krona - Hedged	-	-
Foreign Debt - LT - Japanese Yen - Hedged	-	44,900,000,000.00
Foreign Debt - LT - Netherland Guilder - Hedged	-	-
Foreign Debt - LT - Norwegian Krone - Hedged	-	-
Foreign Debt - LT - New Zealand Dollar - Hedged	-	-
Foreign Debt - LT - Swiss Franc - Hedged	-	1,325,000,000.00
Foreign Debt - LT - Swedish Krona - Hedged	-	-
Foreign Debt - LT - Turkish Lira - Hedged	-	-
Foreign Debt - LT - United States Dollar - Hedged	-	28,455,000,000.00
Foreign Debt - LT - South African Rand - Hedged	-	-
Foreign Debt - LT - Japanese Yen - Unhedged	-	-
Foreign Debt - LT - Swiss Franc - Unhedged	-	-
Foreign Debt - LT - USD - Unhedged	-	-
Unamortized unrealized gains/losses on foreign debt		
OEFC Debt - S/T - CAD		
OEFC Debt - S/T - US	-	-
Interest Exp - S/T Debt for OEFC		
Due fr OEFC - S/T CAD		
Due to / from OEFC re: ECPPF		
Due to / from OEFC re: ECPPF T-Bills		
Due to/from OEFC re: ONFA		
Due fr OEFC - S/T Foreign	-	-
Interest Rev - S/T Due from OEFC		
Interest Rev - S/T Due from OEFC re: ECPPF		
OEFC - CPP Debt		
OEFC Debt - L/T CAD		
OEFC Debt - Real Return Bond - Principal at Issuance		
OEFC Debt - Real Return Bond - CPI Adjustment		
Interest Exp - L/T Debt For OEFC		
Interest Exp - Real Return Bond		
OEFC Debt - L/T US	-	355,000,000.00
OEFC Debt - L/T Foreign - Australian Dollars	-	-
OEFC Debt - L/T Foreign - Euro	-	105,000,000.00
OEFC Debt - L/T Foreign - Hong Kong Dollars	-	-
OEFC Debt - L/T Foreign - Swiss Franc	-	125,000,000.00

OEFC Debt - L/T Foreign - South African Rand	-	-
Due fr OEFC - CPP Debt		
Due fr OEFC - L/T CAD - Proceeds		
Due fr OEFC - Real Return Bond - Principal at Issuance		
Due fr OEFC - Real Return Bond - CPI Adjustment		
Interest Rev - L/T Due from OEFC		
Interest Rev - Real Return Bond		
Due from OEFC - L/T Foreign - USD	355,000,000.00	-
Due from OEFC - L/T Foreign - Australian Dollars	-	-
Due from OEFC - L/T Foreign - Euro	105,000,000.00	-
Due from OEFC - L/T Foreign - Hong Kong Dollar	-	-
Due from OEFC - L/T Foreign - Swiss Franc	125,000,000.00	-
Due from OEFC - L/T Foreign - South African Rand	-	-
MAV II CL 1 25-DEC-2036		
MAV II CL 13 20-MAR-2014		
MAV II CL 14 5-APR-2014		
MAV II CL 15 20-DEC-2013		
MAV III CL 16 NT 28-SEP-2013		
MAV III CL 16B NOTE 28-SEP-2013		
MAV II CL 2 15-DEC-2024		
MAV II CL 3 24-OCT-2016		
MAV II CL 6 20-JUN-2013		
MAV II CL 7 20-DEC-2013		
MAV II CL 8 25-APR-2029		
MAV II CL A-1 15-JUL-2056		
MAV II CL A-2 15-JUL-2056		
MAV II CL B 15-JUL-2056		
MAV II CL C 15-JUL-2056		
MAVLT A1_Float_15-Jul-2056		
MAVLT A2_Float_15-Jul-2056		
MAVLT B_Float_15-Jul-2056		
MAVLT C_Float_15-Jul-2056		
ABCP interest (receipt after exchange)		
Long-term Investments - Master Asset Vehicles 2 Notes - Class A1		
Long-term Investments - MAV2 Notes - Class A2		
Long-term Investments - MAV2 Notes - Class B		
Long-term Investments - Tracking Notes - Ineligible Assets		
Long-term Investments - Tracking Notes - Planet Trust		
Long-term Investments - Tracking Notes - SIT III		
Long-term Investments - Tracking Notes - Traditional Assets		
Valuation Adjustment MAV II CL 1 25-DEC-2036		
Valuation Adjustment MAV II CL 13 20-MAR-2014		
Valuation Adjustment MAV II CL 14 5-APR-2014		
Valuation Adjustment MAV II CL 15 20-DEC-2013		
Valuation Adjustment MAV III CL 16 NT 28-SEP-2013		
Valuation Adjustment MAV III CL 16B NOTE 28-SEP-2013		
Valuation Adjustment MAV II CL 2 15-DEC-2024		
Valuation Adjustment MAV II CL 3 24-OCT-2016		
Valuation Adjustment MAV II CL 6 20-JUN-2013		
Valuation Adjustment MAV II CL 7 20-DEC-2013		
Valuation Adjustment MAV II CL 8 25-APR-2029		
Valuation Adjustment MAV II CL A-1 15-JUL-2056		
Valuation Adjustment MAV II CL A-2 15-JUL-2056		
Valuation Adjustment MAV II CL B 15-JUL-2056		
Valuation Adjustment MAV II CL C 15-JUL-2056		

Valuation Adjustment MAVLT A1_Float_15-Jul-2056		
Valuation Adjustment MAVLT A2_Float_15-Jul-2056		
Valuation Adjustment MAVLT B_Float_15-Jul-2056		
Valuation Adjustment MAVLT C_Float_15-Jul-2056		
Allowance for Long-term Investments - MAV2 Notes - Class A1		
Allowance for Long-term Investments - MAV2 Notes - Class A2		
Allowance for Long-term Investments - MAV2 Notes - Class B		
(Do not use) Temp Invest: CAD Bonds		
Temp Invest: CAD - Failed Trades		
Temp Invest: CAD Bonds - Purchased Interest		
Temp Invest: CAD Bonds		
Temp Invest: CAD Repos		
Temp Invest: CAD RevRepos		
Temp Invest: CAD Bonds - trade date		
Accumulated amortization of discounts/premiums on Cdn bonds in Temporary Investments		
(Do not use) Temp Invest: US Treasury	-	-
Temp Invest: USD - Failed Trades	-	-
Temp Invest: US Treasury - Purchased Interest		
Temp Invest: USD Bonds	-	-
Temp Invest: USD Repos	-	-
Temp Invest: USD RevRepos	-	-
Accumulated amortization of discounts/premiums of US Treasury held in Ter	-	-
Temp Invest: New Zealand Bonds	-	-
Temp Invest: South African Bonds	-	-
Cash Equivalent: CAD Money Mkts		
Cash Equivalent: CAD Money Mkts - Failed Trades		
Cash Equivalent: CAD Money Mkts - trade date		
(Do Not Use) Temp Invest: CAD Money Mkts - ABCP matured not received		
(Do Not Use) Temp Invest: CAD Money Mkts - ABCP rolled		
Cash Equivalent: USD Money Mkts	-	-
Cash Equivalent: USD Money Mkts - Failed Trades	-	-
Temp Invest: CAD Mortgage Backed Security - MBS		
Green Bond Investments - CAD Money Market		
Green Bond Investments - CAD Bonds		
Margin Deposits-Refco-CAD		
Margin Deposits-Refco-USD	-	-
Margin Deposits - NBF - CAD		
Margin Deposits - NBF - USD	-	-
Margin Deposits - RBC - CAD		
Margin Deposits - RBC - USD	-	-
Margin Deposits-OEFC-CAD		
Margin Deposits - Newedge - CAD		
Margin Deposits - Newedge - USD	511.77	-
Accrued Interest Receivable - Cdn Bonds		
Accrued Interest Receivable - US Bonds		
Accrued Interest Receivable - Money Market		
Accrued Interest Receivable - Money Market SWAP		
Accrued Interest Receivable - US Money Market		
(use 583A) Accrued Interest Receivable - OFA Loans		
(use 583A) Accrued Interest Receivable - OSLT Loan		
Temporary Investments - OSLT		
Accountable Adv - Ag & Food		
Accountable Adv - Attorney General		
Accountable Adv - Citizenship		
Accountable Adv - Chief Election Officer		

Accountable Adv - Comm & Soc Services		
Accountable Adv - Cons & Busi Serv		
Accountable Adv - Environment		
Accountable Adv - Mgmt Board Sec		
Accountable Adv - Health		
Accountable Adv - Enter, Opp & Inno		
Accountable Adv - Labour		
Accountable Adv - Munic Affairs & Housing		
Accountable Adv - Natural Resources		
Accountable Adv - North Dev & Mines		
Accountable Adv - Prov Auditor		
Accountable Adv - Finance		
Accountable Adv - Transportation		
Accountable Adv - Franco Affairs		
Accountable Adv - Intergovt Affairs		
Accountable Adv - Cabinet Office		
Accountable Adv - Premier's Office		
Accountable Adv - WCB - UT		
Accountable Adv - Work Comp Board		
Accountable Adv - Energy, Science & Technology		
Accountable Adv - Solicitor General		
Accountable Adv - Correctional Services		
Accountable Adv - Tourism		
Accountable Adv - Education		
Accountable Adv - Training, Colleges & University		
Accountable Adv - Public Safety & Security		
Accountable Adv - WCB - UT		
Accountable Adv - Work Comp Board		
Gross Payroll Suspense Account		
Benefit Accrued Liability		
Net Pay Clearing Account		
US Exchange Suspense		
DH: Other		
DH: Swaption		
DH: Option Premium		
DH: Profit/Loss - Termination/Reduction of Forward Contracts on Debt		
DH: Profit/Loss - Termination/Reduction of Forward Contracts on Debt - JPY	-	-
DH: Profit/Loss - Termination/Reduction of Forward Contracts on Debt - USD	-	-
DH: Profit/Loss - GC Bonds		
DH: Profit/Loss - US Bonds	-	193,798,199.50
DH: Profit/Loss - Future		
DH: Profit/Loss - Future - USD	19,752.50	-
DH: Dis/Prem/Comm paid BY/TO swap ctpty		
DH: Profit/Loss - FRA		
DH: Swap Upfront Fee		
DH: Swap Unwind		
DH: Caps/floors		
Deferred Hedging - Trade Date USD	-	-
Foreign Currency Revaluation - CT Bank		
Foreign Currency Revaluation - RF Bank		
DH: Investments - Hedge Zero		
DH: Trans to Current Period (fully hedged)		
FX Clearing		
FX - non-IFIS US bank accounts		
FX - US exchange suspense		

Deferred Gains/Losses on FX Forwards		
Due to/from Cabinet Office		
Due to/from Finance		
Expenses related to sale of GM shares in Canadian dollars		
Expenses related to the sale of GM shares	48,161.86	-
DO NOT USE HST paid in Canadian funds		
DO NOT USE HST paid in USD	60,551.14	-
Due to/from Finance - USD	43,531.48	-
Due to/from Northern Development & Mines		
Northern Industrial Electricity Rebate payments to IESO		
Due to/from Office of the Premier		
Due to CRF/AP		
A/P Control		
Due to/from Education		
Due to/from Labour		
Due to/from Natural Resources		
Due to/from Training, Colleges & Universities		
MTCU - Medical Resident Student Loans		
MTCU - Student Loans		
Due to/from Agrirculture, Food & Rural Affairs		
Due to/from Municipal Affairs & Housing		
Due to/from Government Services		
Due to/from Citizenship		
Due to/from Consumer & Business Services		
Due to/from Economic Development & Trade		
Due to/from Environment		
Due to/from Francophone Affairs		
Due to/from Intergovernmental Affairs		
Due to/from Culture		
Due to/from Tourism & Recreation		
Due to/from Elections Ontario		
Due to/from Community and Social Services		
Due to/from Health and Long-Term Care		
Due to/from Transportation		
Due to/from Office of the Auditor General of Ontario		
Due to/from Office of the Legislative Assembly		
Due to/from Attorney General		
Due to/from Community Safety and Correctional Services		
Due to/from Energy		
Ontario Clean Energy Benefit payments to IESO		
Ontario Rebate for Electricity Consumers		
Due to/from Children and Youth Services		
Due to/from Office of the Lieutenant Governor		
Due to/from Ombudsman Ontario		
Due to/from GPS Direct Payments - Suspense		
Due to/from Public Infrastructure Renewal		
Due to/from Research and Innovation		
Due to/from Democratic Renewal		
Due to/from Health Promotion		
Due to/from Aboriginal Affairs Secretariat		
Due to/from Consumer Services		
Due to/from Consumer Services - USD	-	1,555,000.00
Due to/from Revenue		
Due to/from International Trade and Investments		
Due to/from Financial Services Industry Regulation Program		

Due to/from Treasury Board Secretariat		
HST paid in Canadian funds		
HST paid in USD	97,673.10	-
Transition - Non-IFIS - bank CDN		
Transition - Non-IFIS - bank US	-	-
Transition - Non-IFIS - Ont Min of Food Rural Affairs		
Transition - Non-IFIS - Training, Colleges & Universities		
Transition - Non-IFIS - MTCR - Tourism, Culture & Rec		
Transition - Non-IFIS - Treasury Program OFA		
Transition - Non-IFIS - Senior Payroll		
Transition - Non-IFIS - Payroll Deductions		
Transition - Non-IFIS - Culture		
Transition GPS Direct Payment System		
Transition - Non-IFIS - Employee Pensions & Benefits		
Transition - Non-IFIS - Office of Legislative Assembly		
Transition - Non-IFIS - Attorney General		
Transition - Non-IFIS - OCE - Chief Election Officer		
Transition - Non-IFIS - MCZCR - Citizenship		
Transition - Non-IFIS - CFC - Community, Family & Children's Services		
Transition - Non-IFIS - CBS - Consumer & Business Services		
Transition - Non-IFIS - EOI - Enterprise, Opportunity and Innovation		
Transition - Non-IFIS- EDU - Education		
Transition - Non-IFIS - ENE - Environment		
Transition - Non-IFIS - FA - Francophone Affairs		
Transition - Non-IFIS - MOH - Health & LT Care		
Transition - Non-IFIS - MIA - Intergovernmental Affairs		
Transition - Non-IFIS - MOL - Min of Labour		
Transition - Non-IFIS - Lieutenant Gov. Office		
Transition - Non-IFIS - MBS - Mgmt Board Sec		
Transition - Non-IFIS - MAH - Munic. Affairs & Housing		
Transition - Non-IFIS - NAT - Native Affairs		
Transition - Non-IFIS - Natural Resources		
Transition - Non-IFIS - OMB - Ombudsman Ontario		
Transition - Non-IFIS - OPA - Provincial Auditor		
Transition - Non-IFIS - MPSS - Public Safety & Security		
Transition - Non-IFIS - MTO - Transportation		
Transition - Non-IFIS - Energy		
Retained Earnings		
Due to Other Ministries		
Due from Other Ministries		
COG elimination adjustments		
MOHLTC Payment		
MTO Payments		
IFIS TP Legacy Cancelled Cheques		
IFIS Legacy Cancelled Cheque (ODOE)		
National Bank-General		
NB - Foreign - Icelandic Krona (ISK)	-	-
NB - General - CAS Legacy		
National Bank IFIS General CAD Account		
BMO - Bonds and Coupons re: Computershare		
BNS - Bonds and Coupons re: Computershare		
CIBC-(Payroll)-CORPAY		
CIBC-OSB Proceeds		
CIBC Commerce Court - IFIS Concentrator		
CIBC-Custodial Services		

CIBC - Foreign - Turkish Lira (TRY)	-	-
CIBC - IFIS GAINS		
(do Not Use) CIBC-(Main)-General		
CIBC - General - CAS Legacy		
CIBC IFIS General CAD Account		
CIBC - Bonds and Coupons re: Computershare		
CIBC Mellon - Custodial Services - CAD		
CIBC Mellon - Custodial Services - USD	338,183,245.93	-
CIBC - Foreign - Australian Dollar (AUD)	11,608.81	-
CIBC - Foreign - Swiss Franc (CHF)	14,982.60	-
CIBC - Foreign - Euro (EUR)	11,347.21	-
CIBC - Foreign - Pound Sterling (GBP)	3,330.01	-
CIBC - Foreign - Hong Kong Dollar (HKD)	7,395.93	-
CIBC - Foreign - Japanese Yen (JPY)	55,242.82	-
CIBC - Foreign - Norwegian Krone (NOK)	30.82	-
CIBC - Foreign - New Zealand Dollar (NZD)	35,739.87	-
CIBC - Foreign - Swedish Krone (SEK)	-	-
CIBC - Foreign - Singapore (SGD)	5,000.00	-
CIBC - Foreign - South African Rand (ZAR)	41,500.00	-
CIBC-(Income Supplement)-GAINS		
CIBC - Ont. Child Care Supp. a/c		
CIBC-OSB Proceeds-Direct Sales		
CIBC - IFIS Ont. Child Care Supplement		
CIBC - IFIS TP General Account		
CIBC - IFIS Corpay		
CIBC-US Investment	902,377,749.85	-
CIBC-U.S. Custodial Services	-	103,096,080.83
CIBC - OEBSM - TP Extension		
CIBC - IFIS TP Extension		
CIBC - IFIS ODOE Extension		
CIBC IFIS ODOE - Extension		
CIBC - IFIS TP Extension (New)		
CIBC-(Main)-US General	-	78,870.96
Desjardin - General Account		
Cash and Temporary Investments		
Loans and Investments		
Trust Liabilities		
Debt		
(Do Not Use) BMO-General		
BMO - General - CAS Legacy		
BMO IFIS General CAD Account		
BMO-US Investment	-	4,873.41
BNS-OSB Redemption		
(Do Not Use) BNS-General		
BNS - General - CAS Legacy		
BNS IFIS General CAD Account		
Public Debt Interest		
RBC - Bonds and Coupons re: Computershare		
RBC - Custodial Service		
(Do Not Use) RBC-Foreign Currencies		
DO NOT USE RBC - Foreign - Australian Dollar (AUD)	-	-
DO NOT USE RBC - Foreign - Danish Krone	-	-
DO NOT USE RBC - Foreign - Euro (EUR)	-	-
DO NOT USE RBC - Foreign - Pound Sterling (GBP)	-	-
DO NOT USE RBC - Foreign - Hong Kong Dollar (HKD)	-	-

DO NOT USE RBC - Foreign - Japanese Yen (JPY)	-	-
DO NOT USE RBC - Foreign - Norwegian Krone (NOK)	-	-
DO NOT USE RBC - Foreign - New Zealand Dollar (NZD)	-	-
DO NOT USE RBC - Foreign - Swiss Franc (CHF)	-	-
DO NOT USE RBC - Foreign - Singapore Dollars (SGD)	-	-
DO NOT USE RBC - Foreign - Swedish Krona	-	-
DO NOT USE RBC - Foreign - South African Rand	-	-
(Do Not Use) RBC-General		
RBC - General - CAS Legacy		
RBC IFIS General CAD Account		
RBC - MAG Chief Justice Office		
RBC-Family Benefits		
RBC - IFIS EFT TP General Account		
RBC - US Custodial Service	-	421,945,280.25
RBC - US IFIS ODOE Extension	14,418,237.90	-
RBC IFIS General USD Account	382,851,037.09	-
(Do Not Use) RBC-US General	-	-
RBC - USD General - CAS Legacy	480,696,544.09	-
TD - Bonds and Coupons re: Computershare		
TD - General - CAS Legacy		
(Do Not Use) TD-General		
TD IFIS General CAD Account		
RBC - USD ODOE Extension	23,162.30	-

-	-
9,238,493,420.73	-
-	89,837,224.21
-	-
32,000,915.56	-
-	12,311,966.67
-	-
27,160,354.70	-
13,296,011.17	-
84,343,807.56	-
-	-
83,136,227.09	-
-	-
-	-
-	86,478,631.89
5,735,926.78	-
-	16,985,258.88
33,830,851.41	-
-	-
-	-
-	5,781,438.29
-	7,549,473.85
740,579.15	-
3,995,149.02	-
-	1,750,515.00
-	-
-	-
256,621.20	-
30,316,073.90	-
-	17,668,915.18
-	-
-	-
-	-
-	-
-	-
-	-
-	321,394.76
-	-
-	-
32,331,520.00	-
-	4,524,000.00
-	-
-	-
-	-
-	-
1,042,015.08	-
-	33,802,982.63
-	-
-	-
-	-
477,214,733.20	-
-	-
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-	-
-	-
4,415,735.12	-
-	-
-	-
-	-
1,509,156.23	-
-	-
-	-
273,782,964.00	-
198,516,174.35	-
-	-
-	-
-	-
-	40,562,936.54
216,823,570.54	-
-	223,946,337.16
-	178,430,370.00
1,738,958.00	-
-	-
74,522,050.96	-
-	-
9,395,675.36	-
-	-
-	-
1,408,865.86	-
1,887,009.35	-
18,231,712.63	-
17,317.78	-
372,379.06	-
-	-
168,476.13	-
-	-
27,730.28	-
619,838.01	-
31,732.78	-
-	-
-	-
238,634.44	-
-	-
-	-
-	-
-	52,222,682.00
363,485,558.19	-
638,368,724.76	-
-	1,002,165,532.74
-	-
-	2,282,135.29
27,414,469.00	-
-	-
117,028.79	-
119,000.81	-
160,837.69	-
1,227.02	-

-	-
10,003.75	-
24,868.48	-
10,101.81	-
7,735.32	-
-	-
-	-
55,691.40	-
-	-
-	-
-	-
40.04	-
-	-
-	-
581.43	-
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164.41	-
-	-
-	-
-	-
-	-
2,316.56	-
27,331.33	-
51,170.45	-
-	-
11,939.82	-
16,881.57	-
2,090,325.91	-
-	-
63,550.61	-
-	-
934.45	-
47,718.00	-
45,329.60	-
319,367.59	-
1,020,786.86	-
-	-
18,125.00	-
592,607.61	-
-	-
88,810.01	-
7,905.48	-
169,903.63	-
-	-
-	14,957.39

24,432.09	-
7,807.00	-
17,137.60	-
670,959.04	-
-	-
-	-
-	-
-	-
-	-
339,111.59	-
600.00	-
-	-
-	-
644.94	-
39,772.42	-
66,555.17	-
6,492.85	-
20,472.60	-
-	-
619,388.89	-
154,319.00	-
-	-
668,336.67	-
606,106.97	-
-	-
-	-
29,077.85	-
-	544.46
-	991.79
-	-
-	-
15,072,261.64	-
-	-
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542.17	-

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78.55	-
80.00	-
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-	80.00
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-	-
-	-
-	-
13,170.97	-
133,871.35	-
1,654,360.51	-
-	-
44,592.94	-
-	-
272,229.88	-
-	-
-	6,480.58
1,185.49	-
1,465.00	-
-	-
-	-
304.99	-
350.00	-
-	5,000.00
-	-
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-	-
-	-
-	-
13,685.00	-
-	-
-	-
51,944.62	-
-	55,680.00
-	-
-	-
40,465.14	-
20,559.57	-
18,938.26	-
-	879.26
-	-
-	-
91,246.25	-
78,568.11	-
-	-
-	-
-	-
9,250.00	-
8,202.02	-

-	-
10,401.65	-
-	-
-	-
-	-
-	-
24,606.09	-
17,992.97	-
7,960.65	-
16,905.12	-
-	-
-	-
43,311.54	-
-	984.39
-	6,389.26
-	-
-	-
-	-
-	-
-	-
150,937.68	-
-	22,538.37
-	-
991.79	-
-	8,016.38
-	-
235.00	-
-	-
1,514.82	-
-	-
-	41.02
-	-
-	-
-	-
-	863.45
-	-
-	-
-	-
-	1,175,065.82
-	-
-	-
-	-
-	16,373.67
-	-
-	129,111.83
-	-
-	203,146.43
-	-
-	237,516.20
-	-
-	240,635,422.91
-	1,970,700.51
-	-
-	225,279.15
-	1,902,328.85

-	-
-	-
-	94,671.07
-	336,348.69
-	425,310.71
-	508,274.83
-	110,821.30
-	142,296.67
-	48,142.24
-	221,850.22
-	948,357.17
-	689,631.54
-	709,939.75
-	367,208.05
-	10,126.93
-	1,466,578.14
-	15,944.32
-	131,259.87
-	113,623.39
-	85,329.48
-	211,093.55
-	-
-	-
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From:	Bonnie Lemcke
To:	Ken Kandeepan
Cc:	Daniel Hengeveld
Subject:	FW: following up on your questions
Date:	Wednesday, January 04, 2017 4:27:00 PM
Attachments:	Ontario Talking Points (January 4, 2016).docx

Hi Ken,

This a note that CIBC is planning to release about the province. Gadi met with the analyst and we are now making sure there are no factual errors. There is a section on the qualified opinion. Can you review and let me know if the language or numbers need to change and if we should send back to the controller's office for their review.

Bonnie

From: Lewis, Paul (MOF) [mailto:Paul.D.Lewis@ontario.ca]
Sent: Wednesday, January 04, 2017 11:21 AM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: FW: following up on your questions

Hi Bonnie
I received this note from Maria. Do they normally put these notes out?
She's looking for some missing information, including the H1 IPO

]thanks
Paul

From: Berlettano, Maria (Macro Strategy) [mailto:Maria.Berlettano@cibc.com]
Sent: January-04-17 11:19 AM
To: Lewis, Paul (MOF)
Cc: Bognar, Tom
Subject: RE: following up on your questions

Hi Paul,

We appreciated the opportunity to meet with you, Gadi and Daniel last month. The meeting was very informative and insightful.

After reviewing our meeting notes, we came to the conclusion that there was some useful information that investors would find interesting. That is the genesis of the attached research note.

As discussed, we would appreciate if you would review and comment on the accuracy of the various facts and also provide an answer to the outstanding Hydro One IPO question. As well, please advise on the accuracy of the equalization framework description. In doing some additional research, I believe it is a two-year lag, contrary to what I had said at our meeting.

Our aim is to publish Thursday morning.

Thank you and best regards,

Maria

Maria Berlettano, CFA | Head of Canadian Government Credit Strategy, Macro Strategy Research | CIBC Capital

Markets | CIBC World Markets Inc. | Brookfield Place, 161 Bay Street, 5th Floor, Toronto, Ontario M5J 2S8 |
Office: 416 594-8041 | Cell: 647 467-9736 | Fax: 416 956-6719 | maria.berlettano@cibc.com



From: Lewis, Paul (MOF) [mailto:Paul.D.Lewis@ontario.ca]
Sent: Friday, December 09, 2016 12:01 PM
To: Berlettano, Maria (Macro Strategy)
Subject: following up on your questions

Hi Maria
It was good to meet with you earlier this week. Below are some follow-ups to a couple of questions you had:

Aerospace accounted for 0.3% of economy-wide Ontario GDP in 2015, and 2.5% of total manufacturing sector output.
By comparison, the auto industry accounts for 2.2% of Ontario GDP and 18.1% of the manufacturing sector.

Ontario started to receive equalization payments in 2009-2010, the amounts are available at the federal dept of Finance
https://www.fin.gc.ca/fedprov/mtp-eng.asp#Ontario[fin.gc.ca]

On the province's food industry, I've not been able to find much information, other than a general intro page at the Ministry of Agriculture:
http://www.omafra.gov.on.ca/english/new/ontfoodindustry.htm[omafra.gov.on.ca]
The contact at the bottom might be able to provide you with more specific information.

Take care
Paul Lewis
Director
Economic and Revenue Forecasting and Analysis Branch
Ontario Ministry of Finance

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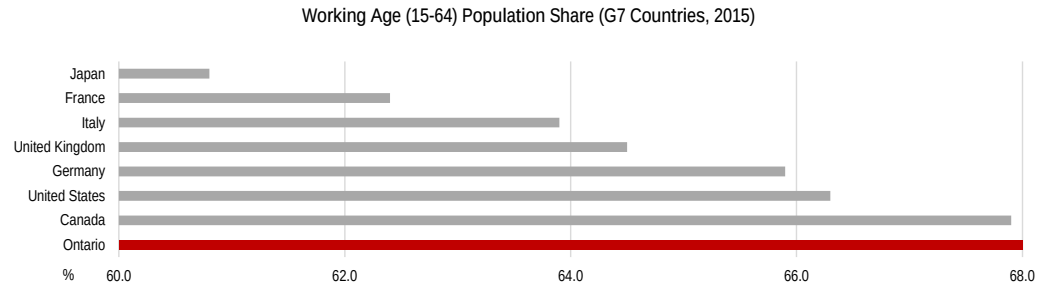
Ontario Talking Points (January 4, 2017)

Insights from our meeting last month with officials from the province.

- How is Ontario positioned with respect to the quality and rising cost of healthcare?
  - Ontario is building and/or upgrading 44 hospitals with state-of-the-art facilities.
  - As the population grows and ages, healthcare costs will rise, but the healthcare cost curve is flattening, which is consistent with the experience in advanced economies.
  - Ontario has been successful at containing health care expense growth at less than 5% annually over the past 6 years. In the last three years, the annual average increase was only 2.1%. In Fiscal 2015-16, health care expense growth was only 1.1% versus overall program spending growth of 4.2%. [Ontario 2015-16 Annual Report Click Here]
  - The aging population adds about 1% to annual expense growth.
  - Experience has shown that healthcare costs for individuals is the highest in the first two years and last two years of life.
  - While the population is aging and people are living longer, they are "healthier and wealthier". Moreover, since the 2006 amendment to the Ontario Human Rights Code which effectively eliminated the 65 mandatory retirement age, people are working and contributing longer to the economy. In 2006, the Ontario participation rate (55+) was in the area of 28%. Today, it's over 34%.
  - Ontario has the largest working-age (15-64) population share compared to the G7 countries and has enjoyed strong employment gains in above-average wage industries since the Global Recession.



Source: Statistics Canada and The World Bank

- What agreement does the province expect with the Federal government under the federal/provincial Health Accord?
  - We don't expect to get back to when the federal government paid for around 50% of provincial health spending. The federal share of health funding is currently between 20-25%.
  - The minimum escalator is set to drop to 3% in 2017 from 6% previously, and this is not acceptable.
  - Background Note: At the December "health talk" meetings between the Federal Government, provinces, and territories, the collective ask of the federal government was for a 5.2% annual escalator. The federal government raised its offer from 3% to 3.5% plus $11bln over 10 years for home care and mental health as well as another $544mln over 5 years for initiatives on prescription drugs and health innovation. An agreement was not reached. A few days following the meetings, the Province of New Brunswick announced that it had reached a separate bilateral agreement securing an additional $230mln more for health care which it assesses is equivalent to an effective 4.1% annual escalator. The provinces of Nova Scotia and Newfoundland and Labrador reached similar agreements.

- How will Federal infrastructure funding affect borrowing and capital plans?
  - It is not clear at this stage how the federal infrastructure spending program will work into the $137bln 10-year capital plan, but it will be factored into the spring budget along with implications of both federal and provincial climate change plans.

- Will Ontario consider using its fiscal capacity to raise taxes/fees to ensure meeting its balanced budget target in Fiscal 2017-18?
  - Ontario is committed to returning to balance next year and is pursuing several options laid-out in the recommendations of the "Commission on the Reform of Ontario's Public Services, Public Services for Ontarians: A Path to Sustainability and Excellence" by Chair Don Drummond, an economist (The Drummond Report is a deficit-reduction report released in February 2012 to advise the Ontario government on how to reduce its debt levels). Click Here
  - Budget 2016 has identified a $500mln Program Review Savings Target for Fiscal 2016-17 that entails Review, Renewal and Transformation. Click Here
  - The 2016 savings target follows the $250mln target that was set and achieved in Fiscal 2015-16.
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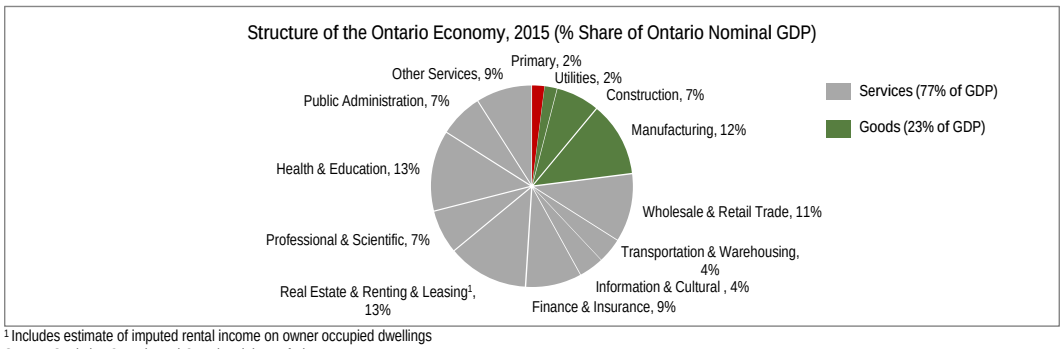

[1] Includes estimate of imputed rental income on owner occupied dwellings
Source: Statistics Canada and Ontario Ministry of Finance

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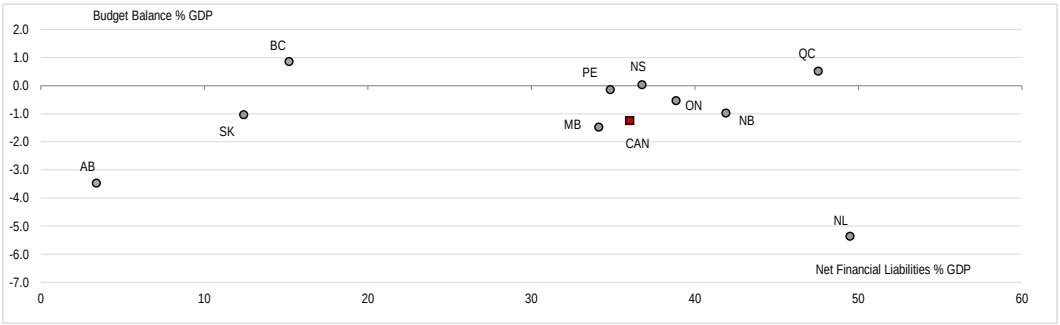
  -

Provincial Fiscal Positioning (Fiscal 2016-17 Forecast)



Source: Government Public Accounts, CIBC Macro Strategy (Quebec budget balance before deposits to the Generations Fund)

Province of Ontario Credit Ratings:

DBRS	AA(low)
Fitch	AA-
Moody's	Aa2
S&P	A+

All Outlooks Stable

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From:	Bonnie Lemcke
To:	Ken Kandeepan
Cc:	Daniel Hengeveld
Subject:	FW: following up on your questions
Date:	Wednesday, January 04, 2017 4:27:00 PM
Attachments:	Ontario Talking Points (January 4, 2016).docx

Hi Ken,

This a note that CIBC is planning to release about the province. Gadi met with the analyst and we are now making sure there are no factual errors. There is a section on the qualified opinion. Can you review and let me know if the language or numbers need to change and if we should send back to the controller's office for their review.

Bonnie

From: Lewis, Paul (MOF) [mailto:Paul.D.Lewis@ontario.ca]
Sent: Wednesday, January 04, 2017 11:21 AM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: FW: following up on your questions

Hi Bonnie
I received this note from Maria. Do they normally put these notes out?
She's looking for some missing information, including the H1 IPO

]thanks
Paul

From: Berlettano, Maria (Macro Strategy) [mailto:Maria.Berlettano@cibc.com]
Sent: January-04-17 11:19 AM
To: Lewis, Paul (MOF)
Cc: Bognar, Tom
Subject: RE: following up on your questions

Hi Paul,

We appreciated the opportunity to meet with you, Gadi and Daniel last month. The meeting was very informative and insightful.

After reviewing our meeting notes, we came to the conclusion that there was some useful information that investors would find interesting. That is the genesis of the attached research note.

As discussed, we would appreciate if you would review and comment on the accuracy of the various facts and also provide an answer to the outstanding Hydro One IPO question. As well, please advise on the accuracy of the equalization framework description. In doing some additional research, I believe it is a two-year lag, contrary to what I had said at our meeting.

Our aim is to publish Thursday morning.

Thank you and best regards,

Maria

Maria Berlettano, CFA | Head of Canadian Government Credit Strategy, Macro Strategy Research | CIBC Capital

Markets | CIBC World Markets Inc. | Brookfield Place, 161 Bay Street, 5th Floor, Toronto, Ontario M5J 2S8 |
Office: 416 594-8041 | Cell: 647 467-9736 | Fax: 416 956-6719 | maria.berlettano@cibc.com



From: Lewis, Paul (MOF) [mailto:Paul.D.Lewis@ontario.ca]
Sent: Friday, December 09, 2016 12:01 PM
To: Berlettano, Maria (Macro Strategy)
Subject: following up on your questions

Hi Maria
It was good to meet with you earlier this week. Below are some follow-ups to a couple of questions you had:

Aerospace accounted for 0.3% of economy-wide Ontario GDP in 2015, and 2.5% of total manufacturing sector output.
By comparison, the auto industry accounts for 2.2% of Ontario GDP and 18.1% of the manufacturing sector.

Ontario started to receive equalization payments in 2009-2010, the amounts are available at the federal dept of Finance
https://www.fin.gc.ca/fedprov/mtp-eng.asp#Ontario[fin.gc.ca]

On the province's food industry, I've not been able to find much information, other than a general intro page at the Ministry of Agriculture:
http://www.omafra.gov.on.ca/english/new/ontfoodindustry.htm[omafra.gov.on.ca]
The contact at the bottom might be able to provide you with more specific information.

Take care
Paul Lewis
Director
Economic and Revenue Forecasting and Analysis Branch
Ontario Ministry of Finance

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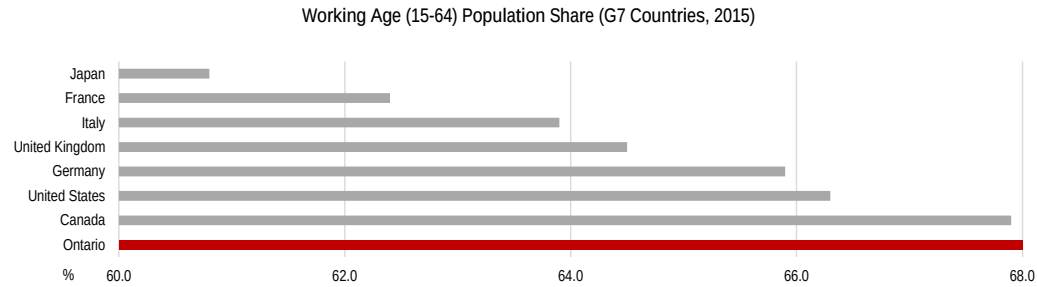
Ontario Talking Points (January 4, 2017)

Insights from our meeting last month with officials from the province.

- How is Ontario positioned with respect to the quality and rising cost of healthcare?
  - Ontario is building and/or upgrading 44 hospitals with state-of-the-art facilities.
  - As the population grows and ages, healthcare costs will rise, but the healthcare cost curve is flattening, which is consistent with the experience in advanced economies.
  - Ontario has been successful at containing health care expense growth at less than 5% annually over the past 6 years. In the last three years, the annual average increase was only 2.1%. In Fiscal 2015-16, health care expense growth was only 1.1% versus overall program spending growth of 4.2%. [Ontario 2015-16 Annual Report Click Here]
  - The aging population adds about 1% to annual expense growth.
  - Experience has shown that healthcare costs for individuals is the highest in the first two years and last two years of life.
  - While the population is aging and people are living longer, they are "healthier and wealthier". Moreover, since the 2006 amendment to the Ontario Human Rights Code which effectively eliminated the 65 mandatory retirement age, people are working and contributing longer to the economy. In 2006, the Ontario participation rate (55+) was in the area of 28%. Today, it's over 34%.
  - Ontario has the largest working-age (15-64) population share compared to the G7 countries and has enjoyed strong employment gains in above-average wage industries since the Global Recession.



Source: Statistics Canada and The World Bank

- What agreement does the province expect with the Federal government under the federal/provincial Health Accord?
  - We don't expect to get back to when the federal government paid for around 50% of provincial health spending. The federal share of health funding is currently between 20-25%.
  - The minimum escalator is set to drop to 3% in 2017 from 6% previously, and this is not acceptable.
  - Background Note: At the December "health talk" meetings between the Federal Government, provinces, and territories, the collective ask of the federal government was for a 5.2% annual escalator. The federal government raised its offer from 3% to 3.5% plus $11bln over 10 years for home care and mental health as well as another $544mln over 5 years for initiatives on prescription drugs and health innovation. An agreement was not reached. A few days following the meetings, the Province of New Brunswick announced that it had reached a separate bilateral agreement securing an additional $230mln more for health care which it assesses is equivalent to an effective 4.1% annual escalator. The provinces of Nova Scotia and Newfoundland and Labrador reached similar agreements.

- How will Federal infrastructure funding affect borrowing and capital plans?
  - It is not clear at this stage how the federal infrastructure spending program will work into the $137bln 10-year capital plan, but it will be factored into the spring budget along with implications of both federal and provincial climate change plans.

- Will Ontario consider using its fiscal capacity to raise taxes/fees to ensure meeting its balanced budget target in Fiscal 2017-18?
  - Ontario is committed to returning to balance next year and is pursuing several options laid-out in the recommendations of the "Commission on the Reform of Ontario's Public Services, Public Services for Ontarians: A Path to Sustainability and Excellence" by Chair Don Drummond, an economist (The Drummond Report is a deficit-reduction report released in February 2012 to advise the Ontario government on how to reduce its debt levels). Click Here
  - Budget 2016 has identified a $500mln Program Review Savings Target for Fiscal 2016-17 that entails Review, Renewal and Transformation. Click Here
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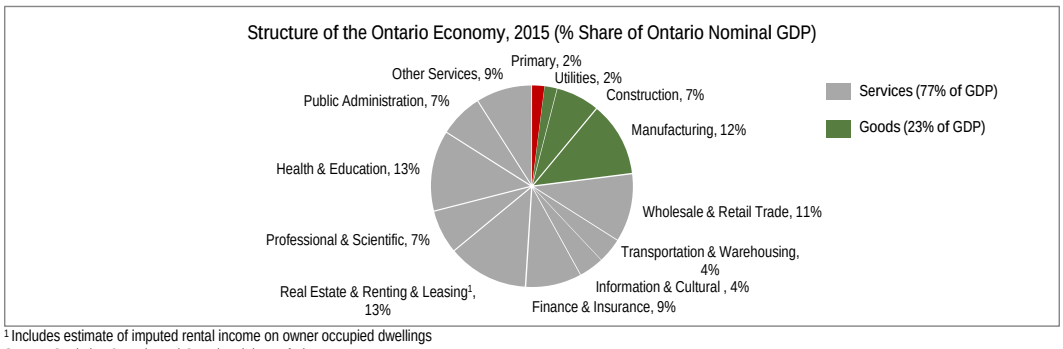

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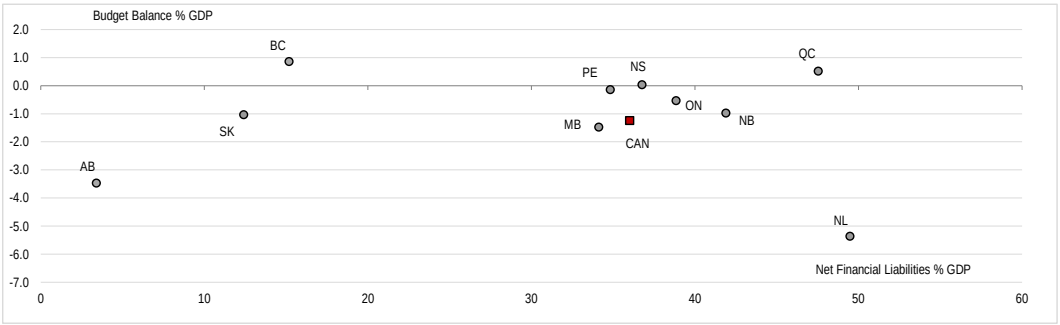

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S&P	A+

All Outlooks Stable

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From: George Sakura
To: Ken Kandeepan
Subject: FW: net debt to GDP for 3 scenarios
Date: Monday, January 16, 2017 11:27:51 AM

From: Inglis, Liane (MOF) [mailto:Liane.Inglis@ontario.ca]
Sent: Monday, January 16, 2017 11:18 AM
To: George Sakura <George.Sakura@ofina.on.ca>
Cc: Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>
Subject: RE: net debt to GDP for 3 scenarios

Hi George, ideally we'd have them by 12:30 to incorporate for a 3pm briefing.

One thing I forgot to mention – scenarios 2&3 reverse the pension adjustment for 2 of the 4 pensions. I'm guessing this would also impact the debt levels, as you would be backing out the debt taken on in 2015 -16 Public Accounts as part of the pension adjustment?

Liane

From: George Sakura [mailto:George.Sakura@ofina.on.ca]
Sent: January 16, 2017 11:09 AM
To: Inglis, Liane (MOF)
Cc: Meralli, Shemin (OFA); Lindquist, Emma (MOF); Cheung, Danny (MOF)
Subject: RE: net debt to GDP for 3 scenarios

Approximately when do you need this by in order to incorporate it into the Minister's briefing?

From: Inglis, Liane (MOF) [mailto:Liane.Inglis@ontario.ca]
Sent: Monday, January 16, 2017 10:54 AM
To: George Sakura <George.Sakura@ofina.on.ca>
Cc: Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>
Subject: net debt to GDP for 3 scenarios

Hello George,

There was a SOC briefing this morning where multiple deficit scenarios out to 20-21 were discussed (attached). The SOC asked what net-debt to GDP would look like under each scenario; could I ask you folks to pull these number together for us? We are on a tight timeline as there is a Minister's briefing schedule for later today that we would like to be able to incorporate this information into. Please let me know if this is too quick of a turnaround and I will let people here know we may be unable to make that timeline (there is another minister's briefing tomorrow morning that we can include the table in).

We would like to represent the three scenarios in the usual chart (p.100 of FES) but with the black line forking off into the three different scenarios (no need for the accumulated deficit to GDP line (red line)). If you are able to pull this together, it would be helpful, but we can also do the chart here once we have the numbers.

Thanks very much and please let me know if you need anything else from us/ have any questions.

Liane

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From:	Bonnie Lemcke
To:	Ken Kandeepan; John Psinas
Subject:	FW: ok, here"s what i wrote up quick...
Date:	Monday, February 13, 2017 1:43:38 PM

Warren wants us the review this quickly. He wants to send out shortly.

Bonnie

From: Lovely, Warren [mailto:warren.lovely@nbc.ca]
Sent: Monday, February 13, 2017 1:40 PM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: ok, here's what i wrote up quick...

Quick Hit — How do you spell relief? P-E-N-S-I-O-N

The Ontario government received some good news today, as a specially struck *Pension Asset Expert Advisory Panel* recommended that net assets in two jointly sponsored pension plans (one for teachers, the other for civil servants) "should be recognized as an asset in Ontario's financial statements". This may sound like an esoteric accounting matter, but don't be fooled: there are some non-trivial implications for the Ontario credit. If you followed the earlier dispute between the provincial government and the provincial Auditor General you know that "pension adjustments" created some notable changes in Ontario's income statement and balance sheet in the fall update and public accounts. By adopting the Panel's recommendation, Ontario will be able to record a smaller deficit for the 2015-16 fiscal year, relative to the AG's more conservative treatment which Ontario temporarily adopted in a fall update. So last fiscal year's shortfall will shrink from $5.0 billion to $3.5 billion (just 0.5% of GDP). And the fiscal relief will be even more pronounced going forward, with Ontario in a position to sidestep a "pension adjustment" charge that had been pegged at $2.2 billion for 2016-17, $2.8 billion for 2017-18 and as much as $3.7 billion by 2018-19 in the fall. Thus, reverting to the traditional pension accounting treatment removes what could have been something of a fiscal headache for a government seeking to take the long-awaited step out of the red and into the black. And don't forget the corresponding reduction in net debt, as Ontario we reverse the $10.7 billion of pension-related debt put on the books in the fall statement, knocking nearly 1.5%-pts from the net debt-to-GDP ratio. Ontario, like all provinces, still has challenges to contend with, but when it comes to pension accounting, this expert panel delivered some welcome news, even if the Auditor General might not fully agree. Stay tuned for a supplemental report in the coming weeks, exploring accounting treatment on potential future net assets in two separate pension plans (HOOPP and CAATPP).

Warren Lovely | Managing Director, Head of Public Sector Research & Strategy | National Bank Financial
130 King Street W, 4th Floor Podium | Toronto, ON | M5X 1J9 | T: 416-869-8598 | E: warren.lovely@nbc.ca

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From:	Bonnie Lemcke
To:	"cindy.veinot@ontario.ca"
Cc:	Nadine Petsche (MOF); "sarah.hosick@ontario.ca"; John Psinas; Ken Kandeepan; Lynsey Wynberg; Gadi Mayman
Subject:	FW: ok, here"s what i wrote up quick...
Date:	Monday, February 13, 2017 1:56:02 PM
Importance:	High

Hi Cindy,

Warren Lovely from CIBC is writing a short piece on the accounting issue. He wants to release very quickly. We are reviewing but please get back to me as soon as possible if you have any concerns.

Thanks,
Bonnie

From: Lovely, Warren [mailto:warren.lovely@nbc.ca]
Sent: Monday, February 13, 2017 1:40 PM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: ok, here's what i wrote up quick...

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From:	Ken Kandeepan
To:	John Psinas
Subject:	FW: tech briefing
Date:	Thursday, September 07, 2017 12:04:39 PM
Attachments:	Public Accounts Technical Briefing 201617_Final.pptx Pension Panel Slides _2016-17 PA Tech Briefing_Final.pptx

FYI

Ken k

From: Anna Strathy
Sent: Thursday, September 07, 2017 12:04 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: FW: tech briefing

FYI

From: McLean, David (MOF) [mailto:David.McLean@ontario.ca]
Sent: Thursday, September 07, 2017 10:32 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>
Subject: FW: tech briefing

FYI

From: MacIntyre, Kyle (TBS)
Sent: September 7, 2017 9:06 AM
To: Kwamena, Boafoa (CAB)
Cc: Bromm, William (CAB); McLean, David (MOF)
Subject: RE: tech briefing

Here's the tech deck and a summary of the former Panel's report (which will be delivered by Uros Karadzic).

Tech deck:

- Pls use: Confederation17
- Helen/Scott open up with context
- Cindy to speak to:
  - Preparation of the financial statements and key changes to these public accounts (including those we agree with the AG on)
  - IESO related changes (qualified on)
  - Pension asset related accounting (qualified on)
- Turn over to Uros to summarise former panel report

Our MO is reviewing, will share any edits. IESO has looked at their slides. Focus is supposed to be

largely on the Pensions, hence the prominence in the deck.

Tech briefing:

- In the Nipigon room.
- Starts at 1:00
- Media Avail w two ministers: starts at 1:45, is the current tracking

Media kits are being prepared.

K.

From: Kwamena, Boafoa (CAB)
Sent: September-07-17 8:42 AM
To: MacIntyre, Kyle (TBS)
Cc: Bromm, William (CAB)
Subject: tech briefing

Hi

Are there materials you can share? Thanks

Boafoa Kwamena
Special Advisor
Office of the Secretary of the Cabinet
Cabinet Office
416-325-4400
Boafoa.kwamena2@ontario.ca



2016-17 Public Accounts

Technical Briefing

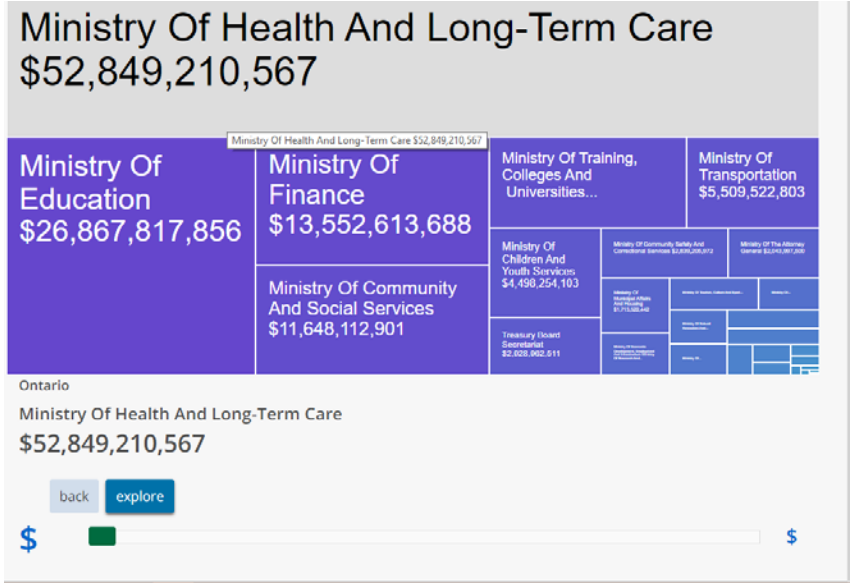
September 7, 2017

Purpose of today's briefing

1. Provide an overview of the results for fiscal 2016-17
2. Highlight the changes made in the 2016-17 financial statements:
   a) Classification of third-party revenues for hospitals, colleges and school boards
   b) Accounting basis for Ontario Power Generation and Hydro One
   c) Accounting for the Independent Electricity System Operator (IESO) and market accounts
   d) Accounting for net pension assets of jointly sponsored pension plans

2016-17 Highlights

- New digital tools have been developed that present the Public Accounts data in innovative, visual formats.
- This year, Ontario has:
  - Released six new downloadable data sets
  - Created new data visualizations tools
  - Published the web page under the Open Ontario Licence



Ontario

2016-17 Highlights

- Ontario has beaten its deficit target eight years in a row. The 2016-17 Public Accounts of Ontario show that Ontario's deficit is $1 billion - $3.3 billion lower than projected in the 2016 Ontario Budget.
- In the 2016-17 fiscal year (April to March):
  - revenue was $140.7 billion – $2.2 billion more than expected in the 2016 Budget
  - expenses were $141.7 billion – $0.1 billion less than planned in the 2016 Budget
  - Some of the top spending areas included



$56B Health



$26.6B Education



$12.9B Infrastructure

Ontario

2016-17 Highlights

Other highlights include:

- Ontario's real gross domestic product (GDP) was 2.7%, up from 2.2% in the 2016 Budget. Over the last three years, Ontario's GDP growth has outpaced that of all G7 countries.
- Net debt-to-GDP continues to be forecasted lower than expected for 2016-17 at 37.8%, an improvement over the 2016 Budget of 39.6%.

Visit **Ontario.ca/publicaccounts** for more highlights and digital tools that help make Ontario's finances easier to understand, access and use.

Ontario

Summary 2016-17 Results

2016-17 Actual Results					
$ Billions	**2016-17 Budget[1]**	**2016-17 Actual**	**2015-16 Actual [1 2]**	**Change from Budget**	**% Change**
Revenues	138.5	**140.7**	136.1	2.2	1.6%
Expenses	141.8	**141.7**	139.7	(0.1)	-0.1%
Reserve	1.0	**-**	-	(1.0)	
Annual Deficit	(4.3)	**(1.0)**	(3.5)	3.3	-76.7%
Net Debt		**(301.6)**	(295.4)		
Accumulated Deficit		**(193.5)**	(192.0)		

[1] 2015-16 Actuals and 2016-17 Budget have been reclassified to reflect the change in presentation for third party revenues of hospitals, colleges and school boards (no change to deficit)

[2] 2015-16 Actual has been restated to reverse the impact of regulated accounting for pensions

Ontario

Preparation of the Financial Statements

- The consolidated financial statements are prepared by the Government of Ontario in accordance with the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB).
- PSAB independently establishes accounting standards for the public sector in Canada.
- The objective of PSAB standards is to meet the needs of users of financial statements by providing the information needed for accountability and decision making.
- PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.
- PSAB recognizes that their standards cannot address every potential situation, and that it may be necessary to refer to other sources of guidance.
    - *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

Accounting Changes for 2016-17

- The Province adopted several new accounting changes for the 2016-17 Public Accounts to better reflect the financial position and activities of the government during the fiscal year
- These changes included:
  a) Classification of third-party revenues for hospitals, colleges and school boards
  b) Accounting basis for Ontario Power Generation and Hydro One
  c) Accounting for the Independent Electricity System Operator (IESO) and market accounts
  d) Accounting for net pension assets of jointly sponsored pension plans

Classification of Third-Party Revenues for Hospitals, Colleges and School Boards

- 2016-17 Public Accounts present third-party revenues for hospitals, school boards and colleges with provincial revenue.
- In prior years, these revenues were netted against the expenses of the respective sectors (health, education, post-secondary).
- This is a change in presentation only.
- The changes increases total revenues and expenses by approximately $8 billion.
- There is no impact to the Province's deficit, net debt or accumulated deficit.
- This change is consistent with PSAB standards and the reporting practices of other senior Canadian governments.
- This change, supported by the Province's professional accounting staff, was recommended by the Office of the Auditor General in prior years.

Accounting basis for Ontario Power Generation and Hydro One

- The 2016-17 Public Accounts include the financial results of Ontario Power Generation (OPG) and Hydro One using International Financial Reporting Standards (IFRS).
- These two government business enterprises currently report their stand-alone financial results using Generally Accepted Accounting Principles in the United States (US GAAP).
- In prior years, the reported results of OPG and Hydro One were included in the results of the Province based on US GAAP.
- This change does not have a material impact on this year's Public Accounts.
- This change, supported by the Province's professional accounting staff, was recommended by the Office of the Auditor General in prior years.

Ontario

Accounting for Independent Electricity System Operator (IESO) Market Accounts

- Independent Electricity System Operator (IESO) is a corporation established pursuant to Part II of the *Electricity Act, 1998*, and prepares its financial statements in accordance with PSAB standards.
- KPMG LLP audits IESO's financial statements and issued an unqualified opinion on the December 31, 2016 financial statements.
- IESO administers a $17 billion annual market reflecting the amounts *due to* entities that provide electricity to the market (e.g. power generators) and *due from* entities who consume electricity (e.g. local distribution companies on behalf of their consumers). IESO is a party to these agreements with the market participants.
- In 2016, IESO changed the accounting for the market accounts, recognizing these amounts due from and due to the market participants as assets and liabilities respectively.
- This change has no impact to the province's annual deficit, net debt or accumulated deficit.
- The Ontario Power Authority (which was merged with the IESO on January 1, 2015) included a segment of these accounts in its financial statements, and received an unqualified opinion by its external auditor, KPMG LLP. The financial statements of the Province were not qualified by the Office of the Auditor General as a result of including these accounts.

Ontario

Accounting for IESO Market Accounts

- The IESO is a party to agreements with each market participant, and each market participant either owes an amount to the IESO or is owed an amount from the IESO. For example:
  - Ontario Power Generation has a receivable from IESO recorded on its financial statements related to power generated, and historically, IESO did not have a payable recorded to Ontario Power Generation – now it does
  - Hydro One has a payable to IESO recorded on its financial statements related to power purchases, and historically, IESO did not have a receivable recorded from Hydro One – now it does
- The amounts due from market participants meet the definition of an asset and the amounts due to market participants meet the definition of a liability under PSAB standards.
- In connection with this change, the accounting for eight other independent system operators in North America were reviewed, and all but one recognize market accounts in the financial statements.
- IESO management, their Audit Committee, their Board of Directors, their external auditor and the Office of the Provincial Controller support the change in accounting as being more transparent.
- A qualified opinion was issued by the Office of the Auditor General on the 2016-17 consolidated financial statements regarding the change in Independent Electricity System Operator's accounting for the "market accounts".

Accounting for Net Pension Assets of Jointly Sponsored Pension Plans

- Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans (JSPPs) where the Government of Ontario is a co-sponsor.
- The plans are funded on a 50/50 basis, co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.
  - On June 12, 2017, the co-sponsors of OTPP (Ontario Teachers Federation and the Government) announced a 1.1% reduction in contributions effective January 1, 2018
- Under PSAB standards, an asset arises when the government's total contributions to a plan, including interest earned thereon, are greater than the pension expense recognized since the start of the plan.
- Since 2001-02, the Province's share of pension assets reflected on the audited consolidated financial statements of the Province has been based on a policy considered to be consistent with PSAB standards related to accounting for retirement benefits. The standards have not changed since their issuance in 2001.
- In 2016, the government passed a time-limited regulation to require the full write-off of the net assets of both of these plans for the 2015-16 Public Accounts.

Ontario

Pension Accounting

- Based on professional staff's interpretation of PSAB standards, the government believes that pension assets for OPSEUPP and OTPP should be reported to fairly present the Province's financial position.
- The Province has shared control over the pension plan and the existing agreements in place between the sponsors support the recognition of the pension asset.
- The professional staff does not believe that the Government has the right to withdraw any surplus from the plan, and has supported the value of the pension asset solely on the basis of being able to reduce contributions in the future.
- The Province has recorded the pension assets for OTPP and OPSEUPP in its 2016-17 consolidated financial statements and has restated the 2015-16 consolidated financial statements to recognize the pension assets.
- With respect to the Healthcare of Ontario Pension Plan (HOOPP) and Colleges of Applied Arts and Technology Pension Plan (CAATPP), based on the difference in governance structures between these plans and OTPP and OPSEUPP, the Province has recorded a valuation allowance for CAATPP in the year (amount is not material). The HOOPP plan is not in a net asset position for accounting purposes at March 31, 2017. This treatment is consistent with the recommendations of the Pension Asset Expert Advisory Panel who issued a supplementary report on these plans in March 2017.

Pension Accounting

- The professional staff's interpretation of PSAB standards is supported by its own research and analysis as well as:
  - The report of the Pension Asset Expert Advisory Panel (https://www.ontario.ca/page/pension-asset-expert-advisory-panel-report) released on February 13, 2017 stating that the Government should record an asset for its share of the surplus reported in the accounting valuations for each plan and that no valuation allowance is required.
  - An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the OTPP, a summary of which is included in Appendix A. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions.
  - Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.
- A qualified opinion was issued by the Office of the Auditor General on the 2016-17 consolidated financial statements regarding the Province's accounting for the net pension assets of OTPP and OPSEUPP.

Ontario

Appendix A – Deloitte Summary of Accounting Opinion Issued on Pension Accounting

Deloitte was engaged to provide a report ("Deloitte Report") on the application of accounting standards by the Ontario Treasury Board Secretariat. Our report, which was issued on October 2, 2016, was prepared under professional standards for such reports set out by CPA Canada.

The subject of this report was the application of Public Sector Accounting Standards (PSAS), as established by CPA Canada, in the recognition of a pension asset in the Province of Ontario's financial statements. Pension accounting is subject to professional judgement and interpretation, and involves significant accounting estimates. The Deloitte Report focused on a specific aspect of this complex area as it relates to the Province of Ontario's accounting for the Ontario Teachers' Pension Plan (OTPP).

OTPP is a pension plan that is jointly sponsored by the Ontario government (or the Province) and the Ontario Teachers' Federation (OTF). Based on the Province's application of PSAS, OTPP is in a plan surplus position. We accepted this aspect of the Province's application of PSAS as a matter of fact in developing our report.

The Deloitte Report addressed the question of whether it was possible to record a pension asset related to the plan surplus in the Province's financial statements, given that the plan is jointly sponsored. We concluded that, based on the information provided to us by the Province and our professional judgement, that it was permissible under PSAS to record a pension plan asset, even though the Province's ability to benefit from any plan surplus, through future contribution reductions for example, would need to be negotiated with and agreed between the Province and OTF.

It is to be noted that even if a pension asset is recorded, PSAS would also require that consideration should be given to limiting the recorded amount of this pension asset to an amount that would be less than the calculated amount of the pension surplus. The Deloitte Report did not express a view on whether any limit to the recorded amount of the asset is needed in the case of the Province's accounting for the pension asset related to OTPP. Therefore, our report did not express a view on the amount of the pension asset that should be recorded in the Province's financial statements as at March 31, 2016 or at any other date.

Ontario

Appendix B: Panel Members

- Patricia O'Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG
- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Uros Karadzic – Pension actuary, member of the PSAB's Employment Benefit Taskforce, partner at EY
- Paul Martin – Comptroller with the Government of New Brunswick, member of the PSAB's Employment Benefit Taskforce and previously a partner with the national accounting firm of Grant Thornton LLP

Summary of Pension Asset Expert Advisory Panel

Technical Briefing

September 7, 2017

Pension Asset Expert Advisory Panel -- Process

- Panel was provided with briefings and documents (relevant legislation, plan texts, sponsor agreements) to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.

- Panel met with the Auditor General and members of her team to fully understand the basis for the OAG's accounting conclusions.

- Panel performed its own independent analysis of those documents and the legal, actuarial and accounting issues and reached its own conclusions.

- Panel considered:
  - guidance in PSAS specifically on Retirement Benefits
  - other relevant guidance in PSAS, and that issued by other standard setters identified in PSAS as sources to consult, in areas where the retirement benefits standard is not clear

Panel's Position on Recognition of Asset

- Net pension asset meets the definition of an economic resource because:
  - accounting surplus exists, and
  - future economic benefit is available to government as contribution reductions, freeing cash for other purposes.

- Unilateral control not necessary for asset recognition:
  - in fact, cannot exist in JDBPs or any other jointly controlled arrangement
  - sponsors jointly control the total net pension asset and must agree on how it will be used
  - key notion with joint control is that each sponsor can deny the other sponsor(s) access to the asset, ensuring no one side can make unilateral decisions
  - each sponsor should then recognize an asset relating to its portion of that jointly controlled surplus.

Panel's Position on Measurement of Asset

- Retirement benefits standard states that a sponsor measures the benefit of a surplus by the extent to which it can either take assets out of plan or reduce future contributions

- Contribution reductions are not the same as surplus withdrawal:
  - legal requirements for surplus withdrawal and contribution reductions are very different
  - joint sponsors free to decide on level of contributions in compliance with terms of Plan and Pension Benefits Act
  - no third-party approvals needed for contribution reductions

- No requirement for any agreement to be in place specifying exactly when and by how much contributions will be reduced
  - agreements in place already sufficient
  - standard says benefits need only be reasonably expected

- No onerous funding requirements exist for OTPP or OPSEUPP

Overall Conclusions of Panel

Recognition and measurement of the asset

- Net pension asset, without any valuation allowance, should be recognized in the Province's financial statements.
- Recognizing the asset will provide a faithful representation of the Province's financial position.
- Recognizing the asset will properly reflect the intention of the "deal" between the sponsors.

Overall

- Reasonable expectation that Sponsors will be able to benefit from lower contribution levels in future
- Established mechanisms exists to put these expectations into practice (in Plan documents and legislation)
- Surplus assets have real economic value government can benefit from so should be recognized

Appendix: Panel members

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- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP

- Uros Karadzic – Pension actuary, member of the PSAB's Employment Benefit Taskforce, partner at EY

- Paul Martin – Comptroller with the Government of New Brunswick, member of the PSAB's Employment Benefit Taskforce and previously a partner with the national accounting firm of Grant Thornton LLP

From:	Anna Strathy
To:	Ken Kandeepan
Subject:	FW: tech briefing
Date:	Thursday, September 07, 2017 12:03:34 PM
Attachments:	Public Accounts Technical Briefing 201617_Final.pptx Pension Panel Slides _2016-17 PA Tech Briefing_Final.pptx

FYI

From: McLean, David (MOF) [mailto:David.McLean@ontario.ca]
Sent: Thursday, September 07, 2017 10:32 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>
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Media kits are being prepared.

K.

From: Kwamena, Boafoa (CAB)
Sent: September-07-17 8:42 AM
To: MacIntyre, Kyle (TBS)
Cc: Bromm, William (CAB)
Subject: tech briefing

Hi

Are there materials you can share? Thanks

Boafoa Kwamena
Special Advisor
Office of the Secretary of the Cabinet
Cabinet Office
416-325-4400
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2016-17 Public Accounts

Technical Briefing

September 7, 2017

Purpose of today's briefing

1. Provide an overview of the results for fiscal 2016-17
2. Highlight the changes made in the 2016-17 financial statements:
   a) Classification of third-party revenues for hospitals, colleges and school boards
   b) Accounting basis for Ontario Power Generation and Hydro One
   c) Accounting for the Independent Electricity System Operator (IESO) and market accounts
   d) Accounting for net pension assets of jointly sponsored pension plans

2016-17 Highlights

- New digital tools have been developed that present the Public Accounts data in innovative, visual formats.
- This year, Ontario has:
  - Released six new downloadable data sets
  - Created new data visualizations tools
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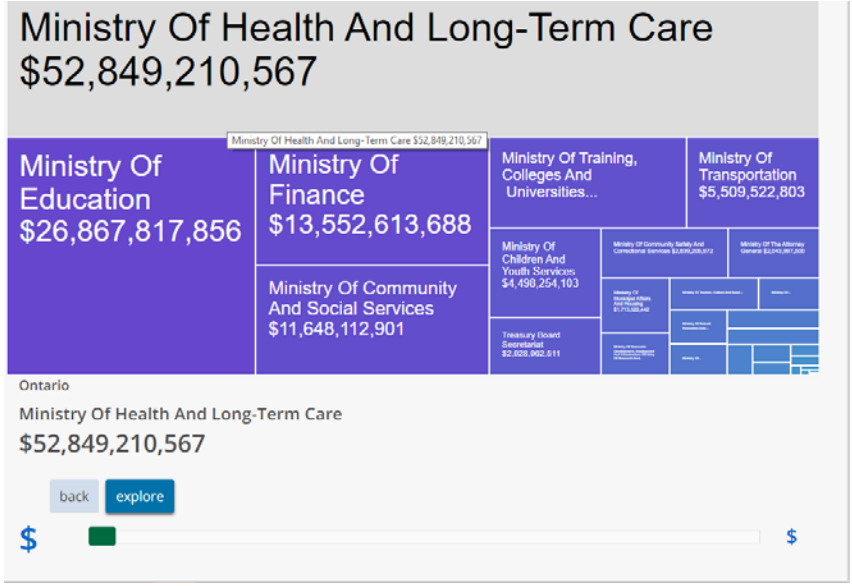

Ontario

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  - Some of the top spending areas included



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Other highlights include:

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- Net debt-to-GDP continues to be forecasted lower than expected for 2016-17 at 37.8%, an improvement over the 2016 Budget of 39.6%.

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Ontario

Summary 2016-17 Results

2016-17 Actual Results					
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Expenses	141.8	**141.7**	139.7	(0.1)	-0.1%
Reserve	1.0	**-**	-	(1.0)	
Annual Deficit	(4.3)	**(1.0)**	(3.5)	3.3	-76.7%
Net Debt		**(301.6)**	(295.4)		
Accumulated Deficit		**(193.5)**	(192.0)		

[1] 2015-16 Actuals and 2016-17 Budget have been reclassified to reflect the change in presentation for third party revenues of hospitals, colleges and school boards (no change to deficit)

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Ontario

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- These changes included:
  a) Classification of third-party revenues for hospitals, colleges and school boards
  b) Accounting basis for Ontario Power Generation and Hydro One
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- This is a change in presentation only.
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- This change is consistent with PSAB standards and the reporting practices of other senior Canadian governments.
- This change, supported by the Province's professional accounting staff, was recommended by the Office of the Auditor General in prior years.

Accounting basis for Ontario Power Generation and Hydro One

- The 2016-17 Public Accounts include the financial results of Ontario Power Generation (OPG) and Hydro One using International Financial Reporting Standards (IFRS).
- These two government business enterprises currently report their stand-alone financial results using Generally Accepted Accounting Principles in the United States (US GAAP).
- In prior years, the reported results of OPG and Hydro One were included in the results of the Province based on US GAAP.
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Ontario

Accounting for Independent Electricity System Operator (IESO) Market Accounts

- Independent Electricity System Operator (IESO) is a corporation established pursuant to Part II of the *Electricity Act, 1998*, and prepares its financial statements in accordance with PSAB standards.
- KPMG LLP audits IESO's financial statements and issued an unqualified opinion on the December 31, 2016 financial statements.
- IESO administers a $17 billion annual market reflecting the amounts *due to* entities that provide electricity to the market (e.g. power generators) and *due from* entities who consume electricity (e.g. local distribution companies on behalf of their consumers). IESO is a party to these agreements with the market participants.
- In 2016, IESO changed the accounting for the market accounts, recognizing these amounts due from and due to the market participants as assets and liabilities respectively.
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- The Ontario Power Authority (which was merged with the IESO on January 1, 2015) included a segment of these accounts in its financial statements, and received an unqualified opinion by its external auditor, KPMG LLP. The financial statements of the Province were not qualified by the Office of the Auditor General as a result of including these accounts.

Ontario

Accounting for IESO Market Accounts

- The IESO is a party to agreements with each market participant, and each market participant either owes an amount to the IESO or is owed an amount from the IESO. For example:
  - Ontario Power Generation has a receivable from IESO recorded on its financial statements related to power generated, and historically, IESO did not have a payable recorded to Ontario Power Generation – now it does
  - Hydro One has a payable to IESO recorded on its financial statements related to power purchases, and historically, IESO did not have a receivable recorded from Hydro One – now it does
- The amounts due from market participants meet the definition of an asset and the amounts due to market participants meet the definition of a liability under PSAB standards.
- In connection with this change, the accounting for eight other independent system operators in North America were reviewed, and all but one recognize market accounts in the financial statements.
- IESO management, their Audit Committee, their Board of Directors, their external auditor and the Office of the Provincial Controller support the change in accounting as being more transparent.
- A qualified opinion was issued by the Office of the Auditor General on the 2016-17 consolidated financial statements regarding the change in Independent Electricity System Operator's accounting for the "market accounts".

Accounting for Net Pension Assets of Jointly Sponsored Pension Plans

- Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans (JSPPs) where the Government of Ontario is a co-sponsor.
- The plans are funded on a 50/50 basis, co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.
  - On June 12, 2017, the co-sponsors of OTPP (Ontario Teachers Federation and the Government) announced a 1.1% reduction in contributions effective January 1, 2018
- Under PSAB standards, an asset arises when the government's total contributions to a plan, including interest earned thereon, are greater than the pension expense recognized since the start of the plan.
- Since 2001-02, the Province's share of pension assets reflected on the audited consolidated financial statements of the Province has been based on a policy considered to be consistent with PSAB standards related to accounting for retirement benefits. The standards have not changed since their issuance in 2001.
- In 2016, the government passed a time-limited regulation to require the full write-off of the net assets of both of these plans for the 2015-16 Public Accounts.

Ontario

Pension Accounting

- Based on professional staff's interpretation of PSAB standards, the government believes that pension assets for OPSEUPP and OTPP should be reported to fairly present the Province's financial position.
- The Province has shared control over the pension plan and the existing agreements in place between the sponsors support the recognition of the pension asset.
- The professional staff does not believe that the Government has the right to withdraw any surplus from the plan, and has supported the value of the pension asset solely on the basis of being able to reduce contributions in the future.
- The Province has recorded the pension assets for OTPP and OPSEUPP in its 2016-17 consolidated financial statements and has restated the 2015-16 consolidated financial statements to recognize the pension assets.
- With respect to the Healthcare of Ontario Pension Plan (HOOPP) and Colleges of Applied Arts and Technology Pension Plan (CAATPP), based on the difference in governance structures between these plans and OTPP and OPSEUPP, the Province has recorded a valuation allowance for CAATPP in the year (amount is not material). The HOOPP plan is not in a net asset position for accounting purposes at March 31, 2017. This treatment is consistent with the recommendations of the Pension Asset Expert Advisory Panel who issued a supplementary report on these plans in March 2017.

Pension Accounting

- The professional staff's interpretation of PSAB standards is supported by its own research and analysis as well as:
  - The report of the Pension Asset Expert Advisory Panel (https://www.ontario.ca/page/pension-asset-expert-advisory-panel-report) released on February 13, 2017 stating that the Government should record an asset for its share of the surplus reported in the accounting valuations for each plan and that no valuation allowance is required.
  - An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the OTPP, a summary of which is included in Appendix A. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions.
  - Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.
- A qualified opinion was issued by the Office of the Auditor General on the 2016-17 consolidated financial statements regarding the Province's accounting for the net pension assets of OTPP and OPSEUPP.

Ontario

Appendix A – Deloitte Summary of Accounting Opinion Issued on Pension Accounting

Deloitte was engaged to provide a report ("Deloitte Report") on the application of accounting standards by the Ontario Treasury Board Secretariat. Our report, which was issued on October 2, 2016, was prepared under professional standards for such reports set out by CPA Canada.

The subject of this report was the application of Public Sector Accounting Standards (PSAS), as established by CPA Canada, in the recognition of a pension asset in the Province of Ontario's financial statements. Pension accounting is subject to professional judgement and interpretation, and involves significant accounting estimates. The Deloitte Report focused on a specific aspect of this complex area as it relates to the Province of Ontario's accounting for the Ontario Teachers' Pension Plan (OTPP).

OTPP is a pension plan that is jointly sponsored by the Ontario government (or the Province) and the Ontario Teachers' Federation (OTF). Based on the Province's application of PSAS, OTPP is in a plan surplus position. We accepted this aspect of the Province's application of PSAS as a matter of fact in developing our report.

The Deloitte Report addressed the question of whether it was possible to record a pension asset related to the plan surplus in the Province's financial statements, given that the plan is jointly sponsored. We concluded that, based on the information provided to us by the Province and our professional judgement, that it was permissible under PSAS to record a pension plan asset, even though the Province's ability to benefit from any plan surplus, through future contribution reductions for example, would need to be negotiated with and agreed between the Province and OTF.

It is to be noted that even if a pension asset is recorded, PSAS would also require that consideration should be given to limiting the recorded amount of this pension asset to an amount that would be less than the calculated amount of the pension surplus. The Deloitte Report did not express a view on whether any limit to the recorded amount of the asset is needed in the case of the Province's accounting for the pension asset related to OTPP. Therefore, our report did not express a view on the amount of the pension asset that should be recorded in the Province's financial statements as at March 31, 2016 or at any other date.

Ontario

Appendix B: Panel Members

- Patricia O'Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG
- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Uros Karadzic – Pension actuary, member of the PSAB's Employment Benefit Taskforce, partner at EY
- Paul Martin – Comptroller with the Government of New Brunswick, member of the PSAB's Employment Benefit Taskforce and previously a partner with the national accounting firm of Grant Thornton LLP

Summary of Pension Asset Expert Advisory Panel

Technical Briefing

September 7, 2017

Pension Asset Expert Advisory Panel -- Process

- Panel was provided with briefings and documents (relevant legislation, plan texts, sponsor agreements) to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.

- Panel met with the Auditor General and members of her team to fully understand the basis for the OAG's accounting conclusions.

- Panel performed its own independent analysis of those documents and the legal, actuarial and accounting issues and reached its own conclusions.

- Panel considered:
  - guidance in PSAS specifically on Retirement Benefits
  - other relevant guidance in PSAS, and that issued by other standard setters identified in PSAS as sources to consult, in areas where the retirement benefits standard is not clear

Panel's Position on Recognition of Asset

- Net pension asset meets the definition of an economic resource because:
  - accounting surplus exists, and
  - future economic benefit is available to government as contribution reductions, freeing cash for other purposes.

- Unilateral control not necessary for asset recognition:
  - in fact, cannot exist in JDBPs or any other jointly controlled arrangement
  - sponsors jointly control the total net pension asset and must agree on how it will be used
  - key notion with joint control is that each sponsor can deny the other sponsor(s) access to the asset, ensuring no one side can make unilateral decisions
  - each sponsor should then recognize an asset relating to its portion of that jointly controlled surplus.

Panel's Position on Measurement of Asset

- Retirement benefits standard states that a sponsor measures the benefit of a surplus by the extent to which it can either take assets out of plan or reduce future contributions

- Contribution reductions are not the same as surplus withdrawal:
  - legal requirements for surplus withdrawal and contribution reductions are very different
  - joint sponsors free to decide on level of contributions in compliance with terms of Plan and Pension Benefits Act
  - no third-party approvals needed for contribution reductions

- No requirement for any agreement to be in place specifying exactly when and by how much contributions will be reduced
  - agreements in place already sufficient
  - standard says benefits need only be reasonably expected

- No onerous funding requirements exist for OTPP or OPSEUPP

Overall Conclusions of Panel

Recognition and measurement of the asset

- Net pension asset, without any valuation allowance, should be recognized in the Province's financial statements.
- Recognizing the asset will provide a faithful representation of the Province's financial position.
- Recognizing the asset will properly reflect the intention of the "deal" between the sponsors.

Overall

- Reasonable expectation that Sponsors will be able to benefit from lower contribution levels in future
- Established mechanisms exists to put these expectations into practice (in Plan documents and legislation)
- Surplus assets have real economic value government can benefit from so should be recognized

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From:	Anna Strathy
To:	Ken Kandeepan
Subject:	FW: tech briefing
Date:	Thursday, September 07, 2017 12:03:34 PM
Attachments:	Public Accounts Technical Briefing 201617_Final.pptx Pension Panel Slides _2016-17 PA Tech Briefing_Final.pptx

FYI

From: McLean, David (MOF) [mailto:David.McLean@ontario.ca]
Sent: Thursday, September 07, 2017 10:32 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>
Subject: FW: tech briefing

FYI

From: MacIntyre, Kyle (TBS)
Sent: September 7, 2017 9:06 AM
To: Kwamena, Boafoa (CAB)
Cc: Bromm, William (CAB); McLean, David (MOF)
Subject: RE: tech briefing

Here's the tech deck and a summary of the former Panel's report (which will be delivered by Uros Karadzic).

Tech deck:

- Pls use: Confederation17
- Helen/Scott open up with context
- Cindy to speak to:
  - Preparation of the financial statements and key changes to these public accounts (including those we agree with the AG on)
  - IESO related changes (qualified on)
  - Pension asset related accounting (qualified on)
- Turn over to Uros to summarise former panel report

Our MO is reviewing, will share any edits. IESO has looked at their slides. Focus is supposed to be largely on the Pensions, hence the prominence in the deck.

Tech briefing:

- In the Nipigon room.
- Starts at 1:00
- Media Avail w two ministers: starts at 1:45, is the current tracking

Media kits are being prepared.

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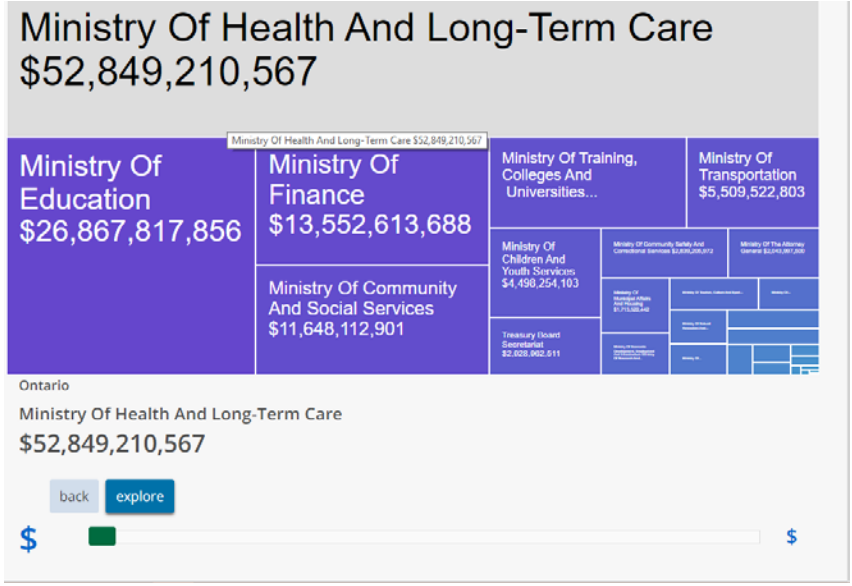

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  - An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the OTPP, a summary of which is included in Appendix A. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions.
  - Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.
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Ontario

Appendix A – Deloitte Summary of Accounting Opinion Issued on Pension Accounting

Deloitte was engaged to provide a report ("Deloitte Report") on the application of accounting standards by the Ontario Treasury Board Secretariat. Our report, which was issued on October 2, 2016, was prepared under professional standards for such reports set out by CPA Canada.

The subject of this report was the application of Public Sector Accounting Standards (PSAS), as established by CPA Canada, in the recognition of a pension asset in the Province of Ontario's financial statements. Pension accounting is subject to professional judgement and interpretation, and involves significant accounting estimates. The Deloitte Report focused on a specific aspect of this complex area as it relates to the Province of Ontario's accounting for the Ontario Teachers' Pension Plan (OTPP).

OTPP is a pension plan that is jointly sponsored by the Ontario government (or the Province) and the Ontario Teachers' Federation (OTF). Based on the Province's application of PSAS, OTPP is in a plan surplus position. We accepted this aspect of the Province's application of PSAS as a matter of fact in developing our report.

The Deloitte Report addressed the question of whether it was possible to record a pension asset related to the plan surplus in the Province's financial statements, given that the plan is jointly sponsored. We concluded that, based on the information provided to us by the Province and our professional judgement, that it was permissible under PSAS to record a pension plan asset, even though the Province's ability to benefit from any plan surplus, through future contribution reductions for example, would need to be negotiated with and agreed between the Province and OTF.

It is to be noted that even if a pension asset is recorded, PSAS would also require that consideration should be given to limiting the recorded amount of this pension asset to an amount that would be less than the calculated amount of the pension surplus. The Deloitte Report did not express a view on whether any limit to the recorded amount of the asset is needed in the case of the Province's accounting for the pension asset related to OTPP. Therefore, our report did not express a view on the amount of the pension asset that should be recorded in the Province's financial statements as at March 31, 2016 or at any other date.

Ontario

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- Patricia O'Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG
- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
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Summary of Pension Asset Expert Advisory Panel

Technical Briefing

September 7, 2017

Pension Asset Expert Advisory Panel -- Process

- Panel was provided with briefings and documents (relevant legislation, plan texts, sponsor agreements) to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.

- Panel met with the Auditor General and members of her team to fully understand the basis for the OAG's accounting conclusions.

- Panel performed its own independent analysis of those documents and the legal, actuarial and accounting issues and reached its own conclusions.

- Panel considered:
  - guidance in PSAS specifically on Retirement Benefits
  - other relevant guidance in PSAS, and that issued by other standard setters identified in PSAS as sources to consult, in areas where the retirement benefits standard is not clear

Panel's Position on Recognition of Asset

- Net pension asset meets the definition of an economic resource because:
  - accounting surplus exists, and
  - future economic benefit is available to government as contribution reductions, freeing cash for other purposes.

- Unilateral control not necessary for asset recognition:
  - in fact, cannot exist in JDBPs or any other jointly controlled arrangement
  - sponsors jointly control the total net pension asset and must agree on how it will be used
  - key notion with joint control is that each sponsor can deny the other sponsor(s) access to the asset, ensuring no one side can make unilateral decisions
  - each sponsor should then recognize an asset relating to its portion of that jointly controlled surplus.

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- Retirement benefits standard states that a sponsor measures the benefit of a surplus by the extent to which it can either take assets out of plan or reduce future contributions

- Contribution reductions are not the same as surplus withdrawal:
  - legal requirements for surplus withdrawal and contribution reductions are very different
  - joint sponsors free to decide on level of contributions in compliance with terms of Plan and Pension Benefits Act
  - no third-party approvals needed for contribution reductions

- No requirement for any agreement to be in place specifying exactly when and by how much contributions will be reduced
  - agreements in place already sufficient
  - standard says benefits need only be reasonably expected

- No onerous funding requirements exist for OTPP or OPSEUPP

Overall Conclusions of Panel

Recognition and measurement of the asset

- Net pension asset, without any valuation allowance, should be recognized in the Province's financial statements.
- Recognizing the asset will provide a faithful representation of the Province's financial position.
- Recognizing the asset will properly reflect the intention of the "deal" between the sponsors.

Overall

- Reasonable expectation that Sponsors will be able to benefit from lower contribution levels in future
- Established mechanisms exists to put these expectations into practice (in Plan documents and legislation)
- Surplus assets have real economic value government can benefit from so should be recognized

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From:	Ken Kandeepan
To:	John Psinas
Subject:	FW: tech briefing
Date:	Thursday, September 07, 2017 12:04:39 PM
Attachments:	Public Accounts Technical Briefing 201617_Final.pptx Pension Panel Slides _2016-17 PA Tech Briefing_Final.pptx

FYI

Ken k

From: Anna Strathy
Sent: Thursday, September 07, 2017 12:04 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: FW: tech briefing

FYI

From: McLean, David (MOF) [mailto:David.McLean@ontario.ca]
Sent: Thursday, September 07, 2017 10:32 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>
Subject: FW: tech briefing

FYI

From: MacIntyre, Kyle (TBS)
Sent: September 7, 2017 9:06 AM
To: Kwamena, Boafoa (CAB)
Cc: Bromm, William (CAB); McLean, David (MOF)
Subject: RE: tech briefing

Here's the tech deck and a summary of the former Panel's report (which will be delivered by Uros Karadzic).

Tech deck:

- Pls use: Confederation17
- Helen/Scott open up with context
- Cindy to speak to:
  - Preparation of the financial statements and key changes to these public accounts (including those we agree with the AG on)
  - IESO related changes (qualified on)
  - Pension asset related accounting (qualified on)
- Turn over to Uros to summarise former panel report

Our MO is reviewing, will share any edits. IESO has looked at their slides. Focus is supposed to be

largely on the Pensions, hence the prominence in the deck.

Tech briefing:

- In the Nipigon room.
- Starts at 1:00
- Media Avail w two ministers: starts at 1:45, is the current tracking

Media kits are being prepared.

K.

From: Kwamena, Boafoa (CAB)
Sent: September-07-17 8:42 AM
To: MacIntyre, Kyle (TBS)
Cc: Bromm, William (CAB)
Subject: tech briefing

Hi

Are there materials you can share? Thanks

Boafoa Kwamena
Special Advisor
Office of the Secretary of the Cabinet
Cabinet Office
416-325-4400
Boafoa.kwamena2@ontario.ca



2016-17 Public Accounts

Technical Briefing

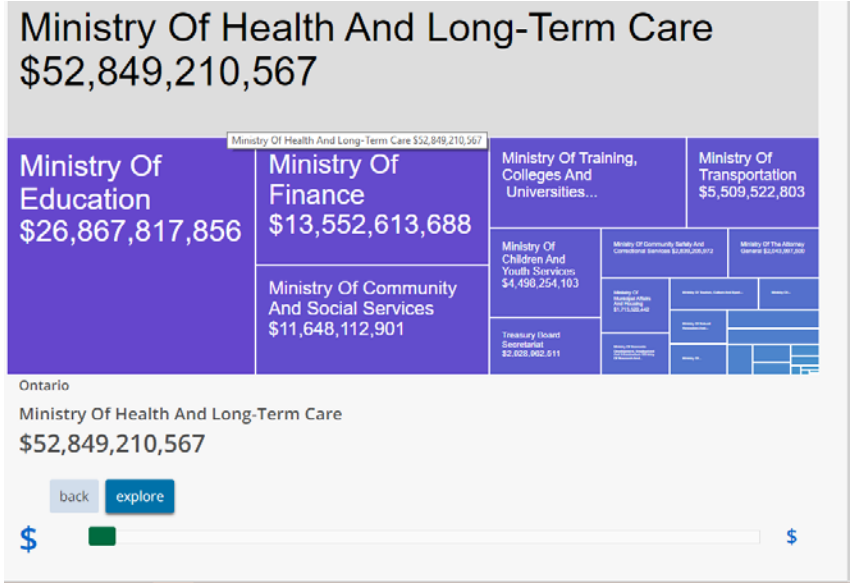
September 7, 2017

Purpose of today's briefing

1. Provide an overview of the results for fiscal 2016-17
2. Highlight the changes made in the 2016-17 financial statements:
   a) Classification of third-party revenues for hospitals, colleges and school boards
   b) Accounting basis for Ontario Power Generation and Hydro One
   c) Accounting for the Independent Electricity System Operator (IESO) and market accounts
   d) Accounting for net pension assets of jointly sponsored pension plans

2016-17 Highlights

- New digital tools have been developed that present the Public Accounts data in innovative, visual formats.
- This year, Ontario has:
  - Released six new downloadable data sets
  - Created new data visualizations tools
  - Published the web page under the Open Ontario Licence



Ontario

2016-17 Highlights

- Ontario has beaten its deficit target eight years in a row. The 2016-17 Public Accounts of Ontario show that Ontario's deficit is $1 billion - $3.3 billion lower than projected in the 2016 Ontario Budget.
- In the 2016-17 fiscal year (April to March):
  - revenue was $140.7 billion – $2.2 billion more than expected in the 2016 Budget
  - expenses were $141.7 billion – $0.1 billion less than planned in the 2016 Budget
  - Some of the top spending areas included



$56B Health



$26.6B Education



$12.9B Infrastructure

Ontario

2016-17 Highlights

Other highlights include:

- Ontario's real gross domestic product (GDP) was 2.7%, up from 2.2% in the 2016 Budget. Over the last three years, Ontario's GDP growth has outpaced that of all G7 countries.
- Net debt-to-GDP continues to be forecasted lower than expected for 2016-17 at 37.8%, an improvement over the 2016 Budget of 39.6%.

Visit **Ontario.ca/publicaccounts** for more highlights and digital tools that help make Ontario's finances easier to understand, access and use.

Ontario

Summary 2016-17 Results

2016-17 Actual Results					
$ Billions	**2016-17 Budget[1]**	**2016-17 Actual**	**2015-16 Actual [1 2]**	**Change from Budget**	**% Change**
Revenues	138.5	**140.7**	136.1	2.2	1.6%
Expenses	141.8	**141.7**	139.7	(0.1)	-0.1%
Reserve	1.0	**-**	-	(1.0)	
Annual Deficit	(4.3)	**(1.0)**	(3.5)	3.3	-76.7%
Net Debt		**(301.6)**	(295.4)		
Accumulated Deficit		**(193.5)**	(192.0)		

[1] 2015-16 Actuals and 2016-17 Budget have been reclassified to reflect the change in presentation for third party revenues of hospitals, colleges and school boards (no change to deficit)

[2] 2015-16 Actual has been restated to reverse the impact of regulated accounting for pensions

Ontario

Preparation of the Financial Statements

- The consolidated financial statements are prepared by the Government of Ontario in accordance with the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB).
- PSAB independently establishes accounting standards for the public sector in Canada.
- The objective of PSAB standards is to meet the needs of users of financial statements by providing the information needed for accountability and decision making.
- PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.
- PSAB recognizes that their standards cannot address every potential situation, and that it may be necessary to refer to other sources of guidance.
    - *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

Accounting Changes for 2016-17

- The Province adopted several new accounting changes for the 2016-17 Public Accounts to better reflect the financial position and activities of the government during the fiscal year
- These changes included:
  a) Classification of third-party revenues for hospitals, colleges and school boards
  b) Accounting basis for Ontario Power Generation and Hydro One
  c) Accounting for the Independent Electricity System Operator (IESO) and market accounts
  d) Accounting for net pension assets of jointly sponsored pension plans

Classification of Third-Party Revenues for Hospitals, Colleges and School Boards

- 2016-17 Public Accounts present third-party revenues for hospitals, school boards and colleges with provincial revenue.
- In prior years, these revenues were netted against the expenses of the respective sectors (health, education, post-secondary).
- This is a change in presentation only.
- The changes increases total revenues and expenses by approximately $8 billion.
- There is no impact to the Province's deficit, net debt or accumulated deficit.
- This change is consistent with PSAB standards and the reporting practices of other senior Canadian governments.
- This change, supported by the Province's professional accounting staff, was recommended by the Office of the Auditor General in prior years.

Accounting basis for Ontario Power Generation and Hydro One

- The 2016-17 Public Accounts include the financial results of Ontario Power Generation (OPG) and Hydro One using International Financial Reporting Standards (IFRS).
- These two government business enterprises currently report their stand-alone financial results using Generally Accepted Accounting Principles in the United States (US GAAP).
- In prior years, the reported results of OPG and Hydro One were included in the results of the Province based on US GAAP.
- This change does not have a material impact on this year's Public Accounts.
- This change, supported by the Province's professional accounting staff, was recommended by the Office of the Auditor General in prior years.

Ontario

Accounting for Independent Electricity System Operator (IESO) Market Accounts

- Independent Electricity System Operator (IESO) is a corporation established pursuant to Part II of the *Electricity Act, 1998*, and prepares its financial statements in accordance with PSAB standards.
- KPMG LLP audits IESO's financial statements and issued an unqualified opinion on the December 31, 2016 financial statements.
- IESO administers a $17 billion annual market reflecting the amounts *due to* entities that provide electricity to the market (e.g. power generators) and *due from* entities who consume electricity (e.g. local distribution companies on behalf of their consumers). IESO is a party to these agreements with the market participants.
- In 2016, IESO changed the accounting for the market accounts, recognizing these amounts due from and due to the market participants as assets and liabilities respectively.
- This change has no impact to the province's annual deficit, net debt or accumulated deficit.
- The Ontario Power Authority (which was merged with the IESO on January 1, 2015) included a segment of these accounts in its financial statements, and received an unqualified opinion by its external auditor, KPMG LLP. The financial statements of the Province were not qualified by the Office of the Auditor General as a result of including these accounts.

Ontario

Accounting for IESO Market Accounts

- The IESO is a party to agreements with each market participant, and each market participant either owes an amount to the IESO or is owed an amount from the IESO. For example:
  - Ontario Power Generation has a receivable from IESO recorded on its financial statements related to power generated, and historically, IESO did not have a payable recorded to Ontario Power Generation – now it does
  - Hydro One has a payable to IESO recorded on its financial statements related to power purchases, and historically, IESO did not have a receivable recorded from Hydro One – now it does
- The amounts due from market participants meet the definition of an asset and the amounts due to market participants meet the definition of a liability under PSAB standards.
- In connection with this change, the accounting for eight other independent system operators in North America were reviewed, and all but one recognize market accounts in the financial statements.
- IESO management, their Audit Committee, their Board of Directors, their external auditor and the Office of the Provincial Controller support the change in accounting as being more transparent.
- A qualified opinion was issued by the Office of the Auditor General on the 2016-17 consolidated financial statements regarding the change in Independent Electricity System Operator's accounting for the "market accounts".

Accounting for Net Pension Assets of Jointly Sponsored Pension Plans

- Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans (JSPPs) where the Government of Ontario is a co-sponsor.
- The plans are funded on a 50/50 basis, co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.
  - On June 12, 2017, the co-sponsors of OTPP (Ontario Teachers Federation and the Government) announced a 1.1% reduction in contributions effective January 1, 2018
- Under PSAB standards, an asset arises when the government's total contributions to a plan, including interest earned thereon, are greater than the pension expense recognized since the start of the plan.
- Since 2001-02, the Province's share of pension assets reflected on the audited consolidated financial statements of the Province has been based on a policy considered to be consistent with PSAB standards related to accounting for retirement benefits. The standards have not changed since their issuance in 2001.
- In 2016, the government passed a time-limited regulation to require the full write-off of the net assets of both of these plans for the 2015-16 Public Accounts.

Ontario

Pension Accounting

- Based on professional staff's interpretation of PSAB standards, the government believes that pension assets for OPSEUPP and OTPP should be reported to fairly present the Province's financial position.
- The Province has shared control over the pension plan and the existing agreements in place between the sponsors support the recognition of the pension asset.
- The professional staff does not believe that the Government has the right to withdraw any surplus from the plan, and has supported the value of the pension asset solely on the basis of being able to reduce contributions in the future.
- The Province has recorded the pension assets for OTPP and OPSEUPP in its 2016-17 consolidated financial statements and has restated the 2015-16 consolidated financial statements to recognize the pension assets.
- With respect to the Healthcare of Ontario Pension Plan (HOOPP) and Colleges of Applied Arts and Technology Pension Plan (CAATPP), based on the difference in governance structures between these plans and OTPP and OPSEUPP, the Province has recorded a valuation allowance for CAATPP in the year (amount is not material). The HOOPP plan is not in a net asset position for accounting purposes at March 31, 2017. This treatment is consistent with the recommendations of the Pension Asset Expert Advisory Panel who issued a supplementary report on these plans in March 2017.

Pension Accounting

- The professional staff's interpretation of PSAB standards is supported by its own research and analysis as well as:
  - The report of the Pension Asset Expert Advisory Panel (https://www.ontario.ca/page/pension-asset-expert-advisory-panel-report) released on February 13, 2017 stating that the Government should record an asset for its share of the surplus reported in the accounting valuations for each plan and that no valuation allowance is required.
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From: Bonnie Lemcke
To: Ken Kandeepan
Cc: Mary Webb (Economics); Gadi Mayman; Christina Zhang
Subject: Follow up on the pension issue
Date: Monday, November 14, 2016 4:06:05 PM

Hi Ken,

Mary Webb from Scotiabank wants to follow up on the accounting treatment for the pension adjustment. Gadi suggested you talk to her first and you can send her to someone else if you aren't able to answer her question. She was surprised by how large the adjustment was going forward and also wanted to know whether the auditor must accept the results from the expert panel.

I have given her your phone number.

Bonnie Lemcke
Manager, Credit Analysis and Rating Relations
Ontario Financing Authority
416-325-8170 (w)
416-716-4092 (m)

From:	Schuurman, Tim (MOF)
To:	Gadi Mayman
Cc:	Ken Kandeepan
Subject:	Fw: Comments on FAO"s FES Commentary by End of Today
Date:	Thursday, November 24, 2016 6:31:54 PM
Attachments:	image001.png

Gadi are you ok with this edit suggested by opcd?

Tim

From: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>
Sent: Thursday, November 24, 2016 5:50 PM
To: Schuurman, Tim (MOF)
Subject: Fw: Comments on FAO's FES Commentary by End of Today

Fyi.....

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Sent: Thursday, November 24, 2016 4:08 PM
To: Birks, Ryan (MOF)
Cc: Laughton, Patrick (TBS)
Subject: RE: Comments on FAO's FES Commentary by End of Today

Hi Ryan

In the footnote on page 3, they state:

In the 2015-16 Public Accounts, the Province legislated a change in the accounting treatment of jointly sponsored pension plans, which increased net debt by $9.2 billion and the deficit by $1.5 billion in 2015-16. The FAO will adopt the government's estimates of the accounting change's impact in future reports.

However the total impact on the change on net debt is $10.7 billion (= $9.2 billion + in-year of $1.5 billion) both in the press release and FES we referred to the $10.7 billion. Press release excerpt below.

"The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit and an increase in the annual deficit of $1.5 billion."

Happy to discuss.

Thanks
Sarah

From: Birks, Ryan (MOF)
Sent: November-24-16 12:45 PM
To: Tarin, Ghufran (MOF); Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Hosick, Sarah (TBS); Zhang, Christina (OFA); Bugajski, Tomasz (OFA); Law, Rex (TBS)
Subject: Comments on FAO's FES Commentary by End of Today
Importance: High

Hi All,

Attached is the FAO's commentary on the 2016 Economic Outlook and Fiscal Review (FES). OB is putting together a summary/analysis on the commentary ahead of its release by the FAO on Monday.

Can your areas please review and flag any comments re egregious items by the end of today (i.e. OEP-->revenue outlook, PEMD-->expense outlook, OPCD-->pension treatment, OFA-->debt outlook and CPD-->child care investment)? We'll make sure to include these comments in our note.

Please let me know if you have any questions.

Thanks!
Ryan

From: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>

Sent: Thursday, November 24, 2016 9:52 AM
To: Esmail, Selena (MOF); Schuurman, Tim (MOF); Lewis, Brian (MOF); Hughes, Karen (TBS)
Cc: Luan Ngo; Edward Crummey; Tarin, Ghufran (MOF); Birks, Ryan (MOF); Duran-Schneider, Maria (TBS); Arbabzadeh, Nina (TBS); Laughton, Patrick (TBS); Mario Angastiniotis; Nicolas Rhodes
Subject: The FAO's FES Commentary

Hello All,

As I promised at our meeting last week, please find attached a draft (embargoed) copy of the Commentary that I mentioned last week.

We plan to release this Commentary on our website on Monday. As always, please treat the document as confidential until its release.

Although we are not formally requesting any feedback on the note, please feel free to let us know if you find anything particularly egregious.

Thanks again for your on-going assistance.

Best regards,

David West
Chief Economist
[cid:image009.png@01D17ECB.966ECE00]

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
t.416.579.1465 | dwest@fao-on.org<mailto:dwest@fao-on.org>
www.fao-on.org<https://urldefense.proofpoint.com/v2/url?u=http-3A__www.fao-2Don.org_&d=CwIF-g&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FtiQ&r=sDTjf9tVmfT9K92u269doOHn6NwIN5Soa0mhVrZmimM&m=LRbMzun5uUDKi-hvQo2asSf5rz-ArWmu0adOa3iQIXE&s=728JEVzQPGLvhikmltKOmdEbU0UjFLymyrsrlWf2IBY&e= >

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: November 18, 2016 4:12 PM
To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>
Cc: Luan Ngo <lngo@fao-on.org<mailto:lngo@fao-on.org>>; Edward Crummey <ecrummey@fao-on.org<mailto:ecrummey@fao-on.org>>; Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca<mailto:Ghufran.Tarin@ontario.ca>>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca<mailto:Ryan.Birks@ontario.ca>>; Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca<mailto:Tim.Schuurman@ontario.ca>>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca<mailto:Brian.Lewis@Ontario.ca>>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca<mailto:Karen.Hughes@ontario.ca>>; Duran-Schneider, Maria (TBS) <Maria.Duran-Schneider@ontario.ca<mailto:Maria.Duran-Schneider@ontario.ca>>; Arbabzadeh, Nina (TBS) <Nina.Arbabzadeh@ontario.ca<mailto:Nina.Arbabzadeh@ontario.ca>>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca<mailto:Patrick.Laughton@ontario.ca>>
Subject: Meeting follow-up requests

Hi David,

Attached is the revenue and expense information requested in follow-up to our meeting held this past Wednesday - uses the FAO password. I trust that this information is helpful.

Thank you and have a wonderful weekend

Regards,

Selena Esmail

Director, Office of the Budget, Ministry of Finance

-----Original Message-----

From: Birks, Ryan (MOF)

Sent: November-18-16 2:43 PM

To: David West; Schuurman, Tim (MOF); Lewis, Brian (MOF)

Cc: Luan Ngo; Edward Crummey; Tarin, Ghufran (MOF); Esmail, Selena (MOF)

Subject: RE: Questions for tomorrows meeting

Hi David,

We'll be sending a consolidated package with both the revenue and expense details included before the end of day.

Thanks,

Ryan

-----Original Message-----

From: David West [mailto:dwest@fao-on.org]

Sent: November-18-16 2:38 PM

To: Schuurman, Tim (MOF); Lewis, Brian (MOF)

Cc: Luan Ngo; Birks, Ryan (MOF); Edward Crummey; Tarin, Ghufran (MOF)

Subject: RE: Questions for tomorrows meeting

Hi,

Will you be able to send us the follow-up information that we discussed at our meeting on Wednesday?

In particular the revenue and expenditure details?

Thanks

David West

(416) 579-1465

-----Original Message-----

From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]

Sent: November 15, 2016 5:06 PM

To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca<mailto:Ryan.Birks@ontario.ca>>

Cc: Peter Harrison <pharrison@fao-on.org<mailto:pharrison@fao-on.org>>; Edward Crummey <ecrummey@fao-on.org<mailto:ecrummey@fao-on.org>>; Luan Ngo <lngo@fao-on.org<mailto:lngo@fao-on.org>>; Mario Angastiniotis <MAngastiniotis@fao-on.org<mailto:MAngastiniotis@fao-on.org>>; Nicolas Rhodes <nrhodes@fao-on.org<mailto:nrhodes@fao-on.org>>

Subject: Re: Questions for tomorrows meeting

Thanks David and team!

Looking forward to our conversation tomorrow. As some of these questions are for detailed background data, we may need to provide those post-tomorrow's meeting so we can gather it up in a way that works best to answer the question. But we'll come prepared with as many A's as possible and together we can map out a plan to get you the details you need following the meeting as well. We'll do our best to have all the right people in the room tomorrow.

Hope that works.

Tim

From: David West

Sent: Tuesday, November 15, 2016 4:46 PM

To: Birks, Ryan (MOF)

Cc: Schuurman, Tim (MOF); Peter Harrison; Edward Crummey; Luan Ngo; Mario Angastiniotis; Nicolas Rhodes

Subject: Questions for tomorrows meeting

As promised, I’ve attached a list of the questions that we’d like to discuss at tomorrow’s meeting.

See you tomorrow.

Thanks

David W.

(416-579-1465)

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]

Sent: November 15, 2016 1:43 PM

To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>; Peter Harrison <pharrison@fao-on.org<mailto:pharrison@fao-on.org>>

Cc: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca<mailto:Tim.Schuurman@ontario.ca>>

Subject: RE: Fall statement

Hello David and Peter,

I wanted to reconfirm tomorrow's FES/FAO meeting. It will be taking place between 2:30pm-3:30pm in the Aquarium Boardroom (4th floor of the Frost South Building). I'll be forward the invitation shortly.

Please let me know if additional FAO staff will be in attendance. I'll make sure they're also registered with security.

Let me know if you have any questions.

Thanks,

Ryan

From: Schuurman, Tim (MOF)

Sent: November-11-16 12:48 PM

To: David West

Cc: Peter Harrison; Birks, Ryan (MOF)

Subject: RE: Fall statement

Sounds great. I'm rallying the troops, and my EA Ryan Birks will be in touch with your offices to confirm timing and location, etc.

See you soon!

Tim Schuurman

Assistant Deputy Minister

Office of the Budget, Ministry of Finance

7 Queen's Park Cres.

Toronto ON M7A 1Z1

Tel: 416-327-0173

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From: David West [mailto:dwest@fao-on.org]

Sent: November-10-16 6:29 PM

To: Schuurman, Tim (MOF)

Cc: Peter Harrison

Subject: Re: Fall statement

Thanks Tim,

2:30 should be fine.

Sent from my Bell Samsung device over Canada's largest network.

-------- Original message --------

From: "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca<mailto:Tim.Schuurman@ontario.ca>>>

Date: 2016-11-10 5:19 PM (GMT-05:00)

To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>>

Cc: Peter Harrison <pharrison@fao-on.org<mailto:pharrison@fao-on.org>>>

Subject: RE: Fall statement

Hey guys

Thanks for the update on what would best suit your needs. We're happy to accommodate your request for a meeting….guess I'd suggest maybe late Wednesday so that folks have time to follow-up on the questions we'd get from you guys Tuesday afternoon. Also Wednesday mornings are filled with regular check-in meetings folks need to be at, so maybe we can find time Wednesday afternoon.

Something around 230pm work for you guys?

Tim Schuurman

Assistant Deputy Minister

Office of the Budget, Ministry of Finance

7 Queen's Park Cres.

Toronto ON M7A 1Z1

Tel: 416-327-0173

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From: David West [mailto:dwest@fao-on.org]

Sent: November-10-16 9:29 AM

To: Schuurman, Tim (MOF)

Cc: Peter Harrison

Subject: RE: Fall statement

Hi Tim,

So, change of plans! The release of FES at 1pm on Monday, which is earlier than we expected, reduces the benefits of coming over to Frost to get a preview of the document, prior to release.

As a result, while we thank you for the offer, we'll decline your invite to come over to Frost on Monday. (Although we'll miss seeing your smiling face!)

However, instead, we would like to request a potential meeting on Wednesday (possibly late morning?) to discuss any FES-related questions. We would plan to send you our questions by Tuesday afternoon to allow you to try to assemble appropriate staff for the Wednesday meeting.

Would this work for you?

Thanks

David

(416) 579-1465

From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]

Sent: November 9, 2016 7:31 PM

To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>>

Cc: Peter Harrison <pharrison@fao-on.org<mailto:pharrison@fao-on.org>>>

Subject: RE: Fall statement

Thanks David, Peter.

• Right now the plan is for the Minister to rise and present the FES at 1pm on Monday. So I'm wondering if it is ok for you guys to come at 11am. We would expect you to stay in the boardroom we assign to you until the Minister stands up to deliver the speech – like a lock-up of sorts. Please let me know if you have any issues with that.

• I'm working hard to get you guys bound copies for your secure reading, but it may be a challenge as they are under OPP guard until the Minister stands (and we have no official lock up so I need to pull a few favours). If not, we'll print out copies on paper for you.

• Can you send me the list of names that would come? I'll need to know in advance.

• As far as answering questions, we'll try and have a few people around but it's a crazy day around here for us and we'll probably be scrambling. If its ok, I prefer to not make it a merry-go-round of people going in and out of the boardroom where you are. If possible, can we agree that you guys will spend the first hour or so going through all the documents, compiling your questions into a list, and then we'll ask people to come around for a chat? That way it's abit more organized, and I can tell people to make themselves available around noon for q's rather than stay on stand-by for 2 hours not knowing. Let me know what you think. If we can't get someone in the time you're here, of course we'll arrange for any follow-up.

Let me know what you think.

Tim Schuurman

Assistant Deputy Minister

Office of the Budget, Ministry of Finance

7 Queen's Park Cres.

Toronto ON M7A 1Z1

Tel: 416-327-0173

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From: David West [mailto:dwest@fao-on.org]

Sent: November-09-16 4:05 PM

To: Schuurman, Tim (MOF)

Cc: Peter Harrison

Subject: RE: Fall statement

Thanks Tim,

As Peter indicated, we would like to take you up on this offer.

I think there will be 4 or 5 of us who would be interested in a preview of the document, and the opportunity to ask some questions in person.

Do you expect that the Minister will deliver a statement in the Legislature at approximately 4pm? So, if we arrived at perhaps 2pm we could have a couple of hours with the document before the release?

We (the FAO) would not plan to make any public statements on the FES right away. But, we may decide to release a short 'Commentary' document on the FAO's website several days after the FES release (likely the following week) that compares the FAO's projections (from our recent EFO) with the FES projections and outlines some of the main differences in assumptions.

Please confirm what time you recommend we arrive at Frost South on Monday and that we can (potentially) bring several staff with us.

Regards,

David West

(416) 579-1465

From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]

Sent: November 8, 2016 6:50 PM

To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>>; Peter Harrison <pharrison@fao-on.org<mailto:pharrison@fao-on.org>>>

Subject: Fall statement

Peter, David

Hope this email finds you both well. As you may have heard, today our Minister announced that the Fall Statement would be released on Monday, November 14th.

Last year we had you guys in here, on a confidential basis, to review the documents and read them ahead of when it was tabled. We'd like to extend that offer to you again, if you think it would help you in your efforts to respond to the document.

I believe we hosted you here last year and that you spent an hour or so with the documents.

Please let me know if this is something you think you'd benefit from again this year, and I'll work to make the necessary arrangements.

Thanks in advance;

Tim Schuurman

Assistant Deputy Minister

Office of the Budget, Ministry of Finance

7 Queen’s Park Cres.

Toronto ON M7A 1Z1

Tel: 416-327-0173

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Financial
Accountability
Office of Ontario

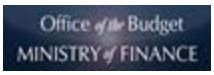
From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	Anna Strathy
Subject:	Fw: FAO Summary Note (including key messages)
Date:	Tuesday, May 30, 2017 6:56:32 PM
Attachments:	image001.png FAO EFO Report_Summary_v9.docx

From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
Sent: Tuesday, May 30, 2017 6:54 PM
To: Ghiassi, Ali (MOF); Elizabeth Mendes (MOF); Marianne Nguyen (MCYS); Nancy Kennedy (MOHLTC); Scott Thompson (CAB); Brian Lewis (MOL); Ronald Kwan; Gadi Mayman
Cc: David McLean (MOF); Gwendolynne Young (ENE); Birks, Ryan (MOF); Selena Esmail (MOF)
Subject: FAO Summary Note (including key messages)

Please find attached an updated version of the FAO Summary note which we took the Minister through earlier this afternoon. Note this includes key messages the minister can use tomorrow as well.

Happy to address any issues as they arise over the coming day with the release of the report.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173




Office of the Budget
MINISTRY of FINANCE

Financial Accountability Officer Report: Spring Economic and Fiscal Outlook

Draft – May 30, 2017 6:00 PM

ISSUE

- The Financial Accountability Officer (FAO) will be releasing a report on May 31, which assesses Ontario's medium-term economic and fiscal outlook.
- This represents the spring update to the FAO's planned release of semi-annual medium-term outlook reports.
- The spring report incorporates economic and fiscal information released since the FAO's fall 2016 report (released November 3, 2016). This includes:
    - New economic data that impacts their revenue and interest on debt outlooks; and
    - New spending commitments from the 2017 Budget.
- The FAO has presented two fiscal projections in its spring report:
    1. A projection that includes the impact of the net pension assets of jointly sponsored pension plans, based on the Auditor General's recommended accounting treatment, and
    2. A projection that excludes this impact based on the government's fiscal presentation in the 2017 Budget, as recommended by the Pension Asset Expert Advisory Panel.
- Both presentations used by the FAO project deficits in each year over the outlook period (2016–17 to 2021–22).
    - Using the government's fiscal presentation of net pension assets, the FAO has stated that balance is within reach in 2017–18 and that beyond this, staying in balance will likely require additional fiscal policy measures.
    - Similarly, using this presentation, the FAO projects that net debt-to-GDP will decline over the outlook but additional fiscal measures would be required for the government to achieve its interim net debt-to-GDP target of 35 per cent by 2023–24 and 27 per cent by 2029–30.
    - The FAO excludes the reserve from its fiscal outlook.

TOP MESSAGES

- I would like to thank the Financial Accountability Officer (FAO) for releasing his spring economic and fiscal outlook for Ontario. We value the FAO's independent assessment and projections of the province's fiscal plan.
- As outlined in the 2017 Budget, the government is projecting a balanced budget for 2017–18 and to remain balanced in 2018–19 and 2019–20.
- The government has a strong track record of beating its fiscal targets. In fact, for the 2016–17 fiscal year, the government is forecasting a deficit of $1.5 billion, beating our annual deficit target again, for the eighth year in a row.
- This Budget builds on the government's track record of fiscal management that has resulted in $29 billion in accumulated deficits being avoided over the past seven years, relative to the 2010 Budget forecast.
- We are also targeting a net debt-to-GDP ratio of 35 per cent by 2023–24 and reducing Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029–30.
- Ontario has recorded stronger economic growth than Canada and all other G7 countries over the 2014 to 2016 period, with real GDP rising 2.6 per cent a year.
- Private-sector forecasters expect Ontario will remain one of the fastest growing provinces over the next two years. It should be noted that the FAO's real GDP projections are modestly stronger than the 2017 Budget outlook over the 2017 to 2020 period.
- For prudent fiscal planning, the Province's real GDP growth projections are slightly below the average of private-sector forecasts. In fact, three economic experts also reviewed these economic assumptions and found them to be reasonable.
- This shows that our plan to make strategic investments in Ontario to grow the economy is working.
- It is also important to note that the FAO affirmed key aspects of the Budget plan, including projecting that a balanced budget is within reach for Ontario in 2017–18 and that the net debt-to-GDP ratio is on a downward trend.
- A balanced budget is providing the Province the fiscal flexibility to invest more in health care, education and other public services that matter most to Ontario families. It also adds stability to Ontario's finances and positions the government to better respond to demographic challenges and unexpected global economic shocks that the province will face over the next decade.

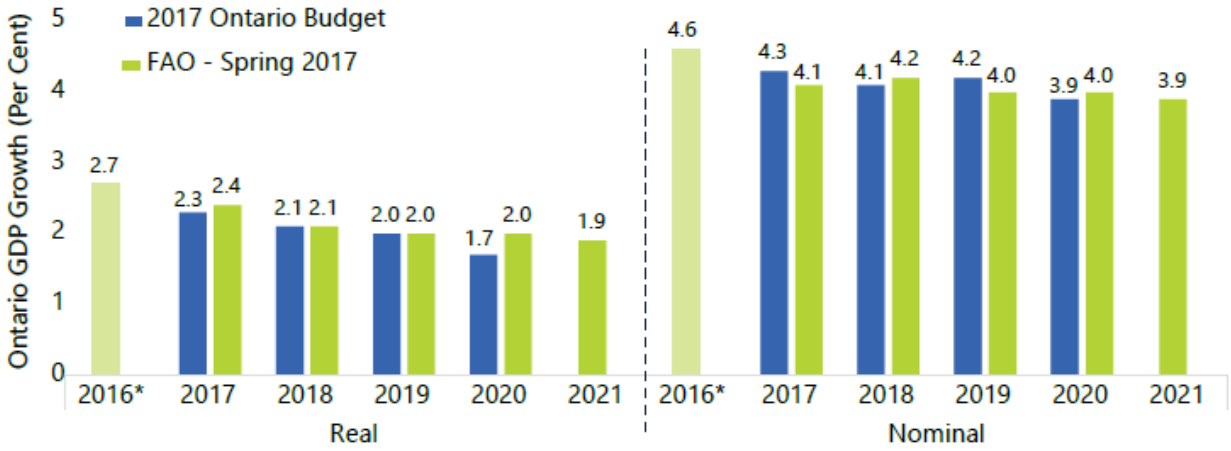
KEY FINDINGS

- The report is divided into two main chapters:
    1) The **Economic Outlook** chapter presents the FAO forecast for Ontario's economy out to 2021, and includes a discussion of potential risks.
    2) The **Fiscal Outlook** chapter presents the FAO forecast for revenue, expense and the surplus/deficit between 2016-17 and 2021-22.

<u>Economic Outlook</u>

- The FAO has left its forecast for Ontario real GDP growth little changed, on average, over the 2017 to 2020 period relative to its fall forecast, though it included a modest downward revision in 2017 and upward revision in 2019.
- The FAO forecast is broadly consistent with the private sector economists' view that stronger international exports and business investment will be key drivers of Ontario's overall economic growth over the next several years.
- The FAO forecast for real GDP growth is 0.1 percentage points stronger annually, on average, than the 2017 Budget forecast between 2017 and 2020.
- The FAO believes the balance of the risks to the economic outlook is tilted to the downside, particularly risks associated with a correction in Ontario's housing market. (p. 13).

Solid Economic Performance Expected Over Outlook



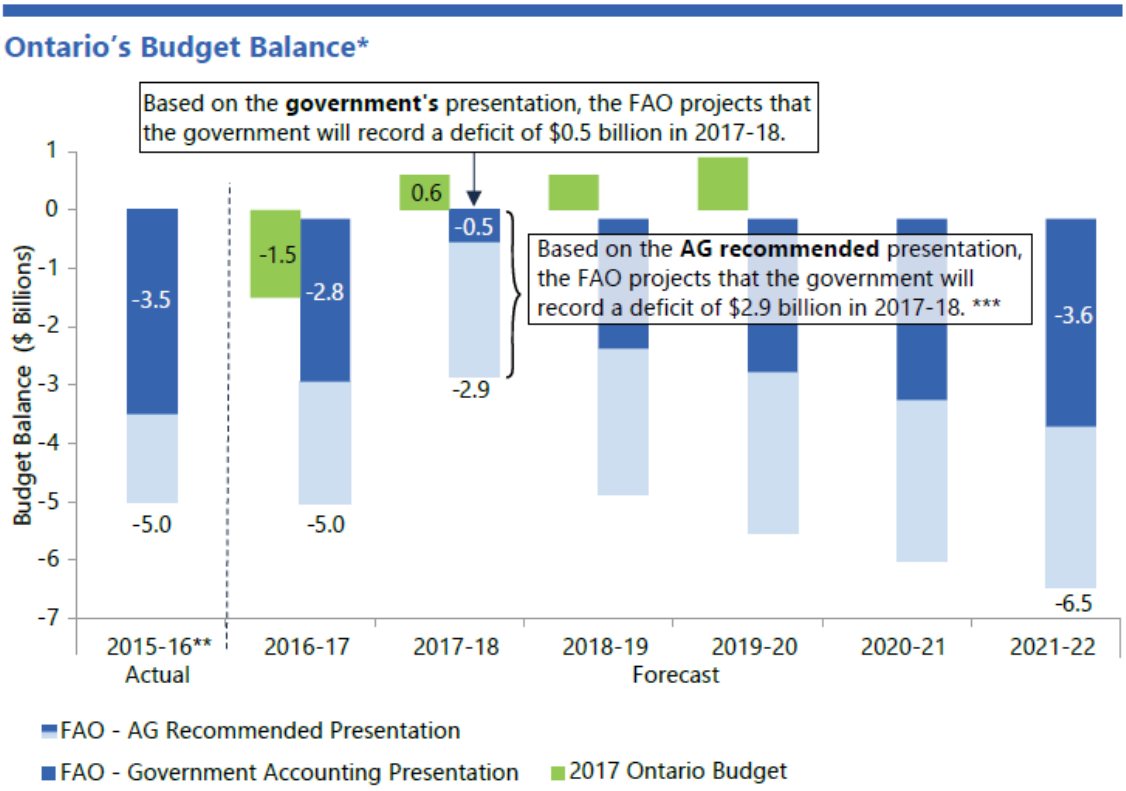
* 2016 are actuals.

Source: Ontario Economic Accounts, 2017 Ontario Budget and FAO.

Fiscal Outlook

- The FAO's current projection of the outlook for budget balance has generally deteriorated relative to the FAO's fall 2016 projection and continues to present a gap against the government's balanced budget projections.
- **Using the government's accounting treatment of net pension assets** the FAO is projecting budget deficits of $2.8 billion in 2016–17, $0.5 billion in 2017–18, $2.2 billion in 2018–19, and $2.6 billion by 2019–20 (excluding the reserve). This represents an improvement in the deficit for 2016–17 and 2017–18, but deterioration over the outlook compared to the FAO's fall report.
    - By comparison, the 2017 Budget projects a $1.5 billion deficit in 2016–17 and surpluses of $0.6 billion in 2017–18 and 2018–19, and a $0.9 billion surplus in 2019–20, excluding the reserve. The FAO also makes projections out to 2021–22 with increasing deficits forecast for those years as well.
    - The FAO suggests that a balanced budget is "within the government's reach in 2017–18" when using the government's accounting method, however "staying in balance after 2017-18 will likely require additional fiscal policy measures"(p.1).
    - The FAO notes that under this accounting presentation, Ontario's Public Accounts would be expected to receive a qualified opinion from the Auditor General.
- The FAO's forecast, **based on the Auditor General's recommended accounting treatment of jointly-sponsored pension plans**, projects deficits of $5.0 billion in 2016–17, $2.9 billion in 2017–18, $4.9 billion in 2018–19, and $5.5 billion by 2019–20 (excluding the reserve). Compared to the FAO's fall report, this represents a slight improvement in the deficit for 2016–17 but deterioration in 2017–18 and over the outlook.
    - The FAO notes that "on this basis, it is unlikely that the government will balance the budget without significant fiscal policy adjustments to raise revenue or lower expense" (p. 1).
- For 2016–17 the FAO is forecasting a deficit of $2.8 billion (or $5.0 billion with the pension adjustment) compared with the government's $1.5 billion interim projection.
- The FAO's asserts that its projection for an improved deficit in 2017–18 is due to robust economic performance and strong tax revenue growth in 2016 and 2017, compared to the FAO's fall estimates, and a one-time revenue increase in 2017–18 from increased federal transfers for infrastructure, additional revenue from asset sales and cap and trade proceeds. (p. 1 &19).

- Beginning in 2018-19, the FAO projects that the deficit will gradually deteriorate due to moderate revenue growth, the absence of one-time non-tax measures, and higher program expenses. (p. 16).



* Budget balance before reserve.

** Ontario's 2015-16 Public Accounts reported a deficit of $5.0 billion. Without the pension adjustment, the deficit would have been $3.5 billion.

*** This includes the FAO's estimate of the pension adjustment.

Source: 2015-16 Public Accounts, 2017 Ontario Budget and FAO.

Revenue Assumptions

- Compared to the 2017 Budget, the FAO's projected total revenue is lower mostly because of taxation revenue and, to a lesser extent, Federal Transfers.

FAO less Ontario 2017 Budget Outlook ($ Billions)

	2016-17	2017-18	2018-19	2019-20	Average
Taxation Revenue	-1.2	-1.4	-2.3	-3.0	-2.0
Government of Canada Transfers	-0.1	0.0	-0.8	-0.8	-0.4
Government Business Enterprises	0.0	0.0	0.0	0.0	0.0
Other Non-Tax Revenue	0.0	0.0	0.0	0.0	0.0
Total Revenue	**-1.2**	**-1.4**	**-3.1**	**-3.7**	**-2.4**

    - FAO's projection for the composition of nominal GDP such as compensation of employees, net operating surplus and household consumption, are all lower than the 2017 Budget projection.
    - The 2017 Budget assumed higher yields from CIT and HST compared to recent projections, reflecting recent tax revenue performance. These yields also exceed those assumed by the FAO.
    - The FAO projection for PIT is consistently lower than the 2017 Budget, partly due to their assumptions regarding tax planning that may have occurred in 2015 by high-income earners. Whereas the 2017 Budget only included an allowance for PIT planning in 2016-17, the FAO estimates that roughly $600 million of Ontario's 2015 PIT revenue was due to income shifting, which lowers taxable income in 2016-17 and 2017-18.
- The FAO's federal transfer outlook is lower than assumed in the 2017 Ontario Budget, probably due to FAO's assumption that Ontario will no longer receive Equalization payments starting in 2019-20 as Ontario's fiscal capacity improves relative to other provinces.
- The FAO's government business enterprise net income outlook and other non-tax revenue is the same as reported in the 2017 Budget.

Expense Assumptions

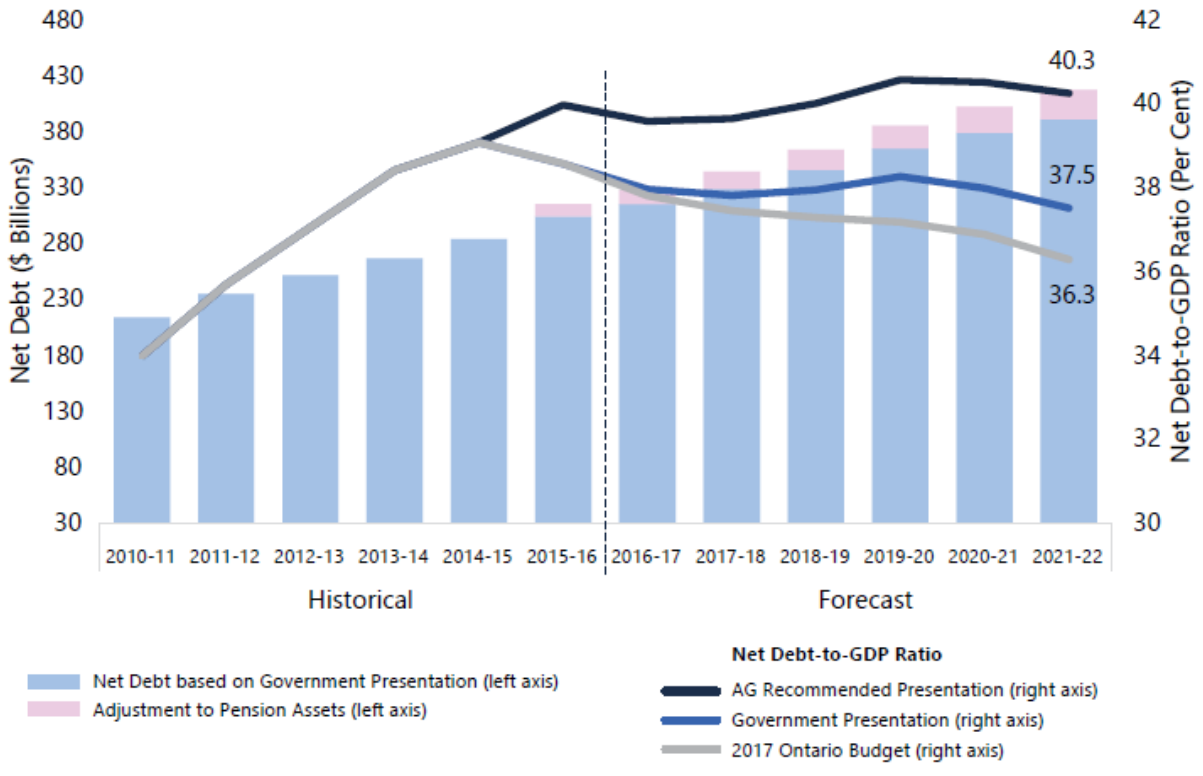
- The FAO assumes the same program expense outlook as the 2017 Budget up to 2019–20, adjusted to reflect the Auditor General's recommended accounting treatment for jointly sponsored pension plans.(p. 20).
- The FAO's expense outlook includes new spending commitments announced in the 2017 Budget including the new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan. This results in average annual growth in program expense of 3.3 per cent between 2016–17 and 2021–22 – slightly below the growth in underlying cost and demographic pressure, which is estimated to be 3.6 per cent on average.
- The FAO projects that Ontario's interest on debt (IOD) payments will grow at an average annual rate of 4.0 per cent from $11.0 billion in 2015–16 to $13.9 billion by 2021–22, reflecting higher debt and rising interest rates over the outlook. The FAO forecasts that IOD will outpace the growth in program expense over the outlook. (p. 21).
- The FAO's projection for IOD expense is lower than the 2017 Budget projections.
- According to the FAO, interest on debt is expected to increase from 8.1per cent of revenues in 2017–18 to 8.9 per cent by 2021–22. Over the past five years IOD as a share of revenues declined steadily, benefitting from declining interest rates. The

FAO argues that this ratio is expected to rise sharply due to projected interest rate increases. (p. 21 – Fiscal Chapter).

Debt Outlook

- Using the government's accounting method, the FAO expects net debt to increase by $62 billion over the next five years to $365 billion by 2021–22 or 37.5 per cent of GDP, above the 2017 Budget projection of 36.3 per cent.
- Under the Auditor General's recommended accounting treatment of jointly-sponsored pension plans, the FAO expects Ontario's net debt to rise by $76 billion to $392 billion by 2021–22 or 40.3 per cent of GDP, this represents a slightly lower net debt-to-GDP ratio over the plan and outlook period when compared to the FAO's fall forecast.
- The FAO's net debt-to-GDP projections under both accounting presentations, suggests that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24. (p. 22).

Ontario's Net Debt-to-GDP Ratio



Source: FAO, Ontario Economic Accounts, and 2017 Ontario Budget.
Note: AG recommended presentation is based on FAO estimates of the pension adjustment.

Accounting Treatment

- The FAO's spring outlook includes a detailed section on the different accounting interpretations for net pension assets of jointly sponsored pension plans (Ontario Teachers' Pension Plan and the Ontario Public Service Employees Union Pension Plan) used by the government and the Auditor General.
- While the FAO presents analysis based on both interpretations of the accounting treatment, the report states that "the Officer looks to the Auditor General as the provincial authority on the appropriate interpretation and application of accounting standards for the Province" (p.27).
- Furthermore, the FAO states that in the absence of a written agreement between the co-sponsors of the pension plans, the Auditor General would be expected to provide a qualified opinion on Ontario's 2016-17 Public Accounts.

Risks and Policy Options

- The FAO notes the following risks to Ontario's fiscal plan (p. 23):
    - A housing market correction could pose a significant risk for both the broader economy and the fiscal plan through lower taxation revenues
    - Reduced prudence built into program spending in the 2017 Budget compared to the previous budget – reducing flexibility for the government to respond to unexpected events
    - Interest on debt payments are expected to increase, exposing the government to fiscal risk should interest rates rise faster than expected
- Although the FAO projects deficits, the report notes that the government has a broad range of policy options that could improve the Province's fiscal position, including selling additional public assets beyond announced targets.

APPENDIX A – Detailed Comparison of Outlooks

Key factors driving change since the 2016 FAO fall report:

- Increases in Provincial tax revenue of $2.8 billion in 2016–17 and $4.2 billion in 2017–18 (stronger than expected PIT revenue) due to improving economic growth in 2017
- Declines in Ontario's equalization entitlement. Beyond 2018–19, the FAO is projecting that Ontario will no longer be entitled to Equalization payments – a reflection of the continued strength of the Ontario economy
- Significant new spending across all sectors, including a new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan
- Revised estimates for net pension asset expense of jointly sponsored pension plans

Developments since Fall 2016 EFO (AG Recommended Presentation)

	2016-17	2017-18	2018-19	2019-20	2020-21
FAO's Fall 2016 Budget Balance Forecast	**-5.2**	**-2.6**	**-2.8**	**-3.3**	**-3.7**
Developments Since Fall 2016					
Revenue					
Stronger Economic Outlook	2.3	4.1	3.9	4.4	4.7
Lower Federal Transfers[1]	-0.3	0.2	-1.3	-2.4	-2.2
Other Revenue Changes[2]	0.1	0.1	-0.5	-0.6	-0.6
Total	2.1	4.4	2.1	1.3	1.8
Expense					
Higher Spending, including Children and Youth Pharmacare, and Fair Hydro Plan	1.2	3.8	3.0	2.2	2.7
Revised Adjustment for Pension Asset[3]	0.7	0.8	1.1	1.4	1.4
Total	2.0	4.6	4.1	3.6	4.1
Total Developments	**0.2**	**-0.3**	**-2.1**	**-2.3**	**-2.3**
FAO's Spring 2017 Budget Balance Forecast	**-5.0**	**-2.9**	**-4.9**	**-5.5**	**-6.0**

Notes:

1. Change in federal transfers forecast mainly due the reduction in Ontario's Equalization payment.
2. Other revenue changes include the $0.5 billion re-profiling of cap-and-trade proceeds from 2016-17 to 2017-18, and an increase in sales and rentals for 2017-18.
3. In the Fall 2016 EFO, the FAO assumed an annual adjustment of $1.5 billion for the net pension assets of jointly sponsored pension plans. The current projection incorporates the FAO's updated estimates for the pension adjustment of $2.2 billion in 2016-17, increasing to $2.9 billion by 2020-21.

Source: FAO.

Revenue Assumptions:

- Compared to the FAO's fall forecast, from 2016-17 to 2019-20, on average, total revenue is projected to be $2.5 billion higher annually mostly because of higher taxation revenue, partially offset by lower Federal Transfers and other Non-Tax revenues.

FAO Revenue Difference (Spring 2017 less Fall 2016)

$ Billions	2016-17	2017-18f	2018-19f	2019-20f	Annual Average
Taxation Revenue	**2.8**	**4.2**	**4.4**	**4.9**	**4.1**
Government of Canada Transfers	-0.4	0.2	-1.3	-2.4	-1.0
Government Business Enterprises	0.3	-0.4	0.0	0.1	0.0
Other Non-Tax Revenue	-0.6	0.4	-1.1	-1.3	-0.7
Total Non-Tax Revenue	**-0.7**	**0.2**	**-2.4**	**-3.6**	**-1.6**
Total Revenue	**2.1**	**4.4**	**2.1**	**1.4**	**2.5**

  - Taxation revenues are projected to be, on average, $4.1 billion higher annually due to stronger economic growth as nominal GDP growth is, on average, projected to be 0.4 percentage points higher annually.
  - More specifically, corporate profits are projected to be 3.3 percentage points higher annually, boosting Corporations Tax revenue. Higher labour income is expected to raise Personal Income Tax revenue while Ontario's strong housing market boosts Sales Tax and Land Transfer Tax revenues.
  - Lower Federal Transfers reflects mostly the FAO's projection that Ontario will no longer be entitled to Equalization payments beyond 2018-19.
  - Non-Tax revenues are lower, mainly because of the revisions to the multi-year asset optimization target to reflect the progress made so far and revised projections for Carbon allowance proceeds.

Comparison: 2017 Budget Fiscal Outlook and the 2017 Spring FAO Outlook

	Actual		Outlook					Avg. Annual Growth		
								16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
2017 Budget										
Revenue	128.4	133.2	141.7	144.9	149.3			3.9%		
Expense										
Program Expense*	120.9	123.5	129.5	132.3	135.8			3.2%		
Adjustment for Pension Assets	-	-	-	-	-					
Interest on Debt	11.0	11.3	11.6	12.0	12.6			3.9%		
Total Expense	131.9	134.8	141.1	144.3	148.4			3.3%		
Surplus/(Deficit) Excl. Reserve	(3.5)	(1.5)	0.6	0.6	0.9					
Reserve	-	-	0.6	0.6	0.9					
Surplus/(Deficit)	(3.5)	(1.5)	0.0	0.0	0.0					
Net Debt	294.6	301.9	311.9	323.3	335.9					
Change - 2017 Budget to FAO Spring 2017 Report										
Revenue	-	*(1.2)*	*(1.4)*	*(3.1)*	*(3.7)*					
Expense										
*Program Expense **	-	-	-	-	-					
Adjustment for Pension Assets	*1.5*	*2.2*	*2.3*	*2.6*	*2.9*					
Interest on Debt	-	-	*(0.3)*	*(0.3)*	*(0.3)*					
Total Expense	*1.5*	*2.2*	*2.0*	*2.3*	*2.7*					
Surplus/(Deficit) Excl. Reserve	*(1.5)*	*(3.5)*	*(3.5)*	*(5.5)*	*(6.4)*					
Reserve	-	-	*n/a*	*n/a*	*n/a*					
Surplus/(Deficit)	*(1.5)*	*(3.5)*	*n/a*	*n/a*	*n/a*					
Net Debt	*10.6*	*14.2*	*17.6*	*23.1*	*29.5*					
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	120.9	123.5	129.5	132.3	135.8	140.9	146.1	3.2%	3.7%	3.4%
Adjustment for Pension Assets	1.5	2.2	2.3	2.6	2.9	2.9	2.9			
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	133.4	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve	(5.0)	(5.0)	(2.9)	(4.9)	(5.5)	(6.0)	(6.5)			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	(5.0)	(5.0)	n/a	n/a	n/a	n/a	n/a			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Adjustment for Pension Assets	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	(3.5)	(2.8)	(0.5)	(2.2)	(2.6)	(3.1)	(3.6)			

Note: Numbers may not align with report due to rounding.

* Program Expense excluding Adjustment for Pension Assets (captured on line below)

Comparison: 2016 Fall FAO Outlook Compared to 2017 Spring FAO Outlook

	Actual		Outlook					Avg. Annual Growth		
								16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
FAO Fall 2016 Report										
Revenue	128.4	129.9	135.9	139.7	144.2	149.1		3.5%		
Expense										
Program Expense*	122.4	123.9	127.2	130.9	135.3	139.9		3.0%		
Interest on Debt	11.0	11.2	11.3	11.6	12.2	12.9		2.9%		
Total Expense	133.4	135.1	138.5	142.5	147.5	152.8		3.0%		
Surplus/(Deficit) Excl. Reserve	(5.0)	(5.2)	(2.6)	(2.8)	(3.3)	(3.7)				
Reserve	-	-	n/a	n/a	n/a	n/a				
Surplus/(Deficit)	(5.0)	(5.2)	n/a	n/a	n/a	n/a				
Net Debt	305.2	318.5	330.5	343.8	356.8	369.7				
Adjustment for Pension Assets	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)				
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	(3.5)	(3.7)	(1.1)	(1.3)	(1.8)	(2.2)				
Change - FAO Fall 2016 Report to Spring 2017 Report										
Revenue	-	*2.1*	*4.4*	*2.1*	*1.3*	*1.8*				
Expense										
Program Expense *	-	*1.9*	*4.6*	*4.0*	*3.5*	*3.9*				
Interest on Debt	-	*0.1*	-	*0.1*	*0.1*	*0.2*				
Total Expense	-	*2.0*	*4.6*	*4.1*	*3.6*	*4.1*				
Surplus/(Deficit) Excl. Reserve	*0.0*	*0.2*	*(0.3)*	*(2.1)*	*(2.3)*	*(2.3)*				
Reserve	-	-	*n/a*	*n/a*	*n/a*	*n/a*				
Surplus/(Deficit)	*0.0*	*0.2*	*n/a*	*n/a*	*n/a*	*n/a*				
Net Debt	*(0.0)*	*(2.4)*	*(1.0)*	*2.6*	*8.6*	*9.7*				
Adjustment for Pension Assets	-	(0.7)	(0.8)	(1.1)	(1.4)	(1.4)				
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	-	0.9	0.6	(0.9)	(0.8)	(0.9)				
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	122.4	125.7	131.8	134.9	138.8	143.8	149.0	3.4%	3.6%	3.5%
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	133.4	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve	(5.0)	(5.0)	(2.9)	(4.9)	(5.5)	(6.0)	(6.5)			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	(5.0)	(5.0)	n/a	n/a	n/a	n/a	n/a			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Adjustment for Pension Assets	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	(3.5)	(2.8)	(0.5)	(2.2)	(2.6)	(3.1)	(3.6)			

Note: Numbers may not align with report due to rounding.

* Based on AG recommended accounting treatment with adjustment for net pension assets.

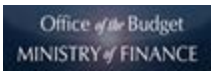
From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	Anna Strathy
Subject:	Fw: FAO Summary Note (including key messages)
Date:	Tuesday, May 30, 2017 6:56:32 PM
Attachments:	image001.png FAO EFO Report_Summary_v9.docx

From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
Sent: Tuesday, May 30, 2017 6:54 PM
To: Ghiassi, Ali (MOF); Elizabeth Mendes (MOF); Marianne Nguyen (MCYS); Nancy Kennedy (MOHLTC); Scott Thompson (CAB); Brian Lewis (MOL); Ronald Kwan; Gadi Mayman
Cc: David McLean (MOF); Gwendolynne Young (ENE); Birks, Ryan (MOF); Selena Esmail (MOF)
Subject: FAO Summary Note (including key messages)

Please find attached an updated version of the FAO Summary note which we took the Minister through earlier this afternoon. Note this includes key messages the minister can use tomorrow as well.

Happy to address any issues as they arise over the coming day with the release of the report.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173




Office of the Budget
MINISTRY of FINANCE

Financial Accountability Officer Report: Spring Economic and Fiscal Outlook

Draft – May 30, 2017 6:00 PM

ISSUE

- The Financial Accountability Officer (FAO) will be releasing a report on May 31, which assesses Ontario's medium-term economic and fiscal outlook.
- This represents the spring update to the FAO's planned release of semi-annual medium-term outlook reports.
- The spring report incorporates economic and fiscal information released since the FAO's fall 2016 report (released November 3, 2016). This includes:
    - New economic data that impacts their revenue and interest on debt outlooks; and
    - New spending commitments from the 2017 Budget.
- The FAO has presented two fiscal projections in its spring report:
    1. A projection that includes the impact of the net pension assets of jointly sponsored pension plans, based on the Auditor General's recommended accounting treatment, and
    2. A projection that excludes this impact based on the government's fiscal presentation in the 2017 Budget, as recommended by the Pension Asset Expert Advisory Panel.
- Both presentations used by the FAO project deficits in each year over the outlook period (2016–17 to 2021–22).
    - Using the government's fiscal presentation of net pension assets, the FAO has stated that balance is within reach in 2017–18 and that beyond this, staying in balance will likely require additional fiscal policy measures.
    - Similarly, using this presentation, the FAO projects that net debt-to-GDP will decline over the outlook but additional fiscal measures would be required for the government to achieve its interim net debt-to-GDP target of 35 per cent by 2023–24 and 27 per cent by 2029–30.
    - The FAO excludes the reserve from its fiscal outlook.

TOP MESSAGES

- I would like to thank the Financial Accountability Officer (FAO) for releasing his spring economic and fiscal outlook for Ontario. We value the FAO's independent assessment and projections of the province's fiscal plan.
- As outlined in the 2017 Budget, the government is projecting a balanced budget for 2017–18 and to remain balanced in 2018–19 and 2019–20.
- The government has a strong track record of beating its fiscal targets. In fact, for the 2016–17 fiscal year, the government is forecasting a deficit of $1.5 billion, beating our annual deficit target again, for the eighth year in a row.
- This Budget builds on the government's track record of fiscal management that has resulted in $29 billion in accumulated deficits being avoided over the past seven years, relative to the 2010 Budget forecast.
- We are also targeting a net debt-to-GDP ratio of 35 per cent by 2023–24 and reducing Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029–30.
- Ontario has recorded stronger economic growth than Canada and all other G7 countries over the 2014 to 2016 period, with real GDP rising 2.6 per cent a year.
- Private-sector forecasters expect Ontario will remain one of the fastest growing provinces over the next two years. It should be noted that the FAO's real GDP projections are modestly stronger than the 2017 Budget outlook over the 2017 to 2020 period.
- For prudent fiscal planning, the Province's real GDP growth projections are slightly below the average of private-sector forecasts. In fact, three economic experts also reviewed these economic assumptions and found them to be reasonable.
- This shows that our plan to make strategic investments in Ontario to grow the economy is working.
- It is also important to note that the FAO affirmed key aspects of the Budget plan, including projecting that a balanced budget is within reach for Ontario in 2017–18 and that the net debt-to-GDP ratio is on a downward trend.
- A balanced budget is providing the Province the fiscal flexibility to invest more in health care, education and other public services that matter most to Ontario families. It also adds stability to Ontario's finances and positions the government to better respond to demographic challenges and unexpected global economic shocks that the province will face over the next decade.

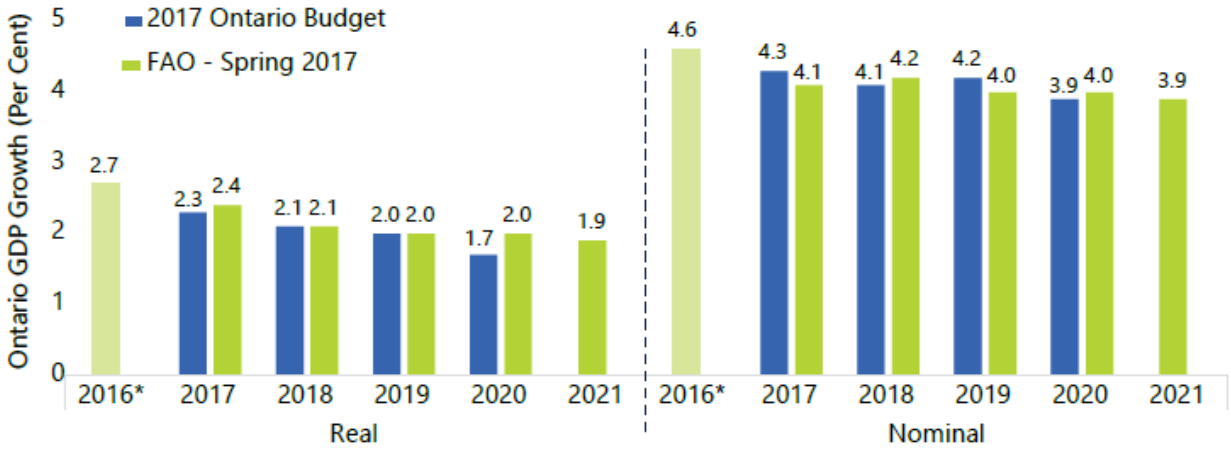
KEY FINDINGS

- The report is divided into two main chapters:
    1) The **Economic Outlook** chapter presents the FAO forecast for Ontario's economy out to 2021, and includes a discussion of potential risks.
    2) The **Fiscal Outlook** chapter presents the FAO forecast for revenue, expense and the surplus/deficit between 2016-17 and 2021-22.

<u>Economic Outlook</u>

- The FAO has left its forecast for Ontario real GDP growth little changed, on average, over the 2017 to 2020 period relative to its fall forecast, though it included a modest downward revision in 2017 and upward revision in 2019.
- The FAO forecast is broadly consistent with the private sector economists' view that stronger international exports and business investment will be key drivers of Ontario's overall economic growth over the next several years.
- The FAO forecast for real GDP growth is 0.1 percentage points stronger annually, on average, than the 2017 Budget forecast between 2017 and 2020.
- The FAO believes the balance of the risks to the economic outlook is tilted to the downside, particularly risks associated with a correction in Ontario's housing market. (p. 13).

Solid Economic Performance Expected Over Outlook



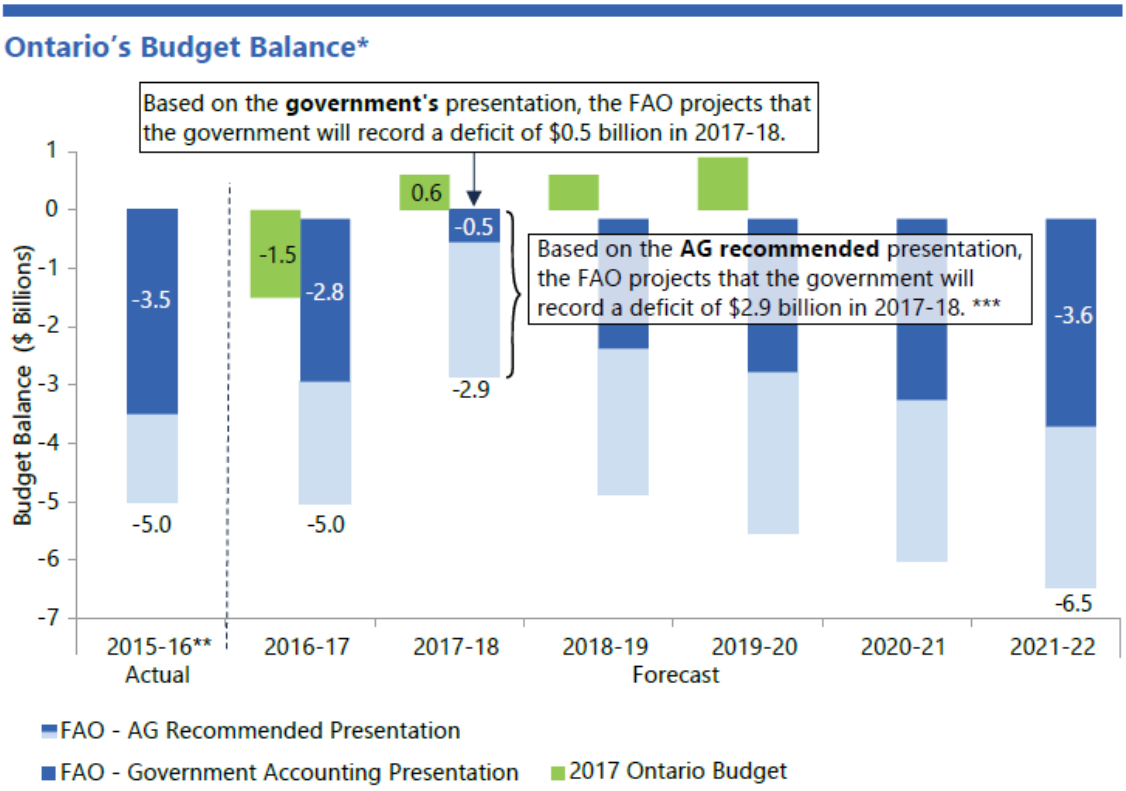
* 2016 are actuals.

Source: Ontario Economic Accounts, 2017 Ontario Budget and FAO.

Fiscal Outlook

- The FAO's current projection of the outlook for budget balance has generally deteriorated relative to the FAO's fall 2016 projection and continues to present a gap against the government's balanced budget projections.
- **Using the government's accounting treatment of net pension assets** the FAO is projecting budget deficits of $2.8 billion in 2016–17, $0.5 billion in 2017–18, $2.2 billion in 2018–19, and $2.6 billion by 2019–20 (excluding the reserve). This represents an improvement in the deficit for 2016–17 and 2017–18, but deterioration over the outlook compared to the FAO's fall report.
    - By comparison, the 2017 Budget projects a $1.5 billion deficit in 2016–17 and surpluses of $0.6 billion in 2017–18 and 2018–19, and a $0.9 billion surplus in 2019–20, excluding the reserve. The FAO also makes projections out to 2021–22 with increasing deficits forecast for those years as well.
    - The FAO suggests that a balanced budget is "within the government's reach in 2017–18" when using the government's accounting method, however "staying in balance after 2017-18 will likely require additional fiscal policy measures"(p.1).
    - The FAO notes that under this accounting presentation, Ontario's Public Accounts would be expected to receive a qualified opinion from the Auditor General.
- The FAO's forecast, **based on the Auditor General's recommended accounting treatment of jointly-sponsored pension plans**, projects deficits of $5.0 billion in 2016–17, $2.9 billion in 2017–18, $4.9 billion in 2018–19, and $5.5 billion by 2019–20 (excluding the reserve). Compared to the FAO's fall report, this represents a slight improvement in the deficit for 2016–17 but deterioration in 2017–18 and over the outlook.
    - The FAO notes that "on this basis, it is unlikely that the government will balance the budget without significant fiscal policy adjustments to raise revenue or lower expense" (p. 1).
- For 2016–17 the FAO is forecasting a deficit of $2.8 billion (or $5.0 billion with the pension adjustment) compared with the government's $1.5 billion interim projection.
- The FAO's asserts that its projection for an improved deficit in 2017–18 is due to robust economic performance and strong tax revenue growth in 2016 and 2017, compared to the FAO's fall estimates, and a one-time revenue increase in 2017–18 from increased federal transfers for infrastructure, additional revenue from asset sales and cap and trade proceeds. (p. 1 &19).

- Beginning in 2018-19, the FAO projects that the deficit will gradually deteriorate due to moderate revenue growth, the absence of one-time non-tax measures, and higher program expenses. (p. 16).



* Budget balance before reserve.

** Ontario's 2015-16 Public Accounts reported a deficit of $5.0 billion. Without the pension adjustment, the deficit would have been $3.5 billion.

*** This includes the FAO's estimate of the pension adjustment.

Source: 2015-16 Public Accounts, 2017 Ontario Budget and FAO.

Revenue Assumptions

- Compared to the 2017 Budget, the FAO's projected total revenue is lower mostly because of taxation revenue and, to a lesser extent, Federal Transfers.

FAO less Ontario 2017 Budget Outlook ($ Billions)

	2016-17	2017-18	2018-19	2019-20	Average
Taxation Revenue	-1.2	-1.4	-2.3	-3.0	-2.0
Government of Canada Transfers	-0.1	0.0	-0.8	-0.8	-0.4
Government Business Enterprises	0.0	0.0	0.0	0.0	0.0
Other Non-Tax Revenue	0.0	0.0	0.0	0.0	0.0
Total Revenue	**-1.2**	**-1.4**	**-3.1**	**-3.7**	**-2.4**

    - FAO's projection for the composition of nominal GDP such as compensation of employees, net operating surplus and household consumption, are all lower than the 2017 Budget projection.
    - The 2017 Budget assumed higher yields from CIT and HST compared to recent projections, reflecting recent tax revenue performance. These yields also exceed those assumed by the FAO.
    - The FAO projection for PIT is consistently lower than the 2017 Budget, partly due to their assumptions regarding tax planning that may have occurred in 2015 by high-income earners. Whereas the 2017 Budget only included an allowance for PIT planning in 2016-17, the FAO estimates that roughly $600 million of Ontario's 2015 PIT revenue was due to income shifting, which lowers taxable income in 2016-17 and 2017-18.
- The FAO's federal transfer outlook is lower than assumed in the 2017 Ontario Budget, probably due to FAO's assumption that Ontario will no longer receive Equalization payments starting in 2019-20 as Ontario's fiscal capacity improves relative to other provinces.
- The FAO's government business enterprise net income outlook and other non-tax revenue is the same as reported in the 2017 Budget.

Expense Assumptions

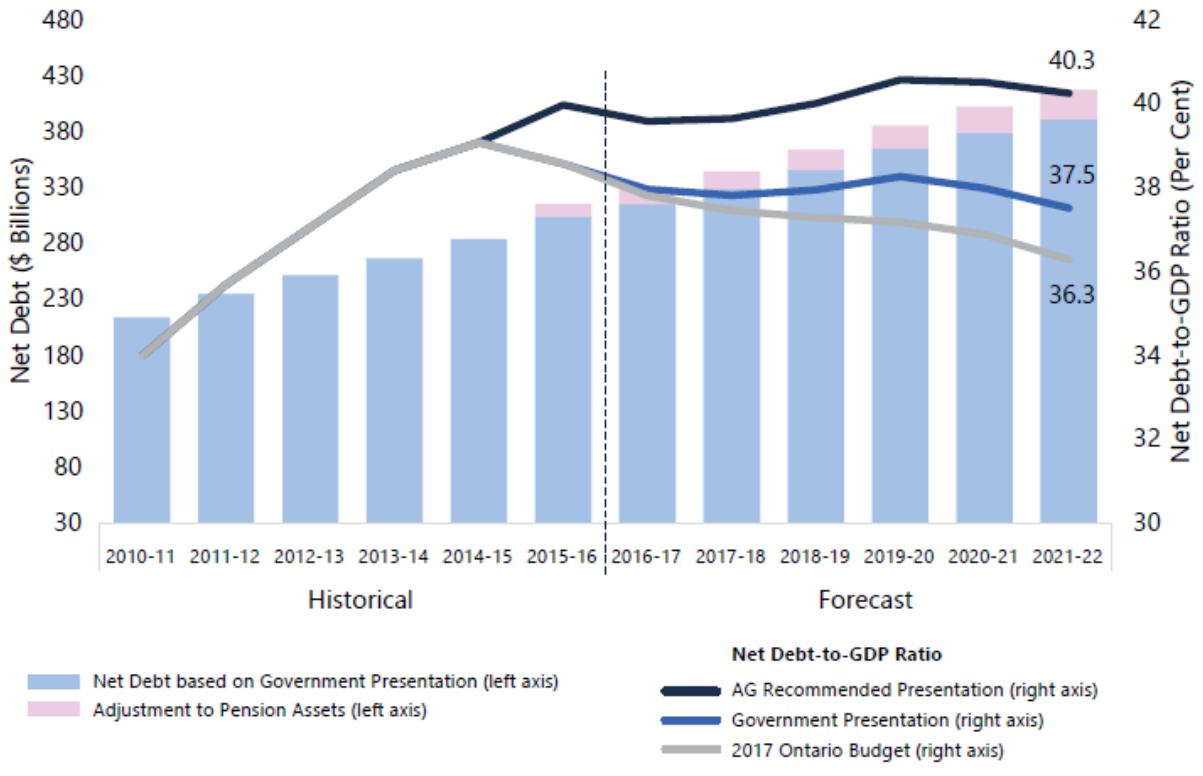
- The FAO assumes the same program expense outlook as the 2017 Budget up to 2019–20, adjusted to reflect the Auditor General's recommended accounting treatment for jointly sponsored pension plans.(p. 20).
- The FAO's expense outlook includes new spending commitments announced in the 2017 Budget including the new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan. This results in average annual growth in program expense of 3.3 per cent between 2016–17 and 2021–22 – slightly below the growth in underlying cost and demographic pressure, which is estimated to be 3.6 per cent on average.
- The FAO projects that Ontario's interest on debt (IOD) payments will grow at an average annual rate of 4.0 per cent from $11.0 billion in 2015–16 to $13.9 billion by 2021–22, reflecting higher debt and rising interest rates over the outlook. The FAO forecasts that IOD will outpace the growth in program expense over the outlook. (p. 21).
- The FAO's projection for IOD expense is lower than the 2017 Budget projections.
- According to the FAO, interest on debt is expected to increase from 8.1per cent of revenues in 2017–18 to 8.9 per cent by 2021–22. Over the past five years IOD as a share of revenues declined steadily, benefitting from declining interest rates. The

FAO argues that this ratio is expected to rise sharply due to projected interest rate increases. (p. 21 – Fiscal Chapter).

Debt Outlook

- Using the government's accounting method, the FAO expects net debt to increase by $62 billion over the next five years to $365 billion by 2021–22 or 37.5 per cent of GDP, above the 2017 Budget projection of 36.3 per cent.
- Under the Auditor General's recommended accounting treatment of jointly-sponsored pension plans, the FAO expects Ontario's net debt to rise by $76 billion to $392 billion by 2021–22 or 40.3 per cent of GDP, this represents a slightly lower net debt-to-GDP ratio over the plan and outlook period when compared to the FAO's fall forecast.
- The FAO's net debt-to-GDP projections under both accounting presentations, suggests that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24. (p. 22).

Ontario's Net Debt-to-GDP Ratio



Source: FAO, Ontario Economic Accounts, and 2017 Ontario Budget.
Note: AG recommended presentation is based on FAO estimates of the pension adjustment.

Accounting Treatment

- The FAO's spring outlook includes a detailed section on the different accounting interpretations for net pension assets of jointly sponsored pension plans (Ontario Teachers' Pension Plan and the Ontario Public Service Employees Union Pension Plan) used by the government and the Auditor General.
- While the FAO presents analysis based on both interpretations of the accounting treatment, the report states that "the Officer looks to the Auditor General as the provincial authority on the appropriate interpretation and application of accounting standards for the Province" (p.27).
- Furthermore, the FAO states that in the absence of a written agreement between the co-sponsors of the pension plans, the Auditor General would be expected to provide a qualified opinion on Ontario's 2016-17 Public Accounts.

Risks and Policy Options

- The FAO notes the following risks to Ontario's fiscal plan (p. 23):
    - A housing market correction could pose a significant risk for both the broader economy and the fiscal plan through lower taxation revenues
    - Reduced prudence built into program spending in the 2017 Budget compared to the previous budget – reducing flexibility for the government to respond to unexpected events
    - Interest on debt payments are expected to increase, exposing the government to fiscal risk should interest rates rise faster than expected
- Although the FAO projects deficits, the report notes that the government has a broad range of policy options that could improve the Province's fiscal position, including selling additional public assets beyond announced targets.

APPENDIX A – Detailed Comparison of Outlooks

Key factors driving change since the 2016 FAO fall report:

- Increases in Provincial tax revenue of $2.8 billion in 2016–17 and $4.2 billion in 2017–18 (stronger than expected PIT revenue) due to improving economic growth in 2017
- Declines in Ontario's equalization entitlement. Beyond 2018–19, the FAO is projecting that Ontario will no longer be entitled to Equalization payments – a reflection of the continued strength of the Ontario economy
- Significant new spending across all sectors, including a new children and youth Pharmacare program, increased funding for hospitals, new child care spaces, and electricity cost relief under the Fair Hydro Plan
- Revised estimates for net pension asset expense of jointly sponsored pension plans

Developments since Fall 2016 EFO (AG Recommended Presentation)

	2016-17	2017-18	2018-19	2019-20	2020-21
FAO's Fall 2016 Budget Balance Forecast	**-5.2**	**-2.6**	**-2.8**	**-3.3**	**-3.7**
Developments Since Fall 2016					
Revenue					
Stronger Economic Outlook	2.3	4.1	3.9	4.4	4.7
Lower Federal Transfers[1]	-0.3	0.2	-1.3	-2.4	-2.2
Other Revenue Changes[2]	0.1	0.1	-0.5	-0.6	-0.6
Total	2.1	4.4	2.1	1.3	1.8
Expense					
Higher Spending, including Children and Youth Pharmacare, and Fair Hydro Plan	1.2	3.8	3.0	2.2	2.7
Revised Adjustment for Pension Asset[3]	0.7	0.8	1.1	1.4	1.4
Total	2.0	4.6	4.1	3.6	4.1
Total Developments	**0.2**	**-0.3**	**-2.1**	**-2.3**	**-2.3**
FAO's Spring 2017 Budget Balance Forecast	**-5.0**	**-2.9**	**-4.9**	**-5.5**	**-6.0**

Notes:

1. Change in federal transfers forecast mainly due the reduction in Ontario's Equalization payment.
2. Other revenue changes include the $0.5 billion re-profiling of cap-and-trade proceeds from 2016-17 to 2017-18, and an increase in sales and rentals for 2017-18.
3. In the Fall 2016 EFO, the FAO assumed an annual adjustment of $1.5 billion for the net pension assets of jointly sponsored pension plans. The current projection incorporates the FAO's updated estimates for the pension adjustment of $2.2 billion in 2016-17, increasing to $2.9 billion by 2020-21.

Source: FAO.

Revenue Assumptions:

- Compared to the FAO's fall forecast, from 2016-17 to 2019-20, on average, total revenue is projected to be $2.5 billion higher annually mostly because of higher taxation revenue, partially offset by lower Federal Transfers and other Non-Tax revenues.

FAO Revenue Difference (Spring 2017 less Fall 2016)

$ Billions	2016-17	2017-18f	2018-19f	2019-20f	Annual Average
Taxation Revenue	**2.8**	**4.2**	**4.4**	**4.9**	**4.1**
Government of Canada Transfers	-0.4	0.2	-1.3	-2.4	-1.0
Government Business Enterprises	0.3	-0.4	0.0	0.1	0.0
Other Non-Tax Revenue	-0.6	0.4	-1.1	-1.3	-0.7
Total Non-Tax Revenue	**-0.7**	**0.2**	**-2.4**	**-3.6**	**-1.6**
Total Revenue	**2.1**	**4.4**	**2.1**	**1.4**	**2.5**

  - Taxation revenues are projected to be, on average, $4.1 billion higher annually due to stronger economic growth as nominal GDP growth is, on average, projected to be 0.4 percentage points higher annually.
  - More specifically, corporate profits are projected to be 3.3 percentage points higher annually, boosting Corporations Tax revenue. Higher labour income is expected to raise Personal Income Tax revenue while Ontario's strong housing market boosts Sales Tax and Land Transfer Tax revenues.
  - Lower Federal Transfers reflects mostly the FAO's projection that Ontario will no longer be entitled to Equalization payments beyond 2018-19.
  - Non-Tax revenues are lower, mainly because of the revisions to the multi-year asset optimization target to reflect the progress made so far and revised projections for Carbon allowance proceeds.

Comparison: 2017 Budget Fiscal Outlook and the 2017 Spring FAO Outlook

	Actual		Outlook					Avg. Annual Growth		
								16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
2017 Budget										
Revenue	128.4	133.2	141.7	144.9	149.3			3.9%		
Expense										
Program Expense*	120.9	123.5	129.5	132.3	135.8			3.2%		
Adjustment for Pension Assets	-	-	-	-	-					
Interest on Debt	11.0	11.3	11.6	12.0	12.6			3.9%		
Total Expense	131.9	134.8	141.1	144.3	148.4			3.3%		
Surplus/(Deficit) Excl. Reserve	(3.5)	(1.5)	0.6	0.6	0.9					
Reserve	-	-	0.6	0.6	0.9					
Surplus/(Deficit)	(3.5)	(1.5)	0.0	0.0	0.0					
Net Debt	294.6	301.9	311.9	323.3	335.9					
Change - 2017 Budget to FAO Spring 2017 Report										
Revenue	-	*(1.2)*	*(1.4)*	*(3.1)*	*(3.7)*					
Expense										
*Program Expense **	-	-	-	-	-					
Adjustment for Pension Assets	*1.5*	*2.2*	*2.3*	*2.6*	*2.9*					
Interest on Debt	-	-	*(0.3)*	*(0.3)*	*(0.3)*					
Total Expense	*1.5*	*2.2*	*2.0*	*2.3*	*2.7*					
Surplus/(Deficit) Excl. Reserve	*(1.5)*	*(3.5)*	*(3.5)*	*(5.5)*	*(6.4)*					
Reserve	-	-	*n/a*	*n/a*	*n/a*					
Surplus/(Deficit)	*(1.5)*	*(3.5)*	*n/a*	*n/a*	*n/a*					
Net Debt	*10.6*	*14.2*	*17.6*	*23.1*	*29.5*					
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	120.9	123.5	129.5	132.3	135.8	140.9	146.1	3.2%	3.7%	3.4%
Adjustment for Pension Assets	1.5	2.2	2.3	2.6	2.9	2.9	2.9			
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	133.4	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve	(5.0)	(5.0)	(2.9)	(4.9)	(5.5)	(6.0)	(6.5)			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	(5.0)	(5.0)	n/a	n/a	n/a	n/a	n/a			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Adjustment for Pension Assets	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	(3.5)	(2.8)	(0.5)	(2.2)	(2.6)	(3.1)	(3.6)			

Note: Numbers may not align with report due to rounding.

* Program Expense excluding Adjustment for Pension Assets (captured on line below)

Comparison: 2016 Fall FAO Outlook Compared to 2017 Spring FAO Outlook

	Actual		Outlook					Avg. Annual Growth		
								16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
FAO Fall 2016 Report										
Revenue	128.4	129.9	135.9	139.7	144.2	149.1		3.5%		
Expense										
Program Expense*	122.4	123.9	127.2	130.9	135.3	139.9		3.0%		
Interest on Debt	11.0	11.2	11.3	11.6	12.2	12.9		2.9%		
Total Expense	133.4	135.1	138.5	142.5	147.5	152.8		3.0%		
Surplus/(Deficit) Excl. Reserve	(5.0)	(5.2)	(2.6)	(2.8)	(3.3)	(3.7)				
Reserve	-	-	n/a	n/a	n/a	n/a				
Surplus/(Deficit)	(5.0)	(5.2)	n/a	n/a	n/a	n/a				
Net Debt	305.2	318.5	330.5	343.8	356.8	369.7				
Adjustment for Pension Assets	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)				
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	(3.5)	(3.7)	(1.1)	(1.3)	(1.8)	(2.2)				
Change - FAO Fall 2016 Report to Spring 2017 Report										
Revenue	-	*2.1*	*4.4*	*2.1*	*1.3*	*1.8*				
Expense										
Program Expense *	-	*1.9*	*4.6*	*4.0*	*3.5*	*3.9*				
Interest on Debt	-	*0.1*	-	*0.1*	*0.1*	*0.2*				
Total Expense	-	*2.0*	*4.6*	*4.1*	*3.6*	*4.1*				
Surplus/(Deficit) Excl. Reserve	*0.0*	*0.2*	*(0.3)*	*(2.1)*	*(2.3)*	*(2.3)*				
Reserve	-	-	*n/a*	*n/a*	*n/a*	*n/a*				
Surplus/(Deficit)	*0.0*	*0.2*	*n/a*	*n/a*	*n/a*	*n/a*				
Net Debt	*(0.0)*	*(2.4)*	*(1.0)*	*2.6*	*8.6*	*9.7*				
Adjustment for Pension Assets	-	(0.7)	(0.8)	(1.1)	(1.4)	(1.4)				
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	-	0.9	0.6	(0.9)	(0.8)	(0.9)				
FAO Spring 2017 Report										
Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4	3.3%	3.6%	3.5%
Expense										
Program Expense*	122.4	125.7	131.8	134.9	138.8	143.8	149.0	3.4%	3.6%	3.5%
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9	2.9%	6.3%	4.2%
Total Expense	133.4	137.0	143.1	146.6	151.1	156.9	162.9	3.3%	3.8%	3.5%
Surplus/(Deficit) Excl. Reserve	(5.0)	(5.0)	(2.9)	(4.9)	(5.5)	(6.0)	(6.5)			
Reserve	-	-	n/a	n/a	n/a	n/a	n/a			
Surplus/(Deficit)	(5.0)	(5.0)	n/a	n/a	n/a	n/a	n/a			
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7			
Adjustment for Pension Assets	(1.5)	(2.2)	(2.3)	(2.6)	(2.9)	(2.9)	(2.9)			
Surplus/(Deficit) Excluding Reserve and Adjustment for Pension Assets	(3.5)	(2.8)	(0.5)	(2.2)	(2.6)	(3.1)	(3.6)			

Note: Numbers may not align with report due to rounding.

* Based on AG recommended accounting treatment with adjustment for net pension assets.

From: Gadi Mayman
To: Ken Kandeepan
Cc: Anna Strathy
Subject: Fw: FAO"s Upcoming EFO Report
Date: Tuesday, May 09, 2017 10:41:53 PM
Attachments: EFO - Fiscal - Govt comments v3.docx
EFO - Economic - Govt comments.docx

Original Message
From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
Sent: Tuesday, May 9, 2017 7:00 PM
To: David West; Karen Hughes (MGS); Brian Lewis (MOL); Veinot, Cindy (TBS)
Cc: Ghufran Tarin (MOF); Birks, Ryan (MOF); Patrick Laughton (MOF); Hosick, Sarah (TBS); Edward Crummey; Luan Ngo; Mario Angastiniotis; Nicolas Rhodes; Selena Esmail (MOF); Gadi Mayman; Maria Duran-Schneider (MOF); Ronald Kwan; Erik Girard (MCI)
Subject: RE: FAO's Upcoming EFO Report

David (and other FAO colleagues);

Please find attached our consolidated feedback to the Economic Outlook and Fiscal Outlook draft reports. We have focussed on the factual components of this, and have tried to keep an eye on the cabinet confidentiality issue as well. With that in mind, here are a few high-level points to help guide your review of our comments:

-- As in past reports, it is really important for us that you clearly distinguish what is an FAO projection vs. what is a Budget or government projection. This is applied somewhat inconsistently in the draft report. As such, we've provided some advice on where we think that distinction is important to have clearly articulated.

-- Since the Budget forecast horizon only is provided out to 19-20, we think it is important that you make it more clear that you have provided two additional years beyond what is provided for in the Budget documents.

-- With respect to Cabinet Confidentiality, we think that, overall it has been well-respected -- with two exceptions.

1. In a footnote about the child care spaces, you note that "ministry of finance officials indicated that its not fully funded in the fiscal plan" -- a point that is protected under Cabinet Confidence and cannot be disclosed as such. We've provided the deletion in the comment and some alternative wording.

2. The pension adjustment numbers (ie, the impact of the AG's pension accounting treatment) is not something used for the purposes of building the fiscal plan in the Budget -- and as such, cannot be considered a government projection (even though the government did disclose the potential impact of the pension adjustment in the 2016 FES, it did not do so as part of the 2017 Budget). As such, the underlying multi-year pension numbers provided to you by OPCD should be considered advice to Cabinet and protected. We think that perhaps a further conversation is required on this to make sure we are respecting Cabinet Confidentiality -- but in the interest of giving you feedback today, we thought it was important to provide a potential alternative for consideration. If you consider making it clear that those projections of the pension adjustment are FAO projections -- and not a government projection -- then perhaps we may be able to avoid a breach of Cabinet Confidentiality. We understand from OPCD that they did provide you with the underlying data, and instructions on how to calculate -- but the pension adjustment itself, as presented in the tables, is an FAO estimate of the pension accounting impact and not the government's. As such, you should clearly label it as such and be held accountable for explaining and owning the calculation as well, if asked. If you feel these need additional conversation with us, please let us know....happy to have a follow-up discussion. Hope that makes sense.

Thanks to everyone across MOF/TBS world who worked hard and collaboratively to make sure we could get you something by eod today. We appreciate the opportunity to review and provide feedback. We are happy to have more conversations in the lead-up to the provision of the report to Ministers. If you could also let us know when you expect the release date to be, that would help us plan as well.

Thanks again

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

-----Original Message-----
From: David West [mailto:dwest@fao-on.org]
Sent: May-08-17 10:24 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Edward Crummey; Luan Ngo; Mario Angastiniotis; Nicolas Rhodes
Subject: RE: FAO's Upcoming EFO Report

Good Morning,

Please find attached drafts of the Economic Outlook and Fiscal Outlook chapters from the FAO's upcoming 'Economic and Fiscal Outlook' report.
The chapters are password protected using the same password as in the past.

The FAO's fiscal forecast incorporates the tax revenue adjustments that we received on Friday afternoon -- and which brings our short-term forecast much closer the Budget 2017 forecast.

Unfortunately, we are on a very tight schedule to enable us to release this report at the end of the May.

So, we are asking for your comments/concerns including any potential cabinet confidentiality issues by end of day tomorrow (Tuesday, May 9)

Thanks again for your support and assistance.

David West

Chief Economist

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
t.416.579.1465 | dwest@fao-on.org
www.fao-on.org

-----Original Message-----
From: David West
Sent: May 5, 2017 10:22 AM
To: 'Schuurman, Tim (MOF)' <Tim.Schuurman@ontario.ca>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Cindy.Veinot@ontario.ca
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Subject: FAO's Upcoming EFO Report

Hello,

Thanks again for our meeting on Tuesday. We appreciate the information you have provided as well as the responses to our questions at the meeting.

On Monday morning (as early as possible) we plan to provide you with draft copies of the Economic Outlook and Fiscal Outlook chapters (including Forecast Tables) from the FAO's upcoming EFO report.

We would hope you would be able to provide us with any comments or concerns on these chapters by Tuesday (May 9), end of day.

As in the past, the FAO will provide a final copy of the report 48 hours prior to release to both Ministers. I would email you a copy at the same time.

Thanks,

David West
416.579.1465

-----Original Message-----
From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: April 28, 2017 5:40 PM
To: David West <dwest@fao-on.org>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Luan Ngo <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Mario Angastiniotis <MAngastiniotis@fao-on.org>; Nicolas Rhodes <nrhodes@fao-on.org>
Subject: Re: Follow-Up on the 2017 Budget

Thanks David,

We're working on pulling together the various information pieces and people for a meeting Tuesday between 1pm and 2pm, so will be in touch to confirm.

As in past approaches, we won't be able to have everything for you on Tuesday but will be able to provide a downpayment for sure.

Have a great weekend
Tim

From: David West
Sent: Friday, April 28, 2017 5:14 PM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Luan Ngo; Edward Crummey; Mario Angastiniotis; Nicolas Rhodes
Subject: RE: Follow-Up on the 2017 Budget

As promised, please find attached more detailed questions.

Please confirm when we can meet early next week.

Thanks
dw

From: David West
Sent: April 28, 2017 9:32 AM
To: Tim Schuurman (Tim.Schuurman@ontario.ca) <Tim.Schuurman@ontario.ca>; karen.hughes@ontario.ca; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Cindy.Veinot@ontario.ca
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; 'Birks, Ryan (MOF)' <Ryan.Birks@ontario.ca>; 'Laughton, Patrick (TBS)' <Patrick.Laughton@ontario.ca>; 'Hosick, Sarah (TBS)' <Sarah.Hosick@ontario.ca>; Luan Ngo (lngo@fao-on.org) <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Mario Angastiniotis (MAngastiniotis@fao-on.org) <MAngastiniotis@fao-on.org>; Nicolas Rhodes (nrhodes@fao-on.org) <nrhodes@fao-on.org>
Subject: Follow-Up on the 2017 Budget

Good Morning!

Congratulations on delivering yesterday's big, black budget!

I wanted to follow-up on the FAO's requests for some additional information.

First, as we have discussed, we have three requests for specific data/tables:

1. We would like to obtain the detailed revenue and expense tables (Tables 6.14 and 6.15) extended to 2019-20.

- Are these detailed tables available to 2020-21? If so, then please include (:))

2. As staff have been discussing, we would like to obtain more detailed information on the one-time adjustments to taxation revenues beginning in 2015-16 and extending over the forecast. This is basically additional information to that provided in tables 6.7, 6.8 and 6.9.

3. As detailed in the letter and background documents sent to Deputies Thompson and Angus on April 3, we are requesting pension expense and employer contribution details for the OTPP and OPSEUPP.

We would also appreciate a meeting early next week (preferably Tuesday afternoon) to allow you to respond to a number of questions that we have with regard to the 2017 Budget.

We'll provide a list of specific questions later this afternoon, but these questions will cover a number of areas, including:

- Clarification on where the Fair Hydro Plan appears in the expenses
- Additional details/clarification on new health spending, including the new pharmacare plan
- Clarification on future assumptions for asset sales and any details behind the 'Sales and Rentals' line in the detailed Revenue table.
- Clarification on the assumptions behind new federal funding announced in the 2017 federal budget (e.g. affordable housing, child care, home care)
- Some background on the decision to reduce the estimate of 'Carbon Allowance Proceeds' and assumptions on associated expense
- Additional details/clarification on new infrastructure spending
- Assumptions behind the plan to reduce net debt-to-GDP to 35% and eventually to 27%.

We'll provide a list later this afternoon that expands somewhat on these question topics.

Happy to discuss any of these requests.

Thanks again for your support,
David

David West
Chief Economist
[cid:image009.png@01D17ECB.966ECE00]

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Financial Accountability Office of Ontario

Economic and Fiscal Outlook

Fiscal Chapter

May 8, 2017

Confidential Document

This document is confidential. It should not be shown or otherwise transmitted to anyone other than those who have been asked by the Financial Accountability Office of Ontario to provide comments.

Spring 2017

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1. Fiscal Outlook

Overview

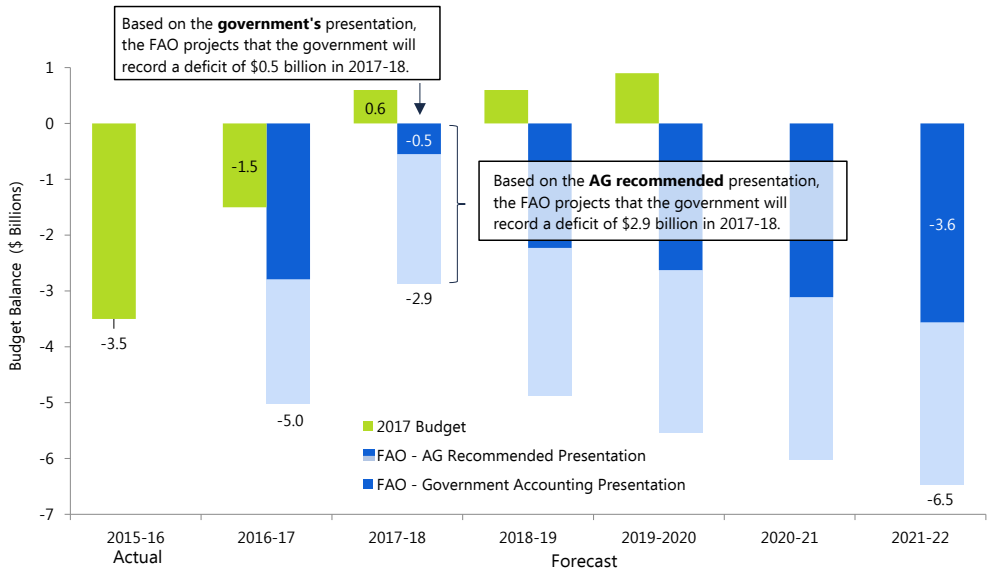
Continued Budget Deficits Projected

Based on the FAO's current economic forecast and updated fiscal information, the FAO is projecting continued Ontario budget deficits over the outlook. In the near term, the deficit improves due to strong tax revenue growth and a temporary boost to non-tax revenue. However, beginning in 2018-19, the deficit is expected to increase as a result of moderating revenue growth combined with higher expenses.

The government and the Auditor General (AG) disagree on the application of public sector accounting standards with respect to jointly-sponsored pension plans. Based on the FAO's projection of the impact of the Auditor General's recommended accounting presentation of pension assets, the FAO is projecting a budget deficit of $2.9 billion for 2017-18, rising to $6.5 billion by 2021-22. (Please refer to the discussion on page 8 for additional background and context on this issue.)

Based on the government's accounting presentation in the 2017 Budget, the FAO is projecting a budget deficit of $0.5 billion in 2017-18, growing to $3.6 billion by 2021-22.[1] By comparison, the government is projecting a budget surplus ~~(before the reserve)~~ of $0.6 billion in 2017-18, followed by continued small surpluses over the next two years (before the reserve).

Ontario's Budget Balance*



* Budget balance ~~excluding~~ ~~before~~ reserve. AG Recommended Presentation includes FAO projection of the ~~pension adjustment.~~AG's recommended presentation of pension assets.

[1] The Auditor General would be expected to provide a qualified opinion on Ontario's 2016-17 Public Accounts if the government continues to report the net pension assets of jointly sponsored pension plans in its financial statements.

Source: 2015-16 Public Accounts, 2017 Budget and FAO

On the government's accounting basis, the FAO projects that a balanced budget is within the government's reach in 2017-18. However, the budget deficit is expected to increase after 2017-18, due to moderate revenue growth, the absence of one-time non-tax revenues, and higher program expenses. Staying in balance after 2017-18 will likely require additional fiscal policy measures.

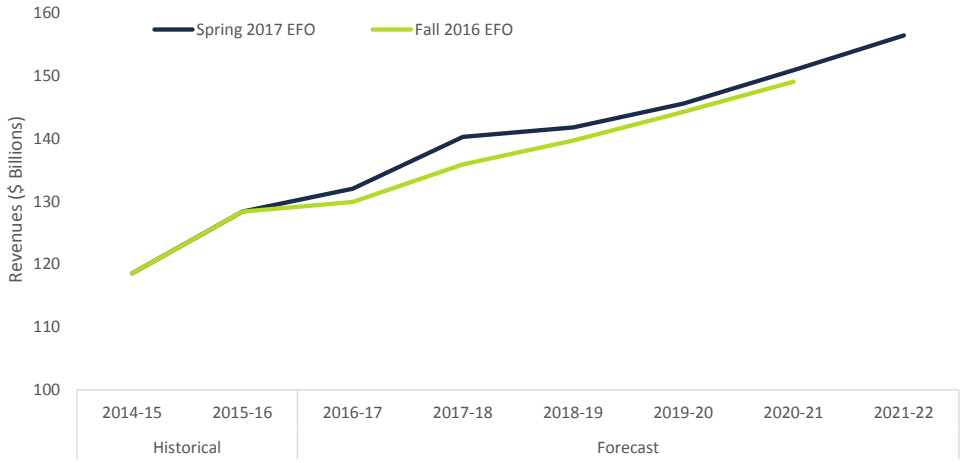
Under the Auditor General's accounting presentation, the FAO is projecting significant budget deficits over the entire outlook. On this basis, it is unlikely that the government will balance the budget in 2017-18 without significant additional fiscal policy measures (that is, higher revenues or lower expense). Beyond 2017-18, significant fiscal adjustments will likely be required to maintain budget balance through the outlook.

Revenue Outlook

The FAO is projecting average annual revenue growth of 3.3 per cent per year from 2016-17 to 2021-22, in-line with the forecast from the FAO's fall outlook.

However, in the near-term, revenue growth is stronger than expected due to robust economic performance in 2016 and 2017, and a boost from one-time revenues in 2017-18. Beyond 2017-18, growth in tax revenues moderates and the benefit of one-time non-tax revenues ends.

Revenues Stronger Than Expected in Near Term



Source: FAO and Public Accounts

FAO Revenue Assumptions and Forecast

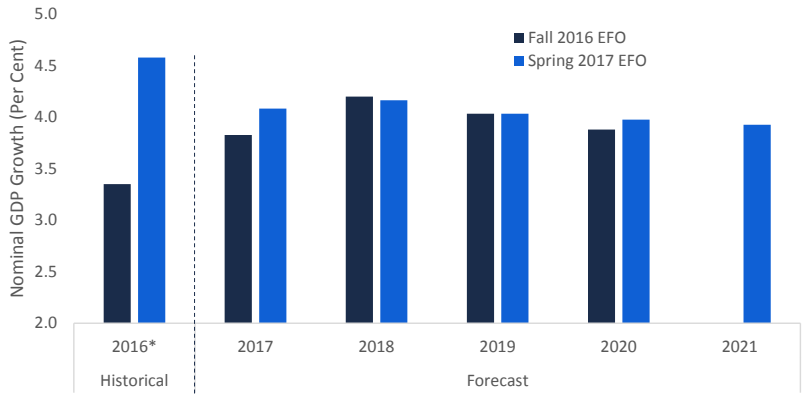
Revenue Source	Assumption	Forecast
Taxation Revenue	Grows with key economic drivers including labour income, corporate profits and household consumption.	Averages 3.9 per cent growth per year from 2016-17 to 2021-22
Federal Transfers	Based on legislated growth rates and economic performance	Federal transfers are expected to grow by 1.9 per cent per year from 2016-17 to 2021-22
Government Business Enterprises	Based on government projections	Income from GBEs are projected to rise moderately from $5.3 billion in 2016-17 to $6.5 billion in 2021-22
Other Revenue	Based on government projections, includes asset sales, and cap and trade	These revenues are projected to increase from $8.5 billion in 2016-17 to $11.0 billion in 2017-18, declining to $8.5 billion by 2021-22

Stronger Economic Growth Expected to Boost Tax Revenue

Consistent with the FAO's economic forecast, the FAO is currently projecting tax revenues to rise at an average of 3.9 per cent from 2016-17 to 2021-22, much stronger than the 3.0 per cent forecast in the FAO's fall outlook.

Since the FAO's fall report, nominal GDP – the broadest measure of the tax base – was revised significantly higher in 2016, improving the forecast for 2017.[2] However, beyond 2017, the outlook for nominal GDP growth is relatively unchanged from the fall forecast.

Nominal GDP up Significantly in the Near-Term Since the Fall



* 2016 value for Fall 2016 EFO was the FAO's forecast at the time of the report's release.
Source: Ontario Economic Accounts and FAO

[2] See economic section, and the footnote on page 11.

Improving economic prospects in 2017 are expected to lift the Province's tax revenue by approximately $2.3 billion in 2016-17 and $4.1 billion in 2017-18, compared to the FAO's fall estimates.

- Personal income tax revenue is forecast to grow stronger than expected in the fall due to the improved forecast for labour income.[3]
- Corporations tax revenue is projected to benefit from the stronger outlook for corporate profits.
- Sales tax and land transfer tax revenues are expected to improve in 2016-17 and 2017-18 due to the on-going strength in Ontario's housing market.

Commented [GE(1]: [OEP comment]
The Public Accounts of Canada reference only provides the overall growth in federal PIT revenue, and that it reflects PIT planning by high-income individuals. It would be helpful if the report note also included the impact to Ontario PIT revenue specifically assumed by the FAO.

Equalization Entitlement Declines

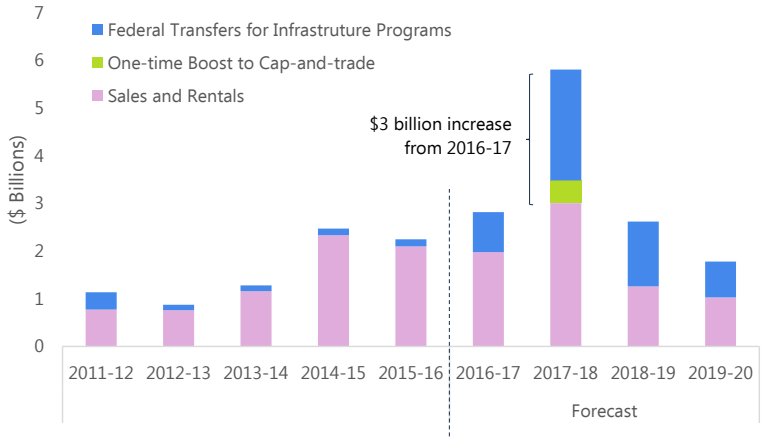
Given Ontario's recent economic strength relative to the rest of Canada, the Province's Equalization entitlement declined $0.8 billion to $1.4 billion in 2017-18, and the FAO projected this to drop further to $0.6 billion in 2018-19. Beyond 2018-19, the FAO is projecting that Ontario will no longer be entitled to Equalization payments — a reflection of the continued relative strength of the Ontario economy.

2017-18 Revenues to Benefit from One-time Increases

Based on the 2017 Budget and incorporated into the FAO's projections, Ontario revenues will be boosted by $3.0 billion in one-time increases in 2017-18, including:

- $1.5 billion in higher revenue from federal transfers for infrastructure;
- $1.0 billion increase in sales and rentals revenue, suggesting significant additional asset sales; and
- $0.5 billion in additional cap and trade proceeds from March 2017, which will be recognized in 2016-172017-18.[4]

2017-18 Non-tax Revenue Boost



Source: Ontario Budgets, Ministry of Finance and FAO

[3] However, near-term revenue growth will be somewhat dampened as some high-income earners have shifted earnings into the 2015 tax year to avoid the new higher 33 per cent tax rate introduced by the federal government in 2016 (http://www.fin.gc.ca/afr-rfa/2016/report-rapport-eng.asp#_Toc463249478). The FAO continues to adopt the federal government's estimate of this income shifting, and has adjusted the personal income tax forecast accordingly.

[4] The government indicated that the cap and trade revenues will be recognized in 2017-18 because the allowances were certified and delivered on April 2, 2017.

Expense Outlook

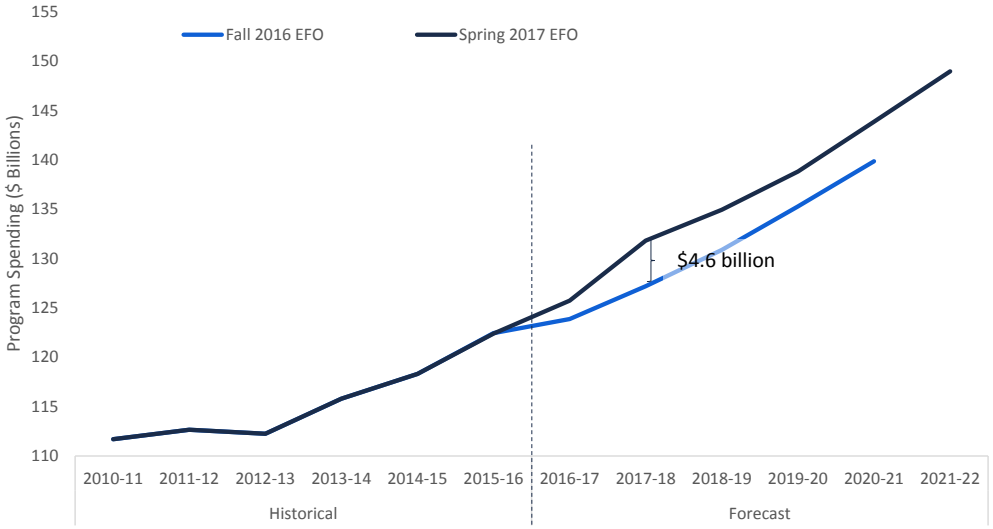
Program Expense to Increase Significantly over the Outlook

The FAO projects program spending growth of 3.3 per cent per year over the 2016-17 to 2021-22 period.

Commented [ST(2]: Might be worth noting that this is two more years worth of forecast horizon than the Budget presents.

Over the 2016-17 to 2019-20 period, the FAO adopts the government's 2017 Budget projections for program spending[5], adjusted to reflect the Auditor General's recommended accounting treatment for jointly sponsored pension plans.[6] The expense outlook includes significant new spending across all sectors, including a new children and youth Pharmacare program, higher operating funding for hospitals, 24,000 new child care spaces[7], and the government's new 'Fair Hydro Plan'. As a result, spending is now forecast to be significantly higher by 2017-18 than assumed in the FAO's fall outlook.

Program Expense Higher than Projected in the Fall



Note: Program spending based on FAO's projection of AG recommended accounting treatment of net assets for jointly sponsored pension plans~~presentation~~.

Source: Ontario Public Accounts and FAO

With these new expenses, program spending is expected to grow 3.3 per cent per year on average over the next five years. This growth rate is in-line with underlying growth in cost - and demographic-related pressures of 3.5 per cent on average.

Beyond 2019-20, the FAO projects program spending to increase by 3.6 per cent annually, consistent with underlying factors including population growth, aging, and price inflation.

[5] Given the government's discretion over spending, the FAO adopts the government's announced spending plans from fiscal documents and incorporates policy announcements as appropriate.

[6] The adjustment reflects the inclusion of a valuation allowance to offset the value of net pension assets in jointly sponsored pension plans. This adjustment increases 'other program' expense by $2.2 billion in 2016-17, rising to $2.9 billion by 2020-21. based on the FAO's projection of the pension adjustment.

[7] The 2017 Budget announced 24,000 new child care spaces for 2017–18, as part of the government's September 2016 Throne Speech commitment to create 100,000 new child care spaces by 2022.~~Ministry of Finance officials indicated that the 24,000 in new child care spaces announced in the 2017 Budget is part of the government's September 2017 Throne Speech commitment to create 100,000 spaces. The remaining funding has yet to be included in the fiscal plan.~~ [Reference to inclusion in the fiscal plan (i.e., highlighted sentence) is Cabinet confidential and should be removed. It should not be disclosed publicly]

Interest on Debt

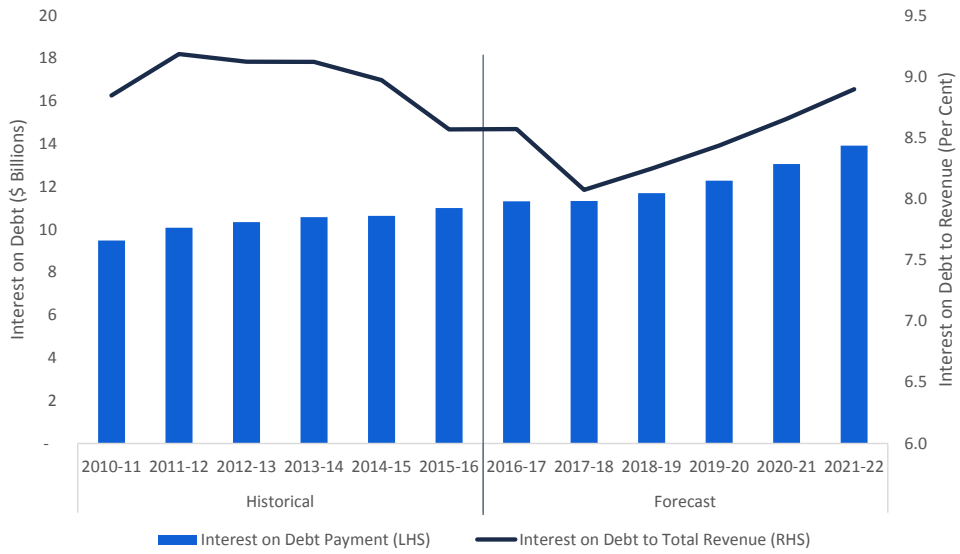
The FAO projects interest on debt (IOD) payments will increase at an average annual rate of 4.0 per cent from $11.0 billion in 2015-16 to $13.9 billion by 2021-22, reflecting higher debt and rising interest rates over the outlook. Interest on debt has become the Province's third largest spending category and will significantly outpace the growth in program expense over the outlook.

As a share of revenues, IOD is projected by the FAO to increase from 8.1 per cent in 2017-18 to 8.9 per cent by 2021-22, as the rise in interest payments outpaces growth in revenues. Over the past five years, IOD as a share of revenues declined steadily, benefitting from declining interest rates. With interest rates projected to increase significantly over the next five years, the ratio is expected to rise sharply.

Commented [GE(3]: [OB comment]
Referring to total expense for 17-18, as published in the 2017 Budget, IOD is the fifth largest spending category.

Commented [GE(4]: [OFA comment}
The basis of the FAO's IOD projections are not provided so we cannot provide any commentary.

Interest on Debt to Rise Sharply as a Share of Revenues



Source: Ontario Public Accounts and FAO

Ontario Debt Outlook

Ontario Net Debt-to-GDP To Remain Elevated

Ontario's total borrowing requirements are expected to remain high over the outlook. To finance the cost of projected capital spending, finance on-going deficits (as projected by the FAO) and refinance maturing debt issues, provincial borrowing is expected to average $37 billion per year over the next five years.

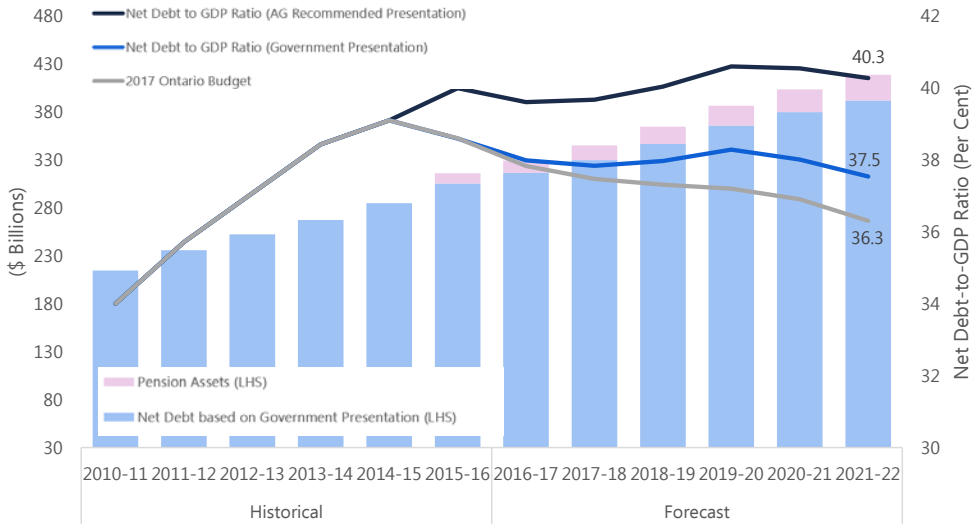
As a result, the FAO projects Ontario's net debt to increase by $87 billion over the next five years to ~~more than~~ $392 billion by 2021-22 based on the AG's recommended accounting presentation. By comparison, using the accounting treatment adopted by the government in the 2017 Budget, the FAO projects Ontario's net debt will rise by $71 billion to $365 billion by 2021-22.

Commented [GE(5]: [OB comment]
Suggest double checking the number of years and the calculations. Based on Table 4a it is $76B over five years; based on Table 4b, $62B over five years.

Based on the FAO's projection of the impact of the AG's recommended accounting presentation, the FAO expects Ontario's net debt-to-GDP ratio will edge higher over the outlook, rising to 40.3 per cent by 2021-22, reflecting the projected increase in net debt and the FAO's forecast for nominal GDP growth. In contrast, based on the accounting treatment adopted by the government in the 2017 Budget, the FAO projects that net debt-to-GDP ~~is projected to~~will fall slightly from 38.6 per cent in 2015-16 to 37.5 per cent by 2021-22.

In the 2017 Budget, the Province set an interim net debt-to-GDP target of 35 per cent by 2023-24 and committed to achieving 27 per cent by 2029-30. The FAO's net debt-to-GDP projections under both accounting presentations, suggest that additional fiscal measures would be required for the government to achieve its interim target of 35 per cent by 2023-24.

Ontario's Net Debt to GDP Ratio



Source: Ontario Economic Accounts, 2017 Ontario Budget, and FAO

Commented [GE(6]: [OB comment]
As per Balanced Budget chart on page 1, Suggested changes to the chart labels as follows:

In the top legend it should read:
- •FAO projection – Net Debt to GDP Ratio (AG Recommended Presentation)
- •FAO projection – Net Debt to GDP Ratio (Government Presentation)
- •Net Debt to GDP Ratio as Published in the 2017 Ontario Budget.

In the bottom legend "Pension Assets (LHS) should be replaced with:
- •FAO projection: Net Debt Based on AG Recommended Presentation.

Risks to the Fiscal Plan and Policy Options

There are material risks that could impact Ontario's fiscal position.

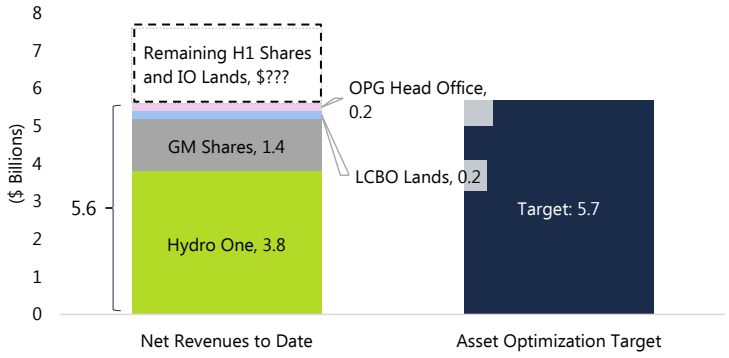
- A sharp correction in the housing market could present a significant risk for both the broader economy and for the Province's fiscal plan. As discussed in the FAO housing commentary[8], a decline in house prices and housing market activity would directly reduce Land Transfer Tax and HST revenues. In addition, the broader economic impacts would impact personal and corporate income tax revenues.
- In the 2017 Budget, the government has significantly reduced the prudence built into its program spending projection compared to the previous budget, leaving less fiscal flexibility for the government to respond to unexpected events.[9] In addition, the FAO projects interest on debt payments as a share of both program spending and revenue ~~are expected~~ to increase significantly, exposing the government to increased fiscal risk should interest rates rise faster than expected.

On the other hand, the government has increased spending growth to a rate in line with underlying spending pressures, which diminishes the expense risk identified in earlier FAO reports.

Additionally, the government has a broad range of policy options that could improve its fiscal position, including the sale of ~~additional~~ non-core public assets beyond announced ~~targets~~initiatives. To date, the government has generated $5.6 billion in net revenues from asset sales, close to its target of $5.7 billion over 10 years.

Given that the government has indicated that it still intends to sell an additional 30 per cent of Hydro One, as well as ~~Infrastructure Ontario~~surplus real estate holdings, it may significantly overachieve its asset sales target.

Asset Optimization Revenues and Target



Source: FAO and Ontario Budgets

[8] Financial Accountability Officer of Ontario, The Impact of a Housing Market Correction on Ontario's Fiscal Position, 2017

[9] In the 2017 Budget, contingency funds total $0.6 billion for the plan year, half the size of what was built into the plan year for the 2016 Budget~~coming fiscal year, half the size built into the 2016 Budget fiscal plan~~. Similarly, the government's target for year-end savings has increased to $1.2 billion for the ~~coming~~ plan year, compared to $0.8 billion ~~in~~ for the plan year in the 2016 Budget ~~2016~~.

The Accounting Treatment of Jointly Sponsored Pension Plans

Background

Ontario's 2015-16 Public Accounts noted a disagreement between the Office of the Auditor General and the Province on the appropriate accounting treatment for net pension assets of jointly sponsored pension plans. Specifically, the Province is a joint sponsor of two pension plans, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees Union Pension Plan (OPSEUPP).

The government's position is that these pension assets have been appropriately and consistently reflected on the Province's financial statements since 2001. The Office of the Auditor General, based on a review of these pension assets, determined that a change in the accounting treatment was required. The Auditor General concluded that under current Canadian public sector accounting standards, the government could not unilaterally recognize a pension asset on its financial statements without evidence - in the form of a written agreement - permitting it to realize the asset through reduced contributions.[10]

In response, the Province adopted regulated accounting for 2015/16 to reflect the results according to the Auditor General's interpretation of public sector accounting standards and subsequently appointed ~~its own~~an expert advisory panel to review and provide a recommended interpretation of public sector accounting standards with respect to the assets of jointly sponsored pension plans. The panel's report[11], released in February 2017, concluded that the Province's share of net assets in jointly sponsored pension plans ~~could~~ should be fully recognized in the Province's financial statements — contrary to the opinion of the Office of the Auditor General.

In the 2017 Budget, the government adopted the expert advisory panel's interpretation of public sector accounting standards and recognized the net pension assets of the jointly sponsored pension plans. The 2017 Budget also indicated that the Province's 2016–17 Public Accounts will report the net pension assets for the two jointly sponsored pension plans.

The Central Issue

The government and the Auditor General have put forward different interpretations of the application of public sector accounting standards for jointly sponsored pension plans.[12]

The different interpretations centre on the question of ~~the~~unilateral control of pension surplus assets in jointly sponsored pension plans. In particular, the issue is focused on whether there needs to be an explicit written agreement between the co-sponsors (the government and the unions representing the employees) on how the sponsors plan to use the pension assets~~, for example by~~ to lower~~ing~~ future contributions ~~or increasing benefits to pensioners~~.

Commented [GE(7]: [OPCD comment]
This latter reference is not relevant to reporting an asset under the AG's interpretation of PSAS.

~~As indicated by~~According to the Auditor General, the issue can be resolved if the government presents an agreement with the Ontario Teacher's Federation (OTF) allowing the government to access the OTPP pension assets through reduced contributions.[13] The extent and duration of the reduced contributions would determine the size of the pension asset that the government could recognize in its financial statements

The government position, ~~based on~~ confirmed by the advice of the expert advisory panel, ~~maintains~~ is that the existing agreements governing the pension plans and past history clearly reflect ~~already recognize~~ the sponsors' rights and intent to benefit from ~~access~~ surplus assets in the plans ~~and also provide the~~through mechanisms reflected in the agreements to potentially realize a benefit through lower future contribution rates.

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[10] The government's 2016 Budget reported a negative expense for the OTPP for 2016-17 which led, in part, to the Auditor General conducting an in-depth review of the related pension assets [suggest including a reference to the AG's Annual report instead].

[11] https://news.ontario.ca/tbs/en/2017/02/pension-asset-expert-advisory-panel-submits-report.html

[12] In 2015, PSAB created an Employment Benefits Task Force to review the existing accounting standard for post-employment benefits. The work of this task force will include reviewing the appropriate accounting treatment for shared-risk and multi-employer pension plans. However, the work of this task force is not expected to be completed in the near future [suggest deleting this reference. Not relevant].

[13] Of the government's two jointly sponsored pension plans, only the OTPP is currently in a net asset position (This statement is inaccurate: OTPP, OPSEUPP and CAATPPP were all in surplus positions.

In the absence of an agreement, and given the government's decision in the ~~2017 Budget~~Q3 Finances to accept the expert advisory panel's recommended approach to accounting for jointly sponsored pension plan assets, the Auditor General would be expected to provide a qualified opinion[14] on Ontario's 2016-17 Public Accounts.

Roles and Responsibilities of the Province and the Auditor General

The Province (through the Treasury Board Secretariat) is responsible for the preparation of Ontario's Public Accounts in accordance with legislation, and based on the standards set out by the Public Sector Accounting Board (PSAB).[15] The PSAB accounting standards serve the public interest by providing an independent, high-quality accounting framework for public sector entities. Government is responsible to ensure that the financial reports fairly reflect the activities and financial position of the Province.

The Auditor General reviews the Province's annual Public Accounts and provides an audit opinion to the Legislature on whether the Consolidated Financial Statements for the Province of Ontario present fairly, in all material respects, the Province's financial position, in accordance with the PSAB accounting standards.

The FAO's Presentation of Ontario's Fiscal Outlook

The Financial Accountability Officer supports the Legislative Assembly by providing independent economic and financial analysis intended to improve the transparency of the government's fiscal plan. The Officer also looks to the Auditor General as the provincial authority on the appropriate interpretation and application of accounting standards for the Province.

Commented [GE(8]: [OPCD comment]
FAO could choose to take an alternative position which acknowledges the government as having a different interpretation, supported by an external accounting opinion and an publicly available report issued by the Expert Advisory Panel on Pensions.

The FAO has presented two fiscal projections, including and excluding the impact of the net pension assets of jointly sponsored pension plans to help members of the Legislative Assembly better understand the implications of these different interpretations of accounting standards on the Province's fiscal position.

- The projection based on the Auditor General's recommended accounting treatment assumes a valuation allowance that offsets the net pension assets.
- The projection based on the government's fiscal presentation in the 2017 Budget recognizes the net pension assets based on the FAO's projection over the budget outlook.
    - In the absence of an agreement between the co-sponsors, this presentation of Ontario's fiscal position would be expected to receive a qualified opinion from the Auditor General when published in the Province's future Public Accounts.

Based on the Auditor General's recommended accounting treatment for the net assets of jointly sponsored pension plans and the FAO's projection of the pension adjustment, the FAO is projecting budget deficits of $2.9 billion in 2017-18, rising to $6.5 billion by 2021-22. Alternatively, based on the pension accounting treatment presented by the Province in the 2017 Budget, the FAO's projection for the budget deficit decreases to $0.5 billion in 2017-18 and $3.6 billion in 2021-22.

[14] An auditor may provide a qualified opinion when financial statements do not conform in a material way to the applicable accounting standards.
[15] https://www.ontario.ca/page/public-accounts-101-guide#section-6]

2. Appendix

Developments since the FAO's Fall 2016 Economic and Fiscal Outlook

The FAO's current projection of the Ontario budget balance has generally deteriorated relative to the FAO's fall 2016 projection.

- Stronger than expected economic performance is expected to boost taxation revenues over the forecast, partially offset by lower Equalization revenue.
- Based on new government spending plans, program expense has increased significantly.

Developments since 2016 Fall EFO (AG Recommended Presentation)

	2016-17	2017-18	2018-19	2019-20	2020-21
FAO's Fall 2016 Budget Balance Forecast	-5.2	-2.6	-2.8	-3.3	-3.7
Developments Since Fall 2016					
Revenue					
Stronger Economic Outlook	2.3	4.1	3.9	4.4	4.7
Lower Federal Transfers[1]	-0.3	0.2	-1.3	-2.4	-2.2
Other Revenue Changes	0.1	0.1	-0.5	-0.6	-0.6
Total	2.1	4.4	2.1	1.3	1.8
Expense					
Children and Youth Pharmacare, and Fair Hydro Plan[3]	0.5	1.3	1.3	1.3	1.3
Revised Pension Asset[4]	0.7	0.8	1.1	1.4	1.4
Other Expense Increases	0.7	2.5	1.7	0.9	1.4
Total	2.0	4.6	4.1	3.6	4.1
Total Developments	0.2	-0.3	-2.1	-2.3	-2.3
FAO's 2017 Spring Budget Balance Forecast	-5.0	-2.9	-4.9	-5.5	-6.0

Notes:

1. Change in federal transfers forecast mainly due the reduction in Ontario's Equalization payment.

2. Other revenue changes include the $0.5 billion re-profiling of cap-and-trade proceeds from 2016-17 to 2017-18, and an increase in sales and rentals for 2017-18.

3. In the 2016 Fall EFO, the FAO included $1 billion in expenses from the HST rebate on electricity bills beginning 2017-18, which is now part of the Fair Hydro Plan. As a result, the FAO estimates that the incremental impact of the Fair Hydro Plan is $0.8 billion, compared to the Fall.

4. In the 2016 Fall EFO, the FAO assumed $1.5 billion in adjustments for net pension assets of jointly sponsored pension plans. ~~The government has revised its estimate of the impact to $2.2 billion in 2017-18, increasing to $2.9 billion by 2020-21.~~ This adjustment increases to $2.2 billion in 2016-17, rising to $2.9 billion by 2020-21, based on the FAO's revised projection of the pension adjustment.

Source: FAO

Forecast Tables

Table 1a: FAO Outlook for Ontario Nominal GDP and Key Revenue Drivers

(Per Cent Growth)	2015a	2016a	2017f	2018f	2019f	2020f	2021f	Average*
Nominal GDP								
Spring 2017 EFO	4.9	4.6	4.1	4.2	4.0	4.0	3.9	4.1
2017 Budget	4.9	4.6	4.3	4.1	4.2	3.9	-	4.1
Current FAO Consensus **	4.9	4.6	3.9	4.3	4.1	3.8	4.0	4.0
Labour Income								
Spring 2017 EFO	4.2	4.2	4.0	4.1	4.1	3.9	3.8	4.0
2017 Budget ***	-	4.4	4.1	4.5	4.6	4.2	-	4.3
Corporate Profits								
Spring 2017 EFO	9.1	9.2	6.0	6.3	5.5	4.7	4.5	5.6
2017 Budget	-	9.2	6.8	7.1	5.4	4.0	-	5.8
Household Spending								
Spring 2017 EFO	3.9	4.2	4.2	3.7	3.4	3.5	3.6	3.8
2017 Budget	-	4.2	4.3	4.2	4.2			4.2

a = Actual f = Forecast

* For comparison purposes, average is calculated from 2017 to 2020 and 2017 to 2019 for Household Spending.

** FAO consensus includes forecasts from the Centre for Spatial Economics, the Conference Board of Canada and Policy and Economic Analysis Program (PEAP) at the University of Toronto.

*** Budget 2017 Reports Labour Income on a National Basis, whereas FAO reports Labour Income on a Domestic Basis

Source: Statistics Canada, Ontario Economic Accounts, FAO Consensus and FAO

Commented [GE(9]: [OEP comment]
Consistent with the provincial economic accounts and the 2017 Budget
Suggest changing 'labour income' references to 'compensation of employees'.

Commented [GE(10]: [OEP comment]
Consistent with the provincial economic accounts and the 2017 Budget
Suggest changing 'corporate profits' references to 'net operating surplus - corporations'.

Commented [GE(11]: [OEP comment]
Consistent with the provincial economic accounts and the 2017 Budget
Suggest changing 'household spending' references to 'household consumption'.

Table 1b: FAO Outlook for Ontario Real GDP and Components

(Per Cent Growth)	2015a	2016a	2017f	2018f	2019f	2020f	2021f	Average*
Real GDP								
FAO - 2017 Spring Outlook	2.5	2.7	2.4	2.1	2.0	2.0	1.9	2.1
Budget 2017	2.5	2.7	2.3	2.1	2.0	1.7	-	2.0
Current FAO Consensus **		-	2.1	2.3	2.1	1.9	1.9	2.1
Real GDP Components								
Household Spending ***	2.7	2.7	2.3	1.9	1.9	1.8	1.8	2.0
Residential Investment	7.2	7.9	3.5	-1.3	-2.0	1.9	2.4	0.5
Business Investment ****	8.2	-4.0	0.2	5.6	5.7	4.9	3.9	4.1
Government (Consumption and Investment)	1.9	1.6	1.7	1.3	1.2	1.1	1.0	1.3
Exports	2.8	3.0	2.4	2.7	2.5	2.3	2.2	2.5
Imports	3.7	1.4	2.2	2.2	2.3	2.2	2.1	2.2

a = Actual f = Forecast

* For comparison purposes, average is calculated from 2017 to 2020

** FAO consensus includes forecasts from the Centre for Spatial Economics, the Conference Board of Canada and Policy and Economic Analysis Program (PEAP) at the University of Toronto.

*** Household Spending is Household and Non-Profit Consumption Expenditure.

**** Business Investment is Non-residential Investment and Machinery & Equipment.

Source: Statistics Canada, Ontario Economic Accounts, FAO Consensus and FAO

Table 2: FAO Outlook for Selected Economic Indicators

	2015a	2016a	2017f	2018f	2019f	2020f	2021f
Employment (Per Cent Growth)							
FAO - Spring Outlook	0.7	1.1	1.3	1.1	1.0	0.9	0.9
2017 Budget	0.7	1.1	1.3	1.2	1.1	0.9	-
Unemployment Rate (Per Cent)							
FAO - Spring Outlook	6.8	6.5	6.4	6.3	6.3	6.3	6.2
2017 Budget	6.8	6.5	6.4	6.3	6.2	6.2	-
Labour Force (Per Cent Growth)							
FAO - Spring Outlook	0.1	0.9	1.1	1.0	1.0	0.9	0.9
2017 Budget	-	-	-	-	-	-	-
Population Growth (Per Cent)							
FAO - Spring Outlook	0.8	1.3	1.3	1.1	1.1	1.1	1.1
2017 Budget	-	-	-	-	-	-	-
CPI Inflation (Per Cent Growth)							
FAO - Spring Outlook	1.2	1.8	2.1	2.1	2.0	2.0	2.0
2017 Budget	1.2	1.8	2.0	2.0	2.0	2.0	-
Canada Real GDP (Per Cent Growth)							
FAO - Spring Outlook	0.9	1.4	2.2	2.3	2.0	1.9	1.9
2017 Budget	0.9	1.4	2.1	2.0	1.9	1.7	-
U.S. Real GDP (Per Cent Growth)							
FAO - Spring Outlook	2.6	1.6	2.3	2.3	2.2	2.1	2.1
2017 Budget	2.6	1.6	2.3	2.4	2.1	2.0	-
Canadian Dollar (Cents US)							
FAO - Spring Outlook	78.2	75.4	75.6	78.4	78.8	79.9	81.3
2017 Budget	78.2	75.4	74.5	75.5	78.5	80.0	-
WTI Crude Oil (US$)							
FAO - Spring Outlook	49	43	54	55	56	61	68
2017 Budget	49	43	54	59	62	64	-
Three-month Treasury Bill Rate (Per Cent)							
FAO - Spring Outlook	0.5	0.5	0.6	1.4	1.9	2.3	2.6
2017 Budget	0.5	0.5	0.5	0.8	1.5	1.9	-
10-year Government Bond Rate (Per Cent)							
FAO - Spring Outlook	1.5	1.3	1.8	2.5	2.9	3.6	3.9
2017 Budget	1.5	1.3	1.9	2.4	3.0	3.2	-

a = Actual f = Forecast

Source: Bank of Canada, Congressional Budget Office, Statistics Canada, FAO Consensus and FAO

Commented [GE(12]: [OEP comment]
The FAO forecast is for significantly faster Bank of Canada rate increases than financial markets and private-sector economists expect. The current private-sector average has the three-month T-bill rate at 0.9% in 2018, 1.6% in 2019 and 2.0% in 2020.

Commented [GE(13]: [OEP comment]
Interest rates in 2020 are significantly higher than the 2017 Budget forecast and private-sector consensus. This is likely because some forecasters with low rates are not captured in the FAO consensus view. The current private-sector average is 3.3% in 2020.

Table 3: FAO Fiscal Outlook

($ Billions)	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Revenue							
Personal Income Tax	31.1	32.4	34.5	36.7	38.6	40.5	42.5
Sales Tax	23.5	24.7	25.8	26.5	27.3	28.2	29.2
Corporations Tax	11.4	12.7	13.3	14.0	14.6	15.1	15.6
All Other Taxes	25.8	24.0	25.1	25.9	26.9	27.6	28.5
Total Taxation Revenue	91.8	93.9	98.7	103.1	107.3	111.5	115.8
Transfers from Government of Canada	22.9	24.3	25.7	24.6	24.1	24.8	25.6
Income from Government Business Enterprise	4.9	5.3	4.9	5.7	6.0	6.3	6.5
Other Non-Tax Revenue	8.8	8.5	11.0	8.3	8.1	8.3	8.5
Total Revenue	128.4	132.0	140.3	141.8	145.6	150.9	156.4
Expense							
Health Sector	51.0	52.2	53.8	56.3	58.1	60.6	63.3
Education Sector	25.0	25.7	26.5	27.4	28.0	29.0	29.8
Postsecondary and Training Sector	7.7	7.8	8.4	8.3	8.4	8.5	8.6
Children's and Social Services Sector	15.6	16.2	16.9	17.2	17.4	18.0	18.5
Justice Sector	4.5	4.6	4.7	4.7	4.8	4.9	5.0
Other Programs*	17.1	19.2	21.5	21.0	22.1	22.9	23.7
Total Program Expense*	120.9	125.7	131.8	134.9	138.8	143.8	149.0
Interest on Debt	11.0	11.3	11.3	11.7	12.3	13.1	13.9
Total Expense	131.9	137.0	143.1	146.6	151.1	156.9	162.9
Budget Balance* (AG Presentation)	-3.5	-5.0	-2.9	-4.9	-5.5	-6.0	-6.5
Adjustment for Net Pension Assets (FAO projection)	-1.5	-2.2	-2.3	-2.6	-2.9	-2.9	-2.9
Budget Balance (Government Presentation)	-3.5	-2.8	-0.5	-2.2	-2.6	-3.1	-3.6
Budget Balance (2017 Budget)	-3.5	-1.5	0.6	0.6	0.9		

a = Actual f = Forecast

* Based on AG recommended presentation with adjustment for net pension assets.

Note: Budget balance is presented without reserve.

Source: Statistics Canada, Public Accounts of Ontario, Annual Report of Ontario and FAO

Commented [ST(14]: This year is being presented inconsistently with the rest of the years. If you are taking on the AG presentation, then you need to add $1.5B here, and then this ripples through to generate higher program spending, higher total expense, and a deficit of $5.0B at the bottom. Alternative is to change footnote to say "For fiscal years after 15-16, based on….."

Table 4a: FAO Debt Outlook (Auditor General Recommended Presentation)

$ Billions	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Budget Balance*	-3.5	-5.0	-2.9	-4.9	-5.5	-6.0	-6.5
Accumulated Deficit	202.7	207.7	210.6	215.5	221.0	227.0	233.5
Net Debt	305.2	316.1	329.5	346.4	365.4	379.4	391.7
Change in Net Debt		10.9	13.5	16.8	19.0	14.0	12.3
Net Debt to GDP (Per Cent)	40.0	39.6	39.7	40.0	40.6	40.5	40.3

a = Actual f = Forecast
Note: * Budget Balance is presented without reserve.
Source: 2017 Ontario Budget and FAO

Commented [ST(15]: This excludes the pension adjustment of $1.5B, which would be inconsistent with the remainder of the fiscal years. Not clear whats going on with the accumulated deficit number.....at $10B higher, not clear why that would be the case.

Table 4b: FAO Debt Outlook (Government Presentation)

$ Billions	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f	2020-21f	2021-22f
Budget Balance*	-3.5	-2.8	-0.5	-2.2	-2.6	-3.1	-3.6
Accumulated Deficit	192.0	194.8	195.3	197.6	200.2	203.3	206.9
Net Debt	~~294.5~~294.6	303.1	314.3	328.5	344.6	355.7	365.1
Change in Net Debt		8.7	11.2	14.2	16.1	11.1	9.4
Net Debt to GDP (Per Cent)	38.6	38.0	37.8	38.0	38.3	38.0	37.5
Net Debt to GDP from 2017 Budget (Per Cent)	38.6	37.8	37.5	37.3	37.2	36.9	36.3

a = Actual f = Forecast
Note: * Budget Balance is presented without reserve.
Source: 2017 Ontario Budget and FAO

Commented [GE(16]: [OB comment]
Should be 294.6 to align with what is published in the 2017 Budget.

Economic and Fiscal Outlook

2017

Draft Report

Confidential Document

May 2017



Economic Outlook

Overview

Ontario Economy Expected to Remain Strong in 2017

The Ontario economy finished 2016 with a strong 2.7 per cent increase in real GDP, reflecting solid growth in the second half of the year. Real GDP growth last year was significantly above the 2.1 per cent average gain seen from 2011 to 2015. Strong household spending, residential investment and exports contributed to the increase in real GDP in 2016.

Supported by the strong economic momentum in 2016 and continued improvement in economic indicators in the first quarter of 2017, the FAO is projecting real GDP to rise by 2.4 per cent in 2017 and 2.1 per cent in 2018.

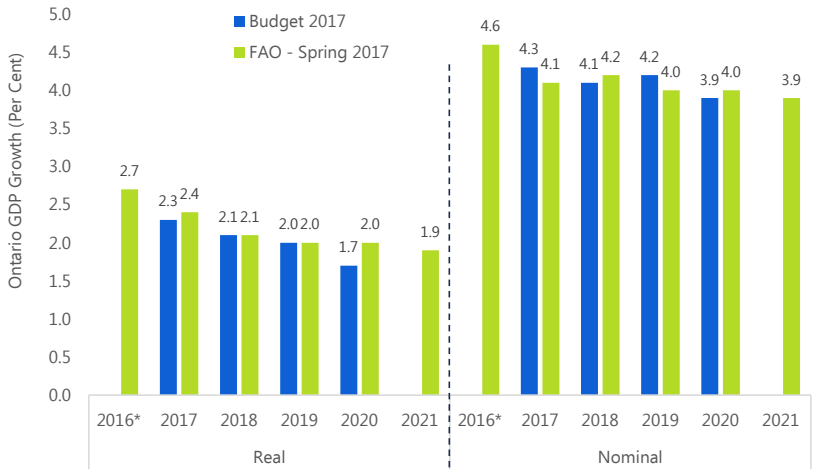
Nominal GDP – the broadest measure of the tax base – increased by a robust 4.6 per cent in 2016. The FAO is projecting nominal GDP to increase by 4.1 per cent in 2017 and 4.2 per cent in 2018, reflecting solid gains in labour income and corporate profits.

Commented [GE(1]: [OEP comment] Consistent with the provincial economic accounts, suggest changing 'household spending' references to 'household consumption'.

Commented [GE(2]: [OEP comment] Consistent with the provincial economic accounts, suggest changing 'labour income' references to 'compensation of employees'.

Commented [GE(3]: Consistent with the provincial economic accounts, suggest changing 'corporate profits' references to 'net operating surplus - corporations'.

Solid Economic Performance Expected Over Outlook



* 2016 are actuals

Source: Ontario Economic Accounts, Budget 2017 and FAO

Global Economy Gaining Momentum

In its latest World Economic Outlook,[1] the International Monetary Fund (IMF) is forecasting global economic growth to strengthen from 3.1 per cent in 2016 to 3.5 per cent in 2017 and 3.6 per cent in 2018. The IMF revised the outlook slightly higher for 2017, but left it unchanged for 2018, compared to its October 2016 outlook.[2]

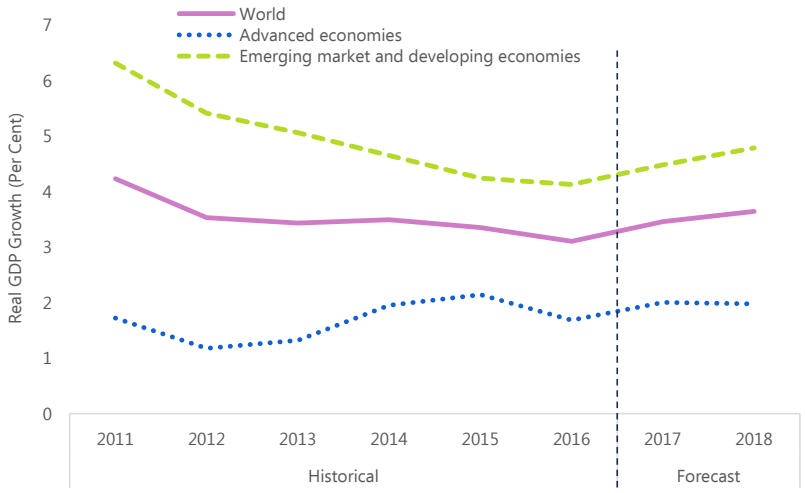
For advanced economies, the IMF's forecast for 2017 and 2018 has improved slightly from its October projection with growth of 2.0 per cent in 2017 and 2018.

Growth prospects for emerging market and developing economies are much more varied, but overall have weakened slightly from the IMF's October outlook, due to weaker economic conditions in key export markets. On average, the IMF has lowered its growth forecast for emerging markets and developing countries to 4.5 per cent in 2017, with 2018's forecast remaining unchanged at 4.8 per cent.

The IMF expects China – the world's second largest economy – to grow by 6.6 per cent in 2017 and 6.2 per cent in 2018, reflecting continued support from government policy. In the medium term, China's economic growth is expected to gradually moderate as its economy rebalances from investment and manufacturing-led growth to a more service-intensive economy.

[1] "World Economic Outlook, Gaining Momentum?", April 2017, International Monetary Fund.
[2] "World Economic Outlook, October 2016: Subdued Demand: Symptoms and Remedies," October 2016, International Monetary Fund.

Global Growth to Improve in 2017



Source: "World Economic Outlook, Gaining Momentum?", April 2017, International Monetary Fund

U.S. Economic Growth to Strengthen in 2017

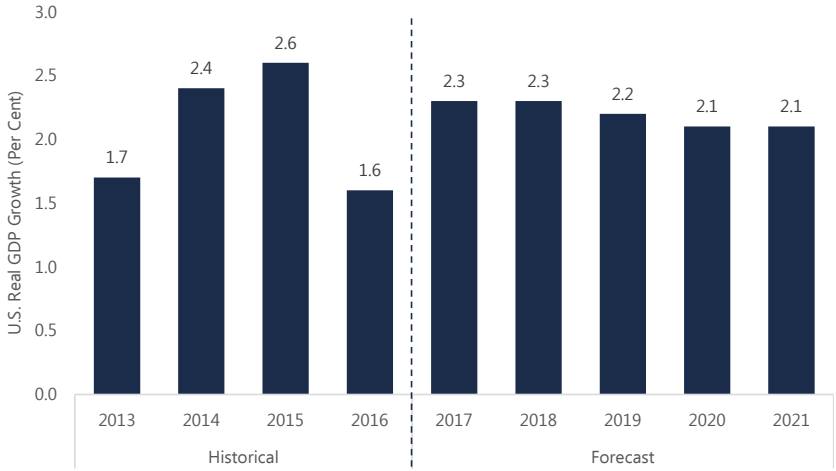
U.S. real GDP advanced by a relatively moderate 1.6 per cent in 2016, the weakest increase in three years. For 2017 and 2018, the FAO projects U.S. growth to improve to 2.3 per cent, with household spending, business investment and residential construction being key contributors to overall growth.[3]

However, the lack of specific details on the new U.S. administration's proposed policies has raised the risks associated with the current U.S. outlook. Many forecasters are cautiously optimistic that some of the proposed fiscal policies, such as expected cuts to corporate tax rates, could boost U.S. economic growth in the short-term.[4] But this optimism is tempered by the potential for large future increases in the U.S. budget deficit, which could weigh on economic growth over the medium-term.

From 2019 to 2021, U.S. real GDP growth is projected to average 2.1 per cent annually, which is in-line with the average rate seen from 2012 to 2016.

U.S. Economic Growth Moderates Beyond 2017

[3] The FAO forecast for the U.S. economy in 2017 is based on the U.S. Congressional Budget Office's (CBO) latest forecast. For 2018 to 2021, the U.S. forecast is based on the average of the CBO outlook and the forecasts of three independent model-based forecasters – the Conference Board of Canada (CBOC), the Centre for Spatial Economics (C4SE) and the Policy and Economic Analysis Program (PEAP) at the University of Toronto.
[4] These forecasters include the IMF, CBO, TD Bank, RBC, BMO Capital Markets and National Bank Economics.



Source: Federal Reserve Bank of St. Louis, Congressional Budget Office and FAO Consensus

Canadian Economic Growth Expected to Rebound

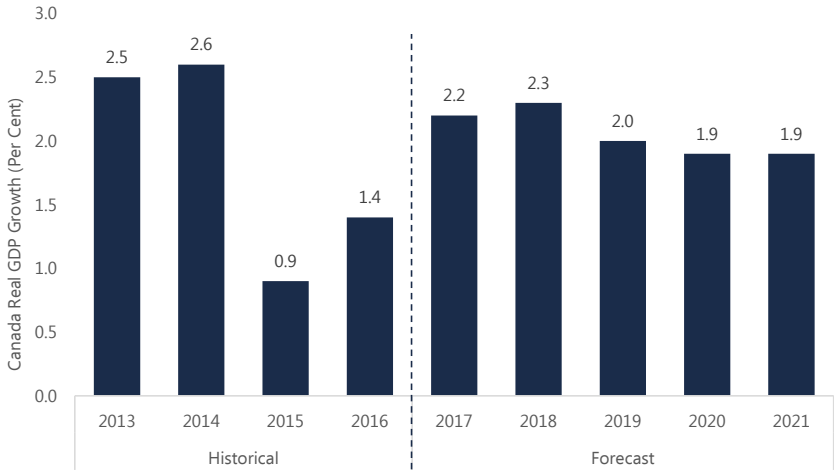
The outlook for the Canadian economy has improved following strong growth over the second half of 2016.

Continued momentum in recent economic indicators point to a solid start for 2017. Canadian real GDP is currently projected to grow by 2.2 per cent in 2017 and 2.3 per cent in 2018, recovering from more moderate growth in 2015 and 2016.[5] Strength in household spending and non-energy exports are expected to contribute to overall growth in 2017 and 2018.

Beyond 2018, Canadian real GDP is projected to increase at an average annual rate of 2.0 per cent, as the economy continues to adjust to slower growth in the energy sector.

Canada GDP Growth Expected to Improve in 2017

[5] The FAO forecast for the Canadian economy is based on the average quarterly forecasts of two independent, model-based forecasters – the Conference Board of Canada (CBOC) and the Policy and Economic Analysis Program (PEAP) at the University of Toronto.



Source: Statistics Canada and FAO Consensus

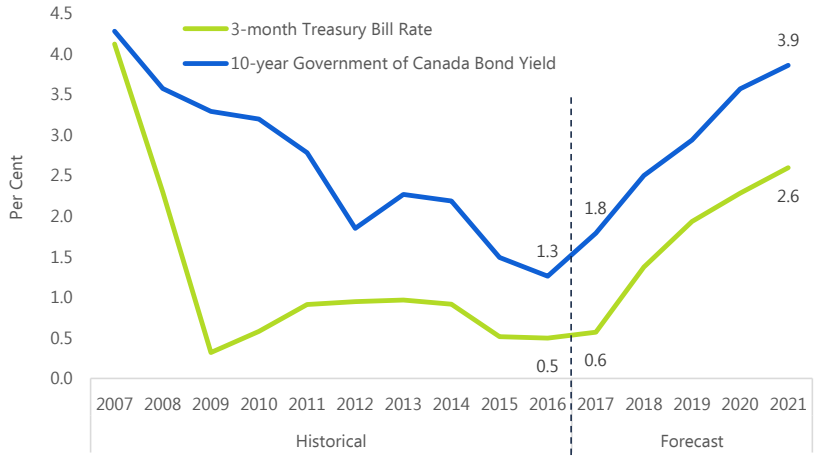
Based on the continuing recovery of the U.S. economy, and in particular the strength of U.S. labour markets, the U.S. Federal Reserve raised its key policy interest rate in March 2017.[6] In contrast, the Bank of Canada has remained more cautious about the underlying strength of the Canadian economy and as a result appears unlikely to raise its key policy interest rate before 2018.[7]

The FAO is projecting Canadian short-term interest rates will remain near current levels through 2017 and then begin rising modestly in 2018. Beyond 2018, interest rates are expected to gradually normalize with the 3-month Treasury Bill rate increasing to 2.6 per cent and the 10-year Government of Canada bond yield rising to 3.9 per cent by 2021.

Commented [GE(4]: [OEP comment]
Interest rates in 2020 are significantly higher than 2017 Budget forecast and private-sector consensus. This is likely because some forecasters with low rates are not captured in the FAO consensus view.

Canadian Interest Rates to Rise over the Forecast

[6] The Federal Reserve raised its key policy rate, or the Federal Funds Rate, to 1.0 per cent on March 15, 2017.
[7] In its most recent monetary policy report, the Bank of Canada (BOC) indicated that it expects the output gap to close in early 2018. At the same time, the BOC noted that "there is still considerable uncertainty about the outlook," suggesting caution with regard to future changes in its policy interest rate. Bank of Canada Monetary Policy Report, April, 2017



Source: Statistics Canada and FAO

The Canadian dollar is expected to gradually appreciate over the next five years, rising from an average of about 75 cents U.S. in 2016 to about 81 cents U.S. by 2021, supported by the steady increase in short-term interest rates and a gradual rise in oil prices.

Ontario Economic Outlook

Solid Real GDP Growth Expected in 2017

Based on the Ontario Ministry of Finance's estimates,[8] Ontario real GDP rose by a strong 2.7 per cent in 2016, following equally strong gains of 2.5 per cent and 2.7 per cent in 2015 and 2014, respectively. Household spending, residential investment and exports were key contributors to overall economic growth last year. Business investment in plant and equipment disappointed expectations, declining by 4.0 per cent.

The performance of a number of economic indicators, including employment, retail sales and home sales remained solid in the first quarter of 2017. However, Ontario's merchandise export performance has been uneven so far in 2017.

[8] Ontario Economic Accounts, Fourth Quarter 2016, released April 13, 2017.

Uncertainty over the future direction of U.S. trade and industrial policy could hamper business investment growth in the near term, which would negatively impact Ontario's competitiveness. Without stronger business sector investment to expand production capacity, the growth potential of several key Ontario industries will be limited.[9] As a result, despite the projection for steady growth in the U.S. and a competitively valued Canadian dollar, Ontario's net exports[10] are projected to grow at a relatively moderate pace over the outlook.

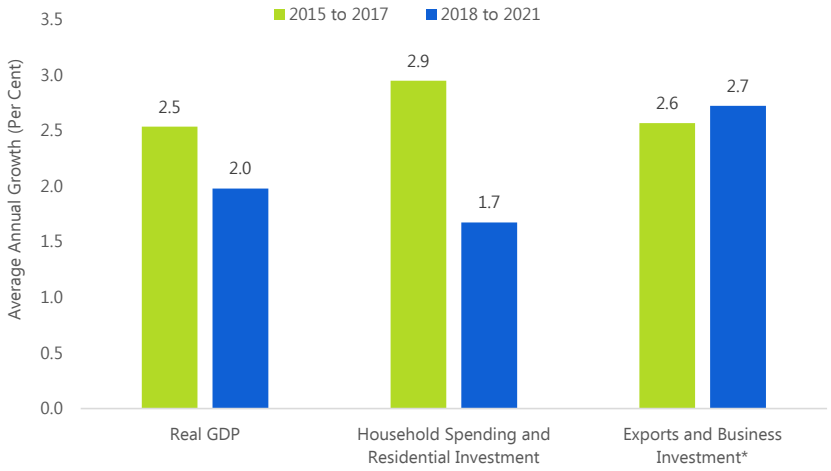
The FAO is forecasting real GDP growth of 2.4 per cent in 2017, supported by strong household spending and residential investment.[11] The pace of Ontario's overall economic growth will moderate to 2.1 per cent in 2018 and to an average of 2.0 per cent over the last three years of the outlook.

Moderate declines in residential investment in 2018 and 2019 – reflecting elevated household debt and a moderation in housing prices – is expected to contribute to the slower pace of overall economic activity.

The FAO forecast is broadly consistent with the consensus view among economists that exports and business investment will lead Ontario growth over the next several years, while household spending and residential investment will grow at a more moderate pace, as households reduce borrowing to address high debt loads.

Exports and Business Investment Expected to Drive Economic Growth

[9] As noted in a recent Conference Board of Canada report, nearly half of Ontario businesses are operating near or above capacity, hampering the ability of Ontario businesses to increase production to meet foreign demand. Conference Board of Canada Outlook, Winter 2017.
[10] Net exports are exports less imports of goods and services.
[11] The FAO forecast of the Ontario economy is based on the FAO's short-term quarterly model of the Ontario economy. For a description of the model, please refer to the textbox at the end of the Economic Outlook chapter.



* Business Investment includes both Non-Residential Investment and Machinery & Equipment Investment
Source: Ontario Economic Accounts and FAO

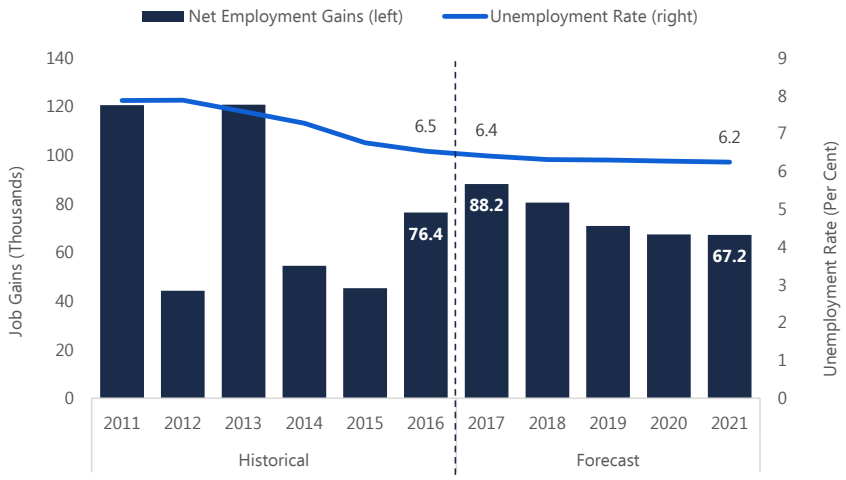
Steady Job Gains Over Outlook

Ontario experienced relatively strong employment growth of 1.1 per cent in 2016 (+76,400 net new jobs), the majority of which were full-time, private sector jobs. There was robust job growth in both goods and service producing industries. The construction industry in particular, posted the highest job growth (+3.4 per cent), followed by healthcare (+3.2 per cent).[12]

The strength in Ontario's labour market continued into 2017 with an increase of 99,600 jobs on a year-over-year basis during the first quarter. For the year, the FAO is projecting a 1.3 per cent gain in employment in 2017. On average, the FAO is forecasting average annual job gains of 1.0 per cent over the next four years, consistent with the outlook for solid economic growth.

Steady Employment Gains as Unemployment Rate Slowly Trends Lower

[12] For a more detailed discussion on Ontario's labour market, see the FAO's Commentary: "Ontario Posts Solid 2016 Job Gain as the Labour Market Continues to Evolve."



Source: Statistics Canada and FAO

Sustained economic growth over the outlook is expected to attract more workers into the labour force, which is forecast to rise at a slightly higher rate than over the last five years. Faster labour force growth from 2017 to 2021, will partially offset relatively strong employment gains, leading to a more moderate decline in the unemployment rate over the outlook.

Strong Gains Expected for Labour Income and Corporate Profits

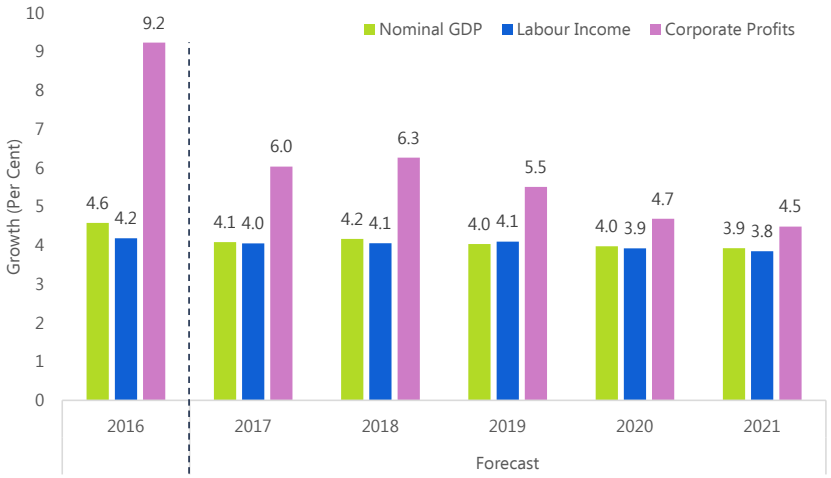
Labour income grew by a robust 4.2 per cent in 2016, above the average annual increase of 3.7 per cent from 2011 to 2015, and a reflection of the strong employment growth last year. The net operating surplus of corporations (largely corporate profits) also increased by a robust 9.2 per cent in 2016 following an equally strong gain of 9.1 per cent in 2015.

As a result of the gains in labour income and corporate profits (which together account for about two-thirds of nominal GDP), nominal GDP grew by a strong 4.6 per cent in 2016.[13]

[13] The robust 2016 increase in nominal GDP was much stronger than the 3.4 per cent increase projected in both the FAO's Economic and Fiscal Outlook, Fall 2016 Update and the government's 2016 Economic Outlook and Fiscal Review. The sharp upward shift in 2016 nominal GDP growth reflects large historical revisions to 2015 and 2016 nominal GDP growth in the Ontario Economic Accounts, consistent with new data from Statistics Canada. In particular, the net operating surplus of corporations is now estimated to have increased by 9.2 per cent in 2016 compared to an original projection of 0.3 per cent last fall.

For 2017, the FAO is projecting a 4.1 per cent rise in nominal GDP, supported by strong gains in labour income (+4.0 per cent) and corporate profits (+6.0 per cent). On average, the FAO is projecting nominal GDP growth of 4.0 per cent over the 2018 to 2021 outlook.

Labour Income and Corporate Profits Support Nominal GDP Growth



Source: Ontario Economic Accounts and FAO

Key Risks for Ontario's Economic Outlook

The FAO's current economic forecast represents a reasonable outlook for the Ontario economy and an appropriate foundation for fiscal projections. However, several key risks could materialize leading to weaker than expected economic growth for the province.

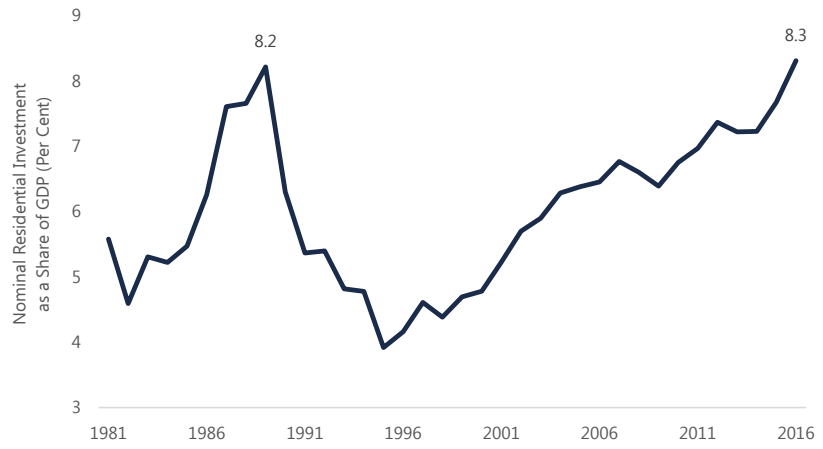
In particular, there are significant risks with respect to the proposed renegotiation of the North American Free Trade Agreement (NAFTA) and the adoption of protectionist trade measures in the United States. As well, other proposed changes to U.S. fiscal and industrial policies, such as lower corporate tax rates and 'Buy America' executive orders, could harm Ontario's relative competitiveness, further discouraging business investment and limiting the contribution of exports to overall growth.

Domestically, the housing market continues to pose a significant risk to the overall economy. The sharp rise in Ontario housing prices – particularly in the

Greater Toronto Area – has contributed to record consumer debt loads and stretched levels of affordability.

At the same time, the relative importance of residential housing investment to the overall economy has increased substantially in recent years, posing a significant risk to the Ontario economy, in the event of a sharp housing market correction. In 2016, investment in residential housing accounted for a record high 8.3 per cent of Ontario's nominal GDP, up from 6.4 per cent in 2009.[14]

Residential Investment Spending Accounts for a Record Share of GDP



Source: Ontario Economic Accounts and FAO

The last time investment in residential housing accounted for a similar proportion of the economy was 1989, just prior to the 1990-1995 housing market correction.

A sharp correction in housing prices, exacerbated by the elevated levels of household debt, would negatively affect household spending and residential investment, and could lead to broader economy-wide impacts on growth and employment.

[14] Almost one-quarter (22 per cent) of the growth in nominal GDP in 2016 was directly attributable to the increase in residential investment spending.

The Province recently announced a package of measures intended to respond to the underlying factors contributing to the unsustainable rise in housing prices and the rapid growth in housing market activity. However, it is too early to assess whether these measures will adequately address the imbalance between demand and supply pressures in the market.

The FAO's Quarterly Short-term Model of the Ontario Economy

The FAO has developed a short-term forecasting model to produce quarterly five-year projections of the Ontario economy. The model is based on dynamic equations for major sub-categories of real and nominal GDP. The model also includes key labour market components, financial variables and the Canada-U.S. dollar exchange rate. The model is structured around a number of important external or exogenous concepts such as Canada-wide economic growth, U.S. economic growth, U.S. prices, U.S. interest rates and energy prices.

The model is an important tool for the FAO's bi-annual Economic and Fiscal Outlook (EFO), ensuring internal consistency of each projection as well as consistency between EFO forecasts. It also provides the majority of the inputs required by the FAO's Fiscal Outlook Model which provides the FAO's projection of the government's fiscal position.

From: Gadi Mayman
To: Ken Kandeepan
Cc: Anna Strathy
Subject: Fw: FAO"s Upcoming EFO Report
Date: Tuesday, May 09, 2017 10:44:07 PM

You might want to look at the second last paragraph of David's response, Ken.

Original Message
From: David West <dwest@fao-on.org>
Sent: Tuesday, May 9, 2017 8:04 PM
To: Tim Schuurman (MOF); Karen Hughes (MGS); Brian Lewis (MOL); Veinot, Cindy (TBS)
Cc: Ghufran Tarin (MOF); Birks, Ryan (MOF); Patrick Laughton (MOF); Hosick, Sarah (TBS); Edward Crummey; Luan Ngo; Mario Angastiniotis; Nicolas Rhodes; Selena Esmail (MOF); Gadi Mayman; Maria Duran-Schneider (MOF); Ronald Kwan; Erik Girard (MCI)
Subject: RE: FAO's Upcoming EFO Report

Tim (and everyone),

Thank you very much for your quick response. I know the deadline was challenging.

I've had a quick review of your comments/suggested edits -- which in general seem thorough, balanced and reasonable.

We'll review more carefully tomorrow, but I believe we will be able to accept the majority of the suggested changes.

One quick comment -- I noticed you suggest we refer to the Pension Advisory Panel as the 'Expert' Advisory Panel... As you might expect, we shared the pension accounting section (only) with AG staff and they insisted we remove 'Expert' from the description of the panel. Just sayin'.

We'll be in touch tomorrow with any questions.

David W.

-----Original Message-----
From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: May 9, 2017 7:00 PM
To: David West <dwest@fao-on.org>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Edward Crummey <ecrummey@fao-on.org>; Luan Ngo <lngo@fao-on.org>; Mario Angastiniotis <MAngastiniotis@fao-on.org>; Nicolas Rhodes <nrhodes@fao-on.org>; Esmail, Selena (MOF) <Selena.Esmail@ontario.ca>; Mayman, Gadi (OFA) <Gadi.Mayman@ofina.on.ca>; Duran-Schneider, Maria (TBS) <Maria.Duran-Schneider@ontario.ca>; Kwan, Ronald (OFA) <Ronald.Kwan@ofina.on.ca>; Girard, Erik (MOF) <Erik.Girard@ontario.ca>
Subject: RE: FAO's Upcoming EFO Report

David (and other FAO colleagues);

Please find attached our consolidated feedback to the Economic Outlook and Fiscal Outlook draft reports. We have focussed on the factual components of this, and have tried to keep an eye on the cabinet confidentiality issue as well. With that in mind, here are a few high-level points to help guide your review of our comments:

-- As in past reports, it is really important for us that you clearly distinguish what is an FAO projection vs. what is a

Budget or government projection. This is applied somewhat inconsistently in the draft report. As such, we've provided some advice on where we think that distinction is important to have clearly articulated.

-- Since the Budget forecast horizon only is provided out to 19-20, we think it is important that you make it more clear that you have provided two additional years beyond what is provided for in the Budget documents.

-- With respect to Cabinet Confidentiality, we think that, overall it has been well-respected -- with two exceptions.

1. In a footnote about the child care spaces, you note that "ministry of finance officials indicated that its not fully funded in the fiscal plan" -- a point that is protected under Cabinet Confidence and cannot be disclosed as such. We've provided the deletion in the comment and some alternative wording.

2. The pension adjustment numbers (ie, the impact of the AG's pension accounting treatment) is not something used for the purposes of building the fiscal plan in the Budget -- and as such, cannot be considered a government projection (even though the government did disclose the potential impact of the pension adjustment in the 2016 FES, it did not do so as part of the 2017 Budget). As such, the underlying multi-year pension numbers provided to you by OPCD should be considered advice to Cabinet and protected. We think that perhaps a further conversation is required on this to make sure we are respecting Cabinet Confidentiality -- but in the interest of giving you feedback today, we thought it was important to provide a potential alternative for consideration. If you consider making it clear that those projections of the pension adjustment are FAO projections -- and not a government projection -- then perhaps we may be able to avoid a breach of Cabinet Confidentiality. We understand from OPCD that they did provide you with the underlying data, and instructions on how to calculate -- but the pension adjustment itself, as presented in the tables, is an FAO estimate of the pension accounting impact and not the government's. As such, you should clearly label it as such and be held accountable for explaining and owning the calculation as well, if asked. If you feel these need additional conversation with us, please let us know....happy to have a follow-up discussion. Hope that makes sense.

Thanks to everyone across MOF/TBS world who worked hard and collaboratively to make sure we could get you something by eod today. We appreciate the opportunity to review and provide feedback. We are happy to have more conversations in the lead-up to the provision of the report to Ministers. If you could also let us know when you expect the release date to be, that would help us plan as well.

Thanks again

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

-----Original Message-----
From: David West [mailto:dwest@fao-on.org]
Sent: May-08-17 10:24 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Edward Crummey; Luan Ngo; Mario Angastiniotis; Nicolas Rhodes
Subject: RE: FAO's Upcoming EFO Report

Good Morning,

Please find attached drafts of the Economic Outlook and Fiscal Outlook chapters from the FAO's upcoming 'Economic and Fiscal Outlook' report.
The chapters are password protected using the same password as in the past.

The FAO's fiscal forecast incorporates the tax revenue adjustments that we received on Friday afternoon -- and

which brings our short-term forecast much closer the Budget 2017 forecast.

Unfortunately, we are on a very tight schedule to enable us to release this report at the end of the May.

So, we are asking for your comments/concerns including any potential cabinet confidentiality issues by end of day tomorrow (Tuesday, May 9)

Thanks again for your support and assistance.

David West
Chief Economist

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
t.416.579.1465 | dwest@fao-on.org
www.fao-on.org

-----Original Message-----
From: David West
Sent: May 5, 2017 10:22 AM
To: 'Schuurman, Tim (MOF)' <Tim.Schuurman@ontario.ca>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Cindy.Veinot@ontario.ca
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Subject: FAO's Upcoming EFO Report

Hello,

Thanks again for our meeting on Tuesday. We appreciate the information you have provided as well as the responses to our questions at the meeting.

On Monday morning (as early as possible) we plan to provide you with draft copies of the Economic Outlook and Fiscal Outlook chapters (including Forecast Tables) from the FAO's upcoming EFO report.

We would hope you would be able to provide us with any comments or concerns on these chapters by Tuesday (May 9), end of day.

As in the past, the FAO will provide a final copy of the report 48 hours prior to release to both Ministers. I would email you a copy at the same time.

Thanks,

David West
416.579.1465

-----Original Message-----
From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: April 28, 2017 5:40 PM
To: David West <dwest@fao-on.org>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Luan Ngo <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Mario Angastiniotis <MAngastiniotis@fao-on.org>; Nicolas Rhodes <nrhodes@fao-on.org>

Subject: Re: Follow-Up on the 2017 Budget

Thanks David,

We're working on pulling together the various information pieces and people for a meeting Tuesday between 1pm and 2pm, so will be in touch to confirm.

As in past approaches, we won't be able to have everything for you on Tuesday but will be able to provide a downpayment for sure.

Have a great weekend
Tim

From: David West
Sent: Friday, April 28, 2017 5:14 PM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Luan Ngo; Edward Crummey; Mario Angastiniotis; Nicolas Rhodes
Subject: RE: Follow-Up on the 2017 Budget

As promised, please find attached more detailed questions.

Please confirm when we can meet early next week.

Thanks
dw

From: David West
Sent: April 28, 2017 9:32 AM
To: Tim Schuurman (Tim.Schuurman@ontario.ca) <Tim.Schuurman@ontario.ca>; karen.hughes@ontario.ca; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Cindy.Veinot@ontario.ca
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; 'Birks, Ryan (MOF)' <Ryan.Birks@ontario.ca>; 'Laughton, Patrick (TBS)' <Patrick.Laughton@ontario.ca>; 'Hosick, Sarah (TBS)' <Sarah.Hosick@ontario.ca>; Luan Ngo (lngo@fao-on.org) <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Mario Angastiniotis (MAngastiniotis@fao-on.org) <MAngastiniotis@fao-on.org>; Nicolas Rhodes (nrhodes@fao-on.org) <nrhodes@fao-on.org>
Subject: Follow-Up on the 2017 Budget

Good Morning!

Congratulations on delivering yesterday's big, black budget!

I wanted to follow-up on the FAO's requests for some additional information.

First, as we have discussed, we have three requests for specific data/tables:

1. We would like to obtain the detailed revenue and expense tables (Tables 6.14 and 6.15) extended to 2019-20.

- Are these detailed tables available to 2020-21? If so, then please include (:))

2. As staff have been discussing, we would like to obtain more detailed information on the one-time adjustments to taxation revenues beginning in 2015-16 and extending over the forecast. This is basically additional information to that provided in tables 6.7, 6.8 and 6.9.

3. As detailed in the letter and background documents sent to Deputies Thompson and Angus on April 3, we are requesting pension expense and employer contribution details for the OTPP and OPSEUPP.

We would also appreciate a meeting early next week (preferably Tuesday afternoon) to allow you to respond to a number of questions that we have with regard to the 2017 Budget.

We'll provide a list of specific questions later this afternoon, but these questions will cover a number of areas, including:

- Clarification on where the Fair Hydro Plan appears in the expenses

- Additional details/clarification on new health spending, including the new pharmacare plan

- Clarification on future assumptions for asset sales and any details behind the 'Sales and Rentals' line in the detailed Revenue table.

- Clarification on the assumptions behind new federal funding announced in the 2017 federal budget (e.g. affordable housing, child care, home care)

- Some background on the decision to reduce the estimate of 'Carbon Allowance Proceeds' and assumptions on associated expense

- Additional details/clarification on new infrastructure spending

- Assumptions behind the plan to reduce net debt-to-GDP to 35% and eventually to 27%.

We'll provide a list later this afternoon that expands somewhat on these question topics.

Happy to discuss any of these requests.

Thanks again for your support,
David

David West
Chief Economist
[cid:image009.png@01D17ECB.966ECE00]

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
t.416.579.1465 | dwest@fao-on.org<mailto:dwest@fao-on.org>
www.fao-on.org<https://urldefense.proofpoint.com/v2/url?u=http-3A__www.fao-2Don.org_&d=DwIFAw&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FtiQ&r=OdoCVLs6i-6reBTUJh9PAGSfpmSjeJXGKKb9SzvJOII&m=QfkAJyCxLKQ1SQi-dACOG5UJEKXqf9JfvOgc16_ABIE&s=czePv2stakYrXXD1Rf7--YGcVuIPuuf-14XT6nDhmAw&e= >

From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	Lynsey Wynberg
Subject:	Fw: FYI: Auditor General to make announcement on pension accounting issue tomorrow at 10 am (Tor Star - twitter)
Date:	Wednesday, February 15, 2017 12:51:28 PM

From: Lone, Dianne (MOF) <Dianne.Lone@ontario.ca>
Sent: Wednesday, February 15, 2017 12:30 PM
To: Scott Thompson (CAB); Gadi Mayman
Cc: David McLean (MOF)
Subject: FYI: Auditor General to make announcement on pension accounting issue tomorrow at 10 am (Tor Star - twitter)

FYI. Issues will monitor:

 [twitter.com]
Robert Benzie[twitter.com]
@robertbenzie[twitter.com]
.@OntarioAuditor[twitter.com] will answer the $10.7B question tomorrow at 10 a.m.

From:	Gadi Mayman
To:	Erica Wieder; Bonnie Lemcke; Mike Manning; Ken Kandeepan; Ronald Kwan; Opal Kandelas
Cc:	Christina Zhang; Tomasz Bugajski
Subject:	Fw: Ontario Releases 2015-16 Public Accounts
Date:	Thursday, October 06, 2016 1:38:38 PM

It's out.

From: Ontario News <newsroom@ontario.ca>
Sent: Thursday, October 6, 2016 1:37 PM
To: Gadi Mayman
Subject: Ontario Releases 2015-16 Public Accounts



News Release

Ontario Releases 2015-16 Public Accounts[news.ontario.ca]

October 6, 2016

Expert Panel to Review Accounting Standards

Ontario's Annual Report and Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower than the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion. This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

The government has received the Auditor General's opinion on the 2015-16 Public Accounts of Ontario, enabling it to release them. The results reported in the Public Accounts are identical to the unaudited financial statements released earlier this week. They confirm Ontario has beaten its annual deficit target for the seventh year in a row.

The Auditor General has provided her opinion, which says that the 2015-16 results are fairly stated but qualifies her opinion for lack of restatement of the 2014-15 results.

In preparing the Public Accounts, the province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of the Public Sector Accounting Board's (PSAB) standards, specifically in relation to pension accounting for the province's jointly sponsored pension plans.

A regulation was made to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements. The Province filed a time-limited regulation, which legislates the accounting for pension assets of two jointly-sponsored pension plans for 2015-16 in a manner that is consistent with the fiscal outcome proposed by the Auditor General. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit and an increase in the annual deficit of $1.5 billion.

The Auditor General's qualified opinion is based on the government's decision to report the accounting change in 2015-16 without restating the prior year's results. Restating the previous year's

results would have had no impact on the financial results for 2015-16, including the annual deficit and net debt.

The Auditor General's qualification relates only to the presentation of the 2014-15 comparative financial information. There is no impact on the 2015-16 annual deficit, accumulated deficit or net debt as illustrated in the table below.

($ millions)	Annual Deficit 2014-15	Accumulated Deficit 2014-15	Net Debt 2014-15	Annual Deficit 2015-16	Accumulated Deficit 2015-16	Net Debt 2015-16
Province's 2015-16 financial statements	10,315	187,511	284,576	5,029	202,697	305,233
Auditor General's 2015-16 opinion	11,268	196,665	293,730	5,029	202,697	305,233
Auditor General's 2014-15 opinion	10,315	187,511	284,576	n/a	n/a	n/a

The government is forming an independent expert panel to deliver advice and recommendations to the government as to the application of public sector accounting standards to Ontario's pension assets.

Panel members will also provide advice on how to value pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors. The report is expected later this year.

Responsible financial management is part of our plan to create jobs, grow our economy and help people in their everyday lives.

QUICK FACTS

- Public Accounts are a retrospective report that compares Ontario’s actual performance to what was planned in the Budget.
- Treasury Board Secretariat prepares Public Accounts in accordance with the accounting principles for governments recommended by the Public Sector Accounting Board.

ADDITIONAL RESOURCES

- Read the 2015-16 Public Accounts[ontario.ca] and explore supplementary information available through new data visualization tools
- Watch a video explaining Public Accounts [youtu.be]

- Learn about the government's fiscal cycle[ontario.ca]

QUOTES

"I wish to thank the Auditor General for providing her audit opinion of the 2015-16 Public Accounts. The Public Accounts confirm this is the seventh year in a row that Ontario has beaten its annual deficit target. Ontario remains committed to balancing the budget in 2017-18 while remaining balanced in 2018-19."
— *Liz Sandals, President of the Treasury Board*

CONTACTS

Jason Wesley
Communications Branch
416-327-4023

Matt Ostergard
Minister's Office
416-326-3839

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99 Wellesley Street West 4th floor, Room 4620 Toronto ON M7A 1A1

From: Gadi Mayman
To: Ken Kandeepan
Cc: Lynsey Wynberg
Subject: Fw: Q3 Deck and Placemat used in this morning"s DM briefing
Date: Friday, January 27, 2017 1:33:22 PM
Attachments: image001.png

From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Sent: Friday, January 27, 2017 12:13 PM
To: Tim Schuurman (MOF); Karen Hughes (MGS); Maria Duran-Schneider (MOF); Brian Lewis (MOL); Gadi Mayman; Ronald Kwan; Arruda, Artur (TBS)
Cc: Selena Esmail (MOF); Inglis, Liane (MOF); Birks, Ryan (MOF)
Subject: RE: Q3 Deck and Placemat used in this morning's DM briefing

I've taken a quick look at the placemat:

- The pension adjustment impacts expenses not revenues
- When we talk about C&T, please use "certified and settled…" – last bullet of option 2

Cindy

From: Schuurman, Tim (MOF)
Sent: January-27-17 12:03 PM
To: Hughes, Karen (TBS); Duran-Schneider, Maria (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS); Mayman, Gadi (OFA); Kwan, Ronald (OFA); Arruda, Artur (TBS)
Cc: Esmail, Selena (MOF); Inglis, Liane (MOF); Birks, Ryan (MOF)
Subject: Q3 Deck and Placemat used in this morning's DM briefing

Please find attached a deck plus a placemat we've pulled together to support the next steps and discussions around Q3. Just walked Scott through it, and while he has some edits and suggestions which we'll ripple through, he's comfortable with this approach.

Looking for any edits or comments you may have by 330 pm today, as we have a briefing with Minister Sousa on Monday which we'll need to provide materials on for EOD today. This would then track into FPC on Wednesday as well.

MDS/Karen - -if you have more insight into the expense pressures we'd highlight in there specifically, that would be helpful.

If anyone else also has thoughts, happy to take them by 330pm.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.

Toronto ON M7A 1Z1
Tel: 416-327-0173



Office of the Budget
MINISTRY of FINANCE

From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	Lynsey Wynberg
Subject:	Fw: Q3 Deck and Placemat used in this morning"s DM briefing
Date:	Friday, January 27, 2017 1:33:42 PM
Attachments:	image001.png

From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Sent: Friday, January 27, 2017 12:16 PM
To: Tim Schuurman (MOF); Karen Hughes (MGS); Maria Duran-Schneider (MOF); Brian Lewis (MOL); Gadi Mayman; Ronald Kwan; Arruda, Artur (TBS)
Cc: Selena Esmail (MOF); Inglis, Liane (MOF); Birks, Ryan (MOF)
Subject: RE: Q3 Deck and Placemat used in this morning's DM briefing

Ignore my first comment – thought it was a comparison to FES

From: Veinot, Cindy (TBS)
Sent: January-27-17 12:14 PM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Duran-Schneider, Maria (TBS); Lewis, Brian (MOF); Mayman, Gadi (OFA); Kwan, Ronald (OFA); Arruda, Artur (TBS)
Cc: Esmail, Selena (MOF); Inglis, Liane (MOF); Birks, Ryan (MOF)
Subject: RE: Q3 Deck and Placemat used in this morning's DM briefing

I've taken a quick look at the placemat:

- The pension adjustment impacts expenses not revenues
- When we talk about C&T, please use "certified and settled…" – last bullet of option 2

Cindy

From: Schuurman, Tim (MOF)
Sent: January-27-17 12:03 PM
To: Hughes, Karen (TBS); Duran-Schneider, Maria (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS); Mayman, Gadi (OFA); Kwan, Ronald (OFA); Arruda, Artur (TBS)
Cc: Esmail, Selena (MOF); Inglis, Liane (MOF); Birks, Ryan (MOF)
Subject: Q3 Deck and Placemat used in this morning's DM briefing

Please find attached a deck plus a placemat we've pulled together to support the next steps and discussions around Q3. Just walked Scott through it, and while he has some edits and suggestions which we'll ripple through, he's comfortable with this approach.

Looking for any edits or comments you may have by 330 pm today, as we have a briefing with Minister Sousa on Monday which we'll need to provide materials on for EOD today. This would then track into FPC on Wednesday as well.

MDS/Karen - -if you have more insight into the expense pressures we'd highlight in there specifically, that would be helpful.

If anyone else also has thoughts, happy to take them by 330pm.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173




Office of the Budget
MINISTRY of FINANCE

From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	Christina Zhang
Subject:	Fw: The FAO"s FES Commentary
Date:	Thursday, November 24, 2016 12:03:38 PM
Attachments:	image003.png 2016 FES Commentary_final.DOCX

From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
Sent: Thursday, November 24, 2016 11:48 AM
To: Scott Thompson (CAB)
Cc: Christopher Pearce (MOI); Brian Lewis (MOL); David McLean (MOF); Selena Esmail (MOF); Gadi Mayman; Birks, Ryan (MOF)
Subject: FW: The FAO's FES Commentary

Scott - -fyi, the FAO's draft commentary on the FES, to be released Monday.

Brian has already suggested to them that, since their forecast is also above the budget projection, that they should refer to the government's forecast as "more optimistic" as opposed to "optimistic."

I'd also highlight one line in the document where the FAO notes what government officials indicated about the accommodation of the child care investment:

"However, the FES reported program expense only $0.4 billion higher in 2018-19 compared to the 2016 Budget, suggesting that these new initiatives may be partially funded though reallocations from existing programs or the contingency funds. In addition, government officials indicated that since the policy details for the child care expansion are still being developed, the final cost of the program has not been fully incorporated into the FES fiscal plan."

Tim

From: David West [mailto:dwest@fao-on.org]
Sent: November-24-16 9:52 AM
To: Esmail, Selena (MOF); Schuurman, Tim (MOF); Lewis, Brian (MOF); Hughes, Karen (TBS)
Cc: Luan Ngo; Edward Crummey; Tarin, Ghufran (MOF); Birks, Ryan (MOF); Duran-Schneider, Maria (TBS); Arbabzadeh, Nina (TBS); Laughton, Patrick (TBS); Mario Angastiniotis; Nicolas Rhodes
Subject: The FAO's FES Commentary

Hello All,

As I promised at our meeting last week, please find attached a draft (embargoed) copy of the Commentary that I mentioned last week.

We plan to release this Commentary on our website on Monday. As always, please treat the document as confidential until its release.

Although we are not formally requesting any feedback on the note, please feel free to let us know if you find anything particularly egregious.

Thanks again for your on-going assistance.

Best regards,

David West
Chief Economist
FAO | Financial Accountability Office of Ontario

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
t.416.579.1465 | dwest@fao-on.org
www.fao-on.org[fao-on.org]

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: November 18, 2016 4:12 PM
To: David West <dwest@fao-on.org>
Cc: Luan Ngo <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Duran-Schneider, Maria (TBS) <Maria.Duran-Schneider@ontario.ca>; Arbabzadeh, Nina (TBS) <Nina.Arbabzadeh@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>
Subject: Meeting follow-up requests

Hi David,

Attached is the revenue and expense information requested in follow-up to our meeting held this past Wednesday - uses the FAO password. I trust that this information is helpful.

Thank you and have a wonderful weekend
Regards,

Selena Esmail
Director, Office of the Budget, Ministry of Finance

-----Original Message-----

From: Birks, Ryan (MOF)
Sent: November-18-16 2:43 PM
To: David West; Schuurman, Tim (MOF); Lewis, Brian (MOF)
Cc: Luan Ngo; Edward Crummey; Tarin, Ghufran (MOF); Esmail, Selena (MOF)
Subject: RE: Questions for tomorrows meeting

Hi David,

We'll be sending a consolidated package with both the revenue and expense details included before the end of day.

Thanks,
Ryan

-----Original Message-----
From: David West [mailto:dwest@fao-on.org]
Sent: November-18-16 2:38 PM
To: Schuurman, Tim (MOF); Lewis, Brian (MOF)
Cc: Luan Ngo; Birks, Ryan (MOF); Edward Crummey; Tarin, Ghufran (MOF)
Subject: RE: Questions for tomorrows meeting

Hi,

Will you be able to send us the follow-up information that we discussed at our meeting on Wednesday?

In particular the revenue and expenditure details?

Thanks

David West
(416) 579-1465

-----Original Message-----
From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: November 15, 2016 5:06 PM
To: David West <dwest@fao-on.org>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>
Cc: Peter Harrison <pharrison@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Luan Ngo <lngo@fao-on.org>; Mario Angastiniotis <MAngastiniotis@fao-on.org>; Nicolas Rhodes <nrhodes@fao-on.org>
Subject: Re: Questions for tomorrows meeting

Thanks David and team!

Looking forward to our conversation tomorrow. As some of these questions are for detailed background data, we may need to provide those post-tomorrow's meeting so we can gather it up in a way that works best to answer the question. But we'll come prepared with as many A's as possible and together we can map out a plan to get you the details you need following the meeting as well. We'll do our best to have all the right people in the room tomorrow.

Hope that works.

Tim

From: David West
Sent: Tuesday, November 15, 2016 4:46 PM
To: Birks, Ryan (MOF)
Cc: Schuurman, Tim (MOF); Peter Harrison; Edward Crummey; Luan Ngo; Mario Angastiniotis; Nicolas Rhodes
Subject: Questions for tomorrows meeting

As promised, I've attached a list of the questions that we'd like to discuss at tomorrow's meeting.

See you tomorrow.

Thanks

David W.
(416-579-1465)

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: November 15, 2016 1:43 PM
To: David West <dwest@fao-on.org>; Peter Harrison <pharrison@fao-on.org>
Cc: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
Subject: RE: Fall statement

Hello David and Peter,

I wanted to reconfirm tomorrow's FES/FAO meeting. It will be taking place between 2:30pm-3:30pm in the Aquarium Boardroom (4th floor of the Frost South Building). I'll be forward the invitation shortly.

Please let me know if additional FAO staff will be in attendance. I'll make sure they're also registered with security.

Let me know if you have any questions.

Thanks,
Ryan

From: Schuurman, Tim (MOF)
Sent: November-11-16 12:48 PM
To: David West
Cc: Peter Harrison; Birks, Ryan (MOF)
Subject: RE: Fall statement

Sounds great. I'm rallying the troops, and my EA Ryan Birks will be in touch with your offices to confirm timing and location, etc.

See you soon!

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173
[cid:image002.png@01D0E4D5.A25B16F0]

From: David West [mailto:dwest@fao-on.org]
Sent: November-10-16 6:29 PM
To: Schuurman, Tim (MOF)
Cc: Peter Harrison
Subject: Re: Fall statement

Thanks Tim,

2:30 should be fine.

Sent from my Bell Samsung device over Canada's largest network.

-------- Original message --------
From: "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca<mailto:Tim.Schuurman@ontario.ca>>
Date: 2016-11-10 5:19 PM (GMT-05:00)
To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>
Cc: Peter Harrison <pharrison@fao-on.org<mailto:pharrison@fao-on.org>>

Subject: RE: Fall statement

Hey guys

Thanks for the update on what would best suit your needs. We're happy to accommodate your request for a meeting….guess I'd suggest maybe late Wednesday so that folks have time to follow-up on the questions we'd get from you guys Tuesday afternoon. Also Wednesday mornings are filled with regular check-in meetings folks need to be at, so maybe we can find time Wednesday afternoon.

Something around 230pm work for you guys?

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173
[cid:image002.png@01D0E4D5.A25B16F0]

From: David West [mailto:dwest@fao-on.org]
Sent: November-10-16 9:29 AM
To: Schuurman, Tim (MOF)
Cc: Peter Harrison
Subject: RE: Fall statement

Hi Tim,

So, change of plans! The release of FES at 1pm on Monday, which is earlier than we expected, reduces the benefits of coming over to Frost to get a preview of the document, prior to release.

As a result, while we thank you for the offer, we'll decline your invite to come over to Frost on Monday. (Although we'll miss seeing your smiling face!)

However, instead, we would like to request a potential meeting on Wednesday (possibly late morning?) to discuss any FES-related questions. We would plan to send you our questions by Tuesday afternoon to allow you to try to assemble appropriate staff for the Wednesday meeting.

Would this work for you?

Thanks
David
(416) 579-1465

From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]

Sent: November 9, 2016 7:31 PM
To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>
Cc: Peter Harrison <pharrison@fao-on.org<mailto:pharrison@fao-on.org>>
Subject: RE: Fall statement

Thanks David, Peter.

• Right now the plan is for the Minister to rise and present the FES at 1pm on Monday. So I'm wondering if it is ok for you guys to come at 11am. We would expect you to stay in the boardroom we assign to you until the Minister stands up to deliver the speech – like a lock-up of sorts. Please let me know if you have any issues with that.

• I'm working hard to get you guys bound copies for your secure reading, but it may be a challenge as they are under OPP guard until the Minister stands (and we have no official lock up so I need to pull a few favours). If not, we'll print out copies on paper for you.

• Can you send me the list of names that would come? I'll need to know in advance.

• As far as answering questions, we'll try and have a few people around but it's a crazy day around here for us and we'll probably be scrambling. If its ok, I prefer to not make it a merry-go-round of people going in and out of the boardroom where you are. If possible, can we agree that you guys will spend the first hour or so going through all the documents, compiling your questions into a list, and then we'll ask people to come around for a chat? That way it's abit more organized, and I can tell people to make themselves available around noon for q's rather than stay on stand-by for 2 hours not knowing. Let me know what you think. If we can't get someone in the time you're here, of course we'll arrange for any follow-up.

Let me know what you think.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173
[cid:image002.png@01D0E4D5.A25B16F0]

From: David West [mailto:dwest@fao-on.org]
Sent: November-09-16 4:05 PM
To: Schuurman, Tim (MOF)
Cc: Peter Harrison
Subject: RE: Fall statement

Thanks Tim,

As Peter indicated, we would like to take you up on this offer.

I think there will be 4 or 5 of us who would be interested in a preview of the document, and the opportunity to ask some questions in person.

Do you expect that the Minister will deliver a statement in the Legislature at approximately 4pm? So, if we arrived at perhaps 2pm we could have a couple of hours with the document before the release?

We (the FAO) would not plan to make any public statements on the FES right away. But, we may decide to release a short 'Commentary' document on the FAO's website several days after the FES release (likely the following week) that compares the FAO's projections (from our recent EFO) with the FES projections and outlines some of the main differences in assumptions.

Please confirm what time you recommend we arrive at Frost South on Monday and that we can (potentially) bring several staff with us.

Regards,

David West
(416) 579-1465

From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: November 8, 2016 6:50 PM
To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>; Peter Harrison <pharrison@fao-on.org<mailto:pharrison@fao-on.org>>
Subject: Fall statement

Peter, David

Hope this email finds you both well. As you may have heard, today our Minister announced that the Fall Statement would be released on Monday, November 14th.

Last year we had you guys in here, on a confidential basis, to review the documents and read them

ahead of when it was tabled. We'd like to extend that offer to you again, if you think it would help you in your efforts to respond to the document.

I believe we hosted you here last year and that you spent an hour or so with the documents.

Please let me know if this is something you think you'd benefit from again this year, and I'll work to make the necessary arrangements.

Thanks in advance;

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173
[cid:image002.png@01D0E4D5.A25B16F0]



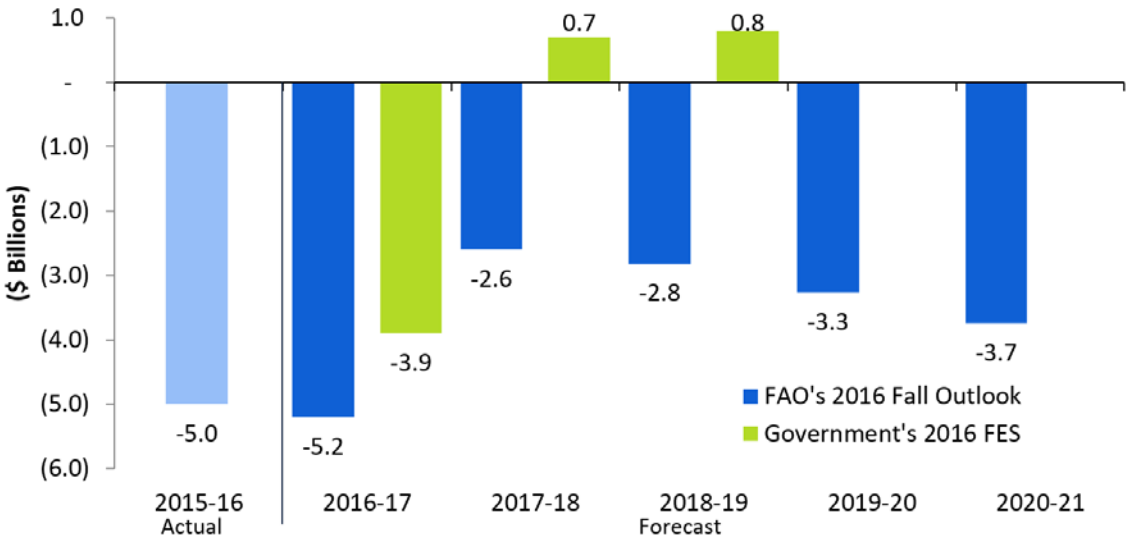
Financial
Accountability
Office of Ontario

Assessing Ontario's Fiscal Outlook

In the *2016 Economic Outlook and Fiscal Review* - commonly referred to as the Fall Economic Statement (FES) - the Ontario government (the Province) reaffirmed its commitment to eliminate the budget deficit by 2017-18 and maintain a balanced budget going forward. By comparison, the Financial Accountability Office (FAO) projected budget deficits of $5.2 billion in 2016-17, $2.6 billion in 2017-18 and a steady deterioration to $3.7 billion by 2020-21.[1]

Based on the FAO's analysis of the FES, the Province's plan to balance the budget continues to rely on optimistic assumptions for revenue growth and program spending restraint. As a result, there is significant risk that the government may not be able to eliminate the deficit in 2017-18, nor maintain a balanced budget going forward. However, the government has a variety of tools that it could use to temporarily improve the budget balance in 2017-18.[2] Beyond 2017-18, maintaining a balanced budget will likely require additional measures to raise revenues or reduce expenses.

Ontario's Budget Balance*



* Budget balance excludes reserve, and includes the accounting change. The FES does not include fiscal projections for 2019-20 and 2020-21.
Source: Ontario 2015-16 Public Accounts, Ontario 2016 Fall Economic Statement, and FAO

Revenue Outlook

While the Province's economic forecast is broadly consistent with the FAO's outlook, the government's revenue projection is $2.8 billion higher than the FAO estimate for 2016-17, and $5.2 billion higher by 2018-19. This is primarily due to the government's higher tax revenue projection.

[1] Economic and Fiscal Outlook, Fall 2016 Update, Financial Accountability Office of Ontario

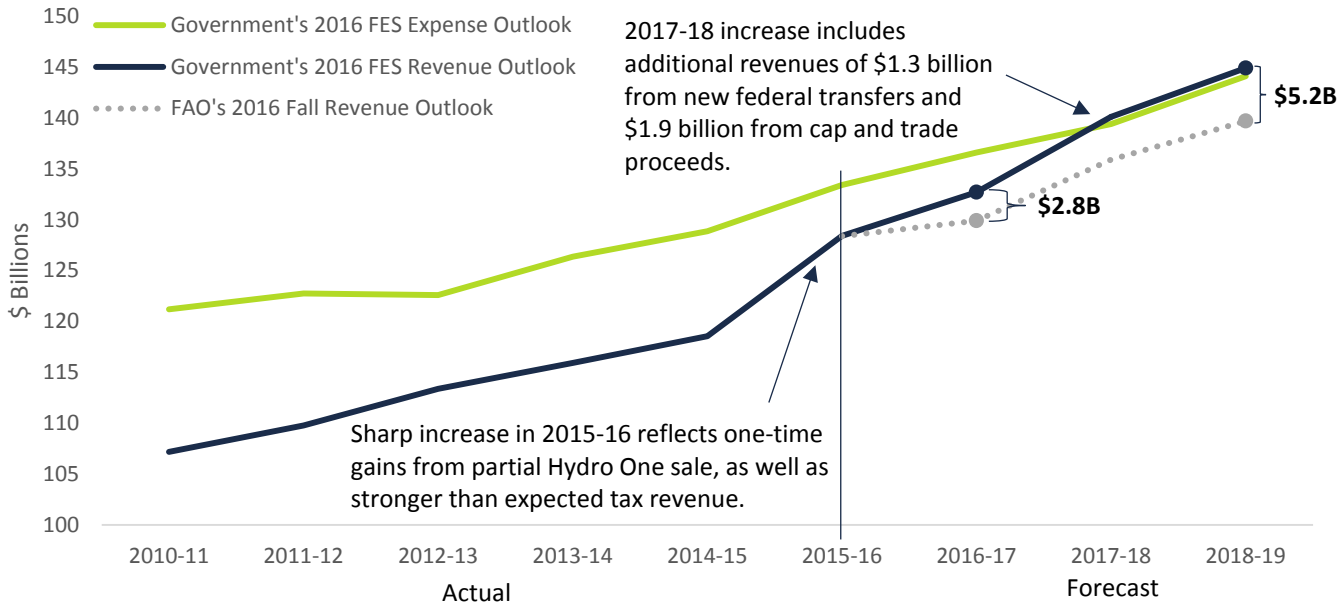
[2] As discussed in the FAO's 2016 Fall Economic and Fiscal Outlook, the government could improve the budget balance in the short-term by selling public assets, allocating new revenues to existing spending or applying the contingency funds to existing spending.

In particular, the government's forecast for personal income tax (PIT) is more than $1 billion higher than the FAO's projection in each year of the outlook. The FAO's lower PIT projection reflects an adjustment to account for income shifting by high-income tax filers, consistent with estimates from the federal government.[3]

The government's forecast for Corporations Tax revenue is also significantly higher than the FAO's projection over the outlook, a result of stronger 2015 corporate tax assessments and a more optimistic forecast of corporate profit growth.

The government's revenue forecast also incorporates stronger growth than the FAO's projection for other taxes, including the Harmonized Sales Tax, Gas Tax, Land Transfer Tax and the Ontario Health Premium.

Revenue Outlook



Source: Ontario 2015-16 Public Accounts, Ontario 2016 Fall Economic Statement, and FAO

In addition to the government's optimistic tax revenue projection, the FES outlook also assumes $1.3 billion in new federal transfers and $1.9 billion in cap and trade proceeds by 2017-18[4] -- assumptions which are incorporated into the FAO's projections. If tax revenue growth disappoints, or these new revenue sources fall short of expectations, the Province's fiscal targets would be at risk.

[3] The federal government introduced a 33 per cent tax rate on taxable income over $200,000 in 2016, which encouraged high-income tax filers to shift future income into 2015 to avoid paying the higher rate. The federal government estimated that this tax policy change increased 2015 federal PIT revenue by $3.3 billion. Consistent with federal government estimates, the FAO calculated that roughly $600 million in 2015-16 Ontario PIT revenue was due to income shifting. This adjustment lowered the FAO's PIT revenue forecast.

[4] As discussed in the FAO's report - *An Assessment of the Fiscal Impact of Cap and Trade* - there are three key factors which will determine the amount of revenue raised from cap and trade: the price of allowances; the Canada-US dollar exchange rate; and the number of allowances the Province will sell. Each of these factors are subject to significant uncertainty.

Expense Outlook

The government's program expense forecast is roughly $800 million above the FAO's projection by 2018-19. This is due to higher expense from the change in the accounting treatment of jointly-sponsored pensions, partially offset by lower than expected spending on programs announced in the September Throne Speech.

In the FES, the Province reported that the accounting change would increase program spending by $2.2 billion in 2016-17, rising to $3.7 billion by 2018-19.[5] By comparison, the FAO's projection included a working assumption that the accounting change would increase program spending by $1.5 billion each year over the outlook.

Based on public statements by the government, the FAO assumed that program spending would increase by $1.8 billion annually to fund the HST rebate for electricity and expanded child care spaces announced in the September Throne Speech. However, the FES reported program expense only $0.4 billion higher in 2018-19 compared to the 2016 Budget, suggesting that these new initiatives may be partially funded though reallocations from existing programs or the contingency funds.[6] In addition, government officials indicated that since the policy details for the child care expansion are still being developed, the final cost of the program has not been fully incorporated into the FES fiscal plan.

Debt Outlook

The FES reported that the Province's net debt-to-GDP ratio will peak at 40.3 per cent in 2016-17 and then edge lower to 39.3 per cent by 2018-19. By comparison, the FAO projected net debt-to-GDP to plateau at roughly 41 per cent over the outlook, primarily the result of continued deficits beyond 2017-18.[7]

Luan Ngo
Senior Economist
lngo@fao-on.org

David West
Chief Economist
dwest@fao-on.org

With contributions from Edward Crummey, Mario Angastiniotis, and Nicolas Rhodes.

Media queries, contact: Kismet Baun, 416.254.9232 or email kbaun@fao-on.org.

Financial Accountability Office of Ontario
2 Bloor Street West, Suite 900
Toronto, Ontario M4W 3E2

[5] In the 2015-16 Public Accounts, the Province legislated a change in the accounting treatment of jointly sponsored pension plans, which increased net debt by $9.2 billion and the deficit by $1.5 billion in 2015-16. The FAO will adopt the government's estimates of the accounting change's impact in future reports.

[6] Compared to the 2016 Budget and excluding the accounting change, program expense as reported in the FES is only $0.9 billion higher in 2016-17, $0.8 billion higher in 2017-18 and $0.4 billion higher in 2018-19.

[7] The FES incorporated an upward revision in nominal GDP for 2015 from Statistics Canada's Provincial Economic Accounts (PEA), released by on November 9, 2016. The revision lowered the net debt-to-GDP ratio relative to the FAO's fall report, which was published prior to the release of the PEA

From: Anna Strathy
To: Ken Kandeepan
Subject: Fwd: ADMs Pre-Meeting Ahead of FAO Discussion (11am-11:30am)
Date: Tuesday, May 02, 2017 11:39:33 AM
Attachments: image001.png
ATT00001.htm
2017 Budget Qs_FAO specific Qs_Consolidated Responses_MASTER.DOCX
ATT00002.htm

Hi Ken, attached are the consolidated answers to the FAO questions. Could you please take a look at the chart that CPD added to A9 on p. 6. Do tangible capital assets appear in that chart? And if so, how does that relate to our point number 6 re no change in TCA?

Are you in trillium or have you gone back to 1 Dundas? Gadi is on the 7th floor now. Feel free to come out and chat with him here when you're done in the audit committee or call him when you have a moment.

Sent from my iPhone

Begin forwarded message:

From: "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>
Date: May 2, 2017 at 10:55:27 AM EDT
To: "Patrick Laughton (MOF)" <Patrick.Laughton@ontario.ca>, "Law, Rex (TBS)" <Rex.Law@ontario.ca>, "Nina Arbabzadeh (EDU)" <Nina.Arbabzadeh@ontario.ca>, "Ghufran Tarin (MOF)" <Ghufran.Tarin@ontario.ca>, Anna Strathy <Anna.Strathy@ofina.on.ca>, Gavin He <Gavin.He@ofina.on.ca>, "Hosick, Sarah (TBS)" <Sarah.Hosick@ontario.ca>, "Patel, Lesley (MOF)" <Lesley.Patel@ontario.ca>
Subject: RE: ADMs Pre-Meeting Ahead of FAO Discussion (11am-11:30am)

Hi All,

Ahead of the 11am pre-meeting, please find attached the consolidated responses to the FAO Qs. Can you please circulate to your ADMs/representatives?

Thanks,
Ryan

From: Birks, Ryan (MOF)
Sent: May-01-17 5:51 PM
To: Laughton, Patrick (TBS); Law, Rex (TBS); Arbabzadeh, Nina (TBS); Tarin, Ghufran (MOF); Strathy, Anna (OFA); He, Gavin (OFA); Hosick, Sarah (TBS); Patel, Lesley (MOF)
Subject: ADMs Pre-Meeting Ahead of FAO Discussion (11am-11:30am)

Hi All,

In order to go over the sequence of events for the FAO discussion, there will be an ADMs pre-meeting between **11:00am-11:30am** tomorrow in the Aquarium Boardroom.

There will be a dial in option provided.

Please hold this time in your ADMs/appropriate representative's calendar.

Thanks,
Ryan

From: Birks, Ryan (MOF)
Sent: April-28-17 5:23 PM
To: Laughton, Patrick (TBS); Law, Rex (TBS); Arbabzadeh, Nina (TBS); Tarin, Ghufran (MOF); Strathy, Anna (OFA); He, Gavin (OFA); Hosick, Sarah (TBS)
Subject: RE: Follow-Up on the 2017 Budget / Meeting on Tuesday

Hi All,

FYI, attached are additional Qs for discussion from the FAO. I'll be sending out a meeting invite for between **1pm-2pm on Tuesday** shortly.

Thanks,
Ryan

From: Laughton, Patrick (TBS)
Sent: April-28-17 11:46 AM
To: Law, Rex (TBS); Birks, Ryan (MOF)
Cc: Arbabzadeh, Nina (TBS); Tarin, Ghufran (MOF); Strathy, Anna (OFA); He, Gavin (OFA); Arbabzadeh, Nina (TBS); Hosick, Sarah (TBS)
Subject: RE: Follow-Up on the 2017 Budget / Meeting on Tuesday

That`s correct. If another slot can be arrange it would be preferred – our DM is slated for the recognition event too so would prefer not to move.

From: Law, Rex (TBS)
Sent: April-28-17 11:38 AM
To: Birks, Ryan (MOF)
Cc: Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Tarin, Ghufran (MOF); Strathy, Anna (OFA); He, Gavin (OFA); Arbabzadeh, Nina (TBS); Hosick, Sarah (TBS)
Subject: RE: Follow-Up on the 2017 Budget / Meeting on Tuesday

Hi Ryan,

Artur has a hold in his calendar on May 2 from 2-3pm for a Standing Ovation Ceremony. I believe Maria and Karen are also participating in the event.

David (for Rex)

From: Birks, Ryan (MOF)
Sent: April-28-17 11:27 AM
To: Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Tarin, Ghufran (MOF); Strathy, Anna (OFA); He, Gavin (OFA); Arbabzadeh, Nina (TBS); Law, Rex (TBS); Hosick, Sarah (TBS)

Subject: FW: Follow-Up on the 2017 Budget / Meeting on Tuesday

Hi All,

As a follow up to these questions on the 2017 Budget, I wanted to hold an hour block of time on Tuesday (May 2) to meet with the FAO.

Would **1:30pm-2:30pm** in the Aquarium on **Tuesday** work for your ADMs? If you could confirm before EOD, it would be appreciated.

Thanks!
Ryan

From: Schuurman, Tim (MOF)
Sent: April-28-17 10:57 AM
To: Hughes, Karen (TBS); Mayman, Gadi (OFA); Duran-Schneider, Maria (TBS); Arruda, Artur (TBS); Veinot, Cindy (TBS); Kwan, Ronald (OFA)
Cc: Esmail, Selena (MOF); Birks, Ryan (MOF); Tiburcio, Daniel (MOF)
Subject: Fw: Follow-Up on the 2017 Budget

Hey everyone - we'll coordinate the response for this, working with your directors and staff. We'll also work with your EA's to find the right time for everyone to meet next tuesday.

Tim

From: David West <dwest@fao-on.org>
Sent: Friday, April 28, 2017 9:32 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Luan Ngo; Edward Crummey; Mario Angastiniotis; Nicolas Rhodes
Subject: Follow-Up on the 2017 Budget

Good Morning!

Congratulations on delivering yesterday's big, black budget!

I wanted to follow-up on the FAO's requests for some additional information.

First, as we have discussed, we have three requests for specific data/tables:

1. We would like to obtain the detailed revenue and expense tables (Tables 6.14 and 6.15) extended to 2019-20.
   - Are these detailed tables available to 2020-21? If so, then please include (☺)

2. As staff have been discussing, we would like to obtain more detailed

information on the one-time adjustments to taxation revenues beginning in 2015-16 and extending over the forecast. This is basically additional information to that provided in tables 6.7, 6.8 and 6.9.

3. As detailed in the letter and background documents sent to Deputies Thompson and Angus on April 3, we are requesting pension expense and employer contribution details for the OTPP and OPSEUPP.

We would also appreciate a meeting early next week (preferably Tuesday afternoon) to allow you to respond to a number of questions that we have with regard to the 2017 Budget.

We'll provide a list of specific questions later this afternoon, but these questions will cover a number of areas, including:

- Clarification on where the Fair Hydro Plan appears in the expenses
- Additional details/clarification on new health spending, including the new pharmacare plan
- Clarification on future assumptions for asset sales and any details behind the 'Sales and Rentals' line in the detailed Revenue table.
- Clarification on the assumptions behind new federal funding announced in the 2017 federal budget (e.g. affordable housing, child care, home care)
- Some background on the decision to reduce the estimate of 'Carbon Allowance Proceeds' and assumptions on associated expense
- Additional details/clarification on new infrastructure spending
- Assumptions behind the plan to reduce net debt-to-GDP to 35% and eventually to 27%.

We'll provide a list later this afternoon that expands somewhat on these question topics.

Happy to discuss any of these requests.

Thanks again for your support,
David

David West
Chief Economist

FAO
Financial
Accountability
Office of Ontario

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2

t.416.579.1465 | dwest@fao-on.org

www.fao-on.org

FAO Questions for MOF

April 28, 2017

Economics

Q1. Why is the growth rate for labour compensation running significantly above the growth for primary household income, particularly in 2018 and 2019? **OEP-MOF**

A1. When the labour market is tighter in Ontario and conditions are improving elsewhere in Canada, there is evidence that labour compensation growth outpaces growth in primary household income.

- Over the 1997-00 and 2003-07 periods, labour compensation growth in Ontario outpaced primary household income growth by 0.6 and 0.2 percentage points annually, respectively.
- Over the 2010-16 period, labour compensation in Ontario grew at the same rate as primary household income, on average.

All forecasters who project both labour compensation and primary household income expect labour compensation to outpace primary household income over the 2018-2020 period.

- There is divergence in views across forecasters. The Ministry's projection is within the range of forecasters.

Q2. Do you use Compensation of Employees on a 'National Basis' (from Table 11 of the OEA) as the principal PIT driver? In 2016, Labour Compensation on a national basis grew at 4.4% while on a domestic basis it grew 4.2%, which is an unusually large gap. **OEP-MOF**

A2. Yes, Compensation of Employees on a "National Basis is the principal PIT driver.

Revenue

Q3. In Table 3.14, sales and rental revenues are projected to increase by $1 billion in 2017-18. Can we get details about the assumptions behind this increase? **OEP-MOF & CEFD-MOF**

A3. The change in Sales and Rentals revenue reflects a number of items, which include higher revenues from some consolidated government agencies and the impacts of the government's multi-year asset optimization strategy.

Please note that the interim 2016-17 sales and rentals total is revised down vs. the 2016-17 sales and rentals forecast in the 2016 Budget, which mainly reflects the re-categorization of revenues related to the Province's asset optimization strategy. This includes the re-categorization from sales and rentals of the impact of the sale of the LCBO head office lands.

The term "re-categorization" is used to refer to fiscal impacts related to the Province's asset optimization strategy that were previously consolidated in the sales and rentals line item that are now being unpacked to other revenue lines with no impact to the Province's fiscal plan. In the previous Budgets, as you may recall, the government included future projected net revenues related to asset optimization in the sales and rentals line item to ensure confidentiality on the specific estimated amounts and timing of certain elements of the Province's asset optimization initiative to protect the commercial interests of the Province. As the sale of assets occurs, the government re-categorizes the impacts of the asset sales into their respective line items. This allows for the Province to transparently report the fiscal impacts of the transaction in the relevant revenue lines once the sale of an asset has occurred.

Similarly, projected net revenue impacts related to future transactions under the Province's asset optimization strategy remain reported as a net number under Sales and Rentals in consideration of the commercial and securities sensitivity of such transactions.

The change in Sales and Rentals revenue reflects a number of items, which include higher revenues from some consolidated government agencies and revisions to the government's multi-year asset optimization target to reflect the progress made so far. For example, the 2016-17 sales and rentals is revised down to reflect this progress as revenues from the Hydro One IPO and 2016 Secondary Offering are reflected in the revenue lines affected by these transactions – Hydro One net income under Government Business Enterprises, electricity payments in lieu of taxes and Sales and Rentals.

In the previous Budgets, as you recall, the government included all future projected net revenues related to asset optimization in the Sales and Rentals line item to ensure confidentiality on the specific estimated amounts and timing of certain elements of the Province's asset optimization initiative to protect the commercial interests of the Province. As the sale of assets occurs, the government re-categorizes the impacts of the asset sales into their respective line items.

Similarly, projected net revenue impacts related to future transactions under the Province's asset optimization strategy are captured as a net number under Sales and Rentals in consideration of the commercial and securities sensitivity of such transactions.

Q4. The 2017 federal budget announced new funding for affordable housing, child care, infrastructure, home care and labour-market training. To what extent are these new revenues (and the associated expense) built into the fiscal plan? **OEP-MOF & PEMD/CPD-TBS & OB-MOF**

A4. Budget 2017 projections of Government of Canada transfers include new funding under Strategic Investment Fund for affordable housing, post-secondary education and clean water and wastewater projects. It also includes Public Transit Investment Fund, and funding anticipated for home care & mental health, and jobs and training.

Expenses associated with these findings are built into the fiscal plan except transfers for Home Care & Mental Health and transfers for Jobs and Training, as funding for these items is yet to be finalized. The Home Care & Mental Health line also includes additional federal funding in 2017-18 to support Ontario's housing priorities; linked-expenditure has not yet been identified as funding is yet to be finalized.

New Federal Funding Since Budget 2016 (For MOF ONLY NOT TO BE SHARED)

$ Million	2016-17	2017-18	2018-19	2019-20	2020-21
Investment in Affordable Housing	321	115			
Post-Secondary Education	197	267	77	15	15
Clean Water and Wastewater Fund	85	338	141		
GC - Infrastructure Other (PTIF)		1,114	372		
Home care and Mental Health		146	328	424	482
Jobs and Training		77	77		
Total	**602**	**2,056**	**994**	**439**	**497**

Childcare

No specific provisions were made for 2017 federal Budget commitments related to child care and labour market/skills training. [Note: this information has not been released to the public].

Affordable Housing

The 2017 Federal Budget proposes to invest more than $11.2B over 11 years (2017-18 to 2027-28) to build, renew and repair Canada's stock of affordable housing.

Additional cost-matching risk to Ontario may arise from the new housing strategy associated with the National Housing and affordable housing initiative. However, the Federal Budget did not disclose the cost-sharing splits between various levels of government.

The Federal government may provide further details later this year as part of a National Housing Strategy announcement.

As the program design is still being finalized, the revenue and expense relate to the new federal housing strategy is not built into the current fiscal plan. The 2017 Budget only includes agreements that have been previously ratified (i.e., Investment in Affordable Housing Programs for Ontario).

Infrastructure Funding

The 2017 Federal Budget confirmed that the $81 billion Phase 2 funding will be allocated in the following ways:

- $33 billion through bi-lateral agreements.
- $15 billion through the Canada Infrastructure Bank split evenly between public transit, green, and trade and transportation infrastructure.
- $10.8 billion through competitive national funds for housing, trade corridors, cultural spaces and various green initiatives.
- $10.2 billion through multi-lateral frameworks for housing and early childhood education.

In addition $12 billion has been allocated to a variety of infrastructure related initiatives under federal responsibility including investments in Indigenous Communities.

Ontario's share of the Phase 2 Federal Infrastructure funding and funding requirements (e.g. incrementality conditions) will be determined as part of upcoming bi-lateral negotiations with the federal government.

Q5. Expected revenues from Carbon Allowance Proceeds have been reduced by $0.5 billion beginning 2018-19 (Table 6.10). Any explanation of the lower revenue projection?

a) Is the annual forecast for Carbon Allowance Proceeds $1.4 billion? If so, does the higher amount in 2017-18 of $1.8 billion just reflect the shifting of proceeds from the first auction in 2016-17 (that is there is an extra auction in 2017-18 than in future years)? **OEP-MOF**

A5a) Yes, the annual forecast for Carbon Allowance Proceeds is $1.4 Billion except in 2017-18. The higher amount in 2017-18 reflects the shifting of proceeds from the first auction in 2016-17, as the proceeds from the first auction are being

certified, settled and recorded in the 2017-18 fiscal year. In other words, there will be revenues from five auctions recognized in 2017-18, while going forward there will be four in each fiscal year.

b) Are the associated expenses from the Green Investment Fund being reduced as well, to reflect the lower revenue forecast? **PEMD-TBS**

A5b) No, expenses associated with the Green Investment Fund will not be reduced to reflect the lower revenue forecast and will remain at the level publically announced.

Q6. Base revenue growth for Corporations Tax and Sales Tax are noticeably stronger than the growth of their underlying drivers. What are your elasticity assumptions for Personal Income Tax, Corporations Tax and Sales Tax with respect to their drivers? **OEP-MOF**

A6.

Corporations Tax: Corporations tax base revenue is projected to grow at an average annual rate of 6.3 per cent over the 2016-17 to 2019-20 period. This is in line with the 6.5 per cent average annual growth in the net operating surplus, an implied elasticity of 1.0.

Personal Income Tax: The primary economic driver of the forecast for Personal Income Tax (PIT) revenue is the outlook for growth in the compensation of employees. PIT revenue tends to grow at a faster rate than incomes due to the progressive structure of the PIT system. Budget 2017 assumes an elasticity of 1.3 for PIT.

Sales Tax: With regards to Sales Tax revenue, note that about 60 per cent of the HST taxable base is attributable to consumption expenditures and 18 per cent to the housing sector. Housing is driven by new home construction (subject to significant lags especially in the huge GTA condo sector), renovations and real estate transaction fees (not including resale activities).

Over the forecast period of 2017-18 to 2019-20, the HST is projected to grow at 4.9 per cent, slightly faster than nominal consumption of 4.2 per cent, or an elasticity of 1.1. This is justifiable because of Ontario's strong housing sector and as Ontario's share of the overall GST/ HST pool continues to rise as its economy is expected to outperform the rest of Canada.

a) For HST, could you break out the revenues expected from housing and nominal consumption over the forecast? **OEP-MOF**

A6a) There is no breakdown of HST revenues attributable to its different economic drivers. An approximation of the breakdown may be derived by applying the Ontario HST rate to the taxable base although it is not possible to verify its accuracy.

Q7. The federal government's 2015-16 Annual Financial Report indicated that stronger 2015 federal PIT returns partly reflect "…tax planning by high-income individuals to recognize income in the 2015 tax year before the new 33 per cent tax rate came into effect in 2016". What assumptions were made on the impact of income shifting on Ontario's PIT revenue? **OEP-MOF**

A7. Although at this point, there is no conclusive evidence to suggest that higher 2015 revenue from tax returns processed during 2016 was a result of tax planning, the PIT revenue forecast for 2016-17 includes a one-time downward adjustment of $0.5B to exercise prudence in the forecast. We will have more definitive information as results of the tax returns processed for 2016 arrive.

Expense

Q8. The anticipated fiscal impact of the Fair Hydro Plan is approximately $1.8 billion based on information provided to the FAO (roughly $1 billion for HST rebate and $800 million for the electricity social programs). However, the 2017 Budget indicates that the total cost would be around $1.4 billion in 2017-18 (Table 6.15). Can you explain the discrepancy? **PEMD-TBS & CEFD-MOF**

A8. Energy's forecasts for the various programs were refined.

a) OREC – Forecast adjusted for bill impacts of new initiatives under the FHP announced March 2, 2017.

b) Social programs moving to government funded – Preliminary Estimates based on full year 2017-18 versus partial year for 2017-18 reflecting roll-out timing.

	2017-18	
	Preliminary Estimate	2017 Budget
OREC	1119	939
OESP	186	140
RRRP	459	344
ONFNDC	20	15
Total	1784	1438

Q9. A number of new programs were announced in the budget. Can you provide the fiscal impact for these new initiatives (e.g. children and youth pharma-care, child care spaces expansion) by completing the following table? Are these fiscal impacts in the plan? **PEMD/CPD-TBS & TPD-MOF**

Cost of Announced Programs

$ Millions	2017-18	2018-19	2019-20	2020-21
Children and Youth Pharmacare	115	465*	465*	465*
100,000 Child Care Spaces Expansion	170	282	295	235
Fair Hydro Plan	1438	1635	1711	1787
Caregiver Tax Credit				
Other major programs?				

* Beginning in 2018-19, Children and Youth Pharmacare will be partly offset with annual savings of $100M from drug programs.

a) The September Throne Speech announced the expansion of 100,000 new child care spaces. The budget announced 24,000 additional spaces. What is the progress in the rollout plan for the remaining spaces? Is there additional fiscal impact from the Throne Speech that have not been incorporated? **PEMD-TBS**

A9a) The government has committed to creating 24,000 new child care spaces in 2017-18. This commitment is part of the Province's plan to help 100,000 more children access child care, as announced in the 2016 Ontario Speech from the Throne. This commitment builds on the progress of recent child care expansion, including helping create 56,000 new licensed child care spaces over the past three years. The fiscal impact of child care expansion initiatives will be impacted by timing and allocation of funding to service managers (e.g., municipalities), and will continue to evolve as this commitment is implemented.

Debt

Q9. The budget indicated that the government aims to reduce the net debt to GDP target to 35 per cent by 2023-24 and 27 per cent by 2028-29. What assumptions are built into this projection for nominal GDP, the budget balance, and capital expenditure? **OFA-MOF & CPD-TBS**

A9. Our Net Debt assumptions have many moving parts and are from several sources, namely OEP and CPD. They were factored into our net debt calculations as follows:

1) Pension is reversed and deficit for 2016-17 is $1,524 million
2) The denominator annual nominal GDP that goes into the net debt calculation % is per latest information received from OEP used for the 2017 Budget
3) A major component of the net debt calculation in the numerator, the book value of tangible capital assets, is per the latest information received from CPD used for the 2017 Budget

Details from CPD-TBS:

Capital's impact on net debt is estimated as the increase in the net book value (NBV) of capital assets each year (annual acquisitions less amortization). The NBV of tangible capital assets represents the cost of the province's owned and consolidated tangible capital assets, less accumulated amortization and the amount of any write-downs.

The below table outlines forecasted growth in the NBV of capital assets based on planned acquisitions and amortization expense. Note that acquisitions include those funded through third party contributions and that amortization includes deferred capital contributions.

PROVINCIAL TCA Net Book Value ($ Billions)	2016-17 Interim	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Opening Net Book Value	**102536**	**108,372**	**118,377**	**129,727**	**142,313**	**153,001**	**160,985**	**165,948**	**165,888**	**167,105**	**165,376**
Annual Acquisitions	11,092	15,566	17,274	18,851	17,433	15,352	12,919	8,314	9,932	7,194	8,612
Gross Amortization Expense	(5,256)	(5,562)	(5,924)	(6,265)	(6,745)	(7,369)	(7,956)	(8,374)	(8,715)	(8,923)	(9,008)
Closing Net Book Value	**108,372**	**118,377**	**129,727**	**142,313**	**153,001**	**160,985**	**165,948**	**165,888**	**167,105**	**165,376**	**164,981**

Notes:
Opening NBV for 2016-17 from public accounts
Annual Acquisitions include other partner funding and federal flowthroughs

4) Our Net Debt amount is not adjusted for prepaid expenses and inventory. Such an adjustment will be done for the 2016-17 Public Accounts onwards going forward (new this year per OPCD request)
5) The balanced budget continues through to 2030-31
6) The Tangible Capital Asset book value is the same from 2026-27 to 2030-31, i.e. no change
7) GDP annual growth is 4% from 2021-22 to 2030-31 per direction from OEP.

Q10. What's the explanation for the increase in cash reserves? Is it related to recent changes in rating criteria requiring more liquid reserves covering the issuance of commercial paper debt? **OFA-MOF**

A10. Ontario actively manages its financial obligations through the maintenance of a liquid reserve portfolio and the use of short-term borrowing. The Province increased its level of unrestricted liquid reserves following the financial crisis in 2008–09.

Coming out of the financial crisis, the Province began a strategy of creating large, liquid 10- and 30-year benchmark domestic bond issues in 2009–10 in response to investor demand. This strategy has been very successful and continues to lower Ontario's borrowing costs and enhance the Province's access to capital.

However, as a result of these large bond issues, the Province will have large cash outflows on single days commencing in 2019–20, rather than having maturities spread more evenly through the year. In anticipation of the need for cash reserves to meet these requirements for large outflows on a single day, the Province began, as noted in Table 6.24, building cash reserves in 2016–17, and will continue to increase these reserves in 2017–18.

This will ensure that Ontario's cash reserves remain at relatively healthy levels, a key requirement from the perspective of the Rating Agencies.

Q11. What is a Designated Purpose Account? **OPCD-TBS**

A11. A Designated Purpose Account (DPA) is an account, or system of accounts, in the financial records, authorized through legislation, that tracks the recognition of specified revenue and expenditures for the purposes outlined in the enabling legislation.

The government established DPAs to demonstrate to the public, progress on the government's commitment to spend over time at least as much as it has accumulated through identified funding sources to achieve the legislated objectives.

In addition, these DPAs support effective reporting and recording of financial activities as they relate to designated government programs and initiatives in accordance with the requirements of its governing legislation.

Questions from David West – email:

Q12. We would like to obtain the detailed revenue and expense tables (Tables 6.14 and 6.15) extended to 2019-20. Are these detailed tables available to 2020-21? If so, then please include (☺) **OEP-MOF Table 6.14 and OB-MOF & PEMD/CPD-TBS 6.15**

A12. OEP-MOF provided detailed revenue table out to 2019-20 to the FAO through email.

OB-MOF & PEMD-TBS to provide detailed expense tables before the meeting (if possible).

Q13. As staff have been discussing, we would like to obtain more detailed information on the one-time adjustments to taxation revenues beginning in 2015-16 and extending over the forecast. This is basically additional information to that provided in tables 6.7, 6.8 and 6.9. **OEP-MOF**

A13. Response provided to the FAO as part of email response for Q12.

Q14. As detailed in the letter and background documents sent to Deputies Thompson and Angus on April 3, we are requesting pension expense and employer contribution details for the OTPP and OPSEUPP. **OPCD-TBS**

A14. TBS provided email response to FAO on May 1.

Follow-up question from David West:

My one initial question would be that the pension cost (expense less contributions) is now about $1.2b lower than estimated in the 2016 FES for 2018-19.

I assume this is just a reflection of the updated accounting calculations, but we'd be interested to understand the main factor(s) behind this change.

Q15. Additional details/clarification on new health spending, including the new pharmacare plan **TBS PEMD**

A15. See additional back pocket pieces.

Q16. Additional details/clarification on new infrastructure spending **CPD-TBS**

A16. CPD to provide if required

Question from Luan Ngo – email:

Q17. One more question that I'd like to tack on relates to the assumed year-end savings. I noticed that the year-end savings target was increased to $1.2 billion for 2017-18.

a) Was there a section in the budget that discussed the policy reasons or assumptions behind this higher target for this year? If so, can you point it out to me?

b) Is this higher target maintained for the out-years as well?

c) Finally, in previous budgets, there were sections that indicated how much year-end savings were achieved by the government.

d) Is there data anywhere that points to the government's record in achieving its target for 2016-17? **PEMD-TBS**

A17.

BACKPOCKET – NEW HEALTH SPENDING BREAKDOWN

$7B Incremental health spending (vs. 2016 Budget Multi-year Plan)

Total Expense (Consolidated) by Major Sector:	2017-18	2018-19	2019-20	3-year Total
($ Millions)				
Hospitals	*346.5*	*1,236.8*	*1,492.7*	*3,076.0*
Incremental Hospital Operating Funding	*322.5*	*628.3*	*896.2*	
YoY Hospital Operating Funding Growth	***518.0***			
Includes Growth from 2016 and 2017 Budgets				
Ontario Health Insurance Program	*200.6*	*328.2*	*432.4*	*961.1*
Drug Programs	*245.7*	*499.6*	*656.9*	*1,402.1*
Long-Term Care Homes	*2.4*	*10.3*	*10.6*	*23.3*
Community	*(107.2)*	*27.9*	*50.2*	*(29.2)*
Other Sector	*298.1*	*445.3*	*726.2*	*1,469.6*
Total	*986.0*	*2,548.0*	*3,368.9*	***6,903.0***

Wait Time Investments (vs. 2016 Budget)	2017-18	2018-19	2019-20	3-year Total
Specialized Care Provider	43.5	81.9	119.8	245.1
Hospitals - Foot, knee, hip, cataract, and priority proc	209.2	295.7	382.5	887.3
Home and Community Care	25.4	28.9	30.7	85.0
Mental Health	7.5	23.3	43.3	74.1
Total	285.5	429.7	576.3	**1,291.5**

Backgrounder: MOHLTC PRRT Funding Breakdown

Overview

The 2017 Budget and supporting communications products include several references to overarching health sector investments:

A. **$7 billion -** *The government is investing an additional $7 billion in health care over the next three years, compared to the 2016 Budget plan, to reduce wait times, provide access to care and to enhance the patient experience. With these new investments, growth in health spending will now average 3.3 per cent over the medium term.* [Chapter 4A]

B. **$11.5 billion** – *Ontario is increasing health care investments by $11.5 billion over the next three years. The 2017 balanced budget includes a new $7 billion booster shot to health care, building on the commitment made in the 2016 Budget.* [News Release]

C. **$1.3 billion –** *Over the next 3 years, the Province will invest $1.3 billion in additional funding to reduce wait times, including $890 million for key surgical and other priority procedures; $245 million to improve specialist access, including new digital solutions to streamline consults and eReferrals; $85 million in new home and community care services; and $74 million to provide more timely mental health services.* [Chapter 4A]

Methodology

Below is a description of each calculation. The different funding references are not incremental the $7 and $11.5 billion are different methodologies for showing in-plan health sector expense growth (see tables on page 2).

A. **$7 billion -** is the cumulative 3 year growth between the 2016 Budget and 2017 Budget. This amount includes all in-year 2016-17 funding decisions. [1]

B. **$11.5 billion** – is the 3 year cumulative total of all investments in the 2017 Budget and 2016 Budget above 2016-17 Interim. These investments include previously approved growth through the 2016 Budget.

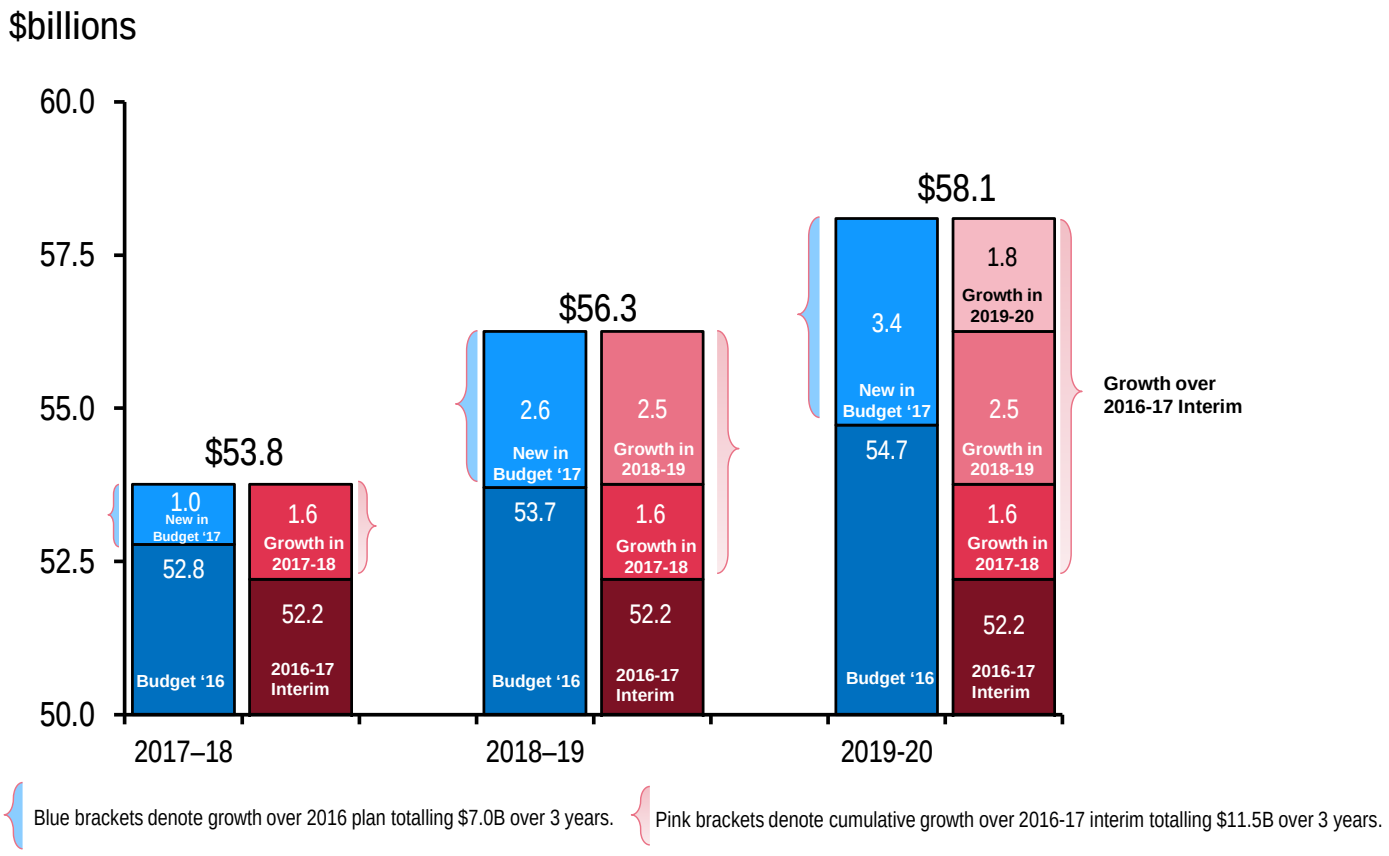
C. **$1.3 billion –** is the incremental new investment that MOHLTC has attributed to supporting wait times. These investments are a subset of the $7 billion and $11.5 billion references. This amount also includes funding referenced in other areas of the document e.g.:

- $518 million for hospitals
- $140 million for mental health and addictions services

[1] 2016-17 in-year decisions include: $140M for hospitals, $106M for the drug program, $95M for stem cell transplants, $30M First Nations Health Action Plan as well as other adjustments

Investments in Health Care in the Next Three Years – $7B and $11.5B methodologies

Investments in Health Care in the Next Three Years ($ billions)	2016-17	2017-18	2018-19	2019-20	3-year total
2016-17 Budget (published, except 2019-20)	51.8	52.8	53.7	54.7	
2017 Budget (2016-17 = interim 2016-17)	**52.2**	**53.8**	**56.3**	**58.1**	
Budget 2017 (multi-year plan) vs Budget 2016 (respective multi-year plans)		**1.0**	**2.6**	**3.4**	**7.0**
Budget 2017 (all out-years) vs Interim 2016-17 (constant)					
Year 1 investment (based on 2016-17 interim)		1.6	1.6	1.6	
Year 2 investment (based on 2016-17 interim)			2.5	2.5	
Year 3 investment (based on 2016-17 interim)				1.8	
Budget 2017 (multi-year plan) vs Interim 2016-17 (constant)		**1.6**	**4.0**	**5.9**	**11.5**



Blue brackets denote growth over 2016 plan totalling $7.0B over 3 years.

Pink brackets denote cumulative growth over 2016-17 interim totalling $11.5B over 3 years.

From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	Christina Zhang
Subject:	Fwd: Accounting risks
Date:	Friday, December 09, 2016 10:04:32 AM
Attachments:	SOC briefing accounting risks_Dec 8 pm.pptx ATT00001.htm

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This is the deck for the meeting with Steve that I'm joining Scott for at 10:45.

Begin forwarded message:

> **From:** "Pearce, Christopher (MOF)" <Christopher.Pearce@ontario.ca>
> **Date:** December 9, 2016 at 9:47:58 AM EST
> **To:** "Mayman, Gadi (OFA)" <Gadi.Mayman@ofina.on.ca>, "Zhang, Christina (OFA)" <Christina.Zhang@ofina.on.ca>
> **Subject: FW: Accounting risks**
>
> Gadi – attached is the accounting risks deck for this morning's meeting with the SoC. I'm printing a copy for you.
>
> ---
>
> **From:** McLean, David (MOF)
> **Sent:** December 9, 2016 9:46 AM
> **To:** Pearce, Christopher (MOF)
> **Subject:** FW: Accounting risks
>
> ---
>
> **From:** MacIntyre, Kyle (TBS)
> **Sent:** December 9, 2016 9:06 AM
> **To:** Bromm, William (CAB); Foster, Robert (CAB)
> **Cc:** McLean, David (MOF); Simone, Nicole (TBS)
> **Subject:** Accounting risks
>
> Here's the deck for this morning's conversation.

Office of the Provincial Controller

Financial Reporting Risks

December 9, 2016

Briefing to Secretary of Cabinet

DRAFT

Purpose

- To highlight immediate (2016-17) and longer-term (2017-18 and 2018-19) fiscal/financial reporting issues

- Communicate options and recommendations to address immediate high risk items

Immediate Issues -- Summary

	Issue	Fiscal impact in 2016-17	Reflected in FES	Multi-year impact
1	Pension accounting	$2.2 Billion	Yes	Yes
2	IFRS-US GAAP differences – OPG and H1	$1 Billion	No	Yes
3	Cap & trade proceeds	$478 Million	No	Likely not
4	Metrolinx MOU with City of Toronto (similar model for other transit projects)	TBD	No	Yes
5	Year-end transfers	TBD	No	Yes
6	Changes to consolidation (how and what)	N/A	No	Yes
7	Follow up audit – contaminated sites	TBD	No	Yes
8	Other GBE issues (H1 sale; unrealized gains/losses)	TBD	No	Yes
9	Reduced materiality by AG	N/A	N/A	N/A
10	Implementation of Hyperion Financial Mgmt	N/A	N/A	N/A
11	Earlier release of Public Accounts	N/A	N/A	N/A
12	Implementation of new accounting standards	N/A	N/A	N/A

1. Net Pension Assets

Risk:	High High profile issue; material forward-looking impact and/or volatility depending on nature and timing of co-sponsor agreements; relationship risk with co-sponsors and AG; audit risk if AG does not accept outcome inconsistent with her interpretation
Impact in 2016-17 (billions):	$ 2.2
Multi-year impact:	Yes -- $2.8B in 2017-18, $3.7B in 2018-19, and $3.9B in 2019-20
Impact included in FES:	Yes
Description of issue:	Accounting treatment for net pension assets of jointly sponsored and multi-employer pension plans -- OTPP, OPSEUPP, HOOPP and CAATPP
Current status/next steps:	• Expert panel has met twice - current focus on OTPP and OPSEUPP; • meeting scheduled with AG on Dec. 16; • Chair will be ready to brief OPCD/TBS/MOF/MO in early Jan 2017 and finalize report on OTPP/OPSEUPP by Jan 31, 2017. • HOOPP and CAATPP will be addressed in a supplement after January 31, 2017
Options under consideration:	a) If Panel agrees with Province re: recognition of net asset, Province will use guidance from Panel on measurement and engage a firm to value the asset; need strategy to work with AG on accepting findings of Panel b) If Panel does not agree with Province re: recognition of net asset, Province is assessing alternatives re: approaching OTF to meet the requirements set out by the Panel to recognize an asset (which may differ from the AG's interpretation)
Timing of expected resolution:	• Panel report back – January 9, 2017 • Panel report (OTPP/OPSEUPP) – January 31, 2017 • Asset valuations – February 15, 2017 (target) • Agreement with OTB (if required) – TBD
Province's ability to influence:	Province has ability to influence agreement with OTF should Panel not agree with Province's view.
Role of other ministries:	• EDU -- working through alternatives re: approaching OTF (e.g. changes to funding management policy) • Health & MAESD not currently engaged (not sponsors of HOOPP or CAATPP)

2. IFRS-US GAAP differences – OPG and H1

Risk:	High Audit risk (qualification for 2016/17 based on AG approach); lack of certainty w.r.t future IFRS standards for rate regulated accounting; transparency, accountability and VFM implications of 2 sets of books; AG Act implications of legislated accounting option
Impact in 2016-17 (billions):	$ 1.0 (based on AG's approach)
Multi-year impact:	Yes -- $100M in 2017-18, $ 100M in 2018-19, and $ 100M in 2019-20 (all based on AG's approach) Impact based on OPG's preferred approach -- $375M in 2016-17; $400M in 2017/18; $500M in 2018/19, $700M in 19/20
Impact included in FES:	No
Description of issue:	PSAB requires consolidation of OPG and H1 on an IFRS basis, whereas the Public Accounts reflects consolidation on a US GAAP basis, consistent with OPG and H1 external reporting as allowed by Securities Regulators and OEB
Current status/next steps	• Significant differences have historically been with OPG – working with OPG to refine estimates and assess ability to use OPG's preferred approach without a receiving a qualified opinion from AG; • Assessing whether it would be useful to approach PSAB again (response to OPS in 2016 connected any change to IFRS project on rate-regulated accounting, which is not scheduled for completion for several years)
Options under consideration:	(a) Continue to report OPG and H1 on a US GAAP basis in the CFS (legislate accounting; will result in qualified opinion unless AG Act also changed) (b) Approach PSAB for additional consideration; (c) Report OPG and H1 on an IFRS basis in the CFS (entities could continue to produce US GAAP financial statements for stand-alone financial statements) (d) Report OPG on IFRS and H1 on a US GAAP basis – historically significant differences have been in OPG; would leave publicly traded company (H1) with requirement to keep one set of books for now
Timing of expected resolution:	2017 Budget -Legislative changes could be considered as part of Spring Bill -Consider changes to basis of reporting for OPG/H1 to be reflected in Budget
Province's ability to influence:	Province is not able to influence PSAB or AG; If Province decides to consolidate OPG using IFRS, impact in year is estimated to be $375 million vs. $1 B
Role of other ministries:	Energy aware of ongoing considerations and stakeholdering with OPG and H1 OEFC involvement as necessary where potential impacts on f/s or audit opinion

3. Cap & Trade Proceeds

Risk:	High Timing of first auction in March 2017 results in settlement process straddling the year-end complicating timing of revenue recognition. Accounting model for new revenue stream requires consultation with OAG.
Impact in 2016-17 (billions):	$0.5
Multi-year impact:	No (although it is likely that if auction proceeds from March 22, 2016 auction are recognized in fiscal 2017-18, proceeds from 5 auctions will be recognized in fiscal 2017-18 as the last auction is 2017-18 is scheduled for February 2018 and the auction settlement process is expected to be complete by March 31, 2018)
Impact included in FES:	Risk not identified in the FES
Description of issue:	Assumptions regarding timing of revenue recognition for 2016 Budget in question. Based on preliminary accounting analysis, revenue likely to be recognized once emission allowances have been transferred to participant accounts. For the March 22, 2016 auction, this would mean that the related revenue is recognized in fiscal 2017-18.
Current status/next steps	• OPCD working through comments on accounting analysis received from MOECC. • Accounting analysis to be shared with OAG in December to obtain preliminary feedback/concurrence for 2017 Budget.
Options under consideration:	• Unlikely that settlement process can be completed by March 31, 2017. • MOECC is providing additional information re: consideration of whether revenue recognition would be appropriate at auction certification date which occurs prior to the emission allowances being credited to the participant accounts (Auction certification date currently estimated as March 29, 2017)
Timing of expected resolution:	Mid-January/17 for feedback from OAG
Province's ability to influence:	If MOECC is able to move up the Auction date such that settlement process is complete by March 31, 2017, revenue would be recognized in 2016-17, subject to review by OAG.
Role of other ministries:	MOECC a key stakeholder and has provided background on C&T design, risks and rewards to the Province. Analysis has been provided to MOECC and MOECC has provided feedback. MOECC working through providing additional evidence supporting auction certification date as revenue recognition date for March 22, 2017 auction.

4. Metrolinx MOU with City of Toronto

(Note – model is being used for other transit projects as well)

Risk:	High Material potential impact on fiscal plan reflecting transaction with City as well as impact for future transactions for Mississauga and Hamilton assets (Hurontario LRT, Hamilton LRT)
Impact in 2016-17 (billions):	$ TBD
Multi-year impact:	Yes (amounts TBD)
Impact included in FES:	No
Description of issue:	MOU contemplates the City taking responsibility for operations and maintenance of certain transit and also retaining the transit revenue. The Province will retain lifecycle risk. It must be determined whether the Province maintains control of the transit assets (and therefore capitalizes and amortizes the assets over their useful lives) or whether the Province has substantively transferred the assets to the City of Toronto (which would be accounted for as a transfer and accelerate the recognition of the expense as compared to the capitalize and amortize model)
Current status/next steps	MOU between the Province and the City, including reference to funding for City from transit revenues. Follow-on agreement between Province and City under development – will be binding. Approval from TB requires agreement between Province and City to support Province having control of asset under PSAB. Working group being formed between Metrolinx, MTO, CPD and OPCD to manage review agreements and develop steps to manage risk.. Metrolinx engagement with their external auditor to determine level of assurance they can provide in current year based on current status of agreement.
Options under consideration:	N/A – given binding agreement is not yet signed and this deal will be a model for other agreements, agreement will be negotiated to support control of the assets by the Province.
Timing of expected resolution:	February 2017
Province's ability to influence:	Province can influence the economic substance of the arrangement signed with the City in order to support the continued control of the underlying transit assets by the Province.
Role of other ministries:	MTO, CPD engaged in discussions with MX on aspects of MOU and to ensure consistent understanding of anticipated accounting

5. Year-end transfers

Risk:	Low/Med Audit risk (amounts expensed are reversed during audit if there are disagreements on relevant criteria), any amounts reversed will create fiscal pressure for fiscal 2017-18
Impact in 2016-17 (billions):	$ TBD
Multi-year impact:	Yes
Impact included in FES:	No
Description of issue:	Evolving view of AG regarding aspects of government year-end commitments and characteristics required to enable liability and expense recognition in advance of signed formal TP agreement.
Current status/next steps:	OPCD engaging with OAG to discuss experience and lessons learned in advance of 2017 Budget Process. OPCD has communicated change and risk to financial community (CAOs, Financial Directors).
Options under consideration:	Developing advice to ministries to mitigate risk: 1. Signed TP agreements in place by year-end 2. Flow funds by year-end Open discussion with OPCD and OAG to derive new guidance to be shared with Ministries.
Timing of expected resolution:	January 30, 2017
Province's ability to influence:	Province can work with OAG to understand views on year-end transfers and communicate guidance to Ministries. Discussions have commenced with OIAD to assess their ability to assist in Ministry reviews.
Role of other ministries:	MOECC, MEDG, others depending on year end transfers.

6. Changes to consolidation

Risk:	Low
Impact in 2016-17 (billions):	N/A
Multi-year impact:	Yes
Impact included in FES:	No
Description of issue:	AG recommendation that CASs. Individual universities under assessment. AG recommendation that BPS be consolidated in the statement of operations on a line-by-line basis. Currently balance sheet consolidation is line-by-line, but income statement is consolidated using one line.
Current status/next steps	Additional analysis required on impact if CASs were consolidated – ministry does not have processes in place to consolidate. No bottom line impact of line by line BPS consolidation, but revenues and expenses to change by amount of 3rd party revenue (impact on key performance indicators – interest/revenue dollar and expenses/person). Analysis of appropriate period to effect change under development.
Options under consideration:	Under consideration for the 2017 Budget and 2017-18 Public Accounts: - Consolidation of CASs - Consolidation of BPS sector (grossed up Rev/Exp) No options for individual universities or DAAs until further review completed. Change in funding model for universities (including student grant program) to be considered.
Timing of expected resolution:	January/February 2017
Province's ability to influence:	Provincial discretion as to whether to consolidate BPS as requested by the AG (presentation issue, no fiscal impact). Consolidation of individually controlled universities, CASs, DAAs which meet threshold tests required under PSAB (immaterial to SUDs, therefore no anticipated impact on audit opinion).
Role of other ministries:	MOF (OFA) to be involved to manage communications risks regarding consolidation MCSYS to provide details on CASs Sector Miniseries to provide details for Hospitals, school boards and colleges as well as Q&A input TBS Coms for Q&A (ALL) PEMD to provide details on DAAs.

7. Follow up audit – contaminated sites

Risk:	Med-High Changes to estimates will impact in year deficit (audit risk associated with computation), as well as results of AG VFM follow up audit which will to be reported in 2017 AG Annual Report. Financial management/accounting policy not complete – risk of inconsistencies across ministries.
Impact in 2016-17 (billions):	No specific properties identified
Multi-year impact:	Yes
Impact included in FES:	No
Description of issue:	Expecting follow-up by AG on audit of implementation of contaminated sites accounting standard. Any increases/decreases in liability will impact 2016/17 deficit directly.
Current status/next steps	Draft financial management/accounting policy under development – currently circulated for review by ministries. OPCD working with OIAD re: terms for reference for OIAD follow up (to be completed to provide assurance on year-end balances) OPCD communicating with OAG on planned review of contaminated sites.
Options under consideration:	Line and sector ministry readiness for AG review. OPCD policy guidance (format, timing, stakeholdering)
Timing of expected resolution:	March – April 2017
Province's ability to influence:	Province can influence audit risk by finalizing financial management/accounting policy (goal of finalizing by March 31, 2017) and by OIAD completing their review prior to Public Accounts and AG follow up review.
Role of other ministries:	MOECC input and direction to ministries in line with OAG audit findings from 2015. CPD role in supporting ministry estimates of ongoing costs. All ministries with contaminated sites will need to ensure their current year estimates are complete.

8. Other GBE issues (H1 sale; unrealized gains/losses, H1 deferred tax and OEB decision)

Risk:	Med Despite low anticipated $ amount of adjustments, commentary by AG in Annual Report for Audit Findings Report for any unadjusted differences could have reputational risk and also inadvertently impact Hydro One. Impact on amounts reported in Trillium Trust and AG commentary thereon also at risk.
Impact in 2016-17 (billions):	TBD
Multi-year impact:	Yes
Impact included in FES:	Yes for some
Description of issue:	OPCD to engage with OAG on appropriate accounting and estimated errors (for SUDs). OEB Deliberations on benefit of Deferred Tax Asset (Province vs. Rate Payer)
Current status:	• Draft accounting for H1 sale (tranche 2) to be reviewed by external firm including related party sale to OPG (already provided). • Accounting for unrealized gains/losses to be discussed with OAG. • OEFC to provide update on risks associated with potential OEB decision on benefit of deferred tax asset.
Options under consideration:	• Determine accounting for unrealized gains/losses in year based on materiality of estimated amounts in 2016-17. • Pending decision of OEB, ensure deferred tax benefit appropriately reflected on Province's books and Trillium Trust account.
Timing of expected resolution:	February, 2017 (decisions on eliminations/adjustments to be reflected in Budget)
Province's ability to influence:	Depending on materiality, some adjustments will be at discretion of the government (vs. SUDS impact)
Role of other ministries:	Ministry of Energy and OFA. Involved in discussion as well as OPG.

Risks:

9. Reduced materiality by AG

Risk:	High Risk that accumulated errors will exceed lower materiality threshold requiring Province to adjust financial statements**.**
Impact in 2016-17 (billions):	N/A
Multi-year impact:	N/A
Impact included in FES:	N/A
Description of issue:	AG has communicated plans to reconsider (reduce) audit materiality in light of release of unaudited results for 2015/16, and path to balance. Reducing materiality would generally lead to increased audit testing and a lower threshold for reporting errors. A reduced materiality will also result in an overall lower threshold for accumulated errors.
Current status/next steps	OPCD communicating increased AG scrutiny to Ministries in updates to CAO Forum, FCC, FBMC. OPCD evaluating updated process for accumulating errors from Ministries vs. waiting for communication from AG.
Options under consideration:	N/A
Timing of expected resolution:	Materiality has historically be communicated by AG in Audit Planning Memo – draft expected in January 2017.
Province's ability to influence:	None
Role of other ministries:	All ministries will be subject to additional scrutiny.

10. Earlier Release of Public Accounts

Risk:	Medium
Impact in 2016-17 (billions):	N/A
Multi-year impact:	N/A
Impact included in FES:	N/A
Description of issue:	Potentially earlier release date (end of July/17)
Current status:	Assessment underway on key tasks/milestones to deliver by end of July
Options under consideration:	1. Deliver Annual Report and Volumes by end of July 2. Deliver Annual Report only by end of July, to be followed by Volumes in August/September. 3. Impact on Data visualization and open data 4. Process enhancements – in OPCD as well as OAG (needed to complete audit in time to support earlier release, especially in regards to tax estimation.)
Timing of expected resolution:	Mid-January 2017
Province's ability to influence:	Province determines date of release subject to legislative requirements and on AG's ability to complete her audit.
Role of other ministries:	All ministries will be impacted by an earlier release date.

11. Implementation of Hyperion Financial Management

Risk:	Medium Audit risks to be minimized by relying on legacy systems for 2016/17 Public Accounts. Resource requirements of APFR staff will be high during planned parallel run in addition to earlier planned release for the Public Accounts. Unanticipated audit issues as experienced in 2016 will cause further stress on resources required for the parallel run as well as Public Accounts related processes.
Impact in 2016-17 (billions):	N/A
Multi-year impact:	N/A
Impact included in FES:	N/A
Description of issue:	Implementation of Corporate Hyperion Information Reporting Portal in parallel with early release of Public Accounts.
Current status:	CHIRP related considerations integral to discussions on early release date.
Options under consideration:	N/A
Timing of expected resolution:	N/A
Province's ability to influence:	N/A
Role of other ministries:	OAG to audit controls during 2016/17 public accounts audit. Line and sector ministries to learn how to bet use new system.

12. Implementation of New Standards

Risk:	Medium/Low No fiscal impact associated with new standards; however, various stakeholders will have to be involved to ensure completeness and integrity of information required for disclosure. Process will be subject to review by the OAG.
Impact in 2016-17 (billions):	N/A
Multi-year impact:	N/A
Impact included in FES:	N/A
Description of issue:	New standards on related parties and contractual rights to be implemented in 2017/18 requiring planning to ensure that appropriate data available for disclosure.
Current status:	OPCD engagement with OAG on-going to ensure key questions discussed and implementation guidance robust.
Options under consideration:	N/A
Timing of expected resolution:	February, 2017
Province's ability to influence:	Unique to each Province, depending on relative interpretations of PSAB.
Role of other ministries:	TBS – OIAD LSB – restrictions on disclosure for RPT and contractual rights.

From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	Christina Zhang
Subject:	Fwd: Accounting risks
Date:	Friday, December 09, 2016 10:04:32 AM
Attachments:	SOC briefing accounting risks_Dec 8 pm.pptx ATT00001.htm

---

This is the deck for the meeting with Steve that I'm joining Scott for at 10:45.

Begin forwarded message:

> **From:** "Pearce, Christopher (MOF)" <Christopher.Pearce@ontario.ca>
> **Date:** December 9, 2016 at 9:47:58 AM EST
> **To:** "Mayman, Gadi (OFA)" <Gadi.Mayman@ofina.on.ca>, "Zhang, Christina (OFA)" <Christina.Zhang@ofina.on.ca>
> **Subject: FW: Accounting risks**
>
> Gadi – attached is the accounting risks deck for this morning's meeting with the SoC. I'm printing a copy for you.
>
> ---
>
> **From:** McLean, David (MOF)
> **Sent:** December 9, 2016 9:46 AM
> **To:** Pearce, Christopher (MOF)
> **Subject:** FW: Accounting risks
>
> ---
>
> **From:** MacIntyre, Kyle (TBS)
> **Sent:** December 9, 2016 9:06 AM
> **To:** Bromm, William (CAB); Foster, Robert (CAB)
> **Cc:** McLean, David (MOF); Simone, Nicole (TBS)
> **Subject:** Accounting risks
>
> Here's the deck for this morning's conversation.

Office of the Provincial Controller

Financial Reporting Risks

December 9, 2016

Briefing to Secretary of Cabinet

DRAFT

Purpose

- To highlight immediate (2016-17) and longer-term (2017-18 and 2018-19) fiscal/financial reporting issues

- Communicate options and recommendations to address immediate high risk items

Immediate Issues -- Summary

	Issue	Fiscal impact in 2016-17	Reflected in FES	Multi-year impact
1	Pension accounting	$2.2 Billion	Yes	Yes
2	IFRS-US GAAP differences – OPG and H1	$1 Billion	No	Yes
3	Cap & trade proceeds	$478 Million	No	Likely not
4	Metrolinx MOU with City of Toronto (similar model for other transit projects)	TBD	No	Yes
5	Year-end transfers	TBD	No	Yes
6	Changes to consolidation (how and what)	N/A	No	Yes
7	Follow up audit – contaminated sites	TBD	No	Yes
8	Other GBE issues (H1 sale; unrealized gains/losses)	TBD	No	Yes
9	Reduced materiality by AG	N/A	N/A	N/A
10	Implementation of Hyperion Financial Mgmt	N/A	N/A	N/A
11	Earlier release of Public Accounts	N/A	N/A	N/A
12	Implementation of new accounting standards	N/A	N/A	N/A

1. Net Pension Assets

Risk:	High High profile issue; material forward-looking impact and/or volatility depending on nature and timing of co-sponsor agreements; relationship risk with co-sponsors and AG; audit risk if AG does not accept outcome inconsistent with her interpretation
Impact in 2016-17 (billions):	$ 2.2
Multi-year impact:	Yes -- $2.8B in 2017-18, $3.7B in 2018-19, and $3.9B in 2019-20
Impact included in FES:	Yes
Description of issue:	Accounting treatment for net pension assets of jointly sponsored and multi-employer pension plans -- OTPP, OPSEUPP, HOOPP and CAATPP
Current status/next steps:	• Expert panel has met twice - current focus on OTPP and OPSEUPP; • meeting scheduled with AG on Dec. 16; • Chair will be ready to brief OPCD/TBS/MOF/MO in early Jan 2017 and finalize report on OTPP/OPSEUPP by Jan 31, 2017. • HOOPP and CAATPP will be addressed in a supplement after January 31, 2017
Options under consideration:	a) If Panel agrees with Province re: recognition of net asset, Province will use guidance from Panel on measurement and engage a firm to value the asset; need strategy to work with AG on accepting findings of Panel b) If Panel does not agree with Province re: recognition of net asset, Province is assessing alternatives re: approaching OTF to meet the requirements set out by the Panel to recognize an asset (which may differ from the AG's interpretation)
Timing of expected resolution:	• Panel report back – January 9, 2017 • Panel report (OTPP/OPSEUPP) – January 31, 2017 • Asset valuations – February 15, 2017 (target) • Agreement with OTB (if required) – TBD
Province's ability to influence:	Province has ability to influence agreement with OTF should Panel not agree with Province's view.
Role of other ministries:	• EDU -- working through alternatives re: approaching OTF (e.g. changes to funding management policy) • Health & MAESD not currently engaged (not sponsors of HOOPP or CAATPP)

2. IFRS-US GAAP differences – OPG and H1

Risk:	High Audit risk (qualification for 2016/17 based on AG approach); lack of certainty w.r.t future IFRS standards for rate regulated accounting; transparency, accountability and VFM implications of 2 sets of books; AG Act implications of legislated accounting option
Impact in 2016-17 (billions):	$ 1.0 (based on AG's approach)
Multi-year impact:	Yes -- $100M in 2017-18, $ 100M in 2018-19, and $ 100M in 2019-20 (all based on AG's approach) Impact based on OPG's preferred approach -- $375M in 2016-17; $400M in 2017/18; $500M in 2018/19, $700M in 19/20
Impact included in FES:	No
Description of issue:	PSAB requires consolidation of OPG and H1 on an IFRS basis, whereas the Public Accounts reflects consolidation on a US GAAP basis, consistent with OPG and H1 external reporting as allowed by Securities Regulators and OEB
Current status/next steps	• Significant differences have historically been with OPG – working with OPG to refine estimates and assess ability to use OPG's preferred approach without a receiving a qualified opinion from AG; • Assessing whether it would be useful to approach PSAB again (response to OPS in 2016 connected any change to IFRS project on rate-regulated accounting, which is not scheduled for completion for several years)
Options under consideration:	(a) Continue to report OPG and H1 on a US GAAP basis in the CFS (legislate accounting; will result in qualified opinion unless AG Act also changed) (b) Approach PSAB for additional consideration; (c) Report OPG and H1 on an IFRS basis in the CFS (entities could continue to produce US GAAP financial statements for stand-alone financial statements) (d) Report OPG on IFRS and H1 on a US GAAP basis – historically significant differences have been in OPG; would leave publicly traded company (H1) with requirement to keep one set of books for now
Timing of expected resolution:	2017 Budget -Legislative changes could be considered as part of Spring Bill -Consider changes to basis of reporting for OPG/H1 to be reflected in Budget
Province's ability to influence:	Province is not able to influence PSAB or AG; If Province decides to consolidate OPG using IFRS, impact in year is estimated to be $375 million vs. $1 B
Role of other ministries:	Energy aware of ongoing considerations and stakeholdering with OPG and H1 OEFC involvement as necessary where potential impacts on f/s or audit opinion

3. Cap & Trade Proceeds

Risk:	High Timing of first auction in March 2017 results in settlement process straddling the year-end complicating timing of revenue recognition. Accounting model for new revenue stream requires consultation with OAG.
Impact in 2016-17 (billions):	$0.5
Multi-year impact:	No (although it is likely that if auction proceeds from March 22, 2016 auction are recognized in fiscal 2017-18, proceeds from 5 auctions will be recognized in fiscal 2017-18 as the last auction is 2017-18 is scheduled for February 2018 and the auction settlement process is expected to be complete by March 31, 2018)
Impact included in FES:	Risk not identified in the FES
Description of issue:	Assumptions regarding timing of revenue recognition for 2016 Budget in question. Based on preliminary accounting analysis, revenue likely to be recognized once emission allowances have been transferred to participant accounts. For the March 22, 2016 auction, this would mean that the related revenue is recognized in fiscal 2017-18.
Current status/next steps	• OPCD working through comments on accounting analysis received from MOECC. • Accounting analysis to be shared with OAG in December to obtain preliminary feedback/concurrence for 2017 Budget.
Options under consideration:	• Unlikely that settlement process can be completed by March 31, 2017. • MOECC is providing additional information re: consideration of whether revenue recognition would be appropriate at auction certification date which occurs prior to the emission allowances being credited to the participant accounts (Auction certification date currently estimated as March 29, 2017)
Timing of expected resolution:	Mid-January/17 for feedback from OAG
Province's ability to influence:	If MOECC is able to move up the Auction date such that settlement process is complete by March 31, 2017, revenue would be recognized in 2016-17, subject to review by OAG.
Role of other ministries:	MOECC a key stakeholder and has provided background on C&T design, risks and rewards to the Province. Analysis has been provided to MOECC and MOECC has provided feedback. MOECC working through providing additional evidence supporting auction certification date as revenue recognition date for March 22, 2017 auction.

4. Metrolinx MOU with City of Toronto

(Note – model is being used for other transit projects as well)

Risk:	High Material potential impact on fiscal plan reflecting transaction with City as well as impact for future transactions for Mississauga and Hamilton assets (Hurontario LRT, Hamilton LRT)
Impact in 2016-17 (billions):	$ TBD
Multi-year impact:	Yes (amounts TBD)
Impact included in FES:	No
Description of issue:	MOU contemplates the City taking responsibility for operations and maintenance of certain transit and also retaining the transit revenue. The Province will retain lifecycle risk. It must be determined whether the Province maintains control of the transit assets (and therefore capitalizes and amortizes the assets over their useful lives) or whether the Province has substantively transferred the assets to the City of Toronto (which would be accounted for as a transfer and accelerate the recognition of the expense as compared to the capitalize and amortize model)
Current status/next steps	MOU between the Province and the City, including reference to funding for City from transit revenues. Follow-on agreement between Province and City under development – will be binding. Approval from TB requires agreement between Province and City to support Province having control of asset under PSAB. Working group being formed between Metrolinx, MTO, CPD and OPCD to manage review agreements and develop steps to manage risk.. Metrolinx engagement with their external auditor to determine level of assurance they can provide in current year based on current status of agreement.
Options under consideration:	N/A – given binding agreement is not yet signed and this deal will be a model for other agreements, agreement will be negotiated to support control of the assets by the Province.
Timing of expected resolution:	February 2017
Province's ability to influence:	Province can influence the economic substance of the arrangement signed with the City in order to support the continued control of the underlying transit assets by the Province.
Role of other ministries:	MTO, CPD engaged in discussions with MX on aspects of MOU and to ensure consistent understanding of anticipated accounting

5. Year-end transfers

Risk:	Low/Med Audit risk (amounts expensed are reversed during audit if there are disagreements on relevant criteria), any amounts reversed will create fiscal pressure for fiscal 2017-18
Impact in 2016-17 (billions):	$ TBD
Multi-year impact:	Yes
Impact included in FES:	No
Description of issue:	Evolving view of AG regarding aspects of government year-end commitments and characteristics required to enable liability and expense recognition in advance of signed formal TP agreement.
Current status/next steps:	OPCD engaging with OAG to discuss experience and lessons learned in advance of 2017 Budget Process. OPCD has communicated change and risk to financial community (CAOs, Financial Directors).
Options under consideration:	Developing advice to ministries to mitigate risk: 1. Signed TP agreements in place by year-end 2. Flow funds by year-end Open discussion with OPCD and OAG to derive new guidance to be shared with Ministries.
Timing of expected resolution:	January 30, 2017
Province's ability to influence:	Province can work with OAG to understand views on year-end transfers and communicate guidance to Ministries. Discussions have commenced with OIAD to assess their ability to assist in Ministry reviews.
Role of other ministries:	MOECC, MEDG, others depending on year end transfers.

6. Changes to consolidation

Risk:	Low
Impact in 2016-17 (billions):	N/A
Multi-year impact:	Yes
Impact included in FES:	No
Description of issue:	AG recommendation that CASs. Individual universities under assessment. AG recommendation that BPS be consolidated in the statement of operations on a line-by-line basis. Currently balance sheet consolidation is line-by-line, but income statement is consolidated using one line.
Current status/next steps	Additional analysis required on impact if CASs were consolidated – ministry does not have processes in place to consolidate. No bottom line impact of line by line BPS consolidation, but revenues and expenses to change by amount of 3rd party revenue (impact on key performance indicators – interest/revenue dollar and expenses/person). Analysis of appropriate period to effect change under development.
Options under consideration:	Under consideration for the 2017 Budget and 2017-18 Public Accounts: - Consolidation of CASs - Consolidation of BPS sector (grossed up Rev/Exp) No options for individual universities or DAAs until further review completed. Change in funding model for universities (including student grant program) to be considered.
Timing of expected resolution:	January/February 2017
Province's ability to influence:	Provincial discretion as to whether to consolidate BPS as requested by the AG (presentation issue, no fiscal impact). Consolidation of individually controlled universities, CASs, DAAs which meet threshold tests required under PSAB (immaterial to SUDs, therefore no anticipated impact on audit opinion).
Role of other ministries:	MOF (OFA) to be involved to manage communications risks regarding consolidation MCSYS to provide details on CASs Sector Miniseries to provide details for Hospitals, school boards and colleges as well as Q&A input TBS Coms for Q&A (ALL) PEMD to provide details on DAAs.

7. Follow up audit – contaminated sites

Risk:	Med-High Changes to estimates will impact in year deficit (audit risk associated with computation), as well as results of AG VFM follow up audit which will to be reported in 2017 AG Annual Report. Financial management/accounting policy not complete – risk of inconsistencies across ministries.
Impact in 2016-17 (billions):	No specific properties identified
Multi-year impact:	Yes
Impact included in FES:	No
Description of issue:	Expecting follow-up by AG on audit of implementation of contaminated sites accounting standard. Any increases/decreases in liability will impact 2016/17 deficit directly.
Current status/next steps	Draft financial management/accounting policy under development – currently circulated for review by ministries. OPCD working with OIAD re: terms for reference for OIAD follow up (to be completed to provide assurance on year-end balances) OPCD communicating with OAG on planned review of contaminated sites.
Options under consideration:	Line and sector ministry readiness for AG review. OPCD policy guidance (format, timing, stakeholdering)
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Role of other ministries:	MOECC input and direction to ministries in line with OAG audit findings from 2015. CPD role in supporting ministry estimates of ongoing costs. All ministries with contaminated sites will need to ensure their current year estimates are complete.

8. Other GBE issues (H1 sale; unrealized gains/losses, H1 deferred tax and OEB decision)

Risk:	Med Despite low anticipated $ amount of adjustments, commentary by AG in Annual Report for Audit Findings Report for any unadjusted differences could have reputational risk and also inadvertently impact Hydro One. Impact on amounts reported in Trillium Trust and AG commentary thereon also at risk.
Impact in 2016-17 (billions):	TBD
Multi-year impact:	Yes
Impact included in FES:	Yes for some
Description of issue:	OPCD to engage with OAG on appropriate accounting and estimated errors (for SUDs). OEB Deliberations on benefit of Deferred Tax Asset (Province vs. Rate Payer)
Current status:	• Draft accounting for H1 sale (tranche 2) to be reviewed by external firm including related party sale to OPG (already provided). • Accounting for unrealized gains/losses to be discussed with OAG. • OEFC to provide update on risks associated with potential OEB decision on benefit of deferred tax asset.
Options under consideration:	• Determine accounting for unrealized gains/losses in year based on materiality of estimated amounts in 2016-17. • Pending decision of OEB, ensure deferred tax benefit appropriately reflected on Province's books and Trillium Trust account.
Timing of expected resolution:	February, 2017 (decisions on eliminations/adjustments to be reflected in Budget)
Province's ability to influence:	Depending on materiality, some adjustments will be at discretion of the government (vs. SUDS impact)
Role of other ministries:	Ministry of Energy and OFA. Involved in discussion as well as OPG.

Risks:

9. Reduced materiality by AG

Risk:	High Risk that accumulated errors will exceed lower materiality threshold requiring Province to adjust financial statements**.**
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Multi-year impact:	N/A
Impact included in FES:	N/A
Description of issue:	AG has communicated plans to reconsider (reduce) audit materiality in light of release of unaudited results for 2015/16, and path to balance. Reducing materiality would generally lead to increased audit testing and a lower threshold for reporting errors. A reduced materiality will also result in an overall lower threshold for accumulated errors.
Current status/next steps	OPCD communicating increased AG scrutiny to Ministries in updates to CAO Forum, FCC, FBMC. OPCD evaluating updated process for accumulating errors from Ministries vs. waiting for communication from AG.
Options under consideration:	N/A
Timing of expected resolution:	Materiality has historically be communicated by AG in Audit Planning Memo – draft expected in January 2017.
Province's ability to influence:	None
Role of other ministries:	All ministries will be subject to additional scrutiny.

10. Earlier Release of Public Accounts

Risk:	Medium
Impact in 2016-17 (billions):	N/A
Multi-year impact:	N/A
Impact included in FES:	N/A
Description of issue:	Potentially earlier release date (end of July/17)
Current status:	Assessment underway on key tasks/milestones to deliver by end of July
Options under consideration:	1. Deliver Annual Report and Volumes by end of July 2. Deliver Annual Report only by end of July, to be followed by Volumes in August/September. 3. Impact on Data visualization and open data 4. Process enhancements – in OPCD as well as OAG (needed to complete audit in time to support earlier release, especially in regards to tax estimation.)
Timing of expected resolution:	Mid-January 2017
Province's ability to influence:	Province determines date of release subject to legislative requirements and on AG's ability to complete her audit.
Role of other ministries:	All ministries will be impacted by an earlier release date.

11. Implementation of Hyperion Financial Management

Risk:	Medium Audit risks to be minimized by relying on legacy systems for 2016/17 Public Accounts. Resource requirements of APFR staff will be high during planned parallel run in addition to earlier planned release for the Public Accounts. Unanticipated audit issues as experienced in 2016 will cause further stress on resources required for the parallel run as well as Public Accounts related processes.
Impact in 2016-17 (billions):	N/A
Multi-year impact:	N/A
Impact included in FES:	N/A
Description of issue:	Implementation of Corporate Hyperion Information Reporting Portal in parallel with early release of Public Accounts.
Current status:	CHIRP related considerations integral to discussions on early release date.
Options under consideration:	N/A
Timing of expected resolution:	N/A
Province's ability to influence:	N/A
Role of other ministries:	OAG to audit controls during 2016/17 public accounts audit. Line and sector ministries to learn how to bet use new system.

12. Implementation of New Standards

Risk:	Medium/Low No fiscal impact associated with new standards; however, various stakeholders will have to be involved to ensure completeness and integrity of information required for disclosure. Process will be subject to review by the OAG.
Impact in 2016-17 (billions):	N/A
Multi-year impact:	N/A
Impact included in FES:	N/A
Description of issue:	New standards on related parties and contractual rights to be implemented in 2017/18 requiring planning to ensure that appropriate data available for disclosure.
Current status:	OPCD engagement with OAG on-going to ensure key questions discussed and implementation guidance robust.
Options under consideration:	N/A
Timing of expected resolution:	February, 2017
Province's ability to influence:	Unique to each Province, depending on relative interpretations of PSAB.
Role of other ministries:	TBS – OIAD LSB – restrictions on disclosure for RPT and contractual rights.

From:	Ken Kandeepan
To:	John Psinas
Subject:	Fwd: Draft MMP Deck
Date:	Thursday, October 20, 2016 8:18:42 AM
Attachments:	MMP_FES_Outlook_v4.pptx ATT00001.htm MMP_FES_Outlook_APPENDIX_v2pptx.pptx ATT00002.htm

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FYI and once you get in can you pls run a net debt to GDP scenario that assumes the deficit for 17-18 and 18-18 is exactly equal to the pension adjustment for those two years. I believe option 3 in the attached presentation provides that scenario.

Thanks

Ken k

Begin forwarded message:

From: "Gadi Mayman" <Gadi.Mayman@ofina.on.ca>
To: "Ken Kandeepan" <Ken.Kandeepan@ofina.on.ca>
Cc: "Christina Zhang" <Christina.Zhang@ofina.on.ca>
Subject: Fw: Draft MMP Deck

From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
Sent: Wednesday, October 19, 2016 7:15 PM
To: Scott Thompson (CAB); Helen Angus (MOHLTC); Karen Hughes (MGS); Maria Duran-Schneider (MOF); Brian Lewis (MOL); Gadi Mayman; Sriram Subrahmanyan (MOF)
Cc: David McLean (MOF); Kyle MacIntyre (MOF); Christopher Pearce (MOI); Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Ronald Jaikaran (MOF); Tara McGrath (MOF); Emma Lindquist (MOF); Selena Esmail (MOF); Jenarra DeSouza (MEDTE/MRI); Ghufran Tarin (MOF)
Subject: Draft MMP Deck

Hello;

Please find attached a potential draft deck that attempts to reflect the direction coming out of FPC today to support an MMP discussion on Monday on the fiscal strategy for FES.

Also find attached an appendix deck that could accompany the main strategy deck to further explain some of the details in the strategy deck. Please note that these decks include information on confidential measures under consideration and distribution should be restricted.

There is a post-FPC meeting regroup scheduled for Thursday at which this deck will be discussed.

Thanks for everyone's participation in developing these options over the past few weeks.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



MMP: 2016 Fall Economic Statement Fiscal Outlook

Draft – October 19, 2016 7:00 PM

Purpose

To review the proposed fiscal outlook for the 2016 Fall Economic Statement (FES) and consider options for addressing fiscal pressures.

This presentation includes:

1. Recap of the current fiscal challenge
2. Update on recent developments with fiscal implications
3. Proposed approach to the fiscal outlook for the 2016 Fall Economic Statement
4. Path to the 2017 Document
5. Other FES Narrative and Storyboard Opportunities

Context and Proposed FES Objectives

The FES provides a mid-year update on the government's economic and fiscal outlook, while the Budget is generally used as an opportunity for a more substantive update (e.g., new priorities/programs, change to fiscal architecture).

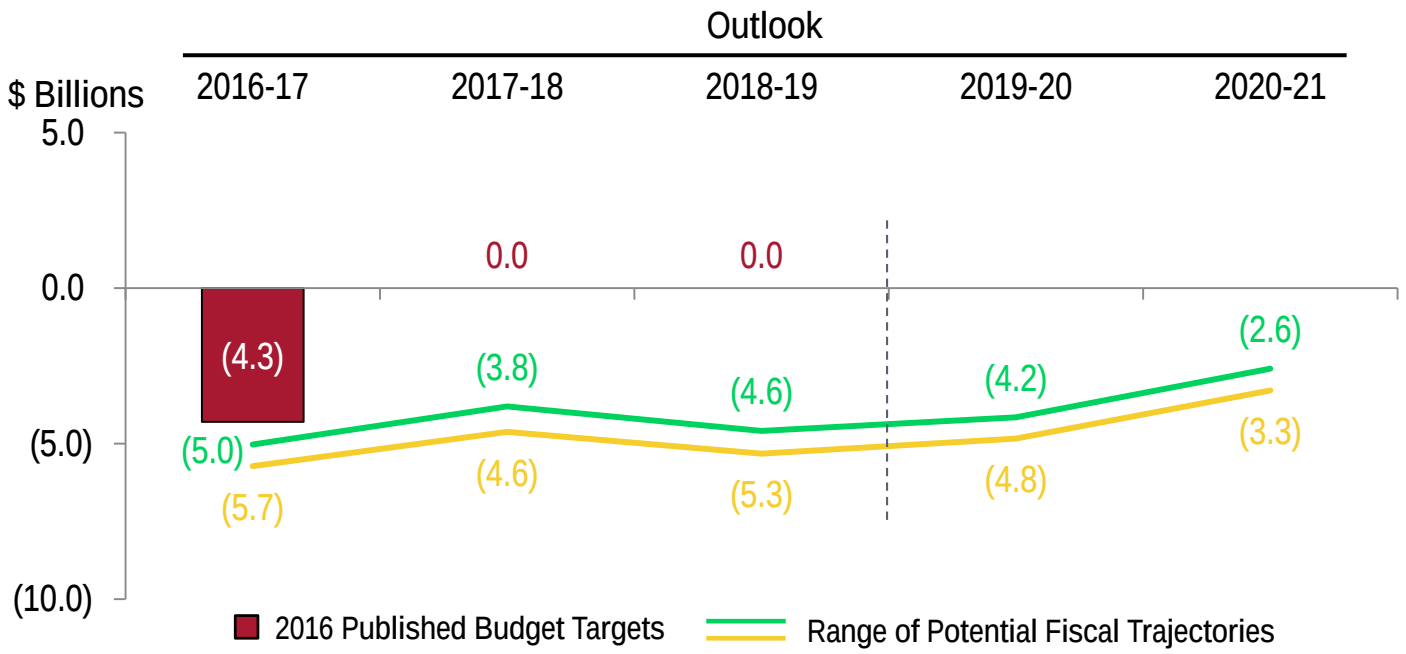
For the 2016 FES, the government will need to update on the latest economic/fiscal information and progress since the 2016 Budget, but it also has a decision to make regarding addressing the change in pension asset accounting from the 2015-16 Public Accounts.

What fiscal objectives should the 2016 FES seek to accomplish?

1. Demonstrate that the government is **on track to achieve its existing fiscal targets**, while making investments that will help Ontarians in their everyday lives and accommodating the change in pension asset accounting.
    - Link investments to sharing the benefits of Ontario's economic growth and responsible fiscal management, and making **progress on Speech from the Throne commitments**.
    - Present consistent approach to **taking on 2015-16 change in pension asset accounting for out-years** – to align with the Auditor General's recommendation.
2. Position fiscal update and narrative such that it supports a **credible plan to balance** – i.e, not dependent upon a specific conclusion from the independent panel.
3. Ensure there is **flexibility created for the government to potentially revise its fiscal plan in the 2017 Document based on investing** to protect economic growth and jobs and support families (rather than as a result of the change in pension accounting).

Recap of the Fiscal Challenge

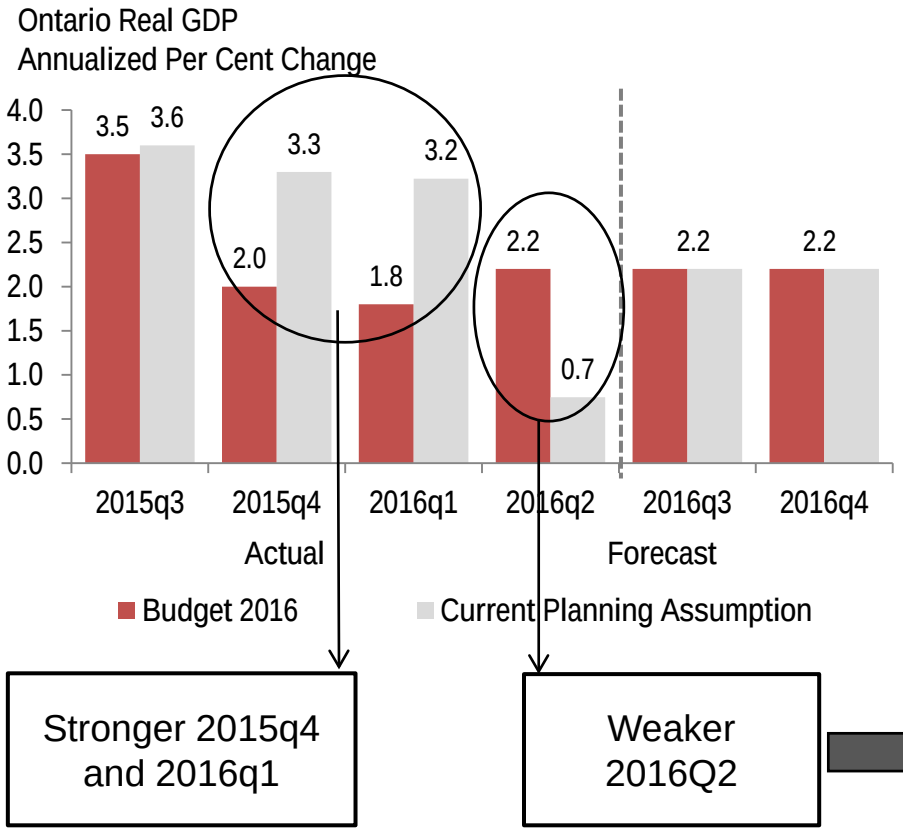
- In September, the assessment of available revenue and expense information, risks and pressures indicated a potential range of fiscal trajectories, **generating a gap relative to the 2016 Budget fiscal targets in each of 2016-17, 2017-18 and 2018-19**.

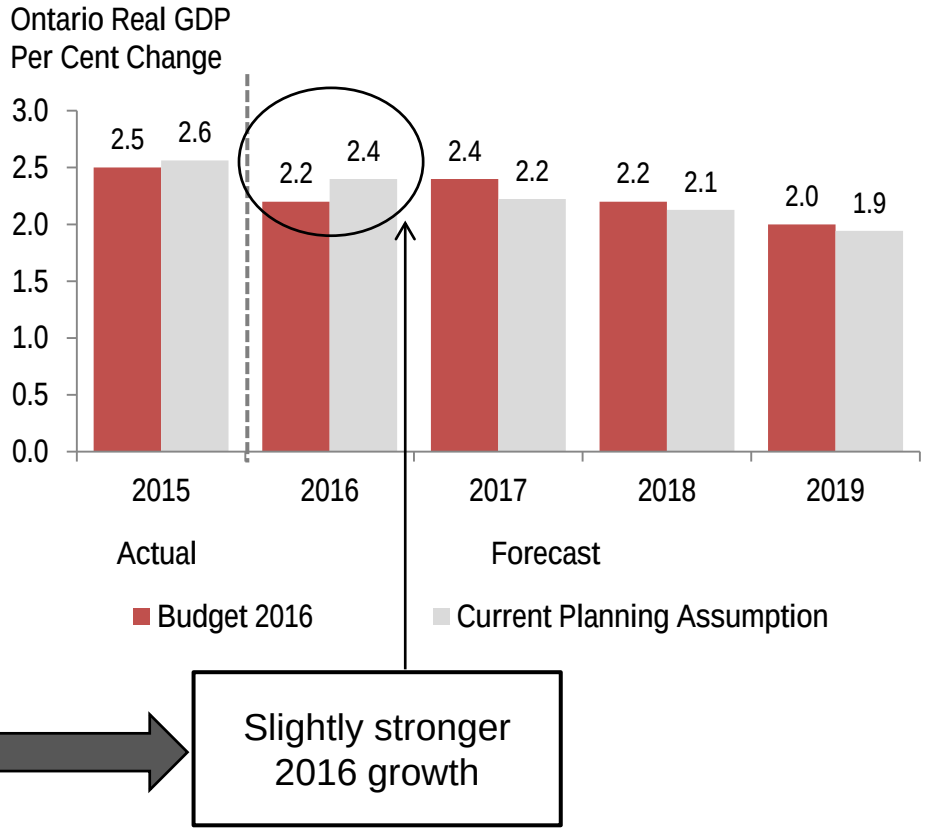


- These trajectories were informed by **higher than anticipated revenue** in each year than projected in the 2016 Budget, as well as flexibility from **lower interest on debt** expense – offset by **higher than anticipated program expense**.

Recent Developments: Ontario Real GDP Outlook has Shifted

- Since the 2016 Budget, real GDP growth has increased in 2015 and 2016, and decreased in 2017 to 2019.
- Softer 2017-19 growth reflects lower U.S. growth and Brexit





Stronger 2015q4 and 2016q1

Weaker 2016Q2

Slightly stronger 2016 growth

Recent Developments: Change in Pension Asset Accounting

- The 2015-16 Public Accounts reported results based on a time-limited legislated change to pension asset accounting. The change resulted in a revised final actual deficit for 2015-16 – from $3.5 billion to $5.0 billion.
- For 2016-17 and the out-years, there is a need to consider options for addressing the potential impact of the change in pension asset accounting in the FES fiscal outlook.
- The forecast of the potential fiscal impact presented below is based on an actuarial assessment at the end of January 2016. It is subject to change based on economic and demographic factors, other new information, and potential changes to future agreements with plan sponsors (including on how the pension surpluses can be used).

Preliminary Estimate of Potential Impact on Fiscal Plan of Change in Pension Asset Accounting Treatment ($ Millions)

		Actual	Plan	Medium Term Outlook	
		2015-16	2016-17	2017-18	2018-19
A	Forecasted as part of 2016 Budget				
	Teachers' Pension Plan Expense/(Surplus)	110	(452)	(820)	(1,110)
	Other Pension Plans*	1,114	953	818	792
C=B-A	Potential Pressure on Fiscal Plan				
	Teachers' Pension Plan Expense	*1,480*	*2,123*	*2,559*	*2,910*
	*Other Pension Plans**	*34*	*116*	*217*	*833*
	Total Potential Pressure on the Fiscal Plan	*1,514*	*2,240*	*2,775*	*3,744*
B	Revised Forecast with Change in Pension Assets Treatment				
	Teachers' Pension Plan Expense	1,590	1,671	1,739	1,800
	Other Pension Plans*	1,148	1,069	1,035	1,625

* Includes OPSEU Pension Plan Expense, Health Care of Ontario Pension Plan (HOOPP), and Colleges of Applied Arts and Technology Pension Plan (CAATPP)
Note: CAATPP and HOOPP is forecasted to reach the asset position by 2016-17 and 2017-18 based on the respected expected long-term investment return of the plans. However, if actual investment return performance is better than the long-term expected return, these plans may reach asset position earlier.

Proposed Approach to the Fiscal Outlook for 2016 FES

Since the 2016 Budget, new information has been received and new spending commitments and approvals have been made that need to be considered for the FES fiscal outlook.

However, it is important to note that the **potential FES fiscal outlook only addresses immediate reporting requirements and does not address the overall fiscal gap** the government is facing or account for potential information updates to come.

The following **principles** inform the current FES fiscal outlook.

Items to Include	Items Deferred to Document/PRRT
✓ The impact on revenue of a stronger 2015 housing market, the latest 2014 and 2015 tax assessment information, new federal agreements and slower nominal GDP growth, in part reflecting the Q2 Economic Accounts.	× Updates to overall asset optimization strategy.
✓ All minuted TB/MBC expense approvals for 2016-17 up to early October, (e.g., Hospital Pressures Funding), including contingency fund offsets.	× Variability in the revenue outlook that will remain until the receipt of key information in December and January.
✓ The multi-year impact of spending approvals related to new federal agreements and government decisions with associated legislative changes (e.g., Electricity Price Mitigation).	× The out-year impact of in-year TB/MBC expense approvals, as government direction is for funding to be managed or considered through the PRRT and 2017 Document processes (e.g., First Nations Health Action Plan, Autism and School Board Renewal Funding).
✓ Interest on debt savings in 2016–17, 2017–18, and 2018–19.	× The impact of new policy initiatives that do not have policy or financial approvals and are under consideration, such as Project Momentum – Auto Sector Investments, and additional health funding (e.g., Revised Drug Strategy).

2016 Budget to Potential FES Outlook

Based on the principles in the previous slide, as well as new tools to achieve the government's fiscal targets, the potential fiscal outlook produces a deficit of $4.1 billion in 2016-17, a slight improvement relative to the 2016 Budget target, and balance in 2017-18 and 2018-19, consistent with the 2016 Budget targets.

2016 Budget Fiscal Plan $ Billions	16-17	17-18	18-19	Change 16-17	Change 17-18	Change 18-19	FES Outlook 16-17	FES Outlook 17-18	FES Outlook 18-19
Revenue	130.6	137.7	141.9	*1.2*	*0.6*	*0.6*	131.8	138.4	142.5
Expense									
Programs	120.9	122.4	124.1	–	–	–	120.9	122.4	124.1
In-Year Approvals	–	–	–	*0.3*	–	–	0.3	–	–
Child Care Expansion	–	–	–	–	–	–	–	–	–
Hospital Pressures Funding	–	–	–	*0.1*	–	–	0.1	–	–
Green Investment Fund	–	–	–	*0.3*	–	–	0.3	–	–
Electricity Price Mitigation*	–	–	–	*0.3*	*0.9*	*0.9*	0.3	0.9	0.9
Investment in Affordable Housing	–	–	–	*0.1*	–	–	0.1	–	–
PSE Strategic Investment Fund	–	–	–	*0.2*	*0.3*	*0.1*	0.2	0.3	0.1
Clean Water/Wastewater Fund	–	–	–	*0.1*	*0.3*	*0.1*	0.1	0.3	0.1
Contingency Fund	1.2	1.7	3.5	*(0.3)*	*(0.3)*	–	0.9	1.4	3.5
Total Programs	122.1	124.2	127.6	*1.2*	*1.3*	*1.2*	123.3	125.4	128.7
Interest on Debt	11.8	12.5	13.1	*(0.2)*	*(0.6)*	*(0.5)*	11.6	11.8	12.6
Total Expense	133.9	136.6	140.7	*1.0*	*0.6*	*0.6*	134.9	137.3	141.3
Reserve	1.0	1.1	1.2	–	–	–	1.0	1.1	1.2
Surplus/(Deficit)	(4.3)	0.0	0.0	*0.2*	*(0.0)*	*(0.0)*	(4.1)	0.0	0.0
Net Debt-to-GDP (%)	39.8	39.2	38.8				39.7	39.2	38.8

Revenue:

- Improved revenue outlook from higher 2015-16 tax revenue base and 2016 strong housing market

Program Expense:

- In-year approvals with contingency fund offsets
- Key throne speech commitments
- Green Investment Fund
- Expense approvals associated with new federal agreements

Interest on Debt:

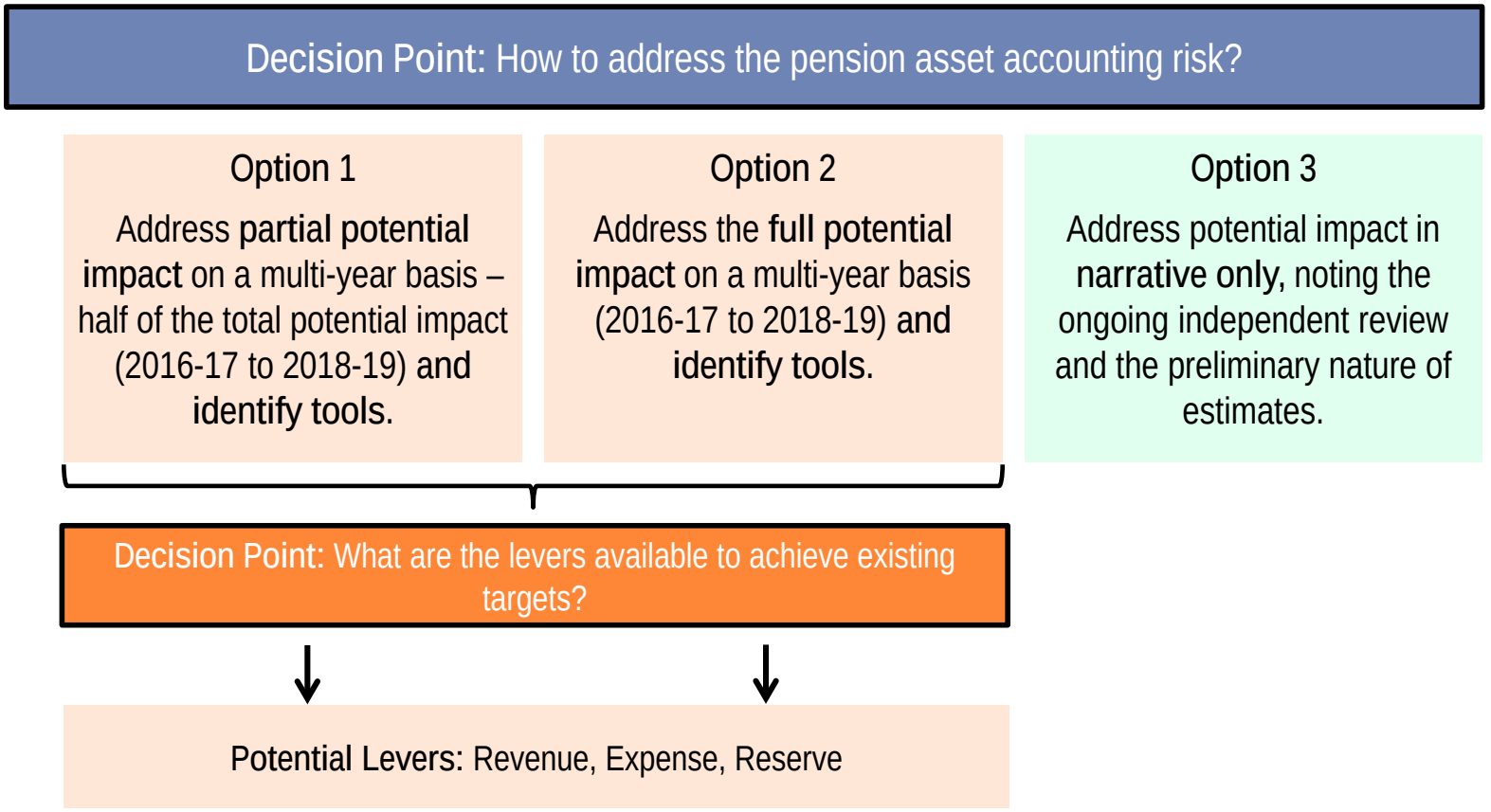
Savings in each year.

Potential FES Outlook

*Electricity Price Mitigation expense for 2017–18 and 2018–19 is net of Cap and Trade offsets of $60 million per year.

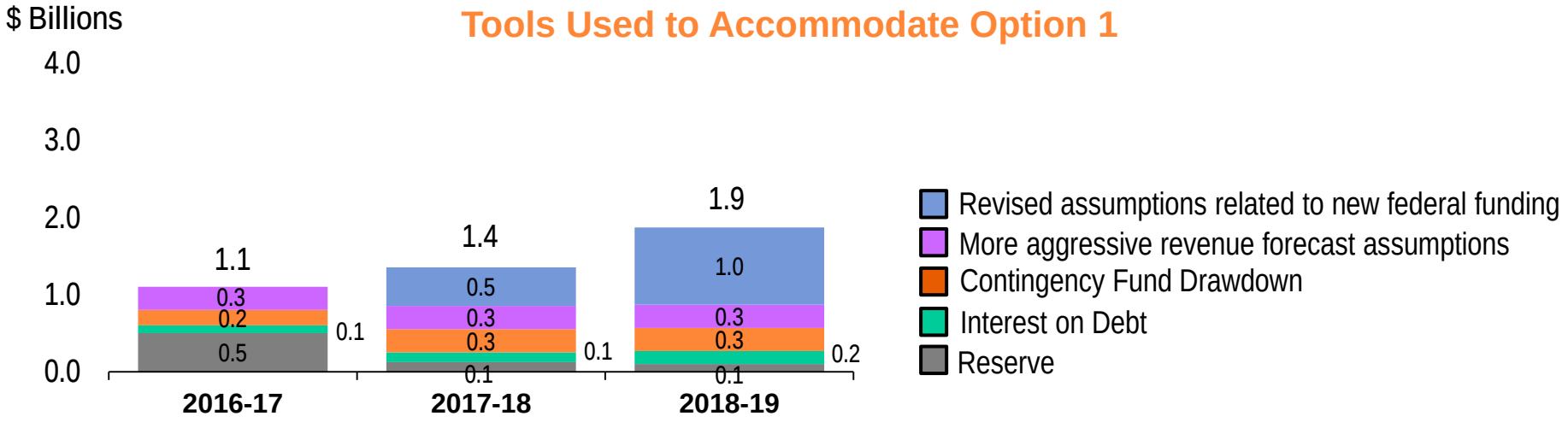
Key Decision Points: Addressing Pensions in FES

The government has a number of options to consider regarding how it could address the potential fiscal impact of the change in pension asset accounting in a multi-year fiscal update in the FES.



Option 1: Tools Accommodate a Partial Impact

This option would incorporate a partial impact by taking on half of the potential fiscal impact of the pension asset accounting change (i.e., $1.1 billion in 2016-17, $1.4 billion in 2017-18 and $1.9 billion in 2018-19). Tools would be used to maintain the 2016 Budget targets.



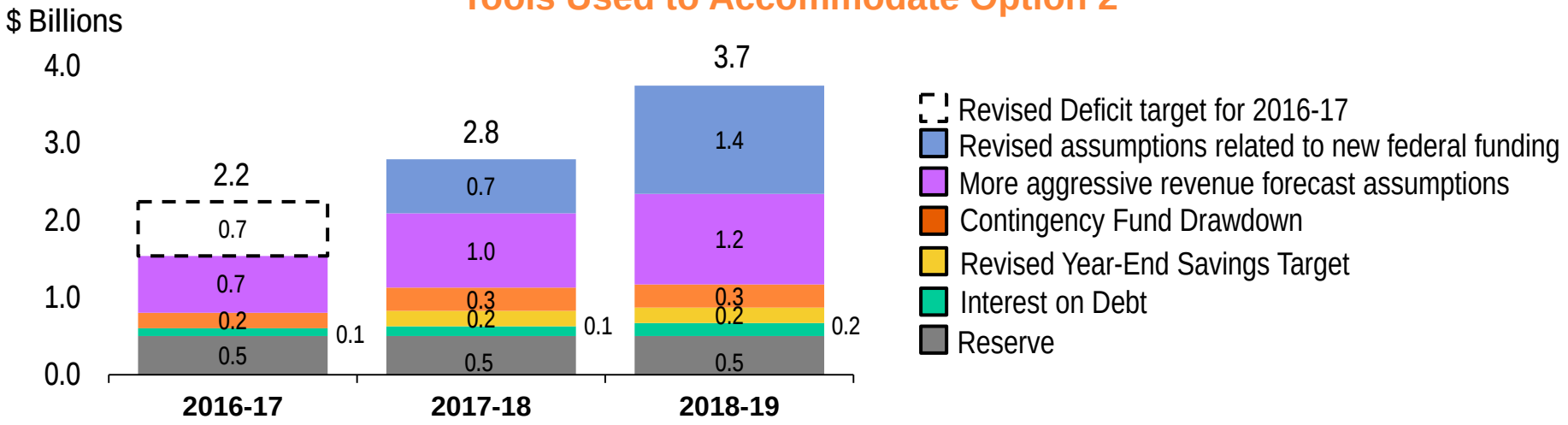
$ Billions	Actual 2015-16	Plan 2016-17	Outlook 2017-18	2018-19
Revenue	128.4	132.1	139.2	143.8
Expense				
Programs	122.4	123.2	125.0	126.3
Pensions Adjustment	–	1.1	1.4	1.9
Contingency Fund	–	0.7	1.1	3.2
Year-end Savings Target	–	(0.8)	(1.0)	(1.0)
Interest on Debt	11.0	11.5	11.7	12.4
Total Expense	133.4	135.7	138.2	142.7
Surplus/(Deficit) before Reserve	(5.0)	(3.6)	0.9	1.1
Reserve	–	0.5	1.0	1.1
Surplus/(Deficit)	(5.0)	(4.1)	0.0	0.0

FES narrative: *The government is projecting an improvement on its deficit target to $4.1 billion in 2016-17 and balance in 2017-18 and 2018-19. This includes accommodating a preliminary estimated potential change in pension asset accounting while at the same time helping to grow the economy, create jobs, and ensure the sustainability of programs and services that help Ontarians in their everyday lives.*

Option 2: Tools Accommodate the Full Potential Pension Asset Accounting Change

This option would incorporate the full potential fiscal impact of the pension asset accounting change. However, an aggressive set of tools would be needed to maintain balance in 2017-18 and 2018-19.

Tools Used to Accommodate Option 2



$ Billions	Actual 2015-16	Plan 2016-17	Outlook 2017-18	Outlook 2018-19
Revenue	128.4	132.6	140.0	145.1
Expense				
Programs	122.4	123.2	125.0	126.3
Pensions Adjustment	–	2.2	2.8	3.7
Contingency Fund	–	0.7	1.1	3.2
Year-end Savings Target	–	(0.8)	(1.2)	(1.2)
Interest on Debt	11.0	11.5	11.7	12.4
Total Expense	133.4	136.9	139.4	144.4
Surplus/(Deficit) before Reserve	(5.0)	(4.3)	0.6	0.7
Reserve	–	0.5	0.6	0.7
Surplus/(Deficit)	(5.0)	(4.8)	0.0	0.0

FES narrative: *The government continues to project a deficit of $4.3 billion in 2016-17, excluding the reserve, and balance in 2017-18 and 2018-19. This includes accommodating the current estimate of the change in pension asset accounting while at the same time helping to grow the economy, create jobs, and ensure the sustainability of programs and services that help Ontarians in their everyday lives.*

Option 3: Narrative Explanation of Potential Impact

- Alternatively, the FES could show the 2015-16 results based on the time-limited legislated accounting for pension assets while showing the 2016-17 to 2018-19 outlook based on the 2016 Budget approach to accounting for pension assets.
- The potential impact of the pension asset accounting change could be addressed in the fiscal narrative, and could potentially be supported by a below the line illustration of the potential impact.

Potential FES Outlook
($ Billions)

	Actual 2015-16	Plan 2016-17	Outlook 2017-18	Outlook 2018-19
Revenue	128.4	131.8	138.4	142.5
Expense				
Programs	122.4	123.3	125.4	128.7
Interest on Debt	11.0	11.6	11.8	12.6
Total Expense	133.4	134.9	137.3	141.3
Surplus/(Deficit) Before Reserve	(5.0)	(3.1)	1.1	1.2
Reserve	–	1.0	1.1	1.2
Surplus/(Deficit)	(5.0)	(4.1)	0.0	0.0
Estimate of Potential Net Impact of Pension Assets Change on Medium-Term Fiscal Outlook	–	(2.2)	(2.8)	(3.7)

Potential narrative:

The Province is currently undertaking an independent review of the application of PSAB's pension accounting standards to Ontario's jointly sponsored pension plans. Based on the legislated accounting treatment for pension assets for the 2015-16 Public Accounts, the government's projected deficit could be higher by $2.2 billion in 2016-17, $2.8 billion in 2017-18 and $3.7 billion in 2018-19. These are preliminary estimates and are subject to change.

Potential FES Fiscal Outlook Narrative

While the potential FES fiscal outlook requires choices to be made and tools to be taken on, the government will be able to communicate the following messages as part of FES:

- ✓ The government is projecting a deficit of [$4.1 billion] in 2016-17, an improvement compared with the 2016 Budget target, and a return to balance in 2017-18 and continued balance in 2018-19.
- ✓ The government's fiscal plan remains on track even if the estimated impact of the change in pension accounting treatment materializes.
- ✓ The government is also achieving its fiscal objectives while sharing the benefits of Ontario's economic growth and its responsible approach to fiscal management by investing in things that matter most and that help Ontarians in their everyday lives.
  - ✓ This includes electricity cost relief to Ontario consumers, investments in hospitals, and taking early action to increase the number of child care spaces.
- ✓ As part of its planning for the 2017 Document, the government will consider other tools and measures to ensure it can continue to support the Ontario economy and invest in priority areas in a fiscally sustainable way.
- ✓ A higher 2015-16 tax revenue base and strong 2016 housing market offset the impact of slower 2016 and 2017 economic growth.

Key FES Decisions

Key Decisions

1. How to address the potential fiscal impact of the change in pension asset accounting and maintain the current path to balance in the FES.

   - How much of the potential fiscal impact to take on in the out-years.

   - What tools to take on to accommodate the potential fiscal impact of the change in pension asset accounting.

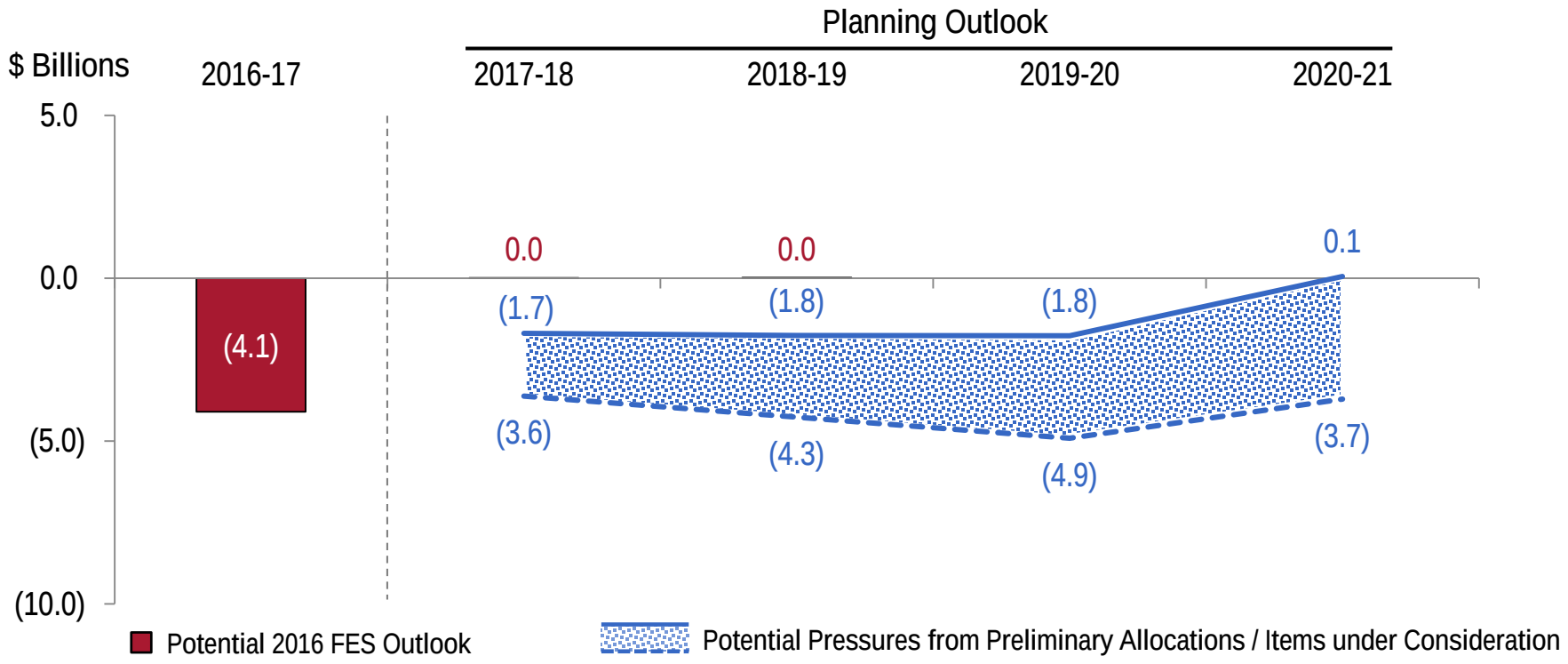
   - How to present\report the pension asset accounting change.

2. How to position the FES narrative to highlight the government's investments in key areas over the fiscal impact of the pension accounting change.

3. How to foreshadow in FES that the government will consider other tools or only change its fiscal plan and path to balance in order to fund investments to support the economy and protect public services?

Looking Ahead: 2017 Document Fiscal Challenge

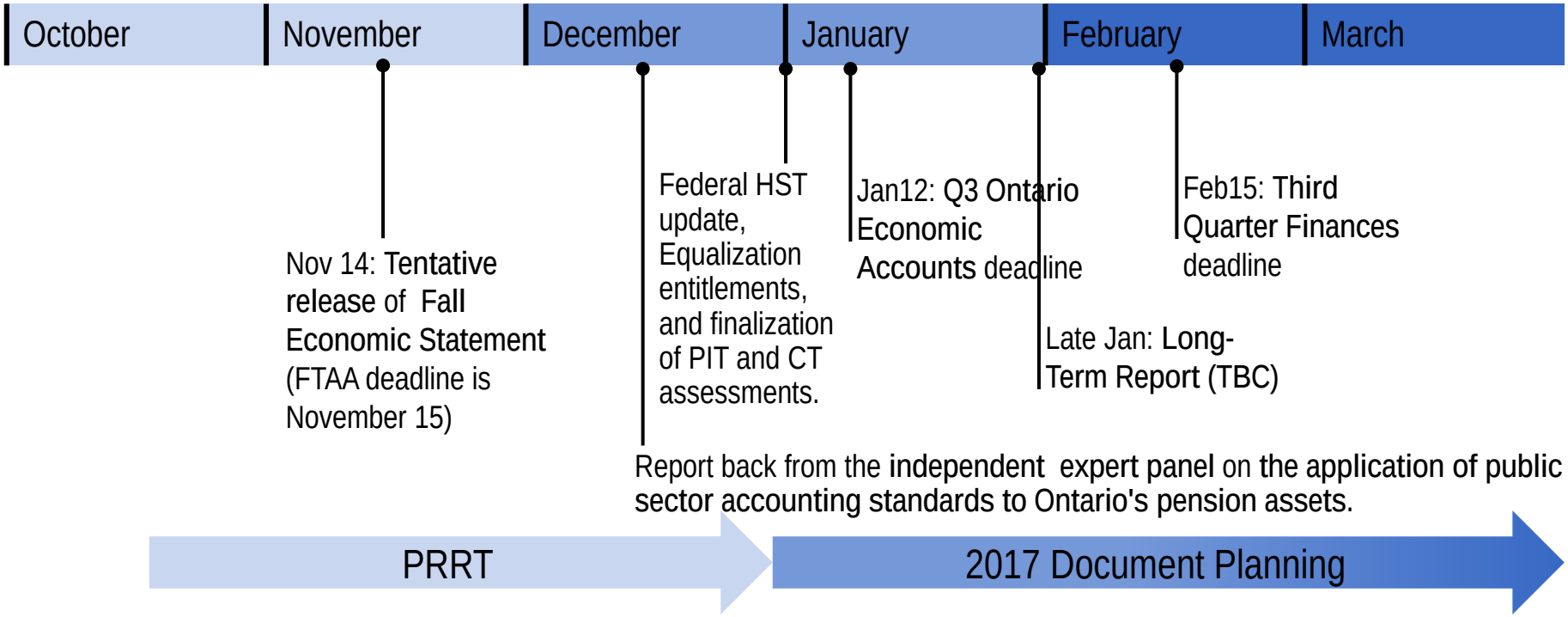
- While the **FES fiscal outlook would address immediate reporting requirements and show that the government could achieve its targets even while accommodating the pension asset accounting change, i**t does not address the potential fiscal impact of other known pressures and additional investments the government may want to make as part of the 2017 Document.
  - The impact of the preliminary allocations, without any tools to offset their impact, would result in deficits of $1.7 billion in 2017-18 and $1.8 billion in 2018-19, compared with the potential FES fiscal outlook.
  - This gap widens to $3.6 billion in 2017-18 and $4.3 billion in 2018-19 once items that are notionally under consideration for the PRRT and Document process are taken into account (e.g., SA rate increases, child care expansion, BGI, and Project Momentum).
- **To maintain existing fiscal targets in the 2017 Document, additional tools would need to be identified** to fund these investments and address risks -- or the government could reconsider its overall fiscal plan and architecture as part of the Document.



Information Still to Come

There is still important information yet to be received and decisions that could potentially significantly impact the government's fiscal strategy for the 2017 Document.

As more information becomes available, it will help to solidify the outlook for 2016-17 and inform planning and assumptions for the out-years.



Ongoing Assessments and Updates (Revenue):

- Monthly updates to personal and corporate income tax and income from Government Business Enterprises
- Federal-Provincial negotiations related to federal transfers
- Progress on the government's asset optimization strategy

Ongoing Assessments and Updates (Expense):

- In-year TB/MBC expense approvals
- Ability to meet year-end savings targets
- Updates on compensation negotiations and alignment with set asides
- Interest on debt forecast updates

The government continues to implement its plan to create jobs and grow the economy and remains committed to balance the budget in 2017-18 and beyond. The government will continue to build Ontario up in a way that helps Ontarians in their everyday lives.

	OVERARCHING NARRATIVE	PROGRESS SINCE 2016 BUDGET	SIGNATURE INITIATIVES / HIGHLIGHTS
Fostering a More Innovative and Dynamic Business Environment	The government's number one priority is to grow the economy and create jobs. To achieve this goal, it has created an attractive business climate where companies can thrive and create jobs for Ontarians.	▪ Ontario Trade Strategy ▪ Strategic Partnerships (JPF, EODF, SWODF, NOHFC, AEDF, RED) ▪ Sharing Economy (AirBnB Pilot Project, Home Sharing Working Group) ▪ Financial Technology ▪ Strengthening Consumer and Investor Protection ▪ CCMR, FSCO/FST/DICO Mandate Review, Syndicated Mortgages ▪ Low-Carbon Economy (CCAP, Green Investment Fund)	▪ Business Growth Initiatives (Ontario Investment Office, Scale-Up Voucher Program, Small Business Innovation Research Pilot, College Applied Research Fund, Enhancing the mandate of the Ontario Capital Growth Corp., Red Tape Challenge, Procurement Strategy for Small Business) ▪ Electricity Price Relief for Businesses (Ending the DRC, Expanding ICI, HST Electricity Rebate for small businesses)
Building Tomorrow's Infrastructure Now and Asset Optimization	The government continues to move ahead with its plan to make the largest public infrastructure investment in the province's history, focusing on priorities such as roads, transit and modern infrastructure. These investments help Ontarians in their everyday lives by creating jobs, reducing commute times, and enhancing the services they rely on.	▪ Progress on the 12 year, $160B capital plan ▪ Transit and transportation updates ▪ Other Infrastructure Investments (Education, Child care, Health, PSE, Community) ▪ Energy Infrastructure (LRP, FIT, 2017 LTEP) ▪ Asset Optimization Update (H1, Trillium Trust, LCBO)	▪ School renewal funding ▪ Child care space enhancement

Investing in People's Talents & Skills	Preparing Ontarians of all ages for success in the workforce is critical to Ontario's growth and competitiveness. The Province is helping Ontarians by making investments in education and training today to prepare workers for the economy of the future. These investments will ensure Ontario retains a complete advantage of having a workforce with the skills employers want and need.	▪ Preschool, Primary and Secondary Education
		  ▪ Child care and early years strategy for indigenous communities
		▪ Ontario Bridge Training Program
		▪ Highly Skilled Workforce Strategy
		  ▪ Planning and Partnership Table
		  ▪ Workforce Planning and Development Office
			▪ Child care space enhancement and fee changes
			▪ Renewed Math Strategy
			▪ Ontario Student Grant update
			▪ School renewal funding
			▪ SkillsAdvance Ontario Pilot Program

Strengthening Retirement Security	Ontario is continuing to modernize the retirement income system, helping to ensure that Ontarians have the tools and resources they need to lead healthy and meaningful lives at all stages of life. Ontario's strategy focuses on working with federal government and other provinces to enhance the Canada Pension Plan and strengthening and modernizing workplace pension plans.	▪ Wind-up of the ORPP ▪ Solvency Funding Review ▪ Target Benefit Multi-Employer Pension Plans ▪ Investment Management Corporation of Ontario	▪ CPP enhancement

Fair Society & Health care	All Ontarians should have the tools, resources and opportunity to realise their full potential at all of life's stages. This includes targeted action in areas such as income security, workplace fairness and job security, housing affordability, indigenous affairs, consumer protection and making everyday life more affordable for all Ontarians.
	
	Every person in our province deserves high-quality public health care. The government continues to transform the health care system, making a real difference in the lives of Ontarians and their families every day.
		▪ Income Security Reform Working Group
		▪ Basic Income Pilot
		▪ Greater Opportunity in the Workplace (Changing Workplaces Review, Gender Wage Gap Strategy)
		▪ Protecting Consumers (Auto Insurance, Pay Day Loans, Door-to-Door Sales)
		▪ Long-Term Affordable Housing Strategy
		▪ Women's Economic Empowerment
		▪ Strategy to end human trafficking
		▪ First Nations Health Action Plan
		▪ Mental Health and Addictions Strategy
		▪ LHIN Renewal
		▪ Alcohol Policy and Framework
		▪ Reducing wait times
		▪ Pain management and preventing opioid abuse
		▪ Medical Assistance in Dying
			▪ Housing Market Affordability and Stability
			  ▪ Housing market data collection
			  ▪ First-Time Home Buyer refund changes
			  ▪ Multi-residential property tax review.
			▪ Electricity Price Relief for Consumers
			  ▪ HST Electricity Rebate
			  ▪ Enhanced Rural or Remote Electricity Rate Protection Program
			▪ Autism Services
			▪ Hospital Funding
			▪ Primary Care

	OVERARCHING NARRATIVE	COLLABORATIVE ACTION IN THE FEDERATION
Together Towards a Stronger Ontario and Stronger Canada	Through a collaborative approach to federalism, Ontario and the federal government are achieving meaningful solutions and delivering real benefits to people in their everyday lives. While this new partnership has already produced positive results, there continues to be a need for a federal partner to take principled action in critical areas such as health care and infrastructure.	▪ Infrastructure (clean water and wastewater, public transit, and Phase II funding) ▪ Healthcare funding (CHT) ▪ Climate change ▪ Labour Market (skills/training, employment insurance reform) ▪ Need to modernize equalization ▪ Provincial – Municipal Partnerships ▪ Working with Indigenous Partners (Truth and Reconciliation, Community-Based Regulation, Gas Card Modernization, First Nations Health Action Plan, Electrification of Northern Communities, Aboriginal Loan Guarantee Program, Energy Partnerships Program) ▪ CPP Enhancement

A BALANCED PATH TO A BALANCED BUDGET

Responsible Fiscal Management

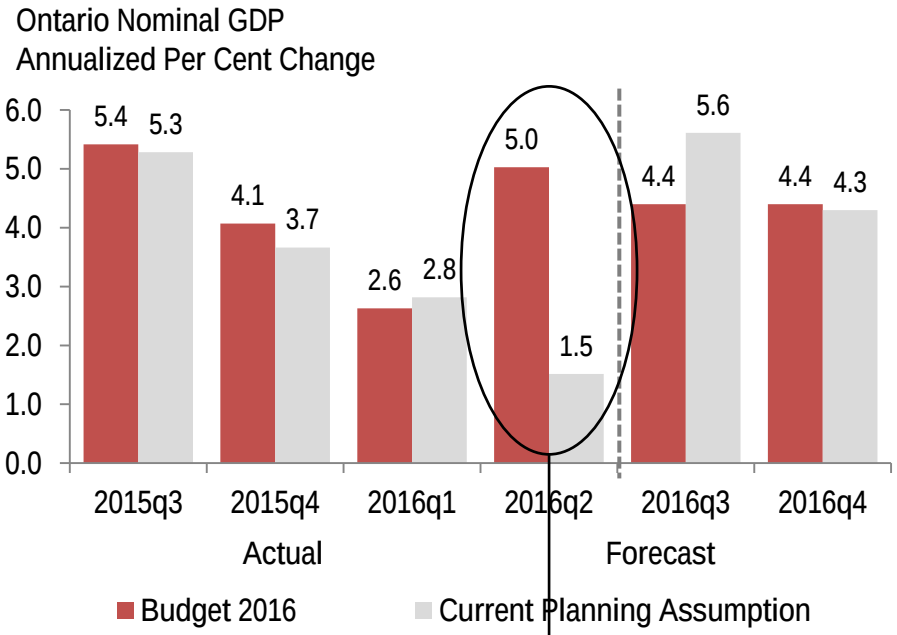
Transforming Government and Managing Costs		*Addressing the Underground Economy and Maintaining Tax Fairness*	*Fiscal Outlook, Economic Outlook, Borrowing and Debt Management, Tax Measures*
▪ Achieving Program Review savings targets ▪ PRRT success stories ▪ Bargaining outcomes	▪ Longer-term government transformation initiatives (e.g., student financial assistance reform, TPAM, Digital Government, tax expenditures etc.) ▪ Accountability and Transparency (Pensions reporting)	▪ UE measures ▪ Electronic Sales Suppression ▪ Contraband tobacco (inspections pilot project, Enforcement Team)	▪ Outlook for Ontario's Economic Growth ▪ Update to deficit targets ▪ Update to Net-debt-to-GDP & Accumulated Deficit ▪ Vacant Unit Rebate, PLT, business prop. tax capping, graduated property tax and municipal tax relief, LTT Modernization

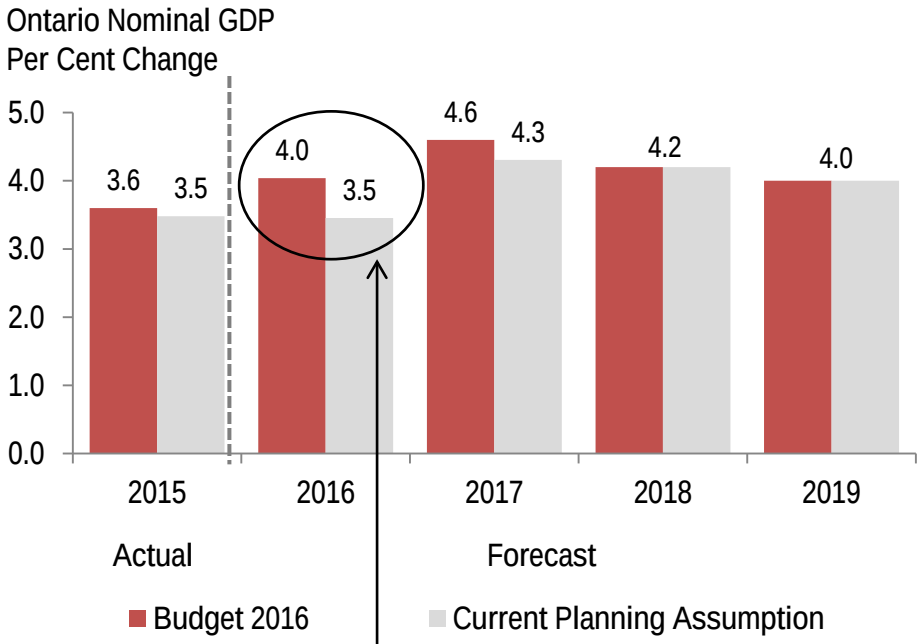
Confidential A

Appendix to MMP:
2016 Fall Economic Statement Fiscal Outlook

Draft – October 19, 2016 5:30 PM

Slower Nominal GDP Outlook





Significantly weaker Q2

Lower forecast for 2016

Since the 2016 Budget, nominal GDP growth is lower in 2015, 2016 and 2017.

Revenue Changes Since 2016 Budget

The revenue outlook update reflects:

- slower nominal GDP growth, in part reflecting the Q2 Economic Accounts
- the impact of a stronger 2015 housing market,
- the latest 2014 and 2015 tax assessment information, and
- new federal agreements

($ Billions)	2016-17	2017-18	2018-19
2016 Budget Revenue Outlook	130.6	137.7	141.9
Economic/Revenue Update			
Slower Nominal GDP Growth	(0.4)	(0.5)	(0.3)
Stronger Housing Resale Market	0.3	0.4	0.3
Subtotal:	(0.1)	(0.2)	0.0
Higher 2015-16 Tax Revenues	1.5	1.6	1.7
Federal Transfers*	(0.2)	(0.7)	(1.2)
Total Revenue Changes Since 2016 Budget	1.2	0.6	0.6
September 30 Revenue Outlook	131.8	138.4	142.5

Totals may not add up due to rounding

***Other Federal Transfers Update includes:**

- Removal of unconditional infrastructure funding assumption 2016-17 to 2018-19 and home care for 2016-17.
- New strategic investment funds (affordable housing, post-secondary education, clean water and wastewater)
- Equalization, CHT and CST updates

Key Revenue Drivers changed since Budget

Ontario Forecast Details
(Annual, % Change)

	2014	2015		2016		2017		2018		2019	
	Actual	Budget	Actual	Budget	FES	Budget	FES	Budget	FES	Budget	FES
Real Gross Domestic Product	2.7	2.5	2.6	2.2	2.5	2.4	2.2	2.2	2.1	2.0	1.9
Nominal Gross Domestic Product	4.1	3.6	3.5	4.0	3.5	4.6	4.3	4.2	4.2	4.0	4.0
Key Revenue Drivers											
Compensation of Employees	3.4	3.3	3.9	4.4	4.0	4.5	4.2	4.5	4.6	4.4	4.6
Net Operating Surplus - Corporations	12.7	2.1	0.9	3.7	1.3	8.5	7.5	5.7	6.3	3.9	4.5
Nominal Household Consumption	4.6	4.1	4.2	4.4	4.4	4.1	4.0	3.5	4.0	3.6	3.7
Home Resales	3.9	9.6	9.6	-2.9	6.9	-5.8	-2.0	2.0	0.9	3.8	2.7

Source: Ontario Budget 2016 and Ontario Ministry of Finance.

Slower income growth reduces Personal and Corporate Income Tax revenue outlook

Stronger housing market boosts Land Transfer Tax revenue outlook

2016 FES Program Expense Outlook

($ Millions)	2016-17	2017-18	2018-19
2016 Budget Program Expense	122,139	124,163	127,590
MCYS/MOHLTC: First Nations Health Action Plan	40	–	–
MCYS: Autism Reform	91	–	–
EDU: School Renewal Funding	38	–	–
MNRF: Emergency Forest Firefighting	65	–	–
MAA/MNRF: Chapleau Cree Stage 2B	0	–	–
MAA: Priority Initiatives for Indigenous Communities	2	–	–
MCSS: Child Support Payments Exemption	3	–	–
OMAFRA: Ontario Corn Fed Beef Market Development Strategy	3	–	–
MMAH: National Disaster Mitigation Program (federal flow-through)	1	–	–
CO: Anti-Racism Directorate – Request for Additional Resource	3	–	–
CO: International Disaster Relief Program - Ecuador	1	–	–
CO: Disaster Relief Funding – Fort McMurray Wildfire	1	–	–
MCSS: Provincial Anti Human Trafficking Coordination Office	1	–	–
MOF: ORPP AC Wind-Up	20	–	–
Total In-Year Approvals	269	–	–
Other Program Expense Changes			
MOHLTC: Hospital Pressures Funding	140	–	–
Various: Green Investment Fund	325	–	–
ENE: Electricity Mitigation	300	946	944
EDU: Child Care Expansion	–	–	–
MMAH: Investment in Affordable Housing	140	–	–
MAESD: Post-Secondary Education Strategic Investment Fund	198	264	66
MEDEI: Clean Water/Wastewater Fund	85	342	142
Contingency Fund	(268)	(281)	–
Total Program Expense Changes	1,189	1,270	1,153
2016 FES Program Expense FES Outlook	123,329	125,433	128,742

2016-17: Total In-Year Approvals of $269 million

Total expense approvals associated with federal infrastructure agreements

Potential Impact of Change in Pension Asset Accounting

- The 2015-16 Public Accounts reported results based on a time-limited legislated change to pension asset accounting. There is a need to consider options for addressing the potential impact of this change in the FES fiscal outlook.
- The forecast below, which is based on an actuarial assessment at the end of January 2016, is subject to change based on economic and demographic factors, other new information, and potential changes to future agreements with plan sponsors (including on how the pension surpluses can be used).

Preliminary Estimate of Potential Impact on Fiscal Plan of Change in Pension Asset Accounting Treatment ($ Millions)

		Actual	Plan	Medium Term Outlook	
		2015-16	2016-17	2017-18	2018-19
A	Forecasted as part of 2016 Budget				
	Teachers' Pension Plan Expense/ (Surplus)	110	(452)	(820)	(1,110)
	OPSEU Pension Plan Expense	177	135	98	89
	Healthcare of Ontario Pension Plan (HOOPP)	747	631	548	537
	Colleges of Applied Arts and Technology Pension Plan (CAATPP)	190	187	172	166
C=B-A	Potential Pressure on Fiscal Plan				
	Teachers' Pension Plan Expense	*1,480*	*2,123*	*2,559*	*2,910*
	OPSEU Pension Plan Expense	*34*	*94*	*136*	*152*
	Healthcare of Ontario Pension Plan (HOOPP)	-	-	*8*	*583*
	Colleges of Applied Arts and Technology Pension Plan (CAATPP)	-	*22*	*73*	*98*
	Total Potential Pressure on the Fiscal Plan	*1,514*	*2,240*	*2,775*	*3,744*
B	Revised Forecast if Change in Pension Assets Treatment				
	Teachers' Pension Plan Expense	1,590	1,671	1,739	1,800
	OPSEU Pension Plan Expense	211	229	234	241
	Healthcare of Ontario Pension Plan (HOOPP)	747	631	556	1,120
	Colleges of Applied Arts and Technology Pension Plan (CAATPP)	190	209	245	264

Note: CAATPP and HOOPP is forecasted to reach the asset position by 2016-17 and 2017-18 based on the respected expected long-term investment return of the plans. However, if actual investment return performance is better than the long-term expected return, these plans may reach asset position earlier.

Considerations Related to Addressing Pension Impact in FES

- Building in the full or a partial potential impact of the pension asset accounting change into the FES outlook **will require taking on additional tools** to help mitigate the impact on the government's fiscal targets. The greater the estimated impact built into the outlook, the more **aggressive the approach** to tools will be required.
- The government's expert panel is expected to provide its advice by December. As such, t**here is another opportunity to revisit, assess and further address the potential fiscal impact** through the 2017 Document process.
- However, between the 2017 Document and finalizing 2016-17 actual results, the Auditor General will provide her opinion on the treatment of pensions for the 2016-17 Public Accounts.
- The government would also need to consider whether to **carry forward the net debt impact** of the accounting change as part of the medium-term forecast for net debt-to-GDP in the FES.

Revenue Considerations	Expense Considerations
▪ Timing is a challenge to implementing new revenue tools with a 2016-17 impact. ▪ It is anticipated that **the Financial Accountability Office (FAO) may report a more cautious revenue forecast** based on the latest economic information. This would be in further contrast to a FES outlook with additional tools. ▪ Any new revenue **assumptions would need to be clearly articulated and explained** to ensure credibility with external observers and forecasters. ▪ There is a risk that **new revenue assumptions may not materialize** (similar to unconditional federal funding in 2016 Budget). ▪ Additional revenue tools to accommodate pensions limits flexibility for addressing the remaining fiscal challenge for the 2017 Document.	▪ Timing likewise presents a challenge to implementing expense tools in 2016-17. ▪ **Key sectors** such as health and social services have **reported significant pressures** to managing within their existing program expense envelopes. ▪ **Further drawdowns of the contingency fund would limit** the government's **flexibility** for compensation and all other expense risks. ▪ Additional tools may need to be explored as part of the 2017 Document process to manage program expense risks reported by ministries that are not addressed in the current FES outlook. ▪ Taking on additional interest on debt savings could mean that there are no additional savings to use as a tool during 2017 Document planning.

Considerations Related to Pension Impact Amount to Take On

1. **Use the amounts set out in the 2016 Budget**
   - Those amounts are consistent with the professional accounting staff's current interpretation of PSAS
   - Refer to the use of a time-limited regulation in the Public Accounts and that impact in the narrative, along with the expert panel review that is to be completed by the end of December

2. **Use the amounts forecast by OPCD using the Auditor General's interpretation**
   - Using those amounts signals a cautious approach, the same basis upon which the 2015-16 Public Accounts were presented
   - The Auditor General's approach results in a reversal of the valuation allowance when an agreement is reached with the co-sponsor re: a reduction in contributions; it would be difficult to assume there will be an agreement without one currently in place
   - Additional fiscal impact assuming NIL asset value: 2016-17 – $2.2 billion; 2017-18 – $2.8 billion; 2018-19 – $3.7 billion

3. **Use a partial impact, closer to the impact from 2015-16**
   - The $1.5 billion impact from 2015-16 is a calculated amount (not an estimate) – it is the amount of the change in the asset from the prior year
   - There is no evidence to support using that same amount for future years

Other Considerations: Presentation of Potential Fiscal Impact

In the options presented, the potential fiscal impact of the pension asset accounting change is included in projected program expense.

- Building the impact in program expense would help to smooth the program expense outlook across the 2015-16 actual result and the medium-term outlook.
- Alongside the use of tools, it would demonstrate that the government is still meeting its 2016 Budget targets.

Alternatively, the potential fiscal impact could be included as a below the line adjustment. This **would require showing a surplus/deficit above the line that takes into account sufficient fiscal effort** to accommodate the pension asset accounting change.

- While it would result in an inconsistent presentation of program expense between 2015-16 and the medium-term outlook, it would acknowledge that pension asset accounting change is an estimate and its impact in the out-years is still subject to change pending the ongoing independent review.

Presentation: Included in Program Expense

$ Billions	Actual 2015-16	Plan 2016-17	-Outlook- 2017-18	2018-19
Revenue	128.4	132.1	139.2	143.8
Expense				
Programs	122.4	124.2	126.5	130.3
Interest on Debt	11.0	11.5	11.7	12.4
Total Expense	**133.4**	**135.7**	**138.2**	**142.7**
Surplus/(Deficit) before Reserve	**(5.0)**	**(3.6)**	**0.9**	**1.1**
Reserve	-	0.5	1.0	1.1
Surplus/(Deficit)	**(5.0)**	**(4.1)**	**0.0**	**0.0**

Presentation: Included Below the Line

$ Billions	Actual 2015-16	Plan 2016-17	-Outlook- 2017-18	2018-19
Revenue	128.4	132.1	139.2	143.8
Expense				
Programs	122.4	123.1	125.1	128.4
Interest on Debt	11.0	11.5	11.7	12.4
Total Expense	**133.4**	**134.6**	**136.8**	**140.8**
Surplus/(Deficit) before Reserve	**(5.0)**	**(2.5)**	**2.3**	**3.0**
Reserve	-	0.5	1.0	1.1
Surplus/(Deficit)	**(5.0)**	**(3.0)**	**1.4**	**1.9**
Pension Asset Adjustments	**-**	**(1.1)**	**(1.4)**	**(1.9)**
Resulting Surplus/(Deficit)	**(5.0)**	**(4.1)**	**0.0**	**0.0**

Potential Tools

The following are potential tools available to maintain the 2016 Budget targets in FES and to address the broader fiscal challenge.

$ Billions	2016-17	2017-18	2018-19
FES Fiscal Outlook (Starting Point)	**(4.1)**	**0.0**	**0.0**
Potential Selection of Revenue Tools			
• More aggressive forecast assumptions	0.8	1.4	1.7
• Revised assumptions related to new federal funding	–	1.1	1.8
• Potential new revenue measures	0.3	1.0	1.1
	1.1	**3.5**	**4.6**
Potential Selection of Expense Tools			
• Further drawdown of the Contingency Fund: currently $0.9B in 16-17, $1.4B in 17-18, and $3.5B in 18-19.	0.2	0.3	0.3
• Increase year-end savings target: currently $0.8B in 16-17 and $1.0B in the out-years.	–	0.2	0.2
• Take on additional interest on debt savings.	0.1	0.1	0.2
	0.3	**0.6**	**0.7**
Reserve			
• Reduce the size of the Reserve: currently $1.0B in 16-17, $1.1B in 17-18 and $1.2B in 18-19.	**0.5**	**0.5**	**0.5**
Revise Deficit Forecast for 2016-17			
• Project a deficit of up to $4.8B in 16-17. Excluding a potential remaining reserve of $0.5B, this would result in a projected deficit of $4.3B, excluding the reserve – in line with the 2016 Budget fiscal target and an improvement on the $5.0B deficit in 2015-16.			
	0.7	**N/A**	**N/A**
Total Tools Available	**2.6**	**4.6**	**5.7**
Fiscal Impact of Pension Asset Accounting Change	**2.2**	**2.8**	**3.7**
Potential Pressures from Preliminary Allocations / Items Under Consideration		**1.7 to 3.6**	**1.8 to 4.3**

Details of Selection of Potential Revenue Levers

The following measures may be combined, but impacts are not necessarily additive.

$ Billions	2016-17	2017-18	2018-19
More Aggressive Forecast Assumptions			
Economic Growth Forecast – Eliminate the 0.1 percentage point difference between the planning assumption and average private sector forecasts	0.1	0.2	0.3
Corporate Income Tax Forecast – Assume stronger increases in the tax base arising from profit growth	0.1	0.4	0.6
Harmonized Sales Tax Forecast – Assume higher revenues related to past year revenue pools	0.2	0.2	0.2
Harmonized Sales Tax Forecast – Assume recovery of 2015 HST shortfall (-$700M) already built into 2016-17 (related delayed HST on condo housing)	–	0.3	0.3
Reduce HST Housing-related shortfall in 2016-17	0.1	–	–
Government Business Enterprises – More aggressive forecasts of income arising from Ontario Lottery and Gaming and the Liquor Control Board	0.2	0.2	0.2
Recoveries of Prior Years' Expenditures	0.1	0.1	0.1
Total of More Aggressive Forecast Assumptions	**0.8**	**1.4**	**1.7**
Assumptions Related to New Federal Funding			
Canada Health Transfer – Federal funding for the program increases by 6% after 2016-17	–	0.4	0.8
Equalization – Federal government provides protection or offsets for declining revenues after 2016-17	–	0.6	0.5
Infrastructure – Assume further future increases in federal funding	–	0.5	1.0
Total Assumptions Related to New Federal Funding (range based on either CHT or Equalization)	**–**	**0.9 to 1.1**	**1.5 to 1.8**
Potential Selected New Revenue Measures (needs legislation)			
Personal Income Tax Simplification - Integrate the surtax into brackets and rates and suspend indexation in 2017	0.2	0.6	0.6
Insurance Premium Tax Increase – Raise rates on all forms of insurance (except automobile insurance) by 1 percentage point	0.1	0.3	0.4
Enhanced First-Time Home Buyers' Refund and Modernized Land Transfer Tax	–	0.1	0.1
Total Potential Selected New Revenue Measures	**0.3**	**1.0**	**1.1**
Maximum Flexibility Afforded by Potential Revenue Levers	**1.1**	**3.3 to 3.5**	**4.3 to 4.6**

Key Considerations for New Tax Measures

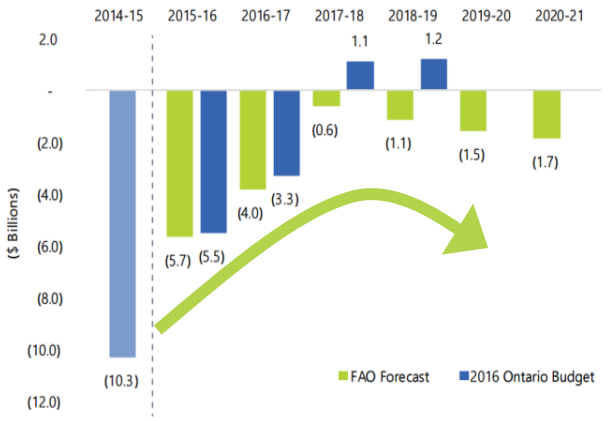
Measure	Key Considerations (all items would require legislation)
Personal Income Tax Simplification - Integrate the surtax into brackets and rates and suspend indexation in 2017	• To raise additional revenue from PIT simplification, all brackets and non-refundable tax credit amounts would be frozen (the top two PIT brackets at $150,000 and $220,000 are currently not indexed). • 6.2 million people would pay $100 more on average, and 0.3 million people would pay $40 less. o Additional revenue raised by suspending indexation in 2017. • The revenue impact would compound if indexation were suspended in subsequent years. • The federal government limited indexation to inflation over 3% from 1986 to 2000 to control national debt. From 1992 to 2000, there was effectively no indexation, as indexation factors were less than 3%.
Increase IPT Rates (1 Percentage Point) Increase IPT rates on all forms of insurance (except automobile insurance) by 1 percentage point.	• Based on all types of insurance, IPT revenue is approximately $1.2 billion annually (or 10% of corporate income tax revenue) and is paid by about 1,200 companies. • Automobile insurance has been excluded from this option to conform to Ontario's commitment to lower the cost of auto insurance for Ontario's nearly ten million drivers. • Increased cost of the IPT to insurance companies would likely be passed on to consumers. • The potential impact of this option on the Ontario insurance industry is uncertain since the impact on specific insurance companies would be based on several factors such as the location of operations, corporate structure and type of insurance products offered. o In general, IPT revenue is estimated to change from approximately $1.2 billion to $1.5 billion annually. • Ontario's insurance companies operating in the U.S may be subject to increased U.S. retaliatory taxes if Ontario's IPT rates exceed those of the respective U.S. state

Enhanced First-Time Home Buyers' Refund and Modernized Land Transfer Tax	• To allow first-time home buyers easier access to the housing market, the maximum First-Time Home Buyers' Refund could be doubled from $2,000 to $4,000.
	  o The First-Time Home Buyers' Refund would be limited to Canadian Citizens and Permanent Residents.
	• A new LTT rate structure would provide relief at the low end by increasing the range upon which the 0.5% applies (from $55,000 to $100,000) and applying a new rate of 3% for properties over $1,500,000
	• Purchasers of homes for $1,522,500 or less would pay up to $225 less LTT under the new rate structure.
	  o In 2015, 97.5% of single family residence transactions were $1,522,500 or less in the GTHA.
	• 85% of the revenue ($160 million in 2017-18) would come from transfers of non-residential property (e.g., commercial property). Only an estimated 15% ($30 million in 2017-18) would come from transfers of single family residences.
	• An estimated 74% of the additional LTT revenue would come from transfers in the GTA (including the City of Toronto); 26% would come from transfers in the rest of the province.

Financial Stakeholders

- It is expected that the **FAO will release a fall Economic and Fiscal Outlook for Ontario** with projections over the medium-term.
  - The **FAO outlook in the spring stated that balance in 2017-18 is achievable**, but also **projected budget deficits in all years between 2015-16 and 2020-21**, which is a deterioration from the 2016 Budget plan.
  - The FAO is likely to update its spring outlook by taking into account:
    - An estimated fiscal impact of the change in pension asset accounting for out-years
    - An estimate of the expense impact of the initiatives announced in the Speech from the Throne (e.g., Child Care Expansion, Electricity Price Mitigation), and
    - A more cautious revenue outlook, consistent with its spring report.

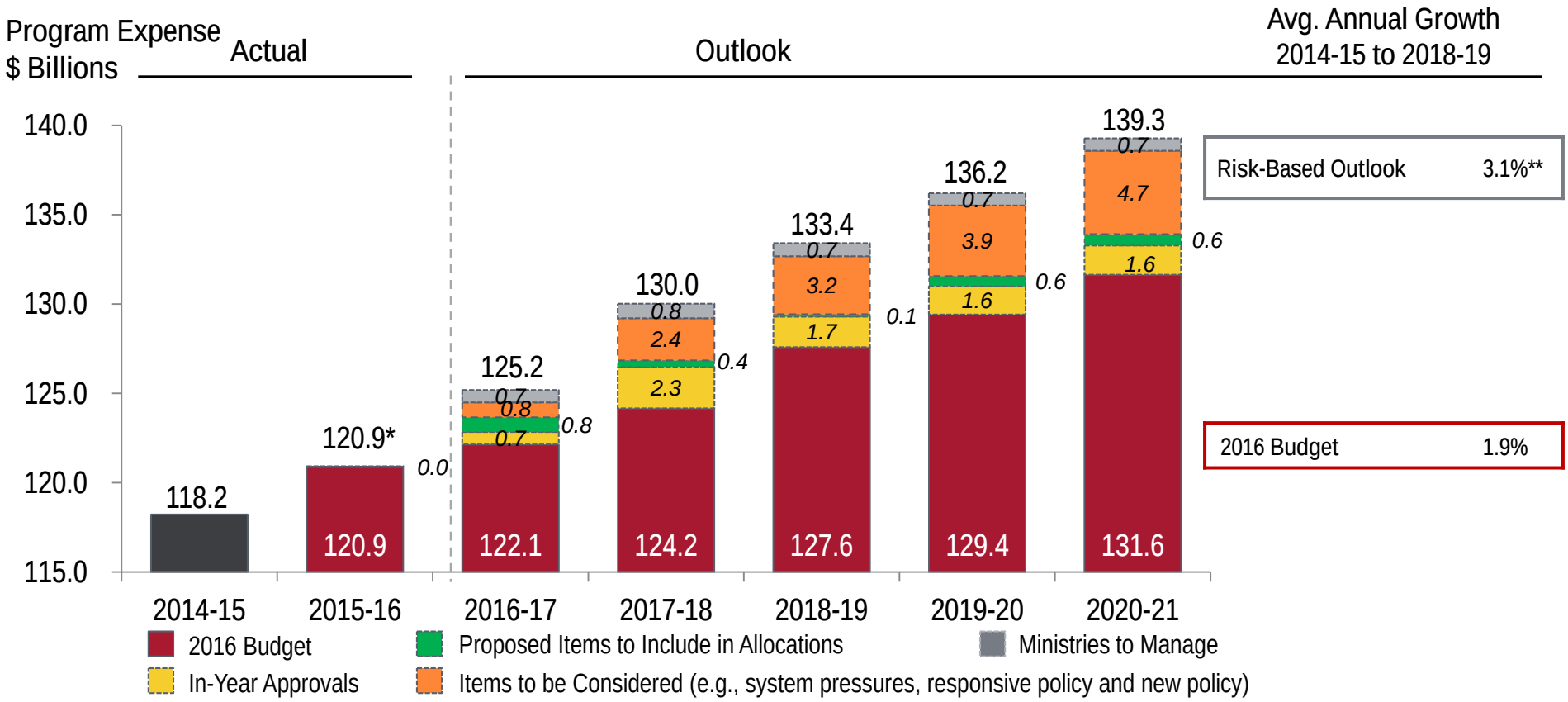
FAO Spring Forecast Trajectory



- To date, credit rating agencies have not expressed concern about the change in pension asset accounting for 2015-16, but **could question the government's ability to balance in 2017-18 if the government takes on the potential impact in future years as part of the FES outlook**.

September 2016 Program Expense Outlook

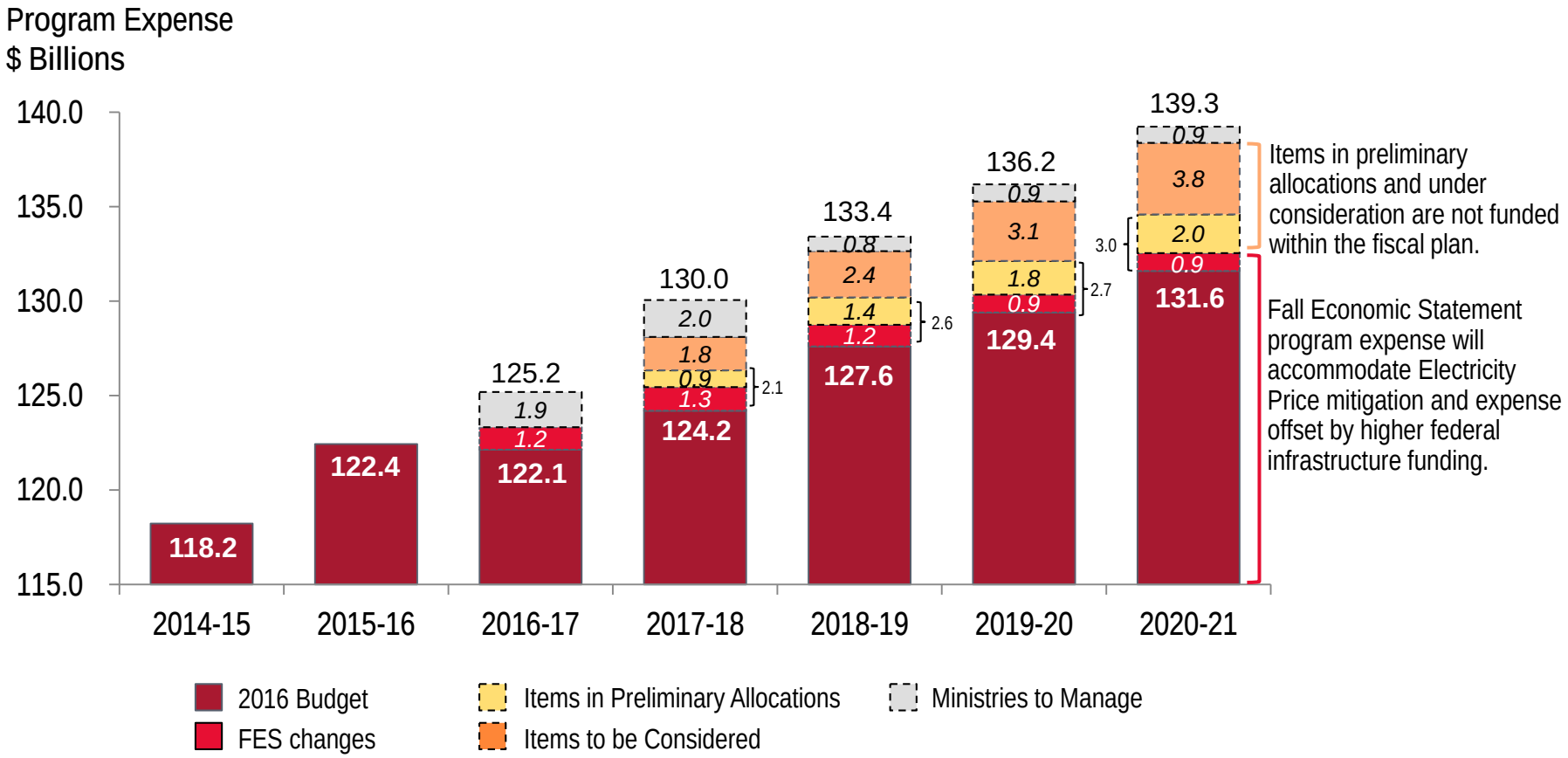
- The September 2016 fiscal update presented to Cabinet included program expense risks of $3.1 billion in 2016-17 growing to $7.6 billion in 2020-21



*Preliminary actual results, pending final confirmation.
** Risk-based outlook if "ministries to manage" risks are managed = 2.9%

Current Program Expense Outlook

- The FES will report higher program expense – mainly as a result of Electricity Price mitigation. These program expense increases will be offset by higher revenue and lower interest on debt costs, and will therefore not negatively impact the fiscal outlook.
- It is important to note that there remain additional items – both within the preliminary allocations along with items to be considered – that are not currently accommodated within the fiscal plan.



From: Gadi Mayman
To: Ken Kandeepan
Cc: Christina Zhang
Subject: Fwd: FAO Meeting re FES
Date: Friday, November 11, 2016 1:54:58 PM
Attachments: image003.png

Begin forwarded message:

From: "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
Date: November 11, 2016 at 12:47:00 PM EST
To: "Lewis, Brian (MOF)" <Brian.Lewis@Ontario.ca>, "Hughes, Karen (TBS)" <Karen.Hughes@ontario.ca>, "Duran-Schneider, Maria (TBS)" <Maria.Duran-Schneider@ontario.ca>, "Arruda, Artur (TBS)" <Artur.Arruda@ontario.ca>, "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>, "Subrahmanyan, Sriram (MOF)" <Sriram.Subrahmanyan@ontario.ca>, "Kwan, Ronald (OFA)" <Ronald.Kwan@ofina.on.ca>, "Doheny, Allan (MOF)" <Allan.Doheny@ontario.ca>, "Mayman, Gadi (OFA)" <Gadi.Mayman@ofina.on.ca>
Cc: "Pearce, Christopher (MOF)" <Christopher.Pearce@ontario.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>, "Tiburcio, Daniel (MOF)" <Daniel.Tiburcio@ontario.ca>, "Esmail, Selena (MOF)" <Selena.Esmail@ontario.ca>, "Inglis, Liane (MOF)" <Liane.Inglis@ontario.ca>
Subject: FAO Meeting re FES

Hello

David West and Peter Harrison from the FAO have reached out and requested a meeting with key MOF/TBS officials to better understand and ask questions about Monday's Economic Outlook and Fiscal Review.

They have indicated that they will review the FES upon its release on Monday, and then provide us with a list of their questions on Tuesday, November 15th, which will inform the meeting they have requested which is scheduled for **2:30 pm on Wednesday, November 16th**. My EA Ryan Birks will be in touch with your offices to reserve the time in your calendars.

David indicated that, likely the week after FES, they will release a "Commentary" that compares their own Economic and Fiscal Outlook (released on November 3) to the government's Fall Statement. This means their questions will likely focus on understanding: the economic assumptions, revenue assumptions, expense changes reported in FES, including the assumptions underlying the Pension

Adjustment and the assumptions around the HST rebate on electricity bills and child care investments.

Please note that the government passed an OIC last month requiring the government to provide an enhanced and expanded universe of information to the FAO upon request, including information from previously-protected Cabinet documents. As a reminder, we will be expected to apply the OIC's requirements as part of this (and all future exchanges) with the FAO. Please let me know if you have any questions about this.

Once we receive their list of questions, we will circulate them around and better determine who needs to be at the meeting, and perhaps, who doesn't (if there are no questions related to your policy area).

Let me know if you have any questions, and thanks in advance for your participation.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173




Office of the Budget
MINISTRY of FINANCE

From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	Christina Zhang
Subject:	Fwd: FAO vs. FES
Date:	Monday, November 14, 2016 11:39:41 PM
Attachments:	FAO EFO - CIN - Fall 2016_FES Crosswalk.pdf ATT00001.htm

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Begin forwarded message:

From: "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
To: "Scott Thompson (CAB)" <Scott.Thompson@ontario.ca>, "Brian Lewis (MOL)" <Brian.Lewis@ontario.ca>, "Karen Hughes (MGS)" <Karen.Hughes@ontario.ca>, "Maria Duran-Schneider (MOF)" <Maria.Duran-Schneider@ontario.ca>, "Arruda, Artur (TBS)" <Artur.Arruda@ontario.ca>, "Gadi Mayman" <Gadi.Mayman@ofina.on.ca>
Cc: "David McLean (MOF)" <David.McLean@ontario.ca>, "Christopher Pearce (MOI)" <Christopher.Pearce@ontario.ca>, "Selena Esmail (MOF)" <Selena.Esmail@ontario.ca>, "Emma Lindquist (MOF)" <Emma.Lindquist@ontario.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>
Subject: FAO vs. FES

As you all know, the FAO will be reviewing the FES and developing questions for us to review and answer when we meet with them on Wednesday.

To help us all prepare for this, we've done a cross-walk from the FAO fiscal plan to the fiscal plan outlined in the FES today. The table is attached for your reference.

In summary, the FAO Outlook shows higher deficits than outlined in the Fall Statement. Key factors include:

<!--[if !supportLists]-->• <!--[endif]-->The FAO's revenue forecast is significantly lower than what is outlined in the Fall Statement (more than $5B in 18-19).

<!--[if !supportLists]-->• <!--[endif]-->The FAO's estimate of new government initiatives (child care, HST rebate, etc) are higher than what are built into the Fall Statement, particularly in 17-18 and 18-19.

<!--[if !supportLists]-->• <!--[endif]-->Combined, these two elements, which result in a deterioration in the fiscal outlook, are partially offset by higher IOD savings assumed by the FAO.

As we already know, the FAO underestimated the Pension Adjustment in each year, which reduced the variance between the FAO's deficit projection and the

FES. Presumably their updated forecast in their commentary (to be released next week) will increase the Pension Adjustment, and also, the resulting deficit projection.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



Security settings or invalid file format do not permit using FAO EFO - CIN - Fall 2016_FES Crosswalk_1.pdf (585500 Bytes).

From:	Anna Strathy
To:	Ken Kandeepan
Subject:	Fwd: Fao report
Date:	Friday, December 15, 2017 12:12:25 PM
Attachments:	Confidential Fact Check Follow-up Analysis of the Financial Impact of the Partial Sale of H1 Request for Comments on Draft Report.msg ATT00001.htm FA1715 DFR Comment Tracking Form_Consolidated edits 20171213 v4.docx ATT00002.htm

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As requested, the draft H1 report from the FAO.

Anna

--
Anna Strathy
Special Policy Advisor to the CEO
Ontario Financing Authority
416.325.8032

Begin forwarded message:

From: "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>
Date: December 15, 2017 at 11:56:22 AM EST
To: Anna Strathy <Anna.Strathy@ofina.on.ca>
Cc: Usman Zahid <Usman.Zahid@ofina.on.ca>
Subject: RE: Fao report

Hi Anna,

Apologies for not including you. The draft H1 report was shared with CEFD as they provided input for the consolidated responses to the FAO's Qs on the partial sale of H1. For your reference, I am attaching the request that was sent out to program areas for feedback, along with the final set of consolidated comments that were shared with the FAO.

As a next step, I'll be following up with ADMOs shortly to flag if there are key issues that they want to focus on in the context of a call that will be set up with lead ADMs and FAO staff next week. I'll make sure to include you in the email chain.

Thanks,
Ryan

From: Anna Strathy [mailto:Anna.Strathy@ofina.on.ca]
Sent: December-15-17 10:59 AM

To: Birks, Ryan (MOF)
Cc: Zahid, Usman (OFA)
Subject: FW: Fao report

Hi Ryan,

Have we seen a draft of the FAO's report on the H1 sale? I can't recall. My apologies if it's in my inbox somewhere, but would you mind flipping it to me? Ken would like to review.

Thanks, Anna

From: Ken Kandeepan
Sent: Thursday, December 14, 2017 9:36 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>
Subject: Fao report

Hi Anna

Can you flip me a copy of the FAO draft report on the H1 sale, Cindy tells me there's references to OEFC

Thanks

Ken k

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Subject: Confidential | Fact Check | Follow-up Analysis of the Financial Impact of the Partial Sale of H1 / Request for Comments on Draft Report
Date: Friday, December 08, 2017 10:36:41
Attachment 1: Guide to Reviewing Draft Reports.pdf
Attachment 2: FA1715 DFR.DOCX
Attachment 3: FA1715 DFR Review Cover Letter 2017 12 07.pdf
Attachment 4: FA1715 DFR Comment Tracking Form.docx

Hello,

Please find attached the draft follow-up report from the Financial Accountability Office (FAO) on the financial impact of the sale of Hydro One.

By sharing a draft version of the report, the FAO is welcoming any comments you might have. Specifically, the FAO is asking to help identify any aspect of the draft report that you feel might be incomplete, inaccurate or misleading. The purpose of this review is to confirm the FAO's analysis is accurate and free of misrepresentation as well as to ensure the report does not include information subject to disclosure restrictions under section 13 of the FAO Act and OC 1412/2016.

We have also enclosed the FAO's comment tracking form, which you might find helpful in gathering comments.

If you can please send your comments to Daniel Tiburcio and Paul Ternamian by **noon on Tuesday, December 12** that would be greatly appreciated. The deadline for returning comments back to the FAO is Wednesday, December 13.

If you have any questions or concerns please contact us.

Best,

Paul Ternamian

Policy Intelligence & Alignment Unit, Office of the Budget

Ministry of Finance

7 Queen’s Park Crescent, 4th Floor, Frost Building South

416-327-2735

Guide to Reviewing Draft Reports Prepared by the Financial Accountability Officer of Ontario

Purpose

This guide has been developed to help ministries and public entities in reviewing and commenting on draft reports prepared by the Financial Accountability Officer (FAO). This guide refers to provisions in both the *Financial Accountability Officer Act, 2013* (FAO Act) and the Cabinet records Order-in-Council (OC 1412/2016).

Ministries and public entities may wish to review the FAO Act (https://www.ontario.ca/laws/statute/13f04#BK5) or the Order-in-Council (https://www.ontario.ca/orders-in-council/oc-14122016) to better understand both the FAO's mandate and other duties. Ministries and public entities may also wish to review the FAO's *Guide to Responding to Information Requests* (http://fao-on.org/web/default/files/Info%20Requests/Guide%20to%20Responding%20to%20FAO%20Requests%20Jan2017.pdf, last updated January 2017).

Questions and Answers

1. **What is the objective of the draft report review process?**

The FAO's mandate is to provide the Legislative Assembly of Ontario with economic and financial analysis under sections 10 and 11 of the FAO Act. To help MPPs perform their constitutional functions, the FAO's analysis must be accurate, relevant and timely.

The FAO respects ministries and public entities' institutional knowledge and values the comments they can provide as those comments help to improve the quality of the analysis the FAO provides to the Legislative Assembly.

The draft report review process serves two purposes:

- confirming that the FAO's analysis is clear, complete, accurate and free of misrepresentation; and

- ensuring that the report does not include information subject to disclosure restrictions under section 13 of the FAO Act and OC 1412/2016.

These purposes should guide interactions between ministries and public entities, and the FAO during the draft report review process.

2. Will the FAO provide a copy of all its reports to ministries and public entities for comments?

The FAO produces several different types of publications.

Where a product is based entirely on public information and either comments on a recent data release or event in the financial cycle, or provides background information, the FAO will release it on its website. The FAO may solicit comments from relevant ministries or public entities on drafts of these commentaries and backgrounders in the weeks before their planned release. The FAO will generally provide the final version to the relevant ministry or public entity one working day before release.

When the FAO deems it appropriate, the product is required by the FAO Act, and/or when a product is based on non-public information received from a ministry or public entity in response to an information request, the FAO will present the report to the Legislative Assembly in accordance with sections 15 and 16 the FAO Act and the Assembly's practices surrounding the tabling of reports. The FAO will generally solicit comments on draft versions of such reports several weeks or months before their planned release (see: Question 3).

Subsection 15(1) of the FAO Act requires that, before presenting a report, the FAO provide a final version of the report to the minister of any ministry or the head of any public entity to which the report is relevant. The FAO will generally provide a copy of the final version of a report two working days before the report's release. Where necessary, the FAO will work with the Secretary of the Cabinet to identify relevant ministries and public entities. The FAO considers that a report relevant to a public entity is also relevant to its parent ministry.

Section 14 of the FAO Act also requires the FAO to provide the Speaker with an annual report by July 31 each year. The FAO does not provide the draft annual report to ministries for comment. The FAO is not required to provide to any minster a final version of the annual report ahead of its release.

3. How far ahead of a report's planned release will the FAO provide a draft report for review?

The FAO will generally provide a ministry or public entity a draft report several weeks or months before its planned release. As appropriate, the FAO may provide a draft of a commentary or backgrounder in the weeks before its planned release.

4. Are there particular areas in the draft report that ministry or public entity comments should focus on?

Yes. Although the FAO welcomes comments on any aspect of the report, there are two areas in which your comments would be especially helpful:

- the FAO asks that you identify any part of the report that you believe may be incomplete, inaccurate or misleading, and suggest changes, as appropriate;
- the FAO also requests that you identify any information disclosed in the report that is subject to disclosure restrictions under section 13 of the FAO Act and OC 1412/2016.

The FAO may also ask specific questions or seek your comments on particular aspects of the report.

5. What are the restrictions on the FAO's disclosure of information?

Although much of the FAO's analysis is based on publicly available information, the analysis sometimes draws on non-public information the FAO receives from a ministry or a public entity by virtue of section 12 of the FAO Act. The FAO can freely publish analysis derived from non-public information, but can only disclose non-public information under certain conditions set out in section 13 of the FAO Act and OC 1412/2016.

The FAO considers itself to be disclosing information if the FAO releases information in its original form or in a modified form that would allow a person to reconstruct the original, non-public information.

By virtue of paragraph 1 of section 13 of the FAO Act, the FAO cannot disclose information obtained from ministries and public entities unless it is essential for the performance of a part of the FAO's mandate under sections 10 and 11 of the FAO Act. The FAO considers the disclosure of information to be essential if it is necessary to support the analysis provided to the Legislative Assembly in accordance with that mandate.

The FAO also cannot disclose information that fall within certain sensitive categories identified in paragraphs 2, 3 and 4 of section 13 of the FAO Act and section 2 of OC 1412/2016. Although the FAO is ultimately responsible for determining whether the information falls under a category, the FAO does so on the advice of the ministries and public entities which originally provided the information.

6. What role do ministries and public entities play in identifying information subject to disclosure restrictions?

As the creators and/or custodians of the information they provide to the FAO, ministries and public entities are more familiar with its origins and contents than the FAO, so they are better able to assess whether the information falls under sensitive categories. This is especially so where the disclosure restriction involves an assessment of the harm that would result from disclosure or where the restriction is intended to protect the interests of a third party. In a given situation, the FAO may not be well placed to assess the harm that would result from disclosure without input from the ministry or public entity. Likewise, in some situations, it may not be clear from the information provided by the ministry that it originated from a third party.

Accordingly, the FAO expects ministries and public entities providing information to the FAO to identify information that falls under one or more disclosure restrictions (see FAO's Guide to Responding to Information Requests (http://fao-on.org/web/default/files/Info%20Requests/Guide%20to%20Responding%20to%20FAO%20Requests%20Jan2017.pdf). When reviewing draft reports, the FAO also expects ministries and public entities to identify information contained in the reports that they believe falls under these restrictions and explain why the restriction applies (see Question 7). The additional requirement of an explanation at the draft report stage allows the FAO to determine whether the restriction applies, and if necessary, to make appropriate changes to the report before its release to avoid disclosing information subject to restrictions.

7. How do I identify information subject to disclosure restrictions?

While reviewing the report, you should determine whether the report discloses non-public information your ministry or public entity provided to the FAO, i.e. in its original form or in a form that allows for the reconstruction of the original information.

If the report only contains publicly-available information and/or analysis based on non-public information that does not allow a person to reconstruct the original information, then no disclosure is occurring and the disclosure restrictions therefore do not apply.

If, however, the report contains raw, non-public information and/or analysis based on non-public information that allows a person to reconstruct the original information, you should determine whether the information that falls under one or more sensitive categories under paragraphs 2, 3 and 4 of section 13 of the FAO Act and OC 1412/2016:

- Information obtained solely from a record containing third party information (section 17 of the Freedom of Information and Protection of Privacy Act (https://www.ontario.ca/laws/statute/90f31);
- Information contained in a Cabinet record (OC 1412/2016);
- Information obtained solely from a record whose disclosure would affect Ontario's relations with other governments (section 15 of the Freedom of Information and Protection of Privacy Act);
- Information obtained solely from a record whose disclosure would affect the economic and other interests of Ontario (subsection 18(1) of the Freedom of Information and Protection of Privacy Act);
- Information subject to solicitor-client privilege, litigation privilege or settlement privilege (paragraph 4 of section 13 of the FAO Act).

If one or more of these restrictions applies to information contained in the draft report, please identify the relevant provision in the FAO Act, the Freedom of Information and Protection of Privacy Act (FIPPA) and/or OC 1412/2016, and explain why the information falls under the category.

Where the courts or the Information and Privacy Commissioner have established a legal test for determining whether a record falls under a sensitive category, please use the test and demonstrate how each element of the test has been met. The Ontario government's Freedom of Information and Privacy

Manual, which is maintained by the Ministry of Government and Consumer Services, summarizes the applicable FIPPA tests (https://www.ontario.ca/document/freedom-information-and-privacy-manual-0).

If the applicable legal test is designed to protect the interests of other public institutions (subsection 18(1) of FIPPA), other governments (section 15 of FIPPA), third parties (section 17 of FIPPA) or legal privilege holders (paragraph 4 of section 13 of the FAO Act), please identify any institutions, governments, third parties and/or legal privilege holders whose interests would be affected by disclosure.

Each restriction is qualified by the possibility that the person or institution whose interests it is intended to protect can consent to the information's disclosure. The Executive Council's consent is required to disclose information obtained solely from Cabinet records (OC 1412/2016), other governments (section 15 of FIPPA) and other public institutions (certain paragraphs of subsection 18(1) of FIPPA). A third party's consent is required to disclose information obtained from them (section 17 of FIPPA). A privilege holder's consent is required to disclose information subject to solicitor-client privilege, litigiation privilege or settlement privilege (paragraph 4 of section 13 of the FAO Act).

The explanation your ministry or public entity provides allows the FAO to determine whether the restriction applies, to decide whether to seek the appropriate person or institution's consent to disclose the information, and if necessary, to make changes to the report before its release to avoid disclosing information subject to restrictions.

8. Can I share the draft report with another ministry or public entity?

The draft report is being shared with you on a confidential basis because your ministry or public entity provided information used in preparing the report or because the report is otherwise relevant to your ministry or public entity.

Accordingly, the FAO asks that you not share the draft report outside the public service in your ministry or public entity. If you believe that another ministry, public entity or other organization should have an opportunity to review the draft report, please speak to the FAO contact.

9. If the draft report has been provided to multiple ministries and public entities for comment, can a single ministry coordinate comments?

Yes, but the FAO expects that each ministry and public entity which received the draft report will sign off on the comments on the draft report.

10. What is the deadline for comments?

All review requests have a deadline included in the cover letter and on the attached comment tracking form.

11. What if our ministry or public entity cannot meet the deadline?

Please speak to the FAO contact as soon as possible if you need to request an extension. The FAO will grant reasonable extensions.

12. How should comments be transmitted to the FAO?

Comments concerning analysis and publicly-available information may generally be transmitted by e-mail. The FAO contact identified in the review request should be copied.

Comments concerning non-public information should be transmitted securely. If in doubt, the FAO recommends secure transmission. Please speak to the FAO contact to arrange for secure transmission.

13. In what format should I provide comments to the FAO?

Please use the comment tracking form to provide your comments and provide explanations concerning disclosure restrictions that may apply to parts of the report. You may also use the Track Changes function in Microsoft Word to propose minor changes or to clarify your comments by linking them to specific parts of the report.

14. What if I do not understand an aspect of the report?

If you do not understand an aspect of the report or an area on which your comments are being requested, please speak to the FAO contact identified in the review request. The FAO contact would be happy to provide the necessary clarification and explanation.

Additional Questions

If you have any additional questions or require further clarification, please speak to the FAO contact identified in the review request.

CONFIDENTIAL

Financial Accountability Office of Ontario

Hydro One Update

Follow-up Analysis of the Financial Impact of the Partial Sale of Hydro One

Draft Final Report

December 7, 2017

Confidential Document

This document is confidential. It should not be shown or otherwise transmitted to anyone other than those who have been asked by the Financial Accountability Office of Ontario to provide comments.

Winter 2018

About this Document

Established by the *Financial Accountability Officer Act, 2013,* the Financial Accountability Office (FAO) provides independent analysis on the state of the Province's finances, trends in the provincial economy and related matters important to the Legislative Assembly of Ontario.

The FAO produces independent analysis on the initiative of the Financial Accountability Officer. Upon request from a member or committee of the Assembly, the Officer may also direct the FAO to undertake research to estimate the financial costs or financial benefits to the Province of any bill or proposal under the jurisdiction of the legislature.

This report was prepared on the initiative of the Officer in response to a request from a member of the Assembly. In keeping with the FAO's mandate to provide the Legislative Assembly of Ontario with independent economic and financial analysis, this report makes no recommendations.

This analysis was prepared by Matthew Stephenson and Matt Gurnham under the direction of Jeffrey Novak.

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Table of Abbreviations

Abbreviation	Long Form
BV	Book value
CCA	Capital cost allowance
DPA	Designated purpose account
DRC	Debt retirement charge
ESDI	Electricity sector dedicated income
FAO	Financial Accountability Office
FMV	Fair market value
GBE	Government business enterprise
HON	Hydro One Networks
IPO	Initial public offering
MEU	Municipal electric utility
NPV	Net present value
OEB	Ontario Energy Board
OEFC	Ontario Electricity Financial Corporation
OMA	Operating, maintenance and administration
OPG	Ontario Power Generation
PILs	Payments in-lieu of taxes
ROE	Return on equity
RSD	Residual stranded debt

1. Essential Points

2. Introduction

Hydro One Limited (Hydro One) is primarily an electricity transmission and distribution company.[1] Hydro One owns and operates 98 per cent of Ontario's transmission capacity and serves approximately 25 per cent of Ontario electricity ratepayers, largely those in low density or remote areas of the Province.[2] In total, Hydro One recovers about $3.2 billion annually from Ontario ratepayers for the transmission and distribution of electricity.[3] The Province consolidates its investment in Hydro One as an investment asset in its consolidated financial statements.

In the 2015 Ontario Budget, the Province announced its intention to sell up to 60 per cent of Hydro One. The Province initially targeted $9 billion in proceeds from the sale, of which $4 billion would be invested in infrastructure (through the Trillium Trust) and $5 billion would be used to reduce debt.[4]

The Province completed its final sale of Hydro One shares in May, 2017 and generated an estimated $9.2 billion in proceeds over three sales.[5] Overall, the Province was able to achieve more than its targeted proceeds amount by selling only 53 per cent of Hydro One.[6] The FAO estimates that the Province will credit the Trillium Trust with approximately $4.6 billion and allocate $5.4 billion to the Ontario Electricity Financial Corporation.

The purpose of this report is to follow up on the FAO's report *An Assessment of the Financial Impact of the Partial Sale of Hydro One*.[7] The report will provide an updated estimate of the fiscal impact of the sale, analyze how much capital the Province raised, and how the sale proceeds are being allocated. The report also analyzes how changes in Hydro One resulting from the initial public offering could affect electricity ratepayers in Ontario. Lastly, the report reviews key considerations surrounding Hydro One's proposed purchase of Avista Corporation.

Appendix C provides more information on the development of this report.

[1] Transmission refers to the bulk movement of electricity from generating sites to local distribution networks. Distribution refers to the movement of electricity from the local distribution network to the end consumer, i.e. Ontario ratepayers.
[2] Hydro One Investor Overview Second Quarter 2017.
[3] Annual Report. Hydro One.
[4] https://news.ontario.ca/mei/en/2015/11/ontario-raises-183-billion-for-infrastructure-investments.html.
[5] The Province also received approximately $600 million from the sale of Hydro One Brampton in February, 2017. Hydro One Brampton was divested from Hydro One before the initial public offering of Hydro One Limited shares in late 2015. In this report, the FAO excludes the sale of Hydro One Brampton from its analysis.
[6] The FAO includes an estimated 2.5 per cent sale of ownership related to the sale of Hydro One shares to First Nations.
[7] Financial Accountability Office of Ontario. "An Assessment of the Financial Impact of the Partial Sale of Hydro One." October 2015.

3. Fiscal Impact of Sale

The FAO estimates that the Province's annual surplus / (deficit) will improve by a total of $3.8 billion over the fiscal years 2015-16 to 2017-18 as a result of the partial sale of Hydro One. The FAO estimates that the Province's annual surplus / (deficit) will deteriorate by a total $1.1 billion in fiscal 2018-19, followed by a deterioration of $254 million in 2019-20, with the loss growing by an average of 1.4 per cent annually until 2024-25.

Table 3-1 summarizes the FAO's estimate of the impact of the 53 per cent sale of Hydro One to the Province's annual surplus / (deficit) over the period of 2015-16 to 2024-25.

Table 3-1: FAO Estimate of the Impact on the Province's Surplus / (Deficit) from the 53 per cent sale of Hydro One

($millions)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Gains on Sale	783	541	725	8	8	8	8	8	8	8
Net Income	-48	-201	-346	-382	-412	-429	-455	-479	-504	-530
Deferred Tax	2,392	0	0	-419	0	0	0	0	0	0
Electricity PILs	-42	-126	-131	-137	-142	-148	-154	-160	-166	-173
Corporations Tax	3	28	29	30	31	33	34	35	37	38
DRC Revenue	0	0	0	-465	0	0	0	0	0	0
Interest Savings	0	56	118	247	260	288	310	333	358	385
Impact to Annual Surplus / (Deficit)	**3,089**	**298**	**394**	**-1,117**	**-254**	**-248**	**-256**	**-262**	**-267**	**-272**

Source: FAO

Note: Numbers may not add due to rounding. The Gains on Sale are recorded in the Sales & Rentals revenue line and the Deferred Tax impacts the Income from Government Business Enterprises revenue line in the Province's consolidated financial statements.

See appendix B for the FAO's estimate of the impact of the sale on Provincial net debt. The appendix also includes a discussion on the impact to net debt had the Province retained 100 per cent ownership of Hydro One and instead raised an equivalent amount of sale proceeds from issuing Provincial debt.

Gains on Sale

The FAO estimates that $2.0 billion in gains related to the sale of Hydro One will improve the Province's annual surplus / (deficit) from 2015-16 to 2017-18. The Province records gains on sale in its consolidated financial statements on the Sales and Rentals revenue line.[8] Table 3-2 below summarizes the FAO's estimate of the sale proceeds and gains on sale for the Province's 53 per cent sale of Hydro One shares. Overall, the FAO estimates that the Province received $6.8 billion in cash proceeds and will report total gains of $2.2 billion related to the sale of Hydro One shares. However, a

[8] The Province calculates the gains as the difference between the cash proceeds received for the sale of shares and the value of those shares that were reported in the Province's consolidated financial statements (i.e. the book value).

portion of gains are to be deferred and realized in future periods, starting in 2018-19 at approximately $8 million per year.[9]

Table 3-2: FAO Estimate of Sale Cash Proceeds and Gains from the 53 per cent sale of Hydro One shares

$millions	First Sale	Second Sale	Third Sale	Total
Date	Nov-15	Apr-16	May-17	-
Percentage Sold	16%	14%	23%	53%
Sale Cash Proceeds	**1,902**	**1,929**	**2,994**	**6,825**
Less: Book Value Sold	-1,071	-1,321	-2,267	-4,659
Gain on Sale	**831**	**608**	**728**	**2,167**
Deferred Portion	-48	-70	-11	-129
Initial Gain on Sale	**783**	**538**	**717**	**2,038**

Source: FAO

Notes: Numbers may not add due to rounding. The FAO's estimate of sale proceeds is net of an estimated $148 million in transaction costs.

Net Income

By selling 53 per cent of Hydro One shares the Province will forgo 53 per cent of Hydro One's future net income, which negatively impacts the Province's annual surplus / (deficit) through lower Income from Government Business Enterprises (GBEs). The FAO estimates that the Province will forgo about $382 million in net income in 2018-19, which will grow by an average of 5.6 per cent annually from 2018-19 to 2024-25.

Deferred Tax

Hydro One reported a $2.8 billion gain related to a deferred tax asset that was created immediately after the company's initial public offering (IPO). After the IPO, the value of Hydro One's assets increased for tax purposes, which will allow the company to pay reduced corporate tax for a period of time. As a result, the $2.8 billion of future tax savings were recorded as an asset on Hydro One's financial statements and increased the company's net income.[10] However, the Province owned approximately 84 per cent of Hydro One immediately after the IPO, so it recorded its proportionate ownership of the asset at $2.4 billion.[11]

In 2018-19, the FAO is projecting that the deferred tax asset will be reduced due to a ruling by the Ontario Energy Board (OEB) that allocates a portion of the deferred tax savings to Ontario electricity ratepayers.[12] Hydro One has appealed the OEB's decision to the Divisional Court of Ontario.[13] Should the appeal fail, Hydro One is expected to

[9] The $48 million in deferred gains on the first sale is related to an estimated 5.63 million shares sold on loan to the Power Workers' Union and the Society of Energy Professionals. The FAO assumes that these deferred gains will be recognized by the Province over the 15-year term of the loan. The $70 million in deferred gains on the second sale is related to OPG's purchase of 9 million Hydro One shares, which the FAO amortizes over 15 years because OPG employees are eligible to receive these common shares for up to 15 years. The FAO includes 15 million shares sold on loan to First Nations in its estimate of proceeds related to the third sale, which account for an estimated 2.5 per cent reduction in Provincial ownership of Hydro One, $261 million in sale proceeds and $11 million in deferred gains. The FAO assumes these deferred gains will be recognized over the 25-year term of the loan.

[10] Appendix A: Pre-Sale Transactions reviews this concept in further detail.

[11] This proportional benefit would be recorded as a positive impact to Hydro One's net income, which would increase Income from GBEs. The FAO estimates that the Province will receive $0.7 to $1.2 billion in cash from the ownership of this tax asset over time.

[12] Ontario Energy Board Case EB-2016-0160.

[13] Hydro One Q3-17 MD&A.

reduce its deferred tax asset by $885 million,[14] which would reduce its net income. The Province consolidates Hydro One at its proportional ownership of 47 per cent, therefore the FAO has reduced GBE income by $419 million in fiscal 2018-19.

Electricity PILs

Before the IPO, Hydro One did not pay corporate tax, but rather payments-in-lieu of taxes (PILs), which approximated the amount of corporate tax (both Provincial and federal) that Hydro One would have paid had it not been wholly owned by the Province.[15] After the IPO, Hydro One became subject to the corporate tax regime and no longer paid PILs to the Province.[16] As such, the FAO incorporates the loss in Hydro One PILs as a negative fiscal impact, estimated at about $137 million in 2018-19 and growing at about 4 per cent annually.

Corporations Tax

The FAO estimates that the Province will receive the provincial portion of Hydro One's corporate tax going forward, which has a positive fiscal impact. However, the revaluation of Hydro One's assets for tax purposes allows the company to pay substantially less corporate tax going forward. The FAO estimates that Hydro One's corporate tax payments will be zero for a period of about 10 years, with the exception that the company must pay minimum Provincial corporate taxes, estimated by the FAO at about $30 million in 2018-19, rising to about $38 million by 2024-25.

DRC Revenue

The debt retirement charge (DRC) is a charge on electricity consumption to repay debt which resulted from the restructuring of Ontario Hydro in 1999. The DRC generated about $620 million in revenue for the Province in fiscal 2016-17.[17] Prior to the sale of Hydro One, the Province projected that the DRC would be removed from non-residential bills at the end of calendar 2018, however, it is now being removed from bills on April 1, 2018. The FAO assumes that the decision to end the DRC nine months earlier was a direct result of the sale of Hydro One.[18] As such, the FAO estimates a loss in DRC revenue to the Province of about $465 million in 2018-19.

Interest Savings

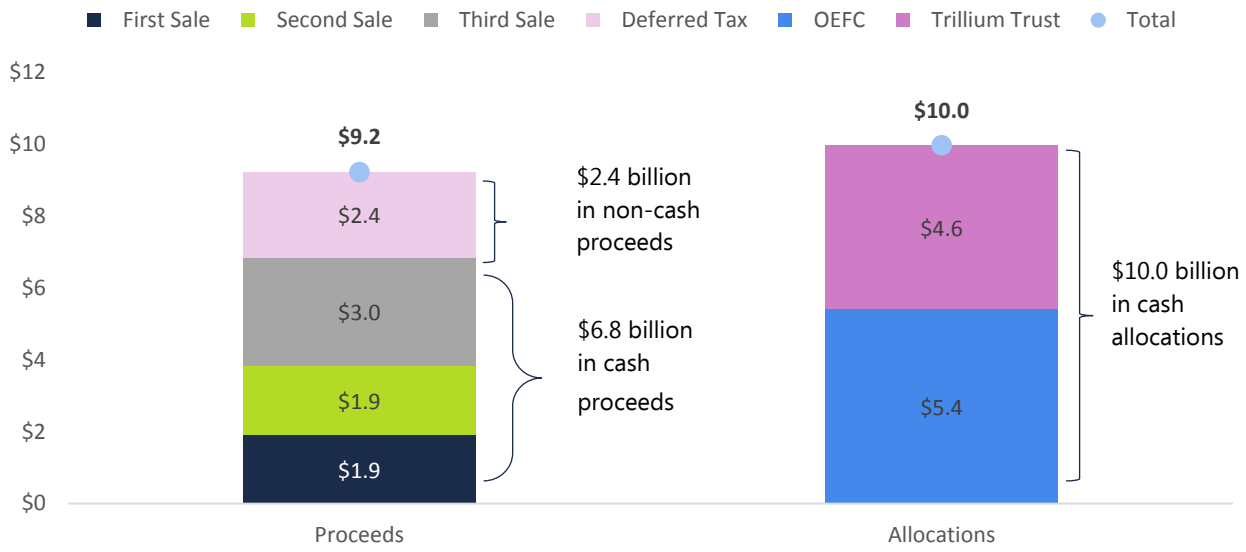
The FAO assumes that Hydro One sale proceeds will reduce Provincial borrowing requirements, which will reduce interest expense. In addition, the FAO estimates ongoing annual cash savings to the Province as a result of the sale,[19] which further reduce Provincial borrowing requirements. Beginning in 2018-19, the FAO estimates that the Province's interest expense will be reduced by about $247 million per year.[20]

[14] Ibid.
[15] Technically, the *Electricity Act, 1998* states that Hydro One will be subject to the corporate tax regime should the Province own less than 90 per cent of the company.
[16] In addition, Hydro One was required to make a final PIL to the Province immediately before the IPO, known as the departure tax, in the amount of $2.8 billion, which negatively impacted Hydro One's net income. However, the FAO estimates that this payment had a neutral impact to the Province's annual surplus / (deficit), because the Province recorded $2.8 billion in one-time revenue from Electricity PILs. Appendix A: Pre-Sale Transactions reviews the fiscal impact of this transaction in further detail.
[17] Ontario Electricity Financial Corporation, Annual Report, 2016-17.
[18] Chapter 5 reviews this concept in further detail.
[19] The FAO estimates different impacts on a cash versus accrual basis. For example, while the Province will forgo net income from Hydro One, this does not represent a loss in cash flow received from Hydro One. Rather, the Province receives cash flow from Hydro One through dividend payments. While the FAO estimates that the Province will forgo a portion of dividends through reduced ownership, Hydro One increased its dividend payments after the sale. The FAO estimates that the increased Hydro One dividend payments post-sale approximate the loss in dividends from reduced ownership, so overall, the Province will not lose dividend cash flow from Hydro One as a result of the sale. However, there is uncertainty with this estimate, because the Province may have been able to increase Hydro One's dividend payments in the absence of the sale.
[20] This estimate includes the FAO estimate of about $10 million per year in interest revenue from the loans related to the deferred gains on sale.

4. Sale Proceeds & Allocations

The FAO estimates that the Province generated a total of $9.2 billion in proceeds from its 53 per sale of Hydro One (Figure 4-1), which consists of $6.8 billion in cash and $2.4 billion in non-cash proceeds. The FAO includes the non-cash proceeds, which is a result of Hydro One's deferred tax asset benefit, to be consistent with the definition that is used by the Province.

Figure 4-1: FAO Estimate of Sale Proceeds and Cash Allocations, billions of dollars



Source: FAO
Notes: Numbers may not add due to rounding.

Although the Province generated sale proceeds (cash and non-cash) of $9.2 billion, the FAO estimates that the Province has committed to allocate a total of $10.0 billion to the Ontario Electricity Financial Corporation (OEFC) and Trillium Trust. The Province is allocating more to the OEFC and Trillium Trust than was raised in sale proceeds because of legal obligations under the *Electricity Act, 1998* (the Electricity Act) and the *Trillium Trust Act, 2014* (the Trillium Trust Act), and the Province's commitments to allocate the non-cash gain from the deferred tax asset benefit to the Trillium Trust and to allocate the book value of Hydro One shares to the OEFC.[21]

As noted in Figure 4-1, of the $10.0 billion total allocation, $5.4 billion has been allocated to the OEFC, consisting of $4.7 billion related to the book value of Hydro One shares sold and an additional $0.7 billion as prescribed by the Electricity Act. The Electricity Act[22] states that upon the sale of Hydro One shares, the Province is required to allocate the gain on sale to the OEFC, which for the purposes of the Electricity Act is calculated as $0.7 billion.[23]

Lastly, the FAO estimates that the Province will allocate $4.6 billion to the Trillium Trust for infrastructure investments. This consists of $2.2 billion related to the gain on sale of Hydro One as prescribed by the Trillium Trust Act[24] and also the allocation of the $2.4 billion deferred tax asset benefit, as committed to by the Province.[25] Note that although $4.6

[21] OEFC Annual Report, 2016-17. p. 6.
[22] Electricity Act, 1998 s. 50.3.
[23] Note that the gain as prescribed by the Electricity Act is different from the gain that is reported in the Province's consolidated financial statements.
[24] Trillium Trust Act, s. 4.
[25] https://news.ontario.ca/mei/en/2015/10/asset-optimization---broadening-ownership-of-hydro-one.html.

billion has been allocated to the Trillium Trust, only $2.2 billion represents a cash gain to the Province, while the remaining $2.4 billion is a non-cash gain. As a result, the Province will still be required to borrow cash for a portion of infrastructure investments funded from the Trillium Trust.[26]

The following two chapters discuss the OEFC and Trillium Trust in more detail.

[26] However, The FAO estimates that the Province will receive $0.7 to $1.2 billion in cash over time in connection with the deferred tax asset benefit and receive $1.0 billion in cash from the pre-sale transactions. Appendix A: Pre-Sale Transactions reviews these transactions in more detail.

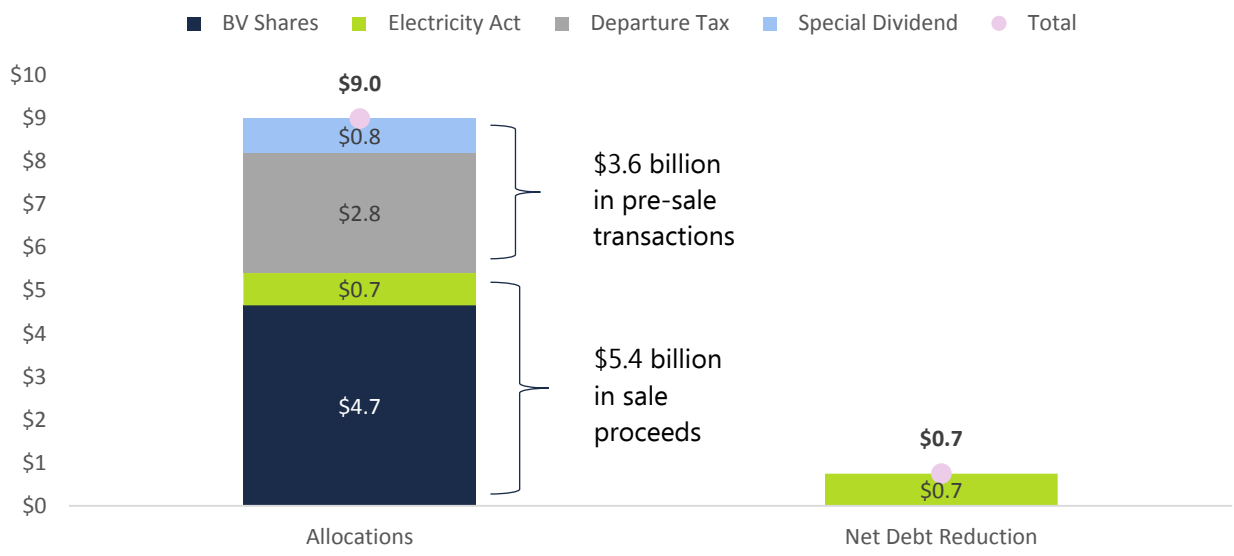
5. OEFC Debt Reduction

The FAO estimates that $5.4 billion of the $9.2 billion in sale proceeds will be allocated to the Ontario Electricity Financial Corporation (OEFC).[27] Additionally, as a result of pre-sale transactions, the FAO estimates that the Province transferred to the OEFC $2.8 billion for the departure tax payment and $800 million from a special dividend made by Hydro One to the Province immediately before the sale of Hydro One.[28] Overall, the FAO estimates that the OEFC will receive $9.0 billion in cash in connection with the 53 per cent sale of Hydro One, resulting from the sale proceeds and also the pre-sale transactions.

To date, the FAO estimates that the OEFC has received $6.6 billion in cash with the remaining $2.4 billion in cash to be received in 2017-18. The FAO estimates that the OEFC has reduced its gross debt by $4.9 billion as a result of the sale, which is less than the amount of cash received so far. The difference is because only so much OEFC debt can be retired in a given year, as the OEFC has debts outstanding with different maturities.[29]

However, the FAO estimates that OEFC net debt will only be reduced by $0.7 billion after all allocations have been remitted (Figure 5-1). This is because most of the allocations[30] are directed to reduce liabilities that the Province has with the OEFC, which are reported as assets on the financial statements of the OEFC.

Figure 5-1: FAO Estimate of OEFC Cash Allocations from Sale Proceeds and Pre-Sale Transactions and the Resulting Impact to OEFC Net Debt, billions of dollars



Source: FAO

The OEFC's net debt is the difference between the OEFC's gross debt and its assets is reported as the unfunded liability on the OEFC's financial statements. Any change in the OEFC's unfunded liability has implications for the OEFC's

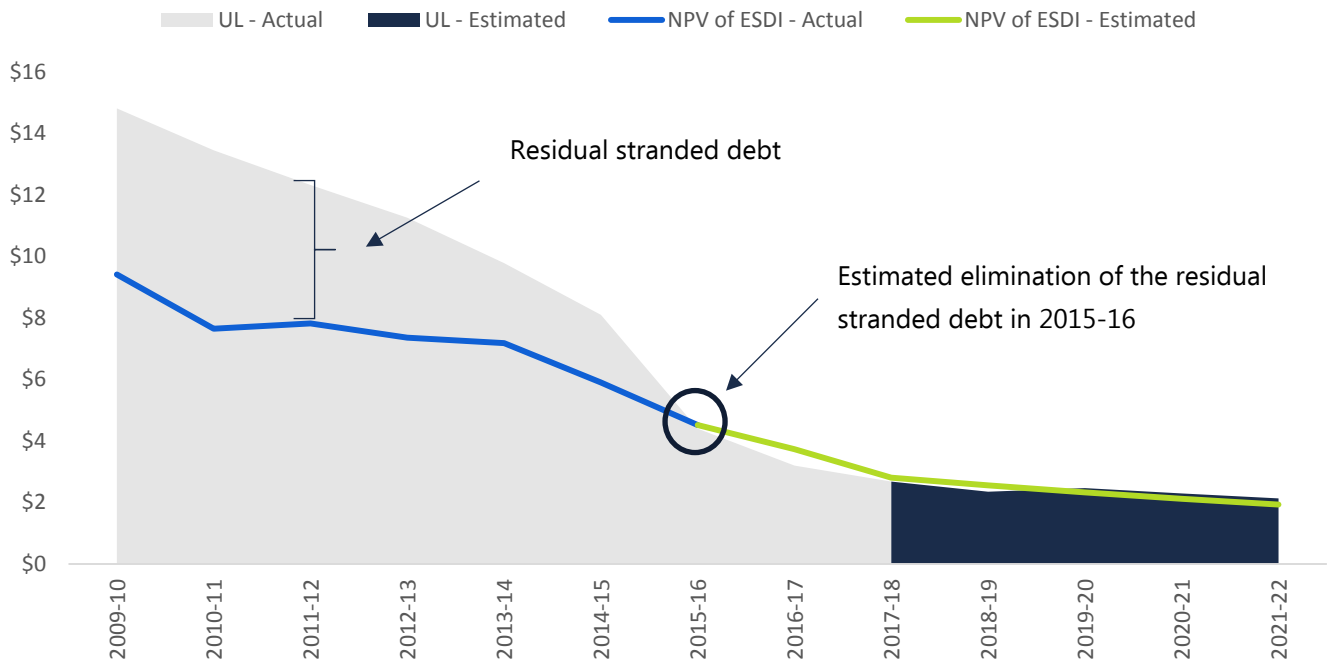
[27] The OEFC is one of five entities established by the Electricity Act as part of the restructuring of the former Ontario Hydro. The OEFC manages the debt, financial risks, and liabilities of the former Ontario Hydro.
[28] Appendix A: Pre-Sale Transactions reviews the departure tax and special dividend payment in further detail.
[29] Additionally, the FAO is not aware of any early retirement features in outstanding OEFC debt. To the extent that OEFC issues new debt to retire its existing debt, the FAO assumes that cash allocations to the OEFC would displace these new issuances.
[30] Technically all allocations, with the exception of the amounts that are prescribed by section 50.3 of the Electricity Act. The departure tax payment reduces OEFC's net debt, in isolation, but the reduction in Hydro One's net income as a result of the departure tax effectively reduces OEFC's assets (over time), so overall, the departure tax payment has a neutral impact on OEFC's net debt.

residual stranded debt (RSD). The RSD is calculated by the OEFC as the unfunded liability less the net present value (NPV) of future electricity sector dedicated income (ESDI).[31] Prior legislation stated that the debt retirement charge (DRC) would be charged to electricity consumers to help pay down the OEFC's gross debt until the Minister of Finance determined that the RSD had been retired (i.e. the RSD was no longer positive). However, in 2015, this requirement was removed from the Electricity Act and replaced with a firm deadline to end the DRC by April 1, 2018.[32]

Figure 5-2 shows the OEFC's actual and forecasted unfunded liability (UL) and net present value (NPV) of ESDI from 2009-10 to 2021-22. The FAO estimates that the first sale of Hydro One and the related sale transactions eliminated the RSD in 2015-16. Specifically, the FAO estimates that the OEFC's unfunded liability was $4.4 billion in 2015-16 and the NPV of the ESDI was $4.5 billion. This results in the elimination of the RSD in 2015-16 because the NPV of the ESDI ($4.5 billion) was greater than the OEFC's unfunded liability ($4.4 billion).

Although the FAO estimates that the RSD was eliminated at the end of 2015-16, the DRC continues to be charged to non-residential ratepayers[33] and is not scheduled by the Province to end until April 1, 2018[34] even though the Province does have the discretion to end the DRC before April 1, 2018.[35] As a result, the FAO esitmates that non-residential ratepayers will be charged $1.2 billion more than required to eliminate the RSD.

Figure 5-2: FAO Estimate of OEFC's Unfunded Liability and NPV of ESDI, billions of dollars



Source: FAO.

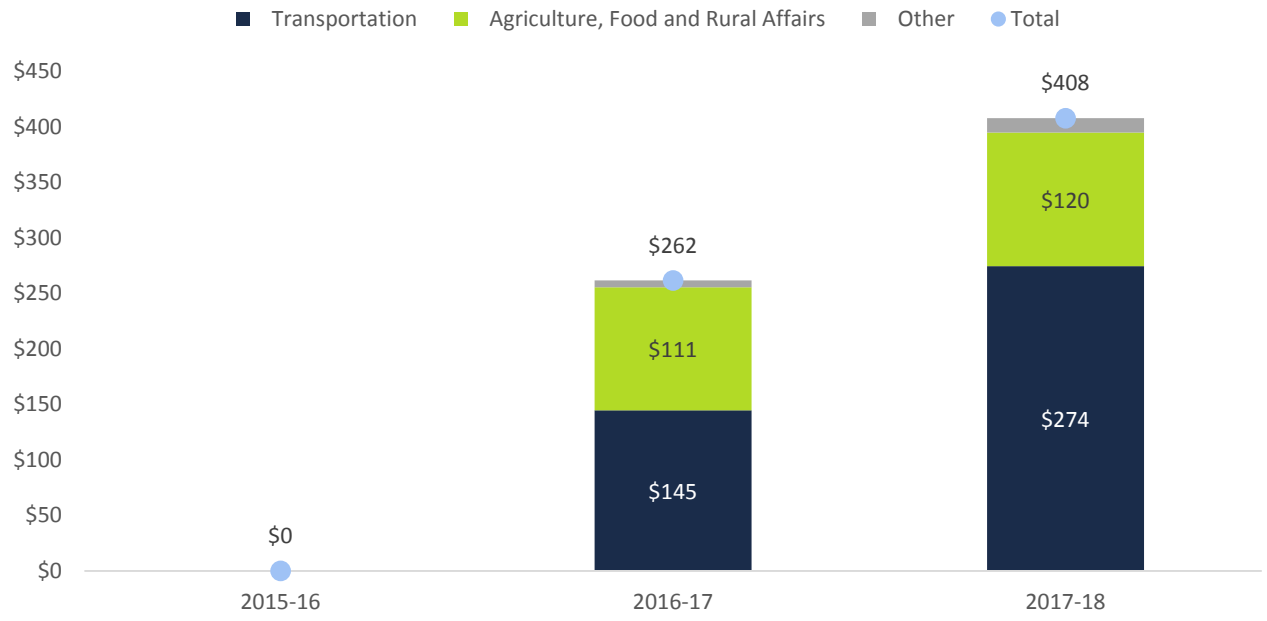
[31] ESDI consists of net income and PILs from Hydro One, Ontario Power Generation (OPG) and municipal electric utilities (MEUs).
[32] Section 85(4) of the Electricity Act.
[33] The DRC for residential ratepayers ended on December 31, 2015.
[34] Ministry of Finance, https://www.fin.gov.on.ca/en/tax/drc/index.html, accessed on November 30, 2017.
[35] Section 85(5.1) of the Electricity Act.

6. Trillium Trust

The Trillium Trust is a designated purpose account (DPA) which tracks the Province's commitment to fund infrastructure investments from the gains from sale associated with the sale of designated assets, such as Hydro One.

Figure 6-1 shows actual Trillium Trust spending for 2015-16 and 2016-17 and estimated spending for 2017-18 for the Ministries of Transportation and Agriculture, Food and Rural Affairs, and all other ministries.[36] The Ministry of Transportation spent $145 million and the Ministry of Agriculture, Food and Rural Affairs spent $111 million from the Trillium Trust in 2016-17. These ministries are expected to spend $274 million and $120 million from the Trillium Trust in 2017-18, respectively. [37]

Figure 6-1: Trillium Trust Spending, millions of dollars

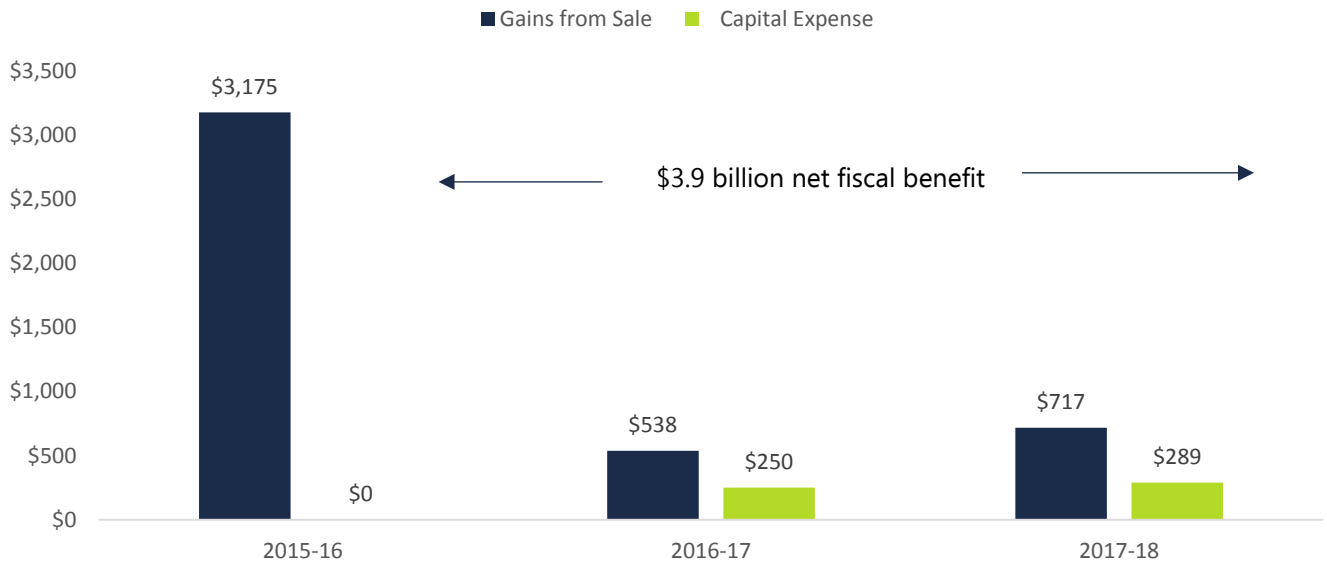


Source: 2015-16 and 2017-18 Public Accounts of Ontario and 2017-18 Expenditure Estimates.

Figure 6-2 shows $4.4 billion of the $4.6 billion in total allocation[38] credited to the Trillium Trust from 2015-16 to 2017-18 as a result of the sale of Hydro One, which is then compared to the $0.5 billion in total estimated capital expenses[39] over the same time period. Overall, the FAO estimates that the Province will realize a net fiscal benefit of approximately $3.9 billion over this period, as capital infrastructure expenses will be less than the gains from the sale of Hydro One. However, the FAO estimates that this net fiscal benefit will deteriorate towards a net fiscal loss in future years, as only $0.2 billion in gains remains to be credited to the Trillium Trust while $4.0 billion in infrastructure spending remains to be expensed to the Province's surplus / (deficit).

[36] 2015-16 and 2016-17 Public Accounts of Ontario, and 2017-18 Expenditure Estimates.
[37] The Province provided the FAO with a list of projects that will be financed through the Trillium Trust. However, the Province has deemed the list of projects to be a Cabinet record and as such the FAO cannot disclose the projects as per s. 12(2) of the *Financial Accountability Officer Act, 2013* and Order-in-Council 1412/2016.
[38] The Province has deferred about $0.2 billion of the allocation to be credited to the Trillium Trust after 2017-18.
[39] Capital expenses have an immediate negative impact on the Province's annual surplus / (deficit), whereas spending on capital assets does not have an immediate impact on the annual surplus / (deficit). However, capital assets will negatively impact the annual surplus / (deficit) in the future as the assets are amortized.

Figure 6-2: Trillium Trust, Revenue and Expense, 2015-16 to 2017-18, millions of dollars



Source: FAO

Finally, although the FAO estimates a $3.9 billion net fiscal benefit to the Province from 2015-16 to 2017-18 when comparing Hydro One gains from sale and capital expense from Trillium Trust spending on infrastructure, the net fiscal benefit from 2015-16 to 2017-18 is likely greater than $3.9 billion. This is due to the fact that some of the infrastructure projects funded by the Trillium Trust were already included in the Province's fiscal plan before its decision to sell Hydro One.[40]

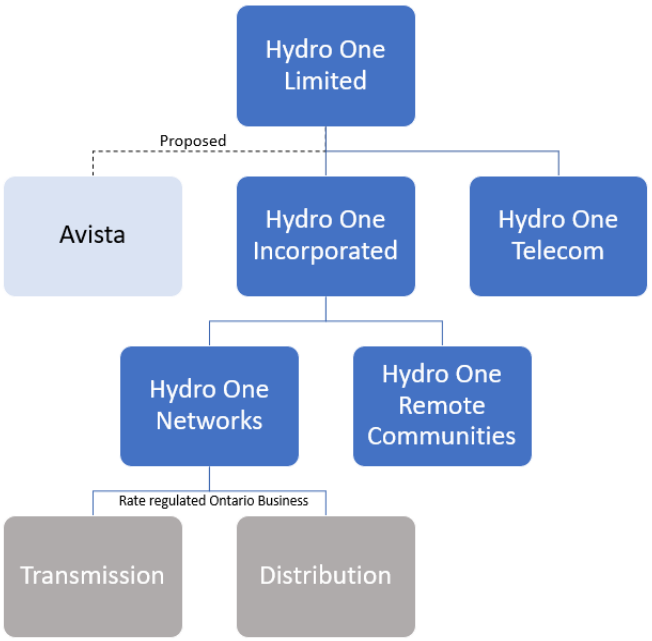
[40] Information provided by the Province to the FAO. The FAO is not able to disclose which projects due to Cabinet confidentiality restrictions as per s. 12(2) of the *Financial Accountability Officer Act, 2013* and Order-in-Council 1412/2016.

7. Effect of Sale on Ratepayers

Background

Hydro One Limited is a holding company with four subsidiaries, the largest of which is Hydro One Networks. Hydro One Networks (HON) is the portion of Hydro One that serves Ontario ratepayers and currently generates 99% of Hydro One's revenue.[41] Hydro One Networks continues to be regulated by the Ontario Energy Board (OEB) post-sale. HON must submit applications to the OEB which outline the utility's revenue requirement, which is the amount HON projects to recover from ratepayers in each year. The OEB will approve HON's rates for its transmission and distribution businesses after a public regulatory process. The approved revenue requirement reflects the OEB's determination of the amount of revenue required by Hydro One to cover the reasonably incurred costs of owning, operating and maintaining the transmission and distribution systems at a level of service that meets the needs of its customers.[42]

Figure 7-1: Hydro One Corporate Structure



Source: FAO

Effect of Privatization on Ontario Ratepayers

On November 23, 2017, the OEB issued a decision on HON's transmission rate application for 2017 and 2018. This decision established precedent for how some of the changes to Hydro One as a result of becoming a publicly traded company will affect electricity rates in Ontario.[43] HON initially applied for a transmission revenue requirement of $1,588 million in 2017 and $1,660 million in 2018. The OEB reduced Hydro One's revenue requirement by a total of $110 million to reflect the following changes.

- Reduction of regulatory income tax expense by a total of $65 million to reflect the allocation of a portion of Hydro One's deferred tax asset benefit to ratepayers.
- Reduction of proposed operating expenses (OM&A) by a total of $30 million to remove what the OEB deemed was excessive executive compensation.
- Reduction of cost of capital and depreciation expenses by a total of $15 million to reflect the removal of $248 million from Hydro One's capital spending envelope.[44]

The net result is a slight decrease in HON's transmission revenue requirement from 2016 to 2017, followed by a 4 per cent increase from 2017 to 2018 (Table 7-1). The increase in the revenue requirement from 2017 to 2018 is driven by

[41] Hydro One Investor Relations.
[42] Ontario Energy Board Case EB-2016-0160.
[43] Hydro One also has a distribution rate application currently pending for the years 2018 to 2022.
[44] Capital costs are not recovered from ratepayers in the year they are incurred. They are added to HON's rate base and expensed throughout their useful lives (depreciation).

increased capital spending which is reflected in higher depreciation and cost of capital expenses. HON's distribution application has not yet been approved by the OEB, however, the application requests 3.5 per cent average annual distribution rate increases from 2018 to 2022 which are also driven primarily by increased capital investment.[45]

Table 7-1 Summary of Hydro One Transmission Revenue Requirement ($ millions)

Transmission	2012	2013	2014	2015	2016	2017	2018
OM&A	427	440	450	431	437	398	394
Depreciation	333	345	372	387	397	434	469
Regulatory Income Tax	52	43	53	67	72	51	55
Cost of Capital	607	609	654	641	662	657	681
Revenue Requirement	**1,418**	**1,438**	**1,528**	**1,527**	**1,568**	**1,540**	**1,599**

Source: FAO analysis of OEB information.

The FAO has analyzed the OEB's decision on HON's transmission revenue requirement and HON's rate setting methodology and has identified three areas where ratepayers will / could be affected as a result of the partial sale of Hydro One.

- Allocation of the deferred tax asset benefit
- Operating expenses / efficiencies
- Cost of capital

In addition, the FAO offers some considerations on the how the partial sale of Hydro One impacted ratepayers through the debt retirement charge. The following sections provide analysis of each area.

Allocation of Deferred Tax Asset Benefit

In its transmission and distribution applications to the OEB, Hydro One proposed that 100% of the benefit from the deferred tax asset should be allocated to shareholders (including the Province). This approach was rejected by the OEB as it would have resulted in a large discrepancy between the "regulated" tax expense recovered from ratepayers and HON's actual taxes payable. HON had requested to recover $81.9 million and $89.6 million of transmission tax expenses from ratepayers in 2017 and 2018 while actual taxes payable by Hydro One were expected to be $12.2 and $13.1 million in 2017 and 2018.

Ultimately, the OEB decided to allocate a portion of the deferred tax asset benefit to ratepayers[46] using the "benefits follow costs principle."[47] The OEB determined that 38% of the deferred tax asset benefit is attributable to the costless deemed sale of shares and that proportion of the deferred tax asset benefit should be allocated to ratepayers.[48] The net result of this decision is to provide ratepayers with savings of approximately $986 million, of which $561 million will be allocated to transmission customers and $425 million to distribution customers. As a result, the 2017 and 2018 transmission revenue requirement has been reduced by a total of $65 million (see the regulatory income tax line in

[45] Ontario Energy Board Case EB-2017-0049 Exhibit A Tab 3 Schedule 1 Page 15.
[46] Hydro One has appealed this decision to the Divisional Court of Ontario, if the appeal is successful, the deferred tax savings currently allocated to ratepayers could be reduced or eliminated.
[47] The precedent for the benefits follow costs principle can be found in the OEB's RP-2004-0188 Report.
[48] The calculation behind the 38% allocation to ratepayers is as follows: 51% of the shares of Hydro One have actually been sold to shareholders at the fair market value of the company, therefore, 51% of the deferred tax asset benefit was allocated to shareholders. In addition, Hydro One incurred a departure tax cost that preceded the deferred tax asset benefit on the 49% of shares that were not sold and 11% of the deferred tax asset benefit was determined to have followed that cost. As a result, 62% of the deferred tax asset benefit was allocated to shareholders and the remaining 38% to ratepayers. See Ontario Energy Board Case EB-2016-0160 for additional detail.

Table 7-1). The FAO estimates that the full savings to ratepayers of approximately $908 million will be amortized over at least 15 years.

Operating Expenses/Operating Efficiencies

One of the key premises the Province outlined in its rationale for the privatization of Hydro One was the potential for private sector discipline to create operating efficiencies that could be passed on to ratepayers.[49] Any operating efficiencies realized by Hydro One would be reflected in lower Operation, Maintenance and Administration (OM&A) expenses.[50]

The OEB approved transmission OM&A amounts of $397.7 million and $394.3 million in 2017 and 2018 are lower than any approved amounts from 2012 to 2016 (Table 7-1). The approved OM&A amounts are, however, consistent with the actual OM&A expenses of $382 million in 2016 and $414 million in 2015.

In addition, Hydro One's increased capital spending envelope over prior years should put downward pressure on operating expenses (it costs less to maintain a repaired asset) and the reduction in OM&A expenses are more than offset by increased capital related expenses (depreciation and cost of capital).

One of the areas that directly affected Hydro One's OM&A expenses as a result of the sale was compensation, particularly executive compensation. Hydro One requested a 6.4% increase in management and executive pay which reflected the hiring of 12 new members of the board of directors and a new CEO and CFO by Hydro One Limited.[51] HON has argued that such compensation would provide customers value and should be reflected in transmission rates.

In its decision, the OEB outlined that Hydro One did not adequately demonstrate that the increased executive compensation costs will provide improvements in efficiency and productivity. As a result, the OEB reduced HON's compensation revenue requirement (under OM&A) by $15 million in both 2017 and 2018. Should HON adequately demonstrate that the increased executive compensation is providing ratepayers value in the future, the FAO assumes such costs would be factored into HON's revenue requirement.

Cost of Capital

Alignment of the interests of shareholders and ratepayers

As a publicly traded company, Hydro One will have investor pressure to generate returns in excess of OEB approved levels. The return paid by ratepayers to Hydro One shareholders is reflected in the cost of capital component of HON's revenue requirement. The methodology to determine Hydro One's cost of capital has not changed as a result of the partial sale. The return is based on HON's regulated capital structure and rate base. Hydro One's rate base consists of the carrying cost of HON's long-lived assets.

Table 7-2 outlines the calculation of Hydro One's 2017 transmission cost of capital. Hydro One's regulated capital structure is 40% equity and 60% debt (56% long-term debt and 4% short-term debt).

[49] Government of Ontario. "Striking the Right Balance: Improving Performance and Unlocking Value in the Electricity Sector in Ontario." 16 Apr. 2015. p. 13.
[50] Efficiencies could also be reflected in more efficient capital spending.
[51] Ontario Energy Board Case EB-2016-0160. Undertaking J.10.

Table 7-2 Calculation of Hydro One Transmission Cost of Capital, 2017 ($ millions)

	Rate Base	% of Deemed Capital Structure	Rate of Return	Cost of Capital to be Recovered from Ratepayers
Long Term Debt	5,910	56%	4.67%	280
Short Term Debt	422	4%	1.76%	7
Common Equity	4,222	40%	8.78%	370
Total	**10,554**		**6.20%**	**657**

Source: Ontario Energy Board Case EB-2016-0160.

Hydro One shareholders are permitted to earn an 8.78% return on their equity investment in HON.[52] Hydro One's return on equity is not guaranteed and the actual return shareholders earn depends on:

1. Hydro One's ability to achieve or improve upon the revenue requirement targets set out by the OEB.
2. The extent to which Hydro One's actual capital structure aligns with its regulated capital structure.
3. Hydro One's ability to grow its rate base through increased capital investment (and acquisitions).

The rate regulated structure provides an incentive for Hydro One to overstate its revenue requirement, as one way HON can provide returns to shareholders in excess of the regulated return is to collect more from ratepayers than the actual cost of providing transmission and distribution services. In addition, the structure provides an incentive for Hydro One to make excess capital investment to grow the rate base on which shareholders earn a return.

However, the OEB attempts to align the interests of ratepayers and shareholders through what is known as incentive-based rate making.[53] Hydro One's distribution rates include an earnings-sharing mechanism whereby customers share 50% of any earnings that exceed the regulated return on equity by more than 100 basis points (1%).[54]

Overall, to the extent that the OEB's incentive rate setting process can align the interests of ratepayers and shareholders it could help to ensure that ratepayers benefit from efficiencies realized by Hydro One and that shareholders do not earn excess returns at the expense of ratepayers.

Cost of Debt Financing

Hydro One's cost of long-term debt financing, which represents 56% of HON's regulated capital structure is calculated based on Hydro One's weighted average rate on embedded debt, new debt and forecast debt. Therefore, unlike HON's cost of equity, the cost of long-term debt passed on to ratepayers is directly related to the company's actual financing costs.[55]

The debt to finance HON's capital investments is issued by its parent company Hydro One Incorporated. Hydro One Incorporated has traditionally benefitted from credit ratings one or two notches (depending on the rating agency) below the rating of the Province of Ontario. The sale of Hydro One appears to have had only a minor effect on Hydro One Incorporated's perceived creditworthiness with only one rating agency (Moody's) downgrading the company as a

[52] The regulated return on equity was unaffected by privatization and is set by the Ontario Energy Board based on a formulaic approach unrelated to Hydro One's actual capital structure.
[53] The OEB can also adjust approved revenue requirement levels if HON persistently spends less than revenue targets. The OEB also ensures the prudency of HON's capital spending.
[54] Hydro One's transmission business does not currently incorporate an earnings-sharing mechanism. However, the transmission business will be adopting an incentive-based rate setting model in 2019. Hydro One Investor Overview Second Quarter 2017.
[55] Hydro One's short term debt rate is calculated based on a formulaic approach based on Bank of Canada rates.

result of the sale.[56] The primary reason for the downgrade from Moody's is the lack of perceived backing from the Province of Ontario due to the Province's reduced ownership of the company.[57]

Table 7-3 Hydro One Incorporated Long-Term Debt Rating

	2013	2014	2015	2016	2017
Hydro One Incorporated Long Term Debt Rating					
S&P	A+	A+	A	A	A
DBRS	A (high)	A (high)	A (high)	A (high)	A (high)
Moody's	A1	A1	A3	A3	A3
Ontario Long Term Debt Rating					
S&P	AA-	AA-	A+	A+	A+
DBRS	AA(low)	AA(low)	AA(low)	AA(low)	AA(low)
Moody's	Aa2	Aa2	Aa2	Aa2	Aa2

Source: Hydro One Annual Reports 2012 through 2016.

Looking ahead, the further reduction of Provincial ownership and increased leverage due to the proposed acquisition of Avista has the potential to further impact Hydro One's credit rating.[58] Both S&P and Moody's have changed their outlook on Hydro One Incorporated from stable to negative due to the proposed Avista acquisition.[59]

Any deterioration of Hydro One Incorporated's creditworthiness would increase the yield on its new debt. As a result, the long-term debt costs passed onto ratepayers would likely increase (relative to 100 per cent Provincial ownership) over time as debt issued while Hydro One was under 100 per cent control of the Province is retired and new debt is issued.

Debt Retirement Charge

The debt retirement charge (DRC) is a charge on electricity consumption paid by non-residential electricity ratepayers. As outlined in chapters 3 and 6, after the partial sale of Hydro One, the Province decided to end the DRC on April 1, 2018, rather than December 31, 2018. Therefore, the partial sale of Hydro One is expected to save non-residential electricity ratepayers approximately $465 million. However, the FAO also estimates that after the partial sale of Hydro One the DRC should have been eliminated in 2015-16 as the residual stranded debt (RSD) was eliminated at that time. As a result, although non-residential electricity ratepayers are expected save approximately $465 million, the FAO estimates that non-residential electricity ratepayers should have saved an additional $1.2 billion from the partial sale of Hydro One.

[56] The downgrade by S&P in 2015 was a result of S&P's decision to downgrade the Province of Ontario.
[57] Moody's Investors Service. "Moody's downgrades Hydro One to A3; Outlook Changed to Stable." 05 Nov. 2015.
[58] The debt issued to finance the acquisition of Avista will be issued by Hydro One Limited, not Hydro One Incorporated.
[59] Moody's Investor Service. "Moody's Affirms Hydro One's Senior Unsecured A3 Ratings; Outlook Changed to Negative." 19 Jul. 2017 and S&P Global Ratings. "Hydro One Ltd. And Hydro One Inc. Outlooks Revised to Negative from Stable on Proposed Avista Corp. Acquisition." 19 Jul. 2017.

8. Hydro One's Purchase of Avista

In July of 2017, Hydro One announced that it intends to purchase Avista Corporation (Avista) for $4.4 billion.[60] Avista is an energy company involved in the production, transmission and distribution of energy as well as other energy-related businesses. It is based in the United States and its service territory includes Washington, Idaho, Oregon and Alaska.[61]

Fiscal Impact Considerations

The FAO did not forecast the on-going fiscal impact to the Province of Hydro One's pending purchase of Avista, but it offers the following considerations:

1. The FAO estimates that the Province's ownership in Hydro One will decline by 5 per cent following the acquisition of Avista, from 47 per cent to 42 per cent.[62]
    - The FAO estimates that the Province will forgo about $40 million in Hydro One's net income for the fiscal year 2019-20 as a result of its diluted ownership in the company.
2. The FAO estimates that Avista generates about $180 million per year in net income.[63]
    - Avista is also a regulated utility with a rate base of $3.88 billion (22% of the size of Hydro One) and an average regulated return on equity of 9.6%.
    - The FAO estimates that the Province will realize 42 per cent of the net income from Avista, at about $75 million for the fiscal year 2019-20.
3. The FAO estimates that Hydro One will take on more debt as a result of its purchase of Avista.[64]
    - The FAO estimates that Hydro One will issue $3.4 billion in new debt in connection with the acquisition.
    - The FAO estimates that the Province's annual surplus / (deficit) will deteriorate by about $55 million for the fiscal year 2019-20 as a result of the Province's 42 per cent share of the interest payments for Hydro One's additional debt.

Overall, the FAO estimates that the Province's annual surplus / (deficit) will deteriorate by about $20 million in fiscal 2019-20 as a result of Hydro One's purchase of Avista. Going forward, the impact to the Province's annual surplus / (deficit) will depend on the future profitability of Avista.

[60] The purchase is subject to closing conditions and expected to be finalized in the second half of 2018. The $4.4 billion purchase price is in Canadian dollars (CAD). Hydro One will also assume Avista's debt for a total purchase price of $6.7 billion CAD.
[61] Hydro One press release, "Hydro One to Acquire Avista to Create Growing North American Utility Leader with C$31.2 Billion in Enterprise Value".
[62] This is estimated to occur in calendar third quarter of 2018 when convertible debt issued to acquire Avista is converted to an estimated additional 72 million Hydro One shares. The FAO assumes that the Province will not purchase any of these securities.
[63] In Canadian dollars.
[64] This is in connection with the assumption of an estimated $2.3 billion in Avista's debt, plus the estimated $3.4 billion in Hydro One debt and $1.5 billion in convertible Hydro One debt that was issued to finance the purchase of Avista.

Effect on Ratepayers

The FAO did not estimate the potential impact to electricity rates as a result of Hydro One's pending acquisition of Avista. However, the FAO provides the following considerations.

1. The OEB sets electricity rates in Ontario based on regulated assets in Ontario. As such, Avista's assets should not have an impact on electricity rates in Ontario, because they are located outside of the OEB's regulating jurisdiction.

2. The OEB considers the cost of Hydro One's debt when determining its revenue requirement. Two credit rating agencies indicated potential negative rating actions on Hydro One Incorporated debt resulting from the potential acquisition of Avista by Hydro One Limited. Therefore, there is potential for the acquisition to increase Hydro One Incorporated's cost of debt, which would increase Hydro One Networks' revenue requirement, which would negatively impact electricity rates in Ontario.

3. The OEB will consider how costs are allocated between the non-regulated parent company and Hydro One's regulated business. Therefore, there is potential for cost efficiencies that are realized due to the expansion of Hydro One's business which could potentially decrease Hydro One Networks' revenue requirement, which would positively impact electricity rates in Ontario.

Dilution of Provincial Ownership of Hydro One

As noted above, Hydro One's proposed purchase of Avista is expected to dilute the Province's ownership of Hydro One from 47 per cent to 42 percent. In addition, Hydro One's management has expressed an interest in pursuing further acquisitions of North American utilities on a similar scale to the proposed acquisition of Avista.[65] If Hydro One were to purchase another North American utility of a similar size to Avista it would likely drop Provincial ownership of Hydro One to well below 40 per cent.

Under the Electricity Act, the Province cannot sell shares of Hydro One if it would take Provincial ownership below 40 per cent.[66] However, the Electricity Act does not prevent Hydro One from issuing additional shares to make another acquisition and thereby dilute Provincial ownership of Hydro One to less than 40%.

If a new acquisition by Hydro One were to reduce Provincial ownership to less than 40 per cent, then the Electricity Act states that the Province shall take steps to acquire as many shares in Hydro One as required to return the Province to 40 per cent ownership, but only if the plan to acquire the additional shares is approved by Cabinet (i.e. the Province).[67] Consequently, if Provincial ownership of Hydro One falls below 40 per cent, it is within the Province's own discretion to decide whether or not to return Provincial ownership to the 40 per cent threshold.

[65] Hydro One's investor presentation.
[66] Electricity Act, s. 48.2(5) and s. 50.2.1.
[67] Electricity Act, s. 48.2(6) and (7). There are other conditions as well, such as complying with the *Securities Act*.

9. Appendices

Appendix A: Pre-Sale Transactions

The Province, Hydro One and the OEFC completed a series of transactions before the initial sale to address the financial impacts of the departure tax and deferred tax asset benefit. Table 9-1 shows the FAO's estimate of the impact of the pre-sale transactions on the Province's financial statements. Overall, the FAO estimates that only the deferred tax asset had a fiscal impact, improving the annual surplus / (deficit) by $2.4 billion and reducing net debt by $2.4 billion.

Table 9-1: FAO Estimate of the Fiscal Impact of the Initial Hydro One Pre-Sale Transactions, millions of dollars

$ millions	Departure Tax	Equity Injection	Special Dividend	Deferred Tax Asset	Total Impact
PILs Revenue	2,800	0	0	0	2,800
GBE Income	-2,800	0	0	2,400	-400
Annual Surplus / (Deficit)	**0**	**0**	**0**	**2,400**	**2,400**
PILs Revenue	2,800	0	0	0	2,800
Investment in GBE	0	-2,600	0	0	-2,600
Dividends Received	0	0	800	0	800
Cash Flow	**2,800**	**-2,600**	**800**	**0**	**1,000**
Cash	2,800	-2,600	800	0	1,000
GBE Investment	-2,800	2,600	-800	2,400	1,400
Net Debt	**0**	**0**	**0**	**-2,400**	**-2,400**

Source: FAO

Note: Numbers are rounded to the nearest hundred million. The deferred tax asset impact was post-sale and the result of a deemed transaction.

Transaction Review

Before the initial sale of Hydro One, the company was exempt from paying corporate tax. Instead, Hydro One made payments-in-lieu of tax (PILs) to the Province. However, once the Province sold more than 10 per cent of its ownership in Hydro One, the company ceased making PILs and began paying corporate tax. However, Hydro One was to make a final PIL before the initial sale, known as the departure tax, which was remitted by the Province to the Ontario Electricity Financial Corporation (OEFC).

Immediately after the sale, Hydro One was deemed to have sold and reacquired its assets at fair market value, which was higher than the value of its assets before the time of sale. As a result, Hydro One will record significant capital cost

allowances (CCA) going forward, which will depreciate the value of its assets for tax purposes, and result in Hydro One not paying corporations tax for some time. These future tax savings are referred to as the deferred tax asset benefit.

The following provides more information on departure tax and the deferred tax asset, plus two other pre-sale transactions: the equity injection and special dividend.

1. **Departure Tax.** Immediately before the sale, Hydro One paid the OEFC $2.6 billion in PILs. The payment was prescribed by the Electricity Act and the amount was determined by the Minister of Finance. The departure tax was introduced to establish a level playing field with unregulated companies and to compensate the Province for its investment in Hydro One.[68] It is known as the departure tax because Hydro One was "departing" from the PILs regime.
    - Hydro One also paid $191 million in additional PILs. This was to equate the value of the departure tax to the value of Hydro One's deferred tax asset benefit. The FAO adds the $2.6 billion and $191 million payments to define the departure tax as $2.8 billion.
2. **Equity Injection.** Immediately before the sale, the Province invested $2.6 billion in Hydro One to help the company finance its payment of the departure tax. The Province records the value of Hydro One as an equity investment in its consolidated financial statements, so the investment is known as an equity injection. This transaction helped support the market value of Hydro One for the partial sale.
    - For example, in the absence of the Province financing the departure tax, Hydro One would have incurred additional interest costs associated with new debt issued to pay the departure tax, which would have lowered the value of the company and sale proceeds, all else being equal.
3. **Special Dividend.** Immediately before the sale, Hydro One made a one-time dividend payment to the Province in the amount of $800 million. This payment was to align Hydro One's actual and regulated capital structure.
    - For example, the combined impact of the departure tax, equity injection and deferred tax asset resulted in an increase to Hydro One's equity of $2.6 billion. Given that Hydro One's debt remained the same, the combined impact of these transactions is a decrease to Hydro One's debt to equity ratio. As such, Hydro One issued $800 million in debt and paid the Province $800 million in dividends, which served to align the company's actual and regulated capital structure. Maintaining a certain debt to equity ratio is important because the Ontario Energy Board (OEB) determines electricity rates based on a fixed debt to equity ratio of about 60 per cent for Hydro One.
4. **Deferred Tax Asset.** Immediately after the sale, Hydro One was deemed to have sold and reacquired its assets at fair market value, which was higher than the value of its assets before the time of sale. As a result, Hydro One will record significant capital cost allowances (CCA), which will depreciate the value of its assets for tax purposes, and result in Hydro One not paying corporations tax for some time.
    - These future tax savings are recorded as an asset on Hydro One's financial statements and Hydro One estimated the value of this asset at $2.8 billion. However, the Province only consolidated the value of this asset at $2.4 billion in its consolidated financial statements, because the Province only owned 84

[68] OEB Decision and Order EB-2016-0160.

per cent of Hydro One immediately following the sale.[69] For each year going forward, as Hydro One pays less tax than it records as tax expense in its financial statements, the value of the deferred tax asset declines by the amount of tax savings.

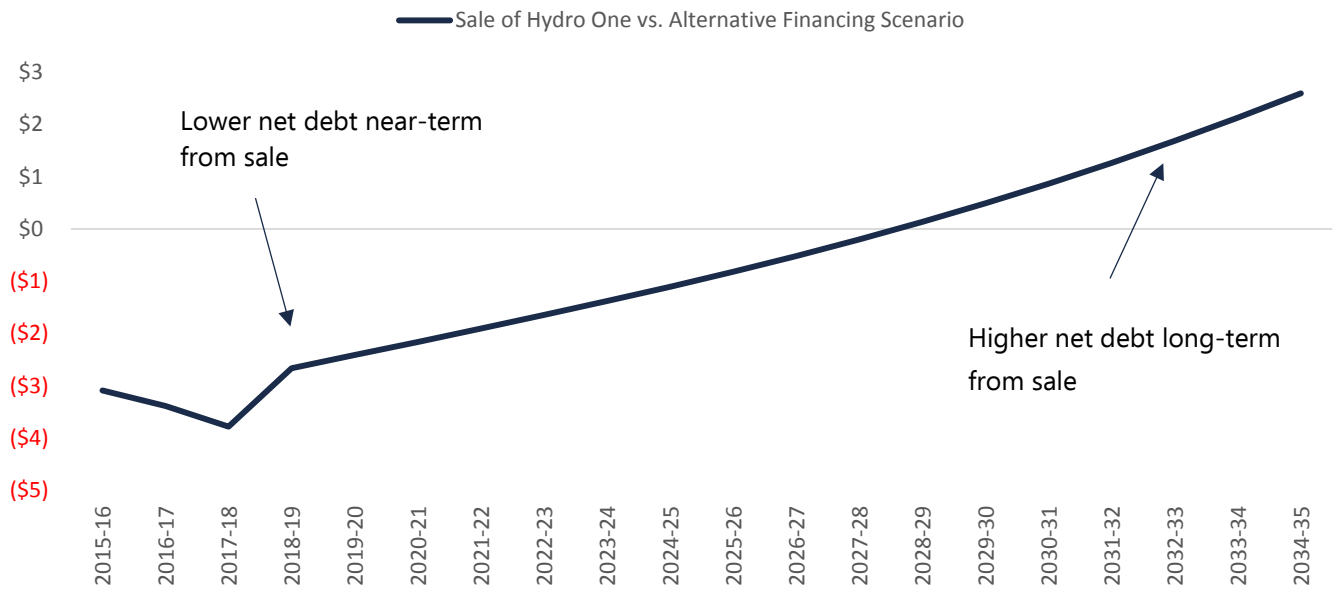
[69] However, the OEB has ruled that Hydro One is not allowed to recover the full amount of the deferred tax benefit. Hydro One has appealed this ruling to the Divisional Court of Ontario. If Hydro One's appeal fails, then the company is expected to realize a loss of about $0.9 billion in connection with the deferred tax asset benefit.

Appendix B: Effect on Net Debt

Overall, the FAO estimates that Provincial net debt will be higher as a result of the sale of Hydro One by 2028-29. The FAO estimated the fiscal impact of the sale of Hydro One compared to an alternative financing scenario in which the Province issues debt to allocate an equivalent amount of cash to the OEFC and the Trillium Trust. The FAO assumes that in the alternative financing scenario, the Province would be required to issue $7.8 billion in debt, which is equal to the $6.8 billion in Hydro One cash sale proceeds, plus $1.0 billion in cash received from the pre-sale transactions.[70]

The FAO estimates that due to the sale of Hydro One, Provincial net debt will be lower in the near term, versus the alternative financing scenario, due to the upfront benefits resulting from the gains on sale and the deferred tax asset benefit. The Province also benefits from interest expense savings as it is not required to borrow $7.8 billion in debt. However, over the long-term and starting in 2028-29, the FAO estimates that with the sale of Hydro One, Provincial net debt will be higher compared with the alternative financing scenario as the interest savings are more than offset by forgone revenue from PILs and net income from Hydro One (Figure 9-1).

Figure 9-1: FAO Estimate of the Effect on Provincial Net Debt from Selling Hydro One vs an Alternative Financing Scenario of Issuing Provincial Debt



Source: FAO.

[70] Appendix A: Pre-Sale Transactions reviews the $1 billion in cash received from the pre-sale transactions.

Appendix C: Development of this Report

Authority

The Financial Accountability Officer accepted a request from a member of the Legislative Assembly to undertake the analysis presented in this report under paragraph 10(1)(b) of the *Financial Accountability Officer Act, 2013*.

Key Questions

The following key questions were used as a guide while undertaking research for this report:

- What is the fiscal impact to the Province of the partial sale of Hydro One?
  - What were the final proceeds generated by the Province?
  - Of the final proceeds, what amount was cash vs. non-cash, and what are the implications for the financial position of the Province?
  - How did the sale impact the Province's surplus/deficit and net debt?
  - How much has OEFC electricity sector debt been reduced as a result of the sale?
  - How did the transactions related to the sale, including the $2.6 billion departure tax and $800 million special dividend, impact the Province's fiscal position?
  - What is the projected long-term effect of the sale compared to what would have happened if the Province generated equivalent funds using traditional borrowing?
- How will the proceeds from the sale of Hydro One be used to finance infrastructure projects?
  - What portion of the proceeds (cash and non-cash) was allocated to the Trillium Trust, and what are the implications, if any, of funding infrastructure projects with non-cash proceeds?
  - What infrastructure projects are being financed by the sale proceeds?
  - Are the infrastructure projects being financed by the sale of Hydro One new projects, or existing projects already included in the Province's fiscal plan?
- How will the sale of Hydro One affect Ontario ratepayers?
  - How will payment of OEFC debt using the proceeds generated by the sale affect Ontario ratepayers?
  - How could changes in Hydro One's capital structure (debt/equity) resulting from the sale and related transactions affect Ontario ratepayers?
- What is the expected impact to the Province and Ontario ratepayers from Hydro One's proposed acquisition of Avista corp.?
  - How would the acquisition affect the Province's investment in Hydro One?
  - How would changes to Hydro One's business that is not regulated in the Ontario market affect Ontario ratepayers?

Scope

This report does not:

- Seek to assess the merits of the decision to sell Hydro One.

Methodology

This report has been prepared with the benefit of information provided by the Ministries of Finance and Energy, Treasury Board Secretariat and the Ontario Financing Authority, meetings with staff from the Ontario Financing Authority, a review of relevant literature, as well as other publicly available information. Specific sources are referenced throughout.

The FAO's estimate of the fiscal impact of the sale of Hydro One is subject to uncertainties. For example, the FAO's estimate of the fiscal impact would improve (i.e. improve the surplus / (deficit) overall) should interest rates increase above forecasted levels, because the Province would save more on its displaced borrowing. Also, the FAO excludes any assumptions about changes in the profitability of Hydro One. An improvement in Hydro One's profitability as a result of the sale would improve the FAO's estimate of the fiscal impact.

All dollar amounts are in Canadian, current dollars (i.e. not adjusted for inflation) unless otherwise noted.

Financial Accountability Office of Ontario
2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2 | 416.644.0702 | fao-on.org | info@fao-on.org

December 7, 2017

Tim Schuurman
Assistant Deputy Minister, Office of the Budget, Ministry of Finance
Frost Bldg, 4th Flr
7 Queen's Park Cres
Toronto, ON M7A 1Y7

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RE: Government review of FAO draft report "Follow-up Analysis of the Financial Impact of the Partial Sale of Hydro One" (FA1715)

Dear ADM Schuurman:

Please find enclosed the FAO draft report "Follow-up Analysis of the Financial Impact of the Partial Sale of Hydro One."

This draft report is being provided to you on a confidential basis and may contain information subject to disclosure restrictions under the *Financial Accountability Officer Act, 2013* (FAO Act) and Order-in-Council 1412/2016 (OC 1412/2016). I would ask that you not share outside appropriate staff in the Ministries of Finance and Energy, Treasury Board Secretariat and the Ontario Financing Authority.

We would welcome any comments you might have on this version of the draft report. Specifically, we ask that you help us by identifying any aspect of the draft report that you feel might be incomplete, inaccurate or misleading. I have enclosed the FAO's comment tracking form, which you might find helpful in gathering comments.

We also ask that you assist us in fulfilling the duties of the FAO under section 13 of the FAO Act and OC 1412/2016. Under section 13 of the FAO Act, the FAO cannot disclose the information he obtains from a ministry or public entity under section 12 of the FAO Act unless the disclosure is essential for the performance of his mandate and the information does not fall under certain categories of sensitive records. Under OC 1412/2016, the FAO agrees not to disclose any information obtained from a ministry or public entity protected by section 12(1) of the *Freedom of Information and Protection of Privacy Act*.

The FAO considers the disclosure of information to be essential for the performance of his

mandate where the disclosure is required to support the findings he presents to the Legislative Assembly.

In order to help the FAO fulfill his duties under section 13 of the FAO Act and OC 1412/2016, please answer the following questions:

1. If published in its current form, would the draft report disclose information the Ministries of Finance and Energy, Treasury Board Secretariat and the Ontario Financing Authority gave the FAO in response to an information request made under section 12 of the FAO Act or OC 1412/2016?

   If the report only contains publicly-available information and/or analysis based on non-public information that does not allow a person to reconstruct the original information, then no disclosure is occurring and the disclosure restrictions therefore do not apply.

   If, however, the report contains raw, non-public information and/or analysis based on non-public information that does allow a person to reconstruct the original information, then a disclosure is occurring and you should determine whether the information falls under one or more sensitive categories under paragraphs 2, 3 and 4 of section 13 of the FAO Act or OC 1412/2016.

2. Does any of the information presented in the report fall under one of the following categories for the purposes of paragraphs 2, 3 or 4 of section 13 the FAO Act?

   a. Was the information obtained solely from a record described in section 17 of the *Freedom of Information and Protection of Privacy Act* (FIPPA)? If so, please specifically identify that information and the third party whose interests would be affected by the disclosure of the information.

   b. Was the information obtained solely from a record described in section 15 of FIPPA? If so, please specifically identify that information and the other government which would be affected by the disclosure of the information.

   c. Was the information obtained solely from a record described in subsection 18(1) of FIPPA? If so, please specifically identify that information. If applicable, please identify the other public institution whose interests would be affected by the disclosure of the information.

   d. Is the information subject to solicitor-client privilege, litigation privilege or settlement privilege? If so, who are the holders of that privilege with respect to the information?

3. If the information falls under one of the categories listed in paragraphs 2, 3 or 4 of section 13 of the FAO Act, please identify the relevant subsection or paragraph of FIPPA and specifically explain why the information falls under the category.

   It is not sufficient simply to refer to sections 15, 17 or 18(1) of FIPPA without providing

justification about why the provision applies to the information that would be disclosed.

Where the Information and Privacy Commissioner has established a legal test for determining whether a record falls under sections 15, 17 or 18(1) of FIPPA or a particular subsection or paragraph thereof, please use the test and demonstrate how each element of the test has been met.

4. Does any of the information presented in the report fall under section 12(1) of FIPPA (as per OC 1412/2016)?

   If the information falls under section 12(1) of FIPPA (as per OC 1412/2016), please specifically explain why the information falls under the section.

   It is not sufficient simply to refer to section 12(1) of FIPPA without providing justification about why the provision applies to the information that would be disclosed.

   Where the Information and Privacy Commissioner has established a legal test for determining whether a record falls under section 12(1) of FIPPA or a particular paragraph thereof, please use the test and demonstrate how each element of the test has been met.

Please note: if you do not provide enough information for the FAO to determine whether the information is subject to a disclosure restriction, the FAO may make a formal information request, asking for additional details.

Should you have any questions about the above, or the draft report or FAO processes in general, please do not hesitate to contact me at mstephenson@fao-on.org or 416-550-9430.

In order to maintain the schedule for this project, we would ask that you please provide a response to this review request by 4:00 pm on December 13, 2017.

I want to thank you for your assistance in this matter. Providing timely and relevant analysis to the Legislature is the primary objective of the FAO. The degree to which this is possible depends, to a large extent, on the collaboration of ministries and public entities. In assisting us with this work, you are helping us to better serve Members of the Provincial Parliament.

Sincerely,

Matthew Stephenson
Project Manager

Enclosures:

- Draft Report
- Comment Tracking Form
- Guide to Reviewing Draft Reports Prepared by the FAO

CC:
Mr. Jeffrey Novak
Chief Financial Analyst and Project Director
Financial Accountability Office of Ontario

Comment Tracking Form

Deliverable under review	Draft Final Report
Reviewing entity	Ministries of Finance and Energy, Treasury Board Secretariat and Ontario Financing Authority
Due Date	December 13, 2017
Project Name	Follow-up Analysis of the Financial Impact of the Partial Sale of Hydro One
FAO Reference	FA1715

General Comments	
Comment made by (person)	**Comment**

Specific Comments		
Report Section	**Comment made by (person)**	**Comment**

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Subject: Confidential | Fact Check | Follow-up Analysis of the Financial Impact of the Partial Sale of H1 / Request for Comments on Draft Report
Date: Friday, December 08, 2017 10:36:41
Attachment 1: Guide to Reviewing Draft Reports.pdf
Attachment 2: FA1715 DFR.DOCX
Attachment 3: FA1715 DFR Review Cover Letter 2017 12 07.pdf
Attachment 4: FA1715 DFR Comment Tracking Form.docx

Hello,

Please find attached the draft follow-up report from the Financial Accountability Office (FAO) on the financial impact of the sale of Hydro One.

By sharing a draft version of the report, the FAO is welcoming any comments you might have. Specifically, the FAO is asking to help identify any aspect of the draft report that you feel might be incomplete, inaccurate or misleading. The purpose of this review is to confirm the FAO's analysis is accurate and free of misrepresentation as well as to ensure the report does not include information subject to disclosure restrictions under section 13 of the FAO Act and OC 1412/2016.

We have also enclosed the FAO's comment tracking form, which you might find helpful in gathering comments.

If you can please send your comments to Daniel Tiburcio and Paul Ternamian by **noon on Tuesday, December 12** that would be greatly appreciated. The deadline for returning comments back to the FAO is Wednesday, December 13.

If you have any questions or concerns please contact us.

Best,

Paul Ternamian

Policy Intelligence & Alignment Unit, Office of the Budget

Ministry of Finance

7 Queen’s Park Crescent, 4th Floor, Frost Building South

416-327-2735

Guide to Reviewing Draft Reports Prepared by the Financial Accountability Officer of Ontario

Purpose

This guide has been developed to help ministries and public entities in reviewing and commenting on draft reports prepared by the Financial Accountability Officer (FAO). This guide refers to provisions in both the *Financial Accountability Officer Act, 2013* (FAO Act) and the Cabinet records Order-in-Council (OC 1412/2016).

Ministries and public entities may wish to review the FAO Act (https://www.ontario.ca/laws/statute/13f04#BK5) or the Order-in-Council (https://www.ontario.ca/orders-in-council/oc-14122016) to better understand both the FAO's mandate and other duties. Ministries and public entities may also wish to review the FAO's *Guide to Responding to Information Requests* (http://fao-on.org/web/default/files/Info%20Requests/Guide%20to%20Responding%20to%20FAO%20Requests%20Jan2017.pdf, last updated January 2017).

Questions and Answers

1. **What is the objective of the draft report review process?**

The FAO's mandate is to provide the Legislative Assembly of Ontario with economic and financial analysis under sections 10 and 11 of the FAO Act. To help MPPs perform their constitutional functions, the FAO's analysis must be accurate, relevant and timely.

The FAO respects ministries and public entities' institutional knowledge and values the comments they can provide as those comments help to improve the quality of the analysis the FAO provides to the Legislative Assembly.

The draft report review process serves two purposes:

- confirming that the FAO's analysis is clear, complete, accurate and free of misrepresentation; and

- ensuring that the report does not include information subject to disclosure restrictions under section 13 of the FAO Act and OC 1412/2016.

These purposes should guide interactions between ministries and public entities, and the FAO during the draft report review process.

2. Will the FAO provide a copy of all its reports to ministries and public entities for comments?

The FAO produces several different types of publications.

Where a product is based entirely on public information and either comments on a recent data release or event in the financial cycle, or provides background information, the FAO will release it on its website. The FAO may solicit comments from relevant ministries or public entities on drafts of these commentaries and backgrounders in the weeks before their planned release. The FAO will generally provide the final version to the relevant ministry or public entity one working day before release.

When the FAO deems it appropriate, the product is required by the FAO Act, and/or when a product is based on non-public information received from a ministry or public entity in response to an information request, the FAO will present the report to the Legislative Assembly in accordance with sections 15 and 16 the FAO Act and the Assembly's practices surrounding the tabling of reports. The FAO will generally solicit comments on draft versions of such reports several weeks or months before their planned release (see: Question 3).

Subsection 15(1) of the FAO Act requires that, before presenting a report, the FAO provide a final version of the report to the minister of any ministry or the head of any public entity to which the report is relevant. The FAO will generally provide a copy of the final version of a report two working days before the report's release. Where necessary, the FAO will work with the Secretary of the Cabinet to identify relevant ministries and public entities. The FAO considers that a report relevant to a public entity is also relevant to its parent ministry.

Section 14 of the FAO Act also requires the FAO to provide the Speaker with an annual report by July 31 each year. The FAO does not provide the draft annual report to ministries for comment. The FAO is not required to provide to any minster a final version of the annual report ahead of its release.

3. How far ahead of a report's planned release will the FAO provide a draft report for review?

The FAO will generally provide a ministry or public entity a draft report several weeks or months before its planned release. As appropriate, the FAO may provide a draft of a commentary or backgrounder in the weeks before its planned release.

4. Are there particular areas in the draft report that ministry or public entity comments should focus on?

Yes. Although the FAO welcomes comments on any aspect of the report, there are two areas in which your comments would be especially helpful:

- the FAO asks that you identify any part of the report that you believe may be incomplete, inaccurate or misleading, and suggest changes, as appropriate;
- the FAO also requests that you identify any information disclosed in the report that is subject to disclosure restrictions under section 13 of the FAO Act and OC 1412/2016.

The FAO may also ask specific questions or seek your comments on particular aspects of the report.

5. What are the restrictions on the FAO's disclosure of information?

Although much of the FAO's analysis is based on publicly available information, the analysis sometimes draws on non-public information the FAO receives from a ministry or a public entity by virtue of section 12 of the FAO Act. The FAO can freely publish analysis derived from non-public information, but can only disclose non-public information under certain conditions set out in section 13 of the FAO Act and OC 1412/2016.

The FAO considers itself to be disclosing information if the FAO releases information in its original form or in a modified form that would allow a person to reconstruct the original, non-public information.

By virtue of paragraph 1 of section 13 of the FAO Act, the FAO cannot disclose information obtained from ministries and public entities unless it is essential for the performance of a part of the FAO's mandate under sections 10 and 11 of the FAO Act. The FAO considers the disclosure of information to be essential if it is necessary to support the analysis provided to the Legislative Assembly in accordance with that mandate.

The FAO also cannot disclose information that fall within certain sensitive categories identified in paragraphs 2, 3 and 4 of section 13 of the FAO Act and section 2 of OC 1412/2016. Although the FAO is ultimately responsible for determining whether the information falls under a category, the FAO does so on the advice of the ministries and public entities which originally provided the information.

6. What role do ministries and public entities play in identifying information subject to disclosure restrictions?

As the creators and/or custodians of the information they provide to the FAO, ministries and public entities are more familiar with its origins and contents than the FAO, so they are better able to assess whether the information falls under sensitive categories. This is especially so where the disclosure restriction involves an assessment of the harm that would result from disclosure or where the restriction is intended to protect the interests of a third party. In a given situation, the FAO may not be well placed to assess the harm that would result from disclosure without input from the ministry or public entity. Likewise, in some situations, it may not be clear from the information provided by the ministry that it originated from a third party.

Accordingly, the FAO expects ministries and public entities providing information to the FAO to identify information that falls under one or more disclosure restrictions (see FAO's Guide to Responding to Information Requests (http://fao-on.org/web/default/files/Info%20Requests/Guide%20to%20Responding%20to%20FAO%20Requests%20Jan2017.pdf). When reviewing draft reports, the FAO also expects ministries and public entities to identify information contained in the reports that they believe falls under these restrictions and explain why the restriction applies (see Question 7). The additional requirement of an explanation at the draft report stage allows the FAO to determine whether the restriction applies, and if necessary, to make appropriate changes to the report before its release to avoid disclosing information subject to restrictions.

7. How do I identify information subject to disclosure restrictions?

While reviewing the report, you should determine whether the report discloses non-public information your ministry or public entity provided to the FAO, i.e. in its original form or in a form that allows for the reconstruction of the original information.

If the report only contains publicly-available information and/or analysis based on non-public information that does not allow a person to reconstruct the original information, then no disclosure is occurring and the disclosure restrictions therefore do not apply.

If, however, the report contains raw, non-public information and/or analysis based on non-public information that allows a person to reconstruct the original information, you should determine whether the information that falls under one or more sensitive categories under paragraphs 2, 3 and 4 of section 13 of the FAO Act and OC 1412/2016:

- Information obtained solely from a record containing third party information (section 17 of the Freedom of Information and Protection of Privacy Act (https://www.ontario.ca/laws/statute/90f31);
- Information contained in a Cabinet record (OC 1412/2016);
- Information obtained solely from a record whose disclosure would affect Ontario's relations with other governments (section 15 of the Freedom of Information and Protection of Privacy Act);
- Information obtained solely from a record whose disclosure would affect the economic and other interests of Ontario (subsection 18(1) of the Freedom of Information and Protection of Privacy Act);
- Information subject to solicitor-client privilege, litigation privilege or settlement privilege (paragraph 4 of section 13 of the FAO Act).

If one or more of these restrictions applies to information contained in the draft report, please identify the relevant provision in the FAO Act, the Freedom of Information and Protection of Privacy Act (FIPPA) and/or OC 1412/2016, and explain why the information falls under the category.

Where the courts or the Information and Privacy Commissioner have established a legal test for determining whether a record falls under a sensitive category, please use the test and demonstrate how each element of the test has been met. The Ontario government's Freedom of Information and Privacy

Manual, which is maintained by the Ministry of Government and Consumer Services, summarizes the applicable FIPPA tests (https://www.ontario.ca/document/freedom-information-and-privacy-manual-0).

If the applicable legal test is designed to protect the interests of other public institutions (subsection 18(1) of FIPPA), other governments (section 15 of FIPPA), third parties (section 17 of FIPPA) or legal privilege holders (paragraph 4 of section 13 of the FAO Act), please identify any institutions, governments, third parties and/or legal privilege holders whose interests would be affected by disclosure.

Each restriction is qualified by the possibility that the person or institution whose interests it is intended to protect can consent to the information's disclosure. The Executive Council's consent is required to disclose information obtained solely from Cabinet records (OC 1412/2016), other governments (section 15 of FIPPA) and other public institutions (certain paragraphs of subsection 18(1) of FIPPA). A third party's consent is required to disclose information obtained from them (section 17 of FIPPA). A privilege holder's consent is required to disclose information subject to solicitor-client privilege, litigiation privilege or settlement privilege (paragraph 4 of section 13 of the FAO Act).

The explanation your ministry or public entity provides allows the FAO to determine whether the restriction applies, to decide whether to seek the appropriate person or institution's consent to disclose the information, and if necessary, to make changes to the report before its release to avoid disclosing information subject to restrictions.

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9. If the draft report has been provided to multiple ministries and public entities for comment, can a single ministry coordinate comments?

Yes, but the FAO expects that each ministry and public entity which received the draft report will sign off on the comments on the draft report.

10. What is the deadline for comments?

All review requests have a deadline included in the cover letter and on the attached comment tracking form.

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14. What if I do not understand an aspect of the report?

If you do not understand an aspect of the report or an area on which your comments are being requested, please speak to the FAO contact identified in the review request. The FAO contact would be happy to provide the necessary clarification and explanation.

Additional Questions

If you have any additional questions or require further clarification, please speak to the FAO contact identified in the review request.

CONFIDENTIAL

Financial Accountability Office of Ontario

Hydro One Update

Follow-up Analysis of the Financial Impact of the Partial Sale of Hydro One

Draft Final Report

December 7, 2017

Confidential Document

This document is confidential. It should not be shown or otherwise transmitted to anyone other than those who have been asked by the Financial Accountability Office of Ontario to provide comments.

Winter 2018

About this Document

Established by the *Financial Accountability Officer Act, 2013,* the Financial Accountability Office (FAO) provides independent analysis on the state of the Province's finances, trends in the provincial economy and related matters important to the Legislative Assembly of Ontario.

The FAO produces independent analysis on the initiative of the Financial Accountability Officer. Upon request from a member or committee of the Assembly, the Officer may also direct the FAO to undertake research to estimate the financial costs or financial benefits to the Province of any bill or proposal under the jurisdiction of the legislature.

This report was prepared on the initiative of the Officer in response to a request from a member of the Assembly. In keeping with the FAO's mandate to provide the Legislative Assembly of Ontario with independent economic and financial analysis, this report makes no recommendations.

This analysis was prepared by Matthew Stephenson and Matt Gurnham under the direction of Jeffrey Novak.

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Table of Abbreviations

Abbreviation	Long Form
BV	Book value
CCA	Capital cost allowance
DPA	Designated purpose account
DRC	Debt retirement charge
ESDI	Electricity sector dedicated income
FAO	Financial Accountability Office
FMV	Fair market value
GBE	Government business enterprise
HON	Hydro One Networks
IPO	Initial public offering
MEU	Municipal electric utility
NPV	Net present value
OEB	Ontario Energy Board
OEFC	Ontario Electricity Financial Corporation
OMA	Operating, maintenance and administration
OPG	Ontario Power Generation
PILs	Payments in-lieu of taxes
ROE	Return on equity
RSD	Residual stranded debt

1. Essential Points

2. Introduction

Hydro One Limited (Hydro One) is primarily an electricity transmission and distribution company.[1] Hydro One owns and operates 98 per cent of Ontario's transmission capacity and serves approximately 25 per cent of Ontario electricity ratepayers, largely those in low density or remote areas of the Province.[2] In total, Hydro One recovers about $3.2 billion annually from Ontario ratepayers for the transmission and distribution of electricity.[3] The Province consolidates its investment in Hydro One as an investment asset in its consolidated financial statements.

In the 2015 Ontario Budget, the Province announced its intention to sell up to 60 per cent of Hydro One. The Province initially targeted $9 billion in proceeds from the sale, of which $4 billion would be invested in infrastructure (through the Trillium Trust) and $5 billion would be used to reduce debt.[4]

The Province completed its final sale of Hydro One shares in May, 2017 and generated an estimated $9.2 billion in proceeds over three sales.[5] Overall, the Province was able to achieve more than its targeted proceeds amount by selling only 53 per cent of Hydro One.[6] The FAO estimates that the Province will credit the Trillium Trust with approximately $4.6 billion and allocate $5.4 billion to the Ontario Electricity Financial Corporation.

The purpose of this report is to follow up on the FAO's report *An Assessment of the Financial Impact of the Partial Sale of Hydro One*.[7] The report will provide an updated estimate of the fiscal impact of the sale, analyze how much capital the Province raised, and how the sale proceeds are being allocated. The report also analyzes how changes in Hydro One resulting from the initial public offering could affect electricity ratepayers in Ontario. Lastly, the report reviews key considerations surrounding Hydro One's proposed purchase of Avista Corporation.

Appendix C provides more information on the development of this report.

[1] Transmission refers to the bulk movement of electricity from generating sites to local distribution networks. Distribution refers to the movement of electricity from the local distribution network to the end consumer, i.e. Ontario ratepayers.
[2] Hydro One Investor Overview Second Quarter 2017.
[3] Annual Report. Hydro One.
[4] https://news.ontario.ca/mei/en/2015/11/ontario-raises-183-billion-for-infrastructure-investments.html.
[5] The Province also received approximately $600 million from the sale of Hydro One Brampton in February, 2017. Hydro One Brampton was divested from Hydro One before the initial public offering of Hydro One Limited shares in late 2015. In this report, the FAO excludes the sale of Hydro One Brampton from its analysis.
[6] The FAO includes an estimated 2.5 per cent sale of ownership related to the sale of Hydro One shares to First Nations.
[7] Financial Accountability Office of Ontario. "An Assessment of the Financial Impact of the Partial Sale of Hydro One." October 2015.

3. Fiscal Impact of Sale

The FAO estimates that the Province's annual surplus / (deficit) will improve by a total of $3.8 billion over the fiscal years 2015-16 to 2017-18 as a result of the partial sale of Hydro One. The FAO estimates that the Province's annual surplus / (deficit) will deteriorate by a total $1.1 billion in fiscal 2018-19, followed by a deterioration of $254 million in 2019-20, with the loss growing by an average of 1.4 per cent annually until 2024-25.

Table 3-1 summarizes the FAO's estimate of the impact of the 53 per cent sale of Hydro One to the Province's annual surplus / (deficit) over the period of 2015-16 to 2024-25.

Table 3-1: FAO Estimate of the Impact on the Province's Surplus / (Deficit) from the 53 per cent sale of Hydro One

($millions)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Gains on Sale	783	541	725	8	8	8	8	8	8	8
Net Income	-48	-201	-346	-382	-412	-429	-455	-479	-504	-530
Deferred Tax	2,392	0	0	-419	0	0	0	0	0	0
Electricity PILs	-42	-126	-131	-137	-142	-148	-154	-160	-166	-173
Corporations Tax	3	28	29	30	31	33	34	35	37	38
DRC Revenue	0	0	0	-465	0	0	0	0	0	0
Interest Savings	0	56	118	247	260	288	310	333	358	385
Impact to Annual Surplus / (Deficit)	**3,089**	**298**	**394**	**-1,117**	**-254**	**-248**	**-256**	**-262**	**-267**	**-272**

Source: FAO

Note: Numbers may not add due to rounding. The Gains on Sale are recorded in the Sales & Rentals revenue line and the Deferred Tax impacts the Income from Government Business Enterprises revenue line in the Province's consolidated financial statements.

See appendix B for the FAO's estimate of the impact of the sale on Provincial net debt. The appendix also includes a discussion on the impact to net debt had the Province retained 100 per cent ownership of Hydro One and instead raised an equivalent amount of sale proceeds from issuing Provincial debt.

Gains on Sale

The FAO estimates that $2.0 billion in gains related to the sale of Hydro One will improve the Province's annual surplus / (deficit) from 2015-16 to 2017-18. The Province records gains on sale in its consolidated financial statements on the Sales and Rentals revenue line.[8] Table 3-2 below summarizes the FAO's estimate of the sale proceeds and gains on sale for the Province's 53 per cent sale of Hydro One shares. Overall, the FAO estimates that the Province received $6.8 billion in cash proceeds and will report total gains of $2.2 billion related to the sale of Hydro One shares. However, a

[8] The Province calculates the gains as the difference between the cash proceeds received for the sale of shares and the value of those shares that were reported in the Province's consolidated financial statements (i.e. the book value).

portion of gains are to be deferred and realized in future periods, starting in 2018-19 at approximately $8 million per year.[9]

Table 3-2: FAO Estimate of Sale Cash Proceeds and Gains from the 53 per cent sale of Hydro One shares

$millions	First Sale	Second Sale	Third Sale	Total
Date	Nov-15	Apr-16	May-17	-
Percentage Sold	16%	14%	23%	53%
Sale Cash Proceeds	**1,902**	**1,929**	**2,994**	**6,825**
Less: Book Value Sold	-1,071	-1,321	-2,267	-4,659
Gain on Sale	**831**	**608**	**728**	**2,167**
Deferred Portion	-48	-70	-11	-129
Initial Gain on Sale	**783**	**538**	**717**	**2,038**

Source: FAO

Notes: Numbers may not add due to rounding. The FAO's estimate of sale proceeds is net of an estimated $148 million in transaction costs.

Net Income

By selling 53 per cent of Hydro One shares the Province will forgo 53 per cent of Hydro One's future net income, which negatively impacts the Province's annual surplus / (deficit) through lower Income from Government Business Enterprises (GBEs). The FAO estimates that the Province will forgo about $382 million in net income in 2018-19, which will grow by an average of 5.6 per cent annually from 2018-19 to 2024-25.

Deferred Tax

Hydro One reported a $2.8 billion gain related to a deferred tax asset that was created immediately after the company's initial public offering (IPO). After the IPO, the value of Hydro One's assets increased for tax purposes, which will allow the company to pay reduced corporate tax for a period of time. As a result, the $2.8 billion of future tax savings were recorded as an asset on Hydro One's financial statements and increased the company's net income.[10] However, the Province owned approximately 84 per cent of Hydro One immediately after the IPO, so it recorded its proportionate ownership of the asset at $2.4 billion.[11]

In 2018-19, the FAO is projecting that the deferred tax asset will be reduced due to a ruling by the Ontario Energy Board (OEB) that allocates a portion of the deferred tax savings to Ontario electricity ratepayers.[12] Hydro One has appealed the OEB's decision to the Divisional Court of Ontario.[13] Should the appeal fail, Hydro One is expected to

[9] The $48 million in deferred gains on the first sale is related to an estimated 5.63 million shares sold on loan to the Power Workers' Union and the Society of Energy Professionals. The FAO assumes that these deferred gains will be recognized by the Province over the 15-year term of the loan. The $70 million in deferred gains on the second sale is related to OPG's purchase of 9 million Hydro One shares, which the FAO amortizes over 15 years because OPG employees are eligible to receive these common shares for up to 15 years. The FAO includes 15 million shares sold on loan to First Nations in its estimate of proceeds related to the third sale, which account for an estimated 2.5 per cent reduction in Provincial ownership of Hydro One, $261 million in sale proceeds and $11 million in deferred gains. The FAO assumes these deferred gains will be recognized over the 25-year term of the loan.

[10] Appendix A: Pre-Sale Transactions reviews this concept in further detail.

[11] This proportional benefit would be recorded as a positive impact to Hydro One's net income, which would increase Income from GBEs. The FAO estimates that the Province will receive $0.7 to $1.2 billion in cash from the ownership of this tax asset over time.

[12] Ontario Energy Board Case EB-2016-0160.

[13] Hydro One Q3-17 MD&A.

reduce its deferred tax asset by $885 million,[14] which would reduce its net income. The Province consolidates Hydro One at its proportional ownership of 47 per cent, therefore the FAO has reduced GBE income by $419 million in fiscal 2018-19.

Electricity PILs

Before the IPO, Hydro One did not pay corporate tax, but rather payments-in-lieu of taxes (PILs), which approximated the amount of corporate tax (both Provincial and federal) that Hydro One would have paid had it not been wholly owned by the Province.[15] After the IPO, Hydro One became subject to the corporate tax regime and no longer paid PILs to the Province.[16] As such, the FAO incorporates the loss in Hydro One PILs as a negative fiscal impact, estimated at about $137 million in 2018-19 and growing at about 4 per cent annually.

Corporations Tax

The FAO estimates that the Province will receive the provincial portion of Hydro One's corporate tax going forward, which has a positive fiscal impact. However, the revaluation of Hydro One's assets for tax purposes allows the company to pay substantially less corporate tax going forward. The FAO estimates that Hydro One's corporate tax payments will be zero for a period of about 10 years, with the exception that the company must pay minimum Provincial corporate taxes, estimated by the FAO at about $30 million in 2018-19, rising to about $38 million by 2024-25.

DRC Revenue

The debt retirement charge (DRC) is a charge on electricity consumption to repay debt which resulted from the restructuring of Ontario Hydro in 1999. The DRC generated about $620 million in revenue for the Province in fiscal 2016-17.[17] Prior to the sale of Hydro One, the Province projected that the DRC would be removed from non-residential bills at the end of calendar 2018, however, it is now being removed from bills on April 1, 2018. The FAO assumes that the decision to end the DRC nine months earlier was a direct result of the sale of Hydro One.[18] As such, the FAO estimates a loss in DRC revenue to the Province of about $465 million in 2018-19.

Interest Savings

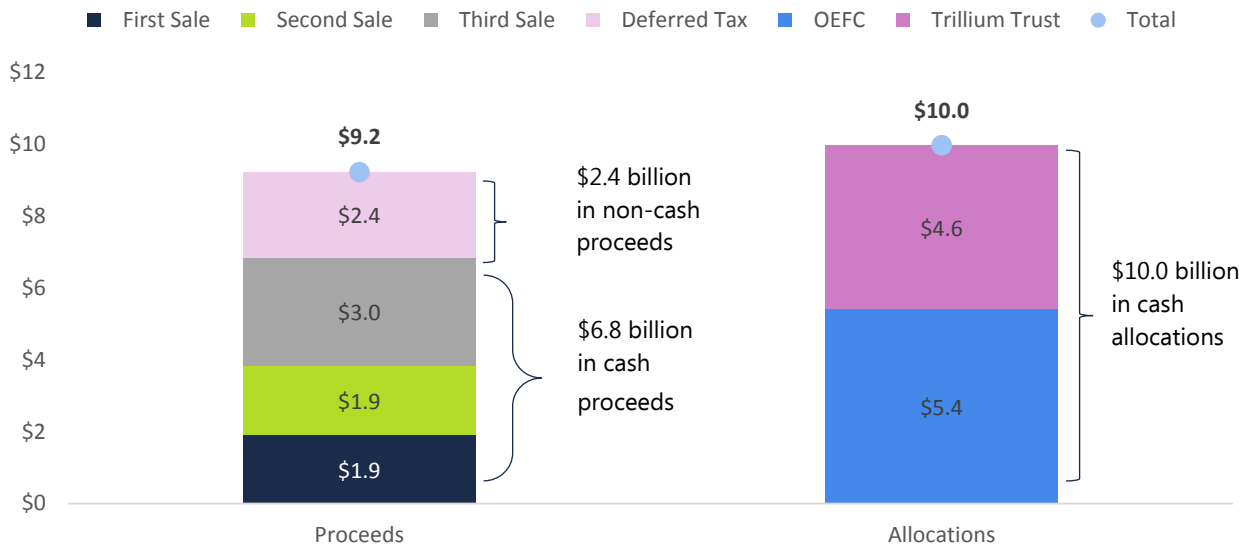
The FAO assumes that Hydro One sale proceeds will reduce Provincial borrowing requirements, which will reduce interest expense. In addition, the FAO estimates ongoing annual cash savings to the Province as a result of the sale,[19] which further reduce Provincial borrowing requirements. Beginning in 2018-19, the FAO estimates that the Province's interest expense will be reduced by about $247 million per year.[20]

[14] Ibid.
[15] Technically, the *Electricity Act, 1998* states that Hydro One will be subject to the corporate tax regime should the Province own less than 90 per cent of the company.
[16] In addition, Hydro One was required to make a final PIL to the Province immediately before the IPO, known as the departure tax, in the amount of $2.8 billion, which negatively impacted Hydro One's net income. However, the FAO estimates that this payment had a neutral impact to the Province's annual surplus / (deficit), because the Province recorded $2.8 billion in one-time revenue from Electricity PILs. Appendix A: Pre-Sale Transactions reviews the fiscal impact of this transaction in further detail.
[17] Ontario Electricity Financial Corporation, Annual Report, 2016-17.
[18] Chapter 5 reviews this concept in further detail.
[19] The FAO estimates different impacts on a cash versus accrual basis. For example, while the Province will forgo net income from Hydro One, this does not represent a loss in cash flow received from Hydro One. Rather, the Province receives cash flow from Hydro One through dividend payments. While the FAO estimates that the Province will forgo a portion of dividends through reduced ownership, Hydro One increased its dividend payments after the sale. The FAO estimates that the increased Hydro One dividend payments post-sale approximate the loss in dividends from reduced ownership, so overall, the Province will not lose dividend cash flow from Hydro One as a result of the sale. However, there is uncertainty with this estimate, because the Province may have been able to increase Hydro One's dividend payments in the absence of the sale.
[20] This estimate includes the FAO estimate of about $10 million per year in interest revenue from the loans related to the deferred gains on sale.

4. Sale Proceeds & Allocations

The FAO estimates that the Province generated a total of $9.2 billion in proceeds from its 53 per sale of Hydro One (Figure 4-1), which consists of $6.8 billion in cash and $2.4 billion in non-cash proceeds. The FAO includes the non-cash proceeds, which is a result of Hydro One's deferred tax asset benefit, to be consistent with the definition that is used by the Province.

Figure 4-1: FAO Estimate of Sale Proceeds and Cash Allocations, billions of dollars



Source: FAO
Notes: Numbers may not add due to rounding.

Although the Province generated sale proceeds (cash and non-cash) of $9.2 billion, the FAO estimates that the Province has committed to allocate a total of $10.0 billion to the Ontario Electricity Financial Corporation (OEFC) and Trillium Trust. The Province is allocating more to the OEFC and Trillium Trust than was raised in sale proceeds because of legal obligations under the *Electricity Act, 1998* (the Electricity Act) and the *Trillium Trust Act, 2014* (the Trillium Trust Act), and the Province's commitments to allocate the non-cash gain from the deferred tax asset benefit to the Trillium Trust and to allocate the book value of Hydro One shares to the OEFC.[21]

As noted in Figure 4-1, of the $10.0 billion total allocation, $5.4 billion has been allocated to the OEFC, consisting of $4.7 billion related to the book value of Hydro One shares sold and an additional $0.7 billion as prescribed by the Electricity Act. The Electricity Act[22] states that upon the sale of Hydro One shares, the Province is required to allocate the gain on sale to the OEFC, which for the purposes of the Electricity Act is calculated as $0.7 billion.[23]

Lastly, the FAO estimates that the Province will allocate $4.6 billion to the Trillium Trust for infrastructure investments. This consists of $2.2 billion related to the gain on sale of Hydro One as prescribed by the Trillium Trust Act[24] and also the allocation of the $2.4 billion deferred tax asset benefit, as committed to by the Province.[25] Note that although $4.6

[21] OEFC Annual Report, 2016-17. p. 6.
[22] Electricity Act, 1998 s. 50.3.
[23] Note that the gain as prescribed by the Electricity Act is different from the gain that is reported in the Province's consolidated financial statements.
[24] Trillium Trust Act, s. 4.
[25] https://news.ontario.ca/mei/en/2015/10/asset-optimization---broadening-ownership-of-hydro-one.html.

billion has been allocated to the Trillium Trust, only $2.2 billion represents a cash gain to the Province, while the remaining $2.4 billion is a non-cash gain. As a result, the Province will still be required to borrow cash for a portion of infrastructure investments funded from the Trillium Trust.[26]

The following two chapters discuss the OEFC and Trillium Trust in more detail.

[26] However, The FAO estimates that the Province will receive $0.7 to $1.2 billion in cash over time in connection with the deferred tax asset benefit and receive $1.0 billion in cash from the pre-sale transactions. Appendix A: Pre-Sale Transactions reviews these transactions in more detail.

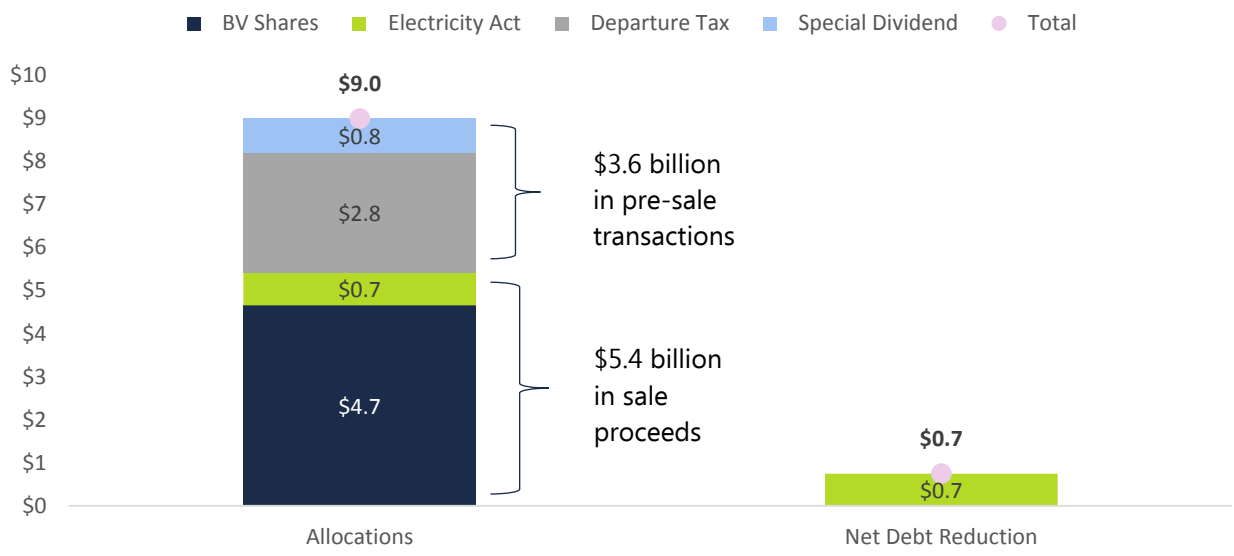
5. OEFC Debt Reduction

The FAO estimates that $5.4 billion of the $9.2 billion in sale proceeds will be allocated to the Ontario Electricity Financial Corporation (OEFC).[27] Additionally, as a result of pre-sale transactions, the FAO estimates that the Province transferred to the OEFC $2.8 billion for the departure tax payment and $800 million from a special dividend made by Hydro One to the Province immediately before the sale of Hydro One.[28] Overall, the FAO estimates that the OEFC will receive $9.0 billion in cash in connection with the 53 per cent sale of Hydro One, resulting from the sale proceeds and also the pre-sale transactions.

To date, the FAO estimates that the OEFC has received $6.6 billion in cash with the remaining $2.4 billion in cash to be received in 2017-18. The FAO estimates that the OEFC has reduced its gross debt by $4.9 billion as a result of the sale, which is less than the amount of cash received so far. The difference is because only so much OEFC debt can be retired in a given year, as the OEFC has debts outstanding with different maturities.[29]

However, the FAO estimates that OEFC net debt will only be reduced by $0.7 billion after all allocations have been remitted (Figure 5-1). This is because most of the allocations[30] are directed to reduce liabilities that the Province has with the OEFC, which are reported as assets on the financial statements of the OEFC.

Figure 5-1: FAO Estimate of OEFC Cash Allocations from Sale Proceeds and Pre-Sale Transactions and the Resulting Impact to OEFC Net Debt, billions of dollars



Source: FAO

The OEFC's net debt is the difference between the OEFC's gross debt and its assets is reported as the unfunded liability on the OEFC's financial statements. Any change in the OEFC's unfunded liability has implications for the OEFC's

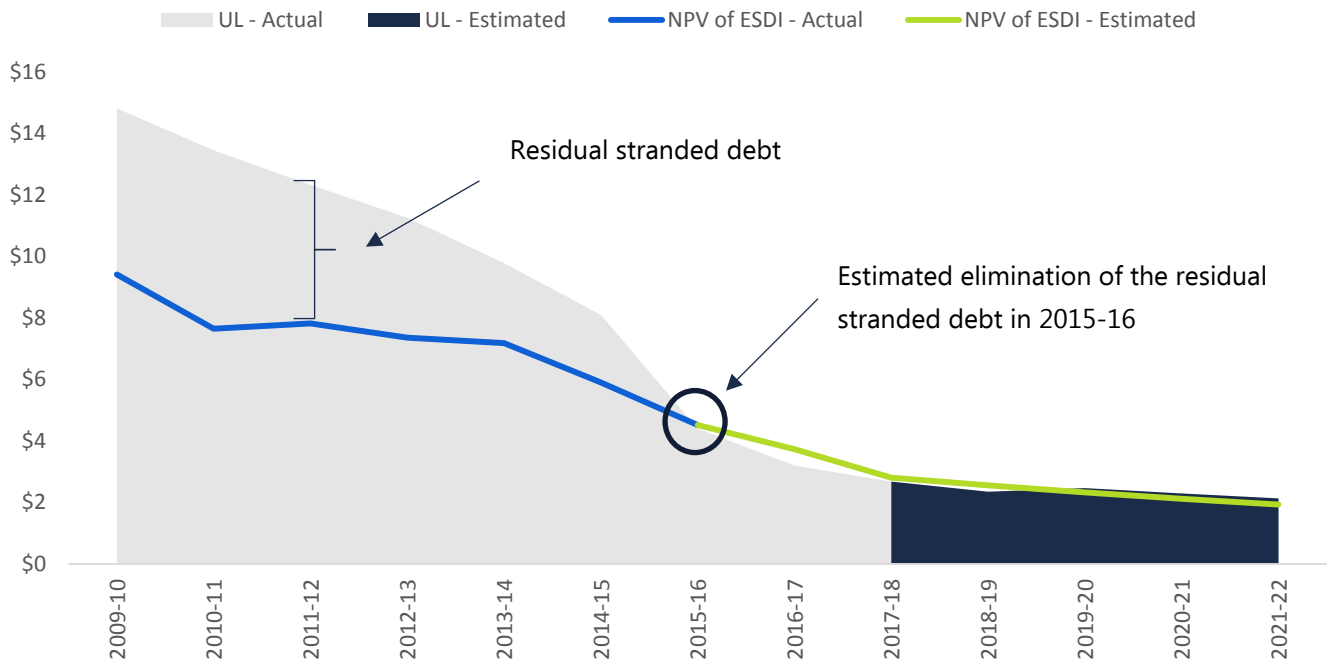
[27] The OEFC is one of five entities established by the Electricity Act as part of the restructuring of the former Ontario Hydro. The OEFC manages the debt, financial risks, and liabilities of the former Ontario Hydro.
[28] Appendix A: Pre-Sale Transactions reviews the departure tax and special dividend payment in further detail.
[29] Additionally, the FAO is not aware of any early retirement features in outstanding OEFC debt. To the extent that OEFC issues new debt to retire its existing debt, the FAO assumes that cash allocations to the OEFC would displace these new issuances.
[30] Technically all allocations, with the exception of the amounts that are prescribed by section 50.3 of the Electricity Act. The departure tax payment reduces OEFC's net debt, in isolation, but the reduction in Hydro One's net income as a result of the departure tax effectively reduces OEFC's assets (over time), so overall, the departure tax payment has a neutral impact on OEFC's net debt.

residual stranded debt (RSD). The RSD is calculated by the OEFC as the unfunded liability less the net present value (NPV) of future electricity sector dedicated income (ESDI).[31] Prior legislation stated that the debt retirement charge (DRC) would be charged to electricity consumers to help pay down the OEFC's gross debt until the Minister of Finance determined that the RSD had been retired (i.e. the RSD was no longer positive). However, in 2015, this requirement was removed from the Electricity Act and replaced with a firm deadline to end the DRC by April 1, 2018.[32]

Figure 5-2 shows the OEFC's actual and forecasted unfunded liability (UL) and net present value (NPV) of ESDI from 2009-10 to 2021-22. The FAO estimates that the first sale of Hydro One and the related sale transactions eliminated the RSD in 2015-16. Specifically, the FAO estimates that the OEFC's unfunded liability was $4.4 billion in 2015-16 and the NPV of the ESDI was $4.5 billion. This results in the elimination of the RSD in 2015-16 because the NPV of the ESDI ($4.5 billion) was greater than the OEFC's unfunded liability ($4.4 billion).

Although the FAO estimates that the RSD was eliminated at the end of 2015-16, the DRC continues to be charged to non-residential ratepayers[33] and is not scheduled by the Province to end until April 1, 2018[34] even though the Province does have the discretion to end the DRC before April 1, 2018.[35] As a result, the FAO esitmates that non-residential ratepayers will be charged $1.2 billion more than required to eliminate the RSD.

Figure 5-2: FAO Estimate of OEFC's Unfunded Liability and NPV of ESDI, billions of dollars



Source: FAO.

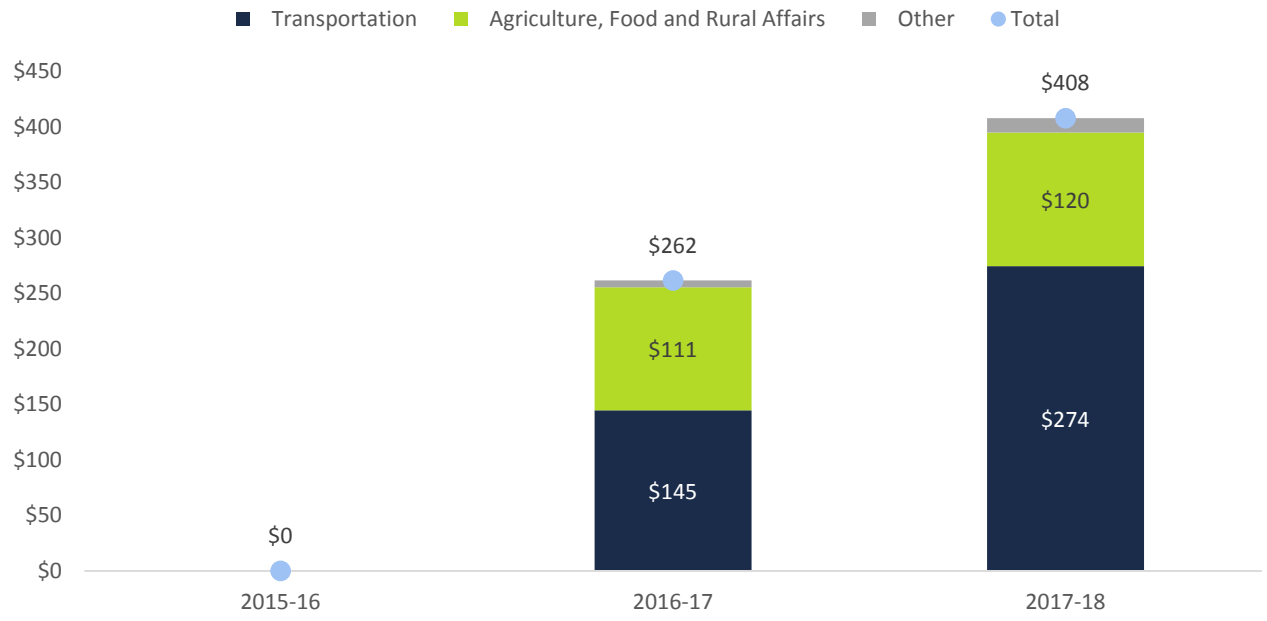
[31] ESDI consists of net income and PILs from Hydro One, Ontario Power Generation (OPG) and municipal electric utilities (MEUs).
[32] Section 85(4) of the Electricity Act.
[33] The DRC for residential ratepayers ended on December 31, 2015.
[34] Ministry of Finance, https://www.fin.gov.on.ca/en/tax/drc/index.html, accessed on November 30, 2017.
[35] Section 85(5.1) of the Electricity Act.

6. Trillium Trust

The Trillium Trust is a designated purpose account (DPA) which tracks the Province's commitment to fund infrastructure investments from the gains from sale associated with the sale of designated assets, such as Hydro One.

Figure 6-1 shows actual Trillium Trust spending for 2015-16 and 2016-17 and estimated spending for 2017-18 for the Ministries of Transportation and Agriculture, Food and Rural Affairs, and all other ministries.[36] The Ministry of Transportation spent $145 million and the Ministry of Agriculture, Food and Rural Affairs spent $111 million from the Trillium Trust in 2016-17. These ministries are expected to spend $274 million and $120 million from the Trillium Trust in 2017-18, respectively. [37]

Figure 6-1: Trillium Trust Spending, millions of dollars

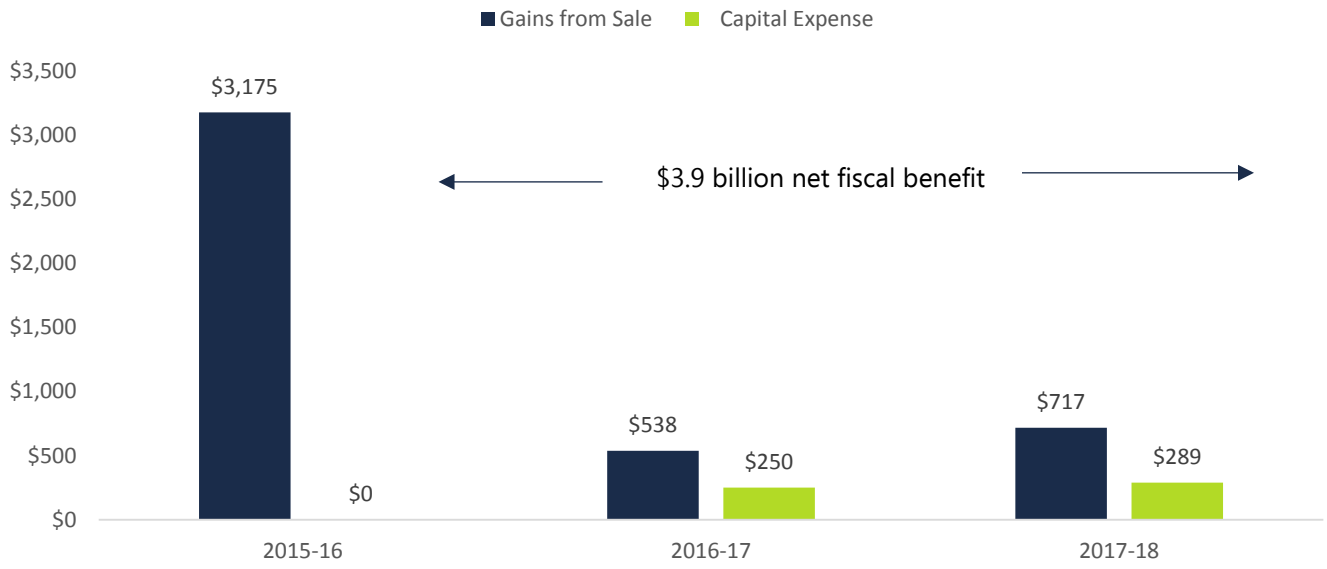


Source: 2015-16 and 2017-18 Public Accounts of Ontario and 2017-18 Expenditure Estimates.

Figure 6-2 shows $4.4 billion of the $4.6 billion in total allocation[38] credited to the Trillium Trust from 2015-16 to 2017-18 as a result of the sale of Hydro One, which is then compared to the $0.5 billion in total estimated capital expenses[39] over the same time period. Overall, the FAO estimates that the Province will realize a net fiscal benefit of approximately $3.9 billion over this period, as capital infrastructure expenses will be less than the gains from the sale of Hydro One. However, the FAO estimates that this net fiscal benefit will deteriorate towards a net fiscal loss in future years, as only $0.2 billion in gains remains to be credited to the Trillium Trust while $4.0 billion in infrastructure spending remains to be expensed to the Province's surplus / (deficit).

[36] 2015-16 and 2016-17 Public Accounts of Ontario, and 2017-18 Expenditure Estimates.
[37] The Province provided the FAO with a list of projects that will be financed through the Trillium Trust. However, the Province has deemed the list of projects to be a Cabinet record and as such the FAO cannot disclose the projects as per s. 12(2) of the *Financial Accountability Officer Act, 2013* and Order-in-Council 1412/2016.
[38] The Province has deferred about $0.2 billion of the allocation to be credited to the Trillium Trust after 2017-18.
[39] Capital expenses have an immediate negative impact on the Province's annual surplus / (deficit), whereas spending on capital assets does not have an immediate impact on the annual surplus / (deficit). However, capital assets will negatively impact the annual surplus / (deficit) in the future as the assets are amortized.

Figure 6-2: Trillium Trust, Revenue and Expense, 2015-16 to 2017-18, millions of dollars



Source: FAO

Finally, although the FAO estimates a $3.9 billion net fiscal benefit to the Province from 2015-16 to 2017-18 when comparing Hydro One gains from sale and capital expense from Trillium Trust spending on infrastructure, the net fiscal benefit from 2015-16 to 2017-18 is likely greater than $3.9 billion. This is due to the fact that some of the infrastructure projects funded by the Trillium Trust were already included in the Province's fiscal plan before its decision to sell Hydro One.[40]

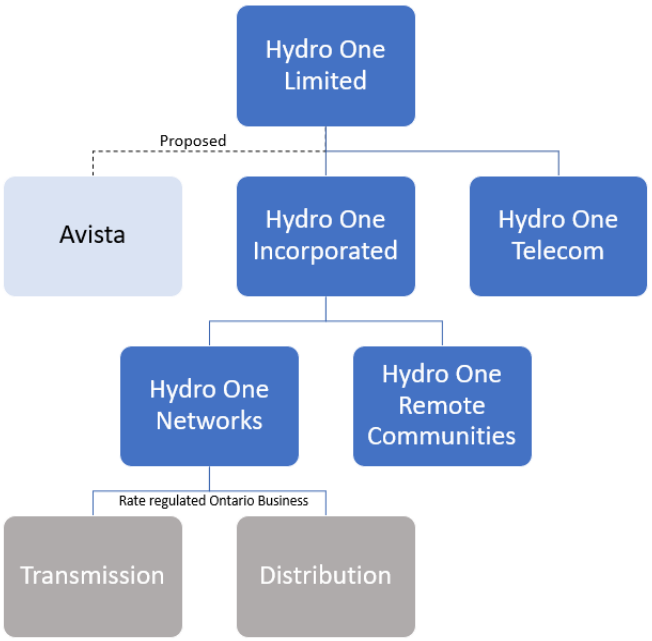
[40] Information provided by the Province to the FAO. The FAO is not able to disclose which projects due to Cabinet confidentiality restrictions as per s. 12(2) of the *Financial Accountability Officer Act, 2013* and Order-in-Council 1412/2016.

7. Effect of Sale on Ratepayers

Background

Hydro One Limited is a holding company with four subsidiaries, the largest of which is Hydro One Networks. Hydro One Networks (HON) is the portion of Hydro One that serves Ontario ratepayers and currently generates 99% of Hydro One's revenue.[41] Hydro One Networks continues to be regulated by the Ontario Energy Board (OEB) post-sale. HON must submit applications to the OEB which outline the utility's revenue requirement, which is the amount HON projects to recover from ratepayers in each year. The OEB will approve HON's rates for its transmission and distribution businesses after a public regulatory process. The approved revenue requirement reflects the OEB's determination of the amount of revenue required by Hydro One to cover the reasonably incurred costs of owning, operating and maintaining the transmission and distribution systems at a level of service that meets the needs of its customers.[42]

Figure 7-1: Hydro One Corporate Structure



Source: FAO

Effect of Privatization on Ontario Ratepayers

On November 23, 2017, the OEB issued a decision on HON's transmission rate application for 2017 and 2018. This decision established precedent for how some of the changes to Hydro One as a result of becoming a publicly traded company will affect electricity rates in Ontario.[43] HON initially applied for a transmission revenue requirement of $1,588 million in 2017 and $1,660 million in 2018. The OEB reduced Hydro One's revenue requirement by a total of $110 million to reflect the following changes.

- Reduction of regulatory income tax expense by a total of $65 million to reflect the allocation of a portion of Hydro One's deferred tax asset benefit to ratepayers.
- Reduction of proposed operating expenses (OM&A) by a total of $30 million to remove what the OEB deemed was excessive executive compensation.
- Reduction of cost of capital and depreciation expenses by a total of $15 million to reflect the removal of $248 million from Hydro One's capital spending envelope.[44]

The net result is a slight decrease in HON's transmission revenue requirement from 2016 to 2017, followed by a 4 per cent increase from 2017 to 2018 (Table 7-1). The increase in the revenue requirement from 2017 to 2018 is driven by

[41] Hydro One Investor Relations.
[42] Ontario Energy Board Case EB-2016-0160.
[43] Hydro One also has a distribution rate application currently pending for the years 2018 to 2022.
[44] Capital costs are not recovered from ratepayers in the year they are incurred. They are added to HON's rate base and expensed throughout their useful lives (depreciation).

increased capital spending which is reflected in higher depreciation and cost of capital expenses. HON's distribution application has not yet been approved by the OEB, however, the application requests 3.5 per cent average annual distribution rate increases from 2018 to 2022 which are also driven primarily by increased capital investment.[45]

Table 7-1 Summary of Hydro One Transmission Revenue Requirement ($ millions)

Transmission	2012	2013	2014	2015	2016	2017	2018
OM&A	427	440	450	431	437	398	394
Depreciation	333	345	372	387	397	434	469
Regulatory Income Tax	52	43	53	67	72	51	55
Cost of Capital	607	609	654	641	662	657	681
Revenue Requirement	**1,418**	**1,438**	**1,528**	**1,527**	**1,568**	**1,540**	**1,599**

Source: FAO analysis of OEB information.

The FAO has analyzed the OEB's decision on HON's transmission revenue requirement and HON's rate setting methodology and has identified three areas where ratepayers will / could be affected as a result of the partial sale of Hydro One.

- Allocation of the deferred tax asset benefit
- Operating expenses / efficiencies
- Cost of capital

In addition, the FAO offers some considerations on the how the partial sale of Hydro One impacted ratepayers through the debt retirement charge. The following sections provide analysis of each area.

Allocation of Deferred Tax Asset Benefit

In its transmission and distribution applications to the OEB, Hydro One proposed that 100% of the benefit from the deferred tax asset should be allocated to shareholders (including the Province). This approach was rejected by the OEB as it would have resulted in a large discrepancy between the "regulated" tax expense recovered from ratepayers and HON's actual taxes payable. HON had requested to recover $81.9 million and $89.6 million of transmission tax expenses from ratepayers in 2017 and 2018 while actual taxes payable by Hydro One were expected to be $12.2 and $13.1 million in 2017 and 2018.

Ultimately, the OEB decided to allocate a portion of the deferred tax asset benefit to ratepayers[46] using the "benefits follow costs principle."[47] The OEB determined that 38% of the deferred tax asset benefit is attributable to the costless deemed sale of shares and that proportion of the deferred tax asset benefit should be allocated to ratepayers.[48] The net result of this decision is to provide ratepayers with savings of approximately $986 million, of which $561 million will be allocated to transmission customers and $425 million to distribution customers. As a result, the 2017 and 2018 transmission revenue requirement has been reduced by a total of $65 million (see the regulatory income tax line in

[45] Ontario Energy Board Case EB-2017-0049 Exhibit A Tab 3 Schedule 1 Page 15.
[46] Hydro One has appealed this decision to the Divisional Court of Ontario, if the appeal is successful, the deferred tax savings currently allocated to ratepayers could be reduced or eliminated.
[47] The precedent for the benefits follow costs principle can be found in the OEB's RP-2004-0188 Report.
[48] The calculation behind the 38% allocation to ratepayers is as follows: 51% of the shares of Hydro One have actually been sold to shareholders at the fair market value of the company, therefore, 51% of the deferred tax asset benefit was allocated to shareholders. In addition, Hydro One incurred a departure tax cost that preceded the deferred tax asset benefit on the 49% of shares that were not sold and 11% of the deferred tax asset benefit was determined to have followed that cost. As a result, 62% of the deferred tax asset benefit was allocated to shareholders and the remaining 38% to ratepayers. See Ontario Energy Board Case EB-2016-0160 for additional detail.

Table 7-1). The FAO estimates that the full savings to ratepayers of approximately $908 million will be amortized over at least 15 years.

Operating Expenses/Operating Efficiencies

One of the key premises the Province outlined in its rationale for the privatization of Hydro One was the potential for private sector discipline to create operating efficiencies that could be passed on to ratepayers.[49] Any operating efficiencies realized by Hydro One would be reflected in lower Operation, Maintenance and Administration (OM&A) expenses.[50]

The OEB approved transmission OM&A amounts of $397.7 million and $394.3 million in 2017 and 2018 are lower than any approved amounts from 2012 to 2016 (Table 7-1). The approved OM&A amounts are, however, consistent with the actual OM&A expenses of $382 million in 2016 and $414 million in 2015.

In addition, Hydro One's increased capital spending envelope over prior years should put downward pressure on operating expenses (it costs less to maintain a repaired asset) and the reduction in OM&A expenses are more than offset by increased capital related expenses (depreciation and cost of capital).

One of the areas that directly affected Hydro One's OM&A expenses as a result of the sale was compensation, particularly executive compensation. Hydro One requested a 6.4% increase in management and executive pay which reflected the hiring of 12 new members of the board of directors and a new CEO and CFO by Hydro One Limited.[51] HON has argued that such compensation would provide customers value and should be reflected in transmission rates.

In its decision, the OEB outlined that Hydro One did not adequately demonstrate that the increased executive compensation costs will provide improvements in efficiency and productivity. As a result, the OEB reduced HON's compensation revenue requirement (under OM&A) by $15 million in both 2017 and 2018. Should HON adequately demonstrate that the increased executive compensation is providing ratepayers value in the future, the FAO assumes such costs would be factored into HON's revenue requirement.

Cost of Capital

Alignment of the interests of shareholders and ratepayers

As a publicly traded company, Hydro One will have investor pressure to generate returns in excess of OEB approved levels. The return paid by ratepayers to Hydro One shareholders is reflected in the cost of capital component of HON's revenue requirement. The methodology to determine Hydro One's cost of capital has not changed as a result of the partial sale. The return is based on HON's regulated capital structure and rate base. Hydro One's rate base consists of the carrying cost of HON's long-lived assets.

Table 7-2 outlines the calculation of Hydro One's 2017 transmission cost of capital. Hydro One's regulated capital structure is 40% equity and 60% debt (56% long-term debt and 4% short-term debt).

[49] Government of Ontario. "Striking the Right Balance: Improving Performance and Unlocking Value in the Electricity Sector in Ontario." 16 Apr. 2015. p. 13.
[50] Efficiencies could also be reflected in more efficient capital spending.
[51] Ontario Energy Board Case EB-2016-0160. Undertaking J.10.

Table 7-2 Calculation of Hydro One Transmission Cost of Capital, 2017 ($ millions)

	Rate Base	% of Deemed Capital Structure	Rate of Return	Cost of Capital to be Recovered from Ratepayers
Long Term Debt	5,910	56%	4.67%	280
Short Term Debt	422	4%	1.76%	7
Common Equity	4,222	40%	8.78%	370
Total	**10,554**		**6.20%**	**657**

Source: Ontario Energy Board Case EB-2016-0160.

Hydro One shareholders are permitted to earn an 8.78% return on their equity investment in HON.[52] Hydro One's return on equity is not guaranteed and the actual return shareholders earn depends on:

1. Hydro One's ability to achieve or improve upon the revenue requirement targets set out by the OEB.
2. The extent to which Hydro One's actual capital structure aligns with its regulated capital structure.
3. Hydro One's ability to grow its rate base through increased capital investment (and acquisitions).

The rate regulated structure provides an incentive for Hydro One to overstate its revenue requirement, as one way HON can provide returns to shareholders in excess of the regulated return is to collect more from ratepayers than the actual cost of providing transmission and distribution services. In addition, the structure provides an incentive for Hydro One to make excess capital investment to grow the rate base on which shareholders earn a return.

However, the OEB attempts to align the interests of ratepayers and shareholders through what is known as incentive-based rate making.[53] Hydro One's distribution rates include an earnings-sharing mechanism whereby customers share 50% of any earnings that exceed the regulated return on equity by more than 100 basis points (1%).[54]

Overall, to the extent that the OEB's incentive rate setting process can align the interests of ratepayers and shareholders it could help to ensure that ratepayers benefit from efficiencies realized by Hydro One and that shareholders do not earn excess returns at the expense of ratepayers.

Cost of Debt Financing

Hydro One's cost of long-term debt financing, which represents 56% of HON's regulated capital structure is calculated based on Hydro One's weighted average rate on embedded debt, new debt and forecast debt. Therefore, unlike HON's cost of equity, the cost of long-term debt passed on to ratepayers is directly related to the company's actual financing costs.[55]

The debt to finance HON's capital investments is issued by its parent company Hydro One Incorporated. Hydro One Incorporated has traditionally benefitted from credit ratings one or two notches (depending on the rating agency) below the rating of the Province of Ontario. The sale of Hydro One appears to have had only a minor effect on Hydro One Incorporated's perceived creditworthiness with only one rating agency (Moody's) downgrading the company as a

[52] The regulated return on equity was unaffected by privatization and is set by the Ontario Energy Board based on a formulaic approach unrelated to Hydro One's actual capital structure.
[53] The OEB can also adjust approved revenue requirement levels if HON persistently spends less than revenue targets. The OEB also ensures the prudency of HON's capital spending.
[54] Hydro One's transmission business does not currently incorporate an earnings-sharing mechanism. However, the transmission business will be adopting an incentive-based rate setting model in 2019. Hydro One Investor Overview Second Quarter 2017.
[55] Hydro One's short term debt rate is calculated based on a formulaic approach based on Bank of Canada rates.

result of the sale.[56] The primary reason for the downgrade from Moody's is the lack of perceived backing from the Province of Ontario due to the Province's reduced ownership of the company.[57]

Table 7-3 Hydro One Incorporated Long-Term Debt Rating

	2013	2014	2015	2016	2017
Hydro One Incorporated Long Term Debt Rating					
S&P	A+	A+	A	A	A
DBRS	A (high)	A (high)	A (high)	A (high)	A (high)
Moody's	A1	A1	A3	A3	A3
Ontario Long Term Debt Rating					
S&P	AA-	AA-	A+	A+	A+
DBRS	AA(low)	AA(low)	AA(low)	AA(low)	AA(low)
Moody's	Aa2	Aa2	Aa2	Aa2	Aa2

Source: Hydro One Annual Reports 2012 through 2016.

Looking ahead, the further reduction of Provincial ownership and increased leverage due to the proposed acquisition of Avista has the potential to further impact Hydro One's credit rating.[58] Both S&P and Moody's have changed their outlook on Hydro One Incorporated from stable to negative due to the proposed Avista acquisition.[59]

Any deterioration of Hydro One Incorporated's creditworthiness would increase the yield on its new debt. As a result, the long-term debt costs passed onto ratepayers would likely increase (relative to 100 per cent Provincial ownership) over time as debt issued while Hydro One was under 100 per cent control of the Province is retired and new debt is issued.

Debt Retirement Charge

The debt retirement charge (DRC) is a charge on electricity consumption paid by non-residential electricity ratepayers. As outlined in chapters 3 and 6, after the partial sale of Hydro One, the Province decided to end the DRC on April 1, 2018, rather than December 31, 2018. Therefore, the partial sale of Hydro One is expected to save non-residential electricity ratepayers approximately $465 million. However, the FAO also estimates that after the partial sale of Hydro One the DRC should have been eliminated in 2015-16 as the residual stranded debt (RSD) was eliminated at that time. As a result, although non-residential electricity ratepayers are expected save approximately $465 million, the FAO estimates that non-residential electricity ratepayers should have saved an additional $1.2 billion from the partial sale of Hydro One.

[56] The downgrade by S&P in 2015 was a result of S&P's decision to downgrade the Province of Ontario.
[57] Moody's Investors Service. "Moody's downgrades Hydro One to A3; Outlook Changed to Stable." 05 Nov. 2015.
[58] The debt issued to finance the acquisition of Avista will be issued by Hydro One Limited, not Hydro One Incorporated.
[59] Moody's Investor Service. "Moody's Affirms Hydro One's Senior Unsecured A3 Ratings; Outlook Changed to Negative." 19 Jul. 2017 and S&P Global Ratings. "Hydro One Ltd. And Hydro One Inc. Outlooks Revised to Negative from Stable on Proposed Avista Corp. Acquisition." 19 Jul. 2017.

8. Hydro One's Purchase of Avista

In July of 2017, Hydro One announced that it intends to purchase Avista Corporation (Avista) for $4.4 billion.[60] Avista is an energy company involved in the production, transmission and distribution of energy as well as other energy-related businesses. It is based in the United States and its service territory includes Washington, Idaho, Oregon and Alaska.[61]

Fiscal Impact Considerations

The FAO did not forecast the on-going fiscal impact to the Province of Hydro One's pending purchase of Avista, but it offers the following considerations:

1. The FAO estimates that the Province's ownership in Hydro One will decline by 5 per cent following the acquisition of Avista, from 47 per cent to 42 per cent.[62]
    - The FAO estimates that the Province will forgo about $40 million in Hydro One's net income for the fiscal year 2019-20 as a result of its diluted ownership in the company.
2. The FAO estimates that Avista generates about $180 million per year in net income.[63]
    - Avista is also a regulated utility with a rate base of $3.88 billion (22% of the size of Hydro One) and an average regulated return on equity of 9.6%.
    - The FAO estimates that the Province will realize 42 per cent of the net income from Avista, at about $75 million for the fiscal year 2019-20.
3. The FAO estimates that Hydro One will take on more debt as a result of its purchase of Avista.[64]
    - The FAO estimates that Hydro One will issue $3.4 billion in new debt in connection with the acquisition.
    - The FAO estimates that the Province's annual surplus / (deficit) will deteriorate by about $55 million for the fiscal year 2019-20 as a result of the Province's 42 per cent share of the interest payments for Hydro One's additional debt.

Overall, the FAO estimates that the Province's annual surplus / (deficit) will deteriorate by about $20 million in fiscal 2019-20 as a result of Hydro One's purchase of Avista. Going forward, the impact to the Province's annual surplus / (deficit) will depend on the future profitability of Avista.

[60] The purchase is subject to closing conditions and expected to be finalized in the second half of 2018. The $4.4 billion purchase price is in Canadian dollars (CAD). Hydro One will also assume Avista's debt for a total purchase price of $6.7 billion CAD.
[61] Hydro One press release, "Hydro One to Acquire Avista to Create Growing North American Utility Leader with C$31.2 Billion in Enterprise Value".
[62] This is estimated to occur in calendar third quarter of 2018 when convertible debt issued to acquire Avista is converted to an estimated additional 72 million Hydro One shares. The FAO assumes that the Province will not purchase any of these securities.
[63] In Canadian dollars.
[64] This is in connection with the assumption of an estimated $2.3 billion in Avista's debt, plus the estimated $3.4 billion in Hydro One debt and $1.5 billion in convertible Hydro One debt that was issued to finance the purchase of Avista.

Effect on Ratepayers

The FAO did not estimate the potential impact to electricity rates as a result of Hydro One's pending acquisition of Avista. However, the FAO provides the following considerations.

1. The OEB sets electricity rates in Ontario based on regulated assets in Ontario. As such, Avista's assets should not have an impact on electricity rates in Ontario, because they are located outside of the OEB's regulating jurisdiction.

2. The OEB considers the cost of Hydro One's debt when determining its revenue requirement. Two credit rating agencies indicated potential negative rating actions on Hydro One Incorporated debt resulting from the potential acquisition of Avista by Hydro One Limited. Therefore, there is potential for the acquisition to increase Hydro One Incorporated's cost of debt, which would increase Hydro One Networks' revenue requirement, which would negatively impact electricity rates in Ontario.

3. The OEB will consider how costs are allocated between the non-regulated parent company and Hydro One's regulated business. Therefore, there is potential for cost efficiencies that are realized due to the expansion of Hydro One's business which could potentially decrease Hydro One Networks' revenue requirement, which would positively impact electricity rates in Ontario.

Dilution of Provincial Ownership of Hydro One

As noted above, Hydro One's proposed purchase of Avista is expected to dilute the Province's ownership of Hydro One from 47 per cent to 42 percent. In addition, Hydro One's management has expressed an interest in pursuing further acquisitions of North American utilities on a similar scale to the proposed acquisition of Avista.[65] If Hydro One were to purchase another North American utility of a similar size to Avista it would likely drop Provincial ownership of Hydro One to well below 40 per cent.

Under the Electricity Act, the Province cannot sell shares of Hydro One if it would take Provincial ownership below 40 per cent.[66] However, the Electricity Act does not prevent Hydro One from issuing additional shares to make another acquisition and thereby dilute Provincial ownership of Hydro One to less than 40%.

If a new acquisition by Hydro One were to reduce Provincial ownership to less than 40 per cent, then the Electricity Act states that the Province shall take steps to acquire as many shares in Hydro One as required to return the Province to 40 per cent ownership, but only if the plan to acquire the additional shares is approved by Cabinet (i.e. the Province).[67] Consequently, if Provincial ownership of Hydro One falls below 40 per cent, it is within the Province's own discretion to decide whether or not to return Provincial ownership to the 40 per cent threshold.

[65] Hydro One's investor presentation.
[66] Electricity Act, s. 48.2(5) and s. 50.2.1.
[67] Electricity Act, s. 48.2(6) and (7). There are other conditions as well, such as complying with the *Securities Act*.

9. Appendices

Appendix A: Pre-Sale Transactions

The Province, Hydro One and the OEFC completed a series of transactions before the initial sale to address the financial impacts of the departure tax and deferred tax asset benefit. Table 9-1 shows the FAO's estimate of the impact of the pre-sale transactions on the Province's financial statements. Overall, the FAO estimates that only the deferred tax asset had a fiscal impact, improving the annual surplus / (deficit) by $2.4 billion and reducing net debt by $2.4 billion.

Table 9-1: FAO Estimate of the Fiscal Impact of the Initial Hydro One Pre-Sale Transactions, millions of dollars

$ millions	Departure Tax	Equity Injection	Special Dividend	Deferred Tax Asset	Total Impact
PILs Revenue	2,800	0	0	0	2,800
GBE Income	-2,800	0	0	2,400	-400
Annual Surplus / (Deficit)	**0**	**0**	**0**	**2,400**	**2,400**
PILs Revenue	2,800	0	0	0	2,800
Investment in GBE	0	-2,600	0	0	-2,600
Dividends Received	0	0	800	0	800
Cash Flow	**2,800**	**-2,600**	**800**	**0**	**1,000**
Cash	2,800	-2,600	800	0	1,000
GBE Investment	-2,800	2,600	-800	2,400	1,400
Net Debt	**0**	**0**	**0**	**-2,400**	**-2,400**

Source: FAO

Note: Numbers are rounded to the nearest hundred million. The deferred tax asset impact was post-sale and the result of a deemed transaction.

Transaction Review

Before the initial sale of Hydro One, the company was exempt from paying corporate tax. Instead, Hydro One made payments-in-lieu of tax (PILs) to the Province. However, once the Province sold more than 10 per cent of its ownership in Hydro One, the company ceased making PILs and began paying corporate tax. However, Hydro One was to make a final PIL before the initial sale, known as the departure tax, which was remitted by the Province to the Ontario Electricity Financial Corporation (OEFC).

Immediately after the sale, Hydro One was deemed to have sold and reacquired its assets at fair market value, which was higher than the value of its assets before the time of sale. As a result, Hydro One will record significant capital cost

allowances (CCA) going forward, which will depreciate the value of its assets for tax purposes, and result in Hydro One not paying corporations tax for some time. These future tax savings are referred to as the deferred tax asset benefit.

The following provides more information on departure tax and the deferred tax asset, plus two other pre-sale transactions: the equity injection and special dividend.

1. **Departure Tax.** Immediately before the sale, Hydro One paid the OEFC $2.6 billion in PILs. The payment was prescribed by the Electricity Act and the amount was determined by the Minister of Finance. The departure tax was introduced to establish a level playing field with unregulated companies and to compensate the Province for its investment in Hydro One.[68] It is known as the departure tax because Hydro One was "departing" from the PILs regime.
    - Hydro One also paid $191 million in additional PILs. This was to equate the value of the departure tax to the value of Hydro One's deferred tax asset benefit. The FAO adds the $2.6 billion and $191 million payments to define the departure tax as $2.8 billion.
2. **Equity Injection.** Immediately before the sale, the Province invested $2.6 billion in Hydro One to help the company finance its payment of the departure tax. The Province records the value of Hydro One as an equity investment in its consolidated financial statements, so the investment is known as an equity injection. This transaction helped support the market value of Hydro One for the partial sale.
    - For example, in the absence of the Province financing the departure tax, Hydro One would have incurred additional interest costs associated with new debt issued to pay the departure tax, which would have lowered the value of the company and sale proceeds, all else being equal.
3. **Special Dividend.** Immediately before the sale, Hydro One made a one-time dividend payment to the Province in the amount of $800 million. This payment was to align Hydro One's actual and regulated capital structure.
    - For example, the combined impact of the departure tax, equity injection and deferred tax asset resulted in an increase to Hydro One's equity of $2.6 billion. Given that Hydro One's debt remained the same, the combined impact of these transactions is a decrease to Hydro One's debt to equity ratio. As such, Hydro One issued $800 million in debt and paid the Province $800 million in dividends, which served to align the company's actual and regulated capital structure. Maintaining a certain debt to equity ratio is important because the Ontario Energy Board (OEB) determines electricity rates based on a fixed debt to equity ratio of about 60 per cent for Hydro One.
4. **Deferred Tax Asset.** Immediately after the sale, Hydro One was deemed to have sold and reacquired its assets at fair market value, which was higher than the value of its assets before the time of sale. As a result, Hydro One will record significant capital cost allowances (CCA), which will depreciate the value of its assets for tax purposes, and result in Hydro One not paying corporations tax for some time.
    - These future tax savings are recorded as an asset on Hydro One's financial statements and Hydro One estimated the value of this asset at $2.8 billion. However, the Province only consolidated the value of this asset at $2.4 billion in its consolidated financial statements, because the Province only owned 84

[68] OEB Decision and Order EB-2016-0160.

per cent of Hydro One immediately following the sale.[69] For each year going forward, as Hydro One pays less tax than it records as tax expense in its financial statements, the value of the deferred tax asset declines by the amount of tax savings.

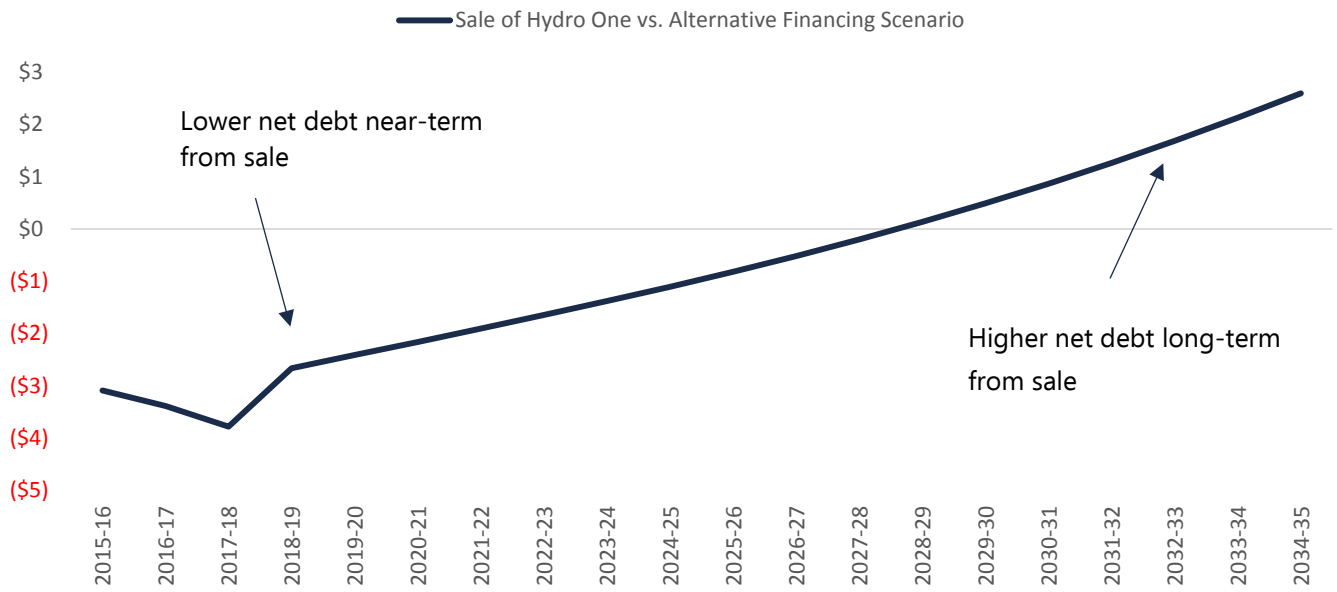
[69] However, the OEB has ruled that Hydro One is not allowed to recover the full amount of the deferred tax benefit. Hydro One has appealed this ruling to the Divisional Court of Ontario. If Hydro One's appeal fails, then the company is expected to realize a loss of about $0.9 billion in connection with the deferred tax asset benefit.

Appendix B: Effect on Net Debt

Overall, the FAO estimates that Provincial net debt will be higher as a result of the sale of Hydro One by 2028-29. The FAO estimated the fiscal impact of the sale of Hydro One compared to an alternative financing scenario in which the Province issues debt to allocate an equivalent amount of cash to the OEFC and the Trillium Trust. The FAO assumes that in the alternative financing scenario, the Province would be required to issue $7.8 billion in debt, which is equal to the $6.8 billion in Hydro One cash sale proceeds, plus $1.0 billion in cash received from the pre-sale transactions.[70]

The FAO estimates that due to the sale of Hydro One, Provincial net debt will be lower in the near term, versus the alternative financing scenario, due to the upfront benefits resulting from the gains on sale and the deferred tax asset benefit. The Province also benefits from interest expense savings as it is not required to borrow $7.8 billion in debt. However, over the long-term and starting in 2028-29, the FAO estimates that with the sale of Hydro One, Provincial net debt will be higher compared with the alternative financing scenario as the interest savings are more than offset by forgone revenue from PILs and net income from Hydro One (Figure 9-1).

Figure 9-1: FAO Estimate of the Effect on Provincial Net Debt from Selling Hydro One vs an Alternative Financing Scenario of Issuing Provincial Debt



Source: FAO.

[70] Appendix A: Pre-Sale Transactions reviews the $1 billion in cash received from the pre-sale transactions.

Appendix C: Development of this Report

Authority

The Financial Accountability Officer accepted a request from a member of the Legislative Assembly to undertake the analysis presented in this report under paragraph 10(1)(b) of the *Financial Accountability Officer Act, 2013*.

Key Questions

The following key questions were used as a guide while undertaking research for this report:

- What is the fiscal impact to the Province of the partial sale of Hydro One?
  - What were the final proceeds generated by the Province?
  - Of the final proceeds, what amount was cash vs. non-cash, and what are the implications for the financial position of the Province?
  - How did the sale impact the Province's surplus/deficit and net debt?
  - How much has OEFC electricity sector debt been reduced as a result of the sale?
  - How did the transactions related to the sale, including the $2.6 billion departure tax and $800 million special dividend, impact the Province's fiscal position?
  - What is the projected long-term effect of the sale compared to what would have happened if the Province generated equivalent funds using traditional borrowing?
- How will the proceeds from the sale of Hydro One be used to finance infrastructure projects?
  - What portion of the proceeds (cash and non-cash) was allocated to the Trillium Trust, and what are the implications, if any, of funding infrastructure projects with non-cash proceeds?
  - What infrastructure projects are being financed by the sale proceeds?
  - Are the infrastructure projects being financed by the sale of Hydro One new projects, or existing projects already included in the Province's fiscal plan?
- How will the sale of Hydro One affect Ontario ratepayers?
  - How will payment of OEFC debt using the proceeds generated by the sale affect Ontario ratepayers?
  - How could changes in Hydro One's capital structure (debt/equity) resulting from the sale and related transactions affect Ontario ratepayers?
- What is the expected impact to the Province and Ontario ratepayers from Hydro One's proposed acquisition of Avista corp.?
  - How would the acquisition affect the Province's investment in Hydro One?
  - How would changes to Hydro One's business that is not regulated in the Ontario market affect Ontario ratepayers?

Scope

This report does not:

- Seek to assess the merits of the decision to sell Hydro One.

Methodology

This report has been prepared with the benefit of information provided by the Ministries of Finance and Energy, Treasury Board Secretariat and the Ontario Financing Authority, meetings with staff from the Ontario Financing Authority, a review of relevant literature, as well as other publicly available information. Specific sources are referenced throughout.

The FAO's estimate of the fiscal impact of the sale of Hydro One is subject to uncertainties. For example, the FAO's estimate of the fiscal impact would improve (i.e. improve the surplus / (deficit) overall) should interest rates increase above forecasted levels, because the Province would save more on its displaced borrowing. Also, the FAO excludes any assumptions about changes in the profitability of Hydro One. An improvement in Hydro One's profitability as a result of the sale would improve the FAO's estimate of the fiscal impact.

All dollar amounts are in Canadian, current dollars (i.e. not adjusted for inflation) unless otherwise noted.

Financial Accountability Office of Ontario
2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2 | 416.644.0702 | fao-on.org | info@fao-on.org

December 7, 2017

Tim Schuurman
Assistant Deputy Minister, Office of the Budget, Ministry of Finance
Frost Bldg, 4th Flr
7 Queen's Park Cres
Toronto, ON M7A 1Y7

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RE: Government review of FAO draft report "Follow-up Analysis of the Financial Impact of the Partial Sale of Hydro One" (FA1715)

Dear ADM Schuurman:

Please find enclosed the FAO draft report "Follow-up Analysis of the Financial Impact of the Partial Sale of Hydro One."

This draft report is being provided to you on a confidential basis and may contain information subject to disclosure restrictions under the *Financial Accountability Officer Act, 2013* (FAO Act) and Order-in-Council 1412/2016 (OC 1412/2016). I would ask that you not share outside appropriate staff in the Ministries of Finance and Energy, Treasury Board Secretariat and the Ontario Financing Authority.

We would welcome any comments you might have on this version of the draft report. Specifically, we ask that you help us by identifying any aspect of the draft report that you feel might be incomplete, inaccurate or misleading. I have enclosed the FAO's comment tracking form, which you might find helpful in gathering comments.

We also ask that you assist us in fulfilling the duties of the FAO under section 13 of the FAO Act and OC 1412/2016. Under section 13 of the FAO Act, the FAO cannot disclose the information he obtains from a ministry or public entity under section 12 of the FAO Act unless the disclosure is essential for the performance of his mandate and the information does not fall under certain categories of sensitive records. Under OC 1412/2016, the FAO agrees not to disclose any information obtained from a ministry or public entity protected by section 12(1) of the *Freedom of Information and Protection of Privacy Act*.

The FAO considers the disclosure of information to be essential for the performance of his

mandate where the disclosure is required to support the findings he presents to the Legislative Assembly.

In order to help the FAO fulfill his duties under section 13 of the FAO Act and OC 1412/2016, please answer the following questions:

1. If published in its current form, would the draft report disclose information the Ministries of Finance and Energy, Treasury Board Secretariat and the Ontario Financing Authority gave the FAO in response to an information request made under section 12 of the FAO Act or OC 1412/2016?

   If the report only contains publicly-available information and/or analysis based on non-public information that does not allow a person to reconstruct the original information, then no disclosure is occurring and the disclosure restrictions therefore do not apply.

   If, however, the report contains raw, non-public information and/or analysis based on non-public information that does allow a person to reconstruct the original information, then a disclosure is occurring and you should determine whether the information falls under one or more sensitive categories under paragraphs 2, 3 and 4 of section 13 of the FAO Act or OC 1412/2016.

2. Does any of the information presented in the report fall under one of the following categories for the purposes of paragraphs 2, 3 or 4 of section 13 the FAO Act?

   a. Was the information obtained solely from a record described in section 17 of the *Freedom of Information and Protection of Privacy Act* (FIPPA)? If so, please specifically identify that information and the third party whose interests would be affected by the disclosure of the information.

   b. Was the information obtained solely from a record described in section 15 of FIPPA? If so, please specifically identify that information and the other government which would be affected by the disclosure of the information.

   c. Was the information obtained solely from a record described in subsection 18(1) of FIPPA? If so, please specifically identify that information. If applicable, please identify the other public institution whose interests would be affected by the disclosure of the information.

   d. Is the information subject to solicitor-client privilege, litigation privilege or settlement privilege? If so, who are the holders of that privilege with respect to the information?

3. If the information falls under one of the categories listed in paragraphs 2, 3 or 4 of section 13 of the FAO Act, please identify the relevant subsection or paragraph of FIPPA and specifically explain why the information falls under the category.

   It is not sufficient simply to refer to sections 15, 17 or 18(1) of FIPPA without providing

justification about why the provision applies to the information that would be disclosed.

Where the Information and Privacy Commissioner has established a legal test for determining whether a record falls under sections 15, 17 or 18(1) of FIPPA or a particular subsection or paragraph thereof, please use the test and demonstrate how each element of the test has been met.

4. Does any of the information presented in the report fall under section 12(1) of FIPPA (as per OC 1412/2016)?

   If the information falls under section 12(1) of FIPPA (as per OC 1412/2016), please specifically explain why the information falls under the section.

   It is not sufficient simply to refer to section 12(1) of FIPPA without providing justification about why the provision applies to the information that would be disclosed.

   Where the Information and Privacy Commissioner has established a legal test for determining whether a record falls under section 12(1) of FIPPA or a particular paragraph thereof, please use the test and demonstrate how each element of the test has been met.

Please note: if you do not provide enough information for the FAO to determine whether the information is subject to a disclosure restriction, the FAO may make a formal information request, asking for additional details.

Should you have any questions about the above, or the draft report or FAO processes in general, please do not hesitate to contact me at mstephenson@fao-on.org or 416-550-9430.

In order to maintain the schedule for this project, we would ask that you please provide a response to this review request by 4:00 pm on December 13, 2017.

I want to thank you for your assistance in this matter. Providing timely and relevant analysis to the Legislature is the primary objective of the FAO. The degree to which this is possible depends, to a large extent, on the collaboration of ministries and public entities. In assisting us with this work, you are helping us to better serve Members of the Provincial Parliament.

Sincerely,

Matthew Stephenson
Project Manager

Enclosures:

- Draft Report
- Comment Tracking Form
- Guide to Reviewing Draft Reports Prepared by the FAO

CC:
Mr. Jeffrey Novak
Chief Financial Analyst and Project Director
Financial Accountability Office of Ontario

Comment Tracking Form

Deliverable under review	Draft Final Report
Reviewing entity	Ministries of Finance and Energy, Treasury Board Secretariat and Ontario Financing Authority
Due Date	December 13, 2017
Project Name	Follow-up Analysis of the Financial Impact of the Partial Sale of Hydro One
FAO Reference	FA1715

General Comments	
Comment made by (person)	**Comment**

Specific Comments		
Report Section	**Comment made by (person)**	**Comment**

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Comment Tracking Form

Deliverable under review	Draft Final Report
Reviewing entity	Ministries of Finance and Energy, Treasury Board Secretariat and Ontario Financing Authority
Due Date	December 13, 2017
Project Name	Follow-up Analysis of the Financial Impact of the Partial Sale of Hydro One
FAO Reference	FA1715

General Comments	
Comment made by (person)	**Comment**
Strategic Investment and Finance Branch (SIFB) /Corporate and Electricity Finance Division (CEFD)	When referring to proceeds generated or Hydro One shares sold in 2017-18, or overall proceeds or Hydro One shares sold, please note that the share sale to the First Nations has not occurred yet and is subject to closing.
Electricity Finance Branch /CEFD	**Fiscal Impact of Sale** **DRC Revenue** The DRC revenue loss in 18-19 identified by the FAO is not an IPO impact on the fiscal plan, as the DRC revenue was already assumed, for prudent fiscal planning, to end as at March 31, 2018, independent of the IPO. The decision to end the DRC nine months earlier compared to RSD retirement modelling was mainly to balance the need to provide relief for electricity consumers, pay down the stranded debt of the electricity sector and provide certainty to electricity consumers as to when the DRC will end. See excerpt from 2015 fall Statement below. It was not directly tied to the

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	Hydro One disposition decision.
EFB/CEFD	There appears to be confusion between Electricity Sector Dedicated Income (ESDI) and electricity dedicated revenues to OEFC (PILs, Gross Revenue Charge, ESDI etc.), leading to factual errors. (Note, the estimates expense line corresponding to ESDI is labelled "Electricity Dedicated Earnings" which may lead to confusion with Dedicated revenues). Per the OEFC Annual reports, OEFC dedicated revenues includes Outstanding notes receivables from the Province, OPG and IESO; Payments-in-lieu of taxes (PILs) and Gross Revenue Charge (GRC); Hydro One Provincial Corporate Income Tax (CIT); DRC and ESDI. ESDI is dedicated by the Province to OEFC and has been calculated as the combined net income of OPG and Hydro One minus the Provincial interest cost of these investments, on a cumulative basis. This error in understanding appears to lead to a factually incorrect conclusion in the draft FAO report. We advise deleting the coverage in the draft report on the RSD and DRC leading to the FAO's estimate that the RSD was retired in 2015-16 and the FAO's conclusion of electricity consumers being charged $1.2 billion in DRC after the RSD would otherwise have been retired, as estimated by the FAO. (And see further detailed comments below.)
SIFB/CEFD	While amounts related to Hydro One share offerings in 2015 and 2016 have been provided to the OEFC (i.e. proceeds related to the book value of Hydro One shares sold and the s.50.3 financial benefit) or credited to the Trillium Trust, please note that the total amounts across all share sales are estimates (e.g., with amounts related to the May 2017 secondary offering still to be provided to OEFC or credited to the Trillium Trust).
SIFB/CEFD	Please note that throughout the report, the FAO states that the OEFC received cash allocations when referencing the s.50.3 financial benefit. Please note that these financial benefits were not cash payments but were in fact provided through the remission of debt. Also, please note that Electricity Act s. 50.3 states that an amount is to be paid to the OEFC equal to the proceeds from a sale of Hydro One shares, less transaction costs, and acquisition costs, and other obligations, costs and amounts determined by the Minister of Finance in connection with the disposition of shares. It does not state the Province is required to allocate the gain on sale or allocate the cash proceeds from the sale of Hydro One shares to

	the OEFC.
EFB/CEFD	Suggest changing 'Corporations Tax' to Corporate Income Tax.
Government Business Enterprise Division (GBED) – Ministry of Finance	References to the Province's ownership at approximately 47% are contingent on the sale to First Nations closing by end of 2017 with 100% participation from First Nations communities, which is still not yet confirmed.

Specific Comments		
Report Section	**Comment made by (person)**	**Comment**
2. Introduction (P. 2) Footnote 6; 4. Sale Proceeds & Allocation (P.6) Footnote 9 Out year forecasted numbers	OPCD	FAO included 2.5% sale of ownership related to First Nation assuming transaction will close in Q1 2018 and projected all out-year numbers using 47% Province ownership vs. 49.9% that what we are tracking right now. OFA staffs are in agreement with our understanding to use 49.9% Province ownership pending the sale close for FN.
2. Introduction (P. 2) Paragraph 1	GBED	25% figure should refer to distribution ratepayers.
2. Introduction (P. 2) Paragraph 1	OPCD	The Province ~~consolidates~~ accounts for its investment in Hydro One as an investment asset in its consolidated financial statements.
2. Introduction (P. 2); 4. Sale Proceeds & Allocation (P.6)	GBED	Any proceeds from First Nations should be described as a separate sale from the third offering in May 2017. The First Nations sale is expected to close by end of 2017, subject to a minimum 80% participation rate from First Nations communities.
2. Introduction (P. 2) Paragraph 2	GBED	Would characterize the $9B target, $4B to infrastructure and $5B in debt, as "publicly-stated objective" as opposed to "initially targeted". It remains the target/objective that was ultimately exceeded.
2. Introduction (P. 2) Paragraph 3	SIFB/CEFD	"The Province completed its final ~~sale~~ public offering of Hydro One shares in May, 2017 and is generating~~ed~~ an estimated $9.2 billion in proceeds over three public offerings and three

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		private placement sales. Overall, the Province ~~was~~ will be able to achieve more than its targeted proceeds amount by selling only an estimated about 53 per cent of Hydro One." The estimated $9.2 billion in proceeds that is referenced includes the share sales to two unions' trusts, as well as a share sale to the First Nations, the latter of which has not occurred yet.
2. Introduction (P. 2) Footnote 5	OPCD	Regarding footnote 5, the sale to First Nations hasn't closed?
Table 3-1/ Figure 6-2	Treasury Board Secretariat (TBS) /Office of the Treasury Board (OTB)	Gains from/on sale do not match in Table 3-1 (page 3) and Fig 6-2 for 2015-16, 2016-17, and 2017-18. For example, gains on sale plus deferred tax amount for 2015-16 in Table 3-1 equal gains from sale 2015-16 in Fig 6-2; however, these are not consistent for 2016-17 or 2017-18.
3. Fiscal Impact of sale (P.3) Paragraph 1	OPCD	"The FAO estimates that the Province's annual surplus / (deficit) will improve" Suggest change tense as 2015-16 and 2016-17 are closed and reported on.
3. Fiscal Impact of Sale (P.3)	SIFB/CEFD	"Table 3-1 summarizes the FAO's estimate of the impact of ~~the~~ an estimated 53 per cent sale of Hydro One, cumulatively by the end of 2017-18, to the Province's annual surplus / (deficit) over the period of 2015-16 to 2024-25." Please see first general comment
3. Fiscal Impact of Sale (P.3)	SIFB/CEFD	In Table 3-1, the FAO takes the view that there would be an -419M reduction in Deferred Tax in 2018-19 as a result of the potential OEB ruling with respect to the deferred tax asset. However, given that the case is still under review by the OEB an in appeal with the courts, for completeness and balance, the report should be provide the alternative case if Hydro One wins the review and/or appeal.
3. Fiscal Impact of Sale (P.3) Table 3-1	EFB/CEFD	Suggest "corporate income tax" rather than "corporations tax". Note: DRC ending timing and fiscal impact, for prudence, was already built into Province's fiscal plan, and prior to the policy decision on the IPO. So showing a loss of DRC revenues in 18-19 as attributable to the IPO is not correct.
3. Fiscal Impact of Sale (P.3) Paragraph 4	OPCD	"Table 3-2 below summarizes the FAO's estimate of the sale proceeds.." For 2015-16 and 2016-17 the amounts are reported, so don't need to be estimated

3. Fiscal Impact of Sale (P.3) Paragraph 4	SIFB/CEFD	"Table 3-1 below summarizes the FAO's estimate of the sale proceeds and gains on sale for the Province's estimated 53 per cent sale of Hydro One shares." Please see first general comment
3. Fiscal Impact of Sale (P.4)	SIFB/CEFD	In Table 3-2, the FAO may want to consider splitting the fourth column titled "Third Sale" as the share sale to the First Nations has not yet occurred and is subject to closing.
3. Fiscal Impact of Sale (P.4) Paragraph 1	SIFB/CEFD	"By selling an estimated 53 per cent of Hydro One shares the Province will forgo 53 per cent of Hydro One's future net income, which negatively impacts the Province's annual surplus / (deficit) through lower Income from Government Business Enterprises (GBEs)." Please see first general comment
3. Fiscal Impact of Sale (P.4) Deferred tax	EFB/CEFD	The discussion of impacts from OEB's decision on deferred tax benefit is conceptually consistent with Hydro One Q3 reporting (i.e., one-time impact), but this is inconsistent with the ongoing impact discussion on page 14 of the draft report. The report should be made internally consistent on this point. Hydro One notes in its 2017 Q3 that it would take a one-time write-down if Motion to Review and appeal are unsuccessful
3. Fiscal Impact of Sale (P.4) Deferred tax	OPCD	FAO discussion on deferred tax indicated that, in case of appeal failing, H1 is expected to reduce its deferred tax asset by $885M in 2018-19 and reflect a loss to the Provincial net income of $419M using 47% Province's ownership vs. 49.9% ownership that we are tracking.
3. Fiscal Impact of Sale (P.4) Paragraph 3	OPCD	"In 2018-19, the FAO is projecting that the deferred tax asset…" Why is the FAO assuming this is an expense in 2018-19
3. Fiscal Impact of Sale (P.5) Paragraph 1	SIFB/CEFD	"With ~~T~~the Province consolidating~~s~~ Hydro One at its estimated proportional ownership of 47 per cent, therefore the FAO has reduced GBE income by $419 million in fiscal 2018-19." Please see first general comment
3. Fiscal Impact of Sale (P.5) Paragraph 2	SIFB/CEFD	On page 5, the FAO states that it estimates that Hydro One's corporate tax payments will be zero for a period of about 10 years. Please note that in Hydro One's Prospectus, on page 160, it states that as a result of the deferred tax asset, management believes that this will result in annual net cash savings over the next five years due to the reduction of cash taxes payable. (Note that this can be seen as generally consistent with a Hydro One deferred tax

		asset of about half the deferred tax benefit (the other about half was the elimination of the deferred tax liability) and net income of about $800 million and the amount of corporate taxes payable on an accrual basis at statutory tax rates.)
3. Fiscal Impact of Sale (P.5) Paragraph 3	EFB/CEFD	Suggested Edit "DRC Revenue The debt retirement charge (DRC) is a charge on electricity consumption to help service and repay debt thatwhich resulted from the restructuring of Ontario Hydro in 1999. The DRC generated about $620 million in revenue for the Province in fiscal 2016-17.[1] Prior to the Budget Measures Act, 2015sale of Hydro One, the Province had projected that the DRC would be removed from non-residential bills at the end of calendar 2018, however, it is now being removed from bills on April 1, 2018. The FAO assumes that the decision to end the DRC nine months earlier was a direct result of the sale of Hydro One.[2] As such, the FAO estimates a loss in DRC revenue to the Province of about $465 million in 2018-19." *CEFD Comment:* The decision to end the DRC nine months earlier was mainly to balance the need to provide relief for electricity consumers, pay down the stranded debt of the electricity sector and provide certainty to electricity consumers as to when the DRC will end. See excerpt from 2015 Fall Statement below. Page 131 FES. *The amount and timing for its retirement are subject to uncertainty in forecasting future OEFC results and dedicated revenues to OEFC, which depend on the financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities; the broadening of ownership of Hydro One; and other factors such as interest rates and electricity consumption. The Hydro One IPO will result in upfront benefits to OEFC, as well as the loss of future payments in lieu of taxes from Hydro One and revenues dedicated to OEFC in respect of Hydro One net income.*

[1] Ontario Electricity Financial Corporation, Annual Report, 2016-17.
[2] Chapter 5 reviews this concept in further detail.

		To address this uncertainty and mitigate cost pressures for non-residential users, the government introduced legislation that, if passed, would end the DRC as of April 1, 2018 — nine months earlier than previously estimated. The fixed end date would provide certainty to commercial, industrial and other non-residential electricity users, and help them plan their investment decisions more effectively. The decision to end the DRC on a fixed legislated date was not driven by the Hydro One share sales. It would be misleading to for the FAO report to suggest that. As the FAO's original report on the Hydro One IPO noted, the impact of the IPO and Hydro One share sale valuation was uncertain, depending on the valuation, and the FAO's report indicated that at various valuation levels, the FAO estimated that the RSD would not be retired before 2018-19 The DRC for residential customers was already ended as of January 1, 2016, as a rate mitigation measure. The legislation amending the Electricity Act 1998 to fix a legislated end date of April 1, 2018, for industrial, commercial and other ratepayers, was designed to strike a balance between providing certainty and rate relief to those electricity consumers and paying down the stranded debt. The amendments to the Electricity Act, 1998 in the fall Budget Measures Act, 2015 also ended reference to residual stranded debt. https://news.ontario.ca/mof/en/2015/12/ontario-passes-budget-measures-act.html
3. Fiscal Impact of Sale (P.5)	EFB/CEFD	As noted above, the policy on ending of DRC was not driven by the Hydro One disposition. We would recommend that the DRC discussion be dropped from the FAO report as the draft FAO appears to be based on erroneous modelling/estimation
4. Sale Proceeds & Allocation (P.6) Paragraph 1	SIFB/CEFD	""The FAO estimates that the Province is generatinged a total of $9.2 billion in proceeds from its estimated 53 per sale of Hydro One (Figure 4-1), which consists of $6.8 billion in cash and $2.4 billion in non-cash proceeds." Please see first general comment

4. Sale Proceeds & Allocation (P.6) Paragraph 1	OPCD	"The FAO includes the non-cash proceeds, which is a result of Hydro One's deferred tax asset benefit, to be consistent with the definition that is used by the Province. " • Not clear what this sentence is saying
4. Sale Proceeds & Allocation (P.6)	SIFB/CEFD	"Figure 4-1: FAO Estimate of Sale Proceeds and ~~Cash Allocations~~Amounts Provided to Trillium Trust / OEFC, billions of dollars" On page 6, suggest revising the Figure 4-1 heading. Please see general comment 3.
4. Sale Proceeds & Allocation (P.6) Figure 4-1	SIFB/CEFD	"$10.0 billion in amounts provided ~~cash allocations~~" Suggest revising the call out text in figure 4-1. Please see general comment 3.
4. Sale Proceeds & Allocation (P.6) Paragraph 2	SIFB/CEFD	"Although the Province is generating~~ed~~ estimated sale proceeds (cash and non-cash) of $9.2 billion, the FAO estimates that the Province ~~has committed to allocate~~is providing an estimated total of $10.0 billion to the Ontario Electricity Financial Corporation (OEFC) and Trillium Trust." Please see first and fourth general comment
4. Sale Proceeds & Allocation (P.6) Paragraph 2	SIFB/CEFD	"The Province is ~~allocating~~ providing more to the OEFC and Trillium Trust in total than was raised in sale proceeds because of legal obligations under the *Electricity Act, 1998* (the Electricity Act) ~~and the *Trillium Trust Act, 2014* (the Trillium Trust Act), and the Province's commitments to allocate the non-cash gain from the deferred tax asset benefit to the Trillium Trust and to allocate the book value of Hydro One shares to the OEFC~~to provide OEFC with a financial benefit in connection with the disposition of Hydro One shares." Please see fifth general comment
4. Sale Proceeds & Allocation	SIFB/CEFD	"As noted in Figure 4-1, of the $10.0 billion estimated total ~~allocation~~, $5.4 billion is estimated to be ~~has been allocated~~ provided to the OEFC, consisting of an estimated $4.7 billion related to the book value of Hydro One shares sold and an additional estimated $0.7

(P.6) Paragraph 3		billion as prescribed by the Electricity Act." Please see general comments 1, 2, and 3. Further, please note that the Province has provided $172M in fiscal 2015-16 and $411M in fiscal 2016-17 in financial benefits under s.50.3 of the Electricity Act, 1998 to the OEFC related to the Hydro One share sales in 2015 and 2016 for a total of $583M. This suggests that the FAO estimates that an additional about $100 million would be provided to OEFC under s.50.3 of the Electricity Act due to the May 2017 sale. Please note that while a determination has not been made by the Minister yet, it may be appropriate to review the calculation of the financial benefit, which appears proportionately very low compared to the benefit to OEFC related to the April 2016 secondary sale. FAO staff could use the April 2016 secondary offering related benefit as a better proportionate proxy for the May 2017 public offering.
4. Sale Proceeds & Allocation (P.6) Paragraph 3	SIFB/CEFD	"The Electricity Act states that upon the sale of Hydro One shares, the Province is required to ~~allocate the gain on sale to~~ provide the OEFC with a financial benefit, which for the purposes of the Electricity Act the FAO ~~is calculated~~ estimated as $0.7 billion." Please see comment above and fifth general comment
4. Sale Proceeds & Allocation (P.6) Footnote 23	SIFB/CEFD	"Note that the ~~gain~~ financial benefit as prescribed by the Electricity Act is different from the gain on sale that is reported in the Province's consolidated financial statements" Please see fifth general comment
4. Sale Proceeds & Allocation (P.7)	SIFB/CEFD	"Note that although $4.6 billion ~~has been~~is estimated to be allocated to the Trillium Trust, only $2.2 billion represents a cash gain to the Province, while the remaining $2.4 billion is a non-cash gain" Please see fourth general comment
4. Sale Proceeds & Allocation (P.7) Paragraph 1	SIFB/CEFD	"~~As a result, the Province will still be required to borrow cash for a portion of infrastructure investments funded from the Trillium Trust.~~" On page 7, the OFA has deleted the statement about the Province still being required to

		borrow cash for a portion of infrastructure investments funded from the Trillium Trust as the statement does not account for cash from other sources, the Province being in a surplus position, etc. Furthermore, not all expenses and revenue in the Province's P&L represent cash inflows and outflows. The Province also receives cash that does not directly affect the P&L, such as from dividends or pay down of debt owed to the Province.
5. OEFC Debt Reduction (P.8) Paragraph 1	SIFB/CEFD	"The FAO estimates that $5.4 billion ~~of the $9.2 billion in sale proceeds~~ will be ~~allocated~~ provided to the Ontario Electricity Financial Corporation (OEFC)." Please see fifth general comment
5. OEFC Debt Reduction (P.8) Paragraph 1	SIFB/CEFD	"Additionally, as a result of pre-sale transactions, ~~the FAO estimates that the Province transferred to~~ the OEFC received $2.8 billion for the departure tax payment and $800 million from a special dividend made by Hydro One to the Province immediately before the sale of Hydro One." On page 8, deleted reference to "the Province transferred to" as under the Electricity Act, PILs (including the departure tax amount), are paid directly to OEFC – i.e., not a transfer from the Province.
5. OEFC Debt Reduction (P.8) Paragraph 1	SIFB/CEFD	"Overall, the FAO estimates that the OEFC will receive $9.0 billion ~~in cash~~ in connection with the estimated 53 per cent sale of Hydro One, resulting from the sale proceeds and also the pre-sale transactions" Please see first and fifth general comment
5. OEFC Debt Reduction (P.8) Paragraph 2	SIFB/CEFD	"To date, the FAO estimates that the OEFC has received $6.6 billion ~~in cash~~ with the remaining estimated $2.4 billion ~~in cash~~ to be received in 2017-18. The FAO estimates that the OEFC has so far reduced its gross debt by $4.9 billion as a result of the sale, which is less than the amount of debt remission and cash received so far." Please see fourth and fifth general comment
5. OEFC Debt reduction (P.8) Paragraph 2	EFB/CEFD	*"The difference is because only so much OEFC debt can be retired in a given year, as the OEFC has debts outstanding with ~~different~~ maturity ~~ies~~ timing that differs from the timing of cash inflows."* CEFD comment

		This is also in part due to conservative strategy of asset and liability matching OEFC undertakes. There are many other factors that are considered in carrying out OEFC's objects of managing and paying down the debt and other liabilities. To indicate that differing maturities led to [what is in the report] would be overly simplistic.
5. OEFC Debt reduction (P.9) Paragraph 1	EFB/CEFD	Suggested edit Paragraph 1 "The OEFC's net debt is the difference between the OEFC's gross debt and its assets is reported as the unfunded liability on the OEFC's financial statements. Any change in the OEFC's unfunded liability has implications for the OEFC's residual stranded debt (RSD). The RSD is calculated by the OEFC as the unfunded liability less the net present value (NPV) of future dedicated revenues (e.g., PILs, GRC, electricity sector dedicated income (ESDI)).[3] Prior legislation stated that the debt retirement charge (DRC) would be charged to electricity consumers, ~~to~~ helping to service and pay down the OEFC's gross debt, until the Minister of Finance determined that the RSD had been retired (i.e. the RSD was no longer positive). However, in 2015, this requirement was removed from the Electricity Act and replaced with a firm deadline to end the DRC by April 1, 2018.[4] Figure 5 -2 shows the OEFC's actual and FAO's forecasted OEFC unfunded liability (UL) and net present value (NPV) of ESDI from 2009-10 to 2021-22. The FAO estimates that the first sale of Hydro One and the related sale transactions eliminated the RSD in 2015-16. Specifically, as reported in OEFC's 2016 Annual Report~~the FAO estimates that the~~, OEFC's unfunded liability was $4.4 billion in 2015-16. The FAO estimates that ~~and~~ the NPV of future dedicated revenues to OEFC~~the ESDI~~ was $4.5 billion. This results in the elimination of the RSD in 2015-16 because the NPV of the ESDI ($4.5 billion) was greater than the OEFC's unfunded liability ($4.4 billion). This is earlier than the Province's estimate of when RSD would be retired by the end of 2018, as provided in Budget 2014 and 2015, and the fall 2014 and *2015 Ontario Economic Outlook and Fiscal Review*.

[3] ESDI consists of net income and PILs from Hydro One, Ontario Power Generation (OPG) less provincial interest costs ~~and municipal electric utilities (MEUs)~~.
[4] Section 85(4) of the Electricity Act.

		Although the FAO estimates that the RSD was eliminated at the end of 2015-16, the DRC continues to be charged to non-residential ratepayers[5] and is not scheduled by the Province to end until April 1, 2018[6] even though the Province does have the discretion to end the DRC before April 1, 2018.[7] ~~As a result, the FAO esitmates that non-residential ratepayers will be charged $1.2 billion more than required to eliminate the RSD.~~" *CEFD Comment:* 1. As noted above, it would be more balanced to include that the Province had previously estimated that the RSD would be retired by the end of 2018 (noting that the estimate was subject to uncertainty and actual future results). 2. There are issues with the draft FAO report's use of the term "net debt" in reference to OEFC. Reference OEFC's stranded debt or unfunded liability, as recorded in OEFC Annual Reports since 1999. In doing so, note that the annual reduction in unfunded liability was significant as recorded in the 2015-16 OEFC financial statements, which indicates that the Hydro One IPO had the effect of significantly reducing upfront the stranded debt (or OEFC's unfunded liability). 3. As mentioned above, use of term ESDI in the draft FAO report is factually incorrect: There appears to be confusion between Electricity Sector Dedicated Income (ESDI) and electricity dedicated revenues (ESDI, PILs etc.), leading to factual errors. (Note, the estimates expense line corresponding to ESDI is labelled "Electricity Dedicated Earnings" which may lead to confusion). As a result the PV calculation is overestimated, which leads to the conclusion about overcharging of the DRC in the draft FAO report. ESDI = net income of OPG and Hydro One less Province's interest costs on its assumed OPG and Hydro One debt.

[5] The DRC for residential ratepayers ended on December 31, 2015.
[6] Ministry of Finance, https://www.fin.gov.on.ca/en/tax/drc/index.html, accessed on November 30, 2017.
[7] Section 85(5.1) of the Electricity Act.

		It is also important to keep in mind that estimating the RSD value was not a fixed, one-time determination as the results depended on the outlook for the performance of OPG and Hydro One and other factors such as electricity demand outlook and interest rate. 4. Unclear how the $4.5B number was arrived at: The estimates seem high. The FAO should note that the government's estimates implied a much lower NPV of future dedicated revenues, since the government had estimated that RSD would be retired in 2018. The Report should note the Province had reported in FES 2015 that the estimated DRC end was the end of 2018. The determination of RSD is dependent on a wide variety of factors including the actual past and projected future performance of OPG, Hydro One, PILs revenue, and electricity consumption (vis a vis DRC). Due to the wide level of sensitivities, the RSD determination of the Minister of Finance that had been done annually for a number of years was subject to uncertainty and annual updates. Note that the government's RSD estimate as at March 31, 2015 included an NPV of future dedicated revenues of $6.0 billion, much of which was in 2015-16, as OEFC's unfunded liability was reduced by a record $3.7 bn, much more than the $1.3 bn average amount over the previous 5 years. As much of this was due to upfront amounts related to the IPO, those upfront amounts would be reflected in reduced going forward amounts from April 2016 onwards. I.e., the PV of future dedicated revenues as at March 31, 2016, would be expected to be much less. As indicated, the FAO analysis may reflect confusion between ESDI and electricity dedicated streams. The FAO footnote defines ESDI as net income and PILs from Hydro One, Ontario Power Generation (OPG) and municipal electric utilities (MEUs). This would result in a significant overestimate of present value as 1) provincial interest costs on

		OPG/Hydro One debt (+$0.5B in 2016-17 and 2017-18) should be deducted from the combined net income as part of the ESDI calculation. Note also that for the calculation ESDI would reflect lower Hydro One net income after share dispositions through IPO and secondary offerings and also Hydro One federal portion of the estimated income tax PILs were eliminated post IPO. This would be expected to have significantly lowered the present value of future dedicated revenues to OEFC. Can the FAO staff confirm how it took this into account in the FAO's RSD estimate? While the FAO seems to take this into account in table 3.1 of the draft report, it does not seem to be proportionately reflected in the RSD calculation. This appears to be an inconsistency. Also, in general in modelling ESDI, did the FAO take into account the IFRS adjustment impact on OPG's net income on consolidation into Public Accounts? A reduced amount of revenues collected following the IPO and further share offerings, through reduced amount of provincial CIT collected vs. PILs and through lower share of net income of Hydro One, would have led to slowing the rate of reduction in the stranded debt, and residual stranded debt (RSD) prior to the *Budget Measures Act, 2015*, versus the estimated scenario in the draft FAO report. As such, the FAO's statement on the overcharging of the DRC by $1.2 billion, in the draft report does not appear to be supported. It should be noted that modelling assumptions on future dedicated revenues and discount rates may differ, as they are forecasts subject to uncertainty, if the FAO report retains its own estimate of the RSD retirement date, the report should also disclose for balance the point on that uncertainty and the government's estimate of 2018 for the estimated RSD retirement timing. The government has stated that the legislated fixed end date of April 1, 2018 for the DRC is nine months earlier than earlier estimated, and provides rate mitigation and certainty to commercial and industrial electricity consumers.
Various figures	TBS/OTB	Several figures eat into text, e.g., 5-1, 5-2, 6-1, 6-2, 9-1

5. OEFC Debt Reduction (P.9)	TBS/OTB	Fig 5-2 (page 9) RSD bracket as well as 'Estimated Elimination of RSD 2015-16' are in wrong place.
6. Trillium Trust (P.10) Paragraph 1	OPCD	Suggest the following change: The Trillium Trust is a designated purpose account (DPA) which tracks the Province's commitment to fund infrastructure investments from the gains from sale, as well as any other prescribed non-cash benefit, that is recognized by the Crown in connection with the associated with the sale of designated assets, such as Hydro One.
6. Trillium Trust (P.10) Paragraph 2	OPCD	Instead of using "estimated spending" in the second paragraph, suggest using "estimated allocation", as the Trillium Trust does not spend as there is no specific cash associated with it. This change should also be made in the Figure 6-1 title.
6. Trillium Trust (P.10) Paragraph 3	SIFB/CEFD	"Figure 6-2 shows $4.4 billion of the $4.6 billion in total allocation estimated to be credited to the Trillium Trust from 2015-16 to 2017-18 as a result of the sale of Hydro One, which is then compared to the $0.5 billion in total estimated capital expenses over the same time period" Please see fourth general comment
6. Trillium Trust (P.11) Paragraph 1	SIFB/CEFD	"~~However, the FAO estimates that this net fiscal benefit will deteriorate towards a net fiscal loss in future years, as only $0.2 billion in gains remains to be credited to the Trillium Trust while $4.0 billion in infrastructure spending remains to be expensed to the Province's surplus / (deficit)~~." Deleted statement on page 11 as the statement does not account for any benefits of infrastructure investments.
6. Trillium Trust (P.11) Paragraph 1	TBS/ OTB	• Please delete last sentence on page 11: ("This is due to the fact that some of the infrastructure projects funded by the Trillium Trust were already included in the Province's fiscal plan before its decision to sell Hydro One.")

		• Please delete footnote 40 on page 11: ("Information provided by the Province to the FAO. The FAO is not able to disclose which projects due to Cabinet confidentiality restrictions as per s. 12 (2) of the Financial Accountability Officer Act, 2013 and Order-in-Council 1412/2016.") The information provided to the FAO regarding when projects were included in the fiscal plan is subject to Cabinet confidentiality, along with the names of those projects.
6. Trillium Trust (P.11) Paragraph 1	OPCD	Figure 6-2 Table could cause confusion as it doesn't show the allocation to capital assets (only to capital expense)
6. Trillium Trust (P.11) Paragraph 1	SIFB/CEFD	"~~Finally, although the FAO estimates a $3.9 billion net fiscal benefit to the Province from 2015-16 to 2017-18 when comparing Hydro One gains from sale and capital expense from Trillium Trust spending on infrastructure, the net fiscal benefit from 2015-16 to 2017-18 is likely greater than $3.9 billion. This is due to the fact that some of the infrastructure projects funded by the Trillium Trust were already included in the Province's fiscal plan before its decision to sell Hydro One.~~ " Deleted statement on page 11 as the Province's initiative on unlocking the value of Provincial assets towards investments in infrastructure announced in 2015 was part of the Province's infrastructure plan, as expanded in 2015, even though at that time the Province would need to wait for the results of the asset review before having a finalized path forward.
7. Effect of Sale on rate payers – Background (P.12) Paragraph 1	EFB/CEFD	Suggested edit 1st paragraph "….HON must submit applications to the OEB which outline the utility's revenue requirement, which reflects projected costs which HON would recover from ratepayers in each year."
7. Effect of Sale on rate payers – Background	OPCD	"The net result of this decision is to provide ratepayers with savings of approximately $986 million, of which $561 million will be allocated to transmission customers and $425 million to distribution customers. As a result, the 2017 and 2018 transmission revenue requirement has been reduced by a total of $65 million (see the regulatory income tax line in Table 7-1).

(P.13) Last Paragraph		The FAO estimates that the full savings to ratepayers of approximately $908 million will be amortized over at least 15 years." • How do the amounts highlighted tie to the $885 noted previously? • Suggest the decision of Hydro One to appeal the decision (and the basis for this appeal if public) should be included in the body of the document vs. a footnote
7. Effect of Sale on rate payers - Operating Expenses/Operating Efficiencies (P.14) Paragraph 3	EFB/CEFD	Are these amount all nominal dollars, so unadjusted for inflation (and change in the size of Hydro One), so is it a fair comparison? For the statement "it costs less to maintain a repaired asset", has the FAO done analysis on this? Isn't all of Hydro One's existing asset base also getting one-year older, so more expensive to maintain? Is the average age of Hydro One's assets stable, declining or increasing; i.e., is this sustaining capex that just keeps Hydro One's asset base (and related capex) at a steady state?
7. Effect of Sale on rate payers - Allocation of Deferred Tax Asset Benefit (P.13) Last Paragraph	EFB/CEFD	"The FAO estimates that the full savings to ratepayers of approximately $908 million will be amortized over at least 15 years. " Should strike sentence above and reiterate point made earlier in FAO document reflecting Hydro One's 2017 Q3 report, in which the company expects that this would not be an ongoing impact over 15 years, but a one-time write-down which they estimate at $885M with a provincial impact adjusted for its proportionate share ownership.
7. Effect of Sale on rate payers - Allocation of Deferred Tax Asset Benefit (P.13) Last Paragraph	TBS/OTB	Last paragraph on page 13 states "As a result, the 2017 and 2018 transmission revenue requirement has been reduced by a total of $65 million (see the regulatory income tax line in Table 7-1). However, it is not apparent in table 7-1 how the $65 million has been derived.

7. Effect of Sale on rate payers (P.14) Cost of Capital	EFB/CEFD	"The rate regulated structure provides an incentive for Hydro One to overstate its revenue requirement, as one way HON can provide returns to shareholders in excess of the regulated return is to collect more from ratepayers than the actual cost of providing transmission and distribution services. In addition, the structure provides an incentive for Hydro One to make excess capital investment to grow the rate base on which shareholders earn a return. " *CEFD Comment:* Not clear what points are being made here. Is this a Hydro One disposition issue or a more general observation about the potential adverse incentives in the regulatory process? FAO may wish to look at this issue, but does it belong in this report?
7. Effect of Sale on rate payers (P.15) Cost of Capital	EFB/CEFD	Suggested Edit Paragraph below Table 7-2 "Hydro One's rates are set including a cost of capital in its revenue requirement, including, for example ~~shareholders are permitted to~~ ~~earn~~ an 8.78% return on ~~their~~ equity investment in HON in 2017. *CEFD Comment:* ROE is determined formulaically annually. Suggest clarification.
7. Effect of Sale on rate payers - Cost of Debt Financing (P.17)	EFB/CEFD	**Debt Retirement Charge** ~~The debt retirement charge (DRC) is a charge on electricity consumption paid by non-residential electricity ratepayers. As outlined in chapters 3 and 6, after the partial sale of Hydro One, the Province decided to end the DRC on April 1, 2018, rather than December 31, 2018. Therefore, the partial sale of Hydro One is expected to save non-residential electricity ratepayers approximately $465 million. However, the FAO also estimates that after the partial sale of Hydro One the DRC should have been eliminated in 2015-16 as the residual stranded debt (RSD) was eliminated at that time. As a result, although non-residential electricity ratepayers are expected save approximately $465 million, the FAO estimates that non-residential electricity ratepayers should have saved an additional $1.2 billion from the partial sale of Hydro One.~~

		CEFD Comment: Based on the queries above on FAO's estimates, and inconsistency with table 3.1, suggestion is to drop this section.
8. Hydro One's Purchase of Avista (P.17) Consideration #1	SIFB/EFB/CEFD	"The FAO estimates that the Province's ownership share in Hydro One will decline by 5 per centage points following the acquisition of Avista, from 47 per cent to 42 per cent." Minor suggested edits for clarity.
8. Hydro One's Purchase of Avista (P.17) Consideration #1	SIFB/EFB/CEFD	"The FAO estimates that the Province will forgo about $40 million in Hydro One's Ontario-based net income for the fiscal year 2019-20 as a result of its diluted ownership in the company." Should be clearer, as Hydro One Ltd would include Avista, going forward.
8. Hydro One's Purchase of Avista (P.17) Last Paragraph	OPCD	"Overall, the FAO estimates that the Province's annual surplus / (deficit) will deteriorate by about $20 million in fiscal 2019-20 as a result of Hydro One's purchase of Avista." Suggest clarify if this is this pre or post-tax?
8. Hydro One's Purchase of Avista (P.17) Last Paragraph	SIFB/EFB/CEFD	"Overall, the FAO estimates that the Province's annual surplus / (deficit) will deteriorate by about $20 million in fiscal 2019-20 as a result of Hydro One's purchase of Avista. Going forward, the impact to the Province's annual surplus / (deficit) will depend on the future profitability of Avista." Please note that most investment analysts (see analyst coverage of Hydro One: https://www.hydroone.com/investor-relations/analyst-coverage) have considered the acquisition of Avista as either neutral or positive to Hydro One. The details of these analyst reports can be accessed through a Bloomberg terminal.
8. Hydro One's Purchase of Avista (P.18) Dilution of	SIFB/EFB/CEFD	"If a new acquisition by Hydro One were to reduce Provincial ownership to less than 40 per cent, then the Electricity Act states that the Province shall take steps to acquire as many shares in Hydro One as required to return the Province to 40 per cent ownership, but only if the plan to acquire the additional shares is approved by Cabinet and subject to an

Provincial Ownership of Hydro One – Paragraph 3		appropriation by the Legislature (i.e. the Province)." Suggested edit for clarity.
9. Appendices	SIFB/CEFD	1. **Departure Tax.** Immediately before the sale, Hydro One paid the OEFC $2.6 billion in PILs. The departure tax payment requirement mirrors the requirement under the Income Tax Act when a corporation changes its tax status, as was the case when Hydro One became no longer subject to PILs. ~~was prescribed by~~ T~~t~~he Electricity Act provides for~~and the amount was determined by~~ the Minister of Finance to consent to an estimated amount of departure tax payable, in advance, in the case of an initial public offering of shares. ~~The departure tax was introduced to establish a level playing field with unregulated companies and to compensate the Province for its investment in Hydro One.~~ It is known as the departure tax because Hydro One was "departing" from the PILs regime. On page 21 of the Departure Tax section, it should be noted that the departure tax is consistent with the Income Tax Act and was not "introduced" or "established" or to "compensate the Province". There may be some confusion between the Departure Tax and the case of municipal LDC's and transfer tax. In the latter cases, municipalities received LDCs at no or nominal cost and transfer tax was established to compensate the Province if municipalities were to sell those assets one day.

From:	Anna Strathy
To:	Gadi Mayman
Cc:	Ken Kandeepan
Subject:	Fwd: Follow-Up on the 2017 Budget
Date:	Friday, April 28, 2017 10:07:53 PM
Attachments:	image003.png ATT00001.htm FAO protocol excerpt.docx ATT00002.htm 2017 Budget Qs_FAO specific Qs.docx ATT00003.htm

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Hi Gadi,

You may have received this from Tim, but the FAO has sent along their more detailed questions on the 2017 Budget, attached. Selena has already looped in with Ken and a teleconference for Directors is planned for Monday.

You'll see from the attached that we are implicated in two of these questions - the same one about the assumptions underlying the net debt-to-GDP targets - as well as a question about the increase in cash reserves. I'm pretty sure we have a Q&A on that.

Anna

Sent from my iPhone

Begin forwarded message:

> **From:** "Esmail, Selena (MOF)" <Selena.Esmail@ontario.ca>
> **Date:** April 28, 2017 at 5:42:45 PM EDT
> **To:** "Tim Cook (MOF)" <Tim.Cook@ontario.ca>, "Andrea Dutton (MOF)" <Andrea.Dutton@ontario.ca>, "Teuta Dodbiba (MOF)" <Teuta.Dodbiba@ontario.ca>, "Raj Sharda (MOHLTC)" <Raj.Sharda@ontario.ca>, "Dorothy Cheung (MCYS)" <Dorothy.Cheung@ontario.ca>, "Gladys Miu (MOI)" <Gladys.Miu@ontario.ca>, "Paul Lewis (MOF)" <Paul.D.Lewis@ontario.ca>, John Kim <John.Kim@ofina.on.ca>, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>, "Nadine Petsche (MOF)" <Nadine.Petsche@ontario.ca>, "Ann Langleben (MOF)" <Ann.Langleben@ontario.ca>, "Kostas Plainos (MOF)" <Kostas.Plainos@ontario.ca>
> **Cc:** "Daniel Tiburcio (MOF)" <Daniel.Tiburcio@ontario.ca>, "Paul Ternamian (MOF)" <Paul.Ternamian@ontario.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>, "Hosick, Sarah (TBS)" <Sarah.Hosick@ontario.ca>, Anna Strathy <Anna.Strathy@ofina.on.ca>, Gavin He <Gavin.He@ofina.on.ca>, "Ghufran Tarin (MOF)" <Ghufran.Tarin@ontario.ca>, "Nina Arbabzadeh (EDU)" <Nina.Arbabzadeh@ontario.ca>, "Law, Rex (TBS)" <Rex.Law@ontario.ca>, "Patrick Laughton (MOF)" <Patrick.Laughton@ontario.ca>, "Patel, Lesley (MOF)" <Lesley.Patel@ontario.ca>
> **Subject: FW: Follow-Up on the 2017 Budget**

Hi Everyone.

As you can see below, the FAO has reached out to make a formal request for information in follow up to yesterday's release of the Budget (BTW we are looking to set up a mtg on Tuesday from 1pm to 2pm with the FAO).

You may have already been forwarded this email from your ADMs but we've also just now received the list of specific additional questions (attached). I've attempted to identify in the attached and below which area is responsible for what, and if I have this wrong, please let me know (and sorry!).

I thought we could do a quick touch base Monday, just to check in on what we might have readily available to be in a position to provide at Tuesday's meeting and what we may need to get back to the FAO on (but pls note that we should not be doing any new analysis to provide a response). I will send out an invite/teleconf so we can discuss.

For reference I have attached an excerpt from our protocol for interaction with the FAO in case folks need a refresher on what information can/cannot be shared. We can discuss further on Monday at our call/meeting.

Thanks and pls let me know if you have any questions.

From: David West [mailto:dwest@fao-on.org]
Sent: April-28-17 9:32 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Luan Ngo; Edward Crummey; Mario Angastiniotis; Nicolas Rhodes
Subject: Follow-Up on the 2017 Budget

Good Morning!

Congratulations on delivering yesterday's big, black budget!

I wanted to follow-up on the FAO's requests for some additional information.

First, as we have discussed, we have three requests for specific data/tables:

1. We would like to obtain the detailed revenue and expense tables (Tables 6.14 and 6.15) extended to 2019-20.
   - Are these detailed tables available to 2020-21? If so, then please include (☺) **– OEP Table 6.14/TBS – PEMD&CPD 6.15**

2. As staff have been discussing, we would like to obtain more detailed information on the one-time adjustments to taxation revenues beginning in 2015-16 and extending over the forecast. This is basically additional information to that provided in tables 6.7, 6.8 and 6.9. **- OEP**

3. As detailed in the letter and background documents sent to Deputies Thompson and Angus on April 3, we are requesting pension expense and employer contribution details for the OTPP and OPSEUPP.- **TBS-OPCD**

We would also appreciate a meeting early next week (preferably Tuesday afternoon) to allow you to respond to a number of questions that we have with regard to the 2017 Budget.

We'll provide a list of specific questions later this afternoon, but these questions will cover a number of areas, including:

- Clarification on where the Fair Hydro Plan appears in the expenses **– CEFD/ TBS - PEMD**
- Additional details/clarification on new health spending, including the new pharmacare plan **– TBS PEMD**
- Clarification on future assumptions for asset sales and any details behind the 'Sales and Rentals' line in the detailed Revenue table. **OFA CEFD, OEP**
- Clarification on the assumptions behind new federal funding announced in the 2017 federal budget (e.g. affordable housing, child care, home care) **OEP/TBS PEMD & CPD**
- Some background on the decision to reduce the estimate of 'Carbon Allowance Proceeds' and assumptions on associated expense – **OEP, TBS PEMD**
- Additional details/clarification on new infrastructure spending **TBS CPD**
- Assumptions behind the plan to reduce net debt-to-GDP to 35% and eventually to 27%. **OFA**

We'll provide a list later this afternoon that expands somewhat on these question topics.

Happy to discuss any of these requests.

Thanks again for your support,
David

David West
Chief Economist

FAO
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Office of Ontario

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- Approval of the Order In Council (OIC) on October 5, 2016, authorizes ministries and public entities to disclose to the FAO, financial, economic and other information contained in Cabinet records that relates to:
    - The Province's finances, budget and trends in the provincial and national economies;
    - The estimates and supplementary estimates submitted to the Legislature;
    - The financial costs or benefits of any public bill before the Assembly; and,
    - The financial costs or benefits of any proposal made by the Government or any member of the Assembly.

- This OIC authorizes ministries and public entities to share information contained in Cabinet records when the following conditions are met:
    - The information has been requested by the FAO;
    - The information is not available through other sources;
    - The policy or fiscal decisions to which the requested information relates have been announced to the public or tabled with or disclosed to the Legislative Assembly;
    - The information is provided in a format that does not reveal other information protected by subsection 12(1) of FIPPA;
    - The information would not reveal personal information or personal health information; and,
    - The FAO agrees not to disclose the information further without the consent of the Executive Council.

<u>Disclosure of Third Party/Commercial Sensitive Information</u>

- Third party/commercial sensitivity is not a valid justification for withholding information from the FAO.
- The only valid justifications for refusing to provide information to the FAO are the personal information and personal health information exceptions set out in subsections 12(2) and (3) of the FAO Act as well as any terms and conditions laid out in the OIC.
- However, the FAO has limitations on what information he can further disclose and make public.
    - The FAO cannot further disclose third party/commercially sensitive information obtained solely from a record covered by s17 of FIPPA.
    - Ministry and public entity senior management should proactively advise the FAO in writing of any sensitivity on the disclosure of information provided to the FAO. This includes specifically identifying information contained in records such as third party information, information on relations with other governments, or information on the economic and other interests of Ontario, as described respectively in sections 15, 17 and subsection 18(1) of FIPPA, information subject to solicitor-client privilege, litigation privilege or settlement privilege, and information contained in Cabinet records, when providing information to the FAO in accordance with section 12 of the Act.
    - The FAO typically consults with ministries/public entities during the development of draft reports on any disclosure restrictions related to any information provided to the FAO.

FAO Questions for MOF

April 28, 2017

Economics

- Why is the growth rate for labour compensation running significantly above the growth for primary household income, particularly in 2018 and 2019? **- OEP**
- Do you use Compensation of Employees on a 'National Basis' (from Table 11 of the OEA) as the principal PIT driver? In 2016, Labour Compensation on a national basis grew at 4.4% while on a domestic basis it grew 4.2%, which is an unusually large gap. **- OEP**

Revenue

- In Table 3.14, sales and rental revenues are projected to increase by $1 billion in 2017-18. Can we can get details about the assumptions behind this increase? **– OFA- CEFD & OEP**
- The 2017 federal budget announced new funding for affordable housing, child care, infrastructure, home care and labour-market training. To what extent are these new revenues (and the associated expense) built into the fiscal plan? **– OEP/TBS – PEMD&CPD**
- Expected revenues from Carbon Allowance Proceeds have been reduced by $0.5 billion beginning 2018-19 (Table 6.10). Any explanation of the lower revenue projection?
    - Is the annual forecast for Carbon Allowance Proceeds $1.4 billion? If so, does the higher amount in 2017-18 of $1.8 billion just reflect the shifting of proceeds from the first auction in 2016-17 (that is there is an extra auction in 2017-18 than in future years)? **– OEP**
    - Are the associated expenses from the Green Initiative Fund being reduced as well, to reflect the lower revenue forecast? **– TBS - PEMD**
- Base revenue growth for Corporations Tax and Sales Tax are noticeably stronger than the growth of their underlying drivers. What are your elasticity assumptions for Personal Income Tax, Corporations Tax and Sales Tax with respect to their drivers? **- OEP**
    - For HST, could you break out the revenues expected from housing and nominal consumption over the forecast? **- OEP**
- The federal government's 2015-16 Annual Financial Report indicated that stronger 2015 federal PIT returns partly reflect "…tax planning by high-income individuals to recognize income in the 2015 tax year before the new 33 per cent tax rate came into effect in 2016". What assumptions were made on the impact of income shifting on Ontario's PIT revenue? **- OEP**

Expense

- The anticipated fiscal impact of the Fair Hydro Plan is approximately $1.8 billion based on information provided to the FAO (roughly $1 billion for HST rebate and $800 million for the electricity social programs). However, the 2017 Budget indicates that the total cost would be around $1.4 billion in 2017-18 (Table 6.15). Can you explain the discrepancy? **– TBS - PEMD**

- A number of new programs were announced in the budget. Can you provide the fiscal impact for these new initiatives (e.g. children and youth pharma-care, child care spaces expansion) by completing the following table? Are these fiscal impacts in the plan? **– TBS PEMD&CPD, TPD**
    - The September Throne Speech announced the expansion of 100,000 new child care spaces. The budget announced 24,000 additional spaces. What is the progress in the rollout plan for the remaining spaces? Is there additional fiscal impact from the Throne Speech that have not been incorporated?

Cost of Announced Programs

	2017-18	2018-19	2019-20	2020-21
Children and Youth Pharmacare				
100,000 Child Care Spaces Expansion				
Fair Hydro Plan				
Caregiver Tax Credit				
Other major programs?				

Debt

- The budget indicated that the government aims to reduce the net debt to GDP target to 35 per cent by 2023-24 and 27 per cent by 2028-29. What assumptions are built into this projection for nominal GDP, the budget balance, and capital expenditure? **- OFA**
- What's the explanation for the increase in cash reserves? Is it related to recent changes in rating criteria requiring more liquid reserves covering the issuance of commercial paper debt? **- OFA**
- What is a Designated Purpose Account? **– TBS OPCD**

From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	Christina Zhang
Subject:	Fwd: Joint PO/MOF/TBS Briefing: Chair of Asset Panel
Date:	Friday, January 06, 2017 9:25:39 PM
Attachments:	Final - Deputy Minister Pension Asset Update.pptx ATT00001.htm

---

If I read the deck correctly, it looks like the panel will agree with the Province's interpretation, not the AG's?

Begin forwarded message:

> **From:** "Young, Gwendolynne (MOF)" <Gwendolynne.Young@ontario.ca>
> **Date:** January 6, 2017 at 5:48:49 PM EST
> **To:** "Mendes, Elizabeth (MOF)" <Elizabeth.Mendes@ontario.ca>, "Ghiassi, Ali (MOF)" <Ali.Ghiassi@ontario.ca>, "Zhang, Christina (OFA)" <Christina.Zhang@ofina.on.ca>, "Mayman, Gadi (OFA)" <Gadi.Mayman@ofina.on.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>, "Tiburcio, Daniel (MOF)" <Daniel.Tiburcio@ontario.ca>
> **Subject: FW: Joint PO/MOF/TBS Briefing: Chair of Asset Panel**
>
> Hi all,
>
> Attached is the deck for the Chair of the Asset Panel briefing on Monday.
>
> **Gwen Young**
> p: 416.325.0741 | bb: 647.982.2419
>
> ---
>
> **From:** Nelson, Dane (TBS)
> **Sent:** January 6, 2017 5:41 PM
> **To:** Young, Gwendolynne (MOF); MacIntyre, Kyle (TBS); Laughton, Patrick (TBS)
> **Subject:** RE: Joint PO/MOF/TBS Briefing: Chair of Asset Panel
>
> Hi Gwen,
>
> Please find the deck attached for your review.
>
> Regards,
>
> **Dane Nelson, Senior Policy Advisor**
> Treasury Board Secretariat | Deputy Minister's Office
> Phone: 416-325-3617 | Mobile: 416-409-3437 | E-mail: Dane.Nelson@ontario.ca
>
> ---
>
> **From:** Young, Gwendolynne (MOF)
> **Sent:** January-06-17 5:39 PM

To: MacIntyre, Kyle (TBS); Nelson, Dane (TBS); Laughton, Patrick (TBS)
Subject: Joint PO/MOF/TBS Briefing: Chair of Asset Panel

Hey there – are there materials in advance for this briefing, or will they be walked in?

Thanks,
Gwen.

Gwen Young
Senior Policy Advisor
Deputy Minister's Office | Ministry of Finance
p: 416.325.0741 | bb: 647.982.2419

Pension Asset Expert Advisory Panel Briefing

January 9 2017

Objective

- To provide an update on the Pension Asset Expert Advisory Panel (the ‘Panel’)’s advice and recommendations to the government on the application of public sector accounting standards (PSAS) to Ontario’s net pension assets.

- To discuss report delivery timing and next steps.

General

- In the 2015/16 Public Accounts, the OAG and the government's professional accounting staff disagreed on how PSAS applies to the net pension assets of two pension plans the Province jointly sponsors – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee's Union Pension Plan (OPSEUPP).

- The expert panel (See Appendix A) was established November 10 to review the PSAS accounting for pension assets in jointly sponsored plans and provide advice to the government. (See Appendix B for Terms of Reference)

General

- Panel held four all-day meetings.
- Panel supported by a report writer and a project manager.
- Panel provided with briefings to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.
- Panel met with the Auditor General and members of her team specifically responsible for the financial statement audit and the pension asset issue to understand the basis for the OAG's accounting conclusions

Recognition of asset

- The Panel considered: (1) the guidance in the public sector accounting standards on Retirement Benefits and (2) other relevant guidance in areas where the standard is not clear

- The Panel agrees with the accounting classification of OTPP and OPSEUPP as Joint Defined Benefit Plans (JDBP), as per the Retirement Benefits standard, since 2001 when the standard was issued

- The Retirement Benefits standard should be applied to the JDPB, on 100% basis, prior to the Province recognizing its portion (50%) in the financial statements.

Recognition of asset

- Net pension asset meets the definition of an economic resource because:
  - it exists, and
  - future benefit is available to sponsors as either contribution reductions and/or benefit improvements under terms of plan
- Unilateral control not necessary for asset recognition:
  - in fact cannot exist in JDBPs
  - sponsors jointly control the total net pension asset and must agree on how it will be used. Key notion of control in this case is that each sponsor can deny the other sponsor(s) access to the benefit
  - Each sponsor can recognize an asset relating to its portion of that jointly controlled asset

Recognition of asset

Conclusion:

- The Panel agrees that the net pension asset should be recognized in the Province's financial statements
- Recognizing the asset will provide a faithful representation of the Province's financial position
- Recognizing the asset will properly reflect the intention of the "deal" between the sponsors

Measurement of asset

- An expected future benefit under the relevant standard can exist without a unilateral legally enforceable right to reduce future contributions
  - legal requirements for surplus withdrawal and contribution reductions are very different
  - applying accounting requirements for withdrawals to contribution reductions does not seem appropriate given differences in legal regimes
- Expected future benefit is determined as difference between:
  - expected future accruals for service (normal service cost for current number of active employees) plus expenses paid by the plan, and
  - required minimum contributions regardless of surplus in plan

  both on a present value basis

Measurement of asset

- Meaning of “level of minimum contributions required regardless of any surplus” not clear
  - Government analyses of both OTPP and OPSEUPP performed using various interpretations of minimum contributions
- If there is a contractual or legal requirement to continue to contribute despite the existence of a surplus, these could be considered minimum contributions

Measurement of asset

Conclusion

- In all analyses with different interpretations of “minimum contributions”, present value of expected future accruals for service for the current number of active employees exceeds the present value of minimum contributions
- No valuation allowance is required for either accrued benefit asset recognized in the Public Accounts

Recommendations to PSAB Task Force

- Clarify guidance regarding sponsor's ability to access expected future benefits
  - Distinguish requirements for surplus withdrawals from contribution reductions
  - Specifically discuss control requirements in JDBPs

- More guidance needed on determining minimum contributions when future contributions are dependent on funded status of plan and are negotiable

- Deferral accounting can result in recognition of an asset when the plan is in fact in a deficit because of unamortized losses. Inclusion of item in balance sheet that does not represent an economic resource is not representationally faithful

Recommendations to PSAB Task Force

- Task Force should consider:
  - whether the method used to settle an obligation should affect how that obligation is measured, and
  - how the risks inherent in the obligation are best captured either in the discount rate or in other aspects of the measurement of the obligation, i.e., are deterministic single point best estimate assumptions with no provision for risk and a single discount rate providing a realistic measure of the liability?
- May be beneficial ask AcSB to consider including additional disclosures in public pension plan financial statements about how the objectives and assumptions in funding valuations differ from those used in the accounting valuation

Timelines and Next Steps

- January 11th – the Chair will begin drafting the Executive Summary and the Panel will meet to discuss the Health Care of Ontario Pension Plan (HOOPP) and College of Applied Arts and Technology Pension Plan (CAATPP).

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Appendix A – Panel Members

- Patricia O'Malley (Chair) (accountant) – Chair of the Canadian Actuarial Standards Oversight Council, formerly Chair of the Canadian Accounting Standards Board, member of the International Accounting Standards Board and technical partner in KPMG Canada's national office

- Uros Karadzic (actuary) – Partner at EY's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting

- Murray Gold (lawyer) – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP

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- The requirement regarding control with respect to recognizing a pension asset for a joint defined benefit plan

- The requirement regarding control with respect to recognizing a pension asset for other pension plans

- Appropriate valuation techniques to measure a pension asset that take into consideration future decision making authority by plan sponsors

- Recommendations to the Employee Future Benefits Task Force of the Public Sector Accounting Board regarding issues that should be considered in its review of the retirement and post-employment benefits standards.

From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	Christina Zhang
Subject:	Fwd: Joint PO/MOF/TBS Briefing: Chair of Asset Panel
Date:	Friday, January 06, 2017 9:25:39 PM
Attachments:	Final - Deputy Minister Pension Asset Update.pptx ATT00001.htm

---

If I read the deck correctly, it looks like the panel will agree with the Province's interpretation, not the AG's?

Begin forwarded message:

> **From:** "Young, Gwendolynne (MOF)" <Gwendolynne.Young@ontario.ca>
> **Date:** January 6, 2017 at 5:48:49 PM EST
> **To:** "Mendes, Elizabeth (MOF)" <Elizabeth.Mendes@ontario.ca>, "Ghiassi, Ali (MOF)" <Ali.Ghiassi@ontario.ca>, "Zhang, Christina (OFA)" <Christina.Zhang@ofina.on.ca>, "Mayman, Gadi (OFA)" <Gadi.Mayman@ofina.on.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>, "Tiburcio, Daniel (MOF)" <Daniel.Tiburcio@ontario.ca>
> **Subject: FW: Joint PO/MOF/TBS Briefing: Chair of Asset Panel**
>
> Hi all,
>
> Attached is the deck for the Chair of the Asset Panel briefing on Monday.
>
> **Gwen Young**
> p: 416.325.0741 | bb: 647.982.2419
>
> ---
>
> **From:** Nelson, Dane (TBS)
> **Sent:** January 6, 2017 5:41 PM
> **To:** Young, Gwendolynne (MOF); MacIntyre, Kyle (TBS); Laughton, Patrick (TBS)
> **Subject:** RE: Joint PO/MOF/TBS Briefing: Chair of Asset Panel
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Subject: Joint PO/MOF/TBS Briefing: Chair of Asset Panel

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- Recommendations to the Employee Future Benefits Task Force of the Public Sector Accounting Board regarding issues that should be considered in its review of the retirement and post-employment benefits standards.

From:	Gadi Mayman
To:	Bonnie Lemcke; Mike Manning; Ken Kandeepan; Opal Kandelas
Cc:	Lynsey Wynberg; Gwendolynne Young (ENE); David McLean (MOF); Christopher Pearce (MOI); Ronald Kwan
Subject:	Fwd: MARtin Regg Cohn
Date:	Tuesday, February 07, 2017 7:27:53 AM
Attachments:	image002.png image003.png

Bonnie and Mike, nothing that we can say to the rating agencies or to our investors or bankers until the report is out publicly, but you should be aware of this leak.

Gadi

Begin forwarded message:

> **From:** "Young, Gwendolynne (MOF)" <Gwendolynne.Young@ontario.ca>
> **Date:** February 7, 2017 at 7:17:27 AM EST
> **To:** "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>, "Mayman, Gadi (OFA)" <Gadi.Mayman@ofina.on.ca>, "Lewis, Brian (MOF)" <Brian.Lewis@Ontario.ca>
> **Cc:** "McLean, David (MOF)" <David.McLean@ontario.ca>
> **Subject: Fw: MARtin Regg Cohn**
>
> See article below.
>
> Sent from my BlackBerry 10 smartphone on the Rogers network.
> From: McLean, David (MOF) <David.McLean@ontario.ca>
> Sent: Tuesday, February 7, 2017 7:10 AM
> To: Thompson, Scott (MOF)
> Cc: Young, Gwendolynne (MOF); Ize-Dukuze, Marilyn (MOF)
> Subject: Fw: MARtin Regg Cohn
>
> FYI
>
> Sent from my BlackBerry 10 smartphone on the Rogers network.
> From: MacIntyre, Kyle (TBS) <Kyle.MacIntyre@ontario.ca>
> Sent: Tuesday, February 7, 2017 7:02 AM
> To: McLean, David (MOF)
> Subject: Fwd: MARtin Regg Cohn
>
> Here it is
>
> Begin forwarded message:

From: "DiMuzio, Sofie (TBS)"
<Sofie.DiMuzio@ontario.ca<mailto:Sofie.DiMuzio@ontario.ca>>
Date: February 7, 2017 at 6:13:29 AM EST
To: "Angus, Helen (TBS)"
<Helen.Angus@ontario.ca<mailto:Helen.Angus@ontario.ca>>, "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca<mailto:Kyle.MacIntyre@ontario.ca>>, "Hughes, Karen (TBS)"
<Karen.Hughes@ontario.ca<mailto:Karen.Hughes@ontario.ca>>, "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca<mailto:Cindy.Veinot@ontario.ca>>
Subject: Fwd: MARtin Regg Cohn

Sent from my iPhone

Begin forwarded message:

From: "Flowers, Robert (TBS)"
<Robert.Flowers@ontario.ca<mailto:Robert.Flowers@ontario.ca>>
Date: February 7, 2017 at 6:12:13 AM EST
To: "@TBS-L-Issues and Media" <TBS-L-IssuesandMedia@msgov.gov.on.ca<mailto:TBS-L-IssuesandMedia@msgov.gov.on.ca>>
Subject: MARtin Regg Cohnn

Billions at stake in accounting dispute (TorStar)
Toronto Star
Tue Feb 7 2017
Page: A4
Section: News
Byline: Martin Regg Cohn
Billions of dollars are at stake in a simmering dispute pitting Ontario's auditor general against the provincial government. With the spring budget looming, neither side is backing down.
Now, an outside panel of top accounting and pension experts has determined that auditor general Bonnie Lysyk has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets, according to multiple sources.
But the auditor tells me she won't climb down, setting the stage for a public showdown over an accounting change that is worth $1.5 billion to the bottom line this year alone.
The independent pension asset expert panel met her Friday to reveal their findings - explaining why they concluded the pension surplus is a legitimate asset on the government's books. Their report will be made public later this month, giving Lysyk more breathing room to reconsider her position before the budget deadline.
The government - and all Ontarians - may pay a price for this seemingly arcane accounting dispute if the auditor's controversial stance constrains its fiscal margin of manoeuvre, notably Liberal plans to reallocate funds for hydro relief or other spending. Fearing another credit downgrade from outside rating agencies, or an electoral downgrade from the official opposition, Premier Kathleen Wynne has turned a balanced budget into an article of faith.
But Wynne never accounted for an accounting dispute, which made her deficit

elimination goal more complicated.

Lysyk announced last year that she was overturning the rules that allowed governments to book billions of dollars in surpluses for jointly-run pensions deemed provincial assets. First implemented under a PC government, and carried over by the Liberals, the traditional auditor's approach enhanced Ontario's fiscal picture.

Now Lysyk has changed her mind. Yet she seems to be having it both ways.

On the one hand, the auditor says (naturally) that any deficits in joint pension funds must be counted as government liabilities. That's standard practice.

But with a pension surplus, Lysyk now says not a penny can be counted as an asset. Neither a liability nor a surplus, these billions of dollars are being treated as trans-assets, transmogrified by the auditor into phantom money - a virtual disappearing act.

It's tempting to cast this as a political dispute between Liberal partisans and a politicized auditor. But that would be a misreading of the battle lines.

The most vociferous opposition to Lysyk's position comes from the civil servants who count up the money in the provincial treasury. The auditor, in turn, is as mistrustful of the public servants as she is of their political masters.

Lysyk challenged the controller in the government's treasury board - senior civil servant Cindy Veinot - to provide her with additional evidence that the pension money should continue to be treated as an accounting surplus. But when outside accounting consultant Deloitte LLP corroborated that position, the auditor balked.

According to multiple sources, Lysyk dismissed the Deloitte submission as being biased - claiming a conflict of interest because Veinot had previously been a partner at Deloitte, and because the firm was paid a fee.

Lysyk acknowledged such fees are standard practice. But she would not comment on whether Deloitte was biased because a former partner was now a public servant.

Deadlocked, the government announced an independent panel on Public Service Accounting Standards, headed by a former chair of the Canadian Actuarial Standards Oversight Council. The expert panel reached its own conclusions:

Like a deficit, a surplus belongs to employers provided they comply with basic rules. Jointly-held pensions aren't that much more complicated - as with a joint bank account or jointly held GIC, both parties hold a proportionate share of the asset.

Lysyk wouldn't discuss Friday's meeting with the independent panel of experts, or its findings to date. Asked about the panel's credentials, she countered, "we did our homework, and we did a lot of work."

The auditor told me her mind is made up and nothing she has heard so far has changed her view. Which leaves her on a limb and the government in the lurch.

If both sides harden their positions, the auditor may refuse to fully endorse the treasury's public accounts and the government may opt to go its own way - providing detailed explanations to credit rating agencies to disprove the auditor's stance.

There are political overtones to this dispute and economic consequences. The opposition will side with the godly auditor against a big bad Liberal government. But the financial and accounting community will make up its own mind when they look at the books and the detailed explanations.

Billions of dollars are at stake, to be sure. Reputations, too.

Martin Regg Cohn's political column appears Tuesday, Thursday and Saturday.

mcohn@thestar.ca<mailto:mcohn@thestar.ca>, Twitter: @reggcohn
© 2017 Torstar Corporation
Illustration:
• Bonnie Lysyk has wiped away nearly $11 billion in government assets.
Edition: ONT
Length: 785 words
Tone: Neutral
Ad Value: $20,809
Circulation: 361,323

[cid:2DE4A99F-7E79-46C0-ACCD-0209E270D31D]
[cid:54C4A4D8-4E04-47A1-A3A9-166A9168AAE6]
[cid:566B10FD-6F96-4616-8BA5-D27834037F4C]





From:	Bonnie Lemcke
To:	Gadi Mayman; Ken Kandeepan; Paul Lewis (MOF); Brian Lewis (MOL); Tim Schuurman (MOF); Patrick Laughton (MOF); Ryan Birks; Bruno Amara (MOF)
Cc:	Christina Zhang; Erica Wieder; Daniel Hengeveld; Christopher Pearce (MOI); Marc Pichette (MOF)
Subject:	Fwd: Ontario Talking Points (CIBC Capital Markets)
Date:	Monday, January 09, 2017 8:22:42 AM
Attachments:	ATT00001.htm image001.png ATT00002.htm image002.png ATT00003.htm image003.png ATT00004.htm Ontario Talking Points (January 9, 2017).pdf ATT00005.htm

---

The CIBC report has now been released.
Bonnie

Begin forwarded message:

From: "Berlettano, Maria (Macro Strategy)" <Maria.Berlettano@cibc.com>
Date: January 9, 2017 at 7:54:18 AM EST
To: 'Bonnie Lemcke' <Bonnie.Lemcke@ofina.on.ca>
Subject: Ontario Talking Points (CIBC Capital Markets)

Good morning Bonnie,

We issued the research note this morning. Thank you again for your assistance and support. Would you please forward it to Gadi Mayman, Paul Lewis, Ken Kandeepan and the others with my appreciation.

Regards,

Maria

Maria Berlettano, CFA | Head of Canadian Government Credit Strategy, Macro Strategy Research | CIBC Capital Markets | CIBC World Markets Inc. | Brookfield Place, 161 Bay Street, 5th Floor, Toronto, Ontario M5J 2S8 | Office: 416 594-8041 | Cell: 647 467-9736 | Fax: 416 956-6719 | maria.berlettano@cibc.com

From: CIBC CM Macro Strategy
Sent: Monday, January 09, 2017 7:37 AM
Subject: Ontario Talking Points (CIBC Capital Markets)

CIBC Capital Markets

Macro Strategy Research

Ontario Talking Points (January 9, 2017)

Insights from our meeting last month with officials from the province.

- How is Ontario positioned with respect to the quality and rising cost of healthcare?

    - Ontario is planning, building and/or upgrading 37 hospitals across the province.

    - As the population grows and ages, healthcare costs will rise, but the healthcare cost curve is flattening, which is consistent with the experience in advanced economies.

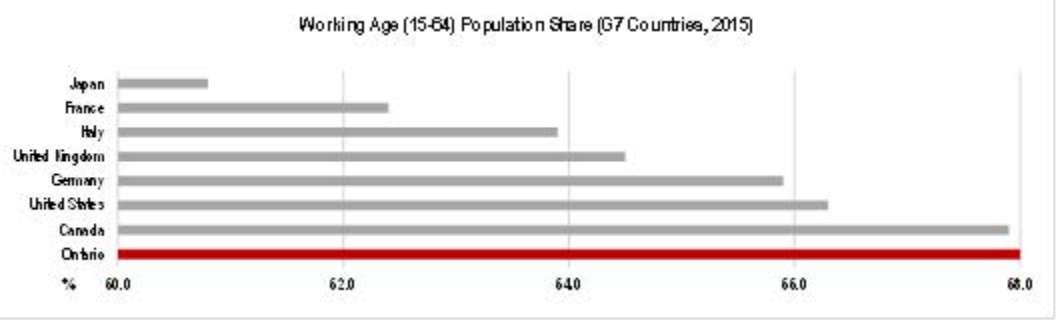
    - Ontario has been successful at containing health care expense growth at less than 5% annually over the past 6 years. In the last three years, the annual average increase was only 2.1%. In Fiscal 2015-16, health care expense growth was 2.1% versus overall program spending growth of 3.6%. [Ontario 2015-16 Annual Report Click Here[files.ontario.ca]]

    - The aging population adds about 1% to annual expense growth.

    - Experience has shown that healthcare costs for individuals is the highest in the first two years and last two years of life.

    - While the population is aging and people are living longer, they are “healthier and wealthier”. Moreover, since the 2006 amendment to the Ontario Human Rights Code which effectively eliminated the 65 mandatory retirement age, people are working and contributing longer to the economy. In 2006, the Ontario participation rate (55+) was 33.3%. In 2015, it was almost 38%.

    - Ontario has the largest working-age (15-64) population share compared to the G7 countries and has enjoyed strong employment gains in above-average wage industries since the Global Recession.


Working Age (15-64) Population Share (G7 Countries, 2015)
Japan
France
Italy
United Kingdom
Germany
United States
Canada
Ontario
%
60.0
62.0
64.0
66.0
68.0

Source: Statistics Canada and The World Bank

- What agreement does the province expect with the Federal government under the federal/provincial Health Accord?

    - We don't expect to get back to when the federal government paid for around 50% of provincial health spending. The federal share of health funding is currently between 20-25%.

    - The minimum escalator is set to drop to 3% in 2017 from 6% previously, and this is not acceptable.

    - Background Note: At the December "health talk" meetings between the Federal Government, provinces, and territories, the collective ask of the federal government was for a 5.2% annual escalator. The federal government raised its offer from 3% to 3.5% plus $11bln over 10 years for home care and mental health as well as another $544mln over 5 years for initiatives on prescription drugs and health innovation, which would be provided directly to federal and pan-Canadian health organizations. An agreement was not reached. A few days following the meetings, the Province of New Brunswick announced that it had reached a separate bilateral agreement securing an additional $230mln more for health care which represents a 3.9% average annual growth rate over the next ten years. The provinces of Nova Scotia and Newfoundland and Labrador reached similar agreements.

- How will Federal infrastructure funding affect borrowing and capital plans?

    - It is not clear at this stage how the federal infrastructure spending program will work into Ontario's capital investment of $160bln over 12 years, but it will be factored into the spring budget along with implications of both federal and provincial climate change plans.

- Will Ontario consider using its fiscal capacity to raise taxes/fees to ensure meeting its balanced budget target in Fiscal 2017-18?

    - Ontario is committed to returning to balance next year and is pursuing several options, some of which were laid-out in the recommendations of the "Commission on the Reform of Ontario's Public Services, Public Services for Ontarians: A Path to Sustainability and Excellence" by Chair Don Drummond, an economist (The Drummond Report is a deficit-reduction report released in February 2012 to advise the Ontario government on how to reduce its debt levels). Click Here[fin.gov.on.ca]

    - Budget 2016 has identified a $500mln Program Review Savings Target for Fiscal 2016-17 that entails Review, Renewal and Transformation. Click Here[fin.gov.on.ca]

    - The 2016 savings target follows the $250mln target that was set and achieved in Fiscal 2015-16.

    - Fiscal capacity is not seen as the best option at this time due to the importance of remaining competitive with the United States and other countries in the competitive global landscape. The United States is articulating plans to reduce both corporate and income taxes. The

United States is also potentially changing its stance on environmental issues. These factors must be taken into consideration for Ontario to remain competitive.

- External factors are supportive of Ontario's growth. These include a recovering US economy, low energy prices, accommodative financial conditions, and a weak Canadian currency.

- Could you clarify Ontario's course of action given the Auditor General of Ontario's qualified opinion on Pension Accounting?

  - Although the pension expense is a non-cash charge, it is still very important to achieving the balanced budget target in Fiscal 2017-18, since Ontario's results are reported based on accrual accounting and not cash.

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  - Ontario's auto industry is very important, but just one component of Ontario's diversified economy.

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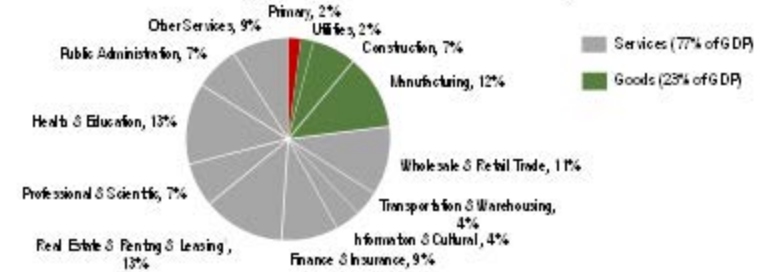
leadership and our highly skilled workforce.


Structure of the Ontario Economy, 2015 (% Share of Ontario Nominal GDP)
Primary, 2%
Utilities, 2%
Construction, 7%
Manufacturing, 12%
Wholesale & Retail Trade, 11%
Transportation & Warehousing, 4%
Information & Cultural, 4%
Finance & Insurance, 9%
Real Estate & Renting & Leasing, 13%
Professional & Scientific, 7%
Health & Education, 13%
Public Administration, 7%
Other Services, 9%
Services (77% of GDP)
Goods (23% of GDP)

[1] Includes estimate of imputed rental income on owner occupied dwellings

Source: Statistics Canada and Ontario Ministry of Finance

- What trends do you see with respect to immigration?

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-

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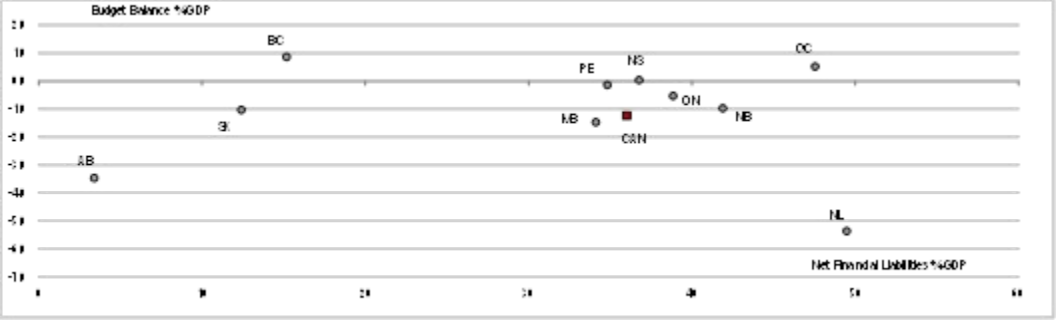
Provincial Fiscal Positioning (Fiscal 2016-17 Forecast)


Budget Balance %GDP
BC
SK
AB
PE
NS
ON
MB
NB
CAN
QC
NL
Net Financial Liabilities %GDP

Source: Government Public Accounts, CIBC Macro Strategy (Quebec budget balance before deposits to the Generations Fund)

Province of Ontario Credit Ratings:

DBRS AA(low)

Fitch AA-

Moody's Aa2

S&P A+

All Outlooks Stable

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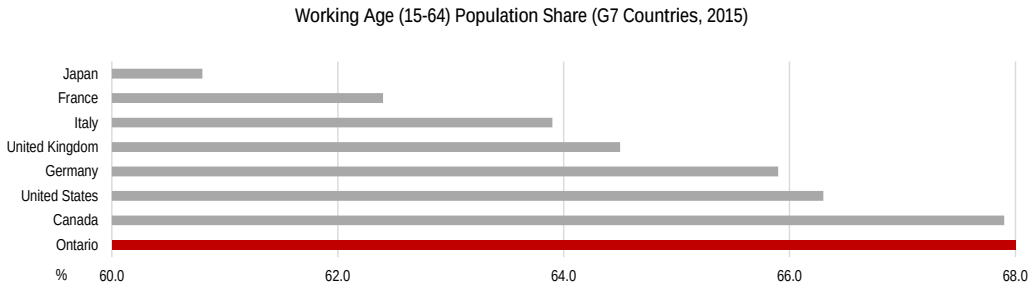
Ontario Talking Points (January 9, 2017)

Insights from our meeting last month with officials from the province.

- How is Ontario positioned with respect to the quality and rising cost of healthcare?
  - Ontario is planning, building and/or upgrading 37 hospitals across the province.
  - As the population grows and ages, healthcare costs will rise, but the healthcare cost curve is flattening, which is consistent with the experience in advanced economies.
  - Ontario has been successful at containing health care expense growth at less than 5% annually over the past 6 years. In the last three years, the annual average increase was only 2.1%. In Fiscal 2015-16, health care expense growth was 2.1% versus overall program spending growth of 3.6%. [Ontario 2015-16 Annual Report Click Here]
  - The aging population adds about 1% to annual expense growth.
  - Experience has shown that healthcare costs for individuals is the highest in the first two years and last two years of life.
  - While the population is aging and people are living longer, they are "healthier and wealthier". Moreover, since the 2006 amendment to the Ontario Human Rights Code which effectively eliminated the 65 mandatory retirement age, people are working and contributing longer to the economy. In 2006, the Ontario participation rate (55+) was 33.3%. In 2015, it was almost 38%.
  - Ontario has the largest working-age (15-64) population share compared to the G7 countries and has enjoyed strong employment gains in above-average wage industries since the Global Recession.



Source: Statistics Canada and The World Bank

- What agreement does the province expect with the Federal government under the federal/provincial Health Accord?
  - We don't expect to get back to when the federal government paid for around 50% of provincial health spending. The federal share of health funding is currently between 20-25%.
  - The minimum escalator is set to drop to 3% in 2017 from 6% previously, and this is not acceptable.
  - Background Note: At the December "health talk" meetings between the Federal Government, provinces, and territories, the collective ask of the federal government was for a 5.2% annual escalator. The federal government raised its offer from 3% to 3.5% plus $11bln over 10 years for home care and mental health as well as another $544mln over 5 years for initiatives on prescription drugs and health innovation, which would be provided directly to federal and pan-Canadian health organizations. An agreement was not reached. A few days following the meetings, the Province of New Brunswick announced that it had reached a separate bilateral agreement securing an additional $230mln more for health care which represents a 3.9% average annual growth

rate over the next ten years. The provinces of Nova Scotia and Newfoundland and Labrador reached similar agreements.

- How will Federal infrastructure funding affect borrowing and capital plans?
  - It is not clear at this stage how the federal infrastructure spending program will work into Ontario's capital investment of $160bln over 12 years, but it will be factored into the spring budget along with implications of both federal and provincial climate change plans.

- Will Ontario consider using its fiscal capacity to raise taxes/fees to ensure meeting its balanced budget target in Fiscal 2017-18?
  - Ontario is committed to returning to balance next year and is pursuing several options, some of which were laid-out in the recommendations of the "Commission on the Reform of Ontario's Public Services, Public Services for Ontarians: A Path to Sustainability and Excellence" by Chair Don Drummond, an economist (The Drummond Report is a deficit-reduction report released in February 2012 to advise the Ontario government on how to reduce its debt levels). Click Here
  - Budget 2016 has identified a $500mln Program Review Savings Target for Fiscal 2016-17 that entails Review, Renewal and Transformation. Click Here
  - The 2016 savings target follows the $250mln target that was set and achieved in Fiscal 2015-16.
  - Fiscal capacity is not seen as the best option at this time due to the importance of remaining competitive with the United States and other countries in the competitive global landscape. The United States is articulating plans to reduce both corporate and income taxes. The United States is also potentially changing its stance on environmental issues. These factors must be taken into consideration for Ontario to remain competitive.
  - External factors are supportive of Ontario's growth. These include a recovering US economy, low energy prices, accommodative financial conditions, and a weak Canadian currency.

- Could you clarify Ontario's course of action given the Auditor General of Ontario's qualified opinion on Pension Accounting?
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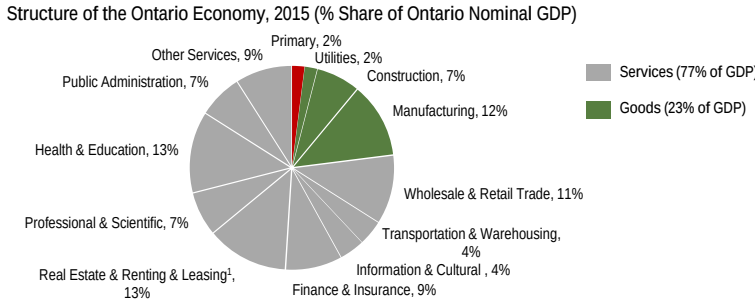

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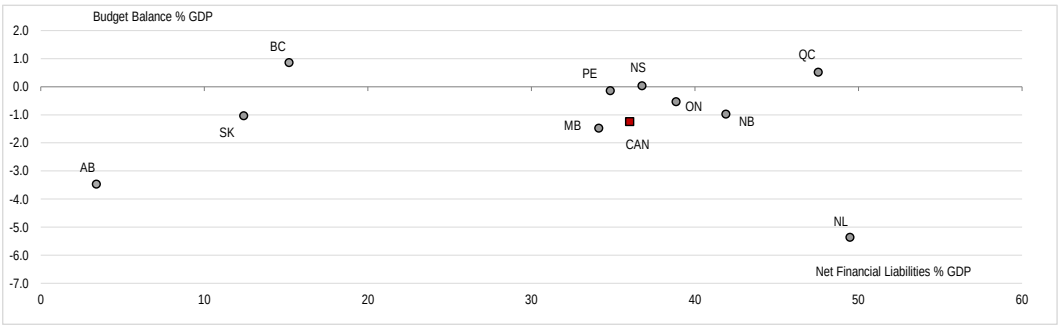

Source: Government Public Accounts, CIBC Macro Strategy (Quebec budget balance before deposits to the Generations Fund)

Province of Ontario Credit Ratings:

DBRS	AA(low)
Fitch	AA-
Moody's	Aa2
S&P	A+

All Outlooks Stable

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From:	Ken Kandeepan
To:	Lynsey Wynberg
Subject:	Fwd: Q3 update
Date:	Tuesday, January 24, 2017 3:14:43 PM
Attachments:	Net debt slide 13.pdf ATT00001.htm

FYI

Begin forwarded message:

From: John Psinas <John.Psinas@ofina.on.ca>
Date: January 24, 2017 at 3:05:40 PM EST
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>, "Selena Esmail (MOF)" <Selena.Esmail@ontario.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>, George Sakura <George.Sakura@ofina.on.ca>, "Inglis, Liane (MOF)" <Liane.Inglis@ontario.ca>, "Emma Lindquist (MOF)" <Emma.Lindquist@ontario.ca>, Shemin Meralli <Shemin.Meralli@ofina.on.ca>, Kevin Hwang <Kevin.Hwang@ofina.on.ca>
Subject: RE: Q3 update

Selena,
Please find attached a pdf of slide 13 with our edits. Budget password in effect.

Not sure why we are off considerably as the graph notes it's based on FES numbers. Can you share the data you used for the slide?

Thanks.

--John

416-325-8072

-----Original Message-----
From: Ken Kandeepan
Sent: Tuesday, January 24, 2017 1:55 PM
To: Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; John Psinas <John.Psinas@ofina.on.ca>

Subject: RE: Q3 update

Hi Selena

I have to be at Bud Sec shortly, however, John Psinas will provide you with the revised net debt to GDP ratio from the reversal of the pension adjustment. For 16-17 we will use the FES outlook in the ratio and update same when you land on the projected deficit for the current fiscal.

I would also suggest that slide 10 include a line indicating that the reversal of the pension adjustment reduces the 2015-16 accumulated deficit and net debt by over $10.6 billion.

Thanks

Ken k

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Tuesday, January 24, 2017 1:25 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: RE: Q3 update

Ken - Im attaching the current version of the Q3 deck -if you could take a look through. In particular - can you have a look at slide 13 and provide a few bullets on the impact of the reversal of the pensions on net debt to GDP?

Happy to discuss. Let me know if you have any other comments as well - happy to take those too. If you could get back to me as soon as possible, that would be much appreciated. Thanks.

Deck has new document psswrd.
-----Original Message-----
From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: January-24-17 10:49 AM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
Subject: RE: Q3 update

NP, I believe we do have Q&A in the FES package that addresses this very issue, so happy to flip it to you later on, do note that Gadi released an additional $63M (in relation to the IOD number in the FES) in IOD savings for 16-17 to Tim a couple of weeks ago.

Thanks

Ken k

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Tuesday, January 24, 2017 10:40 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: Re: Q3 update

Ok -. Thanks for confirming. Tim said that may be true and we may need to have a technical Q and A on this as part of Q3 comms prep. So for now we are going to leave it as a decision point about whether to take on the fes outlook or show a more up to date forecast and we may get direction from the dm today or fpc tomorrow. I hope to be able to share a draft deck with you shortly. Thanks for your help.

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: Ken Kandeepan
Sent: Tuesday, January 24, 2017 10:32 AM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
Subject: RE: Q3 update

Hi Selena

The reversal of the pension adjustment does not impact IOD since it's a non-cash adjustment, i.e., it decreases expenses on a PSAB basis not on a cash basis hence the total borrowing does not change which means that IOD also remains unchanged.

Thanks

Ken K

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Tuesday, January 24, 2017 10:29 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>

Subject: Re: Q3 update

Hey ken - one thing to consider is if the pension adjustment is being reversed there may be a desire to show progress on IOD - assuming it impacts that. Thoughts?

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: Ken Kandeepan
Sent: Monday, January 23, 2017 3:19 PM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
Subject: RE: Q3 update

Thanks agreed, keeping the FES forecast makes sense since we don't want material changes before the interim in the Document, but pls do confirm.

Ken k

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Monday, January 23, 2017 2:54 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: Re: Q3 update

Hi ken - thanks. Not sure yet on whether we will keep the fes forecast or update for the latest but I'll speak to tim about it. Tim mentioned earlier that we shld retain the fes forecast but I just want to confirm with him.

Thanks again.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Ken Kandeepan
Sent: Monday, January 23, 2017 1:06 PM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA)
Subject: RE: Q3 update

Hi Selena

Couple of quick question, the 16-17 IOD forecast was revised downwards from the FES number and provided to Tim. Do you want us to use this revised version or stick with the FES forecast with the revision being presented in the Interim section of the 2017 Budget.

Let me know, and in order to complete the Financing Table we need to know the 16-17 deficit that you will be projecting in the Q3, will be the same as the FES?

Thanks

Ken k

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Monday, January 23, 2017 12:43 PM
To: Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Tim Cook (MOF) <Tim.Cook@ontario.ca>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca>; Sharon Stuckless (TCU) <Sharon.Stuckless@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca>; Raj Sharda (MOHLTC) <Raj.Sharda@ontario.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
Subject: RE: Q3 update
Importance: High

Hi All,

Following up on my email from last week, we received relatively recent direction regarding the release of Ontario's Third Quarter Finances – the tentative plan is to publish Q3 finances ahead of the February 15 deadline. We are tentatively tracking a release date of Monday February 13.

As you can imagine, timelines are very compressed, and includes a possible trip to FPC this week. In order to meet this week's deadlines, while also preparing for the release of the actual publication, we're asking for input from you in stages:

EOD Today:
We have prepared the draft of a deck, which we are working towards tabling at this Wednesday's FPC (TBC). The deck lays out the key 2016-17 building blocks that could be updated as part of the Q3 publication. It would help if we could get the following from you folks by the end of today:
16-17 post-FES expense update: We have included placeholder for an expense slide. The intention is for the slide to provide an updated list of initiatives that were not included in the FES expense outlook.
Recommended expense update/signature initiatives: We may build in options for what the outlook could look like – it would help if you could provide a recommendation for the expense changes that should be taken on/profiled.
16-17 c-fund update: We have included a c-fund slide that was used in the Q1 finances briefing materials (current PW). We would like to include an updated version of this slide in the FPC deck (appendix). It would help to have this out to 19-20.
Pension Narrative: Nadine – I'll connect on the pension adjustment and some high level bullets that we could use.

Noon Friday January 27:
Template: I've attached a draft of 3q finances that is based heavily off of the 2016 First Quarter Finances. We've highlighted in green the sections that we would like you to update. While I'm not 100% certain this structure will be exactly what the Q3 document will look like, I think it's safe to say that the substantive content we'll have to cover is captured here. There will be some highlighted content that is not possible to update for Friday, however there will be a formal distribution process where additional information can be incorporated.

Thanks everyone, and please feel free to send your input directly to Liane and Emma. Im hoping to be able to share a draft deck with you late this evening.

From: Esmail, Selena (MOF)
Sent: January-19-17 2:57 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: Q3 heads up

Hi Everyone – Wanted to send a quick message that we are hearing there is a desire to proceed with the release of a Q3 update around the time we are expecting the Pension Panel panel to release their report. We are going to assume mid feb prior to the house coming back for our planning purposes.

My team is going to work together to put together a list of things we need to start working on/think about along with a calendar to determine and get direction on an approach to coincide with this timeframe.

More details to follow tomorrow.

Thanks.

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

Security settings or invalid file format do not permit using Net debt slide 13.pdf (199880 Bytes).

From: Ken Kandeepan
To: Lynsey Wynberg
Subject: Fwd: Q3 update
Date: Thursday, January 26, 2017 3:00:22 PM

Begin forwarded message:

> **From:** "Esmail, Selena (MOF)" <Selena.Esmail@ontario.ca>
> **Date:** January 26, 2017 at 2:37:18 PM EST
> **To:** "Kandeepan, Ken (OFA)" <Ken.Kandeepan@ofina.on.ca>
> **Cc:** "Kraas, Alexander (OFA)" <Alexander.Kraas@ofina.on.ca>, "Psinas, John (TBS)" <John.Psinas@ontario.ca>, "Sakura, George (OFA)" <George.Sakura@ofina.on.ca>, "Inglis, Liane (MOF)" <Liane.Inglis@ontario.ca>, "Lindquist, Emma (MOF)" <Emma.Lindquist@ontario.ca>
> **Subject: RE: Q3 update**
>
> Hi ken - thank you so much for following up on this. We need to go back to FPC next week for additional scenarios on the deficit we could publish in Q3 and so we haven't landed on anything definitive yet. At minimum it appears at this point we will be reversing the pension adjustment but there may be other variables that impact the deficit figure. Not sure if that helps you get started. So for now, don't worry about the noon deadline and we will be in touch with you/your team as soon as we can on something more definitive.
>
> Thank you again.
>
> -----Original Message-----
> From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
> Sent: January-26-17 1:40 PM
> To: Esmail, Selena (MOF)
> Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
> Subject: Re: Q3 update
>
> Hi Selena
>
> Any further update on whether the FES numbers will be used for Q3, or will the pension adjustment be reversed resulting in a revised deficit and net debt.
>
> Much appreciated if you can get back to us EOD, since we have to get back to you by tomorrow 12 pm with the financing table and the ratios.
>
> Thanks
>
> Ken k

On Jan 23, 2017, at 2:53 PM, Esmail, Selena (MOF) <Selena.Esmail@ontario.ca> wrote:

Hi ken - thanks. Not sure yet on whether we will keep the fes forecast or update for the latest but I'll speak to tim about it. Tim mentioned earlier that we shld retain the fes forecast but I just want to confirm with him.

Thanks again.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Ken Kandeepan

Sent: Monday, January 23, 2017 1:06 PM

To: Esmail, Selena (MOF)

Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA)

Subject: RE: Q3 update

Hi Selena

Couple of quick question, the 16-17 IOD forecast was revised downwards from the FES number and provided to Tim. Do you want us to use this revised version or stick with the FES forecast with the revision being presented in the Interim section of the 2017 Budget.

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Thanks

Ken k

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Sent: Monday, January 23, 2017 12:43 PM

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Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>

Subject: RE: Q3 update

Importance: High

Hi All,

Following up on my email from last week, we received relatively recent direction regarding the release of Ontario's Third Quarter Finances – the tentative plan is to publish Q3 finances ahead of the February 15 deadline. We are tentatively tracking a release date of Monday February 13.

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We have prepared the draft of a deck, which we are working towards tabling at this Wednesday's FPC (TBC). The deck lays out the key 2016-17 building blocks that could be updated as part of the Q3 publication. It would help if we could get the following from you folks by the end of today:

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Recommended expense update/signature initiatives: We may build in options for what the outlook could look like – it would help if you could provide a recommendation for the expense changes that should be taken on/profiled.

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Thanks everyone, and please feel free to send your input directly to Liane and Emma. Im hoping to be able to share a draft deck with you late this evening.

From: Esmail, Selena (MOF)

Sent: January-19-17 2:57 PM

To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)

Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)

Subject: Q3 heads up

Hi Everyone – Wanted to send a quick message that we are hearing there is a desire to proceed with the release of a Q3 update around the time we are expecting the Pension Panel panel to release their report. We are going to assume mid feb prior to the house coming back for our planning purposes.

My team is going to work together to put together a list of things we need to start working on/think about along with a calendar to determine and get direction on an approach to coincide with this timeframe.

More details to follow tomorrow.

Thanks.

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

From:	Lynsey Wynberg
To:	Ken Kandeepan
Subject:	Fwd: Report of the Independent Panel on the Pension Adjustment
Date:	Friday, February 03, 2017 7:13:33 PM
Attachments:	Minister Pension Asset Update V2.pptx ATT00001.htm

---

Begin forwarded message:

From: "Young, Gwendolynne (MOF)" <Gwendolynne.Young@ontario.ca>
Date: February 3, 2017 at 6:34:40 PM EST
To: "Pearce, Christopher (MOF)" <Christopher.Pearce@ontario.ca>
Cc: "Wynberg, Lynsey (OFA)" <Lynsey.Wynberg@ofina.on.ca>
Subject: RE: Report of the Independent Panel on the Pension Adjustment

Hi there,

I checked with the TBS-DMO and they have not shared the actual report, only the summary deck. Attached is the summary deck from the Minister's briefing on Jan 17th.

Thanks,
Gwen.

Gwen Young
p: 416.325.0741 | bb: 647.982.2419

From: Pearce, Christopher (MOF)
Sent: February 3, 2017 11:49 AM
To: Young, Gwendolynne (MOF)
Cc: Wynberg, Lynsey (OFA)
Subject: FW: Report of the Independent Panel on the Pension Adjustment

Gwen – you have a copy that you can share with Ken K?

From: Lynsey Wynberg [mailto:Lynsey.Wynberg@ofina.on.ca]
Sent: February 3, 2017 11:47 AM
To: Pearce, Christopher (MOF)
Subject: FW: Report of the Independent Panel on the Pension Adjustment

Hey Chris,

Would it be possible to get a copy of the report for Ken?

Lynsey

From: Ken Kandeepan
Sent: Thursday, February 02, 2017 4:58 PM
To: Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>
Subject: Report of the Independent Panel on the Pension Adjustment

Hi Lynsey

I spoke to Cindy and she indicated our DMO had a copy of the report. Can you pls request Chris to forward same to you.

Not only do I want to read it for professional reasons but as per a previous email from Gadi, Bonnie will be letting the Rating Agencies know about this on Feb 13th the day of release. Usually, I am the one who is then pulled in to the tele conferences to respond to complex accounting questions, if any of course.

So reading the report ahead of time will be useful.

Thanks

Ken k

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

Pension Asset Expert Advisory Panel

Minister Briefing

January 17, 2017

Objective

- To provide an update on the Pension Asset Expert Advisory Panel (the ‘Panel’)’s advice and recommendations to the government on the application of public sector accounting standards (PSAS) to Ontario’s net pension assets.

- To discuss report delivery timing and next steps.

General

- In the 2015/16 Public Accounts, the OAG and the government's professional accounting staff disagreed on how PSAS applies to the net pension assets of two pension plans the Province jointly sponsors – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee's Union Pension Plan (OPSEUPP).
- Panel supported by a report writer and a project manager.
- Panel provided with briefings to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.
- Panel met with the Auditor General and members of her team specifically responsible for the financial statement audit and the pension asset issue to understand the basis for the OAG's accounting conclusions.

Recognition of asset

- The Panel considered: (1) the guidance in the public sector accounting standards on Retirement Benefits and (2) other relevant guidance in areas where the standard is not clear.

- The Panel agrees with the accounting classification of OTPP and OPSEUPP as Joint Defined Benefit Plans (JDBP), as per the Retirement Benefits standard, since 2001 when the standard was issued.

- The Retirement Benefits standard should be applied to the JDPB, on 100% basis, prior to the Province recognizing its portion (50%) in the financial statements.

Recognition of asset

- Net pension asset meets the definition of an economic resource because:
  - it exists, and
  - future benefit is available to sponsors as either contribution reductions and/or benefit improvements under terms of plan.
- Unilateral control not necessary for asset recognition:
  - in fact cannot exist in JDBPs,
  - sponsors jointly control the total net pension asset and must agree on how it will be used. Key notion of control in this case is that each sponsor can deny the other sponsor(s) access to the benefit, and
  - each sponsor can recognize an asset relating to its portion of that jointly controlled asset.

Recognition of asset

Conclusion:

- The Panel agrees that the net pension asset should be recognized in the Province's financial statements.
- Recognizing the asset will provide a faithful representation of the Province's financial position.
- Recognizing the asset will properly reflect the intention of the "deal" between the sponsors.

Measurement of asset

- An expected future benefit under the relevant standard can exist without a unilateral legally enforceable right to reduce future contributions:
  - legal requirements for surplus withdrawal and contribution reductions are very different, and
  - applying accounting requirements for withdrawals to contribution reductions does not seem appropriate given differences in legal regimes.
- Expected future benefit is determined as difference between:
  - expected future accruals for service (normal service cost for current number of active employees) plus expenses paid by the plan, and
  - required minimum contributions regardless of surplus in plan both on a present value basis.

Measurement of asset

- Meaning of “level of minimum contributions required regardless of any surplus” not clear:
  - Government analyses of both OTPP and OPSEUPP performed using various interpretations of minimum contributions.
- If there is a contractual or legal requirement to continue to contribute despite the existence of a surplus, these could be considered minimum contributions.

Measurement of asset

Conclusion

- In all analyses with different interpretations of “minimum contributions”, present value of expected future accruals for service for the current number of active employees exceeds the present value of minimum contributions.
- No valuation allowance is required for either accrued benefit asset recognized in the Public Accounts.

Recommendations to PSAB Task Force

- Report will note that in some areas, the necessary guidance was not found in the pension standard.
- The complete public sector standards provided a satisfactory basis for all of the Panel's conclusions.
- The Panel will identify for the Task Force those areas where additional guidance in the pension standard itself would be desirable.

Timelines and Next Steps

- Week of January 16th – Panel to review and finalize report and executive summary.
- Week of January 23rd – Final report and executive summary completed and approved by the Panel.
- Week of January 30th – send final report to Auditor General with offer to meet to discuss the findings.
- Early February – Completion of supplemental report on HOOPP and CAATPP.

From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	Christina Zhang
Subject:	Fwd: SoC briefing accounting risks_Nov 15.pptx
Date:	Wednesday, November 16, 2016 12:09:28 AM
Attachments:	SoC briefing accounting risks_Nov 15.pptx ATT00001.htm

---

With the attachment.

Gadi

Begin forwarded message:

> **From:** "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
> **Date:** November 15, 2016 at 6:36:01 PM EST
> **To:** "Lewis, Brian (MOF)" <Brian.Lewis@Ontario.ca>, "Kwan, Ronald (OFA)" <Ronald.Kwan@ofina.on.ca>, "Mayman, Gadi (OFA)" <Gadi.Mayman@ofina.on.ca>
> **Cc:** "Esmail, Selena (MOF)" <Selena.Esmail@ontario.ca>
> **Subject: Fw: SoC briefing accounting risks_Nov 15.pptx**
>
> I'm not sure if any of you have seen this (maybe it was just me who didn't know this was being worked on).
>
> This is an important piece of the fiscal path looking ahead and we should all know about these as they cut across the electricity finance, borrowing, debt and revenue components.
>
> This was prepared for the SOC.
>
> Tim
>
> From: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>
> Sent: Tuesday, November 15, 2016 6:24 PM
> To: Schuurman, Tim (MOF)
> Cc: Esmail, Selena (MOF)
> Subject: FW: SoC briefing accounting risks_Nov 15.pptx
>
> Hi Tim,
>
> Here is the deck from OPCD that was developed for the SoC.
>
> Thanks,
> Ryan
>
> From: Laughton, Patrick (TBS)

Sent: November-15-16 4:31 PM
To: Birks, Ryan (MOF)
Subject: FW: SoC briefing accounting risks_Nov 15.pptx

From: Laughton, Patrick (TBS)
Sent: November-14-16 6:04 PM
To: Simone, Nicole (TBS); Nelson, Dane (TBS)
Cc: Hosick, Sarah (TBS)
Subject: FW: SoC briefing accounting risks_Nov 15.pptx

Here's the deck.

From: Laughton, Patrick (TBS)
Sent: November-14-16 1:37 PM
To: Hughes, Karen (TBS)
Cc: Hosick, Sarah (TBS)
Subject: FW: SoC briefing accounting risks_Nov 15.pptx

Hi Karen –

The attached deck has been updated following the meeting earlier with Cindy/Nadine.

Please let me know if you have comments. If you are ok I will send along to the DMO in advance of tomorrow's meeting with the SoC.

P.

From: Hosick, Sarah (TBS)
Sent: November-14-16 1:30 PM
To: Laughton, Patrick (TBS)
Subject: FW: SoC briefing accounting risks_Nov 15.pptx

Hi Patrick

Please see attached for the revised deck for the SoC briefing. Please let us know if Karen has any additional comments/edits.

Thanks
Sarah

From: Veinot, Cindy (TBS)
Sent: November-14-16 1:26 PM
To: Hosick, Sarah (TBS)
Cc: Petsche, Nadine (TBS)
Subject: SoC briefing accounting risks_Nov 15.pptx

See attached -- Cindy

Office of the Provincial Controller

Financial Reporting Risks

November 15, 2016

Briefing to Secretary of Cabinet

Purpose

- To highlight immediate and longer-term fiscal/financial reporting issues

- Options and recommendations to address immediate high risk items
  - Pension Asset Accounting
  - OPG/H1 reporting

Background

- The Provincial Budget and Public Accounts will be impacted by new and future changes to public and private sector accounting standards as well as the resolution of disagreements with the Auditor General
- Potential risks:
  - Outcome of Pension Asset Expert Advisory Panel and AG acceptance of the Panel's recommendations
  - Consistency between results reported by OPG and H1 vs. Public Accounts
  - Various current year transactions (e.g. cap & trade, Metrolinx transaction with City of Toronto)
  - Future standard setting projects (e.g. financial instruments, rate-regulated accounting)

- As a sovereign government, the Province is not bound by PSAB. Legislation is in place to allow for a regulatory solution to mitigate risks (under FAA).
- The government regulated accounting for pension assets for the 2015/16 Public Accounts using a time-limited regulation (only for 2015-16).
- Under the AG Act, the audit opinion for the Public Accounts is based on the AG's judgment of 'appropriate GAAP'. The AG is opposed to legislated accounting.

Key Challenges

Near Term

1. Pension Asset Accounting
2. Consolidation reporting basis for H1 and OPG (US GAAP vs. IFRS)
3. Specific transactions (transfer payments similar to GIF, Metrolinx)
4. Cap and Trade accounting (accounting for proceeds from auction and expenses)
5. Expected reduction in AG materiality used for Public Accounts
6. Consolidation (presentation – e.g. BPS and what is consolidated – e.g. CASs)
7. Increased AG focus on governance and accounting re: contaminated sites
8. Other GBE transactions (Hydro One sale, recognition of unrealized gains/losses)
9. Implementation of Related Party disclosures – new accounting standard
10. Implementation of Hyperion Financial Management (parallel run)
11. Timing for release of 2016/17 Public Accounts – goal of an earlier release date (July 31)

Future:

1. Accounting for Financial Instruments – standard under review
2. PSAB -- new standards on asset retirement obligations, revenues, public-private partnerships
3. Finalization of PSAB Conceptual Framework
4. Timing and frequency of internal and external financial reporting
5. Basis for accounting for balanced budget legislation (budget and actuals)

Pension Assets – High Risk

- In preparing the 2015-16 Public Accounts, the Province and the Auditor General's Office engaged in discussions regarding the appropriate application of Public Sector Accounting Board's (PSAB) standards, specifically in relation to pension accounting for the province's jointly sponsored pension plans.

- A time-limited regulation was passed for the 2015-16 Public Accounts to reflect a full valuation allowance against the pension assets. The AG provided her opinion that the 2015-16 results were fairly stated but qualified her opinion for lack of restatement of the 2014-15 results.

- A report from the Pension Asset Expert Advisory Panel, including recommendations on the interpretation of PSAS for the Province's defined benefit plans is expected to be delivered by the end of December.

- It is uncertain whether the Auditor General will accept the recommendations of the Panel.

- Work plan underway – see Appendix A

Accounting for GBEs – High Risk

Government Business Enterprises (GBEs)

- **OLG and LCBO** --
  - OLG and LCBO have been consolidated on International Financial Reporting standards (IFRS) since 2011/12
  - Results may be impacted by future changes to IFRS standards
  - No issues raised by AG

- **OPG and Hydro One** –
  - Private sector accounting standards for rate regulated entities changed effective January 1, 2015. PSAB requires that GBEs follow IFRS.
  - OPG and Hydro One are consolidated using US GAAP in the Province's consolidated financial statements which is the same basis that they report to securities regulators and the Ontario Energy Board.
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Risks Related to GBE Reporting (H1&OPG)

Risks of adopting IFRS for H1&OPG consolidation in the CFS:

1. Lack of transparency between stand-alone statements and results consolidated with the Province
2. Volatility under IFRS-based reporting for H1&OPG, especially due to the discount rate for OPG's Asset Retirement Obligation in fiscal 2016-17
   - Potential future changes in IFRS standards and US GAAP standards may cause further divergence from audited US GAAP-based reports issued by H1&OPG
3. Future of rate-regulated accounting under IFRS
   - IFRS currently has an interim standard on rate-regulated accounting and has a project underway evaluating whether a permanent standard supporting rate-regulated accounting will be issued
   - If H1&OPG were consolidated on an IFRS basis and rate regulated accounting was subsequently discontinued, more than $8 Billion of regulatory assets on the books of H1 & OPG would have to be analyzed to determine what amount would continue to be recorded (write-off would increase Province's Net Debt); additional volatility would be introduced into the Province's annual surplus/deficit.

Options to Mitigate GBE Risks

1) **Adopt IFRS for consolidation of OPG/H1**
   - OPG/H1 results would be based on IFRS for Public Accounts. A material impact can be expected in 2016/17 when the ONFA plan is updated (due to a change in the discount rate associated with the asset retirement liability).
   - Differences in results reported by OPG/H1 (US GAAP) and the Province (IFRS) may be material.
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   - Other considerations: Potential change to the AG Act, timing

DRAFT Implementation Plan (Pensions)

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Appendix A

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IFRS vs. US GAAP Impacts (OPG/H1)

	US GAAP	IFRS
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Revenue Accounting	• US standard largely converged with IFRS	• Similar to US GAAP (Converged)

AG Mandate Summary

ON	(3) In the annual report in respect of each fiscal year, the Auditor General shall express his or her opinion as to whether the consolidated financial statements of Ontario, as reported in the Public Accounts, present fairly information in accordance with appropriate generally accepted accounting principles and the Auditor General shall set out any reservations he or she may have. 2004, c. 17, s. 14 (8).
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AB	(2) A report of the Auditor General under subsection (1) shall (a) include a statement as to whether, in the Auditor General's opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles,
SK	11. (3) For the purposes of this section, where an auditor, including an appointed auditor, is required to examine accounts and render an opinion on those accounts, he shall do so in accordance with generally accepted auditing standards as prescribed from time to time by the Canadian Institute of Chartered Accountants.
MB	9(4) The Auditor General must express an opinion as to whether the financial statements included in the Public Accounts fairly present information in accordance with the accounting policies of the government stated in the Public Accounts and on a basis consistent with that of the preceding year, and must set out any reservations the Auditor General might have.
NB	[.10]The Auditor General shall examine the several financial statements required by section 48 of the Financial Administration Act to be included in the Public Accounts and shall express his opinion as to whether they fairly present information in accordance with stated accounting policies of the Province and on a basis consistent with that of the preceding year, together with any reservations he may have.

AG Mandate Summary

NS	Auditor General Act	19 (1) The Auditor General shall audit the annual consolidated financial statements of the Government that are included in the public accounts required under the Finance Act. (2) The Auditor General shall submit a report to the House of Assembly, which must be included in the public accounts and which must provide an opinion, prepared in accordance with generally accepted auditing standards, as to the fair presentation of the consolidated financial statements . 2010, c. 33, s. 19.
NL	Auditor General Act	[.11] The auditor general shall examine the several financial statements required by the Financial Administration Act to be included in the public accounts of the province, and any other statement that is required to be audited by the auditor general under that Act or another statement that the Minister of Finance may present for audit and shall express his or her opinion as to whether the financial statements present fairly the financial position, results of operations and changes in the financial position of the province in accordance with the disclosed accounting policies of the provincial government and on a basis consistent with that of the preceding year, together with reservations the auditor general may have.
GOC	Auditor General Act	6. The Auditor General shall examine the several financial statements required by section 64 of the Financial Administration Act to be included in the Public Accounts, and any other statement that the President of the Treasury Board or the Minister of Finance may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have.
QC	Auditor General Act	38. In his report on the annual financial statements of the Government, the Auditor General (1) shall indicate whether, in his opinion, these statements present fairly the financial position of the Government, the results of its operations and the changes in its financial position in accordance with the accounting principles or policies stated in the financial statements and whether these principles or policies have been applied on a basis consistent with that of the preceding fiscal year;

Draft Regulation (GBE Accounting)

- Ontario Regulation 395/11 is amended by adding the following section:
- **Clarity on the accounting policies and practices to be followed to prepare the consolidated financial statements of the Province**
  - 3. (1) The modified equity basis of consolidation required by Public Sector Accounting Standard PS 1300.35 (Government reporting entity), issued by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants as issued in June 1996 shall be the basis for consolidating government business enterprises and government business partnerships.
  - (2) For purposes of preparing the Province's consolidated financial reports, the basis of **GAAP** used by government business enterprises (GBE) in preparing their entity-level financial statements, including any regulated requirements, will be applied in conjunction with the basis of consolidation in section 3(1) above.
  - (3) Where a GBE's financial reporting year-end differs from the Province's reporting period ending March 31st, the Province's consolidated financial reports will reflect the GBE's accounting policies in place as at April 1st of the Province's reporting period.
- *As long as Hydro One, OPG, LCBO and OLG are controlled by the province they will be consolidated on the modified equity basis (no reference to GBEs).

PSAB Standards Specific Items

- Financial Instruments

  (Financial Instruments and Foreign Currency Translation)

  - The effective date for PSAB's new standard has been deferred to April 1, 2019
  - The new standard, as currently written, would introduce fair value accounting into government financial reporting. The volatility could not be budgeted for, resulting in variances from plan.
  - The new standard would impact the province's annual surplus/deficit results due to the elimination of hedge accounting, and also impact the province's net debt position due to reflection of unrealized gains and losses..
  - A new financial statement, the Statement of Remeasurement Gains and Losses would be introduced to reflect unrealized gains and losses.
  - PSAB has initiated a review of their current standard and has met with the OFA and OPCD.
  - There is no certainty that PSAB will introduce hedge accounting which would address most stakeholder concerns with the new standard. Hedge accounting is also commonly reflected in FI standards around the world.
  - In addition, uncertainty remains regarding the ability to retain the province's current accounting treatment for ONFA under the new standard. Once the new standard is known, OFA and OPCD will consult with the AG regarding interpretation and impact on ONFA reporting.

PSAB Standards Specific Items

Related Party Transactions

- PSAB's final standard will impact disclosures starting with the 2017/18 Public Accounts.
- The main requirements of the standard relate to government transactions with private sector entities where key government management and political personnel, or close family members are related to a private sector entity or their key management or owners.

Revenue Standard

- PSAB has a project underway to revisit revenue recognition standards.
- The new Exposure Draft is expected to be released in the third quarter of 2016

Assets Standard

- PSAB has issued revised standards that will require additional disclosures.

PSAB Standards Specific Items

Asset Retirement Obligations

- PSAB is expected to issue an Exposure Draft on Asset Retirement Obligations in the near future

PSAB Conceptual Framework Task Force

- PSAB is working through a revised conceptual framework – could have implications on presentation and disclosure; unlikely to have any impact on deficit or surplus

Employee Future Benefits

- PSAB has initiated a project to review how pension plans are reported by the public sector.
- ON is hopeful that PSAB may be able to include certain issues with PS 3250 which are resulting in disagreements on interpretation and application between the Auditor General and TBS.

CONFIDENTIAL - Draft For Discussion Only

Other - Specific Items

Tax Revenue Accrual Methodology

- OEP, OPCD and the OAG continue to monitor and assess potential enhancements to the current methodology used to accrue tax revenues for Public Accounts purposes.

Expectation for Quarterly External Reports

- Implementation of CHIRP will allow for consideration of in-year external reporting. Quarterly reporting already a feature for many other senior Canadian governments.

Potential for Earlier Release Date for Public Accounts

- Implementation of CHIRP, supplemented by modified reporting requirements by ministries and consolidated orgs and change in OAG's audit approach will increase feasibility of earlier release.
- During the 2016/17 Public Accounts, OPCD will be undertaking a parallel run using the new Hyperion Financial Management system.

From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	Christina Zhang
Subject:	Fwd: SoC briefing accounting risks_Nov 15.pptx
Date:	Wednesday, November 16, 2016 12:09:28 AM
Attachments:	SoC briefing accounting risks_Nov 15.pptx ATT00001.htm

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With the attachment.

Gadi

Begin forwarded message:

> **From:** "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
> **Date:** November 15, 2016 at 6:36:01 PM EST
> **To:** "Lewis, Brian (MOF)" <Brian.Lewis@Ontario.ca>, "Kwan, Ronald (OFA)" <Ronald.Kwan@ofina.on.ca>, "Mayman, Gadi (OFA)" <Gadi.Mayman@ofina.on.ca>
> **Cc:** "Esmail, Selena (MOF)" <Selena.Esmail@ontario.ca>
> **Subject: Fw: SoC briefing accounting risks_Nov 15.pptx**
>
> I'm not sure if any of you have seen this (maybe it was just me who didn't know this was being worked on).
>
> This is an important piece of the fiscal path looking ahead and we should all know about these as they cut across the electricity finance, borrowing, debt and revenue components.
>
> This was prepared for the SOC.
>
> Tim
>
> From: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>
> Sent: Tuesday, November 15, 2016 6:24 PM
> To: Schuurman, Tim (MOF)
> Cc: Esmail, Selena (MOF)
> Subject: FW: SoC briefing accounting risks_Nov 15.pptx
>
> Hi Tim,
>
> Here is the deck from OPCD that was developed for the SoC.
>
> Thanks,
> Ryan
>
> From: Laughton, Patrick (TBS)

Sent: November-15-16 4:31 PM
To: Birks, Ryan (MOF)
Subject: FW: SoC briefing accounting risks_Nov 15.pptx

From: Laughton, Patrick (TBS)
Sent: November-14-16 6:04 PM
To: Simone, Nicole (TBS); Nelson, Dane (TBS)
Cc: Hosick, Sarah (TBS)
Subject: FW: SoC briefing accounting risks_Nov 15.pptx

Here's the deck.

From: Laughton, Patrick (TBS)
Sent: November-14-16 1:37 PM
To: Hughes, Karen (TBS)
Cc: Hosick, Sarah (TBS)
Subject: FW: SoC briefing accounting risks_Nov 15.pptx

Hi Karen –

The attached deck has been updated following the meeting earlier with Cindy/Nadine.

Please let me know if you have comments. If you are ok I will send along to the DMO in advance of tomorrow's meeting with the SoC.

P.

From: Hosick, Sarah (TBS)
Sent: November-14-16 1:30 PM
To: Laughton, Patrick (TBS)
Subject: FW: SoC briefing accounting risks_Nov 15.pptx

Hi Patrick

Please see attached for the revised deck for the SoC briefing. Please let us know if Karen has any additional comments/edits.

Thanks
Sarah

From: Veinot, Cindy (TBS)
Sent: November-14-16 1:26 PM
To: Hosick, Sarah (TBS)
Cc: Petsche, Nadine (TBS)
Subject: SoC briefing accounting risks_Nov 15.pptx

See attached -- Cindy

Office of the Provincial Controller

Financial Reporting Risks

November 15, 2016

Briefing to Secretary of Cabinet

Purpose

- To highlight immediate and longer-term fiscal/financial reporting issues

- Options and recommendations to address immediate high risk items
  - Pension Asset Accounting
  - OPG/H1 reporting

Background

- The Provincial Budget and Public Accounts will be impacted by new and future changes to public and private sector accounting standards as well as the resolution of disagreements with the Auditor General
- Potential risks:
  - Outcome of Pension Asset Expert Advisory Panel and AG acceptance of the Panel's recommendations
  - Consistency between results reported by OPG and H1 vs. Public Accounts
  - Various current year transactions (e.g. cap & trade, Metrolinx transaction with City of Toronto)
  - Future standard setting projects (e.g. financial instruments, rate-regulated accounting)

- As a sovereign government, the Province is not bound by PSAB. Legislation is in place to allow for a regulatory solution to mitigate risks (under FAA).
- The government regulated accounting for pension assets for the 2015/16 Public Accounts using a time-limited regulation (only for 2015-16).
- Under the AG Act, the audit opinion for the Public Accounts is based on the AG's judgment of 'appropriate GAAP'. The AG is opposed to legislated accounting.

Key Challenges

Near Term

1. Pension Asset Accounting
2. Consolidation reporting basis for H1 and OPG (US GAAP vs. IFRS)
3. Specific transactions (transfer payments similar to GIF, Metrolinx)
4. Cap and Trade accounting (accounting for proceeds from auction and expenses)
5. Expected reduction in AG materiality used for Public Accounts
6. Consolidation (presentation – e.g. BPS and what is consolidated – e.g. CASs)
7. Increased AG focus on governance and accounting re: contaminated sites
8. Other GBE transactions (Hydro One sale, recognition of unrealized gains/losses)
9. Implementation of Related Party disclosures – new accounting standard
10. Implementation of Hyperion Financial Management (parallel run)
11. Timing for release of 2016/17 Public Accounts – goal of an earlier release date (July 31)

Future:

1. Accounting for Financial Instruments – standard under review
2. PSAB -- new standards on asset retirement obligations, revenues, public-private partnerships
3. Finalization of PSAB Conceptual Framework
4. Timing and frequency of internal and external financial reporting
5. Basis for accounting for balanced budget legislation (budget and actuals)

Pension Assets – High Risk

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AB	(2) A report of the Auditor General under subsection (1) shall (a) include a statement as to whether, in the Auditor General's opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles,
SK	11. (3) For the purposes of this section, where an auditor, including an appointed auditor, is required to examine accounts and render an opinion on those accounts, he shall do so in accordance with generally accepted auditing standards as prescribed from time to time by the Canadian Institute of Chartered Accountants.
MB	9(4) The Auditor General must express an opinion as to whether the financial statements included in the Public Accounts fairly present information in accordance with the accounting policies of the government stated in the Public Accounts and on a basis consistent with that of the preceding year, and must set out any reservations the Auditor General might have.
NB	[.10]The Auditor General shall examine the several financial statements required by section 48 of the Financial Administration Act to be included in the Public Accounts and shall express his opinion as to whether they fairly present information in accordance with stated accounting policies of the Province and on a basis consistent with that of the preceding year, together with any reservations he may have.

AG Mandate Summary

NS	Auditor General Act	19 (1) The Auditor General shall audit the annual consolidated financial statements of the Government that are included in the public accounts required under the Finance Act. (2) The Auditor General shall submit a report to the House of Assembly, which must be included in the public accounts and which must provide an opinion, prepared in accordance with generally accepted auditing standards, as to the fair presentation of the consolidated financial statements . 2010, c. 33, s. 19.
NL	Auditor General Act	[.11] The auditor general shall examine the several financial statements required by the Financial Administration Act to be included in the public accounts of the province, and any other statement that is required to be audited by the auditor general under that Act or another statement that the Minister of Finance may present for audit and shall express his or her opinion as to whether the financial statements present fairly the financial position, results of operations and changes in the financial position of the province in accordance with the disclosed accounting policies of the provincial government and on a basis consistent with that of the preceding year, together with reservations the auditor general may have.
GOC	Auditor General Act	6. The Auditor General shall examine the several financial statements required by section 64 of the Financial Administration Act to be included in the Public Accounts, and any other statement that the President of the Treasury Board or the Minister of Finance may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have.
QC	Auditor General Act	38. In his report on the annual financial statements of the Government, the Auditor General (1) shall indicate whether, in his opinion, these statements present fairly the financial position of the Government, the results of its operations and the changes in its financial position in accordance with the accounting principles or policies stated in the financial statements and whether these principles or policies have been applied on a basis consistent with that of the preceding fiscal year;

Draft Regulation (GBE Accounting)

- Ontario Regulation 395/11 is amended by adding the following section:
- **Clarity on the accounting policies and practices to be followed to prepare the consolidated financial statements of the Province**
  - 3. (1) The modified equity basis of consolidation required by Public Sector Accounting Standard PS 1300.35 (Government reporting entity), issued by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants as issued in June 1996 shall be the basis for consolidating government business enterprises and government business partnerships.
  - (2) For purposes of preparing the Province's consolidated financial reports, the basis of **GAAP** used by government business enterprises (GBE) in preparing their entity-level financial statements, including any regulated requirements, will be applied in conjunction with the basis of consolidation in section 3(1) above.
  - (3) Where a GBE's financial reporting year-end differs from the Province's reporting period ending March 31st, the Province's consolidated financial reports will reflect the GBE's accounting policies in place as at April 1st of the Province's reporting period.
- *As long as Hydro One, OPG, LCBO and OLG are controlled by the province they will be consolidated on the modified equity basis (no reference to GBEs).

PSAB Standards Specific Items

- Financial Instruments

  (Financial Instruments and Foreign Currency Translation)

  - The effective date for PSAB's new standard has been deferred to April 1, 2019
  - The new standard, as currently written, would introduce fair value accounting into government financial reporting. The volatility could not be budgeted for, resulting in variances from plan.
  - The new standard would impact the province's annual surplus/deficit results due to the elimination of hedge accounting, and also impact the province's net debt position due to reflection of unrealized gains and losses..
  - A new financial statement, the Statement of Remeasurement Gains and Losses would be introduced to reflect unrealized gains and losses.
  - PSAB has initiated a review of their current standard and has met with the OFA and OPCD.
  - There is no certainty that PSAB will introduce hedge accounting which would address most stakeholder concerns with the new standard. Hedge accounting is also commonly reflected in FI standards around the world.
  - In addition, uncertainty remains regarding the ability to retain the province's current accounting treatment for ONFA under the new standard. Once the new standard is known, OFA and OPCD will consult with the AG regarding interpretation and impact on ONFA reporting.

PSAB Standards Specific Items

Related Party Transactions

- PSAB's final standard will impact disclosures starting with the 2017/18 Public Accounts.
- The main requirements of the standard relate to government transactions with private sector entities where key government management and political personnel, or close family members are related to a private sector entity or their key management or owners.

Revenue Standard

- PSAB has a project underway to revisit revenue recognition standards.
- The new Exposure Draft is expected to be released in the third quarter of 2016

Assets Standard

- PSAB has issued revised standards that will require additional disclosures.

PSAB Standards Specific Items

Asset Retirement Obligations

- PSAB is expected to issue an Exposure Draft on Asset Retirement Obligations in the near future

PSAB Conceptual Framework Task Force

- PSAB is working through a revised conceptual framework – could have implications on presentation and disclosure; unlikely to have any impact on deficit or surplus

Employee Future Benefits

- PSAB has initiated a project to review how pension plans are reported by the public sector.
- ON is hopeful that PSAB may be able to include certain issues with PS 3250 which are resulting in disagreements on interpretation and application between the Auditor General and TBS.

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Other - Specific Items

Tax Revenue Accrual Methodology

- OEP, OPCD and the OAG continue to monitor and assess potential enhancements to the current methodology used to accrue tax revenues for Public Accounts purposes.

Expectation for Quarterly External Reports

- Implementation of CHIRP will allow for consideration of in-year external reporting. Quarterly reporting already a feature for many other senior Canadian governments.

Potential for Earlier Release Date for Public Accounts

- Implementation of CHIRP, supplemented by modified reporting requirements by ministries and consolidated orgs and change in OAG's audit approach will increase feasibility of earlier release.
- During the 2016/17 Public Accounts, OPCD will be undertaking a parallel run using the new Hyperion Financial Management system.

From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	Anna Strathy
Subject:	Fwd: Updated Summary of Draft FAO Fall Economic and Fiscal Outlook_v6d
Date:	Friday, December 08, 2017 8:22:53 PM
Attachments:	Summary of Draft FAO Fall Economic and Fiscal Outlook_v6d.docx ATT00001.htm

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Begin forwarded message:

From: "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
Date: December 8, 2017 at 8:21:57 PM EST
To: "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca>, "Ghiassi, Ali (MOF)" <Ali.Ghiassi@ontario.ca>, "Lewis, Brian (MOF)" <Brian.Lewis@Ontario.ca>, "Mayman, Gadi (OFA)" <Gadi.Mayman@ofina.on.ca>, "Lewis, Paul (MOF)" <Paul.D.Lewis@ontario.ca>, "Giroux Namian, Orli (MOF)" <Orli.GirouxNamian@ontario.ca>, "Martin, Jessica (MOF)" <Jessica.Martin@ontario.ca>, "Moore, Brynne (MOF)" <Brynne.Moore@ontario.ca>, "Buckingham, Brigid (MOF)" <Brigid.Buckingham@ontario.ca>
Cc: "McLean, David (MOF)" <David.McLean@ontario.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>, "Esmail, Selena (MOF)" <Selena.Esmail@ontario.ca>, "Chaput, Brandon (MOF)" <Brandon.Chaput@ontario.ca>, "Inglis, Liane (MOF)" <Liane.Inglis@ontario.ca>
Subject: Updated Summary of Draft FAO Fall Economic and Fiscal Outlook_v6d

Please find attached an updated summary note of the FAO's report due to come out Monday. It reflects feedback from the meeting earlier today.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget
Ministry of Finance

FAO's 2017 Fall Economic and Fiscal Outlook

ISSUE

On Monday Dec 11th, 2017 the Financial Accountability Office will release its 'Fall Economic and Fiscal Outlook' report. This note is a summary.

TOP MESSAGES

- I would like to thank the Financial Accountability Officer (FAO) for releasing his fall economic and fiscal outlook for Ontario. We value the FAO's independent assessment and projections of the province's fiscal plan.
- The government is committed to a responsible fiscal plan that provides the conditions for all Ontarians to thrive.
- As outlined in the 2017 Ontario Economic Outlook and Fiscal Review, the government is projecting a balanced budget for 2017–18 and continued balance in 2018–19 and 2019–20.
- The FAO's deficit projections differ from the government's, but as with any future oriented forecast there is uncertainty.
- What we do know for certain is that this government has a strong track record of beating its fiscal targets. In fact, the Public Accounts of Ontario reported that the 2016–17 deficit was $1.0 billion, beating our annual deficit target again, for the eighth year in a row.
- The 2017 Ontario Economic Outlook and Fiscal Review builds on the government's track record of fiscal management that has resulted in $29 billion in accumulated deficits being avoided over the past seven years, relative to the 2010 Budget forecast.
- We are also targeting a net debt-to-GDP ratio of 35 per cent by 2023–24 and reducing Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029–30.
- Since 2014, Ontario's real GDP growth has strengthened, positioning Ontario as a growth leader, not only in Canada, but among G7 countries. In fact, over the 2014-17 period, Ontario's real GDP growth is on pace to exceed that of all G7 countries.
- Private-sector economists are projecting continued growth for Ontario over the forecast horizon; the FAO's real GDP projections are aligned with the 2017 Fall Economic Statement over the 2017 to 2020 period.
- This shows that our plan to make strategic investments in Ontario to grow the economy is working.
- A balanced budget is providing the Province the fiscal flexibility to invest more in health care, education, support for seniors and small businesses and other public services that matter most to Ontario families. A balanced budget also adds stability to Ontario's finances and positions the government to better respond to demographic challenges and unexpected global economic shocks that the province will face over the next decade.

- We will continue moving forward on our fiscally responsible plan that creates fairness and opportunity for all Ontarians.

KEY POINTS

Economic Outlook

- The FAO has raised its forecast for Ontario economic growth in 2017 from its spring outlook report. However, despite this upward revision, the FAO forecast is at the bottom of the current range of the MOF survey of private sector forecasts for both real and nominal GDP growth in 2017.
- Beyond 2017, the FAO forecast anticipates growth to moderate as the housing market and consumer spending cool alongside gradually rising interest rates, in line with the FES forecast.
- Over the 2017 to 2020 period, the FAO's forecast for average annual real GDP growth of 2.2 per cent is the same as the 2017 FES outlook.
- However, for nominal GDP growth, the FAO's average annual forecast of 4.2 per cent over the 2017 to 2020 period is slower than the FES projection of 4.4 per cent growth. This difference is explained by a much lower FAO nominal GDP forecast in 2017 compared to the FES (4.7 per cent vs 5.3 per cent).
- The FAO forecast takes into account its estimate of the impact of the new minimum wage legislation, which is expected to boost wage growth over the forecast, but temper employment gains. Even with these employment impacts, the FAO predicts a modest decline in the unemployment rate.

Fiscal Outlook

- The FAO is projecting a budget deficit of $4.0 billion in 2017–18 using the **Auditor General's recommended accounting treatment for both the Fair Hydro Plan and the net pension assets of jointly sponsored pension plans.** In the absence of any fiscal policy changes the deficit grows steadily to $9.8 billion in 2021-22.
- Under the **government's accounting presentation (excluding the AG's recommendations)**, the FAO projects a small surplus for 2017–18 of $0.2 billion (excluding the reserve) and a return to deficits beyond 2017–18 driven by revenue factors - loss of temporary revenues combined with more moderate tax revenue growth.
- The FAO suggests that by not adopting the AG's recommended accounting presentation, the 2017 Budget and the 2017 FES have reduced transparency and clarity of Ontario's fiscal position and Ontario will continue to receive qualified opinions from the AG on its Pubic Accounts.

Budget Balance - FAO's Fiscal Outlook ($ Billions)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
AG Presentation	-5.0	-2.4	-4.0	-7.1	-7.8	-9.0	-9.8
Government Presentation	-3.5	-1.0	0.2	-1.9	-1.9	-2.6	-3.7
2017 FES -- Excluding Reserve	-3.5	-1.0	0.5	0.5	0.8	N/A	N/A

Revenue Outlook

- The FAO is projecting average annual revenue growth of 3.2 per cent from 2016-17 to 2019-20 as compared with the government's projections of 4.0 per cent. The main drivers are:
    - The FAO projections for taxation revenues are $2.9 billion lower by 2019-20 than the projections in the 2017 FES due to lower projected growth in household spending, labour income and corporate profits.
    - In addition, the FAO continues to highlight a number of one-time 2017-18 revenues, including: increase to sales and rentals from sale of final tranche of H1, higher federal transfers for infrastructure (PTIF), a one-time boost from extra Cap and Trade auction. Taken together the FAO estimates that these amount to $4.5 billion in additional one-time revenues in 2017-18.

Expense Outlook

- From 2017–18 to 2019–20 the FAO's outlook adopts the government's 2017 FES projections for program spending, **adjusted to reflect the AG's recommended accounting presentation.**
    - Both the Fair Hydro Plan and net pension asset adjustment impact the expense side with a combined impact of approximately $4.2 billion in 2017-18.
- The FAO notes that in 2018-19 and 2019-20, increases in program spending will be restrained to an average of 2.4 percent, below the growth in underlying spending pressures. Beyond 2019–20 the FAO projects program spending will grow faster -- at an average annual rate of 4.2 per cent – due to population pressures.

Borrowing and Net Debt

- Using the **government's accounting presentation** net debt-to-GDP is expected to reach 38.5 per cent by 2019–20 and 38.7 per cent by 2021–22. This increases to 41.4 per cent by 2021–22 **under the AG's accounting presentation for jointly sponsored pension plans and the Fair Hydro Plan**.

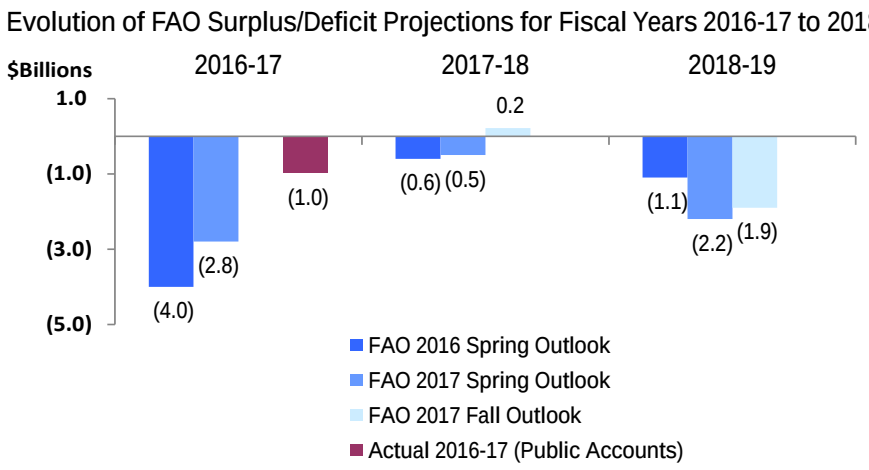
- The 2017 FES projected a net debt-to-GDP ratio of 37.0 per cent by 2019–20.

Comparison: 2017 Fall Economic Statement and the 2017 Fall FAO Fiscal Outlook

	Actual		Outlook					Avg. Annual Growth 16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
2017 Fall Economic Statement										
Taxation Revenue	91.8	94.3	99.9	105.1	110.0			5.2%		
Transfers from Gov't of Canada	23.1	24.5	26.2	26.0	25.4			1.2%		
Income from GBEs	4.9	5.6	5.1	5.9	6.2			3.7%		
Other Non-Tax Revenue	16.3	16.3	19.0	16.5	16.6			0.7%		
Total Revenue	136.1	140.7	150.1	153.6	158.2			4.0%		
Expense										
Program Expense	128.1	130.0	137.4	140.4	144.2			3.5%		
Adjustment for Pension Assets	-	-	-	-	-					
Adjustment for Fair Hydro Plan	-	-	-	-	-					
Interest on Debt	11.6	11.7	12.2	12.7	13.3			4.2%		
Total Expense	139.7	141.7	149.6	153.1	157.4			3.6%		
Surplus/(Deficit)	(3.5)	(1.0)	0.5	0.5	0.8					
Net Debt	295.4	301.6	311.7	323.0	335.6			3.6%		
Change - 2017 Fall Economic Statement to 2017 Fall FAO Fiscal Outlook										
Taxation Revenue	-	-	-1.2	-2.4	-2.9					
Transfers from Gov't of Canada	-	-	0.0	-0.5	-0.4					
Income from GBEs	-	-	0.0	0.0	0.0					
Other Non-Tax Revenue	-	-	0.4	0.0	0.0					
Total Revenue	-	-	(0.7)	(2.9)	(3.4)					
Expense										
Program Expense	-	-	-	-	-					
Adjustment for Pension Assets	1.5	1.5	2.3	2.6	2.9					
Adjustment for Fair Hydro Plan	-	-	1.9	2.7	2.9					
Interest on Debt	-	-	*(0.4)*	*(0.6)*	*(0.7)*					
Total Expense	*1.5*	*1.5*	*3.8*	*4.7*	*5.2*					
Surplus/(Deficit) AG Presentation	*(1.5)*	*(1.4)*	*(4.5)*	*(7.6)*	*(8.6)*					
Surplus/(Deficit) - Gov't Presentation (excl. Fair Hydro Pension Adj.)	*(0.0)*	*(0.0)*	*(0.3)*	*(2.4)*	*(2.7)*					
Net Debt	*11.0*	*12.5*	*17.5*	*24.7*	*32.4*					
2017 Fall FAO Fiscal Outlook										
Taxation Revenue	91.8	94.3	98.7	102.7	107.0	111.3	115.8	4.3%	4.0%	4.2%
Transfers from Gov't of Canada	23.1	24.5	26.2	25.5	25.0	25.8	26.6	0.7%	3.2%	1.7%
Income from GBEs	4.9	5.6	5.1	5.9	6.2	6.5	6.7	3.5%	4.0%	3.7%
Other Non-Tax Revenue	16.3	16.3	19.4	16.5	16.6	17.3	18.0	0.6%	4.1%	2.0%
Total Revenue	136.1	140.7	149.4	150.7	154.8	160.8	167.0	3.2%	3.9%	3.5%
Expense										
Program Expense	128.1	130.0	137.4	140.4	144.2	150.2	156.9	3.5%	4.3%	3.8%
Adjustment for Pension Assets	1.5	1.5	2.3	2.6	2.9	2.9	2.9			
Adjustment for Fair Hydro Plan	-	-	1.9	2.7	2.9	3.4	3.2			
Interest on Debt	11.6	11.7	11.8	12.1	12.6	13.2	13.8	2.5%	4.7%	3.4%
Total Expense	141.2	143.2	153.4	157.8	162.6	169.8	176.8	4.3%	4.3%	4.3%
Surplus/(Deficit) AG Presentation	(5.0)	(2.4)	(4.0)	(7.1)	(7.8)	(9.0)	(9.8)			
Surplus/(Deficit) - Gov't Presentation (excl. Fair Hydro Pension Adj.)	(3.5)	(1.0)	0.2	(1.9)	(1.9)	(2.6)	(3.7)			
Net Debt	306.4	314.1	329.2	347.7	368.0	386.8	404.4	5.4%	4.8%	5.2%

Note: All surplus/deficits exlcude the reserve. Numbers may not add due to rounding.

FAO Projections Compared to Actuals/Current Outlook



Note: Surplus/Deficit excludes the reserve and is calculated based on the government's accounting presentation.

Comparison of FAO Economic Projection to Actual/Current						
	2016 % change			2017 % change		
	FAO Spring 2016	Actual	Diff FAO-Actuals	FAO Spring 2017	FAO Fall 2017	Diff Spring-Fall
Nominal GDP	3.4	4.3	*-0.9*	4.1	4.7	*-0.6*
Real GDP	2.4	2.6	*-0.2*	2.4	2.8	*-0.4*
Corporate Profits	0.3	7.3	*-7.0*	6.0	11.7	*-5.7*
Labour Income	4.0	3.3	*0.7*	4.0	4.0	*0.0*
Nominal Household Spending	4.4	4.2	*0.2*	4.2	4.7	*-0.5*

Comparison of FAO Revenue Projection to Actual/Current						
	2016-17 % change			2017-18 % change		
	FAO Spring 2016	Actual	Diff FAO-Actuals	FAO Spring 2017	FAO Fall 2017	Diff Spring-Fall
Total Revenues	2.6	3.4	*-0.8*	6.3	6.5	*-0.2*
Taxation Revenues	0.6	2.8	*-2.2*	5.1	4.7	*0.4*
Government of Canada Transfers	7.4	6.1	*1.3*	5.8	6.5	*-0.8*
Income from GBEs	14.0	13.4	*0.6*	-7.5	-8.9	*1.4*
Other Non-Tax Revenues	5.8	0.0	*5.8*	29.4	36.9	*-7.5*

Economic Assumptions: FAO vs FES

Real GDP	**2017**	**2018**	**2019**	**2020**	**2017-20 average**
FAO - Fall 2017	2.8	2.1	2.0	1.9	2.2
FES 2017	2.8	2.1	2.0	2.0	2.2
Nominal GDP					
FAO - Fall 2017	4.7	4.1	4.1	4.1	4.2
FES 2017	5.3	4.1	4.1	4.2	4.4
Labour income					
FAO - Fall 2017	4.0	4.5	4.3	4.1	4.2
FES 2017	4.3	4.7	4.8	4.4	4.6
Corporate profits					
FAO - Fall 2017	11.7	2.2	3.7	4.4	5.5
FES 2017	16.1	2.9	2.8	3.7	6.4
Household consumption*					
FAO - Fall 2017	4.7	4.2	4.1	3.9	4.2
FES 2017	5.1	4.3	4.3	4.3	4.5

* Real household consumption plus CPI

From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	Anna Strathy
Subject:	Fwd: Updated Summary of Draft FAO Fall Economic and Fiscal Outlook_v6d
Date:	Friday, December 08, 2017 8:22:53 PM
Attachments:	Summary of Draft FAO Fall Economic and Fiscal Outlook_v6d.docx ATT00001.htm

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Date: December 8, 2017 at 8:21:57 PM EST
To: "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca>, "Ghiassi, Ali (MOF)" <Ali.Ghiassi@ontario.ca>, "Lewis, Brian (MOF)" <Brian.Lewis@Ontario.ca>, "Mayman, Gadi (OFA)" <Gadi.Mayman@ofina.on.ca>, "Lewis, Paul (MOF)" <Paul.D.Lewis@ontario.ca>, "Giroux Namian, Orli (MOF)" <Orli.GirouxNamian@ontario.ca>, "Martin, Jessica (MOF)" <Jessica.Martin@ontario.ca>, "Moore, Brynne (MOF)" <Brynne.Moore@ontario.ca>, "Buckingham, Brigid (MOF)" <Brigid.Buckingham@ontario.ca>
Cc: "McLean, David (MOF)" <David.McLean@ontario.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>, "Esmail, Selena (MOF)" <Selena.Esmail@ontario.ca>, "Chaput, Brandon (MOF)" <Brandon.Chaput@ontario.ca>, "Inglis, Liane (MOF)" <Liane.Inglis@ontario.ca>
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Budget Balance - FAO's Fiscal Outlook ($ Billions)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
AG Presentation	-5.0	-2.4	-4.0	-7.1	-7.8	-9.0	-9.8
Government Presentation	-3.5	-1.0	0.2	-1.9	-1.9	-2.6	-3.7
2017 FES -- Excluding Reserve	-3.5	-1.0	0.5	0.5	0.8	N/A	N/A

Revenue Outlook

- The FAO is projecting average annual revenue growth of 3.2 per cent from 2016-17 to 2019-20 as compared with the government's projections of 4.0 per cent. The main drivers are:
    - The FAO projections for taxation revenues are $2.9 billion lower by 2019-20 than the projections in the 2017 FES due to lower projected growth in household spending, labour income and corporate profits.
    - In addition, the FAO continues to highlight a number of one-time 2017-18 revenues, including: increase to sales and rentals from sale of final tranche of H1, higher federal transfers for infrastructure (PTIF), a one-time boost from extra Cap and Trade auction. Taken together the FAO estimates that these amount to $4.5 billion in additional one-time revenues in 2017-18.

Expense Outlook

- From 2017–18 to 2019–20 the FAO's outlook adopts the government's 2017 FES projections for program spending, **adjusted to reflect the AG's recommended accounting presentation.**
    - Both the Fair Hydro Plan and net pension asset adjustment impact the expense side with a combined impact of approximately $4.2 billion in 2017-18.
- The FAO notes that in 2018-19 and 2019-20, increases in program spending will be restrained to an average of 2.4 percent, below the growth in underlying spending pressures. Beyond 2019–20 the FAO projects program spending will grow faster -- at an average annual rate of 4.2 per cent – due to population pressures.

Borrowing and Net Debt

- Using the **government's accounting presentation** net debt-to-GDP is expected to reach 38.5 per cent by 2019–20 and 38.7 per cent by 2021–22. This increases to 41.4 per cent by 2021–22 **under the AG's accounting presentation for jointly sponsored pension plans and the Fair Hydro Plan**.

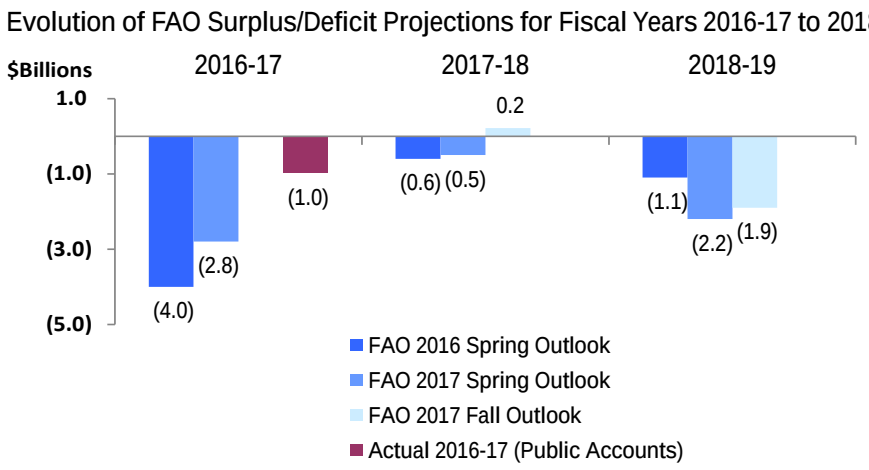
- The 2017 FES projected a net debt-to-GDP ratio of 37.0 per cent by 2019–20.

Comparison: 2017 Fall Economic Statement and the 2017 Fall FAO Fiscal Outlook

	Actual		Outlook					Avg. Annual Growth 16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
2017 Fall Economic Statement										
Taxation Revenue	91.8	94.3	99.9	105.1	110.0			5.2%		
Transfers from Gov't of Canada	23.1	24.5	26.2	26.0	25.4			1.2%		
Income from GBEs	4.9	5.6	5.1	5.9	6.2			3.7%		
Other Non-Tax Revenue	16.3	16.3	19.0	16.5	16.6			0.7%		
Total Revenue	136.1	140.7	150.1	153.6	158.2			4.0%		
Expense										
Program Expense	128.1	130.0	137.4	140.4	144.2			3.5%		
Adjustment for Pension Assets	-	-	-	-	-					
Adjustment for Fair Hydro Plan	-	-	-	-	-					
Interest on Debt	11.6	11.7	12.2	12.7	13.3			4.2%		
Total Expense	139.7	141.7	149.6	153.1	157.4			3.6%		
Surplus/(Deficit)	(3.5)	(1.0)	0.5	0.5	0.8					
Net Debt	295.4	301.6	311.7	323.0	335.6			3.6%		
Change - 2017 Fall Economic Statement to 2017 Fall FAO Fiscal Outlook										
Taxation Revenue	-	-	-1.2	-2.4	-2.9					
Transfers from Gov't of Canada	-	-	0.0	-0.5	-0.4					
Income from GBEs	-	-	0.0	0.0	0.0					
Other Non-Tax Revenue	-	-	0.4	0.0	0.0					
Total Revenue	-	-	(0.7)	(2.9)	(3.4)					
Expense										
Program Expense	-	-	-	-	-					
Adjustment for Pension Assets	1.5	1.5	2.3	2.6	2.9					
Adjustment for Fair Hydro Plan	-	-	1.9	2.7	2.9					
Interest on Debt	-	-	*(0.4)*	*(0.6)*	*(0.7)*					
Total Expense	*1.5*	*1.5*	*3.8*	*4.7*	*5.2*					
Surplus/(Deficit) AG Presentation	*(1.5)*	*(1.4)*	*(4.5)*	*(7.6)*	*(8.6)*					
Surplus/(Deficit) - Gov't Presentation (excl. Fair Hydro Pension Adj.)	*(0.0)*	*(0.0)*	*(0.3)*	*(2.4)*	*(2.7)*					
Net Debt	*11.0*	*12.5*	*17.5*	*24.7*	*32.4*					
2017 Fall FAO Fiscal Outlook										
Taxation Revenue	91.8	94.3	98.7	102.7	107.0	111.3	115.8	4.3%	4.0%	4.2%
Transfers from Gov't of Canada	23.1	24.5	26.2	25.5	25.0	25.8	26.6	0.7%	3.2%	1.7%
Income from GBEs	4.9	5.6	5.1	5.9	6.2	6.5	6.7	3.5%	4.0%	3.7%
Other Non-Tax Revenue	16.3	16.3	19.4	16.5	16.6	17.3	18.0	0.6%	4.1%	2.0%
Total Revenue	136.1	140.7	149.4	150.7	154.8	160.8	167.0	3.2%	3.9%	3.5%
Expense										
Program Expense	128.1	130.0	137.4	140.4	144.2	150.2	156.9	3.5%	4.3%	3.8%
Adjustment for Pension Assets	1.5	1.5	2.3	2.6	2.9	2.9	2.9			
Adjustment for Fair Hydro Plan	-	-	1.9	2.7	2.9	3.4	3.2			
Interest on Debt	11.6	11.7	11.8	12.1	12.6	13.2	13.8	2.5%	4.7%	3.4%
Total Expense	141.2	143.2	153.4	157.8	162.6	169.8	176.8	4.3%	4.3%	4.3%
Surplus/(Deficit) AG Presentation	(5.0)	(2.4)	(4.0)	(7.1)	(7.8)	(9.0)	(9.8)			
Surplus/(Deficit) - Gov't Presentation (excl. Fair Hydro Pension Adj.)	(3.5)	(1.0)	0.2	(1.9)	(1.9)	(2.6)	(3.7)			
Net Debt	306.4	314.1	329.2	347.7	368.0	386.8	404.4	5.4%	4.8%	5.2%

Note: All surplus/deficits exlcude the reserve. Numbers may not add due to rounding.

FAO Projections Compared to Actuals/Current Outlook



Note: Surplus/Deficit excludes the reserve and is calculated based on the government's accounting presentation.

Comparison of FAO Economic Projection to Actual/Current						
	2016 % change			2017 % change		
	FAO Spring 2016	Actual	Diff FAO-Actuals	FAO Spring 2017	FAO Fall 2017	Diff Spring-Fall
Nominal GDP	3.4	4.3	*-0.9*	4.1	4.7	*-0.6*
Real GDP	2.4	2.6	*-0.2*	2.4	2.8	*-0.4*
Corporate Profits	0.3	7.3	*-7.0*	6.0	11.7	*-5.7*
Labour Income	4.0	3.3	*0.7*	4.0	4.0	*0.0*
Nominal Household Spending	4.4	4.2	*0.2*	4.2	4.7	*-0.5*

Comparison of FAO Revenue Projection to Actual/Current						
	2016-17 % change			2017-18 % change		
	FAO Spring 2016	Actual	Diff FAO-Actuals	FAO Spring 2017	FAO Fall 2017	Diff Spring-Fall
Total Revenues	2.6	3.4	*-0.8*	6.3	6.5	*-0.2*
Taxation Revenues	0.6	2.8	*-2.2*	5.1	4.7	*0.4*
Government of Canada Transfers	7.4	6.1	*1.3*	5.8	6.5	*-0.8*
Income from GBEs	14.0	13.4	*0.6*	-7.5	-8.9	*1.4*
Other Non-Tax Revenues	5.8	0.0	*5.8*	29.4	36.9	*-7.5*

Economic Assumptions: FAO vs FES

Real GDP	**2017**	**2018**	**2019**	**2020**	**2017-20 average**
FAO - Fall 2017	2.8	2.1	2.0	1.9	2.2
FES 2017	2.8	2.1	2.0	2.0	2.2
Nominal GDP					
FAO - Fall 2017	4.7	4.1	4.1	4.1	4.2
FES 2017	5.3	4.1	4.1	4.2	4.4
Labour income					
FAO - Fall 2017	4.0	4.5	4.3	4.1	4.2
FES 2017	4.3	4.7	4.8	4.4	4.6
Corporate profits					
FAO - Fall 2017	11.7	2.2	3.7	4.4	5.5
FES 2017	16.1	2.9	2.8	3.7	6.4
Household consumption*					
FAO - Fall 2017	4.7	4.2	4.1	3.9	4.2
FES 2017	5.1	4.3	4.3	4.3	4.5

* Real household consumption plus CPI

From: Erica Wieder
To: Ken Kandeepan
Subject: Great West Life pensions
Date: Thursday, November 24, 2016 11:52:10 AM

Hi Ken,

Mike had a follow-up meeting with Great West Life, and they'd like to have a follow-up call on pensions. Would that be Leah Myers area?
Also, was this the question GWL had?

The discount rate used to calculate the present value of future pension obligations by:

- *the Teachers' Pension Plan (TPP);*
- *the Public Service Pension Plan (PSPP);*
- *the OPSEU Pension Plan.*
- *Healthcare of Ontario Pension Plan (HOOPP)*
- *and the Colleges of Applied Arts and Technology (CAAT)*

Thanks,

Erica

From:	Erika.Hartog@ontario.ca on behalf of Angus, Helen (TBS)
To:	Karen Hughes (MGS); Veinot, Cindy (TBS); Hosick, Sarah (TBS); Patrick Laughton (MOF); Amanda Miller (MGS); Sofie DiMuzio (MGS); Bryant Sullivan (MAG); Boafoa Kwamena (MOI); Mark Donaldson (MOF); Dane Nelson (MOF); Allison Ue (MCSS); Vivienne Skoberne (MOHLTC); Kate Vrancart (MCS); Martin Schlaepfer (MOF); David McLean (MOF); Kobrinsky, Liza (MOF); Serge Imbrogno (ENERGY); Scott Thompson (CAB); Gadi Mayman; Ken Kandeepan; Tim Schuurman (MOF); Lynn Betzner (CAB); Alicia Farrow (CAB); Scott, Adrienne (CAB); Heitshu, Tania (CAB); Khalida Noor (MOF)
Cc:	Scott, Adrienne (CAB); Steen Hume (CAB); Hilary Cox (ENE); Tharani, Alisha (TBS); Kim, Minzi (MOF); Jenna LeBlanc (MCSS)
Subject:	Joint DM Regroup: SCOPA, Public Accounts
Attachments:	0. E-Binder_Feb 5 2018.zip

Sent Feb 05: E-binder attached

Attachment 0. E-Binder_Feb 5 2018 (0 Bytes) cannot be converted to PDF format.

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
				1	**2**	**3**
4	**5** *SCOPA Updated E-Binders Circulated*	**6** **SCOPA Joint Deputy's Briefing Discussion**	**7**	**8** *SCOPA SOC Deck & Updated E-Binders Circulated*	**9** **SCOPA SOC & Joint Deputy's Briefing**	**10**
11	**12** OPG - Financing of Regulatory Assets	**13**	**14** **SCOPA Status Table due to Committee**	**15** TBC: MOF Q3 Update	**16** *SCOPA Materials Finalized*	**17** TBC: Summary of TB orders published in Gazette
18	**19** Family Day	**20** House Resumes TBS OFHP OPQ filed MMP Meeting	**21** *TBC: SCOPA Dry Run*	**22**	**23** *SCOPA Final E-Binders Circulated*	**24**
25	**26**	**27** IESO Audit Committee Meeting	**28** **SCOPA Appearance**			

*TBD: Pre-Election Report
FAO Report on Hydro One
Posting of executive compensation frameworks (incl. IESO)
Supply Act

DRAFT

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 28, 2018

BRIEFING BINDER - DRAFT

February 6, 2018

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Attachment Tab 11_Reference Materials (0 Bytes) cannot be converted to PDF format.

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Attachment Tab 9_Auditor General Reports (0 Bytes) cannot be converted to PDF format.

Attachment A. TBS Environmental Scan (0 Bytes) cannot be converted to PDF format.

Attachment B. Ministry of Energy Environmental Scan (0 Bytes) cannot be converted to PDF format.

Attachment C. Ministry of Finance Environmental Scan (0 Bytes) cannot be converted to PDF format.

Communications Branch
Your Strategic Partner

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

TBS ENVIRONMENTAL SCAN AND ISSUES OVERVIEW

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Environmental Scan

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- **Pension asset accounting**
- **Ontario Fair Hydro Plan (OFHP) Accounting**
- **Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG "inappropriate expenses"; OPG compensation)**
- **Pre-Election Report**
- **Province's debt burden**

Following the release of the Auditor General's Annual Report on December 6, 2017, TBS-related issues were referenced in 41 per cent of articles, including specifically the "accounting disputes" between the Auditor General and the government, spending on government advertising, and the Auditor General's commitment to audit the IESO's consolidated financial statements. In the House, there were eight questions related to TBS issues: 50 per cent were related to the IESO/OPG "inappropriate expenses"; 25 per cent were related to government advertising; and the remaining two questions focused on the balanced budget narrative and the Pre-Election Report.

Overall, the focus on Public Accounts specifically has been limited in the media and the House alike: between September and December 2017, there were 12 mentions of Public Accounts. 50 per cent of mentions referenced "accounting rules" or the alleged existence of "multiple sets of books". Following the tabling of Public Accounts 2016-17, media coverage was limited and 80 per cent of coverage was neutral in tone.

Media Scan

Auditor General 2017 Annual Report

- **Media Events – December 6, 2017**
    - **Auditor General**
        - Overall, TBS-related issues represented 28% of the Auditor General's remarks.
        - Media questions on TBS-related issues represented 28% of all questions asked (7 out of 25)– **including on the planned audit of IESO's financial statements, government numbers vs. AG numbers being used for the PC's platform, and concerns regarding pre-election reports.**
    - **Government Response**
        - Overall, TBS-related issues represented approximately 20% of the discussion.

        - Media questions on TBS-related issues represented 20.8% of all questions asked (5 out of 24) – questions focused on government advertising and **on comments made by the Auditor General to "address significant issues without fear of push-back and reprisal."**

    - **PC Response**
        - Introductory remarks focused generally on waste and mismanagement.
        - Media questions on TBS-related issues represented 17% of all questions asked (2 out of 12) – **questions focused on the PC's use of the government's numbers in their "People's Guarantee" platform**

    - **NDP Response**
        - TBS-related issues related to 8% of the third party leader's remarks, particularly on government advertising
        - No direct mention of TBS-led chapters, **however 38% of questions (3 out of 8) focused on IESO expenditures**

- **Initial Media Coverage**
    - There were approximately 17 stories focusing on the Auditor Generals' 2017 Annual Report
    - 41% of articles referenced TBS-related issues
    - Key themes related to TBS issues include: **"accounting disputes" between the AG and the government** – and the effect it has on the balanced budget narrative, spending on government advertising, and **the AG's statement that she will audit the IESO's financial statements.**

- **Recent Media Coverage** (December 2017 – January 2018) has focused on the following key themes:
    - **The government's relationship with the Auditor General**
    - **Pre-election report**
    - **Distrust of government numbers/"two sets of books"**

Public Accounts

- **Media Coverage**
    - Media coverage was short-term (24-hours), with **80% of media coverage neutral in tone** (compared to 26% in 2016)
    - Government key messages were picked up 100% of the time
    - Balanced budget key messages were picked up in 60% of the coverage

- **Key Themes**
    - Disagreement between the government and auditor general

- Ontario's fiscal position: government debt and deficit
- The government's alleged continued dismissal of watchdogs

Pre-Election Report

- **Media Coverage**
  - On December 17, 2017, the Toronto Sun published a column by Lorrie Goldstein, "Auditor General headed for a showdown with Wynne over financial vows Liberals made in 2004" focusing on the Pre-Election Report
  - On January 24, 2018, Minister Sousa was asked by Jessica Smith Cross (QP Briefing) about the plans for the Pre-Election Report. Minister Sousa signalled that plans were uncertain at this time: "What happens is, you produce a document then you provide the pre-election report. So I have to manage this concurrently. But again, we recognize the timing and the constraints that that brings. **So I have to find other ways** to ensure that full disclosure is given to her and the other legislative, to the FAO."

Hansard Scan

Auditor General 2017 Annual Report

Following the release of the Auditor General's 2017 Annual Report, there were eight questions in the House relating to TBS issues:

- 50% (4/8) were related to **OPG/IESO "inappropriate expenses"**
- 25% referenced the FAO - one on balanced budget, one on the **pre-election report**

Public Accounts

Public Accounts were mentioned in the House at least 12 times between September and December 2017:

- 50% mention some form of "accounting rules" / two sets of books
- 42% (5/12) related to infrastructure spending
- 25% (3/12) mention FAO and AG together
- 25% regarding Fair Hydro Plan accounting
- One reference to pre-election finance report

FOIs/OPQs

There is one OPQ currently in progress with TBS related to Ontario Fair Hydro Plan accounting.

Overview	Key Issues	Key Dates	Next Steps
OPQ #700		OPQ will be formally filed on	In progress –

MPP Vic Fedeli Would the President of the Treasury Board state whether the government is in possession of an opinion from KPMG or E&Y on how the Fair Hydro Plan transaction should be recorded in the government's Consolidated Financial Statements, and further state precisely where they disagree with the Auditor General	**Ontario Fair Hydro Plan Accounting** **Relationship with the Auditor General** **Use of external advisors**	February 20, 2018	**Products:** Response to OPQ. **Notes:** Draft will be sent first week of January 2018 to OPCD to draft response. OPQ will be formally filed on February 20, 2018 TBS is the only ministry to have received this OPQ. **Next Steps:** Develop and approve response

Other Considerations

- Executive compensation (OPG, OEB, IESO)
- "Inappropriate expenses" (OPG, IESO)
- Hydro bill redesign ("$15 million")

Key Issues

Issue/Consideration	Strategy	Key Messages	Evidence
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the	• Pension Asset Expert Advisory Panel • Opinion from Deloitte LLP • Analysis Completed by EY

		plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.	
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. IESO's recent accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.	Opinion supported by: • IESO audit committee • Independent external auditor (unqualified opinion) • OPCD • Same method used by Ontario Power Authority previously
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making, and that the accounting structure is still being finalized. Refuse to speculate about AG's potential future audit opinion.	The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).	• PSAS Guidance • CPA professional code of conduct • External advisors • Other jurisdictions

	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.	
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a	• Highlight how the government has been working with the Office of the Auditor General (stated by Minister Sandals in a Dec 16, 2017 Toronto Sun article)

		prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.	
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.	• C4SE study • MOF
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its	• Example of single use of legislated accounting (Public Accounts 15-16)

		consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.	
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.	• CPA professional code of conduct
FOI/OPQ/Records Disclosure			

Questions & Answers

Top Questions*

1. How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?

2. How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?

3. The government has received a second qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

4. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

5. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

6. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

7. Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.

8. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

9. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

10. Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?

11. When will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

**See appendix A for a full list of QAs.*

Long-Form Answers

1. **Why did the government choose to recognize pension assets from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan? What evidence and processes were used to support this decision?**

2. **Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements? Is there any precedent for this?**

3. **Can you explain when and how the Treasury Board Secretariat looks to other accounting methods to support the preparation of Public Accounts?**

Ministry/Agency Representatives

Organization	Position	Name
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot
Treasury Board Secretariat Office of the Provincial Controller	Director, Accounting Policy and Financial Reporting Branch	Mark Donaldson

Supporting Materials

Backgrounders

- Auditor General 2017 Annual Report – Public Accounts – Management Response Backgrounder
- Public Accounts Backgrounder

Technical Briefings/QAs

- Public Accounts – Technical Briefing Deck September 2017

House Book Notes

- Public Accounts
- Fair Hydro Plan Accounting
- Pension Asset Accounting

PLACEHOLDER

DRAFT

PLACEHOLDER

DRAFT

Attachment A. Government Response to Auditor General’s 2017 Annual Report (0 Bytes) cannot be converted to PDF format.

Attachment B. House Book Notes (0 Bytes) cannot be converted to PDF format.

Not published. Used as a 'walk around' for QP Gallery

Ontario

BACKGROUNDER

Treasury Board Secretariat

Summary of Government Responses to the Auditor General's 2017 Annual Report Chapter on Public Accounts

December 6, 2017

The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

Below is a summary of the government's position regarding the Auditor's recommendations in Chapter 2 – Public Accounts of the Province.

Accounting for Pension Assets

The government continues to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset.
- An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded.

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

The government continues to apply the accounting treatment of pension assets that the Province has used consistently since 2001.

IESO Market Accounts

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of IESO-administered markets at year-end.

This change was supported by IESO's Audit Committee, its Board of Directors, its independent external auditor, and by the Office of the Provincial Controller. It has no impact to the Province's annual deficit, net debt or accumulated deficit.

The financial statements of IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

The accounting concepts used are consistent with those used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

IESO Rate-Regulated Accounting

PSAS is silent on the issue of rate-regulated accounting – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Standards Handbook.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework that provides guidance on rate-regulated operations.

IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America.

Ontario Fair Hydro Plan Accounting

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

The proposed accounting for OFHP reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Handbook.

This guidance has been appropriately applied in assessing the accounting for the OFHP.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from OFHP.

Legislated Accounting

The Province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for certain net pension assets in order to allow Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS.

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS.

Lawvin Hadisi, Minister's Office, 416-326-3839
Bryant Sullivan, Communications, 416-325-1378

Ontario

STATEMENT

Treasury Board Secretariat

Statement from the President of the Treasury Board on the Auditor General's Annual Report

December 6, 2017

Today, Liz Sandals, President of the Treasury Board, released the following statement:

"We thank the Auditor General for her report, and continue to appreciate our ongoing working relationship with the Office of the Auditor General (OAG). The Treasury Board Secretariat works closely with the OAG on a wide variety of issues on a regular basis, and her oversight and insight is welcomed both during our regular interactions and with this annual report.

The Auditor General mentions a number of topics that represent ongoing conversations between government and her office; for instance, the accounting practices regarding pension assets and the application of the United States Generally Accepted Accounting Principles when the Public Sector Accounting Board's standards are silent. The government's position on these differences of opinion has not changed.

We agree with the Auditor General's comments on the importance of accountability for agencies, boards, commissions and other broader public sector entities. Since 2010, our government has implemented a number of important measures to strengthen broader public sector and provincial agency accountability, transparency and governance. Our recent Fall Economic Statement, if passed, responds to the recommendations of the Auditor General in her 2015 Annual Report to streamline administration and establish consistency in the tabling and communication of provincial agency annual reports. However, we know that making process changes to annual reports may not be the complete solution. We will continue working with the OAG to enhance oversight and ensure accountability across all of our agencies.

We share the Office of the Auditor General's belief that the Auditor General has an important role to play in the oversight of government advertising, and that's one of the reasons that we are proud that Ontario is the only jurisdiction in Canada to have legislation in place to ensure that oversight. In fact, we have recently expanded her oversight to include digital advertising.

We know that the government has a responsibility to communicate to the public it serves, and that advertisements are one medium through which we can do that. For example, our Sexual Violence and Harassment prevention campaign – #WhoWillYouHelp challenged existing attitudes, and sparked international discussion. Our video was viewed over seven million times in the first 10 days, and generated more than 85 million views worldwide. And within 6 months, we had measurable results – 55 per cent strongly agreed they had an obligation to intervene when witnessing sexual harassment, up from 37 per cent.

As the President of the Treasury Board, I am committed to leading the government's efforts on accountability, openness and modernization, while working to deliver good government and public services in the most effective and efficient way possible. As part of this commitment, we work side-by-side with our partners, including the Auditor General, throughout the year to ensure that we continue to become more efficient in our processes and more open and

accountable as a government.”

Lawvin Hadisi, Minister’s Office, 416-326-3839
Bryant Sullivan, Communications, 416-325-1378

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CONFIDENTIAL REVISED: January 10, 2018

ONTARIO'S FAIR HYDRO PLAN ACCOUNTING (GLOBAL ADJUSTMENT REFINANCING)

ISSUE: What is the basis for the proposed accounting for the Global Adjustment Refinancing on the Province's books?

CONTEXT:

- The Global Adjustment Refinancing is one component of Ontario's Fair Hydro Plan announced in March 2017, and is the most significant contributor to the reduction in hydro rates for residential consumers.
- The other parts of the Plan for residential consumers include:
  - Expansion of the Ontario Electricity Support Program;
  - Reductions in distribution rates for consumers in rural and remote areas;
  - Reductions for First Nations residential consumers living on-reserve; and,
  - A fund set up to assist consumers in making their homes more energy efficient.
- The only impact on the 2016-17 consolidated financial statements from Ontario's Fair Hydro Plan is related to the fund set up to assist consumers in making their homes more energy efficient, which was expensed in the year and increased the annual deficit. In addition, the 8 per cent rebate on electricity bills, introduced as of January 1, 2017, while not part of the March 2017 announcement, also impacted the 2016-17 consolidated financial statements as an expense that increased the annual deficit.
- The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized. The government will present the Province's finances in the 2017-18 Public Accounts fairly and accurately and in accordance with Public Sector Accounting Standards (PSAS).

KEY MESSAGES:

GA Financing Status and Structure

- In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.
- All of the agreements necessary for the Global Adjustment (GA) Refinancing will be finalized in the current fiscal year. The final accounting for the GA Refinancing will be completed once all of the elements are complete. The balance of the note is based on the expected outcome. As previously noted, there was no impact on the 2016-17 consolidated financial statements from the GA Refinancing.
- In analyzing the appropriate accounting treatment for the GA refinancing component of Ontario's Fair Hydro Plan on the Province's consolidated financial statements in 2017-18 and going forward, the Province considered authoritative guidance issued by the Public Sector Accounting Board, as well as the accounting assessments of the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) management, including the accounting opinions of their external auditors.
- The complexity and unique structure of the GA Refinancing structure requires the use of professional judgment to ensure that key financial reporting objectives of transparency and accountability are best served.
- Under GA Refinancing, as enabled by the Ontario Fair Hydro Plan Act, 2017 ("OFHPA"), a Financing Entity established by Ontario Power Generation will borrow amounts to fund the payment of a portion of electricity costs charged by the electricity generators, thereby temporarily reducing the amount paid by eligible consumers (or ratepayers). The deferred amounts, including interest and other costs, will be recoverable from consumers/ratepayers in the future.

- The Independent Electricity System Operator (IESO), an independent, not-for-profit agency of the Province, is responsible for the management and operation of the wholesale electricity market. IESO makes payments to the electricity generators with cash received from the local distribution companies (and ultimately the consumers/ratepayers).
- Over the last 10+ years, investments have been made to phase-out coal and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system). This involves a move away from coal to cleaner, but more expensive methods of electricity generation, including wind, solar and natural gas. The cost of these investments were passed on to consumers/ratepayers as incurred or based on contractual payment terms, but not based on the period of benefit (i.e., the life of many generators is expected to exceed the length of the contracts).
- The GA refinancing acknowledges that the current generation of electricity consumers has paid more than its fair share for these costs, and spreads these costs incurred out over more years so they are shared proportionally by future electricity consumers.
- In simple terms, the IESO will continue to make payments to the electricity generators based on their contractual terms, but will collect less from the local distribution companies, as the consumers or ratepayers will pay a reduced amount. The amount not collected from the consumers now, or the shortfall, will be collected from consumers/ratepayers in the future.

- OFHPA permits the IESO to sell that shortfall, also referred to in the Act as a regulatory asset, which represents the right to collect payments from consumers/ratepayers in the future, to a financing entity. To recap, the IESO will continue to pay the electricity generators at their current contract rates. But it will do this with cash collected from the local distribution companies for electricity consumed (at a rate set by the OEB which reflects a significant portion of the 25 per cent reduction in the initial years) and cash received from the financing entity for the sale of the regulatory asset.
- The financing entity will be part of Ontario Power Generation (OPG Trust), a government business enterprise, wholly owned by the Province. The operations of Ontario Power Generation have been and will continue to be included in the consolidated financial statements of the Province using the modified equity method, the method Public Sector Accounting Standards (PSAS) require for government business enterprises.
- At its discretion, OPG Trust will purchase the shortfall amounts (or regulatory asset) from the IESO through a combination of provincial borrowing (flowed through OPG as an equity investment), amounts advanced from OPG and direct borrowing from capital markets.
- In the future, when the consumers/ratepayers pay for the deferred amount, those amounts will be used to repay the accumulated debt whether that be direct borrowing from the capital markets, amounts advanced from OPG or provincial borrowing.

IESO Accounting

- There was no impact on the 2016 financial statements of IESO from the GA Refinancing. The GA refinancing is expected to impact the 2017 financial statements.

- In 2017, the shortfall or regulatory asset that IESO incurs as a result of collecting less from the local distribution companies than it pays to the electricity generators would be accounted for as a rate-regulated asset. The rate-regulated asset would then be sold to OPG Trust for cash used to pay the electricity generators.
- For 2016, IESO adopted the use of rate-regulated accounting for costs incurred unrelated to the GA Refinancing; however, the impact to the financial statements of the Province was immaterial (impact on annual deficit of $24 million).
- PSAS is silent on the use of rate-regulated accounting. However, like all major accounting frameworks, PSAS encourages both preparers and auditors to consider guidance in other accounting frameworks when accounting for transactions not specifically addressed by the specific standards.
- IESO management, their audit committee, their board of directors and their external auditors, agree with the adoption of rate-regulated accounting by IESO. The Office of the Provincial Controller also supports the adoption of rate-regulated accounting by IESO.
- IESO is not the first entity that has prepared its financial statements using PSAS and rate-regulated accounting. Ontario Power Authority (which was amalgamated with IESO on January 1, 2015) prepared its financial statements with PSAS and used rate-regulated accounting.
- In the Auditor General's opinion on the 2016-17 consolidated financial statements of the Province, the AG has included an "Other Matter" paragraph, drawing attention to the adoption of rate-regulated accounting by IESO. The AG's view is expressed as stating PSAS does not permit rate-regulated accounting, but that the AG has not qualified the opinion on this matter because the impact is not material to the 2016-17 consolidated financial statements.

- The AG further notes, “However, the consolidated financial statements may become materially misstated in future periods, as a result of the legislated accounting prescribed under the Ontario Fair Hydro Plan Act, 2017 (OFHPA) and its related regulations, as it is not in accordance with Canadian public sector accounting standards.”
- Neither the IESO nor the Office of the Provincial Controller Division (OPCD) agree with the statements that (a) PSAS does not permit rate-regulated accounting (as previously noted, PSAS is silent with respect to rate-regulated accounting) or (b) Fair Hydro Plan and its related legislation and regulations legislate the accounting for GA Refinancing.

OPG Accounting

- The Auditor General has not raised any concerns to date with the intended accounting for the OPG Trust on the Province’s books.
- It is expected that OPG Trust will be controlled and consolidated by OPG.
- Purchases by OPG Trust of the rate-regulated assets from the IESO will be reflected on OPG’s books as intangible assets which will be included in the Province’s financial statements as part of its investments in government business enterprises.

The Province’s Accounting

- In assessing the appropriate accounting for Ontario’s Fair Hydro Plan (OFHP) on the Province’s books, OPCD worked closely with key ministries, the Ontario Energy Board (OEB), IESO, OPG and their respective external advisors.
- The final accounting treatment for OFHP-related activities will be confirmed once all elements of the GA Refinancing framework are finalized, including provincial guarantees and financing arrangements.

- Once the details and commercial agreements of the OFHP are finalized, the external auditors of IESO and OPG are expected to provide independent accounting opinions on the accounting treatment on IESO and OPG's financial statements.
- OPCD will rely on those independent accounting opinions, the audited financial statements of IESO and OPG as of December 31, 2017 and its own research and analysis in determining the impact of the GA Refinancing on the 2017-18 consolidated financial statements.

If Pressed: AG Assertion that the Government is Using Legislated Accounting

- The Auditor General has made several incorrect references to legislated accounting which should be addressed to ensure clarity and transparency in terms of the government's accounting treatment for Ontario's Fair Hydro Plan.
- In particular, the Auditor General has referred to legislated accounting prescribed by the OFHPA that is designed to in some way manipulate the Province's financial reporting in its consolidated financial statements.
- The Province's financial statements are based on Public Sector Accounting Standards (PSAS) as issued by the Public Sector Accounting Board of CPA Canada. There is no legislated accounting that applies to the Province's consolidated financial statements.
- While the OFHPA does, under Section 24, require that IESO set up a variance account to track the cash shortfall amount resulting from the deferred recovery amount, it is just another type of regulatory account, similar to those that OPG reports and for which the OEB is responsible for approving rates.

- As far as the Province's financial reporting practices go, whether the deferred amounts reported in IESO's variance account are assessed as assets for financial reporting purposes will be determined by the interpretation and application of Public Sector Accounting Standards, not by the legislation or regulations.

Auditor General's Special Report on the Fair Hydro Plan

- The Office of the Auditor General released *The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money* on October 17, 2017. The report focused on the financial and accounting framework of the OFHPA.
- The Auditor General said that the accounting for the Fair Hydro Plan is not permitted under PSAS because it is silent on rate-regulated accounting, despite the fact that standard accounting practice, including under PSAS, dictates that an entity should consult other accounting standards for transactions not specifically covered by primary standards.
- The Auditor General asserts in her report that the OFHPA creates an asset through legislation. This is a fundamental disagreement the government has with the Auditor General's report. The Province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

Key Messages on AG's Special Report on the Fair Hydro Plan

- The government respects independent officers of the legislature, and values the important perspective they bring, but does not agree with the assertions and conclusions expressed in the Auditor General's Fair Hydro Plan report.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

- In developing the Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.
- The Fair Hydro Plan operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards and ensures the goals underlying the program are achieved in a cost-effective manner.
- PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything. When that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.
- The financing plan and its impact will continue to be transparent and fully available to credit rating agencies, securities regulators, and the public.
- The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

RECENT MEDIA COVERAGE:

- January 12, 2018 – An opinion piece in the Toronto Star argues Kathleen Wynne faces a phantom opponent in the spring election: Ontario's auditor general, who looms like an accounting apparition over the premier. The article notes, Lysyk isn't just picking fights with Liberal cabinet ministers but clashing with Ontario's non-partisan public service as well as outside consultants. The most awkward contretemps took place a year ago, when an expert panel of accounting and actuarial experts shredded the auditor's claims about the government cooking the books.
- January 4, 2018 – The Brighton Independent covers Liberal MPP Lou Rinaldi's plans for re-election, while making reference to the "issues" the government has with the Auditor General, particularly on pension asset and Fair Hydro Plan accounting.
- January 3, 2018 – The CBC runs an article "No quick fix for Ontario's energy woes, electricity analyst says," noting the criticisms from opposition parties and analysts regarding the accounting of the Fair Hydro Plan.

- December 17, 2018 – The Ottawa Sun's Lorrie Goldstein writes that "independent financial officers say Wynne government's books can't be trusted," noting the Auditor General and FAO's concerns regarding Fair Hydro Plan accounting: "In her Dec. 6 annual report, Lysyk warned "there is a very real risk" the "government's continued use of nonstandard accounting" will "seriously distort the true state of the province's finances...The government uses these incorrect accounting treatments to claim it has balanced the province's books, but in reality, legislators, the financial community and all Ontarians will be misled as to the true condition of the province's finances." In its fall economic and fiscal outlook released last week, the FAO warned, "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 13, 2017 – The Toronto Sun runs a comment piece following from the Financial Accountability Office's fiscal and economic outlook, fall update report, entitled "Liberals hiding deficit, second watchdog says," noting the Auditor General and FAO's criticisms of the accounting for the Fair Hydro Plan.
- December 11, 2017 – The Toronto Star's Robert Benzie covers the Financial Accountability Office's fiscal and economic outlook, fall update report, noting the FAO's agreement with the Auditor General's questioning of the accounting of the Fair Hydro Plan: "The FAO also backed the auditor general in questioning the complex mechanism the government has developed to bankroll the 25 per cent electricity rate cut, known as the Fair Hydro Plan. Because of the actuarial tussle "it is becoming more difficult for legislators and the public to assess the government's fiscal projections.""
- December 11, 2017 – The Canadian Press' Shawn Jeffords also covers the FAO's report, noting: "The FAO said in its report that since the government has not adopted the auditor's recommended accounting for both the pension assets and the Fair Hydro Plan it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 6, 2017 – The Canadian Press and other outlets cover the Auditor General's 2017 Annual Report, noting the accounting disagreements between the Auditor and the government: "Lysyk also announced through her report that her office would be auditing the IESO's books. That comes amid one of two accounting disputes the auditor has been engaged in with the Liberal government. She recently accused the government of purposely obscuring the true financial impact of its 25 per cent cut to hydro bills by keeping billions in debt used to finance that plan off the province's books. Lysyk said she will audit the IESO because of its role in the hydro plan's complex accounting scheme."
- November 2, 2017 – The Waterloo Region Record runs an editorial by analysts from the Fraser Institute entitled, "Ontarians in the dark about Fair Hydro Plan." The piece argues: "Ontario needs real reform to lower electricity prices for residents and businesses. Unfortunately, the provincial government is opting for improper accounting practices and temporary solutions, sticking current and future Ontarians with the bill."
- October 26, 2017 – CBC writes that "Ontario hydro bills to rise over next 10 years in government's energy plan," referencing the Auditor General's report on Fair Hydro: "Ontario's auditor general Bonnie Lysyk found that the Liberals concocted a "needlessly complex" system in order to achieve the savings in the Fair Hydro Plan by moving $26 billion of debt off the government's books […]Thibeault said the accounting isn't deceptive, and that similar financing strategies have been used throughout Ontario history, including for the construction of nuclear plants in the 1970s."
- October 25, 2017 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute's Ontario Prosperity Initiative entitled "Number's up for Wynne's government," writing "But regardless of how pension assets should be treated, or how new debt incurred by the government's Fair Hydro Plan should appear on the books, the stark reality is that Ontario taxpayers are carrying far more public debt than a decade ago and that burden is growing quickly, every year."

- October 24, 2017 – CBC references the Auditor General's report on Fair Hydro, writing "Auditor General Bonnie Lysyk criticized how the program is being financed, saying the province is "improperly" accounting for the $26 billion in debt it's taking on to cut hydro bills in the short term. The Liberals called the controversy an "accounting dispute" with the auditor."
- October 23, 2017 – Global News reporter Alan Carter wrote an analysis on "truth" and Fair Hydro. He wrote, "The war between Lysyk and the Liberals is whether the Fair Hydro Plan and its use of Ontario Power Generation as a debt vehicle is a sign of devious politicking or just the way things get done."
- October 23, 2017 – The Peterborough Examiner carried an opinion piece written by Minister of Energy, Glenn Thibeault. "I'm not surprised to see the Conservatives try to get in the middle of an accounting dispute between the government and the Auditor General for personal political gain. It's how they deflect without putting forward any policy ideas of their own."
- October 22, 2017 – The Toronto Sun's Antonella Artuso wrote that the way the Liberals "hid" the cost of its Fair hydro Plan from taxpayers could raise concerns that other governments across the country could follow suit and bury deficits.
- October 22, 2017 – The Toronto Sun's opinion piece says the Fair Hydro Plan is simply 'long-term pain for short-term gain".
- October 19, 2017 – CBC's Mike Crawley writes about the Auditor General's accusations that the government was trying to hide documents from her investigation. Crawley writes that the Progressive Conservatives have made a request to the province's "top public servant to ensure that all relevant documents and emails are saved."
- October 18, 2017 – CTV News (6pm) includes the Progressive Conservative's reaction to the Fair Hydro report: "opposition calls for resignations of ministers of finance and energy after AG report."
- October 18, 2017 – QP Briefing's Jessica Smith Cross highlighted that the $4 billion figure cited by the Auditor General and the Financial Accountability Office that would be wasted due to the government's "needlessly complex" financing structure for Ontario's Fair Hydro Plan was said 21 times by opposition parties during Question Period that morning.
- October 18, 2017 – The Globe and Mail's Justin Giovannetti (A9) highlights the Auditor General's Fair Hydro report. The article includes a quote from Minister Sandals: "Perhaps the essential accounting dispute that we have with the auditor is a dispute over what happens when the Canadian Public Sector Accounting Standards are silent, when they don't give direction,' Ms. Sandals said. 'We keep running into this problem because, quite frankly, Ontario is the biggest province, and we often have bigger projects and do things a bit differently from all the smaller provinces.'"
- October 17, 2017 – The CBC's Mike Crawley covers the Auditor General's report, writing "The auditor says the plan could also result in Ontarians paying "up to $4 billion more than necessary" in interest. That's because OPG will be required to pay higher interest rates than the province would if the government took on the debt directly."
- October 17, 2017 – The Toronto Star's Robert Benzie also focused on the Auditor General's so-called scathing report on Ontario's Fair Hydro Plan, while acknowledging the historical dispute between the Auditor's Office and the government.
- October 17, 2017 – The Ottawa Citizen's David Reevely continues with key themes in the coverage, also writing: "The Liberals really, really, really wanted to keep that debt off their books, so they could also go into the next election saying the provincial budget is balanced. Borrowing billions in an election year would get in the way. So they did some advanced financial engineering to put the debt on Ontario Power Generation instead."

- October 17, 2017 – The Canadian Press' Allison Jones cites the Auditor General's statements, and includes Minister Sandals' rebuttal on the point of asset accounting: "Treasury Board President Liz Sandals said credit rating agencies are ranking the hydro debt in preparation for selling it. 'That's the difference,' she said. 'Somebody actually wants to buy it, ergo it is an asset.'"
- October 17, 2017 – QP Briefing provided a primer on the report, and pointed to the Auditor General's criticism of the government on the alleged willingness to accept a qualified audit opinion for the province's Public Accounts.
- October 17, 2017 – The Auditor General's report and remarks during the media conference were extensively covered across the media. Coverage consistently cited the key themes in the Auditor General's report, highlighting the "needlessly complex" accounting structure, "improper accounting," and the "anticipated $4 billion more in interest payments than if the province had borrowed the funds directly."
- October 17, 2017 – The Toronto Sun's Antonella Artuso featured an overview of the Fraser Institute's report released in the morning, arguing that "Soaring electricity prices resulted in 75,000 fewer manufacturing jobs for Ontarians since the recession".
- October 17, 2017 – The Office of the Auditor General held a media conference for the release of The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money.
- October 17, 2017 – CBC News reports that today Auditor General Bonnie Lysyk will reveal the results of her investigation into the government's Fair Hydro Plan. The report will look at how the rate cuts are financed and whether the plan is fair for taxpayers and hydro customers. Auditor Lysyk has already told a legislative committee in May that to borrow the money on OPG's books rather than the province's is "contrary to public sector accounting standards."

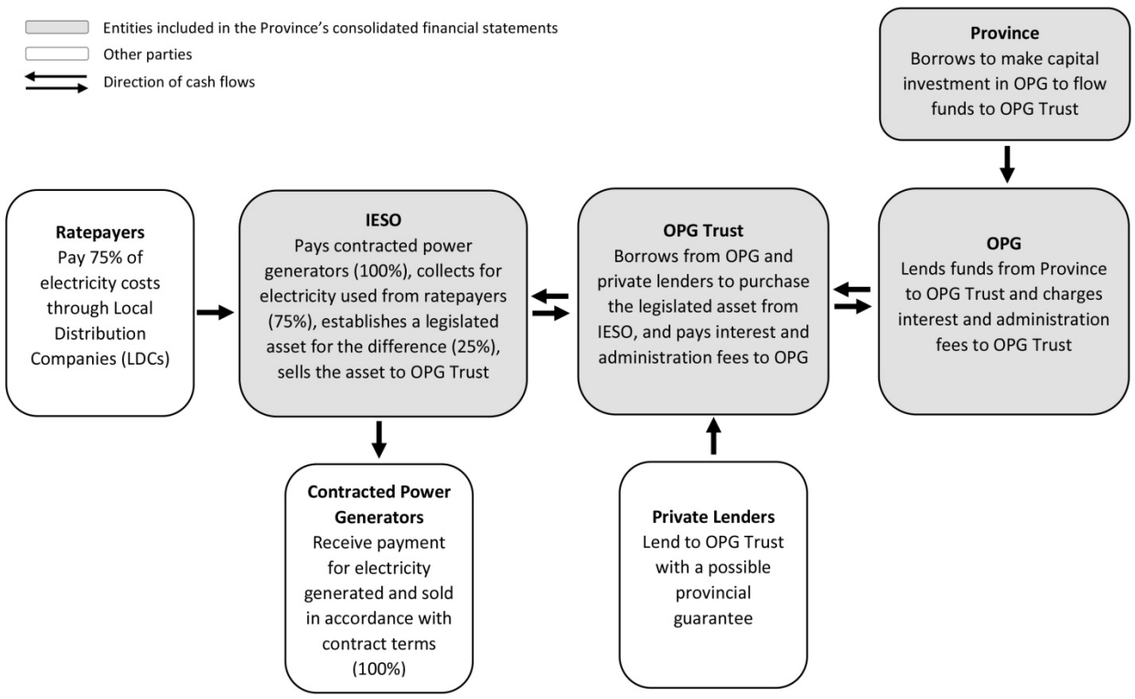
Updated by: Mark Donaldson, Director, Accounting Policy and Financial Reporting

Approved by:	**Name:**	**Date approved:**
ADM, Office of the Provincial Controller	Cindy Veinot	January 3, 2018
Corporate Issues Management Analyst. Communications Branch	Alisha Tharani	January 10, 2018
A/Manager, Issues Management, Corresp. & Media Relations	Amanda Miller	January 15, 2018
Assistant Director, Communications Branch	Bryant Sullivan	January 16, 2018
Director, Communications Branch	Sofie Di Muzio	January 16, 2018

Appendix

Proposed Legislated Transaction Structure

Prepared by the Office of the Auditor General of Ontario



CONFIDENTIAL REVISED: January 5, 2018

PENSION ASSET EXPERT ADVISORY PANEL

ISSUE: How do you respond to the reports released by the Pension Asset Expert Advisory Panel?

KEY MESSAGES:

- The Pension Asset Expert Advisory Panel has released its independent advice and recommendations on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets.
- The panel's first report concluded that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.
- The panel supports the accounting treatment that Ontario has used consistently since 2001.
- The panel has also issued a supplemental report that provides independent advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The government has accepted the panel's recommendations and in the 2016-17 third quarter update, it indicated its plans to adopt the previous accounting treatment in the upcoming Public Accounts.
- The government has reflected the recommendations of the panel, which align with its previous accounting in the 2017 Budget, the 2016-17 Public Accounts and the 2017 Fall Economic Statement.

- The government formed the Pension Asset Expert Advisory Panel to provide independent advice on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets. The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards.
- We will continue to move forward and present the Province's finances fairly and accurately, which includes reporting for jointly sponsored pension plans in accordance with Public Sector Accounting Standards and the panel's recommendations.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.

IF PRESSED: SUPPLEMENTAL REPORT HOOPP & CAATPP

- We thank the panel for their independent advice and recommendations made in relation to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The two additional pension plans addressed in the supplemental report are different than OTPP and OPSEUPP because they are jointly sponsored by multiple organizations. The Ontario Government is a third party sponsor and has no direct control over decisions of the employer sponsors about benefit or contribution levels, funding of deficits or use of surpluses. Because of these differences, a valuation allowance will be recorded for any net assets of these plans until the government benefits from a reduction in contributions.
- The Ontario Government agrees with the panel's conclusions in the supplemental report.

CURRENT STATUS:

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.
- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update. During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."
- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report. Chapter two of the report made recommendations regarding the Public Accounts of the Province, with the first of 10 recommendations focusing on the pension asset accounting issue. From the report: "We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months."
- On April 27, 2017 the Pension Asset Expert Advisory Panel's Supplemental Report was released. It provides the government with independent advice and recommendations on how to account for current and potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).
- The panel's supplemental report concludes that a net pension asset from HOOPP and CAATPP should be recognized in the province's financial statements in the same way as the net liability, but also recommends that a valuation allowance should be reported for accrued benefit assets for both of these plans in the province's financial reports.
- The panel's report on the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP) was made available to the public on February 13, 2017 and did not recommend that a valuation allowance be reported for either of these two plans.
- Both reports have been shared with the Auditor General of Ontario and her office.

- In the 2017 Budget, the 2015–16 actuals were restated to reflect the government's previous accounting treatment for jointly sponsored pension plans which recognized net pension assets for the Ontario Public Service Employees' Union (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) on the Province's financial statements. The restated results follow the advice of the panel and the accounting followed previously by the Province since 2001.
- On June 12, 2017, the Ontario Teachers' Federation and the Ontario Government, joint sponsors of the Ontario Teachers' Pension Plan (OTPP), announced they will use a portion of the $11.5 billion surplus in the Plan (as of January 1, 2017) to complete the restoration of inflation protection for teachers who retired after 2009. As well, the contribution rate for the Plan's active members will be reduced by 1.1%. Both changes are effective January 1, 2018.

COSTS

	Actuals		
Panel Member	**Per Diem**	**Travel**	**Total**
Patricia O'Malley	83,000	1,057	84,057
Uros Karadzic	62,700		62,700
Paul Martin		3,898	3,898
Murray Gold	38,000		38,000
Procurement			32,458
Total	**183,700**	**4,955**	**221,113**

BACKGROUND:

- On February 17, 2017 Minister Sandals sent a memorandum to Warren (Smokey) Thomas in response to his article of February 14, 2017 in the Toronto Sun on pension assets.

  "As you are aware, the Pension Asset Expert Advisory Panel ("Panel") released its report on February 13, 2017, and concluded that the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.

  The OPSEU pension plan, which is jointly-sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor. Simply put, the province does not have the ability to make any withdrawals from the plan.

  I trust that you are reassured by this news. Your February 14 press release and your subsequent comments in a February 15 *Toronto Sun* article, suggest that you were unaware of these rules.

  In addition, the province has not proposed any pension contribution increases or reductions at this time. Any decisions with respect to changes to pension contributions or benefits must be made by the Plan Sponsors. A decision to reduce contributions would benefit both the employees and the employer."

- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.

  The panel was comprised of accounting, legal, and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.

  The following four members were appointed to the Panel:

  - Tricia O'Malley (Chair)
  - Murray Gold
  - Uros Karadzic
  - Paul Martin

Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

The panel's report was delivered to the President of the Treasury Board and was shared with the Auditor General of Ontario. The panel's report was made public in early 2017.

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, "Independence is not infallibility when it comes to Ontario's financial books," arguing Auditor General "Lysyk's paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All's fair in politics and accounting, unless you're an auditor gone awry."
- December 17, 2017 – The Ottawa Sun's Lorrie Goldstein writes that "with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted." Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: "Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan."
- December 17, 2017 – The Toronto Sun's Jim Warren cautions that "the role of the Auditor General is shifting in troubling ways," arguing that the Auditor General's increasing outspoken role is "making matters worse." Specifically referencing the pension asset accounting issue, Warren writes "For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position."
- December 14, 2017 – The Record runs an opinion piece, "To sort out truth from pre-election fictions, turn to Bonnie Lysyk," writing that the Auditor General "warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car."
- December 13, 2017 – The Toronto Sun runs a comment piece, entitled "Liberals hiding deficit, second watchdog says" covering the Financial Accountability Officer's (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO's report "says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans."

  Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting."

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- September 13, 2017 – The Toronto Sun runs a column, "Wage warnings won't stop Wynne," critical of the cost of the Pension Asset Expert Advisory Panel: "Indeed, her government's typical reaction to critical, non-partisan warnings it gets from independent officers of the legislature - such as the auditor general and the FAO - is to ignore them, or to attack the messenger […]Wynne spent up to $435,000 striking an "independent" panel that unsurprisingly agreed with her position on pension accounting, not the auditor general's."
- September 8, 2017 – David Reevely writes in the Ottawa Sun and Ottawa Citizen "Lysyk and the ministers have been volleying back and forth for a couple of years now over how to count assets on the government books. Without getting too deep into it, what's in question is whether certain public sector pension plans and some holdings in the electricity system belong to the government or not."

- September 7, 2017 – The Canadian Press' Shawn Jeffords covers the tabling of Ontario's Public Accounts 2016-17, and cites the government's ongoing disagreement with the Auditor General on pension asset accounting as the reason the Auditor has issued a qualified audit opinion two years in a row. Minister Sandals is quoted in the article: Sandals maintains the government is following established accounting practices and people don't care about the on-going squabble. "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – The Toronto Star's Robert Benzie refers to the disagreement between the Auditor General and the government over IESO market accounts assets and pension asset accounting as an "accounting slugfest". Minister Sandals is quoted in the article (same quote as The Canadian Press coverage): Sandals on Thursday shrugged off Lysyk's accounting interpretation, which lead to her to issue a qualified audit opinion on the province's books for the second year in a row.

  "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said.

  "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – Queen's Park Briefing's Christopher Reynolds covers the disagreement between the Auditor General and the government, quoting Minister Sandals: ""The public wants to know, are you managing your deficit?" Sandals said Thursday at the release of the province's 2016-217 public accounts. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- On May 1, 2017 David Reevely writes in the Ottawa Sun that "There's also $500 million booked in the government's favour from surpluses in a couple of pension plans for public employees. These are the subject of an arcane accounting dispute over whether the government, which couldn't grab the money easily, should be able to count them the way it's counting them. The auditor general says no. A panel of external blue-chip accounting types says yes (for a number of reasons, the easiest of which to grasp is that if the pension plans came up short the gap, would be the government's problem). Going with the auditor general's ruling would be the safer thing, for sure, but what the government's doing is neither trick nor a one-time manouevre.
- On April 30, 2017 David Reevely wrote about the 2017 budget and said "the Liberals are taking advantage of a surplus in some public-employee pension funds, which Auditor General Bonnie Lysyk says is improper but which other experts say is OK. And they've adopted a sort of partial distinction between operating spending and capital spending, which used to be mashed together into each year's budget in a way they no longer are."
- On February 21, 2017 the Toronto Sun (A10) has a column by Warren Thomas (OPSEU). He writes "Ontario's public service workers and retirees feel like we are about to get robbed." He notes that the Auditor General has been turned into a lapdog from a watchdog. Thomas writes "If nobody stands up to Wynne, I'm afraid her next move could be to actually steal our pension money, giving her more cash for overpaid consultants and Sunshine List executives."
- On February 20, 2017 the Toronto Sun reports on Minister Sandals' memo to OPSEU's Warren Thomas. It recounts the minister's statement that "government has no plans on making like a bandit with his members' pension funds." The short piece includes her quote: "The OPSEU pension plan, which is jointly sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". "I trust that you are reassured by this news."
- On February 18, 2017 the Toronto Sun has a piece by Lorrie Goldstein. He writes that Premier Wynne needs to take the advice of the Auditor General in order to demonstrate openness and transparency.

- On February 18, 2017 the Ottawa Sun (A9) reports NDP Leader Horwath trusts the Auditor General's math. She spoke up on Friday on the ongoing pension account issue between government and the AG.
- On February 18, 2017 the Toronto Sun's Antonella Artuso (A10) quotes Minister Sandals who said in a statement that she will accept the findings of the panel and: "They also concluded that the government controls access to the pension surplus which has a future economic benefit to the province and recognizing the asset will provide an accurate representation of the province's financial position."
- On February 18, 2017 the Toronto Star's Martin Regg Cohn (A12) writes about the Auditor General. He says that she is no hero – in fact her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures." He concludes: "We rely on auditors to provide value for money audits. Not to introduce their own values, making up untested accounting standards as they go along."
- On February 17, 2017 the Hamilton Spectator (A16) posted an opinion piece that is negative toward Auditor General Lysyk. It notes: "Lysyk is putting that reputation and integrity on the line in Ontario. And she's not on solid ground…. If the evidence supported Bonnie Lysyk's position, we'd be the first to back her. But it doesn't. She needs to respect that and back down."
- On February 17, 2017 QP Briefing has a piece written by Bryne Purchase, former deputy minister of finance, on the 'accounting spat'. He sides with the AG: "I think it was regrettable that Premier Kathleen Wynne's government chose to attempt to undermine the legitimacy of our parliament's own accounting expert by appointing a panel of its own experts to review an unfavourable ruling."
- On February 17, 2017 the Windsor Star (A7) has a Canadian Press report that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute. Auditor General Bonnie Lysyk's quote is used: ``Show me the letter that says you can use that pension money with permission, with an agreement," she said Thursday. ``Until that happens the bottom line is this office can't give its stamp of approval on this particular issue." The article notes this is not the first time the Liberal government has clashed with the AG - the former energy minister suggested the electricity file was too complicated for Lysyk, and she has frequently suggested that partisan ads are being funded by taxpayer dollars.
- On February 16, 2017 the Toronto Star reported the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes. The article says the AG is "escalating a $10.7 billion standoff" with the government over taxpayer-funded pension surpluses. "There has been no suggestion the government intends to dip into the pension funds, which would be illegal. The question is whether the pension surplus can be counted as an asset or not at all." The AG was quoted: "It is not my money. That money is for the benefit of employees and retirees … so it's not my pension. It's not my budget deficit."
- On February 16, 2017 QP Briefing reports the AG says that until she sees a letter that says government can use that pension money with permission – her office can't give its stamp of approval on this issue. The article notes the government "isn't inclined to draft" a letter. Treasury Board President Liz Sandals is quoted from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place." This article also includes quotes from MPP Lisa MacLeod and OPSEU's Warren Thomas.

- On February 16, 2017 the Toronto Sun (A5) has two articles on the number crunching aspect of the expert panel. It says government spent up to $435,000 to the expert panel in the dispute with the Auditor General. The article says this has made OPSEU's Warren Smokey Thomas livid and notes that he wants a guarantee the government won't raid his members' pension fund. Ontario Treasury Board spokesman Matt Ostergard is quoted from an email, "The work of the panel is ongoing so we don't have final costs at this time but they will be in line with previous panels and will be made public."
- On February 16, 2017 The Northumberland Today.com has David Reevely's opinion piece on the pension panel's "gift' to the government. "The Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds. The article includes a written statement from Minister Sandals "We are committed to implementing the advice of this independent panel and will use it in preparing the province's financial statements."
- On February 15, 2017 QP Briefing reports Treasury Board President Liz Sandals says it's too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute. "I think we're getting way ahead of ourselves – that's a total hypothetical," Sandals told reporters. "The bottom line is, the panel gave us advice, and we're going to follow the advice of the panel." Sandals added there "is no urgency" for Lysyk to weigh in on the panel's conclusion and that she was "pleased" that the auditor was giving it a thorough read. The article notes the minister was "cagey" when pressed about if the panel's report will mean a rollback on contributions for the OPSEU plan. She is quoted, "As the panel points out, that is the traditional way in which the government would access the surplus," "That's the whole premise of the panel's report, is that the way in which the government or any other employer in that situation would access the surplus is by reducing the contribution rate."
- On February 14, 2017 OPSEU's Smokey Thomas writes that Premier Wynne should remember who owns the assets of the province's jointly trusted public pension plans. He says the dispute between the government and the Auditor General is not "just a paper war". "It's a fight over who owns billions of dollars earned by workers and invested on their behalf. I'm telling the Premier right now: the money in those plans belongs to plan members. It is not hers to play with." He "unequivocally supports" the Auditor General's position. He says his "fear is that the Liberals will try to move money out of public pension plans to help wipe out the provincial deficit in time for the 2018 provincial election."
- On February 14, 2017 the Ottawa Sun's David Reevely (A11) reports "the Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds." His article notes, "The point is, we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets." He writes the surpluses work in the government's favour – especially as an election approaches.
- On February 14, 2017 the Toronto Star (A7) (and online) has a negative piece about the Auditor General, written by Martin Regg Cohn. He writes the AG has been caught out in a $10.7-billion miscalculation. "Even a watchdog can lose the scent and bark up the wrong tree. Or worse, miss the fiscal forest for the trees. For the job requires not just independence but context. To be truly credible, an auditor general must fearlessly expose government boondoggles but also fess up to her blunders." "Lysyk's lack of diligence - now overdue - is a damning indictment of an auditor gone awry."

- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: “Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: “If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- On February 13, 2017 the Toronto Star reported a panel of accounting experts says that $10.7 billion in government-sponsored pension plans should count toward the province’s bottom line. The article notes panel chair Tricia O’Malley said “We believe that an asset does exist – the net pension asset meets the definition of an economic resource, which is what an asset is.” The Star noted that Auditor General Lysyk is reviewing the report and will provide comment to the media later this week.
- On February 12, 2017 the Toronto Star reports a government-appointed panel of experts will announce on Feb. 13 that joint-sponsored pension surpluses should be counted as assets for the provincial treasury. The report says the Auditor General should include billions of dollars of its assets on the government’s bottom line. OPTrust says “surpluses and deficits should both be recognized on the province’s balance sheet.”
- On February 8, 2017 The Toronto Star (A6) reports Premier Wynne welcomes a report from four accounting experts that says a $10.7-billion pension surplus can be counted as an asset on the province’s bottom line. The article notes the AG was briefed on the report last week and it will be make public later this month. MPP Vic Fedeli is quoted: “The people of Ontario have to ask themselves who are they going to believe: the independent auditor general or a scandal-plagued Liberal government?”
- On February 8, 2017 QP Briefing reports the Financial Accountability Officers says “should the panel studying a pension accounting clash with the auditor general conclude that billions of dollars’ worth of pension assets should be counted on Ontario's balance sheet after all, the government will get more flexibility to balance the budget as promised.” “David West, the FAO's chief economist, said he had not heard about any conclusions from the panel but noted that if they have decided to count the pension assets, it gives the government more breathing room to achieve balance, as promised.” Auditor General Lysyk declined to confirm or comment directly because the panel is not yet public.
- On February 7, 2017 The Toronto Star’s (A4) Martin Regg Cohn reports billions of dollars are at stake in a dispute pitting Ontario's Auditor General against the government. He writes that despite an outside panel of top accounting and pension experts determining that Auditor General Bonnie Lysyk has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets – she told this reporter that “she won't climb down,” and this now sets the stage for a public showdown over an accounting change that is worth $1.5 billion to the bottom line this year alone. “The auditor told me her mind is made up and nothing she has heard so far has changed her view….which leaves her on a limb and the government in the lurch.”
- On November 30, 2016 QP Briefing reported Minister Sandals appointed an expert panel to help resolve the government's standoff with the Auditor General over pension assets. The chair of the special panel tasked with settling an accounting dispute will be paid $2,000 per work day. The other three members of the panel will get a $1,900 per diem, as well as reimbursement.
- On November 14, 2016 QP Briefing reported an expert panel will study the AG pension dispute.

- On October 9, 2016 Focus Ontario (Global) ran a segment on the 2015-16 Public Accounts and the disagreement with the Auditor General. Both the Premier and Patrick Brown are quoted in the segment. The Premier is quoted from Question Period saying the government “accepted the Auditor General's numbers for this year. We released the documents despite the divergence in accounting opinions, specific to pension funds between Treasury Board officials and the Auditor as part of our commitment to openness and be transparency.”
- On October 9, 2016 The Toronto Sun (A17) ran an opinion piece about the disagreement with the Auditor General. The piece notes that this kind of back and forth between ministries and the Auditor General is common. The Auditor General provides time for ministries to comment on the audit in draft form so that accounting issues can be hashed out before the final audited statement is presented to the legislature. Accounting issues are generally benign. So it's surprising that the Wynne government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's unqualified opinion.
- On October 6, 2016 The Financial Post has a commentary by analysts with the Fraser Institute. “It's not surprising the Wynne government is willing to go to the mat to defend its estimate of last year's budget deficit. As Ontario approaches a provincial election in 2018, a big part of the government's PR strategy is focused on celebrating an expected return to a balanced budget in next year's budget. So Premier Kathleen Wynne's team has a big incentive to push back against dissenting views.”
- On October 6, 2016 QP Briefing reports Treasury Board President Liz Sandals tabled Ontario's public accounts for fiscal 2015-16, including the Auditor General's opinion. The tabling of the public accounts was delayed by almost two weeks after months of back and forth between the Auditor General and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- On October 3, 2016 The Globe and Mail reports Ontario's Liberal government is fighting with the province's Auditor General over a $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt.
- On October 3, 2016 Canadian Press ran a story in 40 media outlets reporting that the government says Auditor General Bonnie Lysyk is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years. “The issue is with the accounting of the Ontario Public Service Employees Union Pension Plan and the Ontario Teachers' Pension Plan, which are jointly sponsored with the government. The government says the plans have a surplus, but the auditor general says that should not be on the province's balance sheet.”

Prepared by: Jim Keates, Senior Accounting Policy Analyst, Accounting Policy and Financial Reporting. July 21, 2017

Approved by:	**Name:**	**Date Approved:**
Director	Nadine Petsche/Mark Donaldson	July 31, 2017
ADM, Office of the Provincial Controller	Cindy Veinot	January 3, 2018
Issues Management Analyst, Communications	Alisha Tharani	January 5, 2018
A/Manager, Issues Management, Communications	Amanda Miller	January 15, 2018
Assistant Director, Communications	Bryant Sullivan	January 16, 2018
Director, Communications	Sofie Di Muzio	January 16, 2018

CONFIDENTIAL REVISED: January 10, 2018

2016-17 PUBLIC ACCOUNTS

ISSUE: What is reported in the 2016-17 Public Accounts released on September 7, 2017?

KEY MESSAGES: PUBLIC ACCOUNTS

- The 2016-17 Public Accounts of Ontario show the province's deficit is $991 million.
- This result is $3.3 billion lower than projected in the 2016 Budget, and $0.5 billion lower than the interim forecast in the 2017 Budget.
- This is a result of growth in revenue that exceeded growth in program expense, and lower than forecast interest on debt.
- Ontario has beaten its deficit target eight years in a row. Ontario's plan is working.
- As promised in the 2016 Budget, Ontario grew its economy while transforming healthcare, building vital infrastructure and investing in people's talents and skills.
- Due to our prudent fiscal management and Ontario's robust economic growth, we are projecting a balanced budget for the first time since the onset of the global recession in 2008.
- We remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- This is something that has been achieved only eight times in the last 40 years in Ontario.
- We will continue moving forward on our fiscally responsible plan that creates fairness and opportunity for all Ontarians.

KEY MESSAGES: OTHER HIGHLIGHTS

- We will continue to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- Other highlights from this year's Public Accounts include:
    - Economic growth, with a 2.7 per cent increase in real gross domestic product (GDP), up 2.2 per cent in the 2016 Budget.
    - Total revenue of $140.7 billion, up $2.2 billion from the 2016 Budget.
    - Total spending of $141.7 billion, down $0.1 billion from the 2016 Budget.
    - Interest on debt of $11.7 billion, down $0.7 billion from the 2016 Budget.
- To help Ontarians better understand their government's finances, new digital tools have been developed that present the Public Accounts data in innovative, visual formats. These tools make Ontario's finances easier to understand, access and use.
- Presenting the Public Accounts data in innovative, visual formats is part of Ontario's commitment to Open Government.

KEY MESSAGES: ACCOUNTING CHANGES

BPS REVENUE PRESENTATION

- To increase transparency, the 2016-17 Public Accounts are presenting third-party revenues for hospitals, school boards and colleges, such as tuition fees, patient fees, research grants and donations, with provincial revenue.
- In prior years, these revenues were netted against the expenses of the respective sectors (health, education, post-secondary).
- This is a change in presentation only; the change increases total revenues and expenses by approximately $8 billion, and does not impact the deficit, net debt or accumulated deficit.
- This change is consistent with public sector accounting standards and the reporting practices of other senior Canadian governments.
- The Auditor General is supportive of this change in presentation.

ACCOUNTING FOR ENERGY GOVERNMENT BUSINESS ENTERPRISES:

- The 2016-17 Public Accounts include the financial results of Ontario Power Generation (OPG) and Hydro One using International Financial Reporting Standards (IFRS).
- These two government business enterprises currently report their stand-alone financial results using Generally Accepted Accounting Principles in the United States (US GAAP).
- In prior years, the reported results of OPG and Hydro One were included in the results of the province based on US GAAP.
- This change does not have a material impact on this year's Public Accounts.
- The Auditor General is supportive of this change in presentation.

PENSION ACCOUNTING:

- The government established the Pension Asset Expert Advisory Panel following the release of the 2015-16 Public Accounts.
- The Panel delivered independent advice on how public sector accounting standards are interpreted as they apply to current net pension assets and the application of public sector accounting standards for two of Ontario's jointly sponsored pension plans; Ontario Teachers' Pension Plan (OTPP); and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP).
- The Panel's report concluded that the province's share of the net pension assets of both the OTPP and the OPSEUPP should be recognized in Ontario's financial statements.
- The government accepted the Panel's recommendations, which have been reflected in the 2016-17 financial statements.
- The 2015-16 financial statements have also been restated to reflect the pension assets for these two plans.
- The Auditor General continues to not accept the application of the Public Sector Accounting Board (PSAB) standards in the 2016-17 Public Accounts regarding pension accounting for the province's jointly sponsored pension plans. For 2016-17, the Auditor General has qualified her opinion, stating that the province's deficit is understated by $1.4 billion.

KEY MESSAGES: IESO ACCOUNTING

- The Independent Electricity System Operator (IESO) reports its financial results in accordance with Public Sector Accounting Standards.
- In 2016, IESO changed its accounting policy to begin recognizing market assets (amounts due *from* power distributors) and liabilities (amounts due *to* power generators). In previous years, these amounts were omitted from IESO's financial statements.

- This change has no impact to the province's annual deficit, net debt or accumulated deficit.
- IESO also adopted rate-regulated accounting for deferred charges, such as the cost of smart meters, which will be recovered from users of these meters over time.
- Public Sector Accounting Standards are silent on rate-regulated accounting, and as a result, as provided for in the accounting standards, IESO considered other sources of guidance to assess the appropriateness of applying rate regulated accounting.
- Prior to the 2015 merger with the IESO, the Ontario Power Authority (OPA) reported market accounts and used rate-regulated accounting under PSAS. The statements of the OPA were not qualified during that time by OPA's external auditor or the Auditor General. This accounting treatment is not new to Ontario.
- The Auditor General qualified her opinion in 2016-17 based on the recognition of the IESO's market accounts. The Auditor General also noted in her opinion that the use of rate regulated accounting under PSAS is not permitted, but did not qualify on the issue of rate regulated accounting, as the impact was not material in the current year.
- The reporting changes implemented by the IESO were approved by their management and board, and received an unqualified audit opinion from their external auditor. The province's Office of the Provincial Controller also supports the changes.

KEY MESSAGES: AUDITOR GENERAL'S 2017 ANNUAL REPORT – CHAPTER ON PUBLIC ACCOUNTS

- The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and

accurately and in accordance with Canadian Public Sector Accounting Standards.

- The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- The province will continue to provide financial statements according to Canadian Public Sector Accounting Standards that support transparency and accountability in reporting to the public, the legislature, and other users.
- The government will continue to build on its track record of responsible fiscal management.

CURRENT STATUS

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.

BACKGROUND:

- The Public Accounts of Ontario is a key accountability and transparency document in the government's financial cycle. It's a look back that compares Ontario's actual performance to what was planned in the Budget.

- The Public Accounts present the financial statements of the Province, provide financial highlights of the past fiscal year, and report on performance in priority areas.

- Public Accounts is audited by the Auditor General and is typically released in the fall of the following fiscal year.
- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

- These changes include:
    - **Accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
    - **Accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.
    - **Accounting for the Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
    - **Accounting for net pension assets of jointly sponsored pension plans** - the Province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

Pension Asset Expert Advisory Panel

- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide independent advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.
- The Panel was comprised of accounting, legal and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.
- The Panel members were:
    - Tricia O'Malley; (Chair)
    - Murray Gold;
    - Uros Karadzic; and,
    - Paul Martin.
- Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

- The Panel issued its report in February 2017. Upon receiving the report, the government, supported by its own research and analysis, accepted the Panel's recommendation and has reported the pension assets of the Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employees' Union Pension Plan (OPSEUPP) in its 2016-17 consolidated financial statements (with restatement of 2015-16).
- The Panel issued a supplementary report in March 2017 with respect to the Healthcare of Ontario Pension Plan (HOOPP) and Colleges of Applied Arts and Technology Pension Plan (CAATPP) recommending that a full valuation allowance be recorded on the net assets of both of these plans, based on the difference in governance structure between these plans and OTPP and OPSEUPP. The province agreed and has recorded a valuation allowance for CAATPP in the year (amount is not material). The HOOPP plan is not in a net asset position for accounting purposes at March 31, 2017.

Independent Electricity System Operator

- The Independent Electricity System Operator (IESO) is a not-for-profit, non-taxable corporation established pursuant to Part II of the *Electricity Act, 1998*. The Ontario Power Authority and the IESO merged on January 1, 2015.
- One of IESO's roles is to settle the market accounts, which are the amounts due to the entities that provide electricity to the market (e.g. power generators) and due from those who consume electricity (e.g. local distribution companies on behalf of their consumers).
- Rate regulated accounting is appropriate where the rates an entity is able to charge to its customers are set by another party (i.e. a regulator), provided specified criteria are met. Rate-regulated accounting permits the entity to defer costs that would otherwise be expensed to the period that the related revenue is charged to customers. Costs able to be deferred by the IESO include:
    - Unrecovered smart metering expenses; and,
    - Unrecovered pension and post-employment benefits related to PSAB transition.
- During 2016, IESO made two accounting changes (1) to recognize the market accounts in its financial statements – these amounts were not previously recognized in the IESO's financial statements, and (2) to apply rate-regulated accounting.
- The IESO received an unqualified audit opinion from KPMG (their external auditor) with respect to the financial statement presentation in their 2016 audited financial statements. IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor, and the Office of the Provincial Controller all support the recognition of the market accounts and the use of rate-regulated accounting by IESO.

Revenue Highlights

Against the Restated 2016 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $2.2 billion higher than forecast in the 2016 Budget. This was largely due to higher than projected taxation revenues, non-provincial source revenues from hospitals, school boards and colleges, and income from GBEs, partially offset by lower than projected Government of Canada transfers and other non-tax revenue.

Against the Restated Interim Estimates in the 2017 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $0.6 billion lower than the interim forecast in the 2017 Budget. This was largely due to lower than projected taxation revenues and Government of Canada transfers, partially offset by higher than projected income from GBEs.

Expense Highlights

Against the Restated 2016 Budget plan:

- Total expense in 2016-17 was $141.7 billion, or $0.1 billion lower than forecast in the 2016 Budget plan. Program spending was $130.0 billion, up by $0.6 billion from a planned spending of $129.4 billion and interest on debt was $11.7 billion, lower by $0.7 billion from planned interest cost of $12.4 billion. Program spending was higher by $0.6 billion largely due to higher than projected spending in the health, community and social services, justice sector and general government and other.

Against the Restated interim Estimates in the 2017 Budget:

- Total expense in 2016-17 was $141.7 billion or $1.1 billion lower than the interim forecast in the 2017 Budget. Program spending was $130.0 billion, $0.9 billion lower than the interim forecast of $130.9 billion in the 2017 Budget. Interest on debt was $11.7 billion, lower by $0.2 billion from planned interest cost of $11.9 billion. Program spending was lower by $0.9 billion largely due to lower than projected spending in the health and education sectors, and other programs.

Net Debt

- Net debt as of March 31, 2017, was $301.6 billion, which was $6.7 billion lower than forecast in the 2016 Budget. Net debt grew by $6.2 billion during the year, representing a $6.6 billion increase in liabilities that was partially offset by a $0.4 billion increase in financial assets.

Auditor General's 2017 Annual Report: Chapter on Public Accounts

- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report.
- The Auditor General's Annual Report, Chapter 2, makes 10 recommendations regarding the Public Accounts of the Province.
- The recommendations largely reflect opinions that have been expressed in previous reports, including the Auditor General's audit opinion in the 2016-17 Public Accounts and the Special Report on the Fair Hydro Plan.
- Treasury Board Secretariat and Ministry of Finance disagree with the characterization of the majority of the recommendations, and re-iterate the government's commitment to producing high-quality financial statements on a timely basis and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Financial Accountability Office's Economic and Fiscal Outlook, Fall 2017 Update

- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update.
- During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, "Independence is not infallibility when it comes to Ontario's financial books," arguing Auditor General "Lysyk's paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All's fair in politics and accounting, unless you're an auditor gone awry."
- January 9, 2018 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute's Ontario Prosperity Initiative entitled "Ontario's finances are still a mess." Eisen argues that people should treat the government's balanced budget claims with skepticism, writing "For starters, many analysts, including Ontario Auditor General Bonnie Lysyk, have called the government's accounting techniques into question, arguing proper accounting would show continued deficits. Others, including the government's Financial Accountability Office, warn that without additional policy changes to reduce spending, or raise taxes, Ontario will likely slip back into deficits."
- December 17, 2017 – The Ottawa Sun's Lorrie Goldstein writes that "with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted." Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: "Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan."
- December 17, 2017 – The Toronto Sun's Jim Warren cautions that "the role of the Auditor General is shifting in troubling ways," arguing that the Auditor General's increasing outspoken role is "making matters worse." Specifically referencing the pension asset accounting issue, Warren writes "For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position."
- December 14, 2017 – The Record runs an opinion piece, "To sort out truth from pre-election fictions, turn to Bonnie Lysyk," writing that the Auditor General "warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car."
- December 13, 2017 – The Toronto Sun runs a comment piece, entitled "Liberals hiding deficit, second watchdog says" covering the Financial Accountability Officer's (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO's report "says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans." Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting."

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- November 15, 2017 – Ontario PC Finance Critic Vic Fedeli pens a column in the Toronto Sun on the Fall Economic Statement, making reference to the Auditor General's qualified audit opinion on the province's Public Accounts two years in a row.
- October 16, 2017 – CBC News looks to the province's Public Accounts to highlight "Four surprising things about the Ontario government's finances," including: "personal income tax revenue is dropping," "corporate tax revenue is soaring," a "real estate windfall," and "booze revenue poised to top gambling revenue."
- September 8, 2017 -- Post Media's David Reevely quotes the AG's statement that rejects the contents of the Public Accounts "The Legislature and all Ontarians must be able to rely on the province's consolidated financial statements to fairly report the fiscal results for the year. This year they cannot do so." The article mentions the FAO's commentary this week saying the FAO and AG have 'made a businesslike routine of pointing out all the extreme assumptions and accounting stretches the

government is using to make the books look good in an election year." The article concludes that considering what happened to the world economy a decade ago the government has 'done all right' but is critical of 'dismissing' the government's two most prominent independent financial experts. **Minister Sandals** mentioned in reference to releasing the PA.

- September 7, 2017 -- Toronto Star says the "stakes are high in the accounting slugfest between the government and the auditor general." The article mentions Minister Sandals "shrugging off" the AG's accounting interpretation. "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said. "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 -- QP Briefing reports financial watchdogs aren't smiling about the government lowering the deficit to $1 billion, but instead are 'baring their teeth'. The article says auditor general Bonnie Lysyk said yesterday the government "significantly understated" its deficit, while the Financial Accountability office this week called the plan to reduce the debt burden "unlikely." Minister Sandals is quoted "The public wants to know, are you managing your deficit?" "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The article also notes AG Lysyk is warning that the complex accounting behind the hydro bill reduction could add to a bigger than expected deficit next year, and that a special report will be tabled this fall.
- September 7, 2017 -- The CP article about Public Accounts quotes Minister Sandals "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The coverage says AG Lysyk disputes the government figures and that "the statements were not prepared following Canadian Public Sector Accounting Standards." This article was picked up by several media outlets but coverage was not widespread.
- February 20 & 21, 2017 -- Toronto Sun report on Minister Sandals' memo to OPSEU that "the OPSEU pension plan….clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". This is followed by a column by OPSEU President Warren Thomas saying Ontario's public service workers and retirees feel like we are about to get robbed.
- February 18, 2017 – Toronto Star, Toronto Sun and Ottawa Sun coverage of the ongoing pension accounting issue between the government and Auditor General.
    - Ottawa Sun says NDP Leader Horwath trusts the Auditor General's math.
    - Toronto Sun quotes Minister Sandals who said in a statement that she will accept the findings of the panel.
    - Toronto Star columnist Martin Regg Cohn wrote that the Auditor General is no hero, and her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures."
- February 17, 2017 -- Hamilton Spectator, QP Briefing, and Windsor Star have coverage.
    - The Spectator's opinion piece is negative toward Auditor General Lysyk.
    - QP Briefing's piece written by Bryne Purchase, former deputy minister of finance, sides with the AG.
    - Windsor Star published the CP story that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute and that she is asking to see "the letter that says you can use that pension money with permission, with an agreement."

- February 16, 2017 – The Toronto Star, Toronto Sun & QP Briefing have coverage of the Auditor General's response to the panel's report.
    - The Toronto Star and QP Briefing say the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes and describes it as an "escalating a $10.7 billion standoff".
    - QP Briefing quotes Minister Sandals from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place."
    - The Toronto Sun has two articles on the number crunching aspect of the expert panel and that the government spent up to $435,000 on it. OPSEU's Warren 'Smokey' Thomas was livid and notes that he wants a guarantee the government won't raid his members' pension fund.
- February 15, 2017 -- QP Briefing quotes Minister Sandals about it being too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute.
- February 14, 2017 – high profile media coverage of the Pension Asset Expert Advisory Panel report release the day before.
    - Toronto Star columnist Martin Regg Cohn is critical of the Auditor General saying she has been caught out in a $10.7-billion miscalculation.
    - The Star's coverage also included article about the panel report and that $10.7 billion in government-sponsored pension plans should count toward the province's bottom line.
    - The Ottawa Sun's David Reevely says about the panel report "…we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets."
    - OPSEU's Smokey Thomas writes that the dispute between the government and the Auditor General is not "just a paper war" and that he "unequivocally supports" the AG's position.
- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: "Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: "If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- February 7 & 8, 2017 – Toronto Star and QP Briefing have coverage about the pension asset advisory panel's soon-to-be-released report.
    - PC Finance Critic Vic Fedeli tells the Star, that the people have to ask themselves who they are going to believe-- the independent auditor general or a scandal-plagued Liberal government?"
    - Columnist Martin Regg Cohn writes the AG has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets and she won't climb down.
- November 14 & 30th, 2016 -- QP Briefing has coverage of the expert panel announced to study the accounting dispute over pension assets.

- October 9, 2016 -- Focus Ontario (Global tv) and the Toronto Sun have coverage of the 2015-16 Public Accounts and the disagreement with the Auditor General.
    - Focus Ontario coverage balanced.
    - Toronto Sun opinion piece expresses surprise that the government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's opinion.
- October 6, 2016 -- The Financial Post has a highly critical commentary by analysts with the Fraser Institute, while QP Briefing reports the public accounts for 2015-16 have been tabled almost two weeks after months of back and forth between the auditor general and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- October 3, 2016 -- The Globe and Mail and Canadian Press report the government is ‘fighting’ with the Auditor General. Globe notes focuses on the AG’s $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt. CP story (picked up by 40 media outlets) says the Auditor General is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years.

Prepared by: Bharat Patel, Office of the Provincial Controller Division
Reviewed by: Mark Donaldson, Office of the Provincial Controller Division

Approved by:	**Name:**	**Date Approved:**
ADM, Office of the Provincial Controller Division	Cindy Veinot	January 3, 2018
Issues Management Analyst, Communications Branch	Alisha Tharani	January 10, 2018
A/Manager, Issues Management, Correspondence and Media Relations	Amanda Miller	January 15, 2018
Assistant Director, TBS Communications Branch	Bryant Sullivan	January 16, 2018
Director, Communications Branch	Sofie Di Muzio	January 24, 2018

Appendix

Preparation and Tabling:

The Public Accounts for each fiscal year are prepared under the direction of the President of Treasury Board, as required by the *Financial Administration Act*.

The Public Accounts of Ontario consist of the Annual Report and three supplementary volumes. The Annual Report includes the province's audited consolidated financial statements and a financial statement discussion and analysis section. Supplementary information is contained in three volumes:

Volume 1: Ministry statements for expenses, assets, revenue, detailed debt and other supplementary schedules. It provides a comparison of appropriations with actual spending.

Volume 2: Financial statements of significant provincial corporations, boards, commissions that are part of the government's reporting entity, and other miscellaneous statements.

Volume 3: Detailed schedules of payments made by ministries to vendors and transfer payment recipients.

The *Financial Administration Act* requires the President of Treasury Board to submit the province's Annual Report and consolidated financial statements to the Lieutenant Governor in Council (LGIC) on or before 180 days after fiscal year-end. This year, the deadline was September 27, 2017.

The process for release of the Public Accounts is as follows:

- The Public Accounts are approved by the Lieutenant Governor in Council.
- The LGIC lays the Public Accounts before the Assembly, if the Assembly is in session, and the Public Accounts are then released on the same day.
- If the Assembly is not in session on the day of the release of the Public Accounts the LGIC is required to make the Public Accounts public and the Public Accounts are laid before the Assembly on or before the tenth day of the next session.

LOGISTICS & FORMAT OVERVIEW

Overview

- SCOPA meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports. All public committee proceedings are recorded in Hansard.
- The Chair will advise members to consider questions that are relevant to the content of the Auditor General's Annual Report, but in practice members do sometimes ask questions outside of the report's focus. As a general rule, expect that any question related to the Province's financial statements would be ruled within scope by the committee chair.
- The Committee members may ask that ministries provide details after the session if more research or gathering of information is needed to respond to a question.

Agenda

Wednesday, February 28, 2018
Committee Room 151 (Amethyst Room), Main Legislative Building

Time	*Topic*
9:00 a.m.	Closed Session: Briefing by the Auditor General
10:00 a.m.	Briefing by the Research Officer
10:15 a.m.	RECESS
12:30 p.m.	Treasury Board Secretariat and other representatives • *Invited senior officials appear and respond to questions.* • *The Auditor General attends, and the Committee members can seek clarification from the AG on points from her report if needed during the session.*

12:30 – 3:00 p.m.

- **Opening remarks** (20 minutes)
- **First round of questions** (60 minutes)
  - Each of the three political parties get 20 minutes of questions
- **Second round of questions** (50 minutes, approximately)
  - The remaining time until 2:45 p.m. is split between the three political parties; approximately 15-17 minutes per party

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- **Closed session** (15 minutes)
    - Committee members plus the Clerk, only; no audience or presenters
    - The Committee will discuss the outcome of the meeting and if they want to do a report
    - There are no closing statements from ministry officials

Room Setup

- Committee Room 151 (Amethyst Room) is equipped with cameras and the meeting will be available on TVs within the Legislature and streamed online.
- The room has a square table with rows of extra seating at the front the room.
- The Committee Chair, Auditor General and Clerk will sit at the head of the table with the government and opposition parties on opposite sides.
- The invitees sit opposite the Committee Chair and Clerk, either at the table or in the first row of chairs.

Media Access

- Media are allowed to sit in on the meeting as long as they do not interrupt the proceedings. They cannot ask questions in the committee room, but if they wish they can scrum participants in the hallway as they leave.
- Media can also watch SCOPA proceedings on the TVs in the Legislature or online.

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Invitees

Organization	Position	Name
Cabinet Office	Secretary of Cabinet	Steve Orsini
Treasury Board Secretariat	Deputy Minister	Helen Angus
Ministry of Finance	Deputy Minister	Scott Thompson
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ministry of Energy	Deputy Minister Assistant Deputy Minister	Serge Imbrogno Steen Hume
Ontario Power Generation	President and Chief Executive Officer Senior Vice President and Chief Financial Officer	Jeffrey Lyash Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer Vice President, Corporate Services and Chief Financial Officer	Peter Gregg Kimberly Marshall

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Ministry/Organization Representatives to Attend

Organization	Position	Name
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot
Treasury Board Secretariat Office of the Provincial Controller	Director, Accounting Policy and Financial Reporting Branch	Mark Donaldson
Ministry of Finance Deputy Minister's Office	Deputy Minister	Scott Thompson
Ministry of Finance Office of the Budget	Assistant Deputy Minister	Tim Schuurman
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ontario Financing Authority	Chief Financial and Risk Officer	Ken Kandeepan
Ministry of Energy Deputy Minister's Office	Deputy Minister	Serge Imbrogno
Ministry of Energy Assistant Deputy Minister	Energy Supply Division	Steen Hume
Ontario Power Generation	President and Chief Executive Officer	Jeffrey Lyash
Ontario Power Generation	Senior Vice President and Chief Financial Officer	Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer	Peter Gregg
Independent Electricity System Operator	Vice President, Corporate Services and Chief Financial Officer	Kimberly Marshall

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Committee Members

Chair



ERNIE HARDEMAN, MPP (PC/OXFORD)

Current Parliamentary Roles

Chair, Standing Committee on Public Accounts
Critic, Municipal Affairs and Housing

Vice-Chair



LISA MACLEOD, MPP (PC/NEPEAN—CARLETON)

Current Parliamentary Roles

Vice-Chair, Standing Committee on Public Accounts
Critic, President of the Treasury Board, Critic, Ministry of Finance,
Critic for the Anti-Racism Secretariat

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Members



BOB DELANEY, MPP (LIB/MISSISSAUGA—STREETSVILLE)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts Member, Standing Committee on Estimates,
Parliamentary Assistant to the Minister of Energy



VIC DHILLON, MPP (LIB/BRAMPTON WEST)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Government and Consumer Services Member, Standing Committee on Social Policy



HAN DONG, MPP (LIB/TRINITY—SPADINA)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Advanced Education and Skills Development, Parliamentary Assistant to the Minister Responsible for the Poverty Reduction Strategy
Member, Standing Committee on Finance and Economic Affairs



JOHN FRASER, MPP (LIB/OTTAWA SOUTH)

Current Parliamentary Roles

Member, Standing Committee on Social Policy Member, Standing Committee on Public Accounts, Parliamentary Assistant to the Minister of Health and Long-Term Care

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PERCY HATFIELD, MPP (NDP/WINDSOR—TECUMSEH)

Current Parliamentary Roles

Critic, Housing
Critic, Municipal Affairs
Member, Standing Committee on Public Accounts



RANDY HILLIER, MPP (PC/LANARK—FRONTENAC—LENNOX AND ADDINGTON)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Critic, Attorney General



LIZ SANDALS, MPP (LIB/GUELPH)

Current Parliamentary Roles

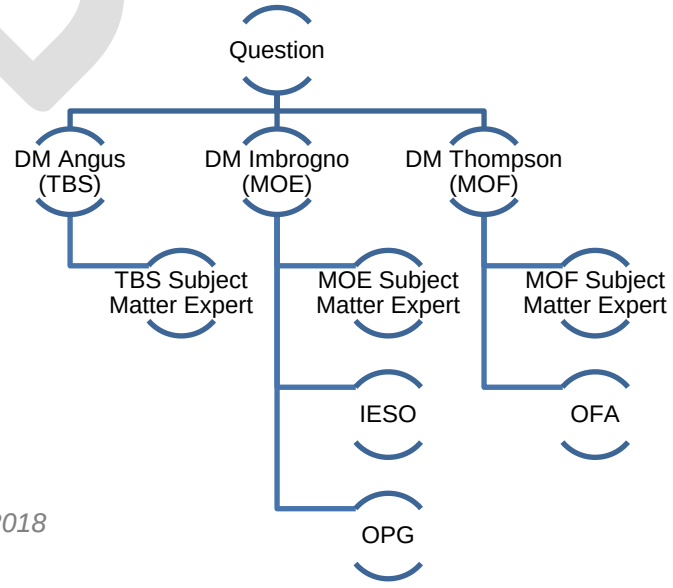
Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Infrastructure

Clerk
Katch Koch
Tel. 416-325-7352
kkoch@ola.org

Last updated: February 5, 2018

STRATEGIC APPROACH

- Provide evidence and facts as the basis of decision-making wherever appropriate (e.g. other jurisdictions, external advisors).
- Provide responses that are relevant and in scope of the consideration of chapter two of the Office of the Auditor General's report
- Avoid any speculation on political decision-making or rationales; provide objective, factual responses in role as non-partisan public servant.
- Provide context wherever possible. Deputy Ministers to provide initial messaging then pass to the subject matter experts where appropriate.
- Emphasize the role of a public servant is to provide factual, non-partisan information to the Committee based on due diligence and the application of professional judgment.
- Reaffirm the government's commitment to working with the Office of the Auditor General.
- Emphasize that the province will continue to follow Public Sector Accounting Standards (PSAS), as always, and will seek appropriate expert guidance where PSAS is silent.
- Use the Committee appearance as an opportunity to communicate the facts and rationale for the decision to adopt/continue accounting practices in response to the Office of the Auditor General's recommendations.
- Highlight due diligence in decision making (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).



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STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Last updated: January 22, 2018

Key Issues	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	Pres. & CEO, OPG	SVP & CFO, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thompson	Gadi Mayman	Serge Imbrogno	Steen Hume	Jeffrey Lyash	Ken Hartwick	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting		Overall - Pension Asset Accounting		Details - Pension Asset Accounting								
Advisory Panel Compensation			Advisory Panel Compensation									
IESO Accounting							**IESO LEAD**					
Rec # 2 IESO Market Accounts				Government decision to accept IESO market accounts			OFHP Policy Overview	OFHP Policy Overview			IESO's Role in OFHP / General Overview	IESO Market Accounts
Rec #5 IESO Market Accounts & Rate-Regulated Accounting				Government decision to accept IESO rate-regulated accounting								IESO Rate-Regulated Accounting
AG Audit of 2017 Statements		Relationship with AG - AG Audit of 2017 Statements										AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #3 OFHP Accounting				Decision to accept OFHP accounting			OFHP Policy Overview	OFHP Policy Overview	OPG's Role in OFHP / General Overview	OPG Financing Structure / Transaction	IESO's Role in OFHP / General Overview	IESO Financing Structure
Rec #6 'Legislated Accounting'				OFHP - 'legislated' accounting								
Rec #9 Arm's Length Trusts				Accounting for trust						OPG Accounting / Trust		
Records Disclosure/Process		Ministry FOI/OPQ					Records Disclosure / Process Followed		Records Disclosure / Process Followed		Records Disclosure / Process Followed	
Re-design of hydro bills							Re-design of hydro bills					
Pre-Election Report		**JOINT PRE-ELECTION REPORT LEAD**			**JOINT PRE-ELECTION REPORT LEAD**							
Rec #10 Pre-Election Report on Ontario's Finances		Pre-Election Report on Ontario's Finances	Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #7 Province's Debt Burden					Province's Debt Burden	Province's Debt Burden; Repayment plan						
Financial Accountability Officer Reports					Financial Accountability Officer Reports	Financial Accountability Officer Reports						
Credit Ratings					Credit Ratings	Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
Rec #4 External Advisors		External Advisors										
Rec #8 Timeline of Finalization of Financial Statements		Timeline of Finalization of Financial Statements	Timeline of finalization of financial statements		Timeline of finalization of financial statements - tax revenues							
Audit Opinion				Audit Opinions								
Out of Scope		Specific ministry Public Accounts line items Speculation about future accounting implications; audit opinions Speculation about government motivations			Speculation about future policy implications Speculation about government motivations		OFHP final accounting implications Speculation about future policy implications Speculation about government motivations	IESO/OPG compensation Expenses				

Summary Status Table in Response to the Report of the Auditor General of Ontario

Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and b) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

CONFIDENTIAL DRAFT FOR DISCUSSION

	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Aanalysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. The government respectfully disagrees with the Auditor General's interpretation of the accounting standards on this issue as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

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by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

CONFIDENTIAL DRAFT FOR DISCUSSION

	conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

CONFIDENTIAL DRAFT FOR DISCUSSION

our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*		

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their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

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• *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

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states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

	which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%, currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining, falling to 37.3% in 2017-18 from its 2014-15 peak of 39.3%.	Continue to monitor progress. Estimated implementation by FY 2029-30.

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	As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

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personal income tax revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #10 *We recommend that the government determine when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.*	Under the *Fiscal Transparency and Accountability Act*, 2004, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a Statement based on a prompt review following the release of such a Pre-Election Report.	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

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Attachment B. Ministry of Energy Comprehensive QAs (0 Bytes) cannot be converted to PDF format.

Attachment C. Ministry of Finance Comprehensive QAs (0 Bytes) cannot be converted to PDF format.

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

Key Messages

- The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).
- We respectfully disagree with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.
- The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.
- The province is open to continue to discuss the matter in the hopes of resolving this matter.
- For more information on pension asset accounting, I will now pass it over to:
    - Cindy Veinot, Provincial Controller

1. **How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?**

   The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

   The Office of the Auditor General communicated its interpretation of PSAS requiring a full valuation allowance on the province's two jointly sponsored pension plans in September 2016.

   At that time, the government passed a time-limited regulation on the accounting treatment of for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from the Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts.

   During the 2016-17 year, the province's professional accounting staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans.

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This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel, established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans.

  The panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017, which supported the government's position that a valuation is not required for these two plans under PSAS.

  Two key findings of the panel were:

  1) There is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record and asset, as the existing agreements in place between the parties support the recognition of an expected benefit; and

  2) Unilateral control is not required for asset recognition. Joint control with each party having the ability to deny the actions of the other sponsor provides evidence of shared control, supporting recognition of an asset.

- An opinion from Deloitte LLP on aspects of the province's accounting as of March 31, 2016 for the Ontario Teacher's Pension Plan (OTPP). The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under PSAS, even though the province did not have a unilateral right to reduce contributions. (The opinion did not address the value at which the asset should be recorded.)

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or Ontario Public Sector Employee's Union Pension Plan (OPSEUPP) as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

After significant deliberation, including consideration of the recommendations of the panel, Deloitte LLP and EY, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and prepared in accordance with PSAS for pension asset accounting. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension

assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

We respectfully disagree with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.

The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.

The province is open to continue to discuss the matter in the hopes of resolving this matter.

2. Why are you still fighting with the Auditor General over pension accounting?

In preparing last year's Public Accounts, the province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the province on the issue. The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan. The 2016-17 financial statements include these pension assets, and the government continues to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

The Treasury Board Secretariat will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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Advisory Panel Compensation

1. **How much did you pay the panel members? Do you think that money was justified?**

   The total cost of the panel was $221,113. This included compensation and travel expenses for the four panelists, as well as procurement. These rates are consistent with the Agencies and Appointments Directive, which specified up to $2,000 per day for appointees with unique and specialized expertise, or urgent issues affecting government priorities and requiring intense time commitments over a short period of time.

   The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards, and provided independent advice on how to move forward with how Public Sector Accounting Board standards should be applied to current and potential future net pension assets.

2. **Why was Patricia O'Malley included in Public Accounts and not the other panel members?**

   Patricia O'Malley was the chair of the independent Pension Asset Expert Advisory Panel (PAEAP), which provided important advice to government on how to account for jointly-sponsored pension plans. She is included in Public Accounts because her compensation for her work on the Panel was above the $50,000 threshold that must be reported in detail in Public Accounts.

   The other members of PAEAP were paid less than the $50,000 minimum threshold in fiscal 2016-17 that requires they be listed in Public Accounts. Their 2016-17 compensation is captured as part of the "Accounts Under $50,000" category.

   As Paul Martin is a member of the New Brunswick Public Service, he did not receive compensation for his role on the panel. He was only eligible for expense reimbursements.

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

Key Messages

- The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit.
- In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements.
- The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.
- The government supports this enhanced reporting and greater transparency for the economic activities of the IESO.
- The province is open to continue to discuss the issue in the hopes of resolving this matter.
- For further details on the province's decision to accept IESO market accounts on the province's consolidated financial statements, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO's decision to adopt market accounts, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts	Ministry of Energy (IESO)

1. **How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?**

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

   The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

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This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

Key Messages

- The Independent Electricity System Operator (IESO) intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS), and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018.
- The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, the IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, the IESO has also instructed its audit partner to cooperate with the Auditor General's Audit.
- For further details on the province's decision to accept IESO market accounts and rate-regulated accountingI will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Ministry of Energy (IESO)

3. Does the Independent Electricity System Operator (IESO) use Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements?

Yes. The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS).

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The IESO's financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. The IESO received an unqualified, or clean, audit opinion on its 2016 financial statements.

4. Why is the IESO now including market accounts on its financial statements? Does this go against PSAS?

The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS.

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

5. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

Canadian Public Sector Accounting Standards (PSAS) are silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of*

transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America, including the:

- Alberta Electric System Operator (AESO)
- ISO New England
- New York Independent System Operator (NYISO)
- Midcontinent Independent System Operator (MISO)
- PJM Interconnection LLC and,
- Electric Reliability Council of Texas (ERCOT).

6. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. The implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

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The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

AG Audit of 2017 Statements

Key Messages

- The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, the IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, the IESO has also instructed its audit partner to cooperate with the Auditor General's Audit.

For QAs related to:	See:
Audit of IESO's statements	Ministry of Energy (IESO)

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ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

Key Messages

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in the Public Sector Accounting Board's guidebook.
- The province's professional staff have appropriately applied this guidance in assessing the accounting for the OFHP.
- For further details on the province's decision to accept OFHP accounting, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

7. Will the government follow Public Sector Accounting Standards (PSAS) for Ontario's Fair Hydro Plan?

The province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

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- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

The province's professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

8. Will the government follow the accounting standards set by historical precedent, as cited by the Auditor General?

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. There are, however, crucial differences between the two.

For example, the OEFC stranded debt had already been incurred when the 1999 restructuring of the former Ontario Hydro took place.

In the case of OFHP, the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the Clean Energy Adjustment, which can be held and realized or can be sold.

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

The OFHP Global Adjustment deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected

lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

9. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

While the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

On the point of "true financial impact":

In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior

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governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the province's finances fairly, accurately and in accordance with PSAS.

On the point of "a financing structure that is the least costly for Ontarians":

The OFHP financing structure has been designed to provide electricity rate relief to current ratepayers, including by more fairly allocating costs for specified consumers, with the Global Adjustment cost amounts still ultimately borne by specified electricity ratepayers, as beneficiaries of those electricity system costs.

The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. Having the rate-base pay is not a new policy, for example Hydro One has borrowed in the capital markets since 2000.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (the Fair Hydro Plan Trust) that will manage the debt obligations. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO).

The cost analysis in the Office of the Auditor General's report was sourced from the FAO's May 2017 report. Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Recent government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

The province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management.

10. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

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In developing Ontario's Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

11. Both the Auditor General and the Financial Accountability Officer have raised serious concerns about the accounting treatment of the electricity cost refinancing initiative. Why should Ontarians believe this government over two independent officers of the Legislature?

The province has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

In developing the Ontario Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting

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Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

The province, as always, will prepare its consolidated financial statements in accordance with PSAS and continue to build on its track record of responsible fiscal management.

12. The Auditor General says that you are "obfuscating" the true financial impact of Ontario's Fair Hydro Plan through a "needlessly complex" accounting structure. How do you respond?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

OFHP is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

While the implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized, the financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

13. How can you justify the $4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance 55 per cent, at a higher interest rate than the province, instead of the province financing the entire electricity cost financing)?

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Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

The Auditor General's report suggests that all the costs of OFHP should be reflected as if they will be borne by taxpayers, which is inaccurate.

Ontario Power Generation (OPG) is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Officer (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

For further questions about borrowing estimates, please contact the Ministry of Finance.

14. The AG claims that when the government first gave Ontarians an 8 per cent break on their bills, it was reported on the books properly. She says when it jumped to 25 per cent, the accounting changed. Isn't it obvious that the government is cooking the books to suit their needs?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions.

It is our role as public servants to provide our best advice and due diligence.

As always, the province adheres to Canadian Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board.

The province will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.

It's important to note that while PSAS is the primary source of guidance for the government in the preparation of its financial statements, there are circumstances where governments may refer to other accounting frameworks for guidance where PSAS is silent and does not address specific transactions.

In this case where PSAS is silent on the use of rate-regulated accounting, US accounting standards contain the most developed and appropriate guidance for this transaction.

15. The Auditor General says that even your own government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Multiple options were considered in creating the OFHP framework – such as to have local distribution centres finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution centres to finance the balances.

The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.

Ultimately, OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

Key Messages

- The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.
- As always, we will prepare the province's consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS), including the transactions resulting from Ontario's Fair Hydro Plan (OFHP).
- For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to

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allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of PSAS.

- This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.
- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

1. **Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.

   The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

   The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

2. **The Auditor General said that a similar move to legislate accounting to defer costs was proposed with the restructuring of the Ontario electricity**

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sector in the late 1990s, but the Auditor General's opinion at that time was that this would represent a departure from a central tenet of generally accepted accounting principles. The government at that time heard these concerns, and made the decision to not create an asset for future anticipated ratepayer payments. Why does the government think this is ok now?

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. There are, however, crucial differences between the two.

For example, the OEFC stranded debt had already been incurred when the restructuring took place.

In the case of OFHP, the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the Clean Energy Adjustment.

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

The OFHP Global Adjustment deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

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AG Recommendation #9: Arm's Length Trusts

Key Messages

- The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.
- Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight.
- The province will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
- For more information on arm's length trusts, I will pass it to:
    - Cindy Veinot, Provincial Controller
    - Deputy Imbrogno

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy

1. **Will the government avoid establishing arm's length trusts in order to record an expense in its financial statements before it is necessary, given that it loses the ability to ensure funds are provided to the appropriate beneficiaries?**

   The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.

   Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arm's length and is able to demonstrate proper oversight.

   A trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the province to enter into agreements with each distributor.

   The trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

   While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred, as well as the

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ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Records Disclosure/Process

Key Messages

- The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- Senior ministry officials have met and continue to work with the Office of the Auditor General by participating in interviews and providing documentation.

For QAs related to:	See:
MOE Records Disclosure	Ministry of Energy

1. **The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?**

   The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

   The implementation of Ontario's Fair Hydro Plan is ongoing, with significant accounting and financial decisions still being finalized.

   Treasury Board Secretariat has released all requested records.

   Senior ministry officials have met with the Office of the Auditor General by participating in interviews and providing documentation.

   If asked about the Ministry of Energy emails:

   The Ministry of Energy, Finance, and the Treasury Board Secretariat are committed to assisting the Auditor General.

2. **In an email, a TBS official said [___], disagreeing with the government's policy decision. How do you respond?**

   As public servants, it is our role to provide our best advice and conduct our due diligence to inform decision-making. Part of this process includes questioning and deliberations.

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The record you are referring to is part of that discussion process, where we as public servants engage in deliberations and explore the options to get to the point of providing our best advice.

It is important to keep in mind that an individual email represents a point in time of the discussion.
That statement is not necessarily representative of the final advice put forward and an endorsement of what the public service has identified as the best approach.

The records must be considered in the context of discussion and deliberation, as an exercise in due diligence, and not as a final endorsement of an option or approach.

3. When does TBS not provide information through a Freedom of Information request?

Since 2015, TBS has been 100 per cent compliant for all Freedom of Information requests it has received.

In some cases, records may contain information that will be withheld in accordance with the legislation, such as personal information about individuals, confidential business information, advice to government or information that is subject to solicitor client-privilege.

Re-Design of Hydro Bills

For QAs related to:	See:
Hydro Bills	Ministry of Energy

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PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

Key Messages

- The province takes the Auditor's recommendations seriously and remains committed to working constructively with the Auditor General.
- The government has not yet made a decision on whether and when to release a Pre-Election report.
- We are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.

For QAs related to:	See:
Pre-Election Report	Ministry of Finance (Joint lead with Treasury Board Secretariat)

1. **Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?**

   Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report.

   The province remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.

2. **Is the government required to issue a pre-Election Report?**

   Provisions in the Fiscal Transparency & Accountability Act, 2004 (FTAA) allow for – but do not require – a regulation to be filed requiring the release of a Pre-Election Report and a review of that report by the Auditor General.

3. **The Auditor General signalled her readiness to work with the government to examine the pre-election report, why has the government waited this long to engage with the Auditor?**

   The province takes the Auditor's recommendations seriously. The government has not yet made a decision on whether and when to release a Pre-Election

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report. We are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the Province's fiscal position in advance of the election.

4. **Minister Sousa recently signalled that the government is not planning on issuing a Pre-Election Report. How do you feel about the government continuing to circumvent the Auditor General and avoiding accountability?**

The province takes the Auditor's recommendations seriously. As I understand, the government has not yet made a decision on whether and when to release a Pre-Election report. We are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

1. **How can your debt reduction plan be trusted if you're not using proper accounting for pension assets and the Fair Hydro Plan?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.

   PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and is used by all senior governments in Canada.

   PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

   Our professional staff exercises judgment in applying the standards and as necessary consults with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

   All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

   That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

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Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

1. **Does a qualified opinion from the Auditor General impact the province's credit rating?**

   The province's financial results show that the government has beaten its annual deficit targets. In April 2017, Ontario delivered its first balanced budget since the global recession and is on track to do so again next year and the year after.

   The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the province. However, there were no credit rating implications in 2016 when the province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

Key Messages

- The Treasury Board Secretariat (TBS) will continue to take a proactive approach to raising issues with the Office of the Auditor General.
- The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.
- When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

For QAs related to:	See:
Ministry use of external advisors	Ministry of Energy Ministry of Finance

1. **Will the government provide copies of contracts it enters into for accounting advice to the Auditor General?**

   The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

   The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

2. **Will the government build into its contracts with external advisors a requirement to notify the Auditor General of their engagement?**

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

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3. **Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.**

   The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

   The government's use of external expertise for accounting and financial reporting matters is a normal course of business and supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis.

4. **It seems like you use consultants to circumvent the Auditor General, when it looks like she may disagree with your accounting methods. Why don't you let the Auditor General know when you're using external advisors for something that impacts her Office's ability to do their job?**

   The government's use of external expertise for accounting and financial reporting matters is a normal business practice and supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis. The professional staff takes responsibility for the final decisions that are made with respect to the application of PSAS to the government's transactions.

   The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.

5. **Are you going to hire an expert advisory panel, as you did on the pension asset accounting matter, to settle this dispute with the Auditor General? If so, what authority would this panel have?**

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There are no plans to establish a panel at this time.

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

The province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

6. Can you tell us how many consultants are being paid high salaries with public money while keeping themselves off the sunshine list?

The government continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

7. How much did the Treasury Board Secretariat spend on consultants?

The Treasury Board Secretariat (TBS) spent approximately $202 million in 2016-17 on consulting services:

- $167M is procured by IT Source, Central Agencies Cluster for Ontario Public Service (OPS) ministries. TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries.
- $36M is services procured by TBS programs primarily for IT enhancement, management and other consulting services.

Consultants are used in the OPS when the organization needs to gain external advice and specialized expertise not already available in the OPS, or for short-term and non-recurring projects and initiatives.

TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries as a cost-saving strategy.

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Whenever the OPS need IT consulting services, the first thing we do is look for expertise within the organization. The government turns to IT consultants when it doesn't have the expertise in house, when it needs to gain external advice and specialized expertise, or when the need is short-term and non-recurring. This is true for one-time projects that launch new programs or when Cyber Security staff combine with external experts to carry out Threat Risk Assessments to ensure personal information is safe.

AG Recommendation #8: Timeline of Finalization of Financial Statements

Key Messages

- The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.
- The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.
- Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General.
- As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.
- For further details, I will pass it over to:
    - Karen Hughes, Associate Deputy Minister, Office of the Treasury Board
    - Deputy Thompson

For QAs related to:	See:
Finalization of Financial Statements – Tax Revenues	Ministry of Finance

1. **Will the government improve its planning across stakeholders so that the province's consolidated financial statements are finalized earlier?**

   The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

   The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

   The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts.

   Planning discussions for the 2017-18 Public Accounts have begun between the

Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

2. What will the government do to figure out estimation risks associated with corporate tax and personal income tax revenues earlier?

The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

The province will work with the Canada Revenue Agency (CRA) on the Auditor General's recommendation, as reporting personal and corporate taxation revenues is highly dependent on the information from the CRA.

Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

Adverse or Qualified Audit Opinion

Key Messages

- It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year.
- The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).
- As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.
- PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.
- Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors.
- They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller

1. **The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?**

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

   As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

   PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

   Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

   All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

   That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

2. **Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting?**

   It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. The implementation of Ontario's Fair

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Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

3. The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?

TBS leads the overall Public Accounts process. Public Accounts is a major accountability document which presents the financial statements of the province, provides financial highlights of the past fiscal year, and reports on performance against the goals set out in the Budget.

TBS continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

Last year there was a disagreement among the province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the province.

The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario

Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and TBS continues to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

2016-17 Overall Accounting Changes

1. **Why have you restated prior year's financial statements?**

   When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

   These changes include:

   a. **A change in the presentation of accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
   b. **The adoption of International Financial Reporting Standards as the basis for accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting

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Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.

c. **Accounting for market accounts by Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
d. **Accounting for net pension assets of jointly sponsored pension plans** - the province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

2. Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?

To increase transparency, in 2016-17 we have made a simple change to how we are reporting third party revenues for broader public sector organizations.

For the first time, Public Accounts are presenting third party revenues for hospitals, school boards and colleges with provincial revenue. Third party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

3. What is consolidated reporting?

The Province's consolidated financial statements are presented on a consolidated basis, meaning that the Statement of Financial Position (or balance sheet) and the Statement of Operations (or statement of revenues and expenses) reflect the combination of ministry results as well as the financial

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results for organizations that are controlled under the guidance established under PSAS.

Prior to 2016-17, the Province reported the expenses and third-party revenues of hospitals, colleges and school boards on a net basis. This was changed for 2016-17 to reflect expenses and third-party revenues as separate items (on a gross basis), as opposed to being reported together (on a net basis).This affects what you see for the expense reported for the responsible ministries (Health and Long-term Care, Education and Advanced Education and Skills Development) and the breakdown of figures for hospitals, school boards, and colleges. However this has no impact to the annual deficit, net debt or accumulated deficit.

Line-by-line consolidated reporting is in keeping with Public Sector Accounting Board standards and will mean that our presentation for Public Accounts is consistent with other governments across Canada. The Auditor General is supportive of this change.

4. Why is there a change to the accounting for Ontario Power Generation (OPG) and Hydro One?

In the 2016-17 Public Accounts, the financial results of Ontario's investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards (IFRS). Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board requirements and is supported by the Auditor General.

This change has resulted in an adjustment to the opening accumulated deficit and net debt of $1,163 million, of which $683 million relates to transition to IFRS. The impact of this change to the annual deficit is not material to the province in 2016-17.

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1. **How does the Treasury Board Secretariat ensure transparency and accountability in financial reporting?**

   The province continues to strengthen its financial management, ensure clear and consistent accounting practices, enhance oversight and accountability and provide better data and information to the public through more channels.

   The Office of the Provincial Controller Division (OPCD) plays a key role in ensuring this transparency and accountability in the province's financial reporting through its major functions, including:
   - Providing the Ontario Public Service (OPS) and Broader Public Sector with accounting and financial management policy and controllership advice;
   - Maintaining the Public Accounts and preparing the Annual Report and Consolidated Statements and the Public Sector Salary Disclosure;
   - Liaising with the Auditor General of Ontario, as well as other jurisdictions and the Chartered Professional Accountants of Ontario and Canada, on the development of government accounting standards;
   - Supporting the development of financial management and controllership capacity across the OPS; and,
   - Supporting the modernization of government by improving the efficiency, effectiveness, and integrity of its financial systems and processes.

   Treasury Board Secretariat (TBS) also works with the Ministry of Finance to help them prepare key documents like the Budget and the Fall Economic Statement.

   TBS does have a leadership role on some financial items like Public Accounts. But for other things, TBS is mostly in a support role.

   TBS collaborates with other senior level governments to assess the impact of proposed standards by the Public Sector Accounting Board and how specific transactions are reported within the accounting frameworks.

2. **Does the province direct organizations on what accounting standards to use or how to apply them?**

   Placeholder

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Executive Compensation

1. **How can you justify the exorbitant salaries paid to Hydro One executives when families are struggling to pay their hydro bills?**

   The province remains committed to ensuring transparency and accountability in how broader public sector employers manage executive compensation.

   However, Hydro One is now a publicly traded company, and decisions regarding compensation are not made directly by the government.

   For further questions about executive compensation and oversight of specific organizations, please contact the ministry responsible.

2. **Why are Hydro One employees not captured by the Sunshine List? MPP Todd Smith is demanding that the government add Hydro One employees back onto the list. Will you do this?**

   Only public sector employees are included on the Sunshine List.

   As a publicly-traded entity, Hydro One is no longer required to report salaries or benefits earned after December 31, 2014 under the PSSDA.

   However, similar to the Ontario Securities Commission requirements, Hydro One must disclose the total compensation levels of the CEO, CFO and three other highest-paid executives of the corporation each year. This information is available to the public online. Top executive salaries are posted on SEDAR in the Management Information Circular.

   As an Ontario Business Corporation Act (OBCA) company subject to Canadian Securities law, Hydro One continues to comply with rigorous governance requirements that include:

   - Disclosure of board-approved annual financial statements along with quarterly updates;
   - CEO and CFO Certifications and Associated Controls certifying that there are no misrepresentations in the annual or quarterly materials;
   - Shareholders' meetings requirements and rules;
   - Disclosure requirements with respect to management circulars (including information about senior management, such as share ownership, any indebtedness to the company and any interest in material transactions) as well as compensation circulars (executive compensation disclosures including shares awarded, perks and incentives).

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3. How do you justify the upward trend of public sector employees making more than $100,000 across all sectors in 2016?

Overall, for 2016 the total number of employees disclosed in the Compendium has increased by 6.6%, to 123,410 employees in 2016 from 115,746 in 2015.

There are a number of reasons why employees may appear on the list, including:

- Employees who are progressing in their career to more challenging positions;
- Natural progression through salary ranges;
- Overtime payments;
- Retroactive pay awards;
- Performance payments; and,
- Payments that may be required on retirement (e.g. to reimburse the employee for unused vacation credits).

In addition, there were some payouts that impacted the 2016 salaries for reported employees, including an increase to base salaries for non-bargaining employees paid as a retroactive lump sum in December 2016 and an arbitration award which provided retroactive pay to members of the OPP.

The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was enacted in 1996 and has not been adjusted to keep up with inflation. If the salary threshold was adjusted for inflation, it would be $149,424 in today's dollars, reducing the number of employees included in the compendium by 84%.

The government is committed to providing high-quality public services and values the hard work of its dedicated public servants. The employees on this list:

- Deliver key government services;
- Make sure Ontario's food and water is safe;
- Make sure quality health care is available to every resident in the province;
- Make sure quality education is available to every child in the province;
- Make sure Ontario's roads and workplaces are safe; and,
- Bring jobs and investment into Ontario.

The province needs to pay salaries which are competitive in order to attract and retain top talent to deliver quality public services.

4. Who were the top 10 employees on the entire list and what were their salaries?

The top 10 earners all work largely in the health sector and in Ontario Power Generation. These people all hold executive positions:
- 6 of the 10 are in the health sector;
- 2 are from Ontario Power Generation;
- 1 is at the University of Toronto; and,
- 1 is at the Ontario Pension Board.

Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

5. **We learned that the president of OPG, who was the top earner on the province's payroll in 2016, actually made $700,000 more than the sunshine list that was disclosed earlier this year. The difference was a bonus that showed up on OPG's books, but was suspiciously left off the government's books. How many more six-figure bonuses has the President of the Treasury Board hidden from the people of Ontario?**

   The province continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

   Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

   For 2016, the Treasury Board Secretariat as a ministry reported 996 employees compared to 875 in 2015, an increase of 13.8%. The number increased primarily due to compensation changes, retirement pay-outs, severance payments, overtime and reorganizations.

   The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was introduced in 1996. In today's money the threshold would be $149,424 and would include only 56 (5.6%) of the 996 TBS employees on this year's list and exclude 940 (94.4%).

   Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

6. **How does this government allow salaries that are completely excessive when the average Ontarian can't afford their hydro bill/is working twice as hard because of government cuts/is not part of this millionaire's club?**

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In the 2017 Budget, the government announced that it will continue to take a balanced approach to managing compensation. This approach will recognize the need to maintain a stable, flexible and high-performing public-sector workforce that supports the government's transformational priorities and at the same time ensures that public services continue to remain affordable.

A result of recent efforts to reduce spending through compensation restraint and program transformation, the government has delivered on its commitment to balance the budget by 2017-18, while making program spending more sustainable and also protecting the important public services that Ontarians rely on.

A balanced approach to compensation recognizes the need to attract and retain talented leaders and individuals to ensure a modern, sustainable, and inclusive Ontario Public Service, while also remaining competitive with public sector peers.

To this end, the province will continue to provide effective and affordable public services, while recognizing the need for fair compensation.

Government Advertising

1. **How can you justify spending $5.5 million on self-congratulatory advertising for Ontario's Fair Hydro Plan?**

   Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

   Ontario needs government advertising that is appropriate, reasonable and effective because the public has a right to know how public money is being spent, and why the government is bringing forward policy changes.

   At this time, I would like to clarify that the Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

   For further questions about specific advertisements or advertising campaigns, please contact the ministry responsible.

2. **For the Hydro Bill partisan inserts – the Auditor General points out that "addressed mail" is non-reviewable (i.e., something was sent to a household by name) as compared to bulk mail which is reviewable. Will you continue to overlook this loophole so that public money can be used to send partisan messages directly to Ontarians?**

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Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

This legislation was introduced in 2004 to prevent government use of taxpayer dollars for partisan advertising.

Ministries still abide by the principles of the Government Advertising Act in all paid advertising, whether it goes to the Office of the Auditor General or not.

SCENARIO QUESTIONS

Speculation

1. **What do you think the intentions of the government were when they…**

   As a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   We provide neutral advice to support decision-making.

2. **What do you think the Auditor General will do…**

   It would be inappropriate for me to speculate on how the Auditor General may issue a future opinion.

3. **Other requests for speculation…**

   I'm not able to comment on something that may or may not happen.

   I'm happy to speak to the contents of chapter two of the Auditor General's report.

Cabinet Confidential

1. **Can you tell us about the advice you provided to the government…**

   I am unable to speak to the advice that was provided, as this would be considered confidential advice provided to Cabinet.

Confidential

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1. **Can you tell us about the advice you provided to your minister…**

   I believe this matter could be considered confidential advice provided. I would be happy to look into this matter further to clarify the scope of confidentiality and provide a written response back to the Committee.

Insisting a Specific Official Answer

1. **I do not want [____] to answer, I want to hear the response from you.**

   I am happy to provide a response to the question in my role as a public servant for the Treasury Board Secretariat.

   [Provide response as within your position's scope.]

   I cannot speak to the specific point you are raising, and as mentioned, [____] would be more appropriate to respond.

   What I can tell you is [____]

Insisting on Commitment

1. **Can you give us an exact figure on…**

   I want to be absolutely precise and specific, so I will need to get back to you with the exact number.

Politicization

1. **Why did the government make [____] decision?**

   As a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   It is our role to provide our best, objective advice to support government decision-making.

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PLACEHOLDER

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:

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Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	**See:**
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

For QAs related to:	See:
IESO Market Accounts	Treasury Board Secretariat Ministry of Energy

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Treasury Board Secretariat Ministry of Energy

AG Audit of 2017 Statements

For QAs related to:	See:
Audit of IESO statements	Treasury Board Secretariat Ministry of Energy

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ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

For QAs related to:	See:
OFHP Overall	Ministry of Energy
OFHP Accounting	Treasury Board Secretariat

AG Recommendation #6: "Legislated Accounting"

For QAs related to:	See:
OFHP Overall	Ministry of Energy
"Legislated Accounting"	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy
Accounting for Trust	Treasury Board Secretariat

Records Disclosure/Process

- Messaging TBC

For QAs related to:	See:
Records Disclosure/Process	Treasury Board Secretariat Ministry of Energy

1. **Has the Ministry of Finance provided all records to the Auditor General of Ontario?**

   In response to a request for information from the Auditor General's office regarding the Ontario Fair Hydro Plan, the Ontario Financing Authority (an agency under the Ministry of Finance) provided 3,252 emails in two batches: 1,190 e-mails on June 23, 2017 and 2,062 on July 18, 2017.

Re-Design of Hydro Bills

For QAs related to:	See:
Re-design of hydro bills	Ministry of Energy

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PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

- Messaging TBC – TBS

For QAs related to:	See:
Pre-Election Report	Treasury Board Secretariat (Joint lead with Ministry of Finance)

2. Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report.

The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

- The balanced budgets from 2017–18 onwards will limit the increase in net debt-to-net investments in capital assets. These investments will contribute to the economy growing at a faster rate than net debt, allowing the government to reduce Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent.
- There is a strong demand for Ontario bonds in both the domestic and international markets. Last fiscal year, Ontario was able to borrow $27 billion in long-term debt while our spread — or the margin that we have to pay over the equivalent Government of Canada bond — tightened, indicating an ongoing strong demand for Ontario bonds.
- We expect that the liquidity of Ontario benchmark bonds, and continuing confidence in the value of Ontario debt, will allow us to cost-effectively complete the 2017–18 borrowing program.

3. What is the government doing to manage the province's debt burden?

The very important first step in reducing debt is to balance the budget. We are projecting a balanced budget for 2017-18, delivering on a commitment first introduced in the 2010 Budget.

As the result of a balanced budget, and Ontario's strong economic growth, the net-debt-to-GDP ratio is declining.

The government has set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24, and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.

4. What is the status of the province's borrowing plan?

Through prudent and cost-effective debt management, we have consistently kept interest on debt costs below budget projections. Interest on debt to revenue is forecast to be 8.2 per cent in 2017-18, 8.3 per cent in 2018-19 and 8.4 per cent in 2019-20.

Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs.

As of January 31, 2018, $28.6 billion (or 111 per cent) of this year's long-term public borrowing of $25.8 billion has been completed.

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Financial Accountability Office (FAO) Reports

5. What is the government's response to the FAO's fall 2017 report, which states that the government will run a deficit in 2017-18 and the following years?

Ontario's deficit for 2016-17 was $991 million — $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget, according to public accounts.

The Ministry of Finance is projecting a balanced budget in 2017-18. The Ministry of Finance is committed to a responsible fiscal plan. We build prudence into our forecasts.

Since the time of the 2017 Budget, private sector forecasters have revised up their economic growth projections for Ontario over the 2017-20 period, reflecting the strength in the Ontario economy.

Using the government's accounting presentation (i.e. excluding the AG's recommended treatment), the FAO is projecting a small surplus in 2017-18.

6. Why are the FAO's revenue forecasts lower than the government's revenue forecasts?

The government is projecting total revenue to grow from $140.7 billion in 2016–17 to $158.2 billion in 2019–20. This represents an average annual growth rate of 4.0 per cent.

Growth in revenues over the medium term is driven mainly by taxation revenue which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent. The projected taxation revenue growth aligns with growth actually experienced in recent years, and projections for the Ontario economy.

Credit Ratings

- Ontario currently maintains a double-A rating with three of its four credit rating agencies.
- We continue to update the rating agencies on a regular basis on economic and fiscal developments.

7. What are the credit rating agencies' views on Ontario?

Following the release of the 2017 Budget, all four rating agencies — Moody's, DBRS, Fitch, and S&P — confirmed Ontario's long-term credit ratings.

This reflects rating agencies' confidence in our government's fiscal plan.

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8. How have rating agencies responded to the qualified opinion on the public accounts and the recent report from the Auditor General?

The rating agencies make their own assessment of the Province's finances.

However, there were no credit rating implications either this year or last when the government received a qualified audit opinion on its Public Accounts.

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Preparation of Public Accounts

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

1. **Q re: Ministry of Finance use of external advisors**

   Answer….

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat

1. **QAs on finalization of financial statements – tax revenues, etc.**

   Answer…

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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OTHER

- MOE Key Message 1
- MOE Key Message 2
- MOE Key Message 3
- MOE Key Message 4
- MOE Key Message 5

1. **Qs that may come up that are not included in the categories above…**

   Answer…

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Attachment A. TBS Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

Attachment B. Ministry of Energy Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

Attachment C. Ministry of Finance Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

KAREN HUGHES, ASSOCIATE DEPUTY MINISTER

PUBLIC ACCOUNTS PROCESS

QUESTION

- One of the recommendations in the Auditor General's report is that the Office of the Provincial Controller should "undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies" to allow the Office of the Provincial Controller to release Public Accounts earlier than the usual late August or September.
- I am curious about what releasing Public Accounts earlier would take on the part of the government.
- I know that the process requires a lot of work on the part of many people, although I'm not necessarily clear on the mechanics of putting the Public Accounts together.
- So, could you outline what the process is of putting Public Accounts together every year?

ANSWER

Placeholder

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LONG-FORM MEMBER QUESTION: BALANCED BUDGET

DEPUTY MINISTER SCOTT THOMPSON

Question:

- How is Ontario planning to keep a balanced budget?

Answer:

- TBD: Revisions based on updates related to Q3 Finances once available
- My ministry has been working to execute the government's goal of balancing the budget.
- This started with a plan that was first introduced in the *2010 Budget*, when the province started to recover from the recession.
- Ontario today is projecting a balanced budget for 2017–18 and for the next two years, 2018–19 and 2019–20.
- A balanced budget makes available more investment options to spur economic growth and job creation, and helps protect the programs and services people rely on most, such as health care and education.
- Ontario's plan has five main areas of focus:
    - Maximizing revenues without causing undue tax burdens on Ontarians
    - Managing its expenses without detracting from the quality of social services and health programs
    - Balancing revenues and expenses against each other to manage the debt
    - Funding programs that help Ontarians, and
    - Investing in infrastructure to promote economic growth and job creation.

- I will now address each area in turn.

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Revenues:

- The 2016–17 Public Accounts show that Ontario's deficit for last year was $991 million — $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget.
- Fiscal 2016–17 was the eighth year in a row that the Province has beaten its deficit target.
- This was a result of growth in revenue that exceeded growth in program expenses, and lower-than-forecast interest on debt.
- And so part of the plan to balance the budget involves optimizing assets and maximizing revenues.
- The Public Accounts for 2016–17 show total revenues were $140.7 billion, $2.2 billion higher than the 2016 Budget projection.
- Additionally, Ontario's total revenues are projected to grow from this $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- This increase represents an average annual growth rate of four per cent.
- The higher revenues for 2016–17 — and the projected growth of revenues through 2019-20 — are largely due to higher-than-expected tax revenues, the optimization of government business enterprises, and transfers from the Government of Canada and other non-tax revenue.

- First, let me address tax revenues.
- Growth in revenues over the medium term is driven mainly by taxation revenue, which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent.
- For fiscal year 2016–17, tax revenues were $293 million higher than projected, mainly due to higher-than-expected Harmonized Sales Tax revenue, reflecting stronger growth in Ontario household expenditures.

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- Secondly, the Government of Ontario is also implementing a multi-year strategy to optimize its assets and maximize its revenues through the sales of shares in Hydro One, LCBO head office lands and Ontario Power Generation's head offices.
- The net revenue gains from the sale of qualifying assets are credited to the Trillium Trust for infrastructure investments, such as roads, bridges and public transit.
- The total amount credited to the Trillium Trust as of March 31, 2017 is $5.3 billion.
- The Province continues to grow and maximize revenues from its government business enterprises, such as Hydro One, Ontario Power Generation, the Liquor Control Board of Ontario and Ontario Lottery and Gaming Corporation.
- The forecast of the income from government business enterprises is projected to grow by $0.7 billion between 2016–17 and 2019–20.
- This projection, at an average annual rate of 3.7 per cent, reflects higher net income overall from government business enterprises.

- Thirdly, Ontario received larger Government of Canada transfers — $145 million higher. This increase reflected new funding for early learning and child care flowing from a bilateral agreement between Ontario and the federal government, as previously reported in the 2017-18 *First Quarter Finances*.
- The forecast for subsequent transfers is based on existing federal-provincial funding agreements.
- Overall transfers are projected to grow by $0.9 billion between 2016–17 and 2019–20, or at an average annual rate of 1.2 per cent.
- This largely reflects projected increases in major ongoing Government of Canada transfers and new funding for early learning and child care, and home care and mental health.

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- Finally, the forecast for other non-tax revenue is based on projections provided by government ministries and agencies.
- The outlook for other non-tax revenues is projected to increase by $0.4 billion between 2016–17 and 2019–20, or at an average annual rate of 0.7 per cent.
- This increase mainly reflects:
    - Fiscally neutral revenues from carbon allowance proceeds starting in 2017–18
    - Fees, donations and other revenues for the broader public sector, and
    - Revenues from vehicle and driver registration fees.
- This is partially offset by lower revenues due to the removal of the debt retirement charge from commercial, industrial and all other electricity users in 2018–19, and the projected net impact of the government's planned asset optimization strategy.
- Notably, the increase in Ontario's revenue is not attributable to increases in personal tax returns.

Expenses:

- Let me now address expenses.
- The Public Accounts for 2016–17 show that total spending was $141.7 billion, $100 million lower than the 2016 Budget projection.
- Program spending expenses accounted for $130 billion.
- Interest on debt, at $11.7 billion, was down $0.7 billion from the 2016 Budget projection.

- Going forward, program expenses are projected to grow from $130 billion in 2016–17 to $144.2 billion in 2019–20.
- This represents an average annual growth rate of 3.5 per cent.
- Growth in program expenses over the medium term is driven by investments to help the people of Ontario, such as health care, supports for seniors, the

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introduction of pharmacare for children and youth under OHIP+, electricity cost relief programs under the Fair Hydro Plan, and new initiatives for small businesses that will lower costs and support growth.

- Interest on debt expenses is projected to grow from $11.7 billion in 2016–17 to $13.3 billion in 2019–20.
- This increase is due to borrowing for capital spending and interest rates that are forecast to rise.
- This represents an average annual growth rate of 4.2 per cent.
- Interest on debt is projected to grow due to borrowing for capital spending and interest rates that are forecast to rise.
- Total expenses are projected to grow from $141.7 billion in 2016–17 to $157.4 billion in 2019–20.
- This represents a manageable average annual growth rate of 3.6 per cent.

Balancing Revenues and Expenses:

- Let me summarize the revenues and expenses together.
- Revenue is forecast to increase from $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- Total expenses are projected to increase from $141.7 billion to $157.4 billion over the same period.
- Based on these estimates, the Ontario government will effectively balance the budget over the next four years.

Funding Programs, Investing in Infrastructure, Promoting Growth:

- Through targeted, measured and fiscally responsible decisions, Ontario has restored its fiscal and economic strength.
- Strategic investments have helped stimulate the Ontario economy to rise from the depths of recession.

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- Over the past three years, Ontario's economy has grown faster than Canada's and that of all other G7 countries.
- The benefits of balanced budgets and a strong economy are already providing the government with the fiscal flexibility to do more to help Ontarians.
- This flexibility enables the government to provide more investments to spur economic growth, job creation and support services people use every day.
- Notable program investments include:
    - $145 million in annual funding to increase the accessibility and affordability of high-quality licensed child care and early learning opportunities
    - $245 million over three years to lower costs for small businesses
    - $155 million over three years to support seniors to remain independent, connected, engaged, healthy and safe
    - $245 million over three years to lower costs for small businesses, create opportunities for growth and simplify their interactions with government.
    - An increase of $1 million in 2017–18 — and then $5 million in 2018–19 and beyond — to provide additional funding through the Northern Communities Grant component of the Ontario Municipal Partnership Fund.

- Growth in program expenses also includes investments in infrastructure.
- In fact, Ontario is making the biggest investment in public infrastructure in its history.
- The government's long-term infrastructure plan to invest about $190 million over 13 years, starting in 2014–15, will contribute to the growth of the economy.
- The government's historic investment in infrastructure includes:
    - $31.5 billion over 10 years for public transit, transportation and other priority infrastructure projects across Ontario
    - $11 billion over 10 years in capital grants to school boards, and
    - $900 million over 10 years for critical maintenance repairs and upgrades.

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- These investments will not only create jobs, support business innovation and help draw investors from abroad — they will also contribute to the provincial economy growing at a faster rate than the change in its net debt.
- Investments such as these have helped to stimulate the Ontario economy, which has continued to grow despite an uncertain global climate.
- From 2014 to 2016, Ontario outpaced all G7 countries with its real GDP growth.
- As the result of a balanced budget and Ontario's strong economic growth, the net debt-to-GDP ratio is declining.
- In the 2017 Budget, the Ontario government set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24. The government is now projecting to meet this target a year earlier.
- We continue to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.

Conclusion:

- In September, the Public Accounts of Ontario 2016–17 reported that the 2016–17 deficit was $1.0 billion, an improvement of $3.3 billion from the $4.3 billion projection in the 2016 Budget.
- Total revenue for 2016–17 came in at $140.7 billion, which was $2.2 billion higher than the 2016 Budget.
- This was largely due to higher-than-expected tax revenues, the optimization of government business enterprises and transfers from the Government of Canada and other non-tax revenue.
- Total spending for 2016–17 came in at $141.7 billion, which was $0.1 billion lower than the 2016 Budget.
- Program spending was $130.0 billion, up $0.6 billion from the plan of $129.4 billion.

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- Spending in health, children's and social services, and other programs was higher than planned.
- Interest on debt expense was $11.7 billion, $0.7 billion below the plan of $12.4 billion, due mainly to lower-than-forecast interest rates, and cost-effective borrowing and debt management.
- In conclusion, the Ontario government is on track to balance the budget this fiscal year — 2017–18 — as well as the next two fiscal years.
- Prudently managing the province's finances is one of my ministry's responsibilities to the people of Ontario.
- Thank you.

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LONG-FORM MEMBER QUESTION: CREDIT RATING

DEPUTY MINISTER SCOTT THOMPSON

Question:

- What are the plans to keep Ontario's credit rating in good standing?

Answer:

- TBD: Revisions based on updates related to Q3 Finances, once available.

Introduction:

- Following the release of the 2017 Ontario Budget, four credit rating agencies – Moody's, DBRS, Standard & Poor's and Fitch – confirmed Ontario's healthy long-term credit ratings. This reflects rating agencies' confidence in the Government's fiscal plan – and its ability to grow Ontario's economy and create jobs for Ontarians.
- Let me summarize the reports by each of the credit rating agencies.

- First, Moody's.
- Moody's cautioned that the Ontario Fair Hydro Plan, announced in March 2017 to reduce electricity prices, adds credit pressure due to the direct financial impact of the sales tax rebate and the indirect impact of an elevated debt of a provincially owned entity.
- Overall, however, Moody's said its stable outlook for Ontario "reflects Moody's forecast that, as the province moves towards and achieves balanced budgets,

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the province's debt burden will improve marginally and interest expense will remain manageable across the medium-term….The policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices outlined above, has helped to support the province's Aa2 rating."

- Moody's positive outlook for Ontario's credit rating is based on the following credit strengths: prudent debt management, an institutional framework providing significant fiscal policy flexibility, and a large diversified economy supporting a broad and productive tax base.

- Next, DBRS.
- DBRS noted that Ontario's credit profile is stable, but it will remain vulnerable to an economic shock in the absence of a more concerted effort to reduce debt.
- DBRS also commented on the potential downside risks to the economic outlook due to uncertainty regarding the potential renegotiation of NAFTA and U.S. tax policy, as well as political integration in Europe.
- Finally, it noted that elevated household debt and housing market dynamics leave Ontario particularly vulnerable in the event of an unforeseen shock that results in significant job losses or a rapid increase in interest rates.
- Despite these concerns, DBRS expects Ontario's credit ratings to remain stable.
- DBRS said of Ontario, its "ratings remain well supported by the province's large and diversified economy, improving budgetary results and declining debt burden" and that "the return to balance is encouraging and suggests that there will likely be some modest improvement in the Province's credit metrics over the medium term."
- DBRS concluded by saying that Ontario's stable credit profile stems from strength in the underlying economy, which provided incremental revenue more than sufficient to offset the in-year spending pressures.

- Standard & Poor's is next.

- Standard & Poor's believed that Ontario's credit profile is strengthening.
- But before considering a positive rating action, they would need to see sustained improvement in budgetary performance leading to near-balanced after-capital results, coupled with ongoing declines in the tax-supported debt burden, making Ontario's finances more comparable with peers in the 'AA' category.
- Standard and Poor's said it "expects the province of Ontario to benefit from solid economic growth over the next two years, allowing it to generate additional revenues to fund its capital spending plan and stabilize its finances following its eight-year path back to a balanced operating budget."
- Standard & Poor's concluded by saying that its stable outlook reflects expectations that, within the next two years, the Province will sustain a more balanced budgetary performance, including steady liquidity metrics, modest after-capital deficits, and a high but slowly declining debt burden.

- Finally there is Fitch.
- Fitch's report stated that the Province has demonstrated the ability to exert considerable expenditure restraint while instituting revenue changes to achieve its deficit reduction objectives.
- It said Ontario's 'AA-' rating is supported by its wealth, diversified economy and generally sound financial management.
- Fitch's rating reflected the Province's very strong and diversified economy, strong financial management, very predictable and well-balanced institutional framework and low contingent liabilities.
- Ontario's credit profile is stable.

- For Ontario's credit profile to grow in strength, the Province will need to do several things.
- It will need to show a track record of consistent operating surpluses and balanced or near-balanced after-capital results, coupled with continuing declines in direct and tax-supported debt burdens.

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- **To that end, Ontario has the following plan to ensure that its credit rating remains in good standing.** It is:
    - Optimizing assets and revenues without causing undue tax burdens on Ontarians.
    - Managing expenses without detracting from the quality of social and health services.
    - Balancing revenues and expenses against each other to manage the debt, and
    - Maintaining a reserve fund to mitigate unforeseen financial risks.
- I will now go into more detail on each of these points.

Revenues:

- Total revenues for 2016–17 were $140.7 billion, $2.2 billion higher than the 2016 Budget.
- Additionally, Ontario's total revenues are projected to grow from $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- This represents an average annual growth rate of four per cent.
- The higher revenues for 2016–17 and the projected growth of revenues through 2019–20 are largely due to three factors:
    - Higher-than-expected tax revenues.
    - Income from government business enterprises and fees, and
    - Transfers from the Government of Canada and other non-tax revenue.
- Growth in revenues over the medium term is driven mainly by taxation revenue, which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent. The taxation outlook reflects current revenue information and projections for the Ontario economy. Tax revenues were $293 million higher than projected in 2016–17, mainly due to higher-than-expected Harmonized Sales Tax revenue, reflecting stronger growth in Ontario household expenditures.

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- The Government of Ontario is also implementing a multi-year strategy to optimize its assets and maximize its revenues through the sales of Hydro One, LCBO head office lands and Ontario Power Generation's head offices. The total amount credited to the Trillium Trust as of March 31, 2017 is $5.3 billion. The net revenue gains from the sale of qualifying assets will be credited to the Trillium Trust for infrastructure investments, such as roads, bridges and public transit, under the Moving Ontario Forward plan. In 2016–17, the Trillium Trust was drawn down by approximately $260 million to help support these projects.
- Finally, Ontario received larger Government of Canada transfers — $145 million higher. This increase reflected new funding for early learning and child care flowing from a bilateral agreement between Ontario and the federal government, as previously reported in the 2017–18 *First Quarter Finances*.
- Notably, the increase in Ontario's revenue is not attributable to increases in personal tax returns.

Expenses:

- Ontario's total spending for 2016–17 was $141.7 billion, $100 million lower than the 2016 Budget.
- Program spending expenses accounted for $130.0 billion.
- Interest on debt expense accounted for $11.7 billion – $0.7 billion below the plan of $12.4 billion.
- This drop was due mainly to lower-than-forecast interest rates, and Ontario's cost-effective borrowing and debt management.
- Going forward, Ontario program expenses are projected to grow from $130.0 billion in 2016–17 to $144.2 billion in 2019–20.
- This represents an average annual growth rate of 3.5 per cent.
- Interest on debt expenses is projected to grow from $11.7 billion in 2016–17 to $13.3 billion in 2019–20.
- This represents an average annual growth rate of 4.2 per cent.

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- Total expenses are projected to grow from $141.7 billion in 2016–17 to $157.4 billion in 2019–20.
- This represents a manageable average annual growth rate of 3.6 per cent.
- These increases align with the government's plans for modernizing the public services people rely on every day.
- They are also fiscally sustainable.
- In short, the Ontario government has been managing its program expenses as well as its interest-on-debt expenses.

Balancing Revenues and Expenses:

- To bring the revenues and expenses together…
- Revenue is forecast to increase from $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- Total expenses are projected to increase from $141.7 billion to $157.4 billion over the same period.
- Based on these estimates, the Ontario government will effectively balance the budget over the next four years.

The Reserve:

- I will now take a moment to address the Province's financial reserve and contingency funds.
- As required under the *Fiscal Transparency and Accountability Act*, Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes in revenue and expenses.
- The current fiscal outlook includes a reserve of $0.5 billion in 2017–18, $0.5 billion in 2018–19 and $0.8 billion in 2019–20.
- The current outlook also maintains contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance — particularly in cases where health and safety may be compromised, services to the most vulnerable are jeopardized, or natural disasters occur.

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Conclusion:

- Credit ratings provide an assessment of a government's credit-worthiness.
- They are a reflection largely based on its capacity to generate revenue to service its debt.
- They consider factors such as a government's economic resources and prospects, industrial and institutional strengths, financial health, and susceptibility to major risks.
- As you know, a credit rating affects the cost of future government borrowing with a lower rating, indicating that an agency believes there is a relatively higher risk that a government will default on its debt.
- Accordingly, investors will lend to the government only in return for a greater risk premium, in the form of higher interest rates.
- A rating downgrade could also shrink the potential market for a government's debt, because some investors will not hold debt below a certain rating.
- Therefore, it is critical that Ontario maintain its credit rating in good standing to manage its debt and preserve its fiscal health.
- Ontario's plan to keep its credit rating in good standing involves the following strategies:
    - Optimizing assets and revenues without causing undue tax burdens on Ontarians.
    - Prudently managing expenses without diminishing the quality of Ontario's services and programs.
    - Balancing revenues and expenses against each other to manage the debt, and
    - Preserving a reserve fund to mitigate unforeseen financial risks.

- Seen as a whole, these strategies will ensure confidence in Ontario's credit-worthiness through its ability to effectively manage its debt obligations.

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- Protecting the financing of Ontario's public services will continue to be one of my ministry's highest priorities.
- Thank you.

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LONG-FORM MEMBER QUESTION: DEBT MANAGEMENT

DEPUTY MINISTER SCOTT THOMPSON

Question

- What is Ontario's debt management plan?

Answer

- TBD: Revisions based on updates related to Q3 Finances, once available.
- The Ministry of Finance has a track record of responsible fiscal management and remains committed to executing the government's goal of reducing the provincial debt burden.
- The government's plan to manage the debt focuses on three key areas:
    - Decreasing the net debt-to-GDP ratio.
    - Decreasing the interest on debt-to-revenue ratio.
    - Utilizing term extensions.
- I would like to provide an update of progress on this goal.

Net Debt-to GDP Ratio:

- A key indicator of the government's ability to manage its debt is the level of debt relative to the size of the economy, known as the net debt-to-GDP ratio.
- The ratio of net government debt to the market value of goods and services produced by an economy — known as gross domestic product or GDP — measures the relationship between a government's debt obligations and its capacity to raise the funds needed to meet them.
- It is an indicator of the relative burden of government debt on the economy.

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- If the amount of debt that must be repaid relative to the value of the GDP is rising — in other words, if the ratio is rising — it means the government's net debt is growing faster than the provincial economy, and becoming an increasing burden.

- Before considering Ontario's net debt-to-GDP ratio, let me first discuss the components.
- First, I want to address Ontario's net debt situation.
- Ontario's net debt increased from $295.4 billion as of March 31, 2016 to $301.6 billion as of March 31, 2017.
- It is projected to increase to $311.7 billion by March 31, 2018 and to $323 billion by March 31, 2019.
- About 62 per cent of the increase in net debt from 2008–09 to 2016–17 was due to the deficit.
- The remaining net debt increase was a result of investments in capital assets.
- Balanced budgets from 2017–18 onwards will ensure that increases in net debt will be limited to net investments in capital assets such as roads, bridges, hospitals and schools.
- In other words, the net debt is increasing at a manageable rate, and a smaller portion of it is collected from the deficit.

- Next, let me briefly address the GDP.
- The government's investments in capital assets increased economic growth and helped support Ontario's GDP to advance more quickly than debt, helping the government achieve its net debt-to-GDP targets.
- Over the past three years, Ontario's economy has grown faster than Canada's and that of all other G7 countries.
- In fact, Ontario's real GDP is now 21.3 per cent above its recessionary low.
- Over the 2017–20 period, the Ministry of Finance is forecasting average annual growth of 2.2 per cent in Ontario's real GDP.

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- Government investments have helped stimulate the Ontario economy to rise from the depths of the recession, and it is now enjoying a period of economic strength and growth.

- I briefly addressed the net debt and GDP situations separately; now let me bring them together.
- The 2017 Fall Economic Statement reported that Ontario's net debt-to-GDP ratio is lower than previously forecast.
- The net debt-to-GDP ratio peaked at 39.3 per cent in 2014–15 and has been declining ever since, as a result of Ontario's economic growth and the government's progress towards a balanced budget in 2017–18.
- It is now projected to be 37.3 per cent at the end of fiscal 2017–18, 0.2 per cent lower than was forecast in the 2017 Budget.
- This ratio is projected to continue to decline to 37.1 per cent in 2018–19.
- In the 2017 Budget, the government set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24, and re-stated its commitment to reduce the net debt-to-GDP ratio to its pre-recession level of 27 per cent by 2029–30.
- A declining net debt-to-GDP ratio, together with low interest on debt costs as a percentage of revenues, positions the province for long-term sustainability.
- It also allows for a greater proportion of government spending to be invested in programs and services.

- The reduction of debt is complemented by Ontario's investments in infrastructure, which are supporting economic growth and job creation.
- In fact, Ontario is making the biggest investment in public infrastructure in its history.
- The government's long-term infrastructure plan to invest about $190 million over 13 years, starting in 2014–15, will contribute to the growth of the economy.

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- These investments will not only create jobs, support business innovation and draw investors from abroad — they will also contribute to the growth of the provincial economy at a faster rate than the change in its net debt.
- The positive impact of these capital investments on the province's economy was confirmed by the Centre for Spatial Economics.
- It recently reported that, over the long term, GDP in Ontario increases by up to $6 for every dollar of public infrastructure spending.
- The government's economic strategy was further supported in a report by the International Monetary Fund in June 2016, which recommended that Canadian "fiscal policy should be pro-growth."
- Christine Lagarde, the International Monetary Fund's Managing Director, expressed her support for the government's growth strategy and agreed that investment in infrastructure should be an essential element.
- In summary, Ontario's net debt-to-GDP ratio will gradually diminish due to the GDP increasing at a faster rate than net debt.
- This will allow the government to continue to move towards its 27 per cent net debt-to-GDP target.

Interest on Debt-to-Revenue Ratio:

- Another major thrust of Ontario's plan to manage its debt centres on the interest on debt-to-revenue ratio.
- This is another key indicator of the government's ability to meet its financial obligations.
- Through prudent and cost-effective debt management, the government has consistently kept interest on debt costs below budget projections.
- The 2016–17 Public Accounts show that Ontario's deficit for the last fiscal year was $991 million — $3.3 billion lower than projected in the 2016 Budget and half a billion lower than the interim deficit projection in the 2017 Budget.
- This smaller-than-projected deficit is due to stronger revenues, and reflects positively on the debt-to-revenue ratio.

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- Ontario's interest on debt for 2017–18 is forecast to be $12.2 billion.
- The interest on debt-to-revenue ratio is forecast to be 8.2 per cent in 2017–18, 8.3 per cent in 2018–19 and 8.4 per cent in 2019–20.
- The savings on interest on debt have improved a key measure of the affordability of debt.
- For example, the 2010 Budget forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- By the 2017 Budget, the amount needed for interest payments had dropped significantly.
- The current forecast is 3.1 cents lower — 8.2 cents of interest costs for every dollar of revenue.
- This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through Ontario's outlook period to 2019–20.

Term Extension on Debt:

- Finally, record-low interest rates have enabled the government to keep its annual interest expense steady.
- However, the global decline in interest rates over the last 25 years could not continue indefinitely.
- The Bank of Canada has increased interest rates — twice last year and already once this year.
- Ontario has taken necessary precautions to protect the financing of the province's public services, now that interest rates are widely understood to be on a net rising trajectory.
- To protect the province from these increases, the government has continued to extend the term of its debt.
- Term extension has allowed the government to lock in low interest rates for a longer period, which reduces refinancing risks.
- Extending the term also helps offset the impact of expected higher interest rates on interest on debt costs.

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- Going back to the beginning of fiscal 2010–11, Ontario has issued $68.6 billion in bonds longer than 30 years to lock in low rates.
- As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008–09 to 13.9 years in 2016–17.
- For 2017–18, it stood at 12.8 years as of October 31, 2017.
- If or when interest rates continue to rise, the government will assess whether it will remain cost-effective over the long term to continue to extend the term of its debt.

Conclusion:

- As I said at the outset, the Ontario government has a track record of responsible fiscal management and remains committed to executing its goal of reducing the provincial debt burden.
- To conclude, the government's plan to manage the debt focuses on three key areas:
    - One, decreasing the net debt-to-GDP ratio.
    - Two, decreasing the interest on debt-to-revenue ratio.
    - And three, extending the term on its debt.
- As I have stated, the government has decreased the net debt-to-GDP ratio.
- In the 2017 Budget and the 2017 Fall Economic Statement, Ontario stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected for 2029-2030, together with an interim target of 35 per cent by 2023-2024.
- I also explained how the government has decreased the interest on debt-to-revenue ratio.
- The 2010 Budget forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- However, by the 2017 Budget, the amount needed for interest payments had dropped.

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- The current forecast is 3.1 cents lower — at 8.2 cents of interest costs for every dollar of revenue.
- Finally, I explained how the government has taken advantage of low-interest rates and extended the term on its debt.
- The weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008–09 to 13.9 years in 2016–17, and 12.8 years for 2017–18 as of October 31, 2017.
- In short, Ontario's economy remains strong.
- Protecting the financing of the province's public services will continue to be one of the government's highest priorities.
- Thank you.

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LONG-FORM MEMBER QUESTION: FAIR HYDRO PLAN

DEPUTY MINISTER SCOTT THOMPSON

Question:

- What is the financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budget?

Answer:

- As Deputy Minister of the Ministry of Finance, I will speak specifically to the financial implications of the Fair Hydro Plan on the Province's budget and financial statements.

Ontario's Fair Hydro Plan

- To address issues related to rising electricity costs, especially for families and small businesses, the government announced Ontario's Fair Hydro Plan on March 2, 2017.
- As part of the plan, electricity bills were reduced by 25 per cent on average, or about $41 per month, for all Ontario residents as of July 1, 2017.
- The plan included several important measures.
- First, let me discuss the refinancing of the Global Adjustment.
- The Global Adjustment is the cost of building new electricity infrastructure in the province and maintaining existing resources.
- The majority of the province's electricity generators currently have 20-year contracts.
- Many of these generators will be able to operate past their contract term.

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- In other words, they would still generate electricity after the upfront capital costs have been paid for by the current generation of ratepayers.
- The Government of Ontario believed that present-day consumers should not be burdened with paying for a disproportionate share of investments that provide benefits for decades to come.
- To relieve the current burden on ratepayers, and share costs more fairly, a portion of the Global Adjustment is being refinanced over a longer period.
- This is providing significant and immediate rate relief to ratepayers by spreading the cost of electricity investments over time, to better reflect the expected lifecycle of the infrastructure that has been built.
- According to estimates provided when the Fair Hydro Plan was announced, the immediate reduction in the Global Adjustment would be about $2.5 billion per year, on average, over the first 10 years.

- Second, the plan included an expansion of the Industrial Conservation Initiative or ICI.
- The ICI allows participating customers to manage their Global Adjustment costs by reducing demand during peak periods.
- Customers who participate in the ICI, referred to as Class A, pay Global Adjustment based on their percentage contribution to the top five peak Ontario demand hours over a 12-month base period.
- Ontario expanded eligibility for the ICI program by reducing the threshold from 1 MW to 500 kW.
- This measure allows small manufacturers and industrial consumers the opportunity to participate in the ICI and save on their electricity costs.

- A third component of the plan is Ontario’s rebate for electricity consumers.

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- The government provided an eight per cent Ontario Rebate for Electricity Consumers on electricity bills, equivalent to the amount of the provincial portion of the Harmonized Sales Tax.
- This change was effective January 1, 2017.

- A fourth and important part of the plan allows future increases to hydro bills to be set by regulation.
- This enables the government to hold increases, for four years, to the rate of inflation.
- While rates will rise gradually over time, the government remains committed to avoiding sharp increases.

Assisting the Most Vulnerable Electricity Consumers

- The government has introduced other measures to help the most vulnerable electricity consumers.
- It did this by introducing legislation to enhance some existing programs or introduce new initiatives.
- In particular it enhanced the Ontario Electricity Support Program.
- The Ontario Electricity Support Program is an income-tested, application-based program that lowers electricity costs for the most vulnerable consumers.
- In practice, it provides them with a rebate directly on their bills.
- Effective May 1, 2017, Ontario increased the program by 50 per cent, meaning that single, low-income consumers would get an increase in their rebates ranging from $180 to $276 per year.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $140 million in 2017–18.
- This amount will be covered by provincial revenues.

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- As well, as part of the plan, Ontario has enhanced the Rural or Remote Rate Protection Program, or RRRP.
- The RRRP provides a rate subsidy to rural and remote residential customers who face higher distribution costs.
- As part of the Ontario Fair Hydro Plan, the Province expanded the program to provide distribution delivery charge relief to about 800,000 customers.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $344 million in 2017–18, which will also be covered by provincial revenues.
- Ontario is also helping customers through local distribution companies.

- In October 2017, the Province launched the $100 million Affordability Fund.
- The Affordability Fund provides local distribution companies with an additional tool to help customers in need.
- Local distribution companies can use the fund to provide support to qualifying customers for energy efficiency improvements, to help them reduce their future electricity bills.
- The Affordability Fund is paid through provincial revenues.

- Finally, Indigenous communities in Ontario are also receiving assistance through the First Nations On-Reserve Delivery Credit.
- In 2016, the Ontario Energy Board engaged with First Nations, including remote communities, the distributors serving them and consumer groups.
- Following the engagement process, the board recommended to the Government of Ontario the elimination of the delivery charge for all on-reserve First Nations residential customers.
- The board also recommended removing the monthly service charge for customers of licensed distributors that charge a bundled rate.

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- The board estimates this would provide residential customers an average monthly benefit of $85.
- According to the 2017 Provincial Expenditure Estimates, the credit is anticipated to cost $15 million in 2017–18, which will be funded by provincial revenues.

- In summary, these new measures will cost the government up to $2.5 billion over the next three years.
- The cost is about $500 million in 2017–18, based on a part-year implementation, according to the 2017 Provincial Expenditure Estimates.

Conclusion:

- Taken together, these changes are delivering the single-largest reduction to electricity rates in Ontario's history.
- For all residential consumers in the province, electricity bills have been reduced by 25 per cent on average, or about $41 per month, as of July 1, 2017.
- People with low incomes and those living in eligible rural or remote communities are receiving even greater reductions, as much as 40 to 50 per cent.
- Approximately 500,000 small businesses and farms are also benefitting from the changes.
- On-reserve First Nation residential customers of licensed distributors are getting a 100 per cent credit on the delivery line of their bills.
- Although hydro rate relief costs were additions to the fiscal framework, the government continues to project a balanced budget for 2017-18, and will provide a full update on its fiscal plan in the spring budget.

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TIPS FOR PRESENTING AT SCOPA

Tips for Addressing Committee Members:

Note: Tips are applicable for addressing both Committee Members and media.

- When speaking be mindful of what you say – the proceedings are recorded and there's no such thing as "off the record."

- Adhere to the scripted remarks and prepared Q&As. Do not embellish and ***when in doubt, leave it out.***

    - Be sure you understand the question being asked (it's ok to ask for clarification) and Do NOT answer something you're not 100% sure of.

- If you do not have the response, you may advise Committee Members that the matter needs to be redirected to another ministry, or that you will get the requested information by saying, "I'll look into what is possible to provide."

- Be mindful of only addressing questions/issues that relate directly to the TBS.

- It is acceptable to decline to answer an unrelated question by noting that you are not clear of its relevance to TBS, and that you are prepared to address matters related to the ministry.

- If caught off guard, breathe, listen, work to understand the question, or ask for clarification.

    - Ask the questioner 'Excuse me' or 'I beg your pardon?'
    - Ask the questioner 'Can you kindly help me understand the context of the question/or what you just said?'

- If possible, use a bridging statement to get to your key message/prepared response. (See Appendix A).

- Do not offer personal opinions. Stick to the facts:

    - Leave off qualifiers like "I think" "I feel," and "I believe" which represents an opinion. To sound confident and assured, be mindful not to use qualifiers.
    - Do not use 'I assure you."

- Offer examples of success whenever possible.

Body Language, Tone:

- Be aware of how you come across. There is no benefit to being seen as defensive, argumentative, or unresponsive.

- Project an image of openness, honesty, and empathy.

- Remember to breathe deeply and speak slowly.

    - Controlling your breathing helps deal with the stress.
    - Take several deep breaths as you sit down and get organized.
    - Ahead of appearance take a few minutes in a quiet spot to breathe slowly and deeply.
    - "Super Hero Pose" – stand with your legs shoulder width apart, hands on hips, shoulders back. Do this for two minutes. It helps mentally prepare you ahead of having to speak.

- Use your hands while talking to look natural and help release anxiety. (Note palms up is a subconscious message to those looking at you that you are open and have nothing to hide)

- Avoid body language leakage—those involuntary movements that indicate you're nervous or stressed - e.g. head nodding, swallowing, and pursing your lips.

- Do not touch your face with your hands.

- Avoid repeating negative words that members use in questions. Doing so indicates you accept the negative premise.

- If you feel overwhelmed while speaking in front of an audience, recalibrate by breathing and pausing.

What-Ifs:

1. What if you don't want to answer the question, but you have to say something?

    - Offer a credible reason why you are unwilling to answer the question and identify what you prefer to discuss.

2. What if you're asked for hard numbers, and you don't have the answer?

- Explain, “I want to be absolutely precise and specific, so I will need to get back to you with the exact number”

- Words like “precise,” “specific,” and “exact” convey that the question has been taken seriously.

3. What if you don’t know the answer, but a colleague who is with you may know it?

   - If you need help from the other ADMs, open your response with ‘In a moment I’m going to call on my colleague to get into more detail about this…’ This gives the other TBS representative time to know they’ll be called upon.

   - Briefly discuss a related subject, then pass the question.

4. What if you need to pause?

   - If you have said absolutely everything you need to say, then let there be a pause.

   - Remember it’s not up to you to keep the proceedings going. That’s the Chair’s job. They may intentionally leave dead air in the hopes that you’ll jump in to fill it by saying something you hadn’t intended to.

5. What if the answer is confidential?

   - Explain that confidentiality rules must be respected, so you cannot directly address the issue at hand. (e.g.: that matter is before the courts).

6. What if it’s a question about a rumour?

   - When asked to respond to a rumour, it is best to not respond at all. Instead, state that your focus is always on fact, not rumour.

7. What if the answer is HR related?

   - Say as little as possible. Commenting on someone’s employment record in a negative context can potentially put you in legal jeopardy.

8. What if you don’t like what you’re saying?

   - Don’t feel obligated to complete a sentence or thought. Simply begin the response again.

9. What if it’s a “yes or no” question?

- Unless the question relates to a sensitive issue, skip “yes” or “no” and go right to the message that would follow.

10. What if it's an "is it possible" question?

    - Avoid speculating and tell the committee – "I'm not able to comment on something that may or may not happen."

11. What if you're interrupted mid-answer?

    - The first time, let it go. The second time, ask the Chair to be allowed to finish your thought.

APPENDIX

A. Sample Bridging Statements

1. "We find the more important issue is…"
2. "I think it would be more accurate (or correct) to say…"
3. "Let me emphasize again…"
4. "What matters most in this situation is…"
5. "While _____ is important, it's also important to remember that…"
6. "It all boils down to this…"
7. "And that reminds me…"
8. "Before we leave this subject, I need to add…"

Attachment A. 2017 Annual Report Chapter 2_Public Accounts of the Province (0 Bytes) cannot be converted to PDF format.

Attachment B. 2017 Special Report on Fair Hydro Plan (0 Bytes) cannot be converted to PDF format.

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Security settings or invalid file format do not permit using AG 2017_News Release_Chapter 2.pdf (136845 Bytes).

Security settings or invalid file format do not permit using AG 2017_Summary_Chapter 2.pdf (72105 Bytes).

Security settings or invalid file format do not permit using AG 2017 Report on Fair Hydro Plan.pdf (1323405 Bytes).

From:	Erika.Hartog@ontario.ca on behalf of Angus, Helen (TBS)
To:	Karen Hughes (MGS); Veinot, Cindy (TBS); Hosick, Sarah (TBS); Patrick Laughton (MOF); Amanda Miller (MGS); Sofie DiMuzio (MGS); Bryant Sullivan (MAG); Boafoa Kwamena (MOI); Mark Donaldson (MOF); Dane Nelson (MOF); Allison Ue (MCSS); Vivienne Skoberne (MOHLTC); Kate Vrancart (MCS); Martin Schlaepfer (MOF); David McLean (MOF); Kobrinsky, Liza (MOF); Serge Imbrogno (ENERGY); Scott Thompson (CAB); Gadi Mayman; Ken Kandeepan; Tim Schuurman (MOF); Lynn Betzner (CAB); Alicia Farrow (CAB); Scott, Adrienne (CAB); Heitshu, Tania (CAB); Khalida Noor (MOF)
Cc:	Scott, Adrienne (CAB); Steen Hume (CAB); Hilary Cox (ENE); Tharani, Alisha (TBS); Kim, Minzi (MOF); Jenna LeBlanc (MCSS)
Subject:	Joint DM Regroup: SCOPA, Public Accounts
Attachments:	0. E-Binder_Feb 5 2018.zip

Sent Feb 05: E-binder attached

Attachment 0. E-Binder_Feb 5 2018 (0 Bytes) cannot be converted to PDF format.

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
				1	**2**	**3**
4	**5** *SCOPA Updated E-Binders Circulated*	**6** **SCOPA Joint Deputy's Briefing Discussion**	**7**	**8** *SCOPA SOC Deck & Updated E-Binders Circulated*	**9** **SCOPA SOC & Joint Deputy's Briefing**	**10**
11	**12** OPG - Financing of Regulatory Assets	**13**	**14** **SCOPA Status Table due to Committee**	**15** TBC: MOF Q3 Update	**16** *SCOPA Materials Finalized*	**17** TBC: Summary of TB orders published in Gazette
18	**19** Family Day	**20** House Resumes TBS OFHP OPQ filed MMP Meeting	**21** *TBC: SCOPA Dry Run*	**22**	**23** *SCOPA Final E-Binders Circulated*	**24**
25	**26**	**27** IESO Audit Committee Meeting	**28** **SCOPA Appearance**			

*TBD: Pre-Election Report
FAO Report on Hydro One
Posting of executive compensation frameworks (incl. IESO)
Supply Act

DRAFT

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 28, 2018

BRIEFING BINDER - DRAFT

February 6, 2018

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Attachment Tab 9_Auditor General Reports (0 Bytes) cannot be converted to PDF format.

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Attachment B. Ministry of Energy Environmental Scan (0 Bytes) cannot be converted to PDF format.

Attachment C. Ministry of Finance Environmental Scan (0 Bytes) cannot be converted to PDF format.

Communications Branch
Your Strategic Partner

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

TBS ENVIRONMENTAL SCAN AND ISSUES OVERVIEW

DRAFT

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Environmental Scan

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- **Pension asset accounting**
- **Ontario Fair Hydro Plan (OFHP) Accounting**
- **Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG "inappropriate expenses"; OPG compensation)**
- **Pre-Election Report**
- **Province's debt burden**

Following the release of the Auditor General's Annual Report on December 6, 2017, TBS-related issues were referenced in 41 per cent of articles, including specifically the "accounting disputes" between the Auditor General and the government, spending on government advertising, and the Auditor General's commitment to audit the IESO's consolidated financial statements. In the House, there were eight questions related to TBS issues: 50 per cent were related to the IESO/OPG "inappropriate expenses"; 25 per cent were related to government advertising; and the remaining two questions focused on the balanced budget narrative and the Pre-Election Report.

Overall, the focus on Public Accounts specifically has been limited in the media and the House alike: between September and December 2017, there were 12 mentions of Public Accounts. 50 per cent of mentions referenced "accounting rules" or the alleged existence of "multiple sets of books". Following the tabling of Public Accounts 2016-17, media coverage was limited and 80 per cent of coverage was neutral in tone.

Media Scan

Auditor General 2017 Annual Report

- **Media Events – December 6, 2017**
    - **Auditor General**
        - Overall, TBS-related issues represented 28% of the Auditor General's remarks.
        - Media questions on TBS-related issues represented 28% of all questions asked (7 out of 25)– **including on the planned audit of IESO's financial statements, government numbers vs. AG numbers being used for the PC's platform, and concerns regarding pre-election reports.**
    - **Government Response**
        - Overall, TBS-related issues represented approximately 20% of the discussion.

        - Media questions on TBS-related issues represented 20.8% of all questions asked (5 out of 24) – questions focused on government advertising and **on comments made by the Auditor General to "address significant issues without fear of push-back and reprisal."**

    - **PC Response**
        - Introductory remarks focused generally on waste and mismanagement.
        - Media questions on TBS-related issues represented 17% of all questions asked (2 out of 12) – **questions focused on the PC's use of the government's numbers in their "People's Guarantee" platform**

    - **NDP Response**
        - TBS-related issues related to 8% of the third party leader's remarks, particularly on government advertising
        - No direct mention of TBS-led chapters, **however 38% of questions (3 out of 8) focused on IESO expenditures**

- **Initial Media Coverage**
    - There were approximately 17 stories focusing on the Auditor Generals' 2017 Annual Report
    - 41% of articles referenced TBS-related issues
    - Key themes related to TBS issues include: **"accounting disputes" between the AG and the government** – and the effect it has on the balanced budget narrative, spending on government advertising, and **the AG's statement that she will audit the IESO's financial statements.**

- **Recent Media Coverage** (December 2017 – January 2018) has focused on the following key themes:
    - **The government's relationship with the Auditor General**
    - **Pre-election report**
    - **Distrust of government numbers/"two sets of books"**

Public Accounts

- **Media Coverage**
    - Media coverage was short-term (24-hours), with **80% of media coverage neutral in tone** (compared to 26% in 2016)
    - Government key messages were picked up 100% of the time
    - Balanced budget key messages were picked up in 60% of the coverage

- **Key Themes**
    - Disagreement between the government and auditor general

- Ontario's fiscal position: government debt and deficit
- The government's alleged continued dismissal of watchdogs

Pre-Election Report

- **Media Coverage**
  - On December 17, 2017, the Toronto Sun published a column by Lorrie Goldstein, "Auditor General headed for a showdown with Wynne over financial vows Liberals made in 2004" focusing on the Pre-Election Report
  - On January 24, 2018, Minister Sousa was asked by Jessica Smith Cross (QP Briefing) about the plans for the Pre-Election Report. Minister Sousa signalled that plans were uncertain at this time: "What happens is, you produce a document then you provide the pre-election report. So I have to manage this concurrently. But again, we recognize the timing and the constraints that that brings. **So I have to find other ways** to ensure that full disclosure is given to her and the other legislative, to the FAO."

Hansard Scan

Auditor General 2017 Annual Report

Following the release of the Auditor General's 2017 Annual Report, there were eight questions in the House relating to TBS issues:

- 50% (4/8) were related to **OPG/IESO "inappropriate expenses"**
- 25% referenced the FAO - one on balanced budget, one on the **pre-election report**

Public Accounts

Public Accounts were mentioned in the House at least 12 times between September and December 2017:

- 50% mention some form of "accounting rules" / two sets of books
- 42% (5/12) related to infrastructure spending
- 25% (3/12) mention FAO and AG together
- 25% regarding Fair Hydro Plan accounting
- One reference to pre-election finance report

FOIs/OPQs

There is one OPQ currently in progress with TBS related to Ontario Fair Hydro Plan accounting.

Overview	Key Issues	Key Dates	Next Steps
OPQ #700		OPQ will be formally filed on	In progress –

MPP Vic Fedeli Would the President of the Treasury Board state whether the government is in possession of an opinion from KPMG or E&Y on how the Fair Hydro Plan transaction should be recorded in the government's Consolidated Financial Statements, and further state precisely where they disagree with the Auditor General	**Ontario Fair Hydro Plan Accounting** **Relationship with the Auditor General** **Use of external advisors**	February 20, 2018	**Products:** Response to OPQ. **Notes:** Draft will be sent first week of January 2018 to OPCD to draft response. OPQ will be formally filed on February 20, 2018 TBS is the only ministry to have received this OPQ. **Next Steps:** Develop and approve response

Other Considerations

- Executive compensation (OPG, OEB, IESO)
- "Inappropriate expenses" (OPG, IESO)
- Hydro bill redesign ("$15 million")

Key Issues

Issue/Consideration	Strategy	Key Messages	Evidence
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the	• Pension Asset Expert Advisory Panel • Opinion from Deloitte LLP • Analysis Completed by EY

		plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.	
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. IESO's recent accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.	Opinion supported by: • IESO audit committee • Independent external auditor (unqualified opinion) • OPCD • Same method used by Ontario Power Authority previously
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making, and that the accounting structure is still being finalized. Refuse to speculate about AG's potential future audit opinion.	The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).	• PSAS Guidance • CPA professional code of conduct • External advisors • Other jurisdictions

	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.	
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a	• Highlight how the government has been working with the Office of the Auditor General (stated by Minister Sandals in a Dec 16, 2017 Toronto Sun article)

		prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.	
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.	• C4SE study • MOF
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its	• Example of single use of legislated accounting (Public Accounts 15-16)

		consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.	
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.	• CPA professional code of conduct
FOI/OPQ/Records Disclosure			

Questions & Answers

Top Questions*

1. How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?

2. How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?

3. The government has received a second qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

4. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

5. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

6. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

7. Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.

8. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

9. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

10. Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?

11. When will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

**See appendix A for a full list of QAs.*

Long-Form Answers

1. **Why did the government choose to recognize pension assets from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan? What evidence and processes were used to support this decision?**

2. **Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements? Is there any precedent for this?**

3. **Can you explain when and how the Treasury Board Secretariat looks to other accounting methods to support the preparation of Public Accounts?**

Ministry/Agency Representatives

Organization	Position	Name
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot
Treasury Board Secretariat Office of the Provincial Controller	Director, Accounting Policy and Financial Reporting Branch	Mark Donaldson

Supporting Materials

Backgrounders

- Auditor General 2017 Annual Report – Public Accounts – Management Response Backgrounder
- Public Accounts Backgrounder

Technical Briefings/QAs

- Public Accounts – Technical Briefing Deck September 2017

House Book Notes

- Public Accounts
- Fair Hydro Plan Accounting
- Pension Asset Accounting

PLACEHOLDER

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PLACEHOLDER

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Attachment A. Government Response to Auditor General’s 2017 Annual Report (0 Bytes) cannot be converted to PDF format.

Attachment B. House Book Notes (0 Bytes) cannot be converted to PDF format.

Not published. Used as a 'walk around' for QP Gallery

Ontario

BACKGROUNDER

Treasury Board Secretariat

Summary of Government Responses to the Auditor General's 2017 Annual Report Chapter on Public Accounts

December 6, 2017

The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

Below is a summary of the government's position regarding the Auditor's recommendations in Chapter 2 – Public Accounts of the Province.

Accounting for Pension Assets

The government continues to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset.
- An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded.

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

The government continues to apply the accounting treatment of pension assets that the Province has used consistently since 2001.

IESO Market Accounts

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of IESO-administered markets at year-end.

This change was supported by IESO's Audit Committee, its Board of Directors, its independent external auditor, and by the Office of the Provincial Controller. It has no impact to the Province's annual deficit, net debt or accumulated deficit.

The financial statements of IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

The accounting concepts used are consistent with those used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

IESO Rate-Regulated Accounting

PSAS is silent on the issue of rate-regulated accounting – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Standards Handbook.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework that provides guidance on rate-regulated operations.

IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America.

Ontario Fair Hydro Plan Accounting

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

The proposed accounting for OFHP reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Handbook.

This guidance has been appropriately applied in assessing the accounting for the OFHP.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from OFHP.

Legislated Accounting

The Province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for certain net pension assets in order to allow Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS.

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS.

Lawvin Hadisi, Minister's Office, 416-326-3839
Bryant Sullivan, Communications, 416-325-1378

Ontario

STATEMENT

Treasury Board Secretariat

Statement from the President of the Treasury Board on the Auditor General's Annual Report

December 6, 2017

Today, Liz Sandals, President of the Treasury Board, released the following statement:

"We thank the Auditor General for her report, and continue to appreciate our ongoing working relationship with the Office of the Auditor General (OAG). The Treasury Board Secretariat works closely with the OAG on a wide variety of issues on a regular basis, and her oversight and insight is welcomed both during our regular interactions and with this annual report.

The Auditor General mentions a number of topics that represent ongoing conversations between government and her office; for instance, the accounting practices regarding pension assets and the application of the United States Generally Accepted Accounting Principles when the Public Sector Accounting Board's standards are silent. The government's position on these differences of opinion has not changed.

We agree with the Auditor General's comments on the importance of accountability for agencies, boards, commissions and other broader public sector entities. Since 2010, our government has implemented a number of important measures to strengthen broader public sector and provincial agency accountability, transparency and governance. Our recent Fall Economic Statement, if passed, responds to the recommendations of the Auditor General in her 2015 Annual Report to streamline administration and establish consistency in the tabling and communication of provincial agency annual reports. However, we know that making process changes to annual reports may not be the complete solution. We will continue working with the OAG to enhance oversight and ensure accountability across all of our agencies.

We share the Office of the Auditor General's belief that the Auditor General has an important role to play in the oversight of government advertising, and that's one of the reasons that we are proud that Ontario is the only jurisdiction in Canada to have legislation in place to ensure that oversight. In fact, we have recently expanded her oversight to include digital advertising.

We know that the government has a responsibility to communicate to the public it serves, and that advertisements are one medium through which we can do that. For example, our Sexual Violence and Harassment prevention campaign – #WhoWillYouHelp challenged existing attitudes, and sparked international discussion. Our video was viewed over seven million times in the first 10 days, and generated more than 85 million views worldwide. And within 6 months, we had measurable results – 55 per cent strongly agreed they had an obligation to intervene when witnessing sexual harassment, up from 37 per cent.

As the President of the Treasury Board, I am committed to leading the government's efforts on accountability, openness and modernization, while working to deliver good government and public services in the most effective and efficient way possible. As part of this commitment, we work side-by-side with our partners, including the Auditor General, throughout the year to ensure that we continue to become more efficient in our processes and more open and

accountable as a government.”

Lawvin Hadisi, Minister’s Office, 416-326-3839
Bryant Sullivan, Communications, 416-325-1378

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CONFIDENTIAL REVISED: January 10, 2018

ONTARIO'S FAIR HYDRO PLAN ACCOUNTING (GLOBAL ADJUSTMENT REFINANCING)

ISSUE: What is the basis for the proposed accounting for the Global Adjustment Refinancing on the Province's books?

CONTEXT:

- The Global Adjustment Refinancing is one component of Ontario's Fair Hydro Plan announced in March 2017, and is the most significant contributor to the reduction in hydro rates for residential consumers.
- The other parts of the Plan for residential consumers include:
  - Expansion of the Ontario Electricity Support Program;
  - Reductions in distribution rates for consumers in rural and remote areas;
  - Reductions for First Nations residential consumers living on-reserve; and,
  - A fund set up to assist consumers in making their homes more energy efficient.
- The only impact on the 2016-17 consolidated financial statements from Ontario's Fair Hydro Plan is related to the fund set up to assist consumers in making their homes more energy efficient, which was expensed in the year and increased the annual deficit. In addition, the 8 per cent rebate on electricity bills, introduced as of January 1, 2017, while not part of the March 2017 announcement, also impacted the 2016-17 consolidated financial statements as an expense that increased the annual deficit.
- The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized. The government will present the Province's finances in the 2017-18 Public Accounts fairly and accurately and in accordance with Public Sector Accounting Standards (PSAS).

KEY MESSAGES:

GA Financing Status and Structure

- In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.
- All of the agreements necessary for the Global Adjustment (GA) Refinancing will be finalized in the current fiscal year. The final accounting for the GA Refinancing will be completed once all of the elements are complete. The balance of the note is based on the expected outcome. As previously noted, there was no impact on the 2016-17 consolidated financial statements from the GA Refinancing.
- In analyzing the appropriate accounting treatment for the GA refinancing component of Ontario's Fair Hydro Plan on the Province's consolidated financial statements in 2017-18 and going forward, the Province considered authoritative guidance issued by the Public Sector Accounting Board, as well as the accounting assessments of the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) management, including the accounting opinions of their external auditors.
- The complexity and unique structure of the GA Refinancing structure requires the use of professional judgment to ensure that key financial reporting objectives of transparency and accountability are best served.
- Under GA Refinancing, as enabled by the Ontario Fair Hydro Plan Act, 2017 ("OFHPA"), a Financing Entity established by Ontario Power Generation will borrow amounts to fund the payment of a portion of electricity costs charged by the electricity generators, thereby temporarily reducing the amount paid by eligible consumers (or ratepayers). The deferred amounts, including interest and other costs, will be recoverable from consumers/ratepayers in the future.

- The Independent Electricity System Operator (IESO), an independent, not-for-profit agency of the Province, is responsible for the management and operation of the wholesale electricity market. IESO makes payments to the electricity generators with cash received from the local distribution companies (and ultimately the consumers/ratepayers).
- Over the last 10+ years, investments have been made to phase-out coal and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system). This involves a move away from coal to cleaner, but more expensive methods of electricity generation, including wind, solar and natural gas. The cost of these investments were passed on to consumers/ratepayers as incurred or based on contractual payment terms, but not based on the period of benefit (i.e., the life of many generators is expected to exceed the length of the contracts).
- The GA refinancing acknowledges that the current generation of electricity consumers has paid more than its fair share for these costs, and spreads these costs incurred out over more years so they are shared proportionally by future electricity consumers.
- In simple terms, the IESO will continue to make payments to the electricity generators based on their contractual terms, but will collect less from the local distribution companies, as the consumers or ratepayers will pay a reduced amount. The amount not collected from the consumers now, or the shortfall, will be collected from consumers/ratepayers in the future.

- OFHPA permits the IESO to sell that shortfall, also referred to in the Act as a regulatory asset, which represents the right to collect payments from consumers/ratepayers in the future, to a financing entity. To recap, the IESO will continue to pay the electricity generators at their current contract rates. But it will do this with cash collected from the local distribution companies for electricity consumed (at a rate set by the OEB which reflects a significant portion of the 25 per cent reduction in the initial years) and cash received from the financing entity for the sale of the regulatory asset.
- The financing entity will be part of Ontario Power Generation (OPG Trust), a government business enterprise, wholly owned by the Province. The operations of Ontario Power Generation have been and will continue to be included in the consolidated financial statements of the Province using the modified equity method, the method Public Sector Accounting Standards (PSAS) require for government business enterprises.
- At its discretion, OPG Trust will purchase the shortfall amounts (or regulatory asset) from the IESO through a combination of provincial borrowing (flowed through OPG as an equity investment), amounts advanced from OPG and direct borrowing from capital markets.
- In the future, when the consumers/ratepayers pay for the deferred amount, those amounts will be used to repay the accumulated debt whether that be direct borrowing from the capital markets, amounts advanced from OPG or provincial borrowing.

IESO Accounting

- There was no impact on the 2016 financial statements of IESO from the GA Refinancing. The GA refinancing is expected to impact the 2017 financial statements.

- In 2017, the shortfall or regulatory asset that IESO incurs as a result of collecting less from the local distribution companies than it pays to the electricity generators would be accounted for as a rate-regulated asset. The rate-regulated asset would then be sold to OPG Trust for cash used to pay the electricity generators.
- For 2016, IESO adopted the use of rate-regulated accounting for costs incurred unrelated to the GA Refinancing; however, the impact to the financial statements of the Province was immaterial (impact on annual deficit of $24 million).
- PSAS is silent on the use of rate-regulated accounting. However, like all major accounting frameworks, PSAS encourages both preparers and auditors to consider guidance in other accounting frameworks when accounting for transactions not specifically addressed by the specific standards.
- IESO management, their audit committee, their board of directors and their external auditors, agree with the adoption of rate-regulated accounting by IESO. The Office of the Provincial Controller also supports the adoption of rate-regulated accounting by IESO.
- IESO is not the first entity that has prepared its financial statements using PSAS and rate-regulated accounting. Ontario Power Authority (which was amalgamated with IESO on January 1, 2015) prepared its financial statements with PSAS and used rate-regulated accounting.
- In the Auditor General's opinion on the 2016-17 consolidated financial statements of the Province, the AG has included an "Other Matter" paragraph, drawing attention to the adoption of rate-regulated accounting by IESO. The AG's view is expressed as stating PSAS does not permit rate-regulated accounting, but that the AG has not qualified the opinion on this matter because the impact is not material to the 2016-17 consolidated financial statements.

- The AG further notes, “However, the consolidated financial statements may become materially misstated in future periods, as a result of the legislated accounting prescribed under the Ontario Fair Hydro Plan Act, 2017 (OFHPA) and its related regulations, as it is not in accordance with Canadian public sector accounting standards.”
- Neither the IESO nor the Office of the Provincial Controller Division (OPCD) agree with the statements that (a) PSAS does not permit rate-regulated accounting (as previously noted, PSAS is silent with respect to rate-regulated accounting) or (b) Fair Hydro Plan and its related legislation and regulations legislate the accounting for GA Refinancing.

OPG Accounting

- The Auditor General has not raised any concerns to date with the intended accounting for the OPG Trust on the Province’s books.
- It is expected that OPG Trust will be controlled and consolidated by OPG.
- Purchases by OPG Trust of the rate-regulated assets from the IESO will be reflected on OPG’s books as intangible assets which will be included in the Province’s financial statements as part of its investments in government business enterprises.

The Province’s Accounting

- In assessing the appropriate accounting for Ontario’s Fair Hydro Plan (OFHP) on the Province’s books, OPCD worked closely with key ministries, the Ontario Energy Board (OEB), IESO, OPG and their respective external advisors.
- The final accounting treatment for OFHP-related activities will be confirmed once all elements of the GA Refinancing framework are finalized, including provincial guarantees and financing arrangements.

- Once the details and commercial agreements of the OFHP are finalized, the external auditors of IESO and OPG are expected to provide independent accounting opinions on the accounting treatment on IESO and OPG's financial statements.
- OPCD will rely on those independent accounting opinions, the audited financial statements of IESO and OPG as of December 31, 2017 and its own research and analysis in determining the impact of the GA Refinancing on the 2017-18 consolidated financial statements.

If Pressed: AG Assertion that the Government is Using Legislated Accounting

- The Auditor General has made several incorrect references to legislated accounting which should be addressed to ensure clarity and transparency in terms of the government's accounting treatment for Ontario's Fair Hydro Plan.
- In particular, the Auditor General has referred to legislated accounting prescribed by the OFHPA that is designed to in some way manipulate the Province's financial reporting in its consolidated financial statements.
- The Province's financial statements are based on Public Sector Accounting Standards (PSAS) as issued by the Public Sector Accounting Board of CPA Canada. There is no legislated accounting that applies to the Province's consolidated financial statements.
- While the OFHPA does, under Section 24, require that IESO set up a variance account to track the cash shortfall amount resulting from the deferred recovery amount, it is just another type of regulatory account, similar to those that OPG reports and for which the OEB is responsible for approving rates.

- As far as the Province's financial reporting practices go, whether the deferred amounts reported in IESO's variance account are assessed as assets for financial reporting purposes will be determined by the interpretation and application of Public Sector Accounting Standards, not by the legislation or regulations.

Auditor General's Special Report on the Fair Hydro Plan

- The Office of the Auditor General released *The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money* on October 17, 2017. The report focused on the financial and accounting framework of the OFHPA.
- The Auditor General said that the accounting for the Fair Hydro Plan is not permitted under PSAS because it is silent on rate-regulated accounting, despite the fact that standard accounting practice, including under PSAS, dictates that an entity should consult other accounting standards for transactions not specifically covered by primary standards.
- The Auditor General asserts in her report that the OFHPA creates an asset through legislation. This is a fundamental disagreement the government has with the Auditor General's report. The Province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

Key Messages on AG's Special Report on the Fair Hydro Plan

- The government respects independent officers of the legislature, and values the important perspective they bring, but does not agree with the assertions and conclusions expressed in the Auditor General's Fair Hydro Plan report.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

- In developing the Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.
- The Fair Hydro Plan operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards and ensures the goals underlying the program are achieved in a cost-effective manner.
- PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything. When that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.
- The financing plan and its impact will continue to be transparent and fully available to credit rating agencies, securities regulators, and the public.
- The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

RECENT MEDIA COVERAGE:

- January 12, 2018 – An opinion piece in the Toronto Star argues Kathleen Wynne faces a phantom opponent in the spring election: Ontario's auditor general, who looms like an accounting apparition over the premier. The article notes, Lysyk isn't just picking fights with Liberal cabinet ministers but clashing with Ontario's non-partisan public service as well as outside consultants. The most awkward contretemps took place a year ago, when an expert panel of accounting and actuarial experts shredded the auditor's claims about the government cooking the books.
- January 4, 2018 – The Brighton Independent covers Liberal MPP Lou Rinaldi's plans for re-election, while making reference to the "issues" the government has with the Auditor General, particularly on pension asset and Fair Hydro Plan accounting.
- January 3, 2018 – The CBC runs an article "No quick fix for Ontario's energy woes, electricity analyst says," noting the criticisms from opposition parties and analysts regarding the accounting of the Fair Hydro Plan.

- December 17, 2018 – The Ottawa Sun's Lorrie Goldstein writes that "independent financial officers say Wynne government's books can't be trusted," noting the Auditor General and FAO's concerns regarding Fair Hydro Plan accounting: "In her Dec. 6 annual report, Lysyk warned "there is a very real risk" the "government's continued use of nonstandard accounting" will "seriously distort the true state of the province's finances...The government uses these incorrect accounting treatments to claim it has balanced the province's books, but in reality, legislators, the financial community and all Ontarians will be misled as to the true condition of the province's finances." In its fall economic and fiscal outlook released last week, the FAO warned, "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 13, 2017 – The Toronto Sun runs a comment piece following from the Financial Accountability Office's fiscal and economic outlook, fall update report, entitled "Liberals hiding deficit, second watchdog says," noting the Auditor General and FAO's criticisms of the accounting for the Fair Hydro Plan.
- December 11, 2017 – The Toronto Star's Robert Benzie covers the Financial Accountability Office's fiscal and economic outlook, fall update report, noting the FAO's agreement with the Auditor General's questioning of the accounting of the Fair Hydro Plan: "The FAO also backed the auditor general in questioning the complex mechanism the government has developed to bankroll the 25 per cent electricity rate cut, known as the Fair Hydro Plan. Because of the actuarial tussle "it is becoming more difficult for legislators and the public to assess the government's fiscal projections.""
- December 11, 2017 – The Canadian Press' Shawn Jeffords also covers the FAO's report, noting: "The FAO said in its report that since the government has not adopted the auditor's recommended accounting for both the pension assets and the Fair Hydro Plan it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 6, 2017 – The Canadian Press and other outlets cover the Auditor General's 2017 Annual Report, noting the accounting disagreements between the Auditor and the government: "Lysyk also announced through her report that her office would be auditing the IESO's books. That comes amid one of two accounting disputes the auditor has been engaged in with the Liberal government. She recently accused the government of purposely obscuring the true financial impact of its 25 per cent cut to hydro bills by keeping billions in debt used to finance that plan off the province's books. Lysyk said she will audit the IESO because of its role in the hydro plan's complex accounting scheme."
- November 2, 2017 – The Waterloo Region Record runs an editorial by analysts from the Fraser Institute entitled, "Ontarians in the dark about Fair Hydro Plan." The piece argues: "Ontario needs real reform to lower electricity prices for residents and businesses. Unfortunately, the provincial government is opting for improper accounting practices and temporary solutions, sticking current and future Ontarians with the bill."
- October 26, 2017 – CBC writes that "Ontario hydro bills to rise over next 10 years in government's energy plan," referencing the Auditor General's report on Fair Hydro: "Ontario's auditor general Bonnie Lysyk found that the Liberals concocted a "needlessly complex" system in order to achieve the savings in the Fair Hydro Plan by moving $26 billion of debt off the government's books […]Thibeault said the accounting isn't deceptive, and that similar financing strategies have been used throughout Ontario history, including for the construction of nuclear plants in the 1970s."
- October 25, 2017 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute's Ontario Prosperity Initiative entitled "Number's up for Wynne's government," writing "But regardless of how pension assets should be treated, or how new debt incurred by the government's Fair Hydro Plan should appear on the books, the stark reality is that Ontario taxpayers are carrying far more public debt than a decade ago and that burden is growing quickly, every year."

- October 24, 2017 – CBC references the Auditor General's report on Fair Hydro, writing "Auditor General Bonnie Lysyk criticized how the program is being financed, saying the province is "improperly" accounting for the $26 billion in debt it's taking on to cut hydro bills in the short term. The Liberals called the controversy an "accounting dispute" with the auditor."
- October 23, 2017 – Global News reporter Alan Carter wrote an analysis on "truth" and Fair Hydro. He wrote, "The war between Lysyk and the Liberals is whether the Fair Hydro Plan and its use of Ontario Power Generation as a debt vehicle is a sign of devious politicking or just the way things get done."
- October 23, 2017 – The Peterborough Examiner carried an opinion piece written by Minister of Energy, Glenn Thibeault. "I'm not surprised to see the Conservatives try to get in the middle of an accounting dispute between the government and the Auditor General for personal political gain. It's how they deflect without putting forward any policy ideas of their own."
- October 22, 2017 – The Toronto Sun's Antonella Artuso wrote that the way the Liberals "hid" the cost of its Fair hydro Plan from taxpayers could raise concerns that other governments across the country could follow suit and bury deficits.
- October 22, 2017 – The Toronto Sun's opinion piece says the Fair Hydro Plan is simply 'long-term pain for short-term gain".
- October 19, 2017 – CBC's Mike Crawley writes about the Auditor General's accusations that the government was trying to hide documents from her investigation. Crawley writes that the Progressive Conservatives have made a request to the province's "top public servant to ensure that all relevant documents and emails are saved."
- October 18, 2017 – CTV News (6pm) includes the Progressive Conservative's reaction to the Fair Hydro report: "opposition calls for resignations of ministers of finance and energy after AG report."
- October 18, 2017 – QP Briefing's Jessica Smith Cross highlighted that the $4 billion figure cited by the Auditor General and the Financial Accountability Office that would be wasted due to the government's "needlessly complex" financing structure for Ontario's Fair Hydro Plan was said 21 times by opposition parties during Question Period that morning.
- October 18, 2017 – The Globe and Mail's Justin Giovannetti (A9) highlights the Auditor General's Fair Hydro report. The article includes a quote from Minister Sandals: "Perhaps the essential accounting dispute that we have with the auditor is a dispute over what happens when the Canadian Public Sector Accounting Standards are silent, when they don't give direction,' Ms. Sandals said. 'We keep running into this problem because, quite frankly, Ontario is the biggest province, and we often have bigger projects and do things a bit differently from all the smaller provinces.'"
- October 17, 2017 – The CBC's Mike Crawley covers the Auditor General's report, writing "The auditor says the plan could also result in Ontarians paying "up to $4 billion more than necessary" in interest. That's because OPG will be required to pay higher interest rates than the province would if the government took on the debt directly."
- October 17, 2017 – The Toronto Star's Robert Benzie also focused on the Auditor General's so-called scathing report on Ontario's Fair Hydro Plan, while acknowledging the historical dispute between the Auditor's Office and the government.
- October 17, 2017 – The Ottawa Citizen's David Reevely continues with key themes in the coverage, also writing: "The Liberals really, really, really wanted to keep that debt off their books, so they could also go into the next election saying the provincial budget is balanced. Borrowing billions in an election year would get in the way. So they did some advanced financial engineering to put the debt on Ontario Power Generation instead."

- October 17, 2017 – The Canadian Press' Allison Jones cites the Auditor General's statements, and includes Minister Sandals' rebuttal on the point of asset accounting: "Treasury Board President Liz Sandals said credit rating agencies are ranking the hydro debt in preparation for selling it. 'That's the difference,' she said. 'Somebody actually wants to buy it, ergo it is an asset.'"
- October 17, 2017 – QP Briefing provided a primer on the report, and pointed to the Auditor General's criticism of the government on the alleged willingness to accept a qualified audit opinion for the province's Public Accounts.
- October 17, 2017 – The Auditor General's report and remarks during the media conference were extensively covered across the media. Coverage consistently cited the key themes in the Auditor General's report, highlighting the "needlessly complex" accounting structure, "improper accounting," and the "anticipated $4 billion more in interest payments than if the province had borrowed the funds directly."
- October 17, 2017 – The Toronto Sun's Antonella Artuso featured an overview of the Fraser Institute's report released in the morning, arguing that "Soaring electricity prices resulted in 75,000 fewer manufacturing jobs for Ontarians since the recession".
- October 17, 2017 – The Office of the Auditor General held a media conference for the release of The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money.
- October 17, 2017 – CBC News reports that today Auditor General Bonnie Lysyk will reveal the results of her investigation into the government's Fair Hydro Plan. The report will look at how the rate cuts are financed and whether the plan is fair for taxpayers and hydro customers. Auditor Lysyk has already told a legislative committee in May that to borrow the money on OPG's books rather than the province's is "contrary to public sector accounting standards."

Updated by: Mark Donaldson, Director, Accounting Policy and Financial Reporting

Approved by:	**Name:**	**Date approved:**
ADM, Office of the Provincial Controller	Cindy Veinot	January 3, 2018
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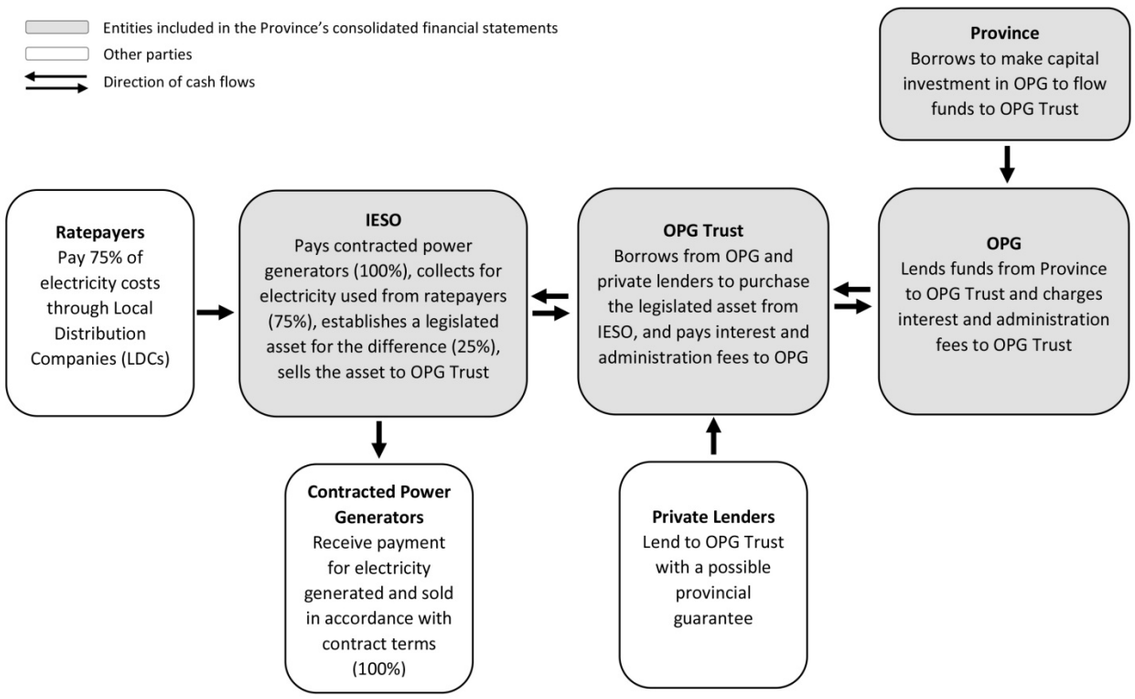
Assistant Director, Communications Branch	Bryant Sullivan	January 16, 2018
Director, Communications Branch	Sofie Di Muzio	January 16, 2018

Appendix

Proposed Legislated Transaction Structure

Prepared by the Office of the Auditor General of Ontario



CONFIDENTIAL REVISED: January 5, 2018

PENSION ASSET EXPERT ADVISORY PANEL

ISSUE: How do you respond to the reports released by the Pension Asset Expert Advisory Panel?

KEY MESSAGES:

- The Pension Asset Expert Advisory Panel has released its independent advice and recommendations on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets.
- The panel's first report concluded that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.
- The panel supports the accounting treatment that Ontario has used consistently since 2001.
- The panel has also issued a supplemental report that provides independent advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The government has accepted the panel's recommendations and in the 2016-17 third quarter update, it indicated its plans to adopt the previous accounting treatment in the upcoming Public Accounts.
- The government has reflected the recommendations of the panel, which align with its previous accounting in the 2017 Budget, the 2016-17 Public Accounts and the 2017 Fall Economic Statement.

- The government formed the Pension Asset Expert Advisory Panel to provide independent advice on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets. The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards.
- We will continue to move forward and present the Province's finances fairly and accurately, which includes reporting for jointly sponsored pension plans in accordance with Public Sector Accounting Standards and the panel's recommendations.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.

IF PRESSED: SUPPLEMENTAL REPORT HOOPP & CAATPP

- We thank the panel for their independent advice and recommendations made in relation to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The two additional pension plans addressed in the supplemental report are different than OTPP and OPSEUPP because they are jointly sponsored by multiple organizations. The Ontario Government is a third party sponsor and has no direct control over decisions of the employer sponsors about benefit or contribution levels, funding of deficits or use of surpluses. Because of these differences, a valuation allowance will be recorded for any net assets of these plans until the government benefits from a reduction in contributions.
- The Ontario Government agrees with the panel's conclusions in the supplemental report.

CURRENT STATUS:

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.
- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update. During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."
- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report. Chapter two of the report made recommendations regarding the Public Accounts of the Province, with the first of 10 recommendations focusing on the pension asset accounting issue. From the report: "We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months."
- On April 27, 2017 the Pension Asset Expert Advisory Panel's Supplemental Report was released. It provides the government with independent advice and recommendations on how to account for current and potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).
- The panel's supplemental report concludes that a net pension asset from HOOPP and CAATPP should be recognized in the province's financial statements in the same way as the net liability, but also recommends that a valuation allowance should be reported for accrued benefit assets for both of these plans in the province's financial reports.
- The panel's report on the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP) was made available to the public on February 13, 2017 and did not recommend that a valuation allowance be reported for either of these two plans.
- Both reports have been shared with the Auditor General of Ontario and her office.

- In the 2017 Budget, the 2015–16 actuals were restated to reflect the government's previous accounting treatment for jointly sponsored pension plans which recognized net pension assets for the Ontario Public Service Employees' Union (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) on the Province's financial statements. The restated results follow the advice of the panel and the accounting followed previously by the Province since 2001.
- On June 12, 2017, the Ontario Teachers' Federation and the Ontario Government, joint sponsors of the Ontario Teachers' Pension Plan (OTPP), announced they will use a portion of the $11.5 billion surplus in the Plan (as of January 1, 2017) to complete the restoration of inflation protection for teachers who retired after 2009. As well, the contribution rate for the Plan's active members will be reduced by 1.1%. Both changes are effective January 1, 2018.

COSTS

	Actuals		
Panel Member	**Per Diem**	**Travel**	**Total**
Patricia O'Malley	83,000	1,057	84,057
Uros Karadzic	62,700		62,700
Paul Martin		3,898	3,898
Murray Gold	38,000		38,000
Procurement			32,458
Total	**183,700**	**4,955**	**221,113**

BACKGROUND:

- On February 17, 2017 Minister Sandals sent a memorandum to Warren (Smokey) Thomas in response to his article of February 14, 2017 in the Toronto Sun on pension assets.

  "As you are aware, the Pension Asset Expert Advisory Panel ("Panel") released its report on February 13, 2017, and concluded that the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.

  The OPSEU pension plan, which is jointly-sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor. Simply put, the province does not have the ability to make any withdrawals from the plan.

  I trust that you are reassured by this news. Your February 14 press release and your subsequent comments in a February 15 *Toronto Sun* article, suggest that you were unaware of these rules.

  In addition, the province has not proposed any pension contribution increases or reductions at this time. Any decisions with respect to changes to pension contributions or benefits must be made by the Plan Sponsors. A decision to reduce contributions would benefit both the employees and the employer."

- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.

  The panel was comprised of accounting, legal, and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.

  The following four members were appointed to the Panel:

  - Tricia O'Malley (Chair)
  - Murray Gold
  - Uros Karadzic
  - Paul Martin

Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

The panel's report was delivered to the President of the Treasury Board and was shared with the Auditor General of Ontario. The panel's report was made public in early 2017.

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, "Independence is not infallibility when it comes to Ontario's financial books," arguing Auditor General "Lysyk's paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All's fair in politics and accounting, unless you're an auditor gone awry."
- December 17, 2017 – The Ottawa Sun's Lorrie Goldstein writes that "with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted." Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: "Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan."
- December 17, 2017 – The Toronto Sun's Jim Warren cautions that "the role of the Auditor General is shifting in troubling ways," arguing that the Auditor General's increasing outspoken role is "making matters worse." Specifically referencing the pension asset accounting issue, Warren writes "For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position."
- December 14, 2017 – The Record runs an opinion piece, "To sort out truth from pre-election fictions, turn to Bonnie Lysyk," writing that the Auditor General "warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car."
- December 13, 2017 – The Toronto Sun runs a comment piece, entitled "Liberals hiding deficit, second watchdog says" covering the Financial Accountability Officer's (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO's report "says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans."

  Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting."

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- September 13, 2017 – The Toronto Sun runs a column, "Wage warnings won't stop Wynne," critical of the cost of the Pension Asset Expert Advisory Panel: "Indeed, her government's typical reaction to critical, non-partisan warnings it gets from independent officers of the legislature - such as the auditor general and the FAO - is to ignore them, or to attack the messenger […]Wynne spent up to $435,000 striking an "independent" panel that unsurprisingly agreed with her position on pension accounting, not the auditor general's."
- September 8, 2017 – David Reevely writes in the Ottawa Sun and Ottawa Citizen "Lysyk and the ministers have been volleying back and forth for a couple of years now over how to count assets on the government books. Without getting too deep into it, what's in question is whether certain public sector pension plans and some holdings in the electricity system belong to the government or not."

- September 7, 2017 – The Canadian Press' Shawn Jeffords covers the tabling of Ontario's Public Accounts 2016-17, and cites the government's ongoing disagreement with the Auditor General on pension asset accounting as the reason the Auditor has issued a qualified audit opinion two years in a row. Minister Sandals is quoted in the article: Sandals maintains the government is following established accounting practices and people don't care about the on-going squabble. "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – The Toronto Star's Robert Benzie refers to the disagreement between the Auditor General and the government over IESO market accounts assets and pension asset accounting as an "accounting slugfest". Minister Sandals is quoted in the article (same quote as The Canadian Press coverage): Sandals on Thursday shrugged off Lysyk's accounting interpretation, which lead to her to issue a qualified audit opinion on the province's books for the second year in a row.

  "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said.

  "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – Queen's Park Briefing's Christopher Reynolds covers the disagreement between the Auditor General and the government, quoting Minister Sandals: ""The public wants to know, are you managing your deficit?" Sandals said Thursday at the release of the province's 2016-217 public accounts. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- On May 1, 2017 David Reevely writes in the Ottawa Sun that "There's also $500 million booked in the government's favour from surpluses in a couple of pension plans for public employees. These are the subject of an arcane accounting dispute over whether the government, which couldn't grab the money easily, should be able to count them the way it's counting them. The auditor general says no. A panel of external blue-chip accounting types says yes (for a number of reasons, the easiest of which to grasp is that if the pension plans came up short the gap, would be the government's problem). Going with the auditor general's ruling would be the safer thing, for sure, but what the government's doing is neither trick nor a one-time manouevre.
- On April 30, 2017 David Reevely wrote about the 2017 budget and said "the Liberals are taking advantage of a surplus in some public-employee pension funds, which Auditor General Bonnie Lysyk says is improper but which other experts say is OK. And they've adopted a sort of partial distinction between operating spending and capital spending, which used to be mashed together into each year's budget in a way they no longer are."
- On February 21, 2017 the Toronto Sun (A10) has a column by Warren Thomas (OPSEU). He writes "Ontario's public service workers and retirees feel like we are about to get robbed." He notes that the Auditor General has been turned into a lapdog from a watchdog. Thomas writes "If nobody stands up to Wynne, I'm afraid her next move could be to actually steal our pension money, giving her more cash for overpaid consultants and Sunshine List executives."
- On February 20, 2017 the Toronto Sun reports on Minister Sandals' memo to OPSEU's Warren Thomas. It recounts the minister's statement that "government has no plans on making like a bandit with his members' pension funds." The short piece includes her quote: "The OPSEU pension plan, which is jointly sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". "I trust that you are reassured by this news."
- On February 18, 2017 the Toronto Sun has a piece by Lorrie Goldstein. He writes that Premier Wynne needs to take the advice of the Auditor General in order to demonstrate openness and transparency.

- On February 18, 2017 the Ottawa Sun (A9) reports NDP Leader Horwath trusts the Auditor General's math. She spoke up on Friday on the ongoing pension account issue between government and the AG.
- On February 18, 2017 the Toronto Sun's Antonella Artuso (A10) quotes Minister Sandals who said in a statement that she will accept the findings of the panel and: "They also concluded that the government controls access to the pension surplus which has a future economic benefit to the province and recognizing the asset will provide an accurate representation of the province's financial position."
- On February 18, 2017 the Toronto Star's Martin Regg Cohn (A12) writes about the Auditor General. He says that she is no hero – in fact her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures." He concludes: "We rely on auditors to provide value for money audits. Not to introduce their own values, making up untested accounting standards as they go along."
- On February 17, 2017 the Hamilton Spectator (A16) posted an opinion piece that is negative toward Auditor General Lysyk. It notes: "Lysyk is putting that reputation and integrity on the line in Ontario. And she's not on solid ground…. If the evidence supported Bonnie Lysyk's position, we'd be the first to back her. But it doesn't. She needs to respect that and back down."
- On February 17, 2017 QP Briefing has a piece written by Bryne Purchase, former deputy minister of finance, on the 'accounting spat'. He sides with the AG: "I think it was regrettable that Premier Kathleen Wynne's government chose to attempt to undermine the legitimacy of our parliament's own accounting expert by appointing a panel of its own experts to review an unfavourable ruling."
- On February 17, 2017 the Windsor Star (A7) has a Canadian Press report that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute. Auditor General Bonnie Lysyk's quote is used: ``Show me the letter that says you can use that pension money with permission, with an agreement," she said Thursday. ``Until that happens the bottom line is this office can't give its stamp of approval on this particular issue." The article notes this is not the first time the Liberal government has clashed with the AG - the former energy minister suggested the electricity file was too complicated for Lysyk, and she has frequently suggested that partisan ads are being funded by taxpayer dollars.
- On February 16, 2017 the Toronto Star reported the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes. The article says the AG is "escalating a $10.7 billion standoff" with the government over taxpayer-funded pension surpluses. "There has been no suggestion the government intends to dip into the pension funds, which would be illegal. The question is whether the pension surplus can be counted as an asset or not at all." The AG was quoted: "It is not my money. That money is for the benefit of employees and retirees … so it's not my pension. It's not my budget deficit."
- On February 16, 2017 QP Briefing reports the AG says that until she sees a letter that says government can use that pension money with permission – her office can't give its stamp of approval on this issue. The article notes the government "isn't inclined to draft" a letter. Treasury Board President Liz Sandals is quoted from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place." This article also includes quotes from MPP Lisa MacLeod and OPSEU's Warren Thomas.

- On February 16, 2017 the Toronto Sun (A5) has two articles on the number crunching aspect of the expert panel. It says government spent up to $435,000 to the expert panel in the dispute with the Auditor General. The article says this has made OPSEU's Warren Smokey Thomas livid and notes that he wants a guarantee the government won't raid his members' pension fund. Ontario Treasury Board spokesman Matt Ostergard is quoted from an email, "The work of the panel is ongoing so we don't have final costs at this time but they will be in line with previous panels and will be made public."
- On February 16, 2017 The Northumberland Today.com has David Reevely's opinion piece on the pension panel's "gift' to the government. "The Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds. The article includes a written statement from Minister Sandals "We are committed to implementing the advice of this independent panel and will use it in preparing the province's financial statements."
- On February 15, 2017 QP Briefing reports Treasury Board President Liz Sandals says it's too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute. "I think we're getting way ahead of ourselves – that's a total hypothetical," Sandals told reporters. "The bottom line is, the panel gave us advice, and we're going to follow the advice of the panel." Sandals added there "is no urgency" for Lysyk to weigh in on the panel's conclusion and that she was "pleased" that the auditor was giving it a thorough read. The article notes the minister was "cagey" when pressed about if the panel's report will mean a rollback on contributions for the OPSEU plan. She is quoted, "As the panel points out, that is the traditional way in which the government would access the surplus," "That's the whole premise of the panel's report, is that the way in which the government or any other employer in that situation would access the surplus is by reducing the contribution rate."
- On February 14, 2017 OPSEU's Smokey Thomas writes that Premier Wynne should remember who owns the assets of the province's jointly trusted public pension plans. He says the dispute between the government and the Auditor General is not "just a paper war". "It's a fight over who owns billions of dollars earned by workers and invested on their behalf. I'm telling the Premier right now: the money in those plans belongs to plan members. It is not hers to play with." He "unequivocally supports" the Auditor General's position. He says his "fear is that the Liberals will try to move money out of public pension plans to help wipe out the provincial deficit in time for the 2018 provincial election."
- On February 14, 2017 the Ottawa Sun's David Reevely (A11) reports "the Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds." His article notes, "The point is, we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets." He writes the surpluses work in the government's favour – especially as an election approaches.
- On February 14, 2017 the Toronto Star (A7) (and online) has a negative piece about the Auditor General, written by Martin Regg Cohn. He writes the AG has been caught out in a $10.7-billion miscalculation. "Even a watchdog can lose the scent and bark up the wrong tree. Or worse, miss the fiscal forest for the trees. For the job requires not just independence but context. To be truly credible, an auditor general must fearlessly expose government boondoggles but also fess up to her blunders." "Lysyk's lack of diligence - now overdue - is a damning indictment of an auditor gone awry."

- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: “Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: “If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- On February 13, 2017 the Toronto Star reported a panel of accounting experts says that $10.7 billion in government-sponsored pension plans should count toward the province’s bottom line. The article notes panel chair Tricia O’Malley said “We believe that an asset does exist – the net pension asset meets the definition of an economic resource, which is what an asset is.” The Star noted that Auditor General Lysyk is reviewing the report and will provide comment to the media later this week.
- On February 12, 2017 the Toronto Star reports a government-appointed panel of experts will announce on Feb. 13 that joint-sponsored pension surpluses should be counted as assets for the provincial treasury. The report says the Auditor General should include billions of dollars of its assets on the government’s bottom line. OPTrust says “surpluses and deficits should both be recognized on the province’s balance sheet.”
- On February 8, 2017 The Toronto Star (A6) reports Premier Wynne welcomes a report from four accounting experts that says a $10.7-billion pension surplus can be counted as an asset on the province’s bottom line. The article notes the AG was briefed on the report last week and it will be make public later this month. MPP Vic Fedeli is quoted: “The people of Ontario have to ask themselves who are they going to believe: the independent auditor general or a scandal-plagued Liberal government?”
- On February 8, 2017 QP Briefing reports the Financial Accountability Officers says “should the panel studying a pension accounting clash with the auditor general conclude that billions of dollars’ worth of pension assets should be counted on Ontario's balance sheet after all, the government will get more flexibility to balance the budget as promised.” “David West, the FAO's chief economist, said he had not heard about any conclusions from the panel but noted that if they have decided to count the pension assets, it gives the government more breathing room to achieve balance, as promised.” Auditor General Lysyk declined to confirm or comment directly because the panel is not yet public.
- On February 7, 2017 The Toronto Star’s (A4) Martin Regg Cohn reports billions of dollars are at stake in a dispute pitting Ontario's Auditor General against the government. He writes that despite an outside panel of top accounting and pension experts determining that Auditor General Bonnie Lysyk has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets – she told this reporter that “she won't climb down,” and this now sets the stage for a public showdown over an accounting change that is worth $1.5 billion to the bottom line this year alone. “The auditor told me her mind is made up and nothing she has heard so far has changed her view….which leaves her on a limb and the government in the lurch.”
- On November 30, 2016 QP Briefing reported Minister Sandals appointed an expert panel to help resolve the government's standoff with the Auditor General over pension assets. The chair of the special panel tasked with settling an accounting dispute will be paid $2,000 per work day. The other three members of the panel will get a $1,900 per diem, as well as reimbursement.
- On November 14, 2016 QP Briefing reported an expert panel will study the AG pension dispute.

- On October 9, 2016 Focus Ontario (Global) ran a segment on the 2015-16 Public Accounts and the disagreement with the Auditor General. Both the Premier and Patrick Brown are quoted in the segment. The Premier is quoted from Question Period saying the government “accepted the Auditor General's numbers for this year. We released the documents despite the divergence in accounting opinions, specific to pension funds between Treasury Board officials and the Auditor as part of our commitment to openness and be transparency.”
- On October 9, 2016 The Toronto Sun (A17) ran an opinion piece about the disagreement with the Auditor General. The piece notes that this kind of back and forth between ministries and the Auditor General is common. The Auditor General provides time for ministries to comment on the audit in draft form so that accounting issues can be hashed out before the final audited statement is presented to the legislature. Accounting issues are generally benign. So it's surprising that the Wynne government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's unqualified opinion.
- On October 6, 2016 The Financial Post has a commentary by analysts with the Fraser Institute. “It's not surprising the Wynne government is willing to go to the mat to defend its estimate of last year's budget deficit. As Ontario approaches a provincial election in 2018, a big part of the government's PR strategy is focused on celebrating an expected return to a balanced budget in next year's budget. So Premier Kathleen Wynne's team has a big incentive to push back against dissenting views.”
- On October 6, 2016 QP Briefing reports Treasury Board President Liz Sandals tabled Ontario's public accounts for fiscal 2015-16, including the Auditor General's opinion. The tabling of the public accounts was delayed by almost two weeks after months of back and forth between the Auditor General and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- On October 3, 2016 The Globe and Mail reports Ontario's Liberal government is fighting with the province's Auditor General over a $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt.
- On October 3, 2016 Canadian Press ran a story in 40 media outlets reporting that the government says Auditor General Bonnie Lysyk is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years. “The issue is with the accounting of the Ontario Public Service Employees Union Pension Plan and the Ontario Teachers' Pension Plan, which are jointly sponsored with the government. The government says the plans have a surplus, but the auditor general says that should not be on the province's balance sheet.”

Prepared by: Jim Keates, Senior Accounting Policy Analyst, Accounting Policy and Financial Reporting. July 21, 2017

Approved by:	**Name:**	**Date Approved:**
Director	Nadine Petsche/Mark Donaldson	July 31, 2017
ADM, Office of the Provincial Controller	Cindy Veinot	January 3, 2018
Issues Management Analyst, Communications	Alisha Tharani	January 5, 2018
A/Manager, Issues Management, Communications	Amanda Miller	January 15, 2018
Assistant Director, Communications	Bryant Sullivan	January 16, 2018
Director, Communications	Sofie Di Muzio	January 16, 2018

CONFIDENTIAL REVISED: January 10, 2018

2016-17 PUBLIC ACCOUNTS

ISSUE: What is reported in the 2016-17 Public Accounts released on September 7, 2017?

KEY MESSAGES: PUBLIC ACCOUNTS

- The 2016-17 Public Accounts of Ontario show the province's deficit is $991 million.
- This result is $3.3 billion lower than projected in the 2016 Budget, and $0.5 billion lower than the interim forecast in the 2017 Budget.
- This is a result of growth in revenue that exceeded growth in program expense, and lower than forecast interest on debt.
- Ontario has beaten its deficit target eight years in a row. Ontario's plan is working.
- As promised in the 2016 Budget, Ontario grew its economy while transforming healthcare, building vital infrastructure and investing in people's talents and skills.
- Due to our prudent fiscal management and Ontario's robust economic growth, we are projecting a balanced budget for the first time since the onset of the global recession in 2008.
- We remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- This is something that has been achieved only eight times in the last 40 years in Ontario.
- We will continue moving forward on our fiscally responsible plan that creates fairness and opportunity for all Ontarians.

KEY MESSAGES: OTHER HIGHLIGHTS

- We will continue to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- Other highlights from this year's Public Accounts include:
    - Economic growth, with a 2.7 per cent increase in real gross domestic product (GDP), up 2.2 per cent in the 2016 Budget.
    - Total revenue of $140.7 billion, up $2.2 billion from the 2016 Budget.
    - Total spending of $141.7 billion, down $0.1 billion from the 2016 Budget.
    - Interest on debt of $11.7 billion, down $0.7 billion from the 2016 Budget.
- To help Ontarians better understand their government's finances, new digital tools have been developed that present the Public Accounts data in innovative, visual formats. These tools make Ontario's finances easier to understand, access and use.
- Presenting the Public Accounts data in innovative, visual formats is part of Ontario's commitment to Open Government.

KEY MESSAGES: ACCOUNTING CHANGES

BPS REVENUE PRESENTATION

- To increase transparency, the 2016-17 Public Accounts are presenting third-party revenues for hospitals, school boards and colleges, such as tuition fees, patient fees, research grants and donations, with provincial revenue.
- In prior years, these revenues were netted against the expenses of the respective sectors (health, education, post-secondary).
- This is a change in presentation only; the change increases total revenues and expenses by approximately $8 billion, and does not impact the deficit, net debt or accumulated deficit.
- This change is consistent with public sector accounting standards and the reporting practices of other senior Canadian governments.
- The Auditor General is supportive of this change in presentation.

ACCOUNTING FOR ENERGY GOVERNMENT BUSINESS ENTERPRISES:

- The 2016-17 Public Accounts include the financial results of Ontario Power Generation (OPG) and Hydro One using International Financial Reporting Standards (IFRS).
- These two government business enterprises currently report their stand-alone financial results using Generally Accepted Accounting Principles in the United States (US GAAP).
- In prior years, the reported results of OPG and Hydro One were included in the results of the province based on US GAAP.
- This change does not have a material impact on this year's Public Accounts.
- The Auditor General is supportive of this change in presentation.

PENSION ACCOUNTING:

- The government established the Pension Asset Expert Advisory Panel following the release of the 2015-16 Public Accounts.
- The Panel delivered independent advice on how public sector accounting standards are interpreted as they apply to current net pension assets and the application of public sector accounting standards for two of Ontario's jointly sponsored pension plans; Ontario Teachers' Pension Plan (OTPP); and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP).
- The Panel's report concluded that the province's share of the net pension assets of both the OTPP and the OPSEUPP should be recognized in Ontario's financial statements.
- The government accepted the Panel's recommendations, which have been reflected in the 2016-17 financial statements.
- The 2015-16 financial statements have also been restated to reflect the pension assets for these two plans.
- The Auditor General continues to not accept the application of the Public Sector Accounting Board (PSAB) standards in the 2016-17 Public Accounts regarding pension accounting for the province's jointly sponsored pension plans. For 2016-17, the Auditor General has qualified her opinion, stating that the province's deficit is understated by $1.4 billion.

KEY MESSAGES: IESO ACCOUNTING

- The Independent Electricity System Operator (IESO) reports its financial results in accordance with Public Sector Accounting Standards.
- In 2016, IESO changed its accounting policy to begin recognizing market assets (amounts due *from* power distributors) and liabilities (amounts due *to* power generators). In previous years, these amounts were omitted from IESO's financial statements.

- This change has no impact to the province's annual deficit, net debt or accumulated deficit.
- IESO also adopted rate-regulated accounting for deferred charges, such as the cost of smart meters, which will be recovered from users of these meters over time.
- Public Sector Accounting Standards are silent on rate-regulated accounting, and as a result, as provided for in the accounting standards, IESO considered other sources of guidance to assess the appropriateness of applying rate regulated accounting.
- Prior to the 2015 merger with the IESO, the Ontario Power Authority (OPA) reported market accounts and used rate-regulated accounting under PSAS. The statements of the OPA were not qualified during that time by OPA's external auditor or the Auditor General. This accounting treatment is not new to Ontario.
- The Auditor General qualified her opinion in 2016-17 based on the recognition of the IESO's market accounts. The Auditor General also noted in her opinion that the use of rate regulated accounting under PSAS is not permitted, but did not qualify on the issue of rate regulated accounting, as the impact was not material in the current year.
- The reporting changes implemented by the IESO were approved by their management and board, and received an unqualified audit opinion from their external auditor. The province's Office of the Provincial Controller also supports the changes.

KEY MESSAGES: AUDITOR GENERAL'S 2017 ANNUAL REPORT – CHAPTER ON PUBLIC ACCOUNTS

- The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and

accurately and in accordance with Canadian Public Sector Accounting Standards.

- The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- The province will continue to provide financial statements according to Canadian Public Sector Accounting Standards that support transparency and accountability in reporting to the public, the legislature, and other users.
- The government will continue to build on its track record of responsible fiscal management.

CURRENT STATUS

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.

BACKGROUND:

- The Public Accounts of Ontario is a key accountability and transparency document in the government's financial cycle. It's a look back that compares Ontario's actual performance to what was planned in the Budget.

- The Public Accounts present the financial statements of the Province, provide financial highlights of the past fiscal year, and report on performance in priority areas.

- Public Accounts is audited by the Auditor General and is typically released in the fall of the following fiscal year.
- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

- These changes include:
    - **Accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
    - **Accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.
    - **Accounting for the Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
    - **Accounting for net pension assets of jointly sponsored pension plans** - the Province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

Pension Asset Expert Advisory Panel

- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide independent advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.
- The Panel was comprised of accounting, legal and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.
- The Panel members were:
    - Tricia O'Malley; (Chair)
    - Murray Gold;
    - Uros Karadzic; and,
    - Paul Martin.
- Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

- The Panel issued its report in February 2017. Upon receiving the report, the government, supported by its own research and analysis, accepted the Panel's recommendation and has reported the pension assets of the Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employees' Union Pension Plan (OPSEUPP) in its 2016-17 consolidated financial statements (with restatement of 2015-16).
- The Panel issued a supplementary report in March 2017 with respect to the Healthcare of Ontario Pension Plan (HOOPP) and Colleges of Applied Arts and Technology Pension Plan (CAATPP) recommending that a full valuation allowance be recorded on the net assets of both of these plans, based on the difference in governance structure between these plans and OTPP and OPSEUPP. The province agreed and has recorded a valuation allowance for CAATPP in the year (amount is not material). The HOOPP plan is not in a net asset position for accounting purposes at March 31, 2017.

Independent Electricity System Operator

- The Independent Electricity System Operator (IESO) is a not-for-profit, non-taxable corporation established pursuant to Part II of the *Electricity Act, 1998*. The Ontario Power Authority and the IESO merged on January 1, 2015.
- One of IESO's roles is to settle the market accounts, which are the amounts due to the entities that provide electricity to the market (e.g. power generators) and due from those who consume electricity (e.g. local distribution companies on behalf of their consumers).
- Rate regulated accounting is appropriate where the rates an entity is able to charge to its customers are set by another party (i.e. a regulator), provided specified criteria are met. Rate-regulated accounting permits the entity to defer costs that would otherwise be expensed to the period that the related revenue is charged to customers. Costs able to be deferred by the IESO include:
    - Unrecovered smart metering expenses; and,
    - Unrecovered pension and post-employment benefits related to PSAB transition.
- During 2016, IESO made two accounting changes (1) to recognize the market accounts in its financial statements – these amounts were not previously recognized in the IESO's financial statements, and (2) to apply rate-regulated accounting.
- The IESO received an unqualified audit opinion from KPMG (their external auditor) with respect to the financial statement presentation in their 2016 audited financial statements. IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor, and the Office of the Provincial Controller all support the recognition of the market accounts and the use of rate-regulated accounting by IESO.

Revenue Highlights

Against the Restated 2016 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $2.2 billion higher than forecast in the 2016 Budget. This was largely due to higher than projected taxation revenues, non-provincial source revenues from hospitals, school boards and colleges, and income from GBEs, partially offset by lower than projected Government of Canada transfers and other non-tax revenue.

Against the Restated Interim Estimates in the 2017 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $0.6 billion lower than the interim forecast in the 2017 Budget. This was largely due to lower than projected taxation revenues and Government of Canada transfers, partially offset by higher than projected income from GBEs.

Expense Highlights

Against the Restated 2016 Budget plan:

- Total expense in 2016-17 was $141.7 billion, or $0.1 billion lower than forecast in the 2016 Budget plan. Program spending was $130.0 billion, up by $0.6 billion from a planned spending of $129.4 billion and interest on debt was $11.7 billion, lower by $0.7 billion from planned interest cost of $12.4 billion. Program spending was higher by $0.6 billion largely due to higher than projected spending in the health, community and social services, justice sector and general government and other.

Against the Restated interim Estimates in the 2017 Budget:

- Total expense in 2016-17 was $141.7 billion or $1.1 billion lower than the interim forecast in the 2017 Budget. Program spending was $130.0 billion, $0.9 billion lower than the interim forecast of $130.9 billion in the 2017 Budget. Interest on debt was $11.7 billion, lower by $0.2 billion from planned interest cost of $11.9 billion. Program spending was lower by $0.9 billion largely due to lower than projected spending in the health and education sectors, and other programs.

Net Debt

- Net debt as of March 31, 2017, was $301.6 billion, which was $6.7 billion lower than forecast in the 2016 Budget. Net debt grew by $6.2 billion during the year, representing a $6.6 billion increase in liabilities that was partially offset by a $0.4 billion increase in financial assets.

Auditor General's 2017 Annual Report: Chapter on Public Accounts

- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report.
- The Auditor General's Annual Report, Chapter 2, makes 10 recommendations regarding the Public Accounts of the Province.
- The recommendations largely reflect opinions that have been expressed in previous reports, including the Auditor General's audit opinion in the 2016-17 Public Accounts and the Special Report on the Fair Hydro Plan.
- Treasury Board Secretariat and Ministry of Finance disagree with the characterization of the majority of the recommendations, and re-iterate the government's commitment to producing high-quality financial statements on a timely basis and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Financial Accountability Office's Economic and Fiscal Outlook, Fall 2017 Update

- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update.
- During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, "Independence is not infallibility when it comes to Ontario's financial books," arguing Auditor General "Lysyk's paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All's fair in politics and accounting, unless you're an auditor gone awry."
- January 9, 2018 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute's Ontario Prosperity Initiative entitled "Ontario's finances are still a mess." Eisen argues that people should treat the government's balanced budget claims with skepticism, writing "For starters, many analysts, including Ontario Auditor General Bonnie Lysyk, have called the government's accounting techniques into question, arguing proper accounting would show continued deficits. Others, including the government's Financial Accountability Office, warn that without additional policy changes to reduce spending, or raise taxes, Ontario will likely slip back into deficits."
- December 17, 2017 – The Ottawa Sun's Lorrie Goldstein writes that "with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted." Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: "Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan."
- December 17, 2017 – The Toronto Sun's Jim Warren cautions that "the role of the Auditor General is shifting in troubling ways," arguing that the Auditor General's increasing outspoken role is "making matters worse." Specifically referencing the pension asset accounting issue, Warren writes "For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position."
- December 14, 2017 – The Record runs an opinion piece, "To sort out truth from pre-election fictions, turn to Bonnie Lysyk," writing that the Auditor General "warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car."
- December 13, 2017 – The Toronto Sun runs a comment piece, entitled "Liberals hiding deficit, second watchdog says" covering the Financial Accountability Officer's (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO's report "says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans." Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting."

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- November 15, 2017 – Ontario PC Finance Critic Vic Fedeli pens a column in the Toronto Sun on the Fall Economic Statement, making reference to the Auditor General's qualified audit opinion on the province's Public Accounts two years in a row.
- October 16, 2017 – CBC News looks to the province's Public Accounts to highlight "Four surprising things about the Ontario government's finances," including: "personal income tax revenue is dropping," "corporate tax revenue is soaring," a "real estate windfall," and "booze revenue poised to top gambling revenue."
- September 8, 2017 -- Post Media's David Reevely quotes the AG's statement that rejects the contents of the Public Accounts "The Legislature and all Ontarians must be able to rely on the province's consolidated financial statements to fairly report the fiscal results for the year. This year they cannot do so." The article mentions the FAO's commentary this week saying the FAO and AG have 'made a businesslike routine of pointing out all the extreme assumptions and accounting stretches the

government is using to make the books look good in an election year." The article concludes that considering what happened to the world economy a decade ago the government has 'done all right' but is critical of 'dismissing' the government's two most prominent independent financial experts. **Minister Sandals** mentioned in reference to releasing the PA.

- September 7, 2017 -- Toronto Star says the "stakes are high in the accounting slugfest between the government and the auditor general." The article mentions Minister Sandals "shrugging off" the AG's accounting interpretation. "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said. "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 -- QP Briefing reports financial watchdogs aren't smiling about the government lowering the deficit to $1 billion, but instead are 'baring their teeth'. The article says auditor general Bonnie Lysyk said yesterday the government "significantly understated" its deficit, while the Financial Accountability office this week called the plan to reduce the debt burden "unlikely." Minister Sandals is quoted "The public wants to know, are you managing your deficit?" "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The article also notes AG Lysyk is warning that the complex accounting behind the hydro bill reduction could add to a bigger than expected deficit next year, and that a special report will be tabled this fall.
- September 7, 2017 -- The CP article about Public Accounts quotes Minister Sandals "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The coverage says AG Lysyk disputes the government figures and that "the statements were not prepared following Canadian Public Sector Accounting Standards." This article was picked up by several media outlets but coverage was not widespread.
- February 20 & 21, 2017 -- Toronto Sun report on Minister Sandals' memo to OPSEU that "the OPSEU pension plan….clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". This is followed by a column by OPSEU President Warren Thomas saying Ontario's public service workers and retirees feel like we are about to get robbed.
- February 18, 2017 – Toronto Star, Toronto Sun and Ottawa Sun coverage of the ongoing pension accounting issue between the government and Auditor General.
    - Ottawa Sun says NDP Leader Horwath trusts the Auditor General's math.
    - Toronto Sun quotes Minister Sandals who said in a statement that she will accept the findings of the panel.
    - Toronto Star columnist Martin Regg Cohn wrote that the Auditor General is no hero, and her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures."
- February 17, 2017 -- Hamilton Spectator, QP Briefing, and Windsor Star have coverage.
    - The Spectator's opinion piece is negative toward Auditor General Lysyk.
    - QP Briefing's piece written by Bryne Purchase, former deputy minister of finance, sides with the AG.
    - Windsor Star published the CP story that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute and that she is asking to see "the letter that says you can use that pension money with permission, with an agreement."

- February 16, 2017 – The Toronto Star, Toronto Sun & QP Briefing have coverage of the Auditor General's response to the panel's report.
    - The Toronto Star and QP Briefing say the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes and describes it as an "escalating a $10.7 billion standoff".
    - QP Briefing quotes Minister Sandals from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place."
    - The Toronto Sun has two articles on the number crunching aspect of the expert panel and that the government spent up to $435,000 on it. OPSEU's Warren 'Smokey' Thomas was livid and notes that he wants a guarantee the government won't raid his members' pension fund.
- February 15, 2017 -- QP Briefing quotes Minister Sandals about it being too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute.
- February 14, 2017 – high profile media coverage of the Pension Asset Expert Advisory Panel report release the day before.
    - Toronto Star columnist Martin Regg Cohn is critical of the Auditor General saying she has been caught out in a $10.7-billion miscalculation.
    - The Star's coverage also included article about the panel report and that $10.7 billion in government-sponsored pension plans should count toward the province's bottom line.
    - The Ottawa Sun's David Reevely says about the panel report "…we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets."
    - OPSEU's Smokey Thomas writes that the dispute between the government and the Auditor General is not "just a paper war" and that he "unequivocally supports" the AG's position.
- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: "Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: "If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- February 7 & 8, 2017 – Toronto Star and QP Briefing have coverage about the pension asset advisory panel's soon-to-be-released report.
    - PC Finance Critic Vic Fedeli tells the Star, that the people have to ask themselves who they are going to believe-- the independent auditor general or a scandal-plagued Liberal government?"
    - Columnist Martin Regg Cohn writes the AG has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets and she won't climb down.
- November 14 & 30th, 2016 -- QP Briefing has coverage of the expert panel announced to study the accounting dispute over pension assets.

- October 9, 2016 -- Focus Ontario (Global tv) and the Toronto Sun have coverage of the 2015-16 Public Accounts and the disagreement with the Auditor General.
    - Focus Ontario coverage balanced.
    - Toronto Sun opinion piece expresses surprise that the government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's opinion.
- October 6, 2016 -- The Financial Post has a highly critical commentary by analysts with the Fraser Institute, while QP Briefing reports the public accounts for 2015-16 have been tabled almost two weeks after months of back and forth between the auditor general and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- October 3, 2016 -- The Globe and Mail and Canadian Press report the government is ‘fighting’ with the Auditor General. Globe notes focuses on the AG’s $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt. CP story (picked up by 40 media outlets) says the Auditor General is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years.

Prepared by: Bharat Patel, Office of the Provincial Controller Division
Reviewed by: Mark Donaldson, Office of the Provincial Controller Division

Approved by:	**Name:**	**Date Approved:**
ADM, Office of the Provincial Controller Division	Cindy Veinot	January 3, 2018
Issues Management Analyst, Communications Branch	Alisha Tharani	January 10, 2018
A/Manager, Issues Management, Correspondence and Media Relations	Amanda Miller	January 15, 2018
Assistant Director, TBS Communications Branch	Bryant Sullivan	January 16, 2018
Director, Communications Branch	Sofie Di Muzio	January 24, 2018

Appendix

Preparation and Tabling:

The Public Accounts for each fiscal year are prepared under the direction of the President of Treasury Board, as required by the *Financial Administration Act*.

The Public Accounts of Ontario consist of the Annual Report and three supplementary volumes. The Annual Report includes the province's audited consolidated financial statements and a financial statement discussion and analysis section. Supplementary information is contained in three volumes:

Volume 1: Ministry statements for expenses, assets, revenue, detailed debt and other supplementary schedules. It provides a comparison of appropriations with actual spending.

Volume 2: Financial statements of significant provincial corporations, boards, commissions that are part of the government's reporting entity, and other miscellaneous statements.

Volume 3: Detailed schedules of payments made by ministries to vendors and transfer payment recipients.

The *Financial Administration Act* requires the President of Treasury Board to submit the province's Annual Report and consolidated financial statements to the Lieutenant Governor in Council (LGIC) on or before 180 days after fiscal year-end. This year, the deadline was September 27, 2017.

The process for release of the Public Accounts is as follows:

- The Public Accounts are approved by the Lieutenant Governor in Council.
- The LGIC lays the Public Accounts before the Assembly, if the Assembly is in session, and the Public Accounts are then released on the same day.
- If the Assembly is not in session on the day of the release of the Public Accounts the LGIC is required to make the Public Accounts public and the Public Accounts are laid before the Assembly on or before the tenth day of the next session.

LOGISTICS & FORMAT OVERVIEW

Overview

- SCOPA meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports. All public committee proceedings are recorded in Hansard.
- The Chair will advise members to consider questions that are relevant to the content of the Auditor General's Annual Report, but in practice members do sometimes ask questions outside of the report's focus. As a general rule, expect that any question related to the Province's financial statements would be ruled within scope by the committee chair.
- The Committee members may ask that ministries provide details after the session if more research or gathering of information is needed to respond to a question.

Agenda

Wednesday, February 28, 2018
Committee Room 151 (Amethyst Room), Main Legislative Building

Time	*Topic*
9:00 a.m.	Closed Session: Briefing by the Auditor General
10:00 a.m.	Briefing by the Research Officer
10:15 a.m.	RECESS
12:30 p.m.	Treasury Board Secretariat and other representatives • *Invited senior officials appear and respond to questions.* • *The Auditor General attends, and the Committee members can seek clarification from the AG on points from her report if needed during the session.*

12:30 – 3:00 p.m.

- **Opening remarks** (20 minutes)
- **First round of questions** (60 minutes)
  - Each of the three political parties get 20 minutes of questions
- **Second round of questions** (50 minutes, approximately)
  - The remaining time until 2:45 p.m. is split between the three political parties; approximately 15-17 minutes per party

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- **Closed session** (15 minutes)
    - Committee members plus the Clerk, only; no audience or presenters
    - The Committee will discuss the outcome of the meeting and if they want to do a report
    - There are no closing statements from ministry officials

Room Setup

- Committee Room 151 (Amethyst Room) is equipped with cameras and the meeting will be available on TVs within the Legislature and streamed online.
- The room has a square table with rows of extra seating at the front the room.
- The Committee Chair, Auditor General and Clerk will sit at the head of the table with the government and opposition parties on opposite sides.
- The invitees sit opposite the Committee Chair and Clerk, either at the table or in the first row of chairs.

Media Access

- Media are allowed to sit in on the meeting as long as they do not interrupt the proceedings. They cannot ask questions in the committee room, but if they wish they can scrum participants in the hallway as they leave.
- Media can also watch SCOPA proceedings on the TVs in the Legislature or online.

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Invitees

Organization	Position	Name
Cabinet Office	Secretary of Cabinet	Steve Orsini
Treasury Board Secretariat	Deputy Minister	Helen Angus
Ministry of Finance	Deputy Minister	Scott Thompson
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ministry of Energy	Deputy Minister Assistant Deputy Minister	Serge Imbrogno Steen Hume
Ontario Power Generation	President and Chief Executive Officer Senior Vice President and Chief Financial Officer	Jeffrey Lyash Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer Vice President, Corporate Services and Chief Financial Officer	Peter Gregg Kimberly Marshall

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Ministry/Organization Representatives to Attend

Organization	Position	Name
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot
Treasury Board Secretariat Office of the Provincial Controller	Director, Accounting Policy and Financial Reporting Branch	Mark Donaldson
Ministry of Finance Deputy Minister's Office	Deputy Minister	Scott Thompson
Ministry of Finance Office of the Budget	Assistant Deputy Minister	Tim Schuurman
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ontario Financing Authority	Chief Financial and Risk Officer	Ken Kandeepan
Ministry of Energy Deputy Minister's Office	Deputy Minister	Serge Imbrogno
Ministry of Energy Assistant Deputy Minister	Energy Supply Division	Steen Hume
Ontario Power Generation	President and Chief Executive Officer	Jeffrey Lyash
Ontario Power Generation	Senior Vice President and Chief Financial Officer	Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer	Peter Gregg
Independent Electricity System Operator	Vice President, Corporate Services and Chief Financial Officer	Kimberly Marshall

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Committee Members

Chair



ERNIE HARDEMAN, MPP (PC/OXFORD)

Current Parliamentary Roles

Chair, Standing Committee on Public Accounts
Critic, Municipal Affairs and Housing

Vice-Chair



LISA MACLEOD, MPP (PC/NEPEAN—CARLETON)

Current Parliamentary Roles

Vice-Chair, Standing Committee on Public Accounts
Critic, President of the Treasury Board, Critic, Ministry of Finance,
Critic for the Anti-Racism Secretariat

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Members



BOB DELANEY, MPP (LIB/MISSISSAUGA—STREETSVILLE)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts Member, Standing Committee on Estimates,
Parliamentary Assistant to the Minister of Energy



VIC DHILLON, MPP (LIB/BRAMPTON WEST)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Government and Consumer Services Member, Standing Committee on Social Policy



HAN DONG, MPP (LIB/TRINITY—SPADINA)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Advanced Education and Skills Development, Parliamentary Assistant to the Minister Responsible for the Poverty Reduction Strategy
Member, Standing Committee on Finance and Economic Affairs



JOHN FRASER, MPP (LIB/OTTAWA SOUTH)

Current Parliamentary Roles

Member, Standing Committee on Social Policy Member, Standing Committee on Public Accounts, Parliamentary Assistant to the Minister of Health and Long-Term Care

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PERCY HATFIELD, MPP (NDP/WINDSOR—TECUMSEH)

Current Parliamentary Roles

Critic, Housing
Critic, Municipal Affairs
Member, Standing Committee on Public Accounts



RANDY HILLIER, MPP (PC/LANARK—FRONTENAC—LENNOX AND ADDINGTON)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Critic, Attorney General



LIZ SANDALS, MPP (LIB/GUELPH)

Current Parliamentary Roles

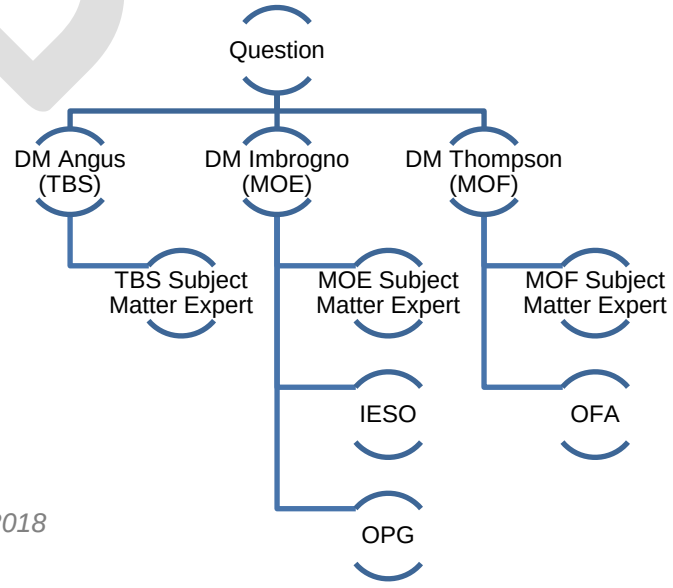
Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Infrastructure

Clerk
Katch Koch
Tel. 416-325-7352
kkoch@ola.org

Last updated: February 5, 2018

STRATEGIC APPROACH

- Provide evidence and facts as the basis of decision-making wherever appropriate (e.g. other jurisdictions, external advisors).
- Provide responses that are relevant and in scope of the consideration of chapter two of the Office of the Auditor General's report
- Avoid any speculation on political decision-making or rationales; provide objective, factual responses in role as non-partisan public servant.
- Provide context wherever possible. Deputy Ministers to provide initial messaging then pass to the subject matter experts where appropriate.
- Emphasize the role of a public servant is to provide factual, non-partisan information to the Committee based on due diligence and the application of professional judgment.
- Reaffirm the government's commitment to working with the Office of the Auditor General.
- Emphasize that the province will continue to follow Public Sector Accounting Standards (PSAS), as always, and will seek appropriate expert guidance where PSAS is silent.
- Use the Committee appearance as an opportunity to communicate the facts and rationale for the decision to adopt/continue accounting practices in response to the Office of the Auditor General's recommendations.
- Highlight due diligence in decision making (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).



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STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Last updated: January 22, 2018

Key Issues	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	Pres. & CEO, OPG	SVP & CFO, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thompson	Gadi Mayman	Serge Imbrogno	Steen Hume	Jeffrey Lyash	Ken Hartwick	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting		Overall - Pension Asset Accounting		Details - Pension Asset Accounting								
Advisory Panel Compensation			Advisory Panel Compensation									
IESO Accounting							**IESO LEAD**					
Rec # 2 IESO Market Accounts				Government decision to accept IESO market accounts			OFHP Policy Overview	OFHP Policy Overview			IESO's Role in OFHP / General Overview	IESO Market Accounts
Rec #5 IESO Market Accounts & Rate-Regulated Accounting				Government decision to accept IESO rate-regulated accounting								IESO Rate-Regulated Accounting
AG Audit of 2017 Statements		Relationship with AG - AG Audit of 2017 Statements										AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #3 OFHP Accounting				Decision to accept OFHP accounting			OFHP Policy Overview	OFHP Policy Overview	OPG's Role in OFHP / General Overview	OPG Financing Structure / Transaction	IESO's Role in OFHP / General Overview	IESO Financing Structure
Rec #6 'Legislated Accounting'				OFHP - 'legislated' accounting								
Rec #9 Arm's Length Trusts				Accounting for trust						OPG Accounting / Trust		
Records Disclosure/Process		Ministry FOI/OPQ					Records Disclosure / Process Followed		Records Disclosure / Process Followed		Records Disclosure / Process Followed	
Re-design of hydro bills							Re-design of hydro bills					
Pre-Election Report		**JOINT PRE-ELECTION REPORT LEAD**			**JOINT PRE-ELECTION REPORT LEAD**							
Rec #10 Pre-Election Report on Ontario's Finances		Pre-Election Report on Ontario's Finances	Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #7 Province's Debt Burden					Province's Debt Burden	Province's Debt Burden; Repayment plan						
Financial Accountability Officer Reports					Financial Accountability Officer Reports	Financial Accountability Officer Reports						
Credit Ratings					Credit Ratings	Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
Rec #4 External Advisors		External Advisors										
Rec #8 Timeline of Finalization of Financial Statements		Timeline of Finalization of Financial Statements	Timeline of finalization of financial statements		Timeline of finalization of financial statements - tax revenues							
Audit Opinion				Audit Opinions								
Out of Scope		Specific ministry Public Accounts line items Speculation about future accounting implications; audit opinions Speculation about government motivations			Speculation about future policy implications Speculation about government motivations		OFHP final accounting implications Speculation about future policy implications Speculation about government motivations	IESO/OPG compensation Expenses				

Summary Status Table in Response to the Report of the Auditor General of Ontario

Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and b) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

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	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Aanalysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. The government respectfully disagrees with the Auditor General's interpretation of the accounting standards on this issue as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

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by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

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	conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

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our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*		

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their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

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• *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

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states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

	which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%, currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining, falling to 37.3% in 2017-18 from its 2014-15 peak of 39.3%.	Continue to monitor progress. Estimated implementation by FY 2029-30.

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	As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

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personal income tax revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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AG Recommendation #10 *We recommend that the government determine when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.*	Under the *Fiscal Transparency and Accountability Act*, 2004, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a Statement based on a prompt review following the release of such a Pre-Election Report.	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

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Attachment A. TBS Comprehensive QAs (0 Bytes) cannot be converted to PDF format.

Attachment B. Ministry of Energy Comprehensive QAs (0 Bytes) cannot be converted to PDF format.

Attachment C. Ministry of Finance Comprehensive QAs (0 Bytes) cannot be converted to PDF format.

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

Key Messages

- The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).
- We respectfully disagree with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.
- The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.
- The province is open to continue to discuss the matter in the hopes of resolving this matter.
- For more information on pension asset accounting, I will now pass it over to:
    - Cindy Veinot, Provincial Controller

1. **How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?**

   The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

   The Office of the Auditor General communicated its interpretation of PSAS requiring a full valuation allowance on the province's two jointly sponsored pension plans in September 2016.

   At that time, the government passed a time-limited regulation on the accounting treatment of for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from the Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts.

   During the 2016-17 year, the province's professional accounting staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans.

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This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel, established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans.

  The panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017, which supported the government's position that a valuation is not required for these two plans under PSAS.

  Two key findings of the panel were:

  1) There is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record and asset, as the existing agreements in place between the parties support the recognition of an expected benefit; and

  2) Unilateral control is not required for asset recognition. Joint control with each party having the ability to deny the actions of the other sponsor provides evidence of shared control, supporting recognition of an asset.

- An opinion from Deloitte LLP on aspects of the province's accounting as of March 31, 2016 for the Ontario Teacher's Pension Plan (OTPP). The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under PSAS, even though the province did not have a unilateral right to reduce contributions. (The opinion did not address the value at which the asset should be recorded.)

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or Ontario Public Sector Employee's Union Pension Plan (OPSEUPP) as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

After significant deliberation, including consideration of the recommendations of the panel, Deloitte LLP and EY, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and prepared in accordance with PSAS for pension asset accounting. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension

assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

We respectfully disagree with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.

The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.

The province is open to continue to discuss the matter in the hopes of resolving this matter.

2. Why are you still fighting with the Auditor General over pension accounting?

In preparing last year's Public Accounts, the province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the province on the issue. The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan. The 2016-17 financial statements include these pension assets, and the government continues to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

The Treasury Board Secretariat will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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Advisory Panel Compensation

1. **How much did you pay the panel members? Do you think that money was justified?**

   The total cost of the panel was $221,113. This included compensation and travel expenses for the four panelists, as well as procurement. These rates are consistent with the Agencies and Appointments Directive, which specified up to $2,000 per day for appointees with unique and specialized expertise, or urgent issues affecting government priorities and requiring intense time commitments over a short period of time.

   The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards, and provided independent advice on how to move forward with how Public Sector Accounting Board standards should be applied to current and potential future net pension assets.

2. **Why was Patricia O'Malley included in Public Accounts and not the other panel members?**

   Patricia O'Malley was the chair of the independent Pension Asset Expert Advisory Panel (PAEAP), which provided important advice to government on how to account for jointly-sponsored pension plans. She is included in Public Accounts because her compensation for her work on the Panel was above the $50,000 threshold that must be reported in detail in Public Accounts.

   The other members of PAEAP were paid less than the $50,000 minimum threshold in fiscal 2016-17 that requires they be listed in Public Accounts. Their 2016-17 compensation is captured as part of the "Accounts Under $50,000" category.

   As Paul Martin is a member of the New Brunswick Public Service, he did not receive compensation for his role on the panel. He was only eligible for expense reimbursements.

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

Key Messages

- The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit.
- In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements.
- The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.
- The government supports this enhanced reporting and greater transparency for the economic activities of the IESO.
- The province is open to continue to discuss the issue in the hopes of resolving this matter.
- For further details on the province's decision to accept IESO market accounts on the province's consolidated financial statements, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO's decision to adopt market accounts, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts	Ministry of Energy (IESO)

1. **How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?**

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

   The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

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This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

Key Messages

- The Independent Electricity System Operator (IESO) intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS), and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018.
- The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, the IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, the IESO has also instructed its audit partner to cooperate with the Auditor General's Audit.
- For further details on the province's decision to accept IESO market accounts and rate-regulated accountingI will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Ministry of Energy (IESO)

3. Does the Independent Electricity System Operator (IESO) use Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements?

Yes. The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS).

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The IESO's financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. The IESO received an unqualified, or clean, audit opinion on its 2016 financial statements.

4. Why is the IESO now including market accounts on its financial statements? Does this go against PSAS?

The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS.

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

5. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

Canadian Public Sector Accounting Standards (PSAS) are silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of*

transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America, including the:

- Alberta Electric System Operator (AESO)
- ISO New England
- New York Independent System Operator (NYISO)
- Midcontinent Independent System Operator (MISO)
- PJM Interconnection LLC and,
- Electric Reliability Council of Texas (ERCOT).

6. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. The implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

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The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

AG Audit of 2017 Statements

Key Messages

- The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, the IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, the IESO has also instructed its audit partner to cooperate with the Auditor General's Audit.

For QAs related to:	See:
Audit of IESO's statements	Ministry of Energy (IESO)

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ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

Key Messages

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in the Public Sector Accounting Board's guidebook.
- The province's professional staff have appropriately applied this guidance in assessing the accounting for the OFHP.
- For further details on the province's decision to accept OFHP accounting, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

7. Will the government follow Public Sector Accounting Standards (PSAS) for Ontario's Fair Hydro Plan?

The province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

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- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

The province's professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

8. Will the government follow the accounting standards set by historical precedent, as cited by the Auditor General?

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. There are, however, crucial differences between the two.

For example, the OEFC stranded debt had already been incurred when the 1999 restructuring of the former Ontario Hydro took place.

In the case of OFHP, the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the Clean Energy Adjustment, which can be held and realized or can be sold.

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

The OFHP Global Adjustment deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected

lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

9. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

While the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

On the point of "true financial impact":

In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior

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governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the province's finances fairly, accurately and in accordance with PSAS.

On the point of "a financing structure that is the least costly for Ontarians":

The OFHP financing structure has been designed to provide electricity rate relief to current ratepayers, including by more fairly allocating costs for specified consumers, with the Global Adjustment cost amounts still ultimately borne by specified electricity ratepayers, as beneficiaries of those electricity system costs.

The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. Having the rate-base pay is not a new policy, for example Hydro One has borrowed in the capital markets since 2000.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (the Fair Hydro Plan Trust) that will manage the debt obligations. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO).

The cost analysis in the Office of the Auditor General's report was sourced from the FAO's May 2017 report. Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Recent government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

The province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management.

10. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

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In developing Ontario's Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

11. Both the Auditor General and the Financial Accountability Officer have raised serious concerns about the accounting treatment of the electricity cost refinancing initiative. Why should Ontarians believe this government over two independent officers of the Legislature?

The province has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

In developing the Ontario Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting

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Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

The province, as always, will prepare its consolidated financial statements in accordance with PSAS and continue to build on its track record of responsible fiscal management.

12. The Auditor General says that you are "obfuscating" the true financial impact of Ontario's Fair Hydro Plan through a "needlessly complex" accounting structure. How do you respond?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

OFHP is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

While the implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized, the financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

13. How can you justify the $4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance 55 per cent, at a higher interest rate than the province, instead of the province financing the entire electricity cost financing)?

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Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

The Auditor General's report suggests that all the costs of OFHP should be reflected as if they will be borne by taxpayers, which is inaccurate.

Ontario Power Generation (OPG) is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Officer (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

For further questions about borrowing estimates, please contact the Ministry of Finance.

14. The AG claims that when the government first gave Ontarians an 8 per cent break on their bills, it was reported on the books properly. She says when it jumped to 25 per cent, the accounting changed. Isn't it obvious that the government is cooking the books to suit their needs?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions.

It is our role as public servants to provide our best advice and due diligence.

As always, the province adheres to Canadian Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board.

The province will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.

It's important to note that while PSAS is the primary source of guidance for the government in the preparation of its financial statements, there are circumstances where governments may refer to other accounting frameworks for guidance where PSAS is silent and does not address specific transactions.

In this case where PSAS is silent on the use of rate-regulated accounting, US accounting standards contain the most developed and appropriate guidance for this transaction.

15. The Auditor General says that even your own government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Multiple options were considered in creating the OFHP framework – such as to have local distribution centres finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution centres to finance the balances.

The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.

Ultimately, OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

Key Messages

- The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.
- As always, we will prepare the province's consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS), including the transactions resulting from Ontario's Fair Hydro Plan (OFHP).
- For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to

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allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of PSAS.

- This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.
- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

1. **Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.

   The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

   The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

2. **The Auditor General said that a similar move to legislate accounting to defer costs was proposed with the restructuring of the Ontario electricity**

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sector in the late 1990s, but the Auditor General's opinion at that time was that this would represent a departure from a central tenet of generally accepted accounting principles. The government at that time heard these concerns, and made the decision to not create an asset for future anticipated ratepayer payments. Why does the government think this is ok now?

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. There are, however, crucial differences between the two.

For example, the OEFC stranded debt had already been incurred when the restructuring took place.

In the case of OFHP, the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the Clean Energy Adjustment.

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

The OFHP Global Adjustment deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

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AG Recommendation #9: Arm's Length Trusts

Key Messages

- The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.
- Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight.
- The province will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
- For more information on arm's length trusts, I will pass it to:
    - Cindy Veinot, Provincial Controller
    - Deputy Imbrogno

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy

1. **Will the government avoid establishing arm's length trusts in order to record an expense in its financial statements before it is necessary, given that it loses the ability to ensure funds are provided to the appropriate beneficiaries?**

   The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.

   Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arm's length and is able to demonstrate proper oversight.

   A trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the province to enter into agreements with each distributor.

   The trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

   While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred, as well as the

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ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Records Disclosure/Process

Key Messages

- The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- Senior ministry officials have met and continue to work with the Office of the Auditor General by participating in interviews and providing documentation.

For QAs related to:	See:
MOE Records Disclosure	Ministry of Energy

1. **The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?**

   The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

   The implementation of Ontario's Fair Hydro Plan is ongoing, with significant accounting and financial decisions still being finalized.

   Treasury Board Secretariat has released all requested records.

   Senior ministry officials have met with the Office of the Auditor General by participating in interviews and providing documentation.

   If asked about the Ministry of Energy emails:

   The Ministry of Energy, Finance, and the Treasury Board Secretariat are committed to assisting the Auditor General.

2. **In an email, a TBS official said [___], disagreeing with the government's policy decision. How do you respond?**

   As public servants, it is our role to provide our best advice and conduct our due diligence to inform decision-making. Part of this process includes questioning and deliberations.

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The record you are referring to is part of that discussion process, where we as public servants engage in deliberations and explore the options to get to the point of providing our best advice.

It is important to keep in mind that an individual email represents a point in time of the discussion.
That statement is not necessarily representative of the final advice put forward and an endorsement of what the public service has identified as the best approach.

The records must be considered in the context of discussion and deliberation, as an exercise in due diligence, and not as a final endorsement of an option or approach.

3. When does TBS not provide information through a Freedom of Information request?

Since 2015, TBS has been 100 per cent compliant for all Freedom of Information requests it has received.

In some cases, records may contain information that will be withheld in accordance with the legislation, such as personal information about individuals, confidential business information, advice to government or information that is subject to solicitor client-privilege.

Re-Design of Hydro Bills

For QAs related to:	See:
Hydro Bills	Ministry of Energy

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PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

Key Messages

- The province takes the Auditor's recommendations seriously and remains committed to working constructively with the Auditor General.
- The government has not yet made a decision on whether and when to release a Pre-Election report.
- We are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.

For QAs related to:	See:
Pre-Election Report	Ministry of Finance (Joint lead with Treasury Board Secretariat)

1. **Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?**

   Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report.

   The province remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.

2. **Is the government required to issue a pre-Election Report?**

   Provisions in the Fiscal Transparency & Accountability Act, 2004 (FTAA) allow for – but do not require – a regulation to be filed requiring the release of a Pre-Election Report and a review of that report by the Auditor General.

3. **The Auditor General signalled her readiness to work with the government to examine the pre-election report, why has the government waited this long to engage with the Auditor?**

   The province takes the Auditor's recommendations seriously. The government has not yet made a decision on whether and when to release a Pre-Election

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report. We are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the Province's fiscal position in advance of the election.

4. **Minister Sousa recently signalled that the government is not planning on issuing a Pre-Election Report. How do you feel about the government continuing to circumvent the Auditor General and avoiding accountability?**

The province takes the Auditor's recommendations seriously. As I understand, the government has not yet made a decision on whether and when to release a Pre-Election report. We are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

1. **How can your debt reduction plan be trusted if you're not using proper accounting for pension assets and the Fair Hydro Plan?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.

   PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and is used by all senior governments in Canada.

   PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

   Our professional staff exercises judgment in applying the standards and as necessary consults with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

   All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

   That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

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Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

1. **Does a qualified opinion from the Auditor General impact the province's credit rating?**

   The province's financial results show that the government has beaten its annual deficit targets. In April 2017, Ontario delivered its first balanced budget since the global recession and is on track to do so again next year and the year after.

   The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the province. However, there were no credit rating implications in 2016 when the province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

Key Messages

- The Treasury Board Secretariat (TBS) will continue to take a proactive approach to raising issues with the Office of the Auditor General.
- The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.
- When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

For QAs related to:	See:
Ministry use of external advisors	Ministry of Energy Ministry of Finance

1. **Will the government provide copies of contracts it enters into for accounting advice to the Auditor General?**

   The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

   The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

2. **Will the government build into its contracts with external advisors a requirement to notify the Auditor General of their engagement?**

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

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3. **Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.**

   The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

   The government's use of external expertise for accounting and financial reporting matters is a normal course of business and supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis.

4. **It seems like you use consultants to circumvent the Auditor General, when it looks like she may disagree with your accounting methods. Why don't you let the Auditor General know when you're using external advisors for something that impacts her Office's ability to do their job?**

   The government's use of external expertise for accounting and financial reporting matters is a normal business practice and supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis. The professional staff takes responsibility for the final decisions that are made with respect to the application of PSAS to the government's transactions.

   The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.

5. **Are you going to hire an expert advisory panel, as you did on the pension asset accounting matter, to settle this dispute with the Auditor General? If so, what authority would this panel have?**

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There are no plans to establish a panel at this time.

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

The province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

6. Can you tell us how many consultants are being paid high salaries with public money while keeping themselves off the sunshine list?

The government continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

7. How much did the Treasury Board Secretariat spend on consultants?

The Treasury Board Secretariat (TBS) spent approximately $202 million in 2016-17 on consulting services:

- $167M is procured by IT Source, Central Agencies Cluster for Ontario Public Service (OPS) ministries. TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries.
- $36M is services procured by TBS programs primarily for IT enhancement, management and other consulting services.

Consultants are used in the OPS when the organization needs to gain external advice and specialized expertise not already available in the OPS, or for short-term and non-recurring projects and initiatives.

TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries as a cost-saving strategy.

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Whenever the OPS need IT consulting services, the first thing we do is look for expertise within the organization. The government turns to IT consultants when it doesn't have the expertise in house, when it needs to gain external advice and specialized expertise, or when the need is short-term and non-recurring. This is true for one-time projects that launch new programs or when Cyber Security staff combine with external experts to carry out Threat Risk Assessments to ensure personal information is safe.

AG Recommendation #8: Timeline of Finalization of Financial Statements

Key Messages

- The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.
- The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.
- Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General.
- As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.
- For further details, I will pass it over to:
    - Karen Hughes, Associate Deputy Minister, Office of the Treasury Board
    - Deputy Thompson

For QAs related to:	See:
Finalization of Financial Statements – Tax Revenues	Ministry of Finance

1. **Will the government improve its planning across stakeholders so that the province's consolidated financial statements are finalized earlier?**

   The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

   The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

   The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts.

   Planning discussions for the 2017-18 Public Accounts have begun between the

Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

2. What will the government do to figure out estimation risks associated with corporate tax and personal income tax revenues earlier?

The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

The province will work with the Canada Revenue Agency (CRA) on the Auditor General's recommendation, as reporting personal and corporate taxation revenues is highly dependent on the information from the CRA.

Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

Adverse or Qualified Audit Opinion

Key Messages

- It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year.
- The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).
- As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.
- PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.
- Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors.
- They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller

1. **The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?**

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

   As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

   PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

   Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

   All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

   That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

2. **Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting?**

   It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. The implementation of Ontario's Fair

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Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

3. The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?

TBS leads the overall Public Accounts process. Public Accounts is a major accountability document which presents the financial statements of the province, provides financial highlights of the past fiscal year, and reports on performance against the goals set out in the Budget.

TBS continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

Last year there was a disagreement among the province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the province.

The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario

Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and TBS continues to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

2016-17 Overall Accounting Changes

1. **Why have you restated prior year's financial statements?**

   When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

   These changes include:

   a. **A change in the presentation of accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
   b. **The adoption of International Financial Reporting Standards as the basis for accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting

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Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.

c. **Accounting for market accounts by Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
d. **Accounting for net pension assets of jointly sponsored pension plans** - the province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

2. Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?

To increase transparency, in 2016-17 we have made a simple change to how we are reporting third party revenues for broader public sector organizations.

For the first time, Public Accounts are presenting third party revenues for hospitals, school boards and colleges with provincial revenue. Third party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

3. What is consolidated reporting?

The Province's consolidated financial statements are presented on a consolidated basis, meaning that the Statement of Financial Position (or balance sheet) and the Statement of Operations (or statement of revenues and expenses) reflect the combination of ministry results as well as the financial

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results for organizations that are controlled under the guidance established under PSAS.

Prior to 2016-17, the Province reported the expenses and third-party revenues of hospitals, colleges and school boards on a net basis. This was changed for 2016-17 to reflect expenses and third-party revenues as separate items (on a gross basis), as opposed to being reported together (on a net basis).This affects what you see for the expense reported for the responsible ministries (Health and Long-term Care, Education and Advanced Education and Skills Development) and the breakdown of figures for hospitals, school boards, and colleges. However this has no impact to the annual deficit, net debt or accumulated deficit.

Line-by-line consolidated reporting is in keeping with Public Sector Accounting Board standards and will mean that our presentation for Public Accounts is consistent with other governments across Canada. The Auditor General is supportive of this change.

4. Why is there a change to the accounting for Ontario Power Generation (OPG) and Hydro One?

In the 2016-17 Public Accounts, the financial results of Ontario's investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards (IFRS). Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board requirements and is supported by the Auditor General.

This change has resulted in an adjustment to the opening accumulated deficit and net debt of $1,163 million, of which $683 million relates to transition to IFRS. The impact of this change to the annual deficit is not material to the province in 2016-17.

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OTHER

1. **How does the Treasury Board Secretariat ensure transparency and accountability in financial reporting?**

   The province continues to strengthen its financial management, ensure clear and consistent accounting practices, enhance oversight and accountability and provide better data and information to the public through more channels.

   The Office of the Provincial Controller Division (OPCD) plays a key role in ensuring this transparency and accountability in the province's financial reporting through its major functions, including:
   - Providing the Ontario Public Service (OPS) and Broader Public Sector with accounting and financial management policy and controllership advice;
   - Maintaining the Public Accounts and preparing the Annual Report and Consolidated Statements and the Public Sector Salary Disclosure;
   - Liaising with the Auditor General of Ontario, as well as other jurisdictions and the Chartered Professional Accountants of Ontario and Canada, on the development of government accounting standards;
   - Supporting the development of financial management and controllership capacity across the OPS; and,
   - Supporting the modernization of government by improving the efficiency, effectiveness, and integrity of its financial systems and processes.

   Treasury Board Secretariat (TBS) also works with the Ministry of Finance to help them prepare key documents like the Budget and the Fall Economic Statement.

   TBS does have a leadership role on some financial items like Public Accounts. But for other things, TBS is mostly in a support role.

   TBS collaborates with other senior level governments to assess the impact of proposed standards by the Public Sector Accounting Board and how specific transactions are reported within the accounting frameworks.

2. **Does the province direct organizations on what accounting standards to use or how to apply them?**

   Placeholder

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Executive Compensation

1. **How can you justify the exorbitant salaries paid to Hydro One executives when families are struggling to pay their hydro bills?**

   The province remains committed to ensuring transparency and accountability in how broader public sector employers manage executive compensation.

   However, Hydro One is now a publicly traded company, and decisions regarding compensation are not made directly by the government.

   For further questions about executive compensation and oversight of specific organizations, please contact the ministry responsible.

2. **Why are Hydro One employees not captured by the Sunshine List? MPP Todd Smith is demanding that the government add Hydro One employees back onto the list. Will you do this?**

   Only public sector employees are included on the Sunshine List.

   As a publicly-traded entity, Hydro One is no longer required to report salaries or benefits earned after December 31, 2014 under the PSSDA.

   However, similar to the Ontario Securities Commission requirements, Hydro One must disclose the total compensation levels of the CEO, CFO and three other highest-paid executives of the corporation each year. This information is available to the public online. Top executive salaries are posted on SEDAR in the Management Information Circular.

   As an Ontario Business Corporation Act (OBCA) company subject to Canadian Securities law, Hydro One continues to comply with rigorous governance requirements that include:

   - Disclosure of board-approved annual financial statements along with quarterly updates;
   - CEO and CFO Certifications and Associated Controls certifying that there are no misrepresentations in the annual or quarterly materials;
   - Shareholders' meetings requirements and rules;
   - Disclosure requirements with respect to management circulars (including information about senior management, such as share ownership, any indebtedness to the company and any interest in material transactions) as well as compensation circulars (executive compensation disclosures including shares awarded, perks and incentives).

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3. How do you justify the upward trend of public sector employees making more than $100,000 across all sectors in 2016?

Overall, for 2016 the total number of employees disclosed in the Compendium has increased by 6.6%, to 123,410 employees in 2016 from 115,746 in 2015.

There are a number of reasons why employees may appear on the list, including:

- Employees who are progressing in their career to more challenging positions;
- Natural progression through salary ranges;
- Overtime payments;
- Retroactive pay awards;
- Performance payments; and,
- Payments that may be required on retirement (e.g. to reimburse the employee for unused vacation credits).

In addition, there were some payouts that impacted the 2016 salaries for reported employees, including an increase to base salaries for non-bargaining employees paid as a retroactive lump sum in December 2016 and an arbitration award which provided retroactive pay to members of the OPP.

The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was enacted in 1996 and has not been adjusted to keep up with inflation. If the salary threshold was adjusted for inflation, it would be $149,424 in today's dollars, reducing the number of employees included in the compendium by 84%.

The government is committed to providing high-quality public services and values the hard work of its dedicated public servants. The employees on this list:

- Deliver key government services;
- Make sure Ontario's food and water is safe;
- Make sure quality health care is available to every resident in the province;
- Make sure quality education is available to every child in the province;
- Make sure Ontario's roads and workplaces are safe; and,
- Bring jobs and investment into Ontario.

The province needs to pay salaries which are competitive in order to attract and retain top talent to deliver quality public services.

4. Who were the top 10 employees on the entire list and what were their salaries?

The top 10 earners all work largely in the health sector and in Ontario Power Generation. These people all hold executive positions:
- 6 of the 10 are in the health sector;
- 2 are from Ontario Power Generation;
- 1 is at the University of Toronto; and,
- 1 is at the Ontario Pension Board.

Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

5. **We learned that the president of OPG, who was the top earner on the province's payroll in 2016, actually made $700,000 more than the sunshine list that was disclosed earlier this year. The difference was a bonus that showed up on OPG's books, but was suspiciously left off the government's books. How many more six-figure bonuses has the President of the Treasury Board hidden from the people of Ontario?**

   The province continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

   Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

   For 2016, the Treasury Board Secretariat as a ministry reported 996 employees compared to 875 in 2015, an increase of 13.8%. The number increased primarily due to compensation changes, retirement pay-outs, severance payments, overtime and reorganizations.

   The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was introduced in 1996. In today's money the threshold would be $149,424 and would include only 56 (5.6%) of the 996 TBS employees on this year's list and exclude 940 (94.4%).

   Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

6. **How does this government allow salaries that are completely excessive when the average Ontarian can't afford their hydro bill/is working twice as hard because of government cuts/is not part of this millionaire's club?**

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In the 2017 Budget, the government announced that it will continue to take a balanced approach to managing compensation. This approach will recognize the need to maintain a stable, flexible and high-performing public-sector workforce that supports the government's transformational priorities and at the same time ensures that public services continue to remain affordable.

A result of recent efforts to reduce spending through compensation restraint and program transformation, the government has delivered on its commitment to balance the budget by 2017-18, while making program spending more sustainable and also protecting the important public services that Ontarians rely on.

A balanced approach to compensation recognizes the need to attract and retain talented leaders and individuals to ensure a modern, sustainable, and inclusive Ontario Public Service, while also remaining competitive with public sector peers.

To this end, the province will continue to provide effective and affordable public services, while recognizing the need for fair compensation.

Government Advertising

1. **How can you justify spending $5.5 million on self-congratulatory advertising for Ontario's Fair Hydro Plan?**

   Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

   Ontario needs government advertising that is appropriate, reasonable and effective because the public has a right to know how public money is being spent, and why the government is bringing forward policy changes.

   At this time, I would like to clarify that the Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

   For further questions about specific advertisements or advertising campaigns, please contact the ministry responsible.

2. **For the Hydro Bill partisan inserts – the Auditor General points out that "addressed mail" is non-reviewable (i.e., something was sent to a household by name) as compared to bulk mail which is reviewable. Will you continue to overlook this loophole so that public money can be used to send partisan messages directly to Ontarians?**

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Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

This legislation was introduced in 2004 to prevent government use of taxpayer dollars for partisan advertising.

Ministries still abide by the principles of the Government Advertising Act in all paid advertising, whether it goes to the Office of the Auditor General or not.

SCENARIO QUESTIONS

Speculation

1. **What do you think the intentions of the government were when they…**

   As a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   We provide neutral advice to support decision-making.

2. **What do you think the Auditor General will do…**

   It would be inappropriate for me to speculate on how the Auditor General may issue a future opinion.

3. **Other requests for speculation…**

   I'm not able to comment on something that may or may not happen.

   I'm happy to speak to the contents of chapter two of the Auditor General's report.

Cabinet Confidential

1. **Can you tell us about the advice you provided to the government…**

   I am unable to speak to the advice that was provided, as this would be considered confidential advice provided to Cabinet.

Confidential

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1. **Can you tell us about the advice you provided to your minister…**

   I believe this matter could be considered confidential advice provided. I would be happy to look into this matter further to clarify the scope of confidentiality and provide a written response back to the Committee.

Insisting a Specific Official Answer

1. **I do not want [____] to answer, I want to hear the response from you.**

   I am happy to provide a response to the question in my role as a public servant for the Treasury Board Secretariat.

   [Provide response as within your position's scope.]

   I cannot speak to the specific point you are raising, and as mentioned, [____] would be more appropriate to respond.

   What I can tell you is [____]

Insisting on Commitment

1. **Can you give us an exact figure on…**

   I want to be absolutely precise and specific, so I will need to get back to you with the exact number.

Politicization

1. **Why did the government make [____] decision?**

   As a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   It is our role to provide our best, objective advice to support government decision-making.

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PLACEHOLDER

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:

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Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	**See:**
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

For QAs related to:	See:
IESO Market Accounts	Treasury Board Secretariat Ministry of Energy

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Treasury Board Secretariat Ministry of Energy

AG Audit of 2017 Statements

For QAs related to:	See:
Audit of IESO statements	Treasury Board Secretariat Ministry of Energy

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ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

For QAs related to:	See:
OFHP Overall	Ministry of Energy
OFHP Accounting	Treasury Board Secretariat

AG Recommendation #6: "Legislated Accounting"

For QAs related to:	See:
OFHP Overall	Ministry of Energy
"Legislated Accounting"	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy
Accounting for Trust	Treasury Board Secretariat

Records Disclosure/Process

- Messaging TBC

For QAs related to:	See:
Records Disclosure/Process	Treasury Board Secretariat Ministry of Energy

1. **Has the Ministry of Finance provided all records to the Auditor General of Ontario?**

   In response to a request for information from the Auditor General's office regarding the Ontario Fair Hydro Plan, the Ontario Financing Authority (an agency under the Ministry of Finance) provided 3,252 emails in two batches: 1,190 e-mails on June 23, 2017 and 2,062 on July 18, 2017.

Re-Design of Hydro Bills

For QAs related to:	See:
Re-design of hydro bills	Ministry of Energy

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PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

- Messaging TBC – TBS

For QAs related to:	See:
Pre-Election Report	Treasury Board Secretariat (Joint lead with Ministry of Finance)

2. Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report.

The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

- The balanced budgets from 2017–18 onwards will limit the increase in net debt-to-net investments in capital assets. These investments will contribute to the economy growing at a faster rate than net debt, allowing the government to reduce Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent.
- There is a strong demand for Ontario bonds in both the domestic and international markets. Last fiscal year, Ontario was able to borrow $27 billion in long-term debt while our spread — or the margin that we have to pay over the equivalent Government of Canada bond — tightened, indicating an ongoing strong demand for Ontario bonds.
- We expect that the liquidity of Ontario benchmark bonds, and continuing confidence in the value of Ontario debt, will allow us to cost-effectively complete the 2017–18 borrowing program.

3. What is the government doing to manage the province's debt burden?

The very important first step in reducing debt is to balance the budget. We are projecting a balanced budget for 2017-18, delivering on a commitment first introduced in the 2010 Budget.

As the result of a balanced budget, and Ontario's strong economic growth, the net-debt-to-GDP ratio is declining.

The government has set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24, and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.

4. What is the status of the province's borrowing plan?

Through prudent and cost-effective debt management, we have consistently kept interest on debt costs below budget projections. Interest on debt to revenue is forecast to be 8.2 per cent in 2017-18, 8.3 per cent in 2018-19 and 8.4 per cent in 2019-20.

Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs.

As of January 31, 2018, $28.6 billion (or 111 per cent) of this year's long-term public borrowing of $25.8 billion has been completed.

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Financial Accountability Office (FAO) Reports

5. What is the government's response to the FAO's fall 2017 report, which states that the government will run a deficit in 2017-18 and the following years?

Ontario's deficit for 2016-17 was $991 million — $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget, according to public accounts.

The Ministry of Finance is projecting a balanced budget in 2017-18. The Ministry of Finance is committed to a responsible fiscal plan. We build prudence into our forecasts.

Since the time of the 2017 Budget, private sector forecasters have revised up their economic growth projections for Ontario over the 2017-20 period, reflecting the strength in the Ontario economy.

Using the government's accounting presentation (i.e. excluding the AG's recommended treatment), the FAO is projecting a small surplus in 2017-18.

6. Why are the FAO's revenue forecasts lower than the government's revenue forecasts?

The government is projecting total revenue to grow from $140.7 billion in 2016–17 to $158.2 billion in 2019–20. This represents an average annual growth rate of 4.0 per cent.

Growth in revenues over the medium term is driven mainly by taxation revenue which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent. The projected taxation revenue growth aligns with growth actually experienced in recent years, and projections for the Ontario economy.

Credit Ratings

- Ontario currently maintains a double-A rating with three of its four credit rating agencies.
- We continue to update the rating agencies on a regular basis on economic and fiscal developments.

7. What are the credit rating agencies' views on Ontario?

Following the release of the 2017 Budget, all four rating agencies — Moody's, DBRS, Fitch, and S&P — confirmed Ontario's long-term credit ratings.

This reflects rating agencies' confidence in our government's fiscal plan.

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8. How have rating agencies responded to the qualified opinion on the public accounts and the recent report from the Auditor General?

The rating agencies make their own assessment of the Province's finances.

However, there were no credit rating implications either this year or last when the government received a qualified audit opinion on its Public Accounts.

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Preparation of Public Accounts

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

1. **Q re: Ministry of Finance use of external advisors**

   Answer….

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat

1. **QAs on finalization of financial statements – tax revenues, etc.**

   Answer…

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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OTHER

- MOE Key Message 1
- MOE Key Message 2
- MOE Key Message 3
- MOE Key Message 4
- MOE Key Message 5

1. **Qs that may come up that are not included in the categories above…**

   Answer…

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Attachment A. TBS Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

Attachment B. Ministry of Energy Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

Attachment C. Ministry of Finance Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

KAREN HUGHES, ASSOCIATE DEPUTY MINISTER

PUBLIC ACCOUNTS PROCESS

QUESTION

- One of the recommendations in the Auditor General's report is that the Office of the Provincial Controller should "undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies" to allow the Office of the Provincial Controller to release Public Accounts earlier than the usual late August or September.
- I am curious about what releasing Public Accounts earlier would take on the part of the government.
- I know that the process requires a lot of work on the part of many people, although I'm not necessarily clear on the mechanics of putting the Public Accounts together.
- So, could you outline what the process is of putting Public Accounts together every year?

ANSWER

Placeholder

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LONG-FORM MEMBER QUESTION: BALANCED BUDGET

DEPUTY MINISTER SCOTT THOMPSON

Question:

- How is Ontario planning to keep a balanced budget?

Answer:

- TBD: Revisions based on updates related to Q3 Finances once available
- My ministry has been working to execute the government's goal of balancing the budget.
- This started with a plan that was first introduced in the *2010 Budget*, when the province started to recover from the recession.
- Ontario today is projecting a balanced budget for 2017–18 and for the next two years, 2018–19 and 2019–20.
- A balanced budget makes available more investment options to spur economic growth and job creation, and helps protect the programs and services people rely on most, such as health care and education.
- Ontario's plan has five main areas of focus:
    - Maximizing revenues without causing undue tax burdens on Ontarians
    - Managing its expenses without detracting from the quality of social services and health programs
    - Balancing revenues and expenses against each other to manage the debt
    - Funding programs that help Ontarians, and
    - Investing in infrastructure to promote economic growth and job creation.

- I will now address each area in turn.

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Revenues:

- The 2016–17 Public Accounts show that Ontario's deficit for last year was $991 million — $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget.
- Fiscal 2016–17 was the eighth year in a row that the Province has beaten its deficit target.
- This was a result of growth in revenue that exceeded growth in program expenses, and lower-than-forecast interest on debt.
- And so part of the plan to balance the budget involves optimizing assets and maximizing revenues.
- The Public Accounts for 2016–17 show total revenues were $140.7 billion, $2.2 billion higher than the 2016 Budget projection.
- Additionally, Ontario's total revenues are projected to grow from this $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- This increase represents an average annual growth rate of four per cent.
- The higher revenues for 2016–17 — and the projected growth of revenues through 2019-20 — are largely due to higher-than-expected tax revenues, the optimization of government business enterprises, and transfers from the Government of Canada and other non-tax revenue.

- First, let me address tax revenues.
- Growth in revenues over the medium term is driven mainly by taxation revenue, which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent.
- For fiscal year 2016–17, tax revenues were $293 million higher than projected, mainly due to higher-than-expected Harmonized Sales Tax revenue, reflecting stronger growth in Ontario household expenditures.

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- Secondly, the Government of Ontario is also implementing a multi-year strategy to optimize its assets and maximize its revenues through the sales of shares in Hydro One, LCBO head office lands and Ontario Power Generation's head offices.
- The net revenue gains from the sale of qualifying assets are credited to the Trillium Trust for infrastructure investments, such as roads, bridges and public transit.
- The total amount credited to the Trillium Trust as of March 31, 2017 is $5.3 billion.
- The Province continues to grow and maximize revenues from its government business enterprises, such as Hydro One, Ontario Power Generation, the Liquor Control Board of Ontario and Ontario Lottery and Gaming Corporation.
- The forecast of the income from government business enterprises is projected to grow by $0.7 billion between 2016–17 and 2019–20.
- This projection, at an average annual rate of 3.7 per cent, reflects higher net income overall from government business enterprises.

- Thirdly, Ontario received larger Government of Canada transfers — $145 million higher. This increase reflected new funding for early learning and child care flowing from a bilateral agreement between Ontario and the federal government, as previously reported in the 2017-18 *First Quarter Finances*.
- The forecast for subsequent transfers is based on existing federal-provincial funding agreements.
- Overall transfers are projected to grow by $0.9 billion between 2016–17 and 2019–20, or at an average annual rate of 1.2 per cent.
- This largely reflects projected increases in major ongoing Government of Canada transfers and new funding for early learning and child care, and home care and mental health.

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- Finally, the forecast for other non-tax revenue is based on projections provided by government ministries and agencies.
- The outlook for other non-tax revenues is projected to increase by $0.4 billion between 2016–17 and 2019–20, or at an average annual rate of 0.7 per cent.
- This increase mainly reflects:
    - Fiscally neutral revenues from carbon allowance proceeds starting in 2017–18
    - Fees, donations and other revenues for the broader public sector, and
    - Revenues from vehicle and driver registration fees.
- This is partially offset by lower revenues due to the removal of the debt retirement charge from commercial, industrial and all other electricity users in 2018–19, and the projected net impact of the government's planned asset optimization strategy.
- Notably, the increase in Ontario's revenue is not attributable to increases in personal tax returns.

Expenses:

- Let me now address expenses.
- The Public Accounts for 2016–17 show that total spending was $141.7 billion, $100 million lower than the 2016 Budget projection.
- Program spending expenses accounted for $130 billion.
- Interest on debt, at $11.7 billion, was down $0.7 billion from the 2016 Budget projection.

- Going forward, program expenses are projected to grow from $130 billion in 2016–17 to $144.2 billion in 2019–20.
- This represents an average annual growth rate of 3.5 per cent.
- Growth in program expenses over the medium term is driven by investments to help the people of Ontario, such as health care, supports for seniors, the

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introduction of pharmacare for children and youth under OHIP+, electricity cost relief programs under the Fair Hydro Plan, and new initiatives for small businesses that will lower costs and support growth.

- Interest on debt expenses is projected to grow from $11.7 billion in 2016–17 to $13.3 billion in 2019–20.
- This increase is due to borrowing for capital spending and interest rates that are forecast to rise.
- This represents an average annual growth rate of 4.2 per cent.
- Interest on debt is projected to grow due to borrowing for capital spending and interest rates that are forecast to rise.
- Total expenses are projected to grow from $141.7 billion in 2016–17 to $157.4 billion in 2019–20.
- This represents a manageable average annual growth rate of 3.6 per cent.

Balancing Revenues and Expenses:

- Let me summarize the revenues and expenses together.
- Revenue is forecast to increase from $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- Total expenses are projected to increase from $141.7 billion to $157.4 billion over the same period.
- Based on these estimates, the Ontario government will effectively balance the budget over the next four years.

Funding Programs, Investing in Infrastructure, Promoting Growth:

- Through targeted, measured and fiscally responsible decisions, Ontario has restored its fiscal and economic strength.
- Strategic investments have helped stimulate the Ontario economy to rise from the depths of recession.

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- Over the past three years, Ontario's economy has grown faster than Canada's and that of all other G7 countries.
- The benefits of balanced budgets and a strong economy are already providing the government with the fiscal flexibility to do more to help Ontarians.
- This flexibility enables the government to provide more investments to spur economic growth, job creation and support services people use every day.
- Notable program investments include:
    - $145 million in annual funding to increase the accessibility and affordability of high-quality licensed child care and early learning opportunities
    - $245 million over three years to lower costs for small businesses
    - $155 million over three years to support seniors to remain independent, connected, engaged, healthy and safe
    - $245 million over three years to lower costs for small businesses, create opportunities for growth and simplify their interactions with government.
    - An increase of $1 million in 2017–18 — and then $5 million in 2018–19 and beyond — to provide additional funding through the Northern Communities Grant component of the Ontario Municipal Partnership Fund.

- Growth in program expenses also includes investments in infrastructure.
- In fact, Ontario is making the biggest investment in public infrastructure in its history.
- The government's long-term infrastructure plan to invest about $190 million over 13 years, starting in 2014–15, will contribute to the growth of the economy.
- The government's historic investment in infrastructure includes:
    - $31.5 billion over 10 years for public transit, transportation and other priority infrastructure projects across Ontario
    - $11 billion over 10 years in capital grants to school boards, and
    - $900 million over 10 years for critical maintenance repairs and upgrades.

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- These investments will not only create jobs, support business innovation and help draw investors from abroad — they will also contribute to the provincial economy growing at a faster rate than the change in its net debt.
- Investments such as these have helped to stimulate the Ontario economy, which has continued to grow despite an uncertain global climate.
- From 2014 to 2016, Ontario outpaced all G7 countries with its real GDP growth.
- As the result of a balanced budget and Ontario's strong economic growth, the net debt-to-GDP ratio is declining.
- In the 2017 Budget, the Ontario government set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24. The government is now projecting to meet this target a year earlier.
- We continue to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.

Conclusion:

- In September, the Public Accounts of Ontario 2016–17 reported that the 2016–17 deficit was $1.0 billion, an improvement of $3.3 billion from the $4.3 billion projection in the 2016 Budget.
- Total revenue for 2016–17 came in at $140.7 billion, which was $2.2 billion higher than the 2016 Budget.
- This was largely due to higher-than-expected tax revenues, the optimization of government business enterprises and transfers from the Government of Canada and other non-tax revenue.
- Total spending for 2016–17 came in at $141.7 billion, which was $0.1 billion lower than the 2016 Budget.
- Program spending was $130.0 billion, up $0.6 billion from the plan of $129.4 billion.

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- Spending in health, children's and social services, and other programs was higher than planned.
- Interest on debt expense was $11.7 billion, $0.7 billion below the plan of $12.4 billion, due mainly to lower-than-forecast interest rates, and cost-effective borrowing and debt management.
- In conclusion, the Ontario government is on track to balance the budget this fiscal year — 2017–18 — as well as the next two fiscal years.
- Prudently managing the province's finances is one of my ministry's responsibilities to the people of Ontario.
- Thank you.

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LONG-FORM MEMBER QUESTION: CREDIT RATING

DEPUTY MINISTER SCOTT THOMPSON

Question:

- What are the plans to keep Ontario's credit rating in good standing?

Answer:

- TBD: Revisions based on updates related to Q3 Finances, once available.

Introduction:

- Following the release of the 2017 Ontario Budget, four credit rating agencies – Moody's, DBRS, Standard & Poor's and Fitch – confirmed Ontario's healthy long-term credit ratings. This reflects rating agencies' confidence in the Government's fiscal plan – and its ability to grow Ontario's economy and create jobs for Ontarians.
- Let me summarize the reports by each of the credit rating agencies.

- First, Moody's.
- Moody's cautioned that the Ontario Fair Hydro Plan, announced in March 2017 to reduce electricity prices, adds credit pressure due to the direct financial impact of the sales tax rebate and the indirect impact of an elevated debt of a provincially owned entity.
- Overall, however, Moody's said its stable outlook for Ontario "reflects Moody's forecast that, as the province moves towards and achieves balanced budgets,

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the province's debt burden will improve marginally and interest expense will remain manageable across the medium-term….The policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices outlined above, has helped to support the province's Aa2 rating."

- Moody's positive outlook for Ontario's credit rating is based on the following credit strengths: prudent debt management, an institutional framework providing significant fiscal policy flexibility, and a large diversified economy supporting a broad and productive tax base.

- Next, DBRS.
- DBRS noted that Ontario's credit profile is stable, but it will remain vulnerable to an economic shock in the absence of a more concerted effort to reduce debt.
- DBRS also commented on the potential downside risks to the economic outlook due to uncertainty regarding the potential renegotiation of NAFTA and U.S. tax policy, as well as political integration in Europe.
- Finally, it noted that elevated household debt and housing market dynamics leave Ontario particularly vulnerable in the event of an unforeseen shock that results in significant job losses or a rapid increase in interest rates.
- Despite these concerns, DBRS expects Ontario's credit ratings to remain stable.
- DBRS said of Ontario, its "ratings remain well supported by the province's large and diversified economy, improving budgetary results and declining debt burden" and that "the return to balance is encouraging and suggests that there will likely be some modest improvement in the Province's credit metrics over the medium term."
- DBRS concluded by saying that Ontario's stable credit profile stems from strength in the underlying economy, which provided incremental revenue more than sufficient to offset the in-year spending pressures.

- Standard & Poor's is next.

- Standard & Poor's believed that Ontario's credit profile is strengthening.
- But before considering a positive rating action, they would need to see sustained improvement in budgetary performance leading to near-balanced after-capital results, coupled with ongoing declines in the tax-supported debt burden, making Ontario's finances more comparable with peers in the 'AA' category.
- Standard and Poor's said it "expects the province of Ontario to benefit from solid economic growth over the next two years, allowing it to generate additional revenues to fund its capital spending plan and stabilize its finances following its eight-year path back to a balanced operating budget."
- Standard & Poor's concluded by saying that its stable outlook reflects expectations that, within the next two years, the Province will sustain a more balanced budgetary performance, including steady liquidity metrics, modest after-capital deficits, and a high but slowly declining debt burden.

- Finally there is Fitch.
- Fitch's report stated that the Province has demonstrated the ability to exert considerable expenditure restraint while instituting revenue changes to achieve its deficit reduction objectives.
- It said Ontario's 'AA-' rating is supported by its wealth, diversified economy and generally sound financial management.
- Fitch's rating reflected the Province's very strong and diversified economy, strong financial management, very predictable and well-balanced institutional framework and low contingent liabilities.
- Ontario's credit profile is stable.

- For Ontario's credit profile to grow in strength, the Province will need to do several things.
- It will need to show a track record of consistent operating surpluses and balanced or near-balanced after-capital results, coupled with continuing declines in direct and tax-supported debt burdens.

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- **To that end, Ontario has the following plan to ensure that its credit rating remains in good standing.** It is:
    - Optimizing assets and revenues without causing undue tax burdens on Ontarians.
    - Managing expenses without detracting from the quality of social and health services.
    - Balancing revenues and expenses against each other to manage the debt, and
    - Maintaining a reserve fund to mitigate unforeseen financial risks.
- I will now go into more detail on each of these points.

Revenues:

- Total revenues for 2016–17 were $140.7 billion, $2.2 billion higher than the 2016 Budget.
- Additionally, Ontario's total revenues are projected to grow from $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- This represents an average annual growth rate of four per cent.
- The higher revenues for 2016–17 and the projected growth of revenues through 2019–20 are largely due to three factors:
    - Higher-than-expected tax revenues.
    - Income from government business enterprises and fees, and
    - Transfers from the Government of Canada and other non-tax revenue.
- Growth in revenues over the medium term is driven mainly by taxation revenue, which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent. The taxation outlook reflects current revenue information and projections for the Ontario economy. Tax revenues were $293 million higher than projected in 2016–17, mainly due to higher-than-expected Harmonized Sales Tax revenue, reflecting stronger growth in Ontario household expenditures.

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- The Government of Ontario is also implementing a multi-year strategy to optimize its assets and maximize its revenues through the sales of Hydro One, LCBO head office lands and Ontario Power Generation's head offices. The total amount credited to the Trillium Trust as of March 31, 2017 is $5.3 billion. The net revenue gains from the sale of qualifying assets will be credited to the Trillium Trust for infrastructure investments, such as roads, bridges and public transit, under the Moving Ontario Forward plan. In 2016–17, the Trillium Trust was drawn down by approximately $260 million to help support these projects.
- Finally, Ontario received larger Government of Canada transfers — $145 million higher. This increase reflected new funding for early learning and child care flowing from a bilateral agreement between Ontario and the federal government, as previously reported in the 2017–18 *First Quarter Finances*.
- Notably, the increase in Ontario's revenue is not attributable to increases in personal tax returns.

Expenses:

- Ontario's total spending for 2016–17 was $141.7 billion, $100 million lower than the 2016 Budget.
- Program spending expenses accounted for $130.0 billion.
- Interest on debt expense accounted for $11.7 billion – $0.7 billion below the plan of $12.4 billion.
- This drop was due mainly to lower-than-forecast interest rates, and Ontario's cost-effective borrowing and debt management.
- Going forward, Ontario program expenses are projected to grow from $130.0 billion in 2016–17 to $144.2 billion in 2019–20.
- This represents an average annual growth rate of 3.5 per cent.
- Interest on debt expenses is projected to grow from $11.7 billion in 2016–17 to $13.3 billion in 2019–20.
- This represents an average annual growth rate of 4.2 per cent.

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- Total expenses are projected to grow from $141.7 billion in 2016–17 to $157.4 billion in 2019–20.
- This represents a manageable average annual growth rate of 3.6 per cent.
- These increases align with the government's plans for modernizing the public services people rely on every day.
- They are also fiscally sustainable.
- In short, the Ontario government has been managing its program expenses as well as its interest-on-debt expenses.

Balancing Revenues and Expenses:

- To bring the revenues and expenses together…
- Revenue is forecast to increase from $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- Total expenses are projected to increase from $141.7 billion to $157.4 billion over the same period.
- Based on these estimates, the Ontario government will effectively balance the budget over the next four years.

The Reserve:

- I will now take a moment to address the Province's financial reserve and contingency funds.
- As required under the *Fiscal Transparency and Accountability Act*, Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes in revenue and expenses.
- The current fiscal outlook includes a reserve of $0.5 billion in 2017–18, $0.5 billion in 2018–19 and $0.8 billion in 2019–20.
- The current outlook also maintains contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance — particularly in cases where health and safety may be compromised, services to the most vulnerable are jeopardized, or natural disasters occur.

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Conclusion:

- Credit ratings provide an assessment of a government's credit-worthiness.
- They are a reflection largely based on its capacity to generate revenue to service its debt.
- They consider factors such as a government's economic resources and prospects, industrial and institutional strengths, financial health, and susceptibility to major risks.
- As you know, a credit rating affects the cost of future government borrowing with a lower rating, indicating that an agency believes there is a relatively higher risk that a government will default on its debt.
- Accordingly, investors will lend to the government only in return for a greater risk premium, in the form of higher interest rates.
- A rating downgrade could also shrink the potential market for a government's debt, because some investors will not hold debt below a certain rating.
- Therefore, it is critical that Ontario maintain its credit rating in good standing to manage its debt and preserve its fiscal health.
- Ontario's plan to keep its credit rating in good standing involves the following strategies:
    - Optimizing assets and revenues without causing undue tax burdens on Ontarians.
    - Prudently managing expenses without diminishing the quality of Ontario's services and programs.
    - Balancing revenues and expenses against each other to manage the debt, and
    - Preserving a reserve fund to mitigate unforeseen financial risks.

- Seen as a whole, these strategies will ensure confidence in Ontario's credit-worthiness through its ability to effectively manage its debt obligations.

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- Protecting the financing of Ontario's public services will continue to be one of my ministry's highest priorities.
- Thank you.

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LONG-FORM MEMBER QUESTION: DEBT MANAGEMENT

DEPUTY MINISTER SCOTT THOMPSON

Question

- What is Ontario's debt management plan?

Answer

- TBD: Revisions based on updates related to Q3 Finances, once available.
- The Ministry of Finance has a track record of responsible fiscal management and remains committed to executing the government's goal of reducing the provincial debt burden.
- The government's plan to manage the debt focuses on three key areas:
    - Decreasing the net debt-to-GDP ratio.
    - Decreasing the interest on debt-to-revenue ratio.
    - Utilizing term extensions.
- I would like to provide an update of progress on this goal.

Net Debt-to GDP Ratio:

- A key indicator of the government's ability to manage its debt is the level of debt relative to the size of the economy, known as the net debt-to-GDP ratio.
- The ratio of net government debt to the market value of goods and services produced by an economy — known as gross domestic product or GDP — measures the relationship between a government's debt obligations and its capacity to raise the funds needed to meet them.
- It is an indicator of the relative burden of government debt on the economy.

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- If the amount of debt that must be repaid relative to the value of the GDP is rising — in other words, if the ratio is rising — it means the government's net debt is growing faster than the provincial economy, and becoming an increasing burden.

- Before considering Ontario's net debt-to-GDP ratio, let me first discuss the components.
- First, I want to address Ontario's net debt situation.
- Ontario's net debt increased from $295.4 billion as of March 31, 2016 to $301.6 billion as of March 31, 2017.
- It is projected to increase to $311.7 billion by March 31, 2018 and to $323 billion by March 31, 2019.
- About 62 per cent of the increase in net debt from 2008–09 to 2016–17 was due to the deficit.
- The remaining net debt increase was a result of investments in capital assets.
- Balanced budgets from 2017–18 onwards will ensure that increases in net debt will be limited to net investments in capital assets such as roads, bridges, hospitals and schools.
- In other words, the net debt is increasing at a manageable rate, and a smaller portion of it is collected from the deficit.

- Next, let me briefly address the GDP.
- The government's investments in capital assets increased economic growth and helped support Ontario's GDP to advance more quickly than debt, helping the government achieve its net debt-to-GDP targets.
- Over the past three years, Ontario's economy has grown faster than Canada's and that of all other G7 countries.
- In fact, Ontario's real GDP is now 21.3 per cent above its recessionary low.
- Over the 2017–20 period, the Ministry of Finance is forecasting average annual growth of 2.2 per cent in Ontario's real GDP.

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- Government investments have helped stimulate the Ontario economy to rise from the depths of the recession, and it is now enjoying a period of economic strength and growth.

- I briefly addressed the net debt and GDP situations separately; now let me bring them together.
- The 2017 Fall Economic Statement reported that Ontario's net debt-to-GDP ratio is lower than previously forecast.
- The net debt-to-GDP ratio peaked at 39.3 per cent in 2014–15 and has been declining ever since, as a result of Ontario's economic growth and the government's progress towards a balanced budget in 2017–18.
- It is now projected to be 37.3 per cent at the end of fiscal 2017–18, 0.2 per cent lower than was forecast in the 2017 Budget.
- This ratio is projected to continue to decline to 37.1 per cent in 2018–19.
- In the 2017 Budget, the government set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24, and re-stated its commitment to reduce the net debt-to-GDP ratio to its pre-recession level of 27 per cent by 2029–30.
- A declining net debt-to-GDP ratio, together with low interest on debt costs as a percentage of revenues, positions the province for long-term sustainability.
- It also allows for a greater proportion of government spending to be invested in programs and services.

- The reduction of debt is complemented by Ontario's investments in infrastructure, which are supporting economic growth and job creation.
- In fact, Ontario is making the biggest investment in public infrastructure in its history.
- The government's long-term infrastructure plan to invest about $190 million over 13 years, starting in 2014–15, will contribute to the growth of the economy.

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- These investments will not only create jobs, support business innovation and draw investors from abroad — they will also contribute to the growth of the provincial economy at a faster rate than the change in its net debt.
- The positive impact of these capital investments on the province's economy was confirmed by the Centre for Spatial Economics.
- It recently reported that, over the long term, GDP in Ontario increases by up to $6 for every dollar of public infrastructure spending.
- The government's economic strategy was further supported in a report by the International Monetary Fund in June 2016, which recommended that Canadian "fiscal policy should be pro-growth."
- Christine Lagarde, the International Monetary Fund's Managing Director, expressed her support for the government's growth strategy and agreed that investment in infrastructure should be an essential element.
- In summary, Ontario's net debt-to-GDP ratio will gradually diminish due to the GDP increasing at a faster rate than net debt.
- This will allow the government to continue to move towards its 27 per cent net debt-to-GDP target.

Interest on Debt-to-Revenue Ratio:

- Another major thrust of Ontario's plan to manage its debt centres on the interest on debt-to-revenue ratio.
- This is another key indicator of the government's ability to meet its financial obligations.
- Through prudent and cost-effective debt management, the government has consistently kept interest on debt costs below budget projections.
- The 2016–17 Public Accounts show that Ontario's deficit for the last fiscal year was $991 million — $3.3 billion lower than projected in the 2016 Budget and half a billion lower than the interim deficit projection in the 2017 Budget.
- This smaller-than-projected deficit is due to stronger revenues, and reflects positively on the debt-to-revenue ratio.

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- Ontario's interest on debt for 2017–18 is forecast to be $12.2 billion.
- The interest on debt-to-revenue ratio is forecast to be 8.2 per cent in 2017–18, 8.3 per cent in 2018–19 and 8.4 per cent in 2019–20.
- The savings on interest on debt have improved a key measure of the affordability of debt.
- For example, the 2010 Budget forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- By the 2017 Budget, the amount needed for interest payments had dropped significantly.
- The current forecast is 3.1 cents lower — 8.2 cents of interest costs for every dollar of revenue.
- This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through Ontario's outlook period to 2019–20.

Term Extension on Debt:

- Finally, record-low interest rates have enabled the government to keep its annual interest expense steady.
- However, the global decline in interest rates over the last 25 years could not continue indefinitely.
- The Bank of Canada has increased interest rates — twice last year and already once this year.
- Ontario has taken necessary precautions to protect the financing of the province's public services, now that interest rates are widely understood to be on a net rising trajectory.
- To protect the province from these increases, the government has continued to extend the term of its debt.
- Term extension has allowed the government to lock in low interest rates for a longer period, which reduces refinancing risks.
- Extending the term also helps offset the impact of expected higher interest rates on interest on debt costs.

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- Going back to the beginning of fiscal 2010–11, Ontario has issued $68.6 billion in bonds longer than 30 years to lock in low rates.
- As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008–09 to 13.9 years in 2016–17.
- For 2017–18, it stood at 12.8 years as of October 31, 2017.
- If or when interest rates continue to rise, the government will assess whether it will remain cost-effective over the long term to continue to extend the term of its debt.

Conclusion:

- As I said at the outset, the Ontario government has a track record of responsible fiscal management and remains committed to executing its goal of reducing the provincial debt burden.
- To conclude, the government's plan to manage the debt focuses on three key areas:
    - One, decreasing the net debt-to-GDP ratio.
    - Two, decreasing the interest on debt-to-revenue ratio.
    - And three, extending the term on its debt.
- As I have stated, the government has decreased the net debt-to-GDP ratio.
- In the 2017 Budget and the 2017 Fall Economic Statement, Ontario stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected for 2029-2030, together with an interim target of 35 per cent by 2023-2024.
- I also explained how the government has decreased the interest on debt-to-revenue ratio.
- The 2010 Budget forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- However, by the 2017 Budget, the amount needed for interest payments had dropped.

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- The current forecast is 3.1 cents lower — at 8.2 cents of interest costs for every dollar of revenue.
- Finally, I explained how the government has taken advantage of low-interest rates and extended the term on its debt.
- The weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008–09 to 13.9 years in 2016–17, and 12.8 years for 2017–18 as of October 31, 2017.
- In short, Ontario's economy remains strong.
- Protecting the financing of the province's public services will continue to be one of the government's highest priorities.
- Thank you.

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LONG-FORM MEMBER QUESTION: FAIR HYDRO PLAN

DEPUTY MINISTER SCOTT THOMPSON

Question:

- What is the financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budget?

Answer:

- As Deputy Minister of the Ministry of Finance, I will speak specifically to the financial implications of the Fair Hydro Plan on the Province's budget and financial statements.

Ontario's Fair Hydro Plan

- To address issues related to rising electricity costs, especially for families and small businesses, the government announced Ontario's Fair Hydro Plan on March 2, 2017.
- As part of the plan, electricity bills were reduced by 25 per cent on average, or about $41 per month, for all Ontario residents as of July 1, 2017.
- The plan included several important measures.
- First, let me discuss the refinancing of the Global Adjustment.
- The Global Adjustment is the cost of building new electricity infrastructure in the province and maintaining existing resources.
- The majority of the province's electricity generators currently have 20-year contracts.
- Many of these generators will be able to operate past their contract term.

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- In other words, they would still generate electricity after the upfront capital costs have been paid for by the current generation of ratepayers.
- The Government of Ontario believed that present-day consumers should not be burdened with paying for a disproportionate share of investments that provide benefits for decades to come.
- To relieve the current burden on ratepayers, and share costs more fairly, a portion of the Global Adjustment is being refinanced over a longer period.
- This is providing significant and immediate rate relief to ratepayers by spreading the cost of electricity investments over time, to better reflect the expected lifecycle of the infrastructure that has been built.
- According to estimates provided when the Fair Hydro Plan was announced, the immediate reduction in the Global Adjustment would be about $2.5 billion per year, on average, over the first 10 years.

- Second, the plan included an expansion of the Industrial Conservation Initiative or ICI.
- The ICI allows participating customers to manage their Global Adjustment costs by reducing demand during peak periods.
- Customers who participate in the ICI, referred to as Class A, pay Global Adjustment based on their percentage contribution to the top five peak Ontario demand hours over a 12-month base period.
- Ontario expanded eligibility for the ICI program by reducing the threshold from 1 MW to 500 kW.
- This measure allows small manufacturers and industrial consumers the opportunity to participate in the ICI and save on their electricity costs.

- A third component of the plan is Ontario’s rebate for electricity consumers.

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- The government provided an eight per cent Ontario Rebate for Electricity Consumers on electricity bills, equivalent to the amount of the provincial portion of the Harmonized Sales Tax.
- This change was effective January 1, 2017.

- A fourth and important part of the plan allows future increases to hydro bills to be set by regulation.
- This enables the government to hold increases, for four years, to the rate of inflation.
- While rates will rise gradually over time, the government remains committed to avoiding sharp increases.

Assisting the Most Vulnerable Electricity Consumers

- The government has introduced other measures to help the most vulnerable electricity consumers.
- It did this by introducing legislation to enhance some existing programs or introduce new initiatives.
- In particular it enhanced the Ontario Electricity Support Program.
- The Ontario Electricity Support Program is an income-tested, application-based program that lowers electricity costs for the most vulnerable consumers.
- In practice, it provides them with a rebate directly on their bills.
- Effective May 1, 2017, Ontario increased the program by 50 per cent, meaning that single, low-income consumers would get an increase in their rebates ranging from $180 to $276 per year.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $140 million in 2017–18.
- This amount will be covered by provincial revenues.

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- As well, as part of the plan, Ontario has enhanced the Rural or Remote Rate Protection Program, or RRRP.
- The RRRP provides a rate subsidy to rural and remote residential customers who face higher distribution costs.
- As part of the Ontario Fair Hydro Plan, the Province expanded the program to provide distribution delivery charge relief to about 800,000 customers.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $344 million in 2017–18, which will also be covered by provincial revenues.
- Ontario is also helping customers through local distribution companies.

- In October 2017, the Province launched the $100 million Affordability Fund.
- The Affordability Fund provides local distribution companies with an additional tool to help customers in need.
- Local distribution companies can use the fund to provide support to qualifying customers for energy efficiency improvements, to help them reduce their future electricity bills.
- The Affordability Fund is paid through provincial revenues.

- Finally, Indigenous communities in Ontario are also receiving assistance through the First Nations On-Reserve Delivery Credit.
- In 2016, the Ontario Energy Board engaged with First Nations, including remote communities, the distributors serving them and consumer groups.
- Following the engagement process, the board recommended to the Government of Ontario the elimination of the delivery charge for all on-reserve First Nations residential customers.
- The board also recommended removing the monthly service charge for customers of licensed distributors that charge a bundled rate.

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- The board estimates this would provide residential customers an average monthly benefit of $85.
- According to the 2017 Provincial Expenditure Estimates, the credit is anticipated to cost $15 million in 2017–18, which will be funded by provincial revenues.

- In summary, these new measures will cost the government up to $2.5 billion over the next three years.
- The cost is about $500 million in 2017–18, based on a part-year implementation, according to the 2017 Provincial Expenditure Estimates.

Conclusion:

- Taken together, these changes are delivering the single-largest reduction to electricity rates in Ontario's history.
- For all residential consumers in the province, electricity bills have been reduced by 25 per cent on average, or about $41 per month, as of July 1, 2017.
- People with low incomes and those living in eligible rural or remote communities are receiving even greater reductions, as much as 40 to 50 per cent.
- Approximately 500,000 small businesses and farms are also benefitting from the changes.
- On-reserve First Nation residential customers of licensed distributors are getting a 100 per cent credit on the delivery line of their bills.
- Although hydro rate relief costs were additions to the fiscal framework, the government continues to project a balanced budget for 2017-18, and will provide a full update on its fiscal plan in the spring budget.

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TIPS FOR PRESENTING AT SCOPA

Tips for Addressing Committee Members:

Note: Tips are applicable for addressing both Committee Members and media.

- When speaking be mindful of what you say – the proceedings are recorded and there's no such thing as "off the record."

- Adhere to the scripted remarks and prepared Q&As. Do not embellish and ***when in doubt, leave it out.***

    - Be sure you understand the question being asked (it's ok to ask for clarification) and Do NOT answer something you're not 100% sure of.

- If you do not have the response, you may advise Committee Members that the matter needs to be redirected to another ministry, or that you will get the requested information by saying, "I'll look into what is possible to provide."

- Be mindful of only addressing questions/issues that relate directly to the TBS.

- It is acceptable to decline to answer an unrelated question by noting that you are not clear of its relevance to TBS, and that you are prepared to address matters related to the ministry.

- If caught off guard, breathe, listen, work to understand the question, or ask for clarification.

    - Ask the questioner 'Excuse me' or 'I beg your pardon?'
    - Ask the questioner 'Can you kindly help me understand the context of the question/or what you just said?'

- If possible, use a bridging statement to get to your key message/prepared response. (See Appendix A).

- Do not offer personal opinions. Stick to the facts:

    - Leave off qualifiers like "I think" "I feel," and "I believe" which represents an opinion. To sound confident and assured, be mindful not to use qualifiers.
    - Do not use 'I assure you."

- Offer examples of success whenever possible.

Body Language, Tone:

- Be aware of how you come across. There is no benefit to being seen as defensive, argumentative, or unresponsive.

- Project an image of openness, honesty, and empathy.

- Remember to breathe deeply and speak slowly.

    - Controlling your breathing helps deal with the stress.
    - Take several deep breaths as you sit down and get organized.
    - Ahead of appearance take a few minutes in a quiet spot to breathe slowly and deeply.
    - "Super Hero Pose" – stand with your legs shoulder width apart, hands on hips, shoulders back. Do this for two minutes. It helps mentally prepare you ahead of having to speak.

- Use your hands while talking to look natural and help release anxiety. (Note palms up is a subconscious message to those looking at you that you are open and have nothing to hide)

- Avoid body language leakage—those involuntary movements that indicate you're nervous or stressed - e.g. head nodding, swallowing, and pursing your lips.

- Do not touch your face with your hands.

- Avoid repeating negative words that members use in questions. Doing so indicates you accept the negative premise.

- If you feel overwhelmed while speaking in front of an audience, recalibrate by breathing and pausing.

What-Ifs:

1. What if you don't want to answer the question, but you have to say something?

    - Offer a credible reason why you are unwilling to answer the question and identify what you prefer to discuss.

2. What if you're asked for hard numbers, and you don't have the answer?

- Explain, “I want to be absolutely precise and specific, so I will need to get back to you with the exact number”

- Words like “precise,” “specific,” and “exact” convey that the question has been taken seriously.

3. What if you don’t know the answer, but a colleague who is with you may know it?

   - If you need help from the other ADMs, open your response with ‘In a moment I’m going to call on my colleague to get into more detail about this…’ This gives the other TBS representative time to know they’ll be called upon.

   - Briefly discuss a related subject, then pass the question.

4. What if you need to pause?

   - If you have said absolutely everything you need to say, then let there be a pause.

   - Remember it’s not up to you to keep the proceedings going. That’s the Chair’s job. They may intentionally leave dead air in the hopes that you’ll jump in to fill it by saying something you hadn’t intended to.

5. What if the answer is confidential?

   - Explain that confidentiality rules must be respected, so you cannot directly address the issue at hand. (e.g.: that matter is before the courts).

6. What if it’s a question about a rumour?

   - When asked to respond to a rumour, it is best to not respond at all. Instead, state that your focus is always on fact, not rumour.

7. What if the answer is HR related?

   - Say as little as possible. Commenting on someone’s employment record in a negative context can potentially put you in legal jeopardy.

8. What if you don’t like what you’re saying?

   - Don’t feel obligated to complete a sentence or thought. Simply begin the response again.

9. What if it’s a “yes or no” question?

- Unless the question relates to a sensitive issue, skip “yes” or “no” and go right to the message that would follow.

10. What if it's an "is it possible" question?

    - Avoid speculating and tell the committee – "I'm not able to comment on something that may or may not happen."

11. What if you're interrupted mid-answer?

    - The first time, let it go. The second time, ask the Chair to be allowed to finish your thought.

APPENDIX

A. Sample Bridging Statements

1. "We find the more important issue is…"
2. "I think it would be more accurate (or correct) to say…"
3. "Let me emphasize again…"
4. "What matters most in this situation is…"
5. "While _____ is important, it's also important to remember that…"
6. "It all boils down to this…"
7. "And that reminds me…"
8. "Before we leave this subject, I need to add…"

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Attachment B. 2017 Special Report on Fair Hydro Plan (0 Bytes) cannot be converted to PDF format.

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Security settings or invalid file format do not permit using AG 2017_Summary_Chapter 2.pdf (72105 Bytes).

Security settings or invalid file format do not permit using AG 2017 Report on Fair Hydro Plan.pdf (1323405 Bytes).

From:	Erika.Hartog@ontario.ca on behalf of Angus, Helen (TBS)
To:	Karen Hughes (MGS); Veinot, Cindy (TBS); Hosick, Sarah (TBS); Patrick Laughton (MOF); Amanda Miller (MGS); Sofie DiMuzio (MGS); Bryant Sullivan (MAG); Boafoa Kwamena (MOI); Mark Donaldson (MOF); Dane Nelson (MOF); Allison Ue (MCSS); Vivienne Skoberne (MOHLTC); Kate Vrancart (MCS); Martin Schlaepfer (MOF); David McLean (MOF); Kobrinsky, Liza (MOF); Serge Imbrogno (ENERGY); Scott Thompson (CAB); Gadi Mayman; Ken Kandeepan; Tim Schuurman (MOF); Lynn Betzner (CAB); Alicia Farrow (CAB); Scott, Adrienne (CAB); Heitshu, Tania (CAB); Khalida Noor (MOF)
Cc:	Scott, Adrienne (CAB); Steen Hume (CAB); Hilary Cox (ENE); Tharani, Alisha (TBS); Kim, Minzi (MOF); Jenna LeBlanc (MCSS)
Subject:	Joint DM Regroup: SCOPA, Public Accounts
Attachments:	0. E-Binder_Feb 5 2018.zip

Sent Feb 05: E-binder attached

Attachment 0. E-Binder_Feb 5 2018 (0 Bytes) cannot be converted to PDF format.

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
				1	**2**	**3**
4	**5** *SCOPA Updated E-Binders Circulated*	**6** **SCOPA Joint Deputy's Briefing Discussion**	**7**	**8** *SCOPA SOC Deck & Updated E-Binders Circulated*	**9** **SCOPA SOC & Joint Deputy's Briefing**	**10**
11	**12** OPG - Financing of Regulatory Assets	**13**	**14** **SCOPA Status Table due to Committee**	**15** TBC: MOF Q3 Update	**16** *SCOPA Materials Finalized*	**17** TBC: Summary of TB orders published in Gazette
18	**19** Family Day	**20** House Resumes TBS OFHP OPQ filed MMP Meeting	**21** *TBC: SCOPA Dry Run*	**22**	**23** *SCOPA Final E-Binders Circulated*	**24**
25	**26**	**27** IESO Audit Committee Meeting	**28** **SCOPA Appearance**			

*TBD: Pre-Election Report
FAO Report on Hydro One
Posting of executive compensation frameworks (incl. IESO)
Supply Act

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 28, 2018

BRIEFING BINDER - DRAFT

February 6, 2018

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Attachment B. Ministry of Energy Environmental Scan (0 Bytes) cannot be converted to PDF format.

Attachment C. Ministry of Finance Environmental Scan (0 Bytes) cannot be converted to PDF format.

Communications Branch
Your Strategic Partner

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

TBS ENVIRONMENTAL SCAN AND ISSUES OVERVIEW

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Environmental Scan

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- **Pension asset accounting**
- **Ontario Fair Hydro Plan (OFHP) Accounting**
- **Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG "inappropriate expenses"; OPG compensation)**
- **Pre-Election Report**
- **Province's debt burden**

Following the release of the Auditor General's Annual Report on December 6, 2017, TBS-related issues were referenced in 41 per cent of articles, including specifically the "accounting disputes" between the Auditor General and the government, spending on government advertising, and the Auditor General's commitment to audit the IESO's consolidated financial statements. In the House, there were eight questions related to TBS issues: 50 per cent were related to the IESO/OPG "inappropriate expenses"; 25 per cent were related to government advertising; and the remaining two questions focused on the balanced budget narrative and the Pre-Election Report.

Overall, the focus on Public Accounts specifically has been limited in the media and the House alike: between September and December 2017, there were 12 mentions of Public Accounts. 50 per cent of mentions referenced "accounting rules" or the alleged existence of "multiple sets of books". Following the tabling of Public Accounts 2016-17, media coverage was limited and 80 per cent of coverage was neutral in tone.

Media Scan

Auditor General 2017 Annual Report

- **Media Events – December 6, 2017**
    - **Auditor General**
        - Overall, TBS-related issues represented 28% of the Auditor General's remarks.
        - Media questions on TBS-related issues represented 28% of all questions asked (7 out of 25)– **including on the planned audit of IESO's financial statements, government numbers vs. AG numbers being used for the PC's platform, and concerns regarding pre-election reports.**
    - **Government Response**
        - Overall, TBS-related issues represented approximately 20% of the discussion.

        - Media questions on TBS-related issues represented 20.8% of all questions asked (5 out of 24) – questions focused on government advertising and **on comments made by the Auditor General to "address significant issues without fear of push-back and reprisal."**

    - **PC Response**
        - Introductory remarks focused generally on waste and mismanagement.
        - Media questions on TBS-related issues represented 17% of all questions asked (2 out of 12) – **questions focused on the PC's use of the government's numbers in their "People's Guarantee" platform**

    - **NDP Response**
        - TBS-related issues related to 8% of the third party leader's remarks, particularly on government advertising
        - No direct mention of TBS-led chapters, **however 38% of questions (3 out of 8) focused on IESO expenditures**

- **Initial Media Coverage**
    - There were approximately 17 stories focusing on the Auditor Generals' 2017 Annual Report
    - 41% of articles referenced TBS-related issues
    - Key themes related to TBS issues include: **"accounting disputes" between the AG and the government** – and the effect it has on the balanced budget narrative, spending on government advertising, and **the AG's statement that she will audit the IESO's financial statements.**

- **Recent Media Coverage** (December 2017 – January 2018) has focused on the following key themes:
    - **The government's relationship with the Auditor General**
    - **Pre-election report**
    - **Distrust of government numbers/"two sets of books"**

Public Accounts

- **Media Coverage**
    - Media coverage was short-term (24-hours), with **80% of media coverage neutral in tone** (compared to 26% in 2016)
    - Government key messages were picked up 100% of the time
    - Balanced budget key messages were picked up in 60% of the coverage

- **Key Themes**
    - Disagreement between the government and auditor general

- Ontario's fiscal position: government debt and deficit
- The government's alleged continued dismissal of watchdogs

Pre-Election Report

- **Media Coverage**
  - On December 17, 2017, the Toronto Sun published a column by Lorrie Goldstein, "Auditor General headed for a showdown with Wynne over financial vows Liberals made in 2004" focusing on the Pre-Election Report
  - On January 24, 2018, Minister Sousa was asked by Jessica Smith Cross (QP Briefing) about the plans for the Pre-Election Report. Minister Sousa signalled that plans were uncertain at this time: "What happens is, you produce a document then you provide the pre-election report. So I have to manage this concurrently. But again, we recognize the timing and the constraints that that brings. **So I have to find other ways** to ensure that full disclosure is given to her and the other legislative, to the FAO."

Hansard Scan

Auditor General 2017 Annual Report

Following the release of the Auditor General's 2017 Annual Report, there were eight questions in the House relating to TBS issues:

- 50% (4/8) were related to **OPG/IESO "inappropriate expenses"**
- 25% referenced the FAO - one on balanced budget, one on the **pre-election report**

Public Accounts

Public Accounts were mentioned in the House at least 12 times between September and December 2017:

- 50% mention some form of "accounting rules" / two sets of books
- 42% (5/12) related to infrastructure spending
- 25% (3/12) mention FAO and AG together
- 25% regarding Fair Hydro Plan accounting
- One reference to pre-election finance report

FOIs/OPQs

There is one OPQ currently in progress with TBS related to Ontario Fair Hydro Plan accounting.

Overview	Key Issues	Key Dates	Next Steps
OPQ #700		OPQ will be formally filed on	In progress –

MPP Vic Fedeli Would the President of the Treasury Board state whether the government is in possession of an opinion from KPMG or E&Y on how the Fair Hydro Plan transaction should be recorded in the government's Consolidated Financial Statements, and further state precisely where they disagree with the Auditor General	**Ontario Fair Hydro Plan Accounting** **Relationship with the Auditor General** **Use of external advisors**	February 20, 2018	**Products:** Response to OPQ. **Notes:** Draft will be sent first week of January 2018 to OPCD to draft response. OPQ will be formally filed on February 20, 2018 TBS is the only ministry to have received this OPQ. **Next Steps:** Develop and approve response

Other Considerations

- Executive compensation (OPG, OEB, IESO)
- "Inappropriate expenses" (OPG, IESO)
- Hydro bill redesign ("$15 million")

Key Issues

Issue/Consideration	Strategy	Key Messages	Evidence
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the	• Pension Asset Expert Advisory Panel • Opinion from Deloitte LLP • Analysis Completed by EY

		plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.	
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. IESO's recent accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.	Opinion supported by: • IESO audit committee • Independent external auditor (unqualified opinion) • OPCD • Same method used by Ontario Power Authority previously
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making, and that the accounting structure is still being finalized. Refuse to speculate about AG's potential future audit opinion.	The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).	• PSAS Guidance • CPA professional code of conduct • External advisors • Other jurisdictions

	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.	
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a	• Highlight how the government has been working with the Office of the Auditor General (stated by Minister Sandals in a Dec 16, 2017 Toronto Sun article)

		prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.	
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.	• C4SE study • MOF
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its	• Example of single use of legislated accounting (Public Accounts 15-16)

		consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.	
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.	• CPA professional code of conduct
FOI/OPQ/Records Disclosure			

Questions & Answers

Top Questions*

1. How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?

2. How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?

3. The government has received a second qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

4. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

5. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

6. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

7. Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.

8. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

9. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

10. Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?

11. When will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

**See appendix A for a full list of QAs.*

Long-Form Answers

1. **Why did the government choose to recognize pension assets from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan? What evidence and processes were used to support this decision?**

2. **Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements? Is there any precedent for this?**

3. **Can you explain when and how the Treasury Board Secretariat looks to other accounting methods to support the preparation of Public Accounts?**

Ministry/Agency Representatives

Organization	Position	Name
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot
Treasury Board Secretariat Office of the Provincial Controller	Director, Accounting Policy and Financial Reporting Branch	Mark Donaldson

Supporting Materials

Backgrounders

- Auditor General 2017 Annual Report – Public Accounts – Management Response Backgrounder
- Public Accounts Backgrounder

Technical Briefings/QAs

- Public Accounts – Technical Briefing Deck September 2017

House Book Notes

- Public Accounts
- Fair Hydro Plan Accounting
- Pension Asset Accounting

PLACEHOLDER

DRAFT

PLACEHOLDER

DRAFT

Attachment A. Government Response to Auditor General’s 2017 Annual Report (0 Bytes) cannot be converted to PDF format.

Attachment B. House Book Notes (0 Bytes) cannot be converted to PDF format.

Not published. Used as a 'walk around' for QP Gallery

Ontario

BACKGROUNDER

Treasury Board Secretariat

Summary of Government Responses to the Auditor General's 2017 Annual Report Chapter on Public Accounts

December 6, 2017

The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

Below is a summary of the government's position regarding the Auditor's recommendations in Chapter 2 – Public Accounts of the Province.

Accounting for Pension Assets

The government continues to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset.
- An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded.

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

The government continues to apply the accounting treatment of pension assets that the Province has used consistently since 2001.

IESO Market Accounts

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of IESO-administered markets at year-end.

This change was supported by IESO's Audit Committee, its Board of Directors, its independent external auditor, and by the Office of the Provincial Controller. It has no impact to the Province's annual deficit, net debt or accumulated deficit.

The financial statements of IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

The accounting concepts used are consistent with those used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

IESO Rate-Regulated Accounting

PSAS is silent on the issue of rate-regulated accounting – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Standards Handbook.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework that provides guidance on rate-regulated operations.

IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America.

Ontario Fair Hydro Plan Accounting

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

The proposed accounting for OFHP reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Handbook.

This guidance has been appropriately applied in assessing the accounting for the OFHP.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from OFHP.

Legislated Accounting

The Province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for certain net pension assets in order to allow Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS.

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS.

Lawvin Hadisi, Minister's Office, 416-326-3839
Bryant Sullivan, Communications, 416-325-1378

Ontario

STATEMENT

Treasury Board Secretariat

Statement from the President of the Treasury Board on the Auditor General's Annual Report

December 6, 2017

Today, Liz Sandals, President of the Treasury Board, released the following statement:

"We thank the Auditor General for her report, and continue to appreciate our ongoing working relationship with the Office of the Auditor General (OAG). The Treasury Board Secretariat works closely with the OAG on a wide variety of issues on a regular basis, and her oversight and insight is welcomed both during our regular interactions and with this annual report.

The Auditor General mentions a number of topics that represent ongoing conversations between government and her office; for instance, the accounting practices regarding pension assets and the application of the United States Generally Accepted Accounting Principles when the Public Sector Accounting Board's standards are silent. The government's position on these differences of opinion has not changed.

We agree with the Auditor General's comments on the importance of accountability for agencies, boards, commissions and other broader public sector entities. Since 2010, our government has implemented a number of important measures to strengthen broader public sector and provincial agency accountability, transparency and governance. Our recent Fall Economic Statement, if passed, responds to the recommendations of the Auditor General in her 2015 Annual Report to streamline administration and establish consistency in the tabling and communication of provincial agency annual reports. However, we know that making process changes to annual reports may not be the complete solution. We will continue working with the OAG to enhance oversight and ensure accountability across all of our agencies.

We share the Office of the Auditor General's belief that the Auditor General has an important role to play in the oversight of government advertising, and that's one of the reasons that we are proud that Ontario is the only jurisdiction in Canada to have legislation in place to ensure that oversight. In fact, we have recently expanded her oversight to include digital advertising.

We know that the government has a responsibility to communicate to the public it serves, and that advertisements are one medium through which we can do that. For example, our Sexual Violence and Harassment prevention campaign – #WhoWillYouHelp challenged existing attitudes, and sparked international discussion. Our video was viewed over seven million times in the first 10 days, and generated more than 85 million views worldwide. And within 6 months, we had measurable results – 55 per cent strongly agreed they had an obligation to intervene when witnessing sexual harassment, up from 37 per cent.

As the President of the Treasury Board, I am committed to leading the government's efforts on accountability, openness and modernization, while working to deliver good government and public services in the most effective and efficient way possible. As part of this commitment, we work side-by-side with our partners, including the Auditor General, throughout the year to ensure that we continue to become more efficient in our processes and more open and

accountable as a government.”

Lawvin Hadisi, Minister’s Office, 416-326-3839
Bryant Sullivan, Communications, 416-325-1378

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CONFIDENTIAL REVISED: January 10, 2018

ONTARIO'S FAIR HYDRO PLAN ACCOUNTING (GLOBAL ADJUSTMENT REFINANCING)

ISSUE: What is the basis for the proposed accounting for the Global Adjustment Refinancing on the Province's books?

CONTEXT:

- The Global Adjustment Refinancing is one component of Ontario's Fair Hydro Plan announced in March 2017, and is the most significant contributor to the reduction in hydro rates for residential consumers.
- The other parts of the Plan for residential consumers include:
  - Expansion of the Ontario Electricity Support Program;
  - Reductions in distribution rates for consumers in rural and remote areas;
  - Reductions for First Nations residential consumers living on-reserve; and,
  - A fund set up to assist consumers in making their homes more energy efficient.
- The only impact on the 2016-17 consolidated financial statements from Ontario's Fair Hydro Plan is related to the fund set up to assist consumers in making their homes more energy efficient, which was expensed in the year and increased the annual deficit. In addition, the 8 per cent rebate on electricity bills, introduced as of January 1, 2017, while not part of the March 2017 announcement, also impacted the 2016-17 consolidated financial statements as an expense that increased the annual deficit.
- The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized. The government will present the Province's finances in the 2017-18 Public Accounts fairly and accurately and in accordance with Public Sector Accounting Standards (PSAS).

KEY MESSAGES:

GA Financing Status and Structure

- In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.
- All of the agreements necessary for the Global Adjustment (GA) Refinancing will be finalized in the current fiscal year. The final accounting for the GA Refinancing will be completed once all of the elements are complete. The balance of the note is based on the expected outcome. As previously noted, there was no impact on the 2016-17 consolidated financial statements from the GA Refinancing.
- In analyzing the appropriate accounting treatment for the GA refinancing component of Ontario's Fair Hydro Plan on the Province's consolidated financial statements in 2017-18 and going forward, the Province considered authoritative guidance issued by the Public Sector Accounting Board, as well as the accounting assessments of the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) management, including the accounting opinions of their external auditors.
- The complexity and unique structure of the GA Refinancing structure requires the use of professional judgment to ensure that key financial reporting objectives of transparency and accountability are best served.
- Under GA Refinancing, as enabled by the Ontario Fair Hydro Plan Act, 2017 ("OFHPA"), a Financing Entity established by Ontario Power Generation will borrow amounts to fund the payment of a portion of electricity costs charged by the electricity generators, thereby temporarily reducing the amount paid by eligible consumers (or ratepayers). The deferred amounts, including interest and other costs, will be recoverable from consumers/ratepayers in the future.

- The Independent Electricity System Operator (IESO), an independent, not-for-profit agency of the Province, is responsible for the management and operation of the wholesale electricity market. IESO makes payments to the electricity generators with cash received from the local distribution companies (and ultimately the consumers/ratepayers).
- Over the last 10+ years, investments have been made to phase-out coal and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system). This involves a move away from coal to cleaner, but more expensive methods of electricity generation, including wind, solar and natural gas. The cost of these investments were passed on to consumers/ratepayers as incurred or based on contractual payment terms, but not based on the period of benefit (i.e., the life of many generators is expected to exceed the length of the contracts).
- The GA refinancing acknowledges that the current generation of electricity consumers has paid more than its fair share for these costs, and spreads these costs incurred out over more years so they are shared proportionally by future electricity consumers.
- In simple terms, the IESO will continue to make payments to the electricity generators based on their contractual terms, but will collect less from the local distribution companies, as the consumers or ratepayers will pay a reduced amount. The amount not collected from the consumers now, or the shortfall, will be collected from consumers/ratepayers in the future.

- OFHPA permits the IESO to sell that shortfall, also referred to in the Act as a regulatory asset, which represents the right to collect payments from consumers/ratepayers in the future, to a financing entity. To recap, the IESO will continue to pay the electricity generators at their current contract rates. But it will do this with cash collected from the local distribution companies for electricity consumed (at a rate set by the OEB which reflects a significant portion of the 25 per cent reduction in the initial years) and cash received from the financing entity for the sale of the regulatory asset.
- The financing entity will be part of Ontario Power Generation (OPG Trust), a government business enterprise, wholly owned by the Province. The operations of Ontario Power Generation have been and will continue to be included in the consolidated financial statements of the Province using the modified equity method, the method Public Sector Accounting Standards (PSAS) require for government business enterprises.
- At its discretion, OPG Trust will purchase the shortfall amounts (or regulatory asset) from the IESO through a combination of provincial borrowing (flowed through OPG as an equity investment), amounts advanced from OPG and direct borrowing from capital markets.
- In the future, when the consumers/ratepayers pay for the deferred amount, those amounts will be used to repay the accumulated debt whether that be direct borrowing from the capital markets, amounts advanced from OPG or provincial borrowing.

IESO Accounting

- There was no impact on the 2016 financial statements of IESO from the GA Refinancing. The GA refinancing is expected to impact the 2017 financial statements.

- In 2017, the shortfall or regulatory asset that IESO incurs as a result of collecting less from the local distribution companies than it pays to the electricity generators would be accounted for as a rate-regulated asset. The rate-regulated asset would then be sold to OPG Trust for cash used to pay the electricity generators.
- For 2016, IESO adopted the use of rate-regulated accounting for costs incurred unrelated to the GA Refinancing; however, the impact to the financial statements of the Province was immaterial (impact on annual deficit of $24 million).
- PSAS is silent on the use of rate-regulated accounting. However, like all major accounting frameworks, PSAS encourages both preparers and auditors to consider guidance in other accounting frameworks when accounting for transactions not specifically addressed by the specific standards.
- IESO management, their audit committee, their board of directors and their external auditors, agree with the adoption of rate-regulated accounting by IESO. The Office of the Provincial Controller also supports the adoption of rate-regulated accounting by IESO.
- IESO is not the first entity that has prepared its financial statements using PSAS and rate-regulated accounting. Ontario Power Authority (which was amalgamated with IESO on January 1, 2015) prepared its financial statements with PSAS and used rate-regulated accounting.
- In the Auditor General's opinion on the 2016-17 consolidated financial statements of the Province, the AG has included an "Other Matter" paragraph, drawing attention to the adoption of rate-regulated accounting by IESO. The AG's view is expressed as stating PSAS does not permit rate-regulated accounting, but that the AG has not qualified the opinion on this matter because the impact is not material to the 2016-17 consolidated financial statements.

- The AG further notes, “However, the consolidated financial statements may become materially misstated in future periods, as a result of the legislated accounting prescribed under the Ontario Fair Hydro Plan Act, 2017 (OFHPA) and its related regulations, as it is not in accordance with Canadian public sector accounting standards.”
- Neither the IESO nor the Office of the Provincial Controller Division (OPCD) agree with the statements that (a) PSAS does not permit rate-regulated accounting (as previously noted, PSAS is silent with respect to rate-regulated accounting) or (b) Fair Hydro Plan and its related legislation and regulations legislate the accounting for GA Refinancing.

OPG Accounting

- The Auditor General has not raised any concerns to date with the intended accounting for the OPG Trust on the Province’s books.
- It is expected that OPG Trust will be controlled and consolidated by OPG.
- Purchases by OPG Trust of the rate-regulated assets from the IESO will be reflected on OPG’s books as intangible assets which will be included in the Province’s financial statements as part of its investments in government business enterprises.

The Province’s Accounting

- In assessing the appropriate accounting for Ontario’s Fair Hydro Plan (OFHP) on the Province’s books, OPCD worked closely with key ministries, the Ontario Energy Board (OEB), IESO, OPG and their respective external advisors.
- The final accounting treatment for OFHP-related activities will be confirmed once all elements of the GA Refinancing framework are finalized, including provincial guarantees and financing arrangements.

- Once the details and commercial agreements of the OFHP are finalized, the external auditors of IESO and OPG are expected to provide independent accounting opinions on the accounting treatment on IESO and OPG's financial statements.
- OPCD will rely on those independent accounting opinions, the audited financial statements of IESO and OPG as of December 31, 2017 and its own research and analysis in determining the impact of the GA Refinancing on the 2017-18 consolidated financial statements.

If Pressed: AG Assertion that the Government is Using Legislated Accounting

- The Auditor General has made several incorrect references to legislated accounting which should be addressed to ensure clarity and transparency in terms of the government's accounting treatment for Ontario's Fair Hydro Plan.
- In particular, the Auditor General has referred to legislated accounting prescribed by the OFHPA that is designed to in some way manipulate the Province's financial reporting in its consolidated financial statements.
- The Province's financial statements are based on Public Sector Accounting Standards (PSAS) as issued by the Public Sector Accounting Board of CPA Canada. There is no legislated accounting that applies to the Province's consolidated financial statements.
- While the OFHPA does, under Section 24, require that IESO set up a variance account to track the cash shortfall amount resulting from the deferred recovery amount, it is just another type of regulatory account, similar to those that OPG reports and for which the OEB is responsible for approving rates.

- As far as the Province's financial reporting practices go, whether the deferred amounts reported in IESO's variance account are assessed as assets for financial reporting purposes will be determined by the interpretation and application of Public Sector Accounting Standards, not by the legislation or regulations.

Auditor General's Special Report on the Fair Hydro Plan

- The Office of the Auditor General released *The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money* on October 17, 2017. The report focused on the financial and accounting framework of the OFHPA.
- The Auditor General said that the accounting for the Fair Hydro Plan is not permitted under PSAS because it is silent on rate-regulated accounting, despite the fact that standard accounting practice, including under PSAS, dictates that an entity should consult other accounting standards for transactions not specifically covered by primary standards.
- The Auditor General asserts in her report that the OFHPA creates an asset through legislation. This is a fundamental disagreement the government has with the Auditor General's report. The Province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

Key Messages on AG's Special Report on the Fair Hydro Plan

- The government respects independent officers of the legislature, and values the important perspective they bring, but does not agree with the assertions and conclusions expressed in the Auditor General's Fair Hydro Plan report.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

- In developing the Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.
- The Fair Hydro Plan operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards and ensures the goals underlying the program are achieved in a cost-effective manner.
- PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything. When that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.
- The financing plan and its impact will continue to be transparent and fully available to credit rating agencies, securities regulators, and the public.
- The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

RECENT MEDIA COVERAGE:

- January 12, 2018 – An opinion piece in the Toronto Star argues Kathleen Wynne faces a phantom opponent in the spring election: Ontario's auditor general, who looms like an accounting apparition over the premier. The article notes, Lysyk isn't just picking fights with Liberal cabinet ministers but clashing with Ontario's non-partisan public service as well as outside consultants. The most awkward contretemps took place a year ago, when an expert panel of accounting and actuarial experts shredded the auditor's claims about the government cooking the books.
- January 4, 2018 – The Brighton Independent covers Liberal MPP Lou Rinaldi's plans for re-election, while making reference to the "issues" the government has with the Auditor General, particularly on pension asset and Fair Hydro Plan accounting.
- January 3, 2018 – The CBC runs an article "No quick fix for Ontario's energy woes, electricity analyst says," noting the criticisms from opposition parties and analysts regarding the accounting of the Fair Hydro Plan.

- December 17, 2018 – The Ottawa Sun's Lorrie Goldstein writes that "independent financial officers say Wynne government's books can't be trusted," noting the Auditor General and FAO's concerns regarding Fair Hydro Plan accounting: "In her Dec. 6 annual report, Lysyk warned "there is a very real risk" the "government's continued use of nonstandard accounting" will "seriously distort the true state of the province's finances...The government uses these incorrect accounting treatments to claim it has balanced the province's books, but in reality, legislators, the financial community and all Ontarians will be misled as to the true condition of the province's finances." In its fall economic and fiscal outlook released last week, the FAO warned, "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 13, 2017 – The Toronto Sun runs a comment piece following from the Financial Accountability Office's fiscal and economic outlook, fall update report, entitled "Liberals hiding deficit, second watchdog says," noting the Auditor General and FAO's criticisms of the accounting for the Fair Hydro Plan.
- December 11, 2017 – The Toronto Star's Robert Benzie covers the Financial Accountability Office's fiscal and economic outlook, fall update report, noting the FAO's agreement with the Auditor General's questioning of the accounting of the Fair Hydro Plan: "The FAO also backed the auditor general in questioning the complex mechanism the government has developed to bankroll the 25 per cent electricity rate cut, known as the Fair Hydro Plan. Because of the actuarial tussle "it is becoming more difficult for legislators and the public to assess the government's fiscal projections.""
- December 11, 2017 – The Canadian Press' Shawn Jeffords also covers the FAO's report, noting: "The FAO said in its report that since the government has not adopted the auditor's recommended accounting for both the pension assets and the Fair Hydro Plan it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 6, 2017 – The Canadian Press and other outlets cover the Auditor General's 2017 Annual Report, noting the accounting disagreements between the Auditor and the government: "Lysyk also announced through her report that her office would be auditing the IESO's books. That comes amid one of two accounting disputes the auditor has been engaged in with the Liberal government. She recently accused the government of purposely obscuring the true financial impact of its 25 per cent cut to hydro bills by keeping billions in debt used to finance that plan off the province's books. Lysyk said she will audit the IESO because of its role in the hydro plan's complex accounting scheme."
- November 2, 2017 – The Waterloo Region Record runs an editorial by analysts from the Fraser Institute entitled, "Ontarians in the dark about Fair Hydro Plan." The piece argues: "Ontario needs real reform to lower electricity prices for residents and businesses. Unfortunately, the provincial government is opting for improper accounting practices and temporary solutions, sticking current and future Ontarians with the bill."
- October 26, 2017 – CBC writes that "Ontario hydro bills to rise over next 10 years in government's energy plan," referencing the Auditor General's report on Fair Hydro: "Ontario's auditor general Bonnie Lysyk found that the Liberals concocted a "needlessly complex" system in order to achieve the savings in the Fair Hydro Plan by moving $26 billion of debt off the government's books […]Thibeault said the accounting isn't deceptive, and that similar financing strategies have been used throughout Ontario history, including for the construction of nuclear plants in the 1970s."
- October 25, 2017 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute's Ontario Prosperity Initiative entitled "Number's up for Wynne's government," writing "But regardless of how pension assets should be treated, or how new debt incurred by the government's Fair Hydro Plan should appear on the books, the stark reality is that Ontario taxpayers are carrying far more public debt than a decade ago and that burden is growing quickly, every year."

- October 24, 2017 – CBC references the Auditor General's report on Fair Hydro, writing "Auditor General Bonnie Lysyk criticized how the program is being financed, saying the province is "improperly" accounting for the $26 billion in debt it's taking on to cut hydro bills in the short term. The Liberals called the controversy an "accounting dispute" with the auditor."
- October 23, 2017 – Global News reporter Alan Carter wrote an analysis on "truth" and Fair Hydro. He wrote, "The war between Lysyk and the Liberals is whether the Fair Hydro Plan and its use of Ontario Power Generation as a debt vehicle is a sign of devious politicking or just the way things get done."
- October 23, 2017 – The Peterborough Examiner carried an opinion piece written by Minister of Energy, Glenn Thibeault. "I'm not surprised to see the Conservatives try to get in the middle of an accounting dispute between the government and the Auditor General for personal political gain. It's how they deflect without putting forward any policy ideas of their own."
- October 22, 2017 – The Toronto Sun's Antonella Artuso wrote that the way the Liberals "hid" the cost of its Fair hydro Plan from taxpayers could raise concerns that other governments across the country could follow suit and bury deficits.
- October 22, 2017 – The Toronto Sun's opinion piece says the Fair Hydro Plan is simply 'long-term pain for short-term gain".
- October 19, 2017 – CBC's Mike Crawley writes about the Auditor General's accusations that the government was trying to hide documents from her investigation. Crawley writes that the Progressive Conservatives have made a request to the province's "top public servant to ensure that all relevant documents and emails are saved."
- October 18, 2017 – CTV News (6pm) includes the Progressive Conservative's reaction to the Fair Hydro report: "opposition calls for resignations of ministers of finance and energy after AG report."
- October 18, 2017 – QP Briefing's Jessica Smith Cross highlighted that the $4 billion figure cited by the Auditor General and the Financial Accountability Office that would be wasted due to the government's "needlessly complex" financing structure for Ontario's Fair Hydro Plan was said 21 times by opposition parties during Question Period that morning.
- October 18, 2017 – The Globe and Mail's Justin Giovannetti (A9) highlights the Auditor General's Fair Hydro report. The article includes a quote from Minister Sandals: "Perhaps the essential accounting dispute that we have with the auditor is a dispute over what happens when the Canadian Public Sector Accounting Standards are silent, when they don't give direction,' Ms. Sandals said. 'We keep running into this problem because, quite frankly, Ontario is the biggest province, and we often have bigger projects and do things a bit differently from all the smaller provinces.'"
- October 17, 2017 – The CBC's Mike Crawley covers the Auditor General's report, writing "The auditor says the plan could also result in Ontarians paying "up to $4 billion more than necessary" in interest. That's because OPG will be required to pay higher interest rates than the province would if the government took on the debt directly."
- October 17, 2017 – The Toronto Star's Robert Benzie also focused on the Auditor General's so-called scathing report on Ontario's Fair Hydro Plan, while acknowledging the historical dispute between the Auditor's Office and the government.
- October 17, 2017 – The Ottawa Citizen's David Reevely continues with key themes in the coverage, also writing: "The Liberals really, really, really wanted to keep that debt off their books, so they could also go into the next election saying the provincial budget is balanced. Borrowing billions in an election year would get in the way. So they did some advanced financial engineering to put the debt on Ontario Power Generation instead."

- October 17, 2017 – The Canadian Press' Allison Jones cites the Auditor General's statements, and includes Minister Sandals' rebuttal on the point of asset accounting: "Treasury Board President Liz Sandals said credit rating agencies are ranking the hydro debt in preparation for selling it. 'That's the difference,' she said. 'Somebody actually wants to buy it, ergo it is an asset.'"
- October 17, 2017 – QP Briefing provided a primer on the report, and pointed to the Auditor General's criticism of the government on the alleged willingness to accept a qualified audit opinion for the province's Public Accounts.
- October 17, 2017 – The Auditor General's report and remarks during the media conference were extensively covered across the media. Coverage consistently cited the key themes in the Auditor General's report, highlighting the "needlessly complex" accounting structure, "improper accounting," and the "anticipated $4 billion more in interest payments than if the province had borrowed the funds directly."
- October 17, 2017 – The Toronto Sun's Antonella Artuso featured an overview of the Fraser Institute's report released in the morning, arguing that "Soaring electricity prices resulted in 75,000 fewer manufacturing jobs for Ontarians since the recession".
- October 17, 2017 – The Office of the Auditor General held a media conference for the release of The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money.
- October 17, 2017 – CBC News reports that today Auditor General Bonnie Lysyk will reveal the results of her investigation into the government's Fair Hydro Plan. The report will look at how the rate cuts are financed and whether the plan is fair for taxpayers and hydro customers. Auditor Lysyk has already told a legislative committee in May that to borrow the money on OPG's books rather than the province's is "contrary to public sector accounting standards."

Updated by: Mark Donaldson, Director, Accounting Policy and Financial Reporting

Approved by:	**Name:**	**Date approved:**
ADM, Office of the Provincial Controller	Cindy Veinot	January 3, 2018
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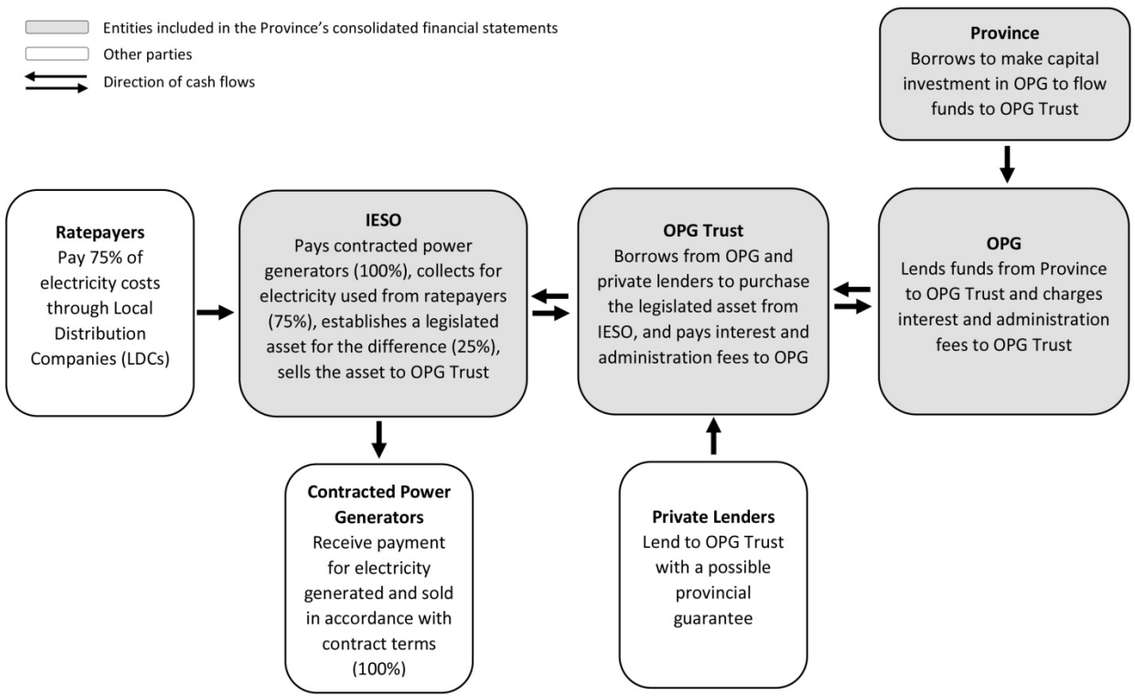
Assistant Director, Communications Branch	Bryant Sullivan	January 16, 2018
Director, Communications Branch	Sofie Di Muzio	January 16, 2018

Appendix

Proposed Legislated Transaction Structure

Prepared by the Office of the Auditor General of Ontario



CONFIDENTIAL REVISED: January 5, 2018

PENSION ASSET EXPERT ADVISORY PANEL

ISSUE: How do you respond to the reports released by the Pension Asset Expert Advisory Panel?

KEY MESSAGES:

- The Pension Asset Expert Advisory Panel has released its independent advice and recommendations on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets.
- The panel's first report concluded that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.
- The panel supports the accounting treatment that Ontario has used consistently since 2001.
- The panel has also issued a supplemental report that provides independent advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The government has accepted the panel's recommendations and in the 2016-17 third quarter update, it indicated its plans to adopt the previous accounting treatment in the upcoming Public Accounts.
- The government has reflected the recommendations of the panel, which align with its previous accounting in the 2017 Budget, the 2016-17 Public Accounts and the 2017 Fall Economic Statement.

- The government formed the Pension Asset Expert Advisory Panel to provide independent advice on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets. The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards.
- We will continue to move forward and present the Province's finances fairly and accurately, which includes reporting for jointly sponsored pension plans in accordance with Public Sector Accounting Standards and the panel's recommendations.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.

IF PRESSED: SUPPLEMENTAL REPORT HOOPP & CAATPP

- We thank the panel for their independent advice and recommendations made in relation to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The two additional pension plans addressed in the supplemental report are different than OTPP and OPSEUPP because they are jointly sponsored by multiple organizations. The Ontario Government is a third party sponsor and has no direct control over decisions of the employer sponsors about benefit or contribution levels, funding of deficits or use of surpluses. Because of these differences, a valuation allowance will be recorded for any net assets of these plans until the government benefits from a reduction in contributions.
- The Ontario Government agrees with the panel's conclusions in the supplemental report.

CURRENT STATUS:

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.
- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update. During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."
- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report. Chapter two of the report made recommendations regarding the Public Accounts of the Province, with the first of 10 recommendations focusing on the pension asset accounting issue. From the report: "We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months."
- On April 27, 2017 the Pension Asset Expert Advisory Panel's Supplemental Report was released. It provides the government with independent advice and recommendations on how to account for current and potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).
- The panel's supplemental report concludes that a net pension asset from HOOPP and CAATPP should be recognized in the province's financial statements in the same way as the net liability, but also recommends that a valuation allowance should be reported for accrued benefit assets for both of these plans in the province's financial reports.
- The panel's report on the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP) was made available to the public on February 13, 2017 and did not recommend that a valuation allowance be reported for either of these two plans.
- Both reports have been shared with the Auditor General of Ontario and her office.

- In the 2017 Budget, the 2015–16 actuals were restated to reflect the government's previous accounting treatment for jointly sponsored pension plans which recognized net pension assets for the Ontario Public Service Employees' Union (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) on the Province's financial statements. The restated results follow the advice of the panel and the accounting followed previously by the Province since 2001.
- On June 12, 2017, the Ontario Teachers' Federation and the Ontario Government, joint sponsors of the Ontario Teachers' Pension Plan (OTPP), announced they will use a portion of the $11.5 billion surplus in the Plan (as of January 1, 2017) to complete the restoration of inflation protection for teachers who retired after 2009. As well, the contribution rate for the Plan's active members will be reduced by 1.1%. Both changes are effective January 1, 2018.

COSTS

	Actuals		
Panel Member	**Per Diem**	**Travel**	**Total**
Patricia O'Malley	83,000	1,057	84,057
Uros Karadzic	62,700		62,700
Paul Martin		3,898	3,898
Murray Gold	38,000		38,000
Procurement			32,458
Total	**183,700**	**4,955**	**221,113**

BACKGROUND:

- On February 17, 2017 Minister Sandals sent a memorandum to Warren (Smokey) Thomas in response to his article of February 14, 2017 in the Toronto Sun on pension assets.

  "As you are aware, the Pension Asset Expert Advisory Panel ("Panel") released its report on February 13, 2017, and concluded that the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.

  The OPSEU pension plan, which is jointly-sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor. Simply put, the province does not have the ability to make any withdrawals from the plan.

  I trust that you are reassured by this news. Your February 14 press release and your subsequent comments in a February 15 *Toronto Sun* article, suggest that you were unaware of these rules.

  In addition, the province has not proposed any pension contribution increases or reductions at this time. Any decisions with respect to changes to pension contributions or benefits must be made by the Plan Sponsors. A decision to reduce contributions would benefit both the employees and the employer."

- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.

  The panel was comprised of accounting, legal, and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.

  The following four members were appointed to the Panel:

  - Tricia O'Malley (Chair)
  - Murray Gold
  - Uros Karadzic
  - Paul Martin

Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

The panel's report was delivered to the President of the Treasury Board and was shared with the Auditor General of Ontario. The panel's report was made public in early 2017.

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, "Independence is not infallibility when it comes to Ontario's financial books," arguing Auditor General "Lysyk's paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All's fair in politics and accounting, unless you're an auditor gone awry."
- December 17, 2017 – The Ottawa Sun's Lorrie Goldstein writes that "with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted." Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: "Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan."
- December 17, 2017 – The Toronto Sun's Jim Warren cautions that "the role of the Auditor General is shifting in troubling ways," arguing that the Auditor General's increasing outspoken role is "making matters worse." Specifically referencing the pension asset accounting issue, Warren writes "For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position."
- December 14, 2017 – The Record runs an opinion piece, "To sort out truth from pre-election fictions, turn to Bonnie Lysyk," writing that the Auditor General "warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car."
- December 13, 2017 – The Toronto Sun runs a comment piece, entitled "Liberals hiding deficit, second watchdog says" covering the Financial Accountability Officer's (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO's report "says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans."

  Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting."

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- September 13, 2017 – The Toronto Sun runs a column, "Wage warnings won't stop Wynne," critical of the cost of the Pension Asset Expert Advisory Panel: "Indeed, her government's typical reaction to critical, non-partisan warnings it gets from independent officers of the legislature - such as the auditor general and the FAO - is to ignore them, or to attack the messenger […]Wynne spent up to $435,000 striking an "independent" panel that unsurprisingly agreed with her position on pension accounting, not the auditor general's."
- September 8, 2017 – David Reevely writes in the Ottawa Sun and Ottawa Citizen "Lysyk and the ministers have been volleying back and forth for a couple of years now over how to count assets on the government books. Without getting too deep into it, what's in question is whether certain public sector pension plans and some holdings in the electricity system belong to the government or not."

- September 7, 2017 – The Canadian Press' Shawn Jeffords covers the tabling of Ontario's Public Accounts 2016-17, and cites the government's ongoing disagreement with the Auditor General on pension asset accounting as the reason the Auditor has issued a qualified audit opinion two years in a row. Minister Sandals is quoted in the article: Sandals maintains the government is following established accounting practices and people don't care about the on-going squabble. "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – The Toronto Star's Robert Benzie refers to the disagreement between the Auditor General and the government over IESO market accounts assets and pension asset accounting as an "accounting slugfest". Minister Sandals is quoted in the article (same quote as The Canadian Press coverage): Sandals on Thursday shrugged off Lysyk's accounting interpretation, which lead to her to issue a qualified audit opinion on the province's books for the second year in a row.

  "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said.

  "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – Queen's Park Briefing's Christopher Reynolds covers the disagreement between the Auditor General and the government, quoting Minister Sandals: ""The public wants to know, are you managing your deficit?" Sandals said Thursday at the release of the province's 2016-217 public accounts. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- On May 1, 2017 David Reevely writes in the Ottawa Sun that "There's also $500 million booked in the government's favour from surpluses in a couple of pension plans for public employees. These are the subject of an arcane accounting dispute over whether the government, which couldn't grab the money easily, should be able to count them the way it's counting them. The auditor general says no. A panel of external blue-chip accounting types says yes (for a number of reasons, the easiest of which to grasp is that if the pension plans came up short the gap, would be the government's problem). Going with the auditor general's ruling would be the safer thing, for sure, but what the government's doing is neither trick nor a one-time manouevre.
- On April 30, 2017 David Reevely wrote about the 2017 budget and said "the Liberals are taking advantage of a surplus in some public-employee pension funds, which Auditor General Bonnie Lysyk says is improper but which other experts say is OK. And they've adopted a sort of partial distinction between operating spending and capital spending, which used to be mashed together into each year's budget in a way they no longer are."
- On February 21, 2017 the Toronto Sun (A10) has a column by Warren Thomas (OPSEU). He writes "Ontario's public service workers and retirees feel like we are about to get robbed." He notes that the Auditor General has been turned into a lapdog from a watchdog. Thomas writes "If nobody stands up to Wynne, I'm afraid her next move could be to actually steal our pension money, giving her more cash for overpaid consultants and Sunshine List executives."
- On February 20, 2017 the Toronto Sun reports on Minister Sandals' memo to OPSEU's Warren Thomas. It recounts the minister's statement that "government has no plans on making like a bandit with his members' pension funds." The short piece includes her quote: "The OPSEU pension plan, which is jointly sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". "I trust that you are reassured by this news."
- On February 18, 2017 the Toronto Sun has a piece by Lorrie Goldstein. He writes that Premier Wynne needs to take the advice of the Auditor General in order to demonstrate openness and transparency.

- On February 18, 2017 the Ottawa Sun (A9) reports NDP Leader Horwath trusts the Auditor General's math. She spoke up on Friday on the ongoing pension account issue between government and the AG.
- On February 18, 2017 the Toronto Sun's Antonella Artuso (A10) quotes Minister Sandals who said in a statement that she will accept the findings of the panel and: "They also concluded that the government controls access to the pension surplus which has a future economic benefit to the province and recognizing the asset will provide an accurate representation of the province's financial position."
- On February 18, 2017 the Toronto Star's Martin Regg Cohn (A12) writes about the Auditor General. He says that she is no hero – in fact her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures." He concludes: "We rely on auditors to provide value for money audits. Not to introduce their own values, making up untested accounting standards as they go along."
- On February 17, 2017 the Hamilton Spectator (A16) posted an opinion piece that is negative toward Auditor General Lysyk. It notes: "Lysyk is putting that reputation and integrity on the line in Ontario. And she's not on solid ground…. If the evidence supported Bonnie Lysyk's position, we'd be the first to back her. But it doesn't. She needs to respect that and back down."
- On February 17, 2017 QP Briefing has a piece written by Bryne Purchase, former deputy minister of finance, on the 'accounting spat'. He sides with the AG: "I think it was regrettable that Premier Kathleen Wynne's government chose to attempt to undermine the legitimacy of our parliament's own accounting expert by appointing a panel of its own experts to review an unfavourable ruling."
- On February 17, 2017 the Windsor Star (A7) has a Canadian Press report that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute. Auditor General Bonnie Lysyk's quote is used: ``Show me the letter that says you can use that pension money with permission, with an agreement," she said Thursday. ``Until that happens the bottom line is this office can't give its stamp of approval on this particular issue." The article notes this is not the first time the Liberal government has clashed with the AG - the former energy minister suggested the electricity file was too complicated for Lysyk, and she has frequently suggested that partisan ads are being funded by taxpayer dollars.
- On February 16, 2017 the Toronto Star reported the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes. The article says the AG is "escalating a $10.7 billion standoff" with the government over taxpayer-funded pension surpluses. "There has been no suggestion the government intends to dip into the pension funds, which would be illegal. The question is whether the pension surplus can be counted as an asset or not at all." The AG was quoted: "It is not my money. That money is for the benefit of employees and retirees … so it's not my pension. It's not my budget deficit."
- On February 16, 2017 QP Briefing reports the AG says that until she sees a letter that says government can use that pension money with permission – her office can't give its stamp of approval on this issue. The article notes the government "isn't inclined to draft" a letter. Treasury Board President Liz Sandals is quoted from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place." This article also includes quotes from MPP Lisa MacLeod and OPSEU's Warren Thomas.

- On February 16, 2017 the Toronto Sun (A5) has two articles on the number crunching aspect of the expert panel. It says government spent up to $435,000 to the expert panel in the dispute with the Auditor General. The article says this has made OPSEU's Warren Smokey Thomas livid and notes that he wants a guarantee the government won't raid his members' pension fund. Ontario Treasury Board spokesman Matt Ostergard is quoted from an email, "The work of the panel is ongoing so we don't have final costs at this time but they will be in line with previous panels and will be made public."
- On February 16, 2017 The Northumberland Today.com has David Reevely's opinion piece on the pension panel's "gift' to the government. "The Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds. The article includes a written statement from Minister Sandals "We are committed to implementing the advice of this independent panel and will use it in preparing the province's financial statements."
- On February 15, 2017 QP Briefing reports Treasury Board President Liz Sandals says it's too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute. "I think we're getting way ahead of ourselves – that's a total hypothetical," Sandals told reporters. "The bottom line is, the panel gave us advice, and we're going to follow the advice of the panel." Sandals added there "is no urgency" for Lysyk to weigh in on the panel's conclusion and that she was "pleased" that the auditor was giving it a thorough read. The article notes the minister was "cagey" when pressed about if the panel's report will mean a rollback on contributions for the OPSEU plan. She is quoted, "As the panel points out, that is the traditional way in which the government would access the surplus," "That's the whole premise of the panel's report, is that the way in which the government or any other employer in that situation would access the surplus is by reducing the contribution rate."
- On February 14, 2017 OPSEU's Smokey Thomas writes that Premier Wynne should remember who owns the assets of the province's jointly trusted public pension plans. He says the dispute between the government and the Auditor General is not "just a paper war". "It's a fight over who owns billions of dollars earned by workers and invested on their behalf. I'm telling the Premier right now: the money in those plans belongs to plan members. It is not hers to play with." He "unequivocally supports" the Auditor General's position. He says his "fear is that the Liberals will try to move money out of public pension plans to help wipe out the provincial deficit in time for the 2018 provincial election."
- On February 14, 2017 the Ottawa Sun's David Reevely (A11) reports "the Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds." His article notes, "The point is, we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets." He writes the surpluses work in the government's favour – especially as an election approaches.
- On February 14, 2017 the Toronto Star (A7) (and online) has a negative piece about the Auditor General, written by Martin Regg Cohn. He writes the AG has been caught out in a $10.7-billion miscalculation. "Even a watchdog can lose the scent and bark up the wrong tree. Or worse, miss the fiscal forest for the trees. For the job requires not just independence but context. To be truly credible, an auditor general must fearlessly expose government boondoggles but also fess up to her blunders." "Lysyk's lack of diligence - now overdue - is a damning indictment of an auditor gone awry."

- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: “Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: “If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- On February 13, 2017 the Toronto Star reported a panel of accounting experts says that $10.7 billion in government-sponsored pension plans should count toward the province’s bottom line. The article notes panel chair Tricia O’Malley said “We believe that an asset does exist – the net pension asset meets the definition of an economic resource, which is what an asset is.” The Star noted that Auditor General Lysyk is reviewing the report and will provide comment to the media later this week.
- On February 12, 2017 the Toronto Star reports a government-appointed panel of experts will announce on Feb. 13 that joint-sponsored pension surpluses should be counted as assets for the provincial treasury. The report says the Auditor General should include billions of dollars of its assets on the government’s bottom line. OPTrust says “surpluses and deficits should both be recognized on the province’s balance sheet.”
- On February 8, 2017 The Toronto Star (A6) reports Premier Wynne welcomes a report from four accounting experts that says a $10.7-billion pension surplus can be counted as an asset on the province’s bottom line. The article notes the AG was briefed on the report last week and it will be make public later this month. MPP Vic Fedeli is quoted: “The people of Ontario have to ask themselves who are they going to believe: the independent auditor general or a scandal-plagued Liberal government?”
- On February 8, 2017 QP Briefing reports the Financial Accountability Officers says “should the panel studying a pension accounting clash with the auditor general conclude that billions of dollars’ worth of pension assets should be counted on Ontario's balance sheet after all, the government will get more flexibility to balance the budget as promised.” “David West, the FAO's chief economist, said he had not heard about any conclusions from the panel but noted that if they have decided to count the pension assets, it gives the government more breathing room to achieve balance, as promised.” Auditor General Lysyk declined to confirm or comment directly because the panel is not yet public.
- On February 7, 2017 The Toronto Star’s (A4) Martin Regg Cohn reports billions of dollars are at stake in a dispute pitting Ontario's Auditor General against the government. He writes that despite an outside panel of top accounting and pension experts determining that Auditor General Bonnie Lysyk has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets – she told this reporter that “she won't climb down,” and this now sets the stage for a public showdown over an accounting change that is worth $1.5 billion to the bottom line this year alone. “The auditor told me her mind is made up and nothing she has heard so far has changed her view….which leaves her on a limb and the government in the lurch.”
- On November 30, 2016 QP Briefing reported Minister Sandals appointed an expert panel to help resolve the government's standoff with the Auditor General over pension assets. The chair of the special panel tasked with settling an accounting dispute will be paid $2,000 per work day. The other three members of the panel will get a $1,900 per diem, as well as reimbursement.
- On November 14, 2016 QP Briefing reported an expert panel will study the AG pension dispute.

- On October 9, 2016 Focus Ontario (Global) ran a segment on the 2015-16 Public Accounts and the disagreement with the Auditor General. Both the Premier and Patrick Brown are quoted in the segment. The Premier is quoted from Question Period saying the government “accepted the Auditor General's numbers for this year. We released the documents despite the divergence in accounting opinions, specific to pension funds between Treasury Board officials and the Auditor as part of our commitment to openness and be transparency.”
- On October 9, 2016 The Toronto Sun (A17) ran an opinion piece about the disagreement with the Auditor General. The piece notes that this kind of back and forth between ministries and the Auditor General is common. The Auditor General provides time for ministries to comment on the audit in draft form so that accounting issues can be hashed out before the final audited statement is presented to the legislature. Accounting issues are generally benign. So it's surprising that the Wynne government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's unqualified opinion.
- On October 6, 2016 The Financial Post has a commentary by analysts with the Fraser Institute. “It's not surprising the Wynne government is willing to go to the mat to defend its estimate of last year's budget deficit. As Ontario approaches a provincial election in 2018, a big part of the government's PR strategy is focused on celebrating an expected return to a balanced budget in next year's budget. So Premier Kathleen Wynne's team has a big incentive to push back against dissenting views.”
- On October 6, 2016 QP Briefing reports Treasury Board President Liz Sandals tabled Ontario's public accounts for fiscal 2015-16, including the Auditor General's opinion. The tabling of the public accounts was delayed by almost two weeks after months of back and forth between the Auditor General and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- On October 3, 2016 The Globe and Mail reports Ontario's Liberal government is fighting with the province's Auditor General over a $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt.
- On October 3, 2016 Canadian Press ran a story in 40 media outlets reporting that the government says Auditor General Bonnie Lysyk is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years. “The issue is with the accounting of the Ontario Public Service Employees Union Pension Plan and the Ontario Teachers' Pension Plan, which are jointly sponsored with the government. The government says the plans have a surplus, but the auditor general says that should not be on the province's balance sheet.”

Prepared by: Jim Keates, Senior Accounting Policy Analyst, Accounting Policy and Financial Reporting. July 21, 2017

Approved by:	**Name:**	**Date Approved:**
Director	Nadine Petsche/Mark Donaldson	July 31, 2017
ADM, Office of the Provincial Controller	Cindy Veinot	January 3, 2018
Issues Management Analyst, Communications	Alisha Tharani	January 5, 2018
A/Manager, Issues Management, Communications	Amanda Miller	January 15, 2018
Assistant Director, Communications	Bryant Sullivan	January 16, 2018
Director, Communications	Sofie Di Muzio	January 16, 2018

CONFIDENTIAL REVISED: January 10, 2018

2016-17 PUBLIC ACCOUNTS

ISSUE: What is reported in the 2016-17 Public Accounts released on September 7, 2017?

KEY MESSAGES: PUBLIC ACCOUNTS

- The 2016-17 Public Accounts of Ontario show the province's deficit is $991 million.
- This result is $3.3 billion lower than projected in the 2016 Budget, and $0.5 billion lower than the interim forecast in the 2017 Budget.
- This is a result of growth in revenue that exceeded growth in program expense, and lower than forecast interest on debt.
- Ontario has beaten its deficit target eight years in a row. Ontario's plan is working.
- As promised in the 2016 Budget, Ontario grew its economy while transforming healthcare, building vital infrastructure and investing in people's talents and skills.
- Due to our prudent fiscal management and Ontario's robust economic growth, we are projecting a balanced budget for the first time since the onset of the global recession in 2008.
- We remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- This is something that has been achieved only eight times in the last 40 years in Ontario.
- We will continue moving forward on our fiscally responsible plan that creates fairness and opportunity for all Ontarians.

KEY MESSAGES: OTHER HIGHLIGHTS

- We will continue to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- Other highlights from this year's Public Accounts include:
    - Economic growth, with a 2.7 per cent increase in real gross domestic product (GDP), up 2.2 per cent in the 2016 Budget.
    - Total revenue of $140.7 billion, up $2.2 billion from the 2016 Budget.
    - Total spending of $141.7 billion, down $0.1 billion from the 2016 Budget.
    - Interest on debt of $11.7 billion, down $0.7 billion from the 2016 Budget.
- To help Ontarians better understand their government's finances, new digital tools have been developed that present the Public Accounts data in innovative, visual formats. These tools make Ontario's finances easier to understand, access and use.
- Presenting the Public Accounts data in innovative, visual formats is part of Ontario's commitment to Open Government.

KEY MESSAGES: ACCOUNTING CHANGES

BPS REVENUE PRESENTATION

- To increase transparency, the 2016-17 Public Accounts are presenting third-party revenues for hospitals, school boards and colleges, such as tuition fees, patient fees, research grants and donations, with provincial revenue.
- In prior years, these revenues were netted against the expenses of the respective sectors (health, education, post-secondary).
- This is a change in presentation only; the change increases total revenues and expenses by approximately $8 billion, and does not impact the deficit, net debt or accumulated deficit.
- This change is consistent with public sector accounting standards and the reporting practices of other senior Canadian governments.
- The Auditor General is supportive of this change in presentation.

ACCOUNTING FOR ENERGY GOVERNMENT BUSINESS ENTERPRISES:

- The 2016-17 Public Accounts include the financial results of Ontario Power Generation (OPG) and Hydro One using International Financial Reporting Standards (IFRS).
- These two government business enterprises currently report their stand-alone financial results using Generally Accepted Accounting Principles in the United States (US GAAP).
- In prior years, the reported results of OPG and Hydro One were included in the results of the province based on US GAAP.
- This change does not have a material impact on this year's Public Accounts.
- The Auditor General is supportive of this change in presentation.

PENSION ACCOUNTING:

- The government established the Pension Asset Expert Advisory Panel following the release of the 2015-16 Public Accounts.
- The Panel delivered independent advice on how public sector accounting standards are interpreted as they apply to current net pension assets and the application of public sector accounting standards for two of Ontario's jointly sponsored pension plans; Ontario Teachers' Pension Plan (OTPP); and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP).
- The Panel's report concluded that the province's share of the net pension assets of both the OTPP and the OPSEUPP should be recognized in Ontario's financial statements.
- The government accepted the Panel's recommendations, which have been reflected in the 2016-17 financial statements.
- The 2015-16 financial statements have also been restated to reflect the pension assets for these two plans.
- The Auditor General continues to not accept the application of the Public Sector Accounting Board (PSAB) standards in the 2016-17 Public Accounts regarding pension accounting for the province's jointly sponsored pension plans. For 2016-17, the Auditor General has qualified her opinion, stating that the province's deficit is understated by $1.4 billion.

KEY MESSAGES: IESO ACCOUNTING

- The Independent Electricity System Operator (IESO) reports its financial results in accordance with Public Sector Accounting Standards.
- In 2016, IESO changed its accounting policy to begin recognizing market assets (amounts due *from* power distributors) and liabilities (amounts due *to* power generators). In previous years, these amounts were omitted from IESO's financial statements.

- This change has no impact to the province's annual deficit, net debt or accumulated deficit.
- IESO also adopted rate-regulated accounting for deferred charges, such as the cost of smart meters, which will be recovered from users of these meters over time.
- Public Sector Accounting Standards are silent on rate-regulated accounting, and as a result, as provided for in the accounting standards, IESO considered other sources of guidance to assess the appropriateness of applying rate regulated accounting.
- Prior to the 2015 merger with the IESO, the Ontario Power Authority (OPA) reported market accounts and used rate-regulated accounting under PSAS. The statements of the OPA were not qualified during that time by OPA's external auditor or the Auditor General. This accounting treatment is not new to Ontario.
- The Auditor General qualified her opinion in 2016-17 based on the recognition of the IESO's market accounts. The Auditor General also noted in her opinion that the use of rate regulated accounting under PSAS is not permitted, but did not qualify on the issue of rate regulated accounting, as the impact was not material in the current year.
- The reporting changes implemented by the IESO were approved by their management and board, and received an unqualified audit opinion from their external auditor. The province's Office of the Provincial Controller also supports the changes.

KEY MESSAGES: AUDITOR GENERAL'S 2017 ANNUAL REPORT – CHAPTER ON PUBLIC ACCOUNTS

- The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and

accurately and in accordance with Canadian Public Sector Accounting Standards.

- The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- The province will continue to provide financial statements according to Canadian Public Sector Accounting Standards that support transparency and accountability in reporting to the public, the legislature, and other users.
- The government will continue to build on its track record of responsible fiscal management.

CURRENT STATUS

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.

BACKGROUND:

- The Public Accounts of Ontario is a key accountability and transparency document in the government's financial cycle. It's a look back that compares Ontario's actual performance to what was planned in the Budget.

- The Public Accounts present the financial statements of the Province, provide financial highlights of the past fiscal year, and report on performance in priority areas.

- Public Accounts is audited by the Auditor General and is typically released in the fall of the following fiscal year.
- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

- These changes include:
    - **Accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
    - **Accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.
    - **Accounting for the Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
    - **Accounting for net pension assets of jointly sponsored pension plans** - the Province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

Pension Asset Expert Advisory Panel

- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide independent advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.
- The Panel was comprised of accounting, legal and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.
- The Panel members were:
    - Tricia O'Malley; (Chair)
    - Murray Gold;
    - Uros Karadzic; and,
    - Paul Martin.
- Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

- The Panel issued its report in February 2017. Upon receiving the report, the government, supported by its own research and analysis, accepted the Panel's recommendation and has reported the pension assets of the Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employees' Union Pension Plan (OPSEUPP) in its 2016-17 consolidated financial statements (with restatement of 2015-16).
- The Panel issued a supplementary report in March 2017 with respect to the Healthcare of Ontario Pension Plan (HOOPP) and Colleges of Applied Arts and Technology Pension Plan (CAATPP) recommending that a full valuation allowance be recorded on the net assets of both of these plans, based on the difference in governance structure between these plans and OTPP and OPSEUPP. The province agreed and has recorded a valuation allowance for CAATPP in the year (amount is not material). The HOOPP plan is not in a net asset position for accounting purposes at March 31, 2017.

Independent Electricity System Operator

- The Independent Electricity System Operator (IESO) is a not-for-profit, non-taxable corporation established pursuant to Part II of the *Electricity Act, 1998*. The Ontario Power Authority and the IESO merged on January 1, 2015.
- One of IESO's roles is to settle the market accounts, which are the amounts due to the entities that provide electricity to the market (e.g. power generators) and due from those who consume electricity (e.g. local distribution companies on behalf of their consumers).
- Rate regulated accounting is appropriate where the rates an entity is able to charge to its customers are set by another party (i.e. a regulator), provided specified criteria are met. Rate-regulated accounting permits the entity to defer costs that would otherwise be expensed to the period that the related revenue is charged to customers. Costs able to be deferred by the IESO include:
    - Unrecovered smart metering expenses; and,
    - Unrecovered pension and post-employment benefits related to PSAB transition.
- During 2016, IESO made two accounting changes (1) to recognize the market accounts in its financial statements – these amounts were not previously recognized in the IESO's financial statements, and (2) to apply rate-regulated accounting.
- The IESO received an unqualified audit opinion from KPMG (their external auditor) with respect to the financial statement presentation in their 2016 audited financial statements. IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor, and the Office of the Provincial Controller all support the recognition of the market accounts and the use of rate-regulated accounting by IESO.

Revenue Highlights

Against the Restated 2016 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $2.2 billion higher than forecast in the 2016 Budget. This was largely due to higher than projected taxation revenues, non-provincial source revenues from hospitals, school boards and colleges, and income from GBEs, partially offset by lower than projected Government of Canada transfers and other non-tax revenue.

Against the Restated Interim Estimates in the 2017 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $0.6 billion lower than the interim forecast in the 2017 Budget. This was largely due to lower than projected taxation revenues and Government of Canada transfers, partially offset by higher than projected income from GBEs.

Expense Highlights

Against the Restated 2016 Budget plan:

- Total expense in 2016-17 was $141.7 billion, or $0.1 billion lower than forecast in the 2016 Budget plan. Program spending was $130.0 billion, up by $0.6 billion from a planned spending of $129.4 billion and interest on debt was $11.7 billion, lower by $0.7 billion from planned interest cost of $12.4 billion. Program spending was higher by $0.6 billion largely due to higher than projected spending in the health, community and social services, justice sector and general government and other.

Against the Restated interim Estimates in the 2017 Budget:

- Total expense in 2016-17 was $141.7 billion or $1.1 billion lower than the interim forecast in the 2017 Budget. Program spending was $130.0 billion, $0.9 billion lower than the interim forecast of $130.9 billion in the 2017 Budget. Interest on debt was $11.7 billion, lower by $0.2 billion from planned interest cost of $11.9 billion. Program spending was lower by $0.9 billion largely due to lower than projected spending in the health and education sectors, and other programs.

Net Debt

- Net debt as of March 31, 2017, was $301.6 billion, which was $6.7 billion lower than forecast in the 2016 Budget. Net debt grew by $6.2 billion during the year, representing a $6.6 billion increase in liabilities that was partially offset by a $0.4 billion increase in financial assets.

Auditor General's 2017 Annual Report: Chapter on Public Accounts

- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report.
- The Auditor General's Annual Report, Chapter 2, makes 10 recommendations regarding the Public Accounts of the Province.
- The recommendations largely reflect opinions that have been expressed in previous reports, including the Auditor General's audit opinion in the 2016-17 Public Accounts and the Special Report on the Fair Hydro Plan.
- Treasury Board Secretariat and Ministry of Finance disagree with the characterization of the majority of the recommendations, and re-iterate the government's commitment to producing high-quality financial statements on a timely basis and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Financial Accountability Office's Economic and Fiscal Outlook, Fall 2017 Update

- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update.
- During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, "Independence is not infallibility when it comes to Ontario's financial books," arguing Auditor General "Lysyk's paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All's fair in politics and accounting, unless you're an auditor gone awry."
- January 9, 2018 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute's Ontario Prosperity Initiative entitled "Ontario's finances are still a mess." Eisen argues that people should treat the government's balanced budget claims with skepticism, writing "For starters, many analysts, including Ontario Auditor General Bonnie Lysyk, have called the government's accounting techniques into question, arguing proper accounting would show continued deficits. Others, including the government's Financial Accountability Office, warn that without additional policy changes to reduce spending, or raise taxes, Ontario will likely slip back into deficits."
- December 17, 2017 – The Ottawa Sun's Lorrie Goldstein writes that "with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted." Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: "Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan."
- December 17, 2017 – The Toronto Sun's Jim Warren cautions that "the role of the Auditor General is shifting in troubling ways," arguing that the Auditor General's increasing outspoken role is "making matters worse." Specifically referencing the pension asset accounting issue, Warren writes "For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position."
- December 14, 2017 – The Record runs an opinion piece, "To sort out truth from pre-election fictions, turn to Bonnie Lysyk," writing that the Auditor General "warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car."
- December 13, 2017 – The Toronto Sun runs a comment piece, entitled "Liberals hiding deficit, second watchdog says" covering the Financial Accountability Officer's (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO's report "says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans." Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting."

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- November 15, 2017 – Ontario PC Finance Critic Vic Fedeli pens a column in the Toronto Sun on the Fall Economic Statement, making reference to the Auditor General's qualified audit opinion on the province's Public Accounts two years in a row.
- October 16, 2017 – CBC News looks to the province's Public Accounts to highlight "Four surprising things about the Ontario government's finances," including: "personal income tax revenue is dropping," "corporate tax revenue is soaring," a "real estate windfall," and "booze revenue poised to top gambling revenue."
- September 8, 2017 -- Post Media's David Reevely quotes the AG's statement that rejects the contents of the Public Accounts "The Legislature and all Ontarians must be able to rely on the province's consolidated financial statements to fairly report the fiscal results for the year. This year they cannot do so." The article mentions the FAO's commentary this week saying the FAO and AG have 'made a businesslike routine of pointing out all the extreme assumptions and accounting stretches the

government is using to make the books look good in an election year." The article concludes that considering what happened to the world economy a decade ago the government has 'done all right' but is critical of 'dismissing' the government's two most prominent independent financial experts. **Minister Sandals** mentioned in reference to releasing the PA.

- September 7, 2017 -- Toronto Star says the "stakes are high in the accounting slugfest between the government and the auditor general." The article mentions Minister Sandals "shrugging off" the AG's accounting interpretation. "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said. "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 -- QP Briefing reports financial watchdogs aren't smiling about the government lowering the deficit to $1 billion, but instead are 'baring their teeth'. The article says auditor general Bonnie Lysyk said yesterday the government "significantly understated" its deficit, while the Financial Accountability office this week called the plan to reduce the debt burden "unlikely." Minister Sandals is quoted "The public wants to know, are you managing your deficit?" "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The article also notes AG Lysyk is warning that the complex accounting behind the hydro bill reduction could add to a bigger than expected deficit next year, and that a special report will be tabled this fall.
- September 7, 2017 -- The CP article about Public Accounts quotes Minister Sandals "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The coverage says AG Lysyk disputes the government figures and that "the statements were not prepared following Canadian Public Sector Accounting Standards." This article was picked up by several media outlets but coverage was not widespread.
- February 20 & 21, 2017 -- Toronto Sun report on Minister Sandals' memo to OPSEU that "the OPSEU pension plan….clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". This is followed by a column by OPSEU President Warren Thomas saying Ontario's public service workers and retirees feel like we are about to get robbed.
- February 18, 2017 – Toronto Star, Toronto Sun and Ottawa Sun coverage of the ongoing pension accounting issue between the government and Auditor General.
    - Ottawa Sun says NDP Leader Horwath trusts the Auditor General's math.
    - Toronto Sun quotes Minister Sandals who said in a statement that she will accept the findings of the panel.
    - Toronto Star columnist Martin Regg Cohn wrote that the Auditor General is no hero, and her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures."
- February 17, 2017 -- Hamilton Spectator, QP Briefing, and Windsor Star have coverage.
    - The Spectator's opinion piece is negative toward Auditor General Lysyk.
    - QP Briefing's piece written by Bryne Purchase, former deputy minister of finance, sides with the AG.
    - Windsor Star published the CP story that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute and that she is asking to see "the letter that says you can use that pension money with permission, with an agreement."

- February 16, 2017 – The Toronto Star, Toronto Sun & QP Briefing have coverage of the Auditor General's response to the panel's report.
    - The Toronto Star and QP Briefing say the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes and describes it as an "escalating a $10.7 billion standoff".
    - QP Briefing quotes Minister Sandals from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place."
    - The Toronto Sun has two articles on the number crunching aspect of the expert panel and that the government spent up to $435,000 on it. OPSEU's Warren 'Smokey' Thomas was livid and notes that he wants a guarantee the government won't raid his members' pension fund.
- February 15, 2017 -- QP Briefing quotes Minister Sandals about it being too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute.
- February 14, 2017 – high profile media coverage of the Pension Asset Expert Advisory Panel report release the day before.
    - Toronto Star columnist Martin Regg Cohn is critical of the Auditor General saying she has been caught out in a $10.7-billion miscalculation.
    - The Star's coverage also included article about the panel report and that $10.7 billion in government-sponsored pension plans should count toward the province's bottom line.
    - The Ottawa Sun's David Reevely says about the panel report "…we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets."
    - OPSEU's Smokey Thomas writes that the dispute between the government and the Auditor General is not "just a paper war" and that he "unequivocally supports" the AG's position.
- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: "Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: "If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- February 7 & 8, 2017 – Toronto Star and QP Briefing have coverage about the pension asset advisory panel's soon-to-be-released report.
    - PC Finance Critic Vic Fedeli tells the Star, that the people have to ask themselves who they are going to believe-- the independent auditor general or a scandal-plagued Liberal government?"
    - Columnist Martin Regg Cohn writes the AG has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets and she won't climb down.
- November 14 & 30th, 2016 -- QP Briefing has coverage of the expert panel announced to study the accounting dispute over pension assets.

- October 9, 2016 -- Focus Ontario (Global tv) and the Toronto Sun have coverage of the 2015-16 Public Accounts and the disagreement with the Auditor General.
    - Focus Ontario coverage balanced.
    - Toronto Sun opinion piece expresses surprise that the government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's opinion.
- October 6, 2016 -- The Financial Post has a highly critical commentary by analysts with the Fraser Institute, while QP Briefing reports the public accounts for 2015-16 have been tabled almost two weeks after months of back and forth between the auditor general and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- October 3, 2016 -- The Globe and Mail and Canadian Press report the government is ‘fighting’ with the Auditor General. Globe notes focuses on the AG’s $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt. CP story (picked up by 40 media outlets) says the Auditor General is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years.

Prepared by: Bharat Patel, Office of the Provincial Controller Division
Reviewed by: Mark Donaldson, Office of the Provincial Controller Division

Approved by:	**Name:**	**Date Approved:**
ADM, Office of the Provincial Controller Division	Cindy Veinot	January 3, 2018
Issues Management Analyst, Communications Branch	Alisha Tharani	January 10, 2018
A/Manager, Issues Management, Correspondence and Media Relations	Amanda Miller	January 15, 2018
Assistant Director, TBS Communications Branch	Bryant Sullivan	January 16, 2018
Director, Communications Branch	Sofie Di Muzio	January 24, 2018

Appendix

Preparation and Tabling:

The Public Accounts for each fiscal year are prepared under the direction of the President of Treasury Board, as required by the *Financial Administration Act*.

The Public Accounts of Ontario consist of the Annual Report and three supplementary volumes. The Annual Report includes the province's audited consolidated financial statements and a financial statement discussion and analysis section. Supplementary information is contained in three volumes:

Volume 1: Ministry statements for expenses, assets, revenue, detailed debt and other supplementary schedules. It provides a comparison of appropriations with actual spending.

Volume 2: Financial statements of significant provincial corporations, boards, commissions that are part of the government's reporting entity, and other miscellaneous statements.

Volume 3: Detailed schedules of payments made by ministries to vendors and transfer payment recipients.

The *Financial Administration Act* requires the President of Treasury Board to submit the province's Annual Report and consolidated financial statements to the Lieutenant Governor in Council (LGIC) on or before 180 days after fiscal year-end. This year, the deadline was September 27, 2017.

The process for release of the Public Accounts is as follows:

- The Public Accounts are approved by the Lieutenant Governor in Council.
- The LGIC lays the Public Accounts before the Assembly, if the Assembly is in session, and the Public Accounts are then released on the same day.
- If the Assembly is not in session on the day of the release of the Public Accounts the LGIC is required to make the Public Accounts public and the Public Accounts are laid before the Assembly on or before the tenth day of the next session.

LOGISTICS & FORMAT OVERVIEW

Overview

- SCOPA meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports. All public committee proceedings are recorded in Hansard.
- The Chair will advise members to consider questions that are relevant to the content of the Auditor General's Annual Report, but in practice members do sometimes ask questions outside of the report's focus. As a general rule, expect that any question related to the Province's financial statements would be ruled within scope by the committee chair.
- The Committee members may ask that ministries provide details after the session if more research or gathering of information is needed to respond to a question.

Agenda

Wednesday, February 28, 2018
Committee Room 151 (Amethyst Room), Main Legislative Building

Time	*Topic*
9:00 a.m.	Closed Session: Briefing by the Auditor General
10:00 a.m.	Briefing by the Research Officer
10:15 a.m.	RECESS
12:30 p.m.	Treasury Board Secretariat and other representatives • *Invited senior officials appear and respond to questions.* • *The Auditor General attends, and the Committee members can seek clarification from the AG on points from her report if needed during the session.*

12:30 – 3:00 p.m.

- **Opening remarks** (20 minutes)
- **First round of questions** (60 minutes)
  - Each of the three political parties get 20 minutes of questions
- **Second round of questions** (50 minutes, approximately)
  - The remaining time until 2:45 p.m. is split between the three political parties; approximately 15-17 minutes per party

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- **Closed session** (15 minutes)
    - Committee members plus the Clerk, only; no audience or presenters
    - The Committee will discuss the outcome of the meeting and if they want to do a report
    - There are no closing statements from ministry officials

Room Setup

- Committee Room 151 (Amethyst Room) is equipped with cameras and the meeting will be available on TVs within the Legislature and streamed online.
- The room has a square table with rows of extra seating at the front the room.
- The Committee Chair, Auditor General and Clerk will sit at the head of the table with the government and opposition parties on opposite sides.
- The invitees sit opposite the Committee Chair and Clerk, either at the table or in the first row of chairs.

Media Access

- Media are allowed to sit in on the meeting as long as they do not interrupt the proceedings. They cannot ask questions in the committee room, but if they wish they can scrum participants in the hallway as they leave.
- Media can also watch SCOPA proceedings on the TVs in the Legislature or online.

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Invitees

Organization	Position	Name
Cabinet Office	Secretary of Cabinet	Steve Orsini
Treasury Board Secretariat	Deputy Minister	Helen Angus
Ministry of Finance	Deputy Minister	Scott Thompson
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ministry of Energy	Deputy Minister Assistant Deputy Minister	Serge Imbrogno Steen Hume
Ontario Power Generation	President and Chief Executive Officer Senior Vice President and Chief Financial Officer	Jeffrey Lyash Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer Vice President, Corporate Services and Chief Financial Officer	Peter Gregg Kimberly Marshall

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Ministry/Organization Representatives to Attend

Organization	Position	Name
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot
Treasury Board Secretariat Office of the Provincial Controller	Director, Accounting Policy and Financial Reporting Branch	Mark Donaldson
Ministry of Finance Deputy Minister's Office	Deputy Minister	Scott Thompson
Ministry of Finance Office of the Budget	Assistant Deputy Minister	Tim Schuurman
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ontario Financing Authority	Chief Financial and Risk Officer	Ken Kandeepan
Ministry of Energy Deputy Minister's Office	Deputy Minister	Serge Imbrogno
Ministry of Energy Assistant Deputy Minister	Energy Supply Division	Steen Hume
Ontario Power Generation	President and Chief Executive Officer	Jeffrey Lyash
Ontario Power Generation	Senior Vice President and Chief Financial Officer	Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer	Peter Gregg
Independent Electricity System Operator	Vice President, Corporate Services and Chief Financial Officer	Kimberly Marshall

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Committee Members

Chair



ERNIE HARDEMAN, MPP (PC/OXFORD)

Current Parliamentary Roles

Chair, Standing Committee on Public Accounts
Critic, Municipal Affairs and Housing

Vice-Chair



LISA MACLEOD, MPP (PC/NEPEAN—CARLETON)

Current Parliamentary Roles

Vice-Chair, Standing Committee on Public Accounts
Critic, President of the Treasury Board, Critic, Ministry of Finance,
Critic for the Anti-Racism Secretariat

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Members



BOB DELANEY, MPP (LIB/MISSISSAUGA—STREETSVILLE)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts Member, Standing Committee on Estimates,
Parliamentary Assistant to the Minister of Energy



VIC DHILLON, MPP (LIB/BRAMPTON WEST)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Government and Consumer Services Member, Standing Committee on Social Policy



HAN DONG, MPP (LIB/TRINITY—SPADINA)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Advanced Education and Skills Development, Parliamentary Assistant to the Minister Responsible for the Poverty Reduction Strategy
Member, Standing Committee on Finance and Economic Affairs



JOHN FRASER, MPP (LIB/OTTAWA SOUTH)

Current Parliamentary Roles

Member, Standing Committee on Social Policy Member, Standing Committee on Public Accounts, Parliamentary Assistant to the Minister of Health and Long-Term Care

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PERCY HATFIELD, MPP (NDP/WINDSOR—TECUMSEH)

Current Parliamentary Roles

Critic, Housing
Critic, Municipal Affairs
Member, Standing Committee on Public Accounts



RANDY HILLIER, MPP (PC/LANARK—FRONTENAC—LENNOX AND ADDINGTON)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Critic, Attorney General



LIZ SANDALS, MPP (LIB/GUELPH)

Current Parliamentary Roles

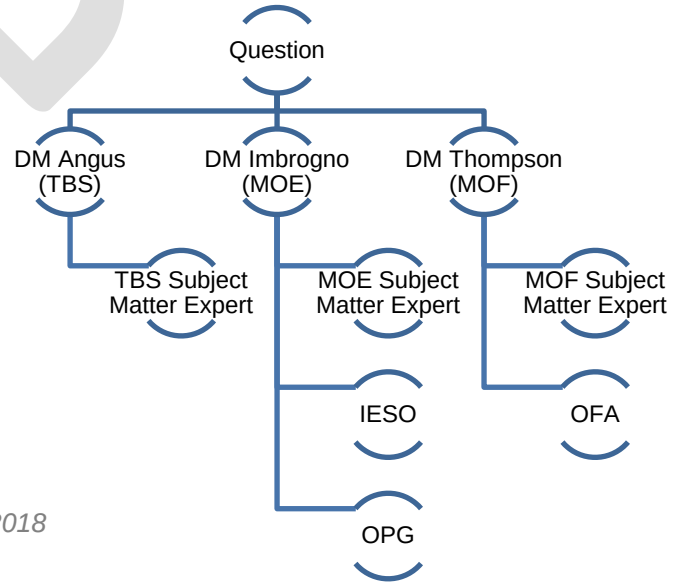
Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Infrastructure

Clerk
Katch Koch
Tel. 416-325-7352
kkoch@ola.org

Last updated: February 5, 2018

STRATEGIC APPROACH

- Provide evidence and facts as the basis of decision-making wherever appropriate (e.g. other jurisdictions, external advisors).
- Provide responses that are relevant and in scope of the consideration of chapter two of the Office of the Auditor General's report
- Avoid any speculation on political decision-making or rationales; provide objective, factual responses in role as non-partisan public servant.
- Provide context wherever possible. Deputy Ministers to provide initial messaging then pass to the subject matter experts where appropriate.
- Emphasize the role of a public servant is to provide factual, non-partisan information to the Committee based on due diligence and the application of professional judgment.
- Reaffirm the government's commitment to working with the Office of the Auditor General.
- Emphasize that the province will continue to follow Public Sector Accounting Standards (PSAS), as always, and will seek appropriate expert guidance where PSAS is silent.
- Use the Committee appearance as an opportunity to communicate the facts and rationale for the decision to adopt/continue accounting practices in response to the Office of the Auditor General's recommendations.
- Highlight due diligence in decision making (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).



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STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Last updated: January 22, 2018

Key Issues	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	Pres. & CEO, OPG	SVP & CFO, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thompson	Gadi Mayman	Serge Imbrogno	Steen Hume	Jeffrey Lyash	Ken Hartwick	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting		Overall - Pension Asset Accounting		Details - Pension Asset Accounting								
Advisory Panel Compensation			Advisory Panel Compensation									
IESO Accounting							**IESO LEAD**					
Rec # 2 IESO Market Accounts				Government decision to accept IESO market accounts			OFHP Policy Overview	OFHP Policy Overview			IESO's Role in OFHP / General Overview	IESO Market Accounts
Rec #5 IESO Market Accounts & Rate-Regulated Accounting				Government decision to accept IESO rate-regulated accounting								IESO Rate-Regulated Accounting
AG Audit of 2017 Statements		Relationship with AG - AG Audit of 2017 Statements										AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #3 OFHP Accounting				Decision to accept OFHP accounting			OFHP Policy Overview	OFHP Policy Overview	OPG's Role in OFHP / General Overview	OPG Financing Structure / Transaction	IESO's Role in OFHP / General Overview	IESO Financing Structure
Rec #6 'Legislated Accounting'				OFHP - 'legislated' accounting								
Rec #9 Arm's Length Trusts				Accounting for trust						OPG Accounting / Trust		
Records Disclosure/Process		Ministry FOI/OPQ					Records Disclosure / Process Followed		Records Disclosure / Process Followed		Records Disclosure / Process Followed	
Re-design of hydro bills							Re-design of hydro bills					
Pre-Election Report		**JOINT PRE-ELECTION REPORT LEAD**			**JOINT PRE-ELECTION REPORT LEAD**							
Rec #10 Pre-Election Report on Ontario's Finances		Pre-Election Report on Ontario's Finances	Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #7 Province's Debt Burden					Province's Debt Burden	Province's Debt Burden; Repayment plan						
Financial Accountability Officer Reports					Financial Accountability Officer Reports	Financial Accountability Officer Reports						
Credit Ratings					Credit Ratings	Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
Rec #4 External Advisors		External Advisors										
Rec #8 Timeline of Finalization of Financial Statements		Timeline of Finalization of Financial Statements	Timeline of finalization of financial statements		Timeline of finalization of financial statements - tax revenues							
Audit Opinion				Audit Opinions								
Out of Scope		Specific ministry Public Accounts line items Speculation about future accounting implications; audit opinions Speculation about government motivations			Speculation about future policy implications Speculation about government motivations		OFHP final accounting implications Speculation about future policy implications Speculation about government motivations	IESO/OPG compensation Expenses				

Summary Status Table in Response to the Report of the Auditor General of Ontario

Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and b) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

CONFIDENTIAL DRAFT FOR DISCUSSION

	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Aanalysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. The government respectfully disagrees with the Auditor General's interpretation of the accounting standards on this issue as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

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by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

CONFIDENTIAL DRAFT FOR DISCUSSION

	conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

CONFIDENTIAL DRAFT FOR DISCUSSION

our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*		

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their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

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• *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

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states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

	which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%, currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining, falling to 37.3% in 2017-18 from its 2014-15 peak of 39.3%.	Continue to monitor progress. Estimated implementation by FY 2029-30.

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	As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

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personal income tax revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #10 *We recommend that the government determine when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.*	Under the *Fiscal Transparency and Accountability Act*, 2004, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a Statement based on a prompt review following the release of such a Pre-Election Report.	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

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Attachment A. TBS Comprehensive QAs (0 Bytes) cannot be converted to PDF format.

Attachment B. Ministry of Energy Comprehensive QAs (0 Bytes) cannot be converted to PDF format.

Attachment C. Ministry of Finance Comprehensive QAs (0 Bytes) cannot be converted to PDF format.

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

Key Messages

- The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).
- We respectfully disagree with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.
- The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.
- The province is open to continue to discuss the matter in the hopes of resolving this matter.
- For more information on pension asset accounting, I will now pass it over to:
    - Cindy Veinot, Provincial Controller

1. **How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?**

   The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

   The Office of the Auditor General communicated its interpretation of PSAS requiring a full valuation allowance on the province's two jointly sponsored pension plans in September 2016.

   At that time, the government passed a time-limited regulation on the accounting treatment of for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from the Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts.

   During the 2016-17 year, the province's professional accounting staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans.

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This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel, established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans.

  The panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017, which supported the government's position that a valuation is not required for these two plans under PSAS.

  Two key findings of the panel were:

  1) There is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record and asset, as the existing agreements in place between the parties support the recognition of an expected benefit; and

  2) Unilateral control is not required for asset recognition. Joint control with each party having the ability to deny the actions of the other sponsor provides evidence of shared control, supporting recognition of an asset.

- An opinion from Deloitte LLP on aspects of the province's accounting as of March 31, 2016 for the Ontario Teacher's Pension Plan (OTPP). The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under PSAS, even though the province did not have a unilateral right to reduce contributions. (The opinion did not address the value at which the asset should be recorded.)

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or Ontario Public Sector Employee's Union Pension Plan (OPSEUPP) as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

After significant deliberation, including consideration of the recommendations of the panel, Deloitte LLP and EY, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and prepared in accordance with PSAS for pension asset accounting. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension

assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

We respectfully disagree with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.

The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.

The province is open to continue to discuss the matter in the hopes of resolving this matter.

2. Why are you still fighting with the Auditor General over pension accounting?

In preparing last year's Public Accounts, the province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the province on the issue. The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan. The 2016-17 financial statements include these pension assets, and the government continues to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

The Treasury Board Secretariat will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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Advisory Panel Compensation

1. **How much did you pay the panel members? Do you think that money was justified?**

   The total cost of the panel was $221,113. This included compensation and travel expenses for the four panelists, as well as procurement. These rates are consistent with the Agencies and Appointments Directive, which specified up to $2,000 per day for appointees with unique and specialized expertise, or urgent issues affecting government priorities and requiring intense time commitments over a short period of time.

   The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards, and provided independent advice on how to move forward with how Public Sector Accounting Board standards should be applied to current and potential future net pension assets.

2. **Why was Patricia O'Malley included in Public Accounts and not the other panel members?**

   Patricia O'Malley was the chair of the independent Pension Asset Expert Advisory Panel (PAEAP), which provided important advice to government on how to account for jointly-sponsored pension plans. She is included in Public Accounts because her compensation for her work on the Panel was above the $50,000 threshold that must be reported in detail in Public Accounts.

   The other members of PAEAP were paid less than the $50,000 minimum threshold in fiscal 2016-17 that requires they be listed in Public Accounts. Their 2016-17 compensation is captured as part of the "Accounts Under $50,000" category.

   As Paul Martin is a member of the New Brunswick Public Service, he did not receive compensation for his role on the panel. He was only eligible for expense reimbursements.

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

Key Messages

- The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit.
- In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements.
- The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.
- The government supports this enhanced reporting and greater transparency for the economic activities of the IESO.
- The province is open to continue to discuss the issue in the hopes of resolving this matter.
- For further details on the province's decision to accept IESO market accounts on the province's consolidated financial statements, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO's decision to adopt market accounts, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts	Ministry of Energy (IESO)

1. **How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?**

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

   The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

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This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

Key Messages

- The Independent Electricity System Operator (IESO) intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS), and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018.
- The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, the IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, the IESO has also instructed its audit partner to cooperate with the Auditor General's Audit.
- For further details on the province's decision to accept IESO market accounts and rate-regulated accountingI will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Ministry of Energy (IESO)

3. Does the Independent Electricity System Operator (IESO) use Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements?

Yes. The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS).

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The IESO's financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. The IESO received an unqualified, or clean, audit opinion on its 2016 financial statements.

4. Why is the IESO now including market accounts on its financial statements? Does this go against PSAS?

The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS.

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

5. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

Canadian Public Sector Accounting Standards (PSAS) are silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of*

transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America, including the:

- Alberta Electric System Operator (AESO)
- ISO New England
- New York Independent System Operator (NYISO)
- Midcontinent Independent System Operator (MISO)
- PJM Interconnection LLC and,
- Electric Reliability Council of Texas (ERCOT).

6. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. The implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

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The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

AG Audit of 2017 Statements

Key Messages

- The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, the IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, the IESO has also instructed its audit partner to cooperate with the Auditor General's Audit.

For QAs related to:	See:
Audit of IESO's statements	Ministry of Energy (IESO)

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ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

Key Messages

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in the Public Sector Accounting Board's guidebook.
- The province's professional staff have appropriately applied this guidance in assessing the accounting for the OFHP.
- For further details on the province's decision to accept OFHP accounting, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

7. Will the government follow Public Sector Accounting Standards (PSAS) for Ontario's Fair Hydro Plan?

The province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

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- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

The province's professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

8. Will the government follow the accounting standards set by historical precedent, as cited by the Auditor General?

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. There are, however, crucial differences between the two.

For example, the OEFC stranded debt had already been incurred when the 1999 restructuring of the former Ontario Hydro took place.

In the case of OFHP, the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the Clean Energy Adjustment, which can be held and realized or can be sold.

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

The OFHP Global Adjustment deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected

lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

9. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

While the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

On the point of "true financial impact":

In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior

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governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the province's finances fairly, accurately and in accordance with PSAS.

On the point of "a financing structure that is the least costly for Ontarians":

The OFHP financing structure has been designed to provide electricity rate relief to current ratepayers, including by more fairly allocating costs for specified consumers, with the Global Adjustment cost amounts still ultimately borne by specified electricity ratepayers, as beneficiaries of those electricity system costs.

The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. Having the rate-base pay is not a new policy, for example Hydro One has borrowed in the capital markets since 2000.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (the Fair Hydro Plan Trust) that will manage the debt obligations. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO).

The cost analysis in the Office of the Auditor General's report was sourced from the FAO's May 2017 report. Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Recent government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

The province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management.

10. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

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In developing Ontario's Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

11. Both the Auditor General and the Financial Accountability Officer have raised serious concerns about the accounting treatment of the electricity cost refinancing initiative. Why should Ontarians believe this government over two independent officers of the Legislature?

The province has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

In developing the Ontario Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting

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Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

The province, as always, will prepare its consolidated financial statements in accordance with PSAS and continue to build on its track record of responsible fiscal management.

12. The Auditor General says that you are "obfuscating" the true financial impact of Ontario's Fair Hydro Plan through a "needlessly complex" accounting structure. How do you respond?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

OFHP is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

While the implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized, the financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

13. How can you justify the $4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance 55 per cent, at a higher interest rate than the province, instead of the province financing the entire electricity cost financing)?

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Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

The Auditor General's report suggests that all the costs of OFHP should be reflected as if they will be borne by taxpayers, which is inaccurate.

Ontario Power Generation (OPG) is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Officer (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

For further questions about borrowing estimates, please contact the Ministry of Finance.

14. The AG claims that when the government first gave Ontarians an 8 per cent break on their bills, it was reported on the books properly. She says when it jumped to 25 per cent, the accounting changed. Isn't it obvious that the government is cooking the books to suit their needs?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions.

It is our role as public servants to provide our best advice and due diligence.

As always, the province adheres to Canadian Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board.

The province will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.

It's important to note that while PSAS is the primary source of guidance for the government in the preparation of its financial statements, there are circumstances where governments may refer to other accounting frameworks for guidance where PSAS is silent and does not address specific transactions.

In this case where PSAS is silent on the use of rate-regulated accounting, US accounting standards contain the most developed and appropriate guidance for this transaction.

15. The Auditor General says that even your own government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Multiple options were considered in creating the OFHP framework – such as to have local distribution centres finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution centres to finance the balances.

The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.

Ultimately, OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

Key Messages

- The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.
- As always, we will prepare the province's consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS), including the transactions resulting from Ontario's Fair Hydro Plan (OFHP).
- For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to

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allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of PSAS.

- This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.
- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

1. **Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.

   The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

   The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

2. **The Auditor General said that a similar move to legislate accounting to defer costs was proposed with the restructuring of the Ontario electricity**

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sector in the late 1990s, but the Auditor General's opinion at that time was that this would represent a departure from a central tenet of generally accepted accounting principles. The government at that time heard these concerns, and made the decision to not create an asset for future anticipated ratepayer payments. Why does the government think this is ok now?

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. There are, however, crucial differences between the two.

For example, the OEFC stranded debt had already been incurred when the restructuring took place.

In the case of OFHP, the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the Clean Energy Adjustment.

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

The OFHP Global Adjustment deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

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AG Recommendation #9: Arm's Length Trusts

Key Messages

- The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.
- Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight.
- The province will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
- For more information on arm's length trusts, I will pass it to:
    - Cindy Veinot, Provincial Controller
    - Deputy Imbrogno

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy

1. **Will the government avoid establishing arm's length trusts in order to record an expense in its financial statements before it is necessary, given that it loses the ability to ensure funds are provided to the appropriate beneficiaries?**

   The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.

   Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arm's length and is able to demonstrate proper oversight.

   A trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the province to enter into agreements with each distributor.

   The trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

   While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred, as well as the

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ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Records Disclosure/Process

Key Messages

- The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- Senior ministry officials have met and continue to work with the Office of the Auditor General by participating in interviews and providing documentation.

For QAs related to:	See:
MOE Records Disclosure	Ministry of Energy

1. **The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?**

   The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

   The implementation of Ontario's Fair Hydro Plan is ongoing, with significant accounting and financial decisions still being finalized.

   Treasury Board Secretariat has released all requested records.

   Senior ministry officials have met with the Office of the Auditor General by participating in interviews and providing documentation.

   If asked about the Ministry of Energy emails:

   The Ministry of Energy, Finance, and the Treasury Board Secretariat are committed to assisting the Auditor General.

2. **In an email, a TBS official said [___], disagreeing with the government's policy decision. How do you respond?**

   As public servants, it is our role to provide our best advice and conduct our due diligence to inform decision-making. Part of this process includes questioning and deliberations.

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The record you are referring to is part of that discussion process, where we as public servants engage in deliberations and explore the options to get to the point of providing our best advice.

It is important to keep in mind that an individual email represents a point in time of the discussion.
That statement is not necessarily representative of the final advice put forward and an endorsement of what the public service has identified as the best approach.

The records must be considered in the context of discussion and deliberation, as an exercise in due diligence, and not as a final endorsement of an option or approach.

3. When does TBS not provide information through a Freedom of Information request?

Since 2015, TBS has been 100 per cent compliant for all Freedom of Information requests it has received.

In some cases, records may contain information that will be withheld in accordance with the legislation, such as personal information about individuals, confidential business information, advice to government or information that is subject to solicitor client-privilege.

Re-Design of Hydro Bills

For QAs related to:	See:
Hydro Bills	Ministry of Energy

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PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

Key Messages

- The province takes the Auditor's recommendations seriously and remains committed to working constructively with the Auditor General.
- The government has not yet made a decision on whether and when to release a Pre-Election report.
- We are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.

For QAs related to:	See:
Pre-Election Report	Ministry of Finance (Joint lead with Treasury Board Secretariat)

1. **Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?**

   Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report.

   The province remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.

2. **Is the government required to issue a pre-Election Report?**

   Provisions in the Fiscal Transparency & Accountability Act, 2004 (FTAA) allow for – but do not require – a regulation to be filed requiring the release of a Pre-Election Report and a review of that report by the Auditor General.

3. **The Auditor General signalled her readiness to work with the government to examine the pre-election report, why has the government waited this long to engage with the Auditor?**

   The province takes the Auditor's recommendations seriously. The government has not yet made a decision on whether and when to release a Pre-Election

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report. We are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the Province's fiscal position in advance of the election.

4. **Minister Sousa recently signalled that the government is not planning on issuing a Pre-Election Report. How do you feel about the government continuing to circumvent the Auditor General and avoiding accountability?**

The province takes the Auditor's recommendations seriously. As I understand, the government has not yet made a decision on whether and when to release a Pre-Election report. We are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

1. **How can your debt reduction plan be trusted if you're not using proper accounting for pension assets and the Fair Hydro Plan?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.

   PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and is used by all senior governments in Canada.

   PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

   Our professional staff exercises judgment in applying the standards and as necessary consults with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

   All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

   That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

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Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

1. **Does a qualified opinion from the Auditor General impact the province's credit rating?**

   The province's financial results show that the government has beaten its annual deficit targets. In April 2017, Ontario delivered its first balanced budget since the global recession and is on track to do so again next year and the year after.

   The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the province. However, there were no credit rating implications in 2016 when the province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

Key Messages

- The Treasury Board Secretariat (TBS) will continue to take a proactive approach to raising issues with the Office of the Auditor General.
- The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.
- When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

For QAs related to:	See:
Ministry use of external advisors	Ministry of Energy Ministry of Finance

1. **Will the government provide copies of contracts it enters into for accounting advice to the Auditor General?**

   The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

   The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

2. **Will the government build into its contracts with external advisors a requirement to notify the Auditor General of their engagement?**

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

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3. **Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.**

   The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

   The government's use of external expertise for accounting and financial reporting matters is a normal course of business and supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis.

4. **It seems like you use consultants to circumvent the Auditor General, when it looks like she may disagree with your accounting methods. Why don't you let the Auditor General know when you're using external advisors for something that impacts her Office's ability to do their job?**

   The government's use of external expertise for accounting and financial reporting matters is a normal business practice and supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis. The professional staff takes responsibility for the final decisions that are made with respect to the application of PSAS to the government's transactions.

   The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.

5. **Are you going to hire an expert advisory panel, as you did on the pension asset accounting matter, to settle this dispute with the Auditor General? If so, what authority would this panel have?**

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There are no plans to establish a panel at this time.

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

The province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

6. Can you tell us how many consultants are being paid high salaries with public money while keeping themselves off the sunshine list?

The government continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

7. How much did the Treasury Board Secretariat spend on consultants?

The Treasury Board Secretariat (TBS) spent approximately $202 million in 2016-17 on consulting services:

- $167M is procured by IT Source, Central Agencies Cluster for Ontario Public Service (OPS) ministries. TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries.
- $36M is services procured by TBS programs primarily for IT enhancement, management and other consulting services.

Consultants are used in the OPS when the organization needs to gain external advice and specialized expertise not already available in the OPS, or for short-term and non-recurring projects and initiatives.

TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries as a cost-saving strategy.

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Whenever the OPS need IT consulting services, the first thing we do is look for expertise within the organization. The government turns to IT consultants when it doesn't have the expertise in house, when it needs to gain external advice and specialized expertise, or when the need is short-term and non-recurring. This is true for one-time projects that launch new programs or when Cyber Security staff combine with external experts to carry out Threat Risk Assessments to ensure personal information is safe.

AG Recommendation #8: Timeline of Finalization of Financial Statements

Key Messages

- The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.
- The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.
- Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General.
- As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.
- For further details, I will pass it over to:
    - Karen Hughes, Associate Deputy Minister, Office of the Treasury Board
    - Deputy Thompson

For QAs related to:	See:
Finalization of Financial Statements – Tax Revenues	Ministry of Finance

1. **Will the government improve its planning across stakeholders so that the province's consolidated financial statements are finalized earlier?**

   The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

   The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

   The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts.

   Planning discussions for the 2017-18 Public Accounts have begun between the

Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

2. What will the government do to figure out estimation risks associated with corporate tax and personal income tax revenues earlier?

The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

The province will work with the Canada Revenue Agency (CRA) on the Auditor General's recommendation, as reporting personal and corporate taxation revenues is highly dependent on the information from the CRA.

Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

Adverse or Qualified Audit Opinion

Key Messages

- It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year.
- The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).
- As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.
- PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.
- Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors.
- They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller

1. **The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?**

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

   As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

   PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

   Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

   All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

   That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

2. **Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting?**

   It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. The implementation of Ontario's Fair

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Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

3. The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?

TBS leads the overall Public Accounts process. Public Accounts is a major accountability document which presents the financial statements of the province, provides financial highlights of the past fiscal year, and reports on performance against the goals set out in the Budget.

TBS continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

Last year there was a disagreement among the province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the province.

The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario

Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and TBS continues to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

2016-17 Overall Accounting Changes

1. **Why have you restated prior year's financial statements?**

   When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

   These changes include:

   a. **A change in the presentation of accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
   b. **The adoption of International Financial Reporting Standards as the basis for accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting

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Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.

c. **Accounting for market accounts by Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
d. **Accounting for net pension assets of jointly sponsored pension plans** - the province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

2. Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?

To increase transparency, in 2016-17 we have made a simple change to how we are reporting third party revenues for broader public sector organizations.

For the first time, Public Accounts are presenting third party revenues for hospitals, school boards and colleges with provincial revenue. Third party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

3. What is consolidated reporting?

The Province's consolidated financial statements are presented on a consolidated basis, meaning that the Statement of Financial Position (or balance sheet) and the Statement of Operations (or statement of revenues and expenses) reflect the combination of ministry results as well as the financial

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results for organizations that are controlled under the guidance established under PSAS.

Prior to 2016-17, the Province reported the expenses and third-party revenues of hospitals, colleges and school boards on a net basis. This was changed for 2016-17 to reflect expenses and third-party revenues as separate items (on a gross basis), as opposed to being reported together (on a net basis).This affects what you see for the expense reported for the responsible ministries (Health and Long-term Care, Education and Advanced Education and Skills Development) and the breakdown of figures for hospitals, school boards, and colleges. However this has no impact to the annual deficit, net debt or accumulated deficit.

Line-by-line consolidated reporting is in keeping with Public Sector Accounting Board standards and will mean that our presentation for Public Accounts is consistent with other governments across Canada. The Auditor General is supportive of this change.

4. Why is there a change to the accounting for Ontario Power Generation (OPG) and Hydro One?

In the 2016-17 Public Accounts, the financial results of Ontario's investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards (IFRS). Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board requirements and is supported by the Auditor General.

This change has resulted in an adjustment to the opening accumulated deficit and net debt of $1,163 million, of which $683 million relates to transition to IFRS. The impact of this change to the annual deficit is not material to the province in 2016-17.

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OTHER

1. **How does the Treasury Board Secretariat ensure transparency and accountability in financial reporting?**

   The province continues to strengthen its financial management, ensure clear and consistent accounting practices, enhance oversight and accountability and provide better data and information to the public through more channels.

   The Office of the Provincial Controller Division (OPCD) plays a key role in ensuring this transparency and accountability in the province's financial reporting through its major functions, including:
   - Providing the Ontario Public Service (OPS) and Broader Public Sector with accounting and financial management policy and controllership advice;
   - Maintaining the Public Accounts and preparing the Annual Report and Consolidated Statements and the Public Sector Salary Disclosure;
   - Liaising with the Auditor General of Ontario, as well as other jurisdictions and the Chartered Professional Accountants of Ontario and Canada, on the development of government accounting standards;
   - Supporting the development of financial management and controllership capacity across the OPS; and,
   - Supporting the modernization of government by improving the efficiency, effectiveness, and integrity of its financial systems and processes.

   Treasury Board Secretariat (TBS) also works with the Ministry of Finance to help them prepare key documents like the Budget and the Fall Economic Statement.

   TBS does have a leadership role on some financial items like Public Accounts. But for other things, TBS is mostly in a support role.

   TBS collaborates with other senior level governments to assess the impact of proposed standards by the Public Sector Accounting Board and how specific transactions are reported within the accounting frameworks.

2. **Does the province direct organizations on what accounting standards to use or how to apply them?**

   Placeholder

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Executive Compensation

1. **How can you justify the exorbitant salaries paid to Hydro One executives when families are struggling to pay their hydro bills?**

   The province remains committed to ensuring transparency and accountability in how broader public sector employers manage executive compensation.

   However, Hydro One is now a publicly traded company, and decisions regarding compensation are not made directly by the government.

   For further questions about executive compensation and oversight of specific organizations, please contact the ministry responsible.

2. **Why are Hydro One employees not captured by the Sunshine List? MPP Todd Smith is demanding that the government add Hydro One employees back onto the list. Will you do this?**

   Only public sector employees are included on the Sunshine List.

   As a publicly-traded entity, Hydro One is no longer required to report salaries or benefits earned after December 31, 2014 under the PSSDA.

   However, similar to the Ontario Securities Commission requirements, Hydro One must disclose the total compensation levels of the CEO, CFO and three other highest-paid executives of the corporation each year. This information is available to the public online. Top executive salaries are posted on SEDAR in the Management Information Circular.

   As an Ontario Business Corporation Act (OBCA) company subject to Canadian Securities law, Hydro One continues to comply with rigorous governance requirements that include:

   - Disclosure of board-approved annual financial statements along with quarterly updates;
   - CEO and CFO Certifications and Associated Controls certifying that there are no misrepresentations in the annual or quarterly materials;
   - Shareholders' meetings requirements and rules;
   - Disclosure requirements with respect to management circulars (including information about senior management, such as share ownership, any indebtedness to the company and any interest in material transactions) as well as compensation circulars (executive compensation disclosures including shares awarded, perks and incentives).

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3. How do you justify the upward trend of public sector employees making more than $100,000 across all sectors in 2016?

Overall, for 2016 the total number of employees disclosed in the Compendium has increased by 6.6%, to 123,410 employees in 2016 from 115,746 in 2015.

There are a number of reasons why employees may appear on the list, including:

- Employees who are progressing in their career to more challenging positions;
- Natural progression through salary ranges;
- Overtime payments;
- Retroactive pay awards;
- Performance payments; and,
- Payments that may be required on retirement (e.g. to reimburse the employee for unused vacation credits).

In addition, there were some payouts that impacted the 2016 salaries for reported employees, including an increase to base salaries for non-bargaining employees paid as a retroactive lump sum in December 2016 and an arbitration award which provided retroactive pay to members of the OPP.

The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was enacted in 1996 and has not been adjusted to keep up with inflation. If the salary threshold was adjusted for inflation, it would be $149,424 in today's dollars, reducing the number of employees included in the compendium by 84%.

The government is committed to providing high-quality public services and values the hard work of its dedicated public servants. The employees on this list:

- Deliver key government services;
- Make sure Ontario's food and water is safe;
- Make sure quality health care is available to every resident in the province;
- Make sure quality education is available to every child in the province;
- Make sure Ontario's roads and workplaces are safe; and,
- Bring jobs and investment into Ontario.

The province needs to pay salaries which are competitive in order to attract and retain top talent to deliver quality public services.

4. Who were the top 10 employees on the entire list and what were their salaries?

The top 10 earners all work largely in the health sector and in Ontario Power Generation. These people all hold executive positions:
- 6 of the 10 are in the health sector;
- 2 are from Ontario Power Generation;
- 1 is at the University of Toronto; and,
- 1 is at the Ontario Pension Board.

Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

5. **We learned that the president of OPG, who was the top earner on the province's payroll in 2016, actually made $700,000 more than the sunshine list that was disclosed earlier this year. The difference was a bonus that showed up on OPG's books, but was suspiciously left off the government's books. How many more six-figure bonuses has the President of the Treasury Board hidden from the people of Ontario?**

   The province continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

   Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

   For 2016, the Treasury Board Secretariat as a ministry reported 996 employees compared to 875 in 2015, an increase of 13.8%. The number increased primarily due to compensation changes, retirement pay-outs, severance payments, overtime and reorganizations.

   The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was introduced in 1996. In today's money the threshold would be $149,424 and would include only 56 (5.6%) of the 996 TBS employees on this year's list and exclude 940 (94.4%).

   Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

6. **How does this government allow salaries that are completely excessive when the average Ontarian can't afford their hydro bill/is working twice as hard because of government cuts/is not part of this millionaire's club?**

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In the 2017 Budget, the government announced that it will continue to take a balanced approach to managing compensation. This approach will recognize the need to maintain a stable, flexible and high-performing public-sector workforce that supports the government's transformational priorities and at the same time ensures that public services continue to remain affordable.

A result of recent efforts to reduce spending through compensation restraint and program transformation, the government has delivered on its commitment to balance the budget by 2017-18, while making program spending more sustainable and also protecting the important public services that Ontarians rely on.

A balanced approach to compensation recognizes the need to attract and retain talented leaders and individuals to ensure a modern, sustainable, and inclusive Ontario Public Service, while also remaining competitive with public sector peers.

To this end, the province will continue to provide effective and affordable public services, while recognizing the need for fair compensation.

Government Advertising

1. **How can you justify spending $5.5 million on self-congratulatory advertising for Ontario's Fair Hydro Plan?**

   Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

   Ontario needs government advertising that is appropriate, reasonable and effective because the public has a right to know how public money is being spent, and why the government is bringing forward policy changes.

   At this time, I would like to clarify that the Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

   For further questions about specific advertisements or advertising campaigns, please contact the ministry responsible.

2. **For the Hydro Bill partisan inserts – the Auditor General points out that "addressed mail" is non-reviewable (i.e., something was sent to a household by name) as compared to bulk mail which is reviewable. Will you continue to overlook this loophole so that public money can be used to send partisan messages directly to Ontarians?**

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Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

This legislation was introduced in 2004 to prevent government use of taxpayer dollars for partisan advertising.

Ministries still abide by the principles of the Government Advertising Act in all paid advertising, whether it goes to the Office of the Auditor General or not.

SCENARIO QUESTIONS

Speculation

1. **What do you think the intentions of the government were when they…**

   As a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   We provide neutral advice to support decision-making.

2. **What do you think the Auditor General will do…**

   It would be inappropriate for me to speculate on how the Auditor General may issue a future opinion.

3. **Other requests for speculation…**

   I'm not able to comment on something that may or may not happen.

   I'm happy to speak to the contents of chapter two of the Auditor General's report.

Cabinet Confidential

1. **Can you tell us about the advice you provided to the government…**

   I am unable to speak to the advice that was provided, as this would be considered confidential advice provided to Cabinet.

Confidential

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1. **Can you tell us about the advice you provided to your minister…**

   I believe this matter could be considered confidential advice provided. I would be happy to look into this matter further to clarify the scope of confidentiality and provide a written response back to the Committee.

Insisting a Specific Official Answer

1. **I do not want [____] to answer, I want to hear the response from you.**

   I am happy to provide a response to the question in my role as a public servant for the Treasury Board Secretariat.

   [Provide response as within your position's scope.]

   I cannot speak to the specific point you are raising, and as mentioned, [____] would be more appropriate to respond.

   What I can tell you is [____]

Insisting on Commitment

1. **Can you give us an exact figure on…**

   I want to be absolutely precise and specific, so I will need to get back to you with the exact number.

Politicization

1. **Why did the government make [____] decision?**

   As a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   It is our role to provide our best, objective advice to support government decision-making.

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PLACEHOLDER

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:

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Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	**See:**
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

For QAs related to:	See:
IESO Market Accounts	Treasury Board Secretariat Ministry of Energy

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Treasury Board Secretariat Ministry of Energy

AG Audit of 2017 Statements

For QAs related to:	See:
Audit of IESO statements	Treasury Board Secretariat Ministry of Energy

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ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

For QAs related to:	See:
OFHP Overall	Ministry of Energy
OFHP Accounting	Treasury Board Secretariat

AG Recommendation #6: "Legislated Accounting"

For QAs related to:	See:
OFHP Overall	Ministry of Energy
"Legislated Accounting"	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy
Accounting for Trust	Treasury Board Secretariat

Records Disclosure/Process

- Messaging TBC

For QAs related to:	See:
Records Disclosure/Process	Treasury Board Secretariat Ministry of Energy

1. **Has the Ministry of Finance provided all records to the Auditor General of Ontario?**

   In response to a request for information from the Auditor General's office regarding the Ontario Fair Hydro Plan, the Ontario Financing Authority (an agency under the Ministry of Finance) provided 3,252 emails in two batches: 1,190 e-mails on June 23, 2017 and 2,062 on July 18, 2017.

Re-Design of Hydro Bills

For QAs related to:	See:
Re-design of hydro bills	Ministry of Energy

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PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

- Messaging TBC – TBS

For QAs related to:	See:
Pre-Election Report	Treasury Board Secretariat (Joint lead with Ministry of Finance)

2. Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report.

The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

- The balanced budgets from 2017–18 onwards will limit the increase in net debt-to-net investments in capital assets. These investments will contribute to the economy growing at a faster rate than net debt, allowing the government to reduce Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent.
- There is a strong demand for Ontario bonds in both the domestic and international markets. Last fiscal year, Ontario was able to borrow $27 billion in long-term debt while our spread — or the margin that we have to pay over the equivalent Government of Canada bond — tightened, indicating an ongoing strong demand for Ontario bonds.
- We expect that the liquidity of Ontario benchmark bonds, and continuing confidence in the value of Ontario debt, will allow us to cost-effectively complete the 2017–18 borrowing program.

3. What is the government doing to manage the province's debt burden?

The very important first step in reducing debt is to balance the budget. We are projecting a balanced budget for 2017-18, delivering on a commitment first introduced in the 2010 Budget.

As the result of a balanced budget, and Ontario's strong economic growth, the net-debt-to-GDP ratio is declining.

The government has set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24, and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.

4. What is the status of the province's borrowing plan?

Through prudent and cost-effective debt management, we have consistently kept interest on debt costs below budget projections. Interest on debt to revenue is forecast to be 8.2 per cent in 2017-18, 8.3 per cent in 2018-19 and 8.4 per cent in 2019-20.

Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs.

As of January 31, 2018, $28.6 billion (or 111 per cent) of this year's long-term public borrowing of $25.8 billion has been completed.

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Financial Accountability Office (FAO) Reports

5. What is the government's response to the FAO's fall 2017 report, which states that the government will run a deficit in 2017-18 and the following years?

Ontario's deficit for 2016-17 was $991 million — $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget, according to public accounts.

The Ministry of Finance is projecting a balanced budget in 2017-18. The Ministry of Finance is committed to a responsible fiscal plan. We build prudence into our forecasts.

Since the time of the 2017 Budget, private sector forecasters have revised up their economic growth projections for Ontario over the 2017-20 period, reflecting the strength in the Ontario economy.

Using the government's accounting presentation (i.e. excluding the AG's recommended treatment), the FAO is projecting a small surplus in 2017-18.

6. Why are the FAO's revenue forecasts lower than the government's revenue forecasts?

The government is projecting total revenue to grow from $140.7 billion in 2016–17 to $158.2 billion in 2019–20. This represents an average annual growth rate of 4.0 per cent.

Growth in revenues over the medium term is driven mainly by taxation revenue which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent. The projected taxation revenue growth aligns with growth actually experienced in recent years, and projections for the Ontario economy.

Credit Ratings

- Ontario currently maintains a double-A rating with three of its four credit rating agencies.
- We continue to update the rating agencies on a regular basis on economic and fiscal developments.

7. What are the credit rating agencies' views on Ontario?

Following the release of the 2017 Budget, all four rating agencies — Moody's, DBRS, Fitch, and S&P — confirmed Ontario's long-term credit ratings.

This reflects rating agencies' confidence in our government's fiscal plan.

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8. How have rating agencies responded to the qualified opinion on the public accounts and the recent report from the Auditor General?

The rating agencies make their own assessment of the Province's finances.

However, there were no credit rating implications either this year or last when the government received a qualified audit opinion on its Public Accounts.

DRAFT

Preparation of Public Accounts

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

1. **Q re: Ministry of Finance use of external advisors**

   Answer….

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat

1. **QAs on finalization of financial statements – tax revenues, etc.**

   Answer…

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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OTHER

- MOE Key Message 1
- MOE Key Message 2
- MOE Key Message 3
- MOE Key Message 4
- MOE Key Message 5

1. **Qs that may come up that are not included in the categories above…**

   Answer…

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Attachment A. TBS Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

Attachment B. Ministry of Energy Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

Attachment C. Ministry of Finance Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

KAREN HUGHES, ASSOCIATE DEPUTY MINISTER

PUBLIC ACCOUNTS PROCESS

QUESTION

- One of the recommendations in the Auditor General's report is that the Office of the Provincial Controller should "undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies" to allow the Office of the Provincial Controller to release Public Accounts earlier than the usual late August or September.
- I am curious about what releasing Public Accounts earlier would take on the part of the government.
- I know that the process requires a lot of work on the part of many people, although I'm not necessarily clear on the mechanics of putting the Public Accounts together.
- So, could you outline what the process is of putting Public Accounts together every year?

ANSWER

Placeholder

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PLACEHOLDER

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PLACEHOLDER

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LONG-FORM MEMBER QUESTION: BALANCED BUDGET

DEPUTY MINISTER SCOTT THOMPSON

Question:

- How is Ontario planning to keep a balanced budget?

Answer:

- TBD: Revisions based on updates related to Q3 Finances once available
- My ministry has been working to execute the government's goal of balancing the budget.
- This started with a plan that was first introduced in the *2010 Budget*, when the province started to recover from the recession.
- Ontario today is projecting a balanced budget for 2017–18 and for the next two years, 2018–19 and 2019–20.
- A balanced budget makes available more investment options to spur economic growth and job creation, and helps protect the programs and services people rely on most, such as health care and education.
- Ontario's plan has five main areas of focus:
    - Maximizing revenues without causing undue tax burdens on Ontarians
    - Managing its expenses without detracting from the quality of social services and health programs
    - Balancing revenues and expenses against each other to manage the debt
    - Funding programs that help Ontarians, and
    - Investing in infrastructure to promote economic growth and job creation.

- I will now address each area in turn.

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Revenues:

- The 2016–17 Public Accounts show that Ontario's deficit for last year was $991 million — $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget.
- Fiscal 2016–17 was the eighth year in a row that the Province has beaten its deficit target.
- This was a result of growth in revenue that exceeded growth in program expenses, and lower-than-forecast interest on debt.
- And so part of the plan to balance the budget involves optimizing assets and maximizing revenues.
- The Public Accounts for 2016–17 show total revenues were $140.7 billion, $2.2 billion higher than the 2016 Budget projection.
- Additionally, Ontario's total revenues are projected to grow from this $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- This increase represents an average annual growth rate of four per cent.
- The higher revenues for 2016–17 — and the projected growth of revenues through 2019-20 — are largely due to higher-than-expected tax revenues, the optimization of government business enterprises, and transfers from the Government of Canada and other non-tax revenue.

- First, let me address tax revenues.
- Growth in revenues over the medium term is driven mainly by taxation revenue, which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent.
- For fiscal year 2016–17, tax revenues were $293 million higher than projected, mainly due to higher-than-expected Harmonized Sales Tax revenue, reflecting stronger growth in Ontario household expenditures.

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- Secondly, the Government of Ontario is also implementing a multi-year strategy to optimize its assets and maximize its revenues through the sales of shares in Hydro One, LCBO head office lands and Ontario Power Generation's head offices.
- The net revenue gains from the sale of qualifying assets are credited to the Trillium Trust for infrastructure investments, such as roads, bridges and public transit.
- The total amount credited to the Trillium Trust as of March 31, 2017 is $5.3 billion.
- The Province continues to grow and maximize revenues from its government business enterprises, such as Hydro One, Ontario Power Generation, the Liquor Control Board of Ontario and Ontario Lottery and Gaming Corporation.
- The forecast of the income from government business enterprises is projected to grow by $0.7 billion between 2016–17 and 2019–20.
- This projection, at an average annual rate of 3.7 per cent, reflects higher net income overall from government business enterprises.

- Thirdly, Ontario received larger Government of Canada transfers — $145 million higher. This increase reflected new funding for early learning and child care flowing from a bilateral agreement between Ontario and the federal government, as previously reported in the 2017-18 *First Quarter Finances*.
- The forecast for subsequent transfers is based on existing federal-provincial funding agreements.
- Overall transfers are projected to grow by $0.9 billion between 2016–17 and 2019–20, or at an average annual rate of 1.2 per cent.
- This largely reflects projected increases in major ongoing Government of Canada transfers and new funding for early learning and child care, and home care and mental health.

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- Finally, the forecast for other non-tax revenue is based on projections provided by government ministries and agencies.
- The outlook for other non-tax revenues is projected to increase by $0.4 billion between 2016–17 and 2019–20, or at an average annual rate of 0.7 per cent.
- This increase mainly reflects:
    - Fiscally neutral revenues from carbon allowance proceeds starting in 2017–18
    - Fees, donations and other revenues for the broader public sector, and
    - Revenues from vehicle and driver registration fees.
- This is partially offset by lower revenues due to the removal of the debt retirement charge from commercial, industrial and all other electricity users in 2018–19, and the projected net impact of the government's planned asset optimization strategy.
- Notably, the increase in Ontario's revenue is not attributable to increases in personal tax returns.

Expenses:

- Let me now address expenses.
- The Public Accounts for 2016–17 show that total spending was $141.7 billion, $100 million lower than the 2016 Budget projection.
- Program spending expenses accounted for $130 billion.
- Interest on debt, at $11.7 billion, was down $0.7 billion from the 2016 Budget projection.

- Going forward, program expenses are projected to grow from $130 billion in 2016–17 to $144.2 billion in 2019–20.
- This represents an average annual growth rate of 3.5 per cent.
- Growth in program expenses over the medium term is driven by investments to help the people of Ontario, such as health care, supports for seniors, the

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introduction of pharmacare for children and youth under OHIP+, electricity cost relief programs under the Fair Hydro Plan, and new initiatives for small businesses that will lower costs and support growth.

- Interest on debt expenses is projected to grow from $11.7 billion in 2016–17 to $13.3 billion in 2019–20.
- This increase is due to borrowing for capital spending and interest rates that are forecast to rise.
- This represents an average annual growth rate of 4.2 per cent.
- Interest on debt is projected to grow due to borrowing for capital spending and interest rates that are forecast to rise.
- Total expenses are projected to grow from $141.7 billion in 2016–17 to $157.4 billion in 2019–20.
- This represents a manageable average annual growth rate of 3.6 per cent.

Balancing Revenues and Expenses:

- Let me summarize the revenues and expenses together.
- Revenue is forecast to increase from $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- Total expenses are projected to increase from $141.7 billion to $157.4 billion over the same period.
- Based on these estimates, the Ontario government will effectively balance the budget over the next four years.

Funding Programs, Investing in Infrastructure, Promoting Growth:

- Through targeted, measured and fiscally responsible decisions, Ontario has restored its fiscal and economic strength.
- Strategic investments have helped stimulate the Ontario economy to rise from the depths of recession.

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- Over the past three years, Ontario's economy has grown faster than Canada's and that of all other G7 countries.
- The benefits of balanced budgets and a strong economy are already providing the government with the fiscal flexibility to do more to help Ontarians.
- This flexibility enables the government to provide more investments to spur economic growth, job creation and support services people use every day.
- Notable program investments include:
    - $145 million in annual funding to increase the accessibility and affordability of high-quality licensed child care and early learning opportunities
    - $245 million over three years to lower costs for small businesses
    - $155 million over three years to support seniors to remain independent, connected, engaged, healthy and safe
    - $245 million over three years to lower costs for small businesses, create opportunities for growth and simplify their interactions with government.
    - An increase of $1 million in 2017–18 — and then $5 million in 2018–19 and beyond — to provide additional funding through the Northern Communities Grant component of the Ontario Municipal Partnership Fund.

- Growth in program expenses also includes investments in infrastructure.
- In fact, Ontario is making the biggest investment in public infrastructure in its history.
- The government's long-term infrastructure plan to invest about $190 million over 13 years, starting in 2014–15, will contribute to the growth of the economy.
- The government's historic investment in infrastructure includes:
    - $31.5 billion over 10 years for public transit, transportation and other priority infrastructure projects across Ontario
    - $11 billion over 10 years in capital grants to school boards, and
    - $900 million over 10 years for critical maintenance repairs and upgrades.

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- These investments will not only create jobs, support business innovation and help draw investors from abroad — they will also contribute to the provincial economy growing at a faster rate than the change in its net debt.
- Investments such as these have helped to stimulate the Ontario economy, which has continued to grow despite an uncertain global climate.
- From 2014 to 2016, Ontario outpaced all G7 countries with its real GDP growth.
- As the result of a balanced budget and Ontario's strong economic growth, the net debt-to-GDP ratio is declining.
- In the 2017 Budget, the Ontario government set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24. The government is now projecting to meet this target a year earlier.
- We continue to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.

Conclusion:

- In September, the Public Accounts of Ontario 2016–17 reported that the 2016–17 deficit was $1.0 billion, an improvement of $3.3 billion from the $4.3 billion projection in the 2016 Budget.
- Total revenue for 2016–17 came in at $140.7 billion, which was $2.2 billion higher than the 2016 Budget.
- This was largely due to higher-than-expected tax revenues, the optimization of government business enterprises and transfers from the Government of Canada and other non-tax revenue.
- Total spending for 2016–17 came in at $141.7 billion, which was $0.1 billion lower than the 2016 Budget.
- Program spending was $130.0 billion, up $0.6 billion from the plan of $129.4 billion.

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- Spending in health, children's and social services, and other programs was higher than planned.
- Interest on debt expense was $11.7 billion, $0.7 billion below the plan of $12.4 billion, due mainly to lower-than-forecast interest rates, and cost-effective borrowing and debt management.
- In conclusion, the Ontario government is on track to balance the budget this fiscal year — 2017–18 — as well as the next two fiscal years.
- Prudently managing the province's finances is one of my ministry's responsibilities to the people of Ontario.
- Thank you.

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LONG-FORM MEMBER QUESTION: CREDIT RATING

DEPUTY MINISTER SCOTT THOMPSON

Question:

- What are the plans to keep Ontario's credit rating in good standing?

Answer:

- TBD: Revisions based on updates related to Q3 Finances, once available.

Introduction:

- Following the release of the 2017 Ontario Budget, four credit rating agencies – Moody's, DBRS, Standard & Poor's and Fitch – confirmed Ontario's healthy long-term credit ratings. This reflects rating agencies' confidence in the Government's fiscal plan – and its ability to grow Ontario's economy and create jobs for Ontarians.
- Let me summarize the reports by each of the credit rating agencies.

- First, Moody's.
- Moody's cautioned that the Ontario Fair Hydro Plan, announced in March 2017 to reduce electricity prices, adds credit pressure due to the direct financial impact of the sales tax rebate and the indirect impact of an elevated debt of a provincially owned entity.
- Overall, however, Moody's said its stable outlook for Ontario "reflects Moody's forecast that, as the province moves towards and achieves balanced budgets,

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the province's debt burden will improve marginally and interest expense will remain manageable across the medium-term….The policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices outlined above, has helped to support the province's Aa2 rating."

- Moody's positive outlook for Ontario's credit rating is based on the following credit strengths: prudent debt management, an institutional framework providing significant fiscal policy flexibility, and a large diversified economy supporting a broad and productive tax base.

- Next, DBRS.
- DBRS noted that Ontario's credit profile is stable, but it will remain vulnerable to an economic shock in the absence of a more concerted effort to reduce debt.
- DBRS also commented on the potential downside risks to the economic outlook due to uncertainty regarding the potential renegotiation of NAFTA and U.S. tax policy, as well as political integration in Europe.
- Finally, it noted that elevated household debt and housing market dynamics leave Ontario particularly vulnerable in the event of an unforeseen shock that results in significant job losses or a rapid increase in interest rates.
- Despite these concerns, DBRS expects Ontario's credit ratings to remain stable.
- DBRS said of Ontario, its "ratings remain well supported by the province's large and diversified economy, improving budgetary results and declining debt burden" and that "the return to balance is encouraging and suggests that there will likely be some modest improvement in the Province's credit metrics over the medium term."
- DBRS concluded by saying that Ontario's stable credit profile stems from strength in the underlying economy, which provided incremental revenue more than sufficient to offset the in-year spending pressures.

- Standard & Poor's is next.

- Standard & Poor's believed that Ontario's credit profile is strengthening.
- But before considering a positive rating action, they would need to see sustained improvement in budgetary performance leading to near-balanced after-capital results, coupled with ongoing declines in the tax-supported debt burden, making Ontario's finances more comparable with peers in the 'AA' category.
- Standard and Poor's said it "expects the province of Ontario to benefit from solid economic growth over the next two years, allowing it to generate additional revenues to fund its capital spending plan and stabilize its finances following its eight-year path back to a balanced operating budget."
- Standard & Poor's concluded by saying that its stable outlook reflects expectations that, within the next two years, the Province will sustain a more balanced budgetary performance, including steady liquidity metrics, modest after-capital deficits, and a high but slowly declining debt burden.

- Finally there is Fitch.
- Fitch's report stated that the Province has demonstrated the ability to exert considerable expenditure restraint while instituting revenue changes to achieve its deficit reduction objectives.
- It said Ontario's 'AA-' rating is supported by its wealth, diversified economy and generally sound financial management.
- Fitch's rating reflected the Province's very strong and diversified economy, strong financial management, very predictable and well-balanced institutional framework and low contingent liabilities.
- Ontario's credit profile is stable.

- For Ontario's credit profile to grow in strength, the Province will need to do several things.
- It will need to show a track record of consistent operating surpluses and balanced or near-balanced after-capital results, coupled with continuing declines in direct and tax-supported debt burdens.

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- **To that end, Ontario has the following plan to ensure that its credit rating remains in good standing.** It is:
    - Optimizing assets and revenues without causing undue tax burdens on Ontarians.
    - Managing expenses without detracting from the quality of social and health services.
    - Balancing revenues and expenses against each other to manage the debt, and
    - Maintaining a reserve fund to mitigate unforeseen financial risks.
- I will now go into more detail on each of these points.

Revenues:

- Total revenues for 2016–17 were $140.7 billion, $2.2 billion higher than the 2016 Budget.
- Additionally, Ontario's total revenues are projected to grow from $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- This represents an average annual growth rate of four per cent.
- The higher revenues for 2016–17 and the projected growth of revenues through 2019–20 are largely due to three factors:
    - Higher-than-expected tax revenues.
    - Income from government business enterprises and fees, and
    - Transfers from the Government of Canada and other non-tax revenue.
- Growth in revenues over the medium term is driven mainly by taxation revenue, which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent. The taxation outlook reflects current revenue information and projections for the Ontario economy. Tax revenues were $293 million higher than projected in 2016–17, mainly due to higher-than-expected Harmonized Sales Tax revenue, reflecting stronger growth in Ontario household expenditures.

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- The Government of Ontario is also implementing a multi-year strategy to optimize its assets and maximize its revenues through the sales of Hydro One, LCBO head office lands and Ontario Power Generation's head offices. The total amount credited to the Trillium Trust as of March 31, 2017 is $5.3 billion. The net revenue gains from the sale of qualifying assets will be credited to the Trillium Trust for infrastructure investments, such as roads, bridges and public transit, under the Moving Ontario Forward plan. In 2016–17, the Trillium Trust was drawn down by approximately $260 million to help support these projects.
- Finally, Ontario received larger Government of Canada transfers — $145 million higher. This increase reflected new funding for early learning and child care flowing from a bilateral agreement between Ontario and the federal government, as previously reported in the 2017–18 *First Quarter Finances*.
- Notably, the increase in Ontario's revenue is not attributable to increases in personal tax returns.

Expenses:

- Ontario's total spending for 2016–17 was $141.7 billion, $100 million lower than the 2016 Budget.
- Program spending expenses accounted for $130.0 billion.
- Interest on debt expense accounted for $11.7 billion – $0.7 billion below the plan of $12.4 billion.
- This drop was due mainly to lower-than-forecast interest rates, and Ontario's cost-effective borrowing and debt management.
- Going forward, Ontario program expenses are projected to grow from $130.0 billion in 2016–17 to $144.2 billion in 2019–20.
- This represents an average annual growth rate of 3.5 per cent.
- Interest on debt expenses is projected to grow from $11.7 billion in 2016–17 to $13.3 billion in 2019–20.
- This represents an average annual growth rate of 4.2 per cent.

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- Total expenses are projected to grow from $141.7 billion in 2016–17 to $157.4 billion in 2019–20.
- This represents a manageable average annual growth rate of 3.6 per cent.
- These increases align with the government's plans for modernizing the public services people rely on every day.
- They are also fiscally sustainable.
- In short, the Ontario government has been managing its program expenses as well as its interest-on-debt expenses.

Balancing Revenues and Expenses:

- To bring the revenues and expenses together…
- Revenue is forecast to increase from $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- Total expenses are projected to increase from $141.7 billion to $157.4 billion over the same period.
- Based on these estimates, the Ontario government will effectively balance the budget over the next four years.

The Reserve:

- I will now take a moment to address the Province's financial reserve and contingency funds.
- As required under the *Fiscal Transparency and Accountability Act*, Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes in revenue and expenses.
- The current fiscal outlook includes a reserve of $0.5 billion in 2017–18, $0.5 billion in 2018–19 and $0.8 billion in 2019–20.
- The current outlook also maintains contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance — particularly in cases where health and safety may be compromised, services to the most vulnerable are jeopardized, or natural disasters occur.

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Conclusion:

- Credit ratings provide an assessment of a government's credit-worthiness.
- They are a reflection largely based on its capacity to generate revenue to service its debt.
- They consider factors such as a government's economic resources and prospects, industrial and institutional strengths, financial health, and susceptibility to major risks.
- As you know, a credit rating affects the cost of future government borrowing with a lower rating, indicating that an agency believes there is a relatively higher risk that a government will default on its debt.
- Accordingly, investors will lend to the government only in return for a greater risk premium, in the form of higher interest rates.
- A rating downgrade could also shrink the potential market for a government's debt, because some investors will not hold debt below a certain rating.
- Therefore, it is critical that Ontario maintain its credit rating in good standing to manage its debt and preserve its fiscal health.
- Ontario's plan to keep its credit rating in good standing involves the following strategies:
    - Optimizing assets and revenues without causing undue tax burdens on Ontarians.
    - Prudently managing expenses without diminishing the quality of Ontario's services and programs.
    - Balancing revenues and expenses against each other to manage the debt, and
    - Preserving a reserve fund to mitigate unforeseen financial risks.

- Seen as a whole, these strategies will ensure confidence in Ontario's credit-worthiness through its ability to effectively manage its debt obligations.

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- Protecting the financing of Ontario's public services will continue to be one of my ministry's highest priorities.
- Thank you.

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LONG-FORM MEMBER QUESTION: DEBT MANAGEMENT

DEPUTY MINISTER SCOTT THOMPSON

Question

- What is Ontario's debt management plan?

Answer

- TBD: Revisions based on updates related to Q3 Finances, once available.
- The Ministry of Finance has a track record of responsible fiscal management and remains committed to executing the government's goal of reducing the provincial debt burden.
- The government's plan to manage the debt focuses on three key areas:
    - Decreasing the net debt-to-GDP ratio.
    - Decreasing the interest on debt-to-revenue ratio.
    - Utilizing term extensions.
- I would like to provide an update of progress on this goal.

Net Debt-to GDP Ratio:

- A key indicator of the government's ability to manage its debt is the level of debt relative to the size of the economy, known as the net debt-to-GDP ratio.
- The ratio of net government debt to the market value of goods and services produced by an economy — known as gross domestic product or GDP — measures the relationship between a government's debt obligations and its capacity to raise the funds needed to meet them.
- It is an indicator of the relative burden of government debt on the economy.

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- If the amount of debt that must be repaid relative to the value of the GDP is rising — in other words, if the ratio is rising — it means the government's net debt is growing faster than the provincial economy, and becoming an increasing burden.

- Before considering Ontario's net debt-to-GDP ratio, let me first discuss the components.
- First, I want to address Ontario's net debt situation.
- Ontario's net debt increased from $295.4 billion as of March 31, 2016 to $301.6 billion as of March 31, 2017.
- It is projected to increase to $311.7 billion by March 31, 2018 and to $323 billion by March 31, 2019.
- About 62 per cent of the increase in net debt from 2008–09 to 2016–17 was due to the deficit.
- The remaining net debt increase was a result of investments in capital assets.
- Balanced budgets from 2017–18 onwards will ensure that increases in net debt will be limited to net investments in capital assets such as roads, bridges, hospitals and schools.
- In other words, the net debt is increasing at a manageable rate, and a smaller portion of it is collected from the deficit.

- Next, let me briefly address the GDP.
- The government's investments in capital assets increased economic growth and helped support Ontario's GDP to advance more quickly than debt, helping the government achieve its net debt-to-GDP targets.
- Over the past three years, Ontario's economy has grown faster than Canada's and that of all other G7 countries.
- In fact, Ontario's real GDP is now 21.3 per cent above its recessionary low.
- Over the 2017–20 period, the Ministry of Finance is forecasting average annual growth of 2.2 per cent in Ontario's real GDP.

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- Government investments have helped stimulate the Ontario economy to rise from the depths of the recession, and it is now enjoying a period of economic strength and growth.

- I briefly addressed the net debt and GDP situations separately; now let me bring them together.
- The 2017 Fall Economic Statement reported that Ontario's net debt-to-GDP ratio is lower than previously forecast.
- The net debt-to-GDP ratio peaked at 39.3 per cent in 2014–15 and has been declining ever since, as a result of Ontario's economic growth and the government's progress towards a balanced budget in 2017–18.
- It is now projected to be 37.3 per cent at the end of fiscal 2017–18, 0.2 per cent lower than was forecast in the 2017 Budget.
- This ratio is projected to continue to decline to 37.1 per cent in 2018–19.
- In the 2017 Budget, the government set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24, and re-stated its commitment to reduce the net debt-to-GDP ratio to its pre-recession level of 27 per cent by 2029–30.
- A declining net debt-to-GDP ratio, together with low interest on debt costs as a percentage of revenues, positions the province for long-term sustainability.
- It also allows for a greater proportion of government spending to be invested in programs and services.

- The reduction of debt is complemented by Ontario's investments in infrastructure, which are supporting economic growth and job creation.
- In fact, Ontario is making the biggest investment in public infrastructure in its history.
- The government's long-term infrastructure plan to invest about $190 million over 13 years, starting in 2014–15, will contribute to the growth of the economy.

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- These investments will not only create jobs, support business innovation and draw investors from abroad — they will also contribute to the growth of the provincial economy at a faster rate than the change in its net debt.
- The positive impact of these capital investments on the province's economy was confirmed by the Centre for Spatial Economics.
- It recently reported that, over the long term, GDP in Ontario increases by up to $6 for every dollar of public infrastructure spending.
- The government's economic strategy was further supported in a report by the International Monetary Fund in June 2016, which recommended that Canadian "fiscal policy should be pro-growth."
- Christine Lagarde, the International Monetary Fund's Managing Director, expressed her support for the government's growth strategy and agreed that investment in infrastructure should be an essential element.
- In summary, Ontario's net debt-to-GDP ratio will gradually diminish due to the GDP increasing at a faster rate than net debt.
- This will allow the government to continue to move towards its 27 per cent net debt-to-GDP target.

Interest on Debt-to-Revenue Ratio:

- Another major thrust of Ontario's plan to manage its debt centres on the interest on debt-to-revenue ratio.
- This is another key indicator of the government's ability to meet its financial obligations.
- Through prudent and cost-effective debt management, the government has consistently kept interest on debt costs below budget projections.
- The 2016–17 Public Accounts show that Ontario's deficit for the last fiscal year was $991 million — $3.3 billion lower than projected in the 2016 Budget and half a billion lower than the interim deficit projection in the 2017 Budget.
- This smaller-than-projected deficit is due to stronger revenues, and reflects positively on the debt-to-revenue ratio.

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- Ontario's interest on debt for 2017–18 is forecast to be $12.2 billion.
- The interest on debt-to-revenue ratio is forecast to be 8.2 per cent in 2017–18, 8.3 per cent in 2018–19 and 8.4 per cent in 2019–20.
- The savings on interest on debt have improved a key measure of the affordability of debt.
- For example, the 2010 Budget forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- By the 2017 Budget, the amount needed for interest payments had dropped significantly.
- The current forecast is 3.1 cents lower — 8.2 cents of interest costs for every dollar of revenue.
- This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through Ontario's outlook period to 2019–20.

Term Extension on Debt:

- Finally, record-low interest rates have enabled the government to keep its annual interest expense steady.
- However, the global decline in interest rates over the last 25 years could not continue indefinitely.
- The Bank of Canada has increased interest rates — twice last year and already once this year.
- Ontario has taken necessary precautions to protect the financing of the province's public services, now that interest rates are widely understood to be on a net rising trajectory.
- To protect the province from these increases, the government has continued to extend the term of its debt.
- Term extension has allowed the government to lock in low interest rates for a longer period, which reduces refinancing risks.
- Extending the term also helps offset the impact of expected higher interest rates on interest on debt costs.

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- Going back to the beginning of fiscal 2010–11, Ontario has issued $68.6 billion in bonds longer than 30 years to lock in low rates.
- As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008–09 to 13.9 years in 2016–17.
- For 2017–18, it stood at 12.8 years as of October 31, 2017.
- If or when interest rates continue to rise, the government will assess whether it will remain cost-effective over the long term to continue to extend the term of its debt.

Conclusion:

- As I said at the outset, the Ontario government has a track record of responsible fiscal management and remains committed to executing its goal of reducing the provincial debt burden.
- To conclude, the government's plan to manage the debt focuses on three key areas:
    - One, decreasing the net debt-to-GDP ratio.
    - Two, decreasing the interest on debt-to-revenue ratio.
    - And three, extending the term on its debt.
- As I have stated, the government has decreased the net debt-to-GDP ratio.
- In the 2017 Budget and the 2017 Fall Economic Statement, Ontario stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected for 2029-2030, together with an interim target of 35 per cent by 2023-2024.
- I also explained how the government has decreased the interest on debt-to-revenue ratio.
- The 2010 Budget forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- However, by the 2017 Budget, the amount needed for interest payments had dropped.

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- The current forecast is 3.1 cents lower — at 8.2 cents of interest costs for every dollar of revenue.
- Finally, I explained how the government has taken advantage of low-interest rates and extended the term on its debt.
- The weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008–09 to 13.9 years in 2016–17, and 12.8 years for 2017–18 as of October 31, 2017.
- In short, Ontario's economy remains strong.
- Protecting the financing of the province's public services will continue to be one of the government's highest priorities.
- Thank you.

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LONG-FORM MEMBER QUESTION: FAIR HYDRO PLAN

DEPUTY MINISTER SCOTT THOMPSON

Question:

- What is the financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budget?

Answer:

- As Deputy Minister of the Ministry of Finance, I will speak specifically to the financial implications of the Fair Hydro Plan on the Province's budget and financial statements.

Ontario's Fair Hydro Plan

- To address issues related to rising electricity costs, especially for families and small businesses, the government announced Ontario's Fair Hydro Plan on March 2, 2017.
- As part of the plan, electricity bills were reduced by 25 per cent on average, or about $41 per month, for all Ontario residents as of July 1, 2017.
- The plan included several important measures.
- First, let me discuss the refinancing of the Global Adjustment.
- The Global Adjustment is the cost of building new electricity infrastructure in the province and maintaining existing resources.
- The majority of the province's electricity generators currently have 20-year contracts.
- Many of these generators will be able to operate past their contract term.

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- In other words, they would still generate electricity after the upfront capital costs have been paid for by the current generation of ratepayers.
- The Government of Ontario believed that present-day consumers should not be burdened with paying for a disproportionate share of investments that provide benefits for decades to come.
- To relieve the current burden on ratepayers, and share costs more fairly, a portion of the Global Adjustment is being refinanced over a longer period.
- This is providing significant and immediate rate relief to ratepayers by spreading the cost of electricity investments over time, to better reflect the expected lifecycle of the infrastructure that has been built.
- According to estimates provided when the Fair Hydro Plan was announced, the immediate reduction in the Global Adjustment would be about $2.5 billion per year, on average, over the first 10 years.

- Second, the plan included an expansion of the Industrial Conservation Initiative or ICI.
- The ICI allows participating customers to manage their Global Adjustment costs by reducing demand during peak periods.
- Customers who participate in the ICI, referred to as Class A, pay Global Adjustment based on their percentage contribution to the top five peak Ontario demand hours over a 12-month base period.
- Ontario expanded eligibility for the ICI program by reducing the threshold from 1 MW to 500 kW.
- This measure allows small manufacturers and industrial consumers the opportunity to participate in the ICI and save on their electricity costs.

- A third component of the plan is Ontario’s rebate for electricity consumers.

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- The government provided an eight per cent Ontario Rebate for Electricity Consumers on electricity bills, equivalent to the amount of the provincial portion of the Harmonized Sales Tax.
- This change was effective January 1, 2017.

- A fourth and important part of the plan allows future increases to hydro bills to be set by regulation.
- This enables the government to hold increases, for four years, to the rate of inflation.
- While rates will rise gradually over time, the government remains committed to avoiding sharp increases.

Assisting the Most Vulnerable Electricity Consumers

- The government has introduced other measures to help the most vulnerable electricity consumers.
- It did this by introducing legislation to enhance some existing programs or introduce new initiatives.
- In particular it enhanced the Ontario Electricity Support Program.
- The Ontario Electricity Support Program is an income-tested, application-based program that lowers electricity costs for the most vulnerable consumers.
- In practice, it provides them with a rebate directly on their bills.
- Effective May 1, 2017, Ontario increased the program by 50 per cent, meaning that single, low-income consumers would get an increase in their rebates ranging from $180 to $276 per year.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $140 million in 2017–18.
- This amount will be covered by provincial revenues.

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- As well, as part of the plan, Ontario has enhanced the Rural or Remote Rate Protection Program, or RRRP.
- The RRRP provides a rate subsidy to rural and remote residential customers who face higher distribution costs.
- As part of the Ontario Fair Hydro Plan, the Province expanded the program to provide distribution delivery charge relief to about 800,000 customers.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $344 million in 2017–18, which will also be covered by provincial revenues.
- Ontario is also helping customers through local distribution companies.

- In October 2017, the Province launched the $100 million Affordability Fund.
- The Affordability Fund provides local distribution companies with an additional tool to help customers in need.
- Local distribution companies can use the fund to provide support to qualifying customers for energy efficiency improvements, to help them reduce their future electricity bills.
- The Affordability Fund is paid through provincial revenues.

- Finally, Indigenous communities in Ontario are also receiving assistance through the First Nations On-Reserve Delivery Credit.
- In 2016, the Ontario Energy Board engaged with First Nations, including remote communities, the distributors serving them and consumer groups.
- Following the engagement process, the board recommended to the Government of Ontario the elimination of the delivery charge for all on-reserve First Nations residential customers.
- The board also recommended removing the monthly service charge for customers of licensed distributors that charge a bundled rate.

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- The board estimates this would provide residential customers an average monthly benefit of $85.
- According to the 2017 Provincial Expenditure Estimates, the credit is anticipated to cost $15 million in 2017–18, which will be funded by provincial revenues.

- In summary, these new measures will cost the government up to $2.5 billion over the next three years.
- The cost is about $500 million in 2017–18, based on a part-year implementation, according to the 2017 Provincial Expenditure Estimates.

Conclusion:

- Taken together, these changes are delivering the single-largest reduction to electricity rates in Ontario's history.
- For all residential consumers in the province, electricity bills have been reduced by 25 per cent on average, or about $41 per month, as of July 1, 2017.
- People with low incomes and those living in eligible rural or remote communities are receiving even greater reductions, as much as 40 to 50 per cent.
- Approximately 500,000 small businesses and farms are also benefitting from the changes.
- On-reserve First Nation residential customers of licensed distributors are getting a 100 per cent credit on the delivery line of their bills.
- Although hydro rate relief costs were additions to the fiscal framework, the government continues to project a balanced budget for 2017-18, and will provide a full update on its fiscal plan in the spring budget.

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TIPS FOR PRESENTING AT SCOPA

Tips for Addressing Committee Members:

Note: Tips are applicable for addressing both Committee Members and media.

- When speaking be mindful of what you say – the proceedings are recorded and there's no such thing as "off the record."

- Adhere to the scripted remarks and prepared Q&As. Do not embellish and ***when in doubt, leave it out.***

    - Be sure you understand the question being asked (it's ok to ask for clarification) and Do NOT answer something you're not 100% sure of.

- If you do not have the response, you may advise Committee Members that the matter needs to be redirected to another ministry, or that you will get the requested information by saying, "I'll look into what is possible to provide."

- Be mindful of only addressing questions/issues that relate directly to the TBS.

- It is acceptable to decline to answer an unrelated question by noting that you are not clear of its relevance to TBS, and that you are prepared to address matters related to the ministry.

- If caught off guard, breathe, listen, work to understand the question, or ask for clarification.

    - Ask the questioner 'Excuse me' or 'I beg your pardon?'
    - Ask the questioner 'Can you kindly help me understand the context of the question/or what you just said?'

- If possible, use a bridging statement to get to your key message/prepared response. (See Appendix A).

- Do not offer personal opinions. Stick to the facts:

    - Leave off qualifiers like "I think" "I feel," and "I believe" which represents an opinion. To sound confident and assured, be mindful not to use qualifiers.
    - Do not use 'I assure you."

- Offer examples of success whenever possible.

Body Language, Tone:

- Be aware of how you come across. There is no benefit to being seen as defensive, argumentative, or unresponsive.

- Project an image of openness, honesty, and empathy.

- Remember to breathe deeply and speak slowly.

    - Controlling your breathing helps deal with the stress.
    - Take several deep breaths as you sit down and get organized.
    - Ahead of appearance take a few minutes in a quiet spot to breathe slowly and deeply.
    - "Super Hero Pose" – stand with your legs shoulder width apart, hands on hips, shoulders back. Do this for two minutes. It helps mentally prepare you ahead of having to speak.

- Use your hands while talking to look natural and help release anxiety. (Note palms up is a subconscious message to those looking at you that you are open and have nothing to hide)

- Avoid body language leakage—those involuntary movements that indicate you're nervous or stressed - e.g. head nodding, swallowing, and pursing your lips.

- Do not touch your face with your hands.

- Avoid repeating negative words that members use in questions. Doing so indicates you accept the negative premise.

- If you feel overwhelmed while speaking in front of an audience, recalibrate by breathing and pausing.

What-Ifs:

1. What if you don't want to answer the question, but you have to say something?

    - Offer a credible reason why you are unwilling to answer the question and identify what you prefer to discuss.

2. What if you're asked for hard numbers, and you don't have the answer?

- Explain, “I want to be absolutely precise and specific, so I will need to get back to you with the exact number”

- Words like “precise,” “specific,” and “exact” convey that the question has been taken seriously.

3. What if you don’t know the answer, but a colleague who is with you may know it?

   - If you need help from the other ADMs, open your response with ‘In a moment I’m going to call on my colleague to get into more detail about this…’ This gives the other TBS representative time to know they’ll be called upon.

   - Briefly discuss a related subject, then pass the question.

4. What if you need to pause?

   - If you have said absolutely everything you need to say, then let there be a pause.

   - Remember it’s not up to you to keep the proceedings going. That’s the Chair’s job. They may intentionally leave dead air in the hopes that you’ll jump in to fill it by saying something you hadn’t intended to.

5. What if the answer is confidential?

   - Explain that confidentiality rules must be respected, so you cannot directly address the issue at hand. (e.g.: that matter is before the courts).

6. What if it’s a question about a rumour?

   - When asked to respond to a rumour, it is best to not respond at all. Instead, state that your focus is always on fact, not rumour.

7. What if the answer is HR related?

   - Say as little as possible. Commenting on someone’s employment record in a negative context can potentially put you in legal jeopardy.

8. What if you don’t like what you’re saying?

   - Don’t feel obligated to complete a sentence or thought. Simply begin the response again.

9. What if it’s a “yes or no” question?

- Unless the question relates to a sensitive issue, skip “yes” or “no” and go right to the message that would follow.

10. What if it's an "is it possible" question?

    - Avoid speculating and tell the committee – "I'm not able to comment on something that may or may not happen."

11. What if you're interrupted mid-answer?

    - The first time, let it go. The second time, ask the Chair to be allowed to finish your thought.

APPENDIX

A. Sample Bridging Statements

1. "We find the more important issue is…"
2. "I think it would be more accurate (or correct) to say…"
3. "Let me emphasize again…"
4. "What matters most in this situation is…"
5. "While _____ is important, it's also important to remember that…"
6. "It all boils down to this…"
7. "And that reminds me…"
8. "Before we leave this subject, I need to add…"

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Attachment B. 2017 Special Report on Fair Hydro Plan (0 Bytes) cannot be converted to PDF format.

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Security settings or invalid file format do not permit using AG 2017_News Release_Chapter 2.pdf (136845 Bytes).

Security settings or invalid file format do not permit using AG 2017_Summary_Chapter 2.pdf (72105 Bytes).

Security settings or invalid file format do not permit using AG 2017 Report on Fair Hydro Plan.pdf (1323405 Bytes).

From:	Erika.Hartog@ontario.ca on behalf of Angus, Helen (TBS)
To:	Karen Hughes (MGS); Veinot, Cindy (TBS); Hosick, Sarah (TBS); Patrick Laughton (MOF); Amanda Miller (MGS); Sofie DiMuzio (MGS); Bryant Sullivan (MAG); Boafoa Kwamena (MOI); Mark Donaldson (MOF); Dane Nelson (MOF); Allison Ue (MCSS); Vivienne Skoberne (MOHLTC); Kate Vrancart (MCS); Martin Schlaepfer (MOF); David McLean (MOF); Kobrinsky, Liza (MOF); Serge Imbrogno (ENERGY); Scott Thompson (CAB); Gadi Mayman; Ken Kandeepan; Tim Schuurman (MOF); Lynn Betzner (CAB); Alicia Farrow (CAB); Scott, Adrienne (CAB); Heitshu, Tania (CAB); Khalida Noor (MOF)
Cc:	Scott, Adrienne (CAB); Steen Hume (CAB); Hilary Cox (ENE); Tharani, Alisha (TBS); Kim, Minzi (MOF); Jenna LeBlanc (MCSS)
Subject:	Joint DM Regroup: SCOPA, Public Accounts
Attachments:	0. E-Binder_Feb 5 2018.zip

Sent Feb 05: E-binder attached

Attachment 0. E-Binder_Feb 5 2018 (0 Bytes) cannot be converted to PDF format.

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
				1	**2**	**3**
4	**5** *SCOPA Updated E-Binders Circulated*	**6** **SCOPA Joint Deputy's Briefing Discussion**	**7**	**8** *SCOPA SOC Deck & Updated E-Binders Circulated*	**9** **SCOPA SOC & Joint Deputy's Briefing**	**10**
11	**12** OPG - Financing of Regulatory Assets	**13**	**14** **SCOPA Status Table due to Committee**	**15** TBC: MOF Q3 Update	**16** *SCOPA Materials Finalized*	**17** TBC: Summary of TB orders published in Gazette
18	**19** Family Day	**20** House Resumes TBS OFHP OPQ filed MMP Meeting	**21** *TBC: SCOPA Dry Run*	**22**	**23** *SCOPA Final E-Binders Circulated*	**24**
25	**26**	**27** IESO Audit Committee Meeting	**28** **SCOPA Appearance**			

*TBD: Pre-Election Report
FAO Report on Hydro One
Posting of executive compensation frameworks (incl. IESO)
Supply Act

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 28, 2018

BRIEFING BINDER - DRAFT

February 6, 2018

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- Treasury Board Secretariat
- Ministry of Energy
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- Government Response to Auditor General's 2017 Annual Report
- House Book Notes

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Attachment B. Ministry of Energy Environmental Scan (0 Bytes) cannot be converted to PDF format.

Attachment C. Ministry of Finance Environmental Scan (0 Bytes) cannot be converted to PDF format.

Communications Branch
Your Strategic Partner

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

TBS ENVIRONMENTAL SCAN AND ISSUES OVERVIEW

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Environmental Scan

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- **Pension asset accounting**
- **Ontario Fair Hydro Plan (OFHP) Accounting**
- **Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG "inappropriate expenses"; OPG compensation)**
- **Pre-Election Report**
- **Province's debt burden**

Following the release of the Auditor General's Annual Report on December 6, 2017, TBS-related issues were referenced in 41 per cent of articles, including specifically the "accounting disputes" between the Auditor General and the government, spending on government advertising, and the Auditor General's commitment to audit the IESO's consolidated financial statements. In the House, there were eight questions related to TBS issues: 50 per cent were related to the IESO/OPG "inappropriate expenses"; 25 per cent were related to government advertising; and the remaining two questions focused on the balanced budget narrative and the Pre-Election Report.

Overall, the focus on Public Accounts specifically has been limited in the media and the House alike: between September and December 2017, there were 12 mentions of Public Accounts. 50 per cent of mentions referenced "accounting rules" or the alleged existence of "multiple sets of books". Following the tabling of Public Accounts 2016-17, media coverage was limited and 80 per cent of coverage was neutral in tone.

Media Scan

Auditor General 2017 Annual Report

- **Media Events – December 6, 2017**
    - **Auditor General**
        - Overall, TBS-related issues represented 28% of the Auditor General's remarks.
        - Media questions on TBS-related issues represented 28% of all questions asked (7 out of 25)– **including on the planned audit of IESO's financial statements, government numbers vs. AG numbers being used for the PC's platform, and concerns regarding pre-election reports.**
    - **Government Response**
        - Overall, TBS-related issues represented approximately 20% of the discussion.

        - Media questions on TBS-related issues represented 20.8% of all questions asked (5 out of 24) – questions focused on government advertising and **on comments made by the Auditor General to "address significant issues without fear of push-back and reprisal."**

    - **PC Response**
        - Introductory remarks focused generally on waste and mismanagement.
        - Media questions on TBS-related issues represented 17% of all questions asked (2 out of 12) – **questions focused on the PC's use of the government's numbers in their "People's Guarantee" platform**

    - **NDP Response**
        - TBS-related issues related to 8% of the third party leader's remarks, particularly on government advertising
        - No direct mention of TBS-led chapters, **however 38% of questions (3 out of 8) focused on IESO expenditures**

- **Initial Media Coverage**
    - There were approximately 17 stories focusing on the Auditor Generals' 2017 Annual Report
    - 41% of articles referenced TBS-related issues
    - Key themes related to TBS issues include: **"accounting disputes" between the AG and the government** – and the effect it has on the balanced budget narrative, spending on government advertising, and **the AG's statement that she will audit the IESO's financial statements.**

- **Recent Media Coverage** (December 2017 – January 2018) has focused on the following key themes:
    - **The government's relationship with the Auditor General**
    - **Pre-election report**
    - **Distrust of government numbers/"two sets of books"**

Public Accounts

- **Media Coverage**
    - Media coverage was short-term (24-hours), with **80% of media coverage neutral in tone** (compared to 26% in 2016)
    - Government key messages were picked up 100% of the time
    - Balanced budget key messages were picked up in 60% of the coverage

- **Key Themes**
    - Disagreement between the government and auditor general

- Ontario's fiscal position: government debt and deficit
- The government's alleged continued dismissal of watchdogs

Pre-Election Report

- **Media Coverage**
  - On December 17, 2017, the Toronto Sun published a column by Lorrie Goldstein, "Auditor General headed for a showdown with Wynne over financial vows Liberals made in 2004" focusing on the Pre-Election Report
  - On January 24, 2018, Minister Sousa was asked by Jessica Smith Cross (QP Briefing) about the plans for the Pre-Election Report. Minister Sousa signalled that plans were uncertain at this time: "What happens is, you produce a document then you provide the pre-election report. So I have to manage this concurrently. But again, we recognize the timing and the constraints that that brings. **So I have to find other ways** to ensure that full disclosure is given to her and the other legislative, to the FAO."

Hansard Scan

Auditor General 2017 Annual Report

Following the release of the Auditor General's 2017 Annual Report, there were eight questions in the House relating to TBS issues:

- 50% (4/8) were related to **OPG/IESO "inappropriate expenses"**
- 25% referenced the FAO - one on balanced budget, one on the **pre-election report**

Public Accounts

Public Accounts were mentioned in the House at least 12 times between September and December 2017:

- 50% mention some form of "accounting rules" / two sets of books
- 42% (5/12) related to infrastructure spending
- 25% (3/12) mention FAO and AG together
- 25% regarding Fair Hydro Plan accounting
- One reference to pre-election finance report

FOIs/OPQs

There is one OPQ currently in progress with TBS related to Ontario Fair Hydro Plan accounting.

Overview	Key Issues	Key Dates	Next Steps
OPQ #700		OPQ will be formally filed on	In progress –

MPP Vic Fedeli Would the President of the Treasury Board state whether the government is in possession of an opinion from KPMG or E&Y on how the Fair Hydro Plan transaction should be recorded in the government's Consolidated Financial Statements, and further state precisely where they disagree with the Auditor General	**Ontario Fair Hydro Plan Accounting** **Relationship with the Auditor General** **Use of external advisors**	February 20, 2018	**Products:** Response to OPQ. **Notes:** Draft will be sent first week of January 2018 to OPCD to draft response. OPQ will be formally filed on February 20, 2018 TBS is the only ministry to have received this OPQ. **Next Steps:** Develop and approve response

Other Considerations

- Executive compensation (OPG, OEB, IESO)
- "Inappropriate expenses" (OPG, IESO)
- Hydro bill redesign ("$15 million")

Key Issues

Issue/Consideration	Strategy	Key Messages	Evidence
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the	• Pension Asset Expert Advisory Panel • Opinion from Deloitte LLP • Analysis Completed by EY

		plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.	
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. IESO's recent accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.	Opinion supported by: • IESO audit committee • Independent external auditor (unqualified opinion) • OPCD • Same method used by Ontario Power Authority previously
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making, and that the accounting structure is still being finalized. Refuse to speculate about AG's potential future audit opinion.	The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).	• PSAS Guidance • CPA professional code of conduct • External advisors • Other jurisdictions

	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.	
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a	• Highlight how the government has been working with the Office of the Auditor General (stated by Minister Sandals in a Dec 16, 2017 Toronto Sun article)

		prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.	
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.	• C4SE study • MOF
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its	• Example of single use of legislated accounting (Public Accounts 15-16)

		consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.	
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.	• CPA professional code of conduct
FOI/OPQ/Records Disclosure			

Questions & Answers

Top Questions*

1. How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?

2. How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?

3. The government has received a second qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

4. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

5. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

6. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

7. Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.

8. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

9. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

10. Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?

11. When will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

**See appendix A for a full list of QAs.*

Long-Form Answers

1. **Why did the government choose to recognize pension assets from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan? What evidence and processes were used to support this decision?**

2. **Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements? Is there any precedent for this?**

3. **Can you explain when and how the Treasury Board Secretariat looks to other accounting methods to support the preparation of Public Accounts?**

Ministry/Agency Representatives

Organization	Position	Name
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot
Treasury Board Secretariat Office of the Provincial Controller	Director, Accounting Policy and Financial Reporting Branch	Mark Donaldson

Supporting Materials

Backgrounders

- Auditor General 2017 Annual Report – Public Accounts – Management Response Backgrounder
- Public Accounts Backgrounder

Technical Briefings/QAs

- Public Accounts – Technical Briefing Deck September 2017

House Book Notes

- Public Accounts
- Fair Hydro Plan Accounting
- Pension Asset Accounting

PLACEHOLDER

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PLACEHOLDER

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Attachment A. Government Response to Auditor General’s 2017 Annual Report (0 Bytes) cannot be converted to PDF format.

Attachment B. House Book Notes (0 Bytes) cannot be converted to PDF format.

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Ontario

BACKGROUNDER

Treasury Board Secretariat

Summary of Government Responses to the Auditor General's 2017 Annual Report Chapter on Public Accounts

December 6, 2017

The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

Below is a summary of the government's position regarding the Auditor's recommendations in Chapter 2 – Public Accounts of the Province.

Accounting for Pension Assets

The government continues to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset.
- An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded.

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

The government continues to apply the accounting treatment of pension assets that the Province has used consistently since 2001.

IESO Market Accounts

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of IESO-administered markets at year-end.

This change was supported by IESO's Audit Committee, its Board of Directors, its independent external auditor, and by the Office of the Provincial Controller. It has no impact to the Province's annual deficit, net debt or accumulated deficit.

The financial statements of IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

The accounting concepts used are consistent with those used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

IESO Rate-Regulated Accounting

PSAS is silent on the issue of rate-regulated accounting – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Standards Handbook.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework that provides guidance on rate-regulated operations.

IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America.

Ontario Fair Hydro Plan Accounting

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

The proposed accounting for OFHP reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Handbook.

This guidance has been appropriately applied in assessing the accounting for the OFHP.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from OFHP.

Legislated Accounting

The Province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for certain net pension assets in order to allow Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS.

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS.

Lawvin Hadisi, Minister's Office, 416-326-3839
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Ontario

STATEMENT

Treasury Board Secretariat

Statement from the President of the Treasury Board on the Auditor General's Annual Report

December 6, 2017

Today, Liz Sandals, President of the Treasury Board, released the following statement:

"We thank the Auditor General for her report, and continue to appreciate our ongoing working relationship with the Office of the Auditor General (OAG). The Treasury Board Secretariat works closely with the OAG on a wide variety of issues on a regular basis, and her oversight and insight is welcomed both during our regular interactions and with this annual report.

The Auditor General mentions a number of topics that represent ongoing conversations between government and her office; for instance, the accounting practices regarding pension assets and the application of the United States Generally Accepted Accounting Principles when the Public Sector Accounting Board's standards are silent. The government's position on these differences of opinion has not changed.

We agree with the Auditor General's comments on the importance of accountability for agencies, boards, commissions and other broader public sector entities. Since 2010, our government has implemented a number of important measures to strengthen broader public sector and provincial agency accountability, transparency and governance. Our recent Fall Economic Statement, if passed, responds to the recommendations of the Auditor General in her 2015 Annual Report to streamline administration and establish consistency in the tabling and communication of provincial agency annual reports. However, we know that making process changes to annual reports may not be the complete solution. We will continue working with the OAG to enhance oversight and ensure accountability across all of our agencies.

We share the Office of the Auditor General's belief that the Auditor General has an important role to play in the oversight of government advertising, and that's one of the reasons that we are proud that Ontario is the only jurisdiction in Canada to have legislation in place to ensure that oversight. In fact, we have recently expanded her oversight to include digital advertising.

We know that the government has a responsibility to communicate to the public it serves, and that advertisements are one medium through which we can do that. For example, our Sexual Violence and Harassment prevention campaign – #WhoWillYouHelp challenged existing attitudes, and sparked international discussion. Our video was viewed over seven million times in the first 10 days, and generated more than 85 million views worldwide. And within 6 months, we had measurable results – 55 per cent strongly agreed they had an obligation to intervene when witnessing sexual harassment, up from 37 per cent.

As the President of the Treasury Board, I am committed to leading the government's efforts on accountability, openness and modernization, while working to deliver good government and public services in the most effective and efficient way possible. As part of this commitment, we work side-by-side with our partners, including the Auditor General, throughout the year to ensure that we continue to become more efficient in our processes and more open and

accountable as a government.”

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CONFIDENTIAL REVISED: January 10, 2018

ONTARIO'S FAIR HYDRO PLAN ACCOUNTING (GLOBAL ADJUSTMENT REFINANCING)

ISSUE: What is the basis for the proposed accounting for the Global Adjustment Refinancing on the Province's books?

CONTEXT:

- The Global Adjustment Refinancing is one component of Ontario's Fair Hydro Plan announced in March 2017, and is the most significant contributor to the reduction in hydro rates for residential consumers.
- The other parts of the Plan for residential consumers include:
  - Expansion of the Ontario Electricity Support Program;
  - Reductions in distribution rates for consumers in rural and remote areas;
  - Reductions for First Nations residential consumers living on-reserve; and,
  - A fund set up to assist consumers in making their homes more energy efficient.
- The only impact on the 2016-17 consolidated financial statements from Ontario's Fair Hydro Plan is related to the fund set up to assist consumers in making their homes more energy efficient, which was expensed in the year and increased the annual deficit. In addition, the 8 per cent rebate on electricity bills, introduced as of January 1, 2017, while not part of the March 2017 announcement, also impacted the 2016-17 consolidated financial statements as an expense that increased the annual deficit.
- The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized. The government will present the Province's finances in the 2017-18 Public Accounts fairly and accurately and in accordance with Public Sector Accounting Standards (PSAS).

KEY MESSAGES:

GA Financing Status and Structure

- In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.
- All of the agreements necessary for the Global Adjustment (GA) Refinancing will be finalized in the current fiscal year. The final accounting for the GA Refinancing will be completed once all of the elements are complete. The balance of the note is based on the expected outcome. As previously noted, there was no impact on the 2016-17 consolidated financial statements from the GA Refinancing.
- In analyzing the appropriate accounting treatment for the GA refinancing component of Ontario's Fair Hydro Plan on the Province's consolidated financial statements in 2017-18 and going forward, the Province considered authoritative guidance issued by the Public Sector Accounting Board, as well as the accounting assessments of the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) management, including the accounting opinions of their external auditors.
- The complexity and unique structure of the GA Refinancing structure requires the use of professional judgment to ensure that key financial reporting objectives of transparency and accountability are best served.
- Under GA Refinancing, as enabled by the Ontario Fair Hydro Plan Act, 2017 ("OFHPA"), a Financing Entity established by Ontario Power Generation will borrow amounts to fund the payment of a portion of electricity costs charged by the electricity generators, thereby temporarily reducing the amount paid by eligible consumers (or ratepayers). The deferred amounts, including interest and other costs, will be recoverable from consumers/ratepayers in the future.

- The Independent Electricity System Operator (IESO), an independent, not-for-profit agency of the Province, is responsible for the management and operation of the wholesale electricity market. IESO makes payments to the electricity generators with cash received from the local distribution companies (and ultimately the consumers/ratepayers).
- Over the last 10+ years, investments have been made to phase-out coal and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system). This involves a move away from coal to cleaner, but more expensive methods of electricity generation, including wind, solar and natural gas. The cost of these investments were passed on to consumers/ratepayers as incurred or based on contractual payment terms, but not based on the period of benefit (i.e., the life of many generators is expected to exceed the length of the contracts).
- The GA refinancing acknowledges that the current generation of electricity consumers has paid more than its fair share for these costs, and spreads these costs incurred out over more years so they are shared proportionally by future electricity consumers.
- In simple terms, the IESO will continue to make payments to the electricity generators based on their contractual terms, but will collect less from the local distribution companies, as the consumers or ratepayers will pay a reduced amount. The amount not collected from the consumers now, or the shortfall, will be collected from consumers/ratepayers in the future.

- OFHPA permits the IESO to sell that shortfall, also referred to in the Act as a regulatory asset, which represents the right to collect payments from consumers/ratepayers in the future, to a financing entity. To recap, the IESO will continue to pay the electricity generators at their current contract rates. But it will do this with cash collected from the local distribution companies for electricity consumed (at a rate set by the OEB which reflects a significant portion of the 25 per cent reduction in the initial years) and cash received from the financing entity for the sale of the regulatory asset.
- The financing entity will be part of Ontario Power Generation (OPG Trust), a government business enterprise, wholly owned by the Province. The operations of Ontario Power Generation have been and will continue to be included in the consolidated financial statements of the Province using the modified equity method, the method Public Sector Accounting Standards (PSAS) require for government business enterprises.
- At its discretion, OPG Trust will purchase the shortfall amounts (or regulatory asset) from the IESO through a combination of provincial borrowing (flowed through OPG as an equity investment), amounts advanced from OPG and direct borrowing from capital markets.
- In the future, when the consumers/ratepayers pay for the deferred amount, those amounts will be used to repay the accumulated debt whether that be direct borrowing from the capital markets, amounts advanced from OPG or provincial borrowing.

IESO Accounting

- There was no impact on the 2016 financial statements of IESO from the GA Refinancing. The GA refinancing is expected to impact the 2017 financial statements.

- In 2017, the shortfall or regulatory asset that IESO incurs as a result of collecting less from the local distribution companies than it pays to the electricity generators would be accounted for as a rate-regulated asset. The rate-regulated asset would then be sold to OPG Trust for cash used to pay the electricity generators.
- For 2016, IESO adopted the use of rate-regulated accounting for costs incurred unrelated to the GA Refinancing; however, the impact to the financial statements of the Province was immaterial (impact on annual deficit of $24 million).
- PSAS is silent on the use of rate-regulated accounting. However, like all major accounting frameworks, PSAS encourages both preparers and auditors to consider guidance in other accounting frameworks when accounting for transactions not specifically addressed by the specific standards.
- IESO management, their audit committee, their board of directors and their external auditors, agree with the adoption of rate-regulated accounting by IESO. The Office of the Provincial Controller also supports the adoption of rate-regulated accounting by IESO.
- IESO is not the first entity that has prepared its financial statements using PSAS and rate-regulated accounting. Ontario Power Authority (which was amalgamated with IESO on January 1, 2015) prepared its financial statements with PSAS and used rate-regulated accounting.
- In the Auditor General's opinion on the 2016-17 consolidated financial statements of the Province, the AG has included an "Other Matter" paragraph, drawing attention to the adoption of rate-regulated accounting by IESO. The AG's view is expressed as stating PSAS does not permit rate-regulated accounting, but that the AG has not qualified the opinion on this matter because the impact is not material to the 2016-17 consolidated financial statements.

- The AG further notes, “However, the consolidated financial statements may become materially misstated in future periods, as a result of the legislated accounting prescribed under the Ontario Fair Hydro Plan Act, 2017 (OFHPA) and its related regulations, as it is not in accordance with Canadian public sector accounting standards.”
- Neither the IESO nor the Office of the Provincial Controller Division (OPCD) agree with the statements that (a) PSAS does not permit rate-regulated accounting (as previously noted, PSAS is silent with respect to rate-regulated accounting) or (b) Fair Hydro Plan and its related legislation and regulations legislate the accounting for GA Refinancing.

OPG Accounting

- The Auditor General has not raised any concerns to date with the intended accounting for the OPG Trust on the Province’s books.
- It is expected that OPG Trust will be controlled and consolidated by OPG.
- Purchases by OPG Trust of the rate-regulated assets from the IESO will be reflected on OPG’s books as intangible assets which will be included in the Province’s financial statements as part of its investments in government business enterprises.

The Province’s Accounting

- In assessing the appropriate accounting for Ontario’s Fair Hydro Plan (OFHP) on the Province’s books, OPCD worked closely with key ministries, the Ontario Energy Board (OEB), IESO, OPG and their respective external advisors.
- The final accounting treatment for OFHP-related activities will be confirmed once all elements of the GA Refinancing framework are finalized, including provincial guarantees and financing arrangements.

- Once the details and commercial agreements of the OFHP are finalized, the external auditors of IESO and OPG are expected to provide independent accounting opinions on the accounting treatment on IESO and OPG's financial statements.
- OPCD will rely on those independent accounting opinions, the audited financial statements of IESO and OPG as of December 31, 2017 and its own research and analysis in determining the impact of the GA Refinancing on the 2017-18 consolidated financial statements.

If Pressed: AG Assertion that the Government is Using Legislated Accounting

- The Auditor General has made several incorrect references to legislated accounting which should be addressed to ensure clarity and transparency in terms of the government's accounting treatment for Ontario's Fair Hydro Plan.
- In particular, the Auditor General has referred to legislated accounting prescribed by the OFHPA that is designed to in some way manipulate the Province's financial reporting in its consolidated financial statements.
- The Province's financial statements are based on Public Sector Accounting Standards (PSAS) as issued by the Public Sector Accounting Board of CPA Canada. There is no legislated accounting that applies to the Province's consolidated financial statements.
- While the OFHPA does, under Section 24, require that IESO set up a variance account to track the cash shortfall amount resulting from the deferred recovery amount, it is just another type of regulatory account, similar to those that OPG reports and for which the OEB is responsible for approving rates.

- As far as the Province's financial reporting practices go, whether the deferred amounts reported in IESO's variance account are assessed as assets for financial reporting purposes will be determined by the interpretation and application of Public Sector Accounting Standards, not by the legislation or regulations.

Auditor General's Special Report on the Fair Hydro Plan

- The Office of the Auditor General released *The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money* on October 17, 2017. The report focused on the financial and accounting framework of the OFHPA.
- The Auditor General said that the accounting for the Fair Hydro Plan is not permitted under PSAS because it is silent on rate-regulated accounting, despite the fact that standard accounting practice, including under PSAS, dictates that an entity should consult other accounting standards for transactions not specifically covered by primary standards.
- The Auditor General asserts in her report that the OFHPA creates an asset through legislation. This is a fundamental disagreement the government has with the Auditor General's report. The Province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

Key Messages on AG's Special Report on the Fair Hydro Plan

- The government respects independent officers of the legislature, and values the important perspective they bring, but does not agree with the assertions and conclusions expressed in the Auditor General's Fair Hydro Plan report.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

- In developing the Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.
- The Fair Hydro Plan operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards and ensures the goals underlying the program are achieved in a cost-effective manner.
- PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything. When that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.
- The financing plan and its impact will continue to be transparent and fully available to credit rating agencies, securities regulators, and the public.
- The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

RECENT MEDIA COVERAGE:

- January 12, 2018 – An opinion piece in the Toronto Star argues Kathleen Wynne faces a phantom opponent in the spring election: Ontario's auditor general, who looms like an accounting apparition over the premier. The article notes, Lysyk isn't just picking fights with Liberal cabinet ministers but clashing with Ontario's non-partisan public service as well as outside consultants. The most awkward contretemps took place a year ago, when an expert panel of accounting and actuarial experts shredded the auditor's claims about the government cooking the books.
- January 4, 2018 – The Brighton Independent covers Liberal MPP Lou Rinaldi's plans for re-election, while making reference to the "issues" the government has with the Auditor General, particularly on pension asset and Fair Hydro Plan accounting.
- January 3, 2018 – The CBC runs an article "No quick fix for Ontario's energy woes, electricity analyst says," noting the criticisms from opposition parties and analysts regarding the accounting of the Fair Hydro Plan.

- December 17, 2018 – The Ottawa Sun's Lorrie Goldstein writes that "independent financial officers say Wynne government's books can't be trusted," noting the Auditor General and FAO's concerns regarding Fair Hydro Plan accounting: "In her Dec. 6 annual report, Lysyk warned "there is a very real risk" the "government's continued use of nonstandard accounting" will "seriously distort the true state of the province's finances...The government uses these incorrect accounting treatments to claim it has balanced the province's books, but in reality, legislators, the financial community and all Ontarians will be misled as to the true condition of the province's finances." In its fall economic and fiscal outlook released last week, the FAO warned, "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 13, 2017 – The Toronto Sun runs a comment piece following from the Financial Accountability Office's fiscal and economic outlook, fall update report, entitled "Liberals hiding deficit, second watchdog says," noting the Auditor General and FAO's criticisms of the accounting for the Fair Hydro Plan.
- December 11, 2017 – The Toronto Star's Robert Benzie covers the Financial Accountability Office's fiscal and economic outlook, fall update report, noting the FAO's agreement with the Auditor General's questioning of the accounting of the Fair Hydro Plan: "The FAO also backed the auditor general in questioning the complex mechanism the government has developed to bankroll the 25 per cent electricity rate cut, known as the Fair Hydro Plan. Because of the actuarial tussle "it is becoming more difficult for legislators and the public to assess the government's fiscal projections.""
- December 11, 2017 – The Canadian Press' Shawn Jeffords also covers the FAO's report, noting: "The FAO said in its report that since the government has not adopted the auditor's recommended accounting for both the pension assets and the Fair Hydro Plan it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 6, 2017 – The Canadian Press and other outlets cover the Auditor General's 2017 Annual Report, noting the accounting disagreements between the Auditor and the government: "Lysyk also announced through her report that her office would be auditing the IESO's books. That comes amid one of two accounting disputes the auditor has been engaged in with the Liberal government. She recently accused the government of purposely obscuring the true financial impact of its 25 per cent cut to hydro bills by keeping billions in debt used to finance that plan off the province's books. Lysyk said she will audit the IESO because of its role in the hydro plan's complex accounting scheme."
- November 2, 2017 – The Waterloo Region Record runs an editorial by analysts from the Fraser Institute entitled, "Ontarians in the dark about Fair Hydro Plan." The piece argues: "Ontario needs real reform to lower electricity prices for residents and businesses. Unfortunately, the provincial government is opting for improper accounting practices and temporary solutions, sticking current and future Ontarians with the bill."
- October 26, 2017 – CBC writes that "Ontario hydro bills to rise over next 10 years in government's energy plan," referencing the Auditor General's report on Fair Hydro: "Ontario's auditor general Bonnie Lysyk found that the Liberals concocted a "needlessly complex" system in order to achieve the savings in the Fair Hydro Plan by moving $26 billion of debt off the government's books […]Thibeault said the accounting isn't deceptive, and that similar financing strategies have been used throughout Ontario history, including for the construction of nuclear plants in the 1970s."
- October 25, 2017 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute's Ontario Prosperity Initiative entitled "Number's up for Wynne's government," writing "But regardless of how pension assets should be treated, or how new debt incurred by the government's Fair Hydro Plan should appear on the books, the stark reality is that Ontario taxpayers are carrying far more public debt than a decade ago and that burden is growing quickly, every year."

- October 24, 2017 – CBC references the Auditor General's report on Fair Hydro, writing "Auditor General Bonnie Lysyk criticized how the program is being financed, saying the province is "improperly" accounting for the $26 billion in debt it's taking on to cut hydro bills in the short term. The Liberals called the controversy an "accounting dispute" with the auditor."
- October 23, 2017 – Global News reporter Alan Carter wrote an analysis on "truth" and Fair Hydro. He wrote, "The war between Lysyk and the Liberals is whether the Fair Hydro Plan and its use of Ontario Power Generation as a debt vehicle is a sign of devious politicking or just the way things get done."
- October 23, 2017 – The Peterborough Examiner carried an opinion piece written by Minister of Energy, Glenn Thibeault. "I'm not surprised to see the Conservatives try to get in the middle of an accounting dispute between the government and the Auditor General for personal political gain. It's how they deflect without putting forward any policy ideas of their own."
- October 22, 2017 – The Toronto Sun's Antonella Artuso wrote that the way the Liberals "hid" the cost of its Fair hydro Plan from taxpayers could raise concerns that other governments across the country could follow suit and bury deficits.
- October 22, 2017 – The Toronto Sun's opinion piece says the Fair Hydro Plan is simply 'long-term pain for short-term gain".
- October 19, 2017 – CBC's Mike Crawley writes about the Auditor General's accusations that the government was trying to hide documents from her investigation. Crawley writes that the Progressive Conservatives have made a request to the province's "top public servant to ensure that all relevant documents and emails are saved."
- October 18, 2017 – CTV News (6pm) includes the Progressive Conservative's reaction to the Fair Hydro report: "opposition calls for resignations of ministers of finance and energy after AG report."
- October 18, 2017 – QP Briefing's Jessica Smith Cross highlighted that the $4 billion figure cited by the Auditor General and the Financial Accountability Office that would be wasted due to the government's "needlessly complex" financing structure for Ontario's Fair Hydro Plan was said 21 times by opposition parties during Question Period that morning.
- October 18, 2017 – The Globe and Mail's Justin Giovannetti (A9) highlights the Auditor General's Fair Hydro report. The article includes a quote from Minister Sandals: "Perhaps the essential accounting dispute that we have with the auditor is a dispute over what happens when the Canadian Public Sector Accounting Standards are silent, when they don't give direction,' Ms. Sandals said. 'We keep running into this problem because, quite frankly, Ontario is the biggest province, and we often have bigger projects and do things a bit differently from all the smaller provinces.'"
- October 17, 2017 – The CBC's Mike Crawley covers the Auditor General's report, writing "The auditor says the plan could also result in Ontarians paying "up to $4 billion more than necessary" in interest. That's because OPG will be required to pay higher interest rates than the province would if the government took on the debt directly."
- October 17, 2017 – The Toronto Star's Robert Benzie also focused on the Auditor General's so-called scathing report on Ontario's Fair Hydro Plan, while acknowledging the historical dispute between the Auditor's Office and the government.
- October 17, 2017 – The Ottawa Citizen's David Reevely continues with key themes in the coverage, also writing: "The Liberals really, really, really wanted to keep that debt off their books, so they could also go into the next election saying the provincial budget is balanced. Borrowing billions in an election year would get in the way. So they did some advanced financial engineering to put the debt on Ontario Power Generation instead."

- October 17, 2017 – The Canadian Press' Allison Jones cites the Auditor General's statements, and includes Minister Sandals' rebuttal on the point of asset accounting: "Treasury Board President Liz Sandals said credit rating agencies are ranking the hydro debt in preparation for selling it. 'That's the difference,' she said. 'Somebody actually wants to buy it, ergo it is an asset.'"
- October 17, 2017 – QP Briefing provided a primer on the report, and pointed to the Auditor General's criticism of the government on the alleged willingness to accept a qualified audit opinion for the province's Public Accounts.
- October 17, 2017 – The Auditor General's report and remarks during the media conference were extensively covered across the media. Coverage consistently cited the key themes in the Auditor General's report, highlighting the "needlessly complex" accounting structure, "improper accounting," and the "anticipated $4 billion more in interest payments than if the province had borrowed the funds directly."
- October 17, 2017 – The Toronto Sun's Antonella Artuso featured an overview of the Fraser Institute's report released in the morning, arguing that "Soaring electricity prices resulted in 75,000 fewer manufacturing jobs for Ontarians since the recession".
- October 17, 2017 – The Office of the Auditor General held a media conference for the release of The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money.
- October 17, 2017 – CBC News reports that today Auditor General Bonnie Lysyk will reveal the results of her investigation into the government's Fair Hydro Plan. The report will look at how the rate cuts are financed and whether the plan is fair for taxpayers and hydro customers. Auditor Lysyk has already told a legislative committee in May that to borrow the money on OPG's books rather than the province's is "contrary to public sector accounting standards."

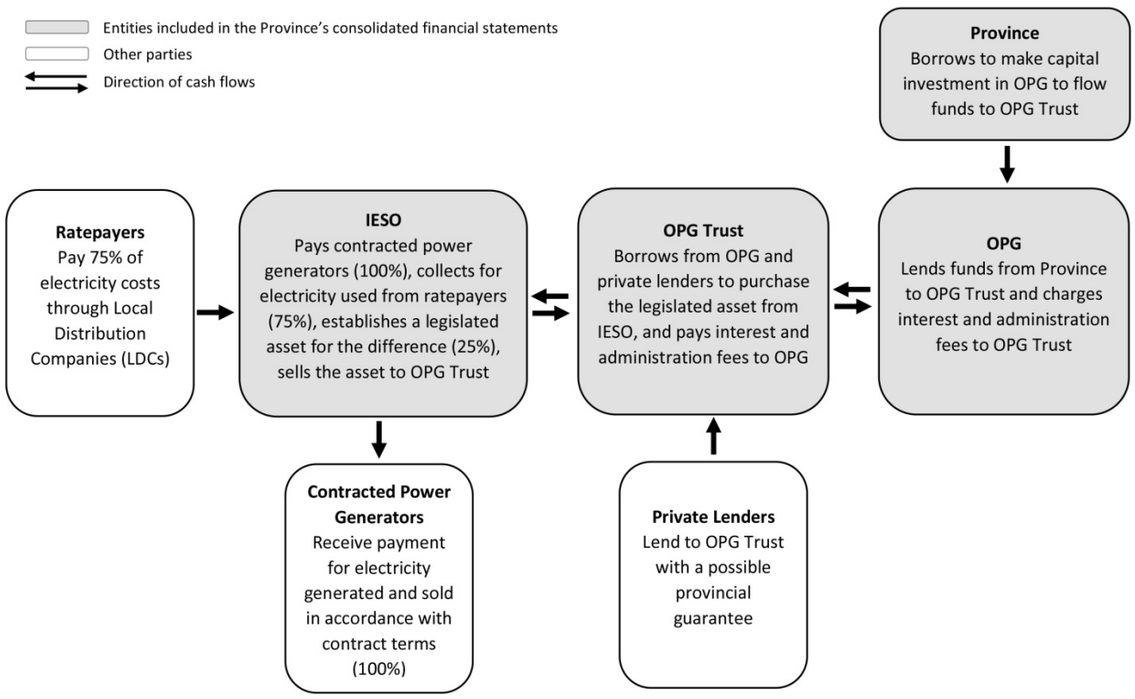
Updated by: Mark Donaldson, Director, Accounting Policy and Financial Reporting

Approved by:	**Name:**	**Date approved:**
ADM, Office of the Provincial Controller	Cindy Veinot	January 3, 2018
Corporate Issues Management Analyst. Communications Branch	Alisha Tharani	January 10, 2018
A/Manager, Issues Management, Corresp. & Media Relations	Amanda Miller	January 15, 2018
Assistant Director, Communications Branch	Bryant Sullivan	January 16, 2018
Director, Communications Branch	Sofie Di Muzio	January 16, 2018

Appendix

Proposed Legislated Transaction Structure

Prepared by the Office of the Auditor General of Ontario



CONFIDENTIAL REVISED: January 5, 2018

PENSION ASSET EXPERT ADVISORY PANEL

ISSUE: How do you respond to the reports released by the Pension Asset Expert Advisory Panel?

KEY MESSAGES:

- The Pension Asset Expert Advisory Panel has released its independent advice and recommendations on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets.
- The panel's first report concluded that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.
- The panel supports the accounting treatment that Ontario has used consistently since 2001.
- The panel has also issued a supplemental report that provides independent advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The government has accepted the panel's recommendations and in the 2016-17 third quarter update, it indicated its plans to adopt the previous accounting treatment in the upcoming Public Accounts.
- The government has reflected the recommendations of the panel, which align with its previous accounting in the 2017 Budget, the 2016-17 Public Accounts and the 2017 Fall Economic Statement.

- The government formed the Pension Asset Expert Advisory Panel to provide independent advice on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets. The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards.
- We will continue to move forward and present the Province's finances fairly and accurately, which includes reporting for jointly sponsored pension plans in accordance with Public Sector Accounting Standards and the panel's recommendations.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.

IF PRESSED: SUPPLEMENTAL REPORT HOOPP & CAATPP

- We thank the panel for their independent advice and recommendations made in relation to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The two additional pension plans addressed in the supplemental report are different than OTPP and OPSEUPP because they are jointly sponsored by multiple organizations. The Ontario Government is a third party sponsor and has no direct control over decisions of the employer sponsors about benefit or contribution levels, funding of deficits or use of surpluses. Because of these differences, a valuation allowance will be recorded for any net assets of these plans until the government benefits from a reduction in contributions.
- The Ontario Government agrees with the panel's conclusions in the supplemental report.

CURRENT STATUS:

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.
- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update. During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."
- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report. Chapter two of the report made recommendations regarding the Public Accounts of the Province, with the first of 10 recommendations focusing on the pension asset accounting issue. From the report: "We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months."
- On April 27, 2017 the Pension Asset Expert Advisory Panel's Supplemental Report was released. It provides the government with independent advice and recommendations on how to account for current and potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).
- The panel's supplemental report concludes that a net pension asset from HOOPP and CAATPP should be recognized in the province's financial statements in the same way as the net liability, but also recommends that a valuation allowance should be reported for accrued benefit assets for both of these plans in the province's financial reports.
- The panel's report on the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP) was made available to the public on February 13, 2017 and did not recommend that a valuation allowance be reported for either of these two plans.
- Both reports have been shared with the Auditor General of Ontario and her office.

- In the 2017 Budget, the 2015–16 actuals were restated to reflect the government's previous accounting treatment for jointly sponsored pension plans which recognized net pension assets for the Ontario Public Service Employees' Union (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) on the Province's financial statements. The restated results follow the advice of the panel and the accounting followed previously by the Province since 2001.
- On June 12, 2017, the Ontario Teachers' Federation and the Ontario Government, joint sponsors of the Ontario Teachers' Pension Plan (OTPP), announced they will use a portion of the $11.5 billion surplus in the Plan (as of January 1, 2017) to complete the restoration of inflation protection for teachers who retired after 2009. As well, the contribution rate for the Plan's active members will be reduced by 1.1%. Both changes are effective January 1, 2018.

COSTS

	Actuals		
Panel Member	**Per Diem**	**Travel**	**Total**
Patricia O'Malley	83,000	1,057	84,057
Uros Karadzic	62,700		62,700
Paul Martin		3,898	3,898
Murray Gold	38,000		38,000
Procurement			32,458
Total	**183,700**	**4,955**	**221,113**

BACKGROUND:

- On February 17, 2017 Minister Sandals sent a memorandum to Warren (Smokey) Thomas in response to his article of February 14, 2017 in the Toronto Sun on pension assets.

  "As you are aware, the Pension Asset Expert Advisory Panel ("Panel") released its report on February 13, 2017, and concluded that the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.

  The OPSEU pension plan, which is jointly-sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor. Simply put, the province does not have the ability to make any withdrawals from the plan.

  I trust that you are reassured by this news. Your February 14 press release and your subsequent comments in a February 15 *Toronto Sun* article, suggest that you were unaware of these rules.

  In addition, the province has not proposed any pension contribution increases or reductions at this time. Any decisions with respect to changes to pension contributions or benefits must be made by the Plan Sponsors. A decision to reduce contributions would benefit both the employees and the employer."

- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.

  The panel was comprised of accounting, legal, and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.

  The following four members were appointed to the Panel:

  - Tricia O'Malley (Chair)
  - Murray Gold
  - Uros Karadzic
  - Paul Martin

Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

The panel's report was delivered to the President of the Treasury Board and was shared with the Auditor General of Ontario. The panel's report was made public in early 2017.

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, "Independence is not infallibility when it comes to Ontario's financial books," arguing Auditor General "Lysyk's paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All's fair in politics and accounting, unless you're an auditor gone awry."
- December 17, 2017 – The Ottawa Sun's Lorrie Goldstein writes that "with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted." Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: "Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan."
- December 17, 2017 – The Toronto Sun's Jim Warren cautions that "the role of the Auditor General is shifting in troubling ways," arguing that the Auditor General's increasing outspoken role is "making matters worse." Specifically referencing the pension asset accounting issue, Warren writes "For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position."
- December 14, 2017 – The Record runs an opinion piece, "To sort out truth from pre-election fictions, turn to Bonnie Lysyk," writing that the Auditor General "warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car."
- December 13, 2017 – The Toronto Sun runs a comment piece, entitled "Liberals hiding deficit, second watchdog says" covering the Financial Accountability Officer's (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO's report "says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans."

  Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting."

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- September 13, 2017 – The Toronto Sun runs a column, "Wage warnings won't stop Wynne," critical of the cost of the Pension Asset Expert Advisory Panel: "Indeed, her government's typical reaction to critical, non-partisan warnings it gets from independent officers of the legislature - such as the auditor general and the FAO - is to ignore them, or to attack the messenger […]Wynne spent up to $435,000 striking an "independent" panel that unsurprisingly agreed with her position on pension accounting, not the auditor general's."
- September 8, 2017 – David Reevely writes in the Ottawa Sun and Ottawa Citizen "Lysyk and the ministers have been volleying back and forth for a couple of years now over how to count assets on the government books. Without getting too deep into it, what's in question is whether certain public sector pension plans and some holdings in the electricity system belong to the government or not."

- September 7, 2017 – The Canadian Press' Shawn Jeffords covers the tabling of Ontario's Public Accounts 2016-17, and cites the government's ongoing disagreement with the Auditor General on pension asset accounting as the reason the Auditor has issued a qualified audit opinion two years in a row. Minister Sandals is quoted in the article: Sandals maintains the government is following established accounting practices and people don't care about the on-going squabble. "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – The Toronto Star's Robert Benzie refers to the disagreement between the Auditor General and the government over IESO market accounts assets and pension asset accounting as an "accounting slugfest". Minister Sandals is quoted in the article (same quote as The Canadian Press coverage): Sandals on Thursday shrugged off Lysyk's accounting interpretation, which lead to her to issue a qualified audit opinion on the province's books for the second year in a row.

  "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said.

  "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – Queen's Park Briefing's Christopher Reynolds covers the disagreement between the Auditor General and the government, quoting Minister Sandals: ""The public wants to know, are you managing your deficit?" Sandals said Thursday at the release of the province's 2016-217 public accounts. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- On May 1, 2017 David Reevely writes in the Ottawa Sun that "There's also $500 million booked in the government's favour from surpluses in a couple of pension plans for public employees. These are the subject of an arcane accounting dispute over whether the government, which couldn't grab the money easily, should be able to count them the way it's counting them. The auditor general says no. A panel of external blue-chip accounting types says yes (for a number of reasons, the easiest of which to grasp is that if the pension plans came up short the gap, would be the government's problem). Going with the auditor general's ruling would be the safer thing, for sure, but what the government's doing is neither trick nor a one-time manouevre.
- On April 30, 2017 David Reevely wrote about the 2017 budget and said "the Liberals are taking advantage of a surplus in some public-employee pension funds, which Auditor General Bonnie Lysyk says is improper but which other experts say is OK. And they've adopted a sort of partial distinction between operating spending and capital spending, which used to be mashed together into each year's budget in a way they no longer are."
- On February 21, 2017 the Toronto Sun (A10) has a column by Warren Thomas (OPSEU). He writes "Ontario's public service workers and retirees feel like we are about to get robbed." He notes that the Auditor General has been turned into a lapdog from a watchdog. Thomas writes "If nobody stands up to Wynne, I'm afraid her next move could be to actually steal our pension money, giving her more cash for overpaid consultants and Sunshine List executives."
- On February 20, 2017 the Toronto Sun reports on Minister Sandals' memo to OPSEU's Warren Thomas. It recounts the minister's statement that "government has no plans on making like a bandit with his members' pension funds." The short piece includes her quote: "The OPSEU pension plan, which is jointly sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". "I trust that you are reassured by this news."
- On February 18, 2017 the Toronto Sun has a piece by Lorrie Goldstein. He writes that Premier Wynne needs to take the advice of the Auditor General in order to demonstrate openness and transparency.

- On February 18, 2017 the Ottawa Sun (A9) reports NDP Leader Horwath trusts the Auditor General's math. She spoke up on Friday on the ongoing pension account issue between government and the AG.
- On February 18, 2017 the Toronto Sun's Antonella Artuso (A10) quotes Minister Sandals who said in a statement that she will accept the findings of the panel and: "They also concluded that the government controls access to the pension surplus which has a future economic benefit to the province and recognizing the asset will provide an accurate representation of the province's financial position."
- On February 18, 2017 the Toronto Star's Martin Regg Cohn (A12) writes about the Auditor General. He says that she is no hero – in fact her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures." He concludes: "We rely on auditors to provide value for money audits. Not to introduce their own values, making up untested accounting standards as they go along."
- On February 17, 2017 the Hamilton Spectator (A16) posted an opinion piece that is negative toward Auditor General Lysyk. It notes: "Lysyk is putting that reputation and integrity on the line in Ontario. And she's not on solid ground…. If the evidence supported Bonnie Lysyk's position, we'd be the first to back her. But it doesn't. She needs to respect that and back down."
- On February 17, 2017 QP Briefing has a piece written by Bryne Purchase, former deputy minister of finance, on the 'accounting spat'. He sides with the AG: "I think it was regrettable that Premier Kathleen Wynne's government chose to attempt to undermine the legitimacy of our parliament's own accounting expert by appointing a panel of its own experts to review an unfavourable ruling."
- On February 17, 2017 the Windsor Star (A7) has a Canadian Press report that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute. Auditor General Bonnie Lysyk's quote is used: ``Show me the letter that says you can use that pension money with permission, with an agreement," she said Thursday. ``Until that happens the bottom line is this office can't give its stamp of approval on this particular issue." The article notes this is not the first time the Liberal government has clashed with the AG - the former energy minister suggested the electricity file was too complicated for Lysyk, and she has frequently suggested that partisan ads are being funded by taxpayer dollars.
- On February 16, 2017 the Toronto Star reported the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes. The article says the AG is "escalating a $10.7 billion standoff" with the government over taxpayer-funded pension surpluses. "There has been no suggestion the government intends to dip into the pension funds, which would be illegal. The question is whether the pension surplus can be counted as an asset or not at all." The AG was quoted: "It is not my money. That money is for the benefit of employees and retirees … so it's not my pension. It's not my budget deficit."
- On February 16, 2017 QP Briefing reports the AG says that until she sees a letter that says government can use that pension money with permission – her office can't give its stamp of approval on this issue. The article notes the government "isn't inclined to draft" a letter. Treasury Board President Liz Sandals is quoted from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place." This article also includes quotes from MPP Lisa MacLeod and OPSEU's Warren Thomas.

- On February 16, 2017 the Toronto Sun (A5) has two articles on the number crunching aspect of the expert panel. It says government spent up to $435,000 to the expert panel in the dispute with the Auditor General. The article says this has made OPSEU's Warren Smokey Thomas livid and notes that he wants a guarantee the government won't raid his members' pension fund. Ontario Treasury Board spokesman Matt Ostergard is quoted from an email, "The work of the panel is ongoing so we don't have final costs at this time but they will be in line with previous panels and will be made public."
- On February 16, 2017 The Northumberland Today.com has David Reevely's opinion piece on the pension panel's "gift' to the government. "The Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds. The article includes a written statement from Minister Sandals "We are committed to implementing the advice of this independent panel and will use it in preparing the province's financial statements."
- On February 15, 2017 QP Briefing reports Treasury Board President Liz Sandals says it's too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute. "I think we're getting way ahead of ourselves – that's a total hypothetical," Sandals told reporters. "The bottom line is, the panel gave us advice, and we're going to follow the advice of the panel." Sandals added there "is no urgency" for Lysyk to weigh in on the panel's conclusion and that she was "pleased" that the auditor was giving it a thorough read. The article notes the minister was "cagey" when pressed about if the panel's report will mean a rollback on contributions for the OPSEU plan. She is quoted, "As the panel points out, that is the traditional way in which the government would access the surplus," "That's the whole premise of the panel's report, is that the way in which the government or any other employer in that situation would access the surplus is by reducing the contribution rate."
- On February 14, 2017 OPSEU's Smokey Thomas writes that Premier Wynne should remember who owns the assets of the province's jointly trusted public pension plans. He says the dispute between the government and the Auditor General is not "just a paper war". "It's a fight over who owns billions of dollars earned by workers and invested on their behalf. I'm telling the Premier right now: the money in those plans belongs to plan members. It is not hers to play with." He "unequivocally supports" the Auditor General's position. He says his "fear is that the Liberals will try to move money out of public pension plans to help wipe out the provincial deficit in time for the 2018 provincial election."
- On February 14, 2017 the Ottawa Sun's David Reevely (A11) reports "the Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds." His article notes, "The point is, we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets." He writes the surpluses work in the government's favour – especially as an election approaches.
- On February 14, 2017 the Toronto Star (A7) (and online) has a negative piece about the Auditor General, written by Martin Regg Cohn. He writes the AG has been caught out in a $10.7-billion miscalculation. "Even a watchdog can lose the scent and bark up the wrong tree. Or worse, miss the fiscal forest for the trees. For the job requires not just independence but context. To be truly credible, an auditor general must fearlessly expose government boondoggles but also fess up to her blunders." "Lysyk's lack of diligence - now overdue - is a damning indictment of an auditor gone awry."

- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: “Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: “If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- On February 13, 2017 the Toronto Star reported a panel of accounting experts says that $10.7 billion in government-sponsored pension plans should count toward the province’s bottom line. The article notes panel chair Tricia O’Malley said “We believe that an asset does exist – the net pension asset meets the definition of an economic resource, which is what an asset is.” The Star noted that Auditor General Lysyk is reviewing the report and will provide comment to the media later this week.
- On February 12, 2017 the Toronto Star reports a government-appointed panel of experts will announce on Feb. 13 that joint-sponsored pension surpluses should be counted as assets for the provincial treasury. The report says the Auditor General should include billions of dollars of its assets on the government’s bottom line. OPTrust says “surpluses and deficits should both be recognized on the province’s balance sheet.”
- On February 8, 2017 The Toronto Star (A6) reports Premier Wynne welcomes a report from four accounting experts that says a $10.7-billion pension surplus can be counted as an asset on the province’s bottom line. The article notes the AG was briefed on the report last week and it will be make public later this month. MPP Vic Fedeli is quoted: “The people of Ontario have to ask themselves who are they going to believe: the independent auditor general or a scandal-plagued Liberal government?”
- On February 8, 2017 QP Briefing reports the Financial Accountability Officers says “should the panel studying a pension accounting clash with the auditor general conclude that billions of dollars’ worth of pension assets should be counted on Ontario's balance sheet after all, the government will get more flexibility to balance the budget as promised.” “David West, the FAO's chief economist, said he had not heard about any conclusions from the panel but noted that if they have decided to count the pension assets, it gives the government more breathing room to achieve balance, as promised.” Auditor General Lysyk declined to confirm or comment directly because the panel is not yet public.
- On February 7, 2017 The Toronto Star’s (A4) Martin Regg Cohn reports billions of dollars are at stake in a dispute pitting Ontario's Auditor General against the government. He writes that despite an outside panel of top accounting and pension experts determining that Auditor General Bonnie Lysyk has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets – she told this reporter that “she won't climb down,” and this now sets the stage for a public showdown over an accounting change that is worth $1.5 billion to the bottom line this year alone. “The auditor told me her mind is made up and nothing she has heard so far has changed her view….which leaves her on a limb and the government in the lurch.”
- On November 30, 2016 QP Briefing reported Minister Sandals appointed an expert panel to help resolve the government's standoff with the Auditor General over pension assets. The chair of the special panel tasked with settling an accounting dispute will be paid $2,000 per work day. The other three members of the panel will get a $1,900 per diem, as well as reimbursement.
- On November 14, 2016 QP Briefing reported an expert panel will study the AG pension dispute.

- On October 9, 2016 Focus Ontario (Global) ran a segment on the 2015-16 Public Accounts and the disagreement with the Auditor General. Both the Premier and Patrick Brown are quoted in the segment. The Premier is quoted from Question Period saying the government “accepted the Auditor General's numbers for this year. We released the documents despite the divergence in accounting opinions, specific to pension funds between Treasury Board officials and the Auditor as part of our commitment to openness and be transparency.”
- On October 9, 2016 The Toronto Sun (A17) ran an opinion piece about the disagreement with the Auditor General. The piece notes that this kind of back and forth between ministries and the Auditor General is common. The Auditor General provides time for ministries to comment on the audit in draft form so that accounting issues can be hashed out before the final audited statement is presented to the legislature. Accounting issues are generally benign. So it's surprising that the Wynne government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's unqualified opinion.
- On October 6, 2016 The Financial Post has a commentary by analysts with the Fraser Institute. “It's not surprising the Wynne government is willing to go to the mat to defend its estimate of last year's budget deficit. As Ontario approaches a provincial election in 2018, a big part of the government's PR strategy is focused on celebrating an expected return to a balanced budget in next year's budget. So Premier Kathleen Wynne's team has a big incentive to push back against dissenting views.”
- On October 6, 2016 QP Briefing reports Treasury Board President Liz Sandals tabled Ontario's public accounts for fiscal 2015-16, including the Auditor General's opinion. The tabling of the public accounts was delayed by almost two weeks after months of back and forth between the Auditor General and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- On October 3, 2016 The Globe and Mail reports Ontario's Liberal government is fighting with the province's Auditor General over a $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt.
- On October 3, 2016 Canadian Press ran a story in 40 media outlets reporting that the government says Auditor General Bonnie Lysyk is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years. “The issue is with the accounting of the Ontario Public Service Employees Union Pension Plan and the Ontario Teachers' Pension Plan, which are jointly sponsored with the government. The government says the plans have a surplus, but the auditor general says that should not be on the province's balance sheet.”

Prepared by: Jim Keates, Senior Accounting Policy Analyst, Accounting Policy and Financial Reporting. July 21, 2017

Approved by:	**Name:**	**Date Approved:**
Director	Nadine Petsche/Mark Donaldson	July 31, 2017
ADM, Office of the Provincial Controller	Cindy Veinot	January 3, 2018
Issues Management Analyst, Communications	Alisha Tharani	January 5, 2018
A/Manager, Issues Management, Communications	Amanda Miller	January 15, 2018
Assistant Director, Communications	Bryant Sullivan	January 16, 2018
Director, Communications	Sofie Di Muzio	January 16, 2018

CONFIDENTIAL REVISED: January 10, 2018

2016-17 PUBLIC ACCOUNTS

ISSUE: What is reported in the 2016-17 Public Accounts released on September 7, 2017?

KEY MESSAGES: PUBLIC ACCOUNTS

- The 2016-17 Public Accounts of Ontario show the province's deficit is $991 million.
- This result is $3.3 billion lower than projected in the 2016 Budget, and $0.5 billion lower than the interim forecast in the 2017 Budget.
- This is a result of growth in revenue that exceeded growth in program expense, and lower than forecast interest on debt.
- Ontario has beaten its deficit target eight years in a row. Ontario's plan is working.
- As promised in the 2016 Budget, Ontario grew its economy while transforming healthcare, building vital infrastructure and investing in people's talents and skills.
- Due to our prudent fiscal management and Ontario's robust economic growth, we are projecting a balanced budget for the first time since the onset of the global recession in 2008.
- We remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- This is something that has been achieved only eight times in the last 40 years in Ontario.
- We will continue moving forward on our fiscally responsible plan that creates fairness and opportunity for all Ontarians.

KEY MESSAGES: OTHER HIGHLIGHTS

- We will continue to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- Other highlights from this year's Public Accounts include:
    - Economic growth, with a 2.7 per cent increase in real gross domestic product (GDP), up 2.2 per cent in the 2016 Budget.
    - Total revenue of $140.7 billion, up $2.2 billion from the 2016 Budget.
    - Total spending of $141.7 billion, down $0.1 billion from the 2016 Budget.
    - Interest on debt of $11.7 billion, down $0.7 billion from the 2016 Budget.
- To help Ontarians better understand their government's finances, new digital tools have been developed that present the Public Accounts data in innovative, visual formats. These tools make Ontario's finances easier to understand, access and use.
- Presenting the Public Accounts data in innovative, visual formats is part of Ontario's commitment to Open Government.

KEY MESSAGES: ACCOUNTING CHANGES

BPS REVENUE PRESENTATION

- To increase transparency, the 2016-17 Public Accounts are presenting third-party revenues for hospitals, school boards and colleges, such as tuition fees, patient fees, research grants and donations, with provincial revenue.
- In prior years, these revenues were netted against the expenses of the respective sectors (health, education, post-secondary).
- This is a change in presentation only; the change increases total revenues and expenses by approximately $8 billion, and does not impact the deficit, net debt or accumulated deficit.
- This change is consistent with public sector accounting standards and the reporting practices of other senior Canadian governments.
- The Auditor General is supportive of this change in presentation.

ACCOUNTING FOR ENERGY GOVERNMENT BUSINESS ENTERPRISES:

- The 2016-17 Public Accounts include the financial results of Ontario Power Generation (OPG) and Hydro One using International Financial Reporting Standards (IFRS).
- These two government business enterprises currently report their stand-alone financial results using Generally Accepted Accounting Principles in the United States (US GAAP).
- In prior years, the reported results of OPG and Hydro One were included in the results of the province based on US GAAP.
- This change does not have a material impact on this year's Public Accounts.
- The Auditor General is supportive of this change in presentation.

PENSION ACCOUNTING:

- The government established the Pension Asset Expert Advisory Panel following the release of the 2015-16 Public Accounts.
- The Panel delivered independent advice on how public sector accounting standards are interpreted as they apply to current net pension assets and the application of public sector accounting standards for two of Ontario's jointly sponsored pension plans; Ontario Teachers' Pension Plan (OTPP); and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP).
- The Panel's report concluded that the province's share of the net pension assets of both the OTPP and the OPSEUPP should be recognized in Ontario's financial statements.
- The government accepted the Panel's recommendations, which have been reflected in the 2016-17 financial statements.
- The 2015-16 financial statements have also been restated to reflect the pension assets for these two plans.
- The Auditor General continues to not accept the application of the Public Sector Accounting Board (PSAB) standards in the 2016-17 Public Accounts regarding pension accounting for the province's jointly sponsored pension plans. For 2016-17, the Auditor General has qualified her opinion, stating that the province's deficit is understated by $1.4 billion.

KEY MESSAGES: IESO ACCOUNTING

- The Independent Electricity System Operator (IESO) reports its financial results in accordance with Public Sector Accounting Standards.
- In 2016, IESO changed its accounting policy to begin recognizing market assets (amounts due *from* power distributors) and liabilities (amounts due *to* power generators). In previous years, these amounts were omitted from IESO's financial statements.

- This change has no impact to the province's annual deficit, net debt or accumulated deficit.
- IESO also adopted rate-regulated accounting for deferred charges, such as the cost of smart meters, which will be recovered from users of these meters over time.
- Public Sector Accounting Standards are silent on rate-regulated accounting, and as a result, as provided for in the accounting standards, IESO considered other sources of guidance to assess the appropriateness of applying rate regulated accounting.
- Prior to the 2015 merger with the IESO, the Ontario Power Authority (OPA) reported market accounts and used rate-regulated accounting under PSAS. The statements of the OPA were not qualified during that time by OPA's external auditor or the Auditor General. This accounting treatment is not new to Ontario.
- The Auditor General qualified her opinion in 2016-17 based on the recognition of the IESO's market accounts. The Auditor General also noted in her opinion that the use of rate regulated accounting under PSAS is not permitted, but did not qualify on the issue of rate regulated accounting, as the impact was not material in the current year.
- The reporting changes implemented by the IESO were approved by their management and board, and received an unqualified audit opinion from their external auditor. The province's Office of the Provincial Controller also supports the changes.

KEY MESSAGES: AUDITOR GENERAL'S 2017 ANNUAL REPORT – CHAPTER ON PUBLIC ACCOUNTS

- The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and

accurately and in accordance with Canadian Public Sector Accounting Standards.

- The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- The province will continue to provide financial statements according to Canadian Public Sector Accounting Standards that support transparency and accountability in reporting to the public, the legislature, and other users.
- The government will continue to build on its track record of responsible fiscal management.

CURRENT STATUS

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.

BACKGROUND:

- The Public Accounts of Ontario is a key accountability and transparency document in the government's financial cycle. It's a look back that compares Ontario's actual performance to what was planned in the Budget.

- The Public Accounts present the financial statements of the Province, provide financial highlights of the past fiscal year, and report on performance in priority areas.

- Public Accounts is audited by the Auditor General and is typically released in the fall of the following fiscal year.
- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

- These changes include:
    - **Accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
    - **Accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.
    - **Accounting for the Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
    - **Accounting for net pension assets of jointly sponsored pension plans** - the Province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

Pension Asset Expert Advisory Panel

- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide independent advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.
- The Panel was comprised of accounting, legal and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.
- The Panel members were:
    - Tricia O'Malley; (Chair)
    - Murray Gold;
    - Uros Karadzic; and,
    - Paul Martin.
- Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

- The Panel issued its report in February 2017. Upon receiving the report, the government, supported by its own research and analysis, accepted the Panel's recommendation and has reported the pension assets of the Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employees' Union Pension Plan (OPSEUPP) in its 2016-17 consolidated financial statements (with restatement of 2015-16).
- The Panel issued a supplementary report in March 2017 with respect to the Healthcare of Ontario Pension Plan (HOOPP) and Colleges of Applied Arts and Technology Pension Plan (CAATPP) recommending that a full valuation allowance be recorded on the net assets of both of these plans, based on the difference in governance structure between these plans and OTPP and OPSEUPP. The province agreed and has recorded a valuation allowance for CAATPP in the year (amount is not material). The HOOPP plan is not in a net asset position for accounting purposes at March 31, 2017.

Independent Electricity System Operator

- The Independent Electricity System Operator (IESO) is a not-for-profit, non-taxable corporation established pursuant to Part II of the *Electricity Act, 1998*. The Ontario Power Authority and the IESO merged on January 1, 2015.
- One of IESO's roles is to settle the market accounts, which are the amounts due to the entities that provide electricity to the market (e.g. power generators) and due from those who consume electricity (e.g. local distribution companies on behalf of their consumers).
- Rate regulated accounting is appropriate where the rates an entity is able to charge to its customers are set by another party (i.e. a regulator), provided specified criteria are met. Rate-regulated accounting permits the entity to defer costs that would otherwise be expensed to the period that the related revenue is charged to customers. Costs able to be deferred by the IESO include:
    - Unrecovered smart metering expenses; and,
    - Unrecovered pension and post-employment benefits related to PSAB transition.
- During 2016, IESO made two accounting changes (1) to recognize the market accounts in its financial statements – these amounts were not previously recognized in the IESO's financial statements, and (2) to apply rate-regulated accounting.
- The IESO received an unqualified audit opinion from KPMG (their external auditor) with respect to the financial statement presentation in their 2016 audited financial statements. IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor, and the Office of the Provincial Controller all support the recognition of the market accounts and the use of rate-regulated accounting by IESO.

Revenue Highlights

Against the Restated 2016 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $2.2 billion higher than forecast in the 2016 Budget. This was largely due to higher than projected taxation revenues, non-provincial source revenues from hospitals, school boards and colleges, and income from GBEs, partially offset by lower than projected Government of Canada transfers and other non-tax revenue.

Against the Restated Interim Estimates in the 2017 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $0.6 billion lower than the interim forecast in the 2017 Budget. This was largely due to lower than projected taxation revenues and Government of Canada transfers, partially offset by higher than projected income from GBEs.

Expense Highlights

Against the Restated 2016 Budget plan:

- Total expense in 2016-17 was $141.7 billion, or $0.1 billion lower than forecast in the 2016 Budget plan. Program spending was $130.0 billion, up by $0.6 billion from a planned spending of $129.4 billion and interest on debt was $11.7 billion, lower by $0.7 billion from planned interest cost of $12.4 billion. Program spending was higher by $0.6 billion largely due to higher than projected spending in the health, community and social services, justice sector and general government and other.

Against the Restated interim Estimates in the 2017 Budget:

- Total expense in 2016-17 was $141.7 billion or $1.1 billion lower than the interim forecast in the 2017 Budget. Program spending was $130.0 billion, $0.9 billion lower than the interim forecast of $130.9 billion in the 2017 Budget. Interest on debt was $11.7 billion, lower by $0.2 billion from planned interest cost of $11.9 billion. Program spending was lower by $0.9 billion largely due to lower than projected spending in the health and education sectors, and other programs.

Net Debt

- Net debt as of March 31, 2017, was $301.6 billion, which was $6.7 billion lower than forecast in the 2016 Budget. Net debt grew by $6.2 billion during the year, representing a $6.6 billion increase in liabilities that was partially offset by a $0.4 billion increase in financial assets.

Auditor General's 2017 Annual Report: Chapter on Public Accounts

- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report.
- The Auditor General's Annual Report, Chapter 2, makes 10 recommendations regarding the Public Accounts of the Province.
- The recommendations largely reflect opinions that have been expressed in previous reports, including the Auditor General's audit opinion in the 2016-17 Public Accounts and the Special Report on the Fair Hydro Plan.
- Treasury Board Secretariat and Ministry of Finance disagree with the characterization of the majority of the recommendations, and re-iterate the government's commitment to producing high-quality financial statements on a timely basis and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Financial Accountability Office's Economic and Fiscal Outlook, Fall 2017 Update

- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update.
- During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, "Independence is not infallibility when it comes to Ontario's financial books," arguing Auditor General "Lysyk's paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All's fair in politics and accounting, unless you're an auditor gone awry."
- January 9, 2018 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute's Ontario Prosperity Initiative entitled "Ontario's finances are still a mess." Eisen argues that people should treat the government's balanced budget claims with skepticism, writing "For starters, many analysts, including Ontario Auditor General Bonnie Lysyk, have called the government's accounting techniques into question, arguing proper accounting would show continued deficits. Others, including the government's Financial Accountability Office, warn that without additional policy changes to reduce spending, or raise taxes, Ontario will likely slip back into deficits."
- December 17, 2017 – The Ottawa Sun's Lorrie Goldstein writes that "with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted." Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: "Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan."
- December 17, 2017 – The Toronto Sun's Jim Warren cautions that "the role of the Auditor General is shifting in troubling ways," arguing that the Auditor General's increasing outspoken role is "making matters worse." Specifically referencing the pension asset accounting issue, Warren writes "For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position."
- December 14, 2017 – The Record runs an opinion piece, "To sort out truth from pre-election fictions, turn to Bonnie Lysyk," writing that the Auditor General "warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car."
- December 13, 2017 – The Toronto Sun runs a comment piece, entitled "Liberals hiding deficit, second watchdog says" covering the Financial Accountability Officer's (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO's report "says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans." Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting."

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- November 15, 2017 – Ontario PC Finance Critic Vic Fedeli pens a column in the Toronto Sun on the Fall Economic Statement, making reference to the Auditor General's qualified audit opinion on the province's Public Accounts two years in a row.
- October 16, 2017 – CBC News looks to the province's Public Accounts to highlight "Four surprising things about the Ontario government's finances," including: "personal income tax revenue is dropping," "corporate tax revenue is soaring," a "real estate windfall," and "booze revenue poised to top gambling revenue."
- September 8, 2017 -- Post Media's David Reevely quotes the AG's statement that rejects the contents of the Public Accounts "The Legislature and all Ontarians must be able to rely on the province's consolidated financial statements to fairly report the fiscal results for the year. This year they cannot do so." The article mentions the FAO's commentary this week saying the FAO and AG have 'made a businesslike routine of pointing out all the extreme assumptions and accounting stretches the

government is using to make the books look good in an election year." The article concludes that considering what happened to the world economy a decade ago the government has 'done all right' but is critical of 'dismissing' the government's two most prominent independent financial experts. **Minister Sandals** mentioned in reference to releasing the PA.

- September 7, 2017 -- Toronto Star says the "stakes are high in the accounting slugfest between the government and the auditor general." The article mentions Minister Sandals "shrugging off" the AG's accounting interpretation. "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said. "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 -- QP Briefing reports financial watchdogs aren't smiling about the government lowering the deficit to $1 billion, but instead are 'baring their teeth'. The article says auditor general Bonnie Lysyk said yesterday the government "significantly understated" its deficit, while the Financial Accountability office this week called the plan to reduce the debt burden "unlikely." Minister Sandals is quoted "The public wants to know, are you managing your deficit?" "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The article also notes AG Lysyk is warning that the complex accounting behind the hydro bill reduction could add to a bigger than expected deficit next year, and that a special report will be tabled this fall.
- September 7, 2017 -- The CP article about Public Accounts quotes Minister Sandals "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The coverage says AG Lysyk disputes the government figures and that "the statements were not prepared following Canadian Public Sector Accounting Standards." This article was picked up by several media outlets but coverage was not widespread.
- February 20 & 21, 2017 -- Toronto Sun report on Minister Sandals' memo to OPSEU that "the OPSEU pension plan….clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". This is followed by a column by OPSEU President Warren Thomas saying Ontario's public service workers and retirees feel like we are about to get robbed.
- February 18, 2017 – Toronto Star, Toronto Sun and Ottawa Sun coverage of the ongoing pension accounting issue between the government and Auditor General.
    - Ottawa Sun says NDP Leader Horwath trusts the Auditor General's math.
    - Toronto Sun quotes Minister Sandals who said in a statement that she will accept the findings of the panel.
    - Toronto Star columnist Martin Regg Cohn wrote that the Auditor General is no hero, and her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures."
- February 17, 2017 -- Hamilton Spectator, QP Briefing, and Windsor Star have coverage.
    - The Spectator's opinion piece is negative toward Auditor General Lysyk.
    - QP Briefing's piece written by Bryne Purchase, former deputy minister of finance, sides with the AG.
    - Windsor Star published the CP story that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute and that she is asking to see "the letter that says you can use that pension money with permission, with an agreement."

- February 16, 2017 – The Toronto Star, Toronto Sun & QP Briefing have coverage of the Auditor General's response to the panel's report.
    - The Toronto Star and QP Briefing say the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes and describes it as an "escalating a $10.7 billion standoff".
    - QP Briefing quotes Minister Sandals from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place."
    - The Toronto Sun has two articles on the number crunching aspect of the expert panel and that the government spent up to $435,000 on it. OPSEU's Warren 'Smokey' Thomas was livid and notes that he wants a guarantee the government won't raid his members' pension fund.
- February 15, 2017 -- QP Briefing quotes Minister Sandals about it being too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute.
- February 14, 2017 – high profile media coverage of the Pension Asset Expert Advisory Panel report release the day before.
    - Toronto Star columnist Martin Regg Cohn is critical of the Auditor General saying she has been caught out in a $10.7-billion miscalculation.
    - The Star's coverage also included article about the panel report and that $10.7 billion in government-sponsored pension plans should count toward the province's bottom line.
    - The Ottawa Sun's David Reevely says about the panel report "…we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets."
    - OPSEU's Smokey Thomas writes that the dispute between the government and the Auditor General is not "just a paper war" and that he "unequivocally supports" the AG's position.
- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: "Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: "If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- February 7 & 8, 2017 – Toronto Star and QP Briefing have coverage about the pension asset advisory panel's soon-to-be-released report.
    - PC Finance Critic Vic Fedeli tells the Star, that the people have to ask themselves who they are going to believe-- the independent auditor general or a scandal-plagued Liberal government?"
    - Columnist Martin Regg Cohn writes the AG has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets and she won't climb down.
- November 14 & 30th, 2016 -- QP Briefing has coverage of the expert panel announced to study the accounting dispute over pension assets.

- October 9, 2016 -- Focus Ontario (Global tv) and the Toronto Sun have coverage of the 2015-16 Public Accounts and the disagreement with the Auditor General.
    - Focus Ontario coverage balanced.
    - Toronto Sun opinion piece expresses surprise that the government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's opinion.
- October 6, 2016 -- The Financial Post has a highly critical commentary by analysts with the Fraser Institute, while QP Briefing reports the public accounts for 2015-16 have been tabled almost two weeks after months of back and forth between the auditor general and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- October 3, 2016 -- The Globe and Mail and Canadian Press report the government is ‘fighting’ with the Auditor General. Globe notes focuses on the AG’s $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt. CP story (picked up by 40 media outlets) says the Auditor General is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years.

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Reviewed by: Mark Donaldson, Office of the Provincial Controller Division

Approved by:	**Name:**	**Date Approved:**
ADM, Office of the Provincial Controller Division	Cindy Veinot	January 3, 2018
Issues Management Analyst, Communications Branch	Alisha Tharani	January 10, 2018
A/Manager, Issues Management, Correspondence and Media Relations	Amanda Miller	January 15, 2018
Assistant Director, TBS Communications Branch	Bryant Sullivan	January 16, 2018
Director, Communications Branch	Sofie Di Muzio	January 24, 2018

Appendix

Preparation and Tabling:

The Public Accounts for each fiscal year are prepared under the direction of the President of Treasury Board, as required by the *Financial Administration Act*.

The Public Accounts of Ontario consist of the Annual Report and three supplementary volumes. The Annual Report includes the province's audited consolidated financial statements and a financial statement discussion and analysis section. Supplementary information is contained in three volumes:

Volume 1: Ministry statements for expenses, assets, revenue, detailed debt and other supplementary schedules. It provides a comparison of appropriations with actual spending.

Volume 2: Financial statements of significant provincial corporations, boards, commissions that are part of the government's reporting entity, and other miscellaneous statements.

Volume 3: Detailed schedules of payments made by ministries to vendors and transfer payment recipients.

The *Financial Administration Act* requires the President of Treasury Board to submit the province's Annual Report and consolidated financial statements to the Lieutenant Governor in Council (LGIC) on or before 180 days after fiscal year-end. This year, the deadline was September 27, 2017.

The process for release of the Public Accounts is as follows:

- The Public Accounts are approved by the Lieutenant Governor in Council.
- The LGIC lays the Public Accounts before the Assembly, if the Assembly is in session, and the Public Accounts are then released on the same day.
- If the Assembly is not in session on the day of the release of the Public Accounts the LGIC is required to make the Public Accounts public and the Public Accounts are laid before the Assembly on or before the tenth day of the next session.

LOGISTICS & FORMAT OVERVIEW

Overview

- SCOPA meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports. All public committee proceedings are recorded in Hansard.
- The Chair will advise members to consider questions that are relevant to the content of the Auditor General's Annual Report, but in practice members do sometimes ask questions outside of the report's focus. As a general rule, expect that any question related to the Province's financial statements would be ruled within scope by the committee chair.
- The Committee members may ask that ministries provide details after the session if more research or gathering of information is needed to respond to a question.

Agenda

Wednesday, February 28, 2018
Committee Room 151 (Amethyst Room), Main Legislative Building

Time	*Topic*
9:00 a.m.	Closed Session: Briefing by the Auditor General
10:00 a.m.	Briefing by the Research Officer
10:15 a.m.	RECESS
12:30 p.m.	Treasury Board Secretariat and other representatives • *Invited senior officials appear and respond to questions.* • *The Auditor General attends, and the Committee members can seek clarification from the AG on points from her report if needed during the session.*

12:30 – 3:00 p.m.

- **Opening remarks** (20 minutes)
- **First round of questions** (60 minutes)
  - Each of the three political parties get 20 minutes of questions
- **Second round of questions** (50 minutes, approximately)
  - The remaining time until 2:45 p.m. is split between the three political parties; approximately 15-17 minutes per party

DRAFT

- **Closed session** (15 minutes)
    - Committee members plus the Clerk, only; no audience or presenters
    - The Committee will discuss the outcome of the meeting and if they want to do a report
    - There are no closing statements from ministry officials

Room Setup

- Committee Room 151 (Amethyst Room) is equipped with cameras and the meeting will be available on TVs within the Legislature and streamed online.
- The room has a square table with rows of extra seating at the front the room.
- The Committee Chair, Auditor General and Clerk will sit at the head of the table with the government and opposition parties on opposite sides.
- The invitees sit opposite the Committee Chair and Clerk, either at the table or in the first row of chairs.

Media Access

- Media are allowed to sit in on the meeting as long as they do not interrupt the proceedings. They cannot ask questions in the committee room, but if they wish they can scrum participants in the hallway as they leave.
- Media can also watch SCOPA proceedings on the TVs in the Legislature or online.

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Invitees

Organization	Position	Name
Cabinet Office	Secretary of Cabinet	Steve Orsini
Treasury Board Secretariat	Deputy Minister	Helen Angus
Ministry of Finance	Deputy Minister	Scott Thompson
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ministry of Energy	Deputy Minister Assistant Deputy Minister	Serge Imbrogno Steen Hume
Ontario Power Generation	President and Chief Executive Officer Senior Vice President and Chief Financial Officer	Jeffrey Lyash Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer Vice President, Corporate Services and Chief Financial Officer	Peter Gregg Kimberly Marshall

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Ministry/Organization Representatives to Attend

Organization	Position	Name
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot
Treasury Board Secretariat Office of the Provincial Controller	Director, Accounting Policy and Financial Reporting Branch	Mark Donaldson
Ministry of Finance Deputy Minister's Office	Deputy Minister	Scott Thompson
Ministry of Finance Office of the Budget	Assistant Deputy Minister	Tim Schuurman
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ontario Financing Authority	Chief Financial and Risk Officer	Ken Kandeepan
Ministry of Energy Deputy Minister's Office	Deputy Minister	Serge Imbrogno
Ministry of Energy Assistant Deputy Minister	Energy Supply Division	Steen Hume
Ontario Power Generation	President and Chief Executive Officer	Jeffrey Lyash
Ontario Power Generation	Senior Vice President and Chief Financial Officer	Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer	Peter Gregg
Independent Electricity System Operator	Vice President, Corporate Services and Chief Financial Officer	Kimberly Marshall

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Committee Members

Chair



ERNIE HARDEMAN, MPP (PC/OXFORD)

Current Parliamentary Roles

Chair, Standing Committee on Public Accounts
Critic, Municipal Affairs and Housing

Vice-Chair



LISA MACLEOD, MPP (PC/NEPEAN—CARLETON)

Current Parliamentary Roles

Vice-Chair, Standing Committee on Public Accounts
Critic, President of the Treasury Board, Critic, Ministry of Finance,
Critic for the Anti-Racism Secretariat

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Members



BOB DELANEY, MPP (LIB/MISSISSAUGA—STREETSVILLE)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts Member, Standing Committee on Estimates,
Parliamentary Assistant to the Minister of Energy



VIC DHILLON, MPP (LIB/BRAMPTON WEST)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Government and Consumer Services Member, Standing Committee on Social Policy



HAN DONG, MPP (LIB/TRINITY—SPADINA)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Advanced Education and Skills Development, Parliamentary Assistant to the Minister Responsible for the Poverty Reduction Strategy
Member, Standing Committee on Finance and Economic Affairs



JOHN FRASER, MPP (LIB/OTTAWA SOUTH)

Current Parliamentary Roles

Member, Standing Committee on Social Policy Member, Standing Committee on Public Accounts, Parliamentary Assistant to the Minister of Health and Long-Term Care

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PERCY HATFIELD, MPP (NDP/WINDSOR—TECUMSEH)

Current Parliamentary Roles

Critic, Housing
Critic, Municipal Affairs
Member, Standing Committee on Public Accounts



RANDY HILLIER, MPP (PC/LANARK—FRONTENAC—LENNOX AND ADDINGTON)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Critic, Attorney General



LIZ SANDALS, MPP (LIB/GUELPH)

Current Parliamentary Roles

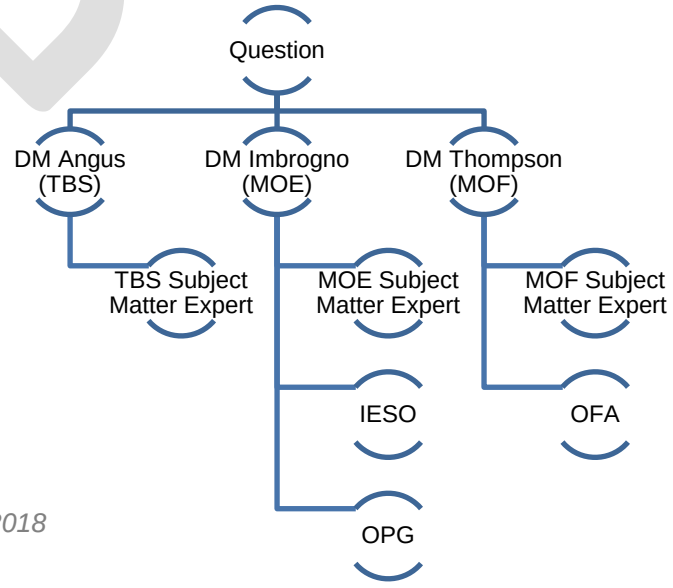
Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Infrastructure

Clerk
Katch Koch
Tel. 416-325-7352
kkoch@ola.org

Last updated: February 5, 2018

STRATEGIC APPROACH

- Provide evidence and facts as the basis of decision-making wherever appropriate (e.g. other jurisdictions, external advisors).
- Provide responses that are relevant and in scope of the consideration of chapter two of the Office of the Auditor General's report
- Avoid any speculation on political decision-making or rationales; provide objective, factual responses in role as non-partisan public servant.
- Provide context wherever possible. Deputy Ministers to provide initial messaging then pass to the subject matter experts where appropriate.
- Emphasize the role of a public servant is to provide factual, non-partisan information to the Committee based on due diligence and the application of professional judgment.
- Reaffirm the government's commitment to working with the Office of the Auditor General.
- Emphasize that the province will continue to follow Public Sector Accounting Standards (PSAS), as always, and will seek appropriate expert guidance where PSAS is silent.
- Use the Committee appearance as an opportunity to communicate the facts and rationale for the decision to adopt/continue accounting practices in response to the Office of the Auditor General's recommendations.
- Highlight due diligence in decision making (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).



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STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Last updated: January 22, 2018

Key Issues	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	Pres. & CEO, OPG	SVP & CFO, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thompson	Gadi Mayman	Serge Imbrogno	Steen Hume	Jeffrey Lyash	Ken Hartwick	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting		Overall - Pension Asset Accounting		Details - Pension Asset Accounting								
Advisory Panel Compensation			Advisory Panel Compensation									
IESO Accounting							**IESO LEAD**					
Rec # 2 IESO Market Accounts				Government decision to accept IESO market accounts			OFHP Policy Overview	OFHP Policy Overview			IESO's Role in OFHP / General Overview	IESO Market Accounts
Rec #5 IESO Market Accounts & Rate-Regulated Accounting				Government decision to accept IESO rate-regulated accounting								IESO Rate-Regulated Accounting
AG Audit of 2017 Statements		Relationship with AG - AG Audit of 2017 Statements										AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #3 OFHP Accounting				Decision to accept OFHP accounting			OFHP Policy Overview	OFHP Policy Overview	OPG's Role in OFHP / General Overview	OPG Financing Structure / Transaction	IESO's Role in OFHP / General Overview	IESO Financing Structure
Rec #6 'Legislated Accounting'				OFHP - 'legislated' accounting								
Rec #9 Arm's Length Trusts				Accounting for trust						OPG Accounting / Trust		
Records Disclosure/Process		Ministry FOI/OPQ					Records Disclosure / Process Followed		Records Disclosure / Process Followed		Records Disclosure / Process Followed	
Re-design of hydro bills							Re-design of hydro bills					
Pre-Election Report		**JOINT PRE-ELECTION REPORT LEAD**			**JOINT PRE-ELECTION REPORT LEAD**							
Rec #10 Pre-Election Report on Ontario's Finances		Pre-Election Report on Ontario's Finances	Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #7 Province's Debt Burden					Province's Debt Burden	Province's Debt Burden; Repayment plan						
Financial Accountability Officer Reports					Financial Accountability Officer Reports	Financial Accountability Officer Reports						
Credit Ratings					Credit Ratings	Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
Rec #4 External Advisors		External Advisors										
Rec #8 Timeline of Finalization of Financial Statements		Timeline of Finalization of Financial Statements	Timeline of finalization of financial statements		Timeline of finalization of financial statements - tax revenues							
Audit Opinion				Audit Opinions								
Out of Scope		Specific ministry Public Accounts line items Speculation about future accounting implications; audit opinions Speculation about government motivations			Speculation about future policy implications Speculation about government motivations		OFHP final accounting implications Speculation about future policy implications Speculation about government motivations	IESO/OPG compensation Expenses				

Summary Status Table in Response to the Report of the Auditor General of Ontario

Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and b) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

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	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Aanalysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. The government respectfully disagrees with the Auditor General's interpretation of the accounting standards on this issue as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

CONFIDENTIAL DRAFT FOR DISCUSSION

by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

CONFIDENTIAL DRAFT FOR DISCUSSION

	conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

CONFIDENTIAL DRAFT FOR DISCUSSION

our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*		

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their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

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• *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

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states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

	which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%, currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining, falling to 37.3% in 2017-18 from its 2014-15 peak of 39.3%.	Continue to monitor progress. Estimated implementation by FY 2029-30.

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	As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

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personal income tax revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #10 *We recommend that the government determine when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.*	Under the *Fiscal Transparency and Accountability Act*, 2004, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a Statement based on a prompt review following the release of such a Pre-Election Report.	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

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Attachment B. Ministry of Energy Comprehensive QAs (0 Bytes) cannot be converted to PDF format.

Attachment C. Ministry of Finance Comprehensive QAs (0 Bytes) cannot be converted to PDF format.

QUESTIONS & ANSWERS

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Last updated: February 1, 2018
Initial review by OPCD

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

Key Messages

- The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).
- We respectfully disagree with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.
- The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.
- The province is open to continue to discuss the matter in the hopes of resolving this matter.
- For more information on pension asset accounting, I will now pass it over to:
    - Cindy Veinot, Provincial Controller

1. **How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?**

   The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

   The Office of the Auditor General communicated its interpretation of PSAS requiring a full valuation allowance on the province's two jointly sponsored pension plans in September 2016.

   At that time, the government passed a time-limited regulation on the accounting treatment of for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from the Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts.

   During the 2016-17 year, the province's professional accounting staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans.

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This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel, established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans.

  The panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017, which supported the government's position that a valuation is not required for these two plans under PSAS.

  Two key findings of the panel were:

  1) There is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record and asset, as the existing agreements in place between the parties support the recognition of an expected benefit; and

  2) Unilateral control is not required for asset recognition. Joint control with each party having the ability to deny the actions of the other sponsor provides evidence of shared control, supporting recognition of an asset.

- An opinion from Deloitte LLP on aspects of the province's accounting as of March 31, 2016 for the Ontario Teacher's Pension Plan (OTPP). The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under PSAS, even though the province did not have a unilateral right to reduce contributions. (The opinion did not address the value at which the asset should be recorded.)

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or Ontario Public Sector Employee's Union Pension Plan (OPSEUPP) as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

After significant deliberation, including consideration of the recommendations of the panel, Deloitte LLP and EY, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and prepared in accordance with PSAS for pension asset accounting. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension

assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

We respectfully disagree with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.

The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.

The province is open to continue to discuss the matter in the hopes of resolving this matter.

2. Why are you still fighting with the Auditor General over pension accounting?

In preparing last year's Public Accounts, the province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the province on the issue. The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan. The 2016-17 financial statements include these pension assets, and the government continues to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

The Treasury Board Secretariat will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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Advisory Panel Compensation

1. **How much did you pay the panel members? Do you think that money was justified?**

   The total cost of the panel was $221,113. This included compensation and travel expenses for the four panelists, as well as procurement. These rates are consistent with the Agencies and Appointments Directive, which specified up to $2,000 per day for appointees with unique and specialized expertise, or urgent issues affecting government priorities and requiring intense time commitments over a short period of time.

   The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards, and provided independent advice on how to move forward with how Public Sector Accounting Board standards should be applied to current and potential future net pension assets.

2. **Why was Patricia O'Malley included in Public Accounts and not the other panel members?**

   Patricia O'Malley was the chair of the independent Pension Asset Expert Advisory Panel (PAEAP), which provided important advice to government on how to account for jointly-sponsored pension plans. She is included in Public Accounts because her compensation for her work on the Panel was above the $50,000 threshold that must be reported in detail in Public Accounts.

   The other members of PAEAP were paid less than the $50,000 minimum threshold in fiscal 2016-17 that requires they be listed in Public Accounts. Their 2016-17 compensation is captured as part of the "Accounts Under $50,000" category.

   As Paul Martin is a member of the New Brunswick Public Service, he did not receive compensation for his role on the panel. He was only eligible for expense reimbursements.

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

Key Messages

- The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit.
- In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements.
- The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.
- The government supports this enhanced reporting and greater transparency for the economic activities of the IESO.
- The province is open to continue to discuss the issue in the hopes of resolving this matter.
- For further details on the province's decision to accept IESO market accounts on the province's consolidated financial statements, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO's decision to adopt market accounts, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts	Ministry of Energy (IESO)

1. **How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?**

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

   The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

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This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

Key Messages

- The Independent Electricity System Operator (IESO) intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS), and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018.
- The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, the IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, the IESO has also instructed its audit partner to cooperate with the Auditor General's Audit.
- For further details on the province's decision to accept IESO market accounts and rate-regulated accountingI will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Ministry of Energy (IESO)

3. Does the Independent Electricity System Operator (IESO) use Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements?

Yes. The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS).

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The IESO's financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. The IESO received an unqualified, or clean, audit opinion on its 2016 financial statements.

4. Why is the IESO now including market accounts on its financial statements? Does this go against PSAS?

The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS.

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

5. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

Canadian Public Sector Accounting Standards (PSAS) are silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of*

transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America, including the:

- Alberta Electric System Operator (AESO)
- ISO New England
- New York Independent System Operator (NYISO)
- Midcontinent Independent System Operator (MISO)
- PJM Interconnection LLC and,
- Electric Reliability Council of Texas (ERCOT).

6. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. The implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

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The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

AG Audit of 2017 Statements

Key Messages

- The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, the IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, the IESO has also instructed its audit partner to cooperate with the Auditor General's Audit.

For QAs related to:	See:
Audit of IESO's statements	Ministry of Energy (IESO)

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ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

Key Messages

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in the Public Sector Accounting Board's guidebook.
- The province's professional staff have appropriately applied this guidance in assessing the accounting for the OFHP.
- For further details on the province's decision to accept OFHP accounting, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

7. Will the government follow Public Sector Accounting Standards (PSAS) for Ontario's Fair Hydro Plan?

The province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

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- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

The province's professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

8. Will the government follow the accounting standards set by historical precedent, as cited by the Auditor General?

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. There are, however, crucial differences between the two.

For example, the OEFC stranded debt had already been incurred when the 1999 restructuring of the former Ontario Hydro took place.

In the case of OFHP, the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the Clean Energy Adjustment, which can be held and realized or can be sold.

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

The OFHP Global Adjustment deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected

lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

9. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

While the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

On the point of "true financial impact":

In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior

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governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the province's finances fairly, accurately and in accordance with PSAS.

On the point of "a financing structure that is the least costly for Ontarians":

The OFHP financing structure has been designed to provide electricity rate relief to current ratepayers, including by more fairly allocating costs for specified consumers, with the Global Adjustment cost amounts still ultimately borne by specified electricity ratepayers, as beneficiaries of those electricity system costs.

The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. Having the rate-base pay is not a new policy, for example Hydro One has borrowed in the capital markets since 2000.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (the Fair Hydro Plan Trust) that will manage the debt obligations. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO).

The cost analysis in the Office of the Auditor General's report was sourced from the FAO's May 2017 report. Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Recent government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

The province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management.

10. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

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In developing Ontario's Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

11. Both the Auditor General and the Financial Accountability Officer have raised serious concerns about the accounting treatment of the electricity cost refinancing initiative. Why should Ontarians believe this government over two independent officers of the Legislature?

The province has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

In developing the Ontario Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting

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Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

The province, as always, will prepare its consolidated financial statements in accordance with PSAS and continue to build on its track record of responsible fiscal management.

12. The Auditor General says that you are "obfuscating" the true financial impact of Ontario's Fair Hydro Plan through a "needlessly complex" accounting structure. How do you respond?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

OFHP is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

While the implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized, the financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

13. How can you justify the $4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance 55 per cent, at a higher interest rate than the province, instead of the province financing the entire electricity cost financing)?

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Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

The Auditor General's report suggests that all the costs of OFHP should be reflected as if they will be borne by taxpayers, which is inaccurate.

Ontario Power Generation (OPG) is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Officer (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

For further questions about borrowing estimates, please contact the Ministry of Finance.

14. The AG claims that when the government first gave Ontarians an 8 per cent break on their bills, it was reported on the books properly. She says when it jumped to 25 per cent, the accounting changed. Isn't it obvious that the government is cooking the books to suit their needs?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions.

It is our role as public servants to provide our best advice and due diligence.

As always, the province adheres to Canadian Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board.

The province will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.

It's important to note that while PSAS is the primary source of guidance for the government in the preparation of its financial statements, there are circumstances where governments may refer to other accounting frameworks for guidance where PSAS is silent and does not address specific transactions.

In this case where PSAS is silent on the use of rate-regulated accounting, US accounting standards contain the most developed and appropriate guidance for this transaction.

15. The Auditor General says that even your own government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Multiple options were considered in creating the OFHP framework – such as to have local distribution centres finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution centres to finance the balances.

The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.

Ultimately, OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

Key Messages

- The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.
- As always, we will prepare the province's consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS), including the transactions resulting from Ontario's Fair Hydro Plan (OFHP).
- For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to

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allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of PSAS.

- This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.
- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

1. **Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.

   The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

   The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

2. **The Auditor General said that a similar move to legislate accounting to defer costs was proposed with the restructuring of the Ontario electricity**

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sector in the late 1990s, but the Auditor General's opinion at that time was that this would represent a departure from a central tenet of generally accepted accounting principles. The government at that time heard these concerns, and made the decision to not create an asset for future anticipated ratepayer payments. Why does the government think this is ok now?

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. There are, however, crucial differences between the two.

For example, the OEFC stranded debt had already been incurred when the restructuring took place.

In the case of OFHP, the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the Clean Energy Adjustment.

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

The OFHP Global Adjustment deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

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AG Recommendation #9: Arm's Length Trusts

Key Messages

- The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.
- Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight.
- The province will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
- For more information on arm's length trusts, I will pass it to:
    - Cindy Veinot, Provincial Controller
    - Deputy Imbrogno

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy

1. **Will the government avoid establishing arm's length trusts in order to record an expense in its financial statements before it is necessary, given that it loses the ability to ensure funds are provided to the appropriate beneficiaries?**

   The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.

   Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arm's length and is able to demonstrate proper oversight.

   A trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the province to enter into agreements with each distributor.

   The trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

   While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred, as well as the

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ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Records Disclosure/Process

Key Messages

- The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- Senior ministry officials have met and continue to work with the Office of the Auditor General by participating in interviews and providing documentation.

For QAs related to:	See:
MOE Records Disclosure	Ministry of Energy

1. **The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?**

   The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

   The implementation of Ontario's Fair Hydro Plan is ongoing, with significant accounting and financial decisions still being finalized.

   Treasury Board Secretariat has released all requested records.

   Senior ministry officials have met with the Office of the Auditor General by participating in interviews and providing documentation.

   If asked about the Ministry of Energy emails:

   The Ministry of Energy, Finance, and the Treasury Board Secretariat are committed to assisting the Auditor General.

2. **In an email, a TBS official said [___], disagreeing with the government's policy decision. How do you respond?**

   As public servants, it is our role to provide our best advice and conduct our due diligence to inform decision-making. Part of this process includes questioning and deliberations.

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The record you are referring to is part of that discussion process, where we as public servants engage in deliberations and explore the options to get to the point of providing our best advice.

It is important to keep in mind that an individual email represents a point in time of the discussion.
That statement is not necessarily representative of the final advice put forward and an endorsement of what the public service has identified as the best approach.

The records must be considered in the context of discussion and deliberation, as an exercise in due diligence, and not as a final endorsement of an option or approach.

3. When does TBS not provide information through a Freedom of Information request?

Since 2015, TBS has been 100 per cent compliant for all Freedom of Information requests it has received.

In some cases, records may contain information that will be withheld in accordance with the legislation, such as personal information about individuals, confidential business information, advice to government or information that is subject to solicitor client-privilege.

Re-Design of Hydro Bills

For QAs related to:	See:
Hydro Bills	Ministry of Energy

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PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

Key Messages

- The province takes the Auditor's recommendations seriously and remains committed to working constructively with the Auditor General.
- The government has not yet made a decision on whether and when to release a Pre-Election report.
- We are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.

For QAs related to:	See:
Pre-Election Report	Ministry of Finance (Joint lead with Treasury Board Secretariat)

1. **Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?**

   Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report.

   The province remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.

2. **Is the government required to issue a pre-Election Report?**

   Provisions in the Fiscal Transparency & Accountability Act, 2004 (FTAA) allow for – but do not require – a regulation to be filed requiring the release of a Pre-Election Report and a review of that report by the Auditor General.

3. **The Auditor General signalled her readiness to work with the government to examine the pre-election report, why has the government waited this long to engage with the Auditor?**

   The province takes the Auditor's recommendations seriously. The government has not yet made a decision on whether and when to release a Pre-Election

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report. We are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the Province's fiscal position in advance of the election.

4. **Minister Sousa recently signalled that the government is not planning on issuing a Pre-Election Report. How do you feel about the government continuing to circumvent the Auditor General and avoiding accountability?**

The province takes the Auditor's recommendations seriously. As I understand, the government has not yet made a decision on whether and when to release a Pre-Election report. We are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

1. **How can your debt reduction plan be trusted if you're not using proper accounting for pension assets and the Fair Hydro Plan?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.

   PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and is used by all senior governments in Canada.

   PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

   Our professional staff exercises judgment in applying the standards and as necessary consults with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

   All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

   That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

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Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

1. **Does a qualified opinion from the Auditor General impact the province's credit rating?**

   The province's financial results show that the government has beaten its annual deficit targets. In April 2017, Ontario delivered its first balanced budget since the global recession and is on track to do so again next year and the year after.

   The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the province. However, there were no credit rating implications in 2016 when the province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

Key Messages

- The Treasury Board Secretariat (TBS) will continue to take a proactive approach to raising issues with the Office of the Auditor General.
- The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.
- When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

For QAs related to:	See:
Ministry use of external advisors	Ministry of Energy Ministry of Finance

1. **Will the government provide copies of contracts it enters into for accounting advice to the Auditor General?**

   The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

   The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

2. **Will the government build into its contracts with external advisors a requirement to notify the Auditor General of their engagement?**

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

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3. **Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.**

   The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

   The government's use of external expertise for accounting and financial reporting matters is a normal course of business and supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis.

4. **It seems like you use consultants to circumvent the Auditor General, when it looks like she may disagree with your accounting methods. Why don't you let the Auditor General know when you're using external advisors for something that impacts her Office's ability to do their job?**

   The government's use of external expertise for accounting and financial reporting matters is a normal business practice and supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis. The professional staff takes responsibility for the final decisions that are made with respect to the application of PSAS to the government's transactions.

   The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.

5. **Are you going to hire an expert advisory panel, as you did on the pension asset accounting matter, to settle this dispute with the Auditor General? If so, what authority would this panel have?**

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There are no plans to establish a panel at this time.

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

The province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

6. Can you tell us how many consultants are being paid high salaries with public money while keeping themselves off the sunshine list?

The government continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

7. How much did the Treasury Board Secretariat spend on consultants?

The Treasury Board Secretariat (TBS) spent approximately $202 million in 2016-17 on consulting services:

- $167M is procured by IT Source, Central Agencies Cluster for Ontario Public Service (OPS) ministries. TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries.
- $36M is services procured by TBS programs primarily for IT enhancement, management and other consulting services.

Consultants are used in the OPS when the organization needs to gain external advice and specialized expertise not already available in the OPS, or for short-term and non-recurring projects and initiatives.

TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries as a cost-saving strategy.

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Whenever the OPS need IT consulting services, the first thing we do is look for expertise within the organization. The government turns to IT consultants when it doesn't have the expertise in house, when it needs to gain external advice and specialized expertise, or when the need is short-term and non-recurring. This is true for one-time projects that launch new programs or when Cyber Security staff combine with external experts to carry out Threat Risk Assessments to ensure personal information is safe.

AG Recommendation #8: Timeline of Finalization of Financial Statements

Key Messages

- The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.
- The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.
- Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General.
- As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.
- For further details, I will pass it over to:
    - Karen Hughes, Associate Deputy Minister, Office of the Treasury Board
    - Deputy Thompson

For QAs related to:	See:
Finalization of Financial Statements – Tax Revenues	Ministry of Finance

1. **Will the government improve its planning across stakeholders so that the province's consolidated financial statements are finalized earlier?**

   The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

   The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

   The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts.

   Planning discussions for the 2017-18 Public Accounts have begun between the

Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

2. What will the government do to figure out estimation risks associated with corporate tax and personal income tax revenues earlier?

The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

The province will work with the Canada Revenue Agency (CRA) on the Auditor General's recommendation, as reporting personal and corporate taxation revenues is highly dependent on the information from the CRA.

Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

Adverse or Qualified Audit Opinion

Key Messages

- It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year.
- The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).
- As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.
- PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.
- Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors.
- They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller

1. **The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?**

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

   As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

   PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

   Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

   All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

   That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

2. **Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting?**

   It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. The implementation of Ontario's Fair

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Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

3. The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?

TBS leads the overall Public Accounts process. Public Accounts is a major accountability document which presents the financial statements of the province, provides financial highlights of the past fiscal year, and reports on performance against the goals set out in the Budget.

TBS continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

Last year there was a disagreement among the province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the province.

The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario

Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and TBS continues to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

2016-17 Overall Accounting Changes

1. **Why have you restated prior year's financial statements?**

   When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

   These changes include:

   a. **A change in the presentation of accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
   b. **The adoption of International Financial Reporting Standards as the basis for accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting

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Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.

c. **Accounting for market accounts by Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
d. **Accounting for net pension assets of jointly sponsored pension plans** - the province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

2. Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?

To increase transparency, in 2016-17 we have made a simple change to how we are reporting third party revenues for broader public sector organizations.

For the first time, Public Accounts are presenting third party revenues for hospitals, school boards and colleges with provincial revenue. Third party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

3. What is consolidated reporting?

The Province's consolidated financial statements are presented on a consolidated basis, meaning that the Statement of Financial Position (or balance sheet) and the Statement of Operations (or statement of revenues and expenses) reflect the combination of ministry results as well as the financial

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results for organizations that are controlled under the guidance established under PSAS.

Prior to 2016-17, the Province reported the expenses and third-party revenues of hospitals, colleges and school boards on a net basis. This was changed for 2016-17 to reflect expenses and third-party revenues as separate items (on a gross basis), as opposed to being reported together (on a net basis).This affects what you see for the expense reported for the responsible ministries (Health and Long-term Care, Education and Advanced Education and Skills Development) and the breakdown of figures for hospitals, school boards, and colleges. However this has no impact to the annual deficit, net debt or accumulated deficit.

Line-by-line consolidated reporting is in keeping with Public Sector Accounting Board standards and will mean that our presentation for Public Accounts is consistent with other governments across Canada. The Auditor General is supportive of this change.

4. Why is there a change to the accounting for Ontario Power Generation (OPG) and Hydro One?

In the 2016-17 Public Accounts, the financial results of Ontario's investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards (IFRS). Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board requirements and is supported by the Auditor General.

This change has resulted in an adjustment to the opening accumulated deficit and net debt of $1,163 million, of which $683 million relates to transition to IFRS. The impact of this change to the annual deficit is not material to the province in 2016-17.

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OTHER

1. **How does the Treasury Board Secretariat ensure transparency and accountability in financial reporting?**

   The province continues to strengthen its financial management, ensure clear and consistent accounting practices, enhance oversight and accountability and provide better data and information to the public through more channels.

   The Office of the Provincial Controller Division (OPCD) plays a key role in ensuring this transparency and accountability in the province's financial reporting through its major functions, including:
   - Providing the Ontario Public Service (OPS) and Broader Public Sector with accounting and financial management policy and controllership advice;
   - Maintaining the Public Accounts and preparing the Annual Report and Consolidated Statements and the Public Sector Salary Disclosure;
   - Liaising with the Auditor General of Ontario, as well as other jurisdictions and the Chartered Professional Accountants of Ontario and Canada, on the development of government accounting standards;
   - Supporting the development of financial management and controllership capacity across the OPS; and,
   - Supporting the modernization of government by improving the efficiency, effectiveness, and integrity of its financial systems and processes.

   Treasury Board Secretariat (TBS) also works with the Ministry of Finance to help them prepare key documents like the Budget and the Fall Economic Statement.

   TBS does have a leadership role on some financial items like Public Accounts. But for other things, TBS is mostly in a support role.

   TBS collaborates with other senior level governments to assess the impact of proposed standards by the Public Sector Accounting Board and how specific transactions are reported within the accounting frameworks.

2. **Does the province direct organizations on what accounting standards to use or how to apply them?**

   Placeholder

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Executive Compensation

1. **How can you justify the exorbitant salaries paid to Hydro One executives when families are struggling to pay their hydro bills?**

   The province remains committed to ensuring transparency and accountability in how broader public sector employers manage executive compensation.

   However, Hydro One is now a publicly traded company, and decisions regarding compensation are not made directly by the government.

   For further questions about executive compensation and oversight of specific organizations, please contact the ministry responsible.

2. **Why are Hydro One employees not captured by the Sunshine List? MPP Todd Smith is demanding that the government add Hydro One employees back onto the list. Will you do this?**

   Only public sector employees are included on the Sunshine List.

   As a publicly-traded entity, Hydro One is no longer required to report salaries or benefits earned after December 31, 2014 under the PSSDA.

   However, similar to the Ontario Securities Commission requirements, Hydro One must disclose the total compensation levels of the CEO, CFO and three other highest-paid executives of the corporation each year. This information is available to the public online. Top executive salaries are posted on SEDAR in the Management Information Circular.

   As an Ontario Business Corporation Act (OBCA) company subject to Canadian Securities law, Hydro One continues to comply with rigorous governance requirements that include:

   - Disclosure of board-approved annual financial statements along with quarterly updates;
   - CEO and CFO Certifications and Associated Controls certifying that there are no misrepresentations in the annual or quarterly materials;
   - Shareholders' meetings requirements and rules;
   - Disclosure requirements with respect to management circulars (including information about senior management, such as share ownership, any indebtedness to the company and any interest in material transactions) as well as compensation circulars (executive compensation disclosures including shares awarded, perks and incentives).

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3. How do you justify the upward trend of public sector employees making more than $100,000 across all sectors in 2016?

Overall, for 2016 the total number of employees disclosed in the Compendium has increased by 6.6%, to 123,410 employees in 2016 from 115,746 in 2015.

There are a number of reasons why employees may appear on the list, including:

- Employees who are progressing in their career to more challenging positions;
- Natural progression through salary ranges;
- Overtime payments;
- Retroactive pay awards;
- Performance payments; and,
- Payments that may be required on retirement (e.g. to reimburse the employee for unused vacation credits).

In addition, there were some payouts that impacted the 2016 salaries for reported employees, including an increase to base salaries for non-bargaining employees paid as a retroactive lump sum in December 2016 and an arbitration award which provided retroactive pay to members of the OPP.

The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was enacted in 1996 and has not been adjusted to keep up with inflation. If the salary threshold was adjusted for inflation, it would be $149,424 in today's dollars, reducing the number of employees included in the compendium by 84%.

The government is committed to providing high-quality public services and values the hard work of its dedicated public servants. The employees on this list:

- Deliver key government services;
- Make sure Ontario's food and water is safe;
- Make sure quality health care is available to every resident in the province;
- Make sure quality education is available to every child in the province;
- Make sure Ontario's roads and workplaces are safe; and,
- Bring jobs and investment into Ontario.

The province needs to pay salaries which are competitive in order to attract and retain top talent to deliver quality public services.

4. Who were the top 10 employees on the entire list and what were their salaries?

The top 10 earners all work largely in the health sector and in Ontario Power Generation. These people all hold executive positions:
- 6 of the 10 are in the health sector;
- 2 are from Ontario Power Generation;
- 1 is at the University of Toronto; and,
- 1 is at the Ontario Pension Board.

Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

5. **We learned that the president of OPG, who was the top earner on the province's payroll in 2016, actually made $700,000 more than the sunshine list that was disclosed earlier this year. The difference was a bonus that showed up on OPG's books, but was suspiciously left off the government's books. How many more six-figure bonuses has the President of the Treasury Board hidden from the people of Ontario?**

   The province continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

   Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

   For 2016, the Treasury Board Secretariat as a ministry reported 996 employees compared to 875 in 2015, an increase of 13.8%. The number increased primarily due to compensation changes, retirement pay-outs, severance payments, overtime and reorganizations.

   The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was introduced in 1996. In today's money the threshold would be $149,424 and would include only 56 (5.6%) of the 996 TBS employees on this year's list and exclude 940 (94.4%).

   Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

6. **How does this government allow salaries that are completely excessive when the average Ontarian can't afford their hydro bill/is working twice as hard because of government cuts/is not part of this millionaire's club?**

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In the 2017 Budget, the government announced that it will continue to take a balanced approach to managing compensation. This approach will recognize the need to maintain a stable, flexible and high-performing public-sector workforce that supports the government's transformational priorities and at the same time ensures that public services continue to remain affordable.

A result of recent efforts to reduce spending through compensation restraint and program transformation, the government has delivered on its commitment to balance the budget by 2017-18, while making program spending more sustainable and also protecting the important public services that Ontarians rely on.

A balanced approach to compensation recognizes the need to attract and retain talented leaders and individuals to ensure a modern, sustainable, and inclusive Ontario Public Service, while also remaining competitive with public sector peers.

To this end, the province will continue to provide effective and affordable public services, while recognizing the need for fair compensation.

Government Advertising

1. **How can you justify spending $5.5 million on self-congratulatory advertising for Ontario's Fair Hydro Plan?**

   Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

   Ontario needs government advertising that is appropriate, reasonable and effective because the public has a right to know how public money is being spent, and why the government is bringing forward policy changes.

   At this time, I would like to clarify that the Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

   For further questions about specific advertisements or advertising campaigns, please contact the ministry responsible.

2. **For the Hydro Bill partisan inserts – the Auditor General points out that "addressed mail" is non-reviewable (i.e., something was sent to a household by name) as compared to bulk mail which is reviewable. Will you continue to overlook this loophole so that public money can be used to send partisan messages directly to Ontarians?**

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Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

This legislation was introduced in 2004 to prevent government use of taxpayer dollars for partisan advertising.

Ministries still abide by the principles of the Government Advertising Act in all paid advertising, whether it goes to the Office of the Auditor General or not.

SCENARIO QUESTIONS

Speculation

1. **What do you think the intentions of the government were when they…**

   As a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   We provide neutral advice to support decision-making.

2. **What do you think the Auditor General will do…**

   It would be inappropriate for me to speculate on how the Auditor General may issue a future opinion.

3. **Other requests for speculation…**

   I'm not able to comment on something that may or may not happen.

   I'm happy to speak to the contents of chapter two of the Auditor General's report.

Cabinet Confidential

1. **Can you tell us about the advice you provided to the government…**

   I am unable to speak to the advice that was provided, as this would be considered confidential advice provided to Cabinet.

Confidential

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1. **Can you tell us about the advice you provided to your minister…**

   I believe this matter could be considered confidential advice provided. I would be happy to look into this matter further to clarify the scope of confidentiality and provide a written response back to the Committee.

Insisting a Specific Official Answer

1. **I do not want [____] to answer, I want to hear the response from you.**

   I am happy to provide a response to the question in my role as a public servant for the Treasury Board Secretariat.

   [Provide response as within your position's scope.]

   I cannot speak to the specific point you are raising, and as mentioned, [____] would be more appropriate to respond.

   What I can tell you is [____]

Insisting on Commitment

1. **Can you give us an exact figure on…**

   I want to be absolutely precise and specific, so I will need to get back to you with the exact number.

Politicization

1. **Why did the government make [____] decision?**

   As a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   It is our role to provide our best, objective advice to support government decision-making.

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PLACEHOLDER

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:

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Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	**See:**
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

For QAs related to:	See:
IESO Market Accounts	Treasury Board Secretariat Ministry of Energy

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Treasury Board Secretariat Ministry of Energy

AG Audit of 2017 Statements

For QAs related to:	See:
Audit of IESO statements	Treasury Board Secretariat Ministry of Energy

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ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

For QAs related to:	See:
OFHP Overall	Ministry of Energy
OFHP Accounting	Treasury Board Secretariat

AG Recommendation #6: "Legislated Accounting"

For QAs related to:	See:
OFHP Overall	Ministry of Energy
"Legislated Accounting"	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy
Accounting for Trust	Treasury Board Secretariat

Records Disclosure/Process

- Messaging TBC

For QAs related to:	See:
Records Disclosure/Process	Treasury Board Secretariat Ministry of Energy

1. **Has the Ministry of Finance provided all records to the Auditor General of Ontario?**

   In response to a request for information from the Auditor General's office regarding the Ontario Fair Hydro Plan, the Ontario Financing Authority (an agency under the Ministry of Finance) provided 3,252 emails in two batches: 1,190 e-mails on June 23, 2017 and 2,062 on July 18, 2017.

Re-Design of Hydro Bills

For QAs related to:	See:
Re-design of hydro bills	Ministry of Energy

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PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

- Messaging TBC – TBS

For QAs related to:	See:
Pre-Election Report	Treasury Board Secretariat (Joint lead with Ministry of Finance)

2. Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report.

The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

- The balanced budgets from 2017–18 onwards will limit the increase in net debt-to-net investments in capital assets. These investments will contribute to the economy growing at a faster rate than net debt, allowing the government to reduce Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent.
- There is a strong demand for Ontario bonds in both the domestic and international markets. Last fiscal year, Ontario was able to borrow $27 billion in long-term debt while our spread — or the margin that we have to pay over the equivalent Government of Canada bond — tightened, indicating an ongoing strong demand for Ontario bonds.
- We expect that the liquidity of Ontario benchmark bonds, and continuing confidence in the value of Ontario debt, will allow us to cost-effectively complete the 2017–18 borrowing program.

3. What is the government doing to manage the province's debt burden?

The very important first step in reducing debt is to balance the budget. We are projecting a balanced budget for 2017-18, delivering on a commitment first introduced in the 2010 Budget.

As the result of a balanced budget, and Ontario's strong economic growth, the net-debt-to-GDP ratio is declining.

The government has set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24, and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.

4. What is the status of the province's borrowing plan?

Through prudent and cost-effective debt management, we have consistently kept interest on debt costs below budget projections. Interest on debt to revenue is forecast to be 8.2 per cent in 2017-18, 8.3 per cent in 2018-19 and 8.4 per cent in 2019-20.

Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs.

As of January 31, 2018, $28.6 billion (or 111 per cent) of this year's long-term public borrowing of $25.8 billion has been completed.

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Financial Accountability Office (FAO) Reports

5. What is the government's response to the FAO's fall 2017 report, which states that the government will run a deficit in 2017-18 and the following years?

Ontario's deficit for 2016-17 was $991 million — $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget, according to public accounts.

The Ministry of Finance is projecting a balanced budget in 2017-18. The Ministry of Finance is committed to a responsible fiscal plan. We build prudence into our forecasts.

Since the time of the 2017 Budget, private sector forecasters have revised up their economic growth projections for Ontario over the 2017-20 period, reflecting the strength in the Ontario economy.

Using the government's accounting presentation (i.e. excluding the AG's recommended treatment), the FAO is projecting a small surplus in 2017-18.

6. Why are the FAO's revenue forecasts lower than the government's revenue forecasts?

The government is projecting total revenue to grow from $140.7 billion in 2016–17 to $158.2 billion in 2019–20. This represents an average annual growth rate of 4.0 per cent.

Growth in revenues over the medium term is driven mainly by taxation revenue which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent. The projected taxation revenue growth aligns with growth actually experienced in recent years, and projections for the Ontario economy.

Credit Ratings

- Ontario currently maintains a double-A rating with three of its four credit rating agencies.
- We continue to update the rating agencies on a regular basis on economic and fiscal developments.

7. What are the credit rating agencies' views on Ontario?

Following the release of the 2017 Budget, all four rating agencies — Moody's, DBRS, Fitch, and S&P — confirmed Ontario's long-term credit ratings.

This reflects rating agencies' confidence in our government's fiscal plan.

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8. How have rating agencies responded to the qualified opinion on the public accounts and the recent report from the Auditor General?

The rating agencies make their own assessment of the Province's finances.

However, there were no credit rating implications either this year or last when the government received a qualified audit opinion on its Public Accounts.

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Preparation of Public Accounts

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

1. **Q re: Ministry of Finance use of external advisors**

   Answer….

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat

1. **QAs on finalization of financial statements – tax revenues, etc.**

   Answer…

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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OTHER

- MOE Key Message 1
- MOE Key Message 2
- MOE Key Message 3
- MOE Key Message 4
- MOE Key Message 5

1. **Qs that may come up that are not included in the categories above…**

   Answer…

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Attachment A. TBS Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

Attachment B. Ministry of Energy Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

Attachment C. Ministry of Finance Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

KAREN HUGHES, ASSOCIATE DEPUTY MINISTER

PUBLIC ACCOUNTS PROCESS

QUESTION

- One of the recommendations in the Auditor General's report is that the Office of the Provincial Controller should "undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies" to allow the Office of the Provincial Controller to release Public Accounts earlier than the usual late August or September.
- I am curious about what releasing Public Accounts earlier would take on the part of the government.
- I know that the process requires a lot of work on the part of many people, although I'm not necessarily clear on the mechanics of putting the Public Accounts together.
- So, could you outline what the process is of putting Public Accounts together every year?

ANSWER

Placeholder

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LONG-FORM MEMBER QUESTION: BALANCED BUDGET

DEPUTY MINISTER SCOTT THOMPSON

Question:

- How is Ontario planning to keep a balanced budget?

Answer:

- TBD: Revisions based on updates related to Q3 Finances once available
- My ministry has been working to execute the government's goal of balancing the budget.
- This started with a plan that was first introduced in the *2010 Budget*, when the province started to recover from the recession.
- Ontario today is projecting a balanced budget for 2017–18 and for the next two years, 2018–19 and 2019–20.
- A balanced budget makes available more investment options to spur economic growth and job creation, and helps protect the programs and services people rely on most, such as health care and education.
- Ontario's plan has five main areas of focus:
    - Maximizing revenues without causing undue tax burdens on Ontarians
    - Managing its expenses without detracting from the quality of social services and health programs
    - Balancing revenues and expenses against each other to manage the debt
    - Funding programs that help Ontarians, and
    - Investing in infrastructure to promote economic growth and job creation.

- I will now address each area in turn.

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Revenues:

- The 2016–17 Public Accounts show that Ontario's deficit for last year was $991 million — $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget.
- Fiscal 2016–17 was the eighth year in a row that the Province has beaten its deficit target.
- This was a result of growth in revenue that exceeded growth in program expenses, and lower-than-forecast interest on debt.
- And so part of the plan to balance the budget involves optimizing assets and maximizing revenues.
- The Public Accounts for 2016–17 show total revenues were $140.7 billion, $2.2 billion higher than the 2016 Budget projection.
- Additionally, Ontario's total revenues are projected to grow from this $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- This increase represents an average annual growth rate of four per cent.
- The higher revenues for 2016–17 — and the projected growth of revenues through 2019-20 — are largely due to higher-than-expected tax revenues, the optimization of government business enterprises, and transfers from the Government of Canada and other non-tax revenue.

- First, let me address tax revenues.
- Growth in revenues over the medium term is driven mainly by taxation revenue, which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent.
- For fiscal year 2016–17, tax revenues were $293 million higher than projected, mainly due to higher-than-expected Harmonized Sales Tax revenue, reflecting stronger growth in Ontario household expenditures.

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- Secondly, the Government of Ontario is also implementing a multi-year strategy to optimize its assets and maximize its revenues through the sales of shares in Hydro One, LCBO head office lands and Ontario Power Generation's head offices.
- The net revenue gains from the sale of qualifying assets are credited to the Trillium Trust for infrastructure investments, such as roads, bridges and public transit.
- The total amount credited to the Trillium Trust as of March 31, 2017 is $5.3 billion.
- The Province continues to grow and maximize revenues from its government business enterprises, such as Hydro One, Ontario Power Generation, the Liquor Control Board of Ontario and Ontario Lottery and Gaming Corporation.
- The forecast of the income from government business enterprises is projected to grow by $0.7 billion between 2016–17 and 2019–20.
- This projection, at an average annual rate of 3.7 per cent, reflects higher net income overall from government business enterprises.

- Thirdly, Ontario received larger Government of Canada transfers — $145 million higher. This increase reflected new funding for early learning and child care flowing from a bilateral agreement between Ontario and the federal government, as previously reported in the 2017-18 *First Quarter Finances*.
- The forecast for subsequent transfers is based on existing federal-provincial funding agreements.
- Overall transfers are projected to grow by $0.9 billion between 2016–17 and 2019–20, or at an average annual rate of 1.2 per cent.
- This largely reflects projected increases in major ongoing Government of Canada transfers and new funding for early learning and child care, and home care and mental health.

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- Finally, the forecast for other non-tax revenue is based on projections provided by government ministries and agencies.
- The outlook for other non-tax revenues is projected to increase by $0.4 billion between 2016–17 and 2019–20, or at an average annual rate of 0.7 per cent.
- This increase mainly reflects:
    - Fiscally neutral revenues from carbon allowance proceeds starting in 2017–18
    - Fees, donations and other revenues for the broader public sector, and
    - Revenues from vehicle and driver registration fees.
- This is partially offset by lower revenues due to the removal of the debt retirement charge from commercial, industrial and all other electricity users in 2018–19, and the projected net impact of the government's planned asset optimization strategy.
- Notably, the increase in Ontario's revenue is not attributable to increases in personal tax returns.

Expenses:

- Let me now address expenses.
- The Public Accounts for 2016–17 show that total spending was $141.7 billion, $100 million lower than the 2016 Budget projection.
- Program spending expenses accounted for $130 billion.
- Interest on debt, at $11.7 billion, was down $0.7 billion from the 2016 Budget projection.

- Going forward, program expenses are projected to grow from $130 billion in 2016–17 to $144.2 billion in 2019–20.
- This represents an average annual growth rate of 3.5 per cent.
- Growth in program expenses over the medium term is driven by investments to help the people of Ontario, such as health care, supports for seniors, the

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introduction of pharmacare for children and youth under OHIP+, electricity cost relief programs under the Fair Hydro Plan, and new initiatives for small businesses that will lower costs and support growth.

- Interest on debt expenses is projected to grow from $11.7 billion in 2016–17 to $13.3 billion in 2019–20.
- This increase is due to borrowing for capital spending and interest rates that are forecast to rise.
- This represents an average annual growth rate of 4.2 per cent.
- Interest on debt is projected to grow due to borrowing for capital spending and interest rates that are forecast to rise.
- Total expenses are projected to grow from $141.7 billion in 2016–17 to $157.4 billion in 2019–20.
- This represents a manageable average annual growth rate of 3.6 per cent.

Balancing Revenues and Expenses:

- Let me summarize the revenues and expenses together.
- Revenue is forecast to increase from $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- Total expenses are projected to increase from $141.7 billion to $157.4 billion over the same period.
- Based on these estimates, the Ontario government will effectively balance the budget over the next four years.

Funding Programs, Investing in Infrastructure, Promoting Growth:

- Through targeted, measured and fiscally responsible decisions, Ontario has restored its fiscal and economic strength.
- Strategic investments have helped stimulate the Ontario economy to rise from the depths of recession.

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- Over the past three years, Ontario's economy has grown faster than Canada's and that of all other G7 countries.
- The benefits of balanced budgets and a strong economy are already providing the government with the fiscal flexibility to do more to help Ontarians.
- This flexibility enables the government to provide more investments to spur economic growth, job creation and support services people use every day.
- Notable program investments include:
    - $145 million in annual funding to increase the accessibility and affordability of high-quality licensed child care and early learning opportunities
    - $245 million over three years to lower costs for small businesses
    - $155 million over three years to support seniors to remain independent, connected, engaged, healthy and safe
    - $245 million over three years to lower costs for small businesses, create opportunities for growth and simplify their interactions with government.
    - An increase of $1 million in 2017–18 — and then $5 million in 2018–19 and beyond — to provide additional funding through the Northern Communities Grant component of the Ontario Municipal Partnership Fund.

- Growth in program expenses also includes investments in infrastructure.
- In fact, Ontario is making the biggest investment in public infrastructure in its history.
- The government's long-term infrastructure plan to invest about $190 million over 13 years, starting in 2014–15, will contribute to the growth of the economy.
- The government's historic investment in infrastructure includes:
    - $31.5 billion over 10 years for public transit, transportation and other priority infrastructure projects across Ontario
    - $11 billion over 10 years in capital grants to school boards, and
    - $900 million over 10 years for critical maintenance repairs and upgrades.

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- These investments will not only create jobs, support business innovation and help draw investors from abroad — they will also contribute to the provincial economy growing at a faster rate than the change in its net debt.
- Investments such as these have helped to stimulate the Ontario economy, which has continued to grow despite an uncertain global climate.
- From 2014 to 2016, Ontario outpaced all G7 countries with its real GDP growth.
- As the result of a balanced budget and Ontario's strong economic growth, the net debt-to-GDP ratio is declining.
- In the 2017 Budget, the Ontario government set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24. The government is now projecting to meet this target a year earlier.
- We continue to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.

Conclusion:

- In September, the Public Accounts of Ontario 2016–17 reported that the 2016–17 deficit was $1.0 billion, an improvement of $3.3 billion from the $4.3 billion projection in the 2016 Budget.
- Total revenue for 2016–17 came in at $140.7 billion, which was $2.2 billion higher than the 2016 Budget.
- This was largely due to higher-than-expected tax revenues, the optimization of government business enterprises and transfers from the Government of Canada and other non-tax revenue.
- Total spending for 2016–17 came in at $141.7 billion, which was $0.1 billion lower than the 2016 Budget.
- Program spending was $130.0 billion, up $0.6 billion from the plan of $129.4 billion.

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- Spending in health, children's and social services, and other programs was higher than planned.
- Interest on debt expense was $11.7 billion, $0.7 billion below the plan of $12.4 billion, due mainly to lower-than-forecast interest rates, and cost-effective borrowing and debt management.
- In conclusion, the Ontario government is on track to balance the budget this fiscal year — 2017–18 — as well as the next two fiscal years.
- Prudently managing the province's finances is one of my ministry's responsibilities to the people of Ontario.
- Thank you.

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LONG-FORM MEMBER QUESTION: CREDIT RATING

DEPUTY MINISTER SCOTT THOMPSON

Question:

- What are the plans to keep Ontario's credit rating in good standing?

Answer:

- TBD: Revisions based on updates related to Q3 Finances, once available.

Introduction:

- Following the release of the 2017 Ontario Budget, four credit rating agencies – Moody's, DBRS, Standard & Poor's and Fitch – confirmed Ontario's healthy long-term credit ratings. This reflects rating agencies' confidence in the Government's fiscal plan – and its ability to grow Ontario's economy and create jobs for Ontarians.
- Let me summarize the reports by each of the credit rating agencies.

- First, Moody's.
- Moody's cautioned that the Ontario Fair Hydro Plan, announced in March 2017 to reduce electricity prices, adds credit pressure due to the direct financial impact of the sales tax rebate and the indirect impact of an elevated debt of a provincially owned entity.
- Overall, however, Moody's said its stable outlook for Ontario "reflects Moody's forecast that, as the province moves towards and achieves balanced budgets,

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the province's debt burden will improve marginally and interest expense will remain manageable across the medium-term….The policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices outlined above, has helped to support the province's Aa2 rating."

- Moody's positive outlook for Ontario's credit rating is based on the following credit strengths: prudent debt management, an institutional framework providing significant fiscal policy flexibility, and a large diversified economy supporting a broad and productive tax base.

- Next, DBRS.
- DBRS noted that Ontario's credit profile is stable, but it will remain vulnerable to an economic shock in the absence of a more concerted effort to reduce debt.
- DBRS also commented on the potential downside risks to the economic outlook due to uncertainty regarding the potential renegotiation of NAFTA and U.S. tax policy, as well as political integration in Europe.
- Finally, it noted that elevated household debt and housing market dynamics leave Ontario particularly vulnerable in the event of an unforeseen shock that results in significant job losses or a rapid increase in interest rates.
- Despite these concerns, DBRS expects Ontario's credit ratings to remain stable.
- DBRS said of Ontario, its "ratings remain well supported by the province's large and diversified economy, improving budgetary results and declining debt burden" and that "the return to balance is encouraging and suggests that there will likely be some modest improvement in the Province's credit metrics over the medium term."
- DBRS concluded by saying that Ontario's stable credit profile stems from strength in the underlying economy, which provided incremental revenue more than sufficient to offset the in-year spending pressures.

- Standard & Poor's is next.

- Standard & Poor's believed that Ontario's credit profile is strengthening.
- But before considering a positive rating action, they would need to see sustained improvement in budgetary performance leading to near-balanced after-capital results, coupled with ongoing declines in the tax-supported debt burden, making Ontario's finances more comparable with peers in the 'AA' category.
- Standard and Poor's said it "expects the province of Ontario to benefit from solid economic growth over the next two years, allowing it to generate additional revenues to fund its capital spending plan and stabilize its finances following its eight-year path back to a balanced operating budget."
- Standard & Poor's concluded by saying that its stable outlook reflects expectations that, within the next two years, the Province will sustain a more balanced budgetary performance, including steady liquidity metrics, modest after-capital deficits, and a high but slowly declining debt burden.

- Finally there is Fitch.
- Fitch's report stated that the Province has demonstrated the ability to exert considerable expenditure restraint while instituting revenue changes to achieve its deficit reduction objectives.
- It said Ontario's 'AA-' rating is supported by its wealth, diversified economy and generally sound financial management.
- Fitch's rating reflected the Province's very strong and diversified economy, strong financial management, very predictable and well-balanced institutional framework and low contingent liabilities.
- Ontario's credit profile is stable.

- For Ontario's credit profile to grow in strength, the Province will need to do several things.
- It will need to show a track record of consistent operating surpluses and balanced or near-balanced after-capital results, coupled with continuing declines in direct and tax-supported debt burdens.

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- **To that end, Ontario has the following plan to ensure that its credit rating remains in good standing.** It is:
    - Optimizing assets and revenues without causing undue tax burdens on Ontarians.
    - Managing expenses without detracting from the quality of social and health services.
    - Balancing revenues and expenses against each other to manage the debt, and
    - Maintaining a reserve fund to mitigate unforeseen financial risks.
- I will now go into more detail on each of these points.

Revenues:

- Total revenues for 2016–17 were $140.7 billion, $2.2 billion higher than the 2016 Budget.
- Additionally, Ontario's total revenues are projected to grow from $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- This represents an average annual growth rate of four per cent.
- The higher revenues for 2016–17 and the projected growth of revenues through 2019–20 are largely due to three factors:
    - Higher-than-expected tax revenues.
    - Income from government business enterprises and fees, and
    - Transfers from the Government of Canada and other non-tax revenue.
- Growth in revenues over the medium term is driven mainly by taxation revenue, which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent. The taxation outlook reflects current revenue information and projections for the Ontario economy. Tax revenues were $293 million higher than projected in 2016–17, mainly due to higher-than-expected Harmonized Sales Tax revenue, reflecting stronger growth in Ontario household expenditures.

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- The Government of Ontario is also implementing a multi-year strategy to optimize its assets and maximize its revenues through the sales of Hydro One, LCBO head office lands and Ontario Power Generation's head offices. The total amount credited to the Trillium Trust as of March 31, 2017 is $5.3 billion. The net revenue gains from the sale of qualifying assets will be credited to the Trillium Trust for infrastructure investments, such as roads, bridges and public transit, under the Moving Ontario Forward plan. In 2016–17, the Trillium Trust was drawn down by approximately $260 million to help support these projects.
- Finally, Ontario received larger Government of Canada transfers — $145 million higher. This increase reflected new funding for early learning and child care flowing from a bilateral agreement between Ontario and the federal government, as previously reported in the 2017–18 *First Quarter Finances*.
- Notably, the increase in Ontario's revenue is not attributable to increases in personal tax returns.

Expenses:

- Ontario's total spending for 2016–17 was $141.7 billion, $100 million lower than the 2016 Budget.
- Program spending expenses accounted for $130.0 billion.
- Interest on debt expense accounted for $11.7 billion – $0.7 billion below the plan of $12.4 billion.
- This drop was due mainly to lower-than-forecast interest rates, and Ontario's cost-effective borrowing and debt management.
- Going forward, Ontario program expenses are projected to grow from $130.0 billion in 2016–17 to $144.2 billion in 2019–20.
- This represents an average annual growth rate of 3.5 per cent.
- Interest on debt expenses is projected to grow from $11.7 billion in 2016–17 to $13.3 billion in 2019–20.
- This represents an average annual growth rate of 4.2 per cent.

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- Total expenses are projected to grow from $141.7 billion in 2016–17 to $157.4 billion in 2019–20.
- This represents a manageable average annual growth rate of 3.6 per cent.
- These increases align with the government's plans for modernizing the public services people rely on every day.
- They are also fiscally sustainable.
- In short, the Ontario government has been managing its program expenses as well as its interest-on-debt expenses.

Balancing Revenues and Expenses:

- To bring the revenues and expenses together…
- Revenue is forecast to increase from $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- Total expenses are projected to increase from $141.7 billion to $157.4 billion over the same period.
- Based on these estimates, the Ontario government will effectively balance the budget over the next four years.

The Reserve:

- I will now take a moment to address the Province's financial reserve and contingency funds.
- As required under the *Fiscal Transparency and Accountability Act*, Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes in revenue and expenses.
- The current fiscal outlook includes a reserve of $0.5 billion in 2017–18, $0.5 billion in 2018–19 and $0.8 billion in 2019–20.
- The current outlook also maintains contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance — particularly in cases where health and safety may be compromised, services to the most vulnerable are jeopardized, or natural disasters occur.

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Conclusion:

- Credit ratings provide an assessment of a government's credit-worthiness.
- They are a reflection largely based on its capacity to generate revenue to service its debt.
- They consider factors such as a government's economic resources and prospects, industrial and institutional strengths, financial health, and susceptibility to major risks.
- As you know, a credit rating affects the cost of future government borrowing with a lower rating, indicating that an agency believes there is a relatively higher risk that a government will default on its debt.
- Accordingly, investors will lend to the government only in return for a greater risk premium, in the form of higher interest rates.
- A rating downgrade could also shrink the potential market for a government's debt, because some investors will not hold debt below a certain rating.
- Therefore, it is critical that Ontario maintain its credit rating in good standing to manage its debt and preserve its fiscal health.
- Ontario's plan to keep its credit rating in good standing involves the following strategies:
    - Optimizing assets and revenues without causing undue tax burdens on Ontarians.
    - Prudently managing expenses without diminishing the quality of Ontario's services and programs.
    - Balancing revenues and expenses against each other to manage the debt, and
    - Preserving a reserve fund to mitigate unforeseen financial risks.

- Seen as a whole, these strategies will ensure confidence in Ontario's credit-worthiness through its ability to effectively manage its debt obligations.

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- Protecting the financing of Ontario's public services will continue to be one of my ministry's highest priorities.
- Thank you.

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LONG-FORM MEMBER QUESTION: DEBT MANAGEMENT

DEPUTY MINISTER SCOTT THOMPSON

Question

- What is Ontario's debt management plan?

Answer

- TBD: Revisions based on updates related to Q3 Finances, once available.
- The Ministry of Finance has a track record of responsible fiscal management and remains committed to executing the government's goal of reducing the provincial debt burden.
- The government's plan to manage the debt focuses on three key areas:
    - Decreasing the net debt-to-GDP ratio.
    - Decreasing the interest on debt-to-revenue ratio.
    - Utilizing term extensions.
- I would like to provide an update of progress on this goal.

Net Debt-to GDP Ratio:

- A key indicator of the government's ability to manage its debt is the level of debt relative to the size of the economy, known as the net debt-to-GDP ratio.
- The ratio of net government debt to the market value of goods and services produced by an economy — known as gross domestic product or GDP — measures the relationship between a government's debt obligations and its capacity to raise the funds needed to meet them.
- It is an indicator of the relative burden of government debt on the economy.

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- If the amount of debt that must be repaid relative to the value of the GDP is rising — in other words, if the ratio is rising — it means the government's net debt is growing faster than the provincial economy, and becoming an increasing burden.

- Before considering Ontario's net debt-to-GDP ratio, let me first discuss the components.
- First, I want to address Ontario's net debt situation.
- Ontario's net debt increased from $295.4 billion as of March 31, 2016 to $301.6 billion as of March 31, 2017.
- It is projected to increase to $311.7 billion by March 31, 2018 and to $323 billion by March 31, 2019.
- About 62 per cent of the increase in net debt from 2008–09 to 2016–17 was due to the deficit.
- The remaining net debt increase was a result of investments in capital assets.
- Balanced budgets from 2017–18 onwards will ensure that increases in net debt will be limited to net investments in capital assets such as roads, bridges, hospitals and schools.
- In other words, the net debt is increasing at a manageable rate, and a smaller portion of it is collected from the deficit.

- Next, let me briefly address the GDP.
- The government's investments in capital assets increased economic growth and helped support Ontario's GDP to advance more quickly than debt, helping the government achieve its net debt-to-GDP targets.
- Over the past three years, Ontario's economy has grown faster than Canada's and that of all other G7 countries.
- In fact, Ontario's real GDP is now 21.3 per cent above its recessionary low.
- Over the 2017–20 period, the Ministry of Finance is forecasting average annual growth of 2.2 per cent in Ontario's real GDP.

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- Government investments have helped stimulate the Ontario economy to rise from the depths of the recession, and it is now enjoying a period of economic strength and growth.

- I briefly addressed the net debt and GDP situations separately; now let me bring them together.
- The 2017 Fall Economic Statement reported that Ontario's net debt-to-GDP ratio is lower than previously forecast.
- The net debt-to-GDP ratio peaked at 39.3 per cent in 2014–15 and has been declining ever since, as a result of Ontario's economic growth and the government's progress towards a balanced budget in 2017–18.
- It is now projected to be 37.3 per cent at the end of fiscal 2017–18, 0.2 per cent lower than was forecast in the 2017 Budget.
- This ratio is projected to continue to decline to 37.1 per cent in 2018–19.
- In the 2017 Budget, the government set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24, and re-stated its commitment to reduce the net debt-to-GDP ratio to its pre-recession level of 27 per cent by 2029–30.
- A declining net debt-to-GDP ratio, together with low interest on debt costs as a percentage of revenues, positions the province for long-term sustainability.
- It also allows for a greater proportion of government spending to be invested in programs and services.

- The reduction of debt is complemented by Ontario's investments in infrastructure, which are supporting economic growth and job creation.
- In fact, Ontario is making the biggest investment in public infrastructure in its history.
- The government's long-term infrastructure plan to invest about $190 million over 13 years, starting in 2014–15, will contribute to the growth of the economy.

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- These investments will not only create jobs, support business innovation and draw investors from abroad — they will also contribute to the growth of the provincial economy at a faster rate than the change in its net debt.
- The positive impact of these capital investments on the province's economy was confirmed by the Centre for Spatial Economics.
- It recently reported that, over the long term, GDP in Ontario increases by up to $6 for every dollar of public infrastructure spending.
- The government's economic strategy was further supported in a report by the International Monetary Fund in June 2016, which recommended that Canadian "fiscal policy should be pro-growth."
- Christine Lagarde, the International Monetary Fund's Managing Director, expressed her support for the government's growth strategy and agreed that investment in infrastructure should be an essential element.
- In summary, Ontario's net debt-to-GDP ratio will gradually diminish due to the GDP increasing at a faster rate than net debt.
- This will allow the government to continue to move towards its 27 per cent net debt-to-GDP target.

Interest on Debt-to-Revenue Ratio:

- Another major thrust of Ontario's plan to manage its debt centres on the interest on debt-to-revenue ratio.
- This is another key indicator of the government's ability to meet its financial obligations.
- Through prudent and cost-effective debt management, the government has consistently kept interest on debt costs below budget projections.
- The 2016–17 Public Accounts show that Ontario's deficit for the last fiscal year was $991 million — $3.3 billion lower than projected in the 2016 Budget and half a billion lower than the interim deficit projection in the 2017 Budget.
- This smaller-than-projected deficit is due to stronger revenues, and reflects positively on the debt-to-revenue ratio.

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- Ontario's interest on debt for 2017–18 is forecast to be $12.2 billion.
- The interest on debt-to-revenue ratio is forecast to be 8.2 per cent in 2017–18, 8.3 per cent in 2018–19 and 8.4 per cent in 2019–20.
- The savings on interest on debt have improved a key measure of the affordability of debt.
- For example, the 2010 Budget forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- By the 2017 Budget, the amount needed for interest payments had dropped significantly.
- The current forecast is 3.1 cents lower — 8.2 cents of interest costs for every dollar of revenue.
- This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through Ontario's outlook period to 2019–20.

Term Extension on Debt:

- Finally, record-low interest rates have enabled the government to keep its annual interest expense steady.
- However, the global decline in interest rates over the last 25 years could not continue indefinitely.
- The Bank of Canada has increased interest rates — twice last year and already once this year.
- Ontario has taken necessary precautions to protect the financing of the province's public services, now that interest rates are widely understood to be on a net rising trajectory.
- To protect the province from these increases, the government has continued to extend the term of its debt.
- Term extension has allowed the government to lock in low interest rates for a longer period, which reduces refinancing risks.
- Extending the term also helps offset the impact of expected higher interest rates on interest on debt costs.

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- Going back to the beginning of fiscal 2010–11, Ontario has issued $68.6 billion in bonds longer than 30 years to lock in low rates.
- As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008–09 to 13.9 years in 2016–17.
- For 2017–18, it stood at 12.8 years as of October 31, 2017.
- If or when interest rates continue to rise, the government will assess whether it will remain cost-effective over the long term to continue to extend the term of its debt.

Conclusion:

- As I said at the outset, the Ontario government has a track record of responsible fiscal management and remains committed to executing its goal of reducing the provincial debt burden.
- To conclude, the government's plan to manage the debt focuses on three key areas:
    - One, decreasing the net debt-to-GDP ratio.
    - Two, decreasing the interest on debt-to-revenue ratio.
    - And three, extending the term on its debt.
- As I have stated, the government has decreased the net debt-to-GDP ratio.
- In the 2017 Budget and the 2017 Fall Economic Statement, Ontario stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected for 2029-2030, together with an interim target of 35 per cent by 2023-2024.
- I also explained how the government has decreased the interest on debt-to-revenue ratio.
- The 2010 Budget forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- However, by the 2017 Budget, the amount needed for interest payments had dropped.

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- The current forecast is 3.1 cents lower — at 8.2 cents of interest costs for every dollar of revenue.
- Finally, I explained how the government has taken advantage of low-interest rates and extended the term on its debt.
- The weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008–09 to 13.9 years in 2016–17, and 12.8 years for 2017–18 as of October 31, 2017.
- In short, Ontario's economy remains strong.
- Protecting the financing of the province's public services will continue to be one of the government's highest priorities.
- Thank you.

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LONG-FORM MEMBER QUESTION: FAIR HYDRO PLAN

DEPUTY MINISTER SCOTT THOMPSON

Question:

- What is the financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budget?

Answer:

- As Deputy Minister of the Ministry of Finance, I will speak specifically to the financial implications of the Fair Hydro Plan on the Province's budget and financial statements.

Ontario's Fair Hydro Plan

- To address issues related to rising electricity costs, especially for families and small businesses, the government announced Ontario's Fair Hydro Plan on March 2, 2017.
- As part of the plan, electricity bills were reduced by 25 per cent on average, or about $41 per month, for all Ontario residents as of July 1, 2017.
- The plan included several important measures.
- First, let me discuss the refinancing of the Global Adjustment.
- The Global Adjustment is the cost of building new electricity infrastructure in the province and maintaining existing resources.
- The majority of the province's electricity generators currently have 20-year contracts.
- Many of these generators will be able to operate past their contract term.

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- In other words, they would still generate electricity after the upfront capital costs have been paid for by the current generation of ratepayers.
- The Government of Ontario believed that present-day consumers should not be burdened with paying for a disproportionate share of investments that provide benefits for decades to come.
- To relieve the current burden on ratepayers, and share costs more fairly, a portion of the Global Adjustment is being refinanced over a longer period.
- This is providing significant and immediate rate relief to ratepayers by spreading the cost of electricity investments over time, to better reflect the expected lifecycle of the infrastructure that has been built.
- According to estimates provided when the Fair Hydro Plan was announced, the immediate reduction in the Global Adjustment would be about $2.5 billion per year, on average, over the first 10 years.

- Second, the plan included an expansion of the Industrial Conservation Initiative or ICI.
- The ICI allows participating customers to manage their Global Adjustment costs by reducing demand during peak periods.
- Customers who participate in the ICI, referred to as Class A, pay Global Adjustment based on their percentage contribution to the top five peak Ontario demand hours over a 12-month base period.
- Ontario expanded eligibility for the ICI program by reducing the threshold from 1 MW to 500 kW.
- This measure allows small manufacturers and industrial consumers the opportunity to participate in the ICI and save on their electricity costs.

- A third component of the plan is Ontario’s rebate for electricity consumers.

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- The government provided an eight per cent Ontario Rebate for Electricity Consumers on electricity bills, equivalent to the amount of the provincial portion of the Harmonized Sales Tax.
- This change was effective January 1, 2017.

- A fourth and important part of the plan allows future increases to hydro bills to be set by regulation.
- This enables the government to hold increases, for four years, to the rate of inflation.
- While rates will rise gradually over time, the government remains committed to avoiding sharp increases.

Assisting the Most Vulnerable Electricity Consumers

- The government has introduced other measures to help the most vulnerable electricity consumers.
- It did this by introducing legislation to enhance some existing programs or introduce new initiatives.
- In particular it enhanced the Ontario Electricity Support Program.
- The Ontario Electricity Support Program is an income-tested, application-based program that lowers electricity costs for the most vulnerable consumers.
- In practice, it provides them with a rebate directly on their bills.
- Effective May 1, 2017, Ontario increased the program by 50 per cent, meaning that single, low-income consumers would get an increase in their rebates ranging from $180 to $276 per year.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $140 million in 2017–18.
- This amount will be covered by provincial revenues.

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- As well, as part of the plan, Ontario has enhanced the Rural or Remote Rate Protection Program, or RRRP.
- The RRRP provides a rate subsidy to rural and remote residential customers who face higher distribution costs.
- As part of the Ontario Fair Hydro Plan, the Province expanded the program to provide distribution delivery charge relief to about 800,000 customers.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $344 million in 2017–18, which will also be covered by provincial revenues.
- Ontario is also helping customers through local distribution companies.

- In October 2017, the Province launched the $100 million Affordability Fund.
- The Affordability Fund provides local distribution companies with an additional tool to help customers in need.
- Local distribution companies can use the fund to provide support to qualifying customers for energy efficiency improvements, to help them reduce their future electricity bills.
- The Affordability Fund is paid through provincial revenues.

- Finally, Indigenous communities in Ontario are also receiving assistance through the First Nations On-Reserve Delivery Credit.
- In 2016, the Ontario Energy Board engaged with First Nations, including remote communities, the distributors serving them and consumer groups.
- Following the engagement process, the board recommended to the Government of Ontario the elimination of the delivery charge for all on-reserve First Nations residential customers.
- The board also recommended removing the monthly service charge for customers of licensed distributors that charge a bundled rate.

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- The board estimates this would provide residential customers an average monthly benefit of $85.
- According to the 2017 Provincial Expenditure Estimates, the credit is anticipated to cost $15 million in 2017–18, which will be funded by provincial revenues.

- In summary, these new measures will cost the government up to $2.5 billion over the next three years.
- The cost is about $500 million in 2017–18, based on a part-year implementation, according to the 2017 Provincial Expenditure Estimates.

Conclusion:

- Taken together, these changes are delivering the single-largest reduction to electricity rates in Ontario's history.
- For all residential consumers in the province, electricity bills have been reduced by 25 per cent on average, or about $41 per month, as of July 1, 2017.
- People with low incomes and those living in eligible rural or remote communities are receiving even greater reductions, as much as 40 to 50 per cent.
- Approximately 500,000 small businesses and farms are also benefitting from the changes.
- On-reserve First Nation residential customers of licensed distributors are getting a 100 per cent credit on the delivery line of their bills.
- Although hydro rate relief costs were additions to the fiscal framework, the government continues to project a balanced budget for 2017-18, and will provide a full update on its fiscal plan in the spring budget.

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TIPS FOR PRESENTING AT SCOPA

Tips for Addressing Committee Members:

Note: Tips are applicable for addressing both Committee Members and media.

- When speaking be mindful of what you say – the proceedings are recorded and there's no such thing as "off the record."

- Adhere to the scripted remarks and prepared Q&As. Do not embellish and ***when in doubt, leave it out.***

    - Be sure you understand the question being asked (it's ok to ask for clarification) and Do NOT answer something you're not 100% sure of.

- If you do not have the response, you may advise Committee Members that the matter needs to be redirected to another ministry, or that you will get the requested information by saying, "I'll look into what is possible to provide."

- Be mindful of only addressing questions/issues that relate directly to the TBS.

- It is acceptable to decline to answer an unrelated question by noting that you are not clear of its relevance to TBS, and that you are prepared to address matters related to the ministry.

- If caught off guard, breathe, listen, work to understand the question, or ask for clarification.

    - Ask the questioner 'Excuse me' or 'I beg your pardon?'
    - Ask the questioner 'Can you kindly help me understand the context of the question/or what you just said?'

- If possible, use a bridging statement to get to your key message/prepared response. (See Appendix A).

- Do not offer personal opinions. Stick to the facts:

    - Leave off qualifiers like "I think" "I feel," and "I believe" which represents an opinion. To sound confident and assured, be mindful not to use qualifiers.
    - Do not use 'I assure you."

- Offer examples of success whenever possible.

Body Language, Tone:

- Be aware of how you come across. There is no benefit to being seen as defensive, argumentative, or unresponsive.

- Project an image of openness, honesty, and empathy.

- Remember to breathe deeply and speak slowly.

    - Controlling your breathing helps deal with the stress.
    - Take several deep breaths as you sit down and get organized.
    - Ahead of appearance take a few minutes in a quiet spot to breathe slowly and deeply.
    - "Super Hero Pose" – stand with your legs shoulder width apart, hands on hips, shoulders back. Do this for two minutes. It helps mentally prepare you ahead of having to speak.

- Use your hands while talking to look natural and help release anxiety. (Note palms up is a subconscious message to those looking at you that you are open and have nothing to hide)

- Avoid body language leakage—those involuntary movements that indicate you're nervous or stressed - e.g. head nodding, swallowing, and pursing your lips.

- Do not touch your face with your hands.

- Avoid repeating negative words that members use in questions. Doing so indicates you accept the negative premise.

- If you feel overwhelmed while speaking in front of an audience, recalibrate by breathing and pausing.

What-Ifs:

1. What if you don't want to answer the question, but you have to say something?

    - Offer a credible reason why you are unwilling to answer the question and identify what you prefer to discuss.

2. What if you're asked for hard numbers, and you don't have the answer?

- Explain, “I want to be absolutely precise and specific, so I will need to get back to you with the exact number”

- Words like “precise,” “specific,” and “exact” convey that the question has been taken seriously.

3. What if you don’t know the answer, but a colleague who is with you may know it?

   - If you need help from the other ADMs, open your response with ‘In a moment I’m going to call on my colleague to get into more detail about this…’ This gives the other TBS representative time to know they’ll be called upon.

   - Briefly discuss a related subject, then pass the question.

4. What if you need to pause?

   - If you have said absolutely everything you need to say, then let there be a pause.

   - Remember it’s not up to you to keep the proceedings going. That’s the Chair’s job. They may intentionally leave dead air in the hopes that you’ll jump in to fill it by saying something you hadn’t intended to.

5. What if the answer is confidential?

   - Explain that confidentiality rules must be respected, so you cannot directly address the issue at hand. (e.g.: that matter is before the courts).

6. What if it’s a question about a rumour?

   - When asked to respond to a rumour, it is best to not respond at all. Instead, state that your focus is always on fact, not rumour.

7. What if the answer is HR related?

   - Say as little as possible. Commenting on someone’s employment record in a negative context can potentially put you in legal jeopardy.

8. What if you don’t like what you’re saying?

   - Don’t feel obligated to complete a sentence or thought. Simply begin the response again.

9. What if it’s a “yes or no” question?

- Unless the question relates to a sensitive issue, skip “yes” or “no” and go right to the message that would follow.

10. What if it's an "is it possible" question?

    - Avoid speculating and tell the committee – "I'm not able to comment on something that may or may not happen."

11. What if you're interrupted mid-answer?

    - The first time, let it go. The second time, ask the Chair to be allowed to finish your thought.

APPENDIX

A. Sample Bridging Statements

1. "We find the more important issue is…"
2. "I think it would be more accurate (or correct) to say…"
3. "Let me emphasize again…"
4. "What matters most in this situation is…"
5. "While _____ is important, it's also important to remember that…"
6. "It all boils down to this…"
7. "And that reminds me…"
8. "Before we leave this subject, I need to add…"

Attachment A. 2017 Annual Report Chapter 2_Public Accounts of the Province (0 Bytes) cannot be converted to PDF format.

Attachment B. 2017 Special Report on Fair Hydro Plan (0 Bytes) cannot be converted to PDF format.

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Security settings or invalid file format do not permit using AG 2017_News Release_Chapter 2.pdf (136845 Bytes).

Security settings or invalid file format do not permit using AG 2017_Summary_Chapter 2.pdf (72105 Bytes).

Security settings or invalid file format do not permit using AG 2017 Report on Fair Hydro Plan.pdf (1323405 Bytes).

From:	Erika.Hartog@ontario.ca on behalf of Angus, Helen (TBS)
To:	Karen Hughes (MGS); Veinot, Cindy (TBS); Hosick, Sarah (TBS); Patrick Laughton (MOF); Amanda Miller (MGS); Sofie DiMuzio (MGS); Bryant Sullivan (MAG); Boafoa Kwamena (MOI); Mark Donaldson (MOF); Dane Nelson (MOF); Allison Ue (MCSS); Vivienne Skoberne (MOHLTC); Kate Vrancart (MCS); Martin Schlaepfer (MOF); David McLean (MOF); Kobrinsky, Liza (MOF); Serge Imbrogno (ENERGY); Scott Thompson (CAB); Gadi Mayman; Ken Kandeepan; Tim Schuurman (MOF); Lynn Betzner (CAB); Francesca Bungaro-Yemec (ENERGY); Kim, Minzi (MOF); Steve Orsini (MOF); William Bromm (CAB)
Cc:	Michael Waterston (MOF); Jamille Clarke-Darshanand (MOF); Steen Hume (CAB); Hilary Cox (ENE); Jenna LeBlanc (MCSS); Scott, Adrienne (CAB); Patrizia Durisotti (MTCS); Heitshu, Tania (CAB); Ian Ross (MOHLTC); Tharani, Alisha (TBS); John Whytock (ENERGY); Peter Spadoni (MCYS)
Subject:	Joint DM/SoC Briefing: SCOPA, Public Accounts
Attachments:	SCOPA SoC Briefing Package.zip

Sent Feb 09: Material added:

1. Briefing Package for Meeting
a) Meeting Agenda
b) Briefing Deck
1. Appendix A: Summary Status Table
2. Appendix B: Draft SCOPA QAs for the SoC
c) Roles & Responsibilities ("Swim Lanes" Document)
d) Calendar

2. Draft E-Binder (Supplementary Product)
* Note that the materials included in this binder are draft, and will continue to be reviewed by program areas and evolve in the coming days.
* For those who may have already received a previous version of the binder, see below for the table of contents that highlights which materials have been updated.

Please note: We will be bringing copies of the briefing package and draft binder for the SoC's office, Deputy Ministers, and the CEO of the OFA. For others, it is requested to prepare your own materials.

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Tab 2 Strategic Approach

Tab 3 Roles and Responsibilities Outline

Tab 4 Summary Status Table

Tab 5 TBS Deputy Angus Opening Remarks

Tab 6 Comprehensive QAs
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* Ministry of Energy
* Ministry of Finance

Tab 7 Long-Form Member QAs
* Treasury Board Secretariat
* Ministry of Energy
* Ministry of Finance

Tab 8 Tips for Presenting at SCOPA

Tab 9 Auditor General Reports
* 2017 Annual Report: Chapter 2
* 2017 Special Report on the Fair Hydro Plan

Tab 10 Environmental Scans
* Treasury Board Secretariat
* Ministry of Energy
* Ministry of Finance

Tab 11 Reference Materials
* Government Response to Auditor General's 2017 Annual Report
* House Book Notes

Sent Feb 07: Location updated to Room 6501, Whitney Block

Sent Feb 05: Lunch will be provided.

Attachment SCOPA SoC Briefing Package (0 Bytes) cannot be converted to PDF format.

Attachment 1. Briefing Package for Meeting (0 Bytes) cannot be converted to PDF format.

Attachment 2. DRAFT_E-Binder (0 Bytes) cannot be converted to PDF format.

Communications Branch
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AGENDA

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

JOINT SOC/DMS BRIEFING

Date: Friday, February 9, 2018
Time: 12:00–1:00pm
Location: Room 6501, 6th Floor, Whitney Block
Attendees: CAB – SoC, Communications
TBS – DMO, OTB, OPCD, Communications
ENER – DMO, Communications
MOF – DMO, Communications

Topic	Lead	Time
Opening Remarks	DM Angus	5 minutes
SCOPA Overview • Agenda & Logistics • Strategic Approach • Issues Management Summary	TBS – Communications	10 minutes
Management Response to Recommendations	TBS – OPCD	20 minutes
SoC's Role • Key messaging • Anticipated questions	DM Angus	20 minutes
Next Steps • Dry run • Final products	TBS – Communications	5 minutes

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Standing Committee on Public Accounts

Secretary of the Cabinet Briefing on Chapter 2, Public Accounts of the Province

February 9, 2018

Overview

- Auditor General's Annual Report, Chapter 2, makes 10 recommendations regarding Public Accounts of the Province.

- Recommendations largely reflect opinions expressed in previous reports, including AG's audit opinion in 2016-17 Public Accounts and Special Report on the Fair Hydro Plan.

- The province disagrees with the characterization of the majority of the recommendations, and re-iterates its commitment to producing high-quality financial reports on a timely basis and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Logistics

- Agenda
  - *See: Tab 1 p. 1 of the Briefing Binder*
- Room setup
  - *See: Tab 1 p. 2 of the Briefing Binder*
- Media access
  - *See: Tab 1 p. 2 of the Briefing Binder*
- Ministry/organization representatives to attend
  - *See: Tab 1 p. 3 & 4 of the Briefing Binder*
- Committee members
  - *See: Tab 1 p. 5 of the Briefing Binder*

Strategic Approach

- Provide **evidence and facts** as basis of decision-making wherever appropriate (e.g. other jurisdictions, external advisors).

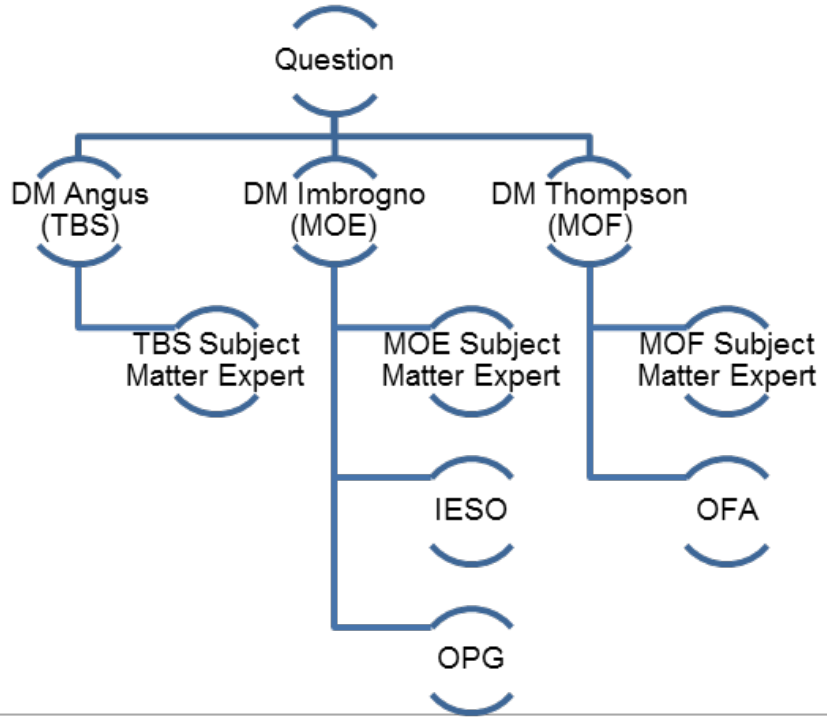
- Emphasize **role of public servant** to provide factual, non-partisan information to committee based on due diligence and application of professional judgment.

- Use committee appearance as opportunity to communicate facts and rationale for decision to **adopt/continue accounting practices** in response to AG's recommendations.

- Highlight **due diligence in decision making** (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).

Roles & Responsibilities

- Secretary of the Cabinet will be seated in the first row behind the three Deputy Ministers.
- Deputy Ministers to provide initial messaging then pass to subject matter experts where appropriate.
- Specific roles and responsibilities are outlined in Tab 3 of Briefing Binder.



Key Issues

- Based on AG's 2017 Annual Report, media and Hansard analysis, and SCOPA invitee list, anticipated key issues include:
  - Ontario Fair Hydro Plan accounting
  - IESO accounting (market accounts; rate-regulated accounting)
  - Pre-Election Report
  - Pension asset accounting
  - Province's debt

- Additional considerations:
  - Stakeholder reports and commentaries (e.g. Ontario Chamber of Commerce Economic report; FAO report on Hydro One; Fraser Institute commentaries on fiscal situation)
  - Third Quarter Ontario Finances
  - Executive compensation (e.g. OPG & IESO)
  - IESO/OPG "inappropriate expenses"
  - IESO Audit Committee meeting
  - OPG Financing of Regulatory Assets

Issues Management Strategy Summary

Issue	Strategy	Key Messages
Pension asset accounting TBS lead	• Emphasize due diligence and objective advice to support government decision-making. • Leverage external analysis where appropriate. • Reaffirm commitment to working with AG.	• The province has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian PSAS. • The province will continue to evaluate the need for a valuation allowance annually.
IESO accounting Finance/IESO lead TBS to speak to government decision to accept accounting	• Emphasize due diligence and objective advice to support government decision-making. • Leverage external analysis where appropriate. • Reaffirm commitment to working with AG.	• The province supports this enhanced reporting and greater transparency for the economic activities of the IESO. • The province is open to continue to discuss the issue in the hopes of resolving this matter.
Ontario Fair Hydro Plan Energy/OPG/IESO lead TBS to speak to accounting	• Highlight due diligence included in OFHP decision-making, and that the accounting structure is still being finalized. • Avoid any speculation on political decision-making or future events.	• It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. • The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.

Issues Management Strategy Summary

Issue	Strategy	Key Messages
Pre-Election Report Joint TBS/Finance lead	• Reaffirm government's commitment to working with Office of Auditor General. • Avoid speculation on political decision-making or future events.	• The province remains committed to meeting the legislative requirements of the FTAA and working constructively with the Office of the Auditor General. • *(TBC as decisions are finalized.)*
Province's Fiscal Situation Finance/OFA lead	• Provide context, evidence and facts; refer to documents in public domain where appropriate. • Highlight due diligence. • Avoid speculation on political decision-making or future events.	• The province has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian PSAS.
Preparation of Public Accounts TBS lead Finance to speak to timelines re: tax revenues	• Avoid speculation on political decision-making or future events. • Reaffirm commitment to working with AG. • Confirm province seeks external expertise when appropriate as normal course of business.	• It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. • The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.

Issues Management Strategy Summary

Issue	Strategy	Key Messages
Insisting on Speculation	• Emphasize role of public servant is to provide objective advice to support government decision-making. • Avoid speculation on political decision-making or future events.	• As a public servant, it would be inappropriate for me to speculate on the intentions of the government. • We provide neutral advice to support decision-making.
Confidential Advice	• Emphasize role of public servant is to provide objective advice to support government decision-making. • Avoid any commitment if unsure whether information is confidential or not.	• This matter could be considered confidential advice provided. • I would be happy to look into this matter further to clarify the scope of confidentiality and provide a written response back to the committee.
Out of Scope	• Provide responses that are relevant and in scope of the consideration of chapter two of the Office of the Auditor General's report.	• I am happy to provide a response to the question as it relates to chapter two of the Annual Report. • I cannot speak to the specific point you are raising, and as mentioned, [____] would be more appropriate to respond.

Response to Recommendations

- Refer to Appendix A for the province's management response to the Office of the Auditor General's recommendations.

Anticipated Questions

- Refer to Appendix B for anticipated top questions, including key messaging for Secretary of the Cabinet.

- Refer to Tab 6 of Briefing Binder for comprehensive list of anticipated questions and answers.

Supporting Products

- Summary status table
- Introductory remarks
- Comprehensive Q&As
- Long-form member Q&As
- Issues notes

Summary Status Table in Response to the Report of the Auditor General of Ontario

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Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and b) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

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	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. The government respectfully disagrees with the Auditor General's interpretation of the accounting standards on this issue as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

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AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

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by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

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	conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

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our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*		

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their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

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• *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

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states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

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	which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%, currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining, falling to 37.3% in 2017-18 from its 2014-15 peak of 39.3%.	Continue to monitor progress. Estimated implementation by FY 2029-30.

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	As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

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personal income tax revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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AG Recommendation #10 *We recommend that the government determine when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.*	Under the *Fiscal Transparency and Accountability Act*, 2004, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a Statement based on a prompt review following the release of such a Pre-Election Report.	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

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QUESTIONS FOR THE SECRETARY OF THE CABINET

1. **Secretary, we want to hear from you, as the head of the Public Service – can you answer the question on ___?**

   Thank you for your question.

   If applicable:
   What I can say is that [*refer to key messages below*].

   I cannot speak to the specifics of your question, but I would be happy to pass it over to my colleague, Deputy ___.

2. **How can you say the province is responsibly managing its finances when Ontario is the most indebted sub-sovereign jurisdiction, has received a qualified audit opinion two years in a row, and continues to go down a path of questionable accounting with the Fair Hydro Plan?**

   Thank you for your question.

   The province has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

   We will continue to ensure appropriate due diligence is completed in all objective advice that we provide to support government decision-making.

   This includes completing our own internal analysis, building prudence into financial forecasts, looking to other jurisdictions or external advisors to supplement our own analysis, and always bringing our best professional judgment to the table.

   If you'd like further details on these points, I will pass it over to my colleagues, who would be pleased to provide the Committee with further information.

3. **If your colleagues are, as you say they are, providing objective, good advice, why do you think the elected government continues to ignore the public service and go ahead with policy decisions like the Fair Hydro Plan?**

   Thank you for your question.

As a public servant, as you can appreciate, it would be inappropriate for me to speculate on the intentions of the government.

What I can say is that I am confident in my colleagues, who like me, work to provide our best, objective advice to support government decision-making.

Whether it is for the Ontario Fair Hydro Plan, or anything else, the province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards.

Where these standards are silent, our professional staff will exercise their professional judgment and apply the standards' guidelines as appropriate.

For the purposes of Ontario's Fair Hydro Plan, the province considered a range of implementation options and consulted with legal, accounting, financial, and energy sector experts to provide advice and ensure due diligence was completed.

For further details on the Fair Hydro Plan, I will pass it over to Deputy Imbrogno. He and his team would be pleased to provide the Committee with further information.

4. What advice did you give the Premier regarding on the Ontario Fair Hydro Plan?

Thank you for your question.

As a public servant, it is our role to provide our best, objective advice to support government decision-making.

I am unable to speak to the specific advice that was provided, as this would be considered confidential. However, I would like to assure the Committee that for this policy matter, like any other, our professional staff ensured due diligence was completed in providing their advice.

For further details on that due diligence, including the consideration of a range of implementation options and consultations with legal, accounting, financial, and energy sector experts, I will pass it over to Deputy Imbrogno. He and his team would be pleased to provide further details.

5. **Is the province willing to move forward, ignoring the advice of the Auditor General, at the risk of another qualified audit opinion – or worse, an adverse audit opinion? Don't you think this would affect the province's credit rating, and make debt even worse than it is for future generations?**

   Thank you for your question.

   As you can appreciate, it would be inappropriate for me to speculate on how the Auditor General may issue an opinion for the next Public Accounts.

   What I can say is that the province has a strong track record of producing high-quality financial reports on a timely basis. We will continue to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

   If you would like further details on the preparation of Public Accounts and the province's work with the Office of the Auditor General, I would be happy to pass it over to Deputy Angus.

   If you would like further details on the province's fiscal management, I would be pleased to pass it over to Deputy Thompson.

6. **Why has the government avoided a clear answer on the Pre-Election Report? Will you, as per legislative requirements, issue this important accountability document?**

   Thank you for your question.

   I want to stress that the province takes the Auditor General's recommendations seriously.

   Our teams are engaging all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.

   The government has not yet made a decision on whether and when to release a Pre-Election Report.

   For further details on the Pre-Election Report, and how the province has been working with the Office of the Auditor General, I will pass it over to Deputy Angus and Deputy Thompson.

7. **How can you justify the exorbitant salaries that are being paid to consultants, to OPG and IESO executives, when the people of this province are struggling to make ends meet?**

   Thank you for your question.

   I would like to emphasize that province remains committed to ensuring transparency and accountability in how broader public sector employers manage executive compensation.

   I believe this topic may be out of scope for today's consideration of chapter two of the Auditor General's 2017 Annual Report.

8. **What has been your relationship with the Auditor General? As the head of the public service, aren't you concerned that the government continues to undermine independent officers of the legislature?**

   Thank you for your question.

   I speak for myself and my colleagues when I say that the OPS has the utmost respect for all independent officers of the legislature, and we value the important and necessary perspective they bring.

   Our professional staff will continue to take a proactive approach to raising issues with the Office of the Auditor General.

   I know, for example, that the Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

   As public servants, we will continue to ensure due diligence and provide our best, objective advice to support decision-making. In addition, we will continue to work with all officers of the legislature to keep them informed and engage constructively on considerations and approaches.

   For further details on recent collaborations with the Office of the Auditor General on the topic of the preparation of Public Accounts, I will pass it over to Deputy Angus.

9. **Secretary, why does the province continue to turn to consultants or external advisors whenever there is disagreement with the Auditor General? Doesn't the public service have the expertise in-house? Or do**

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you just turn to external experts as a way to circumvent the opinions and recommendations expressed by the Auditor General?

Thank you for your question.

I would like to emphasize that the OPS has the utmost respect for all independent officers of the legislature, and we value the important and necessary perspective they bring.

Our professional staff will continue to take a proactive approach to raising issues with the Office of the Auditor General.

The province's use of external expertise for accounting and financial reporting matters supplements our own resources on complex or emerging matters.

External advisors are generally engaged to provide advice and guidance to supplement our own internal analysis. This is within a normal course of business, and is part of our responsibility to ensure due diligence.

We remain committed to working with the Office of the Auditor General to discuss issues.

For further details on how we use external expertise to support our own internal analysis, I will pass it over to Deputy Angus.

PENSION ASSET ACCOUNTING

Key Messages

- The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).
- We respectfully disagree with the Auditor General's interpretation of the accounting standards.
- The province is open to continue to discuss the matter in the hopes of resolving this matter.
- For more information on pension asset accounting, I will now pass it over to:
    - Deputy Angus

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IESO ACCOUNTING

Key Messages

- The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies.
- In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements.
- The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.
- The government supports this enhanced reporting and greater transparency for the economic activities of the IESO.
- The province is open to continue to discuss the issue in the hopes of resolving this matter.
- For further details on the province's decision to accept IESO market accounts on the province's consolidated financial statements, I will pass it over to:
    - Deputy Angus
- For further details on the IESO's decision to adopt market accounts, I will pass it over to:
    - Deputy Imbrogno

ONTARIO FAIR HYDRO PLAN

Key Messages

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

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- The province's professional staff have appropriately applied PSAS guidance in assessing the accounting for the OFHP.
- For further details on the province's decision to accept OFHP accounting, I will pass it over to:
    - Deputy Angus
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

PRE-ELECTION REPORT

Key Messages

- The province takes the Auditor's recommendations seriously and remains committed to working constructively with the Auditor General.
- The government has not yet made a decision on whether and when to release a Pre-Election report.
- My colleagues are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.
- For further details, I will pass it over to:
    - Deputy Angus

PROVINCE'S FISCAL SITUATION

Key Messages

- The province has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.
- We are projecting a balanced budget in 2017-18.

- The Ministry of Finance is committed to a responsible fiscal plan and they build prudence into our forecasts.
- For further details, I will pass it over to:
    - Deputy Thompson

PREPARATION OF PUBLIC ACCOUNTS

Key Messages

- The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.
- The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).
- Our professional staff exercise judgment in applying the standards and as necessary consult with external experts and advisors.
- The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.
- The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Last updated: January 22, 2018

Key Issues	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	Pres. & CEO, OPG	SVP & CFO, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thompson	Gadi Mayman	Serge Imbrogno	Steen Hume	Jeffrey Lyash	Ken Hartwick	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting		Overall - Pension Asset Accounting		Details - Pension Asset Accounting								
Advisory Panel Compensation			Advisory Panel Compensation									
IESO Accounting							**IESO LEAD**					
Rec # 2 IESO Market Accounts				Government decision to accept IESO market accounts			OFHP Policy Overview	OFHP Policy Overview			IESO's Role in OFHP / General Overview	IESO Market Accounts
Rec #5 IESO Market Accounts & Rate-Regulated Accounting				Government decision to accept IESO rate-regulated accounting								IESO Rate-Regulated Accounting
AG Audit of 2017 Statements		Relationship with AG - AG Audit of 2017 Statements										AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #3 OFHP Accounting				Decision to accept OFHP accounting			OFHP Policy Overview	OFHP Policy Overview	OPG's Role in OFHP / General Overview	OPG Financing Structure / Transaction	IESO's Role in OFHP / General Overview	IESO Financing Structure
Rec #6 'Legislated Accounting'				OFHP - 'legislated' accounting								
Rec #9 Arm's Length Trusts				Accounting for trust						OPG Accounting / Trust		
Records Disclosure/Process		Ministry FOI/OPQ					Records Disclosure / Process Followed		Records Disclosure / Process Followed		Records Disclosure / Process Followed	
Re-design of hydro bills							Re-design of hydro bills					
Pre-Election Report		**JOINT PRE-ELECTION REPORT LEAD**			**JOINT PRE-ELECTION REPORT LEAD**							
Rec #10 Pre-Election Report on Ontario's Finances		Pre-Election Report on Ontario's Finances	Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #7 Province's Debt Burden					Province's Debt Burden	Province's Debt Burden; Repayment plan						
Financial Accountability Officer Reports					Financial Accountability Officer Reports	Financial Accountability Officer Reports						
Credit Ratings					Credit Ratings	Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
Rec #4 External Advisors		External Advisors										
Rec #8 Timeline of Finalization of Financial Statements		Timeline of Finalization of Financial Statements	Timeline of finalization of financial statements		Timeline of finalization of financial statements - tax revenues							
Audit Opinion				Audit Opinions								
Out of Scope		Specific ministry Public Accounts line items Speculation about future accounting implications; audit opinions Speculation about government motivations			Speculation about future policy implications Speculation about government motivations		OFHP final accounting implications Speculation about future policy implications Speculation about government motivations	IESO/OPG compensation Expenses				

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
4	**5** *SCOPA Updated E-Binders Circulated*	**6** **SCOPA Joint Deputy's Briefing Discussion** OPG - Financing of Regulatory Assets	**7**	**8** *SCOPA SOC Deck & Updated E-Binders Circulated*	**9** **SCOPA SOC & Joint Deputy's Briefing**	**10**
11	**12** FAO Report on Partial Sale of Hydro One	**13**	**14** **SCOPA Status Table due to Committee**	**15** TBC: MOF Q3 Update	**16** *SCOPA Materials Finalized*	**17** TBC: Summary of TB orders published in Gazette
18	**19** Family Day	**20** House Resumes TBS OFHP OPQ filed MMP Meeting	**21** *TBC: SCOPA Dry Run*	**22**	**23** *SCOPA Final E-Binders Circulated*	**24**
25	**26**	**27** IESO Audit Committee Meeting	**28** **SCOPA Appearance**			

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*TBD: Pre-Election Report
Supply Act

Last updated: February 8, 2018

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 28, 2018

BRIEFING BINDER - DRAFT

February 9, 2018

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Attachment B. Ministry of Energy Environmental Scan (0 Bytes) cannot be converted to PDF format.

Attachment C. Ministry of Finance Environmental Scan (0 Bytes) cannot be converted to PDF format.

Communications Branch
Your Strategic Partner

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

TBS ENVIRONMENTAL SCAN AND ISSUES OVERVIEW

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Environmental Scan

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- **Pension asset accounting**
- **Ontario Fair Hydro Plan (OFHP) Accounting**
- **Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG "inappropriate expenses"; OPG compensation)**
- **Pre-Election Report**
- **Province's debt burden**

Following the release of the Auditor General's Annual Report on December 6, 2017, TBS-related issues were referenced in 41 per cent of articles, including specifically the "accounting disputes" between the Auditor General and the government, spending on government advertising, and the Auditor General's commitment to audit the IESO's consolidated financial statements. In the House, there were eight questions related to TBS issues: 50 per cent were related to the IESO/OPG "inappropriate expenses"; 25 per cent were related to government advertising; and the remaining two questions focused on the balanced budget narrative and the Pre-Election Report.

Overall, the focus on Public Accounts specifically has been limited in the media and the House alike: between September and December 2017, there were 12 mentions of Public Accounts. 50 per cent of mentions referenced "accounting rules" or the alleged existence of "multiple sets of books". Following the tabling of Public Accounts 2016-17, media coverage was limited and 80 per cent of coverage was neutral in tone.

Media Scan

Auditor General 2017 Annual Report

- **Media Events – December 6, 2017**
    - **Auditor General**
        - Overall, TBS-related issues represented 28% of the Auditor General's remarks.
        - Media questions on TBS-related issues represented 28% of all questions asked (7 out of 25)– **including on the planned audit of IESO's financial statements, government numbers vs. AG numbers being used for the PC's platform, and concerns regarding pre-election reports.**
    - **Government Response**
        - Overall, TBS-related issues represented approximately 20% of the discussion.

        - Media questions on TBS-related issues represented 20.8% of all questions asked (5 out of 24) – questions focused on government advertising and **on comments made by the Auditor General to "address significant issues without fear of push-back and reprisal."**

    - **PC Response**
        - Introductory remarks focused generally on waste and mismanagement.
        - Media questions on TBS-related issues represented 17% of all questions asked (2 out of 12) – **questions focused on the PC's use of the government's numbers in their "People's Guarantee" platform**

    - **NDP Response**
        - TBS-related issues related to 8% of the third party leader's remarks, particularly on government advertising
        - No direct mention of TBS-led chapters, **however 38% of questions (3 out of 8) focused on IESO expenditures**

- **Initial Media Coverage**
    - There were approximately 17 stories focusing on the Auditor Generals' 2017 Annual Report
    - 41% of articles referenced TBS-related issues
    - Key themes related to TBS issues include: **"accounting disputes" between the AG and the government** – and the effect it has on the balanced budget narrative, spending on government advertising, and **the AG's statement that she will audit the IESO's financial statements.**

- **Recent Media Coverage** (December 2017 – January 2018) has focused on the following key themes:
    - **The government's relationship with the Auditor General**
    - **Pre-election report**
    - **Distrust of government numbers/"two sets of books"**

Public Accounts

- **Media Coverage**
    - Media coverage was short-term (24-hours), with **80% of media coverage neutral in tone** (compared to 26% in 2016)
    - Government key messages were picked up 100% of the time
    - Balanced budget key messages were picked up in 60% of the coverage

- **Key Themes**
    - Disagreement between the government and auditor general

- Ontario's fiscal position: government debt and deficit
- The government's alleged continued dismissal of watchdogs

Pre-Election Report

- **Media Coverage**
  - On December 17, 2017, the Toronto Sun published a column by Lorrie Goldstein, "Auditor General headed for a showdown with Wynne over financial vows Liberals made in 2004" focusing on the Pre-Election Report
  - On January 24, 2018, Minister Sousa was asked by Jessica Smith Cross (QP Briefing) about the plans for the Pre-Election Report. Minister Sousa signalled that plans were uncertain at this time: "What happens is, you produce a document then you provide the pre-election report. So I have to manage this concurrently. But again, we recognize the timing and the constraints that that brings. **So I have to find other ways** to ensure that full disclosure is given to her and the other legislative, to the FAO."

Hansard Scan

Auditor General 2017 Annual Report

Following the release of the Auditor General's 2017 Annual Report, there were eight questions in the House relating to TBS issues:

- 50% (4/8) were related to **OPG/IESO "inappropriate expenses"**
- 25% referenced the FAO - one on balanced budget, one on the **pre-election report**

Public Accounts

Public Accounts were mentioned in the House at least 12 times between September and December 2017:

- 50% mention some form of "accounting rules" / two sets of books
- 42% (5/12) related to infrastructure spending
- 25% (3/12) mention FAO and AG together
- 25% regarding Fair Hydro Plan accounting
- One reference to pre-election finance report

FOIs/OPQs

There is one OPQ currently in progress with TBS related to Ontario Fair Hydro Plan accounting.

Overview	Key Issues	Key Dates	Next Steps
OPQ #700		OPQ will be formally filed on	In progress –

MPP Vic Fedeli Would the President of the Treasury Board state whether the government is in possession of an opinion from KPMG or E&Y on how the Fair Hydro Plan transaction should be recorded in the government's Consolidated Financial Statements, and further state precisely where they disagree with the Auditor General	**Ontario Fair Hydro Plan Accounting** **Relationship with the Auditor General** **Use of external advisors**	February 20, 2018	**Products:** Response to OPQ. **Notes:** Draft will be sent first week of January 2018 to OPCD to draft response. OPQ will be formally filed on February 20, 2018 TBS is the only ministry to have received this OPQ. **Next Steps:** Develop and approve response

Other Considerations

- Executive compensation (OPG, OEB, IESO)
- "Inappropriate expenses" (OPG, IESO)
- Hydro bill redesign ("$15 million")

Key Issues

Issue/Consideration	Strategy	Key Messages	Evidence
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the	• Pension Asset Expert Advisory Panel • Opinion from Deloitte LLP • Analysis Completed by EY

		plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.	
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. IESO's recent accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.	Opinion supported by: • IESO audit committee • Independent external auditor (unqualified opinion) • OPCD • Same method used by Ontario Power Authority previously
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making, and that the accounting structure is still being finalized. Refuse to speculate about AG's potential future audit opinion.	The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).	• PSAS Guidance • CPA professional code of conduct • External advisors • Other jurisdictions

	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.	
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a	• Highlight how the government has been working with the Office of the Auditor General (stated by Minister Sandals in a Dec 16, 2017 Toronto Sun article)

		prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.	
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.	• C4SE study • MOF
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its	• Example of single use of legislated accounting (Public Accounts 15-16)

		consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.	
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.	• CPA professional code of conduct
FOI/OPQ/Records Disclosure			

Questions & Answers

Top Questions*

1. How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?

2. How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?

3. The government has received a second qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

4. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

5. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

6. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

7. Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.

8. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

9. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

10. Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?

11. When will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

**See appendix A for a full list of QAs.*

Long-Form Answers

1. **Why did the government choose to recognize pension assets from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan? What evidence and processes were used to support this decision?**

2. **Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements? Is there any precedent for this?**

3. **Can you explain when and how the Treasury Board Secretariat looks to other accounting methods to support the preparation of Public Accounts?**

Ministry/Agency Representatives

Organization	Position	Name
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot
Treasury Board Secretariat Office of the Provincial Controller	Director, Accounting Policy and Financial Reporting Branch	Mark Donaldson

Supporting Materials

Backgrounders

- Auditor General 2017 Annual Report – Public Accounts – Management Response Backgrounder
- Public Accounts Backgrounder

Technical Briefings/QAs

- Public Accounts – Technical Briefing Deck September 2017

House Book Notes

- Public Accounts
- Fair Hydro Plan Accounting
- Pension Asset Accounting

PLACEHOLDER

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PLACEHOLDER

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Attachment A. Government Response to Auditor General’s 2017 Annual Report (0 Bytes) cannot be converted to PDF format.

Attachment B. House Book Notes (0 Bytes) cannot be converted to PDF format.

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Ontario

BACKGROUNDER

Treasury Board Secretariat

Summary of Government Responses to the Auditor General's 2017 Annual Report Chapter on Public Accounts

December 6, 2017

The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

Below is a summary of the government's position regarding the Auditor's recommendations in Chapter 2 – Public Accounts of the Province.

Accounting for Pension Assets

The government continues to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset.
- An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded.

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

The government continues to apply the accounting treatment of pension assets that the Province has used consistently since 2001.

IESO Market Accounts

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of IESO-administered markets at year-end.

This change was supported by IESO's Audit Committee, its Board of Directors, its independent external auditor, and by the Office of the Provincial Controller. It has no impact to the Province's annual deficit, net debt or accumulated deficit.

The financial statements of IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

The accounting concepts used are consistent with those used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

IESO Rate-Regulated Accounting

PSAS is silent on the issue of rate-regulated accounting – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Standards Handbook.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework that provides guidance on rate-regulated operations.

IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America.

Ontario Fair Hydro Plan Accounting

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

The proposed accounting for OFHP reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Handbook.

This guidance has been appropriately applied in assessing the accounting for the OFHP.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from OFHP.

Legislated Accounting

The Province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for certain net pension assets in order to allow Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS.

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS.

Lawvin Hadisi, Minister's Office, 416-326-3839
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Ontario

STATEMENT

Treasury Board Secretariat

Statement from the President of the Treasury Board on the Auditor General's Annual Report

December 6, 2017

Today, Liz Sandals, President of the Treasury Board, released the following statement:

"We thank the Auditor General for her report, and continue to appreciate our ongoing working relationship with the Office of the Auditor General (OAG). The Treasury Board Secretariat works closely with the OAG on a wide variety of issues on a regular basis, and her oversight and insight is welcomed both during our regular interactions and with this annual report.

The Auditor General mentions a number of topics that represent ongoing conversations between government and her office; for instance, the accounting practices regarding pension assets and the application of the United States Generally Accepted Accounting Principles when the Public Sector Accounting Board's standards are silent. The government's position on these differences of opinion has not changed.

We agree with the Auditor General's comments on the importance of accountability for agencies, boards, commissions and other broader public sector entities. Since 2010, our government has implemented a number of important measures to strengthen broader public sector and provincial agency accountability, transparency and governance. Our recent Fall Economic Statement, if passed, responds to the recommendations of the Auditor General in her 2015 Annual Report to streamline administration and establish consistency in the tabling and communication of provincial agency annual reports. However, we know that making process changes to annual reports may not be the complete solution. We will continue working with the OAG to enhance oversight and ensure accountability across all of our agencies.

We share the Office of the Auditor General's belief that the Auditor General has an important role to play in the oversight of government advertising, and that's one of the reasons that we are proud that Ontario is the only jurisdiction in Canada to have legislation in place to ensure that oversight. In fact, we have recently expanded her oversight to include digital advertising.

We know that the government has a responsibility to communicate to the public it serves, and that advertisements are one medium through which we can do that. For example, our Sexual Violence and Harassment prevention campaign – #WhoWillYouHelp challenged existing attitudes, and sparked international discussion. Our video was viewed over seven million times in the first 10 days, and generated more than 85 million views worldwide. And within 6 months, we had measurable results – 55 per cent strongly agreed they had an obligation to intervene when witnessing sexual harassment, up from 37 per cent.

As the President of the Treasury Board, I am committed to leading the government's efforts on accountability, openness and modernization, while working to deliver good government and public services in the most effective and efficient way possible. As part of this commitment, we work side-by-side with our partners, including the Auditor General, throughout the year to ensure that we continue to become more efficient in our processes and more open and

accountable as a government.”

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CONFIDENTIAL REVISED: January 10, 2018

ONTARIO'S FAIR HYDRO PLAN ACCOUNTING (GLOBAL ADJUSTMENT REFINANCING)

ISSUE: What is the basis for the proposed accounting for the Global Adjustment Refinancing on the Province's books?

CONTEXT:

- The Global Adjustment Refinancing is one component of Ontario's Fair Hydro Plan announced in March 2017, and is the most significant contributor to the reduction in hydro rates for residential consumers.
- The other parts of the Plan for residential consumers include:
  - Expansion of the Ontario Electricity Support Program;
  - Reductions in distribution rates for consumers in rural and remote areas;
  - Reductions for First Nations residential consumers living on-reserve; and,
  - A fund set up to assist consumers in making their homes more energy efficient.
- The only impact on the 2016-17 consolidated financial statements from Ontario's Fair Hydro Plan is related to the fund set up to assist consumers in making their homes more energy efficient, which was expensed in the year and increased the annual deficit. In addition, the 8 per cent rebate on electricity bills, introduced as of January 1, 2017, while not part of the March 2017 announcement, also impacted the 2016-17 consolidated financial statements as an expense that increased the annual deficit.
- The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized. The government will present the Province's finances in the 2017-18 Public Accounts fairly and accurately and in accordance with Public Sector Accounting Standards (PSAS).

KEY MESSAGES:

GA Financing Status and Structure

- In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.
- All of the agreements necessary for the Global Adjustment (GA) Refinancing will be finalized in the current fiscal year. The final accounting for the GA Refinancing will be completed once all of the elements are complete. The balance of the note is based on the expected outcome. As previously noted, there was no impact on the 2016-17 consolidated financial statements from the GA Refinancing.
- In analyzing the appropriate accounting treatment for the GA refinancing component of Ontario's Fair Hydro Plan on the Province's consolidated financial statements in 2017-18 and going forward, the Province considered authoritative guidance issued by the Public Sector Accounting Board, as well as the accounting assessments of the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) management, including the accounting opinions of their external auditors.
- The complexity and unique structure of the GA Refinancing structure requires the use of professional judgment to ensure that key financial reporting objectives of transparency and accountability are best served.
- Under GA Refinancing, as enabled by the Ontario Fair Hydro Plan Act, 2017 ("OFHPA"), a Financing Entity established by Ontario Power Generation will borrow amounts to fund the payment of a portion of electricity costs charged by the electricity generators, thereby temporarily reducing the amount paid by eligible consumers (or ratepayers). The deferred amounts, including interest and other costs, will be recoverable from consumers/ratepayers in the future.

- The Independent Electricity System Operator (IESO), an independent, not-for-profit agency of the Province, is responsible for the management and operation of the wholesale electricity market. IESO makes payments to the electricity generators with cash received from the local distribution companies (and ultimately the consumers/ratepayers).
- Over the last 10+ years, investments have been made to phase-out coal and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system). This involves a move away from coal to cleaner, but more expensive methods of electricity generation, including wind, solar and natural gas. The cost of these investments were passed on to consumers/ratepayers as incurred or based on contractual payment terms, but not based on the period of benefit (i.e., the life of many generators is expected to exceed the length of the contracts).
- The GA refinancing acknowledges that the current generation of electricity consumers has paid more than its fair share for these costs, and spreads these costs incurred out over more years so they are shared proportionally by future electricity consumers.
- In simple terms, the IESO will continue to make payments to the electricity generators based on their contractual terms, but will collect less from the local distribution companies, as the consumers or ratepayers will pay a reduced amount. The amount not collected from the consumers now, or the shortfall, will be collected from consumers/ratepayers in the future.

- OFHPA permits the IESO to sell that shortfall, also referred to in the Act as a regulatory asset, which represents the right to collect payments from consumers/ratepayers in the future, to a financing entity. To recap, the IESO will continue to pay the electricity generators at their current contract rates. But it will do this with cash collected from the local distribution companies for electricity consumed (at a rate set by the OEB which reflects a significant portion of the 25 per cent reduction in the initial years) and cash received from the financing entity for the sale of the regulatory asset.
- The financing entity will be part of Ontario Power Generation (OPG Trust), a government business enterprise, wholly owned by the Province. The operations of Ontario Power Generation have been and will continue to be included in the consolidated financial statements of the Province using the modified equity method, the method Public Sector Accounting Standards (PSAS) require for government business enterprises.
- At its discretion, OPG Trust will purchase the shortfall amounts (or regulatory asset) from the IESO through a combination of provincial borrowing (flowed through OPG as an equity investment), amounts advanced from OPG and direct borrowing from capital markets.
- In the future, when the consumers/ratepayers pay for the deferred amount, those amounts will be used to repay the accumulated debt whether that be direct borrowing from the capital markets, amounts advanced from OPG or provincial borrowing.

IESO Accounting

- There was no impact on the 2016 financial statements of IESO from the GA Refinancing. The GA refinancing is expected to impact the 2017 financial statements.

- In 2017, the shortfall or regulatory asset that IESO incurs as a result of collecting less from the local distribution companies than it pays to the electricity generators would be accounted for as a rate-regulated asset. The rate-regulated asset would then be sold to OPG Trust for cash used to pay the electricity generators.
- For 2016, IESO adopted the use of rate-regulated accounting for costs incurred unrelated to the GA Refinancing; however, the impact to the financial statements of the Province was immaterial (impact on annual deficit of $24 million).
- PSAS is silent on the use of rate-regulated accounting. However, like all major accounting frameworks, PSAS encourages both preparers and auditors to consider guidance in other accounting frameworks when accounting for transactions not specifically addressed by the specific standards.
- IESO management, their audit committee, their board of directors and their external auditors, agree with the adoption of rate-regulated accounting by IESO. The Office of the Provincial Controller also supports the adoption of rate-regulated accounting by IESO.
- IESO is not the first entity that has prepared its financial statements using PSAS and rate-regulated accounting. Ontario Power Authority (which was amalgamated with IESO on January 1, 2015) prepared its financial statements with PSAS and used rate-regulated accounting.
- In the Auditor General's opinion on the 2016-17 consolidated financial statements of the Province, the AG has included an "Other Matter" paragraph, drawing attention to the adoption of rate-regulated accounting by IESO. The AG's view is expressed as stating PSAS does not permit rate-regulated accounting, but that the AG has not qualified the opinion on this matter because the impact is not material to the 2016-17 consolidated financial statements.

- The AG further notes, “However, the consolidated financial statements may become materially misstated in future periods, as a result of the legislated accounting prescribed under the Ontario Fair Hydro Plan Act, 2017 (OFHPA) and its related regulations, as it is not in accordance with Canadian public sector accounting standards.”
- Neither the IESO nor the Office of the Provincial Controller Division (OPCD) agree with the statements that (a) PSAS does not permit rate-regulated accounting (as previously noted, PSAS is silent with respect to rate-regulated accounting) or (b) Fair Hydro Plan and its related legislation and regulations legislate the accounting for GA Refinancing.

OPG Accounting

- The Auditor General has not raised any concerns to date with the intended accounting for the OPG Trust on the Province’s books.
- It is expected that OPG Trust will be controlled and consolidated by OPG.
- Purchases by OPG Trust of the rate-regulated assets from the IESO will be reflected on OPG’s books as intangible assets which will be included in the Province’s financial statements as part of its investments in government business enterprises.

The Province’s Accounting

- In assessing the appropriate accounting for Ontario’s Fair Hydro Plan (OFHP) on the Province’s books, OPCD worked closely with key ministries, the Ontario Energy Board (OEB), IESO, OPG and their respective external advisors.
- The final accounting treatment for OFHP-related activities will be confirmed once all elements of the GA Refinancing framework are finalized, including provincial guarantees and financing arrangements.

- Once the details and commercial agreements of the OFHP are finalized, the external auditors of IESO and OPG are expected to provide independent accounting opinions on the accounting treatment on IESO and OPG's financial statements.
- OPCD will rely on those independent accounting opinions, the audited financial statements of IESO and OPG as of December 31, 2017 and its own research and analysis in determining the impact of the GA Refinancing on the 2017-18 consolidated financial statements.

If Pressed: AG Assertion that the Government is Using Legislated Accounting

- The Auditor General has made several incorrect references to legislated accounting which should be addressed to ensure clarity and transparency in terms of the government's accounting treatment for Ontario's Fair Hydro Plan.
- In particular, the Auditor General has referred to legislated accounting prescribed by the OFHPA that is designed to in some way manipulate the Province's financial reporting in its consolidated financial statements.
- The Province's financial statements are based on Public Sector Accounting Standards (PSAS) as issued by the Public Sector Accounting Board of CPA Canada. There is no legislated accounting that applies to the Province's consolidated financial statements.
- While the OFHPA does, under Section 24, require that IESO set up a variance account to track the cash shortfall amount resulting from the deferred recovery amount, it is just another type of regulatory account, similar to those that OPG reports and for which the OEB is responsible for approving rates.

- As far as the Province's financial reporting practices go, whether the deferred amounts reported in IESO's variance account are assessed as assets for financial reporting purposes will be determined by the interpretation and application of Public Sector Accounting Standards, not by the legislation or regulations.

Auditor General's Special Report on the Fair Hydro Plan

- The Office of the Auditor General released *The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money* on October 17, 2017. The report focused on the financial and accounting framework of the OFHPA.
- The Auditor General said that the accounting for the Fair Hydro Plan is not permitted under PSAS because it is silent on rate-regulated accounting, despite the fact that standard accounting practice, including under PSAS, dictates that an entity should consult other accounting standards for transactions not specifically covered by primary standards.
- The Auditor General asserts in her report that the OFHPA creates an asset through legislation. This is a fundamental disagreement the government has with the Auditor General's report. The Province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

Key Messages on AG's Special Report on the Fair Hydro Plan

- The government respects independent officers of the legislature, and values the important perspective they bring, but does not agree with the assertions and conclusions expressed in the Auditor General's Fair Hydro Plan report.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

- In developing the Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.
- The Fair Hydro Plan operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards and ensures the goals underlying the program are achieved in a cost-effective manner.
- PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything. When that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.
- The financing plan and its impact will continue to be transparent and fully available to credit rating agencies, securities regulators, and the public.
- The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

RECENT MEDIA COVERAGE:

- January 12, 2018 – An opinion piece in the Toronto Star argues Kathleen Wynne faces a phantom opponent in the spring election: Ontario's auditor general, who looms like an accounting apparition over the premier. The article notes, Lysyk isn't just picking fights with Liberal cabinet ministers but clashing with Ontario's non-partisan public service as well as outside consultants. The most awkward contretemps took place a year ago, when an expert panel of accounting and actuarial experts shredded the auditor's claims about the government cooking the books.
- January 4, 2018 – The Brighton Independent covers Liberal MPP Lou Rinaldi's plans for re-election, while making reference to the "issues" the government has with the Auditor General, particularly on pension asset and Fair Hydro Plan accounting.
- January 3, 2018 – The CBC runs an article "No quick fix for Ontario's energy woes, electricity analyst says," noting the criticisms from opposition parties and analysts regarding the accounting of the Fair Hydro Plan.

- December 17, 2018 – The Ottawa Sun's Lorrie Goldstein writes that "independent financial officers say Wynne government's books can't be trusted," noting the Auditor General and FAO's concerns regarding Fair Hydro Plan accounting: "In her Dec. 6 annual report, Lysyk warned "there is a very real risk" the "government's continued use of nonstandard accounting" will "seriously distort the true state of the province's finances...The government uses these incorrect accounting treatments to claim it has balanced the province's books, but in reality, legislators, the financial community and all Ontarians will be misled as to the true condition of the province's finances." In its fall economic and fiscal outlook released last week, the FAO warned, "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 13, 2017 – The Toronto Sun runs a comment piece following from the Financial Accountability Office's fiscal and economic outlook, fall update report, entitled "Liberals hiding deficit, second watchdog says," noting the Auditor General and FAO's criticisms of the accounting for the Fair Hydro Plan.
- December 11, 2017 – The Toronto Star's Robert Benzie covers the Financial Accountability Office's fiscal and economic outlook, fall update report, noting the FAO's agreement with the Auditor General's questioning of the accounting of the Fair Hydro Plan: "The FAO also backed the auditor general in questioning the complex mechanism the government has developed to bankroll the 25 per cent electricity rate cut, known as the Fair Hydro Plan. Because of the actuarial tussle "it is becoming more difficult for legislators and the public to assess the government's fiscal projections.""
- December 11, 2017 – The Canadian Press' Shawn Jeffords also covers the FAO's report, noting: "The FAO said in its report that since the government has not adopted the auditor's recommended accounting for both the pension assets and the Fair Hydro Plan it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 6, 2017 – The Canadian Press and other outlets cover the Auditor General's 2017 Annual Report, noting the accounting disagreements between the Auditor and the government: "Lysyk also announced through her report that her office would be auditing the IESO's books. That comes amid one of two accounting disputes the auditor has been engaged in with the Liberal government. She recently accused the government of purposely obscuring the true financial impact of its 25 per cent cut to hydro bills by keeping billions in debt used to finance that plan off the province's books. Lysyk said she will audit the IESO because of its role in the hydro plan's complex accounting scheme."
- November 2, 2017 – The Waterloo Region Record runs an editorial by analysts from the Fraser Institute entitled, "Ontarians in the dark about Fair Hydro Plan." The piece argues: "Ontario needs real reform to lower electricity prices for residents and businesses. Unfortunately, the provincial government is opting for improper accounting practices and temporary solutions, sticking current and future Ontarians with the bill."
- October 26, 2017 – CBC writes that "Ontario hydro bills to rise over next 10 years in government's energy plan," referencing the Auditor General's report on Fair Hydro: "Ontario's auditor general Bonnie Lysyk found that the Liberals concocted a "needlessly complex" system in order to achieve the savings in the Fair Hydro Plan by moving $26 billion of debt off the government's books […]Thibeault said the accounting isn't deceptive, and that similar financing strategies have been used throughout Ontario history, including for the construction of nuclear plants in the 1970s."
- October 25, 2017 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute's Ontario Prosperity Initiative entitled "Number's up for Wynne's government," writing "But regardless of how pension assets should be treated, or how new debt incurred by the government's Fair Hydro Plan should appear on the books, the stark reality is that Ontario taxpayers are carrying far more public debt than a decade ago and that burden is growing quickly, every year."

- October 24, 2017 – CBC references the Auditor General's report on Fair Hydro, writing "Auditor General Bonnie Lysyk criticized how the program is being financed, saying the province is "improperly" accounting for the $26 billion in debt it's taking on to cut hydro bills in the short term. The Liberals called the controversy an "accounting dispute" with the auditor."
- October 23, 2017 – Global News reporter Alan Carter wrote an analysis on "truth" and Fair Hydro. He wrote, "The war between Lysyk and the Liberals is whether the Fair Hydro Plan and its use of Ontario Power Generation as a debt vehicle is a sign of devious politicking or just the way things get done."
- October 23, 2017 – The Peterborough Examiner carried an opinion piece written by Minister of Energy, Glenn Thibeault. "I'm not surprised to see the Conservatives try to get in the middle of an accounting dispute between the government and the Auditor General for personal political gain. It's how they deflect without putting forward any policy ideas of their own."
- October 22, 2017 – The Toronto Sun's Antonella Artuso wrote that the way the Liberals "hid" the cost of its Fair hydro Plan from taxpayers could raise concerns that other governments across the country could follow suit and bury deficits.
- October 22, 2017 – The Toronto Sun's opinion piece says the Fair Hydro Plan is simply 'long-term pain for short-term gain".
- October 19, 2017 – CBC's Mike Crawley writes about the Auditor General's accusations that the government was trying to hide documents from her investigation. Crawley writes that the Progressive Conservatives have made a request to the province's "top public servant to ensure that all relevant documents and emails are saved."
- October 18, 2017 – CTV News (6pm) includes the Progressive Conservative's reaction to the Fair Hydro report: "opposition calls for resignations of ministers of finance and energy after AG report."
- October 18, 2017 – QP Briefing's Jessica Smith Cross highlighted that the $4 billion figure cited by the Auditor General and the Financial Accountability Office that would be wasted due to the government's "needlessly complex" financing structure for Ontario's Fair Hydro Plan was said 21 times by opposition parties during Question Period that morning.
- October 18, 2017 – The Globe and Mail's Justin Giovannetti (A9) highlights the Auditor General's Fair Hydro report. The article includes a quote from Minister Sandals: "Perhaps the essential accounting dispute that we have with the auditor is a dispute over what happens when the Canadian Public Sector Accounting Standards are silent, when they don't give direction,' Ms. Sandals said. 'We keep running into this problem because, quite frankly, Ontario is the biggest province, and we often have bigger projects and do things a bit differently from all the smaller provinces.'"
- October 17, 2017 – The CBC's Mike Crawley covers the Auditor General's report, writing "The auditor says the plan could also result in Ontarians paying "up to $4 billion more than necessary" in interest. That's because OPG will be required to pay higher interest rates than the province would if the government took on the debt directly."
- October 17, 2017 – The Toronto Star's Robert Benzie also focused on the Auditor General's so-called scathing report on Ontario's Fair Hydro Plan, while acknowledging the historical dispute between the Auditor's Office and the government.
- October 17, 2017 – The Ottawa Citizen's David Reevely continues with key themes in the coverage, also writing: "The Liberals really, really, really wanted to keep that debt off their books, so they could also go into the next election saying the provincial budget is balanced. Borrowing billions in an election year would get in the way. So they did some advanced financial engineering to put the debt on Ontario Power Generation instead."

- October 17, 2017 – The Canadian Press' Allison Jones cites the Auditor General's statements, and includes Minister Sandals' rebuttal on the point of asset accounting: "Treasury Board President Liz Sandals said credit rating agencies are ranking the hydro debt in preparation for selling it. 'That's the difference,' she said. 'Somebody actually wants to buy it, ergo it is an asset.'"
- October 17, 2017 – QP Briefing provided a primer on the report, and pointed to the Auditor General's criticism of the government on the alleged willingness to accept a qualified audit opinion for the province's Public Accounts.
- October 17, 2017 – The Auditor General's report and remarks during the media conference were extensively covered across the media. Coverage consistently cited the key themes in the Auditor General's report, highlighting the "needlessly complex" accounting structure, "improper accounting," and the "anticipated $4 billion more in interest payments than if the province had borrowed the funds directly."
- October 17, 2017 – The Toronto Sun's Antonella Artuso featured an overview of the Fraser Institute's report released in the morning, arguing that "Soaring electricity prices resulted in 75,000 fewer manufacturing jobs for Ontarians since the recession".
- October 17, 2017 – The Office of the Auditor General held a media conference for the release of The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money.
- October 17, 2017 – CBC News reports that today Auditor General Bonnie Lysyk will reveal the results of her investigation into the government's Fair Hydro Plan. The report will look at how the rate cuts are financed and whether the plan is fair for taxpayers and hydro customers. Auditor Lysyk has already told a legislative committee in May that to borrow the money on OPG's books rather than the province's is "contrary to public sector accounting standards."

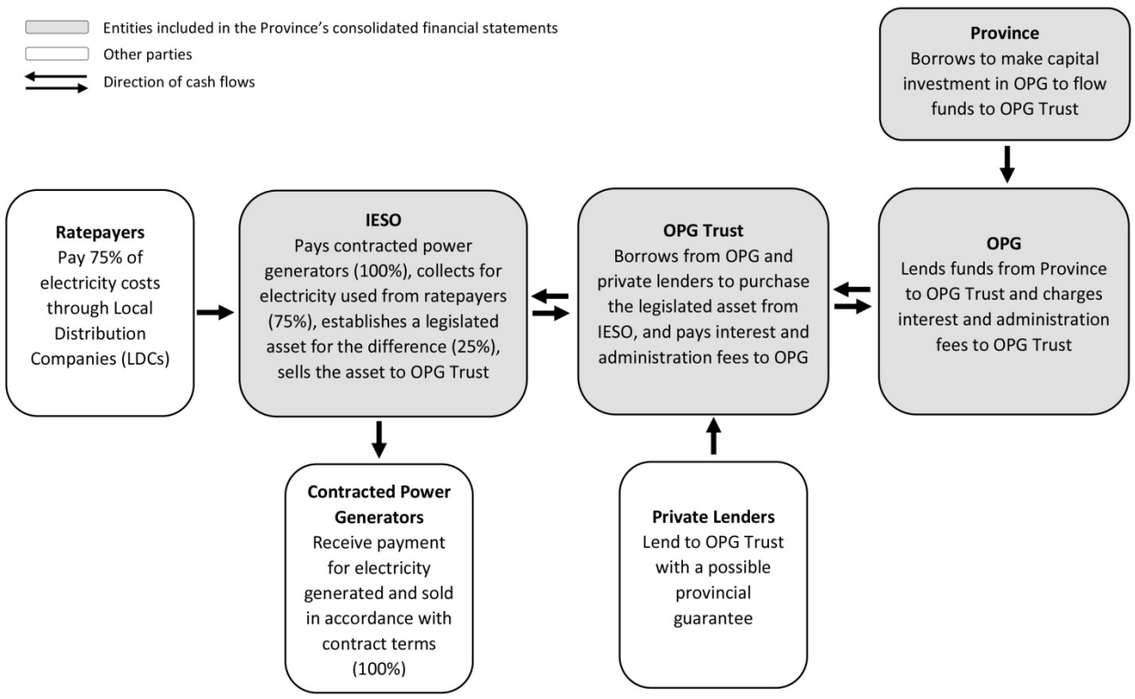
Updated by: Mark Donaldson, Director, Accounting Policy and Financial Reporting

Approved by:	**Name:**	**Date approved:**
ADM, Office of the Provincial Controller	Cindy Veinot	January 3, 2018
Corporate Issues Management Analyst. Communications Branch	Alisha Tharani	January 10, 2018
A/Manager, Issues Management, Corresp. & Media Relations	Amanda Miller	January 15, 2018
Assistant Director, Communications Branch	Bryant Sullivan	January 16, 2018
Director, Communications Branch	Sofie Di Muzio	January 16, 2018

Appendix

Proposed Legislated Transaction Structure

Prepared by the Office of the Auditor General of Ontario



CONFIDENTIAL REVISED: January 5, 2018

PENSION ASSET EXPERT ADVISORY PANEL

ISSUE: How do you respond to the reports released by the Pension Asset Expert Advisory Panel?

KEY MESSAGES:

- The Pension Asset Expert Advisory Panel has released its independent advice and recommendations on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets.
- The panel's first report concluded that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.
- The panel supports the accounting treatment that Ontario has used consistently since 2001.
- The panel has also issued a supplemental report that provides independent advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The government has accepted the panel's recommendations and in the 2016-17 third quarter update, it indicated its plans to adopt the previous accounting treatment in the upcoming Public Accounts.
- The government has reflected the recommendations of the panel, which align with its previous accounting in the 2017 Budget, the 2016-17 Public Accounts and the 2017 Fall Economic Statement.

- The government formed the Pension Asset Expert Advisory Panel to provide independent advice on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets. The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards.
- We will continue to move forward and present the Province's finances fairly and accurately, which includes reporting for jointly sponsored pension plans in accordance with Public Sector Accounting Standards and the panel's recommendations.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.

IF PRESSED: SUPPLEMENTAL REPORT HOOPP & CAATPP

- We thank the panel for their independent advice and recommendations made in relation to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The two additional pension plans addressed in the supplemental report are different than OTPP and OPSEUPP because they are jointly sponsored by multiple organizations. The Ontario Government is a third party sponsor and has no direct control over decisions of the employer sponsors about benefit or contribution levels, funding of deficits or use of surpluses. Because of these differences, a valuation allowance will be recorded for any net assets of these plans until the government benefits from a reduction in contributions.
- The Ontario Government agrees with the panel's conclusions in the supplemental report.

CURRENT STATUS:

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.
- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update. During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."
- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report. Chapter two of the report made recommendations regarding the Public Accounts of the Province, with the first of 10 recommendations focusing on the pension asset accounting issue. From the report: "We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months."
- On April 27, 2017 the Pension Asset Expert Advisory Panel's Supplemental Report was released. It provides the government with independent advice and recommendations on how to account for current and potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).
- The panel's supplemental report concludes that a net pension asset from HOOPP and CAATPP should be recognized in the province's financial statements in the same way as the net liability, but also recommends that a valuation allowance should be reported for accrued benefit assets for both of these plans in the province's financial reports.
- The panel's report on the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP) was made available to the public on February 13, 2017 and did not recommend that a valuation allowance be reported for either of these two plans.
- Both reports have been shared with the Auditor General of Ontario and her office.

- In the 2017 Budget, the 2015–16 actuals were restated to reflect the government's previous accounting treatment for jointly sponsored pension plans which recognized net pension assets for the Ontario Public Service Employees' Union (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) on the Province's financial statements. The restated results follow the advice of the panel and the accounting followed previously by the Province since 2001.
- On June 12, 2017, the Ontario Teachers' Federation and the Ontario Government, joint sponsors of the Ontario Teachers' Pension Plan (OTPP), announced they will use a portion of the $11.5 billion surplus in the Plan (as of January 1, 2017) to complete the restoration of inflation protection for teachers who retired after 2009. As well, the contribution rate for the Plan's active members will be reduced by 1.1%. Both changes are effective January 1, 2018.

COSTS

	Actuals		
Panel Member	**Per Diem**	**Travel**	**Total**
Patricia O'Malley	83,000	1,057	84,057
Uros Karadzic	62,700		62,700
Paul Martin		3,898	3,898
Murray Gold	38,000		38,000
Procurement			32,458
Total	**183,700**	**4,955**	**221,113**

BACKGROUND:

- On February 17, 2017 Minister Sandals sent a memorandum to Warren (Smokey) Thomas in response to his article of February 14, 2017 in the Toronto Sun on pension assets.

  "As you are aware, the Pension Asset Expert Advisory Panel ("Panel") released its report on February 13, 2017, and concluded that the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.

  The OPSEU pension plan, which is jointly-sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor. Simply put, the province does not have the ability to make any withdrawals from the plan.

  I trust that you are reassured by this news. Your February 14 press release and your subsequent comments in a February 15 *Toronto Sun* article, suggest that you were unaware of these rules.

  In addition, the province has not proposed any pension contribution increases or reductions at this time. Any decisions with respect to changes to pension contributions or benefits must be made by the Plan Sponsors. A decision to reduce contributions would benefit both the employees and the employer."

- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.

  The panel was comprised of accounting, legal, and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.

  The following four members were appointed to the Panel:

  - Tricia O'Malley (Chair)
  - Murray Gold
  - Uros Karadzic
  - Paul Martin

Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

The panel's report was delivered to the President of the Treasury Board and was shared with the Auditor General of Ontario. The panel's report was made public in early 2017.

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, "Independence is not infallibility when it comes to Ontario's financial books," arguing Auditor General "Lysyk's paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All's fair in politics and accounting, unless you're an auditor gone awry."
- December 17, 2017 – The Ottawa Sun's Lorrie Goldstein writes that "with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted." Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: "Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan."
- December 17, 2017 – The Toronto Sun's Jim Warren cautions that "the role of the Auditor General is shifting in troubling ways," arguing that the Auditor General's increasing outspoken role is "making matters worse." Specifically referencing the pension asset accounting issue, Warren writes "For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position."
- December 14, 2017 – The Record runs an opinion piece, "To sort out truth from pre-election fictions, turn to Bonnie Lysyk," writing that the Auditor General "warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car."
- December 13, 2017 – The Toronto Sun runs a comment piece, entitled "Liberals hiding deficit, second watchdog says" covering the Financial Accountability Officer's (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO's report "says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans."

  Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting."

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- September 13, 2017 – The Toronto Sun runs a column, "Wage warnings won't stop Wynne," critical of the cost of the Pension Asset Expert Advisory Panel: "Indeed, her government's typical reaction to critical, non-partisan warnings it gets from independent officers of the legislature - such as the auditor general and the FAO - is to ignore them, or to attack the messenger […]Wynne spent up to $435,000 striking an "independent" panel that unsurprisingly agreed with her position on pension accounting, not the auditor general's."
- September 8, 2017 – David Reevely writes in the Ottawa Sun and Ottawa Citizen "Lysyk and the ministers have been volleying back and forth for a couple of years now over how to count assets on the government books. Without getting too deep into it, what's in question is whether certain public sector pension plans and some holdings in the electricity system belong to the government or not."

- September 7, 2017 – The Canadian Press' Shawn Jeffords covers the tabling of Ontario's Public Accounts 2016-17, and cites the government's ongoing disagreement with the Auditor General on pension asset accounting as the reason the Auditor has issued a qualified audit opinion two years in a row. Minister Sandals is quoted in the article: Sandals maintains the government is following established accounting practices and people don't care about the on-going squabble. "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – The Toronto Star's Robert Benzie refers to the disagreement between the Auditor General and the government over IESO market accounts assets and pension asset accounting as an "accounting slugfest". Minister Sandals is quoted in the article (same quote as The Canadian Press coverage): Sandals on Thursday shrugged off Lysyk's accounting interpretation, which lead to her to issue a qualified audit opinion on the province's books for the second year in a row.

  "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said.

  "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – Queen's Park Briefing's Christopher Reynolds covers the disagreement between the Auditor General and the government, quoting Minister Sandals: ""The public wants to know, are you managing your deficit?" Sandals said Thursday at the release of the province's 2016-217 public accounts. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- On May 1, 2017 David Reevely writes in the Ottawa Sun that "There's also $500 million booked in the government's favour from surpluses in a couple of pension plans for public employees. These are the subject of an arcane accounting dispute over whether the government, which couldn't grab the money easily, should be able to count them the way it's counting them. The auditor general says no. A panel of external blue-chip accounting types says yes (for a number of reasons, the easiest of which to grasp is that if the pension plans came up short the gap, would be the government's problem). Going with the auditor general's ruling would be the safer thing, for sure, but what the government's doing is neither trick nor a one-time manouevre.
- On April 30, 2017 David Reevely wrote about the 2017 budget and said "the Liberals are taking advantage of a surplus in some public-employee pension funds, which Auditor General Bonnie Lysyk says is improper but which other experts say is OK. And they've adopted a sort of partial distinction between operating spending and capital spending, which used to be mashed together into each year's budget in a way they no longer are."
- On February 21, 2017 the Toronto Sun (A10) has a column by Warren Thomas (OPSEU). He writes "Ontario's public service workers and retirees feel like we are about to get robbed." He notes that the Auditor General has been turned into a lapdog from a watchdog. Thomas writes "If nobody stands up to Wynne, I'm afraid her next move could be to actually steal our pension money, giving her more cash for overpaid consultants and Sunshine List executives."
- On February 20, 2017 the Toronto Sun reports on Minister Sandals' memo to OPSEU's Warren Thomas. It recounts the minister's statement that "government has no plans on making like a bandit with his members' pension funds." The short piece includes her quote: "The OPSEU pension plan, which is jointly sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". "I trust that you are reassured by this news."
- On February 18, 2017 the Toronto Sun has a piece by Lorrie Goldstein. He writes that Premier Wynne needs to take the advice of the Auditor General in order to demonstrate openness and transparency.

- On February 18, 2017 the Ottawa Sun (A9) reports NDP Leader Horwath trusts the Auditor General's math. She spoke up on Friday on the ongoing pension account issue between government and the AG.
- On February 18, 2017 the Toronto Sun's Antonella Artuso (A10) quotes Minister Sandals who said in a statement that she will accept the findings of the panel and: "They also concluded that the government controls access to the pension surplus which has a future economic benefit to the province and recognizing the asset will provide an accurate representation of the province's financial position."
- On February 18, 2017 the Toronto Star's Martin Regg Cohn (A12) writes about the Auditor General. He says that she is no hero – in fact her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures." He concludes: "We rely on auditors to provide value for money audits. Not to introduce their own values, making up untested accounting standards as they go along."
- On February 17, 2017 the Hamilton Spectator (A16) posted an opinion piece that is negative toward Auditor General Lysyk. It notes: "Lysyk is putting that reputation and integrity on the line in Ontario. And she's not on solid ground…. If the evidence supported Bonnie Lysyk's position, we'd be the first to back her. But it doesn't. She needs to respect that and back down."
- On February 17, 2017 QP Briefing has a piece written by Bryne Purchase, former deputy minister of finance, on the 'accounting spat'. He sides with the AG: "I think it was regrettable that Premier Kathleen Wynne's government chose to attempt to undermine the legitimacy of our parliament's own accounting expert by appointing a panel of its own experts to review an unfavourable ruling."
- On February 17, 2017 the Windsor Star (A7) has a Canadian Press report that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute. Auditor General Bonnie Lysyk's quote is used: ``Show me the letter that says you can use that pension money with permission, with an agreement," she said Thursday. ``Until that happens the bottom line is this office can't give its stamp of approval on this particular issue." The article notes this is not the first time the Liberal government has clashed with the AG - the former energy minister suggested the electricity file was too complicated for Lysyk, and she has frequently suggested that partisan ads are being funded by taxpayer dollars.
- On February 16, 2017 the Toronto Star reported the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes. The article says the AG is "escalating a $10.7 billion standoff" with the government over taxpayer-funded pension surpluses. "There has been no suggestion the government intends to dip into the pension funds, which would be illegal. The question is whether the pension surplus can be counted as an asset or not at all." The AG was quoted: "It is not my money. That money is for the benefit of employees and retirees … so it's not my pension. It's not my budget deficit."
- On February 16, 2017 QP Briefing reports the AG says that until she sees a letter that says government can use that pension money with permission – her office can't give its stamp of approval on this issue. The article notes the government "isn't inclined to draft" a letter. Treasury Board President Liz Sandals is quoted from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place." This article also includes quotes from MPP Lisa MacLeod and OPSEU's Warren Thomas.

- On February 16, 2017 the Toronto Sun (A5) has two articles on the number crunching aspect of the expert panel. It says government spent up to $435,000 to the expert panel in the dispute with the Auditor General. The article says this has made OPSEU's Warren Smokey Thomas livid and notes that he wants a guarantee the government won't raid his members' pension fund. Ontario Treasury Board spokesman Matt Ostergard is quoted from an email, "The work of the panel is ongoing so we don't have final costs at this time but they will be in line with previous panels and will be made public."
- On February 16, 2017 The Northumberland Today.com has David Reevely's opinion piece on the pension panel's "gift' to the government. "The Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds. The article includes a written statement from Minister Sandals "We are committed to implementing the advice of this independent panel and will use it in preparing the province's financial statements."
- On February 15, 2017 QP Briefing reports Treasury Board President Liz Sandals says it's too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute. "I think we're getting way ahead of ourselves – that's a total hypothetical," Sandals told reporters. "The bottom line is, the panel gave us advice, and we're going to follow the advice of the panel." Sandals added there "is no urgency" for Lysyk to weigh in on the panel's conclusion and that she was "pleased" that the auditor was giving it a thorough read. The article notes the minister was "cagey" when pressed about if the panel's report will mean a rollback on contributions for the OPSEU plan. She is quoted, "As the panel points out, that is the traditional way in which the government would access the surplus," "That's the whole premise of the panel's report, is that the way in which the government or any other employer in that situation would access the surplus is by reducing the contribution rate."
- On February 14, 2017 OPSEU's Smokey Thomas writes that Premier Wynne should remember who owns the assets of the province's jointly trusted public pension plans. He says the dispute between the government and the Auditor General is not "just a paper war". "It's a fight over who owns billions of dollars earned by workers and invested on their behalf. I'm telling the Premier right now: the money in those plans belongs to plan members. It is not hers to play with." He "unequivocally supports" the Auditor General's position. He says his "fear is that the Liberals will try to move money out of public pension plans to help wipe out the provincial deficit in time for the 2018 provincial election."
- On February 14, 2017 the Ottawa Sun's David Reevely (A11) reports "the Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds." His article notes, "The point is, we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets." He writes the surpluses work in the government's favour – especially as an election approaches.
- On February 14, 2017 the Toronto Star (A7) (and online) has a negative piece about the Auditor General, written by Martin Regg Cohn. He writes the AG has been caught out in a $10.7-billion miscalculation. "Even a watchdog can lose the scent and bark up the wrong tree. Or worse, miss the fiscal forest for the trees. For the job requires not just independence but context. To be truly credible, an auditor general must fearlessly expose government boondoggles but also fess up to her blunders." "Lysyk's lack of diligence - now overdue - is a damning indictment of an auditor gone awry."

- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: “Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: “If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- On February 13, 2017 the Toronto Star reported a panel of accounting experts says that $10.7 billion in government-sponsored pension plans should count toward the province’s bottom line. The article notes panel chair Tricia O’Malley said “We believe that an asset does exist – the net pension asset meets the definition of an economic resource, which is what an asset is.” The Star noted that Auditor General Lysyk is reviewing the report and will provide comment to the media later this week.
- On February 12, 2017 the Toronto Star reports a government-appointed panel of experts will announce on Feb. 13 that joint-sponsored pension surpluses should be counted as assets for the provincial treasury. The report says the Auditor General should include billions of dollars of its assets on the government’s bottom line. OPTrust says “surpluses and deficits should both be recognized on the province’s balance sheet.”
- On February 8, 2017 The Toronto Star (A6) reports Premier Wynne welcomes a report from four accounting experts that says a $10.7-billion pension surplus can be counted as an asset on the province’s bottom line. The article notes the AG was briefed on the report last week and it will be make public later this month. MPP Vic Fedeli is quoted: “The people of Ontario have to ask themselves who are they going to believe: the independent auditor general or a scandal-plagued Liberal government?”
- On February 8, 2017 QP Briefing reports the Financial Accountability Officers says “should the panel studying a pension accounting clash with the auditor general conclude that billions of dollars’ worth of pension assets should be counted on Ontario's balance sheet after all, the government will get more flexibility to balance the budget as promised.” “David West, the FAO's chief economist, said he had not heard about any conclusions from the panel but noted that if they have decided to count the pension assets, it gives the government more breathing room to achieve balance, as promised.” Auditor General Lysyk declined to confirm or comment directly because the panel is not yet public.
- On February 7, 2017 The Toronto Star’s (A4) Martin Regg Cohn reports billions of dollars are at stake in a dispute pitting Ontario's Auditor General against the government. He writes that despite an outside panel of top accounting and pension experts determining that Auditor General Bonnie Lysyk has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets – she told this reporter that “she won't climb down,” and this now sets the stage for a public showdown over an accounting change that is worth $1.5 billion to the bottom line this year alone. “The auditor told me her mind is made up and nothing she has heard so far has changed her view….which leaves her on a limb and the government in the lurch.”
- On November 30, 2016 QP Briefing reported Minister Sandals appointed an expert panel to help resolve the government's standoff with the Auditor General over pension assets. The chair of the special panel tasked with settling an accounting dispute will be paid $2,000 per work day. The other three members of the panel will get a $1,900 per diem, as well as reimbursement.
- On November 14, 2016 QP Briefing reported an expert panel will study the AG pension dispute.

- On October 9, 2016 Focus Ontario (Global) ran a segment on the 2015-16 Public Accounts and the disagreement with the Auditor General. Both the Premier and Patrick Brown are quoted in the segment. The Premier is quoted from Question Period saying the government “accepted the Auditor General's numbers for this year. We released the documents despite the divergence in accounting opinions, specific to pension funds between Treasury Board officials and the Auditor as part of our commitment to openness and be transparency.”
- On October 9, 2016 The Toronto Sun (A17) ran an opinion piece about the disagreement with the Auditor General. The piece notes that this kind of back and forth between ministries and the Auditor General is common. The Auditor General provides time for ministries to comment on the audit in draft form so that accounting issues can be hashed out before the final audited statement is presented to the legislature. Accounting issues are generally benign. So it's surprising that the Wynne government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's unqualified opinion.
- On October 6, 2016 The Financial Post has a commentary by analysts with the Fraser Institute. “It's not surprising the Wynne government is willing to go to the mat to defend its estimate of last year's budget deficit. As Ontario approaches a provincial election in 2018, a big part of the government's PR strategy is focused on celebrating an expected return to a balanced budget in next year's budget. So Premier Kathleen Wynne's team has a big incentive to push back against dissenting views.”
- On October 6, 2016 QP Briefing reports Treasury Board President Liz Sandals tabled Ontario's public accounts for fiscal 2015-16, including the Auditor General's opinion. The tabling of the public accounts was delayed by almost two weeks after months of back and forth between the Auditor General and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- On October 3, 2016 The Globe and Mail reports Ontario's Liberal government is fighting with the province's Auditor General over a $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt.
- On October 3, 2016 Canadian Press ran a story in 40 media outlets reporting that the government says Auditor General Bonnie Lysyk is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years. “The issue is with the accounting of the Ontario Public Service Employees Union Pension Plan and the Ontario Teachers' Pension Plan, which are jointly sponsored with the government. The government says the plans have a surplus, but the auditor general says that should not be on the province's balance sheet.”

Prepared by: Jim Keates, Senior Accounting Policy Analyst, Accounting Policy and Financial Reporting. July 21, 2017

Approved by:	**Name:**	**Date Approved:**
Director	Nadine Petsche/Mark Donaldson	July 31, 2017
ADM, Office of the Provincial Controller	Cindy Veinot	January 3, 2018
Issues Management Analyst, Communications	Alisha Tharani	January 5, 2018
A/Manager, Issues Management, Communications	Amanda Miller	January 15, 2018
Assistant Director, Communications	Bryant Sullivan	January 16, 2018
Director, Communications	Sofie Di Muzio	January 16, 2018

CONFIDENTIAL REVISED: January 10, 2018

2016-17 PUBLIC ACCOUNTS

ISSUE: What is reported in the 2016-17 Public Accounts released on September 7, 2017?

KEY MESSAGES: PUBLIC ACCOUNTS

- The 2016-17 Public Accounts of Ontario show the province's deficit is $991 million.
- This result is $3.3 billion lower than projected in the 2016 Budget, and $0.5 billion lower than the interim forecast in the 2017 Budget.
- This is a result of growth in revenue that exceeded growth in program expense, and lower than forecast interest on debt.
- Ontario has beaten its deficit target eight years in a row. Ontario's plan is working.
- As promised in the 2016 Budget, Ontario grew its economy while transforming healthcare, building vital infrastructure and investing in people's talents and skills.
- Due to our prudent fiscal management and Ontario's robust economic growth, we are projecting a balanced budget for the first time since the onset of the global recession in 2008.
- We remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- This is something that has been achieved only eight times in the last 40 years in Ontario.
- We will continue moving forward on our fiscally responsible plan that creates fairness and opportunity for all Ontarians.

KEY MESSAGES: OTHER HIGHLIGHTS

- We will continue to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- Other highlights from this year's Public Accounts include:
    - Economic growth, with a 2.7 per cent increase in real gross domestic product (GDP), up 2.2 per cent in the 2016 Budget.
    - Total revenue of $140.7 billion, up $2.2 billion from the 2016 Budget.
    - Total spending of $141.7 billion, down $0.1 billion from the 2016 Budget.
    - Interest on debt of $11.7 billion, down $0.7 billion from the 2016 Budget.
- To help Ontarians better understand their government's finances, new digital tools have been developed that present the Public Accounts data in innovative, visual formats. These tools make Ontario's finances easier to understand, access and use.
- Presenting the Public Accounts data in innovative, visual formats is part of Ontario's commitment to Open Government.

KEY MESSAGES: ACCOUNTING CHANGES

BPS REVENUE PRESENTATION

- To increase transparency, the 2016-17 Public Accounts are presenting third-party revenues for hospitals, school boards and colleges, such as tuition fees, patient fees, research grants and donations, with provincial revenue.
- In prior years, these revenues were netted against the expenses of the respective sectors (health, education, post-secondary).
- This is a change in presentation only; the change increases total revenues and expenses by approximately $8 billion, and does not impact the deficit, net debt or accumulated deficit.
- This change is consistent with public sector accounting standards and the reporting practices of other senior Canadian governments.
- The Auditor General is supportive of this change in presentation.

ACCOUNTING FOR ENERGY GOVERNMENT BUSINESS ENTERPRISES:

- The 2016-17 Public Accounts include the financial results of Ontario Power Generation (OPG) and Hydro One using International Financial Reporting Standards (IFRS).
- These two government business enterprises currently report their stand-alone financial results using Generally Accepted Accounting Principles in the United States (US GAAP).
- In prior years, the reported results of OPG and Hydro One were included in the results of the province based on US GAAP.
- This change does not have a material impact on this year's Public Accounts.
- The Auditor General is supportive of this change in presentation.

PENSION ACCOUNTING:

- The government established the Pension Asset Expert Advisory Panel following the release of the 2015-16 Public Accounts.
- The Panel delivered independent advice on how public sector accounting standards are interpreted as they apply to current net pension assets and the application of public sector accounting standards for two of Ontario's jointly sponsored pension plans; Ontario Teachers' Pension Plan (OTPP); and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP).
- The Panel's report concluded that the province's share of the net pension assets of both the OTPP and the OPSEUPP should be recognized in Ontario's financial statements.
- The government accepted the Panel's recommendations, which have been reflected in the 2016-17 financial statements.
- The 2015-16 financial statements have also been restated to reflect the pension assets for these two plans.
- The Auditor General continues to not accept the application of the Public Sector Accounting Board (PSAB) standards in the 2016-17 Public Accounts regarding pension accounting for the province's jointly sponsored pension plans. For 2016-17, the Auditor General has qualified her opinion, stating that the province's deficit is understated by $1.4 billion.

KEY MESSAGES: IESO ACCOUNTING

- The Independent Electricity System Operator (IESO) reports its financial results in accordance with Public Sector Accounting Standards.
- In 2016, IESO changed its accounting policy to begin recognizing market assets (amounts due *from* power distributors) and liabilities (amounts due *to* power generators). In previous years, these amounts were omitted from IESO's financial statements.

- This change has no impact to the province's annual deficit, net debt or accumulated deficit.
- IESO also adopted rate-regulated accounting for deferred charges, such as the cost of smart meters, which will be recovered from users of these meters over time.
- Public Sector Accounting Standards are silent on rate-regulated accounting, and as a result, as provided for in the accounting standards, IESO considered other sources of guidance to assess the appropriateness of applying rate regulated accounting.
- Prior to the 2015 merger with the IESO, the Ontario Power Authority (OPA) reported market accounts and used rate-regulated accounting under PSAS. The statements of the OPA were not qualified during that time by OPA's external auditor or the Auditor General. This accounting treatment is not new to Ontario.
- The Auditor General qualified her opinion in 2016-17 based on the recognition of the IESO's market accounts. The Auditor General also noted in her opinion that the use of rate regulated accounting under PSAS is not permitted, but did not qualify on the issue of rate regulated accounting, as the impact was not material in the current year.
- The reporting changes implemented by the IESO were approved by their management and board, and received an unqualified audit opinion from their external auditor. The province's Office of the Provincial Controller also supports the changes.

KEY MESSAGES: AUDITOR GENERAL'S 2017 ANNUAL REPORT – CHAPTER ON PUBLIC ACCOUNTS

- The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and

accurately and in accordance with Canadian Public Sector Accounting Standards.

- The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- The province will continue to provide financial statements according to Canadian Public Sector Accounting Standards that support transparency and accountability in reporting to the public, the legislature, and other users.
- The government will continue to build on its track record of responsible fiscal management.

CURRENT STATUS

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.

BACKGROUND:

- The Public Accounts of Ontario is a key accountability and transparency document in the government's financial cycle. It's a look back that compares Ontario's actual performance to what was planned in the Budget.

- The Public Accounts present the financial statements of the Province, provide financial highlights of the past fiscal year, and report on performance in priority areas.

- Public Accounts is audited by the Auditor General and is typically released in the fall of the following fiscal year.
- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

- These changes include:
    - **Accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
    - **Accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.
    - **Accounting for the Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
    - **Accounting for net pension assets of jointly sponsored pension plans** - the Province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

Pension Asset Expert Advisory Panel

- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide independent advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.
- The Panel was comprised of accounting, legal and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.
- The Panel members were:
    - Tricia O'Malley; (Chair)
    - Murray Gold;
    - Uros Karadzic; and,
    - Paul Martin.
- Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

- The Panel issued its report in February 2017. Upon receiving the report, the government, supported by its own research and analysis, accepted the Panel's recommendation and has reported the pension assets of the Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employees' Union Pension Plan (OPSEUPP) in its 2016-17 consolidated financial statements (with restatement of 2015-16).
- The Panel issued a supplementary report in March 2017 with respect to the Healthcare of Ontario Pension Plan (HOOPP) and Colleges of Applied Arts and Technology Pension Plan (CAATPP) recommending that a full valuation allowance be recorded on the net assets of both of these plans, based on the difference in governance structure between these plans and OTPP and OPSEUPP. The province agreed and has recorded a valuation allowance for CAATPP in the year (amount is not material). The HOOPP plan is not in a net asset position for accounting purposes at March 31, 2017.

Independent Electricity System Operator

- The Independent Electricity System Operator (IESO) is a not-for-profit, non-taxable corporation established pursuant to Part II of the *Electricity Act, 1998*. The Ontario Power Authority and the IESO merged on January 1, 2015.
- One of IESO's roles is to settle the market accounts, which are the amounts due to the entities that provide electricity to the market (e.g. power generators) and due from those who consume electricity (e.g. local distribution companies on behalf of their consumers).
- Rate regulated accounting is appropriate where the rates an entity is able to charge to its customers are set by another party (i.e. a regulator), provided specified criteria are met. Rate-regulated accounting permits the entity to defer costs that would otherwise be expensed to the period that the related revenue is charged to customers. Costs able to be deferred by the IESO include:
    - Unrecovered smart metering expenses; and,
    - Unrecovered pension and post-employment benefits related to PSAB transition.
- During 2016, IESO made two accounting changes (1) to recognize the market accounts in its financial statements – these amounts were not previously recognized in the IESO's financial statements, and (2) to apply rate-regulated accounting.
- The IESO received an unqualified audit opinion from KPMG (their external auditor) with respect to the financial statement presentation in their 2016 audited financial statements. IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor, and the Office of the Provincial Controller all support the recognition of the market accounts and the use of rate-regulated accounting by IESO.

Revenue Highlights

Against the Restated 2016 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $2.2 billion higher than forecast in the 2016 Budget. This was largely due to higher than projected taxation revenues, non-provincial source revenues from hospitals, school boards and colleges, and income from GBEs, partially offset by lower than projected Government of Canada transfers and other non-tax revenue.

Against the Restated Interim Estimates in the 2017 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $0.6 billion lower than the interim forecast in the 2017 Budget. This was largely due to lower than projected taxation revenues and Government of Canada transfers, partially offset by higher than projected income from GBEs.

Expense Highlights

Against the Restated 2016 Budget plan:

- Total expense in 2016-17 was $141.7 billion, or $0.1 billion lower than forecast in the 2016 Budget plan. Program spending was $130.0 billion, up by $0.6 billion from a planned spending of $129.4 billion and interest on debt was $11.7 billion, lower by $0.7 billion from planned interest cost of $12.4 billion. Program spending was higher by $0.6 billion largely due to higher than projected spending in the health, community and social services, justice sector and general government and other.

Against the Restated interim Estimates in the 2017 Budget:

- Total expense in 2016-17 was $141.7 billion or $1.1 billion lower than the interim forecast in the 2017 Budget. Program spending was $130.0 billion, $0.9 billion lower than the interim forecast of $130.9 billion in the 2017 Budget. Interest on debt was $11.7 billion, lower by $0.2 billion from planned interest cost of $11.9 billion. Program spending was lower by $0.9 billion largely due to lower than projected spending in the health and education sectors, and other programs.

Net Debt

- Net debt as of March 31, 2017, was $301.6 billion, which was $6.7 billion lower than forecast in the 2016 Budget. Net debt grew by $6.2 billion during the year, representing a $6.6 billion increase in liabilities that was partially offset by a $0.4 billion increase in financial assets.

Auditor General's 2017 Annual Report: Chapter on Public Accounts

- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report.
- The Auditor General's Annual Report, Chapter 2, makes 10 recommendations regarding the Public Accounts of the Province.
- The recommendations largely reflect opinions that have been expressed in previous reports, including the Auditor General's audit opinion in the 2016-17 Public Accounts and the Special Report on the Fair Hydro Plan.
- Treasury Board Secretariat and Ministry of Finance disagree with the characterization of the majority of the recommendations, and re-iterate the government's commitment to producing high-quality financial statements on a timely basis and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Financial Accountability Office's Economic and Fiscal Outlook, Fall 2017 Update

- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update.
- During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, "Independence is not infallibility when it comes to Ontario's financial books," arguing Auditor General "Lysyk's paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All's fair in politics and accounting, unless you're an auditor gone awry."
- January 9, 2018 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute's Ontario Prosperity Initiative entitled "Ontario's finances are still a mess." Eisen argues that people should treat the government's balanced budget claims with skepticism, writing "For starters, many analysts, including Ontario Auditor General Bonnie Lysyk, have called the government's accounting techniques into question, arguing proper accounting would show continued deficits. Others, including the government's Financial Accountability Office, warn that without additional policy changes to reduce spending, or raise taxes, Ontario will likely slip back into deficits."
- December 17, 2017 – The Ottawa Sun's Lorrie Goldstein writes that "with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted." Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: "Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan."
- December 17, 2017 – The Toronto Sun's Jim Warren cautions that "the role of the Auditor General is shifting in troubling ways," arguing that the Auditor General's increasing outspoken role is "making matters worse." Specifically referencing the pension asset accounting issue, Warren writes "For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position."
- December 14, 2017 – The Record runs an opinion piece, "To sort out truth from pre-election fictions, turn to Bonnie Lysyk," writing that the Auditor General "warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car."
- December 13, 2017 – The Toronto Sun runs a comment piece, entitled "Liberals hiding deficit, second watchdog says" covering the Financial Accountability Officer's (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO's report "says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans." Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting."

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- November 15, 2017 – Ontario PC Finance Critic Vic Fedeli pens a column in the Toronto Sun on the Fall Economic Statement, making reference to the Auditor General's qualified audit opinion on the province's Public Accounts two years in a row.
- October 16, 2017 – CBC News looks to the province's Public Accounts to highlight "Four surprising things about the Ontario government's finances," including: "personal income tax revenue is dropping," "corporate tax revenue is soaring," a "real estate windfall," and "booze revenue poised to top gambling revenue."
- September 8, 2017 -- Post Media's David Reevely quotes the AG's statement that rejects the contents of the Public Accounts "The Legislature and all Ontarians must be able to rely on the province's consolidated financial statements to fairly report the fiscal results for the year. This year they cannot do so." The article mentions the FAO's commentary this week saying the FAO and AG have 'made a businesslike routine of pointing out all the extreme assumptions and accounting stretches the

government is using to make the books look good in an election year." The article concludes that considering what happened to the world economy a decade ago the government has 'done all right' but is critical of 'dismissing' the government's two most prominent independent financial experts. **Minister Sandals** mentioned in reference to releasing the PA.

- September 7, 2017 -- Toronto Star says the "stakes are high in the accounting slugfest between the government and the auditor general." The article mentions Minister Sandals "shrugging off" the AG's accounting interpretation. "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said. "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 -- QP Briefing reports financial watchdogs aren't smiling about the government lowering the deficit to $1 billion, but instead are 'baring their teeth'. The article says auditor general Bonnie Lysyk said yesterday the government "significantly understated" its deficit, while the Financial Accountability office this week called the plan to reduce the debt burden "unlikely." Minister Sandals is quoted "The public wants to know, are you managing your deficit?" "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The article also notes AG Lysyk is warning that the complex accounting behind the hydro bill reduction could add to a bigger than expected deficit next year, and that a special report will be tabled this fall.
- September 7, 2017 -- The CP article about Public Accounts quotes Minister Sandals "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The coverage says AG Lysyk disputes the government figures and that "the statements were not prepared following Canadian Public Sector Accounting Standards." This article was picked up by several media outlets but coverage was not widespread.
- February 20 & 21, 2017 -- Toronto Sun report on Minister Sandals' memo to OPSEU that "the OPSEU pension plan….clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". This is followed by a column by OPSEU President Warren Thomas saying Ontario's public service workers and retirees feel like we are about to get robbed.
- February 18, 2017 – Toronto Star, Toronto Sun and Ottawa Sun coverage of the ongoing pension accounting issue between the government and Auditor General.
    - Ottawa Sun says NDP Leader Horwath trusts the Auditor General's math.
    - Toronto Sun quotes Minister Sandals who said in a statement that she will accept the findings of the panel.
    - Toronto Star columnist Martin Regg Cohn wrote that the Auditor General is no hero, and her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures."
- February 17, 2017 -- Hamilton Spectator, QP Briefing, and Windsor Star have coverage.
    - The Spectator's opinion piece is negative toward Auditor General Lysyk.
    - QP Briefing's piece written by Bryne Purchase, former deputy minister of finance, sides with the AG.
    - Windsor Star published the CP story that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute and that she is asking to see "the letter that says you can use that pension money with permission, with an agreement."

- February 16, 2017 – The Toronto Star, Toronto Sun & QP Briefing have coverage of the Auditor General's response to the panel's report.
    - The Toronto Star and QP Briefing say the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes and describes it as an "escalating a $10.7 billion standoff".
    - QP Briefing quotes Minister Sandals from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place."
    - The Toronto Sun has two articles on the number crunching aspect of the expert panel and that the government spent up to $435,000 on it. OPSEU's Warren 'Smokey' Thomas was livid and notes that he wants a guarantee the government won't raid his members' pension fund.
- February 15, 2017 -- QP Briefing quotes Minister Sandals about it being too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute.
- February 14, 2017 – high profile media coverage of the Pension Asset Expert Advisory Panel report release the day before.
    - Toronto Star columnist Martin Regg Cohn is critical of the Auditor General saying she has been caught out in a $10.7-billion miscalculation.
    - The Star's coverage also included article about the panel report and that $10.7 billion in government-sponsored pension plans should count toward the province's bottom line.
    - The Ottawa Sun's David Reevely says about the panel report "…we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets."
    - OPSEU's Smokey Thomas writes that the dispute between the government and the Auditor General is not "just a paper war" and that he "unequivocally supports" the AG's position.
- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: "Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: "If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- February 7 & 8, 2017 – Toronto Star and QP Briefing have coverage about the pension asset advisory panel's soon-to-be-released report.
    - PC Finance Critic Vic Fedeli tells the Star, that the people have to ask themselves who they are going to believe-- the independent auditor general or a scandal-plagued Liberal government?"
    - Columnist Martin Regg Cohn writes the AG has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets and she won't climb down.
- November 14 & 30th, 2016 -- QP Briefing has coverage of the expert panel announced to study the accounting dispute over pension assets.

- October 9, 2016 -- Focus Ontario (Global tv) and the Toronto Sun have coverage of the 2015-16 Public Accounts and the disagreement with the Auditor General.
    - Focus Ontario coverage balanced.
    - Toronto Sun opinion piece expresses surprise that the government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's opinion.
- October 6, 2016 -- The Financial Post has a highly critical commentary by analysts with the Fraser Institute, while QP Briefing reports the public accounts for 2015-16 have been tabled almost two weeks after months of back and forth between the auditor general and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- October 3, 2016 -- The Globe and Mail and Canadian Press report the government is ‘fighting’ with the Auditor General. Globe notes focuses on the AG’s $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt. CP story (picked up by 40 media outlets) says the Auditor General is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years.

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Reviewed by: Mark Donaldson, Office of the Provincial Controller Division

Approved by:	**Name:**	**Date Approved:**
ADM, Office of the Provincial Controller Division	Cindy Veinot	January 3, 2018
Issues Management Analyst, Communications Branch	Alisha Tharani	January 10, 2018
A/Manager, Issues Management, Correspondence and Media Relations	Amanda Miller	January 15, 2018
Assistant Director, TBS Communications Branch	Bryant Sullivan	January 16, 2018
Director, Communications Branch	Sofie Di Muzio	January 24, 2018

Appendix

Preparation and Tabling:

The Public Accounts for each fiscal year are prepared under the direction of the President of Treasury Board, as required by the *Financial Administration Act*.

The Public Accounts of Ontario consist of the Annual Report and three supplementary volumes. The Annual Report includes the province's audited consolidated financial statements and a financial statement discussion and analysis section. Supplementary information is contained in three volumes:

Volume 1: Ministry statements for expenses, assets, revenue, detailed debt and other supplementary schedules. It provides a comparison of appropriations with actual spending.

Volume 2: Financial statements of significant provincial corporations, boards, commissions that are part of the government's reporting entity, and other miscellaneous statements.

Volume 3: Detailed schedules of payments made by ministries to vendors and transfer payment recipients.

The *Financial Administration Act* requires the President of Treasury Board to submit the province's Annual Report and consolidated financial statements to the Lieutenant Governor in Council (LGIC) on or before 180 days after fiscal year-end. This year, the deadline was September 27, 2017.

The process for release of the Public Accounts is as follows:

- The Public Accounts are approved by the Lieutenant Governor in Council.
- The LGIC lays the Public Accounts before the Assembly, if the Assembly is in session, and the Public Accounts are then released on the same day.
- If the Assembly is not in session on the day of the release of the Public Accounts the LGIC is required to make the Public Accounts public and the Public Accounts are laid before the Assembly on or before the tenth day of the next session.

LOGISTICS & FORMAT OVERVIEW

Overview

- SCOPA meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports. All public committee proceedings are recorded in Hansard.
- The Chair will advise members to consider questions that are relevant to the content of the Auditor General's Annual Report, but in practice members do sometimes ask questions outside of the report's focus. As a general rule, expect that any question related to the Province's financial statements would be ruled within scope by the committee chair.
- The Committee members may ask that ministries provide details after the session if more research or gathering of information is needed to respond to a question.

Agenda

Wednesday, February 28, 2018
Committee Room 151 (Amethyst Room), Main Legislative Building

Time	*Topic*
9:00 a.m.	Closed Session: Briefing by the Auditor General
10:00 a.m.	Briefing by the Research Officer
10:15 a.m.	RECESS
12:30 p.m.	Treasury Board Secretariat and other representatives • *Invited senior officials appear and respond to questions.* • *The Auditor General attends, and the Committee members can seek clarification from the AG on points from her report if needed during the session.*

12:30 – 3:00 p.m.

- **Opening remarks** (20 minutes)
- **First round of questions** (60 minutes)
  - Each of the three political parties get 20 minutes of questions
- **Second round of questions** (50 minutes, approximately)
  - The remaining time until 2:45 p.m. is split between the three political parties; approximately 15-17 minutes per party

DRAFT

- **Closed session** (15 minutes)
    - Committee members plus the Clerk, only; no audience or presenters
    - The Committee will discuss the outcome of the meeting and if they want to do a report
    - There are no closing statements from ministry officials

Room Setup

- Committee Room 151 (Amethyst Room) is equipped with cameras and the meeting will be available on TVs within the Legislature and streamed online.
- The room has a square table with rows of extra seating at the front the room.
- The Committee Chair, Auditor General and Clerk will sit at the head of the table with the government and opposition parties on opposite sides.
- The invitees sit opposite the Committee Chair and Clerk, either at the table or in the first row of chairs.

Media Access

- Media are allowed to sit in on the meeting as long as they do not interrupt the proceedings. They cannot ask questions in the committee room, but if they wish they can scrum participants in the hallway as they leave.
- Media can also watch SCOPA proceedings on the TVs in the Legislature or online.

DRAFT

Invitees

Organization	Position	Name
Cabinet Office	Secretary of Cabinet	Steve Orsini
Treasury Board Secretariat	Deputy Minister	Helen Angus
Ministry of Finance	Deputy Minister	Scott Thompson
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ministry of Energy	Deputy Minister Assistant Deputy Minister	Serge Imbrogno Steen Hume
Ontario Power Generation	President and Chief Executive Officer Senior Vice President and Chief Financial Officer	Jeffrey Lyash Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer Vice President, Corporate Services and Chief Financial Officer	Peter Gregg Kimberly Marshall

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Ministry/Organization Representatives to Attend

Organization	Position	Name
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot
Treasury Board Secretariat Office of the Provincial Controller	Director, Accounting Policy and Financial Reporting Branch	Mark Donaldson
Ministry of Finance Deputy Minister's Office	Deputy Minister	Scott Thompson
Ministry of Finance Office of the Budget	Assistant Deputy Minister	Tim Schuurman
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ontario Financing Authority	Chief Financial and Risk Officer	Ken Kandeepan
Ministry of Energy Deputy Minister's Office	Deputy Minister	Serge Imbrogno
Ministry of Energy Assistant Deputy Minister	Energy Supply Division	Steen Hume
Ontario Power Generation	President and Chief Executive Officer	Jeffrey Lyash
Ontario Power Generation	Senior Vice President and Chief Financial Officer	Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer	Peter Gregg
Independent Electricity System Operator	Vice President, Corporate Services and Chief Financial Officer	Kimberly Marshall

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Committee Members

Chair



ERNIE HARDEMAN, MPP (PC/OXFORD)

Current Parliamentary Roles

Chair, Standing Committee on Public Accounts
Critic, Municipal Affairs and Housing

Vice-Chair



LISA MACLEOD, MPP (PC/NEPEAN—CARLETON)

Current Parliamentary Roles

Vice-Chair, Standing Committee on Public Accounts
Critic, President of the Treasury Board, Critic, Ministry of Finance,
Critic for the Anti-Racism Secretariat

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Members



BOB DELANEY, MPP (LIB/MISSISSAUGA—STREETSVILLE)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts Member, Standing Committee on Estimates,
Parliamentary Assistant to the Minister of Energy



VIC DHILLON, MPP (LIB/BRAMPTON WEST)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Government and Consumer Services Member, Standing Committee on Social Policy



HAN DONG, MPP (LIB/TRINITY—SPADINA)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Advanced Education and Skills Development, Parliamentary Assistant to the Minister Responsible for the Poverty Reduction Strategy
Member, Standing Committee on Finance and Economic Affairs



JOHN FRASER, MPP (LIB/OTTAWA SOUTH)

Current Parliamentary Roles

Member, Standing Committee on Social Policy Member, Standing Committee on Public Accounts, Parliamentary Assistant to the Minister of Health and Long-Term Care

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PERCY HATFIELD, MPP (NDP/WINDSOR—TECUMSEH)

Current Parliamentary Roles

Critic, Housing
Critic, Municipal Affairs
Member, Standing Committee on Public Accounts



RANDY HILLIER, MPP (PC/LANARK—FRONTENAC—LENNOX AND ADDINGTON)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Critic, Attorney General



LIZ SANDALS, MPP (LIB/GUELPH)

Current Parliamentary Roles

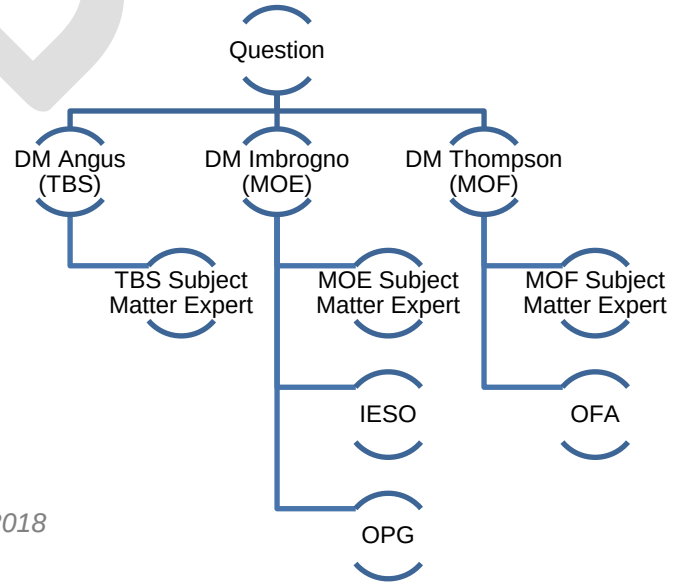
Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Infrastructure

Clerk
Katch Koch
Tel. 416-325-7352
kkoch@ola.org

Last updated: February 5, 2018

STRATEGIC APPROACH

- Provide evidence and facts as the basis of decision-making wherever appropriate (e.g. other jurisdictions, external advisors).
- Provide responses that are relevant and in scope of the consideration of chapter two of the Office of the Auditor General's report
- Avoid any speculation on political decision-making or rationales; provide objective, factual responses in role as non-partisan public servant.
- Provide context wherever possible. Deputy Ministers to provide initial messaging then pass to the subject matter experts where appropriate.
- Emphasize the role of a public servant is to provide factual, non-partisan information to the Committee based on due diligence and the application of professional judgment.
- Reaffirm the government's commitment to working with the Office of the Auditor General.
- Emphasize that the province will continue to follow Public Sector Accounting Standards (PSAS), as always, and will seek appropriate expert guidance where PSAS is silent.
- Use the Committee appearance as an opportunity to communicate the facts and rationale for the decision to adopt/continue accounting practices in response to the Office of the Auditor General's recommendations.
- Highlight due diligence in decision making (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).



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STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Last updated: January 22, 2018

Key Issues	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	Pres. & CEO, OPG	SVP & CFO, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thompson	Gadi Mayman	Serge Imbrogno	Steen Hume	Jeffrey Lyash	Ken Hartwick	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting		Overall - Pension Asset Accounting		Details - Pension Asset Accounting								
Advisory Panel Compensation			Advisory Panel Compensation									
IESO Accounting							**IESO LEAD**					
Rec # 2 IESO Market Accounts				Government decision to accept IESO market accounts			OFHP Policy Overview	OFHP Policy Overview			IESO's Role in OFHP / General Overview	IESO Market Accounts
Rec #5 IESO Market Accounts & Rate-Regulated Accounting				Government decision to accept IESO rate-regulated accounting								IESO Rate-Regulated Accounting
AG Audit of 2017 Statements		Relationship with AG - AG Audit of 2017 Statements										AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #3 OFHP Accounting				Decision to accept OFHP accounting			OFHP Policy Overview	OFHP Policy Overview	OPG's Role in OFHP / General Overview	OPG Financing Structure / Transaction	IESO's Role in OFHP / General Overview	IESO Financing Structure
Rec #6 'Legislated Accounting'				OFHP - 'legislated' accounting								
Rec #9 Arm's Length Trusts				Accounting for trust						OPG Accounting / Trust		
Records Disclosure/Process		Ministry FOI/OPQ					Records Disclosure / Process Followed		Records Disclosure / Process Followed		Records Disclosure / Process Followed	
Re-design of hydro bills							Re-design of hydro bills					
Pre-Election Report		**JOINT PRE-ELECTION REPORT LEAD**			**JOINT PRE-ELECTION REPORT LEAD**							
Rec #10 Pre-Election Report on Ontario's Finances		Pre-Election Report on Ontario's Finances	Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #7 Province's Debt Burden					Province's Debt Burden	Province's Debt Burden; Repayment plan						
Financial Accountability Officer Reports					Financial Accountability Officer Reports	Financial Accountability Officer Reports						
Credit Ratings					Credit Ratings	Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
Rec #4 External Advisors		External Advisors										
Rec #8 Timeline of Finalization of Financial Statements		Timeline of Finalization of Financial Statements	Timeline of finalization of financial statements		Timeline of finalization of financial statements - tax revenues							
Audit Opinion				Audit Opinions								
Out of Scope		Specific ministry Public Accounts line items Speculation about future accounting implications; audit opinions Speculation about government motivations			Speculation about future policy implications Speculation about government motivations		OFHP final accounting implications Speculation about future policy implications Speculation about government motivations	IESO/OPG compensation Expenses				

Summary Status Table in Response to the Report of the Auditor General of Ontario

Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and b) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

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	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. The government respectfully disagrees with the Auditor General's interpretation of the accounting standards on this issue as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

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by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

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	conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

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our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*		

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their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

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• *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

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states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

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	which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%, currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining, falling to 37.3% in 2017-18 from its 2014-15 peak of 39.3%.	Continue to monitor progress. Estimated implementation by FY 2029-30.

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	As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

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personal income tax revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #10 *We recommend that the government determine when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.*	Under the *Fiscal Transparency and Accountability Act*, 2004, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a Statement based on a prompt review following the release of such a Pre-Election Report.	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

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Attachment A. TBS Comprehensive QAs (0 Bytes) cannot be converted to PDF format.

Attachment B. Ministry of Energy Comprehensive QAs (0 Bytes) cannot be converted to PDF format.

Attachment C. Ministry of Finance Comprehensive QAs (0 Bytes) cannot be converted to PDF format.

QUESTIONS & ANSWERS

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Last updated: February 1, 2018
Initial review by OPCD

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

Key Messages

- The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).
- We respectfully disagree with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.
- The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.
- The province is open to continue to discuss the matter in the hopes of resolving this matter.
- For more information on pension asset accounting, I will now pass it over to:
    - Cindy Veinot, Provincial Controller

1. **How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?**

   The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

   The Office of the Auditor General communicated its interpretation of PSAS requiring a full valuation allowance on the province's two jointly sponsored pension plans in September 2016.

   At that time, the government passed a time-limited regulation on the accounting treatment of for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from the Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts.

   During the 2016-17 year, the province's professional accounting staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans.

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This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel, established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans.

  The panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017, which supported the government's position that a valuation is not required for these two plans under PSAS.

  Two key findings of the panel were:

  1) There is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record and asset, as the existing agreements in place between the parties support the recognition of an expected benefit; and

  2) Unilateral control is not required for asset recognition. Joint control with each party having the ability to deny the actions of the other sponsor provides evidence of shared control, supporting recognition of an asset.

- An opinion from Deloitte LLP on aspects of the province's accounting as of March 31, 2016 for the Ontario Teacher's Pension Plan (OTPP). The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under PSAS, even though the province did not have a unilateral right to reduce contributions. (The opinion did not address the value at which the asset should be recorded.)

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or Ontario Public Sector Employee's Union Pension Plan (OPSEUPP) as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

After significant deliberation, including consideration of the recommendations of the panel, Deloitte LLP and EY, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and prepared in accordance with PSAS for pension asset accounting. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension

assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

We respectfully disagree with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.

The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.

The province is open to continue to discuss the matter in the hopes of resolving this matter.

2. Why are you still fighting with the Auditor General over pension accounting?

In preparing last year's Public Accounts, the province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the province on the issue. The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan. The 2016-17 financial statements include these pension assets, and the government continues to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

The Treasury Board Secretariat will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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Advisory Panel Compensation

1. **How much did you pay the panel members? Do you think that money was justified?**

   The total cost of the panel was $221,113. This included compensation and travel expenses for the four panelists, as well as procurement. These rates are consistent with the Agencies and Appointments Directive, which specified up to $2,000 per day for appointees with unique and specialized expertise, or urgent issues affecting government priorities and requiring intense time commitments over a short period of time.

   The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards, and provided independent advice on how to move forward with how Public Sector Accounting Board standards should be applied to current and potential future net pension assets.

2. **Why was Patricia O'Malley included in Public Accounts and not the other panel members?**

   Patricia O'Malley was the chair of the independent Pension Asset Expert Advisory Panel (PAEAP), which provided important advice to government on how to account for jointly-sponsored pension plans. She is included in Public Accounts because her compensation for her work on the Panel was above the $50,000 threshold that must be reported in detail in Public Accounts.

   The other members of PAEAP were paid less than the $50,000 minimum threshold in fiscal 2016-17 that requires they be listed in Public Accounts. Their 2016-17 compensation is captured as part of the "Accounts Under $50,000" category.

   As Paul Martin is a member of the New Brunswick Public Service, he did not receive compensation for his role on the panel. He was only eligible for expense reimbursements.

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

Key Messages

- The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit.
- In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements.
- The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.
- The government supports this enhanced reporting and greater transparency for the economic activities of the IESO.
- The province is open to continue to discuss the issue in the hopes of resolving this matter.
- For further details on the province's decision to accept IESO market accounts on the province's consolidated financial statements, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO's decision to adopt market accounts, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts	Ministry of Energy (IESO)

1. **How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?**

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

   The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

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This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

Key Messages

- The Independent Electricity System Operator (IESO) intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS), and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018.
- The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, the IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, the IESO has also instructed its audit partner to cooperate with the Auditor General's Audit.
- For further details on the province's decision to accept IESO market accounts and rate-regulated accountingI will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Ministry of Energy (IESO)

3. Does the Independent Electricity System Operator (IESO) use Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements?

Yes. The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS).

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The IESO's financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. The IESO received an unqualified, or clean, audit opinion on its 2016 financial statements.

4. Why is the IESO now including market accounts on its financial statements? Does this go against PSAS?

The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS.

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

5. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

Canadian Public Sector Accounting Standards (PSAS) are silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of*

transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America, including the:

- Alberta Electric System Operator (AESO)
- ISO New England
- New York Independent System Operator (NYISO)
- Midcontinent Independent System Operator (MISO)
- PJM Interconnection LLC and,
- Electric Reliability Council of Texas (ERCOT).

6. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. The implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

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The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

AG Audit of 2017 Statements

Key Messages

- The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, the IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, the IESO has also instructed its audit partner to cooperate with the Auditor General's Audit.

For QAs related to:	See:
Audit of IESO's statements	Ministry of Energy (IESO)

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ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

Key Messages

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in the Public Sector Accounting Board's guidebook.
- The province's professional staff have appropriately applied this guidance in assessing the accounting for the OFHP.
- For further details on the province's decision to accept OFHP accounting, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

7. Will the government follow Public Sector Accounting Standards (PSAS) for Ontario's Fair Hydro Plan?

The province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

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- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

The province's professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

8. Will the government follow the accounting standards set by historical precedent, as cited by the Auditor General?

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. There are, however, crucial differences between the two.

For example, the OEFC stranded debt had already been incurred when the 1999 restructuring of the former Ontario Hydro took place.

In the case of OFHP, the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the Clean Energy Adjustment, which can be held and realized or can be sold.

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

The OFHP Global Adjustment deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected

lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

9. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

While the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

On the point of "true financial impact":

In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior

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governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the province's finances fairly, accurately and in accordance with PSAS.

On the point of "a financing structure that is the least costly for Ontarians":

The OFHP financing structure has been designed to provide electricity rate relief to current ratepayers, including by more fairly allocating costs for specified consumers, with the Global Adjustment cost amounts still ultimately borne by specified electricity ratepayers, as beneficiaries of those electricity system costs.

The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. Having the rate-base pay is not a new policy, for example Hydro One has borrowed in the capital markets since 2000.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (the Fair Hydro Plan Trust) that will manage the debt obligations. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO).

The cost analysis in the Office of the Auditor General's report was sourced from the FAO's May 2017 report. Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Recent government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

The province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management.

10. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

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In developing Ontario's Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

11. Both the Auditor General and the Financial Accountability Officer have raised serious concerns about the accounting treatment of the electricity cost refinancing initiative. Why should Ontarians believe this government over two independent officers of the Legislature?

The province has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

In developing the Ontario Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting

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Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

The province, as always, will prepare its consolidated financial statements in accordance with PSAS and continue to build on its track record of responsible fiscal management.

12. The Auditor General says that you are "obfuscating" the true financial impact of Ontario's Fair Hydro Plan through a "needlessly complex" accounting structure. How do you respond?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

OFHP is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

While the implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized, the financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

13. How can you justify the $4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance 55 per cent, at a higher interest rate than the province, instead of the province financing the entire electricity cost financing)?

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Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

The Auditor General's report suggests that all the costs of OFHP should be reflected as if they will be borne by taxpayers, which is inaccurate.

Ontario Power Generation (OPG) is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Officer (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

For further questions about borrowing estimates, please contact the Ministry of Finance.

14. The AG claims that when the government first gave Ontarians an 8 per cent break on their bills, it was reported on the books properly. She says when it jumped to 25 per cent, the accounting changed. Isn't it obvious that the government is cooking the books to suit their needs?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions.

It is our role as public servants to provide our best advice and due diligence.

As always, the province adheres to Canadian Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board.

The province will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.

It's important to note that while PSAS is the primary source of guidance for the government in the preparation of its financial statements, there are circumstances where governments may refer to other accounting frameworks for guidance where PSAS is silent and does not address specific transactions.

In this case where PSAS is silent on the use of rate-regulated accounting, US accounting standards contain the most developed and appropriate guidance for this transaction.

15. The Auditor General says that even your own government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Multiple options were considered in creating the OFHP framework – such as to have local distribution centres finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution centres to finance the balances.

The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.

Ultimately, OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

Key Messages

- The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.
- As always, we will prepare the province's consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS), including the transactions resulting from Ontario's Fair Hydro Plan (OFHP).
- For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to

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allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of PSAS.

- This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.
- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

1. **Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.

   The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

   The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

2. **The Auditor General said that a similar move to legislate accounting to defer costs was proposed with the restructuring of the Ontario electricity**

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sector in the late 1990s, but the Auditor General's opinion at that time was that this would represent a departure from a central tenet of generally accepted accounting principles. The government at that time heard these concerns, and made the decision to not create an asset for future anticipated ratepayer payments. Why does the government think this is ok now?

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. There are, however, crucial differences between the two.

For example, the OEFC stranded debt had already been incurred when the restructuring took place.

In the case of OFHP, the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the Clean Energy Adjustment.

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

The OFHP Global Adjustment deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

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AG Recommendation #9: Arm's Length Trusts

Key Messages

- The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.
- Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight.
- The province will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
- For more information on arm's length trusts, I will pass it to:
    - Cindy Veinot, Provincial Controller
    - Deputy Imbrogno

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy

1. **Will the government avoid establishing arm's length trusts in order to record an expense in its financial statements before it is necessary, given that it loses the ability to ensure funds are provided to the appropriate beneficiaries?**

   The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.

   Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arm's length and is able to demonstrate proper oversight.

   A trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the province to enter into agreements with each distributor.

   The trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

   While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred, as well as the

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ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Records Disclosure/Process

Key Messages

- The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- Senior ministry officials have met and continue to work with the Office of the Auditor General by participating in interviews and providing documentation.

For QAs related to:	See:
MOE Records Disclosure	Ministry of Energy

1. **The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?**

   The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

   The implementation of Ontario's Fair Hydro Plan is ongoing, with significant accounting and financial decisions still being finalized.

   Treasury Board Secretariat has released all requested records.

   Senior ministry officials have met with the Office of the Auditor General by participating in interviews and providing documentation.

   If asked about the Ministry of Energy emails:

   The Ministry of Energy, Finance, and the Treasury Board Secretariat are committed to assisting the Auditor General.

2. **In an email, a TBS official said [___], disagreeing with the government's policy decision. How do you respond?**

   As public servants, it is our role to provide our best advice and conduct our due diligence to inform decision-making. Part of this process includes questioning and deliberations.

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The record you are referring to is part of that discussion process, where we as public servants engage in deliberations and explore the options to get to the point of providing our best advice.

It is important to keep in mind that an individual email represents a point in time of the discussion.
That statement is not necessarily representative of the final advice put forward and an endorsement of what the public service has identified as the best approach.

The records must be considered in the context of discussion and deliberation, as an exercise in due diligence, and not as a final endorsement of an option or approach.

3. When does TBS not provide information through a Freedom of Information request?

Since 2015, TBS has been 100 per cent compliant for all Freedom of Information requests it has received.

In some cases, records may contain information that will be withheld in accordance with the legislation, such as personal information about individuals, confidential business information, advice to government or information that is subject to solicitor client-privilege.

Re-Design of Hydro Bills

For QAs related to:	See:
Hydro Bills	Ministry of Energy

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PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

Key Messages

- The province takes the Auditor's recommendations seriously and remains committed to working constructively with the Auditor General.
- The government has not yet made a decision on whether and when to release a Pre-Election report.
- We are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.

For QAs related to:	See:
Pre-Election Report	Ministry of Finance (Joint lead with Treasury Board Secretariat)

1. **Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?**

   Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report.

   The province remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.

2. **Is the government required to issue a pre-Election Report?**

   Provisions in the Fiscal Transparency & Accountability Act, 2004 (FTAA) allow for – but do not require – a regulation to be filed requiring the release of a Pre-Election Report and a review of that report by the Auditor General.

3. **The Auditor General signalled her readiness to work with the government to examine the pre-election report, why has the government waited this long to engage with the Auditor?**

   The province takes the Auditor's recommendations seriously. The government has not yet made a decision on whether and when to release a Pre-Election

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report. We are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the Province's fiscal position in advance of the election.

4. **Minister Sousa recently signalled that the government is not planning on issuing a Pre-Election Report. How do you feel about the government continuing to circumvent the Auditor General and avoiding accountability?**

The province takes the Auditor's recommendations seriously. As I understand, the government has not yet made a decision on whether and when to release a Pre-Election report. We are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

1. **How can your debt reduction plan be trusted if you're not using proper accounting for pension assets and the Fair Hydro Plan?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.

   PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and is used by all senior governments in Canada.

   PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

   Our professional staff exercises judgment in applying the standards and as necessary consults with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

   All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

   That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

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Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

1. **Does a qualified opinion from the Auditor General impact the province's credit rating?**

   The province's financial results show that the government has beaten its annual deficit targets. In April 2017, Ontario delivered its first balanced budget since the global recession and is on track to do so again next year and the year after.

   The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the province. However, there were no credit rating implications in 2016 when the province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

Key Messages

- The Treasury Board Secretariat (TBS) will continue to take a proactive approach to raising issues with the Office of the Auditor General.
- The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.
- When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

For QAs related to:	See:
Ministry use of external advisors	Ministry of Energy Ministry of Finance

1. **Will the government provide copies of contracts it enters into for accounting advice to the Auditor General?**

   The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

   The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

2. **Will the government build into its contracts with external advisors a requirement to notify the Auditor General of their engagement?**

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

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3. **Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.**

   The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

   The government's use of external expertise for accounting and financial reporting matters is a normal course of business and supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis.

4. **It seems like you use consultants to circumvent the Auditor General, when it looks like she may disagree with your accounting methods. Why don't you let the Auditor General know when you're using external advisors for something that impacts her Office's ability to do their job?**

   The government's use of external expertise for accounting and financial reporting matters is a normal business practice and supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis. The professional staff takes responsibility for the final decisions that are made with respect to the application of PSAS to the government's transactions.

   The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.

5. **Are you going to hire an expert advisory panel, as you did on the pension asset accounting matter, to settle this dispute with the Auditor General? If so, what authority would this panel have?**

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There are no plans to establish a panel at this time.

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

The province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

6. Can you tell us how many consultants are being paid high salaries with public money while keeping themselves off the sunshine list?

The government continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

7. How much did the Treasury Board Secretariat spend on consultants?

The Treasury Board Secretariat (TBS) spent approximately $202 million in 2016-17 on consulting services:

- $167M is procured by IT Source, Central Agencies Cluster for Ontario Public Service (OPS) ministries. TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries.
- $36M is services procured by TBS programs primarily for IT enhancement, management and other consulting services.

Consultants are used in the OPS when the organization needs to gain external advice and specialized expertise not already available in the OPS, or for short-term and non-recurring projects and initiatives.

TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries as a cost-saving strategy.

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Whenever the OPS need IT consulting services, the first thing we do is look for expertise within the organization. The government turns to IT consultants when it doesn't have the expertise in house, when it needs to gain external advice and specialized expertise, or when the need is short-term and non-recurring. This is true for one-time projects that launch new programs or when Cyber Security staff combine with external experts to carry out Threat Risk Assessments to ensure personal information is safe.

AG Recommendation #8: Timeline of Finalization of Financial Statements

Key Messages

- The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.
- The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.
- Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General.
- As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.
- For further details, I will pass it over to:
    - Karen Hughes, Associate Deputy Minister, Office of the Treasury Board
    - Deputy Thompson

For QAs related to:	See:
Finalization of Financial Statements – Tax Revenues	Ministry of Finance

1. **Will the government improve its planning across stakeholders so that the province's consolidated financial statements are finalized earlier?**

   The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

   The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

   The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts.

   Planning discussions for the 2017-18 Public Accounts have begun between the

Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

2. What will the government do to figure out estimation risks associated with corporate tax and personal income tax revenues earlier?

The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

The province will work with the Canada Revenue Agency (CRA) on the Auditor General's recommendation, as reporting personal and corporate taxation revenues is highly dependent on the information from the CRA.

Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

Adverse or Qualified Audit Opinion

Key Messages

- It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year.
- The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).
- As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.
- PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.
- Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors.
- They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller

1. **The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?**

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

   As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

   PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

   Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

   All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

   That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

2. **Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting?**

   It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. The implementation of Ontario's Fair

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Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

3. The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?

TBS leads the overall Public Accounts process. Public Accounts is a major accountability document which presents the financial statements of the province, provides financial highlights of the past fiscal year, and reports on performance against the goals set out in the Budget.

TBS continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

Last year there was a disagreement among the province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the province.

The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario

Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and TBS continues to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

2016-17 Overall Accounting Changes

1. **Why have you restated prior year's financial statements?**

   When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

   These changes include:

   a. **A change in the presentation of accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
   b. **The adoption of International Financial Reporting Standards as the basis for accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting

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Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.

c. **Accounting for market accounts by Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
d. **Accounting for net pension assets of jointly sponsored pension plans** - the province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

2. Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?

To increase transparency, in 2016-17 we have made a simple change to how we are reporting third party revenues for broader public sector organizations.

For the first time, Public Accounts are presenting third party revenues for hospitals, school boards and colleges with provincial revenue. Third party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

3. What is consolidated reporting?

The Province's consolidated financial statements are presented on a consolidated basis, meaning that the Statement of Financial Position (or balance sheet) and the Statement of Operations (or statement of revenues and expenses) reflect the combination of ministry results as well as the financial

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results for organizations that are controlled under the guidance established under PSAS.

Prior to 2016-17, the Province reported the expenses and third-party revenues of hospitals, colleges and school boards on a net basis. This was changed for 2016-17 to reflect expenses and third-party revenues as separate items (on a gross basis), as opposed to being reported together (on a net basis).This affects what you see for the expense reported for the responsible ministries (Health and Long-term Care, Education and Advanced Education and Skills Development) and the breakdown of figures for hospitals, school boards, and colleges. However this has no impact to the annual deficit, net debt or accumulated deficit.

Line-by-line consolidated reporting is in keeping with Public Sector Accounting Board standards and will mean that our presentation for Public Accounts is consistent with other governments across Canada. The Auditor General is supportive of this change.

4. Why is there a change to the accounting for Ontario Power Generation (OPG) and Hydro One?

In the 2016-17 Public Accounts, the financial results of Ontario's investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards (IFRS). Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board requirements and is supported by the Auditor General.

This change has resulted in an adjustment to the opening accumulated deficit and net debt of $1,163 million, of which $683 million relates to transition to IFRS. The impact of this change to the annual deficit is not material to the province in 2016-17.

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OTHER

1. **How does the Treasury Board Secretariat ensure transparency and accountability in financial reporting?**

   The province continues to strengthen its financial management, ensure clear and consistent accounting practices, enhance oversight and accountability and provide better data and information to the public through more channels.

   The Office of the Provincial Controller Division (OPCD) plays a key role in ensuring this transparency and accountability in the province's financial reporting through its major functions, including:
   - Providing the Ontario Public Service (OPS) and Broader Public Sector with accounting and financial management policy and controllership advice;
   - Maintaining the Public Accounts and preparing the Annual Report and Consolidated Statements and the Public Sector Salary Disclosure;
   - Liaising with the Auditor General of Ontario, as well as other jurisdictions and the Chartered Professional Accountants of Ontario and Canada, on the development of government accounting standards;
   - Supporting the development of financial management and controllership capacity across the OPS; and,
   - Supporting the modernization of government by improving the efficiency, effectiveness, and integrity of its financial systems and processes.

   Treasury Board Secretariat (TBS) also works with the Ministry of Finance to help them prepare key documents like the Budget and the Fall Economic Statement.

   TBS does have a leadership role on some financial items like Public Accounts. But for other things, TBS is mostly in a support role.

   TBS collaborates with other senior level governments to assess the impact of proposed standards by the Public Sector Accounting Board and how specific transactions are reported within the accounting frameworks.

2. **Does the province direct organizations on what accounting standards to use or how to apply them?**

   Placeholder

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Executive Compensation

1. **How can you justify the exorbitant salaries paid to Hydro One executives when families are struggling to pay their hydro bills?**

   The province remains committed to ensuring transparency and accountability in how broader public sector employers manage executive compensation.

   However, Hydro One is now a publicly traded company, and decisions regarding compensation are not made directly by the government.

   For further questions about executive compensation and oversight of specific organizations, please contact the ministry responsible.

2. **Why are Hydro One employees not captured by the Sunshine List? MPP Todd Smith is demanding that the government add Hydro One employees back onto the list. Will you do this?**

   Only public sector employees are included on the Sunshine List.

   As a publicly-traded entity, Hydro One is no longer required to report salaries or benefits earned after December 31, 2014 under the PSSDA.

   However, similar to the Ontario Securities Commission requirements, Hydro One must disclose the total compensation levels of the CEO, CFO and three other highest-paid executives of the corporation each year. This information is available to the public online. Top executive salaries are posted on SEDAR in the Management Information Circular.

   As an Ontario Business Corporation Act (OBCA) company subject to Canadian Securities law, Hydro One continues to comply with rigorous governance requirements that include:

   - Disclosure of board-approved annual financial statements along with quarterly updates;
   - CEO and CFO Certifications and Associated Controls certifying that there are no misrepresentations in the annual or quarterly materials;
   - Shareholders' meetings requirements and rules;
   - Disclosure requirements with respect to management circulars (including information about senior management, such as share ownership, any indebtedness to the company and any interest in material transactions) as well as compensation circulars (executive compensation disclosures including shares awarded, perks and incentives).

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3. How do you justify the upward trend of public sector employees making more than $100,000 across all sectors in 2016?

Overall, for 2016 the total number of employees disclosed in the Compendium has increased by 6.6%, to 123,410 employees in 2016 from 115,746 in 2015.

There are a number of reasons why employees may appear on the list, including:

- Employees who are progressing in their career to more challenging positions;
- Natural progression through salary ranges;
- Overtime payments;
- Retroactive pay awards;
- Performance payments; and,
- Payments that may be required on retirement (e.g. to reimburse the employee for unused vacation credits).

In addition, there were some payouts that impacted the 2016 salaries for reported employees, including an increase to base salaries for non-bargaining employees paid as a retroactive lump sum in December 2016 and an arbitration award which provided retroactive pay to members of the OPP.

The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was enacted in 1996 and has not been adjusted to keep up with inflation. If the salary threshold was adjusted for inflation, it would be $149,424 in today's dollars, reducing the number of employees included in the compendium by 84%.

The government is committed to providing high-quality public services and values the hard work of its dedicated public servants. The employees on this list:

- Deliver key government services;
- Make sure Ontario's food and water is safe;
- Make sure quality health care is available to every resident in the province;
- Make sure quality education is available to every child in the province;
- Make sure Ontario's roads and workplaces are safe; and,
- Bring jobs and investment into Ontario.

The province needs to pay salaries which are competitive in order to attract and retain top talent to deliver quality public services.

4. Who were the top 10 employees on the entire list and what were their salaries?

The top 10 earners all work largely in the health sector and in Ontario Power Generation. These people all hold executive positions:
- 6 of the 10 are in the health sector;
- 2 are from Ontario Power Generation;
- 1 is at the University of Toronto; and,
- 1 is at the Ontario Pension Board.

Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

5. **We learned that the president of OPG, who was the top earner on the province's payroll in 2016, actually made $700,000 more than the sunshine list that was disclosed earlier this year. The difference was a bonus that showed up on OPG's books, but was suspiciously left off the government's books. How many more six-figure bonuses has the President of the Treasury Board hidden from the people of Ontario?**

   The province continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

   Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

   For 2016, the Treasury Board Secretariat as a ministry reported 996 employees compared to 875 in 2015, an increase of 13.8%. The number increased primarily due to compensation changes, retirement pay-outs, severance payments, overtime and reorganizations.

   The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was introduced in 1996. In today's money the threshold would be $149,424 and would include only 56 (5.6%) of the 996 TBS employees on this year's list and exclude 940 (94.4%).

   Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

6. **How does this government allow salaries that are completely excessive when the average Ontarian can't afford their hydro bill/is working twice as hard because of government cuts/is not part of this millionaire's club?**

DRAFT

In the 2017 Budget, the government announced that it will continue to take a balanced approach to managing compensation. This approach will recognize the need to maintain a stable, flexible and high-performing public-sector workforce that supports the government's transformational priorities and at the same time ensures that public services continue to remain affordable.

A result of recent efforts to reduce spending through compensation restraint and program transformation, the government has delivered on its commitment to balance the budget by 2017-18, while making program spending more sustainable and also protecting the important public services that Ontarians rely on.

A balanced approach to compensation recognizes the need to attract and retain talented leaders and individuals to ensure a modern, sustainable, and inclusive Ontario Public Service, while also remaining competitive with public sector peers.

To this end, the province will continue to provide effective and affordable public services, while recognizing the need for fair compensation.

Government Advertising

1. **How can you justify spending $5.5 million on self-congratulatory advertising for Ontario's Fair Hydro Plan?**

   Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

   Ontario needs government advertising that is appropriate, reasonable and effective because the public has a right to know how public money is being spent, and why the government is bringing forward policy changes.

   At this time, I would like to clarify that the Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

   For further questions about specific advertisements or advertising campaigns, please contact the ministry responsible.

2. **For the Hydro Bill partisan inserts – the Auditor General points out that "addressed mail" is non-reviewable (i.e., something was sent to a household by name) as compared to bulk mail which is reviewable. Will you continue to overlook this loophole so that public money can be used to send partisan messages directly to Ontarians?**

DRAFT

Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

This legislation was introduced in 2004 to prevent government use of taxpayer dollars for partisan advertising.

Ministries still abide by the principles of the Government Advertising Act in all paid advertising, whether it goes to the Office of the Auditor General or not.

SCENARIO QUESTIONS

Speculation

1. **What do you think the intentions of the government were when they…**

   As a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   We provide neutral advice to support decision-making.

2. **What do you think the Auditor General will do…**

   It would be inappropriate for me to speculate on how the Auditor General may issue a future opinion.

3. **Other requests for speculation…**

   I'm not able to comment on something that may or may not happen.

   I'm happy to speak to the contents of chapter two of the Auditor General's report.

Cabinet Confidential

1. **Can you tell us about the advice you provided to the government…**

   I am unable to speak to the advice that was provided, as this would be considered confidential advice provided to Cabinet.

Confidential

DRAFT

1. **Can you tell us about the advice you provided to your minister…**

   I believe this matter could be considered confidential advice provided. I would be happy to look into this matter further to clarify the scope of confidentiality and provide a written response back to the Committee.

Insisting a Specific Official Answer

1. **I do not want [____] to answer, I want to hear the response from you.**

   I am happy to provide a response to the question in my role as a public servant for the Treasury Board Secretariat.

   [Provide response as within your position's scope.]

   I cannot speak to the specific point you are raising, and as mentioned, [____] would be more appropriate to respond.

   What I can tell you is [____]

Insisting on Commitment

1. **Can you give us an exact figure on…**

   I want to be absolutely precise and specific, so I will need to get back to you with the exact number.

Politicization

1. **Why did the government make [____] decision?**

   As a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   It is our role to provide our best, objective advice to support government decision-making.

DRAFT

QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

DRAFT

IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;

- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial

[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

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[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. How does the 3.357% price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0% average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5%. In the development of the 2017 FAA the interest rate assumptions were revised to 5% based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357% for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

OPG advises that the remainder of the debt is split between "subordinated" and "junior subordinated" debt. The effective interest rate will be the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated). OPG is expected to finalize the pricing for the subordinated and junior subordinated debt within the next 48 hours. The pricing will be based in part on the pricing of the senior series.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Since 2003, nearly $70 billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

[15] Ministry of Energy
[16] Ministry of Energy

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	**See:**
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

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Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

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The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy

Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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RESPONSE TABLE

Issue/Consideration	Strategy	Key Messages
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. The Independent Electricity System Operator's (IESO) change of accounting policy provides more transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflect the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. The IESO's recent accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.

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Issue/Consideration	Strategy	Key Messages
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	As part of Ontario's Fair Hydro Plan (OFHP), bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them. Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers. Ontario Power Generation (OPG) was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary expertise to assist with refinancing the GA and will ensure that it is done efficiently and cost-effectively. OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with PSAS and ensures that the fairness goals underlying the program are achieved in a cost-effective manner. In developing the policy, the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate. The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due

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Issue/Consideration	Strategy	Key Messages
		diligence was completed. The province will continue to prepare its consolidated financial statements in accordance with PSAS. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. In this case, IESO consulted US GAAP, the accounting framework in North America that provides the most developed guidance on rate regulated operations.
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,

Issue/Consideration	Strategy	Key Messages
	Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

For QAs related to:	See:
IESO Market Accounts	Treasury Board Secretariat Ministry of Energy

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Treasury Board Secretariat Ministry of Energy

AG Audit of 2017 Statements

For QAs related to:	See:
Audit of IESO statements	Treasury Board Secretariat Ministry of Energy

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ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

For QAs related to:	See:
OFHP Overall	Ministry of Energy
OFHP Accounting	Treasury Board Secretariat

AG Recommendation #6: "Legislated Accounting"

For QAs related to:	See:
OFHP Overall	Ministry of Energy
"Legislated Accounting"	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy
Accounting for Trust	Treasury Board Secretariat

Records Disclosure/Process

- Messaging TBC

For QAs related to:	See:
Records Disclosure/Process	Treasury Board Secretariat Ministry of Energy

1. **Has the Ministry of Finance provided all records to the Auditor General of Ontario?**

   In response to a request for information from the Auditor General's office regarding the Ontario Fair Hydro Plan, the Ontario Financing Authority (an agency under the Ministry of Finance) provided 3,252 emails in two batches: 1,190 e-mails on June 23, 2017 and 2,062 on July 18, 2017.

Re-Design of Hydro Bills

For QAs related to:	See:
Re-design of hydro bills	Ministry of Energy

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PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

- Messaging TBC – TBS

For QAs related to:	See:
Pre-Election Report	Treasury Board Secretariat (Joint lead with Ministry of Finance)

2. Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report.

The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

- The balanced budgets from 2017–18 onwards will limit the increase in net debt-to-net investments in capital assets. These investments will contribute to the economy growing at a faster rate than net debt, allowing the government to reduce Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent.
- There is a strong demand for Ontario bonds in both the domestic and international markets. Last fiscal year, Ontario was able to borrow $27 billion in long-term debt while our spread — or the margin that we have to pay over the equivalent Government of Canada bond — tightened, indicating an ongoing strong demand for Ontario bonds.
- We expect that the liquidity of Ontario benchmark bonds, and continuing confidence in the value of Ontario debt, will allow us to cost-effectively complete the 2017–18 borrowing program.

3. What is the government doing to manage the province's debt burden?

The very important first step in reducing debt is to balance the budget. We are projecting a balanced budget for 2017-18, delivering on a commitment first introduced in the 2010 Budget.

As the result of a balanced budget, and Ontario's strong economic growth, the net-debt-to-GDP ratio is declining.

The government has set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24, and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.

4. What is the status of the province's borrowing plan?

Through prudent and cost-effective debt management, we have consistently kept interest on debt costs below budget projections. Interest on debt to revenue is forecast to be 8.2 per cent in 2017-18, 8.3 per cent in 2018-19 and 8.4 per cent in 2019-20.

Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs.

As of January 31, 2018, $28.6 billion (or 111 per cent) of this year's long-term public borrowing of $25.8 billion has been completed.

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Financial Accountability Office (FAO) Reports

5. What is the government's response to the FAO's fall 2017 report, which states that the government will run a deficit in 2017-18 and the following years?

Ontario's deficit for 2016-17 was $991 million — $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget, according to public accounts.

The Ministry of Finance is projecting a balanced budget in 2017-18. The Ministry of Finance is committed to a responsible fiscal plan. We build prudence into our forecasts.

Since the time of the 2017 Budget, private sector forecasters have revised up their economic growth projections for Ontario over the 2017-20 period, reflecting the strength in the Ontario economy.

Using the government's accounting presentation (i.e. excluding the AG's recommended treatment), the FAO is projecting a small surplus in 2017-18.

6. Why are the FAO's revenue forecasts lower than the government's revenue forecasts?

The government is projecting total revenue to grow from $140.7 billion in 2016–17 to $158.2 billion in 2019–20. This represents an average annual growth rate of 4.0 per cent.

Growth in revenues over the medium term is driven mainly by taxation revenue which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent. The projected taxation revenue growth aligns with growth actually experienced in recent years, and projections for the Ontario economy.

Credit Ratings

- Ontario currently maintains a double-A rating with three of its four credit rating agencies.
- We continue to update the rating agencies on a regular basis on economic and fiscal developments.

7. What are the credit rating agencies' views on Ontario?

Following the release of the 2017 Budget, all four rating agencies — Moody's, DBRS, Fitch, and S&P — confirmed Ontario's long-term credit ratings.

This reflects rating agencies' confidence in our government's fiscal plan.

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8. How have rating agencies responded to the qualified opinion on the public accounts and the recent report from the Auditor General?

The rating agencies make their own assessment of the Province's finances.

However, there were no credit rating implications either this year or last when the government received a qualified audit opinion on its Public Accounts.

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Preparation of Public Accounts

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

1. **Q re: Ministry of Finance use of external advisors**

   Answer….

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat

1. **QAs on finalization of financial statements – tax revenues, etc.**

   Answer…

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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OTHER

- MOE Key Message 1
- MOE Key Message 2
- MOE Key Message 3
- MOE Key Message 4
- MOE Key Message 5

1. **Qs that may come up that are not included in the categories above…**

   Answer…

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Attachment A. TBS Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

Attachment B. ENER Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

Attachment C. MOF Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

LONG-FORM MEMBER QUESTIONS

1. Can you outline the process for putting Public Accounts together every year?

2. How is the government making sure that the Public Accounts are open and accessible to everyone in Ontario?

3. What are some of the accounting changes made to Public Accounts this year? Could you speak specifically to the accounting changes made for hospitals, school board and colleges as well as government business enterprises?

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Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build

a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80

institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?

And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

Response

Independent Electricity System Operator's Approach to Accounting

The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

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By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;

4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

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I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

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When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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LONG-FORM MEMBER QUESTION: BALANCED BUDGET

DEPUTY MINISTER SCOTT THOMPSON

Question:

- How is Ontario planning to keep a balanced budget?

Answer:

- TBD: Revisions based on updates related to Q3 Finances once available
- My ministry has been working to execute the government's goal of balancing the budget.
- This started with a plan that was first introduced in the *2010 Budget*, when the province started to recover from the recession.
- Ontario today is projecting a balanced budget for 2017–18 and for the next two years, 2018–19 and 2019–20.
- A balanced budget makes available more investment options to spur economic growth and job creation, and helps protect the programs and services people rely on most, such as health care and education.
- Ontario's plan has five main areas of focus:
    - Maximizing revenues without causing undue tax burdens on Ontarians
    - Managing its expenses without detracting from the quality of social services and health programs
    - Balancing revenues and expenses against each other to manage the debt
    - Funding programs that help Ontarians, and
    - Investing in infrastructure to promote economic growth and job creation.

- I will now address each area in turn.

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Revenues:

- The 2016–17 Public Accounts show that Ontario's deficit for last year was $991 million — $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget.
- Fiscal 2016–17 was the eighth year in a row that the Province has beaten its deficit target.
- This was a result of growth in revenue that exceeded growth in program expenses, and lower-than-forecast interest on debt.
- And so part of the plan to balance the budget involves optimizing assets and maximizing revenues.
- The Public Accounts for 2016–17 show total revenues were $140.7 billion, $2.2 billion higher than the 2016 Budget projection.
- Additionally, Ontario's total revenues are projected to grow from this $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- This increase represents an average annual growth rate of four per cent.
- The higher revenues for 2016–17 — and the projected growth of revenues through 2019-20 — are largely due to higher-than-expected tax revenues, the optimization of government business enterprises, and transfers from the Government of Canada and other non-tax revenue.

- First, let me address tax revenues.
- Growth in revenues over the medium term is driven mainly by taxation revenue, which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent.
- For fiscal year 2016–17, tax revenues were $293 million higher than projected, mainly due to higher-than-expected Harmonized Sales Tax revenue, reflecting stronger growth in Ontario household expenditures.

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- Secondly, the Government of Ontario is also implementing a multi-year strategy to optimize its assets and maximize its revenues through the sales of shares in Hydro One, LCBO head office lands and Ontario Power Generation's head offices.
- The net revenue gains from the sale of qualifying assets are credited to the Trillium Trust for infrastructure investments, such as roads, bridges and public transit.
- The total amount credited to the Trillium Trust as of March 31, 2017 is $5.3 billion.
- The Province continues to grow and maximize revenues from its government business enterprises, such as Hydro One, Ontario Power Generation, the Liquor Control Board of Ontario and Ontario Lottery and Gaming Corporation.
- The forecast of the income from government business enterprises is projected to grow by $0.7 billion between 2016–17 and 2019–20.
- This projection, at an average annual rate of 3.7 per cent, reflects higher net income overall from government business enterprises.

- Thirdly, Ontario received larger Government of Canada transfers — $145 million higher. This increase reflected new funding for early learning and child care flowing from a bilateral agreement between Ontario and the federal government, as previously reported in the 2017-18 *First Quarter Finances*.
- The forecast for subsequent transfers is based on existing federal-provincial funding agreements.
- Overall transfers are projected to grow by $0.9 billion between 2016–17 and 2019–20, or at an average annual rate of 1.2 per cent.
- This largely reflects projected increases in major ongoing Government of Canada transfers and new funding for early learning and child care, and home care and mental health.

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- Finally, the forecast for other non-tax revenue is based on projections provided by government ministries and agencies.
- The outlook for other non-tax revenues is projected to increase by $0.4 billion between 2016–17 and 2019–20, or at an average annual rate of 0.7 per cent.
- This increase mainly reflects:
    - Fiscally neutral revenues from carbon allowance proceeds starting in 2017–18
    - Fees, donations and other revenues for the broader public sector, and
    - Revenues from vehicle and driver registration fees.
- This is partially offset by lower revenues due to the removal of the debt retirement charge from commercial, industrial and all other electricity users in 2018–19, and the projected net impact of the government's planned asset optimization strategy.
- Notably, the increase in Ontario's revenue is not attributable to increases in personal tax returns.

Expenses:

- Let me now address expenses.
- The Public Accounts for 2016–17 show that total spending was $141.7 billion, $100 million lower than the 2016 Budget projection.
- Program spending expenses accounted for $130 billion.
- Interest on debt, at $11.7 billion, was down $0.7 billion from the 2016 Budget projection.

- Going forward, program expenses are projected to grow from $130 billion in 2016–17 to $144.2 billion in 2019–20.
- This represents an average annual growth rate of 3.5 per cent.
- Growth in program expenses over the medium term is driven by investments to help the people of Ontario, such as health care, supports for seniors, the

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introduction of pharmacare for children and youth under OHIP+, electricity cost relief programs under the Fair Hydro Plan, and new initiatives for small businesses that will lower costs and support growth.

- Interest on debt expenses is projected to grow from $11.7 billion in 2016–17 to $13.3 billion in 2019–20.
- This increase is due to borrowing for capital spending and interest rates that are forecast to rise.
- This represents an average annual growth rate of 4.2 per cent.
- Interest on debt is projected to grow due to borrowing for capital spending and interest rates that are forecast to rise.
- Total expenses are projected to grow from $141.7 billion in 2016–17 to $157.4 billion in 2019–20.
- This represents a manageable average annual growth rate of 3.6 per cent.

Balancing Revenues and Expenses:

- Let me summarize the revenues and expenses together.
- Revenue is forecast to increase from $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- Total expenses are projected to increase from $141.7 billion to $157.4 billion over the same period.
- Based on these estimates, the Ontario government will effectively balance the budget over the next four years.

Funding Programs, Investing in Infrastructure, Promoting Growth:

- Through targeted, measured and fiscally responsible decisions, Ontario has restored its fiscal and economic strength.
- Strategic investments have helped stimulate the Ontario economy to rise from the depths of recession.

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- Over the past three years, Ontario's economy has grown faster than Canada's and that of all other G7 countries.
- The benefits of balanced budgets and a strong economy are already providing the government with the fiscal flexibility to do more to help Ontarians.
- This flexibility enables the government to provide more investments to spur economic growth, job creation and support services people use every day.
- Notable program investments include:
    - $145 million in annual funding to increase the accessibility and affordability of high-quality licensed child care and early learning opportunities
    - $245 million over three years to lower costs for small businesses
    - $155 million over three years to support seniors to remain independent, connected, engaged, healthy and safe
    - $245 million over three years to lower costs for small businesses, create opportunities for growth and simplify their interactions with government.
    - An increase of $1 million in 2017–18 — and then $5 million in 2018–19 and beyond — to provide additional funding through the Northern Communities Grant component of the Ontario Municipal Partnership Fund.

- Growth in program expenses also includes investments in infrastructure.
- In fact, Ontario is making the biggest investment in public infrastructure in its history.
- The government's long-term infrastructure plan to invest about $190 million over 13 years, starting in 2014–15, will contribute to the growth of the economy.
- The government's historic investment in infrastructure includes:
    - $31.5 billion over 10 years for public transit, transportation and other priority infrastructure projects across Ontario
    - $11 billion over 10 years in capital grants to school boards, and
    - $900 million over 10 years for critical maintenance repairs and upgrades.

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- These investments will not only create jobs, support business innovation and help draw investors from abroad — they will also contribute to the provincial economy growing at a faster rate than the change in its net debt.
- Investments such as these have helped to stimulate the Ontario economy, which has continued to grow despite an uncertain global climate.
- From 2014 to 2016, Ontario outpaced all G7 countries with its real GDP growth.
- As the result of a balanced budget and Ontario's strong economic growth, the net debt-to-GDP ratio is declining.
- In the 2017 Budget, the Ontario government set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24. The government is now projecting to meet this target a year earlier.
- We continue to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.

Conclusion:

- In September, the Public Accounts of Ontario 2016–17 reported that the 2016–17 deficit was $1.0 billion, an improvement of $3.3 billion from the $4.3 billion projection in the 2016 Budget.
- Total revenue for 2016–17 came in at $140.7 billion, which was $2.2 billion higher than the 2016 Budget.
- This was largely due to higher-than-expected tax revenues, the optimization of government business enterprises and transfers from the Government of Canada and other non-tax revenue.
- Total spending for 2016–17 came in at $141.7 billion, which was $0.1 billion lower than the 2016 Budget.
- Program spending was $130.0 billion, up $0.6 billion from the plan of $129.4 billion.

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- Spending in health, children's and social services, and other programs was higher than planned.
- Interest on debt expense was $11.7 billion, $0.7 billion below the plan of $12.4 billion, due mainly to lower-than-forecast interest rates, and cost-effective borrowing and debt management.
- In conclusion, the Ontario government is on track to balance the budget this fiscal year — 2017–18 — as well as the next two fiscal years.
- Prudently managing the province's finances is one of my ministry's responsibilities to the people of Ontario.
- Thank you.

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LONG-FORM MEMBER QUESTION: CREDIT RATING

DEPUTY MINISTER SCOTT THOMPSON

Question:

- What are the plans to keep Ontario's credit rating in good standing?

Answer:

- TBD: Revisions based on updates related to Q3 Finances, once available.

Introduction:

- Following the release of the 2017 Ontario Budget, four credit rating agencies – Moody's, DBRS, Standard & Poor's and Fitch – confirmed Ontario's healthy long-term credit ratings. This reflects rating agencies' confidence in the Government's fiscal plan – and its ability to grow Ontario's economy and create jobs for Ontarians.
- Let me summarize the reports by each of the credit rating agencies.

- First, Moody's.
- Moody's cautioned that the Ontario Fair Hydro Plan, announced in March 2017 to reduce electricity prices, adds credit pressure due to the direct financial impact of the sales tax rebate and the indirect impact of an elevated debt of a provincially owned entity.
- Overall, however, Moody's said its stable outlook for Ontario "reflects Moody's forecast that, as the province moves towards and achieves balanced budgets,

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the province's debt burden will improve marginally and interest expense will remain manageable across the medium-term….The policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices outlined above, has helped to support the province's Aa2 rating."

- Moody's positive outlook for Ontario's credit rating is based on the following credit strengths: prudent debt management, an institutional framework providing significant fiscal policy flexibility, and a large diversified economy supporting a broad and productive tax base.

- Next, DBRS.
- DBRS noted that Ontario's credit profile is stable, but it will remain vulnerable to an economic shock in the absence of a more concerted effort to reduce debt.
- DBRS also commented on the potential downside risks to the economic outlook due to uncertainty regarding the potential renegotiation of NAFTA and U.S. tax policy, as well as political integration in Europe.
- Finally, it noted that elevated household debt and housing market dynamics leave Ontario particularly vulnerable in the event of an unforeseen shock that results in significant job losses or a rapid increase in interest rates.
- Despite these concerns, DBRS expects Ontario's credit ratings to remain stable.
- DBRS said of Ontario, its "ratings remain well supported by the province's large and diversified economy, improving budgetary results and declining debt burden" and that "the return to balance is encouraging and suggests that there will likely be some modest improvement in the Province's credit metrics over the medium term."
- DBRS concluded by saying that Ontario's stable credit profile stems from strength in the underlying economy, which provided incremental revenue more than sufficient to offset the in-year spending pressures.

- Standard & Poor's is next.

- Standard & Poor's believed that Ontario's credit profile is strengthening.
- But before considering a positive rating action, they would need to see sustained improvement in budgetary performance leading to near-balanced after-capital results, coupled with ongoing declines in the tax-supported debt burden, making Ontario's finances more comparable with peers in the 'AA' category.
- Standard and Poor's said it "expects the province of Ontario to benefit from solid economic growth over the next two years, allowing it to generate additional revenues to fund its capital spending plan and stabilize its finances following its eight-year path back to a balanced operating budget."
- Standard & Poor's concluded by saying that its stable outlook reflects expectations that, within the next two years, the Province will sustain a more balanced budgetary performance, including steady liquidity metrics, modest after-capital deficits, and a high but slowly declining debt burden.

- Finally there is Fitch.
- Fitch's report stated that the Province has demonstrated the ability to exert considerable expenditure restraint while instituting revenue changes to achieve its deficit reduction objectives.
- It said Ontario's 'AA-' rating is supported by its wealth, diversified economy and generally sound financial management.
- Fitch's rating reflected the Province's very strong and diversified economy, strong financial management, very predictable and well-balanced institutional framework and low contingent liabilities.
- Ontario's credit profile is stable.

- For Ontario's credit profile to grow in strength, the Province will need to do several things.
- It will need to show a track record of consistent operating surpluses and balanced or near-balanced after-capital results, coupled with continuing declines in direct and tax-supported debt burdens.

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- **To that end, Ontario has the following plan to ensure that its credit rating remains in good standing.** It is:
    - Optimizing assets and revenues without causing undue tax burdens on Ontarians.
    - Managing expenses without detracting from the quality of social and health services.
    - Balancing revenues and expenses against each other to manage the debt, and
    - Maintaining a reserve fund to mitigate unforeseen financial risks.
- I will now go into more detail on each of these points.

Revenues:

- Total revenues for 2016–17 were $140.7 billion, $2.2 billion higher than the 2016 Budget.
- Additionally, Ontario's total revenues are projected to grow from $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- This represents an average annual growth rate of four per cent.
- The higher revenues for 2016–17 and the projected growth of revenues through 2019–20 are largely due to three factors:
    - Higher-than-expected tax revenues.
    - Income from government business enterprises and fees, and
    - Transfers from the Government of Canada and other non-tax revenue.
- Growth in revenues over the medium term is driven mainly by taxation revenue, which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent. The taxation outlook reflects current revenue information and projections for the Ontario economy. Tax revenues were $293 million higher than projected in 2016–17, mainly due to higher-than-expected Harmonized Sales Tax revenue, reflecting stronger growth in Ontario household expenditures.

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- The Government of Ontario is also implementing a multi-year strategy to optimize its assets and maximize its revenues through the sales of Hydro One, LCBO head office lands and Ontario Power Generation's head offices. The total amount credited to the Trillium Trust as of March 31, 2017 is $5.3 billion. The net revenue gains from the sale of qualifying assets will be credited to the Trillium Trust for infrastructure investments, such as roads, bridges and public transit, under the Moving Ontario Forward plan. In 2016–17, the Trillium Trust was drawn down by approximately $260 million to help support these projects.
- Finally, Ontario received larger Government of Canada transfers — $145 million higher. This increase reflected new funding for early learning and child care flowing from a bilateral agreement between Ontario and the federal government, as previously reported in the 2017–18 *First Quarter Finances*.
- Notably, the increase in Ontario's revenue is not attributable to increases in personal tax returns.

Expenses:

- Ontario's total spending for 2016–17 was $141.7 billion, $100 million lower than the 2016 Budget.
- Program spending expenses accounted for $130.0 billion.
- Interest on debt expense accounted for $11.7 billion – $0.7 billion below the plan of $12.4 billion.
- This drop was due mainly to lower-than-forecast interest rates, and Ontario's cost-effective borrowing and debt management.
- Going forward, Ontario program expenses are projected to grow from $130.0 billion in 2016–17 to $144.2 billion in 2019–20.
- This represents an average annual growth rate of 3.5 per cent.
- Interest on debt expenses is projected to grow from $11.7 billion in 2016–17 to $13.3 billion in 2019–20.
- This represents an average annual growth rate of 4.2 per cent.

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- Total expenses are projected to grow from $141.7 billion in 2016–17 to $157.4 billion in 2019–20.
- This represents a manageable average annual growth rate of 3.6 per cent.
- These increases align with the government's plans for modernizing the public services people rely on every day.
- They are also fiscally sustainable.
- In short, the Ontario government has been managing its program expenses as well as its interest-on-debt expenses.

Balancing Revenues and Expenses:

- To bring the revenues and expenses together…
- Revenue is forecast to increase from $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- Total expenses are projected to increase from $141.7 billion to $157.4 billion over the same period.
- Based on these estimates, the Ontario government will effectively balance the budget over the next four years.

The Reserve:

- I will now take a moment to address the Province's financial reserve and contingency funds.
- As required under the *Fiscal Transparency and Accountability Act*, Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes in revenue and expenses.
- The current fiscal outlook includes a reserve of $0.5 billion in 2017–18, $0.5 billion in 2018–19 and $0.8 billion in 2019–20.
- The current outlook also maintains contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance — particularly in cases where health and safety may be compromised, services to the most vulnerable are jeopardized, or natural disasters occur.

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Conclusion:

- Credit ratings provide an assessment of a government's credit-worthiness.
- They are a reflection largely based on its capacity to generate revenue to service its debt.
- They consider factors such as a government's economic resources and prospects, industrial and institutional strengths, financial health, and susceptibility to major risks.
- As you know, a credit rating affects the cost of future government borrowing with a lower rating, indicating that an agency believes there is a relatively higher risk that a government will default on its debt.
- Accordingly, investors will lend to the government only in return for a greater risk premium, in the form of higher interest rates.
- A rating downgrade could also shrink the potential market for a government's debt, because some investors will not hold debt below a certain rating.
- Therefore, it is critical that Ontario maintain its credit rating in good standing to manage its debt and preserve its fiscal health.
- Ontario's plan to keep its credit rating in good standing involves the following strategies:
    - Optimizing assets and revenues without causing undue tax burdens on Ontarians.
    - Prudently managing expenses without diminishing the quality of Ontario's services and programs.
    - Balancing revenues and expenses against each other to manage the debt, and
    - Preserving a reserve fund to mitigate unforeseen financial risks.

- Seen as a whole, these strategies will ensure confidence in Ontario's credit-worthiness through its ability to effectively manage its debt obligations.

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- Protecting the financing of Ontario's public services will continue to be one of my ministry's highest priorities.
- Thank you.

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LONG-FORM MEMBER QUESTION: DEBT MANAGEMENT

DEPUTY MINISTER SCOTT THOMPSON

Question

- What is Ontario's debt management plan?

Answer

- TBD: Revisions based on updates related to Q3 Finances, once available.
- The Ministry of Finance has a track record of responsible fiscal management and remains committed to executing the government's goal of reducing the provincial debt burden.
- The government's plan to manage the debt focuses on three key areas:
    - Decreasing the net debt-to-GDP ratio.
    - Decreasing the interest on debt-to-revenue ratio.
    - Utilizing term extensions.
- I would like to provide an update of progress on this goal.

Net Debt-to GDP Ratio:

- A key indicator of the government's ability to manage its debt is the level of debt relative to the size of the economy, known as the net debt-to-GDP ratio.
- The ratio of net government debt to the market value of goods and services produced by an economy — known as gross domestic product or GDP — measures the relationship between a government's debt obligations and its capacity to raise the funds needed to meet them.
- It is an indicator of the relative burden of government debt on the economy.

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- If the amount of debt that must be repaid relative to the value of the GDP is rising — in other words, if the ratio is rising — it means the government's net debt is growing faster than the provincial economy, and becoming an increasing burden.

- Before considering Ontario's net debt-to-GDP ratio, let me first discuss the components.
- First, I want to address Ontario's net debt situation.
- Ontario's net debt increased from $295.4 billion as of March 31, 2016 to $301.6 billion as of March 31, 2017.
- It is projected to increase to $311.7 billion by March 31, 2018 and to $323 billion by March 31, 2019.
- About 62 per cent of the increase in net debt from 2008–09 to 2016–17 was due to the deficit.
- The remaining net debt increase was a result of investments in capital assets.
- Balanced budgets from 2017–18 onwards will ensure that increases in net debt will be limited to net investments in capital assets such as roads, bridges, hospitals and schools.
- In other words, the net debt is increasing at a manageable rate, and a smaller portion of it is collected from the deficit.

- Next, let me briefly address the GDP.
- The government's investments in capital assets increased economic growth and helped support Ontario's GDP to advance more quickly than debt, helping the government achieve its net debt-to-GDP targets.
- Over the past three years, Ontario's economy has grown faster than Canada's and that of all other G7 countries.
- In fact, Ontario's real GDP is now 21.3 per cent above its recessionary low.
- Over the 2017–20 period, the Ministry of Finance is forecasting average annual growth of 2.2 per cent in Ontario's real GDP.

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- Government investments have helped stimulate the Ontario economy to rise from the depths of the recession, and it is now enjoying a period of economic strength and growth.

- I briefly addressed the net debt and GDP situations separately; now let me bring them together.
- The 2017 Fall Economic Statement reported that Ontario's net debt-to-GDP ratio is lower than previously forecast.
- The net debt-to-GDP ratio peaked at 39.3 per cent in 2014–15 and has been declining ever since, as a result of Ontario's economic growth and the government's progress towards a balanced budget in 2017–18.
- It is now projected to be 37.3 per cent at the end of fiscal 2017–18, 0.2 per cent lower than was forecast in the 2017 Budget.
- This ratio is projected to continue to decline to 37.1 per cent in 2018–19.
- In the 2017 Budget, the government set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24, and re-stated its commitment to reduce the net debt-to-GDP ratio to its pre-recession level of 27 per cent by 2029–30.
- A declining net debt-to-GDP ratio, together with low interest on debt costs as a percentage of revenues, positions the province for long-term sustainability.
- It also allows for a greater proportion of government spending to be invested in programs and services.

- The reduction of debt is complemented by Ontario's investments in infrastructure, which are supporting economic growth and job creation.
- In fact, Ontario is making the biggest investment in public infrastructure in its history.
- The government's long-term infrastructure plan to invest about $190 million over 13 years, starting in 2014–15, will contribute to the growth of the economy.

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- These investments will not only create jobs, support business innovation and draw investors from abroad — they will also contribute to the growth of the provincial economy at a faster rate than the change in its net debt.
- The positive impact of these capital investments on the province's economy was confirmed by the Centre for Spatial Economics.
- It recently reported that, over the long term, GDP in Ontario increases by up to $6 for every dollar of public infrastructure spending.
- The government's economic strategy was further supported in a report by the International Monetary Fund in June 2016, which recommended that Canadian "fiscal policy should be pro-growth."
- Christine Lagarde, the International Monetary Fund's Managing Director, expressed her support for the government's growth strategy and agreed that investment in infrastructure should be an essential element.
- In summary, Ontario's net debt-to-GDP ratio will gradually diminish due to the GDP increasing at a faster rate than net debt.
- This will allow the government to continue to move towards its 27 per cent net debt-to-GDP target.

Interest on Debt-to-Revenue Ratio:

- Another major thrust of Ontario's plan to manage its debt centres on the interest on debt-to-revenue ratio.
- This is another key indicator of the government's ability to meet its financial obligations.
- Through prudent and cost-effective debt management, the government has consistently kept interest on debt costs below budget projections.
- The 2016–17 Public Accounts show that Ontario's deficit for the last fiscal year was $991 million — $3.3 billion lower than projected in the 2016 Budget and half a billion lower than the interim deficit projection in the 2017 Budget.
- This smaller-than-projected deficit is due to stronger revenues, and reflects positively on the debt-to-revenue ratio.

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- Ontario's interest on debt for 2017–18 is forecast to be $12.2 billion.
- The interest on debt-to-revenue ratio is forecast to be 8.2 per cent in 2017–18, 8.3 per cent in 2018–19 and 8.4 per cent in 2019–20.
- The savings on interest on debt have improved a key measure of the affordability of debt.
- For example, the 2010 Budget forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- By the 2017 Budget, the amount needed for interest payments had dropped significantly.
- The current forecast is 3.1 cents lower — 8.2 cents of interest costs for every dollar of revenue.
- This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through Ontario's outlook period to 2019–20.

Term Extension on Debt:

- Finally, record-low interest rates have enabled the government to keep its annual interest expense steady.
- However, the global decline in interest rates over the last 25 years could not continue indefinitely.
- The Bank of Canada has increased interest rates — twice last year and already once this year.
- Ontario has taken necessary precautions to protect the financing of the province's public services, now that interest rates are widely understood to be on a net rising trajectory.
- To protect the province from these increases, the government has continued to extend the term of its debt.
- Term extension has allowed the government to lock in low interest rates for a longer period, which reduces refinancing risks.
- Extending the term also helps offset the impact of expected higher interest rates on interest on debt costs.

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- Going back to the beginning of fiscal 2010–11, Ontario has issued $68.6 billion in bonds longer than 30 years to lock in low rates.
- As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008–09 to 13.9 years in 2016–17.
- For 2017–18, it stood at 12.8 years as of October 31, 2017.
- If or when interest rates continue to rise, the government will assess whether it will remain cost-effective over the long term to continue to extend the term of its debt.

Conclusion:

- As I said at the outset, the Ontario government has a track record of responsible fiscal management and remains committed to executing its goal of reducing the provincial debt burden.
- To conclude, the government's plan to manage the debt focuses on three key areas:
    - One, decreasing the net debt-to-GDP ratio.
    - Two, decreasing the interest on debt-to-revenue ratio.
    - And three, extending the term on its debt.
- As I have stated, the government has decreased the net debt-to-GDP ratio.
- In the 2017 Budget and the 2017 Fall Economic Statement, Ontario stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected for 2029-2030, together with an interim target of 35 per cent by 2023-2024.
- I also explained how the government has decreased the interest on debt-to-revenue ratio.
- The 2010 Budget forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- However, by the 2017 Budget, the amount needed for interest payments had dropped.

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- The current forecast is 3.1 cents lower — at 8.2 cents of interest costs for every dollar of revenue.
- Finally, I explained how the government has taken advantage of low-interest rates and extended the term on its debt.
- The weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008–09 to 13.9 years in 2016–17, and 12.8 years for 2017–18 as of October 31, 2017.
- In short, Ontario's economy remains strong.
- Protecting the financing of the province's public services will continue to be one of the government's highest priorities.
- Thank you.

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LONG-FORM MEMBER QUESTION: FAIR HYDRO PLAN

DEPUTY MINISTER SCOTT THOMPSON

Question:

- What is the financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budget?

Answer:

- As Deputy Minister of the Ministry of Finance, I will speak specifically to the financial implications of the Fair Hydro Plan on the Province's budget and financial statements.

Ontario's Fair Hydro Plan

- To address issues related to rising electricity costs, especially for families and small businesses, the government announced Ontario's Fair Hydro Plan on March 2, 2017.
- As part of the plan, electricity bills were reduced by 25 per cent on average, or about $41 per month, for all Ontario residents as of July 1, 2017.
- The plan included several important measures.
- First, let me discuss the refinancing of the Global Adjustment.
- The Global Adjustment is the cost of building new electricity infrastructure in the province and maintaining existing resources.
- The majority of the province's electricity generators currently have 20-year contracts.
- Many of these generators will be able to operate past their contract term.

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- In other words, they would still generate electricity after the upfront capital costs have been paid for by the current generation of ratepayers.
- The Government of Ontario believed that present-day consumers should not be burdened with paying for a disproportionate share of investments that provide benefits for decades to come.
- To relieve the current burden on ratepayers, and share costs more fairly, a portion of the Global Adjustment is being refinanced over a longer period.
- This is providing significant and immediate rate relief to ratepayers by spreading the cost of electricity investments over time, to better reflect the expected lifecycle of the infrastructure that has been built.
- According to estimates provided when the Fair Hydro Plan was announced, the immediate reduction in the Global Adjustment would be about $2.5 billion per year, on average, over the first 10 years.

- Second, the plan included an expansion of the Industrial Conservation Initiative or ICI.
- The ICI allows participating customers to manage their Global Adjustment costs by reducing demand during peak periods.
- Customers who participate in the ICI, referred to as Class A, pay Global Adjustment based on their percentage contribution to the top five peak Ontario demand hours over a 12-month base period.
- Ontario expanded eligibility for the ICI program by reducing the threshold from 1 MW to 500 kW.
- This measure allows small manufacturers and industrial consumers the opportunity to participate in the ICI and save on their electricity costs.

- A third component of the plan is Ontario’s rebate for electricity consumers.

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- The government provided an eight per cent Ontario Rebate for Electricity Consumers on electricity bills, equivalent to the amount of the provincial portion of the Harmonized Sales Tax.
- This change was effective January 1, 2017.

- A fourth and important part of the plan allows future increases to hydro bills to be set by regulation.
- This enables the government to hold increases, for four years, to the rate of inflation.
- While rates will rise gradually over time, the government remains committed to avoiding sharp increases.

Assisting the Most Vulnerable Electricity Consumers

- The government has introduced other measures to help the most vulnerable electricity consumers.
- It did this by introducing legislation to enhance some existing programs or introduce new initiatives.
- In particular it enhanced the Ontario Electricity Support Program.
- The Ontario Electricity Support Program is an income-tested, application-based program that lowers electricity costs for the most vulnerable consumers.
- In practice, it provides them with a rebate directly on their bills.
- Effective May 1, 2017, Ontario increased the program by 50 per cent, meaning that single, low-income consumers would get an increase in their rebates ranging from $180 to $276 per year.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $140 million in 2017–18.
- This amount will be covered by provincial revenues.

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- As well, as part of the plan, Ontario has enhanced the Rural or Remote Rate Protection Program, or RRRP.
- The RRRP provides a rate subsidy to rural and remote residential customers who face higher distribution costs.
- As part of the Ontario Fair Hydro Plan, the Province expanded the program to provide distribution delivery charge relief to about 800,000 customers.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $344 million in 2017–18, which will also be covered by provincial revenues.
- Ontario is also helping customers through local distribution companies.

- In October 2017, the Province launched the $100 million Affordability Fund.
- The Affordability Fund provides local distribution companies with an additional tool to help customers in need.
- Local distribution companies can use the fund to provide support to qualifying customers for energy efficiency improvements, to help them reduce their future electricity bills.
- The Affordability Fund is paid through provincial revenues.

- Finally, Indigenous communities in Ontario are also receiving assistance through the First Nations On-Reserve Delivery Credit.
- In 2016, the Ontario Energy Board engaged with First Nations, including remote communities, the distributors serving them and consumer groups.
- Following the engagement process, the board recommended to the Government of Ontario the elimination of the delivery charge for all on-reserve First Nations residential customers.
- The board also recommended removing the monthly service charge for customers of licensed distributors that charge a bundled rate.

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- The board estimates this would provide residential customers an average monthly benefit of $85.
- According to the 2017 Provincial Expenditure Estimates, the credit is anticipated to cost $15 million in 2017–18, which will be funded by provincial revenues.

- In summary, these new measures will cost the government up to $2.5 billion over the next three years.
- The cost is about $500 million in 2017–18, based on a part-year implementation, according to the 2017 Provincial Expenditure Estimates.

Conclusion:

- Taken together, these changes are delivering the single-largest reduction to electricity rates in Ontario's history.
- For all residential consumers in the province, electricity bills have been reduced by 25 per cent on average, or about $41 per month, as of July 1, 2017.
- People with low incomes and those living in eligible rural or remote communities are receiving even greater reductions, as much as 40 to 50 per cent.
- Approximately 500,000 small businesses and farms are also benefitting from the changes.
- On-reserve First Nation residential customers of licensed distributors are getting a 100 per cent credit on the delivery line of their bills.
- Although hydro rate relief costs were additions to the fiscal framework, the government continues to project a balanced budget for 2017-18, and will provide a full update on its fiscal plan in the spring budget.

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TIPS FOR PRESENTING AT SCOPA

Tips for Addressing Committee Members:

Note: Tips are applicable for addressing both Committee Members and media.

- When speaking be mindful of what you say – the proceedings are recorded and there's no such thing as "off the record."

- Adhere to the scripted remarks and prepared Q&As. Do not embellish and ***when in doubt, leave it out.***

    - Be sure you understand the question being asked (it's ok to ask for clarification) and Do NOT answer something you're not 100% sure of.

- If you do not have the response, you may advise Committee Members that the matter needs to be redirected to another ministry, or that you will get the requested information by saying, "I'll look into what is possible to provide."

- Be mindful of only addressing questions/issues that relate directly to the TBS.

- It is acceptable to decline to answer an unrelated question by noting that you are not clear of its relevance to TBS, and that you are prepared to address matters related to the ministry.

- If caught off guard, breathe, listen, work to understand the question, or ask for clarification.

    - Ask the questioner 'Excuse me' or 'I beg your pardon?'
    - Ask the questioner 'Can you kindly help me understand the context of the question/or what you just said?'

- If possible, use a bridging statement to get to your key message/prepared response. (See Appendix A).

- Do not offer personal opinions. Stick to the facts:

    - Leave off qualifiers like "I think" "I feel," and "I believe" which represents an opinion. To sound confident and assured, be mindful not to use qualifiers.
    - Do not use 'I assure you."

- Offer examples of success whenever possible.

Body Language, Tone:

- Be aware of how you come across. There is no benefit to being seen as defensive, argumentative, or unresponsive.

- Project an image of openness, honesty, and empathy.

- Remember to breathe deeply and speak slowly.

    - Controlling your breathing helps deal with the stress.
    - Take several deep breaths as you sit down and get organized.
    - Ahead of appearance take a few minutes in a quiet spot to breathe slowly and deeply.
    - "Super Hero Pose" – stand with your legs shoulder width apart, hands on hips, shoulders back. Do this for two minutes. It helps mentally prepare you ahead of having to speak.

- Use your hands while talking to look natural and help release anxiety. (Note palms up is a subconscious message to those looking at you that you are open and have nothing to hide)

- Avoid body language leakage—those involuntary movements that indicate you're nervous or stressed - e.g. head nodding, swallowing, and pursing your lips.

- Do not touch your face with your hands.

- Avoid repeating negative words that members use in questions. Doing so indicates you accept the negative premise.

- If you feel overwhelmed while speaking in front of an audience, recalibrate by breathing and pausing.

What-Ifs:

1. What if you don't want to answer the question, but you have to say something?

    - Offer a credible reason why you are unwilling to answer the question and identify what you prefer to discuss.

2. What if you're asked for hard numbers, and you don't have the answer?

- Explain, “I want to be absolutely precise and specific, so I will need to get back to you with the exact number”

- Words like “precise,” “specific,” and “exact” convey that the question has been taken seriously.

3. What if you don’t know the answer, but a colleague who is with you may know it?

   - If you need help from the other ADMs, open your response with ‘In a moment I’m going to call on my colleague to get into more detail about this…’ This gives the other TBS representative time to know they’ll be called upon.

   - Briefly discuss a related subject, then pass the question.

4. What if you need to pause?

   - If you have said absolutely everything you need to say, then let there be a pause.

   - Remember it’s not up to you to keep the proceedings going. That’s the Chair’s job. They may intentionally leave dead air in the hopes that you’ll jump in to fill it by saying something you hadn’t intended to.

5. What if the answer is confidential?

   - Explain that confidentiality rules must be respected, so you cannot directly address the issue at hand. (e.g.: that matter is before the courts).

6. What if it’s a question about a rumour?

   - When asked to respond to a rumour, it is best to not respond at all. Instead, state that your focus is always on fact, not rumour.

7. What if the answer is HR related?

   - Say as little as possible. Commenting on someone’s employment record in a negative context can potentially put you in legal jeopardy.

8. What if you don’t like what you’re saying?

   - Don’t feel obligated to complete a sentence or thought. Simply begin the response again.

9. What if it’s a “yes or no” question?

- Unless the question relates to a sensitive issue, skip “yes” or “no” and go right to the message that would follow.

10. What if it's an "is it possible" question?

    - Avoid speculating and tell the committee – "I'm not able to comment on something that may or may not happen."

11. What if you're interrupted mid-answer?

    - The first time, let it go. The second time, ask the Chair to be allowed to finish your thought.

APPENDIX

A. Sample Bridging Statements

1. "We find the more important issue is…"
2. "I think it would be more accurate (or correct) to say…"
3. "Let me emphasize again…"
4. "What matters most in this situation is…"
5. "While _____ is important, it's also important to remember that…"
6. "It all boils down to this…"
7. "And that reminds me…"
8. "Before we leave this subject, I need to add…"

Attachment A. 2017 Annual Report Chapter 2_Public Accounts of the Province (0 Bytes) cannot be converted to PDF format.

Attachment B. 2017 Special Report on Fair Hydro Plan (0 Bytes) cannot be converted to PDF format.

Security settings or invalid file format do not permit using AG 2017_Chapter 2.pdf (721675 Bytes).

Security settings or invalid file format do not permit using AG 2017_News Release_Chapter 2.pdf (136845 Bytes).

Security settings or invalid file format do not permit using AG 2017_Summary_Chapter 2.pdf (72105 Bytes).

Security settings or invalid file format do not permit using AG 2017 Report on Fair Hydro Plan.pdf (1323405 Bytes).

From:	Marijana.Corluka@ontario.ca on behalf of Orsini, Steve (CAB)
To:	Veinot, Cindy (TBS); Karen Hughes (MGS); Scott Thompson (CAB); Gadi Mayman; Len Hatzis (MGS); Sean Kearney (MGS); William Bromm (CAB); Helen Angus (MOHLTC)
Cc:	Ken Kandeepan
Subject:	MATERIAL: Pension Assets I SoC, William Bromm, Scott Thompson, Helen Angus, Karen Hughes, Cindy Veinot, Len Hatzis, Sean Kearney, Ghadi Mayman
Attachments:	Pension Asset Expert Advisory Panel_Next Steps_Oct 14 2016.pptx

TBS

OPCD

Pension Asset Expert Advisory Panel

Next Steps

October 14, 2016

Decisions to make

- Panel
  - Number of members
  - Members
  - Chair (and role of chair in decision making)

- Support for panel
  - Report writer
  - Project management
  - Legal support

- Using the results of the report from the Panel

- Other

Composition of Panel

3 Person Panel (all have confirmed interest)
Accounting expert – **Bill Matthews** (Comptroller General Canada)
Actuarial expert - **Uros Karadzic** (Partner EY; member PSAB Task Force)
Governance expert – **Murray Gold** (Partner – Koskie Minsky)

4 Person Panel – 3 person + Chair (interest of all potential chairs not yet confirmed)

Chair – Options under consideration:

Jim Leech – former CEO OTPP

Tricia O'Malley – Accountant, former partner at KPMG, former standard setter

Sheila Fraser – Accountant, former Federal Auditor General

David Smith – Accountant, former Chairman of PwC Canada

Considerations for selection of chair:

- Spokesperson for the panel
- Should the chair be an accountant given the nature of the issue
- Potential conflicts

Support for panel – report writer

- Report writer – requirements:
  - Knowledge of pension accounting and actuarial modelling
  - Writing skills

- Considerations
  - PwC – lead by Lucy Durocher
    - Advisor to province on issue – working on comprehensive position paper but not issuing an opinion – consider whether conflicted
    - Knowledgeable on plans and issues
    - Member of PSAB Task Force
  - Panel hires independent consultant
    - OPS will complete pre-work for procurement of another firm

Support for panel – project management

- Short timeline – Report due by December 31, 2016

- Role
  - Coordination and scheduling
  - Liaison with Province
  - Interim reports
  - Coordination with TBS communications re: final report
  - Administrative reporting

- Potential candidates
  - Process in place to identify senior manager/director from OIAD, supported by others as necessary

Support for panel – legal support

- Existing opinions
  - MAG
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Anne Soh (Actuary – OMERS)		Yes		No
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- Christine has authored papers on pension related topics

From:	Marijana.Corluka@ontario.ca on behalf of Orsini, Steve (CAB)
To:	Veinot, Cindy (TBS); Karen Hughes (MGS); Scott Thompson (CAB); Gadi Mayman; Len Hatzis (MGS); Sean Kearney (MGS); William Bromm (CAB); Helen Angus (MOHLTC)
Cc:	Ken Kandeepan
Subject:	MATERIAL: Pension Assets I SoC, William Bromm, Scott Thompson, Helen Angus, Karen Hughes, Cindy Veinot, Len Hatzis, Sean Kearney, Ghadi Mayman
Attachments:	Pension Asset Expert Advisory Panel_Next Steps_Oct 14 2016.pptx

TBS

OPCD

Pension Asset Expert Advisory Panel

Next Steps

October 14, 2016

Decisions to make

- Panel
  - Number of members
  - Members
  - Chair (and role of chair in decision making)

- Support for panel
  - Report writer
  - Project management
  - Legal support

- Using the results of the report from the Panel

- Other

Composition of Panel

3 Person Panel (all have confirmed interest)
Accounting expert – **Bill Matthews** (Comptroller General Canada)
Actuarial expert - **Uros Karadzic** (Partner EY; member PSAB Task Force)
Governance expert – **Murray Gold** (Partner – Koskie Minsky)

4 Person Panel – 3 person + Chair (interest of all potential chairs not yet confirmed)

Chair – Options under consideration:

Jim Leech – former CEO OTPP

Tricia O'Malley – Accountant, former partner at KPMG, former standard setter

Sheila Fraser – Accountant, former Federal Auditor General

David Smith – Accountant, former Chairman of PwC Canada

Considerations for selection of chair:

- Spokesperson for the panel
- Should the chair be an accountant given the nature of the issue
- Potential conflicts

Support for panel – report writer

- Report writer – requirements:
  - Knowledge of pension accounting and actuarial modelling
  - Writing skills

- Considerations
  - PwC – lead by Lucy Durocher
    - Advisor to province on issue – working on comprehensive position paper but not issuing an opinion – consider whether conflicted
    - Knowledgeable on plans and issues
    - Member of PSAB Task Force
  - Panel hires independent consultant
    - OPS will complete pre-work for procurement of another firm

Support for panel – project management

- Short timeline – Report due by December 31, 2016

- Role
  - Coordination and scheduling
  - Liaison with Province
  - Interim reports
  - Coordination with TBS communications re: final report
  - Administrative reporting

- Potential candidates
  - Process in place to identify senior manager/director from OIAD, supported by others as necessary

Support for panel – legal support

- Existing opinions
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From:	Ken Kandeepan
To:	Tim Schuurman (MOF); Selena Esmail (MOF)
Cc:	Lynsey Wynberg; Gadi Mayman
Subject:	MMP and Cabinet_Fiscal Strategy v5.pptx
Date:	Wednesday, February 08, 2017 12:48:55 PM
Attachments:	MMP and Cabinet_Fiscal Strategy v5.pptx

Hi Tim and Selina

With regard to slide 15 in the attached deck, Scott had a quick discussion with Gadi and suggested the following changes:

Remove the bullet at the top of the slide since the header clearly refers to balanced budgets. With regard to the box, no change for the description of the black line. For the second line the description should read as follows:

“Balanced budgets 2017-18 onwards and reversal of pension adjustment”.

Thanks

Ken k

2017 Document:
Fiscal Plan Strategy Update

Office of the Budget MINISTRY of FINANCE

TBS

OFFICE OF ECONOMIC POLICY
OEP
MINISTRY OF FINANCE

MMP, February 2016

Preliminary Draft (All numbers to be confirmed) – February 7, 2017 9:00 PM

Purpose

- To outline the frame, priorities, and approach to the 2017 Document.
  - Determine the fiscal anchors that will set the foundation and framework.
- Set the stage to determine the intersection point between key investments and the government's fiscal objectives, and the potential tools that could support this intersection point.
- Discuss next steps and key choices to be made as part of the planning process.

2017 Document – Framing and Anchoring

Framing the Balance of Choices for the 2017 Document

Build on Government's Plan, Demonstrate Progress, and Provide a Vision for Tomorrow

- Show progress on the government's plan to **invest in the economy and build Ontario up for everyone**.
- Demonstrate **responsible fiscal management**.
- Continue to **transform** and protect public services for longer term sustainability.

Confirm Recent Investments, Launch New Supporting Priority Investments

- Point to **2016 Budget investments**, as well as important **additional commitments** made in the 2016-17 year that demonstrate progress.
- Launch **select new priority investments** that create jobs and grow the economy of tomorrow.

Maintain Fiscal Credibility

- Continue to beat **deficit targets** and return the Province to **balanced budgets**.
- Moving forward, ensuring a **fiscally sustainable** and credible plan.

Reconciling and Balancing the Approach

- **Reconciling the government's fiscal anchors**, such as balancing the budget in 2017-18 and ongoing, **with the commitment to invest in priorities,** such as **additional electricity relief,** will require **trade-offs**.
- This means the scope, size and roll-out of new priority investments **may require the consideration of all viable revenue tools and other measures** in the lead-up to the 2017 Document.
- Need to maintain a longer-term view to the **2018 Document, Pre-Election Report** and beyond.

2017 Document: Determining Fiscal Anchors

- The 2014, 2015 and 2016 Budgets consistently laid out plans that balanced the government's plan to invest in the Ontario economy and public services, while also balancing the budget.

- As a continuation and culmination of these plans, the 2017 Document will need to be able to demonstrate progress on the government's plan to invest in today's jobs and tomorrow's economy, ensure Ontarians can count on key public services, and make Ontario an affordable place to live, while delivering on the **commitment to balance the budget in 2017-18**.

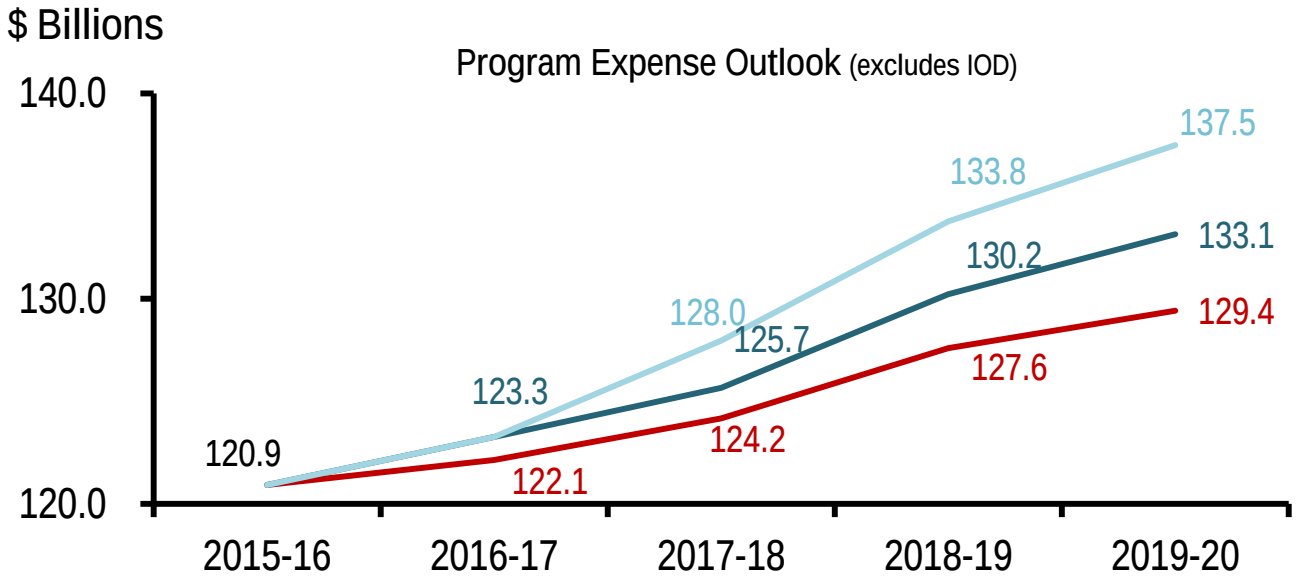
- As part of the planning for the 2017 Document, the government must confirm its **fiscal objectives and anchors – for the upcoming year (2017-18), as well as the two subsequent years –** in order to provide the right overall financial framing and envelope that will support new investments.

	2016 Budget Targets		Decision Required for 2017 Document	
Potential Fiscal Anchors	**2017-18**	**2018-19**	**2019-20**	Net debt-to-GDP target: Flat-lined or continued progress towards 27%
	Balance	Balance	Balance	

- With fiscal anchors and overarching objectives in place, the government will be in a position to determine the fiscal envelope available for new investments.
  - The fiscal envelope can also be augmented through additional tools and levers, as well as trade-offs between investments (including delaying some investments for the 2018 Document).
  - Revenue and expense information will continue to come in as part of the lead-up to the 2017 Document that could impact the fiscal envelope (e.g. Federal Budget).

Evolution of the Fiscal Plan Since 2016 Budget

Evolution of Fiscal Plan Since 2016 Budget

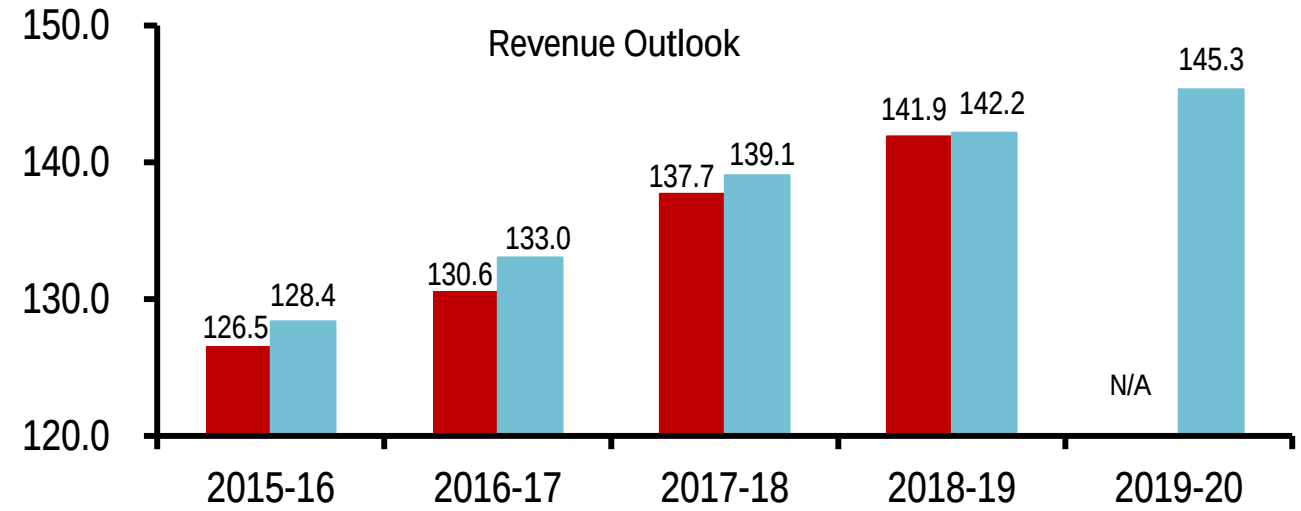


Additional Investments
(Includes Constrained Scalable
+ Constrained Above-Allocation PRRT
+ Additional Electricity Price Relief
+ $0.5 billion Savings Target)
3.7% Avg. Growth
2016-17 to 2019-20

Preliminary Allocations & In-year Approvals
2.6% Avg. Growth
2016-17 to 2019-20

2016 Budget Outlook
1.9% Avg. Growth
2014-15 Actual to 2018-19
(as published in 2016 Budget)

Current IOD	11.0	11.3	11.7	12.4	12.6
Reserve	--	0.4	0.7	0.8	1.0



Current Planning Outlook
3.0% Avg. Growth
2016-17 to 2019-20

2016 Budget Outlook
3.9% Avg. Growth
2015-16 to 2018-19
(as published in 2016 Budget)

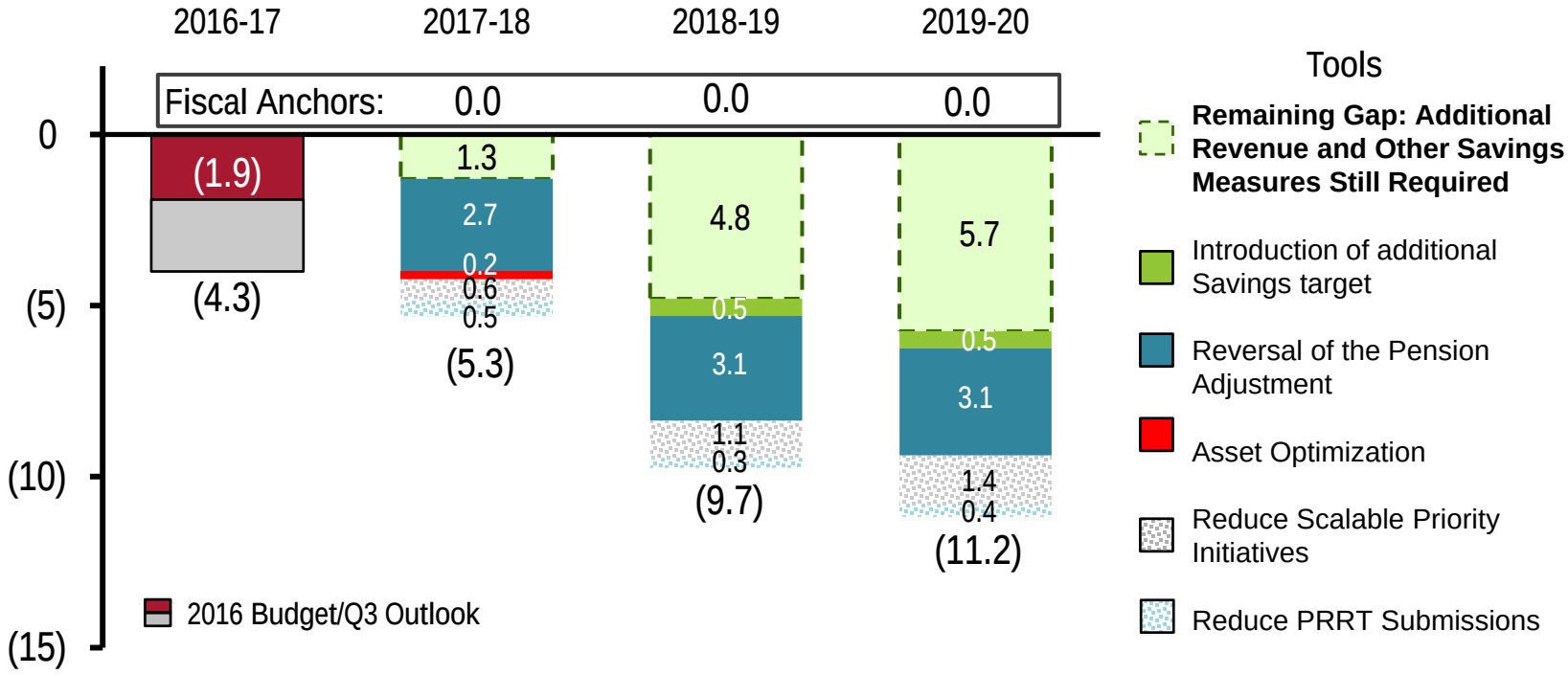
Assessing the Fiscal Challenge

While the 2016 Budget outlined a plan to balance the budget in 2017-18 and remain balanced in 2018-19, **changes since the Budget have created a gap compared to the government's fiscal targets.**

- A stronger outlook for revenue and lower interest on debt expense are currently tracking against the Budget forecast – **however, spending pressures, new strategic investments, and the pension adjustment have also materialized** – together creating a fiscal gap.

Some measures have already been identified to help close the gap – including reversal of the pension adjustment, scaling back PRRT requests and scalable initiatives, and higher savings targets.

However, **continuing to assume fiscal anchors of balanced budgets** over the forecast horizon **means a limited envelope for new investments, and the need to identify additional tools and levers.**



Note: Due to the asset optimization tool assumed in 2017-18, the 2018-19 gap increases from $9.5 billion to $9.7 billion

Key Decisions

A number of framing and anchoring decisions are required in order to firm up the overall approach to the 2017 Document.

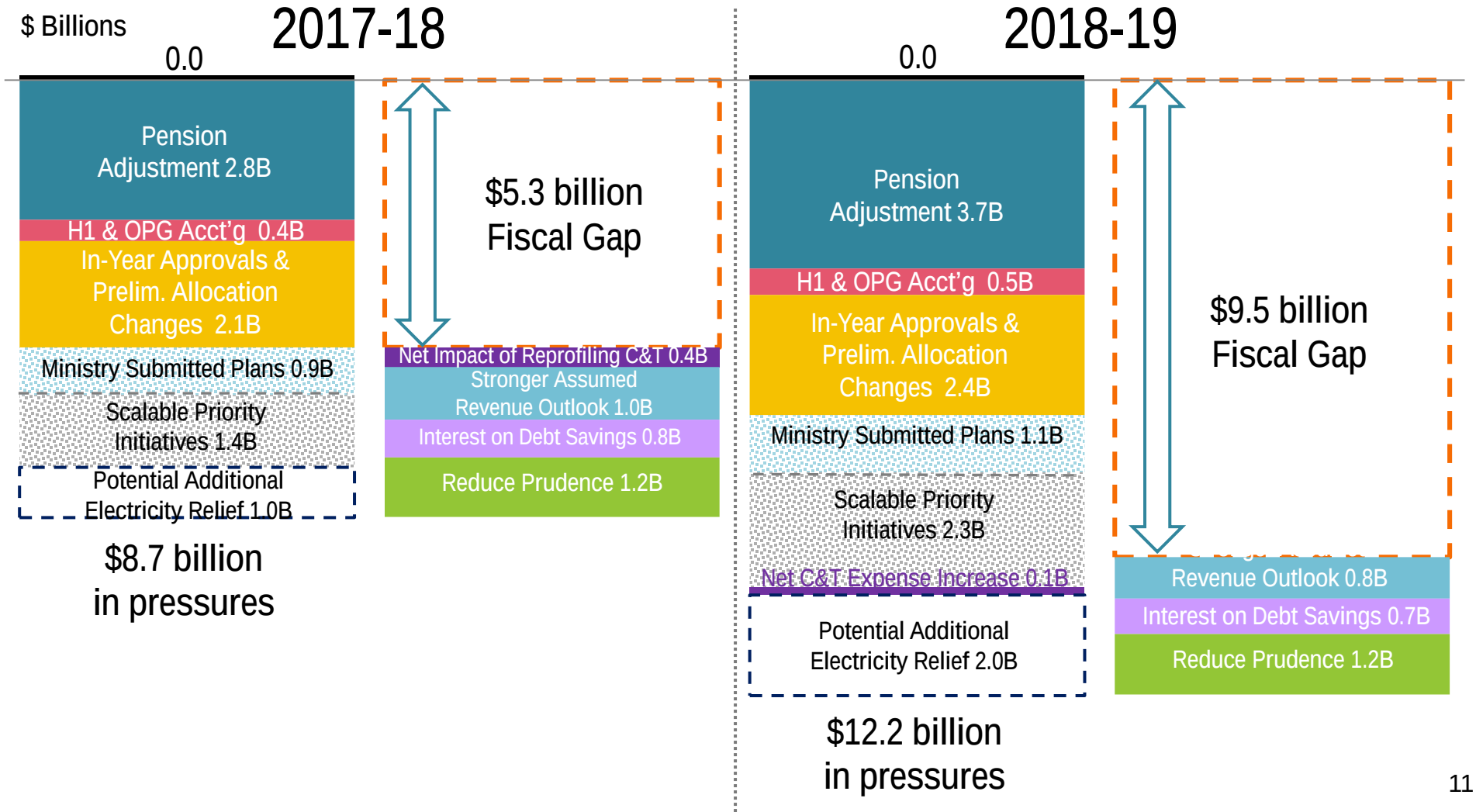
- What fiscal anchors does the government want to set for 2017-18 to 2019-20?
- What balance of revenue and expense measures to set in order to meet fiscal anchors?

Appendix

The Fiscal Challenge

In order to accommodate fiscal pressures in 2017-18 and 2018-19, tools were taken on in the 2016 FES and the 2016 Budget.

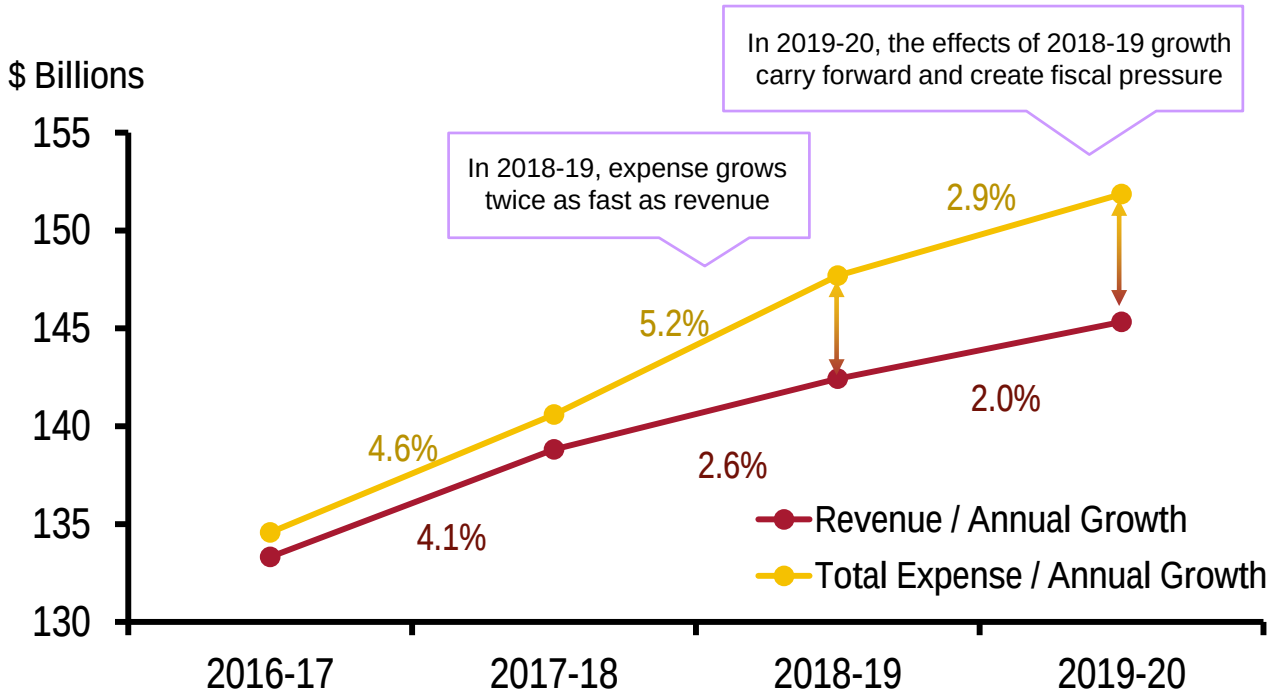
The remaining fiscal gap will need to be addressed through additional tools.



2019-20 Risk-Based Outlook

Over the outlook and in the absence of any tools, **total expense growth outpaces revenue growth**.

Substantial growth in expense in 2017-18 and 2018-19 results in higher levels of program expense, which **carry forward into 2019-20**.



2019-20 Expense Consists of:

- Includes Pension Adjustment of $0.8 billion for HOOPP and CAATPP
- In-year approvals of $2.7 billion
- Additional Electricity Cost Relief of $2.0 billion
- Full requests PRRT Submissions and Scalable Priority Initiatives of $4.6 billion
- Lower proceeds of $0.5 billion and the reversal of $0.6 billion in-plan expense results in an increase of $0.1 billion to expense for new climate change initiatives
- Increase to municipal share of Gas Tax of $0.1 billion

2019-20 Revenue Growth Slowed by:

- Reduced federal funding
- Lower net income and PiLs due to the net impact of the asset plan
- Projected taxation revenue growth of $3.9 billion in 2019-20, consistent with current private sector forecasts for Ontario economic growth.

Note: Scenario assumes the reversal of the pension adjustment for both OTPP and OPSEUPP (in all years).

Economic Outlook

Percent Change	2015		2016		2017		2018		2019	
	2016 Budget	Current	2016 Budget	Current	2016 Budget	Current	2016 Budget	Current	2016 Budget	Current
Real GDP	2.5	2.5	2.2	2.6	2.4	2.2	2.2	2.1	2.0	2.0
Nominal GDP ($billions)	748.2	763.3	778.4	797.4	813.9	830.1	848.2	863.9	882.1	899.5
(percent change)	3.6	4.9	4.0	4.5	4.6	4.1	4.2	4.1	4.0	4.1
Compensation of Employees	3.3	4.2	4.4	4.1	4.5	4.0	4.5	4.5	4.4	4.6
Corporate Net Operating Surplus	2.1	9.1	3.7	8.5	8.5	6.2	5.7	7.1	3.9	5.3
Nominal Household Consumption	4.1	3.9	4.4	4.2	4.1	4.1	3.5	4.2	3.6	4.0
Home Resales	9.6	9.6	(2.9)	8.7	(5.8)	(4.3)	2.0	0.7	3.8	3.0
Home Resale Prices	7.8	7.8	3.1	14.4	0.6	5.2	2.9	1.0	1.8	1.3

Note: Current projection is a draft and is subject to change in coming weeks as new information is released and pre-Budget private-sector consultations are conducted.

Revenue Outlook Variances

$ Billions	2016 Budget 2015-16	2016-17	2017-18	2018-19	Avg. Growth	Change Since 2016 Budget 2015-16	2016-17	2017-18	2018-19	Current Outlook* 2015-16	2016-17	2017-18	2018-19	2019-20	Avg. Growth
Total Taxation Revenues	90.8	91.8	95.9	100.2	*3.4%*	1.1	3.0	2.3	2.9	91.8	94.8	98.3	103.1	107.1	*3.9%*
Gov't of Canada Transfers	22.9	24.6	25.8	26.6	*5.1%*	0.0	-0.2	-0.7	-1.3	22.9	24.5	25.1	25.3	24.6	*1.8%*
Gov't Business Enterprises	4.3	5.0	5.3	5.7	*9.5%*	0.6	0.2	-0.2	-0.3	4.9	5.2	5.1	5.4	5.7	*3.7%*
Other Non-Tax Revenue	8.6	9.1	10.6	9.4	*3.3%*	0.2	-0.5	-0.1	-1.0	8.8	8.6	10.5	8.4	8.0	*-2.2%*
Total Revenues	126.5	130.6	137.7	141.9	*3.9%*	1.8	2.5	1.3	0.2	128.4	133.1	139.1	142.2	145.3	*3.5*

Note: average growth rates are calculated from 2015-16

Key Features of the Revenue Outlook

2015 PIT (potential tax planning risk)	–	–	–	–		0.7	0.7	0.7		0.7	0.7	0.7	0.7
Stronger 2015 HST	–	–	–	–		0.8	0.5	0.5		0.8	0.5	0.5	0.5
Assumed Higher Corporations Tax Yield	–	–	–	–	–	0.3	0.5	0.7	–	0.3	0.5	0.7	0.7
Unconditional Federal Transfers													
- Infrastructure, Homecare, Training	–	0.7	1.3	1.3	–	-0.7	-0.5	-0.5	–	0.1	0.8	1.3	0.0
IFRS for HOL and OPG	–	–	–	–	–	-0.1	-0.4	-0.5	–	-0.1	-0.4	-0.5	-0.7
Equalization Forecast	2.4	2.3	2.3	2.2	0.0	0.0	-0.9	-1.5	2.4	2.3	1.4	0.7	0.7
Debt Retirement Charge ends 2018-19	0.9	0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.9	0.6	0.6	0.0	0.0
Cap and Trade Proceeds Assumptions	0.0	0.5	1.9	1.8	0.0	-0.5	-0.1	-0.5	0.0	0.0	1.8	1.4	1.4
Asset Optimization (Net Impact)	0.9	1.1	1.1	0.6	0.0	-0.1	-0.1	-0.7	0.9	1.0	1.0	-0.1	-0.4

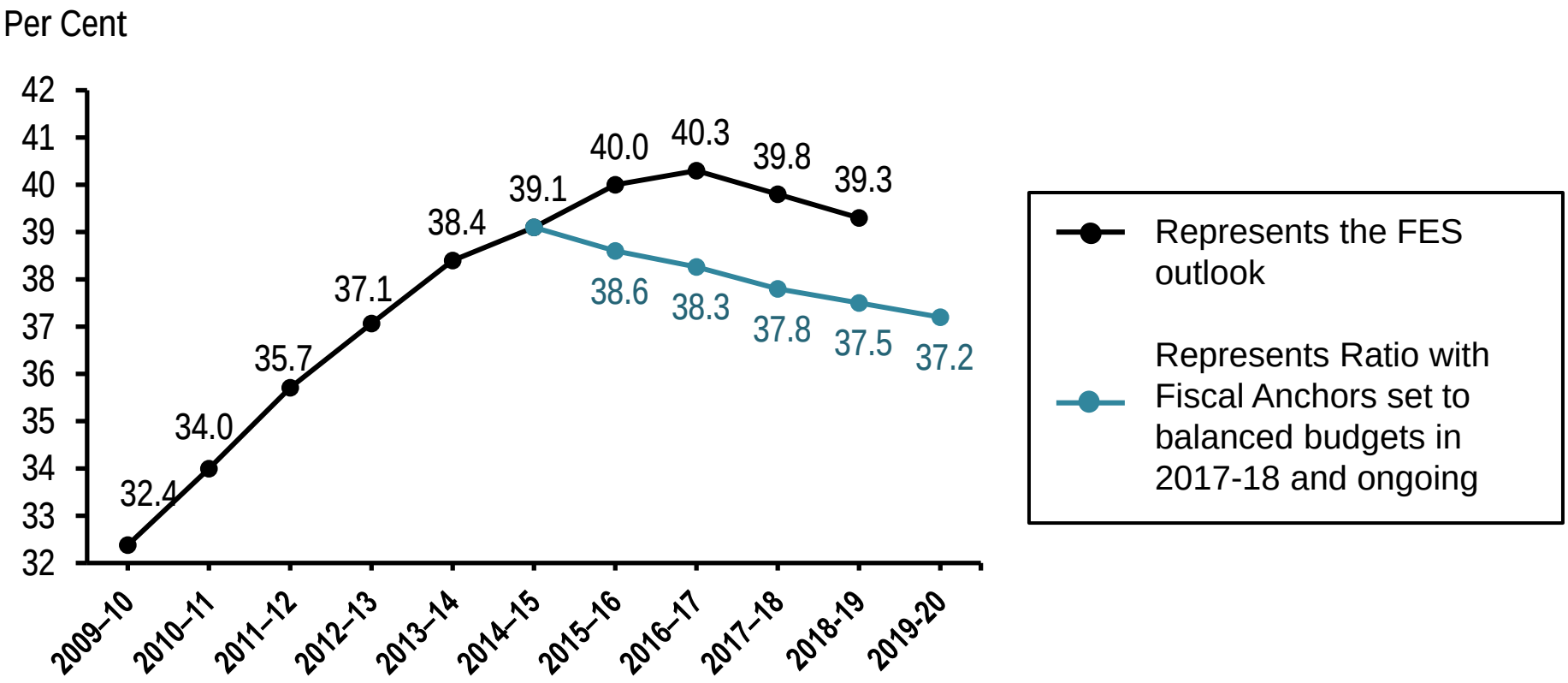
* The Current Outlook above includes the impact of the IFRS reporting change and also assumes an acceleration of the Hydro One IPO from 2018-19 to 2017-18.

Information still to come:

- 2016Q4 economic results
- Document economic outlook update
- Ongoing provincially-administered tax receipts
- PRRT revenue updates for ministries, agencies and government business enterprises
- PRRT revenue decisions
- Document Initiative decisions

Net Debt-to-GDP With Balanced Budgets

- Depending on the fiscal anchors chosen for the government's fiscal plan, reversal of the pension adjustment, as well as any changes made to the borrowing (e.g. electricity relief, changes in capital spending), net debt to GDP could be in decline.

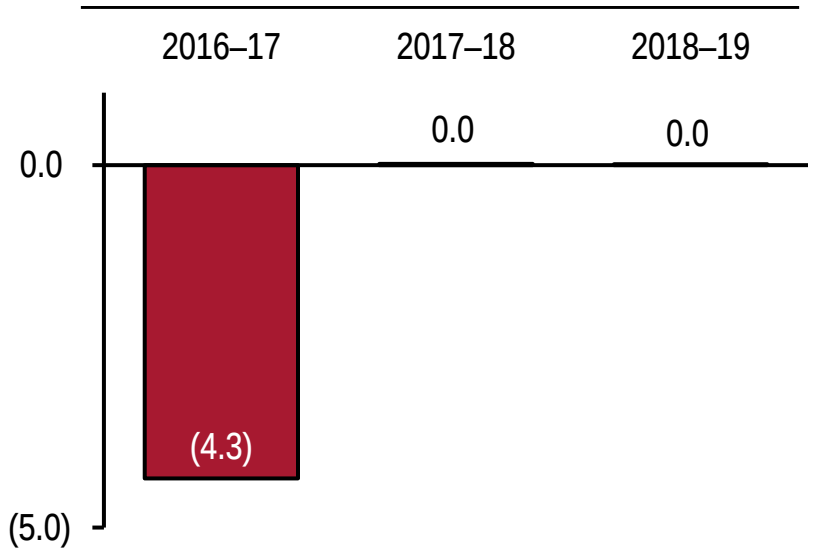


2016 FES Recap

In the 2016 FES, the government continued to forecast deficits of $4.3 billion in 2016-17, a return to balance in 2017-18, and continued balance in 2018-19.

2016 FES Fiscal Targets

Fiscal Balance
($ Billions)



Revenue Plan (2016-17 to 2018-19)

- **$2.1 to $3.0 billion** per year increased revenue compared to the 2016 Budget, resulting from higher taxation revenues and a stronger housing market.

Expense Plan (2016-17 to 2018-19)

- **$3.1 billion to $4.1 billion** per year increase compared to the 2016 Budget, as a result of the Pension Adjustment, and to support strategic initiatives in new child care spaces, hospitals and electricity cost relief for consumers.
- **Contingency Funds** of $0.7 billion in 2016-17, growing to $2.9 billion in 2018-19.
- **Year-end Savings Targets** of $0.8 billion in 2016-17, growing to $1.2 billion in 2018-19.

Reserve of $0.4 billion in 2016–17, $0.7 billion in 2017–18, $0.8 billion in 2018–19

From:	Christina Zhang
To:	Ken Kandeepan
Subject:	MMP prep
Date:	Wednesday, January 04, 2017 11:50:07 AM
Attachments:	2017 Document Fiscal Planning -- January 2017 Roadmap.docx 2017-01-04-MMP Prep Meetingv2.docx Fiscal Planning Deck_FPC_v9.pptx

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Hi Ken,

For the MMP prep session later today. As per the attached agenda, today's session will really be on the expense side and TBS is planning to provide an update on the pension accounting issue. TBS is also planning to provide a short verbal update on the non-tax revenue item, as it's a TBS lead.

The revenue levers will be discussed tomorrow, with a formal agenda being shared later tonight or tomorrow morning.

Thanks,
Christina

Early 2017 Document Planning – January Fiscal Decision-Making Roadmap

Key Decision-Making Milestones and Forum

- DM/MO Workshops (January 4/5)
- FPC Meetings (January 11 with SOC; January 12 FPC Workshop; weekly thereafter)
- MMP (January 19-TBC)
- Ongoing PRRT Meetings (TB/MBC)
- Pension Panel Recommendations (January TBD)
- TB/MBC Wrap-up (early Feb)

Key Fiscal Decisions to Track in January

- Update **fiscal gap** analysis based on new information and decisions since December
  - Revenue updates (tax revenue updates, federal transfers, asset optimization)
  - PRRT Approvals -- Over/under allocation decisions; Deferred decisions
  - Other information updates (IOD, consolidations, technical updates, etc.)
- Early Direction on **Strategic Investments** – determine priority strategic investments for inclusion in 2017 Document; incorporate other Document initiatives envelope?
- Early Direction on **Fiscal Tools/Levers** – Revenue and expense tools "in scope" and potential ranges for each
- Review **level of Prudence** (reserve, Cfund, other) and determine whether to rebuild
- Early direction on **fiscal anchors** for at least the next three years
- Early Read on **Accounting** – direction on Pensions and other accounting risks
- 2016-17 **Q3 Finances** (public reporting on 16-17 fiscal performance)

Products To Be Developed and Target Decision-Makers:

January 4/5 Workshops:

- Summary of PRRT Decisions to Date – Lists (TBS-OTB lead)
- Update on Accounting – Deck (TBS-OTB lead)
- Potential Expense Levers and Tools (savings targets, etc) – Discussion (TBS-OTB lead)
- Potential Revenue Tools – Deck (MOF-TPD lead)

January 12 FPC

- Economic and Revenue Update – Deck (MOF-OEP lead)
- Summary of PRRT Decisions to Date – Deck/Lists (TBS-OTB lead)
- Update on Accounting – Deck (TBS-OTB lead)
- Fiscal Plan Update (updated gap, review of prudence, fiscal anchors) – Deck (MOF-OB lead)
- Summary of Potential Revenue Tools – Deck (MOF-TPD lead)
- Summary of Potential Expense Tools – Deck (TBS-OTB lead)

January 19 MMP (previewed at FPC Jan 18)

- 2017 Document: Fiscal Update and Key Decisions – Decision Deck (MOF-OB lead, supported by OEP, TBS-OTB, TPD); plus appendix decks/lists/binder on revenue/ economic update, revenue/expense levers and tools, accounting, list of strategic investments, and PRRT decisions to date

January 25/31 FPC

- 2016-17 Q3 Finances Considerations -- Deck (MOF-OB lead)
- Follow-up to MMP Discussions on Fiscal Tools/Strategic Investments (MOF-OB lead)

Agenda

Office of the Treasury Board

MMP Prep Meeting

Date: Wednesday, January 4th, 2017

From: 3:30 – 5:00pm

Location: DM's Boardroom – 5th Floor - Whitney Block

Topic	Time	Materials
Fiscal Planning Roadmap	5 mins	2017 Document Fiscal Planning -- Jan
TBS Levers Discussion - Accounting updates - Reducing above allocation asks (blues) - Reducing cost of new initiatives (greys) - Save to re-invest scheme - Exceeding savings targets associated with existing and new boulder initiatives - Short term savings - Long term savings targets - Non-tax Revenue	45 mins	Fiscal Planning Deck_FPC_v9.pptx
Sector Summary Discussion - Health - Children and Social Services - Justice	40 mins	

2017 Document Fiscal Planning

Presentation to Fiscal Prep Committee
December 15, 2016

Draft – December 14, 2016 1:30 PM

Purpose

To identify government priorities for the 2017 Document and determine anchors that will form the basis of fiscal decision-making leading up to the 2017 Document. The following slides will:

Review the current fiscal context

- Provide an overview of the current state of the fiscal plan, including the impact of Ministry PRRT requests, proposals for scalable priority investment opportunities, revenue updates, and tools already incorporated into the plan

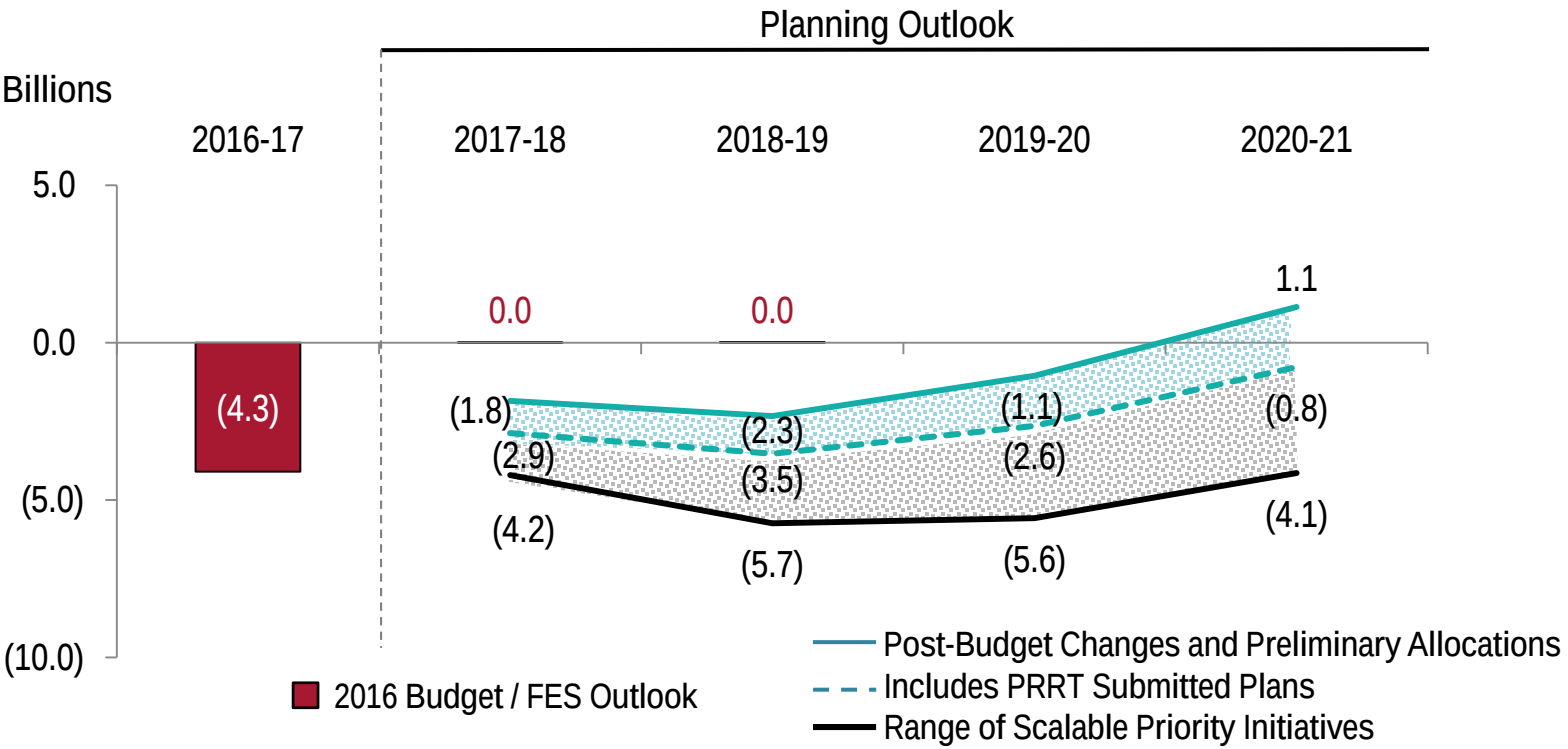
Establish a path forward

- Identify planning questions to inform the development of the fiscal architecture

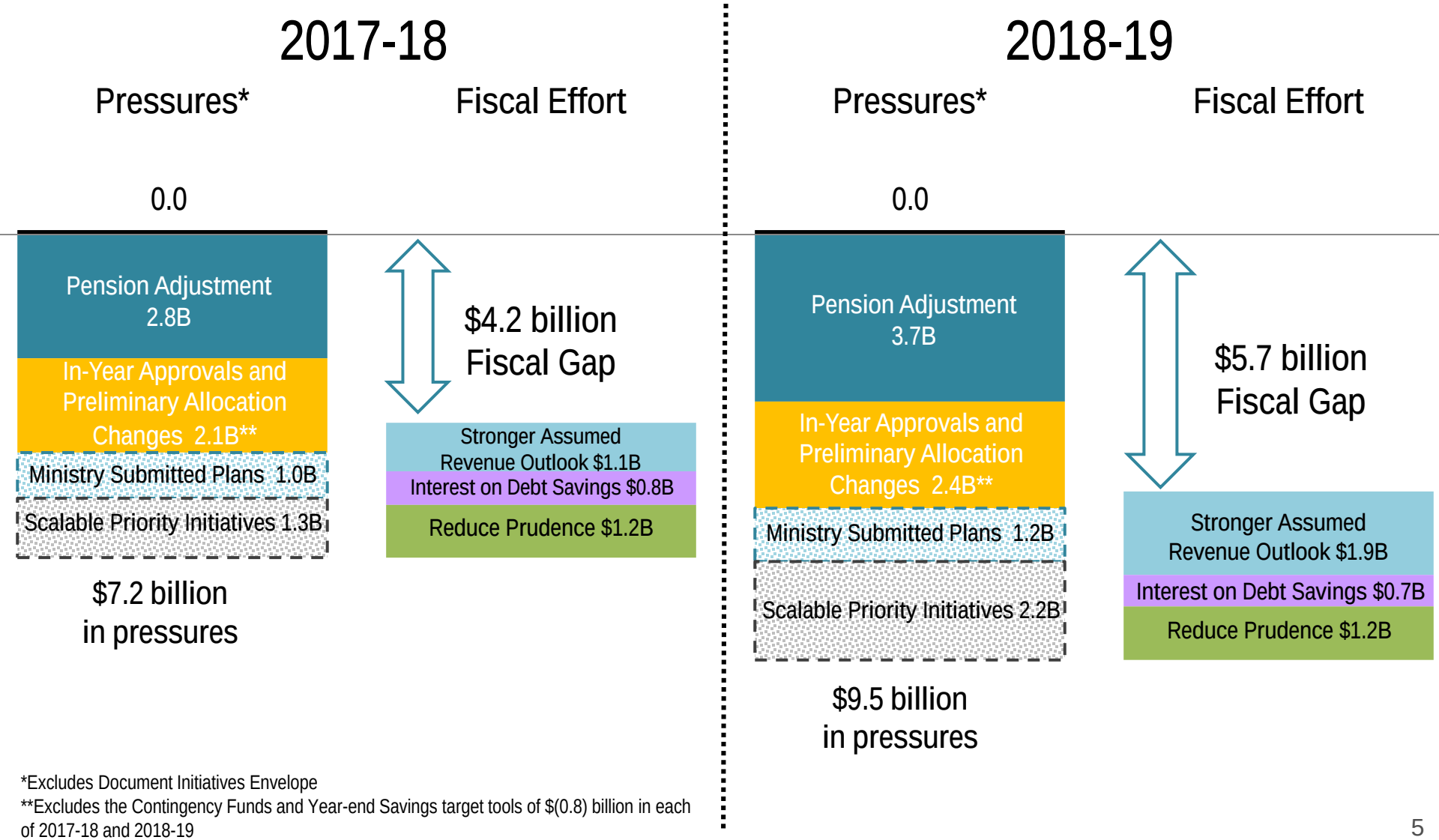
Review: Current Fiscal Context

The Multi-Year Fiscal Challenge

- Compared to the 2016 Budget, the impact of in-year investment decisions and the Pension Adjustment created pressures that were partially mitigated by higher revenue, lower interest on debt expense, and reduced prudence in the 2016 FES. These changes, in addition to the recent downward revision in the equalization entitlement forecast, result in a fiscal gap of $1.8 billion in 2017-18 and $2.3 billion in 2018-19.
- This fiscal gap widens with the additional impact of PRRT submitted plans coming in above preliminary allocations.
- Without implementing additional revenue and expense tools, the deficit could potentially reach $4.2 billion in 2017-18 and $5.7 billion in 2018-19. As new information is received leading up to the 2017 Document, deficit estimates could deteriorate further.
    - Since October, the range of the fiscal gap has widened mostly as a result of lower equalization entitlements mentioned above, and ministry PRRT submissions coming in above preliminary allocations.



Details of the 2017-18 and 2018-19 Fiscal Challenge



*Excludes Document Initiatives Envelope
**Excludes the Contingency Funds and Year-end Savings target tools of $(0.8) billion in each of 2017-18 and 2018-19

Confidential Advice to Cabinet – PRELIMINARY DRAFT, All numbers to be confirmed

Current Fiscal Outlook Gap – 2017-18

PRRT Submitted Plans above Preliminary Allocations*

- Social Assistance forecast
- Clean Water and Wastewater Fund provincial contribution
- Electricity Rebate – revised forecast
- Further OSAP enhancements
- Cost and/or timing changes for municipal and provincially owned transit projects (e.g., Ottawa LRT Phase 1, Waterloo RT, Metrolinx projects)
- TTC PRESTO

Scalable Priority Investment Initiatives

- Highly skilled workforce investments
- More funding for Project Momentum
- Early years and child care space expansion
- Social assistance rate increase and reforms
- MCSS Response to Ombudsman
- Priority health investments
- Corrections transformation
- Youth Jobs strategy
- GO Transit / RER Operating Subsidy
- Other capital expense (e.g., Ontario 150)

Not Included in Gap

- Document initiatives envelope
- Additional electricity price relief
- Education remedy rollover

Additional New Capital Asks Not included in the Gap

- New facilities including Halton Consolidated Courthouse, correctional facilities, resources road labs
- Funding to reduce GHG emissions and facilities renewal in government realty portfolio

* Based on ministry requests. Does not reflect potential recommendations.

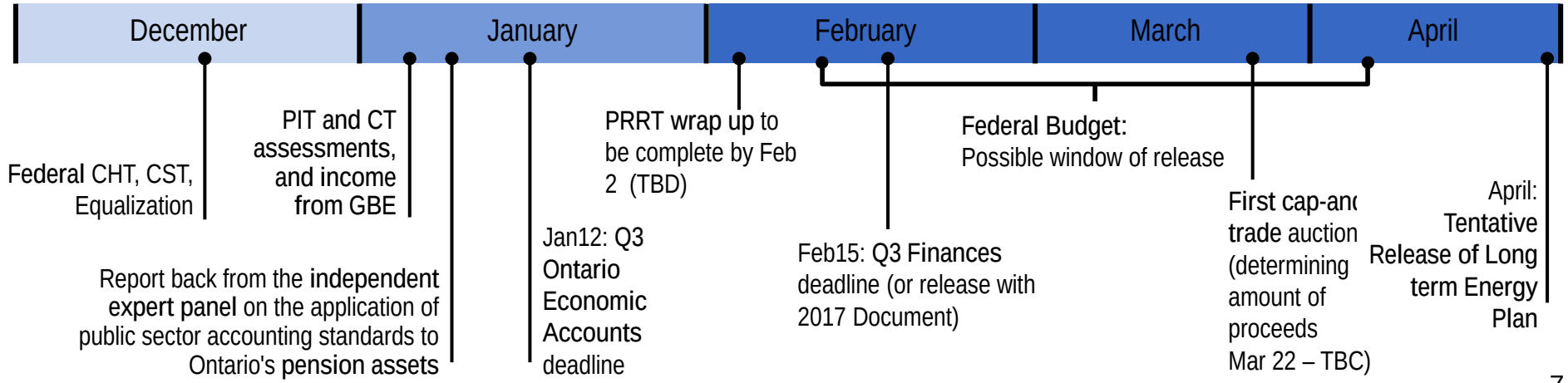
Other Factors That Could Further Impact the Gap

Revenue

- Economic updates
- Estimated proceeds for cap-and-trade
- Adjustments to the government's asset optimization strategy
- Key revenue information including federal HST update, and Equalization entitlements, and finalization of PIT and CT assessments.
- Monthly updates to personal and corporate income tax and income from Government Business Enterprises
- Implications of Federal Budget

Expense

- Decisions related to PRRT items that may be deferred to the 2017 Document process, including:
  - 2017 Document initiatives
  - Alignment of climate change investments with available proceeds, and accounting treatment
- Interest on debt forecast updates
- Treatment of Pension Accounting and other accounting issues
- Impact of expense pressures that ministries have been asked to manage



Confidential Advice to Cabinet – PRELIMINARY DRAFT, All numbers to be confirmed

Establishing a Path Forward

Establishing Building Blocks and Anchors for the 2017 Document

- Several planning questions will need to be addressed in order to drive decisions to land on a fiscal outlook for the 2017 Document:

Should we maintain the current anchors for the 2017 Document?

Commitment to balance the budget in 2017-18 and remain balanced in 2018-19	Net debt-to-GDP target declining to pre-recession level of 27%	What is the surplus/(deficit) target for 2019-20?

Considerations:

Revenue: What additional revenue measures are in scope? How can a federal engagement strategy provide additional support?

Expense: How to limit Ministry requests above preliminary allocations? What initiatives need to be announced in the 2017 Budget, what is scalable and what can be delayed? Is there scope for ongoing multi-year savings? How to address accounting risks? Will there be an envelope for Document Initiatives?

Prudence: What is the appropriate level of the C-Fund and reserve that should be built into the fiscal plan?

Narrative: What are the key themes around which to construct the narrative for the 2017 Document?

FTAA Requirements: To publish the fiscal year of the budget plus the following two years, and a longer period, should a deficit be projected (i.e. recovery plan).

Pre-election Report: The 2017 Document will set the stage for the 2018 Document and pre-election report.

Tools to Achieve Fiscal Targets

There are a number of revenue and expense measures that could be considered to achieve fiscal targets.

Additional Revenue Measures	Federal Revenue Strategy

• Determine the scope for revenue tools, including:
  • Tax measures
  • Asset optimization
  • Non-tax revenue
  • Federal tax measures
	• Engagement strategy with the federal government to maximize new federal funding, including:
	  • Relief on equalization
	  • Funding for climate change initiatives
	  • Infrastructure
	  • Health funding

Additional Expense Measures	**Review level of Prudence**

• Determine the scope for expense measures, including:
  • Undertaking additional transformative initiatives
  • Revisiting in year approvals
  • Timing/scaling mandate letter commitments
  • Additional savings targets
• Interest on Debt Savings
	• What is the appropriate level of the C-Fund and reserve that should be built into the fiscal plan?
	  • Further reductions to the reserve or C-Fund increase vulnerability to future forecast changes

Revenue Measures

Increasing revenue significantly means looking at the biggest taxes:

- Personal Income Tax
- Corporate Taxes
- A combination of tax measures
- HST
- Education Property Tax

Examples of Potential Tax Measures	Revenue in 2018-19
Suspend indexation of Personal Income Tax brackets and non-refundable tax credits for one year in 2017	$395M*
Eliminate the advantage for surtax payers in claiming tax credits	$260M*
Simplify the Ontario Health Premium and make it more proportional to income	$495M*
Increase tax paid by companies on insurance premiums (last changed in 1978)	$360M*
Increase beer tax by an additional 3 cents per litre in each of Nov 2017 and Nov 2018 (6 cents total in each year) • Incremental price impact would be about $0.50 per 24-pack of beer • May allow large brewers to break from a commitment to constrain prices on popular beer brands until May 2017 • Consistent with government policy direction to more closely align government charges across beer, wine and spirits categories	$41.1M Increasing to $58.5M in 2019-20

* Assumes January 1, 2017 implementation

Revenue Measures cont'd

Examples of Federal Tax Measures:

1) Ask Federal Government to tighten the rules to ensure proper taxation of property flipping

2) Share revenue from tax measures with a provincial connection

- The federal government keeps all the tax revenue from certain income tax measures that have a substantial provincial connection (e.g. withholding tax on rent, from real estate in Ontario, paid to a non-resident). The Province can press the federal government on sharing this revenue.
- Marijuana tax for recreational purposes (post-legalization). Could either be a direct provincial tax or a federal tax (could ask for revenue-sharing with the province, however, note that parameters and associated revenue with this option are highly dependent on direction provided by federal government)

3) Ask Federal Government to review tax concessions for corporate meals and expenses

4) The federal review of tax expenditures is expected to be completed early in 2017. While some potential changes could automatically benefit Ontario, there has been no indication on specific measures or timing of announcements.

Examples Related to Asset Optimization (AO) (see further details in appendix)

Asset Optimization (incl. Hydro One & Real Estate ($M)	2017-18	2018-19
Budget 2016	*695*	*170*
Revised Outlook	370	(135)
Variance	*(325)*	*(305)*

- Asset optimization outlook is down for 2017-18 and 2018-19 since Budget 2016, primarily due to lower gains on sale from Hydro One shares (due to a higher book value of Hydro One shares because of the higher deferred tax benefit, no gain for the planned COO and Métis sales, and lower recent Hydro One share prices), assumed earlier timing for share sales in the fiscal year that advances lost net income from Hydro One, and lower associated IOD savings.

Acceleration of Hydro One share sales to 2017-18

Accelerated H1 Share Sale vs. 2016 Budget ($M)	2017-18	2018-19
Variance	*(65)*	*(685)*

- Selling most of remaining 30% of Hydro One common shares in 2017-18 instead of 2018-19 could offset most of the current projected negative AO variance in 2017-18 (above based on a 26% sale, as advisors suggested retaining 4% to maintain a cushion to the legislated 40% level).
  - Leaves a significant negative impact of about ($685)M in 2018-19, with no shares available for sale in 2018-19 if maintain a 4% cushion
- Risks to the outlook would include market share price risk, generally and, e.g., from large share sale in 17-18, interest rate environment, OEB regulatory decisions, and impact of any Hydro One acquisition activities; as well as risks on real estate sales.

Federal Revenue Strategy

- In April 2016, Cabinet directed Ministries to coordinate the development of strategies to maximize the financial benefits from federal budget measures, and to mitigate any negative fiscal impacts.
  - While Ontario and the federal government have signed agreements in a number of areas, there are additional opportunities to maximize new federal funding, minimize the negative impact of conditions on new programs, and leverage federal investment to support provincially-planned programs.

Program Area	Example
Federal health funding	• Continue to work with other provinces and territories to engage the federal government on adequate, sustainable and principled health funding.
Equalization program	• Defensive tactic: ensure GDP constraint acts as a 'top-up' as currently described in legislation • Offensive tactic: push for 'protection' from year-over-year declines in transfer entitlements.
Climate change funding	• With the release of the Pan-Canadian Framework on Climate Change, the federal government will likely begin funding through new environmental programs, including the Low Carbon Economy Fund.
Early learning and child care	• Work to ensure National Framework and bilateral agreements provide Ontario flexibility to direct federal funding to in-plan expenditures and support Provincial priority areas.
Infrastructure	• Ontario continues to work with the federal government on the next phase of its infrastructure plan, including limiting the federal government's use of incrementality provisions.
Indigenous files	• Maximize opportunities to leverage historic $8.4B planned federal spending, both to make ON's planned investments (health, TRC response, anti-violence) go further and reduce downstream costs associated with inaction/failure to address root causes.
Innovation Agenda	• Ontario will likely have a number of programs that are aligned with the Innovation Agenda, and should look for opportunities to leverage funding to provincial priorities.

Program Expense Tools – 2017-18

Managing Expense

- Revisit in-year approvals (up to $1.3 billion in 2017-18)
- Limit any increases above allocation (up to $1.0 billion in 2017-18)
- Maintain a focused view on scalable investments (up to $1.3 billion in 2017-18)
- Ask ministries to manage new initiatives from within existing allocations
- Defer all new capital investments not in-plan until fall 2017, pending the completion of the Ministry of Infrastructure's prioritization framework for infrastructure investments.

Savings Targets

Since 2009-10, the margin between budgeted and actual program expense has been diminishing:

- Actual program expense in 2009-10 was $4.4 billion lower than the projection in the 2009 Fall Economic Statement.
- Actual program expense in 2015-16 was $0.4 billion higher than the projection in the 2015 Budget.

Corporate savings targets can be used to reduce the expense forecast. The current outlook includes a **year-end savings** target of $1.2 billion in 2017-18. This is relatively high by historic standards but could be increased.

Program Expense Tools – 2018-19 onward

Through PRRT, programs are assessed for relevance, effectiveness, efficiency, and sustainability. This approach can continue to be used to drive further transformation.

Horizontal Transformation

The government could continue to identify new areas for cross-ministry, horizontal transformation. These could be linked to ideas ministries have submitted through the current PRRT.

- There remain many areas where there are multiple programs providing similar services to the same stakeholders. Further transformation can lead to better outcomes while being more efficient.
- This approach would require significant changes to program design and would require actively engaging stakeholders.
- Given the timelines, such an approach would likely have only a modest impact in 2018-19.

Prioritization

Within each ministry, once ministry and program level measures are put in place the government could initiate a process, using the PRRT Sub-Committee, to require the ministries to identify low performing programs within the existing base to support:

- Realignment of funding to existing commitments/priorities yet to be implemented (alleviating pressures on the Fiscal Plan while moving the policy agenda forward); and
- Providing an opportunity for a portion of the savings to be used corporately.

Alternative Approaches to Fiscal Anchors

The government could consider alternative approaches to measure and communicate balance and fiscal sustainability. Each of these approaches would still require substantial fiscal effort in order to be able to communicate a credible narrative.

Balancing Before the Reserve

- The government could communicate that balance is achievable if the reserve is not needed.
- There may be scrutiny about inconsistent reporting of surplus/(deficit) targets, which have always included the reserve (per FTAA).
- Maintains a similar framework used in previous documents leading to the path to balance.
- Comparable with actual results and consistent with FAO reporting.

Balancing the Operating Budget Only

- The government could exclude capital expense from the surplus/(deficit).
- The narrative could focus on running an operating surplus and indicate deficits are a result of capital investments to spur economic growth.
- May be scrutinized for introducing a new definition of balance in 2017-18. However, Ontario communicated operating surplus/(deficits) in the 90s; similar approach taken by AB in 2013-14 & 2014-15.
- Given that capital expense is approximately $7B to $8B each year, this could result in a surplus and create room to fund additional priorities.

Shifting to a Net Debt-to-GDP Narrative

- The government could shift its fiscal anchor to focus on the net debt-to-GDP ratio rather than a surplus/(deficit).
- Would shift the narrative away from budget balance to a measure of longer-term fiscal sustainability.
- Subject to volatility, resulting from changes in economic growth, investments in capital, and shifts in accounting standards.

Postponing Balance Date

- The government could consider postponing balance to 2018-19 or a later fiscal year.
- Provides some flexibility in 2017-18 but would still require significant fiscal effort to balance by 2018-19.
- May be scrutinized by stakeholders (e.g. rating agencies) for moving off of targets that were originally set out in 2010 and reinforced thereafter.
- If the government continues to run deficits, a recovery plan would be required.

Confidential Advice to Cabinet – PRELIMINARY DRAFT, All numbers to be confirmed

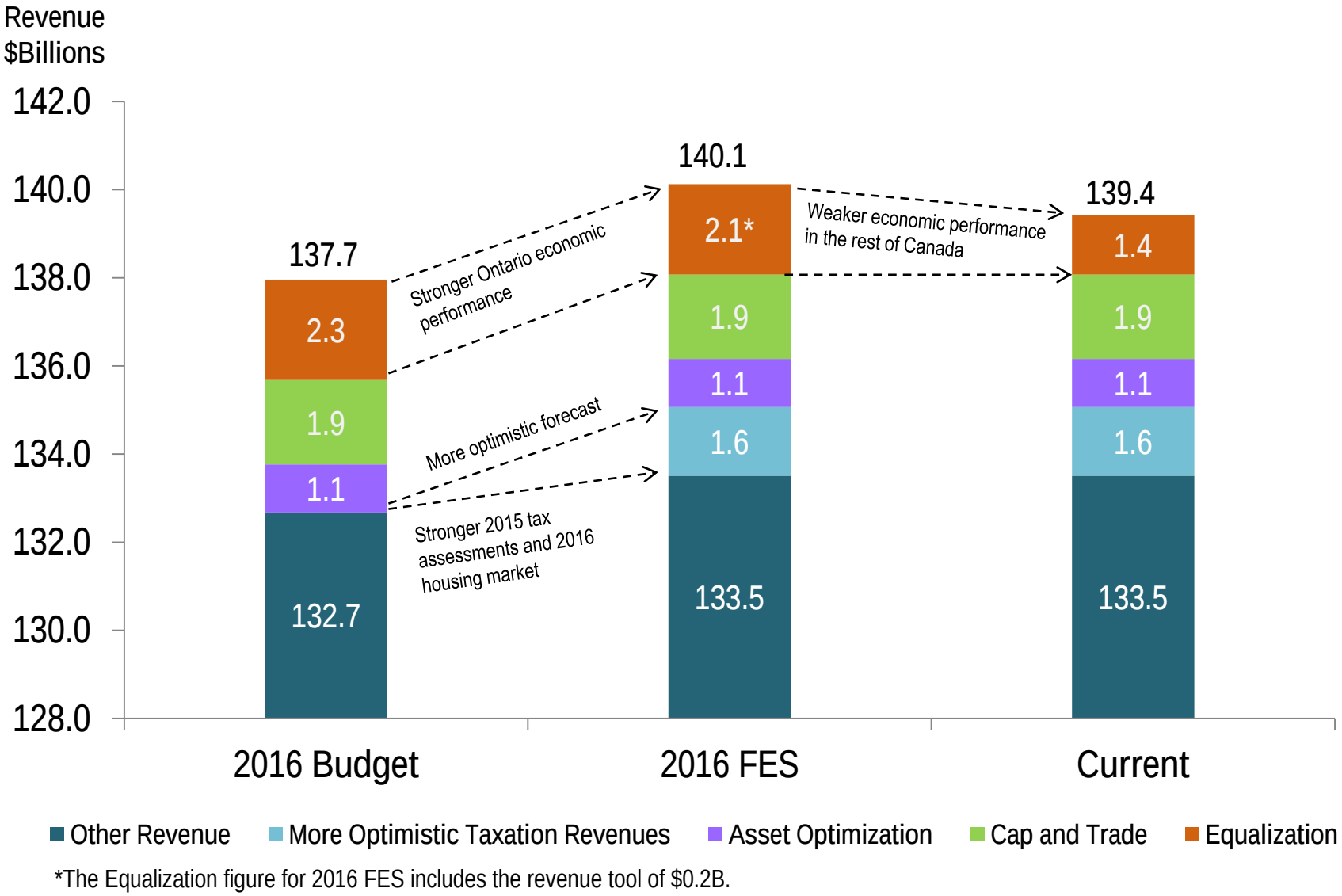
Next Steps

✓ **STAGE 1 - Assessment of current fiscal plan (FPC, December 7)**	
STAGE 2 - Where do we go from here?	
FPC Meeting December 15	• Establish a path forward • Identify planning questions, potential tools, and strategies to achieve fiscal targets
STAGE 3 – Fiscal Architecture Planning for the 2017 Document	

Strategies Meeting
Date TBD
	• With greater clarity around the tools available, discuss prioritizing initiatives for 2017 Document.
	  • Prioritize scalable initiatives relative to the use of tools
	  • Discuss potential themes for 2017 Document

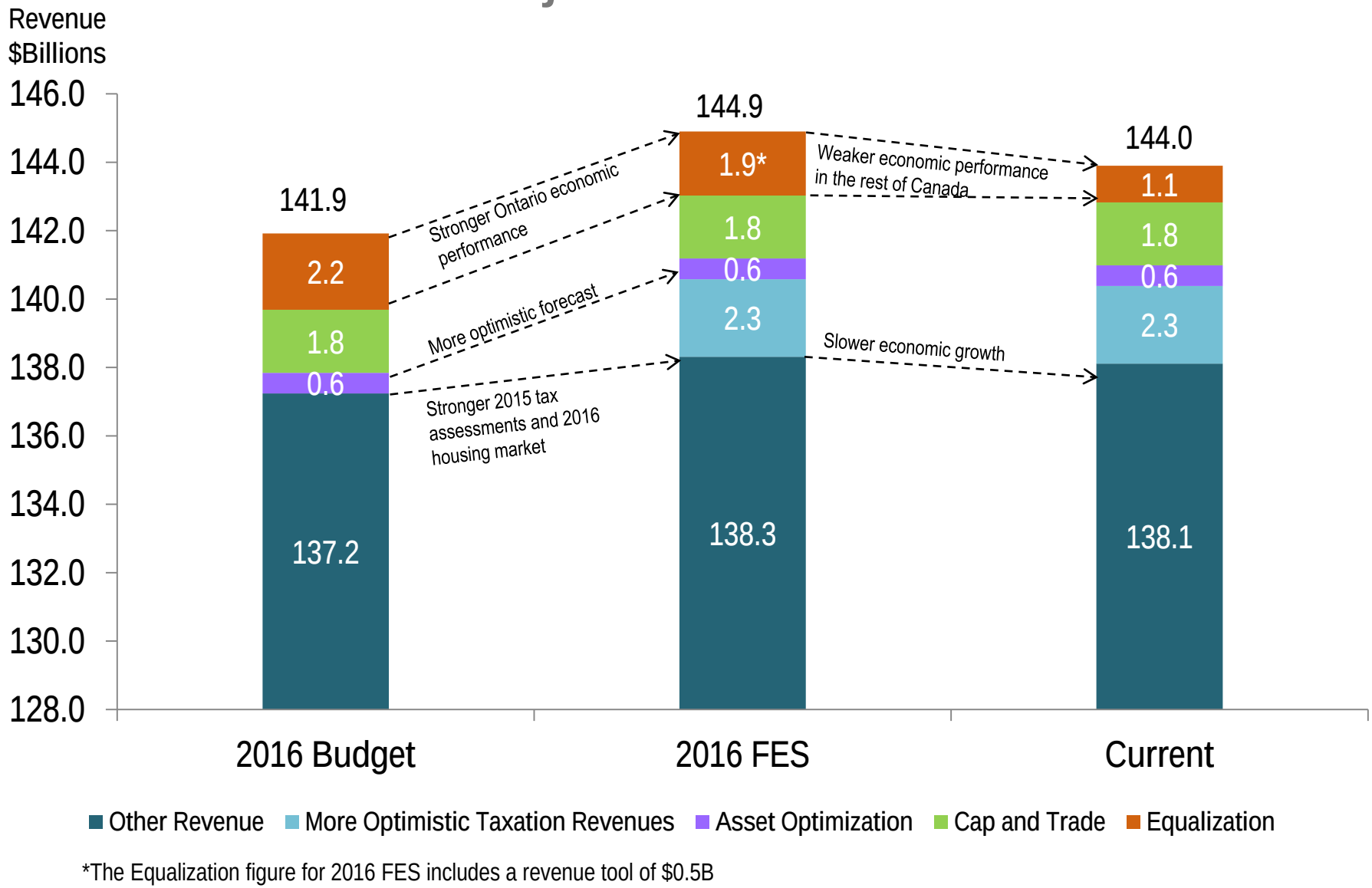
Appendix

Ontario Revenue Projections for 2017-18



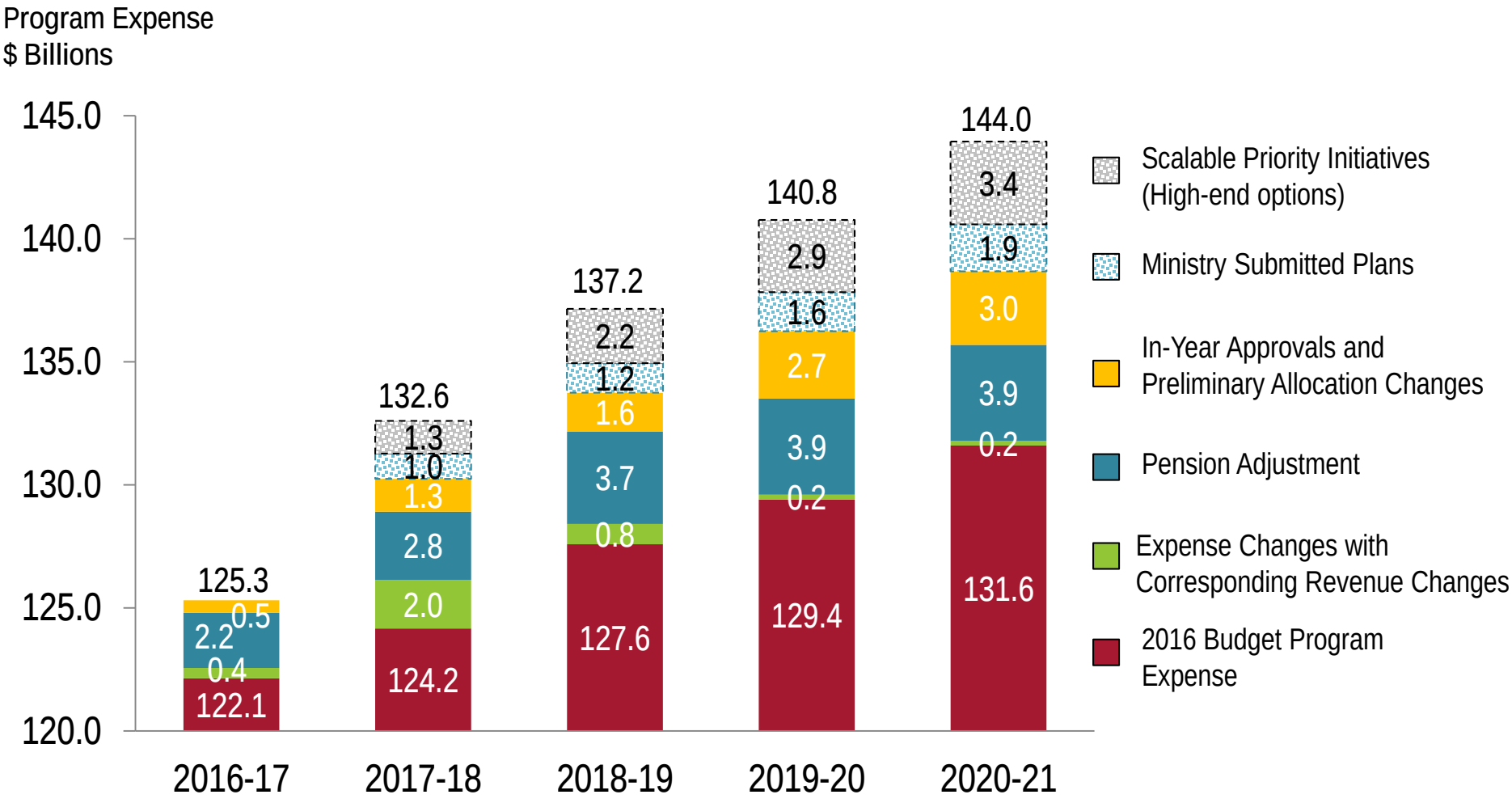
*The Equalization figure for 2016 FES includes the revenue tool of $0.2B.

Ontario Revenue Projections for 2018-19



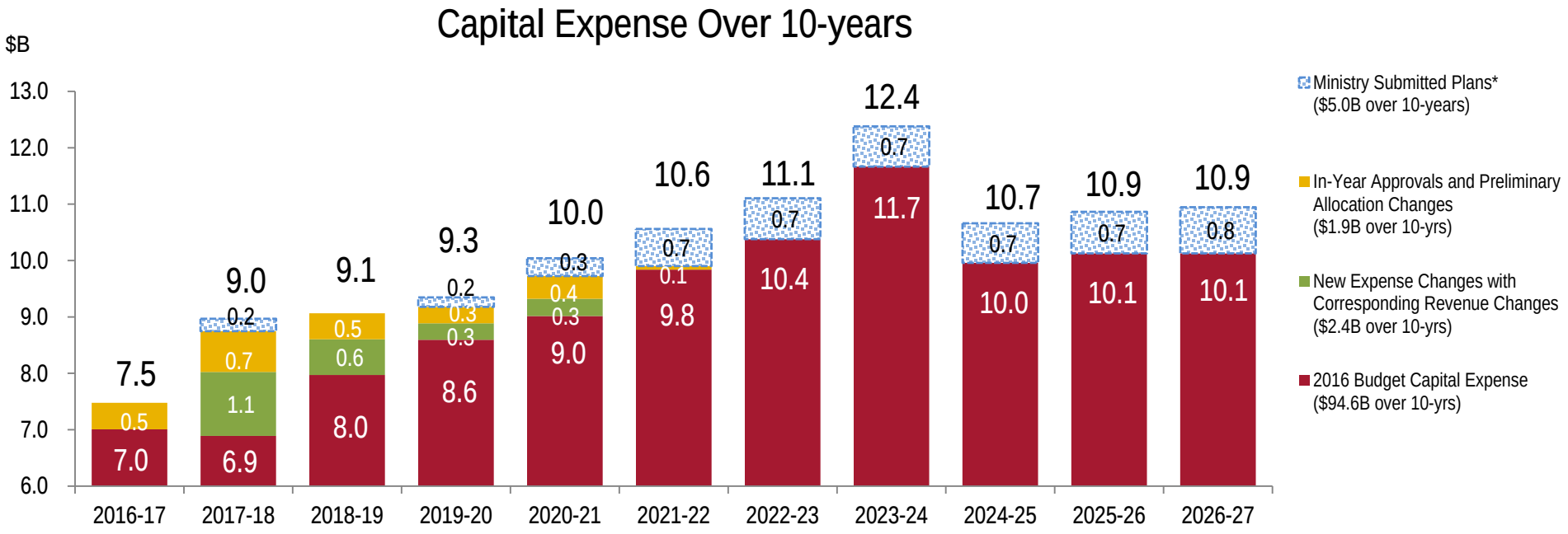
*The Equalization figure for 2016 FES includes a revenue tool of $0.5B

Program Expense Changes Since the 2016 Budget



- Taking into account all program expenses including scalable priority initiatives and ministry submitted plans results in an average annual growth in program spending between 2015-16 and 2020-21 of 3.3%

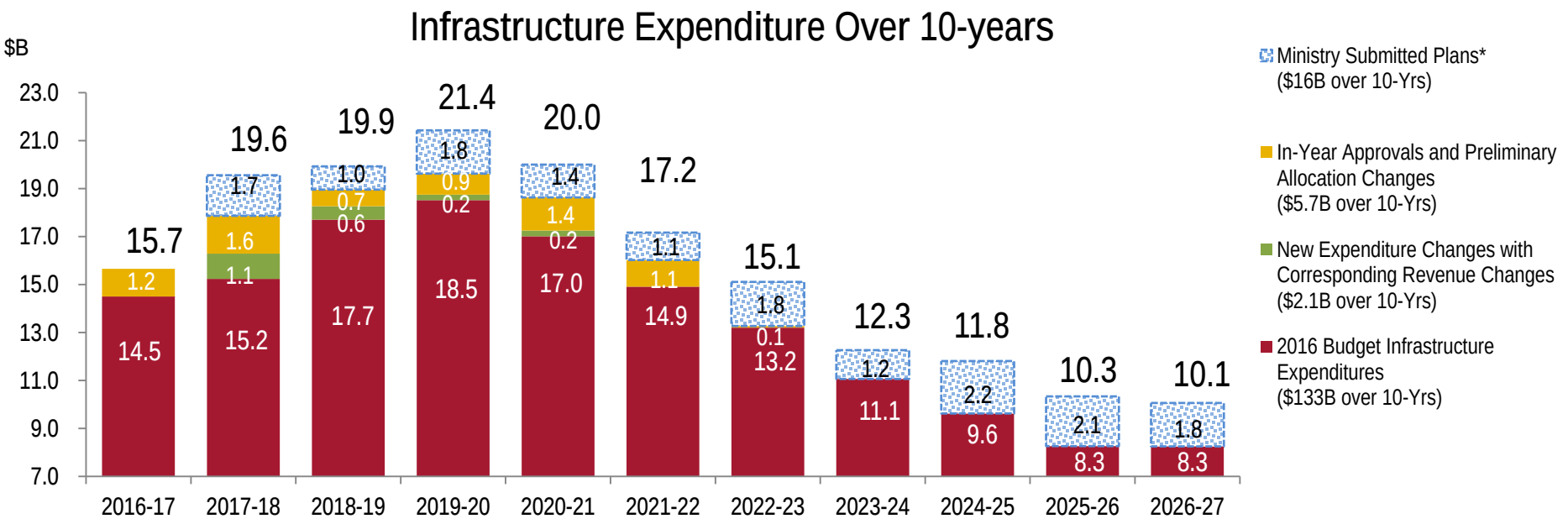
Capital Expense Changes Since the 2016 Budget



- Capital Expense Base includes: Amortization of assets currently under construction, in planning, or publicly announced; and transfer payments to non-consolidated entities (including cost-matched, federal-provincial infrastructure programs).
- New Expense Changes with Corresponding Revenue Changes: Mostly for federal flow-throughs for Public Transit Infrastructure Fund
- In-Year Approvals and Preliminary Allocation Changes: Mostly related to out-year funding for in-year TB/MBC approvals and updated costs for Moving Ontario Forward projects (held centrally in the capital contingency fund).
- Ministry Submitted Plans: Mostly for cost and timing changes for provincial and municipal transit projects, new facilities (e.g., Halton Consolidated Courthouse, correctional facilities, MOECC labs), and new programs (e.g., school renewal)

**Does not include MOHLTC submission, which could contain Stage 2 (Construction) requests for hospital projects.*

Infrastructure Expenditures Changes Since the 2016 Budget



Note: Figures exclude third party contributions

- Infrastructure Expenditures Base: Mostly comprised of acquisition of government-owned and consolidated capital assets (e.g., Schools, Hospitals, Metrolinx transit assets), and capital transfer payments to non-consolidated entities (e.g., municipalities).
- New Expenditure Changes with Corresponding Revenue Changes: Mostly for federal flow-throughs for Public Transit Infrastructure Fund.
- In-Year Approvals and Preliminary Allocation Changes: Mostly related to out-year funding for in-year TB/MBC approvals and updated costs for Moving Ontario Forward projects (held centrally in the capital contingency fund).
- Ministry Submitted Plans: Mostly for cost and timing changes for provincial and municipal transit projects, new facilities (e.g., Halton Consolidated Courthouse, correctional facilities, MOECC labs), and new programs (e.g., school renewal)

**Does not include MOHLTC submission, which could contain Stage 2 (Construction) requests for hospital projects.*

Tools Included in the 2016 Budget

$ Billions	2017-18	2018-19	Risk Assessment	Timing of Outcome/Decision
Prudence	**0.1**	**n/a**	**Low**	**n/a**
Reduced the reserve from $1.2 billion to $1.1 billion in 2017-18. 2018-19 reserve of $1.2 billion was unchanged.				
Cap and Trade	**0.6**	**0.6**	**Low – 2017-18 High – 2018-19**	**2017 Doc/ March Auction**
Impact of a strategy that meets the government's climate change objectives while providing a benefit to the fiscal plan by funding $0.6B in plan projects annually with projected Cap and Trade proceeds.				
Other Revenue Measures	**0.1**	**0.2**	**Low**	**Implemented**
Tobacco tax increase of $3/carton in 2016-17 and indexation thereafter, and the wine strategy.				
Re-profile Asset Optimization Strategy	**0.3**	**–**	**Low**	**Pending**
Strategy assumed sale of OPG headquarters was delayed from 2016-17 to 2017-18.				
Federal Revenue	**1.3**	**1.3**	**High**	**Dec 2016 FMM/ 2017 Fed Budget**
Assumed a potential impact of $1.0 billion in each of 2017-18 and 2018-19 in unconditional infrastructure funding in each year (for in-plan projects). In addition, per-capita homecare and jobs and training funding in each fiscal year (applied to existing spending).				
Update Interest on Debt Outlook	**0.3**	**0.4**	**Low**	**Jan/Feb 2017**
Revised IOD outlook, reflecting updated interest rate forecasts.				
Key Tools included in the 2016 Budget Fiscal Outlook	**2.8**	**2.5**		

Risk Assessment	
Low	Tool is likely to fully materialize
Medium	There is some uncertainty whether the tool will fully materialize
High	Significant uncertainty whether the tool will fully materialize

Assumptions and Tools Included in the 2016 FES

$ Billions	2017-18	2018-19	Risk Assessment	Timing of Outcome/Decision
Revenue Tools	**1.8**	**2.7**		
The FES included more aggressive forecasts for economic growth, federal transfers, and non-tax revenues.				
Taxation				
CIT Revenue Yield	0.5	0.7	**High**	**2017-18 Pub. Accts.**
HST higher revenues	0.3	0.3	**Low**	**December 2016**
Federal Transfers (unconditional)	0.7	1.5	**High**	**Dec 2016 FMM/ 2017 Fed Budget**
Government Business Enterprises	0.2	0.2	**Medium**	**Dec – Jan**
Other Non-tax Revenue	0.1	0.1	**Low**	**2017-18 Pub. Accts.**
Prudence	**1.2**	**1.2**	**High**	**n/a**
The Contingency Funds were drawn down by $0.6 billion in 2017-18 and 2018-19; the Year-End Savings Targets were increased by $0.2 billion in each year, and the Reserve was reduced by $0.4 billion in both years.				
Interest on Debt	**0.8**	**0.7**	**Medium**	**Jan/Feb 2017**
The FES outlook included a significant increase to estimated interest on debt savings.				
Key Tools included in the 2016 FES Fiscal Outlook	**3.7**	**4.6**		
Other Revenue assumptions: PIT carry forward	**0.6**	**0.6**	**Medium**	**June-Dec 2017**

Risk Assessment

Low	Tool is likely to fully materialize
Medium	There is some uncertainty whether the tool will fully materialize
High	Significant uncertainty whether the tool will fully materialize

Revenue Measures in Ontario since 2012

- Some key Ontario tax changes over the past four years include:
  - Over $325M in annual savings/additional revenue from business tax credits.
  - Increased the top statutory income tax rate from 11.16 per cent to 13.16 per cent, on taxable incomes over $500,000.
  - Lowered the taxable income threshold for Ontario's top PIT rate from $514,090 to $220,000; a new tax rate of 12.16 per cent on taxable income between $150,000 and $220,000 was added, increasing taxes for the top two per cent of Ontario tax filers.
  - Revenue neutral changes to the Land Transfer Tax (LTT) were proposed in the *2016 FES:*
    - Increased LTT rate from 2% to 2.5% on portion of the value of the consideration over $2 million for one or two single family residences and from 1.5% to 2% on the portion of the value of the consideration over $400,000 for all other property types.
    - Revenue from the aforementioned rate increases to be used to double the maximum LTT refund for first-time homebuyers from $2,000 to $4,000.

Asset Optimization Outlook: Changes since 2016 Budget

- Budget 2016 outlook assumed ~15% of Hydro One shares sold in each of 2017-18 and 2018-19. Based on updates, could imply ~12% sold to the market / ~3% sold to First Nations and Métis Nation of Ontario in 17-18, ~15% sold to the market in 18-19.
- The following provides a preliminary, illustrative (based on a recent low Hydro One share price) update summary of revisions to the asset optimization outlook since the 2016 Budget, including the secondary sale in April 2016 at a higher than projected gain, but increased forgone net income. Given recent volatility in share prices and interest rates, further assessment will be needed closer to a transaction date.
- **2016-17:** Tracking slightly lower than plan, driven by push in expected timing for Seaton land sales to future fiscal years and higher than expected book value of Hydro One Brampton reducing gain on sale, partially offset by the higher LCBO gain.
  - The outlook also assumes ~$70M gain from Hydro One share sales to OPG is not recognized in 2016-17.
- **2017-18:** Tracking lower than plan, primarily due to lower forecasted benefits from Hydro One shares sales driven by:
  - lower potential market prices for Hydro One shares, based on market prices in Nov. / Dec. 2016 -- recent reduction from a high of $26.59/share in July 2016 to a low of $22.65/share in November 2016
  - agreement-in-principle with COO to sell Hydro One shares @ $18/share / provide up to $45M in 2017-18 in seed capital
  - a potential similar agreement with the Métis Nation of Ontario
  - higher forecasted carrying value (book value) of Hydro One shares, due to the higher deferred tax benefit reported in 2015, which negatively affects projected future gains on sale
- **2018-19:** Lower than plan, primarily due to Hydro One shares, driven by the market price and book value issues noted above.

$ Millions	2016-17	2017-18	2018-19
2016 Budget AO Outlook	*685*	*695*	*170*
Changes since 2016 Budget			
Hydro One	*20*	*(335)*	*(305)*
Hydro One Brampton	*(70)*	*(5)*	*(5)*
LCBO Head Office Lands	*50*	*-*	*-*
OPG Headquarters and Parking Garage	*-*	*(5)*	*-*
Seaton Lands	*(70)*	*40*	*-*
Lakeview Lands	*-*	*(20)*	*-*
Total AO Variance	*(75)*	*(325)*	*(305)*
Revised AO Outlook*	610	370	(135)

** Hydro One impacts include the following assumed IOD savings: $115 M in 2016-17 / $164 M in 2017-18 / $258 M in 2018-19 that are subject to potential reporting reclassification. Numbers are rounded to the nearest $5M and may not add due to rounding. All asset optimization values are subject to market conditions, and with increased uncertainty in out years.*

Asset Optimization Scenario: Acceleration of Hydro One Share Sales to 2017-18

- The following scenario shows an acceleration of Hydro One share sales to 2017-18.
- The scenario below assumes ~26% of Hydro One common shares are sold in 2017-18. This would
  - Offset a significant portion of the current projected negative AO variance in 2017-18 by shifting forward gains on sale. AO outlook for 2017-18 still remains about $65M lower than Budget 2016, taking into account recent low share prices.
  - Leave 4% of shares as a cushion to maintain Hydro One share ownership of at least 40%
  - Leave no shares available for sale in 2018-19 if a 4% cushion maintained, with a significant negative impact of about ($685)M in 2018-19 (this includes the impact of higher forgone Hydro One net income due to a sooner lower Provincial ownership share)
  - Potentially add downward pressure on market prices and upward pressure on sale discount or fees under a scenario with a high volume of shares sales at once / in one year, further lowering realised gains on sale.
- All estimates are subject to a number of factors, most notably the market price of Hydro One shares and the % of shares sold.
  - Under a ~15% share sale in a fiscal year, each $1 change in the market price of Hydro One shares would change the annual impact by about $90M.
  - Under a ~23% share sale in a fiscal year (noting no change for First Nation and Métis transactions, assumed at a fixed price), each $1 change in the Hydro One share price would change the total impact by about $135M.
  - Each 1 percentage point change in Hydro One share sales would change the net impact, in 2017-18, by about $25M.
- Other risks would include market risk, interest rate environment, OEB regulatory decisions, and impact of any Hydro One acquisition activities.

$ Millions	2016-17	2017-18	2018-19
2016 Budget AO Outlook	*685*	*695*	*170*
Changes since 2016 Budget			
Hydro One	*20*	*(75)*	*(685)*
Hydro One Brampton	*(70)*	*(5)*	*(5)*
LCBO Head Office Lands	*50*	*-*	*-*
OPG Headquarters and Parking Garage	*-*	*(5)*	*-*
Seaton Lands	*(70)*	*40*	*-*
Lakeview Lands	*-*	*(20)*	*-*
Total AO Variance	*(75)*	*(65)*	*(685)*
Revised AO Outlook*	610	630	(515)

** Hydro One impacts include the following assumed IOD savings: $115 M in 2016-17 / $201 M in 2017-18 / $226 M in 2018-19 that are subject to reporting reclassification. Numbers are rounded to the nearest $5M and may not add due to rounding. All asset optimization values are subject to market conditions, and with increased uncertainty in out years.*

2016 Budget AO Outlook

- The table below provides a summary of the estimated contributions from AO, assumed for 2016 Budget fiscal planning purposes. Of note:
  - The estimates assumed that 14 $^{2}/_{3}$ per cent of Hydro One shares would be sold in each of fiscal 2016-17, 2017-18 and 2018-19.
  - In addition to the sale of the LCBO head office lands in 2016-17, the estimates assumed that the process to sell the Seaton lands in parcels would begin in 2016-17, with gains occurring in 2016-17 and 2017-18. Hydro One Brampton was assumed to be sold mid 2016-17, and the OPG HQ and Lakeview lands were assumed to be sold in 2017-18.

AO Contribution Summary ($M)*	**2016-17**	**2017-18**	**2018-19**
Hydro One components:			
+ Gain on Sale	*415*	*515*	*575*
- Loss of Net Income and PILs (from cumulative % sold)	*(375)*	*(535)*	*(700)*
+ Potential Interest Savings (from cumulative proceeds)	*155*	*240*	*330*
Hydro One	195	220	200
Hydro One Brampton	200	5	5
LCBO Head Office Lands	195	(5)	(5)
OPG Headquarters and Parking Garage	-	310	(30)
Lakeview	-	75	-
Seaton	85	90	-
GM Shares	-	-	-
2016 Budget AO Outlook	**685**	**695**	**170**

* *Numbers rounded to the nearest $5M. Numbers may not add due to rounding. Numbers shown are estimated net impacts (e.g., net of book value and costs, any revenue losses and IOD savings). The AO outlook has been revised down from initial outlook at the time of the 2016 Budget, driven by additional expense allocations that were provided to the Ministry of Energy (ENERGY) to support broadening Hydro One ownership. GM contribution includes both 2013-14 and 2014-15 amounts from GM Share sales.*

From:	Shemin Meralli
To:	Erica Wieder
Cc:	Ken Kandeepan; George Sakura; Kevin Hwang
Subject:	Net Debt Slides update
Date:	Thursday, January 12, 2017 2:48:35 PM
Attachments:	FES 2016 deck slide 3 - Jan 11, 2017 updates .xlsx FES 2016 deck slide 1, 2 and 4 - Jan 11, 2017 updates.xlsx

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Hi Erica,

Please see attached which includes the updated numbers for the net debt slides.

Thanks

Shemin

Net Debt to Revenue and GDP Ratios

Ontario

2016-17 FES - excl pension a

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue
Actual	1989-90	282,766	35,409	46,500	12.52	76.1
Actual	1990-91	287,334	38,438	49,002	13.38	78.4
Actual	1991-92	288,217	49,368	47,527	17.13	103.9
Actual	1992-93	293,068	61,796	49,122	21.09	125.8
Actual	1993-94	302,245	80,599	51,410	26.67	156.8
Actual	1994-95	319,986	90,728	53,962	28.35	168.1
Actual	1995-96	337,400	101,864	57,898	30.19	175.9
Actual	1996-97	347,842	108,769	58,060	31.27	187.3
Actual	1997-98	368,960	112,735	61,362	30.55	183.7
Actual	1998-99	389,250	114,737	63,044	29.48	182.0
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3
Actual	2000-01	452,238	132,496	72,258	29.30	183.4
Actual	2001-02	469,084	132,121	72,550	28.17	182.1
Actual	2002-03	494,815	132,647	74,938	26.81	177.0
Actual	2003-04	509,511	138,816	74,549	27.24	186.2
Actual	2004-05	533,365	140,921	84,192	26.42	167.4
Actual	2005-06	556,635	152,702	90,738	27.43	168.3
Actual	2006-07	578,241	153,742	97,120	26.59	158.3
Actual	2007-08	601,735	156,616	104,115	26.03	150.4
Actual	2008-09	608,446	169,585	97,532	27.87	173.9
Actual	2009-10	597,882	193,589	96,313	32.38	201.0
Actual	2010-11	630,989	214,511	107,175	34.00	200.2
Actual	2011-12	659,743	235,582	109,773	35.71	214.6
Actual	2012-13	680,084	252,088	113,369	37.07	222.4
Actual	2013-14	695,349	267,190	115,911	38.43	230.5
Actual	2014-15	727,962	284,576	118,546	39.09	240.1
Actual	2015-16	763,276	294,579	128,377	38.59	229.5
	2016-17 Outloo	789,176	307,353	130,589	38.95	235.4
	2017-18 Outloo	821,389	315,996	137,729	38.47	229.4
	2018-19 Outloo	854,990	325,901	141,920	38.12	229.6
	2019-20 Outloo	888,355	335,872		37.81	
	2020-21 Outloo	923,890	343,980		37.23	
	2021-22 Outloo	960,845	348,865		36.31	
	2022-23 Outloo	999,279	350,873		35.11	
	2023-24 Outloo	1,039,250	351,725		33.84	
	2024-25 Outloo	1,080,820	351,104		32.48	
	2025-26 Outloo	1,124,053	348,855		31.04	

Scenario 1:
See tab "GDP and Deficit" - for GDP numbers 2016-17 to 2025-26 (received
See tab "TCA" - for updated TCA numbers 2016-17 to 2025-26 (received Jar

Scenario Assumptions (as per "GDP and Deficit " tab):
i) Forecast for GDP is consistent with the 2016 Economic Outlook and Fiscal

Prepared by OFA, FTD
11-Jan-17

djustment - scenario 1 (adj 2015/16)

Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP
35,409	12.52	-			(90)	282,766
38,438	13.38	-			3,029	287,334
49,368	17.13	-			10,930	288,217
61,796	21.09	-			12,428	293,068
80,599	26.67	-			11,202	302,245
90,728	28.35	-			10,129	319,986
101,864	30.19	-			8,800	337,400
108,769	31.27	-			6,905	347,842
112,735	30.55	-			3,966	368,960
114,737	29.48	-			2,002	389,250
134,398	32.13	-			(668)	418,245
132,496	29.30	-			(1,902)	452,238
132,121	28.17	-			(375)	469,084
118,705	23.99	13,942			(117)	494,815
124,188	24.37	14,628			5,483	509,511
125,743	23.58	15,178			1,555	533,365
109,155	19.61	43,547			(298)	556,635
106,776	18.47	46,966		(110)	(2,269)	578,241
105,617	17.55	50,999	(559)		(600)	601,735
113,238	18.61	56,347	1,212		6,409	608,446
130,957	21.90	62,632	1,090	-	19,262	597,882
144,573	22.91	69,938	(395)	-	14,011	630,989
158,410	24.01	77,172	3	865	12,969	659,743
167,132	24.58	84,956	(639)	141	9,220	680,084
176,634	25.40	90,556	(951)	-	10,453	695,349
187,511	25.76	97,065	(1,121)	1,683	10,315	727,962
192,043	25.16	102,536	1,003	-	3,529	763,276
196,367	24.88	110,986			4,324	789176
196,367	23.91	119,629			-	821389
196,367	22.97	129,534			-	854990
196,367	22.10	139,505			-	
196,367	21.25	147,613			-	
196,367	20.44	152,498			-	
196,367	19.65	154,506			-	
196,367	18.90	155,358			-	
196,367	18.17	154,737			-	
196,367	17.47	152,488			-	

l Jan 5, 2017)
า 5, 2017)

Review and preliminary 2017 Long-Term Report on the Economy.

2016-17 FES - with pension adjustment						
Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA
35,409	46,500	12.52	76.1	35,409	12.52	-
38,438	49,002	13.38	78.4	38,438	13.38	-
49,368	47,527	17.13	103.9	49,368	17.13	-
61,796	49,122	21.09	125.8	61,796	21.09	-
80,599	51,410	26.67	156.8	80,599	26.67	-
90,728	53,962	28.35	168.1	90,728	28.35	-
101,864	57,898	30.19	175.9	101,864	30.19	-
108,769	58,060	31.27	187.3	108,769	31.27	-
112,735	61,362	30.55	183.7	112,735	30.55	-
114,737	63,044	29.48	182.0	114,737	29.48	-
134,398	70,983	32.13	189.3	134,398	32.13	-
132,496	72,258	29.30	183.4	132,496	29.30	-
132,121	72,550	28.17	182.1	132,121	28.17	-
132,647	74,938	26.81	177.0	118,705	23.99	13,942
138,816	74,549	27.24	186.2	124,188	24.37	14,628
140,921	84,192	26.42	167.4	125,743	23.58	15,178
152,702	90,738	27.43	168.3	109,155	19.61	43,547
153,742	97,120	26.59	158.3	106,776	18.47	46,966
156,616	104,115	26.03	150.4	105,617	17.55	50,999
169,585	97,532	27.87	173.9	113,238	18.61	56,347
193,589	96,313	32.38	201.0	130,957	21.90	62,632
214,511	107,175	34.00	200.2	144,573	22.91	69,938
235,582	109,773	35.71	214.6	158,410	24.01	77,172
252,088	113,369	37.07	222.4	167,132	24.58	84,956
267,190	115,911	38.43	230.5	176,634	25.40	90,556
284,576	118,546	39.09	240.1	187,511	25.76	97,065
305,233	128,377	39.99	237.8	202,697	26.56	102,536
317,948	130,589	40.29	243.5	207,021	26.23	110,927
326,551	137,729	39.76	237.1	207,003	25.20	119,548
336,419	141,920	39.35	237.0	206,991	24.21	129,428
346,366		#DIV/0!		206,991	#DIV/0!	139,375
354,451				206,991		147,460

ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenu
		(90)	-	-	-	-	-
		3,029	-	-	-	-	-
		10,930	-	-	-	-	-
		12,428	-	-	-	-	-
		11,202	-	-	-	-	-
		10,129	-	-	-	-	-
		8,800	-	-	-	-	-
		6,905	-	-	-	-	-
		3,966	-	-	-	-	-
		2,002	-	-	-	-	-
		(668)	-	-	-	-	-
		(1,902)	-	-	-	-	-
		(375)	-	-	-	-	-
		(117)	-	-	-	-	-
		5,483	-	-	-	-	-
		1,555	-	-	-	-	-
		(298)	-	-	-	-	-
	(110)	(2,269)	-	-	-	-	-
(559)		(600)	-	-	-	-	-
1,212		6,409	-	-	-	-	-
1,090	-	19,262	-	-	-	-	-
(395)	-	14,011	-	-	-	-	-
3	865	12,969	-	-	-	-	-
(639)	141	9,220	-	-	-	-	-
(951)	-	10,453	-	-	-	-	-
(1,121)	1,683	10,315	-	-	-	-	-
1,003	9,154	5,029	-	(10,654.00)	-	(1.40)	(8.30)
		4,324	-	(10,595.00)	-	(1.34)	(8.11)
		(18)	-	(10,555.00)	-	(1.29)	(7.66)
		(12)	-	(10,518.00)	-	(1.23)	(7.41)
		-					
		-					

Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(10,654.00)	(1.40)	-	-	(9,154.00)	(1,500.00)
(10,654.00)	(1.35)	59.00	-	-	-
(10,636.00)	(1.29)	81.00	-	-	18.00
(10,624.00)	(1.24)	106.00	-	-	12.00

2016-17 FES - excl pension adjustment (adj 2015/16)

excluding Pension Adj 2015-16

($millions)	Deficit/(Surplus)	Change in TCA	Change in GDP
2008-09	6,409.00	5,348.00	6,711.00
2009-10	19,262.00	6,285.00	(10,564.00)
2010-11	14,011.00	7,306.00	33,107.00
2011-12	12,969.00	7,234.00	28,754.00
2012-13	9,220.00	7,784.00	20,341.00
2013-14	10,453.00	5,600.00	15,265.00
2014-15	10,315.00	6,509.00	32,613.00
2015-16	3,529.00	5,471.00	35,314.00
2016-17 Outlook	4,324.00	8,450.00	25,900.00
2017-18 Outlook	-	8,643.00	32,213.00
2018-19 Outlook	-	9,905.00	33,601.00
2019-20 Outlook	-	9,971.00	33,365.00
2020-21 Outlook	-	8,108.00	35,535.00
2021-22 Outlook	-	4,885.00	36,955.00

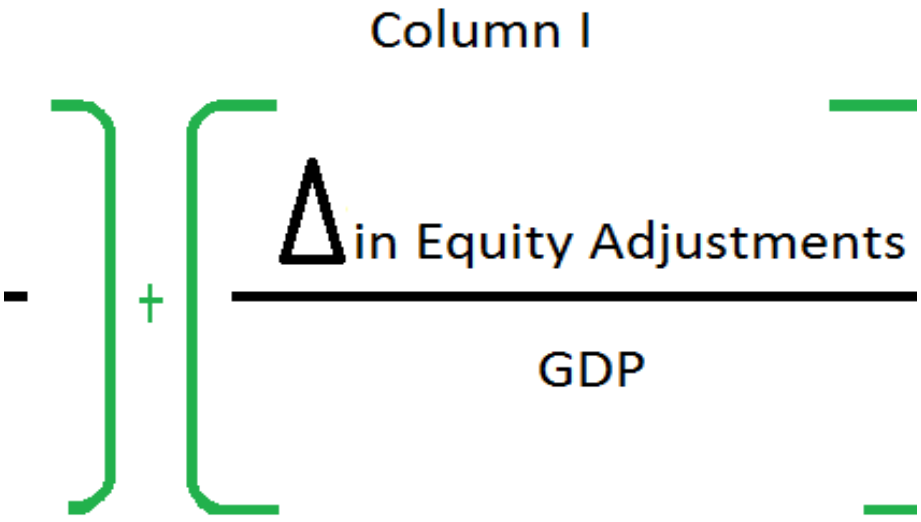
Mathematical Formula

Column G

$$\left[\frac{\Delta \text{in Deficit Surplus}}{\text{GDP}}\right] + \left[\frac{\Delta \text{in TCA}}{\text{GDP}}\right]$$

Column H

Changes due to the Numerator		
G	H	I
% Change in Net Debt to GDP Due to Annual Deficit/(Surplus)	% Change in Net Debt to GDP Due to Changes in TCA	% Change in Net Debt to GDP Due to Miscellaneous Adjustments
1.07	0.89	0.20
3.17	1.03	(0.25)
2.34	1.22	(0.07)
2.06	1.15	0.14
1.40	1.18	(0.08)
1.54	0.82	(0.14)
1.48	0.94	0.08
0.48	0.75	0.14
0.57	1.11	0.00
0.00	1.10	0.00
0.00	1.21	0.00
0.00	1.17	0.00
0.00	0.91	0.00
0.00	0.53	0.00



Changes due to the Denominator		
J	K=G+H+I+J	
% Change in Net Debt to GDP Due to Changes in GDP	% Total change	Calculated Total Change in Net Debt to GDP
(0.31)	1.84	1.84
0.56	4.51	4.51
(1.88)	1.62	1.62
(1.63)	1.71	1.71
(1.14)	1.36	1.36
(0.86)	1.36	1.36
(1.83)	0.67	0.67
(1.87)	(0.50)	(0.50)
(1.32)	0.35	0.35
(1.57)	(0.48)	(0.48)
(1.56)	(0.35)	(0.35)
(1.48)	(0.31)	(0.31)
(1.49)	(0.58)	(0.58)
(1.45)	(0.92)	(0.92)

Column J

$$\left[+ \left[\frac{\Delta \text{Net Debt year 2} * (\text{GDP yr 1} - \text{GDP yr 2}}{\text{GDP yr 1} * \text{GDP yr 2}} \right] \right.$$

Actual Change in Net Debt to GDP	Variance
1.84	(0.00)
4.51	0.00
1.62	(0.00)
1.71	(0.00)
1.36	0.00
1.36	0.00
0.67	(0.00)
(0.50)	(0.00)
0.35	0.00
(0.48)	(0.00)
(0.35)	0.00
(0.31)	0.00
(0.58)	0.00
(0.92)	(0.00)



Net Debt to Revenue and GDP Ratios																				
Ontario		2016-17 FES - Excluding Pension Adjustment (adj 2015/16)												2016-17 FES - with pension adjustment						
					Net Debt As	Net Debt As	Accumulated	Acc Deficit		ONFA	Other	Deficit/					Net Debt As	Net Debt As	Accumulated	Acc Deficit	
	Fiscal Year	GDP	Net Debt	Revenue	% to GDP	% to Revenue	Deficit	to GDP	TCA	Adj.	Adj.	(Surplus)		GDP	Net Debt	Revenue	% to GDP	% to Revenue	Deficit	to GDP	TCA
Actual	1989-90	282,766	35,409	46,500	12.52	76.1	35,409	12.5	-			(90)		282,766	35,409	46,500	12.52	76.1	35,409	12.5	-
Actual	1990-91	287,334	38,438	49,002	13.38	78.4	38,438	13.4	-			3,029		287,334	38,438	49,002	13.38	78.4	38,438	13.4	-
Actual	1991-92	288,217	49,368	47,527	17.13	103.9	49,368	17.1	-			10,930		288,217	49,368	47,527	17.13	103.9	49,368	17.1	-
Actual	1992-93	293,068	61,796	49,122	21.09	125.8	61,796	21.1	-			12,428		293,068	61,796	49,122	21.09	125.8	61,796	21.1	-
Actual	1993-94	302,245	80,599	51,410	26.67	156.8	80,599	26.7	-			11,202		302,245	80,599	51,410	26.67	156.8	80,599	26.7	-
Actual	1994-95	319,986	90,728	53,962	28.35	168.1	90,728	28.4	-			10,129		319,986	90,728	53,962	28.35	168.1	90,728	28.4	-
Actual	1995-96	337,400	101,864	57,898	30.19	175.9	101,864	30.2	-			8,800		337,400	101,864	57,898	30.19	175.9	101,864	30.2	-
Actual	1996-97	347,842	108,769	58,060	31.27	187.3	108,769	31.3	-			6,905		347,842	108,769	58,060	31.27	187.3	108,769	31.3	-
Actual	1997-98	368,960	112,735	61,362	30.55	183.7	112,735	30.6	-			3,966		368,960	112,735	61,362	30.55	183.7	112,735	30.6	-
Actual	1998-99	389,250	114,737	63,044	29.48	182.0	114,737	29.5	-			2,002		389,250	114,737	63,044	29.48	182.0	114,737	29.5	-
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3	134,398	32.1	-			(668)		418,245	134,398	70,983	32.13	189.3	134,398	32.1	-
Actual	2000-01	452,238	132,496	72,258	29.30	183.4	132,496	29.3	-			(1,902)		452,238	132,496	72,258	29.30	183.4	132,496	29.3	-
Actual	2001-02	469,084	132,121	72,550	28.17	182.1	132,121	28.2	-			(375)		469,084	132,121	72,550	28.17	182.1	132,121	28.2	-
Actual	2002-03	494,815	132,647	74,938	26.81	177.0	118,705	24.0	13,942			(117)		494,815	132,647	74,938	26.81	177.0	118,705	24.0	13,942
Actual	2003-04	509,511	138,816	74,549	27.24	186.2	124,188	24.4	14,628			5,483		509,511	138,816	74,549	27.24	186.2	124,188	24.4	14,628
Actual	2004-05	533,365	140,921	84,192	26.42	167.4	125,743	23.6	15,178			1,555		533,365	140,921	84,192	26.42	167.4	125,743	23.6	15,178
Actual	2005-06	556,635	152,702	90,738	27.43	168.3	109,155	19.6	43,547			(298)		556,635	152,702	90,738	27.43	168.3	109,155	19.6	43,547
Actual	2006-07	578,241	153,742	97,120	26.59	158.3	106,776	18.5	46,966		(110)	(2,269)		578,241	153,742	97,120	26.59	158.3	106,776	18.5	46,966
Actual	2007-08	601,735	156,616	104,115	26.03	150.4	105,617	17.6	50,999	(559)		(600)		601,735	156,616	104,115	26.03	150.4	105,617	17.6	50,999
Actual	2008-09	608,446	169,585	97,532	27.87	173.9	113,238	18.6	56,347	1,212		6,409		608,446	169,585	97,532	27.87	173.9	113,238	18.6	56,347
Actual	2009-10	597,882	193,589	96,313	32.38	201.0	130,957	21.9	62,632	1,090	-	19,262		597,882	193,589	96,313	32.38	201.0	130,957	21.9	62,632
Actual	2010-11	630,989	214,511	107,175	34.00	200.2	144,573	22.9	69,938	(395)	-	14,011		630,989	214,511	107,175	34.00	200.2	144,573	22.9	69,938
Actual	2011-12	659,743	235,582	109,773	35.71	214.6	158,410	24.0	77,172	3	865	12,969		659,743	235,582	109,773	35.71	214.6	158,410	24.0	77,172
Actual	2012-13	680,084	252,088	113,369	37.07	222.4	167,132	24.6	84,956	(639)	141	9,220		680,084	252,088	113,369	37.07	222.4	167,132	24.6	84,956
Actual	2013-14	695,349	267,190	115,911	38.43	230.5	176,634	25.4	90,556	(951)	-	10,453		695,349	267,190	115,911	38.43	230.5	176,634	25.4	90,556
Actual	2014-15	727,962	284,576	118,546	39.09	240.1	187,511	25.8	97,065	(1,121)	1,683	10,315		727,962	284,576	118,546	39.09	240.1	187,511	25.8	97,065
Actual	2015-16 (unaudited	763,276	294,579	128,377	38.59	229.5	192,043	25.2	102,536	1,003	-	3,529		763,276	305,233	128,377	39.99	237.8	202,697	26.6	102,536
	2016-17 Outlook	789,176	307,353	130,589	38.95	235.4	196,367	24.9	110,986			4,324		789176	317,948	130,589	40.29	243.5	207,021	26.2	110,927
	2017-18 Outlook	821,389	315,996	137,729	38.47	229.4	196,367	23.9	119,629			-		821389	326,551	137,729	39.76	237.1	207,003	25.2	119,548
	2018-19 Outlook	854,990	325,901	141,920	38.12	229.6	196,367	23.0	129,534			-		854990	336,419	141,920	39.35	237.0	206,991	24.2	129,428
	2019-20 Outlook	888,355	335,872		37.81		196,367	22.1	139,505			-			346,366		#DIV/0!	#DIV/0!	206,991	#DIV/0!	139,375
	2020-21 Outlook	923,890	343,980		37.23		196,367	21.3	147,613			-			354,451			#DIV/0!	206,991		147,460
	2021-22 Outlook	960,845	348,865		36.31		196,367	20.4	152,498			-									
	2022-23 Outlook	999,279	350,873		35.11		196,367	19.7	154,506			-									
	2023-24 Outlook	1,039,250	351,725		33.84		196,367	18.9	155,358			-									
	2024-25 Outlook	1,080,820	351,104		32.48		196,367	18.2	154,737			-									
	2025-26 Outlook	1,124,053	348,855		31.04		196,367	17.5	152,488			-									
	2026-27 Outlook	1,166,767	348,855		29.90		196,367	16.8	152,488			-									
	2027-28 Outlook	1,211,104	348,855		28.80		196,367	16.2	152,488			-									
	2028-29 Outlook	1,259,548	348,855		27.70		196,367	15.6	152,488			-									

Net Debt to Revenue and GDI				
Ontario				
		ONFA	Other	Deficit/
	Fiscal Year	Adj.	Adj.	(Surplus)
Actual	1989-90			(90)
Actual	1990-91			3,029
Actual	1991-92			10,930
Actual	1992-93			12,428
Actual	1993-94			11,202
Actual	1994-95			10,129
Actual	1995-96			8,800
Actual	1996-97			6,905
Actual	1997-98			3,966
Actual	1998-99			2,002
Actual	1999-2000			(668)
Actual	2000-01			(1,902)
Actual	2001-02			(375)
Actual	2002-03			(117)
Actual	2003-04			5,483
Actual	2004-05			1,555
Actual	2005-06			(298)
Actual	2006-07		(110)	(2,269)
Actual	2007-08	(559)		(600)
Actual	2008-09	1,212		6,409
Actual	2009-10	1,090	-	19,262
Actual	2010-11	(395)	-	14,011
Actual	2011-12	3	865	12,969
Actual	2012-13	(639)	141	9,220
Actual	2013-14	(951)	-	10,453
Actual	2014-15	(1,121)	1,683	10,315
Actual	2015-16 (unaudited	1,003	9,154	5,029
	2016-17 Outlook			4,324
	2017-18 Outlook			(18)
	2018-19 Outlook			(12)
	2019-20 Outlook			-
	2020-21 Outlook			-
	2021-22 Outlook			
	2022-23 Outlook			
	2023-24 Outlook			
	2024-25 Outlook			
	2025-26 Outlook			
	2026-27 Outlook			
	2027-28 Outlook			
	2028-29 Outlook			

Net Debt to Revenue and GDF										
Ontario		Comparison: 2016 Public Accounts/FES vs Scenario Analysis								
				Net Debt As	Accumulated	Acc Deficit		ONFA	Other	Deficit/
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP	TCA	Adj.	Adj.	(Surplus)
Actual	1989-90	-	-	-	-	-	-	-	-	-
Actual	1990-91	-	-	-	-	-	-	-	-	-
Actual	1991-92	-	-	-	-	-	-	-	-	-
Actual	1992-93	-	-	-	-	-	-	-	-	-
Actual	1993-94	-	-	-	-	-	-	-	-	-
Actual	1994-95	-	-	-	-	-	-	-	-	-
Actual	1995-96	-	-	-	-	-	-	-	-	-
Actual	1996-97	-	-	-	-	-	-	-	-	-
Actual	1997-98	-	-	-	-	-	-	-	-	-
Actual	1998-99	-	-	-	-	-	-	-	-	-
Actual	1999-2000	-	-	-	-	-	-	-	-	-
Actual	2000-01	-	-	-	-	-	-	-	-	-
Actual	2001-02	-	-	-	-	-	-	-	-	-
Actual	2002-03	-	-	-	-	-	-	-	-	-
Actual	2003-04	-	-	-	-	-	-	-	-	-
Actual	2004-05	-	-	-	-	-	-	-	-	-
Actual	2005-06	-	-	-	-	-	-	-	-	-
Actual	2006-07	-	-	-	-	-	-	-	-	-
Actual	2007-08	-	-	-	-	-	-	-	-	-
Actual	2008-09	-	-	-	-	-	-	-	-	-
Actual	2009-10	-	-	-	-	-	-	-	-	-
Actual	2010-11	-	-	-	-	-	-	-	-	-
Actual	2011-12	-	-	-	-	-	-	-	-	-
Actual	2012-13	-	-	-	-	-	-	-	-	-
Actual	2013-14	-	-	-	-	-	-	-	-	-
Actual	2014-15	-	-	-	-	-	-	-	-	-
Actual	2015-16 (unaudited	-	10,654	1.4	10,654	1.4	-	-	9,154	1,500
	2016-17 Outlook	-	10,595	1.3	10,654	1.4	(59)	-	-	-
	2017-18 Outlook	-	10,555	1.3	10,636	1.3	(81)	-	-	(18)
	2018-19 Outlook	-	10,518	1.2	10,624	1.2	(106)	-	-	(12)
	2019-20 Outlook	(888,355)	10,494	#DIV/0!	10,624	#DIV/0!	(130)	-	-	-
	2020-21 Outlook									
	2021-22 Outlook									
	2022-23 Outlook									
	2023-24 Outlook									
	2024-25 Outlook									
	2025-26 Outlook									
	2026-27 Outlook									
	2027-28 Outlook									
	2028-29 Outlook									

Analysis of Net Debt

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Opening balance	(156,616)	(169,585)	(193,589)	(214,511)	(235,582)	(252,088)
Deficit	(6,409)	(19,262)	(14,011)	(12,969)	(9,220)	(10,453)
IFRS Transitional Impact				(758)		
PSAB Transitional Impact				(107)	(141)	(1,683)
Pension Adjustment (prior years)						
Adjustments						
Total Deficit	(6,409)	(19,262)	(14,011)	(13,834)	(9,361)	(12,136)
Tangible Capital Assets	(6,285)	(5,832)	(7,306)	(7,234)	(7,784)	(5,600)
Ontario Nuclear Fund	(1,212)	1,090	395	(3)	639	951
	(13,906)	(24,004)	(20,922)	(21,071)	(16,506)	(16,785)
	(13,906)	(24,004)	(20,922)	(21,071)	(16,506)	(16,785)
Ending balance	(170,522)	(193,589)	(214,511)	(235,582)	(252,088)	(268,873)

				Percentage %		
Deficit	46.09	80.24	66.97	65.65	56.71	72.30
Other	8.72	(4.54)	(1.89)	0.01	(3.87)	(5.67)
Total Deficit	**54.80**	**75.70**	**65.08**	**65.67**	**52.84**	**66.64**
Tangible Capital Assets	**45.20**	**24.30**	**34.92**	**34.33**	**47.16**	**33.36**
	100.00	100.00	100.00	100.00	100.00	100.00

For use with slide 2

In year approvals added to TCA for 2016-17 only, but not any

2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total
(268,873)	(284,576)	(294,579)	(307,353)	(315,996)	(325,901)	(335,872)	(169,585)
(10,315)	(3,529)	(4,324)	0	0			(84,083)
							(758)
							(1,931)
	0						0
	0						
(10,315)	(3,529)	(4,324)	0	0	0	0	(86,772)
(6,509)	(5,471)	(8,450)	(8,643)	(9,905)	(9,971)	(8,108)	(90,813)
1,121	(1,003)						3,190
(15,703)	(10,003)	(12,774)	(8,643)	(9,905)	(9,971)	(8,108)	(174,395)
(15,703)	(20,657)						
(284,576)	(294,579)	(307,353)	(315,996)	(325,901)	(335,872)	(343,980)	(343,980)

65.69	35.28	33.85	0.00	0.00	0.00	0.00
(7.14)	10.03	0.00	0.00	0.00	0.00	0.00
58.55	**45.31**	**33.85**	**0.00**	**0.00**	**0.00**	**0.00**
41.45	**54.69**	**66.15**	**100.00**	**100.00**	**100.00**	**100.00**

100.00	100.00	100.00	100.00	100.00	100.00	100.00

risks. Deprecation in out years for in year approvals not taken.

2008-09 to 2015-16
(col C to col J)

(79,759)
(758)
(1,931)
0
(82,448)
(45,736)
3,190
(124,994)

65.96
(2.55)
63.41
36.59
100.00

2016-17 FES - Excluding Pens					
			Scenario	What is the change in GDP that wi	
2016-17 GDP			789,176		
2016-17 Net Debt to GDP %			0.3890		
2016-17 Net Debt			307,353		
			Net Debt to GDP		Scenario GDP
by up	0.01%		307,353	=	789,907.00
	38.91	0.3891	0.3891002		
by down	0.10%	0.3880	307,353	=	792,147.00
	38.80		0.3880000		

Scenario	What is the change in net debt hol result?
	Change in Net Debt
Projected ND +	-285
Projected ND -	1153

Draft wording for slide 4:

For 2016-17, the net debt-to-GDP ratio is 38.9%.

An decrease of $285 million to net

An increase of $1,153 million to ne

Since the 2016-17 net debt-to-GDI
38.91% versus the larger changes

ion Adjustment (adj 2015/16)

ll make the Net Debt ratio change by 0.1%?

Actual Projected GDP	GDP Variance	GDP Variance %
789,176.00	731.00	0.09%
789,176.00	2,971.00	0.38%

lding GDP constant that will yield the same

Scenario Net Debt	Scenario Net Debt to GDP	Rounded	Target
307,068	38.909952%	38.91%	38.91
306,200	38.799964%	38.80%	38.80

: debt or a increase of $731 million in nominal GDP would increase the net-debt-to-GDP ratio to 38.91%

et debt or an increase of $2,971 million in nominal GDP would decrease the net-debt-to-GDP ratio to 38

P ratio was 38.9% smaller changes to net debt or nominal GDP resulted in changing the net debt-to-GDP
required to lower the ratio to 38.8%.

.

.8%.

› ratio to

From:	John Psinas
To:	Ken Kandeepan
Cc:	George Sakura; Shemin Meralli
Subject:	Net Debt scenarios - October 20, 2016
Date:	Thursday, October 20, 2016 10:31:40 AM
Attachments:	Net Debt - 2016-17 -FES (Oct 20 2016) .xlsx

Ken,

Please find attached the requested scenario analyses. Please note we used revised GDP numbers used for the FES, as well as the most current capital numbers given to us by CPD used in earlier scenario analyses.

Thanks.

John

Net Debt to GDP %

	2016-17	2017-18	2018-19
Option 1	41.1	40.5	40.0
Option 2	41.2	40.6	40.1
Option 3	41.1	40.5	40.0

Option 1: Incorporates partial impact by taking half of pension asset accountin

Option 2 : Incorporates full potential impact of pension asset accounting chang

Option 3: Pension adjustment equals the deficit.

g change ($1.1b in 2016-17, $1.4b in 2017-18 an d$1.9b in 2018-19)
e.

Net Debt to Revenue and GDP Ratios																				
Ontario		2016-17 FES - Scenario 1											2016 Public Accounts							
					Net Debt As	Net Debt As	Accumulated	Acc Deficit		ONFA	Other	Deficit/				Net Debt As	Net Debt As	Accumulated	Acc Deficit	
	Fiscal Year	GDP	Net Debt	Revenue	% to GDP	% to Revenue	Deficit	to GDP	TCA	Adj.	Adj.	(Surplus)	GDP	Net Debt	Revenue	% to GDP	% to Revenue	Deficit	to GDP	TCA
Actual	1989-90	282,766	35,409	46,500	12.5	76.1	35,409	12.5	-			(90)	282,766	35,409	46,500	12.5	76.1	35,409	12.5	-
Actual	1990-91	287,334	38,438	49,002	13.4	78.4	38,438	13.4	-			3,029	287,334	38,438	49,002	13.4	78.4	38,438	13.4	-
Actual	1991-92	288,217	49,368	47,527	17.1	103.9	49,368	17.1	-			10,930	288,217	49,368	47,527	17.1	103.9	49,368	17.1	-
Actual	1992-93	293,068	61,796	49,122	21.1	125.8	61,796	21.1	-			12,428	293,068	61,796	49,122	21.1	125.8	61,796	21.1	-
Actual	1993-94	302,245	80,599	51,410	26.7	156.8	80,599	26.7	-			11,202	302,245	80,599	51,410	26.7	156.8	80,599	26.7	-
Actual	1994-95	319,986	90,728	53,962	28.4	168.1	90,728	28.4	-			10,129	319,986	90,728	53,962	28.4	168.1	90,728	28.4	-
Actual	1995-96	337,400	101,864	57,898	30.2	175.9	101,864	30.2	-			8,800	337,400	101,864	57,898	30.2	175.9	101,864	30.2	-
Actual	1996-97	347,842	108,769	58,060	31.3	187.3	108,769	31.3	-			6,905	347,842	108,769	58,060	31.3	187.3	108,769	31.3	-
Actual	1997-98	368,960	112,735	61,362	30.6	183.7	112,735	30.6	-			3,966	368,960	112,735	61,362	30.6	183.7	112,735	30.6	-
Actual	1998-99	389,250	114,737	63,044	29.5	182.0	114,737	29.5	-			2,002	389,250	114,737	63,044	29.5	182.0	114,737	29.5	-
Actual	1999-2000	418,245	134,398	70,983	32.1	189.3	134,398	32.1	-			(668)	418,245	134,398	70,983	32.1	189.3	134,398	32.1	-
Actual	2000-01	452,238	132,496	72,258	29.3	183.4	132,496	29.3	-			(1,902)	452,238	132,496	72,258	29.3	183.4	132,496	29.3	-
Actual	2001-02	469,084	132,121	72,550	28.2	182.1	132,121	28.2	-			(375)	469,084	132,121	72,550	28.2	182.1	132,121	28.2	-
Actual	2002-03	494,815	132,647	74,938	26.8	177.0	118,705	24.0	13,942			(117)	494,815	132,647	74,938	26.8	177.0	118,705	24.0	13,942
Actual	2003-04	509,511	138,816	74,549	27.2	186.2	124,188	24.4	14,628			5,483	509,511	138,816	74,549	27.2	186.2	124,188	24.4	14,628
Actual	2004-05	533,365	140,921	84,192	26.4	167.4	125,743	23.6	15,178			1,555	533,365	140,921	84,192	26.4	167.4	125,743	23.6	15,178
Actual	2005-06	556,635	152,702	90,738	27.4	168.3	109,155	19.6	43,547			(298)	556,635	152,702	90,738	27.4	168.3	109,155	19.6	43,547
Actual	2006-07	578,241	153,742	97,120	26.6	158.3	106,776	18.5	46,966		(110)	(2,269)	578,241	153,742	97,120	26.6	158.3	106,776	18.5	46,966
Actual	2007-08	601,735	156,616	104,115	26.0	150.4	105,617	17.6	50,999	(559)		(600)	601,735	156,616	104,115	26.0	150.4	105,617	17.6	50,999
Actual	2008-09	608,446	169,585	97,532	27.9	173.9	113,238	18.6	56,347	1,212		6,409	608,446	169,585	97,532	27.9	173.9	113,238	18.6	56,347
Actual	2009-10	597,882	193,589	96,313	32.4	201.0	130,957	21.9	62,632	1,090	-	19,262	597,882	193,589	96,313	32.4	201.0	130,957	21.9	62,632
Actual	2010-11	630,989	214,511	107,175	34.0	200.2	144,573	22.9	69,938	(395)	-	14,011	630,989	214,511	107,175	34.0	200.2	144,573	22.9	69,938
Actual	2011-12	659,743	235,582	109,773	35.7	214.6	158,410	24.0	77,172	3	865	12,969	659,743	235,582	109,773	35.7	214.6	158,410	24.0	77,172
Actual	2012-13	680,084	252,088	113,369	37.1	222.4	167,132	24.6	84,956	(639)	141	9,220	680,084	252,088	113,369	37.1	222.4	167,132	24.6	84,956
Actual	2013-14	693,210	267,190	115,911	38.5	230.5	176,634	25.5	90,556	(951)	-	10,453	693,210	267,190	115,911	38.5	230.5	176,634	25.5	90,556
Actual	2014-15	721,970	284,576	118,546	39.4	240.1	187,511	26.0	97,065	(1,121)	1,683	10,315	721,970	284,576	118,546	39.4	240.1	187,511	26.0	97,065
Actual	2015-16	747,101	305,233	128,377	40.9	237.8	202,697	27.1	102,536	1,003	9,154	5,029	747,101	305,233	128,377	40.9	237.8	202,697	27.1	102,536
	2016-17 Outloo	772899	317,724	130,589	41.1	243.3	206,797	26.8	110,927			4,100	777,266	317,439	130,589	40.8	243.1	207,003	26.6	110,436
	2017-18 Outloo	806182	326,345	137,729	40.5	236.9	206,797	25.7	119,548			-	812,720	326,069	137,729	40.1	236.7	206,990	25.5	119,079
	2018-19 Outloo	839919	336,225	141,920	40.0	236.9	206,797	24.6	129,428			-	846,982	335,951	141,920	39.7	236.7	206,967	24.4	128,984
	2019-20 Outloo	873260	346,172		39.6		206,797	23.7	139,375			-	880,758	345,922		39.3	#DIV/0!	206,967	23.5	138,955
	2020-21 Outlook		354,257				206,797		147,460			-		354,031		#DIV/0!	#DIV/0!	206,967	#DIV/0!	147,064
																		15,186		
		Option 1:	Incorporates partial impact by taking half of pension asset accounting change ($1.1b in 2016-17, $1.4b in 2017-18 an d$1.9b in 2018-19)																	
		Option 2 :	Incorporates full potential impact of pension asset accounting change.																	
		Option 3:	Pension adjustment equals the deficit.																	
Prepared by OFA, FTD																				
	20-Oct-16																			

Net Debt to Revenue and				
Ontario				
		ONFA	Other	Deficit/
	Fiscal Year	Adj.	Adj.	(Surplus)
Actual	1989-90			(90)
Actual	1990-91			3,029
Actual	1991-92			10,930
Actual	1992-93			12,428
Actual	1993-94			11,202
Actual	1994-95			10,129
Actual	1995-96			8,800
Actual	1996-97			6,905
Actual	1997-98			3,966
Actual	1998-99			2,002
Actual	1999-2000			(668)
Actual	2000-01			(1,902)
Actual	2001-02			(375)
Actual	2002-03			(117)
Actual	2003-04			5,483
Actual	2004-05			1,555
Actual	2005-06			(298)
Actual	2006-07		(110)	(2,269)
Actual	2007-08	(559)		(600)
Actual	2008-09	1,212		6,409
Actual	2009-10	1,090	-	19,262
Actual	2010-11	(395)	-	14,011
Actual	2011-12	3	865	12,969
Actual	2012-13	(639)	141	9,220
Actual	2013-14	(951)	-	10,453
Actual	2014-15	(1,121)	1,683	10,315
Actual	2015-16	1,003	9,154	5,029
	2016-17 Outloo			4,306
	2017-18 Outloo			(13)
	2018-19 Outloo			(23)
	2019-20 Outloo			-
	2020-21 Outloo			-
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	20-Oct-16			

Net Debt to Revenue and										
Ontario		Comparison: 2016 Public Accounts vs 2016 Document								
				Accumulated	Acc Deficit		ONFA	Other	Deficit/
	Fiscal Year	GDP	Net Debt	Deficit	to GDP	TCA	Adj.	Adj.	(Surplus)
Actual	1989-90	-	-	-	-	-	-	-	-
Actual	1990-91	-	-	-	-	-	-	-	-
Actual	1991-92	-	-	-	-	-	-	-	-
Actual	1992-93	-	-	-	-	-	-	-	-
Actual	1993-94	-	-	-	-	-	-	-	-
Actual	1994-95	-	-	-	-	-	-	-	-
Actual	1995-96	-	-	-	-	-	-	-	-
Actual	1996-97	-	-	-	-	-	-	-	-
Actual	1997-98	-	-	-	-	-	-	-	-
Actual	1998-99	-	-	-	-	-	-	-	-
Actual	1999-2000	-	-	-	-	-	-	-	-
Actual	2000-01	-	-	-	-	-	-	-	-
Actual	2001-02	-	-	-	-	-	-	-	-
Actual	2002-03	-	-	-	-	-	-	-	-
Actual	2003-04	-	-	-	-	-	-	-	-
Actual	2004-05	-	-	-	-	-	-	-	-
Actual	2005-06	-	-	-	-	-	-	-	-
Actual	2006-07	-	-	-	-	-	-	-	-
Actual	2007-08	-	-	-	-	-	-	-	-
Actual	2008-09	-	-	-	-	-	-	-	-
Actual	2009-10	-	-	-	-	-	-	-	-
Actual	2010-11	-	-	-	-	-	-	-	-
Actual	2011-12	-	-	-	-	-	-	-	-
Actual	2012-13	-	-	-	-	-	-	-	-
Actual	2013-14	-	-	-	-	-	-	-	-
Actual	2014-15	-	-	-	-	-	-	-	-
Actual	2015-16	-	-	-	-	-	-	-	-
	2016-17 Outloo	4,367	(285)	206	(0.1)	(491)	-	-	206
	2017-18 Outloo	6,538	(276)	193	(0.2)	(469)	-	-	(13)
	2018-19 Outloo	7,063	(274)	170	(0.2)	(444)	-	-	(23)
	2019-20 Outloo	7,498	(250)	170	(0.2)	(420)	-	-	-
	2020-21 Outloo	-	(226)	170	#DIV/0!	(396)	-	-	-
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	20-Oct-16								

Net Debt to Revenue and GDP Ratios

Ontario

2016-17 FES - Scenario

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit
Actual	1989-90	282,766	35,409	46,500	12.5	76.1	35,409
Actual	1990-91	287,334	38,438	49,002	13.4	78.4	38,438
Actual	1991-92	288,217	49,368	47,527	17.1	103.9	49,368
Actual	1992-93	293,068	61,796	49,122	21.1	125.8	61,796
Actual	1993-94	302,245	80,599	51,410	26.7	156.8	80,599
Actual	1994-95	319,986	90,728	53,962	28.4	168.1	90,728
Actual	1995-96	337,400	101,864	57,898	30.2	175.9	101,864
Actual	1996-97	347,842	108,769	58,060	31.3	187.3	108,769
Actual	1997-98	368,960	112,735	61,362	30.6	183.7	112,735
Actual	1998-99	389,250	114,737	63,044	29.5	182.0	114,737
Actual	1999-2000	418,245	134,398	70,983	32.1	189.3	134,398
Actual	2000-01	452,238	132,496	72,258	29.3	183.4	132,496
Actual	2001-02	469,084	132,121	72,550	28.2	182.1	132,121
Actual	2002-03	494,815	132,647	74,938	26.8	177.0	118,705
Actual	2003-04	509,511	138,816	74,549	27.2	186.2	124,188
Actual	2004-05	533,365	140,921	84,192	26.4	167.4	125,743
Actual	2005-06	556,635	152,702	90,738	27.4	168.3	109,155
Actual	2006-07	578,241	153,742	97,120	26.6	158.3	106,776
Actual	2007-08	601,735	156,616	104,115	26.0	150.4	105,617
Actual	2008-09	608,446	169,585	97,532	27.9	173.9	113,238
Actual	2009-10	597,882	193,589	96,313	32.4	201.0	130,957
Actual	2010-11	630,989	214,511	107,175	34.0	200.2	144,573
Actual	2011-12	659,743	235,582	109,773	35.7	214.6	158,410
Actual	2012-13	680,084	252,088	113,369	37.1	222.4	167,132
Actual	2013-14	693,210	267,190	115,911	38.5	230.5	176,634
Actual	2014-15	721,970	284,576	118,546	39.4	240.1	187,511
Actual	2015-16	747,101	305,233	128,377	40.9	237.8	202,697
	2016-17 Outloo	772899	318,424	130,589	41.2	243.8	207,497
	2017-18 Outloo	806182	327,045	137,729	40.6	237.5	207,497
	2018-19 Outloo	839919	336,925	141,920	40.1	237.4	207,497
	2019-20 Outloo	873260	346,872		39.7		207,497
	2020-21 Outlook		354,957				207,497

Option 1: Incorporates partial impact by taking half of pension asset accounting chan

Option 2 : Incorporates full potential impact of pension asset accounting change.

Option 3: Pension adjustment equals the deficit.

Prepared by OFA, FTD

20-Oct-16

Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt	Net Debt As % to GDP
12.5	-			(90)	282,766	35,409	12.5
13.4	-			3,029	287,334	38,438	13.4
17.1	-			10,930	288,217	49,368	17.1
21.1	-			12,428	293,068	61,796	21.1
26.7	-			11,202	302,245	80,599	26.7
28.4	-			10,129	319,986	90,728	28.4
30.2	-			8,800	337,400	101,864	30.2
31.3	-			6,905	347,842	108,769	31.3
30.6	-			3,966	368,960	112,735	30.6
29.5	-			2,002	389,250	114,737	29.5
32.1	-			(668)	418,245	134,398	32.1
29.3	-			(1,902)	452,238	132,496	29.3
28.2	-			(375)	469,084	132,121	28.2
24.0	13,942			(117)	494,815	132,647	26.8
24.4	14,628			5,483	509,511	138,816	27.2
23.6	15,178			1,555	533,365	140,921	26.4
19.6	43,547			(298)	556,635	152,702	27.4
18.5	46,966		(110)	(2,269)	578,241	153,742	26.6
17.6	50,999	(559)		(600)	601,735	156,616	26.0
18.6	56,347	1,212		6,409	608,446	169,585	27.9
21.9	62,632	1,090	-	19,262	597,882	193,589	32.4
22.9	69,938	(395)	-	14,011	630,989	214,511	34.0
24.0	77,172	3	865	12,969	659,743	235,582	35.7
24.6	84,956	(639)	141	9,220	680,084	252,088	37.1
25.5	90,556	(951)	-	10,453	693,210	267,190	38.5
26.0	97,065	(1,121)	1,683	10,315	721,970	284,576	39.4
27.1	102,536	1,003	9,154	5,029	747,101	305,233	40.9
26.8	110,927			4,800	777,266	317,439	40.8
25.7	119,548			-	812,720	326,069	40.1
24.7	129,428			-	846,982	335,951	39.7
23.8	139,375			-			
	147,460			-			

ge ($1.1b in 2016-17, $1.4b in 2017-18 an d$1.9b in 2018-19)

2016 Public Accounts

Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt
35,409	12.5	-			(90)	-	-
38,438	13.4	-			3,029	-	-
49,368	17.1	-			10,930	-	-
61,796	21.1	-			12,428	-	-
80,599	26.7	-			11,202	-	-
90,728	28.4	-			10,129	-	-
101,864	30.2	-			8,800	-	-
108,769	31.3	-			6,905	-	-
112,735	30.6	-			3,966	-	-
114,737	29.5	-			2,002	-	-
134,398	32.1	-			(668)	-	-
132,496	29.3	-			(1,902)	-	-
132,121	28.2	-			(375)	-	-
118,705	24.0	13,942			(117)	-	-
124,188	24.4	14,628			5,483	-	-
125,743	23.6	15,178			1,555	-	-
109,155	19.6	43,547			(298)	-	-
106,776	18.5	46,966	-	(110)	(2,269)	-	-
105,617	17.6	50,999	(559)	-	(600)	-	-
113,238	18.6	56,347	1,212	-	6,409	-	-
130,957	21.9	62,632	1,090	-	19,262	-	-
144,573	22.9	69,938	(395)	-	14,011	-	-
158,410	24.0	77,172	3	865	12,969	-	-
167,132	24.6	84,956	(639)	141	9,220	-	-
176,634	25.5	90,556	(951)	-	10,453	-	-
187,511	26.0	97,065	(1,121)	1,683	10,315	-	-
202,697	27.1	102,536	1,003	9,154	5,029	-	-
207,003	26.6	110,436	-	-	4,306	4,367	(985)
206,990	25.5	119,079	-	-	(13)	6,538	(976)
206,967	24.4	128,984	-	-	(23)	7,063	(974)

Comparison: 2016 Public Accounts vs. 2015 Budget

Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-

Net Debt to Revenue and GDP Ratios

Ontario **2016-1**

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue
Actual	1989-90	282,766	35,409	46,500	12.5	76.1
Actual	1990-91	287,334	38,438	49,002	13.4	78.4
Actual	1991-92	288,217	49,368	47,527	17.1	103.9
Actual	1992-93	293,068	61,796	49,122	21.1	125.8
Actual	1993-94	302,245	80,599	51,410	26.7	156.8
Actual	1994-95	319,986	90,728	53,962	28.4	168.1
Actual	1995-96	337,400	101,864	57,898	30.2	175.9
Actual	1996-97	347,842	108,769	58,060	31.3	187.3
Actual	1997-98	368,960	112,735	61,362	30.6	183.7
Actual	1998-99	389,250	114,737	63,044	29.5	182.0
Actual	1999-2000	418,245	134,398	70,983	32.1	189.3
Actual	2000-01	452,238	132,496	72,258	29.3	183.4
Actual	2001-02	469,084	132,121	72,550	28.2	182.1
Actual	2002-03	494,815	132,647	74,938	26.8	177.0
Actual	2003-04	509,511	138,816	74,549	27.2	186.2
Actual	2004-05	533,365	140,921	84,192	26.4	167.4
Actual	2005-06	556,635	152,702	90,738	27.4	168.3
Actual	2006-07	578,241	153,742	97,120	26.6	158.3
Actual	2007-08	601,735	156,616	104,115	26.0	150.4
Actual	2008-09	608,446	169,585	97,532	27.9	173.9
Actual	2009-10	597,882	193,589	96,313	32.4	201.0
Actual	2010-11	630,989	214,511	107,175	34.0	200.2
Actual	2011-12	659,743	235,582	109,773	35.7	214.6
Actual	2012-13	680,084	252,088	113,369	37.1	222.4
Actual	2013-14	693,210	267,190	115,911	38.5	230.5
Actual	2014-15	721,970	284,576	118,546	39.4	240.1
Actual	2015-16	747,101	305,233	128,377	40.9	237.8
	2016-17 Outloo	772899	317,724	130,589	41.1	243.3
	2017-18 Outloo	806182	326,345	137,729	40.5	236.9
	2018-19 Outloo	839919	336,225	141,920	40.0	236.9
	2019-20 Outloo	873260	346,172		39.6	
	2020-21 Outlook		354,257			

Option 1: Incorporates partial impact by taking half of pension asset a
Option 2 : Incorporates full potential impact of pension asset accounti
Option 3: Pension adjustment equals the deficit.

Prepared by OFA, FTD

20-Oct-16

.7 FES - Scenario 3

Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP
35,409	12.5	-			(90)	282,766
38,438	13.4	-			3,029	287,334
49,368	17.1	-			10,930	288,217
61,796	21.1	-			12,428	293,068
80,599	26.7	-			11,202	302,245
90,728	28.4	-			10,129	319,986
101,864	30.2	-			8,800	337,400
108,769	31.3	-			6,905	347,842
112,735	30.6	-			3,966	368,960
114,737	29.5	-			2,002	389,250
134,398	32.1	-			(668)	418,245
132,496	29.3	-			(1,902)	452,238
132,121	28.2	-			(375)	469,084
118,705	24.0	13,942			(117)	494,815
124,188	24.4	14,628			5,483	509,511
125,743	23.6	15,178			1,555	533,365
109,155	19.6	43,547			(298)	556,635
106,776	18.5	46,966		(110)	(2,269)	578,241
105,617	17.6	50,999	(559)		(600)	601,735
113,238	18.6	56,347	1,212		6,409	608,446
130,957	21.9	62,632	1,090	-	19,262	597,882
144,573	22.9	69,938	(395)	-	14,011	630,989
158,410	24.0	77,172	3	865	12,969	659,743
167,132	24.6	84,956	(639)	141	9,220	680,084
176,634	25.5	90,556	(951)	-	10,453	693,210
187,511	26.0	97,065	(1,121)	1,683	10,315	721,970
202,697	27.1	102,536	1,003	9,154	5,029	747,101
206,797	26.8	110,927			4,100	777,266
206,797	25.7	119,548				812,720
206,797	24.6	129,428				846,982
206,797	23.7	139,375			-	
206,797		147,460			-	

accounting change ($1.1b in 2016-17, $1.4b in 2017-18 an d$1.9b in 2018-19)
ing change.

2016 Public Accounts

Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
35,409	12.5	35,409	12.5	-			(90)
38,438	13.4	38,438	13.4	-			3,029
49,368	17.1	49,368	17.1	-			10,930
61,796	21.1	61,796	21.1	-			12,428
80,599	26.7	80,599	26.7	-			11,202
90,728	28.4	90,728	28.4	-			10,129
101,864	30.2	101,864	30.2	-			8,800
108,769	31.3	108,769	31.3	-			6,905
112,735	30.6	112,735	30.6	-			3,966
114,737	29.5	114,737	29.5	-			2,002
134,398	32.1	134,398	32.1	-			(668)
132,496	29.3	132,496	29.3	-			(1,902)
132,121	28.2	132,121	28.2	-			(375)
132,647	26.8	118,705	24.0	13,942			(117)
138,816	27.2	124,188	24.4	14,628			5,483
140,921	26.4	125,743	23.6	15,178			1,555
152,702	27.4	109,155	19.6	43,547			(298)
153,742	26.6	106,776	18.5	46,966	-	(110)	(2,269)
156,616	26.0	105,617	17.6	50,999	(559)	-	(600)
169,585	27.9	113,238	18.6	56,347	1,212	-	6,409
193,589	32.4	130,957	21.9	62,632	1,090	-	19,262
214,511	34.0	144,573	22.9	69,938	(395)	-	14,011
235,582	35.7	158,410	24.0	77,172	3	865	12,969
252,088	37.1	167,132	24.6	84,956	(639)	141	9,220
267,190	38.5	176,634	25.5	90,556	(951)	-	10,453
284,576	39.4	187,511	26.0	97,065	(1,121)	1,683	10,315
305,233	40.9	202,697	27.1	102,536	1,003	9,154	5,029
317,439	40.8	207,003	26.6	110,436	-	-	4,306
326,069	40.1	206,990	25.5	119,079	-	-	(13)
335,951	39.7	206,967	24.4	128,984	-	-	(23)

Comparison: 2016 Public Accounts vs. 2015 Budget

GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
4,367	(285)	(0.3)	206	(0.1)	(491)	-	-
6,538	(276)	(0.4)	193	(0.2)	(469)	-	-
7,063	(274)	(0.4)	170	(0.2)	(444)	-	-

Deficit/ (Surplus)
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206
(13)
(23)

Net Debt to Revenue and GDP Ratios

Ontario

2016 Document

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit
Actual	1989-90	282,766	35,409	46,500	12.5	76.1	35,409
Actual	1990-91	287,334	38,438	49,002	13.4	78.4	38,438
Actual	1991-92	288,217	49,368	47,527	17.1	103.9	49,368
Actual	1992-93	293,068	61,796	49,122	21.1	125.8	61,796
Actual	1993-94	302,245	80,599	51,410	26.7	156.8	80,599
Actual	1994-95	319,986	90,728	53,962	28.4	168.1	90,728
Actual	1995-96	337,400	101,864	57,898	30.2	175.9	101,864
Actual	1996-97	347,842	108,769	58,060	31.3	187.3	108,769
Actual	1997-98	368,960	112,735	61,362	30.6	183.7	112,735
Actual	1998-99	389,250	114,737	63,044	29.5	182.0	114,737
Actual	1999-2000	418,245	134,398	70,983	32.1	189.3	134,398
Actual	2000-01	452,238	132,496	72,258	29.3	183.4	132,496
Actual	2001-02	469,084	132,121	72,550	28.2	182.1	132,121
Actual	2002-03	494,815	132,647	74,938	26.8	177.0	118,705
Actual	2003-04	509,511	138,816	74,549	27.2	186.2	124,188
Actual	2004-05	533,365	140,921	84,192	26.4	167.4	125,743
Actual	2005-06	556,635	152,702	90,738	27.4	168.3	109,155
Actual	2006-07	578,241	153,742	97,120	26.6	158.3	106,776
Actual	2007-08	601,735	156,616	104,115	26.0	150.4	105,617
Actual	2008-09	608,446	169,585	97,532	27.9	173.9	113,238
Actual	2009-10	597,882	193,589	96,313	32.4	201.0	130,957
Actual	2010-11	630,989	214,511	107,175	34.0	200.2	144,573
Actual	2011-12	659,743	235,582	109,773	35.7	214.6	158,410
Actual	2012-13	680,084	252,088	113,369	37.1	222.4	167,132
Actual	2013-14	693,210	267,190	115,911	38.5	230.5	176,634
Actual	2014-15	721,970	284,576	118,546	39.4	240.1	187,511
Actual	2015-16	748,207	296,109	126,547	39.6	234.0	193,447
	2016-17 Outloo	778,417	308,315	130,589	39.6	236.1	197,753
	2017-18 Outloo	813,924	316,945	137,729	38.9	230.1	197,740
	2018-19 Outloo	848,237	326,827	141,920	38.5	230.3	197,717
	2019-20 Outloo	882,062	336,798		38.2	#DIV/0!	197,717
	2020-21 Outlook		344,907			#DIV/0!	197,717

Note: 2015-16 Accumulated Deficit includes a projected ONFA unrealized loss of $250 m

Note: For 2019-20 and 2020-21, we are assuming a zero deficit.

Note: 2015-16 PA Accumulated Deficit includes the ONFA unrealized loss of $1,003 millic

Prepared by OFA, FTD

29-Sep-16

Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt	Net Debt As % to GDP
12.5	-			(90)	282,766	35,409	12.5
13.4	-			3,029	287,334	38,438	13.4
17.1	-			10,930	288,217	49,368	17.1
21.1	-			12,428	293,068	61,796	21.1
26.7	-			11,202	302,245	80,599	26.7
28.4	-			10,129	319,986	90,728	28.4
30.2	-			8,800	337,400	101,864	30.2
31.3	-			6,905	347,842	108,769	31.3
30.6	-			3,966	368,960	112,735	30.6
29.5	-			2,002	389,250	114,737	29.5
32.1	-			(668)	418,245	134,398	32.1
29.3	-			(1,902)	452,238	132,496	29.3
28.2	-			(375)	469,084	132,121	28.2
24.0	13,942			(117)	494,815	132,647	26.8
24.4	14,628			5,483	509,511	138,816	27.2
23.6	15,178			1,555	533,365	140,921	26.4
19.6	43,547			(298)	556,635	152,702	27.4
18.5	46,966		(110)	(2,269)	578,241	153,742	26.6
17.6	50,999	(559)		(600)	601,735	156,616	26.0
18.6	56,347	1,212		6,409	608,446	169,585	27.9
21.9	62,632	1,090	-	19,262	597,882	193,589	32.4
22.9	69,938	(395)	-	14,011	630,989	214,511	34.0
24.0	77,172	3	865	12,969	659,743	235,582	35.7
24.6	84,956	(639)	141	9,220	680,084	252,088	37.1
25.5	90,556	(951)	-	10,453	693,210	267,190	38.5
26.0	97,065	(1,121)	1,683	10,315	721,970	284,576	39.4
25.9	102,662	250	-	5,686	747,101	305,233	40.9
25.4	110,562			4,306	777,266	317,439	40.8
24.3	119,205			(13)	812,720	326,069	40.1
23.3	129,110			(23)	846,982	335,951	39.7
22.4	139,081			-			
	147,190			-			

illion for 2015/16 (Budget).

on and the pension adjustment of $9,154 million.

2016 Public Accounts

Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt
35,409	12.5	-			(90)	-	-
38,438	13.4	-			3,029	-	-
49,368	17.1	-			10,930	-	-
61,796	21.1	-			12,428	-	-
80,599	26.7	-			11,202	-	-
90,728	28.4	-			10,129	-	-
101,864	30.2	-			8,800	-	-
108,769	31.3	-			6,905	-	-
112,735	30.6	-			3,966	-	-
114,737	29.5	-			2,002	-	-
134,398	32.1	-			(668)	-	-
132,496	29.3	-			(1,902)	-	-
132,121	28.2	-			(375)	-	-
118,705	24.0	13,942			(117)	-	-
124,188	24.4	14,628			5,483	-	-
125,743	23.6	15,178			1,555	-	-
109,155	19.6	43,547			(298)	-	-
106,776	18.5	46,966	-	(110)	(2,269)	-	-
105,617	17.6	50,999	(559)	-	(600)	-	-
113,238	18.6	56,347	1,212	-	6,409	-	-
130,957	21.9	62,632	1,090	-	19,262	-	-
144,573	22.9	69,938	(395)	-	14,011	-	-
158,410	24.0	77,172	3	865	12,969	-	-
167,132	24.6	84,956	(639)	141	9,220	-	-
176,634	25.5	90,556	(951)	-	10,453	-	-
187,511	26.0	97,065	(1,121)	1,683	10,315	-	-
202,697	27.1	102,536	1,003	9,154	5,029	(1,106)	9,124
207,003	26.6	110,436	-	-	4,306	(1,151)	9,124
206,990	25.5	119,079	-	-	(13)	(1,204)	9,124
206,967	24.4	128,984	-	-	(23)	(1,255)	9,124

Comparison: 2016 Public Accounts vs. 2015 Budget

Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-

	Ontario Nominal GDP	
2000	452238	
2001	469084	
2002	494815	
2003	509511	
2004	533365	
2005	556635	
2006	578241	
2007	601735	
2008	608446	
2009	597882	
2010	630989	5.5
2011	659743	4.6
2012	680084	3.1
2013	693210	1.9
2014	721970	4.1
2015	747101	3.5
2016p	772899	3.5
2017p	806182	4.3
2018p	839919	4.2
2019p	873260	4.0

p = projection

Net Book Value of TCA ($ Millions)	2015-16 (Actual)	2016-17	2017-18	2018-19	2019-20
2016 Budget					
Opening Net Book Value		102,536	110,437	119,079	128,985
Annual Acquisitions	N/A	13,037	14,059	15,605	15,979
Gross Amortization Expense	N/A	(5,137)	(5,416)	(5,700)	(6,008)
Closing Net Book Value	102,536	110,437	119,079	128,985	138,956
In Year Approvals					
Annual Acquisitions	-	502	0	-	-
School Renewal (16-17 Only)	0	478	0	0	0
Chapleau Cree Stage 2B	0	0	0	0	0
Child and Youth Mental Health BI Solution	0	5	0	0	0
School Boards Funding For Child Care	0	19	0	0	0
Annual Amortization	-	(11)	(22)	(25)	(24)
School Renewal (16-17 Only)	0	(11)	(22)	(22)	(22)
Chapleau Cree Stage 2B	0	0	(0)	(0)	(0)
Child and Youth Mental Health BI Solution	0	0	(0)	(1)	(1)
School Boards Funding For Child Care	0	0	0	(2)	(1)
2016 Budget + In Year Approvals					
Opening Net Book Value		102,536	110,927	119,548	129,428
Annual Acquisitions		13,539	14,059	15,605	15,979
Gross Amortization Expense		(5,148)	(5,438)	(5,725)	(6,032)
Closing Net Book Value	102,536	110,927	119,548	129,428	139,375

Receeived Oct 4/2016

Source: David Hodes.

2020-21	2021-22
138,956	147,064
14,536	11,823
(6,428)	(6,939)
147,064	151,949
-	-
0	0
0	0
0	0
0	0
(24)	(23)
(22)	(22)
(0)	(0)
(1)	(1)
(1)	0
139,375	147,460
14,536	11,823
(6,451)	(6,962)
147,460	152,321

From:	John Psinas
To:	Serena Ly
Cc:	George Sakura; Ken Kandeepan; Shemin Meralli; Kevin Hwang; Fred Chow
Subject:	Net debt for tomorrow"s sign off
Date:	Wednesday, March 29, 2017 4:00:16 PM
Attachments:	Net Debt - 2016-17 -(March 28 2017).xlsx Net debt analysis.xlsx

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Serena,

Please find attached our net debt calculations and the breakdown of what makes up net debt. In the net debt analysis file, can you double check that column K is correctly entered for Budget, as the old number may have changed from last week given changes in TCA and the deficit in the last couple of days. If major changes in TCA are announced tomorrow, we'll resend you revised numbers tomorrow as well.

George and I will be going to Frost tomorrow and we'll see you at BudSec.

Thanks.

John

2017 Document

Scenario: $1.5 B deficit in 2016-17, balanced budget afterwards.

Assumptions

1 Pension is reversed and deficit for 2016-17 is $1,472
2 GDP - per latest information rec'd March 28, 2017 (see GDP tab)
3 TCA - per info rec'd Mar 20, 2017 (see TCA tab)
4 Net Debt not adjusted for prepaids

	2017 Doc Net Debt ($M)	2017 Doc	2016 Budget	Q3
		Net Debt to GDP %		
2016-17	301,904	37.82	39.61	38.26
2017-18	311,340	37.39	38.94	37.80
2018-19	321,172	37.06	38.53	37.46
2019-20	332,704	36.85	38.18	37.16

Other Assumptions

Balanced budget continues through to 2030-31
TCA is the same from 2020-21 to 2030-31, i.e. no change
GDP annual growth is 4% from 2021-22 to 2030-31

Based on the assumptions above, the net debt to GDP threshold of 27% is achieved in

FES

38.26
37.80
37.46
37.16

2028-29

Net Debt to Revenue and GDP Ratios

Ontario

2017 Document wit

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit
Actual	1989-90	282,766	35,409	46,500	12.52	76.1	35,409
Actual	1990-91	287,334	38,438	49,002	13.38	78.4	38,438
Actual	1991-92	288,217	49,368	47,527	17.13	103.9	49,368
Actual	1992-93	293,068	61,796	49,122	21.09	125.8	61,796
Actual	1993-94	302,245	80,599	51,410	26.67	156.8	80,599
Actual	1994-95	319,986	90,728	53,962	28.35	168.1	90,728
Actual	1995-96	337,400	101,864	57,898	30.19	175.9	101,864
Actual	1996-97	347,842	108,769	58,060	31.27	187.3	108,769
Actual	1997-98	368,960	112,735	61,362	30.55	183.7	112,735
Actual	1998-99	389,250	114,737	63,044	29.48	182.0	114,737
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3	134,398
Actual	2000-01	452,238	132,496	72,258	29.30	183.4	132,496
Actual	2001-02	469,084	132,121	72,550	28.17	182.1	132,121
Actual	2002-03	494,815	132,647	74,938	26.81	177.0	118,705
Actual	2003-04	509,511	138,816	74,549	27.24	186.2	124,188
Actual	2004-05	533,365	140,921	84,192	26.42	167.4	125,743
Actual	2005-06	556,635	152,702	90,738	27.43	168.3	109,155
Actual	2006-07	578,241	153,742	97,120	26.59	158.3	106,776
Actual	2007-08	601,735	156,616	104,115	26.03	150.4	105,617
Actual	2008-09	608,446	169,585	97,532	27.87	173.9	113,238
Actual	2009-10	597,882	193,589	96,313	32.38	201.0	130,957
Actual	2010-11	630,989	214,511	107,175	34.00	200.2	144,573
Actual	2011-12	659,743	235,582	109,773	35.71	214.6	158,410
Actual	2012-13	680,084	252,088	113,369	37.07	222.4	167,132
Actual	2013-14	695,349	267,190	115,911	38.43	230.5	176,634
Actual	2014-15	727,962	284,576	118,546	39.09	240.1	187,511
Actual	2015-16	763,276	294,564	128,377	38.59	229.5	192,028
	2016-17 Outloo	798,218	301,904	130,589	37.82	231.2	193,545
	2017-18 Outloo	832,652	311,340	137,729	37.39	226.1	193,545
	2018-19 Outloo	866,612	321,172	141,920	37.06	226.3	193,545
	2019-20 Outloo	902,778	332,704		36.85		193,545
	2020-21 Outloo	938,411	342,401		36.49		193,545
	2021-22 Outloo	975,948	349,398		35.80		193,545
	2022-23 Outloo	1,014,986	353,754		34.85		193,545
	2023-24 Outloo	1,055,585	351,954		33.34		193,545
	2024-25 Outloo	1,097,808	350,204		31.90		193,545
	2025-26 Outloo	1,141,721	347,312		30.42		193,545
	2026-27 Outloo	1,187,390	343,486		28.93		193,545
	2027-28 Outloo	1,234,885	343,486		27.82		193,545
	2028-29 Outloo	1,284,281	343,486		26.75		193,545
	2029-30 Outloo	1,335,652	343,486		25.72		193,545

2030-31 Outloo	1,389,078	343,486	24.73	193,545

Assumptions

1 Pension is reversed and deficit for 2016-17 is $ 1,525
2 GDP - per latest information rec'd March 28, 2017 (see GDP tab)
3 TCA - per info rec'd March 20, 2017 (see TCA tab)
4 Net Debt not adjusted for prepaids

Other Assumptions

Balanced budget continues through to 2030-31
TCA is the same from 2020-21 to 2030-31, i.e. no change
GDP annual growth is 4% from 2021-22 to 2030-31

Prepared by OFA, FTD
28-Mar-17

h pension reversal

Acc Deficit to GDP	TCA	Prepds/inv. Adj.(gain)/loss	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)	GDP	Net Debt
12.52	-				(90)	282,766	35,409
13.38	-				3,029	287,334	38,438
17.13	-				10,930	288,217	49,368
21.09	-				12,428	293,068	61,796
26.67	-				11,202	302,245	80,599
28.35	-				10,129	319,986	90,728
30.19	-				8,800	337,400	101,864
31.27	-				6,905	347,842	108,769
30.55	-				3,966	368,960	112,735
29.48	-				2,002	389,250	114,737
32.13	-				(668)	418,245	134,398
29.30	-				(1,902)	452,238	132,496
28.17	-				(375)	469,084	132,121
23.99	13,942				(117)	494,815	132,647
24.37	14,628				5,483	509,511	138,816
23.58	15,178				1,555	533,365	140,921
19.61	43,547				(298)	556,635	152,702
18.47	46,966			(110)	(2,269)	578,241	153,742
17.55	50,999		(559)		(600)	601,735	156,616
18.61	56,347		1,212		6,409	608,446	169,585
21.90	62,632		1,090	-	19,262	597,882	193,589
22.91	69,938		(395)	-	14,011	630,989	214,511
24.01	77,172		3	865	12,969	659,743	235,582
24.58	84,956		(639)	141	9,220	680,084	252,088
25.40	90,556		(951)	-	10,453	693,210	267,190
25.76	97,065		(1,121)	1,683	10,315	721,970	284,576
25.16	102,536		1,003	-	3,514	748,207	296,109
24.25	108,359		(8)		1,525	778,417	308,315
23.24	117,795				-	813,924	316,945
22.33	127,627				-	848,237	326,827
21.44	139,159				-	882,062	336,798
20.62	148,856				-		344,907
19.83	155,853				-		
19.07	160,209				-		
18.34	158,409				-		
17.63	156,659				-		
16.95	153,767				-		
16.30	149,941				-		
15.67	149,941				-		
15.07	149,941				-		
14.49	149,941				-		

13.93	149,941	-	

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Note: 2015-16 Accumulat
Note: For 2019-20 and 20
Note: 2015-16 PA Accumu

2016 Document						
Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA	Prepds/inv. Adj.(gain)/los
46,500	12.52	76.1	35,409	12.52	-	
49,002	13.38	78.4	38,438	13.38	-	
47,527	17.13	103.9	49,368	17.13	-	
49,122	21.09	125.8	61,796	21.09	-	
51,410	26.67	156.8	80,599	26.67	-	
53,962	28.35	168.1	90,728	28.35	-	
57,898	30.19	175.9	101,864	30.19	-	
58,060	31.27	187.3	108,769	31.27	-	
61,362	30.55	183.7	112,735	30.55	-	
63,044	29.48	182.0	114,737	29.48	-	
70,983	32.13	189.3	134,398	32.13	-	
72,258	29.30	183.4	132,496	29.30	-	
72,550	28.17	182.1	132,121	28.17	-	
74,938	26.81	177.0	118,705	23.99	13,942	
74,549	27.24	186.2	124,188	24.37	14,628	
84,192	26.42	167.4	125,743	23.58	15,178	
90,738	27.43	168.3	109,155	19.61	43,547	
97,120	26.59	158.3	106,776	18.47	46,966	
104,115	26.03	150.4	105,617	17.55	50,999	
97,532	27.87	173.9	113,238	18.61	56,347	
96,313	32.38	201.0	130,957	21.90	62,632	
107,175	34.00	200.2	144,573	22.91	69,938	
109,773	35.71	214.6	158,410	24.01	77,172	
113,369	37.07	222.4	167,132	24.58	84,956	
115,911	38.54	230.5	176,634	25.48	90,556	
118,546	39.42	240.1	187,511	25.97	97,065	
126,547	39.58	234.0	193,447	25.85	102,662	
130,589	39.61	236.1	197,753	25.40	110,562	
137,729	38.94	230.1	197,740	24.29	119,205	
141,920	38.53	230.3	197,717	23.31	129,110	
	38.18	#DIV/0!	197,717	22.42	139,081	
		#DIV/0!	197,717		147,190	

ed Deficit includes a projected ONFA unrealized loss of $250 million for 2015/16 (Budget).
20-21, we are assuming a zero deficit.
ılated Deficit includes the ONFA unrealized loss of $1,003 million and the pension adjustment of $9,154 r

				Comparison: 2016 B				
ONFA (gain)/loss	Other (gain)/loss	Deficit/ (Surplus)	GDP	Net Debt	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	
		(90)	-	-	-	-	-	
		3,029	-	-	-	-	-	
		10,930	-	-	-	-	-	
		12,428	-	-	-	-	-	
		11,202	-	-	-	-	-	
		10,129	-	-	-	-	-	
		8,800	-	-	-	-	-	
		6,905	-	-	-	-	-	
		3,966	-	-	-	-	-	
		2,002	-	-	-	-	-	
		(668)	-	-	-	-	-	
		(1,902)	-	-	-	-	-	
		(375)	-	-	-	-	-	
		(117)	-	-	-	-	-	
		5,483	-	-	-	-	-	
		1,555	-	-	-	-	-	
		(298)	-	-	-	-	-	
	(110)	(2,269)	-	-	-	-	-	
(559)		(600)	-	-	-	-	-	
1,212		6,409	-	-	-	-	-	
1,090	-	19,262	-	-	-	-	-	
(395)	-	14,011	-	-	-	-	-	
3	865	12,969	-	-	-	-	-	
(639)	141	9,220	-	-	-	-	-	
(951)	-	10,453	(2,139)	-	0.1	-	-	
(1,121)	1,683	10,315	(5,992)	-	0.3	-	-	
250	-	5,686	(15,069)	1,545	1.0	4.5	1,419	
		4,306	(19,801)	6,411	1.8	4.9	4,208	
		(13)	(18,728)	5,605	1.5	4.1	4,195	
		(23)	(18,375)	5,655	1.5	4.0	4,172	
		-	(20,716)	4,094	1.3	#DIV/0!	4,172	
		-	(938,411)	2,506	(36.5)	#DIV/0!	4,172	

ɲillion.

udget vs. Scenario March 23, 2017

Acc Deficit to GDP	TCA	Prepds/inv. Adj.	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
0.1	-	-	-	-	-
0.2	-	-	-	-	-
0.7	126	-	(753)	-	2,172
1.2	2,203	-	8	-	2,781
1.1	1,410	-	-	-	(13)
1.0	1,483	-	-	-	(23)
1.0	(78)	-	-	-	-
(20.6)	(1,666)	-	-	-	-

Net Debt to Revenue and GDP Ratios

Ontario

2017 Document wit

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit
Actual	1989-90	282,766	35,409	46,500	12.52	76.1	35,409
Actual	1990-91	287,334	38,438	49,002	13.38	78.4	38,438
Actual	1991-92	288,217	49,368	47,527	17.13	103.9	49,368
Actual	1992-93	293,068	61,796	49,122	21.09	125.8	61,796
Actual	1993-94	302,245	80,599	51,410	26.67	156.8	80,599
Actual	1994-95	319,986	90,728	53,962	28.35	168.1	90,728
Actual	1995-96	337,400	101,864	57,898	30.19	175.9	101,864
Actual	1996-97	347,842	108,769	58,060	31.27	187.3	108,769
Actual	1997-98	368,960	112,735	61,362	30.55	183.7	112,735
Actual	1998-99	389,250	114,737	63,044	29.48	182.0	114,737
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3	134,398
Actual	2000-01	452,238	132,496	72,258	29.30	183.4	132,496
Actual	2001-02	469,084	132,121	72,550	28.17	182.1	132,121
Actual	2002-03	494,815	132,647	74,938	26.81	177.0	118,705
Actual	2003-04	509,511	138,816	74,549	27.24	186.2	124,188
Actual	2004-05	533,365	140,921	84,192	26.42	167.4	125,743
Actual	2005-06	556,635	152,702	90,738	27.43	168.3	109,155
Actual	2006-07	578,241	153,742	97,120	26.59	158.3	106,776
Actual	2007-08	601,735	156,616	104,115	26.03	150.4	105,617
Actual	2008-09	608,446	169,585	97,532	27.87	173.9	113,238
Actual	2009-10	597,882	193,589	96,313	32.38	201.0	130,957
Actual	2010-11	630,989	214,511	107,175	34.00	200.2	144,573
Actual	2011-12	659,743	235,582	109,773	35.71	214.6	158,410
Actual	2012-13	680,084	252,088	113,369	37.07	222.4	167,132
Actual	2013-14	695,349	267,190	115,911	38.43	230.5	176,634
Actual	2014-15	727,962	284,576	118,546	39.09	240.1	187,511
Actual	2015-16	763,276	294,564	128,377	38.59	229.5	192,028
	2016-17 Outloo	798,218	301,904	130,589	37.82	231.2	193,545
	2017-18 Outloo	832,652	311,340	137,729	37.39	226.1	193,545
	2018-19 Outloo	866,612	321,172	141,920	37.06	226.3	193,545
	2019-20 Outloo	902,778	332,704		36.85		193,545
	2020-21 Outloo	938,411	342,401		36.49		193,545
	2021-22 Outloo	-					

Assumptions

1 Pension is reversed and deficit for 2016-17 is $ 1,525

2 GDP - per latest information rec'd March 28, 2017 (see GDP tab)

3 TCA - per info rec'd March 20, 2017 (see TCA tab)

4 Net Debt not adjusted for prepaids

Prepared by OFA, FTD

28-Mar-17

h pension reversal

Acc Deficit to GDP	TCA	Prepds/inv. Adj.(gain)/loss	ONFA (gain)/loss	Other (gain)/loss	Deficit/ (Surplus)	GDP	Net Debt
12.52	-				(90)	282,766	35,409
13.38	-				3,029	287,334	38,438
17.13	-				10,930	288,217	49,368
21.09	-				12,428	293,068	61,796
26.67	-				11,202	302,245	80,599
28.35	-				10,129	319,986	90,728
30.19	-				8,800	337,400	101,864
31.27	-				6,905	347,842	108,769
30.55	-				3,966	368,960	112,735
29.48	-				2,002	389,250	114,737
32.13	-				(668)	418,245	134,398
29.30	-				(1,902)	452,238	132,496
28.17	-				(375)	469,084	132,121
23.99	13,942				(117)	494,815	132,647
24.37	14,628				5,483	509,511	138,816
23.58	15,178				1,555	533,365	140,921
19.61	43,547				(298)	556,635	152,702
18.47	46,966			(110)	(2,269)	578,241	153,742
17.55	50,999		(559)		(600)	601,735	156,616
18.61	56,347		1,212		6,409	608,446	169,585
21.90	62,632		1,090	-	19,262	597,882	193,589
22.91	69,938		(395)	-	14,011	630,989	214,511
24.01	77,172		3	865	12,969	659,743	235,582
24.58	84,956		(639)	141	9,220	680,084	252,088
25.40	90,556		(951)	-	10,453	695,349	267,190
25.76	97,065		(1,121)	1,683	10,315	727,962	284,576
25.16	102,536		1,003	-	3,514	763,276	294,564
24.25	108,359		(8)		1,525	796,860	304,875
23.24	117,795				-	829,384	313,496
22.33	127,627				-	863,312	323,376
21.44	139,159				-	897,001	333,323
20.62	148,856				-	932,882	341,408

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Assumptions - FES with P

1 Pension is re
2 GDP - per lat
3 TCA - per FES
4 Using Optio

2016-17 FES - with pension adjustment reversed & option 4 for 2016-17 - Q3

Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA	Prepds/inv. Adj.(gain)/los
46,500	12.52	76.1	35,409	12.52	-	
49,002	13.38	78.4	38,438	13.38	-	
47,527	17.13	103.9	49,368	17.13	-	
49,122	21.09	125.8	61,796	21.09	-	
51,410	26.67	156.8	80,599	26.67	-	
53,962	28.35	168.1	90,728	28.35	-	
57,898	30.19	175.9	101,864	30.19	-	
58,060	31.27	187.3	108,769	31.27	-	
61,362	30.55	183.7	112,735	30.55	-	
63,044	29.48	182.0	114,737	29.48	-	
70,983	32.13	189.3	134,398	32.13	-	
72,258	29.30	183.4	132,496	29.30	-	
72,550	28.17	182.1	132,121	28.17	-	
74,938	26.81	177.0	118,705	23.99	13,942	
74,549	27.24	186.2	124,188	24.37	14,628	
84,192	26.42	167.4	125,743	23.58	15,178	
90,738	27.43	168.3	109,155	19.61	43,547	
97,120	26.59	158.3	106,776	18.47	46,966	
104,115	26.03	150.4	105,617	17.55	50,999	
97,532	27.87	173.9	113,238	18.61	56,347	
96,313	32.38	201.0	130,957	21.90	62,632	
107,175	34.00	200.2	144,573	22.91	69,938	
109,773	35.71	214.6	158,410	24.01	77,172	
113,369	37.07	222.4	167,132	24.58	84,956	
115,911	38.43	230.5	176,634	25.40	90,556	
118,546	39.09	240.1	187,511	25.76	97,065	
128,377	38.59	229.5	192,028	25.16	102,536	
	38.26	233.5	193,948	24.34	110,927	
	37.80	227.6	193,948	23.38	119,548	
	37.46	227.9	193,948	22.47	129,428	
	37.16		193,948	21.62	139,375	
	36.60		193,948		147,460	

ension reversal & Net Debt to GDP ratio of 38.3% going forward:

versed and deficit for 2016-17 is $2,171

est information rec'd Jan 25, 2017 (see GDP tab)

s - rec'd Oct 4, 2016 (see TCA tab)

n 4 scenario for 2016-17

			Comparison: Q3 201				
ONFA (gain)/loss	Other (gain)/loss	Deficit/ (Surplus)	GDP	Net Debt	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit
		(90)	-	-	-	-	-
		3,029	-	-	-	-	-
		10,930	-	-	-	-	-
		12,428	-	-	-	-	-
		11,202	-	-	-	-	-
		10,129	-	-	-	-	-
		8,800	-	-	-	-	-
		6,905	-	-	-	-	-
		3,966	-	-	-	-	-
		2,002	-	-	-	-	-
		(668)	-	-	-	-	-
		(1,902)	-	-	-	-	-
		(375)	-	-	-	-	-
		(117)	-	-	-	-	-
		5,483	-	-	-	-	-
		1,555	-	-	-	-	-
		(298)	-	-	-	-	-
	(110)	(2,269)	-	-	-	-	-
(559)		(600)	-	-	-	-	-
1,212		6,409	-	-	-	-	-
1,090	-	19,262	-	-	-	-	-
(395)	-	14,011	-	-	-	-	-
3	865	12,969	-	-	-	-	-
(639)	141	9,220	-	-	-	-	-
(951)	-	10,453	-	-	-	-	-
(1,121)	1,683	10,315	-	-	-	-	-
1,003	-	3,514	-	-	-	-	-
		1,920	(1,358)	2,971	0.4	2.3	403
		-	(3,268)	2,156	0.4	1.6	403
		-	(3,301)	2,204	0.4	1.6	403
		-	(5,777)	619	0.3	-	403
		-	(5,530)	(993)	0.1	-	403

16-17 vs. Scenario March 23, 2017

Acc Deficit to GDP	TCA	Prepds/inv. Adj.(gain)/loss	ONFA (gain)/loss	Other (gain)/loss	Deficit/ (Surplus)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-

Net Debt to Revenue and GDP Ratios

Ontario

2017 Document wit

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit
Actual	1989-90	282,766	35,409	46,500	12.52	76.1	35,409
Actual	1990-91	287,334	38,438	49,002	13.38	78.4	38,438
Actual	1991-92	288,217	49,368	47,527	17.13	103.9	49,368
Actual	1992-93	293,068	61,796	49,122	21.09	125.8	61,796
Actual	1993-94	302,245	80,599	51,410	26.67	156.8	80,599
Actual	1994-95	319,986	90,728	53,962	28.35	168.1	90,728
Actual	1995-96	337,400	101,864	57,898	30.19	175.9	101,864
Actual	1996-97	347,842	108,769	58,060	31.27	187.3	108,769
Actual	1997-98	368,960	112,735	61,362	30.55	183.7	112,735
Actual	1998-99	389,250	114,737	63,044	29.48	182.0	114,737
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3	134,398
Actual	2000-01	452,238	132,496	72,258	29.30	183.4	132,496
Actual	2001-02	469,084	132,121	72,550	28.17	182.1	132,121
Actual	2002-03	494,815	132,647	74,938	26.81	177.0	118,705
Actual	2003-04	509,511	138,816	74,549	27.24	186.2	124,188
Actual	2004-05	533,365	140,921	84,192	26.42	167.4	125,743
Actual	2005-06	556,635	152,702	90,738	27.43	168.3	109,155
Actual	2006-07	578,241	153,742	97,120	26.59	158.3	106,776
Actual	2007-08	601,735	156,616	104,115	26.03	150.4	105,617
Actual	2008-09	608,446	169,585	97,532	27.87	173.9	113,238
Actual	2009-10	597,882	193,589	96,313	32.38	201.0	130,957
Actual	2010-11	630,989	214,511	107,175	34.00	200.2	144,573
Actual	2011-12	659,743	235,582	109,773	35.71	214.6	158,410
Actual	2012-13	680,084	252,088	113,369	37.07	222.4	167,132
Actual	2013-14	695,349	267,190	115,911	38.43	230.5	176,634
Actual	2014-15	727,962	284,576	118,546	39.09	240.1	187,511
Actual	2015-16	763,276	294,564	128,377	38.59	229.5	192,028
	2016-17 Outloo	798,218	301,904	130,589	37.82	231.2	193,545
	2017-18 Outloo	832,652	311,340	137,729	37.39	226.1	193,545
	2018-19 Outloo	866,612	321,172	141,920	37.06	226.3	193,545
	2019-20 Outloo	902,778	332,704		36.85		193,545
	2020-21 Outloo	938,411	342,401		36.49		193,545
	2021-22 Outloo	-					

Assumptions

1 Pension is reversed and deficit for 2016-17 is $ 1,525

2 GDP - per latest information rec'd March 28, 2017 (see GDP tab)

3 TCA - per info rec'd March 20, 2017 (see TCA tab)

4 Net Debt not adjusted for prepaids

Prepared by OFA, FTD

28-Mar-17

h pension reversal

Acc Deficit to GDP	TCA	Prepds/inv. Adj.(gain)/loss	ONFA (gain)/loss	Other (gain)/loss	Deficit/ (Surplus)	GDP	Net Debt
12.52	-				(90)	282,766	35,409
13.38	-				3,029	287,334	38,438
17.13	-				10,930	288,217	49,368
21.09	-				12,428	293,068	61,796
26.67	-				11,202	302,245	80,599
28.35	-				10,129	319,986	90,728
30.19	-				8,800	337,400	101,864
31.27	-				6,905	347,842	108,769
30.55	-				3,966	368,960	112,735
29.48	-				2,002	389,250	114,737
32.13	-				(668)	418,245	134,398
29.30	-				(1,902)	452,238	132,496
28.17	-				(375)	469,084	132,121
23.99	13,942				(117)	494,815	132,647
24.37	14,628				5,483	509,511	138,816
23.58	15,178				1,555	533,365	140,921
19.61	43,547				(298)	556,635	152,702
18.47	46,966			(110)	(2,269)	578,241	153,742
17.55	50,999		(559)		(600)	601,735	156,616
18.61	56,347		1,212		6,409	608,446	169,585
21.90	62,632		1,090	-	19,262	597,882	193,589
22.91	69,938		(395)	-	14,011	630,989	214,511
24.01	77,172		3	865	12,969	659,743	235,582
24.58	84,956		(639)	141	9,220	680,084	252,088
25.40	90,556		(951)	-	10,453	695,349	267,190
25.76	97,065		(1,121)	1,683	10,315	727,962	284,576
25.16	102,536		1,003	-	3,514	763,276	294,564
24.25	108,359		(8)		1,525	796,860	304,875
23.24	117,795				-	829,384	313,496
22.33	127,627				-	863,312	323,376
21.44	139,159				-	897,001	333,323
20.62	148,856				-	932,882	341,408

m

Assumptions - FES with P

1 Pension is re
2 GDP - per lat
3 TCA - per FES
4 Using Optio

2016-17 FES - with pension adjustment reversed & option 4 for 2016-17 - Q3

Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA	Prepds/inv. Adj.(gain)/los
46,500	12.52	76.1	35,409	12.52	-	
49,002	13.38	78.4	38,438	13.38	-	
47,527	17.13	103.9	49,368	17.13	-	
49,122	21.09	125.8	61,796	21.09	-	
51,410	26.67	156.8	80,599	26.67	-	
53,962	28.35	168.1	90,728	28.35	-	
57,898	30.19	175.9	101,864	30.19	-	
58,060	31.27	187.3	108,769	31.27	-	
61,362	30.55	183.7	112,735	30.55	-	
63,044	29.48	182.0	114,737	29.48	-	
70,983	32.13	189.3	134,398	32.13	-	
72,258	29.30	183.4	132,496	29.30	-	
72,550	28.17	182.1	132,121	28.17	-	
74,938	26.81	177.0	118,705	23.99	13,942	
74,549	27.24	186.2	124,188	24.37	14,628	
84,192	26.42	167.4	125,743	23.58	15,178	
90,738	27.43	168.3	109,155	19.61	43,547	
97,120	26.59	158.3	106,776	18.47	46,966	
104,115	26.03	150.4	105,617	17.55	50,999	
97,532	27.87	173.9	113,238	18.61	56,347	
96,313	32.38	201.0	130,957	21.90	62,632	
107,175	34.00	200.2	144,573	22.91	69,938	
109,773	35.71	214.6	158,410	24.01	77,172	
113,369	37.07	222.4	167,132	24.58	84,956	
115,911	38.43	230.5	176,634	25.40	90,556	
118,546	39.09	240.1	187,511	25.76	97,065	
128,377	38.59	229.5	192,028	25.16	102,536	
130,589	38.26	233.5	193,948	24.34	110,927	
137,729	37.80	227.6	193,948	23.38	119,548	
141,920	37.46	227.9	193,948	22.47	129,428	
	37.16		193,948	21.62	139,375	
	36.60		193,948		147,460	

ension reversal & Net Debt to GDP ratio of 38.3% going forward:

versed and deficit for 2016-17 is $2,171

est information rec'd Jan 25, 2017 (see GDP tab)

s - rec'd Oct 4, 2016 (see TCA tab)

n 4 scenario for 2016-17

			Comparison: FES 2016-17 with				
ONFA (gain)/loss	Other (gain)/loss	Deficit/ (Surplus)	GDP	Net Debt	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit
		(90)	-	-	-	-	-
		3,029	-	-	-	-	-
		10,930	-	-	-	-	-
		12,428	-	-	-	-	-
		11,202	-	-	-	-	-
		10,129	-	-	-	-	-
		8,800	-	-	-	-	-
		6,905	-	-	-	-	-
		3,966	-	-	-	-	-
		2,002	-	-	-	-	-
		(668)	-	-	-	-	-
		(1,902)	-	-	-	-	-
		(375)	-	-	-	-	-
		(117)	-	-	-	-	-
		5,483	-	-	-	-	-
		1,555	-	-	-	-	-
		(298)	-	-	-	-	-
	(110)	(2,269)	-	-	-	-	-
(559)		(600)	-	-	-	-	-
1,212		6,409	-	-	-	-	-
1,090	-	19,262	-	-	-	-	-
(395)	-	14,011	-	-	-	-	-
3	865	12,969	-	-	-	-	-
(639)	141	9,220	-	-	-	-	-
(951)	-	10,453	-	-	-	-	-
(1,121)	1,683	10,315	-	-	-	-	-
1,003	-	3,514	-	-	-	-	-
		1,920	(1,358)	2,971	0.4	2.3	403
		-	(3,268)	2,156	0.4	1.6	403
		-	(3,301)	2,204	0.4	1.6	403
		-	(5,777)	619	0.3	-	403
		-	(5,530)	(993)	0.1	-	403

Pension Reversal vs. with Pension adjustment

Acc Deficit to GDP	TCA	Prepds/inv. Adj.	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-

Ontario Nominal GDP

FES

	Ontario Nominal GDP	
2000	452,238	
2001	469,084	
2002	494,815	
2003	509,511	
2004	533,365	
2005	556,635	
2006	578,241	
2007	601,735	
2008	608,446	
2009	597,882	
2010	630,989	5.5
2011	659,743	4.6
2012	680,084	3.1
2013	695,349	2.2
2014	727,962	4.7
2015	763,276	4.9
2016p	797362	4.5
2017p	831653	4.3
2018p	866305	4.2
2019p	902008	4.1
2020p	937232	3.9

p = projection

Updated GDP - rec'd March 21, 2017

Rec'd from: Mark Williams
28-Mar-17

	Ontario No
2000	452,238
2001	469,084
2002	494,815
2003	509,511
2004	533,365
2005	556,635
2006	578,241
2007	601,735
2008	608,446
2009	597,882
2010	630,989
2011	659,743
2012	680,084
2013	695,349
2014	727,962
2015	763,276
2016	798218
2017p	832652
2018p	866612
2019p	902778
2020p	938411

p = projection

minal GDP

5.5
4.6
3.1
2.2
4.7
4.9
4.6
4.3
4.1
4.2
3.9

DRAFT PROVINCIAL TCA as of Mar 28-2017 Net Book Value ($ Millions)	2016-17 Interim	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Opening Net Book Value	**102,536**	**108,359**	**117,795**	**127,627**	**139,159**	**148,856**	**155,853**	**160,209**	**158,409**	**156,659**	**153,767**
Annual Acquisitions	11,078	15,000	15,719	17,744	16,369	14,274	12,189	6,407	6,747	5,769	4,876
Gross Amortization Expense	(5,256)	(5,564)	(5,887)	(6,211)	(6,672)	(7,277)	(7,833)	(8,206)	(8,497)	(8,661)	(8,702)
Closing Net Book Value	**108,359**	**117,795**	**127,627**	**139,159**	**148,856**	**155,853**	**160,209**	**158,409**	**156,659**	**153,767**	**149,941**
Amortization Expense	(4,768)	(5,056)	(5,355)	(5,654)	(6,091)	(6,673)	(7,216)	(7,582)	(7,863)	(8,015)	(8,051)
Amortization of DCC:											
Hospitals	(438)	(456)	(474)	(493)	(517)	(540)	(554)	(563)	(575)	(587)	(593)
School Boards	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
Colleges	(45)	(47)	(53)	(59)	(59)	(59)	(58)	(56)	(54)	(54)	(54)
Gross Amortization Expense	(5,256)	(5,564)	(5,887)	(6,211)	(6,672)	(7,277)	(7,833)	(8,206)	(8,497)	(8,661)	(8,702)

Notes:

Opening NBV for 2016-17 from public accounts

Annual Acquisitions include other partner funding and federal flowthroughs

David Hodes

March 28, 2017

Net Book Value of TCA ($ Millions)	2015-16 (Actual)	2016-17	2017-18	2018-19	2019-20
2016 Budget					
Opening Net Book Value		102,536	110,437	119,079	128,985
Annual Acquisitions	N/A	13,037	14,059	15,605	15,979
Gross Amortization Expense	N/A	(5,137)	(5,416)	(5,700)	(6,008)
Closing Net Book Value	102,536	110,437	119,079	128,985	138,956
In Year Approvals					
Annual Acquisitions	-	502	0	-	-
School Renewal (16-17 Only)	0	478	0	0	0
Chapleau Cree Stage 2B	0	0	0	0	0
Child and Youth Mental Health BI Solution	0	5	0	0	0
School Boards Funding For Child Care	0	19	0	0	0
Annual Amortization	-	(11)	(22)	(25)	(24)
School Renewal (16-17 Only)	0	(11)	(22)	(22)	(22)
Chapleau Cree Stage 2B	0	0	(0)	(0)	(0)
Child and Youth Mental Health BI Solution	0	0	(0)	(1)	(1)
School Boards Funding For Child Care	0	0	0	(2)	(1)
2016 Budget + In Year Approvals					
Opening Net Book Value		102,536	110,927	119,548	129,428
Annual Acquisitions		13,539	14,059	15,605	15,979
Gross Amortization Expense		(5,148)	(5,438)	(5,725)	(6,032)
Closing Net Book Value	102,536	110,927	119,548	129,428	139,375

Receeived Oct 4/2016

Source: David Hodes.

2020-21	2021-22
138,956	147,064
14,536	11,823
(6,428)	(6,939)
147,064	151,949
-	-
0	0
0	0
0	0
0	0
(24)	(23)
(22)	(22)
(0)	(0)
(1)	(1)
(1)	0
139,375	147,460
14,536	11,823
(6,451)	(6,962)
147,460	152,321

Analysis of Net Debt

	2007-08	2008-09	2009-10	2010-11	2011-12
Opening balance	**(153,742)**	(156,616)	(169,585)	(193,589)	(214,511)
Deficit	600	(6,409)	(19,262)	(14,011)	(12,969)
IFRS Transitional Impact					(758)
PSAB Transitional Impact					(107)
Pension Adjustment (prior years)					
Adjustments					
	600	(6,409)	(19,262)	(14,011)	(13,834)
Ontario Nuclear Fund	559	(1,212)	1,090	395	(3)
Total Deficit	1,159	(7,621)	(18,172)	(13,616)	(13,837)
Tangible Capital Assets	(4,033)	(5,348)	(5,832)	(7,306)	(7,234)
	(2,874)	(12,969)	(24,004)	(20,922)	(21,071)
Ending balance	**(156,616)**	**(169,585)**	**(193,589)**	**(214,511)**	**(235,582)**
	156,616	169,585	193,589	214,511	235,582
% INCREASE IN NET DEBT					
Deficit	(20.88)	49.42	80.24	66.97	65.65
Other	(19.45)	9.35	(4.54)	(1.89)	0.01
Total Deficit	**(40.33)**	**58.76**	**75.70**	**65.08**	**65.67**
Tangible Capital Assets	**140.33**	**41.24**	**24.30**	**34.92**	**34.33**
	100.00	100.00	100.00	100.00	100.00

Note: Pension adjustments incorporated in the 2015-16 Public Accou

For use with slide 2

In year approvals added to TCA for 2(

2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
(235,582)	(252,088)	(267,190)	(284,576)	(294,564)	(301,904)	(311,340)	(321,172)
(9,220)	(10,453)	(10,315)	(3,514)	(1,517)	0	0	
(141)		(1,683)					
			0				
			0				
(9,361)	(10,453)	(11,998)	(3,514)	(1,517)	0	0	0
639	951	1,121	(1,003)				
(8,722)	(9,502)	(10,877)	(4,517)	(1,517)	0	0	0
(7,784)	(5,600)	(6,509)	(5,471)	(5,823)	(9,436)	(9,832)	(11,532)
(16,506)	(15,102)	(17,386)	(9,988)	(7,340)	(9,436)	(9,832)	(11,532)
(252,088)	**(267,190)**	**(284,576)**	**(294,564)**	**(301,904)**	**(311,340)**	**(321,172)**	**(332,704)**
252,088	267,190	284,576	294,564	304,875	313,496	323,376	333,323

Percentage %

56.71	69.22	69.01	35.18	20.67	0.00	0.00	0.00
(3.87)	(6.30)	(6.45)	10.04	0.00	0.00	0.00	0.00
52.84	**62.92**	**62.56**	**45.22**	**20.67**	**0.00**	**0.00**	**0.00**
47.16	**37.08**	**37.44**	**54.78**	**79.33**	**100.00**	**100.00**	**100.00**
100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

ɹnts and extended in the 2016 FES have been reversed.

016-17 only, but not any risks. Deprecation in out years for in year approvals not taken.

Total 2009-10 to 2019-20	2009-10 to 2015-16 (col D -J)	2008-09 to 2015-16 (col C -J)	2008-09 to 2016-17 (col C -K)	2007-08 to 2016-17 (col B -K)
(169,585)				
(81,261)	(79,744)	(86,153)	(87,670)	(61,999)
(758)	(758)	(758)	(758)	(758)
(1,931)	(1,931)	(1,931)	(1,931)	(1,931)
0	0	0	0	0
(83,950)	(82,433)	(88,842)	(90,359)	(64,688)
3,190	3,190	1,978	1,978	2,100
(80,760)	(79,243)	(86,864)	(88,381)	(62,588)
(82,359)	(45,736)	(51,084)	(56,907)	(64,995)
(163,119)	(124,979)	(137,948)	(145,288)	(127,583)
(332,704)				
	65.96	64.40	62.19	50.70
	(2.55)	(1.43)	(1.36)	(1.65)
	63.41	**62.97**	**60.83**	**49.06**
	36.59	**37.03**	**39.17**	**50.94**
	100.00	100.00	100.00	100.00

From: Serena Ly
To: Ken Kandeepan
Subject: Non Cash Adjustments
Date: Wednesday, December 07, 2016 4:04:40 PM
Attachments: image001.png

Hi Ken,

We had an investor meeting today and one of their questions was on what "non-cash adjustments" in the financing table represents.

I showed Jim the response we have in the FES Q&A's, but he was wondering whether we could get a more complete breakdown. Would it be fine to share the breakdown below with investors?

Details	2016-17 ($ Billions)
Reserve	(400)
Total BPS Timing Differences	(407)
Total AFP Timing Adjustments	(678)
Amortization expense	(5,137)
H1 Tax Shelter*	-
Student loan - grant expenditures	(446)
Pension adjustment	(2,240)
General timing adjustments	1,864
Non Cash Adjustments in Financing Table	(7,444)

*offset 85% of Hydro One tax shelter gain included in deficit

Q: What does non-cash adjustments of $7.4 billion in 2016–17 represent?

Non-cash adjustments convert accounting accruals into cash requirements. Cash and accruals differ primarily because of $2.6 billion in Alternative Financing Procurements (AFPs) funded by third parties plus the reserve of $0.4 billion, partly offset by payments to be made in 2016–17 upon substantial completion of prior AFP projects. The total non-cash adjustment also reflects the impact of the pension adjustment. Another significant adjustment is amortization that is currently over $5 billion but is, partly offset by general timing adjustments that always arise between the Province's inflows and outflows on a cash versus accrual basis. A notable example of the latter is the variance between the net incomes of the Government Business Enterprises and the dividends they pay to the Province.

Thanks,
Serena

Details	2016-17 ($ Billions)
Reserve	(400)
Total BPS Timing Differences	(407)
Total AFP Timing Adjustments	(678)
Amortization expense	(5,137)
H1 Tax Shelter*	-
Student loan - grant expenditures	(446)
Pension adjustment	(2,240)
General timing adjustments	1,864
Non Cash Adjustments in Financing Table	(7,444)

*offset 85% of Hydro One tax shelter gain included in deficit

From:	Anna Strathy
To:	"Sohn, Michael (MOF)"
Cc:	Peter Spadoni (MCYS); Gadi Mayman; Ken Kandeepan; Bonnie Lemcke; Ronald Kwan; Usman Zahid; "Kim, Minzi (MOF)"; Birks, Ryan (MOF)
Subject:	OFA Edits to SCOPA Q&As
Date:	Thursday, February 08, 2018 4:39:13 PM
Attachments:	SCOPA_MOF_long form QA_Balanced Budget_v11 (OFA_Clean).docx SCOPA_MOF_long form QA_Balanced Budget_v11 (OFA_TrackChange).docx SCOPA_MOF_long form QA_Credit Rating_v12 (OFA_Clean).docx SCOPA_MOF_long form QA_Credit Rating_v12 (OFA_TrackChange).docx SCOPA_MOF_long form QA_Debt_v11 (OFA_Clean).docx SCOPA_MOF_long form QA_Debt_v11 (OFA_TrackChange).docx SCOPA QAs_MOF_20180122 v4 (OFA_Clean).docx

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Hi Michael,

Please find attached, OFA edits to SCOPA materials. I have included both clean and track change versions (against the drafts Comms sent earlier this week).

A few notes:

- Our edits to the Balanced Budget Q&As only relate to IOD (highlighted sections). Office of the Budget is the lead on this note, so I'm **copying Ryan so that he may incorporate our input into his final version**.
- You'll note I have not included the Fair Hydro Plan long-form Q&A. **Our recommendation is not to include it**. All questions related to the Fair Hydro Plan should be directed to the Ministry of Energy, OPG and IESO.
- We've included wording around the records disclosure in the general Q&A document, but please ensure the OFA language is aligned with the broader MOF response (per my email to Minzi earlier).

Thanks and happy to discuss should you have any questions.

Anna

Anna Strathy
Special Policy Advisor to CEO
Ontario Financing Authority
1 Dundas Street West, 14th Floor
416.325.8032 | anna.strathy@ofina.on.ca

LONG-FORM MEMBER QUESTION: BALANCED BUDGET

DEPUTY MINISTER SCOTT THOMPSON

Question:

- How is Ontario planning to keep a balanced budget?

Answer:

- ….

Expenses:

- Let me now address expenses.
- The Public Accounts for 2016–17 show that total spending was $141.7 billion, $100 million lower than the 2016 Budget projection.
- Program spending expenses accounted for $130 billion.
- Interest on debt, at $11.7 billion, was down $0.7 billion from the 2016 Budget projection.

- Going forward, program expenses are projected to grow from $130 billion in 2016–17 to $144.2 billion in 2019–20.
- This represents an average annual growth rate of 3.5 per cent.
- Growth in program expenses over the medium term is driven by investments to help the people of Ontario, such as health care, supports for seniors, the introduction of pharmacare for children and youth under OHIP+, electricity cost relief programs under the Fair Hydro Plan, and new initiatives for small businesses that will lower costs and support growth.

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- Interest on debt expense is projected to grow from $11.7 billion in 2016–17 to $13.3 billion in 2019–20.
- This increase is due to borrowing for capital spending and interest rates that are forecast to rise.
- This represents an average annual growth rate of 4.2 per cent.
- Total expenses are projected to grow from $141.7 billion in 2016–17 to $157.4 billion in 2019–20.
- This represents a manageable average annual growth rate of 3.6 per cent.

Conclusion:

- In September, the Public Accounts of Ontario 2016–17 reported that the 2016–17 deficit was $1.0 billion, an improvement of $3.3 billion from the $4.3 billion projection in the 2016 Budget.
- Total revenue for 2016–17 came in at $140.7 billion, which was $2.2 billion higher than the 2016 Budget.
- This was largely due to higher-than-expected tax revenues, the optimization of government business enterprises and transfers from the Government of Canada and other non-tax revenue.
- Total spending for 2016–17 came in at $141.7 billion, which was $0.1 billion lower than the 2016 Budget.
- Program spending was $130.0 billion, up $0.6 billion from the plan of $129.4 billion.
- Spending in health, children's and social services, and other programs was higher than planned.
- Interest on debt expense was $11.7 billion, $0.7 billion below the plan of $12.4 billion, due mainly to lower-than-forecast interest rates, and cost-effective borrowing and debt management.
- In conclusion, the Ontario government is on track to balance the budget this fiscal year — 2017–18 — as well as the next two fiscal years.

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- Prudently managing the province's finances is one of my ministry's responsibilities to the people of Ontario.
- Thank you.

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LONG-FORM MEMBER QUESTION: BALANCED BUDGET

DEPUTY MINISTER SCOTT THOMPSON

Question:

- How is Ontario planning to keep a balanced budget?

Answer:

- TBD: Revisions based on updates related to Q3 Finances once available
- My ministry has been working to execute the government's goal of balancing the budget.
- This started with a plan that was first introduced in the *2010 Budget*, when the province started to recover from the recession.
- Ontario today is projecting a balanced budget for 2017–18 and for the next two years, 2018–19 and 2019–20.
- A balanced budget makes available more investment options to spur economic growth and job creation, and helps protect the programs and services people rely on most, such as health care and education.
- Ontario's plan has five main areas of focus:
    - Maximizing revenues without causing undue tax burdens on Ontarians
    - Managing its expenses without detracting from the quality of social services and health programs
    - Balancing revenues and expenses against each other to manage the debt
    - Funding programs that help Ontarians, and
    - Investing in infrastructure to promote economic growth and job creation.

- I will now address each area in turn.

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Revenues:

- The 2016–17 Public Accounts show that Ontario's deficit for last year was $991 million — $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget.
- Fiscal 2016–17 was the eighth year in a row that the Province has beaten its deficit target.
- This was a result of growth in revenue that exceeded growth in program expenses, and lower-than-forecast interest on debt.
- And so part of the plan to balance the budget involves optimizing assets and maximizing revenues.
- The Public Accounts for 2016–17 show total revenues were $140.7 billion, $2.2 billion higher than the 2016 Budget projection.
- Additionally, Ontario's total revenues are projected to grow from this $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- This increase represents an average annual growth rate of four per cent.
- The higher revenues for 2016–17 — and the projected growth of revenues through 2019-20 — are largely due to higher-than-expected tax revenues, the optimization of government business enterprises, and transfers from the Government of Canada and other non-tax revenue.

- First, let me address tax revenues.
- Growth in revenues over the medium term is driven mainly by taxation revenue, which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent.
- For fiscal year 2016–17, tax revenues were $293 million higher than projected, mainly due to higher-than-expected Harmonized Sales Tax revenue, reflecting stronger growth in Ontario household expenditures.

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- Secondly, the Government of Ontario is also implementing a multi-year strategy to optimize its assets and maximize its revenues through the sales of shares in Hydro One, LCBO head office lands and Ontario Power Generation's head offices.
- The net revenue gains from the sale of qualifying assets are credited to the Trillium Trust for infrastructure investments, such as roads, bridges and public transit.
- The total amount credited to the Trillium Trust as of March 31, 2017 is $5.3 billion.
- The Province continues to grow and maximize revenues from its government business enterprises, such as Hydro One, Ontario Power Generation, the Liquor Control Board of Ontario and Ontario Lottery and Gaming Corporation.
- The forecast of the income from government business enterprises is projected to grow by $0.7 billion between 2016–17 and 2019–20.
- This projection, at an average annual rate of 3.7 per cent, reflects higher net income overall from government business enterprises.

- Thirdly, Ontario received larger Government of Canada transfers — $145 million higher. This increase reflected new funding for early learning and child care flowing from a bilateral agreement between Ontario and the federal government, as previously reported in the 2017-18 *First Quarter Finances*.
- The forecast for subsequent transfers is based on existing federal-provincial funding agreements.
- Overall transfers are projected to grow by $0.9 billion between 2016–17 and 2019–20, or at an average annual rate of 1.2 per cent.
- This largely reflects projected increases in major ongoing Government of Canada transfers and new funding for early learning and child care, and home care and mental health.

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- Finally, the forecast for other non-tax revenue is based on projections provided by government ministries and agencies.
- The outlook for other non-tax revenues is projected to increase by $0.4 billion between 2016–17 and 2019–20, or at an average annual rate of 0.7 per cent.
- This increase mainly reflects:
    - Fiscally neutral revenues from carbon allowance proceeds starting in 2017–18
    - Fees, donations and other revenues for the broader public sector, and
    - Revenues from vehicle and driver registration fees.
- This is partially offset by lower revenues due to the removal of the debt retirement charge from commercial, industrial and all other electricity users in 2018–19, and the projected net impact of the government's planned asset optimization strategy.
- Notably, the increase in Ontario's revenue is not attributable to increases in personal tax returns.

Expenses:

- Let me now address expenses.
- The Public Accounts for 2016–17 show that total spending was $141.7 billion, $100 million lower than the 2016 Budget projection.
- Program spending expenses accounted for $130 billion.
- Interest on debt, at $11.7 billion, was down $0.7 billion from the 2016 Budget projection.

- Going forward, program expenses are projected to grow from $130 billion in 2016–17 to $144.2 billion in 2019–20.
- This represents an average annual growth rate of 3.5 per cent.
- Growth in program expenses over the medium term is driven by investments to help the people of Ontario, such as health care, supports for seniors, the

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introduction of pharmacare for children and youth under OHIP+, electricity cost relief programs under the Fair Hydro Plan, and new initiatives for small businesses that will lower costs and support growth.

- Interest on debt expenses is projected to grow from $11.7 billion in 2016–17 to $13.3 billion in 2019–20.
- This increase is due to borrowing for capital spending and interest rates that are forecast to rise.
- This represents an average annual growth rate of 4.2 per cent.
- ~~Interest on debt is projected to grow due to borrowing for capital spending and interest rates that are forecast to rise.~~
- Total expenses are projected to grow from $141.7 billion in 2016–17 to $157.4 billion in 2019–20.
- This represents a manageable average annual growth rate of 3.6 per cent.

Balancing Revenues and Expenses:

- Let me summarize the revenues and expenses together.
- Revenue is forecast to increase from $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- Total expenses are projected to increase from $141.7 billion to $157.4 billion over the same period.
- Based on these estimates, the Ontario government will effectively balance the budget over the next four years.

Funding Programs, Investing in Infrastructure, Promoting Growth:

- Through targeted, measured and fiscally responsible decisions, Ontario has restored its fiscal and economic strength.
- Strategic investments have helped stimulate the Ontario economy to rise from the depths of recession.

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- Over the past three years, Ontario's economy has grown faster than Canada's and that of all other G7 countries.
- The benefits of balanced budgets and a strong economy are already providing the government with the fiscal flexibility to do more to help Ontarians.
- This flexibility enables the government to provide more investments to spur economic growth, job creation and support services people use every day.
- Notable program investments include:
    - $145 million in annual funding to increase the accessibility and affordability of high-quality licensed child care and early learning opportunities
    - $245 million over three years to lower costs for small businesses
    - $155 million over three years to support seniors to remain independent, connected, engaged, healthy and safe
    - $245 million over three years to lower costs for small businesses, create opportunities for growth and simplify their interactions with government.
    - An increase of $1 million in 2017–18 — and then $5 million in 2018–19 and beyond — to provide additional funding through the Northern Communities Grant component of the Ontario Municipal Partnership Fund.

- Growth in program expenses also includes investments in infrastructure.
- In fact, Ontario is making the biggest investment in public infrastructure in its history.
- The government's long-term infrastructure plan to invest about $190 million over 13 years, starting in 2014–15, will contribute to the growth of the economy.
- The government's historic investment in infrastructure includes:
    - $31.5 billion over 10 years for public transit, transportation and other priority infrastructure projects across Ontario
    - $11 billion over 10 years in capital grants to school boards, and
    - $900 million over 10 years for critical maintenance repairs and upgrades.

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- These investments will not only create jobs, support business innovation and help draw investors from abroad — they will also contribute to the provincial economy growing at a faster rate than the change in its net debt.
- Investments such as these have helped to stimulate the Ontario economy, which has continued to grow despite an uncertain global climate.
- From 2014 to 2016, Ontario outpaced all G7 countries with its real GDP growth.
- As the result of a balanced budget and Ontario's strong economic growth, the net debt-to-GDP ratio is declining.
- In the 2017 Budget, the Ontario government set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24. The government is now projecting to meet this target a year earlier.
- We continue to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.

Conclusion:

- In September, the Public Accounts of Ontario 2016–17 reported that the 2016–17 deficit was $1.0 billion, an improvement of $3.3 billion from the $4.3 billion projection in the 2016 Budget.
- Total revenue for 2016–17 came in at $140.7 billion, which was $2.2 billion higher than the 2016 Budget.
- This was largely due to higher-than-expected tax revenues, the optimization of government business enterprises and transfers from the Government of Canada and other non-tax revenue.
- Total spending for 2016–17 came in at $141.7 billion, which was $0.1 billion lower than the 2016 Budget.
- Program spending was $130.0 billion, up $0.6 billion from the plan of $129.4 billion.

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- Spending in health, children's and social services, and other programs was higher than planned.
- Interest on debt expense was $11.7 billion, $0.7 billion below the plan of $12.4 billion, due mainly to lower-than-forecast interest rates, and cost-effective borrowing and debt management.
- In conclusion, the Ontario government is on track to balance the budget this fiscal year — 2017–18 — as well as the next two fiscal years.
- Prudently managing the province's finances is one of my ministry's responsibilities to the people of Ontario.
- Thank you.

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LONG-FORM MEMBER QUESTION: CREDIT RATING

DEPUTY MINISTER SCOTT THOMPSON

Question:

- What are the plans to keep Ontario's credit rating in good standing?

Answer:

- TBD: Revisions based on updates related to Q3 Finances, once available.

Introduction:

- All four credit rating agencies – Moody's, DBRS, Standard & Poor's and Fitch – have a stable outlook on Ontario's long-term credit ratings. This reflects rating agencies' confidence in the Government's fiscal plan.
- Let me summarize the reports by each of the credit rating agencies.

- First, **Moody's.**
- Moody's updated their Credit Opinion on February 2nd
- The stable outlook reflects Moody's forecast that the debt burden will continue to fall marginally and interest expense will remain manageable over the next two years.
- Moody's outlook for Ontario's credit rating is based on the following credit strengths: prudent debt management with a focus on market access and debt affordability; an institutional framework providing significant fiscal policy flexibility**;** and, revenue supported by a large diversified economy supporting a broad and productive tax base.

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- Moody's highlighted a number of credit challenges: high debt burden and debt will continue to increase despite balanced budget projections; elevated interest expense, with higher rates anticipated; and, rising expenditures risk to balanced fiscal targets.
- A significant reduction in the province's debt burden, accompanied by lower interest expense, could put upward pressure on the rating.
- A return to an upward trend in the province's debt burden leading to higher interest expense or increases in provincial liabilities, including off-balance sheet contingent liabilities, could put downward pressure on the rating. Loss of fiscal discipline leading to consecutive years of material consolidated deficits could also lead to downward credit pressure.
- Next, **DBRS.**
- DBRS notes that the ratings remain well supported by the Province's large and diversified economy, improving budgetary results and declining debt burden.
- Debt growth has slowed with the return to balance, which is leading to a gradual decline in the debt-to-GDP ratio.
- DBRS expects the ratings to remain stable. Improvement or deterioration in Ontario's credit profile tends to be gradual because of the diverse economy and revenue base.
- An upgrade would require a significant reduction in the provincial debt burden to a level commensurate with the AA-range rating.
- A downgrade could occur if debt were to rise sharply because of a downturn in the economy or a change in the government's fiscal policies.

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- **Standard & Poor's** is next.
- Standard & Poor's said it "expects the Province of Ontario to benefit from solid economic growth over the next two years, allowing it to generate additional revenues to fund its capital spending plan and stabilize its finances following its eight-year path back to a balanced operating budget."
- The stable outlook reflects S&P's expectations that "within the next two years the province will sustain a more balanced budgetary performance, including fairly steady liquidity metrics, modest after-capital deficits, and a high but slowly declining debt burden."
- A sustained improvement in budgetary performance leading to "near-balanced after-capital results, coupled with ongoing declines in the tax-supported debt burden, making Ontario's finances more comparable with peers in the 'AA' category could result in a positive outlook or upgrade.
- Conversely, an unexpected economic shock coupled with the introduction of fiscal policies that endanger Ontario's fiscal sustainability that result in after-capital deficits beyond our expectations could put downward pressure on the ratings within the next two years.

- Finally there is **Fitch.**
- Fitch's report stated that "the Province has demonstrated the ability to exert considerable expenditure restraint while instituting revenue changes to achieve its deficit reduction objectives."
- It said Ontario's 'AA-' rating is supported by its wealth, diversified economy and generally sound financial management.
- Fitch's rating reflected the Province's very strong and diversified economy, strong financial management, very predictable and well-balanced institutional framework and low contingent liabilities.
- Ontario's credit profile is stable and assumes **the** Province retains its focus on tabling balanced budgets and gradually lowering the burden of debt.

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- The resumption of significant borrowing to support operating deficits would result in negative pressure on the rating.

Ontario is maintaining its credit rating in good standing by:

- Ensuring Ontario's debt burden and debt service costs remain manageable by:
  - Decreasing the net debt-to-GDP ratio.
  - Decreasing the interest on debt-to-revenue ratio.
  - Extending the term of its debt; and
  - Increasing its liquid reserves.

- I will now go into more detail on each of these points:

Decreasing the net debt-to-GDP ratio

- In the 2017 Budget, the government set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24 and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.
- The 2017 Fall Economic Statement forecast the net debt-to-GDP ratio to be 37.3 per cent in 2017-18, or 0.2 per cent lower than was forecast in the 2017 Budget (update for Q3).

Decreasing the interest on debt-to-revenue ratio

- The 2010 Budget forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- The current forecast is 3.1 cents lower, at a cost of 8.2 cents in interest for every dollar of revenue.
- This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower throughout the outlook period to 2019–20.

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Extending the term of its debt

- To protect the province from an increase in interest rates, the government has continued to extend the term of its debt.
- The weighted –average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 13.9 years in 2016-17 and 12.8 years for 2017-18 as at October 31, 2017.

Increasing its liquid reserves

- The government has increased the level of its liquid, or cash, reserves as the province came through the financial crisis of 2008–09.
- These reserves are currently over $30 billion as compared to an average of $7.3 billion in 2007, preceding the financial crisis. The Province is targeting a level in excess of $25 billion at the end of this fiscal year.
- This build-up in cash reserves will allow the Province to withstand unexpected economic events including any market disruptions. It also ensures that the Province will be well prepared to meet large single-day maturities in both 2018–19 and 2019–20.
- Investors and rating agencies also look favourably upon liquid reserves that are consistently high as evidence that the Province will be able to meet its financial commitments, and include this as a factor in their assessment of the Province's credit worthiness.

Conclusion:

- Credit ratings provide an assessment of a government's credit-worthiness.
- They are a reflection largely based on its capacity to generate revenue to service its debt.

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- They consider factors such as a government's economic resources and prospects, industrial and institutional strengths, financial health, and susceptibility to major risks.
- As you know, a credit rating is one of the factors that can affect the cost of future government borrowing
- A rating downgrade could shrink the potential market for a government's debt, because some investors will not hold debt below a certain rating.
- The government's plan to manage the debt focuses on three key areas:
    - Decreasing the net debt-to-GDP ratio.
    - Decreasing the interest on debt-to-revenue ratio.
    - Extend the term of its debt.
    - Increase its liquid reserves
- These strategies are aimed to ensure confidence in Ontario**'**s credit-worthiness through its ability to effectively manage its debt obligations.
- Protecting the financing of Ontario's public services will continue to be one of my ministry's highest priorities.
- Thank you.

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LONG-FORM MEMBER QUESTION: CREDIT RATING

DEPUTY MINISTER SCOTT THOMPSON

Question:

- What are the plans to keep Ontario's credit rating in good standing?

Answer:

- TBD: Revisions based on updates related to Q3 Finances, once available.

Introduction:

- ~~Following the release of the 2017 Ontario Budget,~~All four credit rating agencies – Moody's, DBRS, Standard & Poor's and Fitch – ~~confirmed~~have a stable outlook on Ontario's ~~healthy~~ long-term credit ratings. This reflects rating agencies' confidence in the Government's fiscal plan ~~– and its ability to grow Ontario's economy and create jobs for Ontarians.~~ .
- Let me summarize the reports by each of the credit rating agencies.

- First, **Moody's.**
- ~~Moody's cautioned that the Ontario Fair Hydro Plan, announced in March 2017 to reduce electricity prices, adds credit pressure due to the direct financial impact of the sales tax rebate and the indirect impact of an elevated debt of a provincially owned entity.~~
- ~~Overall, however, Moody's said its~~ Moody's updated their Credit Opinion on February 2nd

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- The stable outlook ~~for Ontario "~~reflects Moody's forecast that~~, as the province moves towards and achieves balanced budgets, the province's~~ the debt burden will ~~improve~~continue to fall marginally and interest expense will remain manageable ~~across the medium-term….The policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices outlined above, has helped to support the province's Aa2 rating."~~~~18-24 month horizon~~over the next two years.
- Moody's ~~positive~~ outlook for Ontario's credit rating is based on the following credit strengths: prudent debt management~~,~~ with a focus on market access and debt affordability; an institutional framework providing significant fiscal policy flexibility~~,~~**;** and, revenue supported by a large diversified economy supporting a broad and productive tax base.

- Moody's highlighted a number of credit challenges: high debt burden and debt will continue to increase despite balanced budget projections; elevated interest expense, with higher rates anticipated; and, rising expenditures risk to balanced fiscal targets.
- A significant reduction in the province's debt burden, accompanied by lower interest expense, could put upward pressure on the rating.
- A return to an upward trend in the province's debt burden leading to higher interest expense or increases in provincial liabilities, including off-balance sheet contingent liabilities, could put downward pressure on the rating. Loss of fiscal discipline leading to consecutive years of material consolidated deficits could also lead to downward credit pressure.
- Next, **DBRS.**
- DBRS ~~noted~~notes that ~~Ontario's credit profile is stable, but it will remain vulnerable to an economic shock in the absence of a more concerted effort to reduce debt.~~

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- ~~DBRS also commented on the potential downside risks to the economic outlook due to uncertainty regarding the potential renegotiation of NAFTA and U.S. tax policy, as well as political integration in Europe.~~
- ~~Finally, it noted that elevated household debt and housing market dynamics leave Ontario particularly vulnerable in the event of an unforeseen shock that results in significant job losses or a rapid increase in interest rates.~~
- ~~Despite these concerns, DBRS expects Ontario's credit ratings to remain stable.~~
- ~~DBRS said of Ontario, its "~~the ratings remain well supported by the ~~province's~~Province's large and diversified economy, improving budgetary results and declining debt burden~~" and that "the return to balance is encouraging and suggests that there will likely be some modest improvement in the Province's credit metrics over the medium term." .~~
- Debt growth has slowed with the return to balance, which is leading to a gradual decline in the debt-to-GDP ratio.
- DBRS ~~concluded by saying that~~expects the ratings to remain stable. Improvement or deterioration in Ontario's ~~stable~~ credit profile ~~stems from strength in the underlying~~tends to be gradual because of the diverse economy~~, which provided incremental~~ and revenue ~~more than sufficient to offset the in-year spending pressures~~base.
- An upgrade would require a significant reduction in the provincial debt burden to a level commensurate with the AA-range rating.
- ~~A downgrade could occur if debt were to rise sharply because of a downturn in the economy or a change in the government's fiscal policies.~~

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- **Standard & Poor's** is next.
- Standard & Poor's ~~believed that Ontario's credit profile is strengthening.~~
- ~~But before considering a positive rating action, they would need to see sustained improvement in budgetary performance leading to near-balanced after-capital results, coupled with ongoing declines in the tax-supported debt burden, making Ontario's finances more comparable with peers in the 'AA' category.~~
- ~~Standard and Poor's~~ said it "expects the ~~province~~Province of Ontario to benefit from solid economic growth over the next two years, allowing it to generate additional revenues to fund its capital spending plan and stabilize its finances following its eight-year path back to a balanced operating budget."
- ~~Standard & Poor's concluded by saying that its~~The stable outlook reflects S&P's expectations that~~,~~ "within the next two years~~,~~ the ~~Province~~province will sustain a more balanced budgetary performance, including fairly steady liquidity metrics, modest
- after-capital deficits, and a high but slowly declining debt burden~~.~~."
- A sustained improvement in budgetary performance leading to "near-balanced after-capital results, coupled with ongoing declines in the tax-supported debt burden, making Ontario's finances more comparable with peers in the 'AA' category could result in a positive outlook or upgrade.
- ~~Conversely, an unexpected economic shock coupled with the introduction of fiscal policies that endanger Ontario's fiscal sustainability that result in after-capital deficits beyond our expectations could put downward pressure on the ratings within the next two years.~~

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- Finally there is **Fitch.**
- Fitch's report stated that "the Province has demonstrated the ability to exert considerable expenditure restraint while instituting revenue changes to achieve its deficit reduction objectives~~.~~."

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- It said Ontario's 'AA-' rating is supported by its wealth, diversified economy and generally sound financial management.
- Fitch's rating reflected the Province's very strong and diversified economy, strong financial management, very predictable and well-balanced institutional framework and low contingent liabilities.
- Ontario's credit profile is stable.

- For Ontario's credit profile to grow in strength, and assumes **the** Province will need to do several things.
- It will need to show a track record of consistent operating surpluses and provinceProvince retains its focus on tabling balanced or near-balanced after-capital results, coupled with continuing declines in directbudgets and tax-supported gradually lowering the burden of debt burdens..
- **To that end,** The resumption of significant borrowing to support operating deficits would result in negative pressure on the rating.

Ontario has the following plan to ensureis maintaining that its credit rating remains in good standing by:

- . It is:

o Optimizing assets and revenues without causing undue tax burdens on Ontarians.

- o Managing expenses without detracting from the quality of social and health services.
- o Balancing revenues and expenses against each other to manage the debt, and
- Maintaining a reserve fund to mitigate unforeseen financial risks.

O Ensuringe Ontario's debt burden and debt service costs will remain manageable and ensure the province's maintains a conservative debt management policy by by:

- Decreasing the net debt-to-GDP ratio.

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- Decreasing the interest on debt-to-revenue ratio.
- Extending the term of its debt~~.~~; and
- ~~o~~ Increasing~~e~~ its liquid reserves.
-

I will now go into more detail on each of these points:

- ~~I will now go into more detail on each of these points.~~

~~Revenues:~~

- ~~Total revenues for 2016–17 were $140.7 billion, $2.2 billion higher than the 2016 Budget.~~
- ~~Additionally, Ontario's total revenues are projected to grow from $140.7 billion in 2016–17 to $158.2 billion in 2019–20.~~
- ~~This represents an average annual growth rate of four per cent.~~
- ~~The higher revenues for 2016–17 and the projected growth of revenues through 2019–20 are largely due to three factors:~~
  - ~~Higher-than-expected tax revenues.~~
  - ~~Income from government business enterprises and fees, and~~
  - ~~Transfers from the Government of Canada and other non-tax revenue.~~
- ~~Growth in revenues over the medium term is driven mainly by taxation revenue, which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent. The taxation outlook reflects current revenue information and projections for the Ontario economy. Tax revenues were $293 million higher than projected in 2016–17, mainly due to higher-than-expected Harmonized Sales Tax revenue, reflecting stronger growth in Ontario household expenditures.~~
- ~~The Government of Ontario is also implementing a multi-year strategy to optimize its assets and maximize its revenues through the sales of Hydro One, LCBO head office lands and Ontario Power Generation's head offices. The total amount~~

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credited to the Trillium Trust as of March 31, 2017 is $5.3 billion. The net revenue gains from the sale of qualifying assets will be credited to the Trillium Trust for infrastructure investments, such as roads, bridges and public transit, under the Moving Ontario Forward plan. In 2016–17, the Trillium Trust was drawn down by approximately $260 million to help support these projects.

- Finally, Ontario received larger Government of Canada transfers — $145 million higher. This increase reflected new funding for early learning and child care flowing from a bilateral agreement between Ontario and the federal government, as previously reported in the 2017–18 First Quarter Finances.
- Notably, the increase in Ontario's revenue is not attributable to increases in personal tax returns.

Expenses:

- Ontario's total spending for 2016–17 was $141.7 billion, $100 million lower than the 2016 Budget.
- Program spending expenses accounted for $130.0 billion.
- Interest on debt expense accounted for $11.7 billion — $0.7 billion below the plan of $12.4 billion.
- This drop was due mainly to lower-than-forecast interest rates, and Ontario's cost-effective borrowing and debt management.
- Going forward, Ontario program expenses are projected to grow from $130.0 billion in 2016–17 to $144.2 billion in 2019–20.
- This represents an average annual growth rate of 3.5 per cent.
- Interest on debt expenses is projected to grow from $11.7 billion in 2016–17 to $13.3 billion in 2019–20.
- This represents an average annual growth rate of 4.2 per cent.
- Total expenses are projected to grow from $141.7 billion in 2016–17 to $157.4 billion in 2019–20.
- This represents a manageable average annual growth rate of 3.6 per cent.

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- ~~These increases align with the government's plans for modernizing the public services people rely on every day.~~
- ~~They are also fiscally sustainable.~~
- ~~In short, the Ontario government has been managing its program expenses as well as its interest-on-debt expenses.~~

~~Balancing Revenues and Expenses:~~

- ~~To bring the revenues and expenses together…~~
- ~~Revenue is forecast to increase from $140.7 billion in 2016–17 to $158.2 billion in 2019–20.~~
- ~~Total expenses are projected to increase from $141.7 billion to $157.4 billion over the same period.~~
- ~~Based on these estimates, the Ontario government will effectively balance the budget over the next four years.~~

~~The Reserve:~~

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- ~~I will now take a moment to address the Province's financial reserve and contingency funds.~~
- ~~As required under the *Fiscal Transparency and Accountability Act*, Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes in revenue and expenses.~~

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- ~~The current fiscal outlook includes a reserve of $0.5 billion in 2017–18, $0.5 billion in 2018–19 and $0.8 billion in 2019–20.~~
- ~~The current outlook also maintains contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance — particularly in cases where health and safety may be compromised, services to the most vulnerable are jeopardized, or natural disasters occur.~~

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~~Ontario's debt and borrowing~~Decreasing the net debt-to-GDP ratio

- In the 2017 Budget, the government set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24 and continues to maintain a target of reducing the net

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debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.

- ~~In 2017–18~~The 2017 Fall Economic Statement forecast~~,~~ the net debt-to-GDP ratio to be ~~will be~~ 37.3 per cent in 2017-18, or 0.2 per cent lower than was forecast in the 2017 Budget.

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Decreasing the interest on debt-to-revenue ratio

- The 2010 Budget forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- The current forecast is 3.1 cents lower, at a cost of 8.2 cents in interest for every dollar of revenue.
- This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower throughout the outlook period to 2019–20.

Extending the term of its debt

- To protect the province from an increase in interest rates, the government has continued to extend the term of its debt.
- The weighted –average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 13.9 years in 2016-17 and 12.8 years for 2017-18 as at October 31, 2017.

Increasing its liquid reserves

- The government has increased the level of its liquid, or cash, reserves as the province came through the financial crisis of 2008–09.
- These reserves are currently over $30 billion as compared to an average of $7.3 billion in 2007, preceding the financial crisis. The Province is targeting a level in excess of $25 billion at the end of this fiscal year.

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- This build-up in cash reserves will allow the Province to withstand unexpected economic events including any market disruptions. It also ensures that the Province will be well prepared to meet large single-day maturities in both 2018–19 and 2019–20.
- Investors and rating agencies also look favourably upon liquid reserves that are consistently high as evidence that the Province will be able to meet its financial commitments, and include this as a factor in their assessment of the Province's credit worthiness. ~~Increased its liquid reserves to allow the Province to withstand unexpected economic events including any market disruptions.~~

Conclusion:

- Credit ratings provide an assessment of a government's credit-worthiness.
- They are a reflection largely based on its capacity to generate revenue to service its debt.
- They consider factors such as a government's economic resources and prospects, industrial and institutional strengths, financial health, and susceptibility to major risks.
- As you know, a credit rating ~~affects~~is one of the factors that can affect the cost of future government borrowing ~~with a lower rating, indicating that an agency believes there is a relatively higher risk that a government will default on its debt.~~
- ~~Accordingly, investors will lend to the government only in return for a greater risk premium, in the form of higher interest rates.~~
- A rating downgrade could ~~also~~ shrink the potential market for a government's debt, because some investors will not hold debt below a certain rating.
- ~~Therefore, it is critical that Ontario maintain its credit rating in good standing to manage its debt and preserve its fiscal health.~~
- ~~Ontario's plan to keep its credit rating in good standing involves the following strategies:~~
    - ~~Optimizing assets and revenues without causing undue tax burdens on Ontarians.~~

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~~o Prudently managing expenses without diminishing the quality of Ontario's services and programs.~~

~~o Balancing revenues and expenses against each other to manage the debt, and~~

~~o Preserving a reserve fund to mitigate unforeseen financial risks.~~

- The government's plan to manage the debt focuses on three key areas:
  - o Decreasing the net debt-to-GDP ratio.
  - o Decreasing the interest on debt-to-revenue ratio.
  - o Extend the term of its debt.
  - o Increase its liquid reserves

- ~~Seen as a whole, t~~These strategies ~~will~~are aimed to ensure confidence in Ontario's
  credit-worthiness through its ability to effectively manage its debt obligations.
- Protecting the financing of Ontario's public services will continue to be one of my ministry's highest priorities.
- Thank you.

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LONG-FORM MEMBER QUESTION: DEBT MANAGEMENT

DEPUTY MINISTER SCOTT THOMPSON

Question

- What is Ontario's debt management plan?

Answer

- TBD: Revisions based on updates related to Q3 Finances, once available.
- The Ministry of Finance has a track record of responsible fiscal management and remains committed to executing the government's goal of reducing the provincial debt burden.
- The government's plan to manage the debt focuses on three key areas:
    - Decreasing the net debt-to-GDP ratio.
    - Decreasing the interest on debt-to-revenue ratio.
    - Utilizing term extensions.
- I would like to provide an update of progress on this goal.

Net Debt-to GDP Ratio:

- A key indicator of the government's ability to manage its debt is the level of debt relative to the size of the economy, known as the net debt-to-GDP ratio.
- The ratio of net government debt to the market value of goods and services produced by an economy — known as gross domestic product or GDP — measures the relationship between a government's debt obligations and its capacity to raise revenue needed to meet them.
- It is an indicator of the relative burden of government debt on the economy.

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- If the amount of debt that must be repaid relative to the value of the GDP is rising — in other words, if the ratio is rising — it means the government's net debt is growing faster than the provincial economy, and making it more difficult to repay.
- The net debt-to-GDP ratio peaked at 39.3 per cent in 2014–15 and has declined ever since, as a result of Ontario's economic growth and the government's progress towards a balanced budget in 2017–18.
- One of the ways to manage to the net debt-to-GDP ratio is to promote policies and investments that support economic growth and job creation, thereby accelerating GDP growth.
- In fact, Ontario is making the biggest investment in public infrastructure in its history.
- The government's long-term infrastructure plan to invest about $190 million over 13 years, starting in 2014–15, will contribute to the growth of the economy.
- These investments will not only create jobs, support business innovation and draw investors from abroad — they will also contribute to the growth of the provincial economy at a faster rate than the change in its net debt.
- The positive impact of these capital investments on the province's economy was confirmed by the Centre for Spatial Economics.
- It recently reported that, over the long term, GDP in Ontario increases by up to $6 for every dollar of public infrastructure spending.
- The government's economic strategy was further supported in a report by the International Monetary Fund in June 2016, which recommended that Canadian "fiscal policy should be pro-growth."
- Christine Lagarde, the International Monetary Fund's Managing Director, expressed her support for the government's growth strategy and agreed that investment in infrastructure should be an essential element.
- In summary, Ontario's net debt-to-GDP ratio will gradually diminish due to the GDP increasing at a faster rate than net debt.

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Interest on Debt-to-Revenue Ratio:

- Another major thrust of Ontario's plan to manage its debt centers on the interest on debt-to-revenue ratio.
- This is another key indicator of the government's ability to meet its financial obligations.
- Through prudent and cost-effective debt management, the government has consistently kept interest on debt costs below budget projections.
- The 2010 Budget forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- By the 2017 Budget, the amount needed for interest payments had dropped significantly.
- The current forecast is 3.1 cents lower — 8.2 cents of interest costs for every dollar of revenue.
- This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through Ontario's outlook period to 2019–20.

Term Extension on Debt:

- Finally, record-low interest rates have enabled the government to control its annual interest expense.
- However, the global decline in interest rates over the last 25 years could not continue indefinitely.
- The Bank of Canada has increased interest rates — twice last year and already once this year.
- Ontario has taken necessary precautions to protect the financing of the province's public services, now that interest rates are widely understood to be on a rising trajectory.
- To protect the province from these increases, the government has extended the term of its debt.
- Term extension has allowed the government to lock in low interest rates for a longer period, which reduces refinancing risks.

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- Extending the term also helps offset the impact of expected higher interest rates on interest on debt costs.
- Going back to the beginning of fiscal 2010–11, Ontario has issued $70.6 billion in bonds longer than 30 years to lock in low rates.
- As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008–09 to 13.9 years in 2016–17.
- For 2017–18, it stood at 13.7 years as of January 31, 2018.
- The average term of total debt outstanding is 11 years.
- If or when interest rates continue to rise, the government will assess whether it will remain cost-effective over the long term to continue to extend the term of its debt.

Conclusion:

- As I said at the outset, the Ontario government has a track record of responsible fiscal management and remains committed to executing its goal of reducing the provincial debt burden.
- To conclude, the government's plan to manage the debt focuses on three key areas:
    - Net debt-to-GDP ratio;
    - Interest on debt-to-revenue ratio; and
    - Extending the term on its debt when interest rates are low.
- Protecting the financing of the province's public services will continue to be one of the government's highest priorities.
- Thank you.

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LONG-FORM MEMBER QUESTION: DEBT MANAGEMENT

DEPUTY MINISTER SCOTT THOMPSON

Question

- What is Ontario's debt management plan?

Answer

- TBD: Revisions based on updates related to Q3 Finances, once available.
- The Ministry of Finance has a track record of responsible fiscal management and remains committed to executing the government's goal of reducing the provincial debt burden.
- The government's plan to manage the debt focuses on three key areas:
    - Decreasing the net debt-to-GDP ratio.
    - Decreasing the interest on debt-to-revenue ratio.
    - Utilizing term extensions.
- I would like to provide an update of progress on this goal.

Net Debt-to GDP Ratio:

- A key indicator of the government's ability to manage its debt is the level of debt relative to the size of the economy, known as the net debt-to-GDP ratio.
- The ratio of net government debt to the market value of goods and services produced by an economy — known as gross domestic product or GDP — measures the relationship between a government's debt obligations and its capacity to raise ~~the funds~~revenue needed to meet them.
- It is an indicator of the relative burden of government debt on the economy.

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- If the amount of debt that must be repaid relative to the value of the GDP is rising — in other words, if the ratio is rising — it means the government's net debt is growing faster than the provincial economy, and ~~becoming an increasing burden~~thus making it more difficult to repay.

- ~~Before considering Ontario's net debt-to-GDP ratio, let me first discuss the components.~~
- ~~First, I want to address Ontario's net debt situation.~~
- ~~Ontario's net debt increased from $295.4 billion as of March 31, 2016 to $301.6 billion as of March 31, 2017.~~
- ~~It is projected to increase to $311.7 billion by March 31, 2018 and to $323.3 billion by March 31, 2019.~~
- ~~About 621 per cent of the increase in net debt from 2008-09 to 2016-17 was due to the deficit.~~
- ~~The remaining net debt increase was a result of investments in capital assets.~~
- ~~Balanced budgets from 2017-18 onwards will ensure that increases in net debt will be limited to net investments in capital assets such as roads, bridges, hospitals and schools.~~
- ~~The Centre for Spatial Economics recently reported that, over the long term, GDP in Ontario increases by up to $6 for every dollar of public infrastructure spending.~~
- ~~In other words, these capital investments will result in GDP growing more quickly than debt, thereby helping to lower the net debt-to-GDP ratio to its pre-recession level. net debt is increasing at a manageable rate, and a smaller portion of it is collected from the deficit.~~

Commented [KK1]: There arguments were asserted in the 2017 Budget, not sure how applicable they continue to be.

- ~~Next, let me briefly address the GDP.~~
- ~~The government's investments in capital assets increased economic growth and helped support Ontario's GDP to advance more quickly than debt, helping the government achieve its net debt-to-GDP targets.~~

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- ~~Over the past three years, Ontario's economy has grown faster than Canada's and that of all other G7 countries.~~
- ~~In fact, Ontario's real GDP is now 21.3 per cent above its recessionary low.~~
- ~~Over the 2017–20 period, the Ministry of Finance is forecasting average annual growth of 2.2 per cent in Ontario's real GDP.~~
- ~~Government investments have helped stimulate the Ontario economy to rise from the depths of the recession, and it is now enjoying a period of economic strength and growth.~~

- ~~I briefly addressed the net debt and GDP situations separately; now let me bring them together.~~
- ~~The 2017 Fall Economic Statement reported that Ontario's net debt-to-GDP ratio is lower than previously forecast.~~
- The net debt-to-GDP ratio peaked at 39.3 per cent in 2014–15 and has ~~been~~ declined~~ing~~ ever since, as a result of Ontario's economic growth and the government's progress towards a balanced budget in 2017–18.
- ~~It is now projected to be 37.36 per cent at the end of fiscal 2017–18, lower than the 38 per cent for 2016-17.0.2 per cent lower than was forecast in the 2017 Budget.~~
- ~~This ratio is projected to continue to decline to 37.1 per cent in 2018–19.~~
- In the 2017 Budget, the government set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24, and re-stated its commitment to reduce the net debt-to-GDP ratio to its pre-recession level of 27 per cent by 2029–30.
- ~~A declining net debt-to-GDP ratio, together with low interest on debt costs as a percentage of revenues, positions the province for long-term sustainability.~~
- ~~It also allows for a greater proportion of government spending to be invested in programs and services.~~

Commented [KK2]: I don't believe this is still correct, OEP needs to review

Commented [KK3]: Likewise OEP to check

Commented [KK4]: Does this confirm to FES 2017, is there a

Commented [KK5]: Given that Q3 forecasts 37.6 for 2017-18 I would remove this

Commented [KK6]: Since Q3 does not project out years we can maybe leave this in.

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- ~~The reduction of debt is complemented by~~While managing the net debt-to-GDP ratio, the Province will continue to grow because of Ontario's investments in infrastructure, which are supporting economic growth and job creation.
- In fact, Ontario is making the biggest investment in public infrastructure in its history.
- The government's long-term infrastructure plan to invest about $190 million over 13 years, starting in 2014–15, will contribute to the growth of the economy.
- These investments will not only create jobs, support business innovation and draw investors from abroad — they will also contribute to the growth of the provincial economy at a faster rate than the change in its net debt.
- The positive impact of these capital investments on the province's economy was confirmed by the Centre for Spatial Economics.
- It recently reported that, over the long term, GDP in Ontario increases by up to $6 for every dollar of public infrastructure spending.
- The government's economic strategy was further supported in a report by the International Monetary Fund in June 2016, which recommended that Canadian "fiscal policy should be pro-growth."
- Christine Lagarde, the International Monetary Fund's Managing Director, expressed her support for the government's growth strategy and agreed that investment in infrastructure should be an essential element.
- In summary, Ontario's net debt-to-GDP ratio will gradually diminish due to the GDP increasing at a faster rate than net debt.
- This will allow the government to continue to move towards its 27 per cent net debt-to-GDP target.

Interest on Debt-to-Revenue Ratio:

- Another major thrust of Ontario's plan to manage its debt centreres on the interest on debt-to-revenue ratio.
- This is another key indicator of the government's ability to meet its financial obligations.

- Through prudent and cost-effective debt management, the government has consistently kept interest on debt costs below budget projections.
- ~~The 2016–17 Public Accounts show that Ontario's deficit for the last fiscal year was $991 million — $3.3 billion lower than projected in the 2016 Budget and half a billion lower than the interim deficit projection in the 2017 Budget.~~
- ~~This smaller-than-projected deficit is due to stronger revenues, and reflects positively on the debt-to-revenue ratio.~~
- ~~Ontario's interest on debt for 2017–18 is forecast to be $12.2 billion.~~
- ~~The interest on debt-to-revenue ratio is forecast to be 8.2 per cent in 2017–18, 8.3 per cent in 2018–19 and 8.4 per cent in 2019–20.~~
- ~~The savings on interest on debt have improved a key measure of the affordability of debt.~~
- ~~For example, t~~The 2010 Budget forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- By the 2017 Budget, the amount needed for interest payments had dropped significantly.
- The current forecast is 3.1 cents lower — 8.2 cents of interest costs for every dollar of revenue.
- This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through Ontario's outlook period to 2019–20.

Term Extension on Debt:

- Finally, record-low interest rates have enabled the government to ~~keep~~ control its annual interest expense ~~steady~~.
- However, the global decline in interest rates over the last 25 years could not continue indefinitely.
- The Bank of Canada has increased interest rates — twice last year and already once this year.

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- Ontario has taken necessary precautions to protect the financing of the province's public services, now that interest rates are widely understood to be on a ~~net~~ rising trajectory.
- To protect the province from these increases, the government has ~~continued to~~ extended the term of its debt.
- Term extension has allowed the government to lock in low interest rates for a longer period, which reduces refinancing risks.
- Extending the term also helps offset the impact of expected higher interest rates on interest on debt costs.
- Going back to the beginning of fiscal 2010–11, Ontario has issued $~~68~~70.6 billion in bonds longer than 30 years to lock in low rates.
- As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008–09 to 13.9 years in 2016–17.
- For 2017–18, it stood at ~~12.8~~ 13.7 years as of ~~October~~January 31, 201~~7~~8.
- The average term of the debt outstanding is ….
- If or when interest rates continue to rise, the government will assess whether it will remain cost-effective over the long term to continue to extend the term of its debt.

Conclusion:

- As I said at the outset, the Ontario government has a track record of responsible fiscal management and remains committed to executing its goal of reducing the provincial debt burden.
- To conclude, the government's plan to manage the debt focuses on three key areas:
  - ~~One, decreasing the n~~Net debt-to-GDP ratio~~.~~;
  - ~~Two, decreasing the i~~interest on debt-to-revenue ratio~~.~~; and
  - ~~And three, e~~Extending the term on its debt when interest rates are low.
- ~~As I have stated, the government has decreased the net debt-to-GDP ratio.~~

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- ~~In the 2017 Budget and the 2017 Fall Economic Statement, Ontario stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected for 2029-2030, together with an interim target of 35 per cent by 2023-2024.~~
- ~~I also explained how the government has decreased the interest on debt-to-revenue ratio.~~
- ~~The 2010 Budget forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.~~
- ~~However, by the 2017 Budget, the amount needed for interest payments had dropped.~~
- ~~The current forecast is 3.1 cents lower — at 8.2 cents of interest costs for every dollar of revenue.~~
- ~~Finally, I explained how the government has taken advantage of low interest rates and extended the term on its debt.~~
- ~~The weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008–09 to 13.9 years in 2016–17, and 12.8~~13.7 years for 2017–18 as of January 31, 2018~~October 31, 2017.~~
- ~~In short, Ontario's economy remains strong.~~
- Protecting the financing of the province's public services will continue to be one of the government's highest priorities.
- Thank you.

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:

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Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	**See:**
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

For QAs related to:	See:
IESO Market Accounts	Treasury Board Secretariat Ministry of Energy

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Treasury Board Secretariat Ministry of Energy

AG Audit of 2017 Statements

For QAs related to:	See:
Audit of IESO statements	Treasury Board Secretariat Ministry of Energy

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ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

For QAs related to:	See:
OFHP Overall	Ministry of Energy
OFHP Accounting	Treasury Board Secretariat

AG Recommendation #6: "Legislated Accounting"

For QAs related to:	See:
OFHP Overall	Ministry of Energy
"Legislated Accounting"	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy
Accounting for Trust	Treasury Board Secretariat

Records Disclosure/Process

- Messaging TBC

For QAs related to:	See:
Records Disclosure/Process	Treasury Board Secretariat Ministry of Energy

1. **Has the Ministry of Finance provided all records to the Auditor General of Ontario?**

   In response to a request for information from the Auditor General's office regarding the Ontario Fair Hydro Plan, the Ontario Financing Authority (an agency under the Ministry of Finance) provided 3,252 emails in two batches: 1,190 e-mails on June 23, 2017 and 2,062 on July 18, 2017.

Re-Design of Hydro Bills

For QAs related to:	See:
Re-design of hydro bills	Ministry of Energy

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PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

- Messaging TBC – TBS

For QAs related to:	See:
Pre-Election Report	Treasury Board Secretariat (Joint lead with Ministry of Finance)

2. Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report.

The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

- The forecast balanced budget in 2017–18 onwards will limit the increase in net debt-to-net investments in capital assets. These investments will contribute to the economy growing at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio.
- There is a strong demand for Ontario bonds in both the domestic and international markets. Ontario was able to borrow $27 billion in long-term debt in fiscal 2016-17 while our spread — or the margin that we have to pay over the equivalent Government of Canada bond — tightened, indicating an ongoing strong demand for Ontario bonds.
- The liquidity of Ontario benchmark bonds, and continuing confidence in the value of Ontario debt, has allowed us to cost-effectively complete the 2017–18 borrowing program and begin prefunding the 2018-19 borrowing program.

3. **What is the government doing to manage the province's debt burden?**

   The very important first step in reducing debt is to balance the budget. A balanced budget is projected for 2017-18, delivering on a commitment first introduced in the 2010 Budget.

   As the result of a balanced budget, and Ontario's strong economic growth, the net-debt-to-GDP ratio has been declining.

4. **What is the status of the province's borrowing plan?**

   Through prudent and cost-effective debt management, we have consistently kept interest on debt costs below budget projections. Interest on debt to revenue is forecast to be 8.2 per cent in 2017-18, 8.3 per cent in 2018-19 and 8.4 per cent in 2019-20.

   Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs.

   As of February 7, 2018, the Province had issued $33.9 billion in long-term public borrowing this fiscal year, thereby completing this year's program of $25.8 billion and prefunding $8.1 billion of the currently forecast 2018-19 long-term borrowing requirement.

Financial Accountability Office (FAO) Reports

DRAFT

5. **What is the government's response to the FAO's fall 2017 report, which states that the government will run a deficit in 2017-18 and the following years?**

   Ontario's deficit for 2016-17 was $991 million — $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget, according to public accounts.

   The Ministry of Finance is projecting a balanced budget in 2017-18. The Ministry of Finance is committed to a responsible fiscal plan. We build prudence into our forecasts.

   Since the time of the 2017 Budget, private sector forecasters have revised up their economic growth projections for Ontario over the 2017-20 period, reflecting the strength in the Ontario economy.

   Using the government's accounting presentation (i.e. excluding the AG's recommended treatment), the FAO is projecting a small surplus in 2017-18.

6. **Why are the FAO's revenue forecasts lower than the government's revenue forecasts?**

   The government is projecting total revenue to grow from $140.7 billion in 2016–17 to $158.2 billion in 2019–20. This represents an average annual growth rate of 4.0 per cent.

   Growth in revenues over the medium term is driven mainly by taxation revenue which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent. The projected taxation revenue growth aligns with growth actually experienced in recent years, and projections for the Ontario economy.

Credit Ratings

- Ontario currently maintains a double-A rating with three of its four credit rating agencies.
- We continue to update the rating agencies on a regular basis on economic and fiscal developments.

7. **What are the credit rating agencies' views on Ontario?**

   Following the release of the 2017 Budget, all four rating agencies — Moody's, DBRS, Fitch, and S&P — confirmed Ontario's long-term credit ratings.

   This reflects rating agencies' confidence in our government's fiscal plan.

DRAFT

8. How have rating agencies responded to the qualified opinion on the public accounts and the recent report from the Auditor General?

The rating agencies make their own assessment of the Province's finances.

However, there were no credit rating implications either this year or last when the government received a qualified audit opinion on its Public Accounts.

DRAFT

Preparation of Public Accounts

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

1. **Q re: Ministry of Finance use of external advisors**

   Answer….

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat

1. **QAs on finalization of financial statements – tax revenues, etc.**

   Answer…

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

DRAFT

OTHER

- MOE Key Message 1
- MOE Key Message 2
- MOE Key Message 3
- MOE Key Message 4
- MOE Key Message 5

1. **Qs that may come up that are not included in the categories above…**

   Answer…

DRAFT

From:	Bonnie Lemcke
To:	Christina Zhang
Cc:	Ken Kandeepan; Mike Manning; James Devine
Subject:	PA2015 - Media Products - No Opinion w Reg (Oct 3 140pm) - ofa changes.docx
Date:	Tuesday, October 04, 2016 12:49:28 PM
Attachments:	PA2015 - Media Products - No Opinion w Reg (Oct 3 140pm) - ofa changes.docx

Hi Christina,

I made a couple of small additions to Q57 and 58 (see attached). Please wait until Mike/Jim confirm the last point before we send.

1. Are you concerned about how the credit rating agencies will view this issue?

The Province's financial results show that the government has once again beaten its deficit targets and remains on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Our government remains committed to balancing the budget in 2017-18. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

~~In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.~~

The legislated pension accounting change has no impact on the province's total debt, which is one of the key numbers the rating agencies focus on.

2. Can credit rating agencies adjust their ratings based on this new development? What about bondholders?

The government remains committed to balancing the budget by 2017-18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. The deficit is also a $0.7 billion improvement compared to the interim results for 2015-16 contained in the 2016 Budget, which formed the basis for three rating agencies to confirm the Province's credit rating, and the fourth to improve their assessment of the Province's credit outlook.

This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

The rating agencies and bondholders will understand that the change in the Province's accounting treatment for pension assets of jointly-sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements or total debt outstanding.

Since the province released its financial statements, Ontario's 10-year spread (how

much interest we need to pay above a comparable Government of Canada bond) has remained unchanged and is slightly lower than it was when we released our budget in February.

Bonnie

Since the province released its financial statements, Ontario’s 10-year spread (how much interest we need to pay above a comparable Government of Canada bond) has remained unchanged and is slightly lower than it was when we released our budget in February.

Treasury Board Secretariat

2015-16 Annual Report and Consolidated Financial Statements Regulatory Amendment, No Opinion

Communications products

Monday, October 03, 2016

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Current holding messaging for Minister Sandals

- As you know, Treasury Board and Ministry of Finance staff prepare the Public Accounts which are subject to independent audit by the Auditor General.

- As I announced to the House last week, there are still some ongoing discussions happening around an accounting issue.

- Earlier today I met with the Auditor General and senior ministry officials to discuss the importance of resolving this issue and releasing the 2015-16 Public Accounts.

- Ministry officials will continue to work with the Auditor General and her staff to resolve the outstanding issue over the next several months.

- What I can tell you now is that Ontario is on track to beat its deficit targets and we are committed to balancing the budget in 2017-18.

- Lower than forecast deficit projections confirm that our government's plan to achieve fiscal balance in 2017-18 is working, while we continue to invest in the programs and services that matter to Ontarians.

- Keeping the public informed through transparent financial reporting remains a priority.

- In that spirit, as part of the 2015-16 Annual Report, which includes the unaudited Consolidated Financial Statements, we have built new data visualization tools to help the public understand Ontario's finances. These tools will be available when our financials are released.

Post technical-briefing speaking points

Minister Sandals' Statement – Release of 2015-16 Financial Statements

- Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion.

- This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

- As I assured members of the House last week, this marks the seventh year in a row that Ontario has beaten its deficit target. We are committed to balancing the budget in 2017-18 and remain balanced in 2018-19.

- In preparing the 2015-16 Annual Report and unaudited Consolidated Financial Statements, Treasury Board staff work with their colleagues in ministries across government to assemble financial information for the Annual Report and unaudited Consolidated Financial Statements.

- The Auditor General, who issues an opinion on the government's adherence to independently established accounting standards, then audits this.

- Earlier today, Minister Sousa and I met with the Auditor General to discuss the finalization of the 2015-16 Public Accounts.

- We did so because this year, the Auditor General provided the Province with a new interpretation of public sector accounting standards related to the accounting treatment of jointly-sponsored pension plans, which are subject to a range of interpretations.

- Despite our best efforts to try to resolve concerns raised by the Auditor General, the Province's professional accounting staff and the Auditor General continue to have differences in the interpretation of public sector accounting standards on this issue.

- The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

- In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

- To be clear, Ontario had followed the same pension accounting treatment for the past 14 years. The current Auditor General has accepted this treatment for the last two years, resulting in unqualified – or clean audit opinions.

- Three previous Auditors General have also accepted it. There has been no change to the relevant accounting standards over the past 14 years.

- In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

- To acknowledge the different interpretations and to ensure openness and transparency with respect to province's financial position, the government is releasing its unaudited financial statements.

- The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's consolidated financial statements as soon as possible.

- The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General. The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.

- Although these financial statements are unaudited, it is important to stress that the Province's financial results show that the government has once again beaten its deficit targets, and remains committed to achieving a balanced budget by 2017-18, and remain balanced in 2018-19.

- It is also important to stress that the two pension plans in question – the Ontario Public Service Employee's Union Pension Plan, and the Ontario Teachers' Pension Plan – are both healthy and well funded.

- Based on our respective positions at this time, we believe that this accounting matter would benefit from additional discussions, information and consideration.

- Our officials and professional accounting staff will continue to work with the Auditor General’s office on this accounting issue related to pension assets so that we can table the audited Public Accounts with the Lieutenant Governor in Council as soon as possible.

Minister Sousa's Statement – Ontario's Fiscal Outlook

(TBC input by MOF comms)

The government is dedicated to a fiscally sound approach to managing the Province's finances.

As outlined in the 2016 Budget, the government is committed balancing the budget in 2017-18 and remaining balanced in 2018-19.

The 2016–17 First Quarter Finances also confirmed that the government is projecting a deficit of $4.3 billion in 2016–17, unchanged from the 2016 Budget forecast.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries.

The government's path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

At the same time, the government continues to make investments in the economy, its people, and a healthy, clean and prosperous low-carbon future.

Key messages – post release

- The government has released its 2015-16 Annual Report and unaudited Consolidated Financial Statements to ensure transparency with respect to the province's financial position.

- To align with the Auditor General, a regulation has been filed to prescribe the accounting treatment for pension assets for the 2015-16 financial statements.

- The regulation resolves the outstanding accounting issue for this year in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

- This marks the seventh year in a row that Ontario has beaten its deficit target.

- Ontario remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

If pressed about why a regulation was needed:

- Based on their professional judgement, the Province's professional accounting staff could not agree with the Auditor General's interpretation of Public Sector Accounting Standards as it relates to jointly-sponsored pension plans.

- A regulation was required to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements.

- The Province has applied consistent accounting treatment for these plans for the past 14 years, and has consistently received unqualified, or clean audit opinions from the Auditor General, without exception.

- To remain clear and transparent, we have reflected the Auditor General's view of the issue for this year. In order to do so, the government regulated the treatment of the pension assets for 2015-16.

- This is an accounting issue. However we remain optimistic that by studying the issue further and gathering third-party professional opinions, we will be able to reach an agreement on the treatment with the Auditor General in the coming months.

News Release

Last Year's Ontario Deficit $3.5 Billion Lower Than Projected

Province Remains Committed to Balance the Budget Next Year in 2017-18

News

Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion. This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

This marks the seventh year in a row that Ontario has beaten its deficit target. Ontario remains committed to balancing the budget in 2017-18, and remain balanced in 2018-19.

In preparing the Annual Report and unaudited Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets. Pension accounting requires the application of professional judgment. Despite best efforts to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of opinion about the appropriate application of public sector accounting standards as they relate to pension accounting. This ongoing discussion has delayed the tabling of the Province's financial statements.

A regulation was made to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements. The Province has filed a time-limited regulation, which legislates the accounting for pension assets of two jointly-sponsored pension plans for 2015-16 in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

To ensure openness and transparency, the government is releasing its unaudited financial statements to provide the public with the Province's financial position.

The unaudited statements show the government is beating its deficit targets through sound financial management. The Government of Ontario currently has the lowest program spending per capita among Canadian provinces and ranks the lowest among provinces in terms of public-sector employees per capita. At the same time, Ontario's economy continues to grow. Over the last two years, Ontario's economy has grown by 6.1 per cent. Last year, growth was double the national average. In the first quarter of this year, Ontario's growth was greater than that of the United States and the G7.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation. In addition Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

Responsible financial management is part of the government's economic plan to build Ontario up and deliver on its number-one priority to grow the economy and create jobs. The four-part plan includes helping more people get and create the jobs of the future by expanding access to high-quality college and university education. The plan is making the largest infrastructure investment in hospitals, schools, roads, bridges and transit in Ontario's history and is investing in a low-carbon economy driven by innovative, high-growth, export-oriented businesses. The plan is also helping working Ontarians achieve a more secure retirement.

QUOTES

“The Annual Report and unaudited Consolidated Financial Statements for 2015-16 show that our government’s plan to achieve fiscal balance next year in 2017-18 is working. We will continue to build on our track record of responsible fiscal management, while investing in vital government services such as health care, education and infrastructure that are important to the people of Ontario.”

- Liz Sandals, President of the Treasury Board

“Our government is dedicated to a fiscally sound approach to managing the Province’s finances. The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the United States, and all other G7 countries. The government’s path to a balanced budget next year is being achieved through responsible fiscal management, which involves managing growth in program spending, and maintaining the integrity of Provincial revenues.”

- Charles Sousa, Minister of Finance

QUICK FACTS

- The 2015-16 unaudited Financial Statements compare Ontario's actual performance to what was planned in the 2015 Budget.

- Ontario is a recognized leader in financial reporting. The C.D. Howe Institute, an independent research organization that assesses the fiscal planning and reporting of governments in Canada, has commented positively on the financial reporting practices of Ontario, including Public Accounts, the annual Budget and Estimates.

- The unaudited Financial Statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

LEARN MORE

- Read the Province's 2015-16 unaudited Financial Statements and explore supplementary information available through new data visualization tools
- Explore the more than 400 open data sets in the Open Data Catalogue
- Learn about the government's fiscal cycle
- Learn about how the government is investing in vital programs and services [insert link to backgrounder]

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

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Newsroom Backgrounder

Release of Ontario's 2015-16 Financial Statements

Public Accounts are part of the Ontario government's annual fiscal cycle and are a legislative requirement under the Financial Administration Act. The President of the Treasury Board submits the Public Accounts for each fiscal year to the Lieutenant Governor in Council on or before the 180th day after the end of the fiscal year. Public Accounts include the Province's annual report and consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The consolidated financial statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB). PSAB independently establishes accounting standards for the public sector in Canada.

These accounting standards are common, nationally recognized standards used by governments across Canada in their financial reporting

PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.

The objective of PSAB standards is to meet the needs of the users of financial statements by providing the information needed for accountability and decision-making.

In preparing the Annual Report and Consolidated Financial Statements for 2015-16, professional public servants and the Auditor General engaged in discussions regarding the accounting treatment of pension assets.

The Ontario Public Service Employees Union Pension Plan (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) are jointly-sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of OPSEUPP and OTPP are held in trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.

During the 2015-16 Public Accounts audit, the Auditor General raised some concerns with regard to Ontario's accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of interpretation of PSAS standards as they relate to accounting for pension assets.

Given the differences in interpretation of the application of PSAB standards for the OTPP and OPSEUPP pension assets, Ontario approved a time-limited regulation which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. This is consistent with the fiscal outcome proposed by the Auditor General on September 13.

The *Financial Administration Act* allows Treasury Board, subject to the approval of the Lieutenant Governor in Council, to make regulations respecting the accounting policies and practices to be followed regarding the preparation of the consolidated financial statements of the Province.

The effect of the regulation is to reflect the fiscal impact of the Auditor General's position pending further review and analysis on this accounting matter. The change in accounting treatment is not a reflection on the funding status of the plans, or the quality of financial reporting by the Province. The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.

Prior to this change, Ontario had followed the same pension accounting treatment for all of the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

The Auditor General has not issued an audit opinion on the province's financial statements for 2015-16. However the government is releasing these unaudited financial statements to ensure openness and transparency with respect to province's financial position, and because it has passed the deadline to table the Public Accounts with the Lieutenant Governor in Council. The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's consolidated financial statements so that it can table the Public Accounts with the Lieutenant Governor in Council.

Openness and Transparency

As part of its commitment to Open Government, digital technology was used for the first time to visualize the province's financial information in an interactive and easy to understand way. This year, Ontario is further increasing the openness and transparency of the Annual Report and unaudited Consolidated Financial Statements by:

- Creating new data visualizations, including interactive bar charts and interactive data tables
- Releasing data sets through Ontario's Open Data Catalogue, including data on government organizations, government business enterprises and Trusts

Improving Outcomes for Ontarians

As the Province's 2015-16 Financial Statements show, the government remains committed to balancing the budget in 2017-18, while continuing to invest in the priorities that matter to the people of Ontario, such as healthcare, education and infrastructure.

Health Care

Building on Ontario's Patient's First: Action Plan, the government continued transforming Ontario's health care system in 2015-16 to become more patient-centred and focused on better access to care, quality and value by:

- Increasing investment in home and community care by five per cent annually: $250 million in 2015-16, for a total of $750 million over three years.

- Increasing the hourly wages of publicly funded personal support workers (PSWs) caring for patients at home and in the community by $1.50 per hour in 2015-16 to at least $15.50 per hour, in the second of three annual increases totalling up to at least $16.50 per hour by April 1, 2016. Investments in PSWs, like an increase in the hourly wage are part of the government's effort to attract and retain the best PSWs in the home and community care sector.

- Appointing Ontario's first-ever Patient Ombudsman who will help address needs of patients who have not had their concerns with health care organizations resolved through existing complaint mechanisms.

Advanced Education and Skills Development

In 2015-16, the Ontario government made progress on its plan to help more people get and create the jobs of the future by continuing to invest in student financial assistance

and expand access to high quality college and university education, resulting in 67 per cent of adults in Ontario obtaining a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

Over the past 12 years, government investments have resulted in more than double the number of students qualifying for aid, while enrolment has increased by 38 per cent.

In 2015, 67 per cent of adults in Ontario had a postsecondary degree, diploma or certificate – higher than the average of any OECD country.

The government is also transforming Ontario's student aid system to help thousands of students obtain greater access to advanced education and have lower levels of student debt upon graduation. For students from lower-income and many middle-income families, it would mean free tuition. These changes will start in the 2017-18 academic year.

Childcare, Elementary and Secondary Education

The government has made gains in building and supporting an integrated early-years, elementary and secondary education system. This includes increasing funding for schools and licenced child care, the establishment of the Ontario Early Years Policy Framework and implementation of Full-Day Kindergarten.

In 2015-16, the government built on this success by:

- Increasing wages for early childhood educators and other child care professionals in licensed child care settings by providing a $1 per hour wage increase for eligible child care workers bringing the total wage increase up to $2 per hour, plus benefits.

- Increasing the five-year high school graduation rate to 85.5 per cent – the highest level in the province's history.

- Doubling the funding for school renewal projects to $500 million in 2015-16 to ensure our students are benefitting from safe, modern and efficient learning environments.

Infrastructure

Ontario is making the largest investment in public infrastructure in the province's history – about $160 billion over 12 years, starting in 2014-15. Planned investments are supporting over 110,000 jobs, on average, every year across the province.

In 2015-16, the Province continued to invest in hospitals, schools, roads, bridges and transit, including:

- Completing construction of the $1.4 billion Right Honourable Herb Gray Parkway in Windsor–Essex, which provides an express route to the country's busiest land border crossing.

- Ongoing construction of the Eglinton Crosstown Light Rail Transit line, which will offer fast, efficient service and improve travel for commuters.

- Providing small, rural and northern municipalities with funding to build and repair core infrastructure through the Ontario Community Infrastructure Fund.

- Completing the new Humber River Hospital, which offers a comprehensive range of acute care services and support for inpatient and outpatient hospital programs.

- Ontario is making $575 million investment to repair and renew schools across the province in 2016-2017.

Staying on the Path to Balance

The government is working towards a balanced budget through Program Review, Renewal and Transformation (PRRT), a government-wide approach to multi-year planning and budgeting that puts a heightened focus on evidence and outcomes to inform funding allocations.

But PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care, education and infrastructure.

Examples of successful PRRT initiatives include:

- Improving the sustainability of the Ontario Drug Benefit Program and patients' access to drugs by making the program more efficient and effective. The changes saved approximately $100 million in 2015-16 and will enable over $200 million in savings annually when fully implemented.

- Changing the Second Career program by removing client targets for service providers while ensuring funding support for eligible clients. This change will generate approximately $40 million per year and will allow the government to invest in the Canada-Ontario Jobs Grant and a renewed Ontario Youth Job strategy.

- Reducing the government's office footprint by over 820,000 rentable square feet, which generated approximately $24 million in savings in 2015-16.
- Achieving approximately $56 million in savings through the consolidation of data centres, early vendor payments and lower contract costs – including for software and IT consulting services, laboratory supplies and security services.
- Achieving $7 million in savings from contracts related to government cell phone plans and toll free lines.

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

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Top Media Qs&As

Releasing Unaudited Financial Statements

1. It sounds to me like the government is yet again fighting with the Auditor General. What do you say to this?

This is not true from the government's perspective. And let me explain why: The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. And in this case for this set of final accounts, while one specific issue is being sorted through, we actually are agreeing with the Auditor General's numbers.

Given these differences of opinion, the Province filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

We believe that this accounting matter would benefit from additional discussions, information and consideration.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

2. Why are you releasing your financial statements without the Auditor approving them?

Earlier today I met with the Auditor General to discuss the 2015-16 Public Accounts. I did so because this year, the Auditor General presented the province with a new interpretation of public sector accounting standards as it relates to an accounting issue – the treatment of pension assets.

Ontario has followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years, resulting in unqualified – or clean audit opinions. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In preparing the Annual Report and Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets – which is subject to a range of interpretations.

Despite best efforts to try to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have difference intepretations.

To remain clear and transparent, the government exercised its statutory authority to regulate the treatment of this particular issue for 2015-16. The government regulated the treatment of pension assets in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

The government is now releasing its financial statements to ensure transparency with respect to province's financial position.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

3. If the Public Sector Accounting Board is studying this issue, are other Canadian jurisdictions dealing with this as well?

No other province has similar governance frameworks for their jointly-sponsored pension plans that are in a surplus position.

<u>British Columbia</u>

Pension assets for BC's jointly sponsored pension plans are not reported on British Columbia's consolidated financial statements. The governance framework in BC is

different than Ontario's and would appear to justify different accounting treatment under PSAB standards.

Specifically, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to use ongoing surpluses through the amendment of the Plan rules governing contributions and benefits, so long as the amendment of the Plan rules:

- Does not result in an increased contribution rate for employees or employers
- Does not create or increase an unfunded liability in the Plan, and
- Is otherwise compliant with applicable legislation and the Trustees' fiduciary obligations.

In contrast, the governance arrangements with respect to the Ontario Teachers' Pension (OTPP) provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may use ongoing surpluses as they believe appropriate, subject only to the Ontario *Pension Benefits Act.* The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses.

The OPTrust governing documents also stipulate that it is the Sponsors of the OPTrust, being the Province of Ontario and OPSEU, who have the authority to utilize ongoing Plan surpluses. OPTrust's Board of Trustees, being the OPTrust administrator for purposes of the Ontario PBA, has no authority to utilize ongoing Plan surpluses.

<u>New Brunswick</u>

As we understand it, New Brunswick converted four of its pension plans into what it refers to as target plans.

In the prior year, New Brunswick accounted for these plans as defined contribution plans, meaning it expensed the contributions to the plan and did not reflect its share of the net asset or net liability of the plan in its financial statements. The Auditor General of New Brunswick issued a qualified opinion on those financial statements.

In the 2015-16 fiscal year, New Brunswick changed its accounting for those plans to account for them as defined benefit plans and the Auditor General of New Brunswick issued a clean opinion.

Ontario has always accounted for its share of its jointly sponsored plans as defined benefit plans.

4. What is the professional judgment that exists out there to interpreting jointly-sponsored pensions?

A key consideration in exercising professional judgment is if the resulting financial information is both relevant and reliable and gives a fair presentation of the transaction.

This area of pension accounting is particularly complex, and it is important to consider the specific facts and circumstances when assessing the appropriate accounting treatment.

In this regard, the Province has assessed the appropriate accounting treatments based on the governance frameworks applicable to Ontario's jointly-sponsored pension plans. It would be inappropriate to assume that the governance frameworks of plans in other jurisdictions would necessarily result in the same accounting treatment.

5. Are you saying the Auditor General is misinterpreting Public Sector Accounting Board standards?

The Auditor General's responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment. A difference of opinion on the interpretation of accounting standards is not unique to this situation. Other jurisdictions have also experienced differences of opinion between preparers and auditors on complex accounting matters.

Over the coming months we will undertake activities to further assess the application of PSAB standards to Ontario's accounting for jointly-sponsored pension plans. In the meantime, it remains the professional judgment of the professional staff that the accounting treatment in place since 2001 continues to be appropriate.

6. If the Auditor General had agreed with you, what would the differences have been in the deficit or net debt?

According to the Province's interpretation of PSAB, the annual deficit would be $1.5 billion lower (at $3.5 billion), and net debt would be $10.7 billion lower.

7. The province has been treating pensions the same way since 2001. When did the Auditor General tell you about this new accounting treatment?

We only learned that the Auditor General was challenging the accounting treatment of the past 14 years very late in the audit. On September 13th the Auditor General communicated her position that the Province should write off the entire pension asset amount of $10.7 billion from the balance sheet.

8. What does this mean for the Fall Economic Statement?

We're in the middle of completing the fiscal plan. We need to account for all financial considerations before we can finalize it. These results will be included as part of that process. **(TBC MOF)**

9. Is this Public Accounts or not?

From a content perspective, the unaudited results being released are the same as those which would be reported in the Public Accounts, including the information in the supplementary volumes.

The only difference is that the Auditor's Opinion is not included in the Annual Report.

10. Were you aware of this before the Speech from the Throne? Had you known about this, would that have changed the government's commitments announced in the speech?

Response TBC

11. Why are you doing this today, four days after you announced the delay?

Despite the outstanding difference in opinion between the Auditor General and the Province's professional accounting staff with regards to pension accounting, it is important to ensure that the public interest is served by timely and transparent reporting of the government's results for 2015-16 compared to Budget.

Although the results being released are clearly labelled as unaudited, we look forward to tabling the Public Accounts once the Auditor General provides her opinion.

12. On what exactly do you disagree with the Auditor?

Both the Auditor General and the Province agree that the Province's results should reflect PSAB's standard on pension accounting. It is just a difference in interpretation of those standards which is at the heart of the issue.

The nature of the difference in interpretation is disclosed in Note 18 of the unaudited consolidated financial statements.

13. If you think you're right, why would you change the numbers?

To clarify, the 2015-16 results are based on legislation and PSAB. Although they reflect the same fiscal results which would be presented according to the Auditor General's proposed interpretation of the standards, the results as presented do not represent our professional staff's interpretation of PSAB standards for jointly sponsored pension plans.

By adopting the Auditor General's interpretation, the financial statements could be finalized and signed off in order to complete the financial reporting process and enable Public Accounts to be completed. Unfortunately, the Auditor General's audit opinion remains outstanding at this time so the Public Accounts have yet to be finalized**.**

14. Was there something wrong with the accounting rules that the government was using before?

No.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

That said, the Province believes that this complex accounting area would benefit from additional discussion and analysis. Over the coming months, efforts will be made to engage experts to assist with further analysis of the application of PSAB to accounting for jointly-sponsored pension plans on the Province's books.

15. Why hasn't the Auditor General raised this with you in the past two years?

I cannot speak for the Auditor General. Please refer your questions to the Auditor General's Office.

16. What is the government trying to hide by releasing unaudited books?

We are releasing our unaudited financial statements to ensure openness and transparency with respect to the Province's financial position. Our unaudited financial statements reflect the same fiscal outcome that would result from the Auditor General's proposed pension accounting treatment.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

As part of the government's initiative to enhance transparency and accountability, additional disclosure of five-year trends is now provided in the Annual Report. The increased disclosure and discussion on five-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board and enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs.

In addition to the disclosure in the Annual Report, the government is also making available supplementary information through online data visualizations.

17. Are you fudging the books to try and show your finances are better than they really are – is that why the AG won't sign off?

No.

We are releasing our Financial Statements to ensure openness and transparency with respect to the province's financial position. In fact, we have implemented legislation that allows our officials to sign off in a way that is consistent with the fiscal outcome proposed by the Auditor General.

Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditor Generals. There has been no change to the relevant accounting standards over the past 14 years.

Although these statements are unaudited, it's important to stress that the Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

18. Is this even legal – are you in contempt of the house by releasing your financial statements before you table them in the Legislature?

We are not releasing Public Accounts, we are releasing our financial statements to ensure openness and transparency with respect to province's financial position.

The government believes it is in the public interest to release its financial information. The government also believes it is in the public interest for the Auditor General to issue an audit opinion on Ontario's finances so that we can submit the Public Accounts to the Lieutenant Governor in Council and table them as soon as possible.

19. Has this ever happened before in Ontario? Anywhere else in Canada?

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and meeting its statutory tabling requirements. Ontario has had clean audit opinions for the past 22 years.

That said, differences of opinion between preparers and auditors do occasionally occur, and have occurred in other jurisdictions in Canada.

20. How are we supposed to trust your numbers if the Auditor General hasn't approved them?

Although the financial results being presented are labelled 'unaudited', they reflect the basis of reporting for pensions that the Auditor General proposed.

Once the Auditor General has issued her Audit Opinion, the Public Accounts will be finalized and tabled with the Lieutenant Governor in Council.

21. So what happens next? When will you table the actual Public Accounts?

The government will continue to work with the Auditor General to complete tabling of the 2015-16 Public Accounts.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

22. Does the change in accounting regarding the assets of the Teachers' or OPSEU pensions plans mean those plans might be financially threatened?

Absolutely not. This issue relates solely to the Province's reported financial results and the Province's historical practices of reporting pension assets.

The two pension plans in the Ontario Public Service – which are of the defined benefit type – are healthy and well-funded.

The OPSEU Pension Plan is fully funded with a small reserve of surplus assets standing to the credit of the joint-sponsors, while the Ontario Teachers' Pension Plan has a funding surplus of $13.2 billion.

23. You hired outside experts to give you a third-party accounting opinion, but you paid to get this advice. Didn't they just tell you what you wanted to hear?

The Province pays for services provided by external advisors – an accounting opinion is no different.

In providing an accounting opinion when the auditor has already provided their view, the professional standards require the firm providing the opinion confirm that the facts upon which the opinion is issued are complete so that the firm issuing the opinion is considering the same facts that the auditor is considering.

This process was followed by the Province.

24. The Auditor General has implied your Provincial Controller is in a position of conflict because she used to work for Deloitte. How do you respond?

All employees that are hired into the Ontario Public Service swear two oaths, an Oath of Allegiance and an Oath of Office. These oaths affirm that public servants will faithfully discharge their duties, and comply with all laws and confidentiality obligations.

25. The Auditor General says she raised this issue with you months ago. Why haven't you fixed this problem by now?

Until June, the Auditor General's audit plan for the 2015-16 Public Accounts only included a planned review of economic assumptions for pension plans. There were no significant issues raised by the Auditor's staff following their work on the assumptions.

The Province responded upon receiving the Auditor General's request for an actuarials valuation by procuring resources to complete the AG's request. The results were shared with the Auditor General's staff and only after several discussions did it become apparent that the Auditor General was challenging the accounting treatment that the Province had been following for the past 14 years.

On September 13th, the Auditor General communicated her position that the entire balance of pension assets ($10.7 billion) should be written off the Province's books. Despite our best efforts, the Province's professional accounting staff have not yet been able to reach a common interpretation of PSAB standards for the Province's jointly sponsored pension plans.

In light of the ongoing disagreement on interpretation of accounting standards, and the need to release the Province's financial results on a timely basis, Cabinet approved a regulation to allow for the results of the Province to be reported on a basis which reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension asset in question.

26. If you say you're open and transparent, why didn't you invite the Auditor General to your media technical briefing?

The technical briefing was for the purposes of updating media and members of the Opposition and the third party. However it was held in a public space in a government building, and anyone was free to attend.

27. Is the government still committed to balancing the budget by 2017-18?

Yes.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18 and remaining balanced in 2018-19.

28. The financial results show that the net debt and accumulated deficit has ballooned by $10.7 billion? How did this happen and what are you doing to address it?

This year, the Auditor General presented the province with a new fiscal interpretation of public sector accounting standards as it relates to the treatment of pension assets.

After careful consideration, the Province agreed to adopt the Auditor General's fiscal interpretation. The government made a regulatory amendment to allow us to amend our accounting policies for the 2015-16 Public Accounts in order to comply with the Auditor's fiscal interpretation. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Despite this change, and as our results show, the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Total debt remains unchanged by the pension adjustment.

The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.

29. How can the accumulated deficit and net debt increase by $10.7 billion without causing an increase in total debt?

Total debt is cash based – it is how much money we've borrowed and is owed to our creditors.

Net debt takes into account the difference between our financial assets and liabilities, whether they are cash or not.

The province has changed the valuation of the net pension liability by reducing the pension assets by $10.7 billion, but because there is no cash involved in that valuation, the total debt does not change.

30. Should taxpayers be concerned about the rise in net debt and accumulated deficit?

No.

The Province's financial results show that the government has once again beaten its deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

The treatment of pension assets is an accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. PSAB will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

31. How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget. Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

32. What is the difference between "Public Accounts" and "Financial Statements"?

Our financial statements include the Province's annual report and unaudited consolidated financial statements. These documents provide financial highlights of the past fiscal year compared to the Budget plan and report on performance in priority areas.

The full Public Accounts would also include these components, as well as a report by the Auditor General containing an audit opinion.

The full Public Accounts will be tabled with the house once the Auditor General's audit opinion is available.

33. You say you're releasing your financial results in the public interest. Aren't you creating confusion by having two sets of books – yours and the AG's?

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General. Therefore there is only one set of books.

Our officials continue to work with the Auditor General's office. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

34. How different will the Auditor General's numbers be?

There is no difference in the unaudited financial statements released and the Auditor General's view of the results for the Province for fiscal 2015-16. The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

35. Why didn't you just release Public Accounts last week to meet your legislated timelines?

As stated in the House there was a delay in tabling the Public Accounts because of ongoing discussions with the Auditor General to work through an accounting issue related to pension assets.

Our officials have continued to work with the AG's office to finalize the 2015-16 Public Accounts. In the meantime, we felt it was in the public interest to release our unaudited financial statements in the spirit of transparency and accountability.

36. Clearly the government is in a spat with the Auditor General – releasing unaudited financial statements seems like a slap in the face. What does this say about your relationship with the Auditor General?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

Our officials continue to work with the Auditor General's office to resolve this accounting issue related to pension assets. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

37. The Auditor General claims you have been using creative accounting to overstate your numbers – how do you respond to that?

That is simply not true.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor General's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It has also been accepted by three previous Auditors General.

There has been no change to the relevant accounting standards over the past 14 years.

That said, given the particularly complex area of pension accounting, further analysis of the impact of PSAB standards on the Province's books will be undertaken over the coming months.

38. So at the end of the day if your numbers are the same as the Auditor General's what's the issue?

Professional accounting staff and the Auditor General have a difference of interpretation as it relates to the application of public sector accounting standards to pension assets resulting from jointly-sponsored pension plans.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

The Auditor General has declined to issue an opinion on the financial statements. In the absence of the Auditor's opinion, the Province is not able to table the Public Accounts as required by law.

39. What's the difference between "audited" and "unaudited" financial results?

In practice, there should be no difference between audited and unaudited results.

An independent audit of an organization's financial statements provides independent assurance that the results fairly represent the financial position of the organization, and that those results are in accordance with generally accepted accounting principles.

The Province's unaudited financial statements include a Statement of Responsibility. This statement describes how the financial report is prepared, and attests to the government's responsibility for the objectivity and integrity of the consolidated financial statements.

The government also attests to its responsibility for maintaining appropriate systems of internal control. The systems support the integrity and completeness of the financial information reported.

40. What's the difference between a "qualified" and "unqualified" audit opinion?

Audit reports represent an auditor's professional opinion on whether an organization's financial position and results of its operations are presented fairly in its financial statements.

An unqualified, or clean opinion, is a judgment that an organization's financial records and statements are fairly and appropriately presented.

A qualified opinion indicates an auditor has concerns with the financial information. Those concerns could include things like the availability of sufficient information for

users to make an informed decision, or the organization's reporting in accordance with public sector accounting standards.

In this case the Auditor General has chosen not to issue an opinion at all – either unqualified or qualified.

41. Why didn't the Auditor General issue an audit opinion? Is this even legal?

Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. This reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

The government also believes it is in the public interest for the Auditor General to issue and audit opinion on Ontario's consolidated financial statements as soon as possible.

42. What is a jointly-sponsored pension plan?

The Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of both pension plans are held in a trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between both parties.

During the 2015-16 Public Accounts audit, the Auditor General raised some questions about Ontario's past accounting practices related to pension assets for the OPSEUPP and OTPP plans.

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

43. How does the Auditor General want you to account for jointly-sponsored pension plans?

During the 2015-16 Public Accounts audit, the Auditor General expressed a different interpretation of the existing PSAB standards which would impact the accounting for pension assets of jointly-sponsored pension plans.

The Auditor General's view is that the government does not have legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the Auditor General believes that the pension asset should be removed from the Province's balance sheet.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. We believe that this reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

General Media Qs&As

44. Is the government artificially balancing the budget through the one-time sale of assets like Hydro One?

The government's plan to eliminate the deficit does not depend on revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The government is committed to dedicating the net revenue gains from asset optimization activities, including the broadening of ownership of Hydro One and real estate sales to the Trillium Trust which will be used to invest in transit, transportation and other priority infrastructure projects under Moving Ontario Forward.

45. According to your numbers the deficit was down $3.5 billion from the $8.5 billion projected in last year's budget. Where did this money come from?

The improvement over plan was largely due to revenues that were $4.0 billion above the forecast of $124.4 billion.

This reflects higher than expected tax revenue and net revenues from the first phase of broadening Hydro One ownership, and stronger overall performance from government business enterprises. Maximizing the value of these assets is part of the government's economic plan for Ontario.

46. Does the fact that your deficit is $3.5 billion lower than projected mean you have more money to bring to the table in labour negotiations (e.g. doctors)?

It is important to point out that through the Public Accounts process, we are reporting on past performance, whereas labour negotiations impact future fiscal pressures.

Our government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19. We know we have difficult choices ahead, but people can be assured that their government will take a fair and balanced approach, one that protects and improves the services that matter to Ontarians.

Managing compensation costs is critical to balancing the budget, as over half of government spending goes to salaries and benefits in the Ontario Public Service (OPS) and the broader public sector (BPS).

Compensation costs must be addressed within Ontario's existing fiscal framework and all public-sector partners must continue to work together to control current and future compensation costs.

While continuing to work to achieve fiscal balance by 2017–18, the government is achieving significant results in priority areas for Ontarians.

We know there is more hard work ahead as we work towards a balanced budget, and we are confident that our partners will work with us to build Ontario up.

47. Will you still be able to balance the budget if Ontario's economy does not perform as strongly as you forecast? Even the FAO has said that your forecast is optimistic.

The government is committed to balancing the budget by 2017-18 and remaining balanced in 2018-19.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries.

While uncertainty in the global economy has increased, along with increased volatility in global financial and currency markets, Ontario has a diversified economy – meaning the Province is well positioned to respond to changing global economic conditions.

With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve balance.

48. Are you cutting back on vital services like health care to balance the budget?

No. Through Program Review, Renewal and Transformation (PRRT), we are helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered

efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

PRRT is about more than just savings targets – it is about doing government differently – improving outcomes for Ontarians while freeing up resources to reinvest in key government priorities, such as health care.

49. This is the seventh year in a row that you have reported a deficit lower than forecast. Are you purposefully overestimating your deficit projections?

The government remains committed to balancing the budget by 2017-18 and is taking deliberate and responsible steps to achieve this goal.

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

The government's fiscal projections are based on the best economic and fiscal information available at the time. They reflect a realistic and responsible plan to manage the Province's resources, while still protecting the vital services that Ontarians rely on.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

50. You spent $433 million more than you budgeted for programs. How is your government keeping spending in check?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education, and by retaining the lowest per capita program spending in Canada.

51. How would the Ontario Rebate for Electricity Consumers impact Ontario's plans for a balanced budget? How will the province pay for this $1 billion rebate?

We have incorporated that expenditure into our fiscal plan starting in 2017. The government remains committed to balancing the budget by 2017-18 and remaining balanced in 2018-19 by continuing to invest in the economy, our people and a healthy, clean and prosperous low-carbon future. These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth.

Questions related to the Ontario Rebate for Electricity Consumers should be referred to my colleague, the Minister of Energy.

52. How is the money spent on the now defunct Ontario Retirement Pension Plan reflected in Public Accounts? How does the government justify this expense?

TBC OPCD + MOF

53. Was the delay in tabling Public Accounts because you can't afford the childcare commitment and the electricity rebate?

No. Public Accounts is a retrospective document that compares Ontario's actual performance to what was planned in the Budget.

I have directed senior Treasury Board officials to work with the Office of the Auditor General to develop a plan and finalize the Public Accounts as soon as possible.

54. In 2003, your government brought in legislated timelines for Public Accounts, yet you're past the deadline and you still haven't tabled them. Why didn't you adhere to your own legislation?

We have been working with the Office of the Auditor General to try to come to an agreement on the treatment of pension assets.

The Public Sector Accounting Board has initiated a project to review pension accounting standards, and will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

In order to be transparent, and in the public interest, the government is releasing its Financial Statements in order to show the province's financial position.

We believe that this reflects the fiscal outcome proposed by the auditor with respect to the treatment of the pension asset in question.

55. Disagreement with officers of the legislature seems to be a recurring theme – at least with the Auditor General – what's your position on this? Does this government have a problem with officers of the legislature?

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. As a government, we value our important and ongoing relationship with each of these officers.

56. Is the fact that you've changed your accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous

Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

For 2015-16 financial statements, the government legislated its accounting treatment for pension assets of its jointly-sponsored pension plans.

57. Are you concerned about how the credit rating agencies will view this issue?

The Province's financial results show that the government has once again beaten its deficit targets and remains on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Our government remains committed to balancing the budget in 2017-18. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

The legislated pension accounting change has no impact on the province's total debt, which is one of the key numbers the rating agencies focus on.

~~In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.~~

58. Can credit rating agencies adjust their ratings based on this new development? What about bondholders?

The government remains committed to balancing the budget by 2017-18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. The deficit is also a $0.7 billion improvement compared to the interim results for 2015-16 contained in the 2016 Budget, which formed the basis for three rating agencies to confirm the Province's credit rating, and the fourth to improve their assessment of the Province's credit outlook.

This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

The rating agencies and bondholders will understand that the change in the

Province's accounting treatment for pension assets of jointly-sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements or total debt outstanding.

Since the province released its financial statements, Ontario's 10-year spread (how much interest we need to pay above a comparable Government of Canada bond) has remained unchanged and is slightly lower than it was when we released our budget in February.

Hydro One

59. Why are you selling off Hydro One?

The government is broadening the ownership in Hydro One to improve the company's long-term performance and unlock billions in value for investment in major infrastructure projects that will help grow Ontario's economy for years to come.

This approach will create an improved company that would operate more efficiently and better serve the interests of ratepayers and customers of Hydro One.

The net revenue gains from broadening the ownership of Hydro One shares will provide the government with approximately $4 billion to be credited to the Trillium Trust to invest in key infrastructure and create thousands of jobs, as well as $5 billion to reduce debt.

60. What is the Hydro One deferred tax benefit?

As a result of Hydro One exiting the Payment in Lieu (PILs) regime and the revaluation of its fixed assets upon entering the corporate tax regime, the company recognized a deferred tax benefit in fiscal 2015-16, which positively affected its net income.

At consolidation in Public Accounts of the Province's portion of Hydro One's net income, Hydro One's recognition of a deferred tax benefit increased the Province's revenues by $2.4 billion. The gain associated with Deferred Tax Benefit from the IPO has been allocated to the Trillium Trust.

61. Why did you loan the electricity unions money to buy shares of Hydro One?

In connection with the IPO, the Province sold $116 million worth of Hydro One shares to trusts of the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts. Of the shares sold to the Trusts, about $108 million was purchased using loans provided by the Province. The gains from those share sales will be credited to the Trillium Trust over time as the loans are repaid.

The government is fully committed to dedicating net revenue gains from the sale of designated assets to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of Moving Ontario Forward.

The $3.2 billion being credited to the Trust at this time does not include amounts associated with shares purchased by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP) trusts using loans provided by the Province.

62. The government is being sued over the sale of Hydro One. Was the sale worth it to balance you budget now that you're being sued?

I understand Ontario has been served with a notice of claim. As this matter may be subject to litigation, it would be inappropriate to comment further.

63. The FAO has warned that the partial sale of Hydro One will have direct implications on the provinces debt and ability to balance the budget. What do you say to these concerns?

To date, Ontario has sold approximately 30 per cent, or about half of the 60 per cent of shares the government intends to sell, and with this $3.2 billion credited to the Trillium Trust is well on track to meet its multi-year asset optimization target to generate $5.7 billion over time to support investments in infrastructure.

Crediting the $3.2 billion to the Trillium Trust demonstrates Ontario's commitment to investing in infrastructure projects that help stimulate economic growth and create good, well-paying jobs.

The government acknowledges the important role played by the FAO in providing independent analysis to the Assembly on the state of the Province's finances.

Bargaining and Compensation

64. What is the government doing to control executive compensation in the Broader Public Sector?

In March 2015, the government proclaimed the Broader Public Sector Executive Compensation Act, 2014 (BPSECA) into force. This legislation allows the government to establish compensation frameworks for designated senior executives in the broader public sector.

An Executive Compensation Framework came into force on September 6, 2016. The framework reinforces that designated BPS employers are accountable for compensation decisions, sets caps and prohibitions on certain types of compensation, requires enhanced public transparency and allows impacted employers to balance the need to attract the necessary talent to deliver high quality public services while managing public dollars responsibly.

The framework applies to all designated employers under BPSECA, including hospitals, school boards, colleges and universities, community care access corporations, provincial agencies and named hydro entities.

The framework caps salary and performance-related payments for designated executives at no more than the 50th percentile of appropriate comparators and prohibits elements like signing bonuses and pay in lieu of perquisites.

The framework also requires that each designated employer engage in public consultation on their compensation program before it is finalized and requires final programs to be posted on the designated employer's website. These requirements enhance transparency and give Ontarians the opportunity to provide input on executive compensation in the BPS.

BPSECA includes significant compliance and enforcement measures: employers will be required to complete reports concerning compliance with the framework and individuals could be subject to penalties if they willfully fail to provide a report, provide a false report or obstruct an auditor.

65. How are you managing the costs of public sector compensation?

Managing compensation costs is critical to balancing the budget, as more than half of government spending goes to salaries and benefits, including those of both the Ontario Public Service (OPS) and broader public sector (BPS). All public-sector partners must continue to work together to control current and future compensation costs.

Since July 2012, the average annual negotiated wage increase across Ontario's provincial public sector has been 0.6 per cent. This is lower than:

- Ontario's municipal public sector (1.7 per cent)
- the federal public sector in Ontario (1.7 per cent)
- Ontario's private sector (1.9 per cent)

66. Where is the agreement with OPSEU reported in Public Accounts? Was this truly net-zero?

The agreement reached with OPSEU's Central and Unified bargaining units on October 30, 2015 is net-zero and remains consistent with the fiscal plan outlined in both the 2014 and 2015 Budgets.

To achieve a net-zero outcome, there are no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4% one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4% pay increase. Both are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

This agreement will support the government's ongoing efforts to eliminate the deficit while protecting the valued public services Ontario families rely on.

67. The Premier recently said the era of net zero is over. How will this affect labour negotiations?

As a government, we'll continue to do what we've always done in terms of negotiations. As the time comes to negotiate new contracts, whether it's Treasury Board Secretariat that's negotiating or an individual ministry, they always come to Treasury Board to get an approved mandate. So we'll carry on with that practice of coming to Treasury Board for an approved mandate that will fit within the fiscal plan.

Ontario's Financial Position

68. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit

rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?

The government remains firmly committed to balancing the budget by 2017–18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

69. Some have said your government has a spending problem, not a revenue problem. As the largest subnational borrower, what do you say to that?

The government beat its deficit target for the seventh year in a row. Last fiscal year's deficit is $5 billion, down $3.5 billion from the $8.5 billion projected in last year's budget.

The government is projecting a deficit of $4.3 billion in 2016-17 and a return to a balanced budget in 2017-18.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

Over the past four years the Province has held the average annual growth in program spending to 1.9 per cent, less than the rate of inflation, while investing in services that people rely on.

Key elements of the government's plan to eliminate the deficit are:

- Program Review, Renewal and Transformation
- managing compensation costs
- maintaining tax fairness and a level playing field for business
- strengthening government transparency, financial management and fiscal accountability

70. How much did government spend in 2015-16?

TBC OPCD

71. Why was total expense $300 million higher than projected in the 2015 Budget plan?

Total expense in 2015–16 was $133.4 billion, $1.5 billion higher than the 2015 Budget plan. Program spending was $122.4 billion, up by $1.9 billion from a planned spending of $120.5 billion.

The increase largely reflects the government's decision, announced in the 2015 Ontario Economic Outlook and Fiscal Review, to invest $0.3 billion through the new Green Investment Fund. As well, spending in the health, children's and social services, justice sectors and other programs was higher than planned.

Total program spending was $1.9 billion higher than the Budget, resulting in actual program expense of $122.4 billion. The increases were attributable to:

- $1.5 billion pension asset valuation allowance for OTPP and OPSEU.

- Health sector expense was $294 million, or about 0.6 per cent, above plan. Higher spending resulted from increased drug costs as well as higher hospital sector expense, partially offset by underspending in agencies.

- Children's and social services sector expense that was $124 million higher than planned, due mainly to additional spending to address demand for the Ontario Disability Support Program and the cost of prescription drugs for social assistance recipients.

- Justice sector expense increased by $120 million, mainly due to settlements under the Proceedings Against the Crown Act and higher-than expected bad debt provisions related to unpaid fines.

- Other programs expense was $628 million higher than expected. The increase was due to one-time investments through the Green Investment Fund, higher than anticipated expense for the Ontario Production Services Tax Credit and costs related to the Hydro One IPO.

Increases in these sectors and programs were offset by:

- Education sector expense was $233 million lower than expected, due in part to a higher share of funding spent on capital projects that are capitalized and amortized instead of expensed, higher-than-forecasted revenues from education development charges, and slightly lower-than-projected enrolment.

- Post-secondary and training sector expense was $176 million lower than expected, mainly due to lower spending on post-secondary operating grants and lower student financial assistance as a result of lower-than-forecast enrolment. As well, spending on employment and training programs was below plan, partially offset by higher expense on tax credits to employers to support training.

72. What are you going to do if Ontario's economy does not perform as strongly as you forecast?

The Province has included prudence as part of the fiscal plan to help ensure it meets future fiscal targets as it moves towards a balanced budget in 2017–18.

As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan continues to incorporate prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2016–17, and $1.2 billion in each of 2018–19.

The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

In keeping with sound fiscal practices, the Province's revenue outlook is based on prudent economic assumptions. The Ontario Economic Forecast Council, established under the FTAA, reviewed the Ministry of Finance's economic assumptions in February 2015. All council members found the assumptions to be reasonable.

73. What if interest rates go up? What affect would higher interest rates have on debt?

The Province is operating under a historically low interest rate environment, however, if interest rates did increase, a one percentage point change will result in an impact of approximately $350 million to the Province's interest expense.

74. What is the government's annual borrowing program?

The amount of money the government borrows varies from year to year and is dependent on the deficit, proposed investments in capital and amount of debt that is maturing.

Over the three years 2016-17 to 2018-19 average long term public borrowings are estimated to be $26 billion per annum, considerably lower than what the Government borrowed over the past three years which averaged at $33 billion per annum. The lower borrowings are primarily due to the Government's efforts in reducing the deficit and balancing in 2017-18.

75. Did you use your reserve fund to pad your fiscal results and pay down the debt?

For planning purposes, a reserve is included in the budgeted surplus/deficit each year to guard against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance. The 2015 Budget plan included a $1.0 billion reserve. Without the reserve, the actual deficit result of $5.0 billion would not have been affected.

Budget Surplus and Revenue Increase

76. Can you explain the $4.0 billion increase in revenue since your 2015 Budget?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

77. How did net income from government business enterprises increase by $100 million from your 2015 Budget projection?

This increase was mostly attributable to combined higher net income from the Liquor Board of Ontario (LCBO), Ontario Lottery and Gaming Corporation (OLG) and Ontario Power Generation Inc. (OPG).

Higher net income from these business enterprises, however, was partially offset by lower net income from Hydro One, primarily reflecting impacts from broadening Hydro One ownership.

Contingency Fund / Reserve

78. What is the difference between the contingency fund and the reserve?

The contingency fund is an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover expenses due to unforeseen events (e.g. fighting forest fires). This approved spending limit is allocated during the year to ministries for their programs and activities.

The reserve is an amount included in the forecast each year to protect the plan against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance.

Budget Projections vs. Public Accounts Reporting

79. What accounts for the $4.4 billion increase in taxation revenues from your 2015 Budget projection?

The increase in revenues primarily reflects stronger-than-projected 2015 personal income tax assessments and a strong Ontario housing market in 2015 which boosted Sales Tax and Land Transfer Tax revenues.

Taxation revenues also reflected a one-time increase in Electricity payments-in-lieu of taxes related to Hydro One ownership broadening in 2015-16.

80. Why did Ontario's net debt increase by $20 billion in 2015-16?

Net debt is the Province's total debt and other liabilities, less its financial assets, including cash and investments. The increase was primarily due to a $10.9 billion increase in liability and a $10.7 billion pension accounting adjustment, which was primarily offset by a $1.0 billion increase in financial assets.

81. How do you explain the $12.4 billion increase in total debt in 2015-16?

The increase of $12.4 billion in total debt is due to borrowing for the deficit and investments in capital assets for 2015-16. It also includes pre-borrowing of $2 billion to take advantage of low interest rates and continuing demand for the Province's Debt.

82. Why is the government now including 5-year trends in the Public Accounts?

The increased disclosure and discussion on 5-year trends is in line with recommended disclosure practices of the Public Sector Accounting Board. This increased disclosure enhances the quality of financial reporting to the public, Legislature and other users to better meet their transparency and accountability needs. In addition to the disclosure in the Annual Report, the government is also making available supplementary information through data visualization.

83. Why is the interest on debt for 2015-16 $400 million lower than forecast in the 2015 Budget?

Interest on debt expense was $0.4 billion below plan in 2015-16, as a result mainly of lower-than-forecast interest rates, the lower-than-planned deficit and cost effective borrowing and debt management.

84. Why is interest on debt for 2015-16 $400 million higher than in 2014-15?

Interest of debt is higher by $332 million from last year, mainly due to the funding of the deficit and investment in capital assets and partly offset by the impact of lower interest rates.

Program, Review, Renewal and Transformation

85. How are you reviewing and transforming government programs?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Through cross-ministry horizontal collaboration, we are taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

To improve programs, we are moving towards a focus on evidence-based decision making – gathering and analyzing the best available information to improve how outcomes are identified and achieved across government.

86. Has PRRT achieved any tangible results/savings?

The government has achieved a number of efficiencies to make programs more sustainable, such as negotiating lower prices for goods and services and managing compensation.

But PRRT is about more than saving money — it is a continuous planning approach focused on improving outcomes for government programs and services to ensure they are effective, efficient, relevant and sustainable.

87. What do you have to say to those public sector workers who have lost their jobs or are at risk of losing their jobs because of PRRT?

Program Review, Renewal and Transformation (PRRT) is helping the government achieve better outcomes while also lowering costs.

The primary focus of this transformation is on ensuring that services are delivered

efficiently and in a way that effectively meets Ontarians' needs.

Government Assets

88. What is the government doing to extract value from any government assets?

With the 2014 Budget, the government began the process of unlocking the economic value of the Province's assets, including setting up the Premier's Advisory Council on Government Assets, chaired by Ed Clark, former Group President and Chief Executive Officer of TD Bank Group.

The council delivered recommendations on the electricity sector to the Province in advance of the 2015 Budget, including broadening the ownership of Hydro One. This would involve an initial public offering of about 15 per cent of the voting securities in Hydro One, with additional share sales in subsequent years. Over time, share offerings would total up to 60 per cent of the voting securities in Hydro One.

The Province is also moving forward with its plans to unlock value from its real estate assets, including OPG's head office building, and the Seaton and Lakeview lands. In June 2016, the Province closed the sale for the Liquor Control Board of Ontario's (LCBO) head office lands, raising $260 million in gross proceeds.

All net revenue gains from the sale of qualifying assets will be dedicated to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of the Moving Ontario Forward initiative.

Trillium Trust

89. Have the net proceeds from the sale of the GM holdings and the partial sale of Hydro One been dedicated to the Trillium Trust, and how is that being reported in Public Accounts?

The Trillium Trust Act, 2014, provides for the dedication of net revenue gains from the sale of qualifying assets to help support key infrastructure priorities, such as roads, bridges and public transit. A schedule in Volume 1 of the Public Accounts reports on the financial activities of the Trillium Trust.

Volume 1 shows that $1.35 billion was available for the Trillium Trust at March 31, 2016, to help fund investments. This reflects the sale and redemption of the Province's shares in General Motors in earlier years.

In August 2016, a regulation was put in place that credited the trust with $3.2 billion from the net revenue gains resulting from the Hydro One IPO, the gain on sale of shares in November 2015 and the share of the deferred tax benefit to Hydro One that has been recognized by Ontario through its share of Hydro One net income as a result of its ownership position in Hydro One.

The net revenue gains from the secondary offering in April 2016 will be reported in the 2016-17 Public Accounts and credited to the Trillium Trust.

90. How have you spent the funds dedicated to the Trillium Trust?

As announced in the 2016 Budget, the government plans to begin drawing on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history.

Based on planned expenditures, in 2016–17 the Trillium Trust would support Moving Ontario Forward initiatives, such as GO Transit Regional Express Rail, Hurontario Light Rail Transit and the Ontario Community Infrastructure Fund.

91. Why are you allocating non-cash items like the deferred tax asset generated in the Hydro One transaction to the Trillium Trust?

TBC OPCD

Moving Ontario Forward

92. In the 2015 Budget, the government stated that $3.5 billion would be dedicated to the Moving Ontario Forward plan. So far, only $1.35 billion has been dedicated to the Trillium Trust. How do you propose to supply the $2.15 billion difference?

Moving Ontario Forward dedicated funds would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.

- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.

- Dedicated proceeds from targeted revenue measures.

- The government's asset optimization strategy, with net revenue gains dedicated to the Trillium Trust to help support investments in public infrastructure.

- Working with the federal government to secure federal funding through the Building Canada Plan.

93. How much did the government spend on Moving Ontario Forward in 2015-16?

Moving Ontario Forward is part of the government's commitment to invest more than $137 billion in public infrastructure over the next 10 years. Investments are underway, including providing $100 million per year to small, rural and northern municipalities through the Ontario Community Infrastructure Fund to build and repair critical infrastructure.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. Spending would ramp up significantly once this preliminary work is completed and construction activity is underway. Over the 10-year Moving Ontario Forward period, all of the dedicated funds are expected to be spent on priority infrastructure projects.

94. Why aren't the additional $2.2 billion in revenues dedicated to the Moving Ontario Forward plan reported in the Public Accounts?

In the 2015 Budget, the government committed to dedicate $31.5B over 10 years to support infrastructure projects under the Moving Ontario Forward plan, which included $5.7B from its asset optimization strategy. In 2014-15, this amounts to about $3.5B in dedicated funds including $1.3B from asset optimization. The remaining $2.2B in 2014-15 would be largely supported by:

- Dedicated proceeds from 7.5 cents of the existing provincial gasoline tax to public transit and transportation infrastructure priorities. This would be over and above the existing gas tax funding to municipalities, with no increase to the current tax rate.

- Repurposing revenues from the existing Harmonized Sales Tax charged on the current provincial taxes on gasoline and road diesel.

- Dedicated proceeds from targeted revenue measures.

- Working with the federal government to secure federal funding through the Building Canada Plan.

These additional amounts are largely taxation revenues and are reflected in the total revenue figures in the 2014-15 Public Accounts.

95. How does investing in public infrastructure impact the economy?

A large and growing body of independent research shows that infrastructure investments support jobs, augment personal incomes and produce real growth in the economy. For example, a September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

The Province's planned investments in infrastructure are expected to support over 110,000 jobs, on average, each year.

96. The Public Accounts makes reference that the Province's investment in capital assets is guided by sound asset management planning principles, so why is the education sector facing large renewal needs?

The Province has announced new renewal investment, including: increased investments in GO Transit rehabilitation and renewal; additional annual funding of $50 million to assist hospitals in maintaining their facilities in good repair; and a $1.1 billion investment to repair and renew schools across the province (allocated to school boards in proportion to their renewal needs).

In the education sector, the School Condition Improvement program addresses renewal needs focusing on ensuring that facilities are in good condition, energy efficient and accessible and meet modern service standards. The funding will enable school boards to repair roofs, update HVAC units and modernize electrical and plumbing systems. It will also significantly improve more visible elements of schools that impact students' learning and well-being, including flooring, walls, ceilings,

playing fields and more. To support transparency, the government has also released detailed information regarding the condition and renewal needs of each of Ontario's publicly funded schools.

Transparency

97. You say the Province's Annual Report is a central element in demonstrating transparency in reporting financial activities and accountability, yet the FAO continues to criticize your government for withholding information. What do you say to these criticisms?

The relationship between the FAO's office and our government is very important.

Our door is open to meet with the FAO and his staff upon request, and our government has tried to be proactive in reaching out to provide clarification when it could be of use.

We want to be accommodating and helpful, while also respecting the requirements of the 2013 FAO Act. With this in mind, Treasury Board has provided additional information to complement and/or further clarify our responses to the FAO when we've received follow-up requests from his office.

We have also reformatted information into machine-readable charts upon request, when it was possible and consistent with legislation. All requests from the FAO office to the Treasury Board Secretariat have been responded to.

Pan Am Games

98. How much was spent on the games, where does it appear in Public Accounts? And how does your government justify this expense?

These were the largest, most successful Pan/Parapan Am Games ever – creating 26,000 jobs, boosting Ontario's GDP by $3.7B and leaving a lasting legacy that will benefit Ontario for years to come. The economic boost that resulted from the Games acted as a catalyst for economic, social, infrastructure and athletic development and we were proud to host these Games.

Questions related to the Pan Am Games should be referred to my colleague, the Minister of Tourism, Culture and Sport.

Underground Economy

99. How are you ensuring revenue integrity?

A fair and efficient tax system is critical to sustaining public services. The 2014 Budget noted that when businesses aggressively avoid or evade paying taxes, everyone else is left to make up the shortfall, putting the competitiveness of legitimate businesses at risk.

Since 2013–14, the Province has taken concrete measures to help ensure tax fairness and a level playing field for business. These include enhanced auditing and compliance activities, such as a multi-year agreement with the Canada Revenue Agency to address the underground economy and corporate tax avoidance in Ontario. The Province has also targeted areas at high risk of underground economic activity with pilot initiatives that focus on mitigating unfair and unsafe circumstances for Ontario's workers and consumers.

In total, these efforts have generated an estimated $1.1 billion for Ontario to date. The Province will build on these successful initiatives with new approaches to ensuring revenue integrity.

From: Ken Kandeepan
To: Lynsey Wynberg
Cc: John Psinas; George Sakura
Subject: PAEAP Report NR_v15_PO edits_MO ok_20170208 1620_cv.doc
Date: Thursday, February 09, 2017 9:32:41 AM
Attachments: PAEAP Report NR_v15_PO edits_MO ok_20170208 1620_cv.doc

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Pls see my edits

Thanks

Ken K

Ontario

NEWS

Treasury Board Secretariat

Pension Asset Expert Advisory Panel Submits Final Report

Government Accepts Independent Panel's Recommendations on Accounting for Pension Plans

NEWS February 13, 2017

The Pension Asset Expert Advisory Panel has released its independent advice and recommendations on the application of public sector accounting standards to two of Ontario's jointly sponsored pension plans: the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP).

The panel's report concluded that the province's share of the net pension assets of both the OTPP and the OPSEUPP should be recognized in Ontario's financial statements, which Ontario has done consistently since 2001.

The panel's report outlined the following reasons why an asset exists and should be reported in the financial statements:

- Recognizing the asset will provide a faithful representation of the Province's financial position
- The accounting surplus in the plan has a future economic benefit
- The government controls access to that accounting surplus
- The accounting surplus exists as the result of past transactions and events
- It would be misleading not to recognize the Province's share of the assets in Public Accounts

In addition, the panel concluded that the government will be able to benefit from the full amount of each net pension asset, and as a result, no reduction in the value is necessary.

As a result, the government is accepting the panel's recommendations, which will inform the preparation of the Province's financial statements.

The Province remains on track to balance the budget by 2017-18, and remain balanced in 2018-19.

Responsible financial management is part of the government's plan to create jobs, grow our economy and help people in their everyday lives.

QUOTES

"**TBC** I would like to thank the expert advisory panel for their thorough analysis and recommendations on this complex accounting issue. We accept the advice of the panel and will use it in preparing the province's financial statements."
— Liz Sandals, President of the Treasury Board

"As a result of the expert assessment of the independent advisory panel, we now have additional advice on how to account for these jointly sponsored pension plans as assets. This advice will help us continue to present the province's finances fairly and accurately, as we work

Commented [CV1]: There were two main aspects to the panel's work – whether to recognize the assets and if so, how to measure them – this only addresses the first issue

Commented [CV2]: Not a reason why the asset exists – hence the change above

Commented [CV3]: Also not a reason by the asset exists – see comment 2 re: the change necessary in the introductory sentence

Commented [CV4]: See comment #1

DRAFT

toward balancing the budget in 2017-18. We will provide a full update on the Province's fiscal situation in the near future."
— Charles Sousa, Minister of Finance

QUICK FACTS

- ~~By applying the panel's advice, the province would see a reduction in debt to now $10.7 billion.~~

- For 2015-16, ~~this~~ following the advice of the panel means the province's deficit ~~has~~ would be~~been~~ lowered by $1.5 billion and its net debt by $10.7 billion~~.~~

- In preparing the 2015-16 Public Accounts of Ontario, the Province's professional accounting staff and the Auditor General's Office could not reach an agreement on the appropriate application of the Public Sector Accounting Board standards regarding pension accounting for the Province's jointly sponsored pension plans.

- The government formed the Pension Asset Expert Advisory Panel to provide independent advice on how public sector accounting standards are interpreted as they apply to net pension assets.

- The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and Public Sector Accounting Standards.

- In the coming weeks, the panel will issue a supplemental report that will provide advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).

ADDITIONAL RESOURCES

Read the panel's report*: [insert hyperlink]*

Pension Asset Expert Advisory Panel Members

Pension Asset Expert Advisory Panel Terms of Reference

Read the 2015-16 Public Accounts of Ontario

Learn about the government's fiscal cycle

Commented [CV5]: Debt doesn't change – what is the message that we are trying to convey? -- the impact on net debt? Let us know and we can write the bullet.

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

From: Ken Kandeepan
To: John Psinas
Subject: PAEAP Report QA_MOF_20170206.docx
Date: Monday, February 06, 2017 1:58:15 PM
Attachments: PAEAP Report QA_MOF_20170206.docx

Pls review, I have included one bullet in the key messages pls check that as well and let me know if you have any other suggestions

Thanks

Ken k

Questions and Answers
Pension Asset Expert Advisory Panel Report

KEY MESSAGES:

- We thank the Pension Asset Expert Advisory Panel for their work on this complex issue.

- We are pleased that the independent panel's results are consistent with Ontario's view that net pension assets for jointly-sponsored plans should continue to be recognized in the Province's financial statements, as they have been for the past 14 years.

- Ontario is accepting all of the panel's recommendations and will prepare its future financial statements based on this advice.

- By applying the panel's advice to the Province's 2015-16 finances, Ontario's deficit has been lowered to $3.5B, from the $5B originally reported in the 2015-16 Public Accounts.

- The application of the Panel's advice has also resulted in Ontario's 2015-16 net debt reducing to $294.6 billion from the $305.2 billion reported in the 2015-16 Public Accounts

- The panel's advice will also help inform discussions with the Auditor General in the hopes of reaching agreement on how the accounting standard is applied to future financial statements.

- Ontario remains committed to balancing the budget by 2017-18, and remaining balanced in 2018-19.

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QUESTIONS AND ANSWERS – MOF REVIEW

1. What does this mean for the upcoming Budget?

The 2017 Budget will reflect the appropriate accounting treatment for net pension assets informed by the panel's report, including the Province's updated Interim numbers for 2016-17, as well as forecasts for the fiscal planning period.

DRAFT

We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19. ~~We will have more details to share about the Budget in the coming weeks.~~

In the coming weeks, we will provide an update in Ontario's Third-Quarter Finances of our progress on our plan to grow the economy.

2. **What do you say to the credit rating agencies who are watching all of this unfold?**

   We have been impressed with the level of cooperation and understanding of the credit rating agency community.

   I would say we have achieved clarity on this complex accounting issue.

   We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

Ontario's Financial Position:

3. **Some have said your government has a spending problem, not a revenue problem. What do you say to that?**

   Even with adopting the Auditor General's view of the 2015-16 Public Accounts, the government still beat its annual deficit target for the seventh year in a row.

   The government is projecting a balanced the budget by 2017-18, and remaining balanced in 2018-19.

   The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

   Over the past four years the Province has held the average annual growth in program spending to 1.9 per cent, less than the rate of inflation, while investing in services that people rely on.

   Key elements of the government's plan to eliminate the deficit are:

DRAFT

- Program Review, Renewal and Transformation
- Managing compensation costs
- Maintaining tax fairness and a level playing field for business
- Strengthening government transparency, financial management and fiscal accountability

4. **The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?**

   The government remains firmly committed to balancing the budget by 2017-18, and remaining balanced in 2018-19.

   Even with adopting the Auditor General's view of the 2015-16 Public Accounts, the government still beat its annual deficit target for the seventh year in a row. This reflects the government's responsible and balanced approach to fiscal management.

   Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

   Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

5. **How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?**

   The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget.

   Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These

investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

Legislated Accounting:

6. Is the disagreement over accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its annual deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing the change to the 2015-16 Public Accounts, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years and by three previous Auditor Generals. There has been no change to the relevant accounting standards over the past 14 years.

In fact, Ontario has a strong track record of producing high-quality financial reports on a timely basis. Prior to 2015-16, Ontario had clean audit opinions for 22 years.

DRAFT

From: Ken Kandeepan
To: John Psinas
Subject: Pension Accounting
Date: Friday, October 07, 2016 10:47:54 AM

Hi John

I want to send the following email to Cindy and Nadine, just running it by you first. Feel free to edit.

Hi Cindy and Nadine

As you may expect there is considerable interest on the part of the Rating Agencies in obtaining more detail on the Province's pension adjustment. We had a tele-conference yesterday with Fitch where the questions were very high level and since over the last couple of weeks I had access to most of OPCD's material on this issue I was able to respond, I believe to their satisfaction.

I do have a couple of questions though:

- Looking at the PP presentation from yesterday, based on the Province's interpretation of PSAB, for 2016-17 the TPP Pension Expenses are offset by $452M. My question; is this our share of the surplus or simply the PV of the reduction in future contributions because plan assets exceed liabilities.
- Again, under the Province's accounting approach, the 2016 Budget on page 284 has a foot note indicating that that the cash payments related to the Province's contribution to the TPP are $1,664 million (revised to $1,672 in yesterday's presentation). What is the debit for this transaction, it is Pension assets?
- Finally, I understand that the AG contends that the Province cannot access surpluses on the TPP in the absence of an MOU. My question; is the Province's share of the TPP assets already reflected in the Province's Balance Sheet, if the AG is agreeable to these contributions being presented as an asset why distinguish the surplus. This is similar to an individual depositing $1000 in a savings account and at the year of the year seeing it grow to $1,050 and being told that he/she has access to only the original $1,000 and not the growth.

John and I will be happy to come meet with you if that is more useful. If there are any written questions from the Rating Agencies we will be sure to run our responses by you.

From:	Gadi Mayman
To:	Bonnie Lemcke
Cc:	Lynsey Wynberg; Ken Kandeepan
Subject:	Pension Adjustment Expert Panel
Date:	Wednesday, February 01, 2017 2:57:32 PM

Hi Bonnie, I forgot to mention when you were here that Cindy (the Provincial Controller) spoke to me this morning. She asked whether we'd want to give the rating agencies a heads up before the Panel's report was released (currently scheduled for the 13th) and I said yes. Cindy, or someone in her office will be in touch with you to work out the logistics. I said that you'd likely call the agencies the day it was being released and let them know it was coming and generally what the conclusions were, and then get the report to them as soon as it's public.

Ken is very close to this and aware of what's going on, so I've copied him.

Gadi

From: Ken Kandeepan
To: Nadine Petsche (MOF)
Cc: John Psinas; Veinot, Cindy (TBS)
Subject: Pension Adjustment
Date: Thursday, December 01, 2016 4:13:56 PM

Hi Nadine

As Mike Manning meets investors including financial institutions the pension adjustment questions does come up on a regular basis. Thanks to the explanations previously provided by you, including the briefing note that you shared we are able to adequately respond to all questions so far.

However, on a pro-active basis I do have one more. The PA increases to $3.7 billion in 2018-19 from $1.5 billion in 2015-16. As I understand it a major component of the PA is the amortization of the gain on the assets over an appropriate period. So our question is; does it mean that the gain on assets has increased to such an extent that the resulting amortization of the gain has also increased by more than two-fold over 3 years.

I am including Cindy as well in this questions since she has provided me with some explanations on other aspects of this issue and she may also be able to shed some clarity.

Thanks and if you believe this can be best answered by a short meeting between you and Mike and myself, we will be happy to schedule one.

Ken k

From:	Marijana.Corluka@ontario.ca on behalf of Orsini, Steve (CAB)
To:	Veinot, Cindy (TBS); Karen Hughes (MGS); Scott Thompson (CAB); Gadi Mayman; Len Hatzis (MGS); Sean Kearney (MGS); William Bromm (CAB); Helen Angus (MOHLTC); Patrick Monahan (MAG)
Cc:	Ken Kandeepan; Angus, Helen (TBS)
Subject:	Pension Assets I SoC, William Bromm, Scott Thompson, Helen Angus, Karen Hughes, Cindy Veinot, Len Hatzis, Sean Kearney, Ghadi Mayman, DAG
Attachments:	Pension Asset Expert Advisory Panel_Next Steps_Oct 14 2016.pptx

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OPCD

Pension Asset Expert Advisory Panel

Next Steps

October 14, 2016

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  - Project management
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Potential panel members

Name	Accounting Expertise	Actuarial Expertise	JSPP Governance Expertise	Interest confirmed
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Andrew Fung (Actuary – Morneau Shepell)		Yes		No
Anne Soh (Actuary – OMERS)		Yes		No
Philip Morse (Actuary – Willis Towers Watson)		Yes		No
Darlene Himick (Professor – U of Ottawa)	Yes			No
Christine Wiedman (Professor – U of Waterloo)	Yes			No

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Bill Matthews was appointed Comptroller General of Canada effective July 17, 2014.

The Comptroller General is responsible for government-wide direction and leadership for financial management, internal audit, federal assets and acquired services. The Comptroller General also supports capacity building and professional development in each of these areas.

Prior to becoming the Comptroller General, Mr. Matthews was Assistant Secretary, Expenditure Management Sector, at the Treasury Board of Canada Secretariat, a position he accepted in 2011.

Before joining the Expenditure Management Sector, Mr. Matthews worked at the Office of the Comptroller General for seven years, serving as the Assistant Comptroller General in the Financial Management and Analysis Sector from 2009 to 2011.

Mr. Matthews is a chartered professional accountant with over 25 years of experience in accounting and financial management in both the public and private sectors.

He holds a Bachelor of Commerce from Dalhousie University.

He also serves as a board member of the Public Sector Accounting Board and the University of Ottawa's Institute for Mental Health Research.

Uros Karadzic – Actuary, Partner EY, Member PSAB Pensions Task Force

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Extensive experience in accounting for benefit plan obligations. He works with numerous EY audit teams, the EY Professional Practice (Canadian and Global) and industry bodies on benefit accounting issues.

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Mr. Gold is lead counsel for Koskie Minsky in regard to current pension reform initiatives in Newfoundland, New Brunswick, Ontario and Alberta, and in health benefit plan reforms in Ontario and British Columbia. He represented stakeholder interests in insolvency proceedings involving Air Canada in 2003 and 2009, and Stelco in 2005. In 2009 – 2010, he lead Koskie Minsky's team in establishing Canada's first funded postretirement health care trust in the auto sector. This involved the creation of new tax laws governing the tax treatment of postretirement benefit trusts and the negotiation and implementation of arrangements to govern Canada's first funded employee life health trust.

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Murray served on the Firm's Executive Committee and then as the Firm's Managing Partner from 2012-2016.

Jim Leech – former CEO of Ontario Teacher's Pension Plan

Mr. Leech joined Teachers' in 2001 to lead Teachers' Private Capital and was appointed President & CEO in 2007. Under his leadership, the organization became one of the world's leading private equity investors.

Mr. Leech has gained recognition for his expertise and leadership in the private equity industry and as CEO of several public companies. He has a solid reputation for building businesses and strong management teams and has led large public companies operating and investing in the financial services, real estate and energy industries, as well as start-up technology businesses.

Before joining Teachers', Mr. Leech was president and CEO of Unicorp Canada Corporation, one of Canada's first public merchant banks, and Union Energy Inc., then one of North America's largest integrated energy and pipeline companies. During the 1990s, he guided two start-up technology companies - Disys Corporation and Kasten Chase Applied Research - to the revenue generation stage.

Mr. Leech holds a B.Sc. (Hons Math and Physics) from the Royal Military College of Canada and an MBA from Queen's University. He is also a graduate of the Institute of Corporate Directors.

Mr. Leech is chair of the board of Toronto General and Western Hospital Foundation. He is a member of the board of the MasterCard Foundation and was a founding director of Right To Play International. He has been named Chancellor-designate of Queen's University, effective July 1, 2014 and currently chairs the advisory board of the Queen's School of Business. Mr. Leech also serves on the advisory board for The Learning Partnership, the advisory council for the Toronto Region Board of Trade and the Toronto Financial Services Leadership Council. In addition, Mr. Leech is a member of the government of Ontario's Economic Advisory Panel.

In 2012, Mr. Leech was awarded the Queen's Diamond Jubilee medal in recognition of his work with the True Patriot Love Foundation. In 2013, he co-authored (with Globe and Mail Senior Writer Jacquie McNish) a book on pension reform called The Third Rail: Confronting our pension failures. He has announced his retirement effective December 31, 2013.

Wayne Strelioff, FCPA, FCA – former Auditor General

Mr. Strelioff has served as both the Auditor General of British Columbia (2000-2006) and the Provincial Auditor of Saskatchewan (1990-2000). He was the Assistant Director of Public Sector Accounting and Auditing at the Canadian Institute of Chartered Accountants (CICA), contributing to the initial development of ground breaking professional accounting and auditing standards for the public sector.

Mr. Strelioff has consistently worked to strengthen public sector governance, management and accountability practices. He has served on many national organizations including as a member and governor of the CCAF (formerly the Canadian Comprehensive Auditing Foundation), as the inaugural chair of the Canadian Council of Legislative Auditors Planning and Coordinating Committee and as a member of the CICA's Public Sector Accounting Board.

Since retirement in 2006, he has served as the inaugural Chair of the Quality Worklife/Quality Healthcare Collaborative, a nationwide group of 12 Canadian health organizations dedicated to developing an evidence-informed framework and action strategy to ensure a healthier Canadian public health workplace and, thus, improving the quality of patient care; he has served as a member of the Health Council of Canada's Value for Money Steering Committee; and he has advised senior officials in the public and private sectors on various governance, management and accountability matters.

Mr. Strelioff received B.A., B.Comm. and M.Sc. degrees from the University of Saskatchewan. He obtained his C.A. at Peat Marwick Mitchell (now KPMG).

In 1992, Mr. Strelioff was awarded the Commemorative Medal for the 125th Anniversary of Confederation of Canada in recognition of his significant contributions to compatriots, the community and to Canada. In 2003, he was recognized by the Institute of Chartered Accountants of British Columbia for his contribution to the accounting profession, by naming him a Fellow and awarding him the FCA designation.

Andrew Fung – Morneau Shepell

Andrew Fung, FSA, FCIA, CFA joined Morneau Shepell on November 10, 2015 as a partner in its Ontario Retirement Solutions Practice.

Prior to joining Morneau Shepell, Mr. Fung was a Senior Vice President at one of the largest public sector pension plans in Ontario. He has extensive experience in the areas of board governance, stakeholder relations, policy and research, strategy and growth, service and product development, government relations and advocacy, and communications. He is well versed in areas such as pension funding policy and risk management, having practiced as a senior actuary in both an international actuarial firm and a major accounting firm.

Mr. Fung is Fellow of the Society of Actuaries, a Fellow of the Canadian Institute of Actuaries, and a Chartered Financial Analyst. He has a Bachelor of Mathematics degree (Dean's Honour List) from the University of Waterloo, and is currently enrolled in the Institute of Corporate Directors - Director Education Program.

Anne G.S. Soh - OMERS

Anne Soh is Vice President, Actuarial Services and Plan Actuary at the Ontario Municipal Employees Retirement System (OMERS). She serves as the actuarial advisor to both OMERS Boards of Directors in managing the funding of the OMERS Pension Plans and oversees the in-house actuarial department.

Anne is an actuary with over 20 years of experience in the pension and benefits industry. Prior to joining OMERS, she was a senior consulting actuary at both Mercer and at Watson Wyatt (now Willis Towers Watson), where she provided advice to her clients on funding strategies, plan design, administration and communication issues.

She also serves as the Chair of the Pension Plan Advisory Committee of the Pension Plan of the United Church of Canada and is a pension committee member for the Pension Plan for Employees of Canada's National Ballet School.

Anne is a Fellow of the Canadian Institute of Actuaries, a Fellow of the Society of Actuaries and holds a Honours BSc from the University of Western Ontario.

Philip Morse – Willis Towers Watson

Philip Morse is a Fellow of the Canadian Institute of Actuaries (CIA), the professional body governing the education, qualification, conduct and work of actuaries in Canada.

He was involved in the preparation of “Independent Review of the Actuarial Funding Report on the Ontario Retirement Pension Plan (ORPP) – June 30, 2016.”

Darlene Himick, Ph.D., MBA, CFA – University of Ottawa

Darlene Himick received a Ph.D. in Accounting from the University of Calgary and an MBA from Dalhousie University. Professor Himick also earned an LLB from Osgoode Hall Law School, York University and is a member of the Nova Scotia Bar. She was previously an Assistant Professor at the John Molson School of Business, Concordia University. Her teaching interests include financial accounting, managerial accounting, accounting theory, and financial statement analysis. A Charterholder with the CFA Institute, Ms. Himick served for several years as a pension investment consultant before she began her academic career. Among her many current roles, she is a Senior Research Fellow with the Shareholder Association for Research and Education, based in Vancouver, B.C.

Professor Himick has presented her research at numerous academic conferences and has been an invited speaker at several industry forums. Her studies have been published in peer-reviewed journals such as Auditing and Accountability Journal and Critical Perspectives on Accounting. Her research focuses on pension accounting, responsible investing by pension funds, and the use of experts during standard setting. She is also interested in accounting history and the accounting profession, specifically its interaction with the actuarial profession. Ms. Himick has received funding from the Fonds québécois de la recherche sur la société et la culture (FQRSC) to study the use of accounting information in the context of retirement plans in Canada and the United States.

Christine Wiedman, Ph.D., FCPA – University of Waterloo

- Christine is interested in financial reporting and governance issues, including the determinants of firms' financial reporting and disclosure choices, the role of regulation on corporate fraud, and the interpretation of accounting information by capital market participants. Current projects examine: voluntary disclosure of political spending; whistleblower provisions of the Dodd-Frank Reform Act of 2010; gender diversity on corporate boards; changes in reporting and disclosure quality for restatement firms; and the role of gender in the reward of research collaboration.
- Christine has authored papers on pension related topics

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Mr. Leech has gained recognition for his expertise and leadership in the private equity industry and as CEO of several public companies. He has a solid reputation for building businesses and strong management teams and has led large public companies operating and investing in the financial services, real estate and energy industries, as well as start-up technology businesses.

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- Christine has authored papers on pension related topics

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To:	Veinot, Cindy (TBS); Karen Hughes (MGS); Scott Thompson (CAB); Gadi Mayman; Len Hatzis (MGS); Sean Kearney (MGS); William Bromm (CAB); Helen Angus (MOHLTC); Patrick Monahan (MAG)
Cc:	Ken Kandeepan; Angus, Helen (TBS)
Subject:	Pension Assets I SoC, William Bromm, Scott Thompson, Helen Angus, Karen Hughes, Cindy Veinot, Len Hatzis, Sean Kearney, Ghadi Mayman, DAG
Attachments:	Pension Asset Expert Advisory Panel_Next Steps_Oct 14 2016.pptx

TBS

OPCD

Pension Asset Expert Advisory Panel

Next Steps

October 14, 2016

Decisions to make

- Panel
  - Number of members
  - Members
  - Chair (and role of chair in decision making)

- Support for panel
  - Report writer
  - Project management
  - Legal support

- Using the results of the report from the Panel

- Other

Composition of Panel

3 Person Panel (all have confirmed interest)
Accounting expert – **Bill Matthews** (Comptroller General Canada)
Actuarial expert - **Uros Karadzic** (Partner EY; member PSAB Task Force)
Governance expert – **Murray Gold** (Partner – Koskie Minsky)

4 Person Panel – 3 person + Chair (interest of all potential chairs not yet confirmed)

Chair – Options under consideration:

Jim Leech – former CEO OTPP

Tricia O'Malley – Accountant, former partner at KPMG, former standard setter

Sheila Fraser – Accountant, former Federal Auditor General

David Smith – Accountant, former Chairman of PwC Canada

Considerations for selection of chair:

- Spokesperson for the panel
- Should the chair be an accountant given the nature of the issue
- Potential conflicts

Support for panel – report writer

- Report writer – requirements:
  - Knowledge of pension accounting and actuarial modelling
  - Writing skills

- Considerations
  - PwC – lead by Lucy Durocher
    - Advisor to province on issue – working on comprehensive position paper but not issuing an opinion – consider whether conflicted
    - Knowledgeable on plans and issues
    - Member of PSAB Task Force
  - Panel hires independent consultant
    - OPS will complete pre-work for procurement of another firm

Support for panel – project management

- Short timeline – Report due by December 31, 2016

- Role
  - Coordination and scheduling
  - Liaison with Province
  - Interim reports
  - Coordination with TBS communications re: final report
  - Administrative reporting

- Potential candidates
  - Process in place to identify senior manager/director from OIAD, supported by others as necessary

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- Existing opinions
  - MAG
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  - Koskie Minsky – Ontario vs. BC

- Additional work required
  - Comparison of Ontario plans to New Brunswick Target Benefit Plans
  - Understanding of governance structures for HOOPP and CAATTPP
    - Multi-employer plans vs jointly sponsored plans

Using the result of the report from the panel

- Provision of report to Auditor General
  - Any other contact with AG during the process
    - Panel may invite AG to discuss issue
    - Panel may request written document of AG's position
- Communications strategy
  - Commitment to make the report public
- Use of Deloitte summary if made available
  - May align or conflict with report of panel

Other

- Valuation opinion
  - Only OTPP? Expected increase in value of OPSEU asset – less than $250 million
  - Start as soon as panel completes its work – procurement timing

- Responding to AG's 2016 Report -- Chapter 2
  - Expecting section on pension accounting; will be released prior to completion of work by panel; impact on panel's work

- Meeting with PSAB Task Force on employee future benefits -- timing

APPENDIX – POTENTIAL PANEL MEMBERS -- BIOS

Potential panel members

Name	Accounting Expertise	Actuarial Expertise	JSPP Governance Expertise	Interest confirmed
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Uros Karadzic (Partner EY – member PSAB Task Force)	Yes	Yes		Yes
Murray Gold (Lawyer – Koskie Minsky)			Yes	Yes
Jim Leech (former CEO OTPP)			Yes	Yes
Tricia O'Malley (former KPMG partner and standard setter)	Yes			No
Sheila Fraser (former Federal Auditor General)	Yes			No
David Smith (former PwC Chairman)	Yes			No
Wayne Strelioff (former AG BC and Sask.)	Yes			Yes
Scott Simpson (Retired - former OTF Actuary)		Yes	Yes	Yes
Andrew Fung (Actuary – Morneau Shepell)		Yes		No
Anne Soh (Actuary – OMERS)		Yes		No
Philip Morse (Actuary – Willis Towers Watson)		Yes		No
Darlene Himick (Professor – U of Ottawa)	Yes			No
Christine Wiedman (Professor – U of Waterloo)	Yes			No

Bill Mathews – Comptroller General of Canada, PSAB Board Member

Bill Matthews was appointed Comptroller General of Canada effective July 17, 2014.

The Comptroller General is responsible for government-wide direction and leadership for financial management, internal audit, federal assets and acquired services. The Comptroller General also supports capacity building and professional development in each of these areas.

Prior to becoming the Comptroller General, Mr. Matthews was Assistant Secretary, Expenditure Management Sector, at the Treasury Board of Canada Secretariat, a position he accepted in 2011.

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Mr. Matthews is a chartered professional accountant with over 25 years of experience in accounting and financial management in both the public and private sectors.

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He has advised clients (Canadian and multinational) on all aspects of their pension and benefit plans, including accounting, funding, design, implementation, management, risk and administration.

Extensive experience in accounting for benefit plan obligations. He works with numerous EY audit teams, the EY Professional Practice (Canadian and Global) and industry bodies on benefit accounting issues.

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TBS

OPCD

Pension Asset Expert Advisory Panel

Next Steps

October 14, 2016

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To:	Veinot, Cindy (TBS); Karen Hughes (MGS); Scott Thompson (CAB); Gadi Mayman; Len Hatzis (MGS); Sean Kearney (MGS); William Bromm (CAB); Helen Angus (MOHLTC)
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Subject:	Pension Assets I SoC, William Bromm, Scott Thompson, Helen Angus, Karen Hughes, Cindy Veinot, Len Hatzis, Sean Kearney, Ghadi Mayman
Attachments:	Pension Asset Expert Advisory Panel_Next Steps_Oct 14 2016.pptx

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Lunch will be provided.

TBS

OPCD

Pension Asset Expert Advisory Panel

Next Steps

October 14, 2016

Decisions to make

- Panel
  - Number of members
  - Members
  - Chair (and role of chair in decision making)

- Support for panel
  - Report writer
  - Project management
  - Legal support

- Using the results of the report from the Panel

- Other

Composition of Panel

3 Person Panel (all have confirmed interest)
Accounting expert – **Bill Matthews** (Comptroller General Canada)
Actuarial expert - **Uros Karadzic** (Partner EY; member PSAB Task Force)
Governance expert – **Murray Gold** (Partner – Koskie Minsky)

4 Person Panel – 3 person + Chair (interest of all potential chairs not yet confirmed)

Chair – Options under consideration:

Jim Leech – former CEO OTPP

Tricia O'Malley – Accountant, former partner at KPMG, former standard setter

Sheila Fraser – Accountant, former Federal Auditor General

David Smith – Accountant, former Chairman of PwC Canada

Considerations for selection of chair:

- Spokesperson for the panel
- Should the chair be an accountant given the nature of the issue
- Potential conflicts

Support for panel – report writer

- Report writer – requirements:
  - Knowledge of pension accounting and actuarial modelling
  - Writing skills

- Considerations
  - PwC – lead by Lucy Durocher
    - Advisor to province on issue – working on comprehensive position paper but not issuing an opinion – consider whether conflicted
    - Knowledgeable on plans and issues
    - Member of PSAB Task Force
  - Panel hires independent consultant
    - OPS will complete pre-work for procurement of another firm

Support for panel – project management

- Short timeline – Report due by December 31, 2016

- Role
  - Coordination and scheduling
  - Liaison with Province
  - Interim reports
  - Coordination with TBS communications re: final report
  - Administrative reporting

- Potential candidates
  - Process in place to identify senior manager/director from OIAD, supported by others as necessary

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- Existing opinions
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  - Koskie Minsky – Ontario vs. BC

- Additional work required
  - Comparison of Ontario plans to New Brunswick Target Benefit Plans
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    - Multi-employer plans vs jointly sponsored plans

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- Provision of report to Auditor General
  - Any other contact with AG during the process
    - Panel may invite AG to discuss issue
    - Panel may request written document of AG's position
- Communications strategy
  - Commitment to make the report public
- Use of Deloitte summary if made available
  - May align or conflict with report of panel

Other

- Valuation opinion
  - Only OTPP? Expected increase in value of OPSEU asset – less than $250 million
  - Start as soon as panel completes its work – procurement timing

- Responding to AG's 2016 Report -- Chapter 2
  - Expecting section on pension accounting; will be released prior to completion of work by panel; impact on panel's work

- Meeting with PSAB Task Force on employee future benefits -- timing

APPENDIX – POTENTIAL PANEL MEMBERS -- BIOS

Potential panel members

Name	Accounting Expertise	Actuarial Expertise	JSPP Governance Expertise	Interest confirmed
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Uros Karadzic (Partner EY – member PSAB Task Force)	Yes	Yes		Yes
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Andrew Fung (Actuary – Morneau Shepell)		Yes		No
Anne Soh (Actuary – OMERS)		Yes		No
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Bill Matthews was appointed Comptroller General of Canada effective July 17, 2014.

The Comptroller General is responsible for government-wide direction and leadership for financial management, internal audit, federal assets and acquired services. The Comptroller General also supports capacity building and professional development in each of these areas.

Prior to becoming the Comptroller General, Mr. Matthews was Assistant Secretary, Expenditure Management Sector, at the Treasury Board of Canada Secretariat, a position he accepted in 2011.

Before joining the Expenditure Management Sector, Mr. Matthews worked at the Office of the Comptroller General for seven years, serving as the Assistant Comptroller General in the Financial Management and Analysis Sector from 2009 to 2011.

Mr. Matthews is a chartered professional accountant with over 25 years of experience in accounting and financial management in both the public and private sectors.

He holds a Bachelor of Commerce from Dalhousie University.

He also serves as a board member of the Public Sector Accounting Board and the University of Ottawa's Institute for Mental Health Research.

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He has advised clients (Canadian and multinational) on all aspects of their pension and benefit plans, including accounting, funding, design, implementation, management, risk and administration.

Extensive experience in accounting for benefit plan obligations. He works with numerous EY audit teams, the EY Professional Practice (Canadian and Global) and industry bodies on benefit accounting issues.

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October 14, 2016

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Mr. Leech joined Teachers' in 2001 to lead Teachers' Private Capital and was appointed President & CEO in 2007. Under his leadership, the organization became one of the world's leading private equity investors.

Mr. Leech has gained recognition for his expertise and leadership in the private equity industry and as CEO of several public companies. He has a solid reputation for building businesses and strong management teams and has led large public companies operating and investing in the financial services, real estate and energy industries, as well as start-up technology businesses.

Before joining Teachers', Mr. Leech was president and CEO of Unicorp Canada Corporation, one of Canada's first public merchant banks, and Union Energy Inc., then one of North America's largest integrated energy and pipeline companies. During the 1990s, he guided two start-up technology companies - Disys Corporation and Kasten Chase Applied Research - to the revenue generation stage.

Mr. Leech holds a B.Sc. (Hons Math and Physics) from the Royal Military College of Canada and an MBA from Queen's University. He is also a graduate of the Institute of Corporate Directors.

Mr. Leech is chair of the board of Toronto General and Western Hospital Foundation. He is a member of the board of the MasterCard Foundation and was a founding director of Right To Play International. He has been named Chancellor-designate of Queen's University, effective July 1, 2014 and currently chairs the advisory board of the Queen's School of Business. Mr. Leech also serves on the advisory board for The Learning Partnership, the advisory council for the Toronto Region Board of Trade and the Toronto Financial Services Leadership Council. In addition, Mr. Leech is a member of the government of Ontario's Economic Advisory Panel.

In 2012, Mr. Leech was awarded the Queen's Diamond Jubilee medal in recognition of his work with the True Patriot Love Foundation. In 2013, he co-authored (with Globe and Mail Senior Writer Jacquie McNish) a book on pension reform called The Third Rail: Confronting our pension failures. He has announced his retirement effective December 31, 2013.

Wayne Strelioff, FCPA, FCA – former Auditor General

Mr. Strelioff has served as both the Auditor General of British Columbia (2000-2006) and the Provincial Auditor of Saskatchewan (1990-2000). He was the Assistant Director of Public Sector Accounting and Auditing at the Canadian Institute of Chartered Accountants (CICA), contributing to the initial development of ground breaking professional accounting and auditing standards for the public sector.

Mr. Strelioff has consistently worked to strengthen public sector governance, management and accountability practices. He has served on many national organizations including as a member and governor of the CCAF (formerly the Canadian Comprehensive Auditing Foundation), as the inaugural chair of the Canadian Council of Legislative Auditors Planning and Coordinating Committee and as a member of the CICA's Public Sector Accounting Board.

Since retirement in 2006, he has served as the inaugural Chair of the Quality Worklife/Quality Healthcare Collaborative, a nationwide group of 12 Canadian health organizations dedicated to developing an evidence-informed framework and action strategy to ensure a healthier Canadian public health workplace and, thus, improving the quality of patient care; he has served as a member of the Health Council of Canada's Value for Money Steering Committee; and he has advised senior officials in the public and private sectors on various governance, management and accountability matters.

Mr. Strelioff received B.A., B.Comm. and M.Sc. degrees from the University of Saskatchewan. He obtained his C.A. at Peat Marwick Mitchell (now KPMG).

In 1992, Mr. Strelioff was awarded the Commemorative Medal for the 125th Anniversary of Confederation of Canada in recognition of his significant contributions to compatriots, the community and to Canada. In 2003, he was recognized by the Institute of Chartered Accountants of British Columbia for his contribution to the accounting profession, by naming him a Fellow and awarding him the FCA designation.

Andrew Fung – Morneau Shepell

Andrew Fung, FSA, FCIA, CFA joined Morneau Shepell on November 10, 2015 as a partner in its Ontario Retirement Solutions Practice.

Prior to joining Morneau Shepell, Mr. Fung was a Senior Vice President at one of the largest public sector pension plans in Ontario. He has extensive experience in the areas of board governance, stakeholder relations, policy and research, strategy and growth, service and product development, government relations and advocacy, and communications. He is well versed in areas such as pension funding policy and risk management, having practiced as a senior actuary in both an international actuarial firm and a major accounting firm.

Mr. Fung is Fellow of the Society of Actuaries, a Fellow of the Canadian Institute of Actuaries, and a Chartered Financial Analyst. He has a Bachelor of Mathematics degree (Dean's Honour List) from the University of Waterloo, and is currently enrolled in the Institute of Corporate Directors - Director Education Program.

Anne G.S. Soh - OMERS

Anne Soh is Vice President, Actuarial Services and Plan Actuary at the Ontario Municipal Employees Retirement System (OMERS). She serves as the actuarial advisor to both OMERS Boards of Directors in managing the funding of the OMERS Pension Plans and oversees the in-house actuarial department.

Anne is an actuary with over 20 years of experience in the pension and benefits industry. Prior to joining OMERS, she was a senior consulting actuary at both Mercer and at Watson Wyatt (now Willis Towers Watson), where she provided advice to her clients on funding strategies, plan design, administration and communication issues.

She also serves as the Chair of the Pension Plan Advisory Committee of the Pension Plan of the United Church of Canada and is a pension committee member for the Pension Plan for Employees of Canada's National Ballet School.

Anne is a Fellow of the Canadian Institute of Actuaries, a Fellow of the Society of Actuaries and holds a Honours BSc from the University of Western Ontario.

Philip Morse – Willis Towers Watson

Philip Morse is a Fellow of the Canadian Institute of Actuaries (CIA), the professional body governing the education, qualification, conduct and work of actuaries in Canada.

He was involved in the preparation of “Independent Review of the Actuarial Funding Report on the Ontario Retirement Pension Plan (ORPP) – June 30, 2016.”

Darlene Himick, Ph.D., MBA, CFA – University of Ottawa

Darlene Himick received a Ph.D. in Accounting from the University of Calgary and an MBA from Dalhousie University. Professor Himick also earned an LLB from Osgoode Hall Law School, York University and is a member of the Nova Scotia Bar. She was previously an Assistant Professor at the John Molson School of Business, Concordia University. Her teaching interests include financial accounting, managerial accounting, accounting theory, and financial statement analysis. A Charterholder with the CFA Institute, Ms. Himick served for several years as a pension investment consultant before she began her academic career. Among her many current roles, she is a Senior Research Fellow with the Shareholder Association for Research and Education, based in Vancouver, B.C.

Professor Himick has presented her research at numerous academic conferences and has been an invited speaker at several industry forums. Her studies have been published in peer-reviewed journals such as Auditing and Accountability Journal and Critical Perspectives on Accounting. Her research focuses on pension accounting, responsible investing by pension funds, and the use of experts during standard setting. She is also interested in accounting history and the accounting profession, specifically its interaction with the actuarial profession. Ms. Himick has received funding from the Fonds québécois de la recherche sur la société et la culture (FQRSC) to study the use of accounting information in the context of retirement plans in Canada and the United States.

Christine Wiedman, Ph.D., FCPA – University of Waterloo

- Christine is interested in financial reporting and governance issues, including the determinants of firms' financial reporting and disclosure choices, the role of regulation on corporate fraud, and the interpretation of accounting information by capital market participants. Current projects examine: voluntary disclosure of political spending; whistleblower provisions of the Dodd-Frank Reform Act of 2010; gender diversity on corporate boards; changes in reporting and disclosure quality for restatement firms; and the role of gender in the reward of research collaboration.
- Christine has authored papers on pension related topics

From: Mike Manning
To: Ken Kandeepan
Subject: Pension adjustment
Date: Thursday, November 24, 2016 5:38:48 PM

Hi Ken:
I should have asked this question when I saw you earlier. I was looking at Public Accounts to get a better understanding of the Pension Adjustment. I think I understand the logic of the $10.7 b increase in net debt but had a question on how this flows through to expenses in a given year. Is it that the write-down in assets must come back to increase expenses over time? For example, expense is higher by $ 1.5 billion last year, $2.2 billion this year, $2.8 billion next year, etc. and this will total to $10.7 billion over time? Would this be offset by a non-cash adjustment? Anyway, sorry to bug you but a bit confused.
Regards, Mike

Sent from my iPad

From:	Shannon.Jack@ontario.ca on behalf of Veinot, Cindy (TBS)
To:	Karen Hughes (MGS); Maria Duran-Schneider (MOF); Arruda, Artur (TBS); Marc Rondeau (MGS); Tim Schuurman (MOF); Sriram Subrahmanyan (MOF); Brian Lewis (MOL); Gadi Mayman; Ken Kandeepan; Bryant Sullivan (MAG); Dianne Lone (MOF); Sofie DiMuzio (MGS); Ronald Kwan; Nadine Petsche (MOF); Bharat Patel (MOF); Alicia Sun (MOF); Nelson Tam (MET)
Cc:	Hilary Considine (MOF); Hosick, Sarah (TBS); Patrick Laughton (MOF); Nina Arbabzadeh (EDU); Birks, Ryan (MOF); Katerina Tsirtsimpis (MGS); Patel, Lesley (MOF); Ghufran Tarin (MOF); Anna Strathy; Gary Wuschnakowski (MOF); Joe Liscio (MOF); Helen Graham (MOF); Bruce Foster (MOF); Inglis, Liane (MOF); Craig Stewart (MTCS)
Subject:	Public Accounts Steering Committee
Attachments:	Agenda - Public Accounts Steering Committee - June 13, 2017.docx PA Production Calendar Jun 5.docx Public Accounts Steering Committee - Meeting 1 - June 13 2017F.PPTX

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* Update June 12, 2017: Materials attached.

For guests who do not have access to Frost Complex: Please use the entrance located at 7 Queen's Park Crescent, Frost South. Upon arrival, please register with the OPP at the security desk to obtain a visitor pass and call Shannon Jack at 416-327-2727 for access to the boardroom.

Agenda

Office of the Provincial Controller Division

Public Accounts Steering Committee

Date: 13/06/2017
From: 2:00 to 3:00 pm
Location: Corporate Boardroom, 6th Floor, Frost North, 7 Queen's Park Cres

Topic	Lead
Welcome	Cindy Veinot
Public Accounts Process	Nadine Petsche
Production Calendar Overview	Nadine Petsche
Next Steps	Cindy Veinot

Additional Information:

For guests who do not have access to Frost Complex: Please use the entrance located at 7 Queen's Park Crescent, Frost South. Upon arrival, please register with the OPP at the security desk to obtain a visitor pass and call Shannon Jack at 416-327-2727 for access to the boardroom.

May 2017

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17 **PA kick off Production planning Meeting @10am**	18	19	20
21	22 **- Holiday -**	23	24	25	26	27
28	29	30	31 **Production Meeting @10am**			

June 2017

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
				1	2	3
4	5 DM Meeting	6	7 DM Briefing (Public Account Planning Process)	8	9 1st Draft to BudSec for formatting (FSD&A)	10
11	12	13 1st Public Accounts Steering Committee (PA Planning)	14 Production Meeting @10am Joint DMO/MO Public Accounts Briefing	15	16	17
18	19 2nd status meeting with DM/AG	20 Ministry Sign-off Vol. 1-Section 2 (APFR) (other than those with late adjustments, post year end TBOs)	21	22	23	24
25	26 Ministry Sign-off Vol. 3 (APFR)	27	28 Production Meeting @10am	29	30	

July 2017

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
						1
2	3 **- Holiday -**	4	5 **Production Meeting @10am** Finalize Covers with MO (TBS Comms)	6 2nd PA Steering Committee (preliminary consolidated expenses)	7	8
		Input from Integrated Team for FSD&A - Variance Analysis				
9	10 Send Vol.1 & 3 Printer's Proof to Ministries for Sign-Off (APFR) Joint DMO/MO Briefing (preliminary consolidated expenses)	11 **1st DISTRIBUTION FSD&A (expenses only)**	12 **Production Meeting @10am** Meeting with AG re: PA Technical issues	13	14	15
16	17 Receive Ministries' Sign-off for Vol. 1 & 3 Printer's Proof (APFR) Share Volume 1, 2 & 3 PDF copies to TBS Comms	18 **2nd DISTRIBUTION (FSD&A)** 3rd Status meeting with DM/AG	19 **Production Meeting @10am**	20	21	22
23	24	25 Vol. 3 to Printer	26 **Production Meeting @10am**	27 Draft Volume 1 to AG Share draft FSD&A & CFS with AG (APFR) Final tax numbers (PIT) to AG	28 Vol. 1 to printer (TBD)	29
30	31					

August 2017

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
		1 Feedback from AG due for FSD&A & CFS (APFR) Associate DM Briefing (TBD) Input from OEP – Revenue Related Variance Analysis	2 **Production Meeting @10am**	3 Joint MO Briefing – TBS & MOF (TBD) 3rd PA Steering Committee (preliminary expense and revenue) Submit 2 letters (for LGIC & Clerk) to MO for Minister's signature (APFR)	4 **3rd DISTRIBUTION FSD&A (both Rev and Expense)**	5
6	7 **- Holiday -**	8 Receive DRAFT Forward from MO (TBC) Distribution of Communications (SC, IMMR)	9 **Production Meeting @10am** **4th DISTRIBUTION FSD&A for Manager/Director Sign-off (Tentative)**	10 Vol. 2 to Printer Provide AG with Prelim Draft AR with actual financial results and Draft Forward Meeting with AG re Technical Accounting issues	11 **Manager/Director sign-off**	12
13	14 **5th DISTRIBUTION FSD&A For ADM Sign-off** Distribution of Communications products (SC, IMMR)	15 **ADM sign-off**	16 **Production Meeting @10am** **FPC (TBC)**	17 **6th DISTRIBUTION FSD&A (post ADM sign-off)**	18 **AG sign-off** **Provide to OAG – English & French (CFS/FSD&A)**	19 DM/MO Review (weekend)
20	21 **DM/MO sign-off (FSD&A)**	22 4th status meeting with DM/AG TBS/CAB	23 **Production Meeting @10am**	24 **LGIC (on or before tabling date)**	25	26
27	28 **Target Release Date (TBD)**	29	30	31	Tracking dates: CAB – Aug 17th and Aug 30th	

September 2017

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
					1	2
3	4 **- Labour Day -**	5	6	7	8	**9**
10	11	12	13	14	15	16
17	18	19	20	21	**22**	23
24	25	26	27 **FAA Deadline to Release Public Accounts-180th day**	28	29	30

TBS

Office of the Provincial Controller Division

Public Accounts Steering Committee
Briefing #1

June 13, 2017

Briefing Outline

- Key Public Accounts deliverables
- Consideration of other financial reporting products
- Impact of BPS line-by-line presentation
- Current accounting issues
- Key dates and considerations
- Planning timelines

Public Accounts Deliverables

1. **2016-17 Annual Financial Report, including**
   - Financial Statement Discussion and Analysis (FSD&A)
     - Discusses the Province's actual results against Budget, prior year and earlier years' actuals
     - Discusses indicators of financial condition and other information
   - Audited consolidated financial statements (CFS)
   - Management's Statement of Responsibility
     - Province's acknowledgement of responsibility for effectiveness of internal controls and the objectivity and integrity of the CFS and related notes
   - Auditor General's Audit Opinion
     - The AG's opinion that the financial statements are fairly stated
     - Expect qualified opinion for recognition of OTTP/OPSEU pension assets and inclusion of IESO regulatory assets/liabilities in the Province's financial statements
2. **Supplementary Volumes 1, 2, 3**
   - **Appendix 1** provides further details
3. **Various Communication Products**
   - News release, Q and As, briefing binders (limited distribution)

Financial Statement Discussion & Analysis

- **Purpose** – To enhance the users' understanding of the government's actual results compared to the approved Budget and prior years' results
- **Process –**
  - Identification of potential themes consistent with other public documents
  - Drafting content of FSD&A with input from stakeholders
  - To circulate drafts/extracts of FSD&A for feedback and suggestions
  - Oversight of the Public Accounts process (compilation, production, audit issues and communications) by the Public Accounts Steering Committee
  - TBS and MOF Ministers approval obtained on final version (shared with PO)
  - Streamlined distribution and sign-off process

Consideration of Other Financial Reporting Products

- Consistency of messaging and results between the Public Accounts and other financial reporting products is important, including:
  - **1st Quarter Economic Accounts (released by July 15)**
    - First public update on economy following Budget release
    - Previews messaging of 1st Quarter Finances (in-year outlook)
  - **1st Quarter Finances (released by August 15th)**
    - Signals governments performance against Budget plan
  - **Other**
    - 2017 Budget
    - Pre-Election Report

Impact of BPS Line-by-Line Presentation

- Presentation change only, which has no fiscal impact, i.e. no impact to annual deficit, net debt or accumulated deficit
- The revenues and expenses will be grossed up by the same amount of BPS third-party revenues
  - BPS direct receipt of federal transfers will be reported as revenue from Government of Canada
  - BPS fees, donations and other revenues will be reported as provincial revenue
  - Program spending of MOHLTC, EDU and MAESD will increase
  - Interest on debt (IOD) expense will increase by reflecting net interest expense on BPS debt

Impact of BPS Line-by-Line Presentation (cont'd)

- Impact to key financial indicators
  - No change to indicators related to the annual deficit, net debt or accumulated deficit
  - Favorable impact to debt charge to total revenue and net debt to total revenue
  - Program spending per capita will increase, but is expected to remain the lowest based on the restated interim results
- 2016 Budget and historical results have been restated reflecting line-by-line consolidation of BPS sectors.
- OPCD is stakeholdering with sector ministries and central agencies on the line-by-line variance analysis
  - See Appendix 2 additional details on line-by-line presentation

Current Accounting Issues

- **Pension:**
  - OPCD currently reviewing and refining adjustments related to pension plans (to impact annual deficit, opening balance sheet and net debt)
  - Awaiting feedback from OAG on pension assumptions.
  - AG has not accepted Province's position on net pension assets for OTPP and OPSEUPP and has advised that she will qualify her audit opinion for 2016-17 Public Accounts
- **Hydro Sector IFRS:**
  - OPG and H1 to be reported on an IFRS basis effective April 1/16 (AG supports)
  - Change from US GAAP to IFRS will have an estimated transitionary impact of $1.1B on the Province's opening accumulated deficit, impacting net debt
  - Change will also impact annual surplus/deficit in current and future years

Current Accounting Issues

- **Remedy:**
  - EDU update for AG planned for early June on status of negotiations
  - OPCD/EDU will monitor and track the status as potential subsequent event item
- **OMA Negotiations:**
  - MOHLTC will submit Arbitration Framework for TB approval indicating that there will be no retroactive adjustment/payout for services prior to April 1, 2017
  - OMA ratification of Arbitration Framework scheduled for mid-June 2017
  - Impact on 2016/17 Public Accounts unlikely – will continue to monitor
- **Contaminated Sites:**
  - AG VFM follow-up audit on-going
  - Grassy Narrows analysis from MOECC outstanding (AG briefing has occurred)

Key Dates & Considerations

- **Public Accounts Planning Meeting**
  - Meeting occurred between AG and Deputy Ministers of TBS and MOF to discuss audit plan and select issues (Mar. 24)
  - Updated Audit Planning Report received May 16

- **Ministers' Offices Briefings on Public Accounts** – Early June
  - To provide overview of Public Accounts process and timelines

- **Public Accounts Steering Committee Meetings** – (Jun-Aug)
  - Kickoff meeting June 13th
  - Results meetings throughout July and early August
  - Refer to Appendix 2 for composition and role of the PAS Committee

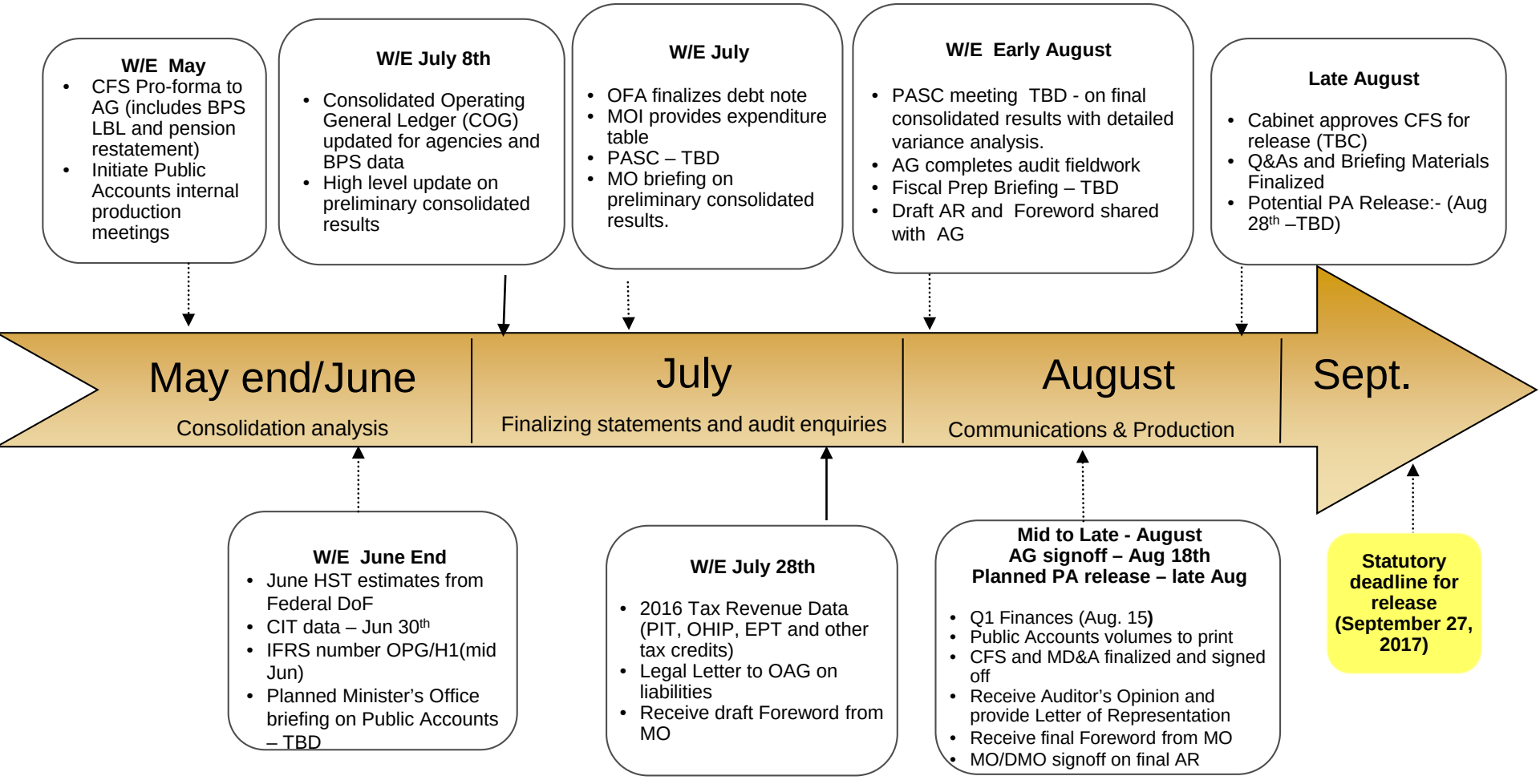
Key Dates & Considerations (cont.)

- **Fiscal Prep Committee Briefing** – mid to late August (TBD)
  - Focus on consolidated results, including variance analysis

- **Expected audit opinion date** – August 18, 2017
  - Management Representation Letter (to be signed by DM)
  - Meeting between AG and Deputy Ministers to discuss audit findings and the AG's error summary (Summary of Unadjusted Differences) after which the signed audit opinion letter will be provided

- **Release date** - Late August
  - FAA legislated release within 180 days after the fiscal year-end (September 27, 2017)
  - 2015/16 release date (Audited version of PA- Oct 6, 2016)
  - 2016/17 - tentative date for planning purposes August 28, 2017

Draft Timeline



Updates on Financial Results

- **Two update points**
  - **Mid July** – Update on preliminary consolidated results, including:
    - Consolidated actuals and preliminary deficit range
    - Actual expense by ministry with placeholders for outstanding or unresolved matters
    - Revenue by source with placeholders for outstanding tax accruals
    - Ranges of variance identified to measure risk of changes in results, including potential impacts from unresolved reporting items
  - **Late July / Early August** – Update on preliminary consolidated results, including:
    - Final 2016-17 fiscal results and associated debt, net debt and accumulated deficit
    - Tax revenue numbers (PIT data Jul 28th)
    - Detailed analysis for significant variances
    - Final error summary (SUDS) for confirmation with OAG

Appendix 1: Supplementary Volumes to the Public Accounts

- **Volume 1:**

  Consolidated Revenue Fund (CRF) schedules and ministry statements on an accrual basis

- **Volume 2:**

  Financial statements of selected Crown Corporations, Boards, Commissions, and other miscellaneous statements

- **Volume 3:**

  Details of transfer payments and vendor payments by ministry (including salary and benefit payments to non-government entities), statutory salaries of Ministers and Parliamentary Assistants, and travel expenses of Ministers, Deputy Ministers as well as specific individual ministry staff where expenses exceed threshold

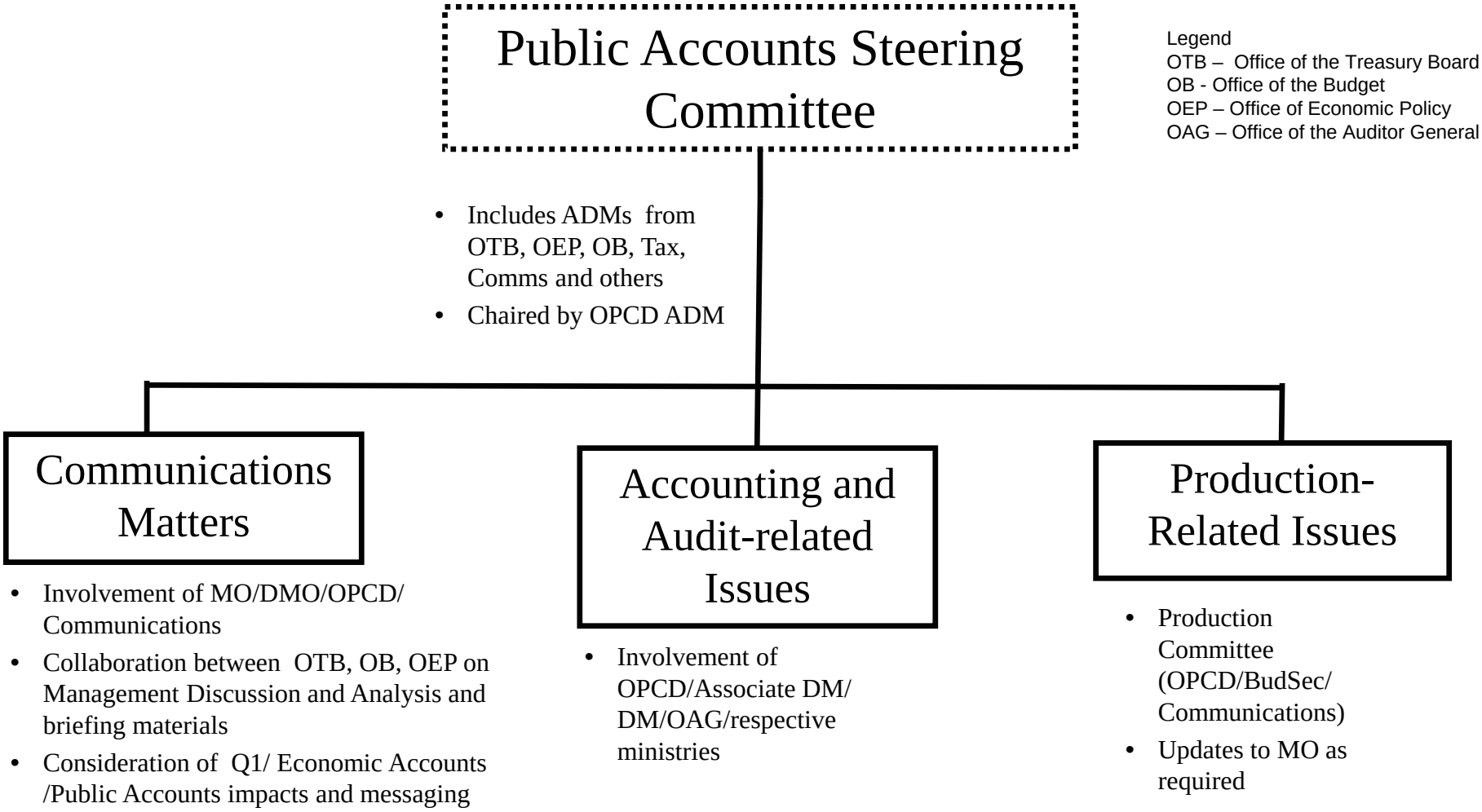
Appendix 2: BPS Line-by-Line Impact

Province of Ontario
Consolidated Statement of Operations

($ Millions)	2015-16 Actual	Restatement Adjustment				Total Restatement Adjustment	Restated 2015-16 Actual[1]
		Hospitals	School Boards	Colleges	Interest on Debt		
Revenue *(Schedules 1 and 2)*							
Total Taxation	91,818						91,818
Transfers from Government of Canada	22,857	242	14	40		296	23,153
Income from Investment in Government Business Enterprises	4,909						4,909
Other	8,793	3,914	1,201	2,220		7,335	16,128
	128,377	4,156	1,215	2,260		7,631	136,008
Expense *(Schedules 3 and 4)*							
Health	51,067	3,934				3,934	55,001
Education	26,588		829			829	27,417
Children's and Social Services	15,555						15,555
Environment, Resources and Economic Development	12,612						12,612
Interest on Debt	10,967				622	622	11,589
Postsecondary Education and Training	7,634			2,246		2,246	9,880
Justice	4,549						4,549
General Government and Other	4,434						4,434
	133,406	3,934	829	2,246	622	7,631	141,037
Reserve	-						
Annual Deficit	(5,029)	222	386	14	(622)	-	(5,029)

[1] Amounts subject to change in 2016-17 Public Accounts due to other restatements.

Appendix 3: Public Accounts Steering Committee



Legend
OTB – Office of the Treasury Board
OB - Office of the Budget
OEP – Office of Economic Policy
OAG – Office of the Auditor General

From: Li, Wendy (TBS)
To: Alicia Sun (MOF)
Cc: Bharat Patel (MOF); John Psinas; Vanessa W. Chan (MCSS); Ken Kandeepan; Shemin Meralli; Kevin Hwang; George Sakura
Subject: RE: 2016-17 FSD&A Process
Date: Friday, July 21, 2017 5:05:36 PM

This is what we are currently tracking.

For the year ended March 31

($ Millions)		2017		2016
Annual (Deficit) Surplus		TBD		(3,515)
Acquisition of Tangible Capital Assets (Note 9)	(10,023)		(10,922)	
Amortization of Tangible Capital Assets (Note 9)	5,192		4,913	
Proceeds on Sale of Tangible Capital Assets	152		175	
Loss (Gain) on Sale of Tangible Capital Assets	(72)		363	
Decrease/(increase) in Prepaid Expenses and Other Non-Financial	(20)		20	
		(4,771)		(5,451)
Decrease in Accumulated Other Comprehensive Loss		134		116
Increase/(Decrease) in ONFA Fund Fair Market Value Adjustment		1,094		(1,003)
Increase in Net Debt		(2,779)		(9,853)
Net Debt at beginning of year		(295,869)		(293,730)
Reversal of Pension Asset Valuation Allowances (Note 16)				9,154
IFRS Transitional Impact for OPG & Hydro 1		(683)		-
Pension adjustment		(617)		
Accumulated Other Comprehensive Loss				(613)
Other (Note 16)		82		(827)
PSAB Transitional Impact of Liabilities for Contaminated Sites				
Restated Net Debt at beginning of year		**(297,087)**		(286,016)

From: Sun, Alicia (TBS)
Sent: July 21, 2017 4:44 PM
To: Li, Wendy (TBS)
Cc: Patel, Bharat (TBS); John Psinas; Chan, Vanessa W. (TBS); Kandeepan, Ken (OFA); Meralli, Shemin (OFA); Hwang, Kevin (OFA); Sakura, George (OFA)
Subject: Fw: 2016-17 FSD&A Process

Hi Wendy,

Can you please provide the net debt numbers that you are tracking to us and OFA, so that we are all on the same page?

Also please let John know the expected timeline when the balance sheet can be finalized.

John - I will connect with you on Monday on your other comments.

Thanks,
Alicia

From: John Psinas <John.Psinas@ofina.on.ca>
Sent: Friday, July 21, 2017 4:21 PM
To: Sun, Alicia (TBS); Patel, Bharat (TBS)
Cc: Kandeepan, Ken (OFA); Sakura, George (OFA); Hwang, Kevin (OFA); Meralli, Shemin (OFA)
Subject: RE: 2016-17 FSD&A Process

Alicia,

We were looking at the latest FSD&A. There are some minor rounding discrepancies throughout, starting from Table 1 and Table 2.

On page 20, the sentence that starts with "Interest expense grew from $11.6 billion in 2015-16…. We would need to verify the BPS IOD for 16-17, to confirm the amount.

Regarding references to net debt, we will need the final acc. deficit and TCA before completing it. Also, we are getting discrepancies for prior year net debt on Table 7.

Can one of OPCD's analysts who populate the FSD&A call Shemin Meralli, as it will be easier to go over the FSD&A, given the salmon-coloured protocol.

Thanks.

John

From: Sun, Alicia (TBS) [mailto:Alicia.Sun@ontario.ca]
Sent: Tuesday, July 18, 2017 9:24 AM
To: John Psinas <John.Psinas@ofina.on.ca>; Bharat Patel (MOF) <Bharat.Patel3@ontario.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>
Subject: RE: 2016-17 FSD&A Process

Hi Bharat,

Can you please let John know when he can expect the numbers for his analysis for FSD&A?

Thanks,
Alicia

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: July 18, 2017 9:21 AM
To: Sun, Alicia (TBS)
Cc: Kandeepan, Ken (OFA); Sakura, George (OFA); Hwang, Kevin (OFA); Meralli, Shemin (OFA)
Subject: RE: 2016-17 FSD&A Process

Alicia,

Hopefully, we can get final TCA and final acc. deficit (which of course, needs the tax revenue numbers) from Public Accounts, in order for us to finalize net debt for FSD&A soon.

Thanks.

John

From: Sun, Alicia (TBS) [mailto:Alicia.Sun@ontario.ca]
Sent: Tuesday, July 18, 2017 9:12 AM
To: Tim Cook (MOF) <Tim.Cook@ontario.ca>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca>; Jonathan Rubin (MOI) <Jonathan.Rubin@ontario.ca>; Teddy Tang (MOHLTC) <Teddy.Tang@ontario.ca>; Stephen Taylor (MOF) <Stephen.Taylor@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca>; Kevin D. Lee (MOF) <Kevin.D.Lee@ontario.ca>; Scott Coe (MOHLTC) <Scott.Coe@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Hodes, David (TBS) <David.Hodes@ontario.ca>; Mark Schroter (MOHLTC) <Mark.Schroter@ontario.ca>; Gill, Vijay (MOI) <Vijay.Gill@ontario.ca>; Jeremie Stephenson (MOI) <Jeremie.Stephenson@ontario.ca>; Giulio Rubini (MOF) <Giulio.Rubini@ontario.ca>; Johnson, Malcolm (TBS) <Malcolm.Johnson@ontario.ca>
Cc: Zaslaver, Daria (TBS) <Daria.Zaslaver2@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Bharat Patel (MOF) <Bharat.Patel3@ontario.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Zhang, Sarah (TBS) <Sarah.Zhang@ontario.ca>; Au, David (TBS) <David.Au@ontario.ca>
Subject: RE: 2016-17 FSD&A Process

Hello everyone,

Please be advised to submit the documentation support for the audit review binder along with your FSD&A edits as indicated in the below email.

Thanks,
Alicia

From: Sun, Alicia (TBS)
Sent: June 15, 2017 4:17 PM
To: Cook, Tim (TBS); Dodbiba, Teuta (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Rubin, Jonathan (TBS); Tang, Teddy (TBS); Taylor, Stephen (MOF); Kandeepan, Ken (OFA) (Ken.Kandeepan@ofina.on.ca); John Psinas (John.Psinas@ofina.on.ca); Graham, Helen (TBS); Cheung, Dorothy (TBS)

Cc: Zaslaver, Daria (TBS); Hosick, Sarah (TBS); Patel, Bharat (TBS); Duran-Schneider, Maria (TBS); Arruda, Artur (TBS); Petsche, Nadine (TBS) (Nadine.Petsche@ontario.ca); Inglis, Liane (MOF)
Subject: 2016-17 FSD&A Process

Hello everyone,
As OPCD initiates the process for compiling the Financial Statement Discussion and Analysis (FSD&A) section of the Annual Report, I am reaching out to you as key partners in this year's process. In light of everyone's busy schedule, we would like to share some details regarding our planning timelines. Please note that there will be fewer distributions of the draft FSD&A than last year, so it will be more important to ensure that our initial drafts reflect our best efforts.

The first draft of FSD&A will be made available on broad distribution during the second week of July (scheduled for July 11th). To help facilitate your input to the document, my staff will prepare an extract of last year's sections applicable to your area, populated with preliminary actual expense numbers (placeholders will be included for revenues until available in late July). The extracts will be provided in late June/early July and password protected. We will require your edits provided EOD July 7th in order for us to compile the complete document and perform an quality review and formatting prior to release on July 11th. In the meantime, if you would like a non-updated version of your area's extracts (based on the 2015/16 FSD&A), please contact me directly.
Please provide your updated extracts to: Daria Zaslaver (Daria.Zaslaver2@ontario.ca), Senior Analyst of BPS Reporting Unit of OPCD.
Below are currently planned key dates for your information.

- July 11th 1st distribution (reflecting preliminary expense numbers and placeholders for revenue numbers)
- July 18th 2nd distribution (same content as above and edits from 1st distribution)
- *July 27th Copy of FSD&A shared with OAG*
- August 4th 3rd distribution (both expense and revenue numbers)
- August 9th 4th distribution (for Manager/Director sign-off on August 11th)
- *August 10th Copy of FSD&A shared with OAG*
- August 14th 5th distribution (for ADM sign-off on August 15th)
- *August 15th Copy of FSD&A shared with the OAG*
- August 17th 6th distribution (for DM/MO sign-off on August 21st)

Please note that the AG reviews the FSD&A as part of the audit of the Public Accounts and requires support for any figures, statements, variance analysis and narratives reflected in the document, including both financial and non-financial. OPCD will provide support for the details included in the financial statement tables; however, please plan to send the relevant support for any non-financial data (e.g. performance or TCA related), variance explanations as appropriate. Please include these details at the same time as you provide your initial narrative.
Following the first distribution of the FSD&A, we will also initiate the process for compiling Q&As related to expenses. Similarly, Q&As for capital, debt and revenue-related matters will also be initiated at the appropriate times in the FSD&A compilation cycle. By incorporating the FSD&A support requirements and Q&A processes as part of the FSD&A compilation exercise, we hope to minimize the amount of time and effort on your teams.
If in case I have missed any key partners, please feel free to forward as appropriate.
We look forward to working with you throughout the Public Accounts process. Please feel free to contact me if you have questions related to the document, timeline and the process.
Thanks,
Alicia

Alicia Sun, MBA, CPA, CGA
Manager, Broader Public Sector Reporting
Office of the Provincial Controller Division | Treasury Board Secretariat
7 Queen's Park Crescent, Frost South, 2nd Floor
Toronto, ON, M7A 1Z5
Email: Alicia.sun@ontario.ca
Tele: (416) 325-8155



This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

From:	John Psinas
To:	Ken Kandeepan; George Sakura; Alexander Kraas; Ricky Lai; Kevin Hwang
Subject:	RE: 3C ND.docx
Date:	Thursday, October 27, 2016 9:14:01 AM

Ken,

Our net debt numbers in the document check out. It is what I signed off yesterday, after some corrections.

Thanks.

--John

416-325-8072

From: Ken Kandeepan
Sent: Thursday, October 27, 2016 8:46 AM
To: John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Ricky Lai <Ricky.Lai@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>
Subject: FW: 3C ND.docx

Pls review and let me know if you are ok with your respective sections, I can then sign off.

Thanks

Ken k

From: Daniel Hengeveld
Sent: Wednesday, October 26, 2016 5:33 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: 3C ND.docx

Hi Ken, I've attached much of the debt content contained in our chapter if you'd like to have a look in advance of tomorrow's sign-off (particularly the material covering the legislated pension adjustment as it is new this year).

The order is not quite the same as seen in the actual document

Thanks,
Daniel

From:	Alexander Kraas
To:	Daniel Hengeveld; Ken Kandeepan
Cc:	IOD_RPA
Subject:	RE: 3C ND.docx
Date:	Thursday, October 27, 2016 9:09:23 AM

Thank you for the fast response, Daniel;

Hello Ken;

I have no concerns regarding the RPA-related parts.

Best regards

Alex

From: Daniel Hengeveld
Sent: Thursday, October 27, 2016 9:07 AM
To: Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Subject: RE: 3C ND.docx

No changes were made

From: Alexander Kraas
Sent: Thursday, October 27, 2016 9:07 AM
To: Daniel Hengeveld <Daniel.Hengeveld@ofina.on.ca>
Subject: FW: 3C ND.docx

Hello Daniel;

WRT what I signed off yesterday, did you make any changes since my signoff?

Best regards

Alex

From: Ken Kandeepan
Sent: Thursday, October 27, 2016 8:46 AM
To: John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Ricky Lai <Ricky.Lai@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>
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The order is not quite the same as seen in the actual document

Thanks,
Daniel

From:	Ken Kandeepan
To:	John Psinas
Cc:	George Sakura; Alexander Kraas; Kevin Hwang; Ricky Lai
Subject:	RE: 3C ND.docx
Date:	Thursday, October 27, 2016 9:15:04 AM

Thanks John, may I pls request you, George and Alex to drop in to my office if you are available.

Thanks

Ken k

From: John Psinas
Sent: Thursday, October 27, 2016 9:14 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Ricky Lai <Ricky.Lai@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>
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The order is not quite the same as seen in the actual document

Thanks,
Daniel

From:	Daniel Hengeveld
To:	Ken Kandeepan; Gadi Mayman
Cc:	Christina Zhang; Erica Wieder; Mike Manning; John Psinas; Alexander Kraas
Subject:	RE: 3c
Date:	Monday, October 31, 2016 11:28:36 AM

Hi, I have been advised by BudSec that the papers are currently with MO and any changes will have to be made tomorrow after we receive their comments back.

Daniel

From: Ken Kandeepan
Sent: Monday, October 31, 2016 10:49 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>; Daniel Hengeveld <Daniel.Hengeveld@ofina.on.ca>; Erica Wieder <Erica.Wieder@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Subject: RE: 3c

Good point Gadi, will raise it at the meeting tomorrow..

Thanks

Ken k

From: Gadi Mayman
Sent: Monday, October 31, 2016 10:45 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>; Daniel Hengeveld <Daniel.Hengeveld@ofina.on.ca>; Erica Wieder <Erica.Wieder@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Subject: Re: 3c

Yes, that change makes sense. Given that it's directly related to the pension adjustment, I think that it's best for you to bring it up at the meeting tomorrow, rather than changing it in advance.

Thanks,
Gadi

From: Ken Kandeepan
Sent: Monday, October 31, 2016 10:40 AM
To: Gadi Mayman
Cc: Christina Zhang; Daniel Hengeveld; Erica Wieder; Mike Manning; John Psinas; Alexander Kraas
Subject: RE: 3c

Hi Gadi

Thanks, John is liaising with Daniel and one of them will make these changes today.

I do have one more edit for your consideration in the attached document. The current wording is the FES which was actually mine, appears upon second thought, a little bit contradictory so I have provided an alternate. If you are ok with it then John/Daniel can input this edit as well.

Thanks

Ken k

From: Gadi Mayman
Sent: Monday, October 31, 2016 9:59 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Daniel Hengeveld <Daniel.Hengeveld@ofina.on.ca>; Erica Wieder <Erica.Wieder@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: 3c

A few questions/comments:

In the introduction, I think that the second line should have "to be" added, in the line: "this is the smallest amount **to be** borrowed since 2008-09", given that we haven't completed the year yet.

On page 7, first sentence, third line, I'd like to replace "...lower deficit for 2015-16..." with "lower borrowing requirements". That way we don't have to be specific to 15-16, as this year also has a lower borrowing requirement.

On pages 9 and 10, why don't we have the cost of debt as at September 30, 2016, instead of just leaving the March 31st number in there? My recollection is that in past FESs we've had a September update, even if the rate has remained the same as in March, and the September wording was in place in previous versions of this year's 3C, but without numbers. If memory serves correctly, the chart in last year's FES had a footnote, indicating that the current year was as of September 30th, while the other years were as of March 31st.

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"Interest on debt expense for 2016-17 is forecast to be $x billion, $y billion lower than forecast in the *2016 Budget,* continuing a trend that has been in place since 2010, through a combination of lower deficits and borrowing requirements, and lower than forecast interest rates."

Could someone please pass that change on to whomever is responsible for updates to 3B, or should Ken and I just do this at tomorrow's meeting on the Pension Extract, given that's one of the pages that we'll be going over?

Thanks for everyone's hard work on getting 3C, and anything else related to debt and IOD elsewhere in the document, to this point. Almost there!

Gadi

From:	Ken Kandeepan
To:	Gadi Mayman
Cc:	Christina Zhang; Daniel Hengeveld; Erica Wieder; Mike Manning; John Psinas; Alexander Kraas
Subject:	RE: 3c
Date:	Monday, October 31, 2016 10:49:07 AM

Good point Gadi, will raise it at the meeting tomorrow..

Thanks

Ken k

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Sent: Monday, October 31, 2016 10:45 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>; Daniel Hengeveld <Daniel.Hengeveld@ofina.on.ca>; Erica Wieder <Erica.Wieder@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Subject: Re: 3c

Yes, that change makes sense. Given that it's directly related to the pension adjustment, I think that it's best for you to bring it up at the meeting tomorrow, rather than changing it in advance.

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To: Gadi Mayman
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Hi Gadi

Thanks, John is liaising with Daniel and one of them will make these changes today.

I do have one more edit for your consideration in the attached document. The current wording is the FES which was actually mine, appears upon second thought, a little bit contradictory so I have provided an alternate. If you are ok with it then John/Daniel can input this edit as well.

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Thanks for everyone's hard work on getting 3C, and anything else related to debt and IOD elsewhere in the document, to this point. Almost there!

Gadi

From:	Daniel Hengeveld
To:	Gadi Mayman; Ken Kandeepan
Cc:	Christina Zhang; Erica Wieder; Mike Manning; John Psinas; Alexander Kraas
Subject:	RE: 3c
Date:	Monday, October 31, 2016 11:34:49 AM

I hope not too, but either way I should have your edits in before the ADM signoff on Wednesday

From: Gadi Mayman
Sent: Monday, October 31, 2016 11:34 AM
To: Daniel Hengeveld <Daniel.Hengeveld@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>; Erica Wieder <Erica.Wieder@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Subject: Re: 3c

That makes sense. Hopefully MO won't have any changes to 3C.

From: Daniel Hengeveld
Sent: Monday, October 31, 2016 11:28 AM
To: Ken Kandeepan; Gadi Mayman
Cc: Christina Zhang; Erica Wieder; Mike Manning; John Psinas; Alexander Kraas
Subject: RE: 3c

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Gadi

From:	Ken Kandeepan
To:	Anna Strathy; Gadi Mayman
Cc:	John Psinas
Subject:	RE: ADMs Pre-Meeting Ahead of FAO Discussion (11am-11:30am)
Date:	Tuesday, May 02, 2017 12:24:10 PM

Good question Anna, as you can see from the chart it extends to 2026-27 only, hence our assumption in 6) that there is no increase in the TCA from that point onwards to the 2030-31, the projected date for attaining the 27%.

A number of assumptions were available but we felt this represented the optimum selection, in other words we assume that post 2026-27 any capital investments by the Province are fully offset by amortization thus flat lining the TCA.

Sorry I couldn't come and see Gadi at Frost, Carlos had scheduled a conference call with TDS at 11.30 so I had to rush back to 1 Dundas as soon as the OEFC Audit Committee ended.
Thanks

Ken k

From: Anna Strathy
Sent: Tuesday, May 02, 2017 11:40 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: Fwd: ADMs Pre-Meeting Ahead of FAO Discussion (11am-11:30am)

Hi Ken, attached are the consolidated answers to the FAO questions. Could you please take a look at the chart that CPD added to A9 on p. 6. Do tangible capital assets appear in that chart? And if so, how does that relate to our point number 6 re no change in TCA?

Are you in trillium or have you gone back to 1 Dundas? Gadi is on the 7th floor now. Feel free to come out and chat with him here when you're done in the audit committee or call him when you have a moment.

Sent from my iPhone

Begin forwarded message:

> **From:** "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>
> **Date:** May 2, 2017 at 10:55:27 AM EDT
> **To:** "Patrick Laughton (MOF)" <Patrick.Laughton@ontario.ca>, "Law, Rex (TBS)" <Rex.Law@ontario.ca>, "Nina Arbabzadeh (EDU)" <Nina.Arbabzadeh@ontario.ca>, "Ghufran Tarin (MOF)" <Ghufran.Tarin@ontario.ca>, Anna Strathy <Anna.Strathy@ofina.on.ca>, Gavin He <Gavin.He@ofina.on.ca>, "Hosick, Sarah (TBS)" <Sarah.Hosick@ontario.ca>, "Patel, Lesley (MOF)" <Lesley.Patel@ontario.ca>
> **Subject: RE: ADMs Pre-Meeting Ahead of FAO Discussion (11am-11:30am)**

Hi All,

Ahead of the 11am pre-meeting, please find attached the consolidated responses to the FAO Qs. Can you please circulate to your ADMs/representatives?

Thanks,
Ryan

From: Birks, Ryan (MOF)
Sent: May-01-17 5:51 PM
To: Laughton, Patrick (TBS); Law, Rex (TBS); Arbabzadeh, Nina (TBS); Tarin, Ghufran (MOF); Strathy, Anna (OFA); He, Gavin (OFA); Hosick, Sarah (TBS); Patel, Lesley (MOF)
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Cc: Esmail, Selena (MOF); Birks, Ryan (MOF); Tiburcio, Daniel (MOF)
Subject: Fw: Follow-Up on the 2017 Budget

Hey everyone - we'll coordinate the response for this, working with your directors and staff. We'll also work with your EA's to find the right time for everyone to meet next tuesday.

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From: David West <dwest@fao-on.org>
Sent: Friday, April 28, 2017 9:32 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy

(TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Luan Ngo; Edward Crummey; Mario Angastiniotis; Nicolas Rhodes
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Happy to discuss any of these requests.

Thanks again for your support,
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David West
Chief Economist

From: John Psinas
To: Ken Kandeepan
Subject: RE: ADMs Pre-Meeting Ahead of FAO Discussion (11am-11:30am)
Date: Tuesday, May 02, 2017 12:28:09 PM

Thanks Ken.

From: Ken Kandeepan
Sent: Tuesday, May 02, 2017 12:24 PM
To: John Psinas <John.Psinas@ofina.on.ca>
Subject: FW: ADMs Pre-Meeting Ahead of FAO Discussion (11am-11:30am)

From: Anna Strathy
Sent: Tuesday, May 02, 2017 11:40 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: Fwd: ADMs Pre-Meeting Ahead of FAO Discussion (11am-11:30am)

Hi Ken, attached are the consolidated answers to the FAO questions. Could you please take a look at the chart that CPD added to A9 on p. 6. Do tangible capital assets appear in that chart? And if so, how does that relate to our point number 6 re no change in TCA?

Are you in trillium or have you gone back to 1 Dundas? Gadi is on the 7th floor now. Feel free to come out and chat with him here when you're done in the audit committee or call him when you have a moment.

Sent from my iPhone

Begin forwarded message:

> **From:** "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>
> **Date:** May 2, 2017 at 10:55:27 AM EDT
> **To:** "Patrick Laughton (MOF)" <Patrick.Laughton@ontario.ca>, "Law, Rex (TBS)" <Rex.Law@ontario.ca>, "Nina Arbabzadeh (EDU)" <Nina.Arbabzadeh@ontario.ca>, "Ghufran Tarin (MOF)" <Ghufran.Tarin@ontario.ca>, Anna Strathy <Anna.Strathy@ofina.on.ca>, Gavin He <Gavin.He@ofina.on.ca>, "Hosick, Sarah (TBS)" <Sarah.Hosick@ontario.ca>, "Patel, Lesley (MOF)" <Lesley.Patel@ontario.ca>
> **Subject: RE: ADMs Pre-Meeting Ahead of FAO Discussion (11am-11:30am)**
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David

David West
Chief Economist

From:	Berlettano, Maria (Macro Strategy)
To:	Bonnie Lemcke; Ken Kandeepan
Cc:	Bognar, Tom
Subject:	RE: Are you available at 2:30 for a conference call with Ken Kandeepan?
Date:	Friday, January 06, 2017 3:51:07 PM
Attachments:	Accounting Standards Board Strategic Plan 2016-2021.pdf Special Report First Nations Finance Authority July 2016.pdf Special Report - Accounting for Government Transfers (August 8, 2016).pdf CDNGovCtl (December 8, 2016).pdf CDNGovCtl (November 16, 2016).pdf CDNGovCtl (Aug 17, 2016).pdf

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Hello Ken and Bonnie,

Thank you again for the call and explaining in more detail the pension issue. It was very helpful.

I'm attaching the following documents that I wrote in regards to accounting which I hope that you will find interesting, but I am sending them in two parts as, all together, they exceed our band-width limit.

- AcSB 5 Year Strategic Plan
- Several issues of our flagship publication "CDN Govt Central" which feature accounting-based articles that I wrote (see index). The latest December 2016 is also my trip notes piece from my meetings in Europe and Asia.
- Special article on Government Transfer Accounting
- Special article on Saskatchewan's Pension Advantage….

…more to come in a follow-up email

On a separate note, I thought I would mention that the Vice Chair of the Accounting Standards Board (AcSB) is Karen Higgins. Karen is the national director of accounting services for Deloitte & Touche LLP Canada and a member of Deloitte's Global IFRS leadership team. Also represented on the AcSB are accounting firms BDO and KPMG.

On the PSAB board, the Vice-Chair is Andrew Newman and he is from KPMG. There is also a CPA staff person who is a non-voting member of both the AcSB and PSAB. Her name is Stephenie Fox. That provides some linkage between the two boards.

Sincere regards,

Maria

Maria Berlettano, CFA | Head of Canadian Government Credit Strategy, Macro Strategy Research | CIBC Capital Markets | CIBC World Markets Inc. | Brookfield Place, 161 Bay Street, 5th Floor, Toronto, Ontario M5J 2S8 | Office: 416 594-8041 | Cell: 647 467-9736 | Fax: 416 956-6719 | maria.berlettano@cibc.com



From: Bonnie Lemcke [mailto:Bonnie.Lemcke@ofina.on.ca]
Sent: Friday, January 06, 2017 1:29 PM
To: Berlettano, Maria (Macro Strategy); Ken Kandeepan
Subject: RE: Are you available at 2:30 for a conference call with Ken Kandeepan?

Here are the details for the call
Local dial-in: 416-406-5763
Conference ID: 9708191#

Bonnie

From: Berlettano, Maria (Macro Strategy) [mailto:Maria.Berlettano@cibc.com]
Sent: Friday, January 06, 2017 1:22 PM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: RE: Are you available at 2:30 for a conference call with Ken Kandeepan?

Yes, that works fine Bonnie. I'll be standing by for your call.

Maria Berlettano, CFA | Head of Canadian Government Credit Strategy, Macro Strategy Research | CIBC Capital Markets | CIBC World Markets Inc. | Brookfield Place, 161 Bay Street, 5th Floor, Toronto, Ontario M5J 2S8 | Office: 416 594-8041 | Cell: 647 467-9736 | Fax: 416 956-6719 | maria.berlettano@cibc.com



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Let me know it this time works for you or propose another time after 2pm and I will arrange.

Bonnie

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Accounting Standards in Canada:
AT THE LEADING EDGE OF FINANCIAL REPORTING

2016-2021
STRATEGIC PLAN

(Effective April 1, 2016)

Accounting Standards Board
AcSB
CNC
Conseil des normes comptables

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The AcSB is an independent body with the authority to establish accounting standards for use by all Canadian entities outside the public sector. Accounting standards specify how transactions and other events are to be communicated in financial statements.

The AcSB's 2016-2021 Strategic Plan sets out the broad strategic objectives that will guide us in achieving our public interest mandate. We decided on these objectives after extensive stakeholder consultation.

Implementation plans to execute these strategies will be described in our annual plans.

Accounting Standards Oversight Council
AcSOC CSNC
Conseil de surveillance de la normalisation comptable

The Accounting Standards Oversight Council (AcSOC) oversees the activities of the Board, and assesses and reports to the public on its performance.

CPA CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

The structures and processes that support the operations of the AcSB are funded by the Chartered Professional Accountants of Canada (CPA Canada).

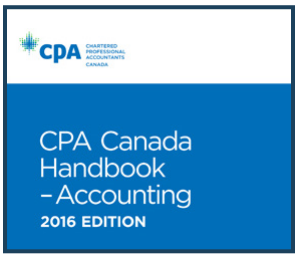


Our mission

To support informed economic decision making by maintaining frameworks that provide a basis for high-quality information about financial performance reported by Canadian private sector entities.

Serving the public interest

The AcSB serves the public interest by:



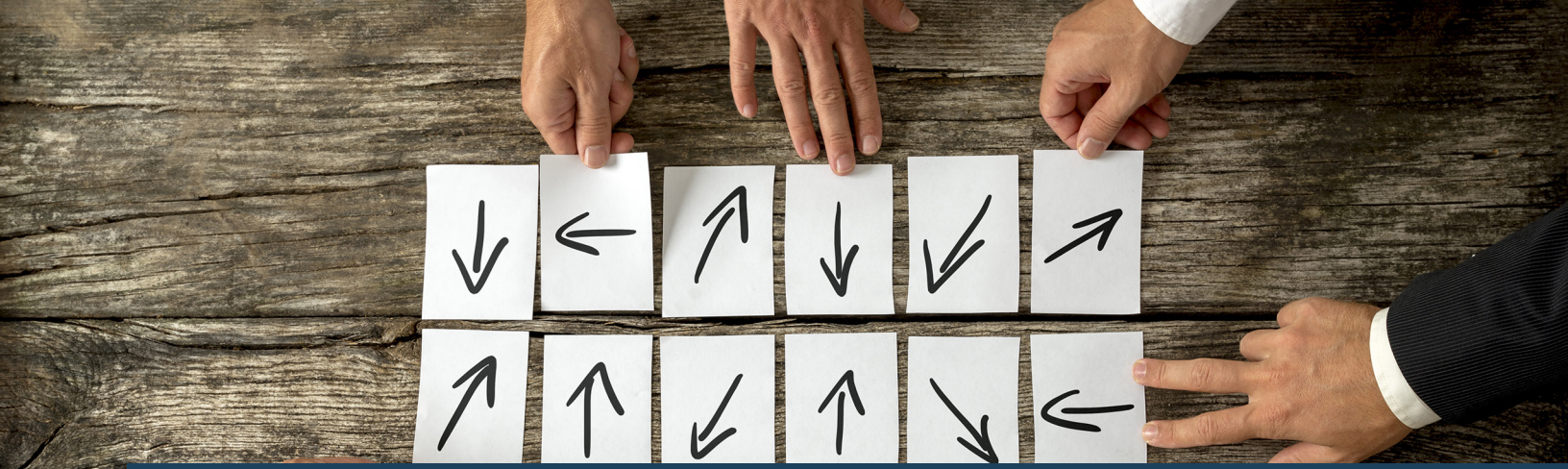
Establishing high-quality accounting standards that promote stakeholder confidence in the information reported by Canadian private sector entities with due consideration for the costs and benefits to preparers and users of financial statements, and changes in the economic environment



Being accountable to stakeholders by responding to their needs in a timely manner, and facilitating their participation and input into the development of the standards that affect them



Contributing to global best practices in accounting standard setting for every major category of reporting entity in Canada's private sector — publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans



Research — necessary for evidence-based standard setting

Effectiveness and efficiency are key qualitative characteristics of a world-class standard setter.

Effective and efficient standard setters do more than look for process improvements and prioritize. They also conduct research on a timely basis.

Research aids in identifying the key issues to be addressed during the development of a standard on a particular topic, allowing for more focused deliberations. Research also supports evidence-based decision making — a goal shared by standard setters around the globe.

During the period 2016-2021, the AcSB will begin a formal research program relating to all the major categories of reporting entities that:

- focuses on topics of importance to Canadians
- contributes to evidence-based global best practices that consider the Canadian perspective

When undertaking research, we will consider how stakeholders with expertise might assist with a particular project.



Due process

The AcSB follows due process when setting financial reporting standards. Our due process is based on three key principles.



Transparency
Conducting the standard-setting process openly, being clear about how we make our decisions and telling stakeholders about standard-setting developments



Consultation
Considering the perspectives of those affected by Canadian financial reporting standards



Accountability
Analyzing the potential effects of standard-setting proposals on our stakeholders and explaining the rationale for our decisions

Hearing from our stakeholders

The AcSB considers a successful standard-setting process to be one in which stakeholders participate. In order to raise the level of stakeholder awareness and engagement in our process and activities, we will look for ways to increase our transparency.

We will also continue our initiatives of recent years to find new opportunities and methods to communicate with Canadians. That includes building on relationships recently established with individuals and groups we talked with for the first time, and ensuring we are accessible to all stakeholders — regardless of their type and geographical location.



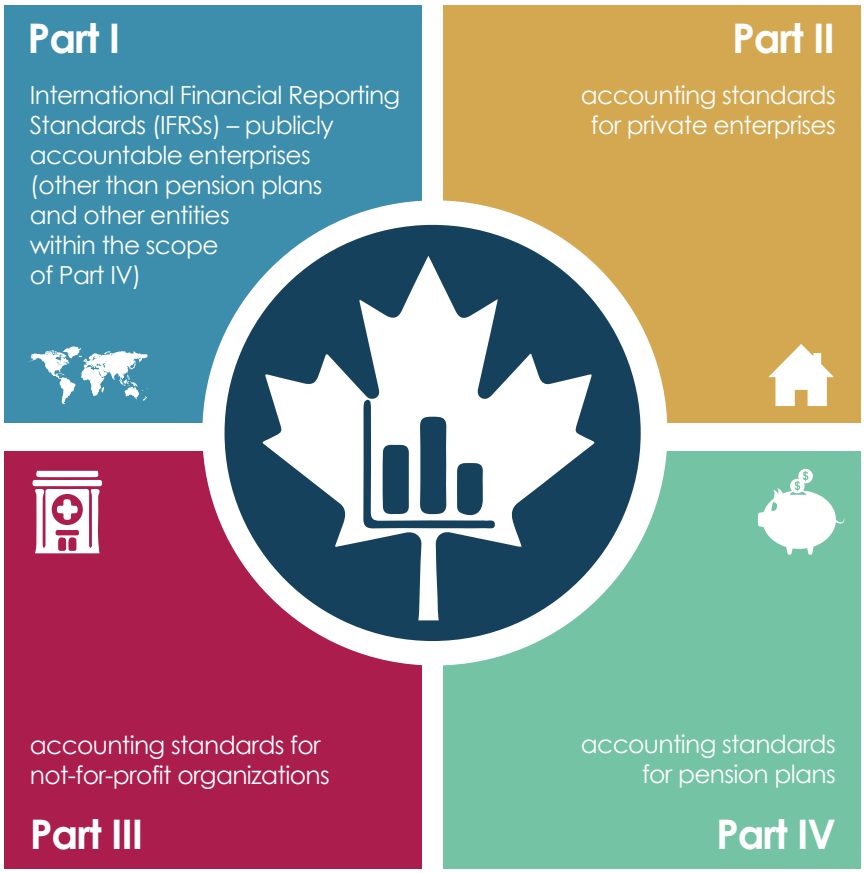
Strategies for the major categories of reporting entities

When meeting the needs of Canadians, "one size does not fit all".

The AcSB is committed to meeting the financial reporting needs of Canadians. This results in improved information that facilitates the allocation of capital from all sources, both public and private.

We demonstrated that commitment by adopting different financial reporting strategies for the major categories of Canadian reporting entities.

We established a separate set of accounting standards for each reporting category, tailored to meet the specific needs of that sector. These standards are found in the CPA Canada Handbook – Accounting.





Improving how we implement our strategies

The AcSB concluded, and Canadians strongly agree, that the overall strategies adopted for the various categories of reporting entities are meeting stakeholder needs.

We think we can do even better by not only listening to what our stakeholders say they need, but also anticipating changes in those needs resulting from developments in the financial reporting environment for each category.

This strategic plan incorporates improvements to the way we implement each strategy in order to do just that.

Publicly Accountable Enterprises



Strategy

Support the application in Canada of IFRSs

Publicly accountable enterprises in Canada operate in a North American and, increasingly, a global environment.

For this sector, the AcSB adopted, into Part I, International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

Reflecting the frequency of cross-border activities and comparisons made between Canadian and U.S. entities operating in the same industries, some publicly accountable enterprises apply U.S. GAAP instead of IFRSs, as permitted by Canadian securities regulations for dual-listed companies.

Regardless of the accounting framework they follow, our objective is to add value for publicly accountable enterprises by maintaining a strong global presence. We are at the international table when issues important to Canadians are discussed, ensuring the Canadian perspective is considered.



Support the application in Canada of IFRSs *(continued)*

We have earned respect as a strong national standard setter and wield influence internationally as a result. We will work to leverage Canada's influence by:

1. Actively participating in international groups and looking for new opportunities to liaise with others who share our goal of high-quality financial reporting
2. Connecting Canadians with the IASB on particular standard-setting projects when appropriate
3. Nurturing our relationships with the IASB and the U.S. Financial Accounting Standards Board, encouraging them to narrow the differences between their respective sets of standards, and supporting appointments of high-calibre Canadians to their committees
4. Conducting research that provides thought leadership to the global community on topics important to Canada

Our responsibility to establish accounting standards for all categories of Canadian private sector reporting entities means we do not simply wait for the IASB to issue IFRSs.

We work hard to influence the development of IFRSs, especially early in the process.

We raise awareness about all projects to develop an IFRS and provide every opportunity for Canadians to make their views known — by responding to documents for comment on the IASB's proposals, and participating in roundtables and other meetings we arrange with members and staff of the IASB.

Finally, we complete a multi-step process before considering whether to approve a final IFRS for incorporation into Canadian GAAP. We decide to do so only when we are satisfied that it is suitable for application in Canada.



Support the application in Canada of IFRSs *(continued)*

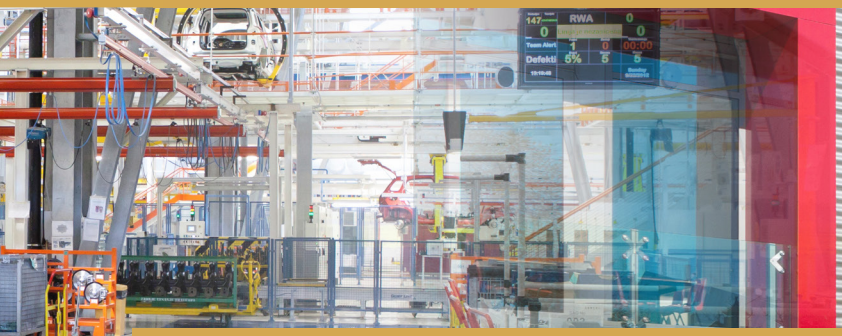
During the period 2016-2021, Canadians will adopt a number of complex new IFRSs. To assist them, we will:

- work with others around the world to encourage a common global adoption date
- encourage the early identification and resolution of IFRS implementation issues including through our IFRS Discussion Group, and by supporting Canadian members of IASB transition resource groups
- develop a process for incorporating into the CPA Canada Handbook – Accounting, certain non-authoritative guidance issued by the IASB that Canadians consider necessary for the application of IFRSs

These actions will mitigate the challenges to Canadians of sometimes being among the first to adopt an IFRS when other jurisdictions decide on a mandatory effective date different from the one set by the IASB.

Nevertheless, circumstances may arise in the future that could warrant further action here at home if adopting a particular standard ahead of others would put our publicly accountable enterprises at a disadvantage.

Private Enterprises





Strategy

Retain and improve the set of standards in Part II

The AcSB developed accounting standards for private enterprises (ASPE) with the specific needs of this sector in mind. They are principles-based, require the exercise of professional judgment, and are intended to help users make informed decisions.

However, they are not as complex as IFRSs, and involve less effort and cost to apply.

Our previous research indicated that creditors were the traditional users of private enterprise financial statements and could obtain additional information upon request. Therefore, our focus was to simplify the disclosure requirements in ASPE. The goal was to provide enough information for users to understand the financial statements and make informed inquiries when they need more details.

The private enterprise world is changing. Some domestic enterprises are now operating globally and entering into complex transactions. Greater attention is being paid to private enterprise financial statements by other users besides creditors. Private equity investors are just one example.

The AcSB has no intention to move private enterprises to IFRSs. Instead, we will respond to these environmental changes by being mindful of their effect on the information needs of users when making future amendments to ASPE.

During the period 2016-2021, the goal remains a high-quality set of standards that:

- produces decision-useful information for creditors and other frequent financial statement users
- is complete in terms of addressing the accounting issues for which stakeholders say they need guidance
- supports the exercise of professional judgment yet provides sufficient guidance to result in consistent application

We will use our connections with international standard setters to ensure we not only consider global best practices when making our private enterprise decisions, but also contribute to the development of those practices.

Not-for-Profit Organizations



Strategy

Retain and improve the set of standards in Part III

Accounting standards for not-for-profit organizations (NFPOs) address the unique transactions and circumstances arising in the private not-for-profit sector. For other transactions, organizations are directed to apply ASPE.

Not-for-profit accounting is garnering greater attention globally. Opportunities exist for all jurisdictions wishing to develop high-quality standards for NFPOs to learn from each other.

The AcSB recently established the Not-for-Profit Advisory Committee, a standing committee to provide input on standard-setting matters of interest to private sector NFPOs. The Committee is assisting the AcSB's improvements initiative to review the accounting standards for NFPOs so that the AcSB can update as necessary, ensuring that these standards continue to meet the sector's needs.

During the period 2016-2021, we will:

- carry out our improvements initiative after considering the advice of our Advisory Committee as well as feedback from our stakeholders
- conduct research, including consultations, on recognizing revenue from contributions
- consider global best practices when making decisions on our Canadian standards
- contribute to global best practices through continued dialogue with other jurisdictions involved in setting standards for NFPOs
- develop and implement a process to manage the maintenance of Part III

Central to these activities is a clear understanding of financial statement user needs in this sector. We will enhance our understanding of the differing needs of users of the financial statements of the public benefit and member benefit organizations that make up the private not-for-profit sector. That better understanding will assist us in deciding, on a case-by-case basis, the extent to which a standard we are improving should align with or differ from the corresponding public sector not-for-profit accounting standard (as issued by the Public Sector Accounting Board).

Pension Plans



Strategy

Retain the set of standards in Part IV

Pension plans apply the separate set of standards developed by the AcSB for this sector.

Feedback from our public consultations suggests that the Canadian private sector pension plan environment is currently stable. To date, plans growing increasingly common in the public sector that combine features of both defined benefit and defined contribution pension plans have not yet appeared in the private sector.

We previously indicated that we intend to undertake a project to improve accounting standards for pension plans. However, stakeholders agree that the issues to be addressed are not sufficiently pressing to warrant starting that project in the short term.

During the period 2016-2021, we will monitor developments in this sector:

- to determine when we should start our improvements project
- for signs that emerging new types of pension plans requiring standard-setting attention are appearing in the private sector

We will stand ready to act should new types of plans emerge. In the meantime, we are committed to working with other jurisdictions to advance our collective understanding of global developments in this area and possible approaches to developing guidance to address these new types of plans.



Monitoring for Success

The AcSB will monitor its progress in implementing this strategic plan on an ongoing basis, comparing results achieved against desired outcomes. As well, we have an established risk management process that includes monitoring developments in the environment to identify when to change our standard-setting approach. The key risks we manage to ensure we achieve our mandate relate to:

- how effectively we consult and communicate with Canadians
- the effectiveness of our involvement in international standard-setting processes
- the effectiveness of our staff
- whether preparers apply some or all of the standards
- the strength of our reputation

In developing our annual plans, we review the controls we have in place to mitigate these risks, and determine if there are other risks to manage or actions to be taken.

Accordingly, the actions we take to implement this plan will be adjusted as necessary during the period 2016-2021 to see that our planned initiatives continue to meet the needs of our stakeholders.

In overseeing our activities, the Accounting Standards Oversight Council (AcSOC) will assess our performance against the objectives set out in this strategic plan and our annual plans, to ensure the effective, efficient and economic fulfillment of our public interest mandate.



2015-2016 AcSB Members

Front (L-R): Stephenie Fox (non-voting), Armand Capisciolto, Linda Mezon (Chair), Karen Higgins (Vice Chair), Adam Sheparski

Back (L-R): Rebecca Villmann (non-voting), Michel Magnan, Gale Kelly, Maria Berlettano, Brian Drayton, Paul Hargreaves, Derek Gorgi (Absent: Lara Gaede)

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FNFA – Soaring On Sound Financing Principles

July 19, 2016

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Bloomberg Ticker: FNFACA

First Nations Finance Authority ('FNFA' or 'Authority') was built on a robust planning framework that spanned more than 20 years in development. The process originated with meticulous federal government policy research, and eventually led to the enactment of supportive and protective legislation that underpins sound financing practices. This framework ensures the utmost protection for bank lenders and bondholders. The framework establishes clear parameters which gives First Nations communities access to capital for important infrastructure and business development.

Canada's First Nations have made strong progress over the past decade in securing their entitlement to share in the financial benefits of Canada's natural resources, and asserting their rights to be consulted on major energy and resource projects. First Nations and Canadian government relations at all levels are being re-set on a course of stronger understanding and cooperation to secure a brighter and better future for all Canadians. To this end, FNFA is an important funding platform that harnesses the capacity of the institutional capital markets to participate in this journey. There are currently 200 First Nations out of 634 across Canada scheduled in the program. **FNFA projects its loan program to grow from approximately $297mln today to over $1.2bln by 2021**.

"Resetting the relationship and affirming First Nation rights and First Nation government responsibilities to their people can unlock economic potential, and generate significant and essential opportunity for all Canadians," stated Shawn Atleo, former National Chief of the Assembly of First Nations.

Dr Dominique Collin is a former senior economist with the Government of Canada (Department of Indigenous and Northern Affairs Canada, or 'INAC'), and is now Principal of Waterstone Strategies, a private consulting firm.

A quote from Dr Dominique Collin:

> I have been involved in Aboriginal access to capital issues for 30 years, from the federal government side and from the Aboriginal financial institution side, and in all that time I have not come across any instance of First Nation governments defaulting on long-term infrastructure or public work-related debt. Social housing debt, the single largest block of First Nation government debt, has been an important feature of First Nation government finances for more than a generation, most of it with federal government backstop. The published loss rates for government housing backstop programs are close to nil, as confirmed by a sequence of Auditor General reports on Aboriginal housing, confirming that First Nation governments are a good lending risk.
>
> Over the past 10 years, a rapid increase in own-source revenues from benefit agreements, royalties, revenue sharing agreements, participation in

> major energy, and resource projects has multiplied the capacity of First Nation governments to address business and infrastructure investment needs with debt. Setting aside community-owned business ventures, which on the whole have done well but remain within the business risk category, I am not aware of any defaults. This likely results from the solidity of the revenue streams used for borrowing, the increased ability of lenders to understand the lending environment and, most important, from the willingness of revenue-rich First Nations to opt into rigorous financial administration oversight regimes such as the one provided by the First Nations Financial Management Board certification process.
>
> Dr Collin has been involved in a number of Aboriginal financial institution development initiatives in the areas of business, infrastructure and housing finance. He is the co-author, with Michael Rice, of *Access To Capital for Business: Scoping out the First Nation and Inuit Challenge*, an in-depth analysis of Aboriginal access to capital performance and issues from 1975 to 2003. An update of this report to 2013, with an analysis of the 10-year increase in outstanding business/infrastructure debt, will be published in the fall of 2016.

An example of an FNFA loan is the $5.27mln, 30-year term loan to fund the Songhees Wellness Centre in Victoria, British Columbia (shown below), which is backed by a federal 20-year Right-of-Way contract giving a Canadian naval base road access through lands owned by the Songhees First Nation.

The Songhees Wellness Centre, Victoria, British Columbia



Source: FNFA

Topics Covered, by Section:

- Debt Issuance, Valuation and Portfolio Placement
- Legislative Framework, Lending Approach and Bondholder Protections
- Credit Underwriting Process and Experience

- Financial Reporting and Transparency
- Canada's Political System and First Nations
- History of Canada's First Nations

Debt Issuance, Valuation and Portfolio Placement

First Nations Finance Authority

FTSE TMX Canada Universe Bond Index Classification

- Sector: Government
- Industry Group: Municipal
- Industry Sub-Group: British Columbia
- Rating: A
- Index Weight: Less than 0.5%

Regulatory Classification:

- Basel III Risk-Weighting – Standardized Approach*: FNFA is a non-share, non-profit corporation and may meet the criteria for a 'Claim on Corporate' with a credit assessment rating of A- to A+. Under this criteria, bonds would be subject to a 50% haircut. Investors are advised to consult their legal counsel.
- HQLA – OSFI Liquidity Adequacy Guideline/Basel III: FNFA is a non-share, non-profit corporation and may meet the requirement of a Level 2B asset (50% haircut). Investors are advised to consult their legal counsel.

  *FNFA is not classified as a Public Sector Entity (PSE) for purposes of the Capital Adequacy Guidelines. Chapter 3.1.3 of the guidelines provides that where PSEs other than Canadian provincial or territorial governments provide guarantees or other support arrangements other than in respect of financing of their own municipal or public services, the PSE risk weight may not be used. The PSE risk weight is meant for the financing of the PSE's own municipal and public services.

First Nations Finance Authority began funding in the institutional debt markets in June 2014 with its inaugural 10Y issue of $90mln (FNFACA 3.4% June 26, 2024). Since 2014, the Authority has tapped the market once a year by upsizing the existing issue twice.

Going forward, FNFA is planning to continue targeting the 10-year funding area. It expects to issue $130mln annually for next two fiscal years as the client base increases. In the third fiscal year, it anticipates doing both spring and fall issuances, aggregating about $250mln in each fiscal year.

FNFACA 3.4% June 26, 2024 $251mln – S&P Rating A- Moody's Rating A3 Stable

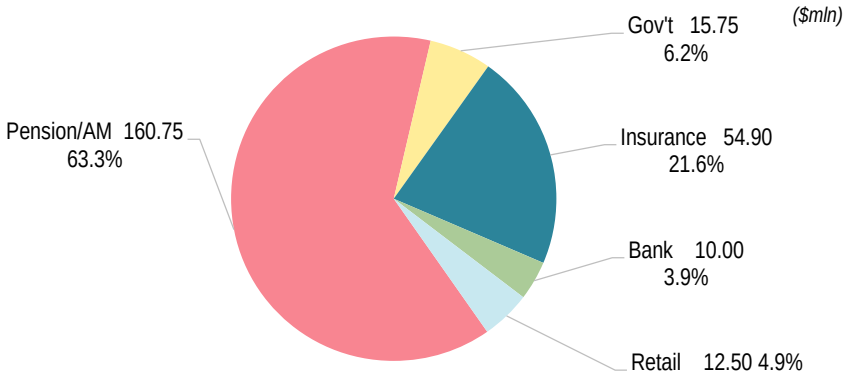
Issue date	Amount *($mln)*	Spread vs. Canada*	Spread vs. Ontario	Details
1-Jun-16	111	146	58	Increase
16-Jul-15	50	123	50	Increase
19-Jun-14	90	121	43	New

* vs. CAN 2.5% 06/01/24

Source: CIBC Capital Markets- Macro Strategy

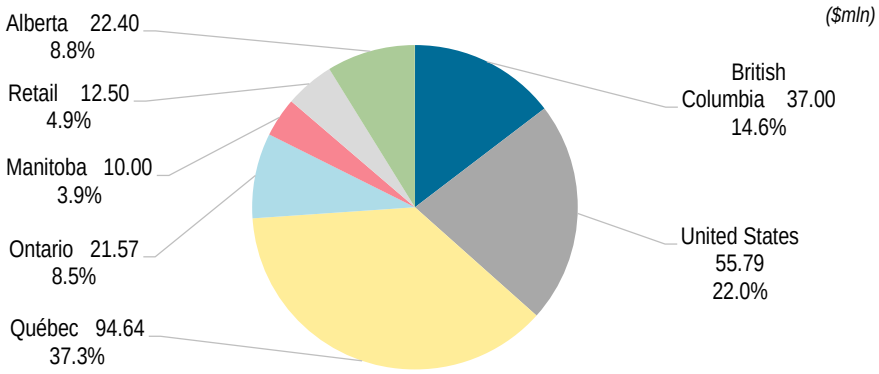
Like other government issuers, FNFA raises debt in the exempt market by offering securities via an Information Memorandum. The Authority has historically borrowed through a syndicated market process. There are 20 to 25 investors currently participating in FNFA's debt issues, crossing all investor types. While the majority of investors fall into the category of large Canadian institutionals, there has been a modest level of Canadian retail participation. There has also been a good level of participation by US investors. The most recent transaction was distributed to 22 institutional investors, with an overall blend of almost 50/50 between repeat and new, as the investor base continues to grow.

Debt Issuance by Type



Source: FNFA, CIBC Capital Markets – Macro Strategy

Debt Issuance by Location



Source: FNFA, CIBC Capital Markets – Macro Strategy

FNFA bonds are classified in the FTSE TMX Canada Universe Bond Index in the Municipal sub-sector category. Like other Canadian bonds in this category, FNFA bonds are best suited in investment portfolios as 'buy-and-hold' positions in passive mandates, as well as a component of active mandates. They also have broad appeal in retail accounts due to their investment grade quality and name familiarity. FNFA bonds may also be suitable for holdings by regulated financial institutions.

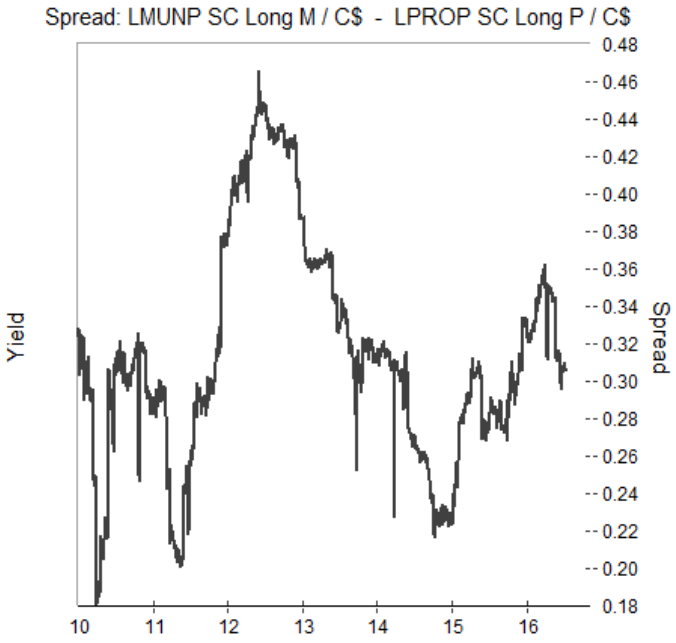
The municipal sub-sector represents about 2% of the FTSE TMX Canada Universe Bond Index, and we are constructive on a 'modest' overweight position (3-4%) at current spread levels, and a position in FNFA bonds towards an overweight.

In spite of the generally stronger credit risk profiles of municipal bonds, these types of bonds trade back of their more senior provincial counterparts and generally move in tandem. As

depicted in the spread graph below, earlier in the year, municipal spreads moved wider than their provincial counterparts (i.e. basis risk) reflecting a global re-pricing of liquidity premiums that was spurred by extreme market volatility and risk aversion. Spreads have since tightened somewhat, but the liquidity spread premiums remain attractive in the current low interest rate environment where investors are searching for yield.

It's important to highlight that secondary market liquidity continues to be impinged upon by regulatory requirements imposed on financial institutions and their broker/dealers. Moreover, a trend towards dealer inventory aging requirements is also having an impact.

Long Muni Index Spread over Long Provi Index



Source: PC Bond

We like FNFA municipal bonds as a means to anchor portfolio credit quality (Moody's A3, Standard & Poor's A-, all outlooks 'stable') and for yield pick-up. We expect FNFA's credit risk profile to be relatively stable, and improve over time.

10Y New Issue Indicative Bond Market Comparables

	Bloomberg Ticker	Spread vs. Curve (bps)	Credit Ratings*			
			DBRS	Fitch	Moody's	S&P
First Nations Finance Authority	FNFACA [Govt]	+147.5	-	-	A3	A-
Municipal Comps	[Muni]					
Municipal Finance Authority of BC	BCMFA	+110.5	-	AAA	Aaa	AAA
City of Vancouver	VANC	+113.5	-	-	Aaa	AA+
City of Winnipeg	WINNPG	+125.5	-	-	Aa2	AA
Regional Municipality of Durham	DURHAM	+117.5	-	-	Aaa	AAA
Regional Municipality of Halton	HALTON	+117.5	-	-	Aaa	AAA
Regional Municipality of Niagara	NIAGMU	+123.5	-	-	-	AA
City of Ottawa	OTTAWA	+120.5	-	-	Aaa	AA
Regional Municipality of Peel	PEEL	+117.5	-	-	Aaa	AAA
City of Toronto	TRNT	+118.5	AA	-	Aa1	AA
Regional Municipality of Waterloo	WTRLOO	+117.5	-	-	Aaa	-
Regional Municipality of York	YORKMU	+116.5	-	-	Aaa	AA+
City of Laval	LAVAL	+144.5	-	-	-	AA
City of Montreal	MNTRL	+133.5	AH	-	Aa2	AA-
Quebec City	QC	+144.5	-	-	Aa2	-
Provincial Comps	[Govt]					
British Columbia	BRCOL	+80.5	AAA	-	Aaa	AAA
Alberta	ALTA	+100.5	AAH	-	Aa1[N]*	AA[N]*
Saskatchewan	SCDA	+101.5	AA	AA	Aaa	AA+[N]*
Manitoba	MP	+101.5	AH	-	Aa2	AA-[N]*
Ontario	ONT	+87.5	AAL	AA-	Aa2	A+
Quebec	Q	+88.5	AH	AA-	Aa2	A+[P]*
New Brunswick	NBRNS	+116.0	AH	-	Aa2	A+
Nova Scotia	NS	+103.0	AH	-	Aa2	A+
Prince Edward Island	PRINCE	+121.0	AL	-	Aa2	A
Newfoundland & Labrador	NF	+142.5	AL	-	Aa2[N]*	A[N]*
Federal Crown	[Govt]					
CHT No. 1 (CMB Program)	CANHOU	+55.5	AAA	-	Aaa	AAA

Source: CIBC *Outlooks stable unless otherwise noted. N=Negative P=Positive

FNFA's credit ratings are predicated on several factors. These factors include the strong institutional and legislative framework, the expectation that FNFA is likely to receive extraordinary government support, a solid governance and management structure, a rigorous credit review process, strong interest and debt service coverage ratios, and several structural protections that include:

- A mechanism to intercept revenue streams ('Other Revenues') that secure a Borrowing Member's loan payments and the deposit of these revenues, either directly or by an intermediate account, into a segregated trust account (a 'Secured Revenues Trust Account');
- A Debt Service Reserve Fund (DRF) that is funded by a hold-back of 5% of the loan advance, which serves as a layer of cross-collateral protection. Recent changes to the First Nations Financial Management Act, FNFMA, now permit the holdback to vary between 1-5%, but Management's intentions are to stick with the practice of 5%. (Additionally, rating agencies will be consulted ahead of a change, as the FNFMA provides that the FNFA's Board can only permit a lower hold-back if there are no adverse

rating consequences.). There is a requirement to replenish the DRF on a 'joint and several' basis among all Borrowing Members who received financing from the FNFA, but only within each borrowing stream (i.e. Property Taxes or Other Revenues);

- A $10mln Credit Enhancement Fund (CEF) that was funded by the federal government. The CEF was established to enhance the FNFA's credit rating by being available to temporarily offset any shortfalls in the Debt Reserve Fund. The CEF will be increased to $30mln within the next year with a $10mln instalment this fall and another $10mln instalment next spring; and
- A legislative requirement to establish a sinking fund for each bond issue, which builds based on the amortizing structure of the underlying loan.

The presumption of extraordinary federal government support is reasoned on the fact that it is highly embedded in the overall program. The federal government has played an integral role in establishing the framework for the FNFA through the enactment of federal legislation, the establishment of federally operated boards engaged in processing First Nations community groups into the program, ongoing oversight thereafter, and the provision of funds for the Credit Enhancement Fund. With respect to the latter, the recent Federal budget explicitly mentions ongoing intentions to build a better future for Canada's Indigenous Peoples through a wide range of initiatives as well as support for the First Nations Finance Authority to provide $20mln over two years, beginning in fiscal 2016-17, to strengthen the Authority's capital base.

While there is no explicit federal guarantee on FNFA bonds, the aforementioned factors add up to a strong level of implicit and explicit support.

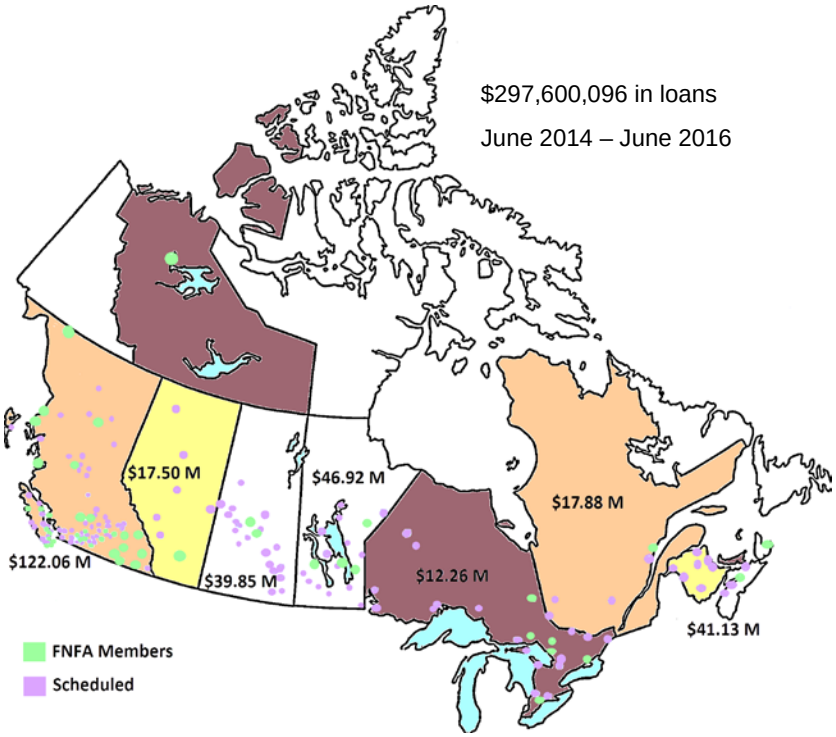
FNFA offers its borrowing members two types of loan facilities: Interim, and Long-Term Loans. These facilities are discussed in more detail below. FNFA finances these loans through a syndicated Bridge Financing Facility (the 'Facility') with three Canadian chartered banks until it arranges long-term funding through a debenture offering.

The Facility is secured by first-ranking liens on all real and personal, corporeal and incorporeal, present and future assets, including on all of the accounts of FNFA (including accounts that hold the CEF and Debt Reserve Fund) and the rights of FNFA in the Secured Revenues Trust Accounts and the Property Tax Accounts. FNFA is subject to non-financial covenants, including a Material Adverse Change Clause and the ratings dropping to outside of investment grade. The credit facility also requires the maintenance of two ratings, which indirectly provides protections to bondholders as the debentures do not contain this provision. Since inception of the Facility, there has never been a breach.

In February 2016, the security rankings of FNFA's debentures were upgraded to rank *pari passu* with FNFA's $130mln secured line of credit. This was a major enhancement for bondholders.

We note, however, that FNFA's ratings are constrained by a number of rating factors which are expected to abate over time. The rating agencies have cited FNFA's relatively high – but declining – volatility in profitability (previous losses from one-time start-up, and lower federal grants and management fees), the geographic concentration of borrowers in the province of British Columbia, which currently stands at 41% (July 2016), but is down from 65% in 2014, as well as its short operating history. An improvement in any of these along with a stronger liquidity profile could drive the ratings up. Conversely, a deterioration in the overall quality of the loan pool or change in the FNFA's framework and/or structural considerations for the rating, including a reduction in government support, could put downward pressure on the ratings. **We are not expecting any changes to FNFA's credit ratings in the near term, but we believe there is more upside potential than downside risk to bondholders.**

FNFA Borrowing Map



Source: FNFA

FNFA's internal liquidity consists of approximately $2.2mln in cash and equivalents, $12.5mln in investments representing amounts held in the Debt Reserve Fund and $10mln in the CEF, which will grow to $30mln by next spring. Today's level of internal liquidity of around $25mln is just under 10% of outstanding debt, which is considered adequate for the ratings, but low for higher rating categories. The liquidity metric will improve with additional deposits in the CEF. External liquidity consists of the $130mln Bridge Financing Facility.

All in all, liquidity is considered adequate given the conduit nature of the intermediation process where payments are intercepted from Borrowing Member revenue sources to service outstanding debt and, therefore, liquidity needs beyond what is necessary for servicing debt are minimal. Although FNFA's borrowing powers are not restricted to providing loans to Borrowing Members and it could borrow to finance working capital, historically the FNFA has financed its operations through federal government grants and operating income from the spread between what it borrows and lends at. On the lending side, FNFA's mandate is only to make loans to First Nations that have qualified as Borrowing Members.

In the past year, FNFA's loan portfolio has grown from $140mln to $297mln, with an increase in members from 23 to 34. In a year's time, based upon the current loan portfolio plus the expected disbursement of $130mln in additional loans prior to March 31, 2017, the DRF will accumulate to approximately $21.5mln and the annual interest liability will be approximately $12.4mln. With the CEF at $30mln, interest coverage will be over 4 times ($30+21.5/$12.4). **The FNFA plans to submit a request for a further $20mln to the CEF to expand it to $50mln in 2017 in order to maintain the interest coverage ratio at or above four times coverage (target interest coverage).** Both Moody's and S&P rate FNFA according to their government-related entities methodology. With respect to S&P, the criteria falls specifically under *Rating Government-Related Entities: Methodology and Assumptions*, published March 25, 2015. S&P gives FNFA a two-notch uplift from its Stand-Alone Credit Profile, or SACP, rating of 'bbb' because it views the likelihood of FNFA receiving extraordinary government support as 'moderately high'. In a sovereign downgrade scenario – which we are not anticipating – the methodology permits the Government of Canada rating to fall two notches

(i.e. from AAA to AA), without impacting FNFA's ratings (all else remaining unchanged).

Under Moody's *Government-Related Issuers Rating Methodology* (October 30, 2014), Moody's applies its Joint Default Analysis (JDA) framework to its analysis of Government-Related Issuers (GRI) to explain the credit links between GRIs and their supporting central, regional, and local governments. This approach gives FNFA a two-notch uplift from Moody's intrinsic Baseline Credit Assessment score of 'baa2' on a "strong likelihood of extraordinary support". Moody's framework incorporates the concepts of dependency and support which, in FNFA's case, would also accommodate a multiple notch downgrade of Canada. The framework suggests a rating change only if Canada's Aaa were to drop to A1, assuming everything else remains the same.

We caution that all rating agency methodologies are theoretical reference points and final ratings are subject to the adjudication of the rating committees, but the aforementioned analysis does suggest a strong degree of flexibility in a sovereign downgrade scenario.

Legislative Framework, Lending Approach, and Bondholder Protections

First Nations Finance Authority (the 'FNFA' or the 'Authority') is a non-share, non-profit corporation established under Part 4, Section 58 of the First Nations Fiscal Management Act (FNFMA, or the 'Act') which came into force on April 1, 2006. The FNFA is not an agent of Her Majesty or a Crown Corporation.

First Nations Finance Authority's head office is in Westbank, British Columbia. It operates within the terms of reference embodied in the FNFA. It runs its operations from a single location with credit adjudication done in-house as well as externally through a network of advisors located across Canada.

The impetus for the development of the First Nations Finance Authority was based on government policy research that concluded that a large gap exists in First Nations/Inuit access to affordable private capital which is hindering their economic potential. This conclusion was reached following a study that covered data from 1975 up to and including 2003.

> First Nations/Inuit business financing access levels, trends and gaps all point to historical over-reliance on insufficient levels of government contribution capital and growth stalled at the early expansion phases for both the small and mid-sized ventures for lack of an organic connection to market capital. Correcting the situation is urgent and will require innovative ways to engage market sources of capital beyond the limited leverage ability of existing sources of government help.

From *Access to Capital for Business: Scoping out the First Nation and Inuit Challenge,* by Dr Dominique Collin, Waterstone Strategies and Michael Rice, Indian and Northern Affairs Canada, May 2009.

First Nations Finance Authority fulfills an important role in reducing this gap. To facilitate funding for First Nations communities, FNFA's objectives are to monetize federal and provincial revenue agreements with First Nations as well as First Nation's own-source revenues.

The First Nations Fiscal Management Act sets out the procedure for First Nations to become 'Borrowing Members' of the Authority and the requirements that must be fulfilled as part of the borrowing process. It also gives the First Nations Finance Authority the powers to secure financing for its Borrowing Members, and to issue securities.

In addition to facilitating access to funding for its Borrowing Members, the FNFA also sponsors a pooled investment fund program for its 'Investing Members'. Two pooled funds are offered: the MFA Money Market Fund, and the MFA Intermediate Fund. The funds are

operated and managed by the Municipal Finance Authority of BC.

It's important to understand that participation in the FNFMA is optional. It was designed as an optional piece of legislation to promote the continued economic development of participating First Nations, but respecting their rights to self-government and self-determination.

While all First Nations have the authority to pass by-laws related to the taxation of land under the Indian Act, the FNFMA offers an alternative and rigorous authority for First Nations to collect property tax. By opting into the property tax system under FNFMA, First Nations are better positioned to promote economic growth and capitalize on solid business relationships, resulting in a better quality of life for community members.

The act enables First Nations to participate more fully in the Canadian economy and foster business-friendly environments while meeting local needs by:

- strengthening First Nations real property tax systems and First Nations financial management systems
- providing First Nations with increased revenue raising tools, strong standards for accountability, and access to capital markets available to other governments
- allowing for the borrowing of funds for the development of infrastructure on-reserve through a co-operative, public-style bond issuance
- providing greater representation for First Nation taxpayers

The process to initiate participation in the FNFMA is via submission by a Band Council Resolution to the Minister of Indigenous and Northern Affairs requesting that the band be added to the schedule of the FNFMA. The process takes four to six months from the time the Band Council Resolution is received, but recent amendments to the Act are expected to shorten and streamline the process.

The FNFMA framework is supported by the work of the First Nations Finance Authority (FNFA), First Nations Tax Commission (FNTC), and First Nations Financial Management Board (FMB). The FNTC provides regulatory support to First Nations' property tax jurisdictions. The FMB sets standards for financial administration laws that it must review and approve as well as conducts certification reviews of First Nations' financial management systems and financial performance.

An important protection to bondholders is that before a First Nation can borrow funds from the Authority, the First Nation is required to make a Financial Administration Law regarding its financial administration. The law must be approved by the First Nations Financial Management Board (the 'FMB'), the independent board established pursuant to the Legislation, that reviews the law for compliance with the Legislation and the FMB's standards. The FMB's standards are intended to support sound financial administration practices for a First Nation.

A First Nation is required under the Legislation to obtain a Financial Performance Certificate from the FMB before it can become a Borrowing Member of the Authority. A Financial Performance Certificate will only be issued after the FMB reviews a First Nation's financial condition to determine if it complies, in all material respects, with the FMB's standards. These standards are comprised of seven financial ratios that are applied to the First Nation's past five years of audited financial statements. The ratios are intended to measure financial capacity or risk of overall structural deficit; ability to meet short-term operating obligations; ability to generate sufficient annual cash flows to maintain operations; ability to maintain a sustainable level of capital investment; debt burden and overall insolvency; ability to manage and execute budgets; and, the efficiency and stability in collecting property taxes. These financial tests are intended to measure financial capacity or risk of overall structural deficit; ability to meet short-term operating obligations; ability to generate sufficient annual cash flows to maintain operations; ability to maintain a sustainable level of capital investment; debt

burden and overall solvency; ability to manage and execute budgets; and, the efficiency and stability in collecting property taxes.

A First Nation must also obtain a Financial Management Systems Certificate within 36 months of receiving financing from the Authority (other than interim financing). Also, the Authority will require such a First Nation to obtain a Financial Management Systems Certificate prior to providing any loans subsequent to the loans contemplated by that First Nation's initial borrowing law. A Financial Management Systems Certificate is more encompassing than a Financial Performance Certificate and will only be issued after the FMB reviews a First Nation's financial management system to ensure it is operational and complies, in all material respects, with the FMB's standards. These standards are intended to establish sound financial practices for the operation, management, reporting and control of the financial management system of a First Nation.

Claims to and collection of financial cash flows to service the FNFA's debt is assured by several legal and structural protections.

Direction to Pay | Intercept

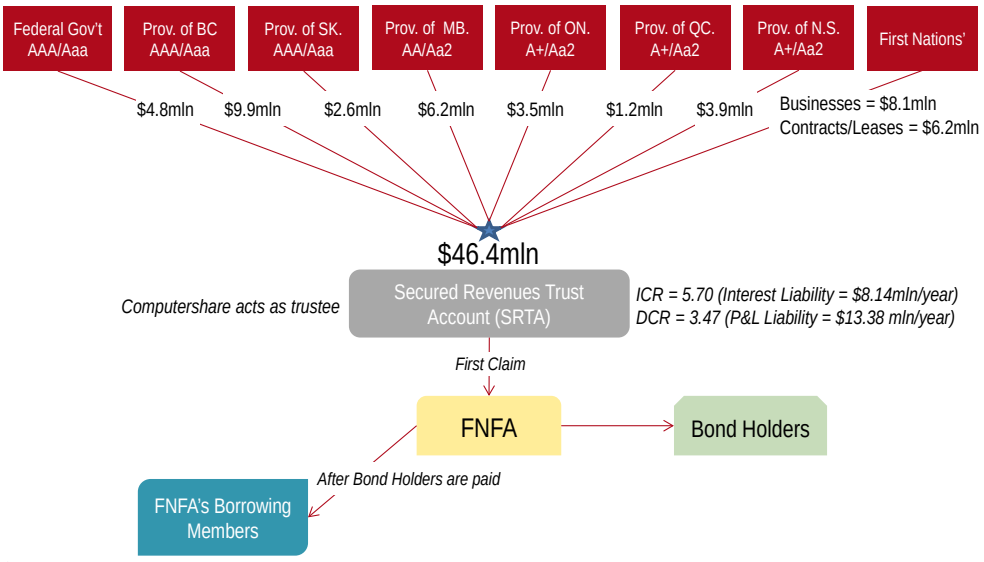
The Authority uses a mechanism to intercept revenue streams ('Other Revenues') that secure a Borrowing Member's loan payments. As required by the Legislation, each Borrowing Member irrevocably instructs third parties paying Other Revenues that secure a loan to pay those revenues, either directly or by an intermediate account, into a trust account (a 'Secured Revenues Trust Account') maintained by Computershare Trust Company of Canada (the 'SRTA Manager') throughout the period of the loan. Under the terms of the Secured Revenues Trust Account, only the Authority (and not the applicable Borrowing Member) is entitled to instruct the SRTA Manager on the allocation and payment out of amounts from the Secured Revenues Trust Account and all payments to the Authority from the Secured Revenues Trust Account are made by the SRTA Manager. This ensures that amounts due to the Authority, including any amounts required to replenish the Debt Reserve Funds, are paid before any remaining amounts are paid to the Borrowing Member.

Financial Ratios

FMB examines the First Nation's past five years of audited financial statements to assess the following 7 financial ratios:

1. Fiscal Growth Ratio (if a decline greater than 5% occurs, then test failed)
2. Liquidity Test (if a decline greater than 10% occurs, then test failed)
3. Core Surplus Test (weighted average EBITDA must exceed 5% of current revenues)
4. Asset Maintenance (maintenance/replacement must exceed depreciation)
5. Net Debt Ratio (EBITDA is equal to or exceeds 1.5 times interest expenses)
6. Budget Performance (actual expenses cannot exceed budget more than 15%)
7. Property Tax Collection Rate (prior 5 year average collection rate must exceed 95%)

Intercepted Revenues Supporting FNFA Loans



Source: FNFA

Where the Other Revenues comes from a contract or an agreement, generally, the full amount of the Other Revenues is paid into the Secured Revenues Trust Account. Where the Other Revenues is from a Borrowing Member's owned business, the amount collected into the Secured Revenues Trust Account is greater than that needed to fulfill loan payments. The

Authority ensures the Secured Revenues Trust Account collections are equal to or greater than a debt coverage ratio. Each revenue stream is evaluated upon criteria such as payor risk, duration of stream, stability, etc. and has a debt coverage ratio applied to it.

Revenue Sharing by Province

Province	Type of Revenue Shared
BC	Forest Tenure Agreements, Added Value Rebate Tax, BC Hydro-IPPs, Mineral Specific Resource Revenue Sharing Policy, Gaming (Host)
AB	Added Value Tax Rebate, Fuel Tax Rebate, Gaming
MB	Added Value Tax Rebate, Fuel Tax Rebate, Gaming
NB	Forestry Stumpage, Fuel Tax Rebate, Added Value Tax, Gaming
NS	Added Value Tax Rebate, Gaming
ON	Mineral Specific Resource Revenue Sharing Policy, Gaming (OFNLP)
QC	Mineral Specific Resource Revenue Sharing Policy, Hydro Revenues, Added Value and Fuel Tax
SK	Fuel and Added Value Rebate Tax, Gaming
Canada	FNGST/FN Sales Tax (opt-in only), FN Personal Income Tax (Self-Government Agreement only)

Source: FNFA

Priority of Claims

In the event that a Borrowing Member becomes insolvent, the Legislation (section 78) provides that the Authority has priority over all other creditors of the Borrowing Member (other than the Crown) for any amounts payable by the Borrowing Member to the Authority in connection with a loan secured by Other Revenues (as authorized under an agreement governing a Secured Revenues Trust Account) or under the Legislation.

The Authority does not rely on provincial Personal Property Security Act ('PPSA') legislation to perfect its security. To prevent inconsistent priorities, PPSA legislation generally excludes from its application security given by another enactment. Moreover, the Indian Act (section 88) provides that provincial laws of general application (such as PPSA legislation) are not applicable to or in respect of Indians to the extent that those laws are inconsistent with the Legislation.

Sinking Fund

The Authority is required by the Legislation to maintain a Sinking Fund to fulfill its repayment obligations for each bond issue. All principal repayments by Borrowing Members on loans from the Authority financed with proceeds of bonds are placed in a Sinking Fund for such bonds.

Debt Reserve Fund

The Authority is required by the Legislation, in connection with providing loans to Borrowing Members, to establish a Debt Reserve Fund. The Authority is required to withhold between 1% and 5% (the Authority currently withholds 5%) of the amount of any loan secured by Borrowing Members using Other Revenues and deposits that amount into the Other Revenues Debt Reserve Fund. If at any time the Authority has insufficient funds from Borrowing Members that have received financing secured by Other Revenues to make payments to bondholders, including Sinking Fund contributions, such payments are to be made from the Other Revenues Debt Reserve Fund.

If payments from the Other Revenues Debt Reserve Fund reduce its balance by 50% or more of the total amount contributed by Borrowing Members, then the Legislation provides that the Authority must (and may where the balance is reduced by less than 50%) require all Borrowing Members who contributed to the Other Revenues Debt Reserve Fund to pay

amounts sufficient to replenish that fund. As a consequence of this replenishment mechanism, Borrowing Members that have received financing secured by Other Revenues are potentially liable for, and support, the debt obligations of any defaulting Borrowing Members that have received financing secured by Other Revenues. Amounts due to the Authority to replenish the Debt Reserve Fund may be drawn from the Secured Reserve Trust Account of a Borrowing Member, which collects an amount above what is required to service regular debt payments.

Credit Enhancement Fund

In accordance with the Legislation, the Authority has established a Credit Enhancement Fund of $10mln to support the Debt Reserve Funds in making payments to bondholders. This fund may be used by the Authority to temporarily off-set any shortfalls in the Debt Reserve Funds. On March 22, 2016, the Government of Canada, as part of its 2016 budget, announced that it proposes to provide $20mln over two years, beginning in the Government of Canada's 2016-2017 fiscal year, to strengthen the Authority's capital base. Any such amounts received by the Authority from the Government of Canada will be added to the Credit Enhancement Fund.

Investment Authority

The Legislation provides that amounts in Sinking Funds, Debt Service Reserve Funds and the Credit Enhancement Fund can only be invested in certain eligible investments. The Authority may only invest in: (a) securities issued or guaranteed by Canada or a province; (b) investments guaranteed by a bank, trust company or credit union; and (c) deposits in a bank or trust company, or non-equity or membership shares in a credit union. With respect to Sinking Funds, the Authority may also invest in (a) securities of a local, municipal or regional government in Canada and (b) securities of the Authority or a municipal finance authority established by a province, if the day on which they mature is not less than the day on which the security for which the sinking fund is established matures.

The Authority has adopted a formal Investment Policy not to invest funds in a Sinking Fund for deposits in a trust company, or non-equity or membership shares in a credit union.

The Investment Policy has incorporated the following constraints:

- Sinking Fund investments should attempt to preserve capital and approximately match the debenture maturity date. However, it is understood that prudent investment management may entail some investments matching the loan term to the Borrowing Members instead of the debenture maturity term where these loan terms are for a longer period than the debenture (i.e. loans that will need to be refinanced over their term).
- DRF investments should attempt to provide sufficient liquidity through cash or cash equivalents to permit the FNFA to meet up to one year of sinking fund and interest payments for all outstanding debentures.

The Investment Policy has established guidelines with respect to credit quality and diversification.

Intervention Mechanism

If a Borrowing Member that has received financing secured by Other Revenues fails to make a payment to the Authority under a borrowing agreement, or fails to pay a charge imposed by the Authority in connection with replenishing a shortfall in the Other Revenues Debt Reserve Fund, the Authority can require the FMB to either impose a 'co-management arrangement' in respect of that Borrowing Member's Other Revenues, or assume 'third-party management' of that Borrowing Member's Other Revenues. If the FMB assumes 'third-party management' of the Borrowing Member's Other Revenues, the FMB has exclusive right to, among other things, act in place of the Council of that Borrowing Member in relation to assets of that Borrowing Member that are generating Other Revenues.

In four years of FNFA loans, no third-party management or co-management arrangement has ever been initiated as a result of a Borrowing Member failing to make payments to the FNFA. It is highly unlikely in the future for any of FNFA's clients since revenue streams are irrevocably intercepted for the full loan term from the payor source prior to loan release and the majority of these loans are payments from provincial governments or crowns. Hence, a failure in the intercept arrangements and/or a default of a province (or crown) would be a necessary scenario for this to happen. We highlight Canada's strong AAA rating and the senior ratings enjoyed by Canada's provinces. We also point out that FNFA does not have any single revenue stream clients.

In a revenue intercept scenario, FNFA staff would immediately contact the payor for an understanding. If the payor still refused to pay into the revenue intercept account with the SRTA manager, then a court action would be started.

The Financial Management Board, under the Legislation, has full authority to become the manager/treasurer over all of a Borrowing Member's Other Revenues, including Other Revenues that currently do not secure loans by the FNFA. The FMB can use that authority to ensure amounts due to the FNFA are repaid. The FMB's authority is under the Legislation, rather than contractual, which makes enforceability very strong. FMB staff do not do this intervention. FMB has an agreement with a national accounting firm that is an experienced intervenor to handle this function.

There is only one co-management arrangement existing in FNFA's portfolio. The co-arrangement is with St. Theresa Point, a band in Manitoba. The co-arrangement existed prior to joining the program. The co-arrangement was not related to failure to pay loan service or any liabilities, but rather related to the band asking for help in the areas of accounting and finance. The revenues servicing FNFA's loan to St. Theresa Point are coming directly from the Province of Manitoba and the Debt Service Coverage Ratio (P&I) is strong at 6.28 times. The band is in a strong operating surplus position.

Recent Changes to the FNFMA

Legislative and regulatory amendments to the FNFMA came into force on April 1, 2016 stemming from recommendations and consultations with the FNFA, FMB and FNTC to improve the regime's overall framework. The changes are expected to have a positive impact on facilitating entry of more First Nations, accelerate bond issuance and strengthen investor confidence.

Notable enhancements include:

- Allowing payments in lieu of taxation through a new fiscal power to collect fees for water, sewer, waste management, animal control, recreation, transportation and other similar services.
- Giving First Nations the power to recover costs of enforcement, including the costs for seizure and sale of taxable property.
- First Nations' Financial administration laws must meet higher requirements set by the Financial Management Board (FMB) on an ongoing basis and these laws cannot be repealed unless they are replaced by laws approved by the FMB.
- Tougher requirements on management of local revenues including their maintenance in separate accounts from all other First Nations moneys as well as separate financial reporting and auditing requirements, unless permitted by FMB to include as part of audited annual financial statements.
- Clarification of the separation and distinction of Debt Service Reserve Funds (DRF) for loans secured by property tax revenues and loans secured by other revenues. The FNFA has been given flexibility to withhold between 1-5% of the loan amount, depending on the

circumstances and in accordance with regulations. Initially, the withheld rate was set at 5%, at a higher threshold than observed in municipal borrowing practices. Some flexibility was granted with this change, but the Authority's practices are expected to remain unchanged. Clarification was also given that only Borrowing Members who have received financing can be called on to contribute to or replenish a DRF and only the DRF for their borrowing stream. There are two streams, one for Property Taxation and the other for Other Revenues. In each stream, however, Borrowing Member obligations to replenish are joint and several. Enhancement to the Act also established that the FNFA's priority over other creditors of a First Nation in the event of an insolvency arises from the date the borrowing member has received financing from the FNFA, thus strengthening its priority.

- The ability to invest sinking fund proceeds in FNFA bonds to reduce net funding costs, although, from a ratings perspective, this does not reduce the total amount of outstanding debt. The increased flexibility will also allow FNFA to manage its bonds in the secondary markets.
- Introducing a mechanism for repayment to the Credit Enhancement Fund (CEF), within 18 months, where the CEF has been used to replenish a DRF.

Credit Underwriting Process and Experience

This credit history of lending to First Nations through the First Nations Finance Authority is short as it only came into existence in 2006. More history can be found in the bank lending sector of making loans on First Nations reserves. There has not been a recorded loan default by a First Nation since at least 1970. There have been only a few known cases in the past where there was difficulty in collecting but, in those cases, either the financial institution failed to follow its own normal lending criteria or failed to properly contractually secure its position including the 'Redirection to Pay'. Banking lenders have often noted strong moral suasion and moral obligation to fulfill loan repayment requirements due to the closeness of First Nations Communities and a sense of duty and honour. We highlight that FNFA's experience to date shows a meaningful percentage of First Nations making payments ahead of schedule. In FNFA's 2016 Annual Report, the level of prepayments is shown at $5.8mln, almost a full year's interest payment ahead.

The financial strength and economic potential of First Nations communities continues to evolve in a constructive manner as evidenced by the number of First Nations that are participating in the First Nations Fiscal Management Act (FNFMA) and the growth in their own-source revenue. A total of 13 First Nations opted to participate in the FNFMA shortly after it came into force in April 2006 (i.e. original members). Today, there are 200 First Nations scheduled versus 634 First Nations across Canada.

It is estimated by Dr Dominique Collin of Waterford Strategies that own-source revenues accounted for about one-third of total revenues of participating First Nations combined, or $2.6bln, in Fiscal 2014-15. This is up from about 16% 10 years ago.

FNFA's mandate allows First Nations to access 'Long-Term Loans' or financing that is supported by two types of revenue streams: property taxation revenues and other revenues. It also offers 'Interim Financing Loans' to cover costs during construction or bridge financing until FNFA issues its next debenture. **FNFA has yet to receive a loan application which falls under the property taxation revenue stream, although the legislation was originally contemplated for this type of borrowing.**

Long-term financing or lease financing of capital assets is made for the provision of local services on reserve bands. Short-term financing for operating or capital purposes is made either in accordance with the stated purposes of paragraph 5(1)(b) of the FNFMA which relates to spending supported by Property Tax Revenues or to refinance short-term debt incurred for capital purposes. The Other Revenues Regulation outlines spending purposes for

Other Revenues (i.e. infrastructure, social and economic, land purchases, etc.).

FNFA's ratings are constrained to the upside by a lack of diversity in size, credit quality and geographic diversification of its loan portfolio. Rating agencies have taken a cautious approach to rating the FNFA given its short operating history, rapid loan growth and loan concentration issues; but these overall characteristics are expected to strengthen over time as the program grows and expands across Canada. **FNFA projects its loan portfolio to grow from about $297mln today to over $1.2bln by 2021 (Loan Growth: 2017 projected to $385mln; 2018 $515mln; 2019 $715mln; 2020 $955mln; 2021 $1.225bln).**

As a matter of practice to ensure adequate diversification and to support its strong credit ratings, the FNFA has reduced its individual loan exposures with the goal of keeping concentrations below 20%. In 2014, Membertou (largest borrower) was 24.59% of the loan pool. In July 2016, it was down to 11%.

FNFA aspires to stronger geographical distribution as currently its members are located in only eight provinces. FNFA Board Policy for minimum Debt Coverage Ratio ('DCR') of its individual Borrowing Member loans is set to at least 1.23 times, but its members are operating at much higher thresholds. While Borrowing Members must meet stringent requirement to participate in the program already, the Authority limits their borrowing to 75% of their calculated borrowing capacity (75% Rule). Should a member want their loan amount to exceed 75%, the FNFA staff do a further review of financial information/revenue stream documents before granting such loan privileges.

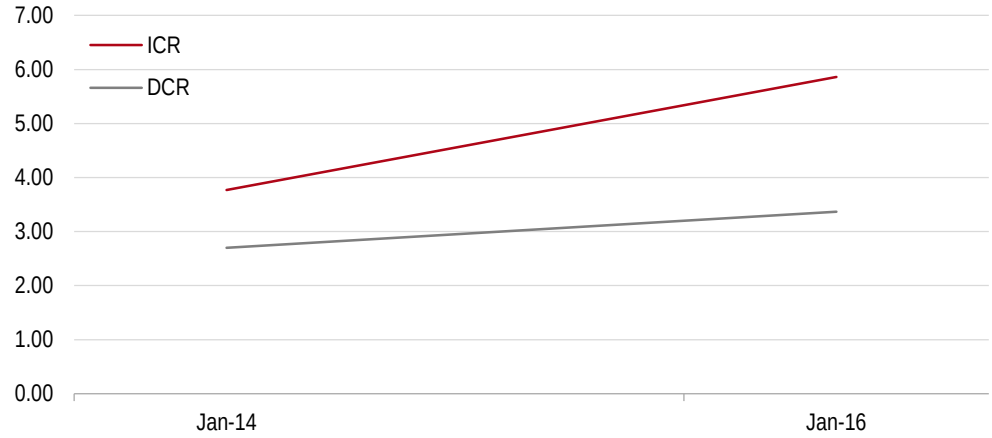
Borrowing Member loans are all in Canadian dollars and are amortizing, but have loan terms that expire ahead of full amortization and therefore must be refinanced. FNFA's borrowings are done in Canadian dollars, hence there is no foreign exchange risk assumed.

With respect to the amortization of client loans and refinancing risk, 90% of client loans have repayment terms that extend beyond FNFA's debenture maturity in 2024. These clients are given a choice to lock-in rates with an interest rate swap for their full loan term, but none have taken this since Supreme Court decisions in respect of First Nations entitlements have caused revenues to grow much faster than the national average of revenue growth for First Nations (up 2.5 times since 2005) and, therefore, First Nations generally want the option to fully payout their loans in 2024. Of those First Nations that do not payout the loan and need to refinance, because FNFA operates under a sinking-fund approach with debt service collected to include principal along with interest, any amounts refinanced would approximate 50% of the original balance. Thus, interest rates would have to double to maintain the same annual interest commitments for FNFA's clients.

Currently, the majority of FNFA's intercepted revenues are from federal and provincial grants or revenue sharing arrangements, accounting for approximately 70% of total intercepted revenues. Some risks exists with respect the cyclicality of these revenue streams or other credit factors, but in general, these are well secured. As FNFA's intercepted revenue stream contains a significant percentage of other revenues (i.e. non-government), normal credit risk factors apply. Today, business revenues include lease contracts from owned buildings that are anchored by strong national tenants. There is also a gaming business. The only existing pipeline and utility related revenues are associated with BC Hydro, Hydro Quebec and Hydro One which are provincial crowns.

In 2014-2015, the FNFA's intercepted revenues had an Interest Rate Coverage Ratio ('IRC') of 6.3 times (i.e. revenues intercepted were 6.3 times greater than the debenture's interest liability). Approximately 75% of these revenues were from federal/provincial revenue sharing agreements; the balance being contractual revenues, lease agreements and established Band businesses. At the time of the recent debenture issues, the percentage has fallen from 75% to 67%, but the coverage ratios have improved. Intercepted revenues are from Fed/Provincial sources alone have a Debt Coverage Ratio ('DCR') of 2.25 times annual debt service.

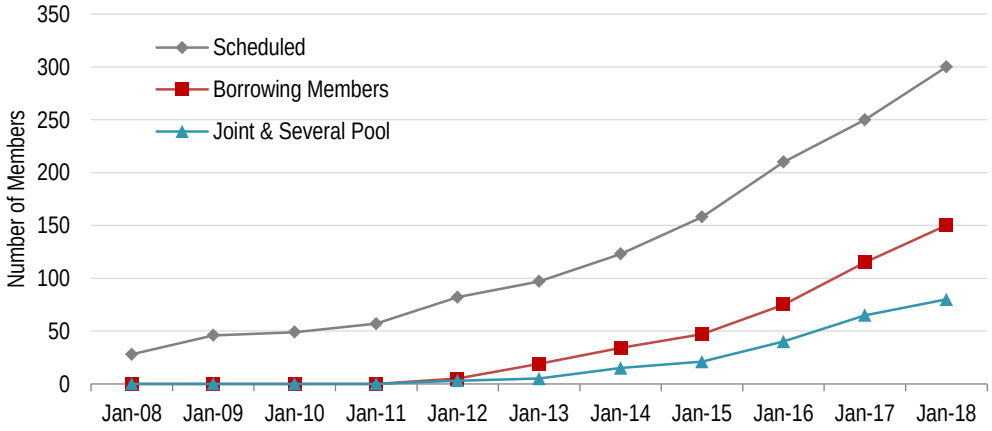
Interest Rate Coverage Ratio ('IRC') and Debt coverage Ratio ('DCR')



Source: FNFA

FNFA's lending program is projected to grow strongly in the years ahead.

FNFA Borrowing Members, Future Projections



Source:FNFA

Financial Reporting and Transparency

Canada's accounting architecture is founded on the work of several independent, volunteer bodies to establish authoritative standards of recommended or required practice. These bodies include the Public Sector Accounting Board (PSAB). PSAB issues standards and guidance with respect to matters of accounting (Public Sector Accounting Standards – PSAS), as well as financial reporting recommendations of good practice (Statements of Recommended Practice – SORPs). Their work is to serve the public interest by strengthening accountability in the public sector. The public sector refers to governments, government components, government organizations, and government partnerships. While compliance with PSASs is voluntary by the sovereign (Federal Government of Canada) and sub-sovereigns (Provinces), adherence to the PSAB requirements is legally required at the municipal level under various municipal acts. As it pertains to First Nations and their right to self-govern, reporting and transparency is voluntary by opting to participate under the First Nations Transparency Act and report under PSAB.

Successful monitoring of participating First Nations by the First Nations Finance Authority is dependent on access to financial information. The First Nations Transparency Act requires that each First Nation to which the Act applies publish on its Internet site, or cause to be published on an Internet site, the following documents within 120 days after the end of each

financial year:

- its audited consolidated financial statements
- the Schedule of Remuneration and Expenses
- the auditor's written report respecting the consolidated financial statements; and
- the auditor's report or the review engagement report, as the case may be, respecting the Schedule of Remuneration and Expenses

These documents must remain accessible to the public on an internet website, for at least 10 years.

The Act further states that the Minister of Aboriginal Affairs and Northern Development must publish these same documents on the departmental website "without delay after the First Nation has provided him or her with those documents or they have been published."

First Nations do not have interim reporting requirements.

With respect to the First Nations Finance Authority, it has to file an annual report before July 31 of each year, within 120 days after year end (Section 88 of the Act). There are no interim reporting requirements, but Management is actively engaged in providing investors with regular updates.

First Nations Finance Authority

Statement of Financial Position ($)			Statement of Operations and Accumulated Surplus		
As at March 31			Year ended March 31		
	2016	2015		2016	2015
Financial Assets			Revenue		
Cash and cash equivalents	2,165,305	2,236,568	Grants and contributions	2,227,975	2,078,349
Credit Enhancement Fund Assets	10,000,000	10,000,000	Interest from members	6,279,163	2,900,775
Investments	14,673,314	5,210,024	Investment income	409,233	128,185
Loans to members	246,022,335	103,366,625	Management fees	84,220	41,614
Restricted cash	6,169,524	2,372,949	Total	9,000,591	5,148,923
Other		0			
Total	279,030,478	123,186,166	Expenses		
			Interest on financing	5,863,938	2,749,379
Liabilities ($)			Professional fees	491,076	411,331
Interim financing	109,840,118	17,736,000	Salaries and benefits	885,190	779,432
Debenture financing	138,691,915	87,085,455	Financing fees	256,033	463,780
Other	19,887,104	8,199,183	Operation and management	357,385	443,551
Total	268,419,137	113,020,638	Other	566,074	428,831
			Total	8,419,696	5,276,304
Net Financial Assets	10,611,341	10,165,528			
			Surplus/Deficit*	580,895	-127,379
Non-Financial Assets	301,013	165,931			
			Accumulated surplus, beginning	10,331,459	10,458,838
Accumulated surplus	10,912,354	10,331,459	Accumulated surplus, end	10,912,354	10,331,459

Source: FNFA Financial Statements

Canada's Political System and First Nations

Canada's political system is a Westminster-style democracy with a federal system of parliamentary government. Canada is a constitutional monarchy in which the Queen or King is recognized as the head of state. Since February 6, 1952, the Canadian monarch has been Queen Elizabeth II, who is represented by the Governor General. The federal system is a union of partially self-governing regions, known as provinces (i.e. sub-sovereigns), under a central (federal) government (i.e. sovereign) where there is a division of power between the federal government and the provinces.

Canada has three main levels of government: federal, provincial (and territories), and municipal. The Constitution Act, signed in 1867, defines their respective powers, some of which are shared. While territories and municipalities have their own governments, they are not considered sub-sovereigns as they have no legislative authority to determine their powers and responsibilities. The responsibilities of the three territories are granted to them by the federal government while the responsibilities of municipal governments are granted by their respective provincial governments.

Under the constitution, the federal government has jurisdiction over: national defence, foreign affairs, employment insurance, banking, federal taxes, the post office, fisheries, shipping, railways, telephones, pipelines, aboriginal lands and rights, and criminal law. The federal government re-distributes wealth among the provinces through a system of equalization payments (i.e. extra money) given to provinces that are less wealthy, thus ensuring that the standards of health, education and welfare are the same for every Canadian.

The provinces have powers over: direct taxation, health care, prisons, education, some natural resources, marriage, road regulations and property and civil rights. Power over

agriculture and immigration is shared between the federal and provincial governments.

Municipalities are responsible for areas such as libraries, parks, community water systems, local police, roadways and parking, receive their authority from the provincial governments. Across the country there are also band councils, which govern First Nations communities. These elected councils are similar to municipal councils and make decisions that affect their local communities and operate under a framework of right to self-government or self-determination.

Aboriginal self-government is specifically referred to governments designed, established and administered by Aboriginal peoples under the Canadian Constitution through a process of negotiation and, where applicable, the provincial or territorial government.

History of Canada's First Nations

According to the last census (2011), there were approximately 1.4 million indigenous people living in Canada (status and non-status), representing just over 4% of Canada's 34.3 million population at that time. The indigenous count included 851,000 First Nations, 451,000 Métis, and 59,000 Inuit. A Canadian status indigenous person is a legal term referring to any First Nations individual who is registered with the federal government or a band which signed a treaty with the Crown. Many indigenous First Nations Canadians live on reserves, an area of land in which the legal title is held by the Crown, but is set apart for the use and benefit of a First Nations band.

First Nations lived in Canada for thousands of years before the arrival of the Europeans in the eleventh century. These First Nations were able to satisfy their material and spiritual needs through the resources of the natural world surrounding them. Historians tend to group Canada's First Nations into six main geographic areas of the country as it exists today:

- Woodland First Nations, who lived in dense boreal forest in the eastern part of the country
- Iroquoian First Nations, who inhabited the southernmost area, a fertile land suitable for planting corn, beans and squash
- Plains First Nations, who lived on the grasslands of the prairies
- Plateau First Nations, whose geography ranged from semi-desert conditions in the south, to high mountains and dense forest in the north
- Pacific Coast First Nations, who had access to abundant salmon and shellfish and gigantic red cedar trees used for building houses
- First Nations of the Mackenzie and Yukon River Basins, whose harsh environment consisted of dark forests, barren lands, and the swampy terrain known as muskeg

Within each of these six areas, First Nations had very similar cultures, largely shaped by a common environment. They tended to function on the basis of a complex system of government based on democratic principles.

Today, the relationship between First Nations and the government is based on a broad collection of treaties covering pre-confederation, peace, and friendship treaties, as well as post-confederation or numbered treaties. In more recent history, there are also 'Modern Treaties', with the first one historically documented in the mid-1970s. Modern treaties have been entered into to satisfy comprehensive or specific land claim rights of Aboriginals that were not addressed by previous treaties, or by other legal means.

Aboriginal peoples, under the treaties, are recognized as the descendants of the original inhabitants of North America. The Canadian Constitution recognizes three groups of Aboriginal people with unique heritages, languages, cultural practices and spiritual beliefs. These are the Indians, Métis and Inuit. The term 'First Nation' came into usage in the 1970s

and is widely used today to replace the word ‘Indian’ or ‘band’, although it is not a term that is legally recognized.

An historic Canadian settlement in the right to self-government was achieved in 2006, after 16 years of legal negotiations challenging the authority of the federal government. The agreement resulted in the transfer of $350mln in energy royalties to the Samson Cree. The money was placed in an independent trust fund (‘Kisoniyaminaw Heritage Trust’). It was the first time an Indian group was successful in seizing its own moneys and setting up a trust to which it had power of trustee and control of its own assets. The settlement also saw the removal of the federal government as trustee of all energy royalties for the Samson Cree and Ermineskin, two bands located on the Hobbena reserve in central Alberta.

"Control of our heritage trust moneys is a major step forward for the present and future generations of Samson Cree Nation members, and an important recognition of our Treaty 6 rights," said Chief Victor Buffalo.

Additional Sources

- Government of Canada, FNFMA Act
- FNFA website
- Indigenous and Northern Affairs Canada
- The Canadian Press

CIBC Capital Markets

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www.cibcmacro.com

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Special Report

August 8, 2016

Accounting for Government Transfers – Interpretations and Audit Opinions

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Reviews of the 2014-15 Public Accounts (and 2015-16 when available) reveal some interesting findings with respect to accounting treatment for government transfers. Below we discuss some of these findings, which demonstrate that additional work is needed to obtain more consistent practices in order to render financial statements comparable.

Preparation of the Public Accounts

The Annual Statements of Public Accounts for the Government of Canada are accompanied by a Statement of Responsibility that is signed by the Secretary of the Treasury Board of Canada, Deputy Minister of Finance, Deputy Receiver General for Canada, and Comptroller General of Canada. Each Canadian province (sub-sovereign) is held to account on a similar basis.

The Government of Canada's annual consolidated statements are independently audited by the Auditor General of Canada. The Auditor General also audits the accounts of the Canadian territories, as they are not sovereigns and fall under the jurisdiction of the federal government. The provinces, however, each have their own independent auditor generals.

The federal and provincial governments prepare their financial statements according to Public Sector Accounting Standards (PSAS), as well as financial reporting recommendations of good practice (Statements of Recommended Practice – SORPs). PSAS is authoritative, while SORPs are non-authoritative guidelines. Compliance with PSAS is voluntary at the sovereign and sub-sovereign levels. Municipal governments, on the other hand, must comply with the requirements of the PSAB standards as stipulated in their enabling legislation.

Canadian sovereign and sub-sovereign governments can pass enabling legislation that prescribes specific accounting approaches that are not necessarily in line with the PSAB standards. When this occurs, the legislation may allow a government to meet the requirements for an unqualified or unmodified audit opinion, as the auditor is then opining under a different compliance framework.

Unqualified Opinions vs. Qualified Opinions

We reviewed the Auditor General's audit report of the Government of Canada's consolidated financial statements for fiscal 2014-15 and note that it received an unmodified audit opinion from the Auditor General of Canada for the seventeenth consecutive year.

At the provincial level, the majority of Canada's provinces have received unqualified opinions except for the provinces of British Columbia, Québec, and New Brunswick. But, as we discuss below, an unqualified opinion does not necessarily equate to a stronger level of assurance when the distinction between a qualified and unqualified opinion is a matter of judgment and there is a large measure of diversity in practice.

In British Colombia, the Auditor General states as its 'Basis for Qualified Opinion' (Fiscal 2015-16 statements) the inappropriate deferral of revenues as follows:

"Government's accounting treatment for funds received from other governments, and for

externally restricted funds received from non-government sources, is to initially record them as deferred revenue (a liability), and then recognize revenue in the statement of operations either on the same basis as the related expenditures occur, or – in the case of funds for the purchase or construction of capital assets – to recognize revenue on the same basis as the related assets are amortized. In this respect, the summary financial statements are not in accordance with Canadian public sector accounting standards, which require that (i) transfers from other governments be recorded as revenues, except when the transfer meets the definition of a liability for the recipient government, and (ii) externally restricted funds received from non-government sources be recorded as revenue in the period in which the funds are used for the purpose(s) specified." ***In this instance, one of the issues the auditor general is focused on is 'recipient capital transfers', and the definition of a liability.***

With respect to Québec, its auditor general states in its Basis for Qualified Opinion that, "The Government of Québec did not record as at March 31, 2015 and 2014, in the consolidated statement of financial position, government transfers related to different assistance programs for the construction of tangible capital assets and other expenditures that are financed or are to be financed by loans for which the work has been completed. These government transfers are currently reported as contractual obligations in a note to the consolidated financial statements. This situation constitutes a departure from the accounting standard for government transfers (Canadian public sector accounting standards), which states that subsidies are recognized when they are authorized by the government as a result of the exercise of its enabling authority, and when all eligibility criteria have been met by the recipients."

Québec's auditor general is not so much focused on the accounting issue of 'recipient capital transfers' and the definition of a liability, but rather on the issue of 'authority to pay', which is another accounting grey area. The PSAB 3200 Liabilities standard provides guidance on what a constructive obligation is to meet the criteria to record a liability and the guideline allows a government to have a recorded liability before it provides all legal approvals, but exactly where this line is in each jurisdiction is different and a matter of judgment.

On the issue of 'recipient capital transfers' and the requirement to meet the definition of a liability, as per British Columbia's qualified opinion, the concept of a liability is much more difficult to define in public sector accounting compared to private sector accounting. The differing interpretations are leading to different accounting treatments.

As we dug deeper into this accounting issue, we found that in contrast to British Columbia, Alberta and Ontario received a pass by their auditor generals on the basis of deferring revenues. In Alberta, grants for capital purposes and donated assets are deferred and recorded in revenue over the useful life of the tangible capital assets. The Auditor General is of the view that what defines a liability is, in the case of a hospital for example, the contractual commitment to provide health services, and not the completion of the construction project itself.

Meanwhile, Ontario's explanatory notes state that, "Deferred capital contributions represent the unamortized portion of tangible capital assets or liabilities to construct or acquire tangible capital assets from specific-purpose funding received from the Government of Canada, municipalities or third parties. Deferred capital contributions are recorded in revenue over the estimated useful life of the underlying tangible capital asset once constructed or acquired by the Province. Most federal transfers have been reclassified to deferred capital contributions."

The PSAB standard on government transfers (PS 3410) stipulates that grants are to be recognized as revenue in the period during which the transfer is authorized and eligibility criteria are met, except when and to the extent that the transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers meeting the definition of a liability are recognized as revenue as the liability is settled. That is where we enter a 'grey area', as judgment is rendered as to what constitutes a liability according to the contractual provisions

of each grant.

It is interesting that while several provinces are deferring recognition but are getting different audit opinions, most local governments (i.e. cities, municipalities) choose not to defer. Principal explanations for this are that municipalities in their budget planning exercises count on grants to meet balanced budget requirements and are more accustomed to a 'cash basis' approach to fiscal management. Grants could either be for operational purposes, for which immediate recognition is easily justified, for capital purposes or, in some cases, unspecified.

It took almost a decade to develop PS 3410. The standard was established to provide some flexibility for interpretation in order to accommodate the differing circumstances and perspectives of the various stakeholder groups – predominantly the preparers.

The Dilemma From Financial Statement Users' Perspective

The problem with Transfer Accounting from a financial statement user's perspective is that the financial statements are being prepared differently for the financing of the same types of assets (i.e. hospitals, transit, etc.). Consequently, the financial statements are lacking comparability.

We draw a parallel with this dilemma to the IASB project on leases that led to the issuance of a new IASB Lease Standard – IFRS 16 – earlier this year.

From *IASB Shines Light on Leases by Bringing them onto the Balance Sheet* (published January 13, 2016): "The International Accounting Standards Board today issued a new accounting Standard, called IFRS 16 Leases. It replaces accounting requirements introduced more than 30 years ago that are no longer considered fit for purpose, and is a major revision of the way in which companies account for leases."

The new lease standard eliminates the arbitrary off-balance sheet treatment of operating leases, instead requiring them to be recognized on-balance sheet. Under the old method of having only 'finance leases' on balance sheet, it was difficult to compare companies in similar industries (i.e. airline, retail, transport).

Arguments For and Against Deferral

There are strong arguments on either side of the deferral or non-deferral issue. No matter what path this accounting issue progresses on, it is evident that another conceptual framework, along with revised standards and guidelines, is needed to reduce diversity in practice and render financial statements more directly comparable.

There are many arguments for and against the deferral of revenue from capital grants, and stakeholders are polarized in their views. Arguments in favour of deferral include:

- The funding is for long-life capital assets.
- The approach is consistent with the private sector accounting approach. Importantly, institutional investors who buy government debt securities are the same investors who buy the debt securities of private sector corporations, and they would expect to see a conceptual framework of accounting that is consistent for both groups.
- Government assets can be revenue-producing (i.e. power generation facility) or non-producing (public road), but in the case of non-producing, tax-payer revenues are the de facto revenue source. The deferral of revenue and capitalization of costs achieves better matching of revenues and expenses, as the assets are depreciated over their useful life.
- Immediate recognition of capital grants can give rise to revenue volatility as capital plans and government grants vary from year to year.
- Immediate recognition of capital grants can have a masking effect on fiscal results. Grants can fill gaps when underlying trends in fundamental own-source revenues, such as corporate, personal and sales tax, are weak; and
- Deferring of grant revenue reduces the risk of revenue uncertainty should the transferee fail to meet its obligations to the transferring government.

Proponents for non-deferral of revenue cite the following arguments:

- Financial statements for governments are not aimed at 'sophisticated' investors that are evaluating the possible return of investing in a business and its prospects of increasing wealth to shareholders. They are instead explaining to taxpayers (and legislators) what elected politicians and public service figures have done with their money (i.e. taxes, etc.) in providing public services on an annual basis. Thus, the cycling of sources and uses of funds through the income statement is a more practical approach. Public sector accounting in general and historically has tended to emphasize the income statement rather than the balance sheet. Budgeting cycles are more in tune with this income statement approach and there is more comfort with looking at things from a cash perspective (i.e. budgeting for cash in and cash out). Therefore, moving the definition of 'revenue grants' to an asset and liability based definition would shift the focus to the balance sheet.
- Emphasis on sources and uses of funds within the fiscal period holds governments to account for their spending. Whereas businesses try to earn profits and grow wealth, governments have unaccountably spent more than they take in and, in fact, have lowered government (i.e. taxpayers', and future taxpayers') wealth through borrowing.
- A corporation can justify capitalizing and amortizing expenditures on a one-time expense basis to build an asset that will generate revenue over a long period of time (i.e. an auto plant). Government capital spending, on the other hand, is fairly consistent over time, so this rationale is less relevant. While there is an argument that better infrastructure leads to higher income (i.e. GDP, economic growth), there is no direct income from the asset to 'match' the amortization expense. *[Although there are exceptions to this argument, such as capital spending to build revenue-producing assets, i.e. a power generation plant, a gas distribution facility, or toll roads.]* Moreover, infrastructure leads to higher maintenance and operating costs, a factor which is often absent or downplayed when decisions to build more assets are made, and this has implications for operating and maintenance budgets several years out.
- The provision of public services includes both operating costs (primarily salaries and grants to various ministries) and capital costs associated with adequate and safe infrastructure. These are integral and inseparable to the provision of public services and, therefore, should not be treated differently under accounting. There is no difference between investing in a hospital facility or in human capital (i.e. doctor or nurse) in order to provide public services.
- Does it make sense to capitalize assets only to recognize revenues later according to an arbitrary amortization allocation schedule? ***This point leads to another option for transfer revenue, the concept of netting revenues against capital costs in the fiscal period in order to reduce the carrying value of the tangible capital asset. This option would neutralize the issue of deferral versus non-deferral, but would affect the balance sheet value of tangible capital assets.***
- When the capital grant is for a project that requires the design, construction, operation and maintenance of a facility for specific services, the operation and provision of services over many years defines the liability as much as the construction of the facility. The provision of healthcare and education to citizens, with both capital and operating components, is necessary to fulfill the liability, yet there is no recognition of liability for the operating portion. The deferral of the capital grant for the design and build of the facility leads to a non-symmetrical or inconsistent accounting treatment.

An important side discussion to the issue of deferral and non-deferral is the related treatment of tangible capital assets in the calculation of net debt. Most credit rating agencies or other stakeholders assess governments on the basis of net financial assets, not tangible capital assets, because most assets of governments are not readily saleable for their stated value and are difficult to sell (i.e. roads, bridges, hospitals, schools, etc.). As such, a government's

net financial asset or debt position as reported under PSAB is not reduced by the value of tangible capital assets. This way of presenting net debt, which is used in calculating net debt-to-GDP or net debt-to-revenues, is viewed as a more meaningful metric in evaluating a government's sustainability. The exclusion of tangible capital assets is in contrast to private sector accounting where tangible capital assets are presented on the balance sheet and are factored into the measurement of shareholders' equity and credit metrics such as net asset coverage of outstanding debt (i.e. real estate property development and management company). Another difference is that these assets are recorded at fair value whereas governments record their tangible capital assets at cost.

PSAB and IPSASB Involvement

As one would expect, transfer accounting is a hot accounting issue. It has been an important topic at past PSAB Discussion Group meetings, a regular public forum at which issues arising on the application of the CPA Canada Public Sector Accounting (PSA) Handbook are discussed. PSAB is currently working on a new Conceptual Framework (CF). The CF project started a few years ago, and is expected to be finished by 2020 as articulated in the Board's new Strategic Plan. The new CF and potential future developments may resolve this contentious issue.

At the international level, the International Public Sector Accounting Standards Board (IPSASB) is currently tackling this issue as well and their work could inform the work at PSAB. The IPSASB standard, IPSAS 23, Revenue from non-exchange transactions (taxes and transfers), deals only with the aspect of grants from the recipient side. IPSASB is now looking to broaden their standard to encompass the grantor side. Two active projects that could affect accounting for government transfers are:

- Revenue, which covers exchange and non-exchange transactions. The objective of this project states: "The scope of this project is to develop new standards-level requirements and guidance on revenue to amend or supersede that currently located in IPSAS 9 (Revenue from exchange transactions), IPSAS 11 (construction contracts) and IPSAS 23, Revenue from non-exchange Transactions." *https://www.ipsasb.org/projects/revenue*
- Non-Exchange Expenses, which considers issues related to providing transfers from the grantor perspective. *http://www.ipsasb.org/projects/non-exchange-expenses*

PS 3410 – Government Transfers

Section PS 3410 – Government Transfers (revised 2010) in the CPA Public Sector Accounting Handbook establishes standards on how to account for and report government transfers to individuals, organizations and other governments from both a transferring government and a recipient government perspective. Government transfers are transfers of monetary assets or tangible capital assets for which the transferring government does not:

- Receive any goods or services directly in return, as would occur in a purchase/sale or other exchange transaction
- Expect to be repaid in the future, as would be expected in an investment, or
- Expect a direct financial return, as would be expected in an investment

PSAB has undertaken a post-implementation review of Government Transfers, Section PS 3410, to review the reasons for the diverging interpretations. The comment period deadline was May 15, 2015, and the post-implementation review results were presented to PSAB at the December 2015 meeting.

Prior to the post-implementation review, PSAB had cautioned that stakeholders should not expect or conclude that the current standard will be modified as a result of the post-implementation review. PSAB also asserts that it considers the authorization provisions in the standards to be clear, but given the various types of transfers, the need for professional

judgment is acknowledged.

At the March 23-24, 2016 board meeting, PSAB approved a feedback statement on the post-implementation review of Section PS 3410. In response to its findings, PSAB decided to explore whether an authoritative accounting guideline will help to clarify interpretations of the standard, and reduce diversity in practice. At the board meeting on June 16-17, 2016, PSAB considered issuing an accounting guideline to clarify interpretations of Section PS 3410, Government Transfers. After considerable deliberation, PSAB concluded that Section PS 3410 is a principles-based standard. On balance, it meets the original public interest objectives. Issuing an accounting guideline would not be the right approach because it could be perceived as overriding due process. Given the other priorities of PSAB, it was decided that it would not be appropriate to initiate a new project to amend Section PS 3410. PSAB plans to communicate considerations that led to this conclusion.

In the initial development of the standard, stakeholders had polarizing views of how recipient capital transfers should be treated. The post-implementation review confirmed that these views have not changed.

Federal Support to Provinces and Territories by Fiscal Year

Fiscal Year *C$mln*	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Major Transfers[1]										
Canada Health Transfer[2]	21,729	22,768	24,476	25,672	26,952	28,569	30,283	32,113	34,026	36,068
Canada Social Transfer[3]	9,607	10,552	10,857	11,179	11,514	11,859	12,215	12,582	12,959	13,348
Equalization[4]	12,925	13,462	14,185	14,372	14,659	15,423	16,105	16,669	17,341	17,880
Offshore Offset Payments[5]	563	663	645	869	787	443	350	196	125	49
Territorial Formula Financing[6]	2,279	2,313	2,498	2,664	2,876	3,111	3,288	3,469	3,561	3,603
Total Transfer Protection[7]	-	-	-	525	952	680	56	-	-	-
Additional payment[8]	-	-	74	-	-	-	-	-	-	-
Total - Federal Support	47,102	49,758	52,736	55,281	57,739	60,085	62,297	65,029	68,013	70,948
Change	-	*5.6%*	*6.0%*	*4.8%*	*4.4%*	*4.1%*	*3.7%*	*4.4%*	*4.6%*	*4.3%*
Per Capita Allocation (dollars)	*1,434*	*1,499*	*1,570*	*1,628*	*1,683*	*1,731*	*1,774*	*1,832*	*1,899*	*1,961*
Change	-	*4.5%*	*4.7%*	*3.7%*	*3.4%*	*2.9%*	*2.5%*	*3.3%*	*3.7%*	*3.3%*

[1] The advance Fiscal Stabilization payments to Newfoundland and Labrador ($31.7mln) and to Alberta ($251.4mln) for 2015-16 are not included. One-time recoverable payments to Ontario ($150mln) and Prince Edward Island ($1mln) for 2011-12 are not included either.

[2] Canada Health Transfer includes transition protection payments from 2007-08 to 2008-09. It includes Canada Health Transfer transition protection payments to Newfoundland and Labrador and Nunavut in 2014-15. It also includes separate payments to Ontario in respect of the Canada Health Transfer for 2009-10 ($489mln) and 2010-11 ($246mln) to ensure Ontario receives the same Canada Health Transfer cash support as other Equalization-receiving provinces.

[3] Canada Social Transfer includes transition protection payments from 2007-08 to 2009-10. It excludes $31.9mln from Budget 2008 transition protection payments to Saskatchewan ($31.2mln) and Nunavut ($0.7mln) notionally allocated over five and three years respectively beginning in 2008-09.

[4] Includes payments and additional amounts. Also includes 2009-10 transitional Equalization protection to Nova Scotia and Manitoba. From 2007-08 onward, reflects the 2007 formula for all provinces except Newfoundland and Labrador (NL) which remained under the previous Equalization formula until 2010-11, when NL elected to enter into the 2007 Equalization formula.

[5] Offshore Offset Payments include cash amounts from the 1985 and 1986 Accords and cash and notional amounts from the 2005 Arrangements. Includes $37mln in 2015-16 and $33mln in 2016-17 in 2005 Arrangements. Also include $83mln in 2011-12, $297mln in 2012-13, $260mln in 2013-14, $131mln in 2014-15, $88mln in 2015-16 and $16mln in 2016-17 in Cumulative Best-of Guarantee payments to Nova Scotia.

Cumulative Best-of Guarantee payments in 2016-17 are preliminary.

[6] Subject to approval by Parliament, TFF payments include an additional $67mln to Yukon ($17mln), Northwest Territories ($24mln), and Nunavut ($26mln) in 2016-17, stemming from the legislative amendments to be proposed to enhance the stability and predictability of the program.

[7] Total Transfer Protection was provided between 2010-11 and 2013-14 to ensure that a province's total major transfers in one of these years are no lower than in the prior year.

For the purpose of calculating Total Transfer Protection, total major transfers comprise Equalization, Canada Health Transfer, Canada Social Transfer and prior year Total Transfer Protection.

[8] 2009-10 transition adjustment payment to Nova Scotia ($74mln).

Source: Department of Finance

Federal Support by Province and Territory

	BC		AB		SK		MB		ON		QC	
Fiscal Year *C$mln*	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17
Canada Health Transfer	4,446	4,716	3,980	4,245	1,076	1,145	1,227	1,304	13,089	13,867	7,844	8,300
Canada Social Transfer	1,693	1,745	1,516	1,571	410	424	467	482	4,985	5,132	2,987	3,072
Equalization	-	-	-	-	-	-	1,738	1,736	2,363	2,304	9,521	10,030
Offshore Offset Payments	-	-	-	-	-	-	-	-	-	-	-	-
Territorial Formula Financing	-	-	-	-	-	-	-	-	-	-	-	-
Total Transfer Protection	-	-	-	-	-	-	-	-	-	-	-	-
Additional payment											-	-
Total - Federal Support	6,139	6,461	5,496	5,817	1,486	1,568	3,432	3,522	20,437	21,303	20,352	21,402
Change	-	*5.2%*	-	*5.8%*	-	*5.5%*	-	*2.6%*	-	*4.2%*	-	*5.2%*
Per Capita Allocation (C$)	1,312	1,366	1,312	1,366	1,312	1,366	2,658	2,694	1,483	1,532	2,465	2,571

	NB		NS		PE		NF		YK		NT		NU	
Fiscal Year *C$mln*	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17
Canada Health Transfer	716	754	896	943	139	147	502	528	35	38	42	44	35	37
Canada Social Transfer	273	279	341	349	53	54	191	195	14	14	16	16	13	14
Equalization	1,669	1,708	1,690	1,722	361	380	-	-						
Offshore Offset Payments	-	-	125	49	-	-	-	-	-	-	-	-	-	-
Territorial Formula Financing	-	-	-	-	-	-	-	-	874	895	1,233	1,220	1,454	1,489
Total Transfer Protection	-	-	-	-	-	-	-	-						
Additional payment	-	-	-	-	-	-	-	-						
Total - Federal Support	2,658	2,741	3,051	3,063	553	582	693	723	923	947	1,290	1,280	1,502	1,540
Change	-	*3.1%*	-	*0.4%*	-	*5.2%*	-	*4.3%*	-	*2.6%*	-	*-0.8%*	-	*2.5%*
Per Capita Allocation (C$)	3,526	3,626	3,236	3,240	3,780	3,940	1,312	1,366	24,711	24,764	29,319	28,894	40,821	41,060

NB: Important notes to this table can be found at the Department of Finance web-site https://www.fin.gc.ca/fedprov/mtp-eng.asp
Source: Department of Finance

Federal Transfers Heading Higher

The level of federal government transfers for infrastructure is expected to increase in the years ahead as the Liberal government delivers on its pledge to stimulate the economy through deficit spending. A total of $120bln is earmarked over the 10-year infrastructure plan. During last year's election campaign, the Liberals pledged $60bln of additional infrastructure spending, effectively doubling the infrastructure investment program assumed from the former Conservative government.

In January, at a Toronto Region Board of Trade event, Federal Minister of Infrastructure and Communities, Amarjeet Sohi, released some preliminary details of a two-phase approach to infrastructure investment which will underpin the comprehensive 10-year infrastructure plan. The $60bln dollars of additional spending will be allocated evenly – $20bln each – between public transit, social infrastructure, and green infrastructure (Macro Strategy *Federal Stimulus to Deal First with Infrastructure Backlog*, January 22, 2016). Federal participation in infrastructure projects will be up to 50% (up to 75% in the territories). Phase I of the plan entails $11.8bln in spending, including $3.4bln for the Public Transit Infrastructure Fund (allocation based on ridership), and $2bln for the Clean Water & Wastewater Fund (allocation based on a per-capita basis, in addition to $50mln for each province and territory). Phase 2 details will be announced within the next year.

Federal Infrastructure Plan $120bln

Phase 1: Infrastructure funding		
Green	Social	Public Transit
Supporting a resilient and strong Canadian economy by creating jobs and business opportunities, promoting sustainable development and reducing greenhouse gas emissions.	Investing in Canada's communities by funding social infrastructure to promote inclusive growth and lift more Canadians, including children and seniors, out of poverty.	Connecting people and supporting strong and sustainable communities by improving reliability, efficiency, safety and accessibility of public transit systems.
$5bln	$3.4bln	$3.4bln
• Modernize water and wastewater infrastructure, including First Nations communities • Improve alternative transportation fuel infrastructure • Faster regional electricity cooperation	• Affordable housing • Early learning and childcare • Cultural and recreation infrastructure • Community healthcare facilities on reserves • $1.2bln tailored for First Nations communities	• Refurbish or purchase transit vehicles • Replace or enhance transit stations • Support designs and plans to improve public transit systems
Streamline and Improve Existing Programs		
• Create flexibility for highway and road projects across Canada • Commit all remaining funding within the next two years	• Expand funding categories to include: culture, recreation, tourism, civic assets, passenger ferries • Reduce administrative burden through removal of P3 screen	
Phase 2: Details to be announced within the next year		

Source: Infrastructure Canada http://www.infrastructure.gc.ca/plan/index-eng.html

During his speech, Minister Sohi made reference to the 2016 Canadian Infrastructure Report Card, which estimates the value of core municipal infrastructure assets at $1.1tln, of which nearly 35% ($385bln) is in fair, poor or very poor condition, and therefore in need of attention. This compares to the 2012 report card, which shows a 30% infrastructure deficit with a total estimated replacement cost of $172bln. Minister Sohi noted that the study warns that, at current reinvestment rates – which are lower than recommended – national infrastructure will continue to deteriorate.

Proponents who argue against the deferral of transfer revenue worry that the new federal infrastructure program will mean receiving and spending hundreds of millions of dollars, but not reporting it in the income statement until each related project is completed. It could take several years to commence income recognition and then it would occur over a long period of time as the income is amortized into revenue. On this basis, it would be difficult for taxpayers to understand the implications of the federal government's infrastructure funding program on the financial statements.

Other PSAB Initiatives

P3 Accounting

In other public sector accounting developments, PSAB approved a project proposal to develop a standard on public private partnerships at its December 14-15, 2015 meeting. In our September 2015 issue of Canadian Government Central, we provided an overview of P3 accounting issues and developments at the international level. Click here for report.

Employee Benefits

Shared-Risk Retirement Benefit Arrangements are a relatively new development, and accounting standards have not kept pace with the rate of change. Modifications to employment benefit plans at the provincial level have taken on many forms, including joint sponsorship, contingent indexing, changes to contribution rates – all with the objective of fostering the long-term sustainability of these plans while addressing rising fiscal pressures.

The Auditor General of New Brunswick wrote, "Public Sector Accounting Standard on pensions (PS 3250 – Retirement Benefits) does not fully address unique arrangements such

as shared risk pension plans. PS 3250 also states that, 'because benefit plans are often complex, careful analysis and professional judgment are needed to determine whether the substance of particular plan makes it a defined benefit or a defined contribution plan.'"

New Brunswick is the third province we listed as having a qualified opinion. The province was flagged for their 'defined contribution accounting' approach. In March 2015, New Brunswick transitioned its four largest defined benefit pension plans to a shared risk model (i.e. target benefit plans) in order to improve the plans' long-term "sustainability, affordability and security while ensuring inter-generational fairness." The plans represented about 95% of its pension liabilities. New Brunswick's Auditor General concluded, however, that the "financial statements do not reflect the risk inherent in the design of a Shared Risk Pension Plan." In the end, the Auditor General concluded that there was not enough analysis done to justify a change in accounting treatment from defined benefit to defined contribution, whereby the province could de-recognize its obligations in the financial statements. It is the first time in 17 years that New Brunswick has received a qualified opinion.

The issue of shared risk plans was first discussed at the PSAB Discussion Group forum on January 15, 2015. PSAB established an Employment Benefits Task Force in the fall of 2015 and has approved a project. It will be issuing an Invitation to Comment (ITC) on the scoping of the project later this year.

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December 8, 2016

What Are International Investors Saying?

In this issue, we provide an overview of the investor feedback gleaned from our meetings in **Europe** and **Asia**. Types of accounts we met with included multi-lateral organizations, central banks, foreign reserve agencies, commercial banks, life insurance companies, general insurance companies, and asset management firms. Investor client meetings covered a wide range of single- and multi-currency mandates, as well as active benchmarked, total return and buy-and-hold types.

The investor base for Canadian government securities continues to broaden. We held meetings with several investors who were looking to add exposure to Canada for the first time and extending term at current higher interest rate levels. This is coinciding opportunistically with several provinces increasing their international borrowing programs. The province of Alberta, for example, completed its US SEC registration and, in its recent second quarter Fiscal 2016-17 update, announced a Fiscal 2017-18 borrowing requirement of $19.8bln, targeting 30-40% internationally. This is up from the 'outside Canada' target range of 20-30% that was articulated in 2015. Alberta issued its first fully SEC-registered global bond debt offering on December 1 (1.9% Dec 6, 2019).

Key topics of interest to investors were:

- Trump win and implications for Canada, including NAFTA and Softwood Lumber
- Implications of Trump win on the US's AAA ratings
- Canada/US monetary policy, rates and foreign exchange outlook
- Inflation (RRBs vs. TIPs)
- Québec sovereignty risk in light of Brexit
- Canadian economy and Federal fiscal position
- Federal infrastructure spending initiatives
- Canadian housing market risk and implications of recent regulatory developments, particularly on Vancouver and Toronto
- Energy sector outlook (oil, gas, pipeline, LNG)
- Provincial economies, fiscal positions and borrowing programs
- Alberta wildfires impact
- Manufacturing in Ontario and the rest of Canada (and competitive tax structure)
- Canadian political and institutional framework
- Government credit ratings and rating agency views
- Government spread product performance, trade flows, outlook and top sector picks
- Canada Mortgage Bond Program
- Canadian household credit
- Municipal bond sector
- Impact of Equity Synthetic Swaps on CMBs

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Market Environment

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Credit Fundamentals

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Fiscal Developments Tracker

- Fiscal Updates: CAN, BC, AB, SK, ON, NB, NL.
- F2015-16 Public Accounts: Canada, BC, AB, SK, MB, ON, QC, NB, NS, PEI and NL.

Denotes events that have taken place

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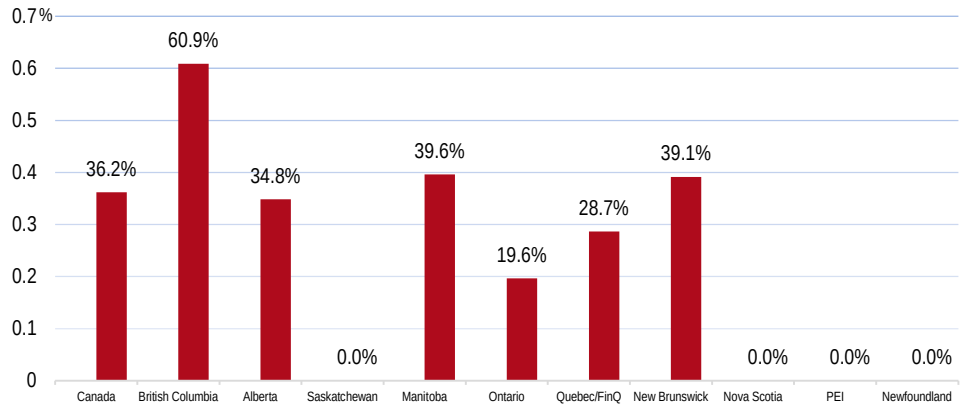
Provincial Non-Domestic Borrowings — Fiscal 2016-17 (YTD)



Source: Provincial budgets and fiscal updates, CIBC Capital Markets.

Investor Feedback

Political and Market Expectations

- Most accounts were surprised by the Trump win, and questioned why the polls and media were so wrong in predicting the outcome.
- Accounts wondered if Canada was expecting a wave of immigration from the US given the Trump win.
- Many investors were surprised by the sudden and sharp run-up in rates, leaving them cautious and side-lined into year-end notwithstanding that yields are now closer to their targets. Investors talked about wanting to better understand the implications of a new Trump era before committing more capital.
- We learned that a few accounts were strongly defensive against rising rates ahead of the Trump win, and were sticking with provincial exposures in the 3Y area of the curve.

Portfolio Management & Trading Tactics

- Notwithstanding the cautiousness on rates, some accounts were looking to add exposure in longer dated provincial bonds (10+) given the back-up in yields. At the same time, other accounts were focused on playing short dated provincials for carry and roll-down with the expectation that the Bank of Canada will remain on hold for some time (with possible easing bias).
- Following the Trump win, some accounts were favouring reducing and underweighting European SSA's to move into Canadian provincials. Many Canadian provincials are viewed as stronger than their European sub-sovereign counterparts where they see heightened political and banking sector risk (i.e. Populist movements, Italian banks, etc.). Also, CMB and provincial spread product in USD is considered cheap to domestic or relative to other SSAs.
- The Canadian dollar portion of foreign currency bonds for some accounts is quite high, especially for those with unconstrained mandates. Canada continues to look attractive relative to jurisdictions with low or negative yields. In general, however, accounts are market-weight to modestly overweight Canada vs. their benchmarks/targets.

  There was growing interest internationally in learning more about the Canadian municipal sector, especially for low-risk, high-grade accounts.
- International accounts continue to favour liquidity, even buy-and-hold types that hedge currency with short-dated swaps (3-6m rolling basis). Although under no pressure to sell

and strongly adverse to capital losses, these buy-and-hold investors want the option to unwind their positions if, when rolling their currency hedges, the all-in yields fall short of their targets.

- Accounts have specific minimum yield targets (mid-swaps +50-100bps) or minimum 1-2% all-in-yield in the 5-10Y tenor.
- Certain clients – such as bank treasuries – are governed by repo eligibility and liquidity guidelines and, therefore, have a need to be in shorter term bonds that are benchmark size and are in eligible currency. Insurance companies have less restrictions and have different tenor needs driven by the average life of their liabilities. Life insurance companies have preference for longer tenors and can take private placements. Property and casualty insurance companies will take shorter terms.
- There is growing preference for axe trading (i.e. Bloomberg-run manager).
- There was some interest in CAD vs. USD box trades, with Canada expected to outperform and steepen less on more bearishness ahead.

Market Outlook and Relative Value Perspectives

- Many clients see a lot of uncertainty in 2017 and expect that markets will remain choppy and volatile.
- Some accounts prefer CAD bonds to USD bonds because of concern over a Trump inflationary effect and more rapid rate hike risk. With this bearish outlook, they expect Canada to outperform the US on rates (with Canada's yield curve also steepening less). They also expect only modest incremental Canadian dollar depreciation going forward. However, with CGB rates low relative to USG, they are looking to provincials and covered bonds for higher spreads.
- CMB spreads were viewed as stable given the expectations for reduced mortgage origination activity in Canada, which will limit supply.
- Some accounts found Québec expensive vs. Ontario.
- Some investors continue to harbour ongoing concern about oil-levered provinces in the current weak oil price environment, notwithstanding more attractive spread levels and recent rises in oil prices. Others, on the other hand, have been opening lines in anticipation of supply.
- Some accounts see additional CAD currency risk, with the next major move occurring when the Federal Reserve increases its benchmark rate for the first time (this, combined with relatively low yields, has made the carry trade in CAD unattractive).
- There was recognition of improving credit quality and strong liquidity in Ontario and Québec. There was also strong comfort with British Columbia given its leading economic performance and improving credit profile (budgetary surpluses, low and declining debt ratio).
- Some accounts with more alpha-focused mandates are investing in high quality/liquid Canadian corporate bonds. They view these securities as offering better value and liquidity than government credit.
- International investor sentiment continues to be enthusiastic towards Canada as a politically safe place to invest, having a strong institutional framework, a sound financial sector, and a high-quality accounting and reporting framework. Canada's AAA rating – supported by its low Federal debt position – is viewed as a substantial factor. The Federal government's current fiscal and economic policies, which call for modest deficits, are not considered by international investors to be a risk to Canada's strong fiscal position and AAA status.

Investor International Currency Preferences

- In the majority of cases, the CAD is not a natural currency, although some clients do hold CAD assets.
- In Asia, the clients have strong demand for JPY and other Asian currencies. Now that CNY has been approved in the IMF SDR basket, Asian central banks have been increasing their holdings in CNH. Besides JPY and other Asian currencies, Asian clients also have interest in USD and EUR.
- On our European leg, there was a strong preference for Euros, followed by Sterling and then US dollars. Regulatory considerations are a strong factor for Canadian government credit eligibility and currency under Bank of England regulations and European Union regulations. These regulations include European Central Bank (ECB) operations, Basel III for financial institutions and Solvency II for insurance companies.
- In the European Union, the ECB does accept Canadian government debt for all categories (federal, agency, provincial, and municipal), as well as private sector debt including covered bonds, for example. These debt securities, which are subject to various haircuts, are eligible collateral in the category of 'Marketable Assets', but only in Euros which are settled in the Euro Area. Hence the reason why most European accounts prefer euro-denominated bonds.
- For Bank of England (BOE) operations, sovereign-backed issues are the only eligible collateral. The BOE also accepts G10 Government Guaranteed Agency Bonds such as EDC. Canada Mortgage Bonds were recently added as eligible collateral as well. Canadian provincial bonds, however, are not eligible. The BOE accepts a basket of securities, including Canadian dollar-denominated securities, but Sterling-denominated instruments are easier to post.

Note: This research article was prepared by Maria Berlettano, Head of Canadian Government Credit Strategy. It highlights the major investment themes gleaned from recent investor meetings in Europe and Asia. We wish to acknowledge the valuable contribution to this research article and to the success of our meetings by the participating members of our Sales & Trading teams in Hong Kong, Japan, London, New York, and Toronto.

1 Market Outlook

Outlook Brightens on Trump and OPEC – Still Cautiously Defensive on Rates From Here

Our portfolio strategy is grounded on our base case for a gradual move higher in rates, and a firmer global economy heading into 2017. However, we are still 'cautious and measured' on duration risk given uncertainties in this outlook, particularly the downside risk to Canada's economic recovery. On the plus side, Trump's win holds promise that the US economic recovery will pick up, and this will benefit Canada. Also positive is the recent move higher in oil prices. On the downside is a possible overcorrection in the Canadian housing market given regulatory changes and tighter financial conditions. Also at risk is the pace at which exports and business investment will increase. Globally, there are ongoing Brexit negotiations, Italian referendum implications, and elections coming up next year in Germany, France, and the Netherlands. On Trump's pledge to overhaul trade agreements (important for Canada are NAFTA and the Soft Wood Lumber Agreement), we believe that it would be imprudent to rush to judgement that developments would be deeply negative for Canada. We point out that President-Elect Donald Trump was deliberate in not calling out Canada with respect to NAFTA, but rather focused on Mexico. The United States' goods deficit with Canada in 2015 was an estimated -US$15bln, whereas Mexico's was -US$49.2bln. In services, the United States had an estimated surplus of US$27.1bln, putting its overall goods and services trade position with Canada in surplus.

Ian de Verteuil, our Equity Portfolio Strategist, points out that, "Equity markets have responded well to a Trump victory, focusing on the pro-business aspects of the campaign. Tax cuts, less regulation, and fiscal stimulus are likely in the medium term and all seem to have been priced into equity markets quite quickly. The negative side effects of these moves, namely bigger fiscal deficits, more risk, and high inflation, so far have been ignored, and the back-up in rates seems to have forced money flows out of bonds into equities. This is reasonable in the short term, but do not expect a smooth ride higher, as global growth remains mundane though inflation does seem to be tracking higher."

On policy rates, CIBC Economics is still expecting a gradual tightening move by the Fed, with one hike in December and then two in 2017. This view is held given that financial markets have responded favourably to the election outcome. In Canada, CIBC Economics is forecasting that the BoC will be on hold longer, at least until mid-2018, as Canada's central bank postures between the desire for a weak Canadian currency to support export growth, and containing elevated housing market risk. The BoC is also leaning on fiscal stimulus. However, the risks are somewhat tilted to the downside if growth is weaker than expected with the fiscal stimulus effect.

Our Macro Strategy Oil Analyst Joan Pinto states: "Historic output cut agreement from OPEC last week of 1.2mb/d for 6m effective Jan17, with an additional 600kb/d supply cut pledge from non-OPEC. Russia has reportedly agreed to trim 300kb/d. Market scrutiny turns to execution, which in the past has been fraught with cheating and non-compliance. Despite the extreme reaction in time-spreads –WTI sliding into backwardation with intensified Cal17/18 producer hedging, we would be cautious in extrapolating the recent euphoria in oil prices given the deal is for a 6m horizon and contingent on producer nations honouring their commitments. The impetus for investment to flow back into US shale at improving prices under a Trump pro-energy presidency also bears consideration. As such, we could expect WTI prompt to range between $50.50–55.00/bbl over the next three months and Brent between $52.00–57.00/bbl."

We also present CIBC Institutional Equity Research Oil Analysts' (Arthur Grayfer and Jon Morrison) oil price forecasts (avg.) as follows: WTI 16F US$45 (increased by ~6% on stronger-than-expected Q2), while they are also projecting WTI F17 US$60 and WTI F18 US$70/bbl. Their base case for 2017 is for the crude market to tighten due to falling supply and steady demand growth, driven by both the US and Asia, with India leading the charge in terms of global oil demand. They view the OPEC agreement in as more positive than expected with the cartel managing to bring a collective deal together with Member Nation production targets for H1/17, and incremental Non-OPEC participation. Accordingly, they are forecasting global stock draws to average at least 650 MBbls/d over H1/17 and, assuming that this agreement holds firm throughout all of 2017 (currently deal is for 6m), global inventory levels would decrease by >600 MMBbls/d compared to what they otherwise would have been in the coming year.

A gradually improving oil price should be supportive for the Canadian loonie, which is already off the lows on firmer oil prices. However, our Macro Strategy FX Strategist Bipan Rai believes that, "While oil prices should see an updrift next year, correlations with the CAD will deteriorate as monetary policy divergence and foreign investment flows will continue to be the determining factors for the loonie. We expect USD/CAD to trade with a USD bid bias on average for much of next year. Our expectation is that the USD/CAD will be in a range of 1.25-1.40." **Both our FX Strategist and our CIBC Economics team believe that the USD/CAD will strengthen modestly from here, reaching about 1.39 by Q1 2017.**

We remain in favour of a corporate overweight vs. provie for better yield shifting to maximum corporate overweight, but security selection will be key in navigating through choppy spreads in both sectors. We see higher risk in the energy sector, if the oil price recovery takes longer than expected; and note that the recent move higher in oil prices is encouraging, but the sustainability of the uptrend is still questionable on many fronts. We also see higher risk in the financial sector with the housing market adjustment, but this view applies mainly to the less diversified, monoline players who have concentrated exposures to the slowing housing market.

2 Trading Biases

Portfolio Strategy Near-Term Trading Biases (3-6M outlook)

Target Benchmark Weights

- Near maximum corporate weight based on constraint or target

FTSE TMX Canada Universe Bond Index	Sector Weight November 30, 2016 %	Near-Term Trading Bias %**
Index	100.00	100.00
Federal*	36.78	23.00
-Canada (Non-Agency)	24.73	13.00
-Agency	11.66	10.00
Provincial	34.16	24.00
Municipal	1.93	3.00
Corporate	27.13	50.00
-AAA/AA	7.68	10.00
-A	9.26	20.00
-BBB	10.19	20.00

Source: PC Bond, Bloomberg.
*Federal sub-group includes supra-national which is not displayed.
**Not adjusted for cash holdings to be 'Modest and Measured' short
Note: Table may not add due to rounding

Top-Down Strategy

- Duration: 'Modest and Measured' short

We still believe a cautious duration stance is warranted at this time. We are proposing only a 'modest and measured' short over the next 3-6 months until we have more clarity on the global economy, oil prices, and the impact on Canada's housing markets as a result of tighter mortgage regulation and financial conditions. As we've seen since the start of the year, being nimble on tactical shifts (i.e. being able to cover-in shorts to capitalize on rallies or tactically increasing the short position in the recent sell-off) will be the key to avoiding value destruction in a market that is volatile and prone to react to global events (i.e. Brexit, Turkey attempted coup, US elections, etc.) and other market developments. We do see risks tilted to the downside for Canada's economy arising from moderating activity in the housing market, a slower than expected recovery in exports and business investment as well as the potential for tighter trade conditions with the US following the win by President-Elect Donald Trump.

- Curve: Bullet (emphasis on yield maximization; note that 10-30s yield curve at ~61bps not compellingly steep – calling for bear steepening)
- Sector Allocation: Overweight corporates (near max. constraint or target)
- Under-market weight Canadas
- Underweight provincials
- Small position in the less liquid municipal sector

Premise

- 'Modest and measured' defensive position in the context of historically low yields and expectations for an improving global economy, but vulnerable to shocks and geopolitical risk
- Gradual normalization of policy rates with the Fed Reserve moving way ahead of the Bank of Canada
- With the strong correlation between the US and CAD yield curves, the CAN10Y and US10Y are expected to move higher together
- Our Equity Strategist, Ian de Verteuil, expects equity markets to continue to be choppy over the remainder of the year, with negative rates, deflation concerns, slow growth and disappointing earnings periodically weighing on equity prices. Stocks have been moving higher on valuations without earnings growth seen moving a lot higher. Funds flow has been distorting valuations, moving things around in such a way that's driven by central bank activity supporting low or negative bond market yields. Markets are vulnerable to central bank support. Earnings and valuations have not been seen as going much higher. Based on fair value fundamentals that underpin our Strategist's targets, equity markets have moved ahead of year-end targets: SPTSX target 14,000;

SPX target 2,100. **We note that the SPTSX ex-Energy forward multiple is ~14.6x, above its five-year average of 13.5x.** *We expect Ian de Verteuil's 2017 equity targets early in the New Year.*

- We favour the risk/reward trade-off in corporate vs. government bonds at these wider spreads (especially given the narrower spread tolerance in government bonds). **We've changed our corporate weight to maximum in October on the belief that credit spreads will remain well bid and benefit next year from a more stable-to-improving global economy.**

Government Sector Security Selection Biases*

- Near-term >5Y security bias CAN, CMB, BC, SK, ONT, QC
- Near-term ≤5Y security bias CAN, CMB, BC, ALTA, MAN, SASK, ONT, QC, NS
- Favouring mostly core liquid non-Energy names in mids and longs

**Qualified by fundamental credit trends (fiscal/economic) as well as supply and liquidity.*

Trading Range Targets (vs. Curve)

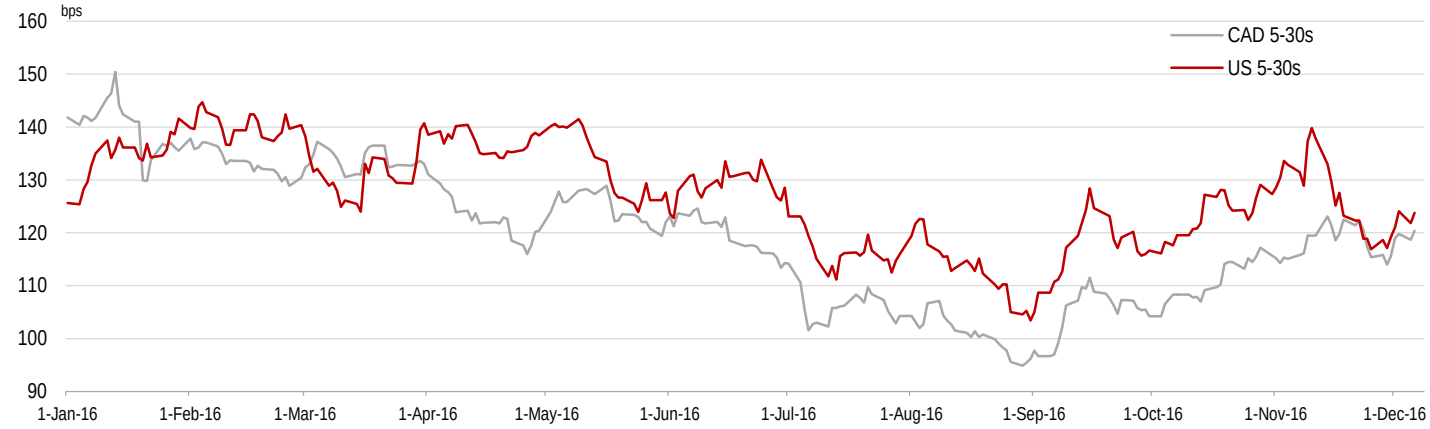
ONT 30Y +95-110bps (current ~96.5bps – at tight end of our range)

QC 30Y roll* +3-6bps (current ~2.5bps – through our range and viewed as rich)

CMB 5Y +40-50bps (current ~41.5bps – at tight end of our range)

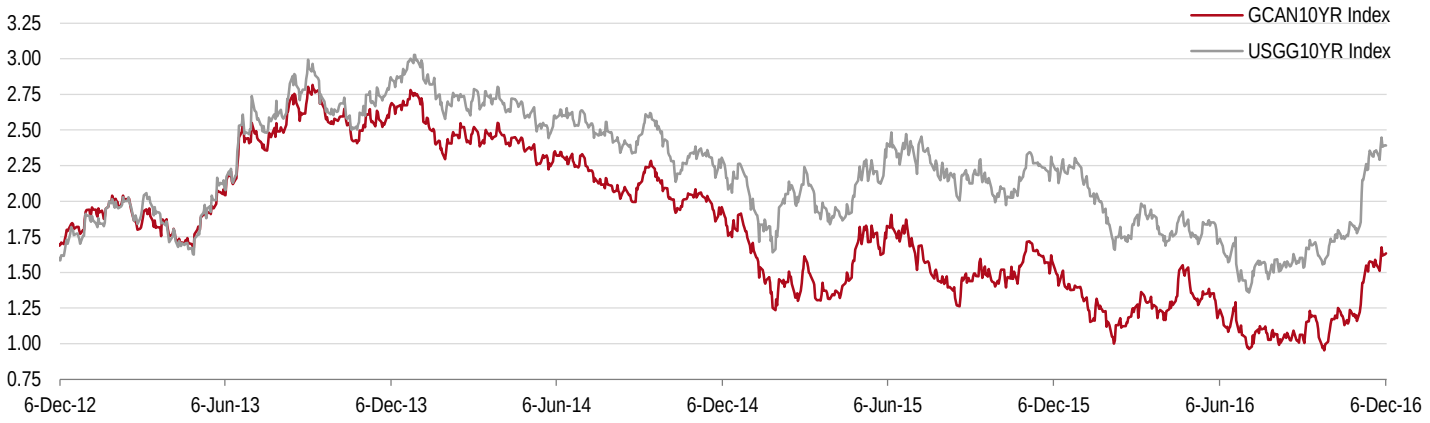
**Vs. ONT.*

Canadian and US 5-30s Curve Re-steepens in Recent Months



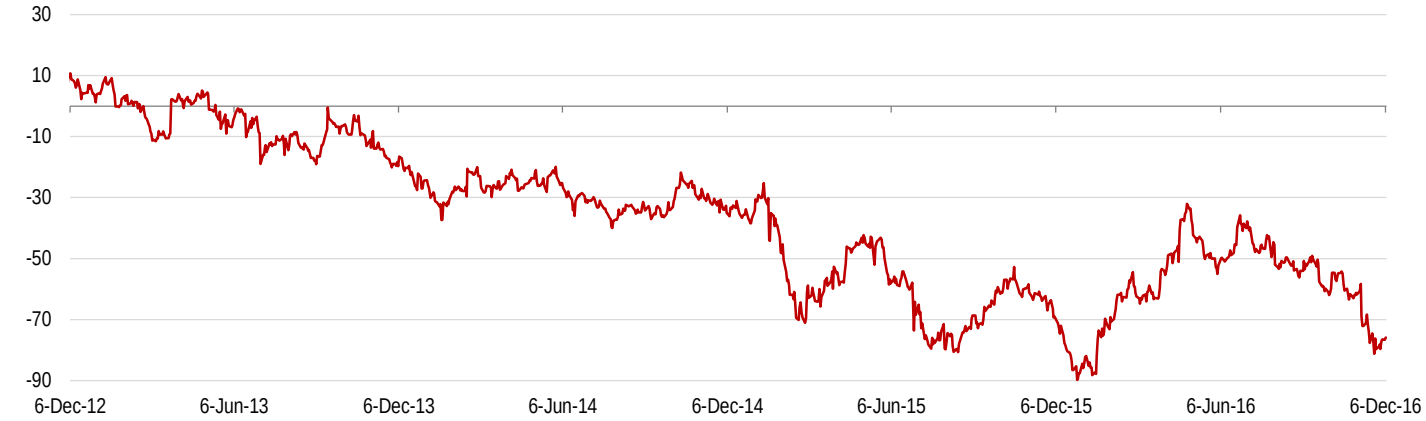
Source: Bloomberg, CIBC Capital Markets – Macro Strategy.

CAN US 10Y



Source: Bloomberg, CIBC Capital Markets – Macro Strategy.

CAN US 10Y Spread Inversion



Source: Bloomberg; CIBC Capital Markets – Macro Strategy.

Long Provincial and Corporate Spreads

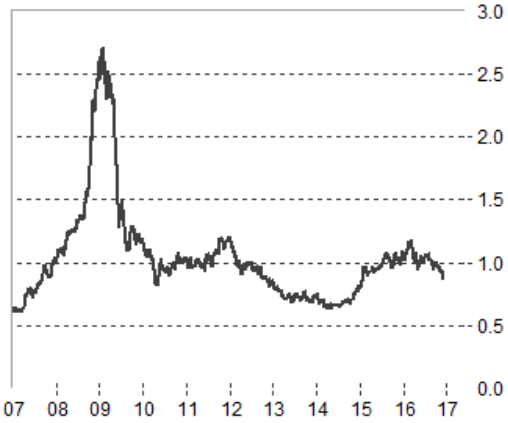


Represents long index composites of bonds with maturities 10+ years. Average term is approx. 23 years.

Long Corp. Index
Long Prov. Index

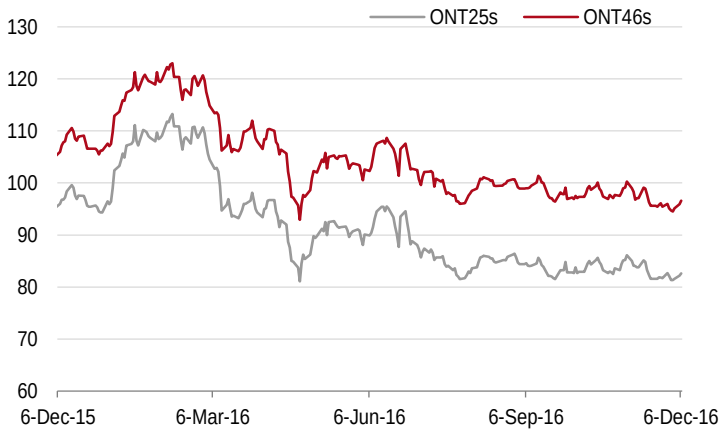
Source: PC Bond.

Corporate Spread Differential vs. Provincials



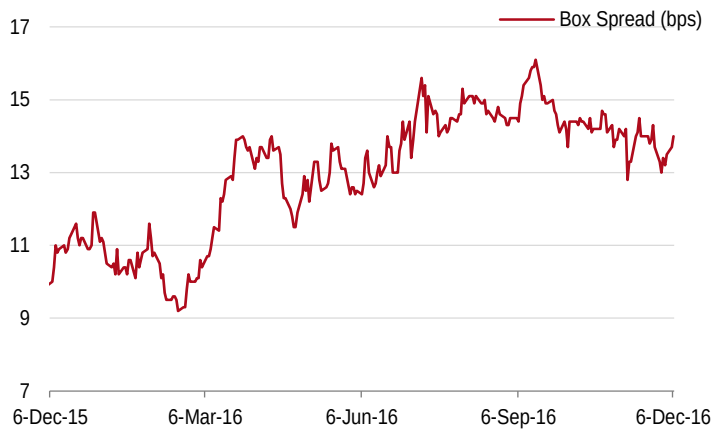
Source: PC Bond.

ONT vs. Benchmark



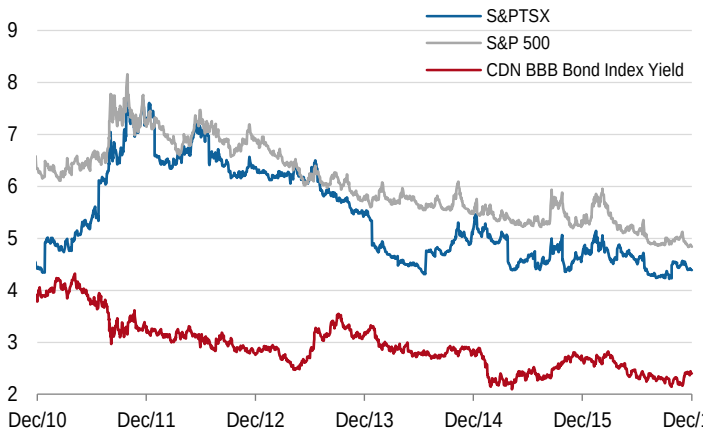
Source: Bloomberg, CIBC Capital Markets – Macro Strategy.

ONT 25–46s Credit Box



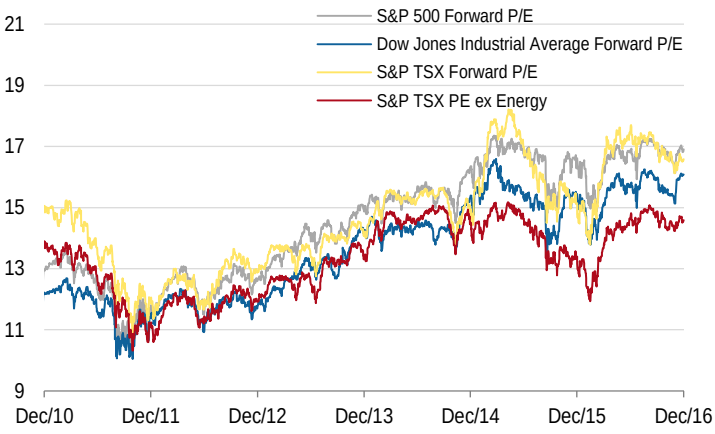
Source: Bloomberg, CIBC Capital Markets – Macro Strategy.

Earnings Yield vs. BBB Bond Index Yields



Source: Bloomberg, CIBC Capital Markets - Macro Strategy.

North American Forward P/E



Source: Bloomberg, CIBC Capital Markets - Macro Strategy.

3 Market Recap

Market Highlights*

Since our last issue of Canadian Government Central (published November 16), Trump fever has continued to permeate financial markets, with bonds selling off more and equities moving higher. Since the November 8 Election Day, US 10Y and 30Y yields are up +52bps and +46bps to 2.37% and 3.07%, respectively. CAD 10Y and 30Y were up a lesser +36bps and +33bps to 1.63% and 2.24%, respectively. The 10-30s curves in both markets flattened moderately: US -6bps, CAD -3bps, respectively.

The SPX and S&P/TSX are currently at 2,241 and 15,237 respectively, moving higher still above our Portfolio Equity Strategist's year-end targets of 2,100 and 14,000. Since the US election, these indices have climbed by +4.7% and +3.9%, respectively. The Canadian broad S&P/TSX index got an additional shot in the arm from rising oil prices with the November 30 agreement by OPEC and Non-OPEC members to cut production. Since the OPEC announcement, WTI has climbed +US$5.22 to US$50.20/bbl and the USD/CAD has slipped by a modest two ticks to 1.32.

While US elections have materially altered forward-looking market and economic expectations, real economies continue to move along their pre-existing paths, with mixed data on balance. Below, we provide an overview of the latest economic developments in Canada, the US, and globally.

**NB: Levels discussed are at time of writing on December 8.*

CANADA *(figures in CAD)*

October Employment Report – Not Bad All Things Considered

- Canada gained a surprising +10.7k jobs in October (way above consensus of -15k), but the underlying details were weak. The breakdown showed -8.7k full-time jobs and +19.4k part-time jobs. The participation rate moved down two ticks to 65.6%, which supported a similar drop in the unemployment rate to 6.8%. On the plus side, private sector job creation outpaced the public sector. Also, Paid was up while Self-Employed was down. ON saw a big gain while AB experienced a large drop.
- CIBC Economics (Avery Shenfeld): "It was more of the same for Canadian employment, with plenty of jobs in the offing, but not the kind of work we'd like to see. In the past year, we've added almost +215k part-timers, but shed -31K full-time workers. This month's gains were skewed mostly to lower-paying sectors in services (other than a gain in financial services), with job reductions in manufacturing and construction."

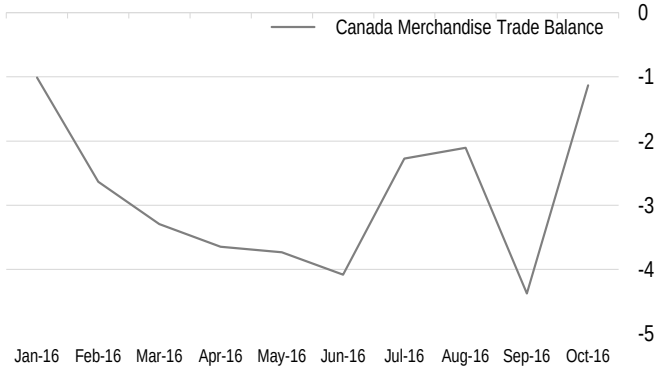
2016	Nov.	Oct.	Sept.	Aug.	July	June	May
	----------Change in Employment----------						
CAN	10.7	43.9	67.2	26.2	-31.2	-0.7	13.8
BC	-9.3	14.9	-0.6	-6.6	12.1	16.0	-8.4
AB	-12.8	9.0	13.3	2.7	-1.4	-1.9	-24.1
SK	2.4	-2.4	0.3	-0.4	-0.5	1.0	2.2
MB	-0.9	0.9	-2.1	-2.4	0.2	0.0	2.9
ON	18.9	25.4	16.2	10.5	-36.1	-4.2	21.6
QC	8.5	3.2	38.3	21.9	-4.0	-11.2	21.6
NB	0.5	-2.2	4.4	-3.0	5.0	1.2	-0.9
NS	3.7	0.9	-1.8	-0.1	-1.4	0.6	-3.6
PE	0.3	-0.2	0.2	-0.2	0.0	-0.4	0.7
NL	-0.4	-5.6	-1.2	3.9	-5.0	-1.8	1.6

Note: Figures prior to Oct. are based on previous release and may be subject to revision. Changes are in thousands unless denoted as %. Regional figures are not seasonally adjusted.
Source: Statistics Canada.

Bank of Canada Rate Decision December 7 – No Rate Change, but More Dovish Stance

- The BoC kept its overnight rate at this month's meeting. CIBC Economics (Nick Exarhos): "A better run in Canadian data gave reason for the Bank of Canada to stand pat, but today's statement continued to highlight that a hike is still a distant proposition. The Bank noted that although growth is evolving more or less in line with its expectations, given the bounce-back in Q3 from a weak first half, non-energy exports and investment "continue to disappoint". More precisely, the statement highlights that there is a "significant" amount of slack in the Canadian economy. That is contrasted explicitly with developments stateside, an apparent attempt to highlight the economic, and more importantly, the rate divergence expected between the two nations ahead of the Fed's likely hike next week. There's not much to move markets, but we continue to see any tightening as a late-2018 prospect for Canada, with the door still open to a cut in the near-term if the data disappoints materially."

- Merchandise Trade Deficit Narrows on Drop in Record High Imports



. Source: Statistics Canada, Bloomberg.

CIBC Economics: BoC on hold until mid-2018

Other Key Canadian Data

- Canadian retail spending in September rebounded somewhat increasing +0.6% m/m after rising only +0.1% m/m in August, but this reflected mostly strength in autos. Retail Sales ex-Auto were flat, after climbing +0.2% previously. Sales have not shown any meaningful gains since May, when they were up a stronger +0.8%. Canadian retail spending has been on a slowing trend since starting off strong at the beginning of the year. CIBC Economics was expecting that the second half of the year may get a boost from Federal Child Care Benefit cheques, but there has been little evidence of that so far.
- September GDP picked up to +0.3% m/m, following August's GDP growth reading of +0.2%, capping off a +3.5% third-quarter growth rate (versus -1.3% in Q2). Canadian economic growth continues on the slow track, moving slower than the gains seen in June and July of +0.5% and +0.6%, respectively, but these months were set-up for a rebound after May's -0.6% contraction caused by the Alberta wildfires. Nonetheless, the steady positive growth is still encouraging against the choppy growth seen at the start of the year and there were a few positive surprises. CIBC Economics (Nick Exharos): "Canada's Q3 bounce in output was confirmed this morning, and a strong September reading suggest that the final quarter of the year is set to start on a better footing as well. As expected, the largest contributor to the +3.5% increase in quarterly GDP was the gain in exports, which recovered most of the ground lost from the May wildfires in Alberta. **There were a few surprises in the report.** Household consumption grew at a +2.6% pace, stronger than the trend in real retail sales would have suggested. That strength was offset by softer results in residential investment. As a result, final domestic demand still decelerated to a +0.9% growth pace – roughly in line with what we were expecting. The key signpost for where the fourth quarter might be heading is September GDP, which grew by a consensus-beating +0.3%. It's worth noting that the beat in September was driven by a two-tick contribution from mining/oil and gas, which tends to be a more volatile category. Still, with other sectors showing decent growth, and given the handoff to Q4, there's some upward pressure on the Bank of Canada's +1.5% forecast. That should diminish the near-term chances of a rate cut from Governor Poloz, which is bullish for the C$ and bearish for the front end of the curve."
- Headline CPI picked-up a tick in October, up +0.2% m/m (not seasonally adjusted). On a y/y basis, the CPI rate moved up two ticks to +1.5%, for the second month in a row, but that was influenced by higher gasoline prices.
- Core CPI was unchanged at up +0.2% m/m, and slipped back a tick to +1.7% y/y. The core inflation rate was previously running above 2%, a sign that inflation continues to be well anchored and that business conditions remain soft, consistent with the Bank of Canada's recent interest rate decision highlighting that there is significant slack in the economy.
- Canadian housing starts decelerated for the second month in a row in November to a pace of +184.0k, down from +192.3k in the previous month. This follows a much stronger pace of +219.4k in September. November's data brings housing starts closer to the projected rate of annual household formations of +175-180k. Meanwhile, October's building permits showed strength moving up +8.7% m/m, after falling -4.6% in September. Meanwhile, October's existing home sales climbed +2.4% m/m, a continuation from September's positive 0.8% m/m. Canada's housing market has been defying expectations for a moderation in activity, but is forecasted to see some slowing with tighter mortgage regulations and financial conditions.
- The Teranet/National Bank HPI showed that the average price of homes accelerated again by 11.8% y/y in October subsequent to a gain of 11.7% y/y in September. The price acceleration remained concentrated in the Vancouver (+22.5% y/y) and Toronto (+17.4% y/y) areas.
- Canada's September survey of Manufacturing Sales (value of shipments) built on an August gain (+0.9%), advancing 0.3% m/m. However, in real terms, the news was not as promising as volumes fell 0.2% m/m and have essentially been moving sideways since mid-2014. The biggest gainers for the month in nominal terms were transportation equipment and metal products.
- Canada's Trade Deficit Narrows in October. CIBC Economics (Nick Exarhos): "The Canadian trade deficit narrowed by over $3bln in October in reaching $1.1bln, as higher oil prices, and a more normal track to imports helped the balance recover from record-wide levels in September. A single shipment related to the Hebron oil project was responsible for $2.9bln of the now-revised $4.4 bln September deficit. In October, the narrowing from the adjusted baseline, which excludes that mammoth piece of equipment, was driven by firmer prices – particularly for oil – as export volumes declined on the month. As a result, even if the trade balance looks to be in much better shape for October, the GDP outlook isn't off to the best of starts."

UNITED STATES *(figures in USD)*

FOMC November 2 Decision – No Change As Expected Before US Elections, But Hawkish Tilt

As expected, the FOMC kept its overnight benchmark rate range unchanged at 0.25-50% (at the November 2 decision meeting), but there was a hawkish tilt to the announcement.

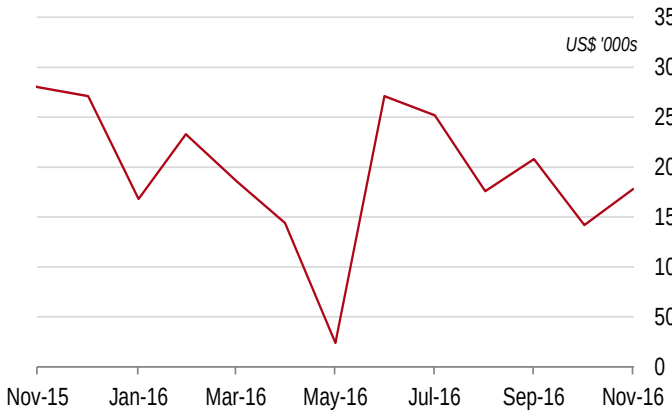
CIBC Economics (Royce Mendes): "No action was expected, and none was taken. In line with the broad consensus of private sector forecasters, the Federal Reserve decided to keep interest rates unchanged today. That said, there was a slightly hawkish tilt to the announcement. Two members of the rate setting committee continued to dissent in favour of an immediate hike. While that's down from the three that were in favour of tightening policy at the last meeting, it's likely that Boston Fed President Rosengren simply felt that, prior to the election and without a press conference, it was best to take a pass in favour of December. Moreover, in a minor but perhaps indicative shift, the statement suggested that the Fed is now only waiting for 'some' further evidence of progress. Overall, barring a material weakening of the economic outlook or significant volatility in financial markets, we continue to see the FOMC raising interest rates at its December meeting. Market reaction will likely be limited, because the number of dissenters decreased, and the more hawkish language was largely expected."

Following the US election, on policy rates CIBC Economics is still expecting a gradual tightening move by the Fed with one hike in December and then two in 2017. This view is held given that financial markets have responded favourably to the election outcome and the US economic recovery is expected to unfold in a constructive manner.

October Payroll Report – A Good Month Overall

- November US Non-Farm Payroll picked-up to +178k, inclusive of a gain of +156k in Private Payrolls versus +135k in October. The two-month payroll net revision was -9k. The six-month moving average moved up to +204k from +179k, as the very weak month of May, which saw only the creation of +24k jobs, moved out of the average.
- Average hourly earnings growth slipped back to +2.5%. In October, this was up a very strong +2.8% y/y, the fastest pace in nine months. Average weekly hours was unchanged at 34.4.
- The unemployment rate dropped further to 4.6% from 4.9%, this time on only a small drop in the participation rate to 62.7%. The Household Survey saw a gain of +160k jobs after showing a drop of -43k jobs in the previous month. The underemployment rate improved again by two ticks to 9.3%.
- The Federal Reserve's Labour Market Conditions Index came in at a strong 1.5, with the previous month's reading revised up to 1.4 from 0.7. The index had been below zero for most of 2016.

US Non-Farm Payrolls Report



Source: US Bureau of Labour Statistics

Other Key US Data

- US retail sales in October (Advance Estimate) accelerated to +0.8% m/m after an upward revised +1.0% m/m previously. This was ahead of consensus expectations for an increase of +0.6%. Ex-Autos and Gas, the number also showed improvement, up +0.6% m/m from +0.5% m/m previously. CIBC Economics (Royce Mendes): "A robust retail sales report for October combined with healthy revisions to the prior month showed that household spending remains on a solid track. Consumption continues to be relied upon as a major driver of US economic growth, and with job gains only slowing modestly, it should continue to provide that support."
- ISM Manufacturing picked up again in November climbing to 53.2 from 51.9, after briefly dropping below 50 in August, which was a big negative surprise. The ISM New Orders reading picked up to 53.0 from 52.1. A negative surprise in October was a big pull-back in the ISM Non-Manufacturing Composite to 54.8 from 57.1, but this rebounded strongly in November to 57.2.
- The US trade deficit widened to a four-month high in October to -$42.6bln from -$36.2bln the prior month on stronger demand for imported merchandise. The result reflected a rise in imports (+1.3%) vs. a drop in exports (-1.8%). This is a reversal of the previous trend which saw net exports make a solid contribution to third quarter GDP for the first time since the end of 2013. Since 2014, the trade deficit has been volatile and generally under pressure from the strong dollar amidst weak global growth.

- Housing activity has picked up strongly, after a pull-back that ensued over the months following a seasonally strong spring period: Housing Starts (Oct. +25.5% m/m to 1.323mln units, the strongest pace in nine years), Building Permits (Oct. +0.3% m/m to 1.229mln units), Existing Home Sales (Oct. +2.0% m/m to 5.6mln units), New Home Sales (Oct. -1.9% m/m to 0.563mln units), and Pending Home Sales (Oct. +0.1% m/m). The 3Q FHFA Seasonally-Adjusted House Price Index extended its gains advancing at a pace of 1.5% q/q (vs. 1.3% in Q1). Overall activity is supporting a high degree of confidence as evidenced by the National Association of Home Builders Confidence Index, which rose to 65 in September (although slipping back slightly from 63 in October and November) – levels indicating that builders view conditions as very favourable. More forward momentum is expected on pent-up demand and increasing new household formations.
- Consumer confidence indicators were strong in November buoyed by the promise of Trump's victory to accelerate economic growth. The University of Michigan Index of Consumer Sentiment preliminary November reading increased to 91.6 vs. 87.2 last month, while the Conference Board Consumer Confidence Index powered ahead to 107.1 from 100.8. We also note that the US Investor Business Daily and TechnoMetrica Market Intelligence indicator advanced strongly in December to 54.8 from 51.4 (a reading above 50 signals a positive outlook).
- The Second Estimate of 3Q GDP reading was revised up to +3.2% from 2.9% q/q, above the consensus estimate of +3.0%. This follows a slower 2Q GDP growth reading of +1.4% q/q. CIBC Economics (Royce Mendes): "The market finally got what it wanted with today's solid US GDP print. Over the first half of the year, headline GDP appeared to be restrained by some transitory factors, but Q3 broke that trend. The economy showed its true colours, with growth coming in ahead of already healthy expectations." **CIBC Economics is still calling for 1.5% growth for 2016 (vs. 2.6% in 2015), even after the better than expected 2.9% for Q3. Next year, they are forecasting growth of +2.1%. Now with the US elections over, they predict that a rate hike will occur as early as December as economic data unfolds favourably and the financial markets reacted positively to Trump's win.**
- US inflation readings for October were once again mixed, with headline showing up stronger, but core coming in soft. Headline CPI moved up a tick to +0.4% m/m on the back of healthy gains in gasoline prices (+7.0%). As a result, inflation moved up to +1.6% y/y, from +1.5% previously, the fastest reading since 2014. Core CPI (Ex Food and Energy) was flat at +0.1% and down a tick to +2.1% y/y. CIBC Economics (Royce Mendes): "For the second consecutive month, headline CPI showed more strength than core. That said, the annual rates of both inflation metrics continue to converge. Moreover, the slight miss on the stripped down measure of inflation won't do much to alter the Fed's path toward raising rates later this year." The Core PCE for Q3 (Second Estimate) was unchanged at +1.7%.
- September's reading of Real Average Weekly Earnings advanced a stronger +0.8% y/y following the previous month's pace of +0.4% y/y, suggesting some wage inflation building.
- US total auto sales remained strong in November although declined slightly. Total Vehicle Sales came in at 17.75mln units, down from 17.91mln units in October (Wards Total Vehicle Sales SAAR).
- Federal Reserve Beige Book (October 19): "Reports from the twelve Federal Reserve Districts suggest national economic activity continued to expand during the reporting period from late August to early October. Most Districts indicated a modest or moderate pace of expansion; however, the New York District reported no change in overall activity. Compared with the previous report, the pace of growth improved in the St. Louis, Kansas City, and Dallas Districts. Outlooks were mostly positive, with growth expected to continue at a slight-to-moderate pace in several Districts. Labour market conditions remained tight, with modest employment and wage growth noted over the reporting period. Most Districts characterized input costs and/or output prices as fairly flat, but prices increased slightly on net."

GLOBAL

Eurozone

- British Prime Minister Theresa May announced on October 2 that the UK would invoke Article 50 of the 2007 Lisbon Treaty by the end of March 2017. This will set in motion the procedures to leave the EU within a two-year timeframe. However, the Prime Minister faces a legal challenge in being able to invoke the article without a parliamentary vote. The challenge is currently being appealed at the Supreme Court. Initially, when Prime Minister May made her announcement, Sterling was sent tumbling and bond yields moved higher to compensate for higher inflation. The legal challenge, which could move things along a slower track, caused sterling to gain some modest ground. In the meantime, German Chancellor Angela Merkel has warned that the UK should not expect any favoured treatment once it leaves the European Union.

- At its December 8 meeting, the ECB left its main refinancing rate unchanged at 0%. It also kept the rates on its marginal lending facility and deposit facility unchanged at 0.25% and -0.40%, respectively. In doing so, however, it extended the QE program until the end of 2017, signalling the willingness to go beyond if necessary. It also announced the beginning of QE tapering early next year. Effective April 1, the ECB would reducing the pace of monthly bond purchases from €80bln to €60bln. The ECB's announcement sent stocks higher and bonds lower. **Macro Strategy's FX strategist Bipan Rai: "The ECB felt it was necessary to send a message of stability post the Italian referendum (re: banking sector concerns) and ahead of the upcoming elections in the Netherlands, France and Germany. By extending the purchase program to Dec. 2017, they have avoided market debate about tapering through the key election cycle. Given the political and banking risk ahead, that is the right message to convey (i.e. forget about tapering!). Still, it's hard to ignore the rise in producer, consumer prices along with inflation expectations. Additional momentum in crude prices will also add an another layer of uncertainty that implies that the tapering argument could be revisited late next year."**
- More on the ECB: Looking ahead, the ECB expects to keep the key ECB interest rates at present or lower for an extended period of time, and well past the horizon of its net asset purchases. It is still early to quantify the effectiveness of the ECB's measures to combat deflation, and the UK decision to exit the European Union injects an additional serious level of uncertainty. Governor Mario Draghi has been appealing to governments to play a bigger role in reinforcing regional growth, highlighting the limitations of monetary policy as the sole means to invigorate growth. **The ECB is projecting that its conventional and unconventional monetary policy measures will see euro-area growth continue at a steady pace. It projects growth of: 2016 1.7%, 2017 1.7 %, 2018 1.7%, with inflation similarly trending up from 0.2% to 1.3% and 1.5%, respectively.**
- Markit Eurozone PMI (November): Euro area business activity was relatively steady in November. The Markit Eurozone Manufacturing PMI was unchanged at 53.7. The Markit Eurozone Services PMI decreased slightly to 53.8 from 54.1. Both readings are showing improvement since the weak start to the year. Business confidence indicators also improved in the month, but consumer confidence remained weak.
- Other Data: October Unemployment Rate 9.8% (down from a revised 9.9% in Sept.), 3Q Preliminary GDP +1.6% y/y (+0.3% q/q), October CPI +0.5% y/y (Core +0.8% y/y), October Retail Sales rebounded to +1.1% m/m and +2.4% y/y (rebounded from -0.4% m/m, +1.0% y/y).

United Kingdom

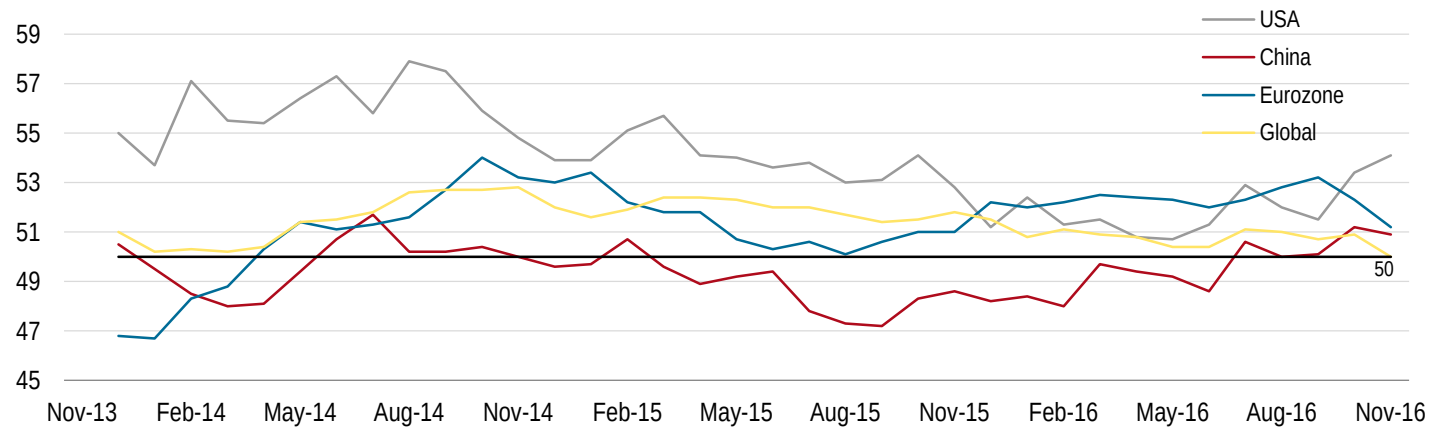
- In a unanimous decision at the November 3 decision meeting, the BoE left its benchmark rate unchanged at a record-low 0.25% as well as its Asset Purchase Target unchanged at £435bln, but announced that it no longer expects to cut interest rates again this year, instead indicating that concern about accelerating inflation may warrant tightening at some point. The BoE now sees consumer-price inflation rising above its 2% target early next year and staying there throughout its forecast period, eventually hitting 2.5% in late 2019, overshooting its target. "There are limits to the extent to which above-target inflation could be tolerated", the Monetary Policy Committee said. **This is an abrupt change in stance.** At its previous meeting on August 4, it had cut the rate a quarter point to 0.25%, increased its Asset Purchase Target to £435bln from £375bln, and expanded eligible securities to include corporate bonds. The Bank also cut its growth outlook for 2017 to 0.8% from 2.3%, but kept 2016 at 2%. Inflation expectations (CPI) seen at 2.4% at the two-year horizon, looking through the currency-induced inflation spike. Just following the June 23 Brexit vote to leave the EU, the BoE assured financial markets that it is well prepared with extensive contingency plans to deal with the inevitable period of uncertainty and adjustment. The BoE stands ready to support the functioning of the market including the ability to provide more than £250bln of additional funds through its normal facilities.
- The BoE is building a team to co-ordinate its work to handle Britain's withdrawal from the European Union.
- BoE business conditions survey shows companies are scaling back investment and hiring plans, confirming the central bank's worry that the 'Yes' vote on Brexit (June 23) would undermine confidence. The weak Sterling, however, down about -14% since Brexit, is giving a lift to exports.
- UK 3Q Advanced Estimate +0.5% q/q (+2.3% y/y). Overall growth is tracking better than previously expected. This has led some economists to revise up their forecasts (2016 consensus growth +2.0%); but next year's performance will be more important as Brexit negotiations unfold (2017 consensus +1.0%).
- Other UK Data: Markit UK PMI Manufacturing (November) 53.4 vs. 54.2, Markit PMI Services (November) 55.2 vs. 54.5, Headline CPI (October) +0.1% m/m (+0.9% y/y), Core CPI +1.2% y/y, Retail Sales Ex-Auto +7.6% y/y.

Asia

- China's economy is showing signs of stabilization and very modest improvement as the November Manufacturing PMI advanced further to 51.7 from 51.2 in the previous month. It had been in contractionary territory six months ago. The Non-Manufacturing index was a solid 54.7, up from 54.0 in October. Many economists, analysts and state officials are calling for more bold measures by the People's Bank of China (PBOC) and the government to boost economic output and investor confidence, as data are still far below the peaks seen in 2009-10. However, officials are concerned about fuelling asset bubbles or spurring capital outflows as China's economic health remains under scrutiny following strong historical growth that was fuelled by a long period of rapid credit expansion and fixed asset investment. China is gradually transitioning to a consumer-based economy and is targeting growth of 6.5% in 2016.
- China's economy grew at +6.9% in 2015, and the consensus growth estimate is +6.7% in 2016, +6.4% in 2017, and +6.0% in 2018. These are far below the 10-15% levels seen prior to 2012. The latest 3Q y/y growth in China was +6.7%. Inflation is projected to remain relatively stable over the next few years at around +2%.
- The latest Chinese trade data for November show Exports up a modest +0.1% y/y (rebounding from -7.5% y/y in October) and Imports up +6.7% y/y (rebounding from -1.4% y/y in October). The latest trade data is increasing confidence that China's economy is recovering – giving support to commodity prices.
- China has initiated several cuts in interest rates and the Reserve Requirement Ratio (RRR) over the past few years, and its most recent cut of 0.5% on February 29, 2016 (most recent PBOC meeting), sent equity markets higher. However, with the RRR cut to 17% effective March 1, 2017, there is still more room to cut, and the markets are showing an eagerness for more cuts rather than fewer. Fiscal stimulative deficits are also part of the equation.
- At its October 31 meeting, the Bank of Japan kept its overnight policy rate unchanged at -0.10% and its 10-year JGB target at 0%. It also pushed back the timing for its 2% inflation target to around the fiscal year-ending March 2019, positioning for a longer-term effort to restore inflation – beyond Governor Kuroda's term through March 2018. It also said that it would maintain its annual pace of JGB accumulation more or less in line with the current pace of about 80tln yen as well as ETF purchases around 6tln yen. The BOJ lowered its inflation outlook for the current fiscal year to -0.1%.
- Japan's economy shrunk by -1.7% q/q in 4Q15 in real terms, but then rebounded to +2.1% in 1Q16 due to a pick-up in consumer spending and strong public consumption. Japan's growth has continued on a positive, but uneven trend. Growth in 2Q16 and 3Q16 came in at 0.7% and 2.2% q/q, respectively. Third quarter growth beat expectations on a strong pick-up in exports at +8.1%, with imports down -2.4%, but weak domestic activity (consumer spending +0.2%, private investment +0.1%), still raises doubt as to the sustainability of Japan's recovery.
- According to Macro Strategy's F/X strategist Bipan Rai, Japan's currency has been appreciating for much of the year, which is not constructive for exports or business investment. Additionally, the BoJ has adjusted their easing program to target the shape of the yield curve by anchoring the 10Y yield at zero. Such a program could lead to a situation whereby the BoJ wavers on its commitment to buy JPY80trln worth of assets a year into the medium-term. For now, the stability in the yield curve has brought some semblance of calm to JPY markets.

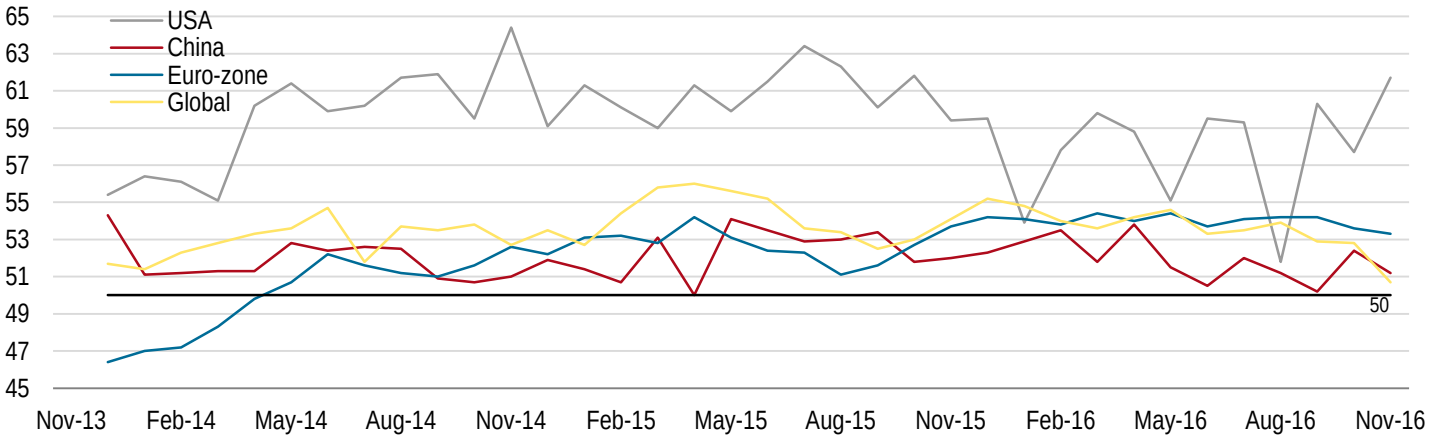
Global Economic Condition Indices

Manufacturing Index



Source: Bloomberg, Markit, Caixin, JP Morgan. Reading above 50 denotes expansion, 50 denotes no change, below 50 denotes contraction.

Non-Manufacturing (Services) Index



Source: Bloomberg, ISM, Caixin, Markit, JP Morgan. Reading above 50 denotes expansion, 50 denotes no change, below 50 denotes contraction.

4 Market & Benchmark Analysis

Stocks head higher, while bonds move lower in November

Trump's victory propelled stocks higher in November and triggered a broad sell-off in bonds on expectations that US economic growth and inflation would accelerate under his economic policies. The S&P500 (SPX) returned +3.70% vs. -1.82% in the previous month. The S&P/TSX equity index extended its advance returning +2.19% vs. +0.62% in October. The Canadian FTSE TMX Canada Universe Bond Index returned -2.07% compared with -0.91% the previous month.

Equity Markets

The S&P/TSX extended its gains in November returning +2.19% (vs. +0.62% in October). The move higher was led by Industrials (+6.29%), Financials (+5.06%) and Energy (+4.63%). Financials got a boost from better-than-expected Q3 results from Manulife Financial (+21.35%) and some solid earnings results from early reporting banks. Financials also benefitted from expectations that higher US economic growth, lower corporate taxes and fewer regulations will accelerate bank earnings and dividend growth — particularly companies with significant US operations. Energy got a boost on optimism that the November 30th OPEC results would make additional progress in curbing oil supply. Consumer Discretionary (+2.02%) and Info Tech (+1.90%) saw more muted gains. Other sectors experienced losses, especially the interests-sensitive dividend yielding stock sectors such as Real Estate (-0.62%), Telecom (-4.24%) and Utilities (-4.73%). Materials (-4.74%) saw losses led by gold stocks reacting to Trump's win and being displaced by more confidence in the strengthening dollar. Investors also tucked-in their bullion gains after seeing bullion reach lofty levels in previous months. Health Care (-8.46%) – continued to be rattled by the legal problems at Valeant Pharmaceuticals.

The S&P500 (SPX) rebounded in November up +3.70% after falling -1.82% in October. This brought the year-to-date return to a lofty +9.76%. With the appreciation of the USD/CAD exchange rate, the return in Canadian dollars was slightly more positive +3.80% (YTD +6.53%). Leading the index higher was (Doctor) Copper (+37.30%) and Steel (+27.31%), as investors were encouraged by recent Chinese economic data. Diversified metals and natural resources company Freeport-McMoran was up +37.48%. Oil stocks were also up on higher oil prices with Marathon Oil (+37.48%) leading the way. The best performing stock, however, was US car audio and automobile accessory company Harman International (+37.77%) on the Samsung Electronics takeover news.

The S&P/TSX Preferred Share Index returned -0.65% following a return of +2.32% in October, as preferred share prices adjusted to the move higher in interest rates. The year-to-date return is +3.27%. The robust returns in the current year are a stark contrast to the dismal returns last year. In 2015, the index returned -14.95% as preferred shares suffered from the re-pricing of fixed/floating resets and floating rate issues at historically low rates. Towards the end of last year, tax-loss selling exacerbated losses.

Bond Markets

The FTSE TMX Canada Universe Bond Index extended its losses returning -2.07% in November, after returning -0.91% in October. The yield curve sold-off and bowed out. Yield changes by term were: 2Y +15bps to 0.70%; 5Y +35bps to 1.05%; 10Y +38bps to 1.68%; and 30Y +32bps to 2.22% (PC Bond Constant Maturity). By term, Long Canadas (-4.89%) underperformed Mid-Canadas (-2.45%) and Short-Canadas -0.54%). Credit spreads were better across all credit sectors moving into the December 1 FTSE TMX Canada Universe Bond index extension (coupon), helping to partially offset the rise in yields. Short Corporate (-0.32%) was the best performing sub-sector, outperforming on shorter relative duration as the curve sold-off and was relatively anchored on the short-end, and spreads tightened as well. **The overall benchmark yield increased +26bps to 2.05%.**

Looking at the **Long-Term Bond Sub-Index**, Long Canada's (Non-Agency) underperformed all credit sectors. Overall credit spread performance in secondary markets was primarily driven by increased economic confidence post the US Elections, higher oil prices as well as lack of supply during most of the month leading into the December 1 index extension/coupon.

In the long-end, the Long-Term Bond Sub-Index overall return was -4.16% with the sub-components performing as follows: Long Canada–Non Agency (-4.89%), Long Canada–Agency (-4.67%), Long Provincial (-4.35%), Long-Municipal (-4.11%), Long Corporate (-2.97%). In the **Long Provincial sector**, the 30Y Long Ontario spread tightened slightly by around -1.5 bps to the area of +96.5bps (spread to curve), grinding tighter throughout the month. The 30Y rolls to Ontario were also tighter across the board by about -1.5bps. In the **Long Corporate** sector, Financial (-1.09%) was the best-performing credit class on tightening credit spreads and somewhat shorter duration. Financials benefitted from the perception that Trump's economic policies (faster economic growth, corporate tax cuts, less regulation) would benefit them.

Corporate debt issuance in November was focused more towards the latter half of the month post the U.S. election, US Thanksgiving and corporate earnings releases (i.e. Corporate 3Q and Canadian Bank Y/E). There was $10.2bln in supply (from Oct. 31–Dec. 2), but the week ended December 2 was the heaviest with $6.1bln in supply from six transactions. Issuance was mostly focused on the Canadian Banks. Bank of Nova Scotia issued $3bln in deposit notes across two tenors and Royal Bank issued $1.25bln 7-year deposit notes. YTD supply (through to Dec. 2) is up 8% y/y to $104.3bln. We highlight that in the high-grade, short-dated financials' space, 5Y Senior Deposit notes grinded tighter again by about -4bps m/m to the area of +90bps. With strong demand, on the new issue front, high-grade, new-issue concessions – which have been grinding lower for the past couple of months due to strong demand – were flat to small positive.

Provincial supply in November was decent at $7bln, a pick-up from the $7.2bln in October. Over the past couple of months, supply has been more domestic-focussed, a shift from heavier international issuance in previous months.

The RRB Canada Index (ModDur 15.71) returned -2.11%, once again strongly outperforming Long Canadas (ModDur 15.20) which returned -4.89%. The generic 30Y break-even richened +19bps on the month to 1.81%. According to Macro Strategy Rates Analyst Luke Ostapiak, in the past month, RRB break-evens have increased steadily, in line with the reflation theme. The rally has extended across the curve, with 10Y break-evens now at 1.55%, up from around 1.15% at the lows in the summer. The US election has extended this theme after a brief pause and profit taking as OPEC deal headwinds weighed on the market, although turned out supportive as well with oil prices once again above $50. We continue to like holding inflation outright, or real-yields as opposed to nominals, as the reflation and steepening themes continue to play out. We have a stronger bias towards shorter-term linked notes, however, as the inflation curve remains very steep and implied 5Y5Y inflation expectations (i.e. what the 5Y BEI would need to be 5Y from now to make an investor indifferent between two 5Y inflation bets or a single 10y position) in Canada exceed 1.90%, higher than 30Y break-evens and mostly a product of the steepness of the 5Y/10Y BEI curve with 5y BEI still low around 1.20%.

The High Yield Bond Index (ModDur 4.26) advanced more slowly returning +0.73% in November after returning +1.20% in October, but handily outperformed both Short and Mid Corporates, which returned -0.32% and -1.56%, respectively. The year-to-date return is a strong +14.98%. By sub-industry, Energy (+1.21%) was up the most followed by Industrial (+0.72%). Energy was helped by higher oil prices. Communication (+0.28%) and Real Estate (-0.09%) lagged which tend to do so when interest rates rise. Overall risk sentiment in the high-yield space during the month was good and secondary flows were moderate. There was one primary deal marketed towards the end of the month: Source Energy Services priced a $130mln 5-year issue (Announcement Date December 1, 2016).

Canada RRB Break-Evens



Source: Bloomberg.

Long Financial Bonds Outperform

FTSE TMX Canada Universe Bond Index Yield Changes and Returns by Corporate Industry Sector and Ratings					
	30-Nov-16 Avg Yield	31-Oct-16 Avg Yield	Bps Chg	Modified Duration	1M Return 30-Nov-16
FTSE TMX Canada Universe Bond Index	2.05	1.79	+26	7.35	-2.07
Long-Sub Index & Components (10+ Years)					
Canada Non-Agency	2.07	1.72	+35	15.20	-4.89
Canada (Agency)	2.90	2.55	+35	14.59	-4.67
Provincial	3.12	2.81	+31	15.01	-4.35
Municipal	3.44	3.12	+32	14.53	-4.11
Corporate AAA/AA	2.94	2.63	+31	10.75	-3.10
Corporate A	3.80	3.54	+26	13.27	-3.18
Corporate BBB	4.44	4.19	+25	12.55	-2.64
Communication	4.61	4.39	+22	13.25	-2.67
Energy	4.02	3.78	+24	13.16	-2.81
Financial	4.62	4.48	+14	11.53	-1.09
Industrial	4.53	4.25	+28	11.77	-2.93
Infrastructure	3.74	3.46	+28	13.20	-3.44
Corporate	4.03	3.78	+25	12.96	-2.97
Overall Long-Term	3.10	2.79	+31	14.55	-4.16

Source: PC Bond.

FTSE TMX Canada Universe Bond Index

Total Returns: As of November 30, 2016												
	Last Month (% change)				%							
Sector	Short	Mid	Long	Overall	3M Return	6M Return	12M Return	Avg. Yield	M/M (%)	Modified Duration (Y)	M/M (%)	Sector Weight (%)
FTSE TMX Canada Universe Bond Index												
Index	-0.49	-2.11	-4.16	-2.07	-2.71	-0.06	3.33	2.05	*0.26*	7.35	*-0.19*	100.00
Federal	-0.57	-2.42	-4.86	-1.89	-2.57	-0.73	1.68	1.29	*0.27*	6.09	*-0.15*	36.78
Canada (Non-Agency)	-0.54	-2.45	-4.89	-2.15	-3.06	-0.96	1.67	1.24	*0.27*	6.82	*-0.16*	24.73
Agency	-0.62	-2.38	-4.67	-1.37	-1.54	-0.24	1.69	1.40	*0.28*	4.60	*-0.09*	11.66
Provincial	-0.56	-2.15	-4.35	-2.86	-3.95	-0.33	4.12	2.40	*0.30*	9.65	*-0.27*	34.16
Municipal	-0.48	-2.12	-4.11	-2.32	-3.10	0.00	3.93	2.44	*0.27*	8.18	*-0.24*	1.93
Corporate	-0.32	-1.56	-2.97	-1.28	-1.30	1.15	4.52	2.61	*0.20*	6.10	*-0.13*	27.13
AAA/AA	-0.43	-1.72	-3.10	-0.64	-0.35	0.60	2.73	1.64	*0.19*	3.30	*-0.09*	7.68
A	-0.23	-1.59	-3.18	-1.84	-2.43	0.97	4.75	2.91	*0.22*	8.18	*-0.15*	9.26
BBB	-0.24	-1.49	-2.64	-1.24	-0.97	1.71	5.60	3.07	*0.20*	6.33	*-0.12*	10.19
Selected Comparative Bond Sector Returns												
RRB Canada Index	-	-	-	-2.11	-2.27	1.25	6.95	0.20	*0.17*	15.71	*-0.18*	-
Maple Bond Index	-	-	-	-1.18	-1.19	0.46	2.98	2.29	*0.21*	5.07	*-0.12*	-
High Yield Overall Bond Index	-	-	-	0.73	3.11	9.36	12.36	7.08	*-0.13*	4.26	*0.12*	-
Equity Sector Returns												
S&P/TSX (Canada)	-	-	-	2.19	4.08	8.80	15.45	2.79	*-0.05*	-	-	-
S&P 500 USD	-	-	-	3.70	1.83	6.01	8.06	2.11*	-	-	-	-
S&P 500 CAD	-	-	-	3.80	4.29	8.56	8.65	-	-	-	-	-
S&P TSX Preferred Share Index (CAD)	-	-	-	-0.65	1.54	5.72	5.64	-	-	-	-	-

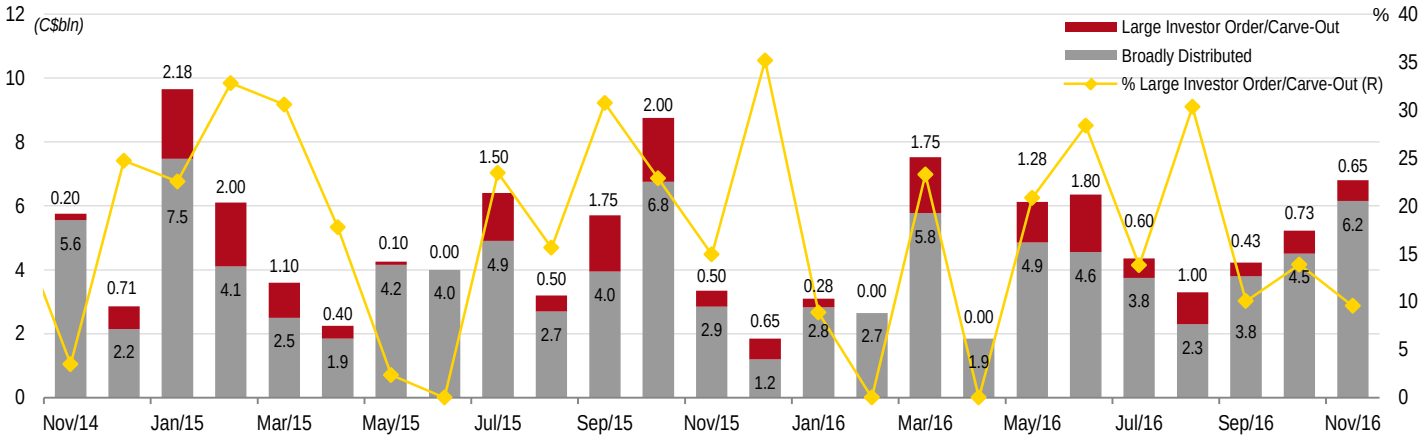
Source: PC Bond, Bloomberg **as of December 6, 2016.*

5 New Issue Supply

Provincial Deals (non-domestic in bold):

- ON / Nov-17-16 / C$750mm / 2.40% Bonds due June 2, 2026 (Re-Opening)
- Q / Nov-18-16 / C$500mm / 3.50% MTNs due December 1, 2048 (Re-Opening)
- **MB / Nov-18-16 / YEN5000mm / 0.70% Euro-JPY EMTN due December 5, 2046**
- NB / Nov-22-16 / C$87.456mm / 1.20%-3.80% Serial Debs December 7, 2017-2036 (pp)
- ON / Nov-22-16 / C$750mm / 2.80% Bonds due June 2, 2048 (Re-Opening)
- NS / Nov-23-16 / C$250mm / 2.10% Debentures due June 1, 2027 (Re-Opening)
- Q / Nov-29-16 / C$500mm / 3.50% MTNs due December 1, 2048 (Re-Opening)
- ON / Nov-29-16 / C$400mm / 2.80% Bonds due June 2, 2048 (Re-Opening) (pp)
- ON / Nov-29-16 / C$350mm / 2.80% Bonds due June 2, 2048 (Re-Opening)
- AB / Nov-30-16 / C$500mm / 2.20% Series DM Bonds June 1, 2026 (Add'l)
- NF / Nov-30-16 / C$400mm / 3.70% Debentures due October 17, 2048
- NF / Nov-30-16 / C$100mm / 3.70% Debentures due October 17, 2048 (pp)
- SK / Nov-30-16 / C$300mm / 2.55% Debentures due June 2, 2026 (Re-Opening)
- **AB / Dec-1-16 / US$2250mm / 1.90% 144A/Reg S USD Notes due December 6, 2019**
- SK / Dec-6-16 / C$400mm / 3.30% Debentures due June 2, 2048

Large Investor Carve-Outs (fixed-rate issuance)



Source: CIBC Capital Markets – Macro Strategy

Canadian Government Issuance by Sector

	Monthly Issuance			Calendar Year to December 6, 2016		
C$bln	Nov	Oct	Sep	2016	2015	% chg
Government of Canada (C$)	16.6	13.9	4.3	120.7	86.3	*+40*
o/w: Real Return	0.0	0.0	0.4	2.2	2.2	*0*
Canada Housing Trust	4.8	0.0	5.0	35.0	37.3	*-6*
o/w: Fixed Rate	2.3	0.0	5.0	24.3	27.5	*-12*
o/w: Floating Rate	2.5	0.0	0.0	10.8	9.8	*+10*
Export Development Canada	0.8	1.3	1.3	11.4	15.2	*-25*
Other Federal Crown/Guaranteed	0.0	0.0	0.0	0.0	0.0	*0*
Provincial Governments	7.1	7.3	4.8	83.0	78.0	*+6*
Municipal Governments	0.4	0.5	0.8	5.1	4.0	*+26*
Total	29.7	23.0	16.1	255.2	220.8	*+16*

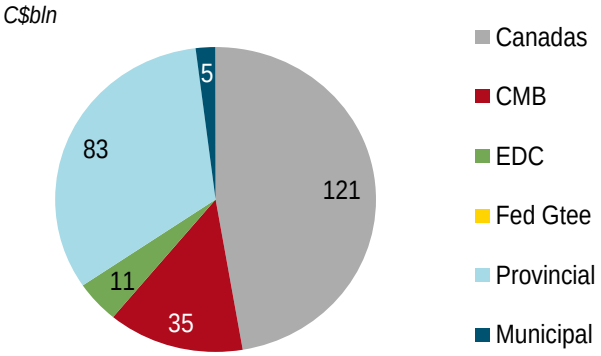
Source: PC Bond, CIBC Capital Markets - Macro Strategy.

Fiscal 2016/17 Bond/MTN Program

	Bond/MTN Budget Funding[1]		Complete to 06-Dec-16			PY to 06-Dec-15		Currency YTD		Remaining Borrowing	
	2015/16	2016/17	Total	Share	vs. FY Done[2]	Total	Share	Domestic	Foreign	Total	Avg/Month
	C$bln	*C$bln*	*C$bln*	*%*	*%*	*C$bln*	*%*	*%*	*%*	*C$bln*	*C$mln*
CAN	84.4	133.0	*95.7*	*72*	*+4*	67.0	*79*	*100*	-	37.3	9,781
BC	4.7	2.5	*2.6*	*104*	*+36*	4.0	*84*	*38*	*62*	(0.1)	(26)
AB	7.8	14.8	*13.4*	*91*	*+23*	6.3	*81*	*65*	*35*	1.4	358
SK	1.7	2.5	*2.1*	*82*	*+14*	1.3	*77*	*100*	-	0.4	115
MB	4.8	7.4	*5.0*	*68*	*0*	4.6	*95*	*61*	*39*	2.4	629
ON	30.1	23.8	*18.2*	*76*	*+8*	21.8	*73*	*80*	*20*	5.6	1,468
QC	12.0	13.5	*15.0*	*111*	*+43*	10.9	*91*	*73*	*27*	(1.5)	(393)
NB	1.8	1.8	*1.4*	*78*	*+10*	1.2	*63*	*64*	*36*	0.4	105
NS	0.9	0.8	*0.6*	*80*	*+11*	0.7	*78*	*100*	-	0.2	43
PE	0.1	0.0	-	*n/a*	*n/a*	0.1	*125*	-	-	-	-
NL	2.4	2.9	*2.9*	*99*	*+31*	0.4	*17*	*100*	-	0.0	7
Provincial Total	66.3	70.0	*61.2*	*87*	*+19*	51.3	*77*	*73*	*27*	8.8	2,306
Total	150.7	203.0	*156.9*	*77*	*+9*	118.3	*79*	*90*	*10*	46.1	12,087

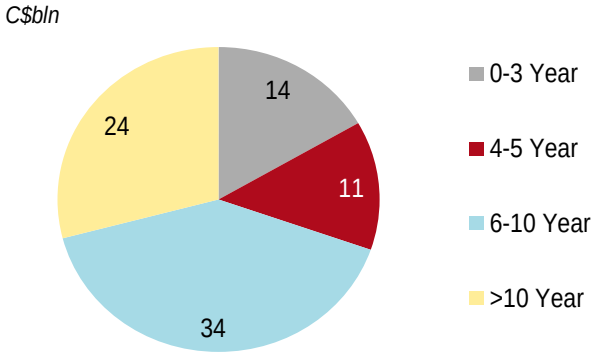
1 Projected marketable bond/MTN issuance; excludes retail/savings bonds and rollovers of CPP-held debt.
2 FY complete is 54.6% on Act/Act basis from April 1, 2016 to October 17, 2016.
Source: PC Bond, CIBC Capital Markets - Macro Strategy.

All Government by Sector



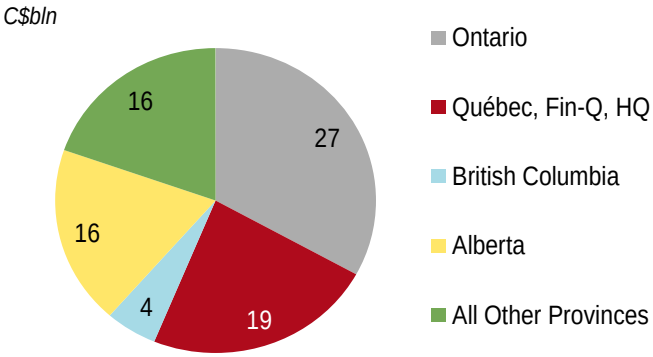
Source: CIBC Capital Markets - Macro Strategy.

Provincial by Term



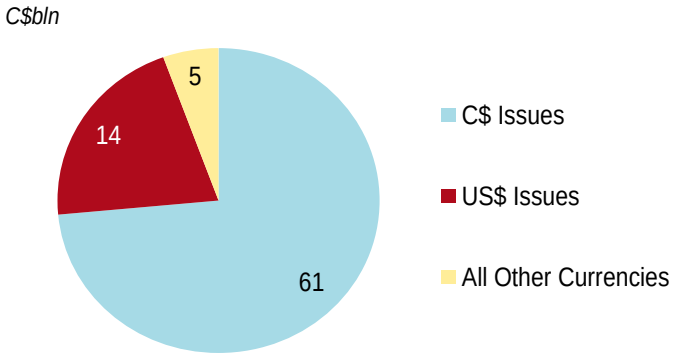
Source: CIBC Capital Markets - Macro Strategy.

Provincial by Issuer



Source: CIBC Capital Markets - Macro Strategy.

Provincial by Currency



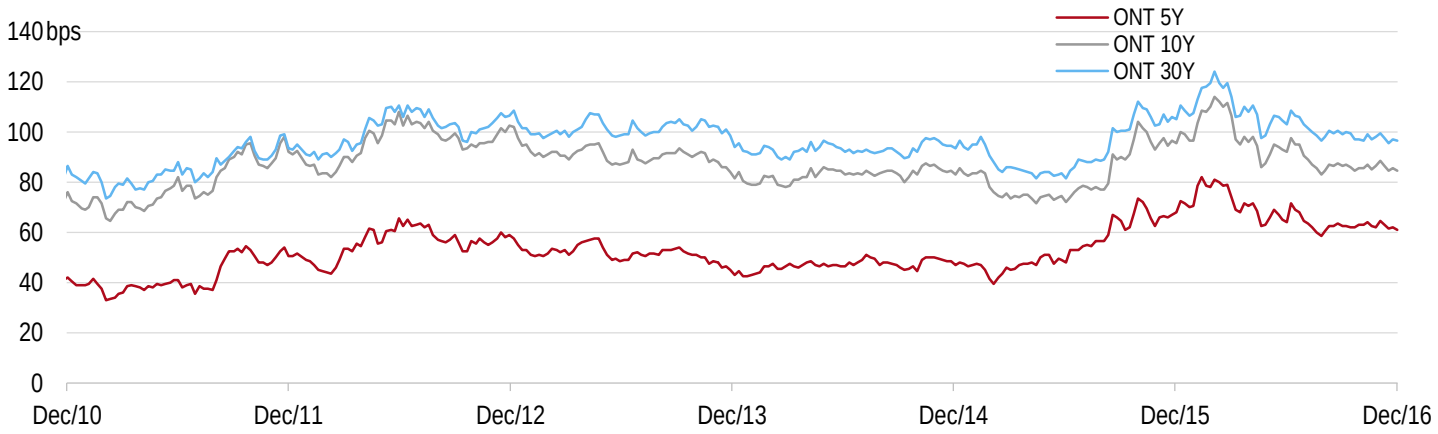
Source: CIBC Capital Markets - Macro Strategy.

6 New Issue Spreads & Rolls

Provincial New Issue Spreads:	*As of December 6, 2016*											
TERM	3	M/M	5	M/M	7	M/M	10	M/M	20	M/M	30	M/M
New Issue Spreads (vs. Canada curve) *(bps)*												
BC	40.5	*+2.0*	55.5	-	69.0	*-1.0*	74.5	*-3.0*	89.5	*-1.5*	89.5	*-1.0*
AB	45.0	*+2.5*	63.0	*-0.5*	81.5	*-1.5*	93.0	*-2.0*	106.5	*-2.5*	106.5	*-2.0*
SK	45.0	*+1.5*	63.5	-	82.0	*-0.5*	94.5	*-0.5*	109.0	*-1.0*	109.0	*-0.5*
MB	45.5	-	63.5	*-1.5*	82.5	*-2.0*	94.5	*-3.5*	113.0	*-1.0*	113.0	*-0.5*
ON	44.5	*+2.0*	62.0	-	75.5	*-1.0*	85.5	*-0.5*	97.0	-	97.0	*+0.5*
QC	41.5	*-0.5*	61.0	*-0.5*	75.0	*-2.0*	85.0	*-2.0*	99.5	*-0.5*	99.5	-
NB	51.0	*+1.0*	72.0	-	86.5	*-7.0*	101.5	*-7.0*	130.0	*-4.0*	130.0	*-3.5*
NS	50.0	*+2.0*	68.0	*-0.5*	84.5	*-2.0*	99.5	*-2.0*	117.5	*-1.5*	117.5	*-1.0*
PE	56.0	*+1.0*	77.0	-	91.5	*-7.0*	106.5	*-7.0*	135.0	*-4.0*	135.0	*-3.5*
NL	59.5	-	86.0	*-2.0*	105.5	*-4.0*	134.0	*-2.0*	155.5	*-2.5*	155.5	*-2.0*
CMB	25.6	*-0.4*	42.1	*+0.1*	45.9	*-0.6*	53.2	*-1.4*	67.4	*-3.1*	72.3	*-3.8*
vs. Mid Swaps *(bps)*												
BC	8.5	*+4.0*	25.5	*+1.0*	49.0	*+1.5*	55.0	*-2.0*	75.5	*-5.0*	83.5	*-7.0*
AB	13.0	*+4.5*	33.0	*+0.5*	61.5	*+1.0*	73.5	*-1.0*	92.5	*-6.0*	100.5	*-8.0*
SK	13.0	*+3.5*	33.5	*+1.0*	62.0	*+2.0*	75.0	*+0.5*	95.0	*-4.5*	103.0	*-6.5*
MB	13.5	*+2.0*	33.5	*-0.5*	62.5	*+0.5*	75.0	*-2.5*	99.0	*-4.5*	107.0	*-6.5*
ON	12.5	*+4.0*	32.0	*+1.0*	55.5	*+1.5*	66.0	*+0.5*	83.0	*-3.5*	91.0	*-5.5*
QC	9.5	*+1.5*	31.0	*+0.5*	55.0	*+0.5*	65.5	*-1.0*	85.5	*-4.0*	93.5	*-6.0*
NB	19.0	*+3.0*	42.0	*+1.0*	66.5	*-4.5*	82.0	*-6.0*	116.0	*-7.5*	124.0	*-9.5*
NS	18.0	*+4.0*	38.0	*+0.5*	64.5	*+0.5*	80.0	*-1.0*	103.5	*-5.0*	111.5	*-7.0*
PE	24.0	*+3.0*	47.0	*+1.0*	71.5	*-4.5*	87.0	*-6.0*	121.0	*-7.5*	129.0	*-9.5*
NL	27.5	*+2.0*	56.0	*-1.0*	85.5	*-1.5*	114.5	*-1.0*	141.5	*-6.0*	149.5	*-8.0*
CMB	-6.4	*+1.6*	12.1	*+1.1*	25.9	*+1.9*	33.7	*-0.4*	53.4	*-6.6*	66.3	*-9.8*
Rolls vs. Ontario												
ON	49.5	*+5.0*	66.5	*+2.0*	81.5	*-0.5*	90.0	-	95.5	-	96.0	*-0.5*
BC	-4.0	-	-6.5	-	-6.5	-	-11.0	*-2.5*	-7.5	*-1.5*	-7.5	*-1.5*
AB	0.5	*+0.5*	1.0	*-0.5*	6.0	*-0.5*	7.5	*-1.5*	9.5	*-2.5*	9.5	*-2.5*
SK	0.5	*-0.5*	1.5	-	6.5	*+0.5*	9.0	-	12.0	*-1.0*	12.0	*-1.0*
MB	1.0	*-2.0*	1.5	*-1.5*	7.0	*-1.0*	9.0	*-3.0*	16.0	*-1.0*	16.0	*-1.0*
QC	-3.0	*-2.5*	-1.0	*-0.5*	-0.5	*-1.0*	-0.5	*-1.5*	2.5	*-0.5*	2.5	*-0.5*
NB	6.5	*-1.0*	10.0	-	11.0	*-6.0*	16.0	*-6.5*	33.0	*-4.0*	33.0	*-4.0*
NS	5.5	-	6.0	*-0.5*	9.0	*-1.0*	14.0	*-1.5*	20.5	*-1.5*	20.5	*-1.5*
PE	11.5	*-1.0*	15.0	-	16.0	*-6.0*	21.0	*-6.5*	38.0	*-4.0*	38.0	*-4.0*
NL	15.0	*-2.0*	24.0	*-2.0*	30.0	*-3.0*	48.5	*-1.5*	58.5	*-2.5*	58.5	*-2.5*
CMB	-18.9	*-2.5*	-19.9	*+0.1*	-29.6	*+0.4*	-32.3	*-0.9*	-29.6	*-3.1*	-24.7	*-4.3*

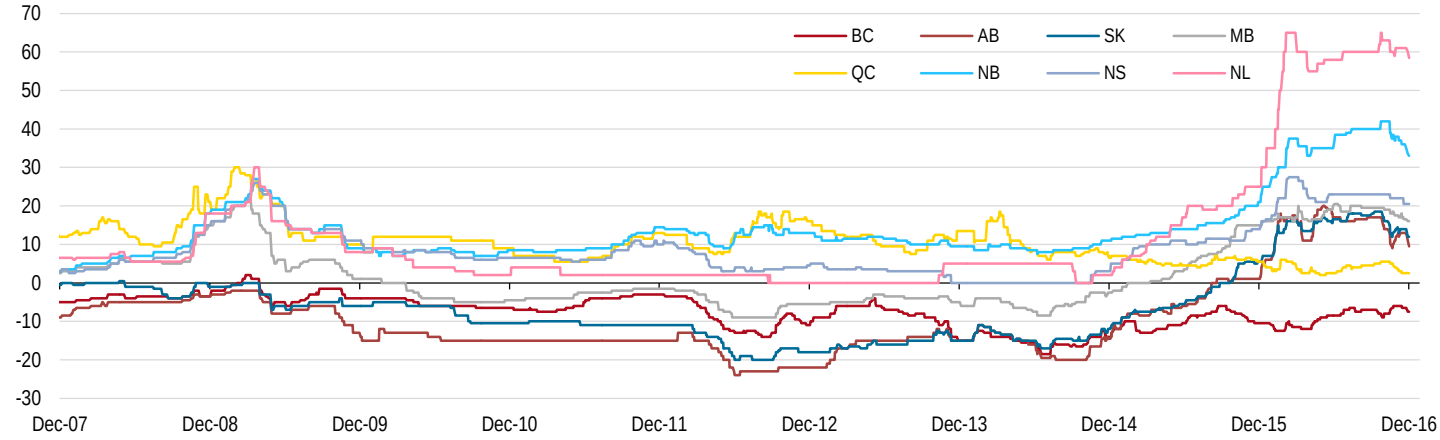
Source: CIBC Capital Markets – Macro Strategy.

Ontario Spreads



Source: Bloomberg, CIBC Capital Markets – Macro Strategy.

Changing Dynamics Re-price Rolls



Note: Based on new issue, constant maturity spreads vs. GoC curve.
Source: CIBC Capital Markets – Macro Strategy.

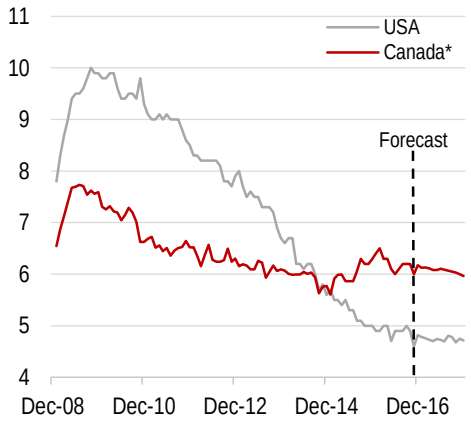
7 Economic & Fiscal Forecasts

Economic Forecasts

CANADA	16Q1A	16Q2A	16Q3F	16Q4F	17Q1F	17Q2F	17Q3F	17Q4F	18Q1F	2015A	2016F	2017F	2018F
Real GDP Growth (AR)	2.7	-1.3	3.5	1.7	1.7	1.6	1.9	1.7	2.0	0.9	1.3	1.7	1.9
Real Final Domestic Demand (AR)	1.8	2.0	0.9	1.8	1.5	1.4	1.4	1.1	1.4	0.3	1.0	1.5	1.4
Household Consumption (AR)	2.5	1.8	2.6	2.3	1.7	1.7	1.8	1.4	1.5	1.9	2.2	1.9	1.5
All Items CPI Inflation (y/y)	1.5	1.6	1.2	1.7	2.4	1.8	2.1	2.3	2.2	1.1	1.5	2.2	2.2
Core CPI Ex Indirect Taxes (y/y)	2.0	2.1	1.9	1.8	1.7	1.6	1.8	2.0	2.0	2.2	2.0	1.8	2.1
Unemployment Rate (%)	7.2	7.0	7.0	6.9	6.9	6.9	6.9	6.9	6.7	6.9	7.0	6.9	6.6
US	16Q1A	16Q2A	16Q3F	16Q4F	17Q1F	17Q2F	17Q3F	17Q4F	18Q1F	2015A	2016F	2017F	2018F
Real GDP Growth (AR)	0.8	1.4	3.2	2.5	1.6	2.3	2.2	2.2	1.2	2.6	1.6	2.2	2.1
Real Final Sales (AR)	1.3	2.6	2.7	1.9	1.5	2.2	2.2	2.1	1.6	2.4	2.0	2.1	2.1
All Items CPI Inflation (y/y)	1.1	1.0	1.1	1.9	2.6	2.2	2.5	2.6	2.7	0.1	1.3	2.5	2.7
Core CPI Inflation (y/y)	2.2	2.2	2.2	2.2	2.2	2.3	2.4	2.4	2.5	1.8	2.2	2.3	2.5
Unemployment Rate (%)	4.9	4.9	4.9	4.9	4.8	4.8	4.8	4.8	4.6	5.3	4.9	4.8	4.5

Source: CIBC Capital Markets – Economics.

Unemployment Rate (%, SA)



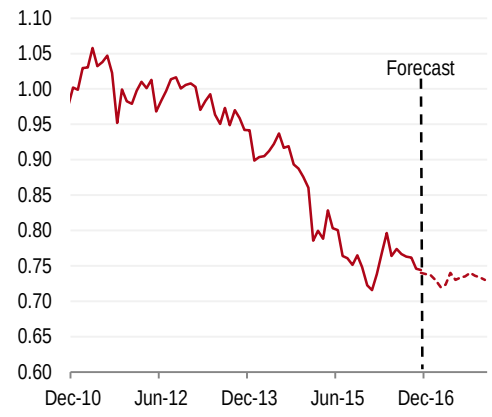
*Canadian unemployment rate calculated with US methodology.
Source: BoC, Federal Reserve, CIBC Capital Markets – Economics.

Canadian Regional Growth Forecasts

y/y % chg	Real GDP Growth 2015F	2016F	2017F	2018F	Nominal GDP Growth 2015F	2016F	2017F	2018F
BC	3.3	2.6	2.1	2.2	3.8	4.0	3.9	4.4
Alta	-3.6	-2.2	1.7	1.3	-12.5	-4.5	6.7	4.8
Sask	-1.3	-0.7	1.8	1.4	-5.7	-2.8	5.8	4.9
Man	2.2	1.6	1.7	1.8	3.1	3.0	3.5	4.0
Ont	2.5	2.5	2.1	2.3	4.9	3.9	3.9	4.6
Qué	1.2	1.5	1.5	1.6	2.6	2.9	3.3	3.8
NB	2.3	0.4	0.7	1.0	2.9	1.8	2.5	3.1
NS	1.0	1.3	1.1	1.1	2.4	2.7	2.9	3.2
PE	1.3	0.8	0.7	1.0	3.9	2.2	2.5	3.1
N&L	-2.0	0.2	-3.8	-1.7	-11.5	-2.0	0.2	1.8
CDA	0.9	1.3	1.7	1.9	0.2	1.9	4.2	4.4

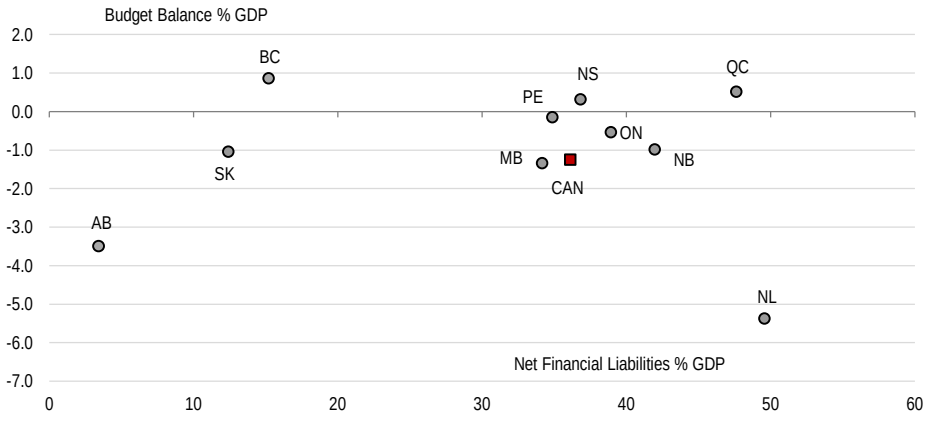
Source: CIBC Capital Markets - Macro Strategy.

Targeted Projection for CAD/USD



Source: CIBC Capital Markets – Economics.

Comparative Fiscal Positioning 2016-17 Budget/Fiscal Update Assumptions



Source: Based on PSAB accounting and reporting framework. Note: Québec before deposit to Generations Fund.

Note: National and Regional forecasts updated to incorporate Statistics Canada preliminary estimates for 2015, as well as the estimated impact of the forest fires in Alberta.

8 Credit Ratings

Issuer	DBRS	Fitch	Moody's	S&P
Sovereign				
Canada, Government of	AAA	AAA	Aaa	AAA
Federal Crown Corporations/Trusts				
Canada Housing Trust No.1 (CMB)	AAA	–	Aaa	AAA
Canada Mortgage & Housing Corp.	AAA	–	Aaa	AAA
Export Development Canada	AAA	–	Aaa	AAA
Provincial and Provincially Guaranteed				
Alberta, Province of	AA(high)	–	Aa1[Neg]	AA[Neg]
Alberta Treasury Branches (ATB Financial)	–	–	Aa1 [Neg]	–
Alberta Capital Finance Authority (ACFA)	AA(high)	–	Aa1 [Neg]	AA[Neg]
British Columbia, Province of	AA(high)	AAA	Aaa	AAA
British Columbia Hydro & Power Authority	AA(high)	–	Aaa	AAA
Manitoba, Province of	A(high)	–	Aa2	AA-[Neg]
New Brunswick, Province of	A(high)	–	Aa2	A+
New Brunswick Municipal Finance Corp.	A(high)	–	Aa2	A+
Newfoundland & Labrador, Province of	A(low)	–	Aa3 [Neg]	A[Neg]
Newfoundland & Labrador Hydro	A(low)	–	–	A[Neg]
Newfoundland & Labrador Municipal Finance Corp.	A(low)	–	–	–
Northwest Territories, Government of the	–	–	Aa1	–
Nova Scotia, Province of	A(high)	–	Aa2	A+
Nova Scotia Municipal Finance Corp.	A(high)	–	–	–
Nunavut, Government of	–	–	Aa1	–
Ontario, Province of	AA(low)	AA-	Aa2	A+
Ontario Electricity Financial Corp.	AA(low)	–	Aa2	A+
Prince Edward Island, Province of	A(low)	–	Aa2	A
Québec, Province of	A(high)	AA-	Aa2	A+[Pos]
Financement-Quebéc	A(high)	AA-	Aa2	A+[Pos]
Hydro-Quebéc**	A(high)	AA-	Aa2	A+[Pos]
Saskatchewan, Province of	AA	AA	Aaa	AA+[Neg]
Yukon, Territory of	–	–	–	AA

*Rating outlooks stable unless otherwise indicated.
**At time of publishing, rating of Hydro-Quebec had not be harmonized to Province of Quebec, however we expect the outlook to be revised to stable imminently
Source: Rating agency data

9 Sector-Related Developments

Inside (in order of appearance):

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- Two Sets of Books at City Hall? Grading the Financial Reports of Canada's Cities (November 24, 2016, p31)
- Falling Tax Revenue Nearly Doubles Saskatchewan's Forecasted Deficit (November 22, 2016, p31)
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- Canada's Diversified Economy and Strong Institutions Support Economic Resiliency (November 18, 2016, p32)
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Prince Edward Island Reduces F2015-16 Deficit by $6.8mln

(CIBC Macro Strategy Research Note, December 7, 2016, Complete story click here)

The Province released its Public Accounts for Fiscal 2015-16 revealing a deficit of $13.1mln, a reduction of $6.8mln from the original budget. The Finance Minister, Allan Roach, says the improved results are due to "strong economic performance and sound financial management as we continue to work towards a balanced budget in the next fiscal year."

The Province incurred the same incremental increase for net debt as the previous fiscal year, increasing $35.8mln, with ending net debt now totalling $2,170mln. Net debt to GDP has been on a declining trend, going from 36.6% in 2013 to 35.8% in 2015, and forecast to be 35.1% in 2016.

Prince Edward Island's results prove that the Province is working towards a budget balance, further evident by its forecasts for F2016-17, F2017-18, and F2018-19 Budgets, which portray an improving fiscal position of $9.6mln deficit, $9.2mln surplus, and $24.5mln surplus, respectively.

Mexico Overtakes Canada as No. 2 U.S. Exporter Ahead of Trump

(Bloomberg, December 6, 2016) – Amounts USD

Mexico is overtaking Canada as the No. 2 exporter of goods to the U.S. this year, in a sign of how economic ties have deepened between the two countries even as the relationship is being questioned by President-elect Donald Trump.

Shipments from Mexico totaled $245bln in the first 10 months of the year, according to Commerce Department figures released, ahead of Canada's $230bln. If the trend continues, it would be the first time ever the U.S. bought more imports from its neighbor to the south. The two countries ended 2015 tied in exports to the U.S.

The trend of catching up to Canada puts China and Mexico as the top two exporters to the U.S. just as Trump prepares to take office in January, reflecting the strong pull of lower cost jurisdictions for the U.S. economy. Canada, which has one of the highest cost bases in

the Americas, has seen its share of U.S. imports fall to about 13% from around 20% two decades ago.

The growing links between Mexico and U.S. hinge on motor vehicles. Mexico has won new factories over the past six years from Toyota Motor Corp., Volkswagen AG's luxury Audi unit, Kia Motors Corp. and BMW AG – up to $25.9bln in new auto investments since 2010, according to the Center for Automotive Research in Ann Arbor, Michigan – fueling car shipments totaling $90bln in the first 10 months. That's versus $54bln from Canada.

City of Toronto's 2017 Preliminary Budget Unveiled

(CBC News, December 6, 2016, Complete story click here)

Budget Chief Gary Crawford said the $10.4bln preliminary budget unveiled Tuesday proves the city is getting leaner and more efficient, but critics say painful cuts are on the way for the city's most vulnerable.

City manager Peter Wallace said the proposed budget doesn't include major tax increases or serious service reductions, however city council still needs to find some $91mln in savings to balance the budget — something the city is required to do under the law. City staff have already made a number of cuts and deferrals in an effort to clear more money to put toward the $33bln worth of unfunded capital projects. Crawford said while there will be some jobs lost as a result of the tighter budget, most of the savings have been found from modernizing systems.

Toronto's red-hot housing market was among the biggest benefits for the budget, as the city raked in some $101mln from the land transfer tax — growth of 19%. Wallace did note that the government is "concerned about the froth of the Toronto housing market," but staff are anticipating another strong year of revenue.

Torontonians will be paying more for some things in 2017, including a 10% per TTC trip. Meanwhile, Mayor John Tory's plan for road tolls on the Gardiner Expressway and Don Valley Parkway has been approved by the executive committee.

Vancouver Housing Tax Pushes Chinese to $1mln Seattle Homes

(Bloomberg, December 4, 2016)

Just a few days after Vancouver announced a tax on foreign property investors, a Seattle real estate broker received a WeChat message from a wealthy Chinese businessman who wanted to sell a home in Canada and buy in the area. After a week of showings, he purchased a $1mln property in Bellevue, across Lake Washington from Seattle. He soon returned to buy two more, including a $2.2mln house in Clyde Hill paid for with a single cashier's check.

A broker says she has been inundated with similar requests from China and Hong Kong after Vancouver's provincial government enacted a 15% tax on foreign homebuyers in August to help cool soaring real estate values. With Chinese investors – the largest pool of foreign capital – looking for a place to put their cash, the unintended consequence of the fee has been to push demand to cities such as Seattle and Toronto.

Home-purchase inquiries from China have jumped in Seattle and Toronto since the Vancouver tax was announced, according to Juwai.com, the country's largest overseas property website.

Vancouver Home Sales Decline for 5th Straight Month in November

(Bloomberg, December 2, 2016)

Vancouver home sales plunged 37% in November from a year earlier, extending the slowdown in Canada's most expensive property market for the fifth straight month. Transactions in the Pacific coast city fell to 2,214 in the month, from 3,524 a year earlier, the Real Estate Board of Greater Vancouver said Friday. That was 7.6% below the 10-year average for November.

Sales have been falling year-on-year since July, with buyers sitting out as the price of a typical home skyrocketed to more than 12 times the median household income of residents in Vancouver. It topped a list of global cities identified by UBS Group AG as most at risk of a housing bubble.

Further policy measures aimed at cooling the market contributed to the slowdown, including a 15% tax on foreign buyers imposed by British Columbia's provincial government in August, tighter Federal mortgage insurance eligibility requirements in October, and plans by the city to start taxing vacant homes next year.

The effect on prices remains muted. The benchmark price for a single-family detached house in Vancouver rose 23% in November from the same month last year to $1,511,100. The benchmark price for all residential properties in metro Vancouver climbed to $908,300, a 21% increase from a year earlier and a 1.2% decline from the prior month.

No Sign of Toronto Housing Let-Up as Prices Jump 23% in November

(Bloomberg, December 2, 2016)

Sales in Canada's biggest city rose 17% to 8,547 transactions last month from a year earlier, while average prices jumped 23% to $776,684, the Toronto Real Estate Board said in a statement.

The figures suggest little effect so far from new government rules designed to bring stability to the market. Finance Minister Bill Morneau unveiled new Federal rules in October tightening mortgage qualification requirements, specifically to cool the Toronto market. Some analysts have argued the pace of gains won't slow by much without new supply hitting the market.

"Recent policy initiatives seeking to address strong home price growth have focused on demand," Jason Mercer, the board's director of market analysis, said in the statement. "Going forward, more emphasis needs to be placed on solutions to alleviate the lack of inventory for all home types, especially in the low-rise market segments."

The average price of a detached home was $1.06mln, up 28% on the year. New listings rose 10% to 10,518 homes.

Don't Blame Canada Price Surge on Foreigners, Housing Chief Says

(Bloomberg, November 30, 2016)

Foreign buyers aren't the main culprit behind skyrocketing home prices in Canada, said the head of the nation's housing agency. "Foreign investment is a thing, not the thing that's driving demand," Evan Siddall, president of Canada Mortgage and Housing Corp., said in an interview with Bloomberg.

Siddall's comments come amid a public outcry in Canada, where home prices are rising the fastest in the world after New Zealand when adjusted for inflation. In Vancouver, the nation's priciest market, the provincial government imposed a 15% tax on overseas buyers in August in an effort to curb gains. Foreign ownership in condominium apartments is declining in Vancouver and Toronto, and overseas landlords still only represent 2.2% and 2.3% of ownership respectively, according to a survey released by the Ottawa-based agency.

"Everything we see suggests that there is a whole lot more domestic investment activity in the real estate sector than foreign investment activity," Siddall said. "This buy-and-flip mentality that happens in higher priced markets like Vancouver and Toronto only makes the affordability problem worse."

The recent slowdown in the Vancouver market isn't the result of the tax on foreign investors, but more likely "the belief" among local buyers that the tax would take the froth out of the market, Siddall said. "One of the real challenges of housing is that people don't necessarily behave rationally," he said. "Making policy that affects behaviors is a tricky thing to do."

The bigger factor influencing short-term price gains in markets like Toronto and Vancouver is lagging supply response, he said.

"We're calling for more action on the supply side," he said. "In places like British Columbia and Ontario it's actually more important to have a more aggressive supply response."

Recent measures announced by the Federal government, including a proposal for banks to share the burden of mortgage defaults, were necessary, Siddall said. "We can't regulate markets completely," he said, but the steps at least ensure that the government doesn't "fan the fires."

The new Federal rules also imposed stricter eligibility requirements for those seeking mortgages. Some say the rules will hit first-time homebuyers inordinately hard, shutting them out of the market. Surging home prices are distorting the economy by diverting money into houses rather than more productive uses like businesses, Siddall said. "Doing things to make it not quite so easy to invest in homes is good for our economy."

British Columbia's Mid-Year Update Projects Increased Revenue and Reduced Debt

(CIBC Macro Strategy, November 29, 2016, Complete story click here)

The Province of British Columbia released its Mid-Year Fiscal and Economic update today, projecting a modestly higher surplus of $2.242bln, up $301mln from the Q1 update and $1.978bln higher than the F2016-17 Budget.

As a result of the improved operating surplus projections, provincial debt is projected to decrease by $762mln from Q1 and $1.934bln from the budget, now forecasted at $65.756bln. The updated gross borrowing requirement for 2016-17 is now $2.5bln, including a provision of $350mln for the forecast allowance. With this revision down from $3.2bln in Q1, the Province now has nothing remaining in its 2016-17 borrowing requirements.

British Columbia remains the best rated province in Canada. As its debt ratio improves, it moves closer towards achieving a AAA rating from DBRS, placing it in an unparalleled position as an unequivocal AAA-rated province.

Financial Accountability Office Warns of Continued Budget Deficits in Ontario

(The Canadian Press, November 28, 2016)

Ontario's government spending watchdog warns there is "significant risk" the Liberals will not eliminate a $4.3bln deficit next year, but Finance Minister Charles Sousa insists the books will be balanced as promised. In his fall economic statement November 14, Sousa announced he would dip into the reserve fund to ensure a balanced budget in F2017-18, in part because of an accounting change in the way pension liabilities are calculated.

The Financial Accountability Office (FAO) issued a report insisting the Liberals were relying on "optimistic assumptions for revenue growth and program spending restraint." The FAO said the government's revenue projection is $2.8bln higher than its estimate for F2016-17, and $5.2bln higher by F2018-19.

"The government has a variety of tools that it could use to temporarily improve the budget balance in F2017-18," concludes the FAO report. "Beyond F2017-18, maintaining a balanced budget will likely require additional measures to raise revenues or reduce expenses."

The FAO questioned how the government will pay for new promises it made in September's throne speech to discount the 8% provincial portion of the HST from hydro bills and to create 100,000 new child care spaces. FAO assumed program spending would increase $1.8bln annually to fund the hydro rebate and to create the child care spaces, but Sousa's fall economic statement reported program expenses only $400mln higher in F2018-19 compared to the 2016 Budget. "That suggests that these new initiatives may be partially funded though reallocations from existing programs or the contingency funds," concluded the FAO's report.

Alberta Mid-year Fiscal Update Shows Little Change

(CIBC Macro Strategy, November 28, 2016, Complete story click here)

Projected deficit for F2016-17 has fallen slightly to $10.811bln, down $78mln from the Q1 update. F2017-18 and F2018-19 projected deficits are $10.131bln and $8.351bln, respectively, unchanged from budget.

Borrowing requirements for the F2016-17 are now $14.845bln, up $697mln from budget due to higher borrowings for the fiscal plan partially offset by lower borrowings for capital purposes. However, the borrowings are down $967mln from the Q1 update reflecting a combination of cash changes, including higher cash energy royalties. As of today, the Province has borrowed $10.0bln, with $4.9bln remaining. The target borrowing requirement for F2017-18 is $19.8bln, with the Province aiming to borrow 60-70% domestically and 30-40% internationally.

The Province continues to cope with the collapse in global oil prices and the fiscal impact of the Wood Buffalo Wildfire, which is estimated at $520mln. As per the original budget, the fiscal adjustment is projected to increase in F2017-18 and F2018-19 to $1.5bln and $2bln, respectively, reflecting the uncertainties ahead, although the province has expressed optimism that Alberta's economy is showing signs of stabilization.

Alberta to Pay $1.36Bln to Coal Plants; Settlement for Closing Plants Early

(Financial Post, November 25, 2016, Complete story click here)

The Alberta government will pay three coal-fired electric generating companies $1.36bln for the province's decision to close their plants early, while also potentially avoiding a lawsuit with other power companies in the province.

The province's Energy Minister Marg McCuaig-Boyd announced Thursday the province will pay Capital Power Corp., TransAlta Corp. and ATCO Ltd. a total of $97mln per year, beginning next year and payable every year until 2030, to shut down six of their 18 power plants early.

The other 12 coal-fired electric generating stations in the province are all scheduled to close, or convert to natural gas, before 2030. Alberta's NDP government has mandated that all coal-fired power plants either cease operations or eliminate all their emissions by that date as part of sweeping climate change legislation announced last year.

The payments will be made out of revenues collected from the province's newly implemented price on carbon and were announced at the same time that the government announced it had settled lawsuits, initiated by the province, with other power companies .

Two Sets of Books at City Hall? Grading the Financial Reports of Canada's Cities

(C.D. Howe Institute, November 24, 2016, Complete story click here)

In nearly all Canada's larger cities, obscure financial reports – notably inconsistent presentations of key numbers in budgets and end-of-year financial reports – hamper legislators, ratepayers and voters seeking to hold their municipal governments to account.

By presenting net rather than gross figures in their budgets, most cities understate their revenue and spending and obscure key activities. The differences in accounting methods in most cities' budgets as compared to the presentations of their financial results are large, and have real-world consequences. By using cash rather than accrual accounting, cities exaggerate the costs of investments in infrastructure, hide the cost of pension obligations, and make it hard to match the costs and benefits of municipal activities to taxpayers and citizens. Moreover, many cities present their budgets late, after significant money has already been committed or spent, do not publish their financial results in a timely way, and bury key numbers deep in their reports.

Our key recommendations are that municipal governments should present their annual budgets on the same accounting basis as their financial statements, and that budgets should show gross, not net, revenue and spending figures. Budgets should use accrual accounting, recording revenues and expenses as the relevant activities occur over time. Provincial governments exercise decisive control over cities, so those that impede accrual-based budgets at the municipal level should stop doing so.

Falling Tax Revenue Nearly Doubles Saskatchewan's Forecasted Deficit

(CIBC Macro Strategy, November 22, 2016, Complete story click here)

Saskatchewan released its mid-year Fiscal 2016-17 update projecting a deficit of $805.6mln, up $371.4mln from the Budgeted forecast. The deficit is actually $1041.1mln on the balance sheet. However, there is an adjustment of $235.5mln for Net Worker's Compensation Board (WCB) Earnings Distribution.

The larger deficit will require $500mln in additional borrowing for government operations, bringing the total for the fiscal year to $2.5bln. This additional amount, combined with other forecasts changes, has public debt projected to be $15.2bln at fiscal year-end, up $447.7mln from the F2016-17 budget.

The Province is projecting a return to black in next fiscal year, having a surplus of $6mln, and then remaining positive through the following two years with surpluses of $55mln and $97mln, respectively.

Manitoba Government Focusing on Economy, Finances in Throne Speech

(The Canadian Press, November 21, 2016)

Manitoba's Progressive Conservative government will focus on the economy and provincial coffers in a throne speech that will outline the province's agenda for the coming year.

Premier Brian Pallister has said the throne speech will have three prongs: chipping away at the provincial deficit, boosting the economy and preserving front-line services. One of the first items to be on the agenda is a new balanced-budget law to replace one Pallister scrapped in the spring. The former law forced pay cuts on cabinet ministers whenever the government ran a deficit – something Palllister has said "may or may not be" part of the new law. The legislation also is expected to restore the right of citizens to vote on major tax increases. The former NDP government sidestepped that requirement when it raised the provincial sales tax in 2013 by changing the law. The Tories took the matter to court, but a judge sided with the New Democrats and said governments are free to change laws if there are no constitutional or charter violations.

Pallister has given himself eight years to wipe out the deficit, which stood at $846 million last year. He has also promised to cut the provincial sales tax to 7% from 8% before the end of his first mandate.

$1.2 Trillion 'Wolfcamp' Discovery Means Canada's Oilsands Should Fear Texas

(Huffington Post, November 18, 2016, Complete story click here)

The oilsands suddenly have a real reason to fear Texas. The United States Geological Survey (USGS) announced this week that a massive deposit of shale oil had been discovered in west Texas, the largest such field yet found in the U.S.

Known as the Wolfcamp formation, it contains an estimated 20bln barrels of oil and 16trn cubic feet of natural gas. At current prices, the oil alone is worth around $1.2tln (US$900bln). But it's unlikely all of that oil could be extracted. Wolfcamp is three times as large as the Bakken formation in North Dakota — a field so large it has been blamed for depressing Canadian oilsands prices.

Oilsands product sells at a "discount" compared to the benchmark North American price, in part due to difficulties transporting the oil to markets, and in part due to the explosion of oil production in the U.S., which briefly made the country the world's largest producer of oil. (It fell behind Russia and Saudi Arabia after oil prices crashed.)

The possibility that an oil field three times as large as North Dakota's Bakken could one day be fully exploited presents a threat to the future of Alberta's oilsands, already struggling with low oil prices that have halted investment in new projects.

Canada's Diversified Economy and Strong Institutions Support Economic Resiliency

(Moody's Investors Service, November 18, 2016)

Canada's Aaa rating with a stable outlook reflects the country's large and diversified economy, as well as its high wealth levels and benign trends in Federal government finance. The country's economy is also supported by a number of other factors such as a transparent monetary policy and well-developed and well-regulated financial markets.

With a nominal GDP of US$1.6tln in 2015, Canada's economy is the third largest in Moody's Aaa-rated category, after the US and Germany. "In line with other large, high-income economies, Canada's economy is well diversified," said William Foster, a Vice President and Senior Credit Officer at Moody's. "This enables it to absorb shocks, for example following the financial crisis and, more recently, the downturn in oil prices."

However, an increase in household debt that is being driven by rising house prices could pose a threat to growth. In Moody's view there is a low probability of a housing market collapse similar to the one experienced in the US during the crisis, but a major downturn in the housing market could affect the government's balance sheet.

While Canada's general government debt burden is somewhat higher than that of its Aaa-rated peers, Federal government debt levels are moderate. The ratio of general government debt to GDP, was at 78.3% for year-end 2015, more than twice the 38.1% median level for Aaa-rated sovereigns. However, excluding sub-sovereign debt, the federal government's own ratio was a more moderate 34.5%.

The stable outlook on the rating indicates Moody's view that Canada's rating is unlikely to move down in the near future. Over the long term, should the political consensus on maintaining sound public finances erode and government debt ratios rise further, the government's rating could come under pressure. Material deterioration in Canada's economic potential and resilience to shocks that impair affordable financing from international investors and the health of the financial system would be credit negative.

CMHC Stress Testing Confirms Ability to Withstand Extreme Scenarios

(CMHC, November 17, 2016, Complete story click here)

In 2016, CMHC tested its mortgage loan insurance and securitization businesses against several extreme scenarios including:

- Global economic deflation
- Sustained low oil price shock
- High-magnitude earthquake
- Reverse stress test
- U.S. style housing correction

This year's tests confirm that CMHC's capital holdings are sufficient for even the most extreme scenarios.

"Stress testing involves searching out extreme scenarios that have a very remote chance of happening and planning for them," said Romy Bowers, CMHC's Chief Risk Officer. "Rigorous stress testing is an essential part of our risk management program and allows CMHC to evaluate its capital levels against these scenarios."

New Brunswick Reports Improved Budget Forecast for 2016-17

(CIBC Macro Strategy, November 15, 2016, Complete story click here)

The Province released its economic and fiscal update for the second quarter, improving the forecasted deficit from the 2016 Budget by $15.5mln to $331.6mln. This was also an improvement from the first quarter update by $10.8mln, when the Province forecasted a deficit of $342.4mln.

Net debt is projected to increase by $445.8mln for the fiscal year, a decrease of $22.7mln from budget. If the Contingency reserve is not required, net debt will be $14.0bln by March 31, 2017, $14.1bln if required.

As a result of the improved revenue outlook, the contingency reserve has been restored to its budgeted level of $100mln. This reserve was reduced last quarter to $80mln, to account for weakened revenue, which has now rebounded.

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November 16, 2016

US Election Impact on Provincials

Click through to sections

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Credit Fundamentals

7 Economic/Fiscal Forecasts *p20*

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Fiscal Developments Tracker

- Fiscal Updates: Canada, BC, Alta., Man., Ont., NB, NS, N&L.
- F2015-16 Public Accounts: Canada, BC, Alta., Sask., Man., Ont., Québec, NB, NS, and N&L.

The surprise Trump win in the US election that clinched Republican control in both chambers of Congress had little impact on the day for provincial spreads. Flows were moderate on the back of a big back-up in yields (CAN 30Y +10bps, US 30Y +23bps), and there was a sharp rebound in a volatile session for equities. After starting the day modestly wider, the benchmark ONT 30Y finished the day 1-2bps tighter to the area of +95bps (currently +97.5). Markets clearly shrugged off any concerns or previously held biases over the election outcome. Have markets become accustomed to these types of surprises only to shrug them off? With campaign pledges to overhaul trade agreements in a more protectionist way, a Trump government could have negative consequences for Canada's economy. With 77% of Canadian exports going to the US, it's no wonder that Justin Trudeau is championing inclusive globalization and negotiated hard for CETA. Fresh in the minds of Canadians are the rows over Keystone XL, softwood lumber, and country-of-origin labelling for food products. However, an advanced democracy is built on the foundation of strong institutions and engaged citizens over many generations – not just one person. Although Donald Trump will have strong flexibility given the Republican grip on Congress, we know too well that policy implementation will be a gradual process, and it would be irresponsible to rush to the conclusion that the impact on Canada would be deeply negative. On the plus side, Trump's policies may spur stronger US economic growth (which would benefit Canada), Keystone XL may finally get the Presidential Permit, and trade agreements may be improved for the benefit of all parties.

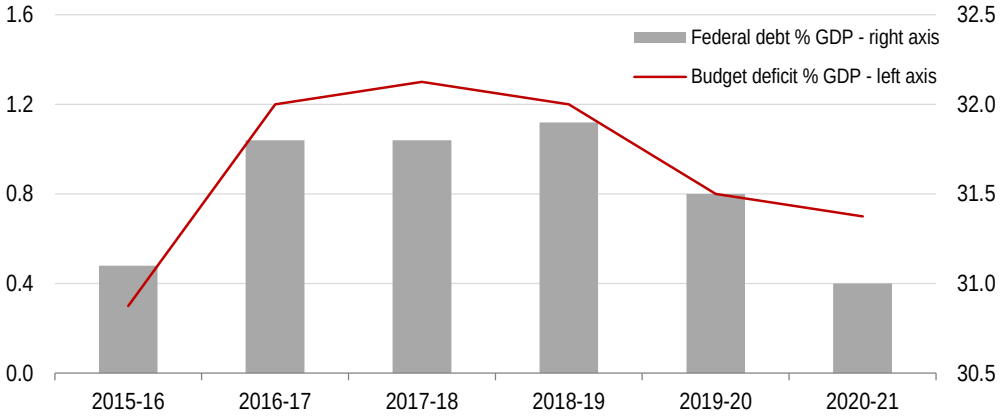
What's New in Sector Developments

- Newfoundland and Labrador attain New Federal Loan Guarantees for Muskrat Falls
- Québec reports higher surplus for Fiscal 2015-16 … and more Click Here.

Federal Fall Fiscal Update Downgrades Growth Outlook

We don't see any risk to Canada's AAA-rating given its very low debt ratio, but we note that the Federal fall fiscal and economic update that was tabled on November 1 projects a modestly weaker economic outlook. This revised trajectory will erode the cushion built into the original Budget 2016 plan that was tabled in March, leaving less flexibility for negative surprises and/or increasing spending programs without running higher deficits. Click Here for Research Note

Projected Federal Deficits/Debt



Source: Government of Canada Department of Finance.

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1 Market Outlook

Still Cautiously Defensive on Base Case for Higher Rates

Our portfolio strategy is grounded on our base case for a gradual move higher in rates, and a firmer global economy heading into 2017. However, we are still 'cautious and measured' on duration risk given uncertainties in this outlook, including the opaque outlook for oil prices, Brexit negotiations, the adjustment unfolding in Canada's housing market as a result of tighter regulation, and the potential negative implications of the US election on Canadian trade. We also point out that our Institutional Equity Strategist believes that equity markets are overvalued based on year-end targets and, therefore, at risk to any earnings misses in the current low-growth environment.

Following the US election, on policy rates, CIBC Economics is still expecting a gradual tightening move by the Fed, with one hike in December and then two in 2017. This view is held given that financial markets have responded favourably to the election outcome and the US economic recovery is expected to unfold in a constructive manner. Trump's policies may drive up growth, but the details and pace of implementation are still unknown. In Canada, CIBC Economics is forecasting that the Bank of Canada will be on hold longer, at least until mid-2018, as Canada's central bank postures between desires for a weak Canadian currency to support export growth and containing elevated housing market risk. The BoC is also leaning on fiscal stimulus. However, the risks are somewhat tilted to the downside if growth is weaker than expected, and more support is needed beyond fiscal stimulus. Circumstances that could lead to weaker growth are a sharp correction in the housing market, and/or a slower recovery in oil prices.

An important variable for the Canadian economy is oil prices. Our Macro Strategy Oil Analyst states**:** "November 30 continues to be poised as decision day for oil markets as the energy complex rebounds from the weight of bearish monthly agency forecasts, record OPEC and Russian October output, and USD pressure since Trump's election victory. Based on OPEC October crude supply of 34.155mb/d, a production cut to the mid-range of the proposed 32.5–33.0mb/d level amounts to 1.4mb/d – almost double the initial Algiers estimate. Market skepticism towards a successful agreement out of Vienna has increased on the long road from Algiers, with WTI Managed Money futures and options long interest dropping below pre-Algiers levels, and short interest climbing sharply. With crude benchmarks trading around pre-Algiers levels, it is in the cartel's best interests to effect an agreement on November 30. Markets will likely be unforgiving of anything short of a substantial supply cut, be it at the higher end of the range (33mb/d) as discussed at Algiers. We maintain our price forecasts for 2016 and will review 2017 estimates post the November 30 outcome." Forecasts: WTI: $43.50/bbl (2016E avg.), WTI: $51.25/bbl (2017E avg.), Brent: $46.50/bbl (2016E avg.), Brent: $52.50/bbl (2017E avg.), WCS: $30.50/bbl (2016E avg.), WCS: $38.00/bbl (2017E avg.), NYMEX: $2.45/mmbtu (2016E avg.), NYMEX: $3.65/mmbtu (2017E avg.).

We also present CIBC Institutional Equity Research Oil Analysts' (Arthur Grayfer and Jon Morrison) oil price forecasts (avg.) as follows: WTI 16F US$45 (increased by ~6% on stronger-than-expected Q2, with their quarterly progression as follows: US$33.41/Bbl for Q1/16, US$45.60/Bbl for Q2/16, US$47.50/Bbl for Q3/16E, and US$53.40/Bbl for Q4/16E. They are also projecting WTI F17 US$60, WTI F18 US$70/bbl. Their base case for 2017 is for the crude market to tighten due to falling supply and demand growth, driven by both the United States and Asia.

A gradually improving oil price should be supportive for the Canadian loonie, which is already off the lows on firmer oil prices. However, our Macro Strategy FX Strategist Bipan Rai believes that, "While oil prices should see an updrift next year, correlations with the CAD will deteriorate as monetary policy divergence and foreign investment flows will continue to be the determining factors for the loonie. We expect USD/CAD to trade with a USD bid bias on average for much of next year. Our expectation is that the USD/CAD will be in a range of 1.25-1.40." **Both our FX Strategist and our CIBC Economics team believe that the USD/CAD will strengthen modestly from here, reaching about 1.39 by Q1 2017.**

On sector allocation, we remain in favour of a corporate overweight vs. provincials underweight for better yield. We've shifted to maximum corporate sector overweight, but security selection will be key in navigating through what we expect will be choppy spreads in both sectors. We see higher risk in the energy sector, if the oil price recovery takes longer than expected. We also see higher risk in the financial sector with the housing market adjustment, but this view applies mainly to the less diversified, monoline players who have concentrated exposures to the slowing housing market.

2 Trading Biases

Portfolio Strategy Near-Term Trading Biases (3-6M outlook)

Target Benchmark Weights

- Moving to max weight on Corporates on constructive credit outlook for 2017

FTSE TMX Canada Universe Bond Index	Sector Weight October 31, 2016 %	Near-Term Trading Bias %**
Index	100.00	100.00
Federal*	36.58	23.00
-Canada (Non-Agency)	24.73	13.00
-Agency	11.47	10.00
Provincial	34.33	24.00
Municipal	1.96	3.00
Corporate	27.13	50.00
-AAA/AA	7.61	10.00
-A	9.27	20.00
-BBB	10.25	20.00

Source: PC Bond, Bloomberg.
*Federal sub-group includes supra-national which is not displayed.
**Not adjusted for cash holdings to be 'Modest and Measured' short
Note: Table may not add due to rounding

Top-Down Strategy

- Duration: 'Modest and Measured' short

We still believe a cautious duration stance is warranted at this time. We are proposing only a 'modest and measured' short over the next 3-6 months until we have more clarity on the global economy, oil prices, and the impact on Canada's housing markets as a result of tighter mortgage regulation. As we've seen since the start of the year, being nimble on tactical shifts (i.e. being able to cover shorts, and capitalizing on rallies) will be the key to avoiding value destruction in a market that is volatile and prone to react to global events (i.e. Brexit, Turkey attempted coup, US elections, etc.) and other market developments. We do see risks tilted to the downside arising from the housing market correction, as well as the potential for tighter trade conditions with the US following the win by Republican Party Leader Donald Trump.

- Curve: Bullet (emphasis on yield maximization; note that 10-30s yield curve at ~68bps not compellingly steep – calling for bear steepening)
- Sector Allocation: Overweight corporates (near max. constraint or target)
- Under-market weight Canadas
- Underweight provincials
- Small position in the less liquid municipal sector

Premise

- 'Modest and measured' defensive position in the context of historically low yields and expectations for an improving global economy, but vulnerable to shocks and geopolitical risk
- Gradual normalization of policy rates with the Fed Reserve moving way ahead of the Bank of Canada
- With the strong correlation between the US and CAD yield curves, the CAN10Y and US10Y are expected to move higher together
- Our Equity Strategist, Ian de Verteuil, expects equity markets to continue to be choppy over the remainder of the year, with negative rates, deflation concerns, slow growth and disappointing earnings periodically weighing on equity prices. Stocks have been moving higher on valuations without earnings growth seen moving a lot higher. Funds flow has been distorting valuations, moving things around in such a way that's driven by central bank activity supporting low or negative bond market yields. Markets are vulnerable to central bank support. Earnings and valuations have not been seen as going much higher. Based on fair value fundamentals that underpin our Strategist's targets, equity markets have moved ahead of year-end targets: SPTSX target 14,000; SPX target 2,100. **We note that the SPTSX ex-Energy forward multiple is ~14.5x, above its five-year average of 13.4x.**

- We favour the risk/reward trade-off in corporate vs. government bonds at these wider spreads (especially given the narrower spread tolerance in government bonds). **We've changed our corporate weight to max. on the belief that credit spreads will remain well bid, and benefit next year from a more stable-to-improving global economy.**

Government Sector Security Selection Biases*

- Near-term >5Y security bias CAN, CMB, BC, SK, ONT, QC
- Near-term ≤5Y security bias CAN, CMB, BC, ALTA, MAN, SASK, ONT, QC, NS
- Favouring mostly core liquid non-Energy names in mids and longs

**Qualified by fundamental credit trends (fiscal/economic) as well as supply and liquidity.*

Trading Range Targets (vs. Curve)

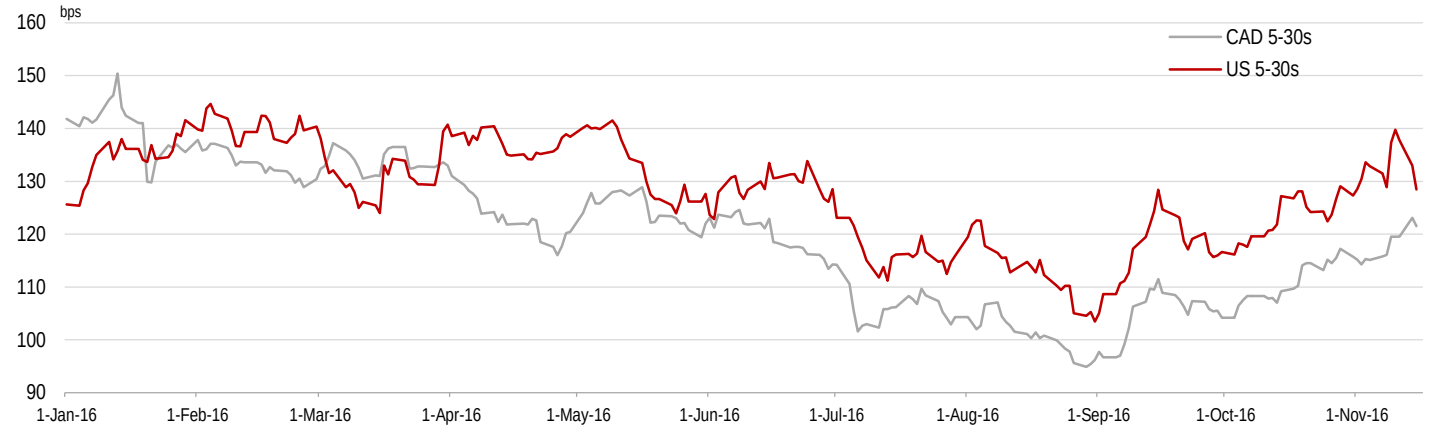
ONT 30Y +95-110bps (current ~97.5bps – at tight end of our range)

QC 30Y roll* +3-6bps (current ~3bps – at tight end of our range)

CMB 5Y +40-50bps (current ~42bps – at tight end of our range)

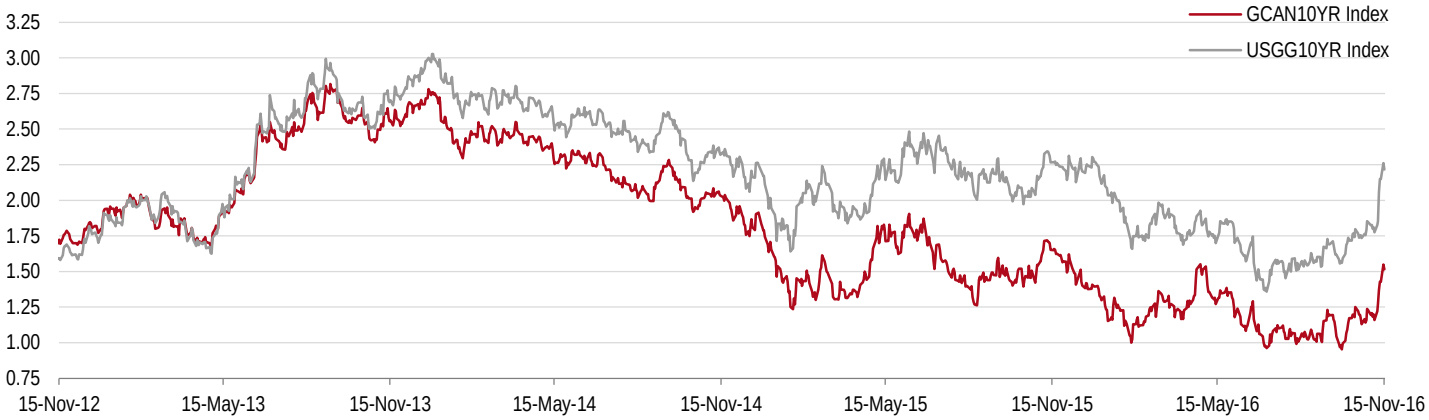
**Vs. ONT.*

Canadian and US 5-30s Curve Re-steepens in Recent Months



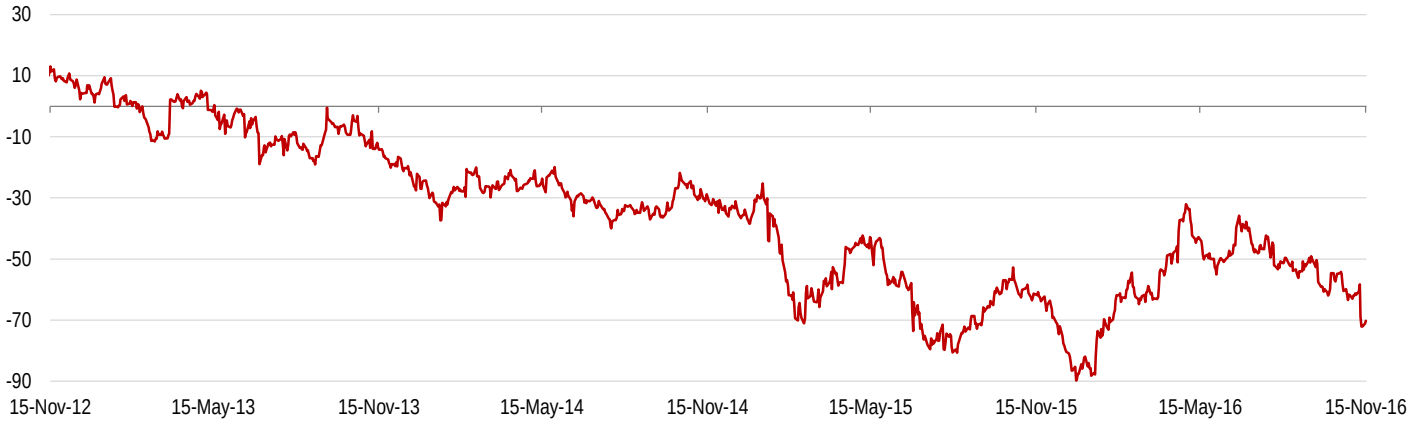
Source: Bloomberg, CIBC Capital Markets – Macro Strategy.

CAN US 10Y



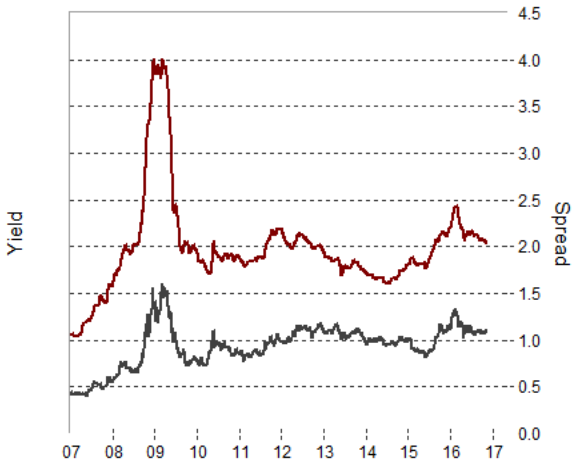
Source: Bloomberg, CIBC Capital Markets – Macro Strategy.

CAN US 10Y Spread Inversion



Source: Bloomberg; CIBC Capital Markets – Macro Strategy.

Long Provincial and Corporate Spreads



Represents long index composites of bonds with maturities 10+ years. Average term is approx. 23 years.

Long Corp. Index
Long Prov. Index

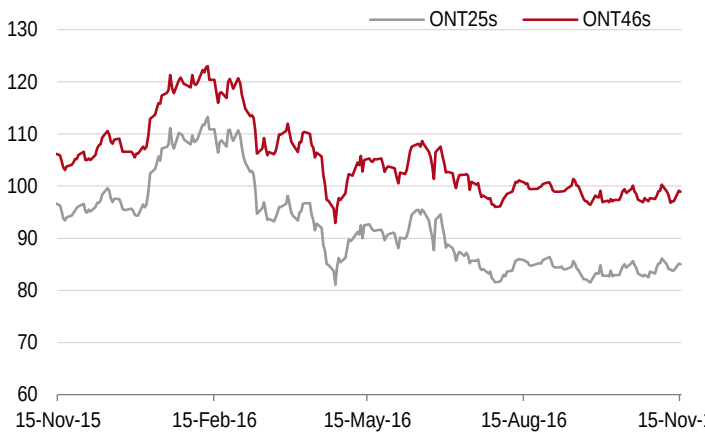
Source: PC Bond.

Corporate Spread Differential vs. Provincials



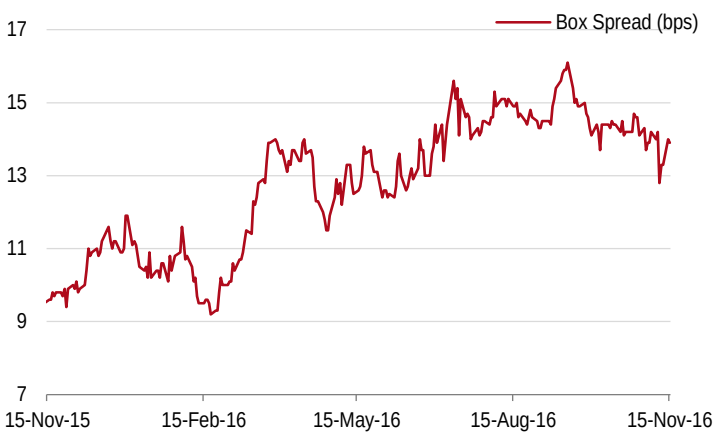
Source: PC Bond.

ONT vs. Benchmark



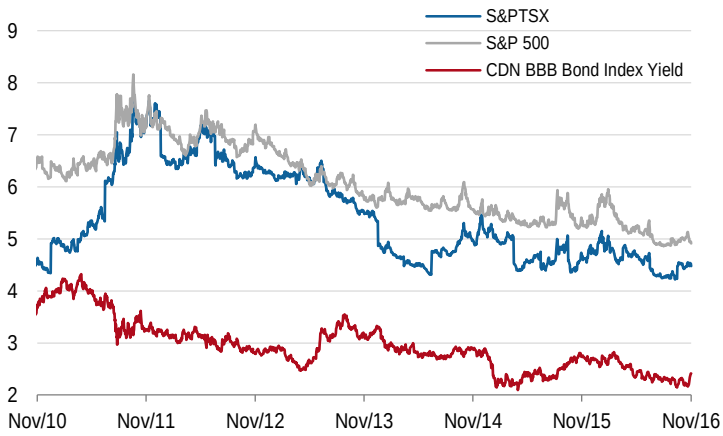
Source: Bloomberg, CIBC Capital Markets – Macro Strategy.

ONT 25–46s Credit Box



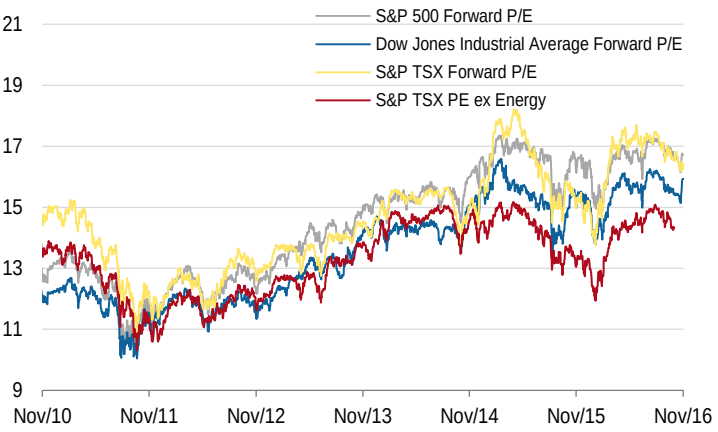
Source: Bloomberg, CIBC Capital Markets – Macro Strategy.

Earnings Yield vs. BBB Bond Index Yields



Source: Bloomberg, CIBC Capital Markets - Macro Strategy.

North American Forward P/E



Source: Bloomberg, CIBC Capital Markets - Macro Strategy.

3 Market Recap

Market Highlights*

Since our last issue of Canadian Government Central (published October 21), the slow global outlook is relatively unchanged, while North American economic data was, on balance, not that bad. More significant, however, were the historic US elections that saw the surprise win of Republican leader Donald Trump. In what was a volatile session, stocks moved sharply higher and bond prices collapsed. The Canada 30Y was up +10bps to 2.01%, the highest level in five months; while the US 30Y increased a more sharply +23bps to 2.84%, the highest level in eight months. The 10-30s curves in both markets steepened modestly.

On October 2, British Prime Minister Theresa May announced that the UK will invoke Article 50 of the 2007 Lisbon Treaty by the end of March 2017, which would set in motion the procedures to leave the EU within two years. This caused the British Sterling to drop and bond yields to move higher, to compensate investors for increased inflation and other risks. The Sterling has since rebounded slightly as the new Prime Minister now faces a legal challenge to her plans to commence proceedings by invoking 'royal prerogative'. The High Court ruled that such action would require a parliamentary vote. The initial High Court ruling will be challenged in the Supreme Court on December 5.

The SPX and S&P/TSX are currently at 2,163 and 14,759, still above our Portfolio Equity Strategist's year-end targets of 2,100 and 14,000. On this historic day after the election vote, they were up +23.70 and +103.07 points. The USD/CAD was unchanged at 1.34.

**NB: Levels discussed are at time of writing on November 9.*

CANADA *(figures in CAD)*

October Employment Report – Not Bad All Things Considered

- Canada gained a surprisingly strong +43.9k jobs in October. The breakdown showed -23.1k full-time jobs and +67.1k part-time jobs. The participation rate moved up one tick to 65.8%; but with the strong employment gains, the unemployment rate held steady at 7%. Much of the jobs gain was in Paid +43.8k, with Self-Employed positions up only +0.2k.
- CIBC Economics (Andrew Grantham): "After a surge in jobs during the previous month, consensus expectations had pencilled in a partial give-back in October. Instead we got another healthy increase of 44k. However, the leaning of jobs towards part-time rather than full-time meant that the details of the report weren't as impressive as the headline gain, and meant that total hours worked were actually down 0.2% on the month. So while the report isn't bad all thing considered, it likely won't stop the BoC from still leaning toward the dovish side in upcoming communications."

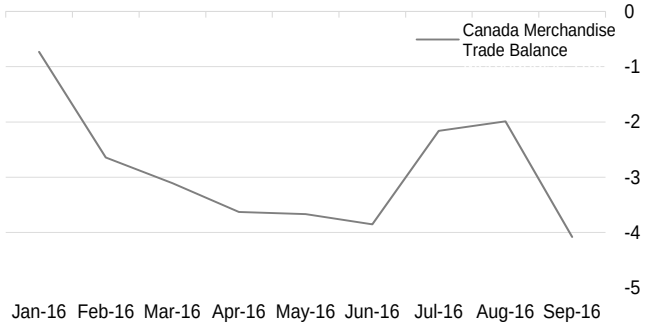
2016	Oct.	Sept.	Aug.	July	June	May	April
	----------Change in Employment----------						
CAN	43.9	67.2	26.2	-31.2	-0.7	13.8	-2.1
BC	14.9	-0.6	-6.6	12.1	16.0	-8.4	13.0
AB	9.0	13.3	2.7	-1.4	-1.9	-24.1	-20.8
SK	-2.4	0.3	-0.4	-0.5	1.0	2.2	-1.6
MB	0.9	-2.1	-2.4	0.2	0.0	2.9	-3.0
ON	25.4	16.2	10.5	-36.1	-4.2	21.6	-3.3
QC	3.2	38.3	21.9	-4.0	-11.2	21.6	1.8
NB	-2.2	4.4	-3.0	5.0	1.2	-0.9	3.9
NS	0.9	-1.8	-0.1	-1.4	0.6	-3.6	2.0
PE	-0.2	0.2	-0.2	0.0	-0.4	0.7	0.0
NL	-5.6	-1.2	3.9	-5.0	-1.8	1.6	6.1

Note: Figures prior to Sept. are based on previous release and may be subject to revision. Changes are in thousands unless denoted as %. Regional figures are not seasonally adjusted.
Source: Statistics Canada.

Bank of Canada Rate Decision October 19 – No Rate Change, but More Dovish Stance

- The BoC kept its overnight rate at last month's meeting. CIBC Economics (Nick Exarhos): "The cuts today from the BoC weren't to rates, but instead to its economic outlook. In a move that was telegraphed in the last rate announcement, its forecast for 2017 and 2018 have been brought down to 2%, a few ticks lower than they had previously anticipated. Although those forecasts are still a touch stronger than we are expecting, the Bank cites that the output gap is now only expected to close by mid-2018, categorized as 'materially' later than previously anticipated, a warning to markets that the BoC is operating with a thin margin of error when it comes to what might prompt another rate cut. The reasons for the growth downgrade are a lower trajectory for exports and more restrained residential investment in the wake of recent regulatory changes in the housing market."

- Merchandise Trade Deficit Widens, Export Volumes Down



. Source: Statistics Canada, Bloomberg.

CIBC Economics: BoC on hold until mid-2018

Other Key Canadian Data

- Canadian retail spending took a step back for a fourth month in a row in August, falling -0.1% m/m. Sales have not shown any meaningful gains since May, when they were up 0.8%. Retail Sales ex-Auto were flat. Canadian retail spending has been on a slowing trend since starting off strong at the beginning of the year. CIBC Economics expects that the second half of the year may get a boost from federal Child Care Benefit cheques.
- August GDP was up +0.2%, a bit slower than the gains seen in July and August of +0.5% and +0.6%, respectively. This follows the huge contraction of -0.6% in May when the economy was effected disruptions in the oil and gas sector from the Alberta wildfires. CIBC Economics (Avery Shenfeld): "We're still tracking close enough to our projections to hold on to our 3.5% forecast for Q3 real GDP growth. With that quarter helped by the low base of comparison in Q2 (in which GDP declined due to disruptions in energy), we're likely to see a return to less-than-2% growth by Q4."
- Headline CPI picked-up slightly in September, up +0.1% m/m (not seasonally adjusted) after previously been down -0.2%. On a y/y basis, the CPI rate moved up two ticks to 1.3%. Core CPI was up 0.2% m/m (vs. 0.0% in August, but unchanged at 1.8% y/y). The core inflation rate was previously running above 2%, a sign that inflation continues to be well anchored and that business conditions remain soft.
- Canadian housing starts decelerated in October at a pace of +192.9k. This follows a stronger pace of +219.4k in September. The pace continues to be above the projected rate of annual household formations of +175-180k. September's building permits were down -7% m/m after a strong +11% m/m in August. Meanwhile, October's existing home sales climbed 2.4% m/m, a continuance from September's positive 0.8% m/m. Canada's housing market has been defying expected moderations in activity, but is forecasted to see some slowing with tighter mortgage regulations. However, average home prices in Greater Vancouver and Toronto continue to accelerate, up 3.1% and 0.6% respectively, from September's values.
- The Teranet/National Bank HPI showed that the average price of homes accelerated again by 11.8% y/y in October subsequent to a gain of 11.7% y/y in September. The price acceleration remained concentrated in the Vancouver (+22.5% y/y) and Toronto (+17.4% y/y) areas.
- Canada's September survey of Manufacturing Sales (value of shipments) built on an August gain (+0.9%), advancing 0.3% m/m. However, in real terms, the news was not as promising as volumes fell 0.2% m/m and have essentially been moving sideways since mid–2014. The biggest gainers for the month in nominal terms were transportation equipment and metal products.

UNITED STATES *(figures in USD)*

FOMC November 2 Decision – No Change As Expected Before US Elections, But Hawkish Tilt

As expected, the FOMC kept its overnight benchmark rate range unchanged at 0.25-50% (at the November 2 decision meeting), but there was a hawkish tilt to the announcement.

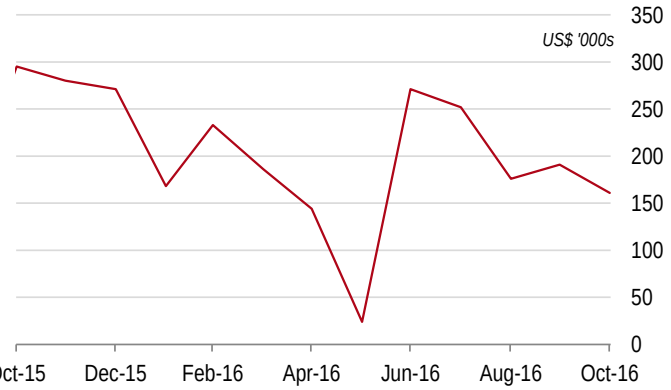
CIBC Economics (Royce Mendes): "No action was expected, and none was taken. In line with the broad consensus of private sector forecasters, the Federal Reserve decided to keep interest rates unchanged today. That said, there was a slightly hawkish tilt to the announcement. Two members of the rate setting committee continued to dissent in favour of an immediate hike. While that's down from the three that were in favour of tightening policy at the last meeting, it's likely that Boston Fed President Rosengren simply felt that, prior to the election and without a press conference, it was best to take a pass in favour of December. Moreover, in a minor but perhaps indicative shift, the statement suggested that the Fed is now only waiting for 'some' further evidence of progress. Overall, barring a material weakening of the economic outlook or significant volatility in financial markets, we continue to see the FOMC raising interest rates at its December meeting. Market reaction will likely be limited, because the number of dissenters decreased, and the more hawkish language was largely expected."

Following the US election, on policy rates CIBC Economics is still expecting a gradual tightening move by the Fed with one hike in December and then two in 2017. This view is held given that financial markets have responded favourably to the election outcome and the US economic recovery is expected to unfold in a constructive manner. Trump's policies may drive up growth, but the details and pace of implementation are still unknown.

October Payroll Report – A Good Month Overall

- October US Non-Farm Payroll was a bit softer than expected with a gain of only +161k jobs vs. the consensus estimate of +173k, but the previous month was revised up +35k to 191k. The two-month payroll net revision was +44k. This lifted the six-month moving average slipped back to +179k from +176k.
- Average hourly earnings moved up a tick to 0.4% m/m (+2.8% y/y), the fastest pace in nine months. Average weekly hours was unchanged at 34.4.
- The unemployment rate dropped a tick to 4.9% from 5.0%, but this reflected a similar drop in the participation rate to 62.8% from 62.9% on the back of a weak Household Survey which showed a drop of -43k jobs. The underemployment rate improved two ticks to 9.5%.
- The Federal Reserve's Labour Market Conditions Index rebounded to 0.7 from -0.1. The index had been below zero for most of 2016.

US Non-Farm Payrolls Report



Source: US Bureau of Labour Statistics

Other Key US Data

- US retail sales in October (Advance Estimate) accelerated to 0.8% m/m after an upward revised 1.0% m/m previously. Ex-Autos, the number also showed improvement, up +0.6% m/m from +0.5%m/m previously. CIBC Economics (Royce Mendes): "Uninspiring Despite Strong Headline: Robust headline retail sales didn't do much to inspire confidence in the US economy today. While sales showed a nice rebound in September, following a soft couple of months for the series, that gain only masked ongoing weakness in core sales, which is a more reliable gauge for momentum in goods purchases."
- ISM Manufacturing picked up again in October climbing to 51.9 from 51.5, after briefly dropping below 50 in August, which had been a big negative surprise. The ISM New Orders reading slipped back to 52.1 from 55.1. A negative surprise in the month was a big pull-back in the ISM Non-Manufacturing Composite to 54.8 from 57.1.
- The US trade deficit narrowed 9.9% in September to -$36.4bln from -$40.5bln the prior month. The result reflected a drop in imports (-1.3%) vs. exports (+0.6%). The trend bodes well for a positive contribution to third quarter GDP, but port traffic may have been distorted by the Hanjin Shipping bankruptcy. Since 2014, trade deficit has been volatile and generally under pressure from the strong dollar amidst weak global growth.
- Housing activity has picked up again after a pull-back that ensued over the past three months following a seasonally strong spring period: Housing Starts (Sept. -9.0% m/m to 1,047 thousand units), Building Permits (Sept. +6.3% m/m), Existing Home Sales (Sep. +3.2% m/m), New Home Sales (Sep. +3.1% m/m), and Pending Home Sales (Sep.. +1.5% m/m). The 2Q FHFA Seasonally-Adjusted House Price Index extended its gains, although advancing at a slower pace of 1.2% q/q (vs. 1.5% in Q1). However, overall activity is supporting a high degree of confidence as evidenced by the National Association of Home Builders Confidence Index, which rose to 65 in September (although slipping back slightly from 63 in October) – levels indicating that builders view conditions as very favourable. More forward momentum is expected on pent-up demand and increasing new household formations.
- Consumer confidence indicators were mixed in October, but still remaining at elevated levels. The University of Michigan Index of Consumer Sentiment increased to 91.6 (preliminary) vs. 87.2 last month, while the Conference Board Consumer Confidence Index slipped back to 98.6 from 103.5. We also note that the October National Federation of Independent Business Optimism index advanced to 94.9 from 94.1, but is still materially below the 2014 peak.
- The Advanced 3Q GDP reading picked-up pace to +2.9% q/q, above the concensus estimate of +2.6%. This follows a slower 2Q GDP growth reading of +1.4% q/q. CIBC Economics (Royce Mendes): "The market finally got what it wanted with today's solid US GDP print. Over the first half of the year, headline GDP appeared to be restrained by some transitory factors, but Q3 broke that trend. The economy showed it's true colours, with growth coming in ahead of already healthy expectations." **CIBC Economics is still calling for 1.5% growth for 2016 (vs. 2.6% in 2015), even after the better than expected 2.9% for Q3. Next year, they are forecasting growth of +2.1%. Now with the US elections over, they predict that a rate hike could occur as early as December if economic data unfold favourably.**
- US inflation readings for September were mixed, with headline showing up stronger but core coming in soft. Headline CPI moved up a tick to 0.3% m/m. As a result, inflation moved up to 1.5% y/y, from 1.1% previously, the fastest reading since October 2014.

Cost of living items, mainly shelter and energy, drove the reading higher. At the same time, CPI ex Food and Energy, pulled back to 0.1% m/m from 0.3% (2.2% y/y, down a tick). CIBC Economics (Royce Mendes): "The slightly softer trend in core CPI over the past few months isn't doing Fed hawks any favours. However, even if the Fed's preferred measure of inflation, core PCE, comes in at a similarly soft 0.1% for September, the annual rate will remain at 1.7%, within shouting distance of the Fed's 2% target. As a result, while soft prices in September will give doves a reason to pass on November, it won't derail momentum toward a Fed rate hike in December." The Core PCE for Q3 (Advanced Estimate) came in a tick softer at 1.7%. The September reading was also 1.7% y/y.

- September's reading of Real Average Weekly Earnings advanced a stronger 0.8% y/y following the previous month's pace of 0.4% y/y, suggesting some wage inflation building.
- US total auto sales remained strong in October coming in at 17.90mln units, up from 17.65mln units in September (Wards Total Vehicle Sales SAAR).
- Federal Reserve Beige Book (October 19): "Reports from the twelve Federal Reserve Districts suggest national economic activity continued to expand during the reporting period from late August to early October. Most Districts indicated a modest or moderate pace of expansion; however, the New York District reported no change in overall activity. Compared with the previous report, the pace of growth improved in the St. Louis, Kansas City, and Dallas Districts. Outlooks were mostly positive, with growth expected to continue at a slight to moderate pace in several Districts. Labour market conditions remained tight, with modest employment and wage growth noted over the reporting period. Most Districts characterized input costs and/or output prices as fairly flat, but prices increased slightly on net."

GLOBAL

Eurozone

- British Prime Minister Theresa May announced on October 2 that the UK would invoke Article 50 of the 2007 Lisbon Treaty by the end of March 2017. This will set in motion the procedures to leave the EU within a two-year timeframe. However, the Prime Minister faces a legal challenge in being able to invoke the article without a parliamentary vote. The challenge will be appealed at the Supreme Court on December 5. Initially, when Prime Minister May made her announcement, the Sterling was sent tumbling and bond yields moved higher to compensate for higher inflation. The legal challenge, which could move things along a slower track, caused the Sterling to gain some modest ground. In the meantime, German Chancellor Angela Merkel has warned that the UK should not expect any favoured treatment once it leaves the European Union. The Brexit uncertainty is expected to impact business confidence negatively in Europe and the UK, and this is already unfolding in various confidence readings.
- The ECB is projecting that its conventional and unconventional monetary policy measures will see euro-area growth continue at a steady pace. It projects growth of: 2016 1.7%, 2017 1.6%, 2018 1.6%, with inflation similarly trending up from 0.2% to 1.2% and 1.6%, respectively. The ECB left its main refinancing rate unchanged at 0% at its October 20 meeting. President Mario Draghi mentioned in his press conference that there were no discussions regarding tapering at the meeting. Draghi also mentioned that a sudden QE stop is not in anybody's mind right now, and that low rates have worked thus far. No additional measures were announced since the major measures in March. The ECB stated that it expects to keep the key ECB interest rates at present or lower for an extended period of time, and well past the horizon of its net asset purchases. It is still early to quantify the effectiveness of the ECB's measures to combat deflation, and the UK decision to exit the European Union injects an additional serious level of uncertainty. Governor Draghi is appealing to governments to play a bigger role in reinforcing regional growth, highlighting the limitations of monetary policy as the sole means to invigorate growth.
- Market Eurozone PMI (October): Euro area business activity picked up in October. The Markit Eurozone Manufacturing PMI increased to 53.5 from 52.6. The Markit Eurozone Services PMI increased to 52.8 from 52.2. Both readings have been relatively weaker this year than in 2015. Business confidence indicators also improved in the month.
- Other Data: Sept. Unemployment Rate 10.0% unchanged, 3Q Advanced GDP +1.6% y/y (0.3% q/q), October CPI 0.5% y/y (Core 0.8% y/y), September Retail Sales -0.2% m/m (1.1% y/y).

United Kingdom

- In a unanimous decision at the November 3 decision meeting, the BoE left its benchmark rate unchanged at a record-low 0.25% as well as its Asset Purchase Target unchanged at £436bln, but announced that it no longer expects to cut interest rates again this year, instead indicating that concern about accelerating inflation may warrant tightening at some point. The BoE now sees consumer-price growth rising above its 2% target early next year and staying there throughout its forecast period, eventually hitting 2.5% in late 2019, overshooting its target. "There are limits to the extent to which above-target inflation could be tolerated", the Monetary Policy Committee said. ***This is an abrupt change in stance.*** At its previous meeting on August 4, it had cut the rate a

quarter point to 0.25%, increased its Asset Purchase Target to £435bln from £375bln, and expanded eligible securities to include corporate bonds. The Bank also cut its growth outlook for 2017 to 0.8% from 2.3%, but kept 2016 at 2%. Inflation expectations (CPI) seen at 2.4% at the two-year horizon, looking through the currency-induced inflation spike. Just following the June 23 Brexit vote to leave the EU, the BoE assured financial markets that it is well prepared with extensive contingency plans to deal with the inevitable period of uncertainty and adjustment. The BoE stands ready to support the functioning of the market including the ability to provide more than £250bln of additional funds through its normal facilities.

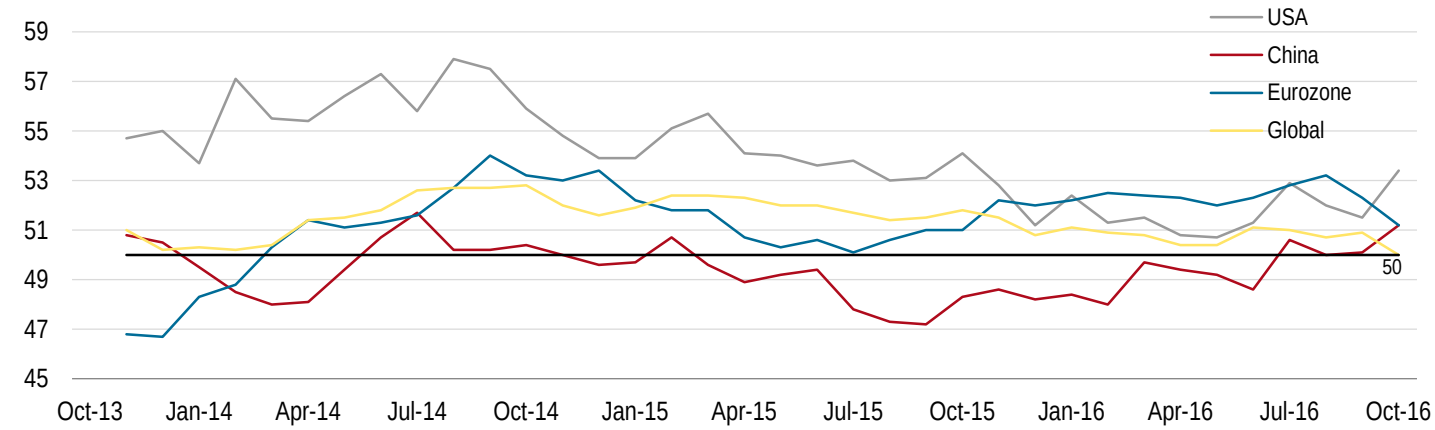
- The BoE is building a team to co-ordinate its work to handle Britain's withdrawal from the European Union.
- BoE business conditions survey shows companies are scaling back investment and hiring plans, confirming the central bank's worry that the 'Yes' vote on Brexit (June 23) would undermine confidence. The weak pound, however, down about 16% since Brexit, is giving a lift to exports, however.
- UK 3Q Advanced Estimate +0.5% q/q (+2.3% y/y) from 0.7% in 2Q. Overall growth is tracking better than previously expected. This has led some economists to revise up their forecasts (2016 consensus growth 1.80%); but next year's performance will be more important as Brexit negotiations unfold (2017 consensus 0.9%).
- Other UK Data: Markit UK PMI Manufacturing (October) 54.3 vs. 55.5, Markit PMI Services (October) 54.5 vs. 52.6, Headline CPI (October) 0.1% m/m (0.9% y/y), Core CPI 1.2% y/y.

Asia

- China's economy is showing signs of stabilization and very modest improvement as the October Manufacturing PMI advanced to 51.2 from 50.4 in the previous month. It was in contractionary territory five months ago. The Non-Manufacturing index was a solid 54.0, up slightly from 53.7 in September. Many economists, analysts and state officials are calling for more bold measures by the People's Bank of China (PBOC) and the government to boost economic output and investor confidence, as data are still far below the peaks seen in 2009-10. Moreover, data are failing to convince markets that China's economy is stable, but officials are concerned about fuelling asset bubbles or spurring capital outflows. China's economic health remains under scrutiny following strong historical growth that was fuelled by a long period of rapid credit expansion and fixed asset investment. China is gradually transitioning to a consumer-based economy and is targeting growth of 6.5% in 2016.
- China's economy grew at 6.9% in 2015, and the consensus growth estimate is 6.7% in 2016, 6.4% in 2017, and 6.0% in 2018. These are far below the 10+% levels seen prior to 2012. The latest 3Q y/y growth in China was 6.7%. Inflation is projected to remain relatively stable over the next few years at around 2%.
- The latest Chinese trade data for September show Exports down -7.3% y/y and Imports down -1.4% y/y.
- China has initiated several cuts in interest rates and the Reserve Requirement Ratio (RRR) over the past few years, and its most recent cut of 0.5% on February 29, 2016 (most recent PBOC meeting), sent equity markets higher. However, with the RRR cut to 17% effective March 1, 2017, there is still more room to cut, and the markets are showing an eagerness for more cuts rather than fewer. Fiscal stimulative deficits are also part of the equation.
- At its October 31 meeting, the Bank of Japan kept its overnight policy rate unchanged at -0.10% and its 10-year JGB target at 0%. It also pushed back the timing for its 2% inflation target to around the fiscal year-ending March 2019, positioning for a longer-term effort to restore inflation—beyond Governor Kuroda's term through March 2018. It also said that it would maintain its annual pace of JGB accumulation more or less in line with the current pace of about 80tln yen as well as ETF purchases around 6tln yen. The BOJ lowered its inflation outlook for the current fiscal year to -0.1%.
- Japan's economy shrunk by -1.7% in 4Q15 in real terms, but then rebounded to +2.1% in 1Q16 due to stronger private consumption. However, growth in Q2 was a modest 0.7% supported mainly by private consumption. The see-saw trend can be attributed to a rebound following the weak Q4 hand-off. It's too early to tell if stimulus policies will have a lasting effect. Since 1997, Japan's economy has been languishing under low growth and low inflation/deflation.
- Japanese data have been showing persistent weakness in industrial production, exports and imports. However, September's industrial production moved up +1.5% y/y, its second consecutive month of a positive increase (August +4.5%), following negative growth for the past two years before August. September exports and imports were down -6.9% and -16.3%, respectively.
- According to Macro Strategy's F/X strategist Bipan Rai, Japan's currency has been appreciating for much of the year, which is not constructive for exports or business investment. Additionally, the BoJ has adjusted their easing program to target the shape of the yield curve by anchoring the 10Y yield at zero. Such a program could lead to a situation whereby the BoJ wavers on its commitment to buy JPY80trln worth of assets a year into the medium-term. For now, the stability in the yield curve has brought some semblance of calm to JPY markets.

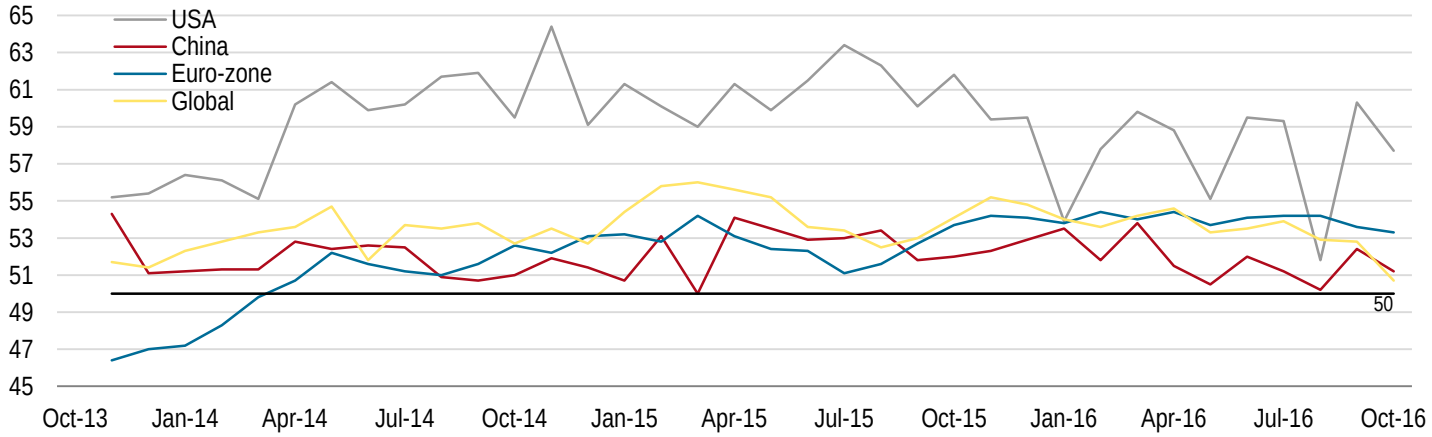
Global Economic Condition Indices

Manufacturing Index



Source: Bloomberg, Markit, Caixin, JP Morgan. Reading above 50 denotes expansion, 50 denotes no change, below 50 denotes contraction.

Non-Manufacturing (Services) Index



Source: Bloomberg, ISM, Caixin, Markit, JP Morgan. Reading above 50 denotes expansion, 50 denotes no change, below 50 denotes contraction.

4 Market & Benchmark Analysis

Stocks and Bonds Mostly Lower in October

Stocks and bonds were generally lower in October, although the broad S&P/TSX equity index advanced modestly with the help of fewer cyclical stocks outperforming, and with the energy sub-sector extending its gains with Suncor Energy's third quarter beat. The S&P/TSX index returned +0.62% vs. 1.22% in September. The S&P500 (SPX) returned -1.82% vs. +0.02%% in the previous month. The Canadian FTSE TMX Canada Universe Bond Index returned -0.91% compared with +0.25% the previous month.

Equity Markets

The S&P/TSX extended its gains in October returning +0.62% (vs. +1.22% in September) with the more stable Financials (+2.60%), Consumer Staples (+1.87%) and Utilities (+1.52%) outperforming and Suncor Energy helping to extend the gains in Energy (+0.86%). Suncor Energy (SU-TSX) was up +10.52% on stronger than expected third quarter results as its earnings benefitted from strong upstream production, lower operating cash-costs and record crude throughput in its refineries [Previously in September, the broad stock index was also boosted by Energy (+3.92%) as oil prices climbed after OPEC reached an agreement to limit production to a range of 32.5-33mln b/d, implying a reduction of 200-700,000 b/d from current production levels.].

Other sector returns in October were as follows: Telecom Services (-0.23%), Industrials -0.29%, Materials -0.91%, Info Tech -1.35%, Consumer Discretionary (-2.25%), Real Estate (-2.82%) and Health Care (-17.75%). The Health Care sub-index is concentrated in Valeant Pharmaceuticals which was down -25.63% as it continues to contend with legal issues.

The S&P500 (SPX) fell in October returning -1.82%, down from +0.02% in September. With the appreciation of the USD/CAD exchange rate, the return in Canadian dollars was positive +0.38%. Leading the index higher was the Alternative Carriers Sub-Category (+21.07%) led by Level 3 Communications. Dragging the index lower was Health Care Distribution (-16.01%) led by McKesson Corp.

The S&P/TSX Preferred Share Index returned +2.32% in October following a return of -0.10% in September. The year-to-date return is +3.95%. The robust returns in the current year are a stark contrast to the dismal returns last year. In 2015, the index returned -14.95% as preferred shares suffered from the re-pricing of fixed/floating resets and floating rate issues at historically low rates. Towards the end of last year, tax-loss selling exacerbated losses.

Bond Markets

The FTSE TMX Canada Universe Bond Index returned -0.91% in October, following an advance of 0.25% in September. The yield curve sold off and bowed out. By term, Long Canadas (-2.67%) underperformed Mid-Canadas (-1.03%) and Short-Canadas -0.09%). Yield changes by term were: 2Y +4bps to 0.55%; 5Y +8bps to 0.70%; 10Y +25bps to 1.31%; and 30Y +17bps to 1.91% (PC Bond Constant Maturity). Credit spreads were better across all credit sectors helping to partially offset the rise in yields. **The overall benchmark yield increased +8bps to 1.79%.**

Looking at the **Long-Term Bond Sub-Index**, Long Canada's (Non-Agency) underperformed all credit sectors. Long Corporate was the best performing credit sub-sector, outperforming on tighter credit spreads and a modestly shorter relative duration. The Long-Term Bond Sub-Index overall return was -2.31% with the sub-components performing as follows: Long Canada–Non Agency (-2.67%), Long Canada–Agency (-2.45%), Long Provincial (-2.44%), Long-Municipal (-2.34%), Long Corporate (-1.65%). In the **Long Provincial sector**, the 30Y Long Ontario spread widened slightly by about +1bps after trading in a narrow range throughout the month. The 30Y rolls to Ontario, however, moved tighter across all names, with a more pronounced move (-5-6bps) seen in the oil-producing provinces of AB, SK and NF, as optimism improved around oil prices. In the **Long Corporate** sector, Financial (-1.25%), Energy (-1.42%), and Communication (-1.45%) were the best-performing credit classes on tightening credit spreads and somewhat shorter duration. Credit spread performance in secondary markets was primarily driven by lack of supply.

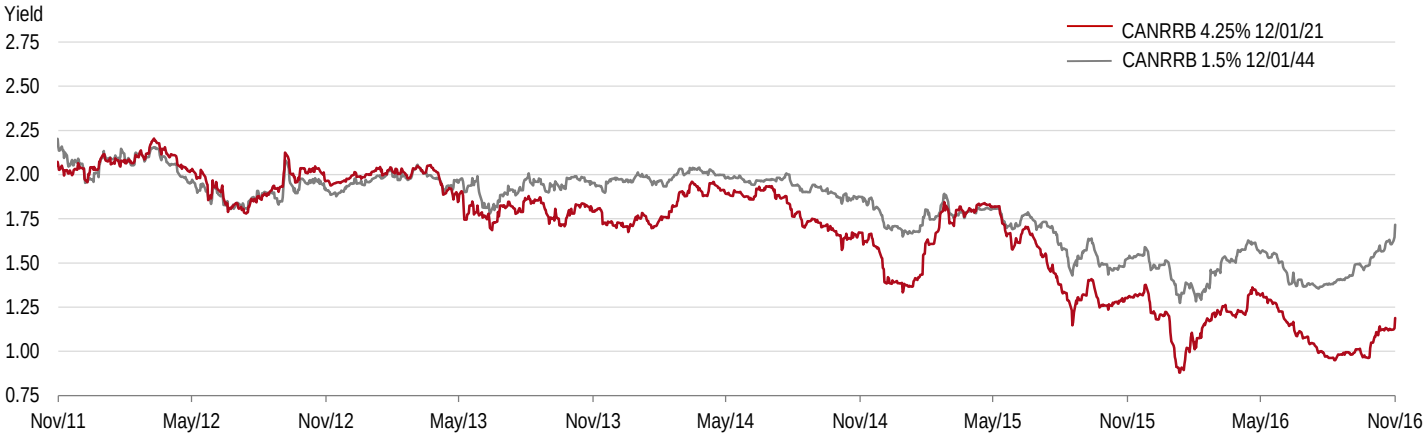
Although October corporate debt issuance started off with decent supply, there was reduced primary flow towards the second half as issuers entered earnings blackout. This benefitted both the primary and secondary markets in the latter half. In the last week of the month, for example, Bank of Montreal completed a $2.0bln 5-year deposit note offering at a spread of +94bps over the interpolated GoC curve (the tight end of initial guidance), for a coupon of 1.610% and a concession of about +2bps. We highlight that in the high-grade, short-dated financials' space, 5Y Senior Deposit notes grinded tighter by about -6bps m/m to the area of +94bps. With strong demand, on the new issue front, high-grade, new-issue concessions – which have been grinding lower for the past couple of months due to strong demand – were flat to small positive. Overall corporate supply (bank and corporate) was $5.7bln vs. $7.0bln the previous month.

Provincial supply in October was also decent at $7.2bln, a pick-up from the $4.7bln in September. Over the past couple of months, supply has been more domestic-focussed, a shift from heavier international issuance in previous months.

The RRB Canada Index (ModDur 15.89) returned -0.36%, once again strongly outperforming Long Canadas (ModDur 15.47) which returned -2.67%. According to Macro Strategy Rates Analyst Luke Ostapiak, in the past month, RRB break-evens have rallied very hard, in line with the reflation theme. The rally has extended across the curve, with 10Y break-evens now at 1.45%, up from around 1.15% at the lows in the summer. The US election has extended this theme after a brief pause and profit taking as OPEC deal headwinds weigh on the market. The US election is inflationary for a few key reasons. First, both candidates were relatively inflationary with the promise of fiscal stimulus, although Trump's larger plan and GOP control of the White House, Senate, and House of Representatives could mean fewer roadblocks to implementation (TIPS break-evens are up +6-11bps across the curve as of writing). This boost could also spill over into Canada, as our economy has traditionally been closely tied to our neighbours to the south, and also furthers the story of fiscal policy emerging globally. Second, the potential for more protectionist policies (although not necessarily good for the Canadian economy) would raise import prices and CPI – again adding to the inflation theme and global political shift. The market is taking notice immediately, brushing off the brief risk-off move, and RRB implied break-even inflation rates are now +5-7bps higher from yesterday's close. We continue to like holding inflation outright, or real-yields as opposed to nominals, as the reflation and steepening themes continue to play out.

The High Yield Bond Index (ModDur 4.14) extended its advances, returning +1.20% in October following a return of +1.16% in September. The year-to-date return is a strong +14.15%. Once again, the High Yield Bond Index handily outperformed both Short and Mid Corporates, which returned +0.17% and -0.23%, respectively. By sub-industry, Industrial (+1.56%) was up the most followed by Energy (+1.25%), Real Estate (+0.92%), and Communication (+0.54%). Overall risk sentiment in the high-yield space was relatively unchanged over the month, with range-bound spreads and somewhat choppy on relatively light secondary flows. There was no supply following a very strong September that saw a combined $900mln in issuance from four issuers (Air Canada, Parkland Fuel, Iron Mountain and Canexus) – all deals being well subscribed.

Canada RRB Break-Evens



Source: Bloomberg.

Long Financial Bonds Outperform

FTSE TMX Canada Universe Bond Index Yield Changes and Returns by Corporate Industry Sector and Ratings					
	31-Oct-16 Avg Yield	30-Sep-16 Avg Yield	Bps Chg	Modified Duration	1M Return 31-Oct-16
FTSE TMX Canada Universe Bond Index	1.79	1.71	+8	7.54	-0.91
Long-Sub Index & Components (10+ Years)					
Canada Non-Agency	1.72	1.55	+17	15.47	-2.67
Canada (Agency)	2.55	2.37	+18	14.94	-2.45
Provincial	2.81	2.63	+18	15.32	-2.44
Municipal	3.12	2.96	+16	14.73	-2.34
Corporate AAA/AA	2.63	2.49	+14	11.03	-1.54
Corporate A	3.54	3.39	+15	13.48	-1.82
Corporate BBB	4.19	4.06	+13	12.75	-1.38
Communication	4.39	4.25	+14	13.41	-1.45
Energy	3.78	3.66	+12	13.33	-1.42
Financial	4.48	4.34	+14	11.60	-1.25
Industrial	4.25	4.09	+16	11.99	-1.71
Infrastructure	3.46	3.30	+16	13.45	-1.90
Corporate	3.78	3.63	+15	13.16	-1.65
Overall Long-Term	2.79	2.63	+16	14.83	-2.31

Source: PC Bond.

FTSE TMX Canada Universe Bond Index

Total Returns: As of October 31, 2016												
	Last Month (% change)				%					Modified		Sector
Sector	Short	Mid	Long	Overall	3M Return	6M Return	12M Return	Avg. Yield	M/M (%)	Duration (Y)	M/M (%)	Weight (%)
FTSE TMX Canada Universe Bond Index												
Index	0.03	-0.70	-2.31	-0.91	-0.57	2.97	5.61	1.79	*0.08*	7.54	*-0.17*	100.00
Federal	-0.06	-0.89	-2.64	-0.79	-0.62	2.15	3.64	1.02	*0.07*	6.24	*-0.21*	36.58
Canada (Non-Agency)	-0.09	-1.03	-2.67	-1.00	-0.85	2.32	3.98	0.97	*0.09*	6.98	*-0.28*	24.73
Agency	-0.02	-0.69	-2.45	-0.36	-0.16	1.81	2.93	1.12	*0.06*	4.69	*-0.12*	11.47
Provincial	0.00	-0.79	-2.44	-1.42	-1.28	3.68	7.10	2.10	*0.13*	9.92	*-0.17*	34.33
Municipal	0.04	-0.77	-2.34	-1.10	-0.96	3.46	6.27	2.17	*0.11*	8.42	*-0.12*	1.96
Corporate	0.17	-0.23	-1.65	-0.40	0.44	3.14	6.34	2.41	*0.05*	6.23	*-0.08*	27.13
AAA/AA	0.11	-0.32	-1.54	0.03	0.45	1.71	3.56	1.45	*0.02*	3.39	*0.00*	7.61
A	0.15	-0.33	-1.82	-0.86	0.05	3.57	7.30	2.69	*0.09*	8.33	*-0.09*	9.27
BBB	0.29	-0.15	-1.38	-0.29	0.79	3.79	7.53	2.87	*0.03*	6.45	*-0.12*	10.25
Selected Comparative Bond Sector Returns												
RRB Canada Index	-	-	-	-0.36	0.87	4.86	10.37	0.03	*-0.01*	15.89	*-0.14*	-
Maple Bond Index	-	-	-	-0.30	0.32	2.44	4.45	2.08	*0.05*	5.19	*0.10*	-
High Yield Overall Bond Index	-	-	-	1.20	4.37	10.54	11.07	7.21	*-0.14*	4.14	*0.08*	-
Equity Sector Returns												
S&P/TSX (Canada)	-	-	-	0.62	2.12	7.53	12.71	2.84	*-0.03*	-	-	-
S&P 500 USD	-	-	-	-1.82	-1.67	4.06	4.51	2.14*	-	-	-	-
S&P 500 CAD	-	-	-	0.38	1.02	11.22	7.21	-	-	-	-	-
S&P TSX Preferred Share Index (CAD)	-	-	-	2.32	3.36	6.97	5.01	-	-	-	-	-

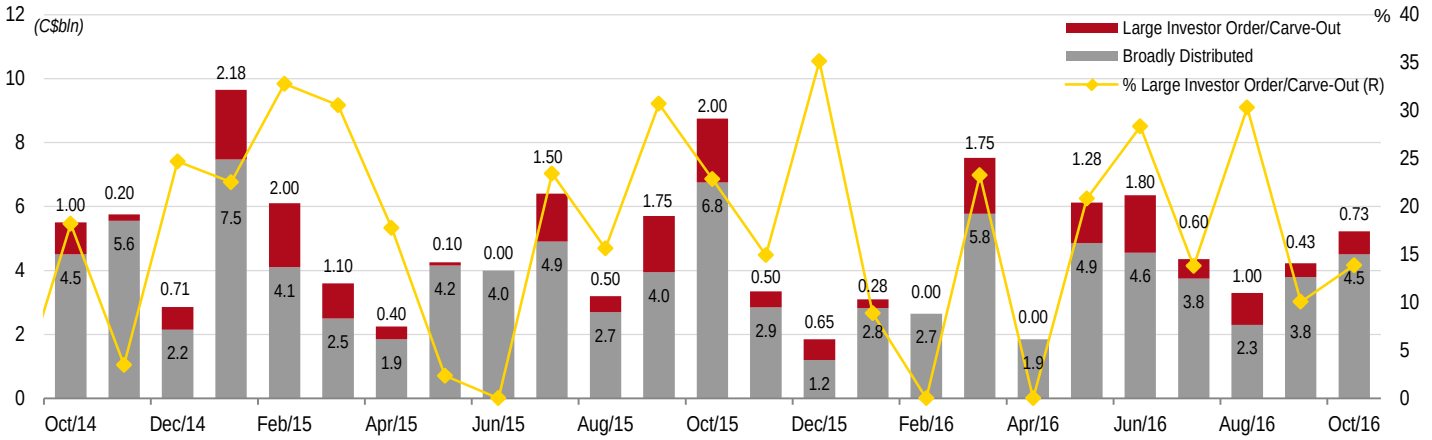
Source: PC Bond, Bloomberg **as of November 15, 2016.*

5 New Issue Supply

Provincial Deals (non-domestic in bold):

- SK / Oct-13-16 / C$350mm / 2.75% Debentures due December 2, 2046 (Add'l)
- SK / Oct-13-16 / C$200mm / 2.75% Debentures due December 2, 2046 (Add'l) (pp)
- Q / Oct-14-16 / C$500mm / 2.50% MTNs due September 1, 2026 (Re-Opening)
- AB / Oct-17-16 / C$500mm / 3.30% Series DL Bonds due Dec. 1, 2046 (Add'l)
- AB / Oct-17-16 / C$200mm / 3.30% Series DL Bonds due Dec. 1, 2046 (Add'l)(pp)
- **AB / Oct-19-16 / A$75mm / 3.10% Kangaroo Bonds due Dec. 14, 2026 (Add'l)**
- ON / Oct-20-16 / C$800mm / 2.80% Bonds due June 2, 2048 (Re-Opening)
- ON / Oct-24-16 / C$1200mm / 3-mo CDOR +26 bps FR MTN due October 27, 2021
- Q / Oct-26-16 / C$500mm / 3.50% MTNs due December 1, 2048 (Re-Opening)
- Q / Oct-28-16 / C$500mm / 2.50% MTNs due September 1, 2026 (Re-Opening)
- **NB / Oct-28-16 / CHF400mm / 0.20% CHF Senior Notes due November 7, 2031**
- AB / Nov-3-16 / C$600mm / 2.20% Series DM Bonds June 1, 2026 (Add'l)
- AB / Nov-3-16 / C$200mm / 2.20% Series DM Bonds June 1, 2026 (Add'l) (pp)

Large Investor Carve-Outs (fixed-rate issuance)



Source: CIBC Capital Markets – Macro Strategy

Canadian Government Issuance by Sector						
	Monthly Issuance			Calendar Year to November 14, 2016		
C$bln	Oct	Sep	Aug	2016	2015	*% chg*
Government of Canada (C$)	13.9	4.3	14.8	114.4	80.5	*+42*
o/w: Real Return	*0.0*	*0.4*	*0.0*	*1.5*	*1.5*	*0*
Canada Housing Trust	0.0	5.0	5.3	30.3	28.3	*+7*
o/w: Fixed Rate	*0.0*	*5.0*	*2.5*	*22.0*	*20.5*	*+7*
o/w: Floating Rate	*0.0*	*0.0*	*2.8*	*8.3*	*7.8*	*+6*
Export Development Canada	1.3	1.3	0.6	10.7	14.3	*-25*
Other Federal Crown/Guaranteed	0.0	0.0	0.0	0.0	0.0	*0*
Provincial Governments	7.3	4.8	6.2	73.4	70.8	*+4*
Municipal Governments	0.5	0.8	0.0	4.7	3.6	*+30*
Total	23.0	16.1	26.9	233.4	197.4	*+18*

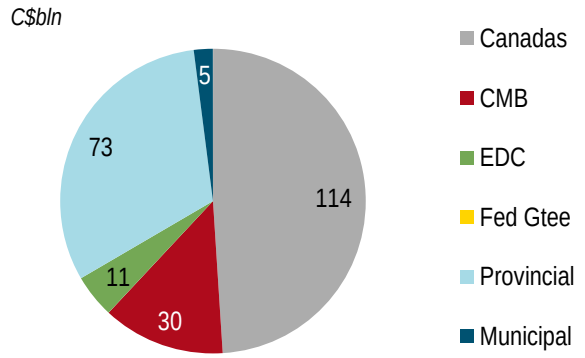
Source: PC Bond, CIBC Capital Markets - Macro Strategy.

Fiscal 2016/17 Bond/MTN Program

	Bond/MTN Budget Funding[1]		Complete to 14-Nov-16			PY to 14-Nov-15		Currency YTD		Remaining Borrowing	
	2015/16	2016/17	Total	Share	vs. FY Done[2]	Total	Share	Domestic	Foreign	Total	Avg/Month
	C$bln	*C$bln*	*C$bln*	*%*	*%*	*C$bln*	*%*	*%*	*%*	*C$bln*	*C$mln*
CAN	84.4	133.0	86.1	65	+3	57.5	68	100	-	47.0	10,348
BC	4.7	3.2	2.6	81	+19	4.0	84	38	62	0.6	132
AB	7.8	15.8	9.9	63	+1	5.9	75	83	17	5.9	1,300
SK	1.7	1.7	1.4	80	+18	1.3	77	100	-	0.3	75
MB	4.8	7.4	4.0	54	-8	3.0	62	58	42	3.4	749
ON	30.1	24.4	16.0	66	+4	20.0	67	78	22	8.4	1,851
QC	12.0	13.5	13.4	99	+37	9.4	78	70	30	0.1	22
NB	1.8	1.8	1.4	79	+17	1.2	63	62	38	0.4	82
NS	0.9	0.8	0.4	50	-12	0.7	78	100	-	0.4	88
PE	0.1	0.0	-	n/a	n/a	0.1	125	-	-	-	-
NL	2.4	2.9	2.4	82	+20	0.4	17	100	-	0.5	116
Provincial Total	66.3	71.5	51.5	72	+10	45.9	69	75	25	20.0	4,417
Total	150.7	204.5	137.5	67	+5	103.4	69	90	10	67.0	14,765

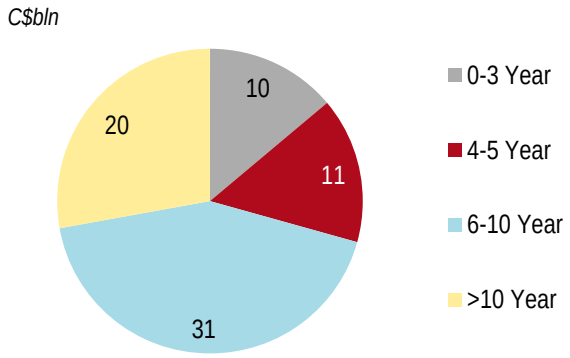
1 Projected marketable bond/MTN issuance; excludes retail/savings bonds and rollovers of CPP-held debt.
2 FY complete is 54.6% on Act/Act basis from April 1, 2016 to October 17, 2016.
Source: PC Bond, CIBC Capital Markets - Macro Strategy.

All Government by Sector



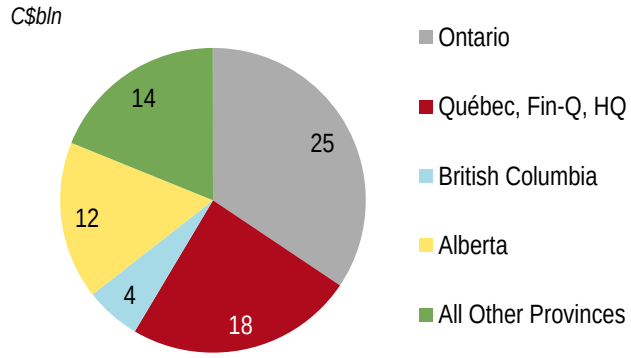
Source: CIBC Capital Markets - Macro Strategy.

Provincial by Term



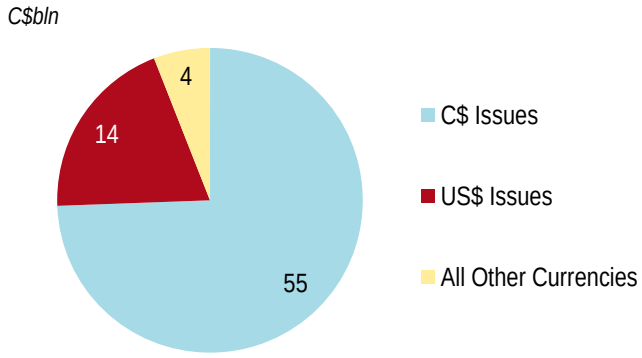
Source: CIBC Capital Markets - Macro Strategy.

Provincial by Issuer



Source: CIBC Capital Markets - Macro Strategy.

Provincial by Currency



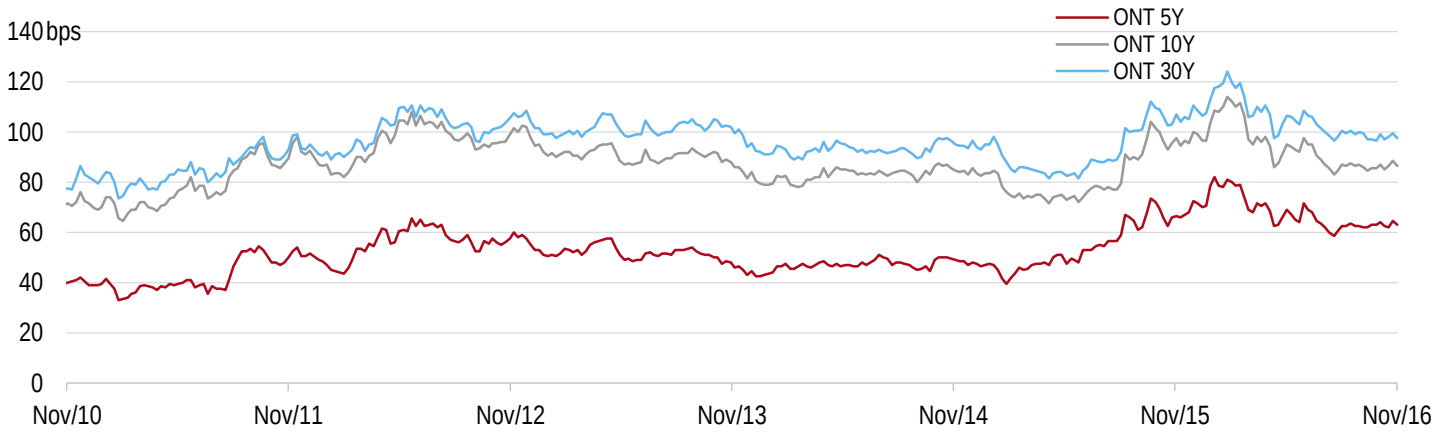
Source: CIBC Capital Markets - Macro Strategy.

6 New Issue Spreads & Rolls

Provincial New Issue Spreads:	*As of November 13, 2016*											
TERM	3	M/M	5	M/M	7	M/M	10	M/M	20	M/M	30	M/M
New Issue Spreads (vs. Canada curve) *(bps)*												
BC	38.5	-0.5	55.5	-1.5	70.0	+1.5	77.5	-	91.0	+1.0	90.5	-0.5
AB	42.5	-4.0	63.5	-2.5	83.0	-	95.0	-3.0	109.0	-2.5	108.5	-4.0
SK	43.5	-3.0	63.5	-3.5	82.5	-1.5	95.0	-4.0	110.0	-3.5	109.5	-5.0
MB	45.5	-2.0	65.0	-3.0	84.5	-0.5	98.0	-3.5	114.0	-3.0	113.5	-4.5
ON	42.5	-1.0	62.0	-2.0	76.5	+0.5	86.0	-1.0	97.0	-1.0	96.5	-2.5
QC	42.0	-2.0	61.5	-3.0	77.0	-	87.0	-2.5	100.0	-3.5	99.5	-5.0
NB	50.0	-2.5	72.0	-6.0	93.5	-4.5	108.5	-7.5	134.0	-6.0	133.5	-7.5
NS	48.0	-1.5	68.5	-2.5	86.5	+0.5	101.5	-0.5	119.0	-2.0	118.5	-3.5
PE	55.0	-2.5	77.0	-6.0	98.5	-4.5	113.5	-7.5	139.0	-6.0	138.5	-7.5
NL	59.5	-4.0	88.0	-6.0	109.5	-6.5	136.0	-4.5	158.0	-3.0	157.5	-4.5
CMB	26.0	-0.3	42.0	-0.0	46.5	+0.3	54.6	+1.6	70.5	-0.1	76.1	-0.8
vs. Mid Swaps *(bps)*												
BC	4.5	*+4.5*	24.5	*+1.5*	47.5	*+5.0*	57.0	*-0.5*	80.5	*-2.0*	90.5	*-4.5*
AB	8.5	*+1.0*	32.5	*+0.5*	60.5	*+3.5*	74.5	*-3.5*	98.5	*-5.5*	108.5	*-8.0*
SK	9.5	*+2.0*	32.5	*-0.5*	60.0	*+2.0*	74.5	*-4.5*	99.5	*-6.5*	109.5	*-9.0*
MB	11.5	*+3.0*	34.0	-	62.0	*+3.0*	77.5	*-4.0*	103.5	*-6.0*	113.5	*-8.5*
ON	8.5	*+4.0*	31.0	*+1.0*	54.0	*+4.0*	65.5	*-1.5*	86.5	*-4.0*	96.5	*-6.5*
QC	8.0	*+3.0*	30.5	-	54.5	*+3.5*	66.5	*-3.0*	89.5	*-6.5*	99.5	*-9.0*
NB	16.0	*+2.5*	41.0	*-3.0*	71.0	*-1.0*	88.0	*-8.0*	123.5	*-9.0*	133.5	*-11.5*
NS	14.0	*+3.5*	37.5	*+0.5*	64.0	*+4.0*	81.0	*-1.0*	108.5	*-5.0*	118.5	*-7.5*
PE	21.0	*+2.5*	46.0	*-3.0*	76.0	*-1.0*	93.0	*-8.0*	128.5	*-9.0*	138.5	*-11.5*
NL	25.5	*+1.0*	57.0	*-3.0*	87.0	*-3.0*	115.5	*-5.0*	147.5	*-6.0*	157.5	*-8.5*
CMB	-8.0	*+4.7*	11.0	*+3.0*	24.0	*+3.8*	34.1	*+1.1*	60.0	*-3.1*	76.1	*-4.8*
Rolls vs. Ontario												
ON	44.5	*+0.5*	64.5	*-0.5*	82.0	*+2.0*	90.0	*-0.5*	95.5	*-0.5*	96.5	*-2.5*
BC	-4.0	*+0.5*	-6.5	*+0.5*	-6.5	*+1.0*	-8.5	*+1.0*	-6.0	*+2.0*	-6.0	*+2.0*
AB	0.0	*-3.0*	1.5	*-0.5*	6.5	*-0.5*	9.0	*-2.0*	12.0	*-1.5*	12.0	*-1.5*
SK	1.0	*-2.0*	1.5	*-1.5*	6.0	*-2.0*	9.0	*-3.0*	13.0	*-2.5*	13.0	*-2.5*
MB	3.0	*-1.0*	3.0	*-1.0*	8.0	*-1.0*	12.0	*-2.5*	17.0	*-2.0*	17.0	*-2.0*
QC	-0.5	*-1.0*	-0.5	*-1.0*	0.5	*-0.5*	1.0	*-1.5*	3.0	*-2.5*	3.0	*-2.5*
NB	7.5	*-1.5*	10.0	*-4.0*	17.0	*-5.0*	22.5	*-6.5*	37.0	*-5.0*	37.0	*-5.0*
NS	5.5	*-0.5*	6.5	*-0.5*	10.0	-	15.5	*+0.5*	22.0	*-1.0*	22.0	*-1.0*
PE	12.5	*-1.5*	15.0	*-4.0*	22.0	*-5.0*	27.5	*-6.5*	42.0	*-5.0*	42.0	*-5.0*
NL	17.0	*-3.0*	26.0	*-4.0*	33.0	*-7.0*	50.0	*-3.5*	61.0	*-2.0*	61.0	*-2.0*
CMB	-16.4	*+0.7*	-20.0	*+2.0*	-30.0	*-0.2*	-31.4	*+2.6*	-26.5	*+1.0*	-20.4	*+1.7*

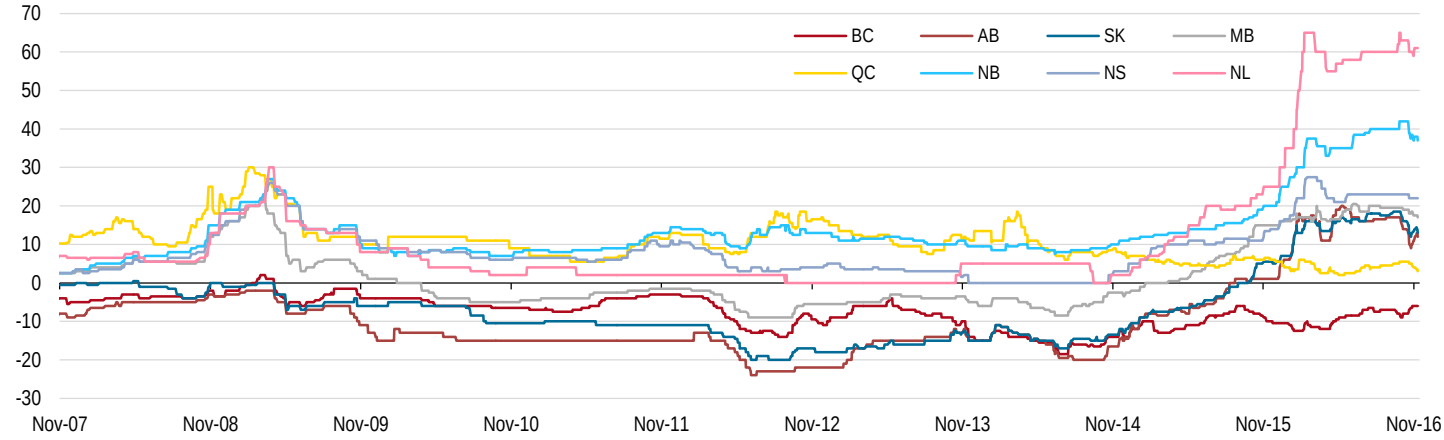
Source: CIBC Capital Markets – Macro Strategy.

Ontario Spreads



Source: Bloomberg, CIBC Capital Markets – Macro Strategy.

Changing Dynamics Re-price Rolls



Note: Based on new issue, constant maturity spreads vs. GoC curve.
Source: CIBC Capital Markets – Macro Strategy.

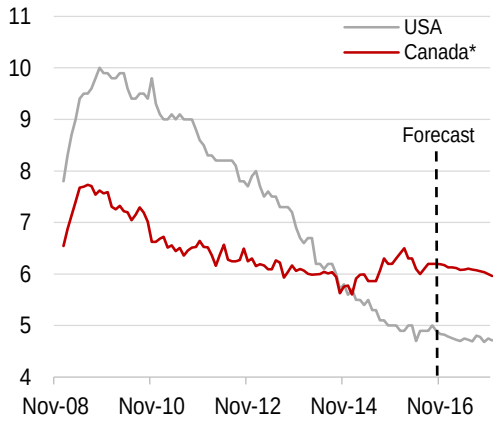
7 Economic & Fiscal Forecasts

Economic Forecasts

CANADA	16Q1A	16Q2A	16Q3F	16Q4F	17Q1F	17Q2F	17Q3F	17Q4F	18Q1F	2015A	2016F	2017F	2018F
Real GDP Growth (AR)	2.5	-1.6	3.5	1.7	1.7	2.0	2.1	1.7	2.0	1.1	1.2	1.8	1.9
Real Final Domestic Demand (AR)	1.8	2.2	1.2	1.6	1.5	1.7	1.6	1.1	1.4	0.3	1.1	1.5	1.4
Household Consumption (AR)	2.4	2.2	1.2	1.8	1.7	1.7	1.8	1.4	1.5	1.9	2.1	1.7	1.5
All Items CPI Inflation (y/y)	1.5	1.6	1.2	1.9	2.4	1.9	2.2	2.2	2.2	1.1	1.6	2.2	2.2
Core CPI Ex Indirect Taxes (y/y)	2.0	2.1	1.9	1.9	1.9	1.7	1.9	2.0	2.0	2.2	2.0	1.9	2.1
Unemployment Rate (%)	7.2	7.0	7.0	7.0	6.9	6.9	6.9	6.8	6.7	6.9	7.0	6.9	6.5
US	**16Q1A**	**16Q2A**	**16Q3F**	**16Q4F**	**17Q1F**	**17Q2F**	**17Q3F**	**17Q4F**	**18Q1F**	**2015A**	**2016F**	**2017F**	**2018F**
Real GDP Growth (AR)	0.8	1.4	2.9	2.0	1.6	2.3	2.2	2.2	1.1	2.6	1.5	2.1	1.9
Real Final Sales (AR)	1.3	2.6	2.3	1.5	1.5	2.2	2.2	2.1	1.4	2.4	1.9	1.9	2.0
All Items CPI Inflation (y/y)	1.1	1.0	1.1	2.0	2.6	2.2	2.5	2.6	2.6	0.1	1.3	2.5	2.6
Core CPI Inflation (y/y)	2.2	2.2	2.2	2.2	2.2	2.3	2.3	2.3	2.3	1.8	2.2	2.3	2.4
Unemployment Rate (%)	4.9	4.9	4.9	4.8	4.7	4.6	4.7	4.6	4.6	5.3	4.9	4.7	4.5

Source: CIBC Capital Markets – Economics.

Unemployment Rate (%, SA)



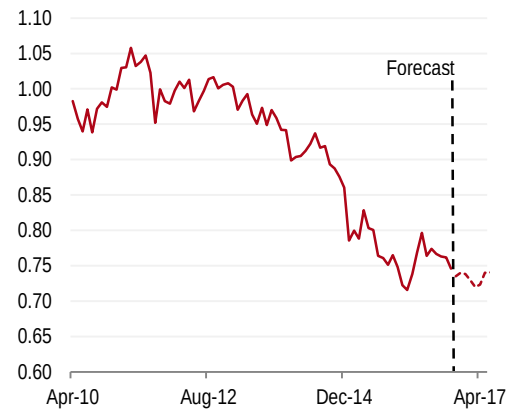
*Canadian unemployment rate calculated with US methodology.
Source: BoC, Federal Reserve, CIBC Capital Markets – Economics.

Canadian Regional Growth Forecasts

y/y % chg	Real GDP Growth 2015F	2016F	2017F	2018F	Nominal GDP Growth 2015F	2016F	2017F	2018F
BC	3.0	2.6	2.2	2.2	4.5	3.9	4.2	4.4
Alta	-3.2	-2.2	1.7	1.3	-10.0	-5.2	5.7	4.8
Sask	-0.9	-0.7	1.8	1.4	-7.7	-2.7	4.8	4.9
Man	2.3	1.6	1.7	1.8	3.5	2.9	3.7	4.0
Ont	2.6	2.5	2.2	2.3	4.3	3.8	4.2	4.6
Qué	1.1	1.5	1.5	1.6	2.6	2.8	3.5	3.8
NB	1.9	0.7	0.7	0.8	3.5	2.0	2.7	2.9
NS	1.0	1.0	0.6	1.2	2.5	2.3	2.6	3.3
PE	1.5	0.8	0.7	1.0	2.3	2.1	2.7	3.1
N&L	-2.0	-1.2	-1.0	0.7	-8.5	-3.6	2.3	4.2
CDA	1.1	1.2	1.8	1.9	0.5	1.6	4.2	4.4

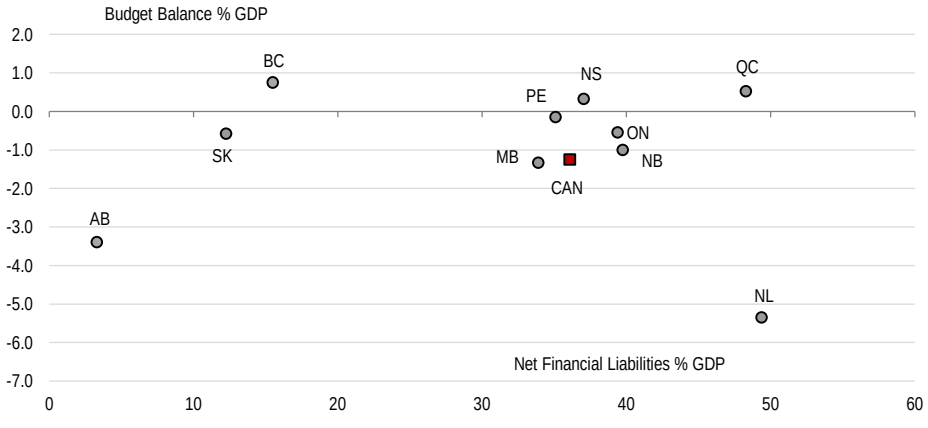
Source: CIBC Capital Markets - Macro Strategy.

Targeted Projection for CAD/USD



Source: CIBC Capital Markets – Economics.

Comparative Fiscal Positioning 2016-17 Budget/Fiscal Update Assumptions



Source: Based on PSAB accounting and reporting framework. Note: Québec before deposit to Generations Fund.

Note: National and Regional forecasts updated to incorporate Statistics Canada preliminary estimates for 2015, as well as the estimated impact of the forest fires in Alberta.

8 Credit Ratings

Issuer	DBRS	Fitch	Moody's	S&P
Sovereign				
Canada, Government of	AAA	AAA	Aaa	AAA
Federal Crown Corporations/Trusts				
Canada Housing Trust No.1 (CMB)	AAA	–	Aaa	AAA
Canada Mortgage & Housing Corp.	AAA	–	Aaa	AAA
Export Development Canada	AAA	–	Aaa	AAA
Provincial and Provincially Guaranteed				
Alberta, Province of	AA(high)	–	Aa1[Neg]	AA[Neg]
Alberta Treasury Branches (ATB Financial)	–	–	Aa1 [Neg]	–
Alberta Capital Finance Authority (ACFA)	AA(high)	–	Aa1 [Neg]	AA[Neg]
British Columbia, Province of	AA(high)	AAA	Aaa	AAA
British Columbia Hydro & Power Authority	AA(high)	–	Aaa	AAA
Manitoba, Province of	A(high)	–	Aa2	AA-[Neg]
New Brunswick, Province of	A(high)	–	Aa2	A+
New Brunswick Municipal Finance Corp.	A(high)	–	Aa2	A+
Newfoundland & Labrador, Province of	A(low)	–	Aa3 [Neg]	ANeg]
Newfoundland & Labrador Hydro	A(low)	–	–	A[Neg]
Newfoundland & Labrador Municipal Finance Corp.	A(low)	–	–	–
Northwest Territories, Government of the	–	–	Aa1	–
Nova Scotia, Province of	A(high)	–	Aa2	A+
Nova Scotia Municipal Finance Corp.	A(high)	–	–	–
Nunavut, Government of	–	–	Aa1	–
Ontario, Province of	AA(low)	AA-	Aa2	A+
Ontario Electricity Financial Corp.	AA(low)	–	Aa2	A+
Prince Edward Island, Province of	A(low)	–	Aa2	A
Québec, Province of	A(high)	AA-	Aa2	A+[Pos]
Financement-Quebéc	A(high)	AA-	Aa2	A+[Pos]
Hydro-Quebéc**	A(high)	AA-	Aa2	A+[Pos]
Saskatchewan, Province of	AA	AA	Aaa	AA+[Neg]
Yukon, Territory of	–	–	–	AA

*Rating outlooks stable unless otherwise indicated.
**At time of publishing, rating of Hydro-Quebec had not be harmonized to Province of Quebec, however we expect the outlook to be revised to stable imminently
Source: Rating agency data

9 Sector-Related Developments

Inside (in order of appearance):

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- B.C Optimistic for Softwood Lumber Deal with Trump Presidency (November 9, 2016, p22)
- Newfoundland and Labrador's Premier Offers Vision (November 9, 2016, p23)
- Renewable Electricity Plan to Create Jobs, Spur Investment (November 3, 2016, p23)
- Newfoundland & Labrador Attains New Federal Loan Guarantees for Muskrat Falls (November 3, 2016, p23)
- Federal Government Provides $2.9B Loan Guarantee Support for Muskrat Falls (November 3, 2016, p23)
- Hydro-Québec Working on Acquisitions in Bid to Double Revenue (November 2, 2016, p24)
- Moody's Affirms Canada's Aaa Rating; Maintains Stable Outlook (November 2, 2016, p24)
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- Deficit Will Be Higher Than Expected: Saskatchewan Finance Minister (November 1, 2016, p25)
- Newfoundland & Labrador Mid-Year Fiscal Update (October 27, 2016, p25)
- N.L. Minister "Disappointed" by Québec's Opposition to Extended Muskrat Falls Loan Guarantee (October 27, 2016, p25)
- Canada Housing Agency Lifts National Risk Level to Highest Grade (October 26, 2016, p26)
- Québec reports higher surplus for Fiscal 2015-16 (October 25, 2016, p26)

Ontario Maintains Projected Deficit of $4.3bln for 2016-17

(CIBC Macro Strategy, November 14, 2016, Complete story click here)

The Province of Ontario's Fall Fiscal and Economic update for 2016-17 maintained its projections of a $4.3bln deficit, unchanged from the 2016 Budget. The Province also maintained its projections to return to balance in 2017-18, while continuing to stay out of the red in 2018-19.

Although the budgeted deficit itself is unchanged, the deficit before reserve actually increased to $3.9bln, up from $3.3bln in the 2016 Budget. The Province had built a $1.0bln reserve into the 2016 Budget to help protect its fiscal outlook from unforeseen adverse changes. This reserve is reduced to $0.4bln in the update. Helping to mitigate the impact of an adjustment related to net pension assets, which was not anticipated at the time of the 2016 Budget, was the reason cited for this reduction.

BC Optimistic for Softwood Lumber Deal with Trump Presidency

(CBC News, November 9, 2016, Complete story click here)

Despite the US president-elect's vocal disdain for trade deals like NAFTA, BC Premier Christy Clark is optimistic a softwood lumber deal can still be negotiated with a Donald Trump presidency. "There are still a lot of free traders in the U.S who know that free trade for Canada has been great for their economy too. It has created thousands and thousands of jobs in BC and Canada and it has done the same on the other side of the border," said Clark.

Softwood lumber is BC's largest export south of the border. Canada exported $3.31bln of softwood lumber to the US in 2015. The US-Canada softwood lumber deal signed in 2006 expired last year, and negotiations have been ongoing since. Clark said she has not seen any change of focus at the softwood lumber negotiating table, despite Tuesday's astonishing election victory for Trump. "I have never heard him talk about softwood lumber particularly. The softwood lumber is vital for BC and not really central to most of the American economic interest," added Clark.

Newfoundland and Labrador's Premier Offers Vision

(CIBC Macro Strategy, November 9, 2016, Complete story click here)

Premier Dwight Ball released his vision for Newfoundland and Labrador (NF) reaffirming the fiscal targets that were tabled on October 27 in the Fiscal and Economic Update. According to the document, all actions outlined in the vision will be achieved within the fiscal targets that were set.

The vision addresses the Province's difficult financial situation and goals to set its financial and economic course towards balanced budgets by 2022-23 and a stronger, more diversified economy. The vision also addresses the strong need to reform the cost structure of government. We point out that the Premier recently received over 90% endorsement at the Liberal Party of NF annual general meeting.

Renewable Electricity Plan to Create Jobs, Spur Investment

(Alberta News, November 3, 2016, Complete story click here)

The Alberta government will set clear timelines for developing renewable electricity like wind and solar, and a competitive bidding process structured to limit costs. The Renewable Electricity Program will add 5,000 megawatts of renewable electricity capacity by 2030 using a competitive process, administered by the Alberta Electric System Operator (AESO). This will put Alberta on a path to achieve its target of 30% renewable electricity by that time.

The government will also soon introduce the Renewable Electricity Act, which will reinforce Alberta's commitment to the "30 by '30" target and provide the legislative framework for the Renewable Electricity Program. The successful projects will be privately funded and will result in new investment of at least $10.5bln into the Alberta economy by 2030, with at least 7,200 jobs created for Albertans.

The first competition will see investors bidding to provide up to 400 megawatts of renewable electricity. The AESO will gather feedback from industry on draft commercial terms starting on Nov. 10, and before the first competition takes place in 2017. Successful projects will be financially supported by reinvesting a portion of carbon revenues from large industrial emitters. In addition, safeguards will be in place to ensure that the process is fair and transparent.

Newfoundland & Labrador Attains New Federal Loan Guarantees for Muskrat Falls

(CIBC Macro Strategy, November 3, 2016, Complete story click here)

The Government of Canada announced additional loan guarantee support for the Muskrat Falls project for an amount of up to $2.9bln for the portion led by crown corporation Nalcor Energy.

We view this as a positive development, not only because it provides funding relief for the Province, but because it also validates the supportive institutional framework that exists between the Federal Government and the subnational levels of government. We highlight that the additional Federal loan guarantee amount of up to $2.9bln offers a $1bln buffer above the projected additional equity contributions.

Federal Government Provides $2.9bln Loan Guarantee Support for Muskrat Falls

(The Canadian Press, November 3, 2016)

The federal government is providing another $2.9bln in loan guarantees for the Muskrat Falls hydroelectric project – a move Newfoundland and Labrador's premier says will slightly ease power bills that are expected to soar.

Thursday's announcement extends the Muskrat Falls loan guarantee first affirmed by former prime minister Stephen Harper in 2012. Among other conditions, it requires that partners in both Nova Scotia and Newfoundland and Labrador remain committed to the project. NL Premier Dwight Ball said he expects the enhanced loan guarantee will cut at least 1.5 cents off rates that are estimated to hit 21.4 cents per kilowatt hour by 2021, before tax. That's almost double the 12 cents consumers paid last year -- potentially adding $150 to an average monthly bill.

The joint venture between Nalcor and Nova Scotia utility company Emera will generate up to 824 megawatts of electricity. Power will be brought from Labrador to the island of Newfoundland and on to Nova Scotia through subsea links and a vast overland transmission network.

Hydro-Québec Working on Acquisitions in Bid to Double Revenue

(Bloomberg, November 2, 2016)

Hydro-Québec wants to acquire power assets in the Americas and Europe as part of a plan to double revenue by 2030, Chief Executive Officer Eric Martel said. Canada's biggest electric utility is working on "six or seven" possible deals, of which "two or three are on the front burner," Martel said Wednesday in an interview in New York, declining to be more specific. He went on to say that at least one transaction may be announced by the end of 2017 and financed with debt.

"Acquisitions will be a key source of growth for us," Martel said. "We want to find interesting assets in areas we know: dams, transmission lines, that sort of thing. We don't want to be in 25 countries, so we are going to be very selective. We're not looking for greenfield projects." More than 99% of the power that the state-owned utility generates comes from renewable sources, according to the company's 2015 annual report.

While Hydro-Québec already has about $43bln of long-term debt, issuing more wouldn't be a problem, Martel said. He said, "tomorrow I could raise an additional $12bln in debt without any problems" to finance acquisitions.

Moody's Affirms Canada's Aaa Rating; Maintains Stable Outlook

(Moody's Investors Service, November 2, 2016)

The main factors supporting the rating affirmation are: 1) Canada's flexible and competitive economy, supported by exceptionally strong institutions and economic policy management, which underpins its capacity to absorb negative economic shocks and bolsters its robust growth potential; 2) Moody's expectation that government debt ratios, including a low federal debt burden, will remain stable in the next two years and decline gradually in subsequent years, alongside the demand for Canadian assets from long-term investors which we expect to continue to foster stable financing conditions; and 3) strong institutions that underpin a well regulated financial system that would absorb a potential housing shock with minimal fiscal costs for the government.

The ongoing adjustment to a prolonged period of low oil and gas prices and somewhat slower growth in the US, combined with financial risks from rising house prices and household debt levels pose, downside risks to our economic and fiscal projections. However, we base our stable outlook on the expectation that continued vigilance by Canadian authorities reflective of very strong institutions will succeed in mitigating such risks, thereby preserving Canada's Aaa sovereign credit profile.

Nova Scotia to Pay "Next to Nothing" for Muskrat Falls Energy: Nalcor CEO

(The Canadian Press, November 2, 2016)

Nova Scotia will be getting electricity for "next to nothing" when the Muskrat Falls hydroelectric project in Labrador starts producing energy, the man in charge of the megaproject says. Nalcor Energy CEO Stan Marshall said the poor arrangement with Halifax-based Emera Inc. is one of the reasons the $11.4bln Muskrat Falls project has proven to be a bad deal for Newfoundland and Labrador. He said Nalcor is talking with Emera about changing the terms of existing contracts for the Maritime Link, the 170-km subsea cable that will eventually carry electricity from Newfoundland to Cape Breton. Emera is paying for the $1.6bln link.

"We only need about one third of (the electricity) on the island (Newfoundland)," Marshall said in an interview this week with the Canadian Press. "So what do we do with the other two thirds? To get it to market, we gave one third to Nova Scotia for 35 years, for nothing – other than it is in return for building the (Maritime Link). The remaining one third was supposed to be sold into the market at a big profit, but energy prices have collapsed in the northeast, and it will be sold for next to nothing." As a result, Marshall said, the project will be an economic burden for Newfoundland and Labrador for at least the next four years.

"This is a project that should not have been done because it's too big for the needs of the province," he said. "We took a risk on what energy prices would be, and we've lost the bet." Still, Marshall said he remains optimistic he can mitigate some of the economic damage over the long term. The federal government's bid to have every province take part in some form of carbon pricing could help Muskrat Falls, particularly in the context of new carbon taxes.

Federal Fall Fiscal Update Downgrades Growth Outlook

(CIBC Macro Strategy, November 1, 2016, Complete story click here)

We don't see any risk with respect to Canada's AAA-rating given its very low debt ratio, but we note that today's Federal fiscal and economic update projects a modestly weaker economic outlook. This revised trajectory will erode the cushion built into the original Budget 2016 plan that was tabled in March, leaving less flexibility for negative surprises and/or increasing spending programs without running higher deficits.

With its first budget, the Liberal government built in an economic buffer that will allow it to come in better than plan for both F2016-17 and F2017-18 with deficits of $25.1bln (vs. –$29.4bln) and $27.8bln (vs. –$29bln), respectively. This follows a better-than-expected result in F2014-15 which revealed a smaller deficit of $1.0bln vs. the $5.4bln deficit forecast in Budget 2015. However, looking beyond F2017-18, the deficits are projected to be higher, such that the cumulative next five years' of deficit is about $1.7bln more, with no buffer built in. The projected debt-to-GDP ratio is expected to peak at 31.9% in F2018-19 and then gradually improve to 30.4% in F2021-22, relatively unchanged from Budget 2016.

Deficit Will Be Higher Than Expected: Saskatchewan Finance Minister

(The Canadian Press, November 1, 2016)

Saskatchewan Finance Minister Kevin Doherty says the province's deficit is going to be higher than projected in the budget. The 2016-2017 budget is projected a $434mln deficit. Doherty is expected to release a mid-year budget update by the end of November and he's warning about significant pressures on the finances.

He says corporate and personal income tax revenue appears to be down, crop insurance claims are expected to be up, more people are using social services and there's an added cost because incarcerations have increased.

Doherty notes that the fiscal year does not end until March, so he says the province has some work to do to get back to being closer to the $434mln figure.

Newfoundland & Labrador Mid-Year Fiscal Update

(CIBC Macro Strategy, October 27, 2016, Complete story click here)

Newfoundland and Labrador provided a mid-year fiscal and economic update today, revising its projected deficit for Fiscal 2016-17 to $1.58bln from $1.83bln, an improvement of $246mln from the initial budget. The modest improvement reflects: an increase in revenue due to slightly higher oil prices and production; a $50mln reduction in the $125mln risk adjustment contingency; and a reduction in program spending, offset by higher debt servicing costs. Notwithstanding this modest improvement, we view the outlook for oil prices and NL's fiscal situation to be opaque. The province's financial flexibility in the current environment is very limited and challenges persist with respect to the Muskrat Falls hydro-electric project.

NL Minister "Disappointed" by Québec's Opposition to Extended Muskrat Falls Loan Guarantee

(CBC News, October 27, 2016, Complete story click here)

"Unneighbourly" and "disappointing" is how Newfoundland and Labrador Finance Minister Cathy Bennett is describing Québec's attempt to block an enhanced loan guarantee for the Muskrat Falls hydro project. The province has asked the federal government to increase the 2013 loan guarantee it gave the province for its multi-billion dollar power project in Labrador. Earlier this week, Québec argued the federal government should turn down that request.

Québec's minister of inter-governmental affairs, Jean-Marc Fournier, said it's unfair that Ottawa is helping Newfoundland and Labrador when it didn't give his province any help to build its hydroelectric projects. The cost of the project – that's been dogged with delays, cost overruns and protests over methylmercury contamination – has ballooned to $11.4bln. That's an increase of $4bln compared to projections four years earlier. Natural Resources Minister Jim Carr confirmed that the federal government is "seriously" considering the province's request to extend the loan guarantee granted by the Conservatives in 2013.

Canada Housing Agency Lifts National Risk Level to Highest Grade

(Bloomberg, October 26, 2016)

Canada's housing agency boosted the risk level in the national market to the highest level for the first time, saying dangers are more widespread than surges in Vancouver and Toronto. Canada Mortgage and Housing Corp.(CMHC) moved up its national reading to "strong" evidence of problems, citing evidence of over-valuation and price acceleration. Toronto and Vancouver still have strong signs of overvaluation, and most markets across Canada are overvalued, the report said.

CMHC is among the last policy makers to identify major concern with the broad housing market, saying in April there was weak evidence of problems before raising the grade to moderate in July. Finance Minister Bill Morneau introduced tougher mortgage lending rules in December and again earlier this month. In 2014, Bank of Canada Governor Stephen Poloz called housing the biggest risk to financial stability and the International Monetary Fund has also said it was a key issue.

Québec Reports Higher Surplus for Fiscal 2015-16

(CIBC Macro Strategy, October 25, 2016, Complete story click here)

The Province of Québec released its 2015-16 Public accounts today, revealing a much larger budget surplus of $3.644bln, far surpassing their updated forecasts of $1.431bln in their 2016 Budget as well as the $1.586bln in their original 2015 Budget. The Province has deposited $1.453bln of this surplus into the Generations Fund, with the remaining $2.191bln going into the stabilization reserve, in accordance with the Balance Budget Act. The government has also stated that they may decide to deposit a portion of this sum into the Generations Fund as well. Today's announcement is constructive for credit spreads.

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August 17, 2016

Catalyst for Government Spreads?

The Ontario 30Y credit spread is tracking close to the low end of our target range of +95-115bps, and is currently in the area of +100bps. Meanwhile, most provincial rolls to Ontario are hovering around their historic wides. We are still waiting for a catalyst to support tighter spreads based on fundamentals. In spite of deliberate and measured monetary, fiscal, and prudential policy initiatives to reduce elevated housing market risk, spur economic growth, and re-align the drivers of growth towards business investment and exports, recent data continue to disappoint. Manufacturing employment in Canada remains a source of weakness, standing below the resource sector for last place. We are expecting brighter skies in 2017. Although there are a few bright spots here and there, the sky is still quite cloudy. *More on p3*

Ontario 30Y Spread



Source: CIBC Capital Markets – Macro Strategy

What's New in Sector Developments

- Federal Conservative Party and NDP leadership races ground game taking shape
- Nova Scotia finishes F2015-16 with smaller deficit and Moody's affirms Aa2 stable
- Saskatchewan reports higher deficit in F2015-16 on pension costs and resource revenue
- Muskrat Falls: Canada considering request to guarantee new debt offerings
- Alberta launches legal action, new approach on Power Purchase Agreements
- BC introduces 15% foreign investment residential property tax in Vancouver. *More on p20*

Special Report: Accounting for Government Transfers (August 8, 2016)

Grey areas in the Public Sector Accounting Standard – PS 3410 Government Transfers are leading to differing interpretations and diversity in practice with respect to the treatment of transfer revenue (recipient side), and this outcome – from a financial statement users' perspective – is reducing the comparability of financial statements within the government credit sector.

Enabling legislation that prescribes specific accounting approaches which are not necessarily in line with the Public Sector Accounting Standards Board (PSAB) standards may allow governments to meet the requirements for an unqualified or unmodified audit opinion, because the auditor is thus opining under a different compliance framework. From a financial statement users' perspective, this reduces the quality of the auditor general's opinion.

Also covered in this report are updates on PSAB's initiatives on P3 and Employee Benefits accounting. Click here for report.

Click through to sections

In-House Views

1 Market Outlook *p2*

2 Trading Biases *p3*

Market Environment

3 Market Recap *p6*

4 Market/Benchmark Analysis *p11*

5 New Issue Supply/Borrowing Programs *p14*

6 Spreads & Rolls *p16*

Credit Fundamentals

7 Economic/Fiscal Forecasts *p18*

8 Credit Ratings *p19*

9 Sector-Related Developments *p20*

Key Dates

- Up next are the fall economic and fiscal updates
- Public accounts for F2015-16 are trickling in – British Columbia, Alberta, Saskatchewan, and Nova Scotia have already reported
- Nova Scotia Premier Stephen McNeil doesn't rule out a fall election

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1 Market Outlook

Still Positioning for Gradual Move Higher in Rates

Our portfolio strategy is grounded on our base case for a gradual move higher in rates and a firmer global economy heading into 2017. CIBC Macro Strategy's Rates Strategist Richard Gilhooly projects, "As easing moves from overseas Central Banks and widening fiscal policy expansion kicks in to raise global growth and inflation, we expect the extreme scenario that is implied by record low 30Y CAN yields and near record low inflation break-even rates to gradually reverse, bear-steepening the GOC yield curve and raising inflation expectations from their significant discount relative to spot inflation. We expect the latter to actually move higher from the 2% level on core CPI, which would widen the spread to break-evens and emphasize the cheapness of the sector as the Canadian economy responds to low rates and fiscal expansion." On policy rates, CIBC Economics is expecting a gradual tightening move by the Fed in 2016, with only one hike in December and two in 2017. In Canada, CIBC Economics forecasts that the Bank of Canada will be on hold for all of 2016 and likely 2017 as well, as Canada's central bank postures between desires for a weak Canadian currency to support export growth, and containing elevated housing market risk. The BoC is also leaning on fiscal stimulus.

An important variable for the Canadian economy is crude prices which retreated last month on high product inventories and lacklustre demand, especially from a seasonal slack in Asian weather-dependent industrial output and transport/distribution challenges. Run cuts in the face of record product inventories was another factor. Mixed agency short-term forecasts have added to the uncertainty, but OPEC optimism, and unplanned crude and product supply disruptions have potential to change the dial, as was evident in last week's turnaround. With crude benchmarks making higher highs and lower lows, and sentiment reversed to the upside, our Macro Strategy oil analyst expects improved product demand in H2'16 to support prices through the heavy US fall maintenance season. *(We note that there have been comments by OPEC officials about holding informal talks next month ahead of the regularly scheduled OPEC meeting on November 30 to stabilize oil prices.).* CIBC Macro Strategy's oil and gas price forecasts are: WTI: $43.50/bbl (2016E avg.), WTI: $51.25/bbl (2017E avg.), Brent: $46.50/bbl (2016E avg.), Brent: $52.50/bbl (2017E avg.), WCS: $30.50/bbl (2016E avg.), WCS: $38.00/bbl (2017E avg.), NYMEX: $2.45/mmbtu (2016E avg.), NYMEX: $3.65/mmbtu (2017E avg.)

CIBC Institutional Equity Research Oil Analysts' (Arthur Grayfer and Jon Morrison) updated oil price forecasts are (avg.): WTI 16F US$45 (increased by ~6% on stronger than expected Q2, with their quarterly progression as follows: US$33.41/Bbl for Q1/16, US$45.60/Bbl for Q2/16, US$47.50/Bbl for Q3/16E, and US$53.40/Bbl for Q4/16E. They are also projecting WTI F17 US$60, WTI F18 US$70/bbl. Their base case for 2017 is for the crude market to tighten due to falling supply and demand growth driven by both the United States and Asia.

A gradually improving oil price should be supportive for the Canadian loonie, which is already off the lows on firmer oil prices. However, our Macro Strategy FX Strategist Bipan Rai believes that, "While oil prices should see an updrift next year, correlations with the CAD will deteriorate as monetary policy divergence and foreign investment flows will continue to be the determining factors for the loonie. We expect USD/CAD to trade with a USD bid bias on average for much of next year. Our expectation is that the USD/CAD will be in a range of 1.25-1.40."

With significant global economic uncertainties prevailing, we still believe a cautious duration stance is warranted at this time, even though the low level of yields since the start of the year may support the argument for a stronger defensive stance against rising yields. We are proposing only a 'modest and measured' short over the next 3-6 months until we have more clarity on the strength of the global economic recovery. In recent market memory, we've seen periods of extreme volatility and, in these types of markets, being nimble on tactical shifts (i.e. being able to cover-in shorts and capitalizing on rallies) is the key to avoiding value destruction when markets are prone to react to global events (i.e. Brexit, Turkey attempted coup) and other market developments. On our radar is the US election on November 8.

On sector allocation, we remain in favour of a corporate overweight versus provincials for better yield, but security selection will be key in navigating through what we expect will be choppy spreads in both sectors. Provincial bond spreads have tightened since Brexit as both domestic and international issuers have re-emerged after being sidelined during the UK "Brexit" referendum. International investors have looked to Canada as a safe-haven higher yielding jurisdiction, while Europe and Asia contend with negative yields.

Following Brexit, we see the potential for more geopolitical risk and discord within the European Union itself that will pander to investor fears. Another risk we are mindful of is earnings disappointments. Our Institutional Equity Strategist believes that equity markets are overvalued based on year-end targets and, therefore, at risk to any earnings misses – a check back in equity markets would put a bid in yields. These factors notwithstanding, we believe that the North American economy will show more evidence of firming in the quarters ahead and the latest US job numbers and substantial job gains over the past several years support this thesis.

2 Trading Biases

Portfolio Strategy Near-Term Trading Biases (3-6M outlook)

Target Benchmark Weights

FTSE TMX Canada Universe Bond Index	Sector Weight July 29, 2016 %	Near-Term Trading Bias %
Index	100.00	100.00
Federal*	36.10	33.00
-Canada (Non-Agency)	24.71	23.00
-Agency	11.00	10.00
Provincial	34.69	24.00
Municipal	1.93	3.00
Corporate	27.28	40.00
-AAA/AA	7.81	10.00
-A	9.67	15.00
-BBB	9.79	15.00

Source: PC Bond, Bloomberg. *Federal sub-group includes supra-national which is not displayed. Note: Table may not add due to rounding.

Top-Down Strategy

- Duration: 'Modest and Measured' short

We still believe a cautious duration stance is warranted at this time, even though lower yields since the start of the year may support an argument for a stronger defensive stance against rising yields. We are proposing only a 'modest and measured' short over the next 3-6 months until we have more clarity on the global economy. As we've seen since the start of the year, being nimble on tactical shifts (i.e. being able to cover-in shorts and capitalizing on rallies) will be the key to avoiding value destruction in a market that is volatile and prone to react to global events (i.e. Brexit, Turkey attempted coup, etc.) and other market developments.

- Curve: Bullet (emphasis on yield maximization)
- Sector Allocation: Overweight corporates (gradual leaning into the wides, not at max constraint or target)
- Near-market weight Canadas
- Underweight Provincials (gradually moving to neutral over time)
- Small position in less liquid Municipal sector

Premise

- 'Modest and measured' defensive position in the context of historically low yields and an improving global economy, but vulnerable to shocks and geopolitical risk
- Gradual normalization of policy rates with the Fed Reserve moving way ahead of the Bank of Canada
- With the strong correlation between the US and CAD yield curves, the CAN10Y and US10Y are expected to move higher together
- Our Equity Strategist, Ian de Verteuil, expects equity markets to continue to be choppy over the remainder of the year, with negative rates, deflation concerns and disappointing earnings growth periodically weighing on equity prices. Based on fair value fundamentals that underpin his targets, equity markets have minimal upside into year-end targets: SPTSX target 14,000; SPX target 2,100 (reduced from 2,200)
- We favour the risk/reward trade off in corporate vs. government bonds at these wider spreads, especially given the narrower spread tolerance in government bonds, but not yet at maximum corporate weight and with a strong focus on credit quality. We see provincials moving closer to neutral over time.

Government Sector Security Selection Biases*

- Near-term >5Y security bias CAN, CMB, BC, SK, ONT, QC
- Near-term ≤5Y security bias CAN, CMB, BC, ALTA, MAN, SASK, ONT, QC, NS

Favouring mostly core liquid non-Energy names in mids and longs

*Qualified by fundamental credit trends (fiscal/economic) as well as supply and liquidity.

Trading Range Targets (vs. Curve)

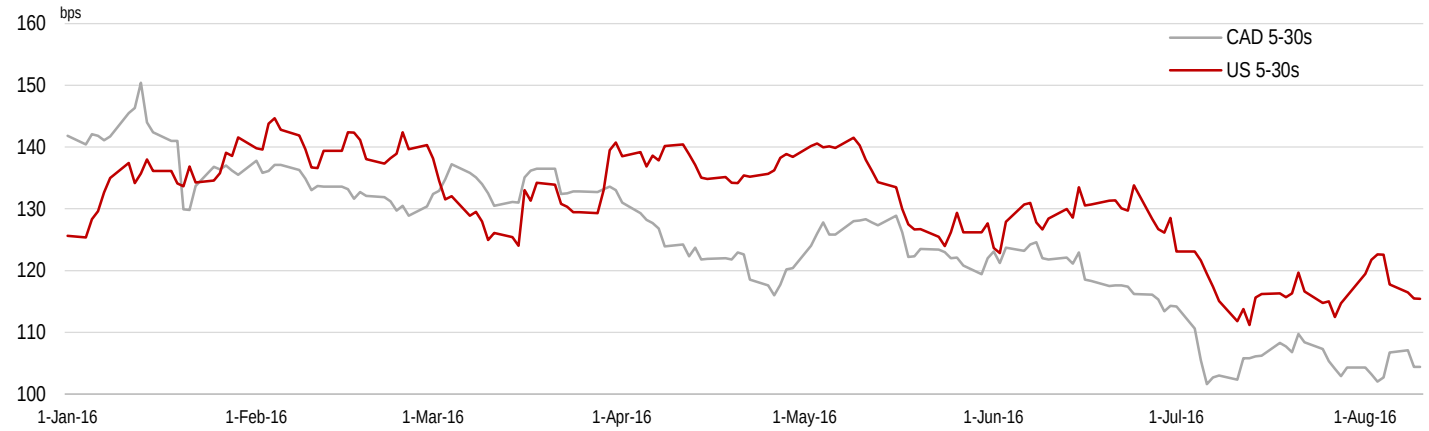
ONT 30Y +95-115bps (current ~98bps — at tight end of our range)

QC 30Y roll* +3-6bps (current ~4bps)

CMB 5Y +40-60bps (current ~42bps — at tight end of our range)

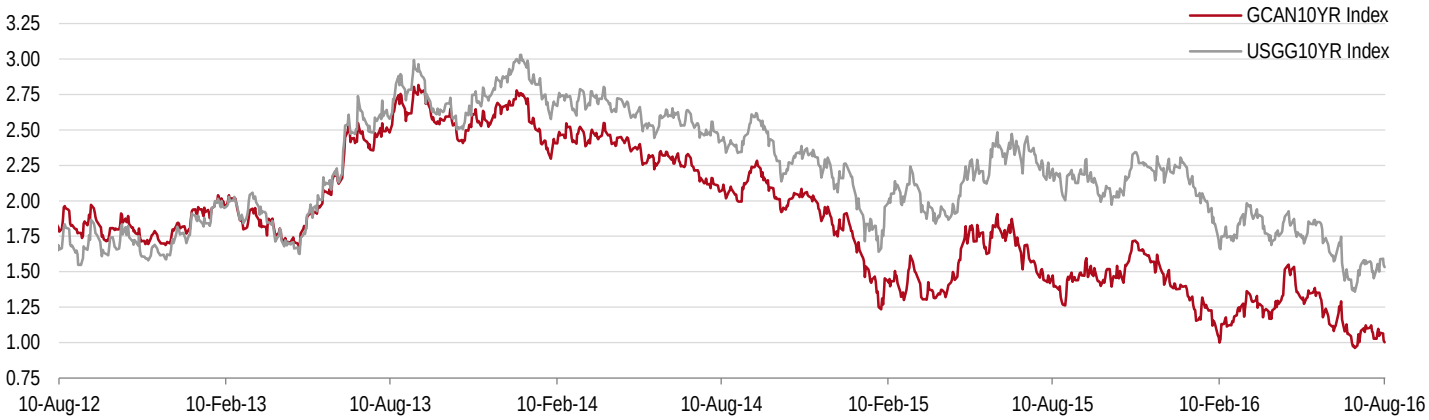
*versus ONT

Canadian 5-30s Curve Flattens While US Steepens



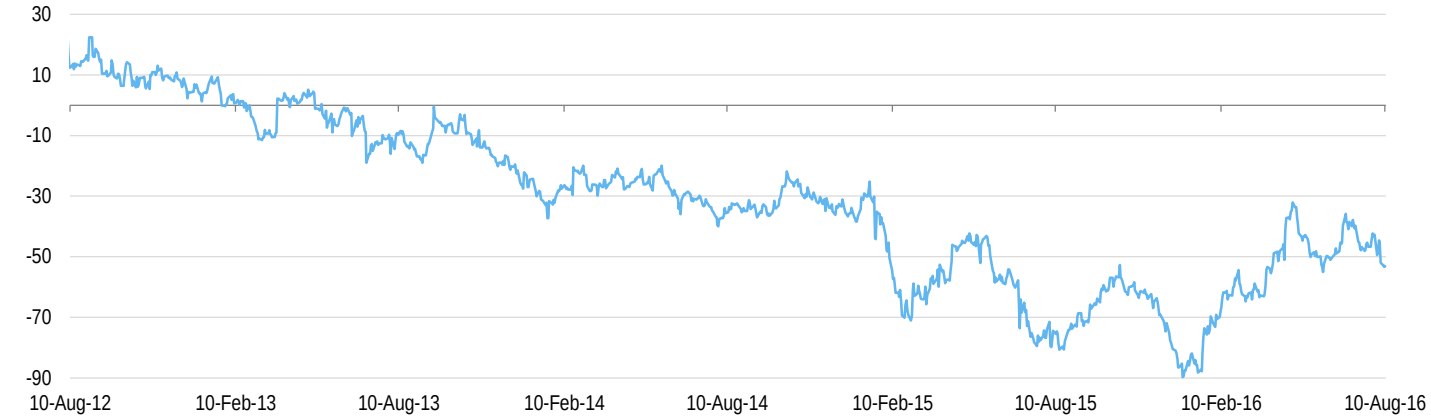
Source: Bloomberg, CIBC Capital Markets – Macro Strategy

CAN US 10Y



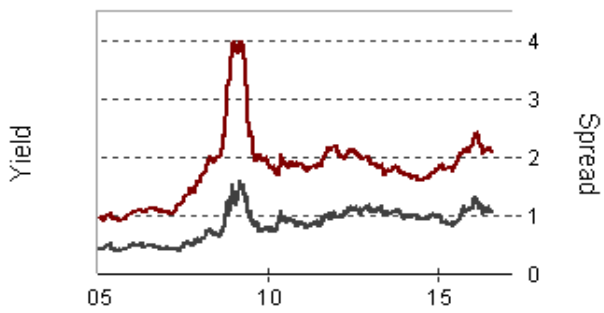
Source: Bloomberg, CIBC Capital Markets – Macro Strategy

CAN US 10Y Spread Inversion



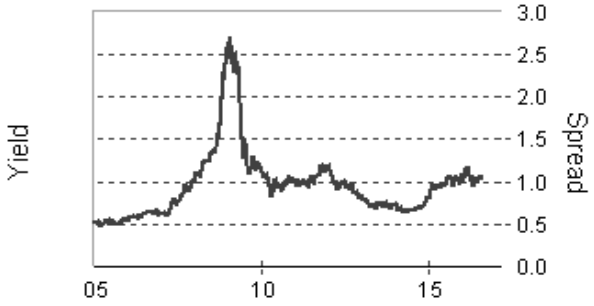
Source: Bloomberg; CIBC Capital Markets – Macro Strategy

Long Provincial and Corporate Spreads



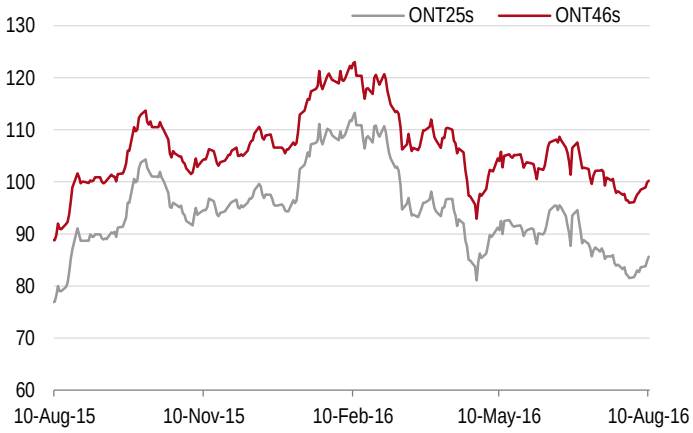
Source: PC Bond

Corporate Spread Differential vs. Provincials



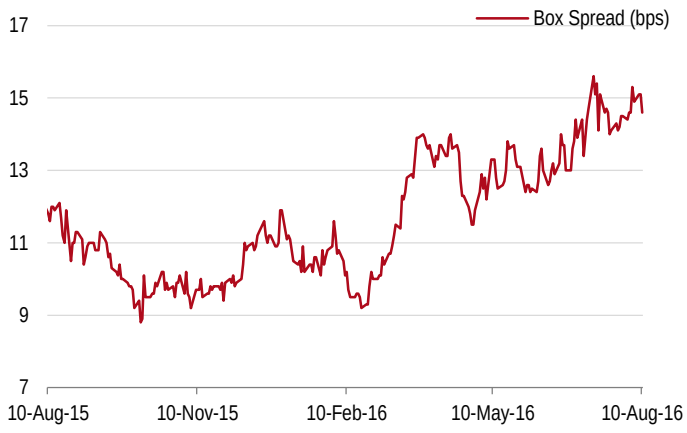
Source: PC Bond

ONT vs. Benchmark



Source: Bloomberg, CIBC Capital Markets – Macro Strategy

ONT 25–46s Credit Box



Source: Bloomberg, CIBC Capital Markets – Macro Strategy

3 Market Recap

Market Highlights

Since our last issue of Canadian Government Central (July 19), economic data has shown more divergence between Canada and the US. Canada's employment figures were weak, in direct contrast to the strong US jobs report. This caused Canada bonds to outperform US. Shortly after the data releases on August 5, the US 10Y yield was up +5.76bps to 1.56%, while the CAN 10Y was up only 0.17bps to 1.05% (CAN 10Y has since briefly pierced through 1%). The front end of the Canadian yield curve rallied, with the 2Y down -1.39bps, while the 30Y sold-off +2.1bps. The front-end bull steepening signalled higher stimulus odds.

The strong US data propelled the US stock market further, with the S&P 500 (SPX) advancing to 2174. The weaker Canadian employment data (and weaker oil prices) did not faze the Canadian stock market as the S&PTSX advanced to 14,766. Both the S&P/TSX and SPX remain above our Portfolio Equity Strategist's (Ian de Verteuil) year-end targets of 14,000 and 2100, respectively, suggesting that the market is fully valued. We highlight recent major economic developments below.

CANADA

July Employment Report – Public sector job losses weigh on employment

- Canada lost -31.2k jobs in July after shedding -0.7k in June. The breakdown showed -71.4k full-time jobs lost, more than offsetting the +40.2k part-time jobs gained. The report was skewed by a big drop of -36.1k jobs in Ontario, some of which was public sector-related. The participation rate ebbed a tick to 65.4%, allowing the unemployment rate to edge up a notch to 6.9%.
- CIBC Economics (Nick Exharhos): "Canadian jobs took a thumping in July, but with the report highlighting an unlikely collapse in public sector employment, we're likely chalking this one up to the underlying volatility in the Labour Force Survey. Although we can discount some of the weakness in any one particular report, the annual trend in employment and hours worked is commensurate with an economy that continues to face headwinds. Indeed, both those metrics are up by a weak 0.4%, a trend that would have left the unemployment rate higher than the current 6.9% had it not been for sliding participation."

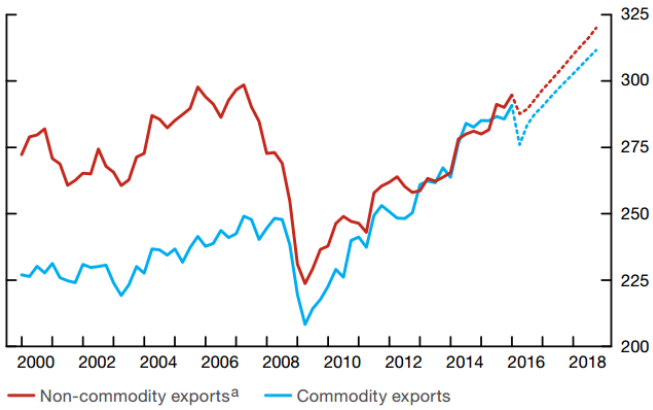
2016	July	June	May	April	March	Feb.	Jan.
	----------Change in Employment----------						
CAN	-31.2	-0.7	13.8	-2.1	40.6	-2.3	-5.7
BC	12.1	16	-8.4	13	9	14.1	1.2
AB	-1.4	-1.9	-24.1	-20.8	18.9	1.4	-10
SK	-0.5	1	2.2	-1.6	2.8	-7.8	-1.8
MB	0.2	0	2.9	-3	5.5	2	-5.3
ON	-36.1	-4.2	21.6	-3.3	13.9	-11.2	19.8
QC	-4	-11.2	21.6	1.8	-11.2	3.4	-3.2
NB	5	1.2	-0.9	3.9	-0.6	-5.7	-1.1
NS	-1.4	0.6	-3.6	2	3.4	0.8	-2.4
PE	0	-0.4	0.7	0	-0.7	-0.6	-0.4
NL	-5	-1.8	1.6	6.1	-0.4	1.1	-2.4

Note: Figures prior to June are based on previous release and may be subject to revision. Changes are in thousands. Regional figures are not seasonally adjusted.
Source: Statistics Canada

Bank of Canada Rate Decision – BoC raises housing market risk assessment

- The Bank of Canada (BoC) kept its overnight benchmark rate at 0.5% at its July 13 meeting. CIBC Economics: "Rates were held steady, but the Bank of Canada has pushed its forecasts for the economy lower. Part of the downward revision to Q2 growth – which is now expected to contract by 1% – is due to the Alberta wildfires." The next BoC rate decision is September 7.
- The Bank noted that the outlook for business investment and exports has weakened. Despite a forecasted growth rebound in Q3, as oil production comes back online, 2016 as a whole is expected to grow by 1.2%, almost half a percent below the BoC's prior outlook. The output gap still closes within their forecast horizon, albeit later than previously anticipated, and inflation is on track to return to 2% by 2017.
- The Bank expects the underlying trend of export growth to continue, leading to a pick-up in business investment.
- The Bank statement cites that financial vulnerabilities are 'elevated and rising', with Vancouver and Toronto singled out.

• Real Exports Have Been Increasing Steadily



Note: Non-commodity exports includes goods and services.
Source: Statistics Canada, Bank of Canada calculations and projections (Monetary Policy Report, July 2016).

CIBC Economics: BoC on hold for 2016 and likely 2017

Other Key Canadian Data

- Canada's trade deficit (in nominal terms) widened to -$3.6bln in June, the largest on record, from a revised -$3.5bln in May. On a year-to-date basis, the gap reached -$17bln, another record. Energy exports were the primary driver, falling -27% y/y, although non-energy exports were also down -3.5%. On a y/y basis, total exports are down a greater -7.6%, while imports are down only -1.2%. On a month-over-month basis, both exports and imports were up slightly, suggesting some stabilization with Energy exports up +7.2%. The persistently weak trade deficit provides a strong case for a weak Canadian dollar. On a positive note, the recent June manufacturing data gained 0.8% (versus -1% in May) on the back of stronger shipments of machinery and transportation equipment (particularly cars and autos).
- Canadian retail spending took a step back in May, up 0.2% vs.0.9% the previous month, mainly on reduced auto sales. Retail Sales Ex-Auto also slowed, but was still a decent print, increasing 0.9% m/m compared with 1.3% m/m in April. Canadian retail spending has showed much vigour since the start of the year, although March sales took a pause (-0.8% m/m).
- May GDP was down a sharp -0.6% m/m vs. +0.1% in April; economy was impacted by oil and gas disruptions from the Alberta wildfires.
- Headline CPI decelerated in June up only 0.2% m/m vs.0.4% m/m in May. Year-over-year, it held steady at 1.5%. Core CPI was 0.0% m/m and 2.1% y/y. CIBC Economics (Royce Mendes): "Fuel is still cheaper than a year ago, and that's the only reason Canadian inflation is running below the 2% target. Core inflation is stickier than expected, at its above target pace of 2.1%, as the past depreciation in the Canadian dollar continues to provide an offset to the slack that's opened up in the economy."
- Canadian housing starts pulled back to +198.4k in July, down from +218.3k in June, but are still trending above the pace of annual household formations of around +175-180k. CIBC Economics (Avery Shenfeld): "Housing prices might be in a bubble in some Canadian cities, but July data show that starts and construction rest on a firmer foundation tied to population growth and demand. July's 198k level was down somewhat from June's lofty 218k reading, but the broader picture shows a generally sideways trend dating back to 2010. July's retreat included a come-down in both singles and multiples, but left the six-month moving average on a gentle upward path, and year to date starts are up 3% vs. 2015. Virtually all that growth has been in Ontario and BC, with Québec running slightly ahead of last year on a YTD basis. Nationally, with starts already at a healthy level, construction's contribution to GDP growth remains choppy, with limited upside even in this low rate environment."
- Existing home sales slipped back slightly in July (-1.3% m/m), but that didn't keep house prices from accelerating strongly. The Teranet/National Bank HPI showed that the average price of homes increased at a feverish pace of 10.9% y/y. Again, the price acceleration has been concentrated in the Vancouver and Toronto areas.
- In Vancouver, a new 15% foreign investment tax on residential purchases along with a tax measure to address the supply of vacant homes (i.e. vacant home tax) is meant to arrest rampant home price appreciation and low affordability.
- In Toronto, a new report by CIBC Economics, titled, "The GTA Housing Market: Is There Logic Behind the Madness?" by Benjamin Tal with Katherine Judge, discussed the causes of rising home prices. Their report states, "The future trajectory of housing in the GTA is not written in stone. Low interest rates have created the potential for house price inflation. Policy-driven land shortages released that potential, resulting in today's housing affordability crisis. The GTA is in a twilight zone of home prices characterized by a homeownership mentality that is slow to change to the required higher propensity to rent. With interest rates unlikely to rise any time soon, the future of housing in the GTA will be shaped by the ability of these factors to adjust. Policies such as the "Places to Grow Act" have limited the availability of serviced land for ground-oriented houses through setting aggressive intensification and density targets."

UNITED STATES

FOMC Rate Decision – Economic risks downgraded

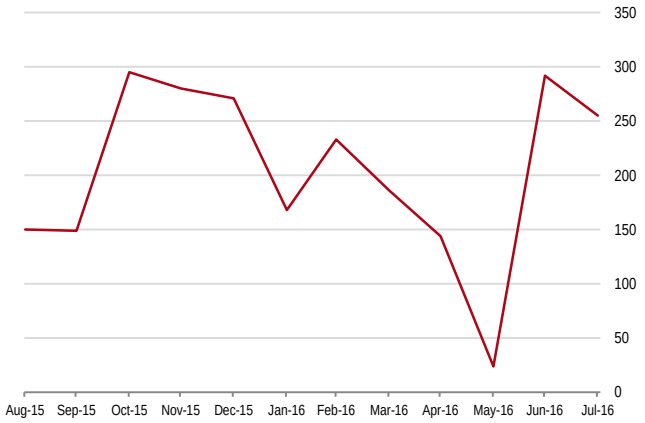
As expected, the FOMC kept its overnight benchmark rate range unchanged at 0.25-50% (July 27 decision meeting). The FOMC statement downgraded the risks from the previous statement by stating that "near-term risks to the economic outlook have diminished". A change from the June 15 unanimous decision, was one dissenter at the July meeting, with Kansas City Fed President Esther George returning to her previous position calling for a hike. The next decision meeting is September 21.

The statement acknowledged the increase in labour utilization in recent months and strong household spending, but pointed to soft business investment and inflation running below the Committee's 2% long-term inflation target.

July Payroll Report – Non-farm strongly beats for the second time

- US Non-Farm Payroll beat in July with a gain of +255k jobs vs. the consensus estimate of +180k. This was the second consecutive month of robust gains following a very disappointing May. The June data was revised up to +292k from +287k. The two-month payroll net revision was +18k.
- The six-month moving average advanced to +189k from +175k.
- Both average hourly earnings and average weekly hours advanced m/m.
- The unemployment rate held steady at 4.9% as the labour participation rate ticked up to 62.8%.
- The Federal Reserve's Labour Market Conditions Index moved up to 1.0 from -0.1, the first time above 0 since the start of the year.

US Non-Farm Payrolls Report



Source: US Bureau of Labour Statistics

Other Key US Data

- US trade deficit widened in June to -$44.5bln from -$41.0bln as imports (+1.9%) rose faster than exports (+0.3%).
- July was a solid month for housing activity following in strength in June: Housing Starts (+2.1% m/m to 1,211 units), Building Permits (-0.1% m/m, but +5.1% in June), Existing Home Sales (+1.1% m/m in June), New Home Sales (+3.5% m/m in June), Pending Home Sales (+0.2% m/m in June). Housing activity remains elevated and this is mirrored in the National Association of Home Builders Confidence Index which is around 60 – a level indicating that builders view conditions as favourable. More forward momentum is expected on pent-up demand and the expectation increasing new household formations.
- Consumer confidence indicators were little changed in July with mixed readings. University of Michigan Index of Consumer Sentiment advanced slightly while the Conference Board Consumer Confidence Index was relatively unchanged. However, both are near multi-year highs.
- An advanced reading of 2Q GDP growth missed expectations at 1.2% q/q, but personal consumption remained strong at +4.2% q/q. CIBC Economics (Royce Mendes): "After another soft Q1 south of the border, the second quarter was supposed to show a rebound in growth. That didn't happen. Today's data revealed that the economy couldn't even keep up with subdued estimates of the potential growth rate during the first half of the year. That said, with a big chunk of that weakness coming from a decline in inventories, the headline number hides the fact that final demand was healthy and should support growth during the second half of 2016." Other soft spots were reduced residential and non-residential investment and a drop in government spending.
- CIBC Economics lowered its annual real GDP growth expectations given the slow start to the year and projects +1.6% for all of 2016 (vs. 2.6% in 2015). Now with the Brexit vote over, they predict that a rate hike could occur as early as December if economic data unfolds favourably.
- US inflation remains in check. The Fed's preferred measure of Core PCE q/q was 1.6% in Q2 (Advanced), below the Fed's target of 2%. The July CPI reading ebbed two ticks to 0.8% y/y. CPI Ex-Food and Energy it dropped to 2.2% y/y from 2.3%. However, the July reading of Real Average Weekly Earnings advanced 1.4% y/y from 1.2% y/y in June, more signs of tighter labour markets.
- US total auto sales remain at a strong multi-year pace. Wards Total Vehicle Sales for July were 17.77mln vs.16.69mln (SAAR) in June.
- July ISM Manufacturing (52.6 vs. 53.2 m/m) and ISM Non-Manufacturing (55.5 vs. 56.5) both slipped back in July, but remained in expansion territory. Meanwhile, July Capacity Utilization advanced 0.5% to 75.9% as industrial production picked-up 0.7%.
- US retail sales disappointed in July decelerating to 0.0% from 0.8% the previous month and missing expectations for a 0.4% rise. Ex-Autos, the number was similarly weak pulling back -0.3% m/m from 0.9%. However, both indicators in the previous month were revised higher. CIBC Economics notes (Royce Mendes): "The retail sales control group (sales ex-autos, gas, food services, building, materials) didn't gain any ground either, with weakness showing up as relatively broad-based. One area that continues to post gains, however, has been non-store sales (i.e. online retailers). A gain of 1.3% leaves the level of retailing in the sector more than 10% higher than a year ago as the secular transition towards increased online shopping continues."

GLOBAL

Eurozone

- EU is pressuring the UK to move swiftly to invoke Article 50 of the 2007 Lisbon Treaty, which sets in motion the procedures to leave the EU within a two-year timeframe. However, new British Prime Minster Theresa May (former Home Secretary) appears happy to wait, and doesn't plan to invoke formal proceedings this year. German Chancellor Angela Merkel has warned that the UK should not expect any favoured treatment once it leaves the European Union. The uncertainty is expected to negatively impact business confidence in Europe and the UK.
- The ECB is projecting that its conventional and unconventional monetary policy measures will see euro-area growth rising from 1.6% this year to 1.7% in 2017 and 1.7% in 2018, with inflation similarly trending up from 0.2% to 1.3% and 1.6%, respectively. The ECB left its main refinancing rate unchanged at 0% at its July 21 meeting as well as its Asset Purchase Target at €80bln. No additional measures were announced since the major measures in March. It is still early to quantify the effectiveness of the ECB's measures to combat deflation. Governor Draghi is appealing to governments to play a bigger role in reinforcing regional growth.
- Market Eurozone PMI (July): Euro area business activity growth edged lower in July according to the Markit Eurozone Flash PMI dropping to an 18-month low.
- Other data: June unemployment rate unchanged at 10.1%, 2Q Advanced GDP +1.6%, July CPI Estimate 0.2% y/y, June retail sales flat 0.0%, Construction Output May -0.8% y/y. The ZEW Survey on Expectations of Economic Growth surprised edging up to +4.6 in August from -14.7 in July.
- Markets reacted to concerns about the health of European banks (including UK) after the European Banking Authority released its stress tests.

United Kingdom

- BOE cut its benchmark rate a quarter point to 0.25% on August 4, and increased its Asset Purchase Target to £435bln from £375bln, also expanding eligible securities to include corporate bonds. The Bank also cut its growth outlook for 2017 to 0.8% from 2.3%, but kept 2016 at 2%. Inflation expectation (CPI) seen at 2.4% at two-year horizon, looking through inflation spike. Just following the June 23 Brexit vote to leave the EU, the BOE assured financial markets that it is well-prepared with extensive contingency plans to deal with the inevitable period of uncertainty and adjustment. The BOE stands ready to support the functioning of the market including the ability to provide more than £250bln of additional funds through its normal facilities.
- BoE business conditions survey shows companies are scaling back investment and hiring plans, confirming the central bank's worry for the negative consequences to the "yes vote on Brexit" (June 23). The weak pound is giving a lift to exports, however.
- UK 2Q Advanced growth estimate picked-up slightly to 0.6% q/q from 0.4% in 1Q.

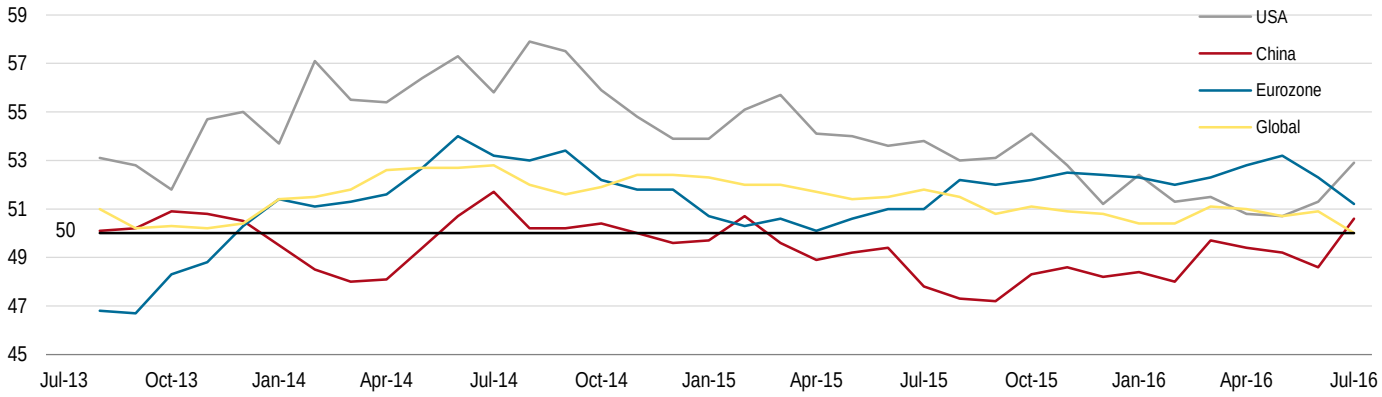
Asia

- China's economy is showing signs of stabilization as the Manufacturing PMI remains relatively unchanged, but the July reading slipped to 49.9 from 50.0 and is now into contraction territory once more. Meanwhile, the Non-Manufacturing index remains solid and advanced to 53.9 in July from 53.7. Many economists and analysts are calling for more measures to boost economic output and investor confidence, as data are still far below the peaks seen in 2009-10 and are failing to convince markets regarding the stabilization of China's economy.
- China's economic health is also under scrutiny as historical momentum was fuelled by a long period of rapid credit expansion and fixed asset investment, which is decelerating, as China has been transitioning to a consumer-based economy. Contributing to China's health worries was the recent default by a unit of Guosen Securities – China's eighth-largest investment bank – on an off-shore 'dim sum', renminbi-based bond, the first time a state-owned enterprise is in default.
- The latest Chinese trade data for July show Exports are down -4.4% y/y and Imports are down -12.5% y/y.
- China has initiated several cuts in interest rates and the Reserve Requirement Ratio (RRR) over the past few years, and its most recent cut of 0.5% on February 29 (last PBOC meeting) sent equity markets higher. However, with the RRR cut to 17% effective March 1, there is still more room to cut, and the markets are showing an eagerness for more cuts rather than fewer. Fiscal stimulative deficits are also part of the equation.
- China's economy grew at 6.9% in 2015, and the consensus growth estimate is 6.5% in 2016, 6.3% in 2017, and 6.3% in 2018. These are far below the 10% plus levels seen prior to 2012. The latest 2Q y/y growth in China was 6.7%. The latest reading for July inflation was +1.8% y/y. Inflation is projected to remain relatively stable over the next several years around 2%.

- At its July 28 meeting, the Bank of Japan kept its overnight benchmark rate unchanged at -0.10%, and maintained its monetary base expansion at ¥80trl in spite of disappointing economic conditions. The market was expecting this to increase to ¥90trl (i.e. helicopter money). The BoJ did, however, expand its ETF purchases to ¥6trl from ¥3.3trl, but this underwhelmed the market.
- Japan's economy shrunk by -1.7% in 4Q15 in real terms, but then rebounded to +2.0% in 1Q16 due to stronger private consumption; it's too early to tell if stimulus policies will have a lasting effect. Growth for 2Q16 was 0.2%, slightly weaker than had been expected, suggesting that the first quarter rebound was mostly driven by the weak hand-off. The market is still hoping for more stimulus. The BoJ has vowed to take more action if its 2% inflation target is under threat. The most recent data show industrial production along with exports and imports are weak. Additionally, prices are still lingering in deflation territory.
- According to Macro Strategy's F/X strategist Bipan Rai, Japan's currency has been appreciating for much of the year, which is not constructive for exports or business investment. Both Japanese exports and imports have been declining in percentage terms y/y since the start of 2015. Though Prime Minister Shinzō Abe won a majority in the upper house in early July, both monetary and fiscal expansions announced since have underwhelmed markets. As global uncertainty carries on, the Yen proves to gain strength as Japanese investors draw money out of external markets and repatriate home to preserve capital preservation amidst increasing risk aversion.

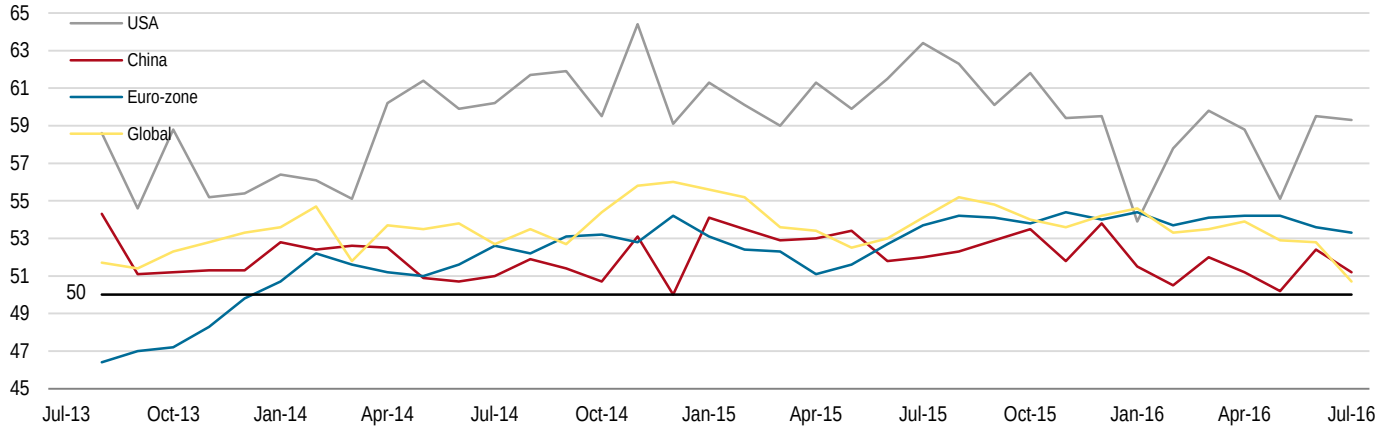
GLOBAL ECONOMIC CONDITION INDICES

Manufacturing Index



Source: Bloomberg, Markit, Caixin, JP Morgan Reading above 50 denotes expansion, 50 denotes no change, below 50 denotes contraction

Non-Manufacturing (Services) Index



Source: Bloomberg, ISM, Caixin, Markit, JP Morgan Reading above 50 denotes expansion, 50 denotes no change, below 50 denotes contraction

4 Market/Benchmark Analysis (July 2016)

Both stocks and bonds produced decent returns in the month

Since the surprise Brexit vote which caused both bond yields and stock market values to collapse, US and CAN bond yields have traded in a relatively tight lower range. The Canada 10Y has remained near the lows (around 1%), while the US 10Y has bounced about 20bps off the lows to ~1.55%, benefitting from stronger economic data as of late, including a strong July job report. Meanwhile, equity markets have shrugged off any previous geopolitical risk concerns and have recovered strongly. In the end, both bond and stock markets delivered decent returns in July.

Equity Markets

The S&P/TSX returned 3.91% in July, powering ahead after remaining relatively unchanged in June. **With the exception of Energy (-0.40%), all sectors had positive returns.** Energy was impacted by a re-weakening of oil prices. The US oil benchmark WTI fell -US$6.73 to US$41.60/bbl. Meanwhile, Canada's heavy blend benchmark WCS was down a sharper -US$7.68 to US$26.85/bbl with the differential widening by -US$0.95 to -US$14.75. According to CIBC Macro Strategy, the factors behind the drop in oil prices and widening differentials were higher global supply – in part due to stronger OPEC production – high inventories, and some softening in demand. With respect to Alberta oil production, our Institutional Equity Research Group estimates that 100% of previous shut-in production caused by the Alberta wildfires was back online by month-end.

By sector, leading the market higher was **Info Tech (+9.20%), buoyed by Blackberry's turnaround** and other technology growth stocks. Also near the top of the leader board were Industrials (+7.67%) and Materials (+6.95%). All remaining sectors had decent returns as well: Health Care (+6.37%), Consumer Discretionary (+5.56%), Consumer Staples (+5.29%), Telecom (+4.45%), Financials (+3.40%) and Utilities (+2.99%). Interestingly, though, while Info Tech was the best performing sub-sector, the top performing stock was energy company Birchcliff Energy (+37.21%) and the majority of the top 10 were gold and silver mining companies (i.e. Materials stocks).

The S&P500 (SPX) returned 3.69%. **In Canadian dollars, the return was 4.29% on US dollar strength driven more by diverging monetary policy rather than oil prices.** Leading the index higher was the S&P 500 Consumer Electronics Sub-Industry which includes Garmin Ltd. and Harman International Industries. **However, the top performing stock overall was eBay Inc. (+33.11%) on its second quarter beat, upgraded forward-looking guidance, and share buyback; meanwhile the worst performer was Murphy Oil (-13.61%).**

The S&P/TSX Preferred Share Index returned 3.61% in July, lifting the six-month return to a strong +12.25%. The 12-month return is still negative at -2.41%, reflecting the steep losses in 2015. Last year, the index returned a dismal -14.95% as preferred shares suffered from the re-pricing of fixed/floating resets and floating rate issues at historically low rates. Towards the end of last year, tax-loss selling exacerbated the losses.

Bond Markets

The FTSE TMX Canada Universe Bond Index returned 0.84% in July with yields extending their fall following the Brexit vote. The overall benchmark yield dropped -6bps to 1.71%. **By term, Long Canada's (+1.36%) outperformed Mid-Canada's (+0.17%) and Short-Canada's (+0.00%), as curve flattening carried on and the front end of the curve was well-anchored.** The yield changes were: 2Y +2bps to 0.536%; 5Y +2.6bps to 0.595%, 10Y -3.4bps to 1.025%, 30Y -7.4bps to 1.640%.

During July, previously side-lined domestic and international investors were in buying credit spread product, which made the month busy in both primary and secondary markets, in what is usually a quiet time of the year. For international investors, particularly European and Asian that are contending with negative yields, Canada is an attractive place to find high quality bonds (safety) with higher yields. Credit spreads moved tighter, back to the tighter end of the ranges seen in early spring which mark the lows on a year-to-date basis. New issue concessions also moved in tighter.

Looking at the Long-Term Bond Sub-Index, the Provincial (2.43%) and Municipal (2.44%) sub-sectors outperformed Corporates (+1.88%) because of their relatively longer durations and on the tightening of their credit spreads. Credit spreads moved tighter on the month overall. In Corporates, the Communication (+2.42%) and Energy (+2.28%) sub-industries were the best performing industry sectors. Short dated financials were tighter as well with the 5Y Senior Deposit notes in -5-6bps (New Issue Indicative level for a 5Y senior deposit note is now around ~100bps). In July, there was substantial corporate supply in what is

seasonally a quieter month. This has brought the new issue calendar flat on a year-to-date comparison to last year with bank issuance now ahead by about 6% and pure corporates behind 10%. Pure corporates were previously closer to 25% lower than last year. New issue concessions are lower also – in the area of mid-single digits.

In the Provincial sector, ONT 30Y bond spreads were tighter by about -6-7bps after initially moving +5-7bps wider post-Brexit. There was some re-pricing of the rolls (range of widening 0.5-2bps) across the board. **Total provincial supply in July was up substantially at CAD $7.05bln with total combined issuance (inclusive of international foreign currency transactions) at $8.2bln.**

The RRB Canada Index (ModDur 16.03) returned +0.62%, extending its positive streak since February, but again vastly underperforming Long Canadas (ModDur 16.01), which returned +1.36%. Break-evens cheapened further (Bloomberg Generic 30Y breakeven 'CDGGBE30') decreasing -4bps from 1.41% to 1.37%, notwithstanding inflation readings that have remained relatively steady (CPI June held steady at 1.5% y/y). Inflation forecasts from the Bank of Canada and the private sector point to a gradual increase over time in the headline rate as the impact of falling oil tapers off and the Canadian dollar strengthens. The cheapening of RRBs reflects the de-risking by some accounts that have reduced or exited this higher beta segment and the resulting poorer secondary market liquidity from the increased risk aversion, manifesting into much wider bid/ask spreads. **We note that the 10Y RRB break-even is near 1% showing dislocation from much higher realized inflation fundamentals reflecting both investor aversion and apathy in secondary markets.**

The High Yield Bond Index (ModDur 3.87) extended its advances, returning 2.48% in July bringing the six month return to a strong 11.64%. Once again, the High Yield Bond Index handily outperformed both Short and Mid Corporates, which returned 0.25% and 0.56% respectively. Riding on the confidence of firming oil prices (and industry-specific events, i.e. mergers and acquisitions), the Energy sub-sector again was the primary driver (+4.30%) with Paramount Resource bond prices popping 17.37%. Bonds reacted to the sale by Paramount Resources of certain of its oil producing assets to Seven Generations Energy. This strengthened Paramount's balance sheet and liquidity and prompted Moody's to put its Caa2 rating under review for possible upgrade. Other high yield sectors performed as follows: Real Estate (1.71%), Industrial (+2.11%), and Communication (+0.91%). Risk sentiment in the high yield space overall was relatively unchanged over the month.

Long Communication and Energy Bonds Outperform

FTSE TMX Canada Universe Bond Index Yield Changes and Returns by Corporate Industry Sector and Ratings

	29-July-16 Avg Yield	30-June-16 Avg Yield	Bps Chg	Modified Duration	1M Return 29-July-16
FTSE TMX Canada Universe Bond Index	1.71	1.77	-6	7.74	0.84
Long-Sub Index & Components (10+ Years)					
Canada Non-Agency	1.55	1.63	-8	16.01	1.36
Canada (Agency)	2.23	2.30	-7	14.28	1.22
Provincial	2.60	2.74	-14	15.54	2.43
Municipal	2.90	3.05	-15	14.94	2.44
Corporate AAA/AA	2.49	2.55	-6	10.64	0.98
Corporate A	3.44	3.56	-12	13.67	1.97
Corporate BBB	4.10	4.20	-10	12.99	1.78
Communication	4.25	4.40	-15	13.58	2.42
Energy	3.75	3.89	-14	13.54	2.28
Financial	4.38	4.46	-8	11.85	1.32
Industrial	4.15	4.20	-5	12.46	1.01
Infrastructure	3.32	3.42	-10	13.63	1.72
Corporate	3.67	3.79	-12	13.37	1.88
Overall Long-Term	2.61	2.73	-12	15.11	2.05

Source: PC Bond

FTSE TMX Canada Universe Bond Index

Total Returns: As of July 29, 2016												
	Last Month				3M	6M	12M	Avg		Modified		Sector
Sector	Short	Mid	Long	Overall	Return	Return	Return	Yield	M/M	Duration	M/M	Weight
FTSE TMX Canada Universe Bond Index												
Index	0.14%	0.49%	2.05%	0.84%	3.56%	4.52%	4.60%	1.71%	*-0.06%*	7.74	*0.01*	100.00%
Federal	0.04%	0.27%	1.34%	0.37%	2.79%	2.28%	3.47%	0.95%	*-0.02%*	6.51	*-0.06*	36.10%
Canada (Non-Agency)	0.00%	0.17%	1.36%	0.42%	3.19%	2.55%	3.91%	0.89%	*-0.02%*	7.25	*-0.08*	24.71%
Agency	0.12%	0.44%	1.22%	0.28%	1.97%	1.73%	2.59%	1.07%	*-0.02%*	4.90	*-0.06*	11.00%
Provincial	0.19%	0.62%	2.43%	1.39%	5.03%	6.66%	5.93%	1.95%	*-0.08%*	10.11	*0.10*	34.69%
Municipal	0.22%	0.67%	2.44%	1.21%	4.45%	5.66%	4.85%	2.05%	*-0.06%*	8.68	*0.18*	1.93%
Corporate	0.25%	0.56%	1.88%	0.74%	2.69%	4.75%	4.36%	2.41%	*-0.06%*	6.29	*0.00*	27.28%
AAA/AA	0.18%	0.46%	0.98%	0.22%	1.25%	2.17%	2.61%	1.47%	*0.00%*	3.41	*0.10*	7.81%
A	0.26%	0.61%	1.97%	1.10%	3.52%	5.74%	5.25%	2.64%	*-0.08%*	8.24	*0.01*	9.67%
BBB	0.33%	0.55%	1.78%	0.79%	2.98%	5.79%	4.74%	2.93%	*-0.06%*	6.65	*-0.02*	9.79%
Selected Comparative Bond Sector Returns												
RRB Canada Index	-	-	-	0.62%	3.95%	6.94%	3.75%	0.10%	*0.01%*	16.03	*-0.03*	-
Maple Bond Index	-	-	-	0.51%	2.11%	2.88%	3.55%	2.06%	*-0.04%*	4.95	*-0.02*	-
High Yield Overall Bond Index	-	-	-	2.48%	5.92%	11.64%	2.27%	9.53%	*-0.46%*	3.87	*-0.04*	-
Equity Sector Returns												
S&P/TSX (Canada)	-	-	-	3.91%	5.30%	15.48%	4.02%	2.91%	*-0.12%*	-	-	-
S&P 500 USD	-	-	-	3.69%	5.82%	13.29%	5.61%	2.10%*	-	-	-	-
S&P 500 CAD	-	-	-	4.29%	10.10%	5.62%	5.73%	-	-	-	-	-
S&P TSX Preferred Share Index (CAD)	-	-	-	3.61%	3.49%	12.25%	-2.41%	-	-	-	-	-

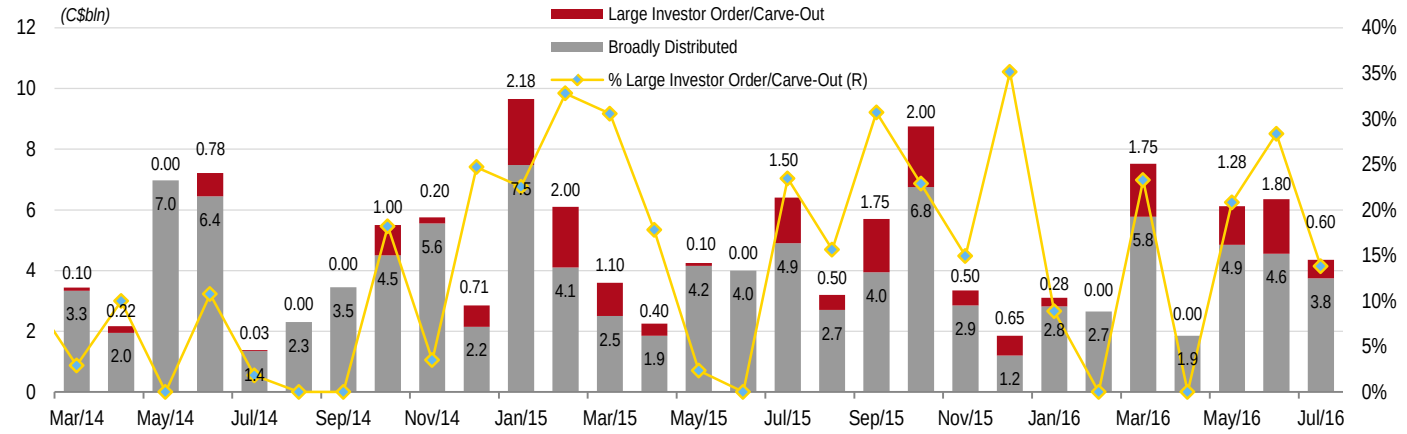
Source: PC Bond, Bloomberg *as of August 11, 2016

5 New Issue Supply

Provincial Deals (domestic in bold):

- **ON / Jul-7-16 / C$600mm / 2.80% Bonds due June 2, 2048 (Re-Opening)**
- Q / Jul-12-16 / A$75mm / 3.70% Kangaroo Bonds due May 20, 2026 (Add'l)
- **ON / Jul-12-16 / C$500mm / 2.40% Bonds due June 2, 2026 (Re-Opening)**
- **ON / Jul-12-16 / C$500mm / 2.40% Bonds due June 2, 2026 (Re-Opening) (pp)**
- **SK / Jul-12-16 / C$350mm / 2.75% Debentures due December 2, 2046 (Re-Opening)**
- **Q / Jul-13-16 / C$250mm / 3-mo CDOR +41.5 bps FR Notes due April 19, 2022**
- BC / Jul-13-16 / EUR250mm / 0.70% Euro-EUR EMTN due July 20, 2032
- **Q / Jul-14-16 / C$500mm / 2.50% MTNs due September 1, 2026 (Re-Opening)**
- **Q / Jul-14-16 / C$710mm / 3-mo CDOR +54.5 bps FR MTN due October 19, 2023**
- Q / Jul-14-16 / US$900mm / 3-mo US$ Libor +28 bps FR Notes due July 21, 2019
- **NF / Jul-14-16 / C$300mm / 3.30% Debentures due October 17, 2046 (Add'l)**
- **NF / Jul-14-16 / C$100mm / 3.30% Debentures due October 17, 2046 (Add'l) (pp)**
- **NB / Jul-15-16 / C$250mm / 3.10% Debentures due August 14, 2048**
- **Q / Jul-19-16 / C$478mm / 3-mo CDOR +41.5 bps FR MTN April 19, 2022 (Add'l)**
- **Q / Jul-19-16 / C$190mm / 3-mo CDOR +54.5 bps FR MTN Oct. 19, 2023 (Add'l)**
- **Q / Jul-20-16 / C$170mm / 3-mo CDOR +41.5 bps FR MTN April 19, 2022 (Add'l)**
- **Q / Jul-20-16 / C$121mm / 3-mo CDOR +54.5 bps FR MTN Oct. 19, 2023 (Add'l)**
- **Q / Jul-21-16 / C$500mm / 3.50% MTNs due December 1, 2048 (Re-Opening)**
- **ON / Jul-26-16 / C$300mm / 2.80% Bonds due June 2, 2048 (Re-Opening)**
- **ON / Jul-26-16 / C$450mm / 2.80% Bonds due June 2, 2048 (Re-Opening) (pp)**
- **Q / Jul-28-16 / C$102mm / 3-mo CDOR +41.5 bps FR MTN April 19, 2022 (Add'l)**
- Q / Aug-3-16 / A$80mm / 3.70% Kangaroo Bonds due May 20, 2026 (Add'l)
- MB / Aug-5-16 / A$20mm / 3.75% Kangaroo Bonds due June 9, 2026 (Re-Opening)
- MB / Aug-5-16 / A$50mm / 3.75% Kangaroo Bonds due June 9, 2026 (Re-Opening)
- **AB / Aug-8-16 / C$500mm / 2.20% Series DM Bonds June 1, 2026 (Add'l)**
- **AB / Aug-8-16 / C$500mm / 2.20% Series DM Bonds June 1, 2026 (Add'l) (pp)**
- AB / Aug-10-16 / US$1000mm / 2.05% 144A/Reg S USD Notes due August 17, 2026

Large investor carve-outs (fixed-rate issuance)



Source: CIBC Capital Markets – Macro Strategy

Canadian Government Issuance by Sector

	Monthly Issuance			Calendar Year to August 15		
C$bln	Jul	Jun	May	2016	2015	*% chg*
Government of Canada (C$)	13.9	7.6	13.3	74.4	57.8	*+29*
of which: Real Return	0.0	0.7	0.0	1.1	1.1	*0*
Canada Housing Trust	0.0	5.3	5.5	20.0	19.0	*+5*
of which: Fixed Rate	0.0	5.3	2.3	14.5	13.5	*+7*
of which: Floating Rate	0.0	0.0	3.3	5.5	5.5	*0*
Export Development Canada	0.6	0.0	2.3	7.2	10.4	*-31*
Other Federal Crown/Guaranteed	0.0	0.0	0.0	0.0	0.0	*0*
Provincial Governments	8.2	9.9	7.6	56.7	47.5	*+19*
Municipal Governments	0.2	0.4	0.9	3.3	2.3	*+45*
Total	22.8	23.2	29.6	161.6	137.0	*+18*

Source: PC Bond, CIBC Capital Markets - Macro Strategy

Fiscal 2016/17 Bond/MTN Program

	Bond/MTN Budget Funding[1]		Complete to 15-Aug-16			PY to 15-Aug-15		Currency YTD		Remaining Borrowing	
	2015/16	2016/17	Total	Share	vs. FY Done[2]	Total	Share	Domestic	Foreign	Total	Avg/Month
	C$bln	*C$bln*	*C$bln*	*%*	*%*	*C$bln*	*%*	*%*	*%*	*C$bln*	*C$mln*
CAN	*84.4*	*133.0*	49.4	37%	-0%	34.8	41%	100%	-	83.7	11,111
BC	*4.7*	*4.4*	2.0	45%	+8%	1.5	32%	25%	75%	2.4	320
AB	*7.8*	*14.1*	6.5	46%	+9%	1.5	20%	78%	22%	7.6	1,006
SK	*1.7*	*1.7*	0.3	20%	-17%	0.7	39%	100%	-	1.4	180
MB	*4.8*	*7.4*	3.2	43%	+6%	1.4	30%	52%	48%	4.2	558
ON	*30.1*	*24.4*	10.5	43%	+6%	11.0	36%	66%	34%	13.9	1,846
QC	*12.0*	*14.0*	10.8	77%	+40%	4.3	36%	61%	39%	3.2	423
NB	*1.8*	*1.8*	0.8	44%	+7%	0.8	42%	100%	-	1.0	133
NS	*0.9*	*0.8*	-	0%	-37%	0.7	78%	-	-	0.8	106
PE	*0.1*	*0.0*	-	n/a	n/a	-	0%	-	-	-	-
NL	*2.4*	*3.4*	1.9	56%	+19%	0.4	17%	100%	-	1.5	199
Provincial Total	*66.3*	*72.0*	36.1	50%	+13%	22.3	34%	66%	34%	35.9	4,772
Total	*150.7*	*205.0*	85.4	42%	+5%	57.1	38%	86%	14%	119.6	15,882

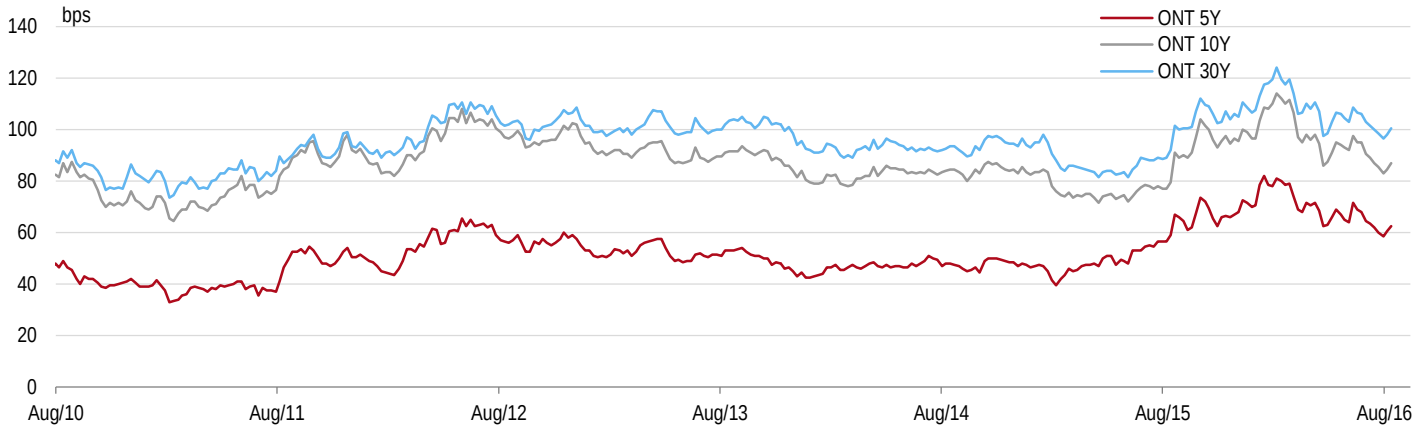
1 Projected marketable bond/MTN issuance; excludes retail/savings bonds and rollovers of CPP-held debt
Source: PC Bond, CIBC Capital Markets - Macro Strategy

6 New Issue Spreads & Rolls

Provincial New Issue Spreads:	*As of August 15, 2016*											
TERM	3	M/M	5	M/M	7	M/M	10	M/M	20	M/M	30	M/M
New Issue Spreads (versus Canada curve) *(bps)*												
BC	39.5	*-1.0*	56.5	-	70.0	*-0.5*	79.5	*-2.0*	93.5	*-1.5*	93.5	*-2.0*
AB	47.5	*-1.0*	66.5	-	85.5	*-0.5*	101.0	*-0.5*	117.0	*-0.5*	117.0	*-1.0*
SK	47.5	*-1.0*	66.5	*-0.5*	85.5	*-1.0*	101.0	*-1.5*	118.0	*-1.5*	118.0	*-2.0*
MB	48.5	*-1.0*	67.5	-	85.5	*-0.5*	101.5	*-1.0*	120.0	-	120.0	*-0.5*
ON	43.5	*-1.0*	62.5	-	77.0	*-0.5*	87.0	*-1.5*	100.5	*-1.0*	100.5	*-1.5*
QC	44.0	*-0.5*	63.5	*+1.0*	78.0	*-0.5*	88.5	*-1.0*	105.0	*-1.0*	105.0	*-1.5*
NB	52.5	*-1.0*	76.5	-	99.0	*-0.5*	115.5	*-1.5*	140.5	-	140.5	*-0.5*
NS	50.0	*-1.0*	72.5	-	90.0	*-0.5*	102.5	*-1.5*	123.5	*-1.0*	123.5	*-1.5*
PE	57.5	*-1.0*	81.5	-	104.0	*-0.5*	120.5	*-1.5*	145.5	-	145.5	*-0.5*
NL	63.5	*-1.0*	92.5	-	117.0	*-0.5*	142.0	*-1.5*	160.5	*-1.0*	160.5	*-1.5*
CMB	28.9	*+0.6*	41.6	*-1.3*	48.7	*-1.0*	54.8	*-1.3*	71.6	*-0.2*	78.0	*+0.1*
vs. Mid Swaps *(bps)*												
BC	3.5	*-1.0*	26.5	*+1.5*	45.0	*+1.0*	58.5	-	86.0	*+1.5*	96.0	*+3.0*
AB	11.5	*-1.0*	36.5	*+1.5*	60.5	*+1.0*	80.0	*+1.5*	109.5	*+2.5*	119.5	*+4.0*
SK	11.5	*-1.0*	36.5	*+1.0*	60.5	*+0.5*	80.0	*+0.5*	110.5	*+1.5*	120.5	*+3.0*
MB	12.5	*-1.0*	37.5	*+1.5*	60.5	*+1.0*	80.5	*+1.0*	112.5	*+3.0*	122.5	*+4.5*
ON	7.5	*-1.0*	32.5	*+1.5*	52.0	*+1.0*	66.0	*+0.5*	93.0	*+2.0*	103.0	*+3.5*
QC	8.0	*-0.5*	33.5	*+2.5*	53.0	*+1.0*	67.5	*+1.0*	97.5	*+2.0*	107.5	*+3.5*
NB	16.5	*-1.0*	46.5	*+1.5*	74.0	*+1.0*	94.5	*+0.5*	133.0	*+3.0*	143.0	*+4.5*
NS	14.0	*-1.0*	42.5	*+1.5*	65.0	*+1.0*	81.5	*+0.5*	116.0	*+2.0*	126.0	*+3.5*
PE	21.5	*-1.0*	51.5	*+1.5*	79.0	*+1.0*	99.5	*+0.5*	138.0	*+3.0*	148.0	*+4.5*
NL	27.5	*-1.0*	62.5	*+1.5*	92.0	*+1.0*	121.0	*+0.5*	153.0	*+2.0*	163.0	*+3.5*
CMB	-7.1	*+0.6*	11.6	*+0.2*	23.7	*+0.5*	33.8	*+0.7*	64.1	*+2.8*	80.5	*+5.1*
Rolls vs. Ontario												
ON	46.5	*-1.0*	65.5	*+1.0*	78.5	*-0.5*	89.0	*-1.0*	98.5	*-1.5*	100.5	*-1.5*
BC	-4.0	-	-6.0	-	-7.0	-	-7.5	*-0.5*	-7.0	*-0.5*	-7.0	*-0.5*
AB	4.0	-	4.0	-	8.5	-	14.0	*+1.0*	16.5	*+0.5*	16.5	*+0.5*
SK	4.0	-	4.0	*-0.5*	8.5	*-0.5*	14.0	-	17.5	*-0.5*	17.5	*-0.5*
MB	5.0	-	5.0	-	8.5	-	14.5	*+0.5*	19.5	*+1.0*	19.5	*+1.0*
QC	0.5	*+0.5*	1.0	*+1.0*	1.0	-	1.5	*+0.5*	4.5	-	4.5	-
NB	9.0	-	14.0	-	22.0	-	28.5	-	40.0	*+1.0*	40.0	*+1.0*
NS	6.5	-	10.0	-	13.0	-	15.5	-	23.0	-	23.0	-
PE	14.0	-	19.0	-	27.0	-	33.5	-	45.0	*+1.0*	45.0	*+1.0*
NL	20.0	-	30.0	-	40.0	-	55.0	-	60.0	-	60.0	-
CMB	-14.6	*+1.2*	-20.9	*-1.3*	-28.3	*-0.5*	-32.2	*+0.2*	-28.9	*+1.5*	-22.5	*+1.8*

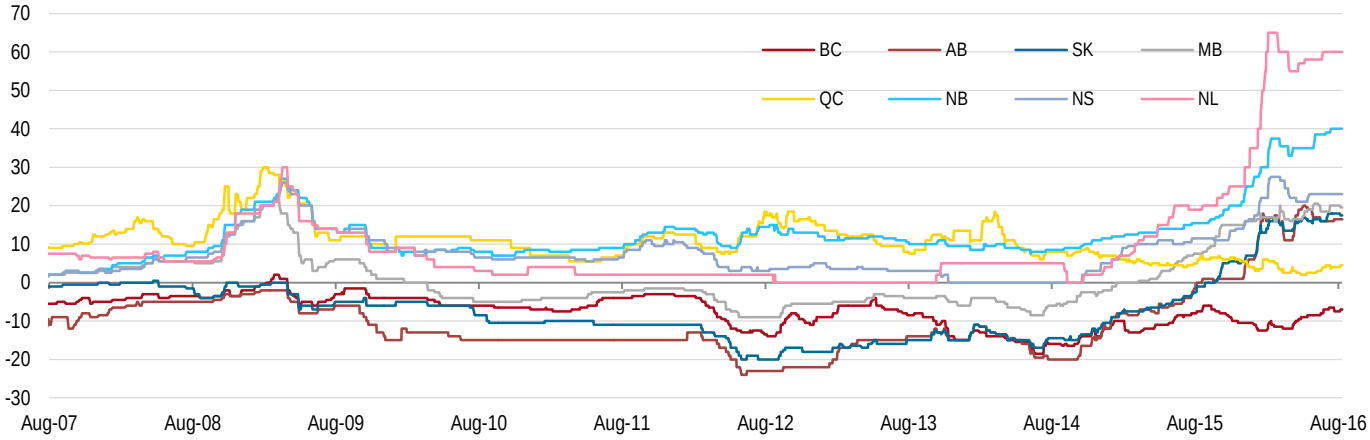
Source: CIBC Capital Markets – Macro Strategy

Ontario Spreads



Source: Bloomberg, CIBC Capital Markets – Macro Strategy

Changing Dynamics Re-price Rolls



Note: Based on new issue, constant maturity spreads vs. GoC curve

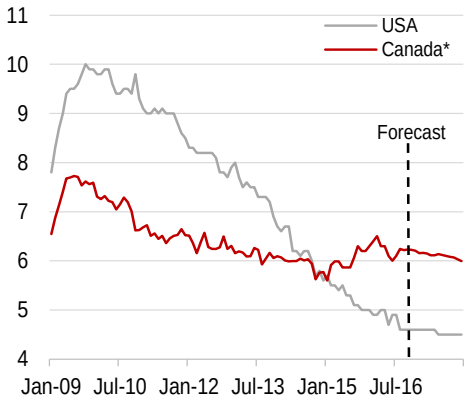
7 Economics & Fiscal Data

Economic Forecasts

CANADA	16Q1F	16Q2F	16Q3F	16Q4F	17Q1F	2015A	2016F	2017F
Real GDP Growth (AR)	2.4	-1.4	3.3	1.9	2.2	1.1	1.2	2.1
Real Final Domestic Demand (AR)	1.3	0.7	1.4	1.8	1.6	0.3	0.7	1.5
Household Consumption (AR)	2.3	1.8	2.1	2.1	1.4	1.9	2.1	1.7
All Items CPI Inflation (y/y)	1.5	1.6	1.2	2.3	2.7	1.1	1.7	2.4
Core CPI Ex Indirect Taxes (y/y)	2.0	2.1	2.1	2.3	2.1	2.2	2.1	2.0
Unemployment Rate (%)	7.2	7.0	7.0	7.0	7.0	6.9	7.0	6.9
US	**16Q1F**	**16Q2F**	**16Q3F**	**16Q4F**	**17Q1F**	**2015A**	**2016F**	**2017F**
Real GDP Growth (AR)	0.8	1.2	3.3	2.2	1.1	2.6	1.6	2.0
Real Final Sales (AR)	1.3	2.4	2.1	2.0	1.4	2.4	1.9	1.9
All Items CPI Inflation (y/y)	1.1	1.1	1.4	2.2	2.9	0.1	1.4	2.6
Core CPI Inflation (y/y)	2.2	2.2	2.3	2.3	2.3	1.8	2.3	2.3
Unemployment Rate (%)	4.9	4.9	4.7	4.6	4.6	5.3	4.8	4.5

Source: CIBC Capital Markets – Economics

Unemployment Rate (%, SA)



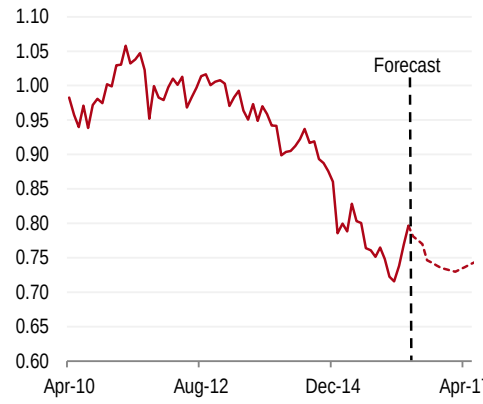
*Canadian unemployment rate calculated with US methodology.
Source: BoC, Federal Reserve, CIBC Capital Markets – Economics

Canadian Regional Growth Forecasts

y/y %	Real GDP Growth				Nominal GDP Growth			
chg	2014A	2015F	2016F	2017F	2014A	2015F	2016F	2017F
BC	3.2	3.0	2.5	2.2	4.7	4.5	4.1	4.5
Alta	4.8	-3.2	-2.2	2.3	9.1	-10.0	-4.6	5.7
Sask	1.9	-0.9	-0.7	1.7	-0.9	-7.7	-3.1	5.1
Man	2.3	2.3	1.6	1.7	3.5	3.5	3.2	3.9
Ont	2.7	2.6	2.6	2.4	4.1	4.3	4.2	4.6
Qué	1.5	1.1	1.5	1.8	2.5	2.6	3.1	4.0
NB	-0.3	1.9	0.7	0.9	0.6	3.5	2.3	3.1
NS	0.6	1.0	1.0	0.9	1.3	2.5	2.6	3.1
PE	1.5	1.5	0.8	1.0	3.8	2.3	2.4	3.2
N&L	-2.0	-2.0	-1.2	-0.7	-4.2	-8.5	-3.6	2.6
CDA	2.5	1.1	1.2	2.1	4.3	0.5	1.9	4.5

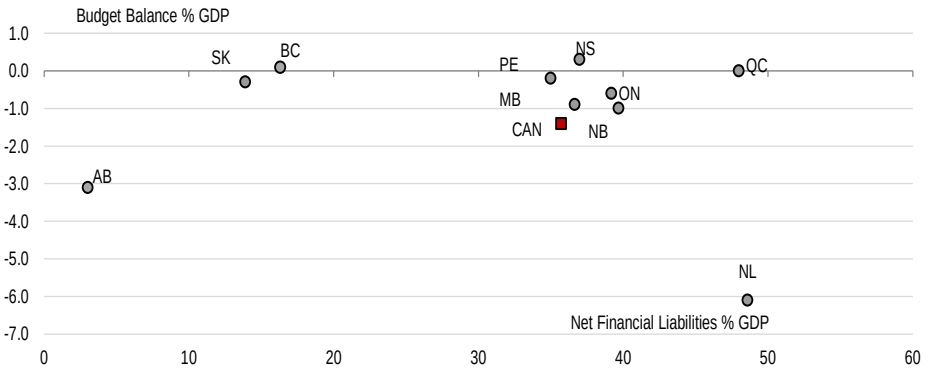
Source: CIBC Capital Markets - Macro Strategy

Targeted Projection for CAD/USD



Source: CIBC Capital Markets – Economics

Comparative Fiscal Positioning 2016/17 Budget/Fiscal Update Assumptions



Source: Based on PSAB accounting and reporting framework..

Note: National and Regional forecasts updated to incorporate Statistics Canada preliminary estimates for 2015 as well as the estimated impact of the forest fires in Alberta

8 Credit Ratings

Issuer	DBRS	Fitch	Moody's	S&P
Sovereign				
Canada, Government of	AAA	AAA	Aaa	AAA
Federal Crown Corporations/Trusts				
Canada Housing Trust No.1 (CMB)	AAA	–	Aaa	AAA
Canada Mortgage & Housing Corp.	AAA	–	Aaa	AAA
Export Development Canada	AAA	–	Aaa	AAA
Provincial and Provincially Guaranteed				
Alberta, Province of	AA(high)	–	Aa1[Neg]	AA[Neg]
Alberta Treasury Branches (ATB Financial)	–	–	Aa1 [Neg]	–
Alberta Capital Finance Authority (ACFA)	AA(high)	–	Aa1 [Neg]	AA[Neg]
British Columbia, Province of	AA(high)	AAA	Aaa	AAA
British Columbia Hydro & Power Authority	AA(high)	–	Aaa	AAA
Manitoba, Province of	A(high)	–	Aa2	AA-[Neg]
New Brunswick, Province of	A(high)	–	Aa2	A+
New Brunswick Municipal Finance Corp.	A(high)	–	Aa2	A+
Newfoundland & Labrador, Province of	A(low)	–	Aa3 [Neg]	ANeg]
Newfoundland & Labrador Hydro	A(low)	–	–	A[Neg]
Newfoundland & Labrador Municipal Finance Corp.	A(low)	–	–	–
Northwest Territories, Government of the	–	–	Aa1	–
Nova Scotia, Province of	A(high)	–	Aa2	A+
Nova Scotia Municipal Finance Corp.	A(high)	–	–	–
Nunavut, Government of	–	–	Aa1	–
Ontario, Province of	AA(low)	AA-	Aa2	A+
Ontario Electricity Financial Corp.	AA(low)	–	Aa2	A+
Prince Edward Island, Province of	A(low)	–	Aa2	A
Québec, Province of	A(high)	AA-	Aa2	A+[Pos]
Financement-Quebéc	A(high)	AA-	Aa2	A+[Pos]
Hydro-Quebéc**	A(high)	AA-	Aa2	A+[Pos]
Saskatchewan, Province of	AA	AA	Aaa	AA+[Neg]
Yukon, Territory of	–	–	–	AA

*Rating outlooks stable unless otherwise indicated ; **At time of publishing, rating of Hydro-Quebec had not be harmonized to Province of Quebec, however we expect the outlook to be revised to stable imminently
Source: Rating agency data

9 Sector-Related Developments

Inside (in order of appearance):

- Federal Conservative Party and New Democratic Party leadership races ground game taking shape (August 17, 2016, p20)
- Rural Governments Out Tax Revenue From Struggling Resource Sector (August 15, 2016, p20)
- Federal Briefing Paints Grim Picture of N.L Fiscal Woes (August 15, 2016, p21)
- Nova Scotia's Aa2 (Stable) Rating Affirmed by Moody's (August 11, 2016, p21)
- Nova Scotia Reports Lower Than Forecasted Deficit for 2015-16 (August 9, 2016, p22)
- Emails Detail Enron's Role in Setting Up Alberta's Energy Fight (August 8, 2016, p22)
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- Legal Action, New Approach on Power Purchase Agreements (July 25, 2016, p25)
- Saskatchewan Reports Fiscal 2015-16 Results (July 22, 2016, p25)
- Premiers Strike an Agreement in Principle on Internal Trade (July 22, 2016, p26)
- Power Plant Boondoggle Tests Trudeau's Green Energy Commitment (July 22, 2016, p26)
- Moody's Downgrades Newfoundland and Labrador to Aa3 Negative (July 21, 2016, p27)
- Ontario and First Nations Announce Agreement-in-Principle for Sale of Hydro One Shares (July 12, 2016, p27)

Federal Conservative Party and New Democratic Party leadership races ground game taking shape

(Macro Strategy, August 17, 2016)

Just under a year since the federal election, when Prime Minister Justin Trudeau's Liberals won a sweeping majority, and the ground game is taking shape for the Conservative Party and New Democratic Party (NDP) leadership campaigns. The Conservative Party of Canada leadership vote will take place on May 27, 2017. So far, there are five declared candidates (Maxime Bernier, Michael Chong, Tony Clement, Kellie Leitch, Deepak Obhrai). Nine more potential candidates have expressed interest, while the media has named five more as prospective candidates. The nomination period closes February 24, 2017. Member of Parliament Rona Ambrose is currently serving as interim party leader following the resignation of former Prime Minister Stephen Harper. Meanwhile, the NDP has announced that the leadership election will take place between October 1 and October 29, 2017. There are no declared candidates. The media has named 18 potential candidates. The last date candidates may register is July 3, 2017. At the April party convention in Edmonton, the NDP voted not to renew Thomas Mulcair's bid as leader after a major defeat in last year's federal election. Both the Conservative Party and NDP will have new leaders in place about two years ahead of the next federal election.

Rural Governments Out Tax Revenue From Struggling Resource Sector

(CBC News, August 15, 2016, Complete story click here)

The impact of low oil prices and a sluggish economy in Alberta continues to spread. The organization representing Alberta's 69 rural governments say some resource companies aren't paying their taxes. Alberta Association of Municipal Districts and Counties (AAMDC) President Al Kemmere says rural municipalities are out hundreds of thousands of dollars in missed payments from resource companies that are insolvent, or that just walk away.

He doesn't have an overall figure, but in Kemmere's own county of Mountain View north of Calgary, there is at least $300,000 outstanding from resource companies. He says the county of Stettler is even taking legal action to seize the assets of a resource company that owes it about $500,000.

The shortchanging by some resource operators is also hitting landowners. Already, 2016 is on track to see a record number of applications from landowners seeking compensation from missed land lease cheques. The Alberta Surface Rights Board (SRB) says this year alone, it has received four times the number of applications compared to a typical year. As of August 3, there were 780 applications opened by landowners who weren't being paid and another 400 applications are in a backlog waiting to be processed.

Federal Briefing Paints Grim Picture of NL Fiscal Woes

(CBC News, August 15, 2016, Complete story click here)

Briefing materials prepared for federal Finance Minister Bill Morneau in March help crystallize the dire financial situation facing the Newfoundland and Labrador government. The briefing states that, "the sharp drop in commodities prices is further exacerbating the province's economic difficulties by dampening prospects for future projects." They also go on to say that the fiscal outlook "has deteriorated significantly, largely due to the fall in oil prices." While the commodities crisis has directly pummelled the province's finances, its effects out west have been a type of double whammy for the local economy. "The labour market is coming under additional stress as a result of layoffs in Alberta of (Newfoundland and Labrador's) itinerant (i.e. 'fly-in, fly-out') workforce. In fact, the total number of the province's residents that are employed in Alberta, either working directly in the energy sector or in positions strongly tied to it, is nearly double the number of (N.L.) resident workers employed in the energy and mining sector in the province itself." Ottawa estimates that, in 2013, nearly 6% of all employment income reported in Newfoundland and Labrador was actually earned in Alberta.

Quick facts from the report:

- The ratio of net debt to GDP is expected to nearly double to 60% within five years;
- The 2015 unemployment rate was 12.8 %, the worst in the country, and 2.5 percentage points higher than June 2014;
- Newfoundland and Labrador had the lowest ratings of any province in the country among the three major credit ratings agencies.

The briefing note was written on March 10, a month before the Ball administration's inaugural provincial budget jacked up an array of taxes and fees in an attempt to staunch the flow of red ink. Even with all of those new revenue grabs, Newfoundland and Labrador's projected deficit is still expected to come in at $1.83bln. The province has signalled that a series of cost-cutting measures could follow later this year.

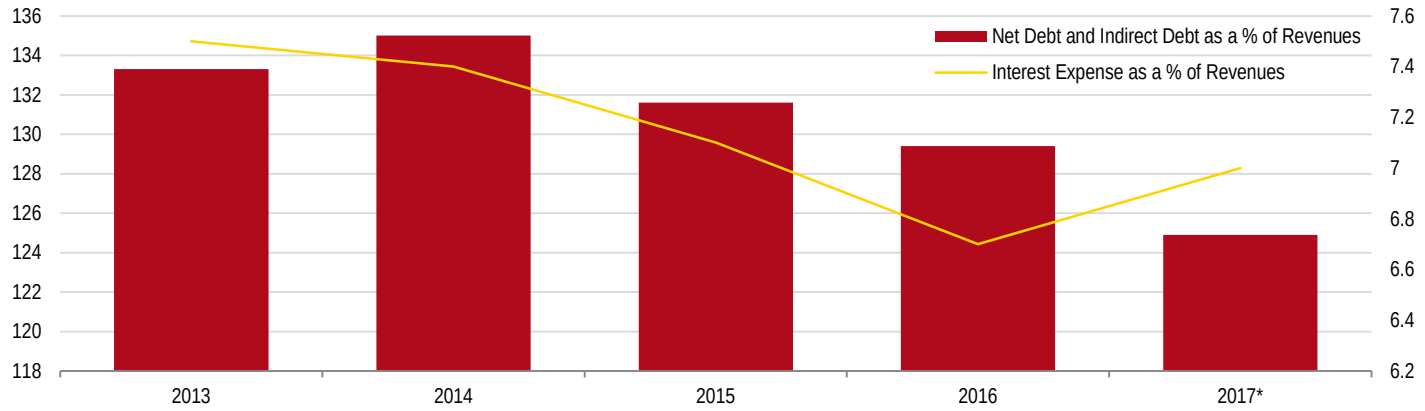
Nova Scotia's Aa2 (Stable) Rating Affirmed by Moody's

(Moody's, August 11, 2016)

Moody's has affirmed Nova Scotia's Aa2 (Stable) rating. The long-term debt rating of Aa2 for the Province of Nova Scotia reflects strong debt management practices and policies, considerable policy flexibility over budgetary outcomes and relatively significant levels of funding coming from reliable federal transfers which help stabilize otherwise slightly unpredictable own-source revenues. These elements are offset by low levels of liquidity and a relatively weak economy that constrains revenue growth as well as limiting the debt capacity at the same credit level compared to other wealthier provinces.

As outlined in Budget 2016, Nova Scotia forecasts a return to consecutive balanced budgets beginning in 2016-17. However, Moody's notes that the size of forecasted surpluses are relatively small. As such, the province remains at risk of recording small deficits although if these were to arise, we do not expect them to exert pressure on the province's financial profile. The province's debt burden, measured as a percentage of net debt to revenues, registered 129.4% as of March 31, 2016 and is forecasted to remain fairly stable over the medium term.

Nova Scotia Debt and Interest Expense as Percentage of Revenue



*Budgeted
Source: Moody's

Nova Scotia Reports Lower Than Forecasted Deficit for 2015-16

(Nova Scotia, Finance and Treasury Board, August 9, 2016, Complete story click here)

The Following is a press release from the Minister of Finance and Treasury Board

The Province of Nova Scotia reported a deficit of $10.7mln in its Public Accounts for the year ended March 31, 2016. This deficit was $86.9mln lower than the budgeted deficit of $97.6mln and $133.0mln lower than the prior year's deficit.

Government is working to manage revenues and control expenses where it can in order to invest in the priorities of Nova Scotians, such as health care and education. Departments are showing spending restraint as we work to keep controllable expenses on track. I am pleased that progress continues to be made towards meeting our goal of a sustainable balanced budget.

Total consolidated revenues were $10.94bln, an increase of $164.6mln from estimate primarily due to higher than expected revenues from income taxes, provincial recoveries, net income from government business enterprises, and other revenues generated by the province's governmental units.

Total expenses on a consolidated basis were $10.95bln, an increase of $77.7mln from estimate mainly due to costs to establish the new Nova Scotia to Portland ferry, as reported in the final forecast issued in April 2016, and the requirement to record additional liabilities for contaminated sites. These increases were partially offset by savings from delays in projects and lower than expected requests for certain services.

The Province's Net Debt as at March 31, 2016 was $15.1bln. Nova Scotia's growth in real GDP was 0.8% in the calendar year 2015 and an expected 1.3% in the calendar year 2016. Net Debt as a percentage of nominal GDP for 2015-16 was 37.9%, 0.6 percentage points lower than the prior year.

Emails Detail Enron's Role in Setting Up Alberta's Energy Fight

(The Globe and Mail, August 8, 2016, Complete story click here)

As Alberta began deregulating its electricity market in late July, 2000, Enron's chief lobbyist in Canada was getting kudos from head office in Houston for this influence over the entire process. Robert Hemstock was Enron's Canadian head of government relations, the front man in talks with regulators over the structure of Alberta's power purchase arrangements (PPA). The PPAs were the centrepiece of Alberta's landmark move away from a regulated market. A small but crucial provision within them, added at the behest of Enron's Mr. Hemstock, is now at the heart of the Alberta government court action aimed at preventing the holders of now money-losing contracts from walking away from them. The Alberta government says it was unaware of this clause until the spring and that Albertans face up to $2bln of costs being offloaded to consumers as a result of the provision. Late last month, the government launched a lawsuit against three electricity companies who have relinquished PPAs, as well as the provinces own power regulator, among others.

E-mails provided to The Globe and Mail by the Alberta government detail last-minute machinations before the province's first deregulated energy auction began on August 2, 2000. They show the request from Enron to have the provision inserted, followed by memos between Alberta bureaucrats and, finally, celebratory letters sent within Enron. Larry Charach, the bureaucrat in charge of electricity for the energy department at the time, is the central figure in the e-mails. His ministry spearheaded the market deregulation, which Ralph Klein's Progressive Conservative government promised would lead to competition and fairness for consumers. Premier Rachel Notley's government says the documents prove its case that the clause is not valid because it was improperly slipped in at the 11th hour without following necessary protocol.

The government has taken to calling it the 'Enron Clause'. The clause revolves around the insertion of three words: 'or more unprofitable'. After extensive public hearings in 1998 and 1999, the fine print in the pending power contracts stated that companies could back out of the 20-year deals if government policies made them unprofitable. However, the words "or more unprofitable" were added on July 28, 2000, among a shopping list of what were supposed to be quick and relatively minor fixes, according to an internal ministry memo.

Before the change, companies would have only been able to walk away when a government action, such as a heavy carbon tax or large change to the labour code, was solely responsible for making a contract unprofitable. With the change, a company holding a money-losing PPA due to weak market conditions could now abandon it when a government act made it the least bit more unprofitable.

This year, three electricity companies have cited the clause in their decision to hand back PPAs to a public agency known as the Balancing Pool, saying the government's new carbon legislation will cause major losses. The first to do so was Enmax, the City of Calgary's power utility. Mr. Hemstock, formerly of Enron, is now part of Enmax's legal team. The companies contend they have followed the rules and that the government appears to have been ignorant of the policies it is in charge of. The court action names Enmax, TransCanada and Capital Power. It also names electricity generator Atco Ltd., the Balancing Pool, which is a public body and its own power regulator as defendants.

Ontario Releases 2016-17 First Quarter Finances

(Province of Ontario, August 4, 2016, Complete story click here)

The Ontario government released the 2016-17 First Quarter finances and the report confirms Ontario is on track to balance the budget next year, in 2017-18, which will also continue to lower the province's debt-to-GDP ratio.

All expense changes have been accommodated within the current fiscal plan, reflecting the government's commitment to manage growth in spending while protecting services that Ontarians rely on. Changes include increases to support children and youth with autism through the new Ontario Autism Program, funding to support disaster relief for both the Fort McMurray wildfires and Ecuador earthquakes and funding to address urgent health care needs and improve access to care for First Nations peoples primarily focused in the North.

Ontario's net debt-to-GDP ratio is expected to peak at 39.6% in 2015-16, remain level in 2016-17 and begin trending downward in 2017-18. Private-sector forecasters project that, on average, Ontario's real GDP will grow by 2.6% in 2016, up from 2.3% at the time of February's 2016 Budget.

Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries. While uncertain global growth expectations remain a challenge, Ontario's diversified economy means the province is well positioned to respond to changing global economic conditions. In addition, the government continues to put in place a strategy that promotes economic growth and stability, through investments in business and innovation that allow for Ontario to remain globally competitive.

The government remains on track to generate $5.7bln in net revenue gains over time from its asset optimization initiative. All net revenue gains from the sale of qualifying assets will be dedicated to the Trillium Trust to help fund investments in transit, transportation and other priority infrastructure under Moving Ontario Forward.

Key indicators from the report include:

- Total revenue projected at $130.6bln, unchanged from the 2016 Budget.
- Provincial program expense projected at $122.1bln, unchanged from the 2016 Budget.
- Interest on debt projected at $11.8bln, unchanged from the 2016 Budget.
- A projected deficit of $4.3bln in 2016-17, unchanged from the 2016 Budget.

Foreign Ownership of Residential Properties

(Province of British Columbia, July 26, 2016, Complete story click here)

Updated data on foreign investment show more than $885mln in foreign investment flowed into Metro Vancouver's residential real estate market in just five weeks, representing 86% of the capital invested in the sector by foreign purchasers throughout the province. Beginning August 2, 2016, an additional property transfer tax rate of 15% will apply in Metro Vancouver to purchasers of residential real estate who are foreign nationals or foreign-controlled corporations.

As part of Budget 2016, government began collecting data to identify foreign purchasers, and better understand whether and to what extent foreign capital is having an effect on residential real estate prices. Data collection began June 10, 2016. From June 10 through to July 14, data for all of BC show:

- 19,383 residential property transactions in British Columbia
- 1,276 transactions involved foreign nationals
- This shows a rate of 6.6% of transactions involved foreign nationals
- The total investment by foreign nationals was $1,024,031,118 representing 7.9% of the total investment

Data specific to Metro Vancouver show:

- Metro Vancouver accounted for 49.7% of the real estate transactions in B.C., and 73.3% of transactions by foreign buyers
- By value, Metro Vancouver accounted for a total $8.8bln worth of transactions; foreign purchasers accounted for $885,393,373.
- The average investment by Canadian citizen or permanent resident buyers in Metro Vancouver was $911,425, while the average investment by foreign buyers was $946,945.

While foreign investment in residential real estate markets is only one factor driving price increases in Metro Vancouver, it represents an additional source of pressure on a housing market struggling to build enough new homes to meet demand. The Province's additional tax on foreign purchases will help manage foreign demand while new homes are built to meet local needs.

Action on Foreign Investment, Consumer Protection and Vacancy Puts British Columbians First

(Province of British Columbia, July 25, 2016, Complete story click here)

Legislation introduced creates new measures to help make home ownership more affordable, establishes a fund for market housing and rental initiatives, strengthens consumer protection, and gives the City of Vancouver the tools it requested to increase rental property supply. "Owning a home should be accessible to middle-class families, and those who are in a position to rent should be able to find a suitable home," Premier Christy Clark said. "These changes are about helping to make sure that British Columbians can continue to live, work and raise their families in our vibrant communities.

An additional property transfer tax rate of 15% will apply to purchasers of residential real estate who are foreign nationals or foreign-controlled corporations. The additional tax will take effect August 2, 2016, and will apply to foreign entities registering their purchase of residential property in Metro Vancouver, excluding the treaty lands of the Tsawwassen First Nation. For mixed-use property, the additional tax would apply on the residential component of the foreign interest in a property. For example, the additional tax on the purchase of a home valued at $2mln will amount to $300,000.

The government is creating a new Housing Priority Initiatives Fund for provincial housing and rental programs, which will be announced in the near future. The fund will receive an initial investment of $75mln. It will receive a portion of revenues from the property transfer tax, including revenues from the new additional tax on foreign buyers.

The Province is amending the Real Estate Services Act to substantially implement the key recommendations of the independent advisory group report, and to end self-regulation of the real estate industry. Government has accepted all the recommendations in the report. These changes will increase significantly the superintendent of real estate's authority and oversight.

Amendments to the Vancouver Charter provide the legislative authority for the city to implement and administer a tax on vacant homes. The City of Vancouver will design the framework of the vacancy tax, including details like the tax rate, when it will apply and any necessary exemptions.

"The issue of housing supply and affordability is impacting British Columbians and the livability of our Province, especially the Metro Vancouver region," said Minister Peter Fassbender. "The City of Vancouver has identified the need for a vacancy tax in order to meet rental supply issues. We are taking action by introducing legislation today that enables them to do this work."

The Province is working on additional measures to address the complex causes of rising housing prices in Metro Vancouver, as well as other regions of the province. This work focuses on ensuring the dream of home ownership remains within the reach of the middle class, increasing housing supply, smart transit expansion, supporting first-time home buyers, strengthening consumer protection and increasing rental supply.

Legal Action, New Approach on Power Purchase Agreements

(Province of Alberta, July 25, 2016, Complete story click here)

The following is a press release from the Province of Alberta:

The Alberta government is taking legal action to protect everyday Albertans from having to pay for the business losses of Alberta's biggest and most profitable power companies. These companies have long-term Power Purchase Arrangements (PPAs) with electrical power generators. Under these arrangements, the PPA Buyers have done very well in our province. In fact, since these PPAs were created, the buyers have made an estimated $10bln in profit. Now, because low electricity prices are eating into their profits, the buyers want to walk away from a handful of now-unprofitable PPAs early – which will leave Albertans to cover the cost of their contracted obligations to power generators. Between now and the expiry of the PPAs, those obligations could amount to $2bln.

The PPA buyers believe they can do this because of a secret clause inserted into the arrangements by Enron and the previous government. After months of public hearings and review, the Enron Clause secretly modified what's known as a 'change-in-law' provision that had been developed properly in an open process. The change-in-law provision was originally designed to permit companies to return a PPA to the Balancing Pool if government action made a profitable PPA into an unprofitable one.

Our government believes that regular Albertans shouldn't be on the hook for secret back room deals between companies like Enron and the previous PC government. We think this is not only unfair to Albertans, it's also unlawful. That's why we're going to court. We are asking to the Court to declare that the Enron clause was created unlawfully and is therefore void in law. As a result, we are also asking the Court to overturn the Balancing Pool's use of the Enron clause to accept the return of Enmax's Battle River PPA. The former government worked with lobbyists from Enron, and secretly accepted the clause in question.

First, they omitted the clause in question from over a year of public hearings, consultation and stakeholder review. Then, at the last possible moment – the day before the PPA auction commenced – they inserted the Enron clause into the PPA contract language by way of a letter to the Minister from the Board. Finally, the government and board took steps to hide what they had done from the public by exempting the so-called regulation from standard public disclosure. Their actions were deliberate and we believe unlawful. Most importantly, they were clearly not in the best interests of Albertans. The government knew the public was watching their deregulation of the electricity system closely. They had sold deregulated electricity as a way to transfer financial risk to the private sector in return for giving them the chance to earn greater profit. In secret, they did the opposite – setting up a system where consumers bear all the risk.

We are going to court to protect Albertans as much as possible from the financial burden of these now-unprofitable PPAs. That is our highest priority. To be clear, we know that power companies are major job providers in Alberta, and they are essential to developing a greener electricity system. But market changes that affect profits are part of being in business…and cannot be the grounds for abandoning contracts and passing on the costs. Lower electricity prices are a market response to over-supply. And the fact is that in every case, the PPAs that were returned were profitable in the past, but now unprofitable as a result of market conditions. In closing, Albertans elect governments to protect their interests. The former government forgot that. We won't.

Saskatchewan Reports Fiscal 2015-16 Results

(Macro Strategy, July 22, 2016, Complete story click here)

The province reported a deficit of $1.52bln in F2015-16, a $1.58bln deterioration from the $62mln surplus reported in the previous year and a $929mln erosion from the Adjusted Budget projection of $591mln. The year-over-year decline was mainly due to an increase in pension expense, lower revenue from non-renewable resources and the growth in health care funding costs. The decline was partially offset by higher net income from Government Business Enterprises and higher taxation revenue.

The amounts presented in the F2015-16 budget were adjusted to be consistent with the presentation in the Summary Financial Statements that include a $821mln decrease in the budgeted results, to account for pension costs on an accrual basis, and a $123mln increase to represent 15 months of operations for certain government organizations that changed their year-end from December 31 to March 31 during the year.

The higher pension expense reflects changes in interest rates and other actuarial assumptions that can fluctuate with small changes. The province stated that, "in the prior year, interest rates were at all-time lows and pension mortality studies showed increased life expectancy of plan members. These factors resulted in a significant increase in the pension liability that is being expensed over a short duration starting in F2015-16. The year-over-year increase to pension expense primarily due to these factors is $895 million."

The province projects a smaller deficit of $434mln in F2016-17 and returning to balance in F2017-18. More details are expected in the fall update.

Premiers Strike an Agreement in Principle on Internal Trade

(Canada's Premiers, July 22, 2016, Complete story click here)

Premiers reached an agreement in principle on a new Canadian Free Trade Agreement (CFTA). The CFTA is a ground-breaking agreement that will support their vision for promoting trade, investment and labour mobility across provincial and territorial boundaries, as part of a broader economic vision for Canada

Its achievements include broad coverage of the Canadian economy, reduced regulatory burden and enhanced procurement opportunities. Unlike the previous Agreement on Internal Trade (AIT), this agreement will be based on a "negative list" approach, where all government measures will be covered unless specifically excluded.

Premiers noted the agreement includes the establishment of a working group on alcoholic beverages, which will explore opportunities to improve trade in beer, wine, and spirits across Canada. This agreement will replace the AIT and enhance trade between provinces and territories.

The previous agreement only covered specific sectors, while the new agreement will apply to virtually the entire Canadian economy, with any exceptions explicitly identified. This will bring unprecedented transparency to how provinces, territories and the federal government regulate the movement of goods, services, investment and labour across the country

Key highlights include:

- Support for Innovation - The new agreement ensures open access to new products and services that will benefit Canadians. Since the initial internal trade agreement was signed more than 20 years ago, technology has advanced and commercial innovations have multiplied. Trade in new goods and services will be supported by the rules of the new agreement, promoting long-term economic development.
- Increased Consumer Choice - The agreement's rules will apply to the entire Canadian economy. As a result, consumers can expect to access a wider range of goods and services that are produced in other provinces and territories. This will benefit consumers by providing them with more choice in Canadian-produced goods and services.
- Improved Access for the Services Industry Across Canada - The agreement will result in better and more transparent access to services (e.g., real estate, telecommunications, and engineering). For instance, residency requirements in a number of provinces and territories will be improved to provide greater access, making it easier for service suppliers to expand their operations

Provinces and territories have agreed to reduce unnecessary differences in regulations identified as barriers to trade which can raise operating costs for companies. The agreement will establish a new mechanism to address these barriers, which will help eliminate burdens in a range of areas. These could include the hours truckers can operate their vehicles in other provinces, the shipping of equipment across Canada, and the freer flow of gasoline across the country. The agreement contains a robust process to address these barriers. It has rules to promote regulatory cooperation that will enable common approaches to new regulatory areas, such as emerging technologies.

Overall, provinces and territories have agreed to substantially expand access to their individual government procurement. This will provide a more level playing field for Canadian suppliers by expanding access to contracts tendered by all levels of government and will open up procurement markets to competitive bidding by Canadian businesses, increasing choice and value for taxpayers. Provinces and territories have also agreed to a more transparent and effective dispute resolution process for procurement for provincial, territorial and federal government purchases.

Power Plant Boondoggle Tests Trudeau's Green Energy Commitment

(Bloomberg, July 22, 2016)

Canadian Prime Minister Justin Trudeau is considering a request to guarantee new debt offerings to finish an over-budget and delayed hydroelectric project, a test of his support for low-emission energy development. The estimated cost of the Muskrat Falls project in Newfoundland and Labrador has ballooned to $11.4bln from $7.4 bln – meaning, on a per-capita basis, Canada's lightly populated easternmost province is spending more on a single electricity project than the U.S. government is projected to spend in its entire 2017 budget. That's on top of a large deficit and heavy debt load that prompted Moody's Investors Service to downgrade the province.

Canada's federal government already guaranteed $6.3bln in initial bonds for Muskrat Falls. Now Trudeau, whose predecessor made the decision to back the debt, is being asked to extend the guarantees for all or part of $4bln needed to finish it. Yet Muskrat Falls has become, by the admission of the man now tasked with finishing it, a boondoggle. The power plant still has no firm export contracts for the surplus power, said Stan Marshall, CEO of Nalcor Energy, the provincial Crown corporation behind the project.

In December 2013, the federal government guaranteed $5bln in bonds for Muskrat Falls and the Labrador Island Link transmission project. In April 2014, it guaranteed another $1.3bln for the Maritime Link. That backing has made a difference–the bonds are above-average performers in 2016, returning between 6.2% and 6.7%.

"We certainly are looking for the federal government now to see if they would be willing to revisit the loan guarantee" and add to it, Newfoundland Finance Minister Cathy Bennett said in an interview. "Hopefully we'll hear something later on this year as to the federal government's position. I'd certainly be very optimistic." A spokeswoman declined to say whether the province wants the full $4 billion guaranteed.

The request puts Trudeau in an awkward spot – saying yes may provoke a backlash among voters already concerned about the federal government's debt, or from other regions looking for guarantees; saying no could lead to the collapse of the project and leave the feds on the hook to bondholders. Trudeau's debut budget earlier this year pledged nearly $120bln in deficit spending over six years in a bid to spur growth. He has also made green power a priority, announcing alongside U.S. President Barack Obama and Mexican President Enrique Pena Nieto last month in Ottawa that the three nations hope to generate half the continent's electricity from emissions-free sources – including hydro – by 2025.

That pledge will put pressure on Trudeau to support Muskrat Falls, even as Newfoundland's economy slumps amid low oil prices and a substantial forecast debt load – the highest in Canada, according to Moody's.

Moody's Downgrades Newfoundland and Labrador to Aa3 Negative

(Macro Strategy, July 21, 2016, Complete story click here)

Credit Implications: Negative

Credit Ratings: DBRS A(low) stable, Moody's Aa3 negative, S&P A negative

Moody's downgraded the Province of Newfoundland and Labrador's long-term debt rating to Aa3 from Aa2. The rating outlook remained "negative".

The rating action reflects the province's weak fiscal forecast over the medium-term. Moody's states, "The principal driver of the downgrade to Aa3 from Aa2 is the weak fiscal forecast the province faces over the medium-term and resulting increase in debt burden and interest expense. The province is facing deep deficits caused by the significant decline in the price of oil starting in mid-2014. Newfoundland and Labrador is expected to have posted a very high deficit of $2.2bln (37.3% of revenue) in 2015-16, and has budgeted for deficits of $1.8bln (27.0% of revenue) and $1.1bln (14.3% of revenue) in 2016-17 and 2017-18 respectively."

The negative outlook reflects "…the execution risk the province faces in achieving its budget targets, which could lead to further fiscal deterioration from lower than anticipated deficit reduction or higher than expected debt accumulation. The negative outlook also reflects the forecast that Newfoundland and Labrador will have fully exploited its fiscal flexibility across the medium-term, once the budget plan is fully exercised."

Ontario and First Nations Announce Agreement-in-Principle for Sale of Hydro One Shares

(Province of Ontario, July 12, 2016, Complete story click here)

The Province and First Nations in Ontario, as represented by the Chiefs-in-Assembly, announced an agreement-in-principle for the province to sell to First Nations for their collective benefit, up to approximately 15mln shares of Hydro One Limited (2.5% of the total current outstanding common shares), depending on the level of First Nation participation.

This agreement-in-principle demonstrates the goodwill envisioned by the Political Accord to promote stronger economic relations and is one of many steps on Ontario's journey of healing and reconciliation with Indigenous peoples. If ratified, this new arrangement will provide meaningful opportunities to First Nations for collective wealth creation and to advance economic development initiatives. Each First Nation will have up to two years from signing of binding agreements to decide whether to participate in this arrangement. All First Nations in Ontario are invited to participate. A minimum threshold of 80% First Nation participation by the end of 2017 is required for this transaction to close.

If the agreement is ratified, Ontario would sell the shares to a new investment vehicle owned collectively by First Nations. This purchase would be financed with a 25-year loan from the Province of up to approximately $268mln, depending on the level of First Nation participation. The interest rate for the loan would be at the Province's relevant borrowing rate, plus 15 basis points. The shares would be sold at $18 per share, which is above the Province's book value for the shares. Ontario would also provide seed capital to a new First Nation investment fund of up to $45mln in cash, depending on the level of First Nation participation, over the initial three years.

Ontario and the Chiefs Committee on Energy, on behalf of First Nations, began engaging in discussions regarding potential equity ownership as part of the initial stages of the Initial Public Offering (IPO), as described in the October 2015 Hydro One Limited Supplemented PREP Prospectus.

Quick facts:

- The Chiefs-in-Assembly established a Chiefs Committee on Energy to undertake this initiative on behalf of the 133 First Nation communities in Ontario.
- The Ontario government will remain the largest shareholder of Hydro One Limited, and by law no other shareholder or group of shareholders is permitted to own more than 10%.
- Hydro One rates will continue to be set by the independent regulator, the Ontario Energy Board.
- Net revenue gains from the Province's public sales of Hydro One Limited common shares will be dedicated to the Trillium Trust to help fund infrastructure projects that will create jobs and strengthen the economy.
- Ontario is making the largest investment in public infrastructure in the province's history – about $160bln over 12 years for projects such as roads, bridges, transit systems, schools and hospitals. This investment is supporting 110,000 jobs every year across the province. In 2015, the government announced support for more than 325 projects that will keep people and goods moving, connect communities and improve quality of life.

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From:	Ken Kandeepan
To:	Gadi Mayman
Cc:	Anna Strathy; John Psinas
Subject:	RE: Base Case for SoC Meeting
Date:	Wednesday, May 30, 2018 4:57:39 PM
Attachments:	Copy of Net Debt - Scenarios- incl revised TCA pension hydro adj May 30 2018.xlsx

Hi Gadi

Because the base now includes the cumulative effect of the pension adjustment which accounts for the difference. However, there appears to be an error since the attached, pls refer to the "Lead" tab), is what we provided this morning and that is not reflected in the PP presentation. We will touch base with Fiscal to see why our numbers were not included or whether they made any adjustments on their own.

Thanks

Ken k

From: Gadi Mayman
Sent: Wednesday, May 30, 2018 4:44 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>
Subject: Fwd: Base Case for SoC Meeting

Page 15 - why does the base case in 18-19 net debt to GDP ratio jump from the 2018 Budget line even though the deficit is about the same?

Begin forwarded message:

> **From:** "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
> **Date:** May 30, 2018 at 1:06:36 PM EDT
> **To:** "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca>, "Angus, Helen (TBS)" <Helen.Angus@ontario.ca>, "Hughes, Karen (TBS)" <Karen.Hughes@ontario.ca>, "Lewis, Brian (MOF)" <Brian.Lewis@Ontario.ca>, "Mayman, Gadi (OFA)" <Gadi.Mayman@ofina.on.ca>, "Duran-Schneider, Maria (TBS)" <Maria.Duran-Schneider@ontario.ca>, "Donaldson, Mark (TBS)" <Mark.Donaldson@ontario.ca>, "Whitehead, Russ (TBS)" <Russ.Whitehead@ontario.ca>, "Fenton, Shannon (TBS)" <Shannon.Fenton@ontario.ca>
> **Cc:** "McLean, David (MOF)" <David.McLean@ontario.ca>, "Skoberne, Vivienne (TBS)" <Vivienne.Skoberne@ontario.ca>, "Smith, Graham (MOF)" <Graham.Smith2@ontario.ca>, "Rowe, Alana (MOF)" <Alana.Rowe@ontario.ca>, "Esmail, Selena (MOF)" <Selena.Esmail@ontario.ca>, "McGrath, Tara (MOF)" <Tara.McGrath@ontario.ca>, "Anand, Sareena (MOF)" <Sareena.Anand@ontario.ca>, "Jaikaran, Ronald (MOF)" <Ronald.Jaikaran@ontario.ca>
> **Subject: Base Case for SoC Meeting**

Please find attached an updated Base Case deck, reflecting edits and number changes coming out of yesterday and this morning from various partners.

As discussed, we will also bring copies of the Gantt planning chart and the overview deck to the meeting.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

Attachment Copy of Net Debt - Scenarios- incl revised TC.xlsx (504320 Bytes) cannot be converted to PDF format.

From: Serena Ly
To: Ken Kandeepan
Subject: RE: CIN Note
Date: Tuesday, October 11, 2016 1:34:36 PM
Attachments: Debt Management CIN - October 6 2016.docx

Hi Ken,

I've attached a copy of the note (still with tracked changes). If you want to make any additional edits, you can use the link below:

http://portal.ofina.on.ca/sites/ceo/CIN%20Central/Debt%20Management%20CIN%20-%20October%206%202016.docx

Thanks,
Serena

From: Ken Kandeepan
Sent: Tuesday, October 11, 2016 1:12 PM
To: Serena Ly <Serena.Ly@ofina.on.ca>
Subject: CIN Note

Hi Serena

Can you pls email me the CIN note from last week.

Thanks

Ken K

~~August~~ October 6~~1~~9~~8~~9, 2016

BORROWING AND DEBT

What is the status of Ontario's borrowing and debt management plan? And how does Ontario's debt compare to other jurisdictions?

SUGGESTED RESPONSE

Debt-to-GDP

- The legislated pension adjustment for the 2015-16 Public Accounts resulted in the n~~N~~et debt-to-GDP increasing to ~~was~~40.9 per cent. ~~in 2015–16 as per the 2015–16 Public Accounts.~~ If not for this adjustment the ratio would have remained level with 2014-15 at 39.4 percent. ~~The ratio is~~ forecast to be~~expected to peak remain at 39.656 per cent in 20156–167, remain unchanged in 2016–17, and begin to decline in 2017–18, based on revised estimates per 2015-16 Public Accounts.~~ Based on the 2016 Budget the net debt-to-GDP ratio is expected to peak in ~~Fiscal years~~2016–17 and begin to decline from 2017-18 onwards.~~onwards are 2016 Budget projections and will~~ These projects will be updated with the release of the 2016 Fall Economic Statement.
- The legislated pension adjustment that increased accumulated deficit and in turn net debt by $10.7 billion in 2015-16 has no impact on the Province's total debt or current and future borrowings.
- The government is forming an independent expert panel to deliver advice and recommendations to the government as to the application of public sector accounting standards to Ontario's pension assets. The report is expected later this year.
- Compared to other Provinces, Ontario's net debt-to-GDP was one of the lowest in 2001-02, and worsensed after the financial crisis with the second highest net-debt-to-GDP ratio in 2011–12. However, Ontario has sinced improved with the ratio falling back to mid-range levels, and is expected to rank fourth in 2016–17.
- **We will maintain a rigorous approach to control program spending to reduce Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent.**
- **The first very important step in returning to a 27 per cent ~~the~~ net debt-to-GDP ratio ~~to its pre-recessionary levels~~ is to balance the budget in 2017–18.**
    - **Debt is incurred primarily for two reasons: to finance deficits and invest in capital assets.**

Commented [KK1]: I am not including the actual ratio since its lower than the 40.9 so using "peak" may not be appropriate.

Commented [KK2]: I have taken this straight from the News Release yesterday

- In the first few years after the global recession in 2008–09, the increase in net debt was primarily due to the deficit.
- As outlined in the 2016 Budget, the government is committed to eliminating the deficit by 2017–18 and remaining balanced in 2018–19.
- Once a balanced budget is achieved, the increase in net debt will be limited to the net investment in tangible capital assets.

- **We are making the biggest investment in public infrastructure in Ontario's history. We have a plan to invest more than $137 billion over the next 10 years, or about $160 billion over 12 years, starting in 2014–15. This is a strategic investment will grow the economy and create jobs.**
  - In June 2016, the International Monetary Fund (IMF) released a report recommending that Canadian "fiscal policy should be pro-growth." ~~It stated that "the federal government has fiscal space and its plans to increase infrastructure spending in the 2016 Budget are appropriate."~~ Christine Lagarde, Managing Director (IMF) also expressed her support for the government's growth strategy and agreed that investment in infrastructure should be an essential element of the strategy.
- **Our plan is to first balance the budget while continuing to make strategic investments in capital assets. These infrastructure investments will stimulate economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio.**
- **With capital investments, the net debt-to-GDP ratio will come down more quickly than it would have without these investments in capital assets.**
- **Capital investments are amortized over the useful life of the assets. Once a balanced budget is achieved, the increase in debt will be limited to the difference between the cash investment to build assets, and the amortization, which is a non-cash amount.**

Commented [KK3]: Isn't this point stated earler, if so can be deleted.

Borrowing Program

- **Long-term borrowing for 2016–17 is forecast to be $24.4 billion when factoring in $2.0 billion pre-borrowed in 2015–16. This will be the Province's smallest borrowing program since 2007–08. As of ~~August~~ October 6~~1~~9~~8~~9, 2016, the Province had borrowed $13.3~~1~~0~~.6~~ billion for the fiscal year.**

- **Through prudent and cost-effective debt management, we have consistently kept interest on debt costs below budget projections.**
- **Canada and Ontario 10-year interest rates have fallen to record lows recently. As well, Ontario interest rate spreads relative to Canada have fallen since the 2016 Ontario Budget.**
- **Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs. As of ~~August~~ October 6~~1~~9~~8~~9, 2016, the average term for new borrowing in 2016–17 was 15.36~~7.1~~ years compared to 8.1 years in 2009-10.**
- **Going back to the beginning of fiscal 2010–11, we have issued $59.1 billion of bonds longer than 30 years to lock in low rates. We are consistently making strategic and prudent decisions that will benefit the Ontario economy and ensure fiscal security.**

CURRENT STATUS

Ontario versus Other Sub-Sovereigns

On October 6, 2016, the Globe and Mail published an article comparing the debt situation of Ontario and interational sub-sovereigns.

Ontario and other sub-national governments are not directly comparable. Canadian provinces are, in many ways, more like small sovereign nations than other regional governments. For example, Ontario has a governance and legislative structure that provides it with more flexibility to manage its fiscal situation. Moreover, Ontario has more diverse, broad based sources of revenues, which means that the revenue base is much less volatile than other sub-sovereigns.

In a Moody's report dated October 3, 2016, the rating agency agreed that "Canadian provinces' substantial fiscal flexibility allows them to support higher debt burdens than regional governments in many other countries. Ontario's debt as a proportion of revenues remains below the upper limit of about 300% for German Länder."

Moody's also stated that even though Ontario's "debt issuance will continue, the growth of debt will be reduced and will be lower than that of revenue growth over the medium-term, resulting in a declining trend for the province's debt burden." They also believe that "Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy."

FAO Commentary on Ontario's Provincial Debt

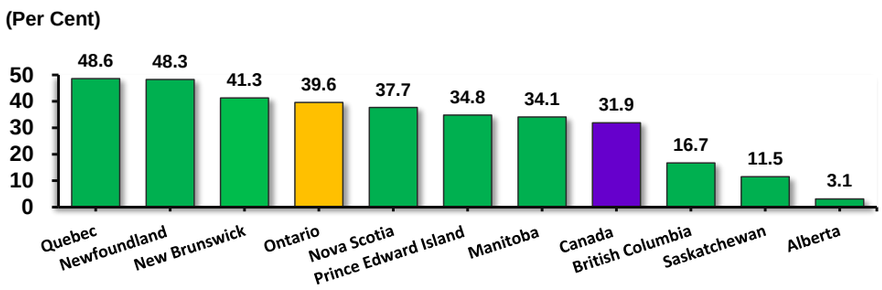
On July 19th, the Financial Accountability Officer released a commentary on Ontario's Provincial Debt, the commentary's key messages were as follows:

- The Government of Ontario's debt burden is one of the highest among provincial governments in Canada

    - Response: The FAO's commentary is based on data from 2014–15. Using more recent information, Ontario's net debt-to-GDP ratio ranks 4th after Quebec, Newfoundland & Labrador and New Brunswick in 2016~~65~~–17~~67~~.

    - Ontario's net debt as a share of GDP is projected in the 2016 Budget to ~~remain at~~be 39.~~66~~5 per cent ~~through~~ in 2015~~56~~–16~~67~~ and ~~into~~begin to decline in 2016~~67~~–17~~78~~, ~~based on revised estimates per 2015-16 Public Accounts~~as per 2016 Budget forecasts.

Projected Net Debt-to-GDP Ratio by Jurisdiction, ~~2015-16 and~~ 2016–17



Source: Budgets. Updates and Public Accounts; Conference Board of Canada.

- The Province's market debt consists of publicly held bonds, treasury bills, and US commercial paper issued in Canadian dollars and foreign currencies. The effective interest rate on the publicly held debt is 3.6 per cent.

    - Response: Going back to the beginning of fiscal 2010–11,the Province has issued $5~~98~~.1~~4~~ billion of bonds longer than 30 years to lock in low rates. Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs. As of ~~AugustJuly~~ October 6~~19~~8, 2016, the average term for new borrowing in 2016–17 was 15.3~~6.1~~ years compared to 8.1 years in 2009~~–~~-10.

- There is uncertainty surrounding the future level of interest rates due to market fluctuations and Ontario's credit risk. All else equal, an increase in interest rates would lead to higher interest payments, which would reduce the Province's fiscal flexibility.

    - Response: Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections.

Commented [KK4]: Comment for Bonnie, Do we need to include the teram "credit risk" I would prefer to take it out.

- Canada and Ontario 10-year interest rates have fallen to record lows recently. As well, Ontario interest rate spreads relative to Canada have fallen since the 2016 Ontario Budget.

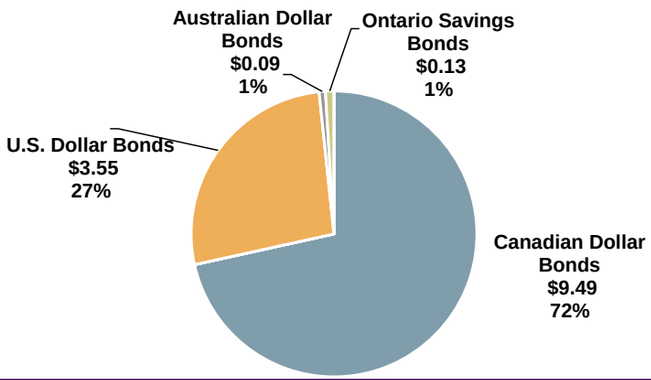
Borrowing Program

Long-term borrowing for 2016–17 is forecast to be $24.4 billion when factoring in $2.0 billion pre-borrowed in 2015–16. This will be the Province's smallest borrowing program since 2007–08.

As of ~~August~~ October 6~~1~~98~~9~~, 2016, the Province had borrowed $1~~1~~3.3~~0~~.~~6~~ billion for the fiscal year. Approximately 73~~65~~.5 per cent~~%~~ of this year's borrowing-to-date has been completed in Canadian dollars. The remainder of the Province's borrowing-to-date has been completed in international currencies through U.S. dollar global bonds, and Australian dollar Kangaroo bonds.

Canada and Ontario 10-year interest rates have fallen to record lows recently. As well, Ontario spreads relative to Canada have fallen since the 2016 Ontario Budget.

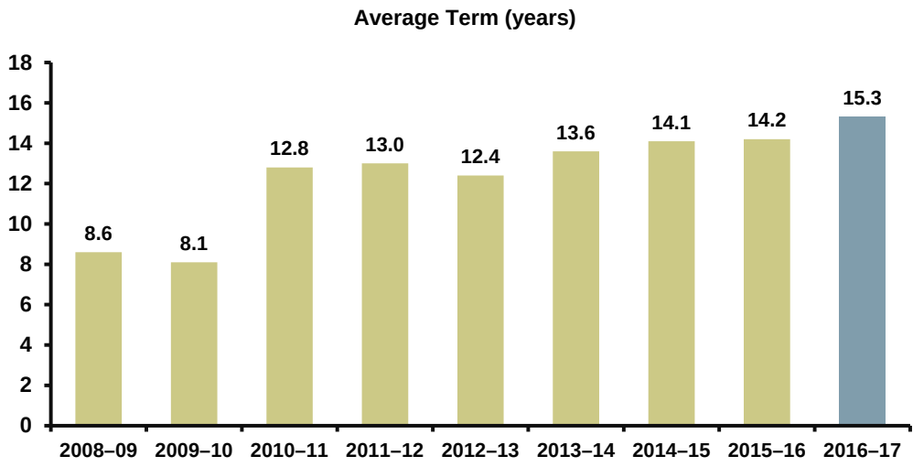
2016–17 Borrowing Completed: $13.3~~1~~0~~.6~~ billion



Note: Numbers may not add due to rounding

The Province may revise its Canadian dollar borrowing target of 75 per cent published in the 2016 Budget if international demand for Ontario bonds outpaces domestic demand.

Going back to the beginning of fiscal 2010–11, we have issued $59.1 billion of bonds longer than 30 years to lock in low rates. Term extension has allowed us to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs. As of ~~August~~ October 6~~1~~8~~9~~, 2016, the average term for new borrowing in 2016–17 was 1~~6~~5.3~~7.1~~ years.



Interest on Debt

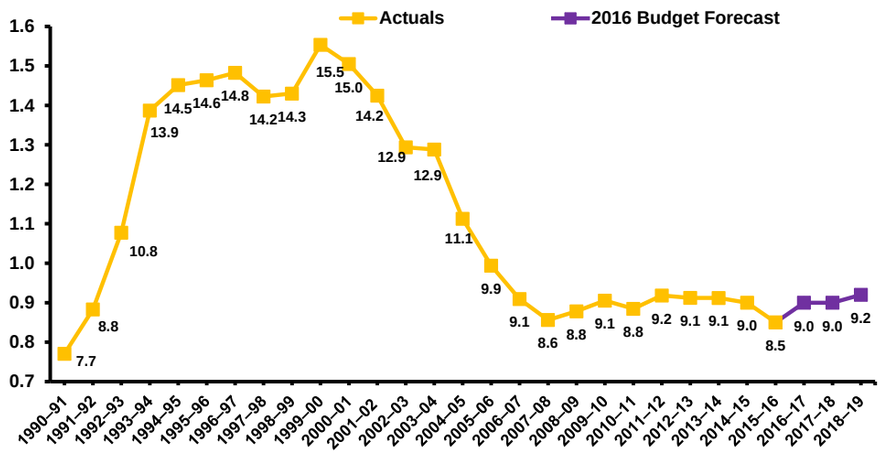
Ontario's interest on debt (IOD) is projected to remain at $11.8 billion for 2016–17, rising to $12.5 billion and $13.1 billion for 2017–18 and 2018–19, respectively.

Although IOD increases from 2014–15 to 2017–18, it remains relatively constant as a percentage of government revenue. IOD-to-revenue falls to 8.~~9~~95% in 2015–16 and is projected to remain at 9.0% over 2016–17 and 2017–18. As such, the increase in IOD has no impact on the Province's path to balance since its proportionate share of revenue is relatively constant. This ratio remains well below the peak reached in the mid-1990s because of the low interest rate environment over the past decade. IOD as a percentage of revenue is lower today than it was 10 years ago, in spite of more than a $1~~4~~5~~0~~3 billion increase in net debt over that period.

The *2010 Budget* forecasted that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 3.5~~2.7~~ cents lower, at 8.5 ~~9.0~~ cents of interest costs for every dollar of revenue. This ratio is the lowest it has been after 1990-91 ~~lower than it was in the 1990s and 2000s,~~ and is forecast to remain lower through the outlook period to ~~in~~ 2018–19.

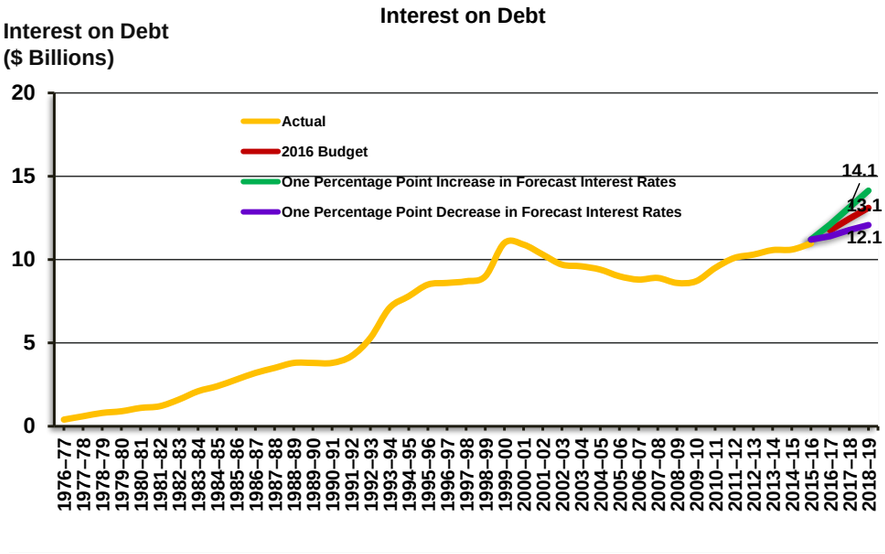
Interest on Debt-to-Revenue Ratio

(Per Cent)



The Province's IOD is sensitive to interest rate fluctuations. A one percentage point change in interest rates would result in a change in Interest on Debt (IOD) of approximately $350 million in 2016–17, rising to $1.03 billion in 2018–19 alone. Rising IOD costs could crowd out spending on government priorities.

Interest on Debt



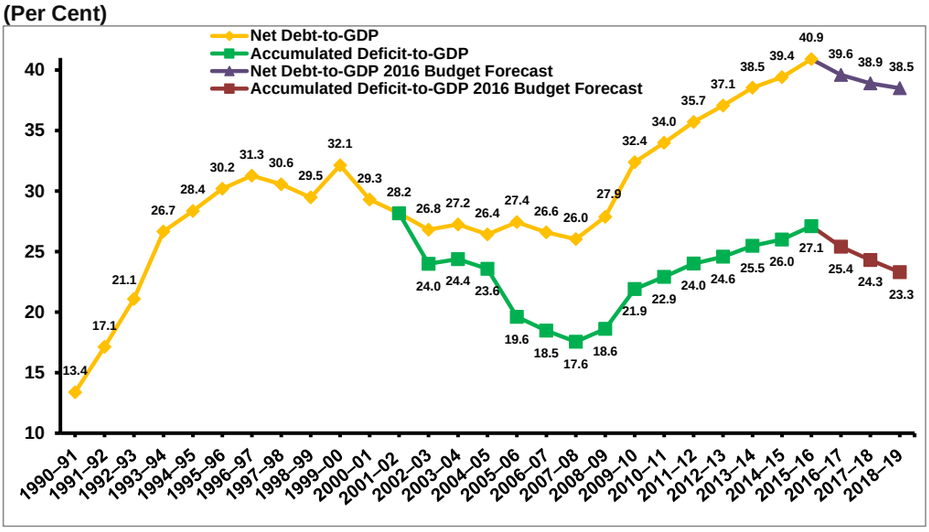
Net Debt-to-GDP

The government's strategy of enhancing GDP growth by investing in capital infrastructure has contributed approximately $90 billion to the increase in net debt over the last 13 years. Over the medium-term, net investments in capital assets will contribute over $26 billion to the total increase in net debt of close to $311 billion, based on ~~revised estimates per~~ 2015-16 Public Accounts.

Commented [SL5]: To be confirmed.

Net Debt-to-GDP and Accumulated Deficit-to-GDP

(Per Cent)



Debt Management

The Ontario Financing Authority uses a number of financial instruments, including options and swaps, to prudently manage risk. These financial instruments, or derivatives, are used primarily for hedging purposes and do not create net leverage. They are used to transform the cost of borrowing into Canadian dollars and foreign currency exposure from bond issues not denominated in Canadian dollars.

BACKGROUND

The three commonly used indicators of a government's financial and debt position are net debt, total debt, and accumulated deficit. Credit rating agencies and investors place the greatest emphasis on net debt. 2015–16 numbers are as of Ontario's 2015–16 Public Accounts and include the impact of the legislated pension adjustment. Fiscal years 2016–17 onwards are 2016 Budget projections and will be updated with the release of the 2016 Fall Economic Statement.

Net debt is the difference between the Province's total liabilities and financial assets. Ontario's net debt is projected to increase from $~~296.14.9~~305.2 billion as at March 31, 2016 to $30~~78.38.13~~ billion as at March 31, 2017, and $31~~66.95.97~~ billion as at March 31, 2018 and $32~~66.85.86~~ billion as at March 31, 2019~~, based on revised estimates per 2015-16 Public Accounts~~. ~~-~~The increase in net debt primarily reflects the projected deficit, plus the increase in tangible capital assets of the Province. Financial markets use Net Debt as their primary measure because it represents the Province's future revenue requirements to pay for past transactions and events.

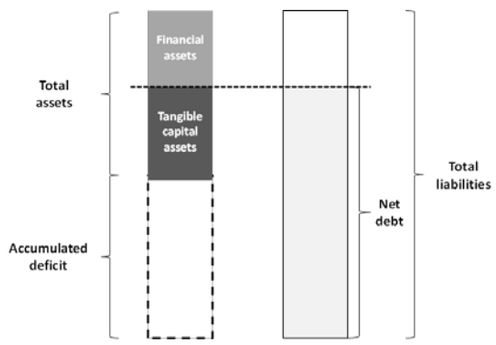
Total debt is the sum of the Province's total borrowings including Ontario Electricity Financial Corporation and agencies. Total debt ~~is projected to~~ increased from $315.0 billion as at March 31, 2015 to $~~325~~327.~~43~~ billion as at March 31, 2016. This increase w~~as~~~~ill be used~~ mainly due to fund the ~~projected~~

deficits and the government's capital investments. Canadian dollar denominated debt represents 81 per cent of the total debt ~~projected~~ as at March 31, 2016.

Accumulated deficit represents the sum of all deficits and surpluses. The accumulated deficit ~~is projected to increase from~~was $~~193~~2.~~4~~202.7 billion as at March 31, 2016. ~~-~~As per 2016 Budget projections, accumulated deficit is forecast to be~~to~~ $~~197~~197.86.~~87~~ billion as at March 31, 2017~~, based on revised estimates per 2015-16 Public Accounts,. Also, based on the revised estimates,~~ A~~accumulated deficit is projected to be~~ $~~197.7~~197.7~~6.6~~ billion as at March 31, 2018 and remain unchanged as at March 31, 2019.

Accumulated deficit is not widely used in the financial markets, as it excludes debt raised for capital expenditures.

Net debt, Accumulated Deficit and Tangible Capital Assets



NET DEBT AND INTEREST ON DEBT: 1993-2018

	Net Debt ($ billions)	Net Debt (% of GDP) [5]	Interest on Debt ($ billions)	Interest on Debt (% of Revenue)[1]
1993-94	80.6	26.7	7.1	13.9
1994-95	90.7	28.4	7.8	14.5
1995-96	101.9	30.2	8.5	14.6
1996-97	108.8	31.3	8.6	14.8
1997-98	112.7	30.6	8.7	14.2
1998-99	114.7	29.5	9.0	14.3
1999-2000[2]	134.4	32.1	11.0	15.5
2000-01	132.5	29.3	10.9	15.0
2001-02	132.1	28.2	10.3	14.2
2002-03	132.6	26.8	9.7	12.9
2003-04	138.8	27.2	9.6	12.9
2004-05	140.9	26.4	9.4	11.1
2005-06[3]	152.7	27.4	9.0	9.9
2006-07	153.7	26.6	8.8	9.1
2007-08[4]	156.6	26.0	8.9	8.6
2008-09	169.6	27.9	8.6	8.8
2009-10	193.6	32.4	8.7	9.1
2010-11	214.5	34.0	9.5	8.8
2011-12	235.6	35.7	10.1	9.2
2012-13	252.1	37.1	10.3	9.1
2013-14	267.2	38.5	10.6	9.1
2014-15	284.6	39.4	10.6	9.0
2015-16 ~~(Forecast)~~	~~296.1~~294~~305.2~~.~~9~~	~~39.6~~39.~~5~~40.9	~~11.2~~11.0	~~8.9~~8.5
2016-17 (Forecast)	308.3	39.6	11.8	9.0
2017-18 (Forecast)	316.9	38.9	12.5	9.0
2018-19 (Forecast)	326.8	38.5	13.1	9.2

Sources: 201~~4~~5-1~~5~~6 Public Accounts, Ontario Budgets from 1993 to 2016.
1. In the 2009-10 Public Accounts, education property taxes were included in provincial revenue and no longer netted against education expense. To facilitate comparisons, the Province's historical revenues and expenses have been restated to account for this reporting change.
2. Starting in 1999-2000, the net debt includes the unfunded liability (stranded debt) of OEFC and interest on debt includes interest on OEFC debt.
3. Starting in 2005-06, the net debt includes the net debt of hospitals, school boards, and colleges that were recognized upon consolidation.
4. Starting in 2007-08, the net debt includes the unrealized gains and losses in the Ontario Nuclear Funds Agreement.
5. Historical Net debt-to-GDP were revised to reflect historical GDP released by Statistics Canada in November 2015.

Date Updated: ~~August~~ October 6~~1~~9, 2016

Prepared by: Erica Wieder, Manager, Investor Relations (416-325-1661)

From:	Ken Kandeepan
To:	Nathan Yuen; John Psinas; George Sakura
Cc:	Erica Wieder; Shemin Meralli; IOD_RPA; Christina Zhang
Subject:	RE: CIN Q3 & Fraser Institute
Date:	Friday, March 31, 2017 4:46:30 PM

I have made some edits, John or George can you pls review the edits I made to the pension adjustment number.

Thanks

Ken k

From: Nathan Yuen
Sent: Friday, March 31, 2017 2:10 PM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: Erica Wieder <Erica.Wieder@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>
Subject: RE: CIN Q3 & Fraser Institute

Hi Christina,

All the necessary edits and numbers have been completed and confirmed for the CIN.

Thanks,
Nathan

From: Nathan Yuen
Sent: Friday, March 31, 2017 9:56 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>; Erica Wieder <Erica.Wieder@ofina.on.ca>
Subject: CIN Q3 & Fraser Institute

Good Morning All,

Please see http://sp2010.ofina.on.ca/sites/ceo/CIN%20Central/Debt%20Management%20CIN%20-%20March%2030,%202017.docx for the CIN updated with Q3 numbers and the Fraser Institute report. Kindly confirm the data and make edits by 11 AM.

Thank You,

Nathan Yuen
Senior Analyst | Investor Relations | Ontario Financing Authority

1 Dundas Street West, Suite 1200, Toronto, ON M7A 1Y7
T: 416-325-9085 | E: nathan.yuen@ofina.on.ca

From: Ken Kandeepan
To: Gadi Mayman
Cc: Christina Zhang
Subject: RE: Cabinet FES Deck
Date: Saturday, October 29, 2016 9:34:22 AM
Attachments: image001.png

Thanks Gadi, no material changes from the previous version.

As per Tim's request yesterday, Daniel provided all of the Pension adjustment references in our chapter to Ronald Jaikaran. Apparently all references from all chapters will be provided to you, Tim and a few others to review for consistency.

Ken K

From: Gadi Mayman
Sent: Friday, October 28, 2016 8:01 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Fw: Cabinet FES Deck

From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
Sent: Friday, October 28, 2016 7:57 PM
To: Scott Thompson (CAB); Ghiassi, Ali (MOF); Elizabeth Mendes (MOF); Jackson, Kelly (MOF); Brian Lewis (MOL); Gadi Mayman; Sriram Subrahmanyan (MOF)
Cc: David McLean (MOF); Christopher Pearce (MOI); Birks, Ryan (MOF); Selena Esmail (MOF)
Subject: Cabinet FES Deck

Hello

Please find attached a revised FES deck that could track into Cabinet next week, reflecting edits from our joint DM briefing this morning and feedback from Ali and Liz late this afternoon.

Note that the plan right now is to have Minister Sousa present the entire deck, but end at the last chart in the deck and turn it over to Minister Sandals to make some comments.

I'll be forwarding this deck to TBS and mentioning that approach as well.

Briefing for the Minister is planned for late Monday and we will have speaking notes ready for that.

Tim Schuurman
Assistant Deputy Minister

Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173




Office of the Budget
MINISTRY of FINANCE

From: Ken Kandeepan
To: Gadi Mayman
Cc: Christina Zhang
Subject: RE: Changes from MMP
Date: Tuesday, October 25, 2016 12:09:19 PM

Correct, in this instance the reserve decreases by $600 and non-cash also decreases by the same amount, hence all else being equal borrowing should increase by $600.

However, because the Pension Adjustment has no cash impact, non-cash actually increases by a net of $1.6B (2.2 less 0.6) and theoretically we can decrease borrowing by the same amount.

But because of the risk I mentioned in my previous email, for now and subject to your instructions, we have limited potential changes to the 16-17 borrowings to a max of the $1.5 billion, again detailed in my previous email..

So if, based on the results of the independent review, the Government simply reverses the Pension Adjustment and the additional flexibility converts to a smaller 16-17 deficit, we have essentially pre-funded to the tune of approximately $1.6B.

Our pre-funding will of course decrease on a dollar for dollar basis dependant on how much of the flex is used for funding other priorities.

Happy to discuss, Gadi

Thanks

Ken k

-----Original Message-----
From: Gadi Mayman
Sent: Tuesday, October 25, 2016 11:28 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Re: Changes from MMP

But we're using the reserve to reduce the deficit in scenario 3, so, if all else remained the same and this was the only change, wouldn't the borrowing program have gone up?

> On Oct 25, 2016, at 11:25 AM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:
>
> Not really Gadi, re the reserve, we never borrow for the reserve (its removed in the non-cash adjustments) we do however, borrow for the C- Fund so no change there.
>
> Thanks
>
> Ken k
>
> -----Original Message-----
> From: Gadi Mayman
> Sent: Tuesday, October 25, 2016 10:30 AM
> To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
> Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
> Subject: Re: Changes from MMP
>
> I agree with all of that, particularly leaving the future borrowing programs untouched. One other offset for this

year is the reduction in the reserve, which will result in another partial offset to the reduction in this year's borrowing program, won't it?
>
>> On Oct 25, 2016, at 10:14 AM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:
>>
>> Agreed Gadi, when I look at the placemat that you forwarded today, for 16-17 it makes sense to assume that the CIT and HST increases ($600M) will translate into actual cash as will the almost $400M decrease in IOD. When combined with the revenue increases in 15-16 that will flow in this year there is around $2 billion offset by the $500M increase in capital investments for net $1.5B.
>>
>> The risk here is if the independent review supports the Government's position re pension adjustment (as I fully expect it to), suddenly there is considerable flexibility in the 16-17 fiscal plan and with it the temptation to use this flexibility in addressing government priorities, most if not all of which will require actual cash.
>>
>> With regard to 17-18 and 18-19 the prudent approach may be to wait till the Document to make changes in borrowings.
>>
>> Thanks
>>
>> Ken k
>> -----Original Message-----
>> From: Gadi Mayman
>> Sent: Tuesday, October 25, 2016 9:59 AM
>> To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
>> Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
>> Subject: Re: Changes from MMP
>>
>> I'm rethinking what I want to do about LT Borrowing. Given that a big chunk of the deficit is, under scenario 3, the accounting change, I'd like to reduce the borrowing program and have a short, pithy explanation about how it's non-cash, so the amount we have to borrow is down. Given how far ahead we are in the borrowing program, that probably means that we'll be able to prefund, and maybe we should, in the narrative, talk about that, too.
>>
>> What do you think? If you agree with my proposed approach, we should bring Mike and Erica/Daniel into this conversation to make sure Mike agrees, and so that Daniel can help write the narrative. I'd also like to involve Bonnie, as a large part of what I'm trying to do with this strategy is to satisfy the rating agencies, and, through them, investors.
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>> Original Message
>> From: Ken Kandeepan
>> Sent: Tuesday, October 25, 2016 9:30 AM
>> To: Gadi Mayman
>> Cc: Christina Zhang
>> Subject: RE: Changes from MMP
>>
>>
>> Thanks Gadi, I guess they have selected the most risk averse option. Tara has indicated that they will provide the final FES outlook to Alex/John today, we should have the draft Financing Table for your review tomorrow.
>>
>> Ken k
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>> From: Gadi Mayman
>> Sent: Tuesday, October 25, 2016 7:15 AM
>> To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
>> Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
>> Subject: Fw: Changes from MMP
>>

>>
>>
>> Original Message
>> From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
>> Sent: Tuesday, October 25, 2016 6:32 AM
>> To: Scott Thompson (CAB); Helen Angus (MOHLTC); Karen Hughes (MGS); Brian Lewis (MOL); Maria Duran-Schneider (MOF); Gadi Mayman; Veinot, Cindy (TBS)
>> Cc: David McLean (MOF); Christopher Pearce (MOI); Kyle MacIntyre (MOF); Birks, Ryan (MOF); Tara McGrath (MOF); Emma Lindquist (MOF); Selena Esmail (MOF); Patrick Laughton (MOF); Nina Arbabzadeh (EDU)
>> Subject: Changes from MMP
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>> Please find attached a placemat that reflects the changes discussed late yesterday.
>>
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>> Let us know if anything needs to be adjusted to reflect yesterday's discussion.
>>
>> Thanks
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>> Tim
>>

From: Ken Kandeepan
To: Gadi Mayman
Cc: Christina Zhang
Subject: RE: Changes from MMP
Date: Tuesday, October 25, 2016 11:25:12 AM

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> Sent: Tuesday, October 25, 2016 9:59 AM
> To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
> Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
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> Subject: Fw: Changes from MMP
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> Tim
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To: Gadi Mayman
Cc: Christina Zhang
Subject: RE: Changes from MMP
Date: Tuesday, October 25, 2016 10:14:29 AM

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Sent: Tuesday, October 25, 2016 9:59 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Re: Changes from MMP

I'm rethinking what I want to do about LT Borrowing. Given that a big chunk of the deficit is, under scenario 3, the accounting change, I'd like to reduce the borrowing program and have a short, pithy explanation about how it's non-cash, so the amount we have to borrow is down. Given how far ahead we are in the borrowing program, that probably means that we'll be able to prefund, and maybe we should, in the narrative, talk about that, too.

What do you think? If you agree with my proposed approach, we should bring Mike and Erica/Daniel into this conversation to make sure Mike agrees, and so that Daniel can help write the narrative. I'd also like to involve Bonnie, as a large part of what I'm trying to do with this strategy is to satisfy the rating agencies, and, through them, investors.

Original Message
From: Ken Kandeepan
Sent: Tuesday, October 25, 2016 9:30 AM
To: Gadi Mayman
Cc: Christina Zhang
Subject: RE: Changes from MMP

Thanks Gadi, I guess they have selected the most risk averse option. Tara has indicated that they will provide the final FES outlook to Alex/John today, we should have the draft Financing Table for your review tomorrow.

Ken k

-----Original Message-----
From: Gadi Mayman
Sent: Tuesday, October 25, 2016 7:15 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>

Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Fw: Changes from MMP

Original Message
From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
Sent: Tuesday, October 25, 2016 6:32 AM
To: Scott Thompson (CAB); Helen Angus (MOHLTC); Karen Hughes (MGS); Brian Lewis (MOL); Maria Duran-Schneider (MOF); Gadi Mayman; Veinot, Cindy (TBS)
Cc: David McLean (MOF); Christopher Pearce (MOI); Kyle MacIntyre (MOF); Birks, Ryan (MOF); Tara McGrath (MOF); Emma Lindquist (MOF); Selena Esmail (MOF); Patrick Laughton (MOF); Nina Arbabzadeh (EDU)
Subject: Changes from MMP

Please find attached a placemat that reflects the changes discussed late yesterday.

We are also developing a deck that shows the various other tables that would be published in FES, including the total change from Budget to FES. That should be ready today as well but in the interest of ensuring we're all on the same page with respect to the tools, thought we'd circulate this piece first.

Let us know if anything needs to be adjusted to reflect yesterday's discussion.

Thanks

Tim

From: Gadi Mayman
To: Ken Kandeepan
Cc: Christina Zhang
Subject: RE: Changes from MMP
Date: Tuesday, October 25, 2016 12:36:22 PM

Thanks, Ken. Whenever you've got a moment, why don't you drop by, and we can discuss how I'd like it to look.

Gadi

-----Original Message-----
From: Ken Kandeepan
Sent: Tuesday, October 25, 2016 12:09 PM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: RE: Changes from MMP

Correct, in this instance the reserve decreases by $600 and non-cash also decreases by the same amount, hence all else being equal borrowing should increase by $600.

However, because the Pension Adjustment has no cash impact, non-cash actually increases by a net of $1.6B (2.2 less 0.6) and theoretically we can decrease borrowing by the same amount.

But because of the risk I mentioned in my previous email, for now and subject to your instructions, we have limited potential changes to the 16-17 borrowings to a max of the $1.5 billion, again detailed in my previous email..

So if, based on the results of the independent review, the Government simply reverses the Pension Adjustment and the additional flexibility converts to a smaller 16-17 deficit, we have essentially pre-funded to the tune of approximately $1.6B.

Our pre-funding will of course decrease on a dollar for dollar basis dependant on how much of the flex is used for funding other priorities.

Happy to discuss, Gadi

Thanks

Ken k

-----Original Message-----
From: Gadi Mayman
Sent: Tuesday, October 25, 2016 11:28 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Re: Changes from MMP

But we're using the reserve to reduce the deficit in scenario 3, so, if all else remained the same and this was the only change, wouldn't the borrowing program have gone up?

> On Oct 25, 2016, at 11:25 AM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:
>
> Not really Gadi, re the reserve, we never borrow for the reserve (its removed in the non-cash adjustments) we do however, borrow for the C- Fund so no change there.
>
> Thanks

>
> Ken k
>
> -----Original Message-----
> From: Gadi Mayman
> Sent: Tuesday, October 25, 2016 10:30 AM
> To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
> Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
> Subject: Re: Changes from MMP
>
> I agree with all of that, particularly leaving the future borrowing programs untouched. One other offset for this year is the reduction in the reserve, which will result in another partial offset to the reduction in this year's borrowing program, won't it?
>
>> On Oct 25, 2016, at 10:14 AM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:
>>
>> Agreed Gadi, when I look at the placemat that you forwarded today, for 16-17 it makes sense to assume that the CIT and HST increases ($600M) will translate into actual cash as will the almost $400M decrease in IOD. When combined with the revenue increases in 15-16 that will flow in this year there is around $2 billion offset by the $500M increase in capital investments for net $1.5B.
>>
>> The risk here is if the independent review supports the Government's position re pension adjustment (as I fully expect it to), suddenly there is considerable flexibility in the 16-17 fiscal plan and with it the temptation to use this flexibility in addressing government priorities, most if not all of which will require actual cash.
>>
>> With regard to 17-18 and 18-19 the prudent approach may be to wait till the Document to make changes in borrowings.
>>
>> Thanks
>>
>> Ken k
>> -----Original Message-----
>> From: Gadi Mayman
>> Sent: Tuesday, October 25, 2016 9:59 AM
>> To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
>> Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
>> Subject: Re: Changes from MMP
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>>
>> What do you think? If you agree with my proposed approach, we should bring Mike and Erica/Daniel into this conversation to make sure Mike agrees, and so that Daniel can help write the narrative. I'd also like to involve Bonnie, as a large part of what I'm trying to do with this strategy is to satisfy the rating agencies, and, through them, investors.
>>
>> Original Message
>> From: Ken Kandeepan
>> Sent: Tuesday, October 25, 2016 9:30 AM
>> To: Gadi Mayman
>> Cc: Christina Zhang
>> Subject: RE: Changes from MMP
>>
>>
>> Thanks Gadi, I guess they have selected the most risk averse option. Tara has indicated that they will provide

the final FES outlook to Alex/John today, we should have the draft Financing Table for your review tomorrow.
>>
>> Ken k
>>
>> -----Original Message-----
>> From: Gadi Mayman
>> Sent: Tuesday, October 25, 2016 7:15 AM
>> To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
>> Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
>> Subject: Fw: Changes from MMP
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>> Original Message
>> From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
>> Sent: Tuesday, October 25, 2016 6:32 AM
>> To: Scott Thompson (CAB); Helen Angus (MOHLTC); Karen Hughes (MGS); Brian Lewis (MOL); Maria Duran-Schneider (MOF); Gadi Mayman; Veinot, Cindy (TBS)
>> Cc: David McLean (MOF); Christopher Pearce (MOI); Kyle MacIntyre (MOF); Birks, Ryan (MOF); Tara McGrath (MOF); Emma Lindquist (MOF); Selena Esmail (MOF); Patrick Laughton (MOF); Nina Arbabzadeh (EDU)
>> Subject: Changes from MMP
>>
>>
>> Please find attached a placemat that reflects the changes discussed late yesterday.
>>
>> We are also developing a deck that shows the various other tables that would be published in FES, including the total change from Budget to FES. That should be ready today as well but in the interest of ensuring we're all on the same page with respect to the tools, thought we'd circulate this piece first.
>>
>> Let us know if anything needs to be adjusted to reflect yesterday's discussion.
>>
>> Thanks
>>
>> Tim
>>

From: Ken Kandeepan
To: Bonnie Lemcke
Cc: Christina Zhang; Gadi Mayman
Subject: RE: DBRS Comments on New Brunswick's 2015-16 Results and Impact of Accounting Changes on Debt
Date: Friday, October 07, 2016 10:26:44 AM

Thanks, if possible pls request them to run their draft language by you and my preference would be for Cindy to take a look.

Thanks

Ken k

From: Bonnie Lemcke
Sent: Friday, October 07, 2016 10:18 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: FW: DBRS Comments on New Brunswick's 2015-16 Results and Impact of Accounting Changes on Debt

FYI – DBRS released a commentary on New Brunswick's public accounts and commented on the pension adjustments. I will follow up to see if they are planning to do something for Ontario.

Bonnie

From: DBRS [mailto:info.p3@dbrs.info]
Sent: Thursday, October 06, 2016 3:11 PM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: DBRS Comments on New Brunswick's 2015-16 Results and Impact of Accounting Changes on Debt

DBRS® As It Happens
OCTOBER 6, 2016 03:07 PM
Press Releases

[dbrs.com]

DBRS Comments on New Brunswick's 2015-16 Results and Impact of Accounting Changes on Debt

DBRS Limited (DBRS) has today commented on the Province of New Brunswick's (the Province or New Brunswick) recently released 2015-16 Public Accounts, which show a modest improvement in fiscal performance; however, accounting changes related to the recognition of pension plan obligations and the consolidation of not-for-profit nursing homes have led to a higher debt burden. DBRS currently rates the Province at A (high) and R-1 (middle) with Stable trends and notes that these accounting changes do not alter the medium-term outlook for New Brunswick's credit profile.

For the year ended March 31, 2016, final results, including accounting changes noted below, point to a DBRS-adjusted debt burden of 43.9% of gross domestic product (GDP) compared with 41.8% of GDP anticipated at the time of the last review. Despite the step-up in debt, DBRS's medium-term expectations have not changed. DBRS continues to expect a gradual improvement in fiscal results and a stabilization of the debt-to-GDP ratio just above 44% in 2017-18; however, should the economy underperform expectations or fiscal targets prove challenging to achieve, this would present downside risks to the ratings.

The 2015-16 Public Accounts, released on September 30, 2016, show that fiscal performance exceeded expectations. For the year ended March 31, 2016, the Province reported a deficit of $260.5 million compared with an estimated shortfall of $466.4 million at the time of DBRS's last review in April 2016. The bulk of this improvement is the result of a $100 million contingency reserve that was not required. In addition, after accounting for the impact of consolidation changes, revenues were largely on track with plan while spending was lower. After making adjustments to recognize capital spending as incurred rather than as amortized, this equates to a DBRS-adjusted shortfall of approximately $405 million, or 1.2% of GDP.

In recent years, the Province has made substantive changes to its primary public-sector pension plans to address concerns around longer-term sustainability. Most significantly, the Province converted them to a shared-risk, or target-benefit, model from the traditional defined-benefit model. The effect of these changes has been to provide greater certainty and predictability to annual pension expenses and to reduce the pension-related risks borne by taxpayers. Notwithstanding that the plan structures did not change in 2015-16, the Province has revised its accounting treatment for the plans after receiving a qualified audit opinion in 2014-15. New Brunswick is now using defined-benefit accounting instead of defined-contribution accounting as used in the previous year, resulting in a $220 million increase in pension liabilities and a corresponding increase in DBRS-adjusted debt. As noted in DBRS's April 11, 2016, rating report on the Province, the Public Sector Accounting Board is undertaking a review of pension accounting standards with an emphasis on seeking agreement about how to account for hybrid pension plans. A resolution is not expected for several years.

In addition to the pension plan accouning change, the Province now includes not-for-profit nursing homes in the government reporting entity. The effect of this change has been an increase to both revenues and expenditures as well as the recognition of $448 million in third-party mortgages, which has resulted in a corresponding increase in the DBRS-adjusted debt burden. In practice, third-party nursing home debt was already being serviced through the Province's nursing home funding model. To DBRS's knowledge, other provinces do not consolidate not-for-profit nursing homes, although it does appear that the Province exercises somewhat greater control over this sector relative to peers.

Notes:
All figures are in Canadian dollars unless otherwise noted.

The applicable methodology is Rating Canadian Provincial Governments, which can be found on our website under Methodologies.

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

Click here to Log In for access to the full document.[dbrs.com]
See list of Associated Documents below.

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  blum@dbrs.com

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Issuers in the Press Release

- New Brunswick, Province of[dbrs.com]

Associated Documents

- Rating Canadian Provincial Governments - Methodology[dbrs.com] May 25, 2016

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- DBRS Confirms Plaza Trust, Series 1 Asset-Backed Commercial Paper Notes at R-1 (high) (sf)[dbrs.com] October 6, 2016
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From: John Psinas
To: Ken Kandeepan
Cc: Shemin Meralli; Kevin Hwang
Subject: RE: Debt CIN
Date: Friday, October 07, 2016 2:25:24 PM

Ken,

Will do.

Thanks.

--John

416-325-8072

From: Ken Kandeepan
Sent: Friday, October 07, 2016 2:25 PM
To: Serena Ly <Serena.Ly@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>
Cc: Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>
Subject: RE: Debt CIN

I have made some edits plus a couple of comments for your consideration. John and team pls review my edits and if you haven't done so pls check the net debt numbers and ratios. Perhaps we should include another footnote for the table at the end indicating that the 2015-16 net debt includes $10.7 billion by way of the legislated pension adjustment.

Thanks

Ken K

From: Serena Ly
Sent: Friday, October 07, 2016 12:16 PM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Cc: John Psinas <John.Psinas@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>
Subject: Debt CIN

Hello everyone,

Here's an updated Debt CIN, using PA numbers for 15-16 and Budget 2016 numbers for 16-17 onwards.
If everyone could please review by EOD, that'd be great. Revisions could be made directly on the document:

http://portal.ofina.on.ca/sites/ceo/CIN%20Central/Debt%20Management%20CIN%20-%20October%206%202016.docx

Thank you!
Serena

From:	Ken Kandeepan
To:	Serena Ly; John Psinas
Cc:	Shemin Meralli; Kevin Hwang; Christina Zhang; IOD_RPA
Subject:	RE: Debt CIN
Date:	Friday, October 07, 2016 2:24:42 PM

I have made some edits plus a couple of comments for your consideration. John and team pls review my edits and if you haven't done so pls check the net debt numbers and ratios. Perhaps we should include another footnote for the table at the end indicating that the 2015-16 net debt includes $10.7 billion by way of the legislated pension adjustment.

Thanks

Ken K

From: Serena Ly
Sent: Friday, October 07, 2016 12:16 PM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Cc: John Psinas <John.Psinas@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>
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Thank you!
Serena

From:	Alexander Kraas
To:	Ken Kandeepan; Serena Ly; John Psinas
Cc:	Shemin Meralli; Kevin Hwang; Christina Zhang; IOD_RPA
Subject:	RE: Debt CIN
Date:	Friday, October 07, 2016 2:39:01 PM

We just noticed that the IOD section refers to an increase of net debt by over $15 billion. In response, we added a zero, so that it now reads $150 billion.

Best regards

Alex

From: Ken Kandeepan
Sent: Friday, October 07, 2016 2:25 PM
To: Serena Ly <Serena.Ly@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>
Cc: Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>
Subject: RE: Debt CIN

I have made some edits plus a couple of comments for your consideration. John and team pls review my edits and if you haven't done so pls check the net debt numbers and ratios. Perhaps we should include another footnote for the table at the end indicating that the 2015-16 net debt includes $10.7 billion by way of the legislated pension adjustment.

Thanks

Ken K

From: Serena Ly
Sent: Friday, October 07, 2016 12:16 PM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Cc: John Psinas <John.Psinas@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>
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Thank you!
Serena

From: George Sakura
To: Ken Kandeepan
Subject: RE: Debt Decks
Date: Tuesday, January 17, 2017 12:47:41 PM
Attachments: FES 2016 deck slide 1 2 and 4 - Jan 17 2017 updates (004).xlsx

---

I think this is what you are looking for. If so I will send it to Serena.

Thanks.

From: Ken Kandeepan
Sent: Tuesday, January 17, 2017 12:07 PM
To: Serena Ly <Serena.Ly@ofina.on.ca>
Cc: Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>; Erica Wieder <Erica.Wieder@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>
Subject: RE: Debt Decks

There's a small error in slide 9, George will fix it and provide you with the revised numbers, once you get them pls incorporate and forward to Gadi.

Thanks

Ken k

From: Serena Ly
Sent: Tuesday, January 17, 2017 11:57 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; Opal Kandelas <Opal.Kandelas@ofina.on.ca>; Erica Wieder <Erica.Wieder@ofina.on.ca>
Subject: Debt Decks

Hi Gadi,

Please find attached the debt deck and the provincial comparison deck for this afternoon's meeting.

Thanks,
Serena

Net Debt to Revenue and GDP Ratios																				
Ontario		2016-17 FES - Excluding Pension Adjustment (adj 2015/16)												2016-17 FES - with pension adjustment						
					Net Debt As	Net Debt As	Accumulated	Acc Deficit		ONFA	Other	Deficit/					Net Debt As	Net Debt As	Accumulated	Acc Deficit	
	Fiscal Year	GDP	Net Debt	Revenue	% to GDP	% to Revenue	Deficit	to GDP	TCA	Adj.	Adj.	(Surplus)		GDP	Net Debt	Revenue	% to GDP	% to Revenue	Deficit	to GDP	TCA
Actual	1989-90	282,766	35,409	46,500	12.52	76.1	35,409	12.5	-			(90)		282,766	35,409	46,500	12.52	76.1	35,409	12.5	-
Actual	1990-91	287,334	38,438	49,002	13.38	78.4	38,438	13.4	-			3,029		287,334	38,438	49,002	13.38	78.4	38,438	13.4	-
Actual	1991-92	288,217	49,368	47,527	17.13	103.9	49,368	17.1	-			10,930		288,217	49,368	47,527	17.13	103.9	49,368	17.1	-
Actual	1992-93	293,068	61,796	49,122	21.09	125.8	61,796	21.1	-			12,428		293,068	61,796	49,122	21.09	125.8	61,796	21.1	-
Actual	1993-94	302,245	80,599	51,410	26.67	156.8	80,599	26.7	-			11,202		302,245	80,599	51,410	26.67	156.8	80,599	26.7	-
Actual	1994-95	319,986	90,728	53,962	28.35	168.1	90,728	28.4	-			10,129		319,986	90,728	53,962	28.35	168.1	90,728	28.4	-
Actual	1995-96	337,400	101,864	57,898	30.19	175.9	101,864	30.2	-			8,800		337,400	101,864	57,898	30.19	175.9	101,864	30.2	-
Actual	1996-97	347,842	108,769	58,060	31.27	187.3	108,769	31.3	-			6,905		347,842	108,769	58,060	31.27	187.3	108,769	31.3	-
Actual	1997-98	368,960	112,735	61,362	30.55	183.7	112,735	30.6	-			3,966		368,960	112,735	61,362	30.55	183.7	112,735	30.6	-
Actual	1998-99	389,250	114,737	63,044	29.48	182.0	114,737	29.5	-			2,002		389,250	114,737	63,044	29.48	182.0	114,737	29.5	-
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3	134,398	32.1	-			(668)		418,245	134,398	70,983	32.13	189.3	134,398	32.1	-
Actual	2000-01	452,238	132,496	72,258	29.30	183.4	132,496	29.3	-			(1,902)		452,238	132,496	72,258	29.30	183.4	132,496	29.3	-
Actual	2001-02	469,084	132,121	72,550	28.17	182.1	132,121	28.2	-			(375)		469,084	132,121	72,550	28.17	182.1	132,121	28.2	-
Actual	2002-03	494,815	132,647	74,938	26.81	177.0	118,705	24.0	13,942			(117)		494,815	132,647	74,938	26.81	177.0	118,705	24.0	13,942
Actual	2003-04	509,511	138,816	74,549	27.24	186.2	124,188	24.4	14,628			5,483		509,511	138,816	74,549	27.24	186.2	124,188	24.4	14,628
Actual	2004-05	533,365	140,921	84,192	26.42	167.4	125,743	23.6	15,178			1,555		533,365	140,921	84,192	26.42	167.4	125,743	23.6	15,178
Actual	2005-06	556,635	152,702	90,738	27.43	168.3	109,155	19.6	43,547			(298)		556,635	152,702	90,738	27.43	168.3	109,155	19.6	43,547
Actual	2006-07	578,241	153,742	97,120	26.59	158.3	106,776	18.5	46,966		(110)	(2,269)		578,241	153,742	97,120	26.59	158.3	106,776	18.5	46,966
Actual	2007-08	601,735	156,616	104,115	26.03	150.4	105,617	17.6	50,999	(559)		(600)		601,735	156,616	104,115	26.03	150.4	105,617	17.6	50,999
Actual	2008-09	608,446	169,585	97,532	27.87	173.9	113,238	18.6	56,347	1,212		6,409		608,446	169,585	97,532	27.87	173.9	113,238	18.6	56,347
Actual	2009-10	597,882	193,589	96,313	32.38	201.0	130,957	21.9	62,632	1,090	-	19,262		597,882	193,589	96,313	32.38	201.0	130,957	21.9	62,632
Actual	2010-11	630,989	214,511	107,175	34.00	200.2	144,573	22.9	69,938	(395)	-	14,011		630,989	214,511	107,175	34.00	200.2	144,573	22.9	69,938
Actual	2011-12	659,743	235,582	109,773	35.71	214.6	158,410	24.0	77,172	3	865	12,969		659,743	235,582	109,773	35.71	214.6	158,410	24.0	77,172
Actual	2012-13	680,084	252,088	113,369	37.07	222.4	167,132	24.6	84,956	(639)	141	9,220		680,084	252,088	113,369	37.07	222.4	167,132	24.6	84,956
Actual	2013-14	695,349	267,190	115,911	38.43	230.5	176,634	25.4	90,556	(951)	-	10,453		695,349	267,190	115,911	38.43	230.5	176,634	25.4	90,556
Actual	2014-15	727,962	284,576	118,546	39.09	240.1	187,511	25.8	97,065	(1,121)	1,683	10,315		727,962	284,576	118,546	39.09	240.1	187,511	25.8	97,065
Actual	2015-16 (unaudited	763,276	294,579	128,377	38.59	229.5	192,043	25.2	102,536	1,003	-	3,529		763,276	305,233	128,377	39.99	237.8	202,697	26.6	102,536
	2016-17 Outlook	797,623	307,353	132,720	38.53	231.6	196,367	24.6	110,986			4,324		789176	317,948	130,589	40.29	243.5	207,021	26.2	110,927
	2017-18 Outlook	830,182	315,996	140,125	38.06	225.5	196,367	23.7	119,629			-		821389	326,551	137,729	39.76	237.1	207,003	25.2	119,548
	2018-19 Outlook	864,142	325,901	144,899	37.71	224.9	196,367	22.7	129,534			-		854990	336,419	141,920	39.35	237.0	206,991	24.2	129,428
	2019-20 Outlook	897,865	335,872		37.41		196,367	21.9	139,505			-			346,366		#DIV/0!	#DIV/0!	206,991	#DIV/0!	139,375
	2020-21 Outlook	933,780	343,980		36.84		196,367	21.0	147,613			-			354,451			#DIV/0!	206,991		147,460
	2021-22 Outlook	971,131	348,865		35.92		196,367	20.2	152,498			-									
	2022-23 Outlook	1,009,976	350,873		34.74		196,367	19.4	154,506			-									
	2023-24 Outlook	1,050,375	351,725		33.49		196,367	18.7	155,358			-									
	2024-25 Outlook	1,092,390	351,104		32.14		196,367	18.0	154,737			-									
	2025-26 Outlook	1,136,086	348,855		30.71		196,367	17.3	152,488			-									
	2026-27 Outlook	1,181,529	348,855		29.53		196,367	16.6	152,488			-									
	2027-28 Outlook	1,228,790	348,855		28.39		196,367	16.0	152,488			-									
	2028-29 Outlook	1,277,942	348,855		27.30		196,367	15.4	152,488			-									

Net Debt to Revenue and GDI				
Ontario				
		ONFA	Other	Deficit/
	Fiscal Year	Adj.	Adj.	(Surplus)
Actual	1989-90			(90)
Actual	1990-91			3,029
Actual	1991-92			10,930
Actual	1992-93			12,428
Actual	1993-94			11,202
Actual	1994-95			10,129
Actual	1995-96			8,800
Actual	1996-97			6,905
Actual	1997-98			3,966
Actual	1998-99			2,002
Actual	1999-2000			(668)
Actual	2000-01			(1,902)
Actual	2001-02			(375)
Actual	2002-03			(117)
Actual	2003-04			5,483
Actual	2004-05			1,555
Actual	2005-06			(298)
Actual	2006-07		(110)	(2,269)
Actual	2007-08	(559)		(600)
Actual	2008-09	1,212		6,409
Actual	2009-10	1,090	-	19,262
Actual	2010-11	(395)	-	14,011
Actual	2011-12	3	865	12,969
Actual	2012-13	(639)	141	9,220
Actual	2013-14	(951)	-	10,453
Actual	2014-15	(1,121)	1,683	10,315
Actual	2015-16 (unaudited	1,003	9,154	5,029
	2016-17 Outlook			4,324
	2017-18 Outlook			(18)
	2018-19 Outlook			(12)
	2019-20 Outlook			-
	2020-21 Outlook			-
	2021-22 Outlook			
	2022-23 Outlook			
	2023-24 Outlook			
	2024-25 Outlook			
	2025-26 Outlook			
	2026-27 Outlook			
	2027-28 Outlook			
	2028-29 Outlook			

Net Debt to Revenue and GDF										
Ontario		Comparison: 2016 Public Accounts/FES vs Scenario Analysis								
				Net Debt As	Accumulated	Acc Deficit		ONFA	Other	Deficit/
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP	TCA	Adj.	Adj.	(Surplus)
Actual	1989-90	-	-	-	-	-	-	-	-	-
Actual	1990-91	-	-	-	-	-	-	-	-	-
Actual	1991-92	-	-	-	-	-	-	-	-	-
Actual	1992-93	-	-	-	-	-	-	-	-	-
Actual	1993-94	-	-	-	-	-	-	-	-	-
Actual	1994-95	-	-	-	-	-	-	-	-	-
Actual	1995-96	-	-	-	-	-	-	-	-	-
Actual	1996-97	-	-	-	-	-	-	-	-	-
Actual	1997-98	-	-	-	-	-	-	-	-	-
Actual	1998-99	-	-	-	-	-	-	-	-	-
Actual	1999-2000	-	-	-	-	-	-	-	-	-
Actual	2000-01	-	-	-	-	-	-	-	-	-
Actual	2001-02	-	-	-	-	-	-	-	-	-
Actual	2002-03	-	-	-	-	-	-	-	-	-
Actual	2003-04	-	-	-	-	-	-	-	-	-
Actual	2004-05	-	-	-	-	-	-	-	-	-
Actual	2005-06	-	-	-	-	-	-	-	-	-
Actual	2006-07	-	-	-	-	-	-	-	-	-
Actual	2007-08	-	-	-	-	-	-	-	-	-
Actual	2008-09	-	-	-	-	-	-	-	-	-
Actual	2009-10	-	-	-	-	-	-	-	-	-
Actual	2010-11	-	-	-	-	-	-	-	-	-
Actual	2011-12	-	-	-	-	-	-	-	-	-
Actual	2012-13	-	-	-	-	-	-	-	-	-
Actual	2013-14	-	-	-	-	-	-	-	-	-
Actual	2014-15	-	-	-	-	-	-	-	-	-
Actual	2015-16 (unaudited	-	10,654	1.4	10,654	1.4	-	-	9,154	1,500
	2016-17 Outlook	(8,447)	10,595	1.8	10,654	1.6	(59)	-	-	-
	2017-18 Outlook	(8,793)	10,555	1.7	10,636	1.5	(81)	-	-	(18)
	2018-19 Outlook	(9,152)	10,518	1.6	10,624	1.5	(106)	-	-	(12)
	2019-20 Outlook	(897,865)	10,494	#DIV/0!	10,624	#DIV/0!	(130)	-	-	-
	2020-21 Outlook									
	2021-22 Outlook									
	2022-23 Outlook									
	2023-24 Outlook									
	2024-25 Outlook									
	2025-26 Outlook									
	2026-27 Outlook									
	2027-28 Outlook									
	2028-29 Outlook									

Analysis of Net Debt

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Opening balance	(156,616)	(169,585)	(193,589)	(214,511)	(235,582)	(252,088)
Deficit	(6,409)	(19,262)	(14,011)	(12,969)	(9,220)	(10,453)
IFRS Transitional Impact				(758)		
PSAB Transitional Impact				(107)	(141)	
Pension Adjustment (prior years)						
Adjustments						
Deficit	(6,409)	(19,262)	(14,011)	(13,834)	(9,361)	(10,453)
Ontario Nuclear Fund	(1,212)	1,090	395	(3)	639	951
Total Deficit	(7,621)	(18,172)	(13,616)	(13,837)	(8,722)	(9,502)
Tangible Capital Assets	(6,285)	(5,832)	(7,306)	(7,234)	(7,784)	(5,600)
	(13,906)	(24,004)	(20,922)	(21,071)	(16,506)	(15,102)
Ending balance	**(170,522)**	**(193,589)**	**(214,511)**	**(235,582)**	**(252,088)**	**(267,190)**

				Percentage %		
Deficit	46.09	80.24	66.97	65.65	56.71	69.22
Other	8.72	(4.54)	(1.89)	0.01	(3.87)	(6.30)
Total Deficit	**54.80**	**75.70**	**65.08**	**65.67**	**52.84**	**62.92**
Tangible Capital Assets	**45.20**	**24.30**	**34.92**	**34.33**	**47.16**	**37.08**
	100.00	100.00	100.00	100.00	100.00	100.00

Note: Pension adjustments incorporated in the 2015-16 Public Accounts a

For use with slide 2

In year approvals added to TCA for 2016-17 only, but not any

2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total
(267,190)	(284,576)	(294,579)	(307,353)	(315,996)	(325,901)	(335,872)	(169,585)
(10,315)	(3,529)	(4,324)	0	0			(84,083)
							(758)
(1,683)							(1,931)
	0						0
	0						
(11,998)	(3,529)	(4,324)	0	0	0	0	(86,772)
1,121	(1,003)						3,190
(10,877)	(4,532)	(4,324)	0	0	0	0	(83,582)
(6,509)	(5,471)	(8,450)	(8,643)	(9,905)	(9,971)	(8,108)	(90,813)
(17,386)	(10,003)	(12,774)	(8,643)	(9,905)	(9,971)	(8,108)	(174,395)
(284,576)	**(294,579)**	**(307,353)**	**(315,996)**	**(325,901)**	**(335,872)**	**(343,980)**	**(343,980)**

69.01	35.28	33.85	0.00	0.00	0.00	0.00
(6.45)	10.03	0.00	0.00	0.00	0.00	0.00
62.56	**45.31**	**33.85**	**0.00**	**0.00**	**0.00**	**0.00**
37.44	**54.69**	**66.15**	**100.00**	**100.00**	**100.00**	**100.00**
100.00	100.00	100.00	100.00	100.00	100.00	100.00

nd extended in the 2016 FES have been reversed.

risks. Deprecation in out years for in year approvals not taken.

2008-09 to 2015-16
(col C to col J)

(79,759)	
(758)	
(1,931)	
0	
(82,448)	
3,190	
(79,258)	
(45,736)	
(124,994)	(124,994)

65.96
(2.55)
63.41
36.59
100.00

					2016-17 FES - Excluding Pens
			Scenario		What is the change in GDP that wi
2016-17 GDP			797,623		
2016-17 Net Debt to GDP %			0.3853		
2016-17 Net Debt			307,353		
			Net Debt to GDP		Scenario GDP
by up	0.10%		307,353	=	797,284.00
	38.55	0.3855	0.3855000		
by down	0.10%	0.3844	307,353	=	799,482.00
	38.44		0.3844402		

Scenario		What is the change in net debt hol result?
		Change in Net Debt
Projected ND	+	131
Projected ND	-	-715

Draft wording for slide 4:

For 2016-17, the net debt-to-GDP ratio is

An increase of $131 million to net

A decrease of $715 million to net

Since the 2016-17 net debt-to-GDI
38.6% versus the larger changes re

ion Adjustment (adj 2015/16)

ll make the Net Debt ratio change by 0.1%?

Actual Projected GDP	GDP Variance	GDP Variance %
797,623.42	(339.42)	-0.04%
797,623.42	1,858.58	0.23%

lding GDP constant that will yield the same

Scenario Net Debt	Scenario Net Debt to GDP	Rounded	Target
307,484	38.550022%	38.55%	38.55
306,638	38.443956%	38.44%	38.44

38.53%

debt or a decrease of $399 million in nominal GDP would increase the net-debt-to-GDP ratio to 38.55%

debt or an increase of $1,859 million in nominal GDP would decrease the net-debt-to-GDP ratio to 38.4

P ratio was 38.53% smaller changes to net debt or nominal GDP resulted in changing the net debt-to-GD
equired to lower the ratio to 38.4%.

.

4%.

DP ratio to

From:	George Sakura
To:	Serena Ly
Cc:	Lynsey Wynberg; Erica Wieder; Ken Kandeepan
Subject:	RE: Debt Decks
Date:	Tuesday, January 17, 2017 1:04:42 PM
Attachments:	FES 2016 deck slide 1 2 and 4 - Jan 17 2017 updates (004).xlsx

Attached is the adjusted spreadsheet to revise slide 9.

Thanks.

From: Ken Kandeepan
Sent: Tuesday, January 17, 2017 12:07 PM
To: Serena Ly <Serena.Ly@ofina.on.ca>
Cc: Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>; Erica Wieder <Erica.Wieder@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>
Subject: RE: Debt Decks

There's a small error in slide 9, George will fix it and provide you with the revised numbers, once you get them pls incorporate and forward to Gadi.

Thanks

Ken k

From: Serena Ly
Sent: Tuesday, January 17, 2017 11:57 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; Opal Kandelas <Opal.Kandelas@ofina.on.ca>; Erica Wieder <Erica.Wieder@ofina.on.ca>
Subject: Debt Decks

Hi Gadi,

Please find attached the debt deck and the provincial comparison deck for this afternoon's meeting.

Thanks,
Serena

Net Debt to Revenue and GDP Ratios																				
Ontario		2016-17 FES - Excluding Pension Adjustment (adj 2015/16)												2016-17 FES - with pension adjustment						
					Net Debt As	Net Debt As	Accumulated	Acc Deficit		ONFA	Other	Deficit/					Net Debt As	Net Debt As	Accumulated	Acc Deficit	
	Fiscal Year	GDP	Net Debt	Revenue	% to GDP	% to Revenue	Deficit	to GDP	TCA	Adj.	Adj.	(Surplus)		GDP	Net Debt	Revenue	% to GDP	% to Revenue	Deficit	to GDP	TCA
Actual	1989-90	282,766	35,409	46,500	12.52	76.1	35,409	12.5	-			(90)		282,766	35,409	46,500	12.52	76.1	35,409	12.5	-
Actual	1990-91	287,334	38,438	49,002	13.38	78.4	38,438	13.4	-			3,029		287,334	38,438	49,002	13.38	78.4	38,438	13.4	-
Actual	1991-92	288,217	49,368	47,527	17.13	103.9	49,368	17.1	-			10,930		288,217	49,368	47,527	17.13	103.9	49,368	17.1	-
Actual	1992-93	293,068	61,796	49,122	21.09	125.8	61,796	21.1	-			12,428		293,068	61,796	49,122	21.09	125.8	61,796	21.1	-
Actual	1993-94	302,245	80,599	51,410	26.67	156.8	80,599	26.7	-			11,202		302,245	80,599	51,410	26.67	156.8	80,599	26.7	-
Actual	1994-95	319,986	90,728	53,962	28.35	168.1	90,728	28.4	-			10,129		319,986	90,728	53,962	28.35	168.1	90,728	28.4	-
Actual	1995-96	337,400	101,864	57,898	30.19	175.9	101,864	30.2	-			8,800		337,400	101,864	57,898	30.19	175.9	101,864	30.2	-
Actual	1996-97	347,842	108,769	58,060	31.27	187.3	108,769	31.3	-			6,905		347,842	108,769	58,060	31.27	187.3	108,769	31.3	-
Actual	1997-98	368,960	112,735	61,362	30.55	183.7	112,735	30.6	-			3,966		368,960	112,735	61,362	30.55	183.7	112,735	30.6	-
Actual	1998-99	389,250	114,737	63,044	29.48	182.0	114,737	29.5	-			2,002		389,250	114,737	63,044	29.48	182.0	114,737	29.5	-
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3	134,398	32.1	-			(668)		418,245	134,398	70,983	32.13	189.3	134,398	32.1	-
Actual	2000-01	452,238	132,496	72,258	29.30	183.4	132,496	29.3	-			(1,902)		452,238	132,496	72,258	29.30	183.4	132,496	29.3	-
Actual	2001-02	469,084	132,121	72,550	28.17	182.1	132,121	28.2	-			(375)		469,084	132,121	72,550	28.17	182.1	132,121	28.2	-
Actual	2002-03	494,815	132,647	74,938	26.81	177.0	118,705	24.0	13,942			(117)		494,815	132,647	74,938	26.81	177.0	118,705	24.0	13,942
Actual	2003-04	509,511	138,816	74,549	27.24	186.2	124,188	24.4	14,628			5,483		509,511	138,816	74,549	27.24	186.2	124,188	24.4	14,628
Actual	2004-05	533,365	140,921	84,192	26.42	167.4	125,743	23.6	15,178			1,555		533,365	140,921	84,192	26.42	167.4	125,743	23.6	15,178
Actual	2005-06	556,635	152,702	90,738	27.43	168.3	109,155	19.6	43,547			(298)		556,635	152,702	90,738	27.43	168.3	109,155	19.6	43,547
Actual	2006-07	578,241	153,742	97,120	26.59	158.3	106,776	18.5	46,966		(110)	(2,269)		578,241	153,742	97,120	26.59	158.3	106,776	18.5	46,966
Actual	2007-08	601,735	156,616	104,115	26.03	150.4	105,617	17.6	50,999	(559)		(600)		601,735	156,616	104,115	26.03	150.4	105,617	17.6	50,999
Actual	2008-09	608,446	169,585	97,532	27.87	173.9	113,238	18.6	56,347	1,212		6,409		608,446	169,585	97,532	27.87	173.9	113,238	18.6	56,347
Actual	2009-10	597,882	193,589	96,313	32.38	201.0	130,957	21.9	62,632	1,090	-	19,262		597,882	193,589	96,313	32.38	201.0	130,957	21.9	62,632
Actual	2010-11	630,989	214,511	107,175	34.00	200.2	144,573	22.9	69,938	(395)	-	14,011		630,989	214,511	107,175	34.00	200.2	144,573	22.9	69,938
Actual	2011-12	659,743	235,582	109,773	35.71	214.6	158,410	24.0	77,172	3	865	12,969		659,743	235,582	109,773	35.71	214.6	158,410	24.0	77,172
Actual	2012-13	680,084	252,088	113,369	37.07	222.4	167,132	24.6	84,956	(639)	141	9,220		680,084	252,088	113,369	37.07	222.4	167,132	24.6	84,956
Actual	2013-14	695,349	267,190	115,911	38.43	230.5	176,634	25.4	90,556	(951)	-	10,453		695,349	267,190	115,911	38.43	230.5	176,634	25.4	90,556
Actual	2014-15	727,962	284,576	118,546	39.09	240.1	187,511	25.8	97,065	(1,121)	1,683	10,315		727,962	284,576	118,546	39.09	240.1	187,511	25.8	97,065
Actual	2015-16 (unaudited	763,276	294,579	128,377	38.59	229.5	192,043	25.2	102,536	1,003	-	3,529		763,276	305,233	128,377	39.99	237.8	202,697	26.6	102,536
	2016-17 Outlook	797,623	307,353	132,720	38.53	231.6	196,367	24.6	110,986			4,324		789176	317,948	130,589	40.29	243.5	207,021	26.2	110,927
	2017-18 Outlook	830,182	315,996	140,125	38.06	225.5	196,367	23.7	119,629			-		821389	326,551	137,729	39.76	237.1	207,003	25.2	119,548
	2018-19 Outlook	864,142	325,901	144,899	37.71	224.9	196,367	22.7	129,534			-		854990	336,419	141,920	39.35	237.0	206,991	24.2	129,428
	2019-20 Outlook	897,865	335,872		37.41		196,367	21.9	139,505			-			346,366		#DIV/0!	#DIV/0!	206,991	#DIV/0!	139,375
	2020-21 Outlook	933,780	343,980		36.84		196,367	21.0	147,613			-			354,451			#DIV/0!	206,991		147,460
	2021-22 Outlook	971,131	348,865		35.92		196,367	20.2	152,498			-									
	2022-23 Outlook	1,009,976	350,873		34.74		196,367	19.4	154,506			-									
	2023-24 Outlook	1,050,375	351,725		33.49		196,367	18.7	155,358			-									
	2024-25 Outlook	1,092,390	351,104		32.14		196,367	18.0	154,737			-									
	2025-26 Outlook	1,136,086	348,855		30.71		196,367	17.3	152,488			-									
	2026-27 Outlook	1,181,529	348,855		29.53		196,367	16.6	152,488			-									
	2027-28 Outlook	1,228,790	348,855		28.39		196,367	16.0	152,488			-									
	2028-29 Outlook	1,277,942	348,855		27.30		196,367	15.4	152,488			-									

Net Debt to Revenue and GDI				
Ontario				
		ONFA	Other	Deficit/
	Fiscal Year	Adj.	Adj.	(Surplus)
Actual	1989-90			(90)
Actual	1990-91			3,029
Actual	1991-92			10,930
Actual	1992-93			12,428
Actual	1993-94			11,202
Actual	1994-95			10,129
Actual	1995-96			8,800
Actual	1996-97			6,905
Actual	1997-98			3,966
Actual	1998-99			2,002
Actual	1999-2000			(668)
Actual	2000-01			(1,902)
Actual	2001-02			(375)
Actual	2002-03			(117)
Actual	2003-04			5,483
Actual	2004-05			1,555
Actual	2005-06			(298)
Actual	2006-07		(110)	(2,269)
Actual	2007-08	(559)		(600)
Actual	2008-09	1,212		6,409
Actual	2009-10	1,090	-	19,262
Actual	2010-11	(395)	-	14,011
Actual	2011-12	3	865	12,969
Actual	2012-13	(639)	141	9,220
Actual	2013-14	(951)	-	10,453
Actual	2014-15	(1,121)	1,683	10,315
Actual	2015-16 (unaudited	1,003	9,154	5,029
	2016-17 Outlook			4,324
	2017-18 Outlook			(18)
	2018-19 Outlook			(12)
	2019-20 Outlook			-
	2020-21 Outlook			-
	2021-22 Outlook			
	2022-23 Outlook			
	2023-24 Outlook			
	2024-25 Outlook			
	2025-26 Outlook			
	2026-27 Outlook			
	2027-28 Outlook			
	2028-29 Outlook			

Net Debt to Revenue and GDF										
Ontario		Comparison: 2016 Public Accounts/FES vs Scenario Analysis								
				Net Debt As	Accumulated	Acc Deficit		ONFA	Other	Deficit/
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP	TCA	Adj.	Adj.	(Surplus)
Actual	1989-90	-	-	-	-	-	-	-	-	-
Actual	1990-91	-	-	-	-	-	-	-	-	-
Actual	1991-92	-	-	-	-	-	-	-	-	-
Actual	1992-93	-	-	-	-	-	-	-	-	-
Actual	1993-94	-	-	-	-	-	-	-	-	-
Actual	1994-95	-	-	-	-	-	-	-	-	-
Actual	1995-96	-	-	-	-	-	-	-	-	-
Actual	1996-97	-	-	-	-	-	-	-	-	-
Actual	1997-98	-	-	-	-	-	-	-	-	-
Actual	1998-99	-	-	-	-	-	-	-	-	-
Actual	1999-2000	-	-	-	-	-	-	-	-	-
Actual	2000-01	-	-	-	-	-	-	-	-	-
Actual	2001-02	-	-	-	-	-	-	-	-	-
Actual	2002-03	-	-	-	-	-	-	-	-	-
Actual	2003-04	-	-	-	-	-	-	-	-	-
Actual	2004-05	-	-	-	-	-	-	-	-	-
Actual	2005-06	-	-	-	-	-	-	-	-	-
Actual	2006-07	-	-	-	-	-	-	-	-	-
Actual	2007-08	-	-	-	-	-	-	-	-	-
Actual	2008-09	-	-	-	-	-	-	-	-	-
Actual	2009-10	-	-	-	-	-	-	-	-	-
Actual	2010-11	-	-	-	-	-	-	-	-	-
Actual	2011-12	-	-	-	-	-	-	-	-	-
Actual	2012-13	-	-	-	-	-	-	-	-	-
Actual	2013-14	-	-	-	-	-	-	-	-	-
Actual	2014-15	-	-	-	-	-	-	-	-	-
Actual	2015-16 (unaudited	-	10,654	1.4	10,654	1.4	-	-	9,154	1,500
	2016-17 Outlook	(8,447)	10,595	1.8	10,654	1.6	(59)	-	-	-
	2017-18 Outlook	(8,793)	10,555	1.7	10,636	1.5	(81)	-	-	(18)
	2018-19 Outlook	(9,152)	10,518	1.6	10,624	1.5	(106)	-	-	(12)
	2019-20 Outlook	(897,865)	10,494	#DIV/0!	10,624	#DIV/0!	(130)	-	-	-
	2020-21 Outlook									
	2021-22 Outlook									
	2022-23 Outlook									
	2023-24 Outlook									
	2024-25 Outlook									
	2025-26 Outlook									
	2026-27 Outlook									
	2027-28 Outlook									
	2028-29 Outlook									

Analysis of Net Debt

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Opening balance	(156,616)	(169,585)	(193,589)	(214,511)	(235,582)	(252,088)
Deficit	(6,409)	(19,262)	(14,011)	(12,969)	(9,220)	(10,453)
IFRS Transitional Impact				(758)		
PSAB Transitional Impact				(107)	(141)	
Pension Adjustment (prior years)						
Adjustments						
Deficit	(6,409)	(19,262)	(14,011)	(13,834)	(9,361)	(10,453)
Ontario Nuclear Fund	(1,212)	1,090	395	(3)	639	951
Total Deficit	(7,621)	(18,172)	(13,616)	(13,837)	(8,722)	(9,502)
Tangible Capital Assets	(6,285)	(5,832)	(7,306)	(7,234)	(7,784)	(5,600)
	(13,906)	(24,004)	(20,922)	(21,071)	(16,506)	(15,102)
Ending balance	**(170,522)**	**(193,589)**	**(214,511)**	**(235,582)**	**(252,088)**	**(267,190)**

				Percentage %		
Deficit	46.09	80.24	66.97	65.65	56.71	69.22
Other	8.72	(4.54)	(1.89)	0.01	(3.87)	(6.30)
Total Deficit	**54.80**	**75.70**	**65.08**	**65.67**	**52.84**	**62.92**
Tangible Capital Assets	**45.20**	**24.30**	**34.92**	**34.33**	**47.16**	**37.08**
	100.00	100.00	100.00	100.00	100.00	100.00

Note: Pension adjustments incorporated in the 2015-16 Public Accounts a

For use with slide 2

In year approvals added to TCA for 2016-17 only, but not any

2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total
(267,190)	(284,576)	(294,579)	(307,353)	(315,996)	(325,901)	(335,872)	(169,585)
(10,315)	(3,529)	(4,324)	0	0			(84,083)
							(758)
(1,683)							(1,931)
	0						0
	0						
(11,998)	(3,529)	(4,324)	0	0	0	0	(86,772)
1,121	(1,003)						3,190
(10,877)	(4,532)	(4,324)	0	0	0	0	(83,582)
(6,509)	(5,471)	(8,450)	(8,643)	(9,905)	(9,971)	(8,108)	(90,813)
(17,386)	(10,003)	(12,774)	(8,643)	(9,905)	(9,971)	(8,108)	(174,395)
(284,576)	**(294,579)**	**(307,353)**	**(315,996)**	**(325,901)**	**(335,872)**	**(343,980)**	**(343,980)**

69.01	35.28	33.85	0.00	0.00	0.00	0.00
(6.45)	10.03	0.00	0.00	0.00	0.00	0.00
62.56	**45.31**	**33.85**	**0.00**	**0.00**	**0.00**	**0.00**
37.44	**54.69**	**66.15**	**100.00**	**100.00**	**100.00**	**100.00**
100.00	100.00	100.00	100.00	100.00	100.00	100.00

nd extended in the 2016 FES have been reversed.

risks. Deprecation in out years for in year approvals not taken.

2008-09 to 2015-16
(col C to col J)

(79,759)	
(758)	
(1,931)	
0	
(82,448)	
3,190	
(79,258)	
(45,736)	
(124,994)	(124,994)

65.96
(2.55)
63.41
36.59
100.00

					2016-17 FES - Excluding Pens
			Scenario		What is the change in GDP that wi
2016-17 GDP			797,623		
2016-17 Net Debt to GDP %			0.3853		
2016-17 Net Debt			307,353		
			Net Debt to GDP		Scenario GDP
by up	0.10%		307,353	=	797,284.00
	38.55	0.3855	0.3855000		
by down	0.10%	0.3844	307,353	=	799,482.00
	38.44		0.3844402		

Scenario		What is the change in net debt hol result?
		Change in Net Debt
Projected ND	+	131
Projected ND	-	-715

Draft wording for slide 4:

For 2016-17, the net debt-to-GDP ratio is

An increase of $131 million to net

A decrease of $715 million to net

Since the 2016-17 net debt-to-GDI
38.6% versus the larger changes re

ion Adjustment (adj 2015/16)

ll make the Net Debt ratio change by 0.1%?

Actual Projected GDP	GDP Variance	GDP Variance %
797,623.42	(339.42)	-0.04%
797,623.42	1,858.58	0.23%

lding GDP constant that will yield the same

Scenario Net Debt	Scenario Net Debt to GDP	Rounded	Target
307,484	38.550022%	38.55%	38.55
306,638	38.443956%	38.44%	38.44

38.5%

debt or a decrease of $399 million in nominal GDP would increase the net-debt-to-GDP ratio by one ten

debt or an increase of $1,859 million in nominal GDP would decrease the net-debt-to-GDP ratio by one t

P ratio was 38.5% smaller changes to net debt or nominal GDP are required to increase the net debt-to-
equired to lower the ratio to 38.4%.

ıth of a percent to 38.6%.

tenth of a percent to 38.4%.

GDP ratio to

From: John Psinas
To: Serena Ly; Ken Kandeepan; Erica Wieder
Cc: George Sakura; Shemin Meralli; Kevin Hwang
Subject: RE: Debt Management CIN
Date: Monday, January 23, 2017 11:26:08 AM

The Expert Panel on pensions (I believe unofficially) will side with the government, but I don't know when they'll release their report as it was kind of confidential around OPCD last week. Furthermore, while it's assumed that we will reverse out the pension adjustment, it might not happen automatically, given we will face another unqualified opinion if we do. Senior management and political staff will have to make that decision soon.

From: Serena Ly
Sent: Monday, January 23, 2017 10:28 AM
To: IOD_RPA <IOD_RPA@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Erica Wieder <Erica.Wieder@ofina.on.ca>
Subject: Debt Management CIN

Good morning,

There has been a request to update our Debt Management CIN.

I don't think there have been any changes to the debt/IOD numbers (current numbers as of FES 2016), but please review and confirm by end of day **Thursday**.

The bullet referencing the independent expert panel on Ontario's pension assets may need a refresh.

http://portal.ofina.on.ca/sites/ceo/CIN%20Central/Debt%20Management%20CIN%20-%20January%2019,%202017.docx

Thanks!
Serena

From: Ken Kandeepan
To: Gadi Mayman
Cc: Lynsey Wynberg
Subject: RE: Details of 18-19 and 19-20
Date: Sunday, January 22, 2017 9:46:31 AM
Attachments: image001.png

Hi Gadi

Went through the 2 slides, the pension adjustment is still included as an expense and the second slide indicates that DRC is not available from 19-20 onwards, it should be from 18-19 onwards since the industrial portion is eliminated as of April 1, 2018. IOD savings are accurate for 18-19, as expected nothing is listed for the final out year.

Thanks

Ken K

From: Gadi Mayman
Sent: Friday, January 20, 2017 6:08 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>
Subject: Fw: Details of 18-19 and 19-20

From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
Sent: Friday, January 20, 2017 5:55 PM
To: Karen Hughes (MGS); Maria Duran-Schneider (MOF); Brian Lewis (MOL); Gadi Mayman
Cc: Selena Esmail (MOF); Inglis, Liane (MOF); Emma Lindquist (MOF); Birks, Ryan (MOF)
Subject: Details of 18-19 and 19-20

Hello

Part of moving the fiscal conversation forward to the next step will be helping people better understand the fiscal composition of 18-19, as well as what we are facing in 19-20. Think I've spoken to all of you about this around MMP and subsequent to that.

We've prepared the attached piece to help acclimatize people to it and to help answer some basic fiscal architecture questions.

Could you please review and let me know by Monday if there things we need to tweak, or additional details worth highlighting? I'd like to share with DM's and our MO early next week.

Have a great weekend

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173




Office of the Budget
MINISTRY of FINANCE

From:	Ken Kandeepan
To:	Bonnie Lemcke
Subject:	RE: Draft Research Note on Expert Panel Opinion (Pension Accounting)
Date:	Tuesday, February 14, 2017 11:46:57 AM

I am fine with it, its mostly a restatement of the report of the independent panel.

Thanks

Ken k

From: Bonnie Lemcke
Sent: Tuesday, February 14, 2017 11:44 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: FW: Draft Research Note on Expert Panel Opinion (Pension Accounting)

Do you have any edits. I sent Maria the article by Martin Regg Cohn on the auditor's response. I'm not sure she should mention that the AG is expected to comment.

BTW- I only received edits from you and Nadine yesterday. John and George checked the numbers.

Bonnie

From: Bonnie Lemcke
Sent: Tuesday, February 14, 2017 10:54 AM
To: 'cindy.veinot@ontario.ca' <cindy.veinot@ontario.ca>
Cc: Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; 'sarah.hosick@ontario.ca' <sarah.hosick@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Subject: FW: Draft Research Note on Expert Panel Opinion (Pension Accounting)

Hi Cindy,

Here is another article on the pension issue that we have been asked to review. They would like to send this out as soon as possible.

Bonnie

From: Berlettano, Maria (Macro Strategy) [mailto:Maria.Berlettano@cibc.com]
Sent: Tuesday, February 14, 2017 10:31 AM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Cc: Bognar, Tom <Tom.Bognar@cibc.com>

Subject: Draft Research Note on Expert Panel Opinion (Pension Accounting)

Hello Bonnie,

Here is the draft research note. Your review for factual accuracy would be much appreciated.

Thank you,

Maria

Maria Berlettano, CFA | Head of Canadian Government Credit Strategy, Macro Strategy Research | CIBC Capital Markets | CIBC World Markets Inc. | Brookfield Place, 161 Bay Street, 5th Floor, Toronto, Ontario M5J 2S8 | Office: 416 594-8041 | Cell: 647 467-9736 | Fax: 416 956-6719 | maria.berlettano@cibc.com



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From:	Bonnie Lemcke
To:	Ken Kandeepan
Subject:	RE: Draft Research Note on Expert Panel Opinion (Pension Accounting)
Date:	Tuesday, February 14, 2017 11:47:22 AM

Thanks,

Bonnie

From: Ken Kandeepan
Sent: Tuesday, February 14, 2017 11:47 AM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: RE: Draft Research Note on Expert Panel Opinion (Pension Accounting)

I am fine with it, its mostly a restatement of the report of the independent panel.

Thanks

Ken k

From: Bonnie Lemcke
Sent: Tuesday, February 14, 2017 11:44 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: FW: Draft Research Note on Expert Panel Opinion (Pension Accounting)

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BTW- I only received edits from you and Nadine yesterday. John and George checked the numbers.

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From: Bonnie Lemcke
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To: 'cindy.veinot@ontario.ca' <cindy.veinot@ontario.ca>
Cc: Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; 'sarah.hosick@ontario.ca' <sarah.hosick@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Subject: FW: Draft Research Note on Expert Panel Opinion (Pension Accounting)

Hi Cindy,

Here is another article on the pension issue that we have been asked to review. They would like to send this out as soon as possible.

Bonnie

From: Berlettano, Maria (Macro Strategy) [mailto:Maria.Berlettano@cibc.com]
Sent: Tuesday, February 14, 2017 10:31 AM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Cc: Bognar, Tom <Tom.Bognar@cibc.com>
Subject: Draft Research Note on Expert Panel Opinion (Pension Accounting)

Hello Bonnie,

Here is the draft research note. Your review for factual accuracy would be much appreciated.

Thank you,

Maria

Maria Berlettano, CFA | Head of Canadian Government Credit Strategy, Macro Strategy Research | CIBC Capital Markets | CIBC World Markets Inc. | Brookfield Place, 161 Bay Street, 5th Floor, Toronto, Ontario M5J 2S8 | Office: 416 594-8041 | Cell: 647 467-9736 | Fax: 416 956-6719 | maria.berlettano@cibc.com



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From:	John Psinas
To:	Luxman Paramasivam (MEDTE/MRI)
Cc:	George Sakura; Kevin Hwang; Shemin Meralli; Ken Kandeepan; Barry Misener (MOF); Kathy Grant (MOF); Leah Young (MOF); Anna Strathy
Subject:	RE: Estimates Briefing Book Part I and Part II Review - Due Friday
Date:	Friday, April 13, 2018 3:40:15 PM
Attachments:	2018-19 EBB Part I2 - DRAFT Feb 20 2018 (SM edits) v2 final (April 13, 2....docx

Luxman,

Please find attached our portion, starting from page 147.

Thanks.

John

From: John Psinas
Sent: Wednesday, April 11, 2018 1:03 PM
To: Luxman Paramasivam (MEDTE/MRI) <Luxman.Paramasivam@ontario.ca>
Cc: George Sakura <George.Sakura@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Barry Misener (MOF) <Barry.Misener@ontario.ca>; Kathy Grant (MOF) <Kathy.Grant@ontario.ca>; Leah Young (MOF) <Leah.Young@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>
Subject: RE: Estimates Briefing Book Part I and Part II Review - Due Friday

Luxman,

We'll see what we can do for this Friday. I don't anticipate any difficulties.

Thanks.

John

From: Paramasivam, Luxman (MOF) [mailto:Luxman.Paramasivam@ontario.ca]
Sent: Wednesday, April 11, 2018 12:48 PM
To: John Psinas <John.Psinas@ofina.on.ca>
Cc: George Sakura <George.Sakura@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Barry Misener (MOF) <Barry.Misener@ontario.ca>; Kathy Grant (MOF) <Kathy.Grant@ontario.ca>; Leah Young (MOF) <Leah.Young@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>
Subject: RE: Estimates Briefing Book Part I and Part II Review - Due Friday

Hi John,

RE: **STATUS OF ONTARIO DEBT Financial Tables**

Is OFA in position to share the financial tables on the Status of Ontario Debt financial tables. These are to be included under the Treasury Section in Part II of the Estimates Briefing Book. (Starting on Page 147 of the attached)

We are planning on sharing the final edits to the EBB with all program areas for a final review as soon as possible as we are anticipating the final printed estimates will be tabled early, possibly next week, at which point we will have 10 working days to submit the final EBB.

Can you please provide the updated financial tables before the end of this week (Friday).

Please let us know if any questions or concerns.

Regards,
Luxman
905-433-5369

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: March 13, 2018 2:30 PM
To: Paramasivam, Luxman (MOF) <Luxman.Paramasivam@ontario.ca>
Cc: Sakura, George (OFA) <George.Sakura@ofina.on.ca>; Hwang, Kevin (OFA) <Kevin.Hwang@ofina.on.ca>; Meralli, Shemin (OFA) <Shemin.Meralli@ofina.on.ca>; Kandeepan, Ken (OFA) <Ken.Kandeepan@ofina.on.ca>; Misener, Barry (MOF) <Barry.Misener@ontario.ca>; Grant, Kathy (MOF) <Kathy.Grant@ontario.ca>; Young, Leah (MOF) <Leah.Young@ontario.ca>
Subject: RE: Estimates Briefing Book Part I and Part II Review - Due March 9

Luxman,

Yes, we tweaked page 154 . Please see the attached revised submission.

Thanks.

John

From: Paramasivam, Luxman (MOF) [mailto:Luxman.Paramasivam@ontario.ca]
Sent: Tuesday, March 13, 2018 1:24 PM
To: John Psinas <John.Psinas@ofina.on.ca>
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Subject: RE: Estimates Briefing Book Part I and Part II Review - Due March 9

Hi John,

Thank you for the updates. We will incorporate the changes you've shared.

Quick question - Can you please confirm if there are no changes for Treasury Section, (starting on page 147), if those approvals are coming separately can you please advise when we can expect that piece.

Thanks again,
Lux
905-433-5369

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: March 13, 2018 9:42 AM
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Subject: RE: Estimates Briefing Book Part I and Part II Review - Due March 9

Luxman,

Apologies for the delay. We had Budget crunch this weekend.

Please see attached.

Thanks.

John

From: Paramasivam, Luxman (MOF) [mailto:Luxman.Paramasivam@ontario.ca]
Sent: Wednesday, March 07, 2018 9:24 AM
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Subject: RE: Estimates Briefing Book Part I and Part II Review - Due March 9

Hi Folks,

A gentle reminder that Program Head approved edits on both parts of the EBB, in 'track changes', are due this **Friday March 9, 2018**.

Thank you,

Luxman Paramasivam, CPA CMA
Corporate Planning and Finance Branch
Ministry of Finance
(905) 433-5369
Luxman.Paramasivam@Ontario.ca

From: Misener, Barry (MOF)
Sent: February 21, 2018 10:03 AM
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Subject: Estimates Briefing Book Part I and Part II Review - Due March 9

Hi everyone,

Further to Resource Management Committee's review of the structure for Part 1 (Public portion) of the 2018-19 Estimates Briefing Book (EBB), we are now proceeding to incorporate program input to the narrative for Part I and Part II.

The Part I themes align with the ministry's 2018-19 Program Review, Renewal and Transformation (PRRT) submission. Outcomes have been extracted from the Program Notes and highlights and achievements, also submitted by program areas, have been used to populate the 2017-18 Annual Report.

Program areas should review the narrative and provide edits to the relevant sections of the book, including:

- Ministry Overview
- Program Outcomes Supporting the Ministry's Plan
- Highlights of 2017-18 Achievements
- Agencies, Boards and Commissions
- 2017-18 Achievements

For Part II, please review and provide edits to each of your Vote/Item and program descriptions and functions. Note that Vote descriptions should match those provided

for Stage 1 of the Pro Forma, and CPFB has incorporated edits to the Vote descriptions received to date.

Financials will be added by CPFB following the 2018 Budget, and the full book will again be provided to programs for a final review of narrative and allocations.

We ask that you provide Program Head approved edits on both parts of the EBB, in 'track changes', to Luxman Paramasivam and myself by **Friday March 9, 2018**.

Please don't hesitate to contact us if you have any questions.

Cheers.

Barry S. Misener
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Corporate Planning and Finance Branch
Ministry of Finance
(905) 433-4918

Barry.Misener@Ontario.ca

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Ontario

Draft Feb. 20, 2018

Estimates Briefing Book 2018-19

Ministry of Finance

Ce document est disponible en français

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Part I: 2018–19 Published Plan

Ministry of Finance

MINISTRY OVERVIEW

MANDATE

The Ministry of Finance's mandate is to help foster a dynamic, innovative and growing provincial economy and to manage the government's fiscal responsibilities as well as financial and related regulatory affairs of the province.

MINISTRY CONTRIBUTION TO PRIORITIES AND RESULTS

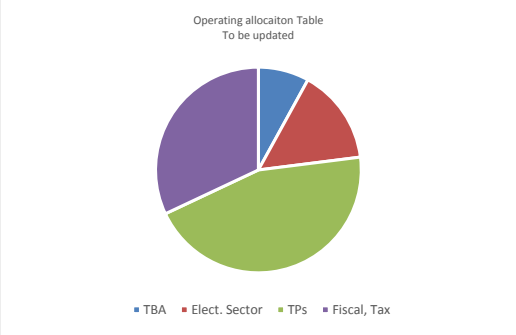
Through its mandate, the ministry works to support government's priorities which include fairness for Ontario families, creating a dynamic and competitive business environment and investing in people's talents and skills.

Commented [MB(1]: FES pgs. Vi, xi.

The ministry works with the Treasury Board Secretariat to manage the Province's $XXX.X billion[1] in annual expense and oversees $XXX.X billion[2] in revenue raised through taxation, Government of Canada transfers, provincial business enterprises, and other non-tax revenues. It also manages the Province's $XX.X billion[3] borrowing program.

In addition, the ministry supports government-wide initiatives and provides key fiscal, taxation, statistical and economic policy advice to the Minister of Finance, Cabinet committees and the Premier. It also regulates the financial services sector through its agencies.

The ministry provides leadership in transforming Ontario's public services, helping to develop new strategies, policies and processes designed to drive government-wide efficiencies and enable modernization initiatives, while also remaining focused on implementing measures that meet annual budget targets.



[1] 2018 Ontario Budget
[2] 2018 Ontario Budget
[3] 2018 Ontario Budget

PROGRAM OUTCOMES SUPPORTING THE MINISTRY'S PLAN

Financial/Economic Stewardship

Office of the Budget

- Works with other program areas and central agency partners to provide analysis and advice to the Deputy Minister, Minister, and government on the development of the fiscal plan, federal-provincial fiscal arrangements, and policy initiatives.
- Supports the development of fiscal assumptions, narratives and underlying initiatives that effectively articulate / balance the government's policy and fiscal priorities in the context of the annual Budget, the Economic Outlook and Fiscal Review, the Quarterly Finances and other key publications.

Office of Economic Policy

- Provides timely advice to government on emerging economic trends and issues.
- Ensures increased access to relevant information, evidence-based analysis, research and advice on matters that impact Ontario's economic and fiscal agenda. This includes providing better economic information available for long-term planning purposes.
- Develops new Ontario level data and datasets to support research. This ensures more effective research, analysis and policy advice on Ontario's economy.
- Works to ensure a sustained "top ten" ranking for the Toronto region's financial services sector among international financial centres.

Ontario Financing Authority

- ~~Initiates~~ Develops and manages the ~~the~~ ~~successful execution of the~~ Province's borrowing requirement. This includes managing the Interest on Debt (IOD) expense which in previous fiscal years up to 2017-18 has consistently generated ~~and in the process~~ consistently generating savings in relation to the budget.
- Issues Green Bonds of approximately $1 billion per annum to fund capital initiatives that are aimed at reducing greenhouse gases.
- Supports the servicing and paydown of OEFC's legacy debt and liabilities related to the former Ontario Hydro, including the reduction of OEFC's unfunded liability ("stranded debt") as reported in OEFC's annual financial statements.
- Dedicates and tracks net revenue gains raised through asset optimization and to track the drawdown of those amounts for allocation to the government's infrastructure investment program.

Policy/Program Delivery Leadership

Office of Tax, Benefits and Local Finance

- Increases the effectiveness of compliance by using a risk-based approach to focus appropriate resources on the right taxpayers.
- Integrates benefits delivery to improve client access and drive administrative efficiencies.
- Increases the overall effectiveness of the collections process at recovering outstanding accounts receivable.
- Ensures the CRA is accountable for administration of Ontario's taxes and benefits including costs recovered for enhanced services.
- Optimizes revenue integrity largely through fee-for-service investments for enhanced compliance activities.
- Ensures broad compliance and compatibility with the Tobacco Tax Act (TTA) while supporting First Nations economic development and diversification.
- Ensures only tax compliant businesses will be able to enter into agreements or receive financial assistance from the provincial government, resulting in greater confidence that public funds are rewarding legitimate operators, and not contributing to underground economic activities.
- Ensures the reduction in underground economy activity, through new avenues of investigation into noncompliance, particularly in high-risk sectors, through partnering with other regulatory / compliance organizations (such as the Ministry of Labour).
- Achieves education property tax gross revenue growth of at least 0.50% annually.
- Provides advice to the Minister of Finance on fiscal arrangements with municipalities, as well as oversight with respect to provincial-municipal financial strategies and policy priorities.
- Ensures that the OMPF grant is responsive to changes in municipal circumstances and continues to target funding in a fair and transparent manner. Targeted funding is provided to support Ontario municipalities facing the most challenging fiscal circumstances.
- Provides informed, evidence-based advice and options on matters that impact Ontario's corporate, commodity and personal tax system.
- Ensures the strengthening of Ontario's tax competitiveness for business investment, while enhancing and modernizing supports for individuals and families.

Office of Regulatory Policy and Agency Relations

- Advise the government on matters related to income security and pension policy so that they can make informed policy decisions.

- Ensures the Province satisfies its investment and governance obligations with respect to Hydro One.
- Provides recommendations and policy and financial analysis with respect to multiple sectors including Steel sector negotiations, affordable housing and artificial intelligence.
- Continues to generate significant revenue through OLG while supporting the government's commitment to create a dynamic business environment and stronger economy while delivering gaming in a socially responsible manner.
- Ensures the selling of beverage alcohol in a socially responsible manner, while providing funds that have been used to support key government priorities such as health care, education and skills training, and infrastructure and transit investments.
- Implements Ontario's cannabis retail and distribution model, ensuring safe and controlled sales that keep cannabis products away from youth, reduce the illegal cannabis economy and control cannabis price in order to advance policy goals.

Other key transformational activities include:

- Providing program areas, line ministries and central agency partners with additional support in priority-setting, policy development and longer-term planning.
- The creation of a new Ontario Statistics Office which provides leadership on data management, modelling and analytics, and statistical policy.
- Innovatively mitigating the risk of debt issued in foreign currencies.
- Initiating administrative improvements to support the ongoing integrity of the $7B in provincial Education Property Taxes (EPT) by further enhancing the tracking and analysis of these revenues.
- Reengineering revenue processing, image capture and data entry business processes that enables e-services and procuring a new system solution to support transformation.
- Establishing the Financial Services Regulatory Authority — a new, flexible and innovative financial services and pension regulator that will strengthen consumer, investor and pension plan beneficiary protection.

HIGHLIGHTS OF 2017-18 ACHIEVEMENTS

The Ministry of Finance performs a variety of critical roles, focused on supporting effective economic, fiscal and financial management for a stronger Ontario. Its 2017–18 achievements include:

Delivering on the Balanced Budget Plan

The ministry was active in a variety of sectors that enabled the government to restore balance to the Province's finances in 2017–18. Through targeted, measured and fiscally responsible decisions, the province's fiscal and economic strength has been restored.

Supporting a Dynamic Business Climate

To improve the province's overall business climate, the ministry supported a variety of initiatives that make Ontario an attractive environment for business investment.

Strengthening the Financial Services Sector

The ministry led a variety of initiatives focused on enhancing the province's financial services sector.

Building Retirement Security

The ministry led the implementation of a variety of pension reform measures aimed at improving the adequacy and coverage of pensions in Ontario.

Addressing the Underground Economy

The ministry led several innovative pilots and projects aimed at ensuring all citizens pay their fair share of taxes as well as enhancing the competitiveness of legitimate businesses.

Working with Indigenous Partners

The ministry continued to take the lead in government dialogue with First Nation communities and leaders on tobacco, gasoline and the energy sector for mutually beneficial outcomes for the province and First Nation communities.

Facilitating Openness and Accountability

The ministry continued to further strengthen transparency, financial management and fiscal accountability to ensure Ontarians receive the best value for their tax dollars.

Further detail of the ministry's achievements can be found in the Appendix: 2017-18 Annual Report.

MINISTRY OF FINANCE ORGANIZATIONAL STRUCTURE

Commented [MB(2]: To be updated by HR.

Reporting to the Minister of Finance

- Parliamentary Assistant – Yvan Baker
- Chief of Staff - Ali Ghiassi
- Chair, Ontario Financing Authority – Scott Thompson
- Chair, Ontario Electricity Financial Corporation - Scott Thompson
- Chair, Ontario Securities Commission – Maureen Jensen
- Chief Executive Officer/Superintendent, Financial Services Commission – Brian Mills (Acting)
- Chair, Financial Services Commission & Financial Services Tribunal – Ian McSweeney
- Chair, Deposit Insurance Corporation of Ontario – Steve Blakely
- Chair, Liquor Control Board of Ontario – Penny Lipsett (Acting)
- Chair, Ontario Lottery & Gaming Corporation – George Cook
- Chair, Financial Services Regulatory Authority of Ontario – Bryan Davies
- Deputy Minister of Finance – Scott Thompson

Reporting to the Chair, Ontario Financing Authority:

- Chief Executive Officer, Ontario Financing Authority – Gadi Mayman
- Assistant Deputy Minister, Corporate & Electricity Finance Division - Ronald Kwan
  ~~(also reports to the Associate Deputy Minister, Office of Government Business Enterprises & Strategic Initiatives)~~

Commented [KK3]: I believe that now Ron reports to Gadi, not to the DM

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- Reporting to the Chair, Ontario Electricity Financial Corporation:
- Chief Executive Officer & Vice Chair, Ontario Electricity Financial Corporation – Gadi Mayman

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Reporting to the Deputy Minister of Finance:

- Chief Information Officer, Central Agencies Information & Information Technology Cluster – Ron Huxter
  (also reports to the Ministry of Government Services)
- Director, Communications Services Branch - Jenna LeBlanc
- Director, Finance Audit Services Team, Ontario Internal Audit Division – Gord Nowlan
  (also reports to Treasury Board Secretariat and to the Chief Administrative Officer & Assistant Deputy Minister, Corporate & Quality Services Division)
- Director, Legal Services Branch – Michael Waterston (Acting)
  (also reports to the Ministry of the Attorney General)
- Associate Deputy Minister, Office of Regulatory Policy & Agency Relations – Nancy Kennedy
- Assistant Deputy Minister, Office of the Budget – Tim Schuurman

- Assistant Deputy Minister & Chief Economist, Office of Economic Policy - Brian Lewis
- Chief Administrative Officer & Assistant Deputy Minister, Corporate & Quality Service Division – Helmut Zisser
- Associate Deputy Minister, Office of Tax, Benefits & Local Finance – Mike Weir

Reporting to the Associate Deputy Minister, Office of Regulatory Policy & Agency Relations:

- Assistant Deputy Minister, Government Business Enterprise Division – Scott Nelms
- Executive Lead, Cannabis Retail Implementation Project – Nicole Stewart (Acting)
- Assistant Deputy Minister, Financial Services Policy Division –David Wai
- Executive Lead, Cooperative Capital Markets Regulatory (Temporary) – Kathleen Ward (Acting)
- Assistant Deputy Minister, Income Security & Pension Policy Division – Elizabeth Doherty

Reporting to the Assistant Deputy Minister, Government Business Enterprise Division:

- Gaming Policy Branch – Tanya Watkins (Acting)
- Alcohol & Cannabis Policy Branch - Jake Gregory (Acting)
- Investment & Governance Branch – Keley Katona (Acting)

Reporting to the Assistant Deputy Minister, Financial Services Policy Division:

- Financial Institutions Policy Branch – Joel Gorlick
- Financial Services Regulation Modernization Secretariat (Temporary) - Sunita Chander

Reporting to the Executive Lead, Cooperative Capital Markets Regulatory:

- Securities Reform Policy Branch (Temporary) - Colin Nickerson (Acting)

Reporting to the Assistant Deputy Minister, Income Security & Pension Policy Division:

- Pension Policy Branch – Lynn Lawson (Acting)
- Income Security Policy Branch – Norm Helfand
- BPS Pensions Branch – Alex Killoch
- Director (Temporary) - Marc Sharrett (Acting)

Reporting to the Assistant Deputy Minister, Office of the Budget:

- Fiscal Policy Branch - Selena Esmail
- Strategic Policy Branch – Brandon Chaput

Reporting to the Assistant Deputy Minister & Chief Economist, Office of Economic Policy:

- Macroeconomics & Revenue Branch – Paul Lewis
- Labour Economics Branch – Bill Praamsma
- Industrial Economics Branch – Rob Gray
- Statistics Integration Branch - Melissa Kitmer

Reporting to the Chief Administrative Officer & Assistant Deputy Minister, Corporate & Quality Services Division:

- Business Services Branch - Mimi Wong
- Corporate Planning & Finance Branch – Linda Gibney
- Strategic Human Resources Services Branch – Stephen Boyd

Reporting to the Associate Deputy Minister, Tax, Benefits & Local Finance:

- Assistant Deputy Minister, Taxation Policy Division - Sriram Subrahmanyan
- Assistant Deputy Minister, Provincial-Local Finance Division – Allan Doheny
- Assistant Deputy Minister, Strategy, Stewardship & Program Policy Division – Alison Drummond (Acting)
- Assistant Deputy Minister, Tax Compliance & Benefits Division - Agatha Garcia-Wright

Reporting to the Assistant Deputy Minister, Taxation Policy Division:

- Personal Tax Policy & Design Branch - Kostas Plainos
- Corporate & Commodity Taxation Branch – Ann Langleben

Reporting to the Assistant Deputy Minister, Provincial-Local Finance Division:

- Property Tax Policy Branch – Chris Broughton
- Municipal Funding Policy Branch – Robert Lowry
- Assessment Policy & Legislation Branch – Diane Ross

Reporting to the Assistant Deputy Minister, Strategy, Stewardship & Program Policy Division:

- Strategy, Stewardship & Risk Management Branch - Jason Stanley
- Program Policy & Analytics Branch - Paul Devnich (Acting)
- Benefits Transformation Branch – Mashood Mirza
- Sales Integrity Project Office (Temporary) - Ben Sopel (A)

Reporting to the Assistant Deputy Minister, Tax Compliance & Benefits Division:

- Compliance Branch – Heather Bowie
- Advisory, Objections, Appeals and Services Branch - Victoria Chiodi
- Account Management & Collections Branch – Maureen Kelly

AGENCIES, BOARDS AND COMMISSIONS

Deposit Insurance Corporation of Ontario (DICO): promotes the safety and soundness of Ontario's credit unions and caisses populaires by undertaking regulatory oversight activities, establishing standards for sound business and financial practices, and providing deposit insurance coverage within statutory limits.

Financial Services Commission of Ontario (FSCO): an integrated regulator of Ontario's insurance industry; pension plans; loan and trust companies; credit unions and caisses populaires; the mortgage brokering sector; health service providers and co-operative corporations.

Financial Services Tribunal: an independent, adjudicative body that conducts hearings arising from regulatory and proposed regulatory decisions of the Superintendent of Financial Services.

Liquor Control Board of Ontario (LCBO): responsible for the importation, distribution and sale of beverage alcohol in the province in an efficient and socially responsible manner.

Ontario Electricity Financial Corporation (OEFC): the legal continuation of the former Ontario Hydro responsible for managing that organization's legacy debt and other liabilities.

Ontario Financing Authority (OFA): conducts borrowing, investment and financial risk-management activities for the Province; manages the provincial debt; advises on financial policies and projects; provides financial and centralized banking and cash management serives to the Province as well as a broad range of financial services and advice to the Ontario Electricity Financial Corporation (OEFC) and Ontario Infrastructure and Lands Corporation (Infrastructure Ontario).

Ontario Lottery and Gaming Corporation of Ontario (OLG): responsible for the conduct, management and operation of slots and casinos, lottery operations, internet gaming and electronic games at charitable bingo halls across Ontario.

Ontario Securities Commission (OSC): the regulatory body responsible for overseeing Ontario's capital markets, which includes the -income and derivatives markets.

Financial Services Regulatory Authority of Ontario (FSRA): [To be added]

Commented [MB(4]: ABC section to be reviewed and updated by the program areas.

DETAILED FINANCIAL INFORMATION

Commented [MB(5]: To be updated by CPFB

Table 1: Ministry Planned Expenditures 2018-19 ($M)

($M)	Ministry Planned Expenditures 2017-18
Operating	13,304.7
Capital	6.6
TOTAL	13,311.3

Table 2: Combined Operating and Capital Summary by Vote

VOTES / PROGRAMS	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates * 2016-17 $	Interim Actuals * 2016-17 $	Actual * 2015-16 $
OPERATING EXPENSE						
Ministry Administration	40,552,700	940,400	2.4	39,612,300	39,587,100	44,383,354
Government Business Enterprises, Income Security and Pension Policy	106,976,000	82,900	0.1	106,893,100	113,996,700	106,662,025
Economic, Fiscal and Financial Policy	1,112,182,100	391,168,800	54.3	721,013,300	996,684,800	613,266,482
Financial Services Industry Regulation	2,438,600	(51,000)	(2.0)	2,489,600	4,474,600	1,298,270
Tax and Benefits Administration	411,082,400	(24,545,200)	(5.6)	435,627,600	347,060,300	333,269,394
Ontario Retirement Pension Plan	-	(1,531,000)	(100.0)	1,531,000	2,504,600	17,723,110
Total Operating Expense to be Voted	**1,673,231,800**	**366,064,900**	**28.0**	**1,307,166,900**	**1,504,308,100**	**1,116,602,635**
Statutory Appropriations:						
Treasury Program	11,298,251,700	(9,176,900)	(0.1)	11,307,428,600	10,725,962,600	10,395,378,070
Other Statutory Appropriations	50,785,914	(19,715)	(0.0)	50,805,629	79,383,193	384,495,405
Total Operating Expense	**13,022,269,414**	**356,868,285**	**2.8**	**12,665,401,129**	**12,309,653,893**	**11,896,476,110**
Consolidation Adjustment - Ontario Financing Authority	26,711,000	524,000	2.0	26,187,000	26,187,000	23,020,996
Consolidation Adjustment - Ontario Securities Commission	112,303,000	7,046,900	6.7	105,256,100	106,841,000	94,762,900
Consolidation Adjustment - Ontario Electricity Financial Corporation	(216,818,300)	(737,897,700)	(141.6)	521,079,400	337,442,000	713,717,735
Other Adjustments - Financial Services Commission of Ontario	77,134,600	(20,447,200)	(21.0)	97,581,800	84,724,000	97,215,107
Consolidation Adjustment - Treasury Program	523,498,500	(62,181,800)	(10.6)	585,680,300	600,060,700	505,312,679
Consolidation Adjustment - Treasury Program - Interest Capitalization for Other Sectors	(240,430,200)	(103,321,300)	75.4	(137,108,900)	(76,023,300)	66,108,336
Total Operating Expense Including Consolidation & Other Adjustments	**13,304,668,014**	**(559,408,815)**	**(4.0)**	**13,864,076,829**	**13,388,885,293**	**13,396,613,863**
OPERATING ASSETS						
Economic, Fiscal and Financial Policy	275,000,000	275,000,000		-	-	109,964,191
Financial Services Industry Regulation	1,000	-		1,000	-	-
Tax and Benefits Administration	400,000	-		400,000	400,000	280,537
Total Operating Assets to be Voted	**275,401,000**	**275,000,000**	**-**	**401,000**	**400,000**	**110,244,728**
Statutory Appropriations	29,000,000	(239,200,000)	(89.2)	268,200,000	28,719,000	47,709,111
Total Operating Assets	**304,401,000**	**35,800,000**	**13.3**	**268,601,000**	**29,119,000**	**157,953,839**

Table 2: Combined Operating and Capital Summary by Vote (Cont'd)

VOTES / PROGRAMS	Estimates 2017-18 $	Change from 2016-17 Estimates $	Change from 2016-17 Estimates %	Estimates * 2016-17 $	Interim Actuals * 2016-17 $	Actual * 2015-16 $
CAPITAL EXPENSE						
Ministry Administration	-	(1,000)	(100.0)	1,000	-	-
Economic, Fiscal, and Financial Policy	1,000	-		1,000	-	-
Financial Services Industry Regulation	1,000	-		1,000	-	-
Investing In Ontario	1,000	-		1,000	-	-
Tax and Benefits Administration	1,000	-		1,000	-	-
Ministry Total Capital Expense to be Voted	**4,000**	**(1,000)**	**(20.0)**	**5,000**	**-**	**-**
Statutory Appropriations						
Trillium Trust Program	288,790,600	288,789,600	-	1,000	266,781,000	-
Other Statutory Appropriations	2,639,600	(1,000)	(0.0)	2,640,600	2,638,600	2,637,609
Total Capital Expense	**291,434,200**	**288,787,600**	**-**	**2,646,600**	**269,419,600**	**2,637,609**
Capital Expense Adjustment - Trillium Trust Reclassification	(288,790,600)	(288,790,600)		-	(266,780,000)	-
Consolidation Adjustment - Ontario Financing Authority	789,000	(92,000)	(10.4)	881,000	863,000	782,000
Consolidation Adjustment - Ontario Securities Commission	3,150,000	91,300	3.0	3,058,700	3,000,000	2,761,000
Total Capital Expense Including Consolidation & Other Adjustments	**6,582,600**	**(3,700)**	**(0.1)**	**6,586,300**	**6,502,600**	**6,180,609**
CAPITAL ASSETS						
Ministry Administration	-	(1,000)	(100.0)	1,000	-	-
Economic, Fiscal, and Financial Policy	1,000	-		1,000	-	-
Financial Services Industry Regulation	7,708,600	2,839,900	58.3	4,868,700	872,900	212,085
Tax and Benefits Administration	1,000	-		1,000	-	-
Ministry Total Capital Assets to be Voted	**7,710,600**	**2,838,900**	**58.3**	**4,871,700**	**872,900**	**212,085**
Statutory Appropriations						
Trillium Trust Program	118,850,000	118,849,000	-	1,000	13,691,000	-
Total Capital Assets	**126,560,600**	**121,687,900**	**-**	**4,872,700**	**14,563,900**	**212,085**
Capital Asset Adjustment - Trillium Trust Reclassification	(118,850,000)	(118,850,000)	-	-	(13,690,000)	-
Total Capital Asset Including Adjustments	**7,710,600**	**2,837,900**	**-**	**4,872,700**	**873,900**	**212,085**
Ministry Total Operating & Capital Including Consolidation and Other Adjustments (not including assets)	**13,311,250,614**	**(559,412,515)**	**(4.0)**	**13,870,663,129**	**13,395,387,893**	**13,402,794,472**

* Estimates, Interim Actuals and Actuals for prior fiscal years are re-stated to reflect any changes in ministry organization and/or program structure. Interim Actuals reflect the numbers presented in the 2017 Ontario Budget.

CONTACT US

If you have questions about the programs and/or services of the Ministry of Finance, visit www.ontario.ca/finance or contact the ministry by:

- **Phone**: 1-866-ONT-TAXS (668-8297) or 1-800-263-7776 for teletypewriter (TTY)
- **Email**: financecommunications.fin@ontario.ca
- **Mail**:

  Ministry of Finance
  33 King Street West
  PO Box 627
  Oshawa ON
  L1H 8H5

You can also visit a ServiceOntario location in person, or call 1-866-ONT-TAXS (668-8297) to schedule an appointment if you wish to meet with a representative at one of our tax offices.

Appendix: 2017-18 Annual Report

Ministry of Finance

2017-18 ACHIEVEMENTS

In 2017-18, the Ministry of Finance engaged in a number of activities to achieve its key priorities. These highlights of the ministry's achievements include:

1. Delivering on the balanced budget plan

Fiscal Framework

- Led the development, and provided strategic oversight of the fiscal plan including tracking the government's progress in meeting fiscal targets with key partners at the Treasury Board Secretariat and Cabinet Office. Reported on the fiscal plan through the Budget, Quarterly Finances, Economic Outlook, and Fiscal Review and Public Accounts.
- Delivered the 2017 Ontario Economic Outlook and Fiscal Review, the 2017-18 First and Third Quarter Finances and the 2018 Budget that supports the government's commitment to a balanced budget.
- Advised on Ontario's fiscal relations with the federal government and maintained contact with federal, provincial and territorial finance partners to advance Ontario's fiscal priorities.
- Completed the final share offering of Hydro One which exceeded its objective to raise $9 billion in gross proceeds and other revenue benefits. This includes $4B in net revenue gains that will be invested in infrastructure and $5B to reduce debt.

Transforming Government and Managing Costs

- Implementation and administration of the Ministry of Community and Social Services Basic Income Pilot program which will assess whether a basic income can better support vulnerable workers, improve health and education outcomes for people on low incomes, and help ensure that everyone shares in Ontario's economic growth.
- Development of a Benefits Finder online tool which is intended to provide streamlined online access to user-specific program and eligibility information for many provincial income-based benefit programs. Client research was initiated Spring 2016, and the results are being used to inform the next steps of the Benefits Finder. Launch is anticipated for Winter 2017-18.

Taxation Policy

- With other provinces, territories and the federal government, improved the Tax Collection Agreement to ensure it reflects Ontario's interests.
- Implemented a Senior's Public Transit Credit to help Ontario's seniors participate in community life, making public transportation more affordable for them.

- To support the ongoing integrity of education property tax revenues, MOF maintained the adjustment to education property tax rates, as announced in the 2016 Budget.
- Provincial Land Tax reform has significantly increased tax fairness and reduced inequities in how services are paid for in the North, and changes to rates have generated a revenue increase of about $15 million by 2017.
- Implemented measures to address unsustainable demand, support housing affordability and modernize the Land Transfer Tax (LTT) including:
  - introduced a 15 per cent Non-Resident Speculation Tax as part of Ontario's Fair Housing Plan.
  - doubled the maximum LTT refund to $4,000 for eligible first-time homebuyers
  - restricted eligibility criteria for the LTT refund for first-time homebuyers to Canadian citizens and permanent residents to better target the refund, and
  - increased certain LTT rates and adjusted parameters to better reflect the real estate market.
- The province has provided Transition Mitigation Payment assistance to eligible municipalities where revenue implications of the tax exemption of all charitable and non-profit long-term care homes represents a more significant proportion of the municipality's total revenue base.

Borrowing and Debt Management

- Through the Ontario Financing Authority (OFA), continued to efficiently manage the Province's borrowing program.
- Completed the government's annual borrowing program, capitalizing on low interest rates and a strong demand for Ontario's bonds in 2017-18, borrowing $33.9 billion, an increase from the $26.4 billion forecast in the 2017 Budget. As of March 5, 2018, the Province had pre-borrowed $~~8.1~~11.5 billion for 2018–19.
- ~~Completed the government's annual borrowing program, capitalizing on low interest rates and a strong demand for Ontario bonds in 2017-18, borrowing $XX.X billion, and increase/decrease from the $XX.X billion forecast in the 2017 Budget.~~
- Issues Green Bonds of approximately $1 billion per annum to fund capital initiatives that are aimed at reducing greenhouse gases. To date, total Green Bond issued amounts to $~~23~~.05 billion, of which $~~1.77~~2.27 billion allocated to Metrolinx for clean transportation projects, including $~~1.2~~1.6 billion allocated to the Eglinton Crosstown LRT project.
- Through prudent and cost-effective debt management and the projected surplus ~~lower than forecast deficits,~~ interest on debt expense savings of $~~0.X~~ 281 million of which $209 million was fiscally neutral, ~~billion~~ was achieved in 2017-18.

2. Supporting a dynamic business climate

Policy/Taxation Measures

- The Renewed Advisory Outreach Strategy was developed to help educate the public and to make it easier to understand Ontario's tax laws and benefits programs.
- The current agreement with the CRA for enhanced audit activities to address aggressive tax planning and the underground economy has generated over $1B to date as of Q1 2017-2018 since 2013, a 5.3:1 return on investment.
- Ran a successful, large scale, open competitive procurement to establish new contracts with four private collection agencies which allows MOF to focus on newly delinquent accounts. In fiscal 2017-18 PCAs collected over $XX.XM for the province.
- As a result of collections efforts, $XXX.XM in outstanding tax receivables and $XXX.XM in outstanding non-tax receivables were collected in fiscal 2017-18 on approximately $X.X billion in outstanding receivables and overpayments across the OPS.
- Led implementation of the new Student Loan Rehabilitation Program on behalf of the Ministry of Advanced Education and Skills Development (MAESD) to help student loan debtors bring their loans back into good standing. A total of 2,348 student loan debtors enrolled in the program as of September 2017.
- Operationalized the expansion of the Refund Set-Off (RSO) program to include tax statutes for individuals (e.g. RST, Gas Tax, Tobacco Tax, Land Transfer Tax, etc.) In 2017-18 Ontario recovered $XXM through RSO and has 18 active programs registered including Ontario Student Loans and Ontario Disability Support Program.
- As part of Ontario's Fair Housing Plan, the Province is introducing legislation to empower the City of Toronto, and potentially other interested municipalities, to introduce a vacant homes property tax to encourage property owners to sell unoccupied units or rent them out.
- Initiated a review of the property taxation of multi-residential apartment buildings to improve housing affordability in the rental market. While the review is under way, the Province has frozen the municipal property tax burden for existing multi-residential properties in communities where these taxes are high.
- Conducted a review and consultations on the property tax treatment of small-scale value-added and commercial activities on farm properties.
- Engaged former Cabinet Minister John Wilkinson to lead consultations and develop recommendations on the valuation and tax classification of landfills. The ministry developed complex new regulations and worked with MPAC and municipalities to support the successful implementation of this new approach in time for the 2017 tax year.
- The Ontario Municipal Partnership Fund (OMPF) has been redesigned to target funding to municipalities with the most challenging fiscal circumstances.
- Implementation of the 15% Non-Resident Speculation Tax (NRST) on the purchase or acquisition of an interest in residential property in the Greater

Golden Horseshoe (GGH) by individuals who are not citizens or permanent residents of Canada or by foreign corporations and taxable trustees.
- Partnered with the CRA and Airbnb to educate Ontarians who engage in home-sharing about their rights and responsibilities and raise awareness of tax obligations.
- Support the restructuring of Stelco through 3 loans, providing funding assistance to OPEB, Stelco and Landco.

Alcohol and Gaming (Ministry, LCBO and OLG)

- Continued the modernization of the alcohol and gaming sectors and increased provincial revenues within a framework of social responsibility.
- Continued to introduce the sale of beer, cider and wine into grocery stores, giving consumers more choice and convenience. There are now up to 275 grocery stores authorized to sell beer and cider.
- Announced the Ontario Small Cidery and Small Distillery Support Program, which will invest $7.2 million over three years to support small cider and small spirits producers.
- To balance opportunities for Ontario's domestic wine suppliers, the bag-in-box assortment is being expanded at the LCBO.
- Continue work on legislative amendments to permit the sale of International-Canadian Blends (ICB) wine at all on-site stores.
- Implemented the Spirits Tax which replaces the LCBO's mark-up commission structure for spirits and spirits coolers sales at on-site distillery retail stores.
- The Ministry of Finance is proposing a safe and sensible approach to the retail and distribution of recreational cannabis, overseen by the LCBO through a subsidiary corporation. Ontario`s approach would meet high standards of control and social responsibility, while responding to consumer demand and eliminating the illegal market.
- The modernization of OLG's land-based gaming sector will expect to have assumed control of six (6) bundles, with procurement for other regions in progress.
- Continuing with the integration of horse racing with OLG's gaming strategy by providing policy support and oversight over the Horse Racing Partnership Plan (HRPP), and sectoral consultations regarding a future long-term funding model that will help drive sustainability within the industry.

Economic Analysis, Reporting and Policy Advice

- Provided analytical, policy and research support to the Premier's Office, Cabinet Office and ministries on a number of priorities, including the Business Growth Initiative, the Highly Skilled Workforce Expert Panel Report, the Poverty Reduction Strategy and the Changing Workplace Review Panel.

- Renewed a three-year agreement with the Toronto Financial Services Alliance to support the organization's strategic objective to grow the Toronto region as a global financial hub and cluster.
- Reviewed investment proposals under the government's Jobs and Prosperity Fund and regional programs.

3. Strengthening the financial services sector

- Led support of the multi-phased transition to the Financial Services Regulatory Authority of Ontario (FSRA).
- Led the development of legislative amendments regarding the structure and powers of the Financial Services Tribunal (FST) based on government's commitment in the *2017 Ontario Budget*.
- As part of implementing the recommendations from the review of the Credit Unions and Caisses Populaires Act, 1994 (CUCPA), released a consultation paper on a proposed capital adequacy framework for adopting internationally accepted (Basel III) capital standards for Ontario credit unions.
- Work to implement recommendations to reform the auto insurance system to improve health outcomes and lower costs to achieve more affordable auto insurance for Ontarians.
- Advanced work towards finalizing the Cooperative System legislation and initial regulations, governance structure and accountability framework.
- Consulted with stakeholders and the public on a report by Ontario's advisor on auto insurance, David Marshall, that recommends transformative steps to reduce auto insurance costs and improve health outcomes for those injured in collisions.
- Worked with partner ministries and stakeholders on developing a new women's economic empowerment strategy that addresses the gender wage gap and accelerates greater representation of women on boards.

4. Building retirement security

- Provided analysis and advice on the government's review of federal and provincial income security programs.
- Worked closely with the Ministry of Community and Social Services to support the development and launch of a Basic Income Pilot.
- Developed, managed and phased-out the Transition Fund that provided health benefits to retirees of United States Steel Canada as part of the Stelco Companies' Creditors Arrangement Act process.
- Introduced legislative and regulatory amendments to the rules governing the merger of single employer defined benefit pension plans that provide additional flexibility to plan administrators structuring mergers.

- Announced a comprehensive package of pension reforms to help make workplace pension plans more sustainable, including the Solvency Funding Framework and the Target Benefit Multi-Employer Pension Plan Funding Framework.
- Strengthened the powers of the Superintendent of Financial Services, including making regulatory changes to set out a regime for administrative monetary penalties in the pension sector.
- Brought forward regulatory changes necessary to support the Superintendent in managing the cash flows in the Pension Benefits Guarantee Fund.

5. Addressing the underground economy

- A project office was established to implement a sales integrity pilot project to combat electronic sales suppression.
- Currently working with the Ministry of Health and Long Term Care and Public Health partners on a cross–designation pilot project to take enforcement action under the Tobacco Tax Act and/or the Smoke Free Ontario Act.
- Provincial oversight of Raw Leaf Tobacco (RLT) has also been enhanced to more effectively monitor its movement through the supply chain by implementing raw leaf tobacco baling or packaging and labelling requirements to impede its flow to unlicensed manufacturers. In July 2016, regulations regarding the tagging of RLT bales came into effect.
- Negotiated new fee-for-service agreements with the Canada Revenue Agency to protect Ontario revenue including enhanced compliance measures (e.g., auditing) and a service level agreement for underground economy specialist teams.
- New risk models were developed and implemented in the Flexible and Integrated Risk System (FAIRS) that enhance the risk analysis methodologies used to conduct evidence based decision making for the effective allocation of resources to high risk areas in audit and inspections.
- Addressed underground economic activity through a public awareness campaign targeting multiple high-risk sectors, including home renovation, and partnered with the Ministry of Transportation on a pilot project to determine the tax compliance of construction subcontractors the ministry procured.

6. Working with Indigenous partners

- Continued engagement with First Nations to identify mutually-beneficial solutions to tobacco on-reserve. This includes discussions on self-regulation and revenue-sharing.

- The Ministry continues to work closely with various law enforcement agencies such as the RCMP and the OPP to reduce the presence of unregulated tobacco in Ontario.
- Signed definitive agreements with First Nations in Ontario to sell to First Nations for their collective benefit, shares of Hydro One Limited.

7. Facilitating openness and accountability

- Provided advice and support to other ministries to ensure an open and productive relationship with the Financial Accountability Office.
- Initiated the development of new ways to deliver data and statistical services that are efficient, cost-effective and transparent in support of evidenced-based decision-making and advancing the government's commitments to Open Government and collaboration with external experts and academic institutions on difficult policy challenges.
- Capitalized on new methods of public and stakeholder participation in the Ontario pre-budget consultation and budget development processes.
- Implemented the recommendations of the Special Purpose Business Property Assessment Review report for the 2016 reassessment (2017 tax year) in collaboration with the Municipal Property Assessment Corporation, municipalities and other stakeholders. These are expected to increase the transparency, accuracy and predictability of property assessments, reducing the number and impact of appeals, and promoting greater revenue stability from the $27 billion shared property tax base.
- Provided additional property tax flexibility to enable municipalities to better tailor programs to reflect their local needs and circumstances, while ensuring the property tax system continues to remain fair and competitive.
- Reported on the Trillium Trust to help support public transit, transportation and other priority infrastructure projects.

Table 3: Ministry Interim Actual Expenditures 2017-18

	Ministry Interim Actual Expenditures * 2017-18 ($M except Staff Strength)
Operating and Capital	XXX.X
Ontario Municipal Partnership Fund	XXX.X
Power Supply Contract Costs	XXX.X
Interest on Debt	XX,XXX.X
Staff Strength As of March 31**	1,888.90

* Refer to page(s) XXX-XXX of the 2018 Budget

** Ontario Public Service Full-Time Equivalent positions

Commented [MB(6]: CPFB to update

Part II: 2018-19 Detailed Financials

Ministry of Finance

12 – MINISTRY OF FINANCE

The Ministry of Finance supports the economic, fiscal, financial, and taxation policies and strategies of the Government of Ontario, and oversees the Province's borrowing and debt management program. The ministry administers a number of tax statutes, tax credits and benefit programs, and produces the provincial budget. In conjunction with Treasury Board Secretariat, the ministry also manages the Consolidated Revenue Fund and fiscal and financial policies of the Government of Ontario, and reports on financial matters. The ministry also develops policies for Ontario's financial services sector and supports the regulation of financial services institutions and intermediaries carrying on business in the province. In addition, the ministry manages Ontario's fiscal relationship with the federal government, other provinces and Ontario's municipalities, reports on the Trillium Trust, and oversees agencies accountable to the Minister of Finance. The Ministry also reports on economic and demographic developments in the province and provides analytical support and policy adXCZavice on these topics as well as statistical issues and trends that affect Ontario's economic growth and job creation.

Table 1: Operating and Capital Summary by Vote

[Table to be inserted by CPFB]

Table 1: Operating and Capital Summary by Vote (cont'd)

[Table to be inserted by CPFB]

Table 2: Reconciliation to Previously Published Data

[Table to be inserted by CPFB]

Table 3: 2018-19 Operating Summary by Vote and Standard Account

[Table to be inserted by CPFB]

Ministry of Finance

[Graphic to be inserted by CPFB]

Table 4: 2018-19 Capital Summary by Vote and Standard Account

[Table to be inserted by CPFB]

MINISTRY ADMINISTRATION PROGRAM

1201-1 – Ministry Administration

Sub-Item 1 – Main Office
Sub-Item 2 – Financial and Administrative Services
Sub-Item 3 – Human Resources
Sub-Item 4 – Communications Services
Sub-Item 5 – Legal Services
Sub-Item 6 – Audit Services

Statutory Appropriations

Minister's Salary, Parliamentary Assistant's Salary, the *Executive Council Act*; Bad Debt Expense, the *Financial Administration Act*

Statutory Appropriations

Amortization, the *Financial Administration Act*

1201 – MINISTRY ADMINISTRATION

This program, which includes the Offices of the Minister and Deputy Minister delivers planning, advisory, legal, and controllership functions to ensure direction and management of operating programs consistent with Ontario Government policy and legislation. In addition, the program manages the service relationships with Treasury Board Secretariat and the Ministry of Government and Consumer Services, ensures proper levels of support to the ministry and its client groups, and strategically manages the ministry's quality service commitments.

OPERATING BY SUB-ITEM

[Table to be inserted by CPFB]

VOTE/ITEM: **1201-1 Sub-Item 1**

VOTE: **Ministry Administration**

ITEM: **Main Office**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

This sub-item includes the offices of the Minister of Finance, the Parliamentary Assistant and the Deputy Minister. The staff provide professional and technical support for the legislative policy making and administrative responsibilities of the Minister and the Deputy Minister.

FUNCTIONS

The Main Office is responsible for:

- overseeing ministry operations and adherence to corporate policies and directives;
- providing a leadership role in supporting broader government priorities including transformational policy changes that would help sustain longer term delivery of core public services;
- coordinating policies developed in the ministry for the approval of the Minister and the Deputy Minister;
- coordinating the preparation of replies to correspondence to the Minister and Deputy Minister;
- the preparation of verbal and written briefings for the Minister's presentations to Cabinet, Committees of Cabinet and other meetings such as pre-budget consultations, federal-provincial conferences and stakeholder/interest groups.

VOTE/ITEM: **1201-1 Sub-Item 1**
VOTE: **Ministry Administration**
ITEM: **Main Office**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1201-1 Sub-Item 2**

VOTE: **Ministry Administration**

ITEM: **Financial and Administrative Services**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

This sub-item provides ministry strategic support for Program Review, Renewal and Transformation and Estimates, executive decision support, financial controllership, risk management, corporate accounting, emergency management and security services, accommodation management, coordination of corporate and ministry-specific modernization programs and administration of the *Freedom of Information and Protection of Privacy Act*. This sub-item represents the ministry's point of contact with central agencies.

FUNCTIONS

These offices are responsible for delivering the ministry's obligations for the following:

- leading the controllership function, including the accountability framework, strategic procurement advice, loan administration, the Trillium Trust framework, and Public Accounts;
- coordinating, preparing and providing strategic support to the Program Review, Renewal and Transformation planning process and the annual Estimates process;
- in-year risk management and planning, monitoring and reporting of financial and other resource management strategies including preparing and/or reviewing all central agency submissions, for example TB/MBC submissions;
- managing the ministry's accommodation portfolio, including development of strategic options analysis and lease management to ensure optimal space utilization;
- administering the Freedom of Information and Protection of Privacy Act for the ministry, its agencies, boards and commissions, including processing requests for access to records, and ensuring compliance with the privacy provisions of the Act;
- leading strategic and operational planning to promote compliance with records and information management requirements;
- developing and implementing the ministry's Emergency Management Program and Physical Security Program, including leading, coordinating, testing, updating and maintaining the ministry's Continuity of Operations Plans and Physical Security Plans and providing security services;
- coordinating the ministry's compliance with the Ontarians with Disabilities Act, 2001 and the Accessibility for Ontarians with Disabilities Act, 2005; and
- coordinating corporate and ministry modernization programs including Employee Engagement and Recognition, Inclusion, Mental Health and Wellness, Workplace Violence Prevention, Service Excellence, Summer Experience Opportunities, Greening, and Open Government.

VOTE/ITEM: **1201-1 Sub-Item 2**
VOTE: **Ministry Administration**
ITEM: **Financial and Administrative Services**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1201-1 Sub-Item 3**
VOTE: **Ministry Administration**
ITEM: **Human Resources**
TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

This sub-item represents the Strategic Human Resources Services Branch which provides strategic and advisory human resources services to ministry senior executives to ensure they have the right people, in the right place, at the right time to achieve their business objectives.

FUNCTIONS

The Strategic Human Resources Services Branch is responsible for:

- providing senior executives with strategic advice and support in the areas of organization design and effectiveness, strategic labour relations and workforce planning/analysis to ensure the alignment of people strategies and build organizational capacity and engagement;
- implementing and supporting talent, performance and succession management programs and strategies;
- designing and implementing human resources change management and organizational development initiatives that support ministry business commitments;
- liaising with OPS human resources organizations to lead the implementation of corporate HR initiatives at the ministry level; and
- liaising with all operational elements of the OPS HR Service Delivery Model to ensure the delivery of integrated HR services to support the achievement of ministry business goals.

VOTE/ITEM: **1201-1 Sub-Item 3**
VOTE: **Ministry Administration**
ITEM: **Human Resources**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1201-1 Sub-Item 4**
VOTE: **Ministry Administration**
ITEM: **Communications Services**
TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

This sub-item represents the Communications Services Branch, which provides strategic communications advice and planning to the Minister of Finance, the Deputy Minister, all Ministry of Finance divisions, Premier's Office and Cabinet Office, and where appropriate, other ministries, to support the government's fiscal priorities and ministry's programs.

FUNCTIONS

The Communications Services Branch is responsible for:

- the coordination and the production of the Ontario Budget, Fall Economic Statement, consultations and delegations and other high-profile ministry projects;
- managing and coordinating the Ministry of Finance contentious issues process;
- responding to media inquiries and monitors the media;
- develops advertising strategies and promotional campaigns, and plans events;
- managing and coordinating the Ministers' correspondence;
- writing news releases, backgrounders, fact sheets and other publications;
- writing speeches and statements for the legislature;
- providing reference and research support to staff; and
- maintaining the Ministry of Finance Internet and intranet sites.

VOTE/ITEM: **1201-1 Sub-Item 4**
VOTE: **Ministry Administration**
ITEM: **Communications Services**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1201-1 Sub-Item 5**

VOTE: **Ministry Administration**

ITEM: **Legal Services**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

This sub-item represents the Legal Services Branch. The branch provides legal services to the Ministry of Finance and the Ontario Financing Authority.

FUNCTIONS

The Legal Services Branch is responsible for:

- advising the ministry and other clients, as required, with regard to legal issues in respect of borrowing and investment of public money, government finance, fiscal, economic and taxation matters, loans and guarantees, insurance, pensions, alcohol and gaming policy and regulation, securities and financial services sector regulation; and procurement;
- providing advice to Office of the Budget;
- advising on agencies for which the Minister has responsibility;
- representing the ministry in tax collection activities, including bankruptcy and insolvency proceedings;
- advising the ministry in respect of the implementation of government policy in the electricity sector and programs;
- preparing legislation, regulations, Orders in Council, contracts, agreements, memoranda of understanding and other instruments;
- providing counsel for provincial tax prosecutions;
- representing the Minister on tax appeals and providing litigation support on other non-tax actions;
- preparing agreements between federal and provincial governments relating to tax collections, transfer payments and other matters; and
- providing advice to the ministry on the interpretation of statutes and regulations, preparation and review of proposed legislation, regulations, and other legal documents.

VOTE/ITEM: **1201-1 Sub-Item 5**
VOTE: **Ministry Administration**
ITEM: **Legal Services**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

[Table to be inserted by CPFB]

VOTE/ITEM: **1201-1 Sub-Item 6**
VOTE: **Ministry Administration**
ITEM: **Audit Services**
TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

This sub-item represents the Finance Audit Service Team (FAST) of Treasury Board Secretariat, which provides risk-management and consulting services, as well as independent assurance services to the Ministry of Finance and some of its agencies. FAST's overall objective is to ensure that the ministry's financial and risk management plans and processes meet the highest standards of integrity, accountability and transparency.

The FAST Audit Director reports functionally to the Finance Audit Committee (FAC), which is chaired by the Deputy Minister of Finance. FAC is responsible for ensuring that FAST has sufficient resources to carry out its responsibilities. FAST is primarily funded by the Ministry of Finance based on actual cost recovery basis.

FUNCTIONS

The services provided by FAST include:

- value-for-money, financial and internal control audits;
- compliance reviews;
- risk assessment and control reviews;
- forensic and fraud investigations;
- advice on governance, controllership, accountability and sound business practices, including advice and liaison to ministries related to Office of the Auditor General of Ontario audits;
- training and education on risk and control; and
- specialized audit, risk assessment and advisory services for information management and information technology projects.

VOTE/ITEM: **1201-1 Sub-Item 6**
VOTE: **Ministry Administration**
ITEM: **Audit Services**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **S**
VOTE: **Ministry Administration**
ITEM: **Statutory Appropriations**
TYPE: **Operating Expense**

ITEM DESCRIPTION

This item provides for the statutory salaries of the Minister of Finance and the Parliamentary Assistant, as authorized by the *Executive Council Act*.

The item also provides for Bad Debt Expense, which makes provision for any bad debts incurred under the terms of the *Financial Administration Act.*

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

- **REGULATORY POLICY AND AGENCY RELATIONS PROGRAM**

1202-6 – Income Security and Pension Policy

1202-7 – Government Business Enterprise

Sub-Item 1 – Investment and Governance
Sub-Item 2 – Gaming Policy
Sub-Item 3 – Alcohol and Cannabis Policy

1202-8 – Financial Services Policy

1202-9 – Other Loans – Stelco

1202-10 – Loans and Investments – *Financial Services Regulatory Authority of Ontario Act, 2016*

1202-11- Capital Expense (TO BE CONFIRMED)

1202 – REGULATORY POLICY AND AGENCY RELATIONS

[Vote description to be added by program area and match to Pro Forma]

OPERATING AND CAPITAL BY ITEM

[Table to be inserted by CPFB]

VOTE/ITEM: **1202-6**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Income Security and Pension Policy**
TYPE: **Operating Expense**

ITEM DESCRIPTION

The Income Security and Pension Policy Division provides advice and analysis on employment pensions plans, including pension reform and federal and provincial income security programs, as well as providing research and analysis on income security and pensions policy programs.

FUNCTIONS

The Income Security and Pension Policy Division is responsible for:

- consulting with stakeholders on pension policy issues, leading development of Cabinet submissions, legislation and regulations;
- providing advice and analysis on employment pension plans and income security policy including responsibility for Ontario's co-stewardship of the Canada Pension Plan;
- developing strategic policy regarding Ontario's retirement income system, including the development of innovative retirement savings models, such as Pooled Registered Pension Plans and target benefit plans;
- supporting development of the fiscal framework and expenditure planning processes by monitoring developments in federal income security programs and estimating provincial income security program impacts on business and individuals, pension benefits standards policy and public sector pension policy;
- supporting the Budget and Public Accounts processes with estimates of the fiscal expense for pension plans of teachers, Ontario Public Service (OPS) employees and employees of other consolidated entities; supporting the estimate of non-pension, post-retirement benefits of OPS employees for the purposes of provincial expenditures; estimates of income security programs for seniors and families with children;
- coordinating the Fair Society chapter of the Ontario Budget and Fall Economic Statement; and
- conducting research and analysis to support the development of pension, income security and benefits policy.

VOTE/ITEM: **1202-6**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Income Security and Pension Policy**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1202-7**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Government Business Enterprise**
TYPE: **Operating Expense**

ITEM DESCRIPTION

To be updated by program area.

FUNCTIONS

Insert functions here.

VOTE/ITEM: **1202-7**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Government Business Enterprise**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1202-7 Sub-Item 1**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Investment and Governance**
TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

To be updated by program area.

FUNCTIONS

[Insert functions here]

VOTE/ITEM: **1202-7 Sub-Item 1**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Investment and Governance**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1202-7 Sub-Item 2**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Gaming Policy**
TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

To be updated by program area.

FUNCTIONS

Insert functions here

VOTE/ITEM: **1202-7 Sub-Item 2**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Gaming Policy**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1202-7 Sub-Item 3**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Alcohol and Cannabis Policy**
TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

To be updated by program area.

FUNCTIONS

Insert functions here

VOTE/ITEM: **1202-7 Sub-Item 3**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Alcohol and Cannabis Policy**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1202-8**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Financial Services Policy**
TYPE: **Operating Expense**

ITEM DESCRIPTION

The Financial Services Policy Division (FSPD) provides advice on and advances financial services regulation and policy initiatives, including initiatives related to capital markets, securities and derivatives and initiatives related to the regulation of credit unions, mortgage brokers, co-operative corporations and insurance.

FUNCTIONS

The Financial Services Policy Division:

- represents Ontario in federal-provincial-territorial discussions regarding financial services policy;
- represents Ontario and advances Ontario's interests in the implementation of a cooperative capital markets regulatory system (CCMR), including leading the development of uniform capital market laws underpinning the CCMR and related legislation;
- acts as policy lead in the ongoing work to establish a regulatory framework to oversee the activities of individuals who offer financial planning services in Ontario;
- represents the Ministry of Finance in the ongoing inter-ministerial work to improve the representation of women on boards of directors and in executive positions;
- participates as a regulatory policy lead to support the ongoing work towards developing an Ontario financial technology (FinTech) strategy;
- continues to support the government's work to keep auto insurance affordable for Ontario's over ten million drivers while ensuring that claimants get the treatment they need;
- provides support for the implementation of the recommendations stemming from the five-year review of the Credit Unions and Caisses Populaires Act, 1994;
- provides support for the establishment of the new Financial Services Regulatory Authority of Ontario, including the development of necessary legislation and regulations and the establishment of an appropriate oversight and governance framework;
- provides analysis and advice on the regulatory framework for financial institutions and the financial services sector;
- implements initiatives to modernize the Insurance Act and its regulations, including work to integrate new sharing economy business models for providing transportation services into Ontario's auto insurance system; and

- works with the Financial Services Commission of Ontario (FSCO) and the Ontario Securities Commission (OSC) on issues relating to regulation of syndicated mortgage investments.

VOTE/ITEM: **1202-8**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Financial Services Policy**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1202-9**
VOTE: **Regulatory Policy and Agency Relations**
ITEM: **Other Loans - Stelco**
TYPE: **Operating Assets**

ITEM DESCRIPTION

To be updated by program area.

VOTE/ITEM:	**1202-10**
VOTE:	**Regulatory Policy and Agency Relations**
ITEM:	**Loans and Investments – *Financial Services Regulatory Authority of Ontario Act, 2016***
TYPE:	**Operating Assets**

ITEM DESCRIPTION

To be updated by program area.

VOTE/ITEM:	**1202-11**
VOTE:	**Regulatory Policy and Agency Relations**
ITEM:	**Regulatory Policy and Agency Relations – Capital Expenses**
TYPE:	**Capital Expense**

ITEM DESCRIPTION

Placeholder page pending confirmation from TBS.

To be updated.

ECONOMIC, FISCAL AND FINANCIAL POLICY PROGRAM

1203-1 – Economic Policy

1203-8 – Office of the Budget

1203-12 – Ontario Electricity Financial Corporation Dedicated Electricity Earnings

Statutory Appropriations

Bad Debt Expense, the Financial Administration Act
Guarantees and Indemnities, the *Financial Administration Act*
Ontario Electricity Financial Corporation, the *Electricity Act, 1998*

1203-24 – Strategic Assets – Loans and Investments

1203-14 – Capital Expense

Statutory Appropriations

Amortization, the Financial Administration Act

1203-13 – Capital Assets

1203 – ECONOMIC, FISCAL AND FINANCIAL POLICY

This program develops and implements sound economic and fiscal strategies to raise revenue and stimulate economic growth and job creation; forecasts, monitors and reports on the performance of the Ontario economy; provides expertise and advice on sound economic design of and financial and implementation support for government initiatives; develops demographic forecasts for Ontario and its 49 census divisions; develops and provides strategic oversight of and advice related to the government's fiscal plan; assists the Minister of Finance and the government in formulating Ontario's finance policy and strategies with respect to federal-provincial fiscal arrangements; and provides policy advice to clients, managers, and decision makers in the areas of fiscal and financial management. The program is also responsible for facilitating engagement with central agency and line ministry partners to provide fiscal and budgetary policy advice and support policy development and prioritization. The program leads the Statistics Transformation Initiative to enhance how government collects, uses, and disseminates data and is responsible for leading statistics policy. In addition, the program reflects the transfer of dedicated electricity earnings from the province to the Ontario Electricity Financial Corporation.

This program assists the Minister, Deputy Minister of Finance and the government in formulating the fiscal plan and reporting the results of the Province through the Ontario Budget, Ontario Quarterly Finances, Ontario Economic Accounts, Economic Outlook and Fiscal Review, and Ontario's Public Accounts. The program undertakes annual population projections for use in resource allocation and planning, leads preparation of the Long-term Report on the Economy and contributes to the Pre-Election Report on Ontario's Finances required by the Fiscal Transparency and Accountability Act.

OPERATING AND CAPITAL BY ITEM

[Table to be inserted by CPFB]

VOTE/ITEM: **1203-1**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Economic Policy**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Office of Economic Policy (OEP) provides the Minister with:

- forecasts and analysis of the economy and revenues;
- advice and information on economic issues and trends and the development of sound economic strategies that foster economic growth and job creation;
- economic analysis of policy proposals;
- recommendations regarding individual project proposals coming forward through economic development programs;
- leadership advice and analysis on the use of statistics and statistics policy;
- population projections and analysis of demographic issues; and
- research and quantitative analyses to support the development of tax, pension, alcohol fee, income security and benefits policy.

The OEP also represents Ontario in federal-provincial-territorial discussions regarding economic analysis and forecasting, fiscal planning as it relates to revenue forecasting, reporting and federal payments and in discussions with Statistics Canada on matters related to statistical policy.

FUNCTIONS

The Office of Economic Policy:

- develops, researches, monitors, forecasts and reports on economic, financial, demographic, labour market, social issues and risks;
- reviews and assesses the economic impacts ministry policy proposals within the context of the economic and fiscal framework;
- supports decisions on project proposals coming forward through economic development programs;
- conducts research and policy analysis on a broad range of issues related to economic performance and growth;
- advances the use and integration of data and statistics in government decision-making;
- conducts research and policy analysis on labour market issues;
- develops long-range population projections; and
- supports the development of tax, pension, income support and benefits, and alcohol policies through: partnerships, research and quantitative analysis; the identification, development and utilization of quantitative models, methodologies and data; and the management of data holdings.

VOTE/ITEM: **1203-1**
VOTE: **Economic, Fiscal and Financial Policy**
ITEM: **Economic Policy**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1203-8**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Office of the Budget**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Office of the Budget provides analysis and support to the Deputy Minister, Minister, and government, particularly with respect to development and coordination of the fiscal plan and federal-provincial arrangements.

FUNCTIONS

The Office of the Budget is responsible for:

- providing strategic fiscal advice and coordinating key government publications including the annual Budget, the Economic Outlook and Fiscal Review and the Quarterly Finances;
- developing fiscal policy and forecasts in the context of the government's policy priorities, as well as monitoring and advising on the fiscal outlook and risks to the fiscal plan;
- monitoring and advising on Ontario's fiscal relations with the federal government and for maintaining ongoing contact with the ministries of Finance at the federal level and in other provinces and territories; and
- monitoring and providing support and advice to the Ministry of Finance as well as other ministries, in responding to requests from the Financial Accountability Officer.

VOTE/ITEM: **1203-8**
VOTE: **Economic, Fiscal and Financial Policy**
ITEM: **Office of the Budget**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1203-12**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Ontario Electricity Financial Corporation Dedicated Electricity Earnings**

TYPE: **Operating Expense**

ITEM DESCRIPTION

Dedicated electricity earnings are transferred from the Province of Ontario to the Ontario Electricity Financial Corporation.

COMPARATIVE DETAILS

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **S**
VOTE: **Economic, Fiscal and Financial Policy**
ITEM: **Bad Debt Expense, the *Financial Administration Act***
TYPE: **Operating Expense**

ITEM DESCRIPTION

Bad Debt Expense is a provision for debts that are deemed unrecoverable under the terms of the *Financial Administration Act*.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM:	**S**
VOTE:	**Economic, Fiscal and Financial Policy**
ITEM:	**Guarantees and Indemnities, the Financial Administration Act**
TYPE:	**Operating Expense**

ITEM DESCRIPTION

This item provides loan guarantees and indemnities that are required to be paid from the Consolidated Revenue Fund in accordance with Section 12 of the *Financial Administration Act*.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM:	**S**
VOTE:	**Economic, Fiscal and Financial Policy**
ITEM:	**Ontario Electricity Financial Corporation, the Electricity Act, 1998**
TYPE:	**Operating Expense**

ITEM DESCRIPTION

This item provides payments to the Ontario Electricity Financial Corporation in accordance with requirements of*, the Electricity Act, 1998*. The payments from the Province of Ontario to the OEFC are fully offset by revenue received by the OEFC on the consolidation of the OEFC into the Province's finances in the Public Accounts of Ontario.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1203-24**
VOTE: **Economic, Fiscal and Financial Policy**
ITEM: **Strategic Assets – Loans and Investments**
TYPE: **Operating Assets**

ITEM DESCRIPTION

This item reflects the provision made for loans to facilitate the purchase of Hydro One shares.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1203-14**
VOTE: **Economic, Fiscal and Financial Policy**
ITEM: **Capital Expense**
TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is comprised of capital expenses related to future capital loss or write-offs for Moveable/Minor Tangible Capital Assets (mTCA).

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **S**

VOTE: **Economic, Fiscal and Financial Policy**

ITEM: **Amortization, the *Financial Administration Act***

TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is the statutory appropriation for amortization of Moveable/Minor Tangible Capital Assets (mTCA).

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1203-13**
VOTE: **Economic, Fiscal and Financial Policy**
ITEM: **Capital Assets**
TYPE: **Capital Assets**

ITEM DESCRIPTION

This item represents the capitalization of Moveable/Minor Tangible Capital Assets (mTCA).

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

FINANCIAL SERVICES INDUSTRY REGULATION PROGRAM

1204-1 – Financial Services Commission of Ontario

1204-2 – Motor Vehicle Accident Claims Fund

1204-6 – Financial Services Tribunal

Statutory Appropriations

Bad Debt Expense, the Financial Administration Act

1204-5 – Operating Assets

1204-4 – Capital Expense

Statutory Appropriations

Amortization, the Financial Administration Act

1204-3 – Capital Assets

-

1204 – FINANCIAL SERVICES INDUSTRY REGULATION

The Financial Services Commission of Ontario (FSCO) regulates the province's financial services sector, including insurance companies, health service providers for auto insurance, pension plans, credit unions, caisses populaires, mortgage brokers, agents and administrators, loan and trust companies, and co-operatives. FSCO makes recommendations to the Minister of Finance on matters affecting these sectors. In addition, FSCO is responsible for the administration of the Motor Vehicle Accident Claims Fund (MVACF) which compensates people injured in automobile accidents in Ontario where there is no other insurance available to respond to the claim. FSCO is also responsible for the administration of the Pension Benefits Guarantee Fund (PBGF). The PBGF pays a minimum level of pension benefits if a plan is wound up with insufficient assets.

FSCO works with the Ministry of Finance, consumers and industry stakeholders to protect the public interest and enhance public confidence in the regulated sectors.

OPERATING AND CAPITAL BY ITEM

[Table to be inserted by CPFB]

VOTE/ITEM: **1204-1**

VOTE: **Financial Services Industry Regulation**

ITEM: **Financial Services Commission of Ontario**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Financial Services Commission of Ontario (FSCO) regulates the province's financial services sector, including insurance companies, health service providers for auto insurance, pension plans, credit unions, caisses populaires, mortgage brokers, agents and administrators, loan and trust companies, and co-operatives. FSCO makes recommendations to the Minister of Finance on matters affecting these sectors. In addition, FSCO is responsible for the administration of the Motor Vehicle Accident Claims Fund (MVACF) which compensates people injured in automobile accidents in Ontario where there is no other insurance available to respond to the claim. FSCO is also responsible for the administration of the Pension Benefits Guarantee Fund (PBGF). The PBGF pays a minimum level of pension benefits if a defined benefit plan is wound up with insufficient assets.

FSCO works with the Ministry of Finance, consumers and industry stakeholders to protect the public interest and enhance public confidence in the regulated sectors.

FUNCTIONS

FSCO has established the following goals:

- be risk based, proactive, evidence based, balanced, transparent, service orientated, and collaborative in our work;
- further a coordinated national approach to regulatory issues; and
- be a recognized thought leader in regulatory policy.

To achieve its goals, FSCO is guided by its strategic and operational outcomes. These outcomes help FSCO's to achieve its core regulatory responsibilities to administer the laws and regulations governing the activities of the regulated sectors.

FSCO is also responsible for providing the administrative resources necessary for the proper functioning of the Financial Services Tribunal. The Financial Services Tribunal is an independent, adjudicative body that conducts hearings arising from regulatory and proposed regulatory decisions of the Superintendent of Financial Services.

VOTE/ITEM: **1204-1**
VOTE: **Financial Services Industry Regulation**
ITEM: **Financial Services Commission of Ontario**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1204-2**

VOTE: **Financial Services Industry Regulation**

ITEM: **Motor Vehicle Accident Claims Fund**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Motor Vehicle Accident Claims Fund (MVACF) provides compensation to people injured in automobile accidents in Ontario involving an uninsured or unidentified vehicle where no other automobile or liability insurance is available. MVACF is a business unit within the Automobile Insurance Division of the Financial Services Commission of Ontario.

FUNCTIONS

The Motor Vehicle Accident Claims Fund:

- satisfies judgments and claims for property damage or damages related to injury or death caused by an uninsured or unidentified motorist where the plaintiffs and claimants have no recourse to automotive insurance;
- provides statutory accident benefits to individuals injured in automobile accidents where the individuals have no recourse to automobile insurance;
- recovers from the owners and drivers of uninsured vehicles monies paid out on their behalf in satisfaction of judgments and claims, when it is legally possible; and
- administers the accident benefits claims portfolio of an insolvent insurer should a wind up order be issued.

VOTE/ITEM: **1204-2**
VOTE: **Financial Services Industry Regulation**
ITEM: **Motor Vehicle Accident Claims Fund**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1204-6**
VOTE: **Financial Services Industry Regulation**
ITEM: **Financial Services Tribunal**
TYPE: **Operating Expense**

ITEM DESCRIPTION

To be updated by program area.

FUNCTIONS

Insert functions here.

VOTE/ITEM: **1204-6**
VOTE: **Financial Services Industry Regulation**
ITEM: **Financial Services Tribunal**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **S**
VOTE: **Financial Services Industry Regulation**
ITEM: **Bad Debt Expense, the *Financial Administration Act***
TYPE: **Operating Expense**

ITEM DESCRIPTION

Bad Debt Expense is a provision for debts that are deemed unrecoverable under the terms of the *Financial Administration Act*.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1204-5**
VOTE: **Financial Services Industry Regulation**
ITEM: **Operating Assets**
TYPE: **Operating Assets**

ITEM DESCRIPTION

This item makes provision for deposits and prepaid expenses resulting from FSCO's operations.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1204-4**
VOTE: **Financial Services Industry Regulation**
ITEM: **Capital Expense**
TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is comprised of capital expenses related to future capital loss or write-offs for Moveable/Minor Tangible Capital Assets (mTCA).

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **S**
VOTE: **Financial Services Industry Regulation**
ITEM: **Amortization, the *Financial Administration Act***
TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is the statutory appropriation for amortization of Moveable/Minor Tangible Capital Assets (mTCA) such as vehicle fleet and IT hardware.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1204-3**
VOTE: **Financial Services Industry Regulation**
ITEM: **Capital Assets**
TYPE: **Capital Assets**

ITEM DESCRIPTION

This item represents the capitalization of expenditures on Moveable/Minor Tangible Capital Assets (mTCA) such as vehicle fleet and IT hardware (e.g., desktops, printers and network servers).

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

INVESTING IN ONTARIO

1208-1 Investing in Ontario

1208 – INVESTING IN ONTARIO

The Investing in Ontario program has responsibility for the distribution of all or part of the consolidated surplus for a fiscal year (reduced by any allocation to the reduction of the accumulated deficit that may be prescribed by regulation) to eligible recipients for the purposes, and in the manner as may be prescribed by regulation. Eligible recipients must also be prescribed by regulation and may only include entities, other than individuals, that do not carry on their activities for the purposes of gain or profit.

CAPITAL BY ITEM

[Table to be inserted by CPFB]

VOTE/ITEM: **1208-1**
VOTE: **Investing in Ontario**
ITEM: **Investing in Ontario**
TYPE: **Capital Expense**

ITEM DESCRIPTION

The Investing in Ontario program has responsibility for the distribution of all or part of the consolidated surplus for a fiscal year (reduced by any allocation to the reduction of the accumulated deficit that may be prescribed by regulation) to eligible recipients for the purposes, and in the manner as may be prescribed by regulation. Eligible recipients must also be prescribed by regulation and may only include entities, other than individuals, that do not carry on their activities for the purposes of gain or profit.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

TAX, BENEFITS AND LOCAL FINANCE PROGRAM

1209-1 – Tax and Benefits Administration

Sub-Item 2 – Strategy, Stewardship and Program Policy
Sub-Item 4 – Tax Compliance and Benefits

1209-5 – Taxation Policy

1209-6 – Provincial-Local Finance

1209-7 – Municipal Support Programs

Statutory Appropriations

Payments to Private Collection Agencies, the *Financial Administration Act*
Bad Debt Expense, the *Financial Administration Act*
Payments Under the *Tax Increment Financing Act, 2006*

1209-2 – Operating Assets

Statutory Appropriations

Advances and Recoverable Amounts, the *Education Act,* the *Northern Services Boards Act*, the *Local Roads Boards Act*

1209-3 - Capital Expense

Statutory Appropriations

Amortization, the *Financial Administration Act*

1209-4 – Capital Assets

1209 – TAX, BENEFITS AND LOCAL FINANCE

This program develops the policy and legislative framework for Ontario's taxation and benefits systems; administers Ontario tax statutes and a number of benefit programs; maintains the integrity of Ontario's tax system; and manages the province's fiscal relationship with municipalities. The program objective is to maintain a tax system that is competitive and transparent for business to support economic growth, while ensuring tax supports and structure are fair and effective for individuals and families in Ontario. As part of this work, it conducts tax compliance activities including audit, inspection, investigation and collection, and delivers key benefit programs for low-income seniors and families, as well as income verification services to other benefit programs. Accountability for managing the relationship with the Canada Revenue Agency, which collects the majority of the province's taxes on its behalf, also rests with this program. The program provides advice on the development of policies and regulations governing municipal property taxation in Ontario, manages education property taxes and provincial land tax, establishes the policy and legislative framework for Ontario's property assessment system, and provides oversight of the Municipal Property Assessment Corporation. It also provides oversight of the Ontario Municipal Partnership Fund, the province's main transfer payment to municipalities. The program provides strategic analysis and advice on personal, corporate, mining, commodity, sales, estate administration and payroll tax policy and design. It also supports a fair and efficient tax system by leading the province's efforts to address the underground economy.

OPERATING AND CAPITAL BY ITEM

[Table to be inserted by CPFB]

VOTE/ITEM: **1209-1**

VOTE: **Tax, Benefits and Local Finance**

ITEM: **Tax and Benefits Administration**

TYPE: **Operating Expense**

ITEM DESCRIPTION

This program is responsible for the efficient and effective administration of Ontario tax statutes, tax incentive and benefits programs. It strives to support the sharing economy and ensure the integrity of the tax system through measures aimed at reducing participation in the underground economy and maintaining tax fairness. The program is also responsible for examining ways to reduce the taxation burden on participating businesses and citizens. The province encourages compliance through client services and independent objections review, while discouraging non-compliance and tax evasion through collections activities, audits, inspections and investigations. The fairness of tax incentive and benefits programs is protected through systematic eligibility verification and validation reviews.

FUNCTIONS

- encouraging voluntary compliance through client services such as registration, tax roll and account maintenance and processing tax returns, processing application based refunds, client education, and outreach;
- providing remittance, data and image capture and revenue accounting processing services;
- maintaining data integrity in sustaining an efficient tax administration system and collections function for all Ministry of Finance administered tax statutes;
- leading transformation initiatives to streamline the delivery of Ontario benefits, administering ministry benefits programs and providing benefits administration services to partner ministries;
- managing inter-jurisdictional relationships with the Canada Revenue Agency, and monitoring the related service provisions;
- strengthening efforts to address the underground economy, contraband tobacco, and other measures aimed at maintaining tax fairness;
- supporting the sharing economy through coordination and development of key policy initiatives in partnership with the Sharing Economy Advisory Committee;
- providing strategic management services including tracking, analyzing and reporting on TBA's performance measures, service standards and revenue commitments;
- developing proactive and effective tax administration policy that supports the government's competitive business environment; and
- directing and executing excellence in the audit, investigations including forensic accounting and forensic data recovery, regulatory inspection and collection functions using risk based techniques, modern technology and best practices.

VOTE/ITEM: **1209-1**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Tax and Benefits Administration**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM:	**1209-1 Sub-Item 2**
VOTE:	**Tax, Benefits and Local Finance**
ITEM:	**Strategy, Stewardship and Program Policy**
TYPE:	**Operating Expense**

SUB-ITEM DESCRIPTION

The Strategy, Stewardship and Program Policy Division is responsible for program policy, strategic planning, relationship and risk management, and benefits transformation initiatives.

FUNCTIONS

- providing policy advice and leadership on key government priorities related to tax and benefit administration, including addressing the underground economy, contraband tobacco, and other measures aimed at maintaining tax fairness;
- providing advice and assistance to the Minister of Finance and the government in developing policy options for tobacco taxation and the oversight of raw leaf tobacco, based on analysis of the revenue, economic, health, social impacts of various options, and input from industry and health advocates;
- developing proactive and effective tax administration policy that supports the government's competitive business environment and Open for Business priorities;
- managing relationships, service provisions and fee-for-service arrangements and develops accountability frameworks for tax and benefit administration involving partnerships with other governments (most notably the Canada Revenue Agency) and the broader public sector, and First Nations;
- identifying opportunities to improve client access to Ontario's income-based benefits programs and making their delivery more efficient through efforts such as leveraging MoF's automated income verification and other benefits administration processes;
- providing data analysis to support the transformation of tax and benefits programs;
- providing strategic planning services including tracking, analyzing and reporting on TBA's performance measures, service standards, and revenue commitments;
- evaluating and reporting on TBA's performance including our success in meeting strategic and operational objectives;
- developing TBA's strategic plan, operational business plans and related work activities, including inter-jurisdictional research and analysis, environmental assessments, planning sessions, and benchmarking;
- operationalizing a risk management framework for TBA that proactively identifies and responds to risks; and
- supporting the sharing economy through coordination and development of key policy initiatives in partnership with the Sharing Economy Advisory Committee.

VOTE/ITEM: **1209-1 Sub-Item 2**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Strategy, Stewardship and Program Policy**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1209-1 Sub-Item 4**

VOTE: **Tax, Benefits and Local Finance**

ITEM: **Tax Compliance and Benefits**

TYPE: **Operating Expense**

SUB-ITEM DESCRIPTION

The Tax Compliance and Benefits Division plays a key role in promoting public confidence in the fairness and integrity of Ontario's tax system. The division provides a wide range of tax and non-tax enforcement functions to ensure compliance such as auditing, investigations, inspections and collections. The division is responsible for providing registration services, responding to client inquiries, managing tax client accounts and processing benefit payments, processing application refunds, and providing public education and interpretative services, reviewing and resolving objections and appeals, and providing imaging and revenue processing services.

This sub-item focuses on operational and service delivery of tax and benefits programs, revenue administration, and the implementation of current transformational projects to support the ministry's commitment to continuous improvement and modernization.

FUNCTIONS

- directing and executing excellence in the audit function using risk based techniques, modern technology and best practices;
- conducting effective investigations including forensic accounting and forensic data recovery and regulatory inspections;
- partnering with other ministries, agencies and other jurisdictions to provide technical information, resolve issues and identify opportunities to collaborate;
- strengthening efforts to address contraband tobacco products;
- providing revenue collections functions to manage accounts receivable, collect delinquent tax and non-tax debt, and administer insolvencies;
- providing leadership and expertise in the areas of Centralized Collections;
- administering tax statutes as well as a number of tax incentive, revenue and benefit programs;
- encouraging voluntary compliance through client services such as registration, account maintenance and processing tax returns and application based refunds;
- providing remittance, data and image capture and revenue processing services;
- providing benefits administrative services to partner ministries; and
- providing an inexpensive administrative review of tax assessments and refund disallowances through the objection process.

VOTE/ITEM: **1209-1 Sub-Item 4**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Tax Compliance and Benefits**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1209-5**

VOTE: **Tax, Benefits and Local Finance**

ITEM: **Taxation Policy**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Taxation Policy Division provides strategic analysis and advice on personal, corporate, mining, commodity, sales, estate administration and payroll tax policy and design.

FUNCTIONS

The Taxation Policy Division is responsible for:

- providing tax and benefit policy advice and analysis for the annual Ontario Budget, the fall Economic Outlook and Fiscal Review and other major statements;
- providing policy advice and analysis on tax issues (i.e., personal taxation, business taxation, mining, sales and commodity taxation, estate administration taxation, and payroll taxation and negotiating Canada-Ontario tax agreements);
- providing legislative design advice to implement taxation measures and support government bills relating to taxation through the legislative process;
- advising tax administrators on proper implementation of taxation measures in accordance with legislation and policy intent;
- developing and preparing the tax expenditure report, “Transparency in Taxation”; and
- leading negotiation and coordination of tax agreements and initiatives with the federal government and other provinces.

VOTE/ITEM: **1209-5**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Taxation Policy**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1209-6**

VOTE: **Tax, Benefits and Local Finance**

ITEM: **Provincial-Local Finance**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Provincial-Local Finance Division provides advice to the Minister of Finance and the Government of Ontario on policies, legislation and operational initiatives that support the province's fiscal arrangements with municipalities, including the $27 billion property tax system. The Division administers the Ontario Municipal Partnership Fund (OMPF), the government's main unconditional transfer payment to municipalities.

In support of the government's priority to develop effective policies, legislation and regulation governing the property assessment and taxation system, the Division continues to examine ways to ensure the property tax and assessment system is fair, accurate, and predictable while ensuring municipalities have the financial tools they need to give Ontarians the quality of life they deserve.

FUNCTIONS

The Provincial-Local Finance Division:

- provides analysis, develops options and designs policies that support a property tax and assessment system that is fair, accurate, and predictable;
- designs assessment and property tax legislation and regulations that meet the government's policy objectives;
- maintains a productive working relationship with the Municipal Property Assessment Corporation (MPAC) that preserves access to valuation expertise and information;
- provides analysis and advice related to $7 billion in provincial Education Property Taxes, including support for the Minister of Finance's role in setting Education Property Tax rates;
- maintains an effective liaison with stakeholders to discuss possible enhancements to the property tax and assessment system and to the provincial/municipal financial arrangements;
- assists municipalities and taxpayers to better understand their responsibilities with respect to the property tax and assessment system;
- administers transfer payment programs to municipalities, including the OMPF, and recommends options and refinements to grant and/or program redesign;
- provides advice to the Minister of Finance on fiscal arrangements with municipalities, as well as oversight with respect to provincial-municipal financial strategies and policy priorities; and
- supports the Provincial Land Tax, Education Property Taxes and taxes for local roads and services boards in the Unincorporated Areas where applicable.

VOTE/ITEM: **1209-6**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Provincial-Local Finance**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1209-7**

VOTE: **Tax, Benefits and Local Finance**

ITEM: **Municipal Support Programs**

TYPE: **Operating Expense**

ITEM DESCRIPTION

The Municipal Support Programs provides funding support to municipalities through the Ontario Municipal Partnership Fund (OMPF), Special Payments to Municipalities, Transitional Mitigation Payment and One-Time Municipal Assistance. The OMPF, the province's main unconditional transfer payment to municipalities, will provide $505 million to Ontario municipalities in 2017. Special Payments to Municipalities is a mitigation program related to property tax on hydro-electric generation facilities. Transitional Mitigation Payment is a mitigation program related to the property tax exemption for non-profit long-term care homes. One-Time Municipal Assistance provides one-time funding to municipalities facing special circumstances.

FUNCTIONS

The Division is responsible for OMPF policy including:

- developing options and refinements to grant or program design;
- supporting the policy announcement of annual OMPF allocations;
- issuing quarterly payments to eligible municipalities; and
- developing supporting materials and providing municipalities with assistance in understanding grant design and calculations.

Special Payments to Municipalities is a program that provides mitigation to municipalities related to the property tax revenue that each municipality received from hydro-electric generating stations (power dams) prior to 2001 when these properties became exempt from taxation.

Transitional Mitigation Payment is a program to provide transitional assistance to municipalities related to the exemption from property taxation of non-profit long-term care homes. The program targets assistance to eligible municipalities where revenue implications of this exemption represent a more significant proportion of the municipality's total revenue base.

VOTE/ITEM: **1209-7**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Municipal Support Programs**
TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM:	**1209-S**
VOTE:	**Tax, Benefits and Local Finance**
ITEM:	**Payments to Private Collection Agencies, the Financial Administration Act**
TYPE:	**Operating Expense**

ITEM DESCRIPTION

This item provides for expenses related to payments for private sector collection agencies which have been contracted to collect provincial debt under the terms of the *Financial Administration Act*.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1209-S**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Bad Debt Expense, the *Financial Administration Act***
TYPE: **Operating Expense**

ITEM DESCRIPTION

This item provides for the Tax and Benefits Administration Program's bad debt expense related to the net change in the Allowance for Doubtful Accounts Receivable for taxation revenue under the terms of the *Financial Administration Act*.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1209-S**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Payments Under the *Tax Increment Financing Act, 2006***
TYPE: **Operating Expense**

ITEM DESCRIPTION

This item makes provision for any expenses related to funding to municipalities under the *Tax Increment Financing Act, 2006*.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1209-2**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Operating Assets**
TYPE: **Operating Assets**

ITEM DESCRIPTION

These assets are the transfer payments made in a fiscal year that relate to a future entitlement period or overpayments that need to be recorded as a result of changed circumstances or qualifications. For example:

The Guaranteed Annual Income System (GAINS) program ensures a guaranteed minimum income for Ontario senior citizens by providing monthly payments to those who qualify. An increase in other income affecting eligibility may result in overpayments and necessitate the recovery of these overpayments.

FUNCTIONS

- recovering GAINS advanced payment recoverable amounts and overpayments.

VOTE/ITEM: **1209-2**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Operating Assets**
TYPE: **Operating Assets**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1209-S**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Advances and Recoverable Amounts**
TYPE: **Operating Assets**

ITEM DESCRIPTION

This item provides for the Advances and Recoverable Amounts for Provincial Land Tax paid under the legislation of the *Education Act*, the *Northern Services Boards Act* and the *Local Roads Boards Act*.

FUNCTIONS

- recovering advanced payment recoverable amounts and overpayments.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM: **1209-3**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Capital Expense**
TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is comprised of capital expense related to future capital loss or write-offs for Moveable/Minor Tangible Capital Assets (mTCA) for example, large information technology (IT) business applications.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1209-S**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Amortization, the *Financial Administration Act***
TYPE: **Capital Expense**

ITEM DESCRIPTION

This item is the statutory appropriation for amortization of Moveable/Minor Tangible Capital Assets (mTCA) for example, large information technology (IT) business applications.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **1209-4**
VOTE: **Tax, Benefits and Local Finance**
ITEM: **Capital Assets**
TYPE: **Capital Assets**

ITEM DESCRIPTION

This item is comprised of Moveable/Minor Tangible Capital Assets (mTCA) for example, large information technology (IT) business applications.

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

ONTARIO RETIREMENT PENSION PLAN

Ontario Retirement Pension Plan

Statutory Appropriations

Bad Debt Expense, the *Financial Administration Act*

Statutory Appropriations

Loans, the *Ontario Retirement Pension Plan Administration Corporation Act, 2015*

ONTARIO RETIREMENT PENSION PLAN

This program was responsible for supporting implementation of the Ontario Retirement Pension Plan by leading strategic policy and legislative functions related to the Plan. This program was cancelled.

OPERATING BY ITEM

[Table to be inserted by CPFB]

VOTE/ITEM:

VOTE: **Ontario Retirement Pension Plan**

ITEM: **Ontario Retirement Pension Plan**

TYPE: **Operating Expense**

ITEM DESCRIPTION

This program was previously responsible for the implementation of the mandatory provincial pension plan, the Ontario Retirement Pension Plan, to help Ontario working families build a more secure retirement future. The Ontario Retirement Pension Plan Implementation Secretariat (ORPP IS) was responsible for establishing the Ontario Retirement Pension Plan (ORPP) by leading policy, governance and legislative functions to establish the Plan, and supporting set-up of the ORPP Administration Corporation.

FUNCTIONS

- program was cancelled

VOTE/ITEM:

VOTE: **Ontario Retirement Pension Plan**

ITEM: **Ontario Retirement Pension Plan**

TYPE: **Operating Expense**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

VOTE/ITEM:

VOTE:	**Ontario Retirement Pension Plan**
ITEM:	**Bad Debt Expense, the Financial Administration Act**
TYPE:	**Operating Expense**

ITEM DESCRIPTION

This item provided for debts that are deemed unrecoverable under the terms of the *Financial Administration Act.*

COMPARITIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM:

VOTE:	**Ontario Retirement Pension Plan**
ITEM:	**Loans, the Ontario Retirement Pension Plan Administration Corporation Act, 2015**
TYPE:	**Operating Assets**

ITEM DESCRIPTION

This item included set-up expenses for the ORPP Administration Corporation.

COMPARITIVE DETAILS

[Table to be inserted by CPFB]

EXPLANATIONS FOR CHANGE FROM 2017-18 ESTIMATES:

TREASURY PROGRAM

S **Interest on Debt**

Interest on Ontario Securities

For General Purposes
Canada Pension Plan Investment Board
Canada Mortgage and Housing Corporation
Ontario Immigrant Investor Corporation

Other Interest, Exchange, Discount and Commission

Interest Capitalization

Interest on Investments

Interest on Debt Payable to Ontario Electricity Financial Corporation

S – TREASURY

This program is responsible for the development, direction, operation, execution and formulation of policies for the management of the Province's debt, investments, credit ratings, investor relations, and related financial administration activities. This is accomplished by issuing and managing debt, including Green Bonds and Ontario Savings Bonds, to complete the Province's annual borrowing program; liaising with rating agencies on their determination of the Province's credit rating; providing centralized banking and cash management services to the Province; reporting on the financial position of the Province to investors and the public to facilitate borrowing activities; providing electricity sector financial analysis and support for any direct or indirect provincial liabilities and monitoring the fiscal implications; co-managing, with Ontario Power Generation, the investment activities of the Ontario Nuclear Funds; providing advice to government and broader public sector on financing initiatives and policies; provision of guarantees and loans by the Province and assistance in investments to its Crown Corporations and agencies; assisting Crown agencies and other public bodies on financial policies and projects and investing on behalf of some public bodies; and arranging custodial and fiscal agency services for the Province and certain agencies. It is also responsible for the issuance of Ontario Savings Bonds. The Ontario Financing Authority (OFA) provides a broad range of financial services to Ontario Electricity Financial Corporation (OEFC) and Ontario Infrastructure and Lands Corporation (Infrastructure Ontario).

OPERATING BY ITEM

[Table to be inserted by CPFB]

VOTE/ITEM: **S**
VOTE: **Treasury**
ITEM: **Interest on Debt, the Financial Administration Act**
TYPE: **Statutory**

ITEM DESCRIPTION

This program is responsible for the development, direction, operation, execution and formulation of policies for the management of the Province's debt, investments, credit ratings, investor relations, and related financial administration activities. This is accomplished by issuing and managing debt, including Green Bonds and Ontario Savings Bonds, to complete the Province's annual borrowing program; liaising with rating agencies on their determination of the Province's credit rating; providing centralized banking and cash management services to the Province; reporting on the financial position of the Province to investors and the public to facilitate borrowing activities; providing electricity sector financial analysis and support for any direct or indirect provincial liabilities and monitoring the fiscal implications; co-managing, with Ontario Power Generation, the investment activities of the Ontario Nuclear Funds; providing advice to government and broader public sector on financing initiatives and policies; provision of guarantees and loans by the Province and assistance in investments to its Crown Corporations and agencies; assisting Crown agencies and other public bodies on financial policies and projects and investing on behalf of some public bodies; and arranging custodial and fiscal agency services for the Province and certain agencies. The Ontario Financing Authority (OFA) provides a broad range of financial services to Ontario Electricity Financial Corporation (OEFC) and Ontario Infrastructure and Lands Corporation (Infrastructure Ontario).

~~This program is responsible for the development, direction, operation and formulation of policies for the management of the Province's debt, investments, credit rating, investor relations, and related financial administration activities; providing centralized banking and cash management services to the Province; reporting on the financial position of the Province to investors and the public to facilitate borrowing activities; providing to the electricity sector financial analysis and support for any direct or indirect provincial liabilities and monitoring fiscal implications; advice to government and broader public sector on financing initiatives and policies; provision of guarantees and loans by the Province and assistance in investments to its Crown Corporations and agencies; and arranging custodial and fiscal agency services for the Province and certain agencies. It is also responsible for the issuance of Ontario Savings Bonds. The Ontario Financing Authority (OFA) provides a broad range of financial services to Ontario Electricity Financial Corporation (OEFC) and Ontario Infrastructure and Lands Corporation (Infrastructure Ontario).~~

FUNCTIONS

The program:

- conducts borrowing in the capital markets in a cost-effective and prudent manner, including the issuance of Ontario Savings and Green Bonds;
- manages the provincial debt and investments;
- manages financial risks such as interest rates, currency, credit and liquidity to minimize interest on debt (IOD) and variations from the budget target;
- manages and supports the credit rating review of the Province;
- manages relations with the fixed-income community (domestic and foreign);
- provides centralized banking and cash management services for the government;
- provides settlement and payment services, and financial reporting services;
- supports the implementation of the government's electricity industry policy decisions, and monitors its fiscal implications;
- effectively manages Ontario Electricity Financial Corporation's debt and derivatives portfolios, providing timely and accurate risk, cash management and financial reporting services;
- provides a broad range of financial services to Infrastructure Ontario;
- advises ministries, crown agencies and other public bodies on financial policies and projects; and
- acts as intermediary for the Province in lending to or investing for certain public bodies.

VOTE/ITEM: **S**
VOTE: **Treasury**
ITEM: **Interest on Debt, the *Financial Administration Act***
TYPE: **Statutory**

COMPARATIVE DETAILS

[Table to be inserted by CPFB]

VOTE/ITEM: **S**
VOTE: **Treasury**
ITEM: **Interest on Debt**
Interest on Ontario Securities for General Purposes
TYPE: **Statutory**

SUB-ITEM DESCRIPTION

This item comprises interest on public market borrowings via such instruments as fixed-rate bonds, floating-rate and medium-term notes, Ontario Savings Bonds, short-term Treasury Bills and United States Commercial Paper (USCP).

CHANGE FROM THE 2017-18 ESTIMATES $1,179,549,800

~~Program area to provide explanation.~~

The increase in interest expense is mainly attributable to higher interest rate forecast, new borrowing to fund the projected deficit and investment in capital assets.

STATUS OF ONTARIO DEBT

	$000
Outstanding as at March 31, 2017	301,218,243
• New Debt issues	32,618,777
• Retirements	(15,379,768)
Outstanding as at March 31, 2018	$ 318,457,252

In 2018-19:

• New debt issues planned	30,607,000
• Total retirements	$ (20,748,917)

~~Program area to provide.~~

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VOTE/ITEM: **S**
VOTE: **Treasury**
ITEM: **Interest on Debt**
Canada Pension Plan Investment Board
TYPE: **Statutory**

SUB-ITEM DESCRIPTION

The Canada Pension Plan Investment Board (CPPIB) invests funds in the Province of Ontario's non-marketable securities. Effective July 1, 2005, under a side-letter agreement signed between the CPPIB and the Province, CPPIB offered the Province upon maturity of the debentures held to the credit of the Canada Pension Plan Investment Fund (CPPIF) that were issued before January 1, 1998, an option of issuing new replacement debentures to the CPPIB with a maximum term of 30 years (minimum term of five years and with subsequent roll over options subject to the 30 years maximum from the date of issue of the first replacement debenture) at a rate based on the capital market rates at the time of roll over. These debentures are not negotiable or transferable and are assignable only to a wholly-owned subsidiary of the Canada Pension Plan Investment Board. On April 1, 2007, all debentures held to the credit of the CPPIF or purchased by the Minister of Finance of Canada in accordance with Section 110 of the Canada Pension Plan were transferred to the CPPIB.

CHANGE FROM THE 2017-18 ESTIMATES $ 1,882,000

The increase in interest expense is mainly due to higher interest rate than forecast in the 2017 Budget.

~~Program area to provide explanation.~~

STATUS OF ONTARIO DEBT

	$000
Outstanding as at March 31, 2017~~Program area to provide:~~	10,002,740~~.~~

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- New Debt issues 0
- Retirements 0

Outstanding as at March 31, 2018 $ 10,002,740

In 2018-19:

- New debt issues planned -
- Total retirements $ (45,270)

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VOTE/ITEM: **S**
VOTE: **Treasury**
ITEM: **Interest on Debt**
Canada Mortgage and Housing Corporation
TYPE: **Statutory**

SUB-ITEM DESCRIPTION

Canada Mortgage and Housing Corporation (CMHC) loans support federal-provincial environmental and employment incentive programs.

CHANGE FROM THE 2017-18 ESTIMATES $(1,314,000)

~~Program area to provide explanation.~~The decrease in interest expense is the result of debt retirement.

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STATUS OF LOANS TO ONTARIO

STATUS OF ONTARIO DEBT

		$000
Outstanding as at March 31, 2017		36,457
• New Debt issues		0
• Retirements		(14,509)
Outstanding as at March 31, 2018	$	21,948

In 2018-19:

• New debt issues planned		-
• Total Retirements	$	(11,987)

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~~Program area to provide.~~

VOTE/ITEM: **S**
VOTE: **Treasury**
ITEM: **Interest on Debt**
Ontario Immigrant Investor Corporation
TYPE: **Statutory**

SUB-ITEM DESCRIPTION

The Ontario Immigrant Investor Corporation (OIIC) is an operational enterprise of the Ontario Government, incorporated on April 30, 1999, under the *Development Corporation Act*. The corporation was established to act as Ontario's receiving vehicle for immigrant investor monies and was accepted as an approved fund under this program by the federal government on June 22, 1999. The OIIC has been investing funds into the Province since 2003.

CHANGE FROM THE 2017-18 ESTIMATES $ 542,700

The increase in interest expense is due to higher than forecasted investment from OIIC.

~~Program area to provide explanation.~~

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STATUS OF ONTARIO DEBT

	$000
Outstanding as at March 31, 2017	114,068
• New Debt issues	150
• Retirements	(14,277)
Outstanding as at March 31, 2018	$ 99,941

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In 2018-19:

- New debt issues planned -
- Total Retirements $ (57,096)

~~Program area to provide.~~

VOTE/ITEM: **S**
VOTE: **Treasury**
ITEM: **Interest on Debt**
Other Interest, Exchange, Discount and Commission
TYPE: **Statutory**

SUB-ITEM DESCRIPTION

These items include public debt transactions such as bank charges, foreign exchange gains and losses, debt issue costs, premiums/discounts and underwriting commissions, as well as interest on special purpose accounts.

CHANGE FROM THE 2017-18 ESTIMATES **$ 141,112,000**

~~Program area to provide explanation.~~

The change is mainly attributable to higher amortization of net discounts from the issuance of debt, lower deferred hedge gains, and higher interest on Special Purpose~~s~~ Accounts.

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VOTE/ITEM: **S**
VOTE: **Treasury**
ITEM: **Interest on Debt**
Interest Capitalization
TYPE: **Statutory**

SUB-ITEM DESCRIPTION

This item represents the financing costs incurred to fund the construction or development of a tangible asset. The financing costs are capitalized during the period of construction given that those costs are viewed as part of the cost required to get the asset ready for use. These capitalized financing costs reduce interest on debt.

CHANGE FROM THE 2017-18 ESTIMATES **$ (5,431,100)**

~~Program area to provide explanation.~~This change reflects the higher projected investments in capital assets and higher underlying financing costs to be capitalized during the period of construction.

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VOTE/ITEM: **S**
VOTE: **Treasury**
ITEM: **Interest on Debt**
Interest on Investments
TYPE: **Statutory**

SUB-ITEM DESCRIPTION

This item represents investment income earned from the Province's investments, mainly in marketable securities issued or guaranteed by Canadian chartered banks, and provincial and federal governments. It also includes interest from loans to its Crown corporations, agencies and other public bodies.

CHANGE FROM THE 2017-18 ESTIMATES $ (325,501,000)

~~Program area to provide explanation.~~

The increase in investment income is mainly attributable to increase in interest income from planned new loans to agencies and other public bodies, and from higher investment income due to higher projected temporary investments.

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VOTE/ITEM: **S**
VOTE: **Treasury**
ITEM: **Interest on Debt**
Payable to the Ontario Electricity Financial Corporation
TYPE: **Statutory**

SUB-ITEM DESCRIPTION

This item provides for interest on Provincial Purpose Debt issued as part of a debt-for-equity swap with Ontario Power Generation Inc. and Hydro One Inc. effective April 1, 1999. The Province assumed $8,885 million of the debt issued by these two government business enterprises to OEFC in exchange for $5,126 million in equity from Ontario Power Generation Inc. and $3,759 million in equity from Hydro One. In addition, OEFC owed Hydro One for a working capital adjustment in the amount of $122 million, and Hydro One agreed to settle this amount as a reduction of the equity in 2002, and the Province reduced one of its payables to OEFC by $122 million. In 2017, $1,122 million was redeemed and in March 2018, $861 million was redeemed.

CHANGE FROM THE 2017-18 ESTIMATES $ (36,000,000)

~~Program area to provide explanation.~~The decrease in interest expense is due to partial retirement of the outstanding debt.

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STATUS OF ONTARIO DEBT

	$000
Outstanding as at March 31, 2017:	7,762,835
• New Debt issues	
• Retirements	(861,234)
Outstanding as at March 31, 2018	$ 6,901,602

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In 2018-19:

- New debt issues planned -
- Total Retirements $

~~Program area to provide.~~

Trillium Trust Program

Statutory Appropriations (Capital Expense)

Infrastructure Expenditures, the *Trillium Trust Act*

Statutory Appropriations (Capital Assets)

Infrastructure Expenditures, the *Trillium Trust Act*

S – TRILLIUM TRUST PROGRAM

The Trillium Trust provides for the dedication of prescribed net revenue gains / fiscal benefits from the sale of designated assets to help support investments in infrastructure, such as roads, bridges, transit and other priority infrastructure.

CAPITAL BY ITEM

[Table to be provided by CPFB]

VOTE/ITEM: **S**
VOTE: **Trillium Trust Program**
ITEM: **Infrastructure Expenditures, the *Trillium Trust Act***
TYPE: **Capital Expense**

ITEM DESCRIPTION

The Trillium Trust provides for the dedication of prescribed net revenue gains / fiscal benefits from the sale of designated assets to help support investments in infrastructure, such as roads, bridges, transit and other priority infrastructure.

COMPARATIVE DETAILS

[Table to be provided by CPFB]

VOTE/ITEM: **S**
VOTE: **Trillium Trust Program**
ITEM: **Infrastructure Expenditures, the *Trillium Trust Act***
TYPE: **Capital Assets**

ITEM DESCRIPTION

The Trillium Trust provides for the dedication of prescribed net revenue gains / fiscal benefits from the sale of designated assets to help support investments in infrastructure, such as roads, bridges, transit and other priority infrastructure.

COMPARATIVE DETAILS

[Table to be provided by CPFB]

From:	John Psinas
To:	Anna Strathy
Cc:	David Cross; Ronald Kwan; Gadi Mayman; Deena Padamadan; Matthew Breadner; James Devine; Ken Kandeepan
Subject:	RE: FAO Commentary on Debt/GDP Target
Date:	Thursday, August 17, 2017 2:50:17 PM
Attachments:	Debt-To_GDP Commentary Draft_fina August 17l.docx

Anna,

Please find attached my comments. For the most part, the FAO is factually correct for the net debt section. I am therefore not able to either refute, disagree or agree with the choice of words used such "overly optimistic assumptions" and "string of" consecutive balanced budgets.

We are not able to verify the second half of the document about capital investments nor GDP. When we calculate net debt, we have some capital acquisition data, and it's not matching exactly the investments/GDP chart. I would urge therefore the subject matter experts CPD and OEP to take a look at the capital infrastructure chart and GDP commentary respectively.

Thanks.

John

From: Anna Strathy
Sent: Thursday, August 17, 2017 11:03 AM
To: John Psinas <John.Psinas@ofina.on.ca>
Cc: David Cross <David.Cross@ofina.on.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Deena Padamadan <Deena.Padamadan@ofina.on.ca>; Matthew Breadner <Matthew.Breadner@ofina.on.ca>; James Devine <James.Devine@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: Re: FAO Commentary on Debt/GDP Target

Yes definitely. OEP is reviewing simultaneously.

Sent from my iPhone

On Aug 17, 2017, at 11:01 AM, John Psinas <John.Psinas@ofina.on.ca> wrote:

> Anna,
>
> Approximately half the document discusses GDP assumptions and growth. Can someone therefore from OEP comment on that portion.
>
> Thanks.
>
> John

From: Anna Strathy
Sent: Thursday, August 17, 2017 10:52 AM
To: John Psinas <John.Psinas@ofina.on.ca>; David Cross <David.Cross@ofina.on.ca>
Cc: Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Deena Padamadan <Deena.Padamadan@ofina.on.ca>; Matthew Breadner <Matthew.Breadner@ofina.on.ca>; James Devine <James.Devine@ofina.on.ca>
Subject: FW: FAO Commentary on Debt/GDP Target

Hi John, David,

Attached for your review and comment is an embargoed copy of the FAO's commentary on Ontario's debt reduction commitment. We've been asked to provide comments/edits to Office of the Budget by **noon on Tuesday, August 22**.

Thank you, Anna

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Thursday, August 17, 2017 10:47 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Manning, Catalina (TBS) <Catalina.Manning@ontario.ca>
Cc: Daniel Tiburcio (MOF) <Daniel.Tiburcio@ontario.ca>
Subject: FW: FAO Commentary on Debt/GDP Target

Hi All,

As per below, the FAO has asked for comments on their embargoed debt burden commentary. Can your areas please review and share any comments/edits by **noon on Tuesday, August 22**? Note, when providing comments, it is important that they be written for the FAO as opposed to an internal audience.

Please copy Daniel Tiburcio when you respond with your comments. OB/FPCU will be consolidating edits.

Let me know if you have any questions.

Thanks,
Ryan

From: Schuurman, Tim (MOF)

Sent: August-17-17 10:34 AM
To: Mayman, Gadi (OFA); Kwan, Ronald (OFA); Hughes, Karen (TBS); Arruda, Artur (TBS); Lewis, Brian (MOF)
Cc: Tiburcio, Daniel (MOF); Birks, Ryan (MOF); Inglis, Liane (MOF); Chaput, Brandon (MOF); McLean, David (MOF)
Subject: FW: FAO Commentary on Debt/GDP Target

FYI – the FAO has provided us with an preliminary draft of their upcoming commentary on Ontario's debt burden and targets - -see David's email below and the attached.

Ryan will work with your EA's to operationalize this, but we'll consolidate edits and feedback for the FAO into one document – so please plan on providing us with ADM approved edits by noon next Tuesday, August 22 so we can consolidate for the FAO end of day.

Please let me know if you have questions about process.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173
<image001.png>

From: David West [mailto:dwest@fao-on.org]
Sent: August-17-17 10:19 AM
To: Schuurman, Tim (MOF)
Cc: Birks, Ryan (MOF); Mario Angastiniotis
Subject: FAO Commentary on Debt/GDP Target

Hello Tim,

Please find attached a draft FAO Commentary: 'Ontario's Debt Reduction Commitment Based on Optimistic Assumptions'.

We are hoping that you can have the appropriate staff review this short note (just 700 words!) and provide us with comments/concerns by end of day Tuesday, August 22.

Portions of the note are based on discussions with staff from the OFA while the data behind the infrastructure spending chart was provided by TBS (Artur Arruda and Karen Hughes). Karen also indicated (in an email) that she believed we would be able to publish the total annual infrastructure spending estimates (which are included as a share of GDP in this note).

As always, please treat this note as confidential until it is released on the FAO's website.

I have not used a password for this document, since all (or at least essentially all) of the information is already public (either in the FAO's Spring EFO or the 2017 Budget).

Thanks for your continued support and assistance.

Dave

David West
Chief Economist
<image002.png>

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
t.416.579.1465 | dwest@fao-on.org
www.fao-on.org

FAO Commentary

TBD, 2017

Ontario's Debt Reduction Commitment Based on Optimistic Assumptions

The FAO projects that Ontario's net debt will increase by $76 billion over the next five years to approximately $392 billion in 2021-22, resulting in the net debt-to-GDP ratio rising to 40.3 per cent.[1] In contrast, in the 2017 Budget, the Province projects a small decline in the net debt-GDP ratio to 36.3 per cent by 2021-22.

In the 2017 Budget, the government also restated its commitment to reduce the net debt-to-GDP ratio to its pre-recession level of 27 per cent. The Province projects that this 27 per cent target will be achieved by 2029-30, based on three key assumptions:

- on-going balanced budgets over the next 12 years;
- future capital spending as laid out in the long-term infrastructure plan; and
- a continuation of strong economic growth.

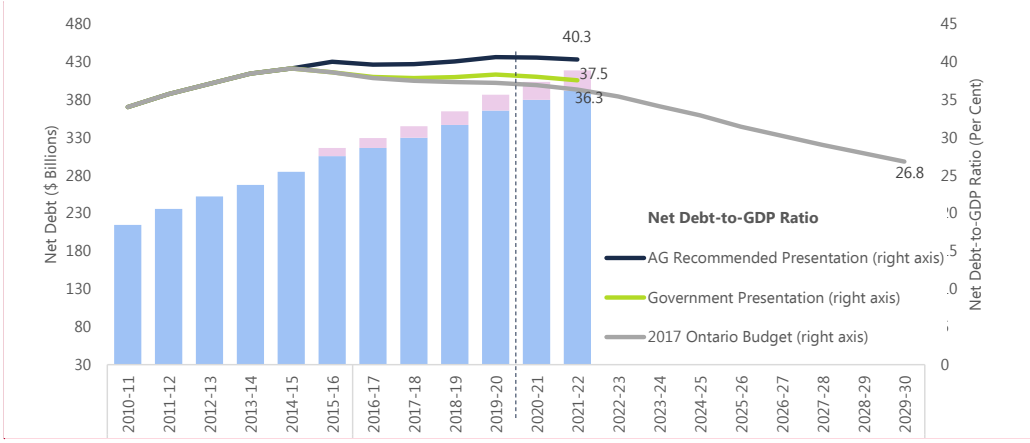
However, if any of these relatively optimistic assumptions fall short of expectations, the government's 27 per cent debt-to-GDP target would not be achieved.

Commented [JP1]: Not able to verify how this was calculated or what method was used.

Commented [JP2]: resulting in GDP growing more quickly than debt

Commented [JP3]: not achieved by 2029-30 presumably.

Achievement of 27 Per Cent Debt-To-GDP Target Based on Optimistic Assumptions



Note: AG recommended presentation based on FAO estimates of the pension adjustment.
Source: Ontario 2017 Budget and FAO

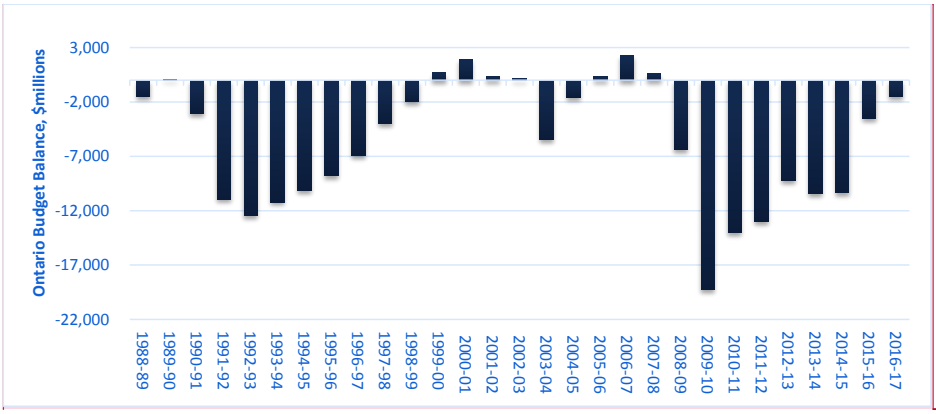
Commented [JP4]: While inclusion of the AG recommended presentation is fair, some mention of the conclusions of the independent Pension Asset Expert Advisory Panel in February 2017 should be disclosed in this document to give some additional perspective to the reader. The panel concluded that the province reporting of net pension assets was in accordance with PSAB standards. Such inclusion therefore has an impact on net debt and net debt projections. Also, not able to verify the FAO's 40.3%. Not sure what "Government presentation" means as opposed to the Budget % of 36.3, which is correct.

The government's forecast for a gradual decline in the net debt-to-GDP ratio depends critically on achieving a string of consecutive balanced budgets each year over the next 12 years. Over the past thirty years, Ontario has rarely achieved successive surpluses or balanced budgets. In contrast to the 2017 Budget, the FAO continues to project a steady deterioration in the budget deficit over the next five years, due to moderating revenue growth combined with higher expenses.

Commented [JP5]: Not able to verify this.

[1] Based on the FAO's application of the Auditor General's recommended accounting treatment for pension assets - see the FAO's 'Economic and Fiscal Outlook, Spring 2017'. By comparison, based on the government's accounting presentation, the FAO projects Ontario's net debt will rise by $62 billion to roughly $365 billion by 2021-22 and that the net debt-to-GDP ratio will fall modestly to 37.5 per cent.

Ontario has Rarely Achieved Balanced Budgets in Consecutive Years

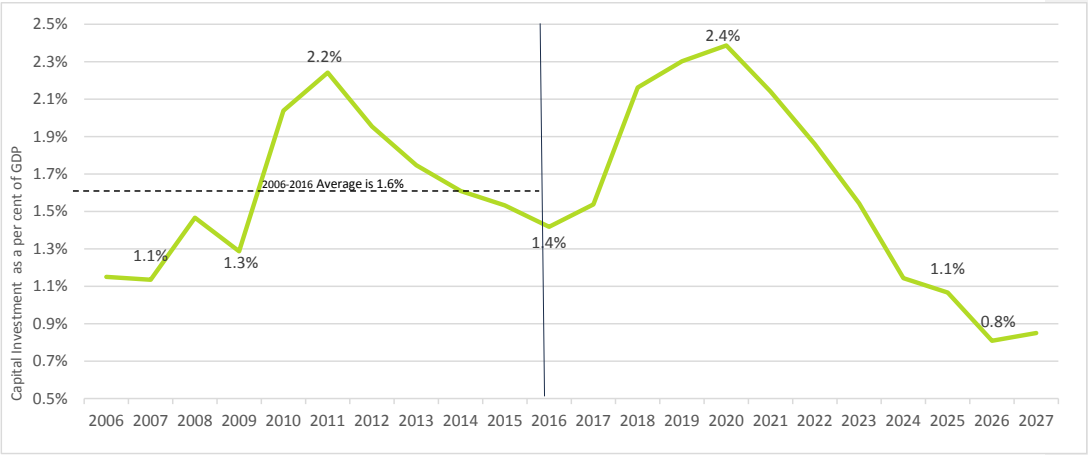


Source: Ontario Budgets 1988-89 to 2017-18

Commented [JP6]: The 2014-15 deficit value on the graph above is 10,314. However, the Net Debt spreadsheet indicates 10,315. (right click then hover over the chart to see)

The government's debt reduction commitment is also linked to the Province's 13-year, $190 billion infrastructure plan which includes significant reductions in capital investment in the 2020s. After peaking in 2019-20 at 2.4 per cent of nominal GDP, the Province is projecting capital spending to fall to just 0.8 per cent of GDP by 2027-28 – half of the historical average of 1.6 per cent.

Investment in Capital Assets as a share of GDP to Decline Sharply in the 2020s



Source: Investment in Capital Assets, 2017 Infrastructure Update, Ministry of Infrastructure, FAO

Since the Province has made substantial investments in public sector assets (such as hospitals) over the last 10 years, some pullback is to be expected.[2] However, given the government's focus on new and large transit and highway projects, it is likely that the Province will need to augment its capital plan and increase spending in the latter part of the next decade. Higher than planned capital spending in the future would add to the Province's net debt, increasing the net debt-to-GDP ratio.[3]

Finally, the government's debt-to-GDP projection relies on nominal GDP growing at an average pace of 4 per cent per year over the long-term.[4] However, nominal GDP growth has averaged just 3.6 per cent per year over the past 15 years, and given Ontario's aging population and slower expected growth in its labour force, 4 per cent annual growth may prove to be too optimistic for the next decade.

Given the risks associated with the government's assumptions, a fiscal plan that focuses only on achieving balanced budgets may not be enough to lower Ontario's net debt-to-GDP ratio to 27 per cent by 2029-30.

Mario Angastiniotis
Senior Director
mangastiniotis@fao-on.org

David West
Chief Economist
dwest@fao-on.org

Financial Accountability Office of Ontario
2 Bloor Street West, Suite 900
Toronto, Ontario M4W 3E2

Media queries, contact: Kismet Baun, 416.254.9232 or email kbaun@fao-on.org.

[2] See Infrastructure Ontario's list of major projects, http://www.infrastructureontario.ca/Major-Projects/, August 16, 2017.
[3] The government's capital spending projection may also prove to be too conservative given a number of announced but unfunded initiatives including high-speed rail and subway expansion in Toronto.
[4] Ontario's Long-Term Report on the Economy, Ministry of Finance, 2017

From:	Inglis, Liane (MOF)
To:	Ken Kandeepan
Cc:	Alexander Kraas; Jacob Hadwen (MOF); Chi-Wa Che; Ivy Wang; John Psinas
Subject:	RE: FAO Fall outlook vs FES slides
Date:	Friday, January 05, 2018 10:29:34 AM

Thanks very much Ken – very helpful.

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: January 5, 2018 9:35 AM
To: Inglis, Liane (MOF)
Cc: Kraas, Alexander (OFA); Hadwen, Jacob (MOF); Che, Chi-Wa (OFA); Wang, Ivy (OFA); John Psinas
Subject: RE: FAO Fall outlook vs FES slides

Hi Liane

With regard to the IOD we believe the FAO projections are lower possibly due to

- Differing interest rate assumptions including those relating to the spread between the Province and the Bank of Canada
- Potentially a different Financing Table for the increase in debt, some variances could arise from their lack inclusion of the 44% equity injection to OPG which is included in the Province's FT
- The AO savings; that are included in both IOD and Revenues in the Province's projections and obviously not part of the FAO's outlook
- The BPS line by line consolidation, while this has no fiscal impact, from 2017 FES onwards, it is part of the Province's IOD projections. Given that this is around $600M it may contribute to the discrepancy.

It is difficult to be more specific since we don't have the details of the FAO projections.

Thanks and pls don't hesitate to contact Chi-Wa (in Alex's absence) or me if you have any questions.

From: Inglis, Liane (MOF) [mailto:Liane.Inglis@ontario.ca]
Sent: Friday, January 05, 2018 8:31 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Jacob Hadwen (MOF) <Jacob.Hadwen@ontario.ca>; Chi-Wa Che <Chi-Wa.Che@ofina.on.ca>; Ivy Wang <Ivy.Wang@ofina.on.ca>
Subject: RE: FAO Fall outlook vs FES slides

No worries – thanks Ken.

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: January 5, 2018 8:30 AM
To: Inglis, Liane (MOF)
Cc: Kraas, Alexander (OFA); Hadwen, Jacob (MOF); Che, Chi-Wa (OFA); Wang, Ivy (OFA)
Subject: RE: FAO Fall outlook vs FES slides

Sorry missed this one, will do so immediately.

Ken K

From: Inglis, Liane (MOF) [mailto:Liane.Inglis@ontario.ca]
Sent: Friday, January 05, 2018 8:12 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Jacob Hadwen (MOF) <Jacob.Hadwen@ontario.ca>; Chi-Wa Che <Chi-Wa.Che@ofina.on.ca>; Ivy Wang <Ivy.Wang@ofina.on.ca>
Subject: RE: FAO Fall outlook vs FES slides

Hi Ken,

Wondering whether you folks have had a chance to take a look at the FAO v FES deck I sent along earlier in the week? We're hoping to get your input on the FAO's IOD projections (and perhaps some insight into why they're lower).

Thanks,

Liane

From: Inglis, Liane (MOF)
Sent: January 2, 2018 11:44 AM
To: Kandeepan, Ken (OFA); Lewis, Paul (MOF); Hendry, Jody (TBS)
Cc: Chaput, Brandon (MOF); Hadwen, Jacob (MOF); Cava, Franco (MOF); Kraas, Alexander (OFA); Anania, John (MOF); Tarin, Ghufran (MOF); Birks, Ryan (MOF); Strathy, Anna (OFA); Bendiner, Jonathan (MOF)
Subject: FAO Fall outlook vs FES slides

Hi Everyone – Happy New Year!

We've been asked to pull together a deck that compares the FAO's 2017 Fall Economic and Fiscal Outlook with the FES. My understanding is that the deck will be used with the SOC on Jan 10th.

The attached deck is based on the note we all had a hand in drafting when the report was first released earlier in December. Can you please take a look at the attached and provide us with feedback by **Thursday Jan 4th EOD**?

Here's a link to the FAO's report: http://www.fao-on.org/en/Blog/Publications/EFO-Fall_2017[fao-on.org]

Thanks everyone.

Liane

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including any attachments, without reading them, and destroy all copies. Thank you.

From:	John Psinas
To:	Bharat Patel (MOF)
Cc:	Nadine Petsche (MOF); Ken Kandeepan; George Sakura; Shemin Meralli; Kevin Hwang
Subject:	RE: FAO request
Date:	Monday, May 08, 2017 4:45:14 PM

Bharat,

We can't vouch for the 40.3% and the 37.5 % as the FAO is using a different method of calculating net debt to get to the 40.3. They have included the pension adjustment, I believe. However, the 38.6% in 2015-16 is correct.

Thanks.

--John

416-325-8072

From: Patel, Bharat (TBS) [mailto:Bharat.Patel3@ontario.ca]
Sent: Monday, May 08, 2017 4:40 PM
To: John Psinas <John.Psinas@ofina.on.ca>
Cc: Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>
Subject: FAO request

John,

Can you confirm following statement in FAO draft report is correct?

Based on the AG's recommended accounting presentation, the FAO expects Ontario's net debt-to-GDP ratio will edge higher over the outlook, rising to 40.3 per cent by 2021-22, reflecting the projected increase in net debt and the FAO's forecast for nominal GDP growth. In contrast, based on the accounting treatment adopted by the government in the 2017 Budget, net debt-to-GDP is projected to fall slightly from 38.6 per cent in 2015-16 to 37.5 per cent by 2021-22

From: Patel, Bharat (TBS)
To: John Psinas
Cc: Nadine Petsche (MOF); Ken Kandeepan; George Sakura; Shemin Meralli; Kevin Hwang
Subject: RE: FAO request
Date: Monday, May 08, 2017 4:55:45 PM

Yes they included pension adj.

Sent with BlackBerry Work (www.blackberry.com)

From: John Psinas <John.Psinas@ofina.on.ca<mailto:John.Psinas@ofina.on.ca>>
Date: Monday, May 08, 2017, 4:45 PM
To: Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca<mailto:Bharat.Patel3@ontario.ca>>
Cc: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca<mailto:Nadine.Petsche@ontario.ca>>, Kandeepan, Ken (OFA) <Ken.Kandeepan@ofina.on.ca<mailto:Ken.Kandeepan@ofina.on.ca>>, Sakura, George (OFA) <George.Sakura@ofina.on.ca<mailto:George.Sakura@ofina.on.ca>>, Meralli, Shemin (OFA) <Shemin.Meralli@ofina.on.ca<mailto:Shemin.Meralli@ofina.on.ca>>, Hwang, Kevin (OFA) <Kevin.Hwang@ofina.on.ca<mailto:Kevin.Hwang@ofina.on.ca>>
Subject: RE: FAO request

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416-325-8072

From: Patel, Bharat (TBS) [mailto:Bharat.Patel3@ontario.ca]
Sent: Monday, May 08, 2017 4:40 PM
To: John Psinas <John.Psinas@ofina.on.ca>
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Subject: FAO request

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From: Bonnie Lemcke
To: Ken Kandeepan
Cc: Christina Zhang
Subject: RE: FAO vs. FES
Date: Tuesday, November 15, 2016 10:57:22 AM

HI Ken,

Alex and I are going to meet the FAO this afternoon to look at their methodology. I just realized that this conflicts with the management meeting. If you want us to reschedule let me know.

Bonnie

From: Ken Kandeepan
Sent: Tuesday, November 15, 2016 9:27 AM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: FW: FAO vs. FES

Hi Bonnie

The FAO's IOD forecast is considerably lower than ours, is there any way that they can share their underlying interest rate assumptions.

Thanks

Ken k

From: Gadi Mayman
Sent: Monday, November 14, 2016 11:40 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Fwd: FAO vs. FES

Begin forwarded message:

> **From:** "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
> **To:** "Scott Thompson (CAB)" <Scott.Thompson@ontario.ca>, "Brian Lewis (MOL)" <Brian.Lewis@ontario.ca>, "Karen Hughes (MGS)" <Karen.Hughes@ontario.ca>, "Maria Duran-Schneider (MOF)" <Maria.Duran-Schneider@ontario.ca>, "Arruda, Artur (TBS)" <Artur.Arruda@ontario.ca>, "Gadi Mayman" <Gadi.Mayman@ofina.on.ca>
> **Cc:** "David McLean (MOF)" <David.McLean@ontario.ca>, "Christopher Pearce (MOI)"

<Christopher.Pearce@ontario.ca>, "Selena Esmail (MOF)" <Selena.Esmail@ontario.ca>, "Emma Lindquist (MOF)" <Emma.Lindquist@ontario.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>
Subject: FAO vs. FES

As you all know, the FAO will be reviewing the FES and developing questions for us to review and answer when we meet with them on Wednesday.

To help us all prepare for this, we've done a cross-walk from the FAO fiscal plan to the fiscal plan outlined in the FES today. The table is attached for your reference.

In summary, the FAO Outlook shows higher deficits than outlined in the Fall Statement. Key factors include:

- The FAO's revenue forecast is significantly lower than what is outlined in the Fall Statement (more than $5B in 18-19).
- The FAO's estimate of new government initiatives (child care, HST rebate, etc) are higher than what are built into the Fall Statement, particularly in 17-18 and 18-19.
- Combined, these two elements, which result in a deterioration in the fiscal outlook, are partially offset by higher IOD savings assumed by the FAO.

As we already know, the FAO underestimated the Pension Adjustment in each year, which reduced the variance between the FAO's deficit projection and the FES. Presumably their updated forecast in their commentary (to be released next week) will increase the Pension Adjustment, and also, the resulting deficit projection.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



From: Bonnie Lemcke
To: Ken Kandeepan
Subject: RE: FAO vs. FES
Date: Tuesday, November 15, 2016 9:41:29 AM

I'm sure they will. I think they have a very crude way of estimating IOD and I am going to ask to see their model.

Bonnie

From: Ken Kandeepan
Sent: Tuesday, November 15, 2016 9:27 AM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: FW: FAO vs. FES

Hi Bonnie

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Thanks

Ken k

From: Gadi Mayman
Sent: Monday, November 14, 2016 11:40 PM
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Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Fwd: FAO vs. FES

Begin forwarded message:

> **From:** "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
> **To:** "Scott Thompson (CAB)" <Scott.Thompson@ontario.ca>, "Brian Lewis (MOL)" <Brian.Lewis@ontario.ca>, "Karen Hughes (MGS)" <Karen.Hughes@ontario.ca>, "Maria Duran-Schneider (MOF)" <Maria.Duran-Schneider@ontario.ca>, "Arruda, Artur (TBS)" <Artur.Arruda@ontario.ca>, "Gadi Mayman" <Gadi.Mayman@ofina.on.ca>
> **Cc:** "David McLean (MOF)" <David.McLean@ontario.ca>, "Christopher Pearce (MOI)" <Christopher.Pearce@ontario.ca>, "Selena Esmail (MOF)" <Selena.Esmail@ontario.ca>, "Emma Lindquist (MOF)" <Emma.Lindquist@ontario.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>

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Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

From: Ken Kandeepan
To: Gadi Mayman
Cc: Christina Zhang
Subject: RE: FAO vs. FES
Date: Tuesday, November 15, 2016 9:22:58 AM

Will ask Bonnie if she can obtain their assumptions, good point re interest rates, though 10 year US Treasuries fell 7 bps this AM, hopefully this is just volatility and not indicative of a trend.

Thanks

Ken K

From: Gadi Mayman
Sent: Tuesday, November 15, 2016 9:16 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Re: FAO vs. FES

Their IOD forecast is very low, and I'm not sure how they got there, so if you could find out their assumptions on that, it would be interesting to know. I think Bonnie may have some insights on that.

While our interest rate assumptions looked pretty conservative until last Tuesday, 10 and 30 year rates are 40 basis points higher now than they were then, so we'll have to see how the markets continue to react between now and next spring when we lock down numbers.

From: Ken Kandeepan
Sent: Tuesday, November 15, 2016 9:00 AM
To: Gadi Mayman
Cc: Christina Zhang
Subject: RE: FAO vs. FES

Thanks Gadi, nothing much to comments other than the FAO's revenue assumptions are considerably lower than that of the Province despite the nominal GDP uptick. Expenses are close enough though they assume a much lower pension adjustment and a lower IOD.

Be interesting to see what their assumptions were for IOD, of course our 18-19 forecast for IOD will also reduce once we move from the 15 year average to the OEP forecast.

Thanks

Ken K

From: Gadi Mayman
Sent: Monday, November 14, 2016 11:40 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Fwd: FAO vs. FES

Begin forwarded message:

> **From:** "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
> **To:** "Scott Thompson (CAB)" <Scott.Thompson@ontario.ca>, "Brian Lewis (MOL)" <Brian.Lewis@ontario.ca>, "Karen Hughes (MGS)" <Karen.Hughes@ontario.ca>, "Maria Duran-Schneider (MOF)" <Maria.Duran-Schneider@ontario.ca>, "Arruda, Artur (TBS)" <Artur.Arruda@ontario.ca>, "Gadi Mayman" <Gadi.Mayman@ofina.on.ca>
> **Cc:** "David McLean (MOF)" <David.McLean@ontario.ca>, "Christopher Pearce (MOI)" <Christopher.Pearce@ontario.ca>, "Selena Esmail (MOF)" <Selena.Esmail@ontario.ca>, "Emma Lindquist (MOF)" <Emma.Lindquist@ontario.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>
> **Subject: FAO vs. FES**
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> - Combined, these two elements, which result in a deterioration in the fiscal outlook, are partially offset by higher IOD savings assumed by the FAO.
>
> As we already know, the FAO underestimated the Pension Adjustment in each year, which reduced the variance between the FAO's deficit projection and the FES. Presumably their updated forecast in their commentary (to be released next week) will increase the Pension Adjustment, and also, the resulting deficit

projection.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



From:	Ken Kandeepan
To:	Gadi Mayman
Cc:	Christina Zhang
Subject:	RE: FAO vs. FES
Date:	Tuesday, November 15, 2016 9:00:56 AM

Thanks Gadi, nothing much to comments other than the FAO's revenue assumptions are considerably lower than that of the Province despite the nominal GDP uptick. Expenses are close enough though they assume a much lower pension adjustment and a lower IOD.

Be interesting to see what their assumptions were for IOD, of course our 18-19 forecast for IOD will also reduce once we move from the 15 year average to the OEP forecast.

Thanks

Ken K

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Sent: Monday, November 14, 2016 11:40 PM
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Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Fwd: FAO vs. FES

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> **Cc:** "David McLean (MOF)" <David.McLean@ontario.ca>, "Christopher Pearce (MOI)" <Christopher.Pearce@ontario.ca>, "Selena Esmail (MOF)" <Selena.Esmail@ontario.ca>, "Emma Lindquist (MOF)" <Emma.Lindquist@ontario.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>
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Tim Schuurman
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Toronto ON M7A 1Z1
Tel: 416-327-0173



From:	Bonnie Lemcke
To:	Ken Kandeepan
Subject:	RE: FAO vs. FES
Date:	Tuesday, November 15, 2016 11:14:26 AM

I think it might be too detailed for you to get involved we will report back.

Bonnie

From: Ken Kandeepan
Sent: Tuesday, November 15, 2016 11:13 AM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Re: FAO vs. FES

No I suggest that you do go, not sure if you need me to come as well.

Thanks

Ken k

On Nov 15, 2016, at 10:57 AM, Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca> wrote:

> HI Ken,
>
> Alex and I are going to meet the FAO this afternoon to look at their methodology. I just realized that this conflicts with the management meeting. If you want us to reschedule let me know.
>
> Bonnie
>
> ---
>
> **From:** Ken Kandeepan
> **Sent:** Tuesday, November 15, 2016 9:27 AM
> **To:** Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
> **Subject:** FW: FAO vs. FES
>
> Hi Bonnie
>
> The FAO's IOD forecast is considerably lower than ours, is there any way that they can share their underlying interest rate assumptions.
>
> Thanks
>
> Ken k

From: Gadi Mayman
Sent: Monday, November 14, 2016 11:40 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Fwd: FAO vs. FES

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7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



From:	Alexander Kraas
To:	Anna Strathy
Cc:	George Sakura; Kevin Hwang; Shemin Meralli; John Psinas; Bonnie Lemcke; Ken Kandeepan
Subject:	RE: FAO"s Fall 2017 Final EFO Report / Request for Input by EOD
Date:	Thursday, December 07, 2017 1:50:19 PM
Attachments:	Summary of Draft FAO Fall Fiscal Outlook_v2a (002).docx image001.png image002.png

---

Hello Anna;

I have added a comment on page 4.

Best regards

Alex

From: Anna Strathy
Sent: Thursday, December 07, 2017 1:40 PM
To: Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: George Sakura <George.Sakura@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: RE: FAO's Fall 2017 Final EFO Report / Request for Input by EOD

Thanks Alex. If that's something we should flag for Office of the Budget, could you please add a comment in the margins of p. 4 of the attached?

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Sent: Thursday, December 07, 2017 1:15 PM
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Subject: RE: FAO's Fall 2017 Final EFO Report / Request for Input by EOD

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Best regards

Alex

From: Anna Strathy
Sent: Thursday, December 07, 2017 12:41 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: FW: FAO's Fall 2017 Final EFO Report / Request for Input by EOD
Importance: High

Hi Ken,

Please see attached, embargoed copy of the FAO's final report. Please let me know if this has any impact on our comment on the summary note.

Thank you, Anna

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Thursday, December 07, 2017 12:01 PM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Vivienne Skoberne (MOHLTC) <Vivienne.Skoberne@ontario.ca>; Jayne Harten (ENE) <Jayne.Harten@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Sohaeb Raashid (MOI) <Sohaeb.Raashid@ontario.ca>; Caleb Lance (MTCS) <Caleb.Lance@ontario.ca>; Manning, Catalina (TBS) <Catalina.Manning@ontario.ca>
Cc: Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Jacob Hadwen (MOF) <Jacob.Hadwen@ontario.ca>
Subject: FAO's Fall 2017 Final EFO Report / Request for Input by EOD
Importance: High

Hi All,

As a follow up to my message yesterday, I'm attaching an embargoed copy of the FAO's final EFO report. Please **limit circulation of the report** as it's not being released officially until Monday.

Can you please ensure that your ADM approved input/edits to the summary note reflect this latest version of the report **by EOD today**?

Please let me know if you have any questions.

Thanks,
Ryan

From: Schuurman, Tim (MOF)
Sent: December-07-17 10:03 AM
To: Thompson, Scott (MOF); Mayman, Gadi (OFA); Kennedy, Nancy (MOF); Weir, Mike (MOF); Lewis, Brian (MOF)
Cc: McLean, David (MOF); Kobrinsky, Liza (MOF); Birks, Ryan (MOF); Esmail, Selena (MOF)
Subject: The FAO's Fall 2017 Economic and Fiscal Outlook

Please find attached the final FAO Economic and Fiscal Outlook report which is being released on Monday. Copies are being shared with the Ministers this morning as well.

We're working across the system to prepare a summary note and some suggested speaking notes. We should ask the MO if they'd like a briefing for the Minister (who will be in Ottawa when this is released).

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

From: David West [mailto:dwest@fao-on.org]
Sent: December-07-17 9:57 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF)
Cc: Birks, Ryan (MOF); Tarin, Ghufran (MOF); Laughton, Patrick (TBS)
Subject: The FAO's Fall 2017 Economic and Fiscal Outlook

Good morning,

The FAO will be releasing a 'Fall 2017 Economic and Fiscal Outlook' report on Monday, December 11, 2017 at 10:00 am.

We have scheduled technical briefings of the embargoed report for MPPs at 9:00 am on Monday. The Temporary FAO, the Honourable David Wake and I will provide a media statement at 10:00 am.

A pre-release copy of the report is being delivered to Ministers Sousa and Sandals this morning, as required by the FAO Act.

Please find attached a copy of the final report for your reference.

Please treat this document as embargoed until its release on Monday at 10:00 am.

As always, we greatly appreciate your assistance and support for the work of the FAO.

Best regards,

David

David West
Chief Economist

Financial Accountability Office of Ontario

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
c.416.579-1465 | dwest@fao-on.org
www.fao-on.org

FAO's 2017 Fall Fiscal Outlook – OB Summary

ISSUE

The Financial Accountability Office is set to release its 'Fall Economic and Fiscal Outlook' report. This note summarizes the fiscal chapter of the report.

TOP MESSAGES

- I would like to thank the Financial Accountability Officer (FAO) for releasing his fall economic and fiscal outlook for Ontario. We value the FAO's independent assessment and projections of the province's fiscal plan.
- As outlined in the 2017 Ontario Economic Outlook and Fiscal Review, the government is projecting a balanced budget for 2017–18 and to remain balanced in 2018–19 and 2019–20.
- The FAO report also projects a balanced budget for Ontario this year.
- The government has a strong track record of beating its fiscal targets. In fact, the Public Accounts of Ontario reported that the 2016–17 deficit was $1.0 billion, beating our annual deficit target again, for the eighth year in a row.
- The 2017 Ontario Economic Outlook and Fiscal Review builds on the government's track record of fiscal management that has resulted in $29 billion in accumulated deficits being avoided over the past seven years, relative to the 2010 Budget forecast.
- We are also targeting a net debt-to-GDP ratio of 35 per cent by 2023–24 and reducing Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029–30.
- Since 2014, Ontario's real GDP growth has strengthened, positioning Ontario as a growth leader, not only in Canada, but among G7 countries. In fact, over the 2014-17 period, Ontario's real GDP growth is on pace to exceed that of all G7 countries.
- Private-sector economists are projecting continued growth for Ontario over the forecast horizon; the FAO's real GDP projections are aligned with the 2017 Fall Economic Statement over the 2017 to 2020 period.
- This shows that our plan to make strategic investments in Ontario to grow the economy is working.
- A balanced budget is providing the Province the fiscal flexibility to invest more in health care, education, support for seniors and small businesses and other public services that matter most to Ontario families. It also adds stability to Ontario's finances and positions the government to better respond to demographic challenges and unexpected global economic shocks that the province will face over the next decade.

Commented [SM1]: Unable to verify how the $29 billion is calculated. The 2010 Budget only goes up to 2012-13.

KEY POINTS

Fiscal Outlook

- The FAO is projecting a budget deficit of $3.9 billion in 2017–18 using the **Auditor General's recommended accounting treatment for both the Fair Hydro Plan and the net pension assets of jointly sponsored pension plans.** In the absence of any fiscal policy changes this grows steadily to $9.6 billion in 2021-22.
- Under the **government's accounting presentation (excluding the AG's recommendations)**, the FAO projects a small surplus for 2017–18 of $0.3 billion (excluding the reserve) and a return to deficits beyond 2017–18 driven by revenue factors - loss of temporary revenues combined with more moderate tax revenue growth.
- The FAO suggests that by not adopting the AG's recommended accounting presentation, the 2017 Budget and the 2017 FES reduced transparency and clarity of Ontario's fiscal position and as a result Ontario will continue to receive qualified ~~options~~ opinions from the AG.

Budget Balance - FAO's Fiscal Outlook ($ Billions)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
AG Presentation	-5.0	-2.5	-3.9	-7.2	-7.9	-8.9	-9.6
Government Presentation	-3.5	-1.0	0.3	-1.9	-2.0	-2.6	-3.5
2017 FES -- Excluding Reserve	-3.5	-1.0	0.5	0.5	0.8	N/A	N/A

Revenue Outlook

- Using the AG presentation, the FAO is projecting average annual revenue growth of 2.6 per cent from 2016-17 to 2019-20 as compared with the government's projections of 4.0 per cent. The main drivers are:
    - The FAO projections for taxation revenues are $2.9 billion lower by 2019-20 than the projections in the 2017 FES due to lower projected growth in household spending, labour income and corporate profits.
    - The FAO projects that, based on the AG presentation, the Fair Hydro Plan will lower net income from OPG by $3.4 billion lower by 2019-20.
    - In addition, the FAO continues to highlight a number of one-time 2017-18 revenues, including: increase to sales and rentals from sale of final tranche of H1, higher federal transfers for infrastructure (PTIF), one-time boost from extra Cap and Trade auction. Taken together the FAO estimates that these amount to $4.5 billion in additional one-time revenues in 2017-18.

Expense Outlook

- From 2017–18 to 2019–20 the FAO's outlook adopts the government's 2017 FES projections for program spending, **adjusted to reflect the AG's recommended accounting presentation.** Beyond 2019–20 the FAO projects program spending will grow faster -- at an average annual rate of 4.1 per cent – due to population pressures.

Borrowing and Net Debt

- Using the **government's accounting presentation** net debt-to-GDP is expected to reach 38.4 per cent by 2019–20 and 38.6 per cent by 2021–22. This increases to 41.3 per cent by 2021–22 **under the AG's accounting presentation**.
    - The 2017 FES projected a net debt-to-GDP ratio of 37.0 per cent by 2019–20.

Comparison: 2017 Fall Economic Statement and the 2017 Fall FAO Fiscal Outlook

	Actual		Outlook					Avg. Annual Growth		
								16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
2017 Fall Economic Statement										
Revenue*	136.1	140.7	150.1	153.6	158.2			4.0%		
Adjustment for Fair Hydro Plan	-	-	-	-	-					
Total Revenue	136.1	140.7	150.1	153.6	158.2			4.0%		
Expense										
Program Expense**	128.1	130.0	137.4	140.4	144.2			3.5%		
Adjustment for Pension Assets	-	-	-	-	-					
Interest on Debt	11.6	11.7	12.2	12.7	13.3			4.2%		
Total Expense	139.7	141.7	149.6	153.1	157.4			3.6%		
Surplus/(Deficit) Excl. Reserve	(3.5)	(1.0)	0.5	0.5	0.8					
Reserve	-	-	0.5	0.5	0.8					
Surplus/(Deficit)	(3.5)	(1.0)	0.0	0.0	0.0					
Net Debt	295.4	301.6	311.7	323.0	335.6					
Change - 2017 Fall Economic Statement to 2017 Fall FAO Fiscal Outlook										
Revenue	-	-	*(0.8)*	*(3.0)*	*(3.5)*					
Adjustment for Fair Hydro Plan	-	-	*(1.9)*	*(2.7)*	*(2.9)*					
Total Revenue	-	-	(2.7)	(5.7)	(6.4)					
Expense										
Program Expense	-	-	-	-	-					
Adjustment for Pension Assets	1.5	1.5	2.2	2.6	2.9					
Interest on Debt	-	-	*(0.4)*	*(0.6)*	*(0.7)*					
Total Expense	*1.5*	*1.5*	*1.8*	*2.0*	*2.3*					
Surplus/(Deficit) Excl. Reserve	*(1.5)*	*(1.5)*	*(4.4)*	*(7.7)*	*(8.7)*					
Reserve	-	-	*(0.5)*	*(0.5)*	*(0.8)*					
Surplus/(Deficit)	*(1.5)*	*(1.5)*	*(3.9)*	*(7.2)*	*(7.9)*					
Surplus/(Deficit) exc. Adj. for Fair Hydro Plan and Pension Assets	*(0.0)*	*(0.0)*	*0.3*	*(1.9)*	*(2.0)*					
Net Debt	*11.0*	*12.5*	*16.3*	*23.5*	*31.4*					
2017 Fall FAO Fiscal Outlook										
Revenue	136.1	140.7	149.3							6%
Adjustment for Fair Hydro Plan	-	-	(1.9)							
Total Revenue	136.1	140.7	147.4							1%
Expense										
Program Expense	128.1	130.0	137.4							8%
Adjustment for Pension Assets	1.5	1.5	2.2	2.6	2.9	2.9	2.9			
Interest on Debt	11.6	11.7	11.8	12.1	12.6	13.2	13.8	2.5%	4.7%	3.4%
Total Expense	141.2	143.2	151.4	155.1	159.7	166.2	173.3	6.0%	8.9%	7.2%
Surplus/(Deficit) Excl. Reserve	(5.0)	(2.5)	(3.9)	(7.2)	(7.9)	(8.9)	(9.6)			
Reserve	-	-	-	-	-	-	-			
Surplus/(Deficit) (AG Presentation)	(5.0)	(2.5)	(3.9)	(7.2)	(7.9)	(8.9)	(9.6)			
Surplus/(Deficit) exc. Adj. for Fair Hydro Plan and Pension Assets (Gov't presentation)	(3.5)	(1.0)	0.3	(1.9)	(2.0)	(2.6)	(3.5)			
Net Debt	306.4	314.1	328.0	346.5	367.0	385.7	403.1			

Note: Numbers may not align with report due to rounding.

FAO total revenue for 2017-18 is $149.4 billion, not $149.3 billion; please see page 27 of the pdf


Office of the Budget
MINISTRY of FINANCE

FAO
Financial
Accountability
Office of Ontario

From:	Anna Strathy
To:	Alexander Kraas
Cc:	George Sakura; Kevin Hwang; Shemin Meralli; John Psinas; Bonnie Lemcke; Ken Kandeepan
Subject:	RE: FAO"s Fall 2017 Final EFO Report / Request for Input by EOD
Date:	Thursday, December 07, 2017 1:40:17 PM
Attachments:	Summary of Draft FAO Fall Fiscal Outlook_v2a.docx image001.png image002.png

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Best regards

Alex

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Sent: Thursday, December 07, 2017 12:41 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: FW: FAO's Fall 2017 Final EFO Report / Request for Input by EOD
Importance: High

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FAO's 2017 Fall Fiscal Outlook – OB Summary

ISSUE

The Financial Accountability Office is set to release its 'Fall Economic and Fiscal Outlook' report. This note summarizes the fiscal chapter of the report.

TOP MESSAGES

- I would like to thank the Financial Accountability Officer (FAO) for releasing his fall economic and fiscal outlook for Ontario. We value the FAO's independent assessment and projections of the province's fiscal plan.
- As outlined in the 2017 Ontario Economic Outlook and Fiscal Review, the government is projecting a balanced budget for 2017–18 and to remain balanced in 2018–19 and 2019–20.
- The FAO report also projects a balanced budget for Ontario this year.
- The government has a strong track record of beating its fiscal targets. In fact, the Public Accounts of Ontario reported that the 2016–17 deficit was $1.0 billion, beating our annual deficit target again, for the eighth year in a row.
- The 2017 Ontario Economic Outlook and Fiscal Review builds on the government's track record of fiscal management that has resulted in $29 billion in accumulated deficits being avoided over the past seven years, relative to the 2010 Budget forecast.
- We are also targeting a net debt-to-GDP ratio of 35 per cent by 2023–24 and reducing Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029–30.
- Since 2014, Ontario's real GDP growth has strengthened, positioning Ontario as a growth leader, not only in Canada, but among G7 countries. In fact, over the 2014-17 period, Ontario's real GDP growth is on pace to exceed that of all G7 countries.
- Private-sector economists are projecting continued growth for Ontario over the forecast horizon; the FAO's real GDP projections are aligned with the 2017 Fall Economic Statement over the 2017 to 2020 period.
- This shows that our plan to make strategic investments in Ontario to grow the economy is working.
- A balanced budget is providing the Province the fiscal flexibility to invest more in health care, education, support for seniors and small businesses and other public services that matter most to Ontario families. It also adds stability to Ontario's finances and positions the government to better respond to demographic challenges and unexpected global economic shocks that the province will face over the next decade.

Commented [SM1]: Unable to verify how the $29 billion is calculated. The 2010 Budget only goes up to 2012-13.

KEY POINTS

Fiscal Outlook

- The FAO is projecting a budget deficit of $3.9 billion in 2017–18 using the **Auditor General's recommended accounting treatment for both the Fair Hydro Plan and the net pension assets of jointly sponsored pension plans.** In the absence of any fiscal policy changes this grows steadily to $9.6 billion in 2021-22.
- Under the **government's accounting presentation (excluding the AG's recommendations)**, the FAO projects a small surplus for 2017–18 of $0.3 billion (excluding the reserve) and a return to deficits beyond 2017–18 driven by revenue factors - loss of temporary revenues combined with more moderate tax revenue growth.
- The FAO suggests that by not adopting the AG's recommended accounting presentation, the 2017 Budget and the 2017 FES reduced transparency and clarity of Ontario's fiscal position and as a result Ontario will continue to receive qualified ~~options~~ opinions from the AG.

Budget Balance - FAO's Fiscal Outlook ($ Billions)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
AG Presentation	-5.0	-2.5	-3.9	-7.2	-7.9	-8.9	-9.6
Government Presentation	-3.5	-1.0	0.3	-1.9	-2.0	-2.6	-3.5
2017 FES -- Excluding Reserve	-3.5	-1.0	0.5	0.5	0.8	N/A	N/A

Revenue Outlook

- Using the AG presentation, the FAO is projecting average annual revenue growth of 2.6 per cent from 2016-17 to 2019-20 as compared with the government's projections of 4.0 per cent. The main drivers are:
    - The FAO projections for taxation revenues are $2.9 billion lower by 2019-20 than the projections in the 2017 FES due to lower projected growth in household spending, labour income and corporate profits.
    - The FAO projects that, based on the AG presentation, the Fair Hydro Plan will lower net income from OPG by $3.4 billion lower by 2019-20.
    - In addition, the FAO continues to highlight a number of one-time 2017-18 revenues, including: increase to sales and rentals from sale of final tranche of H1, higher federal transfers for infrastructure (PTIF), one-time boost from extra Cap and Trade auction. Taken together the FAO estimates that these amount to $4.5 billion in additional one-time revenues in 2017-18.

Expense Outlook

- From 2017–18 to 2019–20 the FAO's outlook adopts the government's 2017 FES projections for program spending, **adjusted to reflect the AG's recommended accounting presentation.** Beyond 2019–20 the FAO projects program spending will grow faster -- at an average annual rate of 4.1 per cent – due to population pressures.

Borrowing and Net Debt

- Using the **government's accounting presentation** net debt-to-GDP is expected to reach 38.4 per cent by 2019–20 and 38.6 per cent by 2021–22. This increases to 41.3 per cent by 2021–22 **under the AG's accounting presentation**.
    - The 2017 FES projected a net debt-to-GDP ratio of 37.0 per cent by 2019–20.

Comparison: 2017 Fall Economic Statement and the 2017 Fall FAO Fiscal Outlook

	Actual		Outlook					Avg. Annual Growth		
								16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
2017 Fall Economic Statement										
Revenue*	136.1	140.7	150.1	153.6	158.2			4.0%		
Adjustment for Fair Hydro Plan	-	-	-	-	-					
Total Revenue	136.1	140.7	150.1	153.6	158.2			4.0%		
Expense										
Program Expense**	128.1	130.0	137.4	140.4	144.2			3.5%		
Adjustment for Pension Assets	-	-	-	-	-					
Interest on Debt	11.6	11.7	12.2	12.7	13.3			4.2%		
Total Expense	139.7	141.7	149.6	153.1	157.4			3.6%		
Surplus/(Deficit) Excl. Reserve	(3.5)	(1.0)	0.5	0.5	0.8					
Reserve	-	-	0.5	0.5	0.8					
Surplus/(Deficit)	(3.5)	(1.0)	0.0	0.0	0.0					
Net Debt	295.4	301.6	311.7	323.0	335.6					
Change - 2017 Fall Economic Statement to 2017 Fall FAO Fiscal Outlook										
Revenue	-	-	*(0.8)*	*(3.0)*	*(3.5)*					
Adjustment for Fair Hydro Plan	-	-	*(1.9)*	*(2.7)*	*(2.9)*					
Total Revenue	-	-	(2.7)	(5.7)	(6.4)					
Expense										
Program Expense	-	-	-	-	-					
Adjustment for Pension Assets	1.5	1.5	2.2	2.6	2.9					
Interest on Debt	-	-	*(0.4)*	*(0.6)*	*(0.7)*					
Total Expense	*1.5*	*1.5*	*1.8*	*2.0*	*2.3*					
Surplus/(Deficit) Excl. Reserve	*(1.5)*	*(1.5)*	*(4.4)*	*(7.7)*	*(8.7)*					
Reserve	-	-	*(0.5)*	*(0.5)*	*(0.8)*					
Surplus/(Deficit)	*(1.5)*	*(1.5)*	*(3.9)*	*(7.2)*	*(7.9)*					
Surplus/(Deficit) exc. Adj. for Fair Hydro Plan and Pension Assets	*(0.0)*	*(0.0)*	*0.3*	*(1.9)*	*(2.0)*					
Net Debt	*11.0*	*12.5*	*16.3*	*23.5*	*31.4*					
2017 Fall FAO Fiscal Outlook										
Revenue	136.1	140.7	149.3	150.6	154.7	160.7	166.9	3.2%	3.9%	3.5%
Adjustment for Fair Hydro Plan	-	-	(1.9)	(2.7)	(2.9)	(3.4)	(3.2)			
Total Revenue	136.1	140.7	147.4	147.9	151.8	157.3	163.7	2.6%	3.8%	3.1%
Expense										
Program Expense	128.1	130.0	137.4	140.4	144.2	150.1	156.6	3.5%	4.2%	3.8%
Adjustment for Pension Assets	1.5	1.5	2.2	2.6	2.9	2.9	2.9			
Interest on Debt	11.6	11.7	11.8	12.1	12.6	13.2	13.8	2.5%	4.7%	3.4%
Total Expense	141.2	143.2	151.4	155.1	159.7	166.2	173.3	6.0%	8.9%	7.2%
Surplus/(Deficit) Excl. Reserve	(5.0)	(2.5)	(3.9)	(7.2)	(7.9)	(8.9)	(9.6)			
Reserve	-	-	-	-	-	-	-			
Surplus/(Deficit) (AG Presentation)	(5.0)	(2.5)	(3.9)	(7.2)	(7.9)	(8.9)	(9.6)			
Surplus/(Deficit) exc. Adj. for Fair Hydro Plan and Pension Assets (Gov't presentation)	(3.5)	(1.0)	0.3	(1.9)	(2.0)	(2.6)	(3.5)			
Net Debt	306.4	314.1	328.0	346.5	367.0	385.7	403.1			

Note: Numbers may not align with report due to rounding.


Office of the Budget
MINISTRY of FINANCE

FAO
Financial
Accountability
Office of Ontario

From:	Ken Kandeepan
To:	Alexander Kraas; Anna Strathy; John Psinas
Cc:	George Sakura; Kevin Hwang; Shemin Meralli; Bonnie Lemcke
Subject:	RE: FAO"s Fall 2017 Final EFO Report / Request for Input by EOD
Date:	Thursday, December 07, 2017 1:16:32 PM
Attachments:	image001.png image002.png

Thanks Alex, for the quick review, I will be in a call from 2PM onwards so may I pls request John and Bonnie as well to do a similar scan and email Anna of any issues.

Thanks

Ken k

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To: Anna Strathy <Anna.Strathy@ofina.on.ca>
Cc: George Sakura <George.Sakura@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
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Date:	Thursday, December 07, 2017 1:50:19 PM
Attachments:	Summary of Draft FAO Fall Fiscal Outlook_v2a (002).docx image001.png image002.png

---

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I have added a comment on page 4.

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- Private-sector economists are projecting continued growth for Ontario over the forecast horizon; the FAO's real GDP projections are aligned with the 2017 Fall Economic Statement over the 2017 to 2020 period.
- This shows that our plan to make strategic investments in Ontario to grow the economy is working.
- A balanced budget is providing the Province the fiscal flexibility to invest more in health care, education, support for seniors and small businesses and other public services that matter most to Ontario families. It also adds stability to Ontario's finances and positions the government to better respond to demographic challenges and unexpected global economic shocks that the province will face over the next decade.

Commented [SM1]: Unable to verify how the $29 billion is calculated. The 2010 Budget only goes up to 2012-13.

KEY POINTS

Fiscal Outlook

- The FAO is projecting a budget deficit of $3.9 billion in 2017–18 using the **Auditor General's recommended accounting treatment for both the Fair Hydro Plan and the net pension assets of jointly sponsored pension plans.** In the absence of any fiscal policy changes this grows steadily to $9.6 billion in 2021-22.
- Under the **government's accounting presentation (excluding the AG's recommendations)**, the FAO projects a small surplus for 2017–18 of $0.3 billion (excluding the reserve) and a return to deficits beyond 2017–18 driven by revenue factors - loss of temporary revenues combined with more moderate tax revenue growth.
- The FAO suggests that by not adopting the AG's recommended accounting presentation, the 2017 Budget and the 2017 FES reduced transparency and clarity of Ontario's fiscal position and as a result Ontario will continue to receive qualified ~~options~~ opinions from the AG.

Budget Balance - FAO's Fiscal Outlook ($ Billions)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
AG Presentation	-5.0	-2.5	-3.9	-7.2	-7.9	-8.9	-9.6
Government Presentation	-3.5	-1.0	0.3	-1.9	-2.0	-2.6	-3.5
2017 FES -- Excluding Reserve	-3.5	-1.0	0.5	0.5	0.8	N/A	N/A

Revenue Outlook

- Using the AG presentation, the FAO is projecting average annual revenue growth of 2.6 per cent from 2016-17 to 2019-20 as compared with the government's projections of 4.0 per cent. The main drivers are:
    - The FAO projections for taxation revenues are $2.9 billion lower by 2019-20 than the projections in the 2017 FES due to lower projected growth in household spending, labour income and corporate profits.
    - The FAO projects that, based on the AG presentation, the Fair Hydro Plan will lower net income from OPG by $3.4 billion lower by 2019-20.
    - In addition, the FAO continues to highlight a number of one-time 2017-18 revenues, including: increase to sales and rentals from sale of final tranche of H1, higher federal transfers for infrastructure (PTIF), one-time boost from extra Cap and Trade auction. Taken together the FAO estimates that these amount to $4.5 billion in additional one-time revenues in 2017-18.

Expense Outlook

- From 2017–18 to 2019–20 the FAO's outlook adopts the government's 2017 FES projections for program spending, **adjusted to reflect the AG's recommended accounting presentation.** Beyond 2019–20 the FAO projects program spending will grow faster -- at an average annual rate of 4.1 per cent – due to population pressures.

Borrowing and Net Debt

- Using the **government's accounting presentation** net debt-to-GDP is expected to reach 38.4 per cent by 2019–20 and 38.6 per cent by 2021–22. This increases to 41.3 per cent by 2021–22 **under the AG's accounting presentation**.
    - The 2017 FES projected a net debt-to-GDP ratio of 37.0 per cent by 2019–20.

Comparison: 2017 Fall Economic Statement and the 2017 Fall FAO Fiscal Outlook

	Actual		Outlook					Avg. Annual Growth		
								16-17	19-20	16-17
$ Billions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	to 19-20	to 21-22	to 21-22
2017 Fall Economic Statement										
Revenue*	136.1	140.7	150.1	153.6	158.2			4.0%		
Adjustment for Fair Hydro Plan	-	-	-	-	-					
Total Revenue	136.1	140.7	150.1	153.6	158.2			4.0%		
Expense										
Program Expense**	128.1	130.0	137.4	140.4	144.2			3.5%		
Adjustment for Pension Assets	-	-	-	-	-					
Interest on Debt	11.6	11.7	12.2	12.7	13.3			4.2%		
Total Expense	139.7	141.7	149.6	153.1	157.4			3.6%		
Surplus/(Deficit) Excl. Reserve	(3.5)	(1.0)	0.5	0.5	0.8					
Reserve	-	-	0.5	0.5	0.8					
Surplus/(Deficit)	(3.5)	(1.0)	0.0	0.0	0.0					
Net Debt	295.4	301.6	311.7	323.0	335.6					
Change - 2017 Fall Economic Statement to 2017 Fall FAO Fiscal Outlook										
Revenue	-	-	*(0.8)*	*(3.0)*	*(3.5)*					
Adjustment for Fair Hydro Plan	-	-	*(1.9)*	*(2.7)*	*(2.9)*					
Total Revenue	-	-	(2.7)	(5.7)	(6.4)					
Expense										
Program Expense	-	-	-	-	-					
Adjustment for Pension Assets	1.5	1.5	2.2	2.6	2.9					
Interest on Debt	-	-	*(0.4)*	*(0.6)*	*(0.7)*					
Total Expense	*1.5*	*1.5*	*1.8*	*2.0*	*2.3*					
Surplus/(Deficit) Excl. Reserve	*(1.5)*	*(1.5)*	*(4.4)*	*(7.7)*	*(8.7)*					
Reserve	-	-	*(0.5)*	*(0.5)*	*(0.8)*					
Surplus/(Deficit)	*(1.5)*	*(1.5)*	*(3.9)*	*(7.2)*	*(7.9)*					
Surplus/(Deficit) exc. Adj. for Fair Hydro Plan and Pension Assets	*(0.0)*	*(0.0)*	*0.3*	*(1.9)*	*(2.0)*					
Net Debt	*11.0*	*12.5*	*16.3*	*23.5*	*31.4*					
2017 Fall FAO Fiscal Outlook										
Revenue	136.1	140.7	149.3							6%
Adjustment for Fair Hydro Plan	-	-	(1.9)							
Total Revenue	136.1	140.7	147.4							1%
Expense										
Program Expense	128.1	130.0	137.4							8%
Adjustment for Pension Assets	1.5	1.5	2.2	2.6	2.9	2.9	2.9			
Interest on Debt	11.6	11.7	11.8	12.1	12.6	13.2	13.8	2.5%	4.7%	3.4%
Total Expense	141.2	143.2	151.4	155.1	159.7	166.2	173.3	6.0%	8.9%	7.2%
Surplus/(Deficit) Excl. Reserve	(5.0)	(2.5)	(3.9)	(7.2)	(7.9)	(8.9)	(9.6)			
Reserve	-	-	-	-	-	-	-			
Surplus/(Deficit) (AG Presentation)	(5.0)	(2.5)	(3.9)	(7.2)	(7.9)	(8.9)	(9.6)			
Surplus/(Deficit) exc. Adj. for Fair Hydro Plan and Pension Assets (Gov't presentation)	(3.5)	(1.0)	0.3	(1.9)	(2.0)	(2.6)	(3.5)			
Net Debt	306.4	314.1	328.0	346.5	367.0	385.7	403.1			

Note: Numbers may not align with report due to rounding.

FAO total revenue for 2017-18 is $149.4 billion, not $149.3 billion; please see page 27 of the pdf


Office of the Budget
MINISTRY of FINANCE

FAO
Financial
Accountability
Office of Ontario

From: John Psinas
To: Ken Kandeepan
Cc: IOD_Risk
Subject: RE: FAO"s Upcoming EFO Report
Date: Monday, May 08, 2017 4:18:19 PM

Ken,

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Lastly, the FAO is needlessly presenting balanced budget information throughout the document before the Reserve. It is not clear what the rationale in doing this, as doing it will always have a variance from Budget. Having a reserve for emergencies is a hallmark of a prudent and accountable government.

Thanks.

--John

416-325-8072

-----Original Message-----
From: Ken Kandeepan
Sent: Monday, May 08, 2017 11:36 AM
To: John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>
Subject: FW: FAO's Upcoming EFO Report

We can discuss

Thanks

Ken K

-----Original Message-----
From: Anna Strathy
Sent: Monday, May 08, 2017 11:10 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: FW: FAO's Upcoming EFO Report

Good morning,

The draft Economic and Fiscal chapters from the FAO report are attached. Password is FAO1616.

The FAO is asking for comments by eod tomorrow. I'm happy to consolidate our comments if you'd like to send to me.

Thanks, Anna

-----Original Message-----
From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Monday, May 08, 2017 10:48 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Subject: FW: FAO's Upcoming EFO Report

Hi Anna and Gavin,

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Thanks,
Ryan

-----Original Message-----
From: David West [mailto:dwest@fao-on.org]
Sent: May-08-17 10:24 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Edward Crummey; Luan Ngo; Mario Angastiniotis; Nicolas Rhodes
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Unfortunately, we are on a very tight schedule to enable us to release this report at the end of the May.

So, we are asking for your comments/concerns including any potential cabinet confidentiality issues by end of day tomorrow (Tuesday, May 9)

Thanks again for your support and assistance.

David West
Chief Economist

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
t.416.579.1465 | dwest@fao-on.org
www.fao-on.org

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From: David West
Sent: May 5, 2017 10:22 AM

To: 'Schuurman, Tim (MOF)' <Tim.Schuurman@ontario.ca>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Cindy.Veinot@ontario.ca
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
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Thanks again for our meeting on Tuesday. We appreciate the information you have provided as well as the responses to our questions at the meeting.

On Monday morning (as early as possible) we plan to provide you with draft copies of the Economic Outlook and Fiscal Outlook chapters (including Forecast Tables) from the FAO's upcoming EFO report.

We would hope you would be able to provide us with any comments or concerns on these chapters by Tuesday (May 9), end of day.

As in the past, the FAO will provide a final copy of the report 48 hours prior to release to both Ministers. I would email you a copy at the same time.

Thanks,

David West
416.579.1465

-----Original Message-----
From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: April 28, 2017 5:40 PM
To: David West <dwest@fao-on.org>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Luan Ngo <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Mario Angastiniotis <MAngastiniotis@fao-on.org>; Nicolas Rhodes <nrhodes@fao-on.org>
Subject: Re: Follow-Up on the 2017 Budget

Thanks David,

We're working on pulling together the various information pieces and people for a meeting Tuesday between 1pm and 2pm, so will be in touch to confirm.

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Have a great weekend
Tim

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Sent: Friday, April 28, 2017 5:14 PM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Luan Ngo; Edward Crummey; Mario Angastiniotis; Nicolas Rhodes
Subject: RE: Follow-Up on the 2017 Budget

As promised, please find attached more detailed questions.

Please confirm when we can meet early next week.

Thanks
dw

From: David West
Sent: April 28, 2017 9:32 AM
To: Tim Schuurman (Tim.Schuurman@ontario.ca) <Tim.Schuurman@ontario.ca>; karen.hughes@ontario.ca; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Cindy.Veinot@ontario.ca
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Subject: Follow-Up on the 2017 Budget

Good Morning!

Congratulations on delivering yesterday's big, black budget!

I wanted to follow-up on the FAO's requests for some additional information.

First, as we have discussed, we have three requests for specific data/tables:

1. We would like to obtain the detailed revenue and expense tables (Tables 6.14 and 6.15) extended to 2019-20.

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We would also appreciate a meeting early next week (preferably Tuesday afternoon) to allow you to respond to a number of questions that we have with regard to the 2017 Budget.

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- Assumptions behind the plan to reduce net debt-to-GDP to 35% and eventually to 27%.

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Thanks again for your support,
David

David West
Chief Economist
[cid:image009.png@01D17ECB.966ECE00]

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t.416.579.1465 | dwest@fao-on.org<mailto:dwest@fao-on.org>
www.fao-on.org<http://www.fao-on.org/>

From:	Anna Strathy
To:	Gadi Mayman; Ronald Kwan; Ken Kandeepan
Cc:	Deena Padamadan
Subject:	RE: FAO"s Upcoming EFO Report
Date:	Monday, May 08, 2017 4:10:46 PM

Office of the Budget will be consolidating all comments on the report, and has **asked for our input by 11am tomorrow**. Depending on the extent of the comments, there may be a follow-up meeting for ADMs around 1pm.

Specific comments or edits can be made in track changes, and more general comments or observations will be incorporated into a covering email.

Thanks, Anna

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From: Anna Strathy
Sent: Monday, May 08, 2017 11:10 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
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[cid:image009.png@01D17ECB.966ECE00]

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We are basically running into the same issue as last year. The FAO is using a different method and is thus calculating different net debt amounts than to our published references, so much so that our variance on increases in net debt is approximately $35 billion by 2021-22 as per page 5 of the fiscal outlook document. (The FAO projects an increase of $87 billion by 2021-22, while we project an increase of $52 billion). Again, we cannot ascertain how valid their net debt assumptions underlying the document are without further information.

The FAO seems to be taking a neutral position on the pension adjustment dispute and this is causing some confusion in the document in some of their references. The Chart on page 6 is confusing for example as there is a top line called AG recommended net debt to GDP, a bottom line called 2017 Budget but also a middle line called government presentation. We are not exactly sure why it's called the "Government Presentation" alongside another line called "2017 Budget".

Lastly, the FAO is needlessly presenting balanced budget information throughout the document before the Reserve. It is not clear what the rationale in doing this, as doing it will always have a variance from Budget. Having a reserve for emergencies is a hallmark of a prudent and accountable government.

Thanks.

--John

416-325-8072

-----Original Message-----
From: Ken Kandeepan
Sent: Monday, May 08, 2017 11:36 AM
To: John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>
Subject: FW: FAO's Upcoming EFO Report

We can discuss

Thanks

Ken K

-----Original Message-----
From: Anna Strathy
Sent: Monday, May 08, 2017 11:10 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>
Subject: FW: FAO's Upcoming EFO Report

Good morning,

The draft Economic and Fiscal chapters from the FAO report are attached. Password is FAO1616.

The FAO is asking for comments by eod tomorrow. I'm happy to consolidate our comments if you'd like to send to me.

Thanks, Anna

-----Original Message-----
From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Monday, May 08, 2017 10:48 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
Subject: FW: FAO's Upcoming EFO Report

Hi Anna and Gavin,

Forwarding this for your attention/review as well. FAO is looking for commentary by EOD tomorrow. Note, the password is FAO1616.

Thanks,
Ryan

-----Original Message-----
From: David West [mailto:dwest@fao-on.org]
Sent: May-08-17 10:24 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Edward Crummey; Luan Ngo; Mario Angastiniotis; Nicolas Rhodes
Subject: RE: FAO's Upcoming EFO Report

Good Morning,

Please find attached drafts of the Economic Outlook and Fiscal Outlook chapters from the FAO's upcoming 'Economic and Fiscal Outlook' report.
The chapters are password protected using the same password as in the past.

The FAO's fiscal forecast incorporates the tax revenue adjustments that we received on Friday afternoon -- and which brings our short-term forecast much closer the Budget 2017 forecast.

Unfortunately, we are on a very tight schedule to enable us to release this report at the end of the May.

So, we are asking for your comments/concerns including any potential cabinet confidentiality issues by end of day tomorrow (Tuesday, May 9)

Thanks again for your support and assistance.

David West
Chief Economist

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
t.416.579.1465 | dwest@fao-on.org
www.fao-on.org

-----Original Message-----
From: David West
Sent: May 5, 2017 10:22 AM

To: 'Schuurman, Tim (MOF)' <Tim.Schuurman@ontario.ca>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Cindy.Veinot@ontario.ca
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Subject: FAO's Upcoming EFO Report

Hello,

Thanks again for our meeting on Tuesday. We appreciate the information you have provided as well as the responses to our questions at the meeting.

On Monday morning (as early as possible) we plan to provide you with draft copies of the Economic Outlook and Fiscal Outlook chapters (including Forecast Tables) from the FAO's upcoming EFO report.

We would hope you would be able to provide us with any comments or concerns on these chapters by Tuesday (May 9), end of day.

As in the past, the FAO will provide a final copy of the report 48 hours prior to release to both Ministers. I would email you a copy at the same time.

Thanks,

David West
416.579.1465

-----Original Message-----
From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: April 28, 2017 5:40 PM
To: David West <dwest@fao-on.org>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Luan Ngo <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Mario Angastiniotis <MAngastiniotis@fao-on.org>; Nicolas Rhodes <nrhodes@fao-on.org>
Subject: Re: Follow-Up on the 2017 Budget

Thanks David,

We're working on pulling together the various information pieces and people for a meeting Tuesday between 1pm and 2pm, so will be in touch to confirm.

As in past approaches, we won't be able to have everything for you on Tuesday but will be able to provide a downpayment for sure.

Have a great weekend
Tim

From: David West
Sent: Friday, April 28, 2017 5:14 PM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Luan Ngo; Edward Crummey; Mario Angastiniotis; Nicolas Rhodes
Subject: RE: Follow-Up on the 2017 Budget

As promised, please find attached more detailed questions.

Please confirm when we can meet early next week.

Thanks
dw

From: David West
Sent: April 28, 2017 9:32 AM
To: Tim Schuurman (Tim.Schuurman@ontario.ca) <Tim.Schuurman@ontario.ca>; karen.hughes@ontario.ca; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Cindy.Veinot@ontario.ca
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; 'Birks, Ryan (MOF)' <Ryan.Birks@ontario.ca>; 'Laughton, Patrick (TBS)' <Patrick.Laughton@ontario.ca>; 'Hosick, Sarah (TBS)' <Sarah.Hosick@ontario.ca>; Luan Ngo (lngo@fao-on.org) <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Mario Angastiniotis (MAngastiniotis@fao-on.org) <MAngastiniotis@fao-on.org>; Nicolas Rhodes (nrhodes@fao-on.org) <nrhodes@fao-on.org>
Subject: Follow-Up on the 2017 Budget

Good Morning!

Congratulations on delivering yesterday's big, black budget!

I wanted to follow-up on the FAO's requests for some additional information.

First, as we have discussed, we have three requests for specific data/tables:

1. We would like to obtain the detailed revenue and expense tables (Tables 6.14 and 6.15) extended to 2019-20.

- Are these detailed tables available to 2020-21? If so, then please include (:))

2. As staff have been discussing, we would like to obtain more detailed information on the one-time adjustments to taxation revenues beginning in 2015-16 and extending over the forecast. This is basically additional information to that provided in tables 6.7, 6.8 and 6.9.

3. As detailed in the letter and background documents sent to Deputies Thompson and Angus on April 3, we are requesting pension expense and employer contribution details for the OTPP and OPSEUPP.

We would also appreciate a meeting early next week (preferably Tuesday afternoon) to allow you to respond to a number of questions that we have with regard to the 2017 Budget.

We'll provide a list of specific questions later this afternoon, but these questions will cover a number of areas, including:

- Clarification on where the Fair Hydro Plan appears in the expenses

- Additional details/clarification on new health spending, including the new pharmacare plan

- Clarification on future assumptions for asset sales and any details behind the 'Sales and Rentals' line in the detailed Revenue table.

- Clarification on the assumptions behind new federal funding announced in the 2017 federal budget (e.g. affordable housing, child care, home care)

- Some background on the decision to reduce the estimate of 'Carbon Allowance Proceeds' and assumptions on associated expense

- Additional details/clarification on new infrastructure spending

- Assumptions behind the plan to reduce net debt-to-GDP to 35% and eventually to 27%.

We'll provide a list later this afternoon that expands somewhat on these question topics.

Happy to discuss any of these requests.

Thanks again for your support,
David

David West
Chief Economist
[cid:image009.png@01D17ECB.966ECE00]

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
t.416.579.1465 | dwest@fao-on.org<mailto:dwest@fao-on.org>
www.fao-on.org<http://www.fao-on.org/>

From: Ken Kandeepan
To: Gadi Mayman
Subject: RE: FES Fiscal Strategy #4
Date: Saturday, October 08, 2016 8:25:10 AM
Attachments: image001.png

Thanks Gadi, the footnote option or the one showing the impact of the pension adjustment on the deficit/surplus as a below the line item makes the most sense to me.

Any option that seeks to absorb the pension adjustment in 16-17 and the out-years is quite risky since if the independent review is in the Province's favour, then the Government is stuck with the revised revenues and expenditure profiles which is not only challenging to achieve but effectively leads to almost balance in 16-17 and surpluses in the out years.

There is also a credibility issue as to if this level of flexibility was available why it was not previously included in the out year numbers.

The footnote option has its own risks if the review goes against the Province, however, having read both sides of the argument I am cautiously optimistic.

Here's wishing you and the family a fun and happy thanksgiving

Ken k

From: Gadi Mayman
Sent: Friday, October 07, 2016 9:30 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: Fw: FES Fiscal Strategy #4

From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
Sent: Friday, October 7, 2016 7:00 PM
To: Scott Thompson (CAB); Greg Orencsak (MOF); Karen Hughes (MGS); Veinot, Cindy (TBS); Maria Duran-Schneider (MOF); Brian Lewis (MOL); Sriram Subrahmanyan (MOF); Gadi Mayman
Cc: David McLean (MOF); Christopher Pearce (MOI); Patrick Laughton (MOF); Nina Arbabzadeh (EDU); Birks, Ryan (MOF); Jenarra DeSouza (MEDTE/MRI); Tara McGrath (MOF); Emma Lindquist (MOF); Kyle MacIntyre (MOF); Ronald Jaikaran (MOF)
Subject: FES Fiscal Strategy #4

Hello

Please find attached an updated FES fiscal strategy document, that takes into account the feedback from both Wednesday's FPC and the Minister's briefing yesterday, to move it along to the next stage of discussion. This could be considered an agenda item for upcoming FPC-lite meetings next week or other venues to move the decision-making forward.

Happy to take feedback or comments.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173




Office of the Budget
MINISTRY of FINANCE

From:	John Psinas
To:	Tara McGrath (MOF); Ken Kandeepan
Cc:	Emma Lindquist (MOF); Christina Zhang; Shemin Meralli; George Sakura; Tim Schuurman (MOF)
Subject:	RE: FES Fiscal Strategy Update at FPC Tomorrow
Date:	Tuesday, October 04, 2016 8:36:41 PM
Attachments:	Net Debt Scenarios October 4 2016.xlsx

Tara,

Please find the 4 scenarios attached. We did the scenarios where we followed your directions about acc. deficit spiking this year, and then would be back to normal in the out years, which we have interpreted as no restatement.

Thanks.

John

From: McGrath, Tara (MOF) [mailto:Tara.McGrath@ontario.ca]
Sent: Tuesday, October 04, 2016 8:34 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Tim Schuurman (MOF) <Tim.Schuurman@ontario.ca>
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Hi Ken and John,

Do you have an ETA on the net debt-to-GDP numbers?

Tim is ready to send the deck and this is one remaining piece. Thanks,

Tara

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: October-04-16 6:50 PM
To: McGrath, Tara (MOF)
Cc: Rubin, Jonathan (TBS); Fard, Mersad (TBS); Lindquist, Emma (MOF); Zhang, Christina (OFA); Meralli, Shemin (OFA); Sakura, George (OFA); John Psinas; Hodes, David (TBS); Schuurman, Tim (MOF)
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Ok

Thanks

Ken K

From: McGrath, Tara (MOF) [mailto:Tara.McGrath@ontario.ca]
Sent: Tuesday, October 04, 2016 6:47 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Jonathan Rubin (MOI) <Jonathan.Rubin@ontario.ca>; Mersad Fard (MOI) <Mersad.Fard@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Hodes, David (TBS) <David.Hodes@ontario.ca>; Tim Schuurman (MOF) <Tim.Schuurman@ontario.ca>
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Correct, however, it's unlikely that the review will be completed in time for the publication of the FES.

At this point in time, the direction that we've been given is that the FES will report the $5.0 billion deficit for 2015-16.

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: October-04-16 6:42 PM
To: McGrath, Tara (MOF)
Cc: Rubin, Jonathan (TBS); Fard, Mersad (TBS); Lindquist, Emma (MOF); Zhang, Christina (OFA); Meralli, Shemin (OFA); Sakura, George (OFA); John Psinas; Hodes, David (TBS)
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Hi Tara

Not sure whether these scenarios capture an essential issue. Let's say the government is successful in the review of the pension adjustment, the expert panel agrees with government's position. In that case and correct me if I am wrong John, the 15-16 numbers will be restated and the its as though this accounting change never happened.

So my suggestion is for scenarios 1 and 3 the accounting change be ignored. Happy to discuss, 647-202-4373

Let me know

Ken K

From: McGrath, Tara (MOF) [mailto:Tara.McGrath@ontario.ca]
Sent: Tuesday, October 04, 2016 5:53 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Hodes, David (TBS) <David.Hodes@ontario.ca>
Cc: Jonathan Rubin (MOI) <Jonathan.Rubin@ontario.ca>; Mersad Fard (MOI) <Mersad.Fard@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Hi John,

Here are the deficit numbers.

To be clear, we are requesting 4 different net debt-to-GDP outlooks:

1. Based on 2016 Budget fiscal outlook and capital profile – takes into account the net debt impact of $10.7B in 15-16 from PAs, but does not carry that accounting change impact forward (i.e., accumulated deficit spikes in 15-16 but returns to normal levels in 16-17 onward).

2. Based on 2016 Budget fiscal outlook and capital profile – takes into account the net debt impact of $10.7B in 15-16 from PAS, and carries the accounting change impact forward

3. Based on FES fiscal outlook and capital profile – takes into account the net debt impact of $10.7B in 15-16 from PAs, but does not carry that accounting change impact forward (i.e., accumulated deficit spikes in 15-16 but returns to normal levels in 16-17 onward).

4. Based on FES fiscal outlook and capital profile – takes into account the net debt impact of $10.7B in 15-16 from PAS, and carries the accounting change impact forward

Please give me a call if that's unclear 5-8174. Thanks,

Tara

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: October-04-16 5:10 PM
To: Hodes, David (TBS)
Cc: Rubin, Jonathan (TBS); Fard, Mersad (TBS); McGrath, Tara (MOF); Lindquist, Emma (MOF); Zhang, Christina (OFA); Meralli, Shemin (OFA); Sakura, George (OFA); Kandeepan, Ken (OFA)
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Thanks David. All that is left is the out years deficits.

--John

416-325-8072

From: Hodes, David (TBS) [mailto:David.Hodes@ontario.ca]
Sent: Tuesday, October 04, 2016 5:07 PM
To: John Psinas <John.Psinas@ofina.on.ca>

Cc: Jonathan Rubin (MOI) <Jonathan.Rubin@ontario.ca>; Mersad Fard (MOI) <Mersad.Fard@ontario.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Hi John,

Please see the attached updated TCA profile. This reflects all changes to the child care item as well as an updated number for school renewal assets.

Thanks

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: October 4, 2016 4:08 PM
To: McGrath, Tara (MOF); Birks, Ryan (MOF)
Cc: Kandeepan, Ken (OFA); Zhang, Christina (OFA); Sakura, George (OFA); Meralli, Shemin (OFA); Hwang, Kevin (OFA); Lindquist, Emma (MOF); Fard, Mersad (TBS); Rubin, Jonathan (TBS)
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Tara,

Not sure what you're asking. Let's discuss over the phone. Thanks.

--John

416-325-8072

From: McGrath, Tara (MOF) [mailto:Tara.McGrath@ontario.ca]
Sent: Tuesday, October 04, 2016 4:04 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Mersad Fard (MOI) <Mersad.Fard@ontario.ca>; Jonathan Rubin (MOI) <Jonathan.Rubin@ontario.ca>
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Hi John,

Sorry – a bit of confusion with the email below. Let me clarify.

We got added last minute today for tomorrow's FPC because TBS's allocations work fell off. We're going to bring the "final" proposed fiscal outlook (no longer multiple options), and the DM would like to include the net debt-to-GDP outlook associated with it.

At this point, we've asked CPD to update their TCA profile, as there has been a change to a child care item with capital impacts, and we've asked OEP if they want to update their nominal GDP forecast for the FES outlook as opposed to their spring

outlook for PAs. In addition, we're doing one last check of our bottom-line numbers, but can send along shortly.

You're right, there's no mention of 15-16 in the deck. I think what we're looking for help on is what the net debt should be for 16-17 to 18-19 to calculate this net debt-to-GDP profile? For the FES, we're currently planning to report the fiscal outlook for 16-17 to 18-19 based on *not* taking on the change in accounting for pension assets that was taken on as part of the 15-16 PAs. I'm not sure what that means for you and what report in FES for net debt?

Let me know if you want to chat. We'll need to turn this around tonight, unfortunately, as FPC is planned for tomorrow morning at 10am. Thanks,

Tara

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: October-04-16 1:55 PM
To: Birks, Ryan (MOF)
Cc: Kandeepan, Ken (OFA); Zhang, Christina (OFA); Sakura, George (OFA); Meralli, Shemin (OFA); McGrath, Tara (MOF); Hwang, Kevin (OFA)
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Ryan,

There does not appear to be references to 2015-16 in the deck with respect to net debt. If there is, can you point them to me. The actual net debt with the pension adjustment this year, based on the unaudited annual report issued last night, is 305,233 in case you want to insert it in.

In any event, the numbers in the deck do not reflect this year's highly controversial pension adjustment in the out-years. I've been instructed though, to leave it as is for the purposes of your deck as there may be a high chance that the pension adjustment may be reversed next year, which will lead us back to the numbers in the deck (assuming all of the assumptions Tara gave us are unchanged). You may thus want to put a qualifier in the deck that the out-years do not reflect the pension adjustment in net debt.

Thanks.

--John

416-325-8072

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Tuesday, October 04, 2016 10:34 AM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: FES Fiscal Strategy Update at FPC Tomorrow
Importance: High

Hi Christina,

I just wanted to flag that there will be a FES Fiscal Strategy update tracking to FPC tomorrow. As a reference, I'm attaching the latest iteration of the deck that was prepared last week. Note, we'll be using a shortened version of the deck for tomorrow's FPC meeting.

Can OFA confirm if there are any updates to net debt to GDP as a result of yesterday's release of 2015-16 Annual Report that should be included as soon as possible?

Thanks,
Ryan

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

Net Debt to Revenue and GDP Ratios											
Ontario		2016 Public Accounts									
					Net Debt As	Accumulated	Acc Deficit		ONFA	Other	Deficit/
	Fiscal Year			GDP	Net Debt	% to GDP	Deficit	to GDP	TCA	Adj.	Adj.	(Surplus)
Actual	1989-90			282,766	35,409	12.5	35,409	12.5	-			(90)
Actual	1990-91			287,334	38,438	13.4	38,438	13.4	-			3,029
Actual	1991-92			288,217	49,368	17.1	49,368	17.1	-			10,930
Actual	1992-93			293,068	61,796	21.1	61,796	21.1	-			12,428
Actual	1993-94			302,245	80,599	26.7	80,599	26.7	-			11,202
Actual	1994-95			319,986	90,728	28.4	90,728	28.4	-			10,129
Actual	1995-96			337,400	101,864	30.2	101,864	30.2	-			8,800
Actual	1996-97			347,842	108,769	31.3	108,769	31.3	-			6,905
Actual	1997-98			368,960	112,735	30.6	112,735	30.6	-			3,966
Actual	1998-99			389,250	114,737	29.5	114,737	29.5	-			2,002
Actual	1999-2000			418,245	134,398	32.1	134,398	32.1	-			(668)
Actual	2000-01			452,238	132,496	29.3	132,496	29.3	-			(1,902)
Actual	2001-02			469,084	132,121	28.2	132,121	28.2	-			(375)
Actual	2002-03			494,815	132,647	26.8	118,705	24.0	13,942			(117)
Actual	2003-04			509,511	138,816	27.2	124,188	24.4	14,628			5,483
Actual	2004-05			533,365	140,921	26.4	125,743	23.6	15,178			1,555
Actual	2005-06			556,635	152,702	27.4	109,155	19.6	43,547			(298)
Actual	2006-07			578,241	153,742	26.6	106,776	18.5	46,966		(110)	(2,269)
Actual	2007-08			601,735	156,616	26.0	105,617	17.6	50,999	(559)		(600)
Actual	2008-09			608,446	169,585	27.9	113,238	18.6	56,347	1,212		6,409
Actual	2009-10			597,882	193,589	32.4	130,957	21.9	62,632	1,090	-	19,262
Actual	2010-11			630,989	214,511	34.0	144,573	22.9	69,938	(395)	-	14,011
Actual	2011-12			659,743	235,582	35.7	158,410	24.0	77,172	3	865	12,969
Actual	2012-13			680,084	252,088	37.1	167,132	24.6	84,956	(639)	141	9,220
Actual	2013-14			693,210	267,190	38.5	176,634	25.5	90,556	(951)	-	10,453
Actual	2014-15			721,970	284,576	39.4	187,511	26.0	97,065	(1,121)	1,683	10,315
Actual	2015-16			747,101	305,233	40.9	202,697	27.1	102,536	1,003	9,154	5,029
	2016-17 Outlook			772,899	307,262	39.8	196,335	25.4	110,927		(10,668)	4,306
	2017-18 Outlook			806,182	315,870	39.2	196,322	24.4	119,548			(13)
	2018-19 Outlook			839,919	325,727	38.8	196,299	23.4	129,428			(23)
	2019-20 Outlook			873,260	335,674	38.4	196,299	22.5	139,375			-

1. Based on 2016 Budget fiscal outlook and capital profile – takes into account the net debt impact of $10.7B in 15-16 from PAs, but does not carry that accounting change impact forward (i.e., accumulated deficit spikes in 15-16 but returns to normal levels in 16-17 onward).

Prepared by OFA, FTD

October 4th, 2016

Net Debt to Revenue and	
Ontario	
	Fiscal Year
Actual	1989-90
Actual	1990-91
Actual	1991-92
Actual	1992-93
Actual	1993-94
Actual	1994-95
Actual	1995-96
Actual	1996-97
Actual	1997-98
Actual	1998-99
Actual	1999-2000
Actual	2000-01
Actual	2001-02
Actual	2002-03
Actual	2003-04
Actual	2004-05
Actual	2005-06
Actual	2006-07
Actual	2007-08
Actual	2008-09
Actual	2009-10
Actual	2010-11
Actual	2011-12
Actual	2012-13
Actual	2013-14
Actual	2014-15
Actual	2015-16
	2016-17 Outloo
	2017-18 Outloo
	2018-19 Outloo
	2019-20 Outloo
1. Based on 2016 in 15-16 from P spikes in 15-16	
Prepared by OFA, FTD	
	October 4th, 20

Net Debt to Revenue and GDP Ratios										
Ontario		2016 Public Accounts								
				Net Debt As	Accumulated	Acc Deficit		ONFA	Other	Deficit/
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP	TCA	Adj.	Adj.	(Surplus)
Actual	1989-90	282,766	35,409	12.5	35,409	12.5	-			(90)
Actual	1990-91	287,334	38,438	13.4	38,438	13.4	-			3,029
Actual	1991-92	288,217	49,368	17.1	49,368	17.1	-			10,930
Actual	1992-93	293,068	61,796	21.1	61,796	21.1	-			12,428
Actual	1993-94	302,245	80,599	26.7	80,599	26.7	-			11,202
Actual	1994-95	319,986	90,728	28.4	90,728	28.4	-			10,129
Actual	1995-96	337,400	101,864	30.2	101,864	30.2	-			8,800
Actual	1996-97	347,842	108,769	31.3	108,769	31.3	-			6,905
Actual	1997-98	368,960	112,735	30.6	112,735	30.6	-			3,966
Actual	1998-99	389,250	114,737	29.5	114,737	29.5	-			2,002
Actual	1999-2000	418,245	134,398	32.1	134,398	32.1	-			(668)
Actual	2000-01	452,238	132,496	29.3	132,496	29.3	-			(1,902)
Actual	2001-02	469,084	132,121	28.2	132,121	28.2	-			(375)
Actual	2002-03	494,815	132,647	26.8	118,705	24.0	13,942			(117)
Actual	2003-04	509,511	138,816	27.2	124,188	24.4	14,628			5,483
Actual	2004-05	533,365	140,921	26.4	125,743	23.6	15,178			1,555
Actual	2005-06	556,635	152,702	27.4	109,155	19.6	43,547			(298)
Actual	2006-07	578,241	153,742	26.6	106,776	18.5	46,966		(110)	(2,269)
Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999	(559)		(600)
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347	1,212		6,409
Actual	2009-10	597,882	193,589	32.4	130,957	21.9	62,632	1,090	-	19,262
Actual	2010-11	630,989	214,511	34.0	144,573	22.9	69,938	(395)	-	14,011
Actual	2011-12	659,743	235,582	35.7	158,410	24.0	77,172	3	865	12,969
Actual	2012-13	680,084	252,088	37.1	167,132	24.6	84,956	(639)	141	9,220
Actual	2013-14	693,210	267,190	38.5	176,634	25.5	90,556	(951)	-	10,453
Actual	2014-15	721,970	284,576	39.4	187,511	26.0	97,065	(1,121)	1,683	10,315
Actual	2015-16	747,101	305,233	40.9	202,697	27.1	102,536	1,003	9,154	5,029
	2016-17 Outlook	772,899	317,930	41.1	207,003	26.8	110,927			4,306
	2017-18 Outlook	806,182	326,538	40.5	206,990	25.7	119,548			(13)
	2018-19 Outlook	839,919	336,395	40.1	206,967	24.6	129,428			(23)
	2019-20 Outlook	873,260	346,342	39.7	206,967	23.7	139,375			-

2. Based on 2016 Budget fiscal outlook and capital profile – takes into account the net debt impact of $10.7B in 15-16 from PAS, and carries the accounting change impact forward

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October 4th, 2016

Net Debt to Revenue and	
Ontario	
	Fiscal Year
Actual	1989-90
Actual	1990-91
Actual	1991-92
Actual	1992-93
Actual	1993-94
Actual	1994-95
Actual	1995-96
Actual	1996-97
Actual	1997-98
Actual	1998-99
Actual	1999-2000
Actual	2000-01
Actual	2001-02
Actual	2002-03
Actual	2003-04
Actual	2004-05
Actual	2005-06
Actual	2006-07
Actual	2007-08
Actual	2008-09
Actual	2009-10
Actual	2010-11
Actual	2011-12
Actual	2012-13
Actual	2013-14
Actual	2014-15
Actual	2015-16
	2016-17 Outloo
	2017-18 Outloo
	2018-19 Outloo
	2019-20 Outloo
2. Based on 201 in 15-16 from	
Prepared by OFA, FTD	
	October 4th, 20

Net Debt to Revenue and GDP Ratios										
Ontario		2016 Public Accounts								
				Net Debt As	Accumulated	Acc Deficit		ONFA	Other	Deficit/
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP	TCA	Adj.	Adj.	(Surplus)
Actual	1989-90	282,766	35,409	12.5	35,409	12.5	-			(90)
Actual	1990-91	287,334	38,438	13.4	38,438	13.4	-			3,029
Actual	1991-92	288,217	49,368	17.1	49,368	17.1	-			10,930
Actual	1992-93	293,068	61,796	21.1	61,796	21.1	-			12,428
Actual	1993-94	302,245	80,599	26.7	80,599	26.7	-			11,202
Actual	1994-95	319,986	90,728	28.4	90,728	28.4	-			10,129
Actual	1995-96	337,400	101,864	30.2	101,864	30.2	-			8,800
Actual	1996-97	347,842	108,769	31.3	108,769	31.3	-			6,905
Actual	1997-98	368,960	112,735	30.6	112,735	30.6	-			3,966
Actual	1998-99	389,250	114,737	29.5	114,737	29.5	-			2,002
Actual	1999-2000	418,245	134,398	32.1	134,398	32.1	-			(668)
Actual	2000-01	452,238	132,496	29.3	132,496	29.3	-			(1,902)
Actual	2001-02	469,084	132,121	28.2	132,121	28.2	-			(375)
Actual	2002-03	494,815	132,647	26.8	118,705	24.0	13,942			(117)
Actual	2003-04	509,511	138,816	27.2	124,188	24.4	14,628			5,483
Actual	2004-05	533,365	140,921	26.4	125,743	23.6	15,178			1,555
Actual	2005-06	556,635	152,702	27.4	109,155	19.6	43,547			(298)
Actual	2006-07	578,241	153,742	26.6	106,776	18.5	46,966		(110)	(2,269)
Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999	(559)		(600)
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347	1,212		6,409
Actual	2009-10	597,882	193,589	32.4	130,957	21.9	62,632	1,090	-	19,262
Actual	2010-11	630,989	214,511	34.0	144,573	22.9	69,938	(395)	-	14,011
Actual	2011-12	659,743	235,582	35.7	158,410	24.0	77,172	3	865	12,969
Actual	2012-13	680,084	252,088	37.1	167,132	24.6	84,956	(639)	141	9,220
Actual	2013-14	693,210	267,190	38.5	176,634	25.5	90,556	(951)	-	10,453
Actual	2014-15	721,970	284,576	39.4	187,511	26.0	97,065	(1,121)	1,683	10,315
Actual	2015-16	747,101	305,233	40.9	202,697	27.1	102,536	1,003	9,154	5,029
	2016-17 Outlook	772,899	307,064	39.7	196,137	25.4	110,927		(10,668)	4,108
	2017-18 Outlook	806,182	315,678	39.2	196,130	24.3	119,548			(7)
	2018-19 Outlook	839,919	325,541	38.8	196,113	23.3	129,428			(17)
	2019-20 Outlook	873,260	335,488	38.4	196,113	22.5	139,375			-

3. Based on FES fiscal outlook and capital profile – takes into account the net debt impact of $10.7B in 15-16 from PAs, but does not carry that accounting change impact forward (i.e., accumulated deficit spikes in 15-16 but returns to normal levels in 16-17 onward).

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October 4th, 2016

Net Debt to Revenue and	
Ontario	
	Fiscal Year
Actual	1989-90
Actual	1990-91
Actual	1991-92
Actual	1992-93
Actual	1993-94
Actual	1994-95
Actual	1995-96
Actual	1996-97
Actual	1997-98
Actual	1998-99
Actual	1999-2000
Actual	2000-01
Actual	2001-02
Actual	2002-03
Actual	2003-04
Actual	2004-05
Actual	2005-06
Actual	2006-07
Actual	2007-08
Actual	2008-09
Actual	2009-10
Actual	2010-11
Actual	2011-12
Actual	2012-13
Actual	2013-14
Actual	2014-15
Actual	2015-16
	2016-17 Outloo
	2017-18 Outloo
	2018-19 Outloo
	2019-20 Outloo
3. Based on FES from PAs, but 15-16 but retu	
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	October 4th, 20

Net Debt to Revenue and GDP Ratios										
Ontario		2016 Public Accounts								
				Net Debt As	Accumulated	Acc Deficit		ONFA	Other	Deficit/
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP	TCA	Adj.	Adj.	(Surplus)
Actual	1989-90	282,766	35,409	12.5	35,409	12.5	-			(90)
Actual	1990-91	287,334	38,438	13.4	38,438	13.4	-			3,029
Actual	1991-92	288,217	49,368	17.1	49,368	17.1	-			10,930
Actual	1992-93	293,068	61,796	21.1	61,796	21.1	-			12,428
Actual	1993-94	302,245	80,599	26.7	80,599	26.7	-			11,202
Actual	1994-95	319,986	90,728	28.4	90,728	28.4	-			10,129
Actual	1995-96	337,400	101,864	30.2	101,864	30.2	-			8,800
Actual	1996-97	347,842	108,769	31.3	108,769	31.3	-			6,905
Actual	1997-98	368,960	112,735	30.6	112,735	30.6	-			3,966
Actual	1998-99	389,250	114,737	29.5	114,737	29.5	-			2,002
Actual	1999-2000	418,245	134,398	32.1	134,398	32.1	-			(668)
Actual	2000-01	452,238	132,496	29.3	132,496	29.3	-			(1,902)
Actual	2001-02	469,084	132,121	28.2	132,121	28.2	-			(375)
Actual	2002-03	494,815	132,647	26.8	118,705	24.0	13,942			(117)
Actual	2003-04	509,511	138,816	27.2	124,188	24.4	14,628			5,483
Actual	2004-05	533,365	140,921	26.4	125,743	23.6	15,178			1,555
Actual	2005-06	556,635	152,702	27.4	109,155	19.6	43,547			(298)
Actual	2006-07	578,241	153,742	26.6	106,776	18.5	46,966		(110)	(2,269)
Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999	(559)		(600)
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347	1,212		6,409
Actual	2009-10	597,882	193,589	32.4	130,957	21.9	62,632	1,090	-	19,262
Actual	2010-11	630,989	214,511	34.0	144,573	22.9	69,938	(395)	-	14,011
Actual	2011-12	659,743	235,582	35.7	158,410	24.0	77,172	3	865	12,969
Actual	2012-13	680,084	252,088	37.1	167,132	24.6	84,956	(639)	141	9,220
Actual	2013-14	693,210	267,190	38.5	176,634	25.5	90,556	(951)	-	10,453
Actual	2014-15	721,970	284,576	39.4	187,511	26.0	97,065	(1,121)	1,683	10,315
Actual	2015-16	747,101	305,233	40.9	202,697	27.1	102,536	1,003	9,154	5,029
	2016-17 Outlook	772,899	317,732	41.1	206,805	26.8	110,927			4,108
	2017-18 Outlook	806,182	326,346	40.5	206,798	25.7	119,548			(7)
	2018-19 Outlook	839,919	336,209	40.0	206,781	24.6	129,428			(17)
	2019-20 Outlook	873,260	346,156	39.6	206,781	23.7	139,375			-

4. Based on FES fiscal outlook and capital profile – takes into account the net debt impact of $10.7B in 15-16 from PAS, and carries the accounting change impact forward

Prepared by OFA, FTD

October 4th, 2016

Net Debt to Revenue and	
Ontario	
	Fiscal Year
Actual	1989-90
Actual	1990-91
Actual	1991-92
Actual	1992-93
Actual	1993-94
Actual	1994-95
Actual	1995-96
Actual	1996-97
Actual	1997-98
Actual	1998-99
Actual	1999-2000
Actual	2000-01
Actual	2001-02
Actual	2002-03
Actual	2003-04
Actual	2004-05
Actual	2005-06
Actual	2006-07
Actual	2007-08
Actual	2008-09
Actual	2009-10
Actual	2010-11
Actual	2011-12
Actual	2012-13
Actual	2013-14
Actual	2014-15
Actual	2015-16
	2016-17 Outloo
	2017-18 Outloo
	2018-19 Outloo
	2019-20 Outloo
4. Based on FES fis from PAS, and c	
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	October 4th, 20

Net Debt to Revenue and GDP Ratios											
Ontario		2016 Public Accounts without the Pension Adjustment									
				Net Debt As	Accumulated	Acc Deficit		ONFA	Other	Deficit/
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP	TCA	Adj.	Adj.	(Surplus)
Actual	1989-90	282,766	35,409	12.5	35,409	12.5	-			(90)
Actual	1990-91	287,334	38,438	13.4	38,438	13.4	-			3,029
Actual	1991-92	288,217	49,368	17.1	49,368	17.1	-			10,930
Actual	1992-93	293,068	61,796	21.1	61,796	21.1	-			12,428
Actual	1993-94	302,245	80,599	26.7	80,599	26.7	-			11,202
Actual	1994-95	319,986	90,728	28.4	90,728	28.4	-			10,129
Actual	1995-96	337,400	101,864	30.2	101,864	30.2	-			8,800
Actual	1996-97	347,842	108,769	31.3	108,769	31.3	-			6,905
Actual	1997-98	368,960	112,735	30.6	112,735	30.6	-			3,966
Actual	1998-99	389,250	114,737	29.5	114,737	29.5	-			2,002
Actual	1999-2000	418,245	134,398	32.1	134,398	32.1	-			(668)
Actual	2000-01	452,238	132,496	29.3	132,496	29.3	-			(1,902)
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Actual	2004-05	533,365	140,921	26.4	125,743	23.6	15,178			1,555
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Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999	(559)		(600)
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347	1,212		6,409
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Actual	2010-11	630,989	214,511	34.0	144,573	22.9	69,938	(395)	-	14,011
Actual	2011-12	659,743	235,582	35.7	158,410	24.0	77,172	3	865	12,969
Actual	2012-13	680,084	252,088	37.1	167,132	24.6	84,956	(639)	141	9,220
Actual	2013-14	693,210	267,190	38.5	176,634	25.5	90,556	(951)	-	10,453
Actual	2014-15	721,970	284,576	39.4	187,511	26.0	97,065	(1,121)	1,683	10,315
	2015-16	747,101	294,565	39.4	192,029	25.7	102,536	1,003		3,515
	2016-17 Outlook	772,899	307,262	39.8	196,335	25.4	110,927			4,306
	2017-18 Outlook	806,182	315,870	39.2	196,322	24.4	119,548			(13)
	2018-19 Outlook	839,919	325,727	38.8	196,299	23.4	129,428			(23)
	2019-20 Outlook	873,260	335,674	38.4	196,299	22.5	139,375			-
Prepared by OFA, FTD										
	October 4th 2016									

Net Debt to Revenue and	
Ontario	
	Fiscal Year
Actual	1989-90
Actual	1990-91
Actual	1991-92
Actual	1992-93
Actual	1993-94
Actual	1994-95
Actual	1995-96
Actual	1996-97
Actual	1997-98
Actual	1998-99
Actual	1999-2000
Actual	2000-01
Actual	2001-02
Actual	2002-03
Actual	2003-04
Actual	2004-05
Actual	2005-06
Actual	2006-07
Actual	2007-08
Actual	2008-09
Actual	2009-10
Actual	2010-11
Actual	2011-12
Actual	2012-13
Actual	2013-14
Actual	2014-15
	2015-16
	2016-17 Outloo
	2017-18 Outloo
	2018-19 Outloo
	2019-20 Outloo
Prepared by OFA, FTD	
	October 4th 20

Projected Deficit

$ Billions	2015-16	2016-17	2017-18	2018-19
Updated Current Outlook	-5.029	-4.306431706	0.01319027	0.023193182
FES Outlook	-5.029	-4.107899395	0.00719027	0.017193182

Source: Tara

	Ontario Nominal GDP	
2000	452238	
2001	469084	
2002	494815	
2003	509511	
2004	533365	
2005	556635	
2006	578241	
2007	601735	
2008	608446	
2009	597882	
2010	630989	5.5
2011	659743	4.6
2012	680084	3.1
2013	693210	1.9
2014	721970	4.1
2015	747101	3.5
2016p	772899	3.5
2017p	806182	4.3
2018p	839919	4.2
2019p	873260	4

p = projection

Source: Mark Williams
OEP

Net Book Value of TCA ($ Millions)	2015-16 (Actual)		2016-17	2017-18	2018-19	2019-20
2016 Budget						
Opening Net Book Value			102,536	110,437	119,079	128,985
Annual Acquisitions	N/A		13,037	14,059	15,605	15,979
Gross Amortization Expense	N/A		-5,137	-5,416	-5,700	-6,008
Closing Net Book Value		102,536	110,437	119,079	128,985	138,956
In Year Approvals						
Annual Acquisitions	-		502	0	-	-
School Renewal (16-17 Only)		0	478	0	0	0
Chapleau Cree Stage 2B		0	0	0	0	0
Child and Youth Mental Health BI S		0	5	0	0	0
School Boards Funding For Child Ca		0	19	0	0	0
Annual Amortization	-		-11	-22	-25	-24
School Renewal (16-17 Only)		0	-11	-22	-22	-22
Chapleau Cree Stage 2B		0	0	0	0	0
Child and Youth Mental Health BI S		0	0	0	-1	-1
School Boards Funding For Child Ca		0	0	0	-2	-1
2016 Budget + In Year Approvals						
Opening Net Book Value			102,536	110,927	119,548	129,428
Annual Acquisitions			13,539	14,059	15,605	15,979
Gross Amortization Expense			-5,148	-5,438	-5,725	-6,032
Closing Net Book Value		102,536	110,927	119,548	129,428	139,375

Source: David Hodes

2020-21	2021-22
138,956	147,064
14,536	11,823
-6,428	-6,939
147,064	151,949
-	-
0	0
0	0
0	0
0	0
-24	-23
-22	-22
0	0
-1	-1
-1	0
139,375	147,460
14,536	11,823
-6,451	-6,962
147,460	152,321

Projected Deficit

$ Billions	2015-16	2016-17	2017-18	2018-19
Updated Current Ou	(5.0290)	(4.3064)	0.0132	0.0232
FES Outlook	(5.0290)	(4.1079)	0.0072	0.0172

Source: Tara M.

2019-20 2020-21

From:	McGrath, Tara (MOF)
To:	John Psinas; Birks, Ryan (MOF)
Cc:	Ken Kandeepan; Christina Zhang; George Sakura; Shemin Meralli; Kevin Hwang; Emma Lindquist (MOF); Mersad Fard (MOI); Jonathan Rubin (MOI)
Subject:	RE: FES Fiscal Strategy Update at FPC Tomorrow
Date:	Tuesday, October 04, 2016 4:32:19 PM

Hi John,

As discussed, we'll get you numbers as soon as we can, but timing will be contingent on others also working through the numbers. And as I mentioned below, it's the DM that would like net debt-to-GDP to be included. Thanks,

Tara

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: October-04-16 4:08 PM
To: McGrath, Tara (MOF); Birks, Ryan (MOF)
Cc: Kandeepan, Ken (OFA); Zhang, Christina (OFA); Sakura, George (OFA); Meralli, Shemin (OFA); Hwang, Kevin (OFA); Lindquist, Emma (MOF); Fard, Mersad (TBS); Rubin, Jonathan (TBS)
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Tara,

Not sure what you're asking. Let's discuss over the phone. Thanks.

--John

416-325-8072

From: McGrath, Tara (MOF) [mailto:Tara.McGrath@ontario.ca]
Sent: Tuesday, October 04, 2016 4:04 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Mersad Fard (MOI) <Mersad.Fard@ontario.ca>; Jonathan Rubin (MOI) <Jonathan.Rubin@ontario.ca>
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

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Let me know if you want to chat. We'll need to turn this around tonight, unfortunately, as FPC is planned for tomorrow morning at 10am. Thanks,

Tara

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: October-04-16 1:55 PM
To: Birks, Ryan (MOF)
Cc: Kandeepan, Ken (OFA); Zhang, Christina (OFA); Sakura, George (OFA); Meralli, Shemin (OFA); McGrath, Tara (MOF); Hwang, Kevin (OFA)
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Ryan,

There does not appear to be references to 2015-16 in the deck with respect to net debt. If there is, can you point them to me. The actual net debt with the pension adjustment this year, based on the unaudited annual report issued last night, is 305,233 in case you want to insert it in.

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--John

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From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Tuesday, October 04, 2016 10:34 AM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: FES Fiscal Strategy Update at FPC Tomorrow

Importance: High

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Thanks,
Ryan

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Cc:	Ken Kandeepan; Christina Zhang; George Sakura; Shemin Meralli; Kevin Hwang; Emma Lindquist (MOF); Mersad Fard (MOI); Jonathan Rubin (MOI)
Subject:	RE: FES Fiscal Strategy Update at FPC Tomorrow
Date:	Tuesday, October 04, 2016 4:08:20 PM

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Cc: Kandeepan, Ken (OFA); Zhang, Christina (OFA); Sakura, George (OFA); Meralli, Shemin (OFA); McGrath, Tara (MOF); Hwang, Kevin (OFA)
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

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Thanks.

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Sent: Tuesday, October 04, 2016 10:34 AM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: FES Fiscal Strategy Update at FPC Tomorrow
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To:	John Psinas; Birks, Ryan (MOF)
Cc:	Ken Kandeepan; Christina Zhang; George Sakura; Shemin Meralli; Kevin Hwang; Emma Lindquist (MOF); Mersad Fard (MOI); Jonathan Rubin (MOI)
Subject:	RE: FES Fiscal Strategy Update at FPC Tomorrow
Date:	Tuesday, October 04, 2016 4:04:14 PM

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Thanks.

--John

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To: Christina Zhang <Christina.Zhang@ofina.on.ca>
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From:	John Psinas
To:	"Ryan.Birks@ontario.ca"
Cc:	Ken Kandeepan; Christina Zhang; George Sakura; Shemin Meralli; Tara McGrath (MOF); Kevin Hwang
Subject:	RE: FES Fiscal Strategy Update at FPC Tomorrow
Date:	Tuesday, October 04, 2016 1:55:12 PM

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Thanks.
--John

416-325-8072

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Sent: Tuesday, October 04, 2016 10:34 AM
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Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
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Ryan

From: John Psinas
To: Ken Kandeepan
Cc: George Sakura; Shemin Meralli
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow
Date: Tuesday, October 04, 2016 1:28:57 PM

Ken,

Do you mean you want us to have out years without the pension adjustment (already reflected in the deck) and one with the $10.7 Billion adjustment so Tara's folks will have multiple slides? The slides don't have 2015-16 but out-years only.

The deck seems to be based on the information we sent to Tara that did not have the pension adjustment in any year, but based on the 3,515 deficit. We can revise it:

(A) Provide information "with the pension adjustment" .ie. provide information to reflect the 5,029 deficit and $9.1 B equity adjustment, which will affect the carry forward 2016-17 accumulated deficit and thus net debt, and/or

(B) leave the deck information as is as the 3,515 (with no equity adjustment) would reflect a carry forward 2016-17 accumulated deficit with the adjustment as if it was reversed.

Or both.

Thanks.

--John

416-325-8072

From: Ken Kandeepan
Sent: Tuesday, October 04, 2016 12:27 PM
To: John Psinas <John.Psinas@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Re: FES Fiscal Strategy Update at FPC Tomorrow

Hi John

I spoke to Tim and he suggests that for 15-16 we provide the net debt to GDP on both basis but reverse the pension adjustment for the out years

On Oct 4, 2016, at 12:17 PM, Christina Zhang <Christina.Zhang@ofina.on.ca> wrote:

Hi there,

Not sure if OTB already shared this with you. Please note that this is tracking to FPC tomorrow.

Regards,
Christina

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Tuesday, October 04, 2016 10:34 AM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: FES Fiscal Strategy Update at FPC Tomorrow
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Thanks,
Ryan

<FES_Updated_Fiscal_Strategy_v12.pptx>

From:	McGrath, Tara (MOF)
To:	Ken Kandeepan
Cc:	Emma Lindquist (MOF); Christina Zhang; Shemin Meralli; George Sakura; John Psinas; Tim Schuurman (MOF)
Subject:	RE: FES Fiscal Strategy Update at FPC Tomorrow
Date:	Tuesday, October 04, 2016 8:34:06 PM

Hi Ken and John,

Do you have an ETA on the net debt-to-GDP numbers?

Tim is ready to send the deck and this is one remaining piece. Thanks,

Tara

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: October-04-16 6:50 PM
To: McGrath, Tara (MOF)
Cc: Rubin, Jonathan (TBS); Fard, Mersad (TBS); Lindquist, Emma (MOF); Zhang, Christina (OFA); Meralli, Shemin (OFA); Sakura, George (OFA); John Psinas; Hodes, David (TBS); Schuurman, Tim (MOF)
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Ok

Thanks

Ken K

From: McGrath, Tara (MOF) [mailto:Tara.McGrath@ontario.ca]
Sent: Tuesday, October 04, 2016 6:47 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Jonathan Rubin (MOI) <Jonathan.Rubin@ontario.ca>; Mersad Fard (MOI) <Mersad.Fard@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Hodes, David (TBS) <David.Hodes@ontario.ca>; Tim Schuurman (MOF) <Tim.Schuurman@ontario.ca>
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Correct, however, it's unlikely that the review will be completed in time for the publication of the FES.

At this point in time, the direction that we've been given is that the FES will report the $5.0 billion deficit for 2015-16.

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: October-04-16 6:42 PM
To: McGrath, Tara (MOF)
Cc: Rubin, Jonathan (TBS); Fard, Mersad (TBS); Lindquist, Emma (MOF); Zhang, Christina (OFA); Meralli,

Shemin (OFA); Sakura, George (OFA); John Psinas; Hodes, David (TBS)
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Hi Tara

Not sure whether these scenarios capture an essential issue. Let's say the government is successful in the review of the pension adjustment, the expert panel agrees with government's position. In that case and correct me if I am wrong John, the 15-16 numbers will be restated and the its as though this accounting change never happened.

So my suggestion is for scenarios 1 and 3 the accounting change be ignored. Happy to discuss, 647-202-4373

Let me know

Ken K

From: McGrath, Tara (MOF) [mailto:Tara.McGrath@ontario.ca]
Sent: Tuesday, October 04, 2016 5:53 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Hodes, David (TBS) <David.Hodes@ontario.ca>
Cc: Jonathan Rubin (MOI) <Jonathan.Rubin@ontario.ca>; Mersad Fard (MOI) <Mersad.Fard@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Hi John,

Here are the deficit numbers.

To be clear, we are requesting 4 different net debt-to-GDP outlooks:

1. Based on 2016 Budget fiscal outlook and capital profile – takes into account the net debt impact of $10.7B in 15-16 from PAs, but does not carry that accounting change impact forward (i.e., accumulated deficit spikes in 15-16 but returns to normal levels in 16-17 onward).

2. Based on 2016 Budget fiscal outlook and capital profile – takes into account the net debt impact of $10.7B in 15-16 from PAS, and carries the accounting change impact forward

3. Based on FES fiscal outlook and capital profile – takes into account the net debt impact of $10.7B in 15-16 from PAs, but does not carry that accounting change impact forward (i.e., accumulated deficit spikes in 15-16 but returns to normal levels in 16-17 onward).

4. Based on FES fiscal outlook and capital profile – takes into account the net debt impact of $10.7B in 15-16 from PAS, and carries the accounting change impact forward

Please give me a call if that's unclear 5-8174. Thanks,

Tara

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: October-04-16 5:10 PM
To: Hodes, David (TBS)
Cc: Rubin, Jonathan (TBS); Fard, Mersad (TBS); McGrath, Tara (MOF); Lindquist, Emma (MOF); Zhang, Christina (OFA); Meralli, Shemin (OFA); Sakura, George (OFA); Kandeepan, Ken (OFA)
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Thanks David. All that is left is the out years deficits.

--John

416-325-8072

From: Hodes, David (TBS) [mailto:David.Hodes@ontario.ca]
Sent: Tuesday, October 04, 2016 5:07 PM
To: John Psinas <John.Psinas@ofina.on.ca>
Cc: Jonathan Rubin (MOI) <Jonathan.Rubin@ontario.ca>; Mersad Fard (MOI) <Mersad.Fard@ontario.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Hi John,

Please see the attached updated TCA profile. This reflects all changes to the child care item as well as an updated number for school renewal assets.

Thanks

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: October 4, 2016 4:08 PM
To: McGrath, Tara (MOF); Birks, Ryan (MOF)
Cc: Kandeepan, Ken (OFA); Zhang, Christina (OFA); Sakura, George (OFA); Meralli, Shemin (OFA); Hwang, Kevin (OFA); Lindquist, Emma (MOF); Fard, Mersad (TBS); Rubin, Jonathan (TBS)
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To: Christina Zhang <Christina.Zhang@ofina.on.ca>
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Cc:	Jonathan Rubin (MOI); Mersad Fard (MOI); Emma Lindquist (MOF); Christina Zhang; Shemin Meralli; George Sakura; John Psinas; Hodes, David (TBS); Tim Schuurman (MOF)
Subject:	RE: FES Fiscal Strategy Update at FPC Tomorrow
Date:	Tuesday, October 04, 2016 6:49:36 PM

Ok

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Ken K

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To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
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To: Birks, Ryan (MOF)
Cc: Kandeepan, Ken (OFA); Zhang, Christina (OFA); Sakura, George (OFA); Meralli, Shemin (OFA); McGrath, Tara (MOF); Hwang, Kevin (OFA)

Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Ryan,

There does not appear to be references to 2015-16 in the deck with respect to net debt. If there is, can you point them to me. The actual net debt with the pension adjustment this year, based on the unaudited annual report issued last night, is 305,233 in case you want to insert it in.

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Thanks.

--John

416-325-8072

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Tuesday, October 04, 2016 10:34 AM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: FES Fiscal Strategy Update at FPC Tomorrow
Importance: High

Hi Christina,

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Ryan

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including any attachments, without reading them, and destroy all copies. Thank you.

From:	McGrath, Tara (MOF)
To:	John Psinas; Hodes, David (TBS)
Cc:	Jonathan Rubin (MOI); Mersad Fard (MOI); Emma Lindquist (MOF); Christina Zhang; Shemin Meralli; George Sakura; Ken Kandeepan
Subject:	RE: FES Fiscal Strategy Update at FPC Tomorrow
Date:	Tuesday, October 04, 2016 5:53:16 PM
Attachments:	NetDebttoGDP_v5(outlook).xlsx

Hi John,

Here are the deficit numbers.

To be clear, we are requesting 4 different net debt-to-GDP outlooks:

1. Based on 2016 Budget fiscal outlook and capital profile – takes into account the net debt impact of $10.7B in 15-16 from PAs, but does not carry that accounting change impact forward (i.e., accumulated deficit spikes in 15-16 but returns to normal levels in 16-17 onward).

2. Based on 2016 Budget fiscal outlook and capital profile – takes into account the net debt impact of $10.7B in 15-16 from PAS, and carries the accounting change impact forward

3. Based on FES fiscal outlook and capital profile – takes into account the net debt impact of $10.7B in 15-16 from PAs, but does not carry that accounting change impact forward (i.e., accumulated deficit spikes in 15-16 but returns to normal levels in 16-17 onward).

4. Based on FES fiscal outlook and capital profile – takes into account the net debt impact of $10.7B in 15-16 from PAS, and carries the accounting change impact forward

Please give me a call if that's unclear 5-8174. Thanks,

Tara

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: October-04-16 5:10 PM
To: Hodes, David (TBS)
Cc: Rubin, Jonathan (TBS); Fard, Mersad (TBS); McGrath, Tara (MOF); Lindquist, Emma (MOF); Zhang, Christina (OFA); Meralli, Shemin (OFA); Sakura, George (OFA); Kandeepan, Ken (OFA)
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Thanks David. All that is left is the out years deficits.

--John

416-325-8072

From: Hodes, David (TBS) [mailto:David.Hodes@ontario.ca]
Sent: Tuesday, October 04, 2016 5:07 PM
To: John Psinas <John.Psinas@ofina.on.ca>
Cc: Jonathan Rubin (MOI) <Jonathan.Rubin@ontario.ca>; Mersad Fard (MOI) <Mersad.Fard@ontario.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Hi John,

Please see the attached updated TCA profile. This reflects all changes to the child care item as well as an updated number for school renewal assets.

Thanks

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: October 4, 2016 4:08 PM
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Cc: Kandeepan, Ken (OFA); Zhang, Christina (OFA); Sakura, George (OFA); Meralli, Shemin (OFA); Hwang, Kevin (OFA); Lindquist, Emma (MOF); Fard, Mersad (TBS); Rubin, Jonathan (TBS)
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Tara,

Not sure what you're asking. Let's discuss over the phone. Thanks.

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To: John Psinas <John.Psinas@ofina.on.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Mersad Fard (MOI) <Mersad.Fard@ontario.ca>; Jonathan Rubin (MOI) <Jonathan.Rubin@ontario.ca>
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

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Let me know if you want to chat. We'll need to turn this around tonight, unfortunately, as FPC is planned for tomorrow morning at 10am. Thanks,

Tara

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Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

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Thanks.

--John

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From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Tuesday, October 04, 2016 10:34 AM

To: Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: FES Fiscal Strategy Update at FPC Tomorrow
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Projected Deficit

$ Billions	2015-16	2016-17	2017-18	2018-19
Updated Current Outlook	(5.0290)	(4.3064)	0.0132	0.0232
FES Outlook	(5.0290)	(4.1079)	0.0072	0.0172

From:	John Psinas
To:	"Hodes, David (TBS)"
Cc:	Jonathan Rubin (MOI); Mersad Fard (MOI); Tara McGrath (MOF); Emma Lindquist (MOF); Christina Zhang; Shemin Meralli; George Sakura; Ken Kandeepan
Subject:	RE: FES Fiscal Strategy Update at FPC Tomorrow
Date:	Tuesday, October 04, 2016 5:09:49 PM

Thanks David. All that is left is the out years deficits.

--John

416-325-8072

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Sent: Tuesday, October 04, 2016 5:07 PM
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Tara

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Cc: Kandeepan, Ken (OFA); Zhang, Christina (OFA); Sakura, George (OFA); Meralli, Shemin (OFA); McGrath, Tara (MOF); Hwang, Kevin (OFA)
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Thanks.

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Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
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From:	McGrath, Tara (MOF)
To:	John Psinas; Birks, Ryan (MOF)
Cc:	Ken Kandeepan; Christina Zhang; George Sakura; Shemin Meralli; Kevin Hwang; Emma Lindquist (MOF); Mersad Fard (MOI); Jonathan Rubin (MOI)
Subject:	RE: FES Fiscal Strategy Update at FPC Tomorrow
Date:	Tuesday, October 04, 2016 4:43:12 PM
Attachments:	RE FES Fiscal Strategy Outlook at FPC Tomorrow.msg

Hi John,

I understand you actually already have #2. Please see attached. Thanks,

Tara

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: October-04-16 4:35 PM
To: McGrath, Tara (MOF); Birks, Ryan (MOF)
Cc: Kandeepan, Ken (OFA); Zhang, Christina (OFA); Sakura, George (OFA); Meralli, Shemin (OFA); Hwang, Kevin (OFA); Lindquist, Emma (MOF); Fard, Mersad (TBS); Rubin, Jonathan (TBS)
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Tara,

We'll construct an excel spreadsheet with one tab with the pension adjustment and one without. There are 3 variables that we will need that will be incorporated into both calculations:

1) Revised capital numbers
2) Revised GDP numbers
3) Revised out year deficit amounts.

Thanks.

--John

416-325-8072

From: McGrath, Tara (MOF) [mailto:Tara.McGrath@ontario.ca]
Sent: Tuesday, October 04, 2016 4:22 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Mersad Fard (MOI) <Mersad.Fard@ontario.ca>; Jonathan Rubin (MOI) <Jonathan.Rubin@ontario.ca>
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Hi John,

As discussed, we'll get you numbers as soon as we can, but timing will be contingent

on others also working through the numbers. And as I mentioned below, it's the DM that would like net debt-to-GDP to be included. Thanks,

Tara

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: October-04-16 4:08 PM
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Cc: Kandeepan, Ken (OFA); Zhang, Christina (OFA); Sakura, George (OFA); Meralli, Shemin (OFA); Hwang, Kevin (OFA); Lindquist, Emma (MOF); Fard, Mersad (TBS); Rubin, Jonathan (TBS)
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From: McGrath, Tara (MOF) [Tara.McGrath@ontario.ca]
To: Ghufran Tarin (MOF) [Ghufran.Tarin@ontario.ca]
CC: Birks, Ryan (MOF) [Ryan.Birks@ontario.ca]; Emma Lindquist (MOF) [Emma.Lindquist@ontario.ca]; Bruno Amara (MOF) [Bruno.Amara@ontario.ca]; John Anania (MOF) [John.Anania@ontario.ca]; Paul Lewis (MOF) [Paul.D.Lewis@ontario.ca]
Subject: RE: FES Fiscal Strategy Outlook at FPC Tomorrow?
Date: Tuesday, October 04, 2016 16:42:42
Attachment 1: Ontario Nominal GDP_Sep 29.xlsx

Hi Ghufran,

Thanks for this. No, we haven't seen this. We'll confirm with the OFA. Thanks,

Tara

From: Tarin, Ghufran (MOF)
Sent: October-04-16 4:40 PM
To: McGrath, Tara (MOF)
Cc: Birks, Ryan (MOF); Lindquist, Emma (MOF); Amara, Bruno (MOF); Anania, John (MOF); Lewis, Paul (MOF)
Subject: RE: FES Fiscal Strategy Outlook at FPC Tomorrow?

Hi Tara – Yes, Brian wants the numbers to be updated. OEP actually sent out the updated nominal GDP numbers to OFA on Sep 29th. I believe you were cc'ed on it too. Please see the attached updated numbers.

Thanks,

Ghufran

From: McGrath, Tara (MOF)
Sent: October-04-16 3:44 PM
To: Tarin, Ghufran (MOF)
Cc: Birks, Ryan (MOF); Lindquist, Emma (MOF); Amara, Bruno (MOF); Anania, John (MOF)
Subject: RE: FES Fiscal Strategy Outlook at FPC Tomorrow?

Hi Ghufran,

We're also trying to update the net debt-to-GDP forecast for FPC tomorrow. In previous FPC decks we've been using the spring nominal GDP forecast as the denominator (provided by OEP to the OFA, and used for Public Accounts), but given how far along we are in the FES process, we were wondering whether OEP wants to update this nominal GDP forecast for whatever is tracking for FES.

Let us know what Brian would like to do. If the desire is to update, then we'd need the outlook asap so that we can work with the OFA and TBS to land the net debt-to-GDP outlook before end of day.

Thanks,

Tara

From: Tarin, Ghufran (MOF)
Sent: October-04-16 12:29 PM
To: Birks, Ryan (MOF)
Cc: McGrath, Tara (MOF); Lindquist, Emma (MOF); Amara, Bruno (MOF)
Subject: RE: FES Fiscal Strategy Outlook at FPC Tomorrow?

Hi Ryan – no changes to the revenue forecast for this deck.

From: Birks, Ryan (MOF)
Sent: October-04-16 10:27 AM
To: Tarin, Ghufran (MOF)

Cc: McGrath, Tara (MOF); Lindquist, Emma (MOF)
Subject: FES Fiscal Strategy Outlook at FPC Tomorrow?
Importance: High

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Can you please confirm if there are any changes to your revenue forecast that OEP would like to include in the update as soon as possible (i.e. this morning)?

Thanks,

Ryan

	Ontario Nominal GDP	
2000	452238	
2001	469084	
2002	494815	
2003	509511	
2004	533365	
2005	556635	
2006	578241	
2007	601735	
2008	608446	
2009	597882	
2010	630989	5.5
2011	659743	4.6
2012	680084	3.1
2013	693210	1.9
2014	721970	4.1
2015	747101	3.5
2016p	772899	3.5
2017p	806182	4.3
2018p	839919	4.2
2019p	873260	4.0

p = projection

From:	John Psinas
To:	Tara McGrath (MOF); Birks, Ryan (MOF)
Cc:	Ken Kandeepan; Christina Zhang; George Sakura; Shemin Meralli; Kevin Hwang; Emma Lindquist (MOF); Mersad Fard (MOI); Jonathan Rubin (MOI)
Subject:	RE: FES Fiscal Strategy Update at FPC Tomorrow
Date:	Tuesday, October 04, 2016 4:34:51 PM

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We'll construct an excel spreadsheet with one tab with the pension adjustment and one without. There are 3 variables that we will need that will be incorporated into both calculations:

1) Revised capital numbers
2) Revised GDP numbers
3) Revised out year deficit amounts.

Thanks.

--John

416-325-8072

From: McGrath, Tara (MOF) [mailto:Tara.McGrath@ontario.ca]
Sent: Tuesday, October 04, 2016 4:22 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Mersad Fard (MOI) <Mersad.Fard@ontario.ca>; Jonathan Rubin (MOI) <Jonathan.Rubin@ontario.ca>
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Hi John,

As discussed, we'll get you numbers as soon as we can, but timing will be contingent on others also working through the numbers. And as I mentioned below, it's the DM that would like net debt-to-GDP to be included. Thanks,

Tara

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: October-04-16 4:08 PM
To: McGrath, Tara (MOF); Birks, Ryan (MOF)
Cc: Kandeepan, Ken (OFA); Zhang, Christina (OFA); Sakura, George (OFA); Meralli, Shemin (OFA); Hwang, Kevin (OFA); Lindquist, Emma (MOF); Fard, Mersad (TBS); Rubin, Jonathan (TBS)
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Tara,

Not sure what you're asking. Let's discuss over the phone. Thanks.

--John

416-325-8072

From: McGrath, Tara (MOF) [mailto:Tara.McGrath@ontario.ca]
Sent: Tuesday, October 04, 2016 4:04 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Mersad Fard (MOI) <Mersad.Fard@ontario.ca>; Jonathan Rubin (MOI) <Jonathan.Rubin@ontario.ca>
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Hi John,

Sorry – a bit of confusion with the email below. Let me clarify.

We got added last minute today for tomorrow's FPC because TBS's allocations work fell off. We're going to bring the "final" proposed fiscal outlook (no longer multiple options), and the DM would like to include the net debt-to-GDP outlook associated with it.

At this point, we've asked CPD to update their TCA profile, as there has been a change to a child care item with capital impacts, and we've asked OEP if they want to update their nominal GDP forecast for the FES outlook as opposed to their spring outlook for PAs. In addition, we're doing one last check of our bottom-line numbers, but can send along shortly.

You're right, there's no mention of 15-16 in the deck. I think what we're looking for help on is what the net debt should be for 16-17 to 18-19 to calculate this net debt-to-GDP profile? For the FES, we're currently planning to report the fiscal outlook for 16-17 to 18-19 based on *not* taking on the change in accounting for pension assets that was taken on as part of the 15-16 PAs. I'm not sure what that means for you and what report in FES for net debt?

Let me know if you want to chat. We'll need to turn this around tonight, unfortunately, as FPC is planned for tomorrow morning at 10am. Thanks,

Tara

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: October-04-16 1:55 PM
To: Birks, Ryan (MOF)
Cc: Kandeepan, Ken (OFA); Zhang, Christina (OFA); Sakura, George (OFA); Meralli, Shemin (OFA); McGrath, Tara (MOF); Hwang, Kevin (OFA)
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Ryan,

There does not appear to be references to 2015-16 in the deck with respect to net debt. If there is, can you point them to me. The actual net debt with the pension adjustment this year, based on the unaudited annual report issued last night, is 305,233 in case you want to insert it in.

In any event, the numbers in the deck do not reflect this year's highly controversial pension adjustment in the out-years. I've been instructed though, to leave it as is for the purposes of your deck as there may be a high chance that the pension adjustment may be reversed next year, which will lead us back to the numbers in the deck (assuming all of the assumptions Tara gave us are unchanged). You may thus want to put a qualifier in the deck that the out-years do not reflect the pension adjustment in net debt.

Thanks.

--John

416-325-8072

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Tuesday, October 04, 2016 10:34 AM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: FES Fiscal Strategy Update at FPC Tomorrow
Importance: High

Hi Christina,

I just wanted to flag that there will be a FES Fiscal Strategy update tracking to FPC tomorrow. As a reference, I'm attaching the latest iteration of the deck that was prepared last week. Note, we'll be using a shortened version of the deck for tomorrow's FPC meeting.

Can OFA confirm if there are any updates to net debt to GDP as a result of yesterday's release of 2015-16 Annual Report that should be included as soon as possible?

Thanks,
Ryan

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

From:	McGrath, Tara (MOF)
To:	John Psinas; Ken Kandeepan
Cc:	Emma Lindquist (MOF); Christina Zhang; Shemin Meralli; George Sakura; Tim Schuurman (MOF)
Subject:	RE: FES Fiscal Strategy Update at FPC Tomorrow
Date:	Tuesday, October 04, 2016 8:37:33 PM

Thanks for the speedy turnaround. Much appreciated.

Tara

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: October-04-16 8:37 PM
To: McGrath, Tara (MOF); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Zhang, Christina (OFA); Meralli, Shemin (OFA); Sakura, George (OFA); Schuurman, Tim (MOF)
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Tara,

Please find the 4 scenarios attached. We did the scenarios where we followed your directions about acc. deficit spiking this year, and then would be back to normal in the out years, which we have interpreted as no restatement.

Thanks.

John

From: McGrath, Tara (MOF) [mailto:Tara.McGrath@ontario.ca]
Sent: Tuesday, October 04, 2016 8:34 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Tim Schuurman (MOF) <Tim.Schuurman@ontario.ca>
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Hi Ken and John,

Do you have an ETA on the net debt-to-GDP numbers?

Tim is ready to send the deck and this is one remaining piece. Thanks,

Tara

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: October-04-16 6:50 PM
To: McGrath, Tara (MOF)

Cc: Rubin, Jonathan (TBS); Fard, Mersad (TBS); Lindquist, Emma (MOF); Zhang, Christina (OFA); Meralli, Shemin (OFA); Sakura, George (OFA); John Psinas; Hodes, David (TBS); Schuurman, Tim (MOF)
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Ok

Thanks

Ken K

From: McGrath, Tara (MOF) [mailto:Tara.McGrath@ontario.ca]
Sent: Tuesday, October 04, 2016 6:47 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Jonathan Rubin (MOI) <Jonathan.Rubin@ontario.ca>; Mersad Fard (MOI) <Mersad.Fard@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Hodes, David (TBS) <David.Hodes@ontario.ca>; Tim Schuurman (MOF) <Tim.Schuurman@ontario.ca>
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Correct, however, it's unlikely that the review will be completed in time for the publication of the FES.

At this point in time, the direction that we've been given is that the FES will report the $5.0 billion deficit for 2015-16.

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: October-04-16 6:42 PM
To: McGrath, Tara (MOF)
Cc: Rubin, Jonathan (TBS); Fard, Mersad (TBS); Lindquist, Emma (MOF); Zhang, Christina (OFA); Meralli, Shemin (OFA); Sakura, George (OFA); John Psinas; Hodes, David (TBS)
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Hi Tara

Not sure whether these scenarios capture an essential issue. Let's say the government is successful in the review of the pension adjustment, the expert panel agrees with government's position. In that case and correct me if I am wrong John, the 15-16 numbers will be restated and the its as though this accounting change never happened.

So my suggestion is for scenarios 1 and 3 the accounting change be ignored. Happy to discuss, 647-202-4373

Let me know

Ken K

From: McGrath, Tara (MOF) [mailto:Tara.McGrath@ontario.ca]
Sent: Tuesday, October 04, 2016 5:53 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Hodes, David (TBS) <David.Hodes@ontario.ca>
Cc: Jonathan Rubin (MOI) <Jonathan.Rubin@ontario.ca>; Mersad Fard (MOI) <Mersad.Fard@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Hi John,

Here are the deficit numbers.

To be clear, we are requesting 4 different net debt-to-GDP outlooks:

1. Based on 2016 Budget fiscal outlook and capital profile – takes into account the net debt impact of $10.7B in 15-16 from PAs, but does not carry that accounting change impact forward (i.e., accumulated deficit spikes in 15-16 but returns to normal levels in 16-17 onward).

2. Based on 2016 Budget fiscal outlook and capital profile – takes into account the net debt impact of $10.7B in 15-16 from PAS, and carries the accounting change impact forward

3. Based on FES fiscal outlook and capital profile – takes into account the net debt impact of $10.7B in 15-16 from PAs, but does not carry that accounting change impact forward (i.e., accumulated deficit spikes in 15-16 but returns to normal levels in 16-17 onward).

4. Based on FES fiscal outlook and capital profile – takes into account the net debt impact of $10.7B in 15-16 from PAS, and carries the accounting change impact forward

Please give me a call if that's unclear 5-8174. Thanks,

Tara

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: October-04-16 5:10 PM
To: Hodes, David (TBS)
Cc: Rubin, Jonathan (TBS); Fard, Mersad (TBS); McGrath, Tara (MOF); Lindquist, Emma (MOF); Zhang, Christina (OFA); Meralli, Shemin (OFA); Sakura, George (OFA); Kandeepan, Ken (OFA)
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Thanks David. All that is left is the out years deficits.

--John

416-325-8072

From: Hodes, David (TBS) [mailto:David.Hodes@ontario.ca]
Sent: Tuesday, October 04, 2016 5:07 PM
To: John Psinas <John.Psinas@ofina.on.ca>
Cc: Jonathan Rubin (MOI) <Jonathan.Rubin@ontario.ca>; Mersad Fard (MOI) <Mersad.Fard@ontario.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Hi John,

Please see the attached updated TCA profile. This reflects all changes to the child care item as well as an updated number for school renewal assets.

Thanks

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: October 4, 2016 4:08 PM
To: McGrath, Tara (MOF); Birks, Ryan (MOF)
Cc: Kandeepan, Ken (OFA); Zhang, Christina (OFA); Sakura, George (OFA); Meralli, Shemin (OFA); Hwang, Kevin (OFA); Lindquist, Emma (MOF); Fard, Mersad (TBS); Rubin, Jonathan (TBS)
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Tara,

Not sure what you're asking. Let's discuss over the phone. Thanks.

--John

416-325-8072

From: McGrath, Tara (MOF) [mailto:Tara.McGrath@ontario.ca]
Sent: Tuesday, October 04, 2016 4:04 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Mersad Fard (MOI) <Mersad.Fard@ontario.ca>; Jonathan Rubin (MOI) <Jonathan.Rubin@ontario.ca>
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Hi John,

Sorry – a bit of confusion with the email below. Let me clarify.

We got added last minute today for tomorrow's FPC because TBS's allocations work fell off. We're going to bring the "final" proposed fiscal outlook (no longer multiple options), and the DM would like to include the net debt-to-GDP outlook associated with it.

At this point, we've asked CPD to update their TCA profile, as there has been a change to a child care item with capital impacts, and we've asked OEP if they want to update their nominal GDP forecast for the FES outlook as opposed to their spring outlook for PAs. In addition, we're doing one last check of our bottom-line numbers, but can send along shortly.

You're right, there's no mention of 15-16 in the deck. I think what we're looking for help on is what the net debt should be for 16-17 to 18-19 to calculate this net debt-to-GDP profile? For the FES, we're currently planning to report the fiscal outlook for 16-17 to 18-19 based on *not* taking on the change in accounting for pension assets that was taken on as part of the 15-16 PAs. I'm not sure what that means for you and what report in FES for net debt?

Let me know if you want to chat. We'll need to turn this around tonight, unfortunately, as FPC is planned for tomorrow morning at 10am. Thanks,

Tara

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: October-04-16 1:55 PM
To: Birks, Ryan (MOF)
Cc: Kandeepan, Ken (OFA); Zhang, Christina (OFA); Sakura, George (OFA); Meralli, Shemin (OFA); McGrath, Tara (MOF); Hwang, Kevin (OFA)
Subject: RE: FES Fiscal Strategy Update at FPC Tomorrow

Ryan,

There does not appear to be references to 2015-16 in the deck with respect to net debt. If there is, can you point them to me. The actual net debt with the pension adjustment this year, based on the unaudited annual report issued last night, is 305,233 in case you want to insert it in.

In any event, the numbers in the deck do not reflect this year's highly controversial pension adjustment in the out-years. I've been instructed though, to leave it as is for the purposes of your deck as there may be a high chance that the pension adjustment may be reversed next year, which will lead us back to the numbers in the deck (assuming all of the assumptions Tara gave us are unchanged). You may thus want to put a qualifier in the deck that the out-years do not reflect the pension adjustment in net debt.

Thanks.

--John

416-325-8072

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Tuesday, October 04, 2016 10:34 AM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: FES Fiscal Strategy Update at FPC Tomorrow
Importance: High

Hi Christina,

I just wanted to flag that there will be a FES Fiscal Strategy update tracking to FPC tomorrow. As a reference, I'm attaching the latest iteration of the deck that was prepared last week. Note, we'll be using a shortened version of the deck for tomorrow's FPC meeting.

Can OFA confirm if there are any updates to net debt to GDP as a result of yesterday's release of 2015-16 Annual Report that should be included as soon as possible?

Thanks,
Ryan

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

From: Ken Kandeepan
To: Gadi Mayman
Cc: Christina Zhang
Subject: RE: FES Fiscal Strategy Update
Date: Tuesday, October 18, 2016 10:14:08 PM

Thanks Gadi, with the exception of the option that shows the pension impact as a narrative, the others present risks for the government. If the review results are aligned with the Government's position then we are effectively balancing in 16-17 (a very small deficit of approximately $2B) and presenting surpluses in 17-18 and 18-19. These commitments need to be met in order to preserve credibility.

Alternatively, if the review results are against our position the requirement to balance and all that entails still exists, and slippage represents a loss of credibility. If we are going to go this route, I would recommend that we present the pension adjustment separately instead of including it in the program expense.

The credibility issue goes away if the pension adjustment is presented as a narrative. If the review result is favourable then we revert to the presentation in slide 3, and all is well. If not then the problem has to be addressed as part of the 2017 Budget.

Thanks

Ken K

From: Gadi Mayman
Sent: Tuesday, October 18, 2016 9:04 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Fwd: FES Fiscal Strategy Update

Begin forwarded message:

> **From:** "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
> **To:** "Scott Thompson (CAB)" <Scott.Thompson@ontario.ca>, "Helen Angus (MOHLTC)" <Helen.Angus@ontario.ca>, "Karen Hughes (MGS)" <Karen.Hughes@ontario.ca>, "Maria Duran-Schneider (MOF)" <Maria.Duran-Schneider@ontario.ca>, "Brian Lewis (MOL)" <Brian.Lewis@ontario.ca>, "Gadi Mayman" <Gadi.Mayman@ofina.on.ca>, "Sriram Subrahmanyan (MOF)" <Sriram.Subrahmanyan@ontario.ca>
> **Cc:** "David McLean (MOF)" <David.McLean@ontario.ca>, "Christopher Pearce (MOI)" <Christopher.Pearce@ontario.ca>, "Kyle MacIntyre (MOF)" <Kyle.MacIntyre@ontario.ca>, "Patrick Laughton (MOF)"

<Patrick.Laughton@ontario.ca>, "Ghufran Tarin (MOF)" <Ghufran.Tarin@ontario.ca>, "Jenarra DeSouza (MEDTE/MRI)" <Jenarra.DeSouza@ontario.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>, "Selena Esmail (MOF)" <Selena.Esmail@ontario.ca>, "Tara McGrath (MOF)" <Tara.McGrath@ontario.ca>, "Emma Lindquist (MOF)" <Emma.Lindquist@ontario.ca>, "Ronald Jaikaran (MOF)" <Ronald.Jaikaran@ontario.ca>, "Nina Arbabzadeh (EDU)" <Nina.Arbabzadeh@ontario.ca>

Subject: FES Fiscal Strategy Update

Please find attached an updated version of the FES Fiscal Strategy Deck following our meeting earlier this afternoon – reflecting as many of the comments and suggestions as we could, and incorporating amended numbers where applicable.

We propose this deck be tabled as part of tomorrow's FPC discussion.

Please note the deck includes confidential information, including on tax measures, and as such, distribution should be restricted.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



From: Ken Kandeepan
To: Gadi Mayman
Cc: Christina Zhang
Subject: RE: FES Fiscal Update Deck for MPC
Date: Thursday, October 13, 2016 9:09:39 PM

Thanks Gadi, numbers and options remain unchanged from the last version on Friday. I would recommend the footnote option for the Pension Adjustment.

The fact that the FAO's draft fiscal outlook, (assuming that the final version is the same) provides their assessment of the deficit, net debt, etc., both with and without the pension adjustment provides credibility to the Government's position that the results of the independent review can well reverse this adjustment. This point is not well brought out in the slides so perhaps it can be included.

Based on that premise the footnote option seems viable, so is the "below the line" but the footnote at least to me is cleaner.

Thanks

Ken k

From: Gadi Mayman
Sent: Thursday, October 13, 2016 7:12 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Fwd: FES Fiscal Update Deck for MPC

Begin forwarded message:

> **From:** "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
> **To:** "Scott Thompson (CAB)" <Scott.Thompson@ontario.ca>, "Ghiassi, Ali (MOF)" <Ali.Ghiassi@ontario.ca>, "Elizabeth Mendes (MOF)" <Elizabeth.Mendes@ontario.ca>, "Sriram Subrahmanyan (MOF)" <Sriram.Subrahmanyan@ontario.ca>, "Brian Lewis (MOL)" <Brian.Lewis@ontario.ca>, "Gadi Mayman" <Gadi.Mayman@ofina.on.ca>
> **Cc:** "David McLean (MOF)" <David.McLean@ontario.ca>, "Jenarra DeSouza (MEDTE/MRI)" <Jenarra.DeSouza@ontario.ca>, "Christopher Pearce (MOI)" <Christopher.Pearce@ontario.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>, "Tara McGrath (MOF)" <Tara.McGrath@ontario.ca>, "Selena Esmail (MOF)" <Selena.Esmail@ontario.ca>, "Emma Lindquist (MOF)" <Emma.Lindquist@ontario.ca>, "Ghufran Tarin (MOF)" <Ghufran.Tarin@ontario.ca>, "Christina Zhang" <Christina.Zhang@ofina.on.ca>, "Ronald Jaikaran (MOF)" <Ronald.Jaikaran@ontario.ca>

Subject: FES Fiscal Update Deck for MPC

Please find attached an updated version of the FES Fiscal Outlook Strategy deck that would track to MPC tomorrow, as discussed earlier today, reflecting the feedback and discussion.

Please note that this deck contains information on tax and other financial information and that circulation of this deck should be limited.

It is also the internal FES password.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



From: Ken Kandeepan
To: Gadi Mayman
Cc: Christina Zhang
Subject: RE: FES Fiscal Update Deck for MPC
Date: Friday, October 14, 2016 9:45:10 AM
Attachments: image001.png

Thanks Gadi, other than the re-ordering the slides as per Tim's email, no other changes. Hopefully, the FAO's approach in providing projections with and without the pension adjustment, at least in their draft, will be pointed out at the meeting as something that will lend credibility to the use of option 2.

Ken K

From: Gadi Mayman
Sent: Friday, October 14, 2016 9:39 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: FW: FES Fiscal Update Deck for MPC

FYI

From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: Friday, October 14, 2016 9:30 AM
To: Scott Thompson (CAB) <Scott.Thompson@ontario.ca>; Ghiassi, Ali (MOF) <Ali.Ghiassi@ontario.ca>; Elizabeth Mendes (MOF) <Elizabeth.Mendes@ontario.ca>; Sriram Subrahmanyan (MOF) <Sriram.Subrahmanyan@ontario.ca>; Brian Lewis (MOL) <Brian.Lewis@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: David McLean (MOF) <David.McLean@ontario.ca>; Jenarra DeSouza (MEDTE/MRI) <Jenarra.DeSouza@ontario.ca>; Christopher Pearce (MOI) <Christopher.Pearce@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; Ronald Jaikaran (MOF) <Ronald.Jaikaran@ontario.ca>
Subject: RE: FES Fiscal Update Deck for MPC

After a conversation with Karen at TBS this morning, I've moved the "fiscal gap" slide in the FES deck to the appendix – as there is also a fiscal gap slide in the allocations deck that may cause some confusion between the two universes being discussed this morning. Its still there, but its in the appendix. I've added language up front to say that the FES strategy does not solve the gap, that is for PRRT and Document processes.

I recommend we use the attached for the fiscal update meeting at 1230.

Tim Schuurman

Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



From: Schuurman, Tim (MOF)
Sent: October-13-16 7:07 PM
To: Thompson, Scott (MOF); Ghiassi, Ali (MOF); Mendes, Elizabeth (MOF); Sriram.Subrahmanyan@ontario.ca; Lewis, Brian (MOF); Mayman, Gadi (OFA)
Cc: McLean, David (MOF); DeSouza, Jenarra (MOF); Pearce, Christopher (MOF); Birks, Ryan (MOF); McGrath, Tara (MOF); Esmail, Selena (MOF); Lindquist, Emma (MOF); Tarin, Ghufran (MOF); Zhang, Christina (OFA); Jaikaran, Ronald (MOF)
Subject: FES Fiscal Update Deck for MPC

Please find attached an updated version of the FES Fiscal Outlook Strategy deck that would track to MPC tomorrow, as discussed earlier today, reflecting the feedback and discussion.

Please note that this deck contains information on tax and other financial information and that circulation of this deck should be limited.

It is also the internal FES password.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173




Office of the Budget
MINISTRY of FINANCE

From: John Psinas
To: Ken Kandeepan; George Sakura
Cc: Shemin Meralli
Subject: RE: FES scenarios
Date: Tuesday, October 04, 2016 8:22:09 PM
Attachments: Net Debt Scenarios October 4 2016.xlsx

Ken,

I understood from Tara's email that it spikes this year and goes back to normal, which means she doesn't want a restatement strangely enough. I have done some calculations in the attached.

From: Ken Kandeepan
Sent: Tuesday, October 04, 2016 8:19 PM
To: George Sakura <George.Sakura@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>
Cc: Shemin Meralli <Shemin.Meralli@ofina.on.ca>
Subject: RE: FES scenarios

I will leave it to you guys but the way I understood Tara's request is that the accumulated deficit increases in each scenario in 15-16 by the full 10.7 billion. In 1 and 3 it is reversed in 16-17 and in 2 and 4 it is not reversed. Not sure whether that is reflected in George's numbers.

Happy to be corrected.

Thanks

Ken k

From: George Sakura
Sent: Tuesday, October 04, 2016 8:07 PM
To: John Psinas <John.Psinas@ofina.on.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>
Subject: FES scenarios

Here are the four scenarios.

Net Debt to Revenue and GDP Ratios											
Ontario		2016 Public Accounts									
					Net Debt As	Accumulated	Acc Deficit		ONFA	Other	Deficit/
	Fiscal Year			GDP	Net Debt	% to GDP	Deficit	to GDP	TCA	Adj.	Adj.	(Surplus)
Actual	1989-90			282,766	35,409	12.5	35,409	12.5	-			(90)
Actual	1990-91			287,334	38,438	13.4	38,438	13.4	-			3,029
Actual	1991-92			288,217	49,368	17.1	49,368	17.1	-			10,930
Actual	1992-93			293,068	61,796	21.1	61,796	21.1	-			12,428
Actual	1993-94			302,245	80,599	26.7	80,599	26.7	-			11,202
Actual	1994-95			319,986	90,728	28.4	90,728	28.4	-			10,129
Actual	1995-96			337,400	101,864	30.2	101,864	30.2	-			8,800
Actual	1996-97			347,842	108,769	31.3	108,769	31.3	-			6,905
Actual	1997-98			368,960	112,735	30.6	112,735	30.6	-			3,966
Actual	1998-99			389,250	114,737	29.5	114,737	29.5	-			2,002
Actual	1999-2000			418,245	134,398	32.1	134,398	32.1	-			(668)
Actual	2000-01			452,238	132,496	29.3	132,496	29.3	-			(1,902)
Actual	2001-02			469,084	132,121	28.2	132,121	28.2	-			(375)
Actual	2002-03			494,815	132,647	26.8	118,705	24.0	13,942			(117)
Actual	2003-04			509,511	138,816	27.2	124,188	24.4	14,628			5,483
Actual	2004-05			533,365	140,921	26.4	125,743	23.6	15,178			1,555
Actual	2005-06			556,635	152,702	27.4	109,155	19.6	43,547			(298)
Actual	2006-07			578,241	153,742	26.6	106,776	18.5	46,966		(110)	(2,269)
Actual	2007-08			601,735	156,616	26.0	105,617	17.6	50,999	(559)		(600)
Actual	2008-09			608,446	169,585	27.9	113,238	18.6	56,347	1,212		6,409
Actual	2009-10			597,882	193,589	32.4	130,957	21.9	62,632	1,090	-	19,262
Actual	2010-11			630,989	214,511	34.0	144,573	22.9	69,938	(395)	-	14,011
Actual	2011-12			659,743	235,582	35.7	158,410	24.0	77,172	3	865	12,969
Actual	2012-13			680,084	252,088	37.1	167,132	24.6	84,956	(639)	141	9,220
Actual	2013-14			693,210	267,190	38.5	176,634	25.5	90,556	(951)	-	10,453
Actual	2014-15			721,970	284,576	39.4	187,511	26.0	97,065	(1,121)	1,683	10,315
Actual	2015-16			747,101	305,233	40.9	202,697	27.1	102,536	1,003	9,154	5,029
	2016-17 Outlook			772,899	307,262	39.8	196,335	25.4	110,927		(10,668)	4,306
	2017-18 Outlook			806,182	315,870	39.2	196,322	24.4	119,548			(13)
	2018-19 Outlook			839,919	325,727	38.8	196,299	23.4	129,428			(23)
	2019-20 Outlook			873,260	335,674	38.4	196,299	22.5	139,375			-

1. Based on 2016 Budget fiscal outlook and capital profile – takes into account the net debt impact of $10.7B in 15-16 from PAs, but does not carry that accounting change impact forward (i.e., accumulated deficit spikes in 15-16 but returns to normal levels in 16-17 onward).

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October 4th, 2016

Net Debt to Revenue and	
Ontario	
	Fiscal Year
Actual	1989-90
Actual	1990-91
Actual	1991-92
Actual	1992-93
Actual	1993-94
Actual	1994-95
Actual	1995-96
Actual	1996-97
Actual	1997-98
Actual	1998-99
Actual	1999-2000
Actual	2000-01
Actual	2001-02
Actual	2002-03
Actual	2003-04
Actual	2004-05
Actual	2005-06
Actual	2006-07
Actual	2007-08
Actual	2008-09
Actual	2009-10
Actual	2010-11
Actual	2011-12
Actual	2012-13
Actual	2013-14
Actual	2014-15
Actual	2015-16
	2016-17 Outloo
	2017-18 Outloo
	2018-19 Outloo
	2019-20 Outloo
1. Based on 2016 in 15-16 from P spikes in 15-16	
Prepared by OFA, FTD	
	October 4th, 20

Net Debt to Revenue and GDP Ratios										
Ontario		2016 Public Accounts								
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Actual	2013-14	693,210	267,190	38.5	176,634	25.5	90,556	(951)	-	10,453
Actual	2014-15	721,970	284,576	39.4	187,511	26.0	97,065	(1,121)	1,683	10,315
Actual	2015-16	747,101	305,233	40.9	202,697	27.1	102,536	1,003	9,154	5,029
	2016-17 Outlook	772,899	317,732	41.1	206,805	26.8	110,927			4,108
	2017-18 Outlook	806,182	326,346	40.5	206,798	25.7	119,548			(7)
	2018-19 Outlook	839,919	336,209	40.0	206,781	24.6	129,428			(17)
	2019-20 Outlook	873,260	346,156	39.6	206,781	23.7	139,375			-

2. Based on 2016 Budget fiscal outlook and capital profile – takes into account the net debt impact of $10.7B in 15-16 from PAS, and carries the accounting change impact forward

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October 4th, 2016

Net Debt to Revenue and	
Ontario	
	Fiscal Year
Actual	1989-90
Actual	1990-91
Actual	1991-92
Actual	1992-93
Actual	1993-94
Actual	1994-95
Actual	1995-96
Actual	1996-97
Actual	1997-98
Actual	1998-99
Actual	1999-2000
Actual	2000-01
Actual	2001-02
Actual	2002-03
Actual	2003-04
Actual	2004-05
Actual	2005-06
Actual	2006-07
Actual	2007-08
Actual	2008-09
Actual	2009-10
Actual	2010-11
Actual	2011-12
Actual	2012-13
Actual	2013-14
Actual	2014-15
Actual	2015-16
	2016-17 Outloo
	2017-18 Outloo
	2018-19 Outloo
	2019-20 Outloo
2. Based on 201 in 15-16 from	
Prepared by OFA, FTD	
	October 4th, 20

Net Debt to Revenue and GDP Ratios											
Ontario				2016 Public Accounts							
					Net Debt As	Accumulated	Acc Deficit		ONFA	Other	Deficit/
	Fiscal Year			GDP	Net Debt	% to GDP	Deficit	to GDP	TCA	Adj.	Adj.	(Surplus)
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Actual	2013-14			693,210	267,190	38.5	176,634	25.5	90,556	(951)	-	10,453
Actual	2014-15			721,970	284,576	39.4	187,511	26.0	97,065	(1,121)	1,683	10,315
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3. Based on FES fiscal outlook and capital profile – takes into account the net debt impact of $10.7B in 15-16 from PAs, but does not carry that accounting change impact forward (i.e., accumulated deficit spikes in 15-16 but returns to normal levels in 16-17 onward).											
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Net Debt to Revenue and	
Ontario	
	Fiscal Year
Actual	1989-90
Actual	1990-91
Actual	1991-92
Actual	1992-93
Actual	1993-94
Actual	1994-95
Actual	1995-96
Actual	1996-97
Actual	1997-98
Actual	1998-99
Actual	1999-2000
Actual	2000-01
Actual	2001-02
Actual	2002-03
Actual	2003-04
Actual	2004-05
Actual	2005-06
Actual	2006-07
Actual	2007-08
Actual	2008-09
Actual	2009-10
Actual	2010-11
Actual	2011-12
Actual	2012-13
Actual	2013-14
Actual	2014-15
Actual	2015-16
	2016-17 Outloo
	2017-18 Outloo
	2018-19 Outloo
	2019-20 Outloo
3. Based on FES from PAs, but 15-16 but retu	
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Net Debt to Revenue and GDP Ratios										
Ontario		2016 Public Accounts								
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4. Based on FES fiscal outlook and capital profile – takes into account the net debt impact of $10.7B in 15-16 from PAS, and carries the accounting change impact forward

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October 4th, 2016

Net Debt to Revenue and	
Ontario	
	Fiscal Year
Actual	1989-90
Actual	1990-91
Actual	1991-92
Actual	1992-93
Actual	1993-94
Actual	1994-95
Actual	1995-96
Actual	1996-97
Actual	1997-98
Actual	1998-99
Actual	1999-2000
Actual	2000-01
Actual	2001-02
Actual	2002-03
Actual	2003-04
Actual	2004-05
Actual	2005-06
Actual	2006-07
Actual	2007-08
Actual	2008-09
Actual	2009-10
Actual	2010-11
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Actual	2014-15
Actual	2015-16
	2016-17 Outloo
	2017-18 Outloo
	2018-19 Outloo
	2019-20 Outloo
4. Based on FES fis from PAS, and c	
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	October 4th, 20

Net Debt to Revenue and GDP Ratios											
Ontario		2016 Public Accounts without the Pension Adjustment									
				Net Debt As	Accumulated	Acc Deficit		ONFA	Other	Deficit/
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Actual	2009-10	597,882	193,589	32.4	130,957	21.9	62,632	1,090	-	19,262
Actual	2010-11	630,989	214,511	34.0	144,573	22.9	69,938	(395)	-	14,011
Actual	2011-12	659,743	235,582	35.7	158,410	24.0	77,172	3	865	12,969
Actual	2012-13	680,084	252,088	37.1	167,132	24.6	84,956	(639)	141	9,220
Actual	2013-14	693,210	267,190	38.5	176,634	25.5	90,556	(951)	-	10,453
Actual	2014-15	721,970	284,576	39.4	187,511	26.0	97,065	(1,121)	1,683	10,315
	2015-16	747,101	294,565	39.4	192,029	25.7	102,536	1,003		3,515
	2016-17 Outlook	772,899	307,262	39.8	196,335	25.4	110,927			4,306
	2017-18 Outlook	806,182	315,870	39.2	196,322	24.4	119,548			(13)
	2018-19 Outlook	839,919	325,727	38.8	196,299	23.4	129,428			(23)
	2019-20 Outlook	873,260	335,674	38.4	196,299	22.5	139,375			-
Prepared by OFA, FTD										
	October 4th 2016									

Net Debt to Revenue and	
Ontario	
	Fiscal Year
Actual	1989-90
Actual	1990-91
Actual	1991-92
Actual	1992-93
Actual	1993-94
Actual	1994-95
Actual	1995-96
Actual	1996-97
Actual	1997-98
Actual	1998-99
Actual	1999-2000
Actual	2000-01
Actual	2001-02
Actual	2002-03
Actual	2003-04
Actual	2004-05
Actual	2005-06
Actual	2006-07
Actual	2007-08
Actual	2008-09
Actual	2009-10
Actual	2010-11
Actual	2011-12
Actual	2012-13
Actual	2013-14
Actual	2014-15
	2015-16
	2016-17 Outloo
	2017-18 Outloo
	2018-19 Outloo
	2019-20 Outloo
Prepared by OFA, FTD	
	October 4th 20

Projected Deficit

$ Billions	2015-16	2016-17	2017-18	2018-19
Updated Current Outlook	-5.029	-4.306431706	0.01319027	0.023193182
FES Outlook	-5.029	-4.107899395	0.00719027	0.017193182

Source: Tara

	Ontario Nominal GDP	
2000	452238	
2001	469084	
2002	494815	
2003	509511	
2004	533365	
2005	556635	
2006	578241	
2007	601735	
2008	608446	
2009	597882	
2010	630989	5.5
2011	659743	4.6
2012	680084	3.1
2013	693210	1.9
2014	721970	4.1
2015	747101	3.5
2016p	772899	3.5
2017p	806182	4.3
2018p	839919	4.2
2019p	873260	4

p = projection

Source: Mark Williams
OEP

Net Book Value of TCA ($ Millions)	2015-16 (Actual)		2016-17	2017-18	2018-19	2019-20
2016 Budget						
Opening Net Book Value			102,536	110,437	119,079	128,985
Annual Acquisitions	N/A		13,037	14,059	15,605	15,979
Gross Amortization Expense	N/A		-5,137	-5,416	-5,700	-6,008
Closing Net Book Value		102,536	110,437	119,079	128,985	138,956
In Year Approvals						
Annual Acquisitions	-		502	0	-	-
School Renewal (16-17 Only)		0	478	0	0	0
Chapleau Cree Stage 2B		0	0	0	0	0
Child and Youth Mental Health BI S		0	5	0	0	0
School Boards Funding For Child Ca		0	19	0	0	0
Annual Amortization	-		-11	-22	-25	-24
School Renewal (16-17 Only)		0	-11	-22	-22	-22
Chapleau Cree Stage 2B		0	0	0	0	0
Child and Youth Mental Health BI S		0	0	0	-1	-1
School Boards Funding For Child Ca		0	0	0	-2	-1
2016 Budget + In Year Approvals						
Opening Net Book Value			102,536	110,927	119,548	129,428
Annual Acquisitions			13,539	14,059	15,605	15,979
Gross Amortization Expense			-5,148	-5,438	-5,725	-6,032
Closing Net Book Value		102,536	110,927	119,548	129,428	139,375

Source: David Hodes

2020-21	2021-22
138,956	147,064
14,536	11,823
-6,428	-6,939
147,064	151,949
-	-
0	0
0	0
0	0
0	0
-24	-23
-22	-22
0	0
-1	-1
-1	0
139,375	147,460
14,536	11,823
-6,451	-6,962
147,460	152,321

Projected Deficit

$ Billions	2015-16	2016-17	2017-18	2018-19
Updated Current Ou	(5.0290)	(4.3064)	0.0132	0.0232
FES Outlook	(5.0290)	(4.1079)	0.0072	0.0172

Source: Tara M.

2019-20 2020-21

From: Ken Kandeepan
To: Gadi Mayman
Cc: Christina Zhang
Subject: RE: FPC Materials
Date: Tuesday, October 25, 2016 9:36:55 PM
Attachments: image001.png

Thanks Gadi, appears no changes in numbers and narrative. My only comment is that the pension adjustment narrative should emphasize the that Government's prudent and risk averse approach based on the legislated basis of accounting that was implemented in 2015-16 and include a reference to the independent review.

Thanks

Ken K

From: Gadi Mayman
Sent: Tuesday, October 25, 2016 7:31 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Fw: FPC Materials

From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
Sent: Tuesday, October 25, 2016 5:43 PM
To: Scott Thompson (CAB); Helen Angus (MOHLTC); Brian Lewis (MOL); Gadi Mayman; Karen Hughes (MGS); Maria Duran-Schneider (MOF); Sriram Subrahmanyan (MOF)
Cc: David McLean (MOF); Christopher Pearce (MOI); Birks, Ryan (MOF); Selena Esmail (MOF); Tara McGrath (MOF); Emma Lindquist (MOF)
Subject: FPC Materials

Please find attached the proposed FES Fiscal Strategy pieces for tomorrow's FPC.

Please restrict distribution of these documents.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173




Office of the Budget
MINISTRY of FINANCE

From: Kevin Hwang
To: Alexander Kraas
Cc: Ken Kandeepan; IOD_RPA; John Psinas; George Sakura
Subject: RE: FT
Date: Tuesday, October 25, 2016 2:11:42 PM

Hi Alex and Team,

The non-cash file on the portal has been updated.

Thanks,
kevin

From: Ken Kandeepan
Sent: Tuesday, October 25, 2016 2:04 PM
To: Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: IOD_RPA <IOD_RPA@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>
Subject: RE: FT

Hi Alex and Team

I just came back from a meeting with Gadi and we agreed that the FT be developed as follows. Change Non-Cash Adjustments by the net impact of the pension adjustment and the reserve. Kevin will provide you with the revised non-cash spreadsheet shortly. Happy to provide an explanation but would like to do so in person, so pls drop in tomorrow.

You will see that non-cash increases by $1.6 billion, Gadi would like the long term borrowing to also reduce by the full $1.6 billion. No changes to 17-18 and 18-19, as we discussed, Gadi agrees that the prudent course of action is to wait till the 2017 Document.

We also need to offset the $500M increase in capital investments, pls do so via an equivalent cash reduction.

Once you receive the outlook from Tara pls prepare the FT accordingly and pls provide a link for me to review. We can the present same to Gadi.

Thanks

Ken k

From: Alexander Kraas
Sent: Tuesday, October 25, 2016 9:28 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: IOD_RPA <IOD_RPA@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>

Subject: RE: FT

Sure, Ken;

Best regards

Alex

From: Ken Kandeepan
Sent: Tuesday, October 25, 2016 9:25 AM
To: Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: IOD_RPA <IOD_RPA@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>
Subject: FT

Hi

I understand that Tara will be providing you with the FES outlook sometime today. Can we try and have a draft FT for the end of the day for me to review and present it to Gadi sometime tomorrow. I suggest that for now we decrease cash by $1 B offset to some extent by the $500M increase in capital investments with the balance reducing the short term borrowings. There will be no change in the deficit.

For the out years Fiscal is still projecting balance so my suggestion is we don't make any changes in the FT until the 2017 Budget.

Thanks

Ken K

From: Ken Kandeepan
To: Alexander Kraas
Cc: IOD_RPA; John Psinas; George Sakura; Kevin Hwang
Subject: RE: FT
Date: Tuesday, October 25, 2016 2:04:16 PM

Hi Alex and Team

I just came back from a meeting with Gadi and we agreed that the FT be developed as follows. Change Non-Cash Adjustments by the net impact of the pension adjustment and the reserve. Kevin will provide you with the revised non-cash spreadsheet shortly. Happy to provide an explanation but would like to do so in person, so pls drop in tomorrow.

You will see that non-cash increases by $1.6 billion, Gadi would like the long term borrowing to also reduce by the full $1.6 billion. No changes to 17-18 and 18-19, as we discussed, Gadi agrees that the prudent course of action is to wait till the 2017 Document.

We also need to offset the $500M increase in capital investments, pls do so via an equivalent cash reduction.

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Thanks

Ken k

From: Alexander Kraas
Sent: Tuesday, October 25, 2016 9:28 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: IOD_RPA <IOD_RPA@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>
Subject: RE: FT

Sure, Ken;

Best regards

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From: Ken Kandeepan
Sent: Tuesday, October 25, 2016 9:25 AM
To: Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: IOD_RPA <IOD_RPA@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>
Subject: FT

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For the out years Fiscal is still projecting balance so my suggestion is we don't make any changes in the FT until the 2017 Budget.

Thanks

Ken K

From:	Alexander Kraas
To:	Ken Kandeepan
Cc:	IOD_RPA; John Psinas; George Sakura; Kevin Hwang
Subject:	RE: FT
Date:	Tuesday, October 25, 2016 2:28:31 PM

Thank you for the update, Ken;

Hello Ricky, please note the impact on ST.

Best regards

Alex

From: Ken Kandeepan
Sent: Tuesday, October 25, 2016 2:23 PM
To: Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: IOD_RPA <IOD_RPA@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>
Subject: FW: FT

My apologies, small change to the previous approach, pls see below.

Thanks

Ken k

From: Ken Kandeepan
Sent: Tuesday, October 25, 2016 2:04 PM
To: Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: IOD_RPA <IOD_RPA@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>
Subject: RE: FT

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You will see that non-cash increases by $1.6 billion, Gadi would like the short term long term borrowing to go to zero (reduce by $1 billion) and long term to reduce by $600 million. No changes to 17-18 and 18-19, as we discussed, Gadi agrees that the prudent course of action is to wait till the 2017 Document.

We will offset cash by $500M to fund the increase in capital investments.

Once you receive the outlook from Tara pls prepare the FT accordingly and pls provide a link for me to review. We can the present same to Gadi.

Thanks

Ken k

From: Alexander Kraas
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To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
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Subject: RE: FT

Sure, Ken;

Best regards

Alex

From: Ken Kandeepan
Sent: Tuesday, October 25, 2016 9:25 AM
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Cc: IOD_RPA <IOD_RPA@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>
Subject: FT

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For the out years Fiscal is still projecting balance so my suggestion is we don't make any changes in the FT until the 2017 Budget.

Thanks

Ken K

From:	Ken Kandeepan
To:	Gadi Mayman
Cc:	Lynsey Wynberg
Subject:	RE: FYI: Auditor General to make announcement on pension accounting issue tomorrow at 10 am (Tor Star - twitter)
Date:	Wednesday, February 15, 2017 12:52:06 PM

Thanks Gadi, look forward to it

Ken K

From: Gadi Mayman
Sent: Wednesday, February 15, 2017 12:51 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>
Subject: Fw: FYI: Auditor General to make announcement on pension accounting issue tomorrow at 10 am (Tor Star - twitter)

From: Lone, Dianne (MOF) <Dianne.Lone@ontario.ca>
Sent: Wednesday, February 15, 2017 12:30 PM
To: Scott Thompson (CAB); Gadi Mayman
Cc: David McLean (MOF)
Subject: FYI: Auditor General to make announcement on pension accounting issue tomorrow at 10 am (Tor Star - twitter)

FYI. Issues will monitor:

 [twitter.com]
Robert Benzie[twitter.com]
@robertbenzie[twitter.com]
.@OntarioAuditor[twitter.com] will answer the $10.7B question tomorrow at 10 a.m.

From: Ken Kandeepan
To: Gadi Mayman
Cc: Christina Zhang
Subject: RE: Fiscal Overview Deck for FPC
Date: Monday, December 05, 2016 9:00:44 AM

Hi Gadi

Just saw this email; no significant changes from the previous version. The pension adjustment comprises around one third of the gap in 17-18, growing to well over 40% in 18-19, hopefully the review will provide some relief.

Thanks

Ken k

-----Original Message-----
From: Gadi Mayman
Sent: Sunday, December 04, 2016 10:14 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Fw: Fiscal Overview Deck for FPC

Original Message
From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
Sent: Sunday, December 4, 2016 8:59 AM
To: Scott Thompson (CAB); Helen Angus (MOHLTC)
Cc: Karen Hughes (MGS); Maria Duran-Schneider (MOF); Brian Lewis (MOL); Gadi Mayman; Arruda, Artur (TBS); David McLean (MOF); Kyle MacIntyre (MOF); Christopher Pearce (MOI)
Subject: Fiscal Overview Deck for FPC

Deputies

Please find attached an updated Fiscal Overview deck that could track to FPC this week (and Minister Sandals' briefing first thing tomorrow morning).

This reflects updated numbers on both the revenue and expense side since we discussed it on Thursday with the MO's. It also attempts to capture the various feedback and requests made at that meeting.

Caveat and disclaimer: Please note that while folks have been working very hard at getting the numbers scrubbed and reviewed, that there is still a significant degree of work that needs to be done to add precision and accuracy to the numbers. In addition, when we discussed this deck as a group late yesterday, there are some tweaks that we would like to make to the way some of the numbers are shown which we will pick up on Monday.

Thanks again to all who have participated over the past few days to get us to this point.

Tim Schuurman
Assistant Deputy Minister

Office of the Budget

Ministry of Finance

From: Ken Kandeepan
To: Gadi Mayman
Cc: Christina Zhang
Subject: RE: Fiscal Overview Deck for FPC
Date: Monday, December 05, 2016 9:03:23 AM

Correct Gadi, I noted that too and agreed.

Ken K

-----Original Message-----
From: Gadi Mayman
Sent: Monday, December 05, 2016 9:03 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Re: Fiscal Overview Deck for FPC

Thanks, Ken. I noticed that they've got the IOD target as a low risk for this year, but a medium for the out years. I'm fine with that characterization.

Original Message
From: Ken Kandeepan
Sent: Monday, December 5, 2016 9:00 AM
To: Gadi Mayman
Cc: Christina Zhang
Subject: RE: Fiscal Overview Deck for FPC

Hi Gadi

Just saw this email; no significant changes from the previous version. The pension adjustment comprises around one third of the gap in 17-18, growing to well over 40% in 18-19, hopefully the review will provide some relief.

Thanks

Ken k

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Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Fw: Fiscal Overview Deck for FPC

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From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
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To: Scott Thompson (CAB); Helen Angus (MOHLTC)
Cc: Karen Hughes (MGS); Maria Duran-Schneider (MOF); Brian Lewis (MOL); Gadi Mayman; Arruda, Artur (TBS); David McLean (MOF); Kyle MacIntyre (MOF); Christopher Pearce (MOI)
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Thanks again to all who have participated over the past few days to get us to this point.

Tim Schuurman
Assistant Deputy Minister

Office of the Budget

Ministry of Finance

From:	John Psinas
To:	Anna Strathy; Ken Kandeepan
Cc:	Gavin He; George Sakura; Shemin Meralli
Subject:	RE: Follow-Up on the 2017 Budget / Meeting on Tuesday
Date:	Friday, April 28, 2017 12:07:39 PM
Attachments:	image001.png

Anna,

Our Net Debt assumptions have many moving parts and are from several sources, namely OEP and CPD. They were factored into our net debt calculations as follows:

1 Pension is reversed and deficit for 2016-17 is $1,524

2 The denominator annual nominal GDP that goes into the net debt calculation % is per latest information received from OEP used for the 2017 Budget

3 A major component of the net debt calculation in the numerator, the book value of tangible capital assets, is per the latest information received from CPD used for the 2017 Budget

4 Our Net Debt amount is not adjusted for prepaid expenses and inventory. Such an adjustment will be done for the 2016-17 Public Accounts onwards going forward (new this year per OPCD request)

5 The balanced budget continues through to 2030-31

6 The Tangible Capital Asset book value is the same from 2026-27 to 2030-31, i.e. no change

7 GDP annual growth is 4% from 2021-22 to 2030-31 per direction from OEP.

Thanks.

--John

416-325-8072

From: Anna Strathy
Sent: Friday, April 28, 2017 11:57 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>
Cc: Gavin He <Gavin.He@ofina.on.ca>
Subject: FW: Follow-Up on the 2017 Budget / Meeting on Tuesday

Hi Ken, John,

ADMs are meeting with the FAO next week (likely Tuesday afternoon) to discuss the 2017 Budget.

The FAO has provided a preview below of some of their questions, with more specific questions to follow later today. I've highlighted the one area that falls to the OFA (do you see any others?). And I note, for Gavin, that questions 1 and 3 would seem to be for CEFD.

I'll send along the detailed questions as soon as we receive them, but just a head's up that Gadi will be looking for material to support him in answering the question on net debt-to-GDP targets.

Thanks, Anna

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Friday, April 28, 2017 11:27 AM
To: Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>; Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca>; Law, Rex (TBS) <Rex.Law@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Subject: FW: Follow-Up on the 2017 Budget / Meeting on Tuesday

Hi All,

As a follow up to these questions on the 2017 Budget, I wanted to hold an hour block of time on Tuesday (May 2) to meet with the FAO.

Would **1:30pm-2:30pm** in the Aquarium on **Tuesday** work for your ADMs? If you could confirm before EOD, it would be appreciated.

Thanks!
Ryan

From: Schuurman, Tim (MOF)
Sent: April-28-17 10:57 AM
To: Hughes, Karen (TBS); Mayman, Gadi (OFA); Duran-Schneider, Maria (TBS); Arruda, Artur (TBS); Veinot, Cindy (TBS); Kwan, Ronald (OFA)
Cc: Esmail, Selena (MOF); Birks, Ryan (MOF); Tiburcio, Daniel (MOF)
Subject: Fw: Follow-Up on the 2017 Budget

Hey everyone - we'll coordinate the response for this, working with your directors and staff. We'll also work with your EA's to find the right time for everyone to meet next tuesday.

Tim

From: David West <dwest@fao-on.org>
Sent: Friday, April 28, 2017 9:32 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Luan Ngo; Edward Crummey; Mario Angastiniotis; Nicolas Rhodes
Subject: Follow-Up on the 2017 Budget

Good Morning!

Congratulations on delivering yesterday's big, black budget!

I wanted to follow-up on the FAO's requests for some additional information.

First, as we have discussed, we have three requests for specific data/tables:

1. We would like to obtain the detailed revenue and expense tables (Tables 6.14 and 6.15) extended to 2019-20.
   - Are these detailed tables available to 2020-21? If so, then please include (☺)

2. As staff have been discussing, we would like to obtain more detailed information on the one-time adjustments to taxation revenues beginning in 2015-16 and extending over the forecast. This is basically additional information to that provided in tables 6.7, 6.8 and 6.9.

3. As detailed in the letter and background documents sent to Deputies Thompson and Angus on April 3, we are requesting pension expense and employer contribution details for the OTPP and OPSEUPP.

We would also appreciate a meeting early next week (preferably Tuesday afternoon) to allow you to respond to a number of questions that we have with regard to the 2017 Budget.

We'll provide a list of specific questions later this afternoon, but these questions will cover a number of areas, including:

- Clarification on where the Fair Hydro Plan appears in the expenses
- Additional details/clarification on new health spending, including the new pharmacare plan
- Clarification on future assumptions for asset sales and any details behind the 'Sales and Rentals' line in the detailed Revenue table.
- Clarification on the assumptions behind new federal funding announced in the 2017 federal budget (e.g. affordable housing, child care, home care)
- Some background on the decision to reduce the estimate of 'Carbon Allowance Proceeds' and assumptions on associated expense
- Additional details/clarification on new infrastructure spending
- Assumptions behind the plan to reduce net debt-to-GDP to 35% and eventually to 27%.

We'll provide a list later this afternoon that expands somewhat on these question topics.

Happy to discuss any of these requests.

Thanks again for your support,
David

David West
Chief Economist

Financial Accountability Office of Ontario

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
t.416.579.1465 | dwest@fao-on.org
www.fao-on.org

FAO
Financial
Accountability
Office of Ontario

From: Anna Strathy
To: Tim Schuurman (MOF)
Cc: Gadi Mayman; "Birks, Ryan (MOF)"; Ken Kandeepan; John Psinas; Gavin He
Subject: RE: Follow-Up on the 2017 Budget
Date: Friday, April 28, 2017 1:47:03 PM

Hi Tim,

Wanted to pass along the OFA's response to the last question the FAO posed on the 2017 Budget: *Assumptions behind the plan to reduce net debt-to-GDP to 35% and eventually to 27%.*

Our Net Debt assumptions have many moving parts and are from several sources, namely OEP and CPD. They were factored into our net debt calculations as follows:

1. Pension is reversed and deficit for 2016-17 is $1,524

2. The denominator annual nominal GDP that goes into the net debt calculation % is per latest information received from OEP used for the 2017 Budget

3. A major component of the net debt calculation in the numerator, the book value of tangible capital assets, is per the latest information received from CPD used for the 2017 Budget

4. Our Net Debt amount is not adjusted for prepaid expenses and inventory. Such an adjustment will be done for the 2016-17 Public Accounts onwards going forward (new this year per OPCD request)

5. The balanced budget continues through to 2030-31

6. The Tangible Capital Asset book value is the same from 2026-27 to 2030-31, i.e. no change

7. GDP annual growth is 4% from 2021-22 to 2030-31 per direction from OEP.

Thanks, Anna

-----Original Message-----
From: Gadi Mayman
Sent: Friday, April 28, 2017 11:35 AM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>
Subject: FW: Follow-Up on the 2017 Budget

The last item is one that Ken and John will be able to provide. Sub-points 1 and 3 of the third item are for Ron, in conjunction with OEP and others. Other than that, I don't see anything else for the OFA, but could you take a look?

Thanks,

Gadi

-----Original Message-----

From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]

Sent: Friday, April 28, 2017 10:57 AM

To: Karen Hughes (MGS) <Karen.Hughes@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Maria Duran-Schneider (MOF) <Maria.Duran-Schneider@ontario.ca>; Arruda, Artur (TBS) <Artur.Arruda@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>

Cc: Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Daniel Tiburcio (MOF) <Daniel.Tiburcio@ontario.ca>

Subject: Fw: Follow-Up on the 2017 Budget

Hey everyone - we'll coordinate the response for this, working with your directors and staff. We'll also work with your EA's to find the right time for everyone to meet next tuesday.

Tim

From: David West <dwest@fao-on.org>

Sent: Friday, April 28, 2017 9:32 AM

To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)

Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Luan Ngo; Edward Crummey; Mario Angastiniotis; Nicolas

Rhodes

Subject: Follow-Up on the 2017 Budget

Good Morning!

Congratulations on delivering yesterday's big, black budget!

I wanted to follow-up on the FAO's requests for some additional information.

First, as we have discussed, we have three requests for specific data/tables:

1. We would like to obtain the detailed revenue and expense tables (Tables 6.14 and 6.15) extended to 2019-20.

- Are these detailed tables available to 2020-21? If so, then please include (:))

2. As staff have been discussing, we would like to obtain more detailed information on the one-time adjustments to taxation revenues beginning in 2015-16 and extending over the forecast. This is basically additional information to that provided in tables 6.7, 6.8 and 6.9.

3. As detailed in the letter and background documents sent to Deputies Thompson and Angus on April 3, we are requesting pension expense and employer contribution details for the OTPP and OPSEUPP.

We would also appreciate a meeting early next week (preferably Tuesday afternoon) to allow you to respond to a number of questions that we have with regard to the 2017 Budget.

We'll provide a list of specific questions later this afternoon, but these questions will cover a number of areas, including:

- Clarification on where the Fair Hydro Plan appears in the expenses
- Additional details/clarification on new health spending, including the new pharmacare plan
- Clarification on future assumptions for asset sales and any details behind the 'Sales and Rentals' line in the detailed Revenue table.
- Clarification on the assumptions behind new federal funding announced in the 2017 federal budget (e.g. affordable housing, child care, home care)
- Some background on the decision to reduce the estimate of 'Carbon Allowance Proceeds' and assumptions on associated expense
- Additional details/clarification on new infrastructure spending
- Assumptions behind the plan to reduce net debt-to-GDP to 35% and eventually to 27%.

We'll provide a list later this afternoon that expands somewhat on these question topics.

Happy to discuss any of these requests.

Thanks again for your support,

David

David West

Chief Economist

[cid:image009.png@01D17ECB.966ECE00]

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2

t.416.579.1465 | dwest@fao-on.org<mailto:dwest@fao-on.org>

www.fao-on.org<https://urldefense.proofpoint.com/v2/url?u=http-3A__www.fao-2Don.org_&d=DwIF-g&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FtiQ&r=OdoCVLs6i-6reBTUJh9PAGSfpmSjeJXGKKb9SzvJOII&m=F6iziEOozfESxT1DIngRLVI7dR0lPoz9X7lckhcx8WU&s=pTenKLM13JBC6zk50csoxl7ix7u1MuCL2qTpK5oM5o4&e= >

From:	Esmail, Selena (MOF)
To:	Tim Cook (MOF); Andrea Dutton (MOF); Teuta Dodbiba (MOF); Raj Sharda (MOHLTC); Dorothy Cheung (MCYS); Gladys Miu (MOI); Paul Lewis (MOF); John Kim; Ken Kandeepan; Nadine Petsche (MOF); Ann Langleben (MOF); Kostas Plainos (MOF)
Cc:	Daniel Tiburcio (MOF); Paul Ternamian (MOF); Birks, Ryan (MOF); Hosick, Sarah (TBS); Anna Strathy; Gavin He; Ghufran Tarin (MOF); Nina Arbabzadeh (EDU); Law, Rex (TBS); Patrick Laughton (MOF); Patel, Lesley (MOF)
Subject:	RE: Follow-Up on the 2017 Budget
Date:	Monday, May 01, 2017 7:14:49 AM
Attachments:	image001.png

Hi Everyone – per my message below I've now scheduled a check in from 4-5pm this aft (sorry I could not do this earlier today). If you have any questions in advance, pls feel free to contact me or Daniel Tiburcio. Also, if you have materials/answers ready, please feel free to forward them in advance and we will consolidate this information (I've received some info from OFA, thanks).

Thanks a lot
Teleconf details to follow later this morning.

From: Esmail, Selena (MOF)
Sent: April-28-17 5:43 PM
To: Cook, Tim (TBS); Dutton, Andrea (TBS); Dodbiba, Teuta (TBS); Sharda, Raj (TBS); Cheung, Dorothy (TBS); Miu, Gladys (TBS); Lewis, Paul (MOF); Kim, John (OFA); Kandeepan, Ken (OFA); Petsche, Nadine (TBS); Langleben, Ann (MOF); Plainos, Kostas (MOF)
Cc: Tiburcio, Daniel (MOF); Ternamian, Paul (MOF); Birks, Ryan (MOF); Hosick, Sarah (TBS); Strathy, Anna (OFA); He, Gavin (OFA); Tarin, Ghufran (MOF); Arbabzadeh, Nina (TBS); Law, Rex (TBS); Laughton, Patrick (TBS); Patel, Lesley (MOF)
Subject: FW: Follow-Up on the 2017 Budget

Hi Everyone.

As you can see below, the FAO has reached out to make a formal request for information in follow up to yesterday's release of the Budget (BTW we are looking to set up a mtg on Tuesday from 1pm to 2pm with the FAO).

You may have already been forwarded this email from your ADMs but we've also just now received the list of specific additional questions (attached). I've attempted to identify in the attached and below which area is responsible for what, and if I have this wrong, please let me know (and sorry!).

I thought we could do a quick touch base Monday, just to check in on what we might have readily available to be in a position to provide at Tuesday's meeting and what we may need to get back to the FAO on (but pls note that we should not be doing any new analysis to provide a response). I will send out an invite/teleconf so we can discuss.

For reference I have attached an excerpt from our protocol for interaction with the FAO in case folks need a refresher on what information can/cannot be shared. We can discuss further on Monday at our call/meeting.

Thanks and pls let me know if you have any questions.

From: David West [mailto:dwest@fao-on.org]
Sent: April-28-17 9:32 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Luan Ngo; Edward Crummey; Mario Angastiniotis; Nicolas Rhodes
Subject: Follow-Up on the 2017 Budget

Good Morning!

Congratulations on delivering yesterday's big, black budget!

I wanted to follow-up on the FAO's requests for some additional information.

First, as we have discussed, we have three requests for specific data/tables:

1. We would like to obtain the detailed revenue and expense tables (Tables 6.14 and 6.15) extended to 2019-20.
   - Are these detailed tables available to 2020-21? If so, then please include (☺) **– OEP Table 6.14/TBS – PEMD&CPD 6.15**

2. As staff have been discussing, we would like to obtain more detailed information on the one-time adjustments to taxation revenues beginning in 2015-16 and extending over the forecast. This is basically additional information to that provided in tables 6.7, 6.8 and 6.9. **- OEP**

3. As detailed in the letter and background documents sent to Deputies Thompson and Angus on April 3, we are requesting pension expense and employer contribution details for the OTPP and OPSEUPP.- **TBS-OPCD**

We would also appreciate a meeting early next week (preferably Tuesday afternoon) to allow you to respond to a number of questions that we have with regard to the 2017 Budget.

We'll provide a list of specific questions later this afternoon, but these questions will cover a number of areas, including:

- Clarification on where the Fair Hydro Plan appears in the expenses **– CEFD/ TBS - PEMD**
- Additional details/clarification on new health spending, including the new pharmacare plan **– TBS PEMD**
- Clarification on future assumptions for asset sales and any details behind the 'Sales and Rentals' line in the detailed Revenue table. **OFA CEFD, OEP**
- Clarification on the assumptions behind new federal funding announced in the 2017 federal budget (e.g. affordable housing, child care, home care) **OEP/TBS PEMD & CPD**
- Some background on the decision to reduce the estimate of 'Carbon Allowance Proceeds' and assumptions on associated expense – **OEP, TBS PEMD**
- Additional details/clarification on new infrastructure spending **TBS CPD**
- Assumptions behind the plan to reduce net debt-to-GDP to 35% and eventually to 27%. **OFA**

We'll provide a list later this afternoon that expands somewhat on these question topics.

Happy to discuss any of these requests.

Thanks again for your support,
David

David West
Chief Economist

FAO | Financial Accountability Office of Ontario

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
t.416.579.1465 | dwest@fao-on.org
www.fao-on.org[fao-on.org]

FAO
Financial
Accountability
Office of Ontario

From: Ken Kandeepan
To: Erica Wieder
Subject: RE: Great West Life pensions
Date: Thursday, November 24, 2016 11:55:07 AM

Yes, if there needs to be TBS involvement Leah or her team should be able to direct you.

Thanks

Ken K

From: Erica Wieder
Sent: Thursday, November 24, 2016 11:52 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: Great West Life pensions

Hi Ken,

Mike had a follow-up meeting with Great West Life, and they'd like to have a follow-up call on pensions. Would that be Leah Myers area?
Also, was this the question GWL had?

The discount rate used to calculate the present value of future pension obligations by:

- *the Teachers' Pension Plan (TPP);*
- *the Public Service Pension Plan (PSPP);*
- *the OPSEU Pension Plan.*
- *Healthcare of Ontario Pension Plan (HOOPP)*
- *and the Colleges of Applied Arts and Technology (CAAT)*

Thanks,

Erica

From:	Ken Kandeepan
To:	Bonnie Lemcke
Subject:	RE: Here is the reference to the accounting change
Date:	Wednesday, October 05, 2016 10:21:17 AM

I will at SCOPA Bonnie returning at 3.45 if you want to reschedule for 4 PM I can participate.

Thanks

Ken k

From: Bonnie Lemcke
Sent: Wednesday, October 05, 2016 10:09 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: FW: Here is the reference to the accounting change

I booked a call for 3PM tomorrow. Would you like to be on the call. She said her questions would be more general in nature but they are the one rating agency that uses our net debt number.

Bonnie

From: Marcy Block [mailto:marcy.block@fitchratings.com]
Sent: Wednesday, October 05, 2016 9:54 AM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: RE: Here is the reference to the accounting change

Hi Bonnie. I'm back in the office and would like to set up a time to informally discuss this information with you, along with Doug Offerman (including Doug as he's also our pension expert). We're both fairly booked today so I was going to suggest tomorrow at 1 or 1:30 pm, or after 3 pm. Friday is pretty much open all day, if you had a few minutes available then.

Thanks!
Marcy

Marcy S. Block
Senior Director
Fitch Ratings - Public Finance
33 Whitehall Street
New York, NY 10004
212-908-0239

From: Bonnie Lemcke [mailto:Bonnie.Lemcke@ofina.on.ca]
Sent: Monday, October 03, 2016 5:24 PM
To: Marcy Block <marcy.block@fitchratings.com>
Subject: Here is the reference to the accounting change

18. Change in Accounting for Pension Assets of Jointly Sponsored Pension Plans

For 2015-16 fiscal, the government legislated the accounting treatment for pension assets of its jointly sponsored pension plans. The legislation impacts the accounting for both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan. The legislation requires a full valuation allowance be recorded against the pension assets, therefore writing off the value of the assets.
As described in Public Sector Accounting Standards (PSAS), a pension asset arises when the government's total contributions to a plan, including income earned thereon, are greater than the cumulative retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the estimated cost of the pensions earned during the year that will be paid out to retirees in the future. In prior years, the government recorded pension assets to the extent the government expected to benefit from the asset through future reductions in contributions to the plan.

These plans are now accounted for in accordance with PSAS and legislation requiring a full valuation allowance be recorded. The change was made to reflect the Auditor General of Ontario's view that a full valuation allowance is required if the government does not have the legally enforceable right to unilaterally access the assets of the jointly sponsored pension plans, or in absence of that right, an irrevocable agreement in place at year-end with the joint sponsors of the plans to reduce contributions.

From: Ken Kandeepan

Bonnie Lemcke
Manager, Credit Analysis and Rating Relations
Ontario Financing Authority
416-325-8170 (w)
416-716-4092 (m)

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From: Ken Kandeepan
To: Gadi Mayman
Cc: Lynsey Wynberg
Subject: RE: MMMP Decks and Agenda Revised
Date: Tuesday, February 07, 2017 8:33:47 AM

Hi Gadi

Few comments. MMP and Cabinet Fiscal Tools Deck; Slide 8; the key sources of prudence to review suggests that the IOD forecast which incorporates higher interest rate assumptions in the out-years be reviewed. While we do add a prudence spread, the higher rates come from OEP.

Q3 Finances Deck, no comments other than it may benefit from one line in slide 3 on the pension adjustment reversal of $10.7 plus $2.2 that contributes to the reduction in the net debt to GDP. It's a pretty crowded slide so may be difficult

MMP and Cabinet Fiscal Strategy deck. You and I have had a pretty good discussion on this so nothing more to add; I do note that they have included my edit on pension adjustments in the net debt to GDP graph (slide 16)

I like the Storyboard, especially the fact that the balanced budget is right at the top.

Thanks

Ken k

From: Gadi Mayman
Sent: Monday, February 06, 2017 10:38 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>
Subject: Fwd: MMMP Decks and Agenda Revised

Begin forwarded message:

> **From:** "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
> **To:** "Scott Thompson (CAB)" <Scott.Thompson@ontario.ca>
> **Cc:** "David McLean (MOF)" <David.McLean@ontario.ca>, "Gwendolynne Young (ENE)" <Gwendolynne.Young@ontario.ca>, "Ronald Jaikaran (MOF)" <Ronald.Jaikaran@ontario.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>, "Selena Esmail (MOF)" <Selena.Esmail@ontario.ca>, "Brian Lewis (MOL)" <Brian.Lewis@ontario.ca>, "Gadi Mayman" <Gadi.Mayman@ofina.on.ca>
> **Subject: MMMP Decks and Agenda Revised**
>
> Scott

We've taken another run at the various MMMP decks this evening. Please find attached:

1. Fiscal Update Deck

2. Fiscal Tools Deck (we've built the "illustrative scenario" that shows impact on program spending into this deck).

3. Updated MMMP agenda (reflects the fact we now have 3 decks)

4. Q3 Finances -- summary deck that can be used as per agenda.

5. Revised Storyboard for Document as per themes.

Happy to discuss in the morning -- I'm meeting with Karen and Maria first thing to align our products. We'll make sure these are available at our weekly Document planning meeting tomorrow.

Tim

From:	Ken Kandeepan
To:	Tim Schuurman (MOF)
Cc:	Inglis, Liane (MOF); Selena Esmail (MOF); Gadi Mayman
Subject:	RE: MMP Deck (Fiscal deck only)
Date:	Sunday, February 05, 2017 7:00:41 PM

Thanks Tim took a quick look numbers are fine I suggest a small edit as follows to the narrative:

Depending on the fiscal anchors chosen for the government's fiscal plan, reversal of the pension adjustment, as well as any changes made to the borrowing (e.g. electricity relief, changes in capital spending), net debt to GDP could be in decline.

Given that the forked line is based on reversing the pension adjustment plus of course balance it maybe useful to mention the former. Now I am back to the game, rooting for the Pats.

Thanks

Ken k

-----Original Message-----
From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: Sunday, February 05, 2017 4:25 PM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
Subject: FW: MMP Deck (Fiscal deck only)

You'll note I've added a net debt to GDP slide in the appendix. Happy to take any edits. Just seemed like a part of the story was missing.

Tim

_____
From: Schuurman, Tim (MOF)
Sent: Sunday, February 05, 2017 4:24 PM
To: Thompson, Scott (MOF)
Cc: McLean, David (MOF); Lewis, Brian (MOF); Mayman, Gadi (OFA); Esmail, Selena (MOF); Birks, Ryan (MOF); Young, Gwendolynne (MOF); Inglis, Liane (MOF)
Subject: MMP Deck (Fiscal deck only)

Scott, others;

As I know folks are quickly gearing up for an evening of pigskin, thought I'd just send out the revised fiscal update deck as it currently exists, based on input received over the weekend and today. TBS continues to develop the back half of the deck that focussing on scaleable initiatives and investments. We're also still waiting for a slide on program review from them.

In case folks want an early morning review and opportunity to make edits, here is the working version at this point.

Tim

From: Ken Kandeepan
To: Gadi Mayman
Cc: Lynsey Wynberg
Subject: RE: MMP Deck (fiscal side)
Date: Sunday, February 05, 2017 9:48:38 AM

Hi Gadi

Few comments

Slide 5: flat lining net debt to GDP as a fiscal anchor seems to be an euphemism for deficits, since balance over the 3 out years will more or less ensure that the ratio is declines, unless of course there are significant increases in capital investments. That is unlikely since the $160B over 12 years appears to be a firm target.

Slide 5: "The fiscal envelope can also be augmented through additional tools and levers, as well as trade-offs between investments (including delaying some investments for the 2018 Document)" presumably this refers to operational investments, delaying capital investments does not help achieve the balance target, may be useful to make that distinction.

Slide 8: "A stronger outlook for revenue and lower interest on debt expense are currently tracking against the Budget forecast – however, spending pressures, new strategic investments, and the pension adjustment have also materialized – together creating a fiscal gap". Why is there a reference to pensions adjustments here, the decision to reverse has been made. Likewise and maybe I am not reading the bar chart in the slide correctly but the pension adjustment appears to be added on to the negative outlook.

Slide 18: looking at the 15-16 revenues and the projection for 18-19, revenues have increased from 126.5B to 142.2B, an increase of $16B, its sobering to note that expenses appear to have increased even more, leading to the challenge to balance.

Slide 19: I am very confused as to why the pension adjustment continues to be an issue since we are reversing it in 16-17. Likewise in Slides 20 and 22.

Bottom line appears to be if the pension adjustment is reversed and the "Potential Additional Electricity Relief" is addressed via a mechanism that minimizes the fiscal impact balance over the three out years may be possible. I am of course assuming that the HST removal is already factored in the base expense.

Thanks

Ken K

From: Gadi Mayman
Sent: Saturday, February 04, 2017 8:01 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>
Subject: Fwd: MMP Deck (fiscal side)

Begin forwarded message:

> **From:** "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
> **To:** "Brian Lewis (MOL)" <Brian.Lewis@ontario.ca>, "Gadi Mayman" <Gadi.Mayman@ofina.on.ca>, "Nancy Kennedy (MOHLTC)" <Nancy.Kennedy@ontario.ca>, "Mavroyannis, Maria (MOF)" <Maria.Mavroyannis@ontario.ca>, "Mike Weir (MOHLTC)" <Mike.Weir@ontario.ca>, "Nicole Stewart (MCS)" <Nicole.Stewart@ontario.ca>, "Sriram Subrahmanyan (MOF)" <Sriram.Subrahmanyan@ontario.ca>, "Ronald Kwan" <Ronald.Kwan@ofina.on.ca>
> **Cc:** "Inglis, Liane (MOF)" <Liane.Inglis@ontario.ca>, "Selena Esmail (MOF)" <Selena.Esmail@ontario.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>
> **Subject: MMP Deck (fiscal side)**
>
> Hello
>
> As you may know, there is an MMP tracking for next Thursday. We met with the DM's, and then had a joint DM/MO meeting late Friday afternoon/evening to review some materials and map out a plan.
>
> TBS is developing a deck this weekend and we're continuing to develop a fiscal deck. The latest version is attached. Wanted to give you all an opportunity to review, as it cuts across all your areas of responsibility....and interests.
>
> Happy to take feedback over the weekend or into Monday morning. Just note that we have a Joint Ministers' meeting on Monday where this will need to be walked in, and I expect that Scott and the MO will be looking to review perhaps as early as tomorrow.
>
> Cheers
>
> Tim

From: Ken Kandeepan
To: Christina Zhang
Subject: RE: MMP prep
Date: Wednesday, January 04, 2017 12:07:48 PM

Thanks Christina, I am really looking forward to the Pension issue discussion.

Ken k

From: Christina Zhang
Sent: Wednesday, January 04, 2017 11:50 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: MMP prep

Hi Ken,

For the MMP prep session later today. As per the attached agenda, today's session will really be on the expense side and TBS is planning to provide an update on the pension accounting issue. TBS is also planning to provide a short verbal update on the non-tax revenue item, as it's a TBS lead.

The revenue levers will be discussed tomorrow, with a formal agenda being shared later tonight or tomorrow morning.

Thanks,
Christina

From: Christina Zhang
To: Ken Kandeepan
Subject: RE: MMP prep
Date: Wednesday, January 04, 2017 1:24:21 PM

No problem. I thought you might be interested. =)

From: Ken Kandeepan
Sent: Wednesday, January 04, 2017 12:08 PM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: RE: MMP prep

Thanks Christina, I am really looking forward to the Pension issue discussion.

Ken k

From: Christina Zhang
Sent: Wednesday, January 04, 2017 11:50 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: MMP prep

Hi Ken,

For the MMP prep session later today. As per the attached agenda, today's session will really be on the expense side and TBS is planning to provide an update on the pension accounting issue. TBS is also planning to provide a short verbal update on the non-tax revenue item, as it's a TBS lead.

The revenue levers will be discussed tomorrow, with a formal agenda being shared later tonight or tomorrow morning.

Thanks,
Christina

From:	Ken Kandeepan
To:	Anna Strathy
Subject:	RE: MOF FOI Request A-17-189 (Economic and Fiscal Outlook FAO Report) - Request Narrowed
Date:	Monday, January 15, 2018 11:35:33 AM

Agreed Anna, makes sense.

Thanks

Ken k

From: Anna Strathy
Sent: Monday, January 15, 2018 11:14 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: FW: MOF FOI Request A-17-189 (Economic and Fiscal Outlook FAO Report) - Request Narrowed

Hi Ken,

Office of the Budget is releasing the attached note in response to an FOI request. The request was for final documents related to the FAO's Fall Economic and Fiscal Outlook. The attached summary note was provided to the DMO and MO. We've been asked to review to determine whether anything needs to be redacted (i.e., advice to Cabinet).

I've reviewed and only see two areas for the OFA to consider:

Borrowing and Net Debt (p. 3-4)

- Using the **government's accounting presentation** net debt-to-GDP is expected to reach 38.5 per cent by 2019–20 and 38.7 per cent by 2021–22. This increases to 41.4 per cent by 2021–22 **under the AG's accounting presentation for jointly sponsored pension plans and the Fair Hydro Plan**.

    - The 2017 FES projected a net debt-to-GDP ratio of 37.0 per cent by 2019–20.

This information is already public – I see no need for redaction.

Chart on page 5 compares the 2017 FES fiscal table with the FAO's outlook

While we have not published the delta, all of the inputs to the table are public – I see no need for redaction.

Could you please have a quick review and let me know if you agree with my assessment?

Thanks, Anna

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Friday, January 12, 2018 2:41 PM
To: Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>
Cc: Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
Subject: FW: MOF FOI Request A-17-189 (Economic and Fiscal Outlook FAO Report) - Request Narrowed

Hi Ghufran, Sarah, and Anna,

We received an FOI request for final documents related to the FAO's Fall Economic and Fiscal Outlook (EFO). OB is planning on providing the attached final summary note to the FOI office. We're just in the process of verifying whether any of our components of the summary note need to be redacted.

Can your areas please review the note and flag whether any of the information should be redacted in line with FIPPA exemptions **by noon on Tuesday, January 16**? Exemptions should be limited to information that is not publically available (e.g. internal analysis/advice for government officials).

Please let me know if you have any questions.

Thanks,
Ryan

From: Bouganim, Dalia (MOF)
Sent: January-05-18 12:21 PM
To: Forrest, Jamie (CAB); Ghiassi, Ali (MOF); Fiore, Jessica (MOF); Park, Ria (MOF); Wong, Mimi (MOF); Zisser, Helmut (MOF); Moore, Brynne (MOF); Clarke-Darshanand, Jamille (MOF); Spadoni, Peter (MOF); Kim, Minzi (MOF); Koukoulas, Sophia (MOF)
Cc: Hwang, Wendy (CAB); Jeanes, Bridget (MOF); Joynt, Lorraine (MOF); Murphy, Jessica (MOF); Williams, Nadia (MOF); Sharda, Ritvik (MOF); Tarin, Ghufran (MOF); Birks, Ryan (MOF)
Subject: MOF FOI Request A-17-189 (Economic and Fiscal Outlook FAO Report) - Request Narrowed

UPDATE: Request narrowed on January 4, 2018 to final documents, excluding emails, related to the substance of the "Economic and Fiscal Outlook, Fall 2017 Update" released by the province's Financial Accountability Office on December 11, 2017 for the time period of December 4, 2017 to December 25, 2017. This request has also been actioned to the Office of the Budget.

Sincerely,

Dalia S. Bouganim
416-325-8370

From: Bouganim, Dalia (MOF)
Sent: January-02-18 1:49 PM
To: Forrest, Jamie (CAB); Ghiassi, Ali (MOF); Fiore, Jessica (MOF); Park, Ria (MOF); Wong, Mimi (MOF); Zisser, Helmut (MOF); Moore, Brynne (MOF); Clarke-Darshanand, Jamille (MOF); Spadoni, Peter (MOF); Kim, Minzi (MOF); Koukoulas, Sophia (MOF)
Cc: Hwang, Wendy (CAB); Jeanes, Bridget (MOF); Joynt, Lorraine (MOF); Murphy, Jessica (MOF); Williams, Nadia (MOF); Sharda, Ritvik (MOF); Tarin, Ghufran (MOF)
Subject: NEW CONTENTIOUS FOI REQUEST - Request A-17-189 (Economic and Fiscal Outlook FAO Report)

UPDATE: New request, clarified on December 29, 2017. Actioned to the Office of Economic Policy, Deputy Minister's Office, Minister's Office and Communications Services Branch.

REQUEST: Copies of all documents, including e-mails, briefing notes, media lines, text or Instant messages, etc., regarding the Economic and Fiscal Outlook, Fall 2017 Update released by the province's Financial Accountability Office on December 11, 2017. Time Period: December 4, 2017 to December 25, 2017.

SOURCE: Media

DUE DATE: January 28, 2018

Please contact me if you have questions about the request.

Sincerely,

Dalia S. Bouganim
Assistant FOI Coordinator
Freedom of Information and Privacy Office
Ministry of Finance
95 Grosvenor Street
Toronto, Ontario M7A 1Z1
Tel: 416-325-8370

From:	Donaldson, Mark (TBS)
To:	John Psinas; Bharat Patel (MOF); Ma, Gloria (TBS)
Cc:	Ken Kandeepan; George Sakura; Bonnie Lemcke
Subject:	RE: Meeting on Monday
Date:	Friday, November 24, 2017 9:44:08 AM

Thanks, John.

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: November 24, 2017 9:19 AM
To: Donaldson, Mark (TBS); Patel, Bharat (TBS); Ma, Gloria (TBS)
Cc: Kandeepan, Ken (OFA); Sakura, George (OFA); Lemcke, Bonnie (OFA)
Subject: RE: Meeting on Monday

Mark,

OPCD is asked to attend a meeting we are having with the FAO's office on Monday on their calculation of net debt. Their calculations include the pension adjustment and additional debt for the Fair Hydro debt. The discussion might delve into the accounting for both.

I'll shortly send you and Bharat an invitation. We would appreciate it if OPCD participates.

Thanks.

John

From: Bonnie Lemcke
Sent: Thursday, November 23, 2017 4:17 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Subject: FW: Meeting on Monday

Here is some additional background information for Monday's meeting.

Bonnie

From: Luan Ngo [mailto:lngo@fao-on.org]
Sent: Thursday, November 23, 2017 4:08 PM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Cc: David West <dwest@fao-on.org>
Subject: FW: Meeting on Monday

Hi Bonnie,

Please see attached for some detail on our projection. The first part of the table shows the FAO's projection for net debt, TCA and accumulated deficit on an AG basis. As you can see, the identity holds pretty well for each year. There's a small, under $1 billion variance, and I think it's due to a small adjustment in public accounts, which I commented in the Excel sheet.

The second table breaks down the net debt variance between the projection in the FES and our projection on an AG basis. As discussed, the difference is due to the pension asset for the jointly sponsored pension plans, the FHP, the differences in the deficit projections and the reserve. The last table will probably be interesting for you. It shows that, on the government accounting basis, we're only $3.6 billion higher than the 2017 FES projection – and this is entirely due to differences in the underlying deficit (abstracting from any accounting differences).

As discussed, for the purposes of the AG presentation, which we adopted based on the recommendation in her recent FHP report, we're assuming that:

- The elimination of the IESO market asset would reduce the net income of OPG;
- This would then reduce the Province's total revenue and increase the deficit by an equivalent amount; and that
- Ontario's net debt would increase by the stock of that market asset (since the elimination of the market asset would reduce OPG's equity, which the Province records as a financial asset)

However, there would be no impact to borrowing and gross debt relative to the government's FES presentation because the government already incorporates the provincial portion of FHP borrowing in its fiscal plan.

Anyway, have a look and we'll be happy to meet on Monday to discuss further.

Luan Ngo
(416) 277-1856

From: Bonnie Lemcke [mailto:Bonnie.Lemcke@ofina.on.ca]
Sent: November 23, 2017 3:00 PM
To: Luan Ngo <lngo@fao-on.org>
Subject: Meeting on Monday

What time would work best 10 to 11 in the am or 2:30 to 3:30 in the afternoon.

Bonnie

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From:	John Psinas
To:	Mark Donaldson (MOF); Bharat Patel (MOF); "Ma, Gloria (TBS)"
Cc:	Ken Kandeepan; George Sakura; Bonnie Lemcke
Subject:	RE: Meeting on Monday
Date:	Friday, November 24, 2017 9:19:00 AM

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Luan Ngo
(416) 277-1856

From: Bonnie Lemcke [mailto:Bonnie.Lemcke@ofina.on.ca]
Sent: November 23, 2017 3:00 PM
To: Luan Ngo <lngo@fao-on.org>
Subject: Meeting on Monday

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From: Alexander Kraas
To: Ken Kandeepan; Bonnie Lemcke; John Psinas
Cc: George Sakura; Anna Strathy
Subject: RE: Meeting on Monday
Date: Friday, November 24, 2017 11:30:34 AM
Attachments: image001.png

Should Luan not bring one of the FAO Directors since I wonder about his "weight"?

Best regards

Alex

David West, Chief Economist

Jeffrey Novak, Chief Financial Analyst

Catherine Robinson, Executive Assistant

Greg Hunter, Director

Greg joined the FAO in November 2015 as Director, Financial Analysis. Most recently he was a Team Lead in the Policy and Strategy Division at the Ontario Ministry of Economic Development, Employment and Infrastructure. Prior to that, Greg worked at the Ontario Ministry of Finance in the Office of Economic Policy as a Senior Economic Advisor where he provided analysis on a wide range of issues related to climate change, energy and productivity.

Greg has a Master of Arts in Economics from the University of Waterloo and a Bachelor of Arts in Environmental Economics from Brock University.

Email: ghunter@fao-on.org

Edward Crummey, Director

Ed joined the Financial Accountability Office in December 2015 as Senior Economist, Economics. Most recently he was an Economic Specialist in the Office of Economic Policy at the Ontario Ministry of Finance, where he conducted economic modelling and financial analysis on a wide range of issues including public infrastructure, tax policy, economic development, and climate change. Prior to that, Ed worked at the Ministry of Natural Resources and Forestry as Senior Economist.

Ed has a Master in Environmental Studies from York University and a Bachelor of Arts in Economics and International Development from Dalhousie University.

Email: ecrummey@fao-on.org

Luan Ngo, Senior Economist

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Luan holds a Bachelor of Arts, Honours (BAH) in Economics and Political Science from Lakehead University in Thunder Bay, and Master of Arts (MA) in Economics from Carleton University in Ottawa.

Email: lngo@fao-on.org

From: Ken Kandeepan
Sent: Thursday, November 23, 2017 7:24 PM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>
Cc: George Sakura <George.Sakura@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>
Subject: RE: Meeting on Monday

Thanks, given that the call on Monday will primarily deal with the Pension Assets and the accounting for OFHP, we should have Mark Donaldson take part in the call. John, can you pls ask him tomorrow and hopefully he is available, if not Bharat.

Thanks

Ken k

From: Bonnie Lemcke
Sent: Thursday, November 23, 2017 4:17 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
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Luan holds a Bachelor of Arts, Honours (BAH) in Economics and Political Science from Lakehead University in Thunder Bay, and Master of Arts (MA) in Economics from Carleton University in Ottawa.

Email: lngo@fao-on.org

From:	Ken Kandeepan
To:	Gadi Mayman
Cc:	John Psinas; Christina Zhang; George Sakura
Subject:	RE: Net Debt - 2016-17 -FES (Oct 20 2016) v2 .xlsx
Date:	Thursday, October 20, 2016 11:18:55 AM
Attachments:	Copy of Copy of Net Debt - 2016-17 -FES (Oct 20 2016) v3.xlsx

As requested, pls see attached and you are correct the 2015-16 ratio, including the pension adjustment is 40.9.

Thanks

Ken k

From: Gadi Mayman
Sent: Thursday, October 20, 2016 11:05 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: John Psinas <John.Psinas@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>
Subject: RE: Net Debt - 2016-17 -FES (Oct 20 2016) v2 .xlsx

Great. I can read it. Can I ask for one more scenario? It's like option 3, but assumes that we find most of the savings for this year, just not the two out years, so this year's deficit, as per the deck under that scenario would be $4.8 (and then we go with 2.8 and 3.7).

The final 15/16 ratio is 40.9, right?

From: Ken Kandeepan
Sent: Thursday, October 20, 2016 11:02 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: John Psinas <John.Psinas@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>
Subject: FW: Net Debt - 2016-17 -FES (Oct 20 2016) v2 .xlsx

Hi Gadi

As requested, while John and team have included the detailed calculations, the "Leadsheet" tab provides a nice summary of the ratio for all three options. The trend continues to decline, however, the ratios themselves, as expected, increase over the 2016 Budget.

FES password and I know you are off-site, so if you have difficulty in accessing the file, let me know and we can copy and paste the info in the Leadsheet tab on the email itself. See you at the meeting.

Thanks

Ken k

From: John Psinas
Sent: Thursday, October 20, 2016 10:52 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: Net Debt - 2016-17 -FES (Oct 20 2016) v2 .xlsx

Ken,

Please find attached.

Thanks.

John

Net Debt to GDP %

	2016-17	2017-18	2018-19
Option 1	41.1	40.5	40.0
Option 2	41.2	40.6	40.1
Option 3	41.4	41.1	41.1
Option 4	41.2	40.9	40.9

Option 1:	Incorporates partial impact by taking half of pension asset accountin
Option 2 :	Incorporates full potential impact of pension asset accounting chang
Option 3:	Incorporates Time-limited legislated accounting for pension assets (D
Option 4:	Incorporates Time-limited legislated accounting for pension assets ar

g change (Deficits of $4.1 B, $0, and $0 for 2016-17, 2017-18 and 2018-19 respectively)
e (Deficits of $4.8 B, $0, and $0 for 2016-17, 2017-18 and 2018-19 respectively)
)eficits of $6.8 B, $2.8 B, and $3.7 B for 2016-17, 2017-18 and 2018-19 respectively)
ıd realizing most savings in 2016-17 (Deficits of $4.8 B, $2.8 B, and $3.7 B for 2016-17, 2017-18 and 201

8-19 respectively)

Net Debt to Revenue and GDP Ratios																				
Ontario		2016-17 FES - Scenario 1											2016 Public Accounts							
					Net Debt As	Net Debt As	Accumulated	Acc Deficit		ONFA	Other	Deficit/				Net Debt As	Net Debt As	Accumulated	Acc Deficit	
	Fiscal Year	GDP	Net Debt	Revenue	% to GDP	% to Revenue	Deficit	to GDP	TCA	Adj.	Adj.	(Surplus)	GDP	Net Debt	Revenue	% to GDP	% to Revenue	Deficit	to GDP	TCA
Actual	1989-90	282,766	35,409	46,500	12.5	76.1	35,409	12.5	-			(90)	282,766	35,409	46,500	12.5	76.1	35,409	12.5	-
Actual	1990-91	287,334	38,438	49,002	13.4	78.4	38,438	13.4	-			3,029	287,334	38,438	49,002	13.4	78.4	38,438	13.4	-
Actual	1991-92	288,217	49,368	47,527	17.1	103.9	49,368	17.1	-			10,930	288,217	49,368	47,527	17.1	103.9	49,368	17.1	-
Actual	1992-93	293,068	61,796	49,122	21.1	125.8	61,796	21.1	-			12,428	293,068	61,796	49,122	21.1	125.8	61,796	21.1	-
Actual	1993-94	302,245	80,599	51,410	26.7	156.8	80,599	26.7	-			11,202	302,245	80,599	51,410	26.7	156.8	80,599	26.7	-
Actual	1994-95	319,986	90,728	53,962	28.4	168.1	90,728	28.4	-			10,129	319,986	90,728	53,962	28.4	168.1	90,728	28.4	-
Actual	1995-96	337,400	101,864	57,898	30.2	175.9	101,864	30.2	-			8,800	337,400	101,864	57,898	30.2	175.9	101,864	30.2	-
Actual	1996-97	347,842	108,769	58,060	31.3	187.3	108,769	31.3	-			6,905	347,842	108,769	58,060	31.3	187.3	108,769	31.3	-
Actual	1997-98	368,960	112,735	61,362	30.6	183.7	112,735	30.6	-			3,966	368,960	112,735	61,362	30.6	183.7	112,735	30.6	-
Actual	1998-99	389,250	114,737	63,044	29.5	182.0	114,737	29.5	-			2,002	389,250	114,737	63,044	29.5	182.0	114,737	29.5	-
Actual	1999-2000	418,245	134,398	70,983	32.1	189.3	134,398	32.1	-			(668)	418,245	134,398	70,983	32.1	189.3	134,398	32.1	-
Actual	2000-01	452,238	132,496	72,258	29.3	183.4	132,496	29.3	-			(1,902)	452,238	132,496	72,258	29.3	183.4	132,496	29.3	-
Actual	2001-02	469,084	132,121	72,550	28.2	182.1	132,121	28.2	-			(375)	469,084	132,121	72,550	28.2	182.1	132,121	28.2	-
Actual	2002-03	494,815	132,647	74,938	26.8	177.0	118,705	24.0	13,942			(117)	494,815	132,647	74,938	26.8	177.0	118,705	24.0	13,942
Actual	2003-04	509,511	138,816	74,549	27.2	186.2	124,188	24.4	14,628			5,483	509,511	138,816	74,549	27.2	186.2	124,188	24.4	14,628
Actual	2004-05	533,365	140,921	84,192	26.4	167.4	125,743	23.6	15,178			1,555	533,365	140,921	84,192	26.4	167.4	125,743	23.6	15,178
Actual	2005-06	556,635	152,702	90,738	27.4	168.3	109,155	19.6	43,547			(298)	556,635	152,702	90,738	27.4	168.3	109,155	19.6	43,547
Actual	2006-07	578,241	153,742	97,120	26.6	158.3	106,776	18.5	46,966		(110)	(2,269)	578,241	153,742	97,120	26.6	158.3	106,776	18.5	46,966
Actual	2007-08	601,735	156,616	104,115	26.0	150.4	105,617	17.6	50,999	(559)		(600)	601,735	156,616	104,115	26.0	150.4	105,617	17.6	50,999
Actual	2008-09	608,446	169,585	97,532	27.9	173.9	113,238	18.6	56,347	1,212		6,409	608,446	169,585	97,532	27.9	173.9	113,238	18.6	56,347
Actual	2009-10	597,882	193,589	96,313	32.4	201.0	130,957	21.9	62,632	1,090	-	19,262	597,882	193,589	96,313	32.4	201.0	130,957	21.9	62,632
Actual	2010-11	630,989	214,511	107,175	34.0	200.2	144,573	22.9	69,938	(395)	-	14,011	630,989	214,511	107,175	34.0	200.2	144,573	22.9	69,938
Actual	2011-12	659,743	235,582	109,773	35.7	214.6	158,410	24.0	77,172	3	865	12,969	659,743	235,582	109,773	35.7	214.6	158,410	24.0	77,172
Actual	2012-13	680,084	252,088	113,369	37.1	222.4	167,132	24.6	84,956	(639)	141	9,220	680,084	252,088	113,369	37.1	222.4	167,132	24.6	84,956
Actual	2013-14	693,210	267,190	115,911	38.5	230.5	176,634	25.5	90,556	(951)	-	10,453	693,210	267,190	115,911	38.5	230.5	176,634	25.5	90,556
Actual	2014-15	721,970	284,576	118,546	39.4	240.1	187,511	26.0	97,065	(1,121)	1,683	10,315	721,970	284,576	118,546	39.4	240.1	187,511	26.0	97,065
Actual	2015-16	747,101	305,233	128,377	40.9	237.8	202,697	27.1	102,536	1,003	9,154	5,029	747,101	305,233	128,377	40.9	237.8	202,697	27.1	102,536
	2016-17 Outloo	772899	317,724	130,589	41.1	243.3	206,797	26.8	110,927			4,100	777,266	317,439	130,589	40.8	243.1	207,003	26.6	110,436
	2017-18 Outloo	806182	326,345	137,729	40.5	236.9	206,797	25.7	119,548			-	812,720	326,069	137,729	40.1	236.7	206,990	25.5	119,079
	2018-19 Outloo	839919	336,225	141,920	40.0	236.9	206,797	24.6	129,428			-	846,982	335,951	141,920	39.7	236.7	206,967	24.4	128,984
	2019-20 Outloo	873260	346,172		39.6		206,797	23.7	139,375			-	880,758	345,922		39.3	#DIV/0!	206,967	23.5	138,955
	2020-21 Outlook		354,257				206,797		147,460			-		354,031		#DIV/0!	#DIV/0!	206,967	#DIV/0!	147,064
																		15,186		
		Option 1:	Incorporates partial impact by taking half of pension asset accounting change (Deficits of $4.1 B, $0, and $0 for 2016-17, 2017-18 and 2018-19 respectively)																	
		Option 2 :	Incorporates full potential impact of pension asset accounting change (Deficits of $4.8 B, $0, and $0 for 2016-17, 2017-18 and 2018-19 respectively)																	
		Option 3:	Incorporates Time-limited legislated accounting for pension assets (Deficits of $6.8 B, $2.8 B, and $3.7 B for 2016-17, 2017-18 and 2018-19 respectively)																	
		Option 4:	Incorporates Time-limited legislated accounting for pension assets and realizing most savings in 2016-17 (Deficits of $4.8 B, $2.8 B, and $3.7 B for 2016-17, 2017-18 and 2018-19 respectively)																	
Prepared by OFA, FTD																				
	20-Oct-16																			

Net Debt to Revenue and				
Ontario				
		ONFA	Other	Deficit/
	Fiscal Year	Adj.	Adj.	(Surplus)
Actual	1989-90			(90)
Actual	1990-91			3,029
Actual	1991-92			10,930
Actual	1992-93			12,428
Actual	1993-94			11,202
Actual	1994-95			10,129
Actual	1995-96			8,800
Actual	1996-97			6,905
Actual	1997-98			3,966
Actual	1998-99			2,002
Actual	1999-2000			(668)
Actual	2000-01			(1,902)
Actual	2001-02			(375)
Actual	2002-03			(117)
Actual	2003-04			5,483
Actual	2004-05			1,555
Actual	2005-06			(298)
Actual	2006-07		(110)	(2,269)
Actual	2007-08	(559)		(600)
Actual	2008-09	1,212		6,409
Actual	2009-10	1,090	-	19,262
Actual	2010-11	(395)	-	14,011
Actual	2011-12	3	865	12,969
Actual	2012-13	(639)	141	9,220
Actual	2013-14	(951)	-	10,453
Actual	2014-15	(1,121)	1,683	10,315
Actual	2015-16	1,003	9,154	5,029
	2016-17 Outloo			4,306
	2017-18 Outloo			(13)
	2018-19 Outloo			(23)
	2019-20 Outloo			-
	2020-21 Outloo			-
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Net Debt to Revenue and										
Ontario		Comparison: 2016 Public Accounts vs 2016 Document								
				Accumulated	Acc Deficit		ONFA	Other	Deficit/	
	Fiscal Year	GDP	Net Debt	Deficit	to GDP	TCA	Adj.	Adj.	(Surplus)	
Actual	1989-90	-	-	-	-	-	-	-	-	
Actual	1990-91	-	-	-	-	-	-	-	-	
Actual	1991-92	-	-	-	-	-	-	-	-	
Actual	1992-93	-	-	-	-	-	-	-	-	
Actual	1993-94	-	-	-	-	-	-	-	-	
Actual	1994-95	-	-	-	-	-	-	-	-	
Actual	1995-96	-	-	-	-	-	-	-	-	
Actual	1996-97	-	-	-	-	-	-	-	-	
Actual	1997-98	-	-	-	-	-	-	-	-	
Actual	1998-99	-	-	-	-	-	-	-	-	
Actual	1999-2000	-	-	-	-	-	-	-	-	
Actual	2000-01	-	-	-	-	-	-	-	-	
Actual	2001-02	-	-	-	-	-	-	-	-	
Actual	2002-03	-	-	-	-	-	-	-	-	
Actual	2003-04	-	-	-	-	-	-	-	-	
Actual	2004-05	-	-	-	-	-	-	-	-	
Actual	2005-06	-	-	-	-	-	-	-	-	
Actual	2006-07	-	-	-	-	-	-	-	-	
Actual	2007-08	-	-	-	-	-	-	-	-	
Actual	2008-09	-	-	-	-	-	-	-	-	
Actual	2009-10	-	-	-	-	-	-	-	-	
Actual	2010-11	-	-	-	-	-	-	-	-	
Actual	2011-12	-	-	-	-	-	-	-	-	
Actual	2012-13	-	-	-	-	-	-	-	-	
Actual	2013-14	-	-	-	-	-	-	-	-	
Actual	2014-15	-	-	-	-	-	-	-	-	
Actual	2015-16	-	-	-	-	-	-	-	-	
	2016-17 Outloo	4,367	(285)	206	(0.1)	(491)	-	-	206	
	2017-18 Outloo	6,538	(276)	193	(0.2)	(469)	-	-	(13)	
	2018-19 Outloo	7,063	(274)	170	(0.2)	(444)	-	-	(23)	
	2019-20 Outloo	7,498	(250)	170	(0.2)	(420)	-	-	-	
	2020-21 Outloo	-	(226)	170	#DIV/0!	(396)	-	-	-	
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	20-Oct-16									

Net Debt to Revenue and GDP Ratios

Ontario **2016-17 FES - Scenario**

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit
Actual	1989-90	282,766	35,409	46,500	12.5	76.1	35,409
Actual	1990-91	287,334	38,438	49,002	13.4	78.4	38,438
Actual	1991-92	288,217	49,368	47,527	17.1	103.9	49,368
Actual	1992-93	293,068	61,796	49,122	21.1	125.8	61,796
Actual	1993-94	302,245	80,599	51,410	26.7	156.8	80,599
Actual	1994-95	319,986	90,728	53,962	28.4	168.1	90,728
Actual	1995-96	337,400	101,864	57,898	30.2	175.9	101,864
Actual	1996-97	347,842	108,769	58,060	31.3	187.3	108,769
Actual	1997-98	368,960	112,735	61,362	30.6	183.7	112,735
Actual	1998-99	389,250	114,737	63,044	29.5	182.0	114,737
Actual	1999-2000	418,245	134,398	70,983	32.1	189.3	134,398
Actual	2000-01	452,238	132,496	72,258	29.3	183.4	132,496
Actual	2001-02	469,084	132,121	72,550	28.2	182.1	132,121
Actual	2002-03	494,815	132,647	74,938	26.8	177.0	118,705
Actual	2003-04	509,511	138,816	74,549	27.2	186.2	124,188
Actual	2004-05	533,365	140,921	84,192	26.4	167.4	125,743
Actual	2005-06	556,635	152,702	90,738	27.4	168.3	109,155
Actual	2006-07	578,241	153,742	97,120	26.6	158.3	106,776
Actual	2007-08	601,735	156,616	104,115	26.0	150.4	105,617
Actual	2008-09	608,446	169,585	97,532	27.9	173.9	113,238
Actual	2009-10	597,882	193,589	96,313	32.4	201.0	130,957
Actual	2010-11	630,989	214,511	107,175	34.0	200.2	144,573
Actual	2011-12	659,743	235,582	109,773	35.7	214.6	158,410
Actual	2012-13	680,084	252,088	113,369	37.1	222.4	167,132
Actual	2013-14	693,210	267,190	115,911	38.5	230.5	176,634
Actual	2014-15	721,970	284,576	118,546	39.4	240.1	187,511
Actual	2015-16	747,101	305,233	128,377	40.9	237.8	202,697
	2016-17 Outloo	772899	318,424	130,589	41.2	243.8	207,497
	2017-18 Outloo	806182	327,045	137,729	40.6	237.5	207,497
	2018-19 Outloo	839919	336,925	141,920	40.1	237.4	207,497
	2019-20 Outloo	873260	346,872		39.7		207,497
	2020-21 Outlook		354,957				207,497

Option 1: Incorporates partial impact by taking half of pension asset accounting chan

Option 2 : Incorporates full potential impact of pension asset accounting change (Defi

Option 3: Incorporates Time-limited legislated accounting for pension assets (Deficits

Option 4: Incorporates Time-limited legislated accounting for pension assets and real

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Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt	Net Debt As % to GDP
12.5	-			(90)	282,766	35,409	12.5
13.4	-			3,029	287,334	38,438	13.4
17.1	-			10,930	288,217	49,368	17.1
21.1	-			12,428	293,068	61,796	21.1
26.7	-			11,202	302,245	80,599	26.7
28.4	-			10,129	319,986	90,728	28.4
30.2	-			8,800	337,400	101,864	30.2
31.3	-			6,905	347,842	108,769	31.3
30.6	-			3,966	368,960	112,735	30.6
29.5	-			2,002	389,250	114,737	29.5
32.1	-			(668)	418,245	134,398	32.1
29.3	-			(1,902)	452,238	132,496	29.3
28.2	-			(375)	469,084	132,121	28.2
24.0	13,942			(117)	494,815	132,647	26.8
24.4	14,628			5,483	509,511	138,816	27.2
23.6	15,178			1,555	533,365	140,921	26.4
19.6	43,547			(298)	556,635	152,702	27.4
18.5	46,966		(110)	(2,269)	578,241	153,742	26.6
17.6	50,999	(559)		(600)	601,735	156,616	26.0
18.6	56,347	1,212		6,409	608,446	169,585	27.9
21.9	62,632	1,090	-	19,262	597,882	193,589	32.4
22.9	69,938	(395)	-	14,011	630,989	214,511	34.0
24.0	77,172	3	865	12,969	659,743	235,582	35.7
24.6	84,956	(639)	141	9,220	680,084	252,088	37.1
25.5	90,556	(951)	-	10,453	693,210	267,190	38.5
26.0	97,065	(1,121)	1,683	10,315	721,970	284,576	39.4
27.1	102,536	1,003	9,154	5,029	747,101	305,233	40.9
26.8	110,927			4,800	777,266	317,439	40.8
25.7	119,548			-	812,720	326,069	40.1
24.7	129,428			-	846,982	335,951	39.7
23.8	139,375			-			
	147,460			-			

ge (Deficits of $4.1 B, $0, and $0 for 2016-17, 2017-18 and 2018-19 respectively)
cits of $4.8 B, $0, and $0 for 2016-17, 2017-18 and 2018-19 respectively)
of $6.8 B, $2.8 B, and $3.7 B for 2016-17, 2017-18 and 2018-19 respectively)
izing most savings in 2016-17 (Deficits of $4.8 B, $2.8 B, and $3.7 B for 2016-17, 2017-18 and 2018-19 respectively

2016 Public Accounts

Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt
35,409	12.5	-			(90)	-	-
38,438	13.4	-			3,029	-	-
49,368	17.1	-			10,930	-	-
61,796	21.1	-			12,428	-	-
80,599	26.7	-			11,202	-	-
90,728	28.4	-			10,129	-	-
101,864	30.2	-			8,800	-	-
108,769	31.3	-			6,905	-	-
112,735	30.6	-			3,966	-	-
114,737	29.5	-			2,002	-	-
134,398	32.1	-			(668)	-	-
132,496	29.3	-			(1,902)	-	-
132,121	28.2	-			(375)	-	-
118,705	24.0	13,942			(117)	-	-
124,188	24.4	14,628			5,483	-	-
125,743	23.6	15,178			1,555	-	-
109,155	19.6	43,547			(298)	-	-
106,776	18.5	46,966	-	(110)	(2,269)	-	-
105,617	17.6	50,999	(559)	-	(600)	-	-
113,238	18.6	56,347	1,212	-	6,409	-	-
130,957	21.9	62,632	1,090	-	19,262	-	-
144,573	22.9	69,938	(395)	-	14,011	-	-
158,410	24.0	77,172	3	865	12,969	-	-
167,132	24.6	84,956	(639)	141	9,220	-	-
176,634	25.5	90,556	(951)	-	10,453	-	-
187,511	26.0	97,065	(1,121)	1,683	10,315	-	-
202,697	27.1	102,536	1,003	9,154	5,029	-	-
207,003	26.6	110,436	-	-	4,306	4,367	(985)
206,990	25.5	119,079	-	-	(13)	6,538	(976)
206,967	24.4	128,984	-	-	(23)	7,063	(974)

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Comparison: 2016 Public Accounts vs. 2015 Budget

Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-

Net Debt to Revenue and GDP Ratios

Ontario **2016-1**

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue
Actual	1989-90	282,766	35,409	46,500	12.5	76.1
Actual	1990-91	287,334	38,438	49,002	13.4	78.4
Actual	1991-92	288,217	49,368	47,527	17.1	103.9
Actual	1992-93	293,068	61,796	49,122	21.1	125.8
Actual	1993-94	302,245	80,599	51,410	26.7	156.8
Actual	1994-95	319,986	90,728	53,962	28.4	168.1
Actual	1995-96	337,400	101,864	57,898	30.2	175.9
Actual	1996-97	347,842	108,769	58,060	31.3	187.3
Actual	1997-98	368,960	112,735	61,362	30.6	183.7
Actual	1998-99	389,250	114,737	63,044	29.5	182.0
Actual	1999-2000	418,245	134,398	70,983	32.1	189.3
Actual	2000-01	452,238	132,496	72,258	29.3	183.4
Actual	2001-02	469,084	132,121	72,550	28.2	182.1
Actual	2002-03	494,815	132,647	74,938	26.8	177.0
Actual	2003-04	509,511	138,816	74,549	27.2	186.2
Actual	2004-05	533,365	140,921	84,192	26.4	167.4
Actual	2005-06	556,635	152,702	90,738	27.4	168.3
Actual	2006-07	578,241	153,742	97,120	26.6	158.3
Actual	2007-08	601,735	156,616	104,115	26.0	150.4
Actual	2008-09	608,446	169,585	97,532	27.9	173.9
Actual	2009-10	597,882	193,589	96,313	32.4	201.0
Actual	2010-11	630,989	214,511	107,175	34.0	200.2
Actual	2011-12	659,743	235,582	109,773	35.7	214.6
Actual	2012-13	680,084	252,088	113,369	37.1	222.4
Actual	2013-14	693,210	267,190	115,911	38.5	230.5
Actual	2014-15	721,970	284,576	118,546	39.4	240.1
Actual	2015-16	747,101	305,233	128,377	40.9	237.8
	2016-17 Outloo	772899	319,924	130,589	41.4	245.0
	2017-18 Outloo	806182	331,345	137,729	41.1	240.6
	2018-19 Outloo	839919	344,925	141,920	41.1	243.0
	2019-20 Outloo	873260	354,872		40.6	
	2020-21 Outlook		362,957			

Option 1: Incorporates partial impact by taking half of pension asset a
Option 2 : Incorporates full potential impact of pension asset accounti
Option 3: Incorporates Time-limited legislated accounting for pension
Option 4: Incorporates Time-limited legislated accounting for pension

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.7 FES - Scenario 3

Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP
35,409	12.5	-			(90)	282,766
38,438	13.4	-			3,029	287,334
49,368	17.1	-			10,930	288,217
61,796	21.1	-			12,428	293,068
80,599	26.7	-			11,202	302,245
90,728	28.4	-			10,129	319,986
101,864	30.2	-			8,800	337,400
108,769	31.3	-			6,905	347,842
112,735	30.6	-			3,966	368,960
114,737	29.5	-			2,002	389,250
134,398	32.1	-			(668)	418,245
132,496	29.3	-			(1,902)	452,238
132,121	28.2	-			(375)	469,084
118,705	24.0	13,942			(117)	494,815
124,188	24.4	14,628			5,483	509,511
125,743	23.6	15,178			1,555	533,365
109,155	19.6	43,547			(298)	556,635
106,776	18.5	46,966		(110)	(2,269)	578,241
105,617	17.6	50,999	(559)		(600)	601,735
113,238	18.6	56,347	1,212		6,409	608,446
130,957	21.9	62,632	1,090	-	19,262	597,882
144,573	22.9	69,938	(395)	-	14,011	630,989
158,410	24.0	77,172	3	865	12,969	659,743
167,132	24.6	84,956	(639)	141	9,220	680,084
176,634	25.5	90,556	(951)	-	10,453	693,210
187,511	26.0	97,065	(1,121)	1,683	10,315	721,970
202,697	27.1	102,536	1,003	9,154	5,029	747,101
208,997	27.0	110,927			6,300	777,266
211,797	26.3	119,548			2,800	812,720
215,497	25.7	129,428			3,700	846,982
215,497	24.7	139,375			-	
215,497		147,460			-	

accounting change (Deficits of $4.1 B, $0, and $0 for 2016-17, 2017-18 and 2018-19 respectively)
ing change (Deficits of $4.8 B, $0, and $0 for 2016-17, 2017-18 and 2018-19 respectively)
assets (Deficits of $6.8 B, $2.8 B, and $3.7 B for 2016-17, 2017-18 and 2018-19 respectively)
assets and realizing most savings in 2016-17 (Deficits of $4.8 B, $2.8 B, and $3.7 B for 2016-17, 2017-

2016 Public Accounts

Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
35,409	12.5	35,409	12.5	-			(90)
38,438	13.4	38,438	13.4	-			3,029
49,368	17.1	49,368	17.1	-			10,930
61,796	21.1	61,796	21.1	-			12,428
80,599	26.7	80,599	26.7	-			11,202
90,728	28.4	90,728	28.4	-			10,129
101,864	30.2	101,864	30.2	-			8,800
108,769	31.3	108,769	31.3	-			6,905
112,735	30.6	112,735	30.6	-			3,966
114,737	29.5	114,737	29.5	-			2,002
134,398	32.1	134,398	32.1	-			(668)
132,496	29.3	132,496	29.3	-			(1,902)
132,121	28.2	132,121	28.2	-			(375)
132,647	26.8	118,705	24.0	13,942			(117)
138,816	27.2	124,188	24.4	14,628			5,483
140,921	26.4	125,743	23.6	15,178			1,555
152,702	27.4	109,155	19.6	43,547			(298)
153,742	26.6	106,776	18.5	46,966	-	(110)	(2,269)
156,616	26.0	105,617	17.6	50,999	(559)	-	(600)
169,585	27.9	113,238	18.6	56,347	1,212	-	6,409
193,589	32.4	130,957	21.9	62,632	1,090	-	19,262
214,511	34.0	144,573	22.9	69,938	(395)	-	14,011
235,582	35.7	158,410	24.0	77,172	3	865	12,969
252,088	37.1	167,132	24.6	84,956	(639)	141	9,220
267,190	38.5	176,634	25.5	90,556	(951)	-	10,453
284,576	39.4	187,511	26.0	97,065	(1,121)	1,683	10,315
305,233	40.9	202,697	27.1	102,536	1,003	9,154	5,029
317,439	40.8	207,003	26.6	110,436	-	-	4,306
326,069	40.1	206,990	25.5	119,079	-	-	(13)
335,951	39.7	206,967	24.4	128,984	-	-	(23)

·18 and 2018-19 respectively)

Comparison: 2016 Public Accounts vs. 2015 Budget

GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
4,367	(2,485)	(0.6)	(1,994)	(0.4)	(491)	-	-
6,538	(5,276)	(1.0)	(4,807)	(0.8)	(469)	-	-
7,063	(8,974)	(1.4)	(8,530)	(1.2)	(444)	-	-

Deficit/ (Surplus)
-
-
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-
-
-
-
(1,994)
(2,813)
(3,723)

Net Debt to Revenue and GDP Ratios

Ontario **2016-17 FES - Scenario**

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit
Actual	1989-90	282,766	35,409	46,500	12.5	76.1	35,409
Actual	1990-91	287,334	38,438	49,002	13.4	78.4	38,438
Actual	1991-92	288,217	49,368	47,527	17.1	103.9	49,368
Actual	1992-93	293,068	61,796	49,122	21.1	125.8	61,796
Actual	1993-94	302,245	80,599	51,410	26.7	156.8	80,599
Actual	1994-95	319,986	90,728	53,962	28.4	168.1	90,728
Actual	1995-96	337,400	101,864	57,898	30.2	175.9	101,864
Actual	1996-97	347,842	108,769	58,060	31.3	187.3	108,769
Actual	1997-98	368,960	112,735	61,362	30.6	183.7	112,735
Actual	1998-99	389,250	114,737	63,044	29.5	182.0	114,737
Actual	1999-2000	418,245	134,398	70,983	32.1	189.3	134,398
Actual	2000-01	452,238	132,496	72,258	29.3	183.4	132,496
Actual	2001-02	469,084	132,121	72,550	28.2	182.1	132,121
Actual	2002-03	494,815	132,647	74,938	26.8	177.0	118,705
Actual	2003-04	509,511	138,816	74,549	27.2	186.2	124,188
Actual	2004-05	533,365	140,921	84,192	26.4	167.4	125,743
Actual	2005-06	556,635	152,702	90,738	27.4	168.3	109,155
Actual	2006-07	578,241	153,742	97,120	26.6	158.3	106,776
Actual	2007-08	601,735	156,616	104,115	26.0	150.4	105,617
Actual	2008-09	608,446	169,585	97,532	27.9	173.9	113,238
Actual	2009-10	597,882	193,589	96,313	32.4	201.0	130,957
Actual	2010-11	630,989	214,511	107,175	34.0	200.2	144,573
Actual	2011-12	659,743	235,582	109,773	35.7	214.6	158,410
Actual	2012-13	680,084	252,088	113,369	37.1	222.4	167,132
Actual	2013-14	693,210	267,190	115,911	38.5	230.5	176,634
Actual	2014-15	721,970	284,576	118,546	39.4	240.1	187,511
Actual	2015-16	747,101	305,233	128,377	40.9	237.8	202,697
	2016-17 Outloo	772899	318,424	130,589	41.2	243.8	207,497
	2017-18 Outloo	806182	329,845	137,729	40.9	239.5	210,297
	2018-19 Outloo	839919	343,425	141,920	40.9	242.0	213,997
	2019-20 Outloo	873260	353,372		40.5		213,997
	2020-21 Outlook		361,457				213,997

Option 1: Incorporates partial impact by taking half of pension asset accounting chan

Option 2 : Incorporates full potential impact of pension asset accounting change (Defi

Option 3: Incorporates Time-limited legislated accounting for pension assets (Deficits

Option 4: Incorporates Time-limited legislated accounting for pension assets and real

Prepared by OFA, FTD

20-Oct-16

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Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt	Net Debt As % to GDP
12.5	-			(90)	282,766	35,409	12.5
13.4	-			3,029	287,334	38,438	13.4
17.1	-			10,930	288,217	49,368	17.1
21.1	-			12,428	293,068	61,796	21.1
26.7	-			11,202	302,245	80,599	26.7
28.4	-			10,129	319,986	90,728	28.4
30.2	-			8,800	337,400	101,864	30.2
31.3	-			6,905	347,842	108,769	31.3
30.6	-			3,966	368,960	112,735	30.6
29.5	-			2,002	389,250	114,737	29.5
32.1	-			(668)	418,245	134,398	32.1
29.3	-			(1,902)	452,238	132,496	29.3
28.2	-			(375)	469,084	132,121	28.2
24.0	13,942			(117)	494,815	132,647	26.8
24.4	14,628			5,483	509,511	138,816	27.2
23.6	15,178			1,555	533,365	140,921	26.4
19.6	43,547			(298)	556,635	152,702	27.4
18.5	46,966		(110)	(2,269)	578,241	153,742	26.6
17.6	50,999	(559)		(600)	601,735	156,616	26.0
18.6	56,347	1,212		6,409	608,446	169,585	27.9
21.9	62,632	1,090	-	19,262	597,882	193,589	32.4
22.9	69,938	(395)	-	14,011	630,989	214,511	34.0
24.0	77,172	3	865	12,969	659,743	235,582	35.7
24.6	84,956	(639)	141	9,220	680,084	252,088	37.1
25.5	90,556	(951)	-	10,453	693,210	267,190	38.5
26.0	97,065	(1,121)	1,683	10,315	721,970	284,576	39.4
27.1	102,536	1,003	9,154	5,029	747,101	305,233	40.9
26.8	110,927			4,800	777,266	317,439	40.8
26.1	119,548			2,800	812,720	326,069	40.1
25.5	129,428			3,700	846,982	335,951	39.7
24.5	139,375			-			
	147,460			-			

ge (Deficits of $4.1 B, $0, and $0 for 2016-17, 2017-18 and 2018-19 respectively)
cits of $4.8 B, $0, and $0 for 2016-17, 2017-18 and 2018-19 respectively)
of $6.8 B, $2.8 B, and $3.7 B for 2016-17, 2017-18 and 2018-19 respectively)
izing most savings in 2016-17 (Deficits of $4.8 B, $2.8 B, and $3.7 B for 2016-17, 2017-18 and 2018-19 respectively

2016 Public Accounts

Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt
35,409	12.5	-			(90)	-	-
38,438	13.4	-			3,029	-	-
49,368	17.1	-			10,930	-	-
61,796	21.1	-			12,428	-	-
80,599	26.7	-			11,202	-	-
90,728	28.4	-			10,129	-	-
101,864	30.2	-			8,800	-	-
108,769	31.3	-			6,905	-	-
112,735	30.6	-			3,966	-	-
114,737	29.5	-			2,002	-	-
134,398	32.1	-			(668)	-	-
132,496	29.3	-			(1,902)	-	-
132,121	28.2	-			(375)	-	-
118,705	24.0	13,942			(117)	-	-
124,188	24.4	14,628			5,483	-	-
125,743	23.6	15,178			1,555	-	-
109,155	19.6	43,547			(298)	-	-
106,776	18.5	46,966	-	(110)	(2,269)	-	-
105,617	17.6	50,999	(559)	-	(600)	-	-
113,238	18.6	56,347	1,212	-	6,409	-	-
130,957	21.9	62,632	1,090	-	19,262	-	-
144,573	22.9	69,938	(395)	-	14,011	-	-
158,410	24.0	77,172	3	865	12,969	-	-
167,132	24.6	84,956	(639)	141	9,220	-	-
176,634	25.5	90,556	(951)	-	10,453	-	-
187,511	26.0	97,065	(1,121)	1,683	10,315	-	-
202,697	27.1	102,536	1,003	9,154	5,029	-	-
207,003	26.6	110,436	-	-	4,306	4,367	(985)
206,990	25.5	119,079	-	-	(13)	6,538	(3,776)
206,967	24.4	128,984	-	-	(23)	7,063	(7,474)

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Comparison: 2016 Public Accounts vs. 2015 Budget

Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-

Net Debt to Revenue and GDP Ratios

Ontario

2016 Document

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit
Actual	1989-90	282,766	35,409	46,500	12.5	76.1	35,409
Actual	1990-91	287,334	38,438	49,002	13.4	78.4	38,438
Actual	1991-92	288,217	49,368	47,527	17.1	103.9	49,368
Actual	1992-93	293,068	61,796	49,122	21.1	125.8	61,796
Actual	1993-94	302,245	80,599	51,410	26.7	156.8	80,599
Actual	1994-95	319,986	90,728	53,962	28.4	168.1	90,728
Actual	1995-96	337,400	101,864	57,898	30.2	175.9	101,864
Actual	1996-97	347,842	108,769	58,060	31.3	187.3	108,769
Actual	1997-98	368,960	112,735	61,362	30.6	183.7	112,735
Actual	1998-99	389,250	114,737	63,044	29.5	182.0	114,737
Actual	1999-2000	418,245	134,398	70,983	32.1	189.3	134,398
Actual	2000-01	452,238	132,496	72,258	29.3	183.4	132,496
Actual	2001-02	469,084	132,121	72,550	28.2	182.1	132,121
Actual	2002-03	494,815	132,647	74,938	26.8	177.0	118,705
Actual	2003-04	509,511	138,816	74,549	27.2	186.2	124,188
Actual	2004-05	533,365	140,921	84,192	26.4	167.4	125,743
Actual	2005-06	556,635	152,702	90,738	27.4	168.3	109,155
Actual	2006-07	578,241	153,742	97,120	26.6	158.3	106,776
Actual	2007-08	601,735	156,616	104,115	26.0	150.4	105,617
Actual	2008-09	608,446	169,585	97,532	27.9	173.9	113,238
Actual	2009-10	597,882	193,589	96,313	32.4	201.0	130,957
Actual	2010-11	630,989	214,511	107,175	34.0	200.2	144,573
Actual	2011-12	659,743	235,582	109,773	35.7	214.6	158,410
Actual	2012-13	680,084	252,088	113,369	37.1	222.4	167,132
Actual	2013-14	693,210	267,190	115,911	38.5	230.5	176,634
Actual	2014-15	721,970	284,576	118,546	39.4	240.1	187,511
Actual	2015-16	748,207	296,109	126,547	39.6	234.0	193,447
	2016-17 Outloo	778,417	308,315	130,589	39.6	236.1	197,753
	2017-18 Outloo	813,924	316,945	137,729	38.9	230.1	197,740
	2018-19 Outloo	848,237	326,827	141,920	38.5	230.3	197,717
	2019-20 Outloo	882,062	336,798		38.2	#DIV/0!	197,717
	2020-21 Outlook		344,907			#DIV/0!	197,717

Note: 2015-16 Accumulated Deficit includes a projected ONFA unrealized loss of $250 m

Note: For 2019-20 and 2020-21, we are assuming a zero deficit.

Note: 2015-16 PA Accumulated Deficit includes the ONFA unrealized loss of $1,003 millic

Prepared by OFA, FTD

29-Sep-16

Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt	Net Debt As % to GDP
12.5	-			(90)	282,766	35,409	12.5
13.4	-			3,029	287,334	38,438	13.4
17.1	-			10,930	288,217	49,368	17.1
21.1	-			12,428	293,068	61,796	21.1
26.7	-			11,202	302,245	80,599	26.7
28.4	-			10,129	319,986	90,728	28.4
30.2	-			8,800	337,400	101,864	30.2
31.3	-			6,905	347,842	108,769	31.3
30.6	-			3,966	368,960	112,735	30.6
29.5	-			2,002	389,250	114,737	29.5
32.1	-			(668)	418,245	134,398	32.1
29.3	-			(1,902)	452,238	132,496	29.3
28.2	-			(375)	469,084	132,121	28.2
24.0	13,942			(117)	494,815	132,647	26.8
24.4	14,628			5,483	509,511	138,816	27.2
23.6	15,178			1,555	533,365	140,921	26.4
19.6	43,547			(298)	556,635	152,702	27.4
18.5	46,966		(110)	(2,269)	578,241	153,742	26.6
17.6	50,999	(559)		(600)	601,735	156,616	26.0
18.6	56,347	1,212		6,409	608,446	169,585	27.9
21.9	62,632	1,090	-	19,262	597,882	193,589	32.4
22.9	69,938	(395)	-	14,011	630,989	214,511	34.0
24.0	77,172	3	865	12,969	659,743	235,582	35.7
24.6	84,956	(639)	141	9,220	680,084	252,088	37.1
25.5	90,556	(951)	-	10,453	693,210	267,190	38.5
26.0	97,065	(1,121)	1,683	10,315	721,970	284,576	39.4
25.9	102,662	250	-	5,686	747,101	305,233	40.9
25.4	110,562			4,306	777,266	317,439	40.8
24.3	119,205			(13)	812,720	326,069	40.1
23.3	129,110			(23)	846,982	335,951	39.7
22.4	139,081			-			
	147,190			-			

illion for 2015/16 (Budget).

on and the pension adjustment of $9,154 million.

2016 Public Accounts

Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt
35,409	12.5	-			(90)	-	-
38,438	13.4	-			3,029	-	-
49,368	17.1	-			10,930	-	-
61,796	21.1	-			12,428	-	-
80,599	26.7	-			11,202	-	-
90,728	28.4	-			10,129	-	-
101,864	30.2	-			8,800	-	-
108,769	31.3	-			6,905	-	-
112,735	30.6	-			3,966	-	-
114,737	29.5	-			2,002	-	-
134,398	32.1	-			(668)	-	-
132,496	29.3	-			(1,902)	-	-
132,121	28.2	-			(375)	-	-
118,705	24.0	13,942			(117)	-	-
124,188	24.4	14,628			5,483	-	-
125,743	23.6	15,178			1,555	-	-
109,155	19.6	43,547			(298)	-	-
106,776	18.5	46,966	-	(110)	(2,269)	-	-
105,617	17.6	50,999	(559)	-	(600)	-	-
113,238	18.6	56,347	1,212	-	6,409	-	-
130,957	21.9	62,632	1,090	-	19,262	-	-
144,573	22.9	69,938	(395)	-	14,011	-	-
158,410	24.0	77,172	3	865	12,969	-	-
167,132	24.6	84,956	(639)	141	9,220	-	-
176,634	25.5	90,556	(951)	-	10,453	-	-
187,511	26.0	97,065	(1,121)	1,683	10,315	-	-
202,697	27.1	102,536	1,003	9,154	5,029	(1,106)	9,124
207,003	26.6	110,436	-	-	4,306	(1,151)	9,124
206,990	25.5	119,079	-	-	(13)	(1,204)	9,124
206,967	24.4	128,984	-	-	(23)	(1,255)	9,124

Comparison: 2016 Public Accounts vs. 2015 Budget

Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-

	Ontario Nominal GDP	
2000	452238	
2001	469084	
2002	494815	
2003	509511	
2004	533365	
2005	556635	
2006	578241	
2007	601735	
2008	608446	
2009	597882	
2010	630989	5.5
2011	659743	4.6
2012	680084	3.1
2013	693210	1.9
2014	721970	4.1
2015	747101	3.5
2016p	772899	3.5
2017p	806182	4.3
2018p	839919	4.2
2019p	873260	4.0

p = projection

Net Book Value of TCA ($ Millions)	2015-16 (Actual)	2016-17	2017-18	2018-19	2019-20
2016 Budget					
Opening Net Book Value		102,536	110,437	119,079	128,985
Annual Acquisitions	N/A	13,037	14,059	15,605	15,979
Gross Amortization Expense	N/A	(5,137)	(5,416)	(5,700)	(6,008)
Closing Net Book Value	102,536	110,437	119,079	128,985	138,956
In Year Approvals					
Annual Acquisitions	-	502	0	-	-
School Renewal (16-17 Only)	0	478	0	0	0
Chapleau Cree Stage 2B	0	0	0	0	0
Child and Youth Mental Health BI Solution	0	5	0	0	0
School Boards Funding For Child Care	0	19	0	0	0
Annual Amortization	-	(11)	(22)	(25)	(24)
School Renewal (16-17 Only)	0	(11)	(22)	(22)	(22)
Chapleau Cree Stage 2B	0	0	(0)	(0)	(0)
Child and Youth Mental Health BI Solution	0	0	(0)	(1)	(1)
School Boards Funding For Child Care	0	0	0	(2)	(1)
2016 Budget + In Year Approvals					
Opening Net Book Value		102,536	110,927	119,548	129,428
Annual Acquisitions		13,539	14,059	15,605	15,979
Gross Amortization Expense		(5,148)	(5,438)	(5,725)	(6,032)
Closing Net Book Value	102,536	110,927	119,548	129,428	139,375

Receeived Oct 4/2016

Source: David Hodes.

2020-21	2021-22
138,956	147,064
14,536	11,823
(6,428)	(6,939)
147,064	151,949
-	-
0	0
0	0
0	0
0	0
(24)	(23)
(22)	(22)
(0)	(0)
(1)	(1)
(1)	0
139,375	147,460
14,536	11,823
(6,451)	(6,962)
147,460	152,321

From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	John Psinas; Christina Zhang; George Sakura
Subject:	RE: Net Debt - 2016-17 -FES (Oct 20 2016) v2 .xlsx
Date:	Thursday, October 20, 2016 11:21:35 AM

Thanks for the quick turnaround, and I saw when I went beyond the leadsheet to the actual spreadsheets that the 40.9was the right number.

From: Ken Kandeepan
Sent: Thursday, October 20, 2016 11:19 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: John Psinas <John.Psinas@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>
Subject: RE: Net Debt - 2016-17 -FES (Oct 20 2016) v2 .xlsx

As requested, pls see attached and you are correct the 2015-16 ratio, including the pension adjustment is 40.9.

Thanks

Ken k

From: Gadi Mayman
Sent: Thursday, October 20, 2016 11:05 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: John Psinas <John.Psinas@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>
Subject: RE: Net Debt - 2016-17 -FES (Oct 20 2016) v2 .xlsx

Great. I can read it. Can I ask for one more scenario? It's like option 3, but assumes that we find most of the savings for this year, just not the two out years, so this year's deficit, as per the deck under that scenario would be $4.8 (and then we go with 2.8 and 3.7).

The final 15/16 ratio is 40.9, right?

From: Ken Kandeepan
Sent: Thursday, October 20, 2016 11:02 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: John Psinas <John.Psinas@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>
Subject: FW: Net Debt - 2016-17 -FES (Oct 20 2016) v2 .xlsx

Hi Gadi

As requested, while John and team have included the detailed calculations, the “Leadsheet” tab provides a nice summary of the ratio for all three options. The trend continues to decline, however, the ratios themselves, as expected, increase over the 2016 Budget.

FES password and I know you are off-site, so if you have difficulty in accessing the file, let me know and we can copy and paste the info in the Leadsheet tab on the email itself. See you at the meeting.

Thanks

Ken k

From: John Psinas
Sent: Thursday, October 20, 2016 10:52 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: Net Debt - 2016-17 -FES (Oct 20 2016) v2 .xlsx

Ken,
Please find attached.

Thanks.

John

From: Ken Kandeepan
To: Gadi Mayman
Cc: Christina Zhang
Subject: RE: Net Debt to GDP statement in 3b
Date: Friday, October 28, 2016 8:41:47 AM

Will do Gadi.

Thanks

Ken k

From: Gadi Mayman
Sent: Thursday, October 27, 2016 10:33 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Re: Net Debt to GDP statement in 3b

Hi Ken. I like the wording that you've proposed, actually, even though you're reluctant to use the last sentence. I know that you're reticent to insert it because of the possibility of the accounting reversal, but that's not the approach that the PO/CO or the MO have been leaning towards as we've come to a conclusion on how the numbers and narrative will look for the FES. While their preferred approach may change by the time we get to next year's Budget, in the meantime we shouldn't hesitate to use the ratios as they currently are, and, I suppose particularly in this case where the trend in the out years, if not the absolute numbers, goes in the direction we want to show.

Regards,
Gadi

On Oct 27, 2016, at 9:34 PM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:

> Hi Gadi
>
> FYI, the issue may come up again when you sign off.
>
> Thanks
>
> Ken k
>
> ---
>
> **From:** Ken Kandeepan
> **Sent:** Thursday, October 27, 2016 9:33 PM
> **To:** Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
> **Cc:** John Psinas <John.Psinas@ofina.on.ca>
> **Subject:** RE: Net Debt to GDP statement in 3b
>
> Hi Selena

That's a good point, however, in the Debt chapter we have intentionally tried to refrain from any mention of the medium term as it relates to the net debt to GDP. There is a reason for our reticence, if the independent review of the pension adjustment supports the Government's position, there is a strong possibility that the accumulated deficit and the net debt will reduce by at least $10.7 billion with an equally material reduction in the ratio.

However, if you strongly feel that a reference to the medium term is required pls consider the following – I have slightly edited John's version plus added a reference to the medium term.

"The net debt to GDP ratio is projected to increase slightly in 2016-17, primarily as a result of a nominal GDP that is forecast to be marginally lower than what was forecast in the 2016 Budget. Over the medium term the ratio is projected to decline progressively".

Thanks

Ken k

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Thursday, October 27, 2016 7:25 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: Net Debt to GDP statement in 3b

Hi Ken, John, - understand Ken, you couldn't make it to sign-off today and John you came – thank you.

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Here's the insertion per John pen edits:

The net debt to GDP ratio is projected to increase slightly in 2016-17 primarily as a result of marginally lower than forecast nominal GDP when compared to the 2016 Budget forecast.

Let me know. Thanks.

From:	Ken Kandeepan
To:	Selena Esmail (MOF)
Cc:	John Psinas
Subject:	RE: Net Debt to GDP statement in 3b
Date:	Thursday, October 27, 2016 9:43:19 PM

Not a bad idea why don't I just run this by Gadi first thing tomorrow and let you know if that is ok.

Thanks

Ken k

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Thursday, October 27, 2016 9:39 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: John Psinas <John.Psinas@ofina.on.ca>
Subject: RE: Net Debt to GDP statement in 3b

Thanks ken – what if we just left out a point altogether? I don't think we need to say anything in this section about it. Are you ok to strike it?

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: October-27-16 9:33 PM
To: Esmail, Selena (MOF)
Cc: John Psinas
Subject: RE: Net Debt to GDP statement in 3b

Hi Selena

That's a good point, however, in the Debt chapter we have intentionally tried to refrain from any mention of the medium term as it relates to the net debt to GDP. There is a reason for our reticence, if the independent review of the pension adjustment supports the Government's position, there is a strong possibility that the accumulated deficit and the net debt will reduce by at least $10.7 billion with an equally material reduction in the ratio.

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Sent: Thursday, October 27, 2016 7:25 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
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Let me know. Thanks.

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From:	Esmail, Selena (MOF)
To:	Ken Kandeepan
Cc:	John Psinas
Subject:	RE: Net Debt to GDP statement in 3b
Date:	Thursday, October 27, 2016 9:39:23 PM

Thanks ken – what if we just left out a point altogether? I don't think we need to say anything in this section about it. Are you ok to strike it?

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: October-27-16 9:33 PM
To: Esmail, Selena (MOF)
Cc: John Psinas
Subject: RE: Net Debt to GDP statement in 3b

Hi Selena

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Thanks

Ken k

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Thursday, October 27, 2016 7:25 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: Net Debt to GDP statement in 3b

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From: Ken Kandeepan
To: Selena Esmail (MOF)
Cc: John Psinas
Subject: RE: Net Debt to GDP statement in 3b
Date: Thursday, October 27, 2016 9:33:21 PM

Hi Selena

That's a good point, however, in the Debt chapter we have intentionally tried to refrain from any mention of the medium term as it relates to the net debt to GDP. There is a reason for our reticence, if the independent review of the pension adjustment supports the Government's position, there is a strong possibility that the accumulated deficit and the net debt will reduce by at least $10.7 billion with an equally material reduction in the ratio.

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Thanks

Ken k

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Thursday, October 27, 2016 7:25 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: Net Debt to GDP statement in 3b

Hi Ken, John, - understand Ken, you couldn't make it to sign-off today and John you came – thank you.

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Here's the insertion per John pen edits:

The net debt to GDP ratio is projected to increase slightly in 2016-17 primarily as a result of marginally lower than forecast nominal GDP when compared to the 2016 Budget forecast.

Let me know. Thanks.

From: Ken Kandeepan
To: Selena Esmail (MOF)
Cc: John Psinas
Subject: RE: Net Debt to GDP statement in 3b
Date: Friday, October 28, 2016 8:46:54 AM

Hi Selina

Had a discussion with Gadi, he prefers that we include the following given that the overall direction from the MO/PO is to move forward on the basis of the legislated accounting for pensions and address the results of the independent review at that time.

"The net debt to GDP ratio is projected to increase slightly in 2016-17, primarily as a result of a nominal GDP that is forecast to be marginally lower than what was forecast in the 2016 Budget. Over the medium term the ratio is projected to decline progressively".

Thanks

Ken k

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Thursday, October 27, 2016 9:53 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: John Psinas <John.Psinas@ofina.on.ca>
Subject: Re: Net Debt to GDP statement in 3b

Works for me! Thanks so much

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Ken Kandeepan
Sent: Thursday, October 27, 2016 9:43 PM
To: Esmail, Selena (MOF)
Cc: John Psinas
Subject: RE: Net Debt to GDP statement in 3b

Not a bad idea why don't I just run this by Gadi first thing tomorrow and let you know if that is ok.

Thanks

Ken k

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Thursday, October 27, 2016 9:39 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: John Psinas <John.Psinas@ofina.on.ca>
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From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: October-27-16 9:33 PM
To: Esmail, Selena (MOF)

Cc: John Psinas
Subject: RE: Net Debt to GDP statement in 3b

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Thanks

Ken k

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Thursday, October 27, 2016 7:25 PM
To: John Psinas <John.Psinas@ofina.on.ca<mailto:John.Psinas@ofina.on.ca>>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca<mailto:Ken.Kandeepan@ofina.on.ca>>
Subject: Net Debt to GDP statement in 3b

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From:	Shemin Meralli
To:	Erica Wieder; John Psinas; George Sakura
Cc:	Ken Kandeepan; Anna Strathy; Nathan Yuen
Subject:	RE: Next Steps on Deck
Date:	Friday, May 25, 2018 4:02:35 PM
Attachments:	3. Net debt analysis -Document 2017-18 (March 9, 2018).xlsx image002.png

Erica,

As requested please see attached.

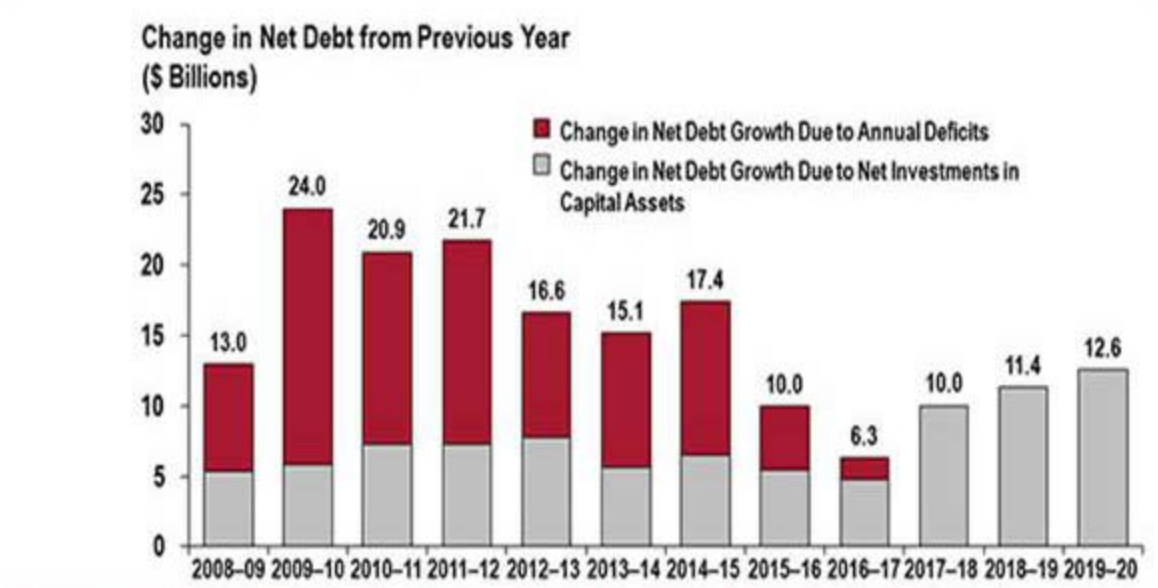
Thanks

Shemin

From: Erica Wieder
Sent: Friday, May 25, 2018 3:54 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Nathan Yuen <Nathan.Yuen@ofina.on.ca>
Subject: RE: Next Steps on Deck

We also included this in the 2017 FES:

Chart 3.3 Factors for Growth in Net Debt



Net Debt ($ Billions)	169.6	193.6	214.5	236.2	252.8	268.0	285.4	295.4	301.6	311.7	323.0	335.6
% Change Due to Deficit	58.8	75.7	65.1	66.7	53.1	63.0	62.7	45.1	24.3	–	–	–
% Change Due to Net Investments in Capital Assets	41.2	24.3	34.9	33.3	46.9	37.0	37.3	54.9	75.7	100.0	100.0	100.0

Source: Ontario Financing Authority

Larger version of image

About 62 per cent of the increase in net debt from 2008–09 to 2016–17 was due to the deficit. The remaining net debt increase was a result of investments in capital assets. Balanced budgets from 2017–18 onwards will ensure that increases in net debt will be limited to net investments in capital assets such as roads, bridges, hospitals and schools.

From: Erica Wieder
Sent: Friday, May 25, 2018 3:52 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Nathan Yuen <Nathan.Yuen@ofina.on.ca>
Subject: FW: Next Steps on Deck

Hi Shemin,

We've fact checked the ON numbers on slide 29 and they are fine. They do quote the following:

- Borrowing for both deficits and infrastructure investments accounts for the increase in net debt, with borrowing for infrastructure making up approximately [40% of the increase].

We used to have a quote in the 2017 Budget referring to this (see below) but I wonder if the percentage still holds if we extend it to include 2017-18 and 2018-19?

About 61 per cent of the increase in net debt from 2008–09 to 2016–17 is due to the deficit. The remaining net debt increase is a result of investments in capital assets.

Thanks,

Erica

From: Gadi Mayman
Sent: Friday, May 25, 2018 12:05 PM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>
Subject: Fwd: Next Steps on Deck

Begin forwarded message:

> **From:** "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
> **Date:** May 25, 2018 at 11:55:35 AM EDT
> **To:** "Mayman, Gadi (OFA)" <Gadi.Mayman@ofina.on.ca>, "Lewis, Brian (MOF)" <Brian.Lewis@Ontario.ca>, "Duran-Schneider, Maria (TBS)" <Maria.Duran-Schneider@ontario.ca>, "Hughes, Karen (TBS)" <Karen.Hughes@ontario.ca>, "Lawson, Shawn (TBS)" <Shawn.Lawson@ontario.ca>
> **Cc:** "Rowe, Alana (MOF)" <Alana.Rowe@ontario.ca>, "McGrath, Tara (MOF)" <Tara.McGrath@ontario.ca>
> **Subject: Next Steps on Deck**
>
> Thanks everyone for your input and collaboration at yesterday's session – we got useful feedback and feel we are all on the same page moving forward.
>
> The meeting with the SOC on these materials has been set up for Wednesday morning. Working backwards from that means we need to pre-brief the DM's on Tuesday, so we'll need to have a deck ready to go by eod Monday. Can you please make sure your teams feed into Tara and her folks by end of day today so we can give you all a chance to review something this weekend. Think we want to limit the amount of OT we are asking folks to do during this period of time.
>
> Please let me know if you think giving us something will be an issue for eod today as a draft starting point.
>
> *Tim Schuurman*
> *Assistant Deputy Minister*

Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



Analysis of Net Debt

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	Interim 2017-18	Plan 2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Total 2009-10 to 2020-21	2009-10 to 2017-18 (col D -L)	2008-09 to 2017-18 (col C - L)
Opening balance	(169,585)	(193,589)	(214,511)	(236,230)	(252,823)	(267,968)	(285,403)	(295,372)	(301,648)	(308,203)	(325,041)	(342,752)	(360,123)	(376,811)	(388,265)	(394,185)	(400,152)	(169,585)		
Surplus/(Deficit)	(19,262)	(14,011)	(12,969)	(9,220)	(10,453)	(10,315)	(3,515)	(991)	642	(6,704)	(6,624)	(6,475)	(5,572)	(3,961)	(2,476)	(16)	2,603	(109,319)	(80,094)	(86,503)
IFRS Transitional Impact			(758)					(683)										(1,441)	(1,441)	(1,441)
PSAB Transitional Impact			(107)	(141)		(1,683)												(1,931)	(1,931)	(1,931)
Pension Adjustment (prior years)							0											0	0	0
Prepaids/Inv adj/gain/(loss)			(648)	(87)	(43)	(49)	20	(43)	0	0	0	0	0	0	0	0	0	(850)	(850)	(850)
Other Adjustments							0	(901)										(901)	(901)	(901)
	(19,262)	(14,011)	(14,482)	(9,448)	(10,496)	(12,047)	(3,495)	(2,618)	642	(6,704)	(6,624)	(6,475)	(5,572)	(3,961)	(2,476)	(16)	2,603	(114,442)	(85,217)	(91,626)
Ontario Nuclear Fund- gain/(loss)	1,090	395	(3)	639	951	1,121	(1,003)	1,094	419									4,703	4,703	3,491
Total Deficit	(18,172)	(13,616)	(14,485)	(8,809)	(9,545)	(10,926)	(4,498)	(1,524)	1,061	(6,704)	(6,624)	(6,475)	(5,572)	(3,961)	(2,476)	(16)	2,603	(109,739)	(80,514)	(88,135)
Tangible Capital Assets	(5,832)	(7,306)	(7,234)	(7,784)	(5,600)	(6,509)	(5,471)	(4,752)	(7,616)	(10,134)	(11,087)	(10,896)	(11,116)	(7,493)	(3,444)	(5,951)	(4,509)	(122,734)	(58,104)	(63,452)
	(24,004)	(20,922)	(21,719)	(16,593)	(15,145)	(17,435)	(9,969)	(6,276)	(6,555)	(16,838)	(17,711)	(17,371)	(16,688)	(11,454)	(5,920)	(5,967)	(1,906)	(232,473)	(138,618)	(151,587)
Ending balance	**(193,589)**	**(214,511)**	**(236,230)**	**(252,823)**	**(267,968)**	**(285,403)**	**(295,372)**	**(301,648)**	**(308,203)**	**(325,041)**	**(342,752)**	**(360,123)**	**(376,811)**	**(388,265)**	**(394,185)**	**(400,152)**	**(402,058)**	**(402,058)**		

% INCREASE IN NET DEBT

Percentage %

Deficit/(Surplus)	80.24	66.97	66.68	56.94	69.30	69.10	35.06	41.71	(9.79)	39.81	37.40	37.27	33.39	34.58	41.82	0.27	(136.57)		61.48	60.44
Other	(4.54)	(1.89)	0.01	(3.85)	(6.28)	(6.43)	10.06	(17.43)	(6.39)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		(3.39)	(2.30)
Total Deficit	**75.70**	**65.08**	**66.69**	**53.09**	**63.02**	**62.67**	**45.12**	**24.28**	**(16.19)**	**39.81**	**37.40**	**37.27**	**33.39**	**34.58**	**41.82**	**0.27**	**(136.57)**		**58.08**	**58.14**
Tangible Capital Assets	**24.30**	**34.92**	**33.31**	**46.91**	**36.98**	**37.33**	**54.88**	**75.72**	**116.19**	**60.19**	**62.60**	**62.73**	**66.61**	**65.42**	**58.18**	**99.73**	**236.57**		**41.92**	**41.86**
	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00		100.00	100.00

For use with slide 2

In year approvals added to TCA for 2016-17 only, but not any risks. Deprecation in out years for in year approvals not taken.

2008-09 to 2016-17 (col C -K)	2007-08 to 2016-17 (col B -K)	Budget Outlook
(87,145)	(86,545)	(19,803)
(1,441)	(1,441)	0
(1,931)	(1,931)	0
0	0	0
(850)	(850)	0
(901)	(901)	0
(92,268)	(91,668)	(19,803)
3,072	3,631	0
(89,196)	(88,037)	(19,803)
(55,836)	(59,869)	(32,117)
(145,032)	(147,906)	(51,920)

63.62	61.98	38.14
(2.12)	(2.45)	0.00
61.50	**59.52**	**38.14**
38.50	**40.48**	**61.86**
100.00	100.00	100.00


Office of the Budget
MINISTRY of FINANCE

From: Ken Kandeepan
To: John Psinas
Cc: Anna Strathy; Shemin Meralli; George Sakura; Fred Chow
Subject: RE: Next Steps: Base Case & Alternative Fiscal Scenarios
Date: Friday, June 01, 2018 5:06:24 PM

Hi All

This is lot of work, extremely well done and in such a short time, thank you very much, pls have a great weekend all of you.

Thanks again

Ken k

-----Original Message-----
From: John Psinas
Sent: Friday, June 01, 2018 5:04 PM
To: 'Anand, Sareena (MOF)' <Sareena.Anand@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Chi-Wa Che <Chi-Wa.Che@ofina.on.ca>
Cc: Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Nero, Freba (MOF) <Freba.Nero@ontario.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Fred Chow <Fred.Chow@ofina.on.ca>
Subject: RE: Next Steps: Base Case & Alternative Fiscal Scenarios

Sareena,

Please find attached a single excel file with 20 individual colour-coded tabs for all the net debt scenarios.

Thanks.

John

-----Original Message-----
From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Friday, June 01, 2018 2:50 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Chi-Wa Che <Chi-Wa.Che@ofina.on.ca>
Cc: Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Nero, Freba (MOF) <Freba.Nero@ontario.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Fred Chow <Fred.Chow@ofina.on.ca>
Subject: RE: Next Steps: Base Case & Alternative Fiscal Scenarios

Hi Alex:

Based on our discussion, here is a new summary of all of the scenarios that we will need... 20 in total.

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- with pensions
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Blue A - With Regular Program Expense
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-with both accounting impacts

Blue B - With Program Expense Efficiencies
- blue scenario - with program expense efficiencies (line 89)
- with pensions
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-with both accounting impacts

Thanks a million!
Sareena

-----Original Message-----
From: Anand, Sareena (MOF)
Sent: June 1, 2018 2:18 PM
To: 'John Psinas'; Kandeepan, Ken (OFA); Strathy, Anna (OFA); Che, Chi-Wa (OFA)
Cc: Esmail, Selena (MOF); IOD_RPA; Zhang, Christina (OFA); Kraas, Alexander (OFA); Meralli, Shemin (OFA); Sakura, George (OFA); Nero, Freba (MOF); Macdonald, James (MOF); Cheung, Danny (MOF); McGrath, Tara (MOF); Fred Chow
Subject: RE: Next Steps: Base Case & Alternative Fiscal Scenarios

Hi John:

Just to confirm, here are the scenarios we are hoping to get a net debt and IOD forecast for. I think there are 12 in total:

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- Orange scenario
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Blue A
- blue scenario - with regular program expense
- with pensions
- with fair hydro
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Blue B
- blue scenario - with program expense efficiencies
- with pensions
- with fair hydro
-with both accounting impacts

Thank you!!
Sareena

-----Original Message-----
From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: June 1, 2018 2:13 PM
To: Anand, Sareena (MOF); Kandeepan, Ken (OFA); Strathy, Anna (OFA); Che, Chi-Wa (OFA)
Cc: Esmail, Selena (MOF); IOD_RPA; Zhang, Christina (OFA); Kraas, Alexander (OFA); Meralli, Shemin (OFA); Sakura, George (OFA); Nero, Freba (MOF); Macdonald, James (MOF); Cheung, Danny (MOF); McGrath, Tara (MOF); Fred Chow
Subject: RE: Next Steps: Base Case & Alternative Fiscal Scenarios

Sareena,
As discussed, there are 10 scenarios in all. We will endeavour to get them to you by end of day today.

Thanks.

John

-----Original Message-----
From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Friday, June 01, 2018 1:47 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Chi-Wa Che <Chi-Wa.Che@ofina.on.ca>
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Subject: RE: Next Steps: Base Case & Alternative Fiscal Scenarios

Good afternoon:

Per Tara's email below, we have the scenarios ready for you to run IOD and net debt forecasts. The scenarios are divided into blue and orange (one attachment for each). Please note that for the blue scenario, there are two program expense options (one with program expense efficiencies/savings, and one without).

As Tara mentioned, we are looking to circulate the deck to the DMs tonight. Do you think it's possible to get us an IOD and/or net debt forecast before EOD? Apologies for the tight timelines. Please let us know if you think this is feasible.

Many thanks for all of your help with these decks!
Sareena

-----Original Message-----
From: McGrath, Tara (MOF)
Sent: May 31, 2018 11:52 AM
To: Kandeepan, Ken (OFA); Strathy, Anna (OFA); John Psinas

Cc: Esmail, Selena (MOF); Anand, Sareena (MOF); IOD_RPA; Che, Chi-Wa (OFA); Zhang, Christina (OFA); Kraas, Alexander (OFA); Meralli, Shemin (OFA); Sakura, George (OFA); Nero, Freba (MOF); Macdonald, James (MOF); Cheung, Danny (MOF)
Subject: Next Steps: Base Case & Alternative Fiscal Scenarios

Hi Ken, Anna and John,

Coming out of yesterday's briefing with the SOC, we're working to revise the base case and alternative scenarios - which obviously will require new IOD and net debt-to-GDP forecasts. The deck is also being split into two - one orange, one blue.

There's a fair amount of work that needs to be done to re-estimate the scenarios, in particular with respect to expense, and so we're still unclear about when we'll be able to provide you with new outlooks for your calculations. I don't expect we'll be able to provide anything before earliest noon tomorrow.

We're trying to turn drafts of these decks for end of day tomorrow, but I think we've managed expectations that the numbers will likely still be in flux at end of day tomorrow (especially in terms of IOD and net debt).

We'll keep you posted on our progress and any additional direction we get.

Thanks,

Tara

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

From: Ken Kandeepan
To: Chi-Wa Che; Alexander Kraas; Christina Zhang
Cc: Anna Strathy
Subject: RE: Next Steps: Base Case & Alternative Fiscal Scenarios
Date: Friday, June 01, 2018 5:27:46 PM

Thank you very much all of you, very well done to do all these scenarios when data was received only around 2 PM is truly exceptional, thanks again and pls have a great weekend.

Ken k

-----Original Message-----
From: Chi-Wa Che
Sent: Friday, June 01, 2018 5:25 PM
To: 'Anand, Sareena (MOF)' <Sareena.Anand@ontario.ca>
Cc: Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Nero, Freba (MOF) <Freba.Nero@ontario.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Fred Chow <Fred.Chow@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>
Subject: RE: Next Steps: Base Case & Alternative Fiscal Scenarios

Hi Sareena,

Attached is the IOD Summary for the requested scenarios on Orange and Blue.
Thanks.
Chi-wa
5-8163

-----Original Message-----
From: John Psinas
Sent: Friday, June 01, 2018 5:04 PM
To: 'Anand, Sareena (MOF)' <Sareena.Anand@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Chi-Wa Che <Chi-Wa.Che@ofina.on.ca>
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To: John Psinas <John.Psinas@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Chi-Wa Che <Chi-Wa.Che@ofina.on.ca>
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Thanks a million!
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Thanks,

Tara

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From: Ken Kandeepan
To: Serena Ly
Subject: RE: Non Cash Adjustments
Date: Wednesday, December 07, 2016 4:06:50 PM
Attachments: image001.png

I would be very reluctant to do that, why don't we simply share the Q&A.

Thanks

Ken k

From: Serena Ly
Sent: Wednesday, December 07, 2016 4:05 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: Non Cash Adjustments

Hi Ken,

We had an investor meeting today and one of their questions was on what "non-cash adjustments" in the financing table represents.

I showed Jim the response we have in the FES Q&A's, but he was wondering whether we could get a more complete breakdown. Would it be fine to share the breakdown below with investors?

Details	2016-17 ($ Billions)
Reserve	(400)
Total BPS Timing Differences	(407)
Total AFP Timing Adjustments	(678)
Amortization expense	(5,137)
H1 Tax Shelter*	-
Student loan - grant expenditures	(446)
Pension adjustment	(2,240)
General timing adjustments	1,864
Non Cash Adjustments in Financing Table	(7,444)

*offset 85% of Hydro One tax shelter gain included in deficit

Q: What does non-cash adjustments of $7.4 billion in 2016–17 represent?

Non-cash adjustments convert accounting accruals into cash requirements. Cash and accruals differ primarily because of $2.6 billion in Alternative Financing Procurements (AFPs) funded by third parties plus the reserve of $0.4 billion, partly offset by payments to be made in 2016–17 upon

substantial completion of prior AFP projects. The total non-cash adjustment also reflects the impact of the pension adjustment. Another significant adjustment is amortization that is currently over $5 billion but is, partly offset by general timing adjustments that always arise between the Province's inflows and outflows on a cash versus accrual basis. A notable example of the latter is the variance between the net incomes of the Government Business Enterprises and the dividends they pay to the Province.

Thanks,
Serena

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Reserve	(400)
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Non Cash Adjustments in Financing Table	(7,444)

*offset 85% of Hydro One tax shelter gain included in deficit

From:	Ken Kandeepan
To:	Sarah Neville
Cc:	Christina Zhang; Mike Manning; Bonnie Lemcke
Subject:	RE: Ontario High Debt and Province"s Financial Statements - press releases
Date:	Tuesday, October 04, 2016 2:28:39 PM

Pls respond as follows:

Moody's newsletter refers to current borrowings whose weighted average term to maturity have increased from 8.1 to 15.3 years as of September 30, 2016. Mario is correct in that the weighted average term to maturity of the outstanding publically borrowed debt stock excluding OEFC is lower at close to 12 years.

Thanks

Ken k

From: Sarah Neville
Sent: Tuesday, October 04, 2016 11:44 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: FW: Ontario High Debt and Province's Financial Statements - press releases

Hi Ken and Mike - I am hoping one of you can clarify Mario's question below. Any advice as to how I should respond?

Sarah

From: Mario Ferrara [mailto:mferrara47@bell.net]
Sent: Tuesday, October 04, 2016 11:05 AM
To: Sarah Neville <Sarah.Neville@ofina.on.ca>
Subject: Re: Ontario High Debt and Province's Financial Statements - press releases

Hi Sarah,

Thank you for this.

I have one question. I noticed in the Moody's release a reference to the weighted average of the Province's debt being 15 years. Looking at the maturity schedule provided in the Quarterly Program Status, etc. report provided to us at the ARMC, it appears that the average maturity would be less than that. I did a very cursory calculation eyeballing the numbers and arrived at a lower number (closer to 13 years). I'm clearly missing something or maybe my eyesight is faulty. Could you please clarify?

Thanks,

Mario

On Oct 3, 2016, at 6:21 PM, Sarah Neville <Sarah.Neville@ofina.on.ca> wrote:

Dear Board Members – Gadi has requested that I forward to you two press releases issued today. They are a Moody's release on Ontario's debt burden (attached) and a Provincial release about the financial statements (below). I am advised that Bonnie has spoken to the rating agencies and they haven't expressed any concerns.

Please let me know if you have any questions.

Thanks very much, and best regards,

Sarah

Sarah Neville
Director (A), Legal Branch

Ontario Financing Authority
1 Dundas Street West, Suite 1200
Toronto ON M7A 1Y7
Phone: (416) 325-8754
Email: Sarah.Neville@ofina.on.ca

From: Ontario News <newsroom@ontario.ca>
Sent: Monday, October 3, 2016 2:54 PM
To: Gadi Mayman
Subject: Last Year's Ontario Deficit $3.5 Billion Lower Than Projected

Ontario Newsroom

News Release

Last Year's Ontario Deficit $3.5 Billion Lower Than Projected[news.ontario.ca]

October 3, 2016

Province Remains Committed to Balance the Budget Next Year in 2017-18

Ontario's Annual Report and unaudited Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower that the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion. This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.
This marks the seventh year in a row that Ontario has beaten its deficit target. Ontario remains committed to balancing the budget in 2017-18, and remain balanced in 2018-19.

In preparing the Annual Report and unaudited Consolidated Financial Statements, the Province's professional accounting staff and the Auditor General have engaged in discussions regarding the treatment of pension assets. Pension accounting requires the application of professional judgment. Despite best efforts to resolve concerns, the Province's professional accounting staff and the Auditor General continue to have differences of opinion about the appropriate application of public sector accounting standards as they relate to pension accounting. This ongoing discussion has delayed the tabling of the Province's financial statements.

A regulation was made to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements. The Province has filed a time-limited regulation, which legislates the accounting for pension assets of two jointly-sponsored pension plans for 2015-16 in a manner that is consistent with the fiscal outcome proposed by the Auditor General.

To ensure openness and transparency, the government is releasing its unaudited financial statements to provide the public with the Province's financial position.

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416-327-4023

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<Moodys_Ontario_HighDebt_PR.pdf>

From:	Ken Kandeepan
To:	Bonnie Lemcke
Subject:	RE: Ontario High Debt and Province"s Financial Statements - press releases
Date:	Tuesday, October 04, 2016 2:21:55 PM

Correct

From: Bonnie Lemcke
Sent: Tuesday, October 04, 2016 2:17 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: FW: Ontario High Debt and Province's Financial Statements - press releases

Fyi.

Bonnie

From: Bonnie Lemcke
Sent: Tuesday, October 04, 2016 12:31 PM
To: David Peters <David.Peters@ofina.on.ca>; Sarah Neville <Sarah.Neville@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: James Devine <James.Devine@ofina.on.ca>
Subject: RE: Ontario High Debt and Province's Financial Statements - press releases

They were looking at the current year.

Bonnie

From: David Peters
Sent: Tuesday, October 04, 2016 12:17 PM
To: Sarah Neville <Sarah.Neville@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: James Devine <James.Devine@ofina.on.ca>; Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: RE: Ontario High Debt and Province's Financial Statements - press releases

Hi Sarah,

The average term of debt issued in 2015-16 was approximately 14.0 years, whereas year-to-date for 2016-17 is 15.3 years. So, I would suspect it is the current year.

However, I have copied Bonnie on my reply as she may be able to provide more insight on the Moody's figures.

Bonnie, any feedback would be appreciated.

Thanks,
David

From: Sarah Neville
Sent: Tuesday, October 04, 2016 12:07 PM
To: David Peters <David.Peters@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: James Devine <James.Devine@ofina.on.ca>
Subject: RE: Ontario High Debt and Province's Financial Statements - press releases

Thanks David – this is helpful. Anticipating a follow up question, is the year being referenced by Moody's the most recent fiscal year, 2015-16?

Sarah

From: David Peters
Sent: Tuesday, October 04, 2016 12:04 PM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: Sarah Neville <Sarah.Neville@ofina.on.ca>; James Devine <James.Devine@ofina.on.ca>
Subject: RE: Ontario High Debt and Province's Financial Statements - press releases

Hi Christina,

I think the figures referred to in the Moody's report are for the average term of debt issued in a particular year as opposed to the average term of total outstanding debt. Hope this helps.

David

From: Christina Zhang
Sent: Tuesday, October 04, 2016 11:48 AM
To: James Devine <James.Devine@ofina.on.ca>; David Peters <David.Peters@ofina.on.ca>
Cc: Sarah Neville <Sarah.Neville@ofina.on.ca>
Subject: FW: Ontario High Debt and Province's Financial Statements - press releases

Hi Jim and Dave,

I'm passing along a request from Sarah as it looks like Mike is away today.

Thanks,
Christina

From: Sarah Neville
Sent: Tuesday, October 04, 2016 11:44 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: FW: Ontario High Debt and Province's Financial Statements - press releases

Hi Ken and Mike - I am hoping one of you can clarify Mario's question below. Any advice as to how I should respond?

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From: Mario Ferrara [mailto:mferrara47@bell.net]
Sent: Tuesday, October 04, 2016 11:05 AM
To: Sarah Neville <Sarah.Neville@ofina.on.ca>
Subject: Re: Ontario High Debt and Province's Financial Statements - press releases

Hi Sarah,

Thank you for this.

I have one question. I noticed in the Moody's release a reference to the weighted average of the Province's debt being 15 years. Looking at the maturity schedule provided in the Quarterly Program Status, etc. report provided to us at the ARMC, it appears that the average maturity would be less than that. I did a very cursory calculation eyeballing the numbers and arrived at a lower number (closer to 13 years). I'm clearly missing something or maybe my eyesight is faulty. Could you please clarify?

Thanks,

Mario

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>
> Please let me know if you have any questions.
>
> Thanks very much, and best regards,
>
> Sarah
>
> Sarah Neville
> Director (A), Legal Branch
>
> ***Ontario Financing Authority***

1 Dundas Street West, Suite 1200
Toronto ON M7A 1Y7
Phone: (416) 325-8754
Email: Sarah.Neville@ofina.on.ca

From: Ontario News <newsroom@ontario.ca>
Sent: Monday, October 3, 2016 2:54 PM
To: Gadi Mayman
Subject: Last Year's Ontario Deficit $3.5 Billion Lower Than Projected



News Release

Last Year's Ontario Deficit $3.5 Billion Lower Than Projected[news.ontario.ca]

October 3, 2016

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<Moodys_Ontario_HighDebt_PR.pdf>

From:	Sarah Neville
To:	Ken Kandeepan
Cc:	Christina Zhang; Mike Manning; Bonnie Lemcke
Subject:	RE: Ontario High Debt and Province"s Financial Statements - press releases
Date:	Tuesday, October 04, 2016 2:30:49 PM

Thanks Ken – Bonnie, Dave and Jim already confirmed this for me, so I have responded (albeit not as comprehensively). Mario was satisfied with the response.

Sarah

From: Ken Kandeepan
Sent: Tuesday, October 04, 2016 2:29 PM
To: Sarah Neville <Sarah.Neville@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: RE: Ontario High Debt and Province's Financial Statements - press releases

Pls respond as follows:

Moody's newsletter refers to current borrowings whose weighted average term to maturity have increased from 8.1 to 15.3 years as of September 30, 2016. Mario is correct in that the weighted average term to maturity of the outstanding publically borrowed debt stock excluding OEFC is lower at close to 12 years.

Thanks

Ken k

From: Sarah Neville
Sent: Tuesday, October 04, 2016 11:44 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>
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Please let me know if you have any questions.

Thanks very much, and best regards,

Sarah

Sarah Neville
Director (A), Legal Branch

Ontario Financing Authority
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Toronto ON M7A 1Y7
Phone: (416) 325-8754
Email: Sarah.Neville@ofina.on.ca

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Sent: Monday, October 3, 2016 2:54 PM
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Subject: Last Year's Ontario Deficit $3.5 Billion Lower Than Projected

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From: Ken Kandeepan
To: Christina Zhang; Bonnie Lemcke
Cc: Mike Manning; James Devine
Subject: RE: PA2015 - Media Products - No Opinion w Reg (Oct 3 140pm) - ofa changes.docx
Date: Tuesday, October 04, 2016 2:50:34 PM

Looks fine to me

Thanks

Ken K

From: Christina Zhang
Sent: Tuesday, October 04, 2016 2:45 PM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; James Devine <James.Devine@ofina.on.ca>
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Thanks,
Christina

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Hi Christina,

I made a couple of small additions to Q57 and 58 (see attached). Please wait until Mike/Jim confirm the last point before we send.

1. Are you concerned about how the credit rating agencies will view this issue?

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Our government remains committed to balancing the budget in 2017-18. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

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The legislated pension accounting change has no impact on the province's total debt, which is one of the key numbers the rating agencies focus on.

2. Can credit rating agencies adjust their ratings based on this new development? What about bondholders?

The government remains committed to balancing the budget by 2017-18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. The deficit is also a $0.7 billion improvement compared to the interim results for 2015-16 contained in the 2016 Budget, which formed the basis for three rating agencies to confirm the Province's credit rating, and the fourth to improve their assessment of the Province's credit outlook.

This marks the seventh year in a row that Ontario has beaten its annual deficit target, reflecting the government's responsible and balanced approach to fiscal management.

The rating agencies and bondholders will understand that the change in the Province's accounting treatment for pension assets of jointly-sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements or total debt outstanding.

Since the province released its financial statements, Ontario's 10-year spread (how much interest we need to pay above a comparable Government of Canada bond) has remained unchanged and is slightly lower than it was when we released our budget in February.

Bonnie

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The rating agencies and bondholders will understand that the change in the Province's accounting treatment for pension assets of jointly-sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements or total debt outstanding.

Since the province released its financial statements, Ontario’s 10-year spread (how much interest we need to pay above a comparable Government of Canada bond) has remained unchanged and is slightly lower than it was when we released our budget in February.

Bonnie

Since the province released its financial statements, Ontario’s 10-year spread (how much interest we need to pay above a comparable Government of Canada bond) has remained unchanged and is slightly lower than it was when we released our budget in February.

From:	Christina Zhang
To:	Ken Kandeepan; Bonnie Lemcke
Cc:	Mike Manning; James Devine
Subject:	RE: PA2015 - Media Products - No Opinion w Reg (Oct 3 140pm) - ofa changes.docx
Date:	Tuesday, October 04, 2016 2:55:49 PM

Great. Thanks all. Sending it out now.

From: Ken Kandeepan
Sent: Tuesday, October 04, 2016 2:51 PM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>; Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Cc: Mike Manning <Mike.Manning@ofina.on.ca>; James Devine <James.Devine@ofina.on.ca>
Subject: RE: PA2015 - Media Products - No Opinion w Reg (Oct 3 140pm) - ofa changes.docx

Looks fine to me

Thanks

Ken K

From: Christina Zhang
Sent: Tuesday, October 04, 2016 2:45 PM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; James Devine <James.Devine@ofina.on.ca>
Subject: RE: PA2015 - Media Products - No Opinion w Reg (Oct 3 140pm) - ofa changes.docx

Hi there,

Thanks Bonnie for the edits. Jim, are you okay with the last point? Sorry, DMO is following up on this. Ken, do you have any edits?

Thanks,
Christina

From: Bonnie Lemcke
Sent: Tuesday, October 04, 2016 12:49 PM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; James Devine <James.Devine@ofina.on.ca>
Subject: PA2015 - Media Products - No Opinion w Reg (Oct 3 140pm) - ofa changes.docx

Hi Christina,

I made a couple of small additions to Q57 and 58 (see attached). Please wait until Mike/Jim confirm the last point before we send.

1. Are you concerned about how the credit rating agencies will view this issue?

The Province's financial results show that the government has once again beaten its deficit targets and remains on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Our government remains committed to balancing the budget in 2017-18. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

~~In 2016 the C.D. Howe Institute, an independent research organization that assess the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.~~

The legislated pension accounting change has no impact on the province's total debt, which is one of the key numbers the rating agencies focus on.

2. Can credit rating agencies adjust their ratings based on this new development? What about bondholders?

The government remains committed to balancing the budget by 2017-18.

The deficit for 2015-16 is $5 billion, a $3.5 billion improvement compared to the 2015 Budget. The deficit is also a $0.7 billion improvement compared to the interim results for 2015-16 contained in the 2016 Budget, which formed the basis for three rating agencies to confirm the Province's credit rating, and the fourth to improve their assessment of the Province's credit outlook.

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From:	Ken Kandeepan
To:	Nadine Petsche (MOF)
Subject:	RE: Pension Accounting
Date:	Friday, October 14, 2016 2:42:09 PM

Ok thanks, I guess the actuarial valuation is received each year prior to year -end, otherwise where would the debit go for the benefit cash outflow.

Thanks

Ken k

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Friday, October 14, 2016 2:35 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: RE: Pension Accounting

Ken,

Please see a minor tweak on the answer to the 2nd q. n

From: Petsche, Nadine (TBS)
Sent: October-14-16 11:21 AM
To: Kandeepan, Ken (OFA)
Subject: RE: Pension Accounting

Ken,
As discussed. Nadine

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: October-07-16 11:00 AM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Cc: John Psinas
Subject: FW: Pension Accounting

Hi Cindy and Nadine

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John and I will be happy to come meet with you if that is more useful. If there are any written questions from the Rating Agencies we will be sure to run our responses by you.

Thanks very much

Ken K

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Date: Friday, October 14, 2016 2:35:16 PM

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From:	Petsche, Nadine (TBS)
To:	Ken Kandeepan
Subject:	RE: Pension Accounting
Date:	Friday, October 14, 2016 11:21:16 AM
Attachments:	QAs - Ontario Teachers" Pension Plan 2016 FES v3npcv.docx

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DIVISION: OFFICE OF THE PROVINCIAL CONTROLLER

Teachers' Pension Plan (OTPP)

Q: Why is the 2016-17 Teachers' Pension Plan expense forecast to decrease from an expense of $1,590M in 2015-16 to a recovery of $452M in 2016-17?

A: Teachers' Pension Plan expense is calculated in accordance with Public Sector Accounting Standards which takes into account the costs of benefits earned by members during the reporting period, as well as performance of the plan and other factors. A major factor in the observed recovery results is the fact that the OTPP has experienced favourable investment returns in the past several years (i.e. 2009 to 2015). The cumulative effect of those investment gains is more than sufficient to offset the Province's share of the cost of pension benefits that were earned by the members of the Teachers' Pension Plan during the period, resulting in a recovery of $452M in 2016-17.

In addition, 2015-16 actuals reflect the impact of a time-limited regulation which changed the accounting treatment for pension assets for OTPP for 2015-16 Public Accounts only and resulted in the same expense as would be calculated according to the Auditor General's interpretation of the accounting standards. The Province's future accounting treatment for pension assets will be informed by the results of the Pension Asset Expert Advisory panel.

Q: Why did the 2015-16 Teachers' Pension Plan expense increase to $1,590M in 2015-16 from $564M in 2014-15?

A: During the 2015-16 Public Accounts audit, the Auditor General (AG) raised issues regarding the Province's accounting treatment for pension assets related to jointly sponsored pension plans which challenged the accounting treatment followed by the Province for the past 14 years. The current AG's view is that the government does not have a legally enforceable right to unilaterally access the assets of the OTPP or OPSEUPP which are jointly sponsored pension plans. As such, with no agreement in place with the respective co-sponsors to benefit from reduced contributions, the AG believes that the pension assets should be removed from the Province's balance sheet. Given the differences in interpretation of accounting standards, the Province filed a time-limited regulation

which changed the accounting treatment for pension assets of OTPP and OPSEUPP for the 2015-16 Public Accounts.

The regulated accounting change resulted in exact same fiscal impact as the AG's recently communicated interpretation of PSAB standards for fiscal 2015-16 The year-over-year increase in expense from 2014-15 to 2015-16 is a result of the time-limited regulation which resulted in the 2015-16 OTPP expense being increased from its original estimate of $110M to $1,590M.

To inform the Province's decision on future accounting for the pension assets for jointly sponsored pension plans, the Province is establishing an Expert Panel to assess the application of PSAB's pension accounting standards to Ontario's jointly sponsored pensioned plans, including a valuation assessment of the pension assets in question.

Q: Does the 2016-17 recovery of $452M factor in the time-limited regulation?

A: No. The 2016-17 forecast recovery of $452M reflects the Province's accounting of pension assets prior to the time-limited regulation, reflecting the Province's interpretation of PSAB accounting standards and consistent with the accounting practices in place for pension assets since 2001.

Q: Does the 2016-17 recovery of $452M indicate a reduction in the Province's annual cash contributions in the plan?

A: No. Employee and employer contributions are determined by a funding valuation undertaken by OTPP. Funding and accounting valuations serve different purposes and therefore also use different assumptions.

The purpose of a funding valuation is to assess the long-term financial health of a pension plan and is intended to gauge whether the plan will have sufficient assets to cover the costs of future pension benefits. In contrast, an accounting valuation is intended to calculate the actuarial present value of benefits earned by to employees to a particular date.

A recovery calculated in accordance with PSAB standards does not imply a reduction in pension contributions, but reflects the situation that earnings in the plan (including the amortization of unrealized gains related to asset performance) are more than sufficient to offset the Province's share of the cost of pension benefits that were earned by the members of the Teachers' Pension Plan during the period, Only through a funding valuation, and negotiations between the co-sponsors in accordance with the Partners Agreements, could an adjustment in contribution rate be realized.

Prepared by:	Pauline Fong, Senior Analyst OPCD
Reviewed by:	Nadine Petsche, Director, Accounting Policy and Financial Reporting, OPCD
Date:	October 11, 2016

From:	Petsche, Nadine (TBS)
To:	Ken Kandeepan
Subject:	RE: Pension Accounting
Date:	Friday, October 14, 2016 11:21:16 AM
Attachments:	QAs - Ontario Teachers" Pension Plan 2016 FES v3npcv.docx

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Sent: October-07-16 11:00 AM
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Subject: FW: Pension Accounting

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Date:	October 11, 2016

From:	Petsche, Nadine (TBS)
To:	Ken Kandeepan
Subject:	RE: Pension Accounting
Date:	Friday, October 14, 2016 2:45:40 PM

Ken,
I'm told that it goes to expense. Nadine

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: October-14-16 2:42 PM
To: Petsche, Nadine (TBS)
Subject: RE: Pension Accounting

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Cc: John Psinas
Subject: RE: Pension Adjustment
Date: Thursday, December 01, 2016 5:39:04 PM

Nadine is off sick, so a couple of quick comments, remembering that the estimates from the prior year originally forecast increases in the assets each year and the impact of the $1.5 and $3.7 are to take the assets down to NIL.

1) As you noted, based on the estimate generated last year for the budget and public accounts for OTPP, the amortization of the unrealized gains is expected to increase (e.g. $400M to $1 Billion between 15-16 and 18-19). In addition, the excess of the interest income generated on the assets as compared to the interest in the obligation is forecast to continue to increase (e.g. $900M to $1.3 Billion between 15-16 and 18-19)
2) The $3.7 includes 4 plans vs. 2 plans – both HOOPP and CAATT are expected to move into an asset position by 2018-19. The governance structure for these plans differs from OTPP and OPSEU, so the results of the Panel review may differ on the treatment of these plans. We have never disclosed that HOOPP and CAATT may be impacted by name.

Hope that helps,

Cindy

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: December-01-16 4:14 PM
To: Petsche, Nadine (TBS)
Cc: John Psinas; Veinot, Cindy (TBS)
Subject: Pension Adjustment

Hi Nadine

As Mike Manning meets investors including financial institutions the pension adjustment questions does come up on a regular basis. Thanks to the explanations previously provided by you, including the briefing note that you shared we are able to adequately respond to all questions so far.

However, on a pro-active basis I do have one more. The PA increases to $3.7 billion in 2018-19 from $1.5 billion in 2015-16. As I understand it a major component of the PA is the amortization of the gain on the assets over an appropriate period. So our question is; does it mean that the gain on assets has increased to such an extent that the resulting amortization of the gain has also increased by more than two-fold over 3 years.

I am including Cindy as well in this questions since she has provided me with some explanations on other aspects of this issue and she may also be able to shed some clarity.

Thanks and if you believe this can be best answered by a short meeting between you and Mike and myself, we will be happy to schedule one.

Ken k

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From: Mike Manning
To: Ken Kandeepan
Subject: RE: Pension Adjustment
Date: Sunday, December 04, 2016 8:39:03 PM

Thanks Ken, it never came up in our meetings but could come up later this week.
Mike
Mike

From: Ken Kandeepan
Sent: Friday, December 02, 2016 10:00 AM
To: Mike Manning <Mike.Manning@ofina.on.ca>
Subject: FW: Pension Adjustment

Pls see attached re your question on the pension adjustment. Let me know if you require further clarification.

Thanks

Ken k

From: Ken Kandeepan
Sent: Thursday, December 01, 2016 9:51 PM
To: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Cc: Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; John Psinas <John.Psinas@ofina.on.ca>
Subject: Re: Pension Adjustment

Thanks very much Cindy, as always a very clear and concise explanation. This is adequate for our purposes and we take note of your point that the Province has not mentioned HOOP and CAATT as yet.

As such, if the question is ever asked by investors as to why the expenditure offset and of course it's reversal increases materially from 15-16 to 18-19 we shall respond that in addition to the amortization and the net interest income of the two plans in question other pension plans of the province are also moving in to an asset position.

As they do so the expenditure offset and its reversal increases. All of these are being reviewed by the Independent Panel and we await its report with bated breath. Well perhaps that's an exaggeration but certainly with great interest.

Thanks again

Ken k

Sent from my iPad

On Dec 1, 2016, at 5:39 PM, Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca> wrote:

Nadine is off sick, so a couple of quick comments, remembering that the estimates from the prior year originally forecast increases in the assets each year and the impact of the $1.5 and $3.7 are to take the assets down to NIL.

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Cc: John Psinas; Veinot, Cindy (TBS)
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From:	Petsche, Nadine (TBS)
To:	Tim Schuurman (MOF); Veinot, Cindy (TBS)
Cc:	Patrick Laughton (MOF); Tara McGrath (MOF); Selena Esmail (MOF); Gadi Mayman; Ken Kandeepan; Karen Hughes (MGS)
Subject:	RE: Pension Extract
Date:	Sunday, October 30, 2016 12:08:18 PM
Attachments:	image001.png image002.png pension extract table (TBC) Oct 30npp.docx

Tim/Cindy,
I understand that the extracts were provided in hardcopy to the ADMO, so unfortunately I don't have a copy. In order to facilitate a discussion on the pension related extracts I have prepared the attached table which captures the terminology that was likely signed off last week. The actual wording will be confirmed tomorrow when I am back in the office, but in the meantime, just wanted to share this summary and proposed edits for your consideration.

Will plan to update the table with current versions of the extracts tomorrow. Any comments back on suggested edits/consistency would be appreciated.
Please note that I did not have access to the extract from the borrowing section in soft copy, so copying Ken and Gadi on this note for reference purposes.

Nadine

From: Schuurman, Tim (MOF)
Sent: October-29-16 11:08 AM
To: Veinot, Cindy (TBS); McGrath, Tara (MOF); Esmail, Selena (MOF); Mayman, Gadi (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA); Hughes, Karen (TBS)
Cc: Anderson, Alana (MOF); Jaikaran, Ronald (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS)
Subject: RE: Pension Extract

Many thanks to Ron and Alana for pulling the pension language extracts from the yellows for us to review altogether in one package. I've read all the references to the pensions across all the chapters and have the following observations. Ron is setting up a meeting for us on Tuesday to for 30 minutes to talk about this so we can avoid revisiting this constantly during ADM sign-off later in the week.

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    - This chapter also refers to "conservative treatment" which was language Cindy

wanted removed to be replaced with “cautious”.

- Chapter 3b – makes explicit connection to the draw down of the reserve and the impact of the pension accounting change. This is a decision point and we should discuss. It calls the pension change “unbudgeted” and “unexpected.”

- Chapter 3B – in referencing the 2016-17 change in pension expense, it describes it as “reflecting the most recent actuarial valuations of the pension plans” which I didn’t realize the numbers did. Thought these numbers were based off of what we did in January/February of this year for budget? This is the only place where we reference this updated valuation in the whole document. Is this accurate and should we be saying it at all?

- Borrowing Chapter – has very different language than the other chapters on this. Refers to “prudent and risk-averse approach” (instead of conservative or cautious) and calls it a “pension adjustment” rather than an accounting change, and calls it a “legislated change” rather than a “regulated change.” Will need to align it with other chapters once we land that language.

- Miscellaneous – the language in the footnotes and the text is not always consistent and is challenging to cross reference. Is it a change in accounting treatment, or a pension adjustment; is it accounting for pension assets or pension expense?

Hoping a meeting will help us create some symmetry across all the papers on this.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen’s Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



From: Schuurman, Tim (MOF)
Sent: October-28-16 12:35 PM
To: Jaikaran, Ronald (MOF); Anderson, Alana (MOF)
Cc: Veinot, Cindy (TBS); McGrath, Tara (MOF); Esmail, Selena (MOF); Mayman, Gadi (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA) (Ken.Kandeepan@ofina.on.ca); Birks, Ryan (MOF)
Subject: Pension Extract

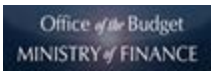
Ron, Alana

Wondering if, as part of landing today’s distribution, if we could request a pull of all the paragraphs and language across the fiscal, debt and other chapters (responsible management)

that talk about the pensions accounting change. This is something that both Cindy and I would like to review across the whole document to make sure we're treating it consistently, accurately, and effectively.

- Tara can help locate all the references in the fiscal chapter
- Ken K can help locate all the references in the debt chapter
- Nadine can help locate all the references in the Financial Accountability chapter.

We can make sure that Cindy, myself, Gadi, and Karen receive a copy of this pull later tonight for weekend review.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173
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SECTION EXTRACT	EXTRACT (may not be final signoff version)	Comments/considerations
2A Path to Balanced Budget	In October, the *Public Accounts of Ontario 2015–2016* reported that the 2015–16 deficit was $5.0 billion, an improvement of $3.5 billion from the $8.5 billion projection in the *2015 Budget*. The reported deficit of $5.0 billion includes an additional $1.5 billion in unbudgeted/unexpected(?) expense resulting from the government regulating the Auditor General's accounting treatment for pension assets of jointly sponsored pension plans for 2015–16 (see Chapter II, Section B: *Transforming Government and Managing Costs*). Looking forward, the government is projecting a deficit of [$4.3 billion] in 2016–17, a return to balance in 2017–18, and continued balance in 2018–19, consistent with the *2016 Budget*. This includes investing in things that matter most and that help Ontarians, such as electricity cost relief to Ontario consumers, health care, and opening up additional child care spaces. Consistent with the regulated accounting treatment adopted in the 2015-16 Public Accounts related to pension assets, the outlook reflects a ~~conservative~~ cautious approach to forecasting pension expense each year,	

	reflecting the Auditor General's interpretation for pension accounting which eliminates the amount of pension assets which otherwise might have been reported for the Ontario Teachers' Pension Plan and the OPSEU Pension Plan. As announced by the government, a Pension Asset Expert Advisory Panel is being established to assess the application of public sector accounting standards to Ontario's joint defined pension plans. The results of the Panel will help inform the Province's future accounting treatment for jointly sponsored pension plans. In the meantime, in order to be transparent and financially prudent, the government has taken a ~~conservative~~ cautious approach and reflected the Auditor General's interpretation in its fiscal projections over the fiscal planning period. Estimated fiscal impacts are based on the most recent valuations for the Province's ~~of~~ jointly sponsored pension plans. Even after reflecting the pension-related impact in the fiscal outlook, the government is still on track to balance the budget in 2017–18 and 2018–19. Key factors contributing to this forecast result are higher than expected revenue projections, mainly arising from stronger 2015 tax revenue performance and a	'based on valuations as at December 31, 2015' (to be confirmed by Pauline Fong)

	strong 2016 housing market outlook for Ontario. In addition, to mitigate the potential impact of the adopted pension treatment, the government has forecast a reduction in the reserve which is included in the fiscal plan to protect the Province from unexpected changes. (see Chapter III, Section B: *Fiscal Outlook*).	
• Accountability and Transparency Chapter – talks all about 2015-16 Public Accounts process and outcome, but makes no reference to what we're doing in the out-years. I'd recommend we mention something about how we're treating in the out-years for consistency. Right now it reads as if we're awaiting the outcome of the Panel and then will decide what to do after that. o This chapter also refers to "conservative treatment" which was language Cindy wanted removed to be replaced with "cautious".	Earlier this fall, the Auditor General raised issues with the government's longstanding approach to accounting for pension assets of its jointly sponsored pension plans Quite unexpectedly, we found ourselves in the middle of an accounting disagreement over how the government has accounted for these assets over the past 14 years. Previous Auditor Generals have accepted this accounting treatment as has the current Auditor General for the past two years. To help provide clarity and to inform our decision on future accounting treatment for pension plans, we announced the formation of a Pension Asset Expert Advisory Panel to review the application of public sector accounting standards to Ontario's pension plans. We are expecting the Panel's report by the end of the calendar year Given how recently this came to our attention,	OTB to insert reference to approach taken to FES forecasts (see Chapter 2A reference above).

	and the inability to achieve agreement with the Auditor General on the appropriate accounting treatment, the government regulated accounting for its jointly defined benefit plans to reflect the Auditor General's interpretation of the standards for 2015-16. The government has estimated the potential impact of the Auditor General's interpretation on the Province's finances based on the most recent valuations of the jointly sponsored defined benefit plans which were completed almost a year ago. Pension expense in the future will be subject to change based on the results of the Panel's deliberations as well as asset performance, changes to economic assumptions and agreements reached with the co-sponsors of the plans regarding changes to contribution rates. Consistent with the approach taken in preparing the 2015-16 Public Accounts, the government has taken a cautious ~~and conservative~~ approach to its fiscal forecast and incorporated an increased pension expense each year reflecting the Auditor General's interpretation {The result is a higher deficit than originally planned for 2016-17 ($4.8B).} Even after accounting for the Auditor's new interpretation, we are on track to {meet out 2016-17 deficit target} and balance the budget in 2017-18 and 2018-19.	

	We are able to manage the potential impact as a result of: • Higher than expected revenue projections, mainly arising from a stronger economic outlook for Ontario, and • By using the reserve, which is included in the fiscal plan to protect the Province from unexpected changes in the numbers. In the absence of the impact of the Auditor General's accounting treatment of pension assets, for the eighth consecutive year the Provinces was forecasting a lower deficit target than outlined in the Budget. Our prudent approach to fiscal management coupled with stronger than expected economic growth in the first half of this year is supporting our strategic investments in new childcare spaces, hospitals and the HST rebate on electricity costs. This is our mid-year update for this year. We will provide an updated account of our fiscal plan in the 2017 Budget. <u>Reserve</u> What: Using a portion of the reserve Why:	

	- The regulated change in accounting treatment for pension assets to reflect the Auditor General's interpretation of PSAB was an unbudgeted /unexpected (?)change to the accounting treatment for net pension assets of jointly sponsored pension plans. The issues raised by the Auditor General had not been raised in the previous 14 years since the pension accounting standard was adopted in 2001.	
• Chapter 3b – makes explicit connection to the draw down of the reserve and the impact of the pension accounting change. This is a decision point and we should discuss. It calls the pension change "unbudgeted" and "unexpected." • Chapter 3B – in referencing the 2016-17 change in pension expense, it describes it as "reflecting the most recent actuarial valuations of the pension plans" which I didn't realize the numbers did. Thought these numbers were based off of what we did in January/February of this year for budget? This is the only place where	Program expense is projected to grow from $125.3 billion in 2016–17 to $131.7 billion in 2018–19, and is forecast to be higher in each year compared to the 2016 Budget plan. This includes investing in things that matter most and that help Ontarians, such as electricity cost relief, additional investments in hospitals, and opening up new child care spaces. Consistent with the regulated accounting treatment for pensions reflected in the *2015–2016 Public Accounts*, the outlook also reflects a ~~conservative~~ cautious treatment of the pension expense each year consistent with the Auditor General's interpretation of public sector accounting standards for pension assets of jointly sponsored pension plans (see Chapter II, Section B: *Transforming*	

we reference this updated valuation in the whole document. Is this accurate and should we be saying it at all?	*Government and Managing Costs*). Total expense is also projected to be higher in each year compared to the 2016 Budget, but is partly mitigated by lower-than-forecast interest on debt expense resulting from lower-than-forecast interest rates. The *2016 Budget* included a reserve of $1.0 billion in 2016–17, $1.1 billion in 2017–18 and $1.2 billion in 2018–19, to protect the fiscal outlook against unforeseen adverse changes. The reserve is being reduced to $0.4 billion in 2016–17, $0.7 billion in 2017–18 and $0.8 billion in 2018–19 to offset the unexpected change to the accounting treatment for net pension assets of jointly sponsored pension plans. The government has reflected the described treatment of the pension expense each year over the forecast period without jeopardizing spending in key priority areas. Instead, the impact of the change in accounting treatment for pension assets is being managed through higher than expected revenue projections and reducing the reserve. The 2016–17 program expense outlook is $3.1 billion higher than the projection in the *2016 Budget*. This is mainly the result of	

	[placeholder for language on key expense changes] and incorporating an $ X billion in increased pension expense to reflect the Auditor General's interpretation of public sector accounting standards for jointly sponsored pension plans. **[Framework_OB, PEMD_TBS, OPCD_TBS]** The 2016–17 outlook also includes a $0.4 billion reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance or the impact of natural disasters. The reserve is reduced by $0.6 billion from the 2016 Budget plan to mitigate the fiscal impact of the unbudgeted/unexpected? change in accounting treatment reflected for pension assets of jointly sponsored pension plans. **[Framework_OB]** A $2.2 billion pension expense increase to reflect the impact of the Auditor General's accounting treatment of pension assets of jointly sponsored pension plans. This impact reflects a consistent approach taken in the 2015–2016 Public Accounts, and is based on the most recent actuarial valuations for the Ontario Teachers' Pension Plan and the	'actuarial valuations as at December 31, 2015' (to be confirmed by Pauline Fong)

OPSEU Pension Plan.

Medium-Term Expense Outlook

Program expense is projected to be $3.5 billion higher in 2017–18 and $4.1 billion higher in 2018–19 compared to the 2016 Budget projections. Program expense outlook over the medium term is higher than forecast due to [placeholder for key expense changes] and also incorporates the impact of a change in forecast pension expense each year as a result of adopting the approach taken in the *2015-2016 Public Accounts* which reflected the Auditor General's interpretation of the accounting standards for pension assets of jointly sponsored pension plans. **[Framework_OB, PEMD_TBS, OPCD_TBS]**

Fiscal Prudence

As required by the *Fiscal Transparency and Accountability Act, 2004*, Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance or the impact of natural disasters. The current fiscal outlook includes a reserve of $0.4 billion in 2016–17, $0.7 billion in 2017–18 and $0.8 billion in 2018–19, reduced from the *2016 Budget* to mitigate the impact of the unbudgeted/unexpected?

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	change to the accounting treatment for net? pension assets of jointly sponsored pension plans. **[Framework_OB]**	
• Borrowing Chapter – has very different language than the other chapters on this. Refers to "prudent and risk-averse approach" (instead of conservative or cautious) and calls it a "pension adjustment" rather than an accounting change, and calls it a "legislated change" rather than a "regulated change." Will need to align it with other chapters once we land that language.		Extract not available – To be reviewed
• Miscellaneous – the language in the footnotes and the text is not always consistent and is challenging to cross reference. Is it a change in accounting treatment, or a pension adjustment; is it accounting for pension assets or pension expense?	**Chapter 2A** *Chart 2.1, p. 4:* "2015-16 actual results reflect the regulated accounting treatment adopted in the Public Accounts of Ontario related to net pension assets. The fiscal balance outlook for 2016-17 to 2018-19 ~~also~~ reflect ~~this approach to~~ forecast~~ing~~ pension expense consistent with the regulated accounting approach which is~~,~~ consistent with the Auditor General's interpretation of public sector accounting standards for ~~net~~ pension assets."	

Commented [NP1]: 'Net' not always used. Confirm if desired/required.

	Chapter 3B *Table "Ontario's Medium-Term Fiscal Plan and Outlook" p. 4:* "2015-16 actual results reflect the regulated accounting treatment adopted in the 2015-16 Public Accounts of Ontario related to net pension assets. The fiscal balance outlook for 2016-17 to 2018-19 reflect forecast pension expense consistent with the regulated accounting approach which is consistent with the Auditor General's interpretation of public sector accounting standards for pension assets."~~Outlook for 2016-17 to 2018-19 also reflects this approach to forecasting pension expense, consistent with the Auditor General's interpretation of public sector accounting standards for net pension assets."~~ *Table "2016-17 In-Year Fiscal Update" p. 6:* "Budget Plan reflects the Province's historic application of public sector accounting standards for net pension assets of jointly sponsored pension plans. The Current Outlook reflects forecast pension expense consistent with the regulated accounting approach adopted for the 2015/16 Public Accounts which is consistent with the Auditor General's interpretation of public sector accounting standards for pension assets."~~reflects the approach to forecasting pension expense adopted in the 2015-16 Public Accounts of~~	

	~~Ontario related to net pension assets, consistent with the Auditor General's interpretation of public sector accounting standards.~~ " *Table "Summary of Expense Changes since the 2016 Budget" p.9* Footnote for Pensions Accounting Impact: "The Current Outlook reflects forecast pension expense consistent with the regulated accounting approach adopted for the 2015/16 Public Accounts which is consistent with the Auditor General's interpretation of public sector accounting standards for pension assets.~~Reflects the approach to forecasting pension expense consistent with the Auditor General's interpretation of public sector accounting standards for net pension assets of pension plans which was the regulated treatment in the 2015-16 Public Accounts of Ontario.~~" *Table "Summary of Medium-Term Expense Outlook" p.15* Addition to footnote 1 before "The comparative impact": "The Current Outlook reflects forecast pension expense consistent with the regulated accounting approach adopted for the 2015/16 Public Accounts which is consistent with the Auditor General's interpretation of public sector accounting standards for pension assets.~~Current Outlook~~	

	~~reflects the approach to forecasting pension expense, consistent with the Auditor General's interpretation of public sector accounting standards for net pension assets of pension plans.~~" *Tables "Total Expense" and "Details of Other Expense" p. 19-20:* Footnotes for Health and Long-Term Care; Training, Colleges and Universities; Teachers' Pension Plan and Employee and Pensioner Benefits: "2015-16 expense actuals reflect the regulated accounting treatment adopted in the 2015-16 Public Accounts of Ontario related to ~~net~~ pension assets which is consistent with the Auditor General's interpretation of public sector accounting standards for pension assets. The Current Outlook reflects forecast pension expense consistent with the regulated accounting approach adopted for the 2015/16 Public Accounts. ~~Outlook for 2016-17 also reflects this approach to forecasting pension expense, consistent with the Auditor General's interpretation of public sector accounting standards for net pension assets.~~" *Table "Ten-Year Review of Selected Financial and Economic Statistics" p. 22:* "Results presented for periods prior ~~to~~ 2015-16~~,~~ reflect~~s~~ the Province's historical	

Commented [NP2]: Confirm if net is to be used (consistency)

	application of public sector accounting standards for ~~net~~ pension assets of jointly sponsored pension plans. 2015-16 actuals reflect~~s~~ the regulated accounting treatment adopted in the 2015-16 Public Accounts of Ontario which is consistent with the Auditor General's interpretation of public sector accounting standards for pension assets of jointly sponsored pension plans. ~~related to net pension assets.~~ The ~~-~~Outlook for 2016-17 ~~also~~ reflects forecast pension expense ~~this approach to forecasting pension expense,~~ consistent the regulated accounting approach which is consistent with the Auditor General's interpretation of public sector accounting standards for ~~net~~ pension assets."	

From:	Schuurman, Tim (MOF)
To:	Veinot, Cindy (TBS); Tara McGrath (MOF); Selena Esmail (MOF); Gadi Mayman; Nadine Petsche (MOF); Ken Kandeepan; Karen Hughes (MGS)
Cc:	Alana Anderson (MOF); Ronald Jaikaran (MOF); Birks, Ryan (MOF); Patrick Laughton (MOF)
Subject:	RE: Pension Extract
Date:	Saturday, October 29, 2016 11:08:00 AM
Attachments:	image004.png image003.png

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Sent: October-28-16 12:35 PM
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Cc: Veinot, Cindy (TBS); McGrath, Tara (MOF); Esmail, Selena (MOF); Mayman, Gadi (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA) (Ken.Kandeepan@ofina.on.ca); Birks, Ryan (MOF)
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To:	Veinot, Cindy (TBS); Tara McGrath (MOF); Selena Esmail (MOF); Gadi Mayman; Nadine Petsche (MOF); Ken Kandeepan; Karen Hughes (MGS)
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Subject:	RE: Pension Extract
Date:	Saturday, October 29, 2016 11:08:00 AM
Attachments:	image004.png image003.png

Many thanks to Ron and Alana for pulling the pension language extracts from the yellows for us to review altogether in one package. I've read all the references to the pensions across all the chapters and have the following observations. Ron is setting up a meeting for us on Tuesday to for 30 minutes to talk about this so we can avoid revisiting this constantly during ADM sign-off later in the week.

Key observations:

- Accountability and Transparency Chapter – talks all about 2015-16 Public Accounts process and outcome, but makes no reference to what we're doing in the out-years. I'd recommend we mention something about how we're treating in the out-years for consistency. Right now it reads as if we're awaiting the outcome of the Panel and then will decide what to do after that.
    - This chapter also refers to "conservative treatment" which was language Cindy wanted removed to be replaced with "cautious".

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adjustment; is it accounting for pension assets or pension expense?

Hoping a meeting will help us create some symmetry across all the papers on this.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

From: Schuurman, Tim (MOF)
Sent: October-28-16 12:35 PM
To: Jaikaran, Ronald (MOF); Anderson, Alana (MOF)
Cc: Veinot, Cindy (TBS); McGrath, Tara (MOF); Esmail, Selena (MOF); Mayman, Gadi (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA) (Ken.Kandeepan@ofina.on.ca); Birks, Ryan (MOF)
Subject: Pension Extract

Ron, Alana

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- Ken K can help locate all the references in the debt chapter
- Nadine can help locate all the references in the Financial Accountability chapter.

We can make sure that Cindy, myself, Gadi, and Karen receive a copy of this pull later tonight for weekend review.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
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Toronto ON M7A 1Z1
Tel: 416-327-0173


Office of the Budget
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From:	Petsche, Nadine (TBS)
To:	Tim Schuurman (MOF); Veinot, Cindy (TBS)
Cc:	Patrick Laughton (MOF); Tara McGrath (MOF); Selena Esmail (MOF); Gadi Mayman; Ken Kandeepan; Karen Hughes (MGS)
Subject:	RE: Pension Extract
Date:	Sunday, October 30, 2016 12:08:18 PM
Attachments:	image001.png image002.png pension extract table (TBC) Oct 30npp.docx

Tim/Cindy,
I understand that the extracts were provided in hardcopy to the ADMO, so unfortunately I don't have a copy. In order to facilitate a discussion on the pension related extracts I have prepared the attached table which captures the terminology that was likely signed off last week. The actual wording will be confirmed tomorrow when I am back in the office, but in the meantime, just wanted to share this summary and proposed edits for your consideration.

Will plan to update the table with current versions of the extracts tomorrow. Any comments back on suggested edits/consistency would be appreciated.
Please note that I did not have access to the extract from the borrowing section in soft copy, so copying Ken and Gadi on this note for reference purposes.

Nadine

From: Schuurman, Tim (MOF)
Sent: October-29-16 11:08 AM
To: Veinot, Cindy (TBS); McGrath, Tara (MOF); Esmail, Selena (MOF); Mayman, Gadi (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA); Hughes, Karen (TBS)
Cc: Anderson, Alana (MOF); Jaikaran, Ronald (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS)
Subject: RE: Pension Extract

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From: Schuurman, Tim (MOF)
Sent: October-28-16 12:35 PM
To: Jaikaran, Ronald (MOF); Anderson, Alana (MOF)
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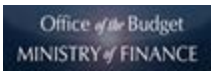
Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173
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SECTION EXTRACT	EXTRACT (may not be final signoff version)	Comments/considerations
2A Path to Balanced Budget	In October, the *Public Accounts of Ontario 2015–2016* reported that the 2015–16 deficit was $5.0 billion, an improvement of $3.5 billion from the $8.5 billion projection in the *2015 Budget*. The reported deficit of $5.0 billion includes an additional $1.5 billion in unbudgeted/unexpected(?) expense resulting from the government regulating the Auditor General's accounting treatment for pension assets of jointly sponsored pension plans for 2015–16 (see Chapter II, Section B: *Transforming Government and Managing Costs*). Looking forward, the government is projecting a deficit of [$4.3 billion] in 2016–17, a return to balance in 2017–18, and continued balance in 2018–19, consistent with the *2016 Budget*. This includes investing in things that matter most and that help Ontarians, such as electricity cost relief to Ontario consumers, health care, and opening up additional child care spaces. Consistent with the regulated accounting treatment adopted in the 2015-16 Public Accounts related to pension assets, the outlook reflects a ~~conservative~~ cautious approach to forecasting pension expense each year,	

	reflecting the Auditor General's interpretation for pension accounting which eliminates the amount of pension assets which otherwise might have been reported for the Ontario Teachers' Pension Plan and the OPSEU Pension Plan. As announced by the government, a Pension Asset Expert Advisory Panel is being established to assess the application of public sector accounting standards to Ontario's joint defined pension plans. The results of the Panel will help inform the Province's future accounting treatment for jointly sponsored pension plans. In the meantime, in order to be transparent and financially prudent, the government has taken a ~~conservative~~ cautious approach and reflected the Auditor General's interpretation in its fiscal projections over the fiscal planning period. Estimated fiscal impacts are based on the most recent valuations for the Province's ~~of~~ jointly sponsored pension plans. Even after reflecting the pension-related impact in the fiscal outlook, the government is still on track to balance the budget in 2017–18 and 2018–19. Key factors contributing to this forecast result are higher than expected revenue projections, mainly arising from stronger 2015 tax revenue performance and a	'based on valuations as at December 31, 2015' (to be confirmed by Pauline Fong)

	strong 2016 housing market outlook for Ontario. In addition, to mitigate the potential impact of the adopted pension treatment, the government has forecast a reduction in the reserve which is included in the fiscal plan to protect the Province from unexpected changes. (see Chapter III, Section B: *Fiscal Outlook*).	
• Accountability and Transparency Chapter – talks all about 2015-16 Public Accounts process and outcome, but makes no reference to what we're doing in the out-years. I'd recommend we mention something about how we're treating in the out-years for consistency. Right now it reads as if we're awaiting the outcome of the Panel and then will decide what to do after that. o This chapter also refers to "conservative treatment" which was language Cindy wanted removed to be replaced with "cautious".	Earlier this fall, the Auditor General raised issues with the government's longstanding approach to accounting for pension assets of its jointly sponsored pension plans Quite unexpectedly, we found ourselves in the middle of an accounting disagreement over how the government has accounted for these assets over the past 14 years. Previous Auditor Generals have accepted this accounting treatment as has the current Auditor General for the past two years. To help provide clarity and to inform our decision on future accounting treatment for pension plans, we announced the formation of a Pension Asset Expert Advisory Panel to review the application of public sector accounting standards to Ontario's pension plans. We are expecting the Panel's report by the end of the calendar year Given how recently this came to our attention,	OTB to insert reference to approach taken to FES forecasts (see Chapter 2A reference above).

	and the inability to achieve agreement with the Auditor General on the appropriate accounting treatment, the government regulated accounting for its jointly defined benefit plans to reflect the Auditor General's interpretation of the standards for 2015-16. The government has estimated the potential impact of the Auditor General's interpretation on the Province's finances based on the most recent valuations of the jointly sponsored defined benefit plans which were completed almost a year ago. Pension expense in the future will be subject to change based on the results of the Panel's deliberations as well as asset performance, changes to economic assumptions and agreements reached with the co-sponsors of the plans regarding changes to contribution rates. Consistent with the approach taken in preparing the 2015-16 Public Accounts, the government has taken a cautious ~~and conservative~~ approach to its fiscal forecast and incorporated an increased pension expense each year reflecting the Auditor General's interpretation {The result is a higher deficit than originally planned for 2016-17 ($4.8B).} Even after accounting for the Auditor's new interpretation, we are on track to {meet out 2016-17 deficit target} and balance the budget in 2017-18 and 2018-19.	

	We are able to manage the potential impact as a result of: • Higher than expected revenue projections, mainly arising from a stronger economic outlook for Ontario, and • By using the reserve, which is included in the fiscal plan to protect the Province from unexpected changes in the numbers. In the absence of the impact of the Auditor General's accounting treatment of pension assets, for the eighth consecutive year the Provinces was forecasting a lower deficit target than outlined in the Budget. Our prudent approach to fiscal management coupled with stronger than expected economic growth in the first half of this year is supporting our strategic investments in new childcare spaces, hospitals and the HST rebate on electricity costs. This is our mid-year update for this year. We will provide an updated account of our fiscal plan in the 2017 Budget. <u>Reserve</u> What: Using a portion of the reserve Why:	

	- The regulated change in accounting treatment for pension assets to reflect the Auditor General's interpretation of PSAB was an unbudgeted /unexpected (?)change to the accounting treatment for net pension assets of jointly sponsored pension plans. The issues raised by the Auditor General had not been raised in the previous 14 years since the pension accounting standard was adopted in 2001.	
• Chapter 3b – makes explicit connection to the draw down of the reserve and the impact of the pension accounting change. This is a decision point and we should discuss. It calls the pension change "unbudgeted" and "unexpected." • Chapter 3B – in referencing the 2016-17 change in pension expense, it describes it as "reflecting the most recent actuarial valuations of the pension plans" which I didn't realize the numbers did. Thought these numbers were based off of what we did in January/February of this year for budget? This is the only place where	Program expense is projected to grow from $125.3 billion in 2016–17 to $131.7 billion in 2018–19, and is forecast to be higher in each year compared to the 2016 Budget plan. This includes investing in things that matter most and that help Ontarians, such as electricity cost relief, additional investments in hospitals, and opening up new child care spaces. Consistent with the regulated accounting treatment for pensions reflected in the *2015–2016 Public Accounts*, the outlook also reflects a ~~conservative~~ cautious treatment of the pension expense each year consistent with the Auditor General's interpretation of public sector accounting standards for pension assets of jointly sponsored pension plans (see Chapter II, Section B: *Transforming*	

we reference this updated valuation in the whole document. Is this accurate and should we be saying it at all?	*Government and Managing Costs*). Total expense is also projected to be higher in each year compared to the 2016 Budget, but is partly mitigated by lower-than-forecast interest on debt expense resulting from lower-than-forecast interest rates. The *2016 Budget* included a reserve of $1.0 billion in 2016–17, $1.1 billion in 2017–18 and $1.2 billion in 2018–19, to protect the fiscal outlook against unforeseen adverse changes. The reserve is being reduced to $0.4 billion in 2016–17, $0.7 billion in 2017–18 and $0.8 billion in 2018–19 to offset the unexpected change to the accounting treatment for net pension assets of jointly sponsored pension plans. The government has reflected the described treatment of the pension expense each year over the forecast period without jeopardizing spending in key priority areas. Instead, the impact of the change in accounting treatment for pension assets is being managed through higher than expected revenue projections and reducing the reserve. The 2016–17 program expense outlook is $3.1 billion higher than the projection in the *2016 Budget*. This is mainly the result of	

	[placeholder for language on key expense changes] and incorporating an $ X billion in increased pension expense to reflect the Auditor General's interpretation of public sector accounting standards for jointly sponsored pension plans. **[Framework_OB, PEMD_TBS, OPCD_TBS]** The 2016–17 outlook also includes a $0.4 billion reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance or the impact of natural disasters. The reserve is reduced by $0.6 billion from the 2016 Budget plan to mitigate the fiscal impact of the unbudgeted/unexpected? change in accounting treatment reflected for pension assets of jointly sponsored pension plans. **[Framework_OB]** A $2.2 billion pension expense increase to reflect the impact of the Auditor General's accounting treatment of pension assets of jointly sponsored pension plans. This impact reflects a consistent approach taken in the 2015–2016 Public Accounts, and is based on the most recent actuarial valuations for the Ontario Teachers' Pension Plan and the	'actuarial valuations as at December 31, 2015' (to be confirmed by Pauline Fong)

OPSEU Pension Plan.

Medium-Term Expense Outlook

Program expense is projected to be $3.5 billion higher in 2017–18 and $4.1 billion higher in 2018–19 compared to the 2016 Budget projections. Program expense outlook over the medium term is higher than forecast due to [placeholder for key expense changes] and also incorporates the impact of a change in forecast pension expense each year as a result of adopting the approach taken in the *2015-2016 Public Accounts* which reflected the Auditor General's interpretation of the accounting standards for pension assets of jointly sponsored pension plans. **[Framework_OB, PEMD_TBS, OPCD_TBS]**

Fiscal Prudence

As required by the *Fiscal Transparency and Accountability Act, 2004*, Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance or the impact of natural disasters. The current fiscal outlook includes a reserve of $0.4 billion in 2016–17, $0.7 billion in 2017–18 and $0.8 billion in 2018–19, reduced from the *2016 Budget* to mitigate the impact of the unbudgeted/unexpected?

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	change to the accounting treatment for net? pension assets of jointly sponsored pension plans. **[Framework_OB]**	
• Borrowing Chapter – has very different language than the other chapters on this. Refers to "prudent and risk-averse approach" (instead of conservative or cautious) and calls it a "pension adjustment" rather than an accounting change, and calls it a "legislated change" rather than a "regulated change." Will need to align it with other chapters once we land that language.		Extract not available – To be reviewed
• Miscellaneous – the language in the footnotes and the text is not always consistent and is challenging to cross reference. Is it a change in accounting treatment, or a pension adjustment; is it accounting for pension assets or pension expense?	**Chapter 2A** *Chart 2.1, p. 4:* "2015-16 actual results reflect the regulated accounting treatment adopted in the Public Accounts of Ontario related to net pension assets. The fiscal balance outlook for 2016-17 to 2018-19 ~~also~~ reflect ~~this approach to~~ forecast~~ing~~ pension expense consistent with the regulated accounting approach which is~~,~~ consistent with the Auditor General's interpretation of public sector accounting standards for ~~net~~ pension assets."	

Commented [NP1]: 'Net' not always used. Confirm if desired/required.

	Chapter 3B *Table "Ontario's Medium-Term Fiscal Plan and Outlook" p. 4:* "2015-16 actual results reflect the regulated accounting treatment adopted in the 2015-16 Public Accounts of Ontario related to net pension assets. The fiscal balance outlook for 2016-17 to 2018-19 reflect forecast pension expense consistent with the regulated accounting approach which is consistent with the Auditor General's interpretation of public sector accounting standards for pension assets."~~Outlook for 2016-17 to 2018-19 also reflects this approach to forecasting pension expense, consistent with the Auditor General's interpretation of public sector accounting standards for net pension assets."~~ *Table "2016-17 In-Year Fiscal Update" p. 6:* "Budget Plan reflects the Province's historic application of public sector accounting standards for net pension assets of jointly sponsored pension plans. The Current Outlook reflects forecast pension expense consistent with the regulated accounting approach adopted for the 2015/16 Public Accounts which is consistent with the Auditor General's interpretation of public sector accounting standards for pension assets."~~reflects the approach to forecasting pension expense adopted in the 2015-16 Public Accounts of~~	

	~~Ontario related to net pension assets, consistent with the Auditor General's interpretation of public sector accounting standards.~~ " *Table "Summary of Expense Changes since the 2016 Budget" p.9* Footnote for Pensions Accounting Impact: "The Current Outlook reflects forecast pension expense consistent with the regulated accounting approach adopted for the 2015/16 Public Accounts which is consistent with the Auditor General's interpretation of public sector accounting standards for pension assets.~~Reflects the approach to forecasting pension expense consistent with the Auditor General's interpretation of public sector accounting standards for net pension assets of pension plans which was the regulated treatment in the 2015-16 Public Accounts of Ontario.~~" *Table "Summary of Medium-Term Expense Outlook" p.15* Addition to footnote 1 before "The comparative impact": "The Current Outlook reflects forecast pension expense consistent with the regulated accounting approach adopted for the 2015/16 Public Accounts which is consistent with the Auditor General's interpretation of public sector accounting standards for pension assets.~~Current Outlook~~	

	~~reflects the approach to forecasting pension expense, consistent with the Auditor General's interpretation of public sector accounting standards for net pension assets of pension plans.~~" *Tables "Total Expense" and "Details of Other Expense" p. 19-20:* Footnotes for Health and Long-Term Care; Training, Colleges and Universities; Teachers' Pension Plan and Employee and Pensioner Benefits: "2015-16 expense actuals reflect the regulated accounting treatment adopted in the 2015-16 Public Accounts of Ontario related to ~~net~~ pension assets which is consistent with the Auditor General's interpretation of public sector accounting standards for pension assets. The Current Outlook reflects forecast pension expense consistent with the regulated accounting approach adopted for the 2015/16 Public Accounts. ~~Outlook for 2016-17 also reflects this approach to forecasting pension expense, consistent with the Auditor General's interpretation of public sector accounting standards for net pension assets.~~" *Table "Ten-Year Review of Selected Financial and Economic Statistics" p. 22:* "Results presented for periods prior ~~to~~ 2015-16~~,~~ reflect~~s~~ the Province's historical	

Commented [NP2]: Confirm if net is to be used (consistency)

	application of public sector accounting standards for ~~net~~ pension assets of jointly sponsored pension plans. 2015-16 actuals reflect~~s~~ the regulated accounting treatment adopted in the 2015-16 Public Accounts of Ontario which is consistent with the Auditor General's interpretation of public sector accounting standards for pension assets of jointly sponsored pension plans. ~~related to net pension assets.~~ The ~~-~~Outlook for 2016-17 ~~also~~ reflects forecast pension expense ~~this approach to forecasting pension expense,~~ consistent the regulated accounting approach which is consistent with the Auditor General's interpretation of public sector accounting standards for ~~net~~ pension assets."	

From:	Anna Strathy
To:	Gadi Mayman; Ken Kandeepan; Ronald Kwan
Cc:	Usman Zahid
Subject:	RE: Public Accounts - PO Approval
Date:	Wednesday, September 06, 2017 3:52:00 PM
Attachments:	Debt-To_GDP Commentary EN.pdf Debt Management CIN - Sep 5 2017.docx

Hi Gadi, please see attached. I'll have hard copies for you at the office.

Ken, could you please ask John to update the borrowing and debt CIN to reflect Public Accounts figures?

From: Gadi Mayman
Sent: Wednesday, September 06, 2017 3:49 PM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Usman Zahid <Usman.Zahid@ofina.on.ca>
Subject: Re: Public Accounts - PO Approval

For the technical briefing, and Minister Sousa's briefing before that, I'll need a copy of today's FAO Report, and our response to it.

Thanks,
Gadi

From: Anna Strathy
Sent: Wednesday, September 6, 2017 3:39 PM
To: Gadi Mayman; Ken Kandeepan; Ronald Kwan
Cc: Usman Zahid
Subject: FW: Public Accounts - PO Approval

FYI, password to follow.

From: Tibando, Lindsay (MOF) [mailto:Lindsay.Tibando@ontario.ca]
Sent: Wednesday, September 06, 2017 3:30 PM
To: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>
Subject: FW: Public Accounts - PO Approval

FYI only these are PO approved

From: Ovenden, Erin (TBS)
Sent: September-06-17 1:15 PM
To: Tibando, Lindsay (MOF)
Cc: Sylvain, Matthew (MOF); Sullivan, Bryant (TBS)
Subject: Public Accounts - PO Approval

Hi-

Please find attached PO approved news release and backgrounder for tomorrow's release of Public Accounts. They tinkered with Minister Sousa's quote so I'm sending you tracked changes.

Please let me know if these are okay.

Erin Ovenden
Senior Communications Consultant
Communications Branch | Treasury Board Secretariat
77 Wellesley Street West, Ferguson Block
Toronto, ON M7A 1N3
Tel: 416-326-7727

Security settings or invalid file format do not permit using Debt-To_GDP Commentary EN_1.pdf (20156 Bytes).

September 5, 2017

BORROWING AND DEBT

What is the status of Ontario's borrowing and debt management plan?

SUGGESTED RESPONSE

Debt-to-GDP

- **The interim net debt-to-GDP ratio for 2016–17 was forecast at 37.8 per cent in the 2017 Budget, an improvement compared to the *2016 Budget* projection of 39.6 per cent. This ratio is projected to continue to decline to 37.5 per cent in 2017–18.**

- **The first very important step in reducing debt is to balance the budget. Balanced budgets from 2017–18 onwards will ensure that the increase in net debt is limited to net investments in capital assets.**

- **We are making the biggest investment in public infrastructure in Ontario's history. We have a plan to invest more than $190 billion over 13 years, starting in 2014–15. These strategic investments will not only create jobs but will also contribute to the economy growing at a faster rate than the debt.**

- **The positive impact of capital investments on the Province's economy was confirmed by the Centre for Spatial Economics which reported recently that, over the long term, real GDP in Ontario increases by $6 for every dollar of public infrastructure spending.**

- **The government is setting an interim net debt-to-GDP ratio target of 35 per cent by 2023–24 and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.**

- **In June 2016, the International Monetary Fund (IMF) released a report recommending that Canadian "fiscal policy should be pro-growth." Christine Lagarde, Managing Director (IMF), also expressed her support for the government's growth strategy and agreed that investment in infrastructure should be an essential element of the strategy.**

<u>Borrowing Program</u>

- **The Province successfully completed its annual borrowing program in 2016–17, borrowing $27.0 billion including $3.2 billion in pre-funding for 2017–18. As of September 5, 2017, the Province has borrowed $16.3 billion for the 2017–18 fiscal year.**

- **Through prudent and cost-effective debt management, we have consistently kept interest on debt costs below budget projections.**

    - **Interest-on-debt-to-revenue is forecast to have been 8.4 per cent for 2016–17. This ratio is the lowest it has been for 25 years. It is forecast to decline to 8.2 per cent in 2017–18 and remain low throughout the outlook period to 2019–20.**

- **Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs. As of September 5, 2017, the average term for new borrowing in 2017–18 was 12.7 years compared to 8.1 years in 2009–10.**

- **Going back to the beginning of fiscal 2010–11, we have issued $66.5 billion of bonds with maturities longer than 30 years to lock in low rates. We are consistently making strategic and prudent decisions that will benefit the Ontario economy and ensure fiscal security.**

CURRENT STATUS

FAO's Commentary

On September 6, 2017, the FAO released a commentary on Ontario's debt reduction commitment. Their central argument is that Ontario is basing its debt reduction strategy on three assumptions that the FAO believes are unrealistic:

- Sustained balanced budgets, on average, over the next 12 years. The FAO argues that historically, Ontario has rarely achieved successive surpluses or balanced budgets;
- No further increases to capital spending beyond the long-term infrastructure plan. The FAO argues that the province's 13 year $190 billion plan is expected to peak in 2019-20, but that capital infrastructure will likely need to be supplemented in the latter half of the next decade, which will only increase net debt; and
- A continuation of strong economic growth. The FAO argues that Ontario's aging population and slower expected growth in its labour force will not support the expected 4% average growth of GDP.

Suggested response: The government made a commitment in the 2010 Budget to balance and eliminate the deficit by 2017-18. Since then, the government has reduced the deficit from its peak in 2009-10 of $19.3 billion, to a projected $1.5 billion in 2016-17 and a projected balanced Budget in 2017. Furthermore, the Government consistently overachieved on its deficit targets and forecasts for net debt-to-GDP. The Government's track record therefore provides evidence of fiscal discipline and the likelihood of achieving on-going balanced budgets in the future.

With respect to capital spending, approximately 61 per cent of the increase in net debt from 2008–09 to 2016–17 was due to the deficit, with net investments in capital assets responsible for most of the balance. Infrastructure expenditures do not therefore have as large an impact on net debt as that of a balanced budget.

Moreover, additional capital investment in the latter half of the next decade will stimulate the economy. A recent report from the *Centre for Spatial Economics* confirms that over the long term, real GDP in Ontario increases by $6 for every dollar of public infrastructure spending. This stimulus in GDP may help to offset the effects of an aging population and slower growth in the labour force and maintain the 4% average GDP growth required to bring net debt to GDP down to 27% in 2029-30.

Fraser Institute Reports

On August 3rd, 2017 the Fraser Institute published a report entitled *Wishful Thinking: An Anlysis of Ontario's Timeline for Shrinking its Debt Burden*. The key arguments in the paper are as follows

- Since the province plans to continue adding debt, it does not expect to make any meaningful progress in reducing its debt-to-GDP ratio in the near term. In fact, between the 2015–16 and 2020–21 fiscal years, the

government's plan calls for this ratio to fall at an average annual rate of just 0.4 percentage points.

Response: The rate of increase of the Province's net debt is anticipated to be below that of its GDP, due to a combination of balanced budgets and appropriate levels of capital investments. These investments also contribute to the Province's GDP growth as affirmed by the Centre for Spatial Economics which reported recently that, over the long term, real GDP in Ontario increases by $6 for every dollar of public infrastructure spending.

- The government projects it will achieve its much closer target date of 2029–30 only by assuming a rapid increase in the pace of debt reduction in the later years of its timeline—for which no revenue or expenditure plans are available. In fact, the government forecasts that the rate of reduction in the province's debt-to-GDP ratio will approximately triple in the final eight years of its timeline, rising to 1.1 percentage points annually.

  Response: In later years, the rate of increase in net debt is expected to be lower than that of GDP due a combination of balanced budgets and investments in capital assets that will contribute to GDP growth, allowing the Government to realize its net debt to GDP target of 27 per cent by 2029-30.

On March 30, 2017, the Fraser Institute published a report entitled *Hold the Celebration: A Balanced Budget Won't End Ontario's Fiscal Challenges.* The key arguments in the paper are as follows:

- Ontario's public finances have deteriorated in recent years as net debt has approximately doubled since 2007 to over $300 billion this year (2016-2017).

  Response: About 61 per cent of the increase in net debt from 2008–09 to 2016–17 is due to the deficit, with net investments in capital assets responsible for most of the balance. The balanced budget from 2017–18 onwards will ensure that the increase in net debt is limited to the difference between cash investments in capital assets and amortization, which is a non-cash expense and as such, does not represent cash outflow. These investments will work to increase economic growth and will result in GDP growing more quickly than debt, thereby helping to lower the net debt-to-GDP ratio to its pre-recession level. The government is therefore setting an interim net debt-to-GDP ratio target of 35 per cent by 2023–24 and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.

- A balanced budget is not an indication that Ontario's fiscal problems are solved as the Province plans to continually add debt in the years ahead.

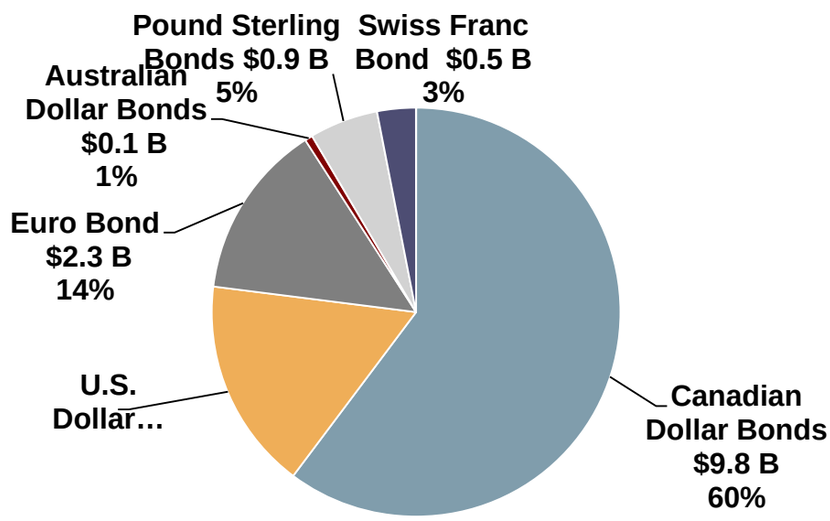
  Response: The Province's position has been to eliminate the deficit as a first step in returning to a 27 percent net debt-to-GDP ratio. Despite increases in debt, Ontario's economy continues to grow. Real GDP increased 1.0 percent in the first quarter of 2017, after rising 0.5 percent in the fourth quarter of 2016.

Earlier reports argued that growth in debt is negatively correlated with economic growth. However, this point is contradicted by a recent report by the Centre for Spatial Economics which confirms that over the long term, real GDP in Ontario increases by $6 for every dollar of public infrastructure spending.

Borrowing Program

The Province successfully completed its annual borrowing program in 2016–17, borrowing $27.0 billion. This was the Province's smallest borrowing program since 2008–09. As of September 5, 2017, the Province has borrowed $16.3 billion for the 2017–18 fiscal year.

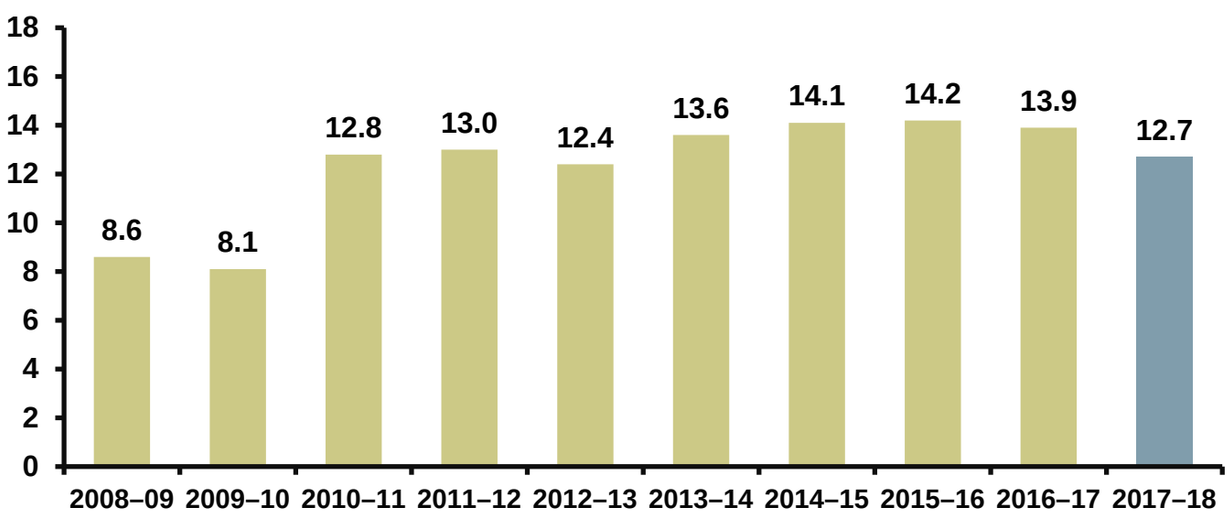
2017–18 Borrowing Completed: $16.3 billion



Note: Numbers may not add due to rounding

Going back to the beginning of fiscal 2010–11, we have issued $66.5 billion of bonds longer than 30 years to lock in low rates. Term extension has allowed us to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs. As of September 5, 2017, the average term for new borrowing in 2017–18 was 12.7 years.

Average Term (years)

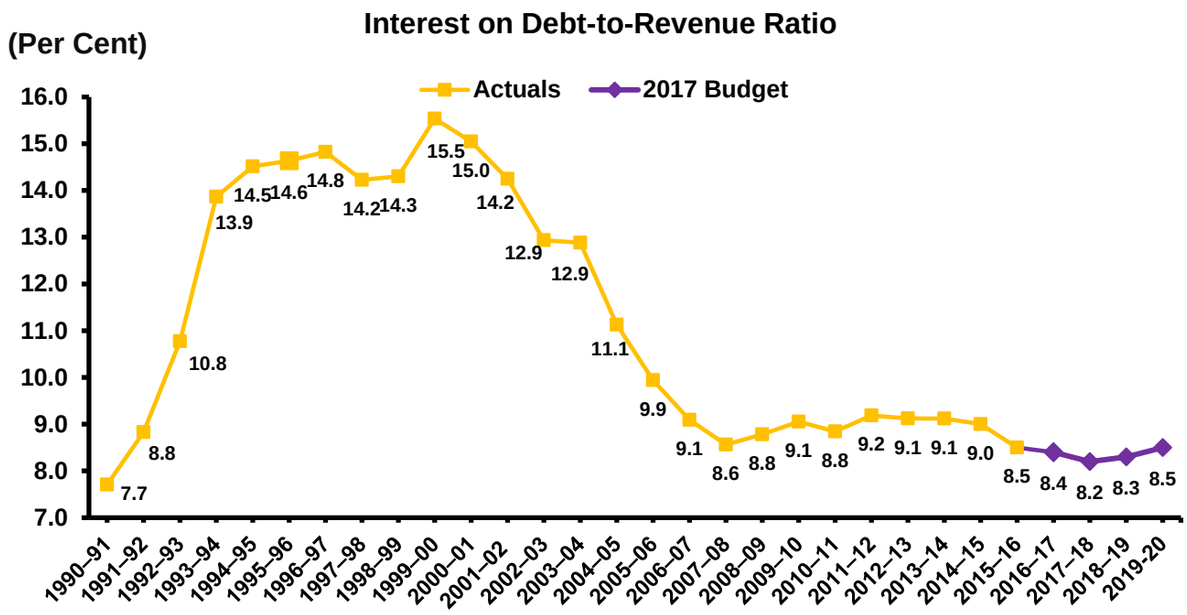


Interest on Debt

Ontario's interest on debt (IOD) is projected to be $11.6 billion for 2017–18, rising to $12.0 billion and $12.6 billion for 2018–19 and 2019–20, respectively.

IOD-to-revenue fell to 8.5 per cent in 2015–16. This ratio is the lowest since 1990–91 and is forecast to remain low at 8.4 per cent in 2016–17, 8.2 per cent in 2017–18, 8.3 per cent in 2018–19 and 8.5 per cent in 2019–20. As such, the increase in IOD has no impact on the Province's path to balance since its proportionate share of revenue is relatively constant. This ratio remains well below the peak reached in the mid-1990s because of the low interest rate environment over the past decade. IOD as a percentage of revenue is lower today than it was 10 years ago, in spite of more than a $148 billion increase in net debt over that period.

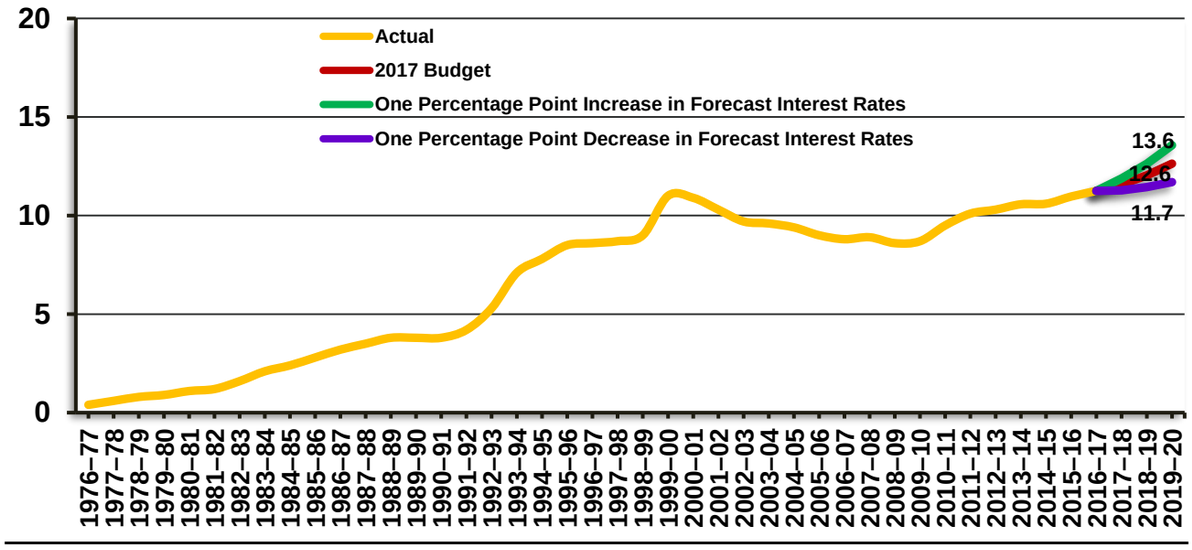
The *2010 Budget* forecasted that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest. The current forecast is 3.1 cents lower, at 8.2 cents of interest costs for every dollar of revenue.



The Province's IOD is sensitive to interest rate fluctuations. A one percentage point change in interest rates would result in a change in Interest on Debt (IOD) of approximately $300 million in 2017–18, rising to $0.94 billion in 2019–20 alone.

Interest on Debt
($ Billions)

Interest on Debt

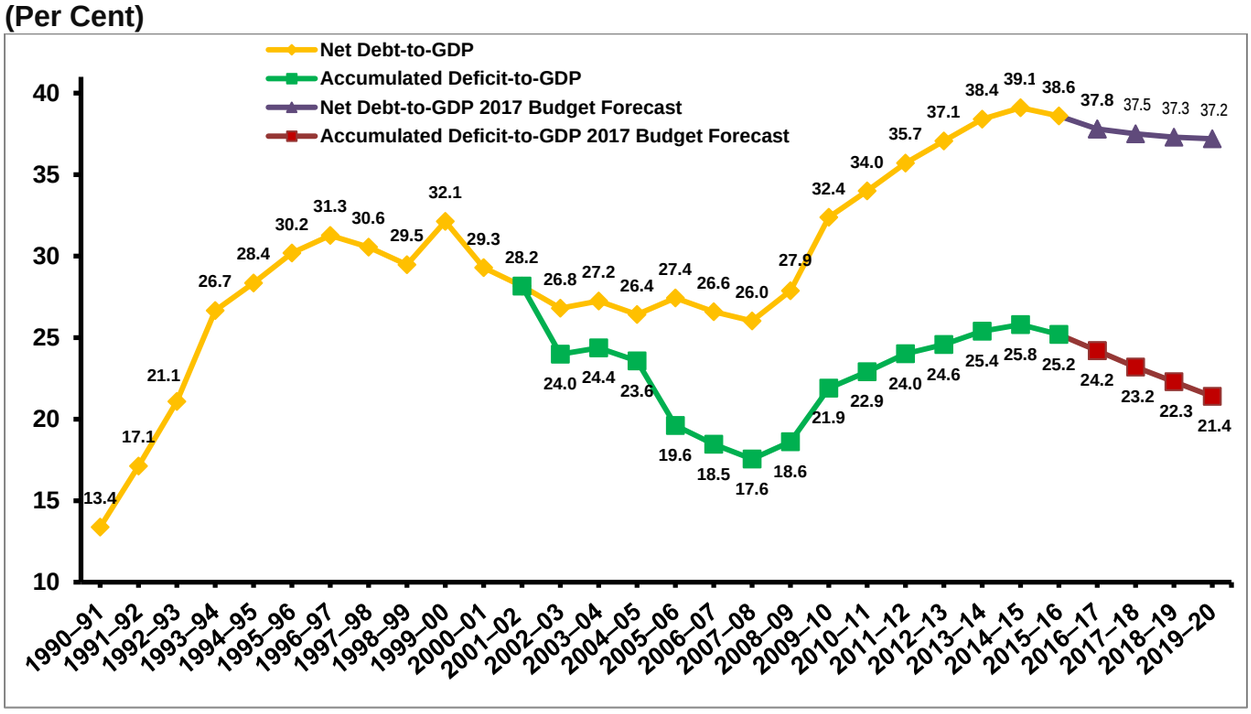


Net Debt-to-GDP

The government's strategy of enhancing GDP growth by investing in capital infrastructure has contributed over $93 billion to the increase in net debt over the last 13 years. The government commenced recording of tangible capital assets in 2002–03. The balanced budget from 2017 onwards will ensure that the increase in net debt is limited to net investments in capital assets. Over the medium-term, net investments in capital assets will contribute over $33 billion to the total increase in net debt.

Net Debt-to-GDP and Accumulated Deficit-to-GDP

(Per Cent)



Debt Management

The Ontario Financing Authority uses a number of financial instruments, including options and swaps, to prudently manage risk. These financial instruments, or derivatives, are used primarily for hedging purposes and do not create net leverage. They are used to transform the cost of borrowing into

Canadian dollars and foreign currency exposure from bond issues not denominated in Canadian dollars.

BACKGROUND

The three commonly used indicators of a government's financial and debt position are net debt, total debt, and accumulated deficit. Credit rating agencies and investors place the greatest emphasis on net debt.

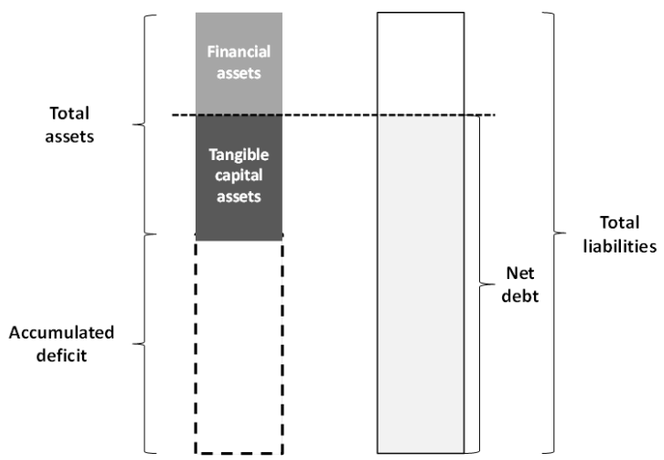
Net debt is the difference between the Province's total liabilities and financial assets. Ontario's net debt is projected to increase from $294.6 billion as at March 31, 2016 to $301.9 billion as at March 31, 2017, to $311.9 billion as at March 31, 2018 and to $323.3 billion as at March 31, 2019. The increase in net debt primarily reflects the projected deficit, plus the increase in net tangible capital assets of the Province in 2016–17 and, thereafter, increases in net tangible capital assets only. Financial markets use net debt as their primary measure because it represents the Province's future revenue requirements to pay for past transactions and events.

Total debt is the sum of the Province's total borrowings including Ontario Electricity Financial Corporation and agencies. Ontario's total debt increased from $327.4 billion as at March 31, 2016 to $332.4 billion as at March 31, 2017. This increase was mainly due to fund the deficits and the government's capital investments. Canadian dollar denominated debt represents 83 per cent of the Province's total debt as at March 31, 2017.

Accumulated deficit represents the sum of all deficits and surpluses. The accumulated deficit was $192.0 billion as at March 31, 2016. As per the 2017 Budget, accumulated deficit is forecast to be $193.5 billion as at March 31, 2017, and remain the same as at March 31, 2018 and March 31, 2019, reflecting a balanced budget.

Accumulated deficit is not widely used in the financial markets, as it excludes debt raised for capital expenditures.

Net debt, Accumulated Deficit and Tangible Capital Assets



NET DEBT AND INTEREST ON DEBT: 1993-2020

	Net Debt ($ billions)	Net Debt (% of GDP)[5]	Interest on Debt ($ billions)	Interest on Debt (% of Revenue)[1]
1993-94	80.6	26.7	7.1	13.9
1994-95	90.7	28.4	7.8	14.5
1995-96	101.9	30.2	8.5	14.6
1996-97	108.8	31.3	8.6	14.8
1997-98	112.7	30.6	8.7	14.2
1998-99	114.7	29.5	9.0	14.3
1999-2000[2]	134.4	32.1	11.0	15.5
2000-01	132.5	29.3	10.9	15.0
2001-02	132.1	28.2	10.3	14.2
2002-03	132.6	26.8	9.7	12.9
2003-04	138.8	27.2	9.6	12.9
2004-05	140.9	26.4	9.4	11.1
2005-06[3]	152.7	27.4	9.0	9.9
2006-07	153.7	26.6	8.8	9.1
2007-08[4]	156.6	26.0	8.9	8.6
2008-09	169.6	27.9	8.6	8.8
2009-10	193.6	32.4	8.7	9.1
2010-11	214.5	34.0	9.5	8.8
2011-12	235.6	35.7	10.1	9.2
2012-13	252.1	37.1	10.3	9.1
2013-14	267.2	38.4	10.6	9.1
2014-15	284.6	39.1	10.6	9.0
2015-16[6]	294.6	38.6	11.0	8.5
2016-17 (Interim)	301.9	37.8	11.3	8.4
2017-18 (Forecast)	311.9	37.5	11.6	8.2
2018-19 (Forecast)	323.3	37.3	12.0	8.3
2019-20 (Forecast)	335.9	37.2	12.6	8.5

Sources: 2015–16 Public Accounts, Ontario Budgets from 1993 to 2017.
1. In the 2009–10 Public Accounts, education property taxes were included in provincial revenue and no longer netted against education expense. To facilitate comparisons, the Province's historical revenues and expenses have been restated to account for this reporting change.
2. Starting in 1999–2000, the net debt includes the unfunded liability (stranded debt) of OEFC and interest on debt includes interest on OEFC debt.
3. Starting in 2005–06, the net debt includes the net debt of hospitals, school boards, and colleges that were recognized upon consolidation.
4. Starting in 2007–08, the net debt includes the unrealized gains and losses in the Ontario Nuclear Funds Agreement.
5. Historical Net debt-to-GDP were revised to reflect historical GDP released by Statistics Canada in November 2015.
6. Net debt in 2015–16 excludes the legislated pension adjustment of $10.7 billion.

Prepared by: John Psinas and Erica Wieder, 416-325-1661
Ontario Financing Authority
Date Prepared: September 5, 2017
Approved by: Gadi Mayman
File Name: n:\fall16\fiscal\debt_management3

From:	Anna Strathy
To:	Gadi Mayman; Ken Kandeepan; Ronald Kwan
Cc:	Usman Zahid
Subject:	RE: Public Accounts - PO Approval
Date:	Wednesday, September 06, 2017 3:53:25 PM
Attachments:	Debt-To_GDP Commentary EN.pdf

Reattaching the PDF.

From: Anna Strathy
Sent: Wednesday, September 06, 2017 3:52 PM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Usman Zahid <Usman.Zahid@ofina.on.ca>
Subject: RE: Public Accounts - PO Approval

Hi Gadi, please see attached. I'll have hard copies for you at the office.

Ken, could you please ask John to update the borrowing and debt CIN to reflect Public Accounts figures?

From: Gadi Mayman
Sent: Wednesday, September 06, 2017 3:49 PM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>
Cc: Usman Zahid <Usman.Zahid@ofina.on.ca>
Subject: Re: Public Accounts - PO Approval

For the technical briefing, and Minister Sousa's briefing before that, I'll need a copy of today's FAO Report, and our response to it.

Thanks,
Gadi

From: Anna Strathy
Sent: Wednesday, September 6, 2017 3:39 PM
To: Gadi Mayman; Ken Kandeepan; Ronald Kwan
Cc: Usman Zahid
Subject: FW: Public Accounts - PO Approval

FYI, password to follow.

From: Tibando, Lindsay (MOF) [mailto:Lindsay.Tibando@ontario.ca]
Sent: Wednesday, September 06, 2017 3:30 PM
To: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>

Subject: FW: Public Accounts - PO Approval

FYI only these are PO approved

From: Ovenden, Erin (TBS)
Sent: September-06-17 1:15 PM
To: Tibando, Lindsay (MOF)
Cc: Sylvain, Matthew (MOF); Sullivan, Bryant (TBS)
Subject: Public Accounts - PO Approval

Hi-

Please find attached PO approved news release and backgrounder for tomorrow's release of Public Accounts. They tinkered with Minister Sousa's quote so I'm sending you tracked changes.

Please let me know if these are okay.

Erin Ovenden
Senior Communications Consultant
Communications Branch | Treasury Board Secretariat
77 Wellesley Street West, Ferguson Block
Toronto, ON M7A 1N3
Tel: 416-326-7727

Ontario's Debt Reduction Commitment Based on Unlikely Assumptions

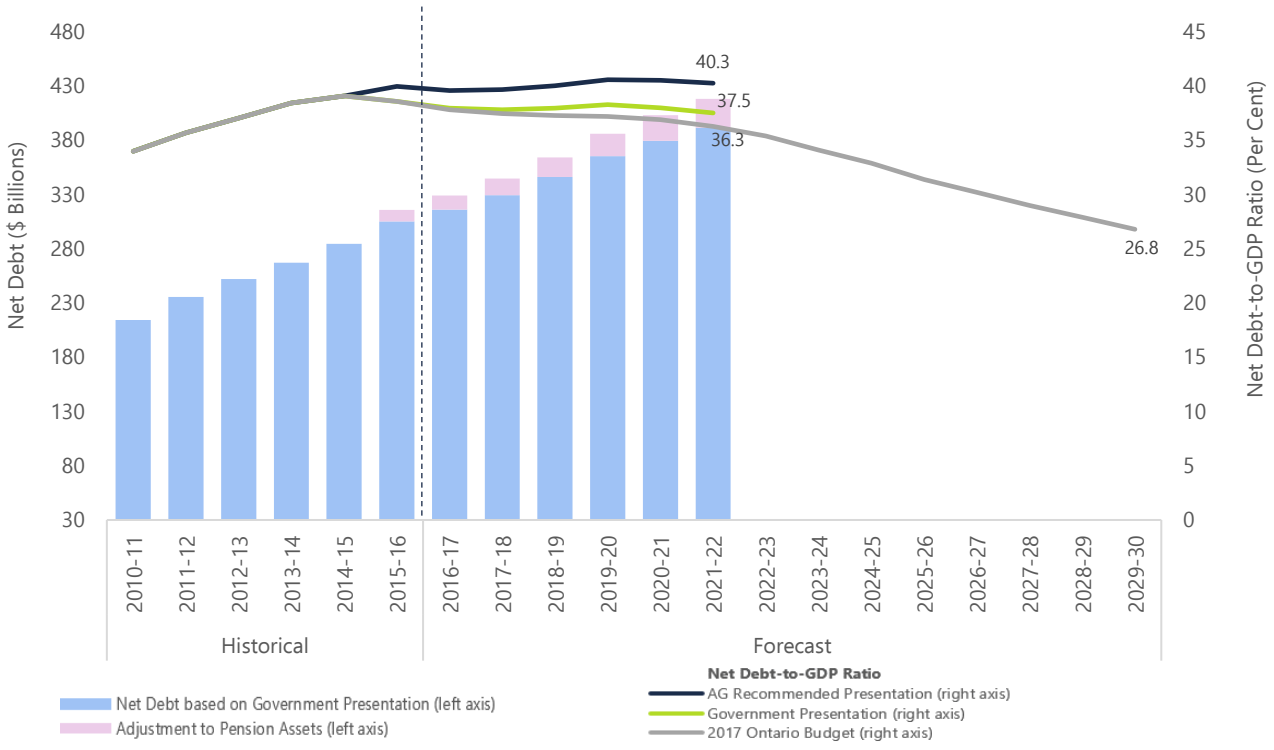
The FAO projects that Ontario's net debt will increase by $76 billion over the next five years to approximately $392 billion in 2021-22, resulting in the net debt-to-GDP ratio rising to 40.3 per cent.[1] In contrast, in the 2017 Budget, the Province projects a small decline in the net debt-GDP ratio to 36.3 per cent by 2021-22.

In the 2017 Budget, the government also restated its commitment to reduce the net debt-to-GDP ratio to its pre-recession level of 27 per cent. The Province projects that this 27 per cent target will be achieved by 2029-30, based on three key assumptions:

- on-going balanced budgets, on average, over the next 12 years[2];
- future capital spending as laid out in the long-term infrastructure plan; and
- a continuation of strong economic growth.

However, if any of these relatively optimistic assumptions fall short of expectations, the government's 27 per cent debt-to-GDP target would not be achieved.

Achievement of 27 Per Cent Debt-To-GDP Target Based on Unlikely Assumptions



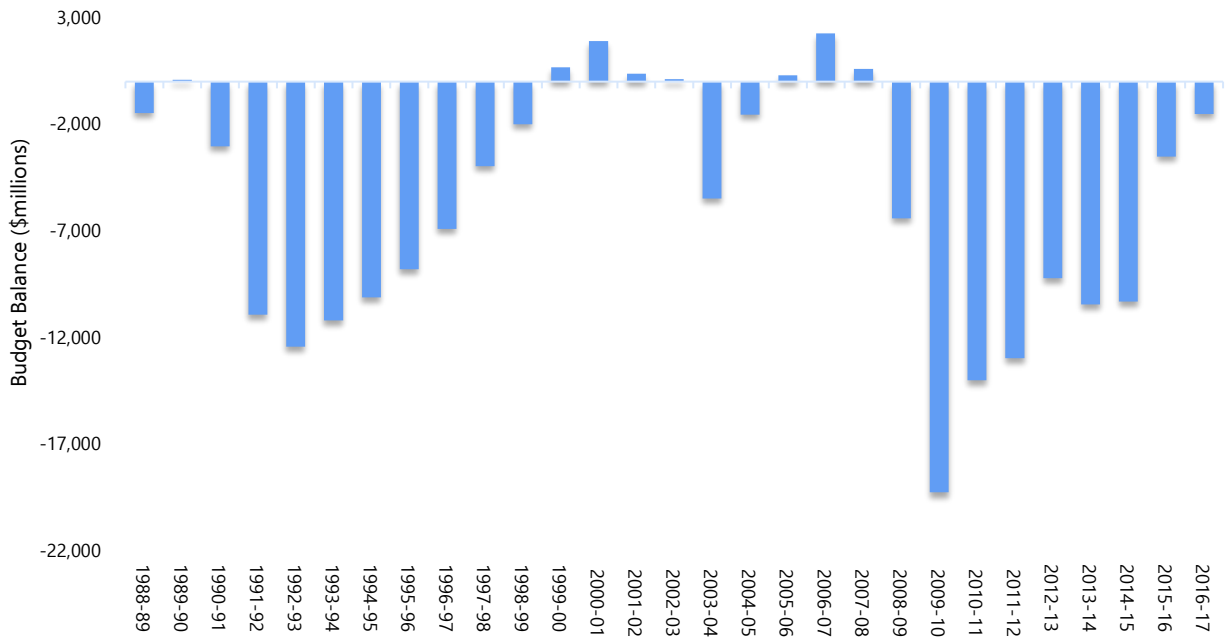
Note: AG recommended presentation based on FAO estimates of the pension adjustment.
Source: Ontario 2017 Budget and FAO

[1] Based on the FAO's application of the Auditor General's recommended accounting treatment for pension assets - see the FAO's 'Economic and Fiscal Outlook, Spring 2017'. By comparison, based on the government's accounting presentation, the FAO projects Ontario's net debt will rise by $62 billion to roughly $365 billion by 2021-22 and that the net debt-to-GDP ratio will fall modestly to 37.5 per cent.

[2] This does not imply that the province necessarily has to achieve balanced budgets in each year. Alternatively, it could post balanced budgets on average, with some years in surplus and some in deficit.

The government's forecast for a gradual decline in the net debt-to-GDP ratio depends critically on achieving a string of balanced budgets on average over the next 12 years. Over the past thirty years, Ontario has rarely achieved successive surpluses or balanced budgets. In contrast to the 2017 Budget, the FAO continues to project a steady deterioration in the budget deficit over the next five years, due to moderating revenue growth combined with higher expenses.

Ontario has Rarely Achieved Balanced Budgets in Consecutive Years



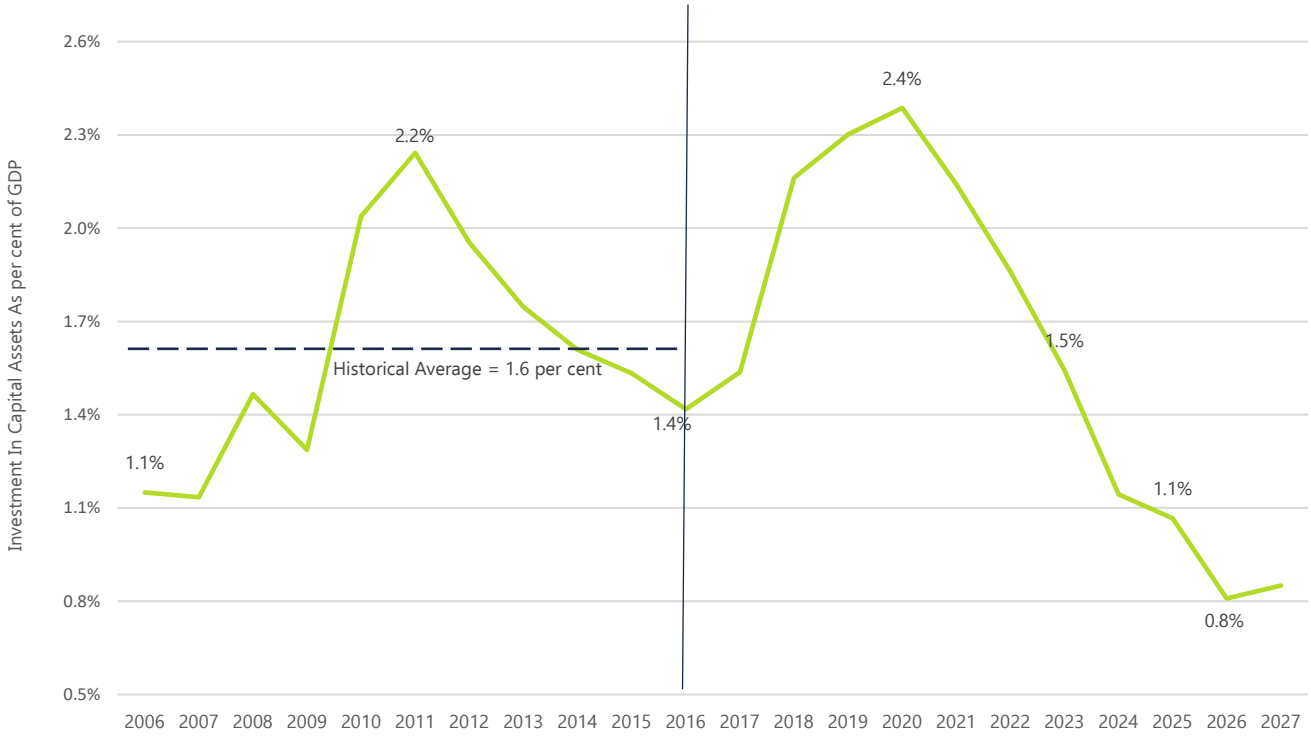
Source: Ontario Budgets 1988-89 to 2017-18

The government's debt reduction commitment is also linked to the Province's 13-year, $190 billion infrastructure plan which includes significant reductions in capital investment in the 2020s. After peaking in 2019-20 at 2.4 per cent of nominal GDP, the Province is projecting capital spending to fall to just 0.8 per cent of GDP by 2027-28 – half of the historical average of 1.6 per cent.

Since the Province has made substantial investments in public sector assets (such as hospitals) over the last 10 years, some pullback is to be expected.[3] However, given the government's focus on new and large transit and highway projects, it is likely that the Province will need to augment its capital plan and increase spending in the latter part of the next decade. Higher than planned capital spending in the future would add to the Province's net debt, increasing the net debt-to-GDP ratio.[4]

[3] See Infrastructure Ontario's list of major projects, http://www.infrastructureontario.ca/Major-Projects/, August 16, 2017.
[4] The government's capital spending projection may also prove to be too conservative given a number of announced but unfunded initiatives including high-speed rail and subway expansion in Toronto.

Investment in Capital Assets as a Share of GDP to Decline Sharply in the 2020s



Source: Investment in Capital Assets, 2017 Infrastructure Update, Ministry of Infrastructure, FAO

Finally, the government's debt-to-GDP projection relies on nominal GDP growing at an average pace of 4 per cent per year over the long-term.[5] However, nominal GDP growth has averaged just 3.6 per cent per year over the past 15 years, and given Ontario's aging population and slower expected growth in its labour force, 4 per cent annual growth may prove to be too optimistic for the next decade.

Given the risks associated with the government's assumptions, a fiscal plan that focuses only on achieving balanced budgets may not be enough to lower Ontario's net debt-to-GDP ratio to 27 per cent by 2029-30.

Mario Angastiniotis
Senior Director
mangastiniotis@fao-on.org

David West
Chief Economist
dwest@fao-on.org

Financial Accountability Office of Ontario
2 Bloor Street West, Suite 900 Toronto, Ontario M4W 3E2

Media queries, contact: Kismet Baun, 416.254.9232 or email kbaun@fao-on.org.

[5] Ontario's Long-Term Report on the Economy, Ministry of Finance, 2017

From: Schuurman, Tim (MOF)
To: Ken Kandeepan; Mark Donaldson (MOF)
Cc: Anna Strathy; Inglis, Liane (MOF); Gadi Mayman; John Psinas
Subject: RE: Q on AD
Date: Tuesday, September 05, 2017 10:40:24 AM

Sorry -- if we can get that schedule before the noon tech deck briefing, that would be great (as the DM raised it in the context of that piece).

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

-----Original Message-----
From: Schuurman, Tim (MOF)
Sent: September-05-17 10:36 AM
To: Kandeepan, Ken (OFA); Donaldson, Mark (TBS)
Cc: Strathy, Anna (OFA); Inglis, Liane (MOF); Mayman, Gadi (OFA); John Psinas
Subject: RE: Q on AD

Thanks everyone.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

-----Original Message-----
From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: September-05-17 10:21 AM
To: Schuurman, Tim (MOF); Donaldson, Mark (TBS)
Cc: Strathy, Anna (OFA); Inglis, Liane (MOF); Mayman, Gadi (OFA); John Psinas
Subject: RE: Q on AD

Hi Tim

The schedule is actually part of the Consolidated Financial Statements (CFS) which is part of the same volume as the FSD&A and presented immediately thereafter. We have only bits and pieces of the CFS, so I am including Mark Donaldson who in Cindy's absence should be able to provide you with the schedule in question.

Thanks

Ken k

-----Original Message-----
From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: Tuesday, September 05, 2017 10:15 AM

To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
Subject: Re: Q on AD

Thanks Ken. Can you tell me what page of the fsda the schedule detailing these changes is on? Or is it in a volume I don't have? Could you please forward to us?

Tim Schuurman
Assistant Deputy Minister
Office of the Budget
Ministry of Finance
From: Ken Kandeepan
Sent: Tuesday, September 5, 2017 10:04 AM
To: Mayman, Gadi (OFA); Schuurman, Tim (MOF)
Cc: Strathy, Anna (OFA); Inglis, Liane (MOF)
Subject: RE: Q on AD

Hi Tim and Gadi

As Gadi points out the reason is primarily accounting adjustments related to the translation of OPG's and H1's results from US GAAP to IFRS and a new Pension Adjustment plus of course the deficit offset by the unrealized gains relating to the Ontario Nuclear Funds.

Note that the PA itself has a schedule detailing all of the above, BTW its CPA now, not CA :)

Thanks

Ken K

From: Gadi Mayman
Sent: Tuesday, September 05, 2017 9:44 AM
To: Tim Schuurman (MOF) <Tim.Schuurman@ontario.ca>
Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: RE: Q on AD

There are some accounting changes that OPCD has included that make the difference. I'm copying Ken as he can give the specifics, but the thing to remember is that accumulated deficit is the sum of all surpluses and deficits since Confederation (that's the part that we all remember) plus, or minus, any accounting changes (that's the part that everyone that isn't an accountant usually forgets).

If you get a chance, can you call me at 5-8001? I have a question about the FAO debt to GDP report.

Thanks,
Gadi

From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: Tuesday, September 05, 2017 9:41 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca<mailto:Gadi.Mayman@ofina.on.ca>>
Cc: Anna Strathy <Anna.Strathy@ofina.on.ca<mailto:Anna.Strathy@ofina.on.ca>>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca<mailto:Liane.Inglis@ontario.ca>>
Subject: Q on AD

Hey Gadi! Think you're back today..hope you had some nice time off.

Scott dropped by with a few Q's for me this morning, one of which I wasn't able to answer.

The change in accumulated deficit from 15-16 to 16-17, in the Public Accounts financial statements and in the summary tables is $1.5B. But if the deficit was only $1.0B, should it be changing by only $1.0B? I wondered if the line by line was having an impact, but I can't tell. The math isn't working for me, but I'm no CA. :)

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

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From: Schuurman, Tim (MOF)
To: Ken Kandeepan; Mark Donaldson (MOF)
Cc: Anna Strathy; Inglis, Liane (MOF); Gadi Mayman; John Psinas
Subject: RE: Q on AD
Date: Tuesday, September 05, 2017 10:35:47 AM

Thanks everyone.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

-----Original Message-----
From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: September-05-17 10:21 AM
To: Schuurman, Tim (MOF); Donaldson, Mark (TBS)
Cc: Strathy, Anna (OFA); Inglis, Liane (MOF); Mayman, Gadi (OFA); John Psinas
Subject: RE: Q on AD

Hi Tim

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Thanks

Ken k

-----Original Message-----
From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: Tuesday, September 05, 2017 10:15 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
Subject: Re: Q on AD

Thanks Ken. Can you tell me what page of the fsda the schedule detailing these changes is on? Or is it in a volume I don't have? Could you please forward to us?

Tim Schuurman
Assistant Deputy Minister
Office of the Budget
Ministry of Finance
From: Ken Kandeepan
Sent: Tuesday, September 5, 2017 10:04 AM
To: Mayman, Gadi (OFA); Schuurman, Tim (MOF)
Cc: Strathy, Anna (OFA); Inglis, Liane (MOF)
Subject: RE: Q on AD

Hi Tim and Gadi

As Gadi points out the reason is primarily accounting adjustments related to the translation of OPG's and H1's results from US GAAP to IFRS and a new Pension Adjustment plus of course the deficit offset by the unrealized gains relating to the Ontario Nuclear Funds.

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Thanks

Ken K

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Sent: Tuesday, September 05, 2017 9:44 AM
To: Tim Schuurman (MOF) <Tim.Schuurman@ontario.ca>
Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: RE: Q on AD

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Cc: Anna Strathy <Anna.Strathy@ofina.on.ca<mailto:Anna.Strathy@ofina.on.ca>>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca<mailto:Liane.Inglis@ontario.ca>>
Subject: Q on AD

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Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173
[cid:image002.png@01D0E4D5.A25B16F0]

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by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

From: Ken Kandeepan
To: Tim Schuurman (MOF); Donaldson, Mark (TBS)
Cc: Anna Strathy; Inglis, Liane (MOF); Gadi Mayman; John Psinas
Subject: RE: Q on AD
Date: Tuesday, September 05, 2017 10:20:37 AM

Hi Tim

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Ken k

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Sent: Tuesday, September 05, 2017 10:15 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
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Office of the Budget
Ministry of Finance
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Cc: Strathy, Anna (OFA); Inglis, Liane (MOF)
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Subject: Q on AD

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[cid:image002.png@01D0E4D5.A25B16F0]

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From: Ken Kandeepan
To: Gadi Mayman; Tim Schuurman (MOF)
Cc: Anna Strathy; Inglis, Liane (MOF)
Subject: RE: Q on AD
Date: Tuesday, September 05, 2017 10:04:39 AM
Attachments: image001.png

Hi Tim and Gadi

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Thanks

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Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: RE: Q on AD

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Sent: Tuesday, September 05, 2017 9:41 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
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Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173




Office of the Budget
MINISTRY of FINANCE

From:	Donaldson, Mark (TBS)
To:	Tim Schuurman (MOF); Ken Kandeepan
Cc:	Anna Strathy; Inglis, Liane (MOF); Gadi Mayman; John Psinas; Hosick, Sarah (TBS)
Subject:	RE: Q on AD
Date:	Tuesday, September 05, 2017 11:17:05 AM
Attachments:	Change in AD.docx

Tim,

Here's the summary which KK was referring to (password protected):

Cheers,
Mark

-----Original Message-----
From: Schuurman, Tim (MOF)
Sent: September 5, 2017 10:40 AM
To: Kandeepan, Ken (OFA); Donaldson, Mark (TBS)
Cc: Strathy, Anna (OFA); Inglis, Liane (MOF); Mayman, Gadi (OFA); John Psinas
Subject: RE: Q on AD

Sorry -- if we can get that schedule before the noon tech deck briefing, that would be great (as the DM raised it in the context of that piece).

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

-----Original Message-----
From: Schuurman, Tim (MOF)
Sent: September-05-17 10:36 AM
To: Kandeepan, Ken (OFA); Donaldson, Mark (TBS)
Cc: Strathy, Anna (OFA); Inglis, Liane (MOF); Mayman, Gadi (OFA); John Psinas
Subject: RE: Q on AD

Thanks everyone.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance

7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

-----Original Message-----
From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: September-05-17 10:21 AM
To: Schuurman, Tim (MOF); Donaldson, Mark (TBS)
Cc: Strathy, Anna (OFA); Inglis, Liane (MOF); Mayman, Gadi (OFA); John Psinas
Subject: RE: Q on AD

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Restated Accumulated Deficit, March 31, 2016	(192,029)
IFRS Transitional Impact for Ontario Power Generation and Hydro One *(Note 16)*	(683)
Pension Adjustment *(Note 16)*	(617)
Accumulated Other Comprehensive Loss *(Note 16)*	(480)
Other *(Note 16)*	82
Restated Accumulated Deficit, April 1, 2016	**(193,727)**
Annual Deficit	(991)
Increase in Fair Value of Ontario Nuclear Funds *(Note 10)*	1,094
Decrease in Accumulated Other Comprehensive Loss from GBEs *(Schedule 9)*	114
Accumulated Deficit, March 31, 2017	**(193,510)**

From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	Lynsey Wynberg
Subject:	RE: Q3 Deck for FPC
Date:	Tuesday, January 24, 2017 5:00:54 PM
Attachments:	image001.png

Good timing, I'm just writing back to Tim and will include this information.

From: Ken Kandeepan
Sent: Tuesday, January 24, 2017 5:00 PM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>
Subject: RE: Q3 Deck for FPC

No Gadi, Slide 13 should reflect the latest ratios: 2015-16 at 38.6 and 2016-17 at 38.3. this represents the latest GDP forecast from OEP and the removal of the 10.7B from 15-16 with the 16-17 deficit unchanged from the FES number.

John has already passed on the above to Selena. I also suggested that I may be a good idea to include one line in slide 10 indicating that the reversal of the pension adjustment reduces the 15-16 accumulated deficit and net debt by $10.7 billion.

Thanks

Ken k

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To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>
Subject: FW: Q3 Deck for FPC

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Sent: Tuesday, January 24, 2017 2:40 PM
To: Karen Hughes (MGS) <Karen.Hughes@ontario.ca>; Maria Duran-Schneider (MOF) <Maria.Duran-Schneider@ontario.ca>; Arruda, Artur (TBS) <Artur.Arruda@ontario.ca>; Veinot, Cindy (TBS)

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Subject: Q3 Deck for FPC

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Walked Scott through it a few minutes ago, and he's continuing to review but gave it an initial thumbs up. We'll probably walk this in to FPC tomorrow.

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- Andrea/Artur – think your folks are pulling together the list of in-year approvals we'd report. Hopefully we can get that list in the next day or so to help populate the details.
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From: Ken Kandeepan
To: Gadi Mayman
Cc: Lynsey Wynberg
Subject: RE: Q3 Deck for FPC
Date: Tuesday, January 24, 2017 4:59:41 PM
Attachments: image001.png

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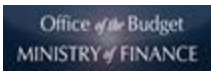


Office of the Budget
MINISTRY of FINANCE

From:	Gadi Mayman
To:	Tim Schuurman (MOF); Brian Lewis (MOL)
Cc:	Ken Kandeepan; Birks, Ryan (MOF); Ken Kandeepan; Lynsey Wynberg
Subject:	RE: Q3 Deck for FPC
Date:	Tuesday, January 24, 2017 5:16:07 PM

Hi Tim, this isn't significant enough to bother everybody with, but I just wanted to point that on slide 13, the debt to GDP ratios that you've got representing the FES outlook are actually the FES outlook on debt with current, updated nominal GDP numbers, which would explain why you've got 39.9% for 16-17, while we printed 40.3% in the FES. Given that it's now below 40, Andrew, Steve and Scott are likely to remember that it's different than what we had in FES, so maybe the legend could read "Represents FES debt outlook with updated GDP forecast". Alternatively, you could just take the numbers from Chart 3.11 on page 157 of the FES and put them in (maybe that's a better solution). The last four years up to and including 16-17 are slightly different than you've currently got on your chart, because of GDP revisions since FE,S and were 38.4, 39.1, 40.0 and 40.3 in Chart 3.11

As for the blue line, Ken and I think that it should start in 15-16, as the $10.7 billion will get reversed for that year as a prior period adjustment, and that ratio would now be 38.6%.

One last suggestion from Ken, and maybe it doesn't fit because it's already a crowded slide, but do you want to add a line on slide 10 indicating that the pension reversal reduces net debt and the net debt to GDP ratio? It might fit in at the end of the third bullet where we're already speaking about supporting additional investments in 17-18 and beyond.

Gadi

-----Original Message-----
From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: Tuesday, January 24, 2017 4:55 PM
To: Brian Lewis (MOL) <Brian.Lewis@ontario.ca>; Karen Hughes (MGS) <Karen.Hughes@ontario.ca>; Maria Duran-Schneider (MOF) <Maria.Duran-Schneider@ontario.ca>; Arruda, Artur (TBS) <Artur.Arruda@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>
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Subject: Re: Q3 Deck for FPC

We're adding a point on updating 15_16 to the deck, so good catch.

On the other details, we plan on going back next week on the rest of the details and fiscal picture we would print - so we can definitely save that for next week but foreshadowing it this week works too.

From: Lewis, Brian (MOF)
Sent: Tuesday, January 24, 2017 4:50 PM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Duran-Schneider, Maria (TBS); Arruda, Artur (TBS); Veinot, Cindy (TBS); Dutton, Andrea (TBS); Mayman, Gadi (OFA); Kwan, Ronald (OFA)
Cc: Esmail, Selena (MOF); Inglis, Liane (MOF); Lindquist, Emma (MOF); Birks, Ryan (MOF)
Subject: RE: Q3 Deck for FPC

Thanks Tim.

A question… would we update our 15-16 numbers to reflect the pension accounting, or wait until public accounts? Is that a decision point?

A comment… I think I inserted a box for a decision on whether we would report other tax revenue changes beyond

HST. These net to zero, but we know about them now, and there won't be any new information on them before the Doc, so it is a bit awkward to not report them now and pick them up in the Doc. So I see that as a decision point.

Glad to discuss.

Brian

From: Schuurman, Tim (MOF)
Sent: January 24, 2017 2:40 PM
To: Hughes, Karen (TBS); Duran-Schneider, Maria (TBS); Arruda, Artur (TBS); Veinot, Cindy (TBS); Dutton, Andrea (TBS); Lewis, Brian (MOF); Mayman, Gadi (OFA); Kwan, Ronald (OFA)
Cc: Esmail, Selena (MOF); Inglis, Liane (MOF); Lindquist, Emma (MOF); Birks, Ryan (MOF)
Subject: Q3 Deck for FPC

Please find attached a deck we're tracking into FPC tomorrow. This will travel together with a piece TBS is preparing on the Pension Panel.

Walked Scott through it a few minutes ago, and he's continuing to review but gave it an initial thumbs up. We'll probably walk this in to FPC tomorrow.

Wanted you all to have a look – this is based on input from many of your areas already, so staff have provided input, let me know if you have any edits or comments.

n Gadi, we'll need to touch on the net debt to gdp piece. You'll see we've included something in the appendix. Folks are working with Ken to see if there are other nuances we should add, but this is an important consideration as part of Q3.

n Cindy – we'll be discussing the pension piece at 4pm, but any suggested edits on this and IFRS are welcome.

n Andrea/Artur – think your folks are pulling together the list of in-year approvals we'd report. Hopefully we can get that list in the next day or so to help populate the details.

n Brian – this should reflect your input as well.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173
[cid:image002.png@01D0E4D5.A25B16F0]

From: Alexander Kraas
To: Ken Kandeepan
Cc: Erica Wieder; Lynsey Wynberg
Subject: RE: Q3 FPC Deck and Q3 Document Template / Request for Input
Date: Tuesday, January 24, 2017 9:31:21 AM

Hello Ken;

I just phoned Lynsey & said that we completed the template and want to wait until Friday with briefings to Gadi & you; just in case there are any changes from Frost. She was satisfied.

Best regards

Alex

From: Ken Kandeepan
Sent: Tuesday, January 24, 2017 9:29 AM
To: Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>
Cc: Erica Wieder <Erica.Wieder@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Subject: RE: Q3 FPC Deck and Q3 Document Template / Request for Input

We are just holding on Lynsey until Tim S confirms no change from FES numbers, note that the OFA deadline is Friday.

Thanks

Ken k

From: Lynsey Wynberg
Sent: Tuesday, January 24, 2017 9:24 AM
To: Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: Erica Wieder <Erica.Wieder@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: FW: Q3 FPC Deck and Q3 Document Template / Request for Input
Importance: High

Hi Alex,

Are you able to provide information to complete the sentence highlighted in blue in the attached Word document?

Thanks,
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From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Monday, January 23, 2017 10:05 PM

To: Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Law, Rex (TBS) <Rex.Law@ontario.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>
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Cc:	Erica Wieder; Lynsey Wynberg
Subject:	RE: Q3 FPC Deck and Q3 Document Template / Request for Input
Date:	Tuesday, January 24, 2017 9:31:58 AM

Ok thanks

Ken K

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Many thanks,
Ryan

From:	Kevin Hwang
To:	Alexander Kraas; IOD_RPA
Cc:	Ken Kandeepan; John Psinas; George Sakura
Subject:	RE: Q3 update
Date:	Wednesday, February 01, 2017 10:22:29 AM

The non-cash has been updated to remove the pension adjustment.

Thanks,
kevin

From: Ken Kandeepan
Sent: Wednesday, February 01, 2017 9:58 AM
To: John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>
Subject: FW: Q3 update

Hi All

Pls note preferred option and the proposed Q3 date. Once Gadi confirms today that FPC has indeed approved both we can proceed towards finalizing the Financing Table. Note that option 4 which is the preferred option, projects a deficit that is lower than simply removing the pension adjustment. If I remember correctly the maturities are also lower by $282M.

My preference is to offset the lower maturities through cash and reduce the long term borrowing by the reduction in the deficit that is over and above the removal of the pension adjustment. Having said that, the latter is relatively small so Gadi may choose maintain the long term borrowing at FES levels and adjust this as well through cash. Once I hear back from him we can target say Friday or Monday to present a first cut of the FT and the revised net debt to GDP ratios.

Kevin if you have not yet done so, pls revise the non-cash by the amount of the pension adjustment.

Thanks and happy to discuss.

Ken k

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Tuesday, January 31, 2017 6:18 PM
To: Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Tim Cook (MOF) <Tim.Cook@ontario.ca>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca>; Sharon Stuckless (TCU) <Sharon.Stuckless@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca>; Raj Sharda (MOHLTC) <Raj.Sharda@ontario.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF)

<Liane.Inglis@ontario.ca>
Subject: RE: Q3 update

Hi Everyone – I'm attaching for you, the materials for tomorrow's FPC discussion, including:

- Q3 Finances background (updated for new proposed release date, recommended option highlighted, and additional information on letter to Clerk)
- Q3 Finances option placemat (also updated to highlight recommended option)
- One-pager highlighted key dates for various deliverables and confirmation of timing (LTR, Q3, Pensions Panel, letter to clerk, new electricity relief, tentative Document track)
- One-pager with proposed agenda for Feb 9th MMP.

Thanks for your own going support and cooperation.

From: Esmail, Selena (MOF)
Sent: January-27-17 7:07 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: Re: Q3 update

Hi everyone - here are versions we are going to use to brief our minister on monday.

Many thanks for your help.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Esmail, Selena (MOF)
Sent: Friday, January 27, 2017 12:07 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
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Hi Everyone – just wanted to share with you the latest on the strategy for Q3. We are headed back to FPC next week with a further 2 scenarios on the deficit target that could be published. In addition to the ones we took earlier this week – two new options are proposed – one is to reverse the pensions only (option 1 in the materials), and the second is to take on a certain amount of ministry pressures we think will materialize (option 4 in the materials).

In terms of the materials – there is both a deck and a placemat that we are proposing to take forward. The placemat illustrates the 4 options and includes how the revenue/expense change table would appear relative to Budget and some proposed narrative for each scenario.

The deck is very similar to what we took forward last week but has a couple of new slides. Tim has also just circulated to your ADMs

Can I ask that you specifically take a look at slide 8 to ensure you are comfortable with the wording as well as the **narrative on the placemat** that would be helpful. But happy to hear any comments on the rest of it as well. We are looking for any comments back by 3:30pm today so we can finalize and send up to our DM/MO today.

And – we are continuing to track for a release on Feb 13 and we will be in touch to request your assistance.

Happy to discuss.

Thanks.

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Comments welcome – if you could let me know asap if you have them. Heads up that timing of release of the Q3 may be even sooner as noted in this deck

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To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
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Importance: High

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Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: Q3 heads up

Hi Everyone – Wanted to send a quick message that we are hearing there is a desire to proceed with the release of a Q3 update around the time we are expecting the Pension Panel panel to release their report. We are going to assume mid feb prior to the house coming back for our planning purposes.

My team is going to work together to put together a list of things we need to start working on/think about along with a calendar to determine and get direction on an approach to coincide with this timeframe.

More details to follow tomorrow.

Thanks.

From:	Esmail, Selena (MOF)
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Cc:	Emma Lindquist (MOF); Inglis, Liane (MOF)
Subject:	RE: Q3 update
Date:	Friday, January 27, 2017 12:08:02 PM
Attachments:	FPC_Q3Finances_Deck (Feb 1)_v2.pptx FPC_Q3_FiscalStrategyPlacemat_v4b.pptx

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Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: Q3 heads up

Hi Everyone – Wanted to send a quick message that we are hearing there is a desire to proceed with the release of a Q3 update around the time we are expecting the Pension Panel panel to release their report. We are going to assume mid feb prior to the house coming back for our planning purposes.

My team is going to work together to put together a list of things we need to start working on/think about along with a calendar to determine and get direction on an approach to coincide with this timeframe.

More details to follow tomorrow.

Thanks.

Ontario's Third Quarter Finances: Fiscal Strategy

Office of the Budget
MINISTRY of FINANCE

Presentation to FPC on February 1, 2017

Preliminary Draft

Draft – January 27, 2017 9:30 AM

Context

Under the *Fiscal Transparency and Accountability Act, 2004* (FTAA), the Third Quarter Finances is required to:

- Be released on or before February 15th (publication can be delayed if a letter is sent to the Clerk).
- Include updated information about the major components of revenue and expense **for the current fiscal year only.**

It also provides an **opportunity for the government to reiterate key fiscal messages** from the Budget or pre-condition for future updates.

A Third Quarter Finances has only been published once in the last eight years (in 2012-13).

Key stakeholders like the Financial Accountability Officer and rating agencies will assess the fiscal outlook and narrative.

- Both have acknowledged that balance is within reach in 2017-18, but have also highlighted key risks to the 2016 Budget fiscal plan.

Purpose and Key Decisions

Currently working towards **a release date of February 13, 2017** – need to **confirm the approach to publishing Ontario's Third Quarter Finances**, including:

- The core updates to **the fiscal outlook and supporting revenue and expense details** to be published, as well as the **fiscal narrative and messaging**.
- Positioning the content and the rollout of Third Quarter Finances relative to the release of the Pension Panel's Report and recommendations, and other publicly available information.

Evolution of the 2016-17 Outlook

- The Third Quarter Finances will present a fiscal update relative to the 2016 Budget and address changes since FES in narrative only.
- The 2016 FES highlighted Ontario's stronger economy and the government's approach to fiscal management, which supported strategic investments in new child care spaces, hospitals and electricity cost relief for consumers.
- To support these investments while accommodating the Pension Adjustment, the government took on a number of fiscal tools in order to meet its targets.

2016 Budget Fiscal Plan $ Billions	2016-17	Change to FES 2016-17	FES Outlook 2016-17
Revenue	130.6	*2.1*	132.7
Expense			
Programs	122.1	*3.1*	125.3
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*2.7*	136.6
Surplus/(Deficit) Before Reserve	(3.3)	*(0.6)*	(3.9)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*(0.0)*	(4.3)

Total revenue changes of $2.1 billion, consisting of:

- Base Forecast Change $1.0 billion
- Reversal of Homecare $(0.2) billion
- Federal Agreements $0.4 billion
- Higher assumed revenue to accommodate pensions $0.9 billion

Total expense changes of $2.7 billion, consisting of:

- In-Year Approvals $0.2 billion
- Pension Adjustment of $2.2 billion
- Electricity Cost Relief $0.3 billion
- Support for Hospitals $0.1 billion
- Green Investment Fund $0.3 billion
- New Federal Agreements $0.4 billion
- Contingency Fund Offsets $(0.5) billion
- Interest on Debt Savings $(0.4) billion

Change to the Reserve $(0.6) billion

End of Year Projection for 2016-17

- An early-read indicates that end of year projections for the 2016-17 deficit could range from $0.6 billion (if there is a significant improvement to the outlook) to $2.7 billion (if there is a moderate improvement to the outlook).

Significant Year-end Improvement

2016 Budget (4.3) billion
+ Pension Adjustment and Tools
2016 FES (4.3) billion
+ Higher Revenue ***1.7 billion***
− Re-profiling Cap and Trade Proceeds ***0.5 billion***
− Lower Net Contribution from Assets Optimization ***75 million***
− Accounting Adjustments: Accounting Framework (IFRS) ***75 million*** Unchanged Contaminated Sites
Unchanged Program Expense
+ Reverse Pension Adjustment ***2.2 billion***
+ Lower Interest on Debt ***0.1 billion***
+ Reduce Reserve ***0.4 billion***
Early-Read (0.6) billion

Moderate Year-end Improvement

2016 Budget (4.3) billion
+ Pension Adjustment and Tools
2016 FES (4.3) billion
+ Higher Revenue ***0.7 billion***
− Re-profiling Cap and Trade Proceeds ***0.5 billion***
− Lower Net Contribution from Assets Optimization ***75 million***
− Accounting Adjustments: Accounting Framework (IFRS) ***75 million*** Contaminated Sites ***50 million***
− Higher Program Expense ***1.0 billion***
+ Reverse Pension Adjustment ***2.2 billion***
Unchanged Interest on Debt
+ Reduce Reserve ***0.4 billion***
Early-Read (2.7) billion

Treatment of Pension Adjustment

Panel Recommendation

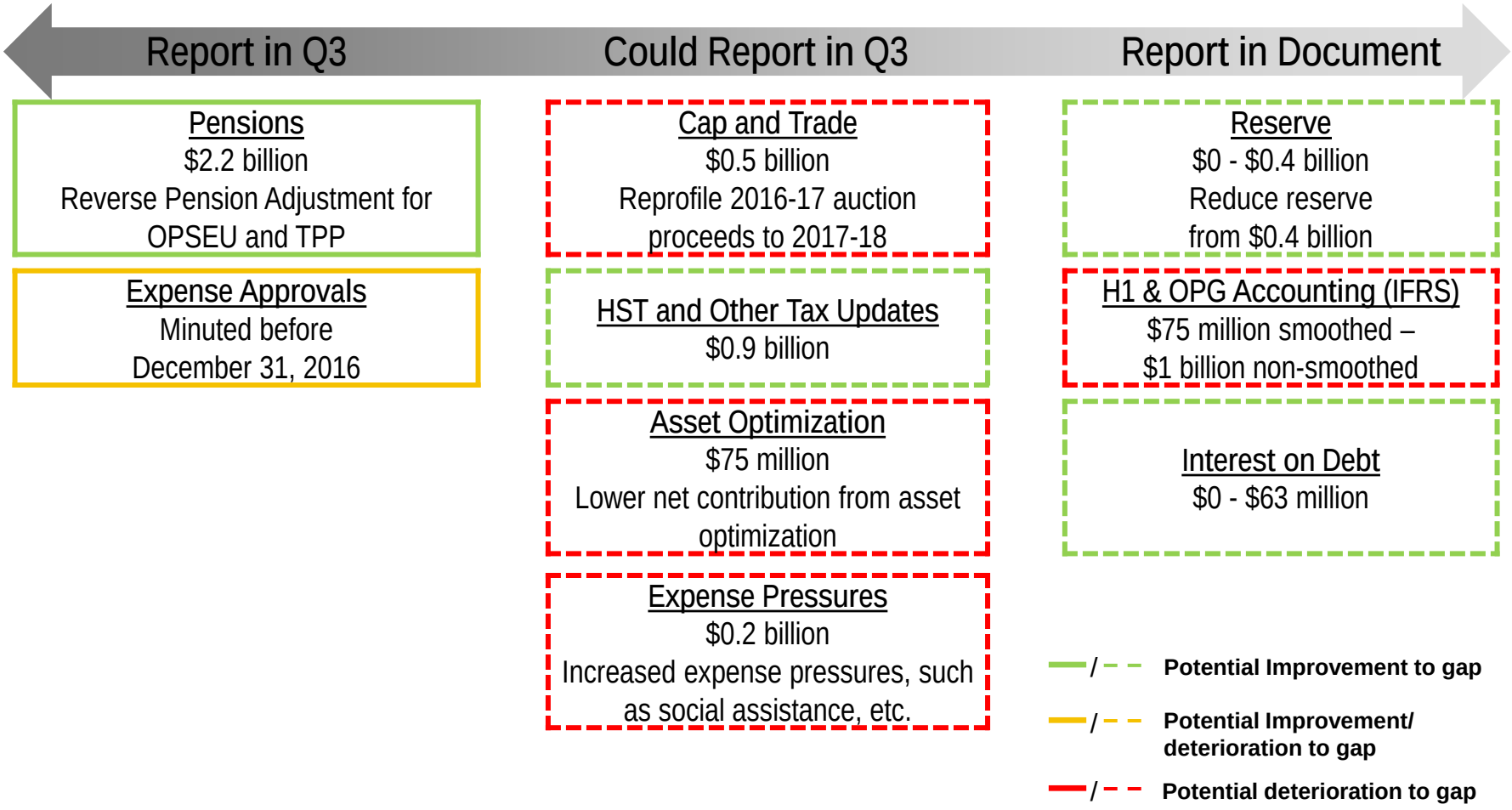
- The Pension Asset Expert Advisory Panel will be releasing its findings in the coming weeks.
  - The report is expected to include advice that government jointly sponsored pension plans be recognized in the Province's financial statements.
  - If taken on, this would result in a positive fiscal impact to the government's outlook in all years.

Treatment of Pension Adjustment

- The Third Quarter Finances provides the government with an immediate opportunity to align its fiscal strategy with recommendations of the panel, and frame the pension narrative in advance of the 2017 Document.
- While the reversal of the pension adjustment to the Ontario Public Service Employees Union Pension Plan (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) will result in an improved 2016-17 deficit, expectations may need to be tempered about how much fiscal room is created in the out-years.
- For consistency and comparability, an adjustment to the 2015-16 actuals may be required to reflect the government's decision to adopt the Panel's recommendations. The adjustment to historical results would impact the previously reported net debt and deficit results.

Key Building Blocks

- In addition to the reversal of the Pension Adjustment, other key building blocks will either need to be reported in the Third Quarter Finances or be considered for the 2017 Document.



Building Block Considerations

There are a number of considerations for whether key building blocks should be taken on in the Third Quarter Finances or deferred to the 2017 Document.

Could Report in Third Quarter Finances

Cap and Trade

- The Cap and Trade auction notice that was released on January 20 stating that certification will occur on April 3, 2017.
- Stakeholders (e.g. FAO and Auditor General) may question why the government has not updated its fiscal plan to reflect this change.

HST and Other Tax Updates

- HST and other tax information has been received since the FES, and no further significant updates are expected in advance of the 2017 Document.
- Stakeholders are aware of the timing of these information flows and may question if updates are not taken on in Third Quarter Finances.

Asset Optimization

- Updating for revised estimated net contribution from Asset Optimization would build some deterioration into the outlook.
- There is uncertainty on the timing and potential gains for the H1 Brampton and Seaton Lands sales, and uncertainty on the final net gains reported H1 shares sold to OPG, potentially necessitating additional updates in the 2017 Document.

Expense Pressures

- Ministry risks represent potential pressures in the fiscal plan, and are not typically included in Quarterly updates.
- However, it may be prudent to address risks which may materialize before the 2017 Document, such as increased expense pressures associated with social assistance etc.

Report in Document

Reserve

It is recommended that the reserve be maintained at its current level of $0.4 billion, in order to mitigate any pressures that may arise before year-end.

H1 & OPG Accounting (IFRS)

Updated information on the potential fiscal impact of the move from U.S. GAAP to IFRS for Hydro One and OPG, is expected in mid-February.

Interest on Debt

Deferring improvements in the interest on debt forecast allows for upside potential in the 2017 Document.

Outstanding Information

- **Outstanding Information** could materially impact the **2016-17 outlook** in advance of the 2017 Document.

Revenue
Revisions to economic outlook
Ongoing provincially-administered tax receipts
Non-tax revenue updates from Ministry PRRT submissions
Net income updates from government business enterprises

Expense
Ministry Q3/interim submissions
Consolidations and other technical adjustments
Interest on debt forecast updates
Contaminated sites liabilities
Updated pension expense forecast

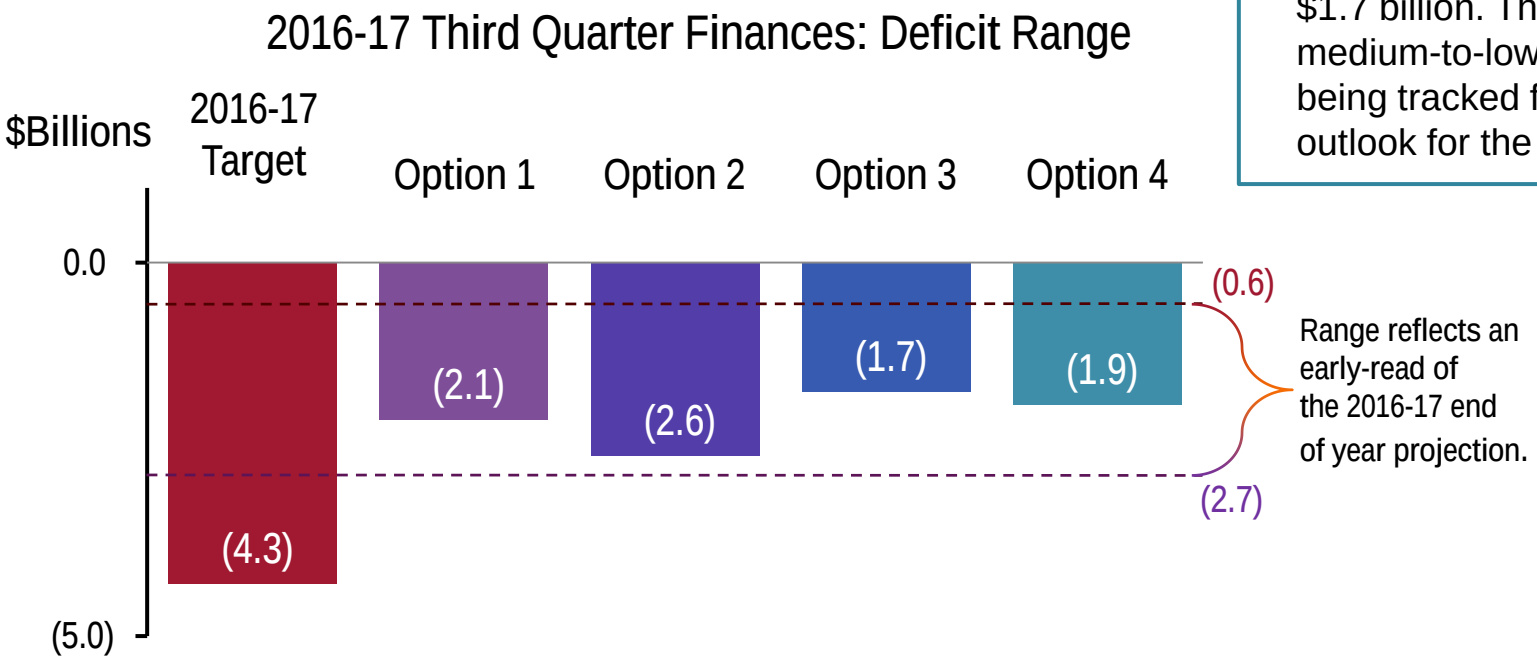
- Potential improvement to gap
- Potential improvement or deterioration to gap
- Potential deterioration to gap

Principles for the 2016-17 Outlook

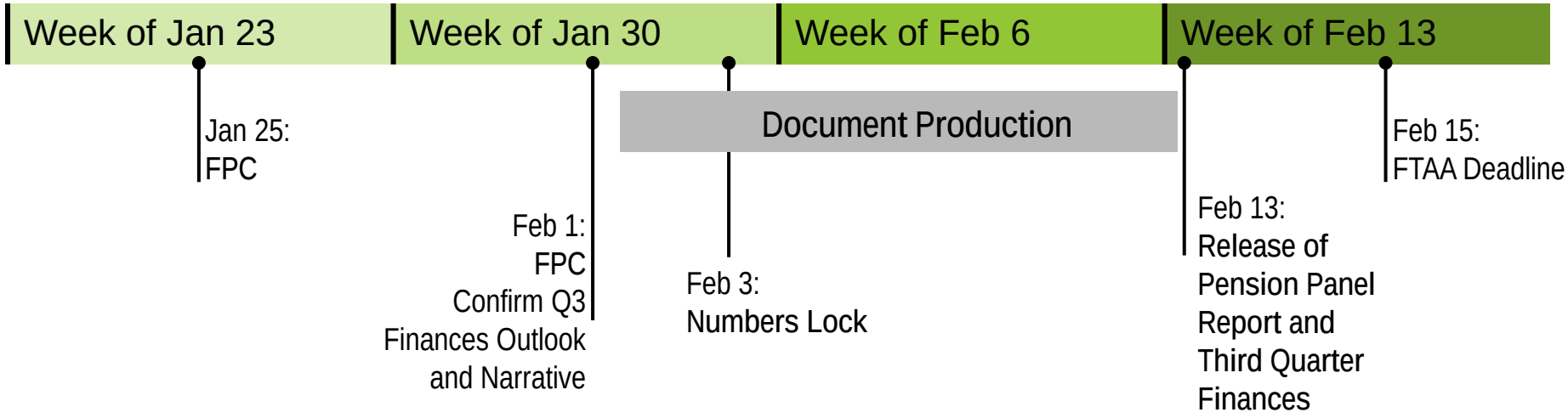
Options 1 through 4 build on each other. All options assume the pension reversal and progressively take on additional changes relative to FES .

Option 1	Option 2	Option 3	Option 4
Pensions: $2.2 billion	**Pensions**: $2.2 billion	**Pensions**: $2.2 billion	**Pensions**: $2.2 billion
	Cap and Trade: $(0.5) billion	**Cap and Trade:** $(0.5) billion	**Cap and Trade:** $(0.5) billion
		Asset Optimization: $(0.1) billion	**Asset Optimization:** $(0.1) billion
		HST & Other Taxes: $0.9 billion	**HST & Other Taxes:** $0.9 billion
			Expense Pressures: $(0.2) billion

- Based on an early-read of end of year projections, the government may want to report an outlook that protects against risks or other changes between now and the Budget.
- Based on current information and taking into account key building blocks, there are a number of options for presenting the Q3 deficit, ranging from $2.6 billion to $1.7 billion. These are on the medium-to-low end of what is being tracked for the interim outlook for the 2017 Document.



Next Steps

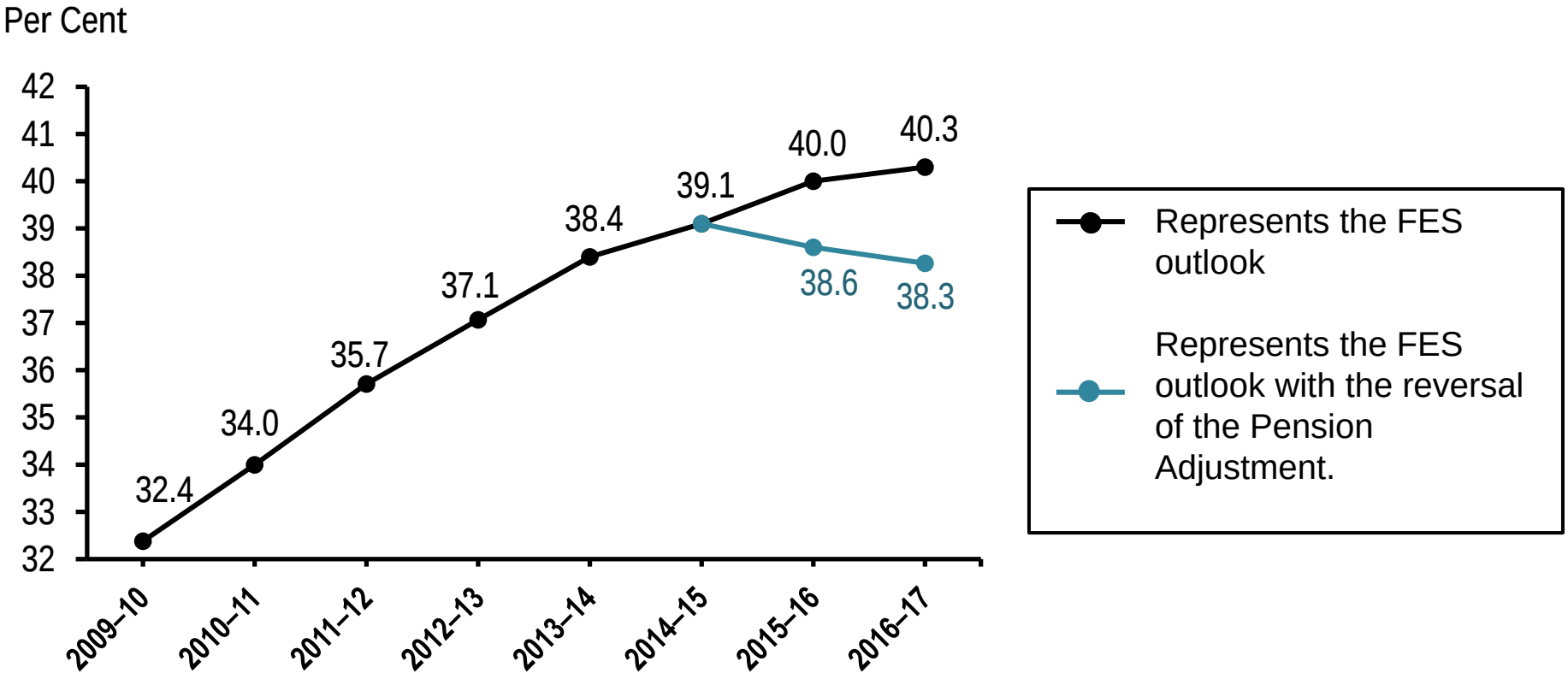

Week of Jan 23
Week of Jan 30
Week of Feb 6
Week of Feb 13
Jan 25:
FPC
Feb 1:
FPC
Confirm Q3
Finances Outlook
and Narrative
Document Production
Feb 3:
Numbers Lock
Feb 13:
Release of
Pension Panel
Report and
Third Quarter
Finances
Feb 15:
FTAA Deadline

Appendix

Net Debt-to-GDP With Pension Reversal

Narrative: *The impact of the reversal will change the net debt projection for 2016-17 by $X.X billion. As a result, the government is projecting a net debt-to-GDP ratio of X.X per cent, an improvement compared to the 2016 FES projection of 40.3 per cent*

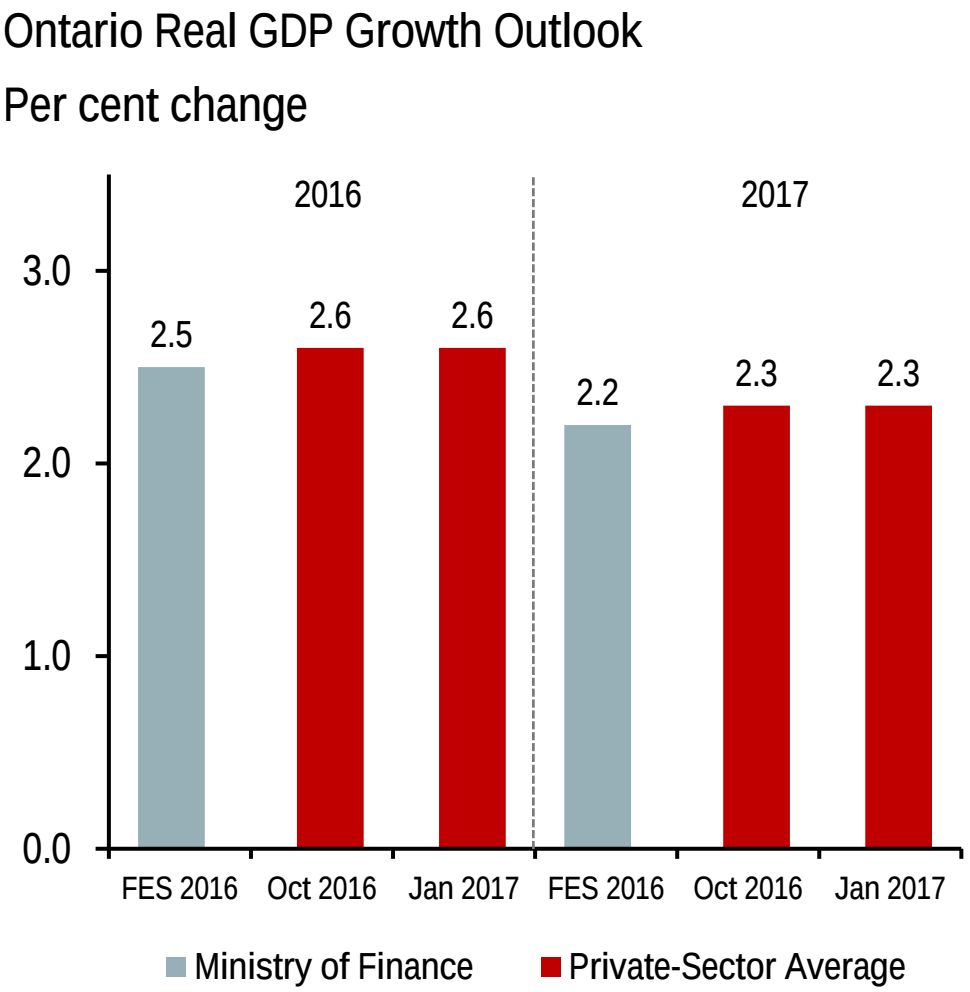
- Reflects the reversal of the Teachers Pension Plan and OPSEU Pension Plan adjustments, including reversal of the $10.7 billion debt adjustment made in the 2015-16 Public Accounts



Potential Third Quarter Economic Outlook

Economic Update

- Real GDP increased by 0.7% in the third quarter (July to September) of 2016, after rising 0.2% in the second quarter.
  - Higher exports and continued growth in household spending were the primary drivers of growth
- Information available so far for the fourth quarter (October to December) of 2016 suggest growth at a more modest pace.
- Ontario's economic growth outlook remains consistent with the 2016 FES forecast



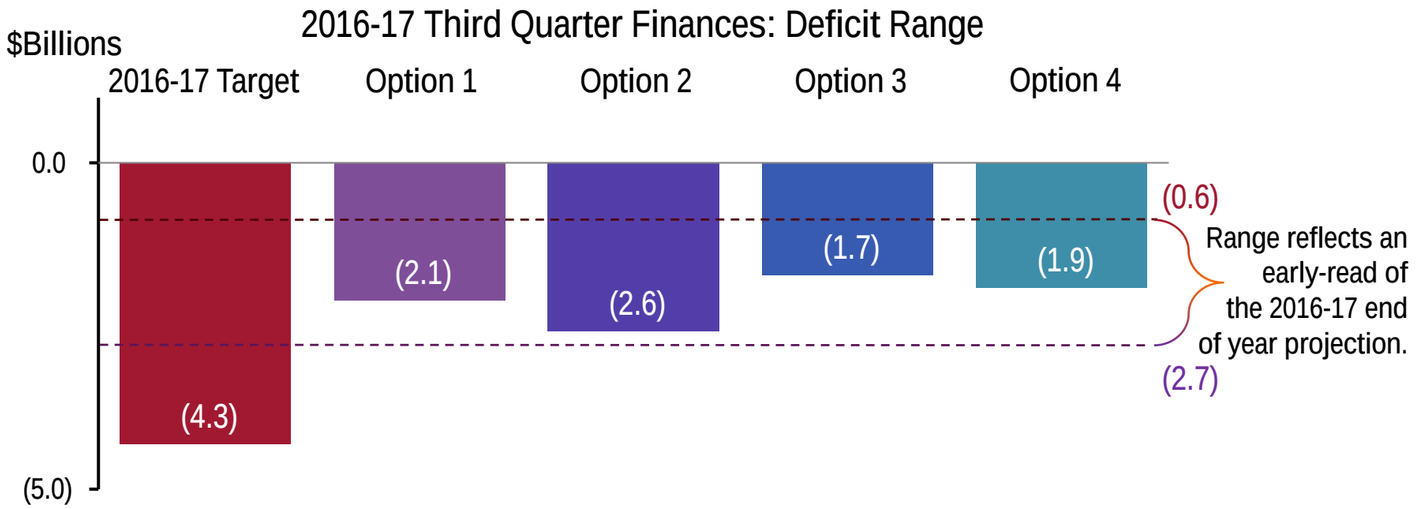
Other Accounting Issues

Other Accounting Issues

- The move from U.S. GAAP to IFRS for the consolidation of Hydro One and OPG results in a fiscal impact starting in 2016-17, of either:

Basis of Consolidation of OPG and H1 (US GAAP vs. IFRS)	Fiscal Impact Relative to FES				
	2016-17	2017-18	2018-19	2019-20	2020-21
Preferred Approach (smoothed IFRS impact)**	**$75M**	**$425M**	**$525M**	**$675M**	**$675M**
High Impact (non-smoothed IFRS impact)**	$1B	$375M	$400M	$400M	$400M

*** OPG's estimate of cumulative impact for 2015-2020 is $2.5B under the preferred approach, and $2.6B under the high impact approach. Note: Amounts are based on estimates currently available, and are subject to updates by OPG. Revised estimates are expected by March 1, 2017.*



Options 1 through 4 build on each other. All options assume the pension reversal and progressively take on additional changes.

Option 1	Option 2	Option 3	Option 4
Pensions: $2.2 billion	**Pensions**: $2.2 billion	**Pensions**: $2.2 billion	**Pensions**: $2.2 billion
	Cap and Trade: $(0.5) billion	**Cap and Trade:** $(0.5) billion	**Cap and Trade:** $(0.5) billion
		Asset Optimization: $(0.1) billion	**Asset Optimization:** $(0.1) billion
		HST & Other Taxes: $0.9 billion	**HST & Other Taxes:** $0.9 billion
			Expense Pressures: $(0.2) billion

Overall Narrative: *The strength of the Ontario economy, together with the government's approach to fiscal management, is supporting strategic investments, while allowing the government to continue to beat its fiscal targets.*

Option 1
Reversal of Pensions

$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	*2.1*	132.7
Expense			
Programs	122.1	*0.9*	123.1
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*0.5*	134.4
Surplus/(Deficit) Before Reserve	(3.3)	*1.6*	(1.7)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*2.2*	(2.1)

- *The government is projecting a **deficit of $2.1 billion in 2016-17**, an improvement of $2.2 billion since the 2016 Budget.*
- *The Pension Asset Expert Advisory Panel recently released its report on the treatment of pension assets, including a recommendation that jointly-sponsored net pension asset be recognized in the Province's financial statements. The government is adopting this recommendation, which aligns with the treatment originally included in the 2016 Budget plan.*
- *With this reversal, together with stronger revenue and lower interest on debt, the government is on track to beat its fiscal target.*

Option 2
Option 1 + Cap and Trade

$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	*1.7*	132.2
Expense			
Programs	122.1	*0.9*	123.1
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*0.5*	134.4
Surplus/(Deficit) Before Reserve	(3.3)	*1.1*	(2.2)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*1.7*	(2.6)

- *The government is projecting a **deficit of $2.6 billion in 2016-17**, an improvement of $1.7 billion since the 2016 Budget.*
- *Cap and Trade is a cornerstone of the Province's fight against climate change. Ontario's first Cap and Trade auction is scheduled for March 22, 2017, and establishes Ontario's partnership in the largest carbon market in North America.*
- *Proceeds from Ontario's first auction will be certified at the beginning of the 2017-18 fiscal year. As such, the Third Quarter Finances reflect the re-profiling of auction proceeds from 2016-17 to 2017-18.*

Option 3
Option 2 + Assets + HST & Other Taxes

$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	*2.5*	133.1
Expense			
Programs	122.1	*0.9*	123.1
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*0.5*	134.4
Surplus/(Deficit) Before Reserve	(3.3)	*2.0*	(1.3)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*2.6*	(1.7)

- *The government is projecting a **deficit of $1.7 billion in 2016-17**, an improvement of $2.6 billion since the 2016 Budget.*
- *Ontario's economy continues to grow in an uncertain global environment. Stronger 2015 income tax assessment results and the continued strength of Ontario's economy and housing market resulted in higher than forecasted taxation revenues.*
- [Suggest not addressing AO downward estimate in narrative.]

Option 4
Option 3 + Expense Pressures

$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	*2.5*	133.1
Expense			
Programs	122.1	*1.1*	123.3
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*0.7*	134.6
Surplus/(Deficit) Before Reserve	(3.3)	*1.8*	(1.5)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*2.4*	(1.9)

- *The government is projecting a **deficit of $1.9 billion in 2016-17**, an improvement of $2.4 billion since the 2016 Budget.*
- *The government's fiscally sound approach to managing the Province's finances will help grow the economy, create jobs and ensure the sustainability of programs and services that help Ontarians in their everyday lives.*
- *[This includes supporting strategic investments, such as funding for social assistance, and increased enrolment in schools.]*

From:	Alexander Kraas
To:	Kevin Hwang; IOD_RPA
Cc:	Ken Kandeepan
Subject:	RE: Q3 update
Date:	Friday, January 27, 2017 9:48:44 AM

Thank you for the update, Kevin;

We will have to act very fast then since numbers will be locked the same day.

Best regards

Alex

From: Kevin Hwang
Sent: Friday, January 27, 2017 9:44 AM
To: Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: IOD_RPA <IOD_RPA@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: RE: Q3 update

Hi Alex,

If we remove the pension adjustment:

- Non-cash in 2016-17 would be ($5,204). Presently, in the FT it is ($7,444) per the FES.
- There would be no changes to the 2017-18 to 2020-21 out-years.

As discussed with Ken, we are waiting for the outcome of next Wednesday's FPC meeting before making changes to the non-cash.

Thanks,
kevin

-----Original Message-----
From: Alexander Kraas
Sent: Thursday, January 26, 2017 4:14 PM
To: Kevin Hwang <Kevin.Hwang@ofina.on.ca>
Cc: IOD_RPA <IOD_RPA@ofina.on.ca>
Subject: FW: Q3 update

Hello Kevin;

How will the pension adjustment affect the cash timing adjustments for the FT?

Thank you

Alex

-----Original Message-----
From: Ken Kandeepan
Sent: Thursday, January 26, 2017 3:00 PM
To: Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: Re: Q3 update

Thanks, much appreciate the quick response.

Ken k

> On Jan 26, 2017, at 2:37 PM, Esmail, Selena (MOF) <Selena.Esmail@ontario.ca> wrote:
>
> Hi ken - thank you so much for following up on this. We need to go back to FPC next week for additional scenarios on the deficit we could publish in Q3 and so we haven't landed on anything definitive yet. At minimum it appears at this point we will be reversing the pension adjustment but there may be other variables that impact the deficit figure. Not sure if that helps you get started. So for now, don't worry about the noon deadline and we will be in touch with you/your team as soon as we can on something more definitive.
>
> Thank you again.
>
> -----Original Message-----
> From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
> Sent: January-26-17 1:40 PM
> To: Esmail, Selena (MOF)
> Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
> Subject: Re: Q3 update
>
> Hi Selena
>
> Any further update on whether the FES numbers will be used for Q3, or will the pension adjustment be reversed resulting in a revised deficit and net debt.
>
> Much appreciated if you can get back to us EOD, since we have to get back to you by tomorrow 12 pm with the financing table and the ratios.
>
> Thanks
>
> Ken k
>

>> On Jan 23, 2017, at 2:53 PM, Esmail, Selena (MOF) <Selena.Esmail@ontario.ca> wrote:
>>
>> Hi ken - thanks. Not sure yet on whether we will keep the fes forecast or update for the latest but I'll speak to tim about it. Tim mentioned earlier that we shld retain the fes forecast but I just want to confirm with him.
>>
>> Thanks again.
>>
>> Sent from my BlackBerry 10 smartphone on the Rogers network.
>> From: Ken Kandeepan
>> Sent: Monday, January 23, 2017 1:06 PM
>> To: Esmail, Selena (MOF)
>> Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA)
>> Subject: RE: Q3 update
>>
>>
>> Hi Selena
>>
>> Couple of quick question, the 16-17 IOD forecast was revised downwards from the FES number and provided to Tim. Do you want us to use this revised version or stick with the FES forecast with the revision being presented in the Interim section of the 2017 Budget.
>>
>> Let me know, and in order to complete the Financing Table we need to know the 16-17 deficit that you will be projecting in the Q3, will be the same as the FES?
>>
>> Thanks
>>
>> Ken k
>>
>> From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
>> Sent: Monday, January 23, 2017 12:43 PM
>> To: Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Tim Cook (MOF) <Tim.Cook@ontario.ca>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca>; Sharon Stuckless (TCU) <Sharon.Stuckless@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca>; Raj Sharda (MOHLTC) <Raj.Sharda@ontario.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
>> Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
>> Subject: RE: Q3 update
>> Importance: High
>>
>> Hi All,
>>

>> Following up on my email from last week, we received relatively recent direction regarding the release of Ontario's Third Quarter Finances – the tentative plan is to publish Q3 finances ahead of the February 15 deadline. We are tentatively tracking a release date of Monday February 13.
>>
>> As you can imagine, timelines are very compressed, and includes a possible trip to FPC this week. In order to meet this week's deadlines, while also preparing for the release of the actual publication, we're asking for input from you in stages:
>>
>> EOD Today:
>> We have prepared the draft of a deck, which we are working towards tabling at this Wednesday's FPC (TBC). The deck lays out the key 2016-17 building blocks that could be updated as part of the Q3 publication. It would help if we could get the following from you folks by the end of today:
>> 16-17 post-FES expense update: We have included placeholder for an expense slide. The intention is for the slide to provide an updated list of initiatives that were not included in the FES expense outlook.
>> Recommended expense update/signature initiatives: We may build in options for what the outlook could look like – it would help if you could provide a recommendation for the expense changes that should be taken on/profiled.
>> 16-17 c-fund update: We have included a c-fund slide that was used in the Q1 finances briefing materials (current PW). We would like to include an updated version of this slide in the FPC deck (appendix). It would help to have this out to 19-20.
>> Pension Narrative: Nadine – I'll connect on the pension adjustment and some high level bullets that we could use.
>>
>> Noon Friday January 27:
>> Template: I've attached a draft of 3q finances that is based heavily off of the 2016 First Quarter Finances. We've highlighted in green the sections that we would like you to update. While I'm not 100% certain this structure will be exactly what the Q3 document will look like, I think it's safe to say that the substantive content we'll have to cover is captured here. There will be some highlighted content that is not possible to update for Friday, however there will be a formal distribution process where additional information can be incorporated.
>>
>> Thanks everyone, and please feel free to send your input directly to Liane and Emma. Im hoping to be able to share a draft deck with you late this evening.
>>
>>
>>
>> From: Esmail, Selena (MOF)
>> Sent: January-19-17 2:57 PM
>> To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)
>> Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
>> Subject: Q3 heads up
>>

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>>
>> My team is going to work together to put together a list of things we need to start working on/think about along with a calendar to determine and get direction on an approach to coincide with this timeframe.
>>
>> More details to follow tomorrow.
>>
>> Thanks.
>>
>>
>>
>> _____
>>
>> This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.
>

From: Kevin Hwang
To: Alexander Kraas
Cc: IOD_RPA; Ken Kandeepan
Subject: RE: Q3 update
Date: Friday, January 27, 2017 9:44:10 AM

Hi Alex,

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As discussed with Ken, we are waiting for the outcome of next Wednesday's FPC meeting before making changes to the non-cash.

Thanks,
kevin

-----Original Message-----
From: Alexander Kraas
Sent: Thursday, January 26, 2017 4:14 PM
To: Kevin Hwang <Kevin.Hwang@ofina.on.ca>
Cc: IOD_RPA <IOD_RPA@ofina.on.ca>
Subject: FW: Q3 update

Hello Kevin;

How will the pension adjustment affect the cash timing adjustments for the FT?

Thank you

Alex

-----Original Message-----
From: Ken Kandeepan
Sent: Thursday, January 26, 2017 3:00 PM
To: Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: Re: Q3 update

Thanks, much appreciate the quick response.

Ken k

> On Jan 26, 2017, at 2:37 PM, Esmail, Selena (MOF) <Selena.Esmail@ontario.ca> wrote:
>
> Hi ken - thank you so much for following up on this. We need to go back to FPC next week for additional scenarios on the deficit we could publish in Q3 and so we haven't landed on anything definitive yet. At minimum it appears at this point we will be reversing the pension adjustment but there may be other variables that impact the deficit figure. Not sure if that helps you get started. So for now, don't worry about the noon deadline and we will be in touch with you/your team as soon as we can on something more definitive.
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> Thank you again.
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> Sent: January-26-17 1:40 PM
> To: Esmail, Selena (MOF)
> Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
> Subject: Re: Q3 update
>
> Hi Selena
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> Any further update on whether the FES numbers will be used for Q3, or will the pension adjustment be reversed resulting in a revised deficit and net debt.
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>> Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA)
>> Subject: RE: Q3 update

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>> To: Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Tim Cook (MOF) <Tim.Cook@ontario.ca>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca>; Sharon Stuckless (TCU) <Sharon.Stuckless@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca>; Raj Sharda (MOHLTC) <Raj.Sharda@ontario.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
>> Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
>> Subject: RE: Q3 update
>> Importance: High
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>> Thanks everyone, and please feel free to send your input directly to Liane and Emma. Im hoping to be able to share a draft deck with you late this evening.
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>> From: Esmail, Selena (MOF)
>> Sent: January-19-17 2:57 PM
>> To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)
>> Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
>> Subject: Q3 heads up
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>> Hi Everyone – Wanted to send a quick message that we are hearing there is a desire to proceed with the release of a Q3 update around the time we are expecting the Pension Panel panel to release their report. We are going to assume mid feb prior to the house coming back for our planning purposes.
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>> More details to follow tomorrow.
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>> This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.
>

From: Alexander Kraas
To: Ken Kandeepan
Cc: IOD_RPA
Subject: RE: Q3 update
Date: Thursday, January 26, 2017 3:23:05 PM

Thank you for the update, Ken;

Best regards

Alex

-----Original Message-----
From: Ken Kandeepan
Sent: Thursday, January 26, 2017 3:00 PM
To: Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: Re: Q3 update

Thanks, much appreciate the quick response.

Ken k

> On Jan 26, 2017, at 2:37 PM, Esmail, Selena (MOF) <Selena.Esmail@ontario.ca> wrote:
>
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> Thank you again.
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> -----Original Message-----
> From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
> Sent: January-26-17 1:40 PM
> To: Esmail, Selena (MOF)
> Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
> Subject: Re: Q3 update
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> Hi Selena
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> Any further update on whether the FES numbers will be used for Q3, or will the pension adjustment be reversed resulting in a revised deficit and net debt.
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> Much appreciated if you can get back to us EOD, since we have to get back to you by tomorrow 12 pm with the financing table and the ratios.
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>> Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
>> Subject: RE: Q3 update
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To: Ken Kandeepan
Cc: Alexander Kraas; Psinas, John (TBS); George Sakura; Inglis, Liane (MOF); Emma Lindquist (MOF)
Subject: RE: Q3 update
Date: Thursday, January 26, 2017 2:37:26 PM

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From: John Psinas
To: "Inglis, Liane (MOF)"; Ken Kandeepan; Selena Esmail (MOF)
Subject: RE: Q3 update
Date: Tuesday, January 24, 2017 4:20:36 PM

Liane,

One more thing, can you round up the pension adjustment to 10.7, not 10.6 on that slide.

Thanks.

--John

416-325-8072

-----Original Message-----
From: John Psinas
Sent: Tuesday, January 24, 2017 4:15 PM
To: 'Inglis, Liane (MOF)' <Liane.Inglis@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>
Subject: RE: Q3 update

Liane,

I was talking to Ken, and he likes your idea. Let's do it that way then, with 14-15 having the same ratio, and the forked 2015-16 at 38.6 and forked 2016-17 and 38.3.

Sorry about that.

--John

416-325-8072

-----Original Message-----
From: John Psinas
Sent: Tuesday, January 24, 2017 3:59 PM
To: 'Inglis, Liane (MOF)' <Liane.Inglis@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>
Subject: RE: Q3 update

Liane,

Let's just stick with the simple graph, and just have it fork out to 2016-17 then.

Thanks.

--John

416-325-8072

-----Original Message-----
From: Inglis, Liane (MOF) [mailto:Liane.Inglis@ontario.ca]
Sent: Tuesday, January 24, 2017 3:57 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>
Subject: RE: Q3 update

Sure John. By changing the 15-16 number the table starts to fork in 14-15, which is a bit odd because the change occurs in 15-16. Not sure how to get around that, though... see attached slide. Let me know if this works.

Liane

-----Original Message-----
From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: January 24, 2017 3:51 PM
To: Inglis, Liane (MOF); Kandeepan, Ken (OFA); Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Sakura, George (OFA); Lindquist, Emma (MOF); Meralli, Shemin (OFA); Hwang, Kevin (OFA)
Subject: RE: Q3 update

Liane,

In that case, we can go with the new GDP numbers; 38.3 for 2016-17. If you're so inclined, may we suggest a second dash for 2015-16 as well and use 38.6 for that year. Please see the attached.

Thanks.

--John

416-325-8072

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Sent: Tuesday, January 24, 2017 3:35 PM
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Subject: RE: Q3 update

Thanks John - we used numbers provided to us last week for a few scenarios we pulled together, but you're right - that top line should definitely correspond to the FES numbers, so we'll make that change. On the outlook with pensions reversed - the 38.3 we have is from the attached Jan 16th spreadsheet (scenario 2), so it incorporates a more up to date GDP forecast - which I think is why our number are slightly different.

Happy to defer to you folks on whether we go with the 38.3 or the 38.9.

Liane

-----Original Message-----
From: John Psinas [mailto:John.Psinas@ofina.on.ca]

Sent: January 24, 2017 3:06 PM
To: Kandeepan, Ken (OFA); Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF); Meralli, Shemin (OFA); Hwang, Kevin (OFA)
Subject: RE: Q3 update

Selena,

Please find attached a pdf of slide 13 with our edits. Budget password in effect.

Not sure why we are off considerably as the graph notes it's based on FES numbers. Can you share the data you used for the slide?

Thanks.

--John

416-325-8072

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Sent: Tuesday, January 24, 2017 1:55 PM
To: Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; John Psinas <John.Psinas@ofina.on.ca>
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Hi Selena

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Ken - Im attaching the current version of the Q3 deck -if you could take a look through. In particular - can you have a look at slide 13 and provide a few bullets on the impact of the reversal of the pensions on net debt to GDP?

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Subject: RE: Q3 update
Importance: High

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Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
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More details to follow tomorrow.

Thanks.

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From:	John Psinas
To:	"Inglis, Liane (MOF)"; Ken Kandeepan; Selena Esmail (MOF)
Cc:	Alexander Kraas; George Sakura; Emma Lindquist (MOF); Shemin Meralli; Kevin Hwang
Subject:	RE: Q3 update
Date:	Tuesday, January 24, 2017 4:15:14 PM

Liane,

I was talking to Ken, and he likes your idea. Let's do it that way then, with 14-15 having the same ratio, and the forked 2015-16 at 38.6 and forked 2016-17 and 38.3.

Sorry about that.

--John

416-325-8072

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From: John Psinas
Sent: Tuesday, January 24, 2017 3:59 PM
To: 'Inglis, Liane (MOF)' <Liane.Inglis@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
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Subject: RE: Q3 update

Liane,
Let's just stick with the simple graph, and just have it fork out to 2016-17 then.

Thanks.

--John

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To: John Psinas <John.Psinas@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
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Subject: RE: Q3 update

Sure John. By changing the 15-16 number the table starts to fork in 14-15, which is a bit odd because the change occurs in 15-16. Not sure how to get around that, though... see attached slide. Let me know if this works.

Liane

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From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: January 24, 2017 3:51 PM

To: Inglis, Liane (MOF); Kandeepan, Ken (OFA); Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Sakura, George (OFA); Lindquist, Emma (MOF); Meralli, Shemin (OFA); Hwang, Kevin (OFA)
Subject: RE: Q3 update

Liane,

In that case, we can go with the new GDP numbers; 38.3 for 2016-17. If you're so inclined, may we suggest a second dash for 2015-16 as well and use 38.6 for that year. Please see the attached.

Thanks.

--John

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From: Inglis, Liane (MOF) [mailto:Liane.Inglis@ontario.ca]
Sent: Tuesday, January 24, 2017 3:35 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
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Subject: RE: Q3 update

Thanks John - we used numbers provided to us last week for a few scenarios we pulled together, but you're right - that top line should definitely correspond to the FES numbers, so we'll make that change. On the outlook with pensions reversed - the 38.3 we have is from the attached Jan 16th spreadsheet (scenario 2), so it incorporates a more up to date GDP forecast - which I think is why our number are slightly different.

Happy to defer to you folks on whether we go with the 38.3 or the 38.9.

Liane

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To:	"Inglis, Liane (MOF)"; Ken Kandeepan; Selena Esmail (MOF)
Cc:	Alexander Kraas; George Sakura; Emma Lindquist (MOF); Shemin Meralli; Kevin Hwang
Subject:	RE: Q3 update
Date:	Tuesday, January 24, 2017 3:58:52 PM

Liane,

Let's just stick with the simple graph, and just have it fork out to 2016-17 then.

Thanks.

--John

416-325-8072

-----Original Message-----
From: Inglis, Liane (MOF) [mailto:Liane.Inglis@ontario.ca]
Sent: Tuesday, January 24, 2017 3:57 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>
Subject: RE: Q3 update

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Liane

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Sent: January 24, 2017 3:51 PM
To: Inglis, Liane (MOF); Kandeepan, Ken (OFA); Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Sakura, George (OFA); Lindquist, Emma (MOF); Meralli, Shemin (OFA); Hwang, Kevin (OFA)
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To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
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Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
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Subject: RE: Q3 update
Importance: High

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exactly what the Q3 document will look like, I think it's safe to say that the substantive content we'll have to cover is captured here. There will be some highlighted content that is not possible to update for Friday, however there will be a formal distribution process where additional information can be incorporated.

Thanks everyone, and please feel free to send your input directly to Liane and Emma. Im hoping to be able to share a draft deck with you late this evening.

From: Esmail, Selena (MOF)
Sent: January-19-17 2:57 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: Q3 heads up

Hi Everyone – Wanted to send a quick message that we are hearing there is a desire to proceed with the release of a Q3 update around the time we are expecting the Pension Panel panel to release their report. We are going to assume mid feb prior to the house coming back for our planning purposes.

My team is going to work together to put together a list of things we need to start working on/think about along with a calendar to determine and get direction on an approach to coincide with this timeframe.

More details to follow tomorrow.

Thanks.

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

From:	Inglis, Liane (MOF)
To:	John Psinas; Ken Kandeepan; Selena Esmail (MOF)
Cc:	Alexander Kraas; George Sakura; Emma Lindquist (MOF); Shemin Meralli; Kevin Hwang
Subject:	RE: Q3 update
Date:	Tuesday, January 24, 2017 3:56:59 PM
Attachments:	Net Debt-to-GDP With Pension Reversal v2.pptx

Sure John. By changing the 15-16 number the table starts to fork in 14-15, which is a bit odd because the change occurs in 15-16. Not sure how to get around that, though... see attached slide. Let me know if this works.

Liane

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Cc: Kraas, Alexander (OFA); Sakura, George (OFA); Lindquist, Emma (MOF); Meralli, Shemin (OFA); Hwang, Kevin (OFA)
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Thanks everyone, and please feel free to send your input directly to Liane and Emma. Im hoping to be able to share a draft deck with you late this evening.

From: Esmail, Selena (MOF)
Sent: January-19-17 2:57 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: Q3 heads up

Hi Everyone – Wanted to send a quick message that we are hearing there is a desire to proceed with the release of a Q3 update around the time we are expecting the Pension Panel panel to release their report. We are going to assume mid feb prior to the house coming back for our planning purposes.

My team is going to work together to put together a list of things we need to start working on/think about along with a calendar to determine and get direction on an approach to coincide with this timeframe.

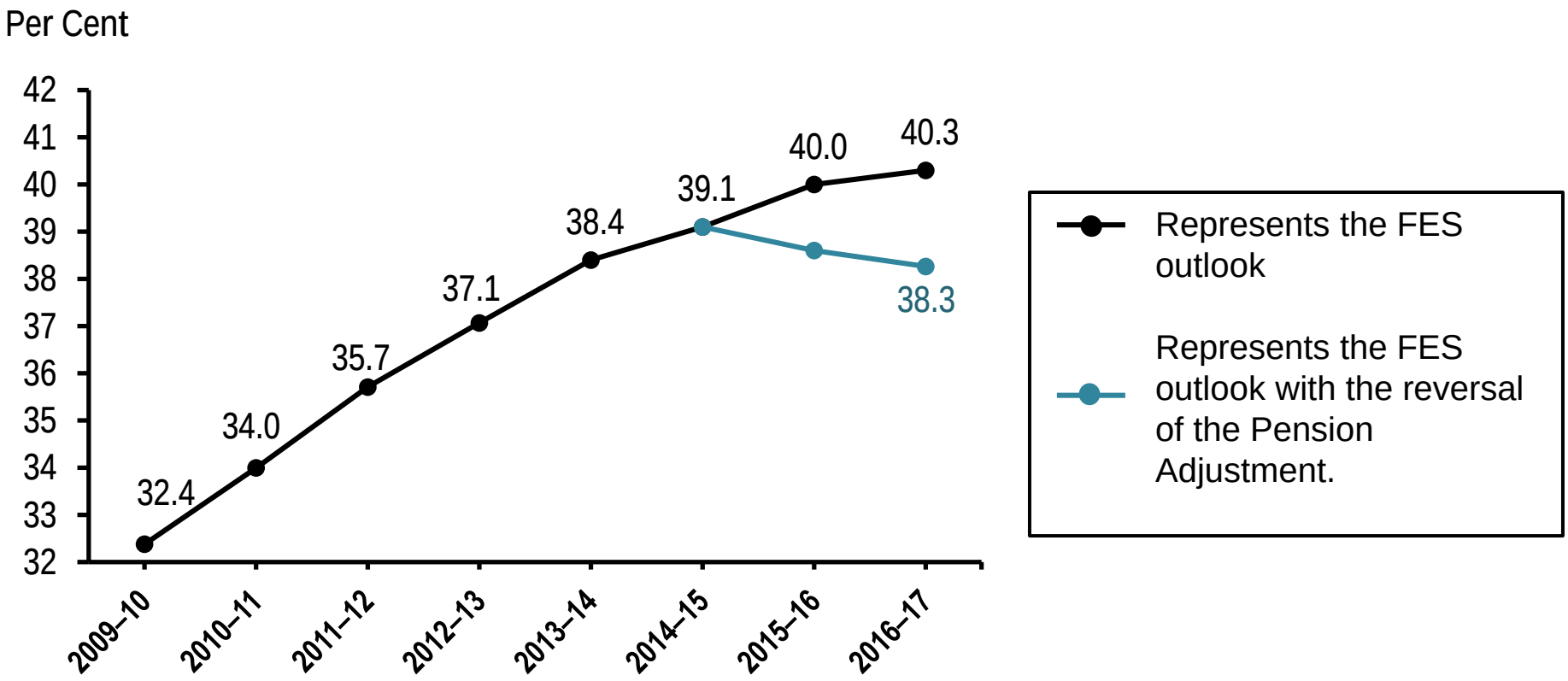
More details to follow tomorrow.

Thanks.

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

Net Debt-to-GDP With Pension Reversal

- Reflects the reversal of the Teachers Pension Plan and OPSEU Pension Plan adjustments, including reversal of the $10.6 billion debt adjustment made in the 2015-16 Public Accounts



From:	John Psinas
To:	"Inglis, Liane (MOF)"; Ken Kandeepan; Selena Esmail (MOF)
Cc:	Alexander Kraas; George Sakura; Emma Lindquist (MOF); Shemin Meralli; Kevin Hwang
Subject:	RE: Q3 update
Date:	Tuesday, January 24, 2017 3:50:50 PM
Attachments:	Net debt slide 13 v2.pdf

Liane,

In that case, we can go with the new GDP numbers; 38.3 for 2016-17. If you're so inclined, may we suggest a second dash for 2015-16 as well and use 38.6 for that year. Please see the attached.

Thanks.

--John

416-325-8072

-----Original Message-----
From: Inglis, Liane (MOF) [mailto:Liane.Inglis@ontario.ca]
Sent: Tuesday, January 24, 2017 3:35 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>
Subject: RE: Q3 update

Thanks John - we used numbers provided to us last week for a few scenarios we pulled together, but you're right - that top line should definitely correspond to the FES numbers, so we'll make that change. On the outlook with pensions reversed - the 38.3 we have is from the attached Jan 16th spreadsheet (scenario 2), so it incorporates a more up to date GDP forecast - which I think is why our number are slightly different.

Happy to defer to you folks on whether we go with the 38.3 or the 38.9.

Liane

-----Original Message-----
From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: January 24, 2017 3:06 PM
To: Kandeepan, Ken (OFA); Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF); Meralli, Shemin (OFA); Hwang, Kevin (OFA)
Subject: RE: Q3 update

Selena,

Please find attached a pdf of slide 13 with our edits. Budget password in effect.

Not sure why we are off considerably as the graph notes it's based on FES numbers. Can you share the data you used for the slide?

Thanks.

--John

416-325-8072

-----Original Message-----
From: Ken Kandeepan
Sent: Tuesday, January 24, 2017 1:55 PM
To: Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; John Psinas <John.Psinas@ofina.on.ca>
Subject: RE: Q3 update

Hi Selena

I have to be at Bud Sec shortly, however, John Psinas will provide you with the revised net debt to GDP ratio from the reversal of the pension adjustment. For 16-17 we will use the FES outlook in the ratio and update same when you land on the projected deficit for the current fiscal.

I would also suggest that slide 10 include a line indicating that the reversal of the pension adjustment reduces the 2015-16 accumulated deficit and net debt by over $10.6 billion.

Thanks

Ken k

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Tuesday, January 24, 2017 1:25 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: RE: Q3 update

Ken - Im attaching the current version of the Q3 deck -if you could take a look through. In particular - can you have a look at slide 13 and provide a few bullets on the impact of the reversal of the pensions on net debt to GDP?

Happy to discuss. Let me know if you have any other comments as well - happy to take those too. If you could get back to me as soon as possible, that would be much appreciated. Thanks.

Deck has new document psswrd.
-----Original Message-----
From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: January-24-17 10:49 AM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
Subject: RE: Q3 update

NP, I believe we do have Q&A in the FES package that addresses this very issue, so happy to flip it to you later on, do note that Gadi released an additional $63M (in relation to the IOD number in the FES) in IOD savings for 16-17

to Tim a couple of weeks ago.

Thanks

Ken k

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Tuesday, January 24, 2017 10:40 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: Re: Q3 update

Ok -. Thanks for confirming. Tim said that may be true and we may need to have a technical Q and A on this as part of Q3 comms prep. So for now we are going to leave it as a decision point about whether to take on the fes outlook or show a more up to date forecast and we may get direction from the dm today or fpc tomorrow. I hope to be able to share a draft deck with you shortly. Thanks for your help.

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: Ken Kandeepan
Sent: Tuesday, January 24, 2017 10:32 AM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
Subject: RE: Q3 update

Hi Selena

The reversal of the pension adjustment does not impact IOD since it's a non-cash adjustment, i.e., it decreases expenses on a PSAB basis not on a cash basis hence the total borrowing does not change which means that IOD also remains unchanged.

Thanks

Ken K

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Tuesday, January 24, 2017 10:29 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: Re: Q3 update

Hey ken - one thing to consider is if the pension adjustment is being reversed there may be a desire to show progress on IOD - assuming it impacts that. Thoughts?

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: Ken Kandeepan
Sent: Monday, January 23, 2017 3:19 PM
To: Esmail, Selena (MOF)

Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
Subject: RE: Q3 update

Thanks agreed, keeping the FES forecast makes sense since we don't want material changes before the interim in the Document, but pls do confirm.

Ken k

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Monday, January 23, 2017 2:54 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: Re: Q3 update

Hi ken - thanks. Not sure yet on whether we will keep the fes forecast or update for the latest but I'll speak to tim about it. Tim mentioned earlier that we shld retain the fes forecast but I just want to confirm with him.

Thanks again.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Ken Kandeepan
Sent: Monday, January 23, 2017 1:06 PM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA)
Subject: RE: Q3 update

Hi Selena

Couple of quick question, the 16-17 IOD forecast was revised downwards from the FES number and provided to Tim. Do you want us to use this revised version or stick with the FES forecast with the revision being presented in the Interim section of the 2017 Budget.

Let me know, and in order to complete the Financing Table we need to know the 16-17 deficit that you will be projecting in the Q3, will be the same as the FES?

Thanks

Ken k

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Monday, January 23, 2017 12:43 PM
To: Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Tim Cook (MOF) <Tim.Cook@ontario.ca>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca>; Sharon Stuckless (TCU) <Sharon.Stuckless@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca>; Raj Sharda (MOHLTC) <Raj.Sharda@ontario.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
Subject: RE: Q3 update
Importance: High

Hi All,

Following up on my email from last week, we received relatively recent direction regarding the release of Ontario's Third Quarter Finances – the tentative plan is to publish Q3 finances ahead of the February 15 deadline. We are tentatively tracking a release date of Monday February 13.

As you can imagine, timelines are very compressed, and includes a possible trip to FPC this week. In order to meet this week's deadlines, while also preparing for the release of the actual publication, we're asking for input from you in stages:

EOD Today:
We have prepared the draft of a deck, which we are working towards tabling at this Wednesday's FPC (TBC). The deck lays out the key 2016-17 building blocks that could be updated as part of the Q3 publication. It would help if we could get the following from you folks by the end of today:
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Recommended expense update/signature initiatives: We may build in options for what the outlook could look like – it would help if you could provide a recommendation for the expense changes that should be taken on/profiled.
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Thanks everyone, and please feel free to send your input directly to Liane and Emma. Im hoping to be able to share a draft deck with you late this evening.

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Sent: January-19-17 2:57 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
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More details to follow tomorrow.

Thanks.

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Security settings or invalid file format do not permit using Net debt slide 13 v2.pdf (194252 Bytes).

From:	Esmail, Selena (MOF)
To:	Paul Lewis (MOF); Tim Cook (MOF); Teuta Dodbiba (MOF); Sharon Stuckless (TCU); Andrea Dutton (MOF); Gladys Miu (MOI); Dorothy Cheung (MCYS); Raj Sharda (MOHLTC); Francisco Chinchon; Nadine Petsche (MOF); Ken Kandeepan
Cc:	Emma Lindquist (MOF); Inglis, Liane (MOF)
Subject:	RE: Q3 update
Date:	Tuesday, January 31, 2017 6:18:11 PM
Attachments:	FPC_Q3Finances_Deck v6.pptx FPC_Q3_FiscalStrategyPlacemat_v6.pptx Key Planning and Public Reporting Dates_Feb1.docx MMP Meeting - Agenda - Feb9.docx

Hi Everyone – I'm attaching for you, the materials for tomorrow's FPC discussion, including:

- Q3 Finances background (updated for new proposed release date, recommended option highlighted, and additional information on letter to Clerk)
- Q3 Finances option placemat (also updated to highlight recommended option)
- One-pager highlighted key dates for various deliverables and confirmation of timing (LTR, Q3, Pensions Panel, letter to clerk, new electricity relief, tentative Document track)
- One-pager with proposed agenda for Feb 9th MMP.

Thanks for your own going support and cooperation.

From: Esmail, Selena (MOF)
Sent: January-27-17 7:07 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: Re: Q3 update

Hi everyone - here are versions we are going to use to brief our minister on monday.

Many thanks for your help.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Esmail, Selena (MOF)
Sent: Friday, January 27, 2017 12:07 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update

Hi Everyone – just wanted to share with you the latest on the strategy for Q3. We are headed back to FPC next week with a further 2 scenarios on the deficit target that could be published. In addition to the ones we took earlier this week – two new options are proposed – one is to reverse the pensions only (option 1 in the materials), and the second is to take on a certain amount of ministry pressures we think will materialize (option 4 in the materials).

In terms of the materials – there is both a deck and a placemat that we are proposing to take

forward. The placemat illustrates the 4 options and includes how the revenue/expense change table would appear relative to Budget and some proposed narrative for each scenario.

The deck is very similar to what we took forward last week but has a couple of new slides. Tim has also just circulated to your ADMs

Can I ask that you specifically take a look at slide 8 to ensure you are comfortable with the wording as well as the **narrative on the placemat** that would be helpful. But happy to hear any comments on the rest of it as well. We are looking for any comments back by 3:30pm today so we can finalize and send up to our DM/MO today.

And – we are continuing to track for a release on Feb 13 and we will be in touch to request your assistance.

Happy to discuss.

Thanks.

From: Esmail, Selena (MOF)
Sent: January-24-17 3:48 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update

Hi Everyone – sending along the most current draft of the deck we are planning to take forward to FPC tomorrow.

Comments welcome – if you could let me know asap if you have them. Heads up that timing of release of the Q3 may be even sooner as noted in this deck

---

From: Esmail, Selena (MOF)
Sent: January-23-17 12:43 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
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My team is going to work together to put together a list of things we need to start working on/think

about along with a calendar to determine and get direction on an approach to coincide with this timeframe.

More details to follow tomorrow.

Thanks.

Ontario's Third Quarter Finances: Fiscal Strategy

Office of the Budget
MINISTRY of FINANCE

Presentation to FPC on February 1, 2017

Preliminary Draft

Draft – January 31, 2017 5:00 PM

Context

Under the *Fiscal Transparency and Accountability Act, 2004* (FTAA), the Third Quarter Finances is required to:

- Be released on or before February 15th (publication can be delayed if a letter is sent to the Clerk).
- Include updated information about the major components of revenue and expense **for the current fiscal year only.**

It also provides an **opportunity for the government to reiterate key fiscal messages** from the Budget or pre-condition for future updates.

A Third Quarter Finances has only been published once in the last eight years (in 2012-13).

Key stakeholders like the Financial Accountability Officer, the Auditor General and rating agencies will assess the fiscal outlook and narrative.

Both have acknowledged that balance is within reach in 2017-18, but have also highlighted key risks to the 2016 Budget fiscal plan.

Purpose and Key Decisions

Currently working towards **a release date of February 21, 2017** – need to **confirm the approach to publishing Ontario's Third Quarter Finances**, including:

- The core updates to **the fiscal outlook and supporting revenue and expense details** to be published, as well as the **fiscal narrative and messaging**.
- Positioning the content and the rollout of Third Quarter Finances relative to the release of the **Pension Panel's Report and recommendations**, and other publicly available information.

Publishing after the February 15th deadline will require that a **letter be sent to the Clerk of the Legislature** advising of the delayed release.

- Letter could be sent on **February 13th** to coincide with the release of the Pension Panel's Report.

Evolution of the 2016-17 Outlook

- The Third Quarter Finances will present a fiscal update relative to the 2016 Budget and address changes since FES in narrative only.
- The 2016 FES highlighted Ontario's stronger economy and the government's approach to fiscal management, which supported strategic investments in new child care spaces, hospitals and electricity cost relief for consumers.
- To support these investments while accommodating the Pension Adjustment, the government took on a number of fiscal tools in order to meet its targets.

2016 Budget Fiscal Plan $ Billions	2016-17	Change to FES 2016-17	FES Outlook 2016-17
Revenue	130.6	*2.1*	132.7
Expense			
Programs	122.1	*3.1*	125.3
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*2.7*	136.6
Surplus/(Deficit) Before Reserve	(3.3)	*(0.6)*	(3.9)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*(0.0)*	(4.3)

Total revenue changes of $2.1 billion, consisting of:

- Base Forecast Change $1.0 billion
- Reversal of Homecare $(0.2) billion
- Federal Agreements $0.4 billion
- Higher assumed revenue to accommodate pensions $0.9 billion

Total expense changes of $2.7 billion, consisting of:

- In-Year Approvals $0.2 billion
- Pension Adjustment of $2.2 billion
- Electricity Cost Relief $0.3 billion
- Support for Hospitals $0.1 billion
- Green Investment Fund $0.3 billion
- New Federal Agreements $0.4 billion
- Contingency Fund Offsets $(0.5) billion
- Interest on Debt Savings $(0.4) billion

Change to the Reserve $(0.6) billion

Treatment of Pension Adjustment

Panel Recommendation

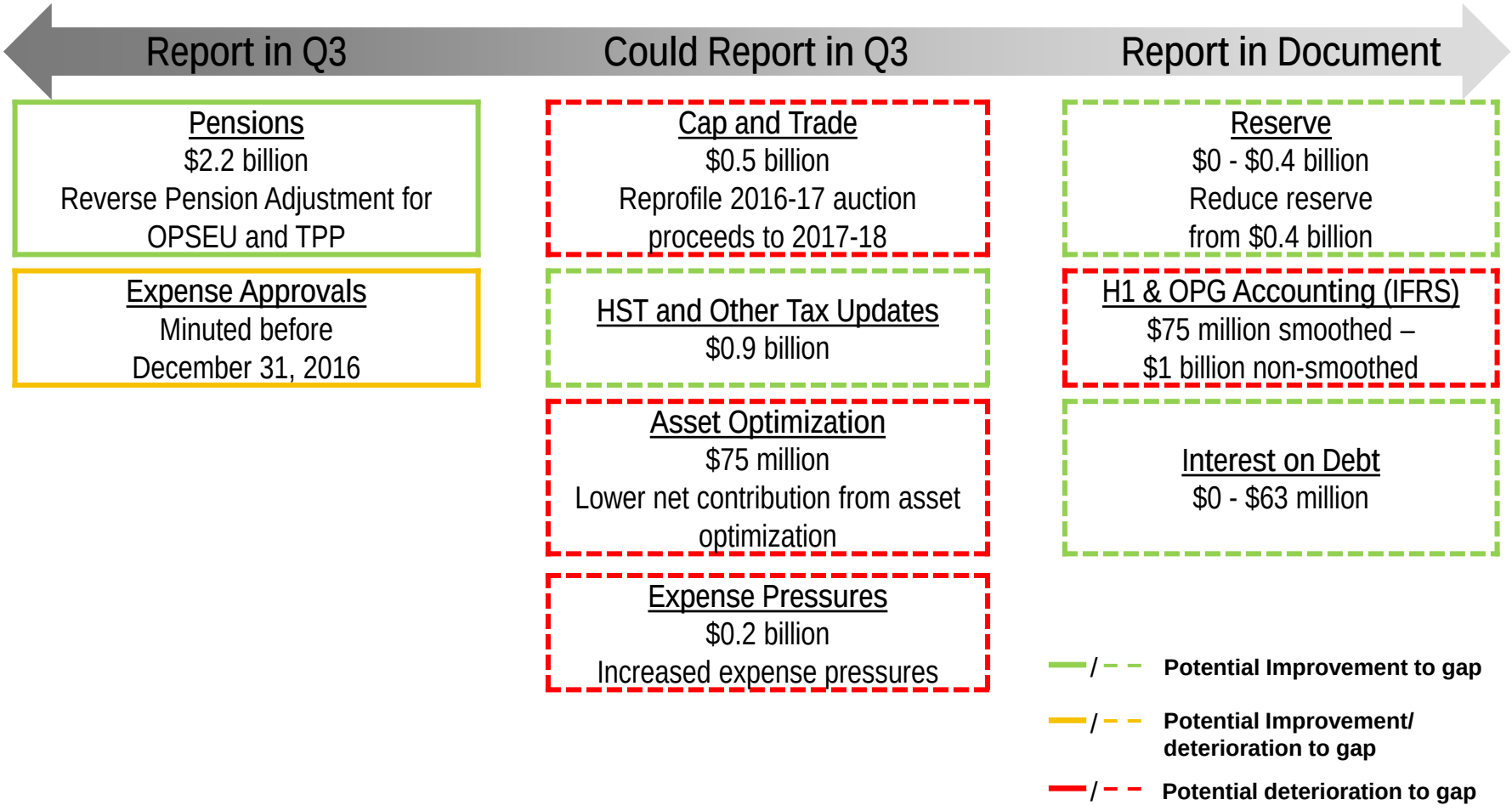
- The Pension Asset Expert Advisory Panel will be releasing its findings in the coming weeks.
  - The report is expected to include advice that the net assets of government jointly sponsored pension plans should be recognized in the Province's financial statements.
  - If taken on, this would result in a positive fiscal impact to the government's outlook in all plan years.

Treatment of Pension Adjustment

- The Third Quarter Finances provides the government with an immediate opportunity to align its fiscal strategy with recommendations of the Panel, and frame the pension narrative in advance of the 2017 Document.
- While the reversal of the pension adjustment to the Ontario Public Service Employees Union Pension Plan (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) will result in an improved 2016-17 deficit, expectations may need to be tempered about how much fiscal room is created in the out-years.
- For consistency and comparability, an adjustment to the 2015-16 actuals will be made to reflect the government's decision to adopt the Panel's recommendations. The adjustment to historical results impacts the previously reported net debt and deficit results as well as the net debt to GDP ratio.

Key Building Blocks

- In addition to the reversal of the Pension Adjustment, other key building blocks will either need to be reported in the Third Quarter Finances or be considered for the 2017 Document.



Building Block Considerations

There are a number of considerations for whether key building blocks should be taken on in the Third Quarter Finances or deferred to the 2017 Document.

Could Report in Third Quarter Finances

Cap and Trade

- The Cap and Trade auction notice that was released on January 20 stating that certification will occur on April 3, 2017, and settlement shortly thereafter.
- Stakeholders (e.g. FAO and Auditor General) may question why the government has not updated its fiscal plan to reflect this change.

HST and Other Tax Updates

- HST updates have been received since the FES, and no further significant updates are expected in advance of the 2017 Document. Other tax information is not as certain and could require additional updates in the 2017 Document.
- Stakeholders are aware of the timing of these information flows and may question if updates are not taken on in Third Quarter Finances.

Asset Optimization

- Updating for revised estimated net contribution from Asset Optimization would build some deterioration into the outlook.
- There are changes / uncertainty on the expected potential gains and/or timing for the H1 Brampton (which has not yet closed), and Seaton Lands sales (still pending), and uncertainty on the final accounting net gains reported for H1 shares purchased by OPG, potentially necessitating additional updates in the 2017 Document.

Expense Pressures

- Ministry risks represent potential pressures in the fiscal plan, and are not typically included in Quarterly updates.
- However, it may be prudent to address expense pressures which may materialize before the 2017 Document.

Report in Document

Reserve

It is recommended that the reserve be maintained at its current level of $0.4 billion, in order to mitigate any pressures that may arise before year-end.

H1 & OPG Accounting (IFRS)

Updated information on the potential fiscal impact of the move from U.S. GAAP to IFRS for Hydro One and OPG, is expected at the end of February.

Interest on Debt

Deferring improvements in the interest on debt forecast allows for upside potential in the 2016-17 interim results of the 2017 Document.

Outstanding Information

- **Outstanding Information** could materially impact the **2016-17 outlook** in advance of the 2017 Document.

Revenue
Revisions to economic outlook
Ongoing provincially-administered tax receipts
Non-tax revenue updates from Ministry PRRT submissions
Net income updates from government business enterprises
Revisions to IFRS - US GAAP impacts for OPG and Hydro One

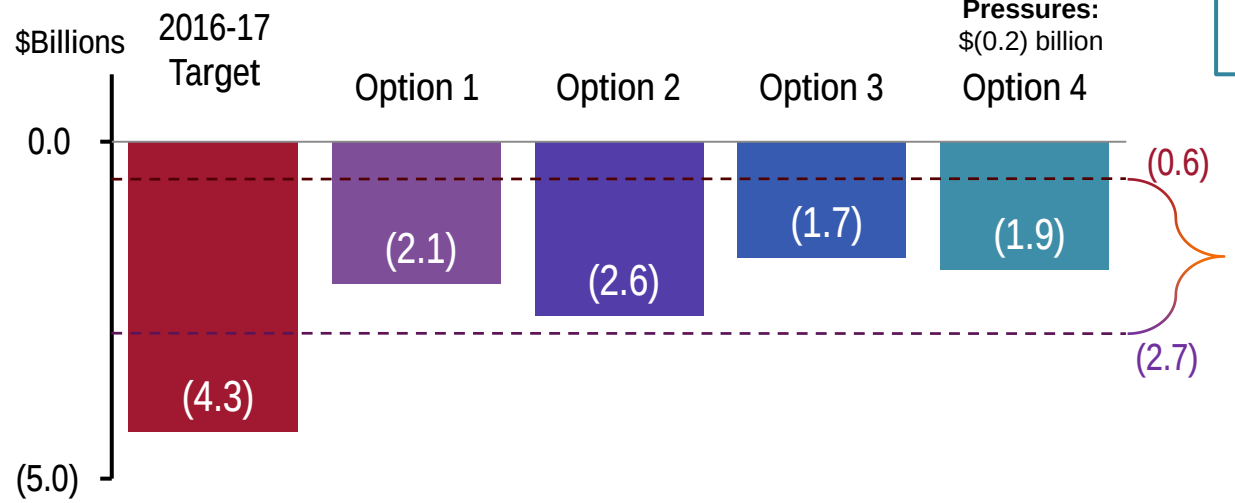
Expense
Ministry Q3/interim submissions
Consolidations and other technical adjustments
Interest on debt forecast updates
Contaminated sites liabilities
Updated pension expense forecast

- Potential improvement to gap
- Potential improvement or deterioration to gap
- Potential deterioration to gap

2016-17 Third Quarter Finances: Deficit Range

Options 1 through 4 build on each other. All options assume the pension reversal and progressively take on additional changes relative to FES .

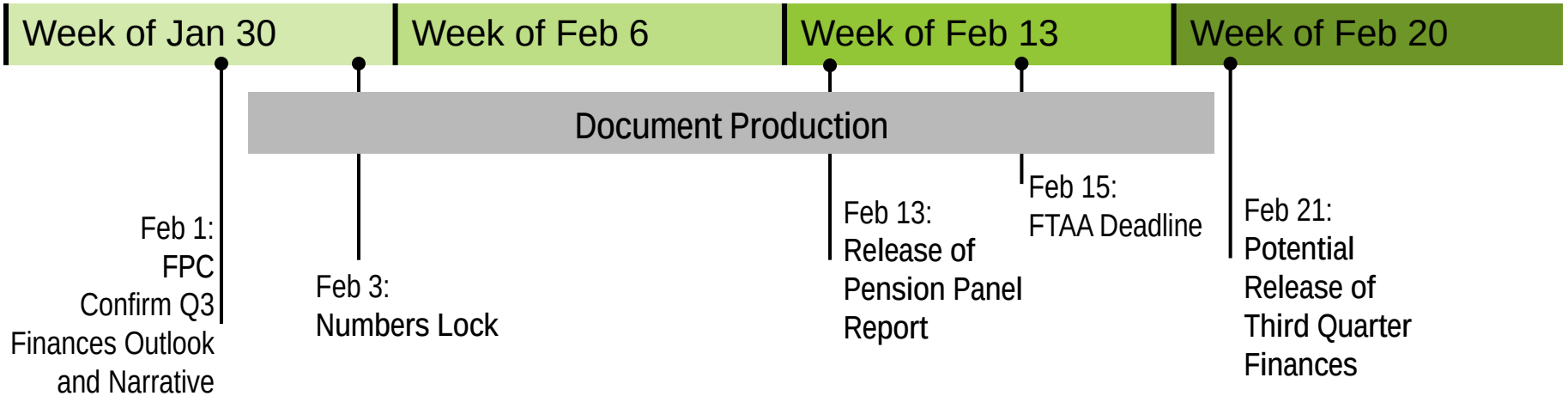
Option 1	Option 2	Option 3	Recommended Option 4
Pensions: $2.2 billion	**Pensions**: $2.2 billion	**Pensions**: $2.2 billion	**Pensions**: $2.2 billion
	Cap and Trade: $(0.5) billion	**Cap and Trade:** $(0.5) billion	**Cap and Trade:** $(0.5) billion
		Asset Optimization: $(0.1) billion	**Asset Optimization:** $(0.1) billion
		HST & Other Taxes: $0.9 billion	**HST & Other Taxes:** $0.9 billion
			Expense Pressures: $(0.2) billion



Range reflects an early-read of the 2016-17 end of year projection.

- Based on an early-read of end of year projections, the government may want to report an outlook that protects against risks or other changes between now and the Budget.
- Based on current information and taking into account key building blocks, there are a number of options for presenting the Q3 deficit, ranging from $2.6 billion to $1.7 billion. These are on the medium-to-low end of what is being tracked for the interim outlook for the 2017 Document.

Next Steps


Week of Jan 30
Week of Feb 6
Week of Feb 13
Week of Feb 20
Document Production
Feb 1:
FPC
Confirm Q3
Finances Outlook
and Narrative
Feb 3:
Numbers Lock
Feb 13:
Release of
Pension Panel
Report
Feb 15:
FTAA Deadline
Feb 21:
Potential
Release of
Third Quarter
Finances

Appendix

End of Year Projection for 2016-17

- An early-read indicates that end of year projections for the 2016-17 deficit could range from $0.6 billion (if there is a significant improvement to the outlook) to $2.7 billion (if there is a moderate improvement to the outlook).

Significant Year-end Improvement

2016 Budget (4.3) billion
+ Pension Adjustment and Tools
2016 FES (4.3) billion
+ Higher Revenue ***1.7 billion***
– Re-profiling Cap and Trade Proceeds ***0.5 billion***
– Lower Net Contribution from Asset Optimization ***75 million***
– Accounting Adjustments: Accounting Framework (IFRS) ***75 million*** Unchanged Contaminated Sites
Unchanged Program Expense
+ Reverse Pension Adjustment ***2.2 billion***
+ Lower Interest on Debt ***0.1 billion***
+ Reduce Reserve ***0.4 billion***
Early-Read (0.6) billion

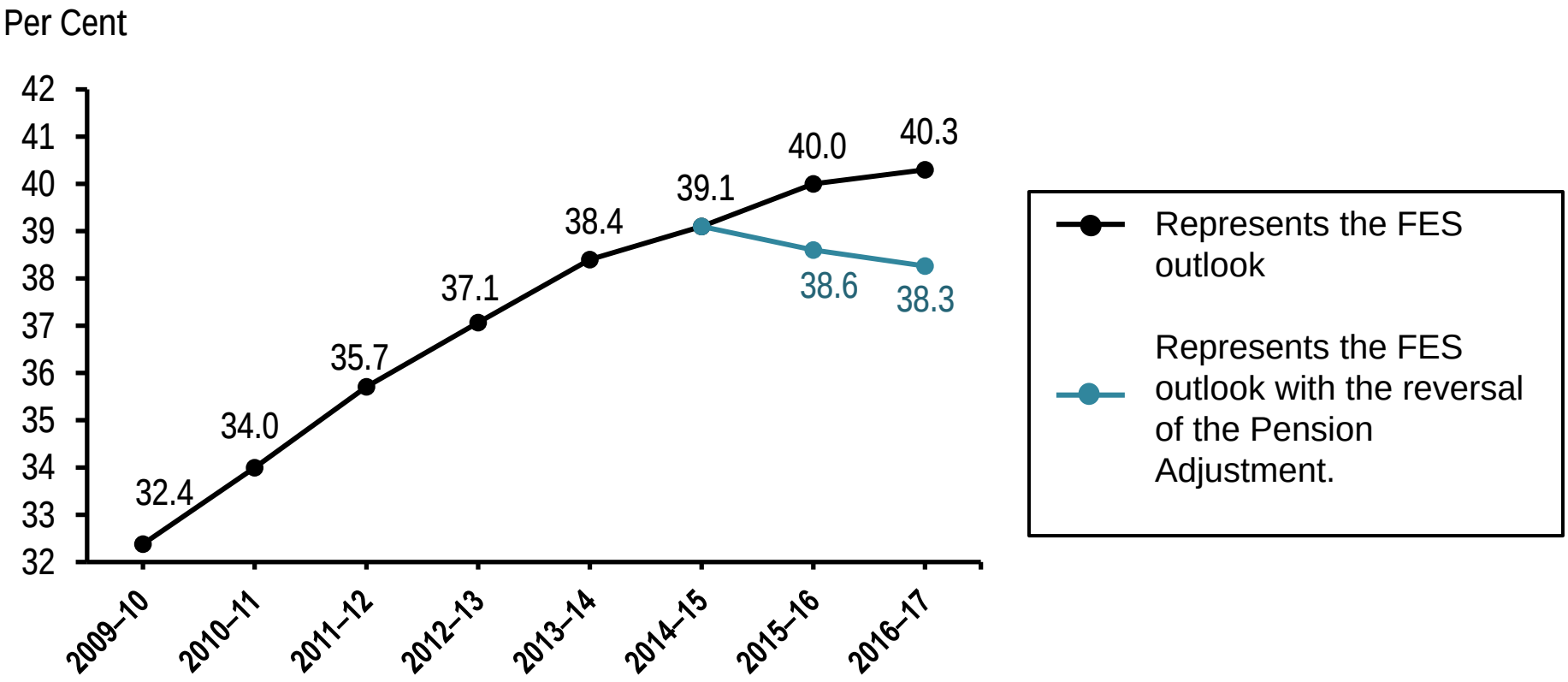
Moderate Year-end Improvement

2016 Budget (4.3) billion
+ Pension Adjustment and Tools
2016 FES (4.3) billion
+ Higher Revenue ***0.7 billion***
– Re-profiling Cap and Trade Proceeds ***0.5 billion***
– Lower Net Contribution from Asset Optimization ***75 million***
– Accounting Adjustments: Accounting Framework (IFRS) ***75 million*** Contaminated Sites ***50 million***
– Higher Program Expense ***1.0 billion***
+ Reverse Pension Adjustment ***2.2 billion***
Unchanged Interest on Debt
+ Reduce Reserve ***0.4 billion***
Early-Read (2.7) billion

Net Debt-to-GDP With Pension Reversal (Option 1)

Narrative: *The impact of the reversal will change the net debt projection for 2016-17 by $12.8 billion. As a result, the government is projecting a net debt-to-GDP ratio of 38.3 per cent, an improvement compared to the 2016 FES projection of 40.3 per cent*

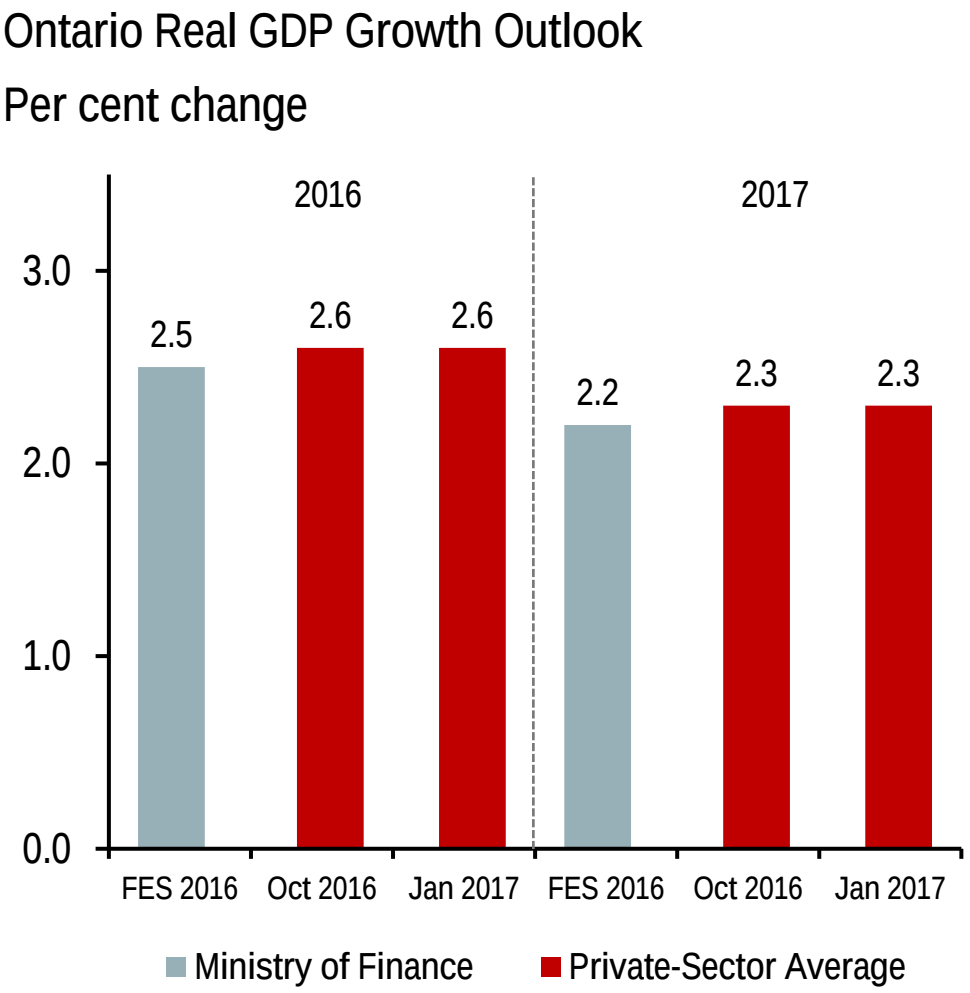
- Reflects the reversal of the Teachers Pension Plan and OPSEU Pension Plan adjustments, including reversal of the $10.7 billion debt adjustment made in the 2015-16 Public Accounts



Recent Economic Developments and Outlook

Economic Update

- Real GDP increased by 0.7% in the third quarter (July to September) of 2016, after rising 0.2% in the second quarter.
  - Higher exports and continued growth in household spending were the primary drivers of growth
- Information available so far for the fourth quarter (October to December) of 2016 suggest growth at a more modest pace.
- Ontario's economic growth outlook remains consistent with the 2016 FES forecast



Other Accounting Issues

Other Accounting Issues

- The move from U.S. GAAP to IFRS for the consolidation of Hydro One and OPG results in a fiscal impact starting in 2016-17, of either:

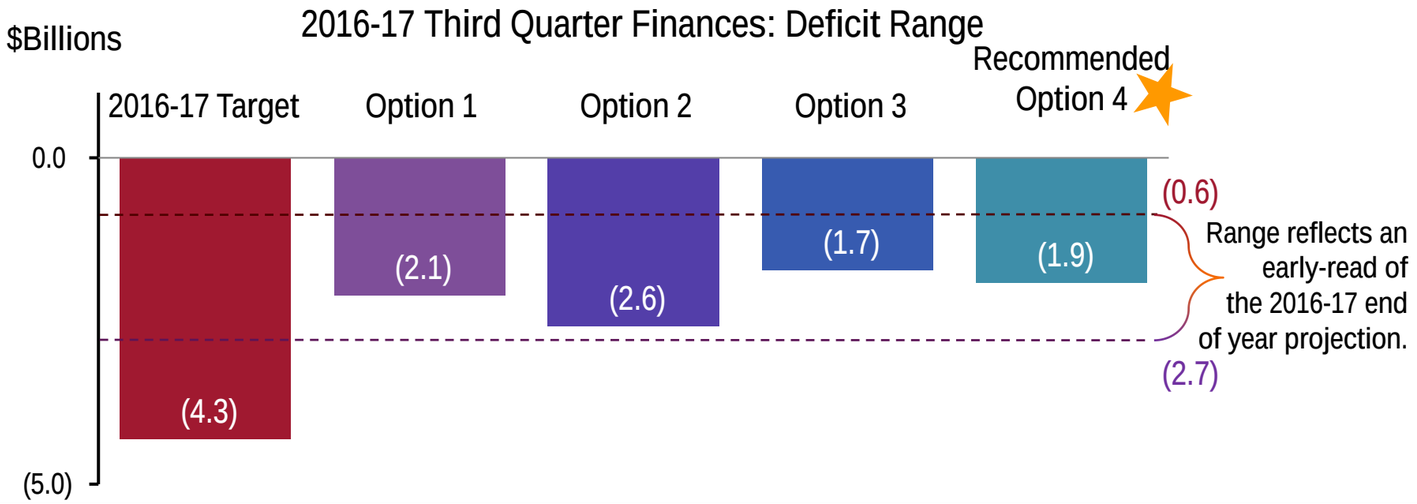
Basis of Consolidation of OPG and H1 (US GAAP vs. IFRS)	Fiscal Impact Relative to FES				
	2016-17	2017-18	2018-19	2019-20	2020-21
Preferred Approach (smoothed IFRS impact)**	**$75M**	**$425M**	**$525M**	**$675M**	**$675M**
High Impact (non-smoothed IFRS impact)**	$1B	$375M	$400M	$400M	$400M

*** OPG's estimate of cumulative impact for 2015-2020 is $2.5B under the preferred approach, and $2.6B under the high impact approach. Note: Amounts are based on estimates currently available, and are subject to updates by OPG. Revised estimates are expected by March 1, 2017.*

Program Expense Changes to Highlight

$ Millions	2016-17	
Program Expense Changes since the 2016 FES		
MOHLTC Pausing planned increases to drug cost contributions*	106.0	*(pressure with no offset)*
MOHLTC Stem Cells and other priorities	95.4	*(pressure with no offset)*
MCYS: First Nations Prevention Services support	5.8	*(federal flow-through)*
MAG/MCSCS: Corrections Reform	10.4	*(offset from contingency fund)*
MCSCS: First Nations Policing Wage Parity	6.5	*(offset from contingency fund)*
Cabinet Office: International Disaster Relief Program – Haiti	0.3	*(offset from contingency fund)*
Contingency fund	(17.2)	
Program Expense Changes since the 2016	**207.2**	

* Alternatively, Social Assistance pressures of similar magnitude could be reported



Options 1 through 4 build on each other. All options assume the pension reversal and progressively take on additional changes.

Option 1	Option 2	Option 3	Recommended Option 4
Pensions: $2.2 billion	**Pensions**: $2.2 billion	**Pensions**: $2.2 billion	**Pensions**: $2.2 billion
	Cap and Trade: $(0.5) billion	**Cap and Trade:** $(0.5) billion	**Cap and Trade:** $(0.5) billion
		HST & Other Taxes: $0.9 billion	**HST & Other Taxes:** $0.9 billion
		Asset Optimization: $(0.1) billion	**Asset Optimization:** $(0.1) billion
			Expense Pressures: $(0.2) billion

Overall Narrative: *The strength of the Ontario economy, together with the government's approach to fiscal management, is supporting strategic investments, while allowing the government to continue to beat its fiscal targets.*

Option 1 — Reversal of Pensions

$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	*2.1*	132.7
Expense			
Programs	122.1	*0.9*	123.1
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*0.5*	134.4
Surplus/(Deficit) Before Reserve	(3.3)	*1.6*	(1.7)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*2.2*	(2.1)
Net Debt-to-GDP (Per Cent)	39.6	*(1.3)*	38.3

- *The government is projecting a **deficit of $2.1 billion in 2016-17**, an improvement of $2.2 billion since the 2016 Budget.*
- *The Pension Asset Expert Advisory Panel recently released its report on the treatment of pension assets, including a recommendation that jointly-sponsored net pension asset be recognized in the Province's financial statements. The government is adopting this recommendation, which aligns with the treatment originally included in the 2016 Budget plan.*
- *With this reversal, together with stronger revenue and lower interest on debt, the government is projected to beat its fiscal target.*

Option 2 — Option 1 + Cap and Trade

$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	*1.7*	132.2
Expense			
Programs	122.1	*0.9*	123.1
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*0.5*	134.4
Surplus/(Deficit) Before Reserve	(3.3)	*1.1*	(2.2)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*1.7*	(2.6)
Net Debt-to-GDP (Per Cent)	39.6	*(1.3)*	38.3

- *The government is projecting a **deficit of $2.6 billion in 2016-17**, an improvement of $1.7 billion since the 2016 Budget.*
- *Cap and Trade is a cornerstone of the Province's fight against climate change. Ontario's first Cap and Trade auction is scheduled for March 22, 2017, and establishes Ontario's partnership in the largest carbon market in North America.*
- *Revenues from Ontario's first auction will be certified and settled at the beginning of the 2017-18 fiscal year. As such, the Third Quarter Finances reflect the re-profiling of auction proceeds from 2016-17 to 2017-18.*

Option 3 — Option 2 + HST & Other Taxes + Assets

$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	*2.5*	133.1
Expense			
Programs	122.1	*0.9*	123.1
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*0.5*	134.4
Surplus/(Deficit) Before Reserve	(3.3)	*2.0*	(1.3)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*2.6*	(1.7)
Net Debt-to-GDP (Per Cent)	39.6	*(1.4)*	38.2

- *The government is projecting a **deficit of $1.7 billion in 2016-17**, an improvement of $2.6 billion since the 2016 Budget.*
- *Ontario's economy continues to grow in an uncertain global environment. Stronger 2015 income tax assessment results and the continued strength of Ontario's economy and housing market resulted in higher than forecasted taxation revenues.*

Option 4 — Option 3 + Expense Pressures

$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	*2.5*	133.1
Expense			
Programs	122.1	*1.1*	123.3
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*0.7*	134.6
Surplus/(Deficit) Before Reserve	(3.3)	*1.8*	(1.5)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*2.4*	(1.9)
Net Debt-to-GDP (Per Cent)	39.6	*(1.3)*	38.3

- *The government is projecting a **deficit of $1.9 billion in 2016-17**, an improvement of $2.4 billion since the 2016 Budget.*
- *The government's fiscally sound approach to managing the Province's finances will help grow the economy, create jobs and ensure the sustainability of programs and services that help Ontarians in their everyday lives.*
- *This includes supporting strategic investments, such as funding for healthcare.*

KEY PUBLIC REPORTING AND PLANNING DATES

The following provides an outline of upcoming planning and publication dates:

- **February 8**: Long-Term Report Release
- **February 13**: Pension Panel Report Release
- **February 13**: Letter to the Clerk for Q3 Finances
- **February 15**: Electricity Relief Announcement (TBD)
- **February 21**: Q3 Finances Release
- **April 11**: Tentative Document Release

MINISTERS & PREMIER MEETING

Date: February 9, 2017 | Time: 3:30PM – 5:00PM
Location: Room 275, Cabinet Room, Main Legislative Building

Proposed Agenda

1. Proposed Agenda for Cabinet Retreat (5 mins)

2. Update on Fiscal Plan for Budget 2017 (20 mins)
    - Challenges
    - Fiscal Anchors
    - Tools/levers

3. Budget Themes/Storyboard and Proposed Investments and Sector Spending (45 mins)

4. Update on Pension Accounting (10 mins)

5. Update on 2016-17 Fiscal Position including Q3 Finances (5 mins)

6. Next Steps in Preparation for Cabinet Retreat (5 mins)

From:	Esmail, Selena (MOF)
To:	Paul Lewis (MOF); Tim Cook (MOF); Teuta Dodbiba (MOF); Sharon Stuckless (TCU); Andrea Dutton (MOF); Gladys Miu (MOI); Dorothy Cheung (MCYS); Raj Sharda (MOHLTC); Francisco Chinchon; Nadine Petsche (MOF); Ken Kandeepan
Cc:	Emma Lindquist (MOF); Inglis, Liane (MOF)
Subject:	RE: Q3 update
Date:	Tuesday, January 24, 2017 3:48:27 PM
Attachments:	Q3Finances_Considerations_v4h.pptx

Hi Everyone – sending along the most current draft of the deck we are planning to take forward to FPC tomorrow.

Comments welcome – if you could let me know asap if you have them. Heads up that timing of release of the Q3 may be even sooner as noted in this deck

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From: Esmail, Selena (MOF)
Sent: January-23-17 12:43 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update
Importance: High

Hi All,

Following up on my email from last week, we received relatively recent direction regarding the release of Ontario's Third Quarter Finances – the tentative plan is to publish Q3 finances ahead of the February 15 deadline. We are tentatively tracking a release date of Monday February 13.

As you can imagine, timelines are very compressed, and includes a possible trip to FPC this week. In order to meet this week's deadlines, while also preparing for the release of the actual publication, we're asking for input from you in stages:

EOD Today:
We have prepared the draft of a deck, which we are working towards tabling at this Wednesday's FPC (TBC). The deck lays out the key 2016-17 building blocks that could be updated as part of the Q3 publication. It would help if we could get the following from you folks by the end of today:
16-17 post-FES expense update: We have included placeholder for an expense slide. The intention is for the slide to provide an updated list of initiatives that were not included in the FES expense outlook.
Recommended expense update/signature initiatives: We may build in options for what the outlook could look like – it would help if you could provide a recommendation for the expense changes that should be taken on/profiled.
16-17 c-fund update: We have included a c-fund slide that was used in the Q1 finances briefing materials (current PW). We would like to include an updated version of this slide in the FPC deck (appendix). It would help to have this out to 19-20.
Pension Narrative: Nadine – I'll connect on the pension adjustment and some high level bullets that we could use.

Noon Friday January 27:

Template: I've attached a draft of 3q finances that is based heavily off of the 2016 First Quarter Finances. We've highlighted in green the sections that we would like you to update. While I'm not 100% certain this structure will be exactly what the Q3 document will look like, I think it's safe to say that the substantive content we'll have to cover is captured here. There will be some highlighted content that is *not possible* to update for Friday, however there will be a formal distribution process where additional information can be incorporated.

Thanks everyone, and please feel free to send your input directly to Liane and Emma. Im hoping to be able to share a draft deck with you late this evening.

From: Esmail, Selena (MOF)
Sent: January-19-17 2:57 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: Q3 heads up

Hi Everyone – Wanted to send a quick message that we are hearing there is a desire to proceed with the release of a Q3 update around the time we are expecting the Pension Panel panel to release their report. We are going to assume mid feb prior to the house coming back for our planning purposes.

My team is going to work together to put together a list of things we need to start working on/think about along with a calendar to determine and get direction on an approach to coincide with this timeframe.

More details to follow tomorrow.

Thanks.

Fiscal Strategy:
Ontario's Third Quarter Finances

Office of the Budget
MINISTRY of FINANCE

Presentation to FPC on January 25, 2017

Preliminary Draft

Draft – January 24, 2017 12:00 PM

Context

Under the *Fiscal Transparency and Accountability Act, 2004* (FTAA), the Third Quarter Finances is required to:

- Be released on or before February 15th (publication can be delayed if a letter is sent to the Clerk).
- Include updated information about the major components of revenue and expense **for the current fiscal year only.**

It also provides an **opportunity for the government to reiterate key fiscal messages** from the Budget or pre-condition for future updates.

A Third Quarter Finances has only been published once in the last eight years (in 2012-13).

- The infrequent publication provides the government with some flexibility on how to present its fiscal update (i.e., update could be presented relative to the 2016 Budget, 2016 FES or both, as was done in 2012-13).

Key stakeholders like the Financial Accountability Officer and rating agencies will assess the fiscal outlook and narrative.

- Both have acknowledged that balance is within reach in 2017-18, but have also highlighted key risks to the 2016 Budget fiscal plan.

Purpose and Key Decisions

To **confirm the approach to publishing Ontario's Third Quarter Finances, including:**

- The core updates to **the fiscal outlook and supporting revenue and expense details** to be published, as well as the **fiscal narrative and messaging**.
- Positioning the content and the rollout of Third Quarter Finances relative to the release of the Pension Panel's Report and recommendations.
- **Confirm release date** and determine if a letter to the Clerk is required.

Evolution of the 2016-17 Outlook

- The Third Quarter Finances could present a fiscal update relative to the 2016 Budget or FES.
- The 2016 FES highlighted Ontario's stronger economy and the government's approach to fiscal management, which supported strategic investments in new child care spaces, hospitals and electricity cost relief for consumers.
- To support these investments while accommodating the Pension Adjustment, the government took on a number of fiscal tools in order to meet its targets.

2016 Budget Fiscal Plan $ Billions	2016-17	Change to FES 2016-17	FES Outlook 2016-17
Revenue	130.6	*2.1*	132.7
Expense			
Programs	122.1	*3.1*	125.3
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*2.7*	136.6
Surplus/(Deficit) Before Reserve	(3.3)	*(0.6)*	(3.9)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*(0.0)*	(4.3)

Total revenue changes of $2.1 billion, consisting of:

- Base Forecast Change $1.0 billion
- Reversal of Homecare $(0.2) billion
- Federal Agreements $0.4 billion
- Higher assumed revenue to accommodate pensions $0.9 billion

Total expense changes of $2.7 billion, consisting of:

- In-Year Approvals $0.2 billion
- Pension Adjustment of $2.2 billion
- Electricity Cost Relief $0.3 billion
- Support for Hospitals $0.1 billion
- Green Investment Fund $0.3 billion
- New Federal Agreements $0.4 billion
- Contingency Fund Offsets $(0.5) billion
- Interest on Debt Savings $(0.4) billion

Change to the Reserve $(0.6) billion

End of Year Projection for 2016-17

- An early-read indicates that end of year projections for the 2016-17 deficit could range from $0.6 billion (if there is a significant improvement to the outlook) to $2.7 billion (if there is a moderate improvement to the outlook) by year end.

Significant Year-end Improvement

2016 Budget (4.3) billion
+ Pension Adjustment and Tools
2016 FES (4.3) billion
+ Higher Revenue ***1.7 billion***
– Re-profiling Cap and Trade Proceeds ***0.5 billion***
– Lower Revenue from Assets ***75 million***
– Accounting Adjustments: Accounting Framework (IFRS) ***75 million*** Unchanged Contaminated Sites
Unchanged Program Expense
+ Reverse Pension Adjustment ***2.2 billion***
+ Lower Interest on Debt ***0.1 billion***
+ Reduce Reserve ***0.4 billion***
Early-Read (0.6) billion

Moderate Year-end Improvement

2016 Budget (4.3) billion
+ Pension Adjustment and Tools
2016 FES (4.3) billion
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Higher Program Expense ***1.0 billion***
+ Reverse Pension Adjustment ***2.2 billion***
+ Unchanged Interest on Debt
+ Reduce Reserve ***0.4 billion***
Early-Read (2.7) billion

Treatment of Pension Adjustment

Panel Recommendation

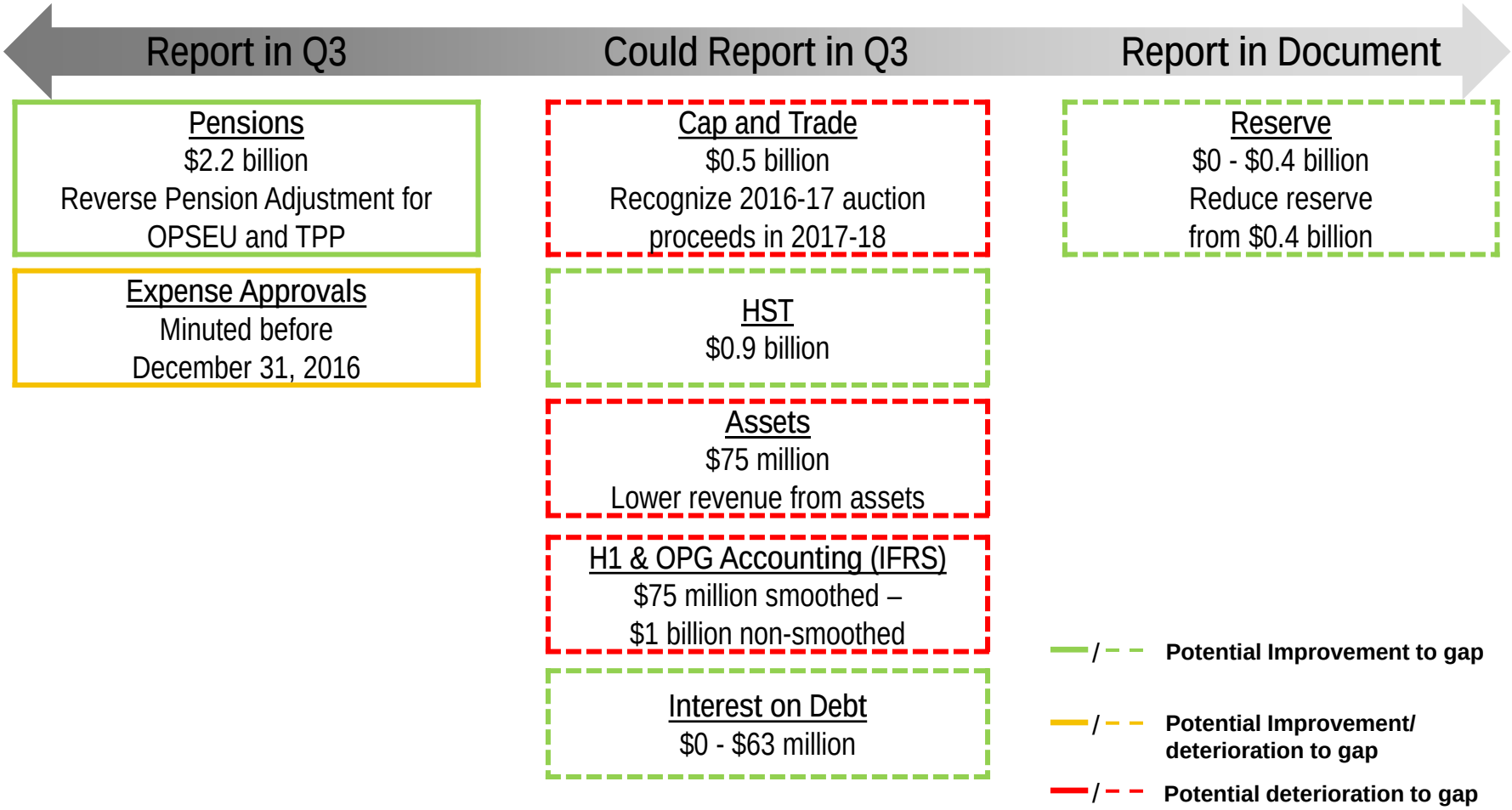
- The Pension Asset Expert Advisory Panel will be releasing its findings in the coming weeks.
  - The report is expected to include advice that the net pension asset be recognized in the Province's financial statements.
  - If taken on, would result in a positive fiscal impact in all years.

Treatment of Pension Adjustment

- The Third Quarter Finances provides the government with an immediate opportunity to align its fiscal strategy with recommendations of the panel, and frame the pension narrative in advance of the 2017 Document.
- While the reversal will result in an improved 2016-17 deficit, expectations may need to be tempered about how much fiscal room is created in the out-years due to growing pressures.

Key Building Blocks

- In addition to the reversal of the Pension Adjustment, other key building blocks will either need to be reported in the Third Quarter Finances or be considered for the 2017 Document.



Outstanding Information

- **Outstanding Information** could materially impact the **2016-17 outlook** in advance of the 2017 Document.

Revenue
Revisions to economic outlook
Ongoing provincially-administered tax receipts
Non-tax revenue updates from Ministry PRRT submissions
Net income updates from government business enterprises

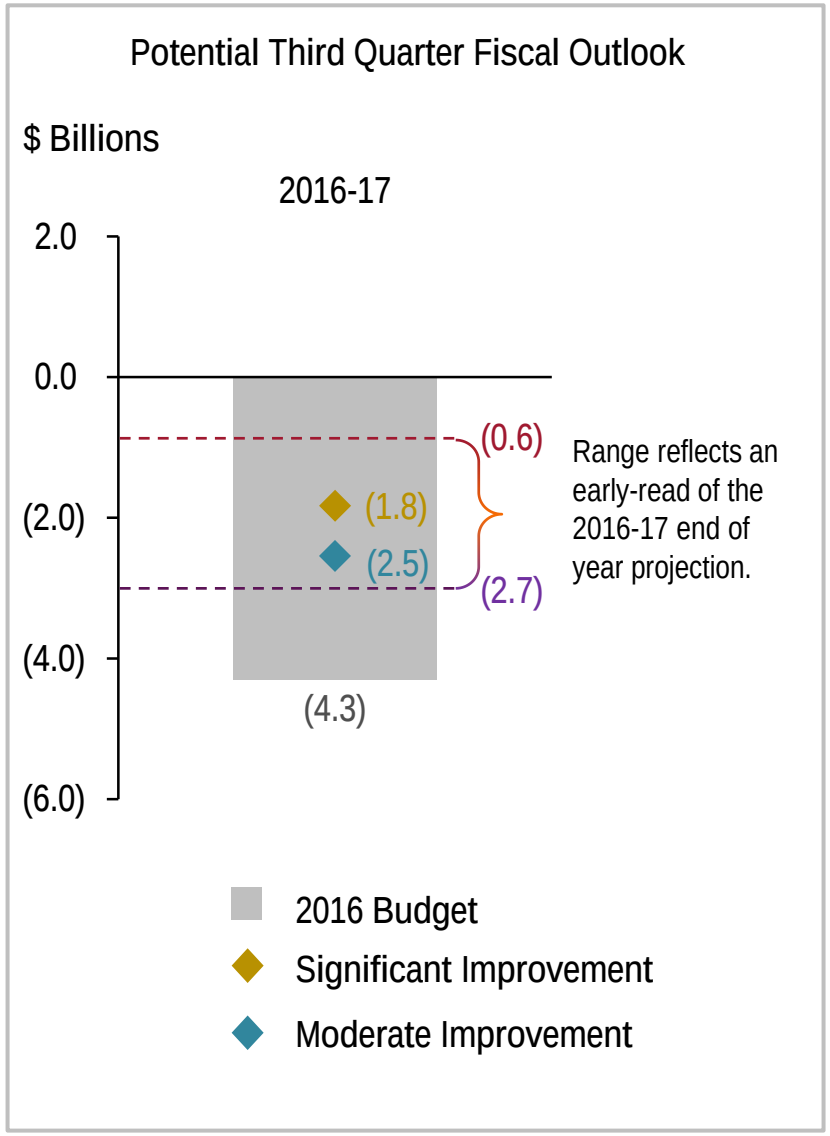
Expense
Ministry Q3/interim submissions
Consolidations and other technical adjustments
Interest on debt forecast updates
Contaminated sites liabilities
Update pension expense forecast

- Potential improvement to gap
- Potential improvement or deterioration to gap
- Potential deterioration to gap

Principles for the 2016-17 Outlook

- Based on an early-read of end of year projections, the government may want to report an outlook that protects against risks or other changes that could adversely impact the Province's fiscal performance between now and the Budget, and ultimately, Public Accounts.
- For example, based on current information and taking into account key building blocks, Q3 could present a deficit ranging from $2.5 billion (moderate improvement) to $1.8 billion (significant improvement).

Moderate Improvement	Significant Improvement
Takes on the following key building blocks: • **Pensions** $2.2 billion • **Cap and Trade** $(0.5) billion	Takes on the following key building blocks: • **Pensions** $2.2 billion • **Cap and Trade** $(0.5) billion • **Interest on Debt** $0.1 billion • **HST** $0.9 billion • **Assets** $(0.1) billion • **H1 & OPG Accounting (IFRS)** $(0.1) billion

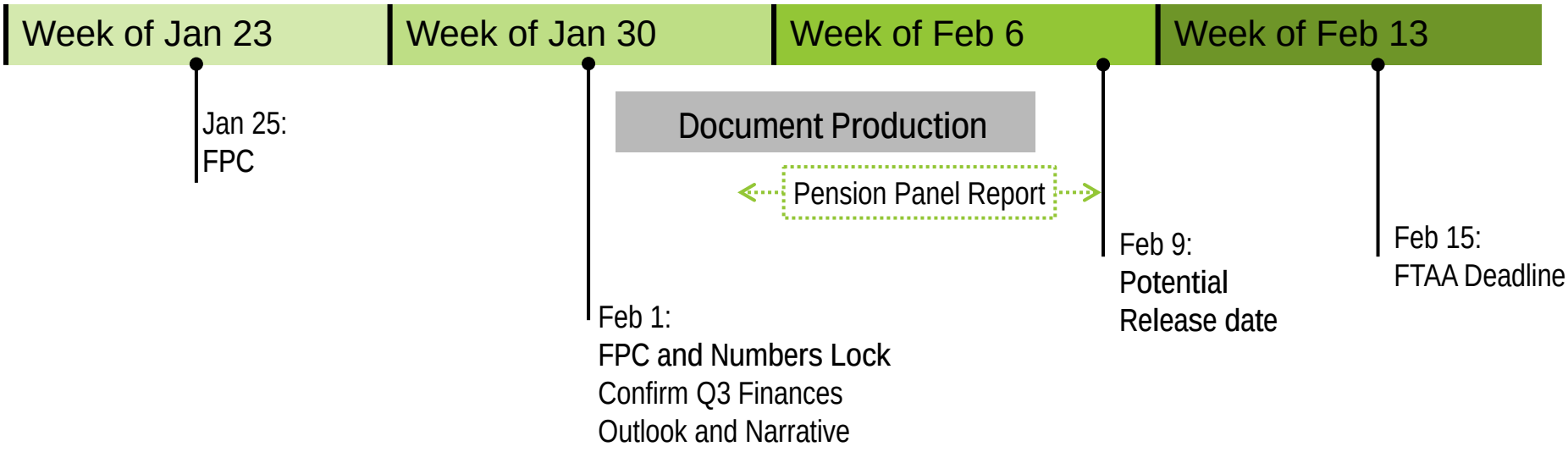


Fiscal Narrative to Support Pension Reversal

The narrative could build on the 2016 FES, focusing on the investments the government is making in priority areas while remaining committed to balance the budget in 2017-18. This narrative would be further supported by highlighting the reversal of the pension adjustment, and could make room for announcements leading up to the release of the 2017 Document.

- *The government is projecting a **deficit of $X.X billion in 2016-17**, an improvement of $X.X billion since the 2016 Ontario Economic Outlook and Fiscal Review forecast.*
- *The Pension Asset Expert Advisory Panel recently released its report on the treatment of pension assets, including a recommendation that the net pension asset be recognized in the Province's financial statements.*
- ***The government is adopting the Panel's recommendation** by reversing the Pension Adjustment included in the 2016 Ontario Economic Outlook and Fiscal Review outlook. The reversal of the Pension Adjustment will result in a significant improvement in the 2016-17 outlook and could support additional investments in 2017-18 and beyond.*
- *The government is projected to beat its deficit target for the **eighth year in a row**.*

Next Steps



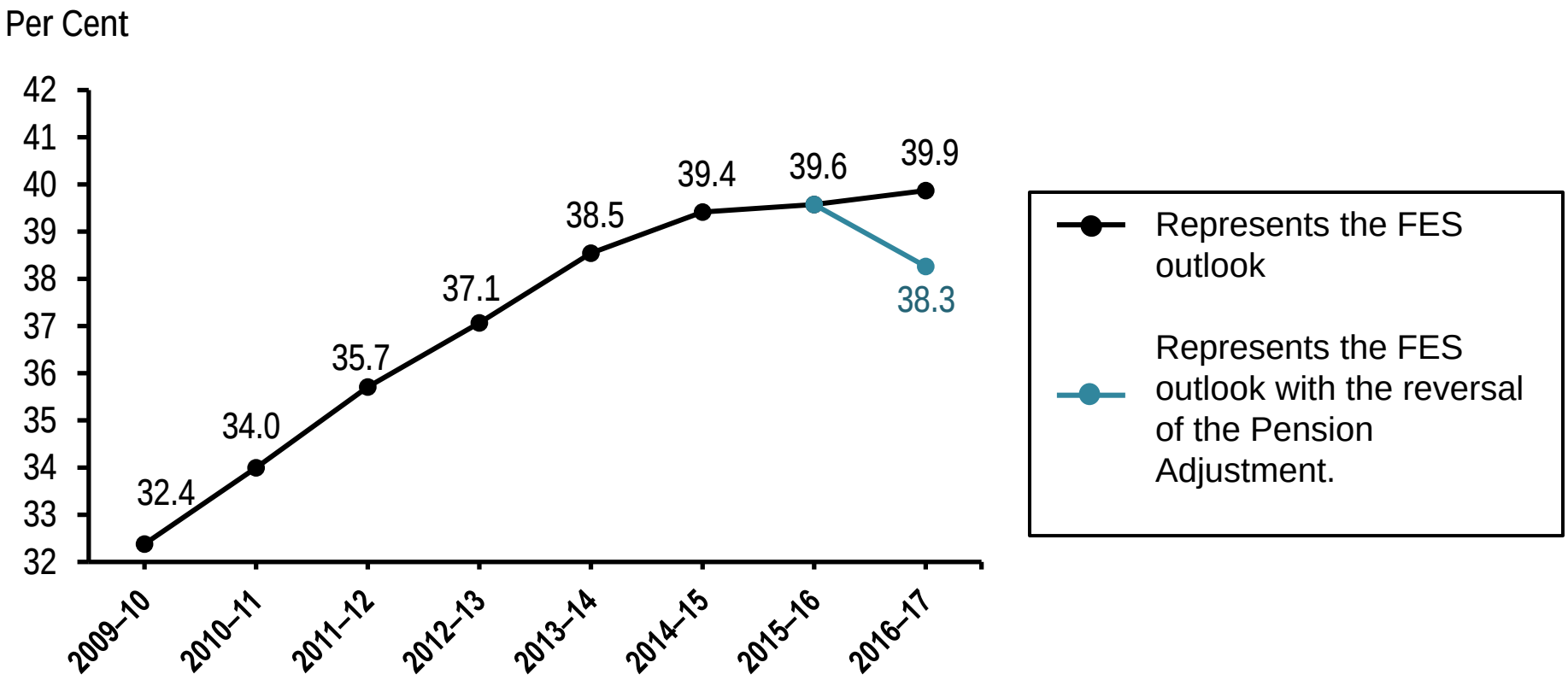
Decision on Third Quarter Finances fiscal strategy:

1. Seeking decision on the fiscal outlook and narrative to publish in the Third Quarter Finances.
2. Confirm **release date** (currently tracking to February 9th) and determine if a letter to the Clerk is required.
3. Communication and rollout approach with regards to the timing of the release of the Pension Panel's report and recommendations.

Appendix

Net Debt-to-GDP With Pension Reversal

- Reflects the reversal of the Teachers Pension Plan and OPSEU Pension Plan adjustments, including reversal of the $10.5 billion debt adjustment made in the 2015-16 Public Accounts



2017 Third Quarter Finances – Draft Production Calendar

Jan - Feb 2017

Monday	Tuesday	Wednesday	Thursday	Friday
23 Receive high-level input on revenue and expense for fiscal strategy deck	**24**	**25** Fiscal Prep Meeting Q3 Building Blocks Preliminary Draft of Third Quarter Finances Under Development	**26**	**27** Detailed input received from key partners
30 Preliminary Draft of Third Quarter Finances Under Development ORBIT Sign-off (AM)	**31** Minister Briefing (TBD) 1st Distribution	**February 1** Fiscal Prep Meeting Confirm Q3 Outlook Numbers Lock	**2** Ministry Q3 submissions due Director Sign-off 2nd Distribution	**3** ADM & Associate DM Sign-off 3rd Distribution
6 DM Sign-off Final Distribution French/HTML Translation	**7** Finalize News Release and other Communication materials	**8**	**9** Potential Third Quarter Finances Release Date	**10**
13	**14**	**15** FTAA Deadline for Third Quarter Finances	**16**	**17**
20 FAMILY DAY HOLIDAY	**21**	**21**	**23**	**24**

Commercially Sensitive and Confidential Advice to Cabinet – PRELIMINARY DRAFT

Other Accounting Issues

Other Accounting Issues

- The move from U.S. GAAP to IFRS for the consolidation of Hydro One and OPG results in a fiscal impact starting in 2016-17, of either:

Basis of Consolidation of OPG and H1 (US GAAP vs. IFRS)	Fiscal Impact Relative to FES				
	2016-17	2017-18	2018-19	2019-20	2020-21
Preferred Approach (smoothed IFRS impact)**	**$75M**	**$425M**	**$525M**	**$675M**	**$675M**
High Impact (non-smoothed IFRS impact)**	$1B	$375M	$400M	$400M	$400M

*** OPG's estimate of cumulative impact for 2015-2020 is $2.5B under the preferred approach, and $2.6B under the high impact approach.*

From:	Inglis, Liane (MOF)
To:	John Psinas; Ken Kandeepan; Selena Esmail (MOF)
Cc:	Alexander Kraas; George Sakura; Emma Lindquist (MOF); Shemin Meralli; Kevin Hwang
Subject:	RE: Q3 update
Date:	Tuesday, January 24, 2017 3:35:45 PM
Attachments:	RE net debt to GDP for 3 scenarios.msg

Thanks John - we used numbers provided to us last week for a few scenarios we pulled together, but you're right - that top line should definitely correspond to the FES numbers, so we'll make that change. On the outlook with pensions reversed - the 38.3 we have is from the attached Jan 16th spreadsheet (scenario 2), so it incorporates a more up to date GDP forecast - which I think is why our number are slightly different.

Happy to defer to you folks on whether we go with the 38.3 or the 38.9.

Liane

-----Original Message-----
From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: January 24, 2017 3:06 PM
To: Kandeepan, Ken (OFA); Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF); Meralli, Shemin (OFA); Hwang, Kevin (OFA)
Subject: RE: Q3 update

Selena,
Please find attached a pdf of slide 13 with our edits. Budget password in effect.

Not sure why we are off considerably as the graph notes it's based on FES numbers. Can you share the data you used for the slide?

Thanks.

--John

416-325-8072

-----Original Message-----
From: Ken Kandeepan
Sent: Tuesday, January 24, 2017 1:55 PM
To: Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; John Psinas <John.Psinas@ofina.on.ca>
Subject: RE: Q3 update

Hi Selena

I have to be at Bud Sec shortly, however, John Psinas will provide you with the revised net debt to GDP ratio from the reversal of the pension adjustment. For 16-17 we will use the FES outlook in the ratio and update same when you land on the projected deficit for the current fiscal.

I would also suggest that slide 10 include a line indicating that the reversal of the pension adjustment reduces the 2015-16 accumulated deficit and net debt by over $10.6 billion.

Thanks

Ken k

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Tuesday, January 24, 2017 1:25 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: RE: Q3 update

Ken - Im attaching the current version of the Q3 deck -if you could take a look through. In particular - can you have a look at slide 13 and provide a few bullets on the impact of the reversal of the pensions on net debt to GDP?

Happy to discuss. Let me know if you have any other comments as well - happy to take those too. If you could get back to me as soon as possible, that would be much appreciated. Thanks.

Deck has new document psswrd.
-----Original Message-----
From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: January-24-17 10:49 AM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
Subject: RE: Q3 update

NP, I believe we do have Q&A in the FES package that addresses this very issue, so happy to flip it to you later on, do note that Gadi released an additional $63M (in relation to the IOD number in the FES) in IOD savings for 16-17 to Tim a couple of weeks ago.

Thanks

Ken k

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Tuesday, January 24, 2017 10:40 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: Re: Q3 update

Ok -. Thanks for confirming. Tim said that may be true and we may need to have a technical Q and A on this as part of Q3 comms prep. So for now we are going to leave it as a decision point about whether to take on the fes outlook or show a more up to date forecast and we may get direction from the dm today or fpc tomorrow. I hope to be able to share a draft deck with you shortly. Thanks for your help.

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message

From: Ken Kandeepan
Sent: Tuesday, January 24, 2017 10:32 AM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
Subject: RE: Q3 update

Hi Selena

The reversal of the pension adjustment does not impact IOD since it's a non-cash adjustment, i.e., it decreases expenses on a PSAB basis not on a cash basis hence the total borrowing does not change which means that IOD also remains unchanged.

Thanks

Ken K

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Tuesday, January 24, 2017 10:29 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: Re: Q3 update

Hey ken - one thing to consider is if the pension adjustment is being reversed there may be a desire to show progress on IOD - assuming it impacts that. Thoughts?

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: Ken Kandeepan
Sent: Monday, January 23, 2017 3:19 PM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
Subject: RE: Q3 update

Thanks agreed, keeping the FES forecast makes sense since we don't want material changes before the interim in the Document, but pls do confirm.

Ken k

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Monday, January 23, 2017 2:54 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: Re: Q3 update

Hi ken - thanks. Not sure yet on whether we will keep the fes forecast or update for the latest but I'll speak to tim about it. Tim mentioned earlier that we shld retain the fes forecast but I just want to confirm with him.

Thanks again.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Ken Kandeepan
Sent: Monday, January 23, 2017 1:06 PM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA)
Subject: RE: Q3 update

Hi Selena

Couple of quick question, the 16-17 IOD forecast was revised downwards from the FES number and provided to Tim. Do you want us to use this revised version or stick with the FES forecast with the revision being presented in the Interim section of the 2017 Budget.

Let me know, and in order to complete the Financing Table we need to know the 16-17 deficit that you will be projecting in the Q3, will be the same as the FES?

Thanks

Ken k

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Monday, January 23, 2017 12:43 PM
To: Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Tim Cook (MOF) <Tim.Cook@ontario.ca>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca>; Sharon Stuckless (TCU) <Sharon.Stuckless@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca>; Raj Sharda (MOHLTC) <Raj.Sharda@ontario.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
Subject: RE: Q3 update
Importance: High

Hi All,

Following up on my email from last week, we received relatively recent direction regarding the release of Ontario's Third Quarter Finances – the tentative plan is to publish Q3 finances ahead of the February 15 deadline. We are tentatively tracking a release date of Monday February 13.

As you can imagine, timelines are very compressed, and includes a possible trip to FPC this week. In order to meet this week's deadlines, while also preparing for the release of the actual publication, we're asking for input from you in stages:

EOD Today:
We have prepared the draft of a deck, which we are working towards tabling at this Wednesday's FPC (TBC). The deck lays out the key 2016-17 building blocks that could be updated as part of the Q3 publication. It would help if we could get the following from you folks by the end of today:
16-17 post-FES expense update: We have included placeholder for an expense slide. The intention is for the slide to provide an updated list of initiatives that were not included in the FES expense outlook.
Recommended expense update/signature initiatives: We may build in options for what the outlook could look like – it would help if you could provide a recommendation for the expense changes that should be taken on/profiled.
16-17 c-fund update: We have included a c-fund slide that was used in the Q1 finances briefing materials (current PW). We would like to include an updated version of this slide in the FPC deck (appendix). It would help to have this out to 19-20.
Pension Narrative: Nadine – I'll connect on the pension adjustment and some high level bullets that we could use.

Noon Friday January 27:
Template: I've attached a draft of 3q finances that is based heavily off of the 2016 First Quarter Finances. We've highlighted in green the sections that we would like you to update. While I'm not 100% certain this structure will be exactly what the Q3 document will look like, I think it's safe to say that the substantive content we'll have to cover is captured here. There will be some highlighted content that is not possible to update for Friday, however there will be a formal distribution process where additional information can be incorporated.

Thanks everyone, and please feel free to send your input directly to Liane and Emma. Im hoping to be able to share a draft deck with you late this evening.

From: Esmail, Selena (MOF)
Sent: January-19-17 2:57 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: Q3 heads up

Hi Everyone – Wanted to send a quick message that we are hearing there is a desire to proceed with the release of a Q3 update around the time we are expecting the Pension Panel panel to release their report. We are going to assume mid feb prior to the house coming back for our planning purposes.

My team is going to work together to put together a list of things we need to start working on/think about along with a calendar to determine and get direction on an approach to coincide with this timeframe.

More details to follow tomorrow.

Thanks.

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From: Sakura, George (OFA) [George.Sakura@ofina.on.ca]
To: Inglis, Liane (MOF) [Liane.Inglis@ontario.ca]
CC: Ken Kandeepan [Ken.Kandeepan@ofina.on.ca]; Shemin Meralli [Shemin.Meralli@ofina.on.ca]; Gadi Mayman [Gadi.Mayman@ofina.on.ca]; Tim Schuurman (MOF) [Tim.Schuurman@ontario.ca]; Brian Lewis (MOL) [Brian.Lewis@ontario.ca]
Subject: RE: net debt to GDP for 3 scenarios
Date: Monday, January 16, 2017 13:30:31
Attachment 1: Net Debt - 2016-17 -FES- scenario requests (Jan 16 2017) (002).xlsx

---

Attached are the three scenarios requested. Please note that the most recent GDP that we received was used. This GDP was based on OEP's forecast on January 12th.

Thanks.

From: Inglis, Liane (MOF) [mailto:Liane.Inglis@ontario.ca]
Sent: Monday, January 16, 2017 11:18 AM
To: George Sakura <George.Sakura@ofina.on.ca>
Cc: Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>
Subject: RE: net debt to GDP for 3 scenarios

Hi George, ideally we'd have them by 12:30 to incorporate for a 3pm briefing.

One thing I forgot to mention – scenarios 2&3 reverse the pension adjustment for 2 of the 4 pensions. I'm guessing this would also impact the debt levels, as you would be backing out the debt taken on in 2015 -16 Public Accounts as part of the pension adjustment?

Liane

From: George Sakura [mailto:George.Sakura@ofina.on.ca]
Sent: January 16, 2017 11:09 AM
To: Inglis, Liane (MOF)
Cc: Meralli, Shemin (OFA); Lindquist, Emma (MOF); Cheung, Danny (MOF)
Subject: RE: net debt to GDP for 3 scenarios

Approximately when do you need this by in order to incorporate it into the Minister's briefing?

From: Inglis, Liane (MOF) [mailto:Liane.Inglis@ontario.ca]
Sent: Monday, January 16, 2017 10:54 AM

To: George Sakura <George.Sakura@ofina.on.ca<mailto:George.Sakura@ofina.on.ca>>
Cc: Shemin Meralli <Shemin.Meralli@ofina.on.ca<mailto:Shemin.Meralli@ofina.on.ca>>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca<mailto:Emma.Lindquist@ontario.ca>>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca<mailto:Danny.Cheung@ontario.ca>>
Subject: net debt to GDP for 3 scenarios

Hello George,

There was a SOC briefing this morning where multiple deficit scenarios out to 20-21 were discussed (attached). The SOC asked what net-debt to GDP would look like under each scenario; could I ask you folks to pull these number together for us? We are on a tight timeline as there is a Minister's briefing schedule for later today that we would like to be able to incorporate this information into. Please let me know if this is too quick of a turnaround and I will let people here know we may be unable to make that timeline (there is another minister's briefing tomorrow morning that we can include the table in).

We would like to represent the three scenarios in the usual chart (p.100 of FES) but with the black line forking off into the three different scenarios (no need for the accumulated deficit to GDP line (red line)). If you are able to pull this together, it would be helpful, but we can also do the chart here once we have the numbers.

Thanks very much and please let me know if you need anything else from us/ have any questions.

Liane

———

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Summary - FES 2016-17 & Deficit/Surplus Scenarios						
		2016-17	2017-18	2018-19	2019-20	2020-21
	FES 2016-17					
	Deficit/ (Surplus) ($m)	4,324	(18)	(12)		
	Net Debt/GDP %	40.3	39.8	39.3		
	Net Debt	317,948	326,551	336,419		
	- incr/(decr) in net debt		8,603	9,868		
	GDP	789,176	821,389	854,990		
	Scenario 1	Worst-Case Surplus/(Deficit)				
	Deficit/ (Surplus) ($m)	4,324	5,130	9,083	10,538	9,702
	Net Debt/GDP %	39.9	40.0	40.6	41.4	41.7
	Net Debt	318,007	331,780	350,768	371,277	389,087
	- incr/(decr) in net debt		13,773	18,988	20,509	17,810
	GDP	797,623	830,182	864,142	897,865	933,780
	Scenario 2	Surplus/(Deficit) with Reversal of Pensions (OTPP and OPSEUPP)				
	Deficit/ (Surplus) ($m)	2,171	2,437	6,019	7,402	6,567
	Net Debt/GDP %	38.3	38.1	38.4	38.9	39.0
	Net Debt	305,200	316,280	332,204	349,577	364,252
	- incr/(decr) in net debt		11,080	15,924	17,373	14,675
	GDP	797,623	830,182	864,142	897,865	933,780
	Scenario 3	Surplus/(Deficit) after all tools (i.e., Balance) (incl pension reversal)				
	Deficit/ (Surplus) ($m)	2,171	-	-	-	-
	Net Debt/GDP %	38.3	37.8	37.5	37.2	36.6
	Net Debt	305,200	313,843	323,748	333,719	341,827
	- incr/(decr) in net debt		8,643	9,905	9,971	8,108
	GDP	797,623	830,182	864,142	897,865	933,780

Net Debt to Revenue and GDP Ratios

Ontario

		2016-17 FES - Scenario 1: Worst-Case (Surplus)/Deficit , with pension adj										2016-17 FES - with pension ad					
	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit
Actual	1989-90	282,766	35,409	46,500	12.52	76.1	35,409	12.52	-			(90)	282,766	35,409	46,500	12.52	76.1	35,409
Actual	1990-91	287,334	38,438	49,002	13.38	78.4	38,438	13.38	-			3,029	287,334	38,438	49,002	13.38	78.4	38,438
Actual	1991-92	288,217	49,368	47,527	17.13	103.9	49,368	17.13	-			10,930	288,217	49,368	47,527	17.13	103.9	49,368
Actual	1992-93	293,068	61,796	49,122	21.09	125.8	61,796	21.09	-			12,428	293,068	61,796	49,122	21.09	125.8	61,796
Actual	1993-94	302,245	80,599	51,410	26.67	156.8	80,599	26.67	-			11,202	302,245	80,599	51,410	26.67	156.8	80,599
Actual	1994-95	319,986	90,728	53,962	28.35	168.1	90,728	28.35	-			10,129	319,986	90,728	53,962	28.35	168.1	90,728
Actual	1995-96	337,400	101,864	57,898	30.19	175.9	101,864	30.19	-			8,800	337,400	101,864	57,898	30.19	175.9	101,864
Actual	1996-97	347,842	108,769	58,060	31.27	187.3	108,769	31.27	-			6,905	347,842	108,769	58,060	31.27	187.3	108,769
Actual	1997-98	368,960	112,735	61,362	30.55	183.7	112,735	30.55	-			3,966	368,960	112,735	61,362	30.55	183.7	112,735
Actual	1998-99	389,250	114,737	63,044	29.48	182.0	114,737	29.48	-			2,002	389,250	114,737	63,044	29.48	182.0	114,737
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3	134,398	32.13	-			(668)	418,245	134,398	70,983	32.13	189.3	134,398
Actual	2000-01	452,238	132,496	72,258	29.30	183.4	132,496	29.30	-			(1,902)	452,238	132,496	72,258	29.30	183.4	132,496
Actual	2001-02	469,084	132,121	72,550	28.17	182.1	132,121	28.17	-			(375)	469,084	132,121	72,550	28.17	182.1	132,121
Actual	2002-03	494,815	132,647	74,938	26.81	177.0	118,705	23.99	13,942			(117)	494,815	132,647	74,938	26.81	177.0	118,705
Actual	2003-04	509,511	138,816	74,549	27.24	186.2	124,188	24.37	14,628			5,483	509,511	138,816	74,549	27.24	186.2	124,188
Actual	2004-05	533,365	140,921	84,192	26.42	167.4	125,743	23.58	15,178			1,555	533,365	140,921	84,192	26.42	167.4	125,743
Actual	2005-06	556,635	152,702	90,738	27.43	168.3	109,155	19.61	43,547			(298)	556,635	152,702	90,738	27.43	168.3	109,155
Actual	2006-07	578,241	153,742	97,120	26.59	158.3	106,776	18.47	46,966		(110)	(2,269)	578,241	153,742	97,120	26.59	158.3	106,776
Actual	2007-08	601,735	156,616	104,115	26.03	150.4	105,617	17.55	50,999	(559)		(600)	601,735	156,616	104,115	26.03	150.4	105,617
Actual	2008-09	608,446	169,585	97,532	27.87	173.9	113,238	18.61	56,347	1,212		6,409	608,446	169,585	97,532	27.87	173.9	113,238
Actual	2009-10	597,882	193,589	96,313	32.38	201.0	130,957	21.90	62,632	1,090	-	19,262	597,882	193,589	96,313	32.38	201.0	130,957
Actual	2010-11	630,989	214,511	107,175	34.00	200.2	144,573	22.91	69,938	(395)	-	14,011	630,989	214,511	107,175	34.00	200.2	144,573
Actual	2011-12	659,743	235,582	109,773	35.71	214.6	158,410	24.01	77,172	3	865	12,969	659,743	235,582	109,773	35.71	214.6	158,410
Actual	2012-13	680,084	252,088	113,369	37.07	222.4	167,132	24.58	84,956	(639)	141	9,220	680,084	252,088	113,369	37.07	222.4	167,132
Actual	2013-14	695,349	267,190	115,911	38.43	230.5	176,634	25.40	90,556	(951)	-	10,453	695,349	267,190	115,911	38.43	230.5	176,634
Actual	2014-15	727,962	284,576	118,546	39.09	240.1	187,511	25.76	97,065	(1,121)	1,683	10,315	727,962	284,576	118,546	39.09	240.1	187,511
Actual	2015-16	763,276	305,233	128,377	39.99	237.8	202,697	26.56	102,536	1,003	9,154	5,029	763,276	305,233	128,377	39.99	237.8	202,697
	2016-17 Outloo	797,623	318,007	132,720	39.87	239.6	207,021	25.95	110,986			4,324	789176	317,948	130,589	40.29	243.5	207,021
	2017-18 Outloo	830,182	331,780	140,125	39.96	236.8	212,151	25.55	119,629			5,130	821389	326,551	137,729	39.76	237.1	207,003
	2018-19 Outloo	864,142	350,768	144,899	40.59	242.1	221,234	25.60	129,534			9,083	854990	336,419	141,920	39.35	237.0	206,991
	2019-20 Outloo	897,865	371,277		41.35		231,772	25.81	139,505			10,538		346,366		#DIV/0!		206,991
	2020-21 Outloo	933,780	389,087		41.67		241,474	25.86	147,613			9,702		354,451				206,991

Scenario 1:
See tab "GDP" - for GDP numbers 2016-17 to 2025-26 (received Jan 12, 2017)
See tab "TCA" - for updated TCA numbers 2016-17 to 2030-31 (received Jan 5, 2017)

Scenario Assumptions as per "Deficit " tab - (received Jan 16, 2017)

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16-Jan-17

Net Debt to Revenue an

Ontario

		Adjustment					Comparison: 2016 Public Accounts vs FES 2016-17									
	Fiscal Year	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
Actual	1989-90	12.52	-			(90)	-	-	-	-	-	-	-	-	-	-
Actual	1990-91	13.38	-			3,029	-	-	-	-	-	-	-	-	-	-
Actual	1991-92	17.13	-			10,930	-	-	-	-	-	-	-	-	-	-
Actual	1992-93	21.09	-			12,428	-	-	-	-	-	-	-	-	-	-
Actual	1993-94	26.67	-			11,202	-	-	-	-	-	-	-	-	-	-
Actual	1994-95	28.35	-			10,129	-	-	-	-	-	-	-	-	-	-
Actual	1995-96	30.19	-			8,800	-	-	-	-	-	-	-	-	-	-
Actual	1996-97	31.27	-			6,905	-	-	-	-	-	-	-	-	-	-
Actual	1997-98	30.55	-			3,966	-	-	-	-	-	-	-	-	-	-
Actual	1998-99	29.48	-			2,002	-	-	-	-	-	-	-	-	-	-
Actual	1999-2000	32.13	-			(668)	-	-	-	-	-	-	-	-	-	-
Actual	2000-01	29.30	-			(1,902)	-	-	-	-	-	-	-	-	-	-
Actual	2001-02	28.17	-			(375)	-	-	-	-	-	-	-	-	-	-
Actual	2002-03	23.99	13,942			(117)	-	-	-	-	-	-	-	-	-	-
Actual	2003-04	24.37	14,628			5,483	-	-	-	-	-	-	-	-	-	-
Actual	2004-05	23.58	15,178			1,555	-	-	-	-	-	-	-	-	-	-
Actual	2005-06	19.61	43,547			(298)	-	-	-	-	-	-	-	-	-	-
Actual	2006-07	18.47	46,966		(110)	(2,269)	-	-	-	-	-	-	-	-	-	-
Actual	2007-08	17.55	50,999	(559)		(600)	-	-	-	-	-	-	-	-	-	-
Actual	2008-09	18.61	56,347	1,212		6,409	-	-	-	-	-	-	-	-	-	-
Actual	2009-10	21.90	62,632	1,090	-	19,262	-	-	-	-	-	-	-	-	-	-
Actual	2010-11	22.91	69,938	(395)	-	14,011	-	-	-	-	-	-	-	-	-	-
Actual	2011-12	24.01	77,172	3	865	12,969	-	-	-	-	-	-	-	-	-	-
Actual	2012-13	24.58	84,956	(639)	141	9,220	-	-	-	-	-	-	-	-	-	-
Actual	2013-14	25.40	90,556	(951)	-	10,453	-	-	-	-	-	-	-	-	-	-
Actual	2014-15	25.76	97,065	(1,121)	1,683	10,315	-	-	-	-	-	-	-	-	-	-
Actual	2015-16	26.56	102,536	1,003	9,154	5,029	-	-	-	-	-	-	-	-	-	-
	2016-17 Outlo	26.23	110,927			4,324	(8,447)	(59)	0.4	3.9	-	0.3	(59)	-	-	-
	2017-18 Outlo	25.20	119,548			(18)	(8,793)	(5,229)	(0.2)	0.3	(5,148)	(0.4)	(81)	-	-	(5,148)
	2018-19 Outlo	24.21	129,428			(12)	(9,152)	(14,349)	(1.2)	(5.0)	(14,243)	(1.4)	(106)	-	-	(9,095)
	2019-20 Outlo	#DIV/0!	139,375			-	(897,865)	(24,911)	#DIV/0!	-	(24,781)	#DIV/0!	(130)	-	-	(10,538)
	2020-21 Outlo		147,460			-	(933,780)	(34,636)	(41.7)	-	(34,483)	(25.9)	(153)	-	-	(9,702)

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16-Jan-17

Net Debt to Revenue and GDP Ratios

Ontario

2016-17 FES - Scenario 2: (Surplus)/Defict , with per

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit
Actual	1989-90	282,766	35,409	46,500	12.52	76.1	35,409
Actual	1990-91	287,334	38,438	49,002	13.38	78.4	38,438
Actual	1991-92	288,217	49,368	47,527	17.13	103.9	49,368
Actual	1992-93	293,068	61,796	49,122	21.09	125.8	61,796
Actual	1993-94	302,245	80,599	51,410	26.67	156.8	80,599
Actual	1994-95	319,986	90,728	53,962	28.35	168.1	90,728
Actual	1995-96	337,400	101,864	57,898	30.19	175.9	101,864
Actual	1996-97	347,842	108,769	58,060	31.27	187.3	108,769
Actual	1997-98	368,960	112,735	61,362	30.55	183.7	112,735
Actual	1998-99	389,250	114,737	63,044	29.48	182.0	114,737
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3	134,398
Actual	2000-01	452,238	132,496	72,258	29.30	183.4	132,496
Actual	2001-02	469,084	132,121	72,550	28.17	182.1	132,121
Actual	2002-03	494,815	132,647	74,938	26.81	177.0	118,705
Actual	2003-04	509,511	138,816	74,549	27.24	186.2	124,188
Actual	2004-05	533,365	140,921	84,192	26.42	167.4	125,743
Actual	2005-06	556,635	152,702	90,738	27.43	168.3	109,155
Actual	2006-07	578,241	153,742	97,120	26.59	158.3	106,776
Actual	2007-08	601,735	156,616	104,115	26.03	150.4	105,617
Actual	2008-09	608,446	169,585	97,532	27.87	173.9	113,238
Actual	2009-10	597,882	193,589	96,313	32.38	201.0	130,957
Actual	2010-11	630,989	214,511	107,175	34.00	200.2	144,573
Actual	2011-12	659,743	235,582	109,773	35.71	214.6	158,410
Actual	2012-13	680,084	252,088	113,369	37.07	222.4	167,132
Actual	2013-14	695,349	267,190	115,911	38.43	230.5	176,634
Actual	2014-15	727,962	284,576	118,546	39.09	240.1	187,511
Actual	2015-16	763,276	294,579	128,377	38.59	229.5	192,043
	2016-17 Outloo	797,623	305,200	132,720	38.26	230.0	194,214
	2017-18 Outloo	830,182	316,280	140,125	38.10	225.7	196,651
	2018-19 Outloo	864,142	332,204	144,899	38.44	229.3	202,670
	2019-20 Outloo	897,865	349,577		38.93		210,072
	2020-21 Outloo	933,780	364,252		39.01		216,639

Scenario 2:
See tab "GDP" - for GDP numbers 2016-17 to 2025-26 (received Jan 12, 2017)
See tab "TCA" - for updated TCA numbers 2016-17 to 2030-31 (received Jan 5, 2017)

Scenario Assumptions as per "Deficit " tab - (received Jan 16, 2017)

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ısion adj reversal (incl 2015-16)

Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt	Revenue
12.52	-			(90)	282,766	35,409	46,500
13.38	-			3,029	287,334	38,438	49,002
17.13	-			10,930	288,217	49,368	47,527
21.09	-			12,428	293,068	61,796	49,122
26.67	-			11,202	302,245	80,599	51,410
28.35	-			10,129	319,986	90,728	53,962
30.19	-			8,800	337,400	101,864	57,898
31.27	-			6,905	347,842	108,769	58,060
30.55	-			3,966	368,960	112,735	61,362
29.48	-			2,002	389,250	114,737	63,044
32.13	-			(668)	418,245	134,398	70,983
29.30	-			(1,902)	452,238	132,496	72,258
28.17	-			(375)	469,084	132,121	72,550
23.99	13,942			(117)	494,815	132,647	74,938
24.37	14,628			5,483	509,511	138,816	74,549
23.58	15,178			1,555	533,365	140,921	84,192
19.61	43,547			(298)	556,635	152,702	90,738
18.47	46,966		(110)	(2,269)	578,241	153,742	97,120
17.55	50,999	(559)		(600)	601,735	156,616	104,115
18.61	56,347	1,212		6,409	608,446	169,585	97,532
21.90	62,632	1,090	-	19,262	597,882	193,589	96,313
22.91	69,938	(395)	-	14,011	630,989	214,511	107,175
24.01	77,172	3	865	12,969	659,743	235,582	109,773
24.58	84,956	(639)	141	9,220	680,084	252,088	113,369
25.40	90,556	(951)	-	10,453	695,349	267,190	115,911
25.76	97,065	(1,121)	1,683	10,315	727,962	284,576	118,546
25.16	102,536	1,003	-	3,529	763,276	305,233	128,377
24.35	110,986			2,171	789176	317,948	130,589
23.69	119,629			2,437	821389	326,551	137,729
23.45	129,534			6,019	854990	336,419	141,920
23.40	139,505			7,402		346,366	
23.20	147,613			6,567		354,451	

2016-17 FES - with pension adjustment

Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.
12.52	76.1	35,409	12.52	-		
13.38	78.4	38,438	13.38	-		
17.13	103.9	49,368	17.13	-		
21.09	125.8	61,796	21.09	-		
26.67	156.8	80,599	26.67	-		
28.35	168.1	90,728	28.35	-		
30.19	175.9	101,864	30.19	-		
31.27	187.3	108,769	31.27	-		
30.55	183.7	112,735	30.55	-		
29.48	182.0	114,737	29.48	-		
32.13	189.3	134,398	32.13	-		
29.30	183.4	132,496	29.30	-		
28.17	182.1	132,121	28.17	-		
26.81	177.0	118,705	23.99	13,942		
27.24	186.2	124,188	24.37	14,628		
26.42	167.4	125,743	23.58	15,178		
27.43	168.3	109,155	19.61	43,547		
26.59	158.3	106,776	18.47	46,966		(110)
26.03	150.4	105,617	17.55	50,999	(559)	
27.87	173.9	113,238	18.61	56,347	1,212	
32.38	201.0	130,957	21.90	62,632	1,090	-
34.00	200.2	144,573	22.91	69,938	(395)	-
35.71	214.6	158,410	24.01	77,172	3	865
37.07	222.4	167,132	24.58	84,956	(639)	141
38.43	230.5	176,634	25.40	90,556	(951)	-
39.09	240.1	187,511	25.76	97,065	(1,121)	1,683
39.99	237.8	202,697	26.56	102,536	1,003	9,154
40.29	243.5	207,021	26.23	110,927		
39.76	237.1	207,003	25.20	119,548		
39.35	237.0	206,991	24.21	129,428		
#DIV/0!		206,991	#DIV/0!	139,375		
		206,991		147,460		

	Comparison: 2016 Public Accounts vs FES					
Deficit/ (Surplus)	GDP	Net Debt	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP
(90)	-	-	-	-	-	-
3,029	-	-	-	-	-	-
10,930	-	-	-	-	-	-
12,428	-	-	-	-	-	-
11,202	-	-	-	-	-	-
10,129	-	-	-	-	-	-
8,800	-	-	-	-	-	-
6,905	-	-	-	-	-	-
3,966	-	-	-	-	-	-
2,002	-	-	-	-	-	-
(668)	-	-	-	-	-	-
(1,902)	-	-	-	-	-	-
(375)	-	-	-	-	-	-
(117)	-	-	-	-	-	-
5,483	-	-	-	-	-	-
1,555	-	-	-	-	-	-
(298)	-	-	-	-	-	-
(2,269)	-	-	-	-	-	-
(600)	-	-	-	-	-	-
6,409	-	-	-	-	-	-
19,262	-	-	-	-	-	-
14,011	-	-	-	-	-	-
12,969	-	-	-	-	-	-
9,220	-	-	-	-	-	-
10,453	-	-	-	-	-	-
10,315	-	-	-	-	-	-
5,029	-	10,654	1.4	8.3	10,654	1.4
4,324	(8,447)	12,748	2.0	13.5	12,807	1.9
(18)	(8,793)	10,271	1.7	11.4	10,352	1.5
(12)	(9,152)	4,215	0.9	7.8	4,321	0.8
-	(897,865)	(3,211)	#DIV/0!	-	(3,081)	#DIV/0!
-	(933,780)	(9,801)	(39.0)	-	(9,648)	(23.2)

2016-17

TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	9,154	1,500
(59)	-	-	2,153
(81)	-	-	(2,455)
(106)	-	-	(6,031)
(130)	-	-	(7,402)
(153)	-	-	(6,567)

Net Debt to Revenue and GDP Ratios

Ontario

2016-17 FES - Scenario 3: (Surplus)/Defict after all tools , w

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit
Actual	1989-90	282,766	35,409	46,500	12.52	76.1	35,409
Actual	1990-91	287,334	38,438	49,002	13.38	78.4	38,438
Actual	1991-92	288,217	49,368	47,527	17.13	103.9	49,368
Actual	1992-93	293,068	61,796	49,122	21.09	125.8	61,796
Actual	1993-94	302,245	80,599	51,410	26.67	156.8	80,599
Actual	1994-95	319,986	90,728	53,962	28.35	168.1	90,728
Actual	1995-96	337,400	101,864	57,898	30.19	175.9	101,864
Actual	1996-97	347,842	108,769	58,060	31.27	187.3	108,769
Actual	1997-98	368,960	112,735	61,362	30.55	183.7	112,735
Actual	1998-99	389,250	114,737	63,044	29.48	182.0	114,737
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3	134,398
Actual	2000-01	452,238	132,496	72,258	29.30	183.4	132,496
Actual	2001-02	469,084	132,121	72,550	28.17	182.1	132,121
Actual	2002-03	494,815	132,647	74,938	26.81	177.0	118,705
Actual	2003-04	509,511	138,816	74,549	27.24	186.2	124,188
Actual	2004-05	533,365	140,921	84,192	26.42	167.4	125,743
Actual	2005-06	556,635	152,702	90,738	27.43	168.3	109,155
Actual	2006-07	578,241	153,742	97,120	26.59	158.3	106,776
Actual	2007-08	601,735	156,616	104,115	26.03	150.4	105,617
Actual	2008-09	608,446	169,585	97,532	27.87	173.9	113,238
Actual	2009-10	597,882	193,589	96,313	32.38	201.0	130,957
Actual	2010-11	630,989	214,511	107,175	34.00	200.2	144,573
Actual	2011-12	659,743	235,582	109,773	35.71	214.6	158,410
Actual	2012-13	680,084	252,088	113,369	37.07	222.4	167,132
Actual	2013-14	695,349	267,190	115,911	38.43	230.5	176,634
Actual	2014-15	727,962	284,576	118,546	39.09	240.1	187,511
Actual	2015-16	763,276	294,579	128,377	38.59	229.5	192,043
	2016-17 Outloo	797,623	305,200	132,720	38.26	230.0	194,214
	2017-18 Outloo	830,182	313,843	140,125	37.80	224.0	194,214
	2018-19 Outloo	864,142	323,748	144,899	37.46	223.4	194,214
	2019-20 Outloo	897,865	333,719		37.17		194,214
	2020-21 Outloo	933,780	341,827		36.61		194,214

Scenario 3:
See tab "GDP" - for GDP numbers 2016-17 to 2025-26 (received Jan 12, 2017)
See tab "TCA" - for updated TCA numbers 2016-17 to 2030-31 (received Jan 5, 2017)

Scenario Assumptions as per "Deficit " tab - (received Jan 16, 2017)

Prepared by OFA, FTD

16-Jan-17

ith pension adj reversal (incl 2015-16)

Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt	Revenue
12.52	-			(90)	282,766	35,409	46,500
13.38	-			3,029	287,334	38,438	49,002
17.13	-			10,930	288,217	49,368	47,527
21.09	-			12,428	293,068	61,796	49,122
26.67	-			11,202	302,245	80,599	51,410
28.35	-			10,129	319,986	90,728	53,962
30.19	-			8,800	337,400	101,864	57,898
31.27	-			6,905	347,842	108,769	58,060
30.55	-			3,966	368,960	112,735	61,362
29.48	-			2,002	389,250	114,737	63,044
32.13	-			(668)	418,245	134,398	70,983
29.30	-			(1,902)	452,238	132,496	72,258
28.17	-			(375)	469,084	132,121	72,550
23.99	13,942			(117)	494,815	132,647	74,938
24.37	14,628			5,483	509,511	138,816	74,549
23.58	15,178			1,555	533,365	140,921	84,192
19.61	43,547			(298)	556,635	152,702	90,738
18.47	46,966		(110)	(2,269)	578,241	153,742	97,120
17.55	50,999	(559)		(600)	601,735	156,616	104,115
18.61	56,347	1,212		6,409	608,446	169,585	97,532
21.90	62,632	1,090	-	19,262	597,882	193,589	96,313
22.91	69,938	(395)	-	14,011	630,989	214,511	107,175
24.01	77,172	3	865	12,969	659,743	235,582	109,773
24.58	84,956	(639)	141	9,220	680,084	252,088	113,369
25.40	90,556	(951)	-	10,453	695,349	267,190	115,911
25.76	97,065	(1,121)	1,683	10,315	727,962	284,576	118,546
25.16	102,536	1,003	-	3,529	763,276	305,233	128,377
24.35	110,986			2,171	789176	317,948	130,589
23.39	119,629			-	821389	326,551	137,729
22.47	129,534			-	854990	336,419	141,920
21.63	139,505			-		346,366	
20.80	147,613			-		354,451	

2016-17 FES - with pension adjustment

Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.
12.52	76.1	35,409	12.52	-		
13.38	78.4	38,438	13.38	-		
17.13	103.9	49,368	17.13	-		
21.09	125.8	61,796	21.09	-		
26.67	156.8	80,599	26.67	-		
28.35	168.1	90,728	28.35	-		
30.19	175.9	101,864	30.19	-		
31.27	187.3	108,769	31.27	-		
30.55	183.7	112,735	30.55	-		
29.48	182.0	114,737	29.48	-		
32.13	189.3	134,398	32.13	-		
29.30	183.4	132,496	29.30	-		
28.17	182.1	132,121	28.17	-		
26.81	177.0	118,705	23.99	13,942		
27.24	186.2	124,188	24.37	14,628		
26.42	167.4	125,743	23.58	15,178		
27.43	168.3	109,155	19.61	43,547		
26.59	158.3	106,776	18.47	46,966		(110)
26.03	150.4	105,617	17.55	50,999	(559)	
27.87	173.9	113,238	18.61	56,347	1,212	
32.38	201.0	130,957	21.90	62,632	1,090	-
34.00	200.2	144,573	22.91	69,938	(395)	-
35.71	214.6	158,410	24.01	77,172	3	865
37.07	222.4	167,132	24.58	84,956	(639)	141
38.43	230.5	176,634	25.40	90,556	(951)	-
39.09	240.1	187,511	25.76	97,065	(1,121)	1,683
39.99	237.8	202,697	26.56	102,536	1,003	9,154
40.29	243.5	207,021	26.23	110,927		
39.76	237.1	207,003	25.20	119,548		
39.35	237.0	206,991	24.21	129,428		
#DIV/0!		206,991	#DIV/0!	139,375		
		206,991		147,460		

	Comparison: 2016 Public Accounts vs FES					
Deficit/ (Surplus)	GDP	Net Debt	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP
(90)	-	-	-	-	-	-
3,029	-	-	-	-	-	-
10,930	-	-	-	-	-	-
12,428	-	-	-	-	-	-
11,202	-	-	-	-	-	-
10,129	-	-	-	-	-	-
8,800	-	-	-	-	-	-
6,905	-	-	-	-	-	-
3,966	-	-	-	-	-	-
2,002	-	-	-	-	-	-
(668)	-	-	-	-	-	-
(1,902)	-	-	-	-	-	-
(375)	-	-	-	-	-	-
(117)	-	-	-	-	-	-
5,483	-	-	-	-	-	-
1,555	-	-	-	-	-	-
(298)	-	-	-	-	-	-
(2,269)	-	-	-	-	-	-
(600)	-	-	-	-	-	-
6,409	-	-	-	-	-	-
19,262	-	-	-	-	-	-
14,011	-	-	-	-	-	-
12,969	-	-	-	-	-	-
9,220	-	-	-	-	-	-
10,453	-	-	-	-	-	-
10,315	-	-	-	-	-	-
5,029	-	10,654	1.4	8.3	10,654	1.4
4,324	(8,447)	12,748	2.0	13.5	12,807	1.9
(18)	(8,793)	12,708	2.0	13.1	12,789	1.8
(12)	(9,152)	12,671	1.9	13.6	12,777	1.7
-	(897,865)	12,647	#DIV/0!	-	12,777	#DIV/0!
-	(933,780)	12,624	(36.6)	-	12,777	(20.8)

2016-17

TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
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-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	9,154	1,500
(59)	-	-	2,153
(81)	-	-	(18)
(106)	-	-	(12)
(130)	-	-	-
(153)	-	-	-

	Ontario Nominal GDP			
	FES		Current	
	$ billions	% change	$ billions	% change
2010	630,989		630,989	
2011	659,743		659,743	
2012	680,084		680,084	
2013	695,349		695,349	
2014	727,962		727,962	
2015	763,276		763,276	
2016f	789,176	3.4	797,623	4.5
2017f	821,389	4.1	830,182	4.1
2018f	854,990	4.1	864,142	4.1
2019f	888,355	3.9	897,865	3.9
2020f			933,780	4.0
2021f			971,131	4.0
2022f			1,009,976	4.0
2023f			1,050,375	4.0
2024f			1,092,390	4.0
2025f			1,136,086	4.0
2026f			1,181,529	4.0
2027f			1,228,790	4.0
2028f			1,277,942	4.0
2029f			1,329,060	4.0
2030f			1,382,222	4.0

Net Book Value of TCA ($ Millions)	2015-16 (Actual)	2016-17	2017-18	2018-19	2019-20
2016 Budget					
Opening Net Book Value		102,536	110,437	119,079	128,985
Annual Acquisitions	N/A	13,037	14,059	15,605	15,979
Gross Amortization Expense	N/A	(5,137)	(5,416)	(5,700)	(6,008)
Closing Net Book Value	102,536	110,437	119,079	128,985	138,956
In Year Approvals					
Annual Acquisitions	-	561		-	-
School Renewal	0	556		0	0
Chapleau Cree Stage 2B	0	0	0	0	0
Child and Youth Mental Health BI Solution	0	5	0	0	0
Annual Amortization	-	(12)	(0)	(0)	(0)
School Renewal	0	(12)			
Chapleau Cree Stage 2B	0	0	(0)	(0)	(0)
Child and Youth Mental Health BI Solution	0	0	(0)		
2016 Budget + In Year Approvals					
Opening Net Book Value		102,536	110,986	119,629	129,534
Annual Acquisitions		13,598	14,059	15,605	15,979
Gross Amortization Expense		(5,148)	(5,416)	(5,700)	(6,008)
Closing Net Book Value	102,536	110,986	119,629	129,534	139,505

Source: David Hodes (TBS) - Jan 5, 2017

2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
138,956	147,064	151,949	153,957	154,809	154,188
14,536	11,823	9,541	8,700	7,461	5,982
(6,428)	(6,939)	(7,533)	(7,847)	(8,082)	(8,231)
147,064	151,949	153,957	154,809	154,188	151,939
-	-	-	-	-	-
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
(0)	(0)	(0)	(0)	(0)	(0)
(0)	(0)	(0)	(0)	(0)	(0)
139,505	147,613	152,498	154,506	155,358	154,737
14,536	11,823	9,541	8,700	7,461	5,982
(6,428)	(6,939)	(7,533)	(7,847)	(8,082)	(8,231)
147,613	152,498	154,506	155,358	154,737	152,488

2016 Document - Preliminary Surplus/(Deficit) Scenarios $Millions	2016-17	2017-18
Worst-Case Surplus/(Deficit)	(4,324)	(5,130)
Surplus/(Deficit) with Reversal of Pensions (OTPP and OPSEUPP)	(2,171)	(2,437)
Surplus/(Deficit) after all tools (i.e., Balance)	(2,171)	-

Received: January 16, 2017

2018-19	2019-20	2020-21
(9,083)	(10,538)	(9,702)
(6,019)	(7,402)	(6,567)
-	-	-

From:	John Psinas
To:	Ken Kandeepan; Selena Esmail (MOF)
Cc:	Alexander Kraas; George Sakura; Inglis, Liane (MOF); Emma Lindquist (MOF); Shemin Meralli; Kevin Hwang
Subject:	RE: Q3 update
Date:	Tuesday, January 24, 2017 3:05:42 PM
Attachments:	Net debt slide 13.pdf

Selena,

Please find attached a pdf of slide 13 with our edits. Budget password in effect.

Not sure why we are off considerably as the graph notes it's based on FES numbers. Can you share the data you used for the slide?

Thanks.

--John

416-325-8072

-----Original Message-----
From: Ken Kandeepan
Sent: Tuesday, January 24, 2017 1:55 PM
To: Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; John Psinas <John.Psinas@ofina.on.ca>
Subject: RE: Q3 update

Hi Selena

I have to be at Bud Sec shortly, however, John Psinas will provide you with the revised net debt to GDP ratio from the reversal of the pension adjustment. For 16-17 we will use the FES outlook in the ratio and update same when you land on the projected deficit for the current fiscal.

I would also suggest that slide 10 include a line indicating that the reversal of the pension adjustment reduces the 2015-16 accumulated deficit and net debt by over $10.6 billion.

Thanks

Ken k

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Tuesday, January 24, 2017 1:25 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: RE: Q3 update

Ken - Im attaching the current version of the Q3 deck -if you could take a look through. In particular - can you have a look at slide 13 and provide a few bullets on the impact of the reversal of the pensions on net debt to GDP?

Happy to discuss. Let me know if you have any other comments as well - happy to take those too. If you could get back to me as soon as possible, that would be much appreciated. Thanks.

Deck has new document psswrd.
-----Original Message-----
From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: January-24-17 10:49 AM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
Subject: RE: Q3 update

NP, I believe we do have Q&A in the FES package that addresses this very issue, so happy to flip it to you later on, do note that Gadi released an additional $63M (in relation to the IOD number in the FES) in IOD savings for 16-17 to Tim a couple of weeks ago.

Thanks

Ken k

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Tuesday, January 24, 2017 10:40 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: Re: Q3 update

Ok -. Thanks for confirming. Tim said that may be true and we may need to have a technical Q and A on this as part of Q3 comms prep. So for now we are going to leave it as a decision point about whether to take on the fes outlook or show a more up to date forecast and we may get direction from the dm today or fpc tomorrow. I hope to be able to share a draft deck with you shortly. Thanks for your help.

Sent from my BlackBerry 10 smartphone on the Rogers network.
  Original Message
From: Ken Kandeepan
Sent: Tuesday, January 24, 2017 10:32 AM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
Subject: RE: Q3 update

Hi Selena

The reversal of the pension adjustment does not impact IOD since it’s a non-cash adjustment, i.e., it decreases expenses on a PSAB basis not on a cash basis hence the total borrowing does not change which means that IOD also remains unchanged.

Thanks

Ken K

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Tuesday, January 24, 2017 10:29 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: Re: Q3 update

Hey ken - one thing to consider is if the pension adjustment is being reversed there may be a desire to show progress on IOD - assuming it impacts that. Thoughts?

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: Ken Kandeepan
Sent: Monday, January 23, 2017 3:19 PM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
Subject: RE: Q3 update

Thanks agreed, keeping the FES forecast makes sense since we don't want material changes before the interim in the Document, but pls do confirm.

Ken k

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Monday, January 23, 2017 2:54 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: Re: Q3 update

Hi ken - thanks. Not sure yet on whether we will keep the fes forecast or update for the latest but I'll speak to tim about it. Tim mentioned earlier that we shld retain the fes forecast but I just want to confirm with him.

Thanks again.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Ken Kandeepan
Sent: Monday, January 23, 2017 1:06 PM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA)
Subject: RE: Q3 update

Hi Selena

Couple of quick question, the 16-17 IOD forecast was revised downwards from the FES number and provided to Tim. Do you want us to use this revised version or stick with the FES forecast with the revision being presented in the Interim section of the 2017 Budget.

Let me know, and in order to complete the Financing Table we need to know the 16-17 deficit that you will be projecting in the Q3, will be the same as the FES?

Thanks

Ken k

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Monday, January 23, 2017 12:43 PM
To: Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Tim Cook (MOF) <Tim.Cook@ontario.ca>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca>; Sharon Stuckless (TCU) <Sharon.Stuckless@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca>; Raj Sharda (MOHLTC) <Raj.Sharda@ontario.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
Subject: RE: Q3 update
Importance: High

Hi All,

Following up on my email from last week, we received relatively recent direction regarding the release of Ontario's Third Quarter Finances – the tentative plan is to publish Q3 finances ahead of the February 15 deadline. We are tentatively tracking a release date of Monday February 13.

As you can imagine, timelines are very compressed, and includes a possible trip to FPC this week. In order to meet this week's deadlines, while also preparing for the release of the actual publication, we're asking for input from you in stages:

EOD Today:
We have prepared the draft of a deck, which we are working towards tabling at this Wednesday's FPC (TBC). The deck lays out the key 2016-17 building blocks that could be updated as part of the Q3 publication. It would help if we could get the following from you folks by the end of today:
16-17 post-FES expense update: We have included placeholder for an expense slide. The intention is for the slide to provide an updated list of initiatives that were not included in the FES expense outlook.
Recommended expense update/signature initiatives: We may build in options for what the outlook could look like – it would help if you could provide a recommendation for the expense changes that should be taken on/profiled.
16-17 c-fund update: We have included a c-fund slide that was used in the Q1 finances briefing materials (current PW). We would like to include an updated version of this slide in the FPC deck (appendix). It would help to have this out to 19-20.
Pension Narrative: Nadine – I'll connect on the pension adjustment and some high level bullets that we could use.

Noon Friday January 27:
Template: I've attached a draft of 3q finances that is based heavily off of the 2016 First Quarter Finances. We've highlighted in green the sections that we would like you to update. While I'm not 100% certain this structure will be exactly what the Q3 document will look like, I think it's safe to say that the substantive content we'll have to cover is captured here. There will be some highlighted content that is not possible to update for Friday, however there will be a formal distribution process where additional information can be incorporated.

Thanks everyone, and please feel free to send your input directly to Liane and Emma. Im hoping to be able to share a draft deck with you late this evening.

From: Esmail, Selena (MOF)
Sent: January-19-17 2:57 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)

Subject: Q3 heads up

Hi Everyone – Wanted to send a quick message that we are hearing there is a desire to proceed with the release of a Q3 update around the time we are expecting the Pension Panel panel to release their report. We are going to assume mid feb prior to the house coming back for our planning purposes.

My team is going to work together to put together a list of things we need to start working on/think about along with a calendar to determine and get direction on an approach to coincide with this timeframe.

More details to follow tomorrow.

Thanks.

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

Security settings or invalid file format do not permit using Net debt slide 13_1.pdf (199880 Bytes).

From:	Ken Kandeepan
To:	Selena Esmail (MOF)
Cc:	Alexander Kraas; George Sakura; Inglis, Liane (MOF); Emma Lindquist (MOF); John Psinas
Subject:	RE: Q3 update
Date:	Tuesday, January 24, 2017 1:54:52 PM

Hi Selena

I have to be at Bud Sec shortly, however, John Psinas will provide you with the revised net debt to GDP ratio from the reversal of the pension adjustment. For 16-17 we will use the FES outlook in the ratio and update same when you land on the projected deficit for the current fiscal.

I would also suggest that slide 10 include a line indicating that the reversal of the pension adjustment reduces the 2015-16 accumulated deficit and net debt by over $10.6 billion.

Thanks

Ken k

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Tuesday, January 24, 2017 1:25 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: RE: Q3 update

Ken - Im attaching the current version of the Q3 deck -if you could take a look through. In particular - can you have a look at slide 13 and provide a few bullets on the impact of the reversal of the pensions on net debt to GDP?

Happy to discuss. Let me know if you have any other comments as well - happy to take those too. If you could get back to me as soon as possible, that would be much appreciated. Thanks.

Deck has new document psswrd.
-----Original Message-----
From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: January-24-17 10:49 AM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
Subject: RE: Q3 update

NP, I believe we do have Q&A in the FES package that addresses this very issue, so happy to flip it to you later on, do note that Gadi released an additional $63M (in relation to the IOD number in the FES) in IOD savings for 16-17 to Tim a couple of weeks ago.

Thanks

Ken k

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Sent: Tuesday, January 24, 2017 10:40 AM

To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
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Importance: High

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To:	Ken Kandeepan
Cc:	Alexander Kraas; George Sakura; Inglis, Liane (MOF); Emma Lindquist (MOF)
Subject:	RE: Q3 update
Date:	Tuesday, January 24, 2017 1:25:21 PM
Attachments:	Q3Finances_Considerations_v4h.pptx

Ken - Im attaching the current version of the Q3 deck -if you could take a look through. In particular - can you have a look at slide 13 and provide a few bullets on the impact of the reversal of the pensions on net debt to GDP?

Happy to discuss. Let me know if you have any other comments as well - happy to take those too. If you could get back to me as soon as possible, that would be much appreciated. Thanks.

Deck has new document psswrd.
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NP, I believe we do have Q&A in the FES package that addresses this very issue, so happy to flip it to you later on, do note that Gadi released an additional $63M (in relation to the IOD number in the FES) in IOD savings for 16-17 to Tim a couple of weeks ago.

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Fiscal Strategy:
Ontario's Third Quarter Finances

Office of the Budget
MINISTRY of FINANCE

Presentation to FPC on January 25, 2017

Preliminary Draft

Draft – January 24, 2017 12:00 PM

Context

Under the *Fiscal Transparency and Accountability Act, 2004* (FTAA), the Third Quarter Finances is required to:

- Be released on or before February 15th (publication can be delayed if a letter is sent to the Clerk).
- Include updated information about the major components of revenue and expense **for the current fiscal year only.**

It also provides an **opportunity for the government to reiterate key fiscal messages** from the Budget or pre-condition for future updates.

A Third Quarter Finances has only been published once in the last eight years (in 2012-13).

- The infrequent publication provides the government with some flexibility on how to present its fiscal update (i.e., update could be presented relative to the 2016 Budget, 2016 FES or both, as was done in 2012-13).

Key stakeholders like the Financial Accountability Officer and rating agencies will assess the fiscal outlook and narrative.

- Both have acknowledged that balance is within reach in 2017-18, but have also highlighted key risks to the 2016 Budget fiscal plan.

Purpose and Key Decisions

To **confirm the approach to publishing Ontario's Third Quarter Finances, including:**

- The core updates to **the fiscal outlook and supporting revenue and expense details** to be published, as well as the **fiscal narrative and messaging**.
- Positioning the content and the rollout of Third Quarter Finances relative to the release of the Pension Panel's Report and recommendations.
- **Confirm release date** and determine if a letter to the Clerk is required.

Evolution of the 2016-17 Outlook

- The Third Quarter Finances could present a fiscal update relative to the 2016 Budget or FES.
- The 2016 FES highlighted Ontario's stronger economy and the government's approach to fiscal management, which supported strategic investments in new child care spaces, hospitals and electricity cost relief for consumers.
- To support these investments while accommodating the Pension Adjustment, the government took on a number of fiscal tools in order to meet its targets.

2016 Budget Fiscal Plan $ Billions	2016-17	Change to FES 2016-17	FES Outlook 2016-17
Revenue	130.6	*2.1*	132.7
Expense			
Programs	122.1	*3.1*	125.3
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*2.7*	136.6
Surplus/(Deficit) Before Reserve	(3.3)	*(0.6)*	(3.9)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*(0.0)*	(4.3)

Total revenue changes of $2.1 billion, consisting of:

- Base Forecast Change $1.0 billion
- Reversal of Homecare $(0.2) billion
- Federal Agreements $0.4 billion
- Higher assumed revenue to accommodate pensions $0.9 billion

Total expense changes of $2.7 billion, consisting of:

- In-Year Approvals $0.2 billion
- Pension Adjustment of $2.2 billion
- Electricity Cost Relief $0.3 billion
- Support for Hospitals $0.1 billion
- Green Investment Fund $0.3 billion
- New Federal Agreements $0.4 billion
- Contingency Fund Offsets $(0.5) billion
- Interest on Debt Savings $(0.4) billion

Change to the Reserve $(0.6) billion

End of Year Projection for 2016-17

- An early-read indicates that end of year projections for the 2016-17 deficit could range from $0.6 billion (if there is a significant improvement to the outlook) to $2.7 billion (if there is a moderate improvement to the outlook) by year end.

Significant Year-end Improvement

2016 Budget (4.3) billion
+ Pension Adjustment and Tools
2016 FES (4.3) billion
+ Higher Revenue ***1.7 billion***
– Re-profiling Cap and Trade Proceeds ***0.5 billion***
– Lower Revenue from Assets ***75 million***
– Accounting Adjustments: Accounting Framework (IFRS) ***75 million*** Unchanged Contaminated Sites
Unchanged Program Expense
+ Reverse Pension Adjustment ***2.2 billion***
+ Lower Interest on Debt ***0.1 billion***
+ Reduce Reserve ***0.4 billion***
Early-Read (0.6) billion

Moderate Year-end Improvement

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+ Pension Adjustment and Tools
2016 FES (4.3) billion
+ Higher Revenue ***0.7 billion***
– Re-profiling Cap and Trade Proceeds ***0.5 billion***
– Lower Revenue from Assets ***75 million***
– Accounting Adjustments: Accounting Framework (IFRS) ***75 million*** Contaminated Sites ***50 million***
Higher Program Expense ***1.0 billion***
+ Reverse Pension Adjustment ***2.2 billion***
+ Unchanged Interest on Debt
+ Reduce Reserve ***0.4 billion***
Early-Read (2.7) billion

Treatment of Pension Adjustment

Panel Recommendation

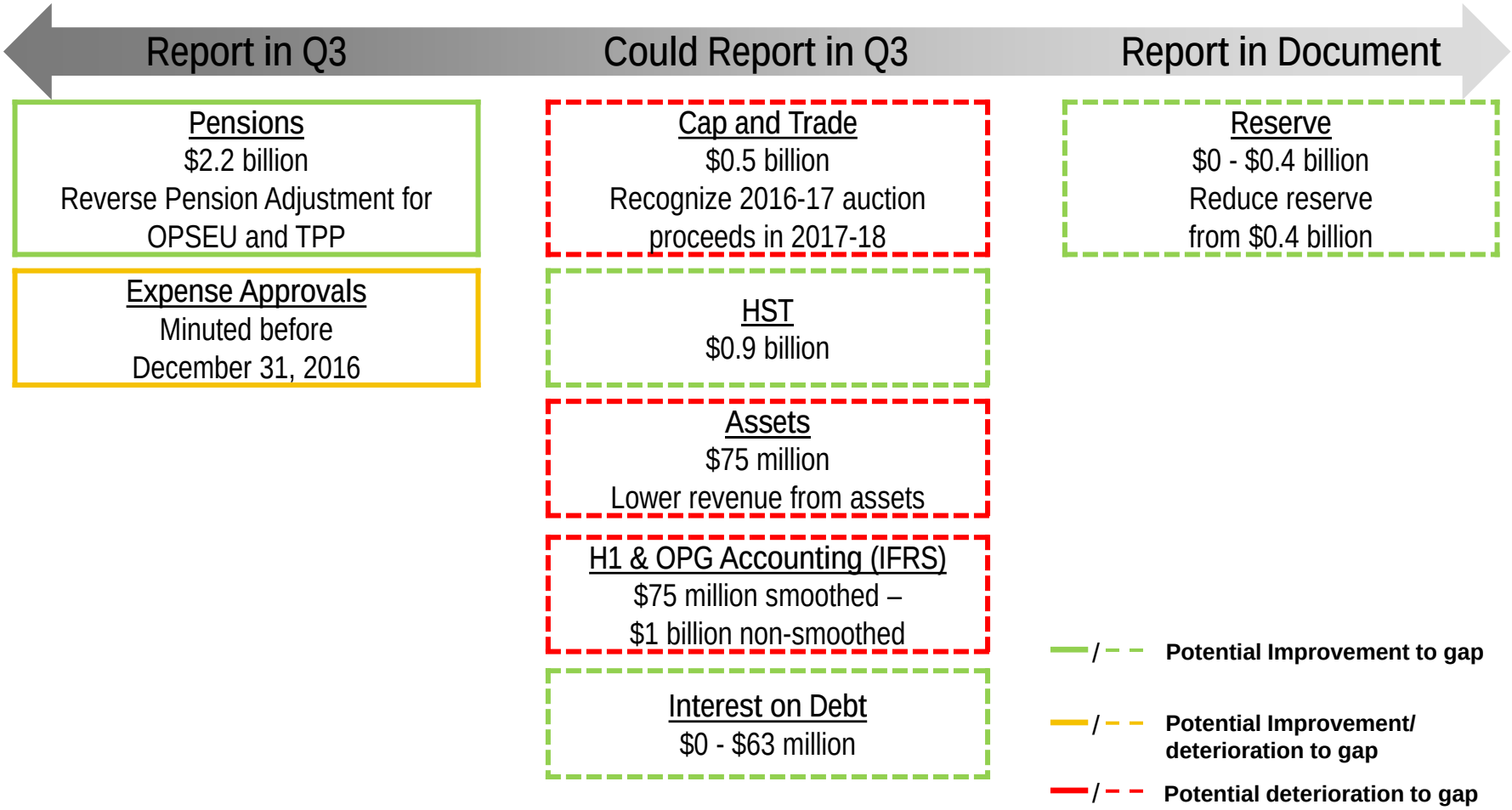
- The Pension Asset Expert Advisory Panel will be releasing its findings in the coming weeks.
  - The report is expected to include advice that the net pension asset be recognized in the Province's financial statements.
  - If taken on, would result in a positive fiscal impact in all years.

Treatment of Pension Adjustment

- The Third Quarter Finances provides the government with an immediate opportunity to align its fiscal strategy with recommendations of the panel, and frame the pension narrative in advance of the 2017 Document.
- While the reversal will result in an improved 2016-17 deficit, expectations may need to be tempered about how much fiscal room is created in the out-years due to growing pressures.

Key Building Blocks

- In addition to the reversal of the Pension Adjustment, other key building blocks will either need to be reported in the Third Quarter Finances or be considered for the 2017 Document.



Outstanding Information

- **Outstanding Information** could materially impact the **2016-17 outlook** in advance of the 2017 Document.

Revenue
Revisions to economic outlook
Ongoing provincially-administered tax receipts
Non-tax revenue updates from Ministry PRRT submissions
Net income updates from government business enterprises

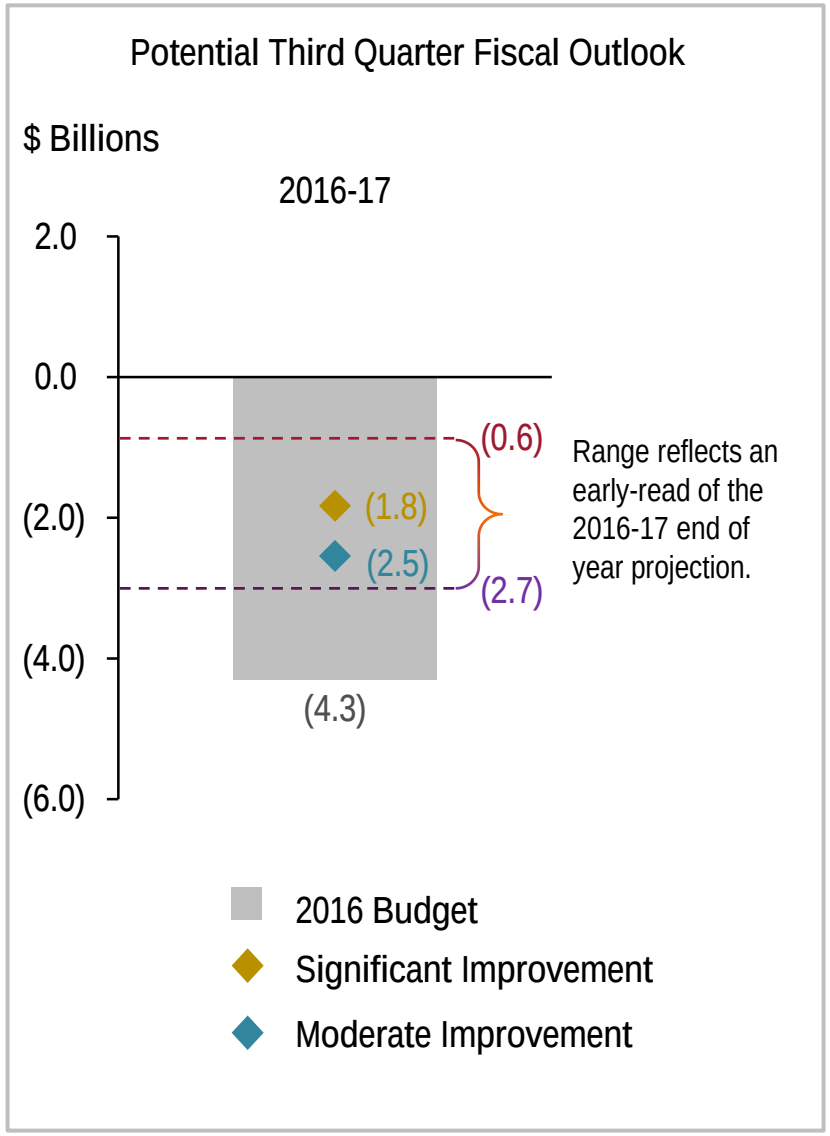
Expense
Ministry Q3/interim submissions
Consolidations and other technical adjustments
Interest on debt forecast updates
Contaminated sites liabilities
Update pension expense forecast

- Potential improvement to gap
- Potential improvement or deterioration to gap
- Potential deterioration to gap

Principles for the 2016-17 Outlook

- Based on an early-read of end of year projections, the government may want to report an outlook that protects against risks or other changes that could adversely impact the Province's fiscal performance between now and the Budget, and ultimately, Public Accounts.
- For example, based on current information and taking into account key building blocks, Q3 could present a deficit ranging from $2.5 billion (moderate improvement) to $1.8 billion (significant improvement).

Moderate Improvement	Significant Improvement
Takes on the following key building blocks: • **Pensions** $2.2 billion • **Cap and Trade** $(0.5) billion	Takes on the following key building blocks: • **Pensions** $2.2 billion • **Cap and Trade** $(0.5) billion • **Interest on Debt** $0.1 billion • **HST** $0.9 billion • **Assets** $(0.1) billion • **H1 & OPG Accounting (IFRS)** $(0.1) billion

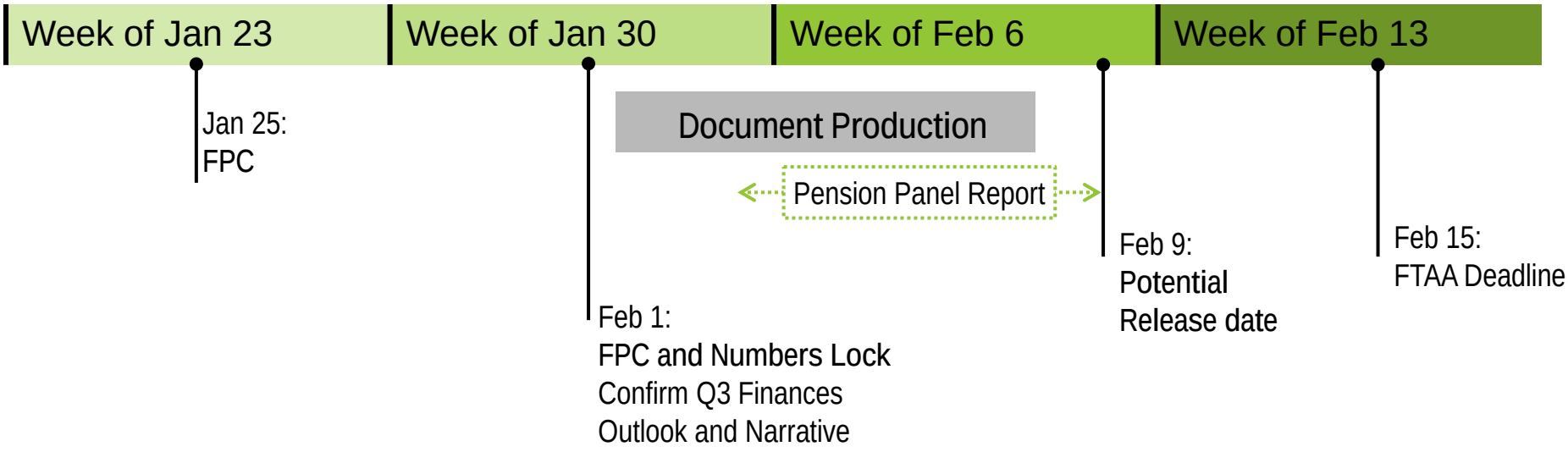


Fiscal Narrative to Support Pension Reversal

The narrative could build on the 2016 FES, focusing on the investments the government is making in priority areas while remaining committed to balance the budget in 2017-18. This narrative would be further supported by highlighting the reversal of the pension adjustment, and could make room for announcements leading up to the release of the 2017 Document.

- *The government is projecting a **deficit of $X.X billion in 2016-17**, an improvement of $X.X billion since the 2016 Ontario Economic Outlook and Fiscal Review forecast.*
- *The Pension Asset Expert Advisory Panel recently released its report on the treatment of pension assets, including a recommendation that the net pension asset be recognized in the Province's financial statements.*
- ***The government is adopting the Panel's recommendation** by reversing the Pension Adjustment included in the 2016 Ontario Economic Outlook and Fiscal Review outlook. The reversal of the Pension Adjustment will result in a significant improvement in the 2016-17 outlook and could support additional investments in 2017-18 and beyond.*
- *The government is projected to beat its deficit target for the **eighth year in a row**.*

Next Steps



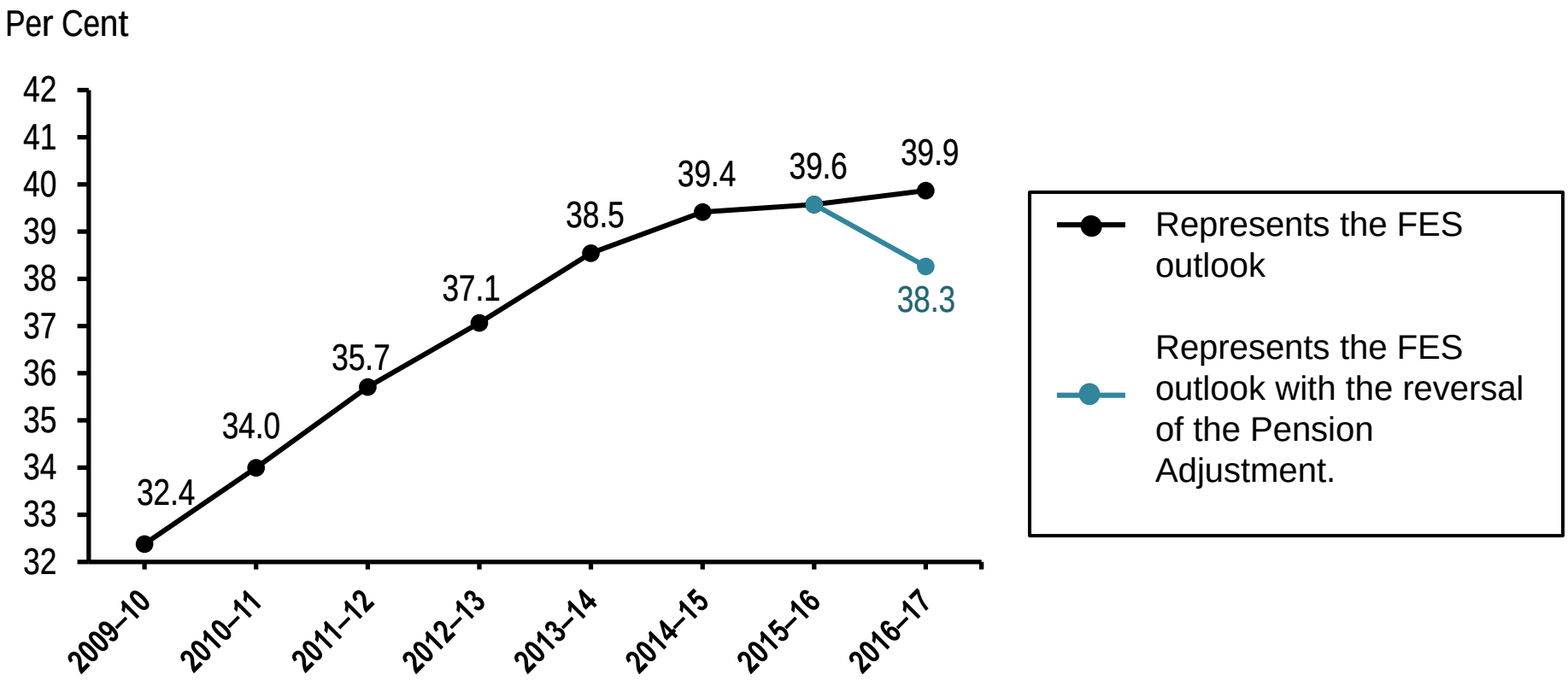
Decision on Third Quarter Finances fiscal strategy:

1. Seeking decision on the fiscal outlook and narrative to publish in the Third Quarter Finances.
2. Confirm **release date** (currently tracking to February 9th) and determine if a letter to the Clerk is required.
3. Communication and rollout approach with regards to the timing of the release of the Pension Panel's report and recommendations.

Appendix

Net Debt-to-GDP With Pension Reversal

- Reflects the reversal of the Teachers Pension Plan and OPSEU Pension Plan adjustments, including reversal of the $10.5 billion debt adjustment made in the 2015-16 Public Accounts



2017 Third Quarter Finances – Draft Production Calendar

Jan - Feb 2017

Monday	Tuesday	Wednesday	Thursday	Friday
23 Receive high-level input on revenue and expense for fiscal strategy deck	**24**	**25** Fiscal Prep Meeting Q3 Building Blocks Preliminary Draft of Third Quarter Finances Under Development	**26**	**27** Detailed input received from key partners
30 Preliminary Draft of Third Quarter Finances Under Development ORBIT Sign-off (AM)	**31** Minister Briefing (TBD) 1st Distribution	**February 1** Fiscal Prep Meeting Confirm Q3 Outlook Numbers Lock	**2** Ministry Q3 submissions due Director Sign-off 2nd Distribution	**3** ADM & Associate DM Sign-off 3rd Distribution
6 DM Sign-off Final Distribution French/HTML Translation	**7** Finalize News Release and other Communication materials	**8**	**9** Potential Third Quarter Finances Release Date	**10**
13	**14**	**15** FTAA Deadline for Third Quarter Finances	**16**	**17**
20 FAMILY DAY HOLIDAY	**21**	**21**	**23**	**24**

Commercially Sensitive and Confidential Advice to Cabinet – PRELIMINARY DRAFT

Other Accounting Issues

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- The move from U.S. GAAP to IFRS for the consolidation of Hydro One and OPG results in a fiscal impact starting in 2016-17, of either:

Basis of Consolidation of OPG and H1 (US GAAP vs. IFRS)	Fiscal Impact Relative to FES				
	2016-17	2017-18	2018-19	2019-20	2020-21
Preferred Approach (smoothed IFRS impact)**	**$75M**	**$425M**	**$525M**	**$675M**	**$675M**
High Impact (non-smoothed IFRS impact)**	$1B	$375M	$400M	$400M	$400M

*** OPG's estimate of cumulative impact for 2015-2020 is $2.5B under the preferred approach, and $2.6B under the high impact approach.*

From:	John Psinas
To:	Ken Kandeepan; Ricky Lai; Alexander Kraas; IOD_RPA
Subject:	RE: Q3 update
Date:	Tuesday, January 24, 2017 12:13:40 PM

Pension Asset Expert Advisory Panel

--John

416-325-8072

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From:	Ricky Lai
To:	Alexander Kraas; IOD_RPA
Cc:	Ken Kandeepan
Subject:	RE: Q3 update
Date:	Tuesday, January 24, 2017 11:08:42 AM

We have this:

Q: The Government has adopted the accounting treatment recommended by the Auditor General resulting in a pension adjustment expense over the medium term outlook. How has this impacted borrowing?

A: The pension adjustment is a non-cash amount, as such both borrowings and total debt remain unchanged. There is also no impact on net debt over the medium term outlook given that the forecast deficits over the period remain unchanged from the 2016 Budget.

From: Alexander Kraas
Sent: Tuesday, January 24, 2017 10:56 AM
To: IOD_RPA <IOD_RPA@ofina.on.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: FW: Q3 update

Hello Ricky;

Would you please look into the new Q&A database to see whether we have an existing Q&A for the highlighted issue?

Thank you

Alex

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To:	Selena Esmail (MOF); Paul Lewis (MOF); Tim Cook (MOF); Teuta Dodbiba (MOF); Sharon Stuckless (TCU); Andrea Dutton (MOF); Gladys Miu (MOI); Dorothy Cheung (MCYS); Raj Sharda (MOHLTC); Francisco Chinchon; Nadine Petsche (MOF)
Cc:	Emma Lindquist (MOF); Inglis, Liane (MOF); John Psinas
Subject:	RE: Q3 update
Date:	Saturday, January 28, 2017 6:36:00 PM

Hi Selena

I went through the products, looks pretty good, all of our suggestions have been incorporated, many thanks. Have requested John to review as well and he will let Liane know if there are any issue, very unlikely though. Hope you are enjoying your weekend.

Ken K

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Friday, January 27, 2017 7:07 PM
To: Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Tim Cook (MOF) <Tim.Cook@ontario.ca>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca>; Sharon Stuckless (TCU) <Sharon.Stuckless@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca>; Raj Sharda (MOHLTC) <Raj.Sharda@ontario.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
Subject: Re: Q3 update

Hi everyone - here are versions we are going to use to brief our minister on monday.

Many thanks for your help.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Esmail, Selena (MOF)
Sent: Friday, January 27, 2017 12:07 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update

Hi Everyone – just wanted to share with you the latest on the strategy for Q3. We are headed back to FPC next week with a further 2 scenarios on the deficit target that could be published. In addition to the ones we took earlier this week – two new options are proposed – one is to reverse the pensions only (option 1 in the materials), and the second is to take on a certain amount of ministry pressures we think will materialize (option 4 in the materials).

In terms of the materials – there is both a deck and a placemat that we are proposing to take forward. The placemat illustrates the 4 options and includes how the revenue/expense change table would appear relative to Budget and some proposed narrative for each scenario.

The deck is very similar to what we took forward last week but has a couple of new slides. Tim has also just circulated to your ADMs

Can I ask that you specifically take a look at slide 8 to ensure you are comfortable with the wording as well as the narrative on the placemat that would be helpful. But happy to hear any comments on the rest of it as well. We are

looking for any comments back by 3:30pm today so we can finalize and send up to our DM/MO today.

And – we are continuing to track for a release on Feb 13 and we will be in touch to request your assistance.

Happy to discuss.

Thanks.

From: Esmail, Selena (MOF)
Sent: January-24-17 3:48 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update

Hi Everyone – sending along the most current draft of the deck we are planning to take forward to FPC tomorrow.

Comments welcome – if you could let me know asap if you have them. Heads up that timing of release of the Q3 may be even sooner as noted in this deck

From: Esmail, Selena (MOF)
Sent: January-23-17 12:43 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update
Importance: High

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Subject: Q3 heads up

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My team is going to work together to put together a list of things we need to start working on/think about along with a calendar to determine and get direction on an approach to coincide with this timeframe.

More details to follow tomorrow.

Thanks.

From: Ken Kandeepan
To: Selena Esmail (MOF)
Cc: Alexander Kraas; Psinas, John (TBS); George Sakura; Inglis, Liane (MOF); Emma Lindquist (MOF)
Subject: RE: Q3 update
Date: Tuesday, January 24, 2017 10:31:56 AM

Hi Selena

The reversal of the pension adjustment does not impact IOD since it's a non-cash adjustment, i.e., it decreases expenses on a PSAB basis not on a cash basis hence the total borrowing does not change which means that IOD also remains unchanged.

Thanks

Ken K

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Tuesday, January 24, 2017 10:29 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: Re: Q3 update

Hey ken - one thing to consider is if the pension adjustment is being reversed there may be a desire to show progress on IOD - assuming it impacts that. Thoughts?

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: Ken Kandeepan
Sent: Monday, January 23, 2017 3:19 PM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
Subject: RE: Q3 update

Thanks agreed, keeping the FES forecast makes sense since we don't want material changes before the interim in the Document, but pls do confirm.

Ken k

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From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Monday, January 23, 2017 2:54 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
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From: Ken Kandeepan
Sent: Monday, January 23, 2017 1:06 PM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA)
Subject: RE: Q3 update

Hi Selena

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Let me know, and in order to complete the Financing Table we need to know the 16-17 deficit that you will be projecting in the Q3, will be the same as the FES?

Thanks

Ken k

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Thanks.

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From: Ken Kandeepan
To: Selena Esmail (MOF)
Cc: Alexander Kraas; Psinas, John (TBS); George Sakura; Inglis, Liane (MOF); Emma Lindquist (MOF)
Subject: RE: Q3 update
Date: Monday, January 23, 2017 3:18:58 PM

Thanks agreed, keeping the FES forecast makes sense since we don't want material changes before the interim in the Document, but pls do confirm.

Ken k

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From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Monday, January 23, 2017 2:54 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
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To:	Selena Esmail (MOF)
Cc:	Alexander Kraas; John Psinas (FIN) (John.Psinas@ontario.ca); George Sakura
Subject:	RE: Q3 update
Date:	Monday, January 23, 2017 1:06:17 PM

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Cc:	Emma Lindquist (MOF); Inglis, Liane (MOF)
Subject:	RE: Q3 update
Date:	Monday, January 23, 2017 12:43:38 PM
Attachments:	June MMP Contingency Fund Outlook and Expense Risks.pptx Third Quarter Finances_v1a_0127.docx
Importance:	High

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Pension Narrative: Nadine – I'll connect on the pension adjustment and some high level bullets that we could use.

Noon Friday January 27:
Template: I've attached a draft of 3q finances that is based heavily off of the 2016 First Quarter Finances. We've highlighted in green the sections that we would like you to update. While I'm not 100% certain this structure will be exactly what the Q3 document will look like, I think it's safe to say that the substantive content we'll have to cover is captured here. There will be some highlighted content that is *not possible* to update for Friday, however there will be a formal distribution process where additional information can be incorporated.

Thanks everyone, and please feel free to send your input directly to Liane and Emma. Im hoping to be able to share a draft deck with you late this evening.

From: Esmail, Selena (MOF)
Sent: January-19-17 2:57 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: Q3 heads up

Hi Everyone – Wanted to send a quick message that we are hearing there is a desire to proceed with the release of a Q3 update around the time we are expecting the Pension Panel panel to release their report. We are going to assume mid feb prior to the house coming back for our planning purposes.

My team is going to work together to put together a list of things we need to start working on/think about along with a calendar to determine and get direction on an approach to coincide with this timeframe.

More details to follow tomorrow.

Thanks.

Contingency Fund Outlook and Expense Risks

Contingency Fund Outlook

$ Billions	2014-15	2015-16	2016-17	2017-18	2018-19
Opening contingency fund balance	**0.5**	**0.7**	**1.2**	**1.7**	**3.5**
Less: Approvals to date[1]	0.0	0.0	0.3	0.5	0.6
Current contingency fund balance	**0.5**	**0.6**	**0.9**	**1.2**	**2.9**
Less: Compensation Risks set-aside	-	-	0.4	0.9	1.6
Less: Moving Ontario Forward set-aside	-	-	-	0.0	0.4
Contingency fund balance incl. set-asides			**0.5**	**0.3**	**0.9**

Includes Drug Program changes, Child Welfare, Northern Health Action Plan, Action Plan for Reconciliation, School Renewal Funding

Accommodates approximately 1.4% increases in next round of bargaining

[1] For 2014-15 and 2015-16, approvals through Q3 are shown.

- Of the remaining 2016-17 contingency fund, $0.6 billion is encumbered for education capital appropriation, leaving $0.3 billion to cover any contingencies.
- The 2016 Budget included a larger contingency fund, primarily due to funds set aside for future compensation increases and outside the GTHA Moving Ontario Forward projects.
- There have been more draws from the contingency fund in the current fiscal cycle, compared to recent years.
- The remaining contingency fund balance would be used to offset risks.

Expense Risks: Items to be managed

$ Billions	2016-17	2017-18	2018-19
Identified high-likelihood risks	0.4	0.7	1.0
PRRT boulder risks	0.1	0.3	0.3
Cap and trade not applied against in-plan items as assumed	-	0.0	0.6
Other likely funding requests	0.6	0.7	0.7
Total items to be managed*	**1.0**	**1.7**	**2.6**

Pressures such as: Health, Social Assistance caseloads, emergencies, Complex Special needs

Risks include: Business Supports, Benefits Transformation and NTR/full cost recovery

Health, MTO (including UP Express), Business Growth Initiative request, Drive Clean.

* Does not include a remedy for the Bill 115 court decision

$ Billions	2014-15	2015-16	2016-17	2017-18	2018-19
Year-end Savings Target	**1.1**	**1.0**	**0.8**	**1.0**	**1.0**
Total Risks to be managed			**1.8**	**2.7**	**3.6**

- In past years, unspent contingency funds have been used to meet the year-end savings target.
- An initiatives envelope for the 2017 or 2018 Budgets has not yet been incorporated into the fiscal plan.

Note: Numbers may not add due to rounding

MINISTRY OF FINANCE

2016–17 Third Quarter Finances
[Draft – January 23, 11:00 am]

[February 2017]

Contents

A. 2016–17 Fiscal Outlook X

B. Details of In-Year Changes X

C. Ontario's Economic Outlook X

D. Economic Performance X

E. Details of Ontario's Finances X

F. Ontario's 2016–17 Financing Program X

Introduction

The Ontario Quarterly Finances contains updated information about Ontario's 2016–17 fiscal outlook, including updated information about the major components of revenue and expense as set out in the *2016 Budget*.

Section A: 2016–17 Fiscal Outlook (OEP, TBS, OFA, Framework)

The government is projecting a deficit of $[X.X] billion in 2016–17, [an improvement of $X.X billion] compared to the 2016 Budget.

As outlined in the *2016 Budget,* the government is [on track to balance the budget by 2017–18 and is projecting to remain balanced in 2018–19. The government's path to a balanced budget is being achieved through responsible fiscal management, which involves managing growth in program spending and maintaining the integrity of Provincial revenues. The strengthening of the Ontario economy, together with the government's approach to fiscal management, is supporting strategic investments in new child care spaces, hospitals and electricity cost relief for consumers.]

[Placholder for Pension Narrative (OPCD)]

[Placholder for Economic Update (OEP)]

2016–17 In-Year Fiscal Performance

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Revenue	**130,589**	**[X.X]**	**–**
Expense			
Programs	122,139	[X.X]	–
Interest on Debt	11,756	[X.X]	–
Total Expense	**133,895**	**[X.X]**	**–**
Surplus/(Deficit) Before Reserve	**(3,306)**	**[X.X]**	**–**
Reserve	1,000	[X.X]	–
Surplus/(Deficit)	**(4,306)**	**[X.X]**	**–**

Note: Numbers may not add due to rounding.

Total revenue is projected to be $[X.X] billion, [an improvement/deterioration of $X.X billion compared to the 2016 Budget.] — [placeholder for high-level revenue change explanation]

The outlook for Provincial program expense, at $[X.X] billion, is [an improvement/deterioration of $X.X billion compared to the 2016 Budget.] — reflecting [placeholder for high-level program expense change explanation]

The Province's interest on debt expense forecast, at $X.X billion, is [an improvement/deterioration of $X.X billion compared to the 2016 Budget forecast.]

The 2016–17 outlook also maintains a $[X.X] billion reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance or the impact of natural disasters.

Further details on the Province's fiscal plan, will be provided in the upcoming 2017 Budget.

Section B: Details of In-Year Changes (OEP, PEMD, OFA, Framework)

Revenue (OEP)

The 2016–17 revenue outlook, at $[X.X] billion, is [an improvement/deterioration of $X.X billion compared to the 2016 Budget]. Since the *2016 Budget,* the following changes have been made to the revenue outlook for 2016–17:

- [Placholder for revenue changes]

[Placeholder for language on risks to the revenue/economic outlook]

Expense (PEMD, OFA)

The 2016–17 total expense outlook, at $[X.X] billion, is [placholder for expense language]

Key changes to expense projections with offsets from the contingency funds include:

- [Placeholder]

Other key changes to expense projections include:

- [Placeholder]

[Placholder for language on interest on debt changes]

Asset Optimization (OFA)

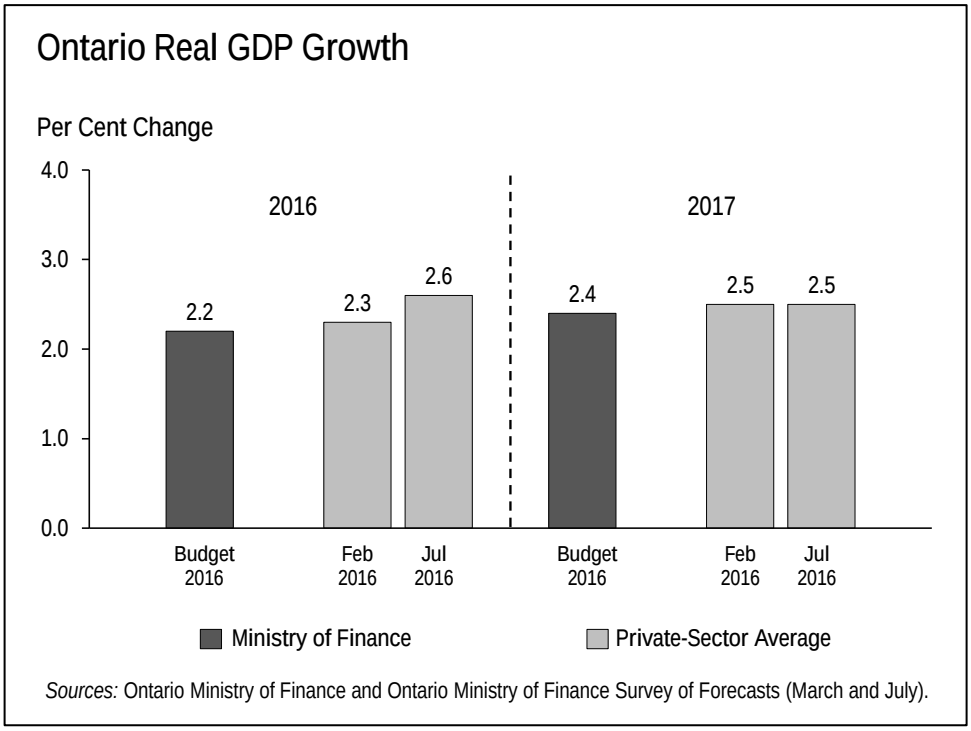
[Placeholder for language on Asset Optimization]

Fiscal Prudence

[Placeholder for language on prudence]

Section C: Ontario's Economic Outlook (OEP)

[Placeholder for language on the economic outlook]



Section D: Economic Performance (OEP)

[Placeholder for language on economic performance]

(Seasonally adjusted per cent change from previous period, unless indicated otherwise)

	Monthly 2016			Quarterly			Annual
	Oct	Nov	Dec	2016Q1	2016Q2	2016Q3	2015
Gross Domestic Product							
Real GDP	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Nominal GDP	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Labour Market							
Labour Force (Change in 000s)	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Employment (Change in 000s)	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Unemployment Rate (%)	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Household Sector							
Retail Sales	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Housing Starts	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
MLS Home Resales	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Manufacturing Sales							
Transportation Equipment	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Consumer Price Index[1]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]

[1] Per cent change from a year earlier, data not seasonally adjusted.

N/A = Data not available.

Sources: Statistics Canada, Ontario Ministry of Finance, Canada Mortgage and Housing Corporation, and Canadian Real Estate Association.

Section E: Details of Ontario's Finances (OEP, TBS, OFA)

Revenue

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Taxation Revenue			
Personal Income Tax	32,167	[X.X]	
Sales Tax[1]	23,976	[X.X]	
Corporations Tax	12,050	[X.X]	
Education Property Tax[2]	5,834	[X.X]	
Employer Health Tax	6,007	[X.X]	
Ontario Health Premium	3,604	[X.X]	
Gasoline Tax	2,522	[X.X]	
Land Transfer Tax	2,051	[X.X]	
Tobacco Tax	1,221	[X.X]	
Fuel Tax	790	[X.X]	
Beer and Wine Tax	611	[X.X]	
Electricity Payments-In-Lieu of Taxes	515	[X.X]	
Other Taxes	471	[X.X]	
	91,819	**[X.X]**	
Government of Canada			
Canada Health Transfer	13,858	[X.X]	
Canada Social Transfer	5,128	[X.X]	
Equalization	2,304	[X.X]	
Infrastructure Programs	1,017	[X.X]	
Labour Market Programs	989	[X.X]	
Social Housing	434	[X.X]	
Other Federal Payments	914	[X.X]	
	24,644	**[X.X]**	
Government Business Enterprises			
Ontario Lottery and Gaming Corporation	1,953	[X.X]	
Liquor Control Board of Ontario	2,025	[X.X]	
Ontario Power Generation Inc./Hydro One Ltd./ Brampton Distribution Holdco Inc.	1,049	[X.X]	
	5,027	**[X.X]**	
Other Non-Tax Revenue			
Reimbursements	983	[X.X]	
Vehicle and Driver Registration Fees	1,751	[X.X]	
Electricity Debt Retirement Charge	625	[X.X]	
Power Supply Contract Recoveries	643	[X.X]	
Sales and Rentals	2,421	[X.X]	
Cap-and-Trade Proceeds	478	[X.X]	
Other Fees and Licences	987	[X.X]	
Net Reduction of Power Purchase Contract Liability	129	[X.X]	
Royalties	287	[X.X]	
Miscellaneous Other Non-Tax Revenue	795	[X.X]	
	9,099	**[X.X]**	
Total Revenue	**130,589**	**[X.X]**	

1 Sales Tax revenue is net of the Ontario Sales Tax Credit and the energy component of the Ontario Energy and Property Tax Credit.

2 Education Property Tax revenue is net of the property tax credit component of the Ontario Energy and Property Tax Credit and the Ontario Senior Homeowners' Property Tax Grant.

Note: Numbers may not add due to rounding.

Total Expense

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Ministry Expense			
Aboriginal Affairs[1]	77.0	[X.X]	
Agriculture, Food and Rural Affairs[1]	915.9	[X.X]	
Attorney General	1,867.8	[X.X]	
Board of Internal Economy	219.9	[X.X]	
Children and Youth Services	4,346.1	[X.X]	
Citizenship, Immigration and International Trade	220.8	[X.X]	
Community and Social Services	11,467.5	[X.X]	
Community Safety and Correctional Services	2,649.5	[X.X]	
Economic Development, Employment and Infrastructure / Research and Innovation[1]	1,177.0	[X.X]	
Education[1]	25,635.8	[X.X]	
Energy[1]	322.1	[X.X]	
Environment and Climate Change	531.4	[X.X]	
Executive Offices	44.0	[X.X]	
Finance[1]	963.1	[X.X]	
Francophone Affairs, Office of	5.7	[X.X]	
Government and Consumer Services	607.6	[X.X]	
Health and Long-Term Care	51,785.2	[X.X]	
Labour	309.5	[X.X]	
Municipal Affairs and Housing[1]	900.0	[X.X]	
Natural Resources and Forestry[1]	750.6	[X.X]	
Northern Development and Mines	790.7	[X.X]	
Tourism, Culture and Sport[1]	1,250.8	[X.X]	
Training, Colleges and Universities	7,876.8	[X.X]	
Transportation	3,850.9	[X.X]	
Treasury Board Secretariat[1]	316.9	[X.X]	
Interest on Debt[2]	11,756.0	[X.X]	
Other Expense[1]	4,056.8	[X.X]	
Year-End Savings[3]	(800.0)	[X.X]	
Total Expense	**133,895.4**	**[X.X]**	

1 Details on other ministry expense can be found in the Details of Other Expense table.

2 Interest on debt is net of interest capitalized during construction of tangible capital assets of $X.X million in 2016–17.

3 As in past years, the Year-End Savings provision reflects efficiencies through in-year expenditure management and underspending due to factors such as program management, and changes in project startups and implementation plans.

Notes: Numbers may not add due to rounding.

The impact of recently announced ministry restructuring will be reflected in future updates.

Details of Other Expense

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Ministry Expense			
Aboriginal Affairs			
One-Time Investments including Settlements	–	[X.X]	
Agriculture, Food and Rural Affairs			
Time-Limited Investments in Infrastructure	–	[X.X]	
Economic Development, Employment and Infrastructure / Research and Innovation			
Federal-Provincial Infrastructure Programs	618.7	[X.X]	
Education			
Teachers' Pension Plan[1]	(452.0)	[X.X]	
Energy			
Strategic Asset Management and Transformation Related to Hydro One	70.9	[X.X]	
Finance			
Ontario Municipal Partnership Fund	505.0	[X.X]	
Power Supply Contract Costs	643.1	[X.X]	
Municipal Affairs and Housing			
Time-Limited Investments in Municipal, Social and Affordable Housing	160.3	[X.X]	
Other Time-Limited Investments	–	[X.X]	
Natural Resources and Forestry			
Emergency Forest Firefighting	69.8	[X.X]	
Tourism, Culture and Sport			
Time-Limited Investments to Support 2015 Pan/Parapan American Games	88.6	[X.X]	
Treasury Board Secretariat			
Capital Contingency Fund	100.0	[X.X]	
Operating Contingency Fund	1,100.0	[X.X]	
Employee and Pensioner Benefits	1,152.5	[X.X]	
Total Other Expense	**4,056.8**	**[X.X]**	

[1] Numbers reflect Public Sector Accounting Board pension expense. Ontario's matching contributions to the plan is $X.X million in 2016–17.

Notes: Numbers may not add due to rounding.

The impact of recently announced ministry restructuring will be reflected in future updates.

2016–17 Infrastructure Expenditures

($ Millions)	2016–17 Current Outlook		
Sector	**Investment in Capital Assets[1]**	**Transfers and Other Infrastructure Expenditures[2]**	**Total Infrastructure Expenditures[3]**
Transportation			
Transit	[X.X]	[X.X]	[X.X]
Provincial Highways	[X.X]	[X.X]	[X.X]
Other Transportation, Property and Planning	[X.X]	[X.X]	[X.X]
Health			
Hospitals	[X.X]	[X.X]	[X.X]
Other Health	[X.X]	[X.X]	[X.X]
Education	[X.X]	[X.X]	[X.X]
Postsecondary			
Colleges and Other	[X.X]	[X.X]	[X.X]
Universities	[X.X]	[X.X]	[X.X]
Social	[X.X]	[X.X]	[X.X]
Justice	[X.X]	[X.X]	[X.X]
Other Sectors[4]	[X.X]	[X.X]	[X.X]
Total	**[X.X]**	**[X.X]**	**[X.X]**

1 Includes $X.X million in interest capitalized during construction.

2 Includes transfers to municipalities, universities and non-consolidated agencies.

3 Includes third party investments in hospitals, colleges and schools; and provisional federal contributions to provincial infrastructure investments.

4 Includes government administration, natural resources, culture and tourism sectors.

Note: Numbers may not add due to rounding.

Review of Selected Financial and Economic Statistics

($ Millions)	2012–13	2013–14	2014–15	Actual 2015–16	Current Outlook 2016–17
Revenue	**113,369**	**115,911**	**118,546**	**128,377**	**[X.X]**
Expense					
Programs	112,248	115,792	118,225	122,439	[X.X]
Interest on Debt[1]	10,341	10,572	10,635	10,967	[X.X]
Total Expense	**122,589**	**126,364**	**128,860**	**133,406**	**[X.X]**
Surplus/(Deficit) Before Reserve	**(9,220)**	**(10,453)**	**(10,314)**	**(5,029)**	**[X.X]**
Reserve	–	–	–	–	[X.X]
Surplus/(Deficit)	**(9,220)**	**(10,453)**	**(10,314)**	**(5,029)**	**[X.X]**
Net Debt	252,088	267,190	284,576	305,233	[X.X]
Accumulated Deficit	167,132	176,634	187,511	202,697	[X.X]
Gross Domestic Product (GDP) at Market Prices	680,084	693,210	721,970	763,276	[X.X]
Primary Household Income	459,111	473,905	490,412	511,781	[X.X]
Population – July (000s)	13,410	13,551	13,678	13,797	[X.X]
Net Debt per Capita (dollars)	18,798	19,717	20,806	22,123	[X.X]
Household Income per Capita (dollars)	34,236	34,972	35,855	37,094	[X.X]
Interest on Debt as a Per Cent of Revenue	9.1	9.1	9.0	8.5	[X.X]
Net Debt as a Per Cent of GDP	37.1	38.5	39.4	40.0	[X.X]
Accumulated Deficit as a Per Cent of GDP	24.6	25.5	26.0	26.6	[X.X]

[1] Interest on debt is net of interest capitalized during construction of tangible capital assets of $134 million in 2013–14, $202 million in 2014–15, $X.X million in 2015–16, and $X.X million in 2016–17.

Sources: Ontario Ministry of Finance and Statistics Canada.

Section F: Ontario's 2016–17 Financing Program (OFA)

Province and Ontario Electricity Financial Corporation

($ Billions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Deficit/(Surplus)	4.3	[X.X]	
Investment in Capital Assets	11.2	[X.X]	
Non-Cash Adjustments	(5.8)	[X.X]	
Other Net Loans/Investments	(0.9)	[X.X]	
Debt Maturities	21.5	[X.X]	
Debt Redemptions	0.1	[X.X]	
Total Funding Requirement	**30.3**	**[X.X]**	
Canada Pension Plan Borrowing	(0.1)	[X.X]	
Decrease/(Increase) in Short-Term Borrowing	(1.0)	[X.X]	
Increase/(Decrease) in Cash and Cash Equivalents	(2.7)	[X.X]	
Preborrowing from 2015–16	–	[X.X]	
Total Long-Term Public Borrowing Requirement	**26.4**	**[X.X]**	

Note: Numbers may not add due to rounding.

Borrowing Program Status (as at [DATE], 2016)

($ Billions)	Completed	Remaining	Total
Province	[X.X]	[X.X]	[X.X]
Ontario Electricity Financial Corporation	[X.X]	[X.X]	[X.X]
Total	**[X.X]**	**[X.X]**	**[X.X]**

Note: Numbers may not add due to rounding.

Long-Term Public Borrowing completed as at [DATE], 2016 totalled $X.X billion, as follows:

	($ Billions)
Domestic Issues	[X.X]
Global/US Dollar/Other Issues	[X.X]
	[X.X]

[As of [DATE], 2016, approximately X.X per cent of this year's borrowing was completed in Canadian dollars. The Province may revise its Canadian dollar borrowing target of 75 per cent published in the *2016 Budget* if international demand for Ontario bonds outpaces domestic demand.]

Ministry of Finance www.fin.gov.on.ca

For general inquiries regarding the 2016–17 First Quarter Finances, please call:

Toll-free English & French inquiries: 1-800-337-7222
Teletypewriter (TTY): 1-800-263-7776

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Chart Descriptions: Alternative Text for Web Accessibility

Chart: Ontario Real GDP Growth (OEP)

[Placeholder for Alt text on the Ontario Real GDP Growth chart]

From:	Esmail, Selena (MOF)
To:	Ken Kandeepan
Cc:	Emma Lindquist (MOF); Inglis, Liane (MOF); Gadi Mayman; Lynsey Wynberg; John Psinas; Alexander Kraas; George Sakura
Subject:	RE: Q3 update
Date:	Friday, January 27, 2017 4:35:02 PM

Yup that's the plan! Thanks again

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: January-27-17 4:33 PM
To: Esmail, Selena (MOF)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF); Mayman, Gadi (OFA); Wynberg, Lynsey (OFA); John Psinas; Kraas, Alexander (OFA); Sakura, George (OFA)
Subject: RE: Q3 update

NP Selena, one small additional comment, based on Liane's request John and team have provided the net debt to GDP ratio for all four options, you may wish to include these in the Placemat under each option, given that there is usually considerable interest at FPC on the ratios.

Thanks

Ken k

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Friday, January 27, 2017 4:29 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>
Subject: RE: Q3 update

Thanks all – very helpful!

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: January-27-17 2:52 PM
To: Esmail, Selena (MOF)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF); Mayman, Gadi (OFA); Wynberg, Lynsey (OFA); John Psinas; Kraas, Alexander (OFA); Sakura, George (OFA)
Subject: RE: Q3 update

Hi Selena

Our comments are as follows:

Slide 6: Cindy made an edit to the final bullet, we are suggesting the following addition to her edited

version. “The adjustment to historical results impacts the previously reported net debt and deficit results as well as the net debt to GDP ratio”.

Slide 8: “Deferring improvements in the interest on debt forecast allows for upside potential in the 2016-17 interim results of the 2017 Document”.

Finally, Slide 13 in the Appendix, the 15-16 ratio in the forked line is revised by removing the $10.7 billion in pension adjustments if so it makes sense to remove the $2.2 billion in 16-17 as well (Option 1). As per the attached, we have computed the revised ratio on this basis and made the relevant edits in the narrative as well.

Pls feel free to call me or John Psinas if you have any questions.

Thanks

Ken k

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Friday, January 27, 2017 12:08 PM
To: Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Tim Cook (MOF) <Tim.Cook@ontario.ca>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca>; Sharon Stuckless (TCU) <Sharon.Stuckless@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca>; Raj Sharda (MOHLTC) <Raj.Sharda@ontario.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
Subject: RE: Q3 update

Hi Everyone – just wanted to share with you the latest on the strategy for Q3. We are headed back to FPC next week with a further 2 scenarios on the deficit target that could be published. In addition to the ones we took earlier this week – two new options are proposed – one is to reverse the pensions only (option 1 in the materials), and the second is to take on a certain amount of ministry pressures we think will materialize (option 4 in the materials).

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From:	Ken Kandeepan
To:	Selena Esmail (MOF)
Cc:	Emma Lindquist (MOF); Inglis, Liane (MOF); Gadi Mayman; Lynsey Wynberg; John Psinas; Alexander Kraas; George Sakura
Subject:	RE: Q3 update
Date:	Friday, January 27, 2017 4:32:57 PM

NP Selena, one small additional comment, based on Liane's request John and team have provided the net debt to GDP ratio for all four options, you may wish to include these in the Placemat under each option, given that there is usually considerable interest at FPC on the ratios.

Thanks

Ken k

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Sent: Friday, January 27, 2017 4:29 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>
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Subject:	RE: Q3 update
Date:	Friday, January 27, 2017 2:52:06 PM
Attachments:	Net debt slide 13 Jan 27 2017.pdf

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Sent: January-19-17 2:57 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: Q3 heads up

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More details to follow tomorrow.

Thanks.

Security settings or invalid file format do not permit using Net debt slide 13 Jan 27 2017.pdf (242343 Bytes).

From:	John Psinas
To:	Ken Kandeepan
Cc:	Alexander Kraas; George Sakura; Shemin Meralli
Subject:	RE: Q3 update
Date:	Friday, January 27, 2017 2:45:09 PM
Attachments:	Net debt slide 13 Jan 27 2017.pdf

Ken,

Please find attached our edits for slide 13. Thanks.

--John

416-325-8072

From: Ken Kandeepan
Sent: Friday, January 27, 2017 1:42 PM
To: John Psinas <John.Psinas@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Subject: Re: Q3 update

Ok thanks should be back soon

On Jan 27, 2017, at 1:02 PM, John Psinas <John.Psinas@ofina.on.ca> wrote:

> Ken,
>
> We'll have to change the chart on slide 13 to reflect the new GDP amounts the other day and (potentially) new TCA.
>
> Thanks.
>
> --John
>
> 416-325-8072
>
> **From:** Ken Kandeepan
> **Sent:** Friday, January 27, 2017 12:12 PM
> **To:** Alexander Kraas <Alexander.Kraas@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>
> **Subject:** FW: Q3 update
>
> FYI, pls review the slides and let me know if you have any comments, I am stepping out for lunch but should be back at 1.30 or so
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Ken k

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Sent: Friday, January 27, 2017 12:08 PM
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From: John Psinas
To: Ken Kandeepan; Alexander Kraas
Subject: RE: Q3 update
Date: Friday, January 27, 2017 1:02:51 PM

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--John

416-325-8072

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Cc:	Emma Lindquist (MOF); Inglis, Liane (MOF); Nina Arbabzadeh (EDU); Law, Rex (TBS); Hosick, Sarah (TBS); Birks, Ryan (MOF)
Subject:	RE: Q3 update
Date:	Thursday, February 02, 2017 1:31:00 PM

Hi Everyone – just to let you know, and sorry for the delay in the feedback – we are tracking for the release of the Q3 on Feb 21 going with the recommended option (option 4)

We expect to be able to get something out on distribution tomorrow and I understand that folks have been in touch to determine who should get access to the papers.

For my TBS colleagues – I understand that the Q3 information is due today from ministries. I understand various roll ups are planned for tomorrow and hopefully we can then get a sense of how much in additional pressures are expected to materialize (ie. for the Q3 we are taking on $200M in expense pressures, how much more is expected?). We have a joint minister's briefing Monday morning at 9:30am and if we could get a sense of where things are at in time for that, that would be really helpful.

Happy to discuss. Thank you again.

From: Esmail, Selena (MOF)
Sent: January-31-17 6:18 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update

Hi Everyone – I'm attaching for you, the materials for tomorrow's FPC discussion, including:

- Q3 Finances background (updated for new proposed release date, recommended option highlighted, and additional information on letter to Clerk)
- Q3 Finances option placemat (also updated to highlight recommended option)
- One-pager highlighted key dates for various deliverables and confirmation of timing (LTR, Q3, Pensions Panel, letter to clerk, new electricity relief, tentative Document track)
- One-pager with proposed agenda for Feb 9th MMP.

Thanks for your own going support and cooperation.

From: Esmail, Selena (MOF)
Sent: January-27-17 7:07 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)

Subject: Re: Q3 update

Hi everyone - here are versions we are going to use to brief our minister on monday.

Many thanks for your help.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Esmail, Selena (MOF)
Sent: Friday, January 27, 2017 12:07 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
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From:	Anna Strathy
To:	"Birks, Ryan (MOF)"
Cc:	Inglis, Liane (MOF); Selena Esmail (MOF); Gadi Mayman; Ken Kandeepan
Subject:	RE: REMINDER: FAO"s Fall 2017 EFO / Comments Due by 2pm
Date:	Thursday, November 23, 2017 2:49:02 PM
Attachments:	2017 EFO - Fiscal Chapter (OFA Edits V2).docx image001.png

Hi Ryan,

Please find attached, OFA input to the FAO's Fiscal Outlook chapter.

Thanks, Anna

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Thursday, November 23, 2017 10:15 AM
To: Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Usman Zahid <Usman.Zahid@ofina.on.ca>; Cengarle, John (MOF) <John.Cengarle@ontario.ca>; Patel, Lesley (MOF) <Lesley.Patel@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Sohaeb Raashid (MOI) <Sohaeb.Raashid@ontario.ca>; Caleb Lance (MTCS) <Caleb.Lance@ontario.ca>; Manning, Catalina (TBS) <Catalina.Manning@ontario.ca>
Cc: Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
Subject: REMINDER: FAO's Fall 2017 EFO / Comments Due by 2pm

Hello All,

This is just a friendly reminder to please share your ADM approved consolidated comments/edits in tracked changes to myself (with a copy to Liane) by **2pm today**. Note, when providing comments, it is important that they be written for the FAO as opposed to an internal audience.

Please let me know if you have any questions.

Thanks,
Ryan

From: Birks, Ryan (MOF)
Sent: November-22-17 12:22 PM
To: Tarin, Ghufran (MOF); Strathy, Anna (OFA); Zahid, Usman (OFA); Cengarle, John (MOF); Patel, Lesley (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Raashid, Sohaeb (TBS); Lance, Caleb (TBS); Manning, Catalina (TBS)
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Subject: FW: FAO's Fall 2017 EFO
Importance: High

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Thank you,
Ryan

From: David West [mailto:dwest@fao-on.org]
Sent: November-22-17 11:42 AM
To: Schuurman, Tim (MOF); Lewis, Brian (MOF); Hughes, Karen (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Luan Ngo; Edward Crummey; Nicolas Rhodes; Hosick, Sarah (TBS); Laughton, Patrick (TBS)
Subject: RE: FAO's Fall 2017 EFO
Importance: High

Tim, Brian Karen

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We are asking for your comments/concerns by end of day Friday (November 24).

Happy to set up a phone call to discuss.

Thanks again for your support and assistance.

David West
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From: David West
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Subject: FAO's Fall 2017 EFO

Hello Tim, Brian,

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As in the past, we are planning to send you drafts of the 2 core chapters of the report (economic outlook and fiscal outlook) on Wednesday morning, for your comments. We will also provide the supporting data tables, providing additional details on the projection. The current report follows the basic template of our earlier EFOs, and may be a little shorter.

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1. Fiscal Outlook

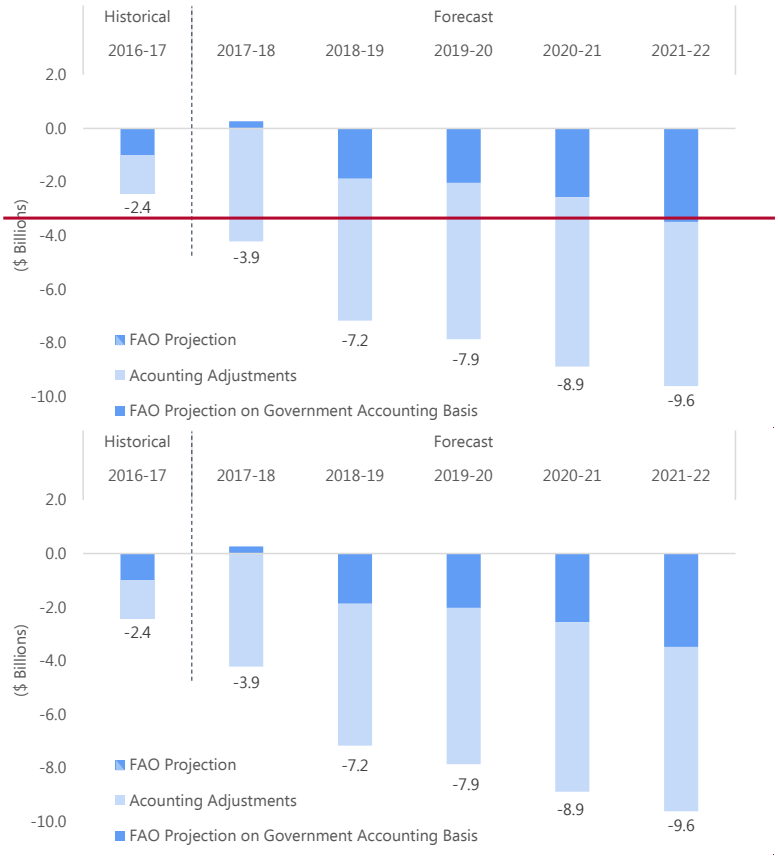
FAO Projects a Return to Significant Budget Deficits

Despite a strong increase in revenues, the FAO is projecting an Ontario budget deficit of $3.9 billion in 2017-18, entirely the result of the Auditor General of Ontario's (AG) recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans.[1]

Beyond 2017-18, the FAO is projecting a significant deterioration in the budget deficit due to the loss of time-limited revenues, a more moderate pace of tax revenue growth, and the growing fiscal impact of the AG's recommended accounting framework. By 2021-22, the FAO is projecting an Ontario budget deficit of $9.6 billion in the absence of any fiscal policy changes.

Ontario Budget Balance

[1] See *The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value For Money; Auditor General of Ontario, October 2017* and *Independent Auditor's Report, 2016-17 Consolidated Financial Statements, Auditor General of Ontario, 2017.*



Note: Budget Balance before reserve.
Source: Ontario Public Accounts, 2017 Ontario Economic Outlook and Fiscal Review, and FAO.

In the *2017 Ontario Economic Outlook and Fiscal Review* (also referred to as the Fall Economic Statement or FES), the government projected balanced budgets for 2017-18 through to 2019-20. However, the government's fiscal projection relies on an overly optimistic revenue forecast and does not adopt the AG's recommended accounting framework.

For comparison, under the government's accounting presentation, the FAO projects a small budget surplus for 2017-18 – approximately equal to the government's own budget projection. However, there are a number of time-limited and one-time revenues in 2017-18. Going forward, the loss of these temporary revenues combined with more moderate tax revenue growth results in a return to deficit in 2018-19 and a steady deterioration in the budget deficit over the outlook.

The Accounting Presentation of Ontario's Financial Statements

The government's fiscal plan, as presented in both the 2017 Ontario Budget and Fall Economic Statement, does not adopt the Auditor General's recommended accounting presentation, reducing the transparency and clarity of Ontario's fiscal position.

In addition to the existing disagreement over the appropriate accounting treatment for the government's jointly sponsored pension plans, the AG recently reported that the government is not correctly accounting for the full cost of the Fair Hydro Plan in its financial statements.[2] As a result, the government's fiscal presentation is expected to continue to receive qualified opinions from the AG.

Commented [KK1]: There is no mention of the findings of the independent Pension Asset Expert Advisory Panel. Even if the FAO disagrees with the findings there should be a reference that the Government has followed the Panel's recommendation in accounting for pension assets.

Revenue Outlook

The FAO is projecting average annual revenue growth of 3.1 per cent over the forecast. In 2017-18, revenues are supported by strong growth in taxes, as well as a number of time-limited or one-time revenues. Beginning in 2018-19, the FAO is projecting more moderate revenue growth as:

- time-limited revenues end (including the debt retirement charge and federal equalization payments);
- economic growth moderates, following several years of stronger than average growth; and
- the fiscal impact of the Fair Hydro Plan increases, reducing electricity-sector revenues.

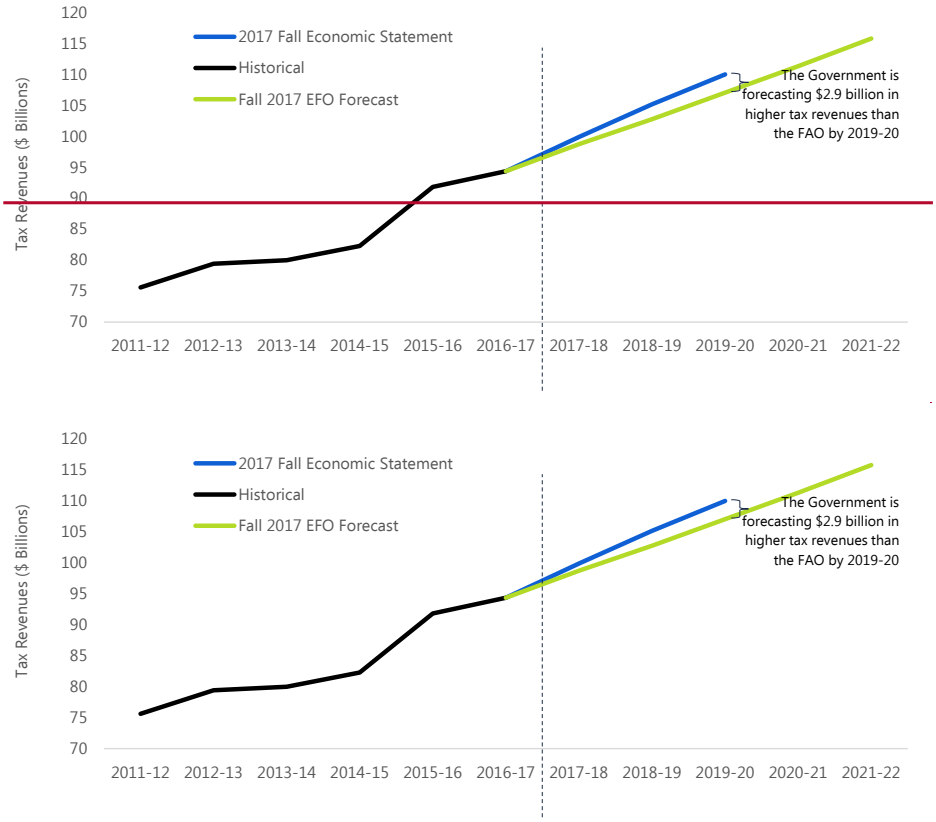
Tax Revenue Growth Expected to Moderate

Nominal GDP, the broadest measure of the tax base, is projected to grow by a strong 4.7 per cent in 2017, supporting a 4.6 per cent increase in tax revenues in 2017-18. From 2018 to 2021, annual GDP growth is expected to moderate to 4.1 per cent, leading to similar slowing in tax revenue growth to 4.1 per cent on average over this period.

In the government's Fall Economic Statement, tax revenue is projected to grow by 5.2 per cent on average from 2017-18 to 2019-20, much higher than the FAO's projection of 4.3 per cent over the same period. The government's expectation of higher growth results in an additional $2.9 billion in tax revenues by 2019-20, relative to the FAO projection.

[2] 2016-17 Consolidated Financial Statements, Auditor General of Ontario, 2017

FAO's Taxation Revenue Outlook

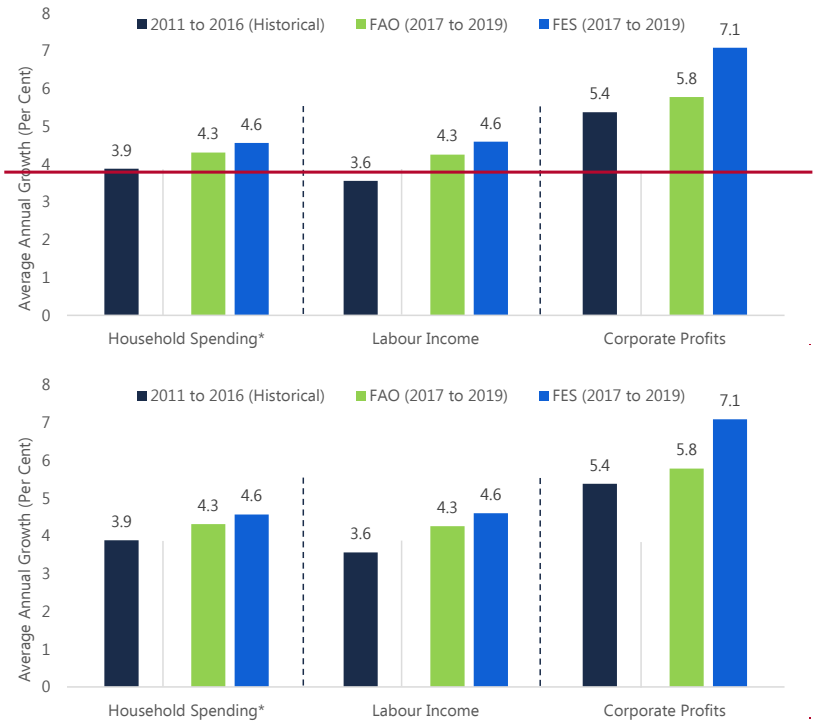


Tax Revenues ($ Billions)
120
115
110
105
100
95
90
85
80
75
70
2011-12
2012-13
2013-14
2014-15
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21
2021-22
2017 Fall Economic Statement
Historical
Fall 2017 EFO Forecast
The Government is forecasting $2.9 billion in higher tax revenues than the FAO by 2019-20

Source: Ontario Public Accounts, 2017 Ontario Economic Outlook and Fiscal Review and FAO.

The government's revenue forecast relies on more optimistic projections for many of the key economic drivers of tax revenue, including labour income; corporate profits; and household spending.

Growth in Key Tax Drivers



2011 to 2016 (Historical)
FAO (2017 to 2019)
FES (2017 to 2019)
Average Annual Growth (Per Cent)
0
1
2
3
4
5
6
7
8
3.9
4.3
4.6
3.6
4.3
4.6
5.4
5.8
7.1
Household Spending*
Labour Income
Corporate Profits

* The FES forecast for Household Spending is Real Household Spending plus CPI.
Source: Statistics Canada, 2017 Ontario Economic Outlook and Fiscal Review and FAO.

While the FAO expects incomes and household spending to grow somewhat faster than recent historical trends,[3] the government's tax revenue forecast is based on significant and sustained above-trend growth for each of the three key tax drivers.

The Loss of Time-limited Revenues

The Province's 2017-18 revenues incorporate a number of one-time or time-limited revenues that are set to expire. These include:

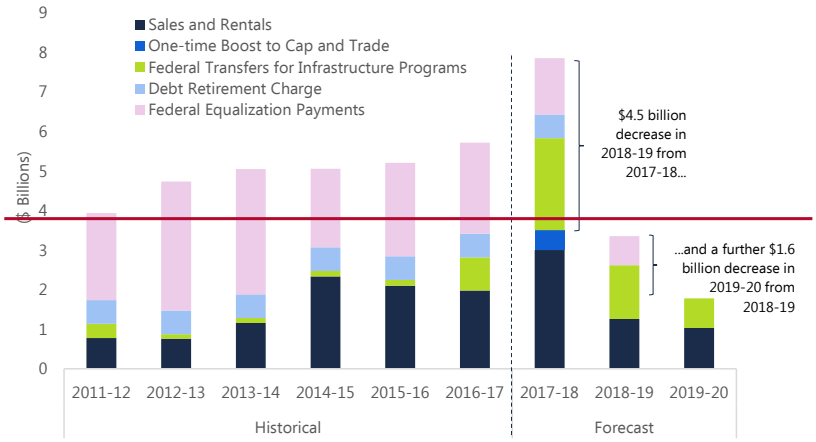
- a temporary increase to sales and rentals revenue, reflecting additional asset sales[4];
- higher federal transfers for infrastructure;

3 Labour income is expected to grow above trend in part due to the increased minimum wage over the outlook (which is also expected to boost household spending). Estimates of Ontario corporate profits over the first half of 2017 imply very strong growth.
4 Asset sales include the Province's 22 per cent sale of Hydro One equity in 2017-18, which the FAO estimates would generate about $0.8 billion in revenue.

- the final year of the debt retirement charge[5];
- federal Equalization payments, which the FAO estimates will end in 2019-20; and
- revenue from an additional cap-and-trade auction that occurred in March 2017, which will be recognized in the 2017-18 fiscal year.[6]

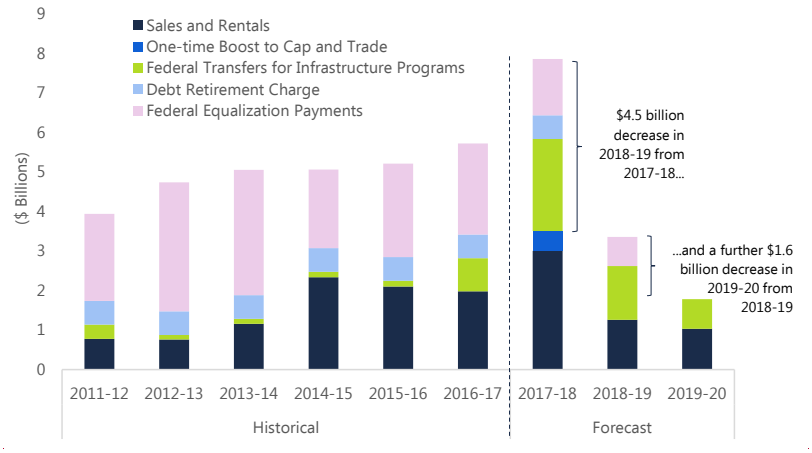
Taken together, these time-limited revenues will decrease by $4.5 billion in 2018-19, and by an additional $1.6 billion in 2019-20.

Many Time-limited Revenues are Set to Expire Beyond 2017-18



5 The debt retirement charge (DRC) is a charge payable on electricity consumed in Ontario and replaces a portion of debt servicing costs previously included as part of electricity bills before the restructuring of the former Ontario Hydro. The DRC will remain on electricity users' bills for electricity consumed before April 1, 2018.

6 In fiscal year 2017-18, there were five cap and trade auctions. Going forward the Provinces expects to have four auctions per year.

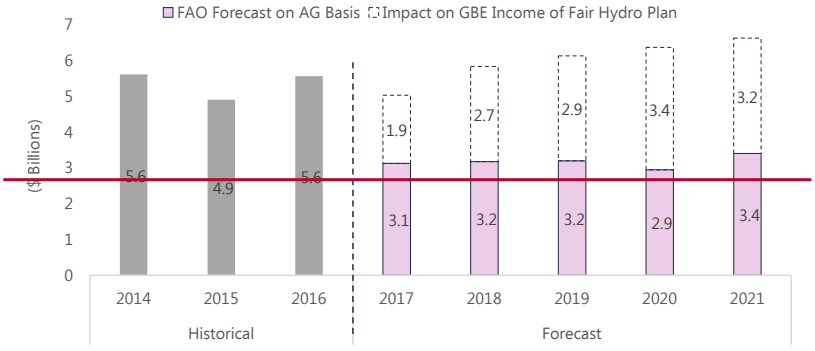


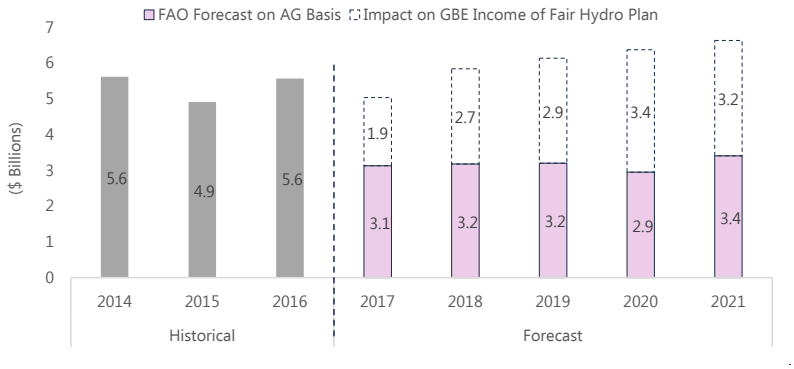
Source: Ontario Budgets, Ministry of Finance and FAO.

Government Business Enterprises and the Impact of the Fair Hydro Plan

The government introduced the "Fair Hydro Plan" to reduce electricity bills for residential customers by an average of 25 per cent. The government's plan includes subsidizing electricity prices for ratepayers through provincial and Ontario Power Generation (OPG) borrowing. Consistent with the AG's recommendation, the FAO captured the fiscal impact of this borrowing by reducing the net income of OPG by $1.9 billion in 2017-18, and by $3.2 billion by 2021-22.

Impact of the Fair Hydro Plan on Ontario's Revenue from 'Government Business Enterprises'





Source: Public Accounts, 2017 Ontario FES and FAO.

FAO Revenue Assumptions and Forecast

Revenue Source	Assumption	Forecast
Taxation Revenue	Grows with key economic drivers including labour income, corporate profits and household spending	Averages 4.2 per cent growth per year from 2017-18 to 2021-22[7]
Federal Transfers	Based on legislated growth rates and economic forecasts for Ontario and Canada	Federal transfers are expected to grow by 1.6 per cent per year from 2017-18 to 2021-22
Government Business Enterprises (GBE)	Based on government projections, and adjusted for the impact of the Fair Hydro Plan as recommended by the Auditor General	Income from GBEs are projected to fall from $5.6 billion in 2016-17 to $3.1 billion in 2017-18 and remain roughly stable at that level to 2021-22
Other Revenue	Based on government projections, and includes asset sales, and proceeds from the sale of cap and trade allowances	These revenues are projected to increase from $16.3 billion in 2016-17 to $19.4 billion in 2017-18, before declining to $18.0 billion by 2021-22

Expense Outlook

Program Spending

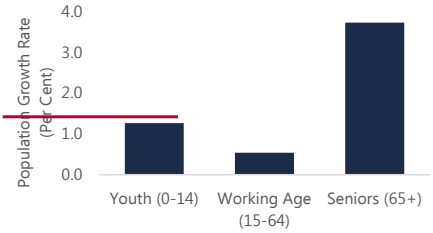
The FAO projects program spending to grow by 3.9 per cent from 2017-18 to 2021-22. [8]

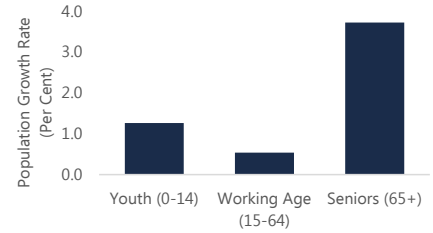
7 The reduction in the Small Business Corporate Income Tax rate is reflected in the FAO's tax revenue projections.
8 Excluding the pension adjustment, the FAO projects program spending to grow by 3.5 per cent on average from 2017-18 to 2019-20, largely unchanged from the FAO's Spring EFO.

Over the 2017-18 to 2019-20 period, the FAO's outlook adopts the government's 2017 Fall Economic Statement's projections for program spending, adjusted to reflect the Auditor General's recommended accounting presentation.[9] The projection for program spending is largely unchanged from the 2017 Ontario Budget, aside from $200 million of new spending in 2017-18, declining to $100 million by 2019-20.[10]

Beyond 2019-20, the FAO projects program spending will grow at an annual average rate of 4.1 per cent. This stronger pace of growth reflects additional spending to meet two demographic pressures: the aging baby boomer cohort and the growing youth population. The growth in these two population groups will place added spending pressures on Ontario's health care and education systems.

Population Growth by Age (2016-2021)





Source: Statistics Canada and FAO

Interest on Debt

Interest on debt (IOD) payments are expected to increase at an average rate of 3.4 per cent per year over the outlook due to elevated borrowing levels and rising interest rates.

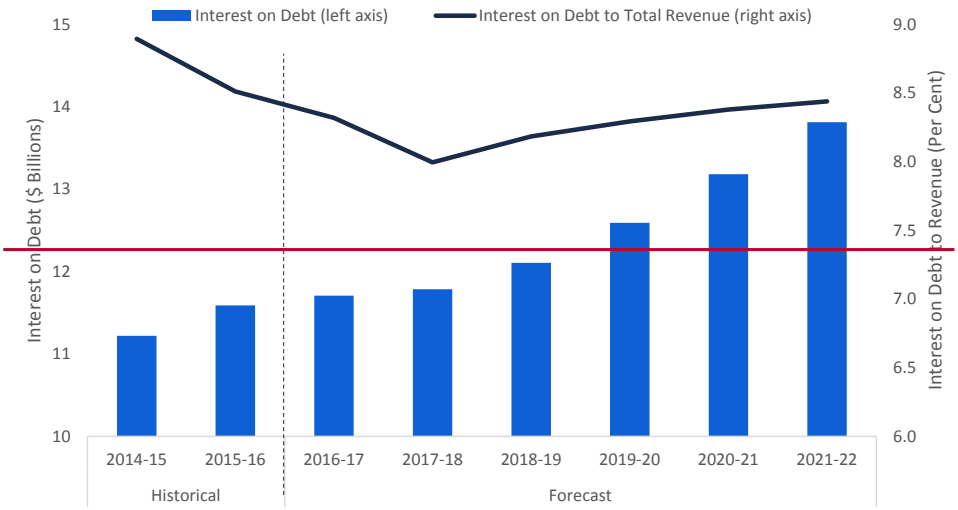
The decline in IOD as a share of revenues over the past three years was due to stronger revenue growth, lower borrowing and maturing debt being refinanced at much lower rates of interest. However, this trend is expected to reverse over the outlook as revenue growth moderates while IOD payments accelerate. By 2021-22, Ontario's debt interest payments will account for 8.4 per cent of total revenue, slightly higher than the 8.~~1~~ 2 per cent share in 2017-18.

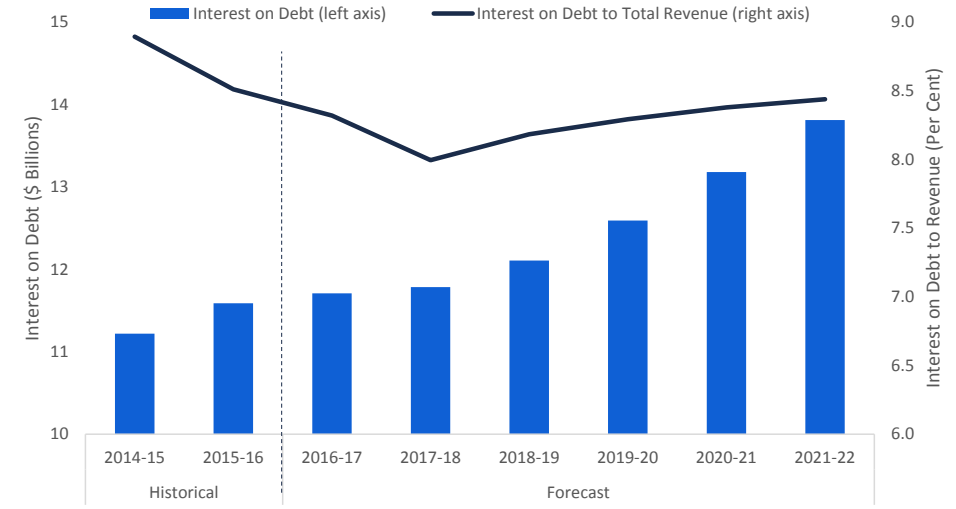
Commented [AK2]: 2017 FES; it appears that the FAO does not use BPS-consolidated IOD; this choice also affects the IOD chart on page 6.

9 Based on information provided by the Ministry of Finance, the FAO's projection for 'Other Spending' includes $2.3 billion in 2017-18 for the valuation allowance on jointly-sponsored pension assets, growing to $2.9 billion by 2021-22.

10 In the 2017 FES, the government announced new funding for additional spending for small businesses, seniors and child care. However, the additional expenses for child care is fiscally neutral since it is funded by a corresponding increase in federal transfer revenue.

Interest on Debt





Source: Ontario Public Accounts and FAO.

Borrowing and Net Debt

Despite higher funding requirements for capital expenditures and the Fair Hydro Plan, Ontario's borrowing is expected to decline to $~~23~~25.8 billion in 2017-18, the lowest level of borrowing since 200~~78~~-

09. The relatively low level of borrowing in 2017-18 is largely the result of debt maturities falling by $~~4.1~~3.5 billion to $17.4 billion.[11]

Beginning 2018-19, borrowing requirements are expected to increase significantly due to higher annual debt maturities~~, additional funding requirements for the Fair Hydro Plan~~ and rising capital expenditures. By 2021-22, the FAO expects borrowing to increase to $42 billion – nearly double the borrowing requirement in 2017-18.

In 2017-18, the FAO projects that Ontario's net debt-to-GDP ratio will edge down, reflecting lower borrowing and strong economic growth. However, over the next five years, the FAO projects that nearly $90 billion will be added to net debt – increasing the net debt-to-GDP ratio to 41 per cent by 2021-22.[12]

Commented [AK3]: 2016-17 maturities of 20.9 (from Q1 Finances) minus 2017-18 maturities of 17.4 (from FES FT)

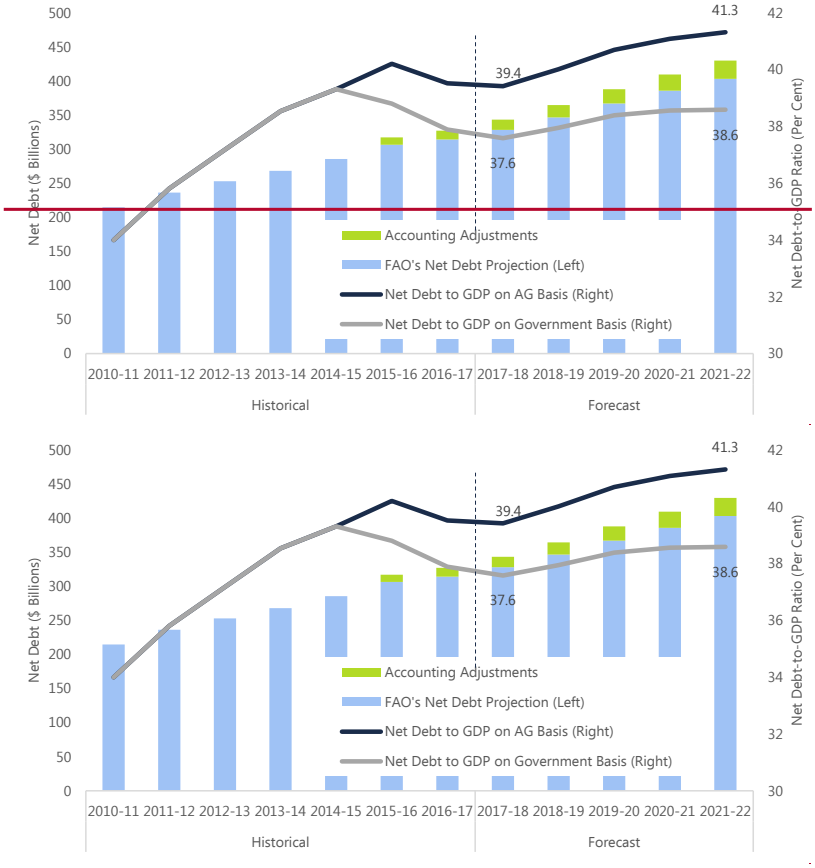
Commented [JP4]: The Province has already factored in all borrowing requirements, including the debt burden projections for the Fair Hydro plan for that year, in consultation with OPG and retained consultants. The $42 billion therefore is in excess of Ontario's projection by a significant amount.

Commented [BL5]: The change in net debt reflects the change in the deficit and the change in Net Investment in Tangible Capital Assets – it should not be attributed to lower borrowing which is really the outcome

Commented [JP6]: With regard to the 41% by the FAO in 2021-22, the Province projects it to be 36.1% for that year as published in the Fall Economic Statement. In the Province's opinion, the FAO is likely factoring in a budget deficit that the government does not project for that year given the balanced budget commitment The FAO's projections include the addition of the 2015-16 Pension adjustment despite the pronouncements of the Expert Panel that confirmed the correctness of the Government's accounting treatment of this asset The reversal of the pension adjustment is correct and in line with the recommendations of the Independent Pension Asset Expert Advisory Panel. The FAO also includes additional Fair Hydro Plan debt that is not in line with provincial projections already incorporated in the Province's Borrowing Program for 2017-18 and the two out years. The incremental borrowings for funding the Province's equity injection to OPG over the FES outlook period is a small fraction of the Province's borrowings and have no impact on the Province's net debt.

11 When debt matures the government must roll over the maturing debt with new borrowing. Declines in maturities result in lower borrowing and vice versa.
12 The FAO's estimate of net debt incorporates the AG's recommended accounting framework.

Net Debt Outlook



Source: FAO and 2017 Ontario Economic Outlook and Fiscal Review, Ontario Public Accounts

The government continues to maintain a net debt-to-GDP target of 35 per cent by 2023-24 and 27 per cent by 2029-30. However, the FAO's net debt-to-GDP projections under both accounting presentations suggest that additional fiscal measures would be required for the government to achieve its net debt-to-GDP targets.

FAO
Financial
Accountability
Office of Ontario

From:	Anna Strathy
To:	"Birks, Ryan (MOF)"
Cc:	Inglis, Liane (MOF); Selena Esmail (MOF); Gadi Mayman; Ken Kandeepan
Subject:	RE: REMINDER: FAO"s Fall 2017 EFO / Comments Due by 2pm
Date:	Thursday, November 23, 2017 2:49:02 PM
Attachments:	2017 EFO - Fiscal Chapter (OFA Edits V2).docx image001.png

Hi Ryan,

Please find attached, OFA input to the FAO's Fiscal Outlook chapter.

Thanks, Anna

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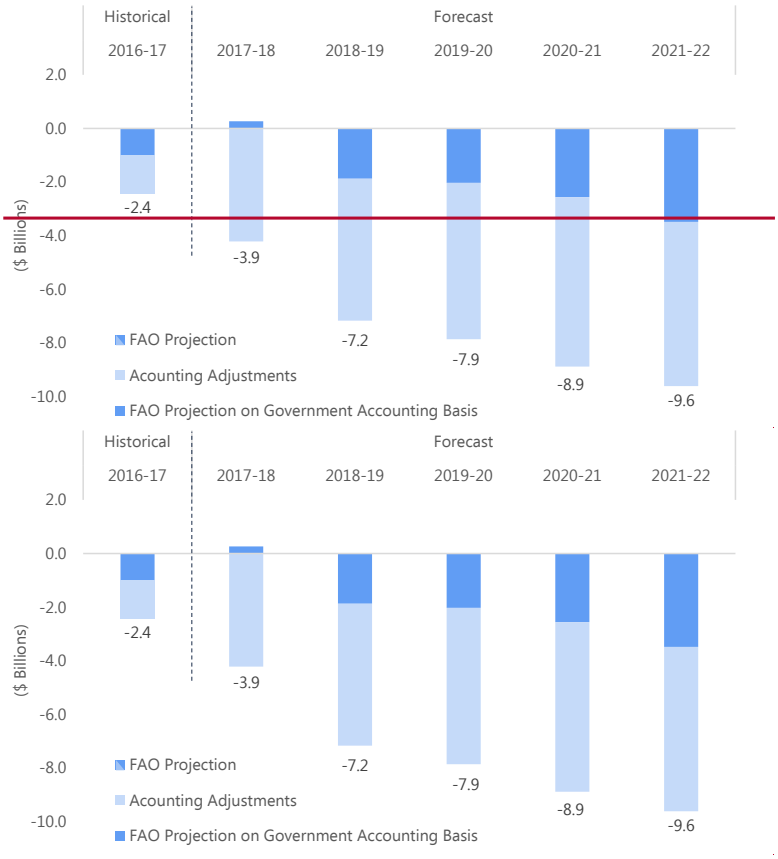
Beyond 2017-18, the FAO is projecting a significant deterioration in the budget deficit due to the loss of time-limited revenues, a more moderate pace of tax revenue growth, and the growing fiscal impact of the AG's recommended accounting framework. By 2021-22, the FAO is projecting an Ontario budget deficit of $9.6 billion in the absence of any fiscal policy changes.

Ontario Budget Balance

[1] See *The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value For Money; Auditor General of Ontario, October 2017* and *Independent Auditor's Report, 2016-17 Consolidated Financial Statements, Auditor General of Ontario, 2017.*



Note: Budget Balance before reserve.
Source: Ontario Public Accounts, 2017 Ontario Economic Outlook and Fiscal Review, and FAO.

In the *2017 Ontario Economic Outlook and Fiscal Review* (also referred to as the Fall Economic Statement or FES), the government projected balanced budgets for 2017-18 through to 2019-20. However, the government's fiscal projection relies on an overly optimistic revenue forecast and does not adopt the AG's recommended accounting framework.

For comparison, under the government's accounting presentation, the FAO projects a small budget surplus for 2017-18 – approximately equal to the government's own budget projection. However, there are a number of time-limited and one-time revenues in 2017-18. Going forward, the loss of these temporary revenues combined with more moderate tax revenue growth results in a return to deficit in 2018-19 and a steady deterioration in the budget deficit over the outlook.

The Accounting Presentation of Ontario's Financial Statements

The government's fiscal plan, as presented in both the 2017 Ontario Budget and Fall Economic Statement, does not adopt the Auditor General's recommended accounting presentation, reducing the transparency and clarity of Ontario's fiscal position.

In addition to the existing disagreement over the appropriate accounting treatment for the government's jointly sponsored pension plans, the AG recently reported that the government is not correctly accounting for the full cost of the Fair Hydro Plan in its financial statements.[2] As a result, the government's fiscal presentation is expected to continue to receive qualified opinions from the AG.

Commented [KK1]: There is no mention of the findings of the independent Pension Asset Expert Advisory Panel. Even if the FAO disagrees with the findings there should be a reference that the Government has followed the Panel's recommendation in accounting for pension assets.

Revenue Outlook

The FAO is projecting average annual revenue growth of 3.1 per cent over the forecast. In 2017-18, revenues are supported by strong growth in taxes, as well as a number of time-limited or one-time revenues. Beginning in 2018-19, the FAO is projecting more moderate revenue growth as:

- time-limited revenues end (including the debt retirement charge and federal equalization payments);
- economic growth moderates, following several years of stronger than average growth; and
- the fiscal impact of the Fair Hydro Plan increases, reducing electricity-sector revenues.

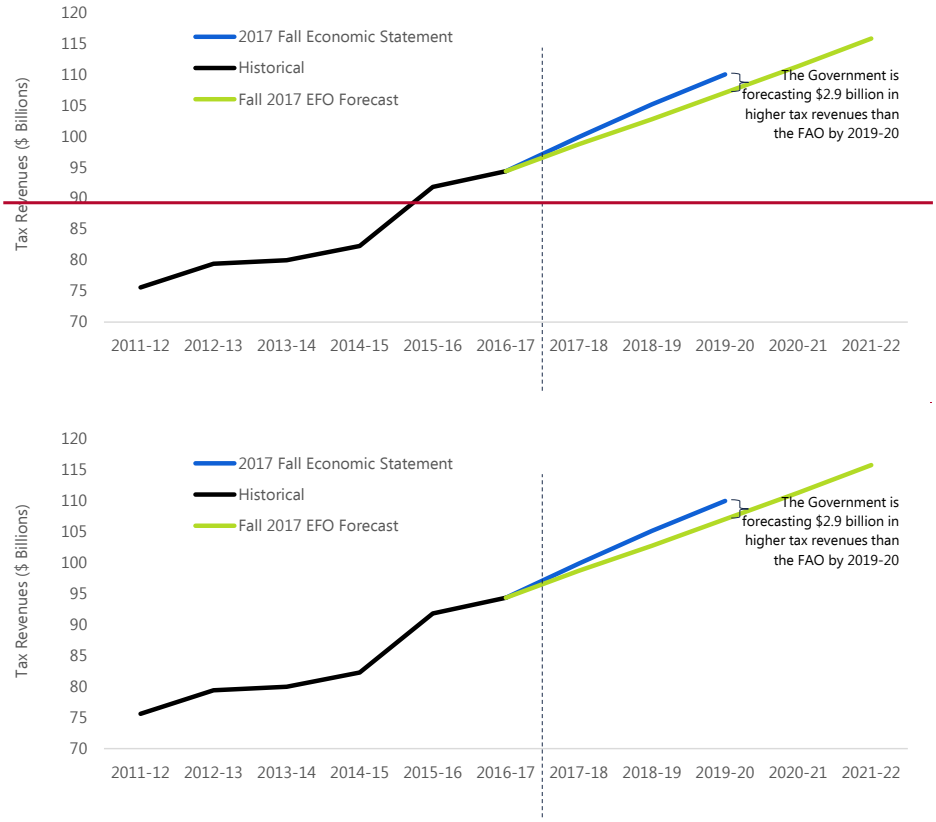
Tax Revenue Growth Expected to Moderate

Nominal GDP, the broadest measure of the tax base, is projected to grow by a strong 4.7 per cent in 2017, supporting a 4.6 per cent increase in tax revenues in 2017-18. From 2018 to 2021, annual GDP growth is expected to moderate to 4.1 per cent, leading to similar slowing in tax revenue growth to 4.1 per cent on average over this period.

In the government's Fall Economic Statement, tax revenue is projected to grow by 5.2 per cent on average from 2017-18 to 2019-20, much higher than the FAO's projection of 4.3 per cent over the same period. The government's expectation of higher growth results in an additional $2.9 billion in tax revenues by 2019-20, relative to the FAO projection.

[2] 2016-17 Consolidated Financial Statements, Auditor General of Ontario, 2017

FAO's Taxation Revenue Outlook

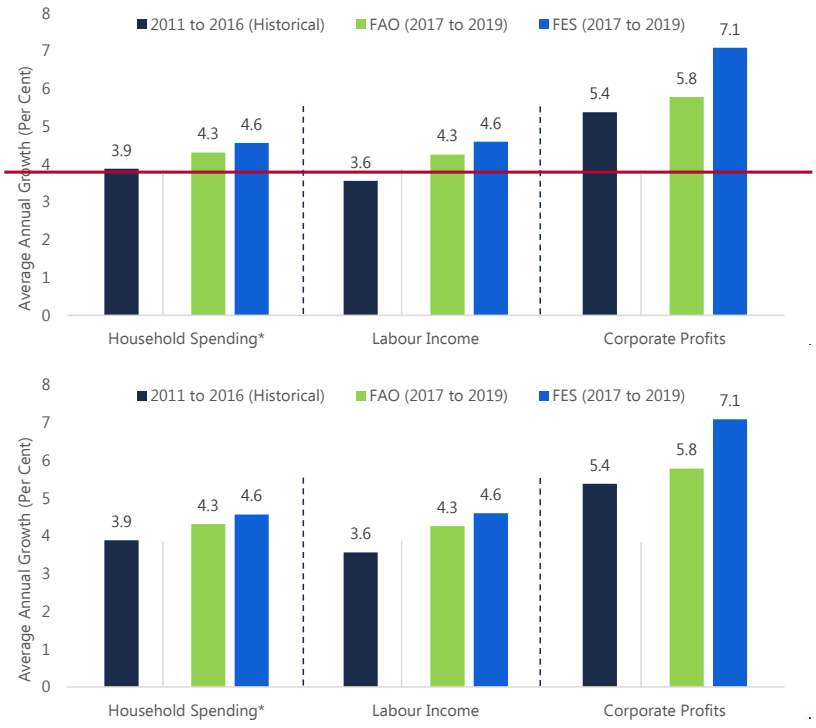


Tax Revenues ($ Billions)
120
115
110
105
100
95
90
85
80
75
70
2011-12
2012-13
2013-14
2014-15
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21
2021-22
2017 Fall Economic Statement
Historical
Fall 2017 EFO Forecast
The Government is forecasting $2.9 billion in higher tax revenues than the FAO by 2019-20

Source: Ontario Public Accounts, 2017 Ontario Economic Outlook and Fiscal Review and FAO.

The government's revenue forecast relies on more optimistic projections for many of the key economic drivers of tax revenue, including labour income; corporate profits; and household spending.

Growth in Key Tax Drivers



2011 to 2016 (Historical)
FAO (2017 to 2019)
FES (2017 to 2019)
Average Annual Growth (Per Cent)
0
1
2
3
4
5
6
7
8
3.9
4.3
4.6
3.6
4.3
4.6
5.4
5.8
7.1
Household Spending*
Labour Income
Corporate Profits

* The FES forecast for Household Spending is Real Household Spending plus CPI.
Source: Statistics Canada, 2017 Ontario Economic Outlook and Fiscal Review and FAO.

While the FAO expects incomes and household spending to grow somewhat faster than recent historical trends,[3] the government's tax revenue forecast is based on significant and sustained above-trend growth for each of the three key tax drivers.

The Loss of Time-limited Revenues

The Province's 2017-18 revenues incorporate a number of one-time or time-limited revenues that are set to expire. These include:

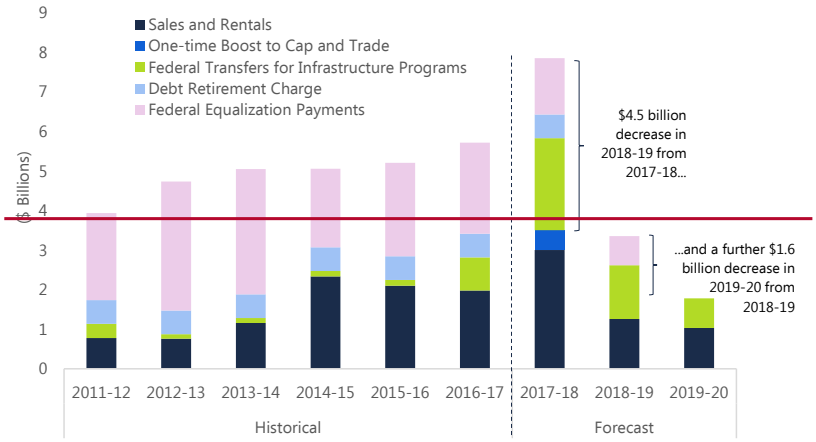
- a temporary increase to sales and rentals revenue, reflecting additional asset sales[4];
- higher federal transfers for infrastructure;

3 Labour income is expected to grow above trend in part due to the increased minimum wage over the outlook (which is also expected to boost household spending). Estimates of Ontario corporate profits over the first half of 2017 imply very strong growth.
4 Asset sales include the Province's 22 per cent sale of Hydro One equity in 2017-18, which the FAO estimates would generate about $0.8 billion in revenue.

- the final year of the debt retirement charge[5];
- federal Equalization payments, which the FAO estimates will end in 2019-20; and
- revenue from an additional cap-and-trade auction that occurred in March 2017, which will be recognized in the 2017-18 fiscal year.[6]

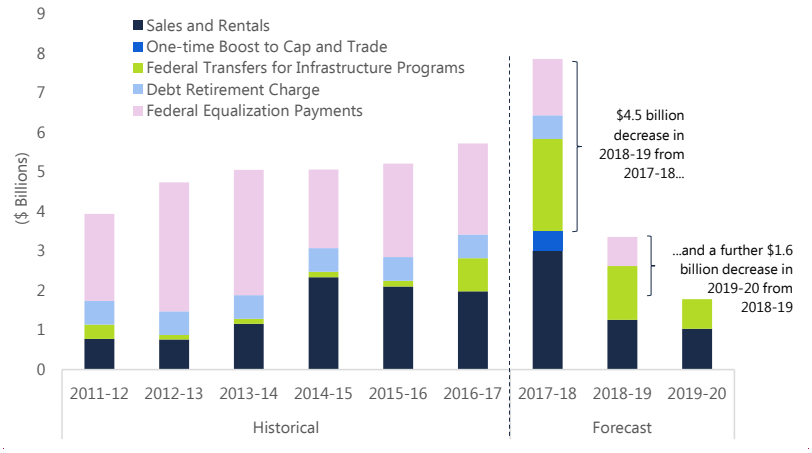
Taken together, these time-limited revenues will decrease by $4.5 billion in 2018-19, and by an additional $1.6 billion in 2019-20.

Many Time-limited Revenues are Set to Expire Beyond 2017-18



5 The debt retirement charge (DRC) is a charge payable on electricity consumed in Ontario and replaces a portion of debt servicing costs previously included as part of electricity bills before the restructuring of the former Ontario Hydro. The DRC will remain on electricity users' bills for electricity consumed before April 1, 2018.

6 In fiscal year 2017-18, there were five cap and trade auctions. Going forward the Provinces expects to have four auctions per year.

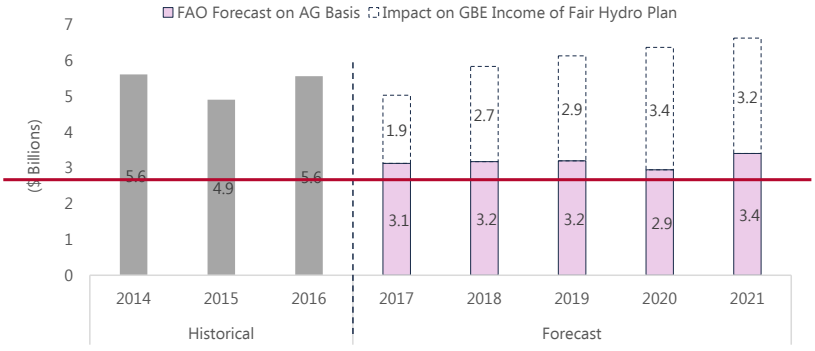


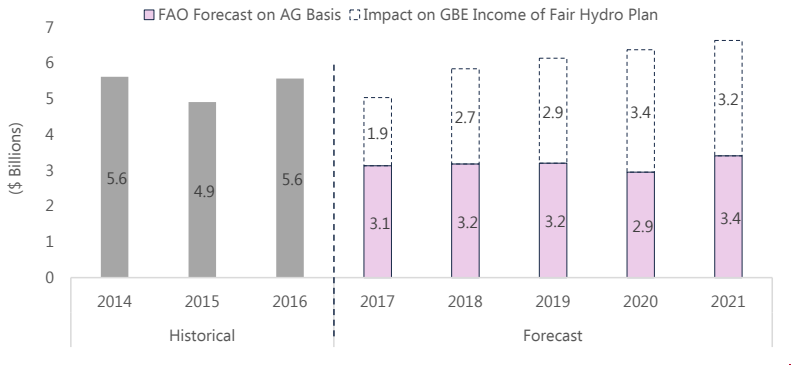
Source: Ontario Budgets, Ministry of Finance and FAO.

Government Business Enterprises and the Impact of the Fair Hydro Plan

The government introduced the "Fair Hydro Plan" to reduce electricity bills for residential customers by an average of 25 per cent. The government's plan includes subsidizing electricity prices for ratepayers through provincial and Ontario Power Generation (OPG) borrowing. Consistent with the AG's recommendation, the FAO captured the fiscal impact of this borrowing by reducing the net income of OPG by $1.9 billion in 2017-18, and by $3.2 billion by 2021-22.

Impact of the Fair Hydro Plan on Ontario's Revenue from 'Government Business Enterprises'





Source: Public Accounts, 2017 Ontario FES and FAO.

FAO Revenue Assumptions and Forecast

Revenue Source	Assumption	Forecast
Taxation Revenue	Grows with key economic drivers including labour income, corporate profits and household spending	Averages 4.2 per cent growth per year from 2017-18 to 2021-22[7]
Federal Transfers	Based on legislated growth rates and economic forecasts for Ontario and Canada	Federal transfers are expected to grow by 1.6 per cent per year from 2017-18 to 2021-22
Government Business Enterprises (GBE)	Based on government projections, and adjusted for the impact of the Fair Hydro Plan as recommended by the Auditor General	Income from GBEs are projected to fall from $5.6 billion in 2016-17 to $3.1 billion in 2017-18 and remain roughly stable at that level to 2021-22
Other Revenue	Based on government projections, and includes asset sales, and proceeds from the sale of cap and trade allowances	These revenues are projected to increase from $16.3 billion in 2016-17 to $19.4 billion in 2017-18, before declining to $18.0 billion by 2021-22

Expense Outlook

Program Spending

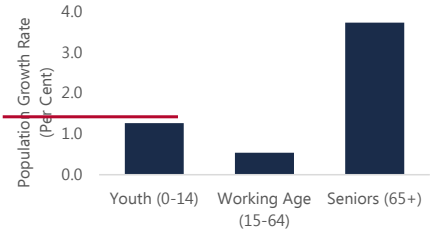
The FAO projects program spending to grow by 3.9 per cent from 2017-18 to 2021-22. [8]

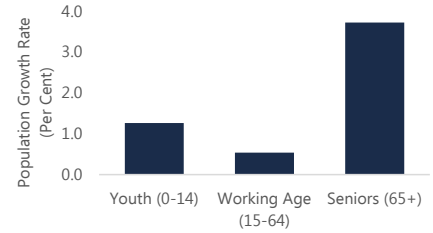
7 The reduction in the Small Business Corporate Income Tax rate is reflected in the FAO's tax revenue projections.
8 Excluding the pension adjustment, the FAO projects program spending to grow by 3.5 per cent on average from 2017-18 to 2019-20, largely unchanged from the FAO's Spring EFO.

Over the 2017-18 to 2019-20 period, the FAO's outlook adopts the government's 2017 Fall Economic Statement's projections for program spending, adjusted to reflect the Auditor General's recommended accounting presentation.[9] The projection for program spending is largely unchanged from the 2017 Ontario Budget, aside from $200 million of new spending in 2017-18, declining to $100 million by 2019-20.[10]

Beyond 2019-20, the FAO projects program spending will grow at an annual average rate of 4.1 per cent. This stronger pace of growth reflects additional spending to meet two demographic pressures: the aging baby boomer cohort and the growing youth population. The growth in these two population groups will place added spending pressures on Ontario's health care and education systems.

Population Growth by Age (2016-2021)





Source: Statistics Canada and FAO

Interest on Debt

Interest on debt (IOD) payments are expected to increase at an average rate of 3.4 per cent per year over the outlook due to elevated borrowing levels and rising interest rates.

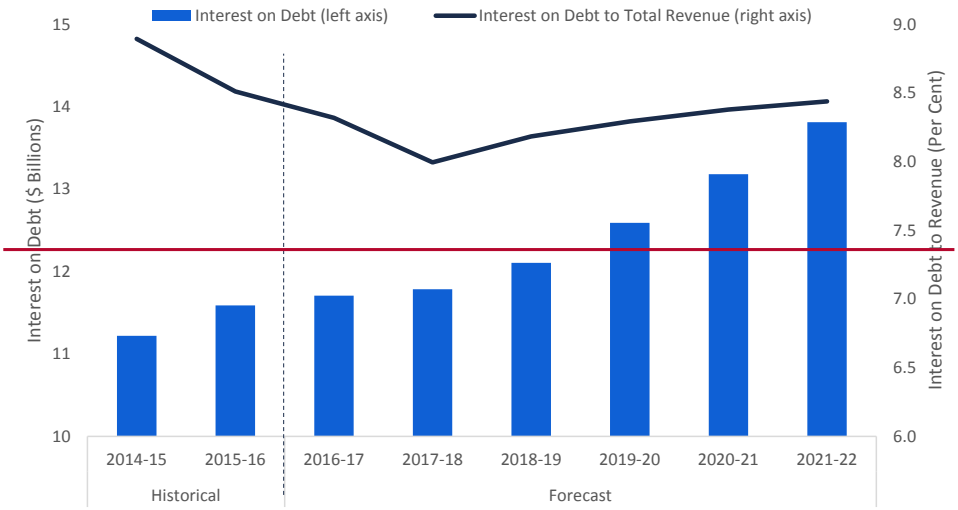
The decline in IOD as a share of revenues over the past three years was due to stronger revenue growth, lower borrowing and maturing debt being refinanced at much lower rates of interest. However, this trend is expected to reverse over the outlook as revenue growth moderates while IOD payments accelerate. By 2021-22, Ontario's debt interest payments will account for 8.4 per cent of total revenue, slightly higher than the 8.~~1~~ 2 per cent share in 2017-18.

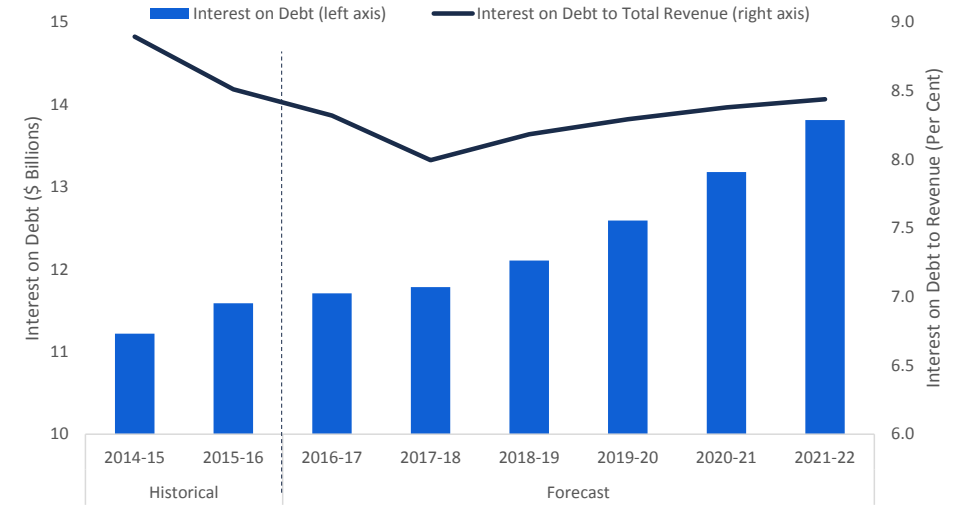
Commented [AK2]: 2017 FES; it appears that the FAO does not use BPS-consolidated IOD; this choice also affects the IOD chart on page 6.

9 Based on information provided by the Ministry of Finance, the FAO's projection for 'Other Spending' includes $2.3 billion in 2017-18 for the valuation allowance on jointly-sponsored pension assets, growing to $2.9 billion by 2021-22.

10 In the 2017 FES, the government announced new funding for additional spending for small businesses, seniors and child care. However, the additional expenses for child care is fiscally neutral since it is funded by a corresponding increase in federal transfer revenue.

Interest on Debt





Source: Ontario Public Accounts and FAO.

Borrowing and Net Debt

Despite higher funding requirements for capital expenditures and the Fair Hydro Plan, Ontario's borrowing is expected to decline to $~~23~~25.8 billion in 2017-18, the lowest level of borrowing since 200~~78~~-

09. The relatively low level of borrowing in 2017-18 is largely the result of debt maturities falling by $~~4.1~~3.5 billion to $17.4 billion.[11]

Beginning 2018-19, borrowing requirements are expected to increase significantly due to higher annual debt maturities~~, additional funding requirements for the Fair Hydro Plan~~ and rising capital expenditures. By 2021-22, the FAO expects borrowing to increase to $42 billion – nearly double the borrowing requirement in 2017-18.

In 2017-18, the FAO projects that Ontario's net debt-to-GDP ratio will edge down, reflecting lower borrowing and strong economic growth. However, over the next five years, the FAO projects that nearly $90 billion will be added to net debt – increasing the net debt-to-GDP ratio to 41 per cent by 2021-22.[12]

Commented [AK3]: 2016-17 maturities of 20.9 (from Q1 Finances) minus 2017-18 maturities of 17.4 (from FES FT)

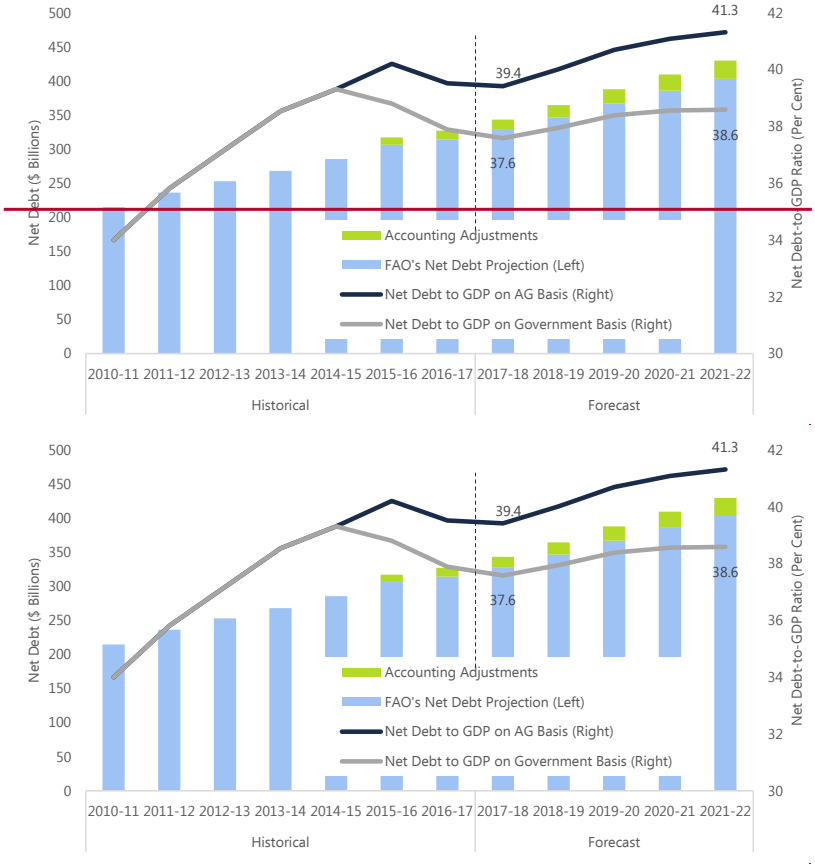
Commented [JP4]: The Province has already factored in all borrowing requirements, including the debt burden projections for the Fair Hydro plan for that year, in consultation with OPG and retained consultants. The $42 billion therefore is in excess of Ontario's projection by a significant amount.

Commented [BL5]: The change in net debt reflects the change in the deficit and the change in Net Investment in Tangible Capital Assets – it should not be attributed to lower borrowing which is really the outcome

Commented [JP6]: With regard to the 41% by the FAO in 2021-22, the Province projects it to be 36.1% for that year as published in the Fall Economic Statement. In the Province's opinion, the FAO is likely factoring in a budget deficit that the government does not project for that year given the balanced budget commitment The FAO's projections include the addition of the 2015-16 Pension adjustment despite the pronouncements of the Expert Panel that confirmed the correctness of the Government's accounting treatment of this asset The reversal of the pension adjustment is correct and in line with the recommendations of the Independent Pension Asset Expert Advisory Panel. The FAO also includes additional Fair Hydro Plan debt that is not in line with provincial projections already incorporated in the Province's Borrowing Program for 2017-18 and the two out years. The incremental borrowings for funding the Province's equity injection to OPG over the FES outlook period is a small fraction of the Province's borrowings and have no impact on the Province's net debt.

11 When debt matures the government must roll over the maturing debt with new borrowing. Declines in maturities result in lower borrowing and vice versa.
12 The FAO's estimate of net debt incorporates the AG's recommended accounting framework.

Net Debt Outlook



Source: FAO and 2017 Ontario Economic Outlook and Fiscal Review, Ontario Public Accounts

The government continues to maintain a net debt-to-GDP target of 35 per cent by 2023-24 and 27 per cent by 2029-30. However, the FAO's net debt-to-GDP projections under both accounting presentations suggest that additional fiscal measures would be required for the government to achieve its net debt-to-GDP targets.

FAO
Financial
Accountability
Office of Ontario

From:	Ken Kandeepan
To:	John Psinas
Subject:	RE: RUSH MO Question: IESO Accounting Standards
Date:	Tuesday, October 25, 2016 2:50:35 PM

The response has no relevance to the issue

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Tuesday, October 25, 2016 2:37 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>
Subject: FW: RUSH MO Question: IESO Accounting Standards

Ken/John,
Just to keep you in the loop. N

From: Fong, Pauline (TBS)
Sent: October 25, 2016 11:04 AM
To: Hosick, Sarah (TBS)
Cc: Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Subject: RE: RUSH MO Question: IESO Accounting Standards

Hi Sarah,

Here is my response below:

During the 2015-16 Public Accounts audit, the Auditor General (AG) raised issues regarding the Province's accounting treatment for pension assets related to jointly sponsored pension plans which challenged the accounting treatment followed by the Province for the past 14 years. The current AG's view is that the government does not have a legally enforceable right to unilaterally access the assets of the pension plans which are jointly sponsored. Given the differences in interpretation of accounting standards, the Province filed a time-limited regulation which changed the accounting treatment for pension assets of OTPP and OPSEUPP for the 2015-16 Public Accounts.

The one-time regulation only applies to provincially jointly sponsored plans, and does not apply to the pension liabilities reported by Independent Electricity System Operator.

Regards,

Pauline

From: Hosick, Sarah (TBS)
Sent: October-25-16 10:42 AM
To: Fong, Pauline (TBS)
Cc: Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Subject: FW: RUSH MO Question: IESO Accounting Standards

Importance: High

Hi Pauline,

Rush MO Question on a change in accounting standards on the calculation of pension liabilities.. Can we provide in basic terms what the change was, and why it would affect the IESO?

Energy will also be providing a response, so ours can focus on the accounting practices piece.

Happy to discuss

Thanks
Sarah

From: Smith, Emilie (TBS)
Sent: October-25-16 10:35 AM
To: Hosick, Sarah (TBS); Laughton, Patrick (TBS)
Cc: Wesley, Jason (TBS); Cairns, Alan (TBS); Bigley, Jane (TBS)
Subject: RUSH MO Question: IESO Accounting Standards
Importance: High

Hi Sarah and Patrick,

We have a rush question from the Minister's Office this morning. There is has been some media and opposition attention on the IESO's reported loss of $80M due to a change in accounting standards. The story below and attached detail the story.

> **>Ontario<**'s energy minister says an $80 million actuarial loss reported by the Independent Electricity System Operator was due to a change in accounting practices on the calculation of pension liabilities.
>
> The IESO, which oversees **>Ontario<**'s electricity market, says the accounting changes were implemented in 2011, and it recovers the loss by increasing fees for its accumulated **>deficit<** by up to $5 million a year.

The Minister is asking for very basic lines to talk about the accounting in the instance she needs to answer a supplementary in Question Period today. We have also reached out to Energy as well for messaging. I apologize for the rush on this.

Many thanks,
Emilie

IESO reports $80M loss from accounting change (Canadian Press)

- **Section**: News/Ontario
- **Ad Value**: $35
- **Tone**: **Neutral**

TORONTO - Ontario’s efforts to ease the upward pressure on electricity rates has been dealt a setback by a change in accounting practices.

In the government’s public accounts for 2015-16, the Independent Electricity System Operator reported a “previously unrecognized actuarial loss and past service costs” of just over $80 million.

The provincial agency which oversees Ontario’s electricity market says it will raise fees it charges the power industry to recover the losses as part of its accumulated deficit charge.

Progressive Conservative researchers discovered the $80 million loss in the public accounts and the Opposition plans to raise the issue in the legislature today.

The Tories point out the loss more than offsets the $70 million the Liberals said would be saved over seven years under Ontario’s new deal to purchase two terawatt hours of electricity annually from Quebec.

The Liberals are also removing the eight per cent provincial portion of the HST from electricity bills, and scrapping plans for more wind and solar power projects, to reduce system costs and ease upward pressure on rates.

The IESO, which combined operations with the now-defunct Ontario Power Authority in January 2015, had an accumulated deficit of $74 million and a net debt of $184 million, with revenues of $187 million.

—

Follow @CPnewsboy on Twitter

By The Canadian Press

- **Length**: 210 words
- **ID**: 259098162

Emilie Smith
Senior Corporate Issues Management Analyst
Communications Branch, Treasury Board Secretariat
(o) 416-327-2434
(c) 647-401-6732

(e) Emilie.Smith@ontario.ca

From:	Lynsey Wynberg
To:	Ken Kandeepan
Subject:	RE: Report of the Independent Panel on the Pension Adjustment
Date:	Friday, February 03, 2017 12:27:32 PM

FYI – I'm working on this for you.

From: Ken Kandeepan
Sent: Thursday, February 02, 2017 4:58 PM
To: Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>
Subject: Report of the Independent Panel on the Pension Adjustment

Hi Lynsey

I spoke to Cindy and she indicated our DMO had a copy of the report. Can you pls request Chris to forward same to you.

Not only do I want to read it for professional reasons but as per a previous email from Gadi, Bonnie will be letting the Rating Agencies know about this on Feb 13th the day of release. Usually, I am the one who is then pulled in to the tele conferences to respond to complex accounting questions, if any of course.

So reading the report ahead of time will be useful.

Thanks

Ken k

From: Ken Kandeepan
To: Lynsey Wynberg
Subject: RE: Report of the Independent Panel on the Pension Adjustment
Date: Friday, February 03, 2017 12:56:17 PM

Thanks Lynsey

Ken k

From: Lynsey Wynberg
Sent: Friday, February 03, 2017 12:28 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: RE: Report of the Independent Panel on the Pension Adjustment

FYI – I'm working on this for you.

From: Ken Kandeepan
Sent: Thursday, February 02, 2017 4:58 PM
To: Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>
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Thanks

Ken k

From:	Shemin Meralli
To:	Erica Wieder
Cc:	George Sakura; Ken Kandeepan; Serena Ly; Kevin Hwang
Subject:	RE: Request for nominal GDP estimates
Date:	Friday, January 13, 2017 11:31:04 AM
Attachments:	FES 2016 deck slide 3 - Jan 12, 2017 updates .xlsx FES 2016 deck slide 1, 2 and 4 - Jan 12, 2017 updates.xlsx Net Debt - 2016-17 -FES- pension adj update (Jan 12, 2017).xlsx

Hi Erica,

Please see files attached, updated with the new GDP numbers.

Thanks

Shemin

From: Erica Wieder
Sent: Friday, January 13, 2017 10:39 AM
To: Shemin Meralli <Shemin.Meralli@ofina.on.ca>
Cc: George Sakura <George.Sakura@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Serena Ly <Serena.Ly@ofina.on.ca>
Subject: FW: Request for nominal GDP estimates

Hi Shemin,

Here are the new GDP numbers, please use it for the analysis and send to Serena and I as soon as ready.
Thanks,
Erica

From: Williams, Mark (MOF) [mailto:Mark.Williams2@ontario.ca]
Sent: Friday, January 13, 2017 10:28 AM
To: Erica Wieder <Erica.Wieder@ofina.on.ca>
Cc: John Anania (MOF) <John.Anania@ontario.ca>; Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>
Subject: FW: Request for nominal GDP estimates

Hi Erica,

Please find attached the current, best estimate nominal GDP forecast. Included is the FES forecast for reference.

Please note this is subject to revisions in coming weeks as we work towards the Budget forecast.

Don't hesitate to contact us if you have questions.

Cheers,
Mark

From: Erica Wieder [mailto:Erica.Wieder@ofina.on.ca]
Sent: January-12-17 12:21 PM
To: Tarin, Ghufran (MOF)
Cc: West, David (MOF); Nicholson, Robert (MOF); Anania, John (MOF); Serena Ly; Kandeepan, Ken (OFA)
Subject: Request for nominal GDP estimates
Importance: High

Hi Ghufran,

I spoke with David earlier today and gave him some context re. our request. Gadi will have a briefing with Scott next week regarding the Debt chapter in the next Budget, and we need to update some net debt-to-GDP estimates per Scott's request. Our Finance and Treasury division runs a scenario analysis to see when we would be able to bring down the ratio to 27%. **For that reason, we need the latest estimates you have for nominal GDP for 2016 as well as the out years, going all the way out to 2030.**

Rest assured that numbers won't be shared, they will be used for the analysis and ratios. Since there are many slides to update, and the analysis to run, **we would appreciate getting the numbers by EOD or tomorrow morning at the latest.**

Thank you,

Erica

Erica Wieder
Manager | Investor Relations | Ontario Financing Authority
T. 416.325.1661 | email: erica.wieder@ofina.on.ca

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Net Debt to Revenue and GDP Ratios

Ontario

2016-17 FES - excl pension a

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue
Actual	1989-90	282,766	35,409	46,500	12.52	76.1
Actual	1990-91	287,334	38,438	49,002	13.38	78.4
Actual	1991-92	288,217	49,368	47,527	17.13	103.9
Actual	1992-93	293,068	61,796	49,122	21.09	125.8
Actual	1993-94	302,245	80,599	51,410	26.67	156.8
Actual	1994-95	319,986	90,728	53,962	28.35	168.1
Actual	1995-96	337,400	101,864	57,898	30.19	175.9
Actual	1996-97	347,842	108,769	58,060	31.27	187.3
Actual	1997-98	368,960	112,735	61,362	30.55	183.7
Actual	1998-99	389,250	114,737	63,044	29.48	182.0
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3
Actual	2000-01	452,238	132,496	72,258	29.30	183.4
Actual	2001-02	469,084	132,121	72,550	28.17	182.1
Actual	2002-03	494,815	132,647	74,938	26.81	177.0
Actual	2003-04	509,511	138,816	74,549	27.24	186.2
Actual	2004-05	533,365	140,921	84,192	26.42	167.4
Actual	2005-06	556,635	152,702	90,738	27.43	168.3
Actual	2006-07	578,241	153,742	97,120	26.59	158.3
Actual	2007-08	601,735	156,616	104,115	26.03	150.4
Actual	2008-09	608,446	169,585	97,532	27.87	173.9
Actual	2009-10	597,882	193,589	96,313	32.38	201.0
Actual	2010-11	630,989	214,511	107,175	34.00	200.2
Actual	2011-12	659,743	235,582	109,773	35.71	214.6
Actual	2012-13	680,084	252,088	113,369	37.07	222.4
Actual	2013-14	695,349	267,190	115,911	38.43	230.5
Actual	2014-15	727,962	284,576	118,546	39.09	240.1
Actual	2015-16	763,276	294,579	128,377	38.59	229.5
	2016-17 Outloo	797,623	307,353	130,589	38.53	235.4
	2017-18 Outloo	830,182	315,996	137,729	38.06	229.4
	2018-19 Outloo	864,142	325,901	141,920	37.71	229.6
	2019-20 Outloo	897,865	335,872		37.41	
	2020-21 Outloo	933,780	343,980		36.84	
	2021-22 Outloo	971,131	348,865		35.92	
	2022-23 Outloo	1,009,976	350,873		34.74	
	2023-24 Outloo	1,050,375	351,725		33.49	
	2024-25 Outloo	1,092,390	351,104		32.14	
	2025-26 Outloo	1,136,086	348,855		30.71	
	2026-27 Outloo	1,181,529				
	2027-28 Outloo	1,228,790				
	2028-29 Outloo	1,277,942				

2029-30 Outloo	1,329,060
2030-31 Outloo	1,382,222

Scenario 1:
See tab "GDP and Deficit" - for GDP numbers 2016-17 to 2025-26 (received
See tab "TCA" - for updated TCA numbers 2016-17 to 2030-31 (received Jar

Prepared by OFA, FTD
13-Jan-17

djustment - scenario 1 (adj 2015/16)

Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP
35,409	12.52	-			(90)	282,766
38,438	13.38	-			3,029	287,334
49,368	17.13	-			10,930	288,217
61,796	21.09	-			12,428	293,068
80,599	26.67	-			11,202	302,245
90,728	28.35	-			10,129	319,986
101,864	30.19	-			8,800	337,400
108,769	31.27	-			6,905	347,842
112,735	30.55	-			3,966	368,960
114,737	29.48	-			2,002	389,250
134,398	32.13	-			(668)	418,245
132,496	29.30	-			(1,902)	452,238
132,121	28.17	-			(375)	469,084
118,705	23.99	13,942			(117)	494,815
124,188	24.37	14,628			5,483	509,511
125,743	23.58	15,178			1,555	533,365
109,155	19.61	43,547			(298)	556,635
106,776	18.47	46,966		(110)	(2,269)	578,241
105,617	17.55	50,999	(559)		(600)	601,735
113,238	18.61	56,347	1,212		6,409	608,446
130,957	21.90	62,632	1,090	-	19,262	597,882
144,573	22.91	69,938	(395)	-	14,011	630,989
158,410	24.01	77,172	3	865	12,969	659,743
167,132	24.58	84,956	(639)	141	9,220	680,084
176,634	25.40	90,556	(951)	-	10,453	695,349
187,511	25.76	97,065	(1,121)	1,683	10,315	727,962
192,043	25.16	102,536	1,003	-	3,529	763,276
196,367	24.62	110,986			4,324	789176
196,367	23.65	119,629			-	821389
196,367	22.72	129,534			-	854990
196,367	21.87	139,505			-	
196,367	21.03	147,613			-	
196,367	20.22	152,498			-	
196,367	19.44	154,506			-	
196,367	18.69	155,358			-	
196,367	17.98	154,737			-	
196,367	17.28	152,488			-	
196,367					-	
196,367					-	
196,367					-	

196,367	-
196,367	-

l Jan 12, 2017)
า 5, 2017)

2016-17 FES - with pension adjustment						
Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA
35,409	46,500	12.52	76.1	35,409	12.52	-
38,438	49,002	13.38	78.4	38,438	13.38	-
49,368	47,527	17.13	103.9	49,368	17.13	-
61,796	49,122	21.09	125.8	61,796	21.09	-
80,599	51,410	26.67	156.8	80,599	26.67	-
90,728	53,962	28.35	168.1	90,728	28.35	-
101,864	57,898	30.19	175.9	101,864	30.19	-
108,769	58,060	31.27	187.3	108,769	31.27	-
112,735	61,362	30.55	183.7	112,735	30.55	-
114,737	63,044	29.48	182.0	114,737	29.48	-
134,398	70,983	32.13	189.3	134,398	32.13	-
132,496	72,258	29.30	183.4	132,496	29.30	-
132,121	72,550	28.17	182.1	132,121	28.17	-
132,647	74,938	26.81	177.0	118,705	23.99	13,942
138,816	74,549	27.24	186.2	124,188	24.37	14,628
140,921	84,192	26.42	167.4	125,743	23.58	15,178
152,702	90,738	27.43	168.3	109,155	19.61	43,547
153,742	97,120	26.59	158.3	106,776	18.47	46,966
156,616	104,115	26.03	150.4	105,617	17.55	50,999
169,585	97,532	27.87	173.9	113,238	18.61	56,347
193,589	96,313	32.38	201.0	130,957	21.90	62,632
214,511	107,175	34.00	200.2	144,573	22.91	69,938
235,582	109,773	35.71	214.6	158,410	24.01	77,172
252,088	113,369	37.07	222.4	167,132	24.58	84,956
267,190	115,911	38.43	230.5	176,634	25.40	90,556
284,576	118,546	39.09	240.1	187,511	25.76	97,065
305,233	128,377	39.99	237.8	202,697	26.56	102,536
317,948	130,589	40.29	243.5	207,021	26.23	110,927
326,551	137,729	39.76	237.1	207,003	25.20	119,548
336,419	141,920	39.35	237.0	206,991	24.21	129,428
346,366		#DIV/0!		206,991	#DIV/0!	139,375
354,451				206,991		147,460

ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenu
		(90)	-	-	-	-	-
		3,029	-	-	-	-	-
		10,930	-	-	-	-	-
		12,428	-	-	-	-	-
		11,202	-	-	-	-	-
		10,129	-	-	-	-	-
		8,800	-	-	-	-	-
		6,905	-	-	-	-	-
		3,966	-	-	-	-	-
		2,002	-	-	-	-	-
		(668)	-	-	-	-	-
		(1,902)	-	-	-	-	-
		(375)	-	-	-	-	-
		(117)	-	-	-	-	-
		5,483	-	-	-	-	-
		1,555	-	-	-	-	-
		(298)	-	-	-	-	-
	(110)	(2,269)	-	-	-	-	-
(559)		(600)	-	-	-	-	-
1,212		6,409	-	-	-	-	-
1,090	-	19,262	-	-	-	-	-
(395)	-	14,011	-	-	-	-	-
3	865	12,969	-	-	-	-	-
(639)	141	9,220	-	-	-	-	-
(951)	-	10,453	-	-	-	-	-
(1,121)	1,683	10,315	-	-	-	-	-
1,003	9,154	5,029	-	(10,654.00)	-	(1.40)	(8.30)
		4,324	8,447.42	(10,595.00)	-	(1.76)	(8.11)
		(18)	8,792.52	(10,555.00)	-	(1.69)	(7.66)
		(12)	9,151.87	(10,518.00)	-	(1.63)	(7.41)
		-					
		-					

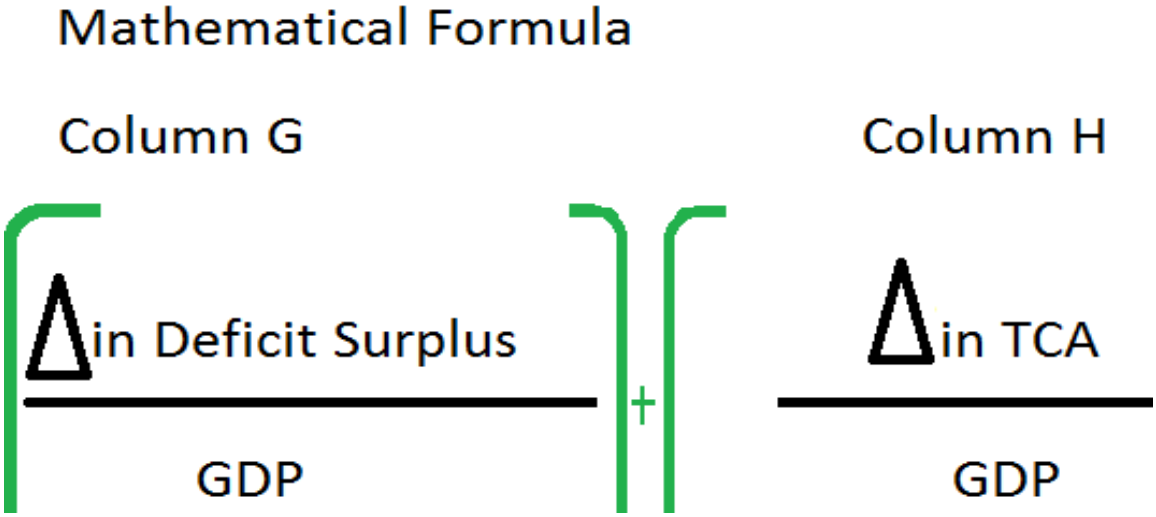
Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(10,654.00)	(1.40)	-	-	(9,154.00)	(1,500.00)
(10,654.00)	(1.61)	59.00	-	-	-
(10,636.00)	(1.55)	81.00	-	-	18.00
(10,624.00)	(1.49)	106.00	-	-	12.00

2016-17 FES - excl pension adjustment (adj 2015/16)

excluding Pension Adj 2015-16

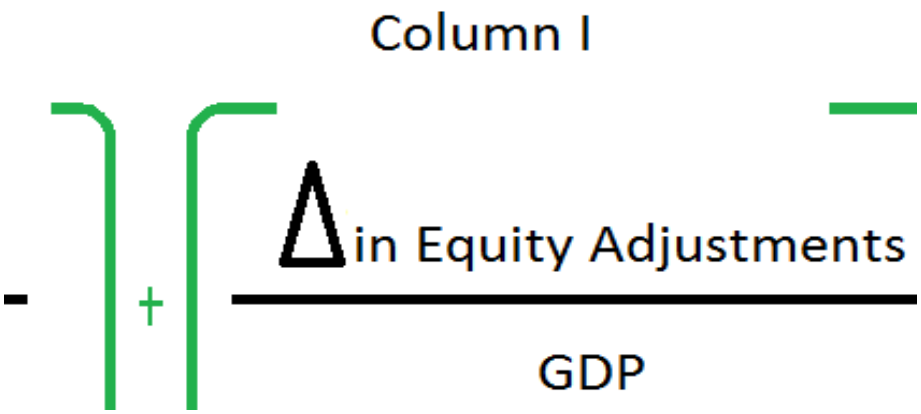
($millions)	Deficit/(Surplus)	Change in TCA	Change in GDP
2008-09	6,409.00	5,348.00	6,711.00
2009-10	19,262.00	6,285.00	(10,564.00)
2010-11	14,011.00	7,306.00	33,107.00
2011-12	12,969.00	7,234.00	28,754.00
2012-13	9,220.00	7,784.00	20,341.00
2013-14	10,453.00	5,600.00	15,265.00
2014-15	10,315.00	6,509.00	32,613.00
2015-16	3,529.00	5,471.00	35,314.00
2016-17 Outlook	4,324.00	8,450.00	34,347.42
2017-18 Outlook	-	8,643.00	32,558.10
2018-19 Outlook	-	9,905.00	33,960.35
2019-20 Outlook	-	9,971.00	33,723.11
2020-21 Outlook	-	8,108.00	35,914.60
2021-22 Outlook	-	4,885.00	37,351.18
2022-23 Outlook	-	2,008.00	38,845.23
2023-24 Outlook	-	852.00	40,399.04
2024-25 Outlook	-	(621.00)	42,015.00
2025-26 Outlook	-	(2,249.00)	43,695.60
2026-27 Outlook	-	(152,488.00)	
2027-28 Outlook	-	-	
2028-29 Outlook	-	-	
2029-30 Outlook	-	-	
2030-31 Outlook	-	-	

Mathematical Formula





Changes due to the Numerator		
G	H	I
% Change in Net Debt to GDP Due to Annual Deficit/(Surplus)	% Change in Net Debt to GDP Due to Changes in TCA	% Change in Net Debt to GDP Due to Miscellaneous Adjustments
1.07	0.89	0.20
3.17	1.03	(0.25)
2.34	1.22	(0.07)
2.06	1.15	0.14
1.40	1.18	(0.08)
1.54	0.82	(0.14)
1.48	0.94	0.08
0.48	0.75	0.14
0.57	1.11	0.00
0.00	1.08	0.00
0.00	1.19	0.00
0.00	1.15	0.00
0.00	0.90	0.00
0.00	0.52	0.00
0.00	0.21	0.00
0.00	0.08	0.00
0.00	(0.06)	0.00
0.00	(0.21)	0.00





Changes due to the Denominator

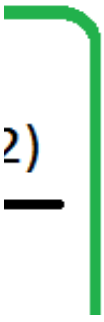
J	K=G+H+I+J	
% Change in Net Debt to GDP Due to Changes in GDP	% Total change	Calculated Total Change in Net Debt to GDP
(0.31)	1.84	1.84
0.56	4.51	4.51
(1.88)	1.62	1.62
(1.63)	1.71	1.71
(1.14)	1.36	1.36
(0.86)	1.36	1.36
(1.83)	0.67	0.67
(1.87)	(0.50)	(0.50)
(1.73)	(0.06)	(0.06)
(1.55)	(0.47)	(0.47)
(1.54)	(0.35)	(0.35)
(1.46)	(0.31)	(0.31)
(1.47)	(0.57)	(0.57)
(1.44)	(0.91)	(0.91)
(1.39)	(1.18)	(1.18)
(1.34)	(1.26)	(1.26)
(1.29)	(1.34)	(1.34)
(1.23)	(1.43)	(1.43)

Column J

$$\pm \frac{\Delta \text{Net Debt year 2} * (\text{GDP yr 1} - \text{GDP yr 2}}{\text{GDP yr 1} * \text{GDP yr 2}}$$



Actual Change in Net Debt to GDP	Variance
1.84	(0.00)
4.51	0.00
1.62	(0.00)
1.71	(0.00)
1.36	0.00
1.36	0.00
0.67	(0.00)
(0.50)	(0.00)
(0.06)	0.00
(0.47)	(0.00)
(0.35)	(0.00)
(0.31)	0.00
(0.57)	(0.00)
(0.91)	(0.00)
(1.18)	0.00
(1.26)	(0.00)
(1.34)	0.00
(1.43)	0.00



Net Debt to Revenue and GDP Ratios																				
Ontario		2016-17 FES - Excluding Pension Adjustment (adj 2015/16)												2016-17 FES - with pension adjustment						
					Net Debt As	Net Debt As	Accumulated	Acc Deficit		ONFA	Other	Deficit/					Net Debt As	Net Debt As	Accumulated	Acc Deficit	
	Fiscal Year	GDP	Net Debt	Revenue	% to GDP	% to Revenue	Deficit	to GDP	TCA	Adj.	Adj.	(Surplus)		GDP	Net Debt	Revenue	% to GDP	% to Revenue	Deficit	to GDP	TCA
Actual	1989-90	282,766	35,409	46,500	12.52	76.1	35,409	12.5	-			(90)		282,766	35,409	46,500	12.52	76.1	35,409	12.5	-
Actual	1990-91	287,334	38,438	49,002	13.38	78.4	38,438	13.4	-			3,029		287,334	38,438	49,002	13.38	78.4	38,438	13.4	-
Actual	1991-92	288,217	49,368	47,527	17.13	103.9	49,368	17.1	-			10,930		288,217	49,368	47,527	17.13	103.9	49,368	17.1	-
Actual	1992-93	293,068	61,796	49,122	21.09	125.8	61,796	21.1	-			12,428		293,068	61,796	49,122	21.09	125.8	61,796	21.1	-
Actual	1993-94	302,245	80,599	51,410	26.67	156.8	80,599	26.7	-			11,202		302,245	80,599	51,410	26.67	156.8	80,599	26.7	-
Actual	1994-95	319,986	90,728	53,962	28.35	168.1	90,728	28.4	-			10,129		319,986	90,728	53,962	28.35	168.1	90,728	28.4	-
Actual	1995-96	337,400	101,864	57,898	30.19	175.9	101,864	30.2	-			8,800		337,400	101,864	57,898	30.19	175.9	101,864	30.2	-
Actual	1996-97	347,842	108,769	58,060	31.27	187.3	108,769	31.3	-			6,905		347,842	108,769	58,060	31.27	187.3	108,769	31.3	-
Actual	1997-98	368,960	112,735	61,362	30.55	183.7	112,735	30.6	-			3,966		368,960	112,735	61,362	30.55	183.7	112,735	30.6	-
Actual	1998-99	389,250	114,737	63,044	29.48	182.0	114,737	29.5	-			2,002		389,250	114,737	63,044	29.48	182.0	114,737	29.5	-
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3	134,398	32.1	-			(668)		418,245	134,398	70,983	32.13	189.3	134,398	32.1	-
Actual	2000-01	452,238	132,496	72,258	29.30	183.4	132,496	29.3	-			(1,902)		452,238	132,496	72,258	29.30	183.4	132,496	29.3	-
Actual	2001-02	469,084	132,121	72,550	28.17	182.1	132,121	28.2	-			(375)		469,084	132,121	72,550	28.17	182.1	132,121	28.2	-
Actual	2002-03	494,815	132,647	74,938	26.81	177.0	118,705	24.0	13,942			(117)		494,815	132,647	74,938	26.81	177.0	118,705	24.0	13,942
Actual	2003-04	509,511	138,816	74,549	27.24	186.2	124,188	24.4	14,628			5,483		509,511	138,816	74,549	27.24	186.2	124,188	24.4	14,628
Actual	2004-05	533,365	140,921	84,192	26.42	167.4	125,743	23.6	15,178			1,555		533,365	140,921	84,192	26.42	167.4	125,743	23.6	15,178
Actual	2005-06	556,635	152,702	90,738	27.43	168.3	109,155	19.6	43,547			(298)		556,635	152,702	90,738	27.43	168.3	109,155	19.6	43,547
Actual	2006-07	578,241	153,742	97,120	26.59	158.3	106,776	18.5	46,966		(110)	(2,269)		578,241	153,742	97,120	26.59	158.3	106,776	18.5	46,966
Actual	2007-08	601,735	156,616	104,115	26.03	150.4	105,617	17.6	50,999	(559)		(600)		601,735	156,616	104,115	26.03	150.4	105,617	17.6	50,999
Actual	2008-09	608,446	169,585	97,532	27.87	173.9	113,238	18.6	56,347	1,212		6,409		608,446	169,585	97,532	27.87	173.9	113,238	18.6	56,347
Actual	2009-10	597,882	193,589	96,313	32.38	201.0	130,957	21.9	62,632	1,090	-	19,262		597,882	193,589	96,313	32.38	201.0	130,957	21.9	62,632
Actual	2010-11	630,989	214,511	107,175	34.00	200.2	144,573	22.9	69,938	(395)	-	14,011		630,989	214,511	107,175	34.00	200.2	144,573	22.9	69,938
Actual	2011-12	659,743	235,582	109,773	35.71	214.6	158,410	24.0	77,172	3	865	12,969		659,743	235,582	109,773	35.71	214.6	158,410	24.0	77,172
Actual	2012-13	680,084	252,088	113,369	37.07	222.4	167,132	24.6	84,956	(639)	141	9,220		680,084	252,088	113,369	37.07	222.4	167,132	24.6	84,956
Actual	2013-14	695,349	267,190	115,911	38.43	230.5	176,634	25.4	90,556	(951)	-	10,453		695,349	267,190	115,911	38.43	230.5	176,634	25.4	90,556
Actual	2014-15	727,962	284,576	118,546	39.09	240.1	187,511	25.8	97,065	(1,121)	1,683	10,315		727,962	284,576	118,546	39.09	240.1	187,511	25.8	97,065
Actual	2015-16 (unaudited	763,276	294,579	128,377	38.59	229.5	192,043	25.2	102,536	1,003	-	3,529		763,276	305,233	128,377	39.99	237.8	202,697	26.6	102,536
	2016-17 Outlook	797,623	307,353	130,589	38.53	235.4	196,367	24.6	110,986			4,324		789176	317,948	130,589	40.29	243.5	207,021	26.2	110,927
	2017-18 Outlook	830,182	315,996	137,729	38.06	229.4	196,367	23.7	119,629			-		821389	326,551	137,729	39.76	237.1	207,003	25.2	119,548
	2018-19 Outlook	864,142	325,901	141,920	37.71	229.6	196,367	22.7	129,534			-		854990	336,419	141,920	39.35	237.0	206,991	24.2	129,428
	2019-20 Outlook	897,865	335,872		37.41		196,367	21.9	139,505			-			346,366		#DIV/0!	#DIV/0!	206,991	#DIV/0!	139,375
	2020-21 Outlook	933,780	343,980		36.84		196,367	21.0	147,613			-			354,451			#DIV/0!	206,991		147,460
	2021-22 Outlook	971,131	348,865		35.92		196,367	20.2	152,498			-									
	2022-23 Outlook	1,009,976	350,873		34.74		196,367	19.4	154,506			-									
	2023-24 Outlook	1,050,375	351,725		33.49		196,367	18.7	155,358			-									
	2024-25 Outlook	1,092,390	351,104		32.14		196,367	18.0	154,737			-									
	2025-26 Outlook	1,136,086	348,855		30.71		196,367	17.3	152,488			-									
	2026-27 Outlook	1,181,529	348,855		29.53		196,367	16.6	152,488			-									
	2027-28 Outlook	1,228,790	348,855		28.39		196,367	16.0	152,488			-									
	2028-29 Outlook	1,277,942	348,855		27.30		196,367	15.4	152,488			-									

Net Debt to Revenue and GDI				
Ontario				
		ONFA	Other	Deficit/
	Fiscal Year	Adj.	Adj.	(Surplus)
Actual	1989-90			(90)
Actual	1990-91			3,029
Actual	1991-92			10,930
Actual	1992-93			12,428
Actual	1993-94			11,202
Actual	1994-95			10,129
Actual	1995-96			8,800
Actual	1996-97			6,905
Actual	1997-98			3,966
Actual	1998-99			2,002
Actual	1999-2000			(668)
Actual	2000-01			(1,902)
Actual	2001-02			(375)
Actual	2002-03			(117)
Actual	2003-04			5,483
Actual	2004-05			1,555
Actual	2005-06			(298)
Actual	2006-07		(110)	(2,269)
Actual	2007-08	(559)		(600)
Actual	2008-09	1,212		6,409
Actual	2009-10	1,090	-	19,262
Actual	2010-11	(395)	-	14,011
Actual	2011-12	3	865	12,969
Actual	2012-13	(639)	141	9,220
Actual	2013-14	(951)	-	10,453
Actual	2014-15	(1,121)	1,683	10,315
Actual	2015-16 (unaudited	1,003	9,154	5,029
	2016-17 Outlook			4,324
	2017-18 Outlook			(18)
	2018-19 Outlook			(12)
	2019-20 Outlook			-
	2020-21 Outlook			-
	2021-22 Outlook			
	2022-23 Outlook			
	2023-24 Outlook			
	2024-25 Outlook			
	2025-26 Outlook			
	2026-27 Outlook			
	2027-28 Outlook			
	2028-29 Outlook			

Net Debt to Revenue and GDF										
Ontario		Comparison: 2016 Public Accounts/FES vs Scenario Analysis								
				Net Debt As	Accumulated	Acc Deficit		ONFA	Other	Deficit/
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP	TCA	Adj.	Adj.	(Surplus)
Actual	1989-90	-	-	-	-	-	-	-	-	-
Actual	1990-91	-	-	-	-	-	-	-	-	-
Actual	1991-92	-	-	-	-	-	-	-	-	-
Actual	1992-93	-	-	-	-	-	-	-	-	-
Actual	1993-94	-	-	-	-	-	-	-	-	-
Actual	1994-95	-	-	-	-	-	-	-	-	-
Actual	1995-96	-	-	-	-	-	-	-	-	-
Actual	1996-97	-	-	-	-	-	-	-	-	-
Actual	1997-98	-	-	-	-	-	-	-	-	-
Actual	1998-99	-	-	-	-	-	-	-	-	-
Actual	1999-2000	-	-	-	-	-	-	-	-	-
Actual	2000-01	-	-	-	-	-	-	-	-	-
Actual	2001-02	-	-	-	-	-	-	-	-	-
Actual	2002-03	-	-	-	-	-	-	-	-	-
Actual	2003-04	-	-	-	-	-	-	-	-	-
Actual	2004-05	-	-	-	-	-	-	-	-	-
Actual	2005-06	-	-	-	-	-	-	-	-	-
Actual	2006-07	-	-	-	-	-	-	-	-	-
Actual	2007-08	-	-	-	-	-	-	-	-	-
Actual	2008-09	-	-	-	-	-	-	-	-	-
Actual	2009-10	-	-	-	-	-	-	-	-	-
Actual	2010-11	-	-	-	-	-	-	-	-	-
Actual	2011-12	-	-	-	-	-	-	-	-	-
Actual	2012-13	-	-	-	-	-	-	-	-	-
Actual	2013-14	-	-	-	-	-	-	-	-	-
Actual	2014-15	-	-	-	-	-	-	-	-	-
Actual	2015-16 (unaudited	-	10,654	1.4	10,654	1.4	-	-	9,154	1,500
	2016-17 Outlook	(8,447)	10,595	1.8	10,654	1.6	(59)	-	-	-
	2017-18 Outlook	(8,793)	10,555	1.7	10,636	1.5	(81)	-	-	(18)
	2018-19 Outlook	(9,152)	10,518	1.6	10,624	1.5	(106)	-	-	(12)
	2019-20 Outlook	(897,865)	10,494	#DIV/0!	10,624	#DIV/0!	(130)	-	-	-
	2020-21 Outlook									
	2021-22 Outlook									
	2022-23 Outlook									
	2023-24 Outlook									
	2024-25 Outlook									
	2025-26 Outlook									
	2026-27 Outlook									
	2027-28 Outlook									
	2028-29 Outlook									

Analysis of Net Debt

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Opening balance	(156,616)	(169,585)	(193,589)	(214,511)	(235,582)	(252,088)
Deficit	(6,409)	(19,262)	(14,011)	(12,969)	(9,220)	(10,453)
IFRS Transitional Impact				(758)		
PSAB Transitional Impact				(107)	(141)	(1,683)
Pension Adjustment (prior years)						
Adjustments						
Total Deficit	(6,409)	(19,262)	(14,011)	(13,834)	(9,361)	(12,136)
Tangible Capital Assets	(6,285)	(5,832)	(7,306)	(7,234)	(7,784)	(5,600)
Ontario Nuclear Fund	(1,212)	1,090	395	(3)	639	951
	(13,906)	(24,004)	(20,922)	(21,071)	(16,506)	(16,785)
	(13,906)	(24,004)	(20,922)	(21,071)	(16,506)	(16,785)
Ending balance	(170,522)	(193,589)	(214,511)	(235,582)	(252,088)	(268,873)

				Percentage %		
Deficit	46.09	80.24	66.97	65.65	56.71	72.30
Other	8.72	(4.54)	(1.89)	0.01	(3.87)	(5.67)
Total Deficit	**54.80**	**75.70**	**65.08**	**65.67**	**52.84**	**66.64**
Tangible Capital Assets	**45.20**	**24.30**	**34.92**	**34.33**	**47.16**	**33.36**
	100.00	100.00	100.00	100.00	100.00	100.00

For use with slide 2

In year approvals added to TCA for 2016-17 only, but not any

2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total
(268,873)	(284,576)	(294,579)	(307,353)	(315,996)	(325,901)	(335,872)	(169,585)
(10,315)	(3,529)	(4,324)	0	0			(84,083)
							(758)
							(1,931)
	0						0
	0						
(10,315)	(3,529)	(4,324)	0	0	0	0	(86,772)
(6,509)	(5,471)	(8,450)	(8,643)	(9,905)	(9,971)	(8,108)	(90,813)
1,121	(1,003)						3,190
(15,703)	(10,003)	(12,774)	(8,643)	(9,905)	(9,971)	(8,108)	(174,395)
(15,703)	(20,657)						
(284,576)	(294,579)	(307,353)	(315,996)	(325,901)	(335,872)	(343,980)	(343,980)

65.69	35.28	33.85	0.00	0.00	0.00	0.00
(7.14)	10.03	0.00	0.00	0.00	0.00	0.00
58.55	**45.31**	**33.85**	**0.00**	**0.00**	**0.00**	**0.00**
41.45	**54.69**	**66.15**	**100.00**	**100.00**	**100.00**	**100.00**

100.00	100.00	100.00	100.00	100.00	100.00	100.00

risks. Deprecation in out years for in year approvals not taken.

2008-09 to 2015-16
(col C to col J)

(79,759)
(758)
(1,931)
0
(82,448)
(45,736)
3,190
(124,994)

65.96
(2.55)
63.41
36.59
100.00

					2016-17 FES - Excluding Pens
			Scenario	What is the change in GDP that wi	
2016-17 GDP			797,623		
2016-17 Net Debt to GDP %			0.3850		
2016-17 Net Debt			307,353		
			Net Debt to GDP		Scenario GDP
by up	0.01%		307,353	=	798,112.00
	38.51	0.3851	0.3851001		
by down	0.10%	0.3840	307,353	=	800,398.00
	38.40		0.3840002		

Scenario	What is the change in net debt hol result?	
		Change in Net Debt
Projected ND	+	-188
Projected ND	-	1066

Draft wording for slide 4:

For 2016-17, the net debt-to-GDP ratio is

An decrease of $188 million to net

An increase of $1,066 million to ne

Since the 2016-17 net debt-to-GDI
38.51% versus the larger changes

ion Adjustment (adj 2015/16)

ll make the Net Debt ratio change by 0.1%?

Actual Projected GDP	GDP Variance	GDP Variance %
797,623.42	488.58	0.06%
797,623.42	2,774.58	0.35%

lding GDP constant that will yield the same

Scenario Net Debt	Scenario Net Debt to GDP	Rounded	Target
307,165	38.510028%	38.51%	38.51
306,287	38.399951%	38.40%	38.40

38.50%

: debt or a increase of $489 million in nominal GDP would increase the net-debt-to-GDP ratio to 38.51%

et debt or an increase of $2,775 million in nominal GDP would decrease the net-debt-to-GDP ratio to 38

P ratio was 38.5% smaller changes to net debt or nominal GDP resulted in changing the net debt-to-GDP
required to lower the ratio to 38.4%.

.

.4%.

› ratio to

Summary - FES 2016-17 & Deficit/Surplus Scenarios																
		2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2025-26	2026-27	2028-29	2029-30	2030-31
FES 2016-17																
Deficit/ (Surplus) ($m)		4,324	(18)	(12)												
Net Debt/GDP %		40.3	39.8	39.3												
Net Debt		317,948	326,551	336,419												
- incr/(decr) in net debt			8,603	9,868												
GDP		789,176	821,389	854,990												
Scenario 1																
Deficit/ (Surplus) ($m)		4,324	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Debt/GDP %		38.5	38.1	37.7	37.4	36.8	35.9	34.7	33.5	32.1	30.7	0.0	0.0	0.0	0.0	0.0
Net Debt		307,353	315,996	325,901	335,872	343,980	348,865	350,873	351,725	351,104	348,855	-	-	-	-	-
- incr/(decr) in net debt			8,643	9,905	9,971	8,108	4,885	2,008	852	(621)	(2,249)	(348,855)	-	-	-	-
GDP		797,623	830,182	864,142	897,865	933,780	971,131	1,009,976	1,050,375	1,092,390	1,136,086	1,181,529	1,228,790	1,277,942	1,329,060	1,382,222

Net Debt to Revenue and GDP Ratios

Ontario

		2016-17 FES - excl pension adjustment - scenario 1 (adj 2015/16)																
	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	IOD	Revenue	IOD to Revenue	GDP	Net Debt	Revenue	Net Debt As % to GDP
Actual	1989-90	282,766	35,409	46,500	12.52	76.1	35,409	12.52	-			(90)				282,766	35,409	46,500	12.52
Actual	1990-91	287,334	38,438	49,002	13.38	78.4	38,438	13.38	-			3,029				287,334	38,438	49,002	13.38
Actual	1991-92	288,217	49,368	47,527	17.13	103.9	49,368	17.13	-			10,930				288,217	49,368	47,527	17.13
Actual	1992-93	293,068	61,796	49,122	21.09	125.8	61,796	21.09	-			12,428				293,068	61,796	49,122	21.09
Actual	1993-94	302,245	80,599	51,410	26.67	156.8	80,599	26.67	-			11,202				302,245	80,599	51,410	26.67
Actual	1994-95	319,986	90,728	53,962	28.35	168.1	90,728	28.35	-			10,129				319,986	90,728	53,962	28.35
Actual	1995-96	337,400	101,864	57,898	30.19	175.9	101,864	30.19	-			8,800				337,400	101,864	57,898	30.19
Actual	1996-97	347,842	108,769	58,060	31.27	187.3	108,769	31.27	-			6,905				347,842	108,769	58,060	31.27
Actual	1997-98	368,960	112,735	61,362	30.55	183.7	112,735	30.55	-			3,966				368,960	112,735	61,362	30.55
Actual	1998-99	389,250	114,737	63,044	29.48	182.0	114,737	29.48	-			2,002				389,250	114,737	63,044	29.48
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3	134,398	32.13	-			(668)				418,245	134,398	70,983	32.13
Actual	2000-01	452,238	132,496	72,258	29.30	183.4	132,496	29.30	-			(1,902)				452,238	132,496	72,258	29.30
Actual	2001-02	469,084	132,121	72,550	28.17	182.1	132,121	28.17	-			(375)				469,084	132,121	72,550	28.17
Actual	2002-03	494,815	132,647	74,938	26.81	177.0	118,705	23.99	13,942			(117)				494,815	132,647	74,938	26.81
Actual	2003-04	509,511	138,816	74,549	27.24	186.2	124,188	24.37	14,628			5,483				509,511	138,816	74,549	27.24
Actual	2004-05	533,365	140,921	84,192	26.42	167.4	125,743	23.58	15,178			1,555				533,365	140,921	84,192	26.42
Actual	2005-06	556,635	152,702	90,738	27.43	168.3	109,155	19.61	43,547			(298)				556,635	152,702	90,738	27.43
Actual	2006-07	578,241	153,742	97,120	26.59	158.3	106,776	18.47	46,966		(110)	(2,269)				578,241	153,742	97,120	26.59
Actual	2007-08	601,735	156,616	104,115	26.03	150.4	105,617	17.55	50,999	(559)		(600)				601,735	156,616	104,115	26.03
Actual	2008-09	608,446	169,585	97,532	27.87	173.9	113,238	18.61	56,347	1,212		6,409				608,446	169,585	97,532	27.87
Actual	2009-10	597,882	193,589	96,313	32.38	201.0	130,957	21.90	62,632	1,090	-	19,262	8,719	96,313	9.05	597,882	193,589	96,313	32.38
Actual	2010-11	630,989	214,511	107,175	34.00	200.2	144,573	22.91	69,938	(395)	-	14,011	9,480	107,175	8.85	630,989	214,511	107,175	34.00
Actual	2011-12	659,743	235,582	109,773	35.71	214.6	158,410	24.01	77,172	3	865	12,969	10,082	109,773	9.18	659,743	235,582	109,773	35.71
Actual	2012-13	680,084	252,088	113,369	37.07	222.4	167,132	24.58	84,956	(639)	141	9,220	10,341	113,369	9.12	680,084	252,088	113,369	37.07
Actual	2013-14	695,349	267,190	115,911	38.43	230.5	176,634	25.40	90,556	(951)	-	10,453	10,572	115,911	9.12	695,349	267,190	115,911	38.43
Actual	2014-15	727,962	284,576	118,546	39.09	240.1	187,511	25.76	97,065	(1,121)	1,683	10,315	10,635	118,546	8.97	727,962	284,576	118,546	39.09
Actual	2015-16	763,276	294,579	128,377	38.59	229.5	192,043	25.16	102,536	1,003	-	3,529	10,967	128,377	8.54	763,276	305,233	128,377	39.99
	2016-17 Outloo	797,623	307,353	130,589	38.53	235.4	196,367	24.62	110,986			4,324	11,375	132,720	8.57	789176	317,948	130,589	40.29
	2017-18 Outloo	830,182	315,996	137,729	38.06	229.4	196,367	23.65	119,629			-	11,700	140,125	8.35	821389	326,551	137,729	39.76
	2018-19 Outloo	864,142	325,901	141,920	37.71	229.6	196,367	22.72	129,534			-	12,400	144,899	8.56	854990	336,419	141,920	39.35
	2019-20 Outloo	897,865	335,872		37.41		196,367	21.87	139,505			-					346,366		#DIV/0!
	2020-21 Outloo	933,780	343,980		36.84		196,367	21.03	147,613			-					354,451		
	2021-22 Outloo	971,131	348,865		35.92		196,367	20.22	152,498			-							
	2022-23 Outloo	1,009,976	350,873		34.74		196,367	19.44	154,506			-							
	2023-24 Outloo	1,050,375	351,725		33.49		196,367	18.69	155,358			-							
	2024-25 Outloo	1,092,390	351,104		32.14		196,367	17.98	154,737			-							
	2025-26 Outloo	1,136,086	348,855		30.71		196,367	17.28	152,488			-							
	2026-27 Outloo	1,181,529	-									-							
	2027-28 Outloo	1,228,790	-									-							
	2028-29 Outloo	1,277,942	-									-							
	2029-30 Outloo	1,329,060	-																
	2030-31 Outloo	1,382,222	-																

Scenario 1:
See tab "GDP and Deficit" - for GDP numbers 2016-17 to 2025-26 (received Jan 12, 2017)
See tab "TCA" - for updated TCA numbers 2016-17 to 2030-31 (received Jan 5, 2017)

Scenario Assumptions (as per "GDP and Deficit " tab):

Prepared by OFA, FTD
11-Jan-17

Net Debt to Revenue an

Ontario

		2016-17 FES - with pension adjustment							Comparison: 2016 Public Accounts vs FES 2016-17									
	Fiscal Year	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
Actual	1989-90	76.1	35,409	12.52	-			(90)	-	-	-	-	-	-	-	-	-	-
Actual	1990-91	78.4	38,438	13.38	-			3,029	-	-	-	-	-	-	-	-	-	-
Actual	1991-92	103.9	49,368	17.13	-			10,930	-	-	-	-	-	-	-	-	-	-
Actual	1992-93	125.8	61,796	21.09	-			12,428	-	-	-	-	-	-	-	-	-	-
Actual	1993-94	156.8	80,599	26.67	-			11,202	-	-	-	-	-	-	-	-	-	-
Actual	1994-95	168.1	90,728	28.35	-			10,129	-	-	-	-	-	-	-	-	-	-
Actual	1995-96	175.9	101,864	30.19	-			8,800	-	-	-	-	-	-	-	-	-	-
Actual	1996-97	187.3	108,769	31.27	-			6,905	-	-	-	-	-	-	-	-	-	-
Actual	1997-98	183.7	112,735	30.55	-			3,966	-	-	-	-	-	-	-	-	-	-
Actual	1998-99	182.0	114,737	29.48	-			2,002	-	-	-	-	-	-	-	-	-	-
Actual	1999-2000	189.3	134,398	32.13	-			(668)	-	-	-	-	-	-	-	-	-	-
Actual	2000-01	183.4	132,496	29.30	-			(1,902)	-	-	-	-	-	-	-	-	-	-
Actual	2001-02	182.1	132,121	28.17	-			(375)	-	-	-	-	-	-	-	-	-	-
Actual	2002-03	177.0	118,705	23.99	13,942			(117)	-	-	-	-	-	-	-	-	-	-
Actual	2003-04	186.2	124,188	24.37	14,628			5,483	-	-	-	-	-	-	-	-	-	-
Actual	2004-05	167.4	125,743	23.58	15,178			1,555	-	-	-	-	-	-	-	-	-	-
Actual	2005-06	168.3	109,155	19.61	43,547			(298)	-	-	-	-	-	-	-	-	-	-
Actual	2006-07	158.3	106,776	18.47	46,966		(110)	(2,269)	-	-	-	-	-	-	-	-	-	-
Actual	2007-08	150.4	105,617	17.55	50,999	(559)		(600)	-	-	-	-	-	-	-	-	-	-
Actual	2008-09	173.9	113,238	18.61	56,347	1,212		6,409	-	-	-	-	-	-	-	-	-	-
Actual	2009-10	201.0	130,957	21.90	62,632	1,090	-	19,262	-	-	-	-	-	-	-	-	-	-
Actual	2010-11	200.2	144,573	22.91	69,938	(395)	-	14,011	-	-	-	-	-	-	-	-	-	-
Actual	2011-12	214.6	158,410	24.01	77,172	3	865	12,969	-	-	-	-	-	-	-	-	-	-
Actual	2012-13	222.4	167,132	24.58	84,956	(639)	141	9,220	-	-	-	-	-	-	-	-	-	-
Actual	2013-14	230.5	176,634	25.40	90,556	(951)	-	10,453	-	-	-	-	-	-	-	-	-	-
Actual	2014-15	240.1	187,511	25.76	97,065	(1,121)	1,683	10,315	-	-	-	-	-	-	-	-	-	-
Actual	2015-16	237.8	202,697	26.56	102,536	1,003	9,154	5,029	-	10,654	1.4	8.3	10,654	1.4	-	-	9,154	1,500
	2016-17 Outlo	243.5	207,021	26.23	110,927			4,324	(8,447)	10,595	1.8	8.1	10,654	1.6	(59)	-	-	-
	2017-18 Outlo	237.1	207,003	25.20	119,548			(18)	(8,793)	10,555	1.7	7.7	10,636	1.5	(81)	-	-	(18)
	2018-19 Outlo	237.0	206,991	24.21	129,428			(12)	(9,152)	10,518	1.6	7.4	10,624	1.5	(106)	-	-	(12)
	2019-20 Outlo		206,991	#DIV/0!	139,375			-	(897,865)	10,494	#DIV/0!	-	10,624	#DIV/0!	(130)	-	-	-
	2020-21 Outlo		206,991		147,460			-	(933,780)	10,471	(36.8)	-	10,624	(21.0)	(153)	-	-	-
	2021-22 Outlo								(971,131)	(348,865)	(35.9)	-	(196,367)	(20.2)	(152,498)	-	-	-
	2022-23 Outlo								(1,009,976)	(350,873)	(34.7)	-	(196,367)	(19.4)	(154,506)	-	-	-
	2023-24 Outlo								(1,050,375)	(351,725)	(33.5)	-	(196,367)	(18.7)	(155,358)	-	-	-
	2024-25 Outlo								(1,092,390)	(351,104)	(32.1)	-	(196,367)	(18.0)	(154,737)	-	-	-
	2025-26 Outlo								(1,136,086)	(348,855)	(30.7)	-	(196,367)	(17.3)	(152,488)	-	-	-
	2026-27 Outlo																	
	2027-28 Outlo																	
	2028-29 Outlo																	
	2029-30 Outlo																	
	2030-31 Outlo																	

Prepared by OFA, FTD
11-Jan-17

	Ontario Nominal GDP			
	FES		Current	
	$ billions	% change	$ billions	% change
2010	630,989		630,989	
2011	659,743		659,743	
2012	680,084		680,084	
2013	695,349		695,349	
2014	727,962		727,962	
2015	763,276		763,276	
2016f	789,176	3.4	797,623	4.5
2017f	821,389	4.1	830,182	4.1
2018f	854,990	4.1	864,142	4.1
2019f	888,355	3.9	897,865	3.9
2020f			933,780	4.0
2021f			971,131	4.0
2022f			1,009,976	4.0
2023f			1,050,375	4.0
2024f			1,092,390	4.0
2025f			1,136,086	4.0
2026f			1,181,529	4.0
2027f			1,228,790	4.0
2028f			1,277,942	4.0
2029f			1,329,060	4.0
2030f			1,382,222	4.0

Net Book Value of TCA ($ Millions)	2015-16 (Actual)	2016-17	2017-18	2018-19	2019-20
2016 Budget					
Opening Net Book Value		102,536	110,437	119,079	128,985
Annual Acquisitions	N/A	13,037	14,059	15,605	15,979
Gross Amortization Expense	N/A	(5,137)	(5,416)	(5,700)	(6,008)
Closing Net Book Value	102,536	110,437	119,079	128,985	138,956
In Year Approvals					
Annual Acquisitions	-	561		-	-
School Renewal	0	556		0	0
Chapleau Cree Stage 2B	0	0	0	0	0
Child and Youth Mental Health BI Solution	0	5	0	0	0
Annual Amortization	-	(12)	(0)	(0)	(0)
School Renewal	0	(12)			
Chapleau Cree Stage 2B	0	0	(0)	(0)	(0)
Child and Youth Mental Health BI Solution	0	0	(0)		
2016 Budget + In Year Approvals					
Opening Net Book Value		102,536	110,986	119,629	129,534
Annual Acquisitions		13,598	14,059	15,605	15,979
Gross Amortization Expense		(5,148)	(5,416)	(5,700)	(6,008)
Closing Net Book Value	102,536	110,986	119,629	129,534	139,505

Source: David Hodes (TBS) - Jan 5, 2017

2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
138,956	147,064	151,949	153,957	154,809	154,188
14,536	11,823	9,541	8,700	7,461	5,982
(6,428)	(6,939)	(7,533)	(7,847)	(8,082)	(8,231)
147,064	151,949	153,957	154,809	154,188	151,939
-	-	-	-	-	-
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
(0)	(0)	(0)	(0)	(0)	(0)
(0)	(0)	(0)	(0)	(0)	(0)
139,505	147,613	152,498	154,506	155,358	154,737
14,536	11,823	9,541	8,700	7,461	5,982
(6,428)	(6,939)	(7,533)	(7,847)	(8,082)	(8,231)
147,613	152,498	154,506	155,358	154,737	152,488

From:	Shemin Meralli
To:	Serena Ly
Cc:	George Sakura; Ken Kandeepan; Kevin Hwang; Serena Ly
Subject:	RE: Request for nominal GDP estimates
Date:	Friday, January 13, 2017 2:50:19 PM
Attachments:	FES 2016 deck slide 3 - Jan 12, 2017 updates .xlsx FES 2016 deck slide 1, 2 and 4 - Jan 12, 2017 updates.xlsx Net Debt - 2016-17 -FES- pension adj update (Jan 12, 2017).xlsx

Changed the revenue for the out-years 2016-17 to 2018-19 based on the file you just sent to me.

Thanks

From: Serena Ly
Sent: Friday, January 13, 2017 2:34 PM
To: Shemin Meralli <Shemin.Meralli@ofina.on.ca>
Cc: George Sakura <George.Sakura@ofina.on.ca>
Subject: RE: Request for nominal GDP estimates

From: Shemin Meralli
Sent: Friday, January 13, 2017 11:31 AM
To: Erica Wieder <Erica.Wieder@ofina.on.ca>
Cc: George Sakura <George.Sakura@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Serena Ly <Serena.Ly@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>
Subject: RE: Request for nominal GDP estimates

Hi Erica,

Please see files attached, updated with the new GDP numbers.

Thanks

Shemin

From: Erica Wieder
Sent: Friday, January 13, 2017 10:39 AM
To: Shemin Meralli <Shemin.Meralli@ofina.on.ca>
Cc: George Sakura <George.Sakura@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Serena Ly <Serena.Ly@ofina.on.ca>
Subject: FW: Request for nominal GDP estimates

Hi Shemin,

Here are the new GDP numbers, please use it for the analysis and send to Serena and I as soon as ready.
Thanks,

Erica

From: Williams, Mark (MOF) [mailto:Mark.Williams2@ontario.ca]
Sent: Friday, January 13, 2017 10:28 AM
To: Erica Wieder <Erica.Wieder@ofina.on.ca>
Cc: John Anania (MOF) <John.Anania@ontario.ca>; Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>
Subject: FW: Request for nominal GDP estimates

Hi Erica,

Please find attached the current, best estimate nominal GDP forecast. Included is the FES forecast for reference.

Please note this is subject to revisions in coming weeks as we work towards the Budget forecast.

Don't hesitate to contact us if you have questions.

Cheers,
Mark

From: Erica Wieder [mailto:Erica.Wieder@ofina.on.ca]
Sent: January-12-17 12:21 PM
To: Tarin, Ghufran (MOF)
Cc: West, David (MOF); Nicholson, Robert (MOF); Anania, John (MOF); Serena Ly; Kandeepan, Ken (OFA)
Subject: Request for nominal GDP estimates
Importance: High

Hi Ghufran,

I spoke with David earlier today and gave him some context re. our request. Gadi will have a briefing with Scott next week regarding the Debt chapter in the next Budget, and we need to update some net debt-to-GDP estimates per Scott's request. Our Finance and Treasury division runs a scenario analysis to see when we would be able to bring down the ratio to 27%. **For that reason, we need the latest estimates you have for nominal GDP for 2016 as well as the out years, going all the way out to 2030.**

Rest assured that numbers won't be shared, they will be used for the analysis and ratios. Since there are many slides to update, and the analysis to run, **we would appreciate getting the numbers by EOD or tomorrow morning at the latest.**

Thank you,

Erica

Erica Wieder

Manager | Investor Relations | Ontario Financing Authority
T. 416.325.1661 | email: erica.wieder@ofina.on.ca

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Net Debt to Revenue and GDP Ratios

Ontario

2016-17 FES - excl pension a

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue
Actual	1989-90	282,766	35,409	46,500	12.52	76.1
Actual	1990-91	287,334	38,438	49,002	13.38	78.4
Actual	1991-92	288,217	49,368	47,527	17.13	103.9
Actual	1992-93	293,068	61,796	49,122	21.09	125.8
Actual	1993-94	302,245	80,599	51,410	26.67	156.8
Actual	1994-95	319,986	90,728	53,962	28.35	168.1
Actual	1995-96	337,400	101,864	57,898	30.19	175.9
Actual	1996-97	347,842	108,769	58,060	31.27	187.3
Actual	1997-98	368,960	112,735	61,362	30.55	183.7
Actual	1998-99	389,250	114,737	63,044	29.48	182.0
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3
Actual	2000-01	452,238	132,496	72,258	29.30	183.4
Actual	2001-02	469,084	132,121	72,550	28.17	182.1
Actual	2002-03	494,815	132,647	74,938	26.81	177.0
Actual	2003-04	509,511	138,816	74,549	27.24	186.2
Actual	2004-05	533,365	140,921	84,192	26.42	167.4
Actual	2005-06	556,635	152,702	90,738	27.43	168.3
Actual	2006-07	578,241	153,742	97,120	26.59	158.3
Actual	2007-08	601,735	156,616	104,115	26.03	150.4
Actual	2008-09	608,446	169,585	97,532	27.87	173.9
Actual	2009-10	597,882	193,589	96,313	32.38	201.0
Actual	2010-11	630,989	214,511	107,175	34.00	200.2
Actual	2011-12	659,743	235,582	109,773	35.71	214.6
Actual	2012-13	680,084	252,088	113,369	37.07	222.4
Actual	2013-14	695,349	267,190	115,911	38.43	230.5
Actual	2014-15	727,962	284,576	118,546	39.09	240.1
Actual	2015-16	763,276	294,579	128,377	38.59	229.5
	2016-17 Outloo	797,623	307,353	132,720	38.53	231.6
	2017-18 Outloo	830,182	315,996	140,125	38.06	225.5
	2018-19 Outloo	864,142	325,901	144,899	37.71	224.9
	2019-20 Outloo	897,865	335,872		37.41	
	2020-21 Outloo	933,780	343,980		36.84	
	2021-22 Outloo	971,131	348,865		35.92	
	2022-23 Outloo	1,009,976	350,873		34.74	
	2023-24 Outloo	1,050,375	351,725		33.49	
	2024-25 Outloo	1,092,390	351,104		32.14	
	2025-26 Outloo	1,136,086	348,855		30.71	
	2026-27 Outloo	1,181,529				
	2027-28 Outloo	1,228,790				
	2028-29 Outloo	1,277,942				

2029-30 Outloo	1,329,060
2030-31 Outloo	1,382,222

Scenario 1:
See tab "GDP and Deficit" - for GDP numbers 2016-17 to 2025-26 (received
See tab "TCA" - for updated TCA numbers 2016-17 to 2030-31 (received Jar

Prepared by OFA, FTD
13-Jan-17

djustment - scenario 1 (adj 2015/16)

Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP
35,409	12.52	-			(90)	282,766
38,438	13.38	-			3,029	287,334
49,368	17.13	-			10,930	288,217
61,796	21.09	-			12,428	293,068
80,599	26.67	-			11,202	302,245
90,728	28.35	-			10,129	319,986
101,864	30.19	-			8,800	337,400
108,769	31.27	-			6,905	347,842
112,735	30.55	-			3,966	368,960
114,737	29.48	-			2,002	389,250
134,398	32.13	-			(668)	418,245
132,496	29.30	-			(1,902)	452,238
132,121	28.17	-			(375)	469,084
118,705	23.99	13,942			(117)	494,815
124,188	24.37	14,628			5,483	509,511
125,743	23.58	15,178			1,555	533,365
109,155	19.61	43,547			(298)	556,635
106,776	18.47	46,966		(110)	(2,269)	578,241
105,617	17.55	50,999	(559)		(600)	601,735
113,238	18.61	56,347	1,212		6,409	608,446
130,957	21.90	62,632	1,090	-	19,262	597,882
144,573	22.91	69,938	(395)	-	14,011	630,989
158,410	24.01	77,172	3	865	12,969	659,743
167,132	24.58	84,956	(639)	141	9,220	680,084
176,634	25.40	90,556	(951)	-	10,453	695,349
187,511	25.76	97,065	(1,121)	1,683	10,315	727,962
192,043	25.16	102,536	1,003	-	3,529	763,276
196,367	24.62	110,986			4,324	789176
196,367	23.65	119,629			-	821389
196,367	22.72	129,534			-	854990
196,367	21.87	139,505			-	
196,367	21.03	147,613			-	
196,367	20.22	152,498			-	
196,367	19.44	154,506			-	
196,367	18.69	155,358			-	
196,367	17.98	154,737			-	
196,367	17.28	152,488			-	
196,367					-	
196,367					-	
196,367					-	

196,367	-
196,367	-

l Jan 12, 2017)
า 5, 2017)

2016-17 FES - with pension adjustment						
Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA
35,409	46,500	12.52	76.1	35,409	12.52	-
38,438	49,002	13.38	78.4	38,438	13.38	-
49,368	47,527	17.13	103.9	49,368	17.13	-
61,796	49,122	21.09	125.8	61,796	21.09	-
80,599	51,410	26.67	156.8	80,599	26.67	-
90,728	53,962	28.35	168.1	90,728	28.35	-
101,864	57,898	30.19	175.9	101,864	30.19	-
108,769	58,060	31.27	187.3	108,769	31.27	-
112,735	61,362	30.55	183.7	112,735	30.55	-
114,737	63,044	29.48	182.0	114,737	29.48	-
134,398	70,983	32.13	189.3	134,398	32.13	-
132,496	72,258	29.30	183.4	132,496	29.30	-
132,121	72,550	28.17	182.1	132,121	28.17	-
132,647	74,938	26.81	177.0	118,705	23.99	13,942
138,816	74,549	27.24	186.2	124,188	24.37	14,628
140,921	84,192	26.42	167.4	125,743	23.58	15,178
152,702	90,738	27.43	168.3	109,155	19.61	43,547
153,742	97,120	26.59	158.3	106,776	18.47	46,966
156,616	104,115	26.03	150.4	105,617	17.55	50,999
169,585	97,532	27.87	173.9	113,238	18.61	56,347
193,589	96,313	32.38	201.0	130,957	21.90	62,632
214,511	107,175	34.00	200.2	144,573	22.91	69,938
235,582	109,773	35.71	214.6	158,410	24.01	77,172
252,088	113,369	37.07	222.4	167,132	24.58	84,956
267,190	115,911	38.43	230.5	176,634	25.40	90,556
284,576	118,546	39.09	240.1	187,511	25.76	97,065
305,233	128,377	39.99	237.8	202,697	26.56	102,536
317,948	130,589	40.29	243.5	207,021	26.23	110,927
326,551	137,729	39.76	237.1	207,003	25.20	119,548
336,419	141,920	39.35	237.0	206,991	24.21	129,428
346,366		#DIV/0!		206,991	#DIV/0!	139,375
354,451				206,991		147,460

ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenu
		(90)	-	-	-	-	-
		3,029	-	-	-	-	-
		10,930	-	-	-	-	-
		12,428	-	-	-	-	-
		11,202	-	-	-	-	-
		10,129	-	-	-	-	-
		8,800	-	-	-	-	-
		6,905	-	-	-	-	-
		3,966	-	-	-	-	-
		2,002	-	-	-	-	-
		(668)	-	-	-	-	-
		(1,902)	-	-	-	-	-
		(375)	-	-	-	-	-
		(117)	-	-	-	-	-
		5,483	-	-	-	-	-
		1,555	-	-	-	-	-
		(298)	-	-	-	-	-
	(110)	(2,269)	-	-	-	-	-
(559)		(600)	-	-	-	-	-
1,212		6,409	-	-	-	-	-
1,090	-	19,262	-	-	-	-	-
(395)	-	14,011	-	-	-	-	-
3	865	12,969	-	-	-	-	-
(639)	141	9,220	-	-	-	-	-
(951)	-	10,453	-	-	-	-	-
(1,121)	1,683	10,315	-	-	-	-	-
1,003	9,154	5,029	-	(10,654.00)	-	(1.40)	(8.30)
		4,324	8,447.42	(10,595.00)	2,131.00	(1.76)	(11.89)
		(18)	8,792.52	(10,555.00)	2,396.00	(1.69)	(11.59)
		(12)	9,151.87	(10,518.00)	2,979.00	(1.63)	(12.13)
		-					
		-					

Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
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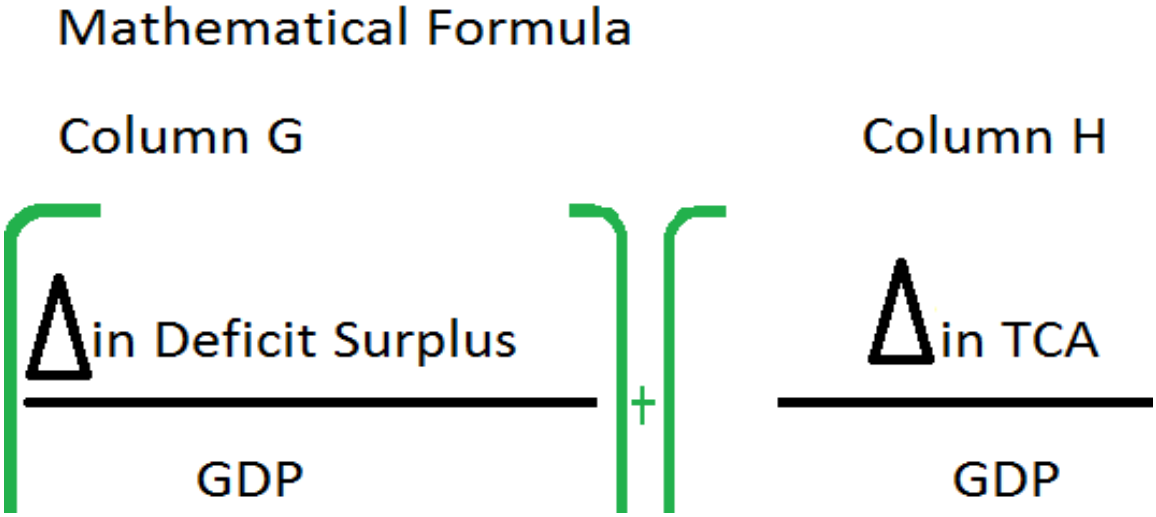
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(10,654.00)	(1.40)	-	-	(9,154.00)	(1,500.00)
(10,654.00)	(1.61)	59.00	-	-	-
(10,636.00)	(1.55)	81.00	-	-	18.00
(10,624.00)	(1.49)	106.00	-	-	12.00

2016-17 FES - excl pension adjustment (adj 2015/16)

excluding Pension Adj 2015-16

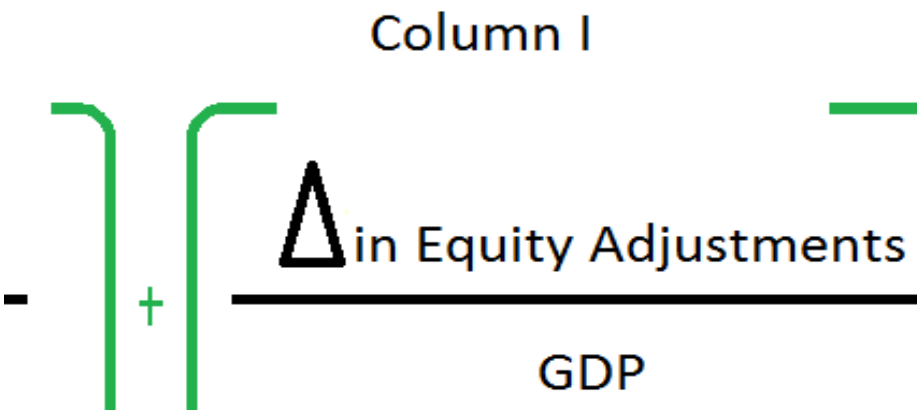
($millions)	Deficit/(Surplus)	Change in TCA	Change in GDP
2008-09	6,409.00	5,348.00	6,711.00
2009-10	19,262.00	6,285.00	(10,564.00)
2010-11	14,011.00	7,306.00	33,107.00
2011-12	12,969.00	7,234.00	28,754.00
2012-13	9,220.00	7,784.00	20,341.00
2013-14	10,453.00	5,600.00	15,265.00
2014-15	10,315.00	6,509.00	32,613.00
2015-16	3,529.00	5,471.00	35,314.00
2016-17 Outlook	4,324.00	8,450.00	34,347.42
2017-18 Outlook	-	8,643.00	32,558.10
2018-19 Outlook	-	9,905.00	33,960.35
2019-20 Outlook	-	9,971.00	33,723.11
2020-21 Outlook	-	8,108.00	35,914.60
2021-22 Outlook	-	4,885.00	37,351.18
2022-23 Outlook	-	2,008.00	38,845.23
2023-24 Outlook	-	852.00	40,399.04
2024-25 Outlook	-	(621.00)	42,015.00
2025-26 Outlook	-	(2,249.00)	43,695.60
2026-27 Outlook	-	(152,488.00)	
2027-28 Outlook	-	-	
2028-29 Outlook	-	-	
2029-30 Outlook	-	-	
2030-31 Outlook	-	-	

Mathematical Formula





Changes due to the Numerator		
G	H	I
% Change in Net Debt to GDP Due to Annual Deficit/(Surplus)	% Change in Net Debt to GDP Due to Changes in TCA	% Change in Net Debt to GDP Due to Miscellaneous Adjustments
1.07	0.89	0.20
3.17	1.03	(0.25)
2.34	1.22	(0.07)
2.06	1.15	0.14
1.40	1.18	(0.08)
1.54	0.82	(0.14)
1.48	0.94	0.08
0.48	0.75	0.14
0.57	1.11	0.00
0.00	1.08	0.00
0.00	1.19	0.00
0.00	1.15	0.00
0.00	0.90	0.00
0.00	0.52	0.00
0.00	0.21	0.00
0.00	0.08	0.00
0.00	(0.06)	0.00
0.00	(0.21)	0.00





Changes due to the Denominator

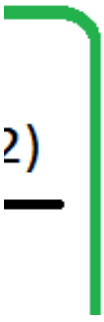
J	K=G+H+I+J	
% Change in Net Debt to GDP Due to Changes in GDP	% Total change	Calculated Total Change in Net Debt to GDP
(0.31)	1.84	1.84
0.56	4.51	4.51
(1.88)	1.62	1.62
(1.63)	1.71	1.71
(1.14)	1.36	1.36
(0.86)	1.36	1.36
(1.83)	0.67	0.67
(1.87)	(0.50)	(0.50)
(1.73)	(0.06)	(0.06)
(1.55)	(0.47)	(0.47)
(1.54)	(0.35)	(0.35)
(1.46)	(0.31)	(0.31)
(1.47)	(0.57)	(0.57)
(1.44)	(0.91)	(0.91)
(1.39)	(1.18)	(1.18)
(1.34)	(1.26)	(1.26)
(1.29)	(1.34)	(1.34)
(1.23)	(1.43)	(1.43)

Column J

$$\pm \frac{\Delta \text{Net Debt year 2} * (\text{GDP yr 1} - \text{GDP yr 2}}{\text{GDP yr 1} * \text{GDP yr 2}}$$



Actual Change in Net Debt to GDP	Variance
1.84	(0.00)
4.51	0.00
1.62	(0.00)
1.71	(0.00)
1.36	0.00
1.36	0.00
0.67	(0.00)
(0.50)	(0.00)
(0.06)	0.00
(0.47)	(0.00)
(0.35)	(0.00)
(0.31)	0.00
(0.57)	(0.00)
(0.91)	(0.00)
(1.18)	0.00
(1.26)	(0.00)
(1.34)	0.00
(1.43)	0.00



Net Debt to Revenue and GDP Ratios																				
Ontario		2016-17 FES - Excluding Pension Adjustment (adj 2015/16)												2016-17 FES - with pension adjustment						
					Net Debt As	Net Debt As	Accumulated	Acc Deficit		ONFA	Other	Deficit/					Net Debt As	Net Debt As	Accumulated	Acc Deficit	
	Fiscal Year	GDP	Net Debt	Revenue	% to GDP	% to Revenue	Deficit	to GDP	TCA	Adj.	Adj.	(Surplus)		GDP	Net Debt	Revenue	% to GDP	% to Revenue	Deficit	to GDP	TCA
Actual	1989-90	282,766	35,409	46,500	12.52	76.1	35,409	12.5	-			(90)		282,766	35,409	46,500	12.52	76.1	35,409	12.5	-
Actual	1990-91	287,334	38,438	49,002	13.38	78.4	38,438	13.4	-			3,029		287,334	38,438	49,002	13.38	78.4	38,438	13.4	-
Actual	1991-92	288,217	49,368	47,527	17.13	103.9	49,368	17.1	-			10,930		288,217	49,368	47,527	17.13	103.9	49,368	17.1	-
Actual	1992-93	293,068	61,796	49,122	21.09	125.8	61,796	21.1	-			12,428		293,068	61,796	49,122	21.09	125.8	61,796	21.1	-
Actual	1993-94	302,245	80,599	51,410	26.67	156.8	80,599	26.7	-			11,202		302,245	80,599	51,410	26.67	156.8	80,599	26.7	-
Actual	1994-95	319,986	90,728	53,962	28.35	168.1	90,728	28.4	-			10,129		319,986	90,728	53,962	28.35	168.1	90,728	28.4	-
Actual	1995-96	337,400	101,864	57,898	30.19	175.9	101,864	30.2	-			8,800		337,400	101,864	57,898	30.19	175.9	101,864	30.2	-
Actual	1996-97	347,842	108,769	58,060	31.27	187.3	108,769	31.3	-			6,905		347,842	108,769	58,060	31.27	187.3	108,769	31.3	-
Actual	1997-98	368,960	112,735	61,362	30.55	183.7	112,735	30.6	-			3,966		368,960	112,735	61,362	30.55	183.7	112,735	30.6	-
Actual	1998-99	389,250	114,737	63,044	29.48	182.0	114,737	29.5	-			2,002		389,250	114,737	63,044	29.48	182.0	114,737	29.5	-
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3	134,398	32.1	-			(668)		418,245	134,398	70,983	32.13	189.3	134,398	32.1	-
Actual	2000-01	452,238	132,496	72,258	29.30	183.4	132,496	29.3	-			(1,902)		452,238	132,496	72,258	29.30	183.4	132,496	29.3	-
Actual	2001-02	469,084	132,121	72,550	28.17	182.1	132,121	28.2	-			(375)		469,084	132,121	72,550	28.17	182.1	132,121	28.2	-
Actual	2002-03	494,815	132,647	74,938	26.81	177.0	118,705	24.0	13,942			(117)		494,815	132,647	74,938	26.81	177.0	118,705	24.0	13,942
Actual	2003-04	509,511	138,816	74,549	27.24	186.2	124,188	24.4	14,628			5,483		509,511	138,816	74,549	27.24	186.2	124,188	24.4	14,628
Actual	2004-05	533,365	140,921	84,192	26.42	167.4	125,743	23.6	15,178			1,555		533,365	140,921	84,192	26.42	167.4	125,743	23.6	15,178
Actual	2005-06	556,635	152,702	90,738	27.43	168.3	109,155	19.6	43,547			(298)		556,635	152,702	90,738	27.43	168.3	109,155	19.6	43,547
Actual	2006-07	578,241	153,742	97,120	26.59	158.3	106,776	18.5	46,966		(110)	(2,269)		578,241	153,742	97,120	26.59	158.3	106,776	18.5	46,966
Actual	2007-08	601,735	156,616	104,115	26.03	150.4	105,617	17.6	50,999	(559)		(600)		601,735	156,616	104,115	26.03	150.4	105,617	17.6	50,999
Actual	2008-09	608,446	169,585	97,532	27.87	173.9	113,238	18.6	56,347	1,212		6,409		608,446	169,585	97,532	27.87	173.9	113,238	18.6	56,347
Actual	2009-10	597,882	193,589	96,313	32.38	201.0	130,957	21.9	62,632	1,090	-	19,262		597,882	193,589	96,313	32.38	201.0	130,957	21.9	62,632
Actual	2010-11	630,989	214,511	107,175	34.00	200.2	144,573	22.9	69,938	(395)	-	14,011		630,989	214,511	107,175	34.00	200.2	144,573	22.9	69,938
Actual	2011-12	659,743	235,582	109,773	35.71	214.6	158,410	24.0	77,172	3	865	12,969		659,743	235,582	109,773	35.71	214.6	158,410	24.0	77,172
Actual	2012-13	680,084	252,088	113,369	37.07	222.4	167,132	24.6	84,956	(639)	141	9,220		680,084	252,088	113,369	37.07	222.4	167,132	24.6	84,956
Actual	2013-14	695,349	267,190	115,911	38.43	230.5	176,634	25.4	90,556	(951)	-	10,453		695,349	267,190	115,911	38.43	230.5	176,634	25.4	90,556
Actual	2014-15	727,962	284,576	118,546	39.09	240.1	187,511	25.8	97,065	(1,121)	1,683	10,315		727,962	284,576	118,546	39.09	240.1	187,511	25.8	97,065
Actual	2015-16 (unaudited	763,276	294,579	128,377	38.59	229.5	192,043	25.2	102,536	1,003	-	3,529		763,276	305,233	128,377	39.99	237.8	202,697	26.6	102,536
	2016-17 Outlook	797,623	307,353	132,720	38.53	231.6	196,367	24.6	110,986			4,324		789176	317,948	130,589	40.29	243.5	207,021	26.2	110,927
	2017-18 Outlook	830,182	315,996	140,125	38.06	225.5	196,367	23.7	119,629			-		821389	326,551	137,729	39.76	237.1	207,003	25.2	119,548
	2018-19 Outlook	864,142	325,901	144,899	37.71	224.9	196,367	22.7	129,534			-		854990	336,419	141,920	39.35	237.0	206,991	24.2	129,428
	2019-20 Outlook	897,865	335,872		37.41		196,367	21.9	139,505			-			346,366		#DIV/0!	#DIV/0!	206,991	#DIV/0!	139,375
	2020-21 Outlook	933,780	343,980		36.84		196,367	21.0	147,613			-			354,451			#DIV/0!	206,991		147,460
	2021-22 Outlook	971,131	348,865		35.92		196,367	20.2	152,498			-									
	2022-23 Outlook	1,009,976	350,873		34.74		196,367	19.4	154,506			-									
	2023-24 Outlook	1,050,375	351,725		33.49		196,367	18.7	155,358			-									
	2024-25 Outlook	1,092,390	351,104		32.14		196,367	18.0	154,737			-									
	2025-26 Outlook	1,136,086	348,855		30.71		196,367	17.3	152,488			-									
	2026-27 Outlook	1,181,529	348,855		29.53		196,367	16.6	152,488			-									
	2027-28 Outlook	1,228,790	348,855		28.39		196,367	16.0	152,488			-									
	2028-29 Outlook	1,277,942	348,855		27.30		196,367	15.4	152,488			-									

Net Debt to Revenue and GDI				
Ontario				
		ONFA	Other	Deficit/
	Fiscal Year	Adj.	Adj.	(Surplus)
Actual	1989-90			(90)
Actual	1990-91			3,029
Actual	1991-92			10,930
Actual	1992-93			12,428
Actual	1993-94			11,202
Actual	1994-95			10,129
Actual	1995-96			8,800
Actual	1996-97			6,905
Actual	1997-98			3,966
Actual	1998-99			2,002
Actual	1999-2000			(668)
Actual	2000-01			(1,902)
Actual	2001-02			(375)
Actual	2002-03			(117)
Actual	2003-04			5,483
Actual	2004-05			1,555
Actual	2005-06			(298)
Actual	2006-07		(110)	(2,269)
Actual	2007-08	(559)		(600)
Actual	2008-09	1,212		6,409
Actual	2009-10	1,090	-	19,262
Actual	2010-11	(395)	-	14,011
Actual	2011-12	3	865	12,969
Actual	2012-13	(639)	141	9,220
Actual	2013-14	(951)	-	10,453
Actual	2014-15	(1,121)	1,683	10,315
Actual	2015-16 (unaudited	1,003	9,154	5,029
	2016-17 Outlook			4,324
	2017-18 Outlook			(18)
	2018-19 Outlook			(12)
	2019-20 Outlook			-
	2020-21 Outlook			-
	2021-22 Outlook			
	2022-23 Outlook			
	2023-24 Outlook			
	2024-25 Outlook			
	2025-26 Outlook			
	2026-27 Outlook			
	2027-28 Outlook			
	2028-29 Outlook			

Net Debt to Revenue and GDF										
Ontario		Comparison: 2016 Public Accounts/FES vs Scenario Analysis								
				Net Debt As	Accumulated	Acc Deficit		ONFA	Other	Deficit/
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP	TCA	Adj.	Adj.	(Surplus)
Actual	1989-90	-	-	-	-	-	-	-	-	-
Actual	1990-91	-	-	-	-	-	-	-	-	-
Actual	1991-92	-	-	-	-	-	-	-	-	-
Actual	1992-93	-	-	-	-	-	-	-	-	-
Actual	1993-94	-	-	-	-	-	-	-	-	-
Actual	1994-95	-	-	-	-	-	-	-	-	-
Actual	1995-96	-	-	-	-	-	-	-	-	-
Actual	1996-97	-	-	-	-	-	-	-	-	-
Actual	1997-98	-	-	-	-	-	-	-	-	-
Actual	1998-99	-	-	-	-	-	-	-	-	-
Actual	1999-2000	-	-	-	-	-	-	-	-	-
Actual	2000-01	-	-	-	-	-	-	-	-	-
Actual	2001-02	-	-	-	-	-	-	-	-	-
Actual	2002-03	-	-	-	-	-	-	-	-	-
Actual	2003-04	-	-	-	-	-	-	-	-	-
Actual	2004-05	-	-	-	-	-	-	-	-	-
Actual	2005-06	-	-	-	-	-	-	-	-	-
Actual	2006-07	-	-	-	-	-	-	-	-	-
Actual	2007-08	-	-	-	-	-	-	-	-	-
Actual	2008-09	-	-	-	-	-	-	-	-	-
Actual	2009-10	-	-	-	-	-	-	-	-	-
Actual	2010-11	-	-	-	-	-	-	-	-	-
Actual	2011-12	-	-	-	-	-	-	-	-	-
Actual	2012-13	-	-	-	-	-	-	-	-	-
Actual	2013-14	-	-	-	-	-	-	-	-	-
Actual	2014-15	-	-	-	-	-	-	-	-	-
Actual	2015-16 (unaudited	-	10,654	1.4	10,654	1.4	-	-	9,154	1,500
	2016-17 Outlook	(8,447)	10,595	1.8	10,654	1.6	(59)	-	-	-
	2017-18 Outlook	(8,793)	10,555	1.7	10,636	1.5	(81)	-	-	(18)
	2018-19 Outlook	(9,152)	10,518	1.6	10,624	1.5	(106)	-	-	(12)
	2019-20 Outlook	(897,865)	10,494	#DIV/0!	10,624	#DIV/0!	(130)	-	-	-
	2020-21 Outlook									
	2021-22 Outlook									
	2022-23 Outlook									
	2023-24 Outlook									
	2024-25 Outlook									
	2025-26 Outlook									
	2026-27 Outlook									
	2027-28 Outlook									
	2028-29 Outlook									

Analysis of Net Debt

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Opening balance	(156,616)	(169,585)	(193,589)	(214,511)	(235,582)	(252,088)
Deficit	(6,409)	(19,262)	(14,011)	(12,969)	(9,220)	(10,453)
IFRS Transitional Impact				(758)		
PSAB Transitional Impact				(107)	(141)	(1,683)
Pension Adjustment (prior years)						
Adjustments						
Total Deficit	(6,409)	(19,262)	(14,011)	(13,834)	(9,361)	(12,136)
Tangible Capital Assets	(6,285)	(5,832)	(7,306)	(7,234)	(7,784)	(5,600)
Ontario Nuclear Fund	(1,212)	1,090	395	(3)	639	951
	(13,906)	(24,004)	(20,922)	(21,071)	(16,506)	(16,785)
	(13,906)	(24,004)	(20,922)	(21,071)	(16,506)	(16,785)
Ending balance	(170,522)	(193,589)	(214,511)	(235,582)	(252,088)	(268,873)

				Percentage %		
Deficit	46.09	80.24	66.97	65.65	56.71	72.30
Other	8.72	(4.54)	(1.89)	0.01	(3.87)	(5.67)
Total Deficit	**54.80**	**75.70**	**65.08**	**65.67**	**52.84**	**66.64**
Tangible Capital Assets	**45.20**	**24.30**	**34.92**	**34.33**	**47.16**	**33.36**
	100.00	100.00	100.00	100.00	100.00	100.00

For use with slide 2

In year approvals added to TCA for 2016-17 only, but not any

2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total
(268,873)	(284,576)	(294,579)	(307,353)	(315,996)	(325,901)	(335,872)	(169,585)
(10,315)	(3,529)	(4,324)	0	0			(84,083)
							(758)
							(1,931)
	0						0
	0						
(10,315)	(3,529)	(4,324)	0	0	0	0	(86,772)
(6,509)	(5,471)	(8,450)	(8,643)	(9,905)	(9,971)	(8,108)	(90,813)
1,121	(1,003)						3,190
(15,703)	(10,003)	(12,774)	(8,643)	(9,905)	(9,971)	(8,108)	(174,395)
(15,703)	(20,657)						
(284,576)	(294,579)	(307,353)	(315,996)	(325,901)	(335,872)	(343,980)	(343,980)

65.69	35.28	33.85	0.00	0.00	0.00	0.00
(7.14)	10.03	0.00	0.00	0.00	0.00	0.00
58.55	**45.31**	**33.85**	**0.00**	**0.00**	**0.00**	**0.00**
41.45	**54.69**	**66.15**	**100.00**	**100.00**	**100.00**	**100.00**

100.00	100.00	100.00	100.00	100.00	100.00	100.00

risks. Deprecation in out years for in year approvals not taken.

2008-09 to 2015-16
(col C to col J)

(79,759)
(758)
(1,931)
0
(82,448)
(45,736)
3,190
(124,994)

65.96
(2.55)
63.41
36.59
100.00

					2016-17 FES - Excluding Pens
			Scenario	What is the change in GDP that wi	
2016-17 GDP			797,623		
2016-17 Net Debt to GDP %			0.3850		
2016-17 Net Debt			307,353		
			Net Debt to GDP		Scenario GDP
by up	0.01%		307,353	=	798,112.00
	38.51	0.3851	0.3851001		
by down	0.10%	0.3840	307,353	=	800,398.00
	38.40		0.3840002		

Scenario	What is the change in net debt hol result?	
		Change in Net Debt
Projected ND	+	-188
Projected ND	-	1066

Draft wording for slide 4:

For 2016-17, the net debt-to-GDP ratio is

An decrease of $188 million to net

An increase of $1,066 million to ne

Since the 2016-17 net debt-to-GDI
38.51% versus the larger changes

ion Adjustment (adj 2015/16)

ll make the Net Debt ratio change by 0.1%?

Actual Projected GDP	GDP Variance	GDP Variance %
797,623.42	488.58	0.06%
797,623.42	2,774.58	0.35%

lding GDP constant that will yield the same

Scenario Net Debt	Scenario Net Debt to GDP	Rounded	Target
307,165	38.510028%	38.51%	38.51
306,287	38.399951%	38.40%	38.40

38.50%

: debt or a increase of $489 million in nominal GDP would increase the net-debt-to-GDP ratio to 38.51%

et debt or an increase of $2,775 million in nominal GDP would decrease the net-debt-to-GDP ratio to 38

P ratio was 38.5% smaller changes to net debt or nominal GDP resulted in changing the net debt-to-GDP
required to lower the ratio to 38.4%.

.

.4%.

› ratio to

Summary - FES 2016-17 & Deficit/Surplus Scenarios																
		2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2025-26	2026-27	2028-29	2029-30	2030-31
FES 2016-17																
Deficit/ (Surplus) ($m)		4,324	(18)	(12)												
Net Debt/GDP %		40.3	39.8	39.3												
Net Debt		317,948	326,551	336,419												
- incr/(decr) in net debt			8,603	9,868												
GDP		789,176	821,389	854,990												
Scenario 1																
Deficit/ (Surplus) ($m)		4,324	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Debt/GDP %		38.5	38.1	37.7	37.4	36.8	35.9	34.7	33.5	32.1	30.7	0.0	0.0	0.0	0.0	0.0
Net Debt		307,353	315,996	325,901	335,872	343,980	348,865	350,873	351,725	351,104	348,855	-	-	-	-	-
- incr/(decr) in net debt			8,643	9,905	9,971	8,108	4,885	2,008	852	(621)	(2,249)	(348,855)	-	-	-	-
GDP		797,623	830,182	864,142	897,865	933,780	971,131	1,009,976	1,050,375	1,092,390	1,136,086	1,181,529	1,228,790	1,277,942	1,329,060	1,382,222

Net Debt to Revenue and GDP Ratios

Ontario

		2016-17 FES - excl pension adjustment - scenario 1 (adj 2015/16)																
	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	IOD	Revenue	IOD to Revenue	GDP	Net Debt	Revenue	Net Debt As % to GDP
Actual	1989-90	282,766	35,409	46,500	12.52	76.1	35,409	12.52	-			(90)				282,766	35,409	46,500	12.52
Actual	1990-91	287,334	38,438	49,002	13.38	78.4	38,438	13.38	-			3,029				287,334	38,438	49,002	13.38
Actual	1991-92	288,217	49,368	47,527	17.13	103.9	49,368	17.13	-			10,930				288,217	49,368	47,527	17.13
Actual	1992-93	293,068	61,796	49,122	21.09	125.8	61,796	21.09	-			12,428				293,068	61,796	49,122	21.09
Actual	1993-94	302,245	80,599	51,410	26.67	156.8	80,599	26.67	-			11,202				302,245	80,599	51,410	26.67
Actual	1994-95	319,986	90,728	53,962	28.35	168.1	90,728	28.35	-			10,129				319,986	90,728	53,962	28.35
Actual	1995-96	337,400	101,864	57,898	30.19	175.9	101,864	30.19	-			8,800				337,400	101,864	57,898	30.19
Actual	1996-97	347,842	108,769	58,060	31.27	187.3	108,769	31.27	-			6,905				347,842	108,769	58,060	31.27
Actual	1997-98	368,960	112,735	61,362	30.55	183.7	112,735	30.55	-			3,966				368,960	112,735	61,362	30.55
Actual	1998-99	389,250	114,737	63,044	29.48	182.0	114,737	29.48	-			2,002				389,250	114,737	63,044	29.48
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3	134,398	32.13	-			(668)				418,245	134,398	70,983	32.13
Actual	2000-01	452,238	132,496	72,258	29.30	183.4	132,496	29.30	-			(1,902)				452,238	132,496	72,258	29.30
Actual	2001-02	469,084	132,121	72,550	28.17	182.1	132,121	28.17	-			(375)				469,084	132,121	72,550	28.17
Actual	2002-03	494,815	132,647	74,938	26.81	177.0	118,705	23.99	13,942			(117)				494,815	132,647	74,938	26.81
Actual	2003-04	509,511	138,816	74,549	27.24	186.2	124,188	24.37	14,628			5,483				509,511	138,816	74,549	27.24
Actual	2004-05	533,365	140,921	84,192	26.42	167.4	125,743	23.58	15,178			1,555				533,365	140,921	84,192	26.42
Actual	2005-06	556,635	152,702	90,738	27.43	168.3	109,155	19.61	43,547			(298)				556,635	152,702	90,738	27.43
Actual	2006-07	578,241	153,742	97,120	26.59	158.3	106,776	18.47	46,966		(110)	(2,269)				578,241	153,742	97,120	26.59
Actual	2007-08	601,735	156,616	104,115	26.03	150.4	105,617	17.55	50,999	(559)		(600)				601,735	156,616	104,115	26.03
Actual	2008-09	608,446	169,585	97,532	27.87	173.9	113,238	18.61	56,347	1,212		6,409				608,446	169,585	97,532	27.87
Actual	2009-10	597,882	193,589	96,313	32.38	201.0	130,957	21.90	62,632	1,090	-	19,262	8,719	96,313	9.05	597,882	193,589	96,313	32.38
Actual	2010-11	630,989	214,511	107,175	34.00	200.2	144,573	22.91	69,938	(395)	-	14,011	9,480	107,175	8.85	630,989	214,511	107,175	34.00
Actual	2011-12	659,743	235,582	109,773	35.71	214.6	158,410	24.01	77,172	3	865	12,969	10,082	109,773	9.18	659,743	235,582	109,773	35.71
Actual	2012-13	680,084	252,088	113,369	37.07	222.4	167,132	24.58	84,956	(639)	141	9,220	10,341	113,369	9.12	680,084	252,088	113,369	37.07
Actual	2013-14	695,349	267,190	115,911	38.43	230.5	176,634	25.40	90,556	(951)	-	10,453	10,572	115,911	9.12	695,349	267,190	115,911	38.43
Actual	2014-15	727,962	284,576	118,546	39.09	240.1	187,511	25.76	97,065	(1,121)	1,683	10,315	10,635	118,546	8.97	727,962	284,576	118,546	39.09
Actual	2015-16	763,276	294,579	128,377	38.59	229.5	192,043	25.16	102,536	1,003	-	3,529	10,967	128,377	8.54	763,276	305,233	128,377	39.99
	2016-17 Outloo	797,623	307,353	132,720	38.53	231.6	196,367	24.62	110,986			4,324	11,375	132,720	8.57	789176	317,948	130,589	40.29
	2017-18 Outloo	830,182	315,996	140,125	38.06	225.5	196,367	23.65	119,629			-	11,700	140,125	8.35	821389	326,551	137,729	39.76
	2018-19 Outloo	864,142	325,901	144,899	37.71	224.9	196,367	22.72	129,534			-	12,400	144,899	8.56	854990	336,419	141,920	39.35
	2019-20 Outloo	897,865	335,872		37.41		196,367	21.87	139,505			-					346,366		#DIV/0!
	2020-21 Outloo	933,780	343,980		36.84		196,367	21.03	147,613			-					354,451		
	2021-22 Outloo	971,131	348,865		35.92		196,367	20.22	152,498			-							
	2022-23 Outloo	1,009,976	350,873		34.74		196,367	19.44	154,506			-							
	2023-24 Outloo	1,050,375	351,725		33.49		196,367	18.69	155,358			-							
	2024-25 Outloo	1,092,390	351,104		32.14		196,367	17.98	154,737			-							
	2025-26 Outloo	1,136,086	348,855		30.71		196,367	17.28	152,488			-							
	2026-27 Outloo	1,181,529	-									-							
	2027-28 Outloo	1,228,790	-									-							
	2028-29 Outloo	1,277,942	-									-							
	2029-30 Outloo	1,329,060	-																
	2030-31 Outloo	1,382,222	-																

Scenario 1:
See tab "GDP and Deficit" - for GDP numbers 2016-17 to 2025-26 (received Jan 12, 2017)
See tab "TCA" - for updated TCA numbers 2016-17 to 2030-31 (received Jan 5, 2017)

Scenario Assumptions (as per "GDP and Deficit " tab):

Prepared by OFA, FTD
11-Jan-17

Net Debt to Revenue an

Ontario

		2016-17 FES - with pension adjustment							Comparison: 2016 Public Accounts vs FES 2016-17									
	Fiscal Year	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
Actual	1989-90	76.1	35,409	12.52	-			(90)	-	-	-	-	-	-	-	-	-	-
Actual	1990-91	78.4	38,438	13.38	-			3,029	-	-	-	-	-	-	-	-	-	-
Actual	1991-92	103.9	49,368	17.13	-			10,930	-	-	-	-	-	-	-	-	-	-
Actual	1992-93	125.8	61,796	21.09	-			12,428	-	-	-	-	-	-	-	-	-	-
Actual	1993-94	156.8	80,599	26.67	-			11,202	-	-	-	-	-	-	-	-	-	-
Actual	1994-95	168.1	90,728	28.35	-			10,129	-	-	-	-	-	-	-	-	-	-
Actual	1995-96	175.9	101,864	30.19	-			8,800	-	-	-	-	-	-	-	-	-	-
Actual	1996-97	187.3	108,769	31.27	-			6,905	-	-	-	-	-	-	-	-	-	-
Actual	1997-98	183.7	112,735	30.55	-			3,966	-	-	-	-	-	-	-	-	-	-
Actual	1998-99	182.0	114,737	29.48	-			2,002	-	-	-	-	-	-	-	-	-	-
Actual	1999-2000	189.3	134,398	32.13	-			(668)	-	-	-	-	-	-	-	-	-	-
Actual	2000-01	183.4	132,496	29.30	-			(1,902)	-	-	-	-	-	-	-	-	-	-
Actual	2001-02	182.1	132,121	28.17	-			(375)	-	-	-	-	-	-	-	-	-	-
Actual	2002-03	177.0	118,705	23.99	13,942			(117)	-	-	-	-	-	-	-	-	-	-
Actual	2003-04	186.2	124,188	24.37	14,628			5,483	-	-	-	-	-	-	-	-	-	-
Actual	2004-05	167.4	125,743	23.58	15,178			1,555	-	-	-	-	-	-	-	-	-	-
Actual	2005-06	168.3	109,155	19.61	43,547			(298)	-	-	-	-	-	-	-	-	-	-
Actual	2006-07	158.3	106,776	18.47	46,966		(110)	(2,269)	-	-	-	-	-	-	-	-	-	-
Actual	2007-08	150.4	105,617	17.55	50,999	(559)		(600)	-	-	-	-	-	-	-	-	-	-
Actual	2008-09	173.9	113,238	18.61	56,347	1,212		6,409	-	-	-	-	-	-	-	-	-	-
Actual	2009-10	201.0	130,957	21.90	62,632	1,090	-	19,262	-	-	-	-	-	-	-	-	-	-
Actual	2010-11	200.2	144,573	22.91	69,938	(395)	-	14,011	-	-	-	-	-	-	-	-	-	-
Actual	2011-12	214.6	158,410	24.01	77,172	3	865	12,969	-	-	-	-	-	-	-	-	-	-
Actual	2012-13	222.4	167,132	24.58	84,956	(639)	141	9,220	-	-	-	-	-	-	-	-	-	-
Actual	2013-14	230.5	176,634	25.40	90,556	(951)	-	10,453	-	-	-	-	-	-	-	-	-	-
Actual	2014-15	240.1	187,511	25.76	97,065	(1,121)	1,683	10,315	-	-	-	-	-	-	-	-	-	-
Actual	2015-16	237.8	202,697	26.56	102,536	1,003	9,154	5,029	-	10,654	1.4	8.3	10,654	1.4	-	-	9,154	1,500
	2016-17 Outlo	243.5	207,021	26.23	110,927			4,324	(8,447)	10,595	1.8	11.9	10,654	1.6	(59)	-	-	-
	2017-18 Outlo	237.1	207,003	25.20	119,548			(18)	(8,793)	10,555	1.7	11.6	10,636	1.5	(81)	-	-	(18)
	2018-19 Outlo	237.0	206,991	24.21	129,428			(12)	(9,152)	10,518	1.6	12.1	10,624	1.5	(106)	-	-	(12)
	2019-20 Outlo		206,991	#DIV/0!	139,375			-	(897,865)	10,494	#DIV/0!	-	10,624	#DIV/0!	(130)	-	-	-
	2020-21 Outlo		206,991		147,460			-	(933,780)	10,471	(36.8)	-	10,624	(21.0)	(153)	-	-	-
	2021-22 Outlo								(971,131)	(348,865)	(35.9)	-	(196,367)	(20.2)	(152,498)	-	-	-
	2022-23 Outlo								(1,009,976)	(350,873)	(34.7)	-	(196,367)	(19.4)	(154,506)	-	-	-
	2023-24 Outlo								(1,050,375)	(351,725)	(33.5)	-	(196,367)	(18.7)	(155,358)	-	-	-
	2024-25 Outlo								(1,092,390)	(351,104)	(32.1)	-	(196,367)	(18.0)	(154,737)	-	-	-
	2025-26 Outlo								(1,136,086)	(348,855)	(30.7)	-	(196,367)	(17.3)	(152,488)	-	-	-
	2026-27 Outlo																	
	2027-28 Outlo																	
	2028-29 Outlo																	
	2029-30 Outlo																	
	2030-31 Outlo																	

Prepared by OFA, FTD
11-Jan-17

	Ontario Nominal GDP			
	FES		Current	
	$ billions	% change	$ billions	% change
2010	630,989		630,989	
2011	659,743		659,743	
2012	680,084		680,084	
2013	695,349		695,349	
2014	727,962		727,962	
2015	763,276		763,276	
2016f	789,176	3.4	797,623	4.5
2017f	821,389	4.1	830,182	4.1
2018f	854,990	4.1	864,142	4.1
2019f	888,355	3.9	897,865	3.9
2020f			933,780	4.0
2021f			971,131	4.0
2022f			1,009,976	4.0
2023f			1,050,375	4.0
2024f			1,092,390	4.0
2025f			1,136,086	4.0
2026f			1,181,529	4.0
2027f			1,228,790	4.0
2028f			1,277,942	4.0
2029f			1,329,060	4.0
2030f			1,382,222	4.0

Net Book Value of TCA ($ Millions)	2015-16 (Actual)	2016-17	2017-18	2018-19	2019-20
2016 Budget					
Opening Net Book Value		102,536	110,437	119,079	128,985
Annual Acquisitions	N/A	13,037	14,059	15,605	15,979
Gross Amortization Expense	N/A	(5,137)	(5,416)	(5,700)	(6,008)
Closing Net Book Value	102,536	110,437	119,079	128,985	138,956
In Year Approvals					
Annual Acquisitions	-	561		-	-
School Renewal	0	556		0	0
Chapleau Cree Stage 2B	0	0	0	0	0
Child and Youth Mental Health BI Solution	0	5	0	0	0
Annual Amortization	-	(12)	(0)	(0)	(0)
School Renewal	0	(12)			
Chapleau Cree Stage 2B	0	0	(0)	(0)	(0)
Child and Youth Mental Health BI Solution	0	0	(0)		
2016 Budget + In Year Approvals					
Opening Net Book Value		102,536	110,986	119,629	129,534
Annual Acquisitions		13,598	14,059	15,605	15,979
Gross Amortization Expense		(5,148)	(5,416)	(5,700)	(6,008)
Closing Net Book Value	102,536	110,986	119,629	129,534	139,505

Source: David Hodes (TBS) - Jan 5, 2017

2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
138,956	147,064	151,949	153,957	154,809	154,188
14,536	11,823	9,541	8,700	7,461	5,982
(6,428)	(6,939)	(7,533)	(7,847)	(8,082)	(8,231)
147,064	151,949	153,957	154,809	154,188	151,939
-	-	-	-	-	-
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
(0)	(0)	(0)	(0)	(0)	(0)
(0)	(0)	(0)	(0)	(0)	(0)
139,505	147,613	152,498	154,506	155,358	154,737
14,536	11,823	9,541	8,700	7,461	5,982
(6,428)	(6,939)	(7,533)	(7,847)	(8,082)	(8,231)
147,613	152,498	154,506	155,358	154,737	152,488

From:	John Psinas
To:	Anna Strathy; Darren Scanlan; David Cross
Cc:	Usman Zahid; Ken Kandeepan; Mike Manning; George Sakura
Subject:	RE: Review Required: Public Accounts - Media Qs&As (comprehensive)
Date:	Friday, September 01, 2017 10:29:54 AM
Attachments:	DRAFT Public Accounts 2016-17 QA August 31 OFA JP.docx

Matt,

Please find attached my edits. To summarize:

Question 10 (page 8) and question 39 (page 30) . Added a sentence about BC and Quebec qualified opinions not affecting their Credit Rating. However, David Cross may have further edits for question 39.

Question 29 (page 25), added "lower than forecast deficit" and deleted the phrase about IOD staying low to 2019-20 (It actually slightly rises).

Question 30 (page 26) added the phrase from the Budget that for every $1 spent on infrastructure, GDP rises by $6. (This is $6 reference is mentioned in question 27 already)

Thanks.

John

From: Anna Strathy
Sent: Thursday, August 31, 2017 4:11 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Darren Scanlan <Darren.Scanlan@ofina.on.ca>; David Cross <David.Cross@ofina.on.ca>
Cc: Usman Zahid <Usman.Zahid@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>
Subject: RE: Review Required: Public Accounts - Media Qs&As (comprehensive)

Hi all,

Quick update, comms is now aiming to have all the updates to the Q&As by noon tomorrow.

Thanks,
Matt

From: Anna Strathy
Sent: Thursday, August 31, 2017 10:00 AM
To: John Psinas <John.Psinas@ofina.on.ca>; Darren Scanlan <Darren.Scanlan@ofina.on.ca>; David Cross <David.Cross@ofina.on.ca>

Cc: Usman Zahid <Usman.Zahid@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>
Subject: FW: Review Required: Public Accounts - Media Qs&As (comprehensive)
Importance: High

Hi All,

Attached are Media Q&As for PA, the timeline for the response is EOD Friday. It looks like there have been a lot of questions added since the ADM signoff on Tuesday.

David, questions 40 and 41 related to credit ratings (also looking confirmation on Q29 stating Ontario being most indebted sub sovereign in the world, which I recall being the case).

Darren, questions 32 and 47 relate to the Hydro rebate plan and the Hydro One sale, I believe that's something you'd take a look at in Francisco's absence?

John as we discussed 29, 30, 31 are IOD related.

Please also take a scan through in case there is anything else not mentioned.

Thanks,
Matt Breadner on behalf of Anna Strathy

From: Laughton, Patrick (TBS) [mailto:Patrick.Laughton@ontario.ca]
Sent: Wednesday, August 30, 2017 6:11 PM
To: Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca>; Manning, Catalina (TBS) <Catalina.Manning@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Gavin He <Gavin.He@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>
Cc: Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Subject: FW: Review Required: Public Accounts - Media Qs&As (comprehensive)
Importance: High

Hi everyone –

Sorry for the slow share, been a crazy day. I'm not sure if folks received this through other channels – the email below suggest you may have – but being cautious and ensuring.

Not the timelines to respond by EOD Friday.

Thanks,

P.

From: Tharani, Alisha (TBS)
Sent: August-30-17 1:26 PM
To: Hosick, Sarah (TBS); Laughton, Patrick (TBS)
Cc: Goodwin, David (TBS); Sullivan, Bryant (TBS); Ovenden, Erin (TBS); Doose, Ann (TBS)
Subject: Review Required: Public Accounts - Media Qs&As (comprehensive)
Importance: High

Hi Sarah, Patrick,

In follow-up to the ADM approvals of communications products for Public Accounts yesterday (Aug 29) morning, we have updated our comprehensive media Q&A document.

Please see attached for the comprehensive media Q&A document, which includes "top media questions" (approved by TBS/MOF ADMs yesterday), as well as other questions related to accounting changes, debt, deficit, Trillium Trust, etc. While the document is long, many of the questions re-iterate key information that is included in the already-approved top media questions section.

For your reference, I will also be sending this document to MOF Communications for their review, as well as to Energy (for questions related to Fair Hydro).

Can you please review the document and **provide your feedback/approval** for the questions relevant to OPCD and OTB **by Friday September 1st end of day**. We appreciate your work on this as we continue to work toward deadlines for DMO/MO approvals.

David- cc-ing you for your review on the Trillium Trust questions in particular (and to confirm will also be sharing this with MOF).

Thank you, and please do not hesitate to let us know if you have any questions.

Best,

Alisha

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PUBLIC ACCOUNTS 2016-17
Media Qs & As

August 30, 2017

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- [Placeholder]

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Top Media Qs&As

Top media Qs&As have been approved by TBS & MOF ADMs on August 29, 2017

1. **The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?**

   We continue to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

   Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting.

   As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the Province.

   The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

   After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, Ernst & Young LLP provided additional analysis and concluded that no valuation analysis was required for either plan. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001.

   This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, an independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

   This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015)

in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

2. The Auditor General is critical of the IESO accounting changes. Is this another example of Ontario's 'funny math'?

No. The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

Public Sector Accounting Board standards encourage preparers and auditors to consider guidance in other accounting frameworks to address transparency and accountability:

- This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.
- Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

As such, this accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

If pressed on rate-regulated accounting:

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the

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Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

3. Why are you still fighting with the Auditor General over pension accounting?

In preparing last year's Public Accounts, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the Province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the Province on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Further, Ernst & Young LLP provided additional analysis and concluded that no valuation analysis was required for either plan. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

4. How were you able to beat your deficit target in 2016-17?

In 2016-17 we maintained our focus on responsible fiscal management and investing in the right priorities. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending.

Average annual growth of total government spending has been held to 2.3 per cent for the past five years. As a result of growth in revenue that exceeded growth in program expense, as well as lower than forecast interest on debt, the

deficit is $3.3 billion lower than projected in the 2016 Budget. It is also $0.5 billion lower than the interim projection in the 2017 Budget.

This is the eighth year in a row the government has beaten its deficit target.

5. **The government is claiming the deficit has been reduced to $1B deficit for 2016-17 and that the budget will be balanced over the next three years. However, the AG is saying that the deficit for 2016-17 was more than $2B due to the treatment of pension assets, and the FAO has stated that the government's revenue forecast is more than $1B too "optimistic". Isn't the government really hiding a $3-4B deficit instead of a balanced budget?**

Commented [AT1]: From MOF; updated Aug 29

There is no hidden deficit. In the *2010 Budget*, the government committed to eliminating the deficit and returning to a balanced budget by 2017-18. Through targeted, measured and fiscally responsible decisions, Ontario has restored its fiscal and economic strength.

Today we are confirming that the 2016-17 deficit of $1 billion is $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Ontario Budget. This marks the eighth year in a row that Ontario has beaten its deficit target.

The success in eliminating the deficit is supported by a strong track record in managing spending -- having held average growth in spending to 2.3 per cent over the past five years.

In addition, over the last several years, the government's investments to strengthen economic growth have paid off. Ontario is a leader in economic growth, with our real GDP having outpaced that of all the G7 countries for the last three years. The strengthened economy has resulted in increased revenue for the Province – in fact, over the past two fiscal years, revenue has come in higher than projected, supporting Ontario's return to a balanced budget.

It is also important to point out that private sector forecasters have revised upward their expectations for the Ontario economy since the 2017 Budget, reflecting the growing strength of the Ontario economy. The government is also taking steps to improve tax fairness and address the underground economy in order to ensure the integrity of the Province's revenues.

Finally, Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense. The reserve has been set at $0.6 billion in 2017-18, $0.6 billion in 2018-19, and $0.9 billion in 2019-20.

Balancing the budget means that the government can invest more in the programs and services that people rely on.

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6. **Interest on debt is still massive and the Bank of Canada is expected to raise interest rates again this fall. How is the government preparing for this and will this affect your ability to maintain a balanced budget?**

   The increase in the Bank of Canada's policy rate reflects the growing strength of the Canadian and Ontario economy. Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.

   A quarter-point increase in the policy rate is not likely to have a material impact on the Ontario economic outlook. The 2017 Ontario Budget anticipated that the interest rates would rise modestly.

   As noted in the 2017 Budget, the Province's average cost of 10 year borrowing in 2017-18 is forecast to be 3 per cent. The impact of a 100 basis point increase in borrowing rates is forecast to be approximately $300 million. The interest rate forecast used in the Budget was prudent, and anticipated that long-term interest rates would rise as we progressed through the fiscal year.

7. **You claim to have balanced the budget yet you keep piling on more debt. How do you plan to pay down the debt?**

   Commented [AT2]: From MOF/OFA; updated Aug 30

   We maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023–24.

   In a balanced budget environment, debt would be incurred primarily to invest in capital assets. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending – including addressing the underground economy and maintaining tax fairness. Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to $6 on average per one dollar of public infrastructure spending.

   These strategic investments are creating jobs and contributing to economic growth. Ontario's GDP grew one per cent in the first quarter of 2017, outperforming that of Canada, the U.S. and all other G7 countries.

8. **Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?**

   To increase transparency, this year we have made a simple change to how we are reporting third party revenues for broader public sector organizations.

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For the first time, Public Accounts are presenting third party revenues for hospitals, school boards and colleges with provincial revenue. Third party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the Province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

9. The Public Accounts show a drawdown of $260 million from the Trillium Trust. What did you spend the money on?

The government began allocating proceeds from the Trillium Trust in 2016-17 to help support infrastructure initiatives such as GO Regional Express Rail (GO RER), the Hurontario Light Rail Transit (LRT) and the Ontario Community Infrastructure Fund (OCIF).

We expect the Trillium Trust to be drawn down by about an additional $400 million in 2017–18.

Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to $6 on average per one dollar of public infrastructure spending.

10. Does a qualified opinion impact the Province's credit rating?

The Province's financial results show that the government has once again beaten its annual deficit targets. In April 2017, we delivered our first balanced budget since the global recession and we are on track to do so again next year and the year after.

The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the Province. However, there were no credit rating implications in 2016 when the Province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British

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Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

In 2017 the C.D. Howe Institute, an independent research organization that assesses the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

11. The Auditor General has some serious concerns about how you're accounting for the Fair Hydro Plan. What do you say to this?

The accounting for the Fair Hydro Plan is a separate and distinct issue to the Public Accounts for 2016-17 that we're here to talk about today.

However, under the Fair Hydro Plan accounting structure, the Province's net debt and annual surplus/deficit won't be negatively impacted since all costs are expected to be recovered through future rates.

The Ministry of Finance continues to work closely with Treasury Board Secretariat, the Ministry of Energy, Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO) and external advisors to address the outstanding accounting related considerations which will be key to managing the fiscal impact of the Global Adjustment refinancing.

The Auditor General has also been briefed on the government's refinancing structure.

For further questions, I direct you to contact my colleague at the Ministry of Energy.

12. Program spending increased again this year. Why?

Program spending in 2016-17 was $141.7 billion, down $0.1 billion from the 2016 Budget. Average annual growth of total government spending has been held to 2.3 per cent for the past five years.

Healthcare represents the largest share of government program spending at $56 billion. Transformation efforts continue to make the sector more effective and sustainable while continuing to improve access for patients, especially the increased demands from an aging and growing population. The government has invested in new drugs, technologies, community and home care, long term care homes, mental health, physicians' services and specialized cancer treatments.

Other increases include:

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- $26.6 billion in education, mainly due to the introduction of full-day kindergarten;
- $16 billion in children's and social services, due to increased annual social assistance rates as well as investments in developmental services, autism and complex special needs programs, as well as the Ontario Child Benefit;
- $10.1 billion in post-secondary and training, due to enrolment growth in colleges and universities along with increased student financial assistance programs and increases in capital funding for post-secondary institutions;
- $4.6 billion in justice sector expenses due mainly to the upload of court security costs from municipalities, compensation for the Ontario Provincial Police and correctional services programs, as well as improved access to legal aid.

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Media Qs&As – Comprehensive List

General Public Accounts Information

1. **What is Public Accounts?**

   The Public Accounts of Ontario is a key accountability and transparency document in the government's financial cycle. It's a look back that compares Ontario's actual performance to what was planned in the Budget.

   The Public Accounts present the financial statements of the Province, provide financial highlights of the past fiscal year, and report on performance in priority areas.

   Public Accounts is audited by the Auditor General and is typically released in the fall of the following fiscal year.

2. **Why can't I find some organizations' financial statements in the Public Accounts?**

   Volume 2 contains the individual financial statements of government organizations, business enterprises and other financial statements. At the time of print, some organizations may not have had time to provide their financial statements. When this happens, we post them to Ontario.ca/publicaccounts as soon as they're available. The omission has no impact on the financial results reported in Public Accounts.

Accounting Changes

3. **Why have you restated prior year's financial statements?**

   When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

   These changes include:
   a. **Accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
   b. **Accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.

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c. **Accounting for the Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
d. **Accounting for net pension assets of jointly sponsored pension plans** - the Province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

- **Broader Public Sector Accounting Presentation Change**

4. Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?
(Has been approved by TBS & MOF ADMs on August 29, 2017)

Commented [AT3]: Top Ten; updated Aug 29

To increase transparency, this year we have made a simple change to how we are reporting third party revenues for broader public sector organizations.

For the first time, Public Accounts are presenting third party revenues for hospitals, school boards and colleges with provincial revenue. Third party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the Province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

5. What is consolidated reporting?

This presentation change may also be referred to as line-by-line consolidated reporting. This type of reporting is a more transparent way of presenting the details in the Broader Public Sector (BPS).

This change means that both expenses and revenues will be shown as separate items (on a gross basis), as opposed to being reported together (on a net basis).This affects what you see in the reporting breakdown of figures for hospitals, school boards, colleges and universities. However this has no impact to the annual deficit, net debt or accumulated deficit.

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Line-by-line consolidated reporting is in keeping with Public Sector Accounting Board standards and will mean that our presentation for Public Accounts is consistent with other governments across Canada. The Auditor General is supportive of this change.

- ## Ontario Power Generation and Hydro One Accounting Change

6. Why is there a change to the accounting for Ontario Power Generation (OPG) and Hydro One?

In the 2016-17 Public Accounts, the financial results of Ontario's investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board requirements and is supported by the Auditor General.

7. What is the impact of this change to their bottom line?

Energy and OPCD to provide details

- ## Pension Asset Accounting

See section: Auditor General – Qualified Opinion for more information.

- ## Independent Electricity System Operator (IESO) Accounting Changes

8. What accounting changes were made by the Independent Electricity System Operator (IESO)? Why?

Commented [AT4]: Updated Aug 29 using content approved byTBS/MOF ADMs

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

The IESO also made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

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See section: Auditor General – Qualified Opinion for more information.

Auditor General – Qualified Opinion

9. The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?
(Has been approved by TBS & MOF ADMs on August 29, 2017)

Commented [AT5]: Top Question; updated Aug 29

We continue to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the Province.

The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, Ernst & Young LLP provided additional analysis and concluded that no valuation analysis was required for either plan. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, an independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

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This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

10. **This year it's IESO accounting. Last year it was pension assets. Before that it was government advertising. Why are you still fighting with the Auditor General? This seems to be a pattern of behavior where you try and undermine her authority.**

    Our government has the utmost respect for all independent officers of the legislature, and we value the important perspective they bring.

- **Pension Asset Accounting**

11. **Why are you still fighting with the Auditor General over pension accounting?**
    (Has been approved by TBS & MOF ADMs on August 29, 2017)

    In preparing last year's Public Accounts, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the Province's jointly sponsored pension plans.

    As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the Province on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

    After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Further, Ernst & Young LLP provided additional analysis and concluded that no valuation analysis was required for either plan. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001.

    We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

12. **What was the panel's rationale for its decision?**

Commented [AT6]: Top Question; updated Aug 29

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The Pension Asset Expert Advisory Panel recommended that the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees Union Pension Plan (OPSEUPP) should be recognized as an asset in Ontario's financial statements.

The panel said that:

- Recognizing the asset will provide a faithful representation of the Province's financial position.
- The accounting surplus in the plan has a future economic benefit.
- The government controls access to that accounting surplus.
- The accounting surplus exists as the result of past transactions and events.
- It would be misleading not to recognize the Province's share of the assets in Public Accounts.

In addition, the panel concluded that the government will be able to benefit from the full amount of each net pension asset, and as a result, no reduction in the value is necessary.

Ernst & Young LLP provided additional analysis and concluded that no valuation analysis was required for either plan, confirming the independent panel's recommendation.

13. The Auditor General was critical of the panel's authority and credibility. What's your response to this?

The panel members are all highly-qualified experts in their field. They were carefully chosen for their expertise in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and public sector accounting standards:

- **Patricia O'Malley (panel chair)** is a Chartered Professional Accountant. She has been a member of the Canadian Accounting Standards Oversight Council since 2013, was Chair of the Canadian Accounting Standards Board and was a member of the International Accounting Standards Board from 2001 to 2007.
- **Murray Gold** is a leading legal practitioner and senior pension and benefits partner at Koskie Minsky LLP.
- **Uros Karadzic** is a senior actuary at Ernst and Young's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting.

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- **Paul Martin** is a Chartered Professional Accountant, Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP.

The panel was completely independent from government, and arrived at its advice based on its own analysis of this complex issue.

14. How much did you pay the panel members? Do you think that money was justified?

The total cost of the panel was $221,113. This included compensation and travel expenses for the four panelists, as well as procurement. These rates are consistent with the Agencies and Appointments Directive, which specified up to $2,000 per day for appointees with unique and specialized expertise, or urgent issues affecting government priorities and requiring intense time commitments over a short period of time.

The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards, and provided independent advice on how to move forward with how Public Sector Accounting Board standards should be applied to current and potential future net pension assets.

Commented [AT7]: Need to confirm with OPCD

- **IESO Accounting**

15. The Auditor General is critical of the IESO accounting changes. Is this another example of Ontario's 'funny math'?
(Has been approved by TBS & MOF ADMs on August 29, 2017)

Commented [AT8]: Top Question; updated Aug 29

No. The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

Public Sector Accounting Board standards encourage preparers and auditors to consider guidance in other accounting frameworks to address transparency and accountability:

- This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These

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accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

- Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

As such, this accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

If pressed on rate-regulated accounting:

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

16. What is the Auditor General's argument with these changes?

Commented [AT9]: Updated Aug 29 using content approved byTBS/MOF ADMs

The Auditor General claims that the change to the IESO's accounting policy to recognize market account assets and liabilities is inappropriate, as these market accounts are not assets and liabilities of the Province.

However, the IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

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Public Sector Accounting Board standards encourage preparers and auditors to consider guidance in other accounting frameworks to address transparency and accountability:

- This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.
- Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

As such, this accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

17. Between IESO and the pension issue from last year it seems like you just make up new rules when you don't like what you hear from the Auditor General. How do you respond to that?

We continue to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

In many cases the application of accounting standards requires professional judgment. The Province's professionally accredited accounting staff are highly qualified practitioners, with a high degree of expertise in their field. A difference of opinion on the interpretation of accounting standards is not unique to this situation. Other jurisdictions have also experienced differences of opinion between preparers and auditors on complex accounting matters.

Commented [AT10]: Need OPCD to provide examples of jurisdictions.

18. Will you strike an expert panel to study to IESO issue, like you did last year for pension accounting?

We have no plans to establish a panel at this time.

The changes made to the IESO accounting were accepted by the IESO's audit committee, board of directors, and their independent external auditor. These changes were outlined in the IESO's 2016 annual report, which was published in March 2017. The Office of the Provincial Controller supports these changes.

19. Your reasons for change are yet again at odds with the Auditor General. Why should we believe you, when she is an independent officer of the legislature?

The Auditor General's responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment. A difference of opinion on the interpretation of accounting standards is not unique to this situation. Other jurisdictions have also experienced differences of opinion between preparers and auditors on complex accounting matters.

Commented [AT11]: Need OPCD to provide examples of jurisdictions.

- **Fair Hydro Accounting (Other Matters)**

20. The Auditor General alleges the government withheld information from her on the accounting treatment for the Fair Hydro Plan. Why would she say that?

First, I would note that the accounting for the Fair Hydro Plan is separate and distinct from the Public Accounts we're here to talk about today.

Having said that, we respectfully disagree with the Auditor General's claim that the government withheld information from her or her office.

In March, the Ministry of Energy provided the Auditor General's Office with Cabinet documents from February and March related to the Fair Hydro Plan. These documents together provided a comprehensive overview of all elements of the plan that were known at that time, including accounting memos from both the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG).

On April 19, 2017, senior ministry officials from Treasury Board Secretariat, Finance and Energy met with the Auditor General and her staff to provide a briefing on the accounting for the Fair Hydro Plan.

Since that April 19 briefing, ministry officials from Treasury Board Secretariat have met with the Auditor General several times. At each meeting, officials included the Fair Hydro Plan and IESO accounting on the agenda. However, in each case the Auditor declined those requests to discuss this issue with her.

21. The Auditor General has some serious concerns about how you're accounting for the Fair Hydro Plan. What do you say to this?
(Has been approved by TBS & MOF ADMs on August 29, 2017)

Commented [AT12]: Top Question; updated Aug 29

The accounting for the Fair Hydro Plan is a separate and distinct issue to the Public Accounts for 2016-17 that we're here to talk about today.

However, under the Fair Hydro Plan accounting structure, the Province's net debt and annual surplus/deficit won't be negatively impacted since all costs are expected to be recovered through future rates.

The Ministry of Finance continues to work closely with Treasury Board Secretariat, the Ministry of Energy, Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO) and external advisors to address the outstanding accounting related considerations which will be key to managing the fiscal impact of the Global Adjustment refinancing.

The Auditor General has also been briefed on the government's refinancing structure.

For further questions, I direct you to contact my colleague at the Ministry of Energy.

22. Why did you set up the Fair Hydro Plan accounting in this way?

Again, I would note that the accounting for the Fair Hydro Plan is separate and distinct from the Public Accounts we're here to talk about today.

However, in order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

All of the agreements necessary for the Global Adjustment (GA) Refinancing are not yet complete. The final accounting for the GA Refinancing will be completed once all of the elements are complete.

In analyzing the appropriate accounting treatment for the GA refinancing component of the Fair Hydro Plan on the province's consolidated financial statements in 2017-18 and forward, the province considered authoritative guidance issued by the Public Sector Accounting Board, as well as the accounting assessments of the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) management, including the accounting opinions of their external auditors.

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The complexity and unique structure of the GA Refinancing structure requires the use of professional judgment to ensure that key financial reporting objectives of transparency and accountability are best served.

Any further questions about the Fair Hydro Plan should be directed to my colleague the Minister of Energy.

Ontario's Fiscal Position

- **Balanced Budget**

23. The government is claiming the deficit has been reduced to $1B deficit for 2016-17 and that the budget will be balanced over the next three years. However, the AG is saying that the deficit for 2016-17 was more than $2B due to the treatment of pension assets, and the FAO has stated that the government's revenue forecast is more than $1B too "optimistic". Isn't the government really hiding a $3-4B deficit instead of a balanced budget?
(Information provided by MOF on August 29, 2017)

Commented [AT13]: Top Question; updated Aug 29

There is no hidden deficit. In the *2010 Budget*, the government committed to eliminating the deficit and returning to a balanced budget by 2017-18. Through targeted, measured and fiscally responsible decisions, Ontario has restored its fiscal and economic strength.

Today we are confirming that the 2016-17 deficit of $1 billion is $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Ontario Budget. This marks the eighth year in a row that Ontario has beaten its deficit target.

The success in eliminating the deficit is supported by a strong track record in managing spending -- having held average growth in spending to 2.3 per cent over the past five years.

In addition, over the last several years, the government's investments to strengthen economic growth have paid off. Ontario is a leader in economic growth, with our real GDP having outpaced that of all the G7 countries for the last three years. The strengthened economy has resulted in increased revenue for the Province – in fact, over the past two fiscal years, revenue has come in higher than projected, supporting Ontario's return to a balanced budget.

It is also important to point out that private sector forecasters have revised upward their expectations for the Ontario economy since the 2017 Budget, reflecting the growing strength of the Ontario economy. The government is also

taking steps to improve tax fairness and address the underground economy in order to ensure the integrity of the Province's revenues.

Finally, Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense. The reserve has been set at $0.6 billion in 2017-18, $0.6 billion in 2018-19, and $0.9 billion in 2019-20.

Balancing the budget means that the government can invest more in the programs and services that people rely on.

24. The Financial Accountability Office (FAO) just released a commentary saying your balanced budget is in question because it's based on optimistic revenue forecasts. Will you decrease spending or increase taxes to make up for this potential shortfall?

The government stands by the revenue forecast presented in the 2017 Budget. As recently presented in the 2017-18 First Quarter Finances, revenues are on track and the government is continuing to project a balanced budget in 2017-18.

Taxation revenue growth projected in the 2017 Budget aligns with growth actually experienced in recent years.

The government builds prudence into its economic forecast. Since the time of the 2017 Budget, private sector forecasters have revised up their economic growth projections for Ontario over the 2017-20 period, reflecting the strength in the Ontario economy.

25. How were you able to beat your deficit target in 2016-17?
(Has been approved by TBS & MOF ADMs on August 29, 2017)

Commented [AT14]: Top Question; updated Aug 29

In 2016-17 we maintained our focus on responsible fiscal management and investing in the right priorities. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending.

Average annual growth of total government spending has been held to 2.3 per cent for the past five years. As a result of growth in revenue that exceeded growth in program expense, as well as lower than forecast interest on debt, the deficit is $3.3 billion lower than projected in the 2016 Budget. It is also $0.5 billion lower than the interim projection in the 2017 Budget.

This is the eighth year in a row the government has beaten its deficit target.

26. You beat your deficit targets again. Aren't you just padding your estimates so you can beat them at the end of the day?

No. The government's fiscal projections are based on the best economic and fiscal information available at the time. They reflect a realistic and responsible plan to manage the Province's resources, while still protecting the vital services that Ontarians rely on.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

The government recognizes that a fiscally sound approach to managing the Province's finances will provide the foundation for the long-term well-being and prosperity of Ontarians, and protect the public services that Ontarians rely on.

- **Debt**

27. You claim to have balanced the budget yet you keep piling on more debt. How do you plan to pay down the debt?
(Provided by MOF/OFA on August 30, 2017)

Commented [AT15]: Top Question; Updated by MOF/OFA Aug 30

We maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023–24.

In a balanced budget environment, debt would be incurred primarily to invest in capital assets. We are making progress on our economic plan by making investments to spur growth, transforming government and responsibly managing spending – including addressing the underground economy and maintaining tax fairness. Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to $6 on average per one dollar of public infrastructure spending.

These strategic investments are creating jobs and contributing to economic growth. Ontario's GDP grew one per cent in the first quarter of 2017, outperforming that of Canada, the U.S. and all other G7 countries.Interest on Debt

28. Interest on debt is still massive and the Bank of Canada is expected to raise interest rates again this fall. How is the government preparing for this and will this affect your ability to maintain a balanced budget?

Commented [AT16]: Top Question; updated Aug 29

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(Has been approved by TBS & MOF ADMs on August 29, 2017)

The increase in the Bank of Canada's policy rate reflects the growing strength of the Canadian and Ontario economy. Ontario's economy remains strong and has continued to grow and create jobs in an uncertain global environment.

A quarter-point increase in the policy rate is not likely to have a material impact on the Ontario economic outlook. The 2017 Ontario Budget anticipated that the interest rates would rise modestly,

As noted in the 2017 Budget, the Province's average cost of 10 year borrowing in 2017-18 is forecast to be 3 per cent. The impact of a 100 basis point increase in borrowing rates is forecast to be approximately $300 million. The interest rate forecast used in the Budget was prudent, and anticipated that long-term interest rates would rise as we progressed through the fiscal year.

29. The government is paying an enormous amount of money just paying the interest on its debt. How are you addressing this?

Interest on debt expense was $11.7 billion, which was $0.7 billion below the plan of $12.4 billion, due mainly to lower-than-forecast interest rates, lower-than-forecast deficit and cost-effective borrowing and debt management.

While interest costs have grown in absolute terms, they have steadily fallen as a percentage of Ontario's revenues since 2013-14. The interest on debt-to-revenue ratio is now at its lowest level from the peak of 15.5 per cent in 1999-2000.

Interest on debt-to-revenue is forecast to have been 8.4 per cent for 2016–17. This ratio is the lowest it has been in 25 years. It is forecast to decline to 8.2 per cent in 2017-18~~ and remain low throughout the outlook period to 2019–20~~.

We incurred increases to Ontario's debt during the recession for two reasons: to finance deficits and invest in capital assets. However we are making progress on our economic plan by making investments to spur growth, and are managing spending responsibly.

These strategic investments are creating jobs and contributing to economic growth. Ontario's GDP grew one per cent in the first quarter of 2017, outperforming that of Canada, the U.S. and all other G7 countries.

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Our fiscal plan is working. Ontario is on track to balance the budget this year while making investments in the programs and services people and families rely on most.

30. You are spending more on interest payments for the debt than what you spend on post-secondary education. In fact, the payments equal more than 20 per cent of the health budget. How can you justify this?

Our priority following the 2008-09 recession was to achieve balance. In the first few years after the recession, the increase in net debt was primarily due to the deficit.

Approximately 61 per cent of the increase in net debt from 2008–09 to 2016–17 was due to the deficit, with net investments in capital assets responsible for the balance.

With balanced budgets, from 2017-18 onwards, the increase in net debt will be exclusively from investments in capital assets. In addition, the government is investing in public infrastructure which is vital to growing the economy and ensuring a high quality of life, whether people live in large, small, urban, northern or rural Ontario communities. Every $1 spent on public infrastructure can increase GDP by up to $6 in the long term. The balanced budget is giving the government the fiscal flexibility to do more to help people and spur economic growth.

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- **Most Indebted Subsovereign, Future Generations**

31. This government has a spending problem and Ontario is now the most indebted sub-sovereign borrower in the world. Why should we trust your plan?

With a growing economy and a balanced budget, this is the time to make investments in key services that matter most to people, like health care and education, while at the same time lowering costs for necessities like electricity and child care.

Ontario is on track to balance the budget this year while making investments in the programs and services people and families rely on most. This year and last, Ontario's debt-to-GDP ratio has improved from 39.6 per cent in the 2016 budget, to a forecasted 37.8 per cent in 2016-17, and it continues to track downward.

Our plan is also helping to grow the economy, with the largest investment in public infrastructure in the Province's history — more than $190 billion over 13 years starting in 2014-15. New schools, hospitals and transit projects are

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improving quality of life and creating jobs in communities across Ontario.

Supporting ongoing economic growth is a top priority and we are encouraged by the influx of many innovative and dynamic businesses that are investing across the Province, bringing good jobs, higher wages and greater prosperity to our communities. We will continue to implement our balanced plan to build a healthy and sustainable economy for all of Ontario.

32. Some say you are unfairly placing the burden of debt on future generations through things like your Hydro rebate plan and your failure to address the Province's growing debt. How do you respond?

With a growing economy and a balanced budget, this is the time to make investments in key services that matter most to people, like health care and education, while at the same time lowering costs for necessities like electricity and child care.

We have heard from people across the Province that investing in greener generation, transmission and distribution have increased electricity bills too quickly, which is why our plan will ensure costs are distributed more fairly over time. The plan significantly reduces rates today and ensures fairness and predictability for tomorrow.

Most of Ontario's electricity generators are under 20-year contracts, but many of these facilities are expected to generate power after their contracts end. These are long-term assets for our electricity system. We are bringing forward some of the net value of these assets by spreading a portion of the costs of these contracts over a longer period.

With respect to debt, we remain committed to reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023–24

- **Revenue**

33. How much money did you bring in in 2016-17?

Provincial revenues increased by $4.6 billion, or 3.4 per cent over the previous year. This increase was due in part to nominal GDP growth of 4.6 per cent in 2016, which contributed to higher taxation revenues. There were also higher

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transfers from the federal government – including the Canada Health Transfer, Canada Social Transfer and funding for infrastructure projects.

Taxation revenues were $2.5 billion, or 2.8 per cent higher-than-projected in the 2016 budget. Corporate tax revenues were $2.8 billion higher. This was due to stronger-than-expected revenues from tax returns. Sales tax revenues were $0.8 billion higher, due to Ontario's larger share of the HST, and the strong housing market contributed $0.7 billion more in land transfer tax revenues.

Transfers from the Government of Canada were $0.6 billion lower than the 2016 Budget forecast. This was mainly due to lower-than-expected funding for infrastructure projects and other payments for government agencies, hospitals, school boards and colleges.

Fees, donations and other revenues from broader public sector organizations were $0.6 billion higher than the budget forecast, mainly due to higher-than-expected revenues from non-provincial sources for hospitals, and higher international tuition fees.

- **Asset Sales**

34. One-time asset sales are a way to bring in money, but isn't this burning the furniture to heat the house when it comes to a long-term revenue strategy?

We are committing money made from any asset sales to the Trillium Trust, which is helping to fund transit, transportation and other key infrastructure projects across Ontario.

The government made more than $200 million from the sale of the LCBO head office lands, along with $2 billion in gross proceeds from the second offering of Hydro One common shares in April 2016. In addition, the sale of the government's interest in Hydro One Brampton Networks resulted in a gain of $109 million.

These proceeds have also been committed to the Trillium Trust for infrastructure projects that help the economy grow, and create jobs for Ontarians.

See section: Trillium Trust for more information.

- **Transfers from the Federal Government**

35. Transfers from the federal government were lower than expected. Aren't you banking on another entity to get your fiscal house in order?

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The Government of Ontario, like all Provinces in Canada, receives funding from the federal government. These transfers are done on an ongoing basis to help provide programs and services.

Transfers from the Government of Canada were lower than the 2016 Budget forecast by $0.6 billion. This was mainly due to lower-than-expected funding for infrastructure projects and other federal payments including transfers to government agencies, hospitals, school boards and colleges. This decline was partially offset by new transfers under the strategic investment fund for affordable housing and post-secondary education and training.

- **Revenue from International Tuition Fees**

36. International tuition fees helped the Province's bottom line but isn't this on the backs of young people who want to learn here?

MAESD to provide response

- **Program Spending**

37. Program spending increased again this year. Why?
(Has been approved by TBS & MOF ADMs on August 29, 2017)

Commented [AT17]: Top Question; updated Aug 29

Program spending in 2016-17 was $141.7 billion, down $0.1 billion from the 2016 Budget. Average annual growth of total government spending has been held to 2.3 per cent for the past five years.

Healthcare represents the largest share of government program spending at $56 billion. Transformation efforts continue to make the sector more effective and sustainable while continuing to improve access for patients, especially the increased demands from an aging and growing population. The government has invested in new drugs, technologies, community and home care, long term care homes, mental health, physicians' services and specialized cancer treatments.

Other increases include:

- $26.6 billion in education, mainly due to the introduction of full-day kindergarten;
- $16 billion in children's and social services, due to increased annual social assistance rates as well as investments in developmental services, autism and complex special needs programs, as well as the Ontario Child Benefit;

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- $10.1 billion in post-secondary and training, due to enrolment growth in colleges and universities along with increased student financial assistance programs and increases in capital funding for post-secondary institutions;
- $4.6 billion in justice sector expenses due mainly to the upload of court security costs from municipalities, compensation for the Ontario Provincial Police and correctional services programs, as well as improved access to legal aid.

38. You finally balanced the budget and now you're spending more on expensive election promises like free pharmacare. Why aren't you paying down debt instead?

With a growing economy and a balanced budget, this is the time to make investments in key services that matter most to people, like health care and education, while at the same time lowering costs for necessities like electricity and child care.

Providing more access to vital services isn't just an investment in our future. It's the right thing to do.

- **Credit Rating**

39. Does a qualified opinion impact the Province's credit rating?
(Has been approved by TBS & MOF ADMs on August 29, 2017)

Commented [AT18]: Top Question; updated Aug 29

The Province's financial results show that the government has once again beaten its annual deficit targets. In April 2017, we delivered our first balanced budget since the global recession and we are on track to do so again next year and the year after.

The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the Province. However, there were no credit rating implications in 2016 when the Province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

In 2017 the C.D. Howe Institute, an independent research organization that assesses the fiscal planning and reporting of governments in Canada, also commented positively on the financial reporting practices of Ontario relating to its fiscal reporting activities that include Public Accounts, the annual Budget and Estimates.

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40. What do you say to the credit rating agencies that have highlighted provincial debt as an area of credit weakness?

According to our first quarter finances released last month, we continue to project a balanced budget in 2017-18, unchanged from the 2017 Budget.

With stronger-than-expected first quarter economic growth and the government's responsible approach to fiscal management, we can continue to invest in programs and services that help people across the Province.

Ontario's economy continues to grow at a steady pace despite an uncertain global environment. Most key economic indicators show that growth continues in the second quarter. Our plan is working.

We remain committed to reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, with current projections showing that this will be achieved by 2029-30. In the balanced 2017 Budget, the government is setting an interim target to reduce the net debt-to-GDP ratio to 35 per cent by 2023–24.

41. What is your credit rating as it stands today?

Following the release of the 2017 Budget, all four rating agencies have confirmed Ontario's long-term credit ratings. This reflects rating agencies' confidence in our government's plan to grow Ontario's economy and create jobs for Ontarians.

If pressed:
Ontario's ratings are:

	Long-Term	Short-Term
Moody's:	Aa2	P-1
DBRS:	AA (low)	R-1 (mid)
Fitch:	AA-	F1+
Standard and Poor's:	A+	A-1

- **C.D. Howe Institute**

42. Why does the C.D. Howe Institute weigh in on the government's fiscal situation?

The C.D. Howe Institute is an independent not-for-profit research institute that supports economically sound public policies. It is widely considered to be Canada's most influential think tank and is a trusted source of essential policy

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intelligence, distinguished by research that is nonpartisan, evidence-based and subject to definitive expert review.

Each year the C.D. Howe Institute produces a report on its assessment of the fiscal planning and reporting practices of senior Canadian governments. The institute observes that financial reports are a vital tool for understanding governments' plans and activities.

43. Why does this matter?

We consider reports like the C.D. Howe's Fiscal Accountability of Canada's Senior Governments important because they are written by independent experts. Studies such as this are essential for governments to continuously assess and improve their financial planning and reporting.

Ontario has received high marks for prominently presenting revenue and expense projections in the Budget that are on the same Public Sector Accounting Basis as the Public Accounts and Estimates.

The C.D. Howe Institute has recognized Ontario as one of the leading jurisdictions in Canada when it comes to fiscal accountability

Trillium Trust

44. What is the Trillium Trust?

The Trillium Trust was introduced in the 2014 Budget and provides for the dedication of prescribed net proceeds from the sale of designated assets to support key infrastructure priorities, such as roads, bridges and public transit.

The Trillium Trust is appearing for the first time in Public Accounts because the first drawdowns were made in 2016-17. The Trillium Trust Act, 2014 requires that all expenditures made under the act to support infrastructure investments are to be reflected in the Public Accounts.

Designated assets include the Province's shares of Hydro One and Hydro One Brampton, as well as the LCBO head office lands, the OPG head office building and the Lakeview lands.

We expect the Trillium Trust to be drawn down by about an additional $400 million in 2017–18.

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The Ministry of Finance shows spending out of the Trillium Trust, and ministries that are benefitting from projects that are funded from the trust are reflected in this year's Public Accounts. These figures are included in Volume 1 of Public Accounts.

The funding will help support initiatives, such as GO Regional Express Rail (GO RER), the Hurontario Light Rail Transit (LRT) and the Ontario Community Infrastructure Fund (OCIF).

45. The Public Accounts show a drawdown of $260 million from the Trillium Trust. What did you spend the money on?
(Has been approved by TBS & MOF ADMs on August 29, 2017)

Commented [AT19]: Top Question; updated Aug 29

The government began allocating proceeds from the Trillium Trust in 2016-17 to help support infrastructure initiatives such as GO Regional Express Rail (GO RER), the Hurontario Light Rail Transit (LRT) and the Ontario Community Infrastructure Fund (OCIF).

We expect the Trillium Trust to be drawn down by about an additional $400 million in 2017–18.

Our strategic investments in infrastructure provide economic benefits: a recent study by the Centre for Spatial Economics (C4SE) finds that, over the long term, real GDP in Ontario will rise up to $6 on average per one dollar of public infrastructure spending.

46. How much is currently in the trust?

Commented [AT20]: To confirm figures

In March 2017, the government credited the Trillium Trust with an additional $538 million in net revenue gains from the sale of Hydro One shares in 2016, bringing the total amount in the Trust to $5.3 billion.

The Trillium Trust was also credited with $246 million from the sale of the LCBO head office lands, and $1.35 billion in net proceeds from the sale of Ontario's shares in General Motors.

Like most large infrastructure investments, initial spending on projects is focused on planning, design, property acquisition and other activities to get projects construction-ready.

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As this preliminary work is completed and construction activity gets underway, further project requirements will be identified that will be funded from the Trillium Trust in subsequent years.

The government is committed to investing the full amount from the Trillium Trust to support transit, transportation and other priority infrastructure.

47. If the Province raised about $2 billion in the secondary offering of Hydro One shares in 2016, why was only $538 million credited to the Trillium Trust?

Commented [AT21]: Updated Aug 30

The *Trillium Trust Act, 2014*, provides for the dedication of net revenue gains to the Trillium Trust associated with the sale of designated assets to support investments in transit, transportation and priority infrastructure across the Province.

The net revenue gains credited to the Trillium Trust from the secondary offering of Hydro One shares are derived from the gross proceeds, less fees/expenses incurred and less the book value of the shares sold, not including the shares purchased by OPG.

The government will move forward with regulations to credit the Trillium Trust with the net revenue gains from the shares purchased by OPG in the future.

The Province also used the $1.3 billion in proceeds related to the book value of the Hydro One shares sold to pay down the Province's debt and other payables with the Ontario Electricity Financial Corporation (OEFC).

Through the broadening of Hydro One ownership, the Province is meeting its target to generate $4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and $5 billion to reduce debt.

Digital Tools/Open Government

Commented [AT22]: Updated Aug 30

48. What is the government doing to be transparent in regards to Public Accounts?

As part of our commitment to openness and transparency, we are using data visualization tools to help Ontarians better understand the Province's finances.

This year's tools are available at Ontario.ca/publicaccounts and include:

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- Interactive data visualization tools that graphically present details on asset and expense information contained in Volume 1;
- Fully sortable data tables that summarize the financial statements from Volume 2, and the detailed scheduled payments from Volume 3; and
- Downloadable open data sets that provide the five-year trend for government revenue by source, revenue by sector, and statement of operations. This year's total number of open data downloads is 11, up from five last year.

These tools help make the Province's finances easier to understand, access and use, and are part of Ontario's commitment to creating a more open and transparent government.

49. How does this help the average Ontarian?

The more information we can provide to Ontarians about where their tax money is going, the better. That is why the government is providing new digital tools online to help Ontarians better understand their government's finances. Presenting the Public Accounts data in innovative, visual formats is part of Ontario's commitment to Open Government.

50. What are Open Data sets?

The Ontario government is committed to leading the most open, transparent, and accountable government in the country. Public access to information and opening up government data supports this commitment. Ontario is the first province in Canada to adopt the International Open Data Charter.

The International Open Data Charter contains a set of six principles that will build on Ontario's open by default data policy to increase civic participation, openness and accountability.

To date, we have released more than 585 open data sets and the Open Data sets for Public Accounts are being added to the catalogue. It can be found at www.ontario.ca/opendata

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From:	Veinot, Cindy (TBS)
To:	Tim Schuurman (MOF); Nadine Petsche (MOF)
Cc:	Gadi Mayman; Ken Kandeepan; Karen Hughes (MGS); Selena Esmail (MOF); Christina Zhang; Patrick Laughton (MOF); Hosick, Sarah (TBS); Birks, Ryan (MOF); Ronald Jaikaran (MOF); Alana Anderson (MOF); Emma Lindquist (MOF)
Subject:	RE: Revised wording for Pension Asset Narrative
Date:	Tuesday, November 01, 2016 6:34:50 PM
Attachments:	image001.png

Agreed -- Cindy

From: Schuurman, Tim (MOF)
Sent: November-01-16 6:34 PM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Cc: Mayman, Gadi (OFA); Kandeepan, Ken (OFA); Hughes, Karen (TBS); Esmail, Selena (MOF); Zhang, Christina (OFA); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Birks, Ryan (MOF); Jaikaran, Ronald (MOF); Anderson, Alana (MOF); Lindquist, Emma (MOF)
Subject: RE: Revised wording for Pension Asset Narrative

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Cc:	Gadi Mayman; Karen Hughes (MGS); Selena Esmail (MOF); Christina Zhang; Patrick Laughton (MOF); Hosick, Sarah (TBS); Birks, Ryan (MOF); Ronald Jaikaran (MOF); Alana Anderson (MOF)
Subject:	RE: Revised wording for Pension Asset Narrative
Date:	Tuesday, November 01, 2016 5:21:07 PM

Nadine/Cindy

Pls note that given that the pension adjustment does not impact on the forecast deficit over the medium term outlook, I don't believe we require the phrase: "as well as the corresponding net debt and accumulated deficit amounts".

The impact on the accumulated deficit and net debt is limited to the $10.7 B in the Public Accounts

Thanks

Ken k

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Tuesday, November 01, 2016 5:14 PM
To: Tim Schuurman (MOF) <Tim.Schuurman@ontario.ca>
Cc: Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Karen Hughes (MGS) <Karen.Hughes@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Ronald Jaikaran (MOF) <Ronald.Jaikaran@ontario.ca>; Alana Anderson (MOF) <Alana.Anderson@ontario.ca>
Subject: Revised wording for Pension Asset Narrative

Tim,
Further to the discussion this morning, below is the revised text for Chapter 2B on Transparency and Accountability. This version has been reviewed by Cindy.
Nadine

Pensions reporting

In preparing the *Public Accounts for Ontario 2015-16*, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate interpretation of public sector accounting standards in relation to pension accounting. The Province's interpretation of the standards had been applied consistently since they were first implemented 15 years ago.

The government adopted the Auditor General's accounting interpretation for the treatment of net pension assets for 2015-16 through a time-limited regulatory amendment ('the pension adjustment').

The impact of the change resulted in an additional $10.7 billion being added to the net debt and

accumulated deficit and an increase of $1.5 billion to the annual deficit for 2015-16.

Consistent with the regulated accounting treatment adopted in the *Public Accounts of Ontario 2015-16*, the medium term Outlook also reflects a cautious approach to forecasting pension expense each year as well as the corresponding net debt and accumulated deficit amounts. [np1]

The government has established a Pension Asset Expert Advisory Panel to assess the interpretation of public sector accounting standards as related to Ontario's pension plans. The Panel will also provide advice on how to value pension assets reported on the Province's books, taking into account future decisions that might be made by the plans' sponsors. Specifically, the Panel will help to inform the amount of net pension assets which should be reflected on the Province's financial statements. A net pension asset arises when the government's total contributions to a plan, including interest earned thereon, are greater than the pension expense recognized since the start of the plan.

The Panel's recommendations will help inform the preparation of the Budget and the Province's future accounting treatment for net pension assets.

OFA to confirm if wording appropriate

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To:	Nadine Petsche (MOF); Tim Schuurman (MOF); Veinot, Cindy (TBS)
Cc:	Gadi Mayman; Karen Hughes (MGS); Selena Esmail (MOF); Christina Zhang; Patrick Laughton (MOF); Hosick, Sarah (TBS); Birks, Ryan (MOF); Ronald Jaikaran (MOF); Alana Anderson (MOF)
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The impact of the change resulted in an additional $10.7 billion being added to the net debt and

accumulated deficit and an increase of $1.5 billion to the annual deficit for 2015-16.

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The Panel's recommendations will help inform the preparation of the Budget and the Province's future accounting treatment for net pension assets.

OFA to confirm if wording appropriate

From:	Veinot, Cindy (TBS)
To:	Tim Schuurman (MOF); Nadine Petsche (MOF)
Cc:	Gadi Mayman; Ken Kandeepan; Karen Hughes (MGS); Selena Esmail (MOF); Christina Zhang; Patrick Laughton (MOF); Hosick, Sarah (TBS); Birks, Ryan (MOF); Ronald Jaikaran (MOF); Alana Anderson (MOF); Emma Lindquist (MOF)
Subject:	RE: Revised wording for Pension Asset Narrative
Date:	Tuesday, November 01, 2016 6:34:50 PM
Attachments:	image001.png

Agreed -- Cindy

From: Schuurman, Tim (MOF)
Sent: November-01-16 6:34 PM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Cc: Mayman, Gadi (OFA); Kandeepan, Ken (OFA); Hughes, Karen (TBS); Esmail, Selena (MOF); Zhang, Christina (OFA); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Birks, Ryan (MOF); Jaikaran, Ronald (MOF); Anderson, Alana (MOF); Lindquist, Emma (MOF)
Subject: RE: Revised wording for Pension Asset Narrative

Thanks Cindy. I also made some small tweaks at the end of your sentence….hope that's ok.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

From: Veinot, Cindy (TBS)
Sent: November-01-16 6:31 PM
To: Schuurman, Tim (MOF); Petsche, Nadine (TBS)
Cc: Mayman, Gadi (OFA); Kandeepan, Ken (OFA); Hughes, Karen (TBS); Esmail, Selena (MOF); Zhang, Christina (OFA); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Birks, Ryan (MOF); Jaikaran, Ronald (MOF); Anderson, Alana (MOF); Lindquist, Emma (MOF)
Subject: RE: Revised wording for Pension Asset Narrative

This cautious approach to forecasting the pension adjustment results in an additional estimated potential impact of $2.2 billion in 2016-17, $2.8 billion in 2017-18 and $3.7 billion in 2018-19 from the 2016 Budget forecast for pension expense. [np1]

A couple of additional edits to one sentence copied above (in green) – I don't think it was clear that the amounts we are referring to are in addition to those included in the 2016 Budget.

Cindy

From: Schuurman, Tim (MOF)
Sent: November-01-16 6:26 PM
To: Petsche, Nadine (TBS)
Cc: Mayman, Gadi (OFA); Kandeepan, Ken (OFA); Hughes, Karen (TBS); Veinot, Cindy (TBS); Esmail, Selena (MOF); Zhang, Christina (OFA); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Birks, Ryan (MOF); Jaikaran, Ronald (MOF); Anderson, Alana (MOF); Lindquist, Emma (MOF)

Subject: RE: Revised wording for Pension Asset Narrative

Our edits are included below in red font.
Thanks Nadine and Cindy.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

From: Petsche, Nadine (TBS)
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To: Schuurman, Tim (MOF)
Cc: Mayman, Gadi (OFA); Kandeepan, Ken (OFA); Hughes, Karen (TBS); Veinot, Cindy (TBS); Esmail, Selena (MOF); Zhang, Christina (OFA); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Birks, Ryan (MOF); Jaikaran, Ronald (MOF); Anderson, Alana (MOF)
Subject: Revised wording for Pension Asset Narrative

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Nadine

Pensions reporting

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The government adopted the Auditor General's accounting interpretation for the treatment of net pension assets for 2015-16 through a time-limited regulatory amendment ('the pension adjustment').

The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit and an increase of $1.5 billion to the annual deficit for 2015-16.

Consistent with the regulated accounting treatment adopted in the *Public Accounts of Ontario 2015-16*, the medium term fiscal outlook provided in this Document also reflects a cautious approach to forecasting the pension adjustment in each year. This cautious approach to forecasting the pension adjustment results in an estimated potential impact of $2.2 billion in 2016-17, $2.8 billion in 2017-18 and $3.7 billion in 2018-19. [np2]

The government has established a Pension Asset Expert Advisory Panel to assess the interpretation of public sector accounting standards as related to Ontario's pension plans. The Panel will also

provide advice on how to value pension assets reported on the Province's books, taking into account future decisions that might be made by the plans' sponsors. Specifically, the Panel will help to inform the amount of net pension assets which should be reflected on the Province's financial statements. A net pension asset arises when the government's total contributions to a plan, including interest earned thereon, are greater than the pension expense recognized since the start of the plan.

The Panel's recommendations will help inform the development of the 2017 Budget and the Province's future accounting treatment for net pension assets.

OFA to onfirm if wording appropriate
OFA to confirm if wording appropriate


Office of the Budget
MINISTRY of FINANCE

From: Christina Zhang
To: Ken Kandeepan
Cc: Bonnie Lemcke
Subject: RE: SCOPA 2016 Friendly QAs_Oct 4 2016_10am_OFA edits.docx
Date: Tuesday, October 04, 2016 11:15:24 AM
Attachments: SCOPA 2016 Friendly QAs_Oct 4 2016_11am_OFA edits.docx

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Hi Ken,

I made some further minor edits to the Friendlies. Similar to the other edits, I amended the wording to show that the 8.5 cents is the lowest It has been in 25 fiscal years or since 1990-91.

I've also checked with DMO and that the two Moody's Friendlies that we added is all we need thus far.

If you're okay, I'll send these along to DMO.

Thanks again.
Christina

From: Ken Kandeepan
Sent: Tuesday, October 04, 2016 10:18 AM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: SCOPA 2016 Friendly QAs_Oct 4 2016_10am_OFA edits.docx

Revised as discussed.

Ken k

Friendly Questions

1. Q. ~~Our government has a target for reducing the net-debt-to-GDP ratio. Can you tell us more about the target and how our government is doing in terms of reaching that target?~~

A. ~~Net debt, as of March 31, 2016, is forecast to be $296.1 billion, $2.8 billion lower than forecasted in the *2015 Budget*. Net debt was $284.6 billion as of March 31, 2015. The net debt-to-GDP ratio is forecast to peak at 39.6 per cent in 2015–16, remain level in 2016–17, and decline to 38.9 per cent in 2017–18 and 38.5 per cent in 2018–19.~~

~~Ontario conducts a robust and responsible borrowing program that protects the public interest. The government successfully completed its annual borrowing program in 2015-16, borrowing $32.1 billion. Long-term borrowing for 2016–17 is forecast to be $24.4 billion when factoring in $2.0 billion pre-borrowed in 2015–16. This will be the Province's smallest borrowing program since 2007–08.~~

~~As of August 31, 2016, the Province had borrowed $12.5 billion for the fiscal year. Approximately 71per cent of this year's borrowing-to-date has been completed in Canadian dollars. The remainder of the Province's borrowing-to-date has been completed in international currencies primarily through U.S. dollar global bonds, and two small Australian dollar Kangaroo bond issues.~~

~~Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The *2010 Budget* forecast that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 2.7 cents lower, at 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through the outlook period in 2018–19.~~

~~Term extension has allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.~~

~~Going back to the beginning of fiscal 2010-11, Ontario has issued $59.1 billion of bonds longer than 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.6 years as of August 31.~~

2. Q. ~~Noting that a key indicator of the government's ability to carry its debt entails examining the level of debt relative to the size of the economy, can you please explain further what the forecasted net debt-to-GDP ratio is for Ontario?~~

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~~What effect does this have on the government's commitment to balancing the budget by 2017-18?~~

~~A. The Province's net debt-to-GDP ratio is expected to peak in 2015-16 at 39.6 per cent, remain unchanged in 2016-17 and begin to decline in 2017-18.~~

~~The government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level. Net Debt increases primarily for two reasons: to finance deficits and invest in capital assets. In the first few years after the global recession in 2008-09, the increase in net debt was primarily due to the deficit. However, the government is on track to eliminate the deficit and balance the budget by 2017-18. Once a balanced budget is achieved, the increase in net debt will be limited to the net investment in tangible capital assets.~~

3. Q. Why was the deficit lower than projected? Where does the government stand when it comes to reaching a balanced budget?

A. Since the last time the Office of the Auditor General reviewed these statistics in its 2013 Annual Report, the province's net debt-to GDP ratio has improved from 39.1 per cent to 38.~~6~~5 per cent for 2013-14 and remained relatively unchanged for 2014-15 at ~~40~~39.~~1~~4 per cent. This improvement is a direct result of better than forecast deficits. ~~, although the ration for the out years has been impacted, primarily by decreases in the GDP forecast~~.

With regard to debt management, the government's support for and commitment to economic growth will maintain debt at sustainable levels and achieve its target of reducing the net debt-to GDP ratio to the pre-recession level of 27 per cent.

The province has consistently beaten its annual deficit targets over the last five years. ~~, resulting in borrowings and accumulated deficits that are $ 25 billion lower that they would otherwise have been~~. A major contributor toward beating annual deficit targets has been the focus on annual expenditure management limiting the growth in program spending to an average of 1.5 percent from 2010-11 to 2013-14. The government has also addressed Ontario's infrastructure needs through targeted capital investments.

4. Q. Chapter 2 of the Auditor General's 2015 annual report speaks to the increased vulnerability of Ontario with respect to interest rates. She points to the possible rise in rates related to borrowing.

However, I am also aware that the Province has consistently kept interest on debt costs below budget projections.

What steps has the government taken to reduce borrowing and keep interest on debt costs low?

A. Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The 2010

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Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents on interest for every revenue dollar received. The current forecast is 2~~3~~7 per cent lower, at ~~9~~8.5~~.0~~ cents of interest costs for every dollar of revenue. This ratio is the ~~lowe~~lowest it has been~~r than it was~~ in ~~the~~ 2~~1~~4~~5~~ fiscal years ~~from 1992~~1 ~~93~~2 ~~to 2005-06~~or since 1990-91, and is forecast to remain low~~er~~ through the period to balance in 2017–18.

Extending the term of the debt that the Province issues has locked in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

Going back to the beginning of fiscal 2010–11, Ontario has issued $59.1 billion of bonds that do not mature for at least 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.~~6~~3 years as of September 30~~August 31~~.

5. Q. The stranded debt arose under the *Energy Competition Act of 1998*, and its schedule, the *Electricity Act, 1998*. The *Electricity Act, 1998*, also enabled the implementation of the Debt Retirement Charge (DRC) on electricity ratepayers.

Since May 2002, residential and other electricity users have been paying the DRC of 0.7 cents per kilowatt hour (kWh) on their electricity bills. The DRC is paid to the Ontario Electricity Financial Corporation (OEFC) to help service and pay down the stranded debt that arose because of the restructuring of Ontario's electricity sector under the *Energy Competition Act, 1998*.

However, I know that the government eliminated the DRC from residential bills as of January 1, 2016.

This legacy charge from the Harris government was eliminated from residential bills about 2 years earlier than previously estimated – saving the average residential user about $70/year.

Can you please inform the committee of the commitment that the government has to eliminating the debt retirement charge cost for commercial, industrial and all other electricity users by 2018?

A. Thank you for the question.

As part of its commitment to reduce electricity cost pressures, the government has removed the Debt Retirement Charge (DRC) from residential electricity users' bills as of January 1, 2016.

This would save a typical residential user about $70 each year and meant ending the DRC earlier for these users than otherwise provided for in the *Electricity Act,*

1998, as originally enacted. As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act, 2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.

- A large industrial using 3,000 megawatt-hours (MWh) per month could save $21,000 per month, or about seven per cent off its electricity bills;
- For a large northern industrial in the Northern Industrial Electricity Rate program, this could be more than an eight per cent savings; and
- A small business using 20,000 kilowatt-hours (kWh) per month could save $140 per month, or about four per cent.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

I would note the following context. The government's electricity sector reforms in the Electricity Restructuring Act, 2004, and others, have put the stranded debt recovery plan back on track. Based on interim numbers in Budget 2016, this is projected to be the twelfth consecutive year that the stranded debt has been reduced, to under $5 billion as at March 31, 2016, from $20.6 billion as at March 31, 2004. This allowed the government to follow through on its commitment to reduce electricity cost pressures.

6. Q. Deputy Minister Orencsak, you mentioned that the C.D. Howe Institute has given positive feedback about the government's reporting practices. Why is that significant?

A. The C.D. Howe document "By the Numbers: The Fiscal Accountability of Canada Senior Governments, 2015" notes that Ontario along with Ottawa have "long stood out for relatively good financial presentations. " When evaluating the reporting practices and fiscal documents across Canada, the document rated Ontario an "A" grade.

The "A" grade was based on presentation criteria, as well as timeliness in their reporting schedule and timeliness of the public accounts audit. Ontario's public accounts and budget exhibited the following positive qualities per the C.D. Howe institute:

1. PSAB-consistent revenue and spending balances in public accounts
2. Revenue and spending figures that match the earliest budget figures in public accounts
3. Prominent comparison of actual results with budget plans
4. Estimates on the same bases as the budget and public accounts
5. The Province provides interim reports toward Budget targets and

6. No major audit reservations in public accounts.

Ontario and several other provinces were praised for having their budgets prepared on the same accounting basis as their end-of-year public accounts. In having budget and public accounts on the same basis, Ontario and the other such provinces have increased transparency and comparability to their citizens.

7. Q. Everyone has been doing more with less, and that includes the government. For example there are 6% fewer full time employees in the civil service now, compared to 2008. What else is the government doing to ensure its bringing costs down? What results have been achieved so far?

A. The Ontario Economic Outlook and Fiscal Review in fall 2014 announced Program Review, Renewal and Transformation (PRRT) as a key element of the government's plan to achieve a balanced budget.

PRRT is a fundamentally new approach to multi-year planning and budgeting, and is designed around four key principles:

- Examining how every government dollar is spent
- Using evidence to inform better choices and improve outcomes
- Looking across government to find the best way to deliver services, and
- Taking a multi-year approach to find opportunities to transform programs and achieve savings.

At the same time, the government is making tough choices to end programs that are not performing, do not link to key priorities or no longer serve a clear public interest.

The 2014 Budget announced that the government was implementing an annual program review savings target, and set the target at $250 million for 2014-15. The target was met through a number of initiatives that achieved the reductions while continuing to support front-line services.

An additional year-end savings target of $1.1 billion built into the plan was also achieved.

The government met its program review savings target through initiatives such as:

- Negotiating lower prices for goods and services
- Finding internal efficiencies in information technology data centre, desktop and service management operations
- Modernizing the delivery of natural resources management programs

- Restraining compensation growth in line with the government's "net zero" policy

- Finding operational and administrative efficiencies across government, including reducing the government's office footprint and prudent management of discretionary costs, such as supplies and travel.

In the 2015 Budget, the government announced a number of opportunities identified through PRRT to improve outcomes while supporting fiscal objectives. They included:

- Changing business tax credits

- Modernizing programs delivered through ServiceOntario

- Reducing the government's office footprint

- Getting better value for money invested in health care programs and services.

8. Q. Why is it important that the government has consistently beaten its deficit reduction targets in terms of the province's finances?

A. The government is dedicated to a fiscally sound approach to managing the Province's finances, which will provide the foundation for the long-term well-being and prosperity of Ontarians.

The government remains on track to eliminate the deficit by 2017-18. By continuing to beat our fiscal targets~~, Ontario's accumulated deficit is $30 billion lower than it otherwise would have been~~.

Through prudent and cost-effective debt management, the Province has also consistently kept interest on debt costs below budget projections.

Term extension has allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

In addition, we have maintained a rigorous approach to control program spending to reduce Ontario's net debt-to-GDP ratio to its pre-recession level.

Our path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

Our plan is to first balance the budget while continuing to make strategic investments in capital assets. These infrastructure investments will stimulate economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio.

9. Q. There's been concern about Ontario's net debt-to-GDP being significant; however the government is making large-scale infrastructure investments. How are these investments helping the people of Ontario?

A. The government's position is that the renewal and expansion of public infrastructure supports Ontario's industries, creates jobs and provides long-term benefits and improves the lives of Ontarians.

Large investments have been announced and made for improvements in the province's infrastructure. The province is making public infrastructure investments of more than $137 billion over the next 10 years. This builds on the 2014 Budget commitment to invest in infrastructure – resulting in about $160 billion of investment over 12 years, starting in 2014-15.

The revenues allocated to the Trillium Trust will be used to support building transit, transportation and other priority infrastructure as part of the Moving Ontario Forward plan.

A September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

Ontario's planned investments in public infrastructure are expected to support over 110,000 jobs per year on average.

Building and revitalizing public infrastructure are essential to strengthening Ontario's economy.

10. Q. Given that compensation accounts for half of government spending, what has the government done to help alleviate the strain on finances as it works toward balancing its budget?

A. The government remains committed to balancing the budget by 2017-18 and managing compensation costs has been a key element of achieving this goal.

The 2016 Budget emphasized that all public-sector partners must continue to work together to control current and future compensation costs.

Since then, collective agreements have been reached in a number of key sectors, including the education sector, Ontario Public Service and provincial energy corporations that are consistent with the government's fiscal plan.

From July 2012to September 2016, the provincial public sector annual wage increases have averaged 0.6%, compared to the municipal sector at 1.7%, the private sector at 1.9% and the federal public sector in Ontario at 1.7%.

The Government has achieved a number of net-zero deals, including:

In August 2014, the Government reached a new net-zero four-year agreement with AMAPCEO, which produced savings of approximately $45 million. The agreement included zero across-the-board increases in the first two years and modest increases in the third and fourth years that were offset by savings elsewhere in the collective agreement.

On Oct. 30, 2015, the Government ratified a new net-zero three-year agreement with the Unified Bargaining Unit in OPSEU.

The Unified agreement includes no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4 per cent one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4 per cent pay increase.

The agreement is consistent with the fiscal plan. The lump-sum payment in 2016 and pay increase in 2017 are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

In May of 2016, the government was able to achieve a net-zero negotiations and arbitration settlement outcome with OPSEU Corrections.

The government has a reached a tentative agreement with the Provincial Engineers Government of Ontario (PEGO) that still needs ratification by members. As such we cannot comment on the details of this deal.

11. Q. There are changes ahead for retiree benefits, how will they help the government's bottom line and how do they compare with what is happening in the private sector? How important are these kinds of changes to our plan to balance the budget?

A. Currently, persons in receipt of a pension from the Public Service Pension Plan (PSPP) or OPSEU Pension plan who have a minimum 10 years of pension credit are entitled to post-retirement group health, dental and life insurance coverage. The Ontario government pays 100% of monthly premium costs.

On Feb. 18, 2014, the government announced that the post-retirement benefits eligibility criteria and cost-sharing terms would be changing in 2017.

PSPP and OPSEU Pension Plan member employees who do not have 10 years of pension credit as of Jan. 1, 2017 would be required to have at least 20 years of pension credit to retire to an immediate unreduced pension in order to be eligible for post-retirement benefits.

Also, eligible persons who have not commenced receiving a pension before Jan. 1, 2017, would be required to pay 50% of the life, health, dental and vision and hearing aid premiums.

Employees who commenced receiving a pension before Jan. 1, 2017 will not be affected by these changes.

Announcement of the changes led to a reduction of the retiree benefit program liability by over $1 billion and brings Ontario Public Service retiree benefits more in line with other public sector organizations.

Some other public sector workers pay 100% of their benefits premiums.

Eligible retirees include former employees of the OPS, as well as former employees of other employers which participate in the OPS pension plans.

Retired judges, justices of the peace and Ontario Provincial Police Association (OPPA) members have independent retiree benefit terms.

By transitioning to a new cost-sharing model for retiree benefits, the government is moving in line with the private sector and other public sector organizations.

12. Q. The Auditor General identifies significant accounting issues related to her audit of the Province's consolidated financial statements. Some of the issues are related to accounting standard changes. Since both Ontario's budget and actual results are based on PSAB accounting standards, such changes could impact the transparency and accountability of the government's financial reports as well as fiscal policy decisions. Can you please describe if these issues are ongoing and what has been done to rectify them?

How long will it be before this is resolved?

A. As your question points out, in addition to adopting PSAB as the basis to present its actual results, Ontario has also made a **policy decision** to adopt PSAB as the basis for the government's fiscal planning process which means that changes in PSAB's accounting standards can implicitly impact fiscal policy decisions.

As has been mentioned already, the **CD Howe Institute** has given Ontario an "A" grade for the quality of our financial reporting, based on a number of factors

including the fact that we present PSAB-consistent revenue and spending balances in public accounts, and the timeliness of our reporting schedule. The fact that the actual results have been independently audited by the AG and that we have received unqualified audit opinions over the past 22 years now, means that the public and legislature can rely upon the results reported by the government.

There is tremendous value in **independently established accounting standards**, and especially for standards which are prepared taking the unique accountability and transparency needs of the public sector in mind. In this regard, Ontario has continued to support the public sector accounting standard setting process. Input to the process by stakeholders is critical to ensure high-quality standards which meet user needs and which serve **the public interest.** And we take this responsibility very seriously.

Ways that we support the standard setting process include:

- **Monitor communications** from the Public Sector Accounting Standards Board related to upcoming projects to identify potential areas of interest/concern
  Similarly, we also monitor accounting standard developments which may impact our **GBEs** (for example, potential changes in standards impacting OLG, LCBO, H1 or OPG).

- Attend as **observers meetings of the Accounting Standards Oversight Council** to hear presentations by the Chair of the Public Sector Accounting Board and the Accounting Standards Board related to current projects and issues that they are dealing with. In the past we have had Deputy Minister representation on the Oversight Council with specific background in fiscal policy (Phil Howell). Such participation helped to ensure a more robust discussion of potential standard changes on governments.

- Participation by past **Provincial Controllers** as members of the Public Sector Accounting Standards Board. For example, our recently retired ADM and Provincial Controller, Murray Lindo, still sits on PSAB, although his 3 year term will be coming to an end next March. Although this position requires that the individual represent himself and his own views (and not represent the views of the government), it is nonetheless valuable to have a voice at the table to ensure that the real impacts of any potential changes on the quality of financial information are identified and discussed. It has been valuable for example to know that the continuing debate about Financial Instruments and Government Transfers is informed by both the accounting and fiscal perspective that Ontario's Provincial Controller would bring to the table.

- Ontario provides **input to PSAB's strategic plan** to help inform decisions on key areas that PSAB should focus.

- We also provide **input on an individual project by project** basis for each standard change that PSAB issues for comment. Occasionally, such projects could require several responses over the course of the project. For example, the PSAB standard on government transfers took 9 years to develop and input continues to date as part of PSAB's on-going review of issues related to the consistency of application related to the standard.

- Occasionally, we **stakeholder with PSAB staff** on specific matters like concerns related to the Financial Instruments standard. In this case staff from both OPCD and the OFA participated in discussions with PSAB.

- We **observe PSAB Accounting Discussion Group** meetings to hear representatives from the Board, audits and preparers discuss specific issues identified by public sector entities.

- Depending on the significance of a particular item, **Ontario has often played the lead in championing inter-jurisdictional dialogue and joint action plans** to support the quality of PSAB's standard setting process. For example, the OFA has collaborated with other members of the Canadian borrowing community to compile analysis and feedback to PSAB on its Financial Instruments standard. A past DM of Finance (Colin Anderson) Co-Chaired an inter-jurisdictional PSAB/Deputy Minister of Finance Joint Working Group which was formed in 2007 in light of key concerns being raised by governments related to PSAB's direction.

- Most recently, Ontario is **Chairing a Fiscal Expert Panel** which will be meeting later this week to discuss PSAB's current project on its Conceptual Framework in an effort to gather views and valuable input to share with PSAB on this foundational and critically important project. The outcome of the project will influence the direction of future public sector accounting standards.

This list is **not exhaustive**, but I hope that it gives you the sense of the significant time and effort that Ontario invests in supporting the quality of public sector reporting. We are committed to meeting user needs for transparency and accountability in public sector reporting. We will continue to invest the time and effort required to provide valuable input to PSAB's standard setting process.

13. Q: Moody's just released a report noting that Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy. Can you explain how your conservative debt management policies are keeping debt service costs manageable?

A: According to Moody's, "low interest rates will keep interest costs in line with current levels." Moody's also states that "Ontario's strategy of issuing debt across a variety of maturities and markets helps ensure good access to funding and low financing costs. To protect against unfavorable market conditions, Ontario has in recent years increased its liquidity reserves. The province has also extended its weighted average debt maturity to take greater advantage of low interest rates."

This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs.

The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. Currently, the Province spends 8.5 cents of every revenue dollar on interest, 3.2~~5~~ cents lower than what was forecast in 2010.

This ratio is ~~lower than it was in the 1990s and 2000s~~the lowest it has been since 1990-91, and is forecast to remain low~~er~~ through the outlook period in 2018–19.

14. Q: Moody's just released a report noting that Ontario's policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices has helped to support the province's Aa2 rating. Can you explain how borrowing for infrastructure helps support the province's credit rating?

A: According to Moody's although Ontario's debt will continue to increase over the medium term as it funds its 10-year infrastructure plan "any negative impact on the province's credit strength will be counterbalanced by rising revenues and a return to budgetary balance."

The government plans to invest more than $137-billion in capital over 10 years, and $160 billion over the 12-year period starting in 2014-15.

Investments in capital, supplement GDP growth and the net debt-to-GDP ratio will come down more quickly than it would without these investments. Once a balanced budget is achieved, the increase in net debt will be limited to difference between the cash investment to build the assets and the amortization, which is a non-cash amount.

WSIB QAs from last year – WSIB to review and advise.

15. Q. The Auditor General has discussed the WSIB in her report for a couple of years, suggesting that the government reconsider the exclusion of the WSIB's financial results from the Province's consolidated financial statements. Her suggestion is based on the risk that the province might have to provide funding to ensure the WSIB remains viable. Why hasn't the government consolidated the WSIB on its books?

A. Under public sector accounting standards the province only consolidates those organizations which are assessed as controlled. Where province has the power to govern the financial and operating policies of an entity with expected benefits of risk or loss, it is consolidated on our books. This is not the case with the WSIB, and furthermore the Province doesn't have any legal liability for the debts of the WSIB.

In fact, the WSIB is really a non-controlled trust in nature, and such trusts are not consolidated on the basis that it would distort the Province's books if the trust's assets, liabilities, revenues and expenses were shown on our books. Since the government does not have any legal responsibility for the unfunded liability, and does not control the entity, we feel that it should remain non-consolidated.

The current exclusion of the entity from our books best serves transparency and accountability. Otherwise, the public and legislature would assume that the WSIB debt is taxpayer debt and that any net operating income/loss of the WSIB would somehow impact the taxpayer.

16. Q: What progress has the WSIB made on its target to be fully funded by 2027?

17. Q: Can you please give us an update on the status of the WSIB review of its long term financial viability?

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From:	McLean, David (MOF)
To:	Anna Strathy
Cc:	Kim, Minzi (MOF); Kobrinsky, Liza (MOF); Gadi Mayman; Ken Kandeepan
Subject:	RE: Status Table_Ch 2 of AG AR_SCOPA_20180208 (OFA Update).docx
Date:	Monday, February 12, 2018 9:34:35 AM
Attachments:	Status Table_Ch 2 of AG AR_SCOPA_20180212 (OFA Update).docx

Hi Anna,

Sorry for the delay. See the DM's edits attached. He would like to keep the first line about the Budget and FES language on the 27%. Other than that, just some minor wording changes.

Thanks
Dave

From: Anna Strathy [mailto:Anna.Strathy@ofina.on.ca]
Sent: February 9, 2018 3:59 PM
To: McLean, David (MOF)
Cc: Kim, Minzi (MOF); Kobrinsky, Liza (MOF); Mayman, Gadi (OFA); Kandeepan, Ken (OFA)
Subject: Status Table_Ch 2 of AG AR_SCOPA_20180208 (OFA Update).docx

Hi Dave,

As discussed in our 12:00pm meeting with the Secretary of Cabinet, we've revised the wording in the attached Status Table for SCOPA that pertains to recommendation #7 (debt). I've included our edits in track changes (p. 10-11).

If the Deputy is comfortable with this version, I'll send it along to OPCD to incorporate our changes.

Thanks, Anna

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Summary Status Table in Response to the
Report of the Auditor General of Ontario

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Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and b) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

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	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. The government respectfully disagrees with the Auditor General's interpretation of the accounting standards on this issue as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

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AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

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by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

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	conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

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our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*		

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their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

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• *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

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states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

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	which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%~~,~~ ~~currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments.~~ The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. ~~The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets.~~ These investments ~~will~~are intended to grow ~~contribute to~~ the economy ~~growing~~ at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio. The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term.	Continue to monitor progress. ~~Estimated implementation by FY 2029-30.~~

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Summary Status Table in Response to the Report of the Auditor General of Ontario

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Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

	Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining~~, falling to 37.3% in 2017-18~~ from its 2014-15 peak of 39.3%. As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

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barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and personal income tax revenues.	The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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	While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	
AG Recommendation #10 *We recommend that the government determine when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.*	Under the *Fiscal Transparency and Accountability Act*, 2004, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a Statement based on a prompt review following the release of such a Pre-Election Report.	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

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Summary Status Table in Response to the Report of the Auditor General of Ontario

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Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

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From: Ken Kandeepan
To: John Psinas
Cc: George Sakura; Anna Strathy; Kevin Hwang; Shemin Meralli
Subject: RE: Status Update
Date: Sunday, September 03, 2017 10:17:29 AM
Attachments: image001.png

Thanks John, this is excellent, much appreciated, we can discuss on Tuesday.

Ken k

From: John Psinas
Sent: Friday, September 01, 2017 2:57 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: George Sakura <George.Sakura@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>
Subject: Status Update

Ken,

A status update from the last two weeks:

1. The Fair Hydro Plan seems to have stalled a bit. In order to reach the Treasury Board meeting in late September, Matt informs me that Gadi needs to sign the submission by next Wednesday but there are still issues that are awaiting decision or input from OPG, Energy, MoF (legal) and OPCD. Cindy has provided some edits (item # 1 attached). The current plan, in discussion with Matt, is that it is crucial that the TB meeting on the Fair Hydro Plan is done in September, as the October TB meeting may jeopardize the ability to go to the market in a timely manner. I venture at this point that that the TB submission may have to be 'walked in" to TB at their meeting, provided all the issues can be resolved in the next little while. While ordinarily TB is strict on the protocol about receiving documents weeks in advance, they may be more lax given the importance of the Fair Hydro Plan. Barring that, then the TB submission will have to be signed by Wednesday in draft form, with issues that are unresolved/to be clarified. John Kim has called for meeting on the Fair Hydro Plan on Tuesday afternoon.

2. Public Accounts is scheduled, pending approval from the Minister, for September 7th. I spoke to OPCD this morning, and they confirm the AG made the two qualifications of her opinion that were expected. The last of the media Q&As have been edited, and there is nothing further for the OFA to do, apart from some web publishing after September 7. We are arranging physical copies to come to the office after publication. The last legal day for the PA to be published is September 27th.

3. I attend the SCOPA pre-brief yesterday and was asked to talk about our plan to reduce debt. Karen was fine with our wording on reaching the 27% net debt to GDP goal in 2029-30. However, she anticipated questions from SCOPA on details of formal "funding strategy" for contaminated sites.

RECOMMENDATION 5 Treasury Board Secretariat provide the Committee with the plan for funding the liability for contaminated sites for $1.79 billion.	**Fully Implemented** • The Inter-ministerial Contaminated Sites Assistant Deputy Ministers' Steering Committee has implemented a risk-based model for site prioritization to make recommendations to Treasury Board for annual funding and resource allocation priorities. • Guided by the prioritization model, annual drawdowns on sites with existing liabilities will be cash management issues for the government, while ministries are using the annual PRRT process to identify funding risks related to using their fiscal envelope for remediation work on new liabilities which require appropriations, to revise historical liability estimates or for costs to manage contaminated sites not covered under PSAB 3260. • For example, ministries' fall 2017 Program Review submissions outlined funding requirements for the remediation of 65 specific high-risk sites. The Program Review submission includes annual and long-term funding strategies for remediating the province's contaminated sites, focusing on those assessed as higher priority for the next eight year period.	• N/A

While she admitted this is not likely the OFA's responsibility, she did indicate that a pre-meeting may need to happen to discuss the funding plan. I asked her if she meant the plan of the ADM Steering Committee that decides what sites get prioritized with expenditures first, but she seems to think SCOPA might inquire just on the multi-year clean- up funding plan in place for these future expenditures. I did not mention that we don't borrow for specific programs like cleaning up contaminated sites given her previous comments that this is not likely the OFA's responsibility, but a meeting may be called on this regardless. When I lead

the Contaminated Sites project several years ago, we accrued a nearly $2 B liability.

4. The next PSAB board meeting is September 21 and 22. PSAB meetings, unlike the oversight committee that is responsible for PSAB, are closed to the public and as such, I don't know what the agenda is. It is possible that some report back may be made to the board on the stakeholder exercise with municipalities and not-for-profits on Financial Instruments. As requested though, we have updated our old submission with March 31, 2017 information. We have simply replaced four year old quantitative data with new, and have kept the wording to be sent to Charles Antoine (item 2a and 2b) for your review. I have left a binder of the document with reference material on your chair. I have also attached Deloitte's observations (item 2c) of the Borrower's Conference, and their presentation that day (2d).

5. Perhaps Risa and I can have a discussion with you next week on what sort of support and accountability is needed with respect to new MoF loans. They are asking for OFA for loan repayment templates and (IT) procedures for receivables that will be on MoF's books.

6. We had an FAO request. They asked for a slew of historical information from ourselves, OEP, *et al* going back to 1981. They wanted us to replicate the financing table with historical information but I told them we couldn't do that as a large portion of the information on deficits, TCA, should come from OPCD and treasury board. We did however, provide them new issues and redemptions lifted from the public accounts volume 1 (or equivalent) going back 35+ years. Please see item # 3 in the attachment.

7. We had a teleconference with MAG legal and their consultants. They are trying to calculate the cost of capital to the province from 1954 to 2017 using public accounts information, in order to determine possible damages incurred by the province on health care due to tobacco consumption, and levy it on cigarette manufacturers should they win their lawsuit. They will sift through Public Accounts (minus electricity debt, etc, that cannot easily be linked to their claim) and ask us to take a look at their calculation.

8. We have just received some Estimates Defence documentation and we are updating it now.

9. Our internal audit specialist who is documenting our internal controls needed to ask the OFA Board some governance questions. I said no, he can't talk to the board, but he agreed instead that a simple discussion with yourself can be sufficient. He has the questions ready, but also drafted potential answers that he gleaned from his other interviews and documents read. In order to mark off this requirement, may I ask if you can spare 20 minutes in the next while to discuss it with him.

   If you recall, OPCD instigated this request, but I am still not sure if they want COA attestation different than what Siva provides. Perhaps we can discuss this next week as well as I asked Lydia Zhu to take a look at his final documents and to discuss the audit plan next year. I plan to meet with her in late September/early October and give OPCD our internal control documentation shortly after if IAD finds the work sufficient.

10. If you recall, the OAG will start their Green Bond audit in two weeks (the last two weeks of September). I have not heard back yet from the OAG to finalize their plans, but I have already warned cash management and capital markets to please get ready.

Thanks.

John

RECOMMENDATION 5 Treasury Board Secretariat provide the Committee with the plan for funding the liability for contaminated sites for $1.79 billion.	**Fully Implemented** • The Inter-ministerial Contaminated Sites Assistant Deputy Ministers' Steering Committee has implemented a risk-based model for site prioritization to make recommendations to Treasury Board for annual funding and resource allocation priorities. • Guided by the prioritization model, annual drawdowns on sites with existing liabilities will be cash management issues for the government, while ministries are using the annual PRRT process to identify funding risks related to using their fiscal envelope for remediation work on new liabilities which require appropriations, to revise historical liability estimates or for costs to manage contaminated sites not covered under PSAB 3260. • For example, ministries' fall 2017 Program Review submissions outlined funding requirements for the remediation of 65 specific high-risk sites. The Program Review submission includes annual and long-term funding strategies for remediating the province's contaminated sites, focusing on those assessed as higher priority for the next eight year period.	• N/A

From: Ken Kandeepan
To: Lynsey Wynberg
Cc: John Psinas
Subject: RE: TBS FACT CHECK - PAEAP NR - 3PM DEADLINE
Date: Tuesday, February 07, 2017 4:35:04 PM

Yes, the reversal of the pension adjustment reduces the net debt published in the 2015-16 Public Accounts by $10.7 billion.

Thanks

Ken k

From: Lynsey Wynberg
Sent: Tuesday, February 07, 2017 4:24 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: Fwd: TBS FACT CHECK - PAEAP NR - 3PM DEADLINE

Begin forwarded message:

> **From:** "Patel, Lesley (MOF)" <Lesley.Patel@ontario.ca>
> **Date:** February 7, 2017 at 3:57:01 PM EST
> **To:** "Wynberg, Lynsey (OFA)" <Lynsey.Wynberg@ofina.on.ca>
> **Subject: Re: TBS FACT CHECK - PAEAP NR - 3PM DEADLINE**
>
> We have removed the $2.2 billion from the quick facts.
>
> Can your team please confirm if the $10.7 number in the first quick fact is accurate.
>
> Sent from my BlackBerry 10 smartphone on the Rogers network.
> From: Lynsey Wynberg
> Sent: Tuesday, February 7, 2017 3:48 PM
> To: Patel, Lesley (MOF)
> Subject: Fwd: TBS FACT CHECK - PAEAP NR - 3PM DEADLINE
>
> Begin forwarded message:
>
> From: Ken Kandeepan
> <Ken.Kandeepan@ofina.on.ca<mailto:Ken.Kandeepan@ofina.on.ca>>
> Date: February 7, 2017 at 3:47:16 PM EST
> To: Lynsey Wynberg

<Lynsey.Wynberg@ofina.on.ca<mailto:Lynsey.Wynberg@ofina.on.ca>>
Subject: RE: TBS FACT CHECK - PAEAP NR - 3PM DEADLINE

Agreed, then is it also appropriate to include the reference to the $2.2 billion in the Quick Facts section

thanks

Ken k

From: Lynsey Wynberg
Sent: Tuesday, February 07, 2017 3:40 PM
To: Ken Kandeepan
<Ken.Kandeepan@ofina.on.ca<mailto:Ken.Kandeepan@ofina.on.ca>>
Subject: Fwd: TBS FACT CHECK - PAEAP NR - 3PM DEADLINE

Begin forwarded message:
From: "Patel, Lesley (MOF)"
<Lesley.Patel@ontario.ca<mailto:Lesley.Patel@ontario.ca>>
Date: February 7, 2017 at 3:38:10 PM EST
To: "Wynberg, Lynsey (OFA)"
<Lynsey.Wynberg@ofina.on.ca<mailto:Lynsey.Wynberg@ofina.on.ca>>
Subject: RE: TBS FACT CHECK - PAEAP NR - 3PM DEADLINE
Is the $10.7 number accurate? OB has asked that the line Ken refers to is removed completely as this would be in Q3 finances that is released later in Feb.

From: Lynsey Wynberg [mailto:Lynsey.Wynberg@ofina.on.ca]
Sent: February-07-17 3:35 PM
To: Patel, Lesley (MOF)
Subject: Fwd: TBS FACT CHECK - PAEAP NR - 3PM DEADLINE

Begin forwarded message:
From: Ken Kandeepan
<Ken.Kandeepan@ofina.on.ca<mailto:Ken.Kandeepan@ofina.on.ca>>
Date: February 7, 2017 at 3:26:11 PM EST
To: Lynsey Wynberg
<Lynsey.Wynberg@ofina.on.ca<mailto:Lynsey.Wynberg@ofina.on.ca>>
Subject: RE: TBS FACT CHECK - PAEAP NR - 3PM DEADLINE
Sorry Lynsey, just got back from Whitney Block, hope its not too late. Two comments:

No mention of net debt

“For 2016-17, the province’s fiscal position will improve by $2.2 billion”. This

statement should be caveated as follows; Assuming no other changes, the Province's fiscal position when compared to the FES will improve by $2.2 billion"

Thanks

Ken k

From: Lynsey Wynberg
Sent: Tuesday, February 07, 2017 1:36 PM
To: Ken Kandeepan
<Ken.Kandeepan@ofina.on.ca<mailto:Ken.Kandeepan@ofina.on.ca>>
Subject: FW: TBS FACT CHECK - PAEAP NR - 3PM DEADLINE
Importance: High

Hi Ken,

Can you please take a quick look at the draft NR and advise of any edits?

Thanks,
Lynsey

From: Patel, Lesley (MOF) [mailto:Lesley.Patel@ontario.ca]
Sent: Tuesday, February 07, 2017 1:32 PM
To: Birks, Ryan (MOF)
<Ryan.Birks@ontario.ca<mailto:Ryan.Birks@ontario.ca>>; Jamie Buckland Foster (MCYS)
<Jamie.Buckland.Foster@ontario.ca<mailto:Jamie.Buckland.Foster@ontario.ca>>; Lynsey Wynberg
<Lynsey.Wynberg@ofina.on.ca<mailto:Lynsey.Wynberg@ofina.on.ca>>
Cc: Alex Killoch (MOF)
<Alex.Killoch@ontario.ca<mailto:Alex.Killoch@ontario.ca>>
Subject: TBS FACT CHECK - PAEAP NR - 3PM DEADLINE
Importance: High

Hi all,

Please find attached a news release with regards to the Pension Asset Expert Advisory Panel report for fact check.

Please send any edits back before 3pm.

Thanks,
Lesley

p.s. Also please let me know the status of the Q&A document if you have not send your edits as yet.

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

From: Ken Kandeepan
To: Tara McGrath (MOF)
Cc: Emma Lindquist (MOF); George Sakura
Subject: RE: The FAO"s Fall Economic and Fiscal Outlook Report
Date: Tuesday, October 11, 2016 3:17:00 PM
Attachments: image001.png

Well that's a fait accompli, at least until the external review. So my only request would be for the FAO, if it has not already done so, to include a comment that the impact of the pension adjustment will be subject to external review by an independent panel.

Thanks

Ken K

From: McGrath, Tara (MOF) [mailto:Tara.McGrath@ontario.ca]
Sent: Tuesday, October 11, 2016 1:49 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>
Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: RE: The FAO's Fall Economic and Fiscal Outlook Report

Hi Ken,

Thanks for this.

We're assuming based on your comments below that you don't have any particular concerns with the FAO's estimate of net debt rising due to the accounting treatment for assets – given that it is just an estimate. Is that correct? Thanks!

Tara

From: Birks, Ryan (MOF)
Sent: October-11-16 1:35 PM
To: Zhang, Christina (OFA)
Cc: McGrath, Tara (MOF); Lindquist, Emma (MOF)
Subject: RE: The FAO's Fall Economic and Fiscal Outlook Report

Thanks for much for sharing Ken's comments on the report, Christina.

From: Christina Zhang [mailto:Christina.Zhang@ofina.on.ca]
Sent: October-11-16 1:30 PM
To: Birks, Ryan (MOF)
Subject: FW: The FAO's Fall Economic and Fiscal Outlook Report

Hi Ryan,

Please see Ken's comments below.

Thanks,

Christina

From: Ken Kandeepan
Sent: Tuesday, October 11, 2016 11:51 AM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>
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Hi Christina

Pls see below our summary comments, thanks to Alex and George and their respective teams.

- The FAO's IOD forecast for 2016-17 and 2017-18 is more aggressive than the Province's own projections. The FAO is also more aggressive for 2018-19, however, that appears to be a result of the Province's time tested practice of using the 15 year average of interest rates as the basis of its forecast for the final out-year. This approach is more prudent than relying on current historically low interest rates and rate forecasts. The FAO is no doubt applying a different basis.

- The net debt numbers 2018-19 onwards differ from the Province's own projections due to the FAO assuming that the Province reverts back to deficits from 2018-19 onwards. Another reason for the net debt variance appears to be the FAO's capital investments assumption for the out years which differs from that of the Province.

Thanks

Ken K

From: Christina Zhang
Sent: Friday, October 07, 2016 4:16 PM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: FW: The FAO's Fall Economic and Fiscal Outlook Report

Thanks. We now have the formal request from OB. =)

From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
Sent: Friday, October 07, 2016 4:09 PM
To: Christina Zhang <Christina.Zhang@ofina.on.ca>; Tomasz Bugajski <Tomasz.Bugajski@ofina.on.ca>
Subject: FW: The FAO's Fall Economic and Fiscal Outlook Report

Hi Christina and Thomasz,

I just wanted to connect with you about providing comments to the attached FAO report (password: FAO1616). There are sections on Interest on Debt and Ontario's Net Debt in the Fiscal Outlook note that are of relevance to OFA.

OB is going to lead providing comments on the fiscal outlook. We've looped in OEP and TBS (PEMD, OPCD and CPD). Below is our proposed approach for feeding in comments:

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- OB to **submit consolidated feedback to the FAO by end of day**.

Thursday, October 13

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Please let me know if there are any issues with this approach.

Thanks,

Ryan

From: David West [mailto:dwest@fao-on.org]
Sent: October-07-16 3:04 PM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS)
Subject: RE: The FAO's Fall Economic and Fiscal Outlook Report

As promised, please find attached drafts of the 2 main chapters of our upcoming Economic and Fiscal Outlook report.
I have also attached a spreadsheet with the detailed appendix tables that we will include in the report.

We will also be drafting an Executive Summary that, along with these two chapters, will form the report.
I would hope to be able to provide you with the Executive Summary by end of day Tuesday.

As I mentioned below, we are hoping that you will be able to provide us with any comments by end of day on Wednesday, October 12.
I apologize for the tight schedule.

As I noted below, we ask that you treat these documents as confidential and restrict distribution to OPS staff.

The documents are password protected (which I'll provide separately).

Hopefully, you can enjoy the long weekend.

Thanks,

David West
416-579-1465

From: David West
Sent: October 6, 2016 8:50 AM
To: Tim Schuurman (Tim.Schuurman@ontario.ca) <Tim.Schuurman@ontario.ca>; 'karen.hughes@ontario.ca' <karen.hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>
Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; 'ryan.birks@ontario.ca' <ryan.birks@ontario.ca>; 'patrick.laughton@ontario.ca' <patrick.laughton@ontario.ca>
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Good morning Tim, Karen and Brian,

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The fall report will incorporate economic and fiscal information released since our spring report. The new information includes recently released economic data, updated economic projections of external forecasters as well as the new spending commitments included in the September Throne speech and the recent release of unaudited public accounts for 2015-16.

Our plan (and hope) is to release our report in advance of the Government's fall economic statement, to provide the Legislature with some context that may help in interpreting the government's updated fiscal outlook. As a result, and because of the delayed release of the public accounts, we have had to condense the schedule for our work.

I plan to provide you with a draft of the main content of our report on Friday. That is, I'll send you drafts of the economic outlook and fiscal outlook chapters, as well as the appendix with the detailed economic and fiscal projections. Early next week, I'll also send you an executive summary chapter that will accompany the economic and fiscal chapters.

We would ask for your comments by end of day Wednesday, October 12. We would be available to meet with MoF and TBS staff on Thursday morning to discuss the draft if you think that would be helpful.

As in the past, we are sharing these drafts to allow for comments at a staff level and to facilitate the preparation of any internal government briefing materials that may be required. We ask that you treat the document as confidential and restrict distribution to OPS staff.

As always, we greatly appreciate your assistance and support for the work of the FAO.

Best regards,
David

David West
Chief Economist
FAO | Financial Accountability Office of Ontario
2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
c.416.579-1465 | dwest@fao-on.org
www.fao-on.org[fao-on.org]

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FAO
Financial
Accountability
Office of Ontario

From:	McGrath, Tara (MOF)
To:	Ken Kandeepan
Cc:	Emma Lindquist (MOF); George Sakura
Subject:	RE: The FAO"s Fall Economic and Fiscal Outlook Report
Date:	Tuesday, October 11, 2016 3:17:49 PM
Attachments:	image001.png

Good idea.

Thanks.

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Sent: October-11-16 3:17 PM
To: McGrath, Tara (MOF)
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Our plan (and hope) is to release our report in advance of the Government's fall economic statement, to provide the Legislature with some context that may help in interpreting the government's updated fiscal outlook. As a result, and because of the delayed release of the public accounts, we have had to condense the schedule for our work.

I plan to provide you with a draft of the main content of our report on Friday. That is, I'll send you drafts of the economic outlook and fiscal outlook chapters, as well as the appendix with the detailed economic and fiscal projections. Early next week, I'll also send you an executive summary chapter that will accompany the economic and fiscal chapters.

We would ask for your comments by end of day Wednesday, October 12. We would be available to meet with MoF and TBS staff on Thursday morning to discuss the draft if you think that would be helpful.

As in the past, we are sharing these drafts to allow for comments at a staff level and to facilitate the preparation of any internal government briefing materials that may be required. We ask that you treat the document as confidential and restrict distribution to OPS staff.

As always, we greatly appreciate your assistance and support for the work of the FAO.

Best regards,
David

David West
Chief Economist
FAO | Financial Accountability Office of Ontario
2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
c.416.579-1465 | dwest@fao-on.org
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This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

FAO
Financial
Accountability
Office of Ontario

From:	Christina Zhang
To:	John Psinas; Ken Kandeepan; Alexander Kraas
Cc:	George Sakura; Kevin Hwang; Shemin Meralli; Chi-Wa Che
Subject:	RE: The FAO"s Spring 2018 Economic and Budget Outlook Report
Date:	Monday, April 30, 2018 3:56:54 PM
Attachments:	image001.png image002.png Summary of Draft FAO Spring Economic and Fiscal Outlook_v7a_edits.docx

Hi,

We have two suggestions in the attached. First, there's a small typo in the Issue box. It should be "eliminated" not "eliminate".

We also suggest that wording on the IOD bullet on page 3 be changed.

Currently: The IOD outlook grows faster due to the FAO's forecast of higher projected net debt leading to larger debt interest payments.

Suggestion: The IOD outlook grows faster due to the FAO's forecast of higher projected deficits leading to a larger borrowing program and larger debt interest payments.

Thanks,
Christina

From: John Psinas
Sent: Monday, April 30, 2018 3:42 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Cc: George Sakura <George.Sakura@ofina.on.ca>; Kevin Hwang <Kevin.Hwang@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>
Subject: FW: The FAO's Spring 2018 Economic and Budget Outlook Report

I would say this in yellow is wrong.. the peak was in 2014-15

- The FAO is also projecting that net debt-to-GDP ratio will continue to increase over the medium-term and beyond 2020-21 reaching 44.4 per cent by 2023-24. The 2018 Budget projects that the net debt-to-GDP ratio to peak in 2021-22 before beginning a downward trend.

From: Inglis, Liane (MOF) [mailto:Liane.Inglis@ontario.ca]
Sent: Monday, April 30, 2018 3:00 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Christina Zhang

<Christina.Zhang@ofina.on.ca>
Subject: RE: The FAO's Spring 2018 Economic and Budget Outlook Report

Hi Folks,

Here's is the updated note. If you're able to provide input by 4:30, it would be great!

Thanks so much (and sorry for the tight turnaround).

Liane

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FYI – here's the updated report. We're catching the note up now and hope to get it over to you for quick review early in the afternoon. As expected their IOD forecast has been revised.

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To: Thompson, Scott (MOF)
Cc: McLean, David (MOF); Rowe, Alana (MOF); Inglis, Liane (MOF); Tiburcio, Daniel (MOF); Lewis, Brian (MOF); Mayman, Gadi (OFA)
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My division will coordinate a rolled up note and speaking notes – we'll need to figure out when and if a briefing would be required.

Tim Schuurman
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Tel: 416-327-0173

From: David West [mailto:dwest@fao-on.org]
Sent: April-30-18 10:13 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS)
Subject: The FAO's Spring 2018 Economic and Budget Outlook Report

Good morning

The FAO will be releasing its spring 2018 Economic and Budget Outlook (EBO) report on Wednesday May 2nd at 10:00 am. There will be separate technical briefings for media and MPPs on Wednesday at 9:00 am. The Temporary Financial Accountability Officer, David Wake, and myself will be making a media statement and responding to questions at 10:00 am.

The report along with the attached letters are being delivered to Ministers Sousa and McMahon later this morning – and are attached for your reference.

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Office of the Budget
MINISTRY of FINANCE

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FAO's 2018 Spring Economic and Fiscal Outlook

ISSUE

On May 2, 2018 the Financial Accountability Office will release its '2018 Spring Economic and Fiscal Outlook' report. The report adopts the AG's accounting treatment of both the Fair Hydro Plan and Pension Assets and indicates that the government is facing persistent budget deficits over the medium-term that will continue to grow well into the government's deficit recovery phase, unless spending growth slows dramatically beginning in 2021-22. It also suggests that the deficit cannot be eliminated by economic growth alone, but will require fiscal policy changes to raise revenue or reduce spending.

KEY MESSAGES

- I would like to thank the Financial Accountability Officer (FAO) for releasing his spring economic and fiscal outlook for Ontario. We value the FAO's independent assessment of the province's fiscal plan.
- The government is committed to a responsible fiscal plan that provides the conditions for all Ontarians to thrive.
- The FAO's deficit projections include the Auditor General's interpretation of how the government should be accounting for net pension assets and the Fair Hydro Plan. The disagreement in accounting is the main driver of the difference between the FAO's projections and the 2018 Budget.
- It is important to note that with the exception of the two accounting disagreements, the Auditor General has determined that the majority of the province's estimates regarding revenue, program expenses and interest on debt are based on cautious assumptions, as required by the Fiscal Transparency and Accountability Act.
- And while there is uncertainty in any future-oriented forecast, what we do know is that this government has a strong track record of beating its fiscal targets. As outlined in the *2018 Budget*, the government is projecting a surplus of $600 million for 2017–18, beating its fiscal target for the ninth year in a row.
- Ontario's fiscal policy is based on cautious assumptions and recognizes the need for flexibility to respond to changing circumstances. During this period of rapid economic change, the fiscal plan considers the impact of today's choices on different groups within the province and on future generations.
- While Ontario's economy has been growing steadily, the government knows that more must be done to ensure that the benefits of a solid economy are being shared equally by all Ontarians.
- The government believes that the best way to deliver prosperity to more people is by continuing to invest in the economy, and in public services that promote greater fairness and opportunity across the province.

- As a result, the province is projecting modest deficits over the medium term of $6.7 billion in 2018–19, $6.6 billion in 2019–20 and $6.5 billion in 2020–21, or 0.8 per cent of GDP in 2018–19, declining to 0.7 per cent by 2020–21.

BACKGROUND

Economic Outlook

- The FAO forecast for real GDP growth to average 2.0 percent annually between 2018 and 2021 is 0.1 percentage points faster than the *2018 Budget* forecast of 1.9 percent.
- The FAO forecast is consistent with the private sector economists' view that housing and consumer spending will slow over the next four years while exports and business investment will grow at a faster pace.
- The FAO recognizes similar economic risks identified in the *2018 Budget*. The possibility of stronger U.S. growth could boost Ontario's economy. However, protectionist trade policies in the U.S., and associated business uncertainty, could place Ontario at a competitive disadvantage. As well, high levels of household debt have left Ontario households vulnerable to rising interest rates.
- Over the extended period 2021 to 2025, FAO's long-term economic outlook is similar to the unpublished Ontario Ministry of Finance projection. In particular, the FAO projects Ontario nominal GDP growth of 3.9 percent annually, on average, between 2021 and 2025, 0.1 percentage points lower than the *2018 Budget* recovery plan projection of 4.0 percent.

Fiscal Outlook

- The FAO is projecting a deficit of $3.6B in 2017-18, rising to $12.7B by 2020-21. The FAO projects the deficit to further deteriorate over the government's recovery plan period, reaching $16.6B by 2025-26 under a 'status quo' scenario of 3.5 per cent program expense growth. However, the report suggests balanced budget is possible by 2025-26 if the government constrains program spending to 2.1 per cent beginning in 2021-22.
- Unlike its Fall report, the FAO is now only presenting projections that include the impact of the Auditor General's (AG) recommended accounting treatment for both the Fair Hydro Plan and the net pension assets of jointly sponsored pensions plans.
    - Taken together, the adjustment for these two accounting differences add between $4B and $6B to the deficit in each year.

Interim and Medium-Term (2017-18 to 2020-21)

- The FAO is projecting a deficit of $3.6B in 2017-18 and deficits of between $11B and $13B over the medium term.

- The FAO's **revenue forecast** is approximately $1B lower than the government's in each year of the medium-term outlook, mainly due to a lower outlook for personal income tax revenue.
- Similar to past reports, the FAO adopts the *2018 Budget* **program expense outlook** (other than the accounting treatment differences).
- Similar to past reports, the FAO also continues to project **interest on debt expense** that is slightly below the government's projection over the medium-term – by between $0.1B and $0.2B per year.

Overall, the difference between the FAO's and government's medium-term fiscal outlook is largely driven by the impact of the AG's recommended accounting treatment for both the Fair Hydro Plan and the net pension assets of jointly sponsored pensions plans .

Differences Between the FAO's Fiscal Outlook and the *2018 Budget* ($ Billions)	2017-18	2018-19	2019-20	2020-21
2018 Budget Projected Deficits (Excl Reserve)	0.6	(6.0)	(5.9)	(5.8)
FAO Projected Deficits (Excl Reserve)	(3.6)	(11.8)	(12.4)	(12.7)
Difference between FAO and 2018 Budget	*(4.2)*	*(5.8)*	*(6.5)*	*(6.9)*
Difference Due to Accounting	*(4.2)*	*(5.0)*	*(5.6)*	*(6.0)*
Difference Due to Other (Lower revenue offset by lower IOD)	-	*(0.8)*	*(0.9)*	*(0.8)*

- In addition to its assessment of the government's current fiscal plan, the FAO developed a "baseline" budget projection that excludes the new revenue and spending measures announced in the 2018 Budget. This baseline scenario projects budget deficits of $8.1B in 2018-19, $7.2B in 2019-20, and $6.1B in 2021-21.

Recovery Plan (2021-22 to 2025-26)

- The 2018 Budget projects a return to balance by 2024-25 and a small surplus in 2025-26. This is premised on:
  - Projected average annual growth in revenue of 3.3% over the recovery plan period and managing program expense to an average annual growth rate of 2%.
- In contrast, the FAO's "status quo" projection assumes program spending will grow by about 3.5 percent per year from 2020-21 to 2025-26 resulting in deficits that reach $16.6 billion by 2025-26. Compared with the 2018 Budget projections:
  - The revenue outlook is higher due to a higher outlook for taxes and other revenue.
  - Given an aging and growing population and price inflation, the FAO projects program spending would need to grow at the rate of these core cost drivers, 3.5%

annually over the outlook, so that "the quality of public services would be maintained".

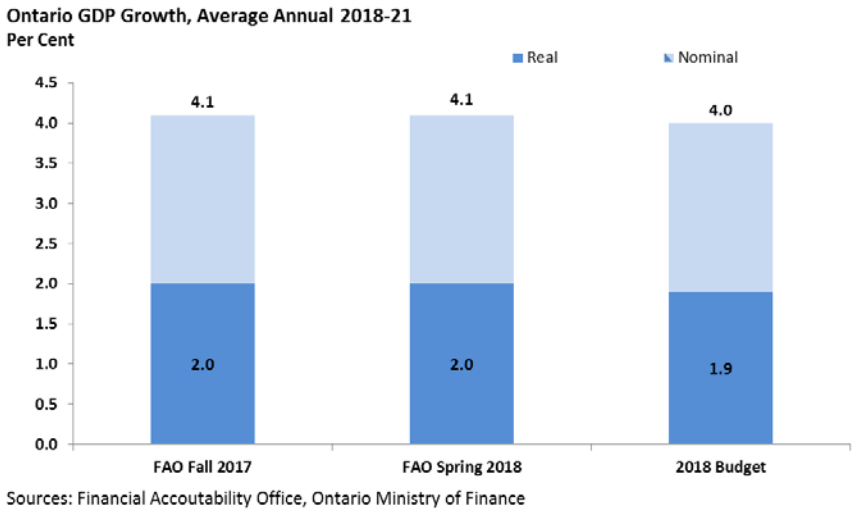
- The IOD outlook grows faster due to the FAO's forecast of higher projected net debt leading to larger debt interest payments.

Commented [CZ1]: Suggest rewording to "…FAO's forecast of higher projected deficits leading to a larger borrowing program and larger debt interest payments."

- The FAO is also projecting that net debt-to-GDP ratio will continue to increase over the medium-term and beyond 2020-21 reaching 44.4 per cent by 2023-24. The 2018 Budget projects that the net debt-to-GDP ratio to peak in 2021-22 before beginning a downward trend.

The FAO also included a "spending restraint" scenario that holds program expense growth to 2.1 per cent beyond 2021-22, consistent with the 2018 Budget projection. Using this method the FAO projects Ontario's budget deficit would improve rapidly, reaching a small surplus by 2025-26, however they caution that this projection relies on a dramatic slow-down in spending growth and implies that the government would have to find $15 billion in permanent savings by 2025-26.

Appendix



Sources: Financial Accoutability Office, Ontario Ministry of Finance

Comparison: 2018 Ontario Budget to Draft 2018 Spring FAO Fiscal Outlook

$ Billions	Actual 2016-17	Interim 2017-18	Outlook 2018-19	Outlook 2019-20	Outlook 2020-21	Extended Outlook 2021-22	Extended Outlook 2022-23	Extended Outlook 2023-24	Extended Outlook 2024-25	Extended Outlook 2025-26	Avg. Annual Growth 17-18 to 20-21	Avg. Annual Growth 18-19 to 20-21
2018 Budget												
Taxation Revenue	94.3	99.4	103.6	108.1	112.4						4.2%	4.2%
Transfers from Gov't of Canada	24.5	25.3	26.0	25.7	26.8						1.9%	1.5%
Income from GBEs	5.6	6.1	5.3	6.0	6.6						2.4%	11.6%
Other Non-Tax Revenue	16.3	19.3	17.6	17.7	18.0						-2.3%	1.3%
Total Revenue	140.7	150.1	152.5	157.6	163.8	169.5	174.9	180.4	186.5	192.9	3.0%	3.7%
Expense												
Program Expense	130.0	137.5	145.9	150.4	155.8	159.5	162.7	166.0	169.3	172.7	4.2%	3.3%
Interest on Debt	11.7	12.0	12.5	13.1	13.8	14.9	15.5	16.3	16.5	16.9	5.0%	5.1%
Total Expense	141.7	149.5	158.5	163.5	169.6	174.4	178.2	182.2	185.8	189.6	4.3%	3.5%
Surplus/(Deficit) before Reserve	(1.0)	0.6	(6.0)	(5.9)	(5.8)	(4.9)	(3.3)	(1.8)	0.7	3.3		
Net Debt to GDP, per cent	38.0	37.1	37.6	38.2	38.6	38.9	38.6	37.7	36.8	35.5		
Change - 2018 Spring FAO Fiscal Outlook to 2018 Budget												
Taxation Revenue	-	*0.0*	*(0.5)*	*(0.8)*	*(1.0)*							
Transfers from Gov't of Canada	-	-	-	*(0.1)*	*(0.0)*							
Income from GBEs	-	-	*(0.4)*	-	-							
Other Non-Tax Revenue	-	-	-	-	-							
Total Revenue	-	*0.0*	*(0.9)*	*(0.9)*	*(1.1)*	*(0.4)*	*0.3*	*1.1*	*1.6*	*2.1*		
Expense												
Program Expense	-	-	-	-	-	*2.4*	*5.5*	*8.5*	*11.7*	*15.4*		
Interest on Debt	-	-	*(0.1)*	*(0.1)*	*(0.2)*	*(0.4)*	*(0.1)*	*0.1*	*1.0*	*1.8*		
Total Expense	-	-	*(0.1)*	*(0.1)*	*(0.2)*	*2.0*	*5.4*	*8.6*	*12.7*	*17.2*		
Surplus/(Deficit) before Reserve, EXC. Adj. for Fair Hydro Plan and Pension Assets	-	*0.0*	*(0.8)*	*(0.9)*	*(0.8)*	*(2.4)*	*(5.1)*	*(7.6)*	*(11.1)*	*(15.1)*		
Surplus/(Deficit) before Reserve, INC. Adj. for Fair Hydro Plan and Pension Assets	*(1.4)*	*(4.2)*	*(5.8)*	*(6.5)*	*(6.9)*	*(8.4)*	*(10.8)*	*(12.9)*	*(16.1)*	*(19.9)*		
2018 Spring FAO Outlook												
Taxation Revenue	94.3	99.4	103.1	107.2	111.4	116.0	120.4	124.8	129.5	134.4	3.9%	4.0%
Transfers from Gov't of Canada	24.5	25.3	26.0	25.6	26.7	27.6	28.4	29.2	30.2	31.1	1.8%	1.4%
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Other Non-Tax Revenue	16.3	19.3	17.6	17.7	18.0	18.7	19.4	20.0	20.8	21.5	-2.3%	1.3%
Total Revenue	140.7	150.2	151.5	156.6	162.8	169.1	175.2	181.5	188.1	195.0	2.7%	3.6%
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Surplus/(Deficit) before Reseve, EXC. Adj. for Fair Hydro Plan and Pension Assets	(1.0)	0.7	(6.8)	(6.8)	(6.6)	(7.3)	(8.4)	(9.3)	(10.4)	(11.8)		
Accounting Adjustments	1.4	4.2	5.0	5.6	6.0	6.0	5.7	5.3	5.0	4.8		
Surplus/(Deficit) before Reseve, Inc. Adj. for Fair Hydro Plan and Pension Assets	(2.4)	(3.6)	(11.8)	(12.4)	(12.7)	(13.3)	(14.1)	(14.7)	(15.4)	(16.6)		
Net Debt to GDP INC Adjustments, per cent	39.5	39.1	40.1	41.1	42.0	43.1	43.9	44.4	44.8	45.1		

Note: All surplus/deficits exclude the reserve. Numbers may not add due to rounding.

MEDIUM-TERM REVENUE:

- The FAO projects Personal Income Tax to be significantly lower than the 2018 Budget projections ($0.4 billion in 2018-19, $0.7 billion in 2019-20, and $0.9 billion in 2020-21).
- FAO estimates that Ontario will no longer qualify for Equalization payments after 2018-19, where as the 2018 Budget assumes Equalization ends in 2020-21.
- The FAO reduces H1 net income by $0.4 billion in 2018-19 to reflect the recent decision by the OEB to allocate a portion of tax gain to rate payers.

RECOVERY PLAN REVENUE:

- Over the recovery plan, the FAO projects significantly stronger growth (3.6%) in other non-tax revenues, compared to the 2018 Budget (2.0%).

RECOVERY PLAN PROGRAM EXPENSE:

The FAO assumes program expense to grow at 3.5% over the recovery plan (closer to population and inflation), versus the 2018 Budget projection of 2.0%.

INTEREST ON DEBT EXPENSE:

- Despite projecting larger deficits and potentially larger borrowings, the FAO's IOD grows on average by 4.7% over the medium-term, in contrast to 5.1% in the 2018 Budget.

From:	Inglis, Liane (MOF)
To:	Ken Kandeepan; Alexander Kraas; John Psinas; Christina Zhang
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- Over the extended period 2021 to 2025, FAO's long-term economic outlook is similar to the unpublished Ontario Ministry of Finance projection. In particular, the FAO projects Ontario nominal GDP growth of 3.9 percent annually, on average, between 2021 and 2025, 0.1 percentage points lower than the *2018 Budget* recovery plan projection of 4.0 percent.

Fiscal Outlook

- The FAO is projecting a deficit of $3.6B in 2017-18, rising to $12.7B by 2020-21. The FAO projects the deficit to further deteriorate over the government's recovery plan period, reaching $16.6B by 2025-26 under a 'status quo' scenario of 3.5 per cent program expense growth. However, the report suggests balanced budget is possible by 2025-26 if the government constrains program spending to 2.1 per cent beginning in 2021-22.
- Unlike its Fall report, the FAO is now only presenting projections that include the impact of the Auditor General's (AG) recommended accounting treatment for both the Fair Hydro Plan and the net pension assets of jointly sponsored pensions plans.
    - Taken together, the adjustment for these two accounting differences add between $4B and $6B to the deficit in each year.

Interim and Medium-Term (2017-18 to 2020-21)

- The FAO is projecting a deficit of $3.6B in 2017-18 and deficits of between $11B and $13B over the medium term.

- The FAO's **revenue forecast** is approximately $1B lower than the government's in each year of the medium-term outlook, mainly due to a lower outlook for personal income tax revenue.
- Similar to past reports, the FAO adopts the *2018 Budget* **program expense outlook** (other than the accounting treatment differences).
- Similar to past reports, the FAO also continues to project **interest on debt expense** that is slightly below the government's projection over the medium-term – by between $0.1B and $0.2B per year.

Overall, the difference between the FAO's and government's medium-term fiscal outlook is largely driven by the impact of the AG's recommended accounting treatment for both the Fair Hydro Plan and the net pension assets of jointly sponsored pensions plans .

Differences Between the FAO's Fiscal Outlook and the *2018 Budget* ($ Billions)	2017-18	2018-19	2019-20	2020-21
2018 Budget Projected Deficits (Excl Reserve)	0.6	(6.0)	(5.9)	(5.8)
FAO Projected Deficits (Excl Reserve)	(3.6)	(11.8)	(12.4)	(12.7)
Difference between FAO and 2018 Budget	*(4.2)*	*(5.8)*	*(6.5)*	*(6.9)*
Difference Due to Accounting	*(4.2)*	*(5.0)*	*(5.6)*	*(6.0)*
Difference Due to Other (Lower revenue offset by lower IOD)	*-*	*(0.8)*	*(0.9)*	*(0.8)*

- In addition to its assessment of the government's current fiscal plan, the FAO developed a "baseline" budget projection that excludes the new revenue and spending measures announced in the 2018 Budget. This baseline scenario projects budget deficits of $8.1B in 2018-19, $7.2B in 2019-20, and $6.1B in 2021-21.

Recovery Plan (2021-22 to 2025-26)

- The 2018 Budget projects a return to balance by 2024-25 and a small surplus in 2025-26. This is premised on:
  - Projected average annual growth in revenue of 3.3% over the recovery plan period and managing program expense to an average annual growth rate of 2%.
- In contrast, the FAO's "status quo" projection assumes program spending will grow by about 3.5 percent per year from 2020-21 to 2025-26 resulting in deficits that reach $16.6 billion by 2025-26. Compared with the 2018 Budget projections:
  - The revenue outlook is higher due to a higher outlook for taxes and other revenue.
  - Given an aging and growing population and price inflation, the FAO projects program spending would need to grow at the rate of these core cost drivers, 3.5%

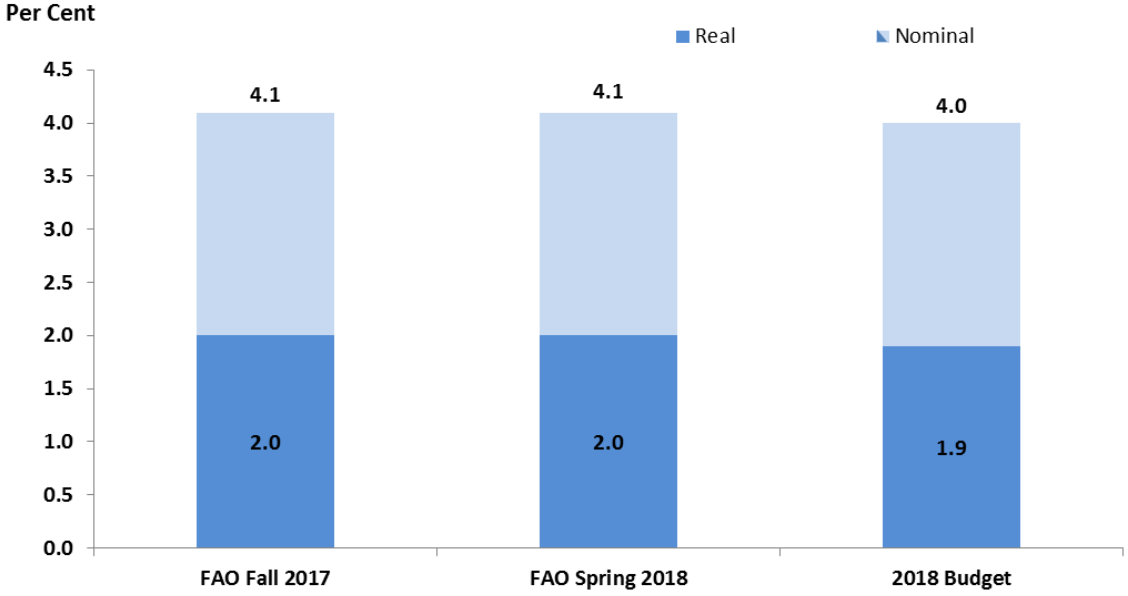
annually over the outlook, so that “the quality of public services would be maintained”.

- The IOD outlook grows faster due to the FAO’s forecast of higher projected net debt leading to larger debt interest payments.
- The FAO is also projecting that net debt-to-GDP ratio will continue to increase over the medium-term and beyond 2020-21 reaching 44.4 per cent by 2023-24. The 2018 Budget projects that the net debt-to-GDP ratio to peak in 2021-22 before beginning a downward trend.

The FAO also included a “spending restraint” scenario that holds program expense growth to 2.1 per cent beyond 2021-22, consistent with the 2018 Budget projection. Using this method the FAO projects Ontario’s budget deficit would improve rapidly, reaching a small surplus by 2025-26, however they caution that this projection relies on a dramatic slow-down in spending growth and implies that the government would have to find $15 billion in permanent savings by 2025-26.

Appendix

Ontario GDP Growth, Average Annual 2018-21
Per Cent



Sources: Financial Accoutability Office, Ontario Ministry of Finance

Comparison: 2018 Ontario Budget to Draft 2018 Spring FAO Fiscal Outlook

$ Billions	Actual 2016-17	Interim 2017-18	Outlook 2018-19	Outlook 2019-20	Outlook 2020-21	Extended Outlook 2021-22	Extended Outlook 2022-23	Extended Outlook 2023-24	Extended Outlook 2024-25	Extended Outlook 2025-26	Avg. Annual Growth 17-18 to 20-21	Avg. Annual Growth 18-19 to 20-21
2018 Budget												
Taxation Revenue	94.3	99.4	103.6	108.1	112.4						4.2%	4.2%
Transfers from Gov't of Canada	24.5	25.3	26.0	25.7	26.8						1.9%	1.5%
Income from GBEs	5.6	6.1	5.3	6.0	6.6						2.4%	11.6%
Other Non-Tax Revenue	16.3	19.3	17.6	17.7	18.0						-2.3%	1.3%
Total Revenue	140.7	150.1	152.5	157.6	163.8	169.5	174.9	180.4	186.5	192.9	3.0%	3.7%
Expense												
Program Expense	130.0	137.5	145.9	150.4	155.8	159.5	162.7	166.0	169.3	172.7	4.2%	3.3%
Interest on Debt	11.7	12.0	12.5	13.1	13.8	14.9	15.5	16.3	16.5	16.9	5.0%	5.1%
Total Expense	141.7	149.5	158.5	163.5	169.6	174.4	178.2	182.2	185.8	189.6	4.3%	3.5%
Surplus/(Deficit) before Reserve	(1.0)	0.6	(6.0)	(5.9)	(5.8)	(4.9)	(3.3)	(1.8)	0.7	3.3		
Net Debt to GDP, per cent	38.0	37.1	37.6	38.2	38.6	38.9	38.6	37.7	36.8	35.5		
Change - 2018 Spring FAO Fiscal Outlook to 2018 Budget												
Taxation Revenue	-	*0.0*	*(0.5)*	*(0.8)*	*(1.0)*							
Transfers from Gov't of Canada	-	-	-	*(0.1)*	*(0.0)*							
Income from GBEs	-	-	*(0.4)*	-	-							
Other Non-Tax Revenue	-	-	-	-	-							
Total Revenue	-	*0.0*	*(0.9)*	*(0.9)*	*(1.1)*	*(0.4)*	*0.3*	*1.1*	*1.6*	*2.1*		
Expense												
Program Expense	-	-	-	-	-	*2.4*	*5.5*	*8.5*	*11.7*	*15.4*		
Interest on Debt	-	-	*(0.1)*	*(0.1)*	*(0.2)*	*(0.4)*	*(0.1)*	*0.1*	*1.0*	*1.8*		
Total Expense	-	-	*(0.1)*	*(0.1)*	*(0.2)*	*2.0*	*5.4*	*8.6*	*12.7*	*17.2*		
Surplus/(Deficit) before Reserve, EXC. Adj. for Fair Hydro Plan and Pension Assets	-	*0.0*	*(0.8)*	*(0.9)*	*(0.8)*	*(2.4)*	*(5.1)*	*(7.6)*	*(11.1)*	*(15.1)*		
Surplus/(Deficit) before Reserve, INC. Adj. for Fair Hydro Plan and Pension Assets	*(1.4)*	*(4.2)*	*(5.8)*	*(6.5)*	*(6.9)*	*(8.4)*	*(10.8)*	*(12.9)*	*(16.1)*	*(19.9)*		
2018 Spring FAO Outlook												
Taxation Revenue	94.3	99.4	103.1	107.2	111.4	116.0	120.4	124.8	129.5	134.4	3.9%	4.0%
Transfers from Gov't of Canada	24.5	25.3	26.0	25.6	26.7	27.6	28.4	29.2	30.2	31.1	1.8%	1.4%
Income from GBEs	5.6	6.1	4.9	6.0	6.6	6.8	7.1	7.4	7.7	8.0	2.4%	16.1%
Other Non-Tax Revenue	16.3	19.3	17.6	17.7	18.0	18.7	19.4	20.0	20.8	21.5	-2.3%	1.3%
Total Revenue	140.7	150.2	151.5	156.6	162.8	169.1	175.2	181.5	188.1	195.0	2.7%	3.6%
Expense												
Program Expense	130.0	137.5	145.9	150.4	155.8	161.9	168.2	174.5	181.0	188.1	4.2%	3.3%
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Total Expense	141.7	149.5	158.3	163.4	169.4	176.4	183.6	190.9	198.5	206.8	4.2%	3.4%
Surplus/(Deficit) before Reseve, EXC. Adj. for Fair Hydro Plan and Pension Assets	(1.0)	0.7	(6.8)	(6.8)	(6.6)	(7.3)	(8.4)	(9.3)	(10.4)	(11.8)		
Accounting Adjustments	1.4	4.2	5.0	5.6	6.0	6.0	5.7	5.3	5.0	4.8		
Surplus/(Deficit) before Reseve, Inc. Adj. for Fair Hydro Plan and Pension Assets	(2.4)	(3.6)	(11.8)	(12.4)	(12.7)	(13.3)	(14.1)	(14.7)	(15.4)	(16.6)		
Net Debt to GDP INC Adjustments, per cent	39.5	39.1	40.1	41.1	42.0	43.1	43.9	44.4	44.8	45.1		

Note: All surplus/deficits exclude the reserve. Numbers may not add due to rounding.

MEDIUM-TERM REVENUE:

- The FAO projects Personal Income Tax to be significantly lower than the 2018 Budget projections ($0.4 billion in 2018-19, $0.7 billion in 2019-20, and $0.9 billion in 2020-21).
- FAO estimates that Ontario will no longer qualify for Equalization payments after 2018-19, where as the 2018 Budget assumes Equalization ends in 2020-21.
- The FAO reduces H1 net income by $0.4 billion in 2018-19 to reflect the recent decision by the OEB to allocate a portion of tax gain to rate payers.

RECOVERY PLAN REVENUE:

- Over the recovery plan, the FAO projects significantly stronger growth (3.6%) in other non-tax revenues, compared to the 2018 Budget (2.0%).

RECOVERY PLAN PROGRAM EXPENSE:

The FAO assumes program expense to grow at 3.5% over the recovery plan (closer to population and inflation), versus the 2018 Budget projection of 2.0%.

INTEREST ON DEBT EXPENSE:

- Despite projecting larger deficits and potentially larger borrowings, the FAO's IOD grows on average by 4.7% over the medium-term, in contrast to 5.1% in the 2018 Budget.

From:	John Psinas
To:	"Inglis, Liane (MOF)"
Cc:	Anna Strathy; Ken Kandeepan; Alexander Kraas; Christina Zhang; George Sakura
Subject:	RE: The FAO"s Spring 2018 Economic and Budget Outlook Report
Date:	Monday, April 30, 2018 4:06:43 PM
Attachments:	Summary of Draft FAO Spring Economic and Fiscal Outlook_v7a_edits OFA.docx image001.png image002.png

---

Liane,

Please find attached our comments.

Thanks.

John

From: Inglis, Liane (MOF) [mailto:Liane.Inglis@ontario.ca]
Sent: Monday, April 30, 2018 3:00 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: RE: The FAO's Spring 2018 Economic and Budget Outlook Report

Hi Folks,

Here's is the updated note. If you're able to provide input by 4:30, it would be great!

Thanks so much (and sorry for the tight turnaround).

Liane

From: Inglis, Liane (MOF)
Sent: April 30, 2018 11:44 AM
To: Kandeepan, Ken (OFA); Kraas, Alexander (OFA); 'John Psinas'; Zhang, Christina (OFA)
Subject: FW: The FAO's Spring 2018 Economic and Budget Outlook Report

FYI – here's the updated report. We're catching the note up now and hope to get it over to you for quick review early in the afternoon. As expected their IOD forecast has been revised.

Liane

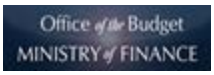
From: Schuurman, Tim (MOF)
Sent: April 30, 2018 10:28 AM
To: Thompson, Scott (MOF)
Cc: McLean, David (MOF); Rowe, Alana (MOF); Inglis, Liane (MOF); Tiburcio, Daniel (MOF); Lewis, Brian (MOF); Mayman, Gadi (OFA)
Subject: FW: The FAO's Spring 2018 Economic and Budget Outlook Report

Attached is the FAO Economic and Fiscal Outlook Report that will be delivered to Ministers by noon today.

We'll do a more detailed look at the numbers but it looks like the only significant change relative to the last version we saw was the addition of a new "scenario" over the recovery plan where the FAO shows what would happen if the government restrained spending – and it shows the Province would return to balance. They do talk abit about what that would entail, and do piggy back on historical experience to show that it has been done in the past.

My division will coordinate a rolled up note and speaking notes – we'll need to figure out when and if a briefing would be required.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



From: David West [mailto:dwest@fao-on.org]
Sent: April-30-18 10:13 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS)
Subject: The FAO's Spring 2018 Economic and Budget Outlook Report

Good morning

The FAO will be releasing its spring 2018 Economic and Budget Outlook (EBO) report on Wednesday May 2nd at 10:00 am. There will be separate technical briefings for media and MPPs on Wednesday at 9:00 am. The Temporary Financial Accountability Officer, David Wake, and myself will be making a media statement and responding to questions at 10:00 am.

The report along with the attached letters are being delivered to Ministers Sousa and McMahon later this morning – and are attached for your reference.

Please treat this document as embargoed until its release on Wednesday at 10:00 am.

As always, your assistance and support for the work of the FAO are greatly appreciated.

Best regards,
David

David West
Chief Economist

Financial Accountability Office of Ontario

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
c.416.579-1465 | dwest@fao-on.org
www.fao-on.org[na01.safelinks.protection.outlook.com]

FAO's 2018 Spring Economic and Fiscal Outlook

ISSUE

On May 2, 2018 the Financial Accountability Office will release its '2018 Spring Economic and Fiscal Outlook' report. The report adopts the AG's accounting treatment of both the Fair Hydro Plan and Pension Assets and indicates that the government is facing persistent budget deficits over the medium-term that will continue to grow well into the government's deficit recovery phase, unless spending growth slows dramatically beginning in 2021-22. It also suggests that the deficit cannot be eliminated by economic growth alone, but will require fiscal policy changes to raise revenue or reduce spending.

KEY MESSAGES

- I would like to thank the Financial Accountability Officer (FAO) for releasing his spring economic and fiscal outlook for Ontario. We value the FAO's independent assessment of the province's fiscal plan.
- The government is committed to a responsible fiscal plan that provides the conditions for all Ontarians to thrive.
- The FAO's deficit projections include the Auditor General's interpretation of how the government should be accounting for net pension assets and the Fair Hydro Plan. The disagreement in accounting is the main driver of the difference between the FAO's projections and the 2018 Budget.
- It is important to note that with the exception of the two accounting disagreements, the Auditor General has determined that the majority of the province's estimates regarding revenue, program expenses and interest on debt are based on cautious assumptions, as required by the Fiscal Transparency and Accountability Act.
- And while there is uncertainty in any future-oriented forecast, what we do know is that this government has a strong track record of beating its fiscal targets. As outlined in the *2018 Budget*, the government is projecting a surplus of $600 million for 2017–18, beating its fiscal target for the ninth year in a row.
- Ontario's fiscal policy is based on cautious assumptions and recognizes the need for flexibility to respond to changing circumstances. During this period of rapid economic change, the fiscal plan considers the impact of today's choices on different groups within the province and on future generations.
- While Ontario's economy has been growing steadily, the government knows that more must be done to ensure that the benefits of a solid economy are being shared equally by all Ontarians.
- The government believes that the best way to deliver prosperity to more people is by continuing to invest in the economy, and in public services that promote greater fairness and opportunity across the province.

- As a result, the province is projecting modest deficits over the medium term of $6.7 billion in 2018–19, $6.6 billion in 2019–20 and $6.5 billion in 2020–21, or 0.8 per cent of GDP in 2018–19, declining to 0.7 per cent by 2020–21.

BACKGROUND

Economic Outlook

- The FAO forecast for real GDP growth to average 2.0 percent annually between 2018 and 2021 is 0.1 percentage points faster than the *2018 Budget* forecast of 1.9 percent.
- The FAO forecast is consistent with the private sector economists' view that housing and consumer spending will slow over the next four years while exports and business investment will grow at a faster pace.
- The FAO recognizes similar economic risks identified in the *2018 Budget*. The possibility of stronger U.S. growth could boost Ontario's economy. However, protectionist trade policies in the U.S., and associated business uncertainty, could place Ontario at a competitive disadvantage. As well, high levels of household debt have left Ontario households vulnerable to rising interest rates.
- Over the extended period 2021 to 2025, FAO's long-term economic outlook is similar to the unpublished Ontario Ministry of Finance projection. In particular, the FAO projects Ontario nominal GDP growth of 3.9 percent annually, on average, between 2021 and 2025, 0.1 percentage points lower than the *2018 Budget* recovery plan projection of 4.0 percent.

Fiscal Outlook

- The FAO is projecting a deficit of $3.6B in 2017-18, rising to $12.7B by 2020-21. The FAO projects the deficit to further deteriorate over the government's recovery plan period, reaching $16.6B by 2025-26 under a 'status quo' scenario of 3.5 per cent program expense growth. However, the report suggests balanced budget is possible by 2025-26 if the government constrains program spending to 2.1 per cent beginning in 2021-22.
- Unlike its Fall report, the FAO is now only presenting projections that include the impact of the Auditor General's (AG) recommended accounting treatment for both the Fair Hydro Plan and the net pension assets of jointly sponsored pensions plans.
    - Taken together, the adjustment for these two accounting differences add between $4B and $6B to the deficit in each year.

Interim and Medium-Term (2017-18 to 2020-21)

- The FAO is projecting a deficit of $3.6B in 2017-18 and deficits of between $11B and $13B over the medium term.

- The FAO's **revenue forecast** is approximately $1B lower than the government's in each year of the medium-term outlook, mainly due to a lower outlook for personal income tax revenue.
- Similar to past reports, the FAO adopts the *2018 Budget* **program expense outlook** (other than the accounting treatment differences).
- Similar to past reports, the FAO also continues to project **interest on debt expense** that is slightly below the government's projection over the medium-term – by between $0.1B and $0.2B per year.

Overall, the difference between the FAO's and government's medium-term fiscal outlook is largely driven by the impact of the AG's recommended accounting treatment for both the Fair Hydro Plan and the net pension assets of jointly sponsored pensions plans .

Differences Between the FAO's Fiscal Outlook and the *2018 Budget* ($ Billions)	2017-18	2018-19	2019-20	2020-21
2018 Budget Projected Deficits (Excl Reserve)	0.6	(6.0)	(5.9)	(5.8)
FAO Projected Deficits (Excl Reserve)	(3.6)	(11.8)	(12.4)	(12.7)
Difference between FAO and 2018 Budget	*(4.2)*	*(5.8)*	*(6.5)*	*(6.9)*
Difference Due to Accounting	*(4.2)*	*(5.0)*	*(5.6)*	*(6.0)*
Difference Due to Other (Lower revenue offset by lower IOD)	-	*(0.8)*	*(0.9)*	*(0.8)*

- In addition to its assessment of the government's current fiscal plan, the FAO developed a "baseline" budget projection that excludes the new revenue and spending measures announced in the 2018 Budget. This baseline scenario projects budget deficits of $8.1B in 2018-19, $7.2B in 2019-20, and $6.1B in 2021-21.

Recovery Plan (2021-22 to 2025-26)

- The 2018 Budget projects a return to balance by 2024-25 and a small surplus in 2025-26. This is premised on:
  - Projected average annual growth in revenue of 3.3% over the recovery plan period and managing program expense to an average annual growth rate of 2%.
- In contrast, the FAO's "status quo" projection assumes program spending will grow by about 3.5 percent per year from 2020-21 to 2025-26 resulting in deficits that reach $16.6 billion by 2025-26. Compared with the 2018 Budget projections:
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  - Given an aging and growing population and price inflation, the FAO projects program spending would need to grow at the rate of these core cost drivers, 3.5%

annually over the outlook, so that "the quality of public services would be maintained".

- The IOD outlook grows faster due to the FAO's forecast of higher projected net debt leading to larger debt interest payments.
- The FAO is also projecting that net debt-to-GDP ratio will continue to increase over the medium-term and beyond 2020-21 reaching 44.4 per cent by 2023-24. The 2018 Budget projects that the net debt-to-GDP ratio to peak in 2021-22 before beginning a downward trend.

Commented [CZ1]: Suggest rewording to "…FAO's forecast of higher projected deficits leading to a larger borrowing program and larger debt interest payments."

Commented [JP2]: The 2018 Budget actually depicts the net debt to GDP ratio peaking in 2014-15 and resuming a downward trend in 2022-23.

The FAO also included a "spending restraint" scenario that holds program expense growth to 2.1 per cent beyond 2021-22, consistent with the 2018 Budget projection. Using this method the FAO projects Ontario's budget deficit would improve rapidly, reaching a small surplus by 2025-26, however they caution that this projection relies on a dramatic slow-down in spending growth and implies that the government would have to find $15 billion in permanent savings by 2025-26.

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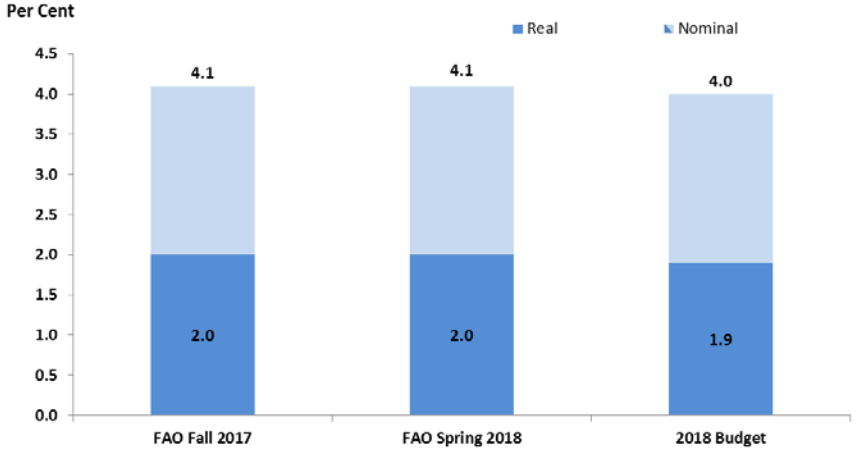

Sources: Financial Accoutability Office, Ontario Ministry of Finance

Comparison: 2018 Ontario Budget to Draft 2018 Spring FAO Fiscal Outlook

$ Billions	Actual 2016-17	Interim 2017-18	Outlook 2018-19	Outlook 2019-20	Outlook 2020-21	Extended Outlook 2021-22	Extended Outlook 2022-23	Extended Outlook 2023-24	Extended Outlook 2024-25	Extended Outlook 2025-26	Avg. Annual Growth 17-18 to 20-21	Avg. Annual Growth 18-19 to 20-21
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Net Debt to GDP, per cent	38.0	37.1	37.6	38.2	38.6	38.9	38.6	37.7	36.8	35.5		
Change - 2018 Spring FAO Fiscal Outlook to 2018 Budget												
Taxation Revenue	-	*0.0*	*(0.5)*	*(0.8)*	*(1.0)*							
Transfers from Gov't of Canada	-	-	-	*(0.1)*	*(0.0)*							
Income from GBEs	-	-	*(0.4)*	-	-							
Other Non-Tax Revenue	-	-	-	-	-							
Total Revenue	-	*0.0*	*(0.9)*	*(0.9)*	*(1.1)*	*(0.4)*	*0.3*	*1.1*	*1.6*	*2.1*		
Expense												
Program Expense	-	-	-	-	-	*2.4*	*5.5*	*8.5*	*11.7*	*15.4*		
Interest on Debt	-	-	*(0.1)*	*(0.1)*	*(0.2)*	*(0.4)*	*(0.1)*	*0.1*	*1.0*	*1.8*		
Total Expense	-	-	*(0.1)*	*(0.1)*	*(0.2)*	*2.0*	*5.4*	*8.6*	*12.7*	*17.2*		
Surplus/(Deficit) before Reserve, EXC. Adj. for Fair Hydro Plan and Pension Assets	-	*0.0*	*(0.8)*	*(0.9)*	*(0.8)*	*(2.4)*	*(5.1)*	*(7.6)*	*(11.1)*	*(15.1)*		
Surplus/(Deficit) before Reserve, INC. Adj. for Fair Hydro Plan and Pension Assets	*(1.4)*	*(4.2)*	*(5.8)*	*(6.5)*	*(6.9)*	*(8.4)*	*(10.8)*	*(12.9)*	*(16.1)*	*(19.9)*		
2018 Spring FAO Outlook												
Taxation Revenue	94.3	99.4	103.1	107.2	111.4	116.0	120.4	124.8	129.5	134.4	3.9%	4.0%
Transfers from Gov't of Canada	24.5	25.3	26.0	25.6	26.7	27.6	28.4	29.2	30.2	31.1	1.8%	1.4%
Income from GBEs	5.6	6.1	4.9	6.0	6.6	6.8	7.1	7.4	7.7	8.0	2.4%	16.1%
Other Non-Tax Revenue	16.3	19.3	17.6	17.7	18.0	18.7	19.4	20.0	20.8	21.5	-2.3%	1.3%
Total Revenue	140.7	150.2	151.5	156.6	162.8	169.1	175.2	181.5	188.1	195.0	2.7%	3.6%
Expense												
Program Expense	130.0	137.5	145.9	150.4	155.8	161.9	168.2	174.5	181.0	188.1	4.2%	3.3%
Interest on Debt	11.7	12.0	12.4	13.0	13.6	14.5	15.4	16.4	17.5	18.7	4.4%	4.7%
Total Expense	141.7	149.5	158.3	163.4	169.4	176.4	183.6	190.9	198.5	206.8	4.2%	3.4%
Surplus/(Deficit) before Reseve, EXC. Adj. for Fair Hydro Plan and Pension Assets	(1.0)	0.7	(6.8)	(6.8)	(6.6)	(7.3)	(8.4)	(9.3)	(10.4)	(11.8)		
Accounting Adjustments	1.4	4.2	5.0	5.6	6.0	6.0	5.7	5.3	5.0	4.8		
Surplus/(Deficit) before Reseve, Inc. Adj. for Fair Hydro Plan and Pension Assets	(2.4)	(3.6)	(11.8)	(12.4)	(12.7)	(13.3)	(14.1)	(14.7)	(15.4)	(16.6)		
Net Debt to GDP INC Adjustments, per cent	39.5	39.1	40.1	41.1	42.0	43.1	43.9	44.4	44.8	45.1		

Note: All surplus/deficits exclude the reserve. Numbers may not add due to rounding.

MEDIUM-TERM REVENUE:

- The FAO projects Personal Income Tax to be significantly lower than the 2018 Budget projections ($0.4 billion in 2018-19, $0.7 billion in 2019-20, and $0.9 billion in 2020-21).
- FAO estimates that Ontario will no longer qualify for Equalization payments after 2018-19, where as the 2018 Budget assumes Equalization ends in 2020-21.
- The FAO reduces H1 net income by $0.4 billion in 2018-19 to reflect the recent decision by the OEB to allocate a portion of tax gain to rate payers.

RECOVERY PLAN REVENUE:

- Over the recovery plan, the FAO projects significantly stronger growth (3.6%) in other non-tax revenues, compared to the 2018 Budget (2.0%).

RECOVERY PLAN PROGRAM EXPENSE:

The FAO assumes program expense to grow at 3.5% over the recovery plan (closer to population and inflation), versus the 2018 Budget projection of 2.0%.

INTEREST ON DEBT EXPENSE:

- Despite projecting larger deficits and potentially larger borrowings, the FAO's IOD grows on average by 4.7% over the medium-term, in contrast to 5.1% in the 2018 Budget.


Office of the Budget
MINISTRY of FINANCE

FAO
Financial
Accountability
Office of Ontario

From: Ken Kandeepan
To: Bonnie Lemcke
Subject: RE: The Ontario government"s dubious (debt) distinction - The Globe and Mail
Date: Thursday, October 06, 2016 9:18:29 AM

I copied and passed the relevant section below

Thanks

Ken K

The Ontario government's dubious (debt) distinction

Subscribers Only

Michael Babad

The Globe and Mail

Published Thursday, Oct. 06, 2016 5:19AM EDT

Last updated Thursday, Oct. 06, 2016 7:53AM EDT

Briefing highlights
•Ontario's dubious debt distinction
•Global markets mixed
•Twitter shares poised to dive

$322.9-billion

Ontario net direct and indirect debt

Ontario holds a rather dubious distinction when it comes to outstanding debt: It has more of it than any sub-national government outside the U.S., Moody's Investors Service says.

Of the 250 non-U.S. regional and local governments it rates, Ontario tops that list, at a projected $322.9-billion in net direct and indirect debt as of March 31.

Ontario would likely still come out on top even if the U.S. were included, Moody's says.

That $322.9-billion, or about 240 per cent of revenue, has ballooned from $150.5-billion, or 137.9 per cent of revenue, in 2008. The province has the highest debt in terms of total amount, rather than as a percentage of revenue.

Ontario "has more outstanding debt than any Moody's-rated sub-sovereign, reflecting a succession of significant debt-funded deficits since 2008," Moody's said in a report this week, adding it expects that level to swell further still, given spending plans for its hefty 10-year infrastructure program.

If that seems Greece-like, Moody's said the province's rising debts should be manageable in this era of low interest rates and an improving fiscal position.

"The current low-interest-rate environment has been beneficial to Ontario," Moody's senior analyst Michael Yake said in an accompanying statement.

"Despite the material increase in debt, Ontario's interest expense has remained relatively stable and is forecast to continue to remain so."

He cited the fact that interest payments now are 8.9 per cent of revenue, not far off from the 8.8 per cent of eight years ago.

The province's budget plan calls for balanced books by 2017-18

"Ontario's low financing costs also reflect the province's conservative debt management," Moody's said.

"The province typically pre-borrows some of the funds that will be required the following fiscal year," it added.

"Given the current expectation that interest rates will rise, this allows it to lock in lower rates."

Ontario, which is rated Aa2, stable, by Moody's, ran up its debt in the wake of the financial crisis and along with infrastructure spending.

"Higher debt levels created downward credit pressure for Ontario," Moody's said.

"Nonetheless, the policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices outline above, has helped to support the province's Aa2 rating."

As The Globe and Mail's Adrian Morrow reports, the governing Liberals are in a tiff with Auditor-General Bonnie Lysyk over a $10.7-billion discrepancy in the net-debt category,

which relates to the fact that Ontario is counting that amount, in two pension plans, as an asset.

The AG says that should stop because the province can't touch that money.

Put that aside, though, because there's some encouraging information in the unaudited provincial statements that were released this week, said Warren Lovely, National Bank's head of public sector research and strategy.

Those statements reveal a $5-billion deficit for the past fiscal year, which Mr. Lovely described as a "noteworthy" improvement of $3.5-billion from the budget forecast.

"The deficit would have been even narrower, down to just $3.5-billion, or less than half that originally planned, were it not for a disagreement with the AG over pension accounting," he said, noting the complex nature of what's going on because the the province has temporarily adopted Ms. Lysyk's recommendation.

And there's good news on the revenue front.

"A stronger prior-year revenue hand-off, and an upbeat economy, bolster the province's 2016-17 fiscal outlook and give the government confidence that its key commitment of erasing the deficit by 2017-18 remains within reach," Mr. Lovely said.

"The fiscal commitment should remain front and centre as we go through a fall update and ultimately digest a 2017 provincial budget."

More on this topic

Adrian Morrow: Liberals and Auditor-General clash over deficit disparity

Some 'uncomfortable facts' around government debt

Richard Blackwell: Ontario puts brakes on renewable-energy projects

Stocks mixed, Twitter in spotlight

Global markets are mixed as investors await Friday's key U.S. jobs report.

Investors, of course, will be watching for what that report could tell them about the timing of the Federal Reserve's next interest rate hike.

"Despite an incredible start to the week, we are seeing hesitancy creep in ahead of the week's main event, with the chances of a December hike likely to be dictated by forthcoming data," said IG market analyst Joshua Mahony.

Tokyo's Nikkei gained 05 per cent, and the Hong Kong Hang Seng 0.7 per cent, while European stocks are largely down at this point.

London's FTSE 100 little changed by about 7:40 a.m. ET, while Germany's DAX and the Paris CAC 40 were down 0.1 per cent.

New York futures were also down.

Keep an eye on shares of Twitter Inc., which are down sharply, by almost 18 per cent, in premarket action.

"Shares of Twitter are likely to see a difficult start after dropping in after-hours trading on reports neither Google nor Disney are interested in acquiring the social media firm," said CMC Markets analyst Jasper Lawler.

"Microsoft has its LinkedIn purchase to deal with and Apple is an unlikely suitor," he added.

"That just leaves Salesforce with a possible interest in Twitter. With all the bidders taking flight, it's beginning to look like corporate buyers think Twitter is as much of a difficult buy as investors have over the past three years."

How markets ended Wednesday

-----Original Message-----
From: Bonnie Lemcke
Sent: Thursday, October 06, 2016 9:13 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: FW: The Ontario government's dubious (debt) distinction - The Globe and Mail

-----Original Message-----
From: Gadi Mayman
Sent: Thursday, October 06, 2016 8:36 AM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>; Erica Wieder <Erica.Wieder@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; Opal Kandelas <Opal.Kandelas@ofina.on.ca>
Subject: The Ontario government's dubious (debt) distinction - The Globe and Mail

I think we'll need to update our CIN given this headline and the lead to the story. Given that MO and PO are always after me to say that we don't have the highest sub-national debt, I think that we may also need to rephrase the question at the top of the CIN, or at least in the opening somewhere, or maybe it's a Q&A, or maybe I should just talk to Saad (please tell me the best route).

Thanks,
Gadi

http://www.theglobeandmail.com/report-on-business/top-business-stories/the-ontario-governments-dubious-debt-distinction/article32261983/?utm_medium=Newsletter&utm_source=Morning%20Business%20Briefing&utm_type=text&utm_content=MorningBusinessBriefing&utm_campaign=137699548&1475757028693

From: Ken Kandeepan
To: Alexander Kraas; Ricky Lai
Subject: RE: Third Quarter Finances_Post ADM Sign Off_v4_0210.docx
Date: Tuesday, February 14, 2017 9:05:52 AM

Good point Alex, the response is of course because the primary reason for the Q3 deficit declining was the removal of the pension adjustment, a non cash item with no impact on borrowing or IOD.

Thanks

Ken k

From: Alexander Kraas
Sent: Tuesday, February 14, 2017 8:09 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Ricky Lai <Ricky.Lai@ofina.on.ca>
Subject: Fwd: Third Quarter Finances_Post ADM Sign Off_v4_0210.docx

Hello Ken;

While it is certainly correct to point out that IOD remains unchanged from FES, it also raises the issue of why IOD did not decline with the deficit.

Hence, Ricky, would you please prepare a corresponding Q&A in case you have not done so already?

Thank you

Alex

Begin forwarded message:

> **From:** "Esmail, Selena (MOF)" <Selena.Esmail@ontario.ca>
> **Date:** February 13, 2017 at 4:07:39 PM EST
> **To:** "Kandeepan, Ken (OFA)" <Ken.Kandeepan@ofina.on.ca>
> **Cc:** "Kraas, Alexander (OFA)" <Alexander.Kraas@ofina.on.ca>, John Psinas <John.Psinas@ofina.on.ca>, "Wynberg, Lynsey (OFA)" <Lynsey.Wynberg@ofina.on.ca>, "Lai, Ricky (OFA)" <Ricky.Lai@ofina.on.ca>
> **Subject: Re: Third Quarter Finances_Post ADM Sign Off_v4_0210.docx**
>
> Sounds good. Thanks ken!
>
> Sent from my BlackBerry 10 smartphone on the Rogers network.
> Original Message
> From: Ken Kandeepan
> Sent: Monday, February 13, 2017 4:06 PM
> To: Esmail, Selena (MOF)
> Cc: Kraas, Alexander (OFA); John Psinas; Wynberg, Lynsey (OFA); Lai, Ricky (OFA)

Subject: RE: Third Quarter Finances_Post ADM Sign Off_v4_0210.docx

The change in nomenclature for the FES is fine by me, we would prefer to have the version I sent you instead of a Q&A, I will request Gadi to let the DM know and circle back to Tim.

Thanks

Ken K

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Monday, February 13, 2017 4:03 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>; Ricky Lai <Ricky.Lai@ofina.on.ca>
Subject: RE: Third Quarter Finances_Post ADM Sign Off_v4_0210.docx

Hey Ken - chatted briefly with Tim. Just as another option, instead of the revisions, you can also opt to do a QandA on this and leave the wording as is to avoid introducing what was in FES. But if the DM is ok with the revision, we just need to change "2016 Fall Economic Statement" to "2016 Ontario Economic Outlook and Fiscal Review".

Let us know the outcome. thanks
-----Original Message-----
From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: February-13-17 3:04 PM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); John Psinas; Wynberg, Lynsey (OFA); Lai, Ricky (OFA)
Subject: RE: Third Quarter Finances_Post ADM Sign Off_v4_0210.docx

The latter, I don't believe that the DM expressed any preference, he simply had the question as to why even with pre-borrowing the % was only 100. The version I sent you provides a a response.

Thanks

Ken k

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Monday, February 13, 2017 3:01 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>; Ricky Lai <Ricky.Lai@ofina.on.ca>

Subject: Re: Third Quarter Finances_Post ADM Sign Off_v4_0210.docx

Thanks Ken - I will run by Tim - to be clear - was it the DM who prefers this be added or Gadi's preference?

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Ken Kandeepan
Sent: Monday, February 13, 2017 2:44 PM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); John Psinas; Wynberg, Lynsey (OFA); Lai, Ricky (OFA)
Subject: Third Quarter Finances_Post ADM Sign Off_v4_0210.docx

Hi Selena

I had a quick discussion with Gadi, re the DM's question and he prefers that we actually indicate how much we have borrowed in relation to the outlook published in the FES. As such, I have made a few edits all on page 14 for the consideration of you and Tim.

Pls let me know if you are ok with these.

Thanks

Ken k

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From: John Psinas
To: "Anand, Sareena (MOF)"
Cc: Ken Kandeepan; George Sakura; Shemin Meralli
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
Date: Wednesday, May 30, 2018 4:56:49 PM

Sareena,
Can you share the deck as well as the net debt calculation backup?

Thanks.

John

-----Original Message-----
From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Wednesday, May 30, 2018 12:09 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Chi-Wa Che <Chi-Wa.Che@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: IOD_RPA <IOD_RPA@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Nero, Freba (MOF) <Freba.Nero@ontario.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Thanks John!

We've used the attached to run the scenarios again.

Sareena

-----Original Message-----
From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: May 30, 2018 10:31 AM
To: Anand, Sareena (MOF); Kandeepan, Ken (OFA); Che, Chi-Wa (OFA); Kraas, Alexander (OFA)
Cc: IOD_RPA; Strathy, Anna (OFA); Nero, Freba (MOF); Macdonald, James (MOF); Cheung, Danny (MOF); Esmail, Selena (MOF); McGrath, Tara (MOF); Zhang, Christina (OFA); Sakura, George (OFA); Meralli, Shemin (OFA)
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Sareena,
I see that our net debt template was used for a myriad of variable presentations of net debt, such as with the fair hydro, with pension adjustments etc, along with new fiscal deficit numbers since yesterday.

We got the accumulated deficit impact of the pension adjustment this morning from OPCD and put it into the opening net debt number for 2016-17 in the attached. Our opening 2016-17 net debt number now matches what the AG has indicated it should be if following this accounting interpretation. You may have to redo the net debt calculations based on this adjustment as well as the new fiscal impacts.

As you can see, there is a significant impact to the ratio by adding over $12.4 Billion of the pension adjustment to accumulated deficit.

Thanks.

John

-----Original Message-----
From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Wednesday, May 30, 2018 10:15 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Chi-Wa Che <Chi-Wa.Che@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: IOD_RPA <IOD_RPA@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Nero, Freba (MOF) <Freba.Nero@ontario.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Good morning:

Per the email thread below, we're touching base to provide you with the outlooks for the three scenarios (base, 1, and 2) as they currently stand, including with the IOD forecast that you provided yesterday at 4:30pm. Please note that the only change that has not been incorporated into the attached IOD outlook is a $5M revenue decrease in 2019-20 and 2020-21 that was made this morning. Revenue has been updated in the attached document, but IOD has not since we didn't think it would make a significant difference.

In addition, we have attached a draft version of the deck that will be used to brief the SOC this afternoon at 3pm, however, we are still working through some wording edits. The net debt-to-GDP numbers that we calculated for each scenario can be found in the deck on slides 10,13,14 and 15. Also attached is a copy of the net debt-to-gdp calculator that we used.

Could you please confirm that both the IOD forecast in each scenario as well as the net debt-to-GDP numbers in the deck are correct?

Many thanks!
Sareena

-----Original Message-----
From: McGrath, Tara (MOF)
Sent: May 29, 2018 9:31 PM
To: Kandeepan, Ken (OFA)
Cc: Che, Chi-Wa (OFA); Anand, Sareena (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA); Strathy, Anna (OFA); Nero, Freba (MOF); Macdonald, James (MOF); Cheung, Danny (MOF); Esmail, Selena (MOF)
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Ok great - thanks Ken.

Coming out of the meeting there were no further changes to the base case or alternative fiscal outlooks, save one small revenue adjustment that is less than $5M per year.

We'll touch base in the morning.

Tara

From: Kandeepan, Ken (OFA) [Ken.Kandeepan@ofina.on.ca]
Sent: Tuesday, May 29, 2018 9:28 PM
To: McGrath, Tara (MOF)
Cc: Che, Chi-Wa (OFA); Anand, Sareena (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA); Strathy, Anna (OFA); Nero, Freba (MOF); Macdonald, James (MOF); Cheung, Danny (MOF)

Subject: Re: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi Tara

With regard to IOD, your characterization of the two versions is accurate. However since our runs were done to meet deadlines we will review the results once more tomorrow morning and confirm.

With regard to the net debt to GDP ratio, as John has pointed out, the version that includes the AG's adjustments should also incorporate the cumulative impact of reversing the pension adjustment and that should not be limited to 16-17 onwards.

We have requested the cumulative impact from OPCD and should be able to provide revised ratios tomorrow.

Thanks

Ken k

> On May 29, 2018, at 908 PM, McGrath, Tara (MOF) <Tara.McGrath@ontario.ca> wrote:
>
> Hi everyone,
>
> Thank you again for your nimbleness today - we appreciate it.
>
> We were moving quickly today, so we wanted to take a pause just to confirm we are using the correct IOD numbers. We understand that the version sent at 3:56 (first attachment) includes the IOD changes without taking on the accounting change for pensions and Fair Hydro; and the version sent at 4:30 (second attachment) represents the IOD changes after taking on the accounting changes.
>
> We have a small window tomorrow morning to make any final updates, so it would be great if you could confirm first thing in the morning.
>
> John - we're working through all of the net debt-to-GDP scenarios with these new IOD figures, so we'll loop back around with you in the morning to confirm you're ok with all of the ratios for the deck.
>
> We understand the briefing with the SOC is at 3.
>
> Thanks,
>
> Tara
>
> _____
> From: Che, Chi-Wa (OFA) [Chi-Wa.Che@ofina.on.ca]
> Sent: Tuesday, May 29, 2018 4:30 PM
> To: Anand, Sareena (MOF)
> Cc: McGrath, Tara (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA);
> Kandeepan, Ken (OFA); Strathy, Anna (OFA)
> Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
>
> Hi Sareena,
>
> Attached is the revised IOD Summary for the Base Case and Alternative Scenarios together with the impacts from Pension Adjustments and Fair Hydro Plan.
>
> The IOD forecast as of April 30, 2018 is made with the following
> assumptions:-
>
>

> 1. IOD projections based on new OEP interest rate forecasts (May 23, 2018) for F2018-19 and F2019-20 and the 20-year historical average of interest rates for F2020-21. The latest forecast indicated that there is an decrease of 16 bps for 2019-20 only while marginally the same for 2018-19.
> 2. Uses the new Net Investment in Capital Assets and interest cap assumptions provided by TBS.
> 3. The pension adjustments does not impact borrowing as it only has PSAB implications and not cash implications.
> 4. New borrowing is increased by the partial cost of transferring the Fair Hydro Plan onto the Province's books as 44% of the cost is already accounted for.
>
>
>
> Thanks.
>
> Chi-Wa Che
>
> 5-8163
>
>
>
> _____
>
> This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.
> <IOD Summary for Transition.Revised.xlsx> <IOD Summary for
> Transition.RevisedV2.xlsx>

From:	McGrath, Tara (MOF)
To:	Ken Kandeepan
Cc:	Chi-Wa Che; Anand, Sareena (MOF); IOD_RPA; John Psinas; Alexander Kraas; Anna Strathy; Nero, Freba (MOF); James MacDonald (MEDTE/MRI); Danny Cheung (CSC); Selena Esmail (MOF)
Subject:	RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
Date:	Tuesday, May 29, 2018 9:31:15 PM

Ok great - thanks Ken.

Coming out of the meeting there were no further changes to the base case or alternative fiscal outlooks, save one small revenue adjustment that is less than $5M per year.

We'll touch base in the morning.

Tara

From: Kandeepan, Ken (OFA) [Ken.Kandeepan@ofina.on.ca]
Sent: Tuesday, May 29, 2018 9:28 PM
To: McGrath, Tara (MOF)
Cc: Che, Chi-Wa (OFA); Anand, Sareena (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA); Strathy, Anna (OFA); Nero, Freba (MOF); Macdonald, James (MOF); Cheung, Danny (MOF)
Subject: Re: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi Tara

With regard to IOD, your characterization of the two versions is accurate. However since our runs were done to meet deadlines we will review the results once more tomorrow morning and confirm.

With regard to the net debt to GDP ratio, as John has pointed out, the version that includes the AG's adjustments should also incorporate the cumulative impact of reversing the pension adjustment and that should not be limited to 16-17 onwards.

We have requested the cumulative impact from OPCD and should be able to provide revised ratios tomorrow.

Thanks

Ken k

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>
> Hi everyone,
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>

> We understand the briefing with the SOC is at 3.
>
> Thanks,
>
> Tara
>
> _____
> From: Che, Chi-Wa (OFA) [Chi-Wa.Che@ofina.on.ca]
> Sent: Tuesday, May 29, 2018 4:30 PM
> To: Anand, Sareena (MOF)
> Cc: McGrath, Tara (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA); Kandeepan, Ken (OFA); Strathy, Anna (OFA)
> Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
>
> Hi Sareena,
>
> Attached is the revised IOD Summary for the Base Case and Alternative Scenarios together with the impacts from Pension Adjustments and Fair Hydro Plan.
>
> The IOD forecast as of April 30, 2018 is made with the following assumptions:-
>
>
> 1. IOD projections based on new OEP interest rate forecasts (May 23, 2018) for F2018-19 and F2019-20 and the 20-year historical average of interest rates for F2020-21. The latest forecast indicated that there is an decrease of 16 bps for 2019-20 only while marginally the same for 2018-19.
> 2. Uses the new Net Investment in Capital Assets and interest cap assumptions provided by TBS.
> 3. The pension adjustments does not impact borrowing as it only has PSAB implications and not cash implications.
> 4. New borrowing is increased by the partial cost of transferring the Fair Hydro Plan onto the Province's books as 44% of the cost is already accounted for.
>
>
>
> Thanks.
>
> Chi-Wa Che
>
> 5-8163
>
>
>
> _____
>
> This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.
> <IOD Summary for Transition.Revised.xlsx>
> <IOD Summary for Transition.RevisedV2.xlsx>

From:	McGrath, Tara (MOF)
To:	Ken Kandeepan
Cc:	Chi-Wa Che; Anand, Sareena (MOF); IOD_RPA; John Psinas; Alexander Kraas; Anna Strathy; Nero, Freba (MOF); James MacDonald (MEDTE/MRI); Danny Cheung (CSC); Selena Esmail (MOF)
Subject:	RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
Date:	Tuesday, May 29, 2018 9:31:15 PM

Ok great - thanks Ken.

Coming out of the meeting there were no further changes to the base case or alternative fiscal outlooks, save one small revenue adjustment that is less than $5M per year.

We'll touch base in the morning.

Tara

From: Kandeepan, Ken (OFA) [Ken.Kandeepan@ofina.on.ca]
Sent: Tuesday, May 29, 2018 9:28 PM
To: McGrath, Tara (MOF)
Cc: Che, Chi-Wa (OFA); Anand, Sareena (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA); Strathy, Anna (OFA); Nero, Freba (MOF); Macdonald, James (MOF); Cheung, Danny (MOF)
Subject: Re: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi Tara

With regard to IOD, your characterization of the two versions is accurate. However since our runs were done to meet deadlines we will review the results once more tomorrow morning and confirm.

With regard to the net debt to GDP ratio, as John has pointed out, the version that includes the AG's adjustments should also incorporate the cumulative impact of reversing the pension adjustment and that should not be limited to 16-17 onwards.

We have requested the cumulative impact from OPCD and should be able to provide revised ratios tomorrow.

Thanks

Ken k

> On May 29, 2018, at 908 PM, McGrath, Tara (MOF) <Tara.McGrath@ontario.ca> wrote:
>
> Hi everyone,
>
> Thank you again for your nimbleness today - we appreciate it.
>
> We were moving quickly today, so we wanted to take a pause just to confirm we are using the correct IOD numbers. We understand that the version sent at 3:56 (first attachment) includes the IOD changes without taking on the accounting change for pensions and Fair Hydro; and the version sent at 4:30 (second attachment) represents the IOD changes after taking on the accounting changes.
>
> We have a small window tomorrow morning to make any final updates, so it would be great if you could confirm first thing in the morning.
>
> John - we're working through all of the net debt-to-GDP scenarios with these new IOD figures, so we'll loop back around with you in the morning to confirm you're ok with all of the ratios for the deck.
>

> We understand the briefing with the SOC is at 3.
>
> Thanks,
>
> Tara
>
> _____
> From: Che, Chi-Wa (OFA) [Chi-Wa.Che@ofina.on.ca]
> Sent: Tuesday, May 29, 2018 4:30 PM
> To: Anand, Sareena (MOF)
> Cc: McGrath, Tara (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA); Kandeepan, Ken (OFA); Strathy, Anna (OFA)
> Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
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> Hi Sareena,
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> <IOD Summary for Transition.Revised.xlsx>
> <IOD Summary for Transition.RevisedV2.xlsx>

From:	McGrath, Tara (MOF)
To:	Chi-Wa Che; Anand, Sareena (MOF)
Cc:	IOD_RPA; John Psinas; Alexander Kraas; Ken Kandeepan; Anna Strathy; Nero, Freba (MOF); James MacDonald (MEDTE/MRI); Danny Cheung (CSC)
Subject:	RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
Date:	Tuesday, May 29, 2018 9:08:27 PM
Attachments:	IOD Summary for Transition.Revised.xlsx IOD Summary for Transition.RevisedV2.xlsx

---

Hi everyone,

Thank you again for your nimbleness today - we appreciate it.

We were moving quickly today, so we wanted to take a pause just to confirm we are using the correct IOD numbers. We understand that the version sent at 3:56 (first attachment) includes the IOD changes without taking on the accounting change for pensions and Fair Hydro; and the version sent at 4:30 (second attachment) represents the IOD changes after taking on the accounting changes.

We have a small window tomorrow morning to make any final updates, so it would be great if you could confirm first thing in the morning.

John - we're working through all of the net debt-to-GDP scenarios with these new IOD figures, so we'll loop back around with you in the morning to confirm you're ok with all of the ratios for the deck.

We understand the briefing with the SOC is at 3.

Thanks,

Tara

From: Che, Chi-Wa (OFA) [Chi-Wa.Che@ofina.on.ca]
Sent: Tuesday, May 29, 2018 4:30 PM
To: Anand, Sareena (MOF)
Cc: McGrath, Tara (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA); Kandeepan, Ken (OFA); Strathy, Anna (OFA)
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi Sareena,

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4. New borrowing is increased by the partial cost of transferring the Fair Hydro Plan onto the Province’s books as 44% of the cost is already accounted for.

Thanks.

Chi-Wa Che

5-8163

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IOD Forecast for Transition			
	2018-19	**2019-20**	**2020-21**
2018 Budget IOD Forecast	12,542.8	13,066.1	13,849.3
IOD forecast for Base Case	12,565.4	13,025.8	13,566.0
Change from 2018 Budget	22.7	(40.3)	(283.3)
IOD forecast for Alt 1	12,630.6	13,266.9	14,123.1
Change from 2018 Budget	87.9	200.8	273.8
IOD forecast fo Alt 2	12,550.4	12,976.8	13,483.0
Change from 2018 Budget	7.6	(89.3)	(366.3)

IOD Forecast for Transition

	2018-19	2019-20	2020-21
2018 Budget IOD Forecast	12,542.8	13,066.1	13,849.3
IOD forecast for Base Case	12,593.5	13,120.6	13,744.0
Change from 2018 Budget	50.7	54.5	(105.3)
IOD forecast for Alt 1	12,658.2	13,360.8	14,304.2
Change from 2018 Budget	115.5	294.7	454.9
IOD forecast fo Alt 2	12,578.0	13,070.8	13,664.1
Change from 2018 Budget	35.2	4.7	(185.2)

From:	John Psinas
To:	Mark Donaldson (MOF)
Cc:	George Sakura; Ken Kandeepan; Kevin Hwang; Shemin Meralli
Subject:	RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
Date:	Tuesday, May 29, 2018 4:24:54 PM
Importance:	High

Mark,

Can you provide us with the historic pension adjustment so we can ascertain the opening 16-17 accumulated deficit impact in case the DM wants to see it tomorrow first thing? It's ballpark 10.6 B plus another $2 billion I think.

Thanks.

John

From: John Psinas
Sent: Tuesday, May 29, 2018 3:52 PM
To: Danny Cheung (CSC) <Danny.Cheung@ontario.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; 'Anand, Sareena (MOF)' <Sareena.Anand@ontario.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>; Mark Donaldson (MOF) <Mark.Donaldson@ontario.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Danny,

As discussed, please see attached. As requested, can someone mention that the historic opening pension adjustment is not fully reflected in the net debt numbers.

Thanks.

John

From: John Psinas
Sent: Tuesday, May 29, 2018 3:39 PM
To: Danny Cheung (CSC) <Danny.Cheung@ontario.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>; Mark Donaldson (MOF) <Mark.Donaldson@ontario.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Danny,

Thanks. We'll do it, but bear in mind that in order to fully incorporate the pension numbers, we need the cumulative effect on the accumulated deficit or otherwise we won't get the correct net debt number. Only OPCD has the amounts going back which we can use to put to accumulated deficit.

If we get it in time, we can make the calculation. Otherwise, we'll send the revised calculation to what you just sent us, but someone at the briefing today needs to mention that the pension adjustment historical impact is not fully recognized in the net debt numbers presented.

Thanks.

John

From: Cheung, Danny (MOF) [mailto:Danny.Cheung@ontario.ca]
Sent: Tuesday, May 29, 2018 3:33 PM
To: John Psinas <John.Psinas@ofina.on.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi John,

As discussed, please see attached for revised scenarios, updated to include the Pension/Hydro splits (including 2017-18)

Happy to discuss any questions or concerns.

Thanks!
Danny

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: May-29-18 3:12 PM
To: McGrath, Tara (MOF); Strathy, Anna (OFA); Kandeepan, Ken (OFA)
Cc: Anand, Sareena (MOF); Cheung, Danny (MOF); Meralli, Shemin (OFA); Sakura, George (OFA); Macdonald, James (MOF); IOD_RPA; Kraas, Alexander (OFA)
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Tara,

Sure. Can you send us the pension adjustment going back starting from whatever respective year is requested.

Thanks.

John

From: McGrath, Tara (MOF) [mailto:Tara.McGrath@ontario.ca]
Sent: Tuesday, May 29, 2018 2:42 PM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi,

We just ran into Gadi – he and Tim were talking and they'd like to add to the deck some more net debt-to-GDP ratios!

So for each scenario (base case, #1, #2), he'd like to be able to say by how much net debt to GDP would increase if 1) you were to layer on the impact of pensions and 2) you were to additionally layer on the impact of fair hydro.

If we send you the accounting numbers we're working with, is that doable?

I understand you probably don't have time to redo IOD with the latest information Danny just sent.

We'll send along accounting in a moment, including for 17-18. Thanks,

Tara

From: Cheung, Danny (MOF)
Sent: May 29, 2018 2:23 PM
To: Kandeepan, Ken (OFA) <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Kraas, Alexander (OFA) <Alexander.Kraas@ofina.on.ca>
Cc: McGrath, Tara (MOF) <Tara.McGrath@ontario.ca>; Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>; Macdonald, James (MOF) <James.Macdonald@ontario.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi Ken, John, and Alex,

We have scenarios for you (again!). So sorry for the last-minute request, but we rolled through some revenue changes, and would really appreciate it if you all could get us an updated IOD and Net Debt-to-GDP outlook for each scenario so we can roll them through the deck (for our 4:15 DM pre-brief).

Again, we really apologize for the short turnaround. We're happy to discuss if you have any questions or concerns.

Thanks so much!
Danny

From: Anand, Sareena (MOF)
Sent: May 29, 2018 10:53 AM
To: Kandeepan, Ken (OFA) <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Kraas, Alexander (OFA) <Alexander.Kraas@ofina.on.ca>
Cc: McGrath, Tara (MOF) <Tara.McGrath@ontario.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Good morning:

We have scenarios for you! Attached, please find the base case and two illustrative scenarios, in millions. Mo also just sent a revised TCA profile.

There is a pre-brief with DMs this afternoon at 4:15pm, accordingly, it would be great if we could get the IOD and Net debt-to-GDP outlooks for each scenario by early afternoon so that we can roll them through the deck. I realize that these are tight timelines, and apologize for the short turnaround. Please let us know if you think this is feasible.

Tara and I are happy to discuss the attached, should you have any questions.

Thank you!
Sareena

From: Anand, Sareena (MOF)
Sent: May 25, 2018 11:08 AM
To: Kraas, Alexander (OFA); John Psinas
Cc: Kandeepan, Ken (OFA); McGrath, Tara (MOF); IOD_RPA
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Good morning:

We wanted to provide an update on where things are at with the request for the SOC.

We are still working on both the base case and the illustrative scenarios, based on what came out of the whiteboard session yesterday, so we probably won't have anything to share with you before Monday.

Our colleagues at TBS have prepared an updated TCA profile that should be making its way over to you later today.

We'll be in touch on Monday.

Thanks and hope everyone has a nice weekend,
Sareena

From: Alexander Kraas [mailto:Alexander.Kraas@ofina.on.ca]
Sent: May 23, 2018 2:37 PM
To: Anand, Sareena (MOF)
Cc: John Psinas; Kandeepan, Ken (OFA); McGrath, Tara (MOF); IOD_RPA
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Thank you for the request, Sareena;

1. WRT IOD forecasts and to avoid that anything falls between the cracks, please send e-mails to the copied group "IOD_RPA" which includes analysists preparing the financing table and IOD forecasts, as well as myself;

2. An IOD calculator makes sense if you envision very tight turnaround times, e.g. you provide a scenario after 5 pm and expect a turnaround the same evening. Otherwise and based on our experience during the last Budget, our preference is to do proper IOD runs with our application in order to take correctly into account the impact of fiscal scenarios on the financing table and other aspects/components of IOD;

3. Given the large impact of capital spending on the borrowing program, getting TCA profiles right is at least as important as the fiscal outlook.

Please let me know in case you have any questions.

Best regards

Alex Kraas
Manager, Risk Policy & Analysis
Ontario Financing Authority
Toronto M7A 1Y7

akraas@ofina.on.ca
(o) 416-325-8558
(m) 416-568-3385
(f) 416-204-7937

From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Wednesday, May 23, 2018 1:39 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>

Subject: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi Ken, John, and Alex:

Hope all is well.

As part of transition planning, we've received a request from the Secretary to create a deck that includes a base case fiscal outlook to inform the starting point for future fiscal planning. Development of the base case will build off of the medium-term fiscal outlook presented in the 2018 Budget, and will be adjusted as required to scrub the outlook. We've also been asked to include two illustrative scenarios, based on currently available fiscal anchors, that will be layered onto the base case.

In total, we will create 3 scenarios (base case + two illustrative scenarios) for which we would need updated net debt and IOD forecasts. We are talking to TBS about getting updated TCA profiles for this as well.

We are working on creating the base case and illustrative scenarios and will likely send these along piecemeal, as they are drafted. We're hoping to get you a copy of the base case for tomorrow. Not sure how quickly we'll be able to complete the illustrative scenarios, we may also receive further direction on this coming out of tomorrow's session on the fiscal plan. We will aim to get you something for Friday, with the caveat that the scenarios will likely change into the beginning of next week.

Please let us know what you think the best approach is for developing the net debt and IOD forecasts. We're happy to use an updated version of the calculator, as we did for Budget. Alternatively, we could send you individual roll ups for each scenario so that you can calculate on your end.

Hope this makes sense. Tara and I are happy to discuss in more detail on a call – we're around most of the afternoon.

Thank you!
Sareena

Sareena Anand
Senior Economist, Fiscal Framework
Office of the Budget, Ministry of Finance
Sareena.Anand@ontario.ca – 416.327.2083

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From:	Cheung, Danny (MOF)
To:	John Psinas
Cc:	Ken Kandeepan; IOD_RPA; Alexander Kraas; Anna Strathy; Shemin Meralli; George Sakura; Tara McGrath (MOF); Anand, Sareena (MOF); James MacDonald (MEDTE/MRI); Mark Donaldson (MOF)
Subject:	RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
Date:	Tuesday, May 29, 2018 4:23:47 PM

Perfect – Thanks, John!

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: May-29-18 4:23 PM
To: Cheung, Danny (MOF)
Cc: Kandeepan, Ken (OFA); IOD_RPA; Kraas, Alexander (OFA); Strathy, Anna (OFA); Meralli, Shemin (OFA); Sakura, George (OFA); McGrath, Tara (MOF); Anand, Sareena (MOF); Macdonald, James (MOF); Donaldson, Mark (TBS)
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Danny,

Column R yes, in each of the tabs.

Thanks.

John

From: Cheung, Danny (MOF) [mailto:Danny.Cheung@ontario.ca]
Sent: Tuesday, May 29, 2018 4:22 PM
To: John Psinas <John.Psinas@ofina.on.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>; Mark Donaldson (MOF) <Mark.Donaldson@ontario.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi John,

Thanks again for this – we were wondering if it is possible to get the Net Debt-to-GDP ratio for the scenarios before the AG adjustments as well. I'm happy to do this, but want to make sure it's simply replacing the surplus/(deficit) amounts in column R for the "Base Case", "Scenario 1", and "Scenario 2" tabs.

Happy to discuss.

Thanks!
Danny

From: John Psinas [mailto:John.Psinas@ofina.on.ca]

Sent: May-29-18 3:52 PM
To: Cheung, Danny (MOF)
Cc: Kandeepan, Ken (OFA); IOD_RPA; Kraas, Alexander (OFA); Strathy, Anna (OFA); Meralli, Shemin (OFA); Sakura, George (OFA); McGrath, Tara (MOF); Anand, Sareena (MOF); Macdonald, James (MOF); Donaldson, Mark (TBS)
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Danny,

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Thanks.

John

From: John Psinas
Sent: Tuesday, May 29, 2018 3:39 PM
To: Danny Cheung (CSC) <Danny.Cheung@ontario.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>; Mark Donaldson (MOF) <Mark.Donaldson@ontario.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Danny,

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If we get it in time, we can make the calculation. Otherwise, we'll send the revised calculation to what you just sent us, but someone at the briefing today needs to mention that the pension adjustment historical impact is not fully recognized in the net debt numbers presented.

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John

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Sent: Tuesday, May 29, 2018 3:33 PM
To: John Psinas <John.Psinas@ofina.on.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Tara McGrath (MOF)

<Tara.McGrath@ontario.ca>; Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

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To: McGrath, Tara (MOF); Strathy, Anna (OFA); Kandeepan, Ken (OFA)
Cc: Anand, Sareena (MOF); Cheung, Danny (MOF); Meralli, Shemin (OFA); Sakura, George (OFA); Macdonald, James (MOF); IOD_RPA; Kraas, Alexander (OFA)
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

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Thanks and hope everyone has a nice weekend,
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Please let me know in case you have any questions.

Best regards

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Manager, Risk Policy & Analysis
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akraas@ofina.on.ca
(o) 416-325-8558
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(f) 416-204-7937

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Sareena Anand
Senior Economist, Fiscal Framework
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Sareena.Anand@ontario.ca – 416.327.2083

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From:	John Psinas
To:	Danny Cheung (CSC)
Cc:	Ken Kandeepan; IOD_RPA; Alexander Kraas; Anna Strathy; Shemin Meralli; George Sakura; Tara McGrath (MOF); Anand, Sareena (MOF); James MacDonald (MEDTE/MRI); Mark Donaldson (MOF)
Subject:	RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
Date:	Tuesday, May 29, 2018 4:23:11 PM

Danny,

Column R yes, in each of the tabs.

Thanks.

John

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Date:	Tuesday, May 29, 2018 4:21:52 PM

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To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

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Cc: McGrath, Tara (MOF) <Tara.McGrath@ontario.ca>; Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>; Macdonald, James (MOF) <James.Macdonald@ontario.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>
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Thanks so much!
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Cc:	Ken Kandeepan; IOD_RPA; Alexander Kraas; Anna Strathy; Shemin Meralli; George Sakura; Tara McGrath (MOF); Anand, Sareena (MOF); James MacDonald (MEDTE/MRI); Mark Donaldson (MOF)
Subject:	RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
Date:	Tuesday, May 29, 2018 3:55:35 PM

Hi John,

Thanks for this! I'll make sure to pass the message along to Tara.

Thanks,
Danny

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: May-29-18 3:52 PM
To: Cheung, Danny (MOF)
Cc: Kandeepan, Ken (OFA); IOD_RPA; Kraas, Alexander (OFA); Strathy, Anna (OFA); Meralli, Shemin (OFA); Sakura, George (OFA); McGrath, Tara (MOF); Anand, Sareena (MOF); Macdonald, James (MOF); Donaldson, Mark (TBS)
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Subject:	RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
Date:	Tuesday, May 29, 2018 3:52:19 PM
Attachments:	2018-05-29 (3.30 pm) - Net Debt - 2017-18 - Scenarios (based on 2018 Budget) - incl pension hydro adj.xlsx

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Our colleagues at TBS have prepared an updated TCA profile that should be making its way over to you later today.

We'll be in touch on Monday.

Thanks and hope everyone has a nice weekend,
Sareena

From: Alexander Kraas [mailto:Alexander.Kraas@ofina.on.ca]
Sent: May 23, 2018 2:37 PM
To: Anand, Sareena (MOF)
Cc: John Psinas; Kandeepan, Ken (OFA); McGrath, Tara (MOF); IOD_RPA
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Thank you for the request, Sareena;

1. WRT IOD forecasts and to avoid that anything falls between the cracks, please send e-mails to the copied group "IOD_RPA" which includes analysists preparing the financing table and IOD forecasts, as well as myself;

2. An IOD calculator makes sense if you envision very tight turnaround times, e.g. you provide a scenario after 5 pm and expect a turnaround the same evening. Otherwise and based on our experience during the last Budget, our preference is to do proper IOD runs with our application in order to take correctly into account the impact of fiscal scenarios on the financing table and other aspects/components of IOD;

3. Given the large impact of capital spending on the borrowing program, getting TCA profiles right is at least as important as the fiscal outlook.

Please let me know in case you have any questions.

Best regards

Alex Kraas
Manager, Risk Policy & Analysis
Ontario Financing Authority
Toronto M7A 1Y7

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From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Wednesday, May 23, 2018 1:39 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>
Subject: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi Ken, John, and Alex:

Hope all is well.

As part of transition planning, we've received a request from the Secretary to create a deck that includes a base case fiscal outlook to inform the starting point for future fiscal planning. Development of the base case will build off of the medium-term fiscal outlook presented in the 2018 Budget, and will be adjusted as required to scrub the outlook. We've also been asked to include two illustrative scenarios, based on currently available fiscal anchors, that will be layered onto the base case.

In total, we will create 3 scenarios (base case + two illustrative scenarios) for which we would need updated net debt and IOD forecasts. We are talking to TBS about getting updated TCA profiles for this as well.

We are working on creating the base case and illustrative scenarios and will likely send these along piecemeal, as they are drafted. We're hoping to get you a copy of the base case for tomorrow. Not

sure how quickly we'll be able to complete the illustrative scenarios, we may also receive further direction on this coming out of tomorrow's session on the fiscal plan. We will aim to get you something for Friday, with the caveat that the scenarios will likely change into the beginning of next week.

Please let us know what you think the best approach is for developing the net debt and IOD forecasts. We're happy to use an updated version of the calculator, as we did for Budget. Alternatively, we could send you individual roll ups for each scenario so that you can calculate on your end.

Hope this makes sense. Tara and I are happy to discuss in more detail on a call – we're around most of the afternoon.

Thank you!
Sareena

Sareena Anand
Senior Economist, Fiscal Framework
Office of the Budget, Ministry of Finance
Sareena.Anand@ontario.ca – 416.327.2083

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	Budget 2018		Base Case Scenario		Scenario 1		Scenario 2		Difference Base Case vs. Budget 2018		Difference Scenario 1 vs. Budget 2018		Difference Scenario 2 vs. Budget 2018	
	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)
2017-18 Interim	37.1	(642)	37.6	3,593	37.6	3,593	37.6	3,593	0.5	4,235	0.5	4,235	0.5	4,235
2018-19 Outlook	37.6	6,704	38.7	11,882	39.3	16,511	38.7	11,297	1.1	5,178	1.6	9,807	1.0	4,593
2019-20 Outlook	38.2	6,624	39.5	9,321	40.7	15,528	39.6	10,157	1.3	2,697	2.6	8,904	1.4	3,533
2020-21 Outlook	38.6	6,475	39.9	6,444	42.1	16,272	39.8	5,739	1.3	(31)	3.5	9,797	1.2	(736)
2021-22 Outlook									0.0	-	0.0	-	0.0	-
2022-23 Outlook									0.0	-	0.0	-	0.0	-
2023-24 Outlook									0.0	-	0.0	-	0.0	-
2024-25 Outlook									0.0	-	0.0	-	0.0	-
2025-26 Outlook									0.0	-	0.0	-	0.0	-
2026-27 Outlook									0.0	-	0.0	-	0.0	-
2027-28 Outlook														

Net Debt to Revenue and GDP Ratios

Ontario

2018 Document Outlook

	Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)		
Actual	1989-90	282,754	35,409	12.5	35,409	12.5	-				(90)		
Actual	1990-91	287,293	38,438	13.4	38,438	13.4	-				3,029		
Actual	1991-92	288,190	49,368	17.1	49,368	17.1	-				10,930		
Actual	1992-93	293,007	61,796	21.1	61,796	21.1	-				12,428		
Actual	1993-94	302,160	80,599	26.7	80,599	26.7	-				11,202		
Actual	1994-95	319,901	90,728	28.4	90,728	28.4	-				10,129		
Actual	1995-96	337,337	101,864	30.2	101,864	30.2	-				8,800		
Actual	1996-97	347,738	108,769	31.3	108,769	31.3	-				6,905		
Actual	1997-98	368,909	112,735	30.6	112,735	30.6	-				3,966		
Actual	1998-99	389,219	114,737	29.5	114,737	29.5	-				2,002		
Actual	1999-2000	418,202	134,398	32.1	134,398	32.1	-				(668)		
Actual	2000-01	452,186	132,496	29.3	132,496	29.3	-				(1,902)		
Actual	2001-02	469,045	132,121	28.2	132,121	28.2	-				(375)		
Actual	2002-03	494,804	132,647	26.8	118,705	24.0	13,942				(117)		
Actual	2003-04	509,472	138,816	27.2	124,188	24.4	14,628				5,483		
Actual	2004-05	533,334	140,921	26.4	125,743	23.6	15,178				1,555		
Actual	2005-06	556,607	152,702	27.4	109,155	19.6	43,547				(298)		
Actual	2006-07	578,229	153,742	26.6	106,776	18.5	46,966			(110)	(2,269)		
Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999		(559)		(600)		
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347		1,212		6,409		
Actual	2009-10	597,876	193,589	32.4	130,957	21.9	62,632		1,090	-	19,262		
Actual	2010-11	630,983	214,511	34.0	144,573	22.9	69,938		(395)	-	14,011		
Actual	2011-12	659,740	236,230	35.8	158,410	24.0	77,172	648	3	865	12,969		
Actual	2012-13	680,086	252,823	37.2	167,132	24.6	84,956	735	(639)	141	9,220		
Actual	2013-14	695,354	267,968	38.5	176,634	25.4	90,556	778	(951)	-	10,453		
Actual	2014-15	726,053	285,403	39.3	187,511	25.8	97,065	827	(1,121)	1,683	10,315		
Actual	2015-16	762,029	295,372	38.8	192,029	25.2	102,536	807	1,003	-	3,515		
Actual	2016-17	794,835	301,648	38.0	193,510	24.3	107,288	850	(1,094)	1,584	991		4,752
	2017-18 Outloo	829,984	308,203	37.1	192,449	23.2	114,904	850	(419)		(642)		7,616
	2018-19 Outloo	863,690	325,041	37.6	199,153	23.1	125,038	850			6,704		10,134
	2019-20 Outloo	897,341	342,752	38.2	205,777	22.9	136,125	850			6,624		11,087
	2020-21 Outloo	933,145	360,123	38.6	212,252	22.7	147,021	850			6,475		10,896
	2021-22 Outloo	969,156	376,811	38.9	217,824	22.5	158,137	850			5,572		11,116
	2022-23 Outloo	1,005,572	388,265	38.6	221,785	22.1	165,630	850			3,961		7,493

Ontario

2018 Document Outlook

Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)	
2023-24 Outloo	1,045,203	394,185	37.7	224,261	21.5	169,074	850			2,476	3,444
2024-25 Outloo	1,088,440	400,152	36.8	224,277	20.6	175,025	850			16	5,951
2025-26 Outloo	1,133,057	402,058	35.5	221,674	19.6	179,534	850			(2,603)	4,509
2026-27 Outloo	1,176,212	402,020	34.2	221,674	18.8	179,496	850			-	(38)
2027-28 Outloo	1,223,997	400,921	32.8	221,674	18.1	178,397	850			-	(1,099)
2028-29 Outloo	1,274,188	400,921	31.5	221,674	17.4	178,397	850			-	
2029-30 Outloo	1,326,796	400,921	30.2	221,674	16.7	178,397	850			-	
2030-31 Outloo	1,379,701	400,921	29.1	221,674	16.1	178,397	850			-	
2031-32 Outloo	1,434,889	400,921	27.9	221,674	15.4	178,397	850			-	
2032-33 Outloo	1,492,284	400,921	26.9	221,674	14.9	178,397	850			-	
2033-34 Outloo	1,551,976	400,921	25.8	221,674	14.3	178,397	850			-	
2034-35 Outloo	1,614,055	400,921	24.8	221,674	13.7	178,397	850			-	
2035-36 Outloo	1,678,617	400,921	23.9	221,674	13.2	178,397	850			-	

Assumptions /Notes

1. Surplus for 2017-18 is $ 642 m
2. GDP - per latest information rec'd (see GDP tab)
3. TCA - per info rec'd March 3, 2018 from David Hodes
   After 2027-28 TCA increases are equal to annual amortization
4. Net Debt adjusted for prepaids starting 2014-15. From 2017-18 and onwards - same amount as prior month assumed.
5. Balanced budget continues through to 2035-36
6. GDP annual growth is 4% from 2031-32 to 2035-36
7. Revenue restated to include BPS (Hospitals, colleges, school boards) from 2012-13
8. Revenue from 2017-18 to 2019-20 has been restated for BPS
9. Revenue for 2016-17 was revised down by approx $1 million from $140,735m to $140,734.

Prepared by OFA, FTD

9-Mar-18

Net Debt to Revenue and GDP Ratios											
Ontario		Base Case Scenario (Based on 2018 Budget)									
				Net Debt As	Accumulated	Acc Deficit		Prepds/inv.	ONFA	Other Adj	Deficit/
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP %	TCA	Adj.(gain)/los	(gain)/loss	(gain)/loss	(Surplus)
Actual	1989-90	282,754	35,409	12.5	35,409	12.5	-				(90)
Actual	1990-91	287,293	38,438	13.4	38,438	13.4	-				3,029
Actual	1991-92	288,190	49,368	17.1	49,368	17.1	-				10,930
Actual	1992-93	293,007	61,796	21.1	61,796	21.1	-				12,428
Actual	1993-94	302,160	80,599	26.7	80,599	26.7	-				11,202
Actual	1994-95	319,901	90,728	28.4	90,728	28.4	-				10,129
Actual	1995-96	337,337	101,864	30.2	101,864	30.2	-				8,800
Actual	1996-97	347,738	108,769	31.3	108,769	31.3	-				6,905
Actual	1997-98	368,909	112,735	30.6	112,735	30.6	-				3,966
Actual	1998-99	389,219	114,737	29.5	114,737	29.5	-				2,002
Actual	1999-2000	418,202	134,398	32.1	134,398	32.1	-				(668)
Actual	2000-01	452,186	132,496	29.3	132,496	29.3	-				(1,902)
Actual	2001-02	469,045	132,121	28.2	132,121	28.2	-				(375)
Actual	2002-03	494,804	132,647	26.8	118,705	24.0	13,942				(117)
Actual	2003-04	509,472	138,816	27.2	124,188	24.4	14,628				5,483
Actual	2004-05	533,334	140,921	26.4	125,743	23.6	15,178				1,555
Actual	2005-06	556,607	152,702	27.4	109,155	19.6	43,547				(298)
Actual	2006-07	578,229	153,742	26.6	106,776	18.5	46,966			(110)	(2,269)
Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999		(559)		(600)
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347		1,212		6,409
Actual	2009-10	597,876	193,589	32.4	130,957	21.9	62,632		1,090	-	19,262
Actual	2010-11	630,983	214,511	34.0	144,573	22.9	69,938		(395)	-	14,011
Actual	2011-12	659,740	236,230	35.8	158,410	24.0	77,172	648	3	865	12,969
Actual	2012-13	680,086	252,823	37.2	167,132	24.6	84,956	735	(639)	141	9,220
Actual	2013-14	695,354	267,968	38.5	176,634	25.4	90,556	778	(951)	-	10,453
Actual	2014-15	726,053	285,403	39.3	187,511	25.8	97,065	827	(1,121)	1,683	10,315
Actual	2015-16	762,029	295,372	38.8	192,029	25.2	102,536	807	1,003	-	3,515
Actual	2016-17	794,835	301,648	38.0	193,510	24.3	107,288	850	(1,094)	1,584	991
	2017-18 Interim	829,984	312,440	37.6	196,684	23.7	114,906	850	(419)		3,593
	2018-19 Outloo	863,690	334,436	38.7	208,566	24.1	125,020	850			11,882
	2019-20 Outloo	897,341	354,810	39.5	217,887	24.3	136,073	850			9,321
	2020-21 Outloo	933,145	371,944	39.9	224,331	24.0	146,763	850			6,444
	2021-22 Outloo	969,156	381,265	39.3	224,331	23.1	156,084	850			-
	2022-23 Outloo	1,005,572	387,018	38.5	224,331	22.3	161,837	850			-

Net Debt to Revenue and GDP Ratios

Ontario

Base Case Scenario (Based on 2018 Budget)

Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)
2023-24 Outloo	1,045,203	388,691	37.2	224,331	21.5	163,510	850			-
2024-25 Outloo	1,088,440	392,343	36.0	224,331	20.6	167,162	850			-
2025-26 Outloo	1,133,057	394,805	34.8	224,331	19.8	169,624	850			-
2026-27 Outloo	1,176,212	394,313	33.5	224,331	19.1	169,132	850			-
2027-28 Outloo	1,223,997	392,009	32.0	224,331	18.3	166,828	850			-
2028-29 Outloo	1,274,188	392,009	30.8	224,331	17.6	166,828	850			-
2029-30 Outloo	1,326,796	392,009	29.5	224,331	16.9	166,828	850			-
2030-31 Outloo	1,379,701	392,009	28.4	224,331	16.3	166,828	850			-
2031-32 Outloo	1,434,889	392,009	27.3	224,331	15.6	166,828	850			-
2032-33 Outloo	1,492,284	392,009	26.3	224,331	15.0	166,828	850			-
2033-34 Outloo	1,551,976	392,009	25.3	224,331	14.5	166,828	850			-
2034-35 Outloo	1,614,055	392,009	24.3	224,331	13.9	166,828	850			-
2035-36 Outloo	1,678,617	392,009	23.4	224,331	13.4	166,828	850			-

Assumptions /Notes

1. Surplus for 2017-18 is $ 642 m
2. GDP - per latest information rec'd (see GDP tab)
3. TCA - per info rec'd May 29, 2018 from M Reghabi
   After 2027-28 TCA increases are equal to annual amortization
4. Net Debt adjusted for prepaids starting 2014-15. From 2017-18 and onwards - same amount as prior month assumed.
5. Balanced budget continues through to 2035-36
6. GDP annual growth is 4% from 2031-32 to 2035-36
7. Revenue restated to include BPS (Hospitals, colleges, school boards) from 2012-13
8. Revenue from 2017-18 to 2019-20 has been restated for BPS
9. Revenue for 2016-17 was revised down by approx $1 million from $140,735m to $140,734.

Prepared by OFA, FTD

29-May-18

Net Debt to Revenue and GDP Ratios											
Ontario		Scenario 1 (Based on 2018 Budget)									
				Net Debt As	Accumulated	Acc Deficit		Prepds/inv.	ONFA	Other Adj	Deficit/
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP %	TCA	Adj.(gain)/los	(gain)/loss	(gain)/loss	(Surplus)
Actual	1989-90	282,754	35,409	12.5	35,409	12.5	-				(90)
Actual	1990-91	287,293	38,438	13.4	38,438	13.4	-				3,029
Actual	1991-92	288,190	49,368	17.1	49,368	17.1	-				10,930
Actual	1992-93	293,007	61,796	21.1	61,796	21.1	-				12,428
Actual	1993-94	302,160	80,599	26.7	80,599	26.7	-				11,202
Actual	1994-95	319,901	90,728	28.4	90,728	28.4	-				10,129
Actual	1995-96	337,337	101,864	30.2	101,864	30.2	-				8,800
Actual	1996-97	347,738	108,769	31.3	108,769	31.3	-				6,905
Actual	1997-98	368,909	112,735	30.6	112,735	30.6	-				3,966
Actual	1998-99	389,219	114,737	29.5	114,737	29.5	-				2,002
Actual	1999-2000	418,202	134,398	32.1	134,398	32.1	-				(668)
Actual	2000-01	452,186	132,496	29.3	132,496	29.3	-				(1,902)
Actual	2001-02	469,045	132,121	28.2	132,121	28.2	-				(375)
Actual	2002-03	494,804	132,647	26.8	118,705	24.0	13,942				(117)
Actual	2003-04	509,472	138,816	27.2	124,188	24.4	14,628				5,483
Actual	2004-05	533,334	140,921	26.4	125,743	23.6	15,178				1,555
Actual	2005-06	556,607	152,702	27.4	109,155	19.6	43,547				(298)
Actual	2006-07	578,229	153,742	26.6	106,776	18.5	46,966			(110)	(2,269)
Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999		(559)		(600)
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347		1,212		6,409
Actual	2009-10	597,876	193,589	32.4	130,957	21.9	62,632		1,090	-	19,262
Actual	2010-11	630,983	214,511	34.0	144,573	22.9	69,938		(395)	-	14,011
Actual	2011-12	659,740	236,230	35.8	158,410	24.0	77,172	648	3	865	12,969
Actual	2012-13	680,086	252,823	37.2	167,132	24.6	84,956	735	(639)	141	9,220
Actual	2013-14	695,354	267,968	38.5	176,634	25.4	90,556	778	(951)	-	10,453
Actual	2014-15	726,053	285,403	39.3	187,511	25.8	97,065	827	(1,121)	1,683	10,315
Actual	2015-16	762,029	295,372	38.8	192,029	25.2	102,536	807	1,003	-	3,515
Actual	2016-17	794,835	301,648	38.0	193,510	24.3	107,288	850	(1,094)	1,584	991
	2017-18 Interim	829,984	312,440	37.6	196,684	23.7	114,906	850	(419)		3,593
	2018-19 Outloo	863,690	339,065	39.3	213,195	24.7	125,020	850			16,511
	2019-20 Outloo	897,341	365,646	40.7	228,723	25.5	136,073	850			15,528
	2020-21 Outloo	933,145	392,608	42.1	244,995	26.3	146,763	850			16,272

Net Debt to Revenue and GDP Ratios

Ontario

Scenario 1 (Based on 2018 Budget)

Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)
2021-22 Outloo	969,156	401,929	41.5	244,995	25.3	156,084	850			-
2022-23 Outloo	1,005,572	407,682	40.5	244,995	24.4	161,837	850			-
2023-24 Outloo	1,045,203	409,355	39.2	244,995	23.4	163,510	850			-
2024-25 Outloo	1,088,440	413,007	37.9	244,995	22.5	167,162	850			-
2025-26 Outloo	1,133,057	415,469	36.7	244,995	21.6	169,624	850			-
2026-27 Outloo	1,176,212	414,977	35.3	244,995	20.8	169,132	850			-
2027-28 Outloo	1,223,997	412,673	33.7	244,995	20.0	166,828	850			-
2028-29 Outloo	1,274,188	412,673	32.4	244,995	19.2	166,828	850			-
2029-30 Outloo	1,326,796	412,673	31.1	244,995	18.5	166,828	850			-
2030-31 Outloo	1,379,701	412,673	29.9	244,995	17.8	166,828	850			-
2031-32 Outloo	1,434,889	412,673	28.8	244,995	17.1	166,828	850			-
2032-33 Outloo	1,492,284	412,673	27.7	244,995	16.4	166,828	850			-
2033-34 Outloo	1,551,976	412,673	26.6	244,995	15.8	166,828	850			-
2034-35 Outloo	1,614,055	412,673	25.6	244,995	15.2	166,828	850			-
2035-36 Outloo	1,678,617	412,673	24.6	244,995	14.6	166,828	850			-

Assumptions /Notes

1. Surplus for 2017-18 is $ 642 m
2. GDP - per latest information rec'd (see GDP tab)
3. TCA - per info rec'd May 29, 2018 from M Reghabi
   After 2027-28 TCA increases are equal to annual amortization
4. Net Debt adjusted for prepaids starting 2014-15. From 2017-18 and onwards - same amount as prior month assumed.
5. Balanced budget continues through to 2035-36
6. GDP annual growth is 4% from 2031-32 to 2035-36
7. Revenue restated to include BPS (Hospitals, colleges, school boards) from 2012-13
8. Revenue from 2017-18 to 2019-20 has been restated for BPS
9. Revenue for 2016-17 was revised down by approx $1 million from $140,735m to $140,734.

Prepared by OFA, FTD

29-May-18

Net Debt to Revenue and GDP Ratios											
Ontario		Scenario 2 (Based on 2018 Budget)									
				Net Debt As	Accumulated	Acc Deficit		Prepds/inv.	ONFA	Other Adj	Deficit/
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP %	TCA	Adj.(gain)/los	(gain)/loss	(gain)/loss	(Surplus)
Actual	1989-90	282,754	35,409	12.5	35,409	12.5	-				(90)
Actual	1990-91	287,293	38,438	13.4	38,438	13.4	-				3,029
Actual	1991-92	288,190	49,368	17.1	49,368	17.1	-				10,930
Actual	1992-93	293,007	61,796	21.1	61,796	21.1	-				12,428
Actual	1993-94	302,160	80,599	26.7	80,599	26.7	-				11,202
Actual	1994-95	319,901	90,728	28.4	90,728	28.4	-				10,129
Actual	1995-96	337,337	101,864	30.2	101,864	30.2	-				8,800
Actual	1996-97	347,738	108,769	31.3	108,769	31.3	-				6,905
Actual	1997-98	368,909	112,735	30.6	112,735	30.6	-				3,966
Actual	1998-99	389,219	114,737	29.5	114,737	29.5	-				2,002
Actual	1999-2000	418,202	134,398	32.1	134,398	32.1	-				(668)
Actual	2000-01	452,186	132,496	29.3	132,496	29.3	-				(1,902)
Actual	2001-02	469,045	132,121	28.2	132,121	28.2	-				(375)
Actual	2002-03	494,804	132,647	26.8	118,705	24.0	13,942				(117)
Actual	2003-04	509,472	138,816	27.2	124,188	24.4	14,628				5,483
Actual	2004-05	533,334	140,921	26.4	125,743	23.6	15,178				1,555
Actual	2005-06	556,607	152,702	27.4	109,155	19.6	43,547				(298)
Actual	2006-07	578,229	153,742	26.6	106,776	18.5	46,966			(110)	(2,269)
Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999		(559)		(600)
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347		1,212		6,409
Actual	2009-10	597,876	193,589	32.4	130,957	21.9	62,632		1,090	-	19,262
Actual	2010-11	630,983	214,511	34.0	144,573	22.9	69,938		(395)	-	14,011
Actual	2011-12	659,740	236,230	35.8	158,410	24.0	77,172	648	3	865	12,969
Actual	2012-13	680,086	252,823	37.2	167,132	24.6	84,956	735	(639)	141	9,220
Actual	2013-14	695,354	267,968	38.5	176,634	25.4	90,556	778	(951)	-	10,453
Actual	2014-15	726,053	285,403	39.3	187,511	25.8	97,065	827	(1,121)	1,683	10,315
Actual	2015-16	762,029	295,372	38.8	192,029	25.2	102,536	807	1,003	-	3,515
Actual	2016-17	794,835	301,648	38.0	193,510	24.3	107,288	850	(1,094)	1,584	991
	2017-18 Interim	829,984	312,440	37.6	196,684	23.7	114,906	850	(419)		3,593
	2018-19 Outloo	863,690	333,851	38.7	207,981	24.1	125,020	850			11,297
	2019-20 Outloo	897,341	355,061	39.6	218,138	24.3	136,073	850			10,157
	2020-21 Outloo	933,145	371,490	39.8	223,877	24.0	146,763	850			5,739

Net Debt to Revenue and GDP Ratios

Ontario

Scenario 2 (Based on 2018 Budget)

Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)
2021-22 Outloo	969,156	380,811	39.3	223,877	23.1	156,084	850			-
2022-23 Outloo	1,005,572	386,564	38.4	223,877	22.3	161,837	850			-
2023-24 Outloo	1,045,203	388,237	37.1	223,877	21.4	163,510	850			-
2024-25 Outloo	1,088,440	391,889	36.0	223,877	20.6	167,162	850			-
2025-26 Outloo	1,133,057	394,351	34.8	223,877	19.8	169,624	850			-
2026-27 Outloo	1,176,212	393,859	33.5	223,877	19.0	169,132	850			-
2027-28 Outloo	1,223,997	391,555	32.0	223,877	18.3	166,828	850			-
2028-29 Outloo	1,274,188	391,555	30.7	223,877	17.6	166,828	850			-
2029-30 Outloo	1,326,796	391,555	29.5	223,877	16.9	166,828	850			-
2030-31 Outloo	1,379,701	391,555	28.4	223,877	16.2	166,828	850			-
2031-32 Outloo	1,434,889	391,555	27.3	223,877	15.6	166,828	850			-
2032-33 Outloo	1,492,284	391,555	26.2	223,877	15.0	166,828	850			-
2033-34 Outloo	1,551,976	391,555	25.2	223,877	14.4	166,828	850			-
2034-35 Outloo	1,614,055	391,555	24.3	223,877	13.9	166,828	850			-
2035-36 Outloo	1,678,617	391,555	23.3	223,877	13.3	166,828	850			-

Assumptions /Notes

1. Surplus for 2017-18 is $ 642 m
2. GDP - per latest information rec'd (see GDP tab)
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9. Revenue for 2016-17 was revised down by approx $1 million from $140,735m to $140,734.

Prepared by OFA, FTD

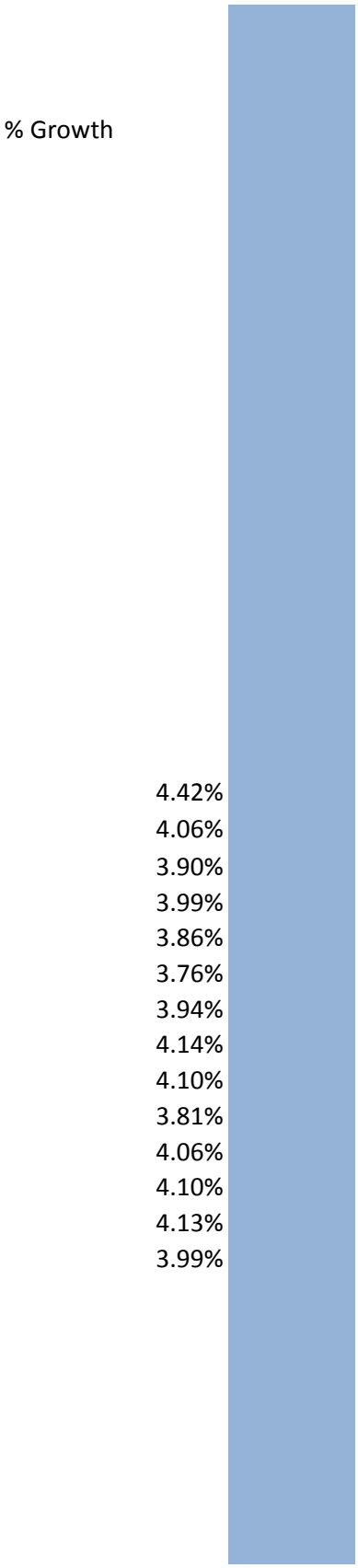
29-May-18

	Budget time Ontario Nominal GDP			Ontario Nominal GDP
2000	452,238			
2001	469,084			
2002	494,815			
2003	509,511			
2004	533,365			
2005	556,635			
2006	578,241			
2007	601,735			
2008	608,446			
2009	597,882			
2010	630,989	5.5		
2011	659,743	4.6		
2012	680,084	3.1		
2013	695,349	2.2		
2014	727,962	4.7		
2015	763,276	4.9		
2016	798,218	4.6	2016	794,835
2017p	832,652	4.3	2017p	829,984
2018p	866,612	4.1	2018p	863,690
2019p	902,778	4.2	2019p	897,341
2020p	938,411	3.9	2020p	933,145
2021p			2021p	969,156
			2022	1,005,572
			2023	1,045,203
			2024	1,088,440
			2025	1,133,057
			2026	1,176,212
			2027	1,223,997
			2028	1,274,188
			2029	1,326,796
			2030	1,379,701

p = projection

Rec'd from: Mark Williams
28-Mar-17

Paul Lewis
27-Feb-18


% Growth
4.42%
4.06%
3.90%
3.99%
3.86%
3.76%
3.94%
4.14%
4.10%
3.81%
4.06%
4.10%
4.13%
3.99%

Draft- Mar 2 1pm 2018

PROVINCIAL TCA Net Book Value ($ Billions)	2017-18 Interim	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Opening Net Book Value	**107,288**	**114,904**	**125,038**	**136,125**	**147,021**	**158,137**	**165,630**	**169,074**	**175,025**	**179,534**	**179,496**
Annual Acquisitions	13,251	16,094	17,455	17,688	18,522	15,477	11,801	14,763	13,914	9,683	8,815
Gross Amortization Expense	(5,634)	(5,960)	(6,367)	(6,792)	(7,406)	(7,983)	(8,357)	(8,812)	(9,405)	(9,721)	(9,914)
Closing Net Book Value	**114,904**	**125,038**	**136,125**	**147,021**	**158,137**	**165,630**	**169,074**	**175,025**	**179,534**	**179,496**	**178,397**

Notes:
- Opening NBV for 2016-17 from public accounts
- Annual Acquisitions include other partner funding and federal flowthroughs

Received from David Hodes
3/8/2018 - 5pm

Scenarios - Base Case

Draft - May 24

PROVINCIAL TCA Net Book Value ($ Billions)	2017-18 Interim	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Opening Net Book Value	**107,288**	**114,906**	**125,020**	**136,073**	**146,763**	**156,084**	**161,837**	**163,510**	**167,162**	**169,624**	**169,132**
Annual Acquisitions	13,252	16,075	17,419	17,478	16,721	13,725	10,017	12,446	11,700	8,910	7,290
Gross Amortization Expense	(5,634)	(5,960)	(6,366)	(6,789)	(7,399)	(7,973)	(8,343)	(8,794)	(9,238)	(9,402)	(9,594)
Closing Net Book Value	**114,906**	**125,020**	**136,073**	**146,763**	**156,084**	**161,837**	**163,510**	**167,162**	**169,624**	**169,132**	**166,828**

Notes:
- Opening NBV for 2016-17 from public accounts
- Annual Acquisitions include other partner funding and federal flowthroughs

Received from M Reghabi
29-May-18

ONFA Net Debt impact

As at Feb 2018

Fiscal year	2018	2017	Bruce Variance (Per CEFD)	Net debt	
A	0		47%	-	
B	60		50%	30	
C	1,743	1,561		182	
D	1,955	1,748		207	
				419	Net Debt - gain/(loss)

Notes:

A - Decommissioning Fund unrealized gain/loss calculation x Bruce Variance Cost % (where the p

B - Used Fuel Fund unrealized gain/loss calculation x Bruce Variance Cost % (where the percentage

C - Decommissioning Fund payable to the province(FMV – cost, this year's) less (FMV – cost, last ye

D - Used Fuel Fund payable to the province(FMV – cost, this year's) less (FMV – cost, last year's)

Supporting documentation

ercentage changes every year)
changes every year)
ar's)

Seg Fund Balances - OFINA C

Decomm. Fund

Balance Mar 31, 2017 per F/S

Add YTD Apr 1 - Feb 28, 2018 e

Realized
Unrealized - G/L on investments
Unrealized - Bid pricing adjustm
Excess adjustment charge for y

A Total Decomm earnings

Less Eligible program costs YTI

Add Contributions YTD April 1, 2

Decomm Fund balance Febru

UFF

Balance Mar 31, 2017 per F/S

Add YTD Apr 1 - Feb 28, 2018 e

Realized
Unrealized - G/L on investments
Unrealized - Bid pricing adjustm
Excess adjustment charge for y

B Total UFF earnings

Less Eligible program costs YTI

Add Contributions YTD April 1, 2

UFF balance February 28, 201

Seg Fund Balances at Februa

Decommissioning Fund Balar

Balance February 28, 2018 per

C Exess over 2018 ONFA Ref Pln

Used Fuel Fund Balance:

Balance February 28, 2018 per

D Due (To)/ From Province

Adjustment for Change in Due to Province
Decommissioning Fund
Due from (to) Province
Less: 50% in excess of 120% fu
Decommissioning Fund Balanc
Used Fuel Fund
Due from (to) Province
Used Fuel Fund Balance

ontinuity April 1, 2017 to February 28, 2018

		Cost		Market
		6,916		6,916
earnings:				
	422		422	
s & Currenc	-		181	
ent	-		1	
ear	(95)		(277)	
		327		327
D April 1, 2017 to Feb 28, 2018		(21)		(21)
2017 to Feb 28, 2018		-		-
ary 28, 2018		**7,222**		**7,222**

		Cost		Market
		9,086		9,241
earnings:				
	532		532	
s & Currenc	-		265	
ent	-		2	
ear	(158)		(365)	
		374		434
D April 1, 2017 to Feb 28, 2018		(48)		(48)
2017 to Feb 28, 2018		-		-
8		**9,412**		**9,627**

ry 28, 2018 on amortized cost basis and FMV basis

($M)

ıce:

	Cost	FMV
CIBC	7,396	9,139
Liab (due t	(174)	(1,917)
	7,222	**7,222**

	Cost	FMV
CIBC	9,977	12,147
	(565)	(2,520)
	9,412	**9,627**

March 31, 2017		
Cost	**Market**	***Difference***
6,995	8,556	1,561
(79)	(1,640)	(1,561)
0	0	0
6,916	6,916	*0*
9,493	11,396	1,903
(407)	(2,155)	(1,748)
9,086	9,241	*155*

From:	John Psinas
To:	Danny Cheung (CSC)
Cc:	Ken Kandeepan; IOD_RPA; Alexander Kraas; Anna Strathy; Shemin Meralli; George Sakura; Tara McGrath (MOF); Anand, Sareena (MOF); James MacDonald (MEDTE/MRI); Mark Donaldson (MOF)
Subject:	RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
Date:	Tuesday, May 29, 2018 3:39:32 PM

Danny,

Thanks. We'll do it, but bear in mind that in order to fully incorporate the pension numbers, we need the cumulative effect on the accumulated deficit or otherwise we won't get the correct net debt number. Only OPCD has the amounts going back which we can use to put to accumulated deficit.

If we get it in time, we can make the calculation. Otherwise, we'll send the revised calculation to what you just sent us, but someone at the briefing today needs to mention that the pension adjustment historical impact is not fully recognized in the net debt numbers presented.

Thanks.

John

From: Cheung, Danny (MOF) [mailto:Danny.Cheung@ontario.ca]
Sent: Tuesday, May 29, 2018 3:33 PM
To: John Psinas <John.Psinas@ofina.on.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi John,

As discussed, please see attached for revised scenarios, updated to include the Pension/Hydro splits (including 2017-18)

Happy to discuss any questions or concerns.

Thanks!
Danny

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: May-29-18 3:12 PM
To: McGrath, Tara (MOF); Strathy, Anna (OFA); Kandeepan, Ken (OFA)
Cc: Anand, Sareena (MOF); Cheung, Danny (MOF); Meralli, Shemin (OFA); Sakura, George (OFA); Macdonald, James (MOF); IOD_RPA; Kraas, Alexander (OFA)
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Tara,

Sure. Can you send us the pension adjustment going back starting from whatever respective year is requested.

Thanks.

John

From: McGrath, Tara (MOF) [mailto:Tara.McGrath@ontario.ca]
Sent: Tuesday, May 29, 2018 2:42 PM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi,

We just ran into Gadi – he and Tim were talking and they'd like to add to the deck some more net debt-to-GDP ratios!

So for each scenario (base case, #1, #2), he'd like to be able to say by how much net debt to GDP would increase if 1) you were to layer on the impact of pensions and 2) you were to additionally layer on the impact of fair hydro.

If we send you the accounting numbers we're working with, is that doable?

I understand you probably don't have time to redo IOD with the latest information Danny just sent.

We'll send along accounting in a moment, including for 17-18. Thanks,

Tara

From: Cheung, Danny (MOF)
Sent: May 29, 2018 2:23 PM
To: Kandeepan, Ken (OFA) <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Kraas, Alexander (OFA) <Alexander.Kraas@ofina.on.ca>
Cc: McGrath, Tara (MOF) <Tara.McGrath@ontario.ca>; Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>; Macdonald, James (MOF) <James.Macdonald@ontario.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi Ken, John, and Alex,

We have scenarios for you (again!). So sorry for the last-minute request, but we rolled through some revenue changes, and would really appreciate it if you all could get us an updated IOD and Net Debt-to-GDP outlook for each scenario so we can roll them through the deck (for our 4:15 DM pre-brief).

Again, we really apologize for the short turnaround. We're happy to discuss if you have any questions or concerns.

Thanks so much!
Danny

From: Anand, Sareena (MOF)
Sent: May 29, 2018 10:53 AM
To: Kandeepan, Ken (OFA) <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Kraas, Alexander (OFA) <Alexander.Kraas@ofina.on.ca>
Cc: McGrath, Tara (MOF) <Tara.McGrath@ontario.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Good morning:

We have scenarios for you! Attached, please find the base case and two illustrative scenarios, in millions. Mo also just sent a revised TCA profile.

There is a pre-brief with DMs this afternoon at 4:15pm, accordingly, it would be great if we could get the IOD and Net debt-to-GDP outlooks for each scenario by early afternoon so that we can roll them through the deck. I realize that these are tight timelines, and apologize for the short turnaround. Please let us know if you think this is feasible.

Tara and I are happy to discuss the attached, should you have any questions.

Thank you!
Sareena

From: Anand, Sareena (MOF)
Sent: May 25, 2018 11:08 AM
To: Kraas, Alexander (OFA); John Psinas
Cc: Kandeepan, Ken (OFA); McGrath, Tara (MOF); IOD_RPA
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Good morning:

We wanted to provide an update on where things are at with the request for the SOC.

We are still working on both the base case and the illustrative scenarios, based on what came out of the whiteboard session yesterday, so we probably won't have anything to share with you before Monday.

Our colleagues at TBS have prepared an updated TCA profile that should be making its way over to you later today.

We'll be in touch on Monday.

Thanks and hope everyone has a nice weekend,
Sareena

From: Alexander Kraas [mailto:Alexander.Kraas@ofina.on.ca]
Sent: May 23, 2018 2:37 PM
To: Anand, Sareena (MOF)
Cc: John Psinas; Kandeepan, Ken (OFA); McGrath, Tara (MOF); IOD_RPA
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Thank you for the request, Sareena;

1. WRT IOD forecasts and to avoid that anything falls between the cracks, please send e-mails to the copied group "IOD_RPA" which includes analysists preparing the financing table and IOD forecasts, as well as myself;

2. An IOD calculator makes sense if you envision very tight turnaround times, e.g. you provide a scenario after 5 pm and expect a turnaround the same evening. Otherwise and based on our experience during the last Budget, our preference is to do proper IOD runs with our application in order to take correctly into account the impact of fiscal scenarios on the financing table and other aspects/components of IOD;

3. Given the large impact of capital spending on the borrowing program, getting TCA profiles right is at least as important as the fiscal outlook.

Please let me know in case you have any questions.

Best regards

Alex Kraas
Manager, Risk Policy & Analysis
Ontario Financing Authority
Toronto M7A 1Y7

akraas@ofina.on.ca
(o) 416-325-8558
(m) 416-568-3385
(f) 416-204-7937

From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Wednesday, May 23, 2018 1:39 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>
Subject: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi Ken, John, and Alex:

Hope all is well.

As part of transition planning, we've received a request from the Secretary to create a deck that includes a base case fiscal outlook to inform the starting point for future fiscal planning. Development of the base case will build off of the medium-term fiscal outlook presented in the 2018 Budget, and will be adjusted as required to scrub the outlook. We've also been asked to include two illustrative scenarios, based on currently available fiscal anchors, that will be layered onto the base case.

In total, we will create 3 scenarios (base case + two illustrative scenarios) for which we would need updated net debt and IOD forecasts. We are talking to TBS about getting updated TCA profiles for this as well.

We are working on creating the base case and illustrative scenarios and will likely send these along piecemeal, as they are drafted. We're hoping to get you a copy of the base case for tomorrow. Not sure how quickly we'll be able to complete the illustrative scenarios, we may also receive further direction on this coming out of tomorrow's session on the fiscal plan. We will aim to get you something for Friday, with the caveat that the scenarios will likely change into the beginning of next week.

Please let us know what you think the best approach is for developing the net debt and IOD forecasts. We're happy to use an updated version of the calculator, as we did for Budget. Alternatively, we could send you individual roll ups for each scenario so that you can calculate on your end.

Hope this makes sense. Tara and I are happy to discuss in more detail on a call – we're around most of the afternoon.

Thank you!
Sareena

Sareena Anand
Senior Economist, Fiscal Framework
Office of the Budget, Ministry of Finance
Sareena.Anand@ontario.ca – 416.327.2083

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From:	Anand, Sareena (MOF)
To:	Chi-Wa Che
Cc:	IOD_RPA; Anna Strathy; Nero, Freba (MOF); James MacDonald (MEDTE/MRI); Danny Cheung (CSC); Selena Esmail (MOF); Tara McGrath (MOF); Christina Zhang; Ken Kandeepan; Alexander Kraas; John Psinas; Anna Strathy
Subject:	RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
Date:	Wednesday, May 30, 2018 1:27:49 PM

Hi Chi-wa:

Thank you for sending the revised IOD forecast, and all of your help yesterday and today, it's much appreciated!

The deck has already been circulated to ADMs so we will incorporate the updated IOD forecast into the next iteration of the deck post- SOC meeting this afternoon. We're expecting follow-ups to come out of this meeting so will pick up the forecast in whatever we produce thereafter.

We've also communicated the change in IOD up the line, so our ADM is aware in case Gadi wants to raise it or it comes up.

Thanks again,
Sareena

-----Original Message-----
From: Chi-Wa Che [mailto:Chi-Wa.Che@ofina.on.ca]
Sent: May 30, 2018 12:52 PM
To: Anand, Sareena (MOF)
Cc: IOD_RPA; Strathy, Anna (OFA); Nero, Freba (MOF); Macdonald, James (MOF); Cheung, Danny (MOF); Esmail, Selena (MOF); McGrath, Tara (MOF); Zhang, Christina (OFA); Kandeepan, Ken (OFA); Kraas, Alexander (OFA); John Psinas; Strathy, Anna (OFA)
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi Sareena,

Attached is the table of the IOD forecast for all 6 scenarios after this morning's new outlook backgrounder.
There are some slightly change on the IOD forecast.
The same assumptions as stated previously applied.

Thanks.
Chi-wa

-----Original Message-----
From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Wednesday, May 30, 2018 10:15 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Chi-Wa Che <Chi-Wa.Che@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: IOD_RPA <IOD_RPA@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Nero, Freba (MOF) <Freba.Nero@ontario.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Good morning:

Per the email thread below, we're touching base to provide you with the outlooks for the three scenarios (base, 1, and 2) as they currently stand, including with the IOD forecast that you provided yesterday at 4:30pm. Please note that the only change that has not been incorporated into the attached IOD outlook is a $5M revenue decrease in 2019-20 and 2020-21 that was made this morning. Revenue has been updated in the attached document, but IOD has not since we didn't think it would make a significant difference.

In addition, we have attached a draft version of the deck that will be used to brief the SOC this afternoon at 3pm, however, we are still working through some wording edits. The net debt-to-GDP numbers that we calculated for each scenario can be found in the deck on slides 10,13,14 and 15. Also attached is a copy of the net debt-to-gdp calculator that we used.

Could you please confirm that both the IOD forecast in each scenario as well as the net debt-to-GDP numbers in the deck are correct?

Many thanks!
Sareena

-----Original Message-----
From: McGrath, Tara (MOF)
Sent: May 29, 2018 9:31 PM
To: Kandeepan, Ken (OFA)
Cc: Che, Chi-Wa (OFA); Anand, Sareena (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA); Strathy, Anna (OFA); Nero, Freba (MOF); Macdonald, James (MOF); Cheung, Danny (MOF); Esmail, Selena (MOF)
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Ok great - thanks Ken.

Coming out of the meeting there were no further changes to the base case or alternative fiscal outlooks, save one small revenue adjustment that is less than $5M per year.

We'll touch base in the morning.

Tara

_____
From: Kandeepan, Ken (OFA) [Ken.Kandeepan@ofina.on.ca]
Sent: Tuesday, May 29, 2018 9:28 PM
To: McGrath, Tara (MOF)
Cc: Che, Chi-Wa (OFA); Anand, Sareena (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA); Strathy, Anna (OFA); Nero, Freba (MOF); Macdonald, James (MOF); Cheung, Danny (MOF)
Subject: Re: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi Tara

With regard to IOD, your characterization of the two versions is accurate. However since our runs were done to meet deadlines we will review the results once more tomorrow morning and confirm.

With regard to the net debt to GDP ratio, as John has pointed out, the version that includes the AG's adjustments should also incorporate the cumulative impact of reversing the pension adjustment and that should not be limited to 16-17 onwards.

We have requested the cumulative impact from OPCD and should be able to provide revised ratios tomorrow.

Thanks

Ken k

> On May 29, 2018, at 908 PM, McGrath, Tara (MOF) <Tara.McGrath@ontario.ca> wrote:
>
> Hi everyone,
>
> Thank you again for your nimbleness today - we appreciate it.
>
> We were moving quickly today, so we wanted to take a pause just to confirm we are using the correct IOD numbers. We understand that the version sent at 3:56 (first attachment) includes the IOD changes without taking on the accounting change for pensions and Fair Hydro; and the version sent at 4:30 (second attachment) represents the IOD changes after taking on the accounting changes.
>
> We have a small window tomorrow morning to make any final updates, so it would be great if you could confirm first thing in the morning.
>
> John - we're working through all of the net debt-to-GDP scenarios with these new IOD figures, so we'll loop back around with you in the morning to confirm you're ok with all of the ratios for the deck.
>
> We understand the briefing with the SOC is at 3.
>
> Thanks,
>
> Tara
>
> _____
> From: Che, Chi-Wa (OFA) [Chi-Wa.Che@ofina.on.ca]
> Sent: Tuesday, May 29, 2018 4:30 PM
> To: Anand, Sareena (MOF)
> Cc: McGrath, Tara (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA);
> Kandeepan, Ken (OFA); Strathy, Anna (OFA)
> Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
>
> Hi Sareena,
>
> Attached is the revised IOD Summary for the Base Case and Alternative Scenarios together with the impacts from Pension Adjustments and Fair Hydro Plan.
>
> The IOD forecast as of April 30, 2018 is made with the following
> assumptions:-
>
>
> 1. IOD projections based on new OEP interest rate forecasts (May 23, 2018) for F2018-19 and F2019-20 and the 20-year historical average of interest rates for F2020-21. The latest forecast indicated that there is an decrease of 16 bps for 2019-20 only while marginally the same for 2018-19.
> 2. Uses the new Net Investment in Capital Assets and interest cap assumptions provided by TBS.
> 3. The pension adjustments does not impact borrowing as it only has PSAB implications and not cash implications.
> 4. New borrowing is increased by the partial cost of transferring the Fair Hydro Plan onto the Province's books as 44% of the cost is already accounted for.
>
>
>
> Thanks.
>
> Chi-Wa Che
>
> 5-8163

>
>
>
> _____
>
> This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.
> <IOD Summary for Transition.Revised.xlsx> <IOD Summary for
> Transition.RevisedV2.xlsx>

From:	Cheung, Danny (MOF)
To:	John Psinas
Cc:	Ken Kandeepan; IOD_RPA; Alexander Kraas; Anna Strathy; Shemin Meralli; George Sakura; Tara McGrath (MOF); Anand, Sareena (MOF); James MacDonald (MEDTE/MRI)
Subject:	RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
Date:	Tuesday, May 29, 2018 3:33:32 PM
Attachments:	Scenarios to OFA_Base Case Backgrounder_v8f.xlsx

Hi John,

As discussed, please see attached for revised scenarios, updated to include the Pension/Hydro splits (including 2017-18)

Happy to discuss any questions or concerns.

Thanks!
Danny

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: May-29-18 3:12 PM
To: McGrath, Tara (MOF); Strathy, Anna (OFA); Kandeepan, Ken (OFA)
Cc: Anand, Sareena (MOF); Cheung, Danny (MOF); Meralli, Shemin (OFA); Sakura, George (OFA); Macdonald, James (MOF); IOD_RPA; Kraas, Alexander (OFA)
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Tara,

Sure. Can you send us the pension adjustment going back starting from whatever respective year is requested.

Thanks.

John

From: McGrath, Tara (MOF) [mailto:Tara.McGrath@ontario.ca]
Sent: Tuesday, May 29, 2018 2:42 PM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi,

We just ran into Gadi – he and Tim were talking and they'd like to add to the deck some more net debt-to-GDP ratios!

So for each scenario (base case, #1, #2), he'd like to be able to say by how much net debt to GDP would increase if 1) you were to layer on the impact of pensions and 2) you were to additionally layer on the impact of fair hydro.

If we send you the accounting numbers we're working with, is that doable?

I understand you probably don't have time to redo IOD with the latest information Danny just sent.

We'll send along accounting in a moment, including for 17-18. Thanks,

Tara

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To: Kandeepan, Ken (OFA) <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Kraas, Alexander (OFA) <Alexander.Kraas@ofina.on.ca>
Cc: McGrath, Tara (MOF) <Tara.McGrath@ontario.ca>; Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>; Macdonald, James (MOF) <James.Macdonald@ontario.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi Ken, John, and Alex,

We have scenarios for you (again!). So sorry for the last-minute request, but we rolled through some revenue changes, and would really appreciate it if you all could get us an updated IOD and Net Debt-to-GDP outlook for each scenario so we can roll them through the deck (for our 4:15 DM pre-brief).

Again, we really apologize for the short turnaround. We're happy to discuss if you have any questions or concerns.

Thanks so much!
Danny

From: Anand, Sareena (MOF)
Sent: May 29, 2018 10:53 AM
To: Kandeepan, Ken (OFA) <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Kraas, Alexander (OFA) <Alexander.Kraas@ofina.on.ca>
Cc: McGrath, Tara (MOF) <Tara.McGrath@ontario.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Good morning:

We have scenarios for you! Attached, please find the base case and two illustrative scenarios, in millions. Mo also just sent a revised TCA profile.

There is a pre-brief with DMs this afternoon at 4:15pm, accordingly, it would be great if we could get the IOD and Net debt-to-GDP outlooks for each scenario by early afternoon so that we can roll them through the deck. I realize that these are tight timelines, and apologize for the short turnaround. Please let us know if you think this is feasible.

Tara and I are happy to discuss the attached, should you have any questions.

Thank you!
Sareena

From: Anand, Sareena (MOF)
Sent: May 25, 2018 11:08 AM
To: Kraas, Alexander (OFA); John Psinas
Cc: Kandeepan, Ken (OFA); McGrath, Tara (MOF); IOD_RPA
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Good morning:

We wanted to provide an update on where things are at with the request for the SOC.

We are still working on both the base case and the illustrative scenarios, based on what came out of the whiteboard session yesterday, so we probably won't have anything to share with you before Monday.

Our colleagues at TBS have prepared an updated TCA profile that should be making its way over to you later today.

We'll be in touch on Monday.

Thanks and hope everyone has a nice weekend,
Sareena

From: Alexander Kraas [mailto:Alexander.Kraas@ofina.on.ca]
Sent: May 23, 2018 2:37 PM
To: Anand, Sareena (MOF)
Cc: John Psinas; Kandeepan, Ken (OFA); McGrath, Tara (MOF); IOD_RPA
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Thank you for the request, Sareena;

1. WRT IOD forecasts and to avoid that anything falls between the cracks, please send e-mails to the copied group "IOD_RPA" which includes analysists preparing the financing table and IOD forecasts, as well as myself;

2. An IOD calculator makes sense if you envision very tight turnaround times, e.g. you provide a scenario after 5 pm and expect a turnaround the same evening. Otherwise and based on our experience during the last Budget, our preference is to do proper IOD runs with our application

in order to take correctly into account the impact of fiscal scenarios on the financing table and other aspects/components of IOD;

3. Given the large impact of capital spending on the borrowing program, getting TCA profiles right is at least as important as the fiscal outlook.

Please let me know in case you have any questions.

Best regards

Alex Kraas
Manager, Risk Policy & Analysis
Ontario Financing Authority
Toronto M7A 1Y7

akraas@ofina.on.ca
(o) 416-325-8558
(m) 416-568-3385
(f) 416-204-7937

From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Wednesday, May 23, 2018 1:39 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>
Subject: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi Ken, John, and Alex:

Hope all is well.

As part of transition planning, we've received a request from the Secretary to create a deck that includes a base case fiscal outlook to inform the starting point for future fiscal planning. Development of the base case will build off of the medium-term fiscal outlook presented in the 2018 Budget, and will be adjusted as required to scrub the outlook. We've also been asked to include two illustrative scenarios, based on currently available fiscal anchors, that will be layered onto the base case.

In total, we will create 3 scenarios (base case + two illustrative scenarios) for which we would need updated net debt and IOD forecasts. We are talking to TBS about getting updated TCA profiles for this as well.

We are working on creating the base case and illustrative scenarios and will likely send these along piecemeal, as they are drafted. We're hoping to get you a copy of the base case for tomorrow. Not sure how quickly we'll be able to complete the illustrative scenarios, we may also receive further direction on this coming out of tomorrow's session on the fiscal plan. We will aim to get you something for Friday, with the caveat that the scenarios will likely change into the beginning of next week.

Please let us know what you think the best approach is for developing the net debt and IOD forecasts. We're happy to use an updated version of the calculator, as we did for Budget. Alternatively, we could send you individual roll ups for each scenario so that you can calculate on your end.

Hope this makes sense. Tara and I are happy to discuss in more detail on a call – we're around most of the afternoon.

Thank you!
Sareena

Sareena Anand
Senior Economist, Fiscal Framework
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Fiscal Summary - Base Case Outlook

$ Millions	Interim 2017-18	2018-19	2019-20	2020-21	Average Ann. Growth 2018-19 to 2020-21
Total Revenue	150,136	151,882	156,860	163,110	3.6%
		1.2%	*3.3%*	*4.0%*	
Total Program Expense	137,529	146,204	147,490	149,672	1.2%
		6.3%	*0.9%*	*1.5%*	
Interest on Debt	11,965	12,543	13,066	13,849	5.1%
		4.8%	*4.2%*	*6.0%*	
Total Expense	149,494	158,747	160,556	163,522	1.5%
		6.2%	*1.1%*	*1.8%*	
Surplus/(Deficit) Before Reserve	642	(6,866)	(3,696)	(412)	
Reserve	-	-	-	-	
Current Surplus/(Deficit)	642	(6,866)	(3,696)	(412)	
Auditor General Accounting Adjustments					
Pension Plans	(2,000)	(2,400)	(2,600)	(2,800)	
Fair Hydro Plan	(2,234)	(2,617)	(3,024)	(3,232)	
Current Surplus/(Deficit) after Accounting Adjustment	(3,593)	(11,882)	(9,321)	(6,444)	

Fiscal Summary - Alternative Scenario #1

Revenue	150,136	153,326	160,628	167,045	4.4%
		2.1%	*4.8%*	*4.0%*	
Total Program Expense	137,529	151,577	156,765	162,736	3.6%
		10.2%	*3.4%*	*3.8%*	
Interest on Debt	11,965	12,543	13,066	13,849	5.1%
		4.8%	*4.2%*	*6.0%*	
Total Expense	149,494	164,120	169,831	176,585	3.7%
		9.8%	*3.5%*	*4.0%*	
Surplus/(Deficit) Before Reserve	642	(10,794)	(9,204)	(9,540)	
Reserve	-	700	700	700	
Current Surplus/(Deficit)	642	(11,494)	(9,904)	(10,240)	
Auditor General Accounting Adjustments					
Pension Plans	(2,000)	(2,400)	(2,600)	(2,800)	
Fair Hydro Plan	(2,234)	(2,617)	(3,024)	(3,232)	
Current Surplus/(Deficit) after Accounting Adjustment	(3,593)	(16,511)	(15,528)	(16,272)	

Fiscal Summary - Alternative Scenario #2

Revenue	150,136	150,243	150,998	157,422	2.4%
		0.1%	*0.5%*	*4.3%*	
Expense					
Program Expense	137,529	143,280	141,764	142,580	-0.2%
		4.2%	*-1.1%*	*0.6%*	
Interest on Debt	11,965	12,543	13,066	13,849	5.1%
		4.8%	*4.2%*	*6.0%*	
Total Expense	149,494	155,823	154,830	156,429	0.2%
		4.2%	*-0.6%*	*1.0%*	
Surplus/(Deficit) Before Reserve	642	(5,580)	(3,832)	993	
Reserve	-	700	700	700	
Current Surplus/(Deficit)	642	(6,280)	(4,532)	293	
Auditor General Accounting Adjustments					
Pension Plans	(2,000)	(2,400)	(2,600)	(2,800)	
Fair Hydro Plan	(2,234)	(2,617)	(3,024)	(3,232)	
Current Surplus/(Deficit) after Accounting Adjustment	(3,593)	(11,297)	(10,157)	(5,739)	

From:	McGrath, Tara (MOF)
To:	John Psinas; Anna Strathy; Ken Kandeepan
Cc:	Anand, Sareena (MOF); Danny Cheung (CSC); Shemin Meralli; George Sakura; James MacDonald (MEDTE/MRI); IOD_RPA; Alexander Kraas
Subject:	RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
Date:	Tuesday, May 29, 2018 3:19:23 PM

Thanks John,

We'll send in a moment the pension/Hydro plan split we have for 2018-19 to 2020-21, but we don't have the split in 2017-18. I've asked OPCD for it – waiting to hear back. But you might not even need the split for 17-18, so we'll send you the all-up number we have. Danny will send in a moment. Thanks,

Tara

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: May 29, 2018 3:12 PM
To: McGrath, Tara (MOF) <Tara.McGrath@ontario.ca>; Strathy, Anna (OFA) <Anna.Strathy@ofina.on.ca>; Kandeepan, Ken (OFA) <Ken.Kandeepan@ofina.on.ca>
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Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

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Cc: Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>
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Cc: McGrath, Tara (MOF) <Tara.McGrath@ontario.ca>; Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>; Macdonald, James (MOF) <James.Macdonald@ontario.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>
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Thanks so much!
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Sent: May 29, 2018 10:53 AM
To: Kandeepan, Ken (OFA) <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Kraas, Alexander (OFA) <Alexander.Kraas@ofina.on.ca>
Cc: McGrath, Tara (MOF) <Tara.McGrath@ontario.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Good morning:

We have scenarios for you! Attached, please find the base case and two illustrative scenarios, in

millions. Mo also just sent a revised TCA profile.

There is a pre-brief with DMs this afternoon at 4:15pm, accordingly, it would be great if we could get the IOD and Net debt-to-GDP outlooks for each scenario by early afternoon so that we can roll them through the deck. I realize that these are tight timelines, and apologize for the short turnaround. Please let us know if you think this is feasible.

Tara and I are happy to discuss the attached, should you have any questions.

Thank you!
Sareena

From: Anand, Sareena (MOF)
Sent: May 25, 2018 11:08 AM
To: Kraas, Alexander (OFA); John Psinas
Cc: Kandeepan, Ken (OFA); McGrath, Tara (MOF); IOD_RPA
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Good morning:

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We'll be in touch on Monday.

Thanks and hope everyone has a nice weekend,
Sareena

From: Alexander Kraas [mailto:Alexander.Kraas@ofina.on.ca]
Sent: May 23, 2018 2:37 PM
To: Anand, Sareena (MOF)
Cc: John Psinas; Kandeepan, Ken (OFA); McGrath, Tara (MOF); IOD_RPA
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Thank you for the request, Sareena;

1. WRT IOD forecasts and to avoid that anything falls between the cracks, please send e-mails to the copied group "IOD_RPA" which includes analysists preparing the financing table and IOD forecasts, as well as myself;

2. An IOD calculator makes sense if you envision very tight turnaround times, e.g. you provide a

scenario after 5 pm and expect a turnaround the same evening. Otherwise and based on our experience during the last Budget, our preference is to do proper IOD runs with our application in order to take correctly into account the impact of fiscal scenarios on the financing table and other aspects/components of IOD;

3. Given the large impact of capital spending on the borrowing program, getting TCA profiles right is at least as important as the fiscal outlook.

Please let me know in case you have any questions.

Best regards

Alex Kraas
Manager, Risk Policy & Analysis
Ontario Financing Authority
Toronto M7A 1Y7

akraas@ofina.on.ca
(o) 416-325-8558
(m) 416-568-3385
(f) 416-204-7937

From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Wednesday, May 23, 2018 1:39 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>
Subject: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi Ken, John, and Alex:

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In total, we will create 3 scenarios (base case + two illustrative scenarios) for which we would need updated net debt and IOD forecasts. We are talking to TBS about getting updated TCA profiles for

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We are working on creating the base case and illustrative scenarios and will likely send these along piecemeal, as they are drafted. We're hoping to get you a copy of the base case for tomorrow. Not sure how quickly we'll be able to complete the illustrative scenarios, we may also receive further direction on this coming out of tomorrow's session on the fiscal plan. We will aim to get you something for Friday, with the caveat that the scenarios will likely change into the beginning of next week.

Please let us know what you think the best approach is for developing the net debt and IOD forecasts. We're happy to use an updated version of the calculator, as we did for Budget. Alternatively, we could send you individual roll ups for each scenario so that you can calculate on your end.

Hope this makes sense. Tara and I are happy to discuss in more detail on a call – we're around most of the afternoon.

Thank you!
Sareena

Sareena Anand
Senior Economist, Fiscal Framework
Office of the Budget, Ministry of Finance
Sareena.Anand@ontario.ca – 416.327.2083

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From:	John Psinas
To:	Tara McGrath (MOF); Anna Strathy; Ken Kandeepan
Cc:	Anand, Sareena (MOF); Danny Cheung (CSC); Shemin Meralli; George Sakura; James MacDonald (MEDTE/MRI); IOD_RPA; Alexander Kraas
Subject:	RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
Date:	Tuesday, May 29, 2018 3:12:19 PM

Tara,

Sure. Can you send us the pension adjustment going back starting from whatever respective year is requested.

Thanks.

John

From: McGrath, Tara (MOF) [mailto:Tara.McGrath@ontario.ca]
Sent: Tuesday, May 29, 2018 2:42 PM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi,

We just ran into Gadi – he and Tim were talking and they'd like to add to the deck some more net debt-to-GDP ratios!

So for each scenario (base case, #1, #2), he'd like to be able to say by how much net debt to GDP would increase if 1) you were to layer on the impact of pensions and 2) you were to additionally layer on the impact of fair hydro.

If we send you the accounting numbers we're working with, is that doable?

I understand you probably don't have time to redo IOD with the latest information Danny just sent.

We'll send along accounting in a moment, including for 17-18. Thanks,

Tara

From: Cheung, Danny (MOF)
Sent: May 29, 2018 2:23 PM
To: Kandeepan, Ken (OFA) <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Kraas, Alexander (OFA) <Alexander.Kraas@ofina.on.ca>

Cc: McGrath, Tara (MOF) <Tara.McGrath@ontario.ca>; Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>; Macdonald, James (MOF) <James.Macdonald@ontario.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi Ken, John, and Alex,

We have scenarios for you (again!). So sorry for the last-minute request, but we rolled through some revenue changes, and would really appreciate it if you all could get us an updated IOD and Net Debt-to-GDP outlook for each scenario so we can roll them through the deck (for our 4:15 DM pre-brief).

Again, we really apologize for the short turnaround. We're happy to discuss if you have any questions or concerns.

Thanks so much!
Danny

From: Anand, Sareena (MOF)
Sent: May 29, 2018 10:53 AM
To: Kandeepan, Ken (OFA) <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Kraas, Alexander (OFA) <Alexander.Kraas@ofina.on.ca>
Cc: McGrath, Tara (MOF) <Tara.McGrath@ontario.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Good morning:

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Tara and I are happy to discuss the attached, should you have any questions.

Thank you!
Sareena

From: Anand, Sareena (MOF)
Sent: May 25, 2018 11:08 AM
To: Kraas, Alexander (OFA); John Psinas
Cc: Kandeepan, Ken (OFA); McGrath, Tara (MOF); IOD_RPA
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

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We'll be in touch on Monday.

Thanks and hope everyone has a nice weekend,
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Sent: May 23, 2018 2:37 PM
To: Anand, Sareena (MOF)
Cc: John Psinas; Kandeepan, Ken (OFA); McGrath, Tara (MOF); IOD_RPA
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Thank you for the request, Sareena;

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Please let me know in case you have any questions.

Best regards

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(m) 416-568-3385
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From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Wednesday, May 23, 2018 1:39 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>
Subject: Transition Deck: Base Case & Alternative Fiscal Scenarios

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Hope this makes sense. Tara and I are happy to discuss in more detail on a call – we're around most of the afternoon.

Thank you!
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From:	Ken Kandeepan
To:	Tara McGrath (MOF); Anand, Sareena (MOF)
Cc:	Shemin Meralli; George Sakura; John Psinas; Selena Esmail (MOF); Anna Strathy
Subject:	RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
Date:	Tuesday, May 29, 2018 2:02:59 PM

Hi Tara

When making this point pls indicate that if the AG's numbers were incorporated, as Gadi pointed out not only will the 17-18 surplus/deficit change but so will the opening accumulated deficit and hence the net debt since the pension adjustment goes back quite a few years.

OPCD has these numbers and they can be incorporated accordingly if that is indeed the decision.

Thanks

Ken K

From: McGrath, Tara (MOF) [mailto:Tara.McGrath@ontario.ca]
Sent: Tuesday, May 29, 2018 1:45 PM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>
Cc: Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi Anna,

Yes, that's a fair point. Right now, all of the outlooks we sent do not include taking on the AG's accounting treatment, so we should be ok. But it's a point that perhaps we can add to the deck (or can be spoken to) about how taking it on would a) impact net debt-to-GDP ratios over the medium-term, as well as b) would impact 2017-18.

Does that make sense? Thanks,

Tara

From: Strathy, Anna (OFA) [mailto:Anna.Strathy@ofina.on.ca]
Sent: May 29, 2018 1:42 PM
To: 'Anand, Sareena (MOF)' <IMCEAINVALID-+27Anand+2C+20Sareena+20+28MOF+29+27@ofina.on.ca>; McGrath, Tara (MOF) <Tara.McGrath@ontario.ca>
Cc: Meralli, Shemin (OFA) <Shemin.Meralli@ofina.on.ca>; Sakura, George (OFA) <George.Sakura@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Kandeepan, Ken (OFA) <Ken.Kandeepan@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi Tara,

Quick question for you from Gadi – if we take on the AG's accounting treatment in any of these scenarios, would we not have to adjust the 17-18 deficit/surplus as well? That would change the starting point for the net debt-to-GDP ratio.

Thanks, Anna

From: George Sakura
Sent: Tuesday, May 29, 2018 12:56 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; 'Anand, Sareena (MOF)'; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>
Cc: Shemin Meralli <Shemin.Meralli@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Attached is the Net-Debt to GDP calculation for each scenarios requested.

Thanks.

From: John Psinas
Sent: Tuesday, May 29, 2018 11:15 AM
To: George Sakura <George.Sakura@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>
Subject: FW: Transition Deck: Base Case & Alternative Fiscal Scenarios

---

From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Tuesday, May 29, 2018 10:53 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>
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To: Anand, Sareena (MOF)
Cc: John Psinas; Kandeepan, Ken (OFA); McGrath, Tara (MOF); IOD_RPA
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Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>
Subject: Transition Deck: Base Case & Alternative Fiscal Scenarios

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From:	Chi-Wa Che
To:	"Anand, Sareena (MOF)"
Cc:	IOD_RPA; Anna Strathy; Nero, Freba (MOF); James MacDonald (MEDTE/MRI); Danny Cheung (CSC); Selena Esmail (MOF); Tara McGrath (MOF); Christina Zhang; Ken Kandeepan; Alexander Kraas; John Psinas; Anna Strathy
Subject:	RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
Date:	Wednesday, May 30, 2018 12:52:24 PM
Attachments:	IOD Summary 2018.5.30.xlsx

Hi Sareena,

Attached is the table of the IOD forecast for all 6 scenarios after this morning's new outlook backgrounder.
There are some slightly change on the IOD forecast.
The same assumptions as stated previously applied.

Thanks.
Chi-wa

-----Original Message-----
From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Wednesday, May 30, 2018 10:15 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Chi-Wa Che <Chi-Wa.Che@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: IOD_RPA <IOD_RPA@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Nero, Freba (MOF) <Freba.Nero@ontario.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Good morning:

Per the email thread below, we're touching base to provide you with the outlooks for the three scenarios (base, 1, and 2) as they currently stand, including with the IOD forecast that you provided yesterday at 4:30pm. Please note that the only change that has not been incorporated into the attached IOD outlook is a $5M revenue decrease in 2019-20 and 2020-21 that was made this morning. Revenue has been updated in the attached document, but IOD has not since we didn't think it would make a significant difference.

In addition, we have attached a draft version of the deck that will be used to brief the SOC this afternoon at 3pm, however, we are still working through some wording edits. The net debt-to-GDP numbers that we calculated for each scenario can be found in the deck on slides 10,13,14 and 15. Also attached is a copy of the net debt-to-gdp calculator that we used.

Could you please confirm that both the IOD forecast in each scenario as well as the net debt-to-GDP numbers in the deck are correct?

Many thanks!
Sareena

-----Original Message-----
From: McGrath, Tara (MOF)
Sent: May 29, 2018 9:31 PM
To: Kandeepan, Ken (OFA)
Cc: Che, Chi-Wa (OFA); Anand, Sareena (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA); Strathy, Anna (OFA); Nero, Freba (MOF); Macdonald, James (MOF); Cheung, Danny (MOF); Esmail, Selena (MOF)

Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Ok great - thanks Ken.

Coming out of the meeting there were no further changes to the base case or alternative fiscal outlooks, save one small revenue adjustment that is less than $5M per year.

We'll touch base in the morning.

Tara

From: Kandeepan, Ken (OFA) [Ken.Kandeepan@ofina.on.ca]
Sent: Tuesday, May 29, 2018 9:28 PM
To: McGrath, Tara (MOF)
Cc: Che, Chi-Wa (OFA); Anand, Sareena (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA); Strathy, Anna (OFA); Nero, Freba (MOF); Macdonald, James (MOF); Cheung, Danny (MOF)
Subject: Re: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi Tara

With regard to IOD, your characterization of the two versions is accurate. However since our runs were done to meet deadlines we will review the results once more tomorrow morning and confirm.

With regard to the net debt to GDP ratio, as John has pointed out, the version that includes the AG's adjustments should also incorporate the cumulative impact of reversing the pension adjustment and that should not be limited to 16-17 onwards.

We have requested the cumulative impact from OPCD and should be able to provide revised ratios tomorrow.

Thanks

Ken k

> On May 29, 2018, at 908 PM, McGrath, Tara (MOF) <Tara.McGrath@ontario.ca> wrote:
>
> Hi everyone,
>
> Thank you again for your nimbleness today - we appreciate it.
>
> We were moving quickly today, so we wanted to take a pause just to confirm we are using the correct IOD numbers. We understand that the version sent at 3:56 (first attachment) includes the IOD changes without taking on the accounting change for pensions and Fair Hydro; and the version sent at 4:30 (second attachment) represents the IOD changes after taking on the accounting changes.
>
> We have a small window tomorrow morning to make any final updates, so it would be great if you could confirm first thing in the morning.
>
> John - we're working through all of the net debt-to-GDP scenarios with these new IOD figures, so we'll loop back around with you in the morning to confirm you're ok with all of the ratios for the deck.
>
> We understand the briefing with the SOC is at 3.
>
> Thanks,
>
> Tara
>

> _____
> From: Che, Chi-Wa (OFA) [Chi-Wa.Che@ofina.on.ca]
> Sent: Tuesday, May 29, 2018 4:30 PM
> To: Anand, Sareena (MOF)
> Cc: McGrath, Tara (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA);
> Kandeepan, Ken (OFA); Strathy, Anna (OFA)
> Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
>
> Hi Sareena,
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> <IOD Summary for Transition.Revised.xlsx> <IOD Summary for
> Transition.RevisedV2.xlsx>

IOD Forecast for Scenarios as of April 30, 2018		
	2018-19	**2019-20**
2018 Budget IOD Forecast	12,542.8	13,066.1
IOD forecast for Base Case Before AG	12,565.4	13,025.4
IOD forecast for Base Case After AG	12,591.5	13,123.4
IOD forecast for Alt 1 Before AG	12,627.6	13,282.3
IOD forecast for Alt 1 After AG	12,652.6	13,380.3
IOD forecast for Alt 2 Before AG	12,546.2	12,983.0
IOD forecast for Alt 2 After AG	12,571.2	13,081.0

2020-21
13,849.3
13,560.1
13,746.1
14,151.9
14,338.9
13,482.9
13,669.9

From:	Anand, Sareena (MOF)
To:	John Psinas; Ken Kandeepan; Chi-Wa Che; Alexander Kraas
Cc:	IOD_RPA; Anna Strathy; Nero, Freba (MOF); James MacDonald (MEDTE/MRI); Danny Cheung (CSC); Selena Esmail (MOF); Tara McGrath (MOF); Christina Zhang; George Sakura; Shemin Meralli
Subject:	RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
Date:	Wednesday, May 30, 2018 12:09:08 PM

Thanks John!

We've used the attached to run the scenarios again.

Sareena

-----Original Message-----
From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: May 30, 2018 10:31 AM
To: Anand, Sareena (MOF); Kandeepan, Ken (OFA); Che, Chi-Wa (OFA); Kraas, Alexander (OFA)
Cc: IOD_RPA; Strathy, Anna (OFA); Nero, Freba (MOF); Macdonald, James (MOF); Cheung, Danny (MOF); Esmail, Selena (MOF); McGrath, Tara (MOF); Zhang, Christina (OFA); Sakura, George (OFA); Meralli, Shemin (OFA)
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Sareena,
I see that our net debt template was used for a myriad of variable presentations of net debt, such as with the fair hydro, with pension adjustments etc, along with new fiscal deficit numbers since yesterday.

We got the accumulated deficit impact of the pension adjustment this morning from OPCD and put it into the opening net debt number for 2016-17 in the attached. Our opening 2016-17 net debt number now matches what the AG has indicated it should be if following this accounting interpretation. You may have to redo the net debt calculations based on this adjustment as well as the new fiscal impacts.

As you can see, there is a significant impact to the ratio by adding over $12.4 Billion of the pension adjustment to accumulated deficit.

Thanks.

John

-----Original Message-----
From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Wednesday, May 30, 2018 10:15 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Chi-Wa Che <Chi-Wa.Che@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: IOD_RPA <IOD_RPA@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Nero, Freba (MOF) <Freba.Nero@ontario.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Good morning:

Per the email thread below, we're touching base to provide you with the outlooks for the three scenarios (base, 1, and 2) as they currently stand, including with the IOD forecast that you provided yesterday at 4:30pm. Please note that the only change that has not been incorporated into the attached IOD outlook is a $5M revenue decrease in

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In addition, we have attached a draft version of the deck that will be used to brief the SOC this afternoon at 3pm, however, we are still working through some wording edits. The net debt-to-GDP numbers that we calculated for each scenario can be found in the deck on slides 10,13,14 and 15. Also attached is a copy of the net debt-to-gdp calculator that we used.

Could you please confirm that both the IOD forecast in each scenario as well as the net debt-to-GDP numbers in the deck are correct?

Many thanks!
Sareena

-----Original Message-----
From: McGrath, Tara (MOF)
Sent: May 29, 2018 9:31 PM
To: Kandeepan, Ken (OFA)
Cc: Che, Chi-Wa (OFA); Anand, Sareena (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA); Strathy, Anna (OFA); Nero, Freba (MOF); Macdonald, James (MOF); Cheung, Danny (MOF); Esmail, Selena (MOF)
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Ok great - thanks Ken.

Coming out of the meeting there were no further changes to the base case or alternative fiscal outlooks, save one small revenue adjustment that is less than $5M per year.

We'll touch base in the morning.

Tara

From: Kandeepan, Ken (OFA) [Ken.Kandeepan@ofina.on.ca]
Sent: Tuesday, May 29, 2018 9:28 PM
To: McGrath, Tara (MOF)
Cc: Che, Chi-Wa (OFA); Anand, Sareena (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA); Strathy, Anna (OFA); Nero, Freba (MOF); Macdonald, James (MOF); Cheung, Danny (MOF)
Subject: Re: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi Tara

With regard to IOD, your characterization of the two versions is accurate. However since our runs were done to meet deadlines we will review the results once more tomorrow morning and confirm.

With regard to the net debt to GDP ratio, as John has pointed out, the version that includes the AG's adjustments should also incorporate the cumulative impact of reversing the pension adjustment and that should not be limited to 16-17 onwards.

We have requested the cumulative impact from OPCD and should be able to provide revised ratios tomorrow.

Thanks

Ken k

> On May 29, 2018, at 908 PM, McGrath, Tara (MOF) <Tara.McGrath@ontario.ca> wrote:
>

> Hi everyone,
>
> Thank you again for your nimbleness today - we appreciate it.
>
> We were moving quickly today, so we wanted to take a pause just to confirm we are using the correct IOD numbers. We understand that the version sent at 3:56 (first attachment) includes the IOD changes without taking on the accounting change for pensions and Fair Hydro; and the version sent at 4:30 (second attachment) represents the IOD changes after taking on the accounting changes.
>
> We have a small window tomorrow morning to make any final updates, so it would be great if you could confirm first thing in the morning.
>
> John - we're working through all of the net debt-to-GDP scenarios with these new IOD figures, so we'll loop back around with you in the morning to confirm you're ok with all of the ratios for the deck.
>
> We understand the briefing with the SOC is at 3.
>
> Thanks,
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> From: Che, Chi-Wa (OFA) [Chi-Wa.Che@ofina.on.ca]
> Sent: Tuesday, May 29, 2018 4:30 PM
> To: Anand, Sareena (MOF)
> Cc: McGrath, Tara (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA);
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> Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
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From:	John Psinas
To:	"Anand, Sareena (MOF)"; Ken Kandeepan; Chi-Wa Che; Alexander Kraas
Cc:	IOD_RPA; Anna Strathy; Nero, Freba (MOF); James MacDonald (MEDTE/MRI); Danny Cheung (CSC); Selena Esmail (MOF); Tara McGrath (MOF); Christina Zhang; George Sakura; Shemin Meralli
Subject:	RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
Date:	Wednesday, May 30, 2018 10:30:33 AM
Attachments:	Net Debt - Scenarios- incl revised TCA pension hydro adj May 30 2018.xlsx

---

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To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Chi-Wa Che <Chi-Wa.Che@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
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	Budget 2018		Base Case Scenario		Scenario 1		Scenario 2		Difference Base Case vs. Budget 2018		Difference Scenario 1 vs. Budget 2018		Difference Scenario 2 vs. Budget 2018	
	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)
2017-18 Interim	37.1	(642)	39.1	3,593	39.1	3,593	39.1	3,593	2.0	4,235	2.0	4,235	2.0	4,235
2018-19 Outlook	37.6	6,704	40.2	11,882	40.7	16,511	40.1	11,297	2.5	5,178	3.1	9,807	2.5	4,593
2019-20 Outlook	38.2	6,624	40.9	9,321	42.1	15,528	41.0	10,157	2.7	2,697	3.9	8,904	2.8	3,533
2020-21 Outlook	38.6	6,475	41.2	6,444	43.4	16,272	41.1	5,739	2.6	(31)	4.8	9,797	2.6	(736)

Net Debt to Revenue and GDP Ratios																	
Ontario		Base Case Scenario (Based on 2018 Budget)															
				Net Debt As	Accumulated	Acc Deficit		Prepds/inv.	ONFA	Other Adj	Deficit/						
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP %	TCA	Adj.(gain)/los	(gain)/loss	(gain)/loss	(Surplus)						
Actual	1989-90	282,754	35,409	12.5	35,409	12.5	-				(90)						
Actual	1990-91	287,293	38,438	13.4	38,438	13.4	-				3,029						
Actual	1991-92	288,190	49,368	17.1	49,368	17.1	-				10,930						
Actual	1992-93	293,007	61,796	21.1	61,796	21.1	-				12,428						
Actual	1993-94	302,160	80,599	26.7	80,599	26.7	-				11,202						
Actual	1994-95	319,901	90,728	28.4	90,728	28.4	-				10,129						
Actual	1995-96	337,337	101,864	30.2	101,864	30.2	-				8,800						
Actual	1996-97	347,738	108,769	31.3	108,769	31.3	-				6,905						
Actual	1997-98	368,909	112,735	30.6	112,735	30.6	-				3,966						
Actual	1998-99	389,219	114,737	29.5	114,737	29.5	-				2,002						
Actual	1999-2000	418,202	134,398	32.1	134,398	32.1	-				(668)						
Actual	2000-01	452,186	132,496	29.3	132,496	29.3	-				(1,902)						
Actual	2001-02	469,045	132,121	28.2	132,121	28.2	-				(375)						
Actual	2002-03	494,804	132,647	26.8	118,705	24.0	13,942				(117)						
Actual	2003-04	509,472	138,816	27.2	124,188	24.4	14,628				5,483						
Actual	2004-05	533,334	140,921	26.4	125,743	23.6	15,178				1,555						
Actual	2005-06	556,607	152,702	27.4	109,155	19.6	43,547				(298)						
Actual	2006-07	578,229	153,742	26.6	106,776	18.5	46,966			(110)	(2,269)						
Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999		(559)		(600)						
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347		1,212		6,409						
Actual	2009-10	597,876	193,589	32.4	130,957	21.9	62,632		1,090	-	19,262						
Actual	2010-11	630,983	214,511	34.0	144,573	22.9	69,938		(395)	-	14,011						
Actual	2011-12	659,740	236,230	35.8	158,410	24.0	77,172	648	3	865	12,969						
Actual	2012-13	680,086	252,823	37.2	167,132	24.6	84,956	735	(639)	141	9,220						
Actual	2013-14	695,354	267,968	38.5	176,634	25.4	90,556	778	(951)	-	10,453						
Actual	2014-15	726,053	285,403	39.3	187,511	25.8	97,065	827	(1,121)	1,683	10,315						
Actual	2015-16	762,029	295,372	38.8	192,029	25.2	102,536	807	1,003	-	3,515						
Actual	2016-17	794,835	314,077	39.5	205,939	25.9	107,288	850	(1,094)	14,013	991						
	2017-18 Interim	829,984	324,869	39.1	209,113	25.2	114,906	850	(419)		3,593						
	2018-19 Outloo	863,690	346,865	40.2	220,995	25.6	125,020	850			11,882						
	2019-20 Outloo	897,341	367,239	40.9	230,316	25.7	136,073	850			9,321						
	2020-21 Outloo	933,145	384,373	41.2	236,760	25.4	146,763	850			6,444						
	2021-22 Outloo	969,156	393,694	40.6	236,760	24.4	156,084	850			-						
	2022-23 Outloo	1,005,572	399,447	39.7	236,760	23.5	161,837	850			-						

Net debt as presented
Effect of valuation allowance
Net debt in accordance with Canadian public secto

Net Debt for 2016-17 has been chan
opinion of the 2016-17 Public Accou

Net Debt to Revenue and GDP Ratios

Ontario

Base Case Scenario (Based on 2018 Budget)

Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)
2023-24 Outloo	1,045,203	401,120	38.4	236,760	22.7	163,510	850			-
2024-25 Outloo	1,088,440	404,772	37.2	236,760	21.8	167,162	850			-
2025-26 Outloo	1,133,057	407,234	35.9	236,760	20.9	169,624	850			-
2026-27 Outloo	1,176,212	406,742	34.6	236,760	20.1	169,132	850			-
2027-28 Outloo	1,223,997	404,438	33.0	236,760	19.3	166,828	850			-
2028-29 Outloo	1,274,188	404,438	31.7	236,760	18.6	166,828	850			-
2029-30 Outloo	1,326,796	404,438	30.5	236,760	17.8	166,828	850			-
2030-31 Outloo	1,379,701	404,438	29.3	236,760	17.2	166,828	850			-
2031-32 Outloo	1,434,889	404,438	28.2	236,760	16.5	166,828	850			-
2032-33 Outloo	1,492,284	404,438	27.1	236,760	15.9	166,828	850			-
2033-34 Outloo	1,551,976	404,438	26.1	236,760	15.3	166,828	850			-
2034-35 Outloo	1,614,055	404,438	25.1	236,760	14.7	166,828	850			-
2035-36 Outloo	1,678,617	404,438	24.1	236,760	14.1	166,828	850			-

Assumptions /Notes

1 - deleted for this scenario -

2 GDP - per latest information rec'd (see GDP tab)

3 TCA - per info rec'd May 29, 2018 from M Reghabi

After 2027-28 TCA increases are equal to annual amortization

4 Net Debt adjusted for prepaids starting 2014-15. From 2017-18 and onwards - same amount as prior month assumed.

5 Balanced budget continues through to 2035-36

6 GDP annual growth is 4% from 2031-32 to 2035-36

7 Revenue restated to include BPS (Hospitals, colleges, school boards) from 2012-13

8 Revenue from 2017-18 to 2019-20 has been restated for BPS

9 Revenue for 2016-17 was revised down by approx $1 million from $140,735m to $140,734.

10 Accumulated deficit for 2016-17 now incorporates the pension valuation adjustment of approx $12.4b

Prepared by OFA, FTD

30-May-18

	2017 ($ million)	2016 ($ million)
	(301,648)	(295,372)
	(12,429)	(10,985)
r accounting standards	(314,077)	(306,357)

ged to the amount indicated by the AG in her
nts, $314,077 M.

Net Debt to Revenue and GDP Ratios															
Ontario		Scenario 1 (Based on 2018 Budget)													
				Net Debt As	Accumulated	Acc Deficit		Prepds/inv.	ONFA	Other Adj	Deficit/				
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP %	TCA	Adj.(gain)/los	(gain)/loss	(gain)/loss	(Surplus)				
Actual	1989-90	282,754	35,409	12.5	35,409	12.5	-				(90)				
Actual	1990-91	287,293	38,438	13.4	38,438	13.4	-				3,029				
Actual	1991-92	288,190	49,368	17.1	49,368	17.1	-				10,930				
Actual	1992-93	293,007	61,796	21.1	61,796	21.1	-				12,428				
Actual	1993-94	302,160	80,599	26.7	80,599	26.7	-				11,202				
Actual	1994-95	319,901	90,728	28.4	90,728	28.4	-				10,129				
Actual	1995-96	337,337	101,864	30.2	101,864	30.2	-				8,800				
Actual	1996-97	347,738	108,769	31.3	108,769	31.3	-				6,905				
Actual	1997-98	368,909	112,735	30.6	112,735	30.6	-				3,966				
Actual	1998-99	389,219	114,737	29.5	114,737	29.5	-				2,002				
Actual	1999-2000	418,202	134,398	32.1	134,398	32.1	-				(668)				
Actual	2000-01	452,186	132,496	29.3	132,496	29.3	-				(1,902)				
Actual	2001-02	469,045	132,121	28.2	132,121	28.2	-				(375)				
Actual	2002-03	494,804	132,647	26.8	118,705	24.0	13,942				(117)				
Actual	2003-04	509,472	138,816	27.2	124,188	24.4	14,628				5,483				
Actual	2004-05	533,334	140,921	26.4	125,743	23.6	15,178				1,555				
Actual	2005-06	556,607	152,702	27.4	109,155	19.6	43,547				(298)				
Actual	2006-07	578,229	153,742	26.6	106,776	18.5	46,966			(110)	(2,269)				
Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999		(559)		(600)				
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347		1,212		6,409				
Actual	2009-10	597,876	193,589	32.4	130,957	21.9	62,632		1,090	-	19,262				
Actual	2010-11	630,983	214,511	34.0	144,573	22.9	69,938		(395)	-	14,011				
Actual	2011-12	659,740	236,230	35.8	158,410	24.0	77,172	648	3	865	12,969				
Actual	2012-13	680,086	252,823	37.2	167,132	24.6	84,956	735	(639)	141	9,220				
Actual	2013-14	695,354	267,968	38.5	176,634	25.4	90,556	778	(951)	-	10,453				
Actual	2014-15	726,053	285,403	39.3	187,511	25.8	97,065	827	(1,121)	1,683	10,315				
Actual	2015-16	762,029	295,372	38.8	192,029	25.2	102,536	807	1,003	-	3,515				
Actual	2016-17	794,835	314,077	39.5	205,939	25.9	107,288	850	(1,094)	14,013	991				
	2017-18 Interim	829,984	324,869	39.1	209,113	25.2	114,906	850	(419)		3,593				
	2018-19 Outloo	863,690	351,494	40.7	225,624	26.1	125,020	850			16,511				
	2019-20 Outloo	897,341	378,075	42.1	241,152	26.9	136,073	850			15,528				
	2020-21 Outloo	933,145	405,037	43.4	257,424	27.6	146,763	850			16,272				

Net debt as presented
Effect of valuation allowance
Net debt in accordance with Canadi

Net Debt to Revenue and GDP Ratios

Ontario

Scenario 1 (Based on 2018 Budget)

Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)
2021-22 Outloo	969,156	414,358	42.8	257,424	26.6	156,084	850			-
2022-23 Outloo	1,005,572	420,111	41.8	257,424	25.6	161,837	850			-
2023-24 Outloo	1,045,203	421,784	40.4	257,424	24.6	163,510	850			-
2024-25 Outloo	1,088,440	425,436	39.1	257,424	23.7	167,162	850			-
2025-26 Outloo	1,133,057	427,898	37.8	257,424	22.7	169,624	850			-
2026-27 Outloo	1,176,212	427,406	36.3	257,424	21.9	169,132	850			-
2027-28 Outloo	1,223,997	425,102	34.7	257,424	21.0	166,828	850			-
2028-29 Outloo	1,274,188	425,102	33.4	257,424	20.2	166,828	850			-
2029-30 Outloo	1,326,796	425,102	32.0	257,424	19.4	166,828	850			-
2030-31 Outloo	1,379,701	425,102	30.8	257,424	18.7	166,828	850			-
2031-32 Outloo	1,434,889	425,102	29.6	257,424	17.9	166,828	850			-
2032-33 Outloo	1,492,284	425,102	28.5	257,424	17.3	166,828	850			-
2033-34 Outloo	1,551,976	425,102	27.4	257,424	16.6	166,828	850			-
2034-35 Outloo	1,614,055	425,102	26.3	257,424	15.9	166,828	850			-
2035-36 Outloo	1,678,617	425,102	25.3	257,424	15.3	166,828	850			-

Net Debt for 2016-17 has
opinion of the 2016-17 P

Assumptions /Notes

1 - deleted for this scenario - m

2 GDP - per latest information rec'd (see GDP tab)

3 TCA - per info rec'd May 29, 2018 from M Reghabi

After 2027-28 TCA increases are equal to annual amortization

4 Net Debt adjusted for prepaids starting 2014-15. From 2017-18 and onwards - same amount as prior month assumed.

5 Balanced budget continues through to 2035-36

6 GDP annual growth is 4% from 2031-32 to 2035-36

7 Revenue restated to include BPS (Hospitals, colleges, school boards) from 2012-13

8 Revenue from 2017-18 to 2019-20 has been restated for BPS

9 Revenue for 2016-17 was revised down by approx $1 million from $140,735m to $140,734.

10 Accumulated deficit for 2016-17 now incorporates the pension valuation adjustment of approx $12.4b

Prepared by OFA, FTD

30-May-18

	2017 ($ million)	2016 ($ million)
	(301,648)	(295,372)
	(12,429)	(10,985)
n public sector accounting standards	(314,077)	(306,357)

s been changed to the amount indicated by the AG in her						
ublic Accounts, $314,077 M.						

Net Debt to Revenue and GDP Ratios															
Ontario		Scenario 2 (Based on 2018 Budget)													
				Net Debt As	Accumulated	Acc Deficit		Prepds/inv.	ONFA	Other Adj	Deficit/				
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP %	TCA	Adj.(gain)/los	(gain)/loss	(gain)/loss	(Surplus)				
Actual	1989-90	282,754	35,409	12.5	35,409	12.5	-				(90)				
Actual	1990-91	287,293	38,438	13.4	38,438	13.4	-				3,029				
Actual	1991-92	288,190	49,368	17.1	49,368	17.1	-				10,930				
Actual	1992-93	293,007	61,796	21.1	61,796	21.1	-				12,428				
Actual	1993-94	302,160	80,599	26.7	80,599	26.7	-				11,202				
Actual	1994-95	319,901	90,728	28.4	90,728	28.4	-				10,129				
Actual	1995-96	337,337	101,864	30.2	101,864	30.2	-				8,800				
Actual	1996-97	347,738	108,769	31.3	108,769	31.3	-				6,905				
Actual	1997-98	368,909	112,735	30.6	112,735	30.6	-				3,966				
Actual	1998-99	389,219	114,737	29.5	114,737	29.5	-				2,002				
Actual	1999-2000	418,202	134,398	32.1	134,398	32.1	-				(668)				
Actual	2000-01	452,186	132,496	29.3	132,496	29.3	-				(1,902)				
Actual	2001-02	469,045	132,121	28.2	132,121	28.2	-				(375)				
Actual	2002-03	494,804	132,647	26.8	118,705	24.0	13,942				(117)				
Actual	2003-04	509,472	138,816	27.2	124,188	24.4	14,628				5,483				
Actual	2004-05	533,334	140,921	26.4	125,743	23.6	15,178				1,555				
Actual	2005-06	556,607	152,702	27.4	109,155	19.6	43,547				(298)				
Actual	2006-07	578,229	153,742	26.6	106,776	18.5	46,966			(110)	(2,269)				
Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999		(559)		(600)				
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347		1,212		6,409				
Actual	2009-10	597,876	193,589	32.4	130,957	21.9	62,632		1,090	-	19,262				
Actual	2010-11	630,983	214,511	34.0	144,573	22.9	69,938		(395)	-	14,011				
Actual	2011-12	659,740	236,230	35.8	158,410	24.0	77,172	648	3	865	12,969				
Actual	2012-13	680,086	252,823	37.2	167,132	24.6	84,956	735	(639)	141	9,220				
Actual	2013-14	695,354	267,968	38.5	176,634	25.4	90,556	778	(951)	-	10,453				
Actual	2014-15	726,053	285,403	39.3	187,511	25.8	97,065	827	(1,121)	1,683	10,315				
Actual	2015-16	762,029	295,372	38.8	192,029	25.2	102,536	807	1,003	-	3,515				
Actual	2016-17	794,835	314,077	39.5	205,939	25.9	107,288	850	(1,094)	14,013	991				
	2017-18 Interim	829,984	324,869	39.1	209,113	25.2	114,906	850	(419)		3,593				
	2018-19 Outloo	863,690	346,280	40.1	220,410	25.5	125,020	850			11,297				
	2019-20 Outloo	897,341	367,490	41.0	230,567	25.7	136,073	850			10,157				
	2020-21 Outloo	933,145	383,919	41.1	236,306	25.3	146,763	850			5,739				

Net debt as presented

Effect of valuation allowance

Net debt in accordance with Cana

Net Debt for 2016-17 has

Net Debt to Revenue and GDP Ratios

Ontario

Scenario 2 (Based on 2018 Budget)

Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)	
2021-22 Outloo	969,156	393,240	40.6	236,306	24.4	156,084	850			-	opinion of the 2016-17 P
2022-23 Outloo	1,005,572	398,993	39.7	236,306	23.5	161,837	850			-	
2023-24 Outloo	1,045,203	400,666	38.3	236,306	22.6	163,510	850			-	
2024-25 Outloo	1,088,440	404,318	37.1	236,306	21.7	167,162	850			-	
2025-26 Outloo	1,133,057	406,780	35.9	236,306	20.9	169,624	850			-	
2026-27 Outloo	1,176,212	406,288	34.5	236,306	20.1	169,132	850			-	
2027-28 Outloo	1,223,997	403,984	33.0	236,306	19.3	166,828	850			-	
2028-29 Outloo	1,274,188	403,984	31.7	236,306	18.5	166,828	850			-	
2029-30 Outloo	1,326,796	403,984	30.4	236,306	17.8	166,828	850			-	
2030-31 Outloo	1,379,701	403,984	29.3	236,306	17.1	166,828	850			-	
2031-32 Outloo	1,434,889	403,984	28.2	236,306	16.5	166,828	850			-	
2032-33 Outloo	1,492,284	403,984	27.1	236,306	15.8	166,828	850			-	
2033-34 Outloo	1,551,976	403,984	26.0	236,306	15.2	166,828	850			-	
2034-35 Outloo	1,614,055	403,984	25.0	236,306	14.6	166,828	850			-	
2035-36 Outloo	1,678,617	403,984	24.1	236,306	14.1	166,828	850			-	

Assumptions /Notes

1	- deleted for this scenario -
2	GDP - per latest information rec'd (see GDP tab)
3	TCA - per info rec'd May 29, 2018 from M Reghabi
	After 2027-28 TCA increases are equal to annual amortization
4	Net Debt adjusted for prepaids starting 2014-15. From 2017-18 and onwards - same amount as prior month assumed.
5	Balanced budget continues through to 2035-36
6	GDP annual growth is 4% from 2031-32 to 2035-36
7	Revenue restated to include BPS (Hospitals, colleges, school boards) from 2012-13
8	Revenue from 2017-18 to 2019-20 has been restated for BPS
9	Revenue for 2016-17 was revised down by approx $1 million from $140,735m to $140,734.
10	Accumulated deficit for 2016-17 now incorporates the pension valuation adjustment of approx $12.4b

Prepared by OFA, FTD

30-May-18

	2017 ($ million)	2016 ($ million)
	(301,648)	(295,372)
	(12,429)	(10,985)
dian public sector accounting standards	(314,077)	(306,357)

been changed to the amount indicated by the AG in her

ublic Accounts, $314,077 M.						

Net Debt to Revenue and GDP Ratios

Ontario

2018 Document Outlook

	Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)		
Actual	1989-90	282,754	35,409	12.5	35,409	12.5	-				(90)		
Actual	1990-91	287,293	38,438	13.4	38,438	13.4	-				3,029		
Actual	1991-92	288,190	49,368	17.1	49,368	17.1	-				10,930		
Actual	1992-93	293,007	61,796	21.1	61,796	21.1	-				12,428		
Actual	1993-94	302,160	80,599	26.7	80,599	26.7	-				11,202		
Actual	1994-95	319,901	90,728	28.4	90,728	28.4	-				10,129		
Actual	1995-96	337,337	101,864	30.2	101,864	30.2	-				8,800		
Actual	1996-97	347,738	108,769	31.3	108,769	31.3	-				6,905		
Actual	1997-98	368,909	112,735	30.6	112,735	30.6	-				3,966		
Actual	1998-99	389,219	114,737	29.5	114,737	29.5	-				2,002		
Actual	1999-2000	418,202	134,398	32.1	134,398	32.1	-				(668)		
Actual	2000-01	452,186	132,496	29.3	132,496	29.3	-				(1,902)		
Actual	2001-02	469,045	132,121	28.2	132,121	28.2	-				(375)		
Actual	2002-03	494,804	132,647	26.8	118,705	24.0	13,942				(117)		
Actual	2003-04	509,472	138,816	27.2	124,188	24.4	14,628				5,483		
Actual	2004-05	533,334	140,921	26.4	125,743	23.6	15,178				1,555		
Actual	2005-06	556,607	152,702	27.4	109,155	19.6	43,547				(298)		
Actual	2006-07	578,229	153,742	26.6	106,776	18.5	46,966			(110)	(2,269)		
Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999		(559)		(600)		
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347		1,212		6,409		
Actual	2009-10	597,876	193,589	32.4	130,957	21.9	62,632		1,090	-	19,262		
Actual	2010-11	630,983	214,511	34.0	144,573	22.9	69,938		(395)	-	14,011		
Actual	2011-12	659,740	236,230	35.8	158,410	24.0	77,172	648	3	865	12,969		
Actual	2012-13	680,086	252,823	37.2	167,132	24.6	84,956	735	(639)	141	9,220		
Actual	2013-14	695,354	267,968	38.5	176,634	25.4	90,556	778	(951)	-	10,453		
Actual	2014-15	726,053	285,403	39.3	187,511	25.8	97,065	827	(1,121)	1,683	10,315		
Actual	2015-16	762,029	295,372	38.8	192,029	25.2	102,536	807	1,003	-	3,515		
Actual	2016-17	794,835	301,648	38.0	193,510	24.3	107,288	850	(1,094)	1,584	991		4,752
	2017-18 Outloo	829,984	308,203	37.1	192,449	23.2	114,904	850	(419)		(642)		7,616
	2018-19 Outloo	863,690	325,041	37.6	199,153	23.1	125,038	850			6,704		10,134
	2019-20 Outloo	897,341	342,752	38.2	205,777	22.9	136,125	850			6,624		11,087
	2020-21 Outloo	933,145	360,123	38.6	212,252	22.7	147,021	850			6,475		10,896
	2021-22 Outloo	969,156	376,811	38.9	217,824	22.5	158,137	850			5,572		11,116
	2022-23 Outloo	1,005,572	388,265	38.6	221,785	22.1	165,630	850			3,961		7,493

Ontario

2018 Document Outlook

Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)	
2023-24 Outloo	1,045,203	394,185	37.7	224,261	21.5	169,074	850			2,476	3,444
2024-25 Outloo	1,088,440	400,152	36.8	224,277	20.6	175,025	850			16	5,951
2025-26 Outloo	1,133,057	402,058	35.5	221,674	19.6	179,534	850			(2,603)	4,509
2026-27 Outloo	1,176,212	402,020	34.2	221,674	18.8	179,496	850			-	(38)
2027-28 Outloo	1,223,997	400,921	32.8	221,674	18.1	178,397	850			-	(1,099)
2028-29 Outloo	1,274,188	400,921	31.5	221,674	17.4	178,397	850			-	
2029-30 Outloo	1,326,796	400,921	30.2	221,674	16.7	178,397	850			-	
2030-31 Outloo	1,379,701	400,921	29.1	221,674	16.1	178,397	850			-	
2031-32 Outloo	1,434,889	400,921	27.9	221,674	15.4	178,397	850			-	
2032-33 Outloo	1,492,284	400,921	26.9	221,674	14.9	178,397	850			-	
2033-34 Outloo	1,551,976	400,921	25.8	221,674	14.3	178,397	850			-	
2034-35 Outloo	1,614,055	400,921	24.8	221,674	13.7	178,397	850			-	
2035-36 Outloo	1,678,617	400,921	23.9	221,674	13.2	178,397	850			-	

Assumptions /Notes

1. Surplus for 2017-18 is $ 642 m
2. GDP - per latest information rec'd (see GDP tab)
3. TCA - per info rec'd March 3, 2018 from David Hodes
   After 2027-28 TCA increases are equal to annual amortization
4. Net Debt adjusted for prepaids starting 2014-15. From 2017-18 and onwards - same amount as prior month assumed.
5. Balanced budget continues through to 2035-36
6. GDP annual growth is 4% from 2031-32 to 2035-36
7. Revenue restated to include BPS (Hospitals, colleges, school boards) from 2012-13
8. Revenue from 2017-18 to 2019-20 has been restated for BPS
9. Revenue for 2016-17 was revised down by approx $1 million from $140,735m to $140,734.

Prepared by OFA, FTD

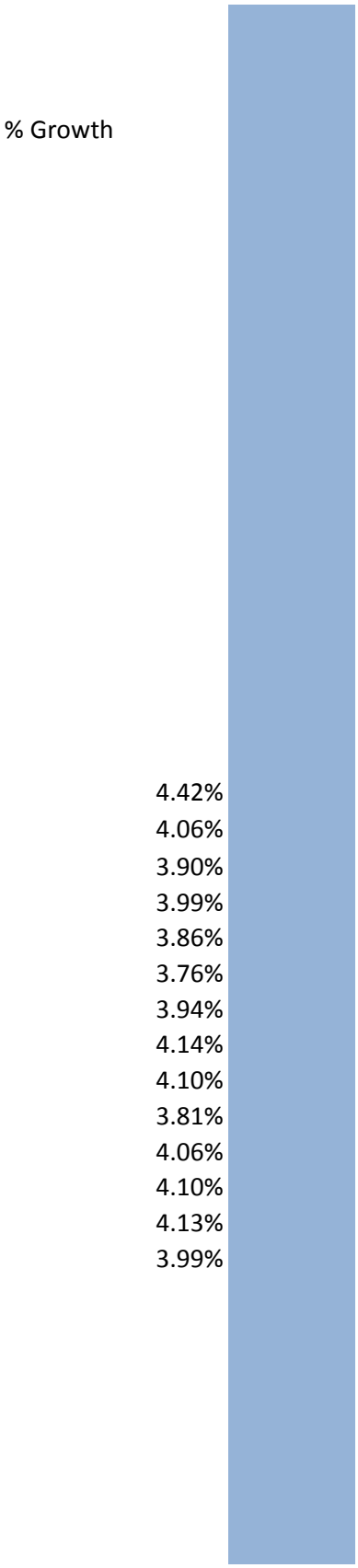
9-Mar-18

	Budget time Ontario Nominal GDP			Ontario Nominal GDP
2000	452,238			
2001	469,084			
2002	494,815			
2003	509,511			
2004	533,365			
2005	556,635			
2006	578,241			
2007	601,735			
2008	608,446			
2009	597,882			
2010	630,989	5.5		
2011	659,743	4.6		
2012	680,084	3.1		
2013	695,349	2.2		
2014	727,962	4.7		
2015	763,276	4.9		
2016	798,218	4.6	2016	794,835
2017p	832,652	4.3	2017p	829,984
2018p	866,612	4.1	2018p	863,690
2019p	902,778	4.2	2019p	897,341
2020p	938,411	3.9	2020p	933,145
2021p			2021p	969,156
			2022	1,005,572
			2023	1,045,203
			2024	1,088,440
			2025	1,133,057
			2026	1,176,212
			2027	1,223,997
			2028	1,274,188
			2029	1,326,796
			2030	1,379,701

p = projection

Rec'd from: Mark Williams
28-Mar-17

Paul Lewis
27-Feb-18


% Growth
4.42%
4.06%
3.90%
3.99%
3.86%
3.76%
3.94%
4.14%
4.10%
3.81%
4.06%
4.10%
4.13%
3.99%

Draft- Mar 2 1pm 2018

PROVINCIAL TCA Net Book Value ($ Billions)	2017-18 Interim	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Opening Net Book Value	**107,288**	**114,904**	**125,038**	**136,125**	**147,021**	**158,137**	**165,630**	**169,074**	**175,025**	**179,534**	**179,496**
Annual Acquisitions	13,251	16,094	17,455	17,688	18,522	15,477	11,801	14,763	13,914	9,683	8,815
Gross Amortization Expense	(5,634)	(5,960)	(6,367)	(6,792)	(7,406)	(7,983)	(8,357)	(8,812)	(9,405)	(9,721)	(9,914)
Closing Net Book Value	**114,904**	**125,038**	**136,125**	**147,021**	**158,137**	**165,630**	**169,074**	**175,025**	**179,534**	**179,496**	**178,397**

Notes:
- Opening NBV for 2016-17 from public accounts
- Annual Acquisitions include other partner funding and federal flowthroughs

Received from David Hodes
3/8/2018 - 5pm

Scenarios - Base Case

Draft - May 24

PROVINCIAL TCA Net Book Value ($ Billions)	2017-18 Interim	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Opening Net Book Value	**107,288**	**114,906**	**125,020**	**136,073**	**146,763**	**156,084**	**161,837**	**163,510**	**167,162**	**169,624**	**169,132**
Annual Acquisitions	13,252	16,075	17,419	17,478	16,721	13,725	10,017	12,446	11,700	8,910	7,290
Gross Amortization Expense	(5,634)	(5,960)	(6,366)	(6,789)	(7,399)	(7,973)	(8,343)	(8,794)	(9,238)	(9,402)	(9,594)
Closing Net Book Value	**114,906**	**125,020**	**136,073**	**146,763**	**156,084**	**161,837**	**163,510**	**167,162**	**169,624**	**169,132**	**166,828**

Notes:
- Opening NBV for 2016-17 from public accounts
- Annual Acquisitions include other partner funding and federal flowthroughs

Received from M Reghabi
29-May-18

ONFA Net Debt impact

As at Feb 2018

Fiscal year	2018	2017	Bruce Variance (Per CEFD)	Net debt	
A	0		47%	-	
B	60		50%	30	
C	1,743	1,561		182	
D	1,955	1,748		207	
				419	Net Debt - gain/(loss)

Notes:

A - Decommissioning Fund unrealized gain/loss calculation x Bruce Variance Cost % (where the p

B - Used Fuel Fund unrealized gain/loss calculation x Bruce Variance Cost % (where the percentage

C - Decommissioning Fund payable to the province(FMV – cost, this year's) less (FMV – cost, last ye

D - Used Fuel Fund payable to the province(FMV – cost, this year's) less (FMV – cost, last year's)

Supporting documentation

ercentage changes every year)
changes every year)
ar's)

Seg Fund Balances - OFINA C

Decomm. Fund

Balance Mar 31, 2017 per F/S

Add YTD Apr 1 - Feb 28, 2018 e

Realized
Unrealized - G/L on investments
Unrealized - Bid pricing adjustm
Excess adjustment charge for y

A Total Decomm earnings

Less Eligible program costs YTI

Add Contributions YTD April 1, 2

Decomm Fund balance Febru

UFF

Balance Mar 31, 2017 per F/S

Add YTD Apr 1 - Feb 28, 2018 e

Realized
Unrealized - G/L on investments
Unrealized - Bid pricing adjustm
Excess adjustment charge for y

B Total UFF earnings

Less Eligible program costs YTI

Add Contributions YTD April 1, 2

UFF balance February 28, 201

Seg Fund Balances at Februa

Decommissioning Fund Balar

Balance February 28, 2018 per

C Exess over 2018 ONFA Ref Pln

Used Fuel Fund Balance:

Balance February 28, 2018 per

D Due (To)/ From Province

Adjustment for Change in Due to Province
Decommissioning Fund
Due from (to) Province
Less: 50% in excess of 120% fu
Decommissioning Fund Balanc
Used Fuel Fund
Due from (to) Province
Used Fuel Fund Balance

ontinuity April 1, 2017 to February 28, 2018

		Cost		Market
		6,916		6,916
earnings:				
	422		422	
s & Currenc	-		181	
ent	-		1	
ear	(95)		(277)	
		327		327
D April 1, 2017 to Feb 28, 2018		(21)		(21)
2017 to Feb 28, 2018		-		-
ary 28, 2018		**7,222**		**7,222**

		Cost		Market
		9,086		9,241
earnings:				
	532		532	
s & Currenc	-		265	
ent	-		2	
ear	(158)		(365)	
		374		434
D April 1, 2017 to Feb 28, 2018		(48)		(48)
2017 to Feb 28, 2018		-		-
8		**9,412**		**9,627**

ry 28, 2018 on amortized cost basis and FMV basis

($M)

ıce:

	Cost	FMV
CIBC	7,396	9,139
Liab (due t	(174)	(1,917)
	7,222	**7,222**

	Cost	FMV
CIBC	9,977	12,147
	(565)	(2,520)
	9,412	**9,627**

March 31, 2017		
Cost	**Market**	***Difference***
6,995	8,556	1,561
(79)	(1,640)	(1,561)
0	0	0
6,916	6,916	*0*
9,493	11,396	1,903
(407)	(2,155)	(1,748)
9,086	9,241	*155*

From:	Anand, Sareena (MOF)
To:	Ken Kandeepan; John Psinas; Chi-Wa Che; Alexander Kraas
Cc:	IOD_RPA; Anna Strathy; Nero, Freba (MOF); James MacDonald (MEDTE/MRI); Danny Cheung (CSC); Selena Esmail (MOF); Tara McGrath (MOF); Christina Zhang
Subject:	RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
Date:	Wednesday, May 30, 2018 10:15:16 AM
Attachments:	BaseCaseAlternativeFiscalScenarios_v11.pptx 2018-05-29 (3.30 pm) - Net Debt - 2017-18 - FF EDIT V5.xlsx Scenario Outlooks for OFA_Base Case Backgrounder_v9b.xlsx

---

Good morning:

Per the email thread below, we're touching base to provide you with the outlooks for the three scenarios (base, 1, and 2) as they currently stand, including with the IOD forecast that you provided yesterday at 4:30pm. Please note that the only change that has not been incorporated into the attached IOD outlook is a $5M revenue decrease in 2019-20 and 2020-21 that was made this morning. Revenue has been updated in the attached document, but IOD has not since we didn't think it would make a significant difference.

In addition, we have attached a draft version of the deck that will be used to brief the SOC this afternoon at 3pm, however, we are still working through some wording edits. The net debt-to-GDP numbers that we calculated for each scenario can be found in the deck on slides 10,13,14 and 15. Also attached is a copy of the net debt-to-gdp calculator that we used.

Could you please confirm that both the IOD forecast in each scenario as well as the net debt-to-GDP numbers in the deck are correct?

Many thanks!
Sareena

-----Original Message-----
From: McGrath, Tara (MOF)
Sent: May 29, 2018 9:31 PM
To: Kandeepan, Ken (OFA)
Cc: Che, Chi-Wa (OFA); Anand, Sareena (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA); Strathy, Anna (OFA); Nero, Freba (MOF); Macdonald, James (MOF); Cheung, Danny (MOF); Esmail, Selena (MOF)
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Ok great - thanks Ken.

Coming out of the meeting there were no further changes to the base case or alternative fiscal outlooks, save one small revenue adjustment that is less than $5M per year.

We'll touch base in the morning.

Tara

From: Kandeepan, Ken (OFA) [Ken.Kandeepan@ofina.on.ca]
Sent: Tuesday, May 29, 2018 9:28 PM
To: McGrath, Tara (MOF)
Cc: Che, Chi-Wa (OFA); Anand, Sareena (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA); Strathy, Anna (OFA); Nero, Freba (MOF); Macdonald, James (MOF); Cheung, Danny (MOF)
Subject: Re: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi Tara

With regard to IOD, your characterization of the two versions is accurate. However since our runs were done to meet deadlines we will review the results once more tomorrow morning and confirm.

With regard to the net debt to GDP ratio, as John has pointed out, the version that includes the AG's adjustments should also incorporate the cumulative impact of reversing the pension adjustment and that should not be limited to 16-17 onwards.

We have requested the cumulative impact from OPCD and should be able to provide revised ratios tomorrow.

Thanks

Ken k

> On May 29, 2018, at 908 PM, McGrath, Tara (MOF) <Tara.McGrath@ontario.ca> wrote:
>
> Hi everyone,
>
> Thank you again for your nimbleness today - we appreciate it.
>
> We were moving quickly today, so we wanted to take a pause just to confirm we are using the correct IOD numbers. We understand that the version sent at 3:56 (first attachment) includes the IOD changes without taking on the accounting change for pensions and Fair Hydro; and the version sent at 4:30 (second attachment) represents the IOD changes after taking on the accounting changes.
>
> We have a small window tomorrow morning to make any final updates, so it would be great if you could confirm first thing in the morning.
>
> John - we're working through all of the net debt-to-GDP scenarios with these new IOD figures, so we'll loop back around with you in the morning to confirm you're ok with all of the ratios for the deck.
>
> We understand the briefing with the SOC is at 3.
>
> Thanks,
>
> Tara
>
> _____
> From: Che, Chi-Wa (OFA) [Chi-Wa.Che@ofina.on.ca]
> Sent: Tuesday, May 29, 2018 4:30 PM
> To: Anand, Sareena (MOF)
> Cc: McGrath, Tara (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA);
> Kandeepan, Ken (OFA); Strathy, Anna (OFA)
> Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
>
> Hi Sareena,
>
> Attached is the revised IOD Summary for the Base Case and Alternative Scenarios together with the impacts from Pension Adjustments and Fair Hydro Plan.
>
> The IOD forecast as of April 30, 2018 is made with the following
> assumptions:-
>
>
> 1. IOD projections based on new OEP interest rate forecasts (May 23, 2018) for F2018-19 and F2019-20 and the 20-year historical average of interest rates for F2020-21. The latest forecast indicated that there is an decrease of 16 bps for 2019-20 only while marginally the same for 2018-19.

> 2. Uses the new Net Investment in Capital Assets and interest cap assumptions provided by TBS.
> 3. The pension adjustments does not impact borrowing as it only has PSAB implications and not cash implications.
> 4. New borrowing is increased by the partial cost of transferring the Fair Hydro Plan onto the Province's books as 44% of the cost is already accounted for.
>
>
>
> Thanks.
>
> Chi-Wa Che
>
> 5-8163
>
>
>
> _____
>
> This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.
> <IOD Summary for Transition.Revised.xlsx> <IOD Summary for
> Transition.RevisedV2.xlsx>

BASE CASE & ALTERNATIVE FISCAL SCENARIOS

Office of the Budget
MINISTRY of FINANCE

OFFICE OF ECONOMIC POLICY
OEP
MINISTRY OF FINANCE

TBS

Draft, May 30, 2018 9:30AM

Confidential Advice to Cabinet

Objective

- Outline a base case medium-term fiscal outlook, to inform the starting point for future fiscal planning and reporting
- Develop and present alternative fiscal scenarios based on potential choices related to fiscal anchors

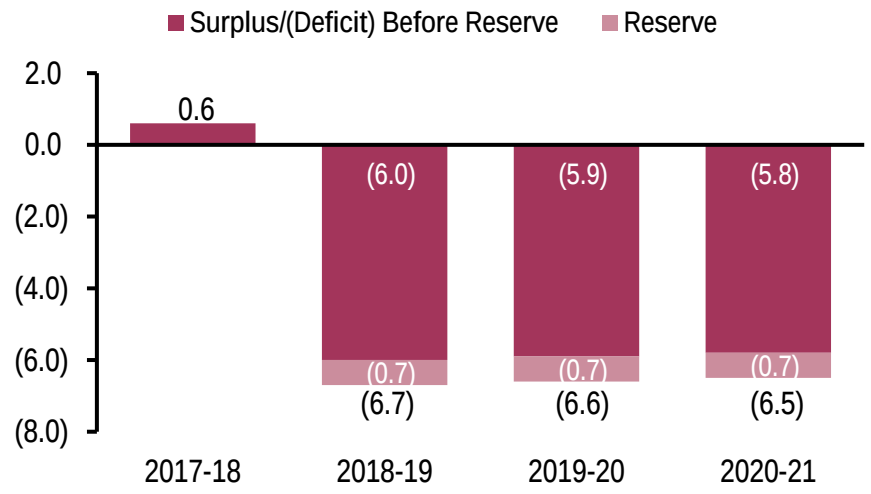
Part I: *2018 Budget*

Recapping the *2018 Budget / PER* Fiscal Architecture

- The *2018 Budget* and Pre-Election Report (PER) reviewed by the Auditor General projected a surplus of $0.6 billion in the 2017-18 fiscal year, and deficits over the medium-term.
- The *2018 Budget* also included a recovery plan that projected balance by 2024-25.

2018 Budget / PER Fiscal Targets

Fiscal Balance
($ Billions)



	2017-18	2018-19	2019-20	2020-21
Net Debt-to-GDP (%)	37.1	37.6	38.2	38.6

Average Annual Growth Rates
2018-19 to 2020-21

Revenue: 3.7%
Program Expense: 3.3%.

Overview of Medium-Term Outlook

- The forecast assumed **moderating revenue growth, primarily due to slower economic growth** – reflecting global uncertainties related to trade, rising interest rates and slowing household spending – as well as decreases from time-limited non-tax revenues.
  - The *2018 Budget* outlook included revenue measures such as eliminating the PIT surtax and paralleling federal measures.
- **Program spending was projected to increase significantly** in each year over the medium-term primarily **due to a number of new investments**, as well as demand pressures from existing programs.
  - New investments over the medium-term outlook totaled $12.9 billion, including $2.0 billion in 2018-19, $4.0 billion in 2019-20 and $6.9 billion in 2020-21 (note: excludes increases made to existing base spending to keep pace with cost drivers, technical updates, etc.).
- The Auditor General's recommended accounting adjustments for the Fair Hydro Plan and two public sector pension plans were not reflected in the *2018 Budget* and PER outlook.

2018 Budget / PER – Details of Revenue & Expense Assumptions

Revenue

- Outlook for continued economic growth
- Rebound in 2017 PIT due to tax planning
- Non Resident Speculation Tax revenues
- Federal home care services and mental care funding
- Federal infrastructure funding
- Equalization under current program
- Proceeds from cap and trade auctions

Expense

- Addressed sustainability of programs and implemented planned policy changes. Examples of supporting investments included:
  - **Program Base Adjustments for Demand**
    - Support for Hospital surge capacity and Emergency Health Services.
    - Support for higher-than-forecast OSAP applications and awards.
    - Support for policing oversight, and to address the Jahn settlement as part of correctional services support.
  - **New investments**

    Fall
    - New initiatives for small businesses, including investing in youth employment, providing support for fruit and vegetable farmers.
    - Initiatives to increase services and supports for seniors.

    Budget
    - Investments in mental health and addictions care to deliver more accessible, better integrated care.
    - Support for the reform of the social assistance system, including multi-year rate increases.
    - Support for student enrolment, special education, and child care expansion.
    - Support for the implementation of Bill 148.
    - Federal infrastructure funding including flow-throughs and provincial cost matching.
    - Implementation of the 2018-19 Greenhouse Gas Investment Plan, funded by cap and trade proceeds.
- Additional prudence built into the Contingency Fund for items such as land claims and compensation pressures.

Auditor General's Review of 2018 Pre-Election Report

"Aside from the [accounting treatments of the Fair Hydro Plan and the two public sector pension plans], we found that the government based its estimates of revenues, program expenses and interest on debt on cautious assumptions, as required by the [FTA] Act. The government also showed prudence by including a reserve amount in its fiscal plan…."

Part II: Establishing a Base Case for Future Planning

A base case/status quo scenario, or a fiscal outlook net of all new investments and prudence included in the 2018 Budget and Pre-Election Report, will help isolate the state of the Province's foundational fiscal architecture – essentially providing the underlying economic and fiscal trajectory for the current footprint of government revenue and expense – before any new government action, whether that includes new tax reductions or program investments, or new revenue tools/spending savings measures.

Base Case Methodology

The base case serves as an illustrative foundational starting point for the development of the next Provincial fiscal plan, based on the following assumptions:

- **Builds off of the baseline/core assumptions of the fiscal outlook presented in the 2018 Pre-Election Report:**
  - The medium-term outlook in the 2018 PER was found to be reasonable by the Auditor General of Ontario and the Financial Accountability Officer (FAO) – major difference identified was accounting issues and a marginally less optimistic revenue outlook for the FAO.
  - In some cases, adjustments to establish the base case for 2018-19 may be different than for the out-years – the 2018-19 fiscal year has already begun and funds have been committed. This impacts government decisions about what programs/services can be initiated/suspended.
- **2018 Budget and 2017 Fall Economic Statement measures not yet implemented or fully committed are excluded:**
  - 2018 Budget revenue measures
  - Ministry spending on hold-back for 2018-19
  - 2018 Budget and 2017 FES initiatives for 2019-20 and 2020-21
- **Most forms of prudence included in the 2018 PER are rolled back:**
  - Savings targets, both year-end and program review
  - Compensation set-asides in the contingency fund
  - Reserve
- **Interest on debt forecast updated** for base case outlook and to reflect changes to tangible capital assets from excluding 2018 Budget measures.

Revenue Measures Reversals and Outlook Updates

In order to establish a revenue base case, the following measures taken on at the time of the *2018 Budget* are removed and the outlook is updated for the impact of subsequent events.

Revenue Base Case

($ Millions)	2018-19	2019-20	2020-21
2018 PER – Revenue	152,461	157,569	163,834
2018 Budget – Revenue Measures			
Improving Fairness and Transparency of PIT	*(275)*	*(285)*	*(295)*
Ontario Research and Development Tax Credit	*30*	*35*	*40*
Targeting the Employer Health Tax Exemption to Small Employers	*(10)*	*(45)*	*(45)*
Small Business Limit (does not automatically parallel federal measure)	*(45)*	*(145)*	*(160)*
Total 2018 Budget Tax Measures	(300)	(440)	(460)
Subsequent Events to PER			
Private Sector Economic Forecasts	*(200)*	*(200)*	*(200)*
Housing Resales	*(130)*	*(130)*	*(130)*
Operating Profits	*35*	*34*	*34*
Taxation Revenue Collections	*12*	*12*	*12*
Total Subsequent Events to PER	(283)	(284)	(284)
Total Revenue Changes	(583)	(724)	(744)
Base Case – Revenue	151,878	156,845	163,090

To arrive at base case revenue, two adjustments to the PER outlook are required:

1. Reversing the impact of tax measures announced in the 2018 Budget, which include:
   - Improving Fairness and Transparency of Ontario's PIT
   - Enhancements to the Ontario Research and Development Tax Credit
   - Targeting the Employer Health Tax exemption to small employers
   - Limits to Small Business (does not automatically parallel federal measure)

2. Adding the impact of subsequent events since the PER, which include:
   - A downward revision to the Private-Sector Economic forecast to real GDP in 2018
   - The impact of a revised 2017 and 2018 outlook of operating profits
   - Stronger own-source tax collections

Cap & Trade is consistent with the 2018 PER.

Excluding New Investment Items and Prudence

In order to establish a program expense base case, the following holdbacks and initiatives are removed from the program expense outlook.

Program Expense Base Case

($ Millions)	2018-19	2019-20	2020-21
2018 PER – Program Exp.	145,922	150,427	155,760
Holdbacks/2018 Budget and 2017 FES Initiatives	(696)	(4,125)	(6,989)
Prudence			
Compensation Set-Aside	*(446)*	*(738)*	*(1,149)*
Year-end Savings Target	*1,225*	*1,175*	*1,200*
PRRT Savings Target	*200*	*750*	*850*
Total Prudence	979	1,187	901
Total Program Exp. Changes	283	(2,937)	(6,088)
Base Case – Program Exp.	146,204	147,490	149,672

Reserve Base Case

($ Millions)	2018-19	2019-20	2020-21
2018 PER – Reserve	700	700	700
Reserve Reversal	(700)	(700)	(700)
Base Case – Reserve	–	–	–

- Ministry allocations are updated to remove initiatives on holdback in 2018-19, and 2018 Budget and 2017 FES initiatives in 2019-20 and 2020-21. Key investments reversed include (see Appendix for expanded list):
  - Mental health and addictions services
  - OHIP+ for seniors
  - Child care
  - Income Security Reform
- Contingency Fund remains consistent with the *2018 Budget* – reflecting risks not included in ministry allocations – except for the reversal of compensation set-asides.
  - Results in a base case contingency fund of $1.2 billion in 2018-19, $1.9 billion in 2019-20 and $2.5 billion in 2020-21.
- Capital Plan is consistent with the 2018 PER, aside from reversal of budget initiatives associated with infrastructure expenditures.
- Cap & Trade is consistent with the 2018 PER.
- Generally speaking, spending related to federal-provincial flow-throughs has been maintained, particularly where agreements with the federal government have been signed.
- Reserve has been reversed.

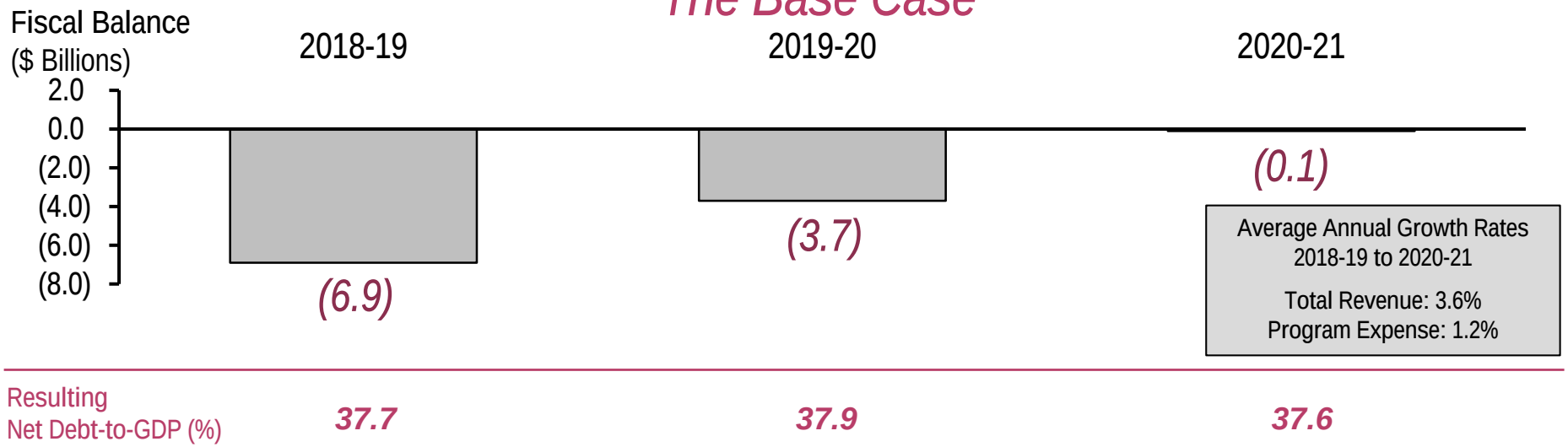
The Base Case Medium-Term Outlook

- Compared to the 2018 PER, the base case represents an improvement to the fiscal outlook in 2019-20 and 2020-21.

($ Billions)	2018-19	2019-20	2020-21
2018 PER Surplus/(Deficit)	(6.7)	(6.6)	(6.5)
Total Revenue Changes	(0.6)	(0.7)	(0.7)
Total Program Expense Changes	0.3*	(2.9)	(6.1)
Total Interest on Debt Changes	0.0	(0.0)	(0.3)
Total Reserve Changes	(0.7)	(0.7)	(0.7)
Base Case Surplus/(Deficit)	(6.9)	(3.7)	(0.1)

*Program expense has increased as a result of reversing savings targets ($1.4 billion), which more than offset other program expense changes ($1.1 billion). *Note:* numbers may not add due to rounding

The Base Case



Resulting Net Debt-to-GDP (%)	2018-19	2019-20	2020-21
	37.7	*37.9*	*37.6*

Part III: Alternative Fiscal Scenarios

Alternative Fiscal Scenarios

The government has a number of choices it can make and tools at its disposal to build off of the fiscal architecture presented in the base case.

- This includes decisions related to how to treat 2018-19 versus the out-years.

The following two alternative fiscal scenarios presented on the next slides illustrate the impact of potential choices/tools.

The government could:

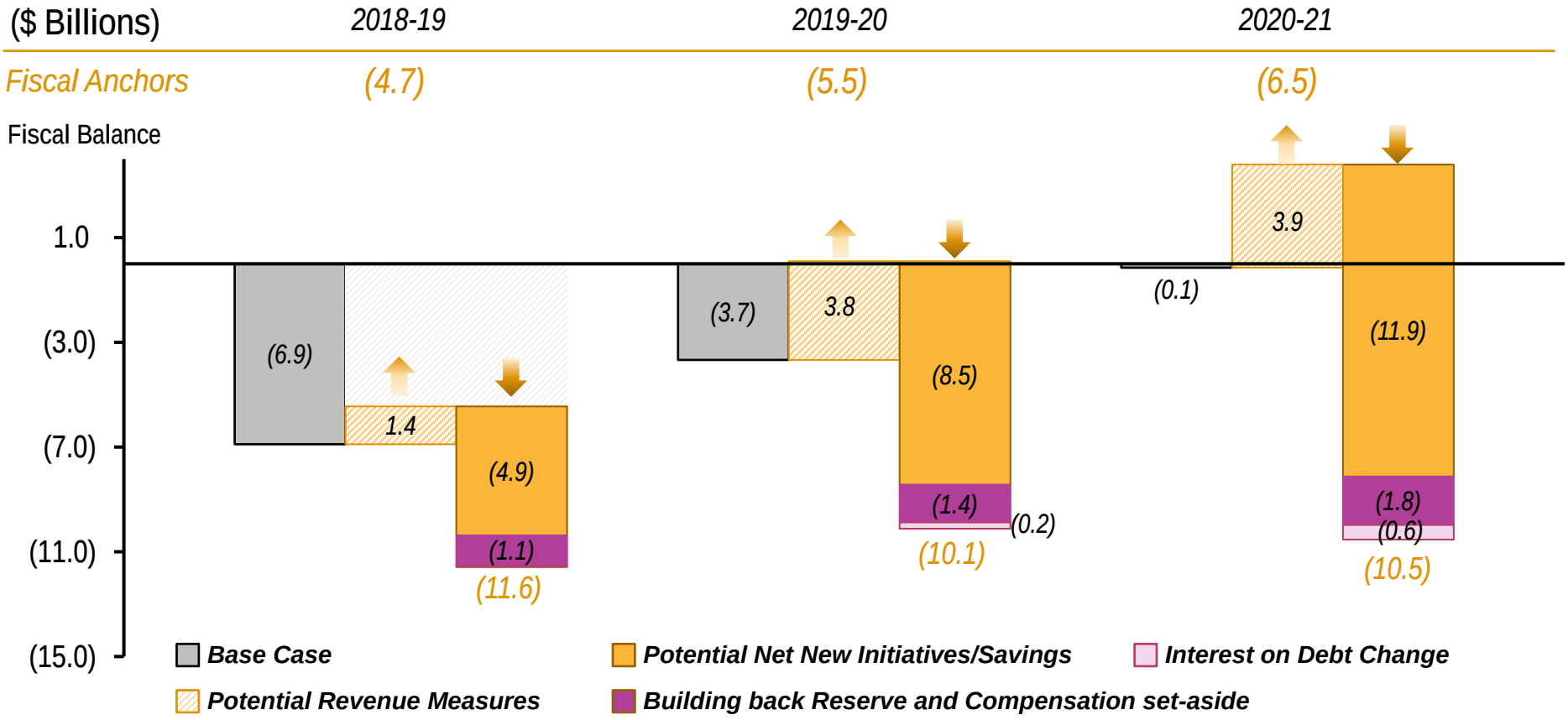
- Introduce new measures, such as new tax reductions or program investments, or new revenue tools or expenditure savings measures.
- Adjust the amount of prudence in the plan, for example:
  - Incorporate a reserve, a requirement of the *Fiscal Transparency and Accountability Act.*
- Enact legislative or policy changes to allow for the adoption of the Auditor General's recommended accounting treatment for pensions and/or the Fair Hydro Plan.

$ Billions	2018-19	2019-20	2020-21
AG's Accounting Adjustment	5.0	5.6	6.0

Alternative Fiscal Scenario #1

Average Annual Growth Rates 2018-19 to 2020-21

Total Revenue: 4.4%
Program Expense: 3.6%

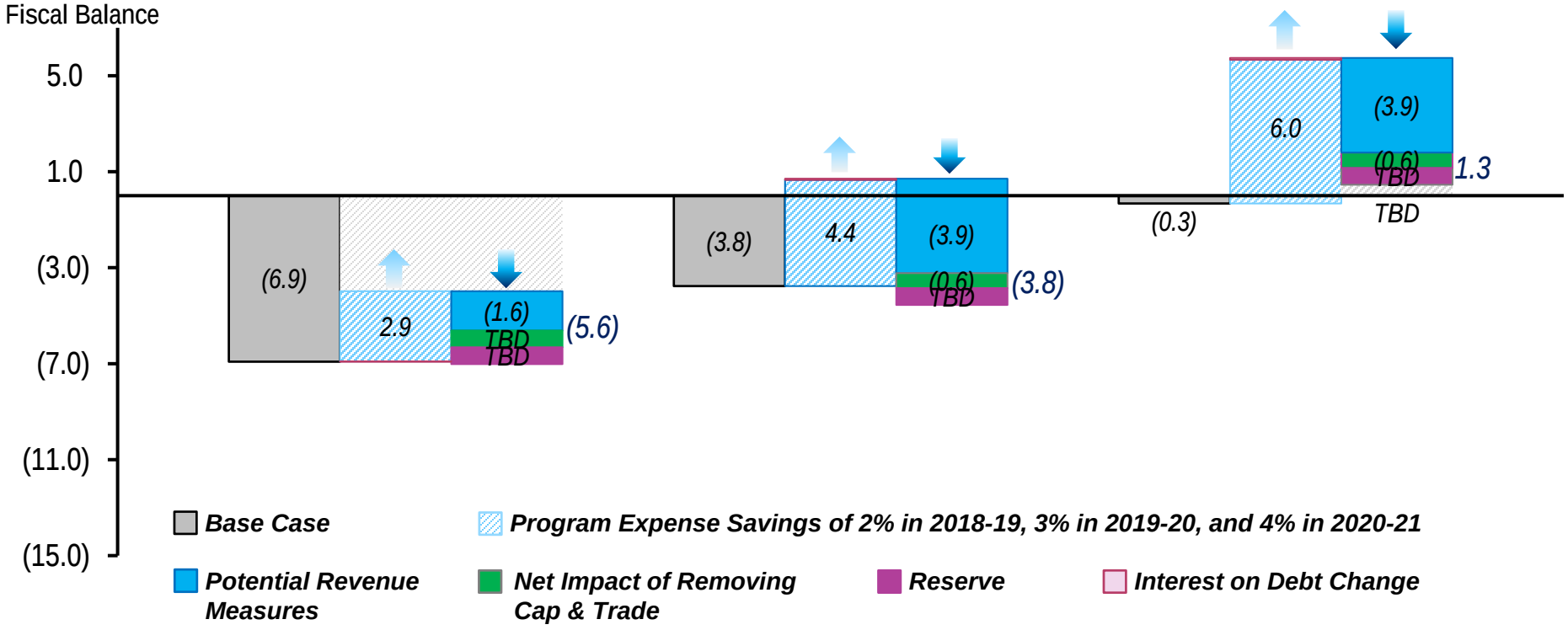


Resulting Net Debt-to-GDP (%)	38.2	39.1	39.9
Auditor General Accounting Adjustments ($ Billions) and Resulting Net Debt-to-GDP (%)			
Pension Plans	(2.4) / 38.7	(2.6) / 39.9	(2.8) / 40.9
Fair Hydro Plan	(2.6) / 38.8	(3.0) / 40.0	(3.2) / 41.1
Total	(5.0) / 39.3	(5.6) / 40.8	(6.0) / 42.1

Alternative Fiscal Scenario #2

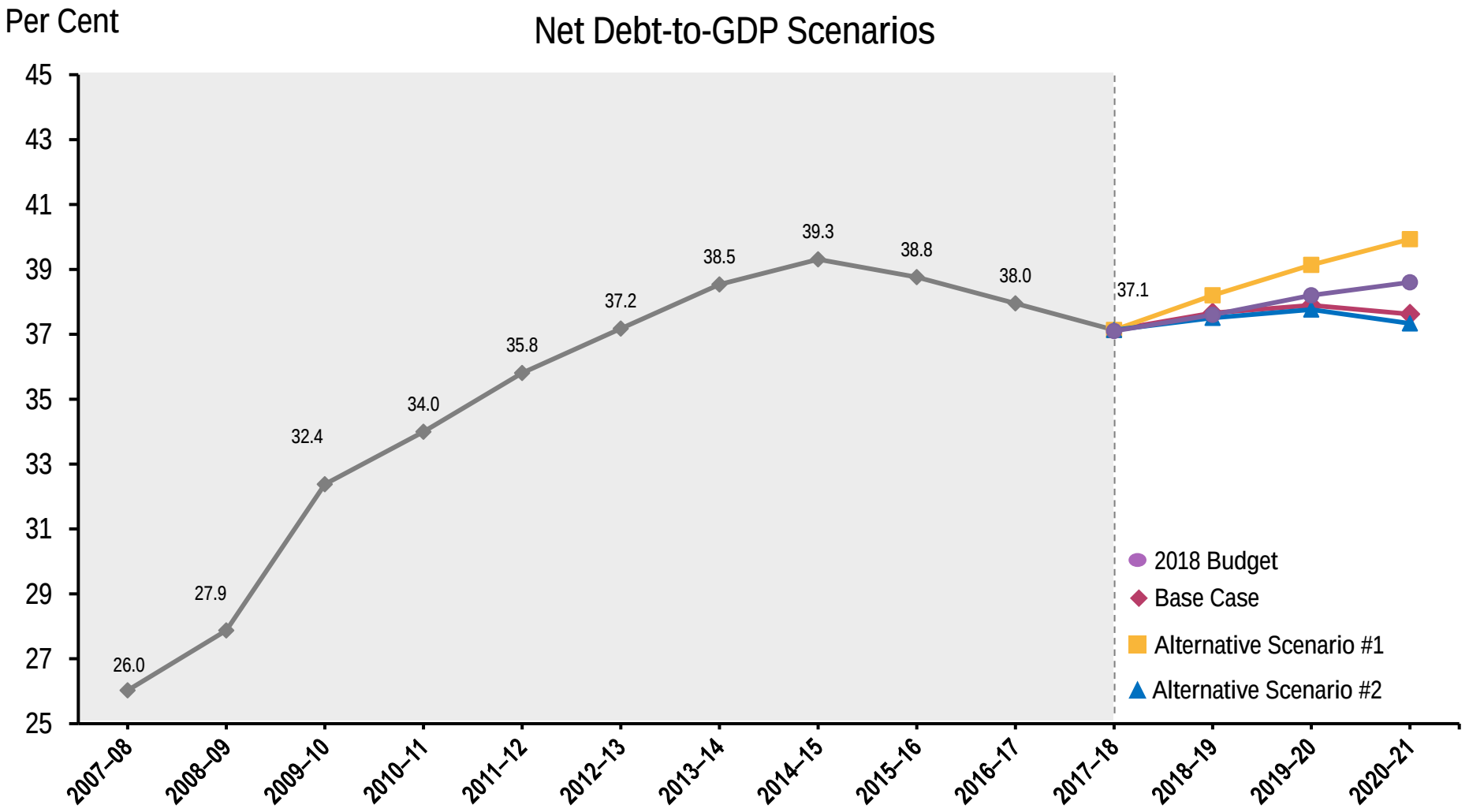
Average Annual Growth Rates 2018-19 to 2020-21

Total Revenue: 2.4%
Program Expense: -0.2%



Resulting Net Debt-to-GDP (%)	37.5	37.7	37.3
Auditor General Accounting Adjustments ($ Billions) and Resulting Net Debt-to-GDP (%)			
Pension Plans	(2.4) / 38.0	(2.6) / 38.5	(2.8) / 38.4
Fair Hydro Plan	(2.6) / 38.1	(3.0) / 38.6	(3.2) / 38.5
Total	(5.0) / 38.6	(5.6) / 39.4	(6.0) / 39.5

Net Debt-to-GDP



Recovery Plan

- Per the requirements of the Fiscal Transparency and Accountability Act (FTAA), the *2018 Budget* outlined a recovery plan to return to balance.
  - The 2018 Pre-Election Report and subsequent review did not include the recovery plan outlined in the 2018 Budget – however, the Financial Accountability Officer's Report projected that the Provincial deficit would most likely grow beyond 2020-21, rather than return to balance – unless the government took concerted action.
- The recovery plan spanned seven years, with a balanced budged expected in 2024-25.
  - The average annual rate of program spending growth was held to 2.5 per cent between 2018-19 and 2024-25, and 2.0 per cent between 2021-22 and 2024-25.
  - The reserve was also held constant at $700 million in each year over the recovery period.
- Based on the illustrative scenarios presented earlier, the government could consider developing a longer-term plan to balance the budget. Restoring fiscal health to Ontario's finances will require choices about the underlying fiscal trajectory of the province.
- An independent review to obtain fiscal and budgetary policy advice could help inform the next phase of Ontario's fiscal planning, including an approach to building a recovery plan.

Both Scenarios Face Additional Risks…

In addition to requiring a review of assumptions underlying these illustrative scenarios compared to government's priorities, key risks to the fiscal outlook include:

Revenue	Expense
• Economic growth • Housing market • 2017 PIT and CIT tax assessment results • 2017 HST revenue pool and Ontario share • Income shifting resulting from US tax reform • OEB decisions (e.g. Hydro One deferred tax asset) • OEB decision on OPG switching from accrual based to cash based accounting for Pension and Other Pension Benefits • The level of Federal funding assumed/projected for infrastructure projects, home care and mental health may change • Government business enterprise net income • Proceeds from cap and trade auctions	• Ministry pressures related to unfunded risks, depending on prudence/caution in the expense forecast • Impact of compensation negotiations • Policy changes to current federal funding agreements with flow-through implications • Policy changes to current cap and trade program could have fiscal implications, as some proceeds support investments in capital assets and in-plan commitments related to greenhouse gas reduction initiatives ($0.8 billion in 2018-19, $0.6 billion in 2019-20 and $0.6 billion in 2020-21) • Land claims

As part of broader fiscal architecture planning, some risks could be offset by revisiting the contingency fund and consideration could be given to building in a year-end savings target.

…and Will Require Management Strategies and Tools

Key strategies and tools for managing risks and the overall fiscal plan could include:

1. **Independent fiscal review**, which could:
   - Assess the fundamentals of Ontario's existing budgetary/fiscal construct and legislative framework;
   - Support an expenditure management review;
   - Support a review of the underlying revenue forecast; and/or
   - Provide advice to inform Ontario's fiscal planning and financial reporting.
2. **In-year and multi-year expenditure management review**
   - Government could conduct a Line-by-Line review of new and existing programs to ensure it aligns with priorities.
     - This could include taking immediate, focused action in 2018-19 to improve the fiscal trajectory.
3. **Use of prudence**
   - Government could adjust prudence measures, depending on the overall risk environment and on risk associated with underlying assumptions of the revenue forecast and ministry allocations.

Appendix

Key Holdbacks, and 2018 Budget and 2017 FES Initiatives

($ Billions)	2018-19
Holdbacks	
Support for Ontario's Comprehensive Mental Health and Addictions Strategy	0.1
Enhanced Funding for Developmental Services	0.0
K-12 Education Bundle - Special Education	0.1
Support for the Good Jobs and Growth Plan	0.1
Correctional Services Transformation : Support for Justice Priority Initiatives, Legislative Compliance, and Additional Initiatives	0.1
Other Holdbacks	0.3
Total Holdbacks Reversed	**0.7**

($ Billions)	2019-20	2020-21
2018 Budget and 2017 FES Initiatives		
Commitment to Reforming the Income Security System	0.7	1.3
Enhanced Funding for Developmental Services	0.5	0.7
Expansion of OHIP+ to Seniors	0.4	0.6
Home and Community Care	0.2	0.2
Commitment to Support Seniors to Live Independently	0.4	0.4
Creation of Ontario Drug and Dental Program	0.3	0.5
Support for Good Jobs and Growth Plan	0.1	0.1
FES – Support for Seniors	0.1	0.1
FES – Support for Small Business	0.0	0.0
Other 2018 Budget and 2017 FES Initiatives	0.8	2.3
Total Initiatives Reversed	**4.1**	**7.0**

Note: numbers may not add due to rounding

Alternative Scenario #1 Revenue and Expense Measures

Alternative Scenario #1 - Revenue	2018-19	2019-20	2020-21
Personal Income Tax Increase on High Income Earners	606	642	679
Raise General Corporate Income Tax on Profitable Corporations	-	1,357	1,391
Limit Employer Health Tax Exemption to Small Business	-	159	166
Luxury Car Tax	12	12	12
Fairness in the Business Education Tax	-	269	358
Value Tax on Tobacco	233	233	233
Revenue Integrity	425	425	425
Housing Speculation Tax	168	671	671
Total Revenue Measures	1,444	3,768	3,935

Alternative Scenario #1 - Expense	2018-19	2019-20	2020-21
Hydro Plan	n/a	n/a	n/a
Expand the Ontario Electricity Support Program	35	35	35
Home Efficiency Retro-Fit Program	50	-	-
Pharmacare for Everyone	-	475	485
Increase Base Hospital Funding to Reach 5.3% Annual Growth	363	757	1,184
2,000 New Hospital Beds	312	328	346
Doubling the First Nations Health Action Plan	-	105	107
4 Hours of Hands-on Care	132	268	274

Note: numbers may not add due to rounding

Continued on next slide

Alternative Scenario #1 Revenue and Expense Measures

Alternative Scenario #1 – Expense (continued)	2018-19	2019-20	2020-21
15,000 Additional Long-Term Care Beds	164	213	296
Investing in Home Care	300	306	312
Palliative Care	15	-	-
Children's Mental Health	120	115	117
2,200 new mental health workers	50	101	152
Community Based Agencies Supporting People with Developmental Disabilities	67	67	67
Community Health Centres	30	40	50
Take-Home Cancer Drugs	43	43	44
Public Dental Care	-	670	818
Ontario Benefits	-	-	574
50% of Net Transit Operating Costs	809	825	842
Northern Rail Strategy	25	25	25
⅓ Social Housing Repair Backlog	434	434	-
Operational Funding for Supportive Housing	50	100	150
Cooperative Housing Development Fund	3	-	-
Unfreezing College and University Funding	101	203	308
College and University Faculty Renewal	80	160	240
Student Loans to Grants	449	467	486
OSAP Interest Payment Forgiveness	112	-	-
Affordable Childcare	375	1,141	2,790
Paid Domestic Violence Leave	60	61	62

Note: numbers may not add due to rounding

Continued on next slide

Alternative Scenario #1 Revenue and Expense Measures

Alternative Scenario #1 – Expense (continued)	2018-19	2019-20	2020-21
Raising OW and ODSP Rates	800	1,720	2,230
Friendship Centres programming	10	10	10
Mercury Treatment Centre	3	1	1
Mercury Disability Benefits	12	-	-
Raise the Cap on the Risk Management Program	50	100	175
First Nations Policing	30	30	30
Parole and Probation Officers	15	15	16
A Crisis is not a Crime	5	5	5
Solving Cold Cases	1	1	1
Properly Fund the Ontario Municipal Partnership Fund	45	46	47
End Funding Freeze for Libraries	1	1	1
Library/Museum Pass	3	3	3
Better Ontario Fund	100	100	100
Anti-Racism Fund	5	5	5
Expanding Rural and Northern Broadband	100	100	100
Spending Reallocations	(430)	(539)	(571)
Total Expense Measures	4,926	8,538	11,915

Note: numbers may not add due to rounding

Alternative Scenario #2 Revenue and Expense Measures

Alternative Scenario #2 - Revenue	2018-19	2019-20	2020-21
Tax rebate of $6,750 per child for families with child care expenses	(389)	(389)	(389)
Lower Small Business rate to 3.2%	(60)	(60)	(60)
Lower General rate to 10.5%	[TBD]	[TBD]	[TBD]
Cut Gasoline Tax by 10cents a litre	(1,190)	(1,190)	(1,190)
Cut Middle class taxes by 20% in 2nd and 3rd year of term	-	(2,300)	(2,300)
Eliminate Carbon Allowance proceeds/Cap and Trade	-	(1,923)	(1,749)
Total Revenue Measures	(1,639)	(5,862)	(5,688)

Alternative Scenario #2 - Expense	2018-19	2019-20	2020-21
Suspend initiatives related to Cap and Trade program	-	(1,301)	(1,105)
Program Expense efficiencies (2%, 3% and 4% respectively)	(2,924)	(4,425)	(5,987)
Total Expense Measures	(2,924)	(5,726)	(7,092)

Note: numbers may not add due to rounding

Base Case				
Net Debt-to-GDP (%)	2017-18	2018-19	2019-20	2020-21
Base Case	37.1	37.7	37.9	37.6
Base Case + Pension Adjustment	37.4	38.2	38.7	38.7
Change	*0.2*	*0.5*	*0.8*	*1.1*
Base Case + All Accounting Adjustments	37.6	38.7	39.5	39.8
Change	*0.3*	*0.6*	*0.9*	*1.2*
Alt. Scenario 1				
Net Debt-to-GDP (%)	2017-18	2018-19	2019-20	2020-21
Scenario 1	37.1	38.2	39.1	39.9
Scenario 1 + Pension Adjustment	37.4	38.7	39.9	40.9
Change	*0.2*	*0.5*	*0.8*	*1.1*
Scenario 1 + All Accounting Adjustments	37.6	39.3	40.8	42.1
Change	*0.3*	*0.6*	*0.9*	*1.2*
Alt. Scenario 2				
Net Debt-to-GDP (%)	2017-18	2018-19	2019-20	2020-21
Scenario 2	37.1	37.5	37.7	37.3
Scenario 2 + Pension Adjustment	37.4	38.0	38.5	38.4
Change	*0.2*	*0.5*	*0.8*	*1.1*
Scenario 2 + All Accounting Adjustments	37.6	38.6	39.4	39.5
Change	*0.3*	*0.6*	*0.9*	*1.2*

	Budget 2018		Base Case Scenario		Scenario 1		Scenario 2		Difference Base Case vs. Budget 2018		Difference Scenario 1 vs. Budget 2018		Difference Scenario 2 vs. Budget 2018	
	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)
2017-18 Interim	37.1	(642)	37.6	3,593	37.6	3,593	37.6	3,593	0.5	4,235	0.5	4,235	0.5	4,235
2018-19 Outlook	37.6	6,704	38.7	11,909	39.3	16,603	38.6	10,609	1.1	5,229	1.6	9,922	1.0	4,628
2019-20 Outlook	38.2	6,624	39.5	9,295	40.8	15,744	39.4	9,382	1.4	2,751	2.6	9,199	1.4	3,537
2020-21 Outlook	38.6	6,475	39.8	6,180	42.1	16,566	39.5	4,693	1.3	(137)	3.6	10,252	1.2	(921)
2021-22 Outlook									0.0	-	0.0	-	0.0	-
2022-23 Outlook									0.0	-	0.0	-	0.0	-
2023-24 Outlook									0.0	-	0.0	-	0.0	-
2024-25 Outlook									0.0	-	0.0	-	0.0	-
2025-26 Outlook									0.0	-	0.0	-	0.0	-
2026-27 Outlook									0.0	-	0.0	-	0.0	-
2027-28 Outlook														

	Budget 2018		Base Case Scenario		Scenario 1		Scenario 2		Difference Base Case vs. Budget 2018		Difference Scenario 1 vs. Budget 2018		Difference Scenario 2 vs. Budget 2018	
	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)
2017-18 Interim	37.1	(642)	37.4	1,358	37.4	1,358	37.4	1,358	0.2	2,000	0.2	2,000	0.2	2,000
2018-19 Outlook	37.6	6,704	38.2	9,316	38.7	13,986	38.0	7,992	0.5	2,612	1.1	7,305	0.5	2,012
2019-20 Outlook	38.2	6,624	38.7	6,351	39.9	12,720	38.5	6,358	0.5	(273)	1.7	6,174	0.5	513
2020-21 Outlook	38.6	6,475	38.7	3,106	40.9	13,334	38.4	1,461	0.1	(3,369)	2.4	7,020	0.0	(4,153)
2021-22 Outlook									0.0	-	0.0	-	0.0	-
2022-23 Outlook					0.5		0.5		0.0	-	0.0	-	0.0	-
2023-24 Outlook					0.8		0.8		0.0	-	0.0	-	0.0	-
2024-25 Outlook					1.1		1.1		0.0	-	0.0	-	0.0	-
2025-26 Outlook									0.0	-	0.0	-	0.0	-
2026-27 Outlook									0.0	-	0.0	-	0.0	-
2027-28 Outlook														

	Budget 2018		Base Case Scenario		Scenario 1		Scenario 2		Difference Base Case vs. Budget 2018		Difference Scenario 1 vs. Budget 2018		Difference Scenario 2 vs. Budget 2018	
	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)
2017-18 Interim	37.1	(642)	37.4	1,358	37.4	1,593	37.4	1,593	0.2	2,000	0.2	2,000	0.2	2,000
2018-19 Outlook	37.6	6,704	38.2	9,316	38.8	14,203	38.1	8,209	0.5	2,612	1.1	7,305	0.5	2,012
2019-20 Outlook	38.2	6,624	38.7	6,351	40.0	13,144	38.6	6,782	0.5	(273)	1.7	6,174	0.5	513
2020-21 Outlook	38.6	6,475	38.7	3,106	41.1	13,766	38.5	1,893	0.1	(3,369)	2.4	7,020	0.0	(4,153)
2021-22 Outlook									0.0	-	0.0	-	0.0	-
2022-23 Outlook					0.6		0.6		0.0	-	0.0	-	0.0	-
2023-24 Outlook					0.9		0.9		0.0	-	0.0	-	0.0	-
2024-25 Outlook					1.2		1.2		0.0	-	0.0	-	0.0	-
2025-26 Outlook									0.0	-	0.0	-	0.0	-
2026-27 Outlook									0.0	-	0.0	-	0.0	-
2027-28 Outlook														

	Budget 2018		Base Case Scenario		Scenario 1		Scenario 2		Difference Base Case vs. Budget 2018		Difference Scenario 1 vs. Budget 2018		Difference Scenario 2 vs. Budget 2018	
	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)
2017-18 Interim	37.1	(642)	37.1	(642)	37.1	(642)	37.1	(642)	0.0	0	0.0	0	0.0	0
2018-19 Outlook	37.6	6,704	37.7	6,892	38.2	11,586	37.5	5,592	0.0	212	0.6	4,905	(0.0)	(388)
2019-20 Outlook	38.2	6,624	37.9	3,671	39.1	10,120	37.7	3,758	(0.3)	(2,873)	0.9	3,574	(0.3)	(2,087)
2020-21 Outlook	38.6	6,475	37.6	148	39.9	10,534	37.3	(1,339)	(1.0)	(6,169)	1.3	4,220	(1.0)	(6,953)
2021-22 Outlook									0.0	-	0.0	-	0.0	-
2022-23 Outlook									0.0	-	0.0	-	0.0	-
2023-24 Outlook									0.0	-	0.0	-	0.0	-
2024-25 Outlook									0.0	-	0.0	-	0.0	-
2025-26 Outlook									0.0	-	0.0	-	0.0	-
2026-27 Outlook									0.0	-	0.0	-	0.0	-
2027-28 Outlook														

Net Debt to Revenue and GDP Ratios																
Ontario		Base Case Scenario (Based on 2018 Budget)														
				Net Debt As	Accumulated	Acc Deficit		Prepds/inv.	ONFA	Other Adj	Deficit/					
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP %	TCA	Adj.(gain)/los	(gain)/loss	(gain)/loss	(Surplus)					
Actual	1989-90	282,754	35,409	12.5	35,409	12.5	-				(90)					
Actual	1990-91	287,293	38,438	13.4	38,438	13.4	-				3,029					
Actual	1991-92	288,190	49,368	17.1	49,368	17.1	-				10,930					
Actual	1992-93	293,007	61,796	21.1	61,796	21.1	-				12,428					
Actual	1993-94	302,160	80,599	26.7	80,599	26.7	-				11,202					
Actual	1994-95	319,901	90,728	28.4	90,728	28.4	-				10,129					
Actual	1995-96	337,337	101,864	30.2	101,864	30.2	-				8,800					
Actual	1996-97	347,738	108,769	31.3	108,769	31.3	-				6,905					
Actual	1997-98	368,909	112,735	30.6	112,735	30.6	-				3,966					
Actual	1998-99	389,219	114,737	29.5	114,737	29.5	-				2,002					
Actual	1999-2000	418,202	134,398	32.1	134,398	32.1	-				(668)					
Actual	2000-01	452,186	132,496	29.3	132,496	29.3	-				(1,902)					
Actual	2001-02	469,045	132,121	28.2	132,121	28.2	-				(375)					
Actual	2002-03	494,804	132,647	26.8	118,705	24.0	13,942				(117)					
Actual	2003-04	509,472	138,816	27.2	124,188	24.4	14,628				5,483					
Actual	2004-05	533,334	140,921	26.4	125,743	23.6	15,178				1,555					
Actual	2005-06	556,607	152,702	27.4	109,155	19.6	43,547				(298)					
Actual	2006-07	578,229	153,742	26.6	106,776	18.5	46,966			(110)	(2,269)					
Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999		(559)		(600)					
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347		1,212		6,409					
Actual	2009-10	597,876	193,589	32.4	130,957	21.9	62,632		1,090	-	19,262					
Actual	2010-11	630,983	214,511	34.0	144,573	22.9	69,938		(395)	-	14,011					
Actual	2011-12	659,740	236,230	35.8	158,410	24.0	77,172	648	3	865	12,969					
Actual	2012-13	680,086	252,823	37.2	167,132	24.6	84,956	735	(639)	141	9,220					
Actual	2013-14	695,354	267,968	38.5	176,634	25.4	90,556	778	(951)	-	10,453					
Actual	2014-15	726,053	285,403	39.3	187,511	25.8	97,065	827	(1,121)	1,683	10,315					
Actual	2015-16	762,029	295,372	38.8	192,029	25.2	102,536	807	1,003	-	3,515					
Actual	2016-17	794,835	301,648	38.0	193,510	24.3	107,288	850	(1,094)	1,584	991		(3,593)	(11,909)	(9,295)	(6,180)
	2017-18 Interim	829,984	312,440	37.6	196,684	23.7	114,906	850	(419)		3,593		3,593	11,909	9,295	6,180
	2018-19 Outloo	863,690	334,463	38.7	208,593	24.2	125,020	850			11,909					
	2019-20 Outloo	897,341	354,811	39.5	217,888	24.3	136,073	850			9,295		3,593			
	2020-21 Outloo	933,145	371,681	39.8	224,068	24.0	146,763	850			6,180		11,909			
	2021-22 Outloo	969,156	381,003	39.3	224,068	23.1	156,084	850			-		9,295			
	2022-23 Outloo	1,005,572	386,755	38.5	224,068	22.3	161,837	850			-		6,180			

Net Debt to Revenue and GDP Ratios

Ontario

Base Case Scenario (Based on 2018 Budget)

Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)
2023-24 Outloo	1,045,203	388,428	37.2	224,068	21.4	163,510	850			-
2024-25 Outloo	1,088,440	392,080	36.0	224,068	20.6	167,162	850			-
2025-26 Outloo	1,133,057	394,542	34.8	224,068	19.8	169,624	850			-
2026-27 Outloo	1,176,212	394,050	33.5	224,068	19.0	169,132	850			-
2027-28 Outloo	1,223,997	391,746	32.0	224,068	18.3	166,828	850			-
2028-29 Outloo	1,274,188	391,746	30.7	224,068	17.6	166,828	850			-
2029-30 Outloo	1,326,796	391,746	29.5	224,068	16.9	166,828	850			-
2030-31 Outloo	1,379,701	391,746	28.4	224,068	16.2	166,828	850			-
2031-32 Outloo	1,434,889	391,746	27.3	224,068	15.6	166,828	850			-
2032-33 Outloo	1,492,284	391,746	26.3	224,068	15.0	166,828	850			-
2033-34 Outloo	1,551,976	391,746	25.2	224,068	14.4	166,828	850			-
2034-35 Outloo	1,614,055	391,746	24.3	224,068	13.9	166,828	850			-
2035-36 Outloo	1,678,617	391,746	23.3	224,068	13.3	166,828	850			-

Assumptions /Notes

1	Surplus for 2017-18 is $ 642 m
2	GDP - per latest information rec'd (see GDP tab)
3	TCA - per info rec'd May 29, 2018 from M Reghabi
	After 2027-28 TCA increases are equal to annual amortization
4	Net Debt adjusted for prepaids starting 2014-15. From 2017-18 and onwards - same amount as prior month assumed.
5	Balanced budget continues through to 2035-36
6	GDP annual growth is 4% from 2031-32 to 2035-36
7	Revenue restated to include BPS (Hospitals, colleges, school boards) from 2012-13
8	Revenue from 2017-18 to 2019-20 has been restated for BPS
9	Revenue for 2016-17 was revised down by approx $1 million from $140,735m to $140,734.

Prepared by OFA, FTD

29-May-18

Net Debt to Revenue and GDP Ratios															
Ontario		Scenario 1 (Based on 2018 Budget)													
				Net Debt As	Accumulated	Acc Deficit		Prepds/inv.	ONFA	Other Adj	Deficit/				
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP %	TCA	Adj.(gain)/los	(gain)/loss	(gain)/loss	(Surplus)				
Actual	1989-90	282,754	35,409	12.5	35,409	12.5	-				(90)				
Actual	1990-91	287,293	38,438	13.4	38,438	13.4	-				3,029				
Actual	1991-92	288,190	49,368	17.1	49,368	17.1	-				10,930				
Actual	1992-93	293,007	61,796	21.1	61,796	21.1	-				12,428				
Actual	1993-94	302,160	80,599	26.7	80,599	26.7	-				11,202				
Actual	1994-95	319,901	90,728	28.4	90,728	28.4	-				10,129				
Actual	1995-96	337,337	101,864	30.2	101,864	30.2	-				8,800				
Actual	1996-97	347,738	108,769	31.3	108,769	31.3	-				6,905				
Actual	1997-98	368,909	112,735	30.6	112,735	30.6	-				3,966				
Actual	1998-99	389,219	114,737	29.5	114,737	29.5	-				2,002				
Actual	1999-2000	418,202	134,398	32.1	134,398	32.1	-				(668)				
Actual	2000-01	452,186	132,496	29.3	132,496	29.3	-				(1,902)				
Actual	2001-02	469,045	132,121	28.2	132,121	28.2	-				(375)				
Actual	2002-03	494,804	132,647	26.8	118,705	24.0	13,942				(117)				
Actual	2003-04	509,472	138,816	27.2	124,188	24.4	14,628				5,483				
Actual	2004-05	533,334	140,921	26.4	125,743	23.6	15,178				1,555				
Actual	2005-06	556,607	152,702	27.4	109,155	19.6	43,547				(298)				
Actual	2006-07	578,229	153,742	26.6	106,776	18.5	46,966			(110)	(2,269)				
Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999		(559)		(600)				
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347		1,212		6,409				
Actual	2009-10	597,876	193,589	32.4	130,957	21.9	62,632		1,090	-	19,262				
Actual	2010-11	630,983	214,511	34.0	144,573	22.9	69,938		(395)	-	14,011				
Actual	2011-12	659,740	236,230	35.8	158,410	24.0	77,172	648	3	865	12,969				
Actual	2012-13	680,086	252,823	37.2	167,132	24.6	84,956	735	(639)	141	9,220				
Actual	2013-14	695,354	267,968	38.5	176,634	25.4	90,556	778	(951)	-	10,453				
Actual	2014-15	726,053	285,403	39.3	187,511	25.8	97,065	827	(1,121)	1,683	10,315		-1592.62	-14202.6351	-13144
Actual	2015-16	762,029	295,372	38.8	192,029	25.2	102,536	807	1,003	-	3,515		1592.62	14202.63514	13144
Actual	2016-17	794,835	301,648	38.0	193,510	24.3	107,288	850	(1,094)	1,584	991				
	2017-18 Interim	829,984	310,440	37.4	194,684	23.5	114,906	850	(419)		1,593				
	2018-19 Outloo	863,690	334,757	38.8	208,886	24.2	125,020	850			14,203				
	2019-20 Outloo	897,341	358,953	40.0	222,030	24.7	136,073	850			13,144				
	2020-21 Outloo	933,145	383,409	41.1	235,796	25.3	146,763	850			13,766				

Net Debt to Revenue and GDP Ratios

Ontario

Scenario 1 (Based on 2018 Budget)

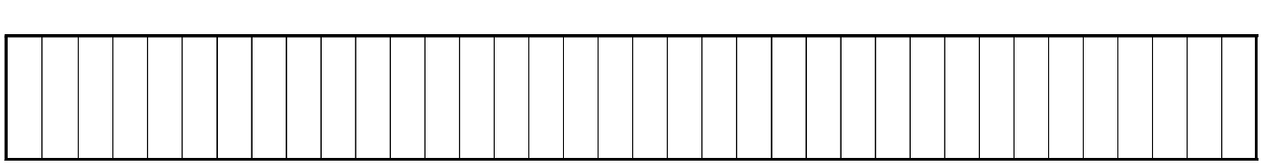
Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)
2021-22 Outloo	969,156	392,731	40.5	235,796	24.3	156,084	850			-
2022-23 Outloo	1,005,572	398,483	39.6	235,796	23.4	161,837	850			-
2023-24 Outloo	1,045,203	400,157	38.3	235,796	22.6	163,510	850			-
2024-25 Outloo	1,088,440	403,808	37.1	235,796	21.7	167,162	850			-
2025-26 Outloo	1,133,057	406,270	35.9	235,796	20.8	169,624	850			-
2026-27 Outloo	1,176,212	405,778	34.5	235,796	20.0	169,132	850			-
2027-28 Outloo	1,223,997	403,474	33.0	235,796	19.3	166,828	850			-
2028-29 Outloo	1,274,188	403,474	31.7	235,796	18.5	166,828	850			-
2029-30 Outloo	1,326,796	403,474	30.4	235,796	17.8	166,828	850			-
2030-31 Outloo	1,379,701	403,474	29.2	235,796	17.1	166,828	850			-
2031-32 Outloo	1,434,889	403,474	28.1	235,796	16.4	166,828	850			-
2032-33 Outloo	1,492,284	403,474	27.0	235,796	15.8	166,828	850			-
2033-34 Outloo	1,551,976	403,474	26.0	235,796	15.2	166,828	850			-
2034-35 Outloo	1,614,055	403,474	25.0	235,796	14.6	166,828	850			-
2035-36 Outloo	1,678,617	403,474	24.0	235,796	14.0	166,828	850			-

Assumptions /Notes

1. Surplus for 2017-18 is $ 642 m
2. GDP - per latest information rec'd (see GDP tab)
3. TCA - per info rec'd May 29, 2018 from M Reghabi
   After 2027-28 TCA increases are equal to annual amortization
4. Net Debt adjusted for prepaids starting 2014-15. From 2017-18 and onwards - same amount as prior month assumed.
5. Balanced budget continues through to 2035-36
6. GDP annual growth is 4% from 2031-32 to 2035-36
7. Revenue restated to include BPS (Hospitals, colleges, school boards) from 2012-13
8. Revenue from 2017-18 to 2019-20 has been restated for BPS
9. Revenue for 2016-17 was revised down by approx $1 million from $140,735m to $140,734.

Prepared by OFA, FTD

29-May-18



Net Debt to Revenue and GDP Ratios															
Ontario		Scenario 2 (Based on 2018 Budget)													
				Net Debt As	Accumulated	Acc Deficit		Prepds/inv.	ONFA	Other Adj	Deficit/				
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP %	TCA	Adj.(gain)/los	(gain)/loss	(gain)/loss	(Surplus)				
Actual	1989-90	282,754	35,409	12.5	35,409	12.5	-				(90)				
Actual	1990-91	287,293	38,438	13.4	38,438	13.4	-				3,029				
Actual	1991-92	288,190	49,368	17.1	49,368	17.1	-				10,930				
Actual	1992-93	293,007	61,796	21.1	61,796	21.1	-				12,428				
Actual	1993-94	302,160	80,599	26.7	80,599	26.7	-				11,202				
Actual	1994-95	319,901	90,728	28.4	90,728	28.4	-				10,129				
Actual	1995-96	337,337	101,864	30.2	101,864	30.2	-				8,800				
Actual	1996-97	347,738	108,769	31.3	108,769	31.3	-				6,905				
Actual	1997-98	368,909	112,735	30.6	112,735	30.6	-				3,966				
Actual	1998-99	389,219	114,737	29.5	114,737	29.5	-				2,002				
Actual	1999-2000	418,202	134,398	32.1	134,398	32.1	-				(668)				
Actual	2000-01	452,186	132,496	29.3	132,496	29.3	-				(1,902)				
Actual	2001-02	469,045	132,121	28.2	132,121	28.2	-				(375)				
Actual	2002-03	494,804	132,647	26.8	118,705	24.0	13,942				(117)				
Actual	2003-04	509,472	138,816	27.2	124,188	24.4	14,628				5,483				
Actual	2004-05	533,334	140,921	26.4	125,743	23.6	15,178				1,555				
Actual	2005-06	556,607	152,702	27.4	109,155	19.6	43,547				(298)				
Actual	2006-07	578,229	153,742	26.6	106,776	18.5	46,966			(110)	(2,269)				
Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999		(559)		(600)				
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347		1,212		6,409				
Actual	2009-10	597,876	193,589	32.4	130,957	21.9	62,632		1,090	-	19,262				
Actual	2010-11	630,983	214,511	34.0	144,573	22.9	69,938		(395)	-	14,011				
Actual	2011-12	659,740	236,230	35.8	158,410	24.0	77,172	648	3	865	12,969				
Actual	2012-13	680,086	252,823	37.2	167,132	24.6	84,956	735	(639)	141	9,220				
Actual	2013-14	695,354	267,968	38.5	176,634	25.4	90,556	778	(951)	-	10,453				
Actual	2014-15	726,053	285,403	39.3	187,511	25.8	97,065	827	(1,121)	1,683	10,315				
Actual	2015-16	762,029	295,372	38.8	192,029	25.2	102,536	807	1,003	-	3,515		-1592.62	-8208.8758	-6782.26
Actual	2016-17	794,835	301,648	38.0	193,510	24.3	107,288	850	(1,094)	1,584	991		1,593	8,209	6,782
	2017-18 Interim	829,984	310,440	37.4	194,684	23.5	114,906	850	(419)		1,593				
	2018-19 Outloo	863,690	328,763	38.1	202,892	23.5	125,020	850			8,209		1,593		
	2019-20 Outloo	897,341	346,598	38.6	209,675	23.4	136,073	850			6,782		8,209		
	2020-21 Outloo	933,145	359,180	38.5	211,568	22.7	146,763	850			1,893		6,782		

Net Debt to Revenue and GDP Ratios

Ontario

Scenario 2 (Based on 2018 Budget)

Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)		
2021-22 Outloo	969,156	368,502	38.0	211,568	21.8	156,084	850			-		1,893
2022-23 Outloo	1,005,572	374,254	37.2	211,568	21.0	161,837	850			-		
2023-24 Outloo	1,045,203	375,928	36.0	211,568	20.2	163,510	850			-		
2024-25 Outloo	1,088,440	379,580	34.9	211,568	19.4	167,162	850			-		
2025-26 Outloo	1,133,057	382,042	33.7	211,568	18.7	169,624	850			-		
2026-27 Outloo	1,176,212	381,549	32.4	211,568	18.0	169,132	850			-		
2027-28 Outloo	1,223,997	379,246	31.0	211,568	17.3	166,828	850			-		
2028-29 Outloo	1,274,188	379,246	29.8	211,568	16.6	166,828	850			-		
2029-30 Outloo	1,326,796	379,246	28.6	211,568	15.9	166,828	850			-		
2030-31 Outloo	1,379,701	379,246	27.5	211,568	15.3	166,828	850			-		
2031-32 Outloo	1,434,889	379,246	26.4	211,568	14.7	166,828	850			-		
2032-33 Outloo	1,492,284	379,246	25.4	211,568	14.2	166,828	850			-		
2033-34 Outloo	1,551,976	379,246	24.4	211,568	13.6	166,828	850			-		
2034-35 Outloo	1,614,055	379,246	23.5	211,568	13.1	166,828	850			-		
2035-36 Outloo	1,678,617	379,246	22.6	211,568	12.6	166,828	850			-		

Assumptions /Notes

1. Surplus for 2017-18 is $ 642 m
2. GDP - per latest information rec'd (see GDP tab)
3. TCA - per info rec'd May 29, 2018 from M Reghabi
   After 2027-28 TCA increases are equal to annual amortization
4. Net Debt adjusted for prepaids starting 2014-15. From 2017-18 and onwards - same amount as prior month assumed.
5. Balanced budget continues through to 2035-36
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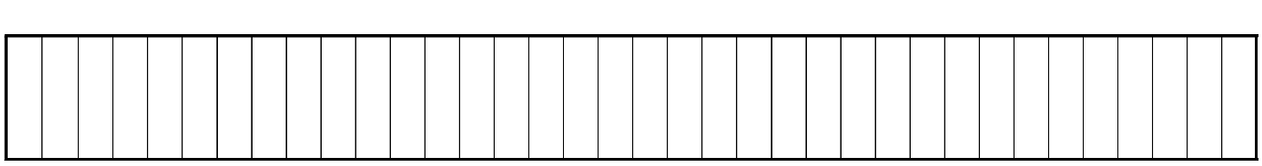
7. Revenue restated to include BPS (Hospitals, colleges, school boards) from 2012-13
8. Revenue from 2017-18 to 2019-20 has been restated for BPS
9. Revenue for 2016-17 was revised down by approx $1 million from $140,735m to $140,734.

Prepared by OFA, FTD

29-May-18



Fiscal Summary - *2018 Budget*

$ Millions	Actual 2016-17	Interim 2017-18	2018-19	2019-20	2020-21	Average Ann. Growth 2016-17 to 2020-21	Average Ann. Growth 2018-19 to 2020-21
Revenue							
Taxation Revenue	94,346	99,353	103,581	108,078	112,439	4.5%	4.2%
		5.3%	*4.3%*	*4.3%*	*4.0%*		
Government of Canada	24,544	25,328	26,006	25,707	26,766	2.2%	1.5%
		3.2%	*2.7%*	*-1.1%*	*4.1%*		
Government Business Enterprises	5,567	6,142	5,292	6,036	6,593	4.3%	11.6%
		10.3%	*-13.8%*	*14.1%*	*9.2%*		
Other Non-Tax Revenue	16,277	19,313	17,582	17,748	18,036	2.6%	1.3%
		18.7%	*-9.0%*	*0.9%*	*1.6%*		
Total Revenue	140,734	150,136	152,461	157,569	163,834	3.9%	3.7%
		6.7%	*1.5%*	*3.4%*	*4.0%*		
Program Expense							
Health Sector	55,945	58,289	61,278	64,234	66,620	4.5%	4.3%
		4.2%	*5.1%*	*4.8%*	*3.7%*		
Education Sector	26,580	27,494	29,075	30,059	31,526	4.4%	4.1%
		3.4%	*5.8%*	*3.4%*	*4.9%*		
Postsecondary Sector	10,131	11,128	11,788	11,957	12,003	4.3%	0.9%
		9.8%	*5.9%*	*1.4%*	*0.4%*		
Social Sector	16,075	16,842	17,911	18,729	19,830	5.4%	5.2%
		4.8%	*6.3%*	*4.6%*	*5.9%*		
Justice Sector	4,617	4,857	5,040	5,010	5,026	2.1%	-0.1%
		5.2%	*3.8%*	*-0.6%*	*0.3%*		
Other Programs Excluding Corp. Items	16,668	18,869	20,655	19,331	18,977	3.3%	-4.1%
		13.2%	*9.5%*	*-6.4%*	*-1.8%*		
Corporate Items							
Contingency Funds	-	*50*	*1,600*	*1,905*	*2,522*		
PTIF Amounts Held Centrally		*-*	*-*	*773*	*1,080*		
Year-end Savings (Operating)	-	*-*	*(1,225)*	*(1,175)*	*(1,200)*		
PRRT Savings Target	-	*-*	*(200)*	*(750)*	*(850)*		
Cap and Trade Envelope	-	*-*	*-*	*355*	*227*		
Total Corporate Items	-	*50*	*175*	*1,108*	*1,778*		
Other Programs Sector Consolidated	16,668	18,919	20,830	20,438	20,755	5.6%	-0.2%
		13.5%	*10.1%*	*-1.9%*	*1.6%*		
Total Program Expense	130,016	137,529	145,922	150,427	155,760	4.6%	3.3%
		5.8%	*6.1%*	*3.1%*	*3.5%*		
Interest on Debt	11,709	11,965	12,543	13,066	13,849	4.3%	5.1%
		2.2%	*4.8%*	*4.2%*	*6.0%*		
Total Expense	141,725	149,494	158,465	163,493	169,609	4.6%	3.5%
		5.5%	*6.0%*	*3.2%*	*3.7%*		
Surplus/(Deficit) Before Reserve	(991)	642	(6,004)	(5,924)	(5,775)		
Reserve	-	-	700	700	700		
Current Surplus/(Deficit)	(991)	642	(6,704)	(6,624)	(6,475)		

Fiscal Summary - Base Case Outlook

$ Millions	Interim 2017-18	2018-19	2019-20	2020-21	Average Ann. Growth 2018-19 to 2020-21
Total Revenue	150,136	151,878	156,845	163,090	3.6%
		1.2%	*3.3%*	*4.0%*	
Total Program Expense	137,529	146,204	147,490	149,672	1.2%
		6.3%	*0.9%*	*1.5%*	
Interest on Debt	11,965	12,565	13,026	13,566	3.9%
		5.0%	*3.7%*	*4.1%*	
Total Expense	149,494	158,770	160,515	163,238	1.4%
		6.2%	*1.1%*	*1.7%*	
Surplus/(Deficit) Before Reserve	642	(6,892)	(3,671)	(148)	
Reserve	-	-	-	-	
Current Surplus/(Deficit)	642	(6,892)	(3,671)	(148)	
Auditor General Accounting Adjustments					
Pension Plans	(2,000)	(2,400)	(2,600)	(2,800)	
Fair Hydro Plan	(2,234)	(2,617)	(3,024)	(3,232)	
Current Surplus/(Deficit) after Accounting Adjustment	(3,593)	(11,909)	(9,295)	(6,180)	

Fiscal Summary - Alternative Scenario #1

Revenue	150,136	153,322	160,613	167,025	4.4%
		2.1%	*4.8%*	*4.0%*	
Total Program Expense	137,529	151,577	156,765	162,736	3.6%
		10.2%	*3.4%*	*3.8%*	
Interest on Debt	11,965	12,631	13,267	14,123	5.7%
		5.6%	*5.0%*	*6.5%*	
Total Expense	149,494	164,207	170,032	176,859	3.8%
		9.8%	*3.5%*	*4.0%*	
Surplus/(Deficit) Before Reserve	642	(10,886)	(9,420)	(9,834)	
Reserve	-	700	700	700	
Current Surplus/(Deficit)	642	(11,586)	(10,120)	(10,534)	
Auditor General Accounting Adjustments					
Pension Plans	(2,000)	(2,400)	(2,600)	(2,800)	
Fair Hydro Plan	(2,234)	(2,617)	(3,024)	(3,232)	
Current Surplus/(Deficit) after Accounting Adjustment	(3,593)	(16,603)	(15,744)	(16,566)	

Fiscal Summary - Alternative Scenario #2

Revenue	150,136	150,239	150,983	157,402	2.4%
		0.1%	*0.5%*	*4.3%*	
Expense					
Program Expense	137,529	143,280	141,764	142,580	-0.2%
		4.2%	*-1.1%*	*0.6%*	
Interest on Debt	11,965	12,550	12,977	13,483	3.6%
		4.9%	*3.4%*	*3.9%*	
Total Expense	149,494	155,831	154,740	156,063	0.1%
		4.2%	*-0.7%*	*0.9%*	
Surplus/(Deficit) Before Reserve	642	(5,592)	(3,758)	1,339	
Reserve	-	-	-	-	
Current Surplus/(Deficit)	642	(5,592)	(3,758)	1,339	
Auditor General Accounting Adjustments					
Pension Plans	(2,000)	(2,400)	(2,600)	(2,800)	
Fair Hydro Plan	(2,234)	(2,617)	(3,024)	(3,232)	
Current Surplus/(Deficit) after Accounting Adjustment	(3,593)	(10,609)	(9,382)	(4,693)	

From:	Fong, Pauline (TBS)
To:	John Psinas
Cc:	Mark Donaldson (MOF); Shyrose Virani (MOF); Woods, Heather (TBS); Shemin Meralli; George Sakura; Ken Kandeepan
Subject:	RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
Date:	Wednesday, May 30, 2018 9:34:35 AM

Hi John,

As discussed on the phone please look at the auditor's general report on page 50 and 51 of the Public Accounts consolidated financial statements 2016-17.

Pauline

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: May-30-18 9:18 AM
To: Fong, Pauline (TBS)
Cc: Donaldson, Mark (TBS); Virani, Shyrose (TBS); Woods, Heather (TBS); Meralli, Shemin (OFA); Sakura, George (OFA); Kandeepan, Ken (OFA)
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Pauline,

It's the Budget password…K…

Tara and company only gave us the pension adjustment going forward for 17-18 but we needed the accumulated deficit impact to put in our scenarios for column Q. We'll put $10.6 B in that column for 2016-17.

Thanks!

John

From: Fong, Pauline (TBS) [mailto:Pauline.Fong@ontario.ca]
Sent: Wednesday, May 30, 2018 9:13 AM
To: John Psinas <John.Psinas@ofina.on.ca>
Cc: Mark Donaldson (MOF) <Mark.Donaldson@ontario.ca>; Shyrose Virani (MOF) <Shyrose.Virani@ontario.ca>; Woods, Heather (TBS) <Heather.Woods@ontario.ca>
Subject: FW: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi John,

What is the password on this file? I can not open it.

Net Debt for pension adjustment for March 31, 2016 was 10,668M per page 93 of the 2016-17 consolidated statements.

From: Virani, Shyrose (TBS) **On Behalf Of** Donaldson, Mark (TBS)

Sent: May-30-18 9:00 AM
To: Fong, Pauline (TBS)
Subject: FW: Transition Deck: Base Case & Alternative Fiscal Scenarios

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From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: May 29, 2018 3:52 PM
To: Cheung, Danny (MOF) <Danny.Cheung@ontario.ca>
Cc: Kandeepan, Ken (OFA) <Ken.Kandeepan@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Kraas, Alexander (OFA) <Alexander.Kraas@ofina.on.ca>; Strathy, Anna (OFA) <Anna.Strathy@ofina.on.ca>; Meralli, Shemin (OFA) <Shemin.Meralli@ofina.on.ca>; Sakura, George (OFA) <George.Sakura@ofina.on.ca>; McGrath, Tara (MOF) <Tara.McGrath@ontario.ca>; Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>; Macdonald, James (MOF) <James.Macdonald@ontario.ca>; Donaldson, Mark (TBS) <Mark.Donaldson@ontario.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Danny,

As discussed, please see attached. As requested, can someone mention that the historic opening pension adjustment is not fully reflected in the net debt numbers.

Thanks.

John

From: John Psinas
Sent: Tuesday, May 29, 2018 3:39 PM
To: Danny Cheung (CSC) <Danny.Cheung@ontario.ca>
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Sent: Tuesday, May 29, 2018 3:39 PM
To: Danny Cheung (CSC) <Danny.Cheung@ontario.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>; Mark Donaldson (MOF) <Mark.Donaldson@ontario.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Danny,

Thanks. We'll do it, but bear in mind that in order to fully incorporate the pension numbers, we need the cumulative effect on the accumulated deficit or otherwise we won't get the correct net debt number. Only OPCD has the amounts going back which we can use to put to accumulated deficit.

If we get it in time, we can make the calculation. Otherwise, we'll send the revised calculation to what you just sent us, but someone at the briefing today needs to mention that the pension adjustment historical impact is not fully recognized in the net debt numbers presented.

Thanks.

John

From: Cheung, Danny (MOF) [mailto:Danny.Cheung@ontario.ca]
Sent: Tuesday, May 29, 2018 3:33 PM
To: John Psinas <John.Psinas@ofina.on.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>

Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi John,

As discussed, please see attached for revised scenarios, updated to include the Pension/Hydro splits (including 2017-18)

Happy to discuss any questions or concerns.

Thanks!
Danny

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: May-29-18 3:12 PM
To: McGrath, Tara (MOF); Strathy, Anna (OFA); Kandeepan, Ken (OFA)
Cc: Anand, Sareena (MOF); Cheung, Danny (MOF); Meralli, Shemin (OFA); Sakura, George (OFA); Macdonald, James (MOF); IOD_RPA; Kraas, Alexander (OFA)
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Tara,

Sure. Can you send us the pension adjustment going back starting from whatever respective year is requested.

Thanks.

John

From: McGrath, Tara (MOF) [mailto:Tara.McGrath@ontario.ca]
Sent: Tuesday, May 29, 2018 2:42 PM
To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi,

We just ran into Gadi – he and Tim were talking and they'd like to add to the deck some more net debt-to-GDP ratios!

So for each scenario (base case, #1, #2), he'd like to be able to say by how much net debt to GDP would increase if 1) you were to layer on the impact of pensions and 2) you were to additionally layer on the impact of fair hydro.

If we send you the accounting numbers we're working with, is that doable?

I understand you probably don't have time to redo IOD with the latest information Danny just sent.

We'll send along accounting in a moment, including for 17-18. Thanks,

Tara

From: Cheung, Danny (MOF)
Sent: May 29, 2018 2:23 PM
To: Kandeepan, Ken (OFA) <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Kraas, Alexander (OFA) <Alexander.Kraas@ofina.on.ca>
Cc: McGrath, Tara (MOF) <Tara.McGrath@ontario.ca>; Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>; Macdonald, James (MOF) <James.Macdonald@ontario.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi Ken, John, and Alex,

We have scenarios for you (again!). So sorry for the last-minute request, but we rolled through some revenue changes, and would really appreciate it if you all could get us an updated IOD and Net Debt-to-GDP outlook for each scenario so we can roll them through the deck (for our 4:15 DM pre-brief).

Again, we really apologize for the short turnaround. We're happy to discuss if you have any questions or concerns.

Thanks so much!
Danny

From: Anand, Sareena (MOF)
Sent: May 29, 2018 10:53 AM
To: Kandeepan, Ken (OFA) <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Kraas, Alexander (OFA) <Alexander.Kraas@ofina.on.ca>
Cc: McGrath, Tara (MOF) <Tara.McGrath@ontario.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Good morning:

We have scenarios for you! Attached, please find the base case and two illustrative scenarios, in millions. Mo also just sent a revised TCA profile.

There is a pre-brief with DMs this afternoon at 4:15pm, accordingly, it would be great if we could get the IOD and Net debt-to-GDP outlooks for each scenario by early afternoon so that we can roll them through the deck. I realize that these are tight timelines, and apologize for the short turnaround. Please let us know if you think this is feasible.

Tara and I are happy to discuss the attached, should you have any questions.

Thank you!
Sareena

From: Anand, Sareena (MOF)
Sent: May 25, 2018 11:08 AM
To: Kraas, Alexander (OFA); John Psinas
Cc: Kandeepan, Ken (OFA); McGrath, Tara (MOF); IOD_RPA
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Good morning:

We wanted to provide an update on where things are at with the request for the SOC.

We are still working on both the base case and the illustrative scenarios, based on what came out of the whiteboard session yesterday, so we probably won't have anything to share with you before Monday.

Our colleagues at TBS have prepared an updated TCA profile that should be making its way over to you later today.

We'll be in touch on Monday.

Thanks and hope everyone has a nice weekend,
Sareena

From: Alexander Kraas [mailto:Alexander.Kraas@ofina.on.ca]
Sent: May 23, 2018 2:37 PM
To: Anand, Sareena (MOF)
Cc: John Psinas; Kandeepan, Ken (OFA); McGrath, Tara (MOF); IOD_RPA
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Thank you for the request, Sareena;

1. WRT IOD forecasts and to avoid that anything falls between the cracks, please send e-mails to the copied group "IOD_RPA" which includes analysists preparing the financing table and IOD forecasts, as well as myself;

2. An IOD calculator makes sense if you envision very tight turnaround times, e.g. you provide a scenario after 5 pm and expect a turnaround the same evening. Otherwise and based on our experience during the last Budget, our preference is to do proper IOD runs with our application in order to take correctly into account the impact of fiscal scenarios on the financing table and other aspects/components of IOD;

3. Given the large impact of capital spending on the borrowing program, getting TCA profiles right is at least as important as the fiscal outlook.

Please let me know in case you have any questions.

Best regards

Alex Kraas
Manager, Risk Policy & Analysis
Ontario Financing Authority
Toronto M7A 1Y7

akraas@ofina.on.ca
(o) 416-325-8558
(m) 416-568-3385
(f) 416-204-7937

From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Wednesday, May 23, 2018 1:39 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>
Subject: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi Ken, John, and Alex:

Hope all is well.

As part of transition planning, we've received a request from the Secretary to create a deck that includes a base case fiscal outlook to inform the starting point for future fiscal planning. Development of the base case will build off of the medium-term fiscal outlook presented in the 2018 Budget, and will be adjusted as required to scrub the outlook. We've also been asked to include two illustrative scenarios, based on currently available fiscal anchors, that will be layered onto the base case.

In total, we will create 3 scenarios (base case + two illustrative scenarios) for which we would need updated net debt and IOD forecasts. We are talking to TBS about getting updated TCA profiles for this as well.

We are working on creating the base case and illustrative scenarios and will likely send these along piecemeal, as they are drafted. We're hoping to get you a copy of the base case for tomorrow. Not sure how quickly we'll be able to complete the illustrative scenarios, we may also receive further direction on this coming out of tomorrow's session on the fiscal plan. We will aim to get you something for Friday, with the caveat that the scenarios will likely change into the beginning of next

week.

Please let us know what you think the best approach is for developing the net debt and IOD forecasts. We're happy to use an updated version of the calculator, as we did for Budget. Alternatively, we could send you individual roll ups for each scenario so that you can calculate on your end.

Hope this makes sense. Tara and I are happy to discuss in more detail on a call – we're around most of the afternoon.

Thank you!
Sareena

Sareena Anand
Senior Economist, Fiscal Framework
Office of the Budget, Ministry of Finance
Sareena.Anand@ontario.ca – 416.327.2083

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From:	Anand, Sareena (MOF)
To:	John Psinas
Cc:	Ken Kandeepan; George Sakura; Shemin Meralli; Tara McGrath (MOF)
Subject:	RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
Date:	Wednesday, May 30, 2018 5:32:08 PM
Attachments:	BaseCaseAlternativeFiscalScenarios_v13b.pptx Net Debt - Scenarios- incl revised TCA pension hydro adj May 30 2018_FF.xlsx

---

Hi John:

Thank you for all of your help over the last couple of days with landing the net debt-to-GDP outlooks.

As requested, attached please find a copy of the deck that went to the SOC today as well as the net debt calculations.

Thanks again!
Sareena

-----Original Message-----
From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: May 30, 2018 4:57 PM
To: Anand, Sareena (MOF)
Cc: Kandeepan, Ken (OFA); Sakura, George (OFA); Meralli, Shemin (OFA)
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Sareena,

Can you share the deck as well as the net debt calculation backup?

Thanks.

John

-----Original Message-----
From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Wednesday, May 30, 2018 12:09 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Chi-Wa Che <Chi-Wa.Che@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: IOD_RPA <IOD_RPA@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Nero, Freba (MOF) <Freba.Nero@ontario.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Thanks John!

We've used the attached to run the scenarios again.

Sareena

-----Original Message-----
From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: May 30, 2018 10:31 AM
To: Anand, Sareena (MOF); Kandeepan, Ken (OFA); Che, Chi-Wa (OFA); Kraas, Alexander (OFA)
Cc: IOD_RPA; Strathy, Anna (OFA); Nero, Freba (MOF); Macdonald, James (MOF); Cheung, Danny (MOF); Esmail, Selena (MOF); McGrath, Tara (MOF); Zhang, Christina (OFA); Sakura, George (OFA); Meralli, Shemin

(OFA)
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Sareena,
I see that our net debt template was used for a myriad of variable presentations of net debt, such as with the fair hydro, with pension adjustments etc, along with new fiscal deficit numbers since yesterday.

We got the accumulated deficit impact of the pension adjustment this morning from OPCD and put it into the opening net debt number for 2016-17 in the attached. Our opening 2016-17 net debt number now matches what the AG has indicated it should be if following this accounting interpretation. You may have to redo the net debt calculations based on this adjustment as well as the new fiscal impacts.

As you can see, there is a significant impact to the ratio by adding over $12.4 Billion of the pension adjustment to accumulated deficit.

Thanks.

John

-----Original Message-----
From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Wednesday, May 30, 2018 10:15 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Chi-Wa Che <Chi-Wa.Che@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: IOD_RPA <IOD_RPA@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Nero, Freba (MOF) <Freba.Nero@ontario.ca>; James MacDonald (MEDTE/MRI) <James.MacDonald@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Good morning:

Per the email thread below, we're touching base to provide you with the outlooks for the three scenarios (base, 1, and 2) as they currently stand, including with the IOD forecast that you provided yesterday at 4:30pm. Please note that the only change that has not been incorporated into the attached IOD outlook is a $5M revenue decrease in 2019-20 and 2020-21 that was made this morning. Revenue has been updated in the attached document, but IOD has not since we didn't think it would make a significant difference.

In addition, we have attached a draft version of the deck that will be used to brief the SOC this afternoon at 3pm, however, we are still working through some wording edits. The net debt-to-GDP numbers that we calculated for each scenario can be found in the deck on slides 10,13,14 and 15. Also attached is a copy of the net debt-to-gdp calculator that we used.

Could you please confirm that both the IOD forecast in each scenario as well as the net debt-to-GDP numbers in the deck are correct?

Many thanks!
Sareena

-----Original Message-----
From: McGrath, Tara (MOF)
Sent: May 29, 2018 9:31 PM
To: Kandeepan, Ken (OFA)
Cc: Che, Chi-Wa (OFA); Anand, Sareena (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA); Strathy, Anna

(OFA); Nero, Freba (MOF); Macdonald, James (MOF); Cheung, Danny (MOF); Esmail, Selena (MOF)
Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios

Ok great - thanks Ken.

Coming out of the meeting there were no further changes to the base case or alternative fiscal outlooks, save one small revenue adjustment that is less than $5M per year.

We'll touch base in the morning.

Tara

From: Kandeepan, Ken (OFA) [Ken.Kandeepan@ofina.on.ca]
Sent: Tuesday, May 29, 2018 9:28 PM
To: McGrath, Tara (MOF)
Cc: Che, Chi-Wa (OFA); Anand, Sareena (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA); Strathy, Anna (OFA); Nero, Freba (MOF); Macdonald, James (MOF); Cheung, Danny (MOF)
Subject: Re: Transition Deck: Base Case & Alternative Fiscal Scenarios

Hi Tara

With regard to IOD, your characterization of the two versions is accurate. However since our runs were done to meet deadlines we will review the results once more tomorrow morning and confirm.

With regard to the net debt to GDP ratio, as John has pointed out, the version that includes the AG's adjustments should also incorporate the cumulative impact of reversing the pension adjustment and that should not be limited to 16-17 onwards.

We have requested the cumulative impact from OPCD and should be able to provide revised ratios tomorrow.

Thanks

Ken k

> On May 29, 2018, at 908 PM, McGrath, Tara (MOF) <Tara.McGrath@ontario.ca> wrote:
>
> Hi everyone,
>
> Thank you again for your nimbleness today - we appreciate it.
>
> We were moving quickly today, so we wanted to take a pause just to confirm we are using the correct IOD numbers. We understand that the version sent at 3:56 (first attachment) includes the IOD changes without taking on the accounting change for pensions and Fair Hydro; and the version sent at 4:30 (second attachment) represents the IOD changes after taking on the accounting changes.
>
> We have a small window tomorrow morning to make any final updates, so it would be great if you could confirm first thing in the morning.
>
> John - we're working through all of the net debt-to-GDP scenarios with these new IOD figures, so we'll loop back around with you in the morning to confirm you're ok with all of the ratios for the deck.
>
> We understand the briefing with the SOC is at 3.
>
> Thanks,
>
> Tara

>
> _____
> From: Che, Chi-Wa (OFA) [Chi-Wa.Che@ofina.on.ca]
> Sent: Tuesday, May 29, 2018 4:30 PM
> To: Anand, Sareena (MOF)
> Cc: McGrath, Tara (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA);
> Kandeepan, Ken (OFA); Strathy, Anna (OFA)
> Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
>
> Hi Sareena,
>
> Attached is the revised IOD Summary for the Base Case and Alternative Scenarios together with the impacts from Pension Adjustments and Fair Hydro Plan.
>
> The IOD forecast as of April 30, 2018 is made with the following
> assumptions:-
>
>
> 1. IOD projections based on new OEP interest rate forecasts (May 23, 2018) for F2018-19 and F2019-20 and the 20-year historical average of interest rates for F2020-21. The latest forecast indicated that there is an decrease of 16 bps for 2019-20 only while marginally the same for 2018-19.
> 2. Uses the new Net Investment in Capital Assets and interest cap assumptions provided by TBS.
> 3. The pension adjustments does not impact borrowing as it only has PSAB implications and not cash implications.
> 4. New borrowing is increased by the partial cost of transferring the Fair Hydro Plan onto the Province's books as 44% of the cost is already accounted for.
>
>
>
> Thanks.
>
> Chi-Wa Che
>
> 5-8163
>
>
>
> _____
>
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> <IOD Summary for Transition.Revised.xlsx> <IOD Summary for
> Transition.RevisedV2.xlsx>

BASE CASE & ALTERNATIVE FISCAL SCENARIOS

Office of the Budget
MINISTRY of FINANCE

OFFICE OF ECONOMIC POLICY
OEP
MINISTRY OF FINANCE

TBS

Draft, May 30, 2018 1:00PM

Confidential Advice to Cabinet

Objective

- Outline a base case medium-term fiscal outlook, to inform the starting point for future fiscal planning and reporting
- Develop and present alternative fiscal scenarios based on potential choices related to fiscal anchors

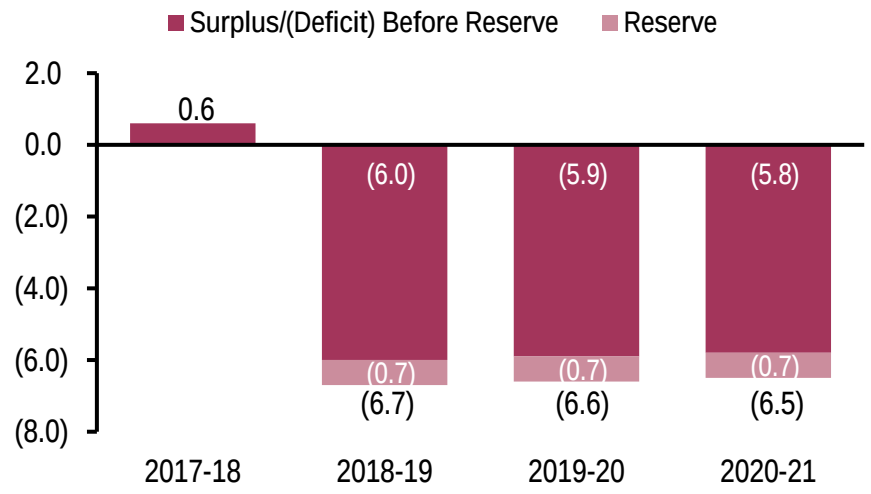
Part I: *2018 Budget*

Recapping the *2018 Budget / PER* Fiscal Architecture

- The *2018 Budget* and Pre-Election Report (PER) reviewed by the Auditor General projected a surplus of $0.6 billion in the 2017-18 fiscal year, and deficits over the medium-term.
- The *2018 Budget* also included a recovery plan that projected balance by 2024-25.

2018 Budget / PER Fiscal Targets

Fiscal Balance
($ Billions)



	2017-18	2018-19	2019-20	2020-21
Net Debt-to-GDP (%)	37.1	37.6	38.2	38.6

Average Annual Growth Rates
2018-19 to 2020-21

Revenue: 3.7%
Program Expense: 3.3%.

Overview of Medium-Term Outlook

- The forecast assumed **moderating revenue growth, primarily due to slower economic growth** – reflecting global uncertainties related to trade, rising interest rates and slowing household spending – as well as decreases from time-limited non-tax revenues.
  - The *2018 Budget* outlook included revenue measures such as eliminating the PIT surtax and paralleling federal measures.
- **Program spending was projected to increase significantly** in each year over the medium-term primarily **due to a number of new investments**, as well as demand pressures from existing programs.
  - New investments over the medium-term outlook totalled $12.9 billion, including $2.0 billion in 2018-19, $4.0 billion in 2019-20 and $6.9 billion in 2020-21 (note: excludes increases made to existing base spending to keep pace with cost drivers, technical updates, etc.).
- The Auditor General's recommended accounting adjustments for the Fair Hydro Plan and two public sector pension plans were not reflected in the *2018 Budget* and PER outlook.

2018 Budget / PER – Details of Revenue & Expense Assumptions

Revenue

- Outlook for continued economic growth
- Rebound in 2017 PIT due to tax planning
- Non Resident Speculation Tax revenues
- Federal home care services and mental care funding
- Federal infrastructure funding
- Equalization under current program
- Proceeds from cap and trade auctions

Expense

- Addressed sustainability of programs and implemented announced policy changes. Examples of investments include:
  - **Program Base Adjustments for Demand**
    - Hospital surge capacity and Emergency Health Services.
    - Higher-than-forecast OSAP applications and awards.
    - Police oversight and community policing and the Jahn settlement in Correctional Services.
  - **New investments**

    Fall
    - Small business support, including youth employment and fruit & vegetable farmers.
    - Seniors services and supports.

    Budget
    - Mental health and addictions care for children, youth and adults.
    - Social assistance system reform, including multi-year rate increases.
    - Special education and child care expansion.
    - Home care expansion and dental care program.
    - Developmental services expansion.
    - Federal infrastructure funding (e.g. flow-throughs and provincial cost match).
    - Greenhouse Gas Investment Plan, funded by cap and trade proceeds.
- Additional prudence built into the Contingency Fund for items such as land claims and compensation pressures.

Auditor General's Review of 2018 Pre-Election Report

"Aside from the [accounting treatments of the Fair Hydro Plan and the two public sector pension plans], we found that the government based its estimates of revenues, program expenses and interest on debt on cautious assumptions, as required by the [FTA] Act. The government also showed prudence by including a reserve amount in its fiscal plan…."

Part II: Establishing a Base Case for Future Planning

A base case/status quo scenario, or a fiscal outlook net of all new investments and prudence included in the 2018 Budget and Pre-Election Report, will help isolate the state of the Province's foundational fiscal architecture – essentially providing the underlying economic and fiscal trajectory for the current footprint of government revenue and expense – before any new government action, whether that includes new tax reductions or program investments, or new revenue tools/spending savings measures.

Base Case Methodology

The base case serves as an illustrative foundational starting point for the development of the next Provincial fiscal plan, based on the following assumptions:

- **Builds off of the baseline/core assumptions of the fiscal outlook presented in the 2018 Pre-Election Report:**
  - The medium-term outlook in the 2018 PER was found to be reasonable by the Auditor General of Ontario and the Financial Accountability Officer (FAO) – major difference identified was accounting issues and a marginally less optimistic revenue outlook for the FAO.
  - In some cases, adjustments to establish the base case for 2018-19 may be different than for the out-years – the 2018-19 fiscal year has already begun and funds have been committed. This impacts government decisions about what programs/services can be initiated/suspended.
- **2018 Budget and 2017 Fall Economic Statement measures not yet implemented or fully committed are excluded:**
  - 2018 Budget revenue measures
  - Ministry spending on hold-back for 2018-19
  - 2018 Budget and 2017 FES initiatives for 2019-20 and 2020-21
- **Most forms of prudence included in the 2018 PER are rolled back:**
  - Savings targets, both year-end and program review
  - Compensation set-asides in the contingency fund
  - Reserve
- **Interest on debt forecast updated** for base case outlook and to reflect changes to tangible capital assets from excluding 2018 Budget measures.

Revenue Measures Reversals and Outlook Updates

In order to establish a revenue base case, the following measures taken on at the time of the *2018 Budget* are removed and the outlook is updated for the impact of subsequent events.

Revenue Base Case

($ Millions)	2018-19	2019-20	2020-21
2018 PER – Revenue	152,461	157,569	163,834
2018 Budget – Revenue Measures			
Improving Fairness and Transparency of PIT	*(275)*	*(285)*	*(295)*
Ontario Research and Development Tax Credit	*30*	*35*	*40*
Targeting the Employer Health Tax Exemption to Small Employers	*(10)*	*(45)*	*(45)*
Small Business Limit (does not automatically parallel federal measure)	*(45)*	*(145)*	*(160)*
Total 2018 Budget Tax Measures	(300)	(440)	(460)
2018 Budget Expense Initiatives with Revenue Offset	–	(5)	(5)
Subsequent Events to PER			
Private Sector Economic Forecasts	*(200)*	*(200)*	*(200)*
Housing Resales	*(130)*	*(130)*	*(130)*
Operating Profits	*35*	*34*	*34*
Taxation Revenue Collections	*12*	*12*	*12*
Total Subsequent Events to PER	(283)	(284)	(284)
Total Revenue Changes	(583)	(729)	(749)
Base Case – Revenue	151,878	156,840	163,085

To arrive at base case revenue, two adjustments to the PER outlook are required:

1. Reversing the impact of tax measures announced in the 2018 Budget, which include:
   - Improving Fairness and Transparency of Ontario's PIT
   - Enhancements to the Ontario Research and Development Tax Credit
   - Targeting the Employer Health Tax exemption to small employers
   - Limits to Small Business (does not automatically parallel federal measure)

2. Adding the impact of subsequent events since the PER, which include:
   - A downward revision to the Private-Sector Economic forecast to real GDP in 2018
   - The impact of a revised 2017 and 2018 outlook of operating profits
   - Stronger own-source tax collections

Cap & Trade is consistent with the 2018 PER.

Excluding New Investment Items and Prudence

In order to establish a program expense base case, the following holdbacks and initiatives are removed and prudence adjustments are made to the program expense outlook.

Program Expense Base Case

($ Millions)	2018-19	2019-20	2020-21
2018 PER – Program Exp.	145,922	150,427	155,760
Holdbacks/2018 Budget and 2017 FES Initiatives	(697)	(4,125)	(6,989)
Prudence Adjustments			
Remove Compensation Set-Aside	*(446)*	*(738)*	*(1,149)*
Exclude Year-end Savings Target	*1,225*	*1,175*	*1,200*
Remove PRRT Savings Target	*200*	*750*	*850*
Total Prudence Adjustments	979	1,187	901
Total Program Exp. Changes	282	(2,937)	(6,088)
Base Case – Program Exp.	146,203	147,490	149,672

Reserve Base Case

($ Millions)	2018-19	2019-20	2020-21
2018 PER – Reserve	700	700	700
Reserve Reversal	(700)	(700)	(700)
Base Case – Reserve	–	–	–

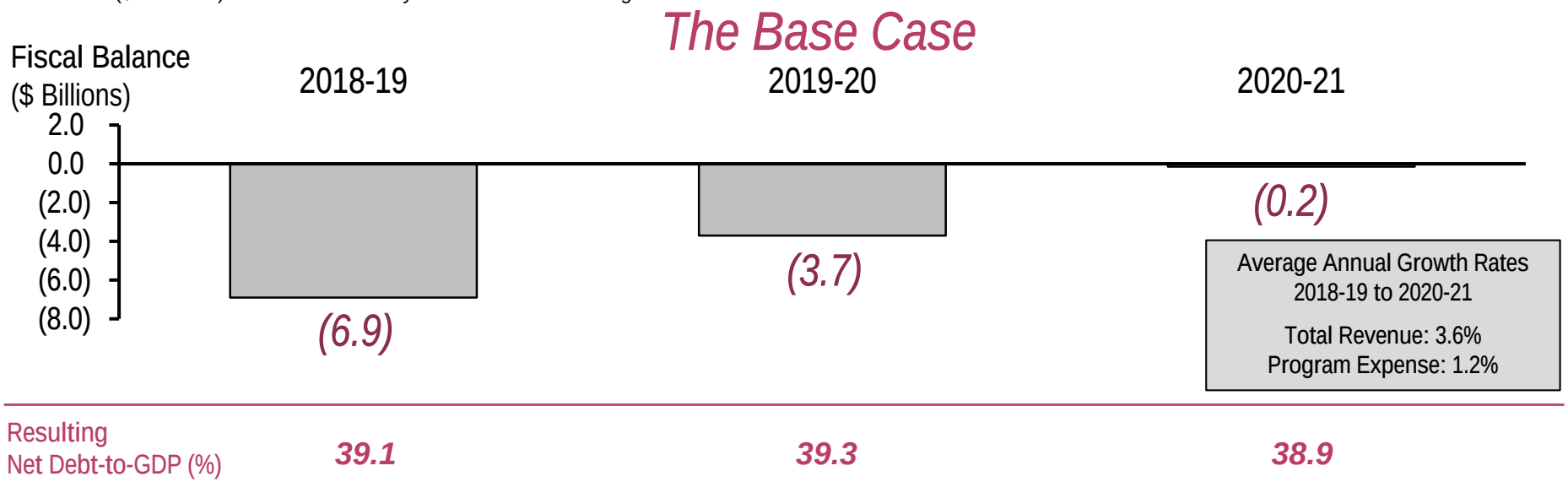
- Ministry allocations are updated to remove initiatives on holdback in 2018-19, and 2018 Budget and 2017 FES initiatives in 2019-20 and 2020-21. Key investments reversed include (see Appendix for expanded list):
  - Mental health and addictions services
  - OHIP+ for seniors
  - Child care
  - Income Security Reform
- Contingency Fund remains consistent with the *2018 Budget* – reflecting risks not included in ministry allocations – except for the reversal of compensation set-asides.
  - Results in a base case contingency fund of $1.2 billion in 2018-19, $1.9 billion in 2019-20 and $2.5 billion in 2020-21 (includes PTIF held centrally).
- Year-end and program review savings targets are reversed as part of prudence adjustments.
- Capital Plan is consistent with the 2018 PER, aside from reversal of budget initiatives associated with infrastructure expenditures.
- Cap & Trade is consistent with the 2018 PER.
- Generally speaking, spending related to federal-provincial flow-throughs has been maintained, particularly where agreements with the federal government have been signed.
- Reserve has been reversed.

The Base Case Medium-Term Outlook

- Compared to the 2018 PER, the base case represents an improvement to the fiscal outlook in 2019-20 and 2020-21.

($ Billions)	2018-19	2019-20	2020-21
2018 PER Surplus/(Deficit)	(6.7)	(6.6)	(6.5)
Total Revenue Changes	(0.6)	(0.7)	(0.7)
Total Program Expense Changes	0.3*	(2.9)	(6.1)
Total Interest on Debt Changes	0.0	(0.0)	(0.3)
Total Reserve Changes	(0.7)	(0.7)	(0.7)
Base Case Surplus/(Deficit)	(6.9)	(3.7)	(0.2)

*Program expense has increased as a result of reversing savings targets ($1.4 billion), which more than offset other program expense changes ($1.1 billion). *Note:* numbers may not add due to rounding



Part III: Alternative Fiscal Scenarios

Alternative Fiscal Scenarios

The government has a number of choices it can make and tools at its disposal to build off of the fiscal architecture presented in the base case.

- This includes decisions related to how to treat 2018-19 versus the out-years.
- Information will continue to evolve over the course of the fiscal year.

The following two alternative fiscal scenarios presented on the next slides illustrate the impact of potential choices/tools.

The government could:

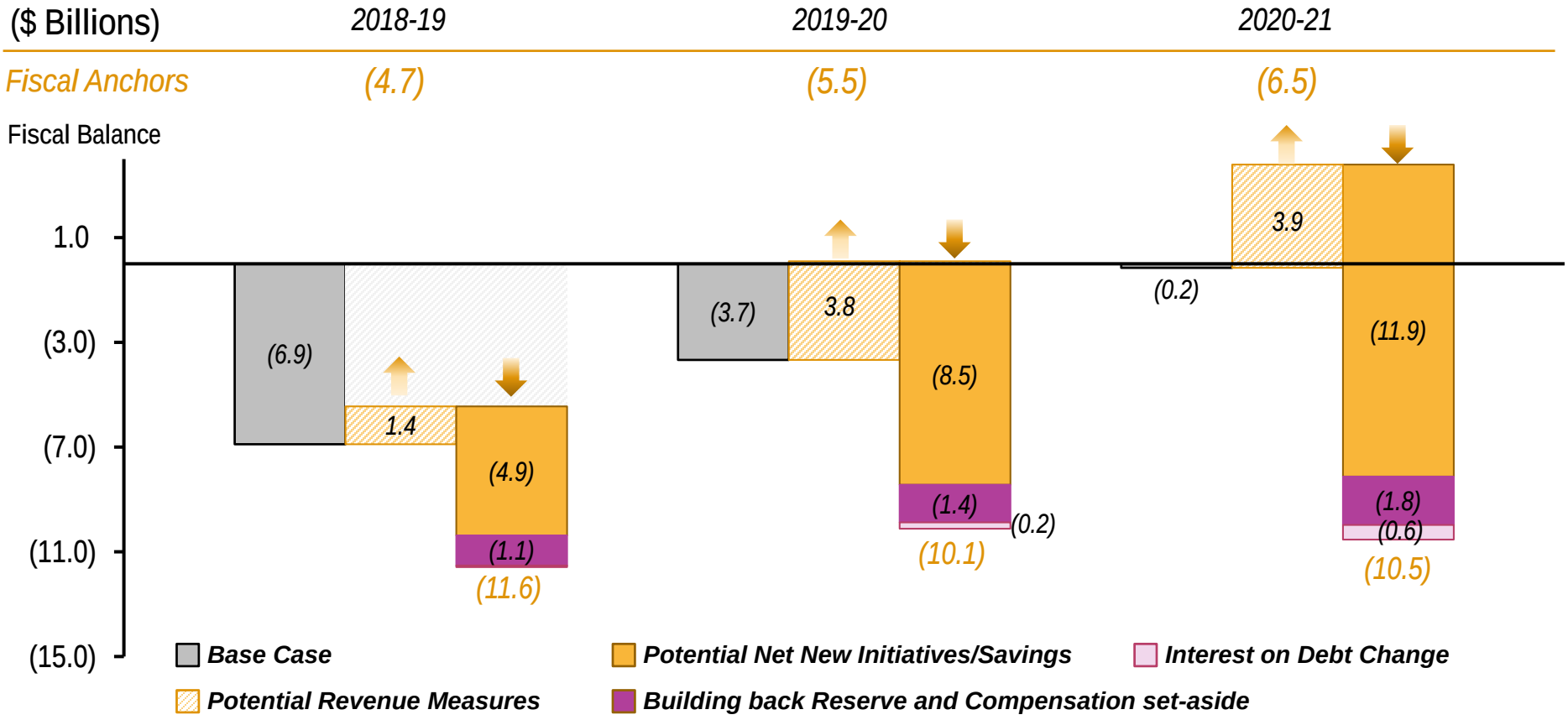
- Introduce new measures, such as new tax reductions or program investments, or new revenue tools or expenditure savings measures.
- Adjust the amount of prudence in the plan, for example:
  - Incorporate a reserve, (currently required under *Fiscal Transparency and Accountability Act.),* or take an alternative view of the revenue or expense forecast.
- Enact legislative or policy changes to allow for the adoption of the Auditor General's recommended accounting treatment for pensions and/or the Fair Hydro Plan.

$ Billions	2018-19	2019-20	2020-21
AG's Accounting Adjustment	5.0	5.6	6.0

Alternative Fiscal Scenario #1

Average Annual Growth Rates 2018-19 to 2020-21

Total Revenue: 4.4%
Program Expense: 3.6%

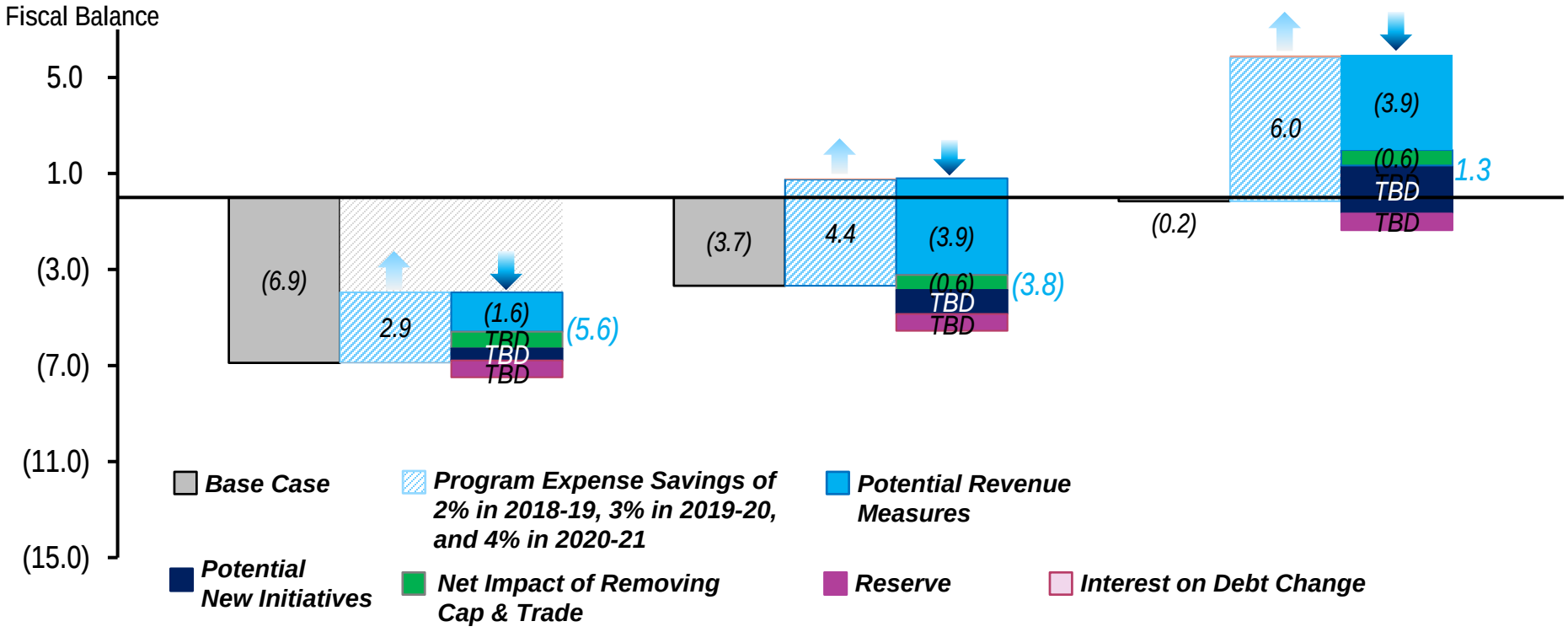


Resulting Net Debt-to-GDP (%)	39.6	40.5	41.2
Auditor General Accounting Adjustments ($ Billions) and Resulting Net Debt-to-GDP (%)			
Pension Plans	(2.4) / 40.1	(2.6) / 41.3	(2.8) / 42.3
Fair Hydro Plan	(2.6) / 40.2	(3.0) / 41.4	(3.2) / 42.4
Total	(5.0) / 40.7	(5.6) / 42.2	(6.0) / 43.5

Alternative Fiscal Scenario #2

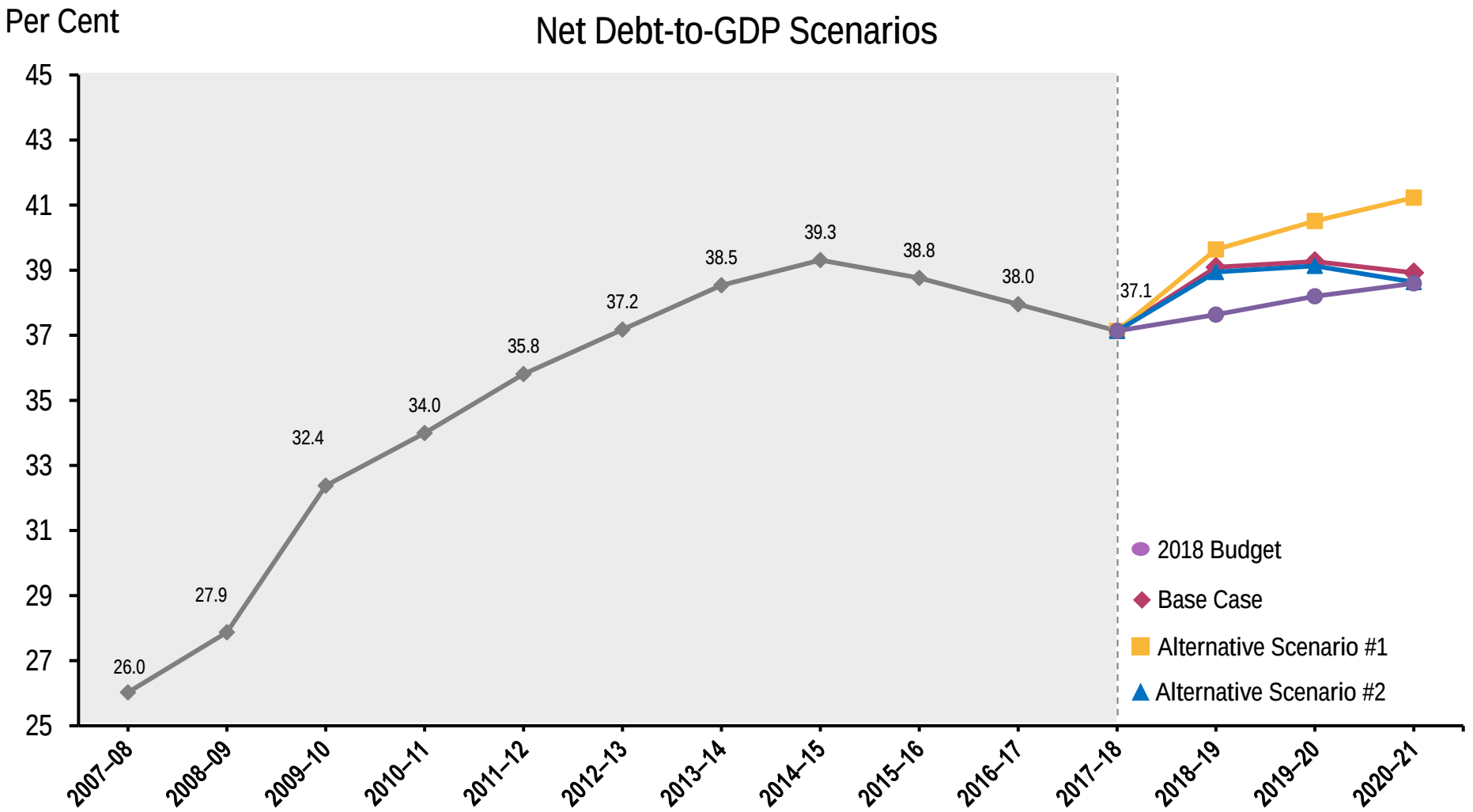
Average Annual Growth Rates 2018-19 to 2020-21

Total Revenue: 2.4%
Program Expense: -0.2%



	2018-19	2019-20	2020-21
Resulting Net Debt-to-GDP (%)	38.9	39.1	38.6
Auditor General Accounting Adjustments ($ Billions) and Resulting Net Debt-to-GDP (%)			
Pension Plans	(2.4) / 39.5	(2.6) / 39.9	(2.8) / 39.7
Fair Hydro Plan	(2.6) / 39.5	(3.0) / 40.0	(3.2) / 39.8
Total	(5.0) / 40.0	(5.6) / 40.8	(6.0) / 40.9

Net Debt-to-GDP



Recovery Plan

- Per the requirements of the Fiscal Transparency and Accountability Act (FTAA), the *2018 Budget* outlined a recovery plan to return to balance.
  - The 2018 Pre-Election Report and subsequent review did not include the recovery plan outlined in the 2018 Budget – however, the Financial Accountability Officer's Report projected that the Provincial deficit would most likely grow beyond 2020-21, rather than return to balance – unless the government took concerted action.
- The recovery plan spanned seven years, with a balanced budged expected in 2024-25.
  - The average annual rate of program spending growth was held to 2.5 per cent between 2018-19 and 2024-25, and 2.0 per cent between 2021-22 and 2024-25.
  - The reserve was also held constant at $700 million in each year over the recovery period.
- Based on the illustrative scenarios presented earlier, the government could consider developing a longer-term plan to balance the budget. Restoring fiscal health to Ontario's finances will require choices about the underlying fiscal trajectory of the province.
- An independent review to obtain fiscal and budgetary policy advice could help inform the next phase of Ontario's fiscal planning, including an approach to building a recovery plan.

Both Scenarios Face Additional Risks…

In addition to requiring a review of assumptions underlying these illustrative scenarios compared to government's priorities, key risks to the fiscal outlook include:

Revenue	Expense
• Economic growth • Housing market • 2017 PIT and CIT tax assessment results • 2017 HST revenue pool and Ontario share • Income shifting resulting from US tax reform • OEB decisions (e.g. Hydro One deferred tax asset) • OEB decision on OPG switching from accrual based to cash based accounting for Pension and Other Pension Benefits • The level of Federal funding assumed/projected for infrastructure projects, home care and mental health may change • Government business enterprise net income • Proceeds from cap and trade auctions	• Ministry pressures related to unfunded risks, depending on prudence/caution in the expense forecast • Impact of compensation negotiations • Policy changes to current federal funding agreements with flow-through implications • Policy changes to current cap and trade program could have fiscal implications, as some proceeds support investments in capital assets and in-plan commitments related to greenhouse gas reduction initiatives ($0.8 billion in 2018-19, $0.6 billion in 2019-20 and $0.6 billion in 2020-21) • Land claims

As part of broader fiscal architecture planning, some risks could be offset by revisiting the contingency fund and consideration could be given to building in a year-end savings target.

…and Will Require Management Strategies and Tools

Key strategies and tools for managing risks and the overall fiscal plan could include:

1. **Independent fiscal review**, which could:
   - Assess the fundamentals of Ontario's existing budgetary/fiscal construct and legislative framework;
   - Support an expenditure management review;
   - Support a review of the underlying revenue forecast; and/or
   - Provide advice to inform Ontario's fiscal planning and financial reporting.
2. **In-year and multi-year expenditure management review**
   - Government could conduct a Line-by-Line review of new and existing programs to ensure it aligns with priorities.
     - This could include taking immediate, focused action in 2018-19 to improve the fiscal trajectory.
3. **Use of prudence**
   - Government could adjust prudence measures, depending on the overall risk environment and on risk associated with underlying assumptions of the revenue forecast and ministry allocations.

Appendix

Key Holdbacks, and 2018 Budget and 2017 FES Initiatives

($ Millions)	2018-19
Holdbacks	
Support for the Good Jobs and Growth Plan	120.0
Mental Health and Addictions Care	89.8
Ontario Autism Program	62.0
K-12 Education Bundle - Special Education	50.4
Enhanced Funding for Developmental Services	44.0
Correctional Services Transformation	62.3
Other Holdbacks	268.4
Total Holdbacks Reversed	**696.9**

($ Millions)	2019-20	2020-21
2018 Budget and 2017 FES Initiatives		
Reforming the Income Security System	727.0	1,253.0
Developmental Services Expansion	492.0	682.0
Mental Health and Addictions Care	417.3	633.8
Extended Health Benefits - Drug and Dental	293.6	508.3
Home and Community Care	210.0	210.0
Childcare Expansion	287.1	672.5
Childcare Expansion – Preschool	–	930.9
K-12 Education Bundle - Special Education	92.6	115.8
FES – Support for Seniors	60.9	60.9
FES – Support for Small Business	1.5	–
Other 2018 Budget and 2017 FES Initiatives	1,542.6	1,921.7
Total Initiatives Reversed	**4,124.6**	**6,988.9**

Note: numbers may not add due to rounding

Alternative Scenario #1 Details

$ Millions	2018-19	2019-20	2020-21
Base Case Surplus/(Deficit)	(6,892)	(3,676)	(153)
Alternative Scenario #1 – Revenue Measures			
Personal Income Tax Increase on High Income Earners	606	642	679
Raise General Corporate Income Tax on Profitable Corporations	-	1,357	1,391
Limit Employer Health Tax Exemption to Small Business	-	159	166
Luxury Car Tax	12	12	12
Fairness in the Business Education Tax	-	269	358
Value Tax on Tobacco	233	233	233
Revenue Integrity	425	425	425
Housing Speculation Tax	168	671	671
Total Revenue Measures	1,444	3,768	3,935
Alternative Scenario #1 – Program Expense			
Hydro Plan	n/a	n/a	n/a
Expand the Ontario Electricity Support Program	35	35	35
Home Efficiency Retro-Fit Program	50	-	-
Pharmacare for Everyone	-	475	485
Increase Base Hospital Funding to Reach 5.3% Annual Growth	363	757	1,184
2,000 New Hospital Beds	312	328	346
Doubling the First Nations Health Action Plan	-	105	107
4 Hours of Hands-on Care	132	268	274

Note: numbers may not add due to rounding

Continued on next slide

Alternative Scenario #1 Revenue and Expense Measures

Alternative Scenario #1 – Program Expense (continued)	2018-19	2019-20	2020-21
15,000 Additional Long-Term Care Beds	164	213	296
Investing in Home Care	300	306	312
Palliative Care	15	-	-
Children's Mental Health	120	115	117
2,200 new mental health workers	50	101	152
Community Based Agencies Supporting People with Developmental Disabilities	67	67	67
Community Health Centres	30	40	50
Take-Home Cancer Drugs	43	43	44
Public Dental Care	-	670	818
Ontario Benefits	-	-	574
50% of Net Transit Operating Costs	809	825	842
Northern Rail Strategy	25	25	25
⅓ Social Housing Repair Backlog	434	434	-
Operational Funding for Supportive Housing	50	100	150
Cooperative Housing Development Fund	3	-	-
Unfreezing College and University Funding	101	203	308
College and University Faculty Renewal	80	160	240
Student Loans to Grants	449	467	486
OSAP Interest Payment Forgiveness	112	-	-
Affordable Childcare	375	1,141	2,790
Paid Domestic Violence Leave	60	61	62

Note: numbers may not add due to rounding

Continued on next slide

Alternative Scenario #1 Revenue and Expense Measures

Alternative Scenario #1 – Program Expense (continued)	2018-19	2019-20	2020-21
Raising OW and ODSP Rates	800	1,720	2,230
Friendship Centres programming	10	10	10
Mercury Treatment Centre	3	1	1
Mercury Disability Benefits	12	-	-
Raise the Cap on the Risk Management Program	50	100	175
First Nations Policing	30	30	30
Parole and Probation Officers	15	15	16
A Crisis is not a Crime	5	5	5
Solving Cold Cases	1	1	1
Properly Fund the Ontario Municipal Partnership Fund	45	46	47
End Funding Freeze for Libraries	1	1	1
Library/Museum Pass	3	3	3
Better Ontario Fund	100	100	100
Anti-Racism Fund	5	5	5
Expanding Rural and Northern Broadband	100	100	100
Spending Reallocations	(430)	(539)	(571)
Total Program Expense Measures	4,926	8,538	11,915
C-fund – 80% of Compensation Risks	446	738	1,149
Interest on Debt	65	241	557
Reserve	700	700	700
Total Surplus/(Deficit)	(11,585)	(10,125)	(10,539)

Note: numbers may not add due to rounding

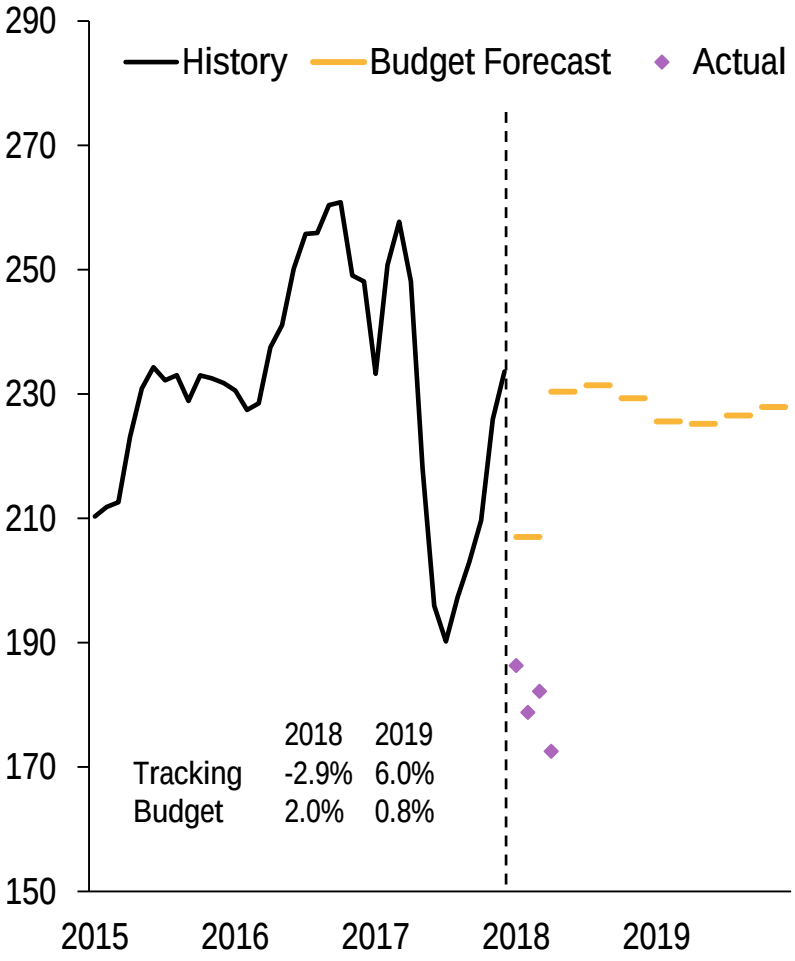
Alternative Scenario #2 Revenue and Expense Measures

$ Millions	2018-19	2019-20	2020-21
Base Case Surplus/(Deficit)	(6,892)	(3,676)	(153)
Alternative Scenario #2 - Revenue			
Tax rebate of $6,750 per child for families with child care expenses	(389)	(389)	(389)
Lower Small Business rate to 3.2%	(60)	(60)	(60)
Lower General rate to 10.5%	[TBD]	[TBD]	[TBD]
Cut Gasoline Tax by 10 cents a litre	(1,190)	(1,190)	(1,190)
Cut Middle class taxes by 20% in 2nd and 3rd year of term	-	(2,300)	(2,300)
Total Revenue Measures	(1,639)	(3,939)	(3,939)
Alternative Scenario #2 – Program Expense			
Program Expense efficiencies (2%, 3% and 4% respectively)	(2,924)	(4,425)	(5,987)
Potential New Initiatives	[TBD]	[TBD]	[TBD]
Total Program Expense Measures	(2,924)	(4,425)	(5,987)
Net Impact of Cap and Trade Removal	TBD	622	644
Interest on Debt	(15)	(49)	(83)
Reserve	[TBD]	[TBD]	[TBD]
Total Surplus/(Deficit)	(5,591)	(3,763)	1,334

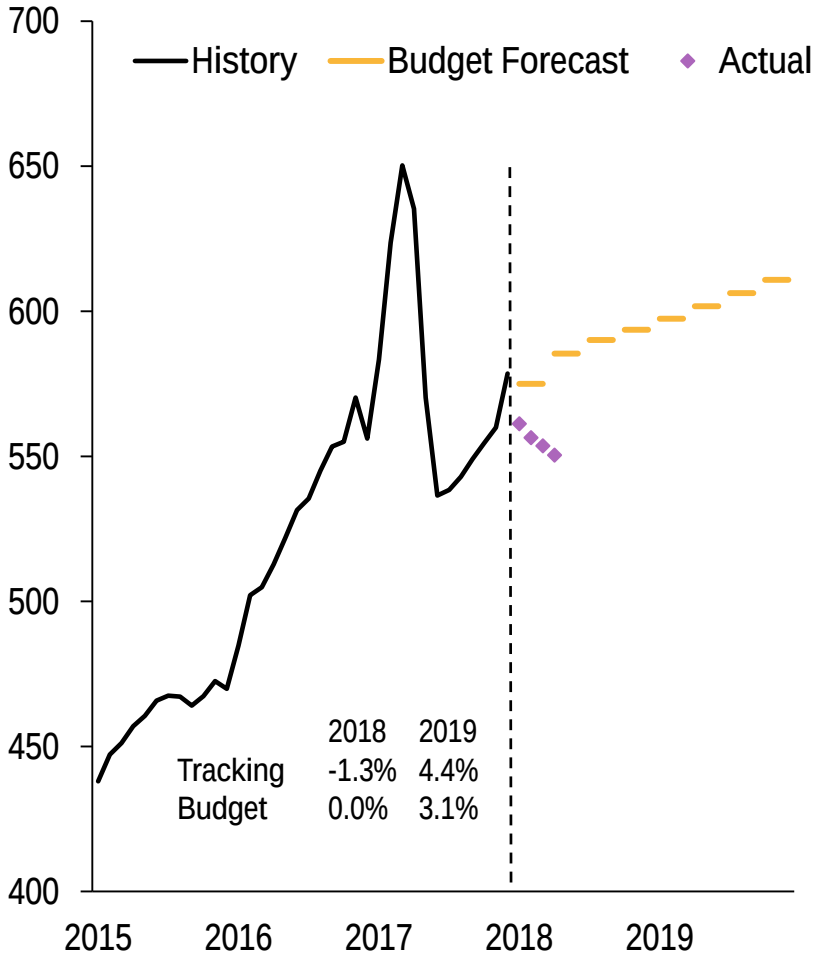
Note: numbers may not add due to rounding

MLS Home Resale Volumes and Prices

MLS Resale Volumes
Units, Annualized



MLS Avg. Resale Price
Thousands of Dollars



Summary of Private-Sector Economic Forecasts

Private-Sector Forecasts for Ontario Real GDP Growth (%)							
	2018	Δ from Budget	2019	Δ from Budget	2020	Δ from Budget	2021	Δ from Budget
Conference Board (May)	2.0	0.1	2.0	0.2	2.2	0.3	2.1	0.1
Stokes Consulting (Feb)	2.4	0.0	2.0	0.0	2.0	0.0	2.1	0.0
U of T / PEAP (Apr)	1.8	-0.4	2.1	0.0	2.3	0.0	2.3	0.0
RBC (Mar)	2.0	-0.1	1.6	-0.2				
Scotia Bank (Apr)	2.1	-0.2	2.0	0.2				
TD Bank (Mar)	1.8	-0.5	2.0	0.1				
Desjardins (May)	2.0	-0.2	1.9	-0.1	1.5	0.0	0.3	0.0
BMO (May)	2.0	-0.4	1.9	-0.1				
CIBC (Mar)	2.1	-0.2	1.7	0.0				
Central 1 (May)	2.3	-0.2	2.1	-0.2	1.8	-0.3	2.1	-0.1
Laurentian (Feb)	2.1	0.0	1.9	0.0				
National Bank (May)	2.3	-0.3	1.8	0.4				
Private Sector Avg	2.1	-0.2	1.9	0.0	2.0	0.0	1.8	0.0
Private Sector Avg - Doc	2.3		1.9		2.0		1.8	
MoF - 2018 Doc	2.2		1.8		1.9		1.7	

	Budget 2018		Base Case Scenario		Scenario 1		Scenario 2		Difference Base Case vs. Budget 2018		Difference Scenario 1 vs. Budget 2018		Difference Scenario 2 vs. Budget 2018	
	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)
2017-18 Interim	37.1	(642)	38.9	1,593	38.9	1,593	38.9	1,593	1.8	2,235	1.8	2,235	1.8	2,235
2018-19 Outlook	37.6	6,704	39.7	9,509	40.2	14,203	39.5	8,209	2.0	2,805	2.6	7,499	1.9	1,505
2019-20 Outlook	38.2	6,624	40.1	6,695	41.4	13,144	40.0	6,782	1.9	71	3.2	6,520	1.8	158
2020-21 Outlook	38.6	6,475	40.1	3,380	42.4	13,766	39.8	1,893	1.5	(3,095)	3.8	7,291	1.2	(4,582)

EXCLUDING AG	Budget 2018		Base Case Scenario		Scenario 1		Scenario 2		Difference Base Case vs. Budget 2018		Difference Scenario 1 vs. Budget 2018		Difference Scenario 2 vs. Budget 2018	
	Net Debt to GD	Deficit/ (Surplus)	Net Debt to GD	Deficit/ (Surplus)	Net Debt to GD	Deficit/ (Surplus)	Net Debt to GD	Deficit/ (Surplus)	Net Debt to GD	Deficit/ (Surplus)	Net Debt to GD	Deficit/ (Surplus)	Net Debt to GD	Deficit/ (Surpl
2017-18 Interim	37.1	(642)	38.6	(642)	38.6	(642)	38.6	(642)	1.5	0	1.5	0	1.5	0
2018-19 Outlook	37.6	6,704	39.1	6,892	39.6	11,586	38.9	5,592	1.5	188	2.0	4,882	1.3	(1,112)
2019-20 Outlook	38.2	6,624	39.3	3,671	40.5	10,120	39.1	3,758	1.1	(2,953)	2.3	3,496	0.9	(2,866)
2020-21 Outlook	38.6	6,475	38.9	148	41.2	10,534	38.6	(1,339)	0.3	(6,327)	2.6	4,059	0.0	(7,814)

INCLUDE PENSION ONLY	Budget 2018		Base Case Scenario		Scenario 1		Scenario 2		Difference Base Case vs. Budget 2018		Difference Scenario 1 vs. Budget 2018		Difference Scenario 2 vs. Budget 2018	
	Net Debt to GD	Deficit/ (Surplus)	Net Debt to GD	Deficit/ (Surplus)	Net Debt to GD	Deficit/ (Surplus)	Net Debt to GD	Deficit/ (Surplus)	Net Debt to GD	Deficit/ (Surplus)	Net Debt to GD	Deficit/ (Surplus)	Net Debt to GD	Deficit/ (Surpl
2017-18 Interim	37.1	-642	38.9	1358.266469	38.9	1358.266469	38.9	1358.266469	1.7	2000.266469	1.7	2000.266469	1.7	2000.266469
2018-19 Outlook	37.6	6704	39.6	9292.23014	40.1	13985.82014	39.5	7992.060796	2.0	2588.23014	2.5	7281.82014	1.8	1288.060796
2019-20 Outlook	38.2	6624	40.0	6270.925187	41.3	12719.57519	39.9	6357.836876	1.9	-353.0748126	3.1	6095.575187	1.7	-266.1631243
2020-21 Outlook	38.6	6475	40.0	2948.216348	42.3	13334.18635	39.7	1460.966929	1.4	-3526.783652	3.7	6859.186348	1.1	-5014.033071

INCLUDE FAIR HYDRO ONLY	Budget 2018		Base Case Scenario		Scenario 1		Scenario 2		Difference Base Case vs. Budget 2018		Difference Scenario 1 vs. Budget 2018		Difference Scenario 2 vs. Budget 2018	
	Net Debt to GD	Deficit/ (Surplus)	Net Debt to GD	Deficit/ (Surplus)	Net Debt to GD	Deficit/ (Surplus)	Net Debt to GD	Deficit/ (Surplus)	Net Debt to GD	Deficit/ (Surplus)	Net Debt to GD	Deficit/ (Surplus)	Net Debt to GD	Deficit/ (Surpl
2017-18 Interim	37.1	-642	38.9	1592.619469	38.9	1592.619469	38.9	1592.619469	1.8	2234.619469	1.8	2234.619469	1.8	2234.619469
2018-19 Outlook	37.6	6704	39.7	9509.04514	40.2	14202.63514	39.5	8208.875796	2.0	2805.04514	2.6	7498.63514	1.9	1504.875796
2019-20 Outlook	38.2	6624	40.1	6695.348187	41.4	13143.99819	40.0	6782.259876	1.9	71.34818745	3.2	6519.998187	1.8	158.2598757
2020-21 Outlook	38.6	6475	40.1	3380.214348	42.4	13766.18435	39.8	1892.964929	1.5	-3094.785652	3.8	7291.184348	1.2	-4582.035071

INCLUDE EVERYTHING	Budget 2018		Base Case Scenario		Scenario 1		Scenario 2		Difference Base Case vs. Budget 2018		Difference Scenario 1 vs. Budget 2018		Difference Scenario 2 vs. Budget 2018	
	Net Debt to GD	Deficit/ (Surplus)	Net Debt to GD	Deficit/ (Surplus)	Net Debt to GD	Deficit/ (Surplus)	Net Debt to GD	Deficit/ (Surplus)	Net Debt to GD	Deficit/ (Surplus)	Net Debt to GD	Deficit/ (Surplus)	Net Debt to GD	Deficit/ (Surpl
2017-18 Interim	37.1	-642	39.1	3592.619469	39.1	3592.619469	39.1	3592.619469	2.0	4234.619469	2.0	4234.619469	2.0	4234.619469
2018-19 Outlook	37.6	6704	40.2	11909.04514	40.7	16602.63514	40.0	10608.8758	2.5	5205.04514	3.1	9898.63514	2.4	3904.875796
2019-20 Outlook	38.2	6624	40.9	9295.348187	42.2	15743.99819	40.8	9382.259876	2.7	2671.348187	4.0	9119.998187	2.6	2758.259876
2020-21 Outlook	38.6	6475	41.2	6180.214348	43.5	16566.18435	40.9	4692.964929	2.6	-294.7856517	4.9	10091.18435	2.3	-1782.035071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Net Debt to Revenue and GDP Ratios																	
Ontario		Base Case Scenario (Based on 2018 Budget)															
				Net Debt As	Accumulated	Acc Deficit		Prepds/inv.	ONFA	Other Adj	Deficit/						
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP %	TCA	Adj.(gain)/los	(gain)/loss	(gain)/loss	(Surplus)						
Actual	1989-90	282,754	35,409	12.5	35,409	12.5	-				(90)						
Actual	1990-91	287,293	38,438	13.4	38,438	13.4	-				3,029						
Actual	1991-92	288,190	49,368	17.1	49,368	17.1	-				10,930						
Actual	1992-93	293,007	61,796	21.1	61,796	21.1	-				12,428						
Actual	1993-94	302,160	80,599	26.7	80,599	26.7	-				11,202						
Actual	1994-95	319,901	90,728	28.4	90,728	28.4	-				10,129						
Actual	1995-96	337,337	101,864	30.2	101,864	30.2	-				8,800						
Actual	1996-97	347,738	108,769	31.3	108,769	31.3	-				6,905						
Actual	1997-98	368,909	112,735	30.6	112,735	30.6	-				3,966						
Actual	1998-99	389,219	114,737	29.5	114,737	29.5	-				2,002						
Actual	1999-2000	418,202	134,398	32.1	134,398	32.1	-				(668)						
Actual	2000-01	452,186	132,496	29.3	132,496	29.3	-				(1,902)						
Actual	2001-02	469,045	132,121	28.2	132,121	28.2	-				(375)						
Actual	2002-03	494,804	132,647	26.8	118,705	24.0	13,942				(117)						
Actual	2003-04	509,472	138,816	27.2	124,188	24.4	14,628				5,483						
Actual	2004-05	533,334	140,921	26.4	125,743	23.6	15,178				1,555						
Actual	2005-06	556,607	152,702	27.4	109,155	19.6	43,547				(298)						
Actual	2006-07	578,229	153,742	26.6	106,776	18.5	46,966			(110)	(2,269)						
Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999		(559)		(600)						
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347		1,212		6,409						
Actual	2009-10	597,876	193,589	32.4	130,957	21.9	62,632		1,090	-	19,262						
Actual	2010-11	630,983	214,511	34.0	144,573	22.9	69,938		(395)	-	14,011						
Actual	2011-12	659,740	236,230	35.8	158,410	24.0	77,172	648	3	865	12,969						
Actual	2012-13	680,086	252,823	37.2	167,132	24.6	84,956	735	(639)	141	9,220						
Actual	2013-14	695,354	267,968	38.5	176,634	25.4	90,556	778	(951)	-	10,453						
Actual	2014-15	726,053	285,403	39.3	187,511	25.8	97,065	827	(1,121)	1,683	10,315						
Actual	2015-16	762,029	295,372	38.8	192,029	25.2	102,536	807	1,003	-	3,515						
Actual	2016-17	794,835	314,077	39.5	205,939	25.9	107,288	850	(1,094)	14,013	991						
	2017-18 Interim	829,984	322,869	38.9	207,113	25.0	114,906	850	(419)		1,593						
	2018-19 Outloo	863,690	342,492	39.7	216,622	25.1	125,020	850			9,509						
	2019-20 Outloo	897,341	360,240	40.1	223,317	24.9	136,073	850			6695.3482						
	2020-21 Outloo	933,145	374,310	40.1	226,697	24.3	146,763	850			3380.2143						
	2021-22 Outloo	969,156	383,632	39.6	226,697	23.4	156,084	850			-						
	2022-23 Outloo	1,005,572	389,384	38.7	226,697	22.5	161,837	850			-						

Net debt as presented
Effect of valuation allowance
Net debt in accordance with Canadian public secto

Net Debt for 2016-17 has been chan
opinion of the 2016-17 Public Accou

Net Debt to Revenue and GDP Ratios

Ontario

Base Case Scenario (Based on 2018 Budget)

Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)
2023-24 Outloo	1,045,203	391,057	37.4	226,697	21.7	163,510	850			-
2024-25 Outloo	1,088,440	394,709	36.3	226,697	20.8	167,162	850			-
2025-26 Outloo	1,133,057	397,171	35.1	226,697	20.0	169,624	850			-
2026-27 Outloo	1,176,212	396,679	33.7	226,697	19.3	169,132	850			-
2027-28 Outloo	1,223,997	394,375	32.2	226,697	18.5	166,828	850			-
2028-29 Outloo	1,274,188	394,375	31.0	226,697	17.8	166,828	850			-
2029-30 Outloo	1,326,796	394,375	29.7	226,697	17.1	166,828	850			-
2030-31 Outloo	1,379,701	394,375	28.6	226,697	16.4	166,828	850			-
2031-32 Outloo	1,434,889	394,375	27.5	226,697	15.8	166,828	850			-
2032-33 Outloo	1,492,284	394,375	26.4	226,697	15.2	166,828	850			-
2033-34 Outloo	1,551,976	394,375	25.4	226,697	14.6	166,828	850			-
2034-35 Outloo	1,614,055	394,375	24.4	226,697	14.0	166,828	850			-
2035-36 Outloo	1,678,617	394,375	23.5	226,697	13.5	166,828	850			-

Assumptions /Notes

1 - deleted for this scenario -

2 GDP - per latest information rec'd (see GDP tab)

3 TCA - per info rec'd May 29, 2018 from M Reghabi

After 2027-28 TCA increases are equal to annual amortization

4 Net Debt adjusted for prepaids starting 2014-15. From 2017-18 and onwards - same amount as prior month assumed.

5 Balanced budget continues through to 2035-36

6 GDP annual growth is 4% from 2031-32 to 2035-36

7 Revenue restated to include BPS (Hospitals, colleges, school boards) from 2012-13

8 Revenue from 2017-18 to 2019-20 has been restated for BPS

9 Revenue for 2016-17 was revised down by approx $1 million from $140,735m to $140,734.

10 Accumulated deficit for 2016-17 now incorporates the pension valuation adjustment of approx $12.4b

Prepared by OFA, FTD

30-May-18

	2017 ($ million)	2016 ($ million)
	(301,648)	(295,372)
	(12,429)	(10,985)
r accounting standards	(314,077)	(306,357)

ged to the amount indicated by the AG in her
nts, $314,077 M.

Net Debt to Revenue and GDP Ratios

Ontario

Scenario 1 (Based on 2018 Budget)

	Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)
Actual	1989-90	282,754	35,409	12.5	35,409	12.5	-				(90)
Actual	1990-91	287,293	38,438	13.4	38,438	13.4	-				3,029
Actual	1991-92	288,190	49,368	17.1	49,368	17.1	-				10,930
Actual	1992-93	293,007	61,796	21.1	61,796	21.1	-				12,428
Actual	1993-94	302,160	80,599	26.7	80,599	26.7	-				11,202
Actual	1994-95	319,901	90,728	28.4	90,728	28.4	-				10,129
Actual	1995-96	337,337	101,864	30.2	101,864	30.2	-				8,800
Actual	1996-97	347,738	108,769	31.3	108,769	31.3	-				6,905
Actual	1997-98	368,909	112,735	30.6	112,735	30.6	-				3,966
Actual	1998-99	389,219	114,737	29.5	114,737	29.5	-				2,002
Actual	1999-2000	418,202	134,398	32.1	134,398	32.1	-				(668)
Actual	2000-01	452,186	132,496	29.3	132,496	29.3	-				(1,902)
Actual	2001-02	469,045	132,121	28.2	132,121	28.2	-				(375)
Actual	2002-03	494,804	132,647	26.8	118,705	24.0	13,942				(117)
Actual	2003-04	509,472	138,816	27.2	124,188	24.4	14,628				5,483
Actual	2004-05	533,334	140,921	26.4	125,743	23.6	15,178				1,555
Actual	2005-06	556,607	152,702	27.4	109,155	19.6	43,547				(298)
Actual	2006-07	578,229	153,742	26.6	106,776	18.5	46,966			(110)	(2,269)
Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999		(559)		(600)
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347		1,212		6,409
Actual	2009-10	597,876	193,589	32.4	130,957	21.9	62,632		1,090	-	19,262
Actual	2010-11	630,983	214,511	34.0	144,573	22.9	69,938		(395)	-	14,011
Actual	2011-12	659,740	236,230	35.8	158,410	24.0	77,172	648	3	865	12,969
Actual	2012-13	680,086	252,823	37.2	167,132	24.6	84,956	735	(639)	141	9,220
Actual	2013-14	695,354	267,968	38.5	176,634	25.4	90,556	778	(951)	-	10,453
Actual	2014-15	726,053	285,403	39.3	187,511	25.8	97,065	827	(1,121)	1,683	10,315
Actual	2015-16	762,029	295,372	38.8	192,029	25.2	102,536	807	1,003	-	3,515
Actual	2016-17	794,835	314,077	39.5	205,939	25.9	107,288	850	(1,094)	14,013	991
	2017-18 Interim	829,984	322,869	38.9	207,113	25.0	114,906	850	(419)		1,593
	2018-19 Outloo	863,690	347,186	40.2	221,315	25.6	125,020	850			14,203
	2019-20 Outloo	897,341	371,382	41.4	234,459	26.1	136,073	850			13143.998
	2020-21 Outloo	933,145	395,838	42.4	248,225	26.6	146,763	850			13766.184

Net debt as presented
Effect of valuation allowance
Net debt in accordance with Canadi

Net Debt to Revenue and GDP Ratios

Ontario

Scenario 1 (Based on 2018 Budget)

Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)
2021-22 Outloo	969,156	405,160	41.8	248,225	25.6	156,084	850			-
2022-23 Outloo	1,005,572	410,912	40.9	248,225	24.7	161,837	850			-
2023-24 Outloo	1,045,203	412,586	39.5	248,225	23.7	163,510	850			-
2024-25 Outloo	1,088,440	416,237	38.2	248,225	22.8	167,162	850			-
2025-26 Outloo	1,133,057	418,699	37.0	248,225	21.9	169,624	850			-
2026-27 Outloo	1,176,212	418,207	35.6	248,225	21.1	169,132	850			-
2027-28 Outloo	1,223,997	415,903	34.0	248,225	20.3	166,828	850			-
2028-29 Outloo	1,274,188	415,903	32.6	248,225	19.5	166,828	850			-
2029-30 Outloo	1,326,796	415,903	31.3	248,225	18.7	166,828	850			-
2030-31 Outloo	1,379,701	415,903	30.1	248,225	18.0	166,828	850			-
2031-32 Outloo	1,434,889	415,903	29.0	248,225	17.3	166,828	850			-
2032-33 Outloo	1,492,284	415,903	27.9	248,225	16.6	166,828	850			-
2033-34 Outloo	1,551,976	415,903	26.8	248,225	16.0	166,828	850			-
2034-35 Outloo	1,614,055	415,903	25.8	248,225	15.4	166,828	850			-
2035-36 Outloo	1,678,617	415,903	24.8	248,225	14.8	166,828	850			-

Net Debt for 2016-17 has
opinion of the 2016-17 P

Assumptions /Notes

1 - deleted for this scenario - m

2 GDP - per latest information rec'd (see GDP tab)

3 TCA - per info rec'd May 29, 2018 from M Reghabi

After 2027-28 TCA increases are equal to annual amortization

4 Net Debt adjusted for prepaids starting 2014-15. From 2017-18 and onwards - same amount as prior month assumed.

5 Balanced budget continues through to 2035-36

6 GDP annual growth is 4% from 2031-32 to 2035-36

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Prepared by OFA, FTD

30-May-18

	2017 ($ million)	2016 ($ million)
	(301,648)	(295,372)
	(12,429)	(10,985)
n public sector accounting standards	(314,077)	(306,357)

	been changed to the amount indicated by the AG in her					
	ublic Accounts, $314,077 M.					

Net Debt to Revenue and GDP Ratios															
Ontario		Scenario 2 (Based on 2018 Budget)													
				Net Debt As	Accumulated	Acc Deficit		Prepds/inv.	ONFA	Other Adj	Deficit/				
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP %	TCA	Adj.(gain)/los	(gain)/loss	(gain)/loss	(Surplus)				
Actual	1989-90	282,754	35,409	12.5	35,409	12.5	-				(90)				
Actual	1990-91	287,293	38,438	13.4	38,438	13.4	-				3,029				
Actual	1991-92	288,190	49,368	17.1	49,368	17.1	-				10,930				
Actual	1992-93	293,007	61,796	21.1	61,796	21.1	-				12,428				
Actual	1993-94	302,160	80,599	26.7	80,599	26.7	-				11,202				
Actual	1994-95	319,901	90,728	28.4	90,728	28.4	-				10,129				
Actual	1995-96	337,337	101,864	30.2	101,864	30.2	-				8,800				
Actual	1996-97	347,738	108,769	31.3	108,769	31.3	-				6,905				
Actual	1997-98	368,909	112,735	30.6	112,735	30.6	-				3,966				
Actual	1998-99	389,219	114,737	29.5	114,737	29.5	-				2,002				
Actual	1999-2000	418,202	134,398	32.1	134,398	32.1	-				(668)				
Actual	2000-01	452,186	132,496	29.3	132,496	29.3	-				(1,902)				
Actual	2001-02	469,045	132,121	28.2	132,121	28.2	-				(375)				
Actual	2002-03	494,804	132,647	26.8	118,705	24.0	13,942				(117)				
Actual	2003-04	509,472	138,816	27.2	124,188	24.4	14,628				5,483				
Actual	2004-05	533,334	140,921	26.4	125,743	23.6	15,178				1,555				
Actual	2005-06	556,607	152,702	27.4	109,155	19.6	43,547				(298)				
Actual	2006-07	578,229	153,742	26.6	106,776	18.5	46,966			(110)	(2,269)				
Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999		(559)		(600)				
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347		1,212		6,409				
Actual	2009-10	597,876	193,589	32.4	130,957	21.9	62,632		1,090	-	19,262				
Actual	2010-11	630,983	214,511	34.0	144,573	22.9	69,938		(395)	-	14,011				
Actual	2011-12	659,740	236,230	35.8	158,410	24.0	77,172	648	3	865	12,969				
Actual	2012-13	680,086	252,823	37.2	167,132	24.6	84,956	735	(639)	141	9,220				
Actual	2013-14	695,354	267,968	38.5	176,634	25.4	90,556	778	(951)	-	10,453				
Actual	2014-15	726,053	285,403	39.3	187,511	25.8	97,065	827	(1,121)	1,683	10,315				
Actual	2015-16	762,029	295,372	38.8	192,029	25.2	102,536	807	1,003	-	3,515				
Actual	2016-17	794,835	314,077	39.5	205,939	25.9	107,288	850	(1,094)	14,013	991				
	2017-18 Interim	829,984	322,869	38.9	207,113	25.0	114,906	850	(419)		1,593				
	2018-19 Outloo	863,690	341,192	39.5	215,321	24.9	125,020	850			8,209				
	2019-20 Outloo	897,341	359,027	40.0	222,104	24.8	136,073	850			6782.2599				
	2020-21 Outloo	933,145	371,609	39.8	223,997	24.0	146,763	850			1892.9649				

Net debt as presented

Effect of valuation allowance

Net debt in accordance with Cana

Net Debt for 2016-17 has

Net Debt to Revenue and GDP Ratios

Ontario

Scenario 2 (Based on 2018 Budget)

Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)	
2021-22 Outloo	969,156	380,931	39.3	223,997	23.1	156,084	850			-	opinion of the 2016-17 P
2022-23 Outloo	1,005,572	386,683	38.5	223,997	22.3	161,837	850			-	
2023-24 Outloo	1,045,203	388,357	37.2	223,997	21.4	163,510	850			-	
2024-25 Outloo	1,088,440	392,009	36.0	223,997	20.6	167,162	850			-	
2025-26 Outloo	1,133,057	394,471	34.8	223,997	19.8	169,624	850			-	
2026-27 Outloo	1,176,212	393,978	33.5	223,997	19.0	169,132	850			-	
2027-28 Outloo	1,223,997	391,675	32.0	223,997	18.3	166,828	850			-	
2028-29 Outloo	1,274,188	391,675	30.7	223,997	17.6	166,828	850			-	
2029-30 Outloo	1,326,796	391,675	29.5	223,997	16.9	166,828	850			-	
2030-31 Outloo	1,379,701	391,675	28.4	223,997	16.2	166,828	850			-	
2031-32 Outloo	1,434,889	391,675	27.3	223,997	15.6	166,828	850			-	
2032-33 Outloo	1,492,284	391,675	26.2	223,997	15.0	166,828	850			-	
2033-34 Outloo	1,551,976	391,675	25.2	223,997	14.4	166,828	850			-	
2034-35 Outloo	1,614,055	391,675	24.3	223,997	13.9	166,828	850			-	
2035-36 Outloo	1,678,617	391,675	23.3	223,997	13.3	166,828	850			-	

Assumptions /Notes

1 - deleted for this scenario -

2 GDP - per latest information rec'd (see GDP tab)

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Prepared by OFA, FTD

30-May-18

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	(12,429)	(10,985)
dian public sector accounting standards	(314,077)	(306,357)

been changed to the amount indicated by the AG in her

ublic Accounts, $314,077 M.

From:	Padmore, Pauline (MOF)
To:	Stephanie Zilinski (MOF); Paul Dupuis (MOF); Debbie Laughlin (MOF); Nancy Mattiussi (MOF); Rick Baldino (MAG); Rebecca Luc (MOF); Neda Rastinehad (MOF); Patel, Lesley (MOF); Olga Mikhailova (MOF); Ghufran Tarin (MOF); Boa, Krista (MOF); Wallace, Julia (MOF); Birks, Ryan (MOF); Bianchi, Angela (MOF); Darren Scanlan; Gavin He; Francisco Chinchon; Marco Ciavatta (FSCO); Carolyn Hamilton (FSCO); Kancharla, Sagar (MOF); Gobeil, Diana (MOF); Jayne Harten (ENE); Ken Kandeepan; Bridget Jeanes (MGS); Lynn Portelance (MOF); Wong, Mimi (MOF); John Kim; Shemin Meralli; George Sakura; Sadruddin Salman (MOF); Penny Vavlekis (MOF); Vivienne Skoberne (MOHLTC); Sybille Chan (MOF); Anna Strathy; Bruno Amara; Deena Padamadan; Matthew Sylvain (MOF); Ashley McCall (ENE); Melissa Ouzas (CAB); Dianne Lone (MOF); Marc Pichette (MOF); Yanqui, Nicole (MOF); Veralyn Bramble (MOF); Cengarle, John (MOF); Cheryl Donais (MEDTE/MRI)
Cc:	David McLean (MOF); Steve Boyd (MGS); Maria Sapounas (MOF); Michael Waterston (MOF); Gordon Nowlan (MOF); Justin Bilar (MOF); Jhenny Villagra (FSCO); Maria Policelli (FSCO); Robert Troiani (FSCO); Kathy Grant (MOF); Leah Young (MOF); Fred Chow (MOF); Barry Misener (MOF); Brenda Newbatt (MOF); Steve Maw (MOF); Long, Anne-Marie (MOF); Ellen Mulrooney (MOF); Anthony Reiss (MGS); Ray Buzza (MOF); Shannon Clarkson (MOF); Linda Gibney (MOF); Luxman Paramasivam (MEDTE/MRI); Mah, Catherine (MOF); Victoria Coste (MOF)
Subject:	RE: Update to Estimates Defence Document Submissions
Date:	Thursday, September 07, 2017 2:39:21 PM
Attachments:	Tab 5 General Facts_v2.docx

Hello –

As a number of you have asked for this document, it is here attached.

Please note that the deadline remains the same and kindly advise if you have any questions or concerns.

Thank you.



Pauline Padmore
Corporate Initiatives and Stakeholder Coordinator (A)
416-325-0961

From: Padmore, Pauline (MOF)
Sent: September-07-17 1:17 PM
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Subject: Update to Estimates Defence Document Submissions

Hello everyone –

In addition to the Accomplishments and Top Facts, please include 'General Facts' as shown in Tab 5 of the attached 2016 Estimates Briefing Binder table of contents.

Thank you.



Pauline Padmore
Corporate Initiatives and Stakeholder Coordinator (A)
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From: Padmore, Pauline (MOF)
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Subject: Estimates Defence Document Submissions

Good afternoon –

Program areas are asked to please submit Top Facts (formerly called Q&As) and update Accomplishments no later than September 11th to Pauline Padmore and cc Nicole Yanqui. Attached for your reference is the table of contents from last years' Estimates Briefing Binder, Accomplishments and Top Facts.

Here is the Minister's Office recommended list of top facts & top issues **by order of importance**:

Tab 3: Top Facts

- Office of the Budget

- Ontario Financing Authority
- Office of Economic Policy
- Corporate Electricity Finance Division
- Taxation Policy Division
- Tax and Benefits Administration
- Provincial Local Division
- Cannabis Retail Implementation Project
- Government Business Enterprise Division
- ORPP Implementation Secretariat / Admin Corporation
- Income Security & Pension Policy Division
- Financial Services Policy Division

Tab 4: Top Issues

- Fiscal Plan (in relation to questions that might come up about balancing)
- Debt (Interest on Debt costs)
- Public Accounts (emphasis on AG Accounting)
- Fair Hydro Plan
- Housing Market
- Cannabis
- Cap & Trade
- Trillium Trust
- OLG Modernization
- LBCO
- ORPP – if needed

In addition to the corporate preparations, program areas should prepare their ADM/Program Head in the event we do appear before the Estimates Committee – for those questions that are of a technical or operational nature. This also includes preparations for your ADM/Program Head to explain any financial variances from the Estimates Briefing Book, should those questions arise at the proceedings. This work should currently be underway.

Please let me know if you have any questions about this process.

Thank you.



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GENERAL FACTS

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INCOME SECURITY AND PENSION POLICY

Investment Management Corporation of Ontario (IMCO)

Q: What is the status of IMCO? And when will it be operational?

A: The government is developing regulations under the IMCO Act. These regulations will name the initial participants of the corporation, appoint Board members and proclaim the Act later this year.

Most of the remaining work required before IMCO becomes operational is in the development of governance structures, implementation planning, the completion of investment agreements for initial members and the development of the investment pools. The corporation is expected to be operational in 2017.

Q: Have you heard from many plans in the BPS about joining IMCO? How many plans could potentially participate in it?

A: There has been expression of interest from some plan sponsors but it's too early to disclose those details. When IMCO is up and running, it will be flexible and scalable enough to accommodate funds from all qualified organizations in the BPS that could benefit from its services.

Q: How will you be selecting the initial board members, including the Chair?

A: The government is working closely with OPB and WSIB on the selection of board members, including the Chair. The government is committed to selecting an expert board in accordance with the advice received from the Technical Working Group. We plan to have the initial directors, including the Chair, appointed by summer this year.

Q: Why did you provide in the Act for the government to appoint three board members if IMCO is an arm's length corporation?

A: The government agrees with the Technical Working Group's advice to allow the corporation to focus, without distractions, on achieving the benefits of asset pooling for its members. However, given that the members of the corporation would be broader public sector entities, the government considers it prudent to preserve the right to appoint some, but not a majority, of the board members. This would provide a minimal degree of government involvement in the corporation's affairs, which would not undermine the fundamental independence of the corporation from government. All government appointees to the board will be legally bound to promote the interest of the corporation and its members in making their decisions.

Q: Is the government providing "start-up" funding or ongoing financial `support to IMCO?

A: There are no plans to provide any government funding to IMCO. The financial benefits that asset pooling brings should be sufficient to encourage participation and for those initial participants to make arrangements to meet the start-up costs.

Q: If all potential participants were to join IMCO, how big could it get in terms of assets under management?

A: It is difficult to determine the total assets of the pool of potential participants at this time. However, the 2012 Morneau report, which studied the viability of asset pooling in Ontario, estimated an excess of $100 billion in potential assets under management.

Amending the Teachers' Pension Act (TPA) to include a retroactive override of Section 14 of the Pensions Benefit Act (PBA).

Q: What is the current reemployment limit? For how long have they existed?

A: The OTPP contains provisions that require the pension of a retired teacher to be suspended if the retired teacher works more than a specified number of days in the education sector. Current limits are set out in the TPA and were updated as recently as 2010 to set a limit of 50 days per school year for all retired teachers.

Re-employment limits have been part of the OTPP for over 70 years, with different limits on the number of days a retired teacher could work without affecting pension payments.

Q: What is the purpose of the re-employment provisions?

A: The current re-employment limit of 50 days per school year is intended to:

- Open up employment opportunities for new teachers;
- Create equity between pensioners working for different employers; and
- Provide flexibility to school boards who find it more difficult to replace retired teachers.

Q: Why do this amendment now?

A: In response to recent complaints by retired teachers, it is anticipated that Financial Services Commission of Ontario (FSCO) could rule that provisions in the pension plan that allow pension suspensions are inconsistent with the PBA rules, and are therefore void. The amendment would ensure the continuing validity of the current and any prior re-employment provisions by clarifying that these rules prevail over the PBA.

Q: What will the amendment do?

A: The amendment will add a retroactive override of the PBA to the TPA with respect to the re-employment provisions in the OTPP. More specifically, the amendment would specify that the TPA prevails in the event of a conflict with the PBA.

The proposed amendment would exempt the re-employment rules from the PBA. It will also protect the Crown, the OTF and the Ontario Teachers' Pension Plan Board from potential litigation.

Q: If approved, when will the amendment be effective?

A: This legislative amendment would come into force on Royal Assent of the Budget Bill. The amendment would be retroactive to January 1,1990 (the date the TPA came into force).

Q: Does the Ontario Teachers Federation (co-sponsor of the Plan) endorse this approach?

A: The OTF strongly supports a legislative amendment to preserve the re-employment provisions.

Q: How does the proposed amendment compare to other provincial pension plans?

A: Other public pension plans in Ontario (CAAT Pension Plan, Healthcare of Ontario Pension Plan (HOOPP), Ontario Municipal Employees Retirement System (OMERS), Public Sector Pension Plan (PSPP) and OPSEU Pension Trust) all have provisions related to re-employment. However, their re-employment rules are not subject to challenge under the PBA.

- OPSEU allows a pension reduction if the re-employment period exceeds a specified limit. The constituting legislation of OPSEU includes specific overrides of the PBA;
- PSPP also allows a pension reduction if the re-employment period exceeds a specified limit. The re-employment provisions have not been amended since the inception of the plan and therefore do not conflict with the PBA;
- CAAT, HOOPP and OMERS permit either the continued payment of a pension or pension re-accrual post-retirement, and are therefore not in conflict with the PBA.

Temporary Solvency Relief and Solvency Funding Review

Q: Why is Ontario providing sponsors of private sector defined benefit pension plans with temporary solvency funding relief?

A: Due to persistently low long term interest rates, the next actuarial valuation filed by many pension plan sponsors will continue to show significant solvency funding requirements.

Solvency funding relief will help private sector employers meet this challenge while protecting the benefits of plan members and retirees.

Q: What kind of funding relief will be made available?

A: Temporary measures will be introduced to help employers adjust to increased solvency payments.

Temporary solvency funding relief measures introduced in 2009 and offered again in 2012 would be extended for the first valuation report filed during the three year period starting December 31, 2015. A plan administrator would be able to:

- Consolidate existing solvency payment schedules into a new 5-year payment schedule.
- Extend the solvency special payment schedule to up to 10 years for new solvency deficiencies, with the consent of members and retirees.

Q: When will these measures come into effect?

A: Related regulations are targeted for this spring.

Q: How do these measures protect the benefits of plan members and retirees?

A: Solvency relief measures are intended to support jobs and growth by helping employers meet the challenge of higher solvency special payments.

As with the 2009 and 2012 solvency relief provisions, members and retirees would be provided with additional disclosure when temporary relief measures are employed. They would also have to consent to the extension of solvency payment schedules.

Q: What consent mechanism will be used for the option to extend a new solvency payment schedule?

A: Consistent with solvency funding relief provided in 2009 and again in 2012, the solvency payment schedule would only be extended if no more than one third of the aggregate of all active, former and retired plan members indicate (before the

start of payments) that they do not consent. Collective bargaining agents would only be able to provide consent for the proportionate share of the active members whom they represent.

Q: Why is the government undertaking a review of the current solvency funding framework?

A: Over the last several years, private sector sponsors of single employer defined benefit pension plans have faced funding pressures associated with the low interest rate environment. Many sponsors continue to face challenging contribution requirements as a result of these economic conditions. Recognizing this situation, the government has initiated a review of the current solvency funding framework with a view towards developing a balanced set of reforms that would take into account interests of pension stakeholders – including sponsors, unions, members, and retirees.

Q: What will David Marshall's role be in the solvency funding review?

A: The government has appointed David Marshall to lead the solvency funding review process and provide advice and recommendations to the Minister of Finance with a view to assisting the Ministry of Finance in developing a balanced set of solvency funding reforms that would focus on plan sustainability, affordability and benefit security. He will also assist in ensuring that the review is informed by feedback from a diverse group of stakeholders.

Pooled Registered Pension Plans (PRPPs)

Q: What is the status of PRPP legislation in Ontario?

A: On May 28, 2015, the *Pooled Registered Pension Plans Act, 2015* (Act) received Royal Assent.

The Act would come into force on proclamation once supporting regulations have been developed. Regulations are currently being drafted.

Q: Why is Ontario's Act so similar to the federal framework?

A: Ontario continues to support national efforts to improve the retirement income system and recognizes the value in working with other jurisdictions to develop innovative solutions that advance this important goal for all Canadians.

An Ontario PRPP framework that is harmonized with those of the federal government and other provincial jurisdictions would assist in creating a coordinated approach to administration and regulation across the country. Not only would this help to create economies of scale and minimize costs, but it would also foster greater portability, supporting a modern, mobile workforce.

Q: How many PRPPs are currently registered throughout Canada?

A: To date, only Québec and the federal jurisdiction have legislation in effect and as such, the only plans currently in existence are those registered in those two jurisdictions.

Québec: As of April 2016, Quebec had registered nine plans belonging to the following administrators: National Bank; Sunlife; Société de gérance des fonds FMOQ Inc.; Morneau Shepell; London Life; Manulife; Industrial Alliance; Desjardins; and Compagnie Trust Royal/RBC.

Federal: As of April 2016, the federal Office of the Superintendent of Financial Institutions had registered four plans belonging to the following administrators: Industrielle Alliance Assurance et Services Financiers Inc.; London Life; Manulife; and Sun Life.

Q: How are PRPPs different from individual Registered Retirement Savings Plans (RRSPs) and how will they be more effective than RRSPs in encouraging people to save for retirement?

A: PRPPs differ from RRSPs in a number of important respects, including the pooling of accounts for investment purposes, the higher legal standard of care applied to administrators, and the requirement that PRPPs be offered at low-cost to ensure that individuals' retirement savings and investments are not eroded by high management fees.

Similar to RRSPs, individuals' annual PRPP contributions are deductible in calculating their annual taxable income. Also, similar to group RRSPs, employer PRPP contributions would be tax deductible. However, unlike employer contributions to a group RRSP, employer PRPP contributions are excluded from salaried compensation of employees and would therefore not be subject to Employer Health Tax, Employment Insurance Premiums, Canada Pension Plan contributions or workers' compensation premiums.

Finally, unlike RRSPs, PRPP funds are required by legislation to be locked-in until a specified age to ensure they provide for retirement income (some exceptions exist).

Q: Who are PRPPs intended to benefit? How?

A: Employees & Self-Employed: PRPPs are intended to make it easier to save for retirement by providing employees and self-employed individuals with an additional savings vehicle that is low cost (achieved through a simple design and economies of scale), professionally managed, and portable from one workplace to another.

Employers: PRPPs can result in lower employer taxes and withholdings than Group RRSPs, since employer contributions are not subject to the Employer Health Tax, Employment Insurance premiums, Canada Pension Plan contributions or workers' compensation premiums.

Business: PRPPs are intended to be particularly beneficial for small and medium-sized businesses that may not have the capacity to offer traditional pension plans.

Q: What is the multilateral agreement for PRPPs? What is the status?

A: The federal government and provinces with PRPP legislation in place – British Columbia, Alberta, Saskatchewan, Nova Scotia and Ontario – are currently in negotiations regarding a multilateral agreement for the regulation and supervision of PRPPs with members in more than one jurisdiction (i.e., multi-jurisdictional PRPPs).

If signed, such an agreement would assist in creating a coordinated approach to the administration and regulation of PRPPs across the country.

On July 15, 2015, the federal government released for public consultation the draft multilateral agreement for PRPPs. Comments were due September 1, 2015. Negotiations with other provinces are ongoing and it is anticipated that a draft will be finalised in 2016.

Q: What amendments would be made to the Act in Bill 173, the 2016 Spring Budget Bill?

A: The amendment to the application section would clarify that the Act also applies to individuals formerly employed in the specified forms of employment who continue to maintain funds in a PRPP account.

To further facilitate harmonization with other jurisdictions and to ensure the efficient operation of PRPPs, and amendment would remove provisions that permit transfers from registered pension plans to PRPPs. This amendment would also help to simplify regulatory oversight.

Other amendments would provide that the Superintendent will not issue a licence authorizing a corporation to be an administrator of a PRPP before a multilateral agreement described in section 8 of the Act comes into effect in Ontario. This is a procedural measure to help Ontario put the multilateral agreement into effect.

Finally, the Lieutenant Governor in Council's regulation making powers would be amended in respect of the issuing of licences, the requirements for registration and the provision of information under the Act. This additional regulatory authority would promote streamlined administration and oversight of PRPPs.

Q: Will PRPPs be considered a comparable plan?

A: The government will be developing an appropriate test to determine comparability for the purposes of the ORPP.

Target Benefit Pension Plans

Q: What are target benefit pension plans?

A: Target benefit pension plans combine features of defined benefit and defined contribution plans. They "target" a specified retirement pension funded by fixed contributions, but can address funding shortfalls by reducing accrued benefits, including pensions in pay.

Q: Why is Ontario considering target benefit pension models?

A: Target benefit pension plans have the potential to increase workplace pension plan coverage by providing employers and employees with a more flexible pension option. With a more predictable cost structure, employers that may not be able to manage the risks of a defined benefit plan would have another option to offer employees. Members and retirees would also benefit from pooling of investment risk and longevity risk, which can reduce the cost of pensions.

Q: Why did we only consult on multi-employer pension plans?

A: While numerous target benefit multi-employer pension plans (MEPPs) exist in Ontario, there is no specific framework for target benefit pension plans in the Pension Benefits Act (PBA). For the purposes of the PBA, they are classified as defined benefit plans. Feedback from the consultation will help inform the development of a comprehensive framework for target benefit MEPPs that will replace the time-limited funding regulations that are currently in place for certain MEPPs, known as specified Ontario multi-employer pension plans (SOMEPPs).

Currently, there are no target benefit single-employer pension plans. Additional issues may need to be addressed in a framework for single-employer plans. For example, single-employer plans have a higher risk of winding up than multi-employer plans.

Feedback from consultations relating to MEPPs will help in subsequently developing a framework for single-employer target benefit pension plans.

Q: What concerns did stakeholders express in the consultation?

A: While submissions were supportive of a new framework, including a solvency funding exemption, some concerns were raised that certain MEPPs may face challenges transitioning to a new framework and implementing changes in funding rules.

The government will continue to consult with affected stakeholders on all aspects of a target benefit MEPP framework, including funding rules, and is committed to providing a transition period that allows sufficient time and ensures minimal disruption to the collective bargaining process.

Q: How will the solvency funding review and any potential reforms to Ontario's current funding regime affect the development of a new funding framework for TB MEPPs?

A: In order to ensure a comprehensive and coherent framework for TB MEPPs, a new TB MEPP framework will be developed in the context of any changes to the current solvency funding regime.

Pension Advisory Committees

Q: What is the government doing to facilitate the establishment of Pension Advisory Committees (PACs)?

A: The role of PACs will be to monitor plan administration, make recommendations to the administrator regarding the pension plan, and promote awareness and understanding of the pension plan.

The government is proposing legislative changes to facilitate the establishment of PACs.

Draft regulations under the Pension Benefits Act were posted for public consultation in the fall of 2015. Regulations incorporating stakeholder feedback will be finalized later this year once the necessary legislative amendments have been passed.

Q: What are the legislative changes that the government is proposing to enable the implementation of PACs?

A: The government is proposing two amendments relating to PACs to facilitate the establishment of PACs.

1) Allow for transitional rules for pension plans that already have advisory committees to be included in the regulatory framework for PACs which is currently under development.

2) Allow the government to make regulations to provide for the exemption of pension plans that meet specified criteria from the requirement to establish a PAC. Currently, jointly sponsored pension plans and multi-employer pension plans would be exempt from this requirement because their governance structures already require member representation. It has been brought to the attention of the Ministry of Finance that certain other pension plans also

provide for member or retiree representation in their governance structure. As a result, the PBA is being amended to avoid potential duplication.

Pension Benefits Guarantee Fund (PBGF)

Q: What is the government doing to ensure that the PBGF remains a sustainable source of protection for Ontarians?

A: The PBGF was created in 1980 to provide a measure of security to help offset the effects of pension shortfalls that occur when a plan is wound up without sufficient assets to pay full benefits for all members and the employer is unable to fund the pension shortfalls (e.g., if the employer is insolvent).

Ontario is the only jurisdiction in Canada with a Pension Benefits Guarantee Fund (PBGF). The PBGF guarantees eligible pension benefits up to the first $1000 per month in respect of covered employment in Ontario.

The PBGF plays an important role in Ontario's pension system by ensuring a minimum level of benefit security for plan beneficiaries. Reforms to the PBGF were made in 2012 to put it on a more sustainable footing including increasing assessments and eligibility conditions for covered benefits. As the government continues to pursue reforms to Ontario's pension regulatory landscape consideration will also be given to how any reforms may impact the PBGF to ensure that the fund remains a sustainable source of protection for covered plans.

"Split Pensions"

Q: What is the government doing to help public sector employees whose pensions were affected by past government-initiated restructuring?

A: Reforms were made to the Pension Benefits Act and its regulations to allow certain pension plans, such as HOOPP, OMERS and the OPS plan, to enter into agreements and offer eligible individuals an opportunity to consolidate their pension benefits in their successor plan. These reforms came into force on January 1, 2014.

The regulation names the affected plans and sets out the information that must be given to eligible individuals, including any implications of consolidating their pension benefits. This should help individuals make informed decisions about whether or not to consolidate their pensions.

An amendment in the 2015 budget bill extended the date by which the affected plans must fully implement their agreements, from July 1, 2016 to July 1, 2017.

A minor amendment is being proposed to ensure that affected plans have until July 1, 2017 to implement their agreements.

Social Assistance

Social Assistance Rate Increase

Q: Why is the government giving a higher rate increase to Ontario Works single adults without children compared to everyone else on social assistance?

A: The increase will provide a top-up to singles without children receiving Ontario Works, who have the lowest incomes among social assistance recipients. With the increase and the top-up, this group of recipients will receive a total increase of $25 per month, which is $100 per month, or 16.5 per cent, more than they received in 2012.

Q: Why are the non-disabled spouses of ODSP recipients excluded from the rate increase? Is the $25 increase for OW singles adults without children being made at the expense of ODSP recipients?

A: All individuals and families receiving Ontario Disability Support Program (ODSP) benefits will benefit from the 1.5 per cent increase for persons with disabilities.

This approach helps reduce the disparity between Ontario Works and ODSP rates for non-disabled spouses and takes an initial step towards treating non-disabled recipients more equally.

Q: Will the province cover the 2016 municipal share of the cost of the Ontario Works rate increase?

A: Yes. The government recognizes that most 2016 municipal budgets have already been completed. Municipalities would not be required to share the cost of the rate increase until January 2017.

Social Assistance Consultations

Q: Is the government starting yet another consultation on social assistance reform?

A: In the 2015 Budget, Ontario introduced a consultation on social assistance rate restructuring. Through ongoing discussions, there emerged a clear consensus on the need to move policy considerations beyond social assistance rates to include aspects of the broader income security system.

The government is continuing to engage with delivery partners, clients and sector advocates to chart the path to a comprehensive system that effectively reduces poverty, supports people in their efforts to participate in the economy, and provides human services in a way that makes sense to the people who need them.

This process will look across the government and at the broader income security landscape to ensure that various existing and future programs work together to

help Ontarians. The government will also engage First Nation, Inuit and Metis communities to ensure that the path forward recognizes unique challenges on- and off-reserve and helps all Ontarians live a better life.

One area of research that will inform the path to comprehensive reform will be the evaluation of a Basic Income pilot. The government will work with communities, researchers and other stakeholders in 2016 to determine how best to design and implement a Basic Income pilot.

Child Support Exemption in Social Assistance

Q: Why is the government going to introduce changes to social assistance rules to exempt child support payments?

A: Currently, families receiving child support have their social assistance benefits reduced by the full amount of child support they receive. This means that families on social assistance are no better off when they receive child support, and the parent responsible for making child support payments may feel little incentive to do so.

That is why the government will introduce changes to social assistance rules so that families on social assistance who receive child support payments can benefit from more of this income.

Q: When is the government going to exempt child support for the purpose of determining social assistance benefits?

A: Over the next year, the government will introduce changes to social assistance rules so that families on social assistance who receive child support payments can benefit from more of this income. Details will be provided in the near future.

Q: Will child support be fully exempt or treated like employment income as recommended by the Lankin-Sheikh Report? Will social assistance recipients still be required to seek child support?

A: Over the next year, the government will be considering different approaches to implementing a change to how child support payments are treated for the purpose of social assistance and will announce details in the near future.

Prosper Canada

Q: What is Prosper Canada?

A: Prosper Canada is a national organization dedicated to expanding economic opportunity and financial empowerment to low-income Canadians. Prosper Canada works with government, business and community partners to develop programs such as Financial Empowerment and Problem Solving (FEPS).

Q: What will Proper Canada do with the funds?

A: Through the Ministry of Community and Social Services, the government will invest up to $1 million annually over five years to partner with Prosper Canada in order to provide a range of financial empowerment tools and services to more Ontario communities.

The Ministry of Community and Social Services will work with Prosper Canada to develop a plan for the best way to use the funds to support new financial empowerment services. The new programs would be evaluated for their effectiveness on enhancing the financial stability and empowerment of participants.

Q: What is FEPS?

A: The Financial Empowerment and Problem Solving (FEPS) program helps low-income people boost their incomes and take control of their finances.

The program offers individualized counseling and hands-on help to those in financial crisis to obtain banking services, apply for benefits such as Canada Learning Bonds to save for their children's education, manage debt and enable participants to move from crisis to longer-term financial planning.

Funny Money

Q: Why is the government funding Funny Money? Isn't financial literacy already part of the Ontario high school curriculum?

A: Financial literacy education is integrated in the existing Ontario curriculum for students in grades 4-12, so they have the knowledge and skills to take responsibility for managing their personal financial well-being with confidence and competence, but is not currently offered as a separate course.

Funny Money would complement the curriculum through standalone sessions that use humour to educate youth about money management, credit, debt and savings in order to empower students with the knowledge they need to make good financial choices.

Basic Income Pilot Project

Q: Why is the government implementing a Basic Income pilot project?

A: A Basic Income pilot will test a growing view at home and abroad that a basic income could build on the success of minimum wage policies and increases in child benefits by providing more consistent and predictable support in the context of today's dynamic labour market.

The pilot would also test whether a basic income would provide a more efficient way of delivering income support, strengthen labour market attachment and achieve savings in other areas, such as health care and housing supports.

Q: When and where will the Basic Income pilot be implemented? How much will the Basic Income pilot cost? Your Estimates show $5 million in 2016-17 for the pilot.

A: The pilot in still in the inception stage. A start date and criteria for determining a location for the Basic Income pilot have not yet been determined. The government will be gathering expert advice on the design of the Basic Income pilot over the course of 2016. Once this work has been completed, the government will finalize the costs for the pilot.

Canada Pension Plan Enhancement

Q: Minister Morneau has begun a process to enhance the Canada Pension Plan (CPP). What does Ontario want from this process?

A: Ontario has long been a champion of strengthening the retirement income security system and is pleased that the federal government shares this commitment and has renewed national discussions to enhance the CPP.

The Province's extensive consultations in developing the Ontario Retirement Pension Plan (ORPP) have helped to inform Ontario's view that any CPP enhancement must be timely and provide a level of adequacy and targeted coverage that is consistent with the ORPP.

Q: If there is an agreement on CPP enhancement within the year, will Ontario still implement the ORPP?

A: While Ontario is pleased that the federal government understands the importance of enhancing retirement security, the process to enhance the CPP is not simple and could take a very long time.

Ontario will continue to be an advocate of the need for enhanced retirement security and will work intensively with its federal, provincial and territorial counterparts to address the needs of future retirees.

To provide more time for discussion among provinces and the federal government, Ontario is phasing-in the launch of the ORPP by starting enrollment one year later than the original start date, and by starting the first phase of contributions in January, 2018.

Q: If there is agreement on a CPP enhancement that does not meet Ontario's objectives, what is Ontario's position?

A: The Province's extensive consultations in developing the ORPP have helped to inform Ontario's view that any CPP enhancement must be timely and provide a level of adequacy and targeted coverage that is consistent with the ORPP.

The government looks forward to collaboration on a CPP enhancement and other innovative approaches at the Federal-Provincial-Territorial Finance Ministers meeting in June 2016.

Ontario's main objective is to look at ways to meet the goals of the ORPP in an enhanced CPP framework, while preserving the ability to implement the ORPP, should that not be possible.

Q: The federal budget announced that in the coming months the federal government will launch consultations to give Canadians an opportunity to share their views on enhancing the CPP. How will the federal consultation process affect the timeline to reach agreement on a CPP enhancement by the end of 2016?

A: Details of the federal consultation process on CPP enhancement are unknown at this time.

Our government will continue to be an advocate of the need for enhanced retirement security and will work intensively with its federal, provincial and territorial counterparts to address the needs of future retirees.

The Province's extensive consultations in developing the ORPP helped inform Ontario's view that any CPP enhancement must be timely and provide a level of adequacy and coverage consistent with the ORPP.

REVENUE AGENCIES OVERSIGHT DIVISION

Wine and Spirits Retailing

Overview

Q: What are the key recommendations and changes being implemented?

A: There are a handful of key changes that consumers will notice.

The government is expanding wine sales in up to 300 grocery stores across the province. This includes:

- 150 brand new authorizations to grocery stores that will allow them to sell domestic and imported wine and beer. These new authorizations will also allow grocers to sell cider and fruit wine.
    - 70 of these authorizations will be issued this fall. Of these 70:
        - 35 will allow grocers to sell imported and domestic wine immediately.
        - 35 will allow for the sale of Ontario Vintners Quality Alliance (VQA) wine from producers other that the larger owners of winery retail stores. After three years, these authorizations will automatically open up to allow for the sale of all imported and domestic wine. This transitional arrangement allows time for the industry to adapt to the new channel.
- Up to 150 of the existing winery retail outlets at grocery stores that consumers are already familiar with will be allowed to operate their stores inside grocery locations. These locations will expand their product selection and sell wine from other Ontario producers. Winery retail stores will be pairing with grocers that can also sell beer. There will no longer be a separate checkout at these locations.
- And finally, we will continue to issue beer-only authorizations to grocery stores until up to 450 grocery stores sell beer.
- All grocers that sell beer will be allowed to sell cider.

For industry – including producers of cider, beer, domestic and international wine – these changes open up new retail opportunities.

Q: When will wine be available on grocery store shelves? What are the next steps?

A: The first 70 stores will be authorized by this fall, and the process will be similar to the one for beer. As with beer, we expect that grocers will want to move quickly to have wine on shelves shortly after authorizations are issued.

We expect to continue to issue authorizations to grocery stores on a rolling basis, while allowing the same number of winery retail stores to operate their stores inside grocery locations with a shared checkout. The Council has recommended that the government review the outcomes of the initial tranche of 70 new outlets before proceeding with future tranches.

Ultimately, up to 300 grocery stores will sell beer, cider and wine. Beer-only authorizations will be issued to bring the total number of grocery stores with beer and cider to 450.

Q: Why did it take so long for you to do this?

A: The wine industry in Ontario is complex. We have stakeholders with a range of interests: local and international wine producers, grape growers, winery retail store owners, grocery store operators and social responsibility groups.

We just changed a 90 year old regime in December with respect to beer sales. It became obvious in the fall that taking more time to get things right was the sensible approach.

In the end, we have a solution that is win-win-win - for wine lovers, for Ontario wine producers and the farmers who support them, and for international wine producers.

We'll have wine in up to 300 grocery stores – including up to 70 locations authorized to sell by this fall.

Q: Why is the Council recommending only introducing wine into 150 grocery stores? There will be beer in 450 grocery stores.

A: We are expanding access responsibly. The number of new licences in the proposed new model is based on the total number of beer in grocery licences that were established under the beer framework – 450. There are currently 292 "off site" winery retail stores, so we added 150 new authorizations to bring it to about the same as beer.

The exact number of grocery stores selling wine through their own checkouts will depend on the number of WRS outlets that ultimately move inside the check-out at grocery stores. Of the 292 existing WRS outlets, the Council is recommending that up to 150 that are currently located in grocery and outside the grocery store checkout be enabled to operate inside grocery with a shared checkout.

In total, wine could be available in up to 300 grocery stores – including up to 70 locations authorized to sell by this fall.

Q: What does this mean for beer in grocery stores?

A: We are committed to expanding beer sales to up to 450 grocery stores. To reach this target:

- 150 brand new authorizations will allow grocers to sell beer, cider, wine and fruit wine.
- Up to 150 existing winery retail stores will operate their stores inside grocery, where beer and cider will also be sold.
- Beer-only authorizations will be issued to grocers to bring the total number of grocery stores selling beer to up to 450.

Q: Why is this so complicated? There will be universal authorizations, existing winery stores operating inside grocery, controls on who sells what, some will be matched with beer but some won't. Why not just open it up?

A: The Council did not start from scratch in making its recommendations. It recognized the benefits of the existing retail channels for wine, including the LCBO and winery retail stores, and how we could build on and improve them for consumers and all producers.

There will be differences in the consumer experience. Just like beer, and just like grocery stores in general.

The bottom line is that we're getting what consumers want done — wine will be sold alongside beer in grocery stores.

Q: How will this affect Ontario's wine industry?

A: These changes open up opportunities for all producers – from Ontario, across Canada and around the world. All producers will benefit from being able to sell their wine in more locations.

Here in Ontario, these changes build on our already-thriving industry. Ontario's wine and grape industry contributes to developing tourism destinations, creating jobs and growing our economy. VQA wine sales in Ontario have increased by over $115 million since 2009 to $288 million – a 66 per cent increase.

This is a win for consumers and all producers.

Q: Will bringing winery retail stores inside grocery stores make a big difference to consumers?

A: As consumers will be able to shop for wine in a convenient way, we expect that they will respond favourably to the changes.

Q: Why will it take so long to roll out only 150 new authorizations?

A: By making these changes in stages, we are giving the industry time to adapt.

Unlike beer, wine requires grapes to be grown and wine to be aged, which creates much longer lead times for domestic industry to ramp up.

We have moved quite quickly to increase consumer convenience and choice.

We were pleased to launch the sale of beer in grocery stores this past December, and we look forward to seeing wine on shelves beginning this fall.

Product Assortment and Prices

Q: What type of wine will consumers be able to purchase in grocery stores?

A: In grocery stores, Ontarians will have access to Ontario wines as well as wines from the rest of Canada and around the world. Fruit wine will also be available.

The product selection will vary depending on the grocery store.

Q: Will there be restrictions on wine sales like there are for beer sales?

A: Yes, there will be restrictions similar to beer, to ensure that:

- The sale of wine and beer adheres to standard hours;
- Staff selling and handling wine and beer in grocery stores must be a minimum of 18 years of age;
- Staff must be fully trained to ensure Ontario's standards for social responsibility are always met;
- Staff will be responsible to ensure that customers under the age of 19 and intoxicated adults do not purchase beer.

Q: Why will grocery stores only be able to sell wine that costs $10.95 or more?

A: We believe that, where access is expanded, social responsibility standards should be strengthened. This price restriction is supported by social responsibility groups, including MADD.

This price restriction also supports the competitiveness of Ontario VQA wines in the grocery channel, and promotes the objectives of Ontario's Wine and Grape Strategy.

Q: Why is the price restriction set at $10.95, and not higher/lower?

The $10.95 price restriction strikes a balance between providing a broad product selection and maintaining social responsibility standards. The majority of Ontario VQA wines are priced at $10.95 or higher, and therefore the price restriction supports their competitiveness in this channel.

Q: What are the differences between the grocery stores what will get new authorizations vs. the stores that will have wine retail stores move inside their checkouts?

A: The new wine authorizations will see wine fully integrated on grocery store shelves with a full assortment of domestic and imported wine.

Winery retail outlets that operate their stores inside grocery locations will broaden their assortment to sell the wines of any Ontario producer.

In both cases, there would be a shared checkout for both groceries and wine.

Q: Who decides which wines will be sold in grocery stores?

A: While the product selection will vary depending on the grocery store, the new grocery store channel will sell imported and domestic wine.

For the grocery stores that secure one of the new beer and wine authorizations, it will be the grocers that decide which products to offer.

The owners of winery retail stores will continue to decide which products they offer, however they will broaden their selection to sell the wines of any Ontario producer. There will be minimum shelf space requirements for the wines of other Ontario producers and small wineries to ensure fair representation.

Q: The Council's report suggests that some authorizations be restricted until three years after they are issued. What does this mean?

A: The initial allocation of 70 licences should be split into two equal groups of 35 licences. One group of 35 would allow for the immediate sale of both imported and domestic wine. The remaining 35 would be restricted for the first three years to selling only Ontario VQA wines from producers other than the larger owners of off-site WRS outlets. After the initial three-year period, these stores would automatically be permitted to sell all wine. This transitional arrangement is designed to allow time for the industry to adapt to the new Wine in Grocery channel.

The Council is suggesting that the Province consider allocating further tranches at three-year intervals to coincide with the date that the previous tranche converts to permit the sale of all wine, up to 150 licences in total.

Q: Will there be a minimum amount of shelf space for Ontario wines?

A: The Council has recommended that the government discuss with grocers opportunities for small producers to access the new Wine in Grocery channel, and ways to provide adequate display of VQA wines.

The government will take this recommendation into consideration in the lead up to the allocation process for Wine in Grocery.

Off-site winery retail stores are only permitted to sell Ontario wines.

Q: Will wine prices increase as a result of these changes? How much? What about beer and other alcoholic beverages?

A: Beverage alcohol producers will continue to set prices for their products.

It's important to keep in mind that Ontario enjoys the lowest prices in Canada for wine – and among the lowest prices for beer.

Q: Will wine prices be the same at grocery stores as in the LCBO and winery retail stores?

A: Yes. Consumers will pay the same price for the same product no matter where they buy it.

This applies to all types of alcoholic beverages, whether purchased at the LCBO, grocery stores or on-site where the product is made.

Revenue and LCBO Impact

Q: How will these changes affect the Province's revenue?

A: We believe government revenues will be mostly unaffected by this move to better integrate wine retailing into grocery stores. We will know better over time, as all participants adjust to the changing retail landscape.

We are doing this to deliver on consumer demand for increased convenience and choice while ensuring returns to fund key government priorities like healthcare and education.

The Ministry of Finance is moving ahead with the 2016 Budget announcement to increase LCBO mark-ups on wine and corresponding increases to the wine taxes at winery retail stores, as well as increases to the minimum price for wine. These will generate approximately $75 million in new revenue at year 3 of implementation, in 2018-19.

Q: Will grocers profit from wine sales? Will government share in this benefit?

A: This model creates opportunities for producers, grocers and the LCBO while ensuring Ontario continues to have necessary revenue for investing in key priorities like infrastructure.

As is the case with beer sold in grocery stores, producers, grocers and government will earn revenue from wine sales in grocery stores.

Because grocers purchase product from the LCBO at a discount, the grocers earn the gross margin bid in the auction when they sell it to consumers.

Grocers will compete in a competitive allocation process based on the minimum discounts bid.

We expect wine prices to remain the lowest in the country after these changes are implemented.

Q: How will the LCBO's business change as a result of expanded wine and beer sales in Ontario?

A: These changes mean the biggest increase in competition the LCBO has ever faced. The grocery channel also shifts the LCBO's focus to its role as a supplier.

LCBO will become a more innovative retailer, including continuing to focus on the customer experience and expanding in key areas like eCommerce.

The LCBO is developing its long-term strategic plan to address these challenges. This is demonstrated by key consumer-focused initiatives including store upgrades and merchandising innovations like "Products of the World."

We look forward to the LCBO's moving forward on its eCommerce platform later this year.

Q: How will these changes affect the LCBO? Are LCBO employees at risk of losing their jobs?

We are building Ontario up, with our number-one priority being growing the economy and creating jobs.

We recognize that these changes will mean the LCBO has to adapt the way it does business.

LCBO will become a more innovative retailer, including continuing to focus on the customer experience and expanding in key areas like eCommerce.

Competitive Allocation Process

Q: Who will run the competitive allocation process, issue the authorizations and enforce social responsibility requirements?

A: As with beer, the LCBO will run the competitive allocation process and enter into supply agreements with grocers.

The AGCO will ensure that any locations with supply agreements meet store eligibility criteria, as well as criteria for the socially responsible sale of beer and wine in their stores, before authorizing them to sell.

Q: When will grocers be able to bid on authorizations to sell wine?

A: The LCBO is expected to launch the competitive allocation process this summer. Grocers would be authorized and begin to put product on their shelves by fall.

Q: Is there a required geographic distribution for the authorizations?

A: As with beer, we will put measures in place to ensure a fair representation of grocers and equitable geographic distribution across Ontario.

Q: Will large and independent grocers be given the same opportunities?

A: As with beer, we will put measures in place to ensure fair representation of grocers and equitable geographic distribution across Ontario.

In fact, of the first 70 wine authorizations, at least 18 will be allocated to independent grocers.

Q: What does this mean for grocery stores that already have winery retail stores on their premises?

A: Up to 150 winery retail outlets that are currently located in grocery stores and just outside the checkout will be enabled to operate their stores inside grocery locations with a shared checkout so that consumers can check out wine along with the rest of their groceries.

To facilitate that process, up to 70 beer authorizations will be offered to grocers that are able to reach an agreement with winery retail store owners by May 1, 2017. These beer authorizations would be granted directly to the grocer based on a set discount of 3% off the net price, which was the minimum bid in the 2015 Beer in Grocery allocation.

This is in addition to the 150 brand new authorizations that will be issued for grocers to sell wine, beer, cider and fruit wine on shelves.

The remainder of the winery retail stores will continue to operate as they do now. Grocery locations with winery retail stores on their premises would not be eligible for one of the 150 new universal wine authorizations. They could, however, apply for an authorization to sell beer.

Q: What about the grocery stores already selling beer?

A: Grocers that successfully won beer authorizations in the last allocation can bid on wine and beer authorizations and to co-locate with winery retail stores. Large grocers are free to move beer authorizations between stores within a region they would not be prevented from bidding on wine authorizations.

Single store grocery operators that were successful in the 2015 allocation would be able to bid for a new universal wine authorization for their store to combine with their existing beer authorization.

Q: How much will it cost grocers to apply for and maintain their authorizations?

A: These details will be made available when the competitive process opens this summer.

<u>Other</u>

Q: What are the terms for a winery retail outlet seeking to relocate inside a grocery store?

A: The grocer and the existing winery retail outlet must form an agreement for the winery retail outlet to operate its store inside the grocer's space.

To facilitate this process, up to 70 beer licences will be offered to grocers that are able to reach an agreement with winery retail store owners by May 1, 2017. These beer licences would be granted directly to the grocer based on a set discount of 3% off the net price, which was the minimum bid in the 2015 Beer in Grocery allocation.

Q: What is the outcome and status of the pilot project for farmers' markets?

A: The VQA wine sales at farmers' markets initiative is part of the overall renewed Wine and Grape Strategy. The two-year pilot project started on May 1, 2014. To date, 83 wineries and 212 farmers' markets have participated and sales have surpassed $1.4 million. The Council has recommended that craft cider and fruit wine be included in the farmers' market initiative.

The government is accepting the Council's recommendations and is taking steps to ensure these products are included in this initiative. The details regarding implementation will be announced in the coming months.

Q: You're opening new retail channels for wine, beer, cider and fruit wine. Why not for spirits?

A: The Council's recommendations recognize and build in the existing retail systems for beverage alcohol. We are confident the LCBO is a fair, competitive and effective retail channel for spirits. Spirits are key to the LCBO's profitability and the LCBO engages in a number of activities to ensure the industry continues to thrive.

The LCBO, as the exclusive retailer of spirits in Ontario, is encouraged to continue to find customer-focused ways to offer new and innovative merchandising and promotional opportunities for this important product category.

Q. What changes are you making for spirits producers?

The government will allow craft distillers to deliver directly to bars and restaurants, replace the current markup/commission structure at on-site stores for all distillers with a consumer tax, provide craft distillers with improved margins at their on-site stores, and provide an exemption on a limited volume of spirits for promotional distribution at on-site stores.

Acknowledging that spirits are subject to the highest markups of the three major categories, the government is not increasing spirits mark-ups at this time.

Q: You're preserving advantages for Ontario wineries – are you certain that you're trade compliant? Aren't you worried that allowing winery retail stores to operate inside grocery markets and keeping them domestic will lead to a trade challenge?

A: In an increasingly global economy, Ontario's trade and investment relationships are important to us. Trade obligations were a key consideration in the Council's recommendations for the wine sector.

We're confident we've created a win-win-win scenario – for the province's wine lovers, for Ontario's outstanding wine producers and the many farmers who support them and for wine producers from across the country and around the world.

The reality is that these changes open up new market opportunities for imports as well as Ontario products.

Q: How does this proposal manage the social responsibility risks associated with increased access to alcohol?

A: As we did with beer in grocery, we will make sure that wine is sold in a way that is consistent with Ontario's social responsibility mandate for the sale of alcoholic beverages.

This will include restricted hours of sale and mandatory training for all staff handling alcohol, and restrictions, such as maximum alcohol content and package sizes.

At the same time, we need to recognize that we are expanding the alcohol retailing network, and this has corresponding social responsibility impacts.

That is why the work we are doing with the Ministry of Health and Long-term Care on the provincial alcohol strategy is so important. The Ministry of Health is consulting with stakeholders on that work, and we expect to report back in the spring with a comprehensive plan.

Q: How is the government supporting Ontario's domestic beverage alcohol industry?

A: Ontario will provide increased retail access and other improvement to support Ontario's domestic beverage alcohol manufacturing industry.

- **Cider:** Allow cider (both imported and domestic) to be sold in grocery stores, and allow Ontario craft cider to be sold at farmers' markets.
- **Fruit Wine:** Allow fruit wine to be sold in grocery stores as part of the universal wine authorizations and at farmers' markets, and allow fruit wineries to deliver directly to bars and restaurants at the same rate as VQA wine.
- **Spirits:** Allow craft distillers to deliver directly to bars and restaurants, replace the current markup/commission structure at on-site stores for all distillers with a consumer tax, provide craft distillers with improved margins at their on-site stores, and provide an exemption on a limited volume of spirits for promotional distribution at on-site stores.

Ontario Microbrewery Strategy Renewal

Q: Why is the government extending the Ontario Microbrewery Strategy program two years to March 31, 2018?

A: The program is being extended to assist with craft brewers' successful launch in grocery stores.

The funding would also allow the Ontario Craft Brewers Association (OCB) to:

- continue building their brand;
- finish implementing quality programs for new members;
- establish breweries in more communities; and

- further explore export markets.

Q: How much funding will the Ontario Craft Brewers Association receive?

A: The program extension will provide $1.4 million over two years to the Ontario Craft Brewers Association (OCB).

- $800,000 would be allocated for 2016-17 and $600,000 would be allocated for 2017-18.
- The program would expire on March 31, 2018.

Q: Why is the program only being extended for two years? Why not extend it beyond March 2018?

A: The program is being extended in line with the rollout of beer in grocery stores and will help craft brewers' successful launch in that new channel.

Q: How have Ontario craft beer sales grown in Ontario?

A: Since first being introduced to the market in 1984, locally brewed, small batch beer has steadily gained popularity and market share to become one of LCBO's fastest-growing product categories.

In 2014-15, sales of Ontario craft beer in the LCBO were more than $68 million. This represents an increase of about 635 per cent since 2006-07.

Beer Framework Agreement

Q: Why does Ontario need a beer framework? Why not simply open up the sale of beer as widely as possible?

A: The Beer Store operates as part of Ontario's low-cost, efficient distribution system, which will be maintained and will continue to benefit Ontarians by keeping beer prices below the Canadian average.

We have expanded convenience and choice for consumers by expanding the sale of beer to grocery stores. This new approach brings added competition to the beer retail market and provides new growth opportunities for small brewers.

Q: The government's strict controls around beer in grocery stores have been criticized. Why are you still so involved in alcohol retailing?

A: Selling alcohol is a public trust that our government takes very seriously. These are the biggest changes to beer retailing in Ontario since the repeal of prohibition.

Our approach balances a number of considerations, including how to best meet consumer demand, secure good value, ensure fair competition, avoid regional

concentration and serve communities across the province, while maintaining our strong commitment to social responsibility.

The government is proceeding prudently and responsibly.

Q: Are beer prices going up as the result of the new beer framework agreements?

A: On November 1, 2015, the charge on beer increased by three cents per litre, or 25 cents per 24-pack, and will increase by 3 cents per litre each November until 2018. These four increases will generate about $100 million a year when fully implemented.

Even with these changes, Ontario beer prices are expected to remain below the Canadian average.

The industry's largest brewers have also committed to cap price increases to inflation for some of their most popular beer products until May 2017.

Any revenue generated from selling alcohol in a socially responsible manner supports key government priorities such as health care, education and skills training, and infrastructure and transit investments that benefit all Ontarians.

Q: How much does beer cost in the grocery store compared to the cost of beer at the LCBO or the Beer Store?

A: Beer prices are set by the brewer, subject to minimum price requirements to encourage responsible consumption, and under our uniform pricing policy, the retail price for a particular product is the same at the LCBO, the Beer Store, the brewer's own on-site store, or in a grocery store

For example, a 6-pack of Steam Whistle Premium Pilsner that sells at the LCBO for $13.85, including container deposit, sells for the identical price at the grocery store and the Beer Store. And a 6-pack of Molson Canadian that sells at the Beer Store for $10.95, including container deposit, sells for the identical price at the grocery store and the LCBO.

Q: How is social responsibility being upheld for beer sold in grocery stores?

A: Grocers must follow strict rules for the safe sale of alcohol.

Beer can only be sold within permissible hours, in a single section of the store, it cannot exceed 7.1 per cent alcohol by volume, and is limited to six-packs or less.

Staff selling and handling beer in grocery stores must be at least 18 years old, and fully trained to ensure that underage customers and intoxicated adults do not buy beer.

The government is also consulting industry and social responsibility groups to develop a comprehensive alcohol policy framework to support the safe and responsible consumption of alcohol.

Q: Why can't convenience stores sell beer?

A: The Premier's Advisory Council on Government Assets recommended that the expansion of beer sales be limited to grocery stores, which it defined as retailers with at least 10,000 square feet of food products. The government believes that grocery stores are best positioned to maintain our system's strong social responsibility standards. Smaller, locally owned grocers are among the 60 stores authorized to sell beer.

Q: When will the LCBO run the next competitive allocation for beer?

A: The government proceeded with its first beer authorizations in December 2015.

The LCBO is expected to launch the competitive allocation process for 70 wine and beer licences this summer. Grocers would be authorized and begin to put product on their shelves in the fall.

The government will review the outcomes of this initial tranche before proceeding with future tranches.

Q: How does the new Beer Framework bring enhanced transparency and accountability to the Beer Store?

A: The Beer Store is being returned to its co-operative roots. By opening up its ownership to all brewers with facilities in Ontario it will be more transparent and responsive to brewers, the government and the public. All transactions between the Beer Store and its shareholders will be conducted in a transparent, auditable and commercially reasonable way.

The Beer Store will also operate under a new governance structure to provide fair representation for all shareholders.

- Four Independent Directors will approve key policies related to brewer neutrality, will approve transactions between the Beer Store and its owners, and will participate on all board committees.

- An independent Beer Store Ombudsperson will ensure brewer and customer complaints are handled in an unbiased manner.

Q: How do Ontario small brewers benefit from the new Beer Framework?

A: The government is committed to supporting Ontario's small and craft brewers. The Beer Store's retailing and marketing practices will treat all brewers fairly and provide additional retail opportunities.

Small brewers can pool deliveries to licensees and the LCBO, and use third party carriers and warehousing.

At least 20 per cent of shelf space in the Beer Store network and in grocery stores is dedicated to small brewers, and there is a new marketing sub-category called "Ontario Craft in the Beer Store.

Q: What other improvements can consumers expect to see at the Beer Store?

A: The Beer Store will improve the customer experience over time, by converting its stores to modern self-serve and open concept formats. It will also spend $100 million in capital improvements over the next four years, including $80 million on its retail stores.

Q: Why does the Beer Store have a new rebate program for small licensees?

A: Under the new beer framework, as of January 31, 2016, small licensees who purchase less than 2,046 litres of beer (up to 250 cases) annually are eligible to purchase it at consumer retail prices.

Due to technical issues associated with the Beer Store's pricing systems, a rebate program is currently the quickest way for the Beer Store to implement this new program and extend the benefit of lower prices to small licensees.

Licensees will receive a rebate for the difference between the licensee price and consumer retail price on the purchase date. The rebate will be paid quarterly, within 60 days after quarter end.

Alcohol Policy Framework

Q: How much money will you be dedicating to support an alcohol policy framework and how will you be distributing the money across the province?

A: As indicated in the Budget, we expect to dedicate a portion of revenue to support the strategy. However, it is premature to determine the exact amount required until the Ministry of Health and Long-Term Care reports back on the strategy. We need to understand where there is a need for additional funds and determine how to invest to ensure the best outcome. I look forward to their advice.

LCBO Head Office Land Sale

Q: The government originally announced its intention to sell the LCBO head office lands in the 2012 Budget. Why is it taking so long?

A: The Province is in the final stages of the process to sell the LCBO's head office lands. Proponents were invited to submit development plans and a purchase price

through the Request for Proposal process, which closed in September 2015. Negotiations with a potential purchaser are underway, with the transaction expected to close in the spring of 2016.

Q: How will the proceeds from the sale of the LCBO head office lands be used?

A: Net revenue gains from the sale will be dedicated to the Trillium Trust to help fund investments in transit, transportation and other priority infrastructure in the Moving Ontario Forward initiative. These investments are being made under the Province's plan to grow the economy, create jobs and enhance the quality of life for Ontarians.

Q: Do you have any comment on the Statement of Claim to the Ontario Superior Court of Justice by a proponent that was disqualified from the head office lands sale RFP process?

A: As a formal legal process has been initiated, I am not in a position to comment.

LCBO Modernization

Q: Why is the LCBO developing an e-commerce marketplace?

A: In response to the Premier's Advisory Council recommendation that the LCBO improve its e-commerce offerings, the LCBO is developing a best-in-class e-commerce marketplace to expand the assortment of products available for pick-up at local stores and eventually home delivery in accordance with strict rules for social responsibility.

Q: When will the LCBO launch its new e-commerce website? Will consumers be able to have LCBO products delivered to their homes?

A: This new platform will be operational by mid-2016.

Domestic producers, suppliers and agents from around the world will be able to list products for purchase for pickup at local LCBO stores or for home delivery in accordance with strict rules for social responsibility.

Q: When is the LCBO going to expand the sale of 12-packs of beer to more of its stores?

A: The LCBO is selling 12-packs of beer on a pilot basis in 10 stores across the province. The results of this pilot program will be evaluated by an independent third party later this year, and if found to be successful, the program could expand to up to 60 stores.

Q: How is the LCBO supporting Ontario's craft and small brewers?

A: The LCBO is rolling out Craft Beer Zones to 25 locations across Ontario, bringing together Ontario, Canadian and international craft beers, grouped by style.

In addition, a growler-filling station at the LCBO Summerhill store features a rotating selection of three different Ontario craft beers not available in any other format. Consumers can also sample the featured brands for a small fee.

Q: What types of specialty shops has the LCBO launched recently?

A: The LCBO's "Products of the World" program has destination stores with expanded boutique formats for products from Greece, Portugal and Spain, as well as two kosher boutiques and a specialty whisky boutique.

Q: What other measures will the LCBO consider coming out of the Premier's Advisory Council's recommendations?

A: In response to the Council's recommendations, the LCBO will launch a pilot program in 2016 offering suppliers the opportunity to tender for unique or exclusive product calls that would include special promotional benefits in exchange for higher margins on these products.

The proposed changes to introduce beer and wine in grocery stores represent a significant increase in competition, and the LCBO is developing its strategic plan to take account of the new realities of Ontario's beverage alcohol system. The LCBO will continue to focus on the customer experience, such as its recent "Products of the World" initiative, and on expanding in key areas like eCommerce.

Alcohol Charges

Q: What change is being made to the minimum price for wine and why?

A: The government will change the minimum price for wine from a wholesale to retail price to be consistent with spirits and beer. Minimum prices are an important measure for reducing alcohol-related harm.

- The minimum retail price for table wine will be set at $6.45 on March 1, 2017, $7.25 on March 1, 2018 and $7.95 on March 1, 2019. These prices include a 20 cent deposit.
- The minimum retail price for cider, fortified wine and low-alcohol wine will also be phased in over three years.

Q: What is the impact of the wine minimum price change?

A: Changing the minimum price for wine from a wholesale to retail price of $6.45 won't happen until March 1, 2017.

There are very few wine products listed in the LCBO that are at the minimum price. For example, only 5 wine products listed in the LCBO will be at the March 1, 2016 minimum price of $6.30.

Q: What is the minimum price now?

A: The current wine minimum price is a wholesale minimum price. As a result of differing wholesale bases, wine minimum retail prices vary by source and type of wine. This is why we are changing the wine minimum price from a wholesale level to a retail level.

- For example, the current minimum retail price equivalent for a 750mL bottle of 100% Canadian table wine, including deposit, is $5.30, while U.S. Table wine is $6.30.

The current beer and spirits minimum prices are identical for domestic and imported products because they are retail minimum prices.

- The current minimum retail price for a typical case of 24 bottles of beer with 5% alcohol is $31.35, including deposit, regarding of whether it is a domestic product or imported product.
- Similarly, the current retail minimum price for a 750ml of spirits is $25.75, including deposit, regarding of whether it is a domestic product or imported product.

Q: How do the changes you are making to the minimum price for wine fit with the minimum price increase that occurred on March 1, 2016?

A: Changing the minimum price for wine from a wholesale to retail price won't happen until March 1, 2017.

The adjustment on March 1, 2016 was made in accordance with a regulation under the *Liquor Control Act* which provides for annual indexing of the beer, wine and spirits minimum prices based on the three-year average of Ontario CPI. This adjustment happens every year on March 1st - or the following Monday if March 1st falls on a weekend.

The March 1, 2016 adjustment was 1.5%. For a 750mL bottle of table wine, the minimum retail prices increased by 5 cents to:

- $5.30 for VQA/100% Ontario wine
- $6.15 for blended Ontario wine
- $6.30 for imported table wine

Per the Premier's Advisory Council on Government Assets' recommendation, the wine minimum price for a 750mL bottle of imported or domestic table wine in subsequent years will be adjusted to ensure wine is sold at a price per litre of absolute alcohol that is more in line with beer and spirits:

- March 1, 2017: $6.45
- March 1, 2018: $7.25
- March 1, 2019: $7.95

Recommencing on March 1, 2020, the wine minimum retail prices will be adjusted by the three-year average of Ontario CPI.

Q: Why did the Council recommend increasing the minimum price of wine increasing to $7.95, and not higher/lower?

Minimum retail prices are an important component of Ontario's socially responsible beverage alcohol system. The minimum price for wine will change from a wholesale to retail price and will increase to $7.95 on March 1, 2019. These changes will help bring the minimum price per litre of absolute alcohol for wine more in line with beer and spirits.

We expect Ontario's wine prices to remain the lowest in the country after these changes are implemented. Only 2% of wine sold in the LCBO is below $7.95 per bottle.

Q: How much will the price of wine increase as a result of the 2 percentage point mark-up change this year?

A: The impact of the mark-up change will depend on the price of the product and whether the producer wants to keep the price the same or increase it.

- A $13.95 bottle of wine could increase by $0.15 to $14.10 if the producer decides to change the price in response to the mark-up change. Due to uniform pricing, the price would be the same at the LCBO, a grocery store and a winery retail store.
- With the full 7 percentage point mark-up increases, the price of the $13.95 bottle of wine could increase by $0.55 to $14.50. This price would not be in effect until April 1, 2019.

Q: How much revenue will the Province make as a result of these changes?

A: The wine mark-up, tax and minimum price changes will generate about $15 million in 2016-17, $45 million in 2017-18 and $75 million in 2018-19.

- The increase in the wine mark-up accounts for about 96% of the estimated revenue.

Q: Are you making changes to on-site distillery stores because of the court case?

A: We are responding to industry requests for lower charges on craft spirits products sold in on-site distillery stores. The government expects to introduce legislation in the future that will outline the design and establish the rate that will apply to craft spirits sold in on-site distillery stores.

Q: How much of a reduction will there be to the charges applied at on-site distillery stores?

A: No decision has been made yet on the rate.

The government expects to introduce legislation in the future that will outline the design and establish the rate that will apply to craft spirits sold in on-site distillery stores.

Q: What will be the exemption for promotional distribution at on-site distillery stores?

A: Currently wine and beer manufacturers are exempt from paying the wine and beer taxes on the first 10,000 litres of product used for promotional purposes. It is proposed that this exemption be extended to spirit manufacturers' who provide promotional products from their on-site distillery stores.

- Promotional distribution of craft spirits by Ontario manufacturers helps increase awareness of and demand for Ontario products.

Q: What are you doing to the basic tax on non-Ontario (blended) wine? Why?

A: The increases to the basic tax for non-Ontario wine will help close the gap between the charges applied in the LCBO and the winery retail store network. The revenue generated from the wine tax and mark-up changes will support key government priorities such as health care, education and skills training, and infrastructure and transit investments that benefit all Ontarians.

The basic tax on non-Ontario (blended) wine purchased at winery retail stores will be increased by one percentage point on each of June 1, 2016, April 2017, April 2018 and April 2019.

- The current basic tax rate of 16.1 will increase to 17.1, 18.1, 19.1 and 20.1.

Q: Why is the tax rate for non-Ontario (blended) wine increasing but not the tax rate for Ontario (VQA and 100%) wine is not?

A: Maintaining the current tax rate on Ontario (VQA and 100%) wine while increasing the tax rate on non-Ontario (blended) wine is consistent with Ontario's wine and grape strategy.

The strategy focuses on VQA wines with a goal to compete internationally on quality. The strategy continues to support industry growth in general to improve the competitiveness of our local wine industry.

Q: Why are LCBO mark-ups increasing and how much are they increasing?

A: The government has accepted the Council's recommendation to adjust the LCBO mark-ups that apply to wine to bring them more in line with those applied to other alcohol products.

Except for adjustments for the Harmonized Sales Tax (HST) in July 2010, there have been no mark-up increases to wine since 1998.

The LCBO wine mark-ups will increase:

- 2 percentage points on June 20, 2016;
- 2 percentage points on April 1, 2017;
- 2 percentage points on April 1, 2018, and;
- 1 percentage point on April 1, 2019.

Horse Racing Partnership Funding Program

Q: Why is the Government extending the Horse Racing Partnership Funding Program (HRPFP) for two years?

A: The HRPFP came into effect on April 1, 2014 as the government's plan to invest up to $500M over five years (to March 31, 2019) to support a world-class horse racing industry in the province.

The two year extension (to March 31, 2021) will give confidence to the industry to make investments and business decisions for the coming years.

Q: How much money will the government spend for these additional two years?

A: The two year extension will provide funding consistent with the initial five year program in that up to $100M will be provided to the industry annually.

Q: If OLG is taking over responsibility for HRPFP, what is OMAFRA's role going forward?

A: OLG has taken responsibility for HRPFP. Previously the Ontario Racing Commission delivered this funding. The agreements and level of funding for this program will not change. OLG has outreached to racetracks to make them aware of this transition.

OMAFRA will still provide funding to the industry for breeding support programs and initiatives such as equine health.

Q: What is the future of the HRPFP?

A: The two year program extension will give confidence to the industry to make investments and business decisions for the coming years.

Beyond this time, the intention would be for OLG to establish a future, longer-term funding arrangement with the industry. The arrangement would be subject to government approvals, and further integrate gaming with horse racing and support industry sustainability.

Q: What will a long-term funding arrangement look like between OLG and the horse racing industry?

A: OLG is working with the horse racing industry to further inform what a long-term funding arrangement would be. Any provincial funding arrangement directly delivered by OLG will require prior government approval.

The overall objective of this funding is to assist the industry in sustaining a quality, internationally recognized horse racing product for the wagering customer and to support the industry and jobs across rural Ontario.

As with any funding arrangement, performance measures will be established and tracked to further inform ongoing funding.

Q: Why is horse racing integration taking so long?

A: The integration began in 2013 and continues. Over the previous year, the government advanced its integration efforts by realigning provincial regulation, adjudication and funding support to the industry.

We want to make sure that we get the provincial support for the industry right. This is a collaborative ongoing process with the industry. The government is committed to horse racing integration, and the extension of the Horse Racing Partnership Funding Program (HRPFP) for another two years, is a critical next step to providing ongoing certainty to the industry while a long-term strategy is developed.

Q: The government is establishing leases with racetracks where OLG slots are located. How is this proceeding?

A: OLG currently has long-term leases in place with 12 racetracks. OLG is working to finalize the remaining leases as soon as possible.

Q. What is the role of the Alcohol and Gaming Commission of Ontario (AGCO) in horse racing regulation?

A: The AGCO currently regulates gaming activity in Ontario. To streamline all gaming regulatory activities, as of April 1, 2016, AGCO will also regulate and license the horse racing industry.

Q: **Why is OLG net profit to the province (NPP) expected to decline slightly from 2015-16 to 2016-17?**

A: OLG continues to provide approximately $2 billion to the province, which helps to fund key public services like health care and education.

Delays in the procurement processes for private sector service providers for gaming and lottery have impacted the timelines for increased NPP from modernization.

2015-16 was an exceptional year for OLG NPP with projections of over $150M more than Budget 2015, mainly due to increased sales revenue from national lottery tickets (Lottomax, Lotto 6/49). NPP in 2016-17 is expected to decrease slightly in comparison, as lottery sales and resulting revenues return to more normal levels.

Q: Why is net profit to the province higher in 2015-16 compared with projections in Budget 2015?

A: Revenue from national lotteries (Lottomax and Lotto 6/49) is higher than was projected in Budget 2015, primarily due to a higher number of large jackpots. More large jackpots led to higher sales revenues.

Q: Is funding to hospitals being reduced by $107M in 2016-17 as a result of OLG's projected lower net profit to the province?

A: Revenue generated by OLG is paid into the province's Consolidated Revenue Fund (CRF). Allocations to the Ministry of Health and Long-Term Care (MOHLTC) are made from the CRF. OLG revenues targeted for health care only amount to 3% of MOHLTC's $52B budget.

Fluctuations in OLG's revenues do not impact health care funding levels or projections.

Q: Is OLG still expecting to have an increase of $1B in NPP as a result of modernization?

A: OLG is continuing with modernization. When OLG's plan is fully implemented, the Province will benefit from increased profit to the province each year. This money will be used to fund the vital public services - especially health care and education - that Ontarians count on. Current projections are that modernization will be fully implemented by 2021-22.

Q: What is the status of OLG modernization?

A: Modernization is expected to be fully implemented by 2021-22. To date, OLG has released the Lottery, North, Southwest and the GTA Requests for Proposals (RFPs). Operators for these sites will be selected throughout 2017. The RFPs for the other gaming bundles will be released in the coming months. Additionally, this past January, OLG and Ontario Gaming East Limited Partnership (OGELP) entered into a 20-year Casino Operating and Services Agreement for the East Gaming Bundle.

Under this agreement, OGELP is running the daily operations of the former OLG Casino Thousand Islands and OLG Slots at Kawartha Downs under its Shorelines Brand. OGELP also intends to build and operate a new site in Belleville.

OLG has also announced it is adding the Niagara Casinos to its modernization procurement process. The Request for Pre-Qualification (RFPQ) for the Niagara Gaming Bundle is expected to be released in Summer 2016.

Q: Why did OLG cancel the Ottawa Request for Pre-Qualification (RFPQ) Procurement?

A: In December 2015, OLG cancelled the RFPQ for the Ottawa Gaming Bundle. OLG and the landlord have not been able to finalize a lease for the gaming site at Rideau Carleton Raceway, which is required to proceed with the modernization procurement process. OLG hopes to reach a commercially viable solution in the near future so the procurement process can proceed.

Q: When will the labour dispute between OLG and gaming employees at the Rideau Carleton Raceway (near Ottawa) be settled?

A: OLG is expected to proceed with negotiations that are reflective of the ongoing modernization procurement exercises and are within the parameters of the government's expectations for fiscal responsibility.

The Government respects the collective bargaining process and will respect OLG's role as an agency in this matter.

Q: Why isn't Great Blue Heron part of the GTA Gaming Bundle?

A: OLG continues to have discussions with the Mississaugas of Scugog Island First Nation (MSIFN) regarding the possible inclusion of the Great Blue Heron Casino within the GTA Gaming Bundle. Some draft agreements have been developed and will be put forward for required approvals by the provincial government, the OLG Board of Directors and others as necessary. The government is also involved in ongoing discussions about inclusion of Great Blue Heron in the GTA Gaming Bundle. If and when applicable, further details will be provided by OLG to proponents during the RFP process.

Q: Why has OLG entered in to two long-term leases with the Woodbine Entertainment Group (WEG)?

A: OLG has entered into two long-term leases with WEG, one for the existing site where OLG's slots facility is co-located, and one for land which a future service provider will develop to build a casino. The long-term lease agreements help OLG achieve its modernization objectives, which include job creation, new capital investment and increased revenue for the Province of Ontario.

These agreements will be assigned to the successful service provider when it assumes operation of the gaming sites in the GTA Gaming Bundle (i.e. upon execution of the Casino Operating Service Agreement ([COSA]). These agreements will replace the current Interim Racetrack leases between OLG and WEG.

Q: What is the status of OLG's Internet Gaming (iGaming)?

A: In January 2016, OLG's Internet gaming site, PlayOLG.ca, celebrated its one-year anniversary. Ontario joined British Columbia, Manitoba, Quebec, and all of the Atlantic Provinces in offering a provincially regulated Internet gambling option.

Ontarians spend an estimated $400 million per year on offshore gaming websites that are not regulated in Ontario. Quebec put forward in their 2015 Budget a proposal to require internet service providers to block access to illegal gaming websites. Discussions between the provinces and the federal government are taking place to determine what options exist under the Criminal Code of Canada to deal with the grey market.

The Ontario Government and OLG will work together to decide on prudent next steps, in 2016.

Q: How are municipalities, that host gaming sites, benefiting under OLG's Municipality Contribution Agreements (MCA)?

A: In the third quarter of 2015-16, OLG gaming sites generated a combined total of $24.9 million for 23 host municipal communities.

Since the launch of gaming sites in Ontario, host municipalities have received more than $1.2 billion in non-tax revenue.

Host OLG municipalities invest their revenues in important local programs and infrastructure projects, creating robust communities.

OFFICE OF ECONOMIC POLICY

Chapter 1A: Fostering a More Innovative and Dynamic Business Environment

Q: How will the Business Growth Initiative help Ontario's economy?

A: The Business Growth Initiative (BGI) is Ontario's new five year, $400 million strategy to increase the province's global competitiveness. It has three elements to accelerate the province's shift towards a more knowledge-based economy:

- Creating an Innovation-Driven Economy;
- Helping Ontario Businesses Scale Up; and
- Modernizing the Regulatory Systems and Lowering the Cost of Doing Business.

As part of the BGI, the government is announcing a number of initiatives in the 2016 Budget, including:

- A $50 million investment over five years in the Perimeter Institute, a world-leading research centre for theoretical physics;
- Investing $35 milion over the next five years towards the establishment of the Advanced Manufacturing Consortium, which will partner the manufacturing industry with three Ontario universities – McMaster, Waterloo, and Western;
- A $20 million fund over three years to better connect colleges and industry on applied research projects;
- Investing $15 million over four years to boost the competitiveness of the automotive sector;
- Support for southwestern Ontario's bioeconomy and biochemical sector through a $3 million investment in Bioindustrial Innovation Canada over four years; and
- Creating a voucher program to help new and emerging firms scale up by supporting commercialization activities, including market research and proof of concept testing;

The Business Growth Initiative builds upon the government's long-term commitment to create a more innovative economy. As part of this commitment, the government has:

- Made significant investments to create a more highly-skilled workforce;
- Supported world-class research at Ontario's postsecondary institutions;
- Provided significant support for research and development (R&D) and other innovation-related activities; and
- Encouraged more knowledge-based startups and innovative small and medium-sized enterprises (SMEs).

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Q: What is Ontario doing to help the auto manufacturing sector transition to the innovation-driven economy of the 21st century?

A: The successful transition of Ontario's auto industry to a more innovation driven and higher value-added business model is crucial for the Ontario economy. The industry is a major contributor to the provincial economy, directly employing over 100,000 highly skilled workers. It also generated almost 20 per cent of the real GDP of the province's manufacturing sector in 2014 and is a major driver of our international exports.

Ontario has demonstrated an ongoing commitment to working with automotive companies to ensure continuing investment, employment and innovation.

- We have encouraged vehicle assemblers and parts suppliers to grow their operations in Ontario resulting in over $4.5 billion in investment in the last two years.
- For example, in 2015, in addition to Toyota's $421 million investment at its assembly plants in Cambridge and Woodstock, Chrysler invested more than $2 billion in their Windsor assembly plant and GM invested $585 million into their Ontario operations.

The 2016 Budget announced $15 million over four years through the Business Growth Initiative to help boost competitiveness, including:

- Investing $5 million over two years to establish an Automotive Supplier Competitiveness Program to strengthen the technological capabilities of small and medium sized auto parts firms; and

- Committing $10 million over four years to the Canadian Urban Transit Research and Innovation Consortium to support R&D and commercialization of technologies like light-weighting and autonomous software, in partnership with the federal and Quebec governments.

Additionally, Ontario recently became the first Canadian jurisdiction to allow the on-road testing of automated vehicles and is investing $20 million to build more public charging stations for electric vehicles.

Continuing to promote innovative anchor investments in the auto sector will help further develop the strength of the auto cluster in Ontario and turn it into a technology hub where Original Equipment Manufacturers (OEMs), auto parts companies, universities and colleges, and technology firms can collaborate to push forward the boundaries of transportation technology.

- Last year GM Canada announced that it would be focussing its engineering centre in Oshawa into an innovation hub for connected and green car technologies as well as supporting a research chair and student research at the University of Waterloo and partnering with Waterloo's Communitech Hub to establish an innovation research hub that will initially focus on urban mobility, car sharing and mobile app innovation.

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Q: What is the state of venture capital in Ontario?

A: Venture capital is an important source of financing for high-potential, entrepreneurial firms. In 2015, Ontario-based businesses received more than $1.2 billion in venture capital investments – the most since 2001. Ontario accounted for almost half of all venture capital investment in Canada in 2015 according to Thomson Reuters.

In January 2014, the Province launched the Northleaf Venture Catalyst Fund (NVCF) in partnership with the federal government and private sector partners. The NVCF has made a number of investments, including in nine venture capital funds and five Ontario-based companies.. This builds upon the success of the Ontario Venture Capital Fund, which has invested in 50 Ontario-based companies to date. As well, the Investment Accelerator Fund (IAF) and the Youth IAF have invested in more than 110 companies.

In April 2015, the government announced Scale Up Ventures, an initiative to provide promising Ontario start-ups with both capital and access to top influential business leaders. The $50 million venture capital fund, with $25 million from the Province, will be complemented by a Leadership Council led by Nadir Mohamed, from president and CEO of Rogers Communications.

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Ontario Student Assistance Program

Q: Will the 30% Off Ontario Tuition grant still be available or has it been eliminated?

A: The government will create a single major upfront grant — the Ontario Student Grant (OSG) starting in the 2017–18 school year by redirecting 100 per cent of the funding from the 30% Off Ontario Tuition grant and other grants offered by OSAP. This will make the student financial assistance system more progressive, effective and transparent for students and their families. The changes will provide students who have the greatest need for financial assistance with better access to grants upfront, when they need them.

The additional revenue from the proposed discontinuation of the tuition and education tax credits would be reinvested to support the OSG or other postsecondary, education, training and youth job programs.

Q: Will increasing access to student loans for middle- and upper-income families result in students taking on more debt for their studies?

A: Currently, many students who do not qualify for OSAP seek financial assistance from private sources such as banks or credit unions. With the student aid transformation, Ontario will increase access to interest-free and low-cost loans for middle-and upper-income families.

OSAP loans are interest-free while a student is in studies and less expensive than a bank loan once students graduate. Moreover, if a student is struggling with repayment they can enter in the Repayment Assistance Program, which will scale a student's loan payment to what is affordable based on their income. This is why increasing access to OSAP loans is a benefit to parents looking to finance their children's education.

Also, Ontario will ensure that the maximum OSAP loan debt a student can incur is not greater than $10,000 for two-terms of academic studies.

Q: When will the changes to student financial assistance be implemented?

A: The changes to student financial assistance will be carried out in two phases and be fully implemented by the 2018-19 academic year.

The first phase will be to implement the Ontario Student Grant and other changes to OSAP to increase the program's assistance limits. These changes will take

effect as of the 2017-18 academic year (August 1, 2017). The second phase of the changes will be to increase access to loans and will be in place by August 1, 2018.

Q: Some students do not attend university or college for reasons that are completely unrelated to finances. Will the government do anything to help these students access postsecondary education?

A: The government wants every Ontarian to recognize and understand the benefit of obtaining a postsecondary education – be it in an apprenticeship program, diploma or degree. The more these students succeed in studies, the better off we are as a Province.

To help students understand the opportunities available to them, Ontario will implement programs to ensure more effective communication of how easy it is to access postsecondary education, and afford it.

This will build on the important work that Ontario's universities, colleges, school boards and communities are already doing to address non-financial barriers to postsecondary education for under-represented groups including Indigenous students, low-income students, students with disabilities and mature students with early outreach programs beginning as early as elementary schools.

Recent Economic Performance

Q: What evidence do you have that Ontario's economy is performing better than Canada's?

A: Ontario became one of the fastest growing provinces in 2014 and 2015, and private-sector economists expect this will continue until at least 2017.

On an annual basis, Ontario's real GDP increased by 2.7 per cent in 2014, strengthening from growth of 1.3 per cent in 2013 and outpacing the national average for the first time since 2002.

After a slow start to 2015 when the economy was affected by a number of temporary factors including unusually harsh winter weather, closure at auto plants for retooling, and a west coast port strike affecting exports, Ontario's economic growth gained pace in the second and third quarters of 2015, with real GDP advancing 0.4 per cent and 0.9 per cent, respectively. Ontario's economy outpaced the Canadian economy in all three quarters in 2015.

Q: The FAO claims that Ontario's export gains have been disappointing in 2015, yet the Budget claims that Ontario's exports continue to strengthen. What evidence do you have to support this claim?

A: Ontario's real (or volume of) merchandise exports has increased by around 3% in 2015, following an increase of 2.8% in 2014, according to Ontario Ministry of Finance estimates, using Statistics Canada international export price data.

Ontario's economy in early 2015 was affected by a number of temporary factors including unusually harsh winter weather, closures at auto plants for retooling, and a west coast port strike – all of which impacted exports. Ontario real exports declined 2.0% in the first quarter of 2015, but rebounded in the second (+0.2%) and third quarters (+3.0%) of the year.

In a previous commentary, the FAO noted that "exports did increase by a strong 3.0% in the third quarter, following a weak performance over the first half of the year, providing some promise that exports may continue to support growth in 2016."

The Budget projects real gains of 3.0% annually, on average, over the 2016 to 2019 period, benefiting from the lower Canadian dollar and ongoing solid U.S. demand.

Q: Employment gains may have been over 600,000 since June 2009, but Ontario created less than 50,000 jobs in 2015. Why was employment growth weak in 2015?

A: Employment growth was dampened in the first quarter of 2015 as a result of various temporary factors that impacted the overall economy.

Employment gains were stronger over the rest of 2015. In Ontario, all the employment gains in 2015 were in full-time positions and in industries paying above average wages.

Employment growth is expected to pick up in the medium term, growing by 1.1% or 78,000 net new jobs in 2016 and then average of 1.2 per cent annually, from 2017 to 2019.

Ontario's unemployment rate declined from 7.3 per cent in 2014 to 6.8 per cent in 2015, below the national average for the first time since 2005.

The unemployment rate is projected to improve to 6.6 per cent in 2016, down from 6.8 per cent in 2015, and is forecast to steadily decline to 6.1 per cent by 2019.

Q: The FAO claims an additional 285,000 jobs is required to return Ontario's employment rate to its pre-recession levels. Is that a realistic assumption?

A: The employment rate refers to the ratio of total employment-to-population in the province. The rate has yet to return to pre-recession levels for a number of reasons:

- The global economic recovery following the recession has been weak in most advanced economies, dampening job growth.
- As well, the population aging has put downward pressure on the employment ratio as an increasing number of baby boomers have retired.
    - If we look at core age workers, those between the age of 25 and 54, it would take about a quarter of the FAO estimate (77,000 jobs) to return that rate to its pre-recession level.

Despite a challenging environment, Ontario has recovered all of the jobs lost during the recession, and employment is now 5.1% or 338,000 above the pre-recession peak. In addition, the unemployment rate continues to improve, declining from a recessionary high of 9.6% in June 2009 to 6,8% in March 2016 close r to its pre-recession rate of 6.6% in October 2008.

Economic Outlook

Q: Over the last 18-months there has been a significant shift in the global economic environment. Why do you remain positive about Ontario's economic prospects?

A: There have been significant shifts in the external economic environment over the past year and a half. Growth has slowed in emerging economies, commodity prices have fallen dramatically, and the Canadian dollar has weakened. This has shaken business confidence and left Ontario households unsure about the ultimate impact on their budgets and spending plans.

Yet, overall, Ontario is expected to benefit from the shifting global economic environment. Growth in the U.S., our largest trading partner, is expected to remain solid. As well, the more competitive Canadian dollar provides additional lift to our exporters. Finally, Ontario is an oil-importing province which means consumers and businesses are benefitting from low oil prices. These factors provide an increasingly compelling case for increased business investment and will help support continued solid economic growth in coming years.

Q: Why do forecasters believe Ontario will be among the provincial leaders in economic growth over the next two years, with growth outpacing the national average?

A: Ontario has been among the fastest growing provinces for the past two years.

Overall, Ontario is expected to benefit from the shifting global economic environment. Growth in the U.S., our largest trading partner, is expected to remain solid. As well, the more competitive Canadian dollar provides additional lift to our exporters. Ontario is an oil-importing province which means consumers and businesses are benefitting from low oil prices. These factors will help Ontario lead provincial growth over the next two years.

At the same time, economies in resource-rich provinces have been negatively affected by the low commodity price environment. Private-sector forecasters, on average, expect that Alberta, Saskatchewan and Newfoundland and Labrador all experienced a recession in 2015 while real GDP is expected to decline further in both Alberta and Newfoundland and Labrador in 2016.

Q: Why do you believe Ontario economic growth will be led by business investment and trade?

A: Exports and business investment improved in 2015 and are expected to be key drivers of Ontario's economic growth over the forecast period. Growth in the U.S., our largest trading partner, is expected to remain solid this year. As well, the more competitive Canadian dollar provides additional lift to our exporters. Indeed, the latest data shows that Ontario exporters are already benefiting from strong U.S. demand and the lower exchange rate. On an annual basis, exchange-rate sensitive exports rose 14.1% in 2015.

Solid U.S. demand and a more competitive Canadian dollar will provide an increasingly compelling case for increased business investment, especially now that Ontario's businesses are operating close to full capacity. Business investment will also continue to be supported by Ontario's competitive tax structure.

Q: Is the housing market headed for a correction?

A: The Ontario housing market has experienced years of strong growth, driven by low borrowing rates, steady employment gains and growth in the number of households.

Looking ahead, the housing market is expected to experience a soft landing. Continued gains in employment and healthy demographic demand are expected to support rising house prices. However, rising interest rates, historically high valuations and mortgage debt are expected to provide an offset and result in a more modest rate of growth in house prices and residential investment when compared to recent years.

Q: What are the net risks facing the Ontario economy?

A: While there are both upside and downside risks to Ontario's economic outlook, overall the risks surrounding the outlook appear evenly balanced.

Sustained lower oil prices could provide a greater-than-expected boost to the economy through lower costs for businesses and households.

Despite strong U.S. demand and a more competitive Canadian dollar, challenges remain for Ontario's export sector. The loss of U.S. market share to Mexico and China suggests Ontario export growth to the U.S. may be less robust than experienced during previous periods of currency depreciation.

The housing market is expected to experience a soft landing as price appreciation is expected to moderate following a number of years in which house prices rose faster than incomes. This has led to rising mortgage debt and elevated carrying costs for households which pose a downside risk to Ontario's economic outlook.

Q: Won't weak growth in the rest of Canada drag Ontario down?

A: While Ontario is expected to see continued economic growth, we are feeling the impact of weaker economic activity in resource-rich provinces. Indeed, a recent report from the Bank of Canada noted that 'the adverse impact of the decline in oil prices has gradually spread outside Western Canada into all regions and sectors'.

However, at a time of weak commodity prices and recession in resource-rich provinces, we project real GDP in Ontario rose by 2.5 per cent in 2015 as the economy benefited from solid growth in the U.S., a more competitive Canadian dollar and falling oil prices that lowered costs for consumers and businesses. Ontario's real GDP is projected to rise by 2.2 per cent in 2016 as these factors are expected to continue to support growth going forward.

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2015–16 In-Year Change from 2015 Budget

Q: Land Transfer Tax revenues in 2015–16 are $311 million higher than Plan. Are you expecting continued strength in the housing market?

A: The strong Ontario housing market in 2015 boosted the 2015–16 Land Transfer tax revenue to a record level. However, going forward, the Ontario housing market is projected to moderate over the next two years. As a result, LTT revenue is

projected fall from the record 2015–16 level, yet remains above the levels projected in last year's budget.

Q: Why is Employer Health Tax revenue up if wages and salaries growth was slower in 2015? Was there an increase in the tax rate?

A: No, there was no increase in the EHT rates. The increase in EHT including is likely due to the Province's efforts to enhance auditing of provincially-administered taxes. EHT revenues could also rise because firms grow in size and may now be subject to EHT for the first time, or they move up to a higher EHT bracket and now pay more in EHT.

Medium-Term Revenue Outlook

Q: Comparing your Sales Tax revenue outlook to your 2015 Budget outlook, revenues are lower in 2016–17 and 2017–18 even though revenue in 2015–16 is $504 million higher. Why is this higher revenue not sustained into the medium term?

A: Sales Tax revenue in 2015–16 was boosted by one-time factors, specifically, a 36.6 per cent spike in housing completions in 2015 and one-time prior-year adjustments. The spike in housing completion is projected to give way to a significant decline in 2016 of 12.6 per cent. In addition, the more heavily taxed components of consumption such as durables and semi-durables are projected to grow more slowly than projected in the 2015 Budget.

Q: Given a $3 per carton increase in Tobacco Tax rates announced in the 2016 Budget, why is Tobacco Tax revenue for 2016–17 projected to increase by only 1.1 per cent?

A: The 2016–17 increase appears low because 2015–16 Tobacco Tax revenues include a $51 million one-time audit assessments against two companies. Excluding the $51 million one-time boost to 2015–16 Tobacco Tax revenues, the increase for 2016–17 would be 5.5 per cent.

Q: Experts, and even former finance minister Joe Oliver, have stated that the large drop in oil revenue from oil-producing provinces could have impacts on the Equalization program, and that the entry of other provinces into the program could push Ontario out. Is this true?

A: Ontario is projected to receive Equalization payments over the medium-term. There are however, risks to Ontario's Equalization forecast over the medium and longer term if the low oil prices persist and continue to negatively impact oil-producing provinces or if there is a sustained improvement in Ontario's economic growth relative to other provinces.

Equalization is driven by a formula defined by the federal government.

Ontario will continue to focus our efforts on taking action to support job creation and economic growth within the Province.

Despite continued volatility in global financial and commodity markets, Ontario's economic growth is now outpacing national growth, and is expected to continue being among the strongest in Canada over the next two years.

Equalization funding is tied to growth in Canada-wide nominal GDP. To the extent that lower oil prices have lowered expectations for Canada-wide nominal GDP growth, Equalization entitlements among all receiving provinces could be affected.

Given certain features of the Equalization program, such as the weighted averages and lags used for calculating fiscal capacities, it takes some time for current economic conditions to be reflected in Equalization entitlements.

Key Changes since the *2015 Budget*

Q: Compared to the 2015 Budget, revenues are higher by $2.2 billion in 2015–16, $1.2 billion in 2016–17 and $3.3 billion in 2017–18. Isn't that a substantial tax increase?

A: No. There are several factors contributing to the increase in the revenue outlook including, strength in the housing market, prudent assumptions related to federal government commitments for additional funding for infrastructure, home care and jobs and training, projected proceeds from the Province's cap and trade program and Measures discussed in the 2016 *[Document].*

Higher than projected up-front net revenues from asset optimization, related to the Hydro One IPO are also boosting revenue in 2015–16. [Ch. 1B, Pg. 21]

Q: In the key changes from Budget, the positive impact from the housing market falls from $0.7 billion in 2015–16 to $0.3 billion in 2016–17. Are you expecting a strong correction in the housing market?

A: No, we do not expect a strong correction in the Ontario housing market. A significant portion (about 60 per cent) of the relatively large 2015–16 impact was due to a one-time spike in housing completions in 2015, specifically, multiples which can be quite volatile. Excluding the one-time impact, the contribution of the housing market to revenue would show a modest decline. This is consistent with a projected moderation in the Ontario housing market over the next two years.

Q: The Ontario budget states that new federal funding has been included in the fiscal outlook based on 'prudent assumptions' about new transfers, but the federal government has not said how much Ontario will receive. What are these prudent assumptions and how much new federal money is counted in this budget?

A: The 2016 budget continues the government's plan to build Ontario up and deliver on its number-one priority of growing the economy and supporting job creations. Ontario's plan includes investing in people's talents and skills, as well as making the largest investment in public infrastructure in the province's history.

Ontario and the federal government share common goals, common values and have the same priorities. The federal government has recognized that coordinated and collaborative action is needed to address the issues facing Ontarians and Canadians. And the Province is ready to work with a federal partner to build on Ontario's investments and welcomes federal support for Ontario's plans in areas that matter to Ontarians and Canadians.

The 2016 Ontario budget included some prudent assumptions about what new revenue Ontario could expect from the federal government based on what was in the federal government's election platform. Even the Financial Accountability Officer (FAO) indicated these assumptions were prudent.

For instance, the federal government has committed to $60 billion in new infrastructure funding over 10 years. The Province welcomes this new commitment to build on existing programs and provide both immediate infrastructure investments and longer-term funding to support shared infrastructure priorities, and is working with the federal government to secure its per capita share.

More information will become available in the coming months as the federal government rolls out the details of its various plans around infrastructure, climate change and skills training.

While in some cases, federal measures have already been included in Ontario's fiscal plan, the full extent of the impact of these measures must be analyzed when more details of federal proposals are released.

This is particularly true of infrastructure, where both levels of government are making significant fiscal commitments.

All other forecasts for Government of Canada transfers are based on existing federal-provincial funding arrangements.

Q: In your Fall Statement you estimated cap and trade proceeds to be $325 million in 2016–17 and $1.3 billion in 2017–18. This has now increased to $478 million in 2016–17 and $1.9 billion in 2017–18. Why has the estimated amount of proceeds increased?

A: The cap and trade proceeds estimated at the time of the Fall Statement was based on preliminary design of the cap and trade program and a preliminary forecast for emissions and auction allowances. Given the greater uncertainty at the time with respect to final program design, the estimate for cap and trade proceeds was intentionally cautious. Since the Fall Statement, the Canada-U.S. exchange rate has declined and projected allowances to be auctioned has increased. In addition, the prudence included in the Fall Statement estimate has been removed. Each of these changes has contributed to an increase in the cap and trade proceeds estimate.

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FINANCIAL SERVICES POLICY DIVISION

CCMR

Q: Some media reports have been sceptical about the public timelines for launching the Cooperative Capital Markets Regulatory System (CCMR). When is the CCMR expected to be established and operational?

A: The participating jurisdictions have agreed to target the enactment of legislation by June 30, 2016 and the Capital Markets Regulatory Authority becoming operational in the fall of 2016.

These timelines will be challenging given the need for the enactment of legislation by multiple legislatures. The participating jurisdictions are committed to moving forward with this initiative and market participants should take comfort that we will take the time necessary to ensure a successful launch of the Cooperative System. We will work to ensure a smooth transition to the new system for market participants and their businesses.

Q: What are the next steps in establishing the Cooperative Capital Markets Regulatory System?

A: Going forward, the government plans to introduce the Capital Markets Act and related Cooperative System legislation, following work with other participating jurisdictions to finalize the proposed Cooperative System legislative framework.

- Stakeholder comments on the August 2015 consultation draft provincial / territorial Capital Markets Act and draft initial regulations are being reviewed and have been posted online. These comments will inform work to finalize Cooperative System legislation for introduction.

Q: What is the effect of Alberta's recent announcement that it will not participate in the Cooperative Capital Markets Regulatory System?

A: We were disappointed that Alberta has confirmed its previous position that it will not participate, but this will not impact continuing work. While the Cooperative System would be stronger with the participation of all provinces and territories it still represents a better approach than the status quo and, once it is in place, it will make capital markets in Canada safer, more efficient and more competitive.

Q: What is Ontario doing with regard to the reference on constitutional questions that Quebec is taking to the Quebec Court of Appeal and what will the affect be if the court rules in Quebec's favour?

A: Ontario is not intervening in this matter. We will monitor developments closely. I would refer any legal or constitutional questions related to this matter to the Attorney General.

Review of Financial Planning and Financial Advisory Services

Q: What is the government's reaction to the preliminary policy recommendations released by the Expert Committee to Consider Financial Advisory and Financial Planning Policy Alternatives?

A: It would be premature for the government to comment at this time on the preliminary policy recommendations.

The independent Expert Committee to Consider Financial Advisory and Financial Planning Policy Alternatives released their preliminary policy recommendations in April 2016 as a means of facilitating further input from stakeholders and the public. The expert committee is seeking feedback through written submissions and an across-the-province public consultation process.

The Government expects the expert committee's final report in fall 2016 and will consider their recommendations at that time.

Q: Why did you launch a review of regulation relating to financial planning and advisory services? Will this review result in additional regulatory burden for the financial services sector?

A: Consumers today face complex financial decisions. They need informed, professional financial planning and advisory services that best meets their financial goals. With this in mind, the government launched this expert committee to review and propose how Ontario should regulate individuals who offer financial planning and financial advisory services. Regulatory oversight could raise proficiency and quality standards and minimize conflicts of interest in the sector.

Ontario is pursuing a modern and flexible approach to financial services regulation that protects consumers and strengthens the financial services sector. The expert committee has committed to ensuring its recommendations avoid imposing unnecessary or duplicative regulation.

The goal is for consumers to get trustworthy financial planning and advisory services that best meet their interests so they can face complex financial decisions with confidence. Growth in the sector will be fostered when consumers are able to make more confident financial decisions.

Q: How much is MOF spending in the 2016-17 estimates (1) on the Cooperative Capital Markets Regulatory System (CCMR) and (2) on the Review of Financial Planning and Advisory Services (FP review)?

A: The estimates for the Financial Services Policy Division include the estimates for the Securities Reform Policy Branch (SRPB), which is responsible for the CCMR project and the Review of Financial Planning and Advisory Services as well as other work and oversight on the securities regulatory side of things, and the other portion of the Division that has responsibility for the other areas discussed in the Estimates Briefing Book at page 88. Of the $4,577,700 total showing in the estimates, the portion allocable to the SRPB is approximately $1.5 million. The largest part of the estimated costs are employee related. SRPB staff work on many different projects at the same time, so the estimates do not break down the numbers for CCMR or the FP Review. The costs of the work on CCMR are born by a number of different parties, including the securities regulatory authorities and governments of the participating jurisdictions.

Review of the Credit Unions and Caisses Populaires Act, 1994

Q: When was the Parliamentary Assistant's report on the review of the Credit Unions and Caisses Populaires Act, 1994, released and what were the key recommendations?

A: The Minister of Finance released Parliamentary Assistant Laura Albanese's report on the review of the Credit Unions and Caisses Populaires Act, 1994, on February 12, 2016. The report is available on the Ministry of Finance website at: ***http://www.fin.gov.on.ca/en/consultations/cu-cp/legislative-review.html***.

The recommendations aim to ensure that the legislative framework continues to protect consumers, is aligned with international best practices and enables credit unions to meet the revolving needs of their members. Some of the key recommendations include:

- Setting the deposit insurance limit at $250,000, including $250,000 coverage for deposits held in each type of registered account (such as RRSPs or TFSAs).
- Harmonizing subsidiary ownership rules with those in place for banks and permitting credit unions to own insurance brokerage subsidiaries.
- Working with relevant ministries to remove legislative barriers that impede the ability of credit unions to do business with municipalities, universities, school boards, and hospitals ("the MUSH sector") and other sectors.
- Permitting credit unions to enter into loan syndication agreements with credit unions in other provinces.

- Removing differentiated rules for small credit unions.
- Strengthening Ontario's credit union consumer protection framework, as well as working with credit unions to explore voluntary commitments to provide notices of branch closures, and options for providing consumers with alternatives to high-cost payday loans.

Q: Why did Ontario review the Act? What was the trigger? Was there a problem in the sector?

A: The Credit Unions and Caisses Populaires Act requires that the Minister of Finance appoint a person to review the legislation and regulations every five years. The Act was previously reviewed in 2009.

Reviewing Ontario's legislative framework for credit unions and caisses populaires is important to ensure it stays current to protect consumers and their deposits, help Ontario's 110 credit unions continue to meet the needs of their 1.6 million members, as well as promote competition in the financial services sector.

Q: When will the Act be amended? When will credit unions and their members see changes from the recommendations?

A: When and how the recommendations are implemented varies by recommendation. Some require regulation amendments which must be approved by Cabinet, some require tabling and passage of legislative changes by the Legislature and some can be implemented by credit unions voluntarily and immediately. On March 16th, the government posted, on the Ontario Regulatory Registry, a proposal for implementing the recommendations related to the deposit insurance limit and subsidiary ownership rules. The comment period ends on April 30th.

Q: Why is Ontario changing the deposit insurance coverage limit for credit unions to $250,000 when the federal government only provides $100,000 coverage for bank deposits?

A: Ontario's current deposit insurance limit of $100,000 for basic deposits was set in 2000. It is important that the level and scope of coverage be reviewed periodically to ensure that they meet the public policy objectives of the deposit insurance system, such as maintaining confidence in, and contributing to the stability of, the financial system.

The proposed $250,000 limit is higher than the limit provided by the Canada Deposit Insurance Corporation for bank deposits. It would, however, be equal to the coverage currently provided for credit union deposits in New Brunswick, Nova Scotia and Newfoundland and Labrador and for credit union and bank deposits in the United States. It is important to work towards harmonizing deposit insurance coverage levels among jurisdictions in order to alleviate competitive concerns and reduce consumer confusion.

Q: Why is the government reversing its decision made in 2009 for deposits in registered accounts—such as RRSPs, RRIFs and TFSAs—to have unlimited coverage?

A: International best practices have evolved since 2009, and it is now explicit that they do not support unlimited deposit insurance coverage. Unlimited deposit insurance or deposit insurance limits that are set too high may give rise to moral hazard, the situation when financial institutions have incentives to take on more risk because they are insulated from the consequences of their actions. One of the key objectives of the review was to ensure that Ontario remains in line with international best practices.

Ms. Albanese's report recommended limiting the coverage for registered deposits to same level as for basic deposits in order to mitigate against moral hazard - defined as an incentive to accept more risk because the costs are borne by others. Under the proposal, each type of registered account will be insured to a limit of $250,000. Potentially, this could provide $1,250,000 in total coverage for registered accounts: RRSPs ($250,000), RRIFs ($250,000), RESPs ($250,000), RDSPs ($250,000) and TFSAs ($250,000). In addition, it is important to note that the proposed limit would only apply to deposits that are held in registered accounts and would not affect other investment products more typically held in such accounts (e.g., mutual funds), as deposit insurance does not cover such products.

Q: Is the government concerned that permitting credit unions to own insurance brokerages as subsidiaries may encourage practices like tied-selling, where credit unions might pressure their members to buy insurance from their insurance broker subsidiary?

A: Credit unions are currently allowed under the *Credit Unions and Caisses Populaires Act* (CUCPA) to own an insurance company as a subsidiary. Expanding the list of prescribed subsidiaries to include insurance brokerages would help to put credit unions on an equal footing with banks.

There are currently rules under the CUCPA that protect consumers against being pressured by a credit union to purchase insurance from a specific provider, for the security of the credit union.

In addition, a credit union that chooses to invest in an insurance brokerage subsidiary would be required to adhere to the CUCPA rules regarding insurance retailing and promotion. This includes prohibitions on retailing or promoting insurance products in a branch and on the credit union's website, as well as sharing any member's information with an insurance company, agent or broker.

Under the CUCPA, any promotion of insurance must take place outside of the physical premises of the credit union and must be directed at all of the credit card holders, the members or the credit union, or the general public. For example, promotional material may be included in monthly statements of account that are

mailed, but it must be provided to all account holders. In addition, any insurance operations on premises adjacent to a credit union branch must be clearly indicated as being separate and distinct from the credit union.

Q: What types of barriers currently exist to municipalities and other MUSH sector organizations from doing business with credit unions? Why does the government want to encourage such organizations to do more business with credit unions, as opposed to other financial institutions?

A: A number of restrictions and omissions exist in Ontario's municipal legislative framework, as well as other statutes that govern the MUSH and other sectors, that create barriers for municipalities and other organizations to doing business with credit unions.

Investment rules for municipalities require that a financial institution have a credit rating in order for a municipality to invest a deposit with a term of greater than two years with the financial institution. Credit unions do not have credit ratings, as they do not issue bonds, and hence are not being given equal access to municipal deposits to other financial institutions.

In addition, rules exist under many other Ontario statutes governing organizations from the MUSH and other sectors that do not treat credit unions equally to other financial institutions. For example, administrators of nursing homes are required to establish and maintain trust accounts at either a bank or trust corporation to hold certain resident deposits, but trust accounts at credit unions are not permitted for this purpose. The government will appoint a leader to undertake an initiative to identify all such provisions under Ontario statutes and propose the amendments necessary in order to put credit unions on an equal footing with other financial institutions.

Modernizing the Regulation and Oversight of Financial Services and Pensions

Q: What is the government's reaction to the Panel's Preliminary Position Paper? Will the government be taking any action?

A: It would be premature for the government to comment at this time on this consultation paper.

The independent Expert Advisory Panel released their Preliminary Position Paper in November 2015 as a means of facilitating further input from stakeholders and the public.

The Panel's Final Report will be released this Spring. The Government will review the Final Report and consider its recommendations at that time.

Q: Does the Government support the Expert Advisory Panel's recommendation to establish a new, independent regulator?

A: The financial services and pensions sectors are vital to the economy and to the well-being of Ontario's consumers, investors and pension plan beneficiaries.

The mandate reviews of FSCO, the FST and DICO will ensure we are doing our best to protect Ontario's consumers, investors, and pension plan beneficiaries while fostering a strong business climate. They also provide the opportunity to modernize the regulation of financial services and pensions, and improve agency governance and accountability.

The Panel's Final Report will be released this Spring. The Government will review the Final Report and consider its recommendations at that time. .

Q: What legislative or regulatory changes will the Government be undertaking as a result of the reviews?

A: The mandate reviews of FSCO, the FST and DICO will ensure we are doing our best to protect Ontario's consumers, investors, and pension plan beneficiaries while fostering a strong business climate. They also provide the opportunity to modernize the regulation of financial services and pensions, and improve agency governance and accountability.

The Panel's Final Report will be released this Spring. The Government will review the Final Report and consider its recommendations at that time. Necessary legislative or regulatory changes will be identified and pursued as early as possible.

Q: When will the government be receiving the Expert Advisory Panel's final recommendations? When will the recommendations be public?

A: The independent Expert Advisory Panel released their Preliminary Position Paper last Fall as a means of facilitating ongoing consultation.

The Panel has completed their consultations and will release their Final Report this Spring.

Q: Who did the Expert Advisory Panel consult with in developing the Preliminary Position Paper?

A: The independent Expert Advisory Panel released a consultation paper in April 2015 and received written submissions from over 45 organizations and individuals. The Panel released a Preliminary Position Paper in November 2015 to seek further input and received approximately 50 submissions from industry stakeholders, regulators, and consumer, investor and pension plan beneficiary representatives.

The Panel also held seven sector roundtable discussions, and engaged in open dialogue with regulators, financial services and pension sector stakeholders, and investor advocates.

Q: Why did the government undertake mandate reviews of FSCO, FST and DICO?

A: The financial services sector is vital to the economy and to the well-being of Ontario consumers and pension plan holders.

The mandate reviews of FSCO, the FST and DICO will ensure we are doing our best to protect Ontario's consumers of financial services and pension plan beneficiaries while fostering a strong business climate.

Mandate reviews are also part of the government's commitment to review the role, structure and efficacy of all its agencies on a regular basis. Ontario is committed to strong agency oversight, and the government will be prepared to take legislative action to help modernize financial services and pension regulation, and to improve agency accountability and governance following the independent Expert Advisory Panel's final recommendations.

Lowering the Cost of Auto Insurance

Q: You set a target for a 15% reduction in auto insurance rates but have only achieved 7% to date. Isn't your auto insurance strategy a failure?

A: The 15% target was just that – a target. The government has made significant progress in lowering the cost of auto insurance in Ontario. Rates have already decreased by more than 7% on average, and there are further reductions expected.

Reforms that were announced in the 2015 Budget demonstrate that the government remains committed to achieving lower rates. These reforms are significant, and we need to give these changes time to work through the system to deliver further rate reductions in the months to come.

The reforms also included pro-consumer initiatives, such as an industry-wide discount for winter tires that became effective on January 1, 2016.

Ontario has a highly competitive insurance marketplace. Drivers should always shop around for the best possible rates and coverage that meets their needs.

Q: The winter tire discount became effective January 1, but some consumers are reporting that their insurer won't give them the discount until they renew their policy. What are you doing to help those consumers?

A: Insurers are not required to offer mid-term discounts to consumers, but many have been doing just that. Consumers with policies renewing later in the year should call their insurer to inquire about a possible mid-term discount.

Requiring insurers to offer discounts for winter tires was a key part of the reforms announced by the government in the 2015 Budget. Other consumer protection measures, such as a reduction to the maximum interest rate insurers can charge for monthly premium payment plans, will become effective on June 1, 2016.

Q: You posted KPMG's 2015 "Auto Insurance Transparency and Accountability" report online with little fanfare. What does that report say?

A: KPMG's report for 2015 shows that our strategy for keeping auto insurance affordable is working.

KPMG found that although claims costs are starting to trend back up, recent initiatives, including the reforms announced in last year's Budget, will help to decrease those costs and put downward pressure on auto insurance rates.

KPMG also found that in Ontario's competitive market for auto insurance, consumers that shop around should be able to reduce their premiums. Consumers should always take advantage of Ontario's competitive system to find the rates and coverage that work for them.

The government encourages participants in the auto insurance system and individual consumers to review the entire report.

Q: What specifically will David Marshall do as an advisor on auto insurance issues?

A: David Marshall's expertise in active claims management practices gained in his experience as president and CEO of WSIB should help identify new opportunities to reform the auto insurance system.

The goal of Mr. Marshall's work is to improve health outcomes, lower costs and achieve more affordable insurance premiums. He is in the early days of his appointment, which began on February 1, 2016.

Q: How are you responding to calls for a public inquiry into the quality of independent medical examinations in the auto insurance system?

A: The government is committed to protecting consumers and claimants in the auto insurance system. For example, significant action has been taken in recent years to develop a new auto insurance dispute resolution system to help claimants get

faster access to the benefits they need. The new system will begin accepting dispute applications on April 1, 2016.

The government will continue to improve Ontario's auto insurance system. As part of that commitment, the government appointed David Marshall as an adviser on auto insurance and pensions.

Mr. Marshall's appointment began February 1, 2016. He will apply expertise he developed as president and CEO of WSIB to identify additional opportunities to improve health outcomes and reduce costs in Ontario's auto insurance system.

Auto Insurance – Sharing Economy

Q: Both the City of Ottawa and City of Toronto staff reports on vehicles for hire recommend minimum insurance requirements for drivers involved in ride-sharing. What are you doing to make sure that insurance is in place?

A: The sharing economy is changing the way transportation services are provided in Ontario. The government is committed to ensuring that Ontario`s auto insurance system can help provide peace of mind to those offering and using these new types of transportation services.

Ontario's competitive market for auto insurance is already responding and adapting. FSCO has received filings from different companies proposing new auto insurance products tailored to the sharing economy, and in January FSCO approved one product allowing individual drivers to purchase coverage.

Other proposals are currently being reviewed by FSCO. While this work is proceeding, the reality is that there continues to be a significant insurance coverage gap.

The government is committed to protecting Ontario drivers and consumers by addressing that gap, and FSCO is aware of the importance to the government of achieving this objective as quickly as possible.

Towards that end, the government and FSCO are exploring how Ontario's flexible insurance regulatory system can quickly approve new insurance products. Using such flexible responses would allow new products to be introduced in the market while the government, working with the regulator and the insurance industry, develops the legislative and regulatory changes necessary to fully integrate the sharing economy into Ontario's auto insurance system.

Q: Aviva has already announced it is selling auto insurance coverage for ride-sharing. Why do you need to take further action?

A: Ontario's competitive market for auto insurance is beginning to respond and adapt to the sharing economy. And our province's flexible regulatory framework for insurance is letting that innovation happen. But there continues to be a significant

insurance coverage gap for thousands of Ontarians driving and using ride-sharing services every day.

Closing that gap is a critical government priority, and the government and FSCO are exploring how our flexible regulatory system can quickly approve new insurance products.

A flexible response to new products will help give drivers and passengers peace of mind while the government works with stakeholders to develop the necessary legislative and regulatory changes to fully integrate the sharing economy into the auto insurance system.

Q: What would your flexible approach involve? What specifically are you exploring with FSCO?

A: The government has made clear to the public, and to FSCO, that protection of consumers and drivers involved in ride-sharing is an objective that needs to be achieved as quickly as possible.

Our flexible approach involves working with FSCO to explore how Ontario's insurance regulatory system can quickly approve new insurance products. This could involve interim approvals of new products.

The government is also working with FSCO and stakeholders in the auto insurance system to develop the legislative and regulatory changes necessary to fully integrate the sharing economy into Ontario's auto insurance system.

This flexible approach ensures Ontario's auto insurance system can help provide peace of mind to those involved in ride-sharing.

Towards that end, the government and FSCO are exploring how Ontario's flexible insurance regulatory system can quickly approve new insurance products.

Q: What do you mean by interim approvals?

A: The idea of interim approvals is just an example of what the government and FSCO are exploring. Everything is on the table to make sure Ontario's auto insurance system can help provide peace of mind to those involved in ride-sharing.

As a government, we are making it clear that the insurance coverage gap for those engaged in ride-sharing in Ontario needs to be addressed as quickly as possible. This is a government priority.

One insurance product has already been approved; this is a good first step. And we need more companies to step forward with other new products to provide more insurance options.

And the government, working with FSCO, is exploring ways to approve more new insurance products, including approving new products on an interim basis, while we make the necessary changes to fully integrate the sharing economy into Ontario's auto insurance system.

Q: Aren't you playing into Uber's hands by approving insurance products that don't comply with the law?

A: When it comes to auto insurance and ride-sharing, our top concern is for the protection of drivers and their passengers. New auto insurance products have to be filed with FSCO for review and approval, and we are confident in FSCO's internal review processes.

One insurance product has already been approved by FSCO, and other proposals are currently being reviewed. The government and FSCO are exploring how Ontario's flexible insurance regulatory system can quickly approve new insurance products. This work isn't being done to satisfy any single company – it is being done to help ensure Ontario drivers and consumers are protected.

Q: Uber has launched a public campaign to pressure Alberta's government. Is this announcement pre-empting similar criticism by Uber in Ontario?

A: This isn't about what's going on in other jurisdictions. When it comes to auto insurance and ride-sharing, our top concern is for the protection of drivers and their passengers.

Ontario's auto insurance system has already demonstrated flexibility and responsiveness to ride-sharing. One insurance product has already been approved by FSCO, and other proposals are currently being reviewed. The government and FSCO are exploring how Ontario's flexible system can quickly approve new insurance products to help give drivers and consumers peace of mind.

This work isn't being done to satisfy a single company – it is being done to help ensure Ontario drivers and consumers are protected.

Q: When can we expect FSCO to announce interim approval of these other auto insurance products?

A: FSCO is an independent regulator. It would be inappropriate for the government to comment on FSCO's internal processes.

What the government has made clear to the public, and to what FSCO is aware of, is that protection of consumers and drivers involved in ride-sharing is an objective that needs to be achieved as quickly as possible.

Towards that end, the government and FSCO are exploring how Ontario's flexible insurance regulatory system can quickly approve new insurance products.

Q: How long do you need to make the long-term changes you're talking about?

A: The government and FSCO are exploring how Ontario's flexible insurance regulatory system can quickly approve new insurance products to help protect consumers and drivers engaged in ride-sharing activity.

In parallel with that work, the government is also working with the regulator and the insurance industry to develop the legislative and regulatory changes necessary to fully integrate the sharing economy into Ontario's auto insurance system. These changes will be comprehensive and complex, and will require careful consideration over the coming months.

Q: Have you been working with the City of Toronto on this?

A: Ontario's strategy for the sharing economy includes taking a coordinated government approach. Ministry of Finance and FSCO staff have engaged other jurisdictions and levels of government, including the City of Toronto, to build relationships and share information. We are also reviewing the recent staff reports published by the City of Ottawa and the City of Toronto.

The focus of our government's early action is on ensuring Ontario's auto insurance system can help provide peace of mind to Ontarians engaged in ride-sharing activity. Other jurisdictions and levels of governments may have different priorities, and we will continue to work with them as we develop more long-term changes to fully integrate the sharing economy into Ontario's auto insurance system.

The Province is also looking at other aspects of the sharing economy. And in the coming months we will launch a consultation to help determine the best approach for Ontario, which will include engagement with municipalities like the City of Toronto.

PROVINCIAL-LOCAL FINANCE DIVISION

Provincial-Municipal Partnership:

Q: What is the government doing to support municipalities?

A: Our government has a strong record of supporting and working with municipalities.

In 2016 alone, municipalities will benefit from over $3.8 billion in ongoing support through the Ontario Municipal Partnership Fund (OMPF), provincial uploads and other provincial initiatives – an increase of $2.7 billion above the support provided in 2003.

The government will continue to fulfill its commitment to upload social assistance benefit programs as well as court security and prisoner transportation costs off the property tax base. This will ensure that municipalities have more property tax dollars to invest in local priorities like roads, transit and economic development.

In partnership with communities, Ontario is making significant investments to revitalize infrastructure and grow the economy. The Province's infrastructure commitments include:

- Transit, transportation and other priority infrastructure through *Moving Ontario Forward* that is supported by $31.5 billion in dedicated funds, with about $16 billion available within the Greater Toronto and Hamilton Area (GTHA) and about $15 billion available outside the GTHA.
    - As part of *Moving Ontario Forward*, the Ontario Community Infrastructure Fund is being expanded to $300 million per year by 2018–19, which will provide ongoing support for critical local infrastructure priorities.
- Introducing a new Connecting Links program that will provide $20 million in 2016-17, up from $15 million announced in the *2015 Budget,* to help municipalities pay for construction and repair costs for municipal roads that connect two ends of a provincial highway through a community or to a border crossing. Funding for this program will increase to $30 million per year by 2018-19.

In addition to implementing the provincial uploads, the Province has worked in partnership with municipalities to introduce measures that support communities. These include:

- Sharing provincial gas tax revenues;
- Unconditional funding through the Ontario Municipal Partnership Fund;

- Long-term funding through the Ontario Community Infrastructure Fund;
- Connecting Links program;
- Developing a fair and equitable Ontario Provincial Police billing model;
- Working with municipalities to enhance the fairness, effectiveness and predictability of the Ontario's property tax and assessment system;
- Consulting with municipal partners through the Memorandum of Understanding with the Association of Municipalities of Ontario, as well as other forums;
- Undertaking an integrated review of the *Municipal Act*, the *City of Toronto Act* and the *Municipal Conflict of Interest Act*.

Q: Will the government commit to implementing the uploads of social assistance benefit programs as well as court security and prisoner transportation costs in accordance with the timelines agreed to through the Provincial-Municipal Fiscal and Service Delivery Review?

A: Yes. The government will continue to fulfil its commitment to upload social assistance benefit programs, as well as court security and prisoner transportation costs off the property tax base, as agreed with municipalities in 2008. The uploads will be fully implemented by 2018. This represents a significant milestone in the provincial-municipal relationship and will help put municipalities on a financially sustainable footing.

Q: Ontario's ongoing funding for municipalities will be $3.8 billion in 2016. Will this be sufficient to address the fiscal pressures facing Ontario's cities?

A: Our government has a strong record of supporting and working with municipalities. We will continue to fulfil its commitment to upload social assistance benefit programs, as well as court security and prisoner transportation costs off the property tax base, as agreed with municipalities in 2008. The uploads will be fully implemented by 2018. This represents a significant milestone in the provincial-municipal relationship and will help put municipalities on a financially sustainable footing.

It is important to note that support to municipalities has increased significantly at a greater rate than support to other sectors. In 2016 alone, municipalities will benefit from over $3.8 billion in ongoing support through the Ontario Municipal Partnership Fund (OMPF), provincial uploads and other provincial initiatives – an increase of $2.7 billion above the support provided in 2003.

Provincial measures are helping to improve municipal fiscal sustainability, but the province must also consider its responsibility to protect key public services such as health, education and infrastructure.

Q: The government has stated that going forward, it will shift its focus to investing in infrastructure. Does this mean that it will be reducing other support to municipalities?

A: Our government will continue to fulfil its commitment to upload social assistance benefit programs, as well as court security and prisoner transportation costs off the property tax base, as agreed with municipalities in 2008. The uploads will be fully implemented by 2018. This represents a significant milestone in the provincial-municipal relationship and will help put municipalities on a financially sustainable footing.

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Provincial measures are helping to improve municipal fiscal sustainability, but the province must also consider its responsibility to protect key public services such as health, education and infrastructure.

Given that the government will be fulfilling its commitment to upload social assistance benefit programs, as well as court security and prisoner transportation costs off the property tax base by 2018, it is important to manage expectations regarding any new ongoing support to municipalities. Going forward, the government will shift its focus to investing in the infrastructure that is vital to the health, prosperity and quality of life of Ontarians.

The Province's infrastructure commitments include transit, transportation and other priority infrastructure through *Moving Ontario Forward* that is supported by $31.5 billion in dedicated funds, with about $16 billion available within the Greater Toronto and Hamilton Area (GTHA) and about $15 billion available outside the GTHA. As part of *Moving Ontario Forward*, the Ontario Community Infrastructure Fund is being expanded to $300 million per year by 2018–19, which will provide ongoing support for critical local infrastructure priorities.

Q: Will the Ontario Municipal Partnership Fund (OMPF) be further reduced beyond 2016?

A. During our consultations, municipalities have been clear that the OMPF is an important unconditional funding program for many municipalities.

The Ontario Municipal Partnership Fund (OMPF) will continue to provide unconditional support to municipalities in 2016 and beyond. In 2016, the phase-down of the OMPF is complete, and the design of the core grants now reflects the long-term objectives of the program.

At this time, there is no plan to further reduce the OMPF.

It is also important to note that as announced in the *2015 Ontario Budget*, the OMPF has been increased by an additional $5 million in 2016, bringing the total OMPF envelope to $505 million rather than the $500 million previously planned for 2016. This additional funding is being provided through the Northern Communities Grant of the program to further recognize the challenges of northern municipalities.

Q: What are the government's plans for the Ontario Municipal Partnership Fund?

A: The Ontario Municipal Partnership Fund (OMPF) will continue to provide unconditional support to municipalities in 2016 and beyond. In 2016, the phase down of the OMPF is complete, and the design of the core grants now reflects the long-term objectives of the program.

This year, we will continue to work with our municipal partners to ensure the design of the OMPF reflects the long-term priorities of municipalities.

The program includes a significant amount of Transitional Assistance, and in the coming year, we will examine how some of this funding can be reallocated to the core objectives.

Q: Will the government commit to further uploads, e.g. social housing costs, once the uploads agreed to through the Provincial-Municipal Fiscal and Service Delivery Review have been completed?

A: Our government will continue to fulfill its commitment to upload social assistance benefit programs as well as court security and prisoner transportation costs off the property tax base. This will ensure that municipalities have more property tax dollars to invest in local priorities like roads, transit and economic development.

It is important to note that support to municipalities has increased significantly at a greater rate than support to other sector. In 2016 alone, municipalities will benefit from over $3.8 billion in ongoing support through the OMPF, provincial uploads and other provincial initiatives – an increase of $2.7 billion above the support provided in 2003.

Provincial measures are helping to improve municipal fiscal sustainability, but the province must also consider its responsibility to protect key public services such as health, education and infrastructure.

Given that the government will be fulfilling its commitment to upload social assistance benefit programs, as well as court security and prisoner transportation costs off the property tax base by 2018, it is important to manage expectations regarding any new ongoing support to municipalities. Going forward, the

government will shift its focus to investing in the infrastructure that is vital to the health, prosperity and quality of life of Ontarians.

The Province's infrastructure commitments include transit, transportation and other priority infrastructure through Moving Ontario Forward that is supported by $31.5 billion in dedicated funds, with about $16 billion available within the Greater Toronto and Hamilton Area (GTHA) and about $15 billion available outside the GTHA. As part of Moving Ontario Forward, the Ontario Community Infrastructure Fund is being expanded to $300 million per year by 2018–19, which will provide ongoing support for critical local infrastructure priorities.

Q: What is the province doing to enhance the fairness, effectiveness and predictability of Ontario's property tax and assessment system?

A: The Province is working to improve the property assessment system by implementing the recommendations of the Assessment Review (Special Purpose Business Property Assessment Review) in partnership with the Municipal Property Assessment Corporation (MPAC), municipalities and stakeholders.

- The objective of the Assessment Review is to enhance transparency, predictability and accuracy of assessed values for the next province-wide reassessment.

One of the key recommendations from the Assessment Review is the introduction of an advance disclosure process, which enables affected businesses and municipalities to contribute to the determination of assessed values before the assessment roll is finalized. An important objective of this process is to reduce the number and impact of assessment appeals.

To further support the objectives of accuracy, transparency and predictability through early disclosure of information, the Ministry of Finance and MPAC have also established an assessment methodology change protocol.

- This protocol establishes a consultative approach to any major changes that are proposed in assessment methodology.

Non-PLFD items

Q: What are the province's plans for developing a new Ontario Provincial Policing billing model?

A: Our government is continually impressed by the service the OPP provides throughout the province to help keep our communities safe. And now, the services that keep our communities safe are paired with a fair and equitable billing model.

The new OPP Billing Model will help municipalities to better direct crime prevention resources to save money and keep their communities safe. The new model will be

phased in over five years with annual limits on changes in policing costs to provide stability and predictability for both taxpayers and municipalities.

The new OPP Billing Model:

- Eliminates the huge differences in how much municipalities were paying for policing by more equitably redistributing costs
- It also provides municipalities with data so they can better understand the types of calls in their community

The new model represents a fair, responsive, equitable, transparent and responsible approach.

Q: What is the status of the integrated review of the *Municipal Act*, the *City of Toronto Act* and the Municipal Conflict of Interest Act?

A: Our government wants to ensure that our local governments remain strong and financially-sustainable, and that they continue to be accountable, open, flexible and responsive to the people they serve. We continue to undertake an integrated review of the *Municipal Act*, the *City of Toronto Act* and the *Municipal Conflict of Interest Act*.

The review is examining if municipalities are using, and have in place, the tools to address local concern. Through recent consultations, we have heard from the public and many municipalities, community groups and key stakeholders on a range of important issues.

We thank everyone for taking the time to provide comments and suggestions about what we can do to improve the acts. We are assessing the feedback received and will develop recommendations on how to improve the legislation.

Q: What changes is the Province making to the Ontario Community Infrastructure Fund?

A: Through the Ontario Community Infrastructure Fund, the Province is providing small, rural and northern municipalities access to $100 million per year to build and repair critical infrastructure and create jobs across Ontario. Reflecting consultation feedback and the progress municipalities have made on their asset management plans, the Ontario Community Infrastructure Fund will be expanded to $300 million per year by 2018–19. This increased funding will help municipalities invest even more in the critical infrastructure they need to thrive, while also creating jobs across the province. The expanded fund will be re-launched in late spring.

Business Property Tax Capping Program

Q: What are the changes proposed in the Spring Bill?

A: The Capping Program review continues in 2016 building on the enhancements announced in the *2015 Ontario Economic Outlook and Fiscal Review* and will consider issues such as stakeholder concerns about the interaction between reassessment impacts and the Capping Program. The Spring Bill amendments support potential changes as a result of the ongoing review by providing the framework to facilitate potential future refinements and program flexibility.

Q: With announcements in the *2015 Ontario Economic Outlook and Fiscal Review* and amendments in the Spring Bill, why is the Capping Review ongoing?

A: The Capping Program review continues in 2016 building on the enhancements announced in the *2015 Ontario Economic Outlook and Fiscal Review* and will consider issues such as stakeholder concerns about the interaction between reassessment impacts and the Capping Program.

Q: The Province has made changes to the Capping Program to accelerate progress towards CVA level taxes. Why won't the government get rid of the Capping Program?

A: The government has announced significant enhancements to the capping program through the *2015 Ontario Economic Outlook and Fiscal Review* and subsequent regulations that will improve fairness and transparency in the property tax system. Beginning in 2016, municipalities will have increased flexibility to accelerate progress to current value assessment (CVA) level taxes.

Additionally, municipalities that meet certain criteria established by the province will have the option to exit or phase-out the Capping Program, if doing so would have a limited impact on business properties.

These enhancements will enable municipalities to adjust the capping program to best suit their local circumstances, and also address the potential for inequities and economic distortions that may result from the program

Q: What are the Capping Program enhancements for 2016?

A: The *2015 Ontario Economic Outlook and Fiscal Review* announced that beginning in 2016, municipalities would have additional flexibility to adjust capping parameters to increase progress towards CVA level taxes:

Parameters	CVA Taxes	Threshold
Current Maximum	5%	± $250
Proposed Maximum	10%	± $500

Municipalities that meet certain eligibility criteria established by the Province would also be given the option to exit or phase-out from the Capping Program, if this would have a limited impact on business properties.

- A municipality would be eligible for a four-year phase-out from the Capping Program once it has no capped properties beyond 50% of CVA level taxes in a property class.
- Municipalities with no properties currently remaining in the Capping Program would be eligible to exit the program immediately.

These new proposed flexibility measures would enable municipalities to adjust the Capping Program to best suit their local circumstances, and also address the potential for inequities and economic distortions that may result from the program.

A municipality can choose to apply these options to all business property classes, or limit it to individual business property classes. As these are municipal options, each municipal Council would be required to pass a by-law to adopt options. As such, municipalities need to be able to explain any associated tax impacts to individual business taxpayers, just as they have in the past with other municipal tax policy decisions.

Q: The Capping Program enhancements are complicated. What is the Province doing to support municipal analysis?

A: The provincially-funded Online Property Tax Analysis (OPTA) system provides a number of tools and reports to assist municipalities with property-level tax analysis. OPTA will be updated to include a learning tool to reflect the proposed Capping Program enhancements allowing municipalities to analyse the proposed enhancements in their own local circumstances.

Q: When will the Capping Program enhancements be implemented?

A: Capping Program enhancements will be implemented through regulation and be in effect for the 2016 tax year. Regulations are anticipated in the coming weeks and municipalities will be notified when filed.

Q: What will be the impact to my property tax bill?

A: The government is proposing enhancements that would improve fairness and transparency of the Capping Program. As a result more properties will benefit from increased property tax predictability, knowing their taxes are now calculated as rate x assessment, without capping or claw-back adjustments.

Individual business property tax impacts will vary. Some capped properties may see related property tax increases, but clawed-back properties may see property tax decreases.

All Capping Program enhancements are implemented at the municipal level and adopted through municipal by-law. Therefore, questions about individual business property tax bills should be directed to your municipality.

Vacant Unit Rebate and Tax Class Programs

Q: The Province initiated a review of the Vacant Unit Rebate and Vacant/Excess Land Subclasses in response to stakeholders concerns. What are some of the concerns raised by stakeholders?

A: Stakeholders have raised concerns regarding the appropriateness of the lower tax level provided through these programs and unintended implications this may have for local economies. Some stakeholders have also noted that Ontario is the only province providing these types of programs in Canada.

Q: What are some of the potential changes the government is considering?

A: The Vacant Unit Rebate and Vacant/Excess Land Subclasses review continues in 2016 with stakeholder consultations on the potential provision of additional municipal flexibility to reflect local needs. Through the Spring Bill, the Province is introducing a legislative framework to facilitate potential changes to the programs as a result of the review.

Q: Business stakeholders provided feedback requesting province-wide program consistency. The Budget suggests the government is going a different route consulting on the "potential provision of additional municipal flexibility". Why?

A: The Province believes it is important to give municipalities, an independent, accountable level of government, the flexibility to make tax policy decisions that are sensitive to local circumstances but at the same time, recognizes the concerns of the business community. Therefore, it will continue to consult with municipalities and business stakeholders before making any changes to the vacant unit rebate and vacant/excess land subclasses programs.

Property Tax Rate Calculation Adjustment

Q: The Province plans to include a technical adjustment to the provincially prescribed property tax rate calculation. Isn't this just a property tax increase?

A: No, this is not a tax increase. In response to municipal requests, starting in 2016, the Province will allow a technical adjustment to the prescribed property tax rate calculation. This change to the property tax rate calculation would enable the Province and municipalities to make technical adjustments to account for in-year assessment changes, such as assessment appeal losses. This will ensure municipalities and the Province have the ability to avoid revenue losses due to in-year property assessment changes.

Q: Why is this adjustment being made now?

A: Municipalities and municipal associations approached the Province requesting an adjustment for in-year tax changes in 2015. This technical adjustment is in response to those requests.

A regulation implementing the adjustment is anticipated in the coming weeks and municipalities will be notified when filed.

Q: How will this technical adjustment be implemented for municipalities?

A: Applying the technical adjustment will be an annual municipal decision, as impacts will vary each year and for each municipality.

As requested by municipal stakeholders, municipalities will have the option to adopt the technical adjustment based on their analysis of the impacts in their local circumstances and advise their Council on whether to adopt the adjustment annually. If adopted, an adjustment would be applied to the annual property tax rate setting calculation for the municipality.

Q: Will the Province also adopt this technical adjustment?

A: Municipalities and municipal associations approached the Province requesting an adjustment for in-year tax changes to the annual property tax rate calculation. The technical adjustment will help ensure that assessment appeal losses affecting the annual rate setting calculation do not further erode the property tax base going-forward. To ensure consistency with municipal property tax calculations, the Province will also apply the technical adjustment to the calculation of education property taxes.

Q: The Budget states "... the Province will also ensure the ongoing integrity of education property tax revenues". What does this mean?

A: The technical adjustment will help ensure that assessment appeal losses affecting the annual rate setting calculation do not further erode the property tax base going-forward. As a forward-looking measure, the technical adjustment does not address revenue lost due to past assessment appeals losses.

Since 1998, when the Province took over responsibility for setting the education property tax rates, the rates have been reset to offset reassessment impacts. The Province has also implemented several education property tax cuts totaling over **$900M**.

Unlike municipal property taxes, which have generally addressed historic assessment appeal losses as a part of annual levy considerations, education property tax rates have not been adjusted for assessment appeal losses.

Therefore, as a part of the ongoing review of education property tax rate setting policies, the Province is considering revenue integrity measures to prevent the continued erosion of the property tax base due to assessment appeal losses.

Provincial Land Tax

Q: Why is the government continuing the review of the Provincial Land Tax (PLT)?

A: The 2015 Budget announced changes to the Provincial Land Tax (PLT). Before these changes were announced, PLT rates had not been updated to increase revenues in over 60 years. As a result, property tax inequities had developed in northern Ontario.

While this initial stage of PLT reform made important strides in creating a more equitable PLT, the government committed to continue discussions with northerners on ways to further address tax inequities in the North.

The 2016 Ontario Budget reiterated the government's commitment to consult with northerners on ways to further address property tax inequities before determining PLT rate adjustments for 2017.

As part of this commitment, the Ministry is inviting property owners to provide input through the "PLT Consultation Questionnaire". The questionnaire will be available on the Ministry of Finance website until June 1, 2016. The consultations will also include further discussions with local board representatives, northern municipalities and business.

The second stage of the PLT review will continue to address inequities in taxation and in how important services are paid for in the north. The Province remains committed to transforming the PLT into a fair and modern property tax system.

Q: Why did PLT rates increase in 2015 and 2016 - isn't this just a tax grab by the government?

A: The government announced a review of the PLT in 2013 in response to concerns raised by Northern municipalities about significant differences between their property taxes and the PLT.

The 2015 Ontario Budget announced an important first step in PLT reform, including 2015 and 2016 PLT rate changes. For residential taxpayers, the PLT rate was adjusted by $10 per $100,000 of assessed value in 2015 and by an additional $40 per $100,000 of assessed value in 2016. The PLT rate increase for all business properties is in line with the percentage change for residential properties outside schoolboard areas.

Prior to the changes announced in the 2015 Ontario Budget, PLT rates had not been adjusted to increase revenues in over 60 years. As a result, a gap of more than $50 million developed between PLT revenues and the additional amount that the province spends on services on behalf of unincorporated areas.

While the initial stage of PLT reform made important strides in creating a more equitable PLT, the government committed to continue discussions with northerners on ways to further address tax inequities in the North.

The second stage of the PLT review will continue to address inequities in taxation and in how important services are paid for in the north. The government is consulting with northerners on ways to further address tax inequities before determining PLT rate adjustments for 2017.

Q: Is there a plan to increase services now that PLT rates have increased?

A: The PLT paid by unincorporated area property owners contributes only a portion of the cost of providing services that benefit the broader community, including policing, public health, land ambulance, child care and social assistance.

Prior to the changes announced in the 2015 Ontario Budget, PLT rates had not been adjusted to increase revenues in over 60 years. As a result, a gap of more than $50 million developed between PLT revenues and the additional amount that the province spends on these important services on behalf of unincorporated areas.

Differences in the way services are paid for in the North are a significant reason why average residential PLT is lower than average northern residential municipal tax.

While the initial stage of PLT reform made important strides in creating a more equitable PLT, the government committed to continue discussions with northerners on ways to further address tax inequities in the north.

The 2016 Ontario Budget reiterated the government's commitment to consult with northerners on ways to further address property tax inequities before determining PLT rate adjustments for 2017.

As part of this commitment, the Ministry is inviting property owners to provide input through the "PLT Consultation Questionnaire", and discussions with local board representatives, northern municipalities and business will also take place.

The second stage of the PLT review will continue to address inequities in taxation and in how important services are paid for in the North.

Q: What consultations have taken place so far?

A: In 2014, the Ministry of Finance held 21 consultation sessions with unincorporated area representatives across northern Ontario. A PLT working group of northern municipal representatives was also established to provide input and meetings were held with business.

The findings of the first stage of the PLT review formed the basis of a paper, "Provincial Land Tax Review, A Summary of Stakeholder Consultations", (December 2014). The province requested feedback on the summary paper and received numerous helpful responses from unincorporated area property owners.

The Province initiated the next round of consultations by holding 15 open houses across northern Ontario in 2015. The open houses provided unincorporated area property owners the opportunity to hear more about PLT changes and provide input.

These sessions are summarized in "Provincial Land Tax Reform: Overview of the Provincial Land Tax Open Houses", published by the Ministry of Finance.

The 2016 Ontario Budget reiterated commitments to ongoing discussions with northerners on ways to further address property tax inequities prior to determining PLT rate adjustments for 2017.

The consultations include the "PLT Consultation Questionnaire", available on the Ministry of Finance website until June 1, 2016, for unincorporated area property owners to provide additional input. There will also be ongoing discussions with local board representatives, northern municipalities and business in this stage of consultations. The feedback received will be carefully considered before determining PLT rate adjustments for 2017.

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Strengthening Ontario's Assessment System

Assessment Review

Q: What is the status of the Advance Disclosure process and how will it improve Ontario's property assessment system?

A: The Municipal Property Assessment Corporation (MPAC) has made considerable progress on implementing advance disclosure, including publishing an information and data sharing policy, methodology guides, and market valuation reports for special purpose business properties, and a protocol describing the new advance disclosure process, all of which are available on MPAC's website at www.mpac.ca/AboutMPAC/20132016StrategicPlan/Disclosure2016AssessmentUpdate

Building on the advance disclosure work completed to date, MPAC is now working on preliminary values. MPAC plans to share summary preliminary valuations with property owners, municipalities and representatives in spring 2016. The advance disclosure process is expected to be completed by the summer.

An important objective of the advance disclosure process is to reduce the number and impact of appeals following the 2016 reassessment by increasing the transparency, predictability and accuracy of assessed values.

Q: What changes were announced in the *2015 Ontario Economic Outlook and Fiscal Review* to the Request for Reconsideration Process?

A: A recurring theme expressed during consultations on the implementation of the Assessment Review (Special Purpose Business Property Assessment Review recommendations) was the need for earlier resolution of assessment issues.

To support this objective, and to complement the Municipal Property Assessment Corporation's (MPAC) plans for the earlier staggered mailing of assessment notices, improvements were made to the Request for Reconsideration (RfR) process. The *2015 Ontario Economic Outlook and Fiscal Review* announced changes made to the RfR process to standardize the amount of time that property owners have to file an RfR and encourage the earlier resolution of assessment issues.

Specifically, the deadline for property owners to file an RfR with MPAC in a reassessment year is now 120 days after the assessment notice is issued. The RfR deadline for regular notices in non-reassessment years remains unchanged at March 31 of the taxation year.

Q: What is the status of the Ministry of Finance's review of the assessment of landfills?

A: The Ministry of Finance remains committed to arriving at a recommended valuation approach for landfills in time for the 2016 province-wide reassessment.

To support this objective, the Ministry has selected a Reviewer who will provide recommendations with regards to an appropriate valuation methodology to assess landfills:

- Through a competitive procurement process, the Ministry has retained the services of PricewaterhouseCoopers (PwC).
- PwC brought the expertise of former Ontario Cabinet Minister John Wilkinson to lead this review
- Mr. Wilkinson's role is to review the potential options for assessing landfills and make recommendations on an appropriate methodology for the 2016 reassessment cycle.
- Mr. Wilkinson has sought input from stakeholders and municipalities on a recommended solution and is expected to provide advice to the Minister by early spring2016.

Governance of MPAC

Q: What changes are being proposed to the Board of Directors of the Municipal Property Assessment Corporation (MPAC)? How is the amendment different from the way members are currently appointed to MPAC's Board of Directors?

A: The Province is proposing a legislative amendment to change the number of terms a member can serve on MPAC's board of directors. If passed, directors may be reappointed for a third term of up to three years, for a maximum duration of nine years on the board. Currently, board members can serve for a maximum of two terms of up to three years each (maximum term of six years).

Q: Why is the Province proposing this change?

A: This would enhance the continuity of MPAC's leadership and membership on the board, allowing members to make a greater contribution to the oversight of MPAC's operations and develop the necessary expertise to more effectively fulfil their mandate.

Q: What other changes is the Province considering to MPAC's governance structure? How will this make MPAC more accountable to municipalities and property owners?

A: The Province is committed to continue improving the property assessment system in partnership with municipalities and stakeholders.

The government will be consulting on potential further changes and identify ways to strengthen MPAC's governance structure and support its objective of remaining accountable to stakeholders while maintaining excellence in assessment service delivery.

Q: Who will the government be consulting with regarding future changes to MPAC's governance?

A: A collaborative approach to consulting with municipalities and stakeholders has been key to implementing improvements to the property assessment system. The ministry intends to continue this collaborative approach and is working with MPAC to engage the Association of Municipalities of Ontario (AMO) and the City of Toronto to better understand issues and opportunities for improvement related to its board governance. For example, AMO has raised the issue of the direct appointment of MPAC board members.

Q: Has the Province introduced any other changes recently to MPAC's board structure?

A: In the 2015 Ontario Budget, legislative amendments were made to clarify that the length of a term a member can serve on MPAC's board is up to three years, but could be shorter than three years at the Minister's option.

- If a member is reappointed for a second term, that would also be for up to three years, but could be shorter.
- As a result of changes introduced through the 2015 Ontario Budget, the maximum total amount of time that a member may currently serve on the board is six years.

Authorizing appointments "up to" a maximum period of time, rather than stipulating fixed appointment terms, is consistent with the approach taken in legislation governing other provincial corporations, and would bring MPAC in line with the Agencies and Appointments Directive (issued by Management Board of Cabinet in February 2015).

Q: What is the composition of MPAC's Board of Directors?

A: MPAC is governed by a 15-member Board of Directors, the majority of whom are municipal representatives nominated by the Association of Municipalities of Ontario (AMO).

The Board is composed of the following individuals:

- eight municipal representatives;
- five taxpayer representatives;
- two provincial representatives.

The municipal representatives are selected by the Minister of Finance based on nominations made by AMO and the City of Toronto.

The taxpayer and provincial representatives may be selected by the Minister at his / her discretion.

Q: Who appoints members to MPAC's Board of Directors?

A: Appointments to the MPAC Board are made by the Minister of Finance. The municipal representatives are chosen based on nominations made by the Association of Municipalities of Ontario (AMO) and the City of Toronto.

Power Dam Special Payment Program

Q: What is the Power Dam Special Payment Program?

A: Through the Power Dam Special Payment Program, the Province provides mitigation funding to 111 municipalities in respect of the former property tax on hydro-electric generating stations ("power dams").

Power dams became exempt from property taxation in 2001 when the provincial Gross Revenue Charge (GRC) was introduced.

Q: In the 2014 Budget, the Province announced that payments to municipalities under the Power Dam Special Payment Program would be reduced. What is the status of this phase-down?

A: The 2014 Budget announced a plan to phase down the program over three years, ensuring that more than 75% of the current funding level is maintained.

However, the phase-down reductions for 2015 and 2016 were deferred in light of consultations and analysis that were underway to consider alternative options to the phase-down, including the re-introduction of property taxation for power dams.

As announced in the 2016 Budget, following extensive review and consultations on this program, the Province has confirmed that stable funding to municipalities with respect to currently-eligible hydroelectric generating stations will remain in place for 2017 and future years.

Q: What was the focus and outcome of the review?

A: As part of the plan to phase-down the Power Dam Special Payment Program, the Premier asked the Ministry to consider the option of reintroducing property taxation. The Ministry held numerous consultations with municipal and electricity stakeholder representatives and conducted extensive analysis on a range of funding and taxation options.

A number of challenging and complex issues were raised with respect to the property taxation option, particularly when taking into account the priority of avoiding impacts on electricity ratepayers. However, throughout our review, municipalities have consistently emphasized the importance of stability.

The review is now concluded and the government is pleased to announce that as a result of our discussions with municipalities, we will not proceed with the previously proposed phase-down. Stable funding with respect to currently eligible hydroelectric generating stations will therefore remain in place for 2017 and future years.

While no meetings are currently planned to further review the program, the Ministry is always open to discussing issues that our municipal partners may have and would be happy to facilitate additional consultations if necessary.

Q: Why has this process taken so long?

A: Considering property taxation for power dams was a complex and challenging proposal, particularly when balancing the priority of avoiding impacts on electricity ratepayers.

It is important that due diligence was exercised to mitigate the risk of creating a new approach that would lead to unintended consequences, such as costly assessment appeals that would undermine the tax base of municipalities.

Q. Will the payments for 2016 be the same as they were in 2015?

A. In the *2015 Ontario Economic Outlook and Fiscal Review*, the government announced that stable funding to municipalities under the Power Dam Special Payment Program would be maintained for the 2016 taxation year.

This means that eligible municipalities will receive the same payment under this program for 2016 as they received in 2015, subject to any necessary maintenance adjustments. For example, if a generating station is decommissioned, payments under the program will be adjusted accordingly.

Q: Payments under this program haven't changed for a number of years. Now that the government has committed to providing stable funding under the program, what about indexation?

A. There is no plan to increase payments under the Power Dam Special Payment Program. The government has committed to maintain stable funding for 2017 and future years, rather than proceed with the previously proposed phase-down

Our government has a very strong record of supporting municipalities through a number of programs and initiatives.

In 2016, the Province is providing the 111 municipalities that receive payments under the Power Dam Special Payment Program with $750 million in support through the combined benefit of the Ontario Municipal Partnership Fund (OMPF) and provincial uploads.

This is equivalent to 16% of all municipal property tax revenue in these municipalities, and exceeds the amount of support provided to these municipalities in 2015 by $14 million. This also exceeds payments provided in 2004 by $460 million, or by more than 2.5 times.

Value-Added Farm Activities

Q: What is a "value-added activity"?

A: In the context of a farm operation, "value-added" refers to activities which utilize farm products to create a new product, such as turning strawberries into jam.

The phrase is also used to refer to the retail sale of farm products.

Q: Why is the government reviewing the property tax treatment of value-added activities on farms?

A: The government has heard from the agriculture sector that current property tax increases relating to small-scale on-farm agricultural processing and manufacturing can be a disincentive for some farmers to expand and diversify their operations.

Municipalities, particularly in rural Ontario, have also expressed support for encouraging small-scale on-farm agricultural innovations that contribute to local economies.

As a result, the Province will be consulting with the farming community and the municipal sector to review the property tax treatment of small-scale value-added activities on farms, while maintaining a level playing field for large agricultural processors.

Q. What will the government be consulting on with respect to the property tax treatment of value-added activities on farms?

A: The objective of this review will be to develop and consider options that would provide sustainable property tax treatment for farmers who conduct value-added activities on a small-scale, while maintaining a level playing field for large agricultural processors.

Q: What does the Province consider a "small-scale" value-added activity?

A: The Province will be working with the farming community and the municipal sector to solicit feedback on all aspects of this initiative, including the determination of what constitutes "small-scale".

Our goal is to ensure fair and equitable property tax treatment for all taxpayers.

Q: How can the government ensure a level playing field for large processors if it provides special tax treatment to small-scale operations?

A: We recognize the challenges involved in addressing concerns about small scale value-added activities on farms, while at the same time maintaining a level playing field for large agricultural processors. This is an important issue that will be given careful consideration during the review process.

Our goal is to ensure fair and equitable property tax treatment for all taxpayers.

To that end, the Province will be working with the farming community and the municipal sector to solicit feedback on all aspects of this initiative, including the determination of what constitutes "small-scale".

Q: When will the review be completed and changes implemented?

A: Over the next several months, the Province will be working with the municipal sector and the farming community, including the Association of Municipalities of Ontario (AMO) and the Ontario Federation of Agriculture (OFA), to develop options for the government's consideration.

It is important to note that no decisions have been made at this time. However, it is our intention to ensure that the review will be completed in time to inform decisions that may be considered for implementation in the 2017 taxation year.

Q: The agriculture sector has been asking for reduced property taxes for value-added activities on farms for years. Why is the government just reviewing this issue now?

A: The government appreciates the importance of encouraging emerging innovations in the agriculture sector. The Province understands that building a strong rural economy includes providing farmers with the support they need to engage in small-scale value-added activities as part of their farm operation.

While the focus of our current review is on small-scale value-added activities, the government has acted on a number of property tax issues affecting the agricultural sector over the years.

For example, since 2004, we have established clear, consistent and equitable guidelines governing the assessment and classification of the following activities, provided specific conditions are met for each type of operation:

Activity	Property Tax Treatment
Maple Sap Processing	Farm classification, if 50% of sap is from trees owned by the processor and products contain no other additives
Equestrian Farms	Farm or Residential classification for different types of activities (e.g., boarding treated as farm activity, land used for recreational riding classified as residential).
Sour Cherry Processing	Farm classification, if 50% of cherries were harvested from trees owned by the processor, and no other products are manufactured from the cherries.
Bunkhouses on Farms	Farm classification, if used only on a temporary basis by on-farm labourers
Grain Elevators	Farm classification or partly Commercial classification for licenced grain elevator operations, based on the amount of customer grain being stored.

OFFICE OF THE BUDGET

Ontario's 2015-16 Interim Fiscal Performance

Q: The government is reporting overachievement on its annual deficit target for the 7th year in a row. How is this possible? Is the government purposely setting easy targets?

A: The government is projecting a deficit of $5.7 billion in 2015-16, an improvement of $2.8 billion compared with the *2015 Budget* forecast. It is also a $4.6 billion improvement compared with the 2014-15 deficit of $10.3 billion. This represents the Province's largest year-over-year reduction in the deficit in the last five years. [Ch. 2A, Pg. 4]

The overachievement in 2015-16 is mainly due to total revenue projected to be $2.2 billion above the *2015 Budget* plan, due to higher revenue from asset optimization in 2015-16, higher taxation revenues and stronger overall performance from Government Business Enterprises (GBEs). [~Ch. 3B, Pg. 4]

It is also the result of $0.2 billion in lower interest on debt expense, from lower-than-forecast interest rates, the lower forecast deficit and cost-effective debt management. [~Ch. 3B, Pg. 4]

Ontario's program expense is projected to be $0.4 billion higher than outlined in the *2015 Budget*, but consistent with the forecast laid out in the *2015 Ontario Economic Outlook and Fiscal Review*. This is primarily due to the $325 million down payment through the Green Investment Fund. [~Ch. 3B, Pg. 4]

The *2015 Budget* included a $1.0 billion reserve for 2015-16. In the *2016 Document*, the 2015-16 interim outlook maintains a $150 million reserve to protect the fiscal plan against any potential adverse changes that may occur before year-end. [~Ch. 3B. Pg. 5]

The government's fiscal targets are based on the best available economic and fiscal information at the time. They reflect a realistic and responsible plan to manage the Province's resources, while still protecting the vital services that Ontarians rely on. [Framework]

Q: What has changed since the 2015 Ontario Economic Outlook and Fiscal Review was released in November to improve the government's deficit projection by $1.8 billion?

A: Ontario's deficit for 2015-16 is projected to be $5.7 billion, an improvement of $2.8 billion compared with the *2015 Budget* forecast and $1.8 billion compared with the projection laid out in the *2015 Ontario Economic Outlook and Fiscal Review*. [Ch. 3B, Pg. 4]

Since the *2015 Ontario Economic Outlook and Fiscal Review*, total revenue is projected to be about $1 billion higher. Key revenue changes include:

- Higher Sales Tax revenues, largely reflecting an increase in Harmonized Sales Tax (HST) revenues due to Ontario's strong housing market, particularly housing completions in 2015, and one-time positive adjustments to estimates of Ontario's prior-year HST entitlements. [~Ch. 3B, Pg. 7]

- Higher Land Transfer Tax revenues due to the strong housing market in 2015.

- Stronger overall performance from Government Business Enterprises, which also accounts for estimated Hydro One Limited net income changes unrelated to the government's asset optimization strategy. [~Ch. 3B, Pg. 6]

Ontario's program expense is consistent with the forecast laid out in the *2015 Ontario Economic Outlook and Fiscal Review.* [~Ch. 3B, Pg. 4]

In the *2015 Ontario Economic Outlook and Fiscal Review*, the reserve for 2015-16 was $ 1.0 billion. The 2015-16 outlook in the *2016 Document* maintains a $150 million reserve to protect the fiscal plan against any potential adverse changes that may occur before year-end. [~Ch. 3B, Pg. 5]

Q: Why is the government maintaining a $150 million reserve for 2015-16?

A: As required by the *Fiscal Transparency and Accountability Act*, Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense. [Ch. 3B. Pg. 35]

The fiscal plan outlined in the *2015 Budget* included a $1.0 billion reserve. The 2015-16 outlook in the *2016 Document* maintains a $150 million reserve to protect the fiscal plan against any potential adverse changes that may occur before year-end. [~Ch. 3B. Pg. 5]

Q: What was the Contingency fund used for in 2015-16?

A: The *2015 Budget* included contingency funds totalling $650 million in 2015-16 to help mitigate expense risks that may otherwise adversely affect Ontario's fiscal performance.

The contingency funds were used for a number of unexpected expenses. For example:

- $29.6 million to support emergency forest firefighting activities until the end of the 2015 fire season; [2015 FES, Pg. 104]
- $4.5 million to support a land claim settlement with Windy Point First Nation and a settlement to address a historical flooding claim with Rainy River First Nation; and [2015 FES, Pg. 104]
- $3.8 million to support the arrival and settlement of refugees and international relief efforts. [2015 FES, Pg. 104]

As a result of the government's success in managing growth in spending, total contingency funds were not needed for the fiscal year.

The 2015-16 interim expense projection maintains a total balance in the contingency funds of $15 million in recognition of expense changes that could materialize as the Public Accounts of Ontario for 2015-16 are finalized.

Q: How has the government lowered the deficit from $10.3 billion in 2014-15 to $5.7 billion in 2015-16? What programs were cut?

A: The improvement in the deficit between 2014-15 and 2015-16 at interim is driven mainly by increased revenue.

Between 2014-15 actuals and 2015-16 interim projections:

- Revenue increased by $8.0 billion, or 6.7% [from $118.5 billion in 2014-15 to $126.5 billion for 2015-16 at interim].
- Total expense increased by $3.2 billion, or 2.5% [from $128.9 billion in 2014-15 to $132.1 billion for 2015-16 at interim].

The year-over-year increase in revenue is mainly due to taxation revenue, which increased by $8.5 billion. The largest changes in taxation revenue were:

- A $3.1 billion increase to Electricity Payments-in-Lieu of Taxes – mainly related to the November 2015 Hydro One IPO;
- A $1.8 billion increase in Corporations Tax;

- A $1.8 billion increase in Sales Tax; and
- A $1.0 billion increase in Personal Income Tax.

Ontario's Medium-Term Fiscal Outlook and Path to Balance

Q: The federal government is committed to running a deficit to boost the economy. Why has the Ontario government decided to maintain a balanced budget in 2018-19?

A: The government is dedicated to a fiscally sound approach to managing the Province's finances, which will provide the foundation for the long-term well-being and prosperity of Ontarians. [Ch. 2A, Pg. 3]

Ontario is projecting it will meet its commitment to return to balance in 2017-18, the result of a plan to eliminate the deficit that was first laid out in the *2010 Budget*. Ontario is also projecting to remain balanced in 2018-19. [Ch. 2A. Pg. 5]

Through strong fiscal management, the Province is achieving its targets while continuing to invest in the economy, its people and a healthy, clean and prosperous low-carbon future. These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth. [Ch. 2A, Pg. 3]

Building and revitalizing public infrastructure are critical to strengthening Ontario's economy and supporting jobs for today and tomorrow. The government previously committed to investing more than $134 billion in priority projects, such as roads, bridges, public transit, hospitals and schools, over the next 10 years. [News Release, Pg. 2]

The *2016 Document* builds on this plan, which started in 2014-15, by increasing investments by $26 billion over an additional two years, bringing total investments to $160 billion over 12 years. This is the largest investment in public infrastructure in the Province's history. Over this period, these investments would support over 110,000 jobs each year, on average. [News Release, Pg. 2&3]

Q: What is the government's plan to hold average annual growth in program expense to 1.9% going forward? Given that this is below inflation, what programs are being cut?

A: Program expense is projected to grow at an average annual rate of 1.9 per cent between 2014-15 and 2018-19. This reflects the government's commitment to invest in priority areas to enhance public services, support economic growth and a low-carbon economy, and create jobs. [Ch. 3B, Pg. 29]

A key pillar of Ontario's plan to eliminate the deficit is transforming government and responsibly managing spending. [~Ch. 2A, Pg. 3] The government is

achieving this through Program Review, Renewal and Transformation (PRRT) – a new approach to fiscal planning and expenditure management this is designed around four key principles:

- Examining how every government dollar is spent;
- Using evidence to inform better choices and improve outcomes;
- Looking across government to find the best way to deliver services; and
- Taking a multi-year approach to find opportunities to transform programs and achieve savings. [~Ch. 2B, Pg. 3]

PRRT is about more than saving money – it is a continuous planning approach focused on improving outcomes for government programs and services to ensure they are effective, efficient and sustainable. [Ch. 2B, Pg. 3]

Through cross-ministry horizontal collaboration, the government is taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to invest in key priorities, such as health care and education. [Ch. 2B, Pg. 7]

The *2016 Budget* outlines progress on and expected outcomes of these major transformation and efficiency initiatives.

Q: Compared to the 2015 Budget, program spending is higher in each year. How is the government going to balance when spending is up?

A: Compared with the *2015 Budget*, program expense is projected to be $1.6 billion higher in 2016-17 and $4.2 billion higher in 2017-18. [Ch. 3B, Pg. 32]

These changes primarily reflect:

- Projected emissions reduction initiatives offset by cap-and-trade revenue;
- Small changes to Moving Ontario Forward projects;
- Adjustments for changes in demand and demographics across many programs; and
- Other investments in infrastructure. [Ch. 3B, Pg. 32]

These investments will help enhance the public services that Ontarians rely on, as well as stimulate economic growth to generate revenues on the path to balance. [~Ch. 2A, Pg. 3]

The government remains dedicated to a fiscally sound approach to managing the Province's finances, and to balancing the budget by 2017-18. The government is taking deliberate and responsible steps to achieve that goal. [~Ch. 2A, Pg. 3]

The government is projecting deficits of $5.7 billion in 2015-16 and $4.3 billion in 2016-17 – improvements of $2.8 billion and $0.5 billion compared with the 2015 Budget forecasts. [~Ch. 2A, Pg. 4, 5]

With the economy expected to continue to growth, and the Province's ongoing commitment to transform government programs and services, Ontario is projecting to return to balance in 2017-18 and remain balanced in 2018-19. Achieving balance will put net debt-to-GDP on a declining track. [~Ch. 2A, Pg. 5]

- Ontario's plan to eliminate the deficit includes: [2A, Pg. 3]
- Transforming government and responsibly managing spending; and
- Ensuring revenue integrity and addressing the underground economy.

Q: Why is the Contingency Fund being increased by $0.6 billion (to $1.2 billion) in 2016-17?

A: The combined operating and capital contingency funds for 2016-17 are $0.6 billion higher than the combined contingency funds included in the *2015 Budget* for the 2015-16 fiscal year.

These increased contingencies provide flexibility to allow the government to respond to changing needs and help mitigate expense risks that may otherwise adversely affect Ontario's fiscal performance. [Ch. 3B, Pg. 32]

Q: Compared to the 2015 Budget, program spending is up in every year. What is the government spending the extra money on?

A: Compared with the 2015 Budget, program expense is projected to be $1.6 billion higher in 2016–17 and $4.2 billion higher in 2017–18.

These changes primarily reflect:

- Projected emissions reduction initiatives offset by cap-and-trade revenue;
- Small changes to Moving Ontario Forward projects;
- Adjustments for changes in demand and demographics across many programs; and
- Other investments in infrastructure.

In addition, the 2016 Budget includes combined operating and capital contingency funds for 2016–17 that are $0.6 billion higher than the combined contingency funds included in the 2015 Budget for the 2015–16 fiscal year. These increased contingencies provide flexibility to allow the government to respond to changing needs and help mitigate expense risks that may otherwise adversely affect Ontario's fiscal performance. [Ch. 3B, Pg. 32]

CHAPTER IV: Together Towards a Stronger Ontario and a Stronger Canada

Q: The Ontario budget states that new federal funding has been included in the fiscal outlook based on 'prudent assumptions' about new transfers, but the federal government has not said how much Ontario will receive. What are these prudent assumptions and how much new federal money is counted in this budget?

A: The 2016 budget continues the government's plan to build Ontario up and deliver on its priority of growing the economy and supporting job creation. Ontario's plan includes investing in people's talents and skills, as well as making the largest investment in public infrastructure in the province's history.

Ontario and the federal government share common goals, common values and have the same priorities. The federal government has recognized that coordinated and collaborative action is needed to address the issues facing Ontarians and Canadians. And the Province is ready to work with a federal partner to build on Ontario's investments and welcomes federal support for Ontario's plans in areas that matter to Ontarians and Canadians.

The 2016 Ontario budget included some prudent assumptions about what new revenue Ontario could expect from the federal government based on what was in the federal government's election platform. Even the Financial Accountability Officer (FAO) indicated these assumptions were prudent.

For instance, the federal government has committed to $60 billion in new infrastructure funding over 10 years. The Province welcomes this new commitment to build on existing programs and provide both immediate infrastructure investments and longer-term funding to support shared infrastructure priorities, and is working with the federal government to secure its per capita share.

More information will become available in the coming months as the federal government rolls out the details of its various plans around infrastructure, climate change and skills training.

While in some cases, federal measures have already been included in Ontario's fiscal plan, the full extent of the impact of these measures must be analyzed when more details of federal proposals are released.

This is particularly true of infrastructure, where both levels of government are making significant fiscal commitments.

All other forecasts for Government of Canada transfers are based on existing federal-provincial funding arrangements.

Q: In the past, Ontario has stated that there is a structural vertical fiscal imbalance, where provinces and territories are in a worse fiscal position than the federal government. Is that still the case?

A: Provinces are the custodians of those public services that are not only of greatest importance to Canadians, but also those services that which are subject to the greatest increasing cost pressures, such as health care, education and social services.

- While provinces raise less own-source revenues than they require to cover expenditure responsibilities, the federal government has a greater ability to raise revenues relative to the services it delivers.

- Major think tanks and experts, such as the Conference Board of Canada and the Parliamentary Budget Officer, have shown that there are significant challenges if action is not taken to address this imbalance between resources and responsibilities, particularly as the population ages.

The important challenges facing the country cannot, and should not, be tackled by one order of government alone – in the Canadian system, the best solutions result from governments working together.

- Ontario is committed to continuing to be a collaborative partner in the federation, and Ontarians recognize the long-standing important role that the Province has historically played as a contributor to the federation.

- The Province is ready to work with a federal partner to build on Ontario's investments and create a modern and effective federation that will support sustainable public services, economic growth and job creation.

Q: Experts, and even former finance minister Joe Oliver, have stated that the large drop in oil revenue from oil-producing provinces could have impacts on the Equalization program, and that the entry of other provinces into the program could push Ontario out. Is this true?

A: Ontario is projected to receive Equalization payments over the medium-term. There are however, risks to Ontario's Equalization forecast over the medium and longer term if the low oil prices persist and continue to negatively impact oil-producing provinces or if there is a sustained improvement in Ontario's economic growth relative to other provinces.

Equalization is driven by a formula defined by the federal government.

- Ontario will continue to focus our efforts on taking action to support job creation and economic growth within the Province.

- Despite continued volatility in global financial and commodity markets, Ontario's economic growth is now outpacing national growth, and is expected to continue being among the strongest in Canada over the next two years.

Equalization funding is tied to growth in Canada-wide nominal GDP. To the extent that lower oil prices have lowered expectations for Canada-wide nominal GDP growth, Equalization entitlements among all receiving provinces could be affected.

Given certain features of the Equalization program, such as the weighted averages and lags used for calculating fiscal capacities, it takes some time for current economic conditions to be reflected in Equalization entitlements.

Q: The federal government has said that it wants to negotiate a health accord with provinces. What would Ontario be looking for from a new health accord?

A: In January 2016, federal, provincial and territorial ministers of health met in Vancouver to move ahead on shared health priorities. Ministers agreed to work individually and collectively on the following areas where efforts will yield the greatest impact:

- Enhancing the affordability, accessibility and appropriate use of prescription drugs;

- Improving community care, home care and mental health services to better meet the needs of patients closer to home; and

- Fostering innovation in health care services that improves both the quality of care and value for money.

Ontario welcomes federal commitments in these areas.

- Ontario welcomes the federal government's decision to join the provinces and territories pan-Canadian Pharmaceutical Alliance, which negotiates lower drug prices on behalf of public drug plans.

- The federal government also agreed, at the invitation of Ontario, to join a federal–provincial–territorial working group exploring ways to improve coverage and equitable access to appropriate prescription drugs for Canadians.

In the spirit of collaboration, all ministers agreed that new resources are needed to stimulate and support health care and drive transformation.

- The federal minister also confirmed the federal government's commitment to work collaboratively with provinces and territories towards a long-term funding arrangement for health care.

Ontario will continue to seek additional funding so that support for health care is adequate, responds to the needs of Ontarians and ensures the sustainability of the health care system over the long term.

Q: All health ministers have agreed that new resources for health are needed, and Ontario has called for the federal government to invest adequately in health care, yet the Canada Health Transfer is growing faster than Ontario health expenditure. How do you reconcile and explain these facts?

A: Since 2004-05, spending by the Ministry of Health and Long-Term Care has increased by more than $18 billion while Canada Health Transfer (CHT) revenues to Ontario have increased by $6.8 billion.

- Ontario's 2014-15 Public Accounts and the 2015 Budget showed that, in 2015-16, CHT revenue increased by $657 million over the previous year to approximately $13.1 billion.

- During the same period, health expenses increased by $758 million, to nearly $51 billion.

The CHT now represents roughly one-quarter of health care spending in Ontario.

- Currently, federal legislation is set to reduce CHT annual growth to the rate of nominal gross domestic product (GDP) growth.

- Without action, this change will take effect in 2017-18 and is expected to remove at minimum $21 billion from health care nationally – $8 billion in Ontario alone – by 2023-24. And with economic growth in Canada falling below earlier forecasts, the actual impact could be even greater.

A federal partner on health issues could help support investments in innovation and transformation of health care systems, in particular by building on Ontario's investments in home care and mental health.

- Ontario looks forward to ongoing collaboration in this critical area, and to working with the federal government to ensure federal support for health is adequate, responds to the needs of an aging population, and is sustainable over the long term.

Q: The 2016 budget shows that the federal government was under-spending in infrastructure compared to the provinces and municipalities in 2013. The current federal government has committed to significant new infrastructure funding. Is this enough to address the funding gap?

A: Ontario is making the largest investment in public infrastructure in the Province's history of more than $137 billion over the next 10 years, or about $160 billion over 12 years, starting in 2014–15.

- Over the next ten years, these planned investments would support over 110,000 jobs each year, on average.

Other provinces have announced similar multi-year capital plans, recognizing the importance of public infrastructure investments, and now the federal government has committed to make significant new investments.

The Province welcomes the new federal government's commitment to build on existing programs and provide both immediate infrastructure investments and longer-term funding to support shared infrastructure priorities, and will work with the federal government to ensure investments maximize the positive impact on the economy, both now and in the future.

Q: You have welcomed the federal commitment to increase infrastructure funding, but have stated Ontario has an interest in the design of new programs. What design does Ontario want for these new federal programs?

A: The Province welcomes the new federal government's commitment to build on existing programs and provide both immediate infrastructure investments and longer-term funding to support shared infrastructure priorities.

- As the design of these new federal investments is finalized, it is critical that the federal government work together with the provinces and territories to ensure that programs are predictable, support jobs and economic growth, and respect fiscal plans.

New federal infrastructure funding should give provinces and territories a greater ability to identify those projects that can be acted on to maximize the positive impact on the economy, both now and in the future.

- Ontario is working with the federal government to secure its per capita share to further invest in shovel-ready and shovel-worthy projects for transit and social and green infrastructure.

Q: Ontario has stated that it will work with the federal government and other provinces and territories on a pan-Canadian climate change framework. What does Ontario want from this framework, and how should any new action recognize what Ontario has already done, as the province has asked?

A: The Province continues to lead in fighting climate change. Ontario recently signed memorandums of understanding with Quebec and Manitoba, signalling the intention to link future cap-and-trade markets and committing to concerted climate change actions.

Ontario has already made significant contributions towards addressing this global challenge.

- The Province successfully phased out coal-fired electricity generation in 2014, the single largest greenhouse gas (GHG) reduction initiative of its kind in North America.

As the federal government continues to engage provinces and territories on national initiatives, it is critical that any action recognize the steps Ontario has already taken to reduce GHG emissions.

- In addition, Ontario is eager to share the benefit of its experiences to help inform the development of potential national initiatives based on its own experience of developing a broad provincial climate policy.

Q: Ontario has called for improvements to federal labour market programs, while the mandate letter to Minister Bill Morneau directs him to improve and modernize EI and the job training system. What specifically does the province want from the federal government on this issue?

A: Ontario looks forward to working with the federal government to ensure that new Labour Market Development (LMDA) funding and other training funding is able to best meet the needs of Ontario's labour market.

The Province welcomes the federal government's commitment to increase investments for employment and training services. These new investments will provide an opportunity to improve the federal labour market transfers that fall short of meeting the needs of Ontarians.

- Currently, the Employment Insurance system is not well aligned with the realities of Ontario's labour market. The majority of unemployed Ontarians do not qualify for employment insurance and so are not eligible for LMDA funded training.

- For LMDA funding to be most beneficial to Ontarians, a significant expansion of client eligibility is necessary.

- Ontario receives a share of LMDA funding that is well below its share of Canada's population and of Canada's unemployed. A proportionate and fair allocation of LMDAs and other skills funding would help Ontario better meet the needs of unemployed workers.

Q: Ontario's ongoing funding for municipalities will be $3.8 billion in 2016. Will this be sufficient to address the fiscal pressures facing Ontario's cities?

A: Our government has a strong record of supporting and working with municipalities.

- We will continue to fulfil its commitment to upload social assistance benefit program, as well as court security and prisoner transportation costs off the property tax base, as agreed with municipalities in 2008.

- The uploads will be fully implemented by 2018. This represents a significant milestone in the provincial-municipal relationship and will help put municipalities on a financially sustainable footing.

It is important to note that support to municipalities has increased significantly at a greater rate than support to other sectors.

- In 2016 alone, municipalities will benefit from over $3.8 billion in ongoing support through the OMPF, provincial uploads and other provincial initiatives – an increase of $2.7 billion above the support provided in 2003.

Provincial measures are helping to improve municipal fiscal sustainability, but the province must also consider its responsibility to protect key public services such as health, education and infrastructure.

Asset Optimization

Q: Is the Government using Asset Optimization Revenues to balance the Budget?

A: The government's plan to eliminate the deficit does not depend on the revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario.

In fact, the government is taking deliberate and responsible steps to achieve its goal of balancing the budget in 2017-18. Ontario's plan to eliminate the deficit is centred on transforming government and managing costs, and ensuring revenue integrity and addressing the underground economy.

Under the *Trillium Trust Act*, *2014,* all net revenue gains from the sale of designated assets are to be credited to the Trillium Trust to help fund further investments in public transit, transportation and other priority infrastructure as part of the Moving Ontario Forward initiatives.

The asset optimization target will help support the largest infrastructure investment in the province's history.

Cap and Trade:

Q: Will cap-and-trade impact the Province's bottom line?

A: The government is committed to dedicating all proceeds from the auctioning of allowances under the cap and trade program to fund GHG-emissions reduction initiatives – which would help Ontario meet its 2020 and 2030 emissions reduction targets.

The fiscal plan included in the 2016 Budget reflects this commitment.

The medium-term revenue outlook includes projected cap-and-trade proceeds from the auctioning of carbon allowanced beginning in 2017. The current estimate for proceeds is:

- $478 million in 2016-17; and
- Between $1.8 billion and $1.9 billion annually starting in 2017-18.

The government has already taken an important step towards investing cap-and-trade proceeds with the investment of $325 million in 2015-16 through a new Green Investment Fund.

For spending of cap and trade proceeds in 2016-17 and beyond, the government is still working out the details which is subject to the enabling legislative framework that's currently under review by the Legislature – any changes to the legislation could impact the potential areas of investment that are eligible for funding from cap and trade proceeds.

Moving forward, Ontario's approach to the investment of cap-and-trade proceeds will be both balanced and strategic, focusing on initiatives where the opportunity for emissions reduction and sustainable economic growth is greatest.

The fiscal plan reflects the most recent information available at the time of the Budget, including the impact of new initiatives announced as part of the Budget. The government recognizes that different factors could affect the Province's outlook for revenue and expense. That is why the fiscal plan incorporates prudence – to protect the fiscal outlook against these potential adverse changes.

- The fiscal plan incorporates a reserve, set at $1.0 billion in 2016-17, $1.1 billion in 2017-18 and $1.2 billion in 2018-19.

- It also includes contingency funds to help mitigate expense risks that may otherwise adversely affect Ontario's fiscal performance.

Q: Will the FAO be able to review all cap and trade spending plans before they are approved?

A: The FAO has a mandate to provide independent analysis to the Legislative Assembly about the state of the province's finances, including the Ontario Budget, as well as trends in the provincial and national economies.

At his discretion, the FAO could undertake an analysis and comment on any aspect of the province's finances, including the approved spending plans outlined in the Ontario Budget.

However, before these spending plans are incorporated in the Budget, Treasury Board and Cabinet must first review, evaluate and approve these proposals. These discussions are protected by subsection 12(1) of the *Freedom of Information and Protection of Privacy Act* (FIPPA) as they would reveal the substance of deliberations of the Executive Council or its committees and in accordance to Section 12(2) of the *Financial Accountability Officer Act* (FAOA) the government is prohibited from sharing this information with the FAO.

Financial Accountability Officer (FAO):

Q: Is the government restricting the ability of the FAO to access Cabinet Confidential documents?

A: No, the government is acting in accordance with the governing legislation that was approved by all three parties.

As per Section 12(2) of the *Financial Accountability Officer Act* (FAOA), a ministry or public entity is prohibited from disclosing to the Financial Accountability Officer (FAO) a record "described in subsection 12(1) of *the Freedom of Information and Protection of Privacy Act*" (FIPPA). Section 12(1) of FIPPA prohibits the release of any record that would reveal the substance of deliberations of the Executive Council or its committees.

In the end, the primary purpose of subsection 12(1) of FIPPA is to protect the deliberations or future deliberations of Cabinet. As a result, the section prohibits the disclosure of both existing records as well as any newly created records that would reveal those deliberations.

TAX POLICY DIVISION

Tuition and Education Tax Credits

Q: How many students will be affected when the tuition and education tax credits end?

A: About 1 million students are expected to report that they attended studies in 2015 that qualified them for tuition and education tax credits. About 800,000 attended full time studies, and about 200,000 attended part-time studies.

Q: Will everyone who loses their tax credits get back the money through the new student grant?

A: Currently, tax credits go to a larger group of students than those eligible for OSAP. The grant design has not been finalised. The government will announce details of the new program later this year.

Q: How much tax relief do the tax credits currently provide to Ontario students?

A: The tuition and education credits for studies in 2015 are expected to provide about $400, on average, in tax relief. This includes tax relief immediately received by students, tax relief received by their family members through transfers, and tax relief that would be received in future years through carry-forwards.

Q: What will happen to students' carry-forward pools?

A: Tax filers who are resident in Ontario on December 31, 2017 and have unused tuition and education tax credits will be able to claim their credits for tax relief in future tax years.

Ontario students would no longer be able to accumulate these credits after 2017. Similarly, tax filers who move to Ontario from other provinces after December 31, 2017, would no longer be able to claim their carry-forward amounts for Ontario credits.

Children's Activity Tax Credit

Q: Why are you ending a tax credit that helps parents enroll their children in extra-curricular activities?

A: The Children's Activity Tax credit largely goes to higher-income families who are less likely to need it to help pay for their children's activities. About half of 2015 claimants are estimated to have family incomes above $100,000.

Other existing programs support the objective of providing more opportunities for children and youth to stay healthy, such as the Healthy Kids Strategy.

Q: How much will Ontario save by no longer providing this credit?

A: Ontario would save about $15 million in 2016-17 and over $50 million per fiscal year thereafter.

Q: If you end this credit, what are impacted families left with?

A: Ontario will focus on developing other programs to encourage physical activity and healthy eating for Ontario's children. Several such programs are provided through the Healthy Kids Strategy.

Q: Would I be able to claim the credit for activity fees I paid for my child this year?

A: You would be able to claim the credit for eligible expenses paid for your child's activities in 2016. No provincial credit would be provided for similar expenses incurred for future years.

Q: How many parents will be affected when this credit ends and how much will they lose?

A: About 675,000 parents are expected to receive a CATC of about $70 on average for eligible activities in 2015.

Healthy Homes Renovation Tax Credit

Q: Why are you ending a tax credit that helps seniors live longer in their homes?

A: Ontario proposes to end the HHRTC because take-up of the credit is low and it largely benefits higher-income families. For 2015, only 10% of the credit is expected to go to claimants with net family incomes below $30,000.

Assistance with home modification costs is provided for people with mobility-related disabilities or impairments through other Ontario programs, including the Ontario Home and Vehicle Modification Program.

Q: How much will Ontario save by no longer providing this credit?

A: Ontario will save about $4 million in 2016-17 and about $15 million in the following years.

Q: What help would seniors with mobility issues get in the absence of this credit?

A: Assistance with home modification costs is provided for people with mobility-related disabilities or impairments through the Ontario Home and Vehicle Modification Program.

Many qualifying expenses for HHRTC are also eligible for the medical expense tax credit (METC). Examples of eligible renovation expenses include the purchase and installation of ramps; widening halls and doorways; and lowering of kitchen or bathroom cabinets.

In addition, the federal government recently announced the Home Accessibility Tax Credit. The credit is similar to the HHRTC and would also be available to all people with disabilities. The federal credit is a non-refundable tax credit of 15% of eligible expenses of up to $10,000.

Q: The federal government recently introduced the Home Accessibility Tax Credit, and B.C. just announced it would parallel the credit. Why have you taken the opposite approach by eliminating HHRTC?

A: The Program Review Renewal and Transformation process helped us determine that this program is not effectively meeting desired outcomes. The credit was made refundable so that even lower-income seniors could fully benefit. Despite this, the credit has had lower take-up than expected and only 10% of the credit goes to claimants with net family incomes below $30,000.

Ontario's Home and Vehicle Modification Program better meets people's needs by providing funds upfront to make home accessibility modifications. The program is application based and is available to low- and moderate-income people with disabilities.

Q: Would I be able to claim the credit for home accessibility renovations I paid for this year?

A: Yes, you would be able to claim the credit for eligible expenses you incurred in 2016 to make your home more accessible. For 2017 and future years, the credit would no longer be available.

Q: How many people will be affected when this credit ends and how much will they lose?

A: About 25,000 people are estimated to receive about $575 on average through the HHRTC for expenses paid in 2015. About 90% of claimants have net family incomes over $30,000.

Seniors who plan on making accessibility renovations in 2017 and subsequent years may be eligible for the federal Home Accessibility Tax Credit that provides up to $1,500 (or 15% of up to $10,000 of qualifying expenses).

Tax on Split Income

Q: Why did you introduce a 20.53% tax rate on income split with certain related minor children when Ontario's top rate is only 13.16%? Is this a sneaky tax increase?

A: The tax on split income is a measure designed to discourage splitting income with children for tax planning purposes. By paralleling the federal approach of imposing the top marginal tax rate on split income, Ontario is closing a tax planning loophole to ensure there is no incentive for this method of income splitting in Ontario.

Q: How can you claim that an increase in a tax rate is not designed to generate additional revenue?

A: The proposed fix is intended to ensure that the tax on split income measure is effective at discouraging income splitting with children. Raising revenue is not the objective of this change, and the revenue impact is estimated to be less than $1 million.

Tax-Free Savings Accounts

Q: How much do Tax-Free Savings Accounts (TFSAs) cost Ontario?

A: TFSAs are estimated to cost Ontario about $165 million in foregone revenue in 2015.

Q: The TFSA contribution limit was almost cut in half. Why doesn't this change generate more revenue for Ontario?

A: The foregone revenue from increasing the contribution limit to $10,000 was forecasted to be relatively small. This is because as the total contribution room increases, fewer Ontarians are able to make use of the larger TFSA limit.

Ontario has not received any information on how people have responded to the policy changes announced in 2015. Cautious revenue estimates were made until these data become available.

Reviewing Personal Income Tax

Q: Does the review to simplify the Personal Income Tax calculation mean that you're going to increase taxes?

A: The review will examine ways to simplify Ontario's Personal Income Tax calculation so that Ontarians can better understand their effective tax rates. The review is not intended to make recommendations about the overall amount of Personal Income Tax revenue collected.

Q: What is the scope of the review? Are you going to conduct consultations?

A: The government is designing a plan for evaluating Personal Income Tax and looking for ways to simplify the calculation. I cannot comment at this point whether formal consultations will form part of that plan.

Q: How does the complexity of Ontario's Personal Income Tax calculation compare to other provinces?

A: Ontario is the only province that has a surtax, health premium, and low-income tax reduction.

Prince Edward Island is the only other province with a surtax. Quebec is the only other province with a health premium in its PIT calculation. Quebec's premium will be eliminated for low-income taxpayers and reduced for others in 2017 and fully eliminated in 2018.

Five other provinces have low-income tax reductions. Ontario's low-income tax reduction is based on an intermediary calculation of individual tax owed, which is not easily understood by tax filers.

Q: When will Ontario be announcing the results of the review?

A: A detailed plan for conducting the evaluation is still being developed. I cannot comment at this point about the timing of its completion or any subsequent announcements that may be made.

Research and Development (R&D) Tax Credits

Q: You've twice announced that you're reviewing R&D tax credits. Why are you now cutting them without consultation?

A: The Ontario Government reviewed options to restructure Ontario's R&D tax credits. The R&D tax credits, like all of the business support programs, were reviewed as part of the Program Review, Renewal and Transformation (PRRT) process which is focused on improving outcomes for government programs to ensure they are efficient, effective, and sustainable.

As part of the PRRT process, the government proposes to reduce the level of support provided through the Ontario Research and Development Tax Credit (ORDTC) and the Ontario Innovation Tax Credit (OITC).

R&D remains a key priority for the government, which is why the government will reinvest savings from the proposed tax credit changes into targeted investments across key sectors of Ontario's economy.

Through the Business Growth Initiative, the province will continue to examine ways to encourage R&D investment in Ontario, increase the commercialization of research, and better support export activity.

Q: Why are you cutting R&D Tax Credits (i.e. OITC and ORDTC) when you say you want to support innovation?

A: Research and Development remains a key priority for the government. That is why the government is reinvesting savings from the proposed R&D tax credit changes into new targeted investments across key sectors of Ontario's economy.

The government is investing $35 million over five years towards establishing the Advanced Manufacturing Consortium; $20 million over three years to partner with Colleges to tackle industry challenges through innovation projects; and $50 million over five years in world-leading research at the Perimeter Institute.

Through the province's Business Growth Initiative, the government will continue to examine ways to encourage R&D investment in Ontario, increase the commercialization of research and better support export activity.

Q: Who will be affected by the change to the R&D Tax Credits (OITC and ORDTC)?

A: The proposed changes would affect all businesses that invest in R&D in Ontario and claim the OITC or the ORDTC. Smaller firms who can claim both the OITC and the ORDTC on the same R&D expenditure will be affected by both rate reductions.

Q: When will the change to the R&D Tax Credits take place? What is the transition period? Why wasn't more time provided?

A: These changes would be effective for eligible R&D expenditures incurred in taxation years that end on or after June 1, 2016. A transition period from Budget day until June 1, 2016 is being proposed to ensure that businesses have some lead time to adjust to these changes. The rate reductions would be prorated for taxation years straddling June 1, 2016.

Q: Won't this reduce jobs and business investment in innovation and high-tech sectors?

A: R&D remains a key priority of the government. That is why the government will reinvest savings from the proposed tax credit changes into new targeted investments across key sectors of Ontario's economy, including: $35 million over five years towards establishing the Advanced Manufacturing Consortium; $20 million over three years to partner with colleges to tackle industry challenges through innovation projects; and $50 million over five years in world-leading research at the Perimeter Institute.

Through the Business Growth Initiative, the province will continue to examine ways to encourage R&D investment in Ontario, increase the commercialization of research, and better support export activity.

Q: Will Ontario still be competitive with other provinces/jurisdictions?

A: Smaller businesses performing R&D in Ontario would continue to be able to claim both the 8 per cent refundable OITC and the 3.5 per cent non-refundable ORDTC on their R&D investments. With the proposed rate reductions, Ontario tax support for small businesses would remain competitive with other provinces. Larger businesses would be able to claim the 3.5 per cent non-refundable ORDTC.

R&D remains a key priority of the government. The government will reinvest savings from the proposed tax credit changes into new targeted investments across key sectors of Ontario's economy. This includes $35 million over five years towards establishing the Advanced Manufacturing Consortium; $20 million over three years to partner with colleges to tackle industry challenges through innovation projects; and $50 million over five years in world-leading research at the Perimeter Institute.

The government is also committed to lowering the costs of doing business by maintaining a competitive tax environment. Ontario's general corporate income tax (CIT) rate of 11.5 per cent is the second lowest in Canada. Also, Ontario's combined federal-provincial general CIT rate of 26.5 per cent is lower than the comparable rate in any of the U.S. states.

Q: If business R&D has been declining in Ontario, why is the government reducing support? Shouldn't the government be increasing support?

A: The R&D tax credits, like all of the business support programs, were reviewed as part of the Program Review, Renewal and Transformation (PRRT) process which is focused on improving outcomes for government programs to ensure they are efficient, effective, and sustainable.

As part of the PRRT process, the government proposes to reduce the level of support provided through the ORDTC and the OITC.

R&D remains a key priority of the government. That is why the government will reinvest savings from the proposed tax credit changes, including: $35 million over five years towards establishing the Advanced Manufacturing Consortium; $20 million over three years to partner with colleges to tackle industry challenges through innovation projects; and $50 million over five years in world-leading research at the Perimeter Institute.

Q: How much will the reductions to the R&D tax credits save the Province?

A: The proposed R&D tax credit rate reductions are estimated to save the province approximately $35 million in 2016-17, $65 million in 2017-18 and $65 million in 2018-19.

Q: How are the savings from this change being used? Will the savings help to balance the Budget or be redirected into other programs to incent innovation in the Province?

A: Research and Development remains a key priority of the government. That is why the government will reinvest savings from the proposed tax credit changes, including: $35 million over five years towards establishing the Advanced Manufacturing Consortium; $20 million over three years to partner with colleges to tackle industry challenges through innovation projects; and $50 million over five years in world-leading research at the Perimeter Institute.

Through the Business Growth Initiative, the province will continue to examine ways to encourage R&D investment in Ontario, increase the commercialization of research, and better support export activity.

Q: What was the rationale for lowering the amount of the credit?

A: The Ontario Government reviewed options to restructure Ontario's R&D tax credits. The R&D tax credits, like all of the business support programs, were reviewed as part of the Program Review, Renewal and Transformation (PRRT) process which is focused on improving outcomes for government programs to ensure they are efficient, effective, and sustainable.

As part of the PRRT process, the government proposes to reduce the level of support provided through the Ontario Research and Development Tax Credit (ORDTC) and the Ontario Innovation Tax Credit (OITC).

Despite total Ontario R&D support of approximately $400 million delivered annually through the tax system, in addition to federal programs, business spending on R&D in Ontario has declined over the last decade and continues to lag the United States as a share of the economy.

R&D remains a key priority for the government, which is why the government will reinvest savings from the proposed tax credit changes into targeted investments across key sectors of Ontario's economy.

The government is investing $35 million over five years towards establishing the Advanced Manufacturing Consortium; $20 million over three years to partner with Colleges to tackle industry challenges through innovation projects; and $50 million over five years in world-leading research at the Perimeter Institute.

Through the Business Growth Initiative, the province will continue to examine ways to encourage R&D investment in Ontario, increase the commercialization of research, and better support export activity.

Maintaining a Competitive Tax Environment

Q: How competitive are Ontario's business taxes with other international jurisdictions?

A: Ontario's combined federal-provincial general Corporate Income Tax (CIT) rate of 26.5 per cent is lower than the comparable rate in any of the U.S. States. Ontario's combined rate is also lower than the Great Lakes States average (39.7 per cent) and the average CIT rate of G7 and G20 member countries (30.5 per cent and 28.2 per cent respectively).

Q: How competitive are Ontario's business taxes with other provinces?

A: Ontario has the second lowest general CIT rate of 11.5 per cent when being compared with Canada's federal and provincial general CIT rates. British Columbia has the lowest general CIT rate of 11 per cent and Nova Scotia and Prince Edward Island have the highest general CIT rate of 16 per cent.

CIT Rates (Chapter 1A)

Q: Why is the government not raising corporate taxes in this Budget?

A: Since 2009 Ontario has taken significant steps to improve business tax competitiveness to make the province a more attractive location for business investment which is necessary to support long-term economic growth and job creation.

Ontario's general Corporate Income Tax (CIT) rate was reduced in stages from 14 per cent in 2009 to the current 11.5 per cent, making it the second lowest in Canada. We now have a combined federal-provincial general CIT rate of 26.5 per cent, which is lower than the comparable CIT rate in any of the U.S. States.

We have also introduced several measures to better target Ontario's business tax credits to ensure that they are effective and fiscally sustainable.

Taking a balanced approach will help to ensure that Ontario remains a competitive location for business investment and that support provided to Ontario businesses contributes to economic growth and job creation, and promotes investment in key industries.

Business Supports Program Review Panel Report

Q: Why didn't Ontario release the Business Supports Program Review Panel Report?

A: The report was used for internal government decision making and played a valuable role in informing the government's review of existing business support programs.

Land Transfer Tax (LTT) "De Minimis" Exemption for Partnerships: Clarifying Amendments Made on February 18, 2016 for Certain Dispositions

Q. What is the "de minimis" partnership exemption?

A: In Ontario, Land Transfer Tax (LTT) applies to transfers of land, both registered and unregistered, with few exceptions. A person acquiring a beneficial interest in land by becoming a beneficiary of a trust or a partner in a partnership is required to file a return and pay tax within 30 days after the date of the transaction, if an instrument is not registered on title.

Ontario Regulation 70/91, made under the Land Transfer Tax Act, provides a "de minimis" partnership exemption from the LTT for small changes in partnerships (up to 5 per cent). The five per cent threshold is measured by a change (increase) in the entitlement to profits in the partnership during the fiscal year of the partnership in which the disposition(s) was (were) made.

The exemption is available only to a person who becomes a partner in a partnership that holds land, or to a person who is an existing partner whose partnership interest increases (provided other requirements are met).

Q. Why have retroactive amendments to the Land Transfer Tax (LTT) "de minimis" partnership exemption been made?

A: The amendments made on February 18, 2016 clarify the application of the Land Transfer Tax (LTT) to certain dispositions occurring as part of complex real estate structures, such as those involving real estate investment trusts (REITs).

These amendments are intended to further ensure the integrity of the LTT system.

Some taxpayers have attempted to apply the "de minimis" partnership exemption incorrectly, avoiding LTT on large transactions occurring within complex real estate structures, such as those involving real estate investment trusts (REITs).

The amendments will help maintain a level playing field for investors in real estate vehicles such as REITs that have paid tax in similar circumstances.

As they are clarifying, the amendments are applicable on or after July 19, 1989 (the date on which the Exemption became effective).

However, on March 24, 2016 the ministry announced its administrative approach to facilitate compliance. As part of that approach, for dispositions of a beneficial interest in land through one or more partnerships, the Minister will assess and/or reassess only dispositions that occurred on or after February 18, 2012. This is a balanced approach to administration that recognizes the practicalities involved in complying with taxpayer obligations at this time.

TAX AND BENEFITS ADMINISTRATION

Supporting the Sharing Economy

Q: How is Ontario supporting the sharing economy?

A: The government has taken action to begin supporting the development of a robust sharing economy, including announcing the creation of the Sharing Economy Advisory Committee, with representation from key ministries, to oversee the development and coordination of Ontario's approach to the sharing economy.

Further, in the 2016 Budget, the government announced a series of new measures, including:

- Working to ensure the province's auto insurance system can help provide peace of mind to those offering and using new types of transportation services through the sharing economy;
- Commencing consultation with industry and communities in spring 2016 on options to facilitate new and innovative choices for intercity passenger travel. The government will consult on a new regulatory regime to ensure safe and sustainable intercity passenger travel services;
- Piloting a program with Airbnb, a key sharing economy platform, to inform Ontarians who engage in home sharing about their consumer rights and responsibilities, and raise awareness of tax obligations; and
- Committing to consultations led by the Sharing Economy Advisory Committee, and focussed on the sharing economy, to help determine the best approach for Ontario moving forward.

Q: Why is the government supporting the sharing economy?

A: The sharing economy has significant potential to drive economic growth, productivity and innovation.

According to an estimate by PricewaterhouseCoopers, revenues from five of the key sharing economy sectors (accommodation, transportation, finance, services and labour, and music/video streaming) are projected to grow from USD $15 billion today to USD $335 billion by 2025.

Further, according to research done by the University of California, Berkley and the Wharton School of the University of Pennsylvania, the benefits of the sharing economy extend to cost savings for consumers, flexible employment opportunities,

greater supply and choice of services across sectors, and increased access to capital for small start-ups.

Q: Why aren't you doing something about Uber?

A: In the 2016 Budget, the government committed to a consultation to determine the best approach for Ontario moving forward. Ride-sharing and home-sharing will undoubtedly be a key topic of discussion.

Adapting Ontario's economy to accommodate new business models requires careful consideration and consultations with key stakeholders, including industry, municipalities, the public and other interested parties. The government looks forward to having more to say on this in the coming months.

Q: What is the Sharing Economy Advisory Committee?

A: The Sharing Economy Advisory Committee is an internal committee of Assistant Deputy Ministers who have been tasked with developing an integrated approach to the sharing economy for Ontario.

Key committee objectives include fostering innovation while seizing the opportunities presented by this emerging sector, and helping to ensure a level playing field as well as safety for consumers and workers.

Q: When will we see an Integrated Strategy to Address the Sharing Economy?

A: The government, led by the Sharing Economy Advisory Committee, is developing an integrated strategy to address the sharing economy. However, the government must consult to become better informed, and to gain insights into the best approach for Ontario moving forward. Following these consultations, the government will finalize its integrated strategy.

Auto Insurance – Sharing Economy

Q: Aviva has already announced it is selling auto insurance coverage for ride-sharing. Why do you need to take further action?

A: Ontario's competitive market for auto insurance is beginning to respond and adapt to the sharing economy. And our province's flexible regulatory framework for insurance is letting that innovation happen. But there continues to be a significant insurance coverage gap for thousands of Ontarians driving and using ride-sharing services every day.

Closing that gap is a critical government priority, and the government and the Financial Services Commission of Ontario (FSCO) are exploring how our flexible regulatory system can quickly approve new insurance products.

A flexible response to new products will help give drivers and passengers peace of mind while the government works with stakeholders to develop the necessary legislative and regulatory changes to fully integrate the sharing economy into the auto insurance system.

Q: What would your flexible approach involve? What specifically are you exploring with FSCO?

A: The government has made clear to the public, and to FSCO, that protection of consumers and drivers involved in ride-sharing is an objective that needs to be achieved as quickly as possible.

Our flexible approach involves working with FSCO to explore how Ontario's insurance regulatory system can quickly approve new insurance products. This could involve interim approvals of new products.

The government is also working with FSCO and stakeholders in the auto insurance system to develop the legislative and regulatory changes necessary to fully integrate the sharing economy into Ontario's auto insurance system.

This flexible approach ensures Ontario's auto insurance system can help provide peace of mind to those involved in ride-sharing.

Towards that end, the government and FSCO are exploring how Ontario's flexible insurance regulatory system can quickly approve new insurance products.

Q: What do you mean by interim approvals?

A: The idea of interim approvals is just an example of what the government and FSCO are exploring. Everything is on the table to make sure Ontario's auto insurance system can help provide peace of mind to those involved in ride-sharing.

As a government, we are making it clear that the insurance coverage gap for those engaged in ride-sharing in Ontario needs to be addressed as quickly as possible. This is a government priority.

One insurance product has already been approved; this is a good first step. And we need more companies to step forward with other new products to provide more insurance options.

And the government, working with FSCO, is exploring ways to approve more new insurance products, including approving new products on an interim basis, while we make the necessary changes to fully integrate the sharing economy into Ontario's auto insurance system.

Q: Aren't you playing into Uber's hands by approving insurance products that don't comply with the law?

A: When it comes to auto insurance and ride-sharing, our top concern is for the protection of drivers and their passengers. New auto insurance products have to be filed with FSCO for review and approval, and we are confident in FSCO's internal review processes.

One insurance product has already been approved by FSCO, and other proposals are currently being reviewed. The government and FSCO are exploring how Ontario's flexible insurance regulatory system can quickly approve new insurance products. This work isn't being done to satisfy any single company – it is being done to help ensure Ontario drivers and consumers are protected.

Q: Uber has launched a public campaign to pressure Alberta's government? Is this announcement pre-empting similar criticism by Uber in Ontario?

A: This isn't about what's going on in other jurisdictions. When it comes to auto insurance and ride-sharing, our top concern is for the protection of drivers and their passengers.

Ontario's auto insurance system has already demonstrated flexibility and responsiveness to ride-sharing. One insurance product has already been approved by FSCO, and other proposals are currently being reviewed. The government and FSCO are exploring how Ontario's flexible system can quickly approve new insurance products to help give drivers and consumers peace of mind.

This work isn't being done to satisfy a single company – it is being done to help ensure Ontario drivers and consumers are protected.

Q: When can we expect FSCO to announce interim approval of these other auto insurance products?

A: FSCO is an independent regulator. It would be inappropriate for the government to comment on FSCO's internal processes.

What the government has made clear to the public, and to what FSCO is aware of, is that protection of consumers and drivers involved in ride-sharing is an objective that needs to be achieved as quickly as possible.

Towards that end, the government and FSCO are exploring how Ontario's flexible insurance regulatory system can quickly approve new insurance products.

Q: How long do you need to make the long-term changes you're talking about?

A: The government and FSCO are exploring how Ontario's flexible insurance regulatory system can quickly approve new insurance products to help protect consumers and drivers engaged in ride-sharing activity.

In parallel with that work, the government is also working with the regulator and the insurance industry to develop the legislative and regulatory changes necessary to fully integrate the sharing economy into Ontario's auto insurance system. These changes will be comprehensive and complex, and will require careful consideration over the coming months.

Q: What about other issues with ride-sharing services like Uber? What's the government doing to ensure these vehicles are safe and drivers are paying their fair share of taxes?

A: To help realize the benefits of the sharing economy, the government is developing an integrated strategy to promote a more level playing field and tax fairness, foster innovation and support new business, ensure a coordinated government approach is taken and protect workers, consumers and communities.

Adapting Ontario's economy to accommodate new business models requires careful consideration and consultations with key stakeholders, including industry, municipalities, the public and other interested parties. The government's Sharing Economy Advisory Committee will launch a more targeted consultation in the coming months.

Q: Have you been working with the City of Toronto on this?

A: Ontario's strategy for the sharing economy includes taking a coordinated government approach. Ministry of Finance and FSCO staff has engaged other jurisdictions and levels of government, including the City of Toronto, to build relationships and share information.

The focus of our government's early action is on ensuring Ontario's auto insurance system can help provide peace of mind to Ontarians engaged in ride-sharing activity. Other jurisdictions and levels of governments may have different priorities, and we will continue to work with them as we develop more long-term changes to fully integrate the sharing economy into Ontario's auto insurance system.

The Province is also looking at other aspects of the sharing economy. And in the coming months we will launch a consultation to help determine the best approach for Ontario, which will include engagement with municipalities like the City of Toronto.

Underground Economy and Other Revenue Integrity Measures

Q: What is Ontario doing to address the underground economy?

A: The government has made progress in fighting underground economic activities through:

- Ongoing enhanced compliance-focused measures, including those that address the underground economy and aggressive tax planning, the Province has generated over $930 million to date - a $330 million increase over what was reported in the 2015 Budget;
- Consultations with high-risk sectors, with a view to partnering with industry and gaining insight into how best to tackle the underground economy;
- Requiring corporations to demonstrate federal and provincial tax compliance before receiving government contracts. Since February 2014, the government has verified compliance with tax obligations for more than 2,200 contracts; and
- Amending the Taxation Act, 2007, to make the sale, use or distribution of electronic sales suppression devices an offence.
- Taking specific actions in response to Parliamentary Assistant Laura Albanese's consultation with the residential construction industry, including:
    - Extending the residential roofing pilot project for an additional two years and examining opportunities to expand its scope beyond roofing to other areas of residential construction;
    - Launching a public awareness campaign to educate the public on the risks and potential liabilities associated with participation in the underground economy;
    - Dispatching specialized audit teams to focus on sectors that are at high risk of underground economy activity, in partnership with the Canada Revenue Agency;
    - Proposing legislation that would enhance information sharing, enable greater enforcement, and introduce additional penalties for participation in the underground economy; and
    - Helping home owners hire legitimate contractors when taking advantage of government-funded rebates for enhancing the energy efficiency of their homes.

Q: Why isn't Ontario doing more to address the underground economy?

A: Since 2013–14, the government has made progress in fighting underground economic activities:

- Through ongoing enhanced compliance-focused measures, including those that address the underground economy, the Province has generated over $ 930 million to date - a $ 330 million increase over what was reported in the 2015 Budget;
- The government has held consultations with high-risk sectors, with a view to partnering with industry and gaining insight into how best to tackle the underground economy;
- Corporations are required to demonstrate federal and provincial tax compliance before receiving government contracts. Since February 2014, the government has verified compliance with tax obligations for more than 2,200 contracts; and
- The Taxation Act, 2007, was amended to make the sale, use or distribution of electronic sales suppression devices an offence.

Q: What new initiatives is the government announcing in the Budget?

A: In the 2016 Budget, the government committed to taking specific actions in response to Parliamentary Assistant Laura Albanese's recent consultation with the residential construction industry, including:

- Extending the residential roofing pilot project for an additional two years and examining opportunities to expand its scope beyond roofing to other areas of residential construction;
- Launching a public awareness campaign to educate the public on the risks and potential liabilities associated with participation in the underground economy;
- Dispatching specialized audit teams to focus on sectors that are at high risk of underground economy activity, in partnership with the Canada Revenue Agency;
- Proposing legislation that would enhance information sharing, enable greater enforcement, and introduce additional penalties for participation in the underground economy; and
- Helping home owners hire legitimate contractors when taking advantage of government-funded rebates for enhancing the energy efficiency of their homes.

Q: Can you explain the $ 930 million figure for enhanced compliance initiatives? Where does it come from?

A: Enhanced compliance initiatives consist of:

- The government's agreement with the federal government to address non-compliance with federally administered provincial taxes which has generated over $630M since 2013-14; and
- Ontario's own enhanced compliance measures focused on provincially administered taxes, such as the Employer Health Tax, which have generated over $ 300M since 2013-14.
- When combined, these compliance measures have generated over $ 930 million for Ontario since 2013-14.

Q: What do you mean by "the government was able to work with non-compliant businesses to help them satisfy their tax obligations before starting work"?

A: The government requires businesses to be compliant with their tax obligations before awarding a government contract. If a business is not compliant, the government generally allows for a short grace period to become complaint. This gives the business an opportunity to work with either the Canada Revenue Agency and/or the provincial government to meet their tax obligations before starting work.

Q: Why has the government introduced more red tape for estate representatives?

A: Following a 2011 Budget commitment to enhance EAT compliance, the Ministry of Finance (MOF) is collecting information needed to perform audits and verify that correct amounts of the tax have been paid. Effective January 1, 2015, estate representatives are required to submit an Estate Information Return with MOF to substantiate the total estate value provided to the courts. This new requirement does not alter the amount of tax payable or how the tax is calculated. An Estate Information Return is only required where an Estate Certificate has been applied for and issued by the courts.

Q: Why are Bad Debt Expenses increasing from approximately $46.7Million (2014-2015 Actuals) to $90Million (2015-2016 interim actuals)?

A: In recent years, the Ministry of Finance has uncovered several large scale tax evasion schemes while conducting tobacco tax audits. As a result of these audits, there have been a number of large tobacco assessments which have proven to be problematic from a collectability standpoint. The increase of $58M above the 2015-16 Printed Estimates was primarily a result of these large tobacco tax assessments.

Q: Why is the Ministry of Finance seeking an increase of $13.2Million in its Bad Debt Expense allocation in 2016-17 (from $32Million to $45.2Million)?

A: The Ministry of Finance has uncovered several large scale tax evasion schemes while conducting tobacco tax audits. As a result of these audits, there have been a number of large tobacco assessments which have proven to be problematic from a collectability standpoint. It is anticipated that these assessments will continue in the 2016-17 year. These assessments will be uncollectible and as a result the ministry has requested a $13.2M internal ministry re-allocation to increase the Bad Debt Expense allocation in the 2016-17 estimates.

Q: Has the government seen an increase in the Estate Administration Tax collected since January 1, 2015?

A: Tackling tax avoidance remains a key strategy as part of a robust and transparent administration process. The requirement to file an Estate Information Return (EIR) came into effect on January 1, 2015, for all applications made for an Estate Certificate on or after this date. Therefore, the first EIRs did not become due until the spring of 2015. In addition to verifying and auditing selected files, MOF continues to respond to written enquiries, telephone calls, and provide outreach activities to estate representatives and the legal profession to raise their awareness and understanding in meeting their obligations with respect to the Estate Administration Tax Act.

Q: What is the government doing to address Aggressive International Tax Planning?

A: All corporations should pay their fair share of taxes. That is why Ontario, in conjunction with the federal government, has taken substantive actions to help better address aggressive corporate tax avoidance. For example, under a fee-for-service agreement with the Canada Revenue Agency, Ontario invests in audit activities targeting aggressive international tax planning and the underground economy.

With Ontario's significant investment the Canada Revenue Agency was able to increase overall audit coverage rates, further reinforcing the integrity of the tax system. The government's agreement with the federal government to address non-compliance with federally administered provincial taxes through ongoing enhanced compliance-focused measures, including those that address the underground economy and aggressive tax planning has generated over $630M since 2013-14.

Contraband Tobacco

Q: Smoking rates are going down over time. Are further measures targeting contraband tobacco really necessary?

A: Increasing tobacco taxes has been key to Ontario's approach to encouraging smoking cessation and prevention, particularly amongst youth. The Smoke-Free Ontario Strategy has contributed to reduced tobacco use and lowered health risks for all Ontarians.

However, further measures to target contraband tobacco are needed. The presence of contraband tobacco in Ontario undermines provincial health objectives, results in less tobacco tax revenue for critical public services and compromises public safety through links with organized crime.

Q: What are the benefits to the taxpayer of tackling contraband tobacco?

A: The presence of contraband tobacco in Ontario undermines provincial health objectives, results in less tobacco tax revenue for critical public services and compromises public safety through links with organized crime.

Easy access to a large supply of low-cost contraband tobacco products prevents tobacco taxes from being as effective as they should be, both as a health policy tool and a source of revenue to provide for critical public services that benefit all Ontarians.

Q: What is the size of the contraband tobacco market in Ontario?

A: By virtue of being illegal activity, it is difficult to precisely measure the size of the contraband tobacco market in Ontario. However, a variety of reports typically estimate the size of the contraband market to be between 20% and 40% of the Ontario tobacco market.

In 2008, the Auditor General estimated that Ontario loses up to $500 million in tobacco tax revenues annually due to contraband tobacco.

Q: What is the government doing about contraband tobacco in Ontario?

A: Addressing contraband tobacco is a priority for the government. Enforcing Ontario's tobacco tax laws complements the Smoke-Free Ontario Strategy.

Since 2008, MOF inspections have resulted in penalties of more than $37 million assessed against retailers under the TTA. In addition, more than 252 million contraband cigarettes, 4.3 million untaxed cigars, and 169 million grams of untaxed fine-cut or other tobacco products have been seized by MOF since 2008. Addressing contraband tobacco requires a balance of partnerships and enforcement, and the government has taken some important steps forward in this regard.

Effective January 1, 2015, the Ministry assumed oversight of raw leaf tobacco in Ontario. Implementation of raw leaf tobacco oversight helps impede the flow of raw leaf tobacco to contraband tobacco product manufacturers.

Building on the government's existing raw leaf oversight regime, the 2016 Budget indicated a regulation prescribing labelling and other requirements for bales and packages of raw leaf tobacco will be filed in advance of the 2016 raw leaf tobacco harvest. The government will continue to monitor the results of its raw leaf tobacco oversight and may propose future enhancements and amendments under the *Tobacco Tax Act*.

The government is also enhancing partnerships with key enforcement agencies by providing resources to the Ontario Provincial Police to address the link between contraband tobacco and organized crime.

The government is partnering with a number of public health units to undertake cross-designation pilot projects where inspection officers will be cross-designated under both the *Tobacco Tax Act* and *Smoke-Free Ontario Act*. These projects will allow inspectors to identify and seize contraband tobacco and flavoured tobacco products during retail inspections.

In addition, the province continues to work towards building a strong, sustainable partnership with First Nation communities. The government continues to support two tobacco pilot projects with the Chippewas of the Thames First Nation and the Mohawk Council of Akwesasne, with the goal of reaching agreements on self-regulation of tobacco on-reserve, and revenue-sharing.

Q: Why is the government amending its forfeiture provisions for raw leaf tobacco under the Tobacco Tax Act?

A: The province is proposing updates to the *Tobacco Tax Act* to align forfeiture powers for raw leaf tobacco with other forfeiture powers on products seized as evidence of a contravention of the Act. Currently, when raw leaf tobacco is seized by search warrant, there is no provision for forfeiture to the Minister of Finance upon conviction. Raw leaf tobacco seized by search warrant as evidence of an offence must be returned to the person from whom it was seized upon completion of the court matter, even if the person is convicted.

The proposed amendments will provide consistency with existing *Tobacco Tax Act* forfeiture provisions, and will increase the consequence of illegal activity to include the loss of the raw leaf tobacco.

Q: What does the Ministry of Finance mean by "asset forfeiture"?

A: The Ministry of Finance will examine the possibility of introducing amendments to the *Tobacco Tax Act* to allow for the forfeiture of assets used in or derived from the

commission of a tobacco-related offence. This could include things like vehicles and cash.

Expanding asset forfeiture provisions within the TTA would create an added deterrent against dealing in contraband tobacco.

Q: Why is the government taking a heavy-handed enforcement approach on tobacco rather than engaging and partnering with First Nations?

A: Ontario's tobacco strategy consists of a balanced approach of partnerships and compliance activities to address the issue of contraband tobacco.

The Province remains committed to an ongoing dialogue with First Nations communities and leaders on tobacco, including discussions on the self-regulation of tobacco on-reserve and revenue sharing.

Q: What is the Contraband Tobacco Enforcement Team?

A: Building on commitments in the 2015 Budget, the province has worked with the OPP to establish of a dedicated contraband tobacco enforcement team to focus on addressing the link between contraband tobacco and organized crime.

Tobacco smuggling and production is seen as a lucrative opportunity for organized crime. Links have been made between organized crime groups involved in tobacco smuggling with other more serious illegal activity such as drug and weapons trafficking.

The enforcement team provides intelligence and coordinates enforcement to address organized crime and sophisticated contraband tobacco networks in Ontario. It also shares information across enforcement and revenue agencies provincially, nationally and internationally.

Q: Why was the Contraband Tobacco Enforcement Team established?

A: The presence of contraband tobacco in Ontario is a persistent and complex challenge that undermines provincial health objectives under the Smoke-Free Ontario Strategy, results in less tobacco tax revenue for critical public services and compromises public safety.

The RCMP estimates that there are 175 organized crime groups involved in contraband tobacco in Canada. Disrupting the links between organized crime and contraband tobacco is a key component of tobacco enforcement.

Tobacco smuggling and production is seen as a lucrative opportunity for organized crime. Links have been made between organized crime groups involved in tobacco smuggling with other more serious illegal activity such as drug and weapons trafficking.

Q: How will this Contraband Tobacco Enforcement Team impact First Nation communities?

A: Ontario recognizes and respects the ceremonial value and economic importance of tobacco to First Nations, and remains committed to continuing a dialogue with First Nation communities on tobacco. This includes discussions on self-regulation of tobacco on-reserve and revenue sharing.

The new Contraband Tobacco Enforcement Team was created by the Ontario Provincial Police and is located within their Organized Crime Enforcement Bureau.

The team has been established to allow for the prioritization of investigations with respect to organized crime groups in Ontario involved in illegal activities and contraband tobacco. The team gathers intelligence and coordinates enforcement interventions for the purpose of addressing organized crime and contraband tobacco networks in Ontario. CTET leverages the OPP's relationship with municipal police and First Nations police services in gathering intelligence and for enforcement interventions, as permitted by law.

In addition, the team works with Ministry of Finance tobacco tax enforcement staff by sharing information and collaborating on contraband tobacco enforcement investigations.

Q: What is the purpose of cross-designating tobacco inspections officials under the Smoke-Free Ontario Act, and the Tobacco Tax Act?

A:. The government will partner with up to four municipal public health units across Ontario to undertake cross-designation pilot projects where inspection officers will be cross-designated under both the Tobacco Tax Act and Smoke-Free Ontario Act.

The pilot projects will enable both MOF Inspectors and Tobacco Enforcement Officers to seize tobacco that is found to be in contravention of select provisions of *Tobacco Tax Act* and/or *Smoke-Free Ontario Act* during their regular course of inspections. As a result, inspectors will be able to identify and seize contraband tobacco and flavoured tobacco products during routine retail inspections.

Moving Towards Community Regulation

Q: How is the government working with First Nation communities to address contraband tobacco?

A: The government is committed to continuing a dialogue with First Nations to identify mutually-beneficial solutions to tobacco.

The government continues to support two tobacco pilot projects with the Chippewas of the Thames First Nation and the Mohawk Council of Akwesasne,

with the goal of reaching agreements on self-regulation of tobacco on-reserve, and revenue-sharing.

The province will also be working with the Anishinabek Nation, representing 39 First Nation communities across Ontario, to develop an agreement related to tobacco and gasoline that could generate revenue for Anishinabek Nation communities from on-reserve sales of tobacco and gas.

In addition, the Province also launched a review of the First Nations Cigarette Allocation System in April 2015, led by two independent co-facilitators. The facilitators engaged First Nation communities and leadership, as well as key stakeholders, to gather input and perspectives, and provide options to the government on ways to modernize and improve the system.

The facilitators provided a Final Report to the government in February 2016.

The government is carefully considering the options outlined in the Final Report, including the convening of a Tobacco Forum to discuss the outcomes of the allocation system review with First Nation communities and options for moving forward on community-based regulation of tobacco on-reserve.

Q: What does "modernizing" the allocation system mean?

A: The government is examining a variety of options and seeking perspectives on how to modernize and improve the current allocation system. Modernization could range from updating the current formula and approaches used to allocate cigarettes among First Nations, identifying alternative approaches to allocating cigarettes to tax-exempt First Nation consumers, or implementing a new model for tobacco sales on-reserve.

Q: What were the outcomes of the formal review?

A: The facilitators provided a final report to the Ministry of Finance in February 2016 detailing what was heard during the formal review, and outlining potential options for the government’s consideration. MOF is currently reviewing the report and is carefully considering each of the recommendations.

This includes the possibility of convening a tobacco forum with representatives from First Nations communities to present options and discuss potential broad-based solutions to tobacco, as recommended by the facilitators.

Q: Why is the government working with the Anishinabek Nation?

A: Building on the work from the two First Nation tobacco pilot projects and the First Nations allocation review, there is an opportunity for the province and the political territorial organization of the Anishinabek Nation to broaden the dialogue and engage more First Nation communities on developing an agreement regarding tobacco and gasoline sales on reserve.

The Anishinabek Nation is a political territorial organization that represents 39 First Nations across Ontario. The Anishinabek Nation has four regional areas Southwest, Southeast, Lake Huron and Northern Superior and each region is represented by a Regional Grand Chief.

Q: What does "modernizing" the Ontario Gas Card Program mean?

A: The government is committed to seeking First Nations' advice on modernizing the Ontario Gas Card Program.

The objective of the engagement process, beginning in spring 2016, is to provide First Nation gasoline retailers and consumers with the opportunity to share their experiences related to the Ontario Gas Card Program.

The information gathered through the engagement process will inform the development of recommendations to improve the efficiency of the current tax refund delivery model and the integrity of the Ontario Gas Card Program.

Ontario's Tobacco Strategy

Q: What changes are being made to the tobacco tax rate?

A: To support the Smoke-Free Ontario Strategy, effective February 26, 2016 at 12:01 a.m., Ontario's tobacco tax increased from 13.975 cents to 15.475 cents per cigarette and per gram of tobacco product other than cigars.

This change is equivalent to a $3 increase per carton of 200 cigarettes.

This increase will help support smoking cessation efforts under the strategy, leading towards meeting the Province's goal of having the lowest smoking rate in Canada.

In addition, moving forward, to ensure tobacco tax rates retain their real value over time, annual tobacco tax rate increases based on inflation will occur over each of the next five years, beginning in 2017.

Q: Why was the tobacco tax rate increased?

A Tobacco taxes are a proven method of supporting smoking cessation and prevention efforts.

Increasing the tobacco tax rate in 2016 will help support smoking cessation efforts under the Smoke Free Ontario Strategy, leading towards meeting the Province's goal of having the lowest smoking rate in Canada. Public health research indicates that tobacco taxes are a key measure in helping to reduce smoking rates, particularly amongst youth.

Moving forward, by raising tobacco taxes on an annual basis for five years beginning in 2017, the Province will ensure that, at a minimum, the tobacco tax rate remains consistent on a real dollar basis over time.

Q: How much incremental revenue does the government expect the tobacco tax increases announced in the 2016 Budget to generate?

A: The government projects that the tobacco tax rate increases will generate up to $100 million over each of the next three years.

Q: Why is the government clarifying the obligations of retailers after a tax rate change?

A: The government has introduced legislation that will amend the Tobacco Tax Act to allow retailers to charge the lower tax rate on products in their inventory before the increase and that provision would be retroactive to Budget day.

This relieves retailers of the obligation to remit additional tax on existing inventories, in accordance with existing practice.

Q: Did the government consider a larger increase to the tobacco tax rate?

A: There is a risk that significant increases to the tobacco tax rate may result in increased consumption of contraband tobacco. Several reports have estimated that approximately 20-40% of the tobacco market is illegal.

The presence of low-cost contraband tobacco undermines provincial health objectives, results in less tobacco tax revenue for the province, and compromises public safety through links with organized crime.

The government will monitor the impact of the increase on the contraband market to ensure the stated objectives are met. Addressing contraband tobacco is a priority for the government.

Q: The government announced the tobacco tax rate would increase on an annual basis at an amount based on the rate of inflation over five years, beginning in 2017. What assumptions about the rate of inflation over the next five years has the government made?

A: As announced in the 2016 Ontario Budget, the Ontario tax rate on cigarettes and other tobacco products (except cigars) is increasing by an amount based on inflation, each year for five years, beginning on June 1, 2017.

Annual 2% increases are currently scheduled to reflect the Bank of Canada's 2% inflation-control target.

This means that the tobacco tax rate on a carton of 200 cigarettes is currently scheduled to increase by 62 cents, 63 cents, 64.4 cents, 65.8 cents and 67 cents on June 1st of 2017, 2018, 2019, 2020 and 2021 respectively.

The scheduled tobacco tax rate increases may be adjusted due to changes in the actual rate of inflation, as measured by the CPI.

Q: Why is the government raising tobacco taxes, given the high prevalence of contraband tobacco in Ontario?

A: Tobacco taxes are a proven method of discouraging tobacco use.

This tobacco tax increase announced in the 2016 Budget will help support smoking prevention and cessation efforts under the Smoke-Free Ontario Strategy, leading towards meeting the Province's goal of having the lowest smoking rate in Canada.

Ontario's tobacco strategy consists of a balanced approach of partnerships and compliance activities to address the issue of contraband tobacco. Ontario's Smoke-Free Strategy is central to the government's approach to tobacco.

The province continues to make progress on addressing contraband tobacco. The presence of contraband tobacco in Ontario undermines provincial health objectives, results in less tobacco tax revenue for critical public services and compromises public safety through links with organized crime.

Benefits Transformation

Q: How will Benefits Transformation impact Ontarians?

A: Benefits Transformation is about improving the way people access benefits by implementing initiatives such as single-window online access for multiple programs and making program administration of some common functions more efficient. Online access would be provided while maintaining phone and walk-in presence for clients.

Q: Which benefit programs will have integrated administration?

A: Specific programs have not been identified at this stage. The government is exploring a variety of opportunities to improve how benefit programs are delivered. Benefits transformation initiatives will be designed and implemented in alignment with other government priorities.

Q: Under proposed legislation, what information would be shared and with whom? How are you modernizing privacy frameworks?

A: Proposed framework legislation would authorize the collection, use and disclosure of personal information for the purpose of administering some or all functions of prescribed benefit programs. The specific information shared and parties authorized would need to be prescribed by regulation once opportunities for integrated administration are identified and confirmed.

The Ministry of Finance has engaged the Office of the Information and Privacy Commissioner (OIPC) in the development of legislation and will continue to do so as regulations and specific initiatives are developed. Consultations with key stakeholders will also take place in order to identify and mitigate issues related to confidentiality.

Q: What is the government doing to ensure personal information is protected?

A: Privacy rules would be included as part of the new legislation, and appropriate controls and procedures would be built into initiatives to ensure personal information is protected. Any supporting technology systems would include controls to ensure appropriate authorities are assigned for information sharing.

The Ministry of Finance has engaged the Office of the Information and Privacy Commissioner (OIPC) in the development of legislation and will continue to do so as regulations and specific initiatives are developed. Consultations with key stakeholders will also take place in order to identify and mitigate issues related to confidentiality.

Q: How will transformation of benefits delivery impact service delivery partners and provincial staff?

A: At this stage, multiple ministries are collaborating to explore benefits transformation initiatives including integrated delivery of common administrative functions. The impact of benefits transformation activities will depend upon specific opportunities pursued. As opportunities are explored, engagement with Bargaining Agents and service delivery partners will take place on the approach to transformation and to identify any specific impacts of initiatives.

ORPP ADMINISTRATION CORPORATION

Q: Why is the government providing the ORPP AC with a loan?

A: The ORPP AC is the independent, arms-length organization that will set-up and administer the ORPP.

The government is providing the ORPP AC with a repayable loan for essential work required to develop administrative systems, recruit a skilled team and launch the employer verification and enrolment process in 2017 and begin collection of contributions on January 1, 2018.

Ongoing costs to administer the ORPP would come from the plan, not from government revenues.

The ORPP AC is expected to repay the loan, with interest, from plan assets within a 10-year period.

Q: How much money is being loaned?

A: The government is providing flexibility for the ORPP AC to draw down based on operational requirements, up to $400M over three fiscal years. Costs would cover set-up expenses, including organizational start-up, development of tools/systems required for the verification and enrolment process, and the build/launch of administrative systems.

The government will monitor spending of the ORPP AC, while giving the Corporation the independence and flexibility it requires to administer the ORPP.

Accountability is at the core of the ORPP. Through a strong accountability and transparency framework, the independent Board of Directors and ORPP executives will be fully accountable to the plan's members. This framework has been benchmarked against the best practices of other leading independent pension plans.

Accountability measures include:

- An annual report tabled in the Legislature;
- Annual meetings for members;
- A publicly available Memorandum of Understanding; and,
- External auditing and strong financial controls.

Q: In the 2016/17 estimates, it shows a loan amount of up to $240M. How is that money going to be used?

A: This year (2016) is a critical period for the ORPP AC, with the launch of the employer verification/enrolment process and the building of systems needed to begin collecting contributions on January 1, 2018.

If pressed for more information: Further questions regarding ORPP AC expenditures can be directed towards the Administration Corporation.

Q: The ORPP AC has already received a loan $20M in 2015/16. How has that money been used?

A: The money has been used to fund essential start-up requirements for the ORPP AC. This includes contracts for expert services required to administer and operationalize the ORPP (e.g. organizational start-up, legal services, technical experts) and initial recruitment of staff.

If pressed for more information: Further questions regarding ORPP AC expenditures can be directed towards the Administration Corporation.

Q: Does the government expect to be repaid?

A: Yes, the repayable loan is structured on commercial terms. This means that it includes repayment obligations, with interest, over an established period of time.

Q: How long does the ORPP AC have to repay the loan? Will it be charged interest?

A: The ORPP AC has an obligation to repay the loan, principal and interest, within ten years.

This repayment period will help ensure that payments do not negatively impact plan sustainability. It is intended that the ORPP AC repay the loan from investment returns to make sure that contributions and benefits are reserved in trust for members.

Q: Why doesn't the ORPP AC get a traditional bank loan?

A: The repayable loan is structured on commercial terms. This was the appropriate vehicle given the ORPP AC would not have assets until contributions begin in 2018.

Q: Will there be any public reporting or accountability to how the loan is spent?

A: The loan to the ORPP AC is structured on commercial terms and will be repaid with interest. Actual expenditures from the loan will be reported through public accounts.

In addition, the ORPP AC is required to develop and publicly release an annual report, which would include financial statements of the Corporation. The report will also include compensation for the top five executive positions.

Accountability is at the core of the ORPP. Through a strong accountability and transparency framework, the independent Board of Directors and ORPP executives will be fully accountable to the plan's members and to government. This framework has been benchmarked against the best practices of other leading independent pension plans.

Q: What types of costs will the loan be used to pay?

A: The repayable loan will be used to fund set-up expenses, including organizational start-up, development of tools/systems required for the verification and enrolment process (e.g. software licencing, hardware and technical writing), and the build and initial operation of administrative systems.

The loan will not be used to fund ongoing plan operations or investments.

Q: What happens to the loan if there is a CPP enhancement and the ORPP does not go ahead?

A: The government has been clear about the need to enhance retirement security for current and future generations of Ontarians.

Given the complexity of both options, the government is pursing ORPP and an enhanced CPP simultaneously to ensure it achieves its objective of improving retirement security.

If pressed for more specifics: It is premature to discuss the impact of CPP enhancement on the loan.

Q: How much money has the ORPP AC spent on the services of consultants?

A: The ORPP AC has obtained expert services required to administer and operationalize the ORPP (e.g. organizational start-up, legal services, technical experts).

The government and the ORPP AC are committed to leveraging the expertise and experience of the industry and the financial sector to deliver a simple, reliable and cost-effective plan.

If pressed for more specifics: The ORPP AC procures goods and services based on a policy that was benchmarked against government and other leading pension plans. Further questions regarding ORPP AC expenditures can be directed towards the Administration Corporation.

Q: Is this money being spent on high salaries? What is the compensation framework for the ORPP AC?

A: The independent initial board of directors of the ORPP AC is responsible for establishing the Corporation's compensation framework.

Salaries would be benchmarked to other leading pension plans in Ontario to ensure that the ORPP AC is able to recruit essential talent.

The compensation of the top five executives, including the CEO, will be reported on an annual basis in the ORPP AC's Annual Report. This is in line with the best practices of Ontario's leading pension plans.

If pressed for more information: The ORPP AC has hired external advisors to assist with the compensation framework. Further question regarding this framework can be directed towards the Administration Corporation.

Q: How does the loan relate to administration costs of the ORPP?

A: ORPP will be one of the largest pension plans in the Canada. At maturity, the ORPP is expected to have over 4 million members, involve nearly 450,000 employers and collect more than $6 billion annually.

The government is committed to a simple, reliable and cost effective administration. This includes leveraging the strong, existing capabilities found in Ontario's pension and financial services sector and benchmarking ORPP administration costs against Canada's leading pension organizations.

We are continuing to have discussions with federal government departments on the possibility of cooperation in registration and administering the plan. This is in addition to the exploring and assessing different options, including leveraging infrastructure that exists within the Government of Ontario and exploring third-party private sector delivery.

Q: Why does the Ministry's spending for ORPP decrease by $12.5M in 2016-17?

A: The Ministry, through Ontario Retirement Pension Plan Implementation Secretariat, continues to lead the implementation of the Ontario Retirement Pension Plan. However, now that the ORPP AC has been established, it is expected that certain costs and responsibilities related to the operational work will transfer to the new organization, thus decreasing funding requirements for the Secretariat.

Q: Why is the ORPP IS still in place now that the ORPP AC has been established?

A: The Ontario Retirement Pension Plan Implementation Secretariat leads the policy, governance and legislative functions to establish the ORPP and supports the set-up of the ORPP AC.

Specific responsibilities include:

- Finalizing the plan design for the ORPP, including conducting analysis, developing policy options, preparing the plan text, developing a funding policy, conducting actuarial analysis, and drafting legislation.
- Leading discussions between governments with respect to ORPP implementation, including registration of the plan, data sharing agreement, and exploration of options for administration cooperation.
- Establishing and supporting the ORPP AC to ensure successful launch and implementation.
- Providing strategic communications and stakeholder engagement advice and services to support ORPP development and implementation.
- Developing an oversight function related to the ORPP, including monitoring progress of deliverables and achievements.

ORPP IMPLEMENTATION SECRETARIAT

TOP QAs

Q: Why is the government providing the ORPP AC with a loan?

A: The ORPP AC is the independent, arms-length organization that will set-up and administer the ORPP.

The government is providing the ORPP AC with a repayable loan for essential work required to develop administrative systems, recruit a skilled team and launch the employer verification and enrolment process in 2017 and begin collection of contributions on January 1, 2018.

Ongoing costs to administer the ORPP would come from the plan, not from government revenues.

The ORPP AC is expected to repay the loan, with interest, from plan assets within a 10-year period.

Q: Who pays for the ORPP start-up costs if the CPP is enhanced and the plan is never implemented?

A: The government's intention is that all eligible start-up costs it incurs would be recovered from the plan. If the ORPP is not implemented that won't be possible.

If those circumstances arise, however, it means that there is an agreement on a CPP enhancement that will address the retirement security challenges facing Ontarians. That has always been the government's objective.

By continuing with preparations for the ORPP, the government is ensuring that, if no consensus on CPP enhancement is reached, retirement security can be strengthened in Ontario through the ORPP.

Q: How much has been spent on the ORPP Implementation Secretariat (ORPP IS) to date?

A: The Ministry is currently in the process of closing its books. The final expenditures for the ORPP IS will be included in the government's Public Accounts for 2015-16. The current $20M projection addresses costs associated with staffing and other related costs for the ORPP IS.

With regards to ODOE, the majority of expenses incurred by ORPP IS can be attributed to the costs of services provided by third party vendors, mainly in areas where expertise external to government were required, such as actuarial analysis, legal advice and expert technical advice for the pension administration.

Loan Agreement with the ORPP Administration Corporation

Q: How much money is being loaned?

A: The government is providing flexibility for the ORPP AC to draw down based on operational requirements, up to $400M over three fiscal years. Costs would cover set-up expenses, including organizational start-up, development of tools/systems required for the verification and enrolment process, and the build/launch of administrative systems.

The government will monitor spending of the ORPP AC, while giving the Corporation the independence and flexibility it requires to administer the ORPP.

Accountability is at the core of the ORPP. Through a strong accountability and transparency framework, the independent Board of Directors and ORPP executives will be fully accountable to the plan's members. This framework has been benchmarked against the best practices of other leading independent pension plans.

Accountability measures include:

- An annual report tabled in the Legislature;
- Annual meetings for members;
- A publicly available Memorandum of Understanding; and,
- External auditing and strong financial controls.

Q: In the 2016/17 estimates, it shows a loan amount of up to $240M. How is that money going to be used?

A: This year (2016) is a critical period for the ORPP AC, with the launch of the employer verification/enrolment process and the building of systems needed to begin collecting contributions on January 1, 2018.

If pressed for more information: Further questions regarding ORPP AC expenditures can be directed towards the Administration Corporation.

Q: The ORPP AC has already received a loan $20M in 2015/16. How has that money been used?

A: The money has been used to fund essential start-up requirements for the ORPP AC. This includes contracts for expert services required to administer and operationalize the ORPP (e.g. organizational start-up, legal services, technical experts) and initial recruitment of staff.

If pressed for more information: Further questions regarding ORPP AC expenditures can be directed towards the Administration Corporation.

Q: Is this money being spent on high salaries? What is the compensation framework for the ORPP AC?

A: The independent initial board of directors of the ORPP AC is responsible for establishing the Corporation's compensation framework.

Salaries would be benchmarked to other leading pension plans in Ontario to ensure that the ORPP AC is able to recruit essential talent.

The compensation of the top five executives, including the CEO, will be reported on an annual basis in the ORPP AC's Annual Report. This is in line with the best practices of Ontario's leading pension plans.

If pressed for more information: The ORPP AC has hired external advisors to assist with the compensation framework. Further question regarding this framework can be directed towards the Administration Corporation.

Q: Does the government expect to be repaid?

A: Yes, the repayable loan is structured on commercial terms. This means that it includes repayment obligations, with interest, over an established period of time.

Q: How long does the ORPP AC have to repay the loan? Will it be charged interest?

A: The ORPP AC has an obligation to repay the loan, principal and interest, within ten years.

This repayment period will help ensure that payments do not negatively impact plan sustainability. It is intended that the ORPP AC repay the loan from investment returns to make sure that contributions and benefits are reserved in trust for members.

Q: Why doesn't the ORPP AC get a traditional bank loan?

A: The repayable loan is structured on commercial terms. This was the appropriate vehicle given the ORPP AC would not have assets until contributions begin in 2018.

Q: Will there be any public reporting or accountability to how the loan is spent?

A: The loan to the ORPP AC is structured on commercial terms and will be repaid with interest. Actual expenditures from the loan will be reported through public accounts.

In addition, the ORPP AC is required to develop and publicly release an annual report, which would include financial statements of the Corporation. The report will also include compensation for the top five executive positions.

Accountability is at the core of the ORPP. Through a strong accountability and transparency framework, the independent Board of Directors and ORPP executives will be fully accountable to the plan's members and to government. This framework has been benchmarked against the best practices of other leading independent pension plans.

Q: What types of costs will the loan be used to pay?

A: The repayable loan will be used to fund set-up expenses, including organizational start-up, development of tools/systems required for the verification and enrolment process (e.g. software licencing, hardware and technical writing), and the build and initial operation of administrative systems.

The loan will not be used to fund ongoing plan operations or investments.

Q: How much money has the ORPP AC spent on the services of consultants?

A: The ORPP AC has obtained expert services required to administer and operationalize the ORPP (e.g. organizational start-up, legal services, technical experts).

The government and the ORPP AC are committed to leveraging the expertise and experience of the industry and the financial sector to deliver a simple, reliable and cost-effective plan.

If pressed for more specifics: The ORPP AC procures goods and services based on a policy that was benchmarked against government and other leading pension plans. Further questions regarding ORPP AC expenditures can be directed towards the Administration Corporation.

Q: Is this money being spent on high salaries? What is the compensation framework for the ORPP AC?

A: The independent initial board of directors of the ORPP AC is responsible for establishing the Corporation's compensation framework.

Salaries would be benchmarked to other leading pension plans in Ontario to ensure that the ORPP AC is able to recruit essential talent.

The compensation of the top five executives, including the CEO, will be reported on an annual basis in the ORPP AC's Annual Report. This is in line with the best practices of Ontario's leading pension plans.

If pressed for more information: The ORPP AC has hired external advisors to assist with the compensation framework. Further question regarding this framework can be directed towards the Administration Corporation.

Q: How does the loan relate to administration costs of the ORPP?

A: ORPP will be one of the largest pension plans in the Canada. At maturity, the ORPP is expected to have over 4 million members, involve nearly 450,000 employers and collect more than $6 billion annually.

The government is committed to a simple, reliable and cost effective administration. This includes leveraging the strong, existing capabilities found in Ontario's pension and financial services sector and benchmarking ORPP administration costs against Canada's leading pension organizations.

We are continuing to have discussions with federal government departments on the possibility of cooperation in registration and administering the plan. This is in addition to the exploring and assessing different options, including leveraging infrastructure that exists within the Government of Ontario and exploring third-party private sector delivery.

Q: Why does the Ministry's spending for ORPP decrease by $12.5M in 2016-17?

A: The Ministry, through Ontario Retirement Pension Plan Implementation Secretariat, continues to lead the implementation of the ORPP. However, now that the Ontario Retirement Pension Plan Administration Corporation has been established, it is expected that the operational work will transfer to the new organization, thus decreasing funding requirements for the Secretariat.

Q: Why is the ORPP IS still in place now that the ORPP AC has been established?

A: The Ontario Retirement Pension Plan Implementation Secretariat leads the policy, governance and legislative functions to establish the ORPP and supports the set-up of the ORPP AC.

Specific responsibilities include:

- Finalizing the plan design for the ORPP, including conducting analysis, developing policy options, preparing the plan text, developing a funding policy, conducting actuarial analysis, and drafting legislation.
- Leading discussions between governments with respect to ORPP implementation, including registration of the plan, data sharing agreement, and exploration of options for administration cooperation.
- Establishing and supporting the ORPP AC to ensure successful launch and implementation.

- Providing strategic communications and stakeholder engagement advice and services to support ORPP development and implementation.

- Developing an oversight function related to the ORPP, including monitoring progress of deliverables and achievements.

Q: What is the ORPP Administration Corporation?

A: The ORPP Administration Corporation is the independent, arm's length organization that will administer the ORPP. Its responsibilities include:

- Enrolling eligible employers and employees;

- Collecting, investing and holding contributions in trust for members;

- Administering benefits; and

- Communicating with employers, members and other beneficiaries.

Q: What are the accountability mechanisms of the ORPP Administration Corporation? To whom does it report?

A: Accountability is at the core of the governance structure of the ORPP Administration Corporation. Through a strong accountability and transparency framework, the independent board of directors and ORPP executives will be fully accountable to the plan's members. This framework mirrors the best practices of other leading independent pension plans.

Accountability measures include:

- A Memorandum of Understanding being developed between the ORPP Administration Corporation and the Minister of Finance

- An annual report;

- An annual meeting for beneficiaries;

- External auditing and strong financial controls; and

- A review of the governance framework established by legislation within 10 years.

Federal Collaboration

Q: On one hand you say you are launching the ORPP in 2017, but then indicate that the collection of contributions won't start until 2018…which is it?

A: The ORPP implementation timeline has being modified. Employer verification will begin later in 2016 with enrollment of employers beginning in January 2017. This process will support a seamless transition to the collection of contributions starting on January 1, 2018 for large and medium size employers.

All other implementation dates remain the same. Contribution rates for employers without a registered pension plan will still be phased in as previously announced.

Many employer groups have called on the government to delay the launch of the plan to ensure a successful and smooth implementation, and allow a window to discuss a national solution. The government has modified the ORPP timelines to reflect this advice.

The government is on track to ensure that all eligible Ontario workers are enrolled in a comparable workplace plan or the ORPP by 2020.

ORPP Phase-In and Contribution Schedule

(rates reflect contributions to be made by each employer and employee)

Employer registration in the ORPP would begin on January 1, 2017.

Type of Employer	Jan 1, 2018	Jan 1, 2019	Jan 1, 2020	Jan 1, 2021
Wave 1: large employers without registered workplace pension plans	**0.8%**	**1.6%**	**1.9%**	**1.9%**
Wave 2: medium employers without registered workplace pension plans	**0.8%**	**1.6%**	**1.9%**	**1.9%**
Wave 3: small employers without registered workplace pension plans	**0%**	**0.8%**	**1.6%**	**1.9%**
Wave 4: employers with registered pension plans that either do not meet the comparability test or do not cover all classes of employees	**0%**	**0%**	**1.9%**	**1.9%**

Q: Is the federal government committing to administer your plan if CPP talks fail?

A: Ontario is pleased with the cooperation and partnership it has received from the new federal government. They have agreed to facilitate ORPP plan registration and to enter into a data sharing agreement to support implementation. The federal government has also committed to working with Ontario to ensure effective plan administration.

Ontario has always stated that it is committed to a simple, reliable and cost effective administration of the ORPP. Partnering with the federal government on plan registration, data sharing, and exploring models of plan administration supports this objective.

However, running a modern pension plan is not simple and so other options for administration are being explored including within the broader public sector and in partnership with private sector vendors. In fact, it may make sense to work with several partners to support effective administration of the plan.

Q: Would Ontario support a CPP enhancement that is a universal program to all employers and employees?

A: In designing the ORPP it was clear that, even though two thirds of Ontarians are not members of a workplace pension plan, many employers do provide generous workplace pension plans.

With this in mind, the government developed the framework of a comparable plan – so that employers that provide a generous workplace pension plan would not be required to contribute to the ORPP. This is a central part of the ORPP and reflects the objective of introducing the ORPP in a manner that doesn't adversely impact generous workplace pension plan arrangements that are already working well for employees and employers.

The Province's extensive consultations in developing the ORPP have helped to inform its view that a CPP enhancement must be timely and provide a level of adequacy and targeted coverage that is consistent with the ORPP. Ontario is bringing this insight to the national discussion.

The province is also listening to the federal government and the other provinces and territories, and reflecting on their perspective on a CPP enhancement.

Q: If the government is going to proceed with measures such as introducing legislation on ORPP plan design, are you even serious about discussing the CPP?

A: The government has always said a national solution to enhancing retirement security is the best way forward. It has also said that it is imperative to address the challenge of retirement security ***now***. It is a critical issue for the future well-being of Ontarians and the economy that cannot be delayed.

Minister Morneau has outlined an aggressive timeline to enhance the CPP, including achieving a consensus to move forward by June and a national agreement by the end of 2016. The province looks forward to these discussions.

Legislation

Q: What progress has the government made on the ORPP to date?

A: The government is on track to meet its objective that, by 2020, all eligible Ontario workers are covered by a comparable workplace plan or the ORPP.

The ORPP Administration Corporation is now established and the process to register the plan with the Canada Revenue Agency is well underway. Final elements of plan design will be enshrined in legislation this spring. 6.

Employer verification will begin later in 2016 with enrollment of employers beginning in January 2017. This process will support a seamless transition to the collection of contributions starting on January 1, 2018 for large and medium size employers. The additional time is also enabling national discussion on a CPP enhancement to proceed.

Q: Why introduce legislation now? Didn't you commit to ongoing national discussions on a CPP enhancement?

[Legislation tracking to be introduced April 14, 2016]

The government has been clear that about the need to enhance retirement security today. The problem cannot be left to some ambiguous future date. It is critical for the well-being of Ontarians and the economy that we take action now.

Ontario moved to create the ORPP after the previous federal government refused to discuss enhancing the CPP. Today, the circumstances have changed and Ontario is playing a leading role in discussing a national solution.

However, to successfully launch the ORPP plan preparations must continue alongside federal discussions to ensure that, no matter the outcome, Ontario will retire with enhanced security.

Moving forward with legislation will ensure that employers have the time they need to prepare for the ORPP.

Q: What will be included in upcoming legislation?

A: The government intends to introduce further legislation on the ORPP in the spring of 2016. The legislation will set out the comprehensive requirements of the ORPP, plan sustainability and the compliance and enforcement regime.

Further legislation in 2016 would establish an Office of the Chief Actuary to provide independent actuarial advice and valuations of the ORPP to government and the ORPP Administration Corporation.

Plan Sustainability

Q: What accountability mechanisms exist to ensure that plan members' benefits will be there for them when they retire?

A: Through extensive actuarial modelling, the government has designed the plan to be sustainable over the long term. To ensure continued plan sustainability, a formal funding policy would be established that provides for appropriate adjustments to be made to plan benefits and/or contributions.

Background

Q: What is the Ontario Retirement Pension Plan (ORPP)?

A: The ORPP is a mandatory provincial pension plan that is scheduled to launch on January 1, 2017, with employer and employee collections beginning in 2018.

The ORPP would:

- Include eligible employees who are employed in Ontario and not participating in a comparable workplace pension plan;
- Aim to replace 15 per cent of an individual's pre-retirement earnings up to maximum earnings threshold of $90,000 (in proposed 2017 dollars);
- Require eligible employers and employees each to contribute up to 1.9% of employee earnings
- Require benefits to be earned as contributions are made; and
- Be managed by the ORPP Administration Corporation – an independent, arm's length entity, which will be responsible and fully accountable for administration and investment in the best interest of plan members.

Q: Why is the ORPP needed?

A: Experts generally recommend that individuals aim to replace 50-70% of their pre-retirement income to maintain their standard of living in retirement. However, studies show that a significant number of Ontarians are concerned they will not have sufficient income in retirement.

Two-thirds of Ontario's workers do not participate in a workplace pension plan. Moreover, three-quarters of younger workers – aged 25 to 34 – do not participate in a workplace pension plan.

Q: What are the anticipated impacts of the ORPP on the Ontario's economy?

A: The government commissioned the Conference Board of Canada to conduct a cost-benefit analysis on the economic impact of the ORPP that was tabled in the legislature in December. The report's conclusion is clear – accounting for all factors and opportunity costs, both consumers and the economy are better off under the ORPP. This is good news for Ontarians.

The report reiterates that in the long-term, the ORPP is expected to add over $39 billion to Ontario's economy by ensuring that future retirees have adequate retirement savings. It also notes the ORPP is a more cost-effective means of helping individuals save than traditional retirement savings vehicles.

The report does acknowledge a small, short-term impact to the economy. However, this impact is partially mitigated by reductions in employment insurance and WSIB premiums. As well, the government remains committed to taking measures today to strengthen the economy.

ONTARIO FINANCING AUTHORITY

Borrowing and Debt Management – General

Q: Why was total long-term public borrowing $32.1 billion in 2015–16 when the deficit is projected to be $5.7 billion?

A: In addition to financing the deficit, long-term public borrowing refinances debt maturities and debt redemptions, funds the Province's investments in capital assets, and loans to agencies. Subsequent to the release of the 2016 Budget, the Province borrowed an additional $2 billion to take advantage of historically low interest rates. Therefore, total 2015-16 long-term borrowing increased from $30.1 billion to $32.1 billion with the extra $2 billion serving as pre-borrowing for 2016-17.

Q: Why does the Net Debt-to-GDP ratio decrease to 39.6 per cent at the end of fiscal 2015–16, compared to the 39.8 per cent forecast in the 2015 Budget?

A: The decrease in the Net Debt-to-GDP ratio is primarily due to a less than forecast deficit in 2015–16.

Q: How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

A: Debt is incurred primarily for two reasons: to finance deficits and invest in capital assets. Ontario is making public infrastructure investments of more than $137 billion over the next 10 years, or about $160 billion over 12 years, starting in 2014–15.

One of the objectives of investment in capital is to improve the economic growth of the Province, supplementing GDP growth. As a result, the net debt-to-GDP ratio will come down more quickly than it would have without these investments in capital assets.

The government's plan therefore hinges on first balancing the budget, and continuing to make investments in capital assets which will add to economic growth, resulting in GDP growing more quickly than debt, and lowering the net debt-to-GDP ratio to our 27 per cent target.

Q: The Province is projected to borrow $24.4 billion in 2016–17. Will the Province eventually run into a debt wall and be forced to raise taxes and cut services?

A: There is strong demand for Ontario bonds in both the domestic and international markets. In addition to completing the 2015-16 borrowing requirements, the province was able to pre-borrow an additional $2 billion for 2016-17.

Q: Why do debt maturities fluctuate? Is this pattern consistent with the OFA's goal of a smooth debt maturity profile?

A: While the OFA aims for a smooth debt maturity profile, market conditions such as investor demand and the cost of borrowing in different terms result in fluctuations in debt maturities.

Q: Has it been difficult to complete the Province's borrowing program?

A: The Province continues to have steady access to both domestic and international bond markets. The Province was able to complete the 2015-16 borrowing program and pre-borrow $2 billion for the 2016-17 program.

Q: What is the difference between total debt, net debt and accumulated deficit?

A: Total debt represents all borrowing.

Net debt is all borrowing plus other liabilities, minus the Province's financial assets.

By analogy, think of a family's finances. A mortgage, car loans and lines of credit represent total debt. Total debt partially offset by money the family has in the bank, in RRSPs and in RESPs represents the family's net debt.

Accumulated deficit is the sum of all past Provincial surpluses and deficits, adjusted for changes in accounting rules.

Q: What does non-cash adjustments of $5.8 billion in 2016–17 represent?

A: Non-cash adjustments convert accounting accruals into cash requirements. Cash and accruals primarily differ due to accrued expenses that do not result in a cash outlay. These include the reserve of $1.0 billion, $0.4 billion in grants that forgive existing student loans and $2.6 billion in Alternative Financing Procurements (AFPs) funded by third parties, partly offset by payments to be made in 2016–17 upon substantial completion of prior AFP projects. Another significant adjustment is amortization that is currently over $5 billion but is partly offset by general timing adjustments that always arise between the Province's inflows and outflows on a cash versus accrual basis. A notable example of the latter is the variance between the net incomes earned by Government Business Enterprises and the dividends they pay to the Province.

Q: Why is Loans to Infrastructure Ontario (IO) projected to be $0.5 billion lower than the 2015 Budget forecast for 2016–17?

A: Projected loans by the Province to IO will be offset by IO's partial repayment in 2016-17 of the 50-year subordinated loan provided by the Province in 2003.

Q: Why is Other Net Loans/Investments projected to be $1.2 billion lower than the 2015 Budget forecast for 2016–17?

A: The Province made prudent assumptions at the time of the Budget for cash inflows it expected to receive through asset optimization. Since that time, and given the recent Hydro One IPO, the Province has built in higher cash amounts expected from the asset optimization initiatives.

Q: What is the status of Ontario's Green Bond program?

A: On January 22, 2016, Ontario successfully launched its second Green Bond of $750 million. There was strong international interest, with 35 per cent of investor participation from the United States and Europe. The issue was also made available to retail investors through Canadian financial institutions. To date, total Green Bond financing amounts to $1.25 billion, with up to $1.2 billion allocated to Metrolinx for clean transportation projects.

Q: What are unrestricted liquid reserves, and how do they ensure that Ontario will have sufficient liquidity to meet its financial obligations?

A: Liquid reserves are cash and temporary investments that can easily be converted to cash.

In the normal course of doing business, the Province enters into transactions that may require it or its counterparties to pledge collateral. Although the pledged collateral is technically owned by the Province, it is deducted from the total liquid reserves figure to arrive at unrestricted liquid reserves. This provides a more conservative measure of the liquidity available to meet the Province's financial obligations.

The Province ensures it always has a prudent level of unrestricted liquid reserves to cover all obligations in the short term.

Interest on Debt (IOD)

Q: What is the impact on IOD of a $1.0 billion change in deficit?

A: The 2016–17 impact is forecast to be approximately $31 million.

Q: What is the impact on IOD of a one percentage point change in interest rates?

A: The 2016–17 impact is forecast to be approximately $350 million.

Q: What is your forecast interest rate for the IOD forecast in the 2016 Budget?

A: The forecast ten-year interest rate is 3.1 per cent for 2016-17.

Q: Ontario's debt has more than doubled since Premier McGuinty was first elected. When interest rates begin to rise, won't interest costs displace spending on the Government's priorities?

A: Ontario has a realistic plan to balance its budget while investments are made in the priorities of Ontario families – health care, education, the environment and infrastructure.

Investor demand has allowed the Province to extend the term of its debt in recent years and lock in low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs. Since 2010, the province has borrowed $53.5 billion in the 30-year term.

The 2010 Budget forecasted that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 2.7 cents lower, at 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 1990s, and is forecast to remain lower through the outlook period in 2018–19.

Q: How much more does the Government of Ontario pay annually to service its debt than it did prior to the two downgrades to Ontario's debt?

A: On April 25, 2012, the day before the Moody's downgraded Ontario from Aa1 to Aa2, Ontario's 10-year spread vs. the federal government was 1.00 per cent (100 basis points). On July 3, 2015, the day before the S&P downgraded Ontario from AA- to A+, Ontario's 10-year spread was 76 basis points. Between July 6th, 2015 and the end of July 2015, the province borrowed $3.8 billion. At the end of July, the spread was 74 basis points.

More recently, however, Ontario's cost of borrowing relative to that of the federal government has increased as a result of global financial market volatility, a phenomenon that has affected other Provinces even more than Ontario. For

example, in early 2015, Alberta's 10-year debt traded about 15 basis points below Ontario debt, but now trades about 10 basis points above the equivalent Ontario bonds in early April 2016.

Credit Ratings

Q: What are the Province's current credit ratings?

A: The Province is rated:

	Long-Term	Short-Term
Moody's Investors Service:	Aa2 (N)	P-1
Standard & Poor's:	A+	A-1+
DBRS:	AA (low)	R-1 (mid)
Fitch	AA-	F1+

Q: How will the credit rating agencies respond to the 2016 Budget?

A: Ontario currently maintains a double-A rating with three of its four credit rating agencies. Ontario continues to outperform its deficit projections and is on track to a balanced budget by 2017–18. Moreover, Ontario's net debt-to-GDP ratio is expected to peak in 2015–16 at 39.6 per cent, remain unchanged in 2016–17, decline to 38.9 per cent in 2017–18 and 38.5 per cent in the 2018–19.

We met with the rating agencies following the 2016 Budget and expect to hear back from them over the next few months.

Q: What impact will a rating downgrade have on your borrowing costs?

A: Credit ratings are one of a number of factors that contribute to borrowing costs.

Effective Management of Debt

Q: Why is it important to manage the growth in debt?

A: An uncontrolled increase in net debt would result in increased interest costs. These interest costs could squeeze the overall amount of funding available for future healthcare, education and social programs. Once balanced budget is achieved in 2017–18 however, the increase in debt will be limited to the net funding required for investments in capital assets. These investments will meet government priorities while also contributing to the economic growth of the Province allowing the government to lower net debt to GDP to its pre-recession level of 27 per cent.

CORPORATE AND ELECTRICITY FINANCE DIVISION

Trillium Trust

Q: What's the current status of the funds in the Trillium Trust?

A: The Public Accounts of Ontario 2014-2015, published in September 2015, show that $1.35 billion has been dedicated to the Trillium Trust.

These are the net proceeds from the sale of the Province's remaining General Motors common shares in early 2015, combined with net proceeds from a September 2013 GM share sale and the redemption of preferred shares in late 2014.

Under the Trillium Trust Act, Hydro One shares have been designated as assets for which the net revenue gains from a sale are dedicated to the Trillium Trust. Once the Province has received all of the final financial inputs to fully assess and account for the net revenue gains associated with the Hydro One IPO, it will introduce a regulation to designate the net gain amount from the Hydro One IPO to be dedicated to the Trust and prescribe the other net revenue benefits resulting from Hydro One's recognition of a deferred tax benefit, to be dedicated to the trust.

Q: Since the Hydro One IPO was completed several months ago and now the government has announced a secondary share offering, why haven't you made any regulations to dedicate the fiscal benefits of the Hydro One IPO to the Trillium Trust? When will you make these regulations and when will we see these amounts in the Trillium Trust?

A: Under the Trillium Trust Act, Hydro One shares have been designated as assets for which the net revenue gains from a sale are dedicated to the Trillium Trust.

The determination of the net revenue gains related to the Hydro One IPO depends in part on Hydro One's audited, year-end financial statements. Hydro One released its 2015 Annual Financial Statements on February 12, 2016. Once the Province has received the financial information to fully assess and account for the net revenue gains, including the determination of a deferred tax benefit impact on the Province's net revenues, it will introduce regulations to designate the amounts to be dedicated to the trust.

Q: Why have no amounts been spent from the Trillium Trust yet, not even from the GM share gain amounts from 2014-15? And why are there only $1,000 in placeholder expenditure numbers for the Trillium Trust lines in Estimates?

A: The Province is on track to generate $5.7 billion in net revenue benefit from asset optimization to be dedicated to the Trillium Trust to help support investments in transit, transportation and other priority infrastructure projects under the $31.5

billion Moving Ontario Forward initiative over 10 years to create jobs, boost productivity and revitalize communities.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects such as GO Regional Express Rail is focused on planning, design, property acquisition and other activities to get projects construction-ready. The government plans to begin drawing down on the balance in the Trillium Trust starting in 2016-17, as it is expected that spending will ramp up significantly once this preliminary work is completed and construction activity is underway. This will allow for identification for cash flow timing requirements from the Trillium Trust during 2016-17 and subsequent years.

Q: When will the government actually be able to start using funds from the Trillium Trust to pay for transit and infrastructure?

A: The government plans to begin drawing down on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history. Based on planned expenditures, in 2016-17 the Trillium Trust would support Moving Ontario Forward initiatives, such as

- Regional Express Rail (RER);
- Hurontario Light Rail Transit (LRT); and
- Ontario Community Infrastructure Fund.

Q: Isn't the deferred tax benefit just an accounting entry? How can the government dedicate this to the Trillium Trust if it is a non-cash item? Will the government have to borrow for the non-cash amounts dedicated to infrastructure?

A: The *Trillium Trust Act, 2014*, provides for all fiscal benefits related to the Hydro One IPO to be directed to the Trillium Trust. This includes the gain on the sale of shares and the deferred tax benefit.

By providing for the deferred tax benefit to be dedicated to the Trillium Trust, the government is ensuring that a projected $4 billion in net revenue gains from the IPO is dedicated to the Trust to support investments in transit and infrastructure.

The deferred tax benefit provides an up-front revenue gain to the Province through consolidation of Hydro One's financial results in the Public Accounts, which increases the book value of Hydro One's shares and reduces the accounting gains for subsequent sales for a given amount of gross sale proceeds.

Q: The government has said that it anticipates that an additional $1.149 billion in net revenue will be generated over the 2015 Budget asset optimization target for 2015–16 of $1.6 billion, and is on track to generate $5.7 billion from asset optimization over time. So, what is the amount that the Province expects will be placed into the Trillium Trust?

A: The Province is on track to generate $5.7 billion in net revenue benefit from asset optimization.

It is estimated that a total of more than $4 billion will have been credited to the Trillium Trust from the broadening of Hydro One ownership in 2015-16 and from the sale of the Province's shares in General Motors in prior years.

Additional net revenue benefits are anticipated from the secondary offering of Hydro One shares scheduled to close on April 14. 2016; as well as from the Hydro One Brampton transaction, subject to approval of the proposed merger by the Ontario Energy Board; and from announced real estate asset sales: the LCBO and OPG head office properties and Seaton and Lakeview lands.

The *Trillium Trust Act, 2014*, provides for all net revenue benefits related to the Hydro One IPO to be directed to the Trillium Trust. This includes the gain on the sale of shares and the deferred tax benefit.

Asset Optimization – Hydro One IPO (General)

Q: How much was raised from the Hydro One IPO?

A: From the November 2015 IPO and related share sales, the Province raised about $1.9 billion in gross proceeds before expenses and fees.

- In the November 2015 IPO, the Province sold 89,250,000 common shares at the IPO price of $20.50 per share for total gross proceeds to the Province of approximately $1.83 billion.
- Including other related share sales at the IPO price, the gross proceeds were $1.9 billion, including approximately $116 million in gross proceeds from shares sold to separate trusts established respectively by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP).

The determination of the net revenue gains from the gross proceeds depends on the finalisation of the book value of the shares sold at the time of the IPO and expenses and fees related to the IPO. The net gain from the November 2015 share sales is currently estimated at about $0.8 billion.

There are other associated benefits, aside from the sale of shares.

- An expected revenue benefit to the Province due to the revaluation of its fixed assets as a result of the IPO, resulting in Hydro One recognizing a deferred tax benefit. Based on the Prospectus, the Province communicated that it expected to realize a benefit of about $2.2 billion, which is subject to update and finalisation in Public Accounts.

- The Province also received cash (non-revenue benefits) of $1 billion in special payments from Hydro One, including $800 million in a special dividend paid prior to the IPO, and about $200 million in additional payments in lieu of taxes to the Ontario Electricity Financial Corporation (OEFC).

Q: How much of Hydro One did the Province sell through the IPO?

A: The Province sold 15 per cent of the common shares in Hydro One through the IPO, and about 0.95 per cent through related share sales, totalling about 15.95 per cent.

The Province will continue to move forward with broadening Hydro One ownership in a staged and prudent manner, including through the most recently announced secondary offering of shares.

The Province plans on selling up to 60 per cent of the voting securities in the company with the Province remaining the largest shareholder with 40 per cent of the voting securities.

Asset Optimization - Hydro One Secondary Offering

Q: What amount of proceeds will the Province receive from the secondary offering?

A: In this secondary offering, the Province has offered about 72.4 million common shares, or about 12 per cent of the common shares, at $23.65 per share, for total gross proceeds of approximately $1.7 billion

The Province has granted an option to the underwriters to purchase up to an additional approximately 10.86 million common shares, or just under 2 per cent of the common shares, which if exercised in full, would result in total gross proceeds of approximately $2 billion.

If the overallotment option is exercised in full, the Province will have sold 14% of its shares outstanding in this offering.

The government is committed to dedicating the net revenue gains from the secondary offering to the Trillium Trust. The *Trillium Trust Act, 2014* ensures that all net revenue gains from the sale of Hydro One shares will be credited to the Trillium Trust for investments in priority infrastructure projects.

The Province is also committed to using the cash amount of the proceeds related to the book value of the Hydro One shares sold to pay down the Province's electricity sector debt and other payables, helping to reduce the debt of the Ontario Electricity Financial Corporation (OEFC).

Q: How much will be generated from the secondary offering for the Trillium Trust?

A: All net revenue gains (gross proceeds less fees/expenses and less the book value of the shares sold) generated from the sale of this secondary offering will be dedicated to the Trillium Trust to support infrastructure investments under Moving Ontario Forward.

Net proceeds received by the Province will be determined based on the final transactions costs and underwriting fees, which are dependent on allocation of shares to retail/institutional investors, as well as the book value of the shares at the time of the sale.

[Net proceeds are currently estimated at about $0.5 billion based on the about 12% of shares offered in the base amount. If the over-allotment is fully exercised, the net proceeds are estimated at about $0.6 billion.]

Q: What amount of share sales / gains did the Province build into its 2016 Budget outlook?

A: In the 2016 Budget, the Province noted that it remains on track in its multi-year asset optimization initiative to generate $5.7B over time. This includes the Province's progress with its plans to unlock value from its real estate assets, including the LCBO head office lands, OPG's head office building, and the Seaton and Lakeview lands. Net revenue gains from the Province's asset optimization strategy are included in the "Sales and Rentals" other non-tax revenue line.

Q: The 2016 Document includes $71 million for strategic asset management and transformation related to Hydro One in 2016-17. How does this relate to the recent offering of Hydro One shares?

A: The $71M included as a line item under Ministry of Energy Estimates, and is a preliminary planning assumption. Actual costs will depend on size, price and associated fees. Underwriting fees associated with the transaction are 3 per cent for retail investors and 1 per cent for institutional investors. This is significantly lower than what underwriters have typically earned on firm commitment offerings and consistent with the fees earned in the Initial Public Offering.

For additional information on governance and oversight over Hydro One, your question may be more appropriately directed to the Ministry of Energy.

Q: With this transaction, is the Province still on track to hit its targets from broadening Hydro One ownership?

A: The government remains on track to generate, over time, $4 billion in net revenue gains to be invested in transit and infrastructure, along with $5 billion to reduce debt, from broadening Hydro One's ownership.

Q: What benefits from the offering will be provided to the Ontario Electricity Financial Corporation (OEFC)?

A: The government will provide the OEFC with a benefit under Section 50.3 of the Electricity Act. Section 50.3 allows the Province to meet its obligations to OEFC by, for example, relieving OEFC of certain debt obligations that it currently owes to the Province. This means that the net proceeds will go to infrastructure as indicated, while also allowing for a reduction in stranded debt.

Q: What is the expected amount of the benefits that will be directed to OEFC from this secondary share offering?

A: The total net benefits from this secondary offering of Hydro One shares will be finalized after the Province has assessed all of the final financial inputs associated with the transaction. Once these amounts have been assessed, the benefits from the secondary transaction would be able to be provided to OEFC.

Q: What was the process involved in selecting the underwriters involved for the secondary offering

A: RBC and Scotiabank were chosen as the co-lead underwriters for the secondary offering. These same two firms were chosen to lead the IPO underwriting through a competitive and transparent process, overseen by Denis Desautels, the former Auditor General of Canada.

The price discount offered by the underwriters to purchase shares from the Province through the "firm commitment offering" was also very competitive, representing an approximate 2% discount compared to the closing trading price of Hydro One shares on April 5th. Underwriting fees of 1% for institutional investors and 3% for retail investors is significantly lower than what underwriters have typically earned on firm commitment offerings and consistent with the fees earned in the Initial Public Offering.

Asset Optimization – Hydro One IPO (General Fiscal)

Q: Is the total amount raised from share sales from the IPO going into the Trillium Trust? Isn't the Province also using money to pay down debt?

A: The government is committed to dedicating the net revenue gains from the Hydro One IPO to the Trillium Trust. The *Trillium Trust Act, 2014* ensures that all net revenue gains from the sale of Hydro One shares will be credited to the Trillium Trust for investments in priority infrastructure projects. This includes the gain on the sale of the shares and the deferred tax benefit recorded by Hydro One

The Province has also committed to using the cash amount of the proceeds related to the book value of the Hydro One shares sold to pay down the Province's electricity sector debt and other payables, helping to reduce the debt of the OEFC.

The government is on track to generate, over time, $4 billion in net revenue gains to be invested in transit and infrastructure, along with $5 billion to reduce debt, from broadening Hydro One's ownership.

- The Province also received $1 billion in special payments from Hydro One, including an $800 million special dividend paid prior to the IPO. The special dividend has been used to pay down the Province's electricity sector debt and payables. This will allow OEFC to reduce its overall debt, and contribute towards the Province's targeted $5 billion debt pay down.

- *[Technical note: the dividend payments are fiscally neutral; they do not constitute revenue or income as this is already recognized at consolidation of Hydro One's net income]*

Q: The government has revealed that the benefit from the Asset Optimization Strategy in 2015-16 is $1,149 million higher than forecasted in the 2015 Budget. How did the government achieve this better than expected result?

A: This increase over and above the previous target is primarily the result of higher than expected up-front benefits from the first phase of broadening Hydro One ownership. This includes the estimated impact of a deferred tax benefit recognized by Hydro One, which will provide an upfront net fiscal benefit to the Province on consolidation of Hydro One results. This deferred tax benefit is due to the revaluation of Hydro One's fixed assets as a result of the IPO.

Q: The Province expects benefits from asset optimization in 2015-16 to be $1,149 million above the 2015 Budget target of $1.6 B, totalling about $2.7 billion from asset optimization. Since Hydro One's recent financial statements included a deferred tax benefit of about $2.8 B, an amount higher than in the IPO prospectus, shouldn't the Province be expecting more?

A: The estimated impact of asset optimization included an estimate of the deferred tax benefit impact. This is subject to update. Based on the Prospectus, the Province communicated that it expected to realize a benefit of about $2.2 billion. The actual impact on the Province will be determined through the 2015-16 Public Accounts process, where the Province records its revenues from government business enterprises, including Hydro One, which the Province owned about 84% of the common equity in 2015-16, following the IPO.

Q: If the Province expects to realize about $3 billion from Hydro One in 2015-16, why does the Budget suggest about $2.7 billion from asset optimization?

A: The estimated total of about $3 billion are the gain on sale and deferred tax benefit from Hydro One. The $2.7 billion includes other impacts to arrive at the net revenue impact. In addition, Budget 2015 had projected that the sale of LCBO head office lands would close by March 31, 2016. The transaction is now expected to close in spring 2016.

Q: While I understand that the timing of Hydro One's annual report may not have allowed for Hydro One's reported results to be reflected in the interim numbers in the 2016 Budget, what impact will the reported amounts have on the total benefits from Asset Optimization and 2015-16 and in later years?

A: The total net benefits from asset optimization for 2015-16 will be finalized as part of the Public Accounts process and will take into account the final financial inputs associated with the Hydro One IPO. This includes a final determination of fees and expenses related to the IPO, in addition to the book value of the shares as of the date they were sold. The Province is working with Hydro One to finalize the amount.

Q: What was the amount of expenses incurred by the government in moving forward with the Hydro One IPO? The 2016 Document includes $52 million for strategic asset management and transformation related to Hydro One in 2015-16.

A: Underwriting fees associated with the IPO transaction were 3 per cent for retail investors and 1 per cent for institutional investors. These were substantially below typical private IPO rates. Of the shares allocated through the IPO Hydro One, 60 per cent were allocated to institutional investors, while 40 per cent was allocated to retail investors.

For additional information on governance and oversight over Hydro One, your question may be more appropriately directed to the Ministry of Energy.

Q: In moving forward with a Hydro One IPO, and secondary offerings, isn't the government giving up future revenues from the company?

A: While broadening ownership in a revenue generating asset means that there may be an impact on revenues over the longer term, the fiscal impact of an asset sale includes upfront gains that the government will reinvest into public infrastructure, improving the lives of Ontarians where they live, work and play. In turn, this will create jobs, generate economic growth and additional revenues for the Province.

- The Province would also retain 40 per cent of Hydro One, following the IPO and subsequent share offerings, which would continue generating revenue for the Province.

Q: How will the government guarantee that proper oversight and governance mechanisms will be in place for Hydro One?

A: The Province has ensured Hydro One oversight measures are in place. The government will remain, by law, the largest single shareholder in Hydro One – and no other single shareholder or group of shareholders working in concert will be permitted to hold more than 10 per cent of the company's shares.

For additional information on governance and oversight over Hydro One, your question may be more appropriately directed to the Ministry of Energy.

Q: Isn't it possible that the government could end up diluting its ownership stake to less than 40 per cent?

A: Legislation has passed that restricts the Province from selling down to less than 40 per cent of the voting securities in Hydro One.

For additional information on governance and oversight over Hydro One, your question may be more appropriately directed to the Ministry of Energy.

Asset Optimization – Hydro One IPO (Departure Tax / Capital Contribution / Deferred Tax Benefit)

Q: What is the deferred tax benefit that is resulting from broadening Hydro One ownership?

A: The deferred tax benefit recorded by Hydro One is a consequence of Hydro One leaving the payment in lieu of tax regime and entering the corporate tax regime at closing of the IPO.

As a result of entering the corporate tax regime, Hydro One is revaluing the tax basis of its fixed assets at fair market value and recognizing eligible capital expenditures.

The revaluation of the tax basis of Hydro One's assets results in higher future deductions from taxable income for depreciation of its assets for tax purposes. This benefit is reflected as a deferred tax benefit, as Hydro One expects to see a reduction in cash taxes payable as a result. This deferred tax benefit will provide a net fiscal benefit to the Province on consolidation of the results of Hydro One into the Public Accounts.

Further details are provided in the IPO prospectus document and Hydro One's 2015 Annual Report, both documents are available in SEDAR and Hydro One's website.

Q: What is the amount of deferred tax benefit that the Province will recognize?

A: The estimated impact of asset optimization included an estimate of the deferred tax benefit impact. Based on the Prospectus, the Province communicated that it expected to realize a benefit of about $2.2 billion. The actual impact on the Province will be determined through the 2015-16 Public Accounts process, where the Province records its revenues in 2015-16 from government business enterprises, including Hydro One, which the Province owned about 84% of the common equity in 2015-16, following the IPO.

Q: What is the "departure tax" that resulted from broadening Hydro One ownership?

A: A company that exits from a tax regime may be deemed to have disposed of its assets for proceeds equal to the fair market value of those assets at that time, which could result in a tax payment in respect of the income and capital gains that arise as a result of this deemed disposition. The amount payable is generally referred to as a "departure tax".

- Hydro One paid $2.6 billion in "departure tax" to OEFC prior to the closing of the IPO as part of its transition to a broadly held, publicly traded company.
- OEFC also received an additional about $200 million in payments-in-lieu of taxes as a result of the IPO.

Q: What is the amount of departure tax that was received and how this amount determined?

A: The Minister of Finance provided a letter to Hydro One confirming the Minister's consent to the payment of the departure tax amount under the application of Ontario Regulation 207/99, and confirming the total amount of the departure tax payable by Hydro One would be $2.6 billion as a result of the planned IPO.

- Under Ontario Regulation 207/99, the Minister of Finance can consent to a departure tax amount that, in the Minister's opinion, reasonably approximates the amount of the departure tax that would be payable.

Q: What is the anticipated fiscal impact of the departure tax? The impact on OEFC and stranded debt?

A: The departure tax has no net fiscal impact for the Province as the Province records both the departure tax amount as payments-in-lieu of tax (PILs) revenue and Hydro One's net income, which is reduced due to the recognition of the departure tax expense.

The upfront impact of the departure tax on the OEFC's unfunded liability will be fully offset over time by their impact on reducing dedicated revenues to the OEFC in 2015–16, and in future years related to Hydro One net income.

Q: What is the capital contribution that the Province made in support of broadening Hydro One ownership?

A: Before the IPO, the Province, as shareholder, made a capital contribution into Hydro One and received new common shares of Hydro One Limited for a total of $2.6 billion. This provided Hydro One funds that it used to pay the "departure tax".

Q: What is the anticipated fiscal impact of the capital contribution?

A: The capital contribution has no fiscal impact for the Province, since the capital contribution also increased the Province's investment in Hydro One by the same amount.

Asset Optimization – Hydro One IPO (Fiscal Reporting)

Q: How are the impacts of the Hydro One IPO reported in the 2016 Budget? Where are these amounts recorded?

A: The estimated gain on sale is recorded in the "Sales and Rentals" other non-tax revenue line.

The estimated net fiscal benefit resulting from Hydro One's recognition of a deferred tax benefit is reflected as an increase in "Income from Government Business Enterprises", partially offset by lower Hydro One Net income through the Province's reduced ownership levels.

The $2.6 billion departure tax, as well as about $200 million in one-time additional PILs from Hydro One, are recorded in the "Electricity Payments-In-Lieu of Taxes" revenue line. These amounts are offset by an equal reduction in "Income from Government Business Enterprises".

The capital contribution has no fiscal impact for the Province, since the capital contribution also increased the Province's investment in Hydro One.

Asset Optimization – Hydro One IPO (OEFC Benefits)

Q: Isn't the government obligated to dedicate any proceeds for a share sale to OEFC to pay down stranded debt? Shouldn't ratepayers benefit from a transaction?

A: The government will dedicate the net revenue gains from the Hydro One IPO and future subsequent shareholder offerings to the Trillium Trust.

The *Electricity Act, 1998*, also allows the Province to meet its obligations to OEFC by, for example, relieving OEFC of certain debt obligations that it currently owes to the Province.

This means that the cash will go to infrastructure as indicated, while also allowing for a reduction in stranded debt.

- The Province has also committed to using the cash amount of the proceeds related to the book value of the Hydro One shares sold to pay down the Province's electricity sector debt and other payables, helping to reduce the debt of the OEFC.

- The Province also received $1 billion in special payments from Hydro One, including $800 million in a special dividend paid prior to the IPO, and about $200 million in additional payments in lieu of taxes to OEFC. The special dividend has been used to pay down the Province's electricity sector debt and payables. This will allow OEFC to reduce its overall debt, and contribute towards the Province's targeted $5 billion debt pay down.

- OEFC has also received $2.6 billion in departure tax.

Q: Will the gain on sale of Hydro One shares from the IPO credited to the Trillium Trust be the same as the benefit to OEFC?

A: Under Section 50.3 of the *Electricity Act, 1998*, the amount to be paid to OEFC is calculated as the proceeds from a sale of Hydro One shares, less transaction costs and other obligations, costs and amounts in connection with the Province's ownership stake in Hydro One,.

Only if pushed:

The Province has also been transferring to OEFC the "Electricity Sector Dedicated Income" (ESDI) in respect of Hydro One and OPG net income and has been doing so since 1999. In other words, the government has been allocating the value created in Hydro One to OEFC since 1999.

Q: When will OEFC receive benefits from the Hydro One IPO ownership?

A: OEFC will be benefiting from the Hydro One IPO in a number of ways.

OEFC has already received $2.6 billion in departure tax and about $200 million in one-time additional payments-in-lieu of tax (PILs), as Hydro One exited the PILs regime.

OEFC will also receive the benefits prescribed under section 50.3 of the Electricity Act.

The Province has also provided OEFC $800 million in cash in respect of the pre-IPO special dividend of $800 million

The Province has also committed to dedicating to OEFC the cash amount of the share sale proceeds related to the book value of the Hydro One shares.

If Pushed

Hydro One released its 2015 Annual Financial Statements on February 12, 2016. The total net benefits from asset optimization for 2015-16 will be finalized after the Province has assessed all of the final financial inputs associated with the Hydro One IPO. Once these amounts have been assessed, all of these additional benefits from the transaction will be able to be provided to OEFC.

Q: Why is there no Financial Benefit to OEFC currently included in the Estimates for Hydro One share sales?

A: The determination of the net benefit to the OEFC under section 50.3 of the Electricity Act depends in part on information to be provided by Hydro One associated with the IPO transaction, including a final determination of fees and expenses. Once the Province has assessed all of the final financial inputs associated with the Hydro One IPO, it will be in a position to report on the benefit to be provided to OEFC, which is expected to be included as part of reporting in the 2015-16 public accounts. The benefit to OEFC for any future offerings would be assessed after those offerings, once the final financial inputs associated with those transaction have been finalized.

Q: Why did your government amend section 50.3 of the Electricity Act? Isn't it true that before the amendment, all proceeds of the IPO would have gone to OEFC?

A: Under section 50.3, before and after the amendments, proceeds net of prescribed deductions are to be paid to OEFC.

The amendments that the government made to the *Electricity Act, 1998* as part of the 2015 Budget allow the Province to meet its obligations to OEFC by, for example, relieving OEFC of certain debt obligations that it currently owes to the Province.

This means that the cash will go to infrastructure as indicated, while also allowing for a reduction in stranded debt.

Only if pushed:

The Province has also been transferring to OEFC the "Electricity Sector Dedicated Income" (ESDI) in respect of Hydro One and OPG net income and has been doing so since 1999. In other words, the government has been allocating the value created in Hydro One to OEFC since 1999.

As part of the Budget Measures Act, 2015, introduced at the time of the Fall Ontario Economic Outlook and Fiscal Review the government also amended the Electricity Act, 1998 to provide for future Provincial corporate taxes paid by Hydro One Inc. to be allocated to OEFC.

Asset Optimization – Hydro One IPO (PWU/SEP Share Purchases)

Q: Why were agreements made with the unions to purchase shares in Hydro One?

A: These agreements mean the employees and unions are all-in on Hydro One's future success. As shareholders, they have a strong incentive to see the company's performance continue to improve.

The loans, which are for a 15 year term, will be secured by the shares purchased with the loan and held in the separate trusts established respectively by the Power Workers' Union (PWU) and the Society of Energy Professionals (SEP). The Province will also charge interest above its cost of borrowing on these loans, at the Ontario government rate plus 0.15% resulting in additional revenue to the Province.

Q: What is the value of the loans that were extended to the Unions to purchase shares in Hydro One?

A: The government extended a $75 million loan to a trust established for the benefit of the Power Workers Union (PWU) and a $36 million loan to a trust established for the benefit of the Society of Energy Professionals (SEP) to purchase shares in Hydro One. The loans are to the separate trusts, not to individual employees.

Q: What is this going to cost the government?

A: The Province received the same price for shares sold to the trusts as it received in the IPO. The loans are secured by the shares purchased with the loans and held in the trusts. The Province also charges interest at a 0.15% spread above its cost of borrowing on these loans, resulting in additional revenue to the Province.

Q: Could the unions default on these loans?

A: The loans are secured by the pledged shares, minimizing the risk to the Province of a default.

Q: How many shares were purchased by the PWU/SEP Unions and how much did the government raise through those shares sales?

A: PWU and SEP have been provided with $75 million and $36 million loans, respectively, to purchase shares, with PWU purchasing an additional $5 million and SEP purchasing an additional $3 million worth of shares.

This gives the unions' trusts about a 0.95% stake in Hydro One Limited.

Asset Optimization - Hydro One Brampton

Q: What is the status of the potential merger between Hydro One Brampton and a group of urban local distribution companies (LDCs)?

A: The proposed merger of Hydro One Brampton with PowerStream, Enersource, and Horizon Utilities, continues to move forward. The municipal councils for the cities of Barrie, Markham, Vaughan, Mississauga, Hamilton and St. Catharines have all voted to proceed with the merger. Ontario has now executed a Share Purchase Agreement with PowerStream, Enersource, and Horizon. Commercial closing of the transaction would be subject to certain closing conditions, including Ontario Energy Board (OEB) approval.

- The proposed merger of these three strong performing utilities with Hydro One Brampton would create the second-largest electricity distributor in Ontario by number of customers. The merged entity would deliver efficiencies and economies of scale while continuing to provide safe, reliable and clean electricity.

Q: Would the Province realize any up-front benefit from the sale or merger of Hydro One Brampton with other local distribution companies (LDCs)? Would these benefits go to the Trillium Trust or to the Ontario Electricity Financial Corporation (OEFC)?

A: The *Trillium Trust Act, 2014*, ensures that net revenue gains from the sale of Hydro One Brampton shares would be credited to the Trillium Trust.

The *Electricity Act, 1998*, also allows the Province to meet its obligations to OEFC by, for example, relieving OEFC of certain debt obligations that it currently owes to the Province.

Asset Optimization – Real Estate

Q: The 2016 Document talks about the LCBO head office lands, OPG's head office building, and the Seaton and Lakeview lands, but is the government looking at other real estate assets?

A: The government owns a range of valuable assets directly and through its agencies and operational enterprises. A number of these are not required to deliver public services but are located on valuable commercial land such as Toronto and surrounding municipalities.

Q: The government has mentioned that it is optimizing real estate assets for a while but nothing has been sold - is the government actually moving forward with any sales?

A: The Province is in the final stages of the process to sell the LCBO's head office lands. Negotiations with a potential purchaser are ongoing, with the transaction expected to close in the spring of 2016.

As announced on January 7, 2016, the Province is moving forward with the sale of the Seaton Lands. The lands will be marketed to prospective purchasers and are being sold on the open market to support a new urban development in the City of Pickering. By selling approximately 800 acres of employment lands and 269 acres of residential and mixed-use lands, upon completion Seaton will be a sustainable community that will be home to 70,000 people and support 35,000 jobs.

The Province also continues to move forward with the sale of OPG's head office building, and the former Lakeview generating station lands in south Mississauga continues to be reviewed under a longer-term revitalization plan for the property and adjacent lands. The Province is focused on realizing the potential of the Lakeview lands, with an opportunity to create a new and sustainable, mixed-use community along Mississauga's eastern waterfront, with arts and culture districts, housing, employment, and retail and recreational uses.

Reducing Electricity Costs for Businesses

Industrial Consumers

Q: What is the government doing to help industrial consumers with rising electricity costs?

A: The government is committed to reducing electricity cost pressures on businesses and industrial consumers, supporting economic growth for the benefit of the people of Ontario.

The government has put in place a number of initiatives to help industrial consumers, including a fixed, legislated end date for the debt retirement charge, the Industrial Electricity Incentive for reduced pricing for eligible incremental electricity consumption, the Industrial Conservation Initiative that provides large industrials an incentive to shift electricity demand and save them and the electricity system costs, the Industrial Accelerator Program, and continued funding for eligible large northern industrials currently in the Northern Industrial Electricity Rate program.

Debt Retirement Charge: The government has introduced legislation, passed in December 2015 that will end the DRC as of April 1, 2018 – nine months earlier than previously estimated. The fixed end date would provide certainty to commercial, industrial and other electricity users, and help them to plan their investment decisions more effectively.

Industrial Electricity Incentive: In the 2014 Budget, Ontario announced an expanded Industrial Electricity Incentive (IEI) program to further capitalize on the province's strong supply of electricity by incenting industrial expansion through rate mitigation.

As part of this enhancement, eligibility for the IEI program was expanded to encourage participation from more diverse economic sectors throughout the province.

As of April 2015, 14 industrial companies have signed contracts capitalizing on the IEI program. These new business expansions will create hundreds of new jobs.

Industrial Conservation Initiative (ICI): The ICI program encourages Ontario's largest energy users to reduce their electricity use during peak periods, which not only saves them money, but also lowers costs and improves reliability for the electricity system as a whole. Since July 1, the expanded ICI program has helped over 280 of Ontario's largest energy consumers save an average of about 25 per cent on their electricity bills.

Other programs and incentives are already available to support industrial consumers:

Northern Industrial Electricity Rate (NIER) Program: On April 7, 2015, the government announced on-going support for qualifying large northern industrial consumers, with continued investment of up to $120 million per year.

The Province had earlier extended the NIER Program with $360 million over three years (2013-14 to 2015-16) to provide a rebate of two cents per kilowatt-hour to qualifying large northern industrials. As well, the government will undertake a review of the efficiency and effectiveness of the program and options for a sustainable approach.

Industrial Accelerator Program (IAP): The IAP has been extended for an additional five-year period from 2015 to 2020. The IAP is designed to assist eligible transmission-connected companies to fast-track capital investments in major energy conservation projects. The IAP provides financial incentives to encourage investment in innovative process improvements and equipment retrofits to reduce electricity consumption and help companies become more competitive.

Companies have the opportunity to participate in demand response programs administered by the Independent Electricity System Operator (IESO).

Industrial Electricity Incentive (IEI) Program

Q: What is the status of the expanded Industrial Electricity Incentive (IEI) program?

A: As of April 2015, 14 industrial companies have signed contracts capitalizing on the Industrial Electricity Incentive (IEI) program, which was designed to provide incentives for industrial expansion through reduced electricity costs. These new business expansions will create hundreds of new jobs.

In the 2014 Budget, Ontario announced an expanded Industrial Electricity Incentive to further capitalize on the province's strong supply of electricity by incenting industrial expansion through rate mitigation.

This new stream made available up to four terawatt-hours of electricity per year for industrial companies that start or expand operations.

Eligibility was extended to other energy intensive sectors, such as greenhouses, data processing and refrigerated warehousing. Previously, eligibility was limited to the manufacturing and resource extraction (mining, quarrying, oil and gas) sectors.

Five-Point Business Energy Savings Plan

Q: What is the government doing to help small businesses with rising electricity costs?

A: The government knows that local entrepreneurs are focused on growing their business. The government is ensuring small businesses have the tools they need to understand their bill, conserve energy, manage costs and save money through the five-point business energy savings plan.

- Working with energy agencies, local distribution companies and the Retail Council of Canada, the government will promote the use of Roving Energy Managers.
- Roving Energy Managers will be available to small businesses to provide support and assistance every step of the way on an energy-savings project – from applying for incentives to installing energy-efficiency measures.
- The saveONenergy for Business Conservation program will be better tailored to small businesses to ensure they can benefit from the programs to help them manage and reduce their energy bills.
- The saveONenergy for Business Conservation program is also being expanded to provide increased incentives to businesses. Participation will be made easier and faster for small businesses by simplifying and automating application processes.
- To help small businesses cover the upfront capital costs of conservation projects, the Province will work to make on-bill financing available for the sector, beginning in 2015, and allow repayment through the utility bill.
- To ensure conservation incentives continue to be available for small businesses, Ontario will commit to another six years of conservation programs through the new Conservation and Demand Management Framework.

Northern Industrial Electricity Rate (NIER) Program

Q: What are the eligibility requirements for participation in the NIER program?

A: Each of the participant's individual facilities must purchase and consume a minimum of 50,000 MWh of electricity annually from the Independent Electricity System Operator or a local distribution company.

Companies eligible to participate in the NIER program must be classified as being within one of the following North American Industry Classification System industry sectors:

- Mining and Oil and Gas Extraction, and
- Manufacturing, with the exception of facilities that are designated as Sawmills and Wood Preservation which would not be eligible for the NIER program.

Companies must implement, and new companies are required to develop, an Energy Management Plan (EMP) that includes targets and benchmarks. The EMP provides information regarding reduced electricity costs and energy consumption, planned capital investments, energy savings, and efficiency measures, including company-specific targets.

Q: How much price relief does the NIER program provide to participants?

A: Qualifying participants receive two cents per kilowatt-hour (kWh) up to one terawatt-hour (TWh) per year, resulting in a maximum of $20 million per year per company. Rebates for existing participants are also capped at the lesser of 2011-12 consumption levels or $20 million per year.

On average, industrial electricity prices may be reduced by up to 25 per cent through the program. To date as of March 31, 2015, the NIER program has disbursed about $567 million.

New applicants would be accepted if funds are available up to the program cap of $120 million per year on a first come, first serve basis.

Q: What are the details of a NIER program beyond 2016?

A: The government is committed to an ongoing program to support large northern industrial facilities beyond March 2016, with continued investment of up to $120 million per year.

The government will undertake a review on the efficiency and effectiveness of the program and options for a sustainable approach. This will support and retain large electricity users, as well as promote global competitiveness and jobs in northern Ontario for the benefit of all Ontarians.

Energy Infrastructure

Reliable and Clean Energy Supply

Q: What has the government done to ensure a reliable and clean supply of energy?

A: A clean, reliable and affordable supply of electricity is a critical element for sustainable job creation and economic development.

Since 2003, the government has made significant progress transforming the electricity system into one that Ontarians can count on for reliability and clean energy.

- More than $34 billion has been invested in cleaner generation. About $15 billion has been invested in transmission and distribution infrastructure by Hydro One alone.

- Over 16,000 megawatts (MW) of new and refurbished capacity have come online, including more than 7,000 MW of wind, solar and other renewable energy supply, and an additional 2,400 MW in renewable capacity contracted for and under development.

Q: How is OPG contributing to new renewable energy supply?

A: In 2015, OPG and Coral Rapids Power Corporation (CRP), a company wholly owned by Taykwa Tagamou Nation (TTN), began the construction of the Peter Sutherland Sr. Generating Station, a new 28 MW hydroelectric station on the Abitibi River near New Post Creek. The $300 million project is expected to employ 220 workers at its peak and be completed in 2018.

Ontario is now home to North America's largest power plant fuelled completely by biomass; converted from using coal, the Atikokan Generating Station has a capacity of over 200 MW. The station is now generating electricity and helping meet local power needs in northwestern Ontario.

In addition, the Thunder Bay Generating Station is leading the electricity industry with exciting new technology, in service as of early 2015. The station can meet changes in electricity demand using a clean and renewable fuel with its conversion to advanced biomass.

Six new generating units on the Lower Mattagami River have come online, with the last unit coming into service in December 2014. These units have added 438 MW of emission-free electricity to the previous 486 MW — or enough incremental capacity to meet twice the peak demand of Greater Sudbury.

FIT4 and LRP I

Q: What is the status of procurement of the new renewable supply projects?

A: Ontario remains committed to building a cleaner and more sustainable energy system. The first phase of the Independent Electricity System Operator's (IESO) competitive Large Renewable Procurement (LRP I), where large is generally over 500 kilowatts (kW), is targeted to procure up to 300 MW of wind, 140 MW of solar, 50 MW of bioenergy, and 75 MW of waterpower.

On March 10, 2016 the IESO released the list of 16 contracts that have been offered under the Large Renewable Procurement (LRP), representing 454.885 megawatts (MW) of clean renewable energy capacity.

For LRP Phase II, Ontario has set targets of up to 600 MW of wind, up to 250 MW of solar photovoltaic, up to 50 MW of hydroelectricity and up to 30 MW of bioenergy.

The recent round of the Feed-In Tariff 4 (FIT4) application window closed in October 2015, with over 1,968 applications received, representing a total of 582 MW. Contracts for the FIT4 program will be awarded up to the procurement target of about 241 MW.

Energy Storage

Q: What progress has Ontario made with the emerging new, more cost-effective energy storage technologies?

A: In November 2015, the IESO completed its plan to secure a total of 50 MW of energy storage in Ontario. The IESO offered contracts to five companies for nine separate energy storage projects totalling 16.75 MW. This is in addition to the approximately 34 MW in storage capacity previously secured.

Nuclear Refurbishment

Q: A retired nuclear scientist argued that the proposed $12.8 billion refurbishment of four nuclear reactors at the Darlington generating station is an ill-advised make-work project that will end up soaking taxpayers. Do you have any concerns about that possibility?

A: The planned refurbishments of the four units at the Darlington Nuclear Generating Station, and of six nuclear units at the Bruce Nuclear Generating Stations, in addition to the two units already refurbished at the Bruce site, secures over 9,800 MW of affordable, reliable, and emission free power.

This is part of the government's significant progress in transforming the electricity system into one that Ontarians can count on for reliability and leadership in clean energy, with over 16,000 megawatts (MW) of new and refurbished capacity having come online since 2003, including more than 7,000 MW of wind, solar and other renewable energy supply.

Nuclear refurbishment at Darlington will contribute an estimated about $15 billion to Ontario's gross domestic product (GDP) and the boost to jobs is estimated to average 11,800 over the peak 10 years of the refurbishment. The $12.8 billion budget is about $1.2 billion less than originally projected by OPG.

OPG has put in years of detailed planning, built a state-of-the-art training facility, and assembled an experienced team, positioning itself well to deliver on its budget and schedule commitments for the Darlington Refurbishment.

- Years of extensive project planning includes detailed planning commenced in 2010 and concluding in 2015, with engineering completed before field execution starts, and with lessons learned incorporated; from other major projects.

- OPG has built a training facility including a replica of the Darlington Nuclear station reactor vault. It houses a full-scale, reconfigurable replica reactor suitable for tool performance testing and integration, as well as training workers.

- OPG has also structured contracts so that contractors are accountable for price and schedule to minimize risk to ratepayers.

- OPG and Bruce Power are also collaborating during Ontario's Refurbishment Period to improve both companies' refurbishment programs.

- Two independent oversight organizations have been established, one reporting to OPG's Project Executive and Board, and a second reporting directly to the Ministry of Energy.

To best protect Ontario ratepayers and ensure OPG delivers refurbishment on-time and on-budget, the government has also established off-ramps that require OPG to obtain government approval prior to proceeding with each of the remaining unit refurbishments.

Electricity Price Relief for Ontarians

Q: What is the government doing to help Ontario families with rising electricity costs?

A: The government is committed to reducing electricity cost pressures on individuals and families, and recognizes that Ontario's most vulnerable spend a proportionately higher percentage of disposable income on energy and electricity.

The government has removed the Debt Retirement Charge (DRC) from residential users' electricity bills beginning on January 1, 2016. This would save a typical residential ratepayer about $70 per year and mean ending the DRC earlier for these users than otherwise provided for in the *Electricity Act, 1988*.

The Ontario Energy Board developed the Ontario Electricity Support Program (OESP) to lower electricity bills for Ontario's low-income households. Starting January 1, 2016, the OESP will provide a monthly credit of $30-$50 directly on the bills of eligible low-income households, for a total of $360 to $600 per year. The OESP offers a larger credit to low-income consumers whose homes are electrically heated, and those who rely on certain medical devices. Eligible First Nation and Métis households also qualify for a larger credit. The credit for those receiving a larger reduction is $45 to $75 a month, for a total of $540 to $900 per year.

For low-income Ontarians, electricity costs represents a significantly greater share of their monthly expenses, the OESP could benefit more than 500,000 low-income Ontario households. The OESP is an application-based program, which began accepting applications in fall 2015.

- The Province is also already taking significant steps to support and mitigate future rate increases for Ontario families and seniors.
    - Ontario Energy & Property Tax Credit – for 2016, up to $1,008 in tax relief for non-seniors, $1,148 in tax relief for seniors, or $224 in tax relief if you live on a reserve or in a public long-term care home, to help with the sales tax on energy, including electricity, and with property tax.
    - Northern Ontario Energy Credit – for 2016, up to $146 for single people in the north, or up to $224 for families in the north, to help with the higher energy costs they face.
    - The Strengthening Consumer Protection and Electricity System Oversight Act, 2015, passed on December 1, 2015, will enhance the OEB's role to ensure that it continues to have a robust set of tools to protect consumers and regulate the energy sector.

- Energy Consumer Protection Act, 2010 – tough new rules to protect consumers from unfair practices in the retail energy sector.

Ending the DRC

Q: Why are you setting a fixed end date for the Debt Retirement Charge?

A: Electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others have put the stranded debt recovery plan back on track. This has allowed the government to follow through on its commitment to reduce electricity cost pressures.

This is projected to be the twelfth consecutive year that the stranded debt has been reduced, with interim 2015-16 results for the OEFC showing an estimated excess of revenue over expense of more than $3 billion, reducing the stranded debt to under $5 billion as at March 31, 2016, based on interim numbers.

The government introduced legislation, passed in December 2015, that will end the DRC as of April 1, 2018 – nine months earlier than previously estimated. The fixed end date would provide certainty to commercial, industrial and other electricity users, and help them plan their investment decisions more effectively.

Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act* and the revocation of Ontario Regulation 89/12, the *Electricity Act, 1998*, provided for the DRC to be paid by consumers until the residual stranded debt is retired.

The estimated residual stranded debt amount and timing for its retirement were subject to uncertainty in forecasting future OEFC results and dedicated revenues to OEFC, which depend on the financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, and other factors such as interest rates and electricity consumption.

The DRC is one of the dedicated revenues that the Ontario Electricity Financial Corporation (OEFC) receives to service and retire the former Ontario Hydro's debt and certain other liabilities.

Q: After so many years of estimating an end date for the debt retirement charge and residual stranded debt retirement, why is a fixed end date selected only now?

A: Electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others have put the stranded debt recovery plan back on track. This has allowed the government to follow through on its commitment to reduce electricity cost pressures.

This is projected to be the twelfth consecutive year that the stranded debt has been reduced, with interim 2015-16 results for the OEFC showing an estimated

excess of revenue over expense of more than $3 billion, reducing the stranded debt to under $5 billion as at March 31, 2016, based on interim numbers.

The government has introduced legislation, passed in December 2015,that will end the DRC as of April 1, 2018 – nine months earlier than previously estimated. The fixed end date would provide certainty to commercial, industrial and all other electricity users, and help them plan their investment decisions more effectively.

Under the proposal, the OEFC would continue to receive DRC revenues up to April 1, 2018, thus achieving a balance between making progress in paying down the electricity sector stranded debt and mitigating cost pressures for and providing certainty to commercial, industrial and all other electricity users.

Ending the DRC – Residential and Business Users

Q: How much of an impact will removing the debt retirement charge help industrial consumers? Charges for consumers are still going up.

A: The government is committed to supporting a dynamic business climate, drive local economic growth, support job creation and provide competitive electricity rates.

The government introduced legislation, passed in December 2015, that will end the DRC as of April 1, 2018 – nine months earlier than previously estimated. The fixed end date would provide certainty to commercial, industrial and other electricity users, and help them to plan their investment decisions more effectively.

For a large industrial using 3,000 MWh per month, the elimination of the DRC will save up to $21,000 per month, or an estimated about 7 per cent, off the monthly electricity bill.

For a large northern industrial user in the Northern Industrial Electricity Rate program using 3,000 MWh per month, removing the DRC would result in a $21,000 per month saving, or an estimated more than 8 per cent off its electricity bill.

Q: What will be the fiscal impact of removing the DRC cost from residential users' electricity bills?

A: Prior to eliminating the Debt Retirement Charge (DRC) for residential users on January 1, 2016, the DRC has provided annual revenues of about $950 million to the Ontario Electricity Financial Corporation (OEFC), and to the Province on consolidation into Public Accounts. The residential rate class accounts for about a third of electricity load subject to the DRC (varying year-over-year), so, on an annualised basis, the direct DRC revenues forgone from removing the DRC cost from residential bills is estimated to be just over $300 million.

Q: What do you mean by a "residential" electricity user? Will condos and/or mixed use buildings be included? What about long-term care homes and farms?

A: The government has removed the Debt Retirement Charge (DRC) cost from residential users' electricity bills beginning January 1, 2016. This was implemented through regulations, which set out the definition of residential electricity users for the purposes of this initiative:

- All electricity users with a residential rate class account are exempt from the DRC. Users with a general service rate class account that provides electricity to one or more 'eligible residential units' are also eligible for a DRC exemption up to 1,500 kilowatt-hours (kWh) per month multiplied by the number of eligible residential units included in the account.
- An eligible residential unit means a unit that:
  - is a self-contained set of rooms located in a building or structure
  - contains kitchen and bathroom facilities that are intended for the use of the unit only, and
  - is used or intended for use as a residential premises.

Q: The removal of the Debt Retirement Charge (DRC) cost from residential users' electricity bills after December 31, 2015, will save residential users less than half of what the Ontario Clean Energy Benefit (OCEB) is saving them, which is legislated to end January 1, 2016. Why isn't your gov't doing more to assist residential consumers with their bills by extending the OCEB, in addition to removing the DRC?

A: The Ontario Clean Energy Benefit ended on December 31, 2015.

The government is committed to reducing electricity cost pressures on individuals and families, recognizing that Ontario's most vulnerable spend a proportionately higher percentage of disposable income on energy and electricity.

As reported in the 2013 Long-term Energy Plan, government actions have lowered costs in the electricity system, reducing what people would have otherwise paid by about $520 over five years.

The removal of the DRC for residential electricity users after December 31, 2015, would save a typical residential user about $70 per year.

Beginning January 1, 2016, the government implemented the Ontario Electricity Support Program (OESP) to provide a monthly credit of $30 to $50 directly on the bills of Ontario's low income households. The OESP offers a larger credit to low-

income consumers whose homes are electrically heated, those who rely on certain medical devices and eligible First Nation and Métis households. The credit for those receiving a larger reduction is $45 to $75 a month. The size of this benefit would be assessed based on income level and household size, and the program has begun on January 1, 2016.

The government also provides tax credits to help low- to moderate-income families and individuals with their energy costs such as the Ontario Energy and Property Tax Credit and the Northern Ontario Energy Credit.

Ending the DRC – RSD

Q: Why can't you end the DRC now, as opposed to April 1, 2018? The *Electricity Act, 1998*, provides for the DRC to be paid by consumers until the residual stranded debt is retired.

A: The *Budget Measures Act, 2015* amended the *Electricity Act, 2015* and provided a legislated fixed end-date of April 1, 2018 for the Debt Retirement Charge (DRC). The amendments to the *Electricity Act* removed legislative references to the stranded debt and the residual stranded debt.

Ending the DRC on April 1, 2018 provides for OEFC to receive DRC revenues until a specific end date, thus achieving a balance between providing certainty to and mitigating cost pressures for commercial, industrial and other electricity users, while continuing to make progress in paying down the electricity sector stranded debt.

The DRC is one of the principal dedicated revenues that the Ontario Electricity Financial Corporation (OEFC) receives to service and retire the former Ontario Hydro's debt and certain other liabilities. The debt was accumulated by building Ontario's electricity generation and transmission infrastructure.

At the time of the *2014 Ontario Economic Outlook and Fiscal Review*, and as stated in *2015 Budget*, it has been estimated that the residual stranded debt would be retired by the end of 2018. However, the estimated residual stranded debt could extend beyond 2018, such as through to the end of 2019.

As published in the *2015 Ontario Economic Outlook and Fiscal Review*, the residual stranded debt is estimated to be $2.2 billion as of March 31, 2015.

Even after the Debt Retirement Charge ends, there would still be stranded debt remaining, and OEFC would continue to receive PILs and GRC to help service and pay down the stranded debt. Under the *Electricity Act*, OEFC is required to prepare and submit an Annual Report, and OEFC's annual financial statements are included in Public Accounts each year.

Q: What will happen to Residual Stranded Debt once the Debt Retirement Charge (DRC) ends? Does this imply the Residual Stranded Debt will be retired by April 1, 2018?

A: The *Budget Measures Act, 2015* amended the *Electricity Act, 2015* and provided a legislated fixed end-date of April 1, 2018 for the DRC. The amendments to the *Electricity Act* removed legislative references to the stranded debt and the residual stranded debt.

Ending the DRC on April 1, 2018 provides for OEFC to receive DRC revenues until a specific end date, thus achieving a balance between providing certainty to and mitigating cost pressures for commercial, industrial and other electricity users, while continuing to make progress in paying down the electricity sector stranded debt.

Since the government's reforms under the *Electricity Restructuring Act, 2004*, OEFC has reduced its stranded debt for 12 consecutive years, based on interim numbers.

Even after the Debt Retirement Charge ends, there would still be stranded debt remaining, and OEFC would continue to receive PILs and GRC to help service and pay down the stranded debt. The government expects that the stranded debt will continue to decline following the end of the DRC.

The OEFC will continue to report its unfunded liability (often referred to as stranded debt) in its financial statements to provide continued disclosure and transparency.

Under the Electricity Act, OEFC is required to prepare and submit an Annual Report, and OEFC's annual financial statements are included in Public Accounts each year.

If pressed on technicalities related to legislation:

Legislative references to the stranded debt and RSD have been removed from the *Electricity Act*, as a result of Bill 144, the *Budget Measures Act*, as they no longer have a legislative purpose.

At the time of the 2014 *Ontario Economic Outlook and Fiscal Review*, and as stated in 2015 Budget, it has been estimated that the residual stranded debt would be retired by the end of 2018. However, the estimated residual stranded debt could extend beyond 2018, such as through to the end of 2019.

Fiscal Performance and Revenue Outlook

Interim 2015-16 vs. 2014-15

Q: Why is the interim 2015-16 combined net income from Hydro One and OPG projected to be $1,459 million lower than in 2014-15? ($330 million projected for interim 2015-16 compared to $1,789 million in 2014-15.)

A: The decrease is primarily due to the impacts of broadening the ownership of Hydro One and the impact of the one-time extraordinary gain recognized in 2014-15 by OPG related to the newly regulated hydroelectric facilities [i.e. regulatory assets related to deferred income taxes expected to be recovered from customers through future regulated prices]. Other factors leading to the decrease include higher market prices for OPG's previously unregulated hydroelectric facilities in 2014 and, lower nuclear production and higher OM&A costs in 2015 for OPG.

As a result of Hydro One's completed IPO in November, 2015, the interim 2015-16 net income reflects the estimated impacts of the broadening of Hydro One ownership, including positive impacts from the departure tax benefit, negative impacts from $2.6 billion in departure tax and positive impacts of $200 million from additional PILs. The decrease also reflects a reduction to 84% of the Province's proportionate share of Hydro One net income following the IPO and related additional share sales [to trusts with beneficial ownership by unions] due to lower ownership by the Province.

Q: Why is the interim 2015-16 payments-in-lieu of taxes (PILs) from electricity sector projected to be $3,052 million higher than in 2014-15? ($3,232 million projected for interim 2015-16 compared to $180 million in 2014-15.)

A: The increase in 2015-16 is primarily due to significant one-time payments in lieu of tax (PILs) payments related to Hydro One's IPO, i.e., $2.6 billion in departure tax and $200 million in additional PILs, as a result of leaving the PILs regime, and entering corporate income tax (CIT) regime. The increase also reflects higher OPG PILs compared to 2014-15, due to the income tax impact of rate-regulating OPG's previously unregulated hydroelectric stations in the fiscal 2014-15.

Interim 2015-16 vs. 2015 Budget

Q: Why is the interim 2015-16 combined net income from Hydro One and OPG projected to be $682 million lower than in 2015 Budget? ($330 million projected for interim 2015-16 compared to $1,012 million in Budget 2015.)

A: The decreases in 2015-16 reflects a significantly lower forecast income from Hydro One primarily due to the IPO impacts: positive impacts of the deferred tax benefit gain, negative impacts of $2.6 billion in departure tax and $200 million in additional

PILs, and a reduction to the Province's 84% proportionate share of Hydro One net income due to decreased ownership share of the Province. The decrease is partly offset by an increase in OPG's forecast income due to favourable ONFA fair value adjustments lower operating costs.

Q: Why is the interim 2015-16 payments-in-lieu of taxes (PILs) from electricity sector projected to be $2,708 million higher than in Budget 2015? ($3,232 million projected for interim 2015-16 compared to $524 million in Budget 2015.)

A: The increase is primarily due to significant one-time PILs related to Hydro One's initial public offering (IPO), i.e. the $2.6 billion in departure tax and $200 million additional PILs, as Hydro One exited the PILs regime, and entered Corporate Income Tax (CIT) regime as a result of the IPO. This is fiscally neutral, when combined with the impact on reduced net income from Hydro One.

Q: You are reporting a $1.1 billion increase from asset optimization in 2015-16 due to increase in the estimated impact of a deferred tax benefit for Hydro One. What is a deferred tax benefit?

A: The deferred tax benefit recorded by Hydro One is a consequence of Hydro One revaluing the tax basis of its assets to fair market value as it enters the corporate tax regime at closing of the IPO.

This deferred tax benefit will provide a net fiscal benefit to the Province on consolidation of the results of Hydro One into the Public Accounts, based on the Province's proportionate ownership share of Hydro One.

Q: Brampton Distribution Holdco Inc. is included in your electricity company combined net incomes. This company was not there in previous financial reports. Why is this organization shown separately now in this budget?

A: Prior to August 31, 2015, Hydro One Brampton was a subsidiary of Hydro One. To facilitate the potential merger of Hydro One Brampton with Enersource, Horizon Utilities, and PowerStream, on August 31, 2015, Hydro One declared a dividend in kind to the Province of all the issued and outstanding common shares of Hydro One Brampton Networks Inc.

This means that Hydro One Brampton is no longer a subsidiary of Hydro One. It is now a wholly Provincially-owned subsidiary of Brampton Distribution Holdco Inc.

If pushed:

This is only an organizational restructuring. It doesn't have material fiscal impacts as for the time being the Province continues to be the sole owner of Hydro One Brampton.

Q: What should be the reporting treatments for Hydro One Inc.'s (HOI) projected and actual provincial corporate income tax (CIT) for the provincial Budget, Estimates and Public Accounts processes?

A: Following Hydro One Ltd.'s (HOL) initial public offering (IPO) on November 5, 2015, Hydro One has exited the electricity payments-in-lieu of taxes (PILs) regime and will start paying corporate income taxes to both the federal and provincial governments.

Under the amendments made to the *Electricity Act, 1998* in the fall *Budget Measures Act, 2015*, the Minister of Finance will pay the OEFC an amount equal to tax payable under the *Taxation Act, 2007* (i.e., the provincial corporate income tax – CIT) by Hydro One Inc. (HOI), in a taxation year-end during each fiscal year. This will help to service and pay down the electricity sector stranded debt.

Interim 2015-16 vs. 2016-17 Forecast

Q: Why is the projected 2016-17 combined net income from Hydro One and OPG projected to be $719 million higher than interim 2015-16? ($330 million projected for interim 2015-16 compared to $1,049 million projected in 2016-17.)

A: The increase is primarily due to higher estimated 2016-17 earnings from OPG and Hydro One.

The estimated increase in 2016-17 is also due to significantly lower estimated 2015-16 income for Hydro One, as it reflects the upfront impacts of the Hydro One's IPO in 2015, which included one-time expenses of $2.6 billion in departure tax, $200 million in IPO related additional PILs, estimated to be partially offset by a deferred tax benefit.

Projected Impact of the Asset Optimization Strategy

Q: Does the projected future combined net income from Hydro One and OPG and the projected payments-in-lieu (PILs) of taxes from electricity sector include the impacts of the initial public offering (IPO) of the Hydro One common shares?

A: The Hydro One's net income and PILs has reflected the impacts of Hydro One's IPO and the resulting about 84% Provincial ownership share.

As Hydro One is now taxable under the federal Income tax Act and the provincial Taxation Act, Hydro One will no longer pay corporate tax PILs to OEFC. Hydro One is still subject to pay to OEFC incremental property tax PILs under the Electricity Act.

The gains from Hydro One IPO sale and projected impacts from further common shares sales are captured as part of the projected net impacts of the Province's asset optimization strategy in Sales and Rental under Other Non-Tax Revenue.

Medium-Term Revenue Outlook

Q: In your medium-term revenue outlook discussion you discuss a one-time payments in lieu of taxes from Hydro One as a result of the Hydro One initial public offering? What is that payment about?

A: A company that exits from a tax regime may be deemed to have disposed of its assets for proceeds equal to the fair market value of those assets at that time, which could result in a tax payment in respect of the income and capital gains that arise as a result of this deemed disposition. The amount payable is generally referred to as a "departure tax".

Hydro One paid $2.6 billion in "departure tax" to OEFC prior to the closing of the IPO as part of its transition to a broadly held, publicly traded company. Hydro One also paid an additional $200 million in PILs to OEFC as a consequence of the IPO.

OEFC and Stranded Debt

Stranded Debt

Q: Why is the interim Electricity Sector Dedicated Income (ESDI) $0 in 2015-16, and why is the forecast so low for ESDI in the 2016-17 Printed Estimates? Is this because of the Hydro One IPO reducing the Province's future revenues from Hydro One and reducing the amounts to pay for stranded debt?

A: The Hydro One IPO resulted in a significant upfront reduction in the stranded debt of the electricity sector.

For the year ended March 31, 2016, the IPO resulted in very large upfront payments to the Ontario Electricity Financial Corporation (OEFC) towards stranded debt. This included a total of $2.8 billion in departure tax and additional payments-in-lieu of taxes (PILs) paid by Hydro One to OEFC.

As these large amounts were expenses to Hydro One, they had a dollar-for-dollar impact on reducing Hydro One's estimated net income for 2015-16, partially offset by the deferred tax benefit impact on the Province's net income from Hydro One.

Because of these large payments to OEFC, this resulted in an estimated zero Electricity Sector Dedicated Income transfer to OEFC, as the combined net income of OPG and Hydro One to the Province was estimated to fall short of the about $520 million in annual interest expense.

Under the Electricity Sector Dedicated Income, the Province has been dedicating the cumulative combined net income of OPG and Hydro One in excess of the Province's interest cost of its investment in these companies (about $520 million annually, prior to the Hydro One IPO) to OEFC.

As the ESDI commitment is calculated on a cumulative basis over time, the estimated shortfall in the combined net incomes of OPG and Hydro One in 2015-16 compared to the about $520 million in the Province's financing costs, reduces the estimated Electricity Sector Dedicated Income in 2016-17 [and potentially in future years], until the past shortfall is offset by the combined net incomes going forward from 2015-16.

The actual ESDI amounts for 2015-16 and 2016-17 is subject to finalisation, including the actual financial performances of OPG and Hydro One in 2015-16 and 2016-17, and will be reported in OEFC's annual financial statements and Public Accounts.

[Note: For the 2015-16 Printed Estimates, the ESDI was positive, as the projected ESDI did not build in the potential impact of the broadening of Hydro One ownership due to the commercial and market sensitivity of the estimated impacts on Hydro One of the expected departure tax. The potential impact of the broadening of Hydro One ownership was built into the asset optimization component of the Sales and Rental revenue line.]

Q: As at March 31, 2015, in the Ontario Economic Outlook and Fiscal Review, the residual stranded debt was estimated to be $2.2 billion. If the stranded debt is estimated to have been reduced by more than $3 billion in 2015-16, to less than $5 billion as at March 31, 2016, does that mean that the residual stranded debt is now retired?

With the proceeds from the Hydro One initial public offering (IPO) in the billions of dollars, why hasn't the OEFC retired the stranded and/or the residual stranded debt and ended the Debt Retirement Charge (DRC)?

A: OEFC estimated results for 2015-16 show an estimated excess of revenue over expense of more than $3 billion, which would reduce OEFC's unfunded liability (or "stranded debt of the electricity sector") from $8.2 billion as of March 31, 2015, to below $5 billion as of March 31, 2016.

The estimated residual stranded as at March 31, 2015, was $2.2 billion, based on a stranded debt of $8.2 billion and the estimated present value of future, going forward dedicated revenues from March 31, 2015, to OEFC of about $6 billion.

The estimated 2015–16 results reflect the upfront benefits to OEFC of broadening the ownership of Hydro One through an initial public offering (IPO). This includes the OEFC receiving *in* fiscal 2015-16 – that is after March 31, 2015 -- $2.6 billion in departure tax and about $200 million in one-time additional payments in lieu of

taxes (PILs), as Hydro One exited the PILs regime and will no longer pay corporate tax PILs to the OEFC.

The upfront impact on OEFC of the departure tax and one-time PILs payments on the OEFC's unfunded liability will be fully offset over time by their impact on reducing dedicated revenues to the OEFC in 2015–16, and in future years related to Hydro One net income. In addition, as Hydro One is now a taxable corporation, it will no longer pay payments-in-lieu of corporate taxes (PILs) to OEFC, further reducing the estimated present value of future dedicated revenues to OEFC.

There is still stranded debt remaining, to be serviced and paid down by the OEFC's other dedicated revenues, such as other payments in lieu of taxes and the Gross Revenue Charge.

- The government expects that the stranded debt will continue to decline following the broadening of the ownership of Hydro One, as well as the end of the DRC on residential users as of January 1, 2016, and commercial, industrial and all other electricity users as of April 1, 2018.

- The OEFC will continue to report annually on the stranded debt.

Projected 2016–17 OEFC results are an excess of revenue over expense of about $0.6 billion.

Q: What is the status of the old Ontario Hydro's stranded debt?

A: The government dedicates the revenues it receives from the electricity sector to the Ontario Electricity Financial Corporation (OEFC). All OEFC revenues, including the Debt Retirement Charge (DRC) paid by electricity consumers, are used to service and retire its debt and other obligations, as provided for under the *Electricity Act, 1998*.

For the twelfth consecutive year, the stranded debt has been reduced, based on the interim 2015–16 results for the OEFC showing an estimated excess of revenue over expense of more than $3 billion. The OEFC has paid down stranded debt by an estimated total of more than $15 billion from its peak in 2003-04, reducing stranded debt to under $5 billion as at March 31, 2016, based on interim numbers.

- The following table shows the unfunded liability (or "stranded debt") of OEFC since the opening amount of $19,433 million on April 1, 1999.

At March 31 ($M unless noted)	April 1, 1999	2000	2001	2002	2003	2004	2005	2006	2007
Unfunded Liability	$19,433	$20,034	$20,016	$20,085	$20,183	$20,550	$20,363	$19,293	$18,289
Increase / (Decrease)		$601	($18)	$69	$98	$367	($187)	($1,070)	($1,004)
At March 31 ($M unless noted)	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	
Unfunded Liability	$17,225	$16,182	$14,810	$13,448	$12,321	$11,257	$9,781	$8,185	
Increase / (Decrease)	($1,064)	($1,043)	($1,372)	($1,362)	($1,127)	($1,064)	($1,476)	($1,596)	

Prudent Management of Electricity Sector Debt

Q: What is the current status of the residual stranded debt?

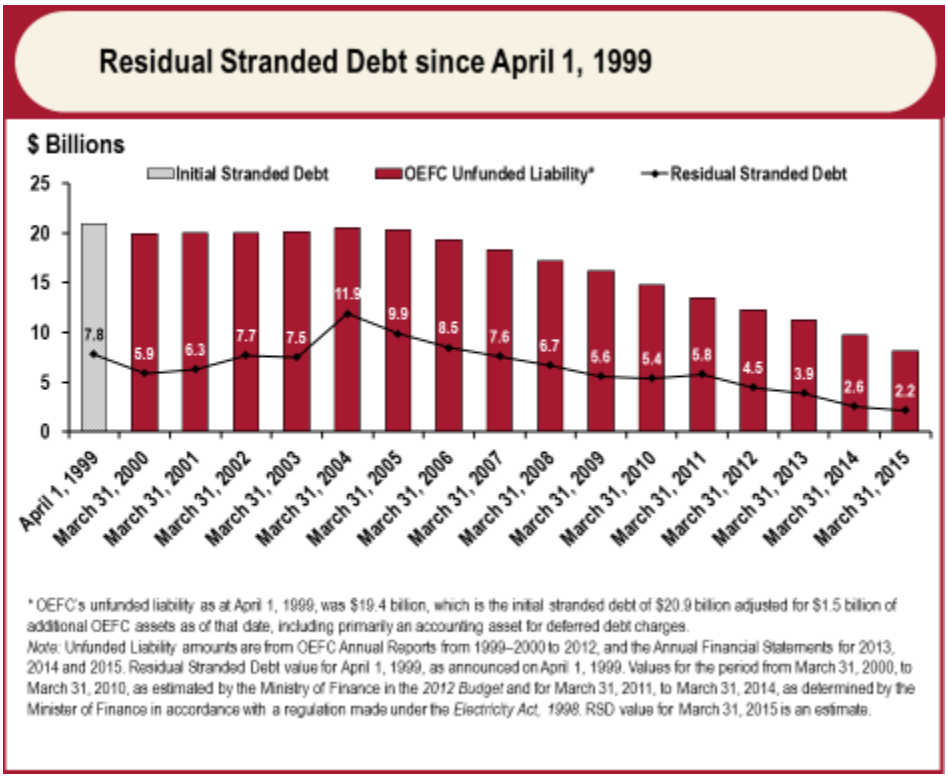
A: The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* (Bill 144) and effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt", including regulation-making authority of Ontario Regulation 89/12, were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete.

On February 11, 2016, the government filed Ontario Regulation 20/16 revoking O. Reg. 89/12.

Prior to the amendments of the *Electricity Act, 1998*, the residual stranded debt was estimated to be $2.2 billion as at March 31, 2015 as published in the 2015 Ontario Economic Outlook and Fiscal Review.

- This is a decrease of $0.4 billion compared to the residual stranded debt of $2.6 billion as at March 31, 2014, and a decrease of $9.7 billion from an estimated peak of $11.9 billion as at March 31, 2004.

- The residual stranded debt as at March 31, 2015, is based on the unfunded liability (or "stranded debt of the electricity sector") of $8.2 billion as reported in the OEFC's financial statements for the year ending March 31, 2015, reduced by the estimated present value of future dedicated revenues to OEFC of $6.0 billion. This results in the estimated $2.2 billion of residual stranded debt as at March 31, 2015.



Q: What happened to the residual stranded debt?

A: The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* (Bill 144) and effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt", including regulation-making authority of Ontario Regulation 89/12, were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete.

On February 11, 2016, the government filed Ontario Regulation 20/16 revoking O. Reg. 89/12.

Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998* and the revocation of Ontario Regulation 89/12, the *Electricity Act*, provided for the DRC to be paid by consumers until the residual stranded debt is retired.

As part of its commitment to reduce the cost of electricity to all Ontarians, the government has removed the Debt Retirement Charge (DRC) from residential users' electricity bills beginning January 1, 2016.

As a further step to mitigate electricity cost pressures for all other users, the government introduced legislation, passed on December 10, 2015, Bill 144, the *Budget Measures Act, 2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.

- Even after the end of the DRC, there will be stranded debt remaining, to be serviced and paid down by the OEFC's other dedicated revenues, such as payments in lieu of taxes and the Gross Revenue Charge.

- The government expects that the stranded debt will continue to decline following broadening of the ownership of Hydro One, as well as the end of the DRC.

- The OEFC will continue to report annually on the stranded debt.

Q: As published in the *2015 Economic Outlook and Fiscal Review*, why did the residual stranded debt only fall from $2.6 billion to $2.2 billion if the Ontario Electricity Financial Corporation's (OEFC) unfunded liability fell by about $1.6 billion and the DRC collected the same year was $0.956 billion?

A: Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act* and the revocation of Ontario Regulation 89/12, the residual stranded debt was defined under the Act as the stranded debt minus the estimated present value of future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC. The DRC would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

The residual stranded debt fell by less than the decrease in OEFC's unfunded liability due to a reduction in the estimated present value of future dedicated revenues to the OEFC from $7.2 billion as at March 31, 2014, to $6.0 billion as at March 31, 2015, which reflects the uncertainty of and update to the forecast of future dedicated revenues to OEFC. These forecasted revenues depend on the financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, regulatory decisions by the Ontario Energy Board, as well as other factors such as interest rates and electricity consumption.

Q: Since you have collected about $12.5 billion in Debt Retirement Charge (DRC) revenue to March 31, 2015, compared to the estimated $7.8 billion in residual stranded debt as at April 1, 1999, why has the residual stranded debt only decreased by $5.6 billion and why hasn't DRC already ended for all users?

A: Since 2004, the government's electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others, have put the stranded debt recovery plan back on track. The Ontario Electricity Financial Corporation (OEFC) has paid down stranded debt by about $12.3 billion from its peak in 2003-04, reducing stranded debt to $8.2 billion as at March 31, 2015.

The residual stranded debt increased from $7.8 billion as at April 1, 1999, to an estimated $11.9 billion as at March 31, 2004, as a result of an increase in stranded debt primarily due to the electricity price freeze, as well as a reduction in the estimated present value of future dedicated revenues to the Ontario Electricity Financial Corporation (OEFC), mainly reflecting the downward revision in 2004 of the previous overestimation of future financial performance of Ontario Power Generation (OPG), and lower tax rates. OPG had significantly underperformed compared to its plans over the previous period of 1999 to 2004.

As confirmed in the Auditor General's 2011 Annual Report, the DRC is used exclusively by the Ontario Electricity Financial Corporation (OEFC) to meet its mandate, as provided for under the *Electricity Act, 1998*, which includes servicing and retiring its debt and other liabilities. This includes payment of principal amounts as well as interest costs. OEFC's interest expense is currently about $1.4 billion per year and has totalled about $30.5 billion between April 1, 1999 and March 31, 2015.

- Prior to the amendments in the fall 2015 *Budget Measures Act*, under the *Electricity Act*, the residual stranded debt was defined under the Act as the stranded debt minus the estimated present value of future payments-in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC. The residual stranded debt was, therefore, affected by 1) changes in the amount of stranded debt, and 2) changes in the estimated future dedicated revenues.

- Since 2004, the government's electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others, have put the stranded debt recovery plan back on track. The residual stranded debt has been reduced by an estimated $9.7 billion, from an estimated peak of $11.9 billion as at March 31, 2004, to $2.2 billion as at March 31, 2015, as published in the 2015 Ontario Economic Outlook and Fiscal Review.

- The Auditor General audits OEFC's annual financial statements and has provided an unqualified opinion every year since the initial 1999–2000 financial statements.

From: Ken Kandeepan
To: Tara McGrath (MOF)
Cc: Alexander Kraas
Subject: RE: Updated Fiscal Scenario Decks
Date: Tuesday, June 05, 2018 12:10:44 PM

Hi tara

Alex is in my office do you mind calling us.

416-325-9814
Thanks

From: McGrath, Tara (MOF) [mailto:Tara.McGrath@ontario.ca]
Sent: Tuesday, June 05, 2018 11:59 AM
To: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
Subject: RE: Updated Fiscal Scenario Decks

Hi everyone –

We just got out of a meeting with ADMs and direction and numbers are changing once again. We'll need a few minutes to run through the numbers, but the outlook is going to look a lot closer to what we had over the weekend, before we started making changes yesterday. In that case, I'd like to propose that we stick with the IOD estimates from the weekend. We can certainly send you the numbers once we work them out, but my hunch is that you won't have enough time to re-run IOD in time for the 2PM briefing with the SOC, considering also that the DMs would like to see the deck in the next hour.

I'm hoping you can arm Gadi to deliver the message that the IOD and net debt-to-GDP numbers may still be in flux, and perhaps you might even have enough time to re-run you numbers and arm him with the potential changes that he could speak to in the meeting? Happy to hear your thoughts and get your recommendation on what we can do in the next hour or so.

Thanks,

Tara

From: Kraas, Alexander (OFA) [mailto:Alexander.Kraas@ofina.on.ca]
Sent: June 5, 2018 11:01 AM
To: Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>

Cc: Kandeepan, Ken (OFA) <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Strathy, Anna (OFA) <Anna.Strathy@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; McGrath, Tara (MOF) <Tara.McGrath@ontario.ca>; Esmail, Selena (MOF) <Selena.Esmail@ontario.ca>
Subject: RE: Updated Fiscal Scenario Decks
Importance: High

Hello Sareena;

Not a lot of change.

Please let us know in case you have any questions.

Best regards

Alex

From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Tuesday, June 05, 2018 9:55 AM
To: Alexander Kraas <Alexander.Kraas@ofina.on.ca>
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Subject: RE: Updated Fiscal Scenario Decks

Hi Alex:

Here is the latest. Thank you for your help with this and apologies again for the tight timelines.

Below are the scenarios that we would like you to run for an IOD forecast. To confirm, there are 9 scenarios in total.

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-with both accounting impacts

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- blue scenario - with program expense efficiencies (line 92)
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Many thanks!
Framework

From: Alexander Kraas [mailto:Alexander.Kraas@ofina.on.ca]
Sent: June 5, 2018 9:42 AM
To: Anand, Sareena (MOF)
Cc: Kandeepan, Ken (OFA); John Psinas; Strathy, Anna (OFA); IOD_RPA; McGrath, Tara (MOF); Esmail, Selena (MOF); Cheung, Danny (MOF)
Subject: RE: Updated Fiscal Scenario Decks

Hello Sareena;

Just to let you know, given the 11 am deadline & if we don't get the update from you by 10 am, we will move ahead with the scenarios you provided yesterday unless we hear from you otherwise.

Best regards

Alex

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Hi Alex:

Yes, we're rolling them through right now and will get you something as soon as we can.

Only blue is affected. So it will be the same nine scenarios for an IOD forecast that we requested below. Orange is still not changing.

Will keep you posted,
Sareena

From: Alexander Kraas [mailto:Alexander.Kraas@ofina.on.ca]
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Cc: Kandeepan, Ken (OFA); John Psinas; Strathy, Anna (OFA); IOD_RPA; McGrath, Tara (MOF); Esmail, Selena (MOF); Cheung, Danny (MOF)
Subject: RE: Updated Fiscal Scenario Decks

Hello Sareena;

The sooner we get the revised numbers the better. Are only the blue scenarios affected?

Best regards

Alex

From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Tuesday, June 05, 2018 9:32 AM
To: Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>
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Hi Alex:

I just left you a voicemail. I'm so sorry but we just received new numbers from TBS that will affect the scenarios. We are going to roll their numbers through as quickly as possible and get you a new outlook to run the scenarios.

Apologies again,
Sareena

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To: Kraas, Alexander (OFA)
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Many thanks!
Framework

From: Alexander Kraas [mailto:Alexander.Kraas@ofina.on.ca]
Sent: June 4, 2018 5:02 PM
To: Anand, Sareena (MOF)
Cc: McGrath, Tara (MOF); Esmail, Selena (MOF); Strathy, Anna (OFA); IOD_RPA; Kandeepan, Ken (OFA); John Psinas
Subject: RE: Updated Fiscal Scenario Decks

Thank you for the update, Sareena;

We should be able to get it done if we receive the information as indicated by you.

Best regards

Alex

From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Monday, June 04, 2018 4:42 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Chi-Wa Che <Chi-Wa.Che@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>
Subject: FW: Updated Fiscal Scenario Decks

Good afternoon Ken, John, and Alex:

Thank you for your comments on the decks this morning, we have rolled them through.

We also wanted to give you a heads up that there have been some number changes since Friday, accordingly, we're hoping that you can rerun IOD for us tomorrow morning. We can do net debt on this end based on the calculator that John sent on Friday, once we receive IOD, if that's okay with you?

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We will send you our backgrounders before we head out this evening as well as a list of scenarios for IOD (similar to what I sent on Friday). I hope this game plan works, happy to discuss.

Thank you and apologies for the tight timelines,
Sareena

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: June 4, 2018 12:31 PM
To: Anand, Sareena (MOF); McGrath, Tara (MOF)
Cc: Esmail, Selena (MOF); John Psinas; IOD_RPA; Kraas, Alexander (OFA); Meralli, Shemin (OFA); Sakura, George (OFA)
Subject: FW: Updated Fiscal Scenario Decks

Hi Sareena/Tara

I have the following overall comments, both John and Alex have identified some discrepancies in the numbers which they have communicated directly to Sareena.

Orange Scenario

- The deck refers to the removal of dividends from revenue a couple of time, given that dividends from GBE's are not part of revenues, it is a little confusing as to how they can be removed.
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- Page 12, same as bullet 2 above, should include the cumulative impact to 2017-18

Thanks

Ken k

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including any attachments, without reading them, and destroy all copies. Thank you.

From:	Ken Kandeepan
To:	Alexander Kraas; IOD_RPA
Cc:	Anna Strathy
Subject:	RE: Updated Fiscal Scenario Decks
Date:	Tuesday, June 05, 2018 11:04:58 AM

Thanks once again very well done, Christina, Alex, and Chi-Wa. Many thanks

Ken k

From: Alexander Kraas
Sent: Tuesday, June 05, 2018 11:01 AM
To: 'Anand, Sareena (MOF)' <Sareena.Anand@ontario.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
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Importance: High

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Sareena

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Cc: Esmail, Selena (MOF); John Psinas; IOD_RPA; Kraas, Alexander (OFA); Meralli, Shemin (OFA); Sakura, George (OFA)
Subject: FW: Updated Fiscal Scenario Decks

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Thanks

Ken k

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From:	Anand, Sareena (MOF)
To:	John Psinas; Ken Kandeepan; Alexander Kraas
Cc:	Tara McGrath (MOF); Selena Esmail (MOF); Shemin Meralli; George Sakura; Chi-Wa Che; Anna Strathy; Christina Zhang; IOD_RPA; Danny Cheung (CSC)
Subject:	RE: Updated Fiscal Scenario Decks
Date:	Monday, June 04, 2018 6:34:39 PM

Hi John:

We will be sure to share our net debt calculations with you tomorrow after we've run the scenarios.

Thanks,
Sareena

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: June 4, 2018 4:57 PM
To: Anand, Sareena (MOF); Kandeepan, Ken (OFA); Kraas, Alexander (OFA)
Cc: McGrath, Tara (MOF); Esmail, Selena (MOF); Meralli, Shemin (OFA); Sakura, George (OFA); Che, Chi-Wa (OFA); Strathy, Anna (OFA); Zhang, Christina (OFA); IOD_RPA
Subject: RE: Updated Fiscal Scenario Decks

Sareena,

Given the tight timelines, we are okay with your team doing net debt once all information is received, but please let us take a look at the deck and/or backup calculations at the earliest time tomorrow. Net debt scenarios in this case requires some extra discernment with respect to including or not including the pension adjustment, so we know what to look for especially.

Thanks.

John

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Sent: Monday, June 04, 2018 4:42 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Chi-Wa Che <Chi-Wa.Che@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>
Subject: FW: Updated Fiscal Scenario Decks

Good afternoon Ken, John, and Alex:

Thank you for your comments on the decks this morning, we have rolled them through.

We also wanted to give you a heads up that there have been some number changes since Friday, accordingly, we're hoping that you can rerun IOD for us tomorrow morning. We can do net debt on

this end based on the calculator that John sent on Friday, once we receive IOD, if that's okay with you?

A meeting with the SOC has been scheduled for 2pm tomorrow, so we would ideally like IOD as soon as you're able to send it in the morning (at least by 11am) so that we can roll it through, calculate net debt, and brief up the line here with a complete picture prior to the 2pm meeting.

We will send you our backgrounders before we head out this evening as well as a list of scenarios for IOD (similar to what I sent on Friday). I hope this game plan works, happy to discuss.

Thank you and apologies for the tight timelines,
Sareena

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: June 4, 2018 12:31 PM
To: Anand, Sareena (MOF); McGrath, Tara (MOF)
Cc: Esmail, Selena (MOF); John Psinas; IOD_RPA; Kraas, Alexander (OFA); Meralli, Shemin (OFA); Sakura, George (OFA)
Subject: FW: Updated Fiscal Scenario Decks

Hi Sareena/Tara

I have the following overall comments, both John and Alex have identified some discrepancies in the numbers which they have communicated directly to Sareena.

Orange Scenario

- The deck refers to the removal of dividends from revenue a couple of time, given that dividends from GBE's are not part of revenues, it is a little confusing as to how they can be removed.
- Net debt scenarios that include the impact of the AG's recommendations should also indicate that accumulated deficit has to be adjusted, hence the increase to net debt is substantially greater than the $5 to $6B presented in the deck. An explanatory sentence could be as follows: "Adopting the Auditor General's recommendation means that the opening net debt for 2017-18 must be restated upwards by $12.4 billion to $314.1 Billion"

Blue Scenario

- Page 10, the IOD seems ok, pls review
- Page 12, same as bullet 2 above, should include the cumulative impact to 2017-18

Thanks

Ken k

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

From:	John Psinas
To:	"Anand, Sareena (MOF)"; Ken Kandeepan; Alexander Kraas
Cc:	Tara McGrath (MOF); Selena Esmail (MOF); Shemin Meralli; George Sakura; Chi-Wa Che; Anna Strathy; Christina Zhang; IOD_RPA
Subject:	RE: Updated Fiscal Scenario Decks
Date:	Monday, June 04, 2018 4:57:04 PM

Sareena,

Given the tight timelines, we are okay with your team doing net debt once all information is received, but please let us take a look at the deck and/or backup calculations at the earliest time tomorrow. Net debt scenarios in this case requires some extra discernment with respect to including or not including the pension adjustment, so we know what to look for especially.

Thanks.

John

From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Monday, June 04, 2018 4:42 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Chi-Wa Che <Chi-Wa.Che@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>
Subject: FW: Updated Fiscal Scenario Decks

Good afternoon Ken, John, and Alex:

Thank you for your comments on the decks this morning, we have rolled them through.

We also wanted to give you a heads up that there have been some number changes since Friday, accordingly, we're hoping that you can rerun IOD for us tomorrow morning. We can do net debt on this end based on the calculator that John sent on Friday, once we receive IOD, if that's okay with you?

A meeting with the SOC has been scheduled for 2pm tomorrow, so we would ideally like IOD as soon as you're able to send it in the morning (at least by 11am) so that we can roll it through, calculate net debt, and brief up the line here with a complete picture prior to the 2pm meeting.

We will send you our backgrounders before we head out this evening as well as a list of scenarios for IOD (similar to what I sent on Friday). I hope this game plan works, happy to discuss.

Thank you and apologies for the tight timelines,
Sareena

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: June 4, 2018 12:31 PM
To: Anand, Sareena (MOF); McGrath, Tara (MOF)
Cc: Esmail, Selena (MOF); John Psinas; IOD_RPA; Kraas, Alexander (OFA); Meralli, Shemin (OFA); Sakura, George (OFA)
Subject: FW: Updated Fiscal Scenario Decks

Hi Sareena/Tara

I have the following overall comments, both John and Alex have identified some discrepancies in the numbers which they have communicated directly to Sareena.

Orange Scenario

- The deck refers to the removal of dividends from revenue a couple of time, given that dividends from GBE's are not part of revenues, it is a little confusing as to how they can be removed.
- Net debt scenarios that include the impact of the AG's recommendations should also indicate that accumulated deficit has to be adjusted, hence the increase to net debt is substantially greater than the $5 to $6B presented in the deck. An explanatory sentence could be as follows: "Adopting the Auditor General's recommendation means that the opening net debt for 2017-18 must be restated upwards by $12.4 billion to $314.1 Billion"

Blue Scenario

- Page 10, the IOD seems ok, pls review
- Page 12, same as bullet 2 above, should include the cumulative impact to 2017-18

Thanks

Ken k

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

From:	Ken Kandeepan
To:	"Anand, Sareena (MOF)"; Tara McGrath (MOF)
Cc:	John Psinas; Anna Strathy; IOD_RPA; Selena Esmail (MOF); Alexander Kraas
Subject:	RE: Updated Fiscal Scenario Decks
Date:	Tuesday, June 05, 2018 12:37:02 PM

Thanks, we will provide you with the revised IOD, however, with regard to the net debt to GDP we intend to use the deficit number that you have given us that do not take into account the impact of any IOD revisions.

They will be off slightly albeit in the first decimal but that appears to be the best approach given the time crunch. This should allow you to hopefully incorporate both IOD and the ratio in the deck and Gadi can indicate the ratio may be a little off.

Hope this approach works.

Let me know

Thanks

Ken k

From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Tuesday, June 05, 2018 12:25 PM
To: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: John Psinas <John.Psinas@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Subject: RE: Updated Fiscal Scenario Decks

Hi Ken,

Per your conversation with Tara, attached is the new outlook for BLUE.

Thanks,
Framework

From: McGrath, Tara (MOF)
Sent: June 5, 2018 11:59 AM
To: Kraas, Alexander (OFA); Anand, Sareena (MOF)
Cc: Kandeepan, Ken (OFA); John Psinas; Strathy, Anna (OFA); IOD_RPA; Esmail, Selena (MOF)
Subject: RE: Updated Fiscal Scenario Decks

Hi everyone –

We just got out of a meeting with ADMs and direction and numbers are changing

once again. We'll need a few minutes to run through the numbers, but the outlook is going to look a lot closer to what we had over the weekend, before we started making changes yesterday. In that case, I'd like to propose that we stick with the IOD estimates from the weekend. We can certainly send you the numbers once we work them out, but my hunch is that you won't have enough time to re-run IOD in time for the 2PM briefing with the SOC, considering also that the DMs would like to see the deck in the next hour.

I'm hoping you can arm Gadi to deliver the message that the IOD and net debt-to-GDP numbers may still be in flux, and perhaps you might even have enough time to re-run you numbers and arm him with the potential changes that he could speak to in the meeting? Happy to hear your thoughts and get your recommendation on what we can do in the next hour or so.

Thanks,

Tara

From: Kraas, Alexander (OFA) [mailto:Alexander.Kraas@ofina.on.ca]
Sent: June 5, 2018 11:01 AM
To: Anand, Sareena (MOF) <Sareena.Anand@ontario.ca>
Cc: Kandeepan, Ken (OFA) <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Strathy, Anna (OFA) <Anna.Strathy@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; McGrath, Tara (MOF) <Tara.McGrath@ontario.ca>; Esmail, Selena (MOF) <Selena.Esmail@ontario.ca>
Subject: RE: Updated Fiscal Scenario Decks
Importance: High

Hello Sareena;

Not a lot of change.

Please let us know in case you have any questions.

Best regards

Alex

From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Tuesday, June 05, 2018 9:55 AM
To: Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
Subject: RE: Updated Fiscal Scenario Decks

Hi Alex:

Here is the latest. Thank you for your help with this and apologies again for the tight timelines.

Below are the scenarios that we would like you to run for an IOD forecast. To confirm, there are 9 scenarios in total.

Blue Starting Point (line 45)
- Orange starting point scenario

Blue A - With Regular Program Expense
- blue scenario - with regular program expense (line 69)
- with pensions
- with fair hydro
-with both accounting impacts

Blue B - With Program Expense Efficiencies
- blue scenario - with program expense efficiencies (line 92)
- with pensions
- with fair hydro
-with both accounting impacts

Many thanks!
Framework

From: Alexander Kraas [mailto:Alexander.Kraas@ofina.on.ca]
Sent: June 5, 2018 9:42 AM
To: Anand, Sareena (MOF)
Cc: Kandeepan, Ken (OFA); John Psinas; Strathy, Anna (OFA); IOD_RPA; McGrath, Tara (MOF); Esmail, Selena (MOF); Cheung, Danny (MOF)
Subject: RE: Updated Fiscal Scenario Decks

Hello Sareena;

Just to let you know, given the 11 am deadline & if we don't get the update from you by 10 am, we will move ahead with the scenarios you provided yesterday unless we hear from you otherwise.

Best regards

Alex

From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Tuesday, June 05, 2018 9:37 AM
To: Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Danny Cheung

(CSC) <Danny.Cheung@ontario.ca>
Subject: RE: Updated Fiscal Scenario Decks

Hi Alex:

Yes, we're rolling them through right now and will get you something as soon as we can.

Only blue is affected. So it will be the same nine scenarios for an IOD forecast that we requested below. Orange is still not changing.

Will keep you posted,
Sareena

From: Alexander Kraas [mailto:Alexander.Kraas@ofina.on.ca]
Sent: June 5, 2018 9:34 AM
To: Anand, Sareena (MOF)
Cc: Kandeepan, Ken (OFA); John Psinas; Strathy, Anna (OFA); IOD_RPA; McGrath, Tara (MOF); Esmail, Selena (MOF); Cheung, Danny (MOF)
Subject: RE: Updated Fiscal Scenario Decks

Hello Sareena;

The sooner we get the revised numbers the better. Are only the blue scenarios affected?

Best regards

Alex

From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]
Sent: Tuesday, June 05, 2018 9:32 AM
To: Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>; Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>
Subject: RE: Updated Fiscal Scenario Decks

Hi Alex:

I just left you a voicemail. I'm so sorry but we just received new numbers from TBS that will affect the scenarios. We are going to roll their numbers through as quickly as possible and get you a new outlook to run the scenarios.

Apologies again,
Sareena

From: Anand, Sareena (MOF)
Sent: June 4, 2018 9:10 PM
To: Kraas, Alexander (OFA)
Cc: Kandeepan, Ken (OFA); 'John Psinas'; Strathy, Anna (OFA); IOD_RPA; McGrath, Tara (MOF); Esmail, Selena (MOF); Cheung, Danny (MOF)
Subject: Re: Updated Fiscal Scenario Decks

Hi Alex:

As discussed, attached please find a copy of the outlook for the Blue scenario only (we're not changing Orange). Below are the scenarios that we would like you to run for an IOD forecast. To confirm, there are 9 scenarios in total.

Blue Starting Point (line 45)
- Orange starting point scenario

Blue A - With Regular Program Expense
- blue scenario - with regular program expense (line 69)
- with pensions
- with fair hydro
-with both accounting impacts

Blue B - With Program Expense Efficiencies
- blue scenario - with program expense efficiencies (line 92)
- with pensions
- with fair hydro
-with both accounting impacts

Many thanks!
Framework

From: Alexander Kraas [mailto:Alexander.Kraas@ofina.on.ca]
Sent: June 4, 2018 5:02 PM
To: Anand, Sareena (MOF)
Cc: McGrath, Tara (MOF); Esmail, Selena (MOF); Strathy, Anna (OFA); IOD_RPA; Kandeepan, Ken (OFA); John Psinas
Subject: RE: Updated Fiscal Scenario Decks

Thank you for the update, Sareena;

We should be able to get it done if we receive the information as indicated by you.

Best regards

Alex

From: Anand, Sareena (MOF) [mailto:Sareena.Anand@ontario.ca]

Sent: Monday, June 04, 2018 4:42 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Selena Esmail (MOF) <Selena.Esmail@ontario.ca>; Shemin Meralli <Shemin.Meralli@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Chi-Wa Che <Chi-Wa.Che@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Christina Zhang <Christina.Zhang@ofina.on.ca>; IOD_RPA <IOD_RPA@ofina.on.ca>
Subject: FW: Updated Fiscal Scenario Decks

Good afternoon Ken, John, and Alex:

Thank you for your comments on the decks this morning, we have rolled them through.

We also wanted to give you a heads up that there have been some number changes since Friday, accordingly, we're hoping that you can rerun IOD for us tomorrow morning. We can do net debt on this end based on the calculator that John sent on Friday, once we receive IOD, if that's okay with you?

A meeting with the SOC has been scheduled for 2pm tomorrow, so we would ideally like IOD as soon as you're able to send it in the morning (at least by 11am) so that we can roll it through, calculate net debt, and brief up the line here with a complete picture prior to the 2pm meeting.

We will send you our backgrounders before we head out this evening as well as a list of scenarios for IOD (similar to what I sent on Friday). I hope this game plan works, happy to discuss.

Thank you and apologies for the tight timelines,
Sareena

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: June 4, 2018 12:31 PM
To: Anand, Sareena (MOF); McGrath, Tara (MOF)
Cc: Esmail, Selena (MOF); John Psinas; IOD_RPA; Kraas, Alexander (OFA); Meralli, Shemin (OFA); Sakura, George (OFA)
Subject: FW: Updated Fiscal Scenario Decks

Hi Sareena/Tara

I have the following overall comments, both John and Alex have identified some discrepancies in the numbers which they have communicated directly to Sareena.

Orange Scenario

- The deck refers to the removal of dividends from revenue a couple of time, given that dividends from GBE's are not part of revenues, it is a little confusing as to how they can be removed.
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that accumulated deficit has to be adjusted, hence the increase to net debt is substantially greater than the $5 to $6B presented in the deck. An explanatory sentence could be as follows: “Adopting the Auditor General’s recommendation means that the opening net debt for 2017-18 must be restated upwards by $12.4 billion to $314.1 Billion”

Blue Scenario

- Page 10, the IOD seems ok, pls review
- Page 12, same as bullet 2 above, should include the cumulative impact to 2017-18

Thanks

Ken k

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From: Ken Kandeepan
To: Gadi Mayman
Cc: Christina Zhang
Subject: RE: Updated MMP Materials
Date: Sunday, October 23, 2016 9:50:55 AM

Hi Gadi

Went through the material, looks good. Net debt to GDP ratios reflect what John provided to Tara on Thursday. Lot of work by Tim's group to incorporate all the changes. I have only one suggestion re the narrative on the pension adjustment.

I would include something like; "While the resolution of the appropriate accounting treatment for pensions is dependent on a number of factors including the results of the independent review commissioned by the Government, the Province has adopted a prudent and risk averse approach in the FES by continuing with the legislated accounting basis for pensions. As a result, a pension adjustment based on historical averages is included in the 16-17 and out year expense projections".

As it stands the narrative does not make the point perhaps forcefully enough, that the Government has developed the FES on a prudent, conservative and risk-averse basis.

Thanks

Ken k

From: Gadi Mayman
Sent: Friday, October 21, 2016 9:26 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Fwd: Updated MMP Materials

FYI?

Begin forwarded message:

> **From:** "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
> **To:** "Scott Thompson (CAB)" <Scott.Thompson@ontario.ca>, "Helen Angus (MOHLTC)" <Helen.Angus@ontario.ca>, "Karen Hughes (MGS)" <Karen.Hughes@ontario.ca>, "Maria Duran-Schneider (MOF)" <Maria.Duran-Schneider@ontario.ca>, "Brian Lewis (MOL)" <Brian.Lewis@ontario.ca>, "Gadi Mayman" <Gadi.Mayman@ofina.on.ca>, "Sriram Subrahmanyan (MOF)" <Sriram.Subrahmanyan@ontario.ca>, "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>
> **Cc:** "David McLean (MOF)" <David.McLean@ontario.ca>, "Kyle MacIntyre (MOF)" <Kyle.MacIntyre@ontario.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>, "Selena Esmail (MOF)" <Selena.Esmail@ontario.ca>, "Ronald Jaikaran (MOF)"

<Ronald.Jaikaran@ontario.ca>, "Christopher Pearce (MOI)" <Christopher.Pearce@ontario.ca>, "Tara McGrath (MOF)" <Tara.McGrath@ontario.ca>, "Emma Lindquist (MOF)" <Emma.Lindquist@ontario.ca>
Subject: RE: Updated MMP Materials

Good evening

Please find attached MMP materials updated to reflect direction from the Ministers this afternoon. I understand these will be provided tonight in preparation for Monday's meeting.

Thanks for all the input and collaboration.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

From: Schuurman, Tim (MOF)
Sent: October-20-16 10:38 PM
To: Thompson, Scott (MOF); Angus, Helen (TBS); Hughes, Karen (TBS); Duran-Schneider, Maria (TBS); Lewis, Brian (MOF); 'Gadi Mayman'; Sriram.Subrahmanyan@ontario.ca; Veinot, Cindy (TBS)
Cc: McLean, David (MOF); MacIntyre, Kyle (TBS); Birks, Ryan (MOF); Esmail, Selena (MOF); Jaikaran, Ronald (MOF); Pearce, Christopher (MOF); McGrath, Tara (MOF); Lindquist, Emma (MOF)
Subject: Updated MMP Materials

Good evening

Please find attached updated MMP package of materials, based on the discussion/direction earlier this afternoon, and in preparation for the Minister's briefing tomorrow afternoon.

This package includes the following:

- Revised main deck
- Revised Appendix deck (now also includes crosswalk from Budget to FES starting point to Pensions+Tools, for all three options, see slides 10-12)
- A newly developed Summary Placemat outlining/comparing the three options with details on the specific tools employed in each option
- Storyboard/Initiatives Placemat for FES

Thanks to everyone for your ongoing input and collaboration on this important part of FES development.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



From:	George Sakura
To:	"Inglis, Liane (MOF)"
Cc:	Ken Kandeepan; Shemin Meralli; Gadi Mayman; Tim Schuurman (MOF); Brian Lewis (MOL)
Subject:	RE: net debt to GDP for 3 scenarios
Date:	Monday, January 16, 2017 12:30:32 PM
Attachments:	Net Debt - 2016-17 -FES- scenario requests (Jan 16 2017) (002).xlsx

Attached are the three scenarios requested. Please note that the most recent GDP that we received was used. This GDP was based on OEP's forecast on January 12th.

Thanks.

From: Inglis, Liane (MOF) [mailto:Liane.Inglis@ontario.ca]
Sent: Monday, January 16, 2017 11:18 AM
To: George Sakura <George.Sakura@ofina.on.ca>
Cc: Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>
Subject: RE: net debt to GDP for 3 scenarios

Hi George, ideally we'd have them by 12:30 to incorporate for a 3pm briefing.

One thing I forgot to mention – scenarios 2&3 reverse the pension adjustment for 2 of the 4 pensions. I'm guessing this would also impact the debt levels, as you would be backing out the debt taken on in 2015 -16 Public Accounts as part of the pension adjustment?

Liane

From: George Sakura [mailto:George.Sakura@ofina.on.ca]
Sent: January 16, 2017 11:09 AM
To: Inglis, Liane (MOF)
Cc: Meralli, Shemin (OFA); Lindquist, Emma (MOF); Cheung, Danny (MOF)
Subject: RE: net debt to GDP for 3 scenarios

Approximately when do you need this by in order to incorporate it into the Minister's briefing?

From: Inglis, Liane (MOF) [mailto:Liane.Inglis@ontario.ca]
Sent: Monday, January 16, 2017 10:54 AM
To: George Sakura <George.Sakura@ofina.on.ca>
Cc: Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>
Subject: net debt to GDP for 3 scenarios

Hello George,

There was a SOC briefing this morning where multiple deficit scenarios out to 20-21 were discussed (attached). The SOC asked what net-debt to GDP would look like under each scenario; could I ask you folks to pull these number together for us? We are on a tight timeline as there is a Minister's

briefing schedule for later today that we would like to be able to incorporate this information into. Please let me know if this is too quick of a turnaround and I will let people here know we may be unable to make that timeline (there is another minister's briefing tomorrow morning that we can include the table in).

We would like to represent the three scenarios in the usual chart (p.100 of FES) but with the black line forking off into the three different scenarios (no need for the accumulated deficit to GDP line (red line)). If you are able to pull this together, it would be helpful, but we can also do the chart here once we have the numbers.

Thanks very much and please let me know if you need anything else from us/ have any questions.

Liane

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Summary - FES 2016-17 & Deficit/Surplus Scenarios						
		2016-17	2017-18	2018-19	2019-20	2020-21
	FES 2016-17					
	Deficit/ (Surplus) ($m)	4,324	(18)	(12)		
	Net Debt/GDP %	40.3	39.8	39.3		
	Net Debt	317,948	326,551	336,419		
	- incr/(decr) in net debt		8,603	9,868		
	GDP	789,176	821,389	854,990		
	Scenario 1	Worst-Case Surplus/(Deficit)				
	Deficit/ (Surplus) ($m)	4,324	5,130	9,083	10,538	9,702
	Net Debt/GDP %	39.9	40.0	40.6	41.4	41.7
	Net Debt	318,007	331,780	350,768	371,277	389,087
	- incr/(decr) in net debt		13,773	18,988	20,509	17,810
	GDP	797,623	830,182	864,142	897,865	933,780
	Scenario 2	Surplus/(Deficit) with Reversal of Pensions (OTPP and OPSEUPP)				
	Deficit/ (Surplus) ($m)	2,171	2,437	6,019	7,402	6,567
	Net Debt/GDP %	38.3	38.1	38.4	38.9	39.0
	Net Debt	305,200	316,280	332,204	349,577	364,252
	- incr/(decr) in net debt		11,080	15,924	17,373	14,675
	GDP	797,623	830,182	864,142	897,865	933,780
	Scenario 3	Surplus/(Deficit) after all tools (i.e., Balance) (incl pension reversal)				
	Deficit/ (Surplus) ($m)	2,171	-	-	-	-
	Net Debt/GDP %	38.3	37.8	37.5	37.2	36.6
	Net Debt	305,200	313,843	323,748	333,719	341,827
	- incr/(decr) in net debt		8,643	9,905	9,971	8,108
	GDP	797,623	830,182	864,142	897,865	933,780

Net Debt to Revenue and GDP Ratios

Ontario

		2016-17 FES - Scenario 1: Worst-Case (Surplus)/Deficit , with pension adj										2016-17 FES - with pension ad					
	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit
Actual	1989-90	282,766	35,409	46,500	12.52	76.1	35,409	12.52	-			(90)	282,766	35,409	46,500	12.52	76.1	35,409
Actual	1990-91	287,334	38,438	49,002	13.38	78.4	38,438	13.38	-			3,029	287,334	38,438	49,002	13.38	78.4	38,438
Actual	1991-92	288,217	49,368	47,527	17.13	103.9	49,368	17.13	-			10,930	288,217	49,368	47,527	17.13	103.9	49,368
Actual	1992-93	293,068	61,796	49,122	21.09	125.8	61,796	21.09	-			12,428	293,068	61,796	49,122	21.09	125.8	61,796
Actual	1993-94	302,245	80,599	51,410	26.67	156.8	80,599	26.67	-			11,202	302,245	80,599	51,410	26.67	156.8	80,599
Actual	1994-95	319,986	90,728	53,962	28.35	168.1	90,728	28.35	-			10,129	319,986	90,728	53,962	28.35	168.1	90,728
Actual	1995-96	337,400	101,864	57,898	30.19	175.9	101,864	30.19	-			8,800	337,400	101,864	57,898	30.19	175.9	101,864
Actual	1996-97	347,842	108,769	58,060	31.27	187.3	108,769	31.27	-			6,905	347,842	108,769	58,060	31.27	187.3	108,769
Actual	1997-98	368,960	112,735	61,362	30.55	183.7	112,735	30.55	-			3,966	368,960	112,735	61,362	30.55	183.7	112,735
Actual	1998-99	389,250	114,737	63,044	29.48	182.0	114,737	29.48	-			2,002	389,250	114,737	63,044	29.48	182.0	114,737
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3	134,398	32.13	-			(668)	418,245	134,398	70,983	32.13	189.3	134,398
Actual	2000-01	452,238	132,496	72,258	29.30	183.4	132,496	29.30	-			(1,902)	452,238	132,496	72,258	29.30	183.4	132,496
Actual	2001-02	469,084	132,121	72,550	28.17	182.1	132,121	28.17	-			(375)	469,084	132,121	72,550	28.17	182.1	132,121
Actual	2002-03	494,815	132,647	74,938	26.81	177.0	118,705	23.99	13,942			(117)	494,815	132,647	74,938	26.81	177.0	118,705
Actual	2003-04	509,511	138,816	74,549	27.24	186.2	124,188	24.37	14,628			5,483	509,511	138,816	74,549	27.24	186.2	124,188
Actual	2004-05	533,365	140,921	84,192	26.42	167.4	125,743	23.58	15,178			1,555	533,365	140,921	84,192	26.42	167.4	125,743
Actual	2005-06	556,635	152,702	90,738	27.43	168.3	109,155	19.61	43,547			(298)	556,635	152,702	90,738	27.43	168.3	109,155
Actual	2006-07	578,241	153,742	97,120	26.59	158.3	106,776	18.47	46,966		(110)	(2,269)	578,241	153,742	97,120	26.59	158.3	106,776
Actual	2007-08	601,735	156,616	104,115	26.03	150.4	105,617	17.55	50,999	(559)		(600)	601,735	156,616	104,115	26.03	150.4	105,617
Actual	2008-09	608,446	169,585	97,532	27.87	173.9	113,238	18.61	56,347	1,212		6,409	608,446	169,585	97,532	27.87	173.9	113,238
Actual	2009-10	597,882	193,589	96,313	32.38	201.0	130,957	21.90	62,632	1,090	-	19,262	597,882	193,589	96,313	32.38	201.0	130,957
Actual	2010-11	630,989	214,511	107,175	34.00	200.2	144,573	22.91	69,938	(395)	-	14,011	630,989	214,511	107,175	34.00	200.2	144,573
Actual	2011-12	659,743	235,582	109,773	35.71	214.6	158,410	24.01	77,172	3	865	12,969	659,743	235,582	109,773	35.71	214.6	158,410
Actual	2012-13	680,084	252,088	113,369	37.07	222.4	167,132	24.58	84,956	(639)	141	9,220	680,084	252,088	113,369	37.07	222.4	167,132
Actual	2013-14	695,349	267,190	115,911	38.43	230.5	176,634	25.40	90,556	(951)	-	10,453	695,349	267,190	115,911	38.43	230.5	176,634
Actual	2014-15	727,962	284,576	118,546	39.09	240.1	187,511	25.76	97,065	(1,121)	1,683	10,315	727,962	284,576	118,546	39.09	240.1	187,511
Actual	2015-16	763,276	305,233	128,377	39.99	237.8	202,697	26.56	102,536	1,003	9,154	5,029	763,276	305,233	128,377	39.99	237.8	202,697
	2016-17 Outloo	797,623	318,007	132,720	39.87	239.6	207,021	25.95	110,986			4,324	789176	317,948	130,589	40.29	243.5	207,021
	2017-18 Outloo	830,182	331,780	140,125	39.96	236.8	212,151	25.55	119,629			5,130	821389	326,551	137,729	39.76	237.1	207,003
	2018-19 Outloo	864,142	350,768	144,899	40.59	242.1	221,234	25.60	129,534			9,083	854990	336,419	141,920	39.35	237.0	206,991
	2019-20 Outloo	897,865	371,277		41.35		231,772	25.81	139,505			10,538		346,366		#DIV/0!		206,991
	2020-21 Outloo	933,780	389,087		41.67		241,474	25.86	147,613			9,702		354,451				206,991

Scenario 1:
See tab "GDP" - for GDP numbers 2016-17 to 2025-26 (received Jan 12, 2017)
See tab "TCA" - for updated TCA numbers 2016-17 to 2030-31 (received Jan 5, 2017)

Scenario Assumptions as per "Deficit " tab - (received Jan 16, 2017)

Prepared by OFA, FTD

16-Jan-17

Net Debt to Revenue an

Ontario

		Adjustment					Comparison: 2016 Public Accounts vs FES 2016-17									
	Fiscal Year	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
Actual	1989-90	12.52	-			(90)	-	-	-	-	-	-	-	-	-	-
Actual	1990-91	13.38	-			3,029	-	-	-	-	-	-	-	-	-	-
Actual	1991-92	17.13	-			10,930	-	-	-	-	-	-	-	-	-	-
Actual	1992-93	21.09	-			12,428	-	-	-	-	-	-	-	-	-	-
Actual	1993-94	26.67	-			11,202	-	-	-	-	-	-	-	-	-	-
Actual	1994-95	28.35	-			10,129	-	-	-	-	-	-	-	-	-	-
Actual	1995-96	30.19	-			8,800	-	-	-	-	-	-	-	-	-	-
Actual	1996-97	31.27	-			6,905	-	-	-	-	-	-	-	-	-	-
Actual	1997-98	30.55	-			3,966	-	-	-	-	-	-	-	-	-	-
Actual	1998-99	29.48	-			2,002	-	-	-	-	-	-	-	-	-	-
Actual	1999-2000	32.13	-			(668)	-	-	-	-	-	-	-	-	-	-
Actual	2000-01	29.30	-			(1,902)	-	-	-	-	-	-	-	-	-	-
Actual	2001-02	28.17	-			(375)	-	-	-	-	-	-	-	-	-	-
Actual	2002-03	23.99	13,942			(117)	-	-	-	-	-	-	-	-	-	-
Actual	2003-04	24.37	14,628			5,483	-	-	-	-	-	-	-	-	-	-
Actual	2004-05	23.58	15,178			1,555	-	-	-	-	-	-	-	-	-	-
Actual	2005-06	19.61	43,547			(298)	-	-	-	-	-	-	-	-	-	-
Actual	2006-07	18.47	46,966		(110)	(2,269)	-	-	-	-	-	-	-	-	-	-
Actual	2007-08	17.55	50,999	(559)		(600)	-	-	-	-	-	-	-	-	-	-
Actual	2008-09	18.61	56,347	1,212		6,409	-	-	-	-	-	-	-	-	-	-
Actual	2009-10	21.90	62,632	1,090	-	19,262	-	-	-	-	-	-	-	-	-	-
Actual	2010-11	22.91	69,938	(395)	-	14,011	-	-	-	-	-	-	-	-	-	-
Actual	2011-12	24.01	77,172	3	865	12,969	-	-	-	-	-	-	-	-	-	-
Actual	2012-13	24.58	84,956	(639)	141	9,220	-	-	-	-	-	-	-	-	-	-
Actual	2013-14	25.40	90,556	(951)	-	10,453	-	-	-	-	-	-	-	-	-	-
Actual	2014-15	25.76	97,065	(1,121)	1,683	10,315	-	-	-	-	-	-	-	-	-	-
Actual	2015-16	26.56	102,536	1,003	9,154	5,029	-	-	-	-	-	-	-	-	-	-
	2016-17 Outlo	26.23	110,927			4,324	(8,447)	(59)	0.4	3.9	-	0.3	(59)	-	-	-
	2017-18 Outlo	25.20	119,548			(18)	(8,793)	(5,229)	(0.2)	0.3	(5,148)	(0.4)	(81)	-	-	(5,148)
	2018-19 Outlo	24.21	129,428			(12)	(9,152)	(14,349)	(1.2)	(5.0)	(14,243)	(1.4)	(106)	-	-	(9,095)
	2019-20 Outlo	#DIV/0!	139,375			-	(897,865)	(24,911)	#DIV/0!	-	(24,781)	#DIV/0!	(130)	-	-	(10,538)
	2020-21 Outlo		147,460			-	(933,780)	(34,636)	(41.7)	-	(34,483)	(25.9)	(153)	-	-	(9,702)

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Net Debt to Revenue and GDP Ratios

Ontario

2016-17 FES - Scenario 2: (Surplus)/Defict , with per

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit
Actual	1989-90	282,766	35,409	46,500	12.52	76.1	35,409
Actual	1990-91	287,334	38,438	49,002	13.38	78.4	38,438
Actual	1991-92	288,217	49,368	47,527	17.13	103.9	49,368
Actual	1992-93	293,068	61,796	49,122	21.09	125.8	61,796
Actual	1993-94	302,245	80,599	51,410	26.67	156.8	80,599
Actual	1994-95	319,986	90,728	53,962	28.35	168.1	90,728
Actual	1995-96	337,400	101,864	57,898	30.19	175.9	101,864
Actual	1996-97	347,842	108,769	58,060	31.27	187.3	108,769
Actual	1997-98	368,960	112,735	61,362	30.55	183.7	112,735
Actual	1998-99	389,250	114,737	63,044	29.48	182.0	114,737
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3	134,398
Actual	2000-01	452,238	132,496	72,258	29.30	183.4	132,496
Actual	2001-02	469,084	132,121	72,550	28.17	182.1	132,121
Actual	2002-03	494,815	132,647	74,938	26.81	177.0	118,705
Actual	2003-04	509,511	138,816	74,549	27.24	186.2	124,188
Actual	2004-05	533,365	140,921	84,192	26.42	167.4	125,743
Actual	2005-06	556,635	152,702	90,738	27.43	168.3	109,155
Actual	2006-07	578,241	153,742	97,120	26.59	158.3	106,776
Actual	2007-08	601,735	156,616	104,115	26.03	150.4	105,617
Actual	2008-09	608,446	169,585	97,532	27.87	173.9	113,238
Actual	2009-10	597,882	193,589	96,313	32.38	201.0	130,957
Actual	2010-11	630,989	214,511	107,175	34.00	200.2	144,573
Actual	2011-12	659,743	235,582	109,773	35.71	214.6	158,410
Actual	2012-13	680,084	252,088	113,369	37.07	222.4	167,132
Actual	2013-14	695,349	267,190	115,911	38.43	230.5	176,634
Actual	2014-15	727,962	284,576	118,546	39.09	240.1	187,511
Actual	2015-16	763,276	294,579	128,377	38.59	229.5	192,043
	2016-17 Outloo	797,623	305,200	132,720	38.26	230.0	194,214
	2017-18 Outloo	830,182	316,280	140,125	38.10	225.7	196,651
	2018-19 Outloo	864,142	332,204	144,899	38.44	229.3	202,670
	2019-20 Outloo	897,865	349,577		38.93		210,072
	2020-21 Outloo	933,780	364,252		39.01		216,639

Scenario 2:
See tab "GDP" - for GDP numbers 2016-17 to 2025-26 (received Jan 12, 2017)
See tab "TCA" - for updated TCA numbers 2016-17 to 2030-31 (received Jan 5, 2017)

Scenario Assumptions as per "Deficit " tab - (received Jan 16, 2017)

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ısion adj reversal (incl 2015-16)

Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt	Revenue
12.52	-			(90)	282,766	35,409	46,500
13.38	-			3,029	287,334	38,438	49,002
17.13	-			10,930	288,217	49,368	47,527
21.09	-			12,428	293,068	61,796	49,122
26.67	-			11,202	302,245	80,599	51,410
28.35	-			10,129	319,986	90,728	53,962
30.19	-			8,800	337,400	101,864	57,898
31.27	-			6,905	347,842	108,769	58,060
30.55	-			3,966	368,960	112,735	61,362
29.48	-			2,002	389,250	114,737	63,044
32.13	-			(668)	418,245	134,398	70,983
29.30	-			(1,902)	452,238	132,496	72,258
28.17	-			(375)	469,084	132,121	72,550
23.99	13,942			(117)	494,815	132,647	74,938
24.37	14,628			5,483	509,511	138,816	74,549
23.58	15,178			1,555	533,365	140,921	84,192
19.61	43,547			(298)	556,635	152,702	90,738
18.47	46,966		(110)	(2,269)	578,241	153,742	97,120
17.55	50,999	(559)		(600)	601,735	156,616	104,115
18.61	56,347	1,212		6,409	608,446	169,585	97,532
21.90	62,632	1,090	-	19,262	597,882	193,589	96,313
22.91	69,938	(395)	-	14,011	630,989	214,511	107,175
24.01	77,172	3	865	12,969	659,743	235,582	109,773
24.58	84,956	(639)	141	9,220	680,084	252,088	113,369
25.40	90,556	(951)	-	10,453	695,349	267,190	115,911
25.76	97,065	(1,121)	1,683	10,315	727,962	284,576	118,546
25.16	102,536	1,003	-	3,529	763,276	305,233	128,377
24.35	110,986			2,171	789176	317,948	130,589
23.69	119,629			2,437	821389	326,551	137,729
23.45	129,534			6,019	854990	336,419	141,920
23.40	139,505			7,402		346,366	
23.20	147,613			6,567		354,451	

2016-17 FES - with pension adjustment

Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.
12.52	76.1	35,409	12.52	-		
13.38	78.4	38,438	13.38	-		
17.13	103.9	49,368	17.13	-		
21.09	125.8	61,796	21.09	-		
26.67	156.8	80,599	26.67	-		
28.35	168.1	90,728	28.35	-		
30.19	175.9	101,864	30.19	-		
31.27	187.3	108,769	31.27	-		
30.55	183.7	112,735	30.55	-		
29.48	182.0	114,737	29.48	-		
32.13	189.3	134,398	32.13	-		
29.30	183.4	132,496	29.30	-		
28.17	182.1	132,121	28.17	-		
26.81	177.0	118,705	23.99	13,942		
27.24	186.2	124,188	24.37	14,628		
26.42	167.4	125,743	23.58	15,178		
27.43	168.3	109,155	19.61	43,547		
26.59	158.3	106,776	18.47	46,966		(110)
26.03	150.4	105,617	17.55	50,999	(559)	
27.87	173.9	113,238	18.61	56,347	1,212	
32.38	201.0	130,957	21.90	62,632	1,090	-
34.00	200.2	144,573	22.91	69,938	(395)	-
35.71	214.6	158,410	24.01	77,172	3	865
37.07	222.4	167,132	24.58	84,956	(639)	141
38.43	230.5	176,634	25.40	90,556	(951)	-
39.09	240.1	187,511	25.76	97,065	(1,121)	1,683
39.99	237.8	202,697	26.56	102,536	1,003	9,154
40.29	243.5	207,021	26.23	110,927		
39.76	237.1	207,003	25.20	119,548		
39.35	237.0	206,991	24.21	129,428		
#DIV/0!		206,991	#DIV/0!	139,375		
		206,991		147,460		

	Comparison: 2016 Public Accounts vs FES					
Deficit/ (Surplus)	GDP	Net Debt	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP
(90)	-	-	-	-	-	-
3,029	-	-	-	-	-	-
10,930	-	-	-	-	-	-
12,428	-	-	-	-	-	-
11,202	-	-	-	-	-	-
10,129	-	-	-	-	-	-
8,800	-	-	-	-	-	-
6,905	-	-	-	-	-	-
3,966	-	-	-	-	-	-
2,002	-	-	-	-	-	-
(668)	-	-	-	-	-	-
(1,902)	-	-	-	-	-	-
(375)	-	-	-	-	-	-
(117)	-	-	-	-	-	-
5,483	-	-	-	-	-	-
1,555	-	-	-	-	-	-
(298)	-	-	-	-	-	-
(2,269)	-	-	-	-	-	-
(600)	-	-	-	-	-	-
6,409	-	-	-	-	-	-
19,262	-	-	-	-	-	-
14,011	-	-	-	-	-	-
12,969	-	-	-	-	-	-
9,220	-	-	-	-	-	-
10,453	-	-	-	-	-	-
10,315	-	-	-	-	-	-
5,029	-	10,654	1.4	8.3	10,654	1.4
4,324	(8,447)	12,748	2.0	13.5	12,807	1.9
(18)	(8,793)	10,271	1.7	11.4	10,352	1.5
(12)	(9,152)	4,215	0.9	7.8	4,321	0.8
-	(897,865)	(3,211)	#DIV/0!	-	(3,081)	#DIV/0!
-	(933,780)	(9,801)	(39.0)	-	(9,648)	(23.2)

2016-17

TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
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-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	9,154	1,500
(59)	-	-	2,153
(81)	-	-	(2,455)
(106)	-	-	(6,031)
(130)	-	-	(7,402)
(153)	-	-	(6,567)

Net Debt to Revenue and GDP Ratios

Ontario

2016-17 FES - Scenario 3: (Surplus)/Defict after all tools , w

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit
Actual	1989-90	282,766	35,409	46,500	12.52	76.1	35,409
Actual	1990-91	287,334	38,438	49,002	13.38	78.4	38,438
Actual	1991-92	288,217	49,368	47,527	17.13	103.9	49,368
Actual	1992-93	293,068	61,796	49,122	21.09	125.8	61,796
Actual	1993-94	302,245	80,599	51,410	26.67	156.8	80,599
Actual	1994-95	319,986	90,728	53,962	28.35	168.1	90,728
Actual	1995-96	337,400	101,864	57,898	30.19	175.9	101,864
Actual	1996-97	347,842	108,769	58,060	31.27	187.3	108,769
Actual	1997-98	368,960	112,735	61,362	30.55	183.7	112,735
Actual	1998-99	389,250	114,737	63,044	29.48	182.0	114,737
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3	134,398
Actual	2000-01	452,238	132,496	72,258	29.30	183.4	132,496
Actual	2001-02	469,084	132,121	72,550	28.17	182.1	132,121
Actual	2002-03	494,815	132,647	74,938	26.81	177.0	118,705
Actual	2003-04	509,511	138,816	74,549	27.24	186.2	124,188
Actual	2004-05	533,365	140,921	84,192	26.42	167.4	125,743
Actual	2005-06	556,635	152,702	90,738	27.43	168.3	109,155
Actual	2006-07	578,241	153,742	97,120	26.59	158.3	106,776
Actual	2007-08	601,735	156,616	104,115	26.03	150.4	105,617
Actual	2008-09	608,446	169,585	97,532	27.87	173.9	113,238
Actual	2009-10	597,882	193,589	96,313	32.38	201.0	130,957
Actual	2010-11	630,989	214,511	107,175	34.00	200.2	144,573
Actual	2011-12	659,743	235,582	109,773	35.71	214.6	158,410
Actual	2012-13	680,084	252,088	113,369	37.07	222.4	167,132
Actual	2013-14	695,349	267,190	115,911	38.43	230.5	176,634
Actual	2014-15	727,962	284,576	118,546	39.09	240.1	187,511
Actual	2015-16	763,276	294,579	128,377	38.59	229.5	192,043
	2016-17 Outloo	797,623	305,200	132,720	38.26	230.0	194,214
	2017-18 Outloo	830,182	313,843	140,125	37.80	224.0	194,214
	2018-19 Outloo	864,142	323,748	144,899	37.46	223.4	194,214
	2019-20 Outloo	897,865	333,719		37.17		194,214
	2020-21 Outloo	933,780	341,827		36.61		194,214

Scenario 3:
See tab "GDP" - for GDP numbers 2016-17 to 2025-26 (received Jan 12, 2017)
See tab "TCA" - for updated TCA numbers 2016-17 to 2030-31 (received Jan 5, 2017)

Scenario Assumptions as per "Deficit " tab - (received Jan 16, 2017)

Prepared by OFA, FTD

16-Jan-17

ith pension adj reversal (incl 2015-16)

Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt	Revenue
12.52	-			(90)	282,766	35,409	46,500
13.38	-			3,029	287,334	38,438	49,002
17.13	-			10,930	288,217	49,368	47,527
21.09	-			12,428	293,068	61,796	49,122
26.67	-			11,202	302,245	80,599	51,410
28.35	-			10,129	319,986	90,728	53,962
30.19	-			8,800	337,400	101,864	57,898
31.27	-			6,905	347,842	108,769	58,060
30.55	-			3,966	368,960	112,735	61,362
29.48	-			2,002	389,250	114,737	63,044
32.13	-			(668)	418,245	134,398	70,983
29.30	-			(1,902)	452,238	132,496	72,258
28.17	-			(375)	469,084	132,121	72,550
23.99	13,942			(117)	494,815	132,647	74,938
24.37	14,628			5,483	509,511	138,816	74,549
23.58	15,178			1,555	533,365	140,921	84,192
19.61	43,547			(298)	556,635	152,702	90,738
18.47	46,966		(110)	(2,269)	578,241	153,742	97,120
17.55	50,999	(559)		(600)	601,735	156,616	104,115
18.61	56,347	1,212		6,409	608,446	169,585	97,532
21.90	62,632	1,090	-	19,262	597,882	193,589	96,313
22.91	69,938	(395)	-	14,011	630,989	214,511	107,175
24.01	77,172	3	865	12,969	659,743	235,582	109,773
24.58	84,956	(639)	141	9,220	680,084	252,088	113,369
25.40	90,556	(951)	-	10,453	695,349	267,190	115,911
25.76	97,065	(1,121)	1,683	10,315	727,962	284,576	118,546
25.16	102,536	1,003	-	3,529	763,276	305,233	128,377
24.35	110,986			2,171	789176	317,948	130,589
23.39	119,629			-	821389	326,551	137,729
22.47	129,534			-	854990	336,419	141,920
21.63	139,505			-		346,366	
20.80	147,613			-		354,451	

2016-17 FES - with pension adjustment

Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.
12.52	76.1	35,409	12.52	-		
13.38	78.4	38,438	13.38	-		
17.13	103.9	49,368	17.13	-		
21.09	125.8	61,796	21.09	-		
26.67	156.8	80,599	26.67	-		
28.35	168.1	90,728	28.35	-		
30.19	175.9	101,864	30.19	-		
31.27	187.3	108,769	31.27	-		
30.55	183.7	112,735	30.55	-		
29.48	182.0	114,737	29.48	-		
32.13	189.3	134,398	32.13	-		
29.30	183.4	132,496	29.30	-		
28.17	182.1	132,121	28.17	-		
26.81	177.0	118,705	23.99	13,942		
27.24	186.2	124,188	24.37	14,628		
26.42	167.4	125,743	23.58	15,178		
27.43	168.3	109,155	19.61	43,547		
26.59	158.3	106,776	18.47	46,966		(110)
26.03	150.4	105,617	17.55	50,999	(559)	
27.87	173.9	113,238	18.61	56,347	1,212	
32.38	201.0	130,957	21.90	62,632	1,090	-
34.00	200.2	144,573	22.91	69,938	(395)	-
35.71	214.6	158,410	24.01	77,172	3	865
37.07	222.4	167,132	24.58	84,956	(639)	141
38.43	230.5	176,634	25.40	90,556	(951)	-
39.09	240.1	187,511	25.76	97,065	(1,121)	1,683
39.99	237.8	202,697	26.56	102,536	1,003	9,154
40.29	243.5	207,021	26.23	110,927		
39.76	237.1	207,003	25.20	119,548		
39.35	237.0	206,991	24.21	129,428		
#DIV/0!		206,991	#DIV/0!	139,375		
		206,991		147,460		

	Comparison: 2016 Public Accounts vs FES					
Deficit/ (Surplus)	GDP	Net Debt	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP
(90)	-	-	-	-	-	-
3,029	-	-	-	-	-	-
10,930	-	-	-	-	-	-
12,428	-	-	-	-	-	-
11,202	-	-	-	-	-	-
10,129	-	-	-	-	-	-
8,800	-	-	-	-	-	-
6,905	-	-	-	-	-	-
3,966	-	-	-	-	-	-
2,002	-	-	-	-	-	-
(668)	-	-	-	-	-	-
(1,902)	-	-	-	-	-	-
(375)	-	-	-	-	-	-
(117)	-	-	-	-	-	-
5,483	-	-	-	-	-	-
1,555	-	-	-	-	-	-
(298)	-	-	-	-	-	-
(2,269)	-	-	-	-	-	-
(600)	-	-	-	-	-	-
6,409	-	-	-	-	-	-
19,262	-	-	-	-	-	-
14,011	-	-	-	-	-	-
12,969	-	-	-	-	-	-
9,220	-	-	-	-	-	-
10,453	-	-	-	-	-	-
10,315	-	-	-	-	-	-
5,029	-	10,654	1.4	8.3	10,654	1.4
4,324	(8,447)	12,748	2.0	13.5	12,807	1.9
(18)	(8,793)	12,708	2.0	13.1	12,789	1.8
(12)	(9,152)	12,671	1.9	13.6	12,777	1.7
-	(897,865)	12,647	#DIV/0!	-	12,777	#DIV/0!
-	(933,780)	12,624	(36.6)	-	12,777	(20.8)

2016-17

TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
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-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	9,154	1,500
(59)	-	-	2,153
(81)	-	-	(18)
(106)	-	-	(12)
(130)	-	-	-
(153)	-	-	-

	Ontario Nominal GDP			
	FES		Current	
	$ billions	% change	$ billions	% change
2010	630,989		630,989	
2011	659,743		659,743	
2012	680,084		680,084	
2013	695,349		695,349	
2014	727,962		727,962	
2015	763,276		763,276	
2016f	789,176	3.4	797,623	4.5
2017f	821,389	4.1	830,182	4.1
2018f	854,990	4.1	864,142	4.1
2019f	888,355	3.9	897,865	3.9
2020f			933,780	4.0
2021f			971,131	4.0
2022f			1,009,976	4.0
2023f			1,050,375	4.0
2024f			1,092,390	4.0
2025f			1,136,086	4.0
2026f			1,181,529	4.0
2027f			1,228,790	4.0
2028f			1,277,942	4.0
2029f			1,329,060	4.0
2030f			1,382,222	4.0

Net Book Value of TCA ($ Millions)	2015-16 (Actual)	2016-17	2017-18	2018-19	2019-20
2016 Budget					
Opening Net Book Value		102,536	110,437	119,079	128,985
Annual Acquisitions	N/A	13,037	14,059	15,605	15,979
Gross Amortization Expense	N/A	(5,137)	(5,416)	(5,700)	(6,008)
Closing Net Book Value	102,536	110,437	119,079	128,985	138,956
In Year Approvals					
Annual Acquisitions	-	561		-	-
School Renewal	0	556		0	0
Chapleau Cree Stage 2B	0	0	0	0	0
Child and Youth Mental Health BI Solution	0	5	0	0	0
Annual Amortization	-	(12)	(0)	(0)	(0)
School Renewal	0	(12)			
Chapleau Cree Stage 2B	0	0	(0)	(0)	(0)
Child and Youth Mental Health BI Solution	0	0	(0)		
2016 Budget + In Year Approvals					
Opening Net Book Value		102,536	110,986	119,629	129,534
Annual Acquisitions		13,598	14,059	15,605	15,979
Gross Amortization Expense		(5,148)	(5,416)	(5,700)	(6,008)
Closing Net Book Value	102,536	110,986	119,629	129,534	139,505

Source: David Hodes (TBS) - Jan 5, 2017

2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
138,956	147,064	151,949	153,957	154,809	154,188
14,536	11,823	9,541	8,700	7,461	5,982
(6,428)	(6,939)	(7,533)	(7,847)	(8,082)	(8,231)
147,064	151,949	153,957	154,809	154,188	151,939
-	-	-	-	-	-
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
(0)	(0)	(0)	(0)	(0)	(0)
(0)	(0)	(0)	(0)	(0)	(0)
139,505	147,613	152,498	154,506	155,358	154,737
14,536	11,823	9,541	8,700	7,461	5,982
(6,428)	(6,939)	(7,533)	(7,847)	(8,082)	(8,231)
147,613	152,498	154,506	155,358	154,737	152,488

2016 Document - Preliminary Surplus/(Deficit) Scenarios $Millions	2016-17	2017-18
Worst-Case Surplus/(Deficit)	(4,324)	(5,130)
Surplus/(Deficit) with Reversal of Pensions (OTPP and OPSEUPP)	(2,171)	(2,437)
Surplus/(Deficit) after all tools (i.e., Balance)	(2,171)	-

Received: January 16, 2017

2018-19	2019-20	2020-21
(9,083)	(10,538)	(9,702)
(6,019)	(7,402)	(6,567)
-	-	-

From:	Inglis, Liane (MOF)
To:	George Sakura
Cc:	Ken Kandeepan; Shemin Meralli; Gadi Mayman; Tim Schuurman (MOF); Brian Lewis (MOL)
Subject:	RE: net debt to GDP for 3 scenarios
Date:	Monday, January 16, 2017 12:47:19 PM

Thanks very much George.

Liane

From: George Sakura [mailto:George.Sakura@ofina.on.ca]
Sent: January 16, 2017 12:31 PM
To: Inglis, Liane (MOF)
Cc: Kandeepan, Ken (OFA); Meralli, Shemin (OFA); Mayman, Gadi (OFA); Schuurman, Tim (MOF); Lewis, Brian (MOF)
Subject: RE: net debt to GDP for 3 scenarios

Attached are the three scenarios requested. Please note that the most recent GDP that we received was used. This GDP was based on OEP's forecast on January 12th.

Thanks.

From: Inglis, Liane (MOF) [mailto:Liane.Inglis@ontario.ca]
Sent: Monday, January 16, 2017 11:18 AM
To: George Sakura <George.Sakura@ofina.on.ca>
Cc: Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>
Subject: RE: net debt to GDP for 3 scenarios

Hi George, ideally we'd have them by 12:30 to incorporate for a 3pm briefing.

One thing I forgot to mention – scenarios 2&3 reverse the pension adjustment for 2 of the 4 pensions. I'm guessing this would also impact the debt levels, as you would be backing out the debt taken on in 2015 -16 Public Accounts as part of the pension adjustment?

Liane

From: George Sakura [mailto:George.Sakura@ofina.on.ca]
Sent: January 16, 2017 11:09 AM
To: Inglis, Liane (MOF)
Cc: Meralli, Shemin (OFA); Lindquist, Emma (MOF); Cheung, Danny (MOF)
Subject: RE: net debt to GDP for 3 scenarios

Approximately when do you need this by in order to incorporate it into the Minister's briefing?

From: Inglis, Liane (MOF) [mailto:Liane.Inglis@ontario.ca]
Sent: Monday, January 16, 2017 10:54 AM
To: George Sakura <George.Sakura@ofina.on.ca>

Cc: Shemin Meralli <Shemin.Meralli@ofina.on.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Danny Cheung (CSC) <Danny.Cheung@ontario.ca>
Subject: net debt to GDP for 3 scenarios

Hello George,

There was a SOC briefing this morning where multiple deficit scenarios out to 20-21 were discussed (attached). The SOC asked what net-debt to GDP would look like under each scenario; could I ask you folks to pull these number together for us? We are on a tight timeline as there is a Minister's briefing schedule for later today that we would like to be able to incorporate this information into. Please let me know if this is too quick of a turnaround and I will let people here know we may be unable to make that timeline (there is another minister's briefing tomorrow morning that we can include the table in).

We would like to represent the three scenarios in the usual chart (p.100 of FES) but with the black line forking off into the three different scenarios (no need for the accumulated deficit to GDP line (red line)). If you are able to pull this together, it would be helpful, but we can also do the chart here once we have the numbers.

Thanks very much and please let me know if you need anything else from us/ have any questions.

Liane

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From:	Petsche, Nadine (TBS)
To:	Bonnie Lemcke
Cc:	Veinot, Cindy (TBS); Hosick, Sarah (TBS); Ken Kandeepan
Subject:	RE: ok, here"s what i wrote up quick...
Date:	Monday, February 13, 2017 3:41:35 PM

Hi Bonnie.
Not sure if Cindy has had a chance to review yet, but sending along my suggested edits. Nadine

---

From: Bonnie Lemcke [mailto:Bonnie.Lemcke@ofina.on.ca]
Sent: February 13, 2017 1:56 PM
To: Veinot, Cindy (TBS)
Cc: Petsche, Nadine (TBS); Hosick, Sarah (TBS); John Psinas; Kandeepan, Ken (OFA); Wynberg, Lynsey (OFA); Mayman, Gadi (OFA)
Subject: FW: ok, here's what i wrote up quick...
Importance: High

Hi Cindy,

Warren Lovely from CIBC is writing a short piece on the accounting issue. He wants to release very quickly. We are reviewing but please get back to me as soon as possible if you have any concerns.

Thanks,
Bonnie

From: Lovely, Warren [mailto:warren.lovely@nbc.ca]
Sent: Monday, February 13, 2017 1:40 PM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: ok, here's what i wrote up quick...

Quick Hit — How do you spell relief? P-E-N-S-I-O-N

The Ontario government received some good news today, as a specially struck *Pension Asset Expert Advisory Panel* recommended that net assets in two jointly sponsored pension plans (one for teachers, the other for civil servants) "should be recognized as an asset in Ontario's financial statements". This may sound like an esoteric accounting matter, but don't be fooled: there are some non-trivial implications for the Ontario credit. (for Ontario's credit rating?) If you followed the earlier dispute between accountants at the provincial government and the provincial Auditor General you know that "pension adjustments" created some notable changes in Ontario's income statement and balance sheet in the 2016 fall update and the 2015-16 public accounts. By adopting the Panel's recommendation, Ontario will be able to record a smaller deficit for the 2016-17 fiscal year, relative to the AG's more conservative treatment which Ontario temporarily adopted in a fall update. In addition, when the government presents its 2015-16 comparative results in the upcoming Public Accounts, ~~So~~ last fiscal year's shortfall will be adjusted ~~shrink~~ from $5.0 billion to $3.5 billion (just 0.5% of GDP). The fiscal relief will be ~~even more~~ pronounced going forward, with Ontario in a position to sidestep a "pension adjustment" charge that had been pegged at $2.2 billion for 2016-17, $2.8 billion for 2017-18 and as much as $3.7 billion by 2018-19 in the fall (??). Thus, reverting to the province's historical ~~traditional~~ pension accounting treatment removes what could have been something of a fiscal headache for a government seeking to take the long-awaited step out of the red and into the black. And don't forget the corresponding reduction in net debt, as in accepting the Panel's recommendations, Ontario will also ~~we~~ reverse the $10.7 billion of pension-related debt (or writeoff of net pension assets) put on the books in the fall statement, knocking nearly 1.5%-pts from the net debt-to-GDP ratio. Ontario, like all provinces, still has challenges to contend with, but when it comes to pension accounting, this expert panel delivered some welcome news, even if the Auditor General might not fully agree. Stay tuned for

a supplemental report in the coming weeks, exploring accounting treatment on potential future net assets in two separate pension plans (HOOPP and CAATPP).

Warren Lovely | Managing Director, Head of Public Sector Research & Strategy | National Bank Financial
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From: Ken Kandeepan
To: Bonnie Lemcke
Cc: John Psinas; George Sakura
Subject: RE: ok, here"s what i wrote up quick...
Date: Monday, February 13, 2017 1:58:02 PM

John and George reviewed same and the numbers are fine. Sentence structure could be improved. The reduction in the ratio is actually 1.4% but Warren qualifies himself by the word "nearly", so that's ok.

Thanks

Ken k

From: Bonnie Lemcke
Sent: Monday, February 13, 2017 1:44 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>
Subject: FW: ok, here's what i wrote up quick...

Warren wants us the review this quickly. He wants to send out shortly.

Bonnie

From: Lovely, Warren [mailto:warren.lovely@nbc.ca]
Sent: Monday, February 13, 2017 1:40 PM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: ok, here's what i wrote up quick...

Quick Hit — How do you spell relief? P-E-N-S-I-O-N

The Ontario government received some good news today, as a specially struck *Pension Asset Expert Advisory Panel* recommended that net assets in two jointly sponsored pension plans (one for teachers, the other for civil servants) "should be recognized as an asset in Ontario's financial statements". This may sound like an esoteric accounting matter, but don't be fooled: there are some non-trivial implications for the Ontario credit. If you followed the earlier dispute between the provincial government and the provincial Auditor General you know that "pension adjustments" created some notable changes in Ontario's income statement and balance sheet in the fall update and public accounts. By adopting the Panel's recommendation, Ontario will be able to record a smaller deficit for the 2015-16 fiscal year, relative to the AG's more conservative treatment which Ontario temporarily adopted in a fall update. So last fiscal year's shortfall will shrink from $5.0 billion to $3.5 billion (just 0.5% of GDP). And the fiscal relief will be even more pronounced going forward, with Ontario in a position to sidestep a "pension adjustment" charge that had been pegged at $2.2 billion for 2016-17, $2.8 billion for 2017-18 and as much as $3.7 billion by 2018-19 in the fall. Thus, reverting to the traditional pension accounting treatment removes what could have been something of a fiscal headache for a government seeking to take the long-awaited step out of the red and into the black. And don't forget the corresponding reduction in net debt, as Ontario we reverse the $10.7 billion of pension-related debt put on the books in the fall statement, knocking nearly 1.5%-pts from the net debt-to-GDP ratio. Ontario, like all provinces, still has challenges to contend with, but when it comes to pension accounting, this expert panel delivered some welcome news, even if the Auditor General might not fully agree. Stay tuned for a supplemental report in the coming weeks, exploring accounting treatment on potential future net assets in two separate pension plans (HOOPP and CAATPP).

Warren Lovely | Managing Director, Head of Public Sector Research & Strategy | National Bank Financial
130 King Street W, 4th Floor Podium | Toronto, ON | M5X 1J9 | T: 416-869-8598 | E: warren.lovely@nbc.ca

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From:	Ken Kandeepan
To:	Nadine Petsche (MOF); Bonnie Lemcke
Cc:	Veinot, Cindy (TBS); Hosick, Sarah (TBS)
Subject:	RE: ok, here"s what i wrote up quick...
Date:	Monday, February 13, 2017 3:46:34 PM

Looks good to me, one small edit below

Thanks

Ken K

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Monday, February 13, 2017 3:41 PM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Cc: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: RE: ok, here's what i wrote up quick...

Hi Bonnie.
Not sure if Cindy has had a chance to review yet, but sending along my suggested edits. Nadine

---

From: Bonnie Lemcke [mailto:Bonnie.Lemcke@ofina.on.ca]
Sent: February 13, 2017 1:56 PM
To: Veinot, Cindy (TBS)
Cc: Petsche, Nadine (TBS); Hosick, Sarah (TBS); John Psinas; Kandeepan, Ken (OFA); Wynberg, Lynsey (OFA); Mayman, Gadi (OFA)
Subject: FW: ok, here's what i wrote up quick...
Importance: High

Hi Cindy,

Warren Lovely from CIBC is writing a short piece on the accounting issue. He wants to release very quickly. We are reviewing but please get back to me as soon as possible if you have any concerns.

Thanks,
Bonnie

From: Lovely, Warren [mailto:warren.lovely@nbc.ca]
Sent: Monday, February 13, 2017 1:40 PM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Subject: ok, here's what i wrote up quick...

Quick Hit — How do you spell relief? P-E-N-S-I-O-N

The Ontario government received some good news today, as a specially struck *Pension Asset Expert Advisory Panel* recommended that net assets in two jointly sponsored pension plans (one for teachers,

the other for civil servants) “should be recognized as an asset in Ontario’s financial statements”. This may sound like an esoteric accounting matter, but don’t be fooled: there are some non-trivial implications for the Ontario credit. (for Ontario’s credit rating?) If you followed the earlier dispute between accountants at the provincial government and the provincial Auditor General you know that “pension adjustments” created some notable changes in Ontario’s income statement and balance sheet in the 2016 fall update and the 2015-16 public accounts. By adopting the Panel’s recommendation, Ontario will be able to record a smaller deficit for the 2016-17 fiscal year, relative to the AG’s more conservative treatment which Ontario temporarily adopted in a fall update. In addition, when the government presents its 2015-16 comparative results in the upcoming Public Accounts, ~~So~~ last fiscal year’s shortfall will be adjusted ~~shrink~~ from $5.0 billion to $3.5 billion (just 0.5% of GDP). The fiscal relief will be ~~even more~~ pronounced going forward, with Ontario in a position to sidestep a “pension adjustment” charge that had been pegged in the Province’s Fall Economic Statement at $2.2 billion for 2016-17, $2.8 billion for 2017-18 and as much as $3.7 billion by 2018-19 ~~in the fall (??).~~ Thus, reverting to the province’s historical ~~traditional~~ pension accounting treatment removes what could have been something of a fiscal headache for a government seeking to take the long-awaited step out of the red and into the black. And don’t forget the corresponding reduction in net debt, as in accepting the Panel’s recommendations, Ontario will also ~~we~~ reverse the $10.7 billion of pension-related debt (or writeoff of net pension assets) put on the books in the fall statement, knocking nearly 1.5%-pts from the net debt-to-GDP ratio. Ontario, like all provinces, still has challenges to contend with, but when it comes to pension accounting, this expert panel delivered some welcome news, even if the Auditor General might not fully agree. Stay tuned for a supplemental report in the coming weeks, exploring accounting treatment on potential future net assets in two separate pension plans (HOOPP and CAATPP).

Warren Lovely | Managing Director, Head of Public Sector Research & Strategy | National Bank Financial
130 King Street W, 4th Floor Podium | Toronto, ON | M5X 1J9 | T: 416-869-8598 | E: warren.lovely@nbc.ca

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From:	Sun, Alicia (TBS)
To:	Wendy Li (MOF)
Cc:	Bharat Patel (MOF); John Psinas; Vanessa W. Chan (MCSS); Ken Kandeepan; Shemin Meralli; Kevin Hwang; George Sakura
Subject:	Re: 2016-17 FSD&A Process
Date:	Friday, July 21, 2017 5:08:09 PM

Thanks, Wendy.

I think probably John also needs the historical restated net debt and accumulated deficit amounts for their purpose.

Alicia

From: Li, Wendy (TBS)
Sent: Friday, July 21, 2017 5:05 PM
To: Sun, Alicia (TBS)
Cc: Patel, Bharat (TBS); John Psinas; Chan, Vanessa W. (TBS); Kandeepan, Ken (OFA); Meralli, Shemin (OFA); Hwang, Kevin (OFA); Sakura, George (OFA)
Subject: RE: 2016-17 FSD&A Process

This is what we are currently tracking.

For the year ended March 31

($ Millions)

2017

2016

Annual (Deficit) Surplus

TBD

(3,515)

Acquisition of Tangible Capital Assets (Note 9)

(10,023)

(10,922)

Amortization of Tangible Capital Assets (Note 9)

5,192

4,913

Proceeds on Sale of Tangible Capital Assets

152

175

Loss (Gain) on Sale of Tangible Capital Assets

(72)

363

Decrease/(increase) in Prepaid Expenses and Other Non-Financial

(20)

20

(4,771)

(5,451)

Decrease in Accumulated Other Comprehensive Loss

134

116

Increase/(Decrease) in ONFA Fund Fair Market Value Adjustment

1,094

(1,003)

Increase in Net Debt

(2,779)

(9,853)

Net Debt at beginning of year

(295,869)

(293,730)

Reversal of Pension Asset Valuation Allowances (Note 16)

9,154

IFRS Transitional Impact for OPG & Hydro 1

(683)

-

Pension adjustment

(617)

Accumulated Other Comprehensive Loss

(613)

Other (Note 16)

82

(827)

PSAB Transitional Impact of Liabilities for Contaminated Sites

Restated Net Debt at beginning of year

(297,087)

(286,016)

From: Sun, Alicia (TBS)
Sent: July 21, 2017 4:44 PM
To: Li, Wendy (TBS)
Cc: Patel, Bharat (TBS); John Psinas; Chan, Vanessa W. (TBS); Kandeepan, Ken (OFA); Meralli, Shemin (OFA); Hwang, Kevin (OFA); Sakura, George (OFA)
Subject: Fw: 2016-17 FSD&A Process

Hi Wendy,

Can you please provide the net debt numbers that you are tracking to us and OFA, so that we are all on the same page?

Also please let John know the expected timeline when the balance sheet can be finalized.

John - I will connect with you on Monday on your other comments.

Thanks,
Alicia

From: John Psinas <John.Psinas@ofina.on.ca<mailto:John.Psinas@ofina.on.ca>>
Sent: Friday, July 21, 2017 4:21 PM
To: Sun, Alicia (TBS); Patel, Bharat (TBS)
Cc: Kandeepan, Ken (OFA); Sakura, George (OFA); Hwang, Kevin (OFA); Meralli, Shemin (OFA)
Subject: RE: 2016-17 FSD&A Process

Alicia,
We were looking at the latest FSD&A. There are some minor rounding discrepancies throughout, starting from Table 1 and Table 2.

On page 20, the sentence that starts with "Interest expense grew from $11.6 billion in 2015-16…. We would need to verify the BPS IOD for 16-17, to confirm the amount.

Regarding references to net debt, we will need the final acc. deficit and TCA before completing it. Also, we are getting discrepancies for prior year net debt on Table 7.

Can one of OPCD's analysts who populate the FSD&A call Shemin Meralli, as it will be easier to go over the FSD&A, given the salmon-coloured protocol.

Thanks.

John

From: Sun, Alicia (TBS) [mailto:Alicia.Sun@ontario.ca]
Sent: Tuesday, July 18, 2017 9:24 AM
To: John Psinas <John.Psinas@ofina.on.ca<mailto:John.Psinas@ofina.on.ca>>; Bharat Patel (MOF) <Bharat.Patel3@ontario.ca<mailto:Bharat.Patel3@ontario.ca>>
Cc: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca<mailto:Ken.Kandeepan@ofina.on.ca>>; George Sakura <George.Sakura@ofina.on.ca<mailto:George.Sakura@ofina.on.ca>>; Kevin Hwang <Kevin.Hwang@ofina.on.ca<mailto:Kevin.Hwang@ofina.on.ca>>; Shemin Meralli <Shemin.Meralli@ofina.on.ca<mailto:Shemin.Meralli@ofina.on.ca>>
Subject: RE: 2016-17 FSD&A Process

Hi Bharat,

Can you please let John know when he can expect the numbers for his analysis for FSD&A?

Thanks,
Alicia

From: John Psinas [mailto:John.Psinas@ofina.on.ca]
Sent: July 18, 2017 9:21 AM
To: Sun, Alicia (TBS)
Cc: Kandeepan, Ken (OFA); Sakura, George (OFA); Hwang, Kevin (OFA); Meralli, Shemin (OFA)
Subject: RE: 2016-17 FSD&A Process

Alicia,

Hopefully, we can get final TCA and final acc. deficit (which of course, needs the tax revenue numbers) from Public Accounts, in order for us to finalize net debt for FSD&A soon.

Thanks.

John

From: Sun, Alicia (TBS) [mailto:Alicia.Sun@ontario.ca]
Sent: Tuesday, July 18, 2017 9:12 AM
To: Tim Cook (MOF) <Tim.Cook@ontario.ca<mailto:Tim.Cook@ontario.ca>>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca<mailto:Teuta.Dodbiba@ontario.ca>>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca<mailto:Andrea.Dutton@ontario.ca>>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca<mailto:Gladys.Miu@ontario.ca>>; Jonathan Rubin (MOI) <Jonathan.Rubin@ontario.ca<mailto:Jonathan.Rubin@ontario.ca>>; Teddy Tang (MOHLTC) <Teddy.Tang@ontario.ca<mailto:Teddy.Tang@ontario.ca>>; Stephen Taylor (MOF) <Stephen.Taylor@ontario.ca<mailto:Stephen.Taylor@ontario.ca>>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca<mailto:Ken.Kandeepan@ofina.on.ca>>; John Psinas <John.Psinas@ofina.on.ca<mailto:John.Psinas@ofina.on.ca>>; Helen Graham (MOF) <Helen.Graham@ontario.ca<mailto:Helen.Graham@ontario.ca>>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca<mailto:Dorothy.Cheung@ontario.ca>>; Kevin D. Lee (MOF) <Kevin.D.Lee@ontario.ca<mailto:Kevin.D.Lee@ontario.ca>>; Scott Coe (MOHLTC) <Scott.Coe@ontario.ca<mailto:Scott.Coe@ontario.ca>>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca<mailto:Liane.Inglis@ontario.ca>>; Hodes, David (TBS) <David.Hodes@ontario.ca<mailto:David.Hodes@ontario.ca>>; Mark Schroter (MOHLTC) <Mark.Schroter@ontario.ca<mailto:Mark.Schroter@ontario.ca>>; Gill, Vijay (MOI) <Vijay.Gill@ontario.ca<mailto:Vijay.Gill@ontario.ca>>; Jeremie Stephenson (MOI) <Jeremie.Stephenson@ontario.ca<mailto:Jeremie.Stephenson@ontario.ca>>; Giulio Rubini (MOF) <Giulio.Rubini@ontario.ca<mailto:Giulio.Rubini@ontario.ca>>; Johnson, Malcolm (TBS) <Malcolm.Johnson@ontario.ca<mailto:Malcolm.Johnson@ontario.ca>>
Cc: Zaslaver, Daria (TBS) <Daria.Zaslaver2@ontario.ca<mailto:Daria.Zaslaver2@ontario.ca>>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca<mailto:Sarah.Hosick@ontario.ca>>; Bharat Patel (MOF) <Bharat.Patel3@ontario.ca<mailto:Bharat.Patel3@ontario.ca>>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca<mailto:Nadine.Petsche@ontario.ca>>; Zhang, Sarah (TBS) <Sarah.Zhang@ontario.ca<mailto:Sarah.Zhang@ontario.ca>>; Au, David (TBS) <David.Au@ontario.ca<mailto:David.Au@ontario.ca>>
Subject: RE: 2016-17 FSD&A Process

Hello everyone,

Please be advised to submit the documentation support for the audit review binder along with your FSD&A edits as indicated in the below email.

Thanks,
Alicia

From: Sun, Alicia (TBS)
Sent: June 15, 2017 4:17 PM

To: Cook, Tim (TBS); Dodbiba, Teuta (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Rubin, Jonathan (TBS); Tang, Teddy (TBS); Taylor, Stephen (MOF); Kandeepan, Ken (OFA) (Ken.Kandeepan@ofina.on.ca<mailto:Ken.Kandeepan@ofina.on.ca>); John Psinas (John.Psinas@ofina.on.ca<mailto:John.Psinas@ofina.on.ca>); Graham, Helen (TBS); Cheung, Dorothy (TBS)
Cc: Zaslaver, Daria (TBS); Hosick, Sarah (TBS); Patel, Bharat (TBS); Duran-Schneider, Maria (TBS); Arruda, Artur (TBS); Petsche, Nadine (TBS) (Nadine.Petsche@ontario.ca<mailto:Nadine.Petsche@ontario.ca>); Inglis, Liane (MOF)
Subject: 2016-17 FSD&A Process

Hello everyone,
As OPCD initiates the process for compiling the Financial Statement Discussion and Analysis (FSD&A) section of the Annual Report, I am reaching out to you as key partners in this year's process. In light of everyone's busy schedule, we would like to share some details regarding our planning timelines. Please note that there will be fewer distributions of the draft FSD&A than last year, so it will be more important to ensure that our initial drafts reflect our best efforts.
The first draft of FSD&A will be made available on broad distribution during the second week of July (scheduled for July 11th). To help facilitate your input to the document, my staff will prepare an extract of last year's sections applicable to your area, populated with preliminary actual expense numbers (placeholders will be included for revenues until available in late July). The extracts will be provided in late June/early July and password protected. We will require your edits provided EOD July 7th in order for us to compile the complete document and perform an quality review and formatting prior to release on July 11th. In the meantime, if you would like a non-updated version of your area's extracts (based on the 2015/16 FSD&A), please contact me directly.
Please provide your updated extracts to: Daria Zaslaver (Daria.Zaslaver2@ontario.ca<mailto:Daria.Zaslaver2@ontario.ca>), Senior Analyst of BPS Reporting Unit of OPCD.
Below are currently planned key dates for your information.

* July 11th 1st distribution (reflecting preliminary expense numbers and placeholders for revenue numbers)
* July 18th 2nd distribution (same content as above and edits from 1st distribution)

- July 27th Copy of FSD&A shared with OAG

* August 4th 3rd distribution (both expense and revenue numbers)
* August 9th 4th distribution (for Manager/Director sign-off on August 11th)

- August 10th Copy of FSD&A shared with OAG

* August 14th 5th distribution (for ADM sign-off on August 15th)

- August 15th Copy of FSD&A shared with the OAG

* August 17th 6th distribution (for DM/MO sign-off on August 21st)

Please note that the AG reviews the FSD&A as part of the audit of the Public Accounts and requires support for any figures, statements, variance analysis and narratives reflected in the document, including both financial and non-financial. OPCD will provide support for the details included in the financial statement tables; however, please plan to send the relevant support for any non-financial data (e.g. performance or TCA related), variance explanations as appropriate. Please include these details at the same time as you provide your initial narrative.
Following the first distribution of the FSD&A, we will also initiate the process for compiling Q&As related to expenses. Similarly, Q&As for capital, debt and revenue-related matters will also be initiated at the appropriate times in the FSD&A compilation cycle. By incorporating the FSD&A support requirements and Q&A processes as part of the FSD&A compilation exercise, we hope to minimize the amount of time and effort on your teams.
If in case I have missed any key partners, please feel free to forward as appropriate.
We look forward to working with you throughout the Public Accounts process. Please feel free to contact me if you have questions related to the document, timeline and the process.
Thanks,
Alicia

Alicia Sun, MBA, CPA, CGA
Manager, Broader Public Sector Reporting
Office of the Provincial Controller Division |Treasury Board Secretariat
7 Queen’s Park Crescent, Frost South, 2nd Floor
Toronto, ON, M7A 1Z5
Email: Alicia.sun@ontario.ca<mailto:Alicia.sun@ontario.ca>
Tele: (416) 325-8155

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From: Ken Kandeepan
To: Daniel Hengeveld
Subject: Re: 3C ND.docx
Date: Wednesday, October 26, 2016 6:34:52 PM

Thanks Daniel, great job, you this saves a lot of hassle, much appreciated, I will take a look and be ready for tomorrow.

Ken k

Sent from my iPad

On Oct 26, 2016, at 5:32 PM, Daniel Hengeveld <Daniel.Hengeveld@ofina.on.ca> wrote:

> Hi Ken, I've attached much of the debt content contained in our chapter if you'd like to have a look in advance of tomorrow's sign-off (particularly the material covering the legislated pension adjustment as it is new this year).
>
> The order is not quite the same as seen in the actual document
>
> Thanks,
> Daniel
>
> <3C ND.docx>

From: Gadi Mayman
To: Daniel Hengeveld; Ken Kandeepan
Cc: Christina Zhang; Erica Wieder; Mike Manning; John Psinas; Alexander Kraas
Subject: Re: 3c
Date: Monday, October 31, 2016 11:34:05 AM

That makes sense. Hopefully MO won't have any changes to 3C.

From: Daniel Hengeveld
Sent: Monday, October 31, 2016 11:28 AM
To: Ken Kandeepan; Gadi Mayman
Cc: Christina Zhang; Erica Wieder; Mike Manning; John Psinas; Alexander Kraas
Subject: RE: 3c

Hi, I have been advised by BudSec that the papers are currently with MO and any changes will have to be made tomorrow after we receive their comments back.

Daniel

From: Ken Kandeepan
Sent: Monday, October 31, 2016 10:49 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>; Daniel Hengeveld <Daniel.Hengeveld@ofina.on.ca>; Erica Wieder <Erica.Wieder@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Subject: RE: 3c

Good point Gadi, will raise it at the meeting tomorrow..

Thanks

Ken k

From: Gadi Mayman
Sent: Monday, October 31, 2016 10:45 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>; Daniel Hengeveld <Daniel.Hengeveld@ofina.on.ca>; Erica Wieder <Erica.Wieder@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>

Subject: Re: 3c

Yes, that change makes sense. Given that it's directly related to the pension adjustment, I think that it's best for you to bring it up at the meeting tomorrow, rather than changing it in advance.

Thanks,
Gadi

From: Ken Kandeepan
Sent: Monday, October 31, 2016 10:40 AM
To: Gadi Mayman
Cc: Christina Zhang; Daniel Hengeveld; Erica Wieder; Mike Manning; John Psinas; Alexander Kraas
Subject: RE: 3c

Hi Gadi

Thanks, John is liaising with Daniel and one of them will make these changes today.

I do have one more edit for your consideration in the attached document. The current wording is the FES which was actually mine, appears upon second thought, a little bit contradictory so I have provided an alternate. If you are ok with it then John/Daniel can input this edit as well.

Thanks

Ken k

From: Gadi Mayman
Sent: Monday, October 31, 2016 9:59 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Daniel Hengeveld <Daniel.Hengeveld@ofina.on.ca>; Erica Wieder <Erica.Wieder@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: 3c

A few questions/comments:

In the introduction, I think that the second line should have "to be" added, in the line: "this is the smallest amount **to be** borrowed since 2008-09", given that we haven't completed the year yet.

On page 7, first sentence, third line, I'd like to replace "...lower deficit for 2015-16..." with "lower borrowing requirements". That way we don't have to be specific to 15-16, as this year also has a lower borrowing requirement.

On pages 9 and 10, why don't we have the cost of debt as at September 30, 2016, instead of just leaving the March 31st number in there? My recollection is that in past FESs we've had a September update, even if the rate has remained the same as in March, and the September wording was in place in previous versions of this year's 3C, but without numbers. If memory serves correctly, the chart in last year's FES had a footnote, indicating that the current year was as of September 30th, while the other years were as of March 31st.

It would be best if we could incorporate these changes before ADM signoff on Wednesday, so that we can speed up that process with everyone having the most up-to-date version as we sit around the table. Maybe we could have Bud Sec do that at the same time as whatever changes come out of the Pension Extract review meeting tomorrow? Speaking of which, on 3B, page 5, third paragraph, I'd like to make the IOD paragraph consistent with what we have in 3C, paragraph 2 of page 7, so it would read (leaving the numbers out given that this email isn't password protected):

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Could someone please pass that change on to whomever is responsible for updates to 3B, or should Ken and I just do this at tomorrow's meeting on the Pension Extract, given that's one of the pages that we'll be going over?

Thanks for everyone's hard work on getting 3C, and anything else related to debt and IOD elsewhere in the document, to this point. Almost there!

Gadi

From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	Christina Zhang; Daniel Hengeveld; Erica Wieder; Mike Manning; John Psinas; Alexander Kraas
Subject:	Re: 3c
Date:	Monday, October 31, 2016 10:45:26 AM

Yes, that change makes sense. Given that it's directly related to the pension adjustment, I think that it's best for you to bring it up at the meeting tomorrow, rather than changing it in advance.

Thanks,
Gadi

From: Ken Kandeepan
Sent: Monday, October 31, 2016 10:40 AM
To: Gadi Mayman
Cc: Christina Zhang; Daniel Hengeveld; Erica Wieder; Mike Manning; John Psinas; Alexander Kraas
Subject: RE: 3c

Hi Gadi

Thanks, John is liaising with Daniel and one of them will make these changes today.

I do have one more edit for your consideration in the attached document. The current wording is the FES which was actually mine, appears upon second thought, a little bit contradictory so I have provided an alternate. If you are ok with it then John/Daniel can input this edit as well.

Thanks

Ken k

From: Gadi Mayman
Sent: Monday, October 31, 2016 9:59 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Daniel Hengeveld <Daniel.Hengeveld@ofina.on.ca>; Erica Wieder <Erica.Wieder@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: 3c

A few questions/comments:

In the introduction, I think that the second line should have "to be" added, in the line: "this is

the smallest amount **to be** borrowed since 2008-09", given that we haven't completed the year yet.

On page 7, first sentence, third line, I'd like to replace "...lower deficit for 2015-16..." with "lower borrowing requirements". That way we don't have to be specific to 15-16, as this year also has a lower borrowing requirement.

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Thanks for everyone's hard work on getting 3C, and anything else related to debt and IOD elsewhere in the document, to this point. Almost there!

Gadi

From:	Gadi Mayman
To:	Daniel Hengeveld; Ken Kandeepan
Cc:	Christina Zhang; Erica Wieder; Mike Manning; John Psinas; Alexander Kraas
Subject:	Re: 3c
Date:	Monday, October 31, 2016 11:39:51 AM

That timing should also give you the opportunity to incorporate any changes coming out of the meeting on the pension adjustment language tomorrow morning.

From: Daniel Hengeveld
Sent: Monday, October 31, 2016 11:34 AM
To: Gadi Mayman; Ken Kandeepan
Cc: Christina Zhang; Erica Wieder; Mike Manning; John Psinas; Alexander Kraas
Subject: RE: 3c

I hope not too, but either way I should have your edits in before the ADM signoff on Wednesday

---

From: Gadi Mayman
Sent: Monday, October 31, 2016 11:34 AM
To: Daniel Hengeveld <Daniel.Hengeveld@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>; Erica Wieder <Erica.Wieder@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Subject: Re: 3c

That makes sense. Hopefully MO won't have any changes to 3C.

From: Daniel Hengeveld
Sent: Monday, October 31, 2016 11:28 AM
To: Ken Kandeepan; Gadi Mayman
Cc: Christina Zhang; Erica Wieder; Mike Manning; John Psinas; Alexander Kraas
Subject: RE: 3c

Hi, I have been advised by BudSec that the papers are currently with MO and any changes will have to be made tomorrow after we receive their comments back.

Daniel

From: Ken Kandeepan
Sent: Monday, October 31, 2016 10:49 AM

To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>; Daniel Hengeveld <Daniel.Hengeveld@ofina.on.ca>; Erica Wieder <Erica.Wieder@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
Subject: RE: 3c

Good point Gadi, will raise it at the meeting tomorrow..

Thanks

Ken k

From: Gadi Mayman
Sent: Monday, October 31, 2016 10:45 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>; Daniel Hengeveld <Daniel.Hengeveld@ofina.on.ca>; Erica Wieder <Erica.Wieder@ofina.on.ca>; Mike Manning <Mike.Manning@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
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Gadi

From: Gadi Mayman
To: Ken Kandeepan
Cc: Anna Strathy; John Psinas
Subject: Re: Base Case for SoC Meeting
Date: Wednesday, May 30, 2018 5:10:28 PM

Yes, please double check, because I don't think the accounting is in the base case.

On May 30, 2018, at 4:57 PM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:

> Hi Gadi
>
> Because the base now includes the cumulative effect of the pension adjustment which accounts for the difference. However, there appears to be an error since the attached, pls refer to the "Lead" tab), is what we provided this morning and that is not reflected in the PP presentation. We will touch base with Fiscal to see why our numbers were not included or whether they made any adjustments on their own.
>
> Thanks
>
> Ken k
>
> ---
>
> **From:** Gadi Mayman
> **Sent:** Wednesday, May 30, 2018 4:44 PM
> **To:** Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>
> **Subject:** Fwd: Base Case for SoC Meeting
>
> Page 15 - why does the base case in 18-19 net debt to GDP ratio jump from the 2018 Budget line even though the deficit is about the same?
>
> Begin forwarded message:
>
> > **From:** "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
> > **Date:** May 30, 2018 at 1:06:36 PM EDT
> > **To:** "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca>, "Angus, Helen (TBS)" <Helen.Angus@ontario.ca>, "Hughes, Karen (TBS)" <Karen.Hughes@ontario.ca>, "Lewis, Brian (MOF)" <Brian.Lewis@Ontario.ca>, "Mayman, Gadi (OFA)" <Gadi.Mayman@ofina.on.ca>, "Duran-Schneider, Maria (TBS)" <Maria.Duran-Schneider@ontario.ca>, "Donaldson, Mark (TBS)" <Mark.Donaldson@ontario.ca>, "Whitehead, Russ (TBS)" <Russ.Whitehead@ontario.ca>, "Fenton, Shannon (TBS)" <Shannon.Fenton@ontario.ca>
> > **Cc:** "McLean, David (MOF)" <David.McLean@ontario.ca>, "Skoberne,

Vivienne (TBS)" <Vivienne.Skoberne@ontario.ca>, "Smith, Graham (MOF)" <Graham.Smith2@ontario.ca>, "Rowe, Alana (MOF)" <Alana.Rowe@ontario.ca>, "Esmail, Selena (MOF)" <Selena.Esmail@ontario.ca>, "McGrath, Tara (MOF)" <Tara.McGrath@ontario.ca>, "Anand, Sareena (MOF)" <Sareena.Anand@ontario.ca>, "Jaikaran, Ronald (MOF)" <Ronald.Jaikaran@ontario.ca>

Subject: Base Case for SoC Meeting

Please find attached an updated Base Case deck, reflecting edits and number changes coming out of yesterday and this morning from various partners.

As discussed, we will also bring copies of the Gantt planning chart and the overview deck to the meeting.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

<Copy of Net Debt - Scenarios- incl revised TCA pension hydro adj May 30 2018.xlsx>

From: Ken Kandeepan
To: Gadi Mayman
Cc: Anna Strathy; John Psinas
Subject: Re: Base Case for SoC Meeting
Date: Wednesday, May 30, 2018 5:16:52 PM

Will do, John has already requested Sareena, will also request them to define the Base Case and the 2 Alternatives so that we are all working off the same page.

Thanks

Ken k

On May 30, 2018, at 5:10 PM, Gadi Mayman <Gadi.Mayman@ofina.on.ca> wrote:

> Yes, please double check, because I don't think the accounting is in the base case.
>
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Cc: "McLean, David (MOF)" <David.McLean@ontario.ca>, "Skoberne, Vivienne (TBS)" <Vivienne.Skoberne@ontario.ca>, "Smith, Graham (MOF)" <Graham.Smith2@ontario.ca>, "Rowe, Alana (MOF)" <Alana.Rowe@ontario.ca>, "Esmail, Selena (MOF)" <Selena.Esmail@ontario.ca>, "McGrath, Tara (MOF)" <Tara.McGrath@ontario.ca>, "Anand, Sareena (MOF)" <Sareena.Anand@ontario.ca>, "Jaikaran, Ronald (MOF)" <Ronald.Jaikaran@ontario.ca>
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Toronto ON M7A 1Z1
Tel: 416-327-0173

<Copy of Net Debt - Scenarios- incl revised TCA pension hydro adj May 30 2018.xlsx>

From: Gadi Mayman
To: Ken Kandeepan
Cc: Christina Zhang
Subject: Re: Cabinet FES Deck
Date: Saturday, October 29, 2016 11:05:10 AM
Attachments: image001.png

Thanks, Ken,that makes sense. Cindy was fussing over some wording that Tim told her Nadine had provided, so if even she is providing something inconsistent, we need to be careful with everyone else.

From: Ken Kandeepan
Sent: Saturday, October 29, 2016 9:34 AM
To: Gadi Mayman
Cc: Christina Zhang
Subject: RE: Cabinet FES Deck

Thanks Gadi, no material changes from the previous version.

As per Tim's request yesterday, Daniel provided all of the Pension adjustment references in our chapter to Ronald Jaikaran. Apparently all references from all chapters will be provided to you, Tim and a few others to review for consistency.

Ken K

From: Gadi Mayman
Sent: Friday, October 28, 2016 8:01 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Fw: Cabinet FES Deck

From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
Sent: Friday, October 28, 2016 7:57 PM
To: Scott Thompson (CAB); Ghiassi, Ali (MOF); Elizabeth Mendes (MOF); Jackson, Kelly (MOF); Brian Lewis (MOL); Gadi Mayman; Sriram Subrahmanyan (MOF)
Cc: David McLean (MOF); Christopher Pearce (MOI); Birks, Ryan (MOF); Selena Esmail (MOF)
Subject: Cabinet FES Deck

Hello

Please find attached a revised FES deck that could track into Cabinet next week, reflecting edits from our joint DM briefing this morning and feedback from Ali and Liz late this afternoon.

Note that the plan right now is to have Minister Sousa present the entire deck, but end at the

last chart in the deck and turn it over to Minister Sandals to make some comments.

I'll be forwarding this deck to TBS and mentioning that approach as well.

Briefing for the Minister is planned for late Monday and we will have speaking notes ready for that.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
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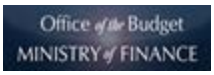
Toronto ON M7A 1Z1
Tel: 416-327-0173




Office of the Budget
MINISTRY of FINANCE

From: Gadi Mayman
To: Ken Kandeepan
Cc: Christina Zhang
Subject: Re: Changes from MMP
Date: Tuesday, October 25, 2016 10:29:59 AM

I agree with all of that, particularly leaving the future borrowing programs untouched. One other offset for this year is the reduction in the reserve, which will result in another partial offset to the reduction in this year's borrowing program, won't it?

> On Oct 25, 2016, at 10:14 AM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:
>
> Agreed Gadi, when I look at the placemat that you forwarded today, for 16-17 it makes sense to assume that the CIT and HST increases ($600M) will translate into actual cash as will the almost $400M decrease in IOD. When combined with the revenue increases in 15-16 that will flow in this year there is around $2 billion offset by the $500M increase in capital investments for net $1.5B.
>
> The risk here is if the independent review supports the Government's position re pension adjustment (as I fully expect it to), suddenly there is considerable flexibility in the 16-17 fiscal plan and with it the temptation to use this flexibility in addressing government priorities, most if not all of which will require actual cash.
>
> With regard to 17-18 and 18-19 the prudent approach may be to wait till the Document to make changes in borrowings.
>
> Thanks
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> Ken k
> -----Original Message-----
> From: Gadi Mayman
> Sent: Tuesday, October 25, 2016 9:59 AM
> To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
> Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
> Subject: Re: Changes from MMP
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>
> What do you think? If you agree with my proposed approach, we should bring Mike and Erica/Daniel into this conversation to make sure Mike agrees, and so that Daniel can help write the narrative. I'd also like to involve Bonnie, as a large part of what I'm trying to do with this strategy is to satisfy the rating agencies, and, through them, investors.
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> To: Gadi Mayman
> Cc: Christina Zhang
> Subject: RE: Changes from MMP
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> From: Gadi Mayman
> Sent: Tuesday, October 25, 2016 7:15 AM
> To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
> Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
> Subject: Fw: Changes from MMP
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>
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> Original Message
> From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
> Sent: Tuesday, October 25, 2016 6:32 AM
> To: Scott Thompson (CAB); Helen Angus (MOHLTC); Karen Hughes (MGS); Brian Lewis (MOL); Maria Duran-Schneider (MOF); Gadi Mayman; Veinot, Cindy (TBS)
> Cc: David McLean (MOF); Christopher Pearce (MOI); Kyle MacIntyre (MOF); Birks, Ryan (MOF); Tara McGrath (MOF); Emma Lindquist (MOF); Selena Esmail (MOF); Patrick Laughton (MOF); Nina Arbabzadeh (EDU)
> Subject: Changes from MMP
>
>
> Please find attached a placemat that reflects the changes discussed late yesterday.
>
> We are also developing a deck that shows the various other tables that would be published in FES, including the total change from Budget to FES. That should be ready today as well but in the interest of ensuring we're all on the same page with respect to the tools, thought we'd circulate this piece first.
>
> Let us know if anything needs to be adjusted to reflect yesterday's discussion.
>
> Thanks
>
> Tim
>

From: Gadi Mayman
To: Ken Kandeepan
Cc: Christina Zhang
Subject: Re: Changes from MMP
Date: Tuesday, October 25, 2016 11:27:57 AM

But we're using the reserve to reduce the deficit in scenario 3, so, if all else remained the same and this was the only change, wouldn't the borrowing program have gone up?

> On Oct 25, 2016, at 11:25 AM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:
>
> Not really Gadi, re the reserve, we never borrow for the reserve (its removed in the non-cash adjustments) we do however, borrow for the C- Fund so no change there.
>
> Thanks
>
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>> Original Message
>> From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
>> Sent: Tuesday, October 25, 2016 6:32 AM
>> To: Scott Thompson (CAB); Helen Angus (MOHLTC); Karen Hughes (MGS); Brian Lewis (MOL); Maria Duran-Schneider (MOF); Gadi Mayman; Veinot, Cindy (TBS)
>> Cc: David McLean (MOF); Christopher Pearce (MOI); Kyle MacIntyre (MOF); Birks, Ryan (MOF); Tara McGrath (MOF); Emma Lindquist (MOF); Selena Esmail (MOF); Patrick Laughton (MOF); Nina Arbabzadeh (EDU)
>> Subject: Changes from MMP
>>
>>
>> Please find attached a placemat that reflects the changes discussed late yesterday.
>>
>> We are also developing a deck that shows the various other tables that would be published in FES, including the total change from Budget to FES. That should be ready today as well but in the interest of ensuring we're all on the same page with respect to the tools, thought we'd circulate this piece first.
>>
>> Let us know if anything needs to be adjusted to reflect yesterday's discussion.
>>
>> Thanks
>>
>> Tim
>>

From: Ken Kandeepan
To: Tim Schuurman (MOF)
Cc: Gadi Mayman
Subject: Re: Comments on FAO"s FES Commentary by End of Today
Date: Thursday, November 24, 2016 7:19:01 PM

Yes, OPCD's restatement is more accurate. Gadi hope you agree.

Thanks

Ken k

Sent from my iPad

> On Nov 24, 2016, at 6:31 PM, Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca> wrote:
>
> Gadi are you ok with this edit suggested by opcd?
>
> Tim
>
> From: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>
> Sent: Thursday, November 24, 2016 5:50 PM
> To: Schuurman, Tim (MOF)
> Subject: Fw: Comments on FAO's FES Commentary by End of Today
>
>
>
> Fyi.....
>
> Sent from my BlackBerry 10 smartphone on the Rogers network.
> From: Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
> Sent: Thursday, November 24, 2016 4:08 PM
> To: Birks, Ryan (MOF)
> Cc: Laughton, Patrick (TBS)
> Subject: RE: Comments on FAO's FES Commentary by End of Today
>
>
> Hi Ryan
>
> In the footnote on page 3, they state:
>
>
> In the 2015-16 Public Accounts, the Province legislated a change in the accounting treatment of jointly sponsored pension plans, which increased net debt by $9.2 billion and the deficit by $1.5 billion in 2015-16. The FAO will adopt the government's estimates of the accounting change's impact in future reports.
>
> However the total impact on the change on net debt is $10.7 billion (= $9.2 billion + in-year of $1.5 billion) both in the press release and FES we referred to the $10.7 billion. Press release excerpt below.
>
> "The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit and an increase in the annual deficit of $1.5 billion."
>
> Happy to discuss.
>
> Thanks
> Sarah
>
>
>
> From: Birks, Ryan (MOF)
> Sent: November-24-16 12:45 PM
> To: Tarin, Ghufran (MOF); Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Hosick, Sarah (TBS); Zhang, Christina (OFA); Bugajski, Tomasz (OFA); Law, Rex (TBS)
> Subject: Comments on FAO's FES Commentary by End of Today
> Importance: High
>
> Hi All,
>
> Attached is the FAO's commentary on the 2016 Economic Outlook and Fiscal Review (FES). OB is putting together a summary/analysis on the commentary ahead of its release by the FAO on Monday.
>
> Can your areas please review and flag any comments re egregious items by the end of today (i.e. OEP-->revenue outlook, PEMD-->expense outlook,

OPCD-->pension treatment, OFA-->debt outlook and CPD-->child care investment)? We'll make sure to include these comments in our note.
>
> Please let me know if you have any questions.
>
> Thanks!
> Ryan
>
>
> From: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>
> Sent: Thursday, November 24, 2016 9:52 AM
> To: Esmail, Selena (MOF); Schuurman, Tim (MOF); Lewis, Brian (MOF); Hughes, Karen (TBS)
> Cc: Luan Ngo; Edward Crummey; Tarin, Ghufran (MOF); Birks, Ryan (MOF); Duran-Schneider, Maria (TBS); Arbabzadeh, Nina (TBS); Laughton, Patrick (TBS); Mario Angastiniotis; Nicolas Rhodes
> Subject: The FAO's FES Commentary
>
>
>
> Hello All,
>
>
>
> As I promised at our meeting last week, please find attached a draft (embargoed) copy of the Commentary that I mentioned last week.
>
>
>
> We plan to release this Commentary on our website on Monday. As always, please treat the document as confidential until its release.
>
>
>
> Although we are not formally requesting any feedback on the note, please feel free to let us know if you find anything particularly egregious.
>
>
>
> Thanks again for your on-going assistance.
>
>
>
> Best regards,
>
> David West
> Chief Economist
> [cid:image009.png@01D17ECB.966ECE00]
>
> 2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
> t.416.579.1465 | dwest@fao-on.org<mailto:dwest@fao-on.org>
> www.fao-on.org<https://urldefense.proofpoint.com/v2/url?u=http-3A__www.fao-2Don.org_&d=CwIF-g&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FtiQ&r=sDTjf9tVmfT9K92u269doOHn6NwIN5Soa0mhVrZmimM&m=LRbMzun5uUDKi-hvQo2asSf5rz-ArWmu0adOa3iQIXE&s=728JEVzQPGLvhikmltKOmdEbU0UjFLymyrsrlWf2IBY&e= >
>
>
>
>
>
>
>
> -----Original Message-----
> From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
> Sent: November 18, 2016 4:12 PM
> To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>
> Cc: Luan Ngo <lngo@fao-on.org<mailto:lngo@fao-on.org>>; Edward Crummey <ecrummey@fao-on.org<mailto:ecrummey@fao-on.org>>; Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca<mailto:Ghufran.Tarin@ontario.ca>>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca<mailto:Ryan.Birks@ontario.ca>>; Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca<mailto:Tim.Schuurman@ontario.ca>>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca<mailto:Brian.Lewis@Ontario.ca>>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca<mailto:Karen.Hughes@ontario.ca>>; Duran-Schneider, Maria (TBS) <Maria.Duran-Schneider@ontario.ca<mailto:Maria.Duran-Schneider@ontario.ca>>; Arbabzadeh, Nina (TBS) <Nina.Arbabzadeh@ontario.ca<mailto:Nina.Arbabzadeh@ontario.ca>>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca<mailto:Patrick.Laughton@ontario.ca>>
> Subject: Meeting follow-up requests
>
>
>

>
>
> Hi David,
>
>
>
> Attached is the revenue and expense information requested in follow-up to our meeting held this past Wednesday - uses the FAO password. I trust that this information is helpful.
>
>
>
> Thank you and have a wonderful weekend
>
> Regards,
>
>
>
> Selena Esmail
>
> Director, Office of the Budget, Ministry of Finance
>
>
>
>
>
> -----Original Message-----
>
> From: Birks, Ryan (MOF)
>
> Sent: November-18-16 2:43 PM
>
> To: David West; Schuurman, Tim (MOF); Lewis, Brian (MOF)
>
> Cc: Luan Ngo; Edward Crummey; Tarin, Ghufran (MOF); Esmail, Selena (MOF)
>
> Subject: RE: Questions for tomorrows meeting
>
>
>
> Hi David,
>
>
>
> We'll be sending a consolidated package with both the revenue and expense details included before the end of day.
>
>
>
> Thanks,
>
> Ryan
>
>
>
>
>
> -----Original Message-----
>
> From: David West [mailto:dwest@fao-on.org]
>
> Sent: November-18-16 2:38 PM
>
> To: Schuurman, Tim (MOF); Lewis, Brian (MOF)
>
> Cc: Luan Ngo; Birks, Ryan (MOF); Edward Crummey; Tarin, Ghufran (MOF)
>
> Subject: RE: Questions for tomorrows meeting
>
>
>
> Hi,
>
>
>

> Will you be able to send us the follow-up information that we discussed at our meeting on Wednesday?
>
>
>
> In particular the revenue and expenditure details?
>
>
>
> Thanks
>
>
>
> David West
>
> (416) 579-1465
>
>
>
>
>
>
>
> -----Original Message-----
>
> From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
>
> Sent: November 15, 2016 5:06 PM
>
> To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca<mailto:Ryan.Birks@ontario.ca>>
>
> Cc: Peter Harrison <pharrison@fao-on.org<mailto:pharrison@fao-on.org>>; Edward Crummey <ecrummey@fao-on.org<mailto:ecrummey@fao-on.org>>; Luan Ngo <lngo@fao-on.org<mailto:lngo@fao-on.org>>; Mario Angastiniotis <MAngastiniotis@fao-on.org<mailto:MAngastiniotis@fao-on.org>>; Nicolas Rhodes <nrhodes@fao-on.org<mailto:nrhodes@fao-on.org>>
>
> Subject: Re: Questions for tomorrows meeting
>
>
>
> Thanks David and team!
>
>
>
> Looking forward to our conversation tomorrow. As some of these questions are for detailed background data, we may need to provide those post-tomorrow's meeting so we can gather it up in a way that works best to answer the question. But we'll come prepared with as many A's as possible and together we can map out a plan to get you the details you need following the meeting as well. We'll do our best to have all the right people in the room tomorrow.
>
>
>
> Hope that works.
>
>
>
> Tim
>
>
>
> From: David West
>
> Sent: Tuesday, November 15, 2016 4:46 PM
>
> To: Birks, Ryan (MOF)
>
> Cc: Schuurman, Tim (MOF); Peter Harrison; Edward Crummey; Luan Ngo; Mario Angastiniotis; Nicolas Rhodes
>
> Subject: Questions for tomorrows meeting
>
>
>
>
>
>
> As promised, I've attached a list of the questions that we'd like to discuss at tomorrow's meeting.
>

>
>
> See you tomorrow.
>
>
>
> Thanks
>
>
>
> David W.
>
> (416-579-1465)
>
>
>
> From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
>
> Sent: November 15, 2016 1:43 PM
>
> To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>; Peter Harrison <pharrison@fao-on.org<mailto:pharrison@fao-on.org>>
>
> Cc: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca<mailto:Tim.Schuurman@ontario.ca>>
>
> Subject: RE: Fall statement
>
>
>
>
>
> Hello David and Peter,
>
>
>
> I wanted to reconfirm tomorrow's FES/FAO meeting. It will be taking place between 2:30pm-3:30pm in the Aquarium Boardroom (4th floor of the Frost South Building). I'll be forward the invitation shortly.
>
>
>
> Please let me know if additional FAO staff will be in attendance. I'll make sure they're also registered with security.
>
>
>
> Let me know if you have any questions.
>
>
>
> Thanks,
>
> Ryan
>
>
>
>
>
> From: Schuurman, Tim (MOF)
>
> Sent: November-11-16 12:48 PM
>
> To: David West
>
> Cc: Peter Harrison; Birks, Ryan (MOF)
>
> Subject: RE: Fall statement
>
>
>
> Sounds great. I'm rallying the troops, and my EA Ryan Birks will be in touch with your offices to confirm timing and location, etc.
>
>
>
> See you soon!
>

>
>
> Tim Schuurman
>
> Assistant Deputy Minister
>
> Office of the Budget, Ministry of Finance
>
> 7 Queen’s Park Cres.
>
> Toronto ON M7A 1Z1
>
> Tel: 416-327-0173
>
> [cid:image002.png@01D0E4D5.A25B16F0]
>
>
>
> From: David West [mailto:dwest@fao-on.org]
>
> Sent: November-10-16 6:29 PM
>
> To: Schuurman, Tim (MOF)
>
> Cc: Peter Harrison
>
> Subject: Re: Fall statement
>
>
>
>
>
>
> Thanks Tim,
>
>
>
> 2:30 should be fine.
>
>
>
>
>
> Sent from my Bell Samsung device over Canada's largest network.
>
>
>
>
>
> -------- Original message --------
>
> From: "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca<mailto:Tim.Schuurman@ontario.ca>>>
>
> Date: 2016-11-10 5:19 PM (GMT-05:00)
>
> To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>>
>
> Cc: Peter Harrison <pharrison@fao-on.org<mailto:pharrison@fao-on.org>>>
>
> Subject: RE: Fall statement
>
>
>
> Hey guys
>
>
>
> Thanks for the update on what would best suit your needs. We’re happy to accommodate your request for a meeting….guess I’d suggest maybe late Wednesday so that folks have time to follow-up on the questions we’d get from you guys Tuesday afternoon. Also Wednesday mornings are filled with regular check-in meetings folks need to be at, so maybe we can find time Wednesday afternoon.
>
>
>
> Something around 230pm work for you guys?

>
>
>
> Tim Schuurman
>
> Assistant Deputy Minister
>
> Office of the Budget, Ministry of Finance
>
> 7 Queen’s Park Cres.
>
> Toronto ON M7A 1Z1
>
> Tel: 416-327-0173
>
> [cid:image002.png@01D0E4D5.A25B16F0]
>
>
>
> From: David West [mailto:dwest@fao-on.org]
>
> Sent: November-10-16 9:29 AM
>
> To: Schuurman, Tim (MOF)
>
> Cc: Peter Harrison
>
> Subject: RE: Fall statement
>
>
>
> Hi Tim,
>
>
>
> So, change of plans! The release of FES at 1pm on Monday, which is earlier than we expected, reduces the benefits of coming over to Frost to get a preview of the document, prior to release.
>
>
>
> As a result, while we thank you for the offer, we’ll decline your invite to come over to Frost on Monday. (Although we’ll miss seeing your smiling face!)
>
>
>
> However, instead, we would like to request a potential meeting on Wednesday (possibly late morning?) to discuss any FES-related questions. We would plan to send you our questions by Tuesday afternoon to allow you to try to assemble appropriate staff for the Wednesday meeting.
>
>
>
> Would this work for you?
>
>
>
> Thanks
>
> David
>
> (416) 579-1465
>
>
>
> From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
>
> Sent: November 9, 2016 7:31 PM
>
> To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>>
>
> Cc: Peter Harrison <pharrison@fao-on.org<mailto:pharrison@fao-on.org>>>
>
> Subject: RE: Fall statement
>
>

>
> Thanks David, Peter.
>
>
>
>
>
> • Right now the plan is for the Minister to rise and present the FES at 1pm on Monday. So I'm wondering if it is ok for you guys to come at 11am. We would expect you to stay in the boardroom we assign to you until the Minister stands up to deliver the speech – like a lock-up of sorts. Please let me know if you have any issues with that.
>
>
>
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>
> • I'm working hard to get you guys bound copies for your secure reading, but it may be a challenge as they are under OPP guard until the Minister stands (and we have no official lock up so I need to pull a few favours). If not, we'll print out copies on paper for you.
>
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>
> • Can you send me the list of names that would come? I'll need to know in advance.
>
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>
> • As far as answering questions, we'll try and have a few people around but it's a crazy day around here for us and we'll probably be scrambling. If its ok, I prefer to not make it a merry-go-round of people going in and out of the boardroom where you are. If possible, can we agree that you guys will spend the first hour or so going through all the documents, compiling your questions into a list, and then we'll ask people to come around for a chat? That way it's abit more organized, and I can tell people to make themselves available around noon for q's rather than stay on stand-by for 2 hours not knowing. Let me know what you think. If we can't get someone in the time you're here, of course we'll arrange for any follow-up.
>
>
>
>
>
> Let me know what you think.
>
>
>
> Tim Schuurman
>
> Assistant Deputy Minister
>
> Office of the Budget, Ministry of Finance
>
> 7 Queen's Park Cres.
>
> Toronto ON M7A 1Z1
>
> Tel: 416-327-0173
>
> [cid:image002.png@01D0E4D5.A25B16F0]
>
>
>
> From: David West [mailto:dwest@fao-on.org]
>
> Sent: November-09-16 4:05 PM
>
> To: Schuurman, Tim (MOF)
>
> Cc: Peter Harrison
>
> Subject: RE: Fall statement

>
>
>
> Thanks Tim,
>
>
>
> As Peter indicated, we would like to take you up on this offer.
>
>
>
> I think there will be 4 or 5 of us who would be interested in a preview of the document, and the opportunity to ask some questions in person.
>
>
>
> Do you expect that the Minister will deliver a statement in the Legislature at approximately 4pm? So, if we arrived at perhaps 2pm we could have a couple of hours with the document before the release?
>
>
>
> We (the FAO) would not plan to make any public statements on the FES right away. But, we may decide to release a short 'Commentary' document on the FAO's website several days after the FES release (likely the following week) that compares the FAO's projections (from our recent EFO) with the FES projections and outlines some of the main differences in assumptions.
>
>
>
> Please confirm what time you recommend we arrive at Frost South on Monday and that we can (potentially) bring several staff with us.
>
>
>
> Regards,
>
>
>
> David West
>
> (416) 579-1465
>
>
>
>
>
>
>
>
>
> From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
>
> Sent: November 8, 2016 6:50 PM
>
> To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>>; Peter Harrison <pharrison@fao-on.org<mailto:pharrison@fao-on.org>>>
>
> Subject: Fall statement
>
>
>
> Peter, David
>
>
>
> Hope this email finds you both well. As you may have heard, today our Minister announced that the Fall Statement would be released on Monday, November 14th.
>
>
>
> Last year we had you guys in here, on a confidential basis, to review the documents and read them ahead of when it was tabled. We'd like to extend that offer to you again, if you think it would help you in your efforts to respond to the document.
>
>
>
> I believe we hosted you here last year and that you spent an hour or so with the documents.
>
>

>
> Please let me know if this is something you think you'd benefit from again this year, and I'll work to make the necessary arrangements.
>
>
>
> Thanks in advance;
>
>
>
> Tim Schuurman
>
> Assistant Deputy Minister
>
> Office of the Budget, Ministry of Finance
>
> 7 Queen's Park Cres.
>
> Toronto ON M7A 1Z1
>
> Tel: 416-327-0173
>
> [cid:image002.png@01D0E4D5.A25B16F0]
>
>
>
>
>
>

From: Gadi Mayman
To: Ken Kandeepan; Tim Schuurman (MOF)
Subject: Re: Comments on FAO"s FES Commentary by End of Today
Date: Thursday, November 24, 2016 7:57:58 PM

Yes, I'm fine with the edit, too.

Original Message
From: Ken Kandeepan
Sent: Thursday, November 24, 2016 7:19 PM
To: Tim Schuurman (MOF)
Cc: Gadi Mayman
Subject: Re: Comments on FAO's FES Commentary by End of Today

Yes, OPCD's restatement is more accurate. Gadi hope you agree.

Thanks

Ken k

Sent from my iPad

> On Nov 24, 2016, at 6:31 PM, Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca> wrote:
>
> Gadi are you ok with this edit suggested by opcd?
>
> Tim
>
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> Sent: Thursday, November 24, 2016 5:50 PM
> To: Schuurman, Tim (MOF)
> Subject: Fw: Comments on FAO's FES Commentary by End of Today
>
>
>
> Fyi.....
>
> Sent from my BlackBerry 10 smartphone on the Rogers network.
> From: Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
> Sent: Thursday, November 24, 2016 4:08 PM
> To: Birks, Ryan (MOF)
> Cc: Laughton, Patrick (TBS)
> Subject: RE: Comments on FAO's FES Commentary by End of Today
>
>
> Hi Ryan
>
> In the footnote on page 3, they state:
>
>
> In the 2015-16 Public Accounts, the Province legislated a change in the accounting treatment of jointly sponsored pension plans, which increased net debt by $9.2 billion and the deficit by $1.5 billion in 2015-16. The FAO will adopt the government's estimates of the accounting change's impact in future reports.
>
> However the total impact on the change on net debt is $10.7 billion (= $9.2 billion + in-year of $1.5 billion) both in the press release and FES we referred to the $10.7 billion. Press release excerpt below.
>
> "The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit and an increase in the annual deficit of $1.5 billion."
>
> Happy to discuss.
>
> Thanks
> Sarah
>
>
>
> From: Birks, Ryan (MOF)
> Sent: November-24-16 12:45 PM
> To: Tarin, Ghufran (MOF); Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Hosick, Sarah (TBS); Zhang, Christina (OFA); Bugajski, Tomasz (OFA); Law, Rex (TBS)

> Subject: Comments on FAO's FES Commentary by End of Today
> Importance: High
>
> Hi All,
>
> Attached is the FAO's commentary on the 2016 Economic Outlook and Fiscal Review (FES). OB is putting together a summary/analysis on the commentary ahead of its release by the FAO on Monday.
>
> Can your areas please review and flag any comments re egregious items by the end of today (i.e. OEP-->revenue outlook, PEMD-->expense outlook, OPCD-->pension treatment, OFA-->debt outlook and CPD-->child care investment)? We'll make sure to include these comments in our note.
>
> Please let me know if you have any questions.
>
> Thanks!
> Ryan
>
>
> From: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>
> Sent: Thursday, November 24, 2016 9:52 AM
> To: Esmail, Selena (MOF); Schuurman, Tim (MOF); Lewis, Brian (MOF); Hughes, Karen (TBS)
> Cc: Luan Ngo; Edward Crummey; Tarin, Ghufran (MOF); Birks, Ryan (MOF); Duran-Schneider, Maria (TBS); Arbabzadeh, Nina (TBS); Laughton, Patrick (TBS); Mario Angastiniotis; Nicolas Rhodes
> Subject: The FAO's FES Commentary
>
>
>
> Hello All,
>
>
>
> As I promised at our meeting last week, please find attached a draft (embargoed) copy of the Commentary that I mentioned last week.
>
>
>
> We plan to release this Commentary on our website on Monday. As always, please treat the document as confidential until its release.
>
>
>
> Although we are not formally requesting any feedback on the note, please feel free to let us know if you find anything particularly egregious.
>
>
>
> Thanks again for your on-going assistance.
>
>
>
> Best regards,
>
> David West
> Chief Economist
> [cid:image009.png@01D17ECB.966ECE00]
>
> 2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
> t.416.579.1465 | dwest@fao-on.org<mailto:dwest@fao-on.org>
> www.fao-on.org<https://urldefense.proofpoint.com/v2/url?u=http-3A__www.fao-2Don.org_&d=CwIF-g&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FtiQ&r=sDTjf9tVmfT9K92u269doOHn6NwIN5Soa0mhVrZmimM&m=LRbMzun5uUDKi-hvQo2asSf5rz-ArWmu0adOa3iQIXE&s=728JEVzQPGLvhikmltKOmdEbU0UjFLymyrsrlWf2IBY&e= >
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>
> -----Original Message-----
> From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
> Sent: November 18, 2016 4:12 PM
> To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>
> Cc: Luan Ngo <lngo@fao-on.org<mailto:lngo@fao-on.org>>; Edward Crummey <ecrummey@fao-on.org<mailto:ecrummey@fao-on.org>>; Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca<mailto:Ghufran.Tarin@ontario.ca>>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca<mailto:Ryan.Birks@ontario.ca>>; Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca<mailto:Tim.Schuurman@ontario.ca>>; Lewis, Brian (MOF)

<Brian.Lewis@Ontario.ca<mailto:Brian.Lewis@Ontario.ca>>; Hughes, Karen (TBS)
<Karen.Hughes@ontario.ca<mailto:Karen.Hughes@ontario.ca>>; Duran-Schneider, Maria (TBS) <Maria.Duran-Schneider@ontario.ca<mailto:Maria.Duran-Schneider@ontario.ca>>; Arbabzadeh, Nina (TBS)
<Nina.Arbabzadeh@ontario.ca<mailto:Nina.Arbabzadeh@ontario.ca>>; Laughton, Patrick (TBS)
<Patrick.Laughton@ontario.ca<mailto:Patrick.Laughton@ontario.ca>>
> Subject: Meeting follow-up requests
>
>
>
>
>
> Hi David,
>
>
>
> Attached is the revenue and expense information requested in follow-up to our meeting held this past Wednesday - uses the FAO password. I trust that this information is helpful.
>
>
>
> Thank you and have a wonderful weekend
>
> Regards,
>
>
>
> Selena Esmail
>
> Director, Office of the Budget, Ministry of Finance
>
>
>
>
>
> -----Original Message-----
>
> From: Birks, Ryan (MOF)
>
> Sent: November-18-16 2:43 PM
>
> To: David West; Schuurman, Tim (MOF); Lewis, Brian (MOF)
>
> Cc: Luan Ngo; Edward Crummey; Tarin, Ghufran (MOF); Esmail, Selena (MOF)
>
> Subject: RE: Questions for tomorrows meeting
>
>
>
> Hi David,
>
>
>
> We'll be sending a consolidated package with both the revenue and expense details included before the end of day.
>
>
>
> Thanks,
>
> Ryan
>
>
>
>
>
> -----Original Message-----
>
> From: David West [mailto:dwest@fao-on.org]
>
> Sent: November-18-16 2:38 PM
>
> To: Schuurman, Tim (MOF); Lewis, Brian (MOF)
>
> Cc: Luan Ngo; Birks, Ryan (MOF); Edward Crummey; Tarin, Ghufran (MOF)

>
> Subject: RE: Questions for tomorrows meeting
>
>
>
> Hi,
>
>
>
> Will you be able to send us the follow-up information that we discussed at our meeting on Wednesday?
>
>
>
> In particular the revenue and expenditure details?
>
>
>
> Thanks
>
>
>
> David West
>
> (416) 579-1465
>
>
>
>
>
>
>
> -----Original Message-----
>
> From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
>
> Sent: November 15, 2016 5:06 PM
>
> To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca<mailto:Ryan.Birks@ontario.ca>>
>
> Cc: Peter Harrison <pharrison@fao-on.org<mailto:pharrison@fao-on.org>>; Edward Crummey <ecrummey@fao-on.org<mailto:ecrummey@fao-on.org>>; Luan Ngo <lngo@fao-on.org<mailto:lngo@fao-on.org>>; Mario Angastiniotis <MAngastiniotis@fao-on.org<mailto:MAngastiniotis@fao-on.org>>; Nicolas Rhodes <nrhodes@fao-on.org<mailto:nrhodes@fao-on.org>>
>
> Subject: Re: Questions for tomorrows meeting
>
>
>
> Thanks David and team!
>
>
>
> Looking forward to our conversation tomorrow. As some of these questions are for detailed background data, we may need to provide those post-tomorrow's meeting so we can gather it up in a way that works best to answer the question. But we'll come prepared with as many A's as possible and together we can map out a plan to get you the details you need following the meeting as well. We'll do our best to have all the right people in the room tomorrow.
>
>
>
> Hope that works.
>
>
>
> Tim
>
>
>
> From: David West
>
> Sent: Tuesday, November 15, 2016 4:46 PM
>
> To: Birks, Ryan (MOF)
>
> Cc: Schuurman, Tim (MOF); Peter Harrison; Edward Crummey; Luan Ngo; Mario Angastiniotis; Nicolas Rhodes

>
> Subject: Questions for tomorrows meeting
>
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>
> As promised, I've attached a list of the questions that we'd like to discuss at tomorrow's meeting.
>
>
>
> See you tomorrow.
>
>
>
> Thanks
>
>
>
> David W.
>
> (416-579-1465)
>
>
>
> From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
>
> Sent: November 15, 2016 1:43 PM
>
> To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>; Peter Harrison <pharrison@fao-on.org<mailto:pharrison@fao-on.org>>
>
> Cc: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca<mailto:Tim.Schuurman@ontario.ca>>
>
> Subject: RE: Fall statement
>
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>
>
> Hello David and Peter,
>
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>
> I wanted to reconfirm tomorrow's FES/FAO meeting. It will be taking place between 2:30pm-3:30pm in the Aquarium Boardroom (4th floor of the Frost South Building). I'll be forward the invitation shortly.
>
>
>
> Please let me know if additional FAO staff will be in attendance. I'll make sure they're also registered with security.
>
>
>
> Let me know if you have any questions.
>
>
>
> Thanks,
>
> Ryan
>
>
>
>
>
> From: Schuurman, Tim (MOF)
>
> Sent: November-11-16 12:48 PM
>
> To: David West
>
> Cc: Peter Harrison; Birks, Ryan (MOF)
>
> Subject: RE: Fall statement

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>
> Sounds great. I’m rallying the troops, and my EA Ryan Birks will be in touch with your offices to confirm timing and location, etc.
>
>
>
> See you soon!
>
>
>
> Tim Schuurman
>
> Assistant Deputy Minister
>
> Office of the Budget, Ministry of Finance
>
> 7 Queen’s Park Cres.
>
> Toronto ON M7A 1Z1
>
> Tel: 416-327-0173
>
> [cid:image002.png@01D0E4D5.A25B16F0]
>
>
>
> From: David West [mailto:dwest@fao-on.org]
>
> Sent: November-10-16 6:29 PM
>
> To: Schuurman, Tim (MOF)
>
> Cc: Peter Harrison
>
> Subject: Re: Fall statement
>
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>
> Thanks Tim,
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>
> 2:30 should be fine.
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>
>
>
>
> Sent from my Bell Samsung device over Canada's largest network.
>
>
>
>
>
> -------- Original message --------
>
> From: "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca<mailto:Tim.Schuurman@ontario.ca>>>
>
> Date: 2016-11-10 5:19 PM (GMT-05:00)
>
> To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>>
>
> Cc: Peter Harrison <pharrison@fao-on.org<mailto:pharrison@fao-on.org>>>
>
> Subject: RE: Fall statement
>
>
>
> Hey guys
>

>
>
> Thanks for the update on what would best suit your needs. We're happy to accommodate your request for a meeting….guess I'd suggest maybe late Wednesday so that folks have time to follow-up on the questions we'd get from you guys Tuesday afternoon. Also Wednesday mornings are filled with regular check-in meetings folks need to be at, so maybe we can find time Wednesday afternoon.
>
>
>
> Something around 230pm work for you guys?
>
>
>
> Tim Schuurman
>
> Assistant Deputy Minister
>
> Office of the Budget, Ministry of Finance
>
> 7 Queen's Park Cres.
>
> Toronto ON M7A 1Z1
>
> Tel: 416-327-0173
>
> [cid:image002.png@01D0E4D5.A25B16F0]
>
>
>
> From: David West [mailto:dwest@fao-on.org]
>
> Sent: November-10-16 9:29 AM
>
> To: Schuurman, Tim (MOF)
>
> Cc: Peter Harrison
>
> Subject: RE: Fall statement
>
>
>
>
> Hi Tim,
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>
> So, change of plans! The release of FES at 1pm on Monday, which is earlier than we expected, reduces the benefits of coming over to Frost to get a preview of the document, prior to release.
>
>
>
> As a result, while we thank you for the offer, we'll decline your invite to come over to Frost on Monday. (Although we'll miss seeing your smiling face!)
>
>
>
> However, instead, we would like to request a potential meeting on Wednesday (possibly late morning?) to discuss any FES-related questions. We would plan to send you our questions by Tuesday afternoon to allow you to try to assemble appropriate staff for the Wednesday meeting.
>
>
>
> Would this work for you?
>
>
>
> Thanks
>
> David
>
> (416) 579-1465
>
>
>
> From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
>

> Sent: November 9, 2016 7:31 PM
>
> To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>>
>
> Cc: Peter Harrison <pharrison@fao-on.org<mailto:pharrison@fao-on.org>>>
>
> Subject: RE: Fall statement
>
>
>
> Thanks David, Peter.
>
>
>
>
>
> • Right now the plan is for the Minister to rise and present the FES at 1pm on Monday. So I'm wondering if it is ok for you guys to come at 11am. We would expect you to stay in the boardroom we assign to you until the Minister stands up to deliver the speech – like a lock-up of sorts. Please let me know if you have any issues with that.
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>
> • I'm working hard to get you guys bound copies for your secure reading, but it may be a challenge as they are under OPP guard until the Minister stands (and we have no official lock up so I need to pull a few favours). If not, we'll print out copies on paper for you.
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> • Can you send me the list of names that would come? I'll need to know in advance.
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>
> • As far as answering questions, we'll try and have a few people around but it's a crazy day around here for us and we'll probably be scrambling. If its ok, I prefer to not make it a merry-go-round of people going in and out of the boardroom where you are. If possible, can we agree that you guys will spend the first hour or so going through all the documents, compiling your questions into a list, and then we'll ask people to come around for a chat? That way it's abit more organized, and I can tell people to make themselves available around noon for q's rather than stay on stand-by for 2 hours not knowing. Let me know what you think. If we can't get someone in the time you're here, of course we'll arrange for any follow-up.
>
>
>
>
>
> Let me know what you think.
>
>
>
> Tim Schuurman
>
> Assistant Deputy Minister
>
> Office of the Budget, Ministry of Finance
>
> 7 Queen's Park Cres.
>
> Toronto ON M7A 1Z1
>
> Tel: 416-327-0173
>
> [cid:image002.png@01D0E4D5.A25B16F0]
>
>
>

> From: David West [mailto:dwest@fao-on.org]
>
> Sent: November-09-16 4:05 PM
>
> To: Schuurman, Tim (MOF)
>
> Cc: Peter Harrison
>
> Subject: RE: Fall statement
>
>
>
> Thanks Tim,
>
>
>
> As Peter indicated, we would like to take you up on this offer.
>
>
>
> I think there will be 4 or 5 of us who would be interested in a preview of the document, and the opportunity to ask some questions in person.
>
>
>
> Do you expect that the Minister will deliver a statement in the Legislature at approximately 4pm? So, if we arrived at perhaps 2pm we could have a couple of hours with the document before the release?
>
>
>
> We (the FAO) would not plan to make any public statements on the FES right away. But, we may decide to release a short 'Commentary' document on the FAO's website several days after the FES release (likely the following week) that compares the FAO's projections (from our recent EFO) with the FES projections and outlines some of the main differences in assumptions.
>
>
>
> Please confirm what time you recommend we arrive at Frost South on Monday and that we can (potentially) bring several staff with us.
>
>
>
> Regards,
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>
>
> David West
>
> (416) 579-1465
>
>
>
>
>
>
>
>
>
> From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
>
> Sent: November 8, 2016 6:50 PM
>
> To: David West <dwest@fao-on.org<mailto:dwest@fao-on.org>>>; Peter Harrison <pharrison@fao-on.org<mailto:pharrison@fao-on.org>>>
>
> Subject: Fall statement
>
>
>
> Peter, David
>
>
>
> Hope this email finds you both well. As you may have heard, today our Minister announced that the Fall Statement would be released on Monday, November 14th.
>
>

>
> Last year we had you guys in here, on a confidential basis, to review the documents and read them ahead of when it was tabled. We'd like to extend that offer to you again, if you think it would help you in your efforts to respond to the document.
>
>
>
> I believe we hosted you here last year and that you spent an hour or so with the documents.
>
>
>
> Please let me know if this is something you think you'd benefit from again this year, and I'll work to make the necessary arrangements.
>
>
>
> Thanks in advance;
>
>
>
> Tim Schuurman
>
> Assistant Deputy Minister
>
> Office of the Budget, Ministry of Finance
>
> 7 Queen's Park Cres.
>
> Toronto ON M7A 1Z1
>
> Tel: 416-327-0173
>
> [cid:image002.png@01D0E4D5.A25B16F0]
>
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>
>

From: Gadi Mayman
To: Bonnie Lemcke
Cc: Ken Kandeepan; Anna Strathy
Subject: Re: DBRS - Draft budget commentary
Date: Thursday, March 29, 2018 9:16:50 AM

That's a relief.

On Mar 29, 2018, at 9:10 AM, Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca> wrote:

> Here is the e-mail from Paul – It indicates that there is no immediate rating implications.
>
> Bonnie
>
> ---
>
> **From:** Paul Le Bane [mailto:plebane@dbrs.com]
> **Sent:** Thursday, March 29, 2018 8:16 AM
> **To:** Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
> **Cc:** David Cross <David.Cross@ofina.on.ca>
> **Subject:** DBRS - Draft budget commentary
>
> Hi Bonnie,
>
> Thanks again for the opportunity to attend the budget lock-up.
>
> Attached is the draft budget commentary. It's somewhat longer than in past years – we're doing longer commentaries for all the provincial budgets based on investor feedback. **Please provide your feedback, if any, by 10:00 am.**
>
> There are a few items I want to draw to your attention.
>
> <!--[if !supportLists]-->• <!--[endif]-->The highlighted capex number on page one – I've used the 14.2, 15.7, 15.8 outlined in the budget (p. 232) and assumed 15.8 for the three subsequent years.
> <!--[if !supportLists]-->• <!--[endif]-->The DBRS-adjusted debt figures are a crude first estimate based on the tables in the budget and what David shared yesterday. Seems like debt (our basis) is relatively stable in the 42-43 range. We'll solidify that when we meet later in April.
> <!--[if !supportLists]-->• <!--[endif]-->Qualified financial statements – second paragraph. As discussed yesterday, this was my paragraph going into the budget. I was subsequently given the actual amounts for the net pension asset, which suggests the AG would state the deficit is understated by 4.0 to 5.0 billion. I will include something about the qualifications in the commentary, though I'm open to recasting somewhat to avoid disclosing anything confidential. From my perspective, the risk is that a new government could

make changes to accounting policy/fair hydro structure that would then have implications for credit metrics.

<!--[if !supportLists]-->• <!--[endif]-->We're still bouncing around on the title with no decision. It will be critical of the government.

We did not take this to rating committee. Our initial view is that this is negative, but without immediate rating implications. It increases the downside risk over the medium term though.

The document hasn't been through editing/layout. Forgive any lingering typos/awkward format.

Feel free to give me a call to discuss.

Paul

Paul LeBane
Vice President, Public Finance
Global Corporates

DBRS Limited
DBRS Tower 181 University Avenue, Suite 700
Toronto, ON M5H 3M7 Canada
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FAX +1 (416) 593 8432
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plebane@dbrs.com
http://www.dbrs.com

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<ON - 2018 Budget Commentary.pdf>

From: Gadi Mayman
To: Ken Kandeepan
Cc: Lynsey Wynberg
Subject: Re: Details of 18-19 and 19-20
Date: Sunday, January 22, 2017 10:03:33 AM
Attachments: image001.png

Thanks, Ken. Much appreciated.

From: Ken Kandeepan
Sent: Sunday, January 22, 2017 9:46 AM
To: Gadi Mayman
Cc: Lynsey Wynberg
Subject: RE: Details of 18-19 and 19-20

Hi Gadi

Went through the 2 slides, the pension adjustment is still included as an expense and the second slide indicates that DRC is not available from 19-20 onwards, it should be from 18-19 onwards since the industrial portion is eliminated as of April 1, 2018. IOD savings are accurate for 18-19, as expected nothing is listed for the final out year.

Thanks

Ken K

From: Gadi Mayman
Sent: Friday, January 20, 2017 6:08 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>
Subject: Fw: Details of 18-19 and 19-20

From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
Sent: Friday, January 20, 2017 5:55 PM
To: Karen Hughes (MGS); Maria Duran-Schneider (MOF); Brian Lewis (MOL); Gadi Mayman
Cc: Selena Esmail (MOF); Inglis, Liane (MOF); Emma Lindquist (MOF); Birks, Ryan (MOF)
Subject: Details of 18-19 and 19-20

Hello

Part of moving the fiscal conversation forward to the next step will be helping people better understand the fiscal composition of 18-19, as well as what we are facing in 19-20. Think I've spoken to all of you about this around MMP and subsequent to that.

We've prepared the attached piece to help acclimatize people to it and to help answer some basic fiscal architecture questions.

Could you please review and let me know by Monday if there things we need to tweak, or additional details worth highlighting? I'd like to share with DM's and our MO early next week.

Have a great weekend

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173




Office of the Budget
MINISTRY of FINANCE

From: John Psinas
To: Ken Kandeepan
Subject: Re: Draft MMP Deck
Date: Thursday, October 20, 2016 8:19:47 AM

Will do.. Thanks

On Oct 20, 2016, at 8:18 AM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:

> FYI and once you get in can you pls run a net debt to GDP scenario that assumes the deficit for 17-18 and 18-18 is exactly equal to the pension adjustment for those two years. I believe option 3 in the attached presentation provides that scenario.
>
> Thanks
>
> Ken k
>
> Begin forwarded message:
>
> **From:** "Gadi Mayman" <Gadi.Mayman@ofina.on.ca>
> **To:** "Ken Kandeepan" <Ken.Kandeepan@ofina.on.ca>
> **Cc:** "Christina Zhang" <Christina.Zhang@ofina.on.ca>
> **Subject: Fw: Draft MMP Deck**
>
> ---
>
> **From:** Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
> **Sent:** Wednesday, October 19, 2016 7:15 PM
> **To:** Scott Thompson (CAB); Helen Angus (MOHLTC); Karen Hughes (MGS); Maria Duran-Schneider (MOF); Brian Lewis (MOL); Gadi Mayman; Sriram Subrahmanyan (MOF)
> **Cc:** David McLean (MOF); Kyle MacIntyre (MOF); Christopher Pearce (MOI); Ize-Dukuze, Marilyn (MOF); Birks, Ryan (MOF); Ronald Jaikaran (MOF); Tara McGrath (MOF); Emma Lindquist (MOF); Selena Esmail (MOF); Jenarra DeSouza (MEDTE/MRI); Ghufran Tarin (MOF)
> **Subject:** Draft MMP Deck
>
> ---
>
> Hello;
>
> Please find attached a potential draft deck that attempts to reflect the direction coming out of FPC today to support an MMP discussion on Monday on the fiscal strategy for FES.

Also find attached an appendix deck that could accompany the main strategy deck to further explain some of the details in the strategy deck. Please note that these decks include information on confidential measures under consideration and distribution should be restricted.

There is a post-FPC meeting regroup scheduled for Thursday at which this deck will be discussed.

Thanks for everyone's participation in developing these options over the past few weeks.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



<MMP_FES_Outlook_v4.pptx>

<MMP_FES_Outlook_APPENDIX_v2pptx.pptx>

From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	Christina Zhang
Subject:	Re: FAO vs. FES
Date:	Tuesday, November 15, 2016 9:16:07 AM

Their IOD forecast is very low, and I'm not sure how they got there, so if you could find out their assumptions on that, it would be interesting to know. I think Bonnie may have some insights on that.

While our interest rate assumptions looked pretty conservative until last Tuesday, 10 and 30 year rates are 40 basis points higher now than they were then, so we'll have to see how the markets continue to react between now and next spring when we lock down numbers.

From: Ken Kandeepan
Sent: Tuesday, November 15, 2016 9:00 AM
To: Gadi Mayman
Cc: Christina Zhang
Subject: RE: FAO vs. FES

Thanks Gadi, nothing much to comments other than the FAO's revenue assumptions are considerably lower than that of the Province despite the nominal GDP uptick. Expenses are close enough though they assume a much lower pension adjustment and a lower IOD.

Be interesting to see what their assumptions were for IOD, of course our 18-19 forecast for IOD will also reduce once we move from the 15 year average to the OEP forecast.

Thanks

Ken K

From: Gadi Mayman
Sent: Monday, November 14, 2016 11:40 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Fwd: FAO vs. FES

Begin forwarded message:

> **From:** "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
> **To:** "Scott Thompson (CAB)" <Scott.Thompson@ontario.ca>, "Brian Lewis (MOL)"

<Brian.Lewis@ontario.ca>, "Karen Hughes (MGS)" <Karen.Hughes@ontario.ca>, "Maria Duran-Schneider (MOF)" <Maria.Duran-Schneider@ontario.ca>, "Arruda, Artur (TBS)" <Artur.Arruda@ontario.ca>, "Gadi Mayman" <Gadi.Mayman@ofina.on.ca>
Cc: "David McLean (MOF)" <David.McLean@ontario.ca>, "Christopher Pearce (MOI)" <Christopher.Pearce@ontario.ca>, "Selena Esmail (MOF)" <Selena.Esmail@ontario.ca>, "Emma Lindquist (MOF)" <Emma.Lindquist@ontario.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>
Subject: FAO vs. FES

As you all know, the FAO will be reviewing the FES and developing questions for us to review and answer when we meet with them on Wednesday.

To help us all prepare for this, we've done a cross-walk from the FAO fiscal plan to the fiscal plan outlined in the FES today. The table is attached for your reference.

In summary, the FAO Outlook shows higher deficits than outlined in the Fall Statement. Key factors include:

- The FAO's revenue forecast is significantly lower than what is outlined in the Fall Statement (more than $5B in 18-19).
- The FAO's estimate of new government initiatives (child care, HST rebate, etc) are higher than what are built into the Fall Statement, particularly in 17-18 and 18-19.
- Combined, these two elements, which result in a deterioration in the fiscal outlook, are partially offset by higher IOD savings assumed by the FAO.

As we already know, the FAO underestimated the Pension Adjustment in each year, which reduced the variance between the FAO's deficit projection and the FES. Presumably their updated forecast in their commentary (to be released next week) will increase the Pension Adjustment, and also, the resulting deficit projection.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



From: Ken Kandeepan
To: Bonnie Lemcke
Cc: Christina Zhang
Subject: Re: FAO vs. FES
Date: Tuesday, November 15, 2016 11:13:13 AM

No I suggest that you do go, not sure if you need me to come as well.

Thanks

Ken k

On Nov 15, 2016, at 10:57 AM, Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca> wrote:

> HI Ken,
>
> Alex and I are going to meet the FAO this afternoon to look at their methodology. I just realized that this conflicts with the management meeting. If you want us to reschedule let me know.
>
> Bonnie
>
> ---
>
> **From:** Ken Kandeepan
> **Sent:** Tuesday, November 15, 2016 9:27 AM
> **To:** Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
> **Subject:** FW: FAO vs. FES
>
> Hi Bonnie
>
> The FAO's IOD forecast is considerably lower than ours, is there any way that they can share their underlying interest rate assumptions.
>
> Thanks
>
> Ken k
>
> ---
>
> **From:** Gadi Mayman
> **Sent:** Monday, November 14, 2016 11:40 PM
> **To:** Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
> **Cc:** Christina Zhang <Christina.Zhang@ofina.on.ca>
> **Subject:** Fwd: FAO vs. FES

Begin forwarded message:

From: "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
To: "Scott Thompson (CAB)" <Scott.Thompson@ontario.ca>, "Brian Lewis (MOL)" <Brian.Lewis@ontario.ca>, "Karen Hughes (MGS)" <Karen.Hughes@ontario.ca>, "Maria Duran-Schneider (MOF)" <Maria.Duran-Schneider@ontario.ca>, "Arruda, Artur (TBS)" <Artur.Arruda@ontario.ca>, "Gadi Mayman" <Gadi.Mayman@ofina.on.ca>
Cc: "David McLean (MOF)" <David.McLean@ontario.ca>, "Christopher Pearce (MOI)" <Christopher.Pearce@ontario.ca>, "Selena Esmail (MOF)" <Selena.Esmail@ontario.ca>, "Emma Lindquist (MOF)" <Emma.Lindquist@ontario.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>
Subject: FAO vs. FES

As you all know, the FAO will be reviewing the FES and developing questions for us to review and answer when we meet with them on Wednesday.

To help us all prepare for this, we've done a cross-walk from the FAO fiscal plan to the fiscal plan outlined in the FES today. The table is attached for your reference.

In summary, the FAO Outlook shows higher deficits than outlined in the Fall Statement. Key factors include:

<!--[if !supportLists]-->• <!--[endif]-->The FAO's revenue forecast is significantly lower than what is outlined in the Fall Statement (more than $5B in 18-19).
<!--[if !supportLists]-->• <!--[endif]-->The FAO's estimate of new government initiatives (child care, HST rebate, etc) are higher than what are built into the Fall Statement, particularly in 17-18 and 18-19.
<!--[if !supportLists]-->• <!--[endif]-->Combined, these two elements, which result in a deterioration in the fiscal outlook, are partially offset by higher IOD savings assumed by the FAO.

As we already know, the FAO underestimated the Pension Adjustment in each year, which reduced the variance between the FAO's deficit projection and the FES. Presumably their updated forecast in their commentary (to be released next week) will increase

the Pension Adjustment, and also, the resulting deficit projection.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



From: Ken Kandeepan
To: John Psinas
Cc: IOD_Risk
Subject: Re: FAO"s Upcoming EFO Report
Date: Monday, May 08, 2017 9:42:43 PM

Thanks John good comments

Ken k

> On May 8, 2017, at 4:18 PM, John Psinas <John.Psinas@ofina.on.ca> wrote:
>
> Ken,
> We are basically running into the same issue as last year. The FAO is using a different method and is thus calculating different net debt amounts than to our published references, so much so that our variance on increases in net debt is approximately $35 billion by 2021-22 as per page 5 of the fiscal outlook document. (The FAO projects an increase of $87 billion by 2021-22, while we project an increase of $52 billion). Again, we cannot ascertain how valid their net debt assumptions underlying the document are without further information.
>
> The FAO seems to be taking a neutral position on the pension adjustment dispute and this is causing some confusion in the document in some of their references. The Chart on page 6 is confusing for example as there is a top line called AG recommended net debt to GDP, a bottom line called 2017 Budget but also a middle line called government presentation. We are not exactly sure why it's called the "Government Presentation" alongside another line called "2017 Budget".
>
> Lastly, the FAO is needlessly presenting balanced budget information throughout the document before the Reserve. It is not clear what the rationale in doing this, as doing it will always have a variance from Budget. Having a reserve for emergencies is a hallmark of a prudent and accountable government.
>
> Thanks.
>
>
> --John
>
> 416-325-8072
>
>
> -----Original Message-----
> From: Ken Kandeepan
> Sent: Monday, May 08, 2017 11:36 AM
> To: John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>
> Subject: FW: FAO's Upcoming EFO Report
>
> We can discuss
>
> Thanks
>
> Ken K
>
> -----Original Message-----
> From: Anna Strathy
> Sent: Monday, May 08, 2017 11:10 AM
> To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>; Ronald Kwan <Ronald.Kwan@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
> Cc: Deena Padamadan <Deena.Padamadan@ofina.on.ca>

> Subject: FW: FAO's Upcoming EFO Report
>
> Good morning,
>
> The draft Economic and Fiscal chapters from the FAO report are attached. Password is FAO1616.
>
> The FAO is asking for comments by eod tomorrow. I'm happy to consolidate our comments if you'd like to send to me.
>
> Thanks, Anna
>
> -----Original Message-----
> From: Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
> Sent: Monday, May 08, 2017 10:48 AM
> To: Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>
> Subject: FW: FAO's Upcoming EFO Report
>
> Hi Anna and Gavin,
>
> Forwarding this for your attention/review as well. FAO is looking for commentary by EOD tomorrow. Note, the password is FAO1616.
>
> Thanks,
> Ryan
>
> -----Original Message-----
> From: David West [mailto:dwest@fao-on.org]
> Sent: May-08-17 10:24 AM
> To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
> Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Edward Crummey; Luan Ngo; Mario Angastiniotis; Nicolas Rhodes
> Subject: RE: FAO's Upcoming EFO Report
>
> Good Morning,
>
> Please find attached drafts of the Economic Outlook and Fiscal Outlook chapters from the FAO's upcoming 'Economic and Fiscal Outlook' report.
> The chapters are password protected using the same password as in the past.
>
> The FAO's fiscal forecast incorporates the tax revenue adjustments that we received on Friday afternoon -- and which brings our short-term forecast much closer the Budget 2017 forecast.
>
> Unfortunately, we are on a very tight schedule to enable us to release this report at the end of the May.
>
> So, we are asking for your comments/concerns including any potential cabinet confidentiality issues by end of day tomorrow (Tuesday, May 9)
>
> Thanks again for your support and assistance.
>
>
> David West
> Chief Economist
>
>
> 2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
> t.416.579.1465 | dwest@fao-on.org
> www.fao-on.org

>
>
>
> -----Original Message-----
> From: David West
> Sent: May 5, 2017 10:22 AM
> To: 'Schuurman, Tim (MOF)' <Tim.Schuurman@ontario.ca>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Cindy.Veinot@ontario.ca
> Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
> Subject: FAO's Upcoming EFO Report
>
> Hello,
>
> Thanks again for our meeting on Tuesday. We appreciate the information you have provided as well as the responses to our questions at the meeting.
>
> On Monday morning (as early as possible) we plan to provide you with draft copies of the Economic Outlook and Fiscal Outlook chapters (including Forecast Tables) from the FAO's upcoming EFO report.
>
> We would hope you would be able to provide us with any comments or concerns on these chapters by Tuesday (May 9), end of day.
>
> As in the past, the FAO will provide a final copy of the report 48 hours prior to release to both Ministers. I would email you a copy at the same time.
>
> Thanks,
>
> David West
> 416.579.1465
>
> -----Original Message-----
> From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
> Sent: April 28, 2017 5:40 PM
> To: David West <dwest@fao-on.org>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
> Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Luan Ngo <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Mario Angastiniotis <MAngastiniotis@fao-on.org>; Nicolas Rhodes <nrhodes@fao-on.org>
> Subject: Re: Follow-Up on the 2017 Budget
>
> Thanks David,
>
> We're working on pulling together the various information pieces and people for a meeting Tuesday between 1pm and 2pm, so will be in touch to confirm.
>
> As in past approaches, we won't be able to have everything for you on Tuesday but will be able to provide a downpayment for sure.
>
> Have a great weekend
> Tim
>
> From: David West
> Sent: Friday, April 28, 2017 5:14 PM
> To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
> Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Luan Ngo;

Edward Crummey; Mario Angastiniotis; Nicolas Rhodes
> Subject: RE: Follow-Up on the 2017 Budget
>
>
> As promised, please find attached more detailed questions.
>
> Please confirm when we can meet early next week.
>
> Thanks
> dw
>
> From: David West
> Sent: April 28, 2017 9:32 AM
> To: Tim Schuurman (Tim.Schuurman@ontario.ca) <Tim.Schuurman@ontario.ca>; karen.hughes@ontario.ca; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Cindy.Veinot@ontario.ca
> Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; 'Birks, Ryan (MOF)' <Ryan.Birks@ontario.ca>; 'Laughton, Patrick (TBS)' <Patrick.Laughton@ontario.ca>; 'Hosick, Sarah (TBS)' <Sarah.Hosick@ontario.ca>; Luan Ngo (lngo@fao-on.org) <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Mario Angastiniotis (MAngastiniotis@fao-on.org) <MAngastiniotis@fao-on.org>; Nicolas Rhodes (nrhodes@fao-on.org) <nrhodes@fao-on.org>
> Subject: Follow-Up on the 2017 Budget
>
> Good Morning!
>
> Congratulations on delivering yesterday's big, black budget!
>
> I wanted to follow-up on the FAO's requests for some additional information.
>
> First, as we have discussed, we have three requests for specific data/tables:
>
>
> 1. We would like to obtain the detailed revenue and expense tables (Tables 6.14 and 6.15) extended to 2019-20.
>
> - Are these detailed tables available to 2020-21? If so, then please include (:))
>
>
>
> 2. As staff have been discussing, we would like to obtain more detailed information on the one-time adjustments to taxation revenues beginning in 2015-16 and extending over the forecast. This is basically additional information to that provided in tables 6.7, 6.8 and 6.9.
>
>
>
> 3. As detailed in the letter and background documents sent to Deputies Thompson and Angus on April 3, we are requesting pension expense and employer contribution details for the OTPP and OPSEUPP.
>
> We would also appreciate a meeting early next week (preferably Tuesday afternoon) to allow you to respond to a number of questions that we have with regard to the 2017 Budget.
>
> We'll provide a list of specific questions later this afternoon, but these questions will cover a number of areas, including:
>
>
> - Clarification on where the Fair Hydro Plan appears in the expenses
>
> - Additional details/clarification on new health spending, including the new pharmacare plan

>
> - Clarification on future assumptions for asset sales and any details behind the 'Sales and Rentals' line in the detailed Revenue table.
>
> - Clarification on the assumptions behind new federal funding announced in the 2017 federal budget (e.g. affordable housing, child care, home care)
>
> - Some background on the decision to reduce the estimate of 'Carbon Allowance Proceeds' and assumptions on associated expense
>
> - Additional details/clarification on new infrastructure spending
>
> - Assumptions behind the plan to reduce net debt-to-GDP to 35% and eventually to 27%.
>
> We'll provide a list later this afternoon that expands somewhat on these question topics.
>
> Happy to discuss any of these requests.
>
> Thanks again for your support,
> David
>
> David West
> Chief Economist
> [cid:image009.png@01D17ECB.966ECE00]
>
> 2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
> t.416.579.1465 | dwest@fao-on.org<mailto:dwest@fao-on.org>
> www.fao-on.org<http://www.fao-on.org/>
>
>

From: Gadi Mayman
To: Anna Strathy
Cc: Ken Kandeepan
Subject: Re: FAO"s Upcoming EFO Report
Date: Friday, May 05, 2017 2:32:01 PM

I look forward to it

> On May 5, 2017, at 2:30 PM, Anna Strathy <Anna.Strathy@ofina.on.ca> wrote:
>
> FYI Gadi, excerpts of the FAO draft report expected on Monday.
>
> -----Original Message-----
> From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
> Sent: Friday, May 05, 2017 2:26 PM
> To: Tim Cook (MOF) <Tim.Cook@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca>; Raj Sharda (MOHLTC) <Raj.Sharda@ontario.ca>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca>; Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; John Kim <John.Kim@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Ann Langleben (MOF) <Ann.Langleben@ontario.ca>; Kostas Plainos (MOF) <Kostas.Plainos@ontario.ca>; Jeremie Stephenson (MOI) <Jeremie.Stephenson@ontario.ca>; Mark Smith (MOF) <Mark.G.Smith@ontario.ca>; Mersad Fard (MOI) <Mersad.Fard@ontario.ca>; Helen Graham (MOF) <Helen.Graham@ontario.ca>
> Cc: Daniel Tiburcio (MOF) <Daniel.Tiburcio@ontario.ca>; Paul Ternamian (MOF) <Paul.Ternamian@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Anna Strathy <Anna.Strathy@ofina.on.ca>; Gavin He <Gavin.He@ofina.on.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca>; Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Patel, Lesley (MOF) <Lesley.Patel@ontario.ca>; Shannon Jack (MTO) <Shannon.Jack@ontario.ca>; David Goodwin (MOI) <David.S.Goodwin@ontario.ca>; Manning, Catalina (TBS) <Catalina.Manning@ontario.ca>
> Subject: FW: FAO's Upcoming EFO Report
>
> Hi Everyone - this is a heads up that we expect to receive drafts of the economic and fiscal sections of the FAO's report Monday. I will send it around to folks soon after and the game plan for consolidating comments to meet their Tuesday deadline.
>
> Thanks and have a great weekend everyone!
>
> -----Original Message-----
> From: David West [mailto:dwest@fao-on.org]
> Sent: May-05-17 10:22 AM
> To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
> Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS)
> Subject: FAO's Upcoming EFO Report
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> David West
> 416.579.1465
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> -----Original Message-----
> From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
> Sent: April 28, 2017 5:40 PM
> To: David West <dwest@fao-on.org>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
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>
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> Sent: April 28, 2017 9:32 AM
> To: Tim Schuurman (Tim.Schuurman@ontario.ca) <Tim.Schuurman@ontario.ca>; karen.hughes@ontario.ca; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Cindy.Veinot@ontario.ca
> Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; 'Birks, Ryan (MOF)' <Ryan.Birks@ontario.ca>; 'Laughton, Patrick (TBS)' <Patrick.Laughton@ontario.ca>; 'Hosick, Sarah (TBS)' <Sarah.Hosick@ontario.ca>; Luan Ngo (lngo@fao-on.org) <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Mario Angastiniotis (MAngastiniotis@fao-on.org) <MAngastiniotis@fao-on.org>; Nicolas Rhodes (nrhodes@fao-on.org) <nrhodes@fao-on.org>
> Subject: Follow-Up on the 2017 Budget
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>
> We'll provide a list later this afternoon that expands somewhat on these question topics.
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> Happy to discuss any of these requests.
>
> Thanks again for your support,
> David
>
> David West

> Chief Economist
> [cid:image009.png@01D17ECB.966ECE00]
>
> 2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
> t.416.579.1465 | dwest@fao-on.org<mailto:dwest@fao-on.org>
> www.fao-on.org<http://www.fao-on.org/>
>
>

From: Ken Kandeepan
To: Gadi Mayman
Cc: Anna Strathy
Subject: Re: FAO"s Upcoming EFO Report
Date: Wednesday, May 10, 2017 6:49:48 AM

Thanks Gadi, this is exactly what Bonnie insisted upon in our last couple of conversations.

Ken k

> On May 9, 2017, at 10:44 PM, Gadi Mayman <Gadi.Mayman@ofina.on.ca> wrote:
>
> You might want to look at the second last paragraph of David's response, Ken.
>
> Original Message
> From: David West <dwest@fao-on.org>
> Sent: Tuesday, May 9, 2017 8:04 PM
> To: Tim Schuurman (MOF); Karen Hughes (MGS); Brian Lewis (MOL); Veinot, Cindy (TBS)
> Cc: Ghufran Tarin (MOF); Birks, Ryan (MOF); Patrick Laughton (MOF); Hosick, Sarah (TBS); Edward Crummey; Luan Ngo; Mario Angastiniotis; Nicolas Rhodes; Selena Esmail (MOF); Gadi Mayman; Maria Duran-Schneider (MOF); Ronald Kwan; Erik Girard (MCI)
> Subject: RE: FAO's Upcoming EFO Report
>
>
> Tim (and everyone),
>
> Thank you very much for your quick response. I know the deadline was challenging.
>
> I've had a quick review of your comments/suggested edits -- which in general seem thorough, balanced and reasonable.
>
> We'll review more carefully tomorrow, but I believe we will be able to accept the majority of the suggested changes.
>
> One quick comment -- I noticed you suggest we refer to the Pension Advisory Panel as the 'Expert' Advisory Panel... As you might expect, we shared the pension accounting section (only) with AG staff and they insisted we remove 'Expert' from the description of the panel. Just sayin'.
>
> We'll be in touch tomorrow with any questions.
>
> David W.
>
> -----Original Message-----
> From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
> Sent: May 9, 2017 7:00 PM
> To: David West <dwest@fao-on.org>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
> Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Edward Crummey <ecrummey@fao-on.org>; Luan Ngo <lngo@fao-on.org>; Mario Angastiniotis <MAngastiniotis@fao-on.org>; Nicolas Rhodes <nrhodes@fao-on.org>; Esmail, Selena (MOF) <Selena.Esmail@ontario.ca>; Mayman, Gadi (OFA) <Gadi.Mayman@ofina.on.ca>; Duran-Schneider, Maria (TBS) <Maria.Duran-Schneider@ontario.ca>; Kwan, Ronald (OFA) <Ronald.Kwan@ofina.on.ca>; Girard, Erik (MOF) <Erik.Girard@ontario.ca>
> Subject: RE: FAO's Upcoming EFO Report

>
> David (and other FAO colleagues);
>
> Please find attached our consolidated feedback to the Economic Outlook and Fiscal Outlook draft reports. We have focussed on the factual components of this, and have tried to keep an eye on the cabinet confidentiality issue as well. With that in mind, here are a few high-level points to help guide your review of our comments:
>
> -- As in past reports, it is really important for us that you clearly distinguish what is an FAO projection vs. what is a Budget or government projection. This is applied somewhat inconsistently in the draft report. As such, we've provided some advice on where we think that distinction is important to have clearly articulated.
>
> -- Since the Budget forecast horizon only is provided out to 19-20, we think it is important that you make it more clear that you have provided two additional years beyond what is provided for in the Budget documents.
>
> -- With respect to Cabinet Confidentiality, we think that, overall it has been well-respected -- with two exceptions.
>
> 1. In a footnote about the child care spaces, you note that "ministry of finance officials indicated that its not fully funded in the fiscal plan" -- a point that is protected under Cabinet Confidence and cannot be disclosed as such. We've provided the deletion in the comment and some alternative wording.
>
> 2. The pension adjustment numbers (ie, the impact of the AG's pension accounting treatment) is not something used for the purposes of building the fiscal plan in the Budget -- and as such, cannot be considered a government projection (even though the government did disclose the potential impact of the pension adjustment in the 2016 FES, it did not do so as part of the 2017 Budget). As such, the underlying multi-year pension numbers provided to you by OPCD should be considered advice to Cabinet and protected. We think that perhaps a further conversation is required on this to make sure we are respecting Cabinet Confidentiality -- but in the interest of giving you feedback today, we thought it was important to provide a potential alternative for consideration. If you consider making it clear that those projections of the pension adjustment are FAO projections -- and not a government projection -- then perhaps we may be able to avoid a breach of Cabinet Confidentiality. We understand from OPCD that they did provide you with the underlying data, and instructions on how to calculate -- but the pension adjustment itself, as presented in the tables, is an FAO estimate of the pension accounting impact and not the government's. As such, you should clearly label it as such and be held accountable for explaining and owning the calculation as well, if asked. If you feel these need additional conversation with us, please let us know....happy to have a follow-up discussion. Hope that makes sense.
>
> Thanks to everyone across MOF/TBS world who worked hard and collaboratively to make sure we could get you something by eod today. We appreciate the opportunity to review and provide feedback. We are happy to have more conversations in the lead-up to the provision of the report to Ministers. If you could also let us know when you expect the release date to be, that would help us plan as well.
>
> Thanks again
>
> Tim Schuurman
> Assistant Deputy Minister
> Office of the Budget, Ministry of Finance
> 7 Queen's Park Cres.
> Toronto ON M7A 1Z1
> Tel: 416-327-0173
>
>
> -----Original Message-----
> From: David West [mailto:dwest@fao-on.org]
> Sent: May-08-17 10:24 AM
> To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
> Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Edward Crummey; Luan Ngo; Mario Angastiniotis; Nicolas Rhodes
> Subject: RE: FAO's Upcoming EFO Report

>
> Good Morning,
>
> Please find attached drafts of the Economic Outlook and Fiscal Outlook chapters from the FAO's upcoming 'Economic and Fiscal Outlook' report.
> The chapters are password protected using the same password as in the past.
>
> The FAO's fiscal forecast incorporates the tax revenue adjustments that we received on Friday afternoon -- and which brings our short-term forecast much closer the Budget 2017 forecast.
>
> Unfortunately, we are on a very tight schedule to enable us to release this report at the end of the May.
>
> So, we are asking for your comments/concerns including any potential cabinet confidentiality issues by end of day tomorrow (Tuesday, May 9)
>
> Thanks again for your support and assistance.
>
>
> David West
> Chief Economist
>
>
> 2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
> t.416.579.1465 | dwest@fao-on.org
> www.fao-on.org
>
>
>
> -----Original Message-----
> From: David West
> Sent: May 5, 2017 10:22 AM
> To: 'Schuurman, Tim (MOF)' <Tim.Schuurman@ontario.ca>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Cindy.Veinot@ontario.ca
> Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
> Subject: FAO's Upcoming EFO Report
>
> Hello,
>
> Thanks again for our meeting on Tuesday. We appreciate the information you have provided as well as the responses to our questions at the meeting.
>
> On Monday morning (as early as possible) we plan to provide you with draft copies of the Economic Outlook and Fiscal Outlook chapters (including Forecast Tables) from the FAO's upcoming EFO report.
>
> We would hope you would be able to provide us with any comments or concerns on these chapters by Tuesday (May 9), end of day.
>
> As in the past, the FAO will provide a final copy of the report 48 hours prior to release to both Ministers. I would email you a copy at the same time.
>
> Thanks,
>
> David West
> 416.579.1465
>
> -----Original Message-----

> From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
> Sent: April 28, 2017 5:40 PM
> To: David West <dwest@fao-on.org>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
> Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Luan Ngo <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Mario Angastiniotis <MAngastiniotis@fao-on.org>; Nicolas Rhodes <nrhodes@fao-on.org>
> Subject: Re: Follow-Up on the 2017 Budget
>
> Thanks David,
>
> We're working on pulling together the various information pieces and people for a meeting Tuesday between 1pm and 2pm, so will be in touch to confirm.
>
> As in past approaches, we won't be able to have everything for you on Tuesday but will be able to provide a downpayment for sure.
>
> Have a great weekend
> Tim
>
> From: David West
> Sent: Friday, April 28, 2017 5:14 PM
> To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
> Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Luan Ngo; Edward Crummey; Mario Angastiniotis; Nicolas Rhodes
> Subject: RE: Follow-Up on the 2017 Budget
>
>
> As promised, please find attached more detailed questions.
>
> Please confirm when we can meet early next week.
>
> Thanks
> dw
>
> From: David West
> Sent: April 28, 2017 9:32 AM
> To: Tim Schuurman (Tim.Schuurman@ontario.ca) <Tim.Schuurman@ontario.ca>; karen.hughes@ontario.ca; Lewis, Brian (MOF) <Brian.Lewis@Ontario.ca>; Cindy.Veinot@ontario.ca
> Cc: Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; 'Birks, Ryan (MOF)' <Ryan.Birks@ontario.ca>; 'Laughton, Patrick (TBS)' <Patrick.Laughton@ontario.ca>; 'Hosick, Sarah (TBS)' <Sarah.Hosick@ontario.ca>; Luan Ngo (lngo@fao-on.org) <lngo@fao-on.org>; Edward Crummey <ecrummey@fao-on.org>; Mario Angastiniotis (MAngastiniotis@fao-on.org) <MAngastiniotis@fao-on.org>; Nicolas Rhodes (nrhodes@fao-on.org) <nrhodes@fao-on.org>
> Subject: Follow-Up on the 2017 Budget
>
> Good Morning!
>
> Congratulations on delivering yesterday's big, black budget!
>
> I wanted to follow-up on the FAO's requests for some additional information.
>
> First, as we have discussed, we have three requests for specific data/tables:
>
>
> 1. We would like to obtain the detailed revenue and expense tables (Tables 6.14 and 6.15) extended to 2019-

20.
>
> - Are these detailed tables available to 2020-21? If so, then please include (:))
>
>
>
> 2. As staff have been discussing, we would like to obtain more detailed information on the one-time adjustments to taxation revenues beginning in 2015-16 and extending over the forecast. This is basically additional information to that provided in tables 6.7, 6.8 and 6.9.
>
>
>
> 3. As detailed in the letter and background documents sent to Deputies Thompson and Angus on April 3, we are requesting pension expense and employer contribution details for the OTPP and OPSEUPP.
>
> We would also appreciate a meeting early next week (preferably Tuesday afternoon) to allow you to respond to a number of questions that we have with regard to the 2017 Budget.
>
> We'll provide a list of specific questions later this afternoon, but these questions will cover a number of areas, including:
>
>
> - Clarification on where the Fair Hydro Plan appears in the expenses
>
> - Additional details/clarification on new health spending, including the new pharmacare plan
>
> - Clarification on future assumptions for asset sales and any details behind the 'Sales and Rentals' line in the detailed Revenue table.
>
> - Clarification on the assumptions behind new federal funding announced in the 2017 federal budget (e.g. affordable housing, child care, home care)
>
> - Some background on the decision to reduce the estimate of 'Carbon Allowance Proceeds' and assumptions on associated expense
>
> - Additional details/clarification on new infrastructure spending
>
> - Assumptions behind the plan to reduce net debt-to-GDP to 35% and eventually to 27%.
>
> We'll provide a list later this afternoon that expands somewhat on these question topics.
>
> Happy to discuss any of these requests.
>
> Thanks again for your support,
> David
>
> David West
> Chief Economist
> [cid:image009.png@01D17ECB.966ECE00]
>
> 2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2
> t.416.579.1465 | dwest@fao-on.org<mailto:dwest@fao-on.org>
> www.fao-on.org<https://urldefense.proofpoint.com/v2/url?u=http-3A__www.fao-2Don.org_&d=DwIFAw&c=qG_YucLTZOaBAapRaQkKEgrMWFFI0Cr1_eykjn9FtiQ&r=OdoCVLs6i-6reBTUJh9PAGSfpmSjeJXGKKb9SzvJOII&m=QfkAJyCxLKQ1SQi-dACOG5UJEKXqf9JfvOgc16_ABIE&s=czePv2stakYrXXD1Rf7--YGcVuIPuuf-14XT6nDhmAw&e= >
>

From: Gadi Mayman
To: Ken Kandeepan
Cc: Christina Zhang
Subject: Re: FES Fiscal Strategy #4
Date: Saturday, October 08, 2016 9:09:27 AM
Attachments: image001.png

Thanks, Ken. If the review goes against the Province, I think we have a problem, no matter how we describe it in the FES.

Thanks again, and have a very happy Thanksgiving.

Gadi

On Oct 8, 2016, at 8:25 AM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:

> Thanks Gadi, the footnote option or the one showing the impact of the pension adjustment on the deficit/surplus as a below the line item makes the most sense to me.
>
> Any option that seeks to absorb the pension adjustment in 16-17 and the out-years is quite risky since if the independent review is in the Province's favour, then the Government is stuck with the revised revenues and expenditure profiles which is not only challenging to achieve but effectively leads to almost balance in 16-17 and surpluses in the out years.
>
> There is also a credibility issue as to if this level of flexibility was available why it was not previously included in the out year numbers.
>
> The footnote option has its own risks if the review goes against the Province, however, having read both sides of the argument I am cautiously optimistic.
>
> Here's wishing you and the family a fun and happy thanksgiving
>
> Ken k
>
> ---
>
> **From:** Gadi Mayman
> **Sent:** Friday, October 07, 2016 9:30 PM
> **To:** Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
> **Subject:** Fw: FES Fiscal Strategy #4
>
> ---
>
> **From:** Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
> **Sent:** Friday, October 7, 2016 7:00 PM
> **To:** Scott Thompson (CAB); Greg Orencsak (MOF); Karen Hughes (MGS); Veinot, Cindy (TBS); Maria Duran-Schneider (MOF); Brian Lewis (MOL); Sriram Subrahmanyan (MOF);

Gadi Mayman
Cc: David McLean (MOF); Christopher Pearce (MOI); Patrick Laughton (MOF); Nina Arbabzadeh (EDU); Birks, Ryan (MOF); Jenarra DeSouza (MEDTE/MRI); Tara McGrath (MOF); Emma Lindquist (MOF); Kyle MacIntyre (MOF); Ronald Jaikaran (MOF)
Subject: FES Fiscal Strategy #4

Hello

Please find attached an updated FES fiscal strategy document, that takes into account the feedback from both Wednesday's FPC and the Minister's briefing yesterday, to move it along to the next stage of discussion. This could be considered an agenda item for upcoming FPC-lite meetings next week or other venues to move the decision-making forward.

Happy to take feedback or comments.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173
<image001.png>


Office of the Budget
MINISTRY of FINANCE

From: Ken Kandeepan
To: John Psinas
Cc: Christina Zhang
Subject: Re: FES Fiscal Strategy Update at FPC Tomorrow
Date: Tuesday, October 04, 2016 12:26:31 PM

Hi John

I spoke to Tim and he suggests that for 15-16 we provide the net debt to GDP on both basis but reverse the pension adjustment for the out years

On Oct 4, 2016, at 12:17 PM, Christina Zhang <Christina.Zhang@ofina.on.ca> wrote:

> Hi there,
>
> Not sure if OTB already shared this with you. Please note that this is tracking to FPC tomorrow.
>
> Regards,
> Christina
>
> ---
>
> **From:** Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
> **Sent:** Tuesday, October 04, 2016 10:34 AM
> **To:** Christina Zhang <Christina.Zhang@ofina.on.ca>
> **Cc:** Tara McGrath (MOF) <Tara.McGrath@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
> **Subject:** FES Fiscal Strategy Update at FPC Tomorrow
> **Importance:** High
>
> Hi Christina,
>
> I just wanted to flag that there will be a FES Fiscal Strategy update tracking to FPC tomorrow. As a reference, I'm attaching the latest iteration of the deck that was prepared last week. Note, we'll be using a shortened version of the deck for tomorrow's FPC meeting.
>
> Can OFA confirm if there are any updates to net debt to GDP as a result of yesterday's release of 2015-16 Annual Report that should be included as soon as possible?
>
> Thanks,
> Ryan
>
> <FES_Updated_Fiscal_Strategy_v12.pptx>

From: Gadi Mayman
To: Ken Kandeepan
Cc: Christina Zhang
Subject: Re: FES Fiscal Strategy Update
Date: Tuesday, October 18, 2016 11:28:33 PM

Thanks, Ken. As you point out, there are no easy answers or what I'd call "good" solutions given the box that we find ourself in following the auditor's opinion and views on pension accounting. I'd really like to know who the independent third party was that she used to confirm her views on this, and why they're so contrary to OPCD's.

On Oct 18, 2016, at 10:14 PM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:

> Thanks Gadi, with the exception of the option that shows the pension impact as a narrative, the others present risks for the government. If the review results are aligned with the Government's position then we are effectively balancing in 16-17 (a very small deficit of approximately $2B) and presenting surpluses in 17-18 and 18-19. These commitments need to be met in order to preserve credibility.
>
> Alternatively, if the review results are against our position the requirement to balance and all that entails still exists, and slippage represents a loss of credibility. If we are going to go this route, I would recommend that we present the pension adjustment separately instead of including it in the program expense.
>
> ---
>
> The credibility issue goes away if the pension adjustment is presented as a narrative. If the review result is favourable then we revert to the presentation in slide 3, and all is well. If not then the problem has to be addressed as part of the 2017 Budget.
>
> Thanks
>
> Ken K
>
> **From:** Gadi Mayman
> **Sent:** Tuesday, October 18, 2016 9:04 PM
> **To:** Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
> **Cc:** Christina Zhang <Christina.Zhang@ofina.on.ca>
> **Subject:** Fwd: FES Fiscal Strategy Update
>
> Begin forwarded message:
>
> > **From:** "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
> > **To:** "Scott Thompson (CAB)" <Scott.Thompson@ontario.ca>, "Helen

Angus (MOHLTC)" <Helen.Angus@ontario.ca>, "Karen Hughes (MGS)" <Karen.Hughes@ontario.ca>, "Maria Duran-Schneider (MOF)" <Maria.Duran-Schneider@ontario.ca>, "Brian Lewis (MOL)" <Brian.Lewis@ontario.ca>, "Gadi Mayman" <Gadi.Mayman@ofina.on.ca>, "Sriram Subrahmanyan (MOF)" <Sriram.Subrahmanyan@ontario.ca>
Cc: "David McLean (MOF)" <David.McLean@ontario.ca>, "Christopher Pearce (MOI)" <Christopher.Pearce@ontario.ca>, "Kyle MacIntyre (MOF)" <Kyle.MacIntyre@ontario.ca>, "Patrick Laughton (MOF)" <Patrick.Laughton@ontario.ca>, "Ghufran Tarin (MOF)" <Ghufran.Tarin@ontario.ca>, "Jenarra DeSouza (MEDTE/MRI)" <Jenarra.DeSouza@ontario.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>, "Selena Esmail (MOF)" <Selena.Esmail@ontario.ca>, "Tara McGrath (MOF)" <Tara.McGrath@ontario.ca>, "Emma Lindquist (MOF)" <Emma.Lindquist@ontario.ca>, "Ronald Jaikaran (MOF)" <Ronald.Jaikaran@ontario.ca>, "Nina Arbabzadeh (EDU)" <Nina.Arbabzadeh@ontario.ca>
Subject: FES Fiscal Strategy Update

Please find attached an updated version of the FES Fiscal Strategy Deck following our meeting earlier this afternoon – reflecting as many of the comments and suggestions as we could, and incorporating amended numbers where applicable.

We propose this deck be tabled as part of tomorrow's FPC discussion.

Please note the deck includes confidential information, including on tax measures, and as such, distribution should be restricted.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

From: Ken Kandeepan
To: Gadi Mayman
Cc: Christina Zhang
Subject: Re: FES Fiscal Strategy Update
Date: Wednesday, October 19, 2016 7:43:38 AM

In one way Gadi I am a little cheered by her refusal to release whatever external opinion she has obtained.

If it was from one of the big four and was clear and unequivocal she probably would have released it, not only to buttress her position but to limit the government's options.

The fact that she has not done so increases the probability that the independent review would opine in our favour.

Hopefully this not just wishful thinking on my part.

Thanks

Ken k

On Oct 18, 2016, at 11:28 PM, Gadi Mayman <Gadi.Mayman@ofina.on.ca> wrote:

> Thanks, Ken. As you point out, there are no easy answers or what I'd call "good" solutions given the box that we find ourself in following the auditor's opinion and views on pension accounting. I'd really like to know who the independent third party was that she used to confirm her views on this, and why they're so contrary to OPCD's.
>
> On Oct 18, 2016, at 10:14 PM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:
>
> > Thanks Gadi, with the exception of the option that shows the pension impact as a narrative, the others present risks for the government. If the review results are aligned with the Government's position then we are effectively balancing in 16-17 (a very small deficit of approximately $2B) and presenting surpluses in 17-18 and 18-19. These commitments need to be met in order to preserve credibility.
> >
> > Alternatively, if the review results are against our position the requirement to balance and all that entails still exists, and slippage represents a loss of credibility. If we are going to go this route, I would recommend that we present the pension adjustment separately instead of including it in the program expense.
> >
> > ---
> >
> > The credibility issue goes away if the pension adjustment is presented as a narrative. If the review result is favourable then we revert to the

presentation in slide 3, and all is well. If not then the problem has to be addressed as part of the 2017 Budget.

Thanks

Ken K

From: Gadi Mayman
Sent: Tuesday, October 18, 2016 9:04 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Fwd: FES Fiscal Strategy Update

Begin forwarded message:

> **From:** "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
> **To:** "Scott Thompson (CAB)" <Scott.Thompson@ontario.ca>, "Helen Angus (MOHLTC)" <Helen.Angus@ontario.ca>, "Karen Hughes (MGS)" <Karen.Hughes@ontario.ca>, "Maria Duran-Schneider (MOF)" <Maria.Duran-Schneider@ontario.ca>, "Brian Lewis (MOL)" <Brian.Lewis@ontario.ca>, "Gadi Mayman" <Gadi.Mayman@ofina.on.ca>, "Sriram Subrahmanyan (MOF)" <Sriram.Subrahmanyan@ontario.ca>
> **Cc:** "David McLean (MOF)" <David.McLean@ontario.ca>, "Christopher Pearce (MOI)" <Christopher.Pearce@ontario.ca>, "Kyle MacIntyre (MOF)" <Kyle.MacIntyre@ontario.ca>, "Patrick Laughton (MOF)" <Patrick.Laughton@ontario.ca>, "Ghufran Tarin (MOF)" <Ghufran.Tarin@ontario.ca>, "Jenarra DeSouza (MEDTE/MRI)" <Jenarra.DeSouza@ontario.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>, "Selena Esmail (MOF)" <Selena.Esmail@ontario.ca>, "Tara McGrath (MOF)" <Tara.McGrath@ontario.ca>, "Emma Lindquist (MOF)" <Emma.Lindquist@ontario.ca>, "Ronald Jaikaran (MOF)" <Ronald.Jaikaran@ontario.ca>, "Nina Arbabzadeh (EDU)" <Nina.Arbabzadeh@ontario.ca>
> **Subject: FES Fiscal Strategy Update**
>
> Please find attached an updated version of the FES Fiscal

Strategy Deck following our meeting earlier this afternoon – reflecting as many of the comments and suggestions as we could, and incorporating amended numbers where applicable.

We propose this deck be tabled as part of tomorrow's FPC discussion.

Please note the deck includes confidential information, including on tax measures, and as such, distribution should be restricted.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



From: Gadi Mayman
To: Ken Kandeepan
Cc: Christina Zhang
Subject: Re: FES Fiscal Update Deck for MPC
Date: Thursday, October 13, 2016 9:15:50 PM
Attachments: image003.png

Thanks, Ken. I agree, but we'll see which direction PO wants to go tomorrow.

On Oct 13, 2016, at 9:09 PM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:

> Thanks Gadi, numbers and options remain unchanged from the last version on Friday. I would recommend the footnote option for the Pension Adjustment.
>
> The fact that the FAO's draft fiscal outlook, (assuming that the final version is the same) provides their assessment of the deficit, net debt, etc., both with and without the pension adjustment provides credibility to the Government's position that the results of the independent review can well reverse this adjustment. This point is not well brought out in the slides so perhaps it can be included.
>
> Based on that premise the footnote option seems viable, so is the "below the line" but the footnote at least to me is cleaner.
>
> Thanks
>
> Ken k
>
> ---
>
> **From:** Gadi Mayman
> **Sent:** Thursday, October 13, 2016 7:12 PM
> **To:** Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
> **Cc:** Christina Zhang <Christina.Zhang@ofina.on.ca>
> **Subject:** Fwd: FES Fiscal Update Deck for MPC
>
> Begin forwarded message:
>
> > **From:** "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
> > **To:** "Scott Thompson (CAB)" <Scott.Thompson@ontario.ca>, "Ghiassi, Ali (MOF)" <Ali.Ghiassi@ontario.ca>, "Elizabeth Mendes (MOF)" <Elizabeth.Mendes@ontario.ca>, "Sriram Subrahmanyan (MOF)" <Sriram.Subrahmanyan@ontario.ca>, "Brian Lewis (MOL)" <Brian.Lewis@ontario.ca>, "Gadi Mayman" <Gadi.Mayman@ofina.on.ca>
> > **Cc:** "David McLean (MOF)" <David.McLean@ontario.ca>, "Jenarra DeSouza (MEDTE/MRI)" <Jenarra.DeSouza@ontario.ca>, "Christopher

Pearce (MOI)" <Christopher.Pearce@ontario.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>, "Tara McGrath (MOF)" <Tara.McGrath@ontario.ca>, "Selena Esmail (MOF)" <Selena.Esmail@ontario.ca>, "Emma Lindquist (MOF)" <Emma.Lindquist@ontario.ca>, "Ghufran Tarin (MOF)" <Ghufran.Tarin@ontario.ca>, "Christina Zhang" <Christina.Zhang@ofina.on.ca>, "Ronald Jaikaran (MOF)" <Ronald.Jaikaran@ontario.ca>

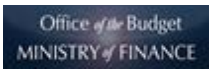
Subject: FES Fiscal Update Deck for MPC

Please find attached an updated version of the FES Fiscal Outlook Strategy deck that would track to MPC tomorrow, as discussed earlier today, reflecting the feedback and discussion.

Please note that this deck contains information on tax and other financial information and that circulation of this deck should be limited.

It is also the internal FES password.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173




Office of the Budget
MINISTRY of FINANCE

From: Gadi Mayman
To: Ken Kandeepan
Cc: Christina Zhang
Subject: Re: FPC Materials
Date: Tuesday, October 25, 2016 10:22:37 PM
Attachments: image001.png

Yes, we need to make sure that the pension adjustment is described exactly that way, and that the explanation is included in the narrative in the fiscal chapter, not just introduced and first described in the narrative in 3c as it currently is.

I see that we're doing the financing table meeting tomorrow's 9:45 before my weekly with you. I assume Jim and Dave came to you with their objection to the way I wanted to reduce the LT borrowing program, and with the compromise that I agreed to?

Also, I don't think we'll have time for your weekly after that, as I have to be at FPC for the final kick at the can on the fiscal plan before we lock down numbers, so should we move it to the afternoon, or to Thursday?

Thanks,
Gadi

On Oct 25, 2016, at 9:36 PM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:

> Thanks Gadi, appears no changes in numbers and narrative. My only comment is that the pension adjustment narrative should emphasize the that Government's prudent and risk averse approach based on the legislated basis of accounting that was implemented in 2015-16 and include a reference to the independent review.
>
> Thanks
>
> Ken K
>
> ---
>
> **From:** Gadi Mayman
> **Sent:** Tuesday, October 25, 2016 7:31 PM
> **To:** Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
> **Cc:** Christina Zhang <Christina.Zhang@ofina.on.ca>
> **Subject:** Fw: FPC Materials
>
> ---
>
> **From:** Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
> **Sent:** Tuesday, October 25, 2016 5:43 PM
> **To:** Scott Thompson (CAB); Helen Angus (MOHLTC); Brian Lewis (MOL); Gadi Mayman; Karen Hughes (MGS); Maria Duran-Schneider (MOF); Sriram Subrahmanyan (MOF)
> **Cc:** David McLean (MOF); Christopher Pearce (MOI); Birks, Ryan (MOF); Selena Esmail (MOF); Tara McGrath (MOF); Emma Lindquist (MOF)
> **Subject:** FPC Materials

Please find attached the proposed FES Fiscal Strategy pieces for tomorrow's FPC.

Please restrict distribution of these documents.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173


Office of the Budget
MINISTRY of FINANCE

From: Ken Kandeepan
To: Gadi Mayman
Cc: Christina Zhang
Subject: Re: FPC Materials
Date: Wednesday, October 26, 2016 7:10:43 AM

Hi Gadi

Yes I did have a conversation with Jim and Dave and the FT that we will be presenting to you today does reflect that discussion.

We can move the bi-weekly to the afternoon

Thanks

Ken k

On Oct 25, 2016, at 10:22 PM, Gadi Mayman <Gadi.Mayman@ofina.on.ca> wrote:

> Yes, we need to make sure that the pension adjustment is described exactly that way, and that the explanation is included in the narrative in the fiscal chapter, not just introduced and first described in the narrative in 3c as it currently is.
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Sent: Tuesday, October 25, 2016 5:43 PM
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Cc: David McLean (MOF); Christopher Pearce (MOI); Birks, Ryan (MOF); Selena Esmail (MOF); Tara McGrath (MOF); Emma Lindquist (MOF)
Subject: FPC Materials

Please find attached the proposed FES Fiscal Strategy pieces for tomorrow's FPC.

Please restrict distribution of these documents.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173
<image001.png>

From: Gadi Mayman
To: Ken Kandeepan
Cc: Christina Zhang
Subject: Re: Fiscal Overview Deck for FPC
Date: Monday, December 05, 2016 9:02:31 AM

Thanks, Ken. I noticed that they've got the IOD target as a low risk for this year, but a medium for the out years. I'm fine with that characterization.

Original Message
From: Ken Kandeepan
Sent: Monday, December 5, 2016 9:00 AM
To: Gadi Mayman
Cc: Christina Zhang
Subject: RE: Fiscal Overview Deck for FPC

Hi Gadi

Just saw this email; no significant changes from the previous version. The pension adjustment comprises around one third of the gap in 17-18, growing to well over 40% in 18-19, hopefully the review will provide some relief.

Thanks

Ken k

-----Original Message-----
From: Gadi Mayman
Sent: Sunday, December 04, 2016 10:14 AM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Fw: Fiscal Overview Deck for FPC

Original Message
From: Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca>
Sent: Sunday, December 4, 2016 8:59 AM
To: Scott Thompson (CAB); Helen Angus (MOHLTC)
Cc: Karen Hughes (MGS); Maria Duran-Schneider (MOF); Brian Lewis (MOL); Gadi Mayman; Arruda, Artur (TBS); David McLean (MOF); Kyle MacIntyre (MOF); Christopher Pearce (MOI)
Subject: Fiscal Overview Deck for FPC

Deputies

Please find attached an updated Fiscal Overview deck that could track to FPC this week (and Minister Sandals' briefing first thing tomorrow morning).

This reflects updated numbers on both the revenue and expense side since we discussed it on Thursday with the MO's. It also attempts to capture the various feedback and requests made at that meeting.

Caveat and disclaimer: Please note that while folks have been working very hard at getting the numbers scrubbed and reviewed, that there is still a significant degree of work that needs to be done to add precision and accuracy to the numbers. In addition, when we discussed this deck as a group late yesterday, there are some tweaks that we would like to make to the way some of the numbers are shown which we will pick up on Monday.

Thanks again to all who have participated over the past few days to get us to this point.

Tim Schuurman
Assistant Deputy Minister

Office of the Budget

Ministry of Finance

From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	Lynsey Wynberg
Subject:	Re: MMP Deck (fiscal side)
Date:	Sunday, February 05, 2017 2:13:26 PM

Just to expand on my quick response from this morning, there is, as you're very well aware, a parallel discussion going on about electricity mitigation that potentially wouldn't affect the deficit, but would increase debt. I know from discussions that you and I have had that there is the possibility under certain structures for total debt to go up, without net debt rising, but I'm concerned that even if that were to become the selected approach and met the accounting parameters, others, such as rating agencies, would still, in their calculations, add this debt back in, so I'd like to, at least for now, hold that flat-lined net debt to GDP box on slide 5 in place.

The numbers you provided to Scott and me on Wednesday as to the amount of room we'd have to flat-line were very helpful. Another alternative if the off-income statement approach doesn't work for accounting or other reasons, although this is an alternative that our Minister is nowhere near comfortable with at this time, is that the amount of electricity relief could hit the fiscal plan, and we would, if that were to be the case, run deficits that were explicitly, and very publicly, tied to the electricity price relief. At that point the flat-line on the ratio would be a potential constraint on how much price mitigation would be available. The Government is still a long way from making that choice, but Tim is, I believe, trying to give MMMP an idea of what the trade offs are.

Probably more than you want to know, but I hope that puts slide 5's boxes into some context for you.

On your second point on slide 5, I know from the discussion that we had late on Friday, as well as from past experience, that Tim and Karen are very clear on these investments needing to be operational, as opposed to capital. The government tends to view much of what they spend on operations as investments, and that's even more the case this year with cap and trade proceeds, so this is an attempt to speak in language they're comfortable with. Of course, if the choice in the red box on flat-lining the ratio becomes the operative constraint, capital delays work, too.

On the pension adjustment, the AG's response to the report when it was presented to her was not supportive. Slide 8 has it being taken off, still, though, which is a big part of why the Q3 Outlook is where it is, and why the gap for 17-18 is only 1.2, as compared to 5.2 in the slides in the appendix that you are concerned about. That's what the second full bullet is trying to explain, maybe not clearly enough. Don't worry about the appendix slides, as they're just showing the magnitude of the problem before we began finding solutions.

Hope that makes things a little clearer. Hard to do these things over the weekend when we don't have a chance to talk, and for me to give you the context I've gleaned from meetings at QP.

Thanks again for your very useful analysis.

Gadi

On Feb 5, 2017, at 10:40 AM, Gadi Mayman <Gadi.Mayman@ofina.on.ca> wrote:

Thanks, Ken, very useful analysis.

On Feb 5, 2017, at 9:48 AM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:

> Hi Gadi
>
> Few comments
>
> Slide 5: flat lining net debt to GDP as a fiscal anchor seems to be an euphemism for deficits, since balance over the 3 out years will more or less ensure that the ratio is declines, unless of course there are significant increases in capital investments. That is unlikely since the $160B over 12 years appears to be a firm target.
>
> Slide 5: "The fiscal envelope can also be augmented through additional tools and levers, as well as trade-offs between investments (including delaying some investments for the 2018 Document)" presumably this refers to operational investments, delaying capital investments does not help achieve the balance target, may be useful to make that distinction.
>
> Slide 8: "A stronger outlook for revenue and lower interest on debt expense are currently tracking against the Budget forecast – however, spending pressures, new strategic investments, and the pension adjustment have also materialized – together creating a fiscal gap". Why is there a reference to pensions adjustments here, the decision to reverse has been made. Likewise and maybe I am not reading the bar chart in the slide correctly but the pension adjustment appears to be added on to the negative outlook.
>
> Slide 18: looking at the 15-16 revenues and the projection for 18-19, revenues have increased from 126.5B to 142.2B, an increase of $16B, its sobering to note that expenses appear to have increased even more, leading to the challenge to balance.
>
> Slide 19: I am very confused as to why the pension adjustment continues to be an issue since we are reversing it in 16-17. Likewise in Slides 20 and 22.
>
> Bottom line appears to be if the pension adjustment is reversed and the "Potential Additional Electricity Relief" is addressed via a mechanism that minimizes the fiscal impact balance over the three out years may be possible. I am of course assuming that the HST removal is already

factored in the base expense.

Thanks

Ken K

From: Gadi Mayman
Sent: Saturday, February 04, 2017 8:01 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>
Subject: Fwd: MMP Deck (fiscal side)

Begin forwarded message:

> **From:** "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>
> **To:** "Brian Lewis (MOL)" <Brian.Lewis@ontario.ca>, "Gadi Mayman" <Gadi.Mayman@ofina.on.ca>, "Nancy Kennedy (MOHLTC)" <Nancy.Kennedy@ontario.ca>, "Mavroyannis, Maria (MOF)" <Maria.Mavroyannis@ontario.ca>, "Mike Weir (MOHLTC)" <Mike.Weir@ontario.ca>, "Nicole Stewart (MCS)" <Nicole.Stewart@ontario.ca>, "Sriram Subrahmanyan (MOF)" <Sriram.Subrahmanyan@ontario.ca>, "Ronald Kwan" <Ronald.Kwan@ofina.on.ca>
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>
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> As you may know, there is an MMP tracking for next Thursday. We met with the DM's, and then had a joint DM/MO meeting late Friday afternoon/evening to review some materials and map out a plan.

TBS is developing a deck this weekend and we're continuing to develop a fiscal deck. The latest version is attached. Wanted to give you all an opportunity to review, as it cuts across all your areas of responsibility....and interests.

Happy to take feedback over the weekend or into Monday morning. Just note that we have a Joint Ministers' meeting on Monday where this will need to be walked in, and I expect that Scott and the MO will be looking to review perhaps as early as tomorrow.

Cheers

Tim

From: Gadi Mayman
To: Ken Kandeepan
Cc: Lynsey Wynberg
Subject: Re: MMP Deck (fiscal side)
Date: Sunday, February 05, 2017 10:40:25 AM

Thanks, Ken, very useful analysis.

On Feb 5, 2017, at 9:48 AM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:

> Hi Gadi
>
> Few comments
>
> Slide 5: flat lining net debt to GDP as a fiscal anchor seems to be an euphemism for deficits, since balance over the 3 out years will more or less ensure that the ratio is declines, unless of course there are significant increases in capital investments. That is unlikely since the $160B over 12 years appears to be a firm target.
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Ken K

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Sent: Saturday, February 04, 2017 8:01 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
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Cheers

Tim

From: Ken Kandeepan
To: Gadi Mayman
Cc: Lynsey Wynberg
Subject: Re: MMP Deck (fiscal side)
Date: Sunday, February 05, 2017 3:47:14 PM

Thanks Gadi, your context explanation is very helpful.

Ken k

On Feb 5, 2017, at 2:13 PM, Gadi Mayman <Gadi.Mayman@ofina.on.ca> wrote:

> Just to expand on my quick response from this morning, there is, as you're very well aware, a parallel discussion going on about electricity mitigation that potentially wouldn't affect the deficit, but would increase debt. I know from discussions that you and I have had that there is the possibility under certain structures for total debt to go up, without net debt rising, but I'm concerned that even if that were to become the selected approach and met the accounting parameters, others, such as rating agencies, would still, in their calculations, add this debt back in, so I'd like to, at least for now, hold that flat-lined net debt to GDP box on slide 5 in place.
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Ken K

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Cc: Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>
Subject: Fwd: MMP Deck (fiscal side)

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<Maria.Mavroyannis@ontario.ca>, "Mike Weir (MOHLTC)" <Mike.Weir@ontario.ca>, "Nicole Stewart (MCS)" <Nicole.Stewart@ontario.ca>, "Sriram Subrahmanyan (MOF)" <Sriram.Subrahmanyan@ontario.ca>, "Ronald Kwan" <Ronald.Kwan@ofina.on.ca>
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Cheers

Tim

From: John Psinas
To: Ken Kandeepan
Cc: Bonnie Lemcke; George Sakura; Alexander Kraas; Anna Strathy
Subject: Re: Meeting on Monday
Date: Thursday, November 23, 2017 7:25:09 PM

Ken,
Will do.

Thanks.

John

Sent from my iPhone

On Nov 23, 2017, at 7:24 PM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:

> Thanks, given that the call on Monday will primarily deal with the Pension Assets and the accounting for OFHP, we should have Mark Donaldson take part in the call. John, can you pls ask him tomorrow and hopefully he is available, if not Bharat.
>
> Thanks
>
> Ken k
>
> ---
>
> **From:** Bonnie Lemcke
> **Sent:** Thursday, November 23, 2017 4:17 PM
> **To:** Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
> **Cc:** John Psinas <John.Psinas@ofina.on.ca>; George Sakura <George.Sakura@ofina.on.ca>; Alexander Kraas <Alexander.Kraas@ofina.on.ca>
> **Subject:** FW: Meeting on Monday
>
> Here is some additional background information for Monday's meeting.
>
> Bonnie
>
> ---
>
> **From:** Luan Ngo [mailto:lngo@fao-on.org]
> **Sent:** Thursday, November 23, 2017 4:08 PM
> **To:** Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
> **Cc:** David West <dwest@fao-on.org>
> **Subject:** FW: Meeting on Monday
>
> Hi Bonnie,
>
> Please see attached for some detail on our projection. The first part of the table shows

the FAO's projection for net debt, TCA and accumulated deficit on an AG basis. As you can see, the identity holds pretty well for each year. There's a small, under $1 billion variance, and I think it's due to a small adjustment in public accounts, which I commented in the Excel sheet.

The second table breaks down the net debt variance between the projection in the FES and our projection on an AG basis. As discussed, the difference is due to the pension asset for the jointly sponsored pension plans, the FHP, the differences in the deficit projections and the reserve. The last table will probably be interesting for you. It shows that, on the government accounting basis, we're only $3.6 billion higher than the 2017 FES projection – and this is entirely due to differences in the underlying deficit (abstracting from any accounting differences).

As discussed, for the purposes of the AG presentation, which we adopted based on the recommendation in her recent FHP report, we're assuming that:

- The elimination of the IESO market asset would reduce the net income of OPG;
- This would then reduce the Province's total revenue and increase the deficit by an equivalent amount; and that
- Ontario's net debt would increase by the stock of that market asset (since the elimination of the market asset would reduce OPG's equity, which the Province records as a financial asset)

However, there would be no impact to borrowing and gross debt relative to the government's FES presentation because the government already incorporates the provincial portion of FHP borrowing in its fiscal plan.

Anyway, have a look and we'll be happy to meet on Monday to discuss further.

Luan Ngo
(416) 277-1856

From: Bonnie Lemcke [mailto:Bonnie.Lemcke@ofina.on.ca]
Sent: November 23, 2017 3:00 PM
To: Luan Ngo <lngo@fao-on.org>
Subject: Meeting on Monday

What time would work best 10 to 11 in the am or 2:30 to 3:30 in the afternoon.

Bonnie

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

From: Gadi Mayman
To: Ken Kandeepan
Cc: Christina Zhang
Subject: Re: Net Debt to GDP statement in 3b
Date: Thursday, October 27, 2016 10:32:57 PM

Hi Ken. I like the wording that you've proposed, actually, even though you're reluctant to use the last sentence. I know that you're reticent to insert it because of the possibility of the accounting reversal, but that's not the approach that the PO/CO or the MO have been leaning towards as we've come to a conclusion on how the numbers and narrative will look for the FES. While their preferred approach may change by the time we get to next year's Budget, in the meantime we shouldn't hesitate to use the ratios as they currently are, and, I suppose particularly in this case where the trend in the out years, if not the absolute numbers, goes in the direction we want to show.

Regards,
Gadi

On Oct 27, 2016, at 9:34 PM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:

> Hi Gadi
>
> FYI, the issue may come up again when you sign off.
>
> Thanks
>
> Ken k
>
> ---
>
> **From:** Ken Kandeepan
> **Sent:** Thursday, October 27, 2016 9:33 PM
> **To:** Selena Esmail (MOF) <Selena.Esmail@ontario.ca>
> **Cc:** John Psinas <John.Psinas@ofina.on.ca>
> **Subject:** RE: Net Debt to GDP statement in 3b
>
> Hi Selena
>
> That's a good point, however, in the Debt chapter we have intentionally tried to refrain from any mention of the medium term as it relates to the net debt to GDP. There is a reason for our reticence, if the independent review of the pension adjustment supports the Government's position, there is a strong possibility that the accumulated deficit and the net debt will reduce by at least $10.7 billion with an equally material reduction in the ratio.
>
> However, if you strongly feel that a reference to the medium term is required pls consider the following – I have slightly edited John's version plus added a reference to the medium term.

"The net debt to GDP ratio is projected to increase slightly in 2016-17, primarily as a result of a nominal GDP that is forecast to be marginally lower than what was forecast in the 2016 Budget. Over the medium term the ratio is projected to decline progressively".

Thanks

Ken k

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Thursday, October 27, 2016 7:25 PM
To: John Psinas <John.Psinas@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: Net Debt to GDP statement in 3b

Hi Ken, John, - understand Ken, you couldn't make it to sign-off today and John you came – thank you.

Im signing off on 3b now as the director responsible for the chapter and noticed that John, you inserted language regarding what's happening to net debt to GDP for 2016-17 in the fiscal outlook section. However, because this insertion just refers to 2016-17 it is seems out of context from the remainder of the section and wondering if you could propose a revision that speaks to the trend of declining after balance or what's happening over the medium term.

Here's the insertion per John pen edits:

The net debt to GDP ratio is projected to increase slightly in 2016-17 primarily as a result of marginally lower than forecast nominal GDP when compared to the 2016 Budget forecast.

Let me know. Thanks.

From: Esmail, Selena (MOF)
To: Ken Kandeepan
Cc: John Psinas
Subject: Re: Net Debt to GDP statement in 3b
Date: Thursday, October 27, 2016 9:53:13 PM

Works for me! Thanks so much

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Ken Kandeepan
Sent: Thursday, October 27, 2016 9:43 PM
To: Esmail, Selena (MOF)
Cc: John Psinas
Subject: RE: Net Debt to GDP statement in 3b

Not a bad idea why don't I just run this by Gadi first thing tomorrow and let you know if that is ok.

Thanks

Ken k

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Thursday, October 27, 2016 9:39 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: John Psinas <John.Psinas@ofina.on.ca>
Subject: RE: Net Debt to GDP statement in 3b

Thanks ken – what if we just left out a point altogether? I don't think we need to say anything in this section about it. Are you ok to strike it?

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: October-27-16 9:33 PM
To: Esmail, Selena (MOF)
Cc: John Psinas
Subject: RE: Net Debt to GDP statement in 3b

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Ken k

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To: John Psinas <John.Psinas@ofina.on.ca<mailto:John.Psinas@ofina.on.ca>>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca<mailto:Ken.Kandeepan@ofina.on.ca>>
Subject: Net Debt to GDP statement in 3b

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Let me know. Thanks.

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From: John Psinas
To: Ken Kandeepan
Subject: Re: Net Debt to GDP statement in 3b
Date: Thursday, October 27, 2016 9:38:01 PM

Thanks Ken. I was deferring to your call on this and suspected you would mention the slow decline in the ratio mid-term.

John

On Oct 27, 2016, at 9:33 PM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:

> Hi Selena
>
> That's a good point, however, in the Debt chapter we have intentionally tried to refrain from any mention of the medium term as it relates to the net debt to GDP. There is a reason for our reticence, if the independent review of the pension adjustment supports the Government's position, there is a strong possibility that the accumulated deficit and the net debt will reduce by at least $10.7 billion with an equally material reduction in the ratio.
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> **Sent:** Thursday, October 27, 2016 7:25 PM
> **To:** John Psinas <John.Psinas@ofina.on.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
> **Subject:** Net Debt to GDP statement in 3b
>
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Here's the insertion per John pen edits:

The net debt to GDP ratio is projected to increase slightly in 2016-17 primarily as a result of marginally lower than forecast nominal GDP when compared to the 2016 Budget forecast.

Let me know. Thanks.

From: Esmail, Selena (MOF)
To: Ken Kandeepan
Cc: John Psinas
Subject: Re: Net Debt to GDP statement in 3b
Date: Friday, October 28, 2016 8:51:19 AM

Thanks ken!

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: Ken Kandeepan
Sent: Friday, October 28, 2016 8:46 AM
To: Esmail, Selena (MOF)
Cc: John Psinas
Subject: RE: Net Debt to GDP statement in 3b

Hi Selina

Had a discussion with Gadi, he prefers that we include the following given that the overall direction from the MO/PO is to move forward on the basis of the legislated accounting for pensions and address the results of the independent review at that time.

"The net debt to GDP ratio is projected to increase slightly in 2016-17, primarily as a result of a nominal GDP that is forecast to be marginally lower than what was forecast in the 2016 Budget. Over the medium term the ratio is projected to decline progressively".

Thanks

Ken k

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Thursday, October 27, 2016 9:53 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: John Psinas <John.Psinas@ofina.on.ca>
Subject: Re: Net Debt to GDP statement in 3b

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To: Esmail, Selena (MOF)
Cc: John Psinas
Subject: RE: Net Debt to GDP statement in 3b

Not a bad idea why don't I just run this by Gadi first thing tomorrow and let you know if that is ok.

Thanks

Ken k

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Subject: Net Debt to GDP statement in 3b

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From: Ken Kandeepan
To: Veinot, Cindy (TBS)
Cc: Nadine Petsche (MOF); John Psinas
Subject: Re: Pension Adjustment
Date: Thursday, December 01, 2016 9:50:34 PM

Thanks very much Cindy, as always a very clear and concise explanation. This is adequate for our purposes and we take note of your point that the Province has not mentioned HOOP and CAATT as yet.

As such, if the question is ever asked by investors as to why the expenditure offset and of course it's reversal increases materially from 15-16 to 18-19 we shall respond that in addition to the amortization and the net interest income of the two plans in question other pension plans of the province are also moving in to an asset position.

As they do so the expenditure offset and its reversal increases. All of these are being reviewed by the Independent Panel and we await its report with bated breath. Well perhaps that's an exaggeration but certainly with great interest.

Thanks again

Ken k

Sent from my iPad

On Dec 1, 2016, at 5:39 PM, Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca> wrote:

> Nadine is off sick, so a couple of quick comments, remembering that the estimates from the prior year originally forecast increases in the assets each year and the impact of the $1.5 and $3.7 are to take the assets down to NIL.
>
> <!--[if !supportLists]-->1) <!--[endif]-->As you noted, based on the estimate generated last year for the budget and public accounts for OTPP, the amortization of the unrealized gains is expected to increase (e.g. $400M to $1 Billion between 15-16 and 18-19). In addition, the excess of the interest income generated on the assets as compared to the interest in the obligation is forecast to continue to increase (e.g. $900M to $1.3 Billion between 15-16 and 18-19)
> <!--[if !supportLists]-->2) <!--[endif]-->The $3.7 includes 4 plans vs. 2 plans – both HOOPP and CAATT are expected to move into an asset position by 2018-19. The governance structure for these plans differs from OTPP and OPSEU, so the results of the Panel review may differ on the treatment of these plans. We have never disclosed that HOOPP and CAATT may be impacted by name.
>
> Hope that helps,
>
> Cindy

From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: December-01-16 4:14 PM
To: Petsche, Nadine (TBS)
Cc: John Psinas; Veinot, Cindy (TBS)
Subject: Pension Adjustment

Hi Nadine

As Mike Manning meets investors including financial institutions the pension adjustment questions does come up on a regular basis. Thanks to the explanations previously provided by you, including the briefing note that you shared we are able to adequately respond to all questions so far.

However, on a pro-active basis I do have one more. The PA increases to $3.7 billion in 2018-19 from $1.5 billion in 2015-16. As I understand it a major component of the PA is the amortization of the gain on the assets over an appropriate period. So our question is; does it mean that the gain on assets has increased to such an extent that the resulting amortization of the gain has also increased by more than two-fold over 3 years.

I am including Cindy as well in this questions since she has provided me with some explanations on other aspects of this issue and she may also be able to shed some clarity.

Thanks and if you believe this can be best answered by a short meeting between you and Mike and myself, we will be happy to schedule one.

Ken k

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From: Ken Kandeepan
To: Gadi Mayman
Cc: Christina Zhang
Subject: Re: Pension Adjustment
Date: Monday, December 05, 2016 7:54:57 PM

Yes Gadi, Mike is well aware of the suggested response but is hoping the question will never be asked :-)

Thanks

Ken k

Sent from my iPad

On Dec 5, 2016, at 6:01 PM, Gadi Mayman <Gadi.Mayman@ofina.on.ca> wrote:

> Thanks, Ken. Given that you'd said in your opening email to Cindy that this was for Mike when asked questions by investors, I assume that you've explained this to him?
>
> Have a nice evening.
>
> Gadi
>
> On Dec 5, 2016, at 3:50 PM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:
>
> > Hi Gadi
> >
> > I was supposed to send this to you on Friday, sorry I forgot. Pls see email exchange between Cindy and I re the Pension Adjustment, her explanation is very good. You will find it interesting.
> >
> > Thanks
> >
> > Ken k
> >
> > ---
> >
> > **From:** Ken Kandeepan
> > **Sent:** Thursday, December 01, 2016 9:51 PM
> > **To:** Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
> > **Cc:** Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; John Psinas <John.Psinas@ofina.on.ca>
> > **Subject:** Re: Pension Adjustment
> >
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Thanks again

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Hope that helps,

Cindy

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From:	Hughes, Karen (TBS)
To:	Tim Schuurman (MOF); Veinot, Cindy (TBS); Tara McGrath (MOF); Selena Esmail (MOF); Gadi Mayman; Nadine Petsche (MOF); Ken Kandeepan
Cc:	Alana Anderson (MOF); Ronald Jaikaran (MOF); Birks, Ryan (MOF); Patrick Laughton (MOF)
Subject:	Re: Pension Extract
Date:	Saturday, October 29, 2016 1:51:42 PM
Attachments:	image004.png image003.png

Thanks Tim - good idea to spend some time and align all of this prior to sign off.

Karen

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Schuurman, Tim (MOF)
Sent: Saturday, October 29, 2016 11:07 AM
To: Veinot, Cindy (TBS); McGrath, Tara (MOF); Esmail, Selena (MOF); Mayman, Gadi (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA); Hughes, Karen (TBS)
Cc: Anderson, Alana (MOF); Jaikaran, Ronald (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS)
Subject: RE: Pension Extract

Many thanks to Ron and Alana for pulling the pension language extracts from the yellows for us to review altogether in one package. I've read all the references to the pensions across all the chapters and have the following observations. Ron is setting up a meeting for us on Tuesday to for 30 minutes to talk about this so we can avoid revisiting this constantly during ADM sign-off later in the week.

Key observations:

· Accountability and Transparency Chapter – talks all about 2015-16 Public Accounts process and outcome, but makes no reference to what we're doing in the out-years. I'd recommend we mention something about how we're treating in the out-years for consistency. Right now it reads as if we're awaiting the outcome of the Panel and then will decide what to do after that.

o This chapter also refers to "conservative treatment" which was language Cindy wanted removed to be replaced with "cautious".

· Chapter 3b – makes explicit connection to the draw down of the reserve and the impact of the pension accounting change. This is a decision point and we should discuss. It calls the pension change "unbudgeted" and "unexpected."

· Chapter 3B – in referencing the 2016-17 change in pension expense, it describes it as "reflecting the most recent actuarial valuations of the pension plans" which I didn't realize the numbers did. Thought these numbers were based off of what we did in January/February of this year for budget? This is the only place where we reference this updated valuation in the whole document. Is this accurate and should we be saying it at all?

· Borrowing Chapter – has very different language than the other chapters on this. Refers to "prudent and risk-averse approach" (instead of conservative or cautious) and calls it a "pension adjustment" rather than an accounting change, and calls it a "legislated change" rather than a "regulated change." Will need to align it with other chapters

once we land that language.

· Miscellaneous – the language in the footnotes and the text is not always consistent and is challenging to cross reference. Is it a change in accounting treatment, or a pension adjustment; is it accounting for pension assets or pension expense?

Hoping a meeting will help us create some symmetry across all the papers on this.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173
[cid:image002.png@01D0E4D5.A25B16F0]

From: Schuurman, Tim (MOF)
Sent: October-28-16 12:35 PM
To: Jaikaran, Ronald (MOF); Anderson, Alana (MOF)
Cc: Veinot, Cindy (TBS); McGrath, Tara (MOF); Esmail, Selena (MOF); Mayman, Gadi (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA) (Ken.Kandeepan@ofina.on.ca); Birks, Ryan (MOF)
Subject: Pension Extract

Ron, Alana

Wondering if, as part of landing today's distribution, if we could request a pull of all the paragraphs and language across the fiscal, debt and other chapters (responsible management) that talk about the pensions accounting change. This is something that both Cindy and I would like to review across the whole document to make sure we're treating it consistently, accurately, and effectively.

· Tara can help locate all the references in the fiscal chapter

· Ken K can help locate all the references in the debt chapter

· Nadine can help locate all the references in the Financial Accountability chapter.

We can make sure that Cindy, myself, Gadi, and Karen receive a copy of this pull later tonight for weekend review.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173
[cid:image002.png@01D0E4D5.A25B16F0]


Office of the Budget
MINISTRY of FINANCE


Office of the Budget
MINISTRY of FINANCE

From:	Hughes, Karen (TBS)
To:	Tim Schuurman (MOF); Veinot, Cindy (TBS); Tara McGrath (MOF); Selena Esmail (MOF); Gadi Mayman; Nadine Petsche (MOF); Ken Kandeepan
Cc:	Alana Anderson (MOF); Ronald Jaikaran (MOF); Birks, Ryan (MOF); Patrick Laughton (MOF)
Subject:	Re: Pension Extract
Date:	Saturday, October 29, 2016 1:51:42 PM
Attachments:	image004.png image003.png

Thanks Tim - good idea to spend some time and align all of this prior to sign off.

Karen

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Schuurman, Tim (MOF)
Sent: Saturday, October 29, 2016 11:07 AM
To: Veinot, Cindy (TBS); McGrath, Tara (MOF); Esmail, Selena (MOF); Mayman, Gadi (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA); Hughes, Karen (TBS)
Cc: Anderson, Alana (MOF); Jaikaran, Ronald (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS)
Subject: RE: Pension Extract

Many thanks to Ron and Alana for pulling the pension language extracts from the yellows for us to review altogether in one package. I've read all the references to the pensions across all the chapters and have the following observations. Ron is setting up a meeting for us on Tuesday to for 30 minutes to talk about this so we can avoid revisiting this constantly during ADM sign-off later in the week.

Key observations:

· Accountability and Transparency Chapter – talks all about 2015-16 Public Accounts process and outcome, but makes no reference to what we're doing in the out-years. I'd recommend we mention something about how we're treating in the out-years for consistency. Right now it reads as if we're awaiting the outcome of the Panel and then will decide what to do after that.

o This chapter also refers to "conservative treatment" which was language Cindy wanted removed to be replaced with "cautious".

· Chapter 3b – makes explicit connection to the draw down of the reserve and the impact of the pension accounting change. This is a decision point and we should discuss. It calls the pension change "unbudgeted" and "unexpected."

· Chapter 3B – in referencing the 2016-17 change in pension expense, it describes it as "reflecting the most recent actuarial valuations of the pension plans" which I didn't realize the numbers did. Thought these numbers were based off of what we did in January/February of this year for budget? This is the only place where we reference this updated valuation in the whole document. Is this accurate and should we be saying it at all?

· Borrowing Chapter – has very different language than the other chapters on this. Refers to "prudent and risk-averse approach" (instead of conservative or cautious) and calls it a "pension adjustment" rather than an accounting change, and calls it a "legislated change" rather than a "regulated change." Will need to align it with other chapters

once we land that language.

· Miscellaneous – the language in the footnotes and the text is not always consistent and is challenging to cross reference. Is it a change in accounting treatment, or a pension adjustment; is it accounting for pension assets or pension expense?

Hoping a meeting will help us create some symmetry across all the papers on this.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173
[cid:image002.png@01D0E4D5.A25B16F0]

From: Schuurman, Tim (MOF)
Sent: October-28-16 12:35 PM
To: Jaikaran, Ronald (MOF); Anderson, Alana (MOF)
Cc: Veinot, Cindy (TBS); McGrath, Tara (MOF); Esmail, Selena (MOF); Mayman, Gadi (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA) (Ken.Kandeepan@ofina.on.ca); Birks, Ryan (MOF)
Subject: Pension Extract

Ron, Alana

Wondering if, as part of landing today's distribution, if we could request a pull of all the paragraphs and language across the fiscal, debt and other chapters (responsible management) that talk about the pensions accounting change. This is something that both Cindy and I would like to review across the whole document to make sure we're treating it consistently, accurately, and effectively.

· Tara can help locate all the references in the fiscal chapter

· Ken K can help locate all the references in the debt chapter

· Nadine can help locate all the references in the Financial Accountability chapter.

We can make sure that Cindy, myself, Gadi, and Karen receive a copy of this pull later tonight for weekend review.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173
[cid:image002.png@01D0E4D5.A25B16F0]


Office of the Budget
MINISTRY of FINANCE


Office of the Budget
MINISTRY of FINANCE

From: Ken Kandeepan
To: Mike Manning
Subject: Re: Pension adjustment
Date: Thursday, November 24, 2016 5:44:15 PM

Mike

I can explain this easily however easier by way of a discussion instead of a long and complicated email. unfortunately I am off tomorrow so hopefully it can wait till Monday,

If not let me know and I can email you an explanation tonight.

Thanks

Ken k

> On Nov 24, 2016, at 5:38 PM, Mike Manning <Mike.Manning@ofina.on.ca> wrote:
>
> Hi Ken:
> I should have asked this question when I saw you earlier. I was looking at Public Accounts to get a better understanding of the Pension Adjustment. I think I understand the logic of the $10.7 b increase in net debt but had a question on how this flows through to expenses in a given year. Is it that the write-down in assets must come back to increase expenses over time? For example, expense is higher by $ 1.5 billion last year, $2.2 billion this year, $2.8 billion next year, etc. and this will total to $10.7 billion over time? Would this be offset by a non-cash adjustment?
> Anyway, sorry to bug you but a bit confused.
> Regards, Mike
>
> Sent from my iPad

From: Mike Manning
To: Ken Kandeepan
Subject: Re: Pension adjustment
Date: Thursday, November 24, 2016 5:45:55 PM

I can phone you on day to discuss.
Mike

Sent from my iPad

> On Nov 24, 2016, at 5:44 PM, Ken Kandeepan <Ken.Kandeepan@ofina.on.ca> wrote:
>
> Mike
>
> I can explain this easily however easier by way of a discussion instead of a long and complicated email. unfortunately I am off tomorrow so hopefully it can wait till Monday,
>
> If not let me know and I can email you an explanation tonight.
>
> Thanks
>
> Ken k
>
>> On Nov 24, 2016, at 5:38 PM, Mike Manning <Mike.Manning@ofina.on.ca> wrote:
>>
>> Hi Ken:
>> I should have asked this question when I saw you earlier. I was looking at Public Accounts to get a better understanding of the Pension Adjustment. I think I understand the logic of the $10.7 b increase in net debt but had a question on how this flows through to expenses in a given year. Is it that the write-down in assets must come back to increase expenses over time? For example, expense is higher by $ 1.5 billion last year, $2.2 billion this year, $2.8 billion next year, etc. and this will total to $10.7 billion over time? Would this be offset by a non-cash adjustment?
>> Anyway, sorry to bug you but a bit confused.
>> Regards, Mike
>>
>> Sent from my iPad

From: Gadi Mayman
To: Bonnie Lemcke
Cc: Ken Kandeepan; Anna Strathy; David Cross
Subject: Re: Pension questions
Date: Wednesday, April 04, 2018 4:53:12 PM

Elizabeth, or Alex Killoch, would definitely be the right people to send these questions to.

Gadi

From: Bonnie Lemcke
Sent: Wednesday, April 4, 2018 4:24:57 PM
To: Gadi Mayman
Cc: Ken Kandeepan; Anna Strathy; David Cross
Subject: FW: Pension questions

Hi Gadi,

Here are the questions – this is **not** directly related to Ontario's rating. They are related to the governance and legislation around public pensions. I think I should send to Elizabeth Doherty (ADM Income Security and Pension Policy) to start.

Please let me know if you think I should send to someone else.

Bonnie

From: Offerman, Douglas [mailto:douglas.offerman@fitchratings.com]
Sent: Wednesday, April 04, 2018 2:48 PM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Cc: Block, Marcy <marcy.block@fitchratings.com>
Subject: RE: Pension questions

Hi Bonnie,

To follow up from Marcy's email, our colleagues in Fitch's non-bank financial institutions group are looking at the credit quality of public pension funds and pension asset managers as it pertains to their own direct debt obligations. As part of that assessment, they review the nature and extent of powers that a sovereign or sub-sovereign sponsor has to affect the performance of a pension. Canada's public pensions are on this list given their global prominence.

We have found a tremendous amount of online data and information on Canadian public pensions (authorizing laws, public accounts, actuarial valuations), but much of it addresses or references the powers and duties of the pension plans themselves, as opposed to what powers the sponsoring governments retain or could exercise in certain circumstances. The questions below are really

intended to address that sovereign/provincial perspective. I should also note also that the questions are not necessarily Ontario-specific, but I did modify some of them in view of the many different institutional/governance structures for public pensions in Ontario.

--In the event of a sovereign/provincial default, what is the legal basis by which a public pension fund retains its capacity to pay its own debt obligations?

--In the event of a sovereign/provincial default, what legally prevents the sovereign/province from restricting the ability of a public pension fund to pay its obligations?

--Who owns the assets held by the pension fund—the pension fund itself, the contributing employers, retirees, the pension plan sponsors/sponsors, or the sovereign/province that originally authorized the pension? Do the assets have a legal status that protects them in the event of a bankruptcy by a contributing employer?

--Can the sovereign/province, pension fund sponsor/sponsors, or participating governments make use of pension assets in the event of their own fiscal distress?

--Can the sovereign/province compel a pension fund to buy government debt or take responsibility for public capital investment (separate from the investment choices that the pension fund is authorized to make by itself)?

--Can the sovereign/province restrict or eliminate its own employer contributions to a pension fund if it faces fiscal distress?

--Can a pension plan sponsor or contributing employer remove its assets and sever its relationship with the pension fund without sovereign/provincial approval?

To the extent there are legal/statutory or judicial references, I would welcome them; I've already downloaded the Pension Benefits Act and other available financial, actuarial and legal information for CPP and for several other plans like HOOPP, MERS and OTPP. I've also attached a copy of our published criteria for "non-bank" financial institutions, for your reference. If it makes more sense for you, we would be happy to schedule a phone call to discuss!

Douglas Offerman
Senior Director
Fitch Ratings
33 Whitehall St.
New York, NY 10004

Tel. 212-908-0889

From: Block, Marcy
Sent: Tuesday, April 03, 2018 1:44 PM

To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Cc: Offerman, Douglas <douglas.offerman@fitchratings.com>
Subject: RE: Pension questions

Thank you!

Marcy S. Block
Senior Director
Fitch Ratings – U.S. Public Finance
33 Whitehall Street
New York, NY 10004
212-908-0239

From: Bonnie Lemcke [mailto:Bonnie.Lemcke@ofina.on.ca]
Sent: Tuesday, April 03, 2018 1:31 PM
To: Block, Marcy <marcy.block@fitchratings.com>
Cc: Offerman, Douglas <douglas.offerman@fitchratings.com>
Subject: RE: Pension questions

Hi Marcy and Doug,

Please send me your questions and we will forward to the correct individual. If you would like to have a conference call to discuss, I can arrange that as well.

Bonnie

From: Block, Marcy [mailto:marcy.block@fitchratings.com]
Sent: Tuesday, April 03, 2018 12:58 PM
To: Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
Cc: Offerman, Douglas <douglas.offerman@fitchratings.com>
Subject: Pension questions

Bonnie,

Good afternoon. I am reaching out on Doug's behalf to solicit assistance regarding the province's employee pension plans. Separate from our discussions related to Ontario's economy and finances, some colleagues of ours at Fitch who focus on "non-bank" financial institutions are developing a framework for looking at pension funds globally; given the size and scope of Canada's public pensions, Doug would like to ask some general questions to understand Ontario's relationship to its pensions plans. A possible start could be Doug sending you questions directly and asking you to put him in touch with the correct individual after you have had a chance to review them. Please advise and thank you.

Best,
Marcy

Marcy S. Block
Senior Director
Fitch Ratings – U.S. Public Finance
33 Whitehall Street
New York, NY 10004
212-908-0239

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From: Schuurman, Tim (MOF)
To: Ken Kandeepan; Gadi Mayman
Cc: Anna Strathy; Inglis, Liane (MOF)
Subject: Re: Q on AD
Date: Tuesday, September 05, 2017 10:14:49 AM
Attachments: image001.png

Thanks Ken. Can you tell me what page of the fsda the schedule detailing these changes is on? Or is it in a volume I don't have? Could you please forward to us?

Tim Schuurman
Assistant Deputy Minister
Office of the Budget
Ministry of Finance
From: Ken Kandeepan
Sent: Tuesday, September 5, 2017 10:04 AM
To: Mayman, Gadi (OFA); Schuurman, Tim (MOF)
Cc: Strathy, Anna (OFA); Inglis, Liane (MOF)
Subject: RE: Q on AD

Hi Tim and Gadi

As Gadi points out the reason is primarily accounting adjustments related to the translation of OPG's and H1's results from US GAAP to IFRS and a new Pension Adjustment plus of course the deficit offset by the unrealized gains relating to the Ontario Nuclear Funds.

Note that the PA itself has a schedule detailing all of the above, BTW its CPA now, not CA :)

Thanks

Ken K

From: Gadi Mayman
Sent: Tuesday, September 05, 2017 9:44 AM
To: Tim Schuurman (MOF) <Tim.Schuurman@ontario.ca>
Cc: Anna Strathy <Anna.Strathy@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: RE: Q on AD

There are some accounting changes that OPCD has included that make the difference. I'm copying Ken as he can give the specifics, but the thing to remember is that accumulated deficit is the sum of all surpluses and deficits since Confederation (that's the part that we all remember) plus, or minus, any accounting changes (that's the part that everyone that isn't an accountant usually forgets).

If you get a chance, can you call me at 5-8001? I have a question about the FAO debt to GDP report.

Thanks,
Gadi

From: Schuurman, Tim (MOF) [mailto:Tim.Schuurman@ontario.ca]
Sent: Tuesday, September 05, 2017 9:41 AM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca<mailto:Gadi.Mayman@ofina.on.ca>>
Cc: Anna Strathy <Anna.Strathy@ofina.on.ca<mailto:Anna.Strathy@ofina.on.ca>>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca<mailto:Liane.Inglis@ontario.ca>>

Subject: Q on AD

Hey Gadi! Think you're back today……hope you had some nice time off.

Scott dropped by with a few Q's for me this morning, one of which I wasn't able to answer.

The change in accumulated deficit from 15-16 to 16-17, in the Public Accounts financial statements and in the summary tables is $1.5B. But if the deficit was only $1.0B, should it be changing by only $1.0B? I wondered if the line by line was having an impact, but I can't tell. The math isn't working for me, but I'm no CA. :)

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173
[cid:image002.png@01D0E4D5.A25B16F0]

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Office of the Budget
MINISTRY of FINANCE

From: Ken Kandeepan
To: Lynsey Wynberg
Cc: Alexander Kraas
Subject: Re: Q3 Document Template / Request for Input
Date: Friday, January 27, 2017 1:52:33 PM

Yes be back in 15 minutes

On Jan 27, 2017, at 1:50 PM, Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca> wrote:

> Hi,
>
> Ryan is wondering whether we'll be able to get back to him on this request today. Please advise.
>
> Thanks,
> Lynsey
>
> ---
>
> **From:** Birks, Ryan (MOF) [mailto:Ryan.Birks@ontario.ca]
> **Sent:** Thursday, January 26, 2017 3:22 PM
> **To:** Patrick Laughton (MOF) <Patrick.Laughton@ontario.ca>; Nina Arbabzadeh (EDU) <Nina.Arbabzadeh@ontario.ca>; Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>; Law, Rex (TBS) <Rex.Law@ontario.ca>; Ghufran Tarin (MOF) <Ghufran.Tarin@ontario.ca>; Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>
> **Cc:** Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
> **Subject:** Q3 Document Template / Request for Input
> **Importance:** High
>
> Hi All,
>
> I just wanted to send a reminder that we're seeking initial input from your areas regarding the Q3 Document template **by tomorrow morning (ideally, before noon).** Again, there may be significant outstanding pieces that you're unable to update for Friday. These outstanding pieces can flagged as "to be updated" and addressed as decisions on the fiscal outlook are made over the coming week.
>
> I'm attaching the First Quarter Finances as a general reference.
>
> Thanks,
> Ryan
>
> ---
>
> **From:** Birks, Ryan (MOF)
> **Sent:** January-23-17 10:05 PM
> **To:** Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Hosick, Sarah (TBS); Law, Rex

(TBS); Tarin, Ghufran (MOF); Wynberg, Lynsey (OFA)
Cc: Inglis, Liane (MOF); Lindquist, Emma (MOF)
Subject: Q3 FPC Deck and Q3 Document Template / Request for Input
Importance: High

Hi All,

OB is in the process of preparing a draft Q3 deck that will track to FPC this Wednesday. The deck lays out the key 2016-17 building blocks that could be updated as part of the Q3 publication. In addition, we're updating a draft Q3 document template. We'll need input from your areas on both these products this week. I'm including additional information below.

For the **FPC Q3 deck**, it would be appreciated if we could get the following information from TBS by **noon/early afternoon tomorrow (apologies for the tight timelines)**:

- **16-17 post-FES Expense Update (TBS):** We have included placeholder for an expense slide. The intention is for the slide to provide an updated list of initiatives that were not included in the FES expense outlook.
- **Recommended Expense Update/Signature Initiatives (TBS):** We may build in options for what the outlook could look like – it would helpful if you could provide a recommendation for the expense changes that should be taken on/profiled.
- **16-17 C-Fund Update (PEMD):** We have included a c-fund slide that was used in the Q1 finances briefing materials (attached with current PW). We would like to include an updated version of this slide in the appendix of the FPC deck. It would help to have this out to 19-20.
- **Pension Narrative (OPCD):** High level bullets on the pension adjustment.

For the **Q3 Document Template** (attached), we're looking for input from **PEMD, OPCD, OEP and OFA** by **10am on Friday, January 27**:

- Attached is a draft of Q3 finances template that is based heavily off of the 2016 First Quarter Finances. **We've highlighted the sections that we would like your respective areas to update in the enclosed.**
- Note, there will be some highlighted content that is *not possible* to update for Friday, however there will be a formal distribution process where additional information can be incorporated.

Please feel free to send input directly to Liane and Emma (in copy).

Many thanks,
Ryan

<Third Quarter Finances_v1a_0127.docx>

<First Quarter Finances_v7_0803_Final.pdf>

From:	Esmail, Selena (MOF)
To:	Paul Lewis (MOF); Tim Cook (MOF); Teuta Dodbiba (MOF); Sharon Stuckless (TCU); Andrea Dutton (MOF); Gladys Miu (MOI); Dorothy Cheung (MCYS); Raj Sharda (MOHLTC); Francisco Chinchon; Nadine Petsche (MOF); Ken Kandeepan
Cc:	Emma Lindquist (MOF); Inglis, Liane (MOF)
Subject:	Re: Q3 update
Date:	Friday, January 27, 2017 7:07:30 PM
Attachments:	FPC_Q3_FiscalStrategyPlacemat_v4c.pptx FPC_Q3Finances_Deck (Feb 1)v4.pptx

---

Hi everyone - here are versions we are going to use to brief our minister on monday.

Many thanks for your help.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Esmail, Selena (MOF)
Sent: Friday, January 27, 2017 12:07 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update

Hi Everyone – just wanted to share with you the latest on the strategy for Q3. We are headed back to FPC next week with a further 2 scenarios on the deficit target that could be published. In addition to the ones we took earlier this week – two new options are proposed – one is to reverse the pensions only (option 1 in the materials), and the second is to take on a certain amount of ministry pressures we think will materialize (option 4 in the materials).

In terms of the materials – there is both a deck and a placemat that we are proposing to take forward. The placemat illustrates the 4 options and includes how the revenue/expense change table would appear relative to Budget and some proposed narrative for each scenario.

The deck is very similar to what we took forward last week but has a couple of new slides. Tim has also just circulated to your ADMs

Can I ask that you specifically take a look at slide 8 to ensure you are comfortable with the wording as well as the narrative on the placemat that would be helpful. But happy to hear any comments on the rest of it as well. We are looking for any comments back by 3:30pm today so we can finalize and send up to our DM/MO today.

And – we are continuing to track for a release on Feb 13 and we will be in touch to request your assistance.

Happy to discuss.

Thanks.

From: Esmail, Selena (MOF)
Sent: January-24-17 3:48 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update

Hi Everyone – sending along the most current draft of the deck we are planning to take forward to FPC tomorrow.

Comments welcome – if you could let me know asap if you have them. Heads up that timing of release of the Q3 may be even sooner as noted in this deck

From: Esmail, Selena (MOF)
Sent: January-23-17 12:43 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update
Importance: High

Hi All,

Following up on my email from last week, we received relatively recent direction regarding the release of Ontario's Third Quarter Finances – the tentative plan is to publish Q3 finances ahead of the February 15 deadline. We are tentatively tracking a release date of Monday February 13.

As you can imagine, timelines are very compressed, and includes a possible trip to FPC this week. In order to meet this week's deadlines, while also preparing for the release of the actual publication, we're asking for input from you in stages:

EOD Today:
We have prepared the draft of a deck, which we are working towards tabling at this Wednesday's FPC (TBC). The deck lays out the key 2016-17 building blocks that could be updated as part of the Q3 publication. It would help if we could get the following from you folks by the end of today:
16-17 post-FES expense update: We have included placeholder for an expense slide. The intention is for the slide to provide an updated list of initiatives that were not included in the FES expense outlook.
Recommended expense update/signature initiatives: We may build in options for what the outlook could look like – it would help if you could provide a recommendation for the expense changes that should be taken on/profiled.
16-17 c-fund update: We have included a c-fund slide that was used in the Q1 finances briefing materials (current PW). We would like to include an updated version of this slide in the FPC deck (appendix). It would help to have this out to 19-20.
Pension Narrative: Nadine – I'll connect on the pension adjustment and some high level bullets that we could use.

Noon Friday January 27:
Template: I've attached a draft of 3q finances that is based heavily off of the 2016 First Quarter Finances. We've highlighted in green the sections that we would like you to update. While I'm not 100% certain this structure will be exactly what the Q3 document will look like, I think it's safe to say that the substantive content we'll have to cover is captured here. There will be some highlighted content that is not possible to update for Friday, however there will be a formal distribution process where additional information can be incorporated.

Thanks everyone, and please feel free to send your input directly to Liane and Emma. Im hoping to be able to share a draft deck with you late this evening.

From: Esmail, Selena (MOF)
Sent: January-19-17 2:57 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: Q3 heads up

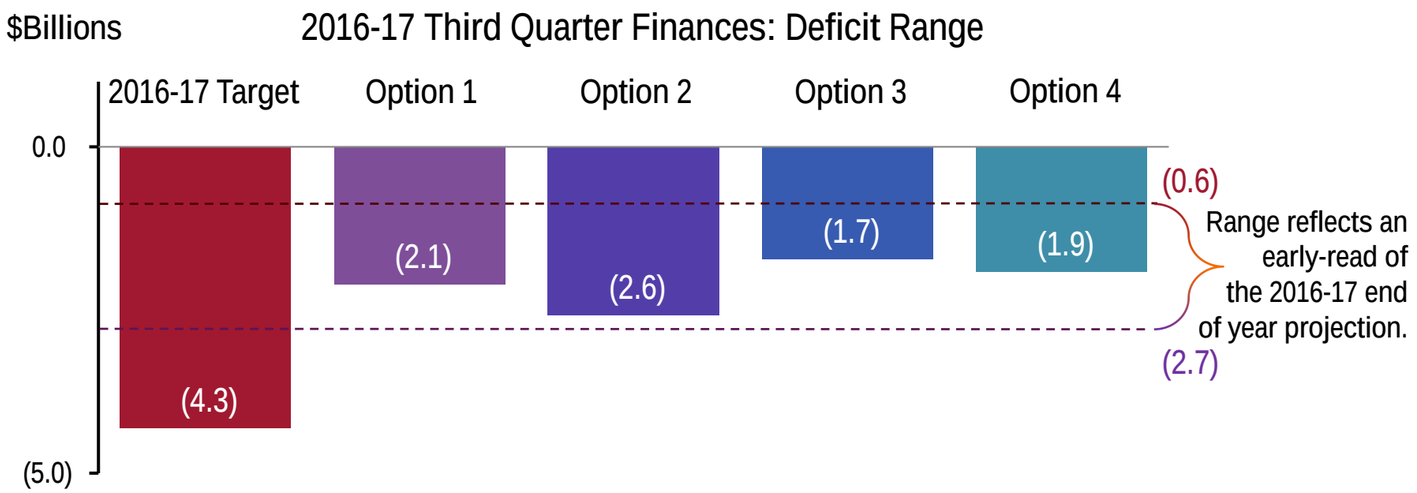
Hi Everyone – Wanted to send a quick message that we are hearing there is a desire to proceed with the release of a Q3 update around the time we are expecting the Pension Panel panel to release their report. We are going to

assume mid feb prior to the house coming back for our planning purposes.

My team is going to work together to put together a list of things we need to start working on/think about along with a calendar to determine and get direction on an approach to coincide with this timeframe.

More details to follow tomorrow.

Thanks.



Options 1 through 4 build on each other. All options assume the pension reversal and progressively take on additional changes relative to FES.

Option 1	Option 2	Option 3	Option 4
Pensions: $2.2 billion	**Pensions**: $2.2 billion	**Pensions**: $2.2 billion	**Pensions**: $2.2 billion
	Cap and Trade: $(0.5) billion	**Cap and Trade:** $(0.5) billion	**Cap and Trade:** $(0.5) billion
		Asset Optimization: $(0.1) billion	**Asset Optimization:** $(0.1) billion
		HST & Other Taxes: $0.9 billion	**HST & Other Taxes:** $0.9 billion
			Expense Pressures: $(0.2) billion

Overall Narrative: *The strength of the Ontario economy, together with the government's approach to fiscal management, is supporting strategic investments, while allowing the government to continue to beat its fiscal targets.*

Option 1
Reversal of Pensions

$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	*2.1*	132.7
Expense			
Programs	122.1	*0.9*	123.1
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*0.5*	134.4
Surplus/(Deficit) Before Reserve	(3.3)	*1.6*	(1.7)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*2.2*	(2.1)
Net Debt-to-GDP (Per Cent)	39.6	*(1.3)*	38.3

- *The government is projecting a **deficit of $2.1 billion in 2016-17**, an improvement of $2.2 billion since the 2016 Budget.*
- *The Pension Asset Expert Advisory Panel recently released its report on the treatment of pension assets, including a recommendation that jointly-sponsored net pension asset be recognized in the Province's financial statements. The government is adopting this recommendation, which aligns with the treatment originally included in the 2016 Budget plan.*
- *With this reversal, together with stronger revenue and lower interest on debt, the government is projected to beat its fiscal target.*

Option 2
Option 1 + Cap and Trade

$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	*1.7*	132.2
Expense			
Programs	122.1	*0.9*	123.1
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*0.5*	134.4
Surplus/(Deficit) Before Reserve	(3.3)	*1.1*	(2.2)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*1.7*	(2.6)
Net Debt-to-GDP (Per Cent)	39.6	*(1.3)*	38.3

- *The government is projecting a **deficit of $2.6 billion in 2016-17**, an improvement of $1.7 billion since the 2016 Budget.*
- *Cap and Trade is a cornerstone of the Province's fight against climate change. Ontario's first Cap and Trade auction is scheduled for March 22, 2017, and establishes Ontario's partnership in the largest carbon market in North America.*
- *Revenues from Ontario's first auction will be certified and settled at the beginning of the 2017-18 fiscal year. As such, the Third Quarter Finances reflect the re-profiling of auction proceeds from 2016-17 to 2017-18.*

Option 3
Option 2 + Assets + HST & Other Taxes

$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	*2.5*	133.1
Expense			
Programs	122.1	*0.9*	123.1
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*0.5*	134.4
Surplus/(Deficit) Before Reserve	(3.3)	*2.0*	(1.3)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*2.6*	(1.7)
Net Debt-to-GDP (Per Cent)	39.6	*(1.4)*	38.2

- *The government is projecting a **deficit of $1.7 billion in 2016-17**, an improvement of $2.6 billion since the 2016 Budget.*
- *Ontario's economy continues to grow in an uncertain global environment. Stronger 2015 income tax assessment results and the continued strength of Ontario's economy and housing market resulted in higher than forecasted taxation revenues.*
- [Suggest not addressing AO downward estimate in narrative.]

Option 4
Option 3 + Expense Pressures

$ Billions	Budget 2016-17	Change	Outlook 2016-17
Revenue	130.6	*2.5*	133.1
Expense			
Programs	122.1	*1.1*	123.3
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*0.7*	134.6
Surplus/(Deficit) Before Reserve	(3.3)	*1.8*	(1.5)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*2.4*	(1.9)
Net Debt-to-GDP (Per Cent)	39.6	*(1.3)*	38.3

- *The government is projecting a **deficit of $1.9 billion in 2016-17**, an improvement of $2.4 billion since the 2016 Budget.*
- *The government's fiscally sound approach to managing the Province's finances will help grow the economy, create jobs and ensure the sustainability of programs and services that help Ontarians in their everyday lives.*
- *[This includes supporting strategic investments, such as funding for social assistance, and increased enrolment in schools.]*

Ontario's Third Quarter Finances: Fiscal Strategy

Office of the Budget
MINISTRY of FINANCE

Presentation to FPC on February 1, 2017

Preliminary Draft

Draft – January 27, 2017 6:00 PM

Context

Under the *Fiscal Transparency and Accountability Act, 2004* (FTAA), the Third Quarter Finances is required to:

- Be released on or before February 15th (publication can be delayed if a letter is sent to the Clerk).
- Include updated information about the major components of revenue and expense **for the current fiscal year only.**

It also provides an **opportunity for the government to reiterate key fiscal messages** from the Budget or pre-condition for future updates.

A Third Quarter Finances has only been published once in the last eight years (in 2012-13).

Key stakeholders like the Financial Accountability Officer and rating agencies will assess the fiscal outlook and narrative.

- Both have acknowledged that balance is within reach in 2017-18, but have also highlighted key risks to the 2016 Budget fiscal plan.

Purpose and Key Decisions

Currently working towards **a release date of February 13, 2017** – need to **confirm the approach to publishing Ontario's Third Quarter Finances**, including:

- The core updates to **the fiscal outlook and supporting revenue and expense details** to be published, as well as the **fiscal narrative and messaging**.
- Positioning the content and the rollout of Third Quarter Finances relative to the release of the Pension Panel's Report and recommendations, and other publicly available information.

Evolution of the 2016-17 Outlook

- The Third Quarter Finances will present a fiscal update relative to the 2016 Budget and address changes since FES in narrative only.
- The 2016 FES highlighted Ontario's stronger economy and the government's approach to fiscal management, which supported strategic investments in new child care spaces, hospitals and electricity cost relief for consumers.
- To support these investments while accommodating the Pension Adjustment, the government took on a number of fiscal tools in order to meet its targets.

2016 Budget Fiscal Plan $ Billions	2016-17	Change to FES 2016-17	FES Outlook 2016-17
Revenue	130.6	*2.1*	132.7
Expense			
Programs	122.1	*3.1*	125.3
Interest on Debt	11.8	*(0.4)*	11.4
Total Expense	133.9	*2.7*	136.6
Surplus/(Deficit) Before Reserve	(3.3)	*(0.6)*	(3.9)
Reserve	1.0	*(0.6)*	0.4
Surplus/(Deficit)	(4.3)	*(0.0)*	(4.3)

Total revenue changes of $2.1 billion, consisting of:

- Base Forecast Change $1.0 billion
- Reversal of Homecare $(0.2) billion
- Federal Agreements $0.4 billion
- Higher assumed revenue to accommodate pensions $0.9 billion

Total expense changes of $2.7 billion, consisting of:

- In-Year Approvals $0.2 billion
- Pension Adjustment of $2.2 billion
- Electricity Cost Relief $0.3 billion
- Support for Hospitals $0.1 billion
- Green Investment Fund $0.3 billion
- New Federal Agreements $0.4 billion
- Contingency Fund Offsets $(0.5) billion
- Interest on Debt Savings $(0.4) billion

Change to the Reserve $(0.6) billion

Treatment of Pension Adjustment

Panel Recommendation

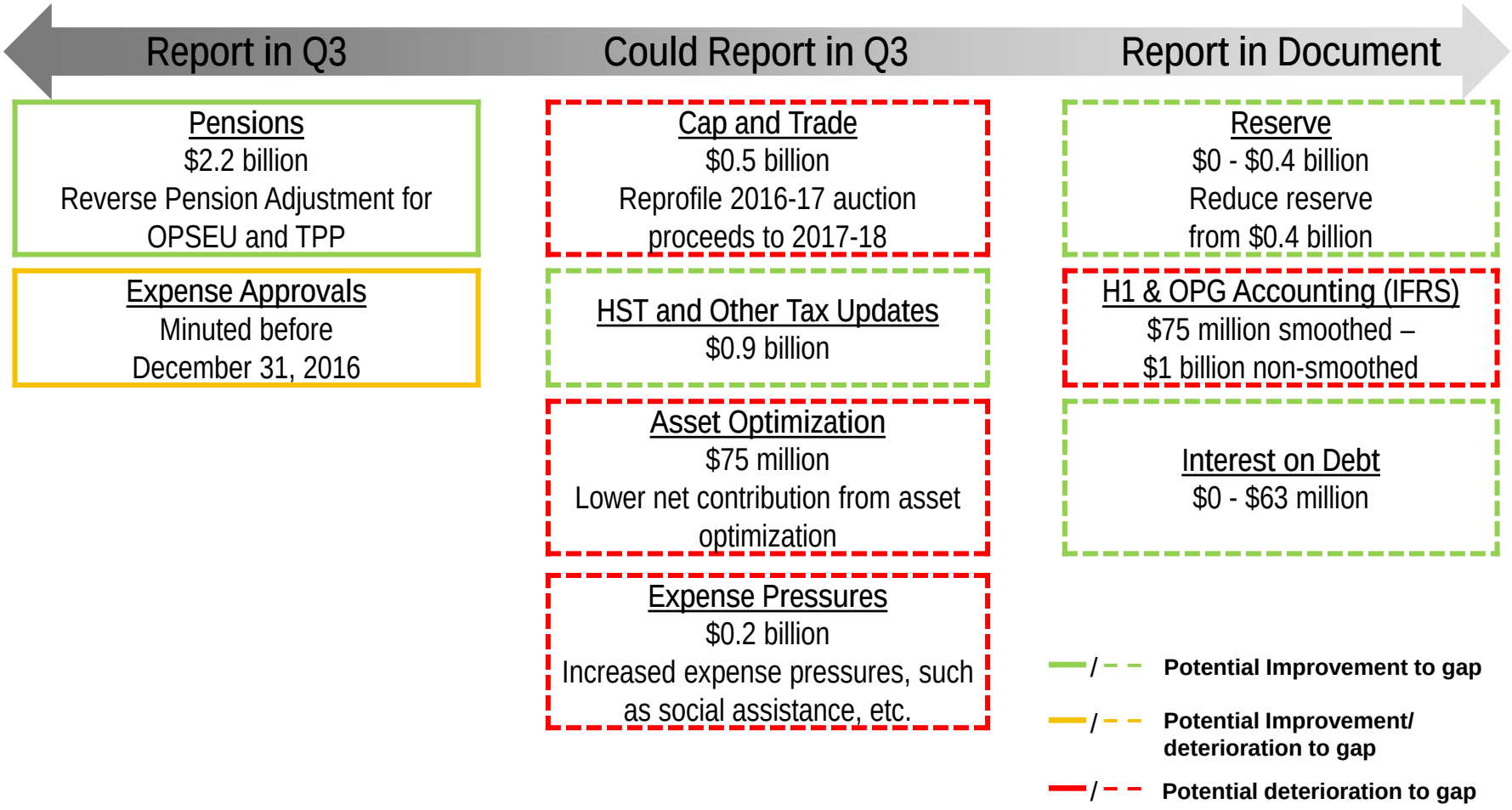
- The Pension Asset Expert Advisory Panel will be releasing its findings in the coming weeks.
  - The report is expected to include advice that government jointly sponsored pension plans should be recognized in the Province's financial statements.
  - If taken on, this would result in a positive fiscal impact to the government's outlook in all plan years.

Treatment of Pension Adjustment

- The Third Quarter Finances provides the government with an immediate opportunity to align its fiscal strategy with recommendations of the panel, and frame the pension narrative in advance of the 2017 Document.
- While the reversal of the pension adjustment to the Ontario Public Service Employees Union Pension Plan (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) will result in an improved 2016-17 deficit, expectations may need to be tempered about how much fiscal room is created in the out-years.
- For consistency and comparability, an adjustment to the 2015-16 actuals will be made to reflect the government's decision to adopt the Panel's recommendations. The adjustment to historical results impacts the previously reported net debt and deficit results as well as the net debt to GDP ratio.

Key Building Blocks

- In addition to the reversal of the Pension Adjustment, other key building blocks will either need to be reported in the Third Quarter Finances or be considered for the 2017 Document.



Building Block Considerations

There are a number of considerations for whether key building blocks should be taken on in the Third Quarter Finances or deferred to the 2017 Document.

Could Report in Third Quarter Finances

Cap and Trade

- The Cap and Trade auction notice that was released on January 20 stating that certification will occur on April 3, 2017, and settlement shortly thereafter.
- Stakeholders (e.g. FAO and Auditor General) may question why the government has not updated its fiscal plan to reflect this change.

HST and Other Tax Updates

- HST updates have been received since the FES, and no further significant updates are expected in advance of the 2017 Document. Other tax information is not as certain and could require additional updates in the 2017 Document.
- Stakeholders are aware of the timing of these information flows and may question if updates are not taken on in Third Quarter Finances.

Asset Optimization

- Updating for revised estimated net contribution from Asset Optimization would build some deterioration into the outlook.
- There are changes / uncertainty on the expected potential gains and/or timing for the H1 Brampton (which has not yet closed), and Seaton Lands sales (still pending), and uncertainty on the final accounting net gains reported for H1 shares purchased by OPG, potentially necessitating additional updates in the 2017 Document.

Expense Pressures

- Ministry risks represent potential pressures in the fiscal plan, and are not typically included in Quarterly updates.
- However, it may be prudent to address risks which may materialize before the 2017 Document, such as increased expense pressures associated with social assistance etc.

Report in Document

Reserve

It is recommended that the reserve be maintained at its current level of $0.4 billion, in order to mitigate any pressures that may arise before year-end.

H1 & OPG Accounting (IFRS)

Updated information on the potential fiscal impact of the move from U.S. GAAP to IFRS for Hydro One and OPG, is expected at the end of February.

Interest on Debt

Deferring improvements in the interest on debt forecast allows for upside potential in the 2016-17 interim results of the 2017 Document.

Outstanding Information

- **Outstanding Information** could materially impact the **2016-17 outlook** in advance of the 2017 Document.

Revenue
Revisions to economic outlook
Ongoing provincially-administered tax receipts
Non-tax revenue updates from Ministry PRRT submissions
Net income updates from government business enterprises
Revisions to IFRS - US GAAP impacts for OPG and Hydro One

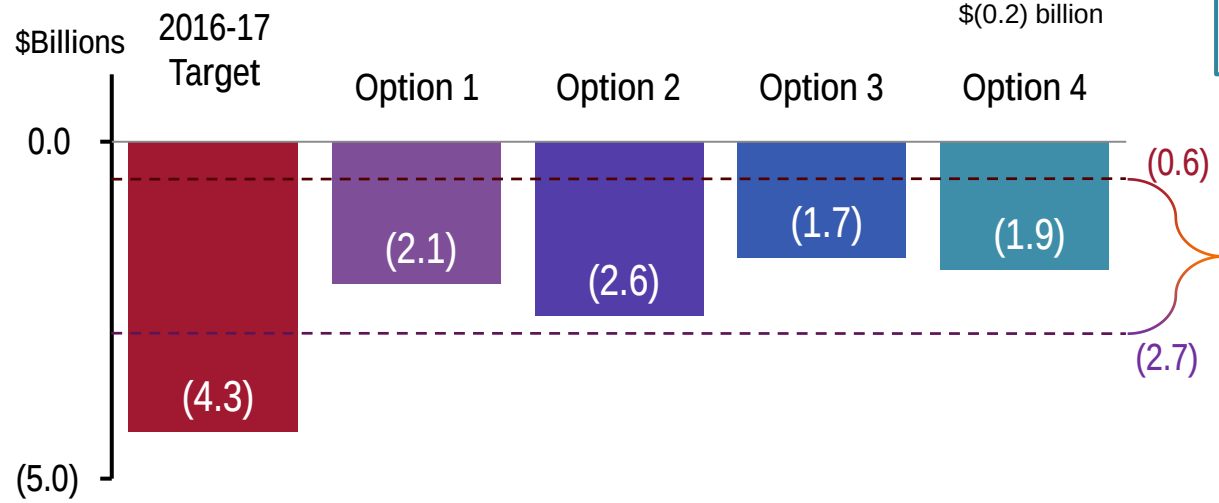
Expense
Ministry Q3/interim submissions
Consolidations and other technical adjustments
Interest on debt forecast updates
Contaminated sites liabilities
Updated pension expense forecast

- Potential improvement to gap
- Potential improvement or deterioration to gap
- Potential deterioration to gap

2016-17 Third Quarter Finances: Deficit Range

Options 1 through 4 build on each other. All options assume the pension reversal and progressively take on additional changes relative to FES.

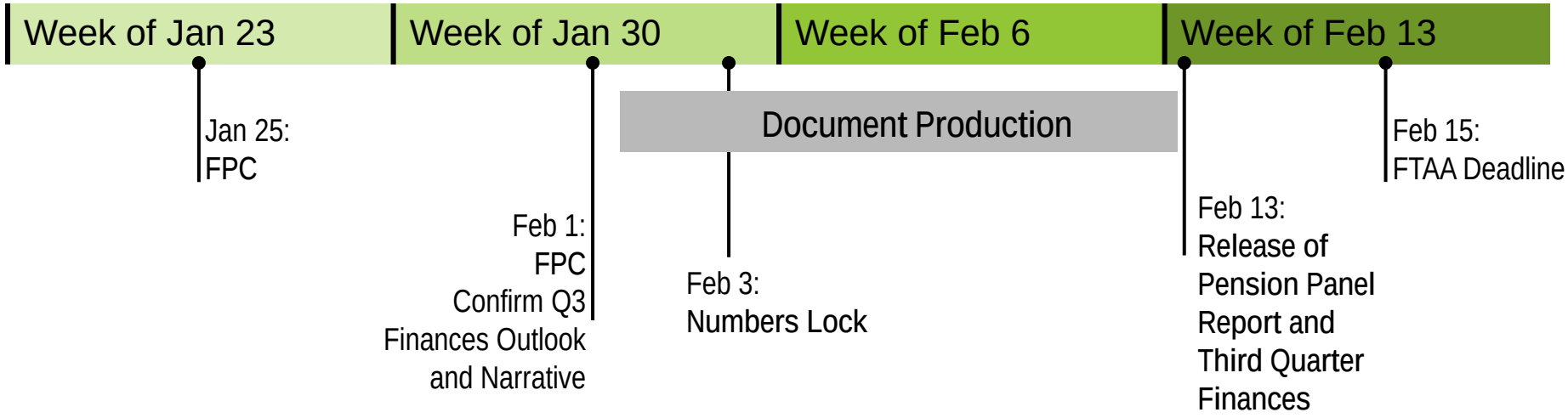
Option 1	Option 2	Option 3	Option 4
Pensions: $2.2 billion	**Pensions**: $2.2 billion	**Pensions**: $2.2 billion	**Pensions**: $2.2 billion
	Cap and Trade: $(0.5) billion	**Cap and Trade:** $(0.5) billion	**Cap and Trade:** $(0.5) billion
		Asset Optimization: $(0.1) billion	**Asset Optimization:** $(0.1) billion
		HST & Other Taxes: $0.9 billion	**HST & Other Taxes:** $0.9 billion
			Expense Pressures: $(0.2) billion



Range reflects an early-read of the 2016-17 end of year projection.

- Based on an early-read of end of year projections, the government may want to report an outlook that protects against risks or other changes between now and the Budget.
- Based on current information and taking into account key building blocks, there are a number of options for presenting the Q3 deficit, ranging from $2.6 billion to $1.7 billion. These are on the medium-to-low end of what is being tracked for the interim outlook for the 2017 Document.

Next Steps


Week of Jan 23
Week of Jan 30
Week of Feb 6
Week of Feb 13
Jan 25:
FPC
Feb 1:
FPC
Confirm Q3
Finances Outlook
and Narrative
Document Production
Feb 3:
Numbers Lock
Feb 13:
Release of
Pension Panel
Report and
Third Quarter
Finances
Feb 15:
FTAA Deadline

Appendix

End of Year Projection for 2016-17

- An early-read indicates that end of year projections for the 2016-17 deficit could range from $0.6 billion (if there is a significant improvement to the outlook) to $2.7 billion (if there is a moderate improvement to the outlook).

Significant Year-end Improvement

2016 Budget (4.3) billion
+ Pension Adjustment and Tools
2016 FES (4.3) billion
+ Higher Revenue ***1.7 billion***
– Re-profiling Cap and Trade Proceeds ***0.5 billion***
– Lower Net Contribution from Asset Optimization ***75 million***
– Accounting Adjustments: Accounting Framework (IFRS) ***75 million*** Unchanged Contaminated Sites
Unchanged Program Expense
+ Reverse Pension Adjustment ***2.2 billion***
+ Lower Interest on Debt ***0.1 billion***
+ Reduce Reserve ***0.4 billion***
Early-Read (0.6) billion

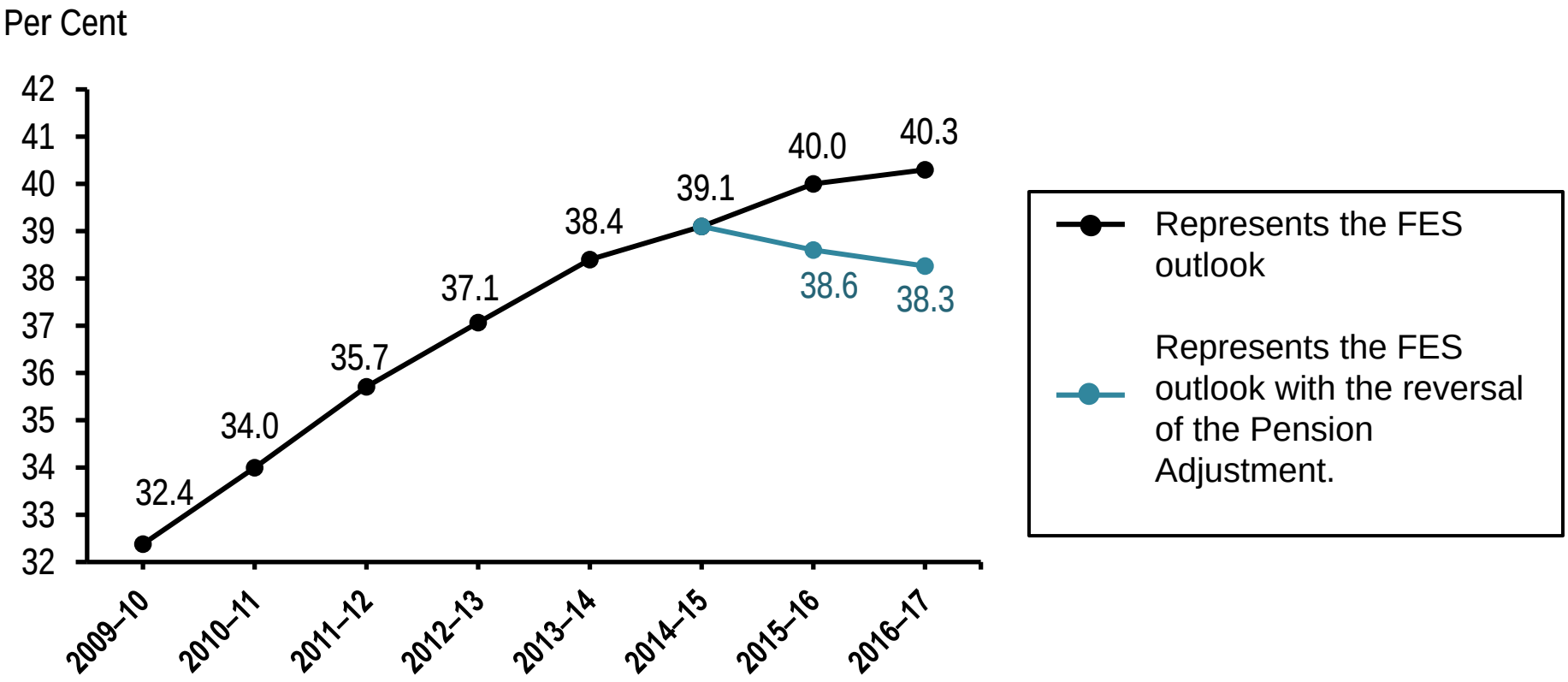
Moderate Year-end Improvement

2016 Budget (4.3) billion
+ Pension Adjustment and Tools
2016 FES (4.3) billion
+ Higher Revenue ***0.7 billion***
– Re-profiling Cap and Trade Proceeds ***0.5 billion***
– Lower Net Contribution from Asset Optimization ***75 million***
– Accounting Adjustments: Accounting Framework (IFRS) ***75 million*** Contaminated Sites ***50 million***
– Higher Program Expense ***1.0 billion***
+ Reverse Pension Adjustment ***2.2 billion***
Unchanged Interest on Debt
+ Reduce Reserve ***0.4 billion***
Early-Read (2.7) billion

Net Debt-to-GDP With Pension Reversal (Option 1)

Narrative: *The impact of the reversal will change the net debt projection for 2016-17 by $12.8 billion. As a result, the government is projecting a net debt-to-GDP ratio of 38.3 per cent, an improvement compared to the 2016 FES projection of 40.3 per cent*

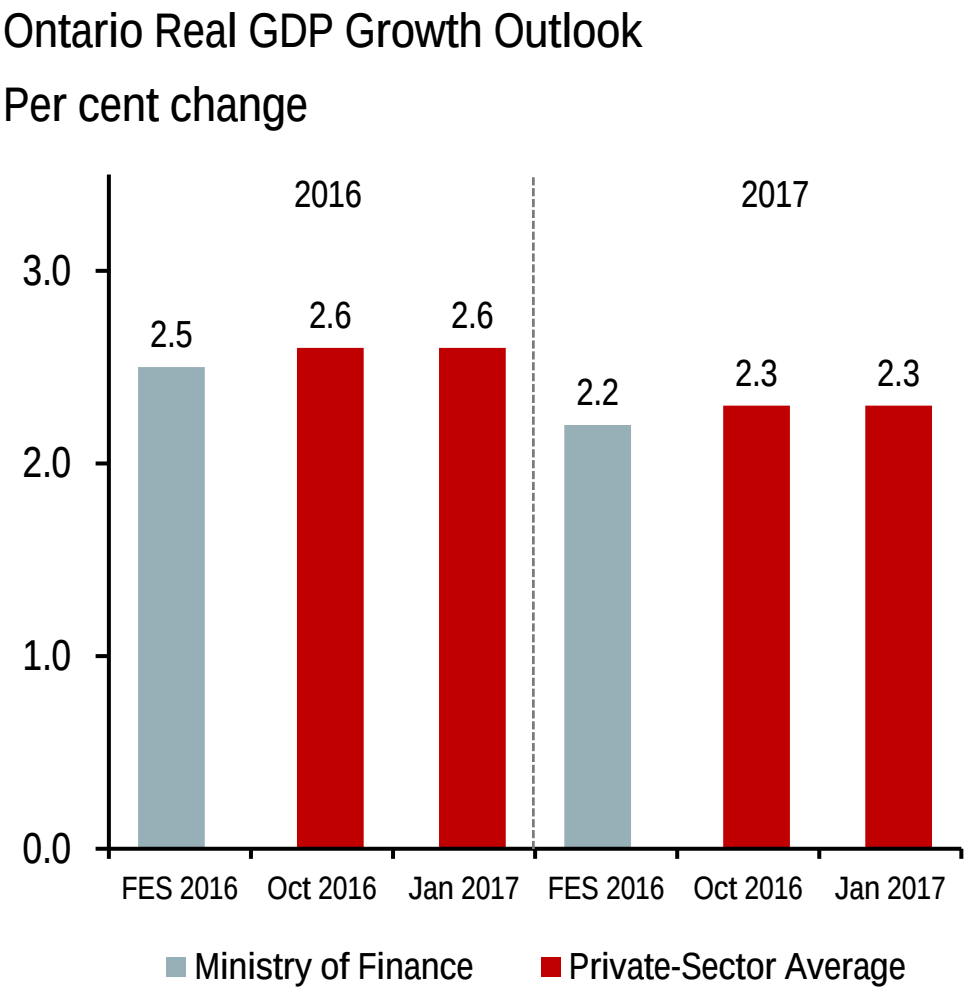
- Reflects the reversal of the Teachers Pension Plan and OPSEU Pension Plan adjustments, including reversal of the $10.7 billion debt adjustment made in the 2015-16 Public Accounts



Recent Economic Developments and Outlook

Economic Update

- Real GDP increased by 0.7% in the third quarter (July to September) of 2016, after rising 0.2% in the second quarter.
  - Higher exports and continued growth in household spending were the primary drivers of growth
- Information available so far for the fourth quarter (October to December) of 2016 suggest growth at a more modest pace.
- Ontario's economic growth outlook remains consistent with the 2016 FES forecast



Other Accounting Issues

Other Accounting Issues

- The move from U.S. GAAP to IFRS for the consolidation of Hydro One and OPG results in a fiscal impact starting in 2016-17, of either:

Basis of Consolidation of OPG and H1 (US GAAP vs. IFRS)	Fiscal Impact Relative to FES				
	2016-17	2017-18	2018-19	2019-20	2020-21
Preferred Approach (smoothed IFRS impact)**	**$75M**	**$425M**	**$525M**	**$675M**	**$675M**
High Impact (non-smoothed IFRS impact)**	$1B	$375M	$400M	$400M	$400M

*** OPG's estimate of cumulative impact for 2015-2020 is $2.5B under the preferred approach, and $2.6B under the high impact approach. Note: Amounts are based on estimates currently available, and are subject to updates by OPG. Revised estimates are expected by March 1, 2017.*

From: Ken Kandeepan
To: John Psinas
Cc: Alexander Kraas
Subject: Re: Q3 update
Date: Friday, January 27, 2017 1:42:25 PM

Ok thanks should be back soon

On Jan 27, 2017, at 1:02 PM, John Psinas <John.Psinas@ofina.on.ca> wrote:

> Ken,
>
> We'll have to change the chart on slide 13 to reflect the new GDP amounts the other day and (potentially) new TCA.
>
> Thanks.
>
> --John
>
> 416-325-8072
>
> ---
>
> **From:** Ken Kandeepan
> **Sent:** Friday, January 27, 2017 12:12 PM
> **To:** Alexander Kraas <Alexander.Kraas@ofina.on.ca>; John Psinas <John.Psinas@ofina.on.ca>
> **Subject:** FW: Q3 update
>
> FYI, pls review the slides and let me know if you have any comments, I am stepping out for lunch but should be back at 1.30 or so
>
> Thanks
>
> Ken k
>
> ---
>
> **From:** Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
> **Sent:** Friday, January 27, 2017 12:08 PM
> **To:** Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Tim Cook (MOF) <Tim.Cook@ontario.ca>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca>; Sharon Stuckless (TCU) <Sharon.Stuckless@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca>; Raj Sharda (MOHLTC) <Raj.Sharda@ontario.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
> **Cc:** Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
> **Subject:** RE: Q3 update

Hi Everyone – just wanted to share with you the latest on the strategy for Q3. We are headed back to FPC next week with a further 2 scenarios on the deficit target that could be published. In addition to the ones we took earlier this week – two new options are proposed – one is to reverse the pensions only (option 1 in the materials), and the second is to take on a certain amount of ministry pressures we think will materialize (option 4 in the materials).

In terms of the materials – there is both a deck and a placemat that we are proposing to take forward. The placemat illustrates the 4 options and includes how the revenue/expense change table would appear relative to Budget and some proposed narrative for each scenario.

The deck is very similar to what we took forward last week but has a couple of new slides. Tim has also just circulated to your ADMs

Can I ask that you specifically take a look at slide 8 to ensure you are comfortable with the wording as well as the **narrative on the placemat** that would be helpful. But happy to hear any comments on the rest of it as well. We are looking for any comments back by 3:30pm today so we can finalize and send up to our DM/MO today.

And – we are continuing to track for a release on Feb 13 and we will be in touch to request your assistance.

Happy to discuss.

Thanks.

From: Esmail, Selena (MOF)
Sent: January-24-17 3:48 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update

Hi Everyone – sending along the most current draft of the deck we are planning to take forward to FPC tomorrow.

Comments welcome – if you could let me know asap if you have them. Heads up that timing of release of the Q3 may be even sooner as noted in this deck

---

From: Esmail, Selena (MOF)
Sent: January-23-17 12:43 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)

Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update
Importance: High

Hi All,

Following up on my email from last week, we received relatively recent direction regarding the release of Ontario's Third Quarter Finances – the tentative plan is to publish Q3 finances ahead of the February 15 deadline. We are tentatively tracking a release date of Monday February 13.

As you can imagine, timelines are very compressed, and includes a possible trip to FPC this week. In order to meet this week's deadlines, while also preparing for the release of the actual publication, we're asking for input from you in stages:

EOD Today:
We have prepared the draft of a deck, which we are working towards tabling at this Wednesday's FPC (TBC). The deck lays out the key 2016-17 building blocks that could be updated as part of the Q3 publication. It would help if we could get the following from you folks by the end of today:
16-17 post-FES expense update: We have included placeholder for an expense slide. The intention is for the slide to provide an updated list of initiatives that were not included in the FES expense outlook.
Recommended expense update/signature initiatives: We may build in options for what the outlook could look like – it would help if you could provide a recommendation for the expense changes that should be taken on/profiled.
16-17 c-fund update: We have included a c-fund slide that was used in the Q1 finances briefing materials (current PW). We would like to include an updated version of this slide in the FPC deck (appendix). It would help to have this out to 19-20.
Pension Narrative: Nadine – I'll connect on the pension adjustment and some high level bullets that we could use.

Noon Friday January 27:
Template: I've attached a draft of 3q finances that is based heavily off of the 2016 First Quarter Finances. We've highlighted in green the sections that we would like you to update. While I'm not 100% certain this structure will be exactly what the Q3 document will look like, I think it's safe to say that the substantive content we'll have to cover is captured here. There will be some highlighted content that is *not possible* to update for Friday, however there will be a formal distribution process where additional information can be incorporated.

Thanks everyone, and please feel free to send your input directly to Liane and Emma. Im hoping to be able to share a draft deck with you late this evening.

From: Esmail, Selena (MOF)
Sent: January-19-17 2:57 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: Q3 heads up

Hi Everyone – Wanted to send a quick message that we are hearing there is a desire to proceed with the release of a Q3 update around the time we are expecting the Pension Panel panel to release their report. We are going to assume mid feb prior to the house coming back for our planning purposes.

My team is going to work together to put together a list of things we need to start working on/think about along with a calendar to determine and get direction on an approach to coincide with this timeframe.

More details to follow tomorrow.

Thanks.

From: Ken Kandeepan
To: Selena Esmail (MOF)
Cc: Alexander Kraas; Psinas, John (TBS); George Sakura; Inglis, Liane (MOF); Emma Lindquist (MOF)
Subject: Re: Q3 update
Date: Thursday, January 26, 2017 3:00:08 PM

Thanks, much appreciate the quick response.

Ken k

> On Jan 26, 2017, at 2:37 PM, Esmail, Selena (MOF) <Selena.Esmail@ontario.ca> wrote:
>
> Hi ken - thank you so much for following up on this. We need to go back to FPC next week for additional scenarios on the deficit we could publish in Q3 and so we haven't landed on anything definitive yet. At minimum it appears at this point we will be reversing the pension adjustment but there may be other variables that impact the deficit figure. Not sure if that helps you get started. So for now, don't worry about the noon deadline and we will be in touch with you/your team as soon as we can on something more definitive.
>
> Thank you again.
>
> -----Original Message-----
> From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
> Sent: January-26-17 1:40 PM
> To: Esmail, Selena (MOF)
> Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
> Subject: Re: Q3 update
>
> Hi Selena
>
> Any further update on whether the FES numbers will be used for Q3, or will the pension adjustment be reversed resulting in a revised deficit and net debt.
>
> Much appreciated if you can get back to us EOD, since we have to get back to you by tomorrow 12 pm with the financing table and the ratios.
>
> Thanks
>
> Ken k
>
>> On Jan 23, 2017, at 2:53 PM, Esmail, Selena (MOF) <Selena.Esmail@ontario.ca> wrote:
>>
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>> Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA)
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To:	Selena Esmail (MOF)
Cc:	Alexander Kraas; Psinas, John (TBS); George Sakura; Inglis, Liane (MOF); Emma Lindquist (MOF)
Subject:	Re: Q3 update
Date:	Thursday, January 26, 2017 1:39:45 PM

Hi Selena

Any further update on whether the FES numbers will be used for Q3, or will the pension adjustment be reversed resulting in a revised deficit and net debt.

Much appreciated if you can get back to us EOD, since we have to get back to you by tomorrow 12 pm with the financing table and the ratios.

Thanks

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To: Ken Kandeepan
Cc: Alexander Kraas; Psinas, John (TBS); George Sakura; Inglis, Liane (MOF); Emma Lindquist (MOF)
Subject: Re: Q3 update
Date: Tuesday, January 24, 2017 11:02:56 AM

Yup - we've noted the 63m in our deck that cld be taken on. Thanks Ken

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: Ken Kandeepan
Sent: Tuesday, January 24, 2017 10:48 AM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
Subject: RE: Q3 update

NP, I believe we do have Q&A in the FES package that addresses this very issue, so happy to flip it to you later on, do note that Gadi released an additional $63M (in relation to the IOD number in the FES) in IOD savings for 16-17 to Tim a couple of weeks ago.

Thanks

Ken k

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From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
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Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
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Date:	Tuesday, January 24, 2017 10:40:33 AM

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Thanks everyone, and please feel free to send your input directly to Liane and Emma. Im hoping to be able to share a draft deck with you late this evening.

From: Esmail, Selena (MOF)
Sent: January-19-17 2:57 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: Q3 heads up

Hi Everyone – Wanted to send a quick message that we are hearing there is a desire to proceed with the release of a Q3 update around the time we are expecting the Pension Panel panel to release their report. We are going to assume mid feb prior to the house coming back for our planning purposes.

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More details to follow tomorrow.

Thanks.

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From:	Esmail, Selena (MOF)
To:	Ken Kandeepan
Cc:	Alexander Kraas; Psinas, John (TBS); George Sakura; Inglis, Liane (MOF); Emma Lindquist (MOF)
Subject:	Re: Q3 update
Date:	Tuesday, January 24, 2017 10:28:45 AM

Hey ken - one thing to consider is if the pension adjustment is being reversed there may be a desire to show progress on IOD - assuming it impacts that. Thoughts?

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: Ken Kandeepan
Sent: Monday, January 23, 2017 3:19 PM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA); Inglis, Liane (MOF); Lindquist, Emma (MOF)
Subject: RE: Q3 update

Thanks agreed, keeping the FES forecast makes sense since we don't want material changes before the interim in the Document, but pls do confirm.

Ken k

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Monday, January 23, 2017 2:54 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Alexander Kraas <Alexander.Kraas@ofina.on.ca>; Psinas, John (TBS) <John.Psinas@ontario.ca>; George Sakura <George.Sakura@ofina.on.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>; Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>
Subject: Re: Q3 update

Hi ken - thanks. Not sure yet on whether we will keep the fes forecast or update for the latest but I'll speak to tim about it. Tim mentioned earlier that we shld retain the fes forecast but I just want to confirm with him.

Thanks again.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Ken Kandeepan
Sent: Monday, January 23, 2017 1:06 PM
To: Esmail, Selena (MOF)
Cc: Kraas, Alexander (OFA); Psinas, John (TBS); Sakura, George (OFA)
Subject: RE: Q3 update

Hi Selena

Couple of quick question, the 16-17 IOD forecast was revised downwards from the FES number and provided to Tim. Do you want us to use this revised version or stick with the FES forecast with the revision being presented in the Interim section of the 2017 Budget.

Let me know, and in order to complete the Financing Table we need to know the 16-17 deficit that you will be projecting in the Q3, will be the same as the FES?

Thanks

Ken k

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Monday, January 23, 2017 12:43 PM
To: Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Tim Cook (MOF) <Tim.Cook@ontario.ca>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca>; Sharon Stuckless (TCU) <Sharon.Stuckless@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca>; Raj Sharda (MOHLTC) <Raj.Sharda@ontario.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
Subject: RE: Q3 update
Importance: High

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Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
Subject: RE: Q3 update
Importance: High

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Thanks.

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From: Esmail, Selena (MOF)
To: Ken Kandeepan
Subject: Re: Q3 update
Date: Saturday, January 28, 2017 6:52:40 PM

Thanks Ken - very much appreciate all your help and support! Enjoy the rest of your weekend!

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: Ken Kandeepan
Sent: Saturday, January 28, 2017 6:36 PM
To: Esmail, Selena (MOF); Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF); John Psinas
Subject: RE: Q3 update

Hi Selena

I went through the products, looks pretty good, all of our suggestions have been incorporated, many thanks. Have requested John to review as well and he will let Liane know if there are any issue, very unlikely though. Hope you are enjoying your weekend.

Ken K

-----Original Message-----
From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Friday, January 27, 2017 7:07 PM
To: Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Tim Cook (MOF) <Tim.Cook@ontario.ca>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca>; Sharon Stuckless (TCU) <Sharon.Stuckless@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca>; Raj Sharda (MOHLTC) <Raj.Sharda@ontario.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
Subject: Re: Q3 update

Hi everyone - here are versions we are going to use to brief our minister on monday.

Many thanks for your help.

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From: Esmail, Selena (MOF)
Sent: Friday, January 27, 2017 12:07 PM
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Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update

Hi Everyone – just wanted to share with you the latest on the strategy for Q3. We are headed back to FPC next week with a further 2 scenarios on the deficit target that could be published. In addition to the ones we took earlier this week – two new options are proposed – one is to reverse the pensions only (option 1 in the materials), and the

second is to take on a certain amount of ministry pressures we think will materialize (option 4 in the materials).

In terms of the materials – there is both a deck and a placemat that we are proposing to take forward. The placemat illustrates the 4 options and includes how the revenue/expense change table would appear relative to Budget and some proposed narrative for each scenario.

The deck is very similar to what we took forward last week but has a couple of new slides. Tim has also just circulated to your ADMs

Can I ask that you specifically take a look at slide 8 to ensure you are comfortable with the wording as well as the narrative on the placemat that would be helpful. But happy to hear any comments on the rest of it as well. We are looking for any comments back by 3:30pm today so we can finalize and send up to our DM/MO today.

And – we are continuing to track for a release on Feb 13 and we will be in touch to request your assistance.

Happy to discuss.

Thanks.

From: Esmail, Selena (MOF)
Sent: January-24-17 3:48 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: RE: Q3 update

Hi Everyone – sending along the most current draft of the deck we are planning to take forward to FPC tomorrow.

Comments welcome – if you could let me know asap if you have them. Heads up that timing of release of the Q3 may be even sooner as noted in this deck

From: Esmail, Selena (MOF)
Sent: January-23-17 12:43 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Petsche, Nadine (TBS); Kandeepan, Ken (OFA)
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From: Ken Kandeepan
To: Lynsey Wynberg
Subject: Re: Report of the Independent Panel on the Pension Adjustment
Date: Friday, February 03, 2017 9:04:16 PM

Thanks Lynsey will touch base with Cindy next week,

Ken k

On Feb 3, 2017, at 7:13 PM, Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca> wrote:

Begin forwarded message:

From: "Young, Gwendolynne (MOF)" <Gwendolynne.Young@ontario.ca>
Date: February 3, 2017 at 6:34:40 PM EST
To: "Pearce, Christopher (MOF)" <Christopher.Pearce@ontario.ca>
Cc: "Wynberg, Lynsey (OFA)" <Lynsey.Wynberg@ofina.on.ca>
Subject: RE: Report of the Independent Panel on the Pension Adjustment

Hi there,

I checked with the TBS-DMO and they have not shared the actual report, only the summary deck. Attached is the summary deck from the Minister's briefing on Jan 17th.

Thanks,
Gwen.

Gwen Young
p: 416.325.0741 | bb: 647.982.2419

From: Pearce, Christopher (MOF)
Sent: February 3, 2017 11:49 AM
To: Young, Gwendolynne (MOF)
Cc: Wynberg, Lynsey (OFA)
Subject: FW: Report of the Independent Panel on the Pension Adjustment

Gwen – you have a copy that you can share with Ken K?

From: Lynsey Wynberg [mailto:Lynsey.Wynberg@ofina.on.ca]

Sent: February 3, 2017 11:47 AM
To: Pearce, Christopher (MOF)
Subject: FW: Report of the Independent Panel on the Pension Adjustment

Hey Chris,

Would it be possible to get a copy of the report for Ken?

Lynsey

From: Ken Kandeepan
Sent: Thursday, February 02, 2017 4:58 PM
To: Lynsey Wynberg <Lynsey.Wynberg@ofina.on.ca>
Subject: Report of the Independent Panel on the Pension Adjustment

Hi Lynsey

I spoke to Cindy and she indicated our DMO had a copy of the report. Can you pls request Chris to forward same to you.

Not only do I want to read it for professional reasons but as per a previous email from Gadi, Bonnie will be letting the Rating Agencies know about this on Feb 13th the day of release. Usually, I am the one who is then pulled in to the tele conferences to respond to complex accounting questions, if any of course.

So reading the report ahead of time will be useful.

Thanks

Ken k

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<Minister Pension Asset Update V2.pptx>

From:	Ken Kandeepan
To:	Tara McGrath (MOF)
Cc:	Chi-Wa Che; Anand, Sareena (MOF); IOD_RPA; John Psinas; Alexander Kraas; Anna Strathy; Nero, Freba (MOF); James MacDonald (MEDTE/MRI); Danny Cheung (CSC)
Subject:	Re: Transition Deck: Base Case & Alternative Fiscal Scenarios
Date:	Tuesday, May 29, 2018 9:28:38 PM

Hi Tara

With regard to IOD, your characterization of the two versions is accurate. However since our runs were done to meet deadlines we will review the results once more tomorrow morning and confirm.

With regard to the net debt to GDP ratio, as John has pointed out, the version that includes the AG's adjustments should also incorporate the cumulative impact of reversing the pension adjustment and that should not be limited to 16-17 onwards.

We have requested the cumulative impact from OPCD and should be able to provide revised ratios tomorrow.

Thanks

Ken k

> On May 29, 2018, at 908 PM, McGrath, Tara (MOF) <Tara.McGrath@ontario.ca> wrote:
>
> Hi everyone,
>
> Thank you again for your nimbleness today - we appreciate it.
>
> We were moving quickly today, so we wanted to take a pause just to confirm we are using the correct IOD numbers. We understand that the version sent at 3:56 (first attachment) includes the IOD changes without taking on the accounting change for pensions and Fair Hydro; and the version sent at 4:30 (second attachment) represents the IOD changes after taking on the accounting changes.
>
> We have a small window tomorrow morning to make any final updates, so it would be great if you could confirm first thing in the morning.
>
> John - we're working through all of the net debt-to-GDP scenarios with these new IOD figures, so we'll loop back around with you in the morning to confirm you're ok with all of the ratios for the deck.
>
> We understand the briefing with the SOC is at 3.
>
> Thanks,
>
> Tara
>
> _____
> From: Che, Chi-Wa (OFA) [Chi-Wa.Che@ofina.on.ca]
> Sent: Tuesday, May 29, 2018 4:30 PM
> To: Anand, Sareena (MOF)
> Cc: McGrath, Tara (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA); Kandeepan, Ken (OFA); Strathy, Anna (OFA)
> Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
>
> Hi Sareena,
>
> Attached is the revised IOD Summary for the Base Case and Alternative Scenarios together with the impacts from

Pension Adjustments and Fair Hydro Plan.
>
> The IOD forecast as of April 30, 2018 is made with the following assumptions:-
>
>
> 1. IOD projections based on new OEP interest rate forecasts (May 23, 2018) for F2018-19 and F2019-20 and the 20-year historical average of interest rates for F2020-21. The latest forecast indicated that there is an decrease of 16 bps for 2019-20 only while marginally the same for 2018-19.
> 2. Uses the new Net Investment in Capital Assets and interest cap assumptions provided by TBS.
> 3. The pension adjustments does not impact borrowing as it only has PSAB implications and not cash implications.
> 4. New borrowing is increased by the partial cost of transferring the Fair Hydro Plan onto the Province's books as 44% of the cost is already accounted for.
>
>
>
> Thanks.
>
> Chi-Wa Che
>
> 5-8163
>
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> <IOD Summary for Transition.Revised.xlsx>
> <IOD Summary for Transition.RevisedV2.xlsx>

From:	Ken Kandeepan
To:	Tara McGrath (MOF)
Cc:	Chi-Wa Che; Anand, Sareena (MOF); IOD_RPA; John Psinas; Alexander Kraas; Anna Strathy; Nero, Freba (MOF); James MacDonald (MEDTE/MRI); Danny Cheung (CSC)
Subject:	Re: Transition Deck: Base Case & Alternative Fiscal Scenarios
Date:	Tuesday, May 29, 2018 9:28:38 PM

Hi Tara

With regard to IOD, your characterization of the two versions is accurate. However since our runs were done to meet deadlines we will review the results once more tomorrow morning and confirm.

With regard to the net debt to GDP ratio, as John has pointed out, the version that includes the AG's adjustments should also incorporate the cumulative impact of reversing the pension adjustment and that should not be limited to 16-17 onwards.

We have requested the cumulative impact from OPCD and should be able to provide revised ratios tomorrow.

Thanks

Ken k

> On May 29, 2018, at 908 PM, McGrath, Tara (MOF) <Tara.McGrath@ontario.ca> wrote:
>
> Hi everyone,
>
> Thank you again for your nimbleness today - we appreciate it.
>
> We were moving quickly today, so we wanted to take a pause just to confirm we are using the correct IOD numbers. We understand that the version sent at 3:56 (first attachment) includes the IOD changes without taking on the accounting change for pensions and Fair Hydro; and the version sent at 4:30 (second attachment) represents the IOD changes after taking on the accounting changes.
>
> We have a small window tomorrow morning to make any final updates, so it would be great if you could confirm first thing in the morning.
>
> John - we're working through all of the net debt-to-GDP scenarios with these new IOD figures, so we'll loop back around with you in the morning to confirm you're ok with all of the ratios for the deck.
>
> We understand the briefing with the SOC is at 3.
>
> Thanks,
>
> Tara
>
> _____
> From: Che, Chi-Wa (OFA) [Chi-Wa.Che@ofina.on.ca]
> Sent: Tuesday, May 29, 2018 4:30 PM
> To: Anand, Sareena (MOF)
> Cc: McGrath, Tara (MOF); IOD_RPA; John Psinas; Kraas, Alexander (OFA); Kandeepan, Ken (OFA); Strathy, Anna (OFA)
> Subject: RE: Transition Deck: Base Case & Alternative Fiscal Scenarios
>
> Hi Sareena,
>
> Attached is the revised IOD Summary for the Base Case and Alternative Scenarios together with the impacts from

Pension Adjustments and Fair Hydro Plan.
>
> The IOD forecast as of April 30, 2018 is made with the following assumptions:-
>
>
> 1. IOD projections based on new OEP interest rate forecasts (May 23, 2018) for F2018-19 and F2019-20 and the 20-year historical average of interest rates for F2020-21. The latest forecast indicated that there is an decrease of 16 bps for 2019-20 only while marginally the same for 2018-19.
> 2. Uses the new Net Investment in Capital Assets and interest cap assumptions provided by TBS.
> 3. The pension adjustments does not impact borrowing as it only has PSAB implications and not cash implications.
> 4. New borrowing is increased by the partial cost of transferring the Fair Hydro Plan onto the Province's books as 44% of the cost is already accounted for.
>
>
>
> Thanks.
>
> Chi-Wa Che
>
> 5-8163
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>
> This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.
> <IOD Summary for Transition.Revised.xlsx>
> <IOD Summary for Transition.RevisedV2.xlsx>

From:	Gadi Mayman
To:	Ken Kandeepan
Cc:	Christina Zhang
Subject:	Re: Updated MMP Materials
Date:	Sunday, October 23, 2016 12:08:35 PM

I like that wording, Ken, and it, or something very similar to it, should make it into the yellows, if this is the route decided upon for the the FES at tomorrow's MM&P meeting, and at FPC later in the week.

From: Ken Kandeepan
Sent: Sunday, October 23, 2016 9:50 AM
To: Gadi Mayman
Cc: Christina Zhang
Subject: RE: Updated MMP Materials

Hi Gadi

Went through the material, looks good. Net debt to GDP ratios reflect what John provided to Tara on Thursday. Lot of work by Tim's group to incorporate all the changes. I have only one suggestion re the narrative on the pension adjustment.

I would include something like; "While the resolution of the appropriate accounting treatment for pensions is dependent on a number of factors including the results of the independent review commissioned by the Government, the Province has adopted a prudent and risk averse approach in the FES by continuing with the legislated accounting basis for pensions. As a result, a pension adjustment based on historical averages is included in the 16-17 and out year expense projections".

As it stands the narrative does not make the point perhaps forcefully enough, that the Government has developed the FES on a prudent, conservative and risk-averse basis.

Thanks

Ken k

From: Gadi Mayman
Sent: Friday, October 21, 2016 9:26 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Christina Zhang <Christina.Zhang@ofina.on.ca>
Subject: Fwd: Updated MMP Materials

FYI?

Begin forwarded message:

> **From:** "Schuurman, Tim (MOF)" <Tim.Schuurman@ontario.ca>

To: "Scott Thompson (CAB)" <Scott.Thompson@ontario.ca>, "Helen Angus (MOHLTC)" <Helen.Angus@ontario.ca>, "Karen Hughes (MGS)" <Karen.Hughes@ontario.ca>, "Maria Duran-Schneider (MOF)" <Maria.Duran-Schneider@ontario.ca>, "Brian Lewis (MOL)" <Brian.Lewis@ontario.ca>, "Gadi Mayman" <Gadi.Mayman@ofina.on.ca>, "Sriram Subrahmanyan (MOF)" <Sriram.Subrahmanyan@ontario.ca>, "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>
Cc: "David McLean (MOF)" <David.McLean@ontario.ca>, "Kyle MacIntyre (MOF)" <Kyle.MacIntyre@ontario.ca>, "Birks, Ryan (MOF)" <Ryan.Birks@ontario.ca>, "Selena Esmail (MOF)" <Selena.Esmail@ontario.ca>, "Ronald Jaikaran (MOF)" <Ronald.Jaikaran@ontario.ca>, "Christopher Pearce (MOI)" <Christopher.Pearce@ontario.ca>, "Tara McGrath (MOF)" <Tara.McGrath@ontario.ca>, "Emma Lindquist (MOF)" <Emma.Lindquist@ontario.ca>
Subject: RE: Updated MMP Materials

Good evening

Please find attached MMP materials updated to reflect direction from the Ministers this afternoon. I understand these will be provided tonight in preparation for Monday's meeting.

Thanks for all the input and collaboration.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173

From: Schuurman, Tim (MOF)
Sent: October-20-16 10:38 PM
To: Thompson, Scott (MOF); Angus, Helen (TBS); Hughes, Karen (TBS); Duran-Schneider, Maria (TBS); Lewis, Brian (MOF); 'Gadi Mayman'; Sriram.Subrahmanyan@ontario.ca; Veinot, Cindy (TBS)
Cc: McLean, David (MOF); MacIntyre, Kyle (TBS); Birks, Ryan (MOF); Esmail, Selena (MOF); Jaikaran, Ronald (MOF); Pearce, Christopher (MOF); McGrath, Tara (MOF); Lindquist, Emma (MOF)
Subject: Updated MMP Materials

Good evening

Please find attached updated MMP package of materials, based on the discussion/direction earlier this afternoon, and in preparation for the Minister's briefing tomorrow afternoon.

This package includes the following:

- Revised main deck
- Revised Appendix deck (now also includes crosswalk from Budget to FES starting point to Pensions+Tools, for all three options, see slides 10-12)
- A newly developed Summary Placemat outlining/comparing the three options with details on the specific tools employed in each option
- Storyboard/Initiatives Placemat for FES

Thanks to everyone for your ongoing input and collaboration on this important part of FES development.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



From: Ken Kandeepan
To: Lynsey Wynberg
Subject: Report of the Independent Panel on the Pension Adjustment
Date: Thursday, February 02, 2017 4:57:59 PM

Hi Lynsey

I spoke to Cindy and she indicated our DMO had a copy of the report. Can you pls request Chris to forward same to you.

Not only do I want to read it for professional reasons but as per a previous email from Gadi, Bonnie will be letting the Rating Agencies know about this on Feb 13th the day of release. Usually, I am the one who is then pulled in to the tele conferences to respond to complex accounting questions, if any of course.

So reading the report ahead of time will be useful.

Thanks

Ken k

From:	Ken Kandeepan
To:	Gadi Mayman
Cc:	Shemin Meralli; George Sakura; Christina Zhang
Subject:	Revised Scenarios
Date:	Tuesday, December 06, 2016 4:30:38 PM
Attachments:	Copy of Net Debt - 2016-17 -FES-subseq scenarios (Dec 5 2016).xlsx

---

Hi Gadi

Thanks to Shemin and George, as requested pls find attached the file with the additional scenario where the ratio decreases by 0.2% over each of the two out years. As to be expected, the flexibility, in comparison to what was published in the FES does decrease.

Thanks and let us know if you require further details.

Ken k

Scenarios vs. FES 2016-17 - Summary

	Scenario 1			FES 2016-17	
	2016-17	2017-18	2018-19	2016-17	2017-18
Deficit/ (Surplus) ($m)	4,324	(18)	(12)	4,324	(18)
Net Debt/GDP %	40.3	40.3	40.3	40.3	39.8
Net Debt - Net flexibility	317,948	330,938	344,472	317,948	326,551
GDP	789,176	821,389	854,990	789,176	821,389

	Scenario 2			FES 2016-17	
	2016-17	2017-18	2018-19	2016-17	2017-18
Deficit/ (Surplus) ($m)	4,324	(18)	(12)	4,324	(18)
Net Debt/GDP %	40.3	40.5	40.7	40.3	39.8
Net Debt - Net flexibility	317,948	332,580	347,896	317,948	326,551
GDP	789,176	821,389	854,990	789,176	821,389

	Scenario 3			FES 2016-17	
	2016-17	2017-18	2018-19	2016-17	2017-18
Deficit/ (Surplus) ($m)	4,324	(18)	(12)	4,324	(18)
Net Debt/GDP %	40.3	40.1	39.9	40.3	39.8
Net Debt - Net flexibility	317,948	329,295	341,055	317,948	326,551
GDP	789,176	821,389	854,990	789,176	821,389

Scenario 1:
What is the flexibility over the out years for increasing net debt while keeping the ratio

Scenario 2:
How much can net debt increase over the out years assuming that the corresponding ir
(i.e. increases in NetDebt to GDP ratio of 0.2% per year)?

Scenario 3:
How much can net debt increase over the out years assuming that the corresponding d
(i.e. decreases in NetDebt to GDP ratio of 0.2% per year)?

Note: Net flexibility indicates the flexibility available in 2018-19 assuming that

Variance Scenario vs. FES2016-17

2018-19	2016-17	2017-18	2018-19
(12)	-	-	-
39.3	0.0	0.5	0.9
336,419	-	4,387	8,053
		4,387	3,666
854,990	-	-	-

Variance Scenario vs. FES2016-17

2018-19	2016-17	2017-18	2018-19
(12)	-	-	-
39.3	0.0	0.7	1.3
336,419	-	6,029	11,477
		6,029	5,447
854,990	-	-	-

Variance Scenario vs. FES2016-17

2018-19	2016-17	2017-18	2018-19
(12)	-	-	-
39.3	0.0	0.3	0.5
336,419	-	2,744	4,636
		2,744	1,893
854,990	-	-	-

consistent at the 2016-17 Net Debt to GDP Ratio?

ncrease in the ratio is limited to 0.2% from the FES 2016-17 number,

lecrease in the ratio is limited to 0.2% from the FES 2016-17 number,

all of the flexibility in 2017-18 has been utilized.

Net Debt to Revenue and GDP Ratios

Ontario

2016-17 FES - with pension adjustment - scenario 1

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	IOD	Revenue	IOD to Revenue	GDP	Net Debt	Revenue	Net Debt As % to GDP
Actual	1989-90	282,766	35,409	46,500	12.52	76.1	35,409	12.52	-			(90)				282,766	35,409	46,500	12.52
Actual	1990-91	287,334	38,438	49,002	13.38	78.4	38,438	13.38	-			3,029				287,334	38,438	49,002	13.38
Actual	1991-92	288,217	49,368	47,527	17.13	103.9	49,368	17.13	-			10,930				288,217	49,368	47,527	17.13
Actual	1992-93	293,068	61,796	49,122	21.09	125.8	61,796	21.09	-			12,428				293,068	61,796	49,122	21.09
Actual	1993-94	302,245	80,599	51,410	26.67	156.8	80,599	26.67	-			11,202				302,245	80,599	51,410	26.67
Actual	1994-95	319,986	90,728	53,962	28.35	168.1	90,728	28.35	-			10,129				319,986	90,728	53,962	28.35
Actual	1995-96	337,400	101,864	57,898	30.19	175.9	101,864	30.19	-			8,800				337,400	101,864	57,898	30.19
Actual	1996-97	347,842	108,769	58,060	31.27	187.3	108,769	31.27	-			6,905				347,842	108,769	58,060	31.27
Actual	1997-98	368,960	112,735	61,362	30.55	183.7	112,735	30.55	-			3,966				368,960	112,735	61,362	30.55
Actual	1998-99	389,250	114,737	63,044	29.48	182.0	114,737	29.48	-			2,002				389,250	114,737	63,044	29.48
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3	134,398	32.13	-			(668)				418,245	134,398	70,983	32.13
Actual	2000-01	452,238	132,496	72,258	29.30	183.4	132,496	29.30	-			(1,902)				452,238	132,496	72,258	29.30
Actual	2001-02	469,084	132,121	72,550	28.17	182.1	132,121	28.17	-			(375)				469,084	132,121	72,550	28.17
Actual	2002-03	494,815	132,647	74,938	26.81	177.0	118,705	23.99	13,942			(117)				494,815	132,647	74,938	26.81
Actual	2003-04	509,511	138,816	74,549	27.24	186.2	124,188	24.37	14,628			5,483				509,511	138,816	74,549	27.24
Actual	2004-05	533,365	140,921	84,192	26.42	167.4	125,743	23.58	15,178			1,555				533,365	140,921	84,192	26.42
Actual	2005-06	556,635	152,702	90,738	27.43	168.3	109,155	19.61	43,547			(298)				556,635	152,702	90,738	27.43
Actual	2006-07	578,241	153,742	97,120	26.59	158.3	106,776	18.47	46,966		(110)	(2,269)				578,241	153,742	97,120	26.59
Actual	2007-08	601,735	156,616	104,115	26.03	150.4	105,617	17.55	50,999	(559)		(600)				601,735	156,616	104,115	26.03
Actual	2008-09	608,446	169,585	97,532	27.87	173.9	113,238	18.61	56,347	1,212		6,409				608,446	169,585	97,532	27.87
Actual	2009-10	597,882	193,589	96,313	32.38	201.0	130,957	21.90	62,632	1,090	-	19,262	8,719	96,313	9.05	597,882	193,589	96,313	32.38
Actual	2010-11	630,989	214,511	107,175	34.00	200.2	144,573	22.91	69,938	(395)	-	14,011	9,480	107,175	8.85	630,989	214,511	107,175	34.00
Actual	2011-12	659,743	235,582	109,773	35.71	214.6	158,410	24.01	77,172	3	865	12,969	10,082	109,773	9.18	659,743	235,582	109,773	35.71
Actual	2012-13	680,084	252,088	113,369	37.07	222.4	167,132	24.58	84,956	(639)	141	9,220	10,341	113,369	9.12	680,084	252,088	113,369	37.07
Actual	2013-14	695,349	267,190	115,911	38.43	230.5	176,634	25.40	90,556	(951)	-	10,453	10,572	115,911	9.12	695,349	267,190	115,911	38.43
Actual	2014-15	727,962	284,576	118,546	39.09	240.1	187,511	25.76	97,065	(1,121)	1,683	10,315	10,635	118,546	8.97	727,962	284,576	118,546	39.09
Actual	2015-16	763,276	305,233	128,377	39.99	237.8	202,697	26.56	102,536	1,003	9,154	5,029	10,967	128,377	8.54	763,276	305,233	128,377	39.99
	2016-17 Outloo	789176	317,948	130,589	40.29	243.5	207,021	26.23	110,927			4,324	11,375	132,720	8.57	789176	317,948	130,589	40.29
	2017-18 Outloo	821389	330,938	137,729	40.29	240.3	211,390	25.74	119,548		4,387	(18)	11,700	140,125	8.35	821389	326,551	137,729	39.76
	2018-19 Outloo	854990	344,472	141,920	40.29	242.7	215,044	25.15	129,428		3,666	(12)	12,400	144,899	8.56	854990	336,419	141,920	39.35
	2019-20 Outlook		354,419		#DIV/0!		215,044	#DIV/0!	139,375			-					346,366		#DIV/0!
	2020-21 Outlook		362,504				215,044		147,460			-					354,451		

Scenario 1:

What is the flexibility over the out years for increasing net debt while keeping the ratio consistent at the 2016-17 Net Debt to GDP Ratio?

Flexibility available - highlighted in yellow above.

Scenario Assumptions:

1. Net Debt to GDP ratio for 2017-18 and 2018-19 remains at the 2016-17 level at 40.29%

Prepared by OFA, FTD

5-Dec-16

Net Debt to Revenue an

Ontario

		2016-17 FES - with pension adjustment							Comparison: 2016 Public Accounts vs FES 2016-17							
	Fiscal Year	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
Actual	1989-90	76.1	35,409	12.52	-			(90)	-	-	-	-	-	-	-	-
Actual	1990-91	78.4	38,438	13.38	-			3,029	-	-	-	-	-	-	-	-
Actual	1991-92	103.9	49,368	17.13	-			10,930	-	-	-	-	-	-	-	-
Actual	1992-93	125.8	61,796	21.09	-			12,428	-	-	-	-	-	-	-	-
Actual	1993-94	156.8	80,599	26.67	-			11,202	-	-	-	-	-	-	-	-
Actual	1994-95	168.1	90,728	28.35	-			10,129	-	-	-	-	-	-	-	-
Actual	1995-96	175.9	101,864	30.19	-			8,800	-	-	-	-	-	-	-	-
Actual	1996-97	187.3	108,769	31.27	-			6,905	-	-	-	-	-	-	-	-
Actual	1997-98	183.7	112,735	30.55	-			3,966	-	-	-	-	-	-	-	-
Actual	1998-99	182.0	114,737	29.48	-			2,002	-	-	-	-	-	-	-	-
Actual	1999-2000	189.3	134,398	32.13	-			(668)	-	-	-	-	-	-	-	-
Actual	2000-01	183.4	132,496	29.30	-			(1,902)	-	-	-	-	-	-	-	-
Actual	2001-02	182.1	132,121	28.17	-			(375)	-	-	-	-	-	-	-	-
Actual	2002-03	177.0	118,705	23.99	13,942			(117)	-	-	-	-	-	-	-	-
Actual	2003-04	186.2	124,188	24.37	14,628			5,483	-	-	-	-	-	-	-	-
Actual	2004-05	167.4	125,743	23.58	15,178			1,555	-	-	-	-	-	-	-	-
Actual	2005-06	168.3	109,155	19.61	43,547			(298)	-	-	-	-	-	-	-	-
Actual	2006-07	158.3	106,776	18.47	46,966		(110)	(2,269)	-	-	-	-	-	-	-	-
Actual	2007-08	150.4	105,617	17.55	50,999	(559)		(600)	-	-	-	-	-	-	-	-
Actual	2008-09	173.9	113,238	18.61	56,347	1,212		6,409	-	-	-	-	-	-	-	-
Actual	2009-10	201.0	130,957	21.90	62,632	1,090	-	19,262	-	-	-	-	-	-	-	-
Actual	2010-11	200.2	144,573	22.91	69,938	(395)	-	14,011	-	-	-	-	-	-	-	-
Actual	2011-12	214.6	158,410	24.01	77,172	3	865	12,969	-	-	-	-	-	-	-	-
Actual	2012-13	222.4	167,132	24.58	84,956	(639)	141	9,220	-	-	-	-	-	-	-	-
Actual	2013-14	230.5	176,634	25.40	90,556	(951)	-	10,453	-	-	-	-	-	-	-	-
Actual	2014-15	240.1	187,511	25.76	97,065	(1,121)	1,683	10,315	-	-	-	-	-	-	-	-
Actual	2015-16	237.8	202,697	26.56	102,536	1,003	9,154	5,029	-	-	-	-	-	-	-	-
	2016-17 Outlo	243.5	207,021	26.23	110,927			4,324	-	-	-	-	-	-	-	-
	2017-18 Outlo	237.1	207,003	25.20	119,548			(18)	-	(4,387)	(4,387)	(0.5)	-	-	(4,387)	-
	2018-19 Outlo	237.0	206,991	24.21	129,428			(12)	-	(8,053)	(8,053)	(0.9)	-	-	(3,666)	-
	2019-20 Outlo		206,991	#DIV/0!	139,375			-	-	(8,053)	(8,053)	#DIV/0!	-	-	-	-
	2020-21 Outlo		206,991		147,460			-	-	(8,053)	(8,053)	-	-	-	-	-

Prepared by OFA, FTD

5-Dec-16

Net Debt to Revenue and GDP Ratios

Ontario

2016-17 FES - wi

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit
Actual	1989-90	282,766	35,409	46,500	12.52	76.1	35,409
Actual	1990-91	287,334	38,438	49,002	13.38	78.4	38,438
Actual	1991-92	288,217	49,368	47,527	17.13	103.9	49,368
Actual	1992-93	293,068	61,796	49,122	21.09	125.8	61,796
Actual	1993-94	302,245	80,599	51,410	26.67	156.8	80,599
Actual	1994-95	319,986	90,728	53,962	28.35	168.1	90,728
Actual	1995-96	337,400	101,864	57,898	30.19	175.9	101,864
Actual	1996-97	347,842	108,769	58,060	31.27	187.3	108,769
Actual	1997-98	368,960	112,735	61,362	30.55	183.7	112,735
Actual	1998-99	389,250	114,737	63,044	29.48	182.0	114,737
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3	134,398
Actual	2000-01	452,238	132,496	72,258	29.30	183.4	132,496
Actual	2001-02	469,084	132,121	72,550	28.17	182.1	132,121
Actual	2002-03	494,815	132,647	74,938	26.81	177.0	118,705
Actual	2003-04	509,511	138,816	74,549	27.24	186.2	124,188
Actual	2004-05	533,365	140,921	84,192	26.42	167.4	125,743
Actual	2005-06	556,635	152,702	90,738	27.43	168.3	109,155
Actual	2006-07	578,241	153,742	97,120	26.59	158.3	106,776
Actual	2007-08	601,735	156,616	104,115	26.03	150.4	105,617
Actual	2008-09	608,446	169,585	97,532	27.87	173.9	113,238
Actual	2009-10	597,882	193,589	96,313	32.38	201.0	130,957
Actual	2010-11	630,989	214,511	107,175	34.00	200.2	144,573
Actual	2011-12	659,743	235,582	109,773	35.71	214.6	158,410
Actual	2012-13	680,084	252,088	113,369	37.07	222.4	167,132
Actual	2013-14	695,349	267,190	115,911	38.43	230.5	176,634
Actual	2014-15	727,962	284,576	118,546	39.09	240.1	187,511
Actual	2015-16	763,276	305,233	128,377	39.99	237.8	202,697
	2016-17 Outloo	789176	317,948	130,589	40.29	243.5	207,021
	2017-18 Outloo	821389	332,580	137,729	40.49	241.5	213,032
	2018-19 Outloo	854990	347,896	141,920	40.69	245.1	218,468
	2019-20 Outlook		357,843		#DIV/0!		218,468
	2020-21 Outlook		365,928				218,468

Scenario 2:

How much can net debt increase over the out years assuming that the corresponding in

Flexibility available - highlighted in yellow above.

Scenario Assumptions:

1. Net Debt to GDP ratio increases by 0.2% per year after 2016-17.

Prepared by OFA, FTD

5-Dec-16

ith pension adjustment - scenario 2

Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	IOD	Revenue	IOD to Revenue
12.52	-			(90)			
13.38	-			3,029			
17.13	-			10,930			
21.09	-			12,428			
26.67	-			11,202			
28.35	-			10,129			
30.19	-			8,800			
31.27	-			6,905			
30.55	-			3,966			
29.48	-			2,002			
32.13	-			(668)			
29.30	-			(1,902)			
28.17	-			(375)			
23.99	13,942			(117)			
24.37	14,628			5,483			
23.58	15,178			1,555			
19.61	43,547			(298)			
18.47	46,966		(110)	(2,269)			
17.55	50,999	(559)		(600)			
18.61	56,347	1,212		6,409			
21.90	62,632	1,090	-	19,262	8,719	96,313	9.05
22.91	69,938	(395)	-	14,011	9,480	107,175	8.85
24.01	77,172	3	865	12,969	10,082	109,773	9.18
24.58	84,956	(639)	141	9,220	10,341	113,369	9.12
25.40	90,556	(951)	-	10,453	10,572	115,911	9.12
25.76	97,065	(1,121)	1,683	10,315	10,635	118,546	8.97
26.56	102,536	1,003	9,154	5,029	10,967	128,377	8.54
26.23	110,927			4,324	11,375	132,720	8.57
25.94	119,548		6,029	(18)	11,700	140,125	8.35
25.55	129,428		5,447	(12)	12,400	144,899	8.56
#DIV/0!	139,375			-			
	147,460			-			

crease in the ratio is limited to 0.2% from the FES 2016-17 number?

2016-17 FES - with pension adjustment

GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP
282,766	35,409	46,500	12.52	76.1	35,409	12.52
287,334	38,438	49,002	13.38	78.4	38,438	13.38
288,217	49,368	47,527	17.13	103.9	49,368	17.13
293,068	61,796	49,122	21.09	125.8	61,796	21.09
302,245	80,599	51,410	26.67	156.8	80,599	26.67
319,986	90,728	53,962	28.35	168.1	90,728	28.35
337,400	101,864	57,898	30.19	175.9	101,864	30.19
347,842	108,769	58,060	31.27	187.3	108,769	31.27
368,960	112,735	61,362	30.55	183.7	112,735	30.55
389,250	114,737	63,044	29.48	182.0	114,737	29.48
418,245	134,398	70,983	32.13	189.3	134,398	32.13
452,238	132,496	72,258	29.30	183.4	132,496	29.30
469,084	132,121	72,550	28.17	182.1	132,121	28.17
494,815	132,647	74,938	26.81	177.0	118,705	23.99
509,511	138,816	74,549	27.24	186.2	124,188	24.37
533,365	140,921	84,192	26.42	167.4	125,743	23.58
556,635	152,702	90,738	27.43	168.3	109,155	19.61
578,241	153,742	97,120	26.59	158.3	106,776	18.47
601,735	156,616	104,115	26.03	150.4	105,617	17.55
608,446	169,585	97,532	27.87	173.9	113,238	18.61
597,882	193,589	96,313	32.38	201.0	130,957	21.90
630,989	214,511	107,175	34.00	200.2	144,573	22.91
659,743	235,582	109,773	35.71	214.6	158,410	24.01
680,084	252,088	113,369	37.07	222.4	167,132	24.58
695,349	267,190	115,911	38.43	230.5	176,634	25.40
727,962	284,576	118,546	39.09	240.1	187,511	25.76
763,276	305,233	128,377	39.99	237.8	202,697	26.56
789176	317,948	130,589	40.29	243.5	207,021	26.23
821389	326,551	137,729	39.76	237.1	207,003	25.20
854990	336,419	141,920	39.35	237.0	206,991	24.21
	346,366		#DIV/0!		206,991	#DIV/0!
	354,451				206,991	

TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt	Accumulated Deficit	Acc Deficit to GDP
							Comparison: 2016 Public Ac
-			(90)	-	-	-	-
-			3,029	-	-	-	-
-			10,930	-	-	-	-
-			12,428	-	-	-	-
-			11,202	-	-	-	-
-			10,129	-	-	-	-
-			8,800	-	-	-	-
-			6,905	-	-	-	-
-			3,966	-	-	-	-
-			2,002	-	-	-	-
-			(668)	-	-	-	-
-			(1,902)	-	-	-	-
-			(375)	-	-	-	-
13,942			(117)	-	-	-	-
14,628			5,483	-	-	-	-
15,178			1,555	-	-	-	-
43,547			(298)	-	-	-	-
46,966		(110)	(2,269)	-	-	-	-
50,999	(559)		(600)	-	-	-	-
56,347	1,212		6,409	-	-	-	-
62,632	1,090	-	19,262	-	-	-	-
69,938	(395)	-	14,011	-	-	-	-
77,172	3	865	12,969	-	-	-	-
84,956	(639)	141	9,220	-	-	-	-
90,556	(951)	-	10,453	-	-	-	-
97,065	(1,121)	1,683	10,315	-	-	-	-
102,536	1,003	9,154	5,029	-	-	-	-
110,927			4,324	-	-	-	-
119,548			(18)	-	(6,029)	(6,029)	(0.7)
129,428			(12)	-	(11,477)	(11,477)	(1.3)
139,375			-	-	(11,477)	(11,477)	#DIV/0!
147,460			-	-	(11,477)	(11,477)	-

:counts vs FES 2016-17

TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	(6,029)	-
-	-	(5,447)	-
-	-	-	-
-	-	-	-

Net Debt to Revenue and GDP Ratios

Ontario

2016-17 FES - wi

	Fiscal Year	GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit
Actual	1989-90	282,766	35,409	46,500	12.52	76.1	35,409
Actual	1990-91	287,334	38,438	49,002	13.38	78.4	38,438
Actual	1991-92	288,217	49,368	47,527	17.13	103.9	49,368
Actual	1992-93	293,068	61,796	49,122	21.09	125.8	61,796
Actual	1993-94	302,245	80,599	51,410	26.67	156.8	80,599
Actual	1994-95	319,986	90,728	53,962	28.35	168.1	90,728
Actual	1995-96	337,400	101,864	57,898	30.19	175.9	101,864
Actual	1996-97	347,842	108,769	58,060	31.27	187.3	108,769
Actual	1997-98	368,960	112,735	61,362	30.55	183.7	112,735
Actual	1998-99	389,250	114,737	63,044	29.48	182.0	114,737
Actual	1999-2000	418,245	134,398	70,983	32.13	189.3	134,398
Actual	2000-01	452,238	132,496	72,258	29.30	183.4	132,496
Actual	2001-02	469,084	132,121	72,550	28.17	182.1	132,121
Actual	2002-03	494,815	132,647	74,938	26.81	177.0	118,705
Actual	2003-04	509,511	138,816	74,549	27.24	186.2	124,188
Actual	2004-05	533,365	140,921	84,192	26.42	167.4	125,743
Actual	2005-06	556,635	152,702	90,738	27.43	168.3	109,155
Actual	2006-07	578,241	153,742	97,120	26.59	158.3	106,776
Actual	2007-08	601,735	156,616	104,115	26.03	150.4	105,617
Actual	2008-09	608,446	169,585	97,532	27.87	173.9	113,238
Actual	2009-10	597,882	193,589	96,313	32.38	201.0	130,957
Actual	2010-11	630,989	214,511	107,175	34.00	200.2	144,573
Actual	2011-12	659,743	235,582	109,773	35.71	214.6	158,410
Actual	2012-13	680,084	252,088	113,369	37.07	222.4	167,132
Actual	2013-14	695,349	267,190	115,911	38.43	230.5	176,634
Actual	2014-15	727,962	284,576	118,546	39.09	240.1	187,511
Actual	2015-16	763,276	305,233	128,377	39.99	237.8	202,697
	2016-17 Outloo	789176	317,948	130,589	40.29	243.5	207,021
	2017-18 Outloo	821389	329,295	137,729	40.09	239.1	209,747
	2018-19 Outloo	854990	341,055	141,920	39.89	240.3	211,627
	2019-20 Outlook		351,002		#DIV/0!		211,627
	2020-21 Outlook		359,087				211,627

Scenario 2:

How much can net debt increase over the out years assuming that the corresponding in

Flexibility available - highlighted in yellow above.

Scenario Assumptions:

1. Net Debt to GDP ratio decreases by 0.2% per year after 2016-17.

Prepared by OFA, FTD

5-Dec-16

ith pension adjustment - scenario 3

Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	IOD	Revenue	IOD to Revenue
12.52	-			(90)			
13.38	-			3,029			
17.13	-			10,930			
21.09	-			12,428			
26.67	-			11,202			
28.35	-			10,129			
30.19	-			8,800			
31.27	-			6,905			
30.55	-			3,966			
29.48	-			2,002			
32.13	-			(668)			
29.30	-			(1,902)			
28.17	-			(375)			
23.99	13,942			(117)			
24.37	14,628			5,483			
23.58	15,178			1,555			
19.61	43,547			(298)			
18.47	46,966		(110)	(2,269)			
17.55	50,999	(559)		(600)			
18.61	56,347	1,212		6,409			
21.90	62,632	1,090	-	19,262	8,719	96,313	9.05
22.91	69,938	(395)	-	14,011	9,480	107,175	8.85
24.01	77,172	3	865	12,969	10,082	109,773	9.18
24.58	84,956	(639)	141	9,220	10,341	113,369	9.12
25.40	90,556	(951)	-	10,453	10,572	115,911	9.12
25.76	97,065	(1,121)	1,683	10,315	10,635	118,546	8.97
26.56	102,536	1,003	9,154	5,029	10,967	128,377	8.54
26.23	110,927			4,324	11,375	132,720	8.57
25.54	119,548		2,744	(18)	11,700	140,125	8.35
24.75	129,428		1,893	(12)	12,400	144,899	8.56
#DIV/0!	139,375			-			
	147,460			-			

crease in the ratio is limited to 0.2% from the FES 2016-17 number?

2016-17 FES - with pension adjustment

GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue	Accumulated Deficit	Acc Deficit to GDP
282,766	35,409	46,500	12.52	76.1	35,409	12.52
287,334	38,438	49,002	13.38	78.4	38,438	13.38
288,217	49,368	47,527	17.13	103.9	49,368	17.13
293,068	61,796	49,122	21.09	125.8	61,796	21.09
302,245	80,599	51,410	26.67	156.8	80,599	26.67
319,986	90,728	53,962	28.35	168.1	90,728	28.35
337,400	101,864	57,898	30.19	175.9	101,864	30.19
347,842	108,769	58,060	31.27	187.3	108,769	31.27
368,960	112,735	61,362	30.55	183.7	112,735	30.55
389,250	114,737	63,044	29.48	182.0	114,737	29.48
418,245	134,398	70,983	32.13	189.3	134,398	32.13
452,238	132,496	72,258	29.30	183.4	132,496	29.30
469,084	132,121	72,550	28.17	182.1	132,121	28.17
494,815	132,647	74,938	26.81	177.0	118,705	23.99
509,511	138,816	74,549	27.24	186.2	124,188	24.37
533,365	140,921	84,192	26.42	167.4	125,743	23.58
556,635	152,702	90,738	27.43	168.3	109,155	19.61
578,241	153,742	97,120	26.59	158.3	106,776	18.47
601,735	156,616	104,115	26.03	150.4	105,617	17.55
608,446	169,585	97,532	27.87	173.9	113,238	18.61
597,882	193,589	96,313	32.38	201.0	130,957	21.90
630,989	214,511	107,175	34.00	200.2	144,573	22.91
659,743	235,582	109,773	35.71	214.6	158,410	24.01
680,084	252,088	113,369	37.07	222.4	167,132	24.58
695,349	267,190	115,911	38.43	230.5	176,634	25.40
727,962	284,576	118,546	39.09	240.1	187,511	25.76
763,276	305,233	128,377	39.99	237.8	202,697	26.56
789176	317,948	130,589	40.29	243.5	207,021	26.23
821389	326,551	137,729	39.76	237.1	207,003	25.20
854990	336,419	141,920	39.35	237.0	206,991	24.21
	346,366		#DIV/0!		206,991	#DIV/0!
	354,451				206,991	

TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)	GDP	Net Debt	Accumulated Deficit	Acc Deficit to GDP
							Comparison: 2016 Public Ac
-			(90)	-	-	-	-
-			3,029	-	-	-	-
-			10,930	-	-	-	-
-			12,428	-	-	-	-
-			11,202	-	-	-	-
-			10,129	-	-	-	-
-			8,800	-	-	-	-
-			6,905	-	-	-	-
-			3,966	-	-	-	-
-			2,002	-	-	-	-
-			(668)	-	-	-	-
-			(1,902)	-	-	-	-
-			(375)	-	-	-	-
13,942			(117)	-	-	-	-
14,628			5,483	-	-	-	-
15,178			1,555	-	-	-	-
43,547			(298)	-	-	-	-
46,966		(110)	(2,269)	-	-	-	-
50,999	(559)		(600)	-	-	-	-
56,347	1,212		6,409	-	-	-	-
62,632	1,090	-	19,262	-	-	-	-
69,938	(395)	-	14,011	-	-	-	-
77,172	3	865	12,969	-	-	-	-
84,956	(639)	141	9,220	-	-	-	-
90,556	(951)	-	10,453	-	-	-	-
97,065	(1,121)	1,683	10,315	-	-	-	-
102,536	1,003	9,154	5,029	-	-	-	-
110,927			4,324	-	-	-	-
119,548			(18)	-	(2,744)	(2,744)	(0.3)
129,428			(12)	-	(4,636)	(4,636)	(0.5)
139,375			-	-	(4,636)	(4,636)	#DIV/0!
147,460			-	-	(4,636)	(4,636)	-

:counts vs FES 2016-17

TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	(2,744)	-
-	-	(1,893)	-
-	-	-	-
-	-	-	-

Net Debt to Revenue and GDP Ratios

Ontario

20

	Fiscal Year		GDP	Net Debt	Revenue	Net Debt As % to GDP	Net Debt As % to Revenue
Actual	1989-90		282,766	35,409	46,500	12.5	76.1
Actual	1990-91		287,334	38,438	49,002	13.4	78.4
Actual	1991-92		288,217	49,368	47,527	17.1	103.9
Actual	1992-93		293,068	61,796	49,122	21.1	125.8
Actual	1993-94		302,245	80,599	51,410	26.7	156.8
Actual	1994-95		319,986	90,728	53,962	28.4	168.1
Actual	1995-96		337,400	101,864	57,898	30.2	175.9
Actual	1996-97		347,842	108,769	58,060	31.3	187.3
Actual	1997-98		368,960	112,735	61,362	30.6	183.7
Actual	1998-99		389,250	114,737	63,044	29.5	182.0
Actual	1999-2000		418,245	134,398	70,983	32.1	189.3
Actual	2000-01		452,238	132,496	72,258	29.3	183.4
Actual	2001-02		469,084	132,121	72,550	28.2	182.1
Actual	2002-03		494,815	132,647	74,938	26.8	177.0
Actual	2003-04		509,511	138,816	74,549	27.2	186.2
Actual	2004-05		533,365	140,921	84,192	26.4	167.4
Actual	2005-06		556,635	152,702	90,738	27.4	168.3
Actual	2006-07		578,241	153,742	97,120	26.6	158.3
Actual	2007-08		601,735	156,616	104,115	26.0	150.4
Actual	2008-09		608,446	169,585	97,532	27.9	173.9
Actual	2009-10		597,882	193,589	96,313	32.4	201.0
Actual	2010-11		630,989	214,511	107,175	34.0	200.2
Actual	2011-12		659,743	235,582	109,773	35.7	214.6
Actual	2012-13		680,084	252,088	113,369	37.1	222.4
Actual	2013-14		693,210	267,190	115,911	38.5	230.5
Actual	2014-15		721,970	284,576	118,546	39.4	240.1
Actual	2015-16	3.6%	748,207	296,109	126,547	39.6	234.0
	2016-17 Outlo	4.0%	778,417	308,315	130,589	39.6	236.1
	2017-18 Outlo	4.6%	813,924	316,945	137,729	38.9	230.1
	2018-19 Outlo	4.2%	848,237	326,827	141,920	38.5	230.3
	2019-20 Outlo	4.0%	882,062	336,798		38.2	#DIV/0!
	2020-21 Outlo	#####		344,907			#DIV/0!

Note: 2015-16 Accumulated Deficit includes a projected ONFA unrealized

Note: For 2019-20 and 2020-21, we are assuming a zero deficit.

Note: 2015-16 PA Accumulated Deficit includes the ONFA unrealized loss

Prepared by OFA, FTD

29-Sep-16

16 Document

Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)		GDP
35,409	12.5	-			(90)		282,766
38,438	13.4	-			3,029		287,334
49,368	17.1	-			10,930		288,217
61,796	21.1	-			12,428		293,068
80,599	26.7	-			11,202		302,245
90,728	28.4	-			10,129		319,986
101,864	30.2	-			8,800		337,400
108,769	31.3	-			6,905		347,842
112,735	30.6	-			3,966		368,960
114,737	29.5	-			2,002		389,250
134,398	32.1	-			(668)		418,245
132,496	29.3	-			(1,902)		452,238
132,121	28.2	-			(375)		469,084
118,705	24.0	13,942			(117)		494,815
124,188	24.4	14,628			5,483		509,511
125,743	23.6	15,178			1,555		533,365
109,155	19.6	43,547			(298)		556,635
106,776	18.5	46,966		(110)	(2,269)		578,241
105,617	17.6	50,999	(559)		(600)		601,735
113,238	18.6	56,347	1,212		6,409		608,446
130,957	21.9	62,632	1,090	-	19,262		597,882
144,573	22.9	69,938	(395)	-	14,011		630,989
158,410	24.0	77,172	3	865	12,969		659,743
167,132	24.6	84,956	(639)	141	9,220		680,084
176,634	25.5	90,556	(951)	-	10,453		695,349
187,511	26.0	97,065	(1,121)	1,683	10,315	4.7%	727,962
193,447	25.9	102,662	250	-	5,686	4.9%	763,276
197,753	25.4	110,562			4,306		789,176
197,740	24.3	119,205			(13)		821,389
197,717	23.3	129,110			(23)		854,990
197,717	22.4	139,081			-		
197,717		147,190			-		

d loss of $250 million for 2015/16 (Budget).

s of $1,003 million and the pension adjustment of $9,154 million.

2016-17 FES - with pension adjustment

Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.	Deficit/ (Surplus)
35,409	12.5	35,409	12.5	-	-	-	(90)
38,438	13.4	38,438	13.4	-	-	-	3,029
49,368	17.1	49,368	17.1	-	-	-	10,930
61,796	21.1	61,796	21.1	-	-	-	12,428
80,599	26.7	80,599	26.7	-	-	-	11,202
90,728	28.4	90,728	28.4	-	-	-	10,129
101,864	30.2	101,864	30.2	-	-	-	8,800
108,769	31.3	108,769	31.3	-	-	-	6,905
112,735	30.6	112,735	30.6	-	-	-	3,966
114,737	29.5	114,737	29.5	-	-	-	2,002
134,398	32.1	134,398	32.1	-	-	-	(668)
132,496	29.3	132,496	29.3	-	-	-	(1,902)
132,121	28.2	132,121	28.2	-	-	-	(375)
132,647	26.8	118,705	24.0	13,942	-	-	(117)
138,816	27.2	124,188	24.4	14,628	-	-	5,483
140,921	26.4	125,743	23.6	15,178	-	-	1,555
152,702	27.4	109,155	19.6	43,547	-	-	(298)
153,742	26.6	106,776	18.5	46,966	-	(110)	(2,269)
156,616	26.0	105,617	17.6	50,999	(559)	-	(600)
169,585	27.9	113,238	18.6	56,347	1,212	-	6,409
193,589	32.4	130,957	21.9	62,632	1,090	-	19,262
214,511	34.0	144,573	22.9	69,938	(395)	-	14,011
235,582	35.7	158,410	24.0	77,172	3	865	12,969
252,088	37.1	167,132	24.6	84,956	(639)	141	9,220
267,190	38.4	176,634	25.4	90,556	(951)	-	10,453
284,576	39.1	187,511	25.8	97,065	(1,121)	1,683	10,315
305,233	40.0	202,697	26.6	102,536	1,003	9,154	5,029
317,948	40.3	207,021	26.2	110,927	-	-	4,324
326,551	39.8	207,003	25.2	119,548	-	-	(18)
336,419	39.3	206,991	24.2	129,428	-	-	(12)

Comparison: 2016 Public Accounts vs. 2015 Budget

GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP	TCA	ONFA Adj.	Other Adj.
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
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-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
2,139	-	(0.1)	-	(0.1)	-	-	-
5,992	-	(0.3)	-	(0.2)	-	-	-
15,069	9,124	0.4	9,250	0.7	(126)	753	9,154
10,759	9,633	0.7	9,268	0.8	365	-	-
7,465	9,606	0.8	9,263	0.9	343	-	-
6,753	9,592	0.8	9,274	0.9	318	-	-

Deficit/ (Surplus)
-
-
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-
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-
(657)
18
(5)
11

	Ontario Nominal GDP (Rec'd Oct 27, 2016 - GS)		**For FES - revised** Ontario Nominal GDP (Rec'd Nov 9, 2016 - GS)	Difference
2000	452238		452238	0.003125
2001	469084		469084	(0)
2002	494815		494815	0
2003	509511		509511	-
2004	533365		533365	0
2005	556635		556635	-
2006	578241		578241	0
2007	601735		601735	-
2008	608446		608446	(0)
2009	597882		597882	(0)
2010	630989	5.5	630989	0
2011	659743	4.6	659743	0
2012	680084	3.1	680084	(0)
2013	693210	1.9	695349	2,139
2014	721970	4.1	727962	5,992
2015	747101	3.5	763276	16,175
2016p	772451	3.4	789176	16,725
2017p	803982	4.1	821389	17,407
2018p	836871	4.1	854990	18,119
2019p	873260	4.3		

p = projection

Ontario Nominal GDP per 2016 Budget	Difference FES vs Budget	
778,417	10,759	1.4%
813,924	7,465	0.9%
848,237	6,753	0.8%
882,062		

Net Book Value of TCA ($ Millions)	2015-16 (Actual)	2016-17	2017-18	2018-19	2019-20
2016 Budget					
Opening Net Book Value		102,536	110,437	119,079	128,985
Annual Acquisitions	N/A	13,037	14,059	15,605	15,979
Gross Amortization Expense	N/A	(5,137)	(5,416)	(5,700)	(6,008)
Closing Net Book Value	102,536	110,437	119,079	128,985	138,956
In Year Approvals					
Annual Acquisitions	-	502	0	-	-
School Renewal (16-17 Only)	0	478	0	0	0
Chapleau Cree Stage 2B	0	0	0	0	0
Child and Youth Mental Health BI Solution	0	5	0	0	0
School Boards Funding For Child Care	0	19	0	0	0
Annual Amortization	-	(11)	(22)	(25)	(24)
School Renewal (16-17 Only)	0	(11)	(22)	(22)	(22)
Chapleau Cree Stage 2B	0	0	(0)	(0)	(0)
Child and Youth Mental Health BI Solution	0	0	(0)	(1)	(1)
School Boards Funding For Child Care	0	0	0	(2)	(1)
2016 Budget + In Year Approvals					
Opening Net Book Value		102,536	110,927	119,548	129,428
Annual Acquisitions		13,539	14,059	15,605	15,979
Gross Amortization Expense		(5,148)	(5,438)	(5,725)	(6,032)
Closing Net Book Value	102,536	110,927	119,548	129,428	139,375

Received Oct 4/2016

Source: David Hodes.

2020-21	2021-22
138,956	147,064
14,536	11,823
(6,428)	(6,939)
147,064	151,949
-	-
0	0
0	0
0	0
0	0
(24)	(23)
(22)	(22)
(0)	(0)
(1)	(1)
(1)	0
139,375	147,460
14,536	11,823
(6,451)	(6,962)
147,460	152,321

From:	Petsche, Nadine (TBS)
To:	Tim Schuurman (MOF)
Cc:	Gadi Mayman; Ken Kandeepan; Karen Hughes (MGS); Veinot, Cindy (TBS); Selena Esmail (MOF); Christina Zhang; Patrick Laughton (MOF); Hosick, Sarah (TBS); Birks, Ryan (MOF); Ronald Jaikaran (MOF); Alana Anderson (MOF)
Subject:	Revised wording for Pension Asset Narrative
Date:	Tuesday, November 01, 2016 5:13:40 PM

Tim,
Further to the discussion this morning, below is the revised text for Chapter 2B on Transparency and Accountability. This version has been reviewed by Cindy.
Nadine

Pensions reporting

In preparing the *Public Accounts for Ontario 2015-16*, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate interpretation of public sector accounting standards in relation to pension accounting. The Province's interpretation of the standards had been applied consistently since they were first implemented 15 years ago.

The government adopted the Auditor General's accounting interpretation for the treatment of net pension assets for 2015-16 through a time-limited regulatory amendment ('the pension adjustment').

The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit and an increase of $1.5 billion to the annual deficit for 2015-16.

Consistent with the regulated accounting treatment adopted in the *Public Accounts of Ontario 2015-16*, the medium term Outlook also reflects a cautious approach to forecasting pension expense each year as well as the corresponding net debt and accumulated deficit amounts. [np1]

The government has established a Pension Asset Expert Advisory Panel to assess the interpretation of public sector accounting standards as related to Ontario's pension plans. The Panel will also provide advice on how to value pension assets reported on the Province's books, taking into account future decisions that might be made by the plans' sponsors. Specifically, the Panel will help to inform the amount of net pension assets which should be reflected on the Province's financial statements. A net pension asset arises when the government's total contributions to a plan, including interest earned thereon, are greater than the pension expense recognized since the start of the plan.

The Panel's recommendations will help inform the preparation of the Budget and the Province's future accounting treatment for net pension assets.

[np1]OFA to confirm if wording appropriate

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[np1]OFA to confirm if wording appropriate

From:	Christina Zhang
To:	Ize-Dukuze, Marilyn (MOF); Matthew Sylvain (MOF)
Cc:	Christopher Pearce (MOI); Ken Kandeepan
Subject:	SCOPA - General Q&As and Gadi"s remarks
Date:	Tuesday, October 04, 2016 10:16:28 AM
Attachments:	MOF General QAs Oct 4 10am_OFA edits.docx Gadi Maymans Speaking Points CSB edits_Oct 4 2016 9am.docx

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Hi there,

Please find attached the revised Gadi's remarks and general Q&As. We're still working on the Friendly Q&As and DM's remarks.

Thanks,
Christina

Questions and Answers

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OFFICE OF THE BUDGET

Q. Will you still be able to balance if Ontario's economy does not perform as strongly as you forecast? Even the FAO has said that your forecast is optimistic.

A. The government is dedicated to a fiscally sound approach to managing the Province's finances, and remains committed to balancing the budget in 2017-18 and 2018-19.

The Ontario economy continues to grow in a challenging global environment. In fact, Ontario posted higher real GDP growth in the first quarter of 2016 than Canada, the U.S. and all other G7 countries.

While uncertainty in the global economy has increased, along with increased volatility in global financial and currency markets, Ontario has a diversified economy – meaning the Province is well positioned to respond to changing global economic conditions.

From a fiscal planning perspective, Ontario incorporates prudence in its projections.

- As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), the fiscal plan incorporates includes a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The reserve has been set at $1.0 billion in 2016–17, $1.1 billion in 2017–18, and $1.2 billion in 2018–19.

- The fiscal plan also includes contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance.

With the economy expected to continue to growth, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned to achieve balance.

Q. From your perspective, why is it important that the government has consistently beaten its deficit targets, in terms of the province's finances?

A. The government remains committed to balancing the budget by 2017-18 and is taking deliberate and responsible steps to achieve this goal.

The government recognizes that a fiscally sound approach to managing the Province's finances will:

- Provide the foundation for the long-term well-being and prosperity of Ontarians; and

- Protect the public services that Ontarians rely on.

For 2015-16, Ontario is on track to beat its deficit target for the seventh year in a row. By continuing to beat its fiscal targets, Ontario's accumulated deficit is $30 billion lower than it otherwise would have been.

Beating our deficit targets helps to keep interest on debt at a manageable level and protects future generations from rising interest costs, which could otherwise crowd out spending on government priorities.

OFFICE OF ECONOMIC POLICY

Revenue Questions and Answers

2014-15 Actual Vs. 2015 Budget Interim

	2015 Budget Interim ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	82,654	82,275	-379	-0.5
Government of Canada Transfers	21,713	21,615	-98	-0.5
Income from Government Business Enterprise	5,311	5,615	304	5.7
Other Non-Tax Revenue	8,839	9,041	202	2.3
Total Revenue	**118,517**	**118,546**	**29**	**0.0**

Q. Can you explain the $29 million increase in revenue since your 2015 Budget?

A. The modest $29 million improvement in revenues is largely due to higher net income of Government Enterprises and revenues from Other Non-Tax Revenues mainly offset by lower Taxation Revenues and Federal Payments.

- Net income from Government Enterprises is $304 million higher mainly due to higher revenue from OPG (including favourable nuclear fund financial market performance) and OLG's higher numbers of large jackpots late in the fiscal year.
- Higher Other Non-Tax revenues of $202 million came from a variety of sources, including consolidated agencies and electricity sector.
- Taxation revenues are $379 million lower largely due to lower Corporations Tax revenue (-$591M) partially offset by higher Personal Income Tax revenue (+$285M).
- Lower Federal Payments (-$98M) is largely due to a decline in transfers to consolidated government agencies.

Q. **Why are Taxation revenues $379 million below your Interim estimate?**

A. Most of the weakness in Taxation revenues is due to lower Corporations Tax (-$591M) because 2014 corporate profits turned out to be lower than estimated at the time of the 2015 Budget. This is partially offset by higher Personal Income Tax revenue (+$285M) based on results from the processing of tax returns for 2014 and prior years.

2014-15 Actual Vs. 2014 Budget Plan

	2014 Budget Plan ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	83,365	82,275	-1,090	-1.3
Government of Canada Transfers	21,882	21,615	-267	-1.2
Income from Government Business Enterprise	5,026	5,615	589	11.7
Other Non-Tax Revenue	8,598	9,041	443	5.2
Total Revenue	**118,871**	**118,546**	**-325**	**-0.3**

Q. Why are revenues $325 million lower than your 2014 Budget projection?

A. Revenues were $325 million below the 2014 Budget Plan largely due to lower Taxation revenues and lower Federal Payments partially offset by higher net income from Government Business Enterprises (mainly OPG) and higher Other Non-Tax Revenues.

- Taxation revenues were $1,090 million lower and Federal Payments were $267 million weaker than projected.

- Partially offset came from higher net income from Government Business Enterprises (+$589M) and Other Non-Tax Revenues ($443M).

Q. What accounts for the $1,090 million decrease in Taxation revenues from your 2014 Budget projection?

A. Taxation revenues were $1,090 million lower due mostly to lower Corporations Tax (-$697M) and lower Sales Tax (-$248M).

- The $697 million decrease in Corporations Tax revenue is due mainly to lower 2014 profits, lower 2013 corporate income tax assessments and higher refunds to corporations for years prior to 2009.
- The $248 million decrease in Sales Tax Revenue is due largely to revisions to HST entitlement estimates for 2013 and prior years.

Q. **Why were Federal transfers $267 million lower than your 2014 Budget projection?**

A. Lower Federal transfers were largely due to revised timelines for Building Canada Fund projects and lower transfers to government agencies, including Agricorp and Toronto 2015. These lower transfers are largely offset by lower spending associated with these transfer programs.

Q: How did net income from Government Business Enterprises increase by $589 million from your 2014 Budget projection?

A: This was mostly attributable to Ontario Power Generation Inc., reflecting lower operating costs and better financial market performance of its nuclear funds.

Q: What accounts for the $1.1 billion decrease in taxation revenues from your 2014 Budget projection?

A: Taxation revenues were $1.1 billion lower due largely to lower corporations tax revenue (-$0.7 billion) and lower sales tax revenue (-$0.2 billion).

- Lower 2013 corporate income tax assessments resulted in a higher repayment to the Canada Revenue Agency for amounts already paid to the Province for the 2013 tax year and, refunds to corporations for tax years prior to 2009 were also higher.
- Sales tax revenue was lower due to revisions to harmonized sales tax entitlement estimates for 2013 and prior tax years.

2014-15 Actual Vs. 2013-14 Actual

	2013-14 Actual ($M)	2014-15 Actual ($M)	Variance ($M)	Variance (%)
Taxation Revenue	79,966	82,275	2,309	2.9
Government of Canada Transfers	22,276	21,615	-661	-3.0
Income from Government Business Enterprise	5,337	5,615	278	5.2
Other Non-Tax Revenue	8,331	9,041	710	8.5
Total Revenue	**115,911**	**118,546**	**2,635**	**2.3**

Q: How did revenues perform in 2014-15 compared to 2013-14?

A: In 2014-15, revenues increased by $2.6 billion or, or 2.3 per cent, from 2013-14.

- Taxation revenue increased by $2.3 billion over the previous year. The increase was across most taxation revenue sources, partially offset by a $1.9 billion decrease in Corporations Tax reflecting adjustments in respect of prior years.
- The combined net incomes of Government Business Enterprises were up $0.3 billion from the previous year.
- Federal Payments declined by $0.7 billion mainly because of a reduction in Equalization Payments, partially offset by increased health and social transfers
- Other Non-Tax revenue increased by $0.7 billion largely due to the gain of the sale of the Province's remaining General Motors shares during 2014-15.

Q: **Why is year-over-year growth in Taxation revenue 2.9 per cent when nominal GDP growth was 3.6 per cent?**

A: Growth in Taxation revenue of 2.9 per cent is lower than 2014 nominal GDP growth of 3.6 per cent largely due to a $1.9 billion decrease in Corporations Tax reflecting prior year adjustments. This included:

- a repayment of -$1.3B, due to a Federal government overpayment of 2013 corporate income tax during 2013, and
- a projected repayment to the Federal government of $0.5B for an overpayment to the Province for the 2014 tax year.

Q: **What explains the fairly strong year-over-year growth in Personal Income tax revenues of 8.9 per cent?**

A: The higher Personal Income Tax revenues growth reflects growth in personal incomes as well as the impact of the high-income measure introduced in the 2014 Budget and the net impacts of one-time prior-year adjustments in both 2013-14 and 2014-15.

Q: **Given the recent poor results for Quebec and California allowances auctions, is the Government still expecting to meet revenue targets set out in the 2016 Budget?**

A: The poor auction results suggest a risk to cap and trade revenues. However, it is too early to determine what actual impact on revenues will be.

In three joint WCI auctions held so far in 2016, allowances have gone unsold.

- In February, 94% of the allowances offered by Quebec were sold; California sold 95% of the total allowances it offered.

- In May, both Quebec and California sold about 11% of the total allowances they each offered.

- The August auction performed relatively better though still undersubscribed, selling 35% of offered allowances.

It is possible, however, that emitters are holding off on buying allowances until they get closer to the end of the compliance period (current compliance period from 2015 through 2017).

The uncertainty related to legal challenges to California`s cap and trade program may have contributed to the poor sale of allowances at the May and August auction. In joint auctions prior to 2016, all the allowances that were offered for sales were sold.

Ontario is planning to hold stand-alone auctions starting in March 2017 before linking with California and Quebec in 2018. Initial stand-alone auctions could result in a higher-than-WCI domestic carbon price.

The medium-term revenue outlook includes projected cap-and-trade proceeds from the auctioning of carbon allowanced beginning in 2017. The current estimate for proceeds is:

- $478 million in 2016-17; and

- Between $1.8 billion and $1.9 billion annually starting in 2017-18.

Revenue Forecasting Unit, Economic and Revenue Forecasting and Analysis Branch, OEP

Contact: Bruno Amara (325-0766)

ONTARIO FINANCING AUTHORITY

Borrowing and Debt Management – General

Q. Why was total long-term public borrowing $32.1 billion in 2015–16 when the deficit was $5.7 billion?

A. In addition to financing the deficit, long-term public borrowing refinances debt maturities and debt redemptions, funds the Province's investments in capital assets, and loans to agencies. The Province also pre-borrowed $2.0 billion of its 2016-17 requirements.

~~**Q. Why did the Net Debt-to-GDP ratio decline to 39.6 per cent at the end of fiscal 2015–16, compared to the 39.8 per cent forecast in the 2015 Budget?**~~

~~A. The reduction in the Net Debt-to-GDP ratio was primarily due to lower than forecast deficits and investment in capital assets in 2015–16.~~

Q. The Province is projected to borrow $24.4 billion in 2016–17. That's approximately $1,753 for every person in Ontario. When will the Province eventually run into a debt wall like Greece, Portugal and Ireland and be forced to raise taxes and cut services?

A. There is strong demand for Ontario bonds in both the domestic and international markets. Last fiscal year Ontario was able to borrow $32.1 billion in long-term debt while our spread, or the margin that we have to pay over the equivalent Government of Canada bond, tightened, indicating ongoing strong demand for Ontario bonds.

We expect that the liquidity of Ontario benchmark bonds and continuing confidence in the value of Ontario debt will allow us to cost-effectively complete the 2016–17 borrowing program. As of ~~August 31~~September 30, 2016, $13.3~~2.5~~ billion or 5~~4~~1 per cent, of this year's long-term borrowing requirement has been completed.

Q. Has it been difficult to complete the Province's borrowing program?

A. The Province continues to have steady access to both domestic and international bond markets. As of ~~August 31~~September 30, 2016, the Province had borrowed $13.3~~2.5~~ billion for the fiscal year. Approximately 69~~71~~ per cent of this year's borrowing-to-date has been completed in Canadian dollars. The remainder of the Province's borrowing-to-date has been completed in international currencies primarily through U.S. dollar global bonds, and two small Australian dollar Kangaroo bond issues. In 2015–16, the Province borrowed $32.1 billion, with $2.0 billion in pre-borrowing.

Q. What is the difference between total debt, net debt and accumulated deficit?

A. Total debt represents all borrowing.

Net debt is all borrowing plus other liabilities, minus the Province's financial assets.

By analogy, think of a family's finances. A mortgage, car loans and lines of credit represent total debt. Total debt partially offset by money the family has in the bank, in RRSPs and in RESPs represents the family's net debt.

Accumulated deficit is the sum of all past Provincial surpluses and deficits, adjusted for changes in accounting rules.

Q. Is the Province planning to issue any more Green Bonds in the future?

A. On January 22, 2016, the Province of Ontario successfully priced its second Global Canadian Dollar (CAD) Green Bond for $750 million. There was strong demand for Ontario's second Green Bond issue, with 52 investors participating in the trade. Eight projects were selected as eligible and are expected to receive funding from the second Green Bond, with an emphasis on clean transportation and energy efficiency and conservation.

To date, total Green Bond financing amounts to $1.25 billion, with up to $1.2 billion allocated to Metrolinx for clean transportation projects.

As the first Canadian province to issue Green Bonds, Ontario continues to lead the way in establishing and developing a Canadian dollar Green Bond market with investor participation from around the world.

Q. What are unrestricted liquid reserves, and how do they ensure that Ontario will have sufficient liquidity to meet its financial obligations?

A. The Province maintains liquid reserves in the form of cash and temporary investments, which can immediately be converted to cash.

In the normal course of doing business, the Province enters into transactions that may require it or its counterparties to pledge short term investments. Although the pledged investments are technically owned by the Province, they are deducted from the total liquid reserves figure to arrive at unrestricted liquid reserves. This provides a more conservative measure of the liquidity available to meet the Province's financial obligations.

The Province ensures it always has a prudent level of unrestricted liquid reserves to cover all obligations in the short term.

Interest on Debt (IOD)

Q. What is the impact on IOD of a $1.0 billion change in the deficit?

A. The 2016-17 impact is forecast to be approximately $30 million.

Q. What is the impact on IOD of a one percentage point change in interest rates?

A. The 2016-17 impact is approximately $350 million.

Q. What is your assumed interest rate for the IOD forecast in the 2016 Budget?

A. The assumed ten-year interest rates are 3.1 per cent for 2016-17 and 3.8 per cent for 2017-18, based on the forecast for Government of Canada bonds that OEP collects from the private sector, plus a spread for the Ontario credit. For 2018-19, the forecast is 4.8 per cent and is based on the average Ontario interest rates over the past 15 years. This is the same methodology that we have used for the last number of years in putting together our IOD forecast. These rates are cautious and prudent, above current market rates.

Q. Will IOD costs crowd out other expenditures as interest rates rise and debt continues to climb? How can you address this problem?

A. Ontario has a realistic plan to balance its budget while investments are made in the priorities of Ontario families – health care, education, the environment and infrastructure.

Investor demand has allowed the Province to extend the term of its debt in recent years and lock in low interest rates for a longer period. This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs. The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. ~~The current forecast is 23 per cent lower, at~~Currently, the Province spends ~~only~~ 8.5~~9.0~~ cents of ~~interest costs for~~ every dollar of revenue on interest. This ratio is the lowest~~r than it was in the 14 fiscal years from 1992–93 to 2005–06~~it has been since 1990-91, and is forecast to remain low~~er~~ through the period to balance in 2017–18.

Q. We understand that the proposed new standards by the Public Sector Accounting Board on Financial Instruments would affect IOD. Would it also affect other financial indicators of the provincial government?

A. Yes, Annual Deficit, Net Debt, Accumulated Deficit and their ratios as a percent to GDP would also be affected.

Q. If the proposed accounting change indicates savings, will the government be able to spend them?

A. The proposed accounting change introduces fair value measurement and prohibits hedge accounting. If implemented as planned, the Province's reported financial results would not accurately take into account the value of its derivatives. As a result, substantial accounting gains or losses could occur. These changes in value would be accounting changes only and not real changes in cash. This gain would only have been reflected in the Province's accounting statements, with no actual change in the cash available for program spending.

Credit Ratings

Q. What are the Province's current credit ratings?

A. The Province is rated:

	Long Term	Short Term
Moody's Investors Service:	Aa2	P-1
Standard & Poor's:	A+	A-1+
DBRS:	AA (low)	R-1 (mid)
Fitch	AA-	F1+

Q. What impact did Moody's removal of the negative outlook have on your borrowing costs?

A. Credit ratings are one of a number of factors that contribute to borrowing costs. Since the 2016 Ontario Budget was released, Ontario's credit spreads have narrowed modestly. This in part reflects the fact that all four credit rating agencies have affirmed Ontario's ratings reflecting their confidence in our plan to eliminate the deficit, with Moody's improving their outlook for Ontario's credit rating.

ONTARIO ELECTRICITY FINANCIAL CORPORATION

Stranded Debt and Residual Stranded Debt Qs&As

Q. What is the impact of broadening ownership of H1 on Stranded Debt?

A. The interim 2015–16 results reflect the upfront benefits to OEFC of broadening the ownership of Hydro One through an initial public offering (IPO). This includes the OEFC receiving in fiscal 2015-16 – that is after March 31, 2015 -- $2.6 billion in departure tax and about $200 million in one-time additional payments in lieu of taxes (PILs), as Hydro One exited the PILs regime and will no longer pay corporate tax PILs to the OEFC.

The upfront impact on OEFC of the departure tax and one-time PILs payments on the OEFC's unfunded liability was partly offset by lower Electricity Sector Dedicated Income. In addition, the one-time departure tax reflects that Hydro One is now a taxable corporation, so it will no longer pay payments-in-lieu of corporate taxes (PILs) to OEFC, which reduces the estimated present value of future dedicated revenues to OEFC.

The government recognizes its commitment to electricity ratepayers under section 50.3 of the *Electricity Act, 1998*, and has taken steps to clarify and ensure that the benefits of selling shares in Hydro One are recognized by OEFC to contribute to the continuing reduction of its unfunded liability.

As part of the government's commitment to using the proceeds from broadening Hydro One ownership for infrastructure investments and paying down debt, proceeds related to the book value of the shares sold and the pre-IPO special dividend payment of $800 million paid by Hydro One to the Province will be used to pay down the Province's electricity sector debt and other payables. This will allow the OEFC to reduce its overall debt, and contribute towards the Province's targeted $5 billion debt paydown. This debt paydown does not affect OEFC's stranded debt, as OEFC's receivables from the Province will be reduced by an equivalent amount.

[Note, Provincial payables to OEFC are notes payable to OEFC from the Province's acquisition of the equity in Hydro One in 1999, and in respect of cumulative net income since 1999.

Note this portion of the proceeds would have no net impact on OEFC's unfunded liability, as the cash asset would be offset by the reduction in the OEFC's receivable from the Province.]

Additional details

Under a Hydro One disposition, two future dedicated streams are affected:

1. Lower Hydro One earnings: The Province has committed to direct the income it earns from Hydro One (and OPG) in excess of the interest cost of its investment in the company. Upon a divestment, the Province would only be able to dedicate the portion of the net income that reflects its ownership stake. For example, in the case of a 15 per cent divestment, only 85 per cent of Hydro One's earnings less the associated interest cost, would be dedicated to OEFC. Currently, the Province owns about 70 per cent of Hydro One.

   Loss of federal portion of Payments in Lieu of Taxes: Prior to the IPO, Hydro One was exempted from regular federal and Ontario income tax and instead made payments in lieu of taxes to OEFC which helped service and paid down the stranded debt of the electricity sector. Payments in lieu of taxes to OEFC were equal to the federal and Ontario income tax Hydro One would pay if it were a taxable corporation. Following the beginning of broadening of ownership in Hydro One in November 2015, the Province's ownership of Hydro One fell below 90 per cent and the company ceased to be exempt from federal and Ontario income taxes and started to pay actual federal and provincial corporate income tax (CIT). As a result, OEFC would no longer receive the PILs from Hydro One equivalent to federal CIT. Under the amendments made to the *Electricity Act, 1998* in the *Budget Measures Act, 2015*, the Minister of Finance will pay the OEFC an amount equal to tax payable under the *Taxation Act, 2007* (i.e., the provincial CIT) by Hydro One Inc. (HOI), to continue to help service and pay down the electricity sector stranded debt. HOI is composed of Hydro One Ltd.'s regulated Ontario distribution, transmission and remotes businesses.

Q. What is the status of the old Ontario Hydro's stranded debt?

A. The government dedicates the revenues it receives from the electricity sector to the Ontario Electricity Financial Corporation (OEFC). All OEFC revenues, including the Debt Retirement Charge (DRC) paid by electricity consumers, are used to service and retire its debt and other obligations, as provided for under the *Electricity Act, 1998*.

For the twelfth consecutive year, the stranded debt is projected to be reduced, based on the interim 2015–16 results for the OEFC showing a projected excess of revenue over expense of more than $3 billion. The OEFC has paid down stranded debt by an estimated total of more than $15 billion from its peak in 2003-04, reducing stranded debt to under $5 billion as at March 31, 2016, based on interim numbers.

- The following table shows the unfunded liability (or "stranded debt") of OEFC since the opening amount of $19,433 million on April 1, 1999.

At March 31 ($M unless noted)	April 1, 1999	2000	2001	2002	2003	2004	2005	2006	2007
Unfunded Liability	$19,433	$20,034	$20,016	$20,085	$20,183	$20,550	$20,363	$19,293	$18,289
Increase / (Decrease)		$601	($18)	$69	$98	$367	($187)	($1,070)	($1,004)
At March 31 ($M unless noted)	2008	2009	2010	2011	2012	2013	2014	2015	Interim 2015-16
Unfunded Liability	$17,225	$16,182	$14,810	$13,448	$12,321	$11,257	$9,781	$8,185	<$5Bn
Increase / (Decrease)	($1,064)	($1,043)	($1,372)	($1,362)	($1,127)	($1,064)	($1,476)	($1,596)	>$3Bn

Residual Stranded Debt

Q. What is the residual stranded debt as at March 31, 2016?

A. The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* (Bill 144) and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt", were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

Q. What is the current status of the residual stranded debt or what was the residual stranded debt the last time it was determined or estimated?

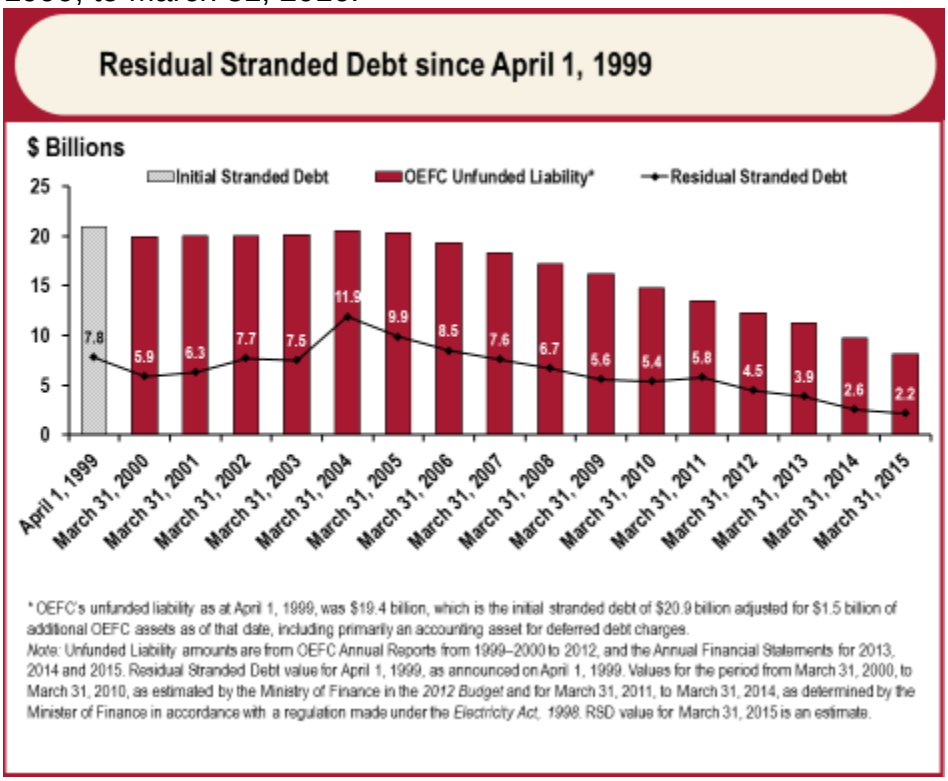
A. Prior to amendments in the *Budget Measures Act, 2015* under the *Electricity Act, 1998* the residual stranded debt was defined as the stranded debt minus the present value of projected future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC.

In the *2015 Ontario Economic Outlook and Fiscal Review*, the residual stranded debt was estimated to be $2.2 billion as at March 31, 2015. This was a decrease of $0.4 billion compared to residual stranded debt of $2.6 billion as at March 31, 2014, and was a total estimated decrease of $9.7 billion from an estimated peak of residual stranded debt of $11.9 billion as at March 31, 2004. Residual stranded debt was initially estimated as $7.8 billion as at April 1, 1999.

Residual stranded debt is estimated to have increased to a peak of $11.9 billion as at March 31, 2004, primarily due to the electricity price freeze, the downward revision in 2004 of the previous overestimation of future financial performance of Ontario Power Generation (OPG) which lowered the estimated future dedicated revenues to OEFC from the sector, and lower tax rates, resulting in lower projected future PILs to OEFC. OPG had significantly underperformed compared to its plans over the previous period of 1999 to 2004.

The estimated residual stranded debt amount and timing for its retirement were subject to uncertainty in forecasting future OEFC results and dedicated revenues to OEFC, which depend on the financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, and other factors such as interest rates and electricity consumption. The changes to the levels of unfunded liability to-date, based in part on the upfront impact on OEFC of the departure tax and one-time PILs payments, also reflect the fact that OEFC will have reduced dedicated revenues as a result of reduced ownership in Hydro One going forward.

The following chart illustrates the path of residual stranded debt from April 1, 1999, to March 31, 2016.



Q. When will the residual stranded debt be retired and the DRC end?

A. The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* (Bill 144) and, effective December 10, 2015, all reference to the "stranded debt" and

"residual stranded debt" were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.As originally enacted, the *Electricity Act, 1998*, previously allowed for the Debt Retirement Charge (DRC) to be paid by consumers until the Minister of Finance determines that the residual stranded debt is retired.

The residual stranded debt determination was not a one-time determination. It was based on actual financial performance to-date and forecasting future OEFC results and future dedicated revenues to OEFC, which was subject to uncertainty and depended on the future financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, as well as other factors such as interest rates and electricity consumption.

As part of its commitment to reduce electricity cost pressures, the government has removed the DRC from residential electricity users' bills as of January 1, 2016.

This would save a typical residential user about $70 each year and would mean ending the DRC earlier for these users than otherwise provided for in the *Electricity Act, 1998*.

As a further step to mitigate electricity cost pressures for non-residential users, the government introduced legislation the *Budget Measures Act, 2015*, passed in December 2015, to end the DRC for all other users on April 1, 2018, nine months earlier than previously estimated.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

Even after the end of the DRC, there would still be stranded debt remaining, to be serviced and paid down by OEFC's other dedicated revenues, such as payments in lieu of taxes and the Gross Revenue Charge.

Q. Why did the residual stranded debt only fall from $2.6 billion to $2.2 billion between March 31, 2014, and March 31, 2015, if the Ontario Electricity Financial Corporation's (OEFC) unfunded liability fell by about $1.6 billion and the DRC collected the same year was $0.956 billion?

A. Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998* and the revocation of Ontario Regulation 89/12, the residual stranded debt was defined under the *Electricity Act, 1998* as the stranded debt minus the estimated present value of future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC. The Debt

Retirement Charge would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

The residual stranded debt fell by less than the decrease in OEFC's unfunded liability due to a reduction in the estimated present value of future dedicated revenues to OEFC from $7.2 billion as at March 31, 2014, to $6.0 billion as at March 31, 2015, which reflected the uncertainty of and update to the forecast of future dedicated revenues to OEFC. These forecasted revenues depend on the financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, regulatory decisions by the Ontario Energy Board, as well as other factors such as interest rates and electricity consumption.

The residual stranded debt was not a fixed, one-time determination. Under the *Electricity Act, 1998*, and Ontario Regulation 89/12, the estimated amount of residual stranded debt depended on actual OEFC results to-date and a forecast of future revenues to OEFC.

Q. Why has the residual stranded debt only declined by $5.6 billion since April 1, 1999, to March 31, 2015?

A. The residual stranded debt increased from $7.8 billion as at April 1, 1999, to an estimated $11.9 billion as at March 31, 2004, as a result of an increase in stranded debt primarily due to the electricity price freeze, as well as a reduction in the estimated present value of future dedicated revenues to the Ontario Electricity Financial Corporation (OEFC), mainly reflecting the downward revision in 2004 of the previous overestimation of future financial performance of Ontario Power Generation (OPG), and lower tax rates. OPG had significantly underperformed compared to its plans over the previous period of 1999 to 2004.

Since 2004, the government's electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others, have put the stranded debt recovery plan back on track. The residual stranded debt has been reduced by an estimated $9.3 billion, from an estimated peak of $11.9 billion as at March 31, 2004, to $2.2 billion as at March 31, 2015.

Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998* and the revocation of Ontario Regulation 89/12, the residual stranded debt was defined under the *Electricity Act, 1998* as the stranded debt minus the estimated present value of future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC. The Debt Retirement Charge would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt" were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making

authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

Q. Since you have collected more than $12.5 billion in Debt Retirement Charge (DRC) revenue to March 31, 2015, why hasn't stranded debt declined by more?

A. Since 2004, the government's electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others, have put the stranded debt recovery plan back on track. The Ontario Electricity Financial Corporation (OEFC) has paid down stranded debt by an estimated total of about $12.3 billion from its peak in 2003-04, reducing stranded debt to $8.2 billion as at March 31, 2015. As confirmed in the Auditor General's 2011 Annual Report, the DRC is used exclusively by OEFC to meet its mandate, as provided for under the *Electricity Act, 1998*, which includes servicing and retiring its debt and other liabilities.

- Servicing costs to the OEFC include interest expense, which is currently about $1.4 billion per year and has totalled about $30.5 billion between April 1, 1999 and March 31, 2015.

- Stranded debt increased by over $1 billion between April 1, 1999, and March 31, 2004, primarily as a result of the 4.3 ¢/kilowatt-hour (kWh) price freeze, which cost OEFC about $900 million.

- The Auditor General audits OEFC's annual financial statements and has provided an unqualified opinion every year since the initial 1999–2000 financial statements.

Q. After the removal of the DRC what is the government's plan to pay into the OEFC, to make up for that money? With the lower revenue going into the OEFC, isn't there a danger of it becoming insolvent?

A. The government has removed the Debt Retirement Charge (DRC) from residential users' electricity bills as of January 1, 2016. As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act, 2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.

Prior to the *Budget Measures Act, 2015* amendments of the *Electricity Act, 1998*, the DRC would have been charged to consumers until the Minister of Finance determined that the residual stranded debt had been retired.

Even after the end of the DRC, there would still be stranded debt remaining, to be serviced and paid down by OEFC's other dedicated revenues, such as payments

in lieu of taxes and the Gross Revenue Charge. The government expects that the stranded debt will continue to decline following the end of the DRC.

Background

Q. What is OEFC?

A. The Ontario Electricity Financial Corporation (OEFC) is an agency of the Province and was established by the *Electricity Act, 1998* as the legal continuation of the former Ontario Hydro.

OEFC's mandate includes servicing and retiring the former Ontario Hydro's debt and certain other liabilities.

- OEFC inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. The debt was accumulated by building Ontario's electricity generation and transmission infrastructure.

- A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets

OEFC receives dedicated revenues to service and retire the stranded debt from a number of sources, including payments in lieu of taxes (PILs) from Ontario Power Generation (OPG), Hydro One and municipal electricity utilities (MEUs); Electricity Sector Dedicated Income from the Province in respect of the net incomes of OPG and Hydro One; and the Debt Retirement Charge paid by electricity users, as provided for by the *Electricity Act, 1998*.

Q. When will the OEFC's 2015-16 Annual Report be released publicly?

A. The 2015-16 Annual Report is currently being prepared. Under the Electricity Act, 1998, the time frame for preparing and submitting the Annual Report may be extended to reflect the timeframe for Public Accounts. Given the changes to the Electricity Act and significant activities during 2015-16 that affected OEFC, it was prudent to take additional time to review the impacts on OEFC in preparing the financial results for 2015-16..

- OEFC's annual reports contain OEFC's audited financial statements which are also released as part of the Province's Public Accounts

    - OEFC's audited 2014-2015 financial statements, including the notes to the financial statements, were released on Sep 28, 2015 in Volume Two of the 2014-15 Public Accounts.

- The Auditor General audits OEFC's annual financial statements and has provided an unqualified opinion every year since the initial 1999-2000 financial statements.

- Public Accounts may be downloaded from the Ministry of Finance web site (http://www.fin.gov.on.ca/en/budget/paccts/).

- OEFC's past Annual Reports (1999-2000 to 2014-2015) can be downloaded from the OEFC website. (http://www.oefc.on.ca/publications.html).A spreadsheet containing OEFC's historical financial statements can be accessed on OEFC's website (http://www.oefc.on.ca/pdf/OEFC_financials_historicals_en.xls)Q. What is the difference between stranded debt and unfunded liability?

A. The Ontario Electricity Financial Corporation (OEFC) inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. The debt was accumulated by building Ontario's electricity generation and transmission infrastructure. This amount included $30.5 billion in total debt.

A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets.

OEFC's initial unfunded liability of $19.4 billion as at April 1, 1999, was the stranded debt adjusted for $1.5 billion of additional assets, including primarily an accounting asset for deferred debt charges.

Q. What was the origin of the residual stranded debt?

A. The Ontario Electricity Financial Corporation (OEFC) is one of five entities established by the *Electricity Act, 1998*, as part of the restructuring of the former Ontario Hydro. OEFC's mandate includes servicing and retiring the debt and other liabilities of the former Ontario Hydro.

- OEFC inherited $38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. A portion of the $38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving $20.9 billion of stranded debt not supported by those assets.

- As of April 1, 1999, the present value of future payments-in-lieu of taxes and electricity sector dedicated income was estimated at $13.1 billion. Subtracting the $13.1 billion from stranded debt of $20.9 billion resulted in a difference of $7.8 billion, the initial estimated residual stranded debt.

The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* and, effective December 10, 2015, all reference to the "stranded debt" and "residual stranded debt", including the regulation-making authority of Ontario Regulation 89/12, were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

Q. How does OEFC provide financial assistance to the successor corporations of Ontario Hydro? Are these loans added to residual stranded debt/outstanding liabilities?

A. Consistent with its mandate, OEFC provides financial assistance to the successor corporations of Ontario Hydro, namely Ontario Power Generation (OPG) and the Independent Electricity System Operator (IESO). For example, financing is provided by OEFC for new generation development projects such as the Niagara tunnel project.

OEFC borrows to provide these loans, thereby increasing its debt portfolio, but with an offsetting asset (Notes and Loan Receivables) from the companies, thereby not affecting the unfunded liability ("stranded debt") on OEFC's balance sheet.

Q. What is the "due from the Province of Ontario" payment?

A. Due from Province

The Due from Province of Ontario that appears in OEFC's financial statements represents the cumulative value of the Electricity Sector Dedicated Income (ESDI) since April 1, 1999.

ESDI reflects the Province's commitment to dedicate its cumulative combined net income of OPG and Hydro One in excess of the Province's interest cost of its investment in its electricity subsidiaries to OEFC.

- For example, the combined net incomes of OPG and Hydro One in 2014-15 was $1,558M, and the Province's interest cost in acquiring the equity in the two companies totals about $520 million annually. This resulted in an ESDI of $1,038 million in 2014-15, so the ESDI Due from Province of Ontario increased from $3,865 million as of March 31, 2014, to $4,903 million as of March 31, 2015.

The ESDI commitment is reflected in Public Accounts as a transfer payment to OEFC from the Province's Consolidated Revenue Fund and is authorized by a voted appropriation.

CORPORATE AND ELECTRICITY FINANCE DIVISION

Asset Optimization and the Trillium Trust

Q: What asset optimization initiatives did the Province move forward with in 2014-15?

A: On February 4, 2015, the Province completed the sale of its remaining 36.7 million GM common shares for total proceeds of $1.55 billion, resulting in a fiscal gain of $1.08 billion.

General Motors also redeemed the Province's preferred shares on December 31, 2014, for total proceeds of $0.16 billion, including a gain of $0.02 billion.

The $1.1 billion gain on the sale of the common and preferred shares exceeded the $900 million asset optimization target included in the 2014 Budget for 2014–15 Net Revenue Gains from Asset Optimization.

The Ontario government directed the gain from the sale, including the additional $200 million generated above the 2014 target, to the Trillium Trust. The Province also directed to the Trillium Trust the $249 million net proceeds from the September 2013 sale of the Province's interest in 10 million shares of GM.

Q: The 2014-15 Public Accounts showed that the sale of GM shares provided revenue benefits to the Province. Is the Province selling assets to improve the path to balance?

A: The government's plan to balance the budget is centred on:

- Responsibly Managing Spending
- Transforming and Modernizing Government
- Addressing the Underground Economic and Tax Compliance
- Investing Strategically to Grow the Economy

The government's plan to eliminate the deficit does not depend on the revenues from asset sales. Maximizing the value of these assets is part of the government's economic plan for Ontario. The net revenue gains from these transactions are helping the government to deliver on its plan by investing in infrastructure.

The *Trillium Trust Act, 2014*, provides for the dedication of net revenue gains associated with the sale of designated assets to the Trust to help fund investments in transit, transportation and other priority infrastructure under Moving Ontario Forward.

Q: What's the status of the funds in the Trillium Trust?

A: The Public Accounts of Ontario 2014-2015, published in September 2015, show that $1.35 billion has been dedicated to the Trillium Trust.

These are the net proceeds from the sale of the Province's remaining General Motors common shares in early 2015, combined with net proceeds from a September 2013 GM share sale and the redemption of preferred shares in late 2014.

On August 30, 2016, the Province announced the dedication of $3.2 billion from the sale of Hydro One shares in 2015 to the Trillium Trust.

This brings the total balance of the Trillium Trust to over $4.5 billion, to help fund further investments in transit, transportation and other priority infrastructure as part of Moving Ontario Forward.

- The $3.2 billion credit to the Trillium Trust comes from:
    - About $0.8 billion in gains on sale from the sale of Hydro One shares in November 2015.
    - The net benefit to the Province of about $2.4 billion from Hydro One's recognition of the deferred tax benefit.

Q: When will the government actually start using funds from the Trillium Trust to pay for transit and infrastructure?

A: As outlined in the 2016 Budget, the government plans to begin drawing down on the balance in the Trillium Trust in 2016-17 to support the largest investment in public infrastructure in Ontario's history. Based on planned expenditures, in 2016-17 the Trillium Trust would support Moving Ontario Forward initiatives, such as

- Regional Express Rail (RER);
- Hurontario Light Rail Transit (LRT); and
- Ontario Community Infrastructure Fund.

Like most large infrastructure investments, initial spending on Moving Ontario Forward projects is focused on planning, design, property acquisition and other activities to get projects construction-ready. This will allow for identification for expenditures, as this preliminary work is completed and construction activity

becomes underway, and for cash flow timing requirements from the Trillium Trust during 2016-17 and subsequent years.

Q: What is the current status of broadening Hydro One ownership?

A: The Province completed the Hydro One initial public offering (IPO) in November 2015 and raised approximately $1.83 billion in gross proceeds and about $116 million from related share sales. As announced in early May, a secondary offering of Hydro One shares raised approximately $1.97 billion in gross proceeds, and as announced in July, the Province has an agreement in principle to sell to First Nations in Ontario up to 2.5% of Hydro One shares at a price of $18 per share.

There were other associated benefits in connection with the IPO, including a positive impact to the Province's income from Hydro One as a result of a deferred tax benefit recorded by Hydro One. The Province also received cash of $1 billion in special payments from Hydro One, including $800 million in a special dividend paid prior to the IPO, and about $200 million in additional payments in lieu of taxes to the Ontario Electricity Financial Corporation (OEFC).

On August 30, 2016, the Province announced the dedication of $3.2 billion from the sale of Hydro One shares in 2015 to the Trillium Trust, bringing total balance of the Trillium Trust to over $4.5 billion. The net revenue gains from the secondary offering in April 2016 will be credited to the Trillium Trust in the future.

The Province will proceed with future offerings in a staged and prudent manner, over time reducing its stake to 40 per cent while remaining the largest shareholder.

Through this initiative, the Province expects to generate $4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and $5 billion to reduce debt.

Q: In April 2015, the Premier's Advisory Council on Government Assets estimated Hydro One's valuation at between $13.5 billion and $15 billion; using this estimate, the province could realize up to $9 billion from the sale of 60% of Hydro One. Does the Province still expect these benefits?

A: The Province is on track to generate approximately $9 billion in gross proceeds and other revenue benefits from broadening the ownership of Hydro One, while remaining the largest single shareholder.

Through this initiative, the Province expects to generate $4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and $5 billion to reduce debt.

Q: In moving forward with broadening Hydro One ownership, isn't the government giving up future revenues from the company?

A: While broadening ownership in a revenue generating asset means that there may be an impact on revenues over the longer term, the fiscal impact of an asset sale includes upfront gains that the government will reinvest into public infrastructure, improving the lives of Ontarians where they live, work and play. In turn, this will create jobs, generate economic growth and additional revenues for the Province.

- The Province would also retain 40 per cent of Hydro One, following the IPO and subsequent share offerings, which would continue generating revenue for the Province.

Q: Why did the government remove certain oversight powers of the Office of the Auditor General over Hydro One?

A: To support Hydro One's transition from being wholly-owned by the Province to being publicly traded, the government agreed with the Premier Advisory Council's recommendations that the company should operate, to the extent possible, in the same legislative and regulatory environment as other publicly–traded, rate-regulated entities.

However, the Province has ensured Hydro One oversight measures are in place. Hydro One continues to be subject rate regulation by the Ontario Energy Board (OEB) and as a publicly traded company Hydro One is subject to requirements of the Business Corporations Act (Ontario) and the Securities Act (Ontario).

To further ensure the protection of ratepayers, the government required Hydro One to create a dedicated Ombudsperson, similar to those found at other publicly traded companies. The Ombudsperson is able to receive and investigate customer complaints.

The government has also put in place a governance agreement and registration rights agreement with Hydro One to clarify the Province's role as investor, including the process through which the Province nominates 40 per cent of the board of directors and the Province's rights related to future share sales by the Province or Hydro One.

The government will remain, by law, the largest single shareholder in Hydro One – and no other single shareholder or group of shareholders will be permitted to hold more than 10 per cent of the company's shares.

Q: What is the status of the potential merger between Hydro One Brampton and a group of urban local distribution companies (LDCs)?

A: The proposed merger of Hydro One Brampton with PowerStream, Enersource, and Horizon Utilities, continues to move forward.

The municipal councils for the cities of Barrie, Markham, Vaughan, Mississauga, Hamilton and St. Catharines have all voted to proceed with the merger. Ontario has also executed a Share Purchase Agreement with PowerStream, Enersource, and Horizon.

Commercial closing of the transaction would be subject to certain closing conditions, including Ontario Energy Board (OEB) approval. The proposed merger is currently being reviewed by the OEB.

- The proposed merger of these three strong performing utilities with Hydro One Brampton would create the second-largest electricity distributor in Ontario by number of customers. The merged entity would deliver efficiencies and economies of scale while continuing to provide safe, reliable and clean electricity.

Q: Will the Province realize any up-front benefit from the sale / merger of Hydro One Brampton with other local distribution companies (LDCs)? Would these benefits go to the Trillium Trust or to the Ontario Electricity Financial Corporation (OEFC)?

A: The purchasers have agreed to pay $607 million for Hydro One Brampton, subject to post-closing adjustments and regulatory approval from the Ontario Energy Board (OEB).

The *Trillium Trust Act, 2014*, ensures that net revenue gains from the sale of Hydro One Brampton shares would be credited to the Trillium Trust. Under the Act, the net revenue gains would take into account the gross proceeds less the book value of the asset and costs incurred in the disposition of the asset.

The *Electricity Act, 1998*, also allows the Province to meet its obligations to OEFC by, for example, relieving OEFC of certain debt obligations that it currently owes to the Province.

Q: Why is Hydro One Brampton being merged with three other urban local distribution companies – Powerstream, Horizon Utilities, and Enersource? Why wasn't there a competitive process for the sale/merger of Hydro One Brampton?

Together these utilities can take advantage of efficiencies of scale and resources sharing, which in turn could translate into savings for their respective ratepayers.

In the course of its Phase 2 consultations, the Premier's Advisory Council received a strong pre-emptive bid from the consortium of local distribution companies (LDCs) at the higher end of the indicative values identified in the Council's market soundings.

Such a merger will provide a much needed catalyst for wider Local Distribution Company consolidation.

As noted by the Auditor General in her 2015 Annual Report, based on information provided to the Office of the Auditor General (OAG) by Hydro One and the Ministry of Energy, the OAG's estimates that the purchase price is reasonable for Hydro One Brampton Networks, and would provide the province with a fair return on its investment.

TREASURY BOARD

Office of the Provincial Controller Divison

Technical Q&As

Q: Why has the Province found it necessary to deviate from Public Sector Accounting Standards (PSAB) for its own financial statements and for controlled entities?

A: To be clear, although the Auditor General's report includes references to legislated accounting standards, the measurement and reporting of the province's results has continued to be in accordance with Public Sector Accounting Standards. The only legislated accounting that has ever impacted the Province's Public Accounts is the Investing in Ontario Act which stipulated accounting treatment which was in alignment with PSAB standards. The Act only applied to the 2008-09 Public Accounts. Otherwise, legislated accounting has never impacted the Province's Public Accounts either before or after that date.

In all other cases where we have used legislated accounting to support the organizations that are provincially controlled in reporting consistently, our decisions were always made in the public interest. Our goal has always been to ensure that our financial reporting supports transparency and accountably of the government and controlled entities' results.

Furthermore, our direction has always been based on independently established, generally accepted accounting standards. For example, under the Investing in Ontario Act, the government's obligation to provide funding to municipalities was accounted for in accordance with PSAB, and the Act explicitly stated how the government was going to account for the transfers. The AG of the day confirmed that our accounting was in accordance with PSAB in his annual report.

Again, the legislation was not intended to override PSAB, but rather to ensure a clear understanding of how the province intended to account for the government's liability. Some of the changes reflect our desire to ensure consistency in accounting for similar transactions. As such, the government directed school boards and other controlled entities to follow accounting practices which mirror those of the Province related to accounting for capital transfers.

The province also directed Hydro One and OPG to follow US accounting standards at a time when these government business enterprises would have otherwise been required under PSAB standards to adopt international financial reporting standards (IFRS). This was done to mitigate risks related to uncertainty regarding the future of rate regulated accounting under International Financial Reporting Standards.

A number of other rate regulated entities in Canada also decided to adopt US GAAP at that time for this same reason. Both OPG and Hydro One are regulated based on US GAAP, which allows the regulator to rely upon the audited financial statements for regulatory submission purposes. User needs and public interest are both served by the direction given by the government for these entities to adopt US GAAP.

These limited instances of legislated accounting direction have been in the public interest and as noted earlier, do not impact the Province's consolidated financial results which are based on PSAB.

[Note – Questions 2 and 3 relate to an issue currently under discussion with the AG in connection with the 2015-16 Public Accounts and therefore, the content will require updating once resolved.]

Q: Accounting standards related to rate regulated entities changed on January 1, 2015 but the Province didn't reflect them in its books as at January 1st. Will you be reporting OPG and Hydro One on an IFRS basis in your 2015/16 Public Accounts?

A: Both Hydro One and OPG are government business enterprises and have December 31st year-ends, whereas the Province's fiscal year ends on March 31.

Under the government's accounting policy, any changes to accounting policies impacting GBEs with different year-ends are reflected in the province's consolidated financial results in the subsequent reporting period. This policy allows us to maintain consistency in the basis upon which the budget and actual results are prepared and therefore best supports transparency and accountability in financial reporting. Otherwise, the actual results would reflect the impact of an accounting entry which wouldn't have been reflected in the approved budget against which the Province's results are reported. Ontario's policy for these sorts of changes is also consistent with the practices of other jurisdictions like Manitoba.

As such, the earliest date that the change in accounting standards applicable to rate regulated entities would be reflected in the Province's consolidated financial statements would be in next year's Public Accounts.

We are concerned with the continued uncertainty that remains regarding the future of rate regulated accounting under IFRS. It was because of that uncertainty that the Province directed both Hydro One and OPG to report based on US GAAP, because it does include rate regulated accounting. By adopting US GAAP, we essentially maintained the status quo for both of these entities because US GAAP is very closely aligned with the former Canadian GAAP.

(NOTE - We are not in a position to confirm/commit that we will reflect the results of OPG and Hydro One on an IFRS basis in our future Public Accounts. Rather, we will continue to monitor the progress of the International Accounting

Standards Board's project on rate regulated accounting to help inform us on decisions respecting our future accounting policies.)

Q: What are the impacts on reporting by Hydro One and OPG if the Province consolidates them based on IFRS?

A: Directing Hydro One and OPG to follow US GAAP under O.Reg 395/11 essentially maintained the status quo in financial reporting for the two entities at a time when PSAB would have required them to adopt International Financial Reporting Standards which didn't have rate regulated accounting. This is because US GAAP is very similar to Canadian GAAP which recognizes that the economic inflows and outflows resulting from rate regulation should be reflected on the books to present a proper financial picture of the organization and its results from operations. The Ontario Energy Board also regulates these entities based on US GAAP and is able to rely upon independently audited financial statements of these entities for assessing cost of service. Many other Canadian rate regulated entities also follow US GAAP.

From a Public Accounts perspective, the AG's focus is on how the Province consolidates the entities on our books, not with the basis upon which the entities themselves report. Both Hydro One and OPG are audited by reputable public accounting firms and continue to receive clean audit opinions which say that they are fairly stated. Whether or not the Province changes the basis upon which it reports the results OPG and Hydro One on our books for 2015/16 will not have any impact on OPG or H1's reported results which are expected to continue to be on a US GAAP basis.

Q: In what ways does Ontario's reporting differ from that of other Canadian governments?

A: Most senior governments in Canada issue financial statements based on accounting standards issued by the Public Sector Accounting Board (PSAB). Most have adopted PSAB as their basis of reporting although they are not compelled to do so. That said there are inconsistent treatments among governments in how they account for capital transfers. There continues to be significant debate among the preparer and auditor community on when transfer revenue should be reported. Ontario is one of the few jurisdictions in which both the Preparer and the Auditor agree that capital transfers can be deferred and amortized under the standard.

Ontario also differs from other jurisdictions in the consolidation presentation we follow for the Broader Public Sector which includes hospitals, school boards and colleges. We have chosen to consolidate these sectors on a one-line basis on the Province's consolidated financial statements to better represent the accountability relationship between the Province and the sectors which are expected to operate to a break even. Under our hybrid approach, expenses for the sectors are shown net of any third party revenues which avoids the inter-

mingling of third party revenues (like money transferred from a foundation) with government tax and non-tax revenues. The balance sheet however, is consolidated on a line-by-line basis.

Ontario does not consolidate universities. This accounting treatment is consistent with PSAB standards and reflects the fact that Ontario does not have power to govern the financial and operating policies of Universities in Ontario. Accountability relationships between governments and universities vary in different jurisdictions, so other governments might consolidate universities but we do not. For example, in Manitoba, universities are consolidated primarily because of the roles and power of the Minister of Education and Advanced Learning (EAL) over the universities, which is exerted in areas such as budgeting, financial reporting, program of study, tuition fees and the ability to borrow for capital purposes.

Ontario presents its budget and Public Accounts on exactly the same basis. Both are prepared on a fully-consolidated, PSAB basis. Since both are prepared on a consistent basis, users which include the public and the legislature, can easily compare the actual results of the government to see if we carried out our activities in accordance with the approved plan and expectations. A single basis for reporting both budget and actuals without the need for reconciliations and reporting different values for key measures like the deficit in different documents, best supports transparency and accountably to our users.

Q: What has Ontario done to improve the quality of its Financial Statement Discussion and Analysis?

A: The province continues to strive to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users.

The Auditor General recommended that government consider the guidance outlined in the Public Sector Accounting Board's Statement of Recommended Practice in preparing its Financial Statement Discussion and Analysis for its Annual Report.

In preparing the Annual Report for the 2015-16 fiscal reporting period the government reviewed reporting practices of other senior Canadian governments and referenced recommended practices issued by the Public Sector Accounting Board.

A number of enhancements to both the Annual Report and the province's accompanying data visualization will improve the transparency and accountability in the government's financial reports, including:

- An expanded comparison of the current year's results to those of the prior year, including analysis of the trends over a five year period as related to several financial items, including an expanded discussion on balance sheet items.
- A description of the Province's capital assets, reflecting their importance in service delivery and their impact on the Province's financial condition.
- A description of risks and uncertainties which impact the government's financial results and details on how the government manages those risks.
- Supplementary data visualization on the Ontario.ca website which will graphically present more details on the financial information contained in the Annual Report and supporting volumes.

Q: Why doesn't the government consolidate the WSIB on its books?

A: The Auditor General has discussed the WSIB in her report for a couple of years, suggesting that the government reconsider the exclusion of the WSIB's financial results from the Province's consolidated financial statements. Her suggestion is based on the risk that the province might have to provide funding to ensure the WSIB remains viable.

Under public sector accounting standards the province only consolidates those organizations which are assessed as controlled. Where province has the power to govern the financial and operating policies of an entity with expected benefits of risk or loss, it is consolidated on our books. This is not the case with the WSIB, and furthermore the Province doesn't have any legal liability for the debts of the WSIB.

In fact, the WSIB is really a non-controlled trust in nature, and such trusts are not consolidated on the basis that it would distort the Province's books if the trust's assets, liabilities, revenues and expenses were shown on our books. Since the government does not have any legal responsibility for the unfunded liability, and does not control the entity, we feel that it should remain non-consolidated.

The current exclusion of the entity from our books best serves transparency and accountability. Otherwise, the public and legislature would assume that the WSIB debt is taxpayer debt and that any net operating income/loss of the WSIB would somehow impact the taxpayer.

Q: The Auditor General has discussed concerns over Ontario's debt burden in her report for a couple of years. What has the government done to address this concern?

A: The government remains committed to achieving its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% after eliminating its annual deficit in 2017-18.

The AG also remarked that while strategies to pay down the debt are a matter of government policy, this should not prevent government from providing information to promote a greater understanding of the province's debt. We agree, and our FSD&A will contain a more robust discussion of Ontario's total debt, including multi-year trend information related to the debt of the province.

Q: How does the Province account for capital assets procured via AFP in the Public Accounts?

A: Alternative Financing and Procurement (AFP) refers to the Province using private-sector partners to procure and finance infrastructure assets. The Province is committed to transparency and accountability in financial reporting, and the accounting treatment for assets procured via AFP reflects the economic substance of the transaction. The Province prepares its financial statements following Public Sector Accounting Standards (PSAS). AFP projects are a public-private partnership model and the accounting is based on the level of risk transferred to the private partner during construction. All AFP projects to date have been considered shared risk projects during construction. Accounting treatment for capital assets is not affected by financing or procurement method. Assets procured traditionally or via AFP are recognized as tangible capital assets and the related obligations are recognized as liabilities in the provincial consolidated financial statements as the assets are constructed.

Q: Why was there a large increase in the liabilities for contaminated sites in 2014-15?

A: In June 2010, the Public Sector Accounting Board issued the liabilities for contaminated sites standard effective for fiscal years beginning on or after April 1, 2014. Contaminated sites are a result of contamination being introduced into the air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard.

In the past, the Province has reported environmental liabilities based on its obligations resulting from federal legislation. The new PSAB standard requires that provincial legislation or regulation also be considered when reporting environmental liabilities even if no order for remediation has been issued but the contamination is in excess of the standard. Environmental cleanup is often linked to past industrial activities.

Incremental liabilities reportable under the new PSAB accounting standard are reflected in these financial statements. For 2014–15, the year of transition, the Province has reported $1,683 million as an increase in its accumulated deficit in the Consolidated Financial Statements.

Remarks by Gadi Mayman

CEO

Ontario Financing Authority

to the Standing Committee

on Public Accounts

Toronto, Ontario

~~September 21~~October 5, 2016

Word count: 835~~740~~

Check against Delivery

Thank you, Deputy Minister Thompson and Deputy Minister Orencsak.

Good afternoon.

My name is Gadi Mayman, and I am the Chief Executive Officer of the Ontario Financing Authority.

In this role, I am responsible for overseeing Ontario's:

- borrowing and debt management strategy;
- corporate and electricity finance projects and;
- banking relationships.

I also manage the province's relationships with credit rating agencies, bond underwriters and investors.

Before I continue, I would like to thank the committee for the opportunity to discuss what we have been doing to address the points raised by the Auditor General regarding Ontario's debt.

[Net debt]

~~Ontario's net debt-to-GDP is expected to peak at 39.6 per cent in 2015–16.~~

~~This compares to the forecast of:~~

- ~~39.8 per cent in the 2015 Budget;~~
- ~~40.8 per cent in the 2014 Budget and;~~
- ~~40.4 per cent in the 2013 Budget.~~

~~We expect Ontario's net debt-to-GDP ratio to remain unchanged at 39.6 per cent in 2016–17, and decline further in 2017–18.~~

The government is committed towards ~~target continues to be to~~ reducinge the net debt-to-GDP ratio to its pre-recession level.

A government's net debt increases primarily for two reasons: to finance its deficits and invest in capital assets.

In the first few years after the global recession in 2008–09, the increase in the province's net debt was primarily due to Ontario's deficit. Over this period the Government continued investing in much needed improvements to the Province's capital infrastructure.

The government plans to invest more than $137-billion in capital over 10 years, and $160 billion over the 12-year period starting in 2014-15.

Investments in capital, supplement GDP growth and the net debt-to-GDP ratio will come down more quickly than it would without these investments.

Once a balanced budget is achieved, the increase in net debt will be limited to difference between the cash investment to build the assets and the amortization, which is a non-cash amount.
~~Ontario's deliberate choice to invest in the economy during the recession did increase the deficit, but also resulted in Ontario experiencing the recession less harshly than we might have otherwise.~~

~~The strategy was successful-- the economy rebounded and since then, the government has been committed to eliminating the deficit by 2017–18, and remaining balanced in 2018–19.~~

~~Once balance is achieved, the increase in Ontario's net debt will be limited to its net investment in tangible capital assets.~~

This means that achieving balance will put net debt-to-GDP on a declining track.

Moody's notes in a report issued October 3, 2016 that Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy.

The report also states, "The policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices outlined above, has helped to support the province's Aa2 rating."

[

~~Moody's notes that the government's policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices has helped to support the province's rating.~~

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[Borrowing Program]

Ontario conducts a robust and responsible borrowing program that protects the public interest.

In 2015–16 the government successfully completed its annual borrowing program, borrowing $32.1 billion.

As of September 30, ~~August 31,~~ 2016, the province has borrowed $13.3 billion of its
$24.4 billion requirement for fiscal 2016–17.

The recently released 2015-16 unaudited Financial Statements of the Province included a legislated pension adjustment that increased net debt by $10.7 billion.

The pension adjustment was non-cash and does not impact either the Province's total debt or its borrowing requirements.

Through prudent and cost-effective debt management, Ontario has consistently kept interest on debt costs below budget projections.

Employing term extensions has allowed the Province to lock in low interest rates for longer periods, which has reduced Ontario's refinancing risks.

It also helps offset the impact of expected higher interest rates on the interest-on-debt costs.

As of ~~August 31,~~September 30, 2016, the average term to maturity for new borrowing in 2016–17 was 15.~~6~~3 years.

In fact, since 2010 Ontario has issued $59.1 billion of bonds longer than 30 years' duration to lock in low rates.

As a result, we have extended Ontario's weighted-average term to maturity of long-term provincial debt significantly.

In 2009-10 it was 8.1 years; last year it was 14.2 years.

As I mentioned a moment ago, it was 15.~~6~~3 years as of September 30th ~~August 31~~ this year.

The 2010 Ontario Budget forecast that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar on interest.

Currently, the Province spends 8.5 cents of every revenue dollar on interest, ~~The current forecast is~~ ~~23~~.~~75~~ cents lower than what was forecast in 2010. ~~We are currently tracking at nine cents of every revenue dollar.~~

This ratio is the lowest~~r than~~ it h~~w~~as been since ~~in the~~ 1990~~s and 2000s~~, and is forecast to remain low~~er~~ through the outlook period in 2018–19.

The Province takes a very prudent approach to managing the risks associated with its borrowing program.

Ontario limits itself to a maximum net interest rate resetting exposure level of 35 per cent of debt issued for provincial purposes.

It also limits itself to a maximum foreign exchange exposure level of five per cent of debt issued for provincial purposes.

As of September 30, ~~July 31,~~ 2016, the actual values for Ontario's net interest rate resetting exposure and~~-~~ foreign exchange exposure were 10.6 ~~9.35~~ per cent and 0.33 per cent, respectively.

As you can see, this is well below the policy limit levels.

The Province will remain flexible in its borrowing approach.

The approach includes monitoring all major markets and seeking the most cost-effective means, over the long term, to finance Ontario's borrowing program.

It also includes reaching out to investors and investment banks, domestically and globally, to ensure that Ontario bond issues remain highly attractive, liquid and sought after, as they have been since Ontario began accessing public markets almost 25 years ago.

I am happy to answer any questions you may have.

From: Ken Kandeepan
To: Christina Zhang
Subject: SCOPA 2016 Friendly QAs_Oct 4 2016_10am_OFA edits.docx
Date: Tuesday, October 04, 2016 10:17:56 AM
Attachments: SCOPA 2016 Friendly QAs_Oct 4 2016_10am_OFA edits.docx

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Revised as discussed.

Ken k

Friendly Questions

1. Q. ~~Our government has a target for reducing the net-debt-to-GDP ratio. Can you tell us more about the target and how our government is doing in terms of reaching that target?~~

A. ~~Net debt, as of March 31, 2016, is forecast to be $296.1 billion, $2.8 billion lower than forecasted in the *2015 Budget*. Net debt was $284.6 billion as of March 31, 2015. The net debt-to-GDP ratio is forecast to peak at 39.6 per cent in 2015–16, remain level in 2016–17, and decline to 38.9 per cent in 2017–18 and 38.5 per cent in 2018–19.~~

~~Ontario conducts a robust and responsible borrowing program that protects the public interest. The government successfully completed its annual borrowing program in 2015-16, borrowing $32.1 billion. Long-term borrowing for 2016–17 is forecast to be $24.4 billion when factoring in $2.0 billion pre-borrowed in 2015–16. This will be the Province's smallest borrowing program since 2007–08.~~

~~As of August 31, 2016, the Province had borrowed $12.5 billion for the fiscal year. Approximately 71per cent of this year's borrowing-to-date has been completed in Canadian dollars. The remainder of the Province's borrowing-to-date has been completed in international currencies primarily through U.S. dollar global bonds, and two small Australian dollar Kangaroo bond issues.~~

~~Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The *2010 Budget* forecast that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 2.7 cents lower, at 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through the outlook period in 2018–19.~~

~~Term extension has allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.~~

~~Going back to the beginning of fiscal 2010-11, Ontario has issued $59.1 billion of bonds longer than 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.6 years as of August 31.~~

2. Q. ~~Noting that a key indicator of the government's ability to carry its debt entails examining the level of debt relative to the size of the economy, can you please explain further what the forecasted net debt-to-GDP ratio is for Ontario?~~

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~~What effect does this have on the government's commitment to balancing the budget by 2017-18?~~

~~A. The Province's net debt-to-GDP ratio is expected to peak in 2015-16 at 39.6 per cent, remain unchanged in 2016-17 and begin to decline in 2017-18.~~

~~The government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level. Net Debt increases primarily for two reasons: to finance deficits and invest in capital assets. In the first few years after the global recession in 2008-09, the increase in net debt was primarily due to the deficit. However, the government is on track to eliminate the deficit and balance the budget by 2017-18. Once a balanced budget is achieved, the increase in net~~ debt will be limited to the net investment in tangible capital assets.

3. Q. Why was the deficit lower than projected? Where does the government stand when it comes to reaching a balanced budget?

A. Since the last time the Office of the Auditor General reviewed these statistics in its 2013 Annual Report, the province's net debt-to GDP ratio has improved from 39.1 per cent to 38.~~6~~5 per cent for 2013-14 and remained relatively unchanged for 2014-15 at ~~40~~39.~~1~~4 per cent. This improvement is a direct result of better than forecast deficits. ~~, although the ration for the out years has been impacted, primarily by decreases in the GDP forecast~~.

With regard to debt management, the government's support for and commitment to economic growth will maintain debt at sustainable levels and achieve its target of reducing the net debt-to GDP ratio to the pre-recession level of 27 per cent.

The province has consistently beaten its annual deficit targets over the last five years. ~~, resulting in borrowings and accumulated deficits that are $ 25 billion lower that they would otherwise have been~~. A major contributor toward beating annual deficit targets has been the focus on annual expenditure management limiting the growth in program spending to an average of 1.5 percent from 2010-11 to 2013-14. The government has also addressed Ontario's infrastructure needs through targeted capital investments.

4. Q. Chapter 2 of the Auditor General's 2015 annual report speaks to the increased vulnerability of Ontario with respect to interest rates. She points to the possible rise in rates related to borrowing.

However, I am also aware that the Province has consistently kept interest on debt costs below budget projections.

What steps has the government taken to reduce borrowing and keep interest on debt costs low?

A. Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The 2010

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Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents on interest for every revenue dollar received. The current forecast is 2~~3~~7 per cent lower, at ~~9~~8.5~~.0~~ cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 1~~4~~5 fiscal years from 199~~2~~1–9~~3~~2 to 2005–06, and is forecast to remain lower through the period to balance in 2017–18.

Extending the term of the debt that the Province issues has locked in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

Going back to the beginning of fiscal 2010–11, Ontario has issued $59.1 billion of bonds that do not mature for at least 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.~~6~~3 years as of September 30~~August 31~~.

5. Q. The stranded debt arose under the *Energy Competition Act of 1998*, and its schedule, the *Electricity Act, 1998*. The *Electricity Act, 1998*, also enabled the implementation of the Debt Retirement Charge (DRC) on electricity ratepayers.

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I would note the following context. The government's electricity sector reforms in the Electricity Restructuring Act, 2004, and others, have put the stranded debt recovery plan back on track. Based on interim numbers in Budget 2016, this is projected to be the twelfth consecutive year that the stranded debt has been reduced, to under $5 billion as at March 31, 2016, from $20.6 billion as at March 31, 2004. This allowed the government to follow through on its commitment to reduce electricity cost pressures.

6. Q. Deputy Minister Orencsak, you mentioned that the C.D. Howe Institute has given positive feedback about the government's reporting practices. Why is that significant?

A. The C.D. Howe document "By the Numbers: The Fiscal Accountability of Canada Senior Governments, 2015" notes that Ontario along with Ottawa have "long stood out for relatively good financial presentations. " When evaluating the reporting practices and fiscal documents across Canada, the document rated Ontario an "A" grade.

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Ontario and several other provinces were praised for having their budgets prepared on the same accounting basis as their end-of-year public accounts. In having budget and public accounts on the same basis, Ontario and the other such provinces have increased transparency and comparability to their citizens.

7. Q. Everyone has been doing more with less, and that includes the government. For example there are 6% fewer full time employees in the civil service now, compared to 2008. What else is the government doing to ensure its bringing costs down? What results have been achieved so far?

A. The Ontario Economic Outlook and Fiscal Review in fall 2014 announced Program Review, Renewal and Transformation (PRRT) as a key element of the government's plan to achieve a balanced budget.

PRRT is a fundamentally new approach to multi-year planning and budgeting, and is designed around four key principles:

- Examining how every government dollar is spent
- Using evidence to inform better choices and improve outcomes
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At the same time, the government is making tough choices to end programs that are not performing, do not link to key priorities or no longer serve a clear public interest.

The 2014 Budget announced that the government was implementing an annual program review savings target, and set the target at $250 million for 2014-15. The target was met through a number of initiatives that achieved the reductions while continuing to support front-line services.

An additional year-end savings target of $1.1 billion built into the plan was also achieved.

The government met its program review savings target through initiatives such as:

- Negotiating lower prices for goods and services
- Finding internal efficiencies in information technology data centre, desktop and service management operations
- Modernizing the delivery of natural resources management programs

- Restraining compensation growth in line with the government's "net zero" policy

- Finding operational and administrative efficiencies across government, including reducing the government's office footprint and prudent management of discretionary costs, such as supplies and travel.

In the 2015 Budget, the government announced a number of opportunities identified through PRRT to improve outcomes while supporting fiscal objectives. They included:

- Changing business tax credits

- Modernizing programs delivered through ServiceOntario

- Reducing the government's office footprint

- Getting better value for money invested in health care programs and services.

8. Q. Why is it important that the government has consistently beaten its deficit reduction targets in terms of the province's finances?

A. The government is dedicated to a fiscally sound approach to managing the Province's finances, which will provide the foundation for the long-term well-being and prosperity of Ontarians.

The government remains on track to eliminate the deficit by 2017-18. By continuing to beat our fiscal targets, ~~Ontario's accumulated deficit is $30 billion lower than it otherwise would have been~~.

Through prudent and cost-effective debt management, the Province has also consistently kept interest on debt costs below budget projections.

Term extension has allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

In addition, we have maintained a rigorous approach to control program spending to reduce Ontario's net debt-to-GDP ratio to its pre-recession level.

Our path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and

- Maintaining the integrity of Provincial revenues.

Our plan is to first balance the budget while continuing to make strategic investments in capital assets. These infrastructure investments will stimulate economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio.

9. Q. There's been concern about Ontario's net debt-to-GDP being significant; however the government is making large-scale infrastructure investments. How are these investments helping the people of Ontario?

A. The government's position is that the renewal and expansion of public infrastructure supports Ontario's industries, creates jobs and provides long-term benefits and improves the lives of Ontarians.

Large investments have been announced and made for improvements in the province's infrastructure. The province is making public infrastructure investments of more than $137 billion over the next 10 years. This builds on the 2014 Budget commitment to invest in infrastructure – resulting in about $160 billion of investment over 12 years, starting in 2014-15.

The revenues allocated to the Trillium Trust will be used to support building transit, transportation and other priority infrastructure as part of the Moving Ontario Forward plan.

A September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

Ontario's planned investments in public infrastructure are expected to support over 110,000 jobs per year on average.

Building and revitalizing public infrastructure are essential to strengthening Ontario's economy.

10. Q. Given that compensation accounts for half of government spending, what has the government done to help alleviate the strain on finances as it works toward balancing its budget?

A. The government remains committed to balancing the budget by 2017-18 and managing compensation costs has been a key element of achieving this goal.

The 2016 Budget emphasized that all public-sector partners must continue to work together to control current and future compensation costs.

Since then, collective agreements have been reached in a number of key sectors, including the education sector, Ontario Public Service and provincial energy corporations that are consistent with the government's fiscal plan.

From July 2012to September 2016, the provincial public sector annual wage increases have averaged 0.6%, compared to the municipal sector at 1.7%, the private sector at 1.9% and the federal public sector in Ontario at 1.7%.

The Government has achieved a number of net-zero deals, including:

In August 2014, the Government reached a new net-zero four-year agreement with AMAPCEO, which produced savings of approximately $45 million. The agreement included zero across-the-board increases in the first two years and modest increases in the third and fourth years that were offset by savings elsewhere in the collective agreement.

On Oct. 30, 2015, the Government ratified a new net-zero three-year agreement with the Unified Bargaining Unit in OPSEU.

The Unified agreement includes no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4 per cent one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4 per cent pay increase.

The agreement is consistent with the fiscal plan. The lump-sum payment in 2016 and pay increase in 2017 are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

In May of 2016, the government was able to achieve a net-zero negotiations and arbitration settlement outcome with OPSEU Corrections.

The government has a reached a tentative agreement with the Provincial Engineers Government of Ontario (PEGO) that still needs ratification by members. As such we cannot comment on the details of this deal.

11. Q. There are changes ahead for retiree benefits, how will they help the government's bottom line and how do they compare with what is happening in the private sector? How important are these kinds of changes to our plan to balance the budget?

A. Currently, persons in receipt of a pension from the Public Service Pension Plan (PSPP) or OPSEU Pension plan who have a minimum 10 years of pension credit are entitled to post-retirement group health, dental and life insurance coverage. The Ontario government pays 100% of monthly premium costs.

On Feb. 18, 2014, the government announced that the post-retirement benefits eligibility criteria and cost-sharing terms would be changing in 2017.

PSPP and OPSEU Pension Plan member employees who do not have 10 years of pension credit as of Jan. 1, 2017 would be required to have at least 20 years of pension credit to retire to an immediate unreduced pension in order to be eligible for post-retirement benefits.

Also, eligible persons who have not commenced receiving a pension before Jan. 1, 2017, would be required to pay 50% of the life, health, dental and vision and hearing aid premiums.

Employees who commenced receiving a pension before Jan. 1, 2017 will not be affected by these changes.

Announcement of the changes led to a reduction of the retiree benefit program liability by over $1 billion and brings Ontario Public Service retiree benefits more in line with other public sector organizations.

Some other public sector workers pay 100% of their benefits premiums.

Eligible retirees include former employees of the OPS, as well as former employees of other employers which participate in the OPS pension plans.

Retired judges, justices of the peace and Ontario Provincial Police Association (OPPA) members have independent retiree benefit terms.

By transitioning to a new cost-sharing model for retiree benefits, the government is moving in line with the private sector and other public sector organizations.

12. Q. The Auditor General identifies significant accounting issues related to her audit of the Province's consolidated financial statements. Some of the issues are related to accounting standard changes. Since both Ontario's budget and actual results are based on PSAB accounting standards, such changes could impact the transparency and accountability of the government's financial reports as well as fiscal policy decisions. Can you please describe if these issues are ongoing and what has been done to rectify them?

How long will it be before this is resolved?

A. As your question points out, in addition to adopting PSAB as the basis to present its actual results, Ontario has also made a **policy decision** to adopt PSAB as the basis for the government's fiscal planning process which means that changes in PSAB's accounting standards can implicitly impact fiscal policy decisions.

As has been mentioned already, the **CD Howe Institute** has given Ontario an "A" grade for the quality of our financial reporting, based on a number of factors including the fact that we present PSAB-consistent revenue and spending balances in public accounts, and the timeliness of our reporting schedule. The fact that the actual results have been independently audited by the AG and that

we have received unqualified audit opinions over the past 22 years now, means that the public and legislature can rely upon the results reported by the government.

There is tremendous value in **independently established accounting standards**, and especially for standards which are prepared taking the unique accountability and transparency needs of the public sector in mind. In this regard, Ontario has continued to support the public sector accounting standard setting process. Input to the process by stakeholders is critical to ensure high-quality standards which meet user needs and which serve **the public interest.** And we take this responsibility very seriously.

Ways that we support the standard setting process include:

- **Monitor communications** from the Public Sector Accounting Standards Board related to upcoming projects to identify potential areas of interest/concern
  Similarly, we also monitor accounting standard developments which may impact our **GBEs** (for example, potential changes in standards impacting OLG, LCBO, H1 or OPG).

- Attend as **observers meetings of the Accounting Standards Oversight Council** to hear presentations by the Chair of the Public Sector Accounting Board and the Accounting Standards Board related to current projects and issues that they are dealing with. In the past we have had Deputy Minister representation on the Oversight Council with specific background in fiscal policy (Phil Howell). Such participation helped to ensure a more robust discussion of potential standard changes on governments.

- Participation by past **Provincial Controllers** as members of the Public Sector Accounting Standards Board. For example, our recently retired ADM and Provincial Controller, Murray Lindo, still sits on PSAB, although his 3 year term will be coming to an end next March. Although this position requires that the individual represent himself and his own views (and not represent the views of the government), it is nonetheless valuable to have a voice at the table to ensure that the real impacts of any potential changes on the quality of financial information are identified and discussed. It has been valuable for example to know that the continuing debate about Financial Instruments and Government Transfers is informed by both the accounting and fiscal perspective that Ontario's Provincial Controller would bring to the table.

- Ontario provides **input to PSAB's strategic plan** to help inform decisions on key areas that PSAB should focus.

- We also provide **input on an individual project by project** basis for each standard change that PSAB issues for comment. Occasionally, such projects could require several responses over the course of the project. For example, the PSAB standard on government transfers took 9 years to develop and input continues to date as part of PSAB's on-going review of issues related to the consistency of application related to the standard.

- Occasionally, we **stakeholder with PSAB staff** on specific matters like concerns related to the Financial Instruments standard. In this case staff from both OPCD and the OFA participated in discussions with PSAB.

- We **observe PSAB Accounting Discussion Group** meetings to hear representatives from the Board, audits and preparers discuss specific issues identified by public sector entities.

- Depending on the significance of a particular item, **Ontario has often played the lead in championing inter-jurisdictional dialogue and joint action plans** to support the quality of PSAB's standard setting process. For example, the OFA has collaborated with other members of the Canadian borrowing community to compile analysis and feedback to PSAB on its Financial Instruments standard. A past DM of Finance (Colin Anderson) Co-Chaired an inter-jurisdictional PSAB/Deputy Minister of Finance Joint Working Group which was formed in 2007 in light of key concerns being raised by governments related to PSAB's direction.

- Most recently, Ontario is **Chairing a Fiscal Expert Panel** which will be meeting later this week to discuss PSAB's current project on its Conceptual Framework in an effort to gather views and valuable input to share with PSAB on this foundational and critically important project. The outcome of the project will influence the direction of future public sector accounting standards.

This list is **not exhaustive**, but I hope that it gives you the sense of the significant time and effort that Ontario invests in supporting the quality of public sector reporting. We are committed to meeting user needs for transparency and accountability in public sector reporting. We will continue to invest the time and effort required to provide valuable input to PSAB's standard setting process.

13. Q: Moody's just released a report noting that Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy. Can you explain how your conservative debt management policies are keeping debt service costs manageable?

A: According to Moody's, "low interest rates will keep interest costs in line with current levels." Moody's also states that "Ontario's strategy of issuing debt across a variety of maturities and markets helps ensure good access to funding and low financing costs. To protect against unfavorable market conditions, Ontario has in recent years increased its liquidity reserves. The province has also extended its weighted average debt maturity to take greater advantage of low interest rates."

This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs.

The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. Currently, the Province spends 8.5 cents of every revenue dollar on interest, 3.5 cents lower than what was forecast in 2010.

This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through the outlook period in 2018–19.

14. Q: Moody's just released a report noting that Ontario's policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices has helped to support the province's Aa2 rating. Can you explain how borrowing for infrastructure helps support the province's credit rating?

A: According to Moody's although Ontario's debt will continue to increase over the medium term as it funds its 10-year infrastructure plan "any negative impact on the province's credit strength will be counterbalanced by rising revenues and a return to budgetary balance."

The government plans to invest more than $137-billion in capital over 10 years, and $160 billion over the 12-year period starting in 2014-15.

Investments in capital, supplement GDP growth and the net debt-to-GDP ratio will come down more quickly than it would without these investments. Once a balanced budget is achieved, the increase in net debt will be limited to difference between the cash investment to build the assets and the amortization, which is a non-cash amount.

WSIB QAs from last year – WSIB to review and advise.

15. Q. The Auditor General has discussed the WSIB in her report for a couple of years, suggesting that the government reconsider the exclusion of the WSIB's financial results from the Province's consolidated financial statements. Her suggestion is based on the risk that the province might have to provide funding to ensure the WSIB remains viable. Why hasn't the government consolidated the WSIB on its books?

A. Under public sector accounting standards the province only consolidates those organizations which are assessed as controlled. Where province has the power to govern the financial and operating policies of an entity with expected benefits of risk or loss, it is consolidated on our books. This is not the case with the WSIB, and furthermore the Province doesn't have any legal liability for the debts of the WSIB.

In fact, the WSIB is really a non-controlled trust in nature, and such trusts are not consolidated on the basis that it would distort the Province's books if the trust's assets, liabilities, revenues and expenses were shown on our books. Since the government does not have any legal responsibility for the unfunded liability, and does not control the entity, we feel that it should remain non-consolidated.

The current exclusion of the entity from our books best serves transparency and accountability. Otherwise, the public and legislature would assume that the WSIB debt is taxpayer debt and that any net operating income/loss of the WSIB would somehow impact the taxpayer.

16. Q: What progress has the WSIB made on its target to be fully funded by 2027?

17. Q: Can you please give us an update on the status of the WSIB review of its long term financial viability?

From:	Christina Zhang
To:	Matthew Sylvain (MOF)
Cc:	Ken Kandeepan; "Ize-Dukuze, Marilyn (MOF)"; Christopher Pearce (MOI)
Subject:	SCOPA 2016 Friendly QAs_Oct 4 2016_2pm v2_OFA edits.docx
Date:	Tuesday, October 04, 2016 2:01:01 PM
Attachments:	SCOPA 2016 Friendly QAs_Oct 4 2016_2pm v2_OFA edits.docx

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Hi Matt,

As discussed, attached are the revised Q&As, scrubbed of any numbers based on yesterday's unaudited consolidated FS. We went back Budget 2016 numbers on the IOD as a % of Revenue.

I've made edits to Qs #4, 13, and 14.

Thanks,
Christina

Friendly Questions

1. Q. ~~Our government has a target for reducing the net-debt-to-GDP ratio. Can you tell us more about the target and how our government is doing in terms of reaching that target?~~

A. ~~Net debt, as of March 31, 2016, is forecast to be $296.1 billion, $2.8 billion lower than forecasted in the *2015 Budget*. Net debt was $284.6 billion as of March 31, 2015. The net debt-to-GDP ratio is forecast to peak at 39.6 per cent in 2015–16, remain level in 2016–17, and decline to 38.9 per cent in 2017–18 and 38.5 per cent in 2018–19.~~

~~Ontario conducts a robust and responsible borrowing program that protects the public interest. The government successfully completed its annual borrowing program in 2015-16, borrowing $32.1 billion. Long-term borrowing for 2016–17 is forecast to be $24.4 billion when factoring in $2.0 billion pre-borrowed in 2015–16. This will be the Province's smallest borrowing program since 2007–08.~~

~~As of August 31, 2016, the Province had borrowed $12.5 billion for the fiscal year. Approximately 71per cent of this year's borrowing-to-date has been completed in Canadian dollars. The remainder of the Province's borrowing-to-date has been completed in international currencies primarily through U.S. dollar global bonds, and two small Australian dollar Kangaroo bond issues.~~

~~Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The *2010 Budget* forecast that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 2.7 cents lower, at 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through the outlook period in 2018–19.~~

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~~Going back to the beginning of fiscal 2010-11, Ontario has issued $59.1 billion of bonds longer than 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.6 years as of August 31.~~

2. Q. ~~Noting that a key indicator of the government's ability to carry its debt entails examining the level of debt relative to the size of the economy, can you please explain further what the forecasted net debt-to-GDP ratio is for Ontario?~~

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~~What effect does this have on the government's commitment to balancing the budget by 2017-18?~~

~~A. The Province's net debt-to-GDP ratio is expected to peak in 2015-16 at 39.6 per cent, remain unchanged in 2016-17 and begin to decline in 2017-18.~~

~~The government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level. Net Debt increases primarily for two reasons: to finance deficits and invest in capital assets. In the first few years after the global recession in 2008-09, the increase in net debt was primarily due to the deficit. However, the government is on track to eliminate the deficit and balance the budget by 2017-18. Once a balanced budget is achieved, the increase in net debt will be limited to the net investment in tangible capital assets.~~

3. Q. Why was the deficit lower than projected? Where does the government stand when it comes to reaching a balanced budget?

A. Since the last time the Office of the Auditor General reviewed these statistics in its 2013 Annual Report, the province's net debt-to GDP ratio has improved from 39.1 per cent to 38.~~6~~5 per cent for 2013-14 and remained relatively unchanged for 2014-15 at ~~40~~39.~~1~~4 per cent. This improvement is a direct result of better than forecast deficits. ~~, although the ration for the out years has been impacted, primarily by decreases in the GDP forecast~~.

With regard to debt management, the government's support for and commitment to economic growth will maintain debt at sustainable levels and achieve its target of reducing the net debt-to GDP ratio to the pre-recession level of 27 per cent.

The province has consistently beaten its annual deficit targets over the last five years. ~~, resulting in borrowings and accumulated deficits that are $ 25 billion lower that they would otherwise have been~~. A major contributor toward beating annual deficit targets has been the focus on annual expenditure management limiting the growth in program spending to an average of 1.5 percent from 2010-11 to 2013-14. The government has also addressed Ontario's infrastructure needs through targeted capital investments.

4. Q. Chapter 2 of the Auditor General's 2015 annual report speaks to the increased vulnerability of Ontario with respect to interest rates. She points to the possible rise in rates related to borrowing.

However, I am also aware that the Province has consistently kept interest on debt costs below budget projections.

What steps has the government taken to reduce borrowing and keep interest on debt costs low?

A. Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The 2010

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Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents on interest for every revenue dollar received. The current forecast is 23 per cent lower, at 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 14 fiscal years from 1992–93 to 2005–06, and is forecast to remain lower through the period to balance in 2017–18.

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Can you please inform the committee of the commitment that the government has to eliminating the debt retirement charge cost for commercial, industrial and all other electricity users by 2018?

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At the same time, the government is making tough choices to end programs that are not performing, do not link to key priorities or no longer serve a clear public interest.

The 2014 Budget announced that the government was implementing an annual program review savings target, and set the target at $250 million for 2014-15. The target was met through a number of initiatives that achieved the reductions while continuing to support front-line services.

An additional year-end savings target of $1.1 billion built into the plan was also achieved.

The government met its program review savings target through initiatives such as:

- Negotiating lower prices for goods and services
- Finding internal efficiencies in information technology data centre, desktop and service management operations
- Modernizing the delivery of natural resources management programs

- Restraining compensation growth in line with the government's "net zero" policy

- Finding operational and administrative efficiencies across government, including reducing the government's office footprint and prudent management of discretionary costs, such as supplies and travel.

In the 2015 Budget, the government announced a number of opportunities identified through PRRT to improve outcomes while supporting fiscal objectives. They included:

- Changing business tax credits

- Modernizing programs delivered through ServiceOntario

- Reducing the government's office footprint

- Getting better value for money invested in health care programs and services.

8. Q. Why is it important that the government has consistently beaten its deficit reduction targets in terms of the province's finances?

A. The government is dedicated to a fiscally sound approach to managing the Province's finances, which will provide the foundation for the long-term well-being and prosperity of Ontarians.

The government remains on track to eliminate the deficit by 2017-18. By continuing to beat our fiscal targets~~, Ontario's accumulated deficit is $30 billion lower than it otherwise would have been~~.

Through prudent and cost-effective debt management, the Province has also consistently kept interest on debt costs below budget projections.

Term extension has allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

In addition, we have maintained a rigorous approach to control program spending to reduce Ontario's net debt-to-GDP ratio to its pre-recession level.

Our path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and

- Maintaining the integrity of Provincial revenues.

Our plan is to first balance the budget while continuing to make strategic investments in capital assets. These infrastructure investments will stimulate economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio.

9. Q. There's been concern about Ontario's net debt-to-GDP being significant; however the government is making large-scale infrastructure investments. How are these investments helping the people of Ontario?

A. The government's position is that the renewal and expansion of public infrastructure supports Ontario's industries, creates jobs and provides long-term benefits and improves the lives of Ontarians.

Large investments have been announced and made for improvements in the province's infrastructure. The province is making public infrastructure investments of more than $137 billion over the next 10 years. This builds on the 2014 Budget commitment to invest in infrastructure – resulting in about $160 billion of investment over 12 years, starting in 2014-15.

The revenues allocated to the Trillium Trust will be used to support building transit, transportation and other priority infrastructure as part of the Moving Ontario Forward plan.

A September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

Ontario's planned investments in public infrastructure are expected to support over 110,000 jobs per year on average.

Building and revitalizing public infrastructure are essential to strengthening Ontario's economy.

10. Q. Given that compensation accounts for half of government spending, what has the government done to help alleviate the strain on finances as it works toward balancing its budget?

A. The government remains committed to balancing the budget by 2017-18 and managing compensation costs has been a key element of achieving this goal.

The 2016 Budget emphasized that all public-sector partners must continue to work together to control current and future compensation costs.

Since then, collective agreements have been reached in a number of key sectors, including the education sector, Ontario Public Service and provincial energy corporations that are consistent with the government's fiscal plan.

From July 2012to September 2016, the provincial public sector annual wage increases have averaged 0.6%, compared to the municipal sector at 1.7%, the private sector at 1.9% and the federal public sector in Ontario at 1.7%.

The Government has achieved a number of net-zero deals, including:

In August 2014, the Government reached a new net-zero four-year agreement with AMAPCEO, which produced savings of approximately $45 million. The agreement included zero across-the-board increases in the first two years and modest increases in the third and fourth years that were offset by savings elsewhere in the collective agreement.

On Oct. 30, 2015, the Government ratified a new net-zero three-year agreement with the Unified Bargaining Unit in OPSEU.

The Unified agreement includes no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4 per cent one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4 per cent pay increase.

The agreement is consistent with the fiscal plan. The lump-sum payment in 2016 and pay increase in 2017 are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

In May of 2016, the government was able to achieve a net-zero negotiations and arbitration settlement outcome with OPSEU Corrections.

The government has a reached a tentative agreement with the Provincial Engineers Government of Ontario (PEGO) that still needs ratification by members. As such we cannot comment on the details of this deal.

11. Q. There are changes ahead for retiree benefits, how will they help the government's bottom line and how do they compare with what is happening in the private sector? How important are these kinds of changes to our plan to balance the budget?

A. Currently, persons in receipt of a pension from the Public Service Pension Plan (PSPP) or OPSEU Pension plan who have a minimum 10 years of pension credit are entitled to post-retirement group health, dental and life insurance coverage. The Ontario government pays 100% of monthly premium costs.

On Feb. 18, 2014, the government announced that the post-retirement benefits eligibility criteria and cost-sharing terms would be changing in 2017.

PSPP and OPSEU Pension Plan member employees who do not have 10 years of pension credit as of Jan. 1, 2017 would be required to have at least 20 years of pension credit to retire to an immediate unreduced pension in order to be eligible for post-retirement benefits.

Also, eligible persons who have not commenced receiving a pension before Jan. 1, 2017, would be required to pay 50% of the life, health, dental and vision and hearing aid premiums.

Employees who commenced receiving a pension before Jan. 1, 2017 will not be affected by these changes.

Announcement of the changes led to a reduction of the retiree benefit program liability by over $1 billion and brings Ontario Public Service retiree benefits more in line with other public sector organizations.

Some other public sector workers pay 100% of their benefits premiums.

Eligible retirees include former employees of the OPS, as well as former employees of other employers which participate in the OPS pension plans.

Retired judges, justices of the peace and Ontario Provincial Police Association (OPPA) members have independent retiree benefit terms.

By transitioning to a new cost-sharing model for retiree benefits, the government is moving in line with the private sector and other public sector organizations.

12. Q. The Auditor General identifies significant accounting issues related to her audit of the Province's consolidated financial statements. Some of the issues are related to accounting standard changes. Since both Ontario's budget and actual results are based on PSAB accounting standards, such changes could impact the transparency and accountability of the government's financial reports as well as fiscal policy decisions. Can you please describe if these issues are ongoing and what has been done to rectify them?

How long will it be before this is resolved?

A. As your question points out, in addition to adopting PSAB as the basis to present its actual results, Ontario has also made a **policy decision** to adopt PSAB as the basis for the government's fiscal planning process which means that changes in PSAB's accounting standards can implicitly impact fiscal policy decisions.

As has been mentioned already, the **CD Howe Institute** has given Ontario an "A" grade for the quality of our financial reporting, based on a number of factors including the fact that we present PSAB-consistent revenue and spending balances in public accounts, and the timeliness of our reporting schedule. The fact that the actual results have been independently audited by the AG and that

we have received unqualified audit opinions over the past 22 years now, means that the public and legislature can rely upon the results reported by the government.

There is tremendous value in **independently established accounting standards**, and especially for standards which are prepared taking the unique accountability and transparency needs of the public sector in mind. In this regard, Ontario has continued to support the public sector accounting standard setting process. Input to the process by stakeholders is critical to ensure high-quality standards which meet user needs and which serve **the public interest.** And we take this responsibility very seriously.

Ways that we support the standard setting process include:

- **Monitor communications** from the Public Sector Accounting Standards Board related to upcoming projects to identify potential areas of interest/concern
  Similarly, we also monitor accounting standard developments which may impact our **GBEs** (for example, potential changes in standards impacting OLG, LCBO, H1 or OPG).

- Attend as **observers meetings of the Accounting Standards Oversight Council** to hear presentations by the Chair of the Public Sector Accounting Board and the Accounting Standards Board related to current projects and issues that they are dealing with. In the past we have had Deputy Minister representation on the Oversight Council with specific background in fiscal policy (Phil Howell). Such participation helped to ensure a more robust discussion of potential standard changes on governments.

- Participation by past **Provincial Controllers** as members of the Public Sector Accounting Standards Board. For example, our recently retired ADM and Provincial Controller, Murray Lindo, still sits on PSAB, although his 3 year term will be coming to an end next March. Although this position requires that the individual represent himself and his own views (and not represent the views of the government), it is nonetheless valuable to have a voice at the table to ensure that the real impacts of any potential changes on the quality of financial information are identified and discussed. It has been valuable for example to know that the continuing debate about Financial Instruments and Government Transfers is informed by both the accounting and fiscal perspective that Ontario's Provincial Controller would bring to the table.

- Ontario provides **input to PSAB's strategic plan** to help inform decisions on key areas that PSAB should focus.

- We also provide **input on an individual project by project** basis for each standard change that PSAB issues for comment. Occasionally, such projects could require several responses over the course of the project. For example, the PSAB standard on government transfers took 9 years to develop and input continues to date as part of PSAB's on-going review of issues related to the consistency of application related to the standard.

- Occasionally, we **stakeholder with PSAB staff** on specific matters like concerns related to the Financial Instruments standard. In this case staff from both OPCD and the OFA participated in discussions with PSAB.

- We **observe PSAB Accounting Discussion Group** meetings to hear representatives from the Board, audits and preparers discuss specific issues identified by public sector entities.

- Depending on the significance of a particular item, **Ontario has often played the lead in championing inter-jurisdictional dialogue and joint action plans** to support the quality of PSAB's standard setting process. For example, the OFA has collaborated with other members of the Canadian borrowing community to compile analysis and feedback to PSAB on its Financial Instruments standard. A past DM of Finance (Colin Anderson) Co-Chaired an inter-jurisdictional PSAB/Deputy Minister of Finance Joint Working Group which was formed in 2007 in light of key concerns being raised by governments related to PSAB's direction.

- Most recently, Ontario is **Chairing a Fiscal Expert Panel** which will be meeting later this week to discuss PSAB's current project on its Conceptual Framework in an effort to gather views and valuable input to share with PSAB on this foundational and critically important project. The outcome of the project will influence the direction of future public sector accounting standards.

This list is **not exhaustive**, but I hope that it gives you the sense of the significant time and effort that Ontario invests in supporting the quality of public sector reporting. We are committed to meeting user needs for transparency and accountability in public sector reporting. We will continue to invest the time and effort required to provide valuable input to PSAB's standard setting process.

13. Q: Moody's just released a report noting that Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy. Can you explain how your conservative debt management policies are keeping debt service costs manageable?

A: According to Moody's, "low interest rates will keep interest costs in line with current levels." Moody's also states that "Ontario's strategy of issuing debt across a variety of maturities and markets helps ensure good access to funding and low financing costs. To protect against unfavorable market conditions, Ontario has in recent years increased its liquidity reserves. The province has also extended its weighted average debt maturity to take greater advantage of low interest rates."

This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs.

The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 23 per cent lower, at 9.0 cents of interest costs for every dollar of revenue. ~~Currently, the Province spends 8.5 cents of every revenue dollar on interest, 3.5 cents lower than what was forecast in 2010.~~

This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through the outlook period in 2018–19.

14. Q: Moody's just released a report noting that Ontario's policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices has helped to support the province's Aa2 rating. Can you explain how borrowing for infrastructure helps support the province's credit rating?

A: According to Moody's although Ontario's debt will continue to increase over the medium term as it funds its 10-year infrastructure plan "any negative impact on the province's credit strength will be counterbalanced by rising revenues and a return to budgetary balance."

The government plans to invest more than $137-billion in capital over 10 years, and $160 billion over the 12-year period starting in 2014-15.

Investments in capital, supplement GDP growth and the net debt-to-GDP ratio will come down more quickly than it would without these investments. Once a balanced budget is achieved, the increase in net debt will be limited to difference between the cash investment to build the assets and the amortization, which is a non-cash amount.

WSIB QAs from last year – WSIB to review and advise.

15. Q. The Auditor General has discussed the WSIB in her report for a couple of years, suggesting that the government reconsider the exclusion of the WSIB's financial results from the Province's consolidated financial statements. Her suggestion is based on the risk that the province might have to provide funding to ensure the WSIB remains viable. Why hasn't the government consolidated the WSIB on its books?

A. Under public sector accounting standards the province only consolidates those organizations which are assessed as controlled. Where province has the power to govern the financial and operating policies of an entity with expected benefits of risk or loss, it is consolidated on our books. This is not the case with the WSIB, and furthermore the Province doesn't have any legal liability for the debts of the WSIB.

In fact, the WSIB is really a non-controlled trust in nature, and such trusts are not consolidated on the basis that it would distort the Province's books if the trust's assets, liabilities, revenues and expenses were shown on our books. Since the government does not have any legal responsibility for the unfunded liability, and does not control the entity, we feel that it should remain non-consolidated.

The current exclusion of the entity from our books best serves transparency and accountability. Otherwise, the public and legislature would assume that the WSIB debt is taxpayer debt and that any net operating income/loss of the WSIB would somehow impact the taxpayer.

16. Q: What progress has the WSIB made on its target to be fully funded by 2027?

17. Q: Can you please give us an update on the status of the WSIB review of its long term financial viability?

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From:	Ken Kandeepan
To:	Gadi Mayman
Cc:	Christina Zhang
Subject:	SCOPA Prep meeting today
Date:	Tuesday, October 04, 2016 2:37:30 PM

Hi Gadi

Some decisions made today at the above meeting.

The head of WSIB Tom Teahan will be also part of the group presenting to the SCOPA and will be speaking as well. SO the DM's and you will have to reduce the length of the remarks by a few minutes each.

Corresponds well with the next decision, which for obvious reasons, is to minimize all current references as much as possible and focus the remarks on 2014-15. The strategy appears to be to rely on the Chair of the Committee to rule as out of scope on questions not directly pertaining to the 2014-15 PA and the related Chapter 2 of the AG's Annual report.

Having said that some questions related to the current situation may slip through and there was some but not a conclusive discussion on net debt to GDP. The consensus appeared to be to refer to the 2015-16 number and indicate that out years are difficult to determine given that the pension adjustment will be put to an expert panel.

I will edit your remarks Gadi and try to minimize current references as well and reduce the length and will forward a copy shortly.

Thanks

Ken k

From:	Ken Kandeepan
To:	Anna Strathy
Cc:	John Psinas
Subject:	SCOPA QAs_MOF_20180122 v3 (002).docx
Date:	Friday, February 02, 2018 3:45:52 PM
Attachments:	SCOPA QAs_MOF_20180122 v3 (002).docx

Hi Anna

Sorry forgot about this one, pls see attached, a few minor edits using “Track Changes”.

Thanks

Ken k

QUESTIONS & ANSWERS

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DRAFT

PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

DRAFT

IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

For QAs related to:	See:
IESO Market Accounts	Treasury Board Secretariat Ministry of Energy

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Treasury Board Secretariat Ministry of Energy

AG Audit of 2017 Statements

For QAs related to:	See:
Audit of IESO statements	Treasury Board Secretariat Ministry of Energy

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ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

For QAs related to:	See:
OFHP Overall	Ministry of Energy
OFHP Accounting	Treasury Board Secretariat

AG Recommendation #6: "Legislated Accounting"

For QAs related to:	See:
OFHP Overall	Ministry of Energy
"Legislated Accounting"	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy
Accounting for Trust	Treasury Board Secretariat

Records Disclosure/Process

- Messaging TBC

For QAs related to:	See:
Records Disclosure/Process	Treasury Board Secretariat Ministry of Energy

1. **Has the Ministry of Finance provided all records to the Auditor General of Ontario?**

   In response to a request for information from the Auditor General's office regarding the Ontario Fair Hydro Plan, the Ontario Financing Authority (an agency under the Ministry of Finance) provided 3,252 emails in two batches: 1,190 e-mails on June 23, 2017 and 2,062 on July 18, 2017.

Re-Design of Hydro Bills

For QAs related to:	See:
Re-design of hydro bills	Ministry of Energy

DRAFT

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

- Messaging TBC – TBS

For QAs related to:	See:
Pre-Election Report	Treasury Board Secretariat (Joint lead with Ministry of Finance)

2. Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report.

The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.

DRAFT

PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

- The balanced budgets from 2017–18 onwards will limit the increase in net debt-to- net investments in capital assets. These investments will contribute to the economy growing at a faster rate than net debt, allowing the government to reduce Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent.
- There is a strong demand for Ontario bonds in both the domestic and international markets. Last fiscal year, Ontario was able to borrow $27 billion in long-term debt while our spread — or the margin that we have to pay over the equivalent Government of Canada bond — tightened, indicating an ongoing strong demand for Ontario bonds.
- We expect that the liquidity of Ontario benchmark bonds, and continuing confidence in the value of Ontario debt, will allow us to cost-effectively complete the 2017–18 borrowing program.

3. What is the government doing to manage the province's debt burden?

The very important first step in reducing debt is to balance the budget. We are projecting a balanced budget for 2017-18 and the next two years, which will ensure that the increase in net debt is limited to net investments in capital assets.

As the result of a balanced budget, and Ontario's strong economic growth, the net-debt-to-GDP ratio is declining.

The government has set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24, and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.

4. What is the status of the province's borrowing plan?

Through prudent and cost-effective debt management, we have consistently kept interest on debt costs below budget projections. Interest on debt to revenue is forecast to be 8.2 per cent in 2017-18, 8.3 per cent in 2018-19 and 8.4 per cent in 2019-20.

Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs.

As of ~~November 22, 2017~~January 31, 2018, $~~25~~28.6 billion (or ~~97~~111 per cent) of this year's long-term public borrowing of $25.8 billion has been completed.

Financial Accountability Office (FAO) Reports

- The government remains on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- The Ministry of Finance is committed to a responsible fiscal plan. We build prudence into the economic forecast.
- Since the time of the 2017 Budget, private sector forecasters have revised up their economic growth projections for Ontario over the 2017-20 period, reflecting the strength in the Ontario economy.

5. **What is the government's response to the FAO's fall 2017 report, which states that the government will run a deficit in 2017-18 and the following years?**

   Ontario's deficit for 2016-17 was $991 million — $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget, according to public accounts.

   The Ministry of Finance is projecting a balanced budget.

6. **Why are the FAO's revenue forecasts lower than the government's revenue forecasts?**

   The government is projecting total revenue to grow from $140.7 billion in 2016–17 to $158.2 billion in 2019–20. This represents an average annual growth rate of 4.0 per cent.

   Growth in revenues over the medium term is driven mainly by taxation revenue which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent. The projected taxation revenue growth aligns with growth actually experienced in recent years, and projections for the Ontario economy.

Credit Ratings

- Ontario currently maintains a double-A rating with three of its four credit rating agencies.
- We continue to update the rating agencies on a regular basis on economic and fiscal developments.

7. **What are the credit rating agencies' views on Ontario?**

   Following the release of the 2017 Budget, all four rating agencies — Moody's, DBRS, Fitch, and S&P — confirmed Ontario's long-term credit ratings.

   This reflects rating agencies' confidence in our government's fiscal plan.

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8. How have rating agencies responded to the qualified opinion on the public accounts and the recent report from the Auditor General?

The rating agencies make their own assessment of the Province's finances.

However, there were no credit rating implications either this year or last when the government received a qualified audit opinion on its Public Accounts.

DRAFT

Preparation of Public Accounts

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

1. **Q re: Ministry of Finance use of external advisors**

   Answer….

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat

1. **QAs on finalization of financial statements – tax revenues, etc.**

   Answer…

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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OTHER

- MOE Key Message 1
- MOE Key Message 2
- MOE Key Message 3
- MOE Key Message 4
- MOE Key Message 5

1. **Qs that may come up that are not included in the categories above…**

   Answer…

DRAFT

From:	Christina Zhang
To:	"Ize-Dukuze, Marilyn (MOF)"; Matthew Sylvain (MOF)
Cc:	Ken Kandeepan; Christopher Pearce (MOI)
Subject:	SCOPA-Friendlies
Date:	Tuesday, October 04, 2016 11:28:40 AM
Attachments:	SCOPA 2016 Friendly QAs_Oct 4 2016_11am_OFA edits.docx

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Hi Marilyn,

Please find attached our edits to the Friendly Q&As for SCOPA. Edits are tracked.

Thanks,
Christina

Friendly Questions

1. Q. ~~Our government has a target for reducing the net-debt-to-GDP ratio. Can you tell us more about the target and how our government is doing in terms of reaching that target?~~

A. ~~Net debt, as of March 31, 2016, is forecast to be $296.1 billion, $2.8 billion lower than forecasted in the *2015 Budget*. Net debt was $284.6 billion as of March 31, 2015. The net debt-to-GDP ratio is forecast to peak at 39.6 per cent in 2015–16, remain level in 2016–17, and decline to 38.9 per cent in 2017–18 and 38.5 per cent in 2018–19.~~

~~Ontario conducts a robust and responsible borrowing program that protects the public interest. The government successfully completed its annual borrowing program in 2015-16, borrowing $32.1 billion. Long-term borrowing for 2016–17 is forecast to be $24.4 billion when factoring in $2.0 billion pre-borrowed in 2015–16. This will be the Province's smallest borrowing program since 2007–08.~~

~~As of August 31, 2016, the Province had borrowed $12.5 billion for the fiscal year. Approximately 71per cent of this year's borrowing-to-date has been completed in Canadian dollars. The remainder of the Province's borrowing-to-date has been completed in international currencies primarily through U.S. dollar global bonds, and two small Australian dollar Kangaroo bond issues.~~

~~Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The *2010 Budget* forecast that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 2.7 cents lower, at 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through the outlook period in 2018–19.~~

~~Term extension has allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.~~

~~Going back to the beginning of fiscal 2010-11, Ontario has issued $59.1 billion of bonds longer than 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.6 years as of August 31.~~

2. Q. ~~Noting that a key indicator of the government's ability to carry its debt entails examining the level of debt relative to the size of the economy, can you please explain further what the forecasted net debt-to-GDP ratio is for Ontario?~~

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~~What effect does this have on the government's commitment to balancing the budget by 2017-18?~~

~~A. The Province's net debt-to-GDP ratio is expected to peak in 2015-16 at 39.6 per cent, remain unchanged in 2016-17 and begin to decline in 2017-18.~~

~~The government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level. Net Debt increases primarily for two reasons: to finance deficits and invest in capital assets. In the first few years after the global recession in 2008-09, the increase in net debt was primarily due to the deficit. However, the government is on track to eliminate the deficit and balance the budget by 2017-18. Once a balanced budget is achieved, the increase in net debt will be limited to the net investment in tangible capital assets.~~

3. Q. Why was the deficit lower than projected? Where does the government stand when it comes to reaching a balanced budget?

A. Since the last time the Office of the Auditor General reviewed these statistics in its 2013 Annual Report, the province's net debt-to GDP ratio has improved from 39.1 per cent to 38.~~6~~5 per cent for 2013-14 and remained relatively unchanged for 2014-15 at ~~40~~39.~~1~~4 per cent. This improvement is a direct result of better than forecast deficits. ~~, although the ration for the out years has been impacted, primarily by decreases in the GDP forecast~~.

With regard to debt management, the government's support for and commitment to economic growth will maintain debt at sustainable levels and achieve its target of reducing the net debt-to GDP ratio to the pre-recession level of 27 per cent.

The province has consistently beaten its annual deficit targets over the last five years. ~~, resulting in borrowings and accumulated deficits that are $ 25 billion lower that they would otherwise have been~~. A major contributor toward beating annual deficit targets has been the focus on annual expenditure management limiting the growth in program spending to an average of 1.5 percent from 2010-11 to 2013-14. The government has also addressed Ontario's infrastructure needs through targeted capital investments.

4. Q. Chapter 2 of the Auditor General's 2015 annual report speaks to the increased vulnerability of Ontario with respect to interest rates. She points to the possible rise in rates related to borrowing.

However, I am also aware that the Province has consistently kept interest on debt costs below budget projections.

What steps has the government taken to reduce borrowing and keep interest on debt costs low?

A. Through prudent and cost-effective debt management, the Province has consistently kept interest on debt costs below budget projections. The 2010

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Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents on interest for every revenue dollar received. The current forecast is 2~~3~~7 per cent lower, at ~~9~~8.5~~.0~~ cents of interest costs for every dollar of revenue. This ratio is the ~~lowe~~lowest it has been~~r than it was~~ in ~~the~~ 2~~1~~4~~5~~ fiscal years ~~from 1992~~1 ~~93~~2 ~~to 2005-06~~or since 1990-91, and is forecast to remain low~~er~~ through the period to balance in 2017–18.

Extending the term of the debt that the Province issues has locked in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

Going back to the beginning of fiscal 2010–11, Ontario has issued $59.1 billion of bonds that do not mature for at least 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008-09 to 15.~~6~~3 years as of September 30~~August 31~~.

5. Q. The stranded debt arose under the *Energy Competition Act of 1998*, and its schedule, the *Electricity Act, 1998*. The *Electricity Act, 1998*, also enabled the implementation of the Debt Retirement Charge (DRC) on electricity ratepayers.

Since May 2002, residential and other electricity users have been paying the DRC of 0.7 cents per kilowatt hour (kWh) on their electricity bills. The DRC is paid to the Ontario Electricity Financial Corporation (OEFC) to help service and pay down the stranded debt that arose because of the restructuring of Ontario's electricity sector under the *Energy Competition Act, 1998*.

However, I know that the government eliminated the DRC from residential bills as of January 1, 2016.

This legacy charge from the Harris government was eliminated from residential bills about 2 years earlier than previously estimated – saving the average residential user about $70/year.

Can you please inform the committee of the commitment that the government has to eliminating the debt retirement charge cost for commercial, industrial and all other electricity users by 2018?

A. Thank you for the question.

As part of its commitment to reduce electricity cost pressures, the government has removed the Debt Retirement Charge (DRC) from residential electricity users' bills as of January 1, 2016.

This would save a typical residential user about $70 each year and meant ending the DRC earlier for these users than otherwise provided for in the *Electricity Act,*

1998, as originally enacted. As a further step to mitigate electricity cost pressures for commercial, industrial and all other users, the government introduced legislation, passed on December 10, 2015, the *Budget Measures Act, 2015* to end the DRC on April 1, 2018, nine months earlier than previously estimated.

- A large industrial using 3,000 megawatt-hours (MWh) per month could save $21,000 per month, or about seven per cent off its electricity bills;
- For a large northern industrial in the Northern Industrial Electricity Rate program, this could be more than an eight per cent savings; and
- A small business using 20,000 kilowatt-hours (kWh) per month could save $140 per month, or about four per cent.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users, and helps them more effectively plan their investment decisions.

I would note the following context. The government's electricity sector reforms in the Electricity Restructuring Act, 2004, and others, have put the stranded debt recovery plan back on track. Based on interim numbers in Budget 2016, this is projected to be the twelfth consecutive year that the stranded debt has been reduced, to under $5 billion as at March 31, 2016, from $20.6 billion as at March 31, 2004. This allowed the government to follow through on its commitment to reduce electricity cost pressures.

6. Q. Deputy Minister Orencsak, you mentioned that the C.D. Howe Institute has given positive feedback about the government's reporting practices. Why is that significant?

A. The C.D. Howe document "By the Numbers: The Fiscal Accountability of Canada Senior Governments, 2015" notes that Ontario along with Ottawa have "long stood out for relatively good financial presentations. " When evaluating the reporting practices and fiscal documents across Canada, the document rated Ontario an "A" grade.

The "A" grade was based on presentation criteria, as well as timeliness in their reporting schedule and timeliness of the public accounts audit. Ontario's public accounts and budget exhibited the following positive qualities per the C.D. Howe institute:

1. PSAB-consistent revenue and spending balances in public accounts
2. Revenue and spending figures that match the earliest budget figures in public accounts
3. Prominent comparison of actual results with budget plans
4. Estimates on the same bases as the budget and public accounts
5. The Province provides interim reports toward Budget targets and

6. No major audit reservations in public accounts.

Ontario and several other provinces were praised for having their budgets prepared on the same accounting basis as their end-of-year public accounts. In having budget and public accounts on the same basis, Ontario and the other such provinces have increased transparency and comparability to their citizens.

7. Q. Everyone has been doing more with less, and that includes the government. For example there are 6% fewer full time employees in the civil service now, compared to 2008. What else is the government doing to ensure its bringing costs down? What results have been achieved so far?

A. The Ontario Economic Outlook and Fiscal Review in fall 2014 announced Program Review, Renewal and Transformation (PRRT) as a key element of the government's plan to achieve a balanced budget.

PRRT is a fundamentally new approach to multi-year planning and budgeting, and is designed around four key principles:

- Examining how every government dollar is spent
- Using evidence to inform better choices and improve outcomes
- Looking across government to find the best way to deliver services, and
- Taking a multi-year approach to find opportunities to transform programs and achieve savings.

At the same time, the government is making tough choices to end programs that are not performing, do not link to key priorities or no longer serve a clear public interest.

The 2014 Budget announced that the government was implementing an annual program review savings target, and set the target at $250 million for 2014-15. The target was met through a number of initiatives that achieved the reductions while continuing to support front-line services.

An additional year-end savings target of $1.1 billion built into the plan was also achieved.

The government met its program review savings target through initiatives such as:

- Negotiating lower prices for goods and services
- Finding internal efficiencies in information technology data centre, desktop and service management operations
- Modernizing the delivery of natural resources management programs

- Restraining compensation growth in line with the government's "net zero" policy

- Finding operational and administrative efficiencies across government, including reducing the government's office footprint and prudent management of discretionary costs, such as supplies and travel.

In the 2015 Budget, the government announced a number of opportunities identified through PRRT to improve outcomes while supporting fiscal objectives. They included:

- Changing business tax credits

- Modernizing programs delivered through ServiceOntario

- Reducing the government's office footprint

- Getting better value for money invested in health care programs and services.

8. Q. Why is it important that the government has consistently beaten its deficit reduction targets in terms of the province's finances?

A. The government is dedicated to a fiscally sound approach to managing the Province's finances, which will provide the foundation for the long-term well-being and prosperity of Ontarians.

The government remains on track to eliminate the deficit by 2017-18. By continuing to beat our fiscal targets~~, Ontario's accumulated deficit is $30 billion lower than it otherwise would have been~~.

Through prudent and cost-effective debt management, the Province has also consistently kept interest on debt costs below budget projections.

Term extension has allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt costs.

In addition, we have maintained a rigorous approach to control program spending to reduce Ontario's net debt-to-GDP ratio to its pre-recession level.

Our path to a balanced budget is being achieved through responsible fiscal management, which involves:

- Managing growth in program spending, and
- Maintaining the integrity of Provincial revenues.

Our plan is to first balance the budget while continuing to make strategic investments in capital assets. These infrastructure investments will stimulate economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio.

9. Q. There's been concern about Ontario's net debt-to-GDP being significant; however the government is making large-scale infrastructure investments. How are these investments helping the people of Ontario?

A. The government's position is that the renewal and expansion of public infrastructure supports Ontario's industries, creates jobs and provides long-term benefits and improves the lives of Ontarians.

Large investments have been announced and made for improvements in the province's infrastructure. The province is making public infrastructure investments of more than $137 billion over the next 10 years. This builds on the 2014 Budget commitment to invest in infrastructure – resulting in about $160 billion of investment over 12 years, starting in 2014-15.

The revenues allocated to the Trillium Trust will be used to support building transit, transportation and other priority infrastructure as part of the Moving Ontario Forward plan.

A September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.

Ontario's planned investments in public infrastructure are expected to support over 110,000 jobs per year on average.

Building and revitalizing public infrastructure are essential to strengthening Ontario's economy.

10. Q. Given that compensation accounts for half of government spending, what has the government done to help alleviate the strain on finances as it works toward balancing its budget?

A. The government remains committed to balancing the budget by 2017-18 and managing compensation costs has been a key element of achieving this goal.

The 2016 Budget emphasized that all public-sector partners must continue to work together to control current and future compensation costs.

Since then, collective agreements have been reached in a number of key sectors, including the education sector, Ontario Public Service and provincial energy corporations that are consistent with the government's fiscal plan.

From July 2012to September 2016, the provincial public sector annual wage increases have averaged 0.6%, compared to the municipal sector at 1.7%, the private sector at 1.9% and the federal public sector in Ontario at 1.7%.

The Government has achieved a number of net-zero deals, including:

In August 2014, the Government reached a new net-zero four-year agreement with AMAPCEO, which produced savings of approximately $45 million. The agreement included zero across-the-board increases in the first two years and modest increases in the third and fourth years that were offset by savings elsewhere in the collective agreement.

On Oct. 30, 2015, the Government ratified a new net-zero three-year agreement with the Unified Bargaining Unit in OPSEU.

The Unified agreement includes no wage increases in 2015 and 2016. In 2016 there will be a modest 1.4 per cent one-time lump sum payment that does not form part of employees' base salaries, and in 2017 there is a 1.4 per cent pay increase.

The agreement is consistent with the fiscal plan. The lump-sum payment in 2016 and pay increase in 2017 are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017 and capping of termination payments.

In May of 2016, the government was able to achieve a net-zero negotiations and arbitration settlement outcome with OPSEU Corrections.

The government has a reached a tentative agreement with the Provincial Engineers Government of Ontario (PEGO) that still needs ratification by members. As such we cannot comment on the details of this deal.

11. Q. There are changes ahead for retiree benefits, how will they help the government's bottom line and how do they compare with what is happening in the private sector? How important are these kinds of changes to our plan to balance the budget?

A. Currently, persons in receipt of a pension from the Public Service Pension Plan (PSPP) or OPSEU Pension plan who have a minimum 10 years of pension credit are entitled to post-retirement group health, dental and life insurance coverage. The Ontario government pays 100% of monthly premium costs.

On Feb. 18, 2014, the government announced that the post-retirement benefits eligibility criteria and cost-sharing terms would be changing in 2017.

PSPP and OPSEU Pension Plan member employees who do not have 10 years of pension credit as of Jan. 1, 2017 would be required to have at least 20 years of pension credit to retire to an immediate unreduced pension in order to be eligible for post-retirement benefits.

Also, eligible persons who have not commenced receiving a pension before Jan. 1, 2017, would be required to pay 50% of the life, health, dental and vision and hearing aid premiums.

Employees who commenced receiving a pension before Jan. 1, 2017 will not be affected by these changes.

Announcement of the changes led to a reduction of the retiree benefit program liability by over $1 billion and brings Ontario Public Service retiree benefits more in line with other public sector organizations.

Some other public sector workers pay 100% of their benefits premiums.

Eligible retirees include former employees of the OPS, as well as former employees of other employers which participate in the OPS pension plans.

Retired judges, justices of the peace and Ontario Provincial Police Association (OPPA) members have independent retiree benefit terms.

By transitioning to a new cost-sharing model for retiree benefits, the government is moving in line with the private sector and other public sector organizations.

12. Q. The Auditor General identifies significant accounting issues related to her audit of the Province's consolidated financial statements. Some of the issues are related to accounting standard changes. Since both Ontario's budget and actual results are based on PSAB accounting standards, such changes could impact the transparency and accountability of the government's financial reports as well as fiscal policy decisions. Can you please describe if these issues are ongoing and what has been done to rectify them?

How long will it be before this is resolved?

A. As your question points out, in addition to adopting PSAB as the basis to present its actual results, Ontario has also made a **policy decision** to adopt PSAB as the basis for the government's fiscal planning process which means that changes in PSAB's accounting standards can implicitly impact fiscal policy decisions.

As has been mentioned already, the **CD Howe Institute** has given Ontario an "A" grade for the quality of our financial reporting, based on a number of factors

including the fact that we present PSAB-consistent revenue and spending balances in public accounts, and the timeliness of our reporting schedule. The fact that the actual results have been independently audited by the AG and that we have received unqualified audit opinions over the past 22 years now, means that the public and legislature can rely upon the results reported by the government.

There is tremendous value in **independently established accounting standards**, and especially for standards which are prepared taking the unique accountability and transparency needs of the public sector in mind. In this regard, Ontario has continued to support the public sector accounting standard setting process. Input to the process by stakeholders is critical to ensure high-quality standards which meet user needs and which serve **the public interest.** And we take this responsibility very seriously.

Ways that we support the standard setting process include:

- **Monitor communications** from the Public Sector Accounting Standards Board related to upcoming projects to identify potential areas of interest/concern
  Similarly, we also monitor accounting standard developments which may impact our **GBEs** (for example, potential changes in standards impacting OLG, LCBO, H1 or OPG).

- Attend as **observers meetings of the Accounting Standards Oversight Council** to hear presentations by the Chair of the Public Sector Accounting Board and the Accounting Standards Board related to current projects and issues that they are dealing with. In the past we have had Deputy Minister representation on the Oversight Council with specific background in fiscal policy (Phil Howell). Such participation helped to ensure a more robust discussion of potential standard changes on governments.

- Participation by past **Provincial Controllers** as members of the Public Sector Accounting Standards Board. For example, our recently retired ADM and Provincial Controller, Murray Lindo, still sits on PSAB, although his 3 year term will be coming to an end next March. Although this position requires that the individual represent himself and his own views (and not represent the views of the government), it is nonetheless valuable to have a voice at the table to ensure that the real impacts of any potential changes on the quality of financial information are identified and discussed. It has been valuable for example to know that the continuing debate about Financial Instruments and Government Transfers is informed by both the accounting and fiscal perspective that Ontario's Provincial Controller would bring to the table.

- Ontario provides **input to PSAB's strategic plan** to help inform decisions on key areas that PSAB should focus.

- We also provide **input on an individual project by project** basis for each standard change that PSAB issues for comment. Occasionally, such projects could require several responses over the course of the project. For example, the PSAB standard on government transfers took 9 years to develop and input continues to date as part of PSAB's on-going review of issues related to the consistency of application related to the standard.

- Occasionally, we **stakeholder with PSAB staff** on specific matters like concerns related to the Financial Instruments standard. In this case staff from both OPCD and the OFA participated in discussions with PSAB.

- We **observe PSAB Accounting Discussion Group** meetings to hear representatives from the Board, audits and preparers discuss specific issues identified by public sector entities.

- Depending on the significance of a particular item, **Ontario has often played the lead in championing inter-jurisdictional dialogue and joint action plans** to support the quality of PSAB's standard setting process. For example, the OFA has collaborated with other members of the Canadian borrowing community to compile analysis and feedback to PSAB on its Financial Instruments standard. A past DM of Finance (Colin Anderson) Co-Chaired an inter-jurisdictional PSAB/Deputy Minister of Finance Joint Working Group which was formed in 2007 in light of key concerns being raised by governments related to PSAB's direction.

- Most recently, Ontario is **Chairing a Fiscal Expert Panel** which will be meeting later this week to discuss PSAB's current project on its Conceptual Framework in an effort to gather views and valuable input to share with PSAB on this foundational and critically important project. The outcome of the project will influence the direction of future public sector accounting standards.

This list is **not exhaustive**, but I hope that it gives you the sense of the significant time and effort that Ontario invests in supporting the quality of public sector reporting. We are committed to meeting user needs for transparency and accountability in public sector reporting. We will continue to invest the time and effort required to provide valuable input to PSAB's standard setting process.

13. Q: Moody's just released a report noting that Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy. Can you explain how your conservative debt management policies are keeping debt service costs manageable?

A: According to Moody's, "low interest rates will keep interest costs in line with current levels." Moody's also states that "Ontario's strategy of issuing debt across a variety of maturities and markets helps ensure good access to funding and low financing costs. To protect against unfavorable market conditions, Ontario has in recent years increased its liquidity reserves. The province has also extended its weighted average debt maturity to take greater advantage of low interest rates."

This term extension reduces the Province's refinancing risks and helps offset the impact of expected higher interest rates on its IOD costs.

The 2010 Budget forecasted that, by 2016-17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. Currently, the Province spends 8.5 cents of every revenue dollar on interest, 3.2~~5~~ cents lower than what was forecast in 2010.

This ratio is ~~lower than it was in the 1990s and 2000s~~the lowest it has been since 1990-91, and is forecast to remain low~~er~~ through the outlook period in 2018–19.

14. Q: Moody's just released a report noting that Ontario's policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices has helped to support the province's Aa2 rating. Can you explain how borrowing for infrastructure helps support the province's credit rating?

A: According to Moody's although Ontario's debt will continue to increase over the medium term as it funds its 10-year infrastructure plan "any negative impact on the province's credit strength will be counterbalanced by rising revenues and a return to budgetary balance."

The government plans to invest more than $137-billion in capital over 10 years, and $160 billion over the 12-year period starting in 2014-15.

Investments in capital, supplement GDP growth and the net debt-to-GDP ratio will come down more quickly than it would without these investments. Once a balanced budget is achieved, the increase in net debt will be limited to difference between the cash investment to build the assets and the amortization, which is a non-cash amount.

WSIB QAs from last year – WSIB to review and advise.

15. Q. The Auditor General has discussed the WSIB in her report for a couple of years, suggesting that the government reconsider the exclusion of the WSIB's financial results from the Province's consolidated financial statements. Her suggestion is based on the risk that the province might have to provide funding to ensure the WSIB remains viable. Why hasn't the government consolidated the WSIB on its books?

A. Under public sector accounting standards the province only consolidates those organizations which are assessed as controlled. Where province has the power to govern the financial and operating policies of an entity with expected benefits of risk or loss, it is consolidated on our books. This is not the case with the WSIB, and furthermore the Province doesn't have any legal liability for the debts of the WSIB.

In fact, the WSIB is really a non-controlled trust in nature, and such trusts are not consolidated on the basis that it would distort the Province's books if the trust's assets, liabilities, revenues and expenses were shown on our books. Since the government does not have any legal responsibility for the unfunded liability, and does not control the entity, we feel that it should remain non-consolidated.

The current exclusion of the entity from our books best serves transparency and accountability. Otherwise, the public and legislature would assume that the WSIB debt is taxpayer debt and that any net operating income/loss of the WSIB would somehow impact the taxpayer.

16. Q: What progress has the WSIB made on its target to be fully funded by 2027?

17. Q: Can you please give us an update on the status of the WSIB review of its long term financial viability?

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From: Ken Kandeepan
To: John Psinas
Subject: See attached
Date: Monday, January 23, 2017 1:08:14 PM
Attachments: FW Q3 update.msg
RE Q3 update.msg

I sent the original emails to your OPCD address. Sorry

Ken k

From: Ken Kandeepan []
To: Alexander Kraas [Alexander.Kraas@ofina.on.ca]; John Psinas (FIN) (John.Psinas@ontario.ca) [John.Psinas@ontario.ca]; George Sakura [George.Sakura@ofina.on.ca]
Subject: FW: Q3 update
Date: Monday, January 23, 2017 14:03:16
Attachment 1: June MMP Contingency Fund Outlook and Expense Risks.pptx
Attachment 2: Third Quarter Finances_v1a_0127.docx

FYI.

Thanks

Ken K

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Monday, January 23, 2017 12:43 PM
To: Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Tim Cook (MOF) <Tim.Cook@ontario.ca>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca>; Sharon Stuckless (TCU) <Sharon.Stuckless@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca>; Raj Sharda (MOHLTC) <Raj.Sharda@ontario.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
Subject: RE: Q3 update
Importance: High

Hi All,

Following up on my email from last week, we received relatively recent direction regarding the release of Ontario's Third Quarter Finances – the tentative plan is to publish Q3 finances ahead of the February 15 deadline. We are tentatively tracking a release date of Monday February 13.

As you can imagine, timelines are very compressed, and includes a possible trip to FPC this week. In order to meet this week's deadlines, while also preparing for the release of the actual publication, we're asking for input from you in stages:

EOD Today:

We have prepared the draft of a deck, which we are working towards tabling at this Wednesday's FPC (TBC). The deck lays out the key 2016-17 building blocks that could be updated as part of the Q3 publication. It would help if we could get the following from you folks by the end of today:

16-17 post-FES expense update: We have included placeholder for an expense slide. The intention is for the slide to provide an updated list of initiatives that were not included in the FES expense outlook.

Recommended expense update/signature initiatives: We may build in options for what the outlook could look like – it would help if you could provide a recommendation for the expense changes that should be taken on/profiled.

16-17 c-fund update: We have included a c-fund slide that was used in the Q1 finances briefing materials (current PW). We would like to include an updated version of this slide in the FPC deck (appendix). It would help to have this out to 19-20.

Pension Narrative: Nadine – I'll connect on the pension adjustment and some high level bullets that we could use.

Noon Friday January 27:

Template: I've attached a draft of 3q finances that is based heavily off of the 2016 First Quarter Finances. We've highlighted in green the sections that we would like you to update. While I'm not 100% certain this structure will be exactly what the Q3 document will look like, I think it's safe to say that the substantive content we'll have to cover is captured here. There will be some highlighted content that is *not possible* to update for Friday, however there will be a formal distribution process where additional information can be incorporated.

Thanks everyone, and please feel free to send your input directly to Liane and Emma. Im hoping to be able to share a draft deck with you late this evening.

From: Esmail, Selena (MOF)
Sent: January-19-17 2:57 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: Q3 heads up

Hi Everyone – Wanted to send a quick message that we are hearing there is a desire to proceed with the release of a Q3 update around the time we are expecting the Pension Panel panel to release their report. We are going to assume mid feb prior to the house coming back for our planning purposes.

My team is going to work together to put together a list of things we need to start working on/think about along with a calendar to determine and get direction on an approach to coincide with this timeframe.

More details to follow tomorrow.

Thanks.

Contingency Fund Outlook and Expense Risks

Contingency Fund Outlook

$ Billions	2014-15	2015-16	2016-17	2017-18	2018-19
Opening contingency fund balance	**0.5**	**0.7**	**1.2**	**1.7**	**3.5**
Less: Approvals to date[1]	0.0	0.0	0.3	0.5	0.6
Current contingency fund balance	**0.5**	**0.6**	**0.9**	**1.2**	**2.9**
Less: Compensation Risks set-aside	-	-	0.4	0.9	1.6
Less: Moving Ontario Forward set-aside	-	-	-	0.0	0.4
Contingency fund balance incl. set-asides			**0.5**	**0.3**	**0.9**

Includes Drug Program changes, Child Welfare, Northern Health Action Plan, Action Plan for Reconciliation, School Renewal Funding

Accommodates approximately 1.4% increases in next round of bargaining

[1] For 2014-15 and 2015-16, approvals through Q3 are shown.

- Of the remaining 2016-17 contingency fund, $0.6 billion is encumbered for education capital appropriation, leaving $0.3 billion to cover any contingencies.
- The 2016 Budget included a larger contingency fund, primarily due to funds set aside for future compensation increases and outside the GTHA Moving Ontario Forward projects.
- There have been more draws from the contingency fund in the current fiscal cycle, compared to recent years.
- The remaining contingency fund balance would be used to offset risks.

Expense Risks: Items to be managed

$ Billions	2016-17	2017-18	2018-19
Identified high-likelihood risks	0.4	0.7	1.0
PRRT boulder risks	0.1	0.3	0.3
Cap and trade not applied against in-plan items as assumed	-	0.0	0.6
Other likely funding requests	0.6	0.7	0.7
Total items to be managed*	**1.0**	**1.7**	**2.6**

Pressures such as: Health, Social Assistance caseloads, emergencies, Complex Special needs

Risks include: Business Supports, Benefits Transformation and NTR/full cost recovery

Health, MTO (including UP Express), Business Growth Initiative request, Drive Clean.

* Does not include a remedy for the Bill 115 court decision

$ Billions	2014-15	2015-16	2016-17	2017-18	2018-19
Year-end Savings Target	**1.1**	**1.0**	**0.8**	**1.0**	**1.0**
Total Risks to be managed			**1.8**	**2.7**	**3.6**

- In past years, unspent contingency funds have been used to meet the year-end savings target.
- An initiatives envelope for the 2017 or 2018 Budgets has not yet been incorporated into the fiscal plan.

Note: Numbers may not add due to rounding

MINISTRY OF FINANCE

2016–17 Third Quarter Finances
[Draft – January 23, 11:00 am]

[February 2017]

Contents

A. 2016–17 Fiscal Outlook X

B. Details of In-Year Changes X

C. Ontario's Economic Outlook X

D. Economic Performance X

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F. Ontario's 2016–17 Financing Program X

Introduction

The Ontario Quarterly Finances contains updated information about Ontario's 2016–17 fiscal outlook, including updated information about the major components of revenue and expense as set out in the *2016 Budget*.

Section A: 2016–17 Fiscal Outlook (OEP, TBS, OFA, Framework)

The government is projecting a deficit of $[X.X] billion in 2016–17, [an improvement of $X.X billion] compared to the 2016 Budget.

As outlined in the *2016 Budget,* the government is [on track to balance the budget by 2017–18 and is projecting to remain balanced in 2018–19. The government's path to a balanced budget is being achieved through responsible fiscal management, which involves managing growth in program spending and maintaining the integrity of Provincial revenues. The strengthening of the Ontario economy, together with the government's approach to fiscal management, is supporting strategic investments in new child care spaces, hospitals and electricity cost relief for consumers.]

[Placholder for Pension Narrative (OPCD)]

[Placholder for Economic Update (OEP)]

2016–17 In-Year Fiscal Performance

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Revenue	**130,589**	**[X.X]**	**–**
Expense			
Programs	122,139	[X.X]	–
Interest on Debt	11,756	[X.X]	–
Total Expense	**133,895**	**[X.X]**	**–**
Surplus/(Deficit) Before Reserve	**(3,306)**	**[X.X]**	**–**
Reserve	1,000	[X.X]	–
Surplus/(Deficit)	**(4,306)**	**[X.X]**	**–**

Note: Numbers may not add due to rounding.

Total revenue is projected to be $[X.X] billion, [an improvement/deterioration of $X.X billion compared to the 2016 Budget.] — [placeholder for high-level revenue change explanation]

The outlook for Provincial program expense, at $[X.X] billion, is [an improvement/deterioration of $X.X billion compared to the 2016 Budget.] — reflecting [placeholder for high-level program expense change explanation]

The Province's interest on debt expense forecast, at $X.X billion, is [an improvement/deterioration of $X.X billion compared to the 2016 Budget forecast.]

The 2016–17 outlook also maintains a $[X.X] billion reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance or the impact of natural disasters.

Further details on the Province's fiscal plan, will be provided in the upcoming 2017 Budget.

Section B: Details of In-Year Changes (OEP, PEMD, OFA, Framework)

Revenue (OEP)

The 2016–17 revenue outlook, at $[X.X] billion, is [an improvement/deterioration of $X.X billion compared to the 2016 Budget]. Since the *2016 Budget,* the following changes have been made to the revenue outlook for 2016–17:

- [Placholder for revenue changes]

[Placeholder for language on risks to the revenue/economic outlook]

Expense (PEMD, OFA)

The 2016–17 total expense outlook, at $[X.X] billion, is [placholder for expense language]

Key changes to expense projections with offsets from the contingency funds include:

- [Placeholder]

Other key changes to expense projections include:

- [Placeholder]

[Placholder for language on interest on debt changes]

Asset Optimization (OFA)

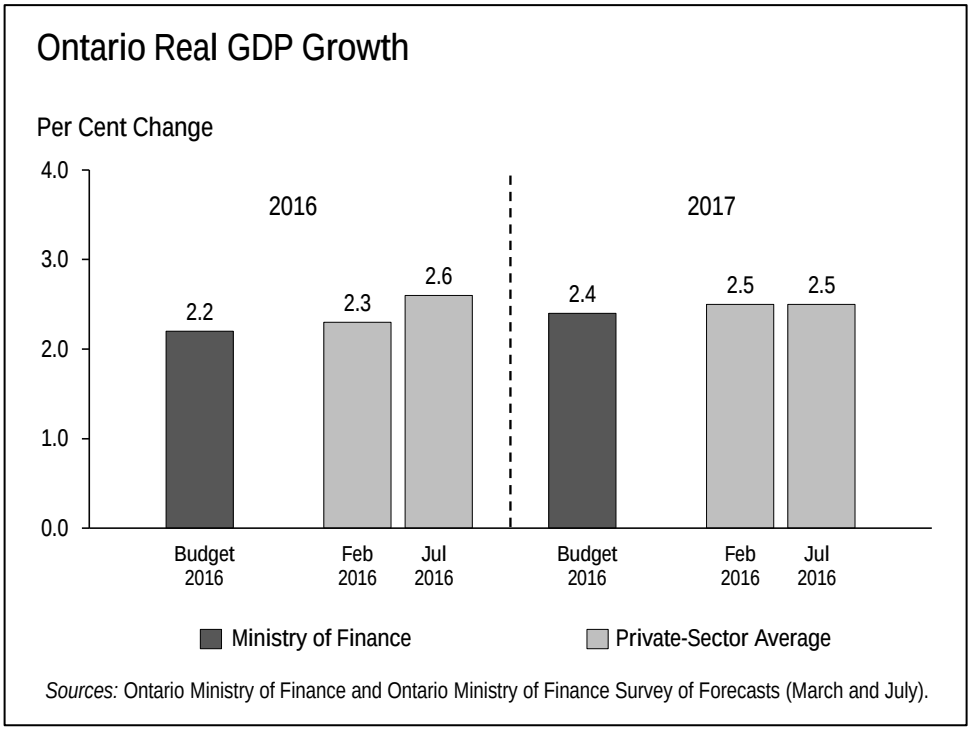
[Placeholder for language on Asset Optimization]

Fiscal Prudence

[Placeholder for language on prudence]

Section C: Ontario's Economic Outlook (OEP)

[Placeholder for language on the economic outlook]



Section D: Economic Performance (OEP)

[Placeholder for language on economic performance]

(Seasonally adjusted per cent change from previous period, unless indicated otherwise)

	Monthly 2016			Quarterly			Annual
	Oct	Nov	Dec	2016Q1	2016Q2	2016Q3	2015
Gross Domestic Product							
Real GDP	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Nominal GDP	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Labour Market							
Labour Force (Change in 000s)	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Employment (Change in 000s)	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Unemployment Rate (%)	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Household Sector							
Retail Sales	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Housing Starts	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
MLS Home Resales	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Manufacturing Sales							
Transportation Equipment	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]
Consumer Price Index[1]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]	[X.X]

[1] Per cent change from a year earlier, data not seasonally adjusted.

N/A = Data not available.

Sources: Statistics Canada, Ontario Ministry of Finance, Canada Mortgage and Housing Corporation, and Canadian Real Estate Association.

Section E: Details of Ontario's Finances (OEP, TBS, OFA)

Revenue

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Taxation Revenue			
Personal Income Tax	32,167	[X.X]	
Sales Tax[1]	23,976	[X.X]	
Corporations Tax	12,050	[X.X]	
Education Property Tax[2]	5,834	[X.X]	
Employer Health Tax	6,007	[X.X]	
Ontario Health Premium	3,604	[X.X]	
Gasoline Tax	2,522	[X.X]	
Land Transfer Tax	2,051	[X.X]	
Tobacco Tax	1,221	[X.X]	
Fuel Tax	790	[X.X]	
Beer and Wine Tax	611	[X.X]	
Electricity Payments-In-Lieu of Taxes	515	[X.X]	
Other Taxes	471	[X.X]	
	91,819	**[X.X]**	
Government of Canada			
Canada Health Transfer	13,858	[X.X]	
Canada Social Transfer	5,128	[X.X]	
Equalization	2,304	[X.X]	
Infrastructure Programs	1,017	[X.X]	
Labour Market Programs	989	[X.X]	
Social Housing	434	[X.X]	
Other Federal Payments	914	[X.X]	
	24,644	**[X.X]**	
Government Business Enterprises			
Ontario Lottery and Gaming Corporation	1,953	[X.X]	
Liquor Control Board of Ontario	2,025	[X.X]	
Ontario Power Generation Inc./Hydro One Ltd./ Brampton Distribution Holdco Inc.	1,049	[X.X]	
	5,027	**[X.X]**	
Other Non-Tax Revenue			
Reimbursements	983	[X.X]	
Vehicle and Driver Registration Fees	1,751	[X.X]	
Electricity Debt Retirement Charge	625	[X.X]	
Power Supply Contract Recoveries	643	[X.X]	
Sales and Rentals	2,421	[X.X]	
Cap-and-Trade Proceeds	478	[X.X]	
Other Fees and Licences	987	[X.X]	
Net Reduction of Power Purchase Contract Liability	129	[X.X]	
Royalties	287	[X.X]	
Miscellaneous Other Non-Tax Revenue	795	[X.X]	
	9,099	**[X.X]**	
Total Revenue	**130,589**	**[X.X]**	

1 Sales Tax revenue is net of the Ontario Sales Tax Credit and the energy component of the Ontario Energy and Property Tax Credit.

2 Education Property Tax revenue is net of the property tax credit component of the Ontario Energy and Property Tax Credit and the Ontario Senior Homeowners' Property Tax Grant.

Note: Numbers may not add due to rounding.

Total Expense

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Ministry Expense			
Aboriginal Affairs[1]	77.0	[X.X]	
Agriculture, Food and Rural Affairs[1]	915.9	[X.X]	
Attorney General	1,867.8	[X.X]	
Board of Internal Economy	219.9	[X.X]	
Children and Youth Services	4,346.1	[X.X]	
Citizenship, Immigration and International Trade	220.8	[X.X]	
Community and Social Services	11,467.5	[X.X]	
Community Safety and Correctional Services	2,649.5	[X.X]	
Economic Development, Employment and Infrastructure / Research and Innovation[1]	1,177.0	[X.X]	
Education[1]	25,635.8	[X.X]	
Energy[1]	322.1	[X.X]	
Environment and Climate Change	531.4	[X.X]	
Executive Offices	44.0	[X.X]	
Finance[1]	963.1	[X.X]	
Francophone Affairs, Office of	5.7	[X.X]	
Government and Consumer Services	607.6	[X.X]	
Health and Long-Term Care	51,785.2	[X.X]	
Labour	309.5	[X.X]	
Municipal Affairs and Housing[1]	900.0	[X.X]	
Natural Resources and Forestry[1]	750.6	[X.X]	
Northern Development and Mines	790.7	[X.X]	
Tourism, Culture and Sport[1]	1,250.8	[X.X]	
Training, Colleges and Universities	7,876.8	[X.X]	
Transportation	3,850.9	[X.X]	
Treasury Board Secretariat[1]	316.9	[X.X]	
Interest on Debt[2]	11,756.0	[X.X]	
Other Expense[1]	4,056.8	[X.X]	
Year-End Savings[3]	(800.0)	[X.X]	
Total Expense	**133,895.4**	**[X.X]**	

1 Details on other ministry expense can be found in the Details of Other Expense table.

2 Interest on debt is net of interest capitalized during construction of tangible capital assets of $X.X million in 2016–17.

3 As in past years, the Year-End Savings provision reflects efficiencies through in-year expenditure management and underspending due to factors such as program management, and changes in project startups and implementation plans.

Notes: Numbers may not add due to rounding.

The impact of recently announced ministry restructuring will be reflected in future updates.

Details of Other Expense

($ Millions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Ministry Expense			
Aboriginal Affairs			
One-Time Investments including Settlements	–	[X.X]	
Agriculture, Food and Rural Affairs			
Time-Limited Investments in Infrastructure	–	[X.X]	
Economic Development, Employment and Infrastructure / Research and Innovation			
Federal-Provincial Infrastructure Programs	618.7	[X.X]	
Education			
Teachers' Pension Plan[1]	(452.0)	[X.X]	
Energy			
Strategic Asset Management and Transformation Related to Hydro One	70.9	[X.X]	
Finance			
Ontario Municipal Partnership Fund	505.0	[X.X]	
Power Supply Contract Costs	643.1	[X.X]	
Municipal Affairs and Housing			
Time-Limited Investments in Municipal, Social and Affordable Housing	160.3	[X.X]	
Other Time-Limited Investments	–	[X.X]	
Natural Resources and Forestry			
Emergency Forest Firefighting	69.8	[X.X]	
Tourism, Culture and Sport			
Time-Limited Investments to Support 2015 Pan/Parapan American Games	88.6	[X.X]	
Treasury Board Secretariat			
Capital Contingency Fund	100.0	[X.X]	
Operating Contingency Fund	1,100.0	[X.X]	
Employee and Pensioner Benefits	1,152.5	[X.X]	
Total Other Expense	**4,056.8**	**[X.X]**	

[1] Numbers reflect Public Sector Accounting Board pension expense. Ontario's matching contributions to the plan is $X.X million in 2016–17.

Notes: Numbers may not add due to rounding.

The impact of recently announced ministry restructuring will be reflected in future updates.

2016–17 Infrastructure Expenditures

($ Millions)	2016–17 Current Outlook		
Sector	**Investment in Capital Assets[1]**	**Transfers and Other Infrastructure Expenditures[2]**	**Total Infrastructure Expenditures[3]**
Transportation			
Transit	[X.X]	[X.X]	[X.X]
Provincial Highways	[X.X]	[X.X]	[X.X]
Other Transportation, Property and Planning	[X.X]	[X.X]	[X.X]
Health			
Hospitals	[X.X]	[X.X]	[X.X]
Other Health	[X.X]	[X.X]	[X.X]
Education	[X.X]	[X.X]	[X.X]
Postsecondary			
Colleges and Other	[X.X]	[X.X]	[X.X]
Universities	[X.X]	[X.X]	[X.X]
Social	[X.X]	[X.X]	[X.X]
Justice	[X.X]	[X.X]	[X.X]
Other Sectors[4]	[X.X]	[X.X]	[X.X]
Total	**[X.X]**	**[X.X]**	**[X.X]**

1 Includes $X.X million in interest capitalized during construction.

2 Includes transfers to municipalities, universities and non-consolidated agencies.

3 Includes third party investments in hospitals, colleges and schools; and provisional federal contributions to provincial infrastructure investments.

4 Includes government administration, natural resources, culture and tourism sectors.

Note: Numbers may not add due to rounding.

Review of Selected Financial and Economic Statistics

($ Millions)	2012–13	2013–14	2014–15	Actual 2015–16	Current Outlook 2016–17
Revenue	**113,369**	**115,911**	**118,546**	**128,377**	**[X.X]**
Expense					
Programs	112,248	115,792	118,225	122,439	[X.X]
Interest on Debt[1]	10,341	10,572	10,635	10,967	[X.X]
Total Expense	**122,589**	**126,364**	**128,860**	**133,406**	**[X.X]**
Surplus/(Deficit) Before Reserve	**(9,220)**	**(10,453)**	**(10,314)**	**(5,029)**	**[X.X]**
Reserve	–	–	–	–	[X.X]
Surplus/(Deficit)	**(9,220)**	**(10,453)**	**(10,314)**	**(5,029)**	**[X.X]**
Net Debt	252,088	267,190	284,576	305,233	[X.X]
Accumulated Deficit	167,132	176,634	187,511	202,697	[X.X]
Gross Domestic Product (GDP) at Market Prices	680,084	693,210	721,970	763,276	[X.X]
Primary Household Income	459,111	473,905	490,412	511,781	[X.X]
Population – July (000s)	13,410	13,551	13,678	13,797	[X.X]
Net Debt per Capita (dollars)	18,798	19,717	20,806	22,123	[X.X]
Household Income per Capita (dollars)	34,236	34,972	35,855	37,094	[X.X]
Interest on Debt as a Per Cent of Revenue	9.1	9.1	9.0	8.5	[X.X]
Net Debt as a Per Cent of GDP	37.1	38.5	39.4	40.0	[X.X]
Accumulated Deficit as a Per Cent of GDP	24.6	25.5	26.0	26.6	[X.X]

[1] Interest on debt is net of interest capitalized during construction of tangible capital assets of $134 million in 2013–14, $202 million in 2014–15, $X.X million in 2015–16, and $X.X million in 2016–17.

Sources: Ontario Ministry of Finance and Statistics Canada.

Section F: Ontario's 2016–17 Financing Program (OFA)

Province and Ontario Electricity Financial Corporation

($ Billions)	2016–17		
	Budget Plan	Current Outlook	In-Year Change
Deficit/(Surplus)	4.3	[X.X]	
Investment in Capital Assets	11.2	[X.X]	
Non-Cash Adjustments	(5.8)	[X.X]	
Other Net Loans/Investments	(0.9)	[X.X]	
Debt Maturities	21.5	[X.X]	
Debt Redemptions	0.1	[X.X]	
Total Funding Requirement	**30.3**	**[X.X]**	
Canada Pension Plan Borrowing	(0.1)	[X.X]	
Decrease/(Increase) in Short-Term Borrowing	(1.0)	[X.X]	
Increase/(Decrease) in Cash and Cash Equivalents	(2.7)	[X.X]	
Preborrowing from 2015–16	–	[X.X]	
Total Long-Term Public Borrowing Requirement	**26.4**	**[X.X]**	

Note: Numbers may not add due to rounding.

Borrowing Program Status (as at [DATE], 2016)

($ Billions)	Completed	Remaining	Total
Province	[X.X]	[X.X]	[X.X]
Ontario Electricity Financial Corporation	[X.X]	[X.X]	[X.X]
Total	**[X.X]**	**[X.X]**	**[X.X]**

Note: Numbers may not add due to rounding.

Long-Term Public Borrowing completed as at [DATE], 2016 totalled $X.X billion, as follows:

	($ Billions)
Domestic Issues	[X.X]
Global/US Dollar/Other Issues	[X.X]
	[X.X]

[As of [DATE], 2016, approximately X.X per cent of this year's borrowing was completed in Canadian dollars. The Province may revise its Canadian dollar borrowing target of 75 per cent published in the *2016 Budget* if international demand for Ontario bonds outpaces domestic demand.]

Ministry of Finance www.fin.gov.on.ca

For general inquiries regarding the 2016–17 First Quarter Finances, please call:

Toll-free English & French inquiries: 1-800-337-7222
Teletypewriter (TTY): 1-800-263-7776

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Chart Descriptions: Alternative Text for Web Accessibility

Chart: Ontario Real GDP Growth (OEP)

[Placeholder for Alt text on the Ontario Real GDP Growth chart]

From: Ken Kandeepan []
To: Selena Esmail (MOF) [Selena.Esmail@ontario.ca]
CC: Alexander Kraas [Alexander.Kraas@ofina.on.ca]; John Psinas (FIN) (John.Psinas@ontario.ca) [John.Psinas@ontario.ca]; George Sakura [George.Sakura@ofina.on.ca]
Subject: RE: Q3 update
Date: Monday, January 23, 2017 14:06:16

Hi Selena

Couple of quick question, the 16-17 IOD forecast was revised downwards from the FES number and provided to Tim. Do you want us to use this revised version or stick with the FES forecast with the revision being presented in the Interim section of the 2017 Budget.

Let me know, and in order to complete the Financing Table we need to know the 16-17 deficit that you will be projecting in the Q3, will be the same as the FES?

Thanks

Ken k

From: Esmail, Selena (MOF) [mailto:Selena.Esmail@ontario.ca]
Sent: Monday, January 23, 2017 12:43 PM
To: Paul Lewis (MOF) <Paul.D.Lewis@ontario.ca>; Tim Cook (MOF) <Tim.Cook@ontario.ca>; Teuta Dodbiba (MOF) <Teuta.Dodbiba@ontario.ca>; Sharon Stuckless (TCU) <Sharon.Stuckless@ontario.ca>; Andrea Dutton (MOF) <Andrea.Dutton@ontario.ca>; Gladys Miu (MOI) <Gladys.Miu@ontario.ca>; Dorothy Cheung (MCYS) <Dorothy.Cheung@ontario.ca>; Raj Sharda (MOHLTC) <Raj.Sharda@ontario.ca>; Francisco Chinchon <Francisco.Chinchon@ofina.on.ca>; Nadine Petsche (MOF) <Nadine.Petsche@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Cc: Emma Lindquist (MOF) <Emma.Lindquist@ontario.ca>; Inglis, Liane (MOF) <Liane.Inglis@ontario.ca>
Subject: RE: Q3 update
Importance: High

Hi All,

Following up on my email from last week, we received relatively recent direction regarding the release of Ontario's Third Quarter Finances – the tentative plan is to publish Q3 finances ahead of the February 15 deadline. We are tentatively tracking a release date of Monday February 13.

As you can imagine, timelines are very compressed, and includes a possible trip to FPC this week. In order to meet this week's deadlines, while also preparing for the release of the actual publication, we're asking for input from you in stages:

EOD Today:

We have prepared the draft of a deck, which we are working towards tabling at this Wednesday's FPC (TBC). The deck lays out the key 2016-17 building blocks that could be updated as part of the Q3 publication. It would help if we could get the following from you folks by the end of today:

16-17 post-FES expense update: We have included placeholder for an expense slide. The intention is for the slide to provide an updated list of initiatives that were not included in the FES expense outlook.

Recommended expense update/signature initiatives: We may build in options for what the outlook could look like – it would help if you could provide a recommendation for the expense changes that should be taken on/profiled.

16-17 c-fund update: We have included a c-fund slide that was used in the Q1 finances briefing materials (current PW). We would like to include an updated version of this slide in the FPC deck (appendix). It would help to have this out to 19-20.

Pension Narrative: Nadine – I'll connect on the pension adjustment and some high level bullets that we could use.

Noon Friday January 27:

Template: I've attached a draft of 3q finances that is based heavily off of the 2016 First Quarter Finances. We've highlighted in green the sections that we would like you to

update. While I'm not 100% certain this structure will be exactly what the Q3 document will look like, I think it's safe to say that the substantive content we'll have to cover is captured here. There will be some highlighted content that is *not possible* to update for Friday, however there will be a formal distribution process where additional information can be incorporated.

Thanks everyone, and please feel free to send your input directly to Liane and Emma. Im hoping to be able to share a draft deck with you late this evening.

From: Esmail, Selena (MOF)
Sent: January-19-17 2:57 PM
To: Lewis, Paul (MOF); Cook, Tim (TBS); Dodbiba, Teuta (TBS); Stuckless, Sharon (TBS); Dutton, Andrea (TBS); Miu, Gladys (TBS); Cheung, Dorothy (TBS); Sharda, Raj (TBS); Chinchon, Francisco (OFA); Hendry, Jody (TBS)
Cc: Lindquist, Emma (MOF); Inglis, Liane (MOF)
Subject: Q3 heads up

Hi Everyone – Wanted to send a quick message that we are hearing there is a desire to proceed with the release of a Q3 update around the time we are expecting the Pension Panel panel to release their report. We are going to assume mid feb prior to the house coming back for our planning purposes.

My team is going to work together to put together a list of things we need to start working on/think about along with a calendar to determine and get direction on an approach to coincide with this timeframe.

More details to follow tomorrow.

Thanks.

From:	Anna Strathy
To:	David McLean (MOF)
Cc:	"Kim, Minzi (MOF)"; Kobrinsky, Liza (MOF); Gadi Mayman; Ken Kandeepan
Subject:	Status Table_Ch 2 of AG AR_SCOPA_20180208 (OFA Update).docx
Date:	Friday, February 09, 2018 3:58:47 PM
Attachments:	Status Table_Ch 2 of AG AR_SCOPA_20180208 (OFA Update).docx

Hi Dave,

As discussed in our 12:00pm meeting with the Secretary of Cabinet, we've revised the wording in the attached Status Table for SCOPA that pertains to recommendation #7 (debt). I've included our edits in track changes (p. 10-11).

If the Deputy is comfortable with this version, I'll send it along to OPCD to incorporate our changes.

Thanks, Anna

Summary Status Table in Response to the
Report of the Auditor General of Ontario

Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and b) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

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	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. The government respectfully disagrees with the Auditor General's interpretation of the accounting standards on this issue as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

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by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

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	conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

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our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*		

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their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

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• *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

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states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

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	which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	~~The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%, currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments.~~ The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. These investments will contribute to the economy growing at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term.	Continue to monitor progress. ~~Estimated implementation by FY 2029-30.~~

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	Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining ~~, falling to 37.3% in 2017-18~~ from its 2014-15 peak of 39.3%. As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

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earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and personal income tax revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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	transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	
AG Recommendation #10 *We recommend that the government determine when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.*	Under the *Fiscal Transparency and Accountability Act*, 2004, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a Statement based on a prompt review following the release of such a Pre-Election Report.	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

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From:	Anna Strathy
To:	David McLean (MOF)
Cc:	"Kim, Minzi (MOF)"; Kobrinsky, Liza (MOF); Gadi Mayman; Ken Kandeepan
Subject:	Status Table_Ch 2 of AG AR_SCOPA_20180208 (OFA Update).docx
Date:	Friday, February 09, 2018 3:58:47 PM
Attachments:	Status Table_Ch 2 of AG AR_SCOPA_20180208 (OFA Update).docx

Hi Dave,

As discussed in our 12:00pm meeting with the Secretary of Cabinet, we've revised the wording in the attached Status Table for SCOPA that pertains to recommendation #7 (debt). I've included our edits in track changes (p. 10-11).

If the Deputy is comfortable with this version, I'll send it along to OPCD to incorporate our changes.

Thanks, Anna

Summary Status Table in Response to the
Report of the Auditor General of Ontario

Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and b) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

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	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. The government respectfully disagrees with the Auditor General's interpretation of the accounting standards on this issue as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

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by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

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	conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

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our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*		

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their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

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• *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

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states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

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	which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	~~The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%, currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments.~~ The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. These investments will contribute to the economy growing at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term.	Continue to monitor progress. ~~Estimated implementation by FY 2029-30.~~

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	Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining ~~, falling to 37.3% in 2017-18~~ from its 2014-15 peak of 39.3%. As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

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earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and personal income tax revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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	transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	
AG Recommendation #10 *We recommend that the government determine when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.*	Under the *Fiscal Transparency and Accountability Act*, 2004, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a Statement based on a prompt review following the release of such a Pre-Election Report.	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

DRAFT

From:	John Psinas
To:	Ken Kandeepan
Cc:	George Sakura; Shemin Meralli; Fred Chow; Kevin Hwang
Subject:	revised Net Debt Scenarios
Date:	Wednesday, May 30, 2018 10:13:41 AM
Attachments:	Net Debt - Scenarios- incl revised TCA pension hydro adj May 30 2018.xlsx

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Ken,

As requested, please see the revised Net Debt scenarios that includes the pension adjustment in the accumulated deficit.

Thanks.

John

	Budget 2018		Base Case Scenario		Scenario 1		Scenario 2		Difference Base Case vs. Budget 2018		Difference Scenario 1 vs. Budget 2018		Difference Scenario 2 vs. Budget 2018	
	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)	Net Debt to GDP %	Deficit/ (Surplus)
2017-18 Interim	37.1	(642)	39.1	3,593	39.1	3,593	39.1	3,593	2.0	4,235	2.0	4,235	2.0	4,235
2018-19 Outlook	37.6	6,704	40.2	11,882	40.7	16,511	40.1	11,297	2.5	5,178	3.1	9,807	2.5	4,593
2019-20 Outlook	38.2	6,624	40.9	9,321	42.1	15,528	41.0	10,157	2.7	2,697	3.9	8,904	2.8	3,533
2020-21 Outlook	38.6	6,475	41.2	6,444	43.4	16,272	41.1	5,739	2.6	(31)	4.8	9,797	2.6	(736)

Net Debt to Revenue and GDP Ratios																	
Ontario		Base Case Scenario (Based on 2018 Budget)															
				Net Debt As	Accumulated	Acc Deficit		Prepds/inv.	ONFA	Other Adj	Deficit/						
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP %	TCA	Adj.(gain)/los	(gain)/loss	(gain)/loss	(Surplus)						
Actual	1989-90	282,754	35,409	12.5	35,409	12.5	-				(90)						
Actual	1990-91	287,293	38,438	13.4	38,438	13.4	-				3,029						
Actual	1991-92	288,190	49,368	17.1	49,368	17.1	-				10,930						
Actual	1992-93	293,007	61,796	21.1	61,796	21.1	-				12,428						
Actual	1993-94	302,160	80,599	26.7	80,599	26.7	-				11,202						
Actual	1994-95	319,901	90,728	28.4	90,728	28.4	-				10,129						
Actual	1995-96	337,337	101,864	30.2	101,864	30.2	-				8,800						
Actual	1996-97	347,738	108,769	31.3	108,769	31.3	-				6,905						
Actual	1997-98	368,909	112,735	30.6	112,735	30.6	-				3,966						
Actual	1998-99	389,219	114,737	29.5	114,737	29.5	-				2,002						
Actual	1999-2000	418,202	134,398	32.1	134,398	32.1	-				(668)						
Actual	2000-01	452,186	132,496	29.3	132,496	29.3	-				(1,902)						
Actual	2001-02	469,045	132,121	28.2	132,121	28.2	-				(375)						
Actual	2002-03	494,804	132,647	26.8	118,705	24.0	13,942				(117)						
Actual	2003-04	509,472	138,816	27.2	124,188	24.4	14,628				5,483						
Actual	2004-05	533,334	140,921	26.4	125,743	23.6	15,178				1,555						
Actual	2005-06	556,607	152,702	27.4	109,155	19.6	43,547				(298)						
Actual	2006-07	578,229	153,742	26.6	106,776	18.5	46,966			(110)	(2,269)						
Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999		(559)		(600)						
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347		1,212		6,409						
Actual	2009-10	597,876	193,589	32.4	130,957	21.9	62,632		1,090	-	19,262						
Actual	2010-11	630,983	214,511	34.0	144,573	22.9	69,938		(395)	-	14,011						
Actual	2011-12	659,740	236,230	35.8	158,410	24.0	77,172	648	3	865	12,969						
Actual	2012-13	680,086	252,823	37.2	167,132	24.6	84,956	735	(639)	141	9,220						
Actual	2013-14	695,354	267,968	38.5	176,634	25.4	90,556	778	(951)	-	10,453						
Actual	2014-15	726,053	285,403	39.3	187,511	25.8	97,065	827	(1,121)	1,683	10,315						
Actual	2015-16	762,029	295,372	38.8	192,029	25.2	102,536	807	1,003	-	3,515						
Actual	2016-17	794,835	314,077	39.5	205,939	25.9	107,288	850	(1,094)	14,013	991						
	2017-18 Interim	829,984	324,869	39.1	209,113	25.2	114,906	850	(419)		3,593						
	2018-19 Outloo	863,690	346,865	40.2	220,995	25.6	125,020	850			11,882						
	2019-20 Outloo	897,341	367,239	40.9	230,316	25.7	136,073	850			9,321						
	2020-21 Outloo	933,145	384,373	41.2	236,760	25.4	146,763	850			6,444						
	2021-22 Outloo	969,156	393,694	40.6	236,760	24.4	156,084	850			-						
	2022-23 Outloo	1,005,572	399,447	39.7	236,760	23.5	161,837	850			-						

Net debt as presented
Effect of valuation allowance
Net debt in accordance with Canadian public secto

Net Debt for 2016-17 has been chan
opinion of the 2016-17 Public Accou

Net Debt to Revenue and GDP Ratios

Ontario

Base Case Scenario (Based on 2018 Budget)

Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)
2023-24 Outloo	1,045,203	401,120	38.4	236,760	22.7	163,510	850			-
2024-25 Outloo	1,088,440	404,772	37.2	236,760	21.8	167,162	850			-
2025-26 Outloo	1,133,057	407,234	35.9	236,760	20.9	169,624	850			-
2026-27 Outloo	1,176,212	406,742	34.6	236,760	20.1	169,132	850			-
2027-28 Outloo	1,223,997	404,438	33.0	236,760	19.3	166,828	850			-
2028-29 Outloo	1,274,188	404,438	31.7	236,760	18.6	166,828	850			-
2029-30 Outloo	1,326,796	404,438	30.5	236,760	17.8	166,828	850			-
2030-31 Outloo	1,379,701	404,438	29.3	236,760	17.2	166,828	850			-
2031-32 Outloo	1,434,889	404,438	28.2	236,760	16.5	166,828	850			-
2032-33 Outloo	1,492,284	404,438	27.1	236,760	15.9	166,828	850			-
2033-34 Outloo	1,551,976	404,438	26.1	236,760	15.3	166,828	850			-
2034-35 Outloo	1,614,055	404,438	25.1	236,760	14.7	166,828	850			-
2035-36 Outloo	1,678,617	404,438	24.1	236,760	14.1	166,828	850			-

Assumptions /Notes

1 - deleted for this scenario -

2 GDP - per latest information rec'd (see GDP tab)

3 TCA - per info rec'd May 29, 2018 from M Reghabi

After 2027-28 TCA increases are equal to annual amortization

4 Net Debt adjusted for prepaids starting 2014-15. From 2017-18 and onwards - same amount as prior month assumed.

5 Balanced budget continues through to 2035-36

6 GDP annual growth is 4% from 2031-32 to 2035-36

7 Revenue restated to include BPS (Hospitals, colleges, school boards) from 2012-13

8 Revenue from 2017-18 to 2019-20 has been restated for BPS

9 Revenue for 2016-17 was revised down by approx $1 million from $140,735m to $140,734.

10 Accumulated deficit for 2016-17 now incorporates the pension valuation adjustment of approx $12.4b

Prepared by OFA, FTD

30-May-18

	2017 ($ million)	2016 ($ million)
	(301,648)	(295,372)
	(12,429)	(10,985)
r accounting standards	(314,077)	(306,357)

ged to the amount indicated by the AG in her
nts, $314,077 M.

Net Debt to Revenue and GDP Ratios															
Ontario		Scenario 1 (Based on 2018 Budget)													
				Net Debt As	Accumulated	Acc Deficit		Prepds/inv.	ONFA	Other Adj	Deficit/				
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP %	TCA	Adj.(gain)/los	(gain)/loss	(gain)/loss	(Surplus)				
Actual	1989-90	282,754	35,409	12.5	35,409	12.5	-				(90)				
Actual	1990-91	287,293	38,438	13.4	38,438	13.4	-				3,029				
Actual	1991-92	288,190	49,368	17.1	49,368	17.1	-				10,930				
Actual	1992-93	293,007	61,796	21.1	61,796	21.1	-				12,428				
Actual	1993-94	302,160	80,599	26.7	80,599	26.7	-				11,202				
Actual	1994-95	319,901	90,728	28.4	90,728	28.4	-				10,129				
Actual	1995-96	337,337	101,864	30.2	101,864	30.2	-				8,800				
Actual	1996-97	347,738	108,769	31.3	108,769	31.3	-				6,905				
Actual	1997-98	368,909	112,735	30.6	112,735	30.6	-				3,966				
Actual	1998-99	389,219	114,737	29.5	114,737	29.5	-				2,002				
Actual	1999-2000	418,202	134,398	32.1	134,398	32.1	-				(668)				
Actual	2000-01	452,186	132,496	29.3	132,496	29.3	-				(1,902)				
Actual	2001-02	469,045	132,121	28.2	132,121	28.2	-				(375)				
Actual	2002-03	494,804	132,647	26.8	118,705	24.0	13,942				(117)				
Actual	2003-04	509,472	138,816	27.2	124,188	24.4	14,628				5,483				
Actual	2004-05	533,334	140,921	26.4	125,743	23.6	15,178				1,555				
Actual	2005-06	556,607	152,702	27.4	109,155	19.6	43,547				(298)				
Actual	2006-07	578,229	153,742	26.6	106,776	18.5	46,966			(110)	(2,269)				
Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999		(559)		(600)				
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347		1,212		6,409				
Actual	2009-10	597,876	193,589	32.4	130,957	21.9	62,632		1,090	-	19,262				
Actual	2010-11	630,983	214,511	34.0	144,573	22.9	69,938		(395)	-	14,011				
Actual	2011-12	659,740	236,230	35.8	158,410	24.0	77,172	648	3	865	12,969				
Actual	2012-13	680,086	252,823	37.2	167,132	24.6	84,956	735	(639)	141	9,220				
Actual	2013-14	695,354	267,968	38.5	176,634	25.4	90,556	778	(951)	-	10,453				
Actual	2014-15	726,053	285,403	39.3	187,511	25.8	97,065	827	(1,121)	1,683	10,315				
Actual	2015-16	762,029	295,372	38.8	192,029	25.2	102,536	807	1,003	-	3,515				
Actual	2016-17	794,835	314,077	39.5	205,939	25.9	107,288	850	(1,094)	14,013	991				
	2017-18 Interim	829,984	324,869	39.1	209,113	25.2	114,906	850	(419)		3,593				
	2018-19 Outloo	863,690	351,494	40.7	225,624	26.1	125,020	850			16,511				
	2019-20 Outloo	897,341	378,075	42.1	241,152	26.9	136,073	850			15,528				
	2020-21 Outloo	933,145	405,037	43.4	257,424	27.6	146,763	850			16,272				

Net debt as presented
Effect of valuation allowance
Net debt in accordance with Canadi

Net Debt to Revenue and GDP Ratios

Ontario

Scenario 1 (Based on 2018 Budget)

Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)
2021-22 Outloo	969,156	414,358	42.8	257,424	26.6	156,084	850			-
2022-23 Outloo	1,005,572	420,111	41.8	257,424	25.6	161,837	850			-
2023-24 Outloo	1,045,203	421,784	40.4	257,424	24.6	163,510	850			-
2024-25 Outloo	1,088,440	425,436	39.1	257,424	23.7	167,162	850			-
2025-26 Outloo	1,133,057	427,898	37.8	257,424	22.7	169,624	850			-
2026-27 Outloo	1,176,212	427,406	36.3	257,424	21.9	169,132	850			-
2027-28 Outloo	1,223,997	425,102	34.7	257,424	21.0	166,828	850			-
2028-29 Outloo	1,274,188	425,102	33.4	257,424	20.2	166,828	850			-
2029-30 Outloo	1,326,796	425,102	32.0	257,424	19.4	166,828	850			-
2030-31 Outloo	1,379,701	425,102	30.8	257,424	18.7	166,828	850			-
2031-32 Outloo	1,434,889	425,102	29.6	257,424	17.9	166,828	850			-
2032-33 Outloo	1,492,284	425,102	28.5	257,424	17.3	166,828	850			-
2033-34 Outloo	1,551,976	425,102	27.4	257,424	16.6	166,828	850			-
2034-35 Outloo	1,614,055	425,102	26.3	257,424	15.9	166,828	850			-
2035-36 Outloo	1,678,617	425,102	25.3	257,424	15.3	166,828	850			-

Net Debt for 2016-17 has
opinion of the 2016-17 P

Assumptions /Notes

1 - deleted for this scenario - m

2 GDP - per latest information rec'd (see GDP tab)

3 TCA - per info rec'd May 29, 2018 from M Reghabi

After 2027-28 TCA increases are equal to annual amortization

4 Net Debt adjusted for prepaids starting 2014-15. From 2017-18 and onwards - same amount as prior month assumed.

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Prepared by OFA, FTD

30-May-18

	2017 ($ million)	2016 ($ million)
	(301,648)	(295,372)
	(12,429)	(10,985)
n public sector accounting standards	(314,077)	(306,357)

s been changed to the amount indicated by the AG in her						
ublic Accounts, $314,077 M.						

Net Debt to Revenue and GDP Ratios															
Ontario		Scenario 2 (Based on 2018 Budget)													
				Net Debt As	Accumulated	Acc Deficit		Prepds/inv.	ONFA	Other Adj	Deficit/				
	Fiscal Year	GDP	Net Debt	% to GDP	Deficit	to GDP %	TCA	Adj.(gain)/los	(gain)/loss	(gain)/loss	(Surplus)				
Actual	1989-90	282,754	35,409	12.5	35,409	12.5	-				(90)				
Actual	1990-91	287,293	38,438	13.4	38,438	13.4	-				3,029				
Actual	1991-92	288,190	49,368	17.1	49,368	17.1	-				10,930				
Actual	1992-93	293,007	61,796	21.1	61,796	21.1	-				12,428				
Actual	1993-94	302,160	80,599	26.7	80,599	26.7	-				11,202				
Actual	1994-95	319,901	90,728	28.4	90,728	28.4	-				10,129				
Actual	1995-96	337,337	101,864	30.2	101,864	30.2	-				8,800				
Actual	1996-97	347,738	108,769	31.3	108,769	31.3	-				6,905				
Actual	1997-98	368,909	112,735	30.6	112,735	30.6	-				3,966				
Actual	1998-99	389,219	114,737	29.5	114,737	29.5	-				2,002				
Actual	1999-2000	418,202	134,398	32.1	134,398	32.1	-				(668)				
Actual	2000-01	452,186	132,496	29.3	132,496	29.3	-				(1,902)				
Actual	2001-02	469,045	132,121	28.2	132,121	28.2	-				(375)				
Actual	2002-03	494,804	132,647	26.8	118,705	24.0	13,942				(117)				
Actual	2003-04	509,472	138,816	27.2	124,188	24.4	14,628				5,483				
Actual	2004-05	533,334	140,921	26.4	125,743	23.6	15,178				1,555				
Actual	2005-06	556,607	152,702	27.4	109,155	19.6	43,547				(298)				
Actual	2006-07	578,229	153,742	26.6	106,776	18.5	46,966			(110)	(2,269)				
Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999		(559)		(600)				
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347		1,212		6,409				
Actual	2009-10	597,876	193,589	32.4	130,957	21.9	62,632		1,090	-	19,262				
Actual	2010-11	630,983	214,511	34.0	144,573	22.9	69,938		(395)	-	14,011				
Actual	2011-12	659,740	236,230	35.8	158,410	24.0	77,172	648	3	865	12,969				
Actual	2012-13	680,086	252,823	37.2	167,132	24.6	84,956	735	(639)	141	9,220				
Actual	2013-14	695,354	267,968	38.5	176,634	25.4	90,556	778	(951)	-	10,453				
Actual	2014-15	726,053	285,403	39.3	187,511	25.8	97,065	827	(1,121)	1,683	10,315				
Actual	2015-16	762,029	295,372	38.8	192,029	25.2	102,536	807	1,003	-	3,515				
Actual	2016-17	794,835	314,077	39.5	205,939	25.9	107,288	850	(1,094)	14,013	991				
	2017-18 Interim	829,984	324,869	39.1	209,113	25.2	114,906	850	(419)		3,593				
	2018-19 Outloo	863,690	346,280	40.1	220,410	25.5	125,020	850			11,297				
	2019-20 Outloo	897,341	367,490	41.0	230,567	25.7	136,073	850			10,157				
	2020-21 Outloo	933,145	383,919	41.1	236,306	25.3	146,763	850			5,739				

Net debt as presented

Effect of valuation allowance

Net debt in accordance with Cana

Net Debt for 2016-17 has

Net Debt to Revenue and GDP Ratios

Ontario

Scenario 2 (Based on 2018 Budget)

Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)	
2021-22 Outloo	969,156	393,240	40.6	236,306	24.4	156,084	850			-	opinion of the 2016-17 P
2022-23 Outloo	1,005,572	398,993	39.7	236,306	23.5	161,837	850			-	
2023-24 Outloo	1,045,203	400,666	38.3	236,306	22.6	163,510	850			-	
2024-25 Outloo	1,088,440	404,318	37.1	236,306	21.7	167,162	850			-	
2025-26 Outloo	1,133,057	406,780	35.9	236,306	20.9	169,624	850			-	
2026-27 Outloo	1,176,212	406,288	34.5	236,306	20.1	169,132	850			-	
2027-28 Outloo	1,223,997	403,984	33.0	236,306	19.3	166,828	850			-	
2028-29 Outloo	1,274,188	403,984	31.7	236,306	18.5	166,828	850			-	
2029-30 Outloo	1,326,796	403,984	30.4	236,306	17.8	166,828	850			-	
2030-31 Outloo	1,379,701	403,984	29.3	236,306	17.1	166,828	850			-	
2031-32 Outloo	1,434,889	403,984	28.2	236,306	16.5	166,828	850			-	
2032-33 Outloo	1,492,284	403,984	27.1	236,306	15.8	166,828	850			-	
2033-34 Outloo	1,551,976	403,984	26.0	236,306	15.2	166,828	850			-	
2034-35 Outloo	1,614,055	403,984	25.0	236,306	14.6	166,828	850			-	
2035-36 Outloo	1,678,617	403,984	24.1	236,306	14.1	166,828	850			-	

Assumptions /Notes

1	- deleted for this scenario -
2	GDP - per latest information rec'd (see GDP tab)
3	TCA - per info rec'd May 29, 2018 from M Reghabi
	After 2027-28 TCA increases are equal to annual amortization
4	Net Debt adjusted for prepaids starting 2014-15. From 2017-18 and onwards - same amount as prior month assumed.
5	Balanced budget continues through to 2035-36
6	GDP annual growth is 4% from 2031-32 to 2035-36
7	Revenue restated to include BPS (Hospitals, colleges, school boards) from 2012-13
8	Revenue from 2017-18 to 2019-20 has been restated for BPS
9	Revenue for 2016-17 was revised down by approx $1 million from $140,735m to $140,734.
10	Accumulated deficit for 2016-17 now incorporates the pension valuation adjustment of approx $12.4b

Prepared by OFA, FTD

30-May-18

	2017 ($ million)	2016 ($ million)
	(301,648)	(295,372)
	(12,429)	(10,985)
dian public sector accounting standards	(314,077)	(306,357)

been changed to the amount indicated by the AG in her

ublic Accounts, $314,077 M.						

Net Debt to Revenue and GDP Ratios

Ontario

2018 Document Outlook

	Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)		
Actual	1989-90	282,754	35,409	12.5	35,409	12.5	-				(90)		
Actual	1990-91	287,293	38,438	13.4	38,438	13.4	-				3,029		
Actual	1991-92	288,190	49,368	17.1	49,368	17.1	-				10,930		
Actual	1992-93	293,007	61,796	21.1	61,796	21.1	-				12,428		
Actual	1993-94	302,160	80,599	26.7	80,599	26.7	-				11,202		
Actual	1994-95	319,901	90,728	28.4	90,728	28.4	-				10,129		
Actual	1995-96	337,337	101,864	30.2	101,864	30.2	-				8,800		
Actual	1996-97	347,738	108,769	31.3	108,769	31.3	-				6,905		
Actual	1997-98	368,909	112,735	30.6	112,735	30.6	-				3,966		
Actual	1998-99	389,219	114,737	29.5	114,737	29.5	-				2,002		
Actual	1999-2000	418,202	134,398	32.1	134,398	32.1	-				(668)		
Actual	2000-01	452,186	132,496	29.3	132,496	29.3	-				(1,902)		
Actual	2001-02	469,045	132,121	28.2	132,121	28.2	-				(375)		
Actual	2002-03	494,804	132,647	26.8	118,705	24.0	13,942				(117)		
Actual	2003-04	509,472	138,816	27.2	124,188	24.4	14,628				5,483		
Actual	2004-05	533,334	140,921	26.4	125,743	23.6	15,178				1,555		
Actual	2005-06	556,607	152,702	27.4	109,155	19.6	43,547				(298)		
Actual	2006-07	578,229	153,742	26.6	106,776	18.5	46,966			(110)	(2,269)		
Actual	2007-08	601,735	156,616	26.0	105,617	17.6	50,999		(559)		(600)		
Actual	2008-09	608,446	169,585	27.9	113,238	18.6	56,347		1,212		6,409		
Actual	2009-10	597,876	193,589	32.4	130,957	21.9	62,632		1,090	-	19,262		
Actual	2010-11	630,983	214,511	34.0	144,573	22.9	69,938		(395)	-	14,011		
Actual	2011-12	659,740	236,230	35.8	158,410	24.0	77,172	648	3	865	12,969		
Actual	2012-13	680,086	252,823	37.2	167,132	24.6	84,956	735	(639)	141	9,220		
Actual	2013-14	695,354	267,968	38.5	176,634	25.4	90,556	778	(951)	-	10,453		
Actual	2014-15	726,053	285,403	39.3	187,511	25.8	97,065	827	(1,121)	1,683	10,315		
Actual	2015-16	762,029	295,372	38.8	192,029	25.2	102,536	807	1,003	-	3,515		
Actual	2016-17	794,835	301,648	38.0	193,510	24.3	107,288	850	(1,094)	1,584	991		4,752
	2017-18 Outloo	829,984	308,203	37.1	192,449	23.2	114,904	850	(419)		(642)		7,616
	2018-19 Outloo	863,690	325,041	37.6	199,153	23.1	125,038	850			6,704		10,134
	2019-20 Outloo	897,341	342,752	38.2	205,777	22.9	136,125	850			6,624		11,087
	2020-21 Outloo	933,145	360,123	38.6	212,252	22.7	147,021	850			6,475		10,896
	2021-22 Outloo	969,156	376,811	38.9	217,824	22.5	158,137	850			5,572		11,116
	2022-23 Outloo	1,005,572	388,265	38.6	221,785	22.1	165,630	850			3,961		7,493

Ontario

2018 Document Outlook

Fiscal Year	GDP	Net Debt	Net Debt As % to GDP	Accumulated Deficit	Acc Deficit to GDP %	TCA	Prepds/inv. Adj.(gain)/los	ONFA (gain)/loss	Other Adj (gain)/loss	Deficit/ (Surplus)	
2023-24 Outloo	1,045,203	394,185	37.7	224,261	21.5	169,074	850			2,476	3,444
2024-25 Outloo	1,088,440	400,152	36.8	224,277	20.6	175,025	850			16	5,951
2025-26 Outloo	1,133,057	402,058	35.5	221,674	19.6	179,534	850			(2,603)	4,509
2026-27 Outloo	1,176,212	402,020	34.2	221,674	18.8	179,496	850			-	(38)
2027-28 Outloo	1,223,997	400,921	32.8	221,674	18.1	178,397	850			-	(1,099)
2028-29 Outloo	1,274,188	400,921	31.5	221,674	17.4	178,397	850			-	
2029-30 Outloo	1,326,796	400,921	30.2	221,674	16.7	178,397	850			-	
2030-31 Outloo	1,379,701	400,921	29.1	221,674	16.1	178,397	850			-	
2031-32 Outloo	1,434,889	400,921	27.9	221,674	15.4	178,397	850			-	
2032-33 Outloo	1,492,284	400,921	26.9	221,674	14.9	178,397	850			-	
2033-34 Outloo	1,551,976	400,921	25.8	221,674	14.3	178,397	850			-	
2034-35 Outloo	1,614,055	400,921	24.8	221,674	13.7	178,397	850			-	
2035-36 Outloo	1,678,617	400,921	23.9	221,674	13.2	178,397	850			-	

Assumptions /Notes

1. Surplus for 2017-18 is $ 642 m
2. GDP - per latest information rec'd (see GDP tab)
3. TCA - per info rec'd March 3, 2018 from David Hodes
   After 2027-28 TCA increases are equal to annual amortization
4. Net Debt adjusted for prepaids starting 2014-15. From 2017-18 and onwards - same amount as prior month assumed.
5. Balanced budget continues through to 2035-36
6. GDP annual growth is 4% from 2031-32 to 2035-36
7. Revenue restated to include BPS (Hospitals, colleges, school boards) from 2012-13
8. Revenue from 2017-18 to 2019-20 has been restated for BPS
9. Revenue for 2016-17 was revised down by approx $1 million from $140,735m to $140,734.

Prepared by OFA, FTD

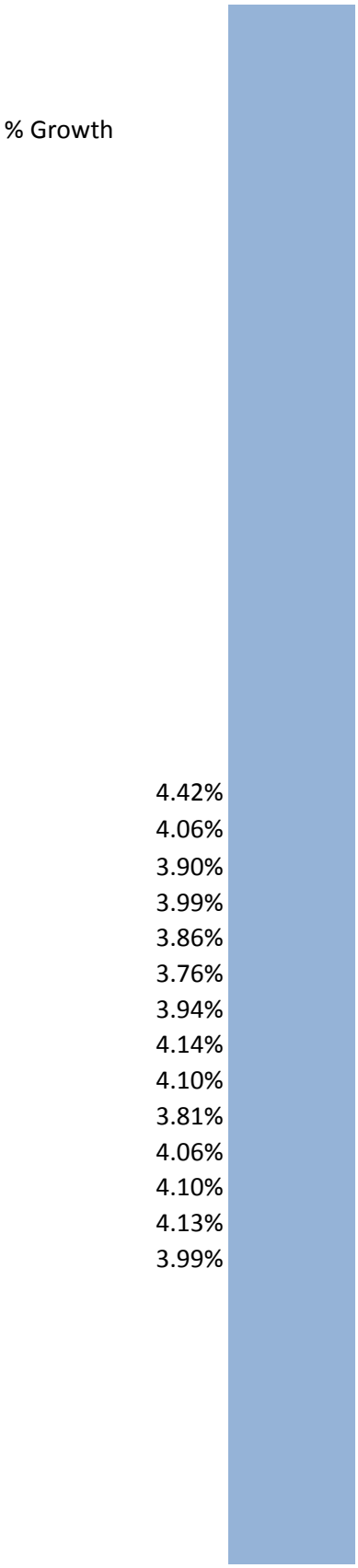
9-Mar-18

	Budget time Ontario Nominal GDP			Ontario Nominal GDP
2000	452,238			
2001	469,084			
2002	494,815			
2003	509,511			
2004	533,365			
2005	556,635			
2006	578,241			
2007	601,735			
2008	608,446			
2009	597,882			
2010	630,989	5.5		
2011	659,743	4.6		
2012	680,084	3.1		
2013	695,349	2.2		
2014	727,962	4.7		
2015	763,276	4.9		
2016	798,218	4.6	2016	794,835
2017p	832,652	4.3	2017p	829,984
2018p	866,612	4.1	2018p	863,690
2019p	902,778	4.2	2019p	897,341
2020p	938,411	3.9	2020p	933,145
2021p			2021p	969,156
			2022	1,005,572
			2023	1,045,203
			2024	1,088,440
			2025	1,133,057
			2026	1,176,212
			2027	1,223,997
			2028	1,274,188
			2029	1,326,796
			2030	1,379,701

p = projection

Rec'd from: Mark Williams
28-Mar-17

Paul Lewis
27-Feb-18


% Growth
4.42%
4.06%
3.90%
3.99%
3.86%
3.76%
3.94%
4.14%
4.10%
3.81%
4.06%
4.10%
4.13%
3.99%

Draft- Mar 2 1pm 2018

PROVINCIAL TCA Net Book Value ($ Billions)	2017-18 Interim	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Opening Net Book Value	**107,288**	**114,904**	**125,038**	**136,125**	**147,021**	**158,137**	**165,630**	**169,074**	**175,025**	**179,534**	**179,496**
Annual Acquisitions	13,251	16,094	17,455	17,688	18,522	15,477	11,801	14,763	13,914	9,683	8,815
Gross Amortization Expense	(5,634)	(5,960)	(6,367)	(6,792)	(7,406)	(7,983)	(8,357)	(8,812)	(9,405)	(9,721)	(9,914)
Closing Net Book Value	**114,904**	**125,038**	**136,125**	**147,021**	**158,137**	**165,630**	**169,074**	**175,025**	**179,534**	**179,496**	**178,397**

Notes:
- Opening NBV for 2016-17 from public accounts
- Annual Acquisitions include other partner funding and federal flowthroughs

Received from David Hodes
3/8/2018 - 5pm

Scenarios - Base Case

Draft - May 24

PROVINCIAL TCA Net Book Value ($ Billions)	2017-18 Interim	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Opening Net Book Value	**107,288**	**114,906**	**125,020**	**136,073**	**146,763**	**156,084**	**161,837**	**163,510**	**167,162**	**169,624**	**169,132**
Annual Acquisitions	13,252	16,075	17,419	17,478	16,721	13,725	10,017	12,446	11,700	8,910	7,290
Gross Amortization Expense	(5,634)	(5,960)	(6,366)	(6,789)	(7,399)	(7,973)	(8,343)	(8,794)	(9,238)	(9,402)	(9,594)
Closing Net Book Value	**114,906**	**125,020**	**136,073**	**146,763**	**156,084**	**161,837**	**163,510**	**167,162**	**169,624**	**169,132**	**166,828**

Notes:
- Opening NBV for 2016-17 from public accounts
- Annual Acquisitions include other partner funding and federal flowthroughs

Received from M Reghabi
29-May-18

ONFA Net Debt impact

As at Feb 2018

Fiscal year	2018	2017	Bruce Variance (Per CEFD)	Net debt	
A	0		47%	-	
B	60		50%	30	
C	1,743	1,561		182	
D	1,955	1,748		207	
				419	Net Debt - gain/(loss)

Notes:

A - Decommissioning Fund unrealized gain/loss calculation x Bruce Variance Cost % (where the p

B - Used Fuel Fund unrealized gain/loss calculation x Bruce Variance Cost % (where the percentage

C - Decommissioning Fund payable to the province(FMV – cost, this year's) less (FMV – cost, last ye

D - Used Fuel Fund payable to the province(FMV – cost, this year's) less (FMV – cost, last year's)

Supporting documentation

ercentage changes every year)
changes every year)
ar's)

Seg Fund Balances - OFINA C

Decomm. Fund

Balance Mar 31, 2017 per F/S

Add YTD Apr 1 - Feb 28, 2018 e

Realized
Unrealized - G/L on investments
Unrealized - Bid pricing adjustm
Excess adjustment charge for y

A Total Decomm earnings

Less Eligible program costs YTI

Add Contributions YTD April 1, 2

Decomm Fund balance Febru

UFF

Balance Mar 31, 2017 per F/S

Add YTD Apr 1 - Feb 28, 2018 e

Realized
Unrealized - G/L on investments
Unrealized - Bid pricing adjustm
Excess adjustment charge for y

B Total UFF earnings

Less Eligible program costs YTI

Add Contributions YTD April 1, 2

UFF balance February 28, 201

Seg Fund Balances at Februa

Decommissioning Fund Balar

Balance February 28, 2018 per

C Exess over 2018 ONFA Ref Pln

Used Fuel Fund Balance:

Balance February 28, 2018 per

D Due (To)/ From Province

Adjustment for Change in Due to Province
Decommissioning Fund
Due from (to) Province
Less: 50% in excess of 120% fu
Decommissioning Fund Balanc
Used Fuel Fund
Due from (to) Province
Used Fuel Fund Balance

ontinuity April 1, 2017 to February 28, 2018

		Cost		Market
		6,916		6,916
earnings:				
	422		422	
s & Currenc	-		181	
ent	-		1	
ear	(95)		(277)	
		327		327
D April 1, 2017 to Feb 28, 2018		(21)		(21)
2017 to Feb 28, 2018		-		-
ary 28, 2018		**7,222**		**7,222**

		Cost		Market
		9,086		9,241
earnings:				
	532		532	
s & Currenc	-		265	
ent	-		2	
ear	(158)		(365)	
		374		434
D April 1, 2017 to Feb 28, 2018		(48)		(48)
2017 to Feb 28, 2018		-		-
8		**9,412**		**9,627**

ry 28, 2018 on amortized cost basis and FMV basis

($M)

ıce:

	Cost	FMV
CIBC	7,396	9,139
Liab (due t	(174)	(1,917)
	7,222	**7,222**

	Cost	FMV
CIBC	9,977	12,147
	(565)	(2,520)
	9,412	**9,627**

March 31, 2017		
Cost	**Market**	***Difference***
6,995	8,556	1,561
(79)	(1,640)	(1,561)
0	0	0
6,916	6,916	*0*
9,493	11,396	1,903
(407)	(2,155)	(1,748)
9,086	9,241	*155*

From:	Esmail, Selena (MOF)
To:	Daniel Tiburcio (MOF); Tim Cook (MOF); Andrea Dutton (MOF); Teuta Dodbiba (MOF); Raj Sharda (MOHLTC); Gladys Miu (MOI); Dorothy Cheung (MCYS); Paul Lewis (MOF); Jeremie Stephenson (MOI); Charmaine A. Rose (MOF); Ken Kandeepan; John Kim; Nadine Petsche (MOF); Kostas Plainos (MOF); Ann Langleben (MOF); Paul Ternamian (MOF)
Cc:	Nina Arbabzadeh (EDU); Patrick Laughton (MOF); Law, Rex (TBS); Patel, Lesley (MOF); Birks, Ryan (MOF); Anna Strathy; Hosick, Sarah (TBS); Ghufran Tarin (MOF)
Subject:	touch base on FAO materials
Attachments:	FW Follow-Up on the 2017 Budget.msg

Hi Everyone – in follow up to my message on Friday, I am setting up this check in to see what materials/answers to the FAOs questions folks will have ready and to answer any questions you may have about what can/cannot be provided.

If you have materials/answers ready, please feel free to forward them in advance and we will consolidate this information.

Thanks a lot
Teleconf details to follow later this morning.

From: Esmail, Selena (MOF) [Selena.Esmail@ontario.ca]
To: Tim Cook (MOF) [Tim.Cook@ontario.ca]; Andrea Dutton (MOF) [Andrea.Dutton@ontario.ca]; Teuta Dodbiba (MOF) [Teuta.Dodbiba@ontario.ca]; Raj Sharda (MOHLTC) [Raj.Sharda@ontario.ca]; Dorothy Cheung (MCYS) [Dorothy.Cheung@ontario.ca]; Gladys Miu (MOI) [Gladys.Miu@ontario.ca]; Paul Lewis (MOF) [Paul.D.Lewis@ontario.ca]; John Kim [John.Kim@ofina.on.ca]; Ken Kandeepan [Ken.Kandeepan@ofina.on.ca]; Nadine Petsche (MOF) [Nadine.Petsche@ontario.ca]; Ann Langleben (MOF) [Ann.Langleben@ontario.ca]; Kostas Plainos (MOF) [Kostas.Plainos@ontario.ca]
CC: Daniel Tiburcio (MOF) [Daniel.Tiburcio@ontario.ca]; Paul Ternamian (MOF) [Paul.Ternamian@ontario.ca]; Birks, Ryan (MOF) [Ryan.Birks@ontario.ca]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]; Anna Strathy [Anna.Strathy@ofina.on.ca]; Gavin He [Gavin.He@ofina.on.ca]; Ghufran Tarin (MOF) [Ghufran.Tarin@ontario.ca]; Nina Arbabzadeh (EDU) [Nina.Arbabzadeh@ontario.ca]; Law, Rex (TBS) [Rex.Law@ontario.ca]; Patrick Laughton (MOF) [Patrick.Laughton@ontario.ca]; Patel, Lesley (MOF) [Lesley.Patel@ontario.ca]
Subject: FW: Follow-Up on the 2017 Budget
Date: Friday, April 28, 2017 17:42:44
Attachment 1: image003.png
Attachment 2: FAO protocol excerpt.docx
Attachment 3: 2017 Budget Qs_FAO specific Qs.docx

Hi Everyone.

As you can see below, the FAO has reached out to make a formal request for information in follow up to yesterday's release of the Budget (BTW we are looking to set up a mtg on Tuesday from 1pm to 2pm with the FAO).

You may have already been forwarded this email from your ADMs but we've also just now received the list of specific additional questions (attached). I've attempted to identify in the attached and below which area is responsible for what, and if I have this wrong, please let me know (and sorry!).

I thought we could do a quick touch base Monday, just to check in on what we might have readily available to be in a position to provide at Tuesday's meeting and what we may need to get back to the FAO on (but pls note that we should not be doing any new analysis to provide a response). I will send out an invite/teleconf so we can discuss.

For reference I have attached an excerpt from our protocol for interaction with the FAO in case folks need a refresher on what information can/cannot be shared. We can discuss further on Monday at our call/meeting.

Thanks and pls let me know if you have any questions.

From: David West [mailto:dwest@fao-on.org]
Sent: April-28-17 9:32 AM
To: Schuurman, Tim (MOF); Hughes, Karen (TBS); Lewis, Brian (MOF); Veinot, Cindy (TBS)
Cc: Tarin, Ghufran (MOF); Birks, Ryan (MOF); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Luan Ngo; Edward Crummey; Mario Angastiniotis; Nicolas Rhodes
Subject: Follow-Up on the 2017 Budget

Good Morning!

Congratulations on delivering yesterday's big, black budget!

I wanted to follow-up on the FAO's requests for some additional information.

First, as we have discussed, we have three requests for specific data/tables:

1. We would like to obtain the detailed revenue and expense tables (Tables 6.14 and 6.15) extended to 2019-20.

- Are these detailed tables available to 2020-21? If so, then please include (☺) **– OEP Table 6.14/TBS – PEMD&CPD 6.15**

2. As staff have been discussing, we would like to obtain more detailed information on the one-time adjustments to taxation revenues beginning in 2015-16 and extending over the forecast. This is basically additional information to that provided in tables 6.7, 6.8 and 6.9. **- OEP**

3. As detailed in the letter and background documents sent to Deputies Thompson and Angus on April 3, we are requesting pension expense and employer contribution

details for the OTPP and OPSEUPP.- **TBS-OPCD**

We would also appreciate a meeting early next week (preferably Tuesday afternoon) to allow you to respond to a number of questions that we have with regard to the 2017 Budget.

We'll provide a list of specific questions later this afternoon, but these questions will cover a number of areas, including:

- Clarification on where the Fair Hydro Plan appears in the expenses **– CEFD/ TBS - PEMD**

- Additional details/clarification on new health spending, including the new pharmacare plan **– TBS PEMD**

- Clarification on future assumptions for asset sales and any details behind the 'Sales and Rentals' line in the detailed Revenue table. **OFA CEFD, OEP**

- Clarification on the assumptions behind new federal funding announced in the 2017 federal budget (e.g. affordable housing, child care, home care) **OEP/TBS PEMD & CPD**

- Some background on the decision to reduce the estimate of 'Carbon Allowance Proceeds' and assumptions on associated expense – **OEP, TBS PEMD**

- Additional details/clarification on new infrastructure spending **TBS CPD**

- Assumptions behind the plan to reduce net debt-to-GDP to 35% and eventually to 27%. **OFA**

We'll provide a list later this afternoon that expands somewhat on these question topics.

Happy to discuss any of these requests.

Thanks again for your support,

David

----------David West

Chief Economist

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2

t.416.579.1465 | dwest@fao-on.org

www.fao-on.org[fao-on.org]

FAO
Financial
Accountability
Office of Ontario

- Approval of the Order In Council (OIC) on October 5, 2016, authorizes ministries and public entities to disclose to the FAO, financial, economic and other information contained in Cabinet records that relates to:
    - The Province's finances, budget and trends in the provincial and national economies;
    - The estimates and supplementary estimates submitted to the Legislature;
    - The financial costs or benefits of any public bill before the Assembly; and,
    - The financial costs or benefits of any proposal made by the Government or any member of the Assembly.

- This OIC authorizes ministries and public entities to share information contained in Cabinet records when the following conditions are met:
    - The information has been requested by the FAO;
    - The information is not available through other sources;
    - The policy or fiscal decisions to which the requested information relates have been announced to the public or tabled with or disclosed to the Legislative Assembly;
    - The information is provided in a format that does not reveal other information protected by subsection 12(1) of FIPPA;
    - The information would not reveal personal information or personal health information; and,
    - The FAO agrees not to disclose the information further without the consent of the Executive Council.

<u>Disclosure of Third Party/Commercial Sensitive Information</u>

- Third party/commercial sensitivity is not a valid justification for withholding information from the FAO.
- The only valid justifications for refusing to provide information to the FAO are the personal information and personal health information exceptions set out in subsections 12(2) and (3) of the FAO Act as well as any terms and conditions laid out in the OIC.
- However, the FAO has limitations on what information he can further disclose and make public.
    - The FAO cannot further disclose third party/commercially sensitive information obtained solely from a record covered by s17 of FIPPA.
    - Ministry and public entity senior management should proactively advise the FAO in writing of any sensitivity on the disclosure of information provided to the FAO. This includes specifically identifying information contained in records such as third party information, information on relations with other governments, or information on the economic and other interests of Ontario, as described respectively in sections 15, 17 and subsection 18(1) of FIPPA, information subject to solicitor-client privilege, litigation privilege or settlement privilege, and information contained in Cabinet records, when providing information to the FAO in accordance with section 12 of the Act.
    - The FAO typically consults with ministries/public entities during the development of draft reports on any disclosure restrictions related to any information provided to the FAO.

FAO Questions for MOF

April 28, 2017

Economics

- Why is the growth rate for labour compensation running significantly above the growth for primary household income, particularly in 2018 and 2019? **- OEP**
- Do you use Compensation of Employees on a 'National Basis' (from Table 11 of the OEA) as the principal PIT driver? In 2016, Labour Compensation on a national basis grew at 4.4% while on a domestic basis it grew 4.2%, which is an unusually large gap. **- OEP**

Revenue

- In Table 3.14, sales and rental revenues are projected to increase by $1 billion in 2017-18. Can we can get details about the assumptions behind this increase? **– OFA- CEFD & OEP**
- The 2017 federal budget announced new funding for affordable housing, child care, infrastructure, home care and labour-market training. To what extent are these new revenues (and the associated expense) built into the fiscal plan? **– OEP/TBS – PEMD&CPD**
- Expected revenues from Carbon Allowance Proceeds have been reduced by $0.5 billion beginning 2018-19 (Table 6.10). Any explanation of the lower revenue projection?
    - Is the annual forecast for Carbon Allowance Proceeds $1.4 billion? If so, does the higher amount in 2017-18 of $1.8 billion just reflect the shifting of proceeds from the first auction in 2016-17 (that is there is an extra auction in 2017-18 than in future years)? **– OEP**
    - Are the associated expenses from the Green Initiative Fund being reduced as well, to reflect the lower revenue forecast? **– TBS - PEMD**
- Base revenue growth for Corporations Tax and Sales Tax are noticeably stronger than the growth of their underlying drivers. What are your elasticity assumptions for Personal Income Tax, Corporations Tax and Sales Tax with respect to their drivers? **- OEP**
    - For HST, could you break out the revenues expected from housing and nominal consumption over the forecast? **- OEP**
- The federal government's 2015-16 Annual Financial Report indicated that stronger 2015 federal PIT returns partly reflect "…tax planning by high-income individuals to recognize income in the 2015 tax year before the new 33 per cent tax rate came into effect in 2016". What assumptions were made on the impact of income shifting on Ontario's PIT revenue? **- OEP**

Expense

- The anticipated fiscal impact of the Fair Hydro Plan is approximately $1.8 billion based on information provided to the FAO (roughly $1 billion for HST rebate and $800 million for the electricity social programs). However, the 2017 Budget indicates that the total cost would be around $1.4 billion in 2017-18 (Table 6.15). Can you explain the discrepancy? **– TBS - PEMD**

- A number of new programs were announced in the budget. Can you provide the fiscal impact for these new initiatives (e.g. children and youth pharma-care, child care spaces expansion) by completing the following table? Are these fiscal impacts in the plan? **– TBS PEMD&CPD, TPD**
    - The September Throne Speech announced the expansion of 100,000 new child care spaces. The budget announced 24,000 additional spaces. What is the progress in the rollout plan for the remaining spaces? Is there additional fiscal impact from the Throne Speech that have not been incorporated?

Cost of Announced Programs

	2017-18	2018-19	2019-20	2020-21
Children and Youth Pharmacare				
100,000 Child Care Spaces Expansion				
Fair Hydro Plan				
Caregiver Tax Credit				
Other major programs?				

Debt

- The budget indicated that the government aims to reduce the net debt to GDP target to 35 per cent by 2023-24 and 27 per cent by 2028-29. What assumptions are built into this projection for nominal GDP, the budget balance, and capital expenditure? **- OFA**
- What's the explanation for the increase in cash reserves? Is it related to recent changes in rating criteria requiring more liquid reserves covering the issuance of commercial paper debt? **- OFA**
- What is a Designated Purpose Account? **– TBS OPCD**